

# Equity Outlook

AUGUST 2023

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## Healthy domestic economy making equities shine

### Stable global macro for now

While headline inflation has eased in major developed economies, core inflation is still at elevated levels. Consequently, global central banks have tightened policy rates and retained hawkish stance, future policy decisions will be data dependent. Bond yields remain elevated, the dollar index (DXY) has strengthened back to 102+ due to favourable economic data, after falling below 100. USD-Yen has risen to 142.5 post BoJ announcement of greater flexibility in YCC (Yield Curve Control) policy, causing jitters to overvalued equities across globe. While High Frequency Data (HFD) suggests that economic activity has been mixed to stable in the advanced economies, we are vigilant about future softening.

In China, industrial activity rebounded after the government abandoned its strict lockdown policy in December 2022. However, recovery has been sub-optimal causing GDP downgrades. An Economic stimulus particularly for the real estate sector is in the works; however, no measures have been announced yet. China's manufacturing PMI points to continued weakness.

### Indian markets at all-time high; growth story under play

Indian markets have rallied to all-time high, significantly outperforming most emerging market and developed markets, buoyed by resilient economic trends, solid growth outlook, strong corporate earnings, and peaking of interest rates globally. This has led to consistent domestic and FII inflows owing to bullish India sentiments. FII flows turned aggressive since April 2023, after remaining net sellers for almost two years. Other emerging economies such as China and Brazil failed to attract FIIs due to inconsistent economic recovery post covid, concerns of growth slowdown, and political uncertainty.

An elevated base and slowdown in price pressures led to headline inflation in India within the RBI's target range from March-June 2023. RBI paused in its April and June meetings after raising the repo rate to 6.5% in February 2023. Recent spike in vegetable prices, uncertainty of kharif crop, and sharp rise in Brent prices pose upside risk to Indian inflation trajectory. As CPI could surpass RBI's guided trajectory in the coming months, it is likely that RBI stays on a prolonged hold.

Notwithstanding price pressure and a likely global slowdown, domestic economic indicators reflect resilient economic activity. The IMF revised Indian growth projections higher to 6.1% /6.3% in 2023/24. We believe that India should remain one of the best-performing economies in the world due to newer structural growth factors like PLI, indigenisation, rise of start-ups etc. These will continue to attract foreign capital in the long run. Indian government has been formulating policies in favour of promoting investments, manufacturing, and exports along with their own spending focus on Infra capex. Private sector capex is also trending high across sectors – like renewable energy, industrials, metals, cement, automobiles, logistics etc. PLI incentive is the path in the right direction. Mobile manufacturing PLI has been a remarkable success, evident in rising production and exports.

While India has been proactively engaging with major economies around the globe, covid and the Russia-Ukraine war vastly changed the geo-political scenario. India chairing the G20 this year, has provided a good platform to the country to position itself as a centre point for driving the inclusive, resilient, and sustainable growth agenda. Post Covid, China is struggling to revive growth while Indian economic growth has gained significant momentum. The world has acknowledged the 'China+1' phenomenon and India has started to reap benefits, although there is a long way ahead. India is engaging with key economies politically; business and economic benefits will follow. "Free Trade Agreements" (FTAs) are being negotiated with major economies from the point of strength, should be advantageous for businesses and exports.

Indian economic and industrial data is quite positive despite elevated interest rates, global growth trends are mixed. Equities have rallied and is trading above long term average multiples, however, at higher levels, a lot of positives are likely discounted. Indian corporates are likely to deliver healthy double-digit earnings growth over the next couple of years. Although the long-term India growth story remains intact, a small correction / consolidation phase could offer a favourable risk-reward to the investors. Keep the faith and stay invested!!!

## Our Recommendations

Market Cap Specific	Hybrid Solutions	Thematic & Sectoral Solutions	Diversified across Market Cap
Aditya Birla Sun Life Small Cap Fund	Aditya Birla Sun Life Balanced Advantage Fund	Aditya Birla Sun Life India GenNext Fund	Aditya Birla Sun Life Multi-Cap Fund
Aditya Birla Sun Life Mid Cap Fund	Aditya Birla Sun Life Multi Asset Allocation Fund	Aditya Birla Sun Life Digital India Fund	Aditya Birla Sun Life Flexi Cap Fund
Aditya Birla Sun Life Frontline Equity Fund			

None of the aforesaid recommendations are based on any assumptions. These are purely for reference and the investor are requested to consult their financial advisors before investing.

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**



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