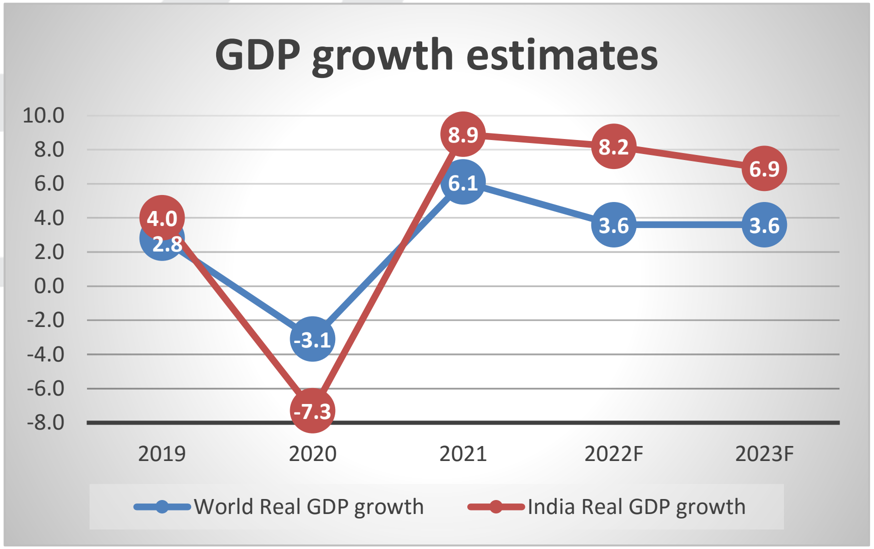
MARKET OUTLOOK

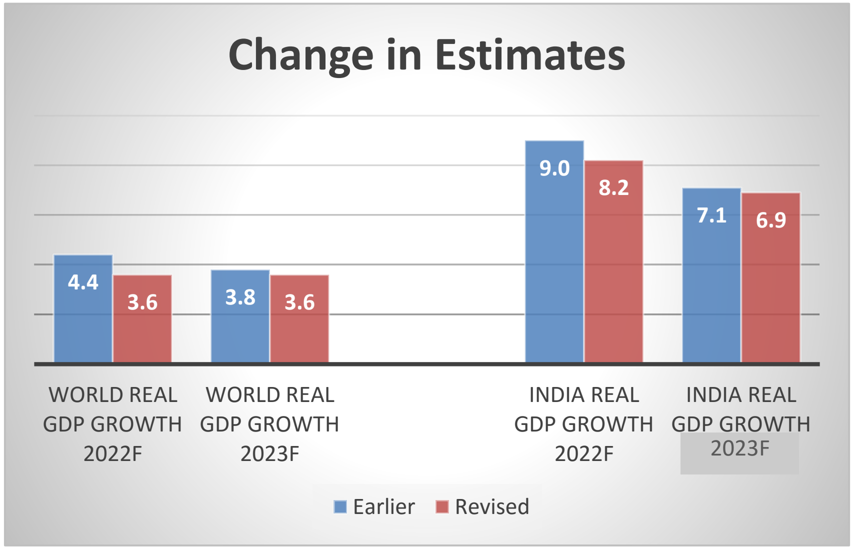
April 2022

IMF DOWNGRADES GROWTH ESTIMATES GLOBALLY; INDIA TO GROW THE FASTEST

Real GDP* Growth % (IMF expectations)	2019	2020	2021	2022f	2023f
World	**2.8**	**-3.1**	**6.1**	**3.6**	**3.6**
Advanced Economies	**1.6**	**-4.5**	**5.2**	**3.3**	**2.4**
Emerging Market & Developing Economies (EMDE)	**3.7**	**-2.0**	**6.8**	**3.8**	**4.4**
India^	4.0	-7.3	8.9	8.2	6.9

f: forecast

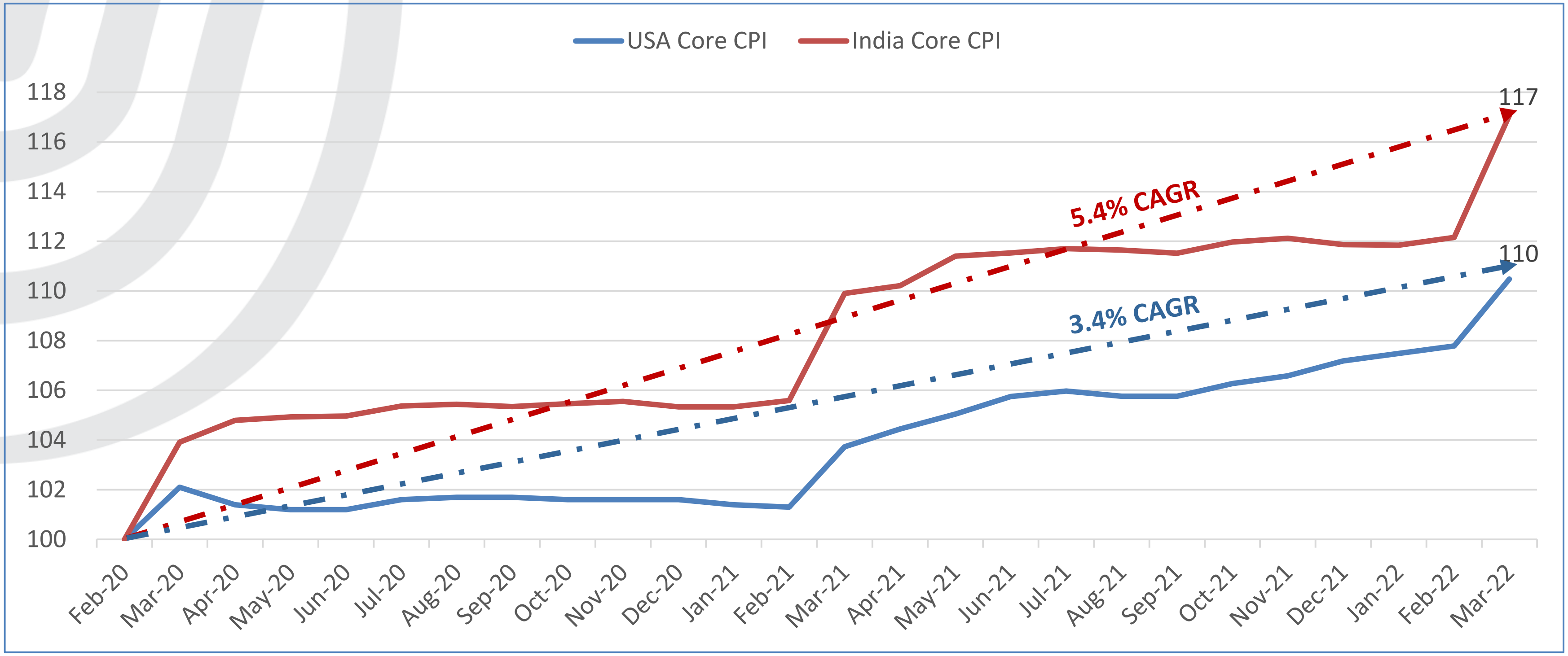




- IMF has cuts its world GDP* growth projection to 3.6%/3.6% in CY22/23, from 4.4%/3.8% earlier.
- India's FY23/FY24 GDP growth forecast has been reduced to 8.2%/6.9% from 9.0%/7.1% earlier.
- World economy is unlikely to see any latent growth from CY20; loss from the pandemic is likely structural.
- Nonetheless, India is expected to witness the fastest growth among emerging economies

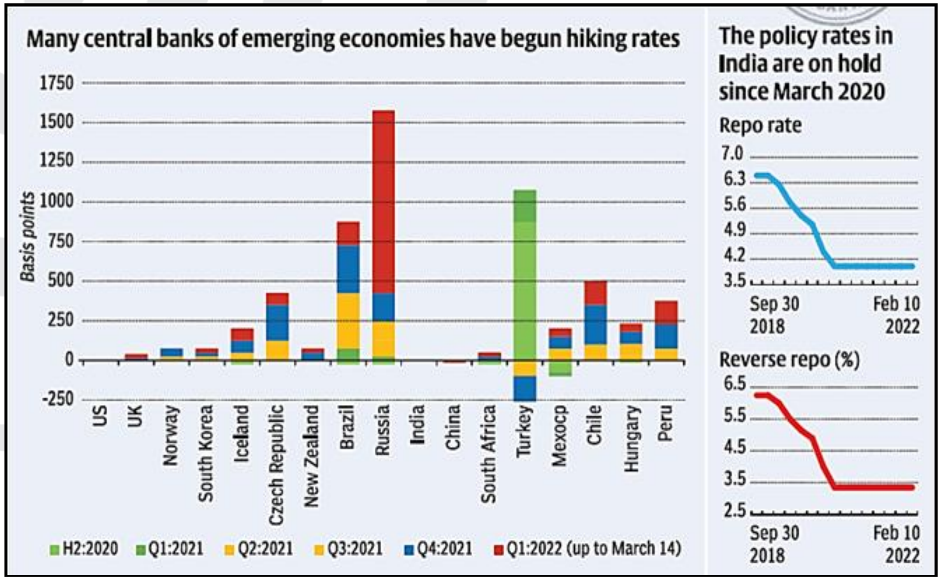
*GDP = Gross Domestic Product; Source: IMF, World Economic Outlook reports
^ For India, GDP growth mentioned against a calendar year is for fiscal year ie. 8.2% mentioned against 2022f = GDP growth for FY23

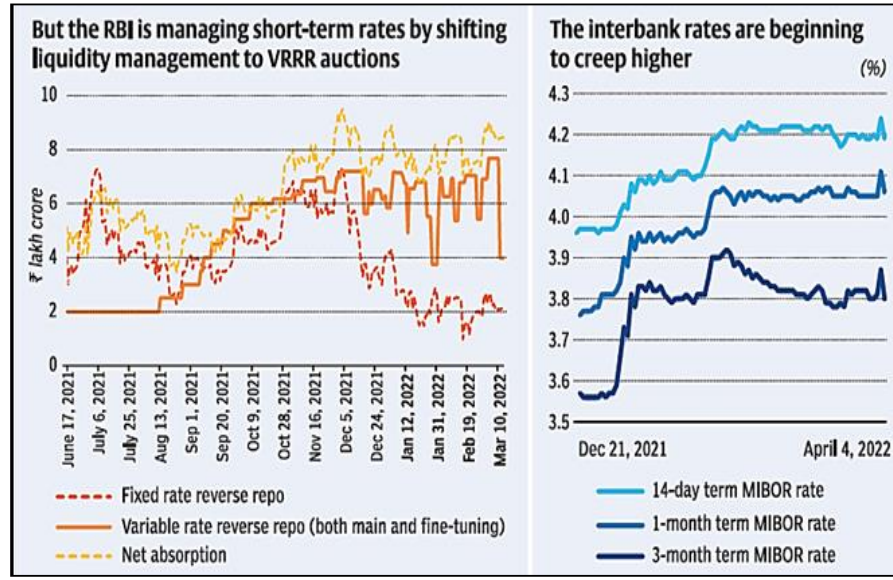
GLOBAL MONETARY POLICY – INFLATION TAKES CENTRE STAGE



- Inflation has kept rising globally throughout the pandemic period.
- While the initial reason for inflation was supply-led bottlenecks, the same has remained persistent.
- On a 3-year CAGR basis, core inflation in USA has increased at 3.4%. The same for India has been 5.4%
- With economic growth back on track, the focus of monetary authorities has now shifted to control inflation

*Source: Bloomberg, data till 14th April 2022; *Core Inflation = CPI excluding food & beverages, pan, tobacco and intoxicants, and fuel & light*





- Most central banks are shifting their policy stance from accommodative to calibrated tightening.
- Global interest rates have started to rise since adoption of this hawkish stance
- RBI too in its April 2022 meeting has signalled its intention to change its accommodative stance.

Source: Businessline

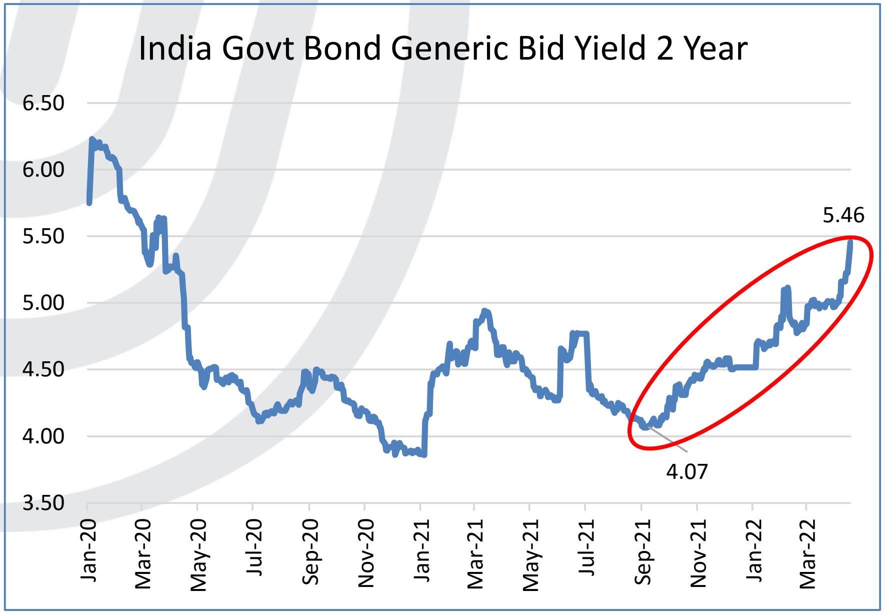
FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

Source: Minutes of FOMC meeting on 15-16th March 2022

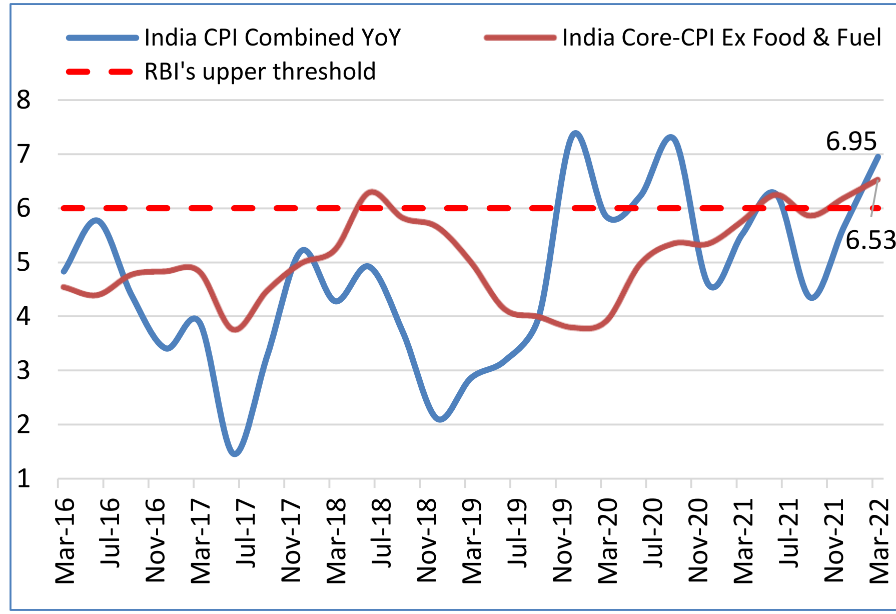
- In the Federal Open Market Committee (FOMC) meeting held in March 2022, meeting participants submitted their assessment of appropriate monetary policy including a path for the federal funds rate.
- The chart on the left provides a synopsis of the same.
- As you can see, the participants expect between 200-225bps increase in federal fund rate by 2024.

Union MUTUAL FUND

Key policy rates



Inflation YoY

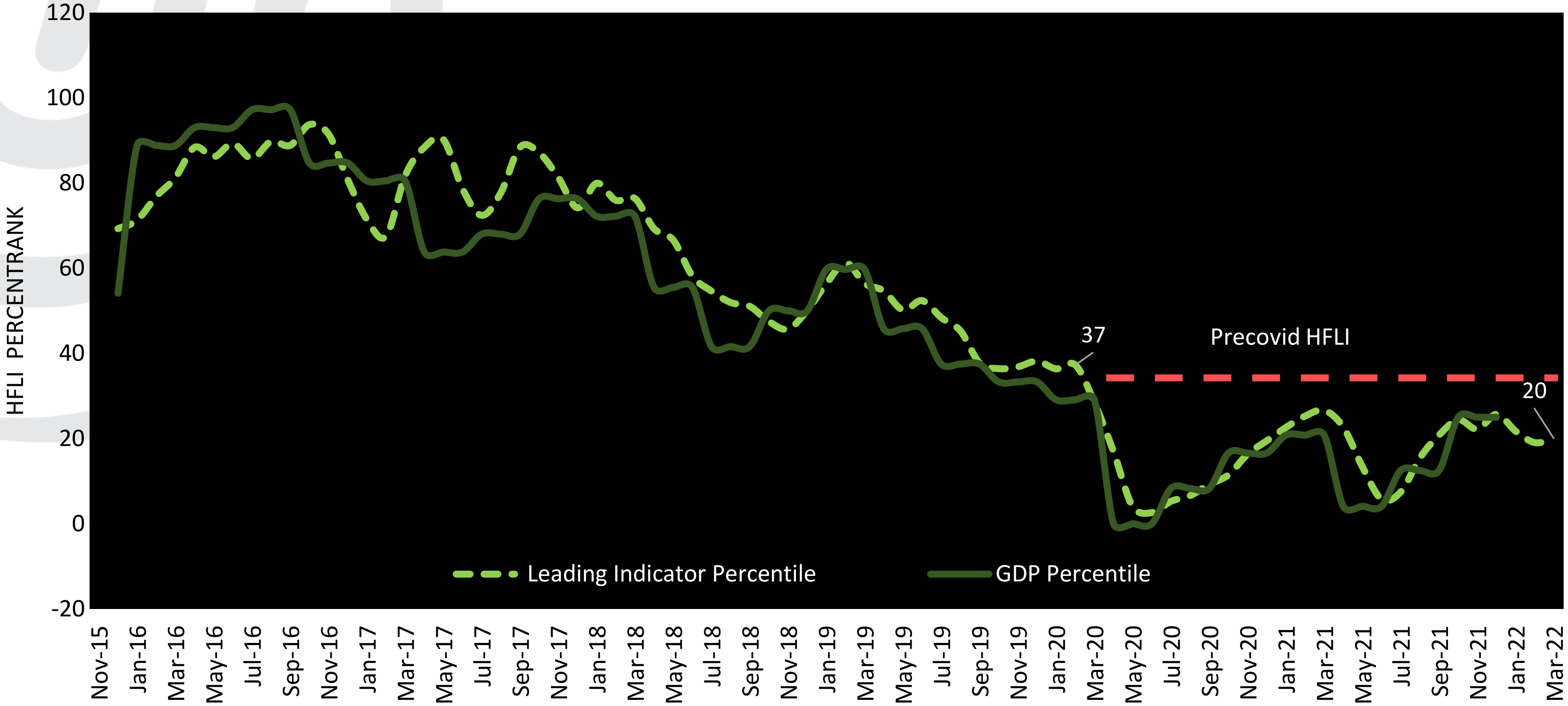


- The MPC has kept the policy repo rate unchanged and retained an accommodative stance. However, the Governor made it abundantly clear at the press conference that controlling inflation is now taking priority over supporting growth.
- After some fall seen between September 2021 to November 2021, CPI inflation has increased to 6.95% in March 2022. Core* inflation too has inched up to 6.53%, above RBI's comfort zone.
- Moreover, the announcements of tightening by the Federal Reserve has already impacted short-term bond yields in India. 2-Year G-Sec yield has increased from 4.1% in September-2021 to 5.5% in April-2022.

**Core Inflation = CPI excluding food & beverages, pan, tobacco and intoxicants, and fuel & light*

Source: Bloomberg. *Data till 18th April, 2022*

HIGH FREQUENCY LEADING INDEX MAR-22



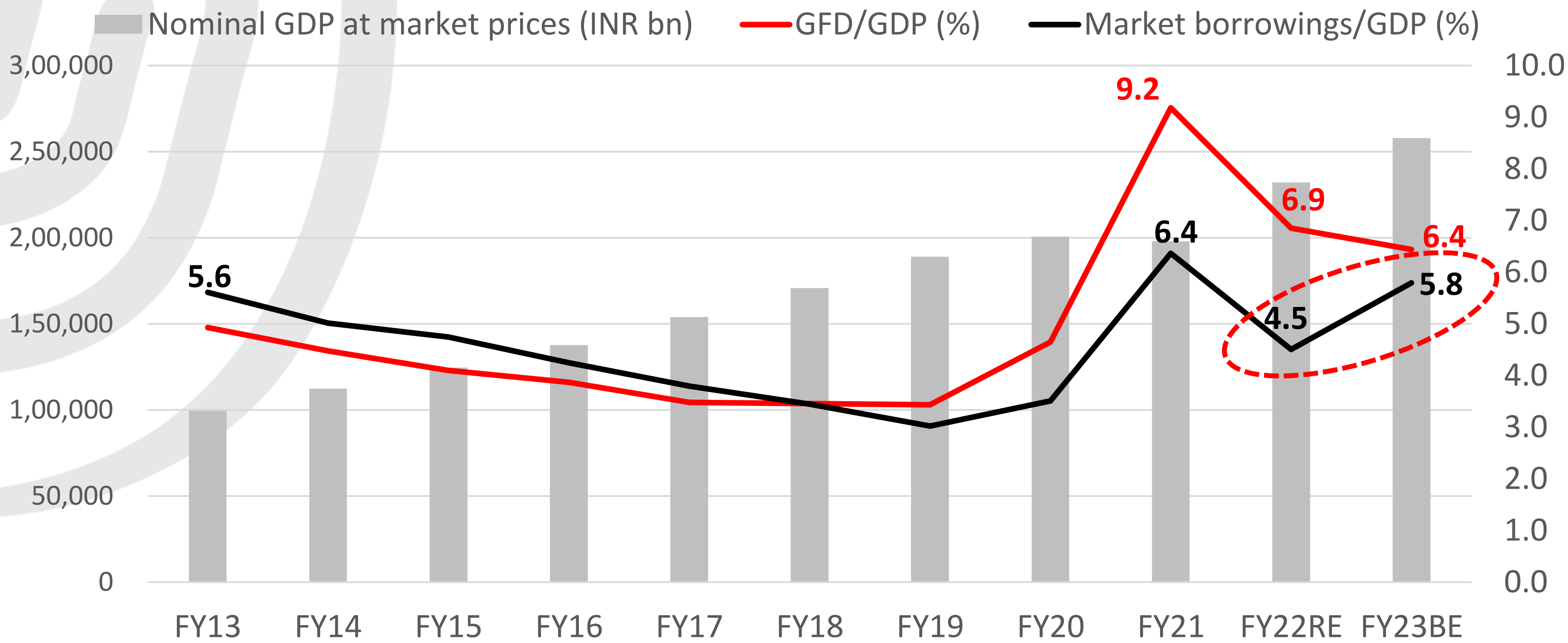
- ✓ 29 parameters, 4 Dimensional Composite Leading Index, 2 Y-o-Y series to dampen noisy data
- ✓ Economic activity showing some pick-up from low base; @ 20 percentile; Yet to breach pre-covid HFLI percentile

MACRO ECONOMIC ENVIRONMENT

Indicator	Type	December 2021	March 2022	Trend	Remark
Consumer Sentiment	Consumption	58	65	↑	60 Month history, Index Base 100. Percentile value (Mar 22) ~ 39%
Employment Rate	Consumption	37.6%	36.5%	↓	60 Months Data
Credit Growth	Investment	9.8%	8.1%	↓	60 Months Data. Lower than average of 10%-12%
Capacity Utilisation	Investment	60%	72%	↑	54 Quarters, Substantial jump, lower than average

- ✓ Consumer sentiment percentile has improved a bit and stands at around 39 percentile.
- ✓ Employment rate percentile in last 60 month is at low levels.
- ✓ Credit growth: Early signs of recovery on the back of spurt of activity, credit growth as the economy continues to heal. Credit growth moderated in comparison to December-2021
- ✓ Slack has reduced considerably after several quarters. Capacity utilization improved but below average indicating economic engine is still running well below potential.

Source: CMIE,RBI



- The Union Budget 2023 is an expansionary budget; wherein the Government has focused on growth for the economy more than consolidation in the near term.
- Continued support for Infrastructure and investments is likely to have a multiplier effect on growth
- However, increased borrowing to fund this growth would put upward pressure on interest rates

GFD = Gross Fiscal Deficit; RE = Revised Estimate; BE = Budgeted Estimate

Source; Union AMC Research; Kotak Institutional Research

MEASURES ANNOUNCED SO FAR

Retrospective tax repeal

- Law scrapped.
- Signals intent to facilitate investment.

Telecom package

- Sacrificed revenues to avoid duopoly
- More resources for incumbents to invest in 5G

PLI Schemes

- 14 schemes across various sectors
- INR 2.62 trillion package to boost Indian manufacturing

National asset monetization

- INR 6 trillion monetization pipeline
- Fund fresh infra investment

Power reforms

- INR 3 trillion discom reforms
- Restore health in sector

NPA Reforms

- INR 306 billion guarantee
- Resolve bad loans worth INR 2 trillion

Amendment to laws

- Insolvency law: pre-pack resolution
- Deposit insurance: INR 5 Lakhs cover
- Tribunal reform, General Insurance & LLP bills

Disinvestment of a national air carrier

- Plugs another capital drain
- Boost privatization efforts

Other measures

- Vehicle scrappage policy
- Localization of military aircrafts
- IPO of a national insurance company, Drone Policy, etc.

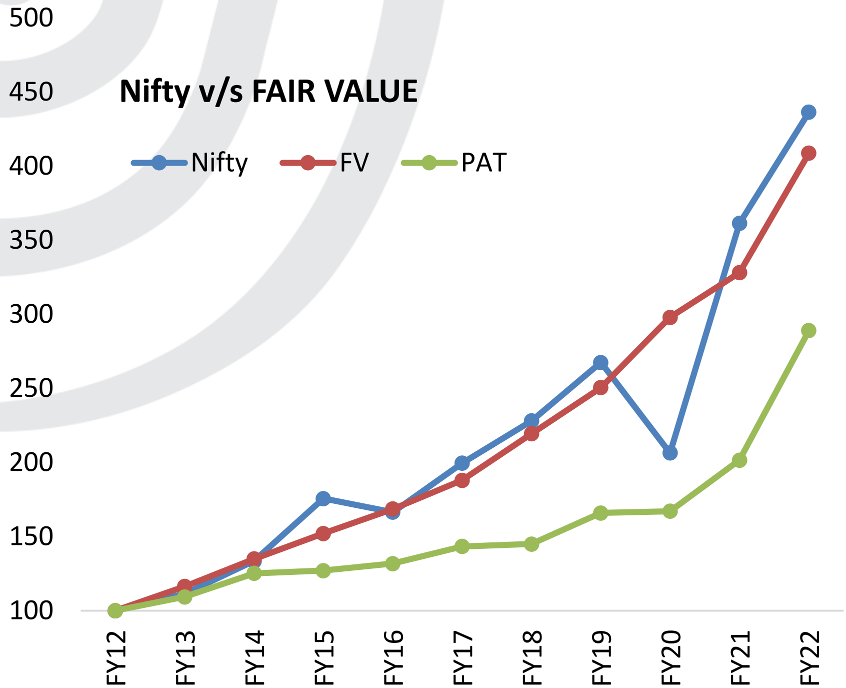
PLI SCHEMES CAN TRANSFORM INDIA INTO A MANUFACTURING POWERHOUSE

Sectors	Financial outlay (INR billion)
Automobile and automobile components	259
Advance chemistry cell (ACC) battery	181
Electronic/technology products	50
Food processing	109
Pharmaceutical drugs	150
Semi-conductor	760
Solar PV	240
Steel products	63
Telecom and networking products	122
Textiles	107
White goods	62
Medical devices	34
Mobile phones/electronic components	410
Pharmaceuticals (KSMs/DIs/APIs)	69
Total	**2,617**
As % of FY23 Nominal GDP*	**1.0%**

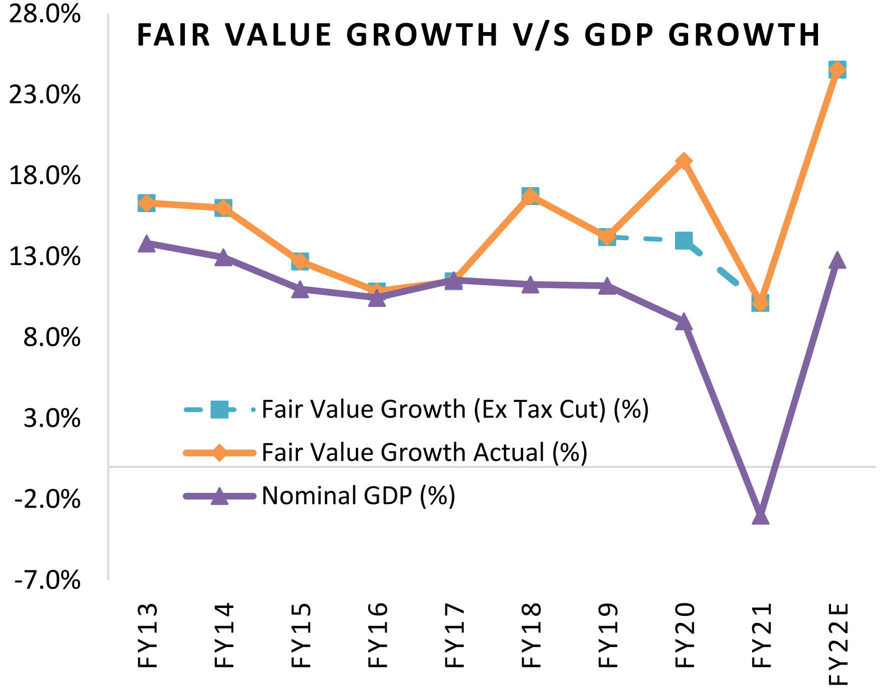
- In a bid to drive localization, the Government has announced Production-Linked Incentive (PLI) schemes for 14 sectors; with total capital outlay of INR 2.62 trillion or 1% of Nominal GDP
- These will play an important role in expanding India's manufacturing footprint, which in turn would drive employment and income generation.

*GDP = Gross Domestic Product; Source; Union AMC Research; Kotak Institutional Research

Market tracks Fair Value..



... and Fair Value tracks Nominal GDP



- NIFTY Index has tracked its Fair Value more closely than its EPS.
- NIFTY's Fair Value growth, in turn, has broadly tracked India's nominal GDP growth.
- NIFTY Index currently trades at a slight premium to our internal estimate of its Current Fair Value.
- Over long time periods, the Index has moved in a tight band with its Fair Value.

Source: Union AMC Internal Research, Data as on 31st March, 2022

Union MUTUAL FUND

- Headwind for Indian equities:
  - × Unwinding of easy money policies across the globe, including India. This could result in higher interest rates and reduction in liquidity
  - × Unknown/Unintended consequences of Russian invasion of Ukraine
  - × Rising input cost inflation could hurt gross margins and/or hurt volume growth.
  - × Slower-than-expected pickup in private consumption and GDP growth

- Tailwinds for Indian equities:
  - ✓ Reasonable Valuations
  - ✓ Improved capacity utilization could result in restart of Capex cycle.
  - ✓ Low corporate taxes, Government stimulus (Production Linked Incentive Scheme, etc.)
- As a Fund House, we prefer Large caps over Mid and Small caps.
- We are currently overweight Financials, Telecom, Consumer Discretionary and Industrials and underweight on Materials, Utilities and IT.
- We recommend Equity products as preferred means of investment in the current market environment.

- High Inflation: The broad-based jump in global commodity prices and supply side disruptions have exacerbated inflationary pressures across the globe
- Fiscal deficit target for FY22 has been revised to 6.9% from 6.8%. Fiscal deficit target for next year set at 6.4%, higher than expected.
- Yield curve expected to remain steep—the bulk of the borrowing happens in 10-14 year bucket. Also curve generally remains steep in an expansionary and inflationary environment
- Rates are trending upwards across the curve on the back of:
  - Supply side pressures: Fiscal slippage, increased government borrowings.
  - Oil and gas prices continue to be high. Unanchored oil prices remain a concern especially if it sustains over a long period of time.
  - Inflation: Input costs including freight remain worrisome
  - Global spillover: An increasing number of central banks have commenced normalizing the monetary stance, albeit at a different pace.
  - Market uncertainty: Escalation of the geopolitical risks
- Monetary Policy Committee (MPC) to focus on withdrawal of accommodation. Tone of the MPC statement tilted towards normalization. Inflation has been put before growth in MPC's sequence of priorities
- In light of the above, we expect the rate environment to remain under pressure with elevated term spreads, accompanied by volatility due to a significant market, systemic and geopolitical risks, and heavy supply for a considerable period in the future.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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