

MARKET OUTLOOK

APRIL 2023

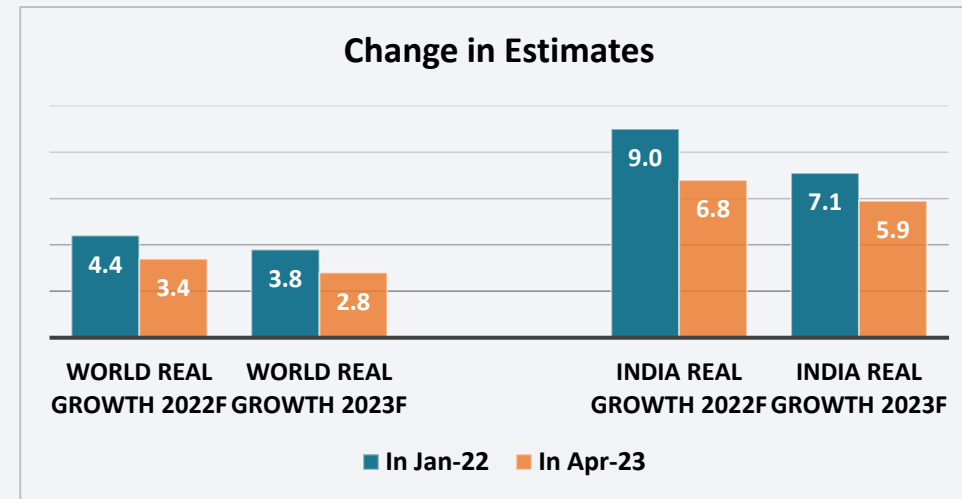
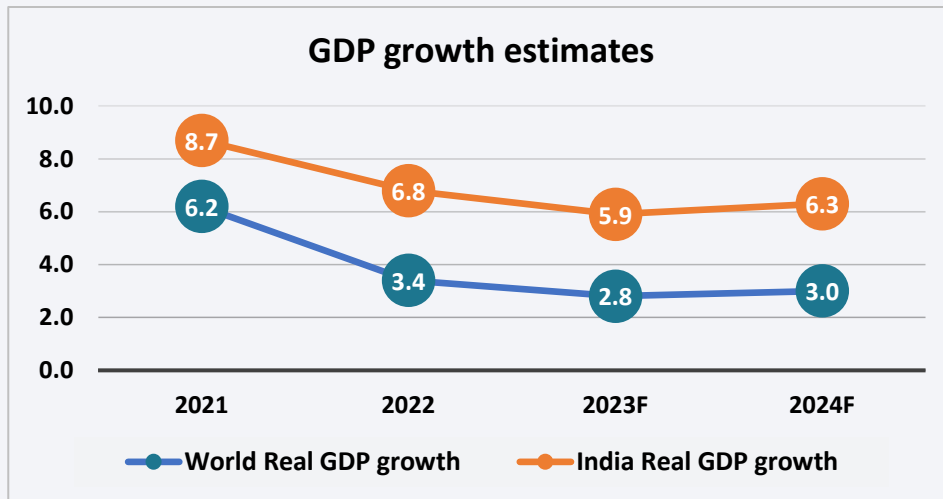


Union
Mutual Fund

IMF Forecasts Sustained Growth Slowdown; India To Grow The Fastest

Real GDP* Growth % (IMF expectations)	2021	2022e	2023f	2024f
World	6.2	3.4	2.8	3.0
Advanced Economies	5.4	2.7	1.3	1.4
Emerging Market & Developing Economies (EMDE)	6.9	4.0	3.9	4.2
India^	8.7	6.8	5.9	6.3

f: forecast



- IMF has cut its world GDP* growth projection to 3.4%/2.8% in CY22/23, from 3.6%/3.6% in Apr-22.
- India's FY23/FY24 GDP growth forecast has been reduced to 6.8%/5.9% from 9.0%/7.1% in Jan-22.
- The slowdown caused by multiple factors is forecasted to sustain into next year as well.
- Nonetheless, India is likely to be relatively the fastest growing among emerging economies.

*GDP = Gross Domestic Product; Source: IMF, World Economic Outlook reports

^ For India, GDP growth mentioned against a calendar year is for the fiscal year i.e. 6.8% mentioned against 2022f = GDP growth for FY23

India Likely To Be The Fastest Growing, Sizeable Economy

Country	2022 GDP in USD bn	Rank in Size	2023-28 Real GDP Growth	Rank in Growth
United States	25,464	1	1.8%	161
China	18,100	2	4.1%	54
Japan	4,234	3	0.7%	189
Germany	4,075	4	1.2%	182
India	3,386	5	6.1%	17
United Kingdom	3,071	6	1.4%	177
France	2,784	7	1.4%	173
Russia	2,215	8	0.9%	187
Canada	2,140	9	1.7%	164
Italy	2,012	10	0.9%	186

Despite being 5th largest by size, India is expected to be the 17th fastest growing nation for next 6 years

India Likely To Be The Fastest Growing, Sizeable Economy

Country	2022 GDP in USD bn	Rank in Size	2023-28 Real GDP Growth	Rank in Growth
Guyana	15	136	20.1%	1
Macao SAR	22	114	15.1%	2
Mozambique	18	125	8.8%	3
Libya	44	95	8.0%	4
Niger	15	135	7.3%	5
Rwanda	13	141	6.9%	6
Bangladesh	460	35	6.8%	7
Senegal	27	111	6.7%	8
Democratic Republic of the Congo	63	87	6.6%	9
Ethiopia	120	62	6.6%	10

Country	2022 GDP in USD bn	Rank in Size	2023-28 Real GDP Growth	Rank in Growth
Vietnam	406	37	6.6%	11
Uganda	49	91	6.5%	12
Tanzania	77	75	6.4%	13
Côte d'Ivoire	70	84	6.3%	14
Cambodia	29	106	6.2%	15
Philippines	404	39	6.1%	16
India	3,386	5	6.1%	17
Benin	17	127	6.0%	18
Maldives	6	153	6.0%	19
Togo	8	150	5.5%	20

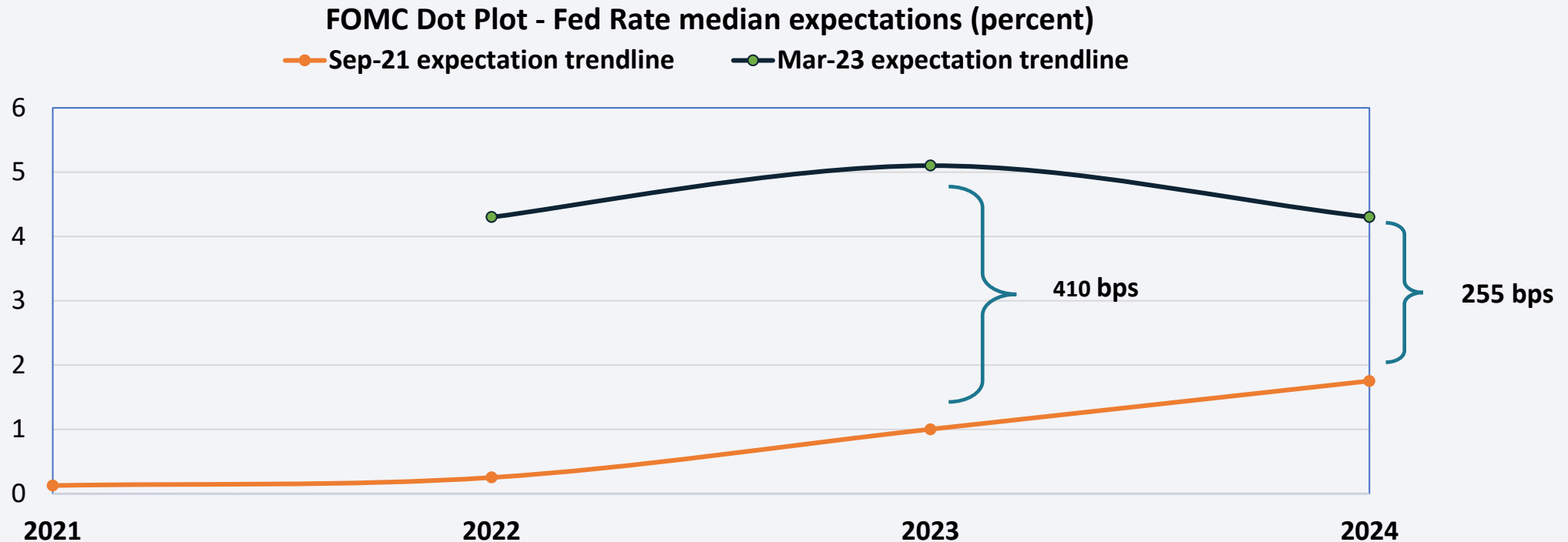
Despite being 5th largest by size, India is expected to be the 17th fastest growing nation for next 6 years

Global Monetary Policy – Hawkish Stance Seen Across Economies

Policy Rates (in %)	In Dec-21	In Apr-23	Change
USA	0.25	5.00	+4.75
Europe	0.25	3.75	+3.50
UK	0.25	4.25	+4.00
Australia	0.10	3.60	+3.50
India	4.00	6.50	+2.50
Japan	-0.10	-0.10	-

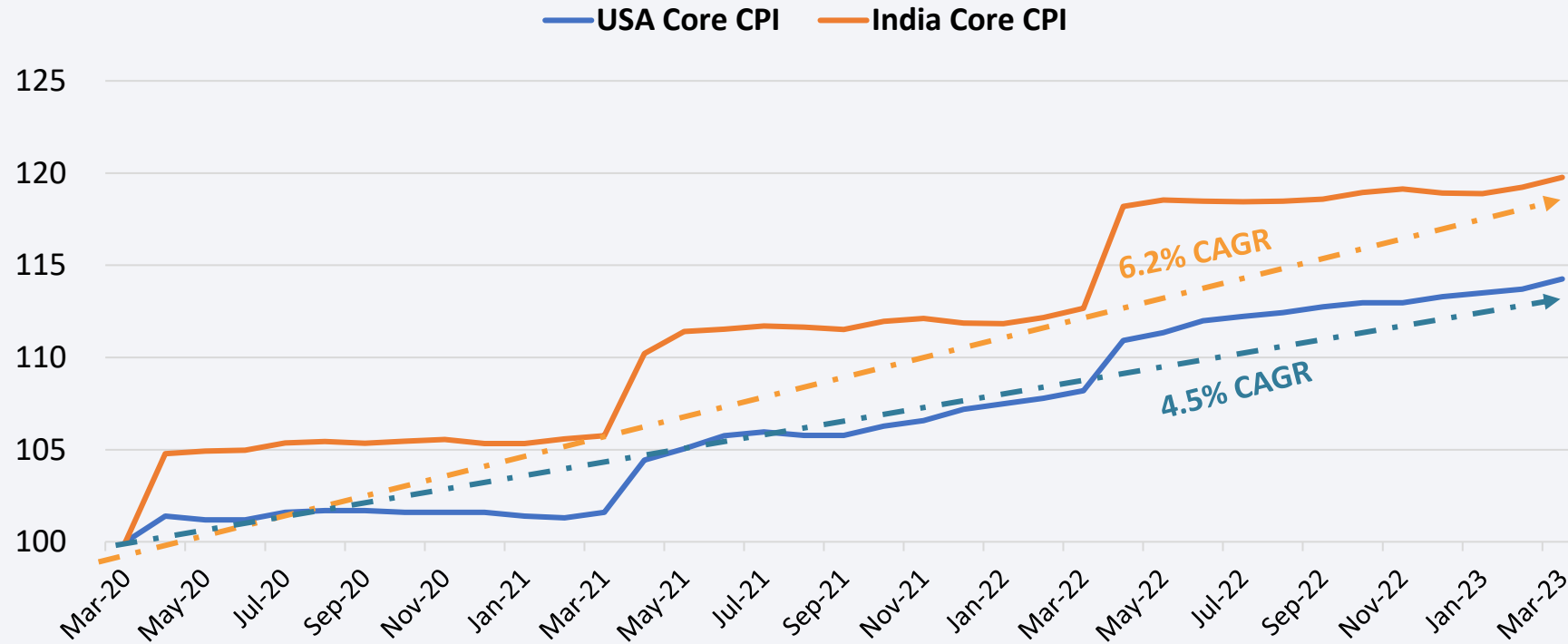
- Most central banks shifted their policy stance from accommodative to calibrated tightening.
- Global interest rates have risen since the adoption of this hawkish stance and now showing signs of peaking.
- RBI in its meeting in Apr – 2023 decided to maintain status quo while remaining focused on withdrawal of accommodation.

Global Monetary Policy – Fed Continue To Remain Hawkish



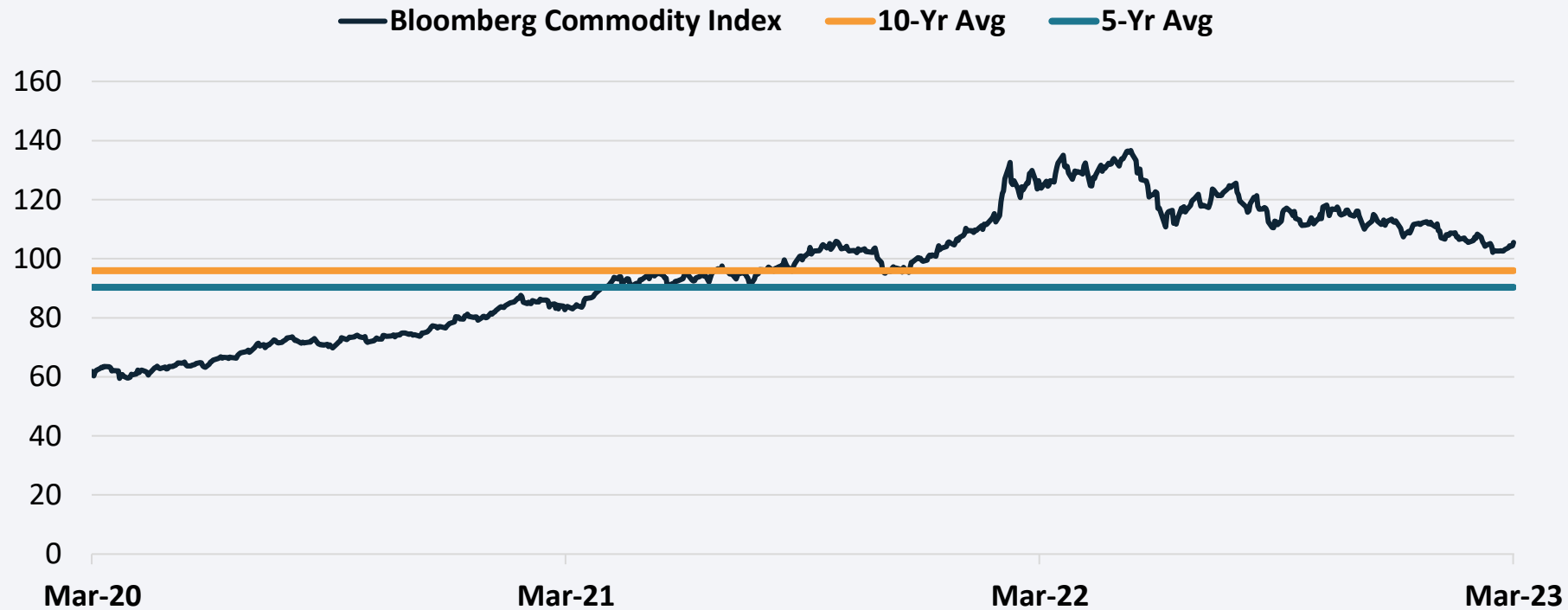
- In the Federal Open Market Committee (FOMC) meeting held in March 2023, meeting participants submitted their assessment of appropriate monetary policy including a path for the federal funds rate.
- Expectations of the trend of a rate hike has increased by more than 410-255 bps compared to Sep-21.
- Elevated interest rates are expected to sustain for next 12-15 months

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 5.3%. The same for India has been 6.2%
- With economic growth back on track, the focus of monetary authorities has been to control inflation

Commodity Inflation Softening



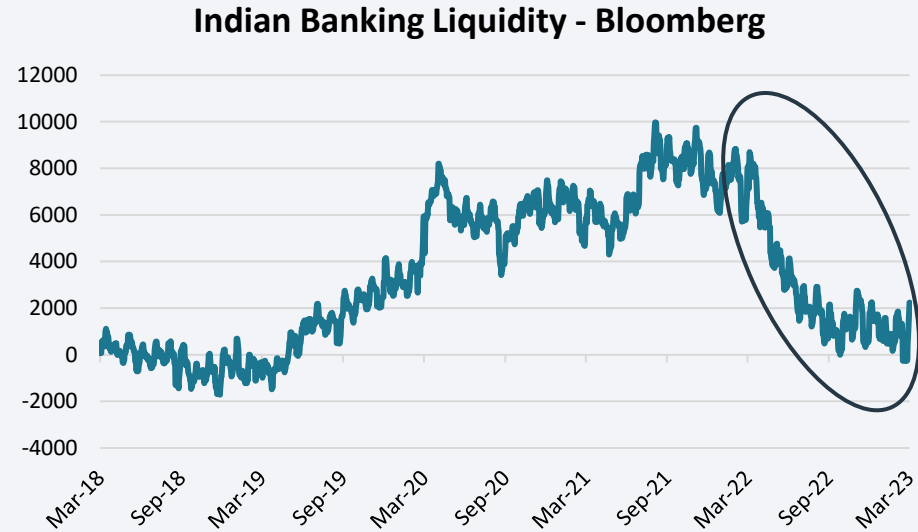
- Commodities inflation has been easing recently on the back of policy actions and slowing demand.
- Hence, profit margins of corporates are likely to show improvement in ensuing periods.

Union Budget FY24 – The Broad Maths

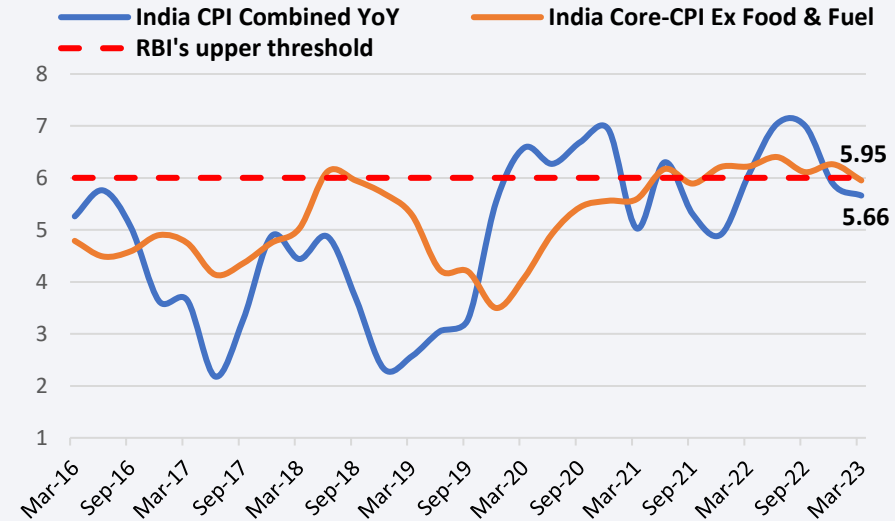
Particulars	2023RE	2024BE	YoY	Remarks
Direct Taxes	16,581	18,317	10%	Rational tax revenue assumptions, balanced between both direct and indirect sources
Indirect Taxes	13,850	15,292	10%	
Others	(6,112)	(6,446)	5%	
Total Receipts	24,319	27,163	12%	
Revenue expenditure	34,590	35,021	1%	Prioritized capital expenditure over consumption expenditure. We believe this to be a prudent allocation, as such investments will have a multiplier effect on economic growth.
Capital expenditure	7,283	10,010	37%	
Total expenditure (6 + 7)	41,872	45,031	8%	
Nominal GDP	273,078	301,751	10%	FY24BE for fiscal deficit at 5.9% broadly in line with glide-path to achieve FY26E GFD target of 4.5%.
Gross fiscal deficit (GFD)	17,553	17,868	2%	
GFD/GDP (%)	6.43	5.92		An estimate of 10.5% growth in nominal GDP is expected to absorb the 9% increase in GMB without adversely affecting interest rates.
Gross market borrowing	14,210	15,430	9%	
GMB/GDP (%)	5.20	5.11		

India Monetary Policy – Impact of Rate Hikes Visible

System Liquidity



Inflation YoY



- The MPC has increased the policy repo rate by 250bps in the last 15 months. The focus has shifted to withdraw monetary accommodation to contain inflation, while supporting growth.
- Consequently, the liquidity in the Indian banking system has sharply reduced since mid-April 2022.
- On the other hand, while inflation has been moderating in the last few months, headline core* inflation is close to RBI's comfort zone.
- Focus is likely to shift towards growth once Inflation is well below RBI's comfort zone .

Macroeconomic State - Snapshot

Indicator	Type	December 2022	March 2023	Trend
Consumer Sentiment	Consumption	80.50	89.18	↑
Employment Rate	Consumption	37.12%	36.66%	↓
Credit Growth	Investment	15.31%	15.89%*	↑

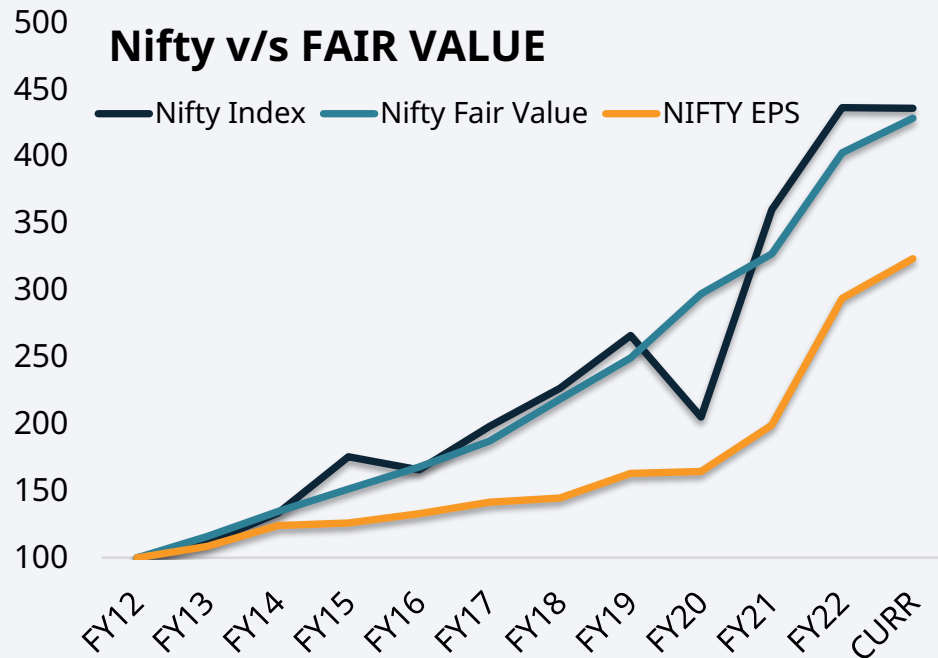
*For Feb 2023

Macroeconomic conditions are improving as the economy ramps towards its potential.

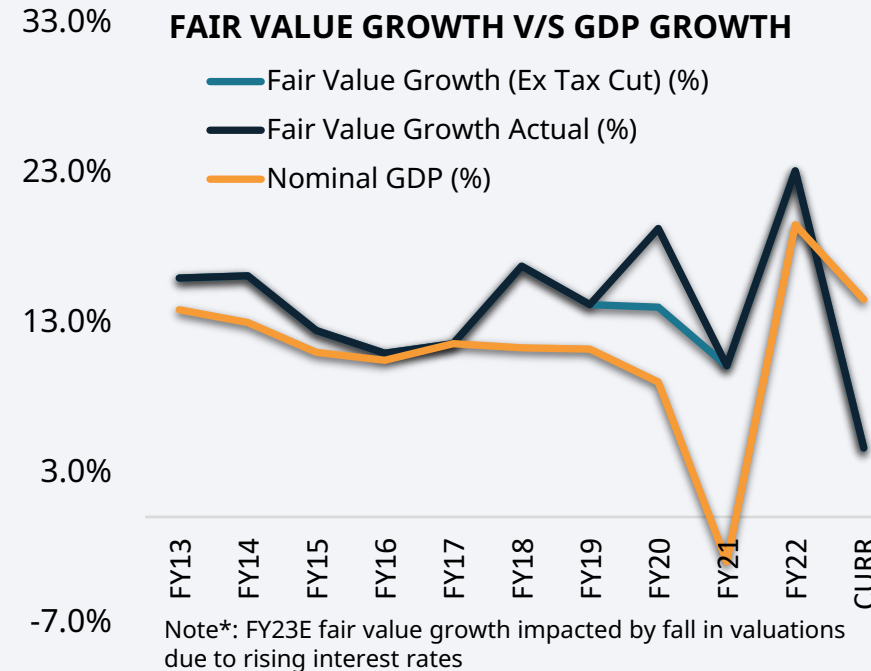
- Consumer sentiment continues to improve and shall support consumption.
- Employment rate has further headroom for improvement.
- Credit growth is at multi-year highs on the back of a spurt of activity as the economy heals, though has moderated slightly as compared to September levels

Strong Relation Between GDP, Fair Value And Markets

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.
- Over long time periods, the Index has moved in a tight band with its Fair Value.
- NIFTY Index currently trades close to our internal estimate of its Current Fair Value.

Equity Market - Outlook

Headwinds for Indian equities:

- × Unwinding of easy money policies across the globe, including India. The reduced liquidity may induce growth headwinds
- × Unknown/Unintended consequences of the Russian invasion of Ukraine

Tailwinds for Indian equities:

- ✓ Reasonable Valuations
- ✓ Healthy fair value growth over the long run
- ✓ Low corporate taxes, Government stimulus (Production Linked Incentive Scheme, Infrastructure Spending etc.)

In our diversified portfolios, we are neutral Large caps versus Mid and Small caps.

We are currently overweight on Consumer Discretionary, Financials, Communication Services, and Industrials and underweight on Utilities and Materials.

We recommend Equity products as the preferred means of investment in the current market environment.

Debt Market – Outlook

- Central banks across the globe are indicating that we are nearing the end of rate hike cycle.
- Inflation prints across countries is trending down
- India's March CPI inflation moderated to 5.66% and is below RBI's upper target range. Core inflation has slightly moderated down to 5.8% in March 2023
- Credit environment is positive. India Inc's credit upgrade downgrade ratio is positive and at multi year highs.
- Revenue buoyancy to help absorb higher debt supply for fiscal 2024
- Geopolitical risks, oil prices and monsoon remain the key risks
- Expect easing of pressures on interest rates going forward amidst volatility and positive externalities.
- Absolute yield levels are attractive from a medium to long-term investment horizon.

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

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THANK YOU

