Perspective

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Dear Associate,

As we enter the second quarter of this financial year, the macroeconomic outlook for India remains broadly positive. India has prospered against the backdrop of muted global growth, maintaining its position as one of the fastest-growing economies in the world. Most global and domestic forecasters predict healthy growth in the range of 6-6.5%.

The positive sentiment is supported by strong fundamentals. These include a healthy GDP print for FY23, a narrowing current account and fiscal deficit, moderation in inflation, a stable interest rate, robust tax collections, increasing foreign exchange reserves, a steady manufacturing PMI, better capacity utilization, lower NPAs, an improvement in credit culture with higher repayment intent, and rising tax collections. These are all positive indicators for the economy to sustain its growth momentum. The government's emphasis on infrastructure development, digital transformation, and reforms in various sectors bodes well for the economy. Our economy is intrinsically better placed, mainly because of its reliance on domestic demand, supportive demographics, political stability with a progressive reform agenda by the government and domestic manufacturing getting a boost from the China+1 strategy.

The uneven distribution of rainfall across the country may have repercussions on agricultural output, that could lead to fluctuations in food prices. Rural recovery, a further uptick in consumer sentiment, and commodity prices cooling off from their previous highs are some important factors to be taken into consideration for ensuring that the growth is sustainable. The optimism around India is positive for markets and we have been seeing FII flows coming back. But we also need to be watchful of the dynamics playing out outside the country, what with the global economy remaining uncertain with the fight against inflation turning out to be a prolonged one. While expected to grow, the global economy faces issues such as elevated though moderating inflation, supply chain disruptions and constraints, tighter financial conditions, high commodity prices and lingering geopolitical conflicts. Fed has indicated that further rate hikes are still likely in the future after taking a pause in June 2023. Globally from a growth perspective, developed economies will continue to be on a tight rope walk, balancing inflationary pressures on one hand and economic recovery on the other.

The Reserve Bank of India will need to strike a delicate balance between supporting growth and containing inflation through its monetary policy measures. After closely monitoring the economic situation, the central bank may maintain an accommodative stance to support growth. However, any signs of significant inflationary pressures may prompt tightening measures to ensure price stability. The government's fiscal policy stance will also play a crucial role in supporting economic recovery. Efforts to maintain fiscal discipline, streamline expenditure, and attract private investment will be important for sustaining the growth momentum. Reforms in taxation, subsidies and public spending will be critical to ensure a stable fiscal outlook.

The Indian equity markets have been reaching new highs, driven by overall positive sentiments and participation from both DIIs and FIIs. However, market highs should be considered as just another milestone and not a cue to liquidate your portfolio or redeem. Don't be driven by the fear that this is the last of the market highs. This wasn't the first, and it won't be the last. In fact, the market reached another all-time high in June 2023. This means that in the long run, the index tends to display a rising upward trend, even if there are short-term fluctuations. At such times, SIP can prove to be a very effective tool to navigate through these fluctuations and can help in maintaining one's investment discipline. One should continue on the path of disciplined investment while compounding and value cost averaging do their work in the background through market highs and lows.

Another important and never-to-be-forgotten mantra for an investor in any given market scenario is asset allocation. It encourages the habit of spreading one's investments across different asset classes such as equity, debt, gold etc. To further help citizens understand the importance of this concept, we at Aditya Birla Sun Life Mutual Fund recently launched our investor education campaign around this. It tries to drive home the point that different asset classes act differently at any given point in time. When you harness the power of multi-asset allocation, you manage to move through market volatility effectively.

We hope this endeavour has simplified an important concept of investing. We are dedicated to providing you with more than just the appropriate investment solutions. We also strive to educate you with valuable investment knowledge to support your investment journey. We are always here to serve you. Happy investing!

Regards

A Balasubramanian