"There never was a good war or a bad peace" – Benjamin Franklin

October 31, 2023

Dear Investor,

While the markets are correcting, India's stock market thunder appears unstoppable since the pandemic – the number of retail investors in India has shot up, mutual fund folios have hit an all-time high, SIP contribution has been encouraging, fresh demat accounts have reached another peak. But as we celebrate our progress, I want to acknowledge the humanitarian crisis unfolding in the Middle East. These are sad and challenging times, when it is not easy to detach and draw implications for the global economy and markets. That said, it is our responsibility to focus on those implications and what it means for investors. We do not see wider economic or market impacts stemming from the conflict in its current form. Unlike Russia's invasion of Ukraine, with its significant direct and indirect impacts on global supplies of energy, fertilizer and food stuffs, the war between Israel and Hamas— assuming it does not spread into a wider regional conflict—will likely be less disruptive to the global supply chain.

In his latest global blog*, **Stephen Dover, Head of Franklin Templeton Institute** evaluates the market implications of the conflict in the middle east which has raised geo-political concerns. The key highlights have been summarized below.

- We do not see wider economic or market impacts stemming from the conflict in its current form.
- In the event the current conflict was to escalate beyond its present scope, oil prices could spike and potentially supplies could be disrupted.
- Increase in the global geopolitical temperature will accelerate the trend towards regionalization of trade, another reason for further reversal of globalization.
- We do not believe that the conflict in its current form is likely to have significant impacts on global economic growth, inflation, corporate profits, interest rates or exchange rates.

We offer our thoughts and support to those who have been affected by the tragedy and destruction in Israel and the Gaza Strip. We know that this is a hard time for those who have personal ties to the region – we stand with you during this difficult period.

India Market Outlook:

Domestic economy projects resilience through a mix of robust macro and micro indicators that show pick up in investments and recovery in domestic demand. Healthy increase in the domestic activity tracker, Purchasing Managers' Index (PMI) in an expansionary mode, moderation in Consumer Price Index (CPI) inflation, improvement in consumer sentiment index and an uptick in rural economic activity bodes well for growth projections. Together, they reflect a cyclical uptrend along with the positive effects of structural changes. Headwinds are mainly from the global economy and geopolitics. Hence, the key risks to domestic growth projections are from slowing global growth and high US treasury yields that could impact flows to emerging markets. Rise in crude oil prices could increase

inflation and delay easing of interest rates. With four states heading for elections in November-December 2023, domestic markets could likely experience heightened volatility in the coming quarter.

In its latest monetary policy release earlier this month, the Reserve Bank of India (RBI) kept the repo rate unchanged at 6.50%. It continued to keep policy rates unchanged after having raised the repo rate by 250 bps (basis points) since May 2022. I am pleased to share our detailed analysis and outlook on the monetary policy.

As always, you can directly write to me at avisatwalekar@franklintempleton.com with any feedback and questions. I value your questions, and feedback and look forward to the opportunity of continuing to meet your investment needs.

Sincerely,

Avinash Satwalekar
President, Franklin Templeton Asset Management (India) Pvt. Ltd.

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*Article Source

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