MONTHLY UPDATE
FEBRUARY 2024

23 YEARS
Protecting India with Pride

HDFC Life
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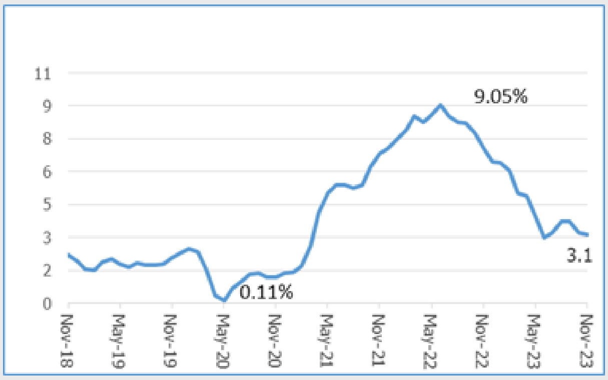
Market Outlook

HDFC Life - Monthly Update (March 2024)

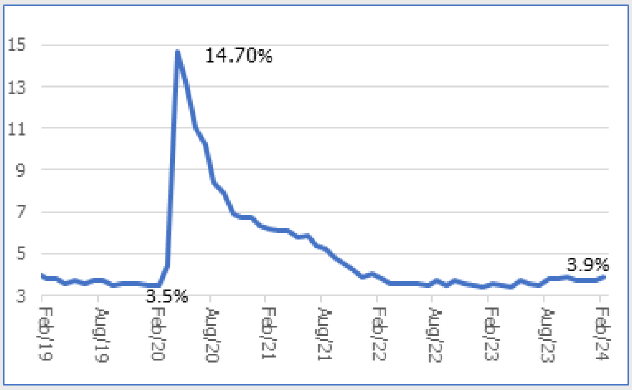
Global Macro Review

US CPI (%)



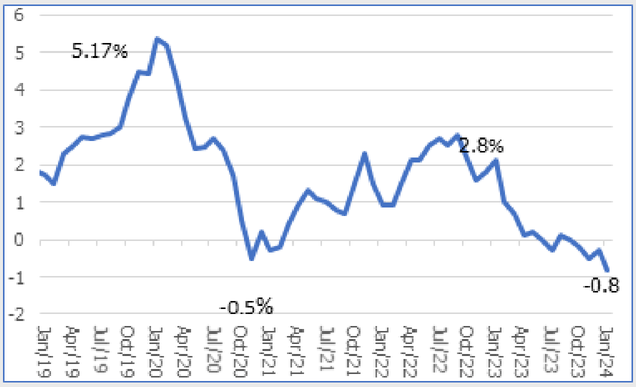
- US CPI came in at 3.1% YoY (expectations: 2.9%) in January vs 3.4% YoY in the past month reflecting 0.3% MoM increase vs 0.2% MoM in the previous month. Services categories such as shelter, motor vehicle insurance and medical care were the leading drivers that pushed inflation higher.The higher inflation print along with the tight labour market have pushed back market expectations of the start of US rate cuts.

US Unemployment Rate (%)



- The US unemployment rate inched higher from 3.7%YoY in Jan'24to 3.9% in Feb'24 YoY.
- US Non Farm Payrolls, surprised to the upside at 275k,higher than the market expectations of 200k,though the upside surprise masked the fact that payrolls figures for the previous two months were revised lower by 167k. The softness in the labour market was also visible in average hourly earnings that grew only 0.1% MoM in February from 0.5% MoM in the previous month.

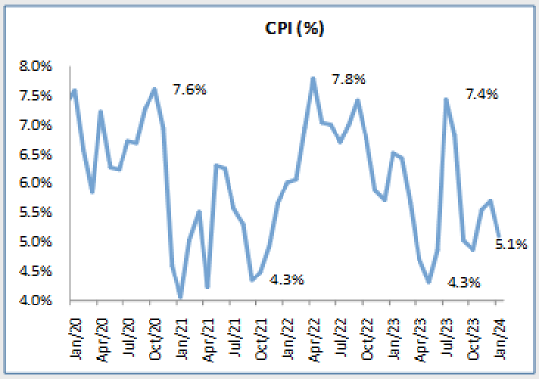
China CPI (%)



- Chinese CPI continues to remain in the deflationary zone.CPI for Jan'24 came in -0.8% YoY vs -0.3% in Dec'23.The housing market is seeing a sharp downturn, dragging down growth and consumption. Since more then 50% of household assests are held in housing, the ramification of this decline is felt across the economy.

India Macro Review

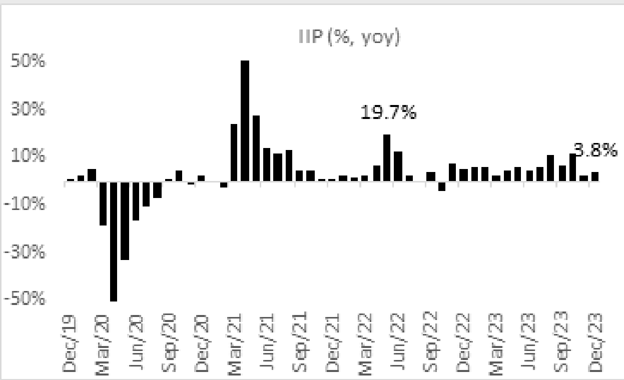
CPI Inflation %



Source: MOSPI

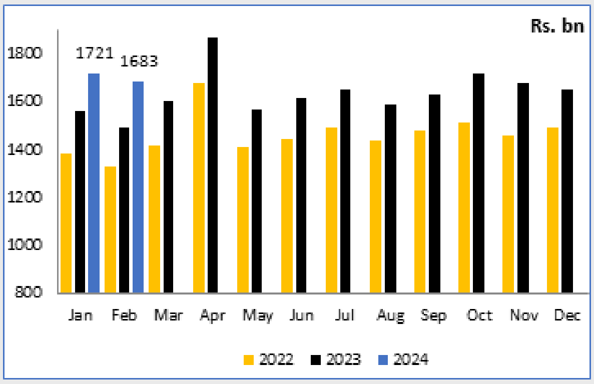
- Inflation (CPI) for Jan'24stood at 5.1% vs 5.7% in Dec'23 as food inflation, which constitutes 45.9% of the index,moderated to 7.6% in Jan'24 from 8.7% in Dec'23.However, within food, inflation for Vegetables, Pulses and Spicesremains elevated.
- Fuel inflation which constitutes 6.8% ofCPI, contracted by 0.6% in Jan'24 vs. 1%fall in Dec'23.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Dec'23 came at 3.8%as Manufacturingoutputsurged 3.9% in Dec'23 and Mining output rose 5.1% in Dec'23. However, Electricity output was marginally higher by 1.2% in Dec'23.
- The increase in the Industrial production indexreflects increasing momentum in production activities.However, monthly IIP numbers can be volatile and difficult to draw a trend from the same.

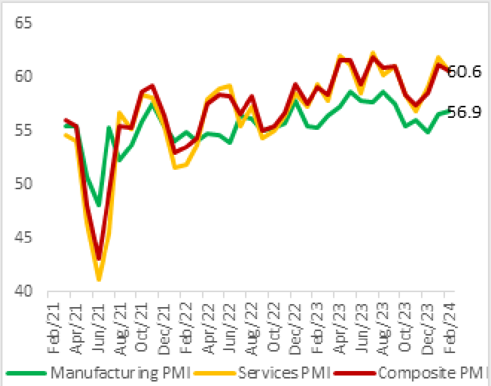
GST Collection (Rs. bn)



- GST revenues for the month of Feb'24 came at Rs. 1,683bngrowing12.5% YoY vs. Rs. 1,496bn in Feb'23.
- Average monthly GST collections have increased to Rs. 1.67 lakh crore in 11M FY24 vs. Rs. 1.5lakh crore in 11M FY23 and Rs. 1.2lakh crore in 11M FY22continuing to display high buoyancy.

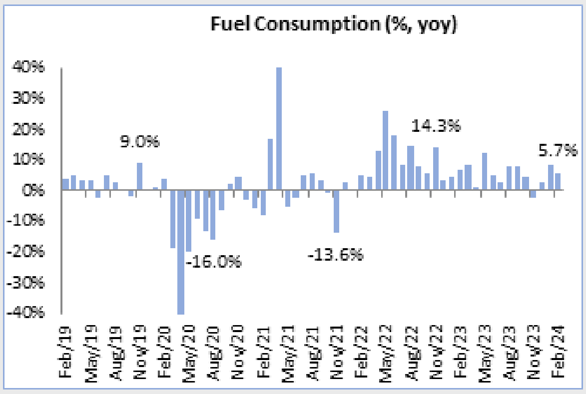
India Macro Review

PMI



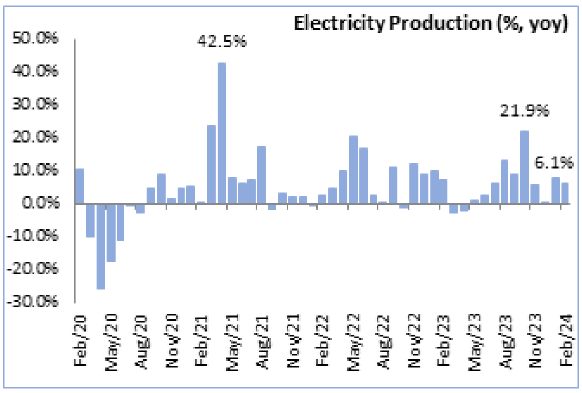
- PMI (manufacturing) eased to 56.9 in Feb'24 from 56.5 in Jan'24. However, PMI is still in expansion zone (>=50) suggesting the continued strength in orders pipeline, production and despite a slowdown being seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption increasedby 5.7% in Feb'24 vs. 8.3% growth in Jan'24. Within fuel category, consumption for diesel surged by 6.2% yoy in Feb'24 and petrol consumpton increased by 8.9% yoy in Feb'24.

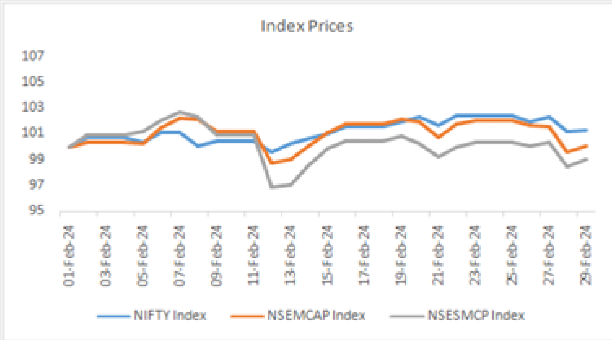
Electricity Production YoY Growth %



- Electricity production wasup 6.1% YoY in Jan'24 vs. 7.9% YoY in Feb'24. Delayed winters led to strong demand in January this year.

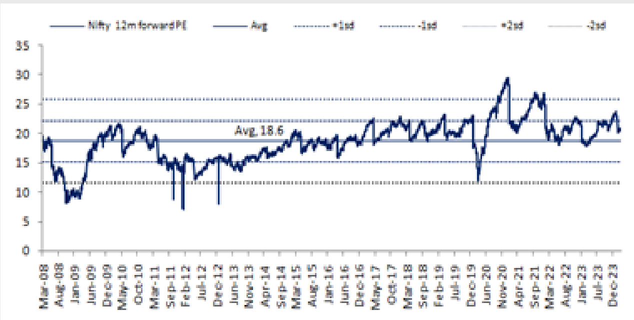
Equity Outlook and Positioning

Monthly Index performance



- Equity markets posted a flattish month in Feb'24 with large cap indices outperforming midcaps and smallcaps. Nifty 50 closed the month with a return of 1.3% while CNX Midcap Index gave a return of 0.1% and Small Cap at -0.9%.
- Outperforming sectors included Oil & gas, Real estate, Pharma, Auto, Power and IT. On the other hand, the underperforming sectors included Banking, FMCG and Metals.

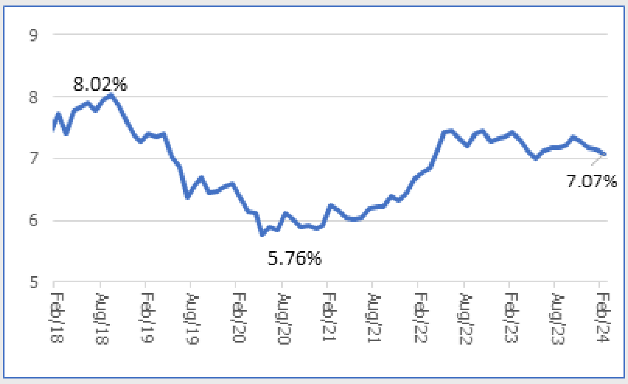
Nifty Valuation (1 year forward PE)



- 3QFY24 results of BSE-500 Index companies showed persisting revenue weakness (3% yoy increase ex-BFSI), even as earnings growth remained robust (28% yoy). EBITDA margins were elevated (up 200 bps yoy), but a 170 bps qoq rise in RM cost/sales led to a 110 bps qoq moderation in EBITDA margins. Consensus earnings estimates for the BSE-500 universe were largely stable, despite the strong yoy earnings growth in 3QFY24.
- The likely political stability augurs well for the medium to long term outlook of the Indian economy as government has kept its focus on undertaking reforms, building infrastructure and providing a fillip to domestic manufacturing through import substitution and PLI schemes. India's macro-economic setup looks quite favorable with the government continuing on the path of fiscal consolidation, inflation expectations broadly in control, a stable currency, good forex reserves and expectations of an improvement in growth outlook, especially if the western economies were to avoid a deep recession. In the near term, Nifty earnings are projected to grow at ~12% CAGR over FY24-FY26. Basis this estimates, valuations at 20.4x FY25 and 18.3xFY26 seem to already discounting the good news and don't leave much room for disappointment. Market returns are likely to be driven by earnings growth with limited room for further multiple expansions.

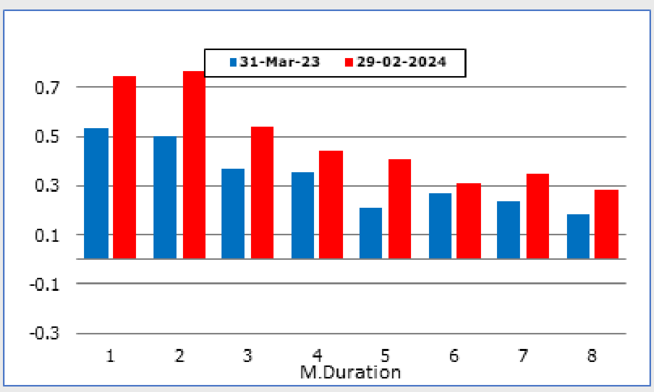
Debt Outlook and Positioning

India 10yr Gsec chart



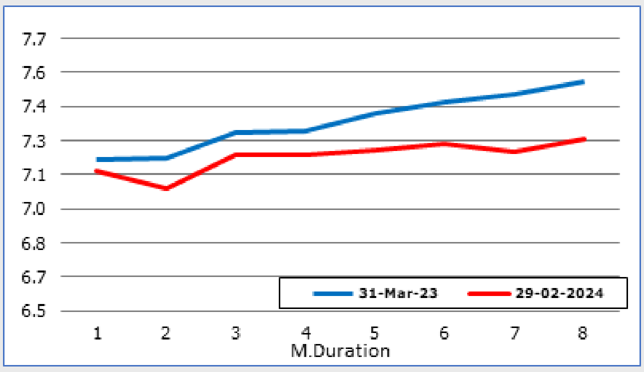
- US bond yields rose sharply by 35 bps for the month due to higher than expected CPI print, strong labour data and resilient growth nos, leading to unwinding of the early rate cut expectation built by the market. The 10yr UST for the month closed at 4.25% vs 3.91%.
- In India, the 10yr benchmark yield eased by 7bps from 7.14% to 7.07%due to lower than expected borrowing numbers announced in the interim budget for FY25.

AAA Spreads



- The latest FOMC minutes confirmed that the pivot towards easing policy rates could take place later in the year and further actions would remain data dependent. The markets have largely recalibrated the rate cut expectation and the focus will now shifts back to economic indicators.
- Going forward, the RBI rate cut cycle is likely to be influenced byevolving domestic inflation outlook along with global policymakers' actions timeline.

G Sec Curve Movement



- However, on the domestic front, the favourable demand-supply balance is expected to be bond supportive. The incremental demand for bonds from FPI investors, due to the inclusion of domestic bonds in the JP Morgan Bond index, along with the reduced supply as the Government looks to compress the fiscal deficit, is expected to add to the easing trend in bond yields.

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