# Annual Report for Policy Holders - Economic Update

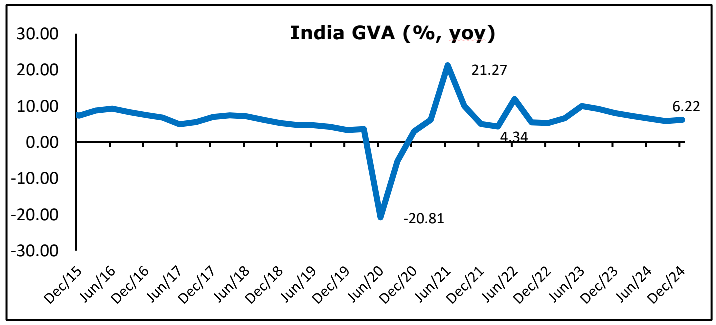
## March 2025

HDFC Life

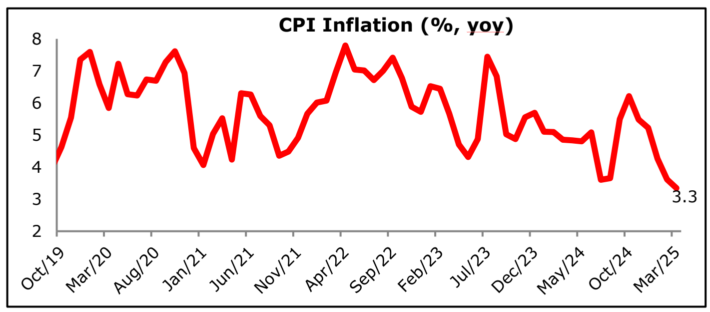
*Sar utha ke jiyo!*

## Economic Update

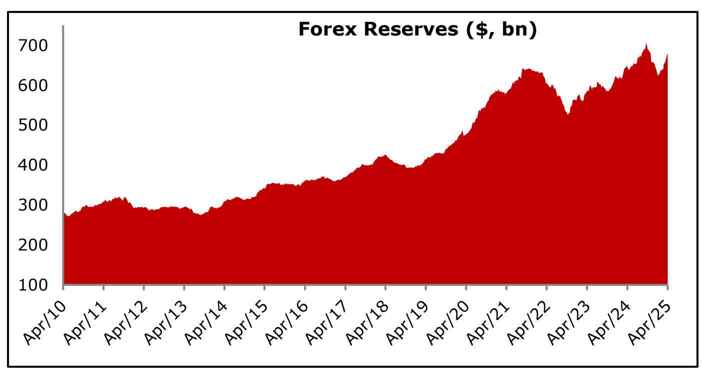
Financial year 2024-25 marked an inflection point for the Indian economy as the post-Covid surge in activity wound down and the interest rate hikes of the previous years, to tame inflation, led growth to a more modest trajectory. This shift in the growth and inflation outlook was similar to developments across most major economies, where the previous years' rate hikes helped ease inflation while also dampening growth.



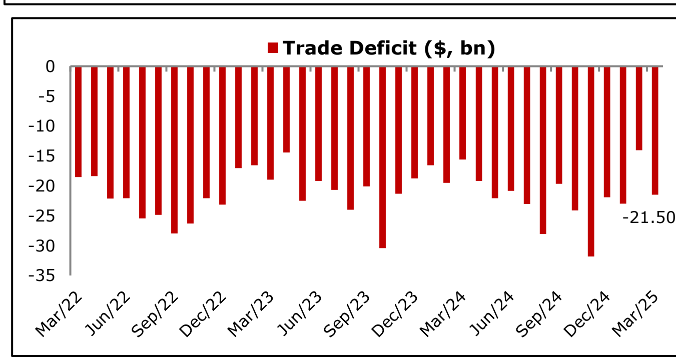

Apart from the interest rates and waning post-Covid surge, domestic activity was also affected due to the slowdown in Govt spending during the general elections, in April and May, and the severe heatwaves during the summer months. Q1, Q2 and Q3 growth clocked 6.5%, 5.6% and 6.2% in FY25 against 9.7%, 9.3% and 9.5% in the same periods in the previous year, respectively. Full year growth for FY25 is estimated at 6.4%, with a similar number expected for FY26 as well.




The slowing growth did have an impact on the inflation. Core inflation (excluding food and energy items) trended below 4.0% through most of the year. However, the summer heatwaves led to elevated and volatile food prices, keeping the headline CPI elevated. Towards the end of the year, food prices cooled down leading to CPI inflation of 3.3% by the end of the year.




India's external sector, too, witnessed some volatility over the year. Goods trade deficit for the year swung sharply between extremes – clocking a deficit of USD 31.8 bn in November and contracting to a deficit of USD 14bn in February. Total goods trade deficit for the full year hit USD 283 bn against USD 241 bn in the previous year. However, a surplus in the services trade balance as well as a pick-up



in remittances, helped narrow the Current Account Deficit to about USD 28 bn, which is about 0.7% of the GDP, and similar to the deficit in the previous year. The Capital Account surplus, however, is estimated to shrink to around US 18 bn, (USD 81 bn last year), leaving a small deficit in the Balance of Payments of about USD 10 bn, down from a surplus of USD 52 bn, last year. RBI's foreign currency reserves, saw sharp movements during the year. Total forex reserves stood around USD 665 bn at the end of the year, against USD 648 bn at the end of last year.

## Market Update

### Equity Markets

After a year of strong growth in FY24, the equity markets saw two-way movements in FY25. The initial part of the year saw continued momentum from the previous year taking the equity indices to new highs. However, concerns over elevated valuations, in the face of slowing growth led to profit-taking in the markets. The election of Donald Trump as the next US President, with a campaign promise of strengthening the US economy saw large capital flows to the US markets. The FPI outflows in the second half of the year, exacerbated the weakness in the markets.

The large cap equity indices ended the year with gains of about 5.5% compared to about 29% in the previous year. The Mid-cap segment, too, witnessed subdued gains, clocking about 7.5% for the full year of FY25, compared to about 60% in the previous year.

### Portfolio positioning and Risk Management

The equity portfolios were positioned cautiously in view of the moderation in domestic economic activity and the elevated valuation levels. In view of the slowdown in global growth, the portfolios were focused towards domestic oriented sectors like financials, where the improvement asset quality was seen to be sustainable, and auto, auto ancillaries, etc. The portfolios remained under-weight in key globally linked sectors like commodities and metals. The portfolio allocations are dynamically managed to account for the changes in outlook for the investee companies and the corresponding changes in valuations within the overall risk management framework.

We follow robust risk management policies in our funds. The portfolio deviations with respect to the respective benchmarks is maintained within defined risk limits. We have defined stock and sector level underweight / overweight positions limits vis-a-vis the benchmark and we actively track such deviations. Deviations are highlighted to portfolio manager and corrective action, if required, is taken in timely manner.

### Fixed Income Markets

The fixed income markets saw another year of steadily softening yields. The slowdown in growth and the easing trend in inflation raised market expectations of eventual rate cuts by RBI as well. Moreover, the start of rate cut cycles across most major economies provided a benign background to the bond markets. The volatility in food prices, keeping CPI inflation elevated in the initial part of the year, only served to delay the eventual start of the rate cut cycle. RBI initiated the easing cycle with a 25 bps cut in the Repo rate in February, along with other liquidity easing measures as well. The 10-year benchmark GSec yield eased to 6.58% by the end of the year, from 7.05% at the end of last year.

In the softening yield environment, the spreads of corporate bond yields over the sovereign, remained narrow. However, the shape of the corporate yield curve remained inverted through most of the year. The robust demand for long tenure issuances from the long-term investors, as well as market expectations of eventual rate cuts, kept long end yields subdued. Short end corporate yields stayed elevated due to the delay in actual rate cuts by RBI, as also due to the deficient liquidity in the banking system. However, as RBI eased rates and liquidity, towards the end of the year, the curve flattened out.

## Portfolio Positioning: Duration Strategy and Risk Management

The bond portfolios were dynamically managed with active duration management through the year. Bond portfolios were maintained at an over-weight duration position through the year, over expectations of eventual rate cuts. We maintained an under-weight position in credit exposures, as the spreads remained narrow.

During the year, investments were maintained as per our investment policy and all prudential limits and regulatory guidelines were adhered to at all points during the year. Credit risks in the portfolios were also monitored closely. Addition of new credit exposures were made after a thorough analysis and due diligence process. Existing credits were monitored regularly for any developments that could be beneficial or detrimental to the companies' financials.