

MONTHLY UPDATE

MARCH 2025



Sar utha ke jayo!

Market Outlook

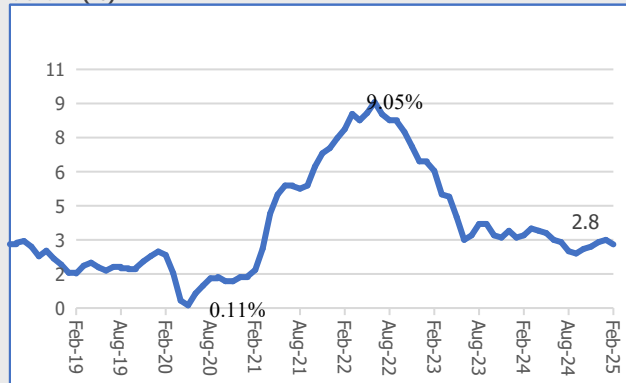
HDFC Life – Monthly Update (April 2025)



Global Macro Review

US CPI (%)

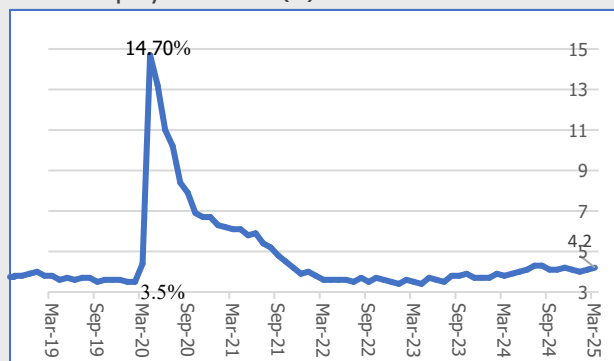
US CPI (%)



■ US CPI inflation softened across the board, coming in below expectations at 2.8% YoY (0.2% MoM) in February, down from 3.0% YoY (0.5% MoM) in the previous month. Going ahead risks to inflation remain to the upside as the impact of tariffs that have been imposed on China and other trading partners are yet to filter into price levels; however the outlook for growth may also weaken, due to tariff impact, which may prompt the Fed to backload the easing cycle.

US Unemployment Rate (%)

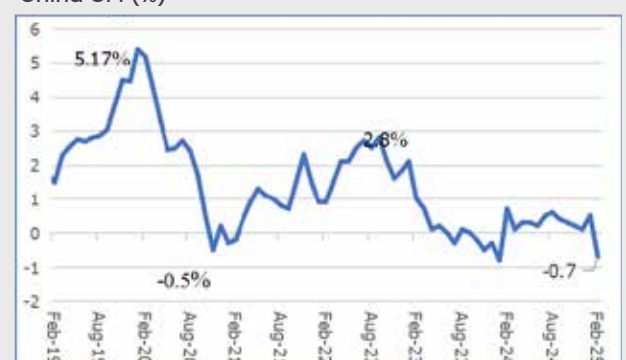
US Unemployment Rate (%)



■ US Non Farm Payrolls for March came in at 228k (expectations 140k). However, hiring was not broad based and the outlook remains less constructive given the mass lay-offs expected in the federal workforce and as private sector hiring could slow sharply in response to the reciprocal tariff announcements which is expected to hit economic activity. The unemployment rate came at 4.2% in March vs 4.1% in Feb.

China CPI (%)

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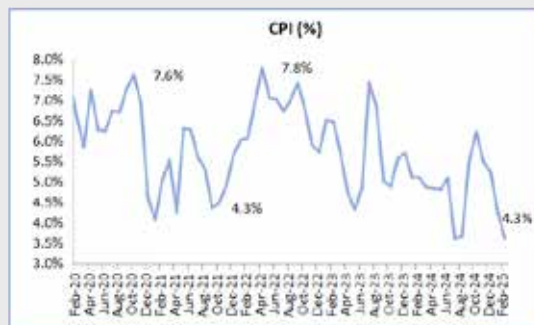


■ Chinese CPI fell back into negative territory at -0.7%YoY, the first time since last January. The fall is largely attributed to decline in overall food prices. Core inflation also turned negative for the first time since January 2021. Given the negative impulse from higher US tariffs, further downside to growth and inflation can not be ruled out. However, markets expect PBoC to further loosen monetary policy and fiscal stimulus to support growth.

India Macro Review

CPI Inflation %

CPI Inflation %

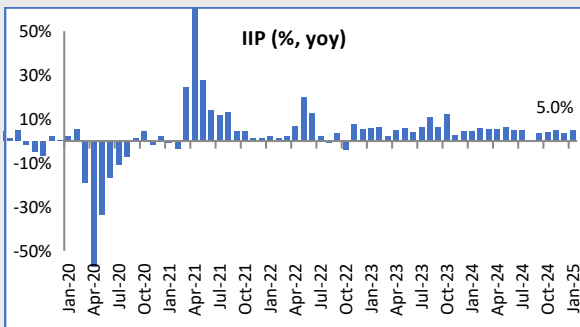


Source: MOSPI

- Inflation (CPI) for Feb'25 moderated to 4.3% vs. 5.2% in Jan'25 as food CPI, which constitutes 45.9% of the index, fell to 3.8% in Feb'25 vs. 5.7% in Jan'25.
- Core CPI excluding food and fuel which constitutes 54% of CPI up to 4.1% in Feb'25.

Industrial Production Index (IIP)

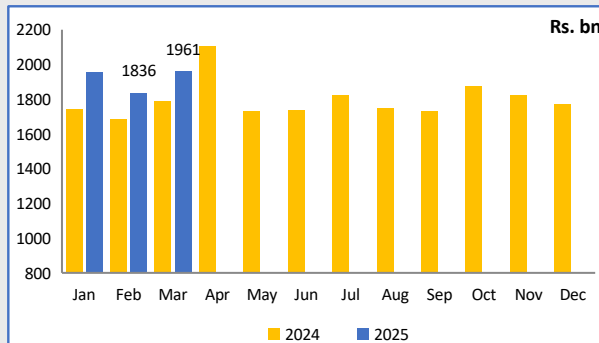
Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Jan'25 grew 5% vs. 3.5% deceleration in Dec'24, as Manufacturing output accelerated to 5.5% in Jan'25 vs. 3.4% in Dec'24. Electricity output fell from 6.2% in Dec'24 to 2.4% in Jan'25 and Mining output rose to 4.4% in Jan'25.
- The increase in the Industrial production index reflects 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)

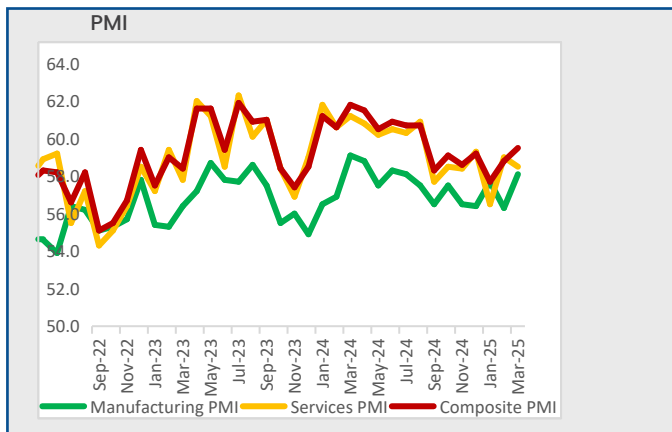
GST Collection (Rs. bn)



- GST revenues for the month of Mar'25 came to Rs. 1,961bn showing a 9.9% YoY increase vs. Rs. 1,785bn in Mar'24.

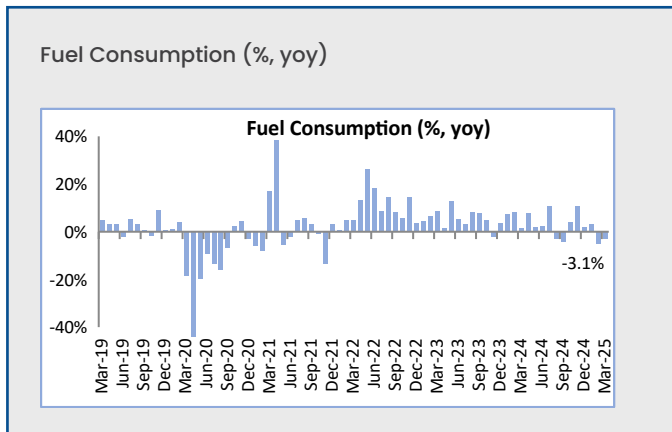
India Macro Review

PMI



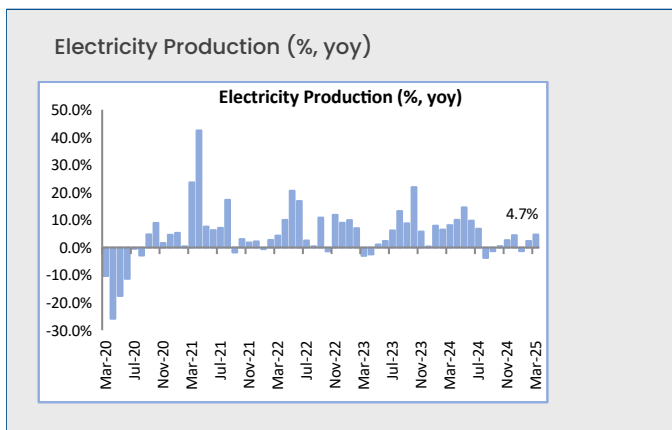
- PMI (manufacturing) increased to 58.1 in Mar'25 from 56.3 in Feb'25. However, PMI (Services) fell to 58.5 in Mar'25 from 59 in Feb'25. Notably, PMI continuing in the expansion zone (≥ 50) indicate the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption contracted by 3.1% yoy in Mar'25 vs. 5.2% yoy contraction in Feb'25. Within fuel category, diesel consumption grew by 0.9% yoy in Mar'25. However, Consumption for Petrol surged by 5.7% in Mar'25.

Electricity Production YoY Growth %

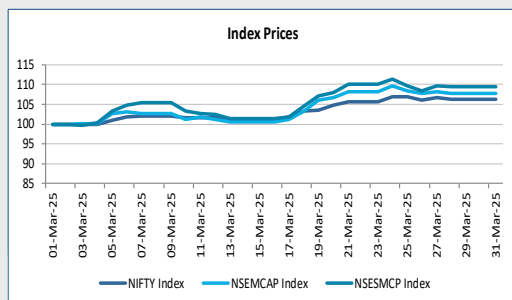


- Electricity production increased by 1.9% YoY in Feb'25 vs. 1.3% YoY contraction in Jan'25.
- Warmer weather in Mar'25 is driving the higher demand for electricity

Equity Outlook and Positioning

Monthly Index performance

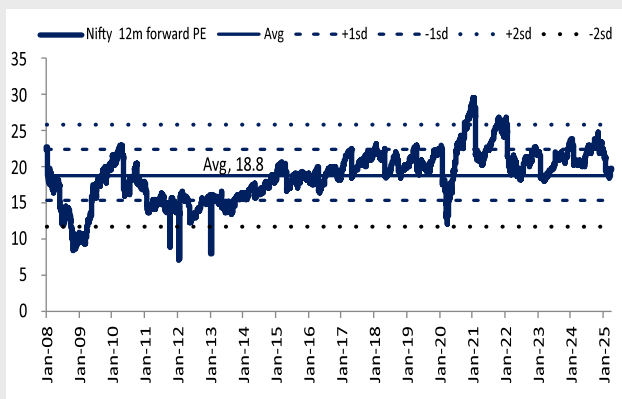
Monthly Index performance



- Equity markets were mostly positive in Mar'25 with large cap indices underperforming mid-caps and small caps. Nifty 50 closed the month 6.3% higher, while the CNX Midcap and Small Cap indices gained 7.8% and 9.5% respectively.
- Outperforming sectors were Power, Capital Goods, Oil & Gas, Metals, Banks and Healthcare. The underperforming sectors were IT, Consumer Durables, Auto and FMCG

Nifty Valuation (1 year forward PE)

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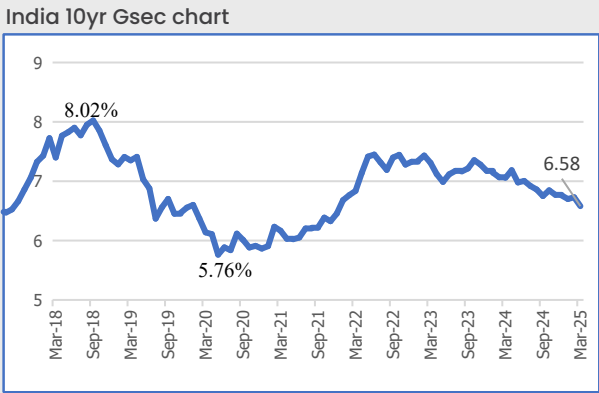


Source: Bloomberg

- US President Trump announced reciprocal tariffs on April 2 for all its trading partners with 27% tariff imposed on India's exports to the US, much higher than consensus expectations. However, India is relatively well placed as a) India contributes only US\$47bn or 4% of US' trade deficits, b) a 27% tariff on India makes it relatively competitive to EMs with much higher tariffs: China 125% (and escalating), Vietnam 46%, Thailand 37%, Taiwan 32%, c) India's exports to the US are just 2% of its GDP vs 11-23% of GDP for some peers. We believe that if tariffs continue for long, it will likely result in a global slowdown in growth and increase inflationary pressures in the US.
- The context for 4QFY25 earnings remained essentially unchanged from previous quarters, with Nifty earnings growth expected at 2% YoY. The fourth quarter will round off a disappointing year for Indian corporate earnings, with Nifty FY25 PAT now projected to grow at 5% YoY.
- With a cyclical recovery already underway, India's domestic economy is now in a better shape factoring in pick-up in government capex, recovery in rural consumption (on good crop outlook), softening inflation and fiscal impulse from income tax cuts. While in the short term, trade war on back of US tariff hikes and a weak 4QFY25 will keep the market volatile and range bound, the medium- to long-term growth narrative for India remains intact.

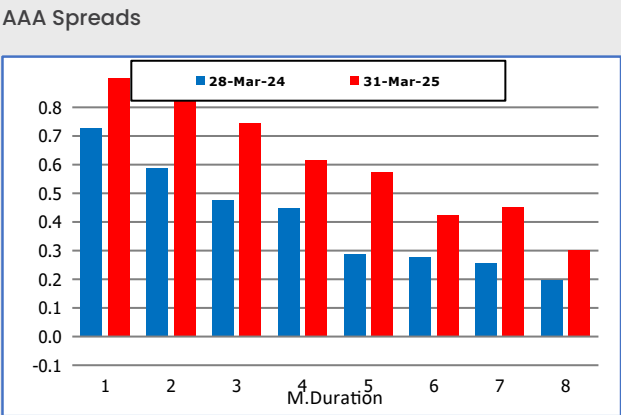
Debt Outlook and Positioning

India 10yr Gsec chart



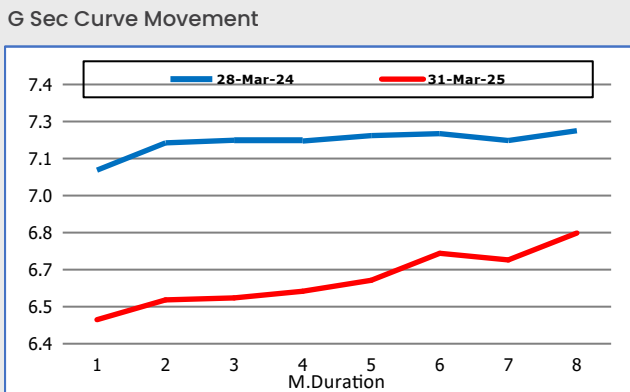
- The 10 yr US Treasury bond (UST) yields were range-bound during the month driven by tariff and growth concerns. The 10yr UST yield moved in the range of 4.21%-4.38% and closed the month marginally lower at 4.20%.
- The March FOMC maintained status quo on expected lines while tweaking its QT program to reduce the monthly run-off of maturing US treasury securities. However, the Fed forward guidance was perceived hawkish than the market expectations, as the distribution change in the Dot plot saw more members calling for lower extent of rate cuts for 2025 than was communicated in the previous meeting, largely due to tariffs and its impact on inflation.

AAA Curve movement



- In India, the 10yr bond yield eased during the month on improving macros, declining crude, appreciating INR, FPI inflows in debt market, expectations of RBI's rate cuts and RBI's aggressive OMO auctions. 10-year G-sec yields moved in the narrow range of 6.68%-6.74% in the first half, only to ease to 6.58%-6.67% in second fortnight of the month on aggressive RBI's OMO auction announcement. The 10 yr G-sec closed the month lower at 6.58% vs 6.73% in the previous month.

G Sec Curve Movement



- The sharp rise in global uncertainty and announcement of prohibitive reciprocal tariffs by US raises the downside risk to global growth and upside risk to volatility in financial markets, the focus now may be on US tariff related announcement -actions, currency & UST. However domestic bonds will likely remain well supported due to lower inflation and slowing growth which may translate into deeper cuts if growth outlooks worsen from here.



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