MONTHLY UPDATE
AUGUST 2022

21 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Aug, 2022

"Chains of habit are too light to be felt until they are too heavy to be broken."

- *Warren Buffet*

Equity markets

Indices	31st Aug 2022	29th July 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	59,537	57,570	4%	4%
S&P CNX Nifty	17,759	17,158	4%	4%
BSE 100	18,222	17,530	4%	5%
BSE Mid Cap	25,408	24,051	6%	7%
BSE Small Cap	28,651	27,056	6%	6%

Source: Bloomberg

During Aug'22, domestic equity indices continued their uptrend – Large cap indices rose 4% MoM while the Small and Mid cap Indices outperformed, up 6% MoM each. On a 1-year basis, the Large Cap indices have underperformed the Mid and Small cap indices. Over the past one year, Sensex and Nifty were up 4% each while BSE Mid cap and Small cap index were up 7% and 6% respectively.

During Aug'22, performance across the sector indices was mixed. The performance ranged from -2% to +15%. Power and Capital Goods sector outperformed the most; up 15% and 8% respectively while IT and Healthcare sector underperformed; down -2% and flat MoM respectively. On a 1-year basis, Utilities sector is the best performing sector gaining 79% followed by Auto and Capital Goods sector respectively. IT and Healthcare are the bottom two sectors; down 15% and 13% each respectively.

The yield of benchmark 10-year G-sec moved to 7.19% at the end of Aug'22 from 7.32% at the end of Jul'22

Global equity indices were mostly down during the month. The CAC 40 and FTSE 100 Index were the worst performing indices, down 5% each respectively during the month while the NIKKEI gained the most, up 1% MoM. On a 1 year basis, NIKKEI has gained the most, up 2% YoY.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	-3%	-6%
Silver	-12%	-25%
Crude Oil	-12%	32%
Copper	-2%	-19%
Aluminum	-5%	-13%
Lead	-4%	-15%
Nickel	-10%	9%
Tin	-9%	-33%
Zinc	4%	18%

Most major commodities fell during Aug'22. Crude and Silver fell the most, down 12% each respectively.

On a YoY basis, most major commodities have posted YoY declines. Crude has appreciated the most up 32% YoY.

Source: Bloomberg

Macro Economic Data

Indicators	May-22	Jun-22	Jul-22	Aug-22	Comments
IIP (YoY, %)	19.6%	12.3%			Industrial output grew by 12.3% yoy in Jun’22 vs. 19.6% yoy growth in May’22, mainly led by the increase in electricity output (16.4% yoy in Jun'22) and Manufacturing output (12.5% yoy in Jun'22)
Core Sector (YoY, %)	19.3%	13.2%	4.5%		Core sector output grew by 4.5% yoy in Jul’22 led by the increase in coal output (11.4%), cement (2.1%) and electricity (2.2%).
RBI monetary policy (Repo Rate) (%)	4.40	4.90	4.90	5.40	RBI increased the repo rate by 50bps to 5.4% in Aug'22 vs. 4.9% in Jun'22. RBI has increased the Repo rate by 140bps in the CY22.
CPI inflation (%)	7.0%	7.0%	6.7%		CPI inflation moderated to 6.7% in Jul’22 from 7% in Jun’22, led by the fall in food inflation from 6.7% in Jul’22 to 7.6% in Jun’22
Trade Deficit ($, bn)	-24.2	-26.2	-30.0	-28.7	In Aug’22, exports declined by 1.15% to $33bn, while imports grew by 36.8% to $61.7bn, as a result trade deficit marginally narrowed to $28.7bn in Aug’22 vs. $30bn in Jul’22.
GST Collection ($, bn)	1409	1446	1490	1436	Total gross GST revenue collections in Aug’22 stood at Rs. 1,436bn, following Rs. 1,490bn collection in Jul’22.
FII Flows-Equity ($, bn)	-5.18	-6.44	0.62	6.44	On equity side, FPIs bought $6.44bn in Aug’22, following an intflow of $0.6bn in Jul’22. On debt side, FII bought $0.48bn in Jul’22, following an outflow of $0.26bn in Jul’22.
FII Flows-Debt ($, bn)	-0.72	-0.18	-0.26	0.48	
Exchange Rate (INR/USD)	77.66	78.94	79.42	79.72	Indian Rupee depreciated by 0.4% during Aug'22, as it closed at 79.7 in the end of Aug’22 from 79.4 at the end of Jul’22 per dollar.
GDP (%)		13.5%			Real GDP grew by 13.5% in Q1 FY23 led by the sharp in investment (19.3% in Q1 FY23) and HH consumption (25.9% in Q1 FY23)

Outlook

Global equities weakened across regions with decline in MSCI world index by 3.9% for the month and 18.8% YTD. MSCI Euro and USA were the worst performers with decline of 6.5% and 4.1% respectively. MSCI India, Brazil and China were outliers with positive returns of 3.9%, 2.2% and 0.1% respectively.

FIIs remained buyers of Indian equities for the second consecutive month with net inflow of \$6.3bn in August, following \$0.8bn in July. DIIs institutions sold for the first time since February 2021, recording negative flows -\$0.9bn. So far, India has seen YTD FII outflows of \$21.5bn.

The hawkish comments of the US Fed chair at the recently-concluded Jackson Hole Symposium corrected the market’s earlier perception of the US Fed easing on rate hikes in the near future. The US Fed is entirely focused on bringing down inflation to intended levels and has signaled further rate increases to induce a slowdown in US economic activity and demand in order to curb inflation and inflation expectations. It would appear that the US Fed finds US economy activity to be still quite strong and consumer demand and labor market conditions to be well above the levels required to bring down inflation to its intended 2% level. The market has adjusted its rate expectations post the hawkish comments of the US Fed chair; it now expects US Fed Fund rate to climb to 4% by early 2023 and stay there in 1HCY23. In India, RBI also hiked policy rate by 50 bps to 5.4% (total 140 bps) to curb sustained level of inflation.

Q1FY23 corporate earnings were slightly below expectations primarily driven by miss in estimates by heavyweights stocks like Reliance Industries, Tata Motors and OMC’s like BPCL and HPCL. Banking & Financial Services sector continued to lead the overall earnings growth on back of better credit growth and decline in credit cost. The quarter witnessed notable margin contraction (ex financials) on back of elevated commodity prices. Corporate earnings were a miss after several quarters of positive surprises. However, Management commentary though remains upbeat. Nifty earnings saw cut of around 3% for FY23.

Indian equities continue to outperform both emerging and developed markets driven by resilient domestic demand, strong domestic equity inflows and turnaround in FII inflows (positive in last 2 months), amidst global slowdown. High frequency data points (like GST collections, bank credit growth) highlight resilience of India’s economic growth. However, trade deficit continues to widen to new record with July merchandise deficit bulging to \$31bn and April to June CAD tracking almost 4% of GDP.

Nifty Earnings are now expected to grow at 15% CAGR over FY22-24. Near term is likely to be volatile given multiple headwinds from geo-political tensions and slowing growth to inflation and continued rate hikes. While we see risks of further earnings cuts, this could be cushioned by recent moderation in macro headwinds as cost pressures seem to abating with correction in crude, metals and agri-commodities prices. In this overall context, valuations after the current rally at 18xFY24e are quite full, making us cautious in the short term. However, we would be optimistic from a medium to long term point of view as we expect a cyclical recovery in the economy and earnings after several years of sub-par growth.

Fixed Income Market

Fixed Income Market Review

Bond market continued its positive journey this month as well, supported by easing crude prices and softer inflation readings. US treasuries reversed from their recent lows as US growth data continued to be robust despite the recent rate hikes. This gives the US Fed room to raise rates higher than earlier anticipated. In his Jackson Hole speech, Fed chair Powell emphasized on a strong commitment to restoring price stability which would require a restrictive monetary policy. Inflation in US cooled down to 8.5% in July, better than market expectation of 8.7% and from its previous month reading of 9.1%. UK inflation rose to another 40-year high in July at 10.1% YoY. Although the Russia-Ukraine war continues, Brent crude prices traded below USD 100 per barrel on fears of the aggressive rate hikes triggering a recession. Weak growth in China also weighed on oil prices Brent crude prices eased to USD 95.6 per barrel compared to its previous close of USD 99.9 per barrel.

The US 10yr yield gave up most of its gains during the month as UST retraced back from its recent lows of 2.56% to close the month at 3.20% as future rate cut expectations were pared down on account of persistent high inflation and a hawkish Fed. The domestic 10yr benchmark bond eased, tracking the fall in crude oil prices and expectations of softening inflation, and closed the month at 7.19% against 7.32% at the end of the previous month.

India's CPI dropped to a 5 month low of 6.71% for the month of July'22 compared to it's previous month print of 7.01% driven mainly by softening food prices. Core inflation (CPI Ex-Food Ex-Fuel) dropped marginally to 6%. Headline WPI inflation eased to 13.9% YoY in July 2022 from 15.2% YoY in June 2022 attributed to a steep fall in vegetable prices.

India's trade deficit softened from its all-time high of $31bn in the previous month to $28.7bn in August. The trade deficit widened to USD 125.22 bn in April-August this fiscal as against USD 53.78 bn in the same period last year. Among other economic data, IIP growth for June 2022 came at 12.3%, lower than the reading of 19.6% in May 2022. Goods and Services Tax (GST) revenue collection for August came at Rs 1.44lac cr. India's Nikkei Markit Manufacturing PMI remained flattish at 56.2 in August 2022, against 56.5 in the previous month, and the Services PMI rose to 57.2 in August from 55.5 in the previous month. Composite PMI rose to 58.2 in August 22 vs 56.6 in the previous month.

Market Outlook –

Although fear of recession still looms over the markets, expectations of immediate rate cuts by the Fed in early 2023, have cooled down, pushing UST back above 3% level. Central banks across the globe are hiking rates to battle the sharp rise in inflation. With Russia stopping the Nord-2 gas supply to Europe, coupled with OPEC+ deciding to cut oil production by 100,000 bpd starting Oct 2022, energy prices are likely to rise, further fueling inflationary pressures.

While RBI draws some comfort from the easing inflation trajectory, keeping fear of large rate hikes at bay, they will have to be watchful of other large Central banks' actions. Secondly, the concerns around the Government's large borrowing amount have faded as tax collections have been robust. However, with banking sector's credit growth sharply out-stripping deposit growth, banks are likely to tone down their bond purchases in the coming months and keeping the issue of demand – supply mis-match alive. On the other hand, expectations of India being included in the JP Morgan global bond indices gaining traction, bond yields have found support at current levels and a favourable decision on inclusion will likely result in bond yields softening in anticipation of FII purchases. While the forthcoming inflation prints may help provide more clarity on inflation trends and thus bond yields, we expect that yields are likely to trade within a range in the near term.