MONTHLY UPDATE
DECEMBER 2022

20 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Dec, 2022

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

- *Warren Buffet*

Equity markets

Indices	31st Dec 2022	30th Nov 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	60,841	63,100	-4%	4%
S&P CNX Nifty	18,105	18,758	-4%	4%
BSE 100	18,425	19,082	-3%	5%
BSE Mid Cap	25,315	25,951	-2%	1%
BSE Small Cap	28,927	29,520	-2%	-2%

Source: Bloomberg

During Dec'22, domestic equity indices gave up all the gains of the previous month – Large cap indices fell ~4% MoM while the Small and Mid cap Indices outperformed, down 2% MoM, respectively. On a 1-year basis, the Large Cap indices have outperformed the Mid and Small cap Index. Over the past one year, Sensex and Nifty were up 4% each, respectively while BSE Mid cap and Small cap Index were up 1% and down 2%, respectively.

During Dec'22, performance across the sector indices was mixed. The performance ranged from -7% to +3%. Metals and Banking sector outperformed the most; up 3% and down 1%, respectively while Utilities and IT sector underperformed; down 7% and 5% MoM. On a 1-year basis, Utilities sector is the best performing sector gaining 26% followed by Banking and Auto sector respectively. IT and Pharma are the bottom two sectors; down 24% and 12% respectively.

The yield of benchmark 10-year G-sec moved to 7.33% at the end of Dec'22 from 7.28% at the end of Nov'22.

Most global equity indices fell during the month. The HANGSENG Index was the best performing Index, up 6% during the month while the NASDAQ and the NIKKEI Index fell the most, down 9% and 7% MoM, respectively. On a 1 year basis, FTSE rose the most, up 1% YoY.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	4%	0%
Silver	11%	3%
Crude Oil	1%	7%
Copper	2%	-15%
Aluminum	-4%	-16%
Lead	6%	0%
Nickel	11%	43%
Tin	7%	-37%
Zinc	-2%	16%

Most major commodities rose during Dec'22. Silver and Nickel rose the most, up 11% each, respectively. Aluminum fell the most, down 4% MoM.

On a YoY basis, major commodities had a mixed performance. Nickel has appreciated the most up 43% YoY.

Source: Bloomberg

Macro Economic Data

Indicators	Sep-22	Oct-22	Nov-22	Dec-22	Comments
IIP (%)	3.5%	-4.0%	-	-	Industrial output contracted by 4% yoy in Oct’22 vs. 3.5% yoy growth in Sep’22, mainly led by the decline in manufacturing output (5.6% yoy in Oct'22). Also, Mining output growth moderated to 2.5% in Oct'22 vs. 5.2% yoy growth in Sep'22.
Core Sector (%)	7.8%	0.9%	5.4%	-	Core sector output grew by 5.4% yoy in Nov’22 due to surge in cement output (28.6% yoy), steel output (10.8% yoy), electricity output (12.1% yoy) and coal output (12.3% yoy). On the other hand, Output of crude oil (-1.1%), refinery products (-9.3%) and natural gas (-0.7%) has declined.
RBI monetary policy (Repo Rate) (%)	5.90	5.90	5.90	6.25	Repo rate stood at 6.25% in Dec'22. RBI has increased the Repo rate by 225bps in the CY22.
CPI inflation (%)	7.4%	6.8%	5.9%	-	CPI inflation eased to 5.9% in Nov’22 from 6.8% in Oct’22, led by the slide in food inflation to 5.1% in Nov’22 from 7.1% in Oct’22
Trade Deficit ($, bn)	-29.2	-27.6	-23.9	-	In Nov’22, exports marginally grew by 0.6% yoy to $32bn, while imports surged by 5.4% yoy to $55.9bn, as a result, trade deficit narrowed to $23.9bn in Nov’22 vs. $27.6bn in Oct’22.
GST Collection ($, bn)	1477	1517	1486	1495	Total gross GST revenue collections grew by 10.9% yoy to Rs. 1.5tn in Dec'22 vs. Rs. 1.3tn in Dec'21 led by the jump in IGST (15.4% yoy), CGST (7.1% yoy) and SGST (4.9% yoy).
FII Flows-Equity ($, bn)	-0.90	0.0	4.4	1.4	On equity side, FPIs bought $1.4bn in Dec’22, following an inflow of $4.4bn in Nov'22. On debt side, FII sold $0.20bn in Dec’22, following an outflow of $0.2bn in Nov’22.
FII Flows-Debt ($, bn)	0.51	-0.43	-0.20	-0.20	
Exchange Rate (INR/USD)	81.55	82.39	81.60	82.79	Indian Rupee depreciated by 1.4% during Dec'22, as it closed at Rs. 82.8 per dollar in the end of Dec’22 vs. Rs. 81.6 per dollar at the end of Nov’22.
GDP (%)	6.3%				Real GDP grew by 6.3% in Q2 FY23 led by the increase in HH consumption (9.7% in Q2 FY23) and investment (5.9% in Q2 FY23).

Outlook

2022, has been a roller coaster of a year with markets falling in the first half and then recovering sharply. While the overall Nifty returns have been flat for the year, the Indian markets have relatively outperformed other major markets. While headline returns have been flat the internal market setup is that of a bullish undertone with domestic cyclicals like industrials and PSU banks being the best performers. December month saw some retracement after Nifty scaled its all time highs.

On the global front, Fed raised rates by 50bps and re-iterated its stance of fighting inflation. It mentioned that history warns against pre-mature easing. With regards to economic data, inflation worries seem to be ebbing across the globe with supply chains normalizing and growth faltering. The news on the latter is concerning as exports and manufacturing activity across the world is moderating at a rapid pace. Given the focus on inflation, it remains to be seen if policymakers can pivot in time to avoid recession.

On the domestic front, high frequency data remains mixed. Exports, industrial activity, property registrations have seen deceleration in recent months. However, credit growth (17-18%), GST collections (15% YoY) remain strong. Domestic activity is clearly more resilient than global economy at the current juncture.

On the flows front, FII flows were muted, perhaps owing to the year ending holiday season. However, DII flows remained strong at USD2.9bn of inflows. However, equity inflows into mutual funds seem to be moderating and could potentially weigh on markets going ahead.

The key driver of markets in 2022 was resilient domestic growth. In 2023, we need to monitor how the domestic growth progress. This along with higher than longer term avearge valuations could result in another rangebound year. We see (1) higher-for-longer interest rates and slow recovery in consumption of low-income households as the key themes for the economy and (2) related de-rating in multiples of ‘growth’ stocks from higher-for-longer interest rates as the key theme for the market for 1HCY23. Nonetheless, the long term investment outlook remains strong and any sharp correction in equities should be used as an opportunity to increase exposure to equities. Currently Nifty is trading at ~19x FY24 earnings.

Fixed Income Market

Fixed Income Market Review

Global bond yields reversed course and moved higher in December as the US Fed hiked interest rates by 50bps and also signaled that it is likely to keep rates higher for longer through 2023 as inflation continues to be significantly above target. In a surprise move, the BOJ lifted its cap on ten-year government-bond yields from 0.25% to 0.5% further pushing up bond yields. The ECB, too, raised interest rates by 50bps as expected and also signaled further rate hikes. The Bank of England raised interest rates by 50 bps in line with expectation. BoE also said that UK is in a recession and it's GDP is expected to contract by 0.1% in Q4 2022. UK inflation still remained high at 10.7% in the month of November albeit slightly lower than 11.1% in October. Eurozone inflation stayed in the double digit with its November inflation coming at 10.1% marginally higher than 10% in the previous month. The US CPI for November rose by a less than expected 0.1% MoM and 7.1% YoY, which provided some respite to the markets.

Brent crude prices cooled off further during the month touching a low of $76.1/bbl fueled by China's zero Covid policy and increasing covid cases in China, before moving higher and closed almost flat at USD 86 per barrel compared to its previous close of USD 86.97 per barrel. The US 10yr yield fell during the month to a low of 3.41% before inching higher to close at 3.88% higher than its previous close of 3.61%. The domestic 10yr benchmark bond also fell, tracking the fall in global yields to a low of 7.21%, but closed higher at 7.33% against 7.28% at the end of the previous month.

India's CPI eased sharply to 5.88% for November, led by a steep sequential fall in food inflation, from 6.7% in the previous month. Core inflation (CPI Ex-Food Ex-Fuel) remained elevated and steady at 6.2%. Amid favorable base support, Headline WPI eased to a 21-month low of 5.9% YoY in November 2022 from 8.4% YoY in October 2022. Both food and manufactured product prices contracted.

India's Trade Deficit narrowed to USD 23.9 bn in November 2022 from USD 27.6 bn in October 2022 led by increase in oil product exports and broad-based decline in imports. Among other economic data, IIP contracted for the month of October by 4% falling from the previous month's 3.5% growth. Goods and Services Tax (GST) revenue collection for December came at Rs 1.50lac cr. India's Nikkei Markit Manufacturing PMI rose to 57.8 in December 2022, against 55.7 in the previous month, and the Services PMI also rose to 58.5 in December from 56.4 in the previous month.

Market Outlook –

With US inflation easing, the US Fed has shifted to lower increments in their rate hiking cycle, as they approach the peak in this rate hike cycle. The relative strength in the economy and inflation staying higher than target, are likely to keep rates elevated for longer, dampening expectations of a quick turnaround to rate cuts in the near future. With BOJ also shifting its yield control cap higher, global yields are likely to be under pressure.

With core inflation in India continuing to be sticky and above RBI's upper tolerance band, the RBI, too, is likely to maintain rates at higher levels for an extended period, though softening headline inflation is likely to lead RBI to ease its pace of further rate hikes. With global growth facing slowdown fears, dollar index has cooled off from its highs and helped INR stabilize at current levels, providing some respite on the external front.

Domestic bond markets are expected to closely track global data and the Union budget scheduled to be presented next month. Government's gross bond borrowing numbers in the Union budget is likely to shape the direction of bond yields in the near term. While market trades in a narrow range, we remain watchful of developments on the global inflation and growth data. Any sharp rise in crude prices / inflation coupled with strong growth data, can lead to markets pricing in more rate hikes from the Central banks and bonds yields rising thereafter. On the other hand, any rise in covid cases can lead to fears of a sharper growth slowdown which may lead to lower yields.