

# MONTHLY UPDATE

## DECEMBER 2023



# Market Outlook

## HDFC Life - Monthly Update ( January 2024 )



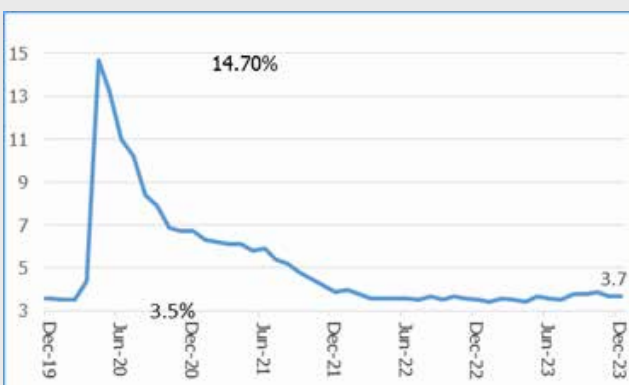
### Global Macro Review

#### US CPI (%)



■ US CPI for Nov'23 came in at 3.1% YoY vs 3.2% last month. Easing prices across food, energy and core goods were the main factors behind the ongoing modest disinflation trend. Inflation is expected to gradually drift lower in 2024 as lagged impact of rate hikes and tighter financial conditions start impacting the demand and growth conditions.

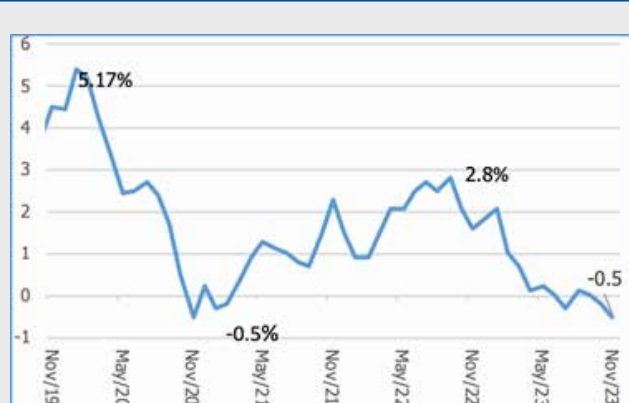
#### US Unemployment Rate (%)



■ The US unemployment rate remained flat at 3.7% in December due to fall in supply of labour, largely due to holiday season which was also reflected in falling participation rate from 62.8% to 62.5% in December.

■ US Non Farm Payrolls, which is measured from the establishment survey, printed at 216K that was higher than expectations of 175K in December, though it remained below the average monthly gain of 225K witnessed over the prior 12 months. The payrolls figures for the previous two months were revised lower by 71K. However the robust labour market report for December has reduced the probability of rate cuts commencing in the March policy meeting.

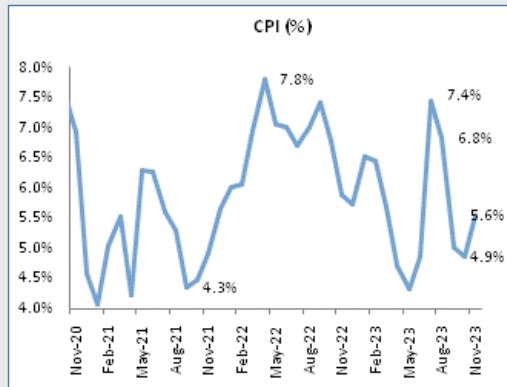
#### China CPI (%)



■ Chinese CPI continues to remain in the deflationary zone as demand is much lower due to ongoing fall in property prices, however various policy measures have been undertaken by the government to stabilize the economy but the growth data still doesn't imply any marked changes but we could see a modest recovery in FY25.

## India Macro Review

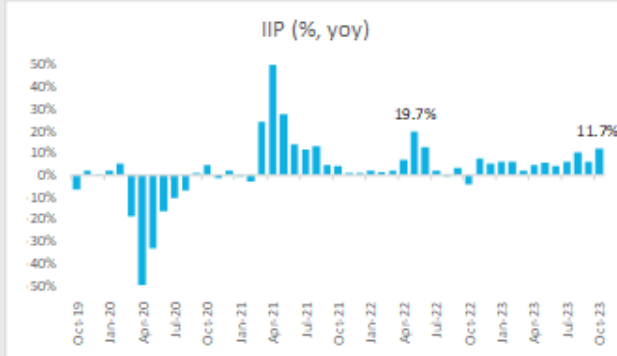
### CPI Inflation %



Source: MOSPI

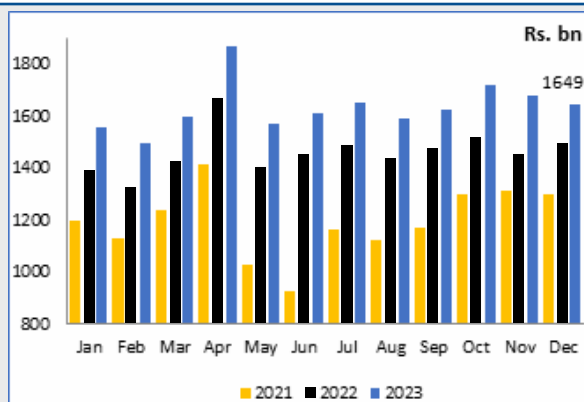
- Inflation (CPI) for Nov'23 stood at 5.6% vs 4.9% in Nov'23 as food CPI, which constitutes 45.9% of the index, has increased to 8% in Nov'23 from 6.3% in Oct'23. Within food, inflation for Vegetables, Pulses, Spices and Cereals remains elevated.
- Fuel inflation which constitutes 6.8% of CPI, contracted by 0.8% in Nov'23 vs. 0.4% fall in Oct'23.

### Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Oct'23 came at 11.7% as Manufacturing output (10.4% in Oct'23), Mining output (13.1% in Oct'23), Electricity output (20.4% in Oct'23) accelerated sharply.
- 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.

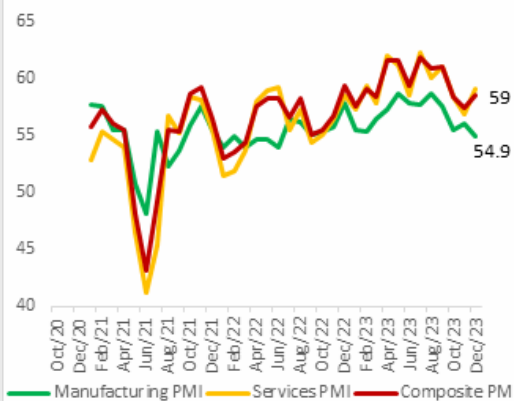
### GST Collection (Rs. b)



- GST revenues for the month of Dec'23 came at Rs. 1,649bn showing a 10.3% YoY as CSGT (14%), SGST (13.7%) and IGST (7.4%) picked up.
- Avg. monthly GST collections have increased to Rs. 1.7 lakh crore in 9M FY24 vs. Rs. 1.5 lakh crore in 9M FY23 and Rs. 1.2 lakh crore in 9M FY22 continuing to display very high buoyancy.

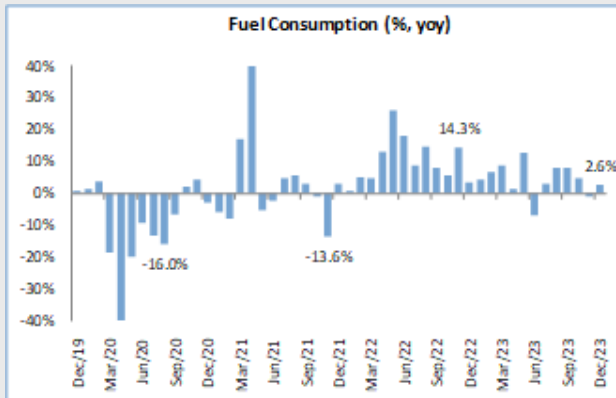
## India Macro Review

### PMI



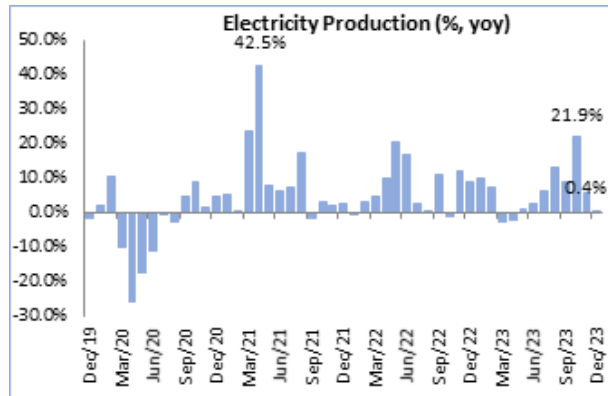
- PMI(manufacturing) eased to 54.9 in Dec'23 from 56 in Nov'23. However, PMI still in expansion zone ( $\geq 50$ ) suggesting the continued strength in orders pipeline, production and despite a slowdown being seen in the exports.

### Fuel consumption YoY Growth %



- Fuel consumption increased by 2.6% in Dec'23 vs. 1.1% contraction in Nov'23. Within fuel category, Consumption for diesel declined by 2.3%. However, petrol consumption was flat at 0.2% yoy in Dec'23

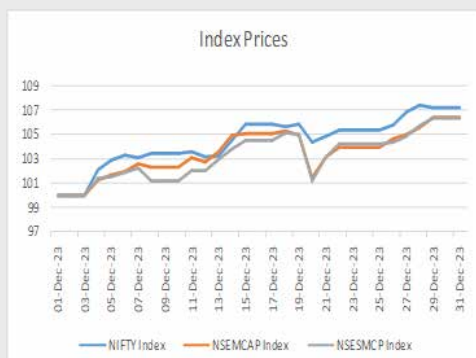
### Electricity Production YoY Growth %



- Electricity production was marginally up 0.4% YoY in Dec'23 vs. 5.8% YoY in Nov'23. The fall in electricity production due to winter season where demand for cooling typically comes down.

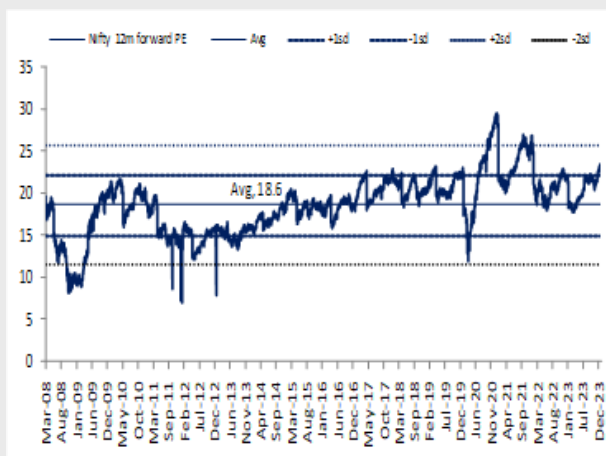
## Equity Outlook and Positioning

### Monthly Index performance



- Equity markets posted a positive month in Dec'23 with large cap indices outperforming midcaps and smallcaps. Nifty 50 closed the month with a return of 7.2% while CNX Midcap Index gave a return of 6.5% and Small Cap at 6.4%.
- Outperforming sectors included Power, Oil & Gas, Metals, Capital Goods, Realty, IT and Banks while FMCG, Auto and Pharma were the underperforming sectors.

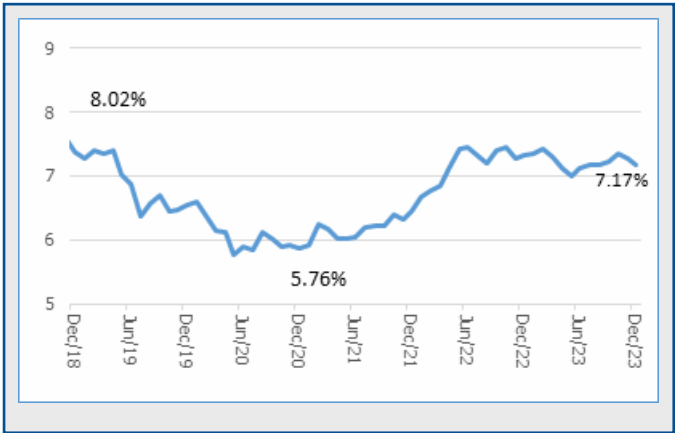
### Nifty Valuation (1 year forward PE)



- In CY23, the Indian markets remained resilient and strong amid weak global macros, rising interest rates, and geopolitical uncertainties that kept global markets volatile and jittery. The Nifty-50 clocked eight successive years of positive returns. Nifty 50 Index and Nifty Midcap 100 Index hit an all-time high in December 2023 and surged 20% and 47% in CY23. Resilient domestic inflows of USD 22.3bn in CY23, with monthly SIP inflows touching new high of USD2bn/month provided cushion to global volatility. FIIs also turned buyers with net inflow of USD 21.2bn in CY23 vs net outflows of USD 17 bn in CY22
- Nifty earnings over FY23-25 are now expected to grow at a CAGR of 14%. Nifty is currently trading at a valuation of 20x FY25. While it is hard to argue against India's longer term investment case, an event-heavy calendar (India/US General elections), with potential binary outcomes, higher than long term valuations and euphoria in Mid-cap and Small-cap stocks could lead to higher volatility in the near term. We are selective and slightly defensive given the run-up in valuations in the short term. However, we remain optimistic from a medium to long term point of view as India's structural story remains intact.

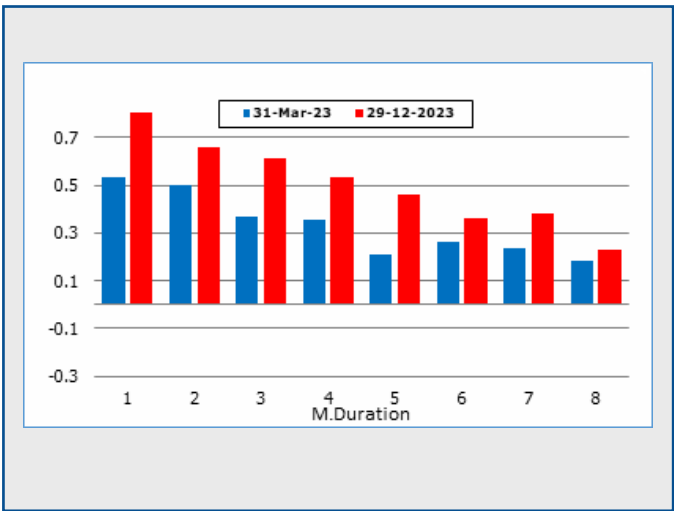
Debt Outlook and Positioning

India 10yr Gsec chart



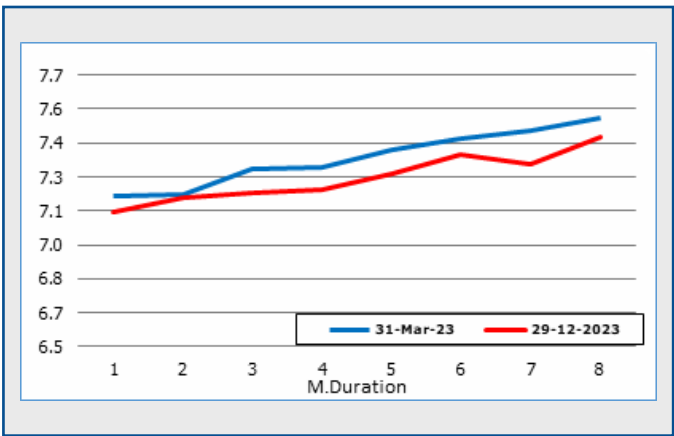
- US bond yields fell sharply by almost 45bp as the US Fed indicated a likely end of its hiking cycle, by increasing its median rate cut expectation from 50bp to 75bp in 2024. The US 10yr eased to a low of 3.80% before closing at 3.88% in December vs. 4.33% at the end of November.
- In India, the 10yr benchmark yield eased by 11bps from 7.28% to 7.17% tracking the fall in global yields, along with lower crude prices and lower than expected CPI inflation of 5.55% vs expectations of 5.80% supporting the rally in Indian bond markets.

AAA Curve movement



- At the recent Fed policy, FOMC maintained status quo while it provided dovish guidance by acknowledging slowing growth and easing inflation. The median of the members forecasts saw 75bps rate cuts over 2024, higher than the previous 50bps cuts. A further 100bps of rate cuts for 2025 and additional 75bps rate cuts for 2026 was projected by the Fed members. The pivot from the Fed was taken positively by the global bond markets and the expectation of other large central bank to follow the suit is now seen more likely.
- However, in India RBI is expected to maintain rates at current levels for an extended period of time, as growth outlook stays robust and inflation trends are still volatile.

G Sec Curve Movement



- While RBI is likely to maintain status quo on rates, we expect bond yields to ease from current levels as easing US Treasury yields along with improving demand for domestic bonds, due to the global bond index inclusion, provide a positive tailwind for lower yields.



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