MONTHLY UPDATE
FEBRUARY 2023

22 YEARS
Protecting India with Pride

HDFC Life
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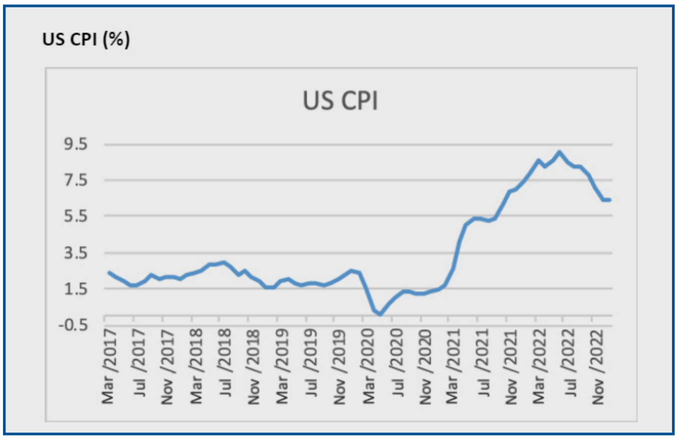
Market Outlook

HDFC Life - Monthly Update (March 2023)

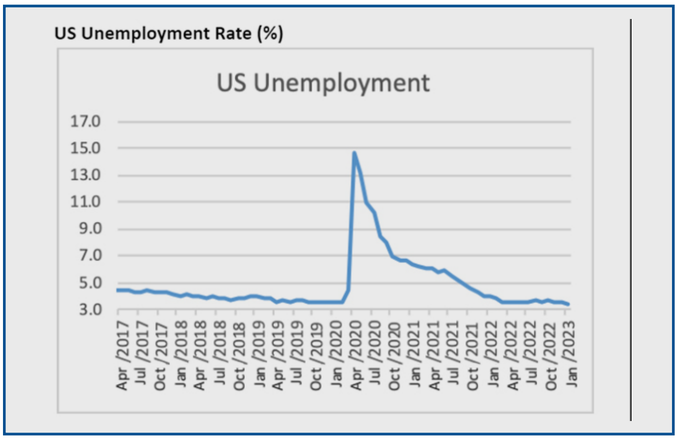
Global Macro Review

US CPI (%)



- US CPI for Jan'23 came in lower at 6.40% YoY and 10bps lower then the November print, reflecting base-effects from last year.
- However, there was a visible increase across the board as food prices, energy prices and core goods accelerated on a sequential basis reversing the trend seen in the previous month while core services remained firm

US Unemployment Rate (%)



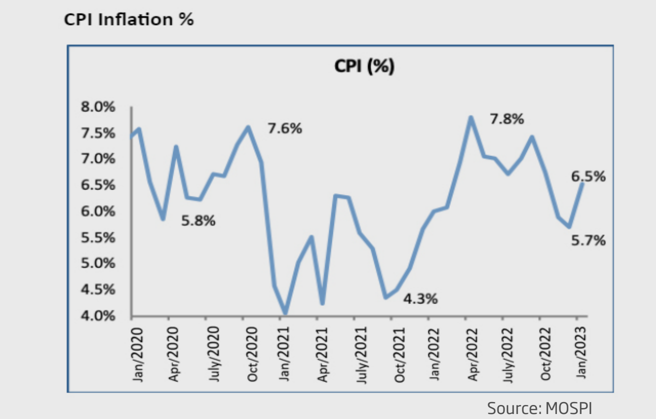
- US labour market continued to remain strong and current unemployment still remains at lower end of the range at 3.4%.
- Non Farm Payrolls data surprised sharply to the upside with the sequential increase coming primarily from robust hiring in the service sector. Nevertheless, a strong reading shows that demand still remains strong

China CPI (%)

- Chinese CPI came in at 2.1% for the month of Jan. Vs 1.8%in the previous month.
- The rise is CPI is mainly attributed to opening up of economy and holiday season.

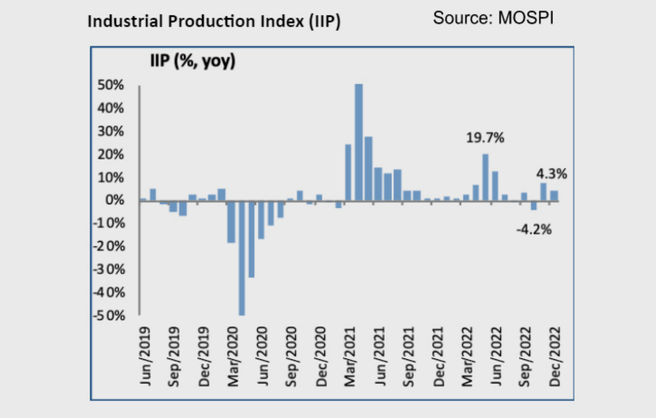
India Macro Review

CPI Inflation %



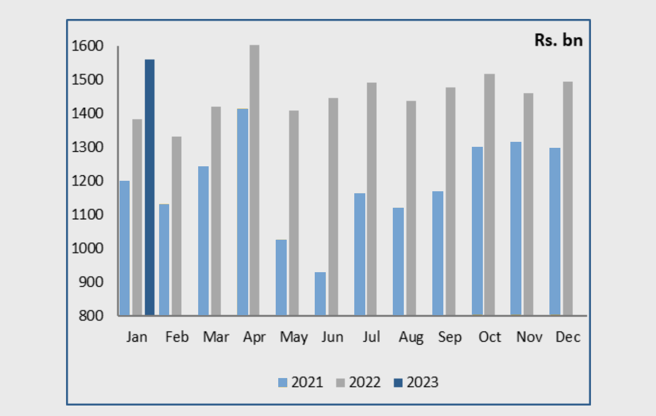
- Inflation (CPI) for Jan 2023 came at 6.5% vs 5.7% in Dec'22, primarily led by sharp increase in food inflation from 4.6% in Dec'22 to 6.2% in Jan'23. However, core CPI continues to remain elevated.
- Fuel inflation which constitutes 6.8% of the CPI basket surged by 10.8% in Jan'23 vs. 10.9% in Dec'22.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Dec'22 came at 4.3% vs. 7.3% growth during Nov'22 as Manufacturing output marginally grew by 2.6% yoy in Dec'22 vs. 6.4% in Nov'22. However, Mining and electricity output sharply increased by 9.8% and 10.4% respectively.
- The moderation in the Industrial production index reflects the losing momentum in production activities. Monthly IIP nos can be volatile and diifficult to draw a trend from the same.

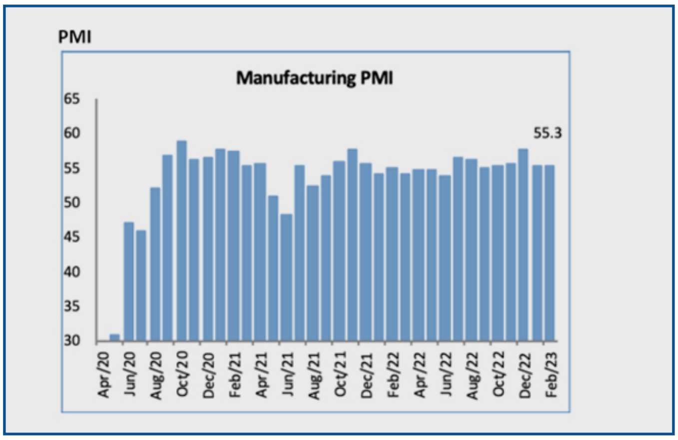
GST Collection (Rs. bn)



- GST revenues for the month of Feb'23 came at Rs1,496bn showing a 12.4% YoY as CSGT (13.2%), SGST (13.4%) and IGTS (13.4%) increased sharply.
- For 12 months in a row the monthly GST revenues have been more than the Rs. 1.4 lakh crore mark continuing to display very high buoyancy.

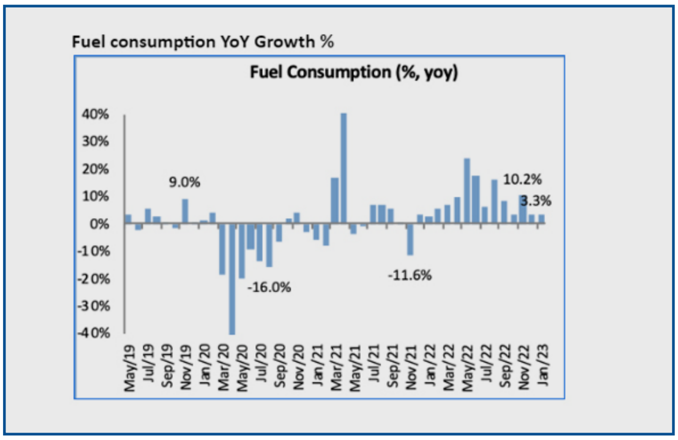
India Macro Review

PMI



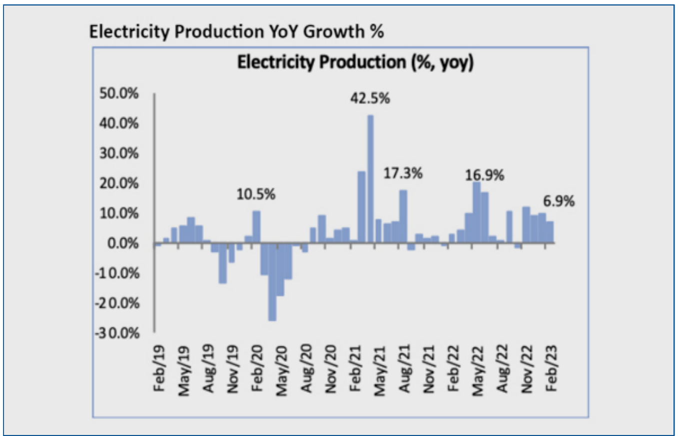
- PMI (mfg) was flat at 55.3 in Feb'23 from 55.4 in Jan'23 on continued strength in orders pipeline, production and despite a slowdown being seen in the exports.
- PMI (services) jumped to 59.4 in Feb'23, a 12-year high, from 57.2 in Jan'23

Fuel consumption YoY Growth %



- Fuel consumption growth at 3.3% in Jan'23 vs. 3.1% growth in Dec'22. With in fuel category, Consumption for petrol and diesel grew 14.2% and 12.6% respectively
- In CY22, fuel consumption witnessed positive growth every month due to increase in demand of personal vehicles.

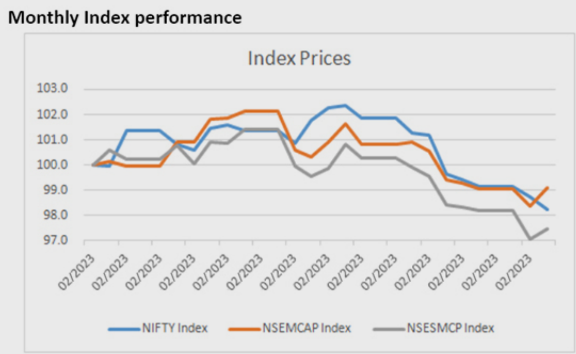
Electricity Production YoY Growth %



- Electricity production grew by 6.9% YoY in Feb'23 vs. 10% YoY in Jan'23. The previous year saw weak production on account of coal shortages and resultant weak generation at both domestic and imported coal power plants.
- Power consumption moderated in Feb'23 vs. Jan'23 as winter is almost over in North India. During Dec-Jan, North India was facing the cold waves because of which there was heavy usage of heating appliances.

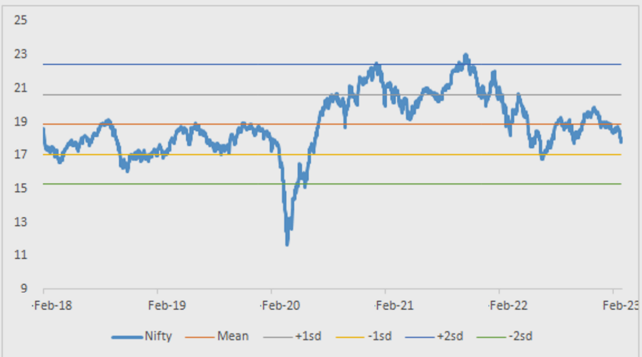
Equity Outlook and Positioning

Monthly Index performance



- Equity markets fell in Feb'23 with mid cap indices outperforming largecaps and smallcaps. Nifty 50 closed the month with a negative return of 2% while CNX Midcap Index fell 1% and Small Cap fell 3%.
- Outperforming sectors included FMCG, Capital Goods, Consumer Durables, Infotech and Bank while the underperformers included Power, Metals, Oil & Gas, Auto, Healthcare and Realty.

Nifty Valuation (1 year forward PE)

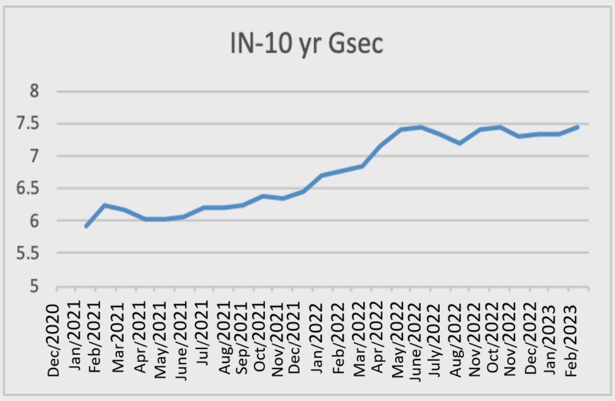


Source: Bloomberg

- Q3FY23 corporate earnings were largely in line with expectations. Autos and Financials held fort while Metals and Oil & Gas sector dragged. The growth inflation dynamics are balanced for India and we expect India to remain fastest-growing large economy. This coupled with more domestic orientation of the economy, strength in Indian banks and corporate balance sheets, visible pick up in investment cycle and resilient consumption is likely to provide tailwinds to earnings growth despite global challenges.
- The market continues to trade with caution, with weakening breadth and a rise in hedging. Domestic inflows continue to be supportive. Nifty50 Index has witnessed healthy time correction and earning multiple compressions over the last 15 months. We expect near term volatility to continue given multiple headwinds, ranging from geo-politics, elevated inflation and expected rate hikes and pressure on earnings from growth slowdown. In this overall context, valuations at 18.0xFY24 earnings 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.

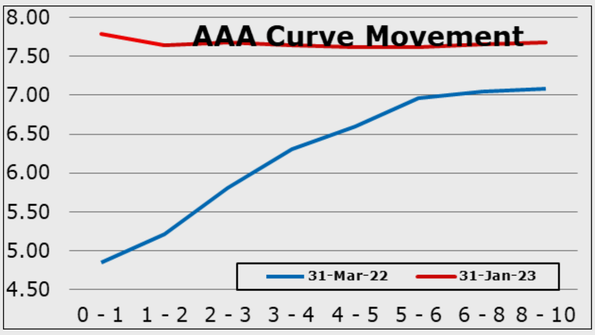
Debt Outlook and Positioning

India 10yr Gsec chart



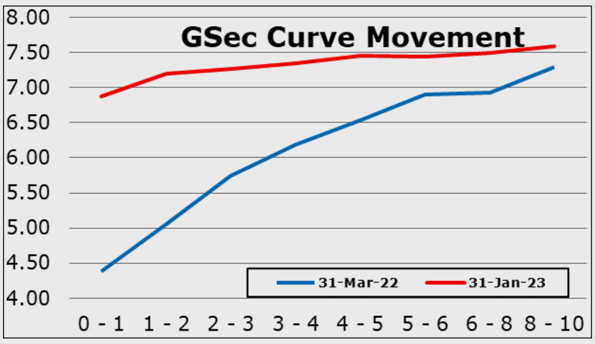
- India 10 yr Gsec yield rose sharply over the month from 7.34% in Jan'23 to close at 7.46% in Feb'23.
- The budget stuck to fiscal consolidation roadmap and the numbers were also credible. Fiscal deficit at 5.9% of GDP, at 17.86 tn was broadly in line with market estimate, entailing a 0.5% reduction in deficit compared to FY23. The focus on continuation of fiscal deficit roadmap will give comfort to RBI from the fiscal policy front, the gross borrowing number remains high in absolute terms, but they are at lower end of market estimates at Rs. 15.4 trln

AAA Curve movement



- The RBI MPC increased the policy repo rate by 25bp to 6.50% with a 4-2 vote. Stance also remained unchanged focussed on withdrawal of accommodation. While the policy action was in line with our expectation, the tone of the policy was somewhat on the hawkish side.
- Although inflation has eased from its peak across all major economies, it still remains meaningfully higher than the target levels. While most central banks have already raised interest rates significantly over the last year, the continued elevated levels of inflation is likely to keep monetary policies in a restrictive stance for a longer period of time. In India too, the last inflation print surprised on the higher side, raising the likelihood of RBI, too, maintaining a tight monetary policy stance for longer than expected.

G Sec Curve Movement



- With a large supply of bonds in FY24, markets are expected to stay under pressure in the coming months.

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