

MONTHLY UPDATE

JANUARY 2025



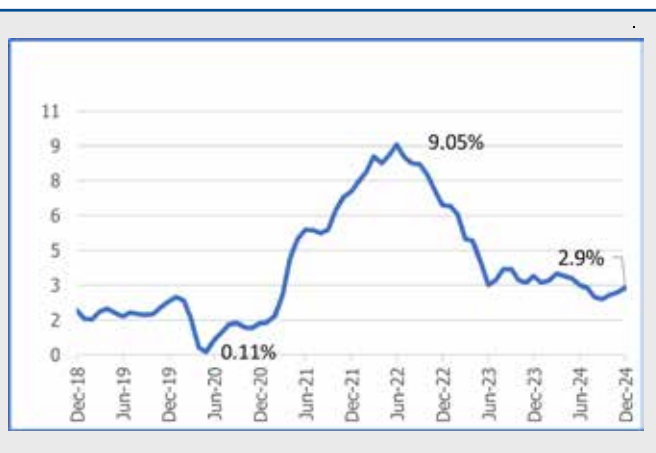
Market Outlook

HDFC Life – Monthly Update (February 2025)



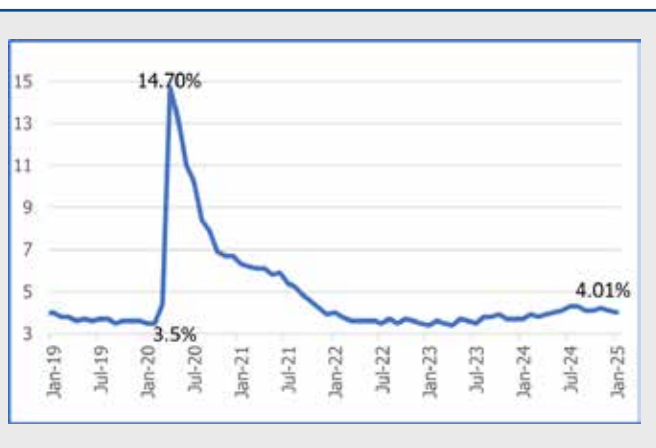
Global Macro Review

US CPI (%)



■ US CPI inflation came in at 2.9% YoY in December picking up from 2.7% in previous month with the pick-up driven by a rise in food (0.3% MoM) and energy prices (2.6% MoM). Core inflation eased at the margin. However, the pace of disinflation appears to have stalled with core CPI hovering slightly above the 3% threshold reflecting a fairly modest improvement. Sticky inflation and resilient labour markets are weakening the case for further deep rate cuts. The Fed is also expected to be cautious and assess the implications of Government policies before embarking on further rounds of rate cuts.

US Unemployment Rate (%)



■ US Non Farm Payrolls came in lower at 143k (expectations: 175k). The downside miss was more than offset by +100k revision to the prior two months' numbers. The unemployment rate fell to 4.01% vs 4.10% in previous month. The steady employment rate will give Fed officials confidence that the softening in labor market over the course of the last year, has stabilized at levels consistent with full employment, giving it room to pause at the current juncture.

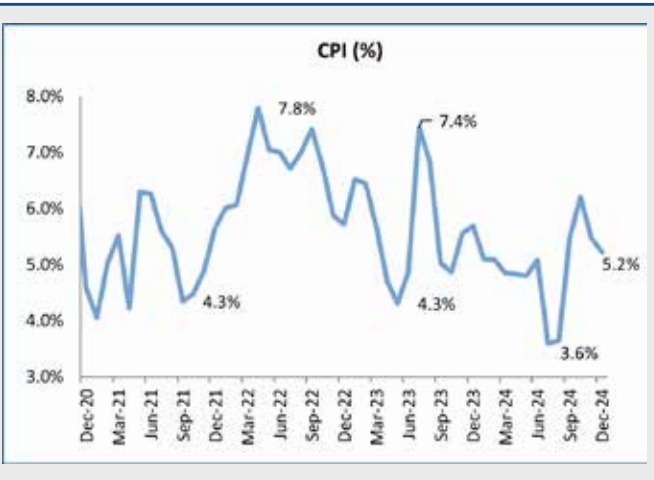
China CPI (%)



■ Chinese CPI fell by 0.1% YoY in December vs 0.2% in November. The fall in inflation was due to lower food prices. However neither food nor non-food prices showed strong price momentum as demand conditions have not materially picked up despite government efforts to boost the economy. The 10% additional tariffs imposed by the US on imports from China may further impact GDP growth.

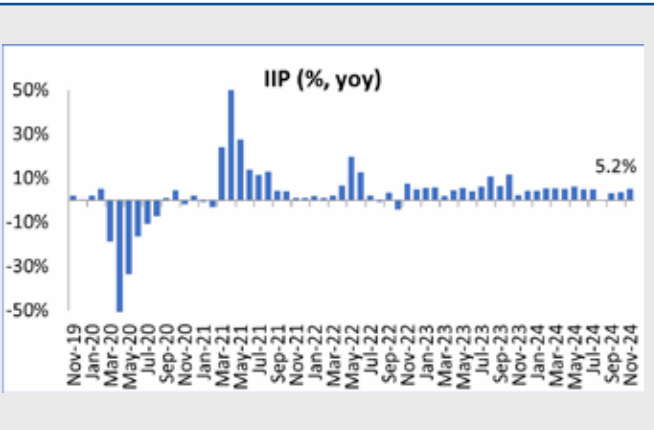
India Macro Review

CPI Inflation %



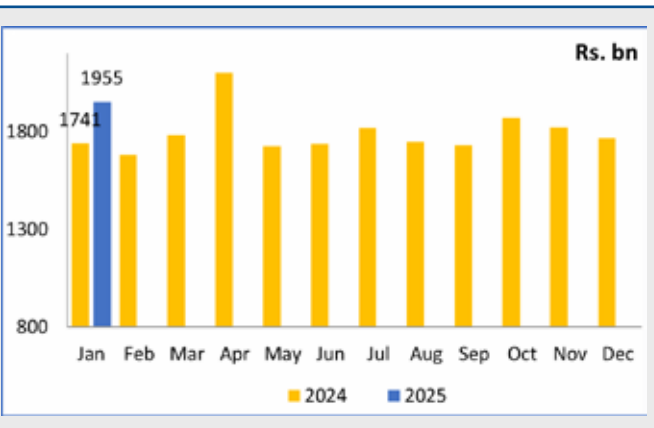
- Inflation (CPI) for Dec'24 moderated to 5.2% vs. 5.5% in Nov'24 as food CPI, which constitutes 45.9% of the index, fell to 7.7% in Dec'24 vs. 8.2% in Nov'24.
- Core CPI excluding food and fuel which constitutes 54% of CPI was flat at 3.9% in Dec'24.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Nov'24 was up 5.2% vs. 4.4% growth in Oct'24 as Manufacturing output rose to 5.8% in Nov'24 vs. 4.4% in Oct'24, and Electricity increased to 4.4% in Nov'24 vs. 2% in Oct'24. However, Mining output was up only 2% in Nov'24.
- 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.

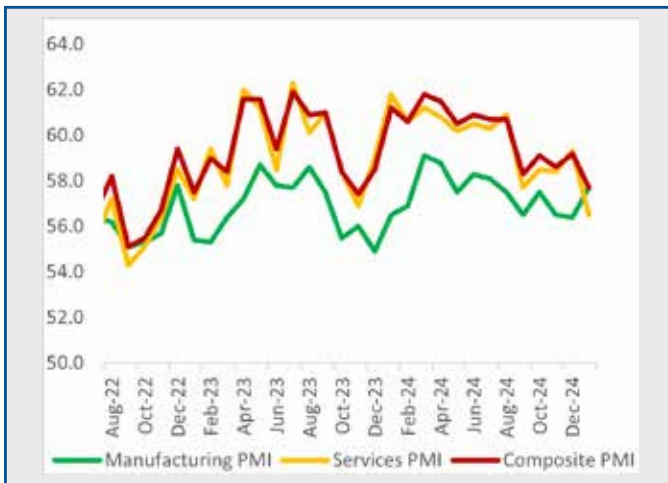
GST Collection (Rs. bn)



- GST revenues for the month of Jan'25 came to Rs. 1,955 bn showing a 12.3% YoY increase vs. Rs. 1,741bn in Dec'24.
- Avg. monthly GST collections have increased to Rs. 1.8 lakh crore in CY24 vs. Rs. 1.6lakh crore in CY23 and Rs. 1.5lakh crore in CY22 continuing to display strong buoyancy.

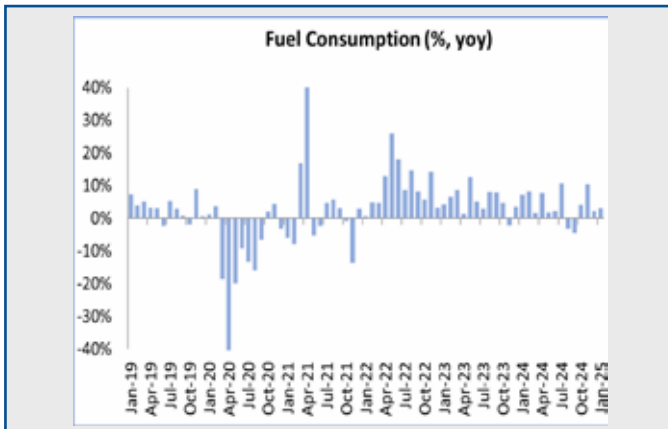
India Macro Review

PMI



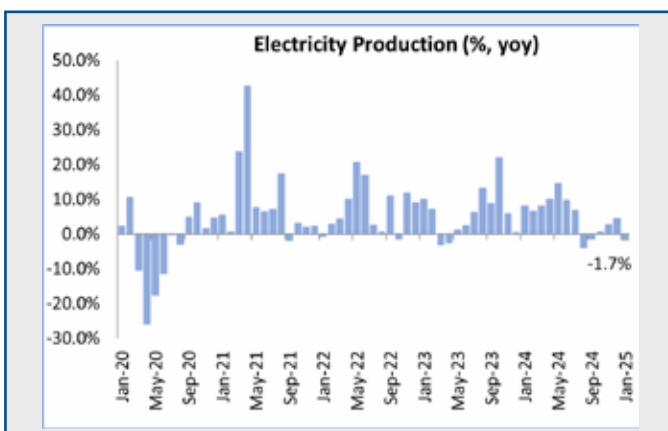
- PMI(manufacturing) increased to 57.7 in Jan'25 from 56.4 in Dec'24. Notably, PMI continuing in expansion zone (≥ 50) indicate the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption up 3.1% YoY in Jan'25 vs. 2.3% surge in Dec'24. Within fuel category, petrol consumption increased by 6.7% YoY in Jan'24. However, Consumption for diesel increased by 4.2% in Jan'25.

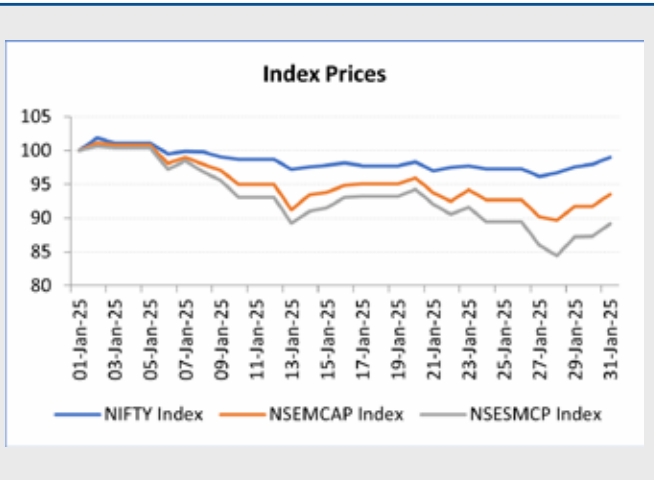
Electricity Production YoY Growth %



- Electricity production declined by 1.7% YoY in Jan'25 vs. 4.5% YoY up in Dec'24.
- Electricity production is coming off a high base of last year which coupled with weak end demand is weighing on growth

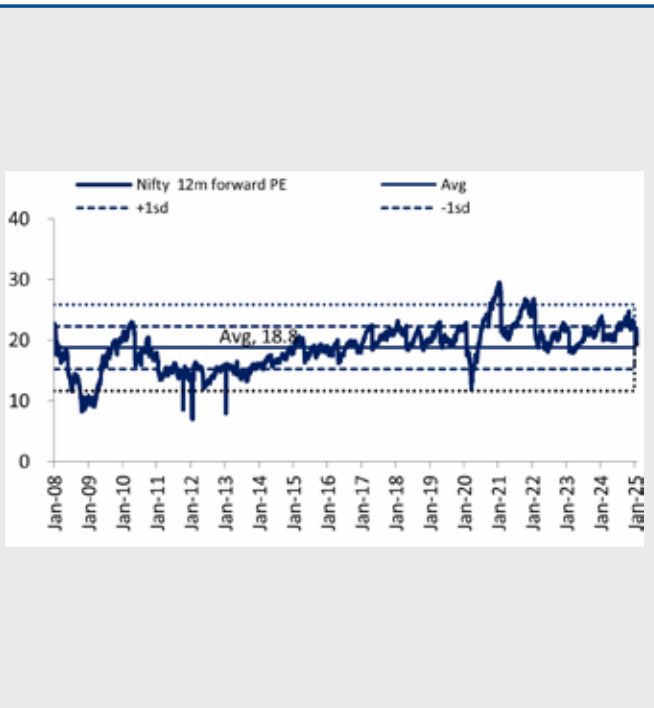
Equity Outlook and Positioning

Monthly Index performance



- Equity markets were negative in Jan'25 with large cap indices outperforming midcaps and small caps. Nifty 50 closed the month down 1% while CNX Midcap Index gave a negative return of 6.5% and Small Cap were down 11.8%.
- Outperforming sectors included Auto, FMCG and Metals. On the other hand, the underperforming sectors included Real estate, Consumer durable, Healthcare, Power and Capital Goods.

Nifty Valuation (1 year forward PE)



- Indian markets have been hit with several headwinds in the past few quarters. Government capex which was the key driver for investment-led growth is yet to fully pickup with some spends being incrementally diverted towards populist schemes. Consumption has been weak for nearly a year now because of reasons ranging from higher inflation, high interest rates, tighter monetary conditions and the RBI trying to dissuade lenders from growing their unsecured lending book aggressively. However, some of these factors are being incrementally addressed. RBI has taken measures to improve system liquidity and, in the recent policy meet, cut Repo rate by 25bps. Government has stepped up spending in recent months. Also, it has tried to give a slight boost to consumption by announcing rationalization of income tax rates. Despite the correction, Indian markets still trade at valuations of 19.8x FY26E and 17.3x FY27E P/E, which is higher than long term averages. This set up makes us cautious in the short term despite having a positive view from a medium to long-term point of view.

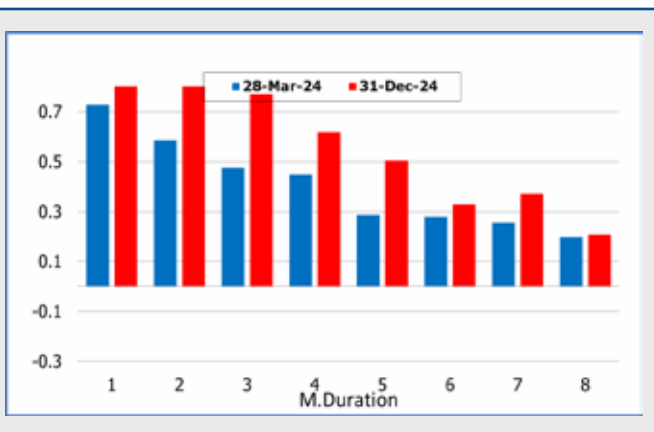
Debt Outlook and Positioning

India 10yr Gsec chart



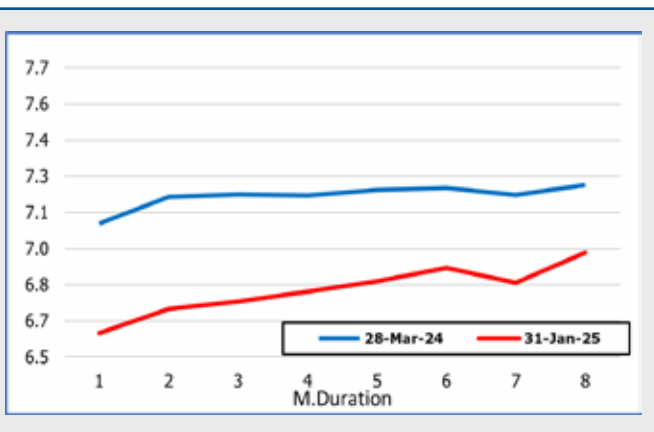
- The 10 yr UST yield saw a sharp rise in volatility due to stronger than expected macro-economic data. 10 yr UST reached intra month high of 4.80% from 4.55% at the start of the month. However, sentiments turned in later half of the month, as the Government stance on tariffs was not as hawkish as had been feared. UST yield fell back to 4.54% by the end of the month.
- In India, the 10yr G-sec yield touched intra month high of 6.87% from 6.77% at the start of the month. However, with the fall of US yields and measures taken by RBI to infuse durable liquidity (daily VRR and OMO purchase) yields eased back to 6.70% by month end.

AAA Spreads (%)



- The Union budget presented on 1st Feb for FY 2026 pegged the fiscal deficit for FY25 at 4.8% of GDP and 4.4% for FY26. Gross borrowing for FY26 is pegged at Rs14.8 tn, slightly higher than the market expectation and the net borrowing pegged at Rs11.5 tn, funding 73.5% of fiscal deficit. The overall borrowing numbers are slightly higher than market expectations.

G Sec Yield Curve Movement (%)



- RBI, in recently concluded policy meeting, unanimously decided to reduce the policy rate by 25bps while maintaining the stance at "neutral".
- Although global volatility will continue to impact Indian bond markets in the near term, markets expect a few more rate cuts from RBI, apart from additional liquidity measures to ease the current liquidity deficit. Bond yields at the front end of the yield curve could see some further easing with the liquidity measures taken by RBI as well as expectations of further rate cuts in the coming policy meeting.



Sar utha ke jiyo!

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