

MONTHLY UPDATE

JANUARY 2023



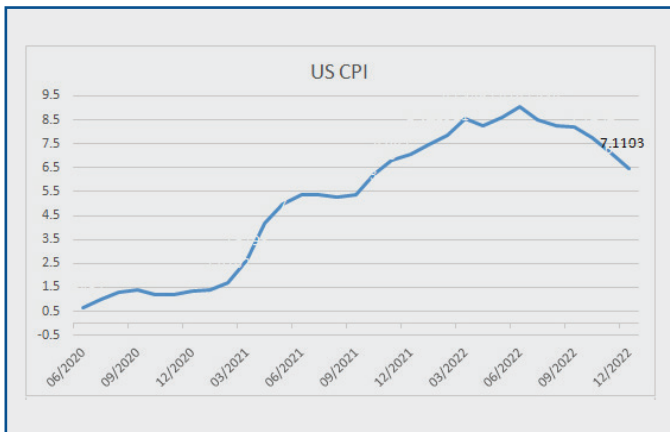
Market Outlook

HDFC Life - Monthly Update (February 2023)



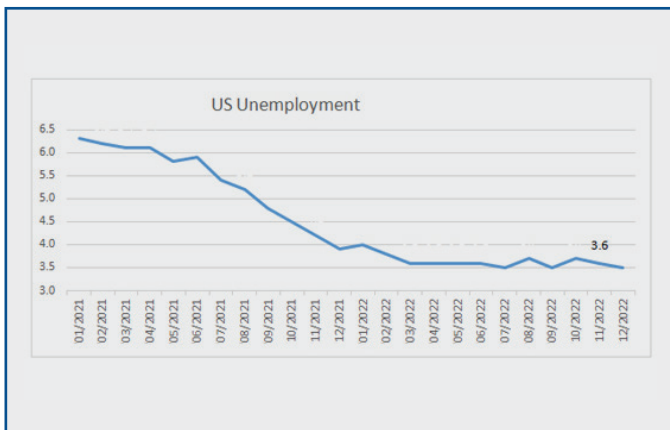
Global Macro Review

US CPI (%)



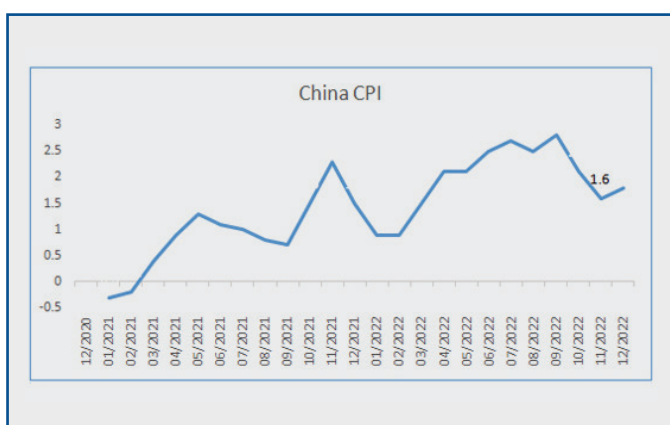
- US CPI for Dec'22 came in lower at 6.50% YoY and 60bps lower than the November print. This led to a rally across global bond markets.
- The fall is mainly attributed to lower food, energy and core goods inflation, Market pricing has shifted to a higher probability of only 25bps rate hike in the next policy meeting in February by FOMC.

US Unemployment Rate (%)



- US labour market continued to remain strong and current unemployment still remains at lower end of the range at 3.5%.
- NFP data came weaker than market expectation. However the pace of fall still reflects the tight labour condition in the US economy.

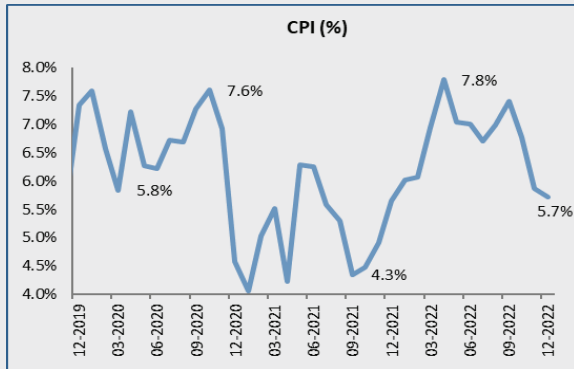
China CPI (%)



- Chinese CPI came in at 1.8% for the month of Dec'22 Vs 1.6% in the previous month.
- The rise in CPI is mainly attributed to opening up of economy and holiday season.

India Macro Review

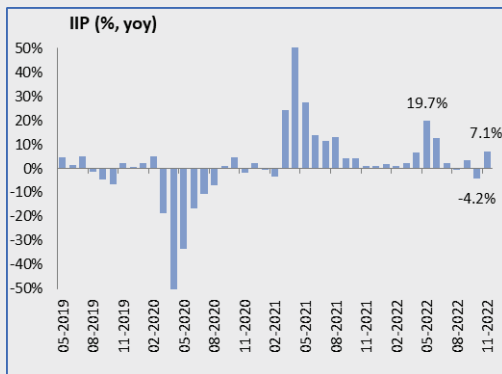
CPI Inflation %



Source: MOSPI

- Inflation (CPI) for Dec 2022 came at 5.7% vs 5.9% in Nov'22, primarily led by sharp moderation in vegetable inflation, however, core CPI continue to remain elevated.
- Fuel inflation which constitute the 6.8% of CPI basket surged by 11% in Dec'22 vs. 10.6% in Nov'22.

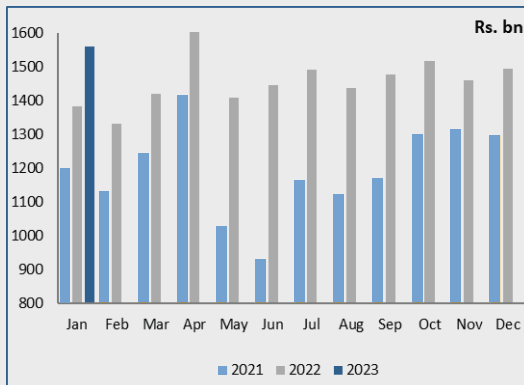
Industrial Production Index (IIP)



Source: MOSPI

- Industrial Production (IIP) growth for Nov'22 came at 7.1% vs. -4.2% contraction during Oct'22. The jump in industrial production led by jump in mining and manufacturing output.
- The higher number in Nov'22 reflects the pick up production activities. Monthly IIP nos can be volatile and difficult to draw a trend from the same.

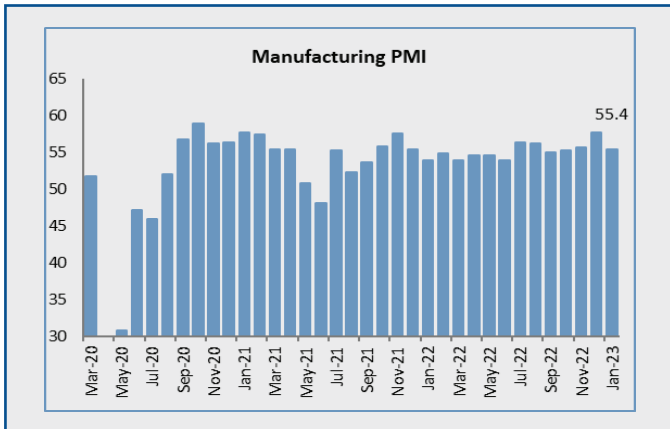
GST Collection (Rs. bn)



- GST revenues for the month of Jan'23 came at Rs1,55,922crs showing a 12.7% YoY and 4.3% MoM increase.
- For eleven month in a row the monthly GST revenues have been more than the Rs. 1.4 lakh crore mark continuing to display very high buoyancy.

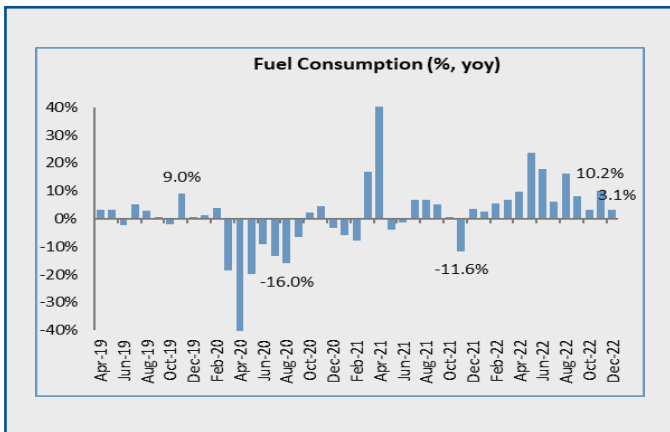
India Macro Review

PMI



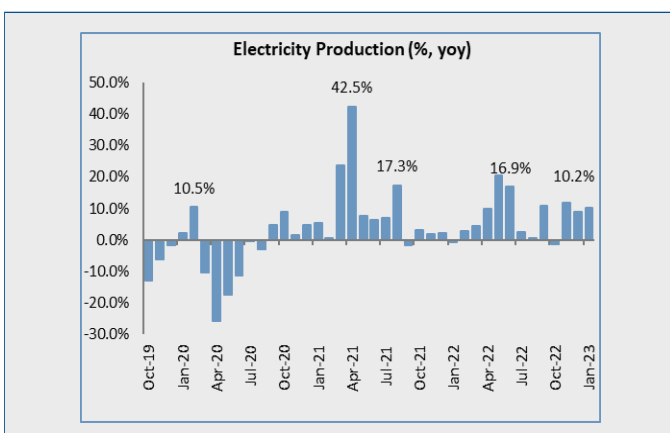
- PMI moderated to 55.4 in Jan'23 from 57.8 in Dec'22 on continued strength in orders, production and despite a slowdown being seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption growth at 3.1% in Dec'22 vs. 10.2% growth in Nov'11. With in fuel category, Consumption for petrol and diesel grew 5.9% and 6.5% respectively.
- In CY22, fuel consumption witnessed positive growth every month due to increase in demand of personal vehicles.

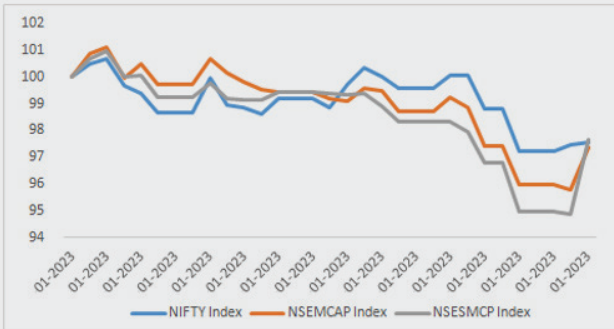
Electricity Production YoY Growth %



- Electricity production growth was strong at 10.2% 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 increased in Jan'23 due to higher usage of heating appliances especially in the northern part of the country and better economic activity with beginning of rabi season.

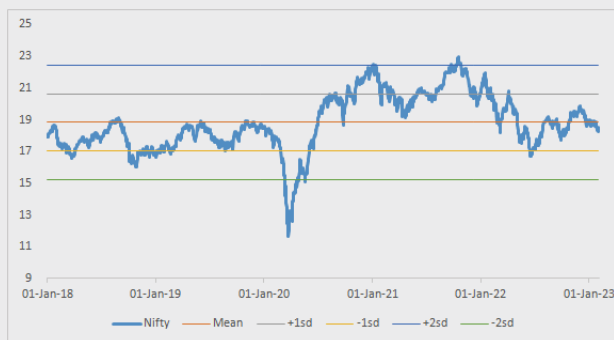
Equity Outlook and Positioning

Monthly Index performance



- Equity markets posted a negative month in Jan'23 with Large cap indices performing in line with Smallcaps while outperforming Midcaps. Nifty 50 closed the month with a return of -2% while CNX Midcap Index gave a return of -3% and Small Cap at -2%.
- Outperforming sectors included IT, Auto, Capital Goods, Metals and FMCG while the underperformers included Banking, Oil & gas, Power, Consumer Durables, Pharma and Real estate.

Nifty Valuation (1 year forward PE)

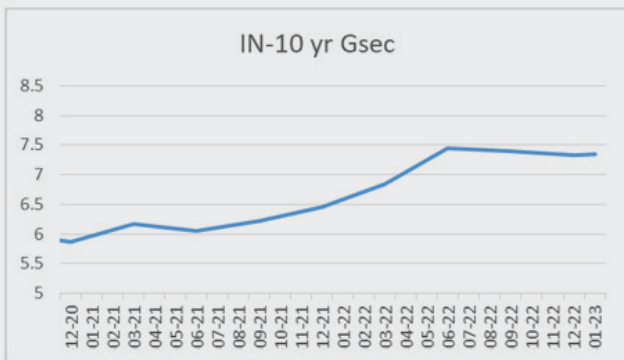


Source: Bloomberg

- In the ongoing Q3FY23 result season, while there hasn't been a material cut in overall Nifty earnings, the trends at a sectoral level have been mixed. IT companies reported a decent revenue print, despite Q3 being a furlough quarter; however, some moderation was visible in order booking and commentary. Auto and Staples have reported a sequential improvement in margins, aided both by price hikes kicking in and moderation in commodities. However, some discretionary categories like Paints, Retail and Durables have reported poor earnings with a sharp and material slowdown post festival season. Some discretionary consumer categories like automobiles, retail and hotels have done well, partly aided by festival demand and store expansions. But performance in staples and categories like paints has been subdued.
- An upgrade in the Banking sector has prevented a deeper cut in Nifty earnings. Earnings are now expected to grow at a CAGR of 13.3% over FY22-24. Near term is likely to be volatile given multiple headwinds, ranging from geo-politics to inflation to extent of rate hikes and pressure on earnings from slowdown and margins. In this overall context, valuations at 19.0x FY24 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.

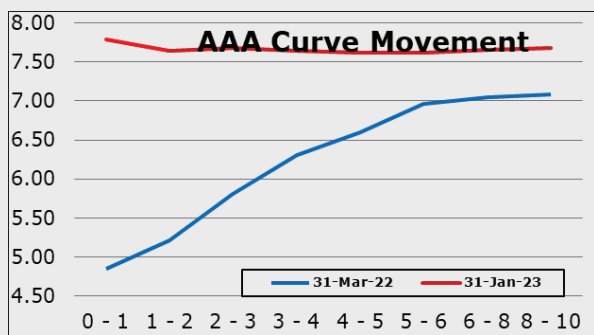
Debt Outlook and Positioning

India 10yr Gsec chart



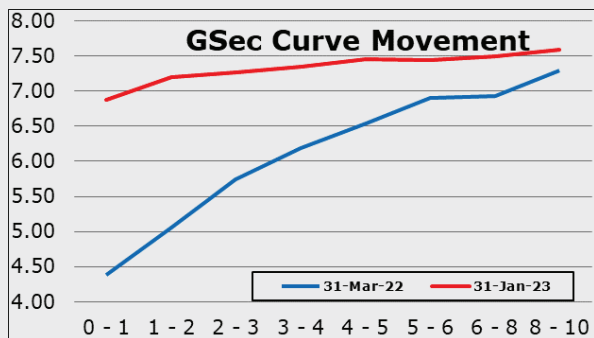
- India 10 yr Gsec yield rose modestly over the month to close at 7.34% in Jan'23 from close of 7.32% in Dec'22
- Higher than market expected borrowing in SDL led to slight sell off in fixed income market, However fall in US CPI and crude prices capped the sharp upside on the yields.
- Going forward, the direction of the market will be set by the tone of FOMC meet and India Budget to be held in next month.

AAA Curve movement



- Stable oil price and falling vegetable price price bodes well for India. CPI continues to surprise market on the lower side. Dec CPI eased to 5.72% YoY, however core continue to remain above 6% which now has become key monetarable input for RBI for rate setting.
- We remain Neutral in our fund positioning and look to increase our duration in uptick.

G Sec Curve Movement



- The yield curve has flattened since March due RBIs rate action and withdrawal of accommodative stance to contain high inflation.
- G-sec yields have moved up 150-300 bps from the lows a couple of years ago. Curve up to 10yr is at or above long-term average(10 yr avg.) yields of their respective tenors. We believe we are closer to peak rates in current rate hiking cycle and current levels provides good entry point for investors.



Sar utha ke jiyo!

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