MONTHLY UPDATE
JANUARY 2024

23 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Market Outlook

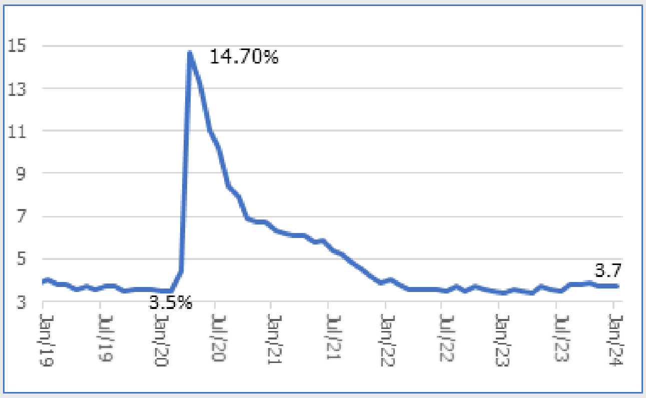
HDFC Life - Monthly Update (February 2024)

Global Macro Review

US CPI (%)

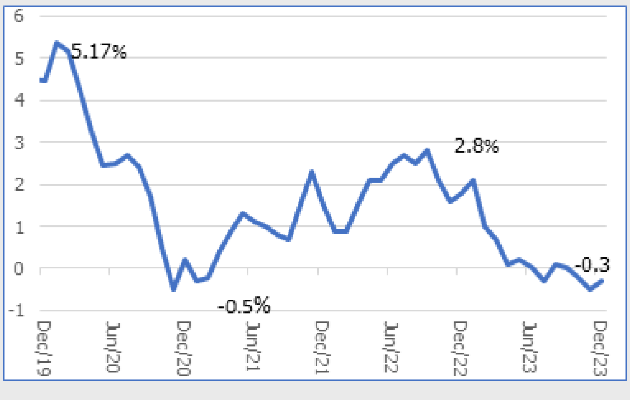
- US CPI for Dec'23 came in at 3.4% YoY vs 3.1% last month.Energy prices and core services were the main drivers pushing inflation higher. Inflation is expected to gradually drift lower over 2024 reflecting the prospect of a slowing labor market.

US Unemployment Rate (%)



- The US unemployment rate and participation rate remained flat at 3.7% and 62.5% respectively in December.The overall reports confirm that the labour market remains tight not requiring a rate cut as early as the March policy meeting.
- US Non Farm Payrolls, surprised to the upside at 353k,with prior months print revised notably upto 333kfrom 216k.Avg.hourly earnings accelerated to 0.6%Mom,lifting the annual rate to 4.5% from a revised up 4.3% prior.Seasonality of data trends could have been a factor behind the robust datawhich may reverse going forward.

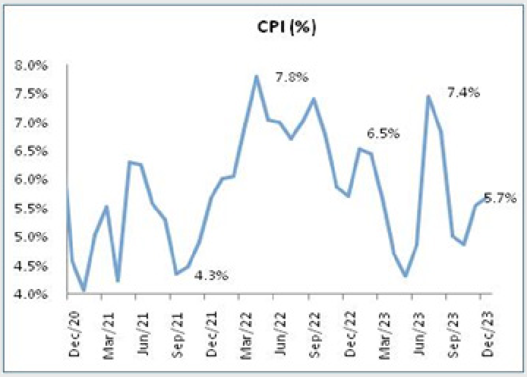
China CPI (%)



- Chinese CPI continues to remain in the defalationary zone.CPI for Dec'23 came in -0.3%YoYvs -0.5%in Nov'23.The structural headwinds from weak property sector and fragile business confidence continue to weigh on consumption demand.Overall, the economy is expected to grow below trend pace that will likely result in deflation pressures through 2024.

India Macro Review

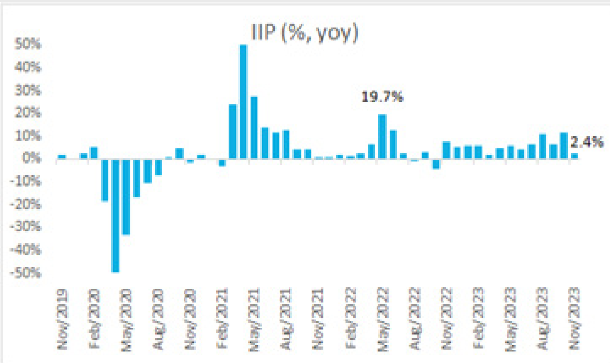
CPI Inflation %



Source: MOSPI

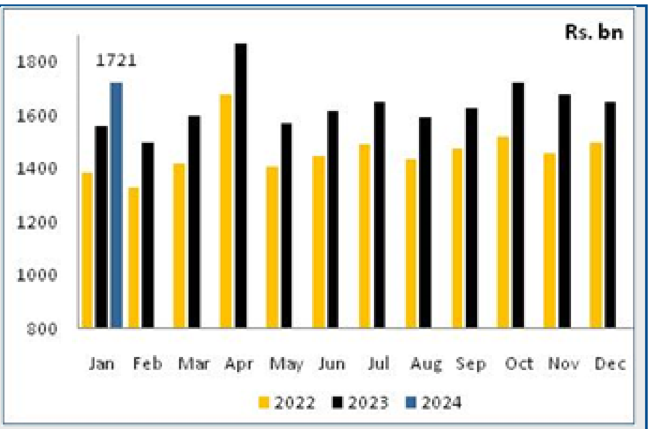
- Inflation (CPI) for Dec'23stood at 5.7% vs 4.9% in Nov'23 as food CPI, which constitutes 45.9% of the index, has increased to 8.7% in Dec'23 from 8% in Nov'23. Within food, inflation for Vegetables, Pulses, Spices and Cereals remains elevated.
- Fuel inflation which constitutes 6.8% ofCPI, contracted by 1% in Dec'23 vs. 0.8%fall in Nov'23.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Nov'23 came at 2.4%as manufacturingoutput (1.2% in Nov'23), mining output (6.8% in Nov'23), electricity output (5.8% in Nov'23) accelerated moderately.
- The increase in the Industrial production indexreflects increasing momentum in production activities.However, monthly IIP numbers can be volatile and difficult to draw a trend from the same.

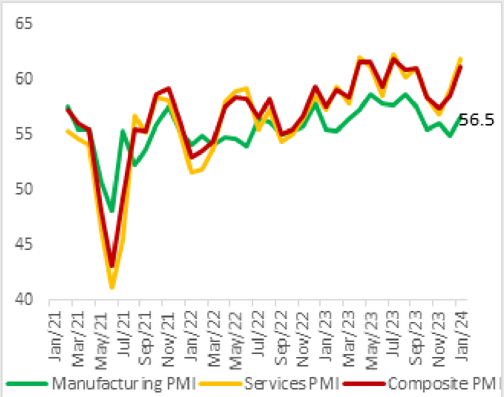
GST Collection (Rs. bn)



- GST revenues for the month of Jan'24 came at Rs. 1,721bnrising10.4% YoY and up from Rs. 1,648bn in Dec'23.
- Avg. monthly GST collections have increased to Rs. 1.67 lakh crore in 10M FY24 vs. Rs. 1.5lakh crore in 10M FY23 and Rs. 1.2lakh crore in 10M FY22continuing to display steady buoyancy.

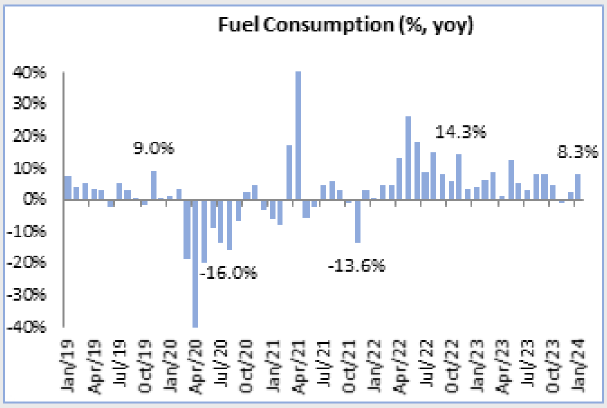
India Macro Review

PMI



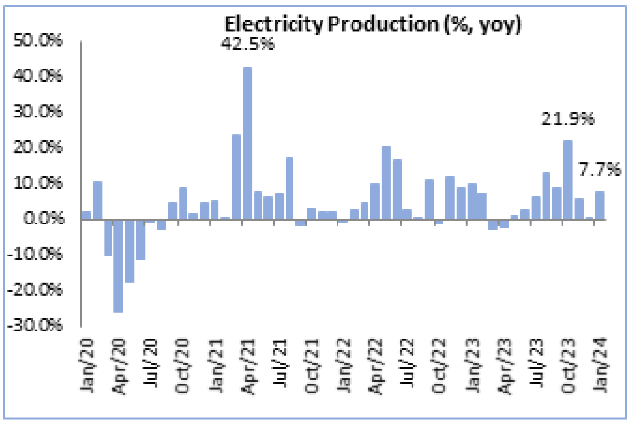
- PMI(manufacturing) rose to 56.5 in Jan'24 from 54.9 in Dec'23. However, PMI still in expansion zone (>=50) suggesting the continued strength in orders pipeline, production, despite the slowdown being seen in exports.

Fuel consumption YoY Growth %



- Fuel consumption increasedby 8.3% in Jan'24 vs. 2.6% growth in Dec'23. Within fuel category, consumption for diesel surged by 3.5% yoy in Jan'24 and petrol consumpton increased by 9.6% yoy in Jan'24

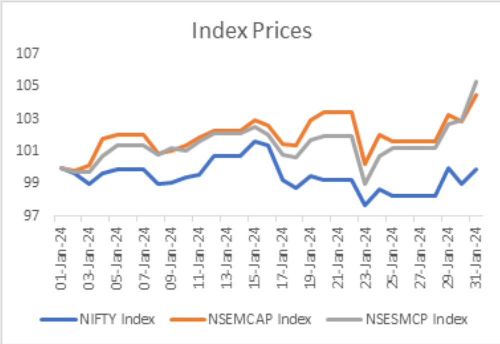
Electricity Production YoY Growth %



- Electricity production wasup 7.7% YoY in Jan'24 vs. 0.4% YoY in Dec'23.The jump in electricty production was ascribed to amoderatewinter season.

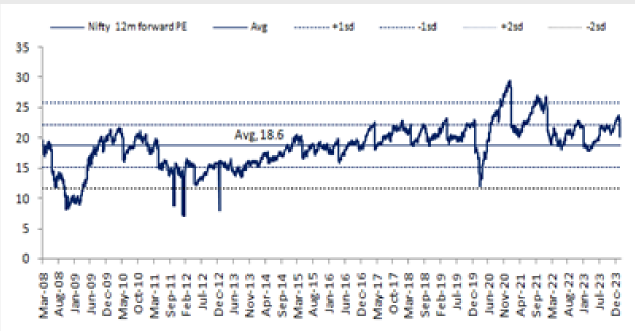
Equity Outlook and Positioning

Monthly Index performance



- Equity markets posted a flat to positive month in Jan'24 with large cap indices underperforming midcaps and small caps. Nifty 50 closed the month flat while CNX Midcap Index gave a return of 4.5% and Small Cap at 5.3%.
- Outperforming sectors included Oil & Gas, Real estate, Pharma, Auto and IT. On the other hand, the underperforming sectors included Banking, FMCG and Metals.

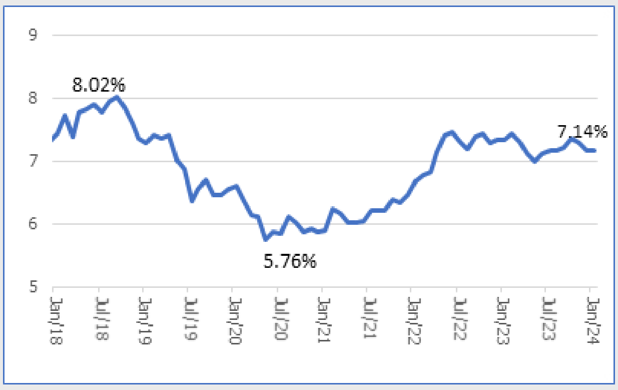
Nifty Valuation (1 year forward PE)



- From an equity market point of view, the Indian Union budget (interim) was largely neutral with a positive bias. The fact that the government stayed away from announcing any populist measures ahead of the general elections was the key positive. Markets were a bit disappointed by lack of measures to provide a fillip to domestic consumption which has now been subdued for more than a year
- After the State elections in Dec'23, political risk from the upcoming general elections, has reduced. This augurs well for the medium to long term outlook of the Indian economy as government has kept its focus on undertaking reforms, building infrastructure and providing a fillip to domestic manufacturing through import substitution.
- Nifty's earnings growth CAGR is expected to moderate to 11.6% over FY24-26 because of a high base in earnings of Banking and Capital Goods sectors. Given a significant run-up in the markets, valuations at 20.2x FY25 and 17.9xFY26 seem to already discounting the good news and don't leave any room for a disappointment.

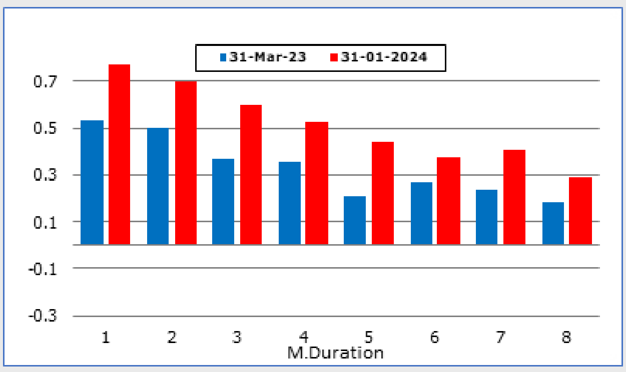
Debt Outlook and Positioning

India 10yr Gsec chart



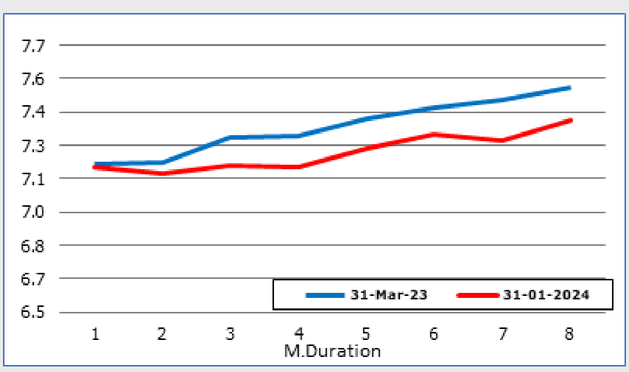
- US bond yields continue to trade with downward bias as it touched low of 3.81% intra- month on favourable rates outlook. However, it closed 3bp higher on MoM basis at 3.91.
- In India, the 10yr benchmark yield eased by 3bps from 7.17% to 7.14% tracking the fall in global yields, positive surprise on CPI reading, among other factors. The long tenure bonds continue to outperform the curve due to favourable demand-supply condition and benign inflation and interest rate outlook.

AAA Spreads



- At the recent Fed policy, FOMC maintained status quo on rates.However it removed its hiking bias but ruled out a rate cut in March.The guidance from the FOMC was that the central bank wants to see a continuation of the progress with regards to disinflation and labor market re-balancing before it embarks on easing.
- India's interimBudget surprised positively with fiscal deficit for FY24 reduced to 5.8% of GDP and 5.1% of GDP in FY25 (lower than market estimates of 5.3%). An even bigger positive was gross borrowing at INR 14.1tn vs market estimates of INR 15.2tn

G Sec Curve Movement



- Given the confluence of multiple positive factors like rates cycle peaking, FII interest in India bonds, favourable demand-supply dynamics and stable currency outlook, the 10yr yield is expected to ease further.

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