MONTHLY UPDATE
JULY 2023

22 YEARS
Protecting India with Pride

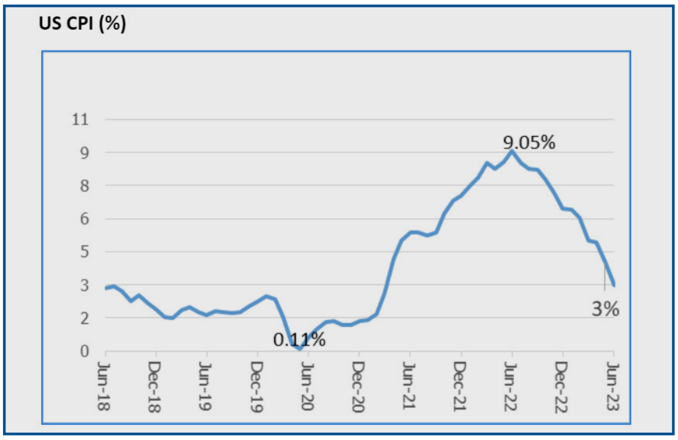
HDFC Life
Sar utha ke jiyo!

Market Outlook

HDFC Life - Monthly Update (August 2023)

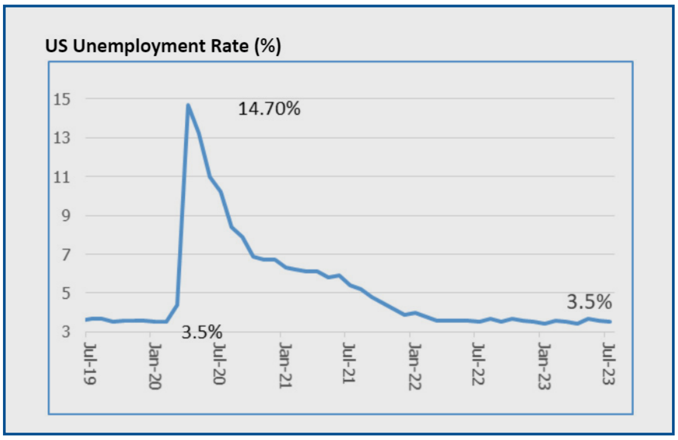
Global Macro Review

US CPI (%)



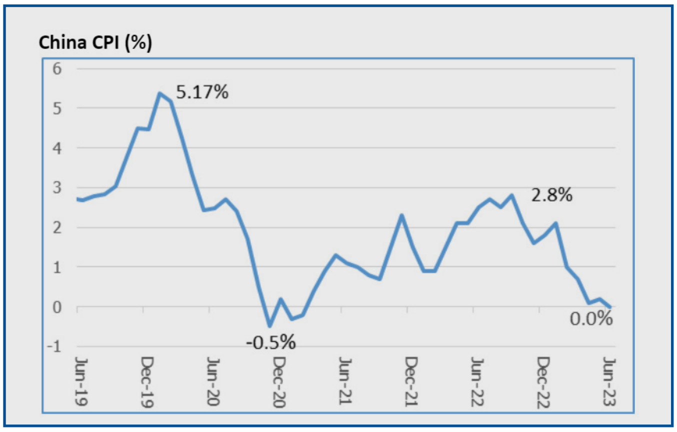
- US CPI for Jun'23 came in at 3.0% YoY, 100bps lower then the May print and the lowest since March of 2021. This is attributed largely due to base-effect; however there also have been slow rise in CPI internals like new vechicles, apparel,transporation services which contributed to this fall.
- The FOMC raised rates by 25bps on expected lines taking the fed funds rate to the 5.25%-5.50% range that would imply a cumulative 525bps increase since March 2022.Overall QT was maintained at USD 95bn per month. The post policy statement was largely unchanged. However, the assessment on the economy was mildly upgraded as the pace of expansion was described as being 'moderate' instead of 'modest'.Labour market was characterized as being robust while the policy statement maintained that the committee would remain 'attentive to inflation risks'.

US Unemployment Rate (%)



- The US unemployment rate drifted lower at 3.5% vs 3.6% for the month of July. Participation rate was unchanged at 62.6%, however wage inflation remain elevated showing that on overall basis labour market remains tight.
- US Non Farm Payroll data was softer than expected for July, printing at 187K against expecation of 200k. Downward revision were made for the two previous month to the tune of 50k,however labour market condition still remain tight as it was visible in lower unemployment rate and pickup in average hourly earnings.

China CPI (%)



- Chinese CPI came in at 0% YoY for the month of Jun'23 Vs 0.2% in the previous month. Broadly the demand continues to remain below trend driven by ongoing weakness in property sector.

India Macro Review

CPI Inflation %

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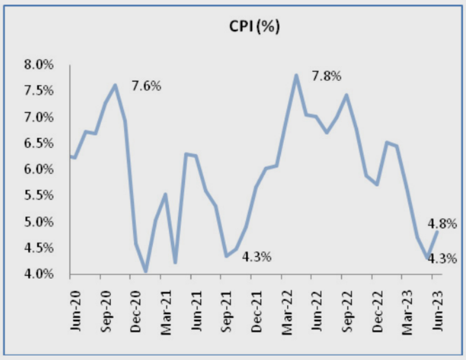

Source: MOSPI

- Inflation (CPI) for Jun'23 stood at 4.8% vs 4.3% in May'23 as food CPI which constitutes the 45.9% has increased to 4.6% in Jun'23 from 3.3% in May'23. Within food, inflation for Cereals and Spices stood at 12.7% and 17.9% respectively.
- Fuel inflation which constitutes 6.8% of the CPI moderated to 3.9% in Jun'23 vs. 4.7% in May'23.

Industrial Production Index (IIP)

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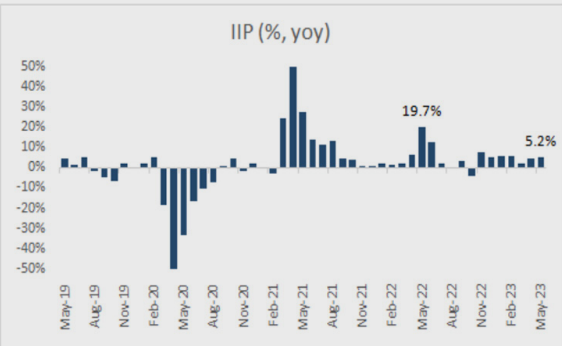

- Industrial Production (IIP) growth for May'23 came at 5.2% vs. 4.5% growth during May'23 as manufacturing and mining output grew by 5.7% yoy and 6.4% yoy respectively. However, electricity output marginally grew by 0.9% yoy in May'23 vs. -1.1% fall in May'23.
- The increase in the Industrial production index reflects the gaining momentum in production activities. Monthly IIP nos can be volatile and difficult to draw a trend from the same.

GST Collection (Rs. bn)

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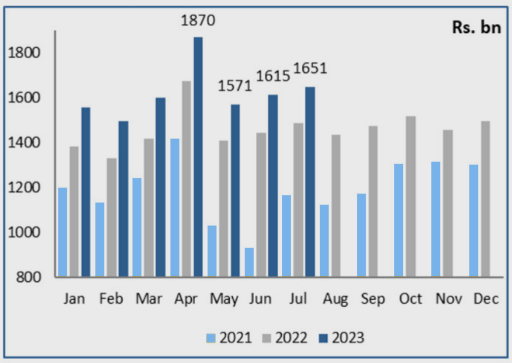
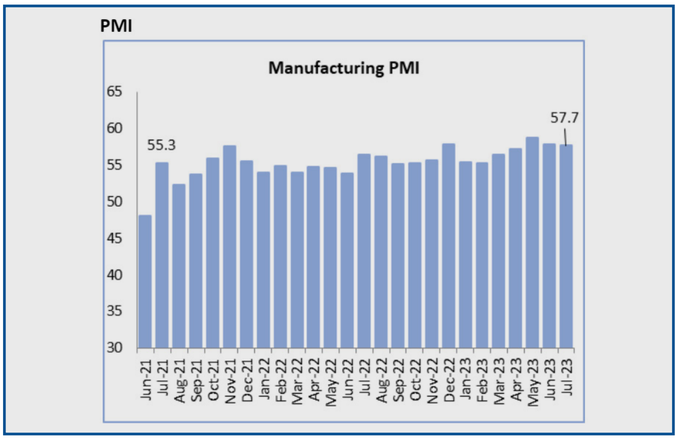


- GST revenues for the month of Jul'23 came at Rs. 1,651bn showing a 11% YoY as CSGT (15.6%), SGST (14.7%) and IGTS (8.1%) increased sharply.
- Avg. monthly GST collections have increased to Rs. 1.5 lakh crore in FY23 vs. Rs. 1.2 lakh crore in FY22 and Rs. 1 lakh crore in FY20 continuing to display very high buoyancy.

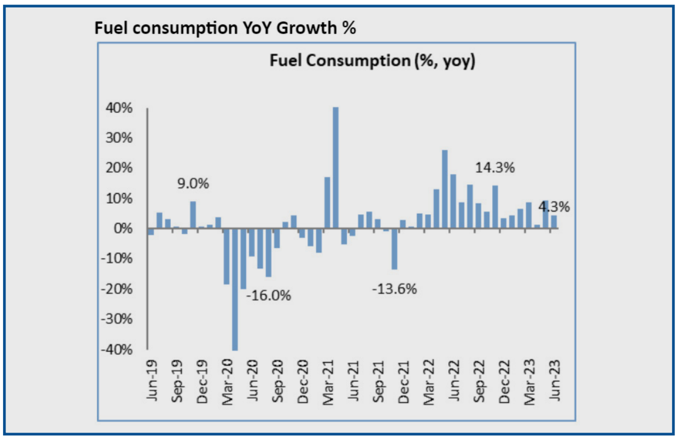
India Macro Review

PMI



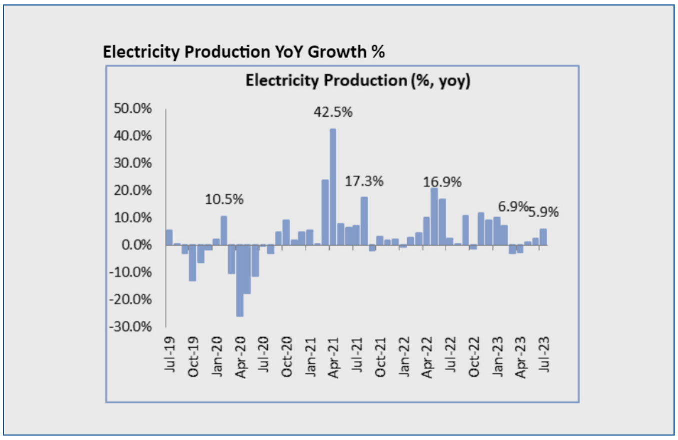
- PMI eased to 57.7 in Jul'23 from 57.8 in Jun'23. However, PMI still in expansion zone (>=50) suggesting the continued strength in orders pipeline, production and despite a slowdown being seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption grew by 4.3% in Jun'23 vs. 9.2% growth in Jun'23. With in fuel category, Consumption for petrol and diesel grew 6.2% and 3.1% respectively .

Electricity Production YoY Growth %



- Electricity production up 5.9% YoY in Jul'23 vs. 2.4% YoY in Jun'23. The marginal jump may be due to severe heat and spurt in economic activities.

Equity Outlook and Positioning

Monthly Index performance

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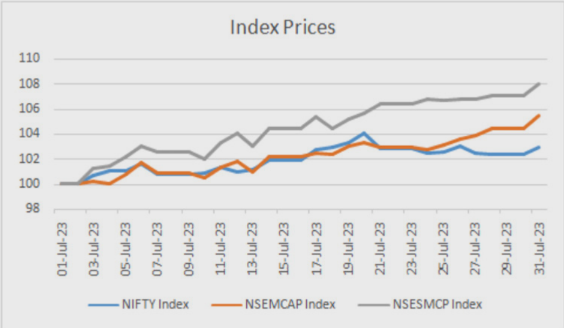

- Equity markets posted a positive month in Jul'23 with small and mid cap indices outperforming largecaps. Nifty 50 closed the month with a return of 3% while CNX Midcap Index gave a return of 6% and Small Cap at 8%.
- Outperforming sectors included Capital Goods, Pharma, Metals, Oil & gas and Power while Banking, IT, FMCG and Consumer Durables were the underperforming sectors.

Nifty Valuation (1 year forward PE)

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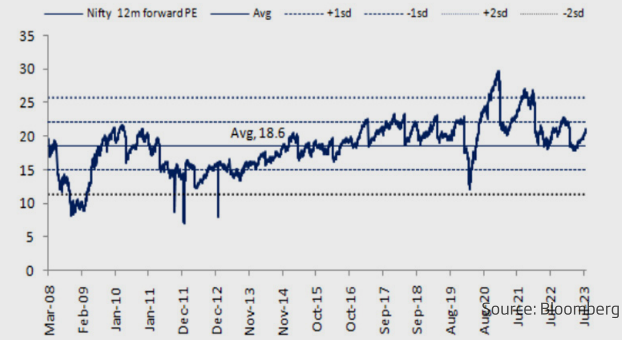
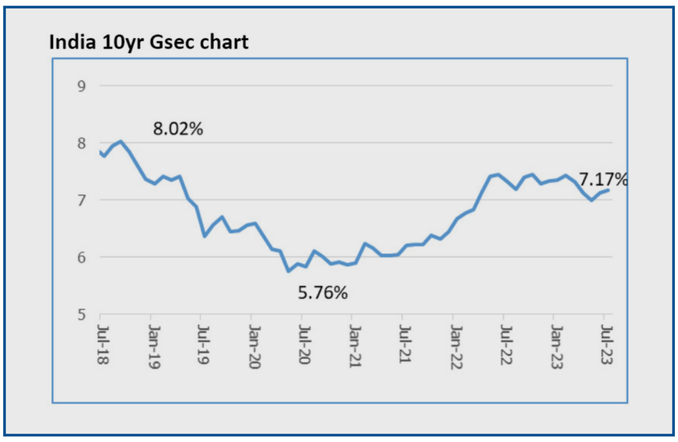


- Bounce back in equities has been primarily because of some moderation in inflation and a view that the interest rate increase cycle is coming to an end. Another reason is a stronger than expected US economy thus lending credence to the 'soft landing' view of the market. India's macroeconomic outlook has seen a good stability with an improving current account deficit and a relatively comfortable inflation trajectory.
- In the ongoing Q1FY24 result season, while there hasn't been a material cut in overall Nifty earnings, the trends at a sectoral level have been mixed. Financials continued with their good performance on growth and asset quality but have now started showing moderation in NIMs. While this softening is on expected lines, the trend across various companies is quite diverse with some showing a much greater moderation than others. IT companies had another weak quarter with most companies reporting subdued revenue and order book performance. The commentary from most players also turned more cautious clouding the near-term outlook. Auto and Staples have reported a sequential improvement in margins, aided both by price hikes kicking in and moderation in commodity prices. However, the volume growth performance and outlook are still subdued.
- Nifty is currently trading at a valuation of 21.1x FY24 and 18.4x FY25. 1-yr forward valuations are higher that long term averages. Given the headwinds of weak domestic demand, a challenged global macro with some signs of financial stress and an uncertain inflation outlook, we continue to be 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.

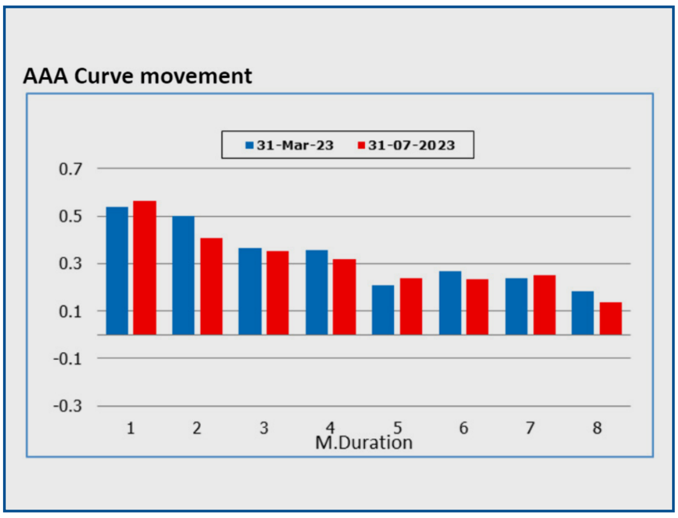
Debt Outlook and Positioning

India 10yr Gsec chart



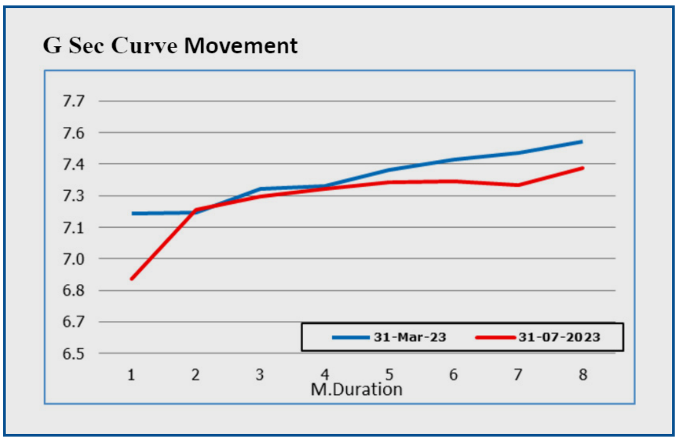
- Global bond yields continued to rise on the back of better than expected US economic data, China also is in the midst of announcing steps to prop its growth. BOJ is now showing flexibility in the band from +/-50bps to 1% on 10 yr JGB all these factors along with trending crude and commodity led to spike in yields across the globe.
- In India, the 10yr benchmark bond yield rose, tracking rise in US yields along with the rising concern of vegetable prices and uptick in oil prices. The 10 yr Gsec closed at 7.17% vs. 7.09%for the month.

AAA Curve movement



- The FOMC raised the policy rate by 25bp taking the fed fund rate to 5.25%-5.50%, The FOMC stated the future action would be data dependent and committee would examine the need on meeting -by-meeting.
- With recent US data highlighting robust growth, low unemployment coupled with higher than comfortable inflation, the market expect US Fed to raise rates again for the last time when they meet either in September or November 23. US yields are likely to be volatile in the short term due to its rating downgrade and increase is treasury supply for the current quarter.

G Sec Curve Movement



- The RBI is concerned about a rise in inflation pressures due to uneven rainfall leading to spike in food prices. Moreover, with recent spike in oil and other commodity prices, changes the trajectory of domestic inflation upwards. We expect MPC to revise its yearly CPI estimate from 5.1% to 5.3% for the current financial year.
- However, at higher yields, natural demand from long investors is likely to provide a cap on the yields.

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