MONTHLY UPDATE
JULY 2022

21 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Jul, 2022

"Chains of habit are too light to be felt until they are too heavy to be broken."

- *Warren Buffet*

Equity markets

Indices	29th July 2022	30th Jun 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	57,570	53,019	9%	9%
S&P CNX Nifty	17,158	15,780	9%	9%
BSE 100	17,530	16,014	9%	9%
BSE Mid Cap	24,051	21,713	11%	4%
BSE Small Cap	27,056	24,786	9%	1%

Source: Bloomberg

During Jul'22, domestic equity indices saw a strong rebound – Large and Small cap indices rose 9% MoM while the Mid cap index outperformed, up 11% MoM. On a 1-year basis, the Large Cap Indices have outperformed the Mid and Small cap indices. Over the past one year, Sensex and Nifty were up 9% each while BSE Mid cap and Small cap index were up 4% and 1% respectively.

During Jul'22, performance across the sector indices was mixed. The performance ranged from +4% to +17%. Metal and Real Estate sector outperformed the most; up 17% each respectively while IT and Oil & Gas sector underperformed; up 4% and 5% respectively. On a 1-year basis, Utilities sector is the best performing sector gaining 74% followed by Auto and Capital Goods sector respectively. Healthcare and Metals are the bottom two sectors; down 12% and 13% each respectively.

The yield of benchmark 10-year G-sec moved to 7.32% at the end of Jul'22 from 7.45% at the end of Jun'22.

Global equity indices were mostly up during the month. The HANGSENG and SHAMGHAI Index were the worst performing indices, down 8% and 4% respectively during the month while the NASDAQ gained the most, up 12% MoM. On a 1 year basis, FTSE 100 has gained the most, up 6% YoY.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	-2%	3%
Silver	-1%	-20%
Crude Oil	-7%	33%
Copper	-4%	-20%
Aluminum	3%	-4%
Lead	7%	-15%
Nickel	4%	21%
Tin	-6%	-29%
Zinc	6%	-12%

Most major commodities fell during Jul'22. Tin and Crude fell the most, down 6% and 7% respectively.

On a YoY basis, most major commodities have posted YoY declines. Crude has appreciated the most up 33% YoY.

Source: Bloomberg

Macro Economic Data

Indicators	Mar-22	Apr-22	May-22	Jun-22	Comments
IIP (YoY, %)	2.2%	7.1%			Industrial output marginally grew by 7.1% yoy in Jun'22 vs. 2.2% yoy growth in Mar'22, mainly led by the increase in electricity output (11.8% yoy in Apr'22) and Manufacturing output (6.3% yoy in Apr'22)
Core Sector (YoY, %)	4.9%	9.3%	18.1%		Core sector output grew by 18.1% yoy in May'22 led by the increase in coal output (25%), cement (26.3%) and steel (15%).
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.40	4.90	RBI increased the repo rate by 90bps to 4.90% in FY23 YTD
CPI inflation (%)	7.0%	7.8%	7.0%		CPI inflation moderated to 7% in May'22 from 7.8% in Apr'22, led by the fall in food inflation from 8.1% in Apr'22 to 7.8% in May'22
Trade Deficit ($, bn)	-18.3	-20.1	-24.3		In May'22, exports grew by 15.5% to $37.3bn, while imports grew by 56.1% to $60.6bn, as a result trade deficit widened to $23.3bn in May'22 vs. $20.1bn in Apr'22.
GST Collection ($, bn)	1421	1675	1409	1446	Total gross GST revenue collections in Jun'22 stood at Rs. 1,446bn, following Rs. 1,409bn collection in May'22.
FII Flows-Equity ($, bn)	-5.38	-2.24	-5.18	-6.44	On equity side, FPIs sold $6.44bn in Jun'22, following an outflow of $5.18bn in May'22. On debt side, FII sold $0.18bn in Jun'22, following an outflow of $0.72bn in May'22.
FII Flows-Debt ($, bn)	-0.74	-0.58	-0.72	-0.18	
Exchange Rate (INR/USD)	75.81	76.42	77.66	78.97	Indian Rupee depreciated by 1.7% during Jun'22, as it closed at 78.9 in the end of Jun'22 from 77.7 at the end of May'22 per dollar.
GDP (%)	4.1%				Real GDP grew by 4.1% in Q4 FY22 led by the sharp in investment (5.1% in Q4 FY22) and Govt expenditure (4.8% in Q4 FY22)

Outlook

There was a coordinated rally in Global Equity Markets in July with all markets, with the exception of China and Hong Kong, posting handsome gains. MSCI World posted a return of 7.9% and MSCI Emerging Markets was flattish at -0.7% due to underperformance of China. Within the developed markets, the US was a relative outperformer with Nasdaq and S&P 500 returning 12.3% and 9.1%, respectively.

Commodities had a mixed month with Aluminum, Zinc, Nickel and Lead doing well while Copper, Steel and Tin underperformed. Brent Crude corrected to $108/bbl by end of the month and is actually now trading below $100/bbl mark. This will provide good relief to India if the prices were to sustain at lower levels.

The US Federal Reserve raised the target range for the fed funds rate by 75bps to 2.25%-2.5% during its July 2022 meeting, the fourth consecutive rate hike. With the latest hike, the Fed has so far taken a cumulative increase of 2.25% in the current cycle and calendar year. RBI, on its part, hiked the repo rate by 50bps in early August to 5.4%, taking a cumulative 140bps increase in the current cycle and calendar year. With all central banks acting together, global growth is going to take a hit and inflation is expected to eventually start easing off.

Meanwhile, the Russia-Ukraine conflict has shown no signs of a possible resolution. In fact, Russia's constraining of gas flows to Europe in the last few weeks has only worsened the situation. And the possibility of a further escalation can't be ruled out. The consequent global risk-off has already resulted in USD 27.9bn of FII outflows from India in YTD CY22. But after a long time, we saw FII flows turning positive in the month of July with a net inflow of USD 651mn. DIIs continued to be net buyers with net investments of USD 1.3bn in July and a cumulative investment of USD31.6bn in YTD CY22.

The ongoing Q1FY23 results season has been mixed so far. Results of domestic Consumer facing industries have shown a slowdown in volume growth because of significant price increases that have been taken to counter the rising raw material inflation. Gross margins on a Y-o-Y basis have also taken a hit because of companies' inability to pass on the entire increase. However, margins have started showing stability on a sequential basis. IT companies, with a few exceptions, have reported good revenue performance but have taken a hit on margins because of rising employee costs. Results in Financial sector have been good overall with very good performance on growth and asset quality, partly offset by some pressure on operating costs. With some moderation in commodity prices, there is an expectation of improved performance on the margin front going forward. However, the key monitorable is how the volumes behave given the prices increases and rising interest rates.

Expectations of Nifty earnings growth have moderated to some extent over the last few months. Earnings are now expected to grow at a CAGR of 13% 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 after the current rally at 18.3xFY24 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

Fixed Income Market

Fixed Income Market Review

Bond market continued its volatile trend in July, but closed the month on a positive note supported by falling crude prices and softening US treasury yields. Markets continued to sway between inflationary concerns and the recessionary fears arising out of the large rates hikes to tame the high inflation. The US FOMC, in its July meeting, again raised the Fed funds target rate by 75bps, showing its determination to tame inflation. Inflation in US shot up to a 4 decadal high of 9.1% in June, up from its previous month print of 8.6%. US GDP growth contracted by 0.9% for the second consecutive quarter in June 2022, which further fueled recessionary fears. The first quarter GDP had fallen by 1.6%. Inflation in Europe too hardened with the Eurozone inflation coming in at 8.9% and UK inflation shoot up to 9.4%. The ECB hiked its interest rate for the first time since 2011 by 50bps. Bank of England too raised interest rates by 50bps to fight the rising inflation. Although the Russia-Ukraine war continues, Brent crude prices fell below USD 100 per barrel on recession fears after the aggressive rate hikes. Brent crude prices eased to USD 99.9 per barrel compared to its previous close of USD 115 per barrel.

The US 10yr yield continued its downward trajectory on recessionary fears and ended the month at 2.65%, down from the previous month's level of 3.01%. The domestic 10yr benchmark bond too cooled down tracking the fall in crude and US 10yr bond yield, and closed at 7.32% against 7.45% at the end of the previous month.

Among data releases, India's April CPI came at 7.01% for the month of June'22 flattish compared to it's previous month print of 7.04%. Core inflation (CPI Ex-Food Ex-Fuel) too was flat at 6.1%. Average CPI for Q1FY23 at 7.3% is 20 bp lower than RBIs recent forecast of 7.5%. Headline WPI inflation eased to 15.2% YoY in June 2022 from a series high of 15.9% YoY in May 2022.

India's trade deficit widened to a fresh all time high of $31bn in July from $26.2bn in June driven by decline in exports whereas imports remained steady. Among other economic data, IIP growth for May 2022 came at 19.6%, higher than the reading of 6.7% in April 2022 due to a strong favorable base and pick-up in growth momentum in the overall index. Goods and Services Tax (GST) revenue collection for July came at Rs 1.49lac cr. India's Nikkei Markit Manufacturing PMI rose to 56.5 in July 2022, against 53.9 in the previous month, and the Services PMI fell to 55.5 in July from 59.2 in the previous month. Composite PMI also fell to 56.6 in July 22 vs 58.2 in the previous month.

Monetary Policy July 2022 Highlights –

- The RBI unanimously raised the repo rate by 50bp to 5.4%, highlighting strong growth impulses and still uncomfortably high inflation.
- The stance "withdrawal of accommodation" was left unchanged.
- MPC kept the real GDP growth projection for FY23 unchanged at 7.2% with Q1 at 16.2%, Q2 at 6.2%, Q3 at 4.1% and Q4 at 4.0%

- MPC kept the overall inflation projection for the current fiscal year unchanged at 6.7%. However, CPI projections were revised for Q2 FY23 and Q3 FY23 at 7.1% and 6.4% as compared to earlier estimates of 7.4% and 6.2% respectively. Inflation projection for Q1FY24 is 5%.

Market Outlook –

The expectation of aggressive rate hikes to tame inflation globally leading to fears of recession / slow growth has dominated the market discourse. With the US GDP contracting for 2 straight quarters, recessionary fears gained further traction. With central bankers globally still hiking interest rates to tame inflation, the markets are expected to continue to sway between inflation and recession concerns.

With trade deficit trending at elevated levels and capital outflow on the FPI front, INR continues to depreciate and is likely to keep pressure on RBI to tighten monetary policy further in tandem with the US Fed. The hawkish commentary by RBI on inflation control, are likely to sustain bond yields around current ranges, notwithstanding the recessionary / growth slowdown fears. The concerns around the Government's large borrowing amounts have been relegated to the background for now as tax collections have been robust. A further softening of commodity prices can help ease some of the domestic inflation concerns, thereby providing some respite to bonds yields. While the forthcoming inflation prints may help provide more clarity on inflation trends and thus bond yields, we expect that yields are likely to trade within a range in the near term.