MONTHLY UPDATE
JUNE 2024

23 YEARS
Protecting India with Pride

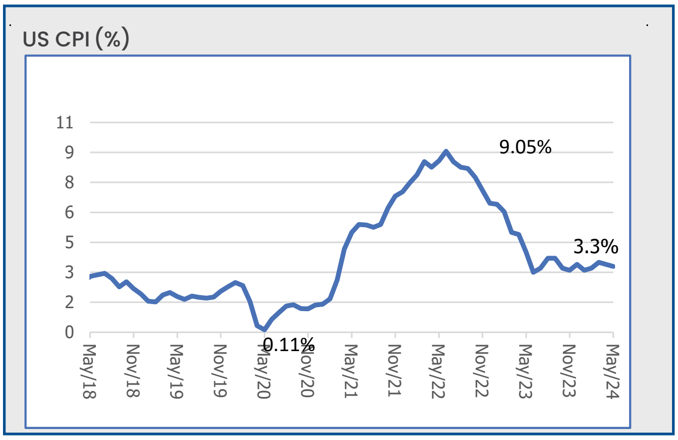
HDFC Life
Sar utha ke jiyo!

Market Outlook

HDFC Life – Monthly Update (July 2024)

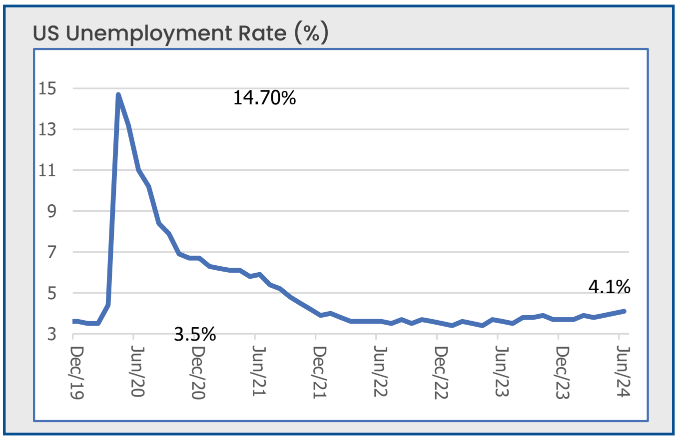
Global Macro Review

US CPI (%)



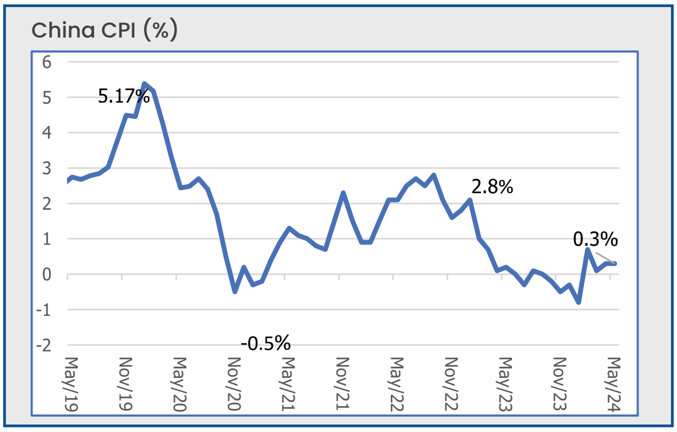
- US CPI inflation inched lowerto 3.3% YoY in May vs 3.4% in April lower than market expecatation. US core CPI surprised on the downside at 0.16% MoM vs 0.3% prior, wit the weakness largely concentrated in core non-shelter services prices which were sticky for sometime.

US Unemployment Rate (%)



- The US unemployment rate inched higher to 4.1% in June vs 4% in May, while particpation rate rose to62.6% vs 62.5% prior.A steadily rising unemployment rate from low of 3.43% to 4.10% suggests broad based slowing in labor market with the trend indicating significant weakening going ahead.This along with softening CPI should help FOMC to send strong signal of a likely cut in September policy.
- US Non Farm Payrolls, added close to consensus 206k jobs in June while prior two months were revised lower by 111k.The slowdown in labor market along with declining job openings and increasing jobless claims is expected to provide confidence to the Fed to embark on rate cutting cycle later this year.

China CPI (%)



- Chinese CPI rose by 0.3% yoy in May (expected 0.4%) holding steady for the second straight month.The recovery in Chinese economy remains uneven despite government efforts to propel demand through loose monetary and fiscal policy.The residential property market sales continue to fall at -30.5% YoY,limiting chances of any recovery in near term.

India Macro Review

CPI Inflation %

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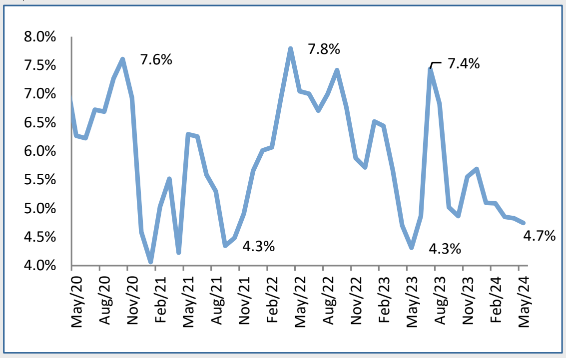

Source: MOSPI

- Inflation (CPI) for May'24stood at 4.7%as food CPI, which constitutes 45.9% of the index,stayed elevatedat 7.9%. Within food, inflation for Vegetables, Pulses, Cereals, Meat and Fish, and Spicesremain elevated.
- Fuel inflation which constitutes 6.8% ofCPI, contracted by 3.8% in May'24 vs. 4%fall in Apr'24.

Industrial Production Index (IIP)

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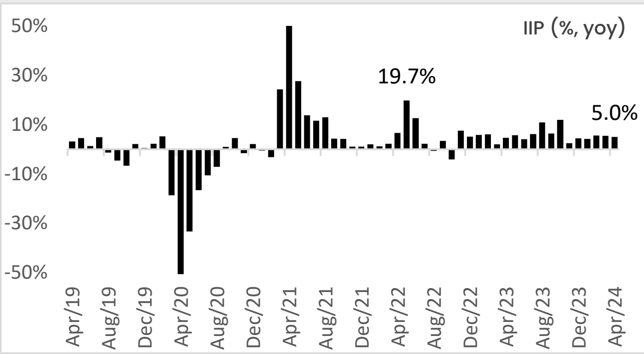

- Industrial Production (IIP) growth for Apr'24 came at 5%as Manufacturingoutput surged 3.9% in Apr'24 and Electricity output was up 10.2% in Apr'24. Also, Mining output increased by6.7% inApr'24.
- The increase in the Industrial production indexreflects increasing momentum in production activities.However, monthly IIP numbers can be volatile and difficult to draw a trend from the same.

GST Collection (Rs. bn)

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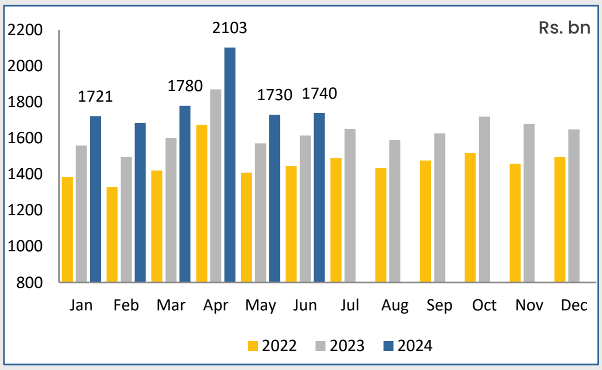
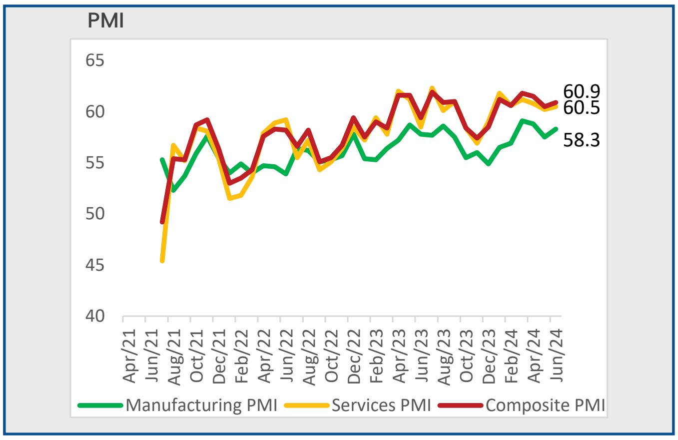


- GST revenues for the month of Jun'24 came toRs. 1,740bn showing a 8% YoYincreasevs. Rs. 1,615bn in Jun'23.
- Avg. monthly GST collections have increased to Rs. 1.7 lakh crore inFY24 vs. Rs. 1.5lakh crore in FY23 and Rs. 1.2lakh crore inFY22continuing to display very high buoyancy.

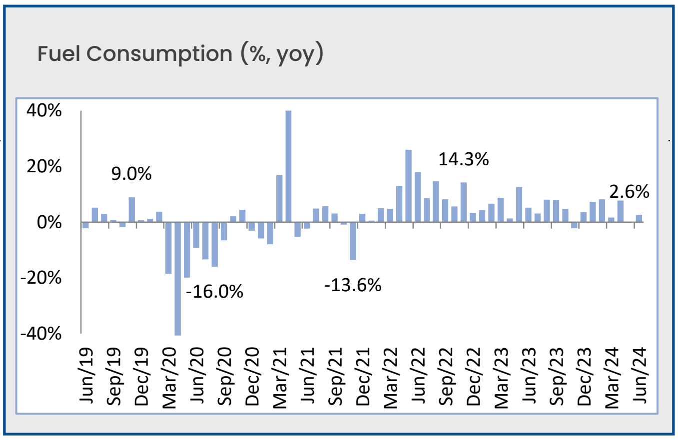
India Macro Review

PMI



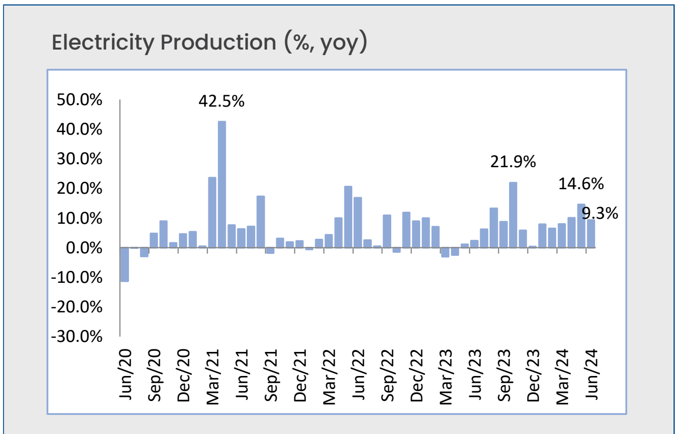
- PMI(manufacturing) increased to 58.3 in Jun'24 from 57.5 in May'24. However, PMI continuing in expansion zone (>=50) indicates the continued strength in orders pipeline and production, despite a slowdown seen in exports.

Fuel consumption YoY Growth %



- Fuel consumption marginally increased by 2.6% yoy in Jun'24 vs. 0.2% up in May'24. With in fuel category, Consumption for diesel surged by 1% yoy in Jun'24 and petrol consumpton increased by 4.6% yoy in Jun'24. However, Dieselconsumption decelerated sequentially.

Electricity Production YoY Growth %



- Electricity production wasup 9.3% YoY in Jun'24 vs. 14.6% YoY in May'24.
- Heatwaves in the north region driving strong electricity demand.

Equity Outlook and Positioning

Monthly Index performance

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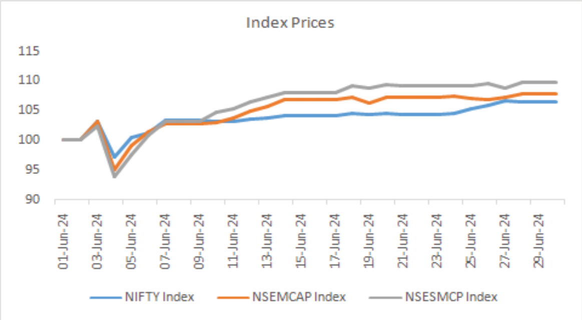

- Equity markets were positive in Jun'24 with large cap indices underperforming midcaps and smallcaps. Nifty 50 closed the month +7% while CNX Midcap Index +8% and Small Cap +10%.
- Outperforming sectors included IT, Telecom, Realty, Auto and Banks while underperforming sectors included Metals, Oil & Gas, Capital Goods, Power, FMCG and Pharma

Nifty Valuation (1 year forward PE)

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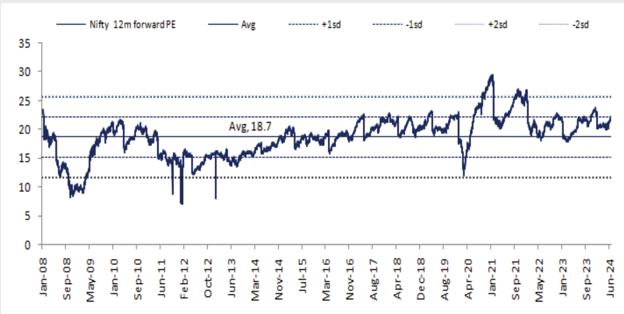
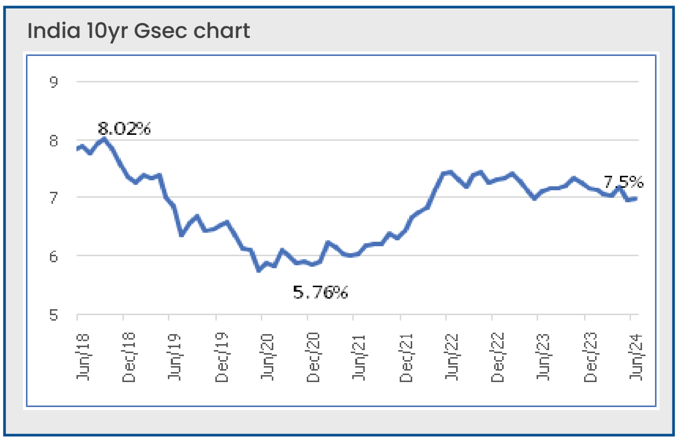


Source: Bloomberg

- We expect the Government to continue with its investment-led economic agenda but may tweak its priorities to support consumption and employment. The early signal will come from the first budget of the new Government to be presented on July 23. We expect theGovernment to largely retain its tax and non-debt capital receipt (including disinvestment) projections as presented during the Interim Budget in Feb 24. If so, a transfer of INR2.11tn by the RBI implies excess receipts of about INR1.3tn in FY25. A part of these additional receipts would be spent under various heads to spur growth and investments, while a portion may be used to reduce the fiscal deficit.
- Nifty's earnings growth CAGR likely to moderate to 12% over FY24-26 (post 25% earnings growth in FY24) because of a high base in earnings of Banking and Oil & Gas sectors. Given run-up in the markets, valuations over 20xFY26 one year forward seem to be already discounting the good news and don't leave much room for a disappointment. However, India is very well poised over the medium term with continued investments in infrastructure, scale up in domestic manufacturing, premiumization and discretionary consumption.

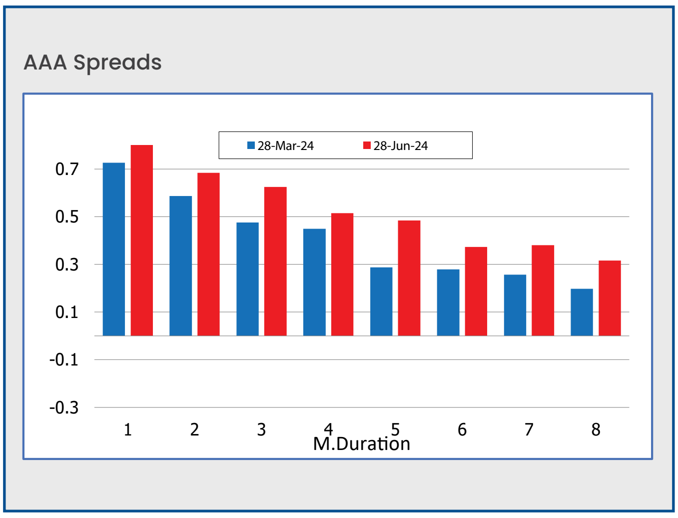
Debt Outlook and Positioning

India 10yr Gsec chart



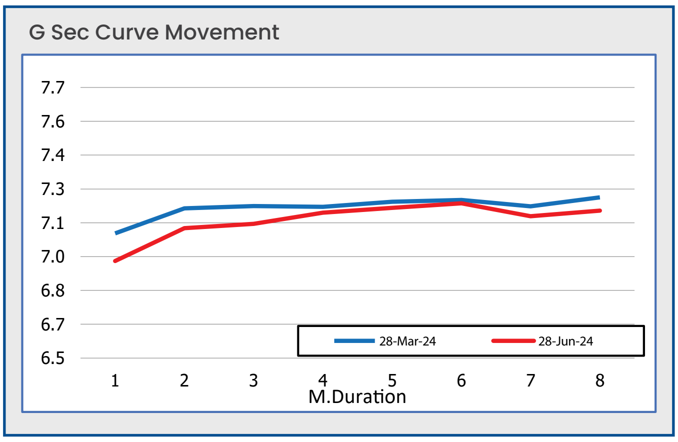
- US bond yields remained volatile through the month on back of mixed macro data and hawkish FOMC outcome. The 10 yr. UST touched an intra month low of 4.20%, though closed higher at 4.40%.
- In India, the 10yr benchmark yield rose by 3bps from 6.98% to 7.01% largely due to the general election outcome; however, after the smooth Government formation markets expect broad continuity in policies, though with some increase in social spending to spur growth and employment

AAA Curve movement



- A number of large DM centralbanks have started their rate cutting cycle ahead of US Fed due to their slower growth and sharper deceleration in inflation than earlier anticipated.
- In US, economic growth has slowed from the previous quarter along with the softening of core inflation. The decline in ISM services to 48.8 and the unemployment rate rising to 4.1% have raisedthe expectations of start of the rate cut cycle

G Sec Curve Movement



- Although domestic inflation is well within the RBI's mandate range, RBI is still concerned over food inflation. Going forward, domestic bond markets will be closely monitor rainfall distribution and sowing activity to keep track of food inflation.
- Favorable supply-demand balance for domestic bonds is expected to keep yields soft as FPI inflows related to the inclusion of Indian bonds in the JP Morgan EM bond index are expected to pick up.Markets are awaiting the final Union Budget this month. Any steps taken to reduce the fiscal deficit will help bond yields cool further from these levels.

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