MONTHLY UPDATE
JUNE 2023

22 YEARS
Protecting India with Pride

HDFC Life
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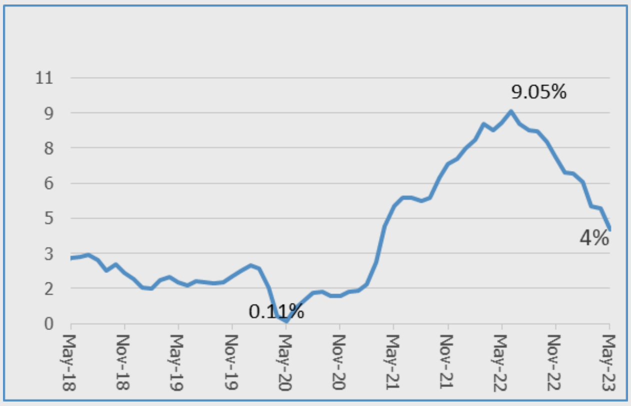
Market Outlook

HDFC Life - Monthly Update (July 2023)

Global Macro Review

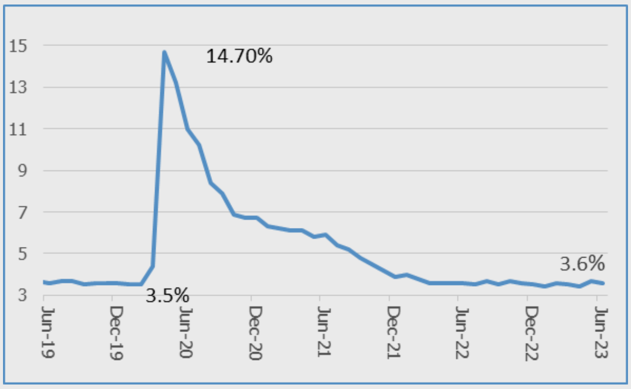
US CPI (%)



- US CPI for May'23 came in at 4.0% YoY, 90bps lower then the April print largely due to base-effect and also due sharp fall in energy prices.

- The FOMC maintained status quo on expected lines while providing a much more hawkish guidance than expected to take in to account reduced downside risks to the economy and upside risks to inflation.The Fed continued to emphasize that labour market re-balancing was not complete and that upside risks to inflation remain in place while stress from the banking sector had eased. Given this backdrop market is now pricing another 25bp hike in July.

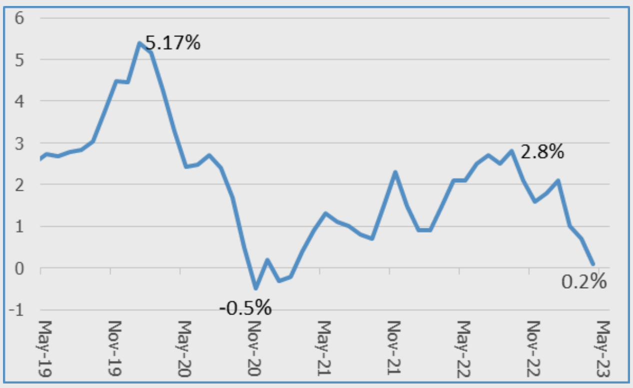
US Unemployment Rate (%)



- The US unemployment rate drifted lower at 3.6% vs 3.7% for the month of June. 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 June, printing at 209K against expecation of 230k. Downward revision were made for the two previous month to the tune of 110k. However employment additions is still running well above the 180K average witnessed in the pre-pandemic period.

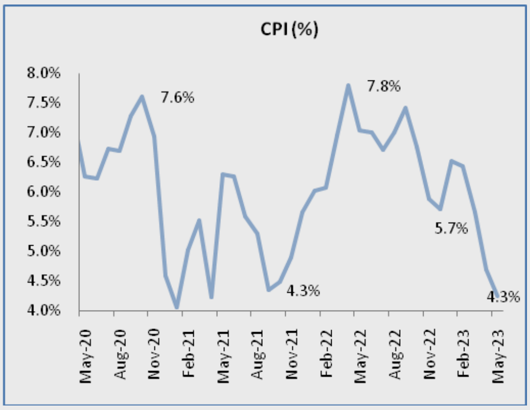
China CPI (%)



- Chinese CPI came in at 0.2% YoY for the month of May'23 Vs 0.1% in the previous month this was largely due to rise in food price. However non-food inflation continues to remain flat at 0.1% as demand continues to remain below trend driven by ongoing weakness in property sector.

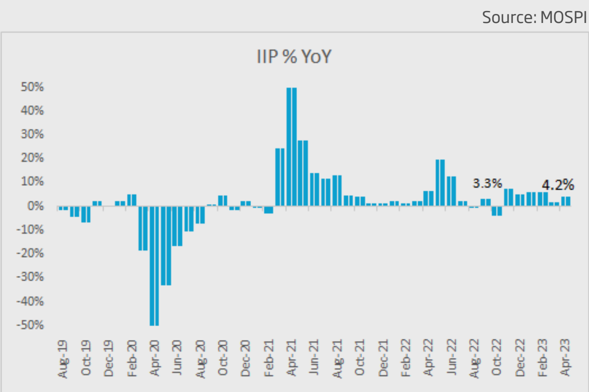
India Macro Review

CPI Inflation %



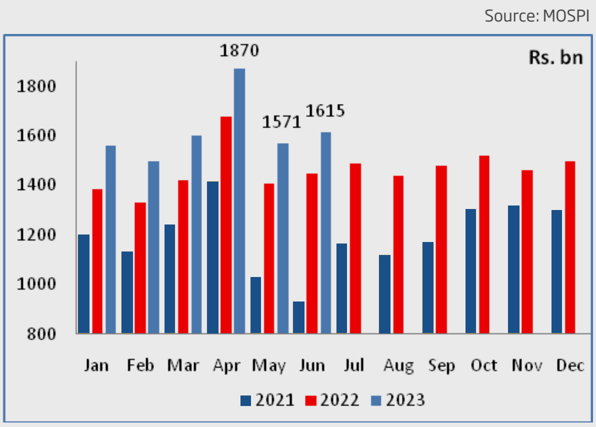
- Inflation (CPI) for May'23 stood at 4.3% vs 4.7% in Apr'23 as food CPI which constitutes 45.9% of the basket, moderated to 3.3% in May'23 from 4.2% in Apr'23. Within food, inflation for Cereals and Spices stood at 12.7% and 17.9% respectively.
- Fuel inflation which constitutes 6.8% of the CPI moderated to 4.6% in May'23 vs. 5.5% in Apr'23.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Apr'23 came at 4.2% vs. 1.7% growth during Mar'23 as Manufacturing and Mining output grew by 4.9% yoy and 5.1% yoy respectively. However, Electricity output declined by 1.1% yoy in May'23 vs. 1.6% fall in Mar'23.
- The increase in the Industrial production index reflects the gaining momentum in production activities.

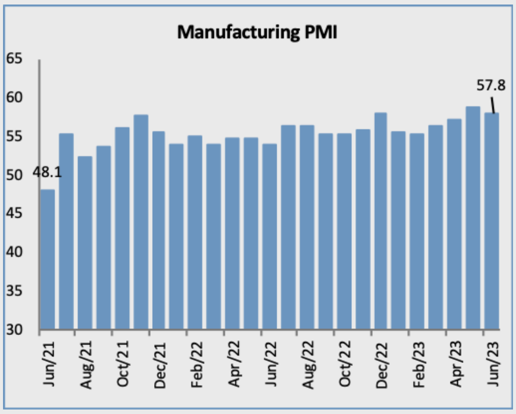
GST Collection (Rs. bn)



- GST revenues for the month of Jun'23 came at Rs. 1,615bn showing a 11.7% YoY as CSGT (22.6%), SGST (18.2%) and IGTS (5.8%) 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.

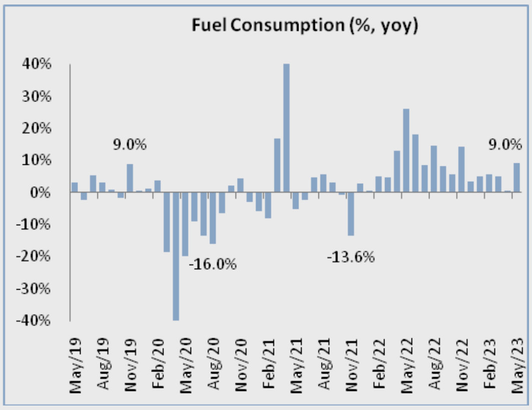
India Macro Review

PMI



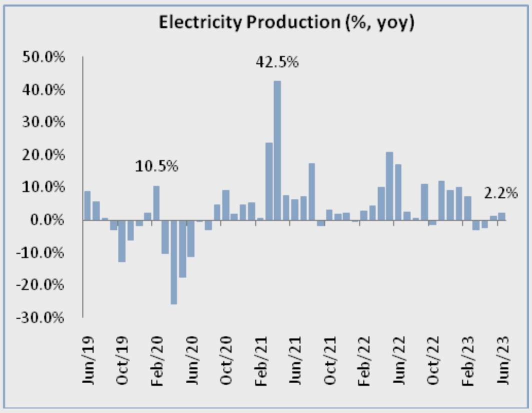
- PMI eased to 57.8 in Jun'23 from 58.7 in May'23. However, PMI still in expansion zone (>=50) suggesting the continued strength in orders pipeline, production and despite a slowdown being seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption growth at 9% in May'23 vs. 0.5% marginal growth in Apr'23. Within fuel category, consumption for petrol and diesel grew 11% and 12.8% respectively.

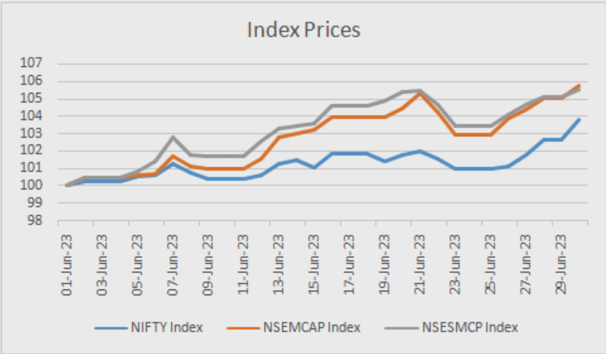
Electricity Production YoY Growth %



- Electricity production up 2.2% YoY in Jun'23 vs. 1.1% YoY in May'23. The marginal jump may be due to heat conditions and spurt in economic activities.

Equity Outlook and Positioning

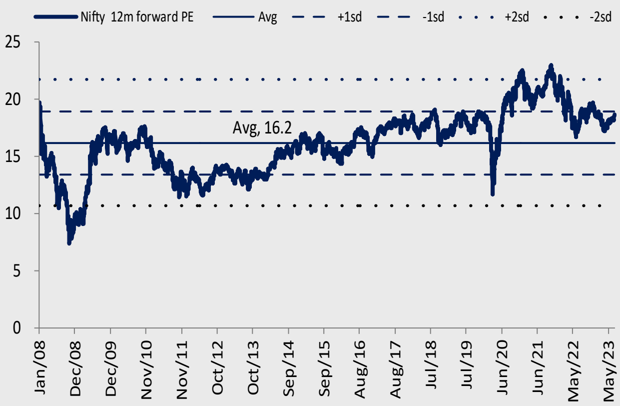
Monthly Index performance



Source: Bloomberg

- Equity markets posted a positive month in Jun'23 with large cap indices underperforming midcaps and smallcaps. Nifty 50 closed the month with a return of 4% while CNX Midcap Index gave a return of 5.5% and Small Cap at 5.8%.
- Outperforming sectors included Realty, Pharma, Auto and Infrastructure sector and Energy, FMCG, Bank and IT sector underperforming..

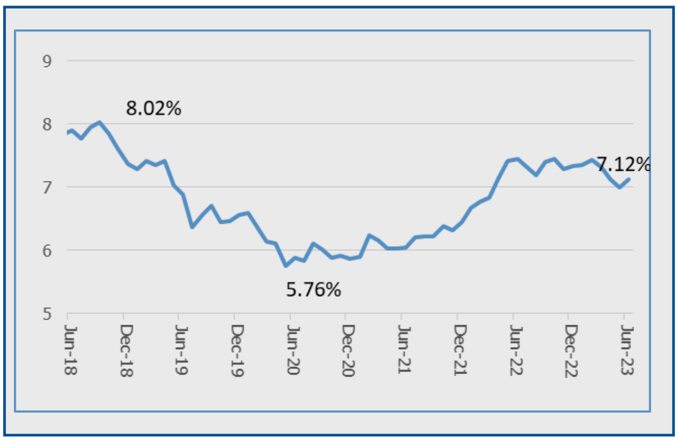
Nifty Valuation (1 year forward PE)



- After a roller-coaster ride of 18 months, Nifty 50 finally surpassed its previous all-time high and touched 19K mark in the month. Post strong recovery in the Indian economy and corporate earnings in FY22, FY23 was hit by a multitude of headwinds that dragged down equity markets on multiple occasions. These widespread challenges ranged from geopolitical tension (led by Russia-Ukraine conflict), spike in commodity prices (adversely impacting corporate margins), supply chain disruptions (covid-19 restrictions in China), sharp rate hikes by global central banks and cumulative FII outflows of USD 26bn in 18 months (over October 2021 – February 2023).
- Domestic inflows remained strong at USD 47bn during the same period providing strong downside support to the market. FII flows have bounced back strongly in the last four months, with cumulative inflows of USD 14bn (over Mar 2023 – June 2023) while DII flows continued to remain positive at USD 4bn during the same period. The sharp recovery in FII flows has pushed the index to an all-time high level.
- Equity markets are off to a flying start in FY24 with Nifty rising by 10.5%. Mid-caps and Small-caps have beaten Large-caps handsomely with Nifty Mid-cap 100 and Nifty Small-cap clocking gains of 19.0% and 20.5% respectively. RBI has pegged India's GDP growth forecast for FY24 at 6.5% making India fastest growing among major economies. However, nominal GDP growth is likely to moderate on back of easing inflation. Nifty earnings are projected to grow at 15% over FY23-25E. After the sharp rally Nifty has re-rated and is now trading at 18X FY25E, which is at a premium to its long-term average.

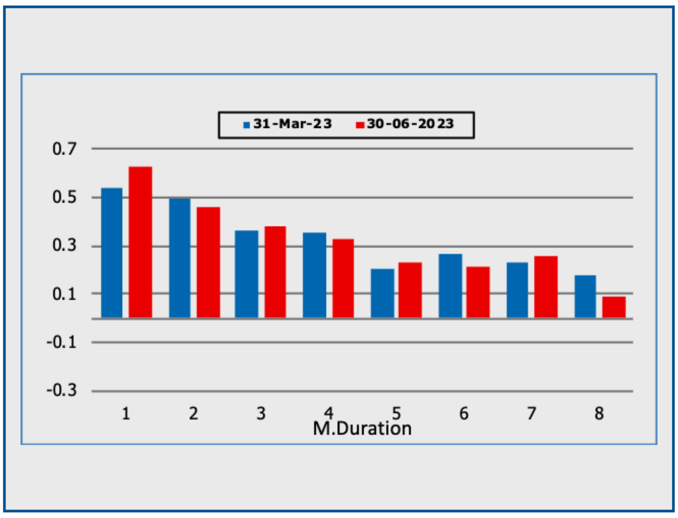
Debt Outlook and Positioning

India 10yr Gsec chart



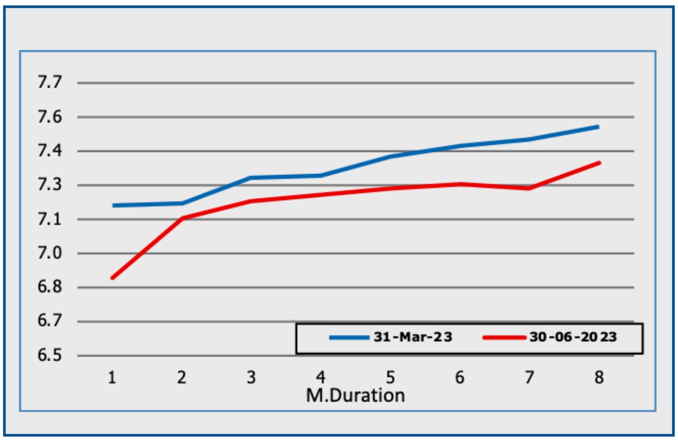
- Global bond yields continued to rise on the back of better than expected US data, show-casing a strong economy and a resilient labor market. After 10 consecutive hikes, the US FOMC decided to hold rates steady in June, but the Fed forecasts showed further rate hikes in the coming months.
- In India, the domestic 10yr benchmark bond yield rose, as net bond supply increased and global factors turned adverse, to close at 7.12% against 6.99% at the end of the previous month.

AAA Curve movement



- US CPI for April came at 4% against 4.9% in the previous month. In the US, real GDP expanded at an annualized rate of 2% in the first quarter of CY23, much higher than the market expectation of 1.4%.
- With recent US data highlighting robust growth, low unemployment coupled with higher than comfortable inflation, the US Fed is likely to raise rates when they meet again in July'23. US yields are likely to be volatile in the short term

G Sec Curve Movement



- The RBI is concerned about a rise in inflation pressures due to deficient rainfall led spike in food prices. Moreover, net supply of Government bonds will pick up in the coming months while the pent-up demand from long term investors is expected to wane. The adverse demand-supply balance, is expected to prevent bond yields from falling further in absence of positive cues and may creep higher with large supply of bonds. However, at higher yields, natural demand from long investors is likely to provide a cap on the yields, effectively keeping yields within a narrow range.

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