MONTHLY UPDATE
JUNE 2022

21 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

June, 2022

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

- *Warren Buffet*

Equity markets

Indices	30th Jun 2022	31st May 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	53,019	55,566	-5%	1%
S&P CNX Nifty	15,780	16,585	-5%	0%
BSE 100	16,014	16,888	-5%	0%
BSE Mid Cap	21,713	23,144	-6%	-4%
BSE Small Cap	24,786	26,371	-6%	-2%

Source: Bloomberg

During Jun'22, domestic equity indices had a weak performance - large cap indices fell 5% MoM while the mid and small cap index underperformed, down 6% 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 flat each while BSE Mid cap and Small cap index were down 4% and 2% respectively.

During Jun'22, performance across the sector indices was mixed. The performance ranged from -14% to +1%. Auto and FMCG sector outperformed; up 1% and down 3% respectively while Metals and Consumer Durables sector underperformed; down 14% and 9% respectively. On a 1-year basis, Utilities sector is the best performing sector gaining 48% followed by Auto and Capital Goods sector respectively. Healthcare and Metals are the bottom two sectors; down 16% and 17% each respectively.

The yield of benchmark 10-year G-sec moved to 7.45% at the end of Jun'22 from 7.42% at the end of May'22.

Global equity indices were mostly down during the month. The DAX and NASDAQ were the worst performing indices, down 11% and 9% respectively during the month. On a 1 year basis, FTSE 100 has gained the most, up 2% YoY.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	-2%	3%
Silver	-6%	-21%
Crude Oil	-7%	53%
Copper	-14%	-14%
Aluminum	-12%	-3%
Lead	-12%	-15%
Nickel	-20%	24%
Tin	-24%	-19%
Zinc	-19%	7%

All major commodities fell during Jun'22. Tin and Nickel fell the most, down 24% and 20% respectively.

On a YoY basis, most major commodities have posted YoY declines. Crude has appreciated the most up 53% 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

Nifty corrected by 5% in June22 while small and midcaps dropped a little more than Nifty. With this in Q1FY23, Nifty is down ~10%. Central bankers once again dominated the headlines with Fed and RBI both raising rates and sounding hawkish. Apart from that growth concerns continue to remain an overhang.

On the global front, Fed's hawkish stance continued. It hiked rate by 75bps – first such large hike since 1994. Further, it has guided for 50-75bps hike in the next meeting as well and another 175bps of rate hikes in 2022. While, some of the leading indicators of growth (real money supply growth, PMI new orders, housing sales, etc.) have slowed down, Fed statements display a significant worry on the inflation trajectory. It wants to see compelling evidence of disinflation before any ease off in the current hike cycle. Historically, inflation/wages lags demand indicators. If Fed continues on this path, then further volatility across asset classes, especially the risk assets is likely.

RBI too is now mimicking Fed's tone – raising repo rate by another 50bps in June, over and above the surprise rate hike done in May. Hence, as a result, in 3 months' time RBI has raised rates by 90bps.

Apart from RBI, government continues to intervene in order to contain inflation. After imposing wheat export ban and taxing steel exports, government has introduced a windfall oil tax on petroleum production and exports. The objective of the same appears to be to create fiscal space/lower pump prices. Hence, government too is taking measures to improve the macro-economic situation. Although, such tinkering of taxes could weigh on corporate sentiments and capex outlook of companies/investors.

On the domestic front, the high frequency data is on the improving trend. GST collections, continues to remain strong in June at INR1.4tn – remaining above these levels for 4th consecutive month. Apart from this manufacturing PMI, too was healthy, and low base along with improvement in activity lifted core sector growth and two wheeler sales. CPI inflation eased to 7% in May (vs. 7.8% in April) but still remained elevated. The recent measures announced by government and RBI's tightening should further ease inflation pressures going ahead.

On the flows front, FII outflows further increased to USD6.3bn in June (vs. USD4.8bn in May). With this Q1FY23 FII outflow was USD14bn – similar to that seen in Q4FY22. DII flows continued to remain strong during the month at USD6bn – however, they lagged FII flows. It remains to be seen how resilient DII flows can be amid rising interest rates.

Going ahead, near term outlook for markets remains cautious. While valuations have corrected to reasonable levels (Nifty is trading at 17x 1Y forward PE, at 5 year average), growth uncertainty persists. Also, policy focus continues to remain to tame inflation, rather than support growth which could weigh on earnings/markets in the near term. However, India's diversified earnings profile should act as a cushion against any steep downgrades. Indian markets long term earnings outlook continues to be robust. We believe investors should do well to navigate the near term with patience as we remain 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

After the surprise out-of-turn MPC meet and rate hike of 40 bps in May, in the June policy meet, the MPC unanimously hiked Repo rate by 50bps to 4.90% with the focus squarely on inflation. The MPC also dropped the phrase “remain accommodative” from its monetary policy stance. RBI also raised its CPI projection for FY23 sharply from 5.7% to 6.7%, while GDP projection retained at 7.2%. The US FOMC, in its June meeting, also raised the Fed funds target by 75bps, largest hike in almost 3 decades, as it aimed to tame inflation. Other large Central banks have also moved decisively towards tightening monetary policy. Brent Crude Oil prices continued to remain elevated as the Russia-Ukraine war carries on and western countries continue to impose fresh sanction on Russia. However, prices eased slightly during the month on fear of a sharp slowdown or outright recession, due to the sharp rate hikes, and closed lower at USD 115 per barrel, lower from the last month close of USD 123 per barrel. Inflation in US continued to remain elevated with inflation remaining above 8%. The US 10yr yield rose sharply to 3.47% during the month before cooling down to 3.01% for the month of June 22. The domestic 10yr benchmark bond also rose to a high of 7.62% during the month before closing at 7.45% against 7.42% at the end of the previous month.

Among data releases, India’s April CPI fell to 7.04% in the month of May’22 from its high of 7.79% in the month of April’22. Core inflation (CPI Ex-Food Ex-Fuel) dropped to 6.1% mostly on account of favorable base effect from its previous high of 7%. Headline WPI inflation increased to a fresh series high of 15.9% YoY in May 2022 from 15.1% YoY in April 2022.

India’s trade deficit expanded to an all-time high of $25.6bn in June from $24.2bn in May driven by lower exports, and higher oil and non-oil non-gold imports completely offsetting lower gold imports. Among other economic data, IIP growth for April 2022 came at 7.1%, higher than the reading of 1.9% in March 2022 on account of a favorable base effect. Goods and Services Tax (GST) revenue collection for June came at Rs 1,44,616 cr. India's Nikkei Markit Manufacturing PMI fell marginally to 53.9 in June 2022, against 54.6 in the previous month, and the Services PMI rose to 59.2 in June from 58.9 in the previous month. Composite PMI remained flattish at 58.2 in April 22 vs 58.3 in the previous month.

Market Outlook –

With central bankers across the world hiking interest rates to tame inflation, bond yields hardened across the globe. Although commodity price cooled down from their recent highs, they still remain high and with the ongoing war between Russia and Ukraine prolonging, further cooling off of oil prices look difficult. However, as Central banks move to hike interest rates rapidly, to curb rising inflation, fears of a slowdown in growth or outright recession have surfaced. Consequently, other industrial commodity prices have corrected over the last month.

With high trade deficit and capital flight to safety, INR continues to depreciate and is likely to keep pressure on RBI to tighten monetary policy further to stem the currency depreciation. While recessionary / growth slowdown fears are likely to cap the yields in the near term, Indian bond yields are likely to be volatile amid volatility in global bond yields and crude prices as well as domestic fiscal and currency pressures. The forthcoming inflation prints may help provide more clarity on bond yields, we expect that yields are likely to trade within a range in the near term.