

MONTHLY UPDATE

MAY 2023



Sar utha ke jiyο!

Market Outlook

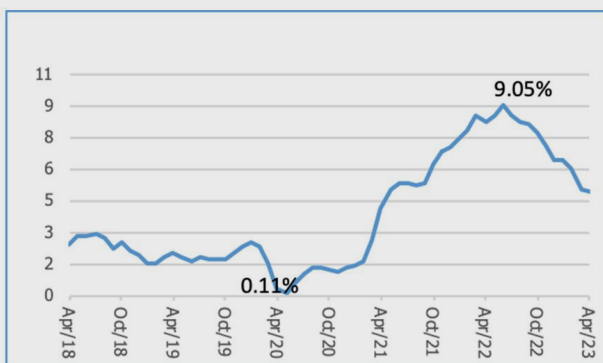
HDFC Life - Monthly Update (May 2023)



Global Macro Review

US CPI (%)

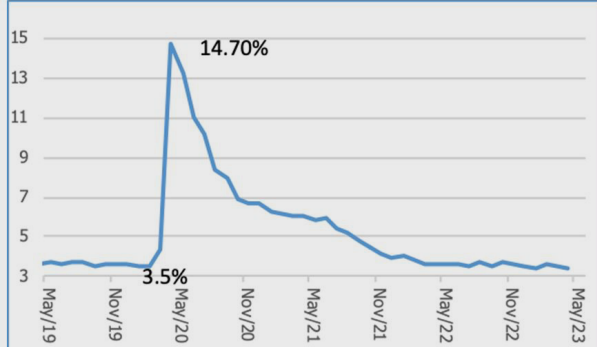
US CPI (%)



- US CPI for April'23 came in at 4.9% YoY, 10bps lower than the March print increasing bets that the US Fed could pause its interest rate hike cycle in June. However, core inflation remained sticky at 5.50% which pushed out market expectations of interest cut by Fed to 2024.
- The debt ceiling negotiation took the center stage through the month. However by the end of the month it was concluded with spending freeze. From the market perspective any cut in spending is fiscal positive and disinflationary.

US Unemployment Rate (%)

US Unemployment Rate (%)



- The US unemployment rate came surprisingly higher at 3.7% vs 3.4% for the month of May. Participation rate was flat at 62.6%, however the average hourly earnings slowed from 0.4% MoM in April to 0.3% in May reflecting some slowdown in labour market.
- Non Farm Payroll data surprised sharply to the upside for May printing at 339K. While upward revisions were made for April from 253k to 294k, the average monthly run rate for 2023 is tracking at 314K that is well above the 180K average witnessed in the pre-pandemic period

China CPI (%)

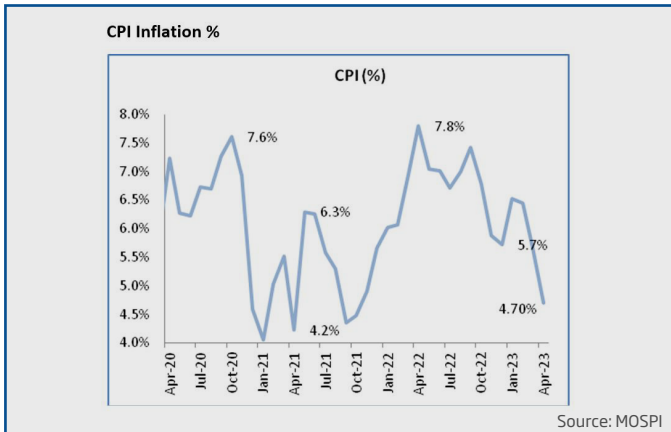
China CPI (%)



- Chinese CPI came in at 0.1% YoY for the month of April'23 Vs 0.7% in the previous month this was the lowest print since Feb 21, amid uneven economic recovery after removal of zero covid policy, with prices of both food and non food easing sharply.

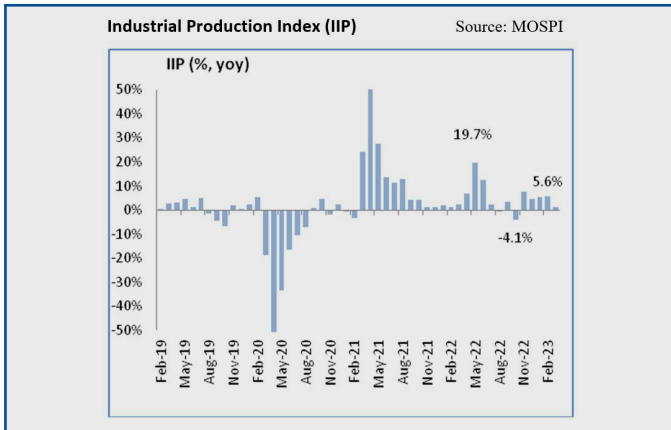
India Macro Review

CPI Inflation %



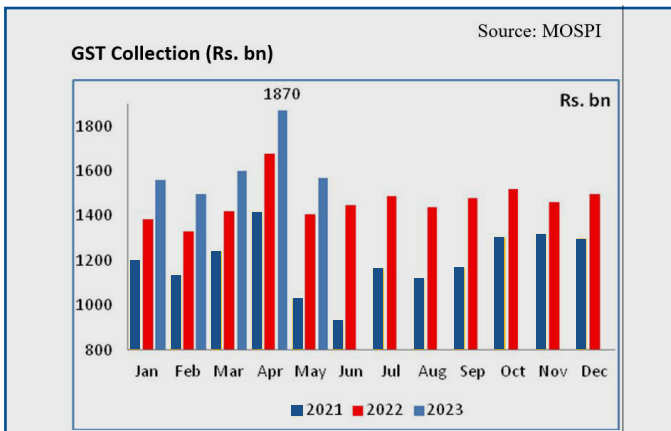
- Inflation (CPI) for Apr'23 stood at 4.7% vs 5.7% in Mar'23 as food CPI which constitutes the 45.9% has moderated to 4.2% in Apr'23 from 5.1% in Feb'23.
- Fuel inflation which constitutes 6.8% of the CPI basket has eased by 330bps to 5.5% in Apr'23 vs. 8.8% in Mar'23.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Mar'23 came at 1.1% vs. 5.8% growth during Feb'23 as Manufacturing output growth sharply decelerated to 0.5% in Apr'23 vs 5.6% in Mar'23. However, Mining output growth accelerated to 6.8% yoy in Mar'23 vs. 4.8% in Feb'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.

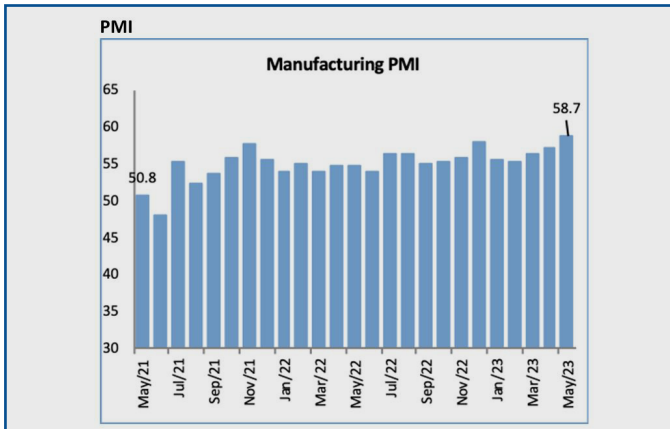
GST Collection (Rs. bn)



- GST revenues for the month of May'23 came at Rs. 1,571bn showing a 11.5% YoY as CSGT (13.5%), SGST (12%) and IGTS (10.9%) 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.

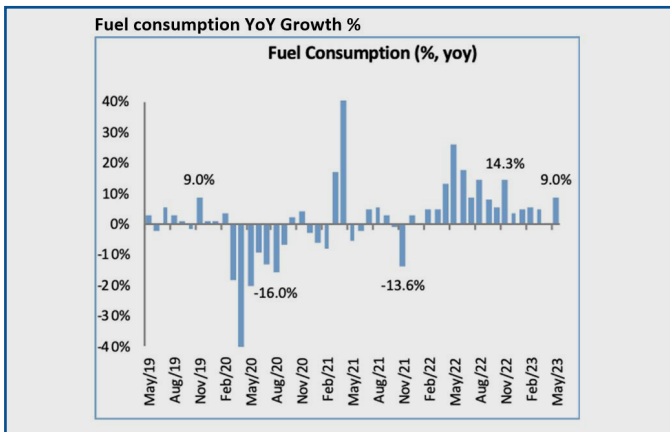
India Macro Review

PMI



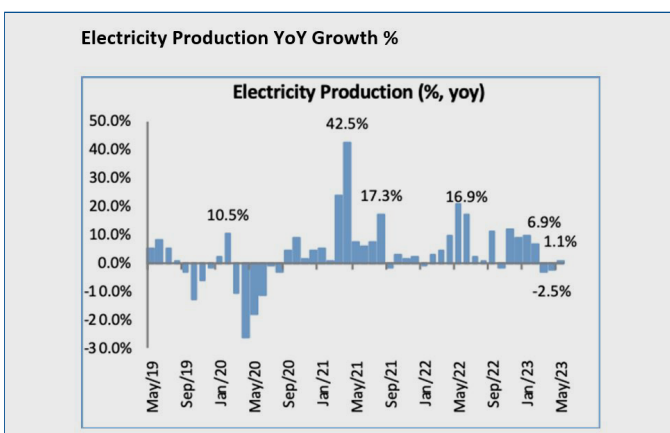
- Manufacturing PMI rose up to 58.7 in May'23 from 57.2 in Apr'23 on continued strength in orders pipeline, production and despite a slowdown being seen in the exports.

Fuel consumption YoY Growth %



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

Electricity Production YoY Growth %

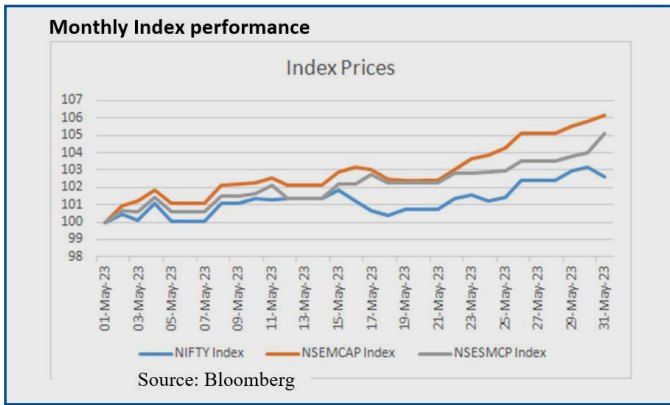


- Electricity production marginally grew by 1.1% YoY in May'23 vs. -2.5% YoY in Apr'23 and - 3% YoY in Mar'23. The electricity production is up due to high demand during summers

- The previous year saw weak production on account of coal shortages and resultant weak generation at both domestic and imported coal power plants.

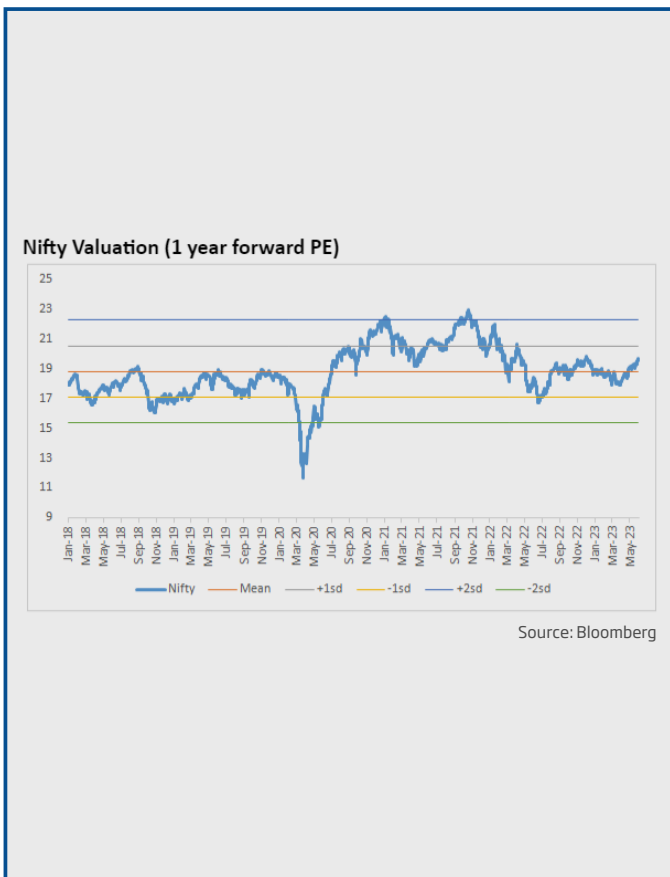
Equity Outlook and Positioning

Monthly Index performance



- Equity markets posted a positive month in May'23 with midcap and smallcap outperforming large cap indices. Nifty 50 closed the month with a return of 3% while CNX Midcap Index gave a return of 26% and Small Cap at 5%.
- Auto sector was the best performing sector gaining 4.75% followed by Real estate, IT and Consumer Durables sector. Metals sector was the biggest underperformer correcting by 6.13% followed by Oil & gas and Capital goods sector.

Nifty Valuation (1 year forward PE)



- India's macroeconomic outlook has improved with a relatively comfortable inflation trajectory and an improving outlook on current account deficit. The interest rates seem to have peaked in the current cycle in our view. RBI has also paused its rate hike cycle at its April and June meetings
- Q4FY24 earnings clearly suggested a divergence between domestic and global oriented sectors. Export oriented sectors (IT, pharma, chemicals) saw meaningful earnings cuts with most companies guiding for subdued outlook. However, for domestic oriented companies demand improved (although not fully recovered), with domestic auto, industrials and financials posting strong topline along with healthy order inflows. Apart from this, margins (which were sour point over the last year) seem to be improving for domestic oriented companies as input price pressures fade. This divergence is reflected in earnings downgrades trend as well which saw exporters and commodity company earnings getting downgraded but financials and domestic auto sector earnings witnessed upgrades.
- Over FY23-25, Nifty earnings are projected to grow at ~15%. Nifty is currently trading at a valuation of ~17.0x FY25. 1-yr forward valuations are higher than long term averages. Nonetheless, medium term outlook remains quite strong and hence long-term investors should use the current volatility to add to equities.

Debt Outlook and Positioning

India 10yr Gsec chart

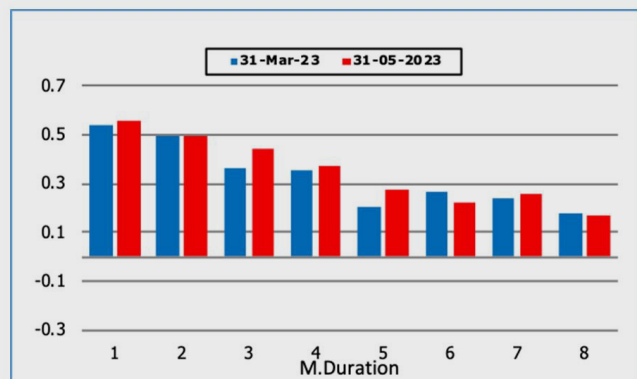
India 10yr Gsec chart



- Global bond yields rose last month. In the May FOMC meet, at the beginning of the month, the Fed raised its benchmark borrowing rate by 25 bps to 5.00%-5.25% in line with market expectation
- Contrary to the rest of the world, Indian bond yields continued to fall on robust domestic demand, as the month had large bond maturities, helping keep the net supply of bonds quite low.

AAA Curve movement

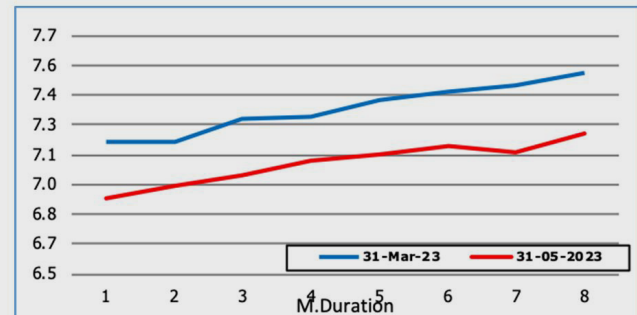
AAA Curve movement



- In May, the US 10yr yield rose sharply and touched a high of 3.83% before closing at 3.64% higher than its previous close of 3.42%. The domestic 10yr benchmark bond saw a sharp fall, as it touched a low of 6.94% during the month but closed at 6.99% against 7.12% at the end of the previous month.

G Sec Curve Movement

G Sec Curve Movement



- With May having low net supply of government bonds, net demand outpaced net supply of bonds, helping the fall in bond yields. However pent-up demand from mutual funds, insurance companies and large pension funds is likely to wane gradually as net supply of bonds increase in the coming months due to low maturities.
- With risks evenly balanced, bond markets are likely to be in a tight range unless surprised by large deviations in inflation / growth.



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