

# MONTHLY UPDATE

## NOVEMBER 2023



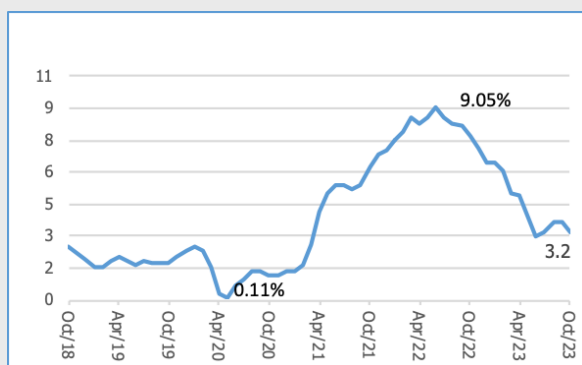
# Market Outlook

## HDFC Life - Monthly Update ( December 2023 )



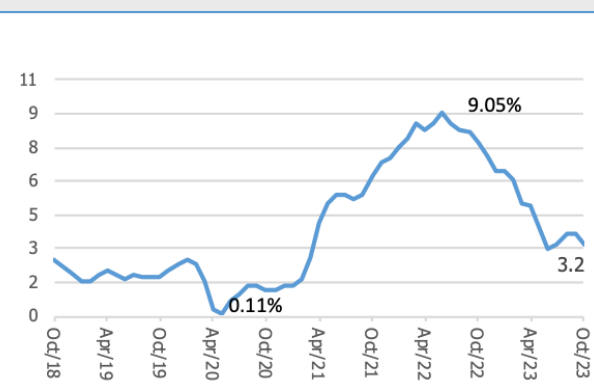
### Global Macro Review

#### US CPI (%)



■ US CPI for Oct'23 came in at 3.2% YoY vs 3.7% in the last month, while it remained unchanged on sequential basis. Another positive came from core which came at 0.2% vs 0.3% on MoM basis reflecting fall in demand side of inflation. Overall, the release confirms disinflation is unfolding on a broader basis across categories. The release strengthens expectations that the FOMC will maintain status quo in the December meeting and limit the need for further tightening.

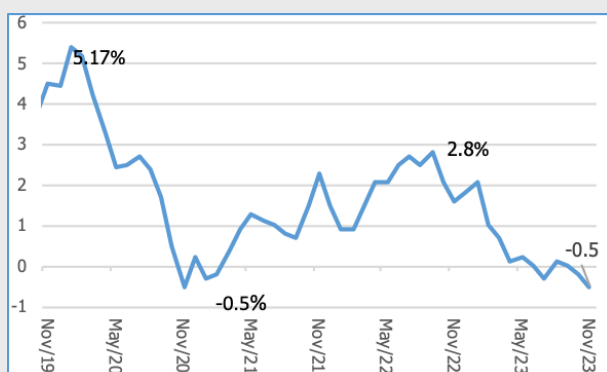
#### US Unemployment Rate (%)



■ The US unemployment rate moved lower to 3.7% in Nov from 3.9% in October. The fall in unemployment is largely due to striking workers joining back. However the job opening rate continue to show decline and came in at 5.3%, lower by 0.3% over the month and 1.1% over the year.

■ US NFP which is measured from the establishment survey, printed at 199K that was higher than expectations of 180K in November, though remains below the average monthly gain of 233K witnessed over the prior 12 months. The payrolls figures for the previous two months was revised marginally lower by 35K. However the robust labour market report for November is expected to reinforce the stance for restrictive monetary regime for a longer period.

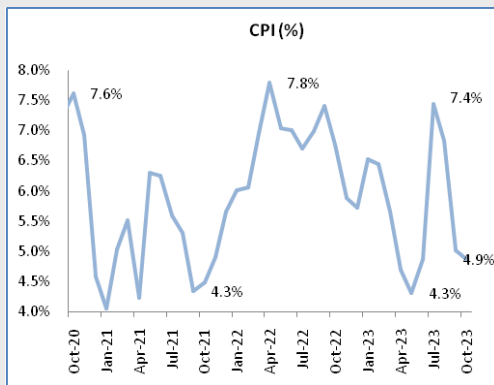
#### China CPI (%)



■ Chinese CPI came in at -0.5% YoY for the month of Nov'23 Vs -0.2% in the previous month. The latest data indicates persistent deflationary pressure and raises concern about the sustainability of the economic recovery due to sluggish demand. Global ratings agency Moody's Investors Service downgraded the outlook on China's credit rating to "negative" from "stable," citing expectations of lower medium-term economic growth and risks from a deep correction in the country's vast property sector.

## India Macro Review

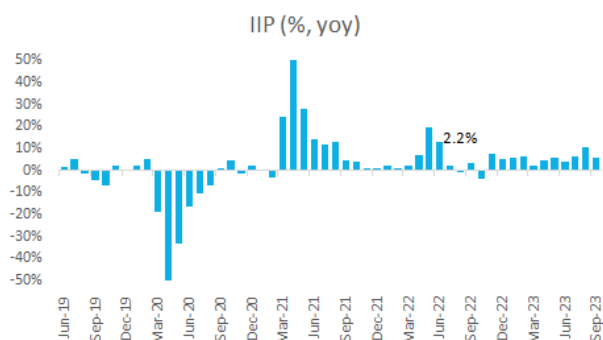
### CPI Inflation %



Source: MOSPI

- Inflation (CPI) for Oct'23 stood at 4.9% vs 5% in Sep'23 as food CPI which constitutes the 45.9% has eased to 6.2% in Oct'23 from 6.3% in Sep'23. Within food, inflation for Pulses, Spices and Cereals remains elevated.
- Fuel inflation which constitutes 6.8% of the CPI contracted by 0.4% in Oct'23 vs. 0.1% fall in Sep'23.

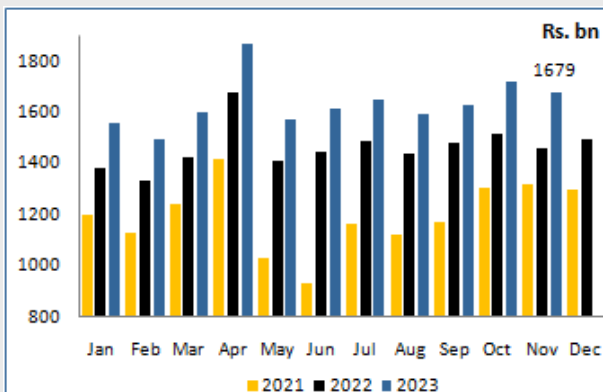
### Industrial Production Index (IIP)



Source: MOSPI

- Industrial Production (IIP) growth for Sep'23 came at 5.8% as Manufacturing output (4.5% in Sep'23), Mining output (11.5% in Sep'23), Electricity output (9.9% in Sep'23) have accelerated sharply.
- 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.

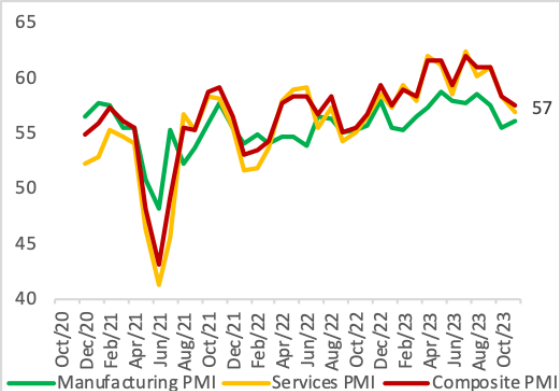
### GST Collection (Rs. b)



- GST revenues for the month of Nov'23 came at Rs. 1,679bn showing a 15.1% YoY as CSGT (18.5%), SGST (17.1%) and IGTS (12.8%) increased sharply.
- Avg. monthly GST collections have increased to Rs. 1.7 lakh crore in 11M FY24 vs. Rs. 1.5 lakh crore in 11M FY23 and Rs. 1.2 lakh crore in 11M FY22 continuing to display very high buoyancy.

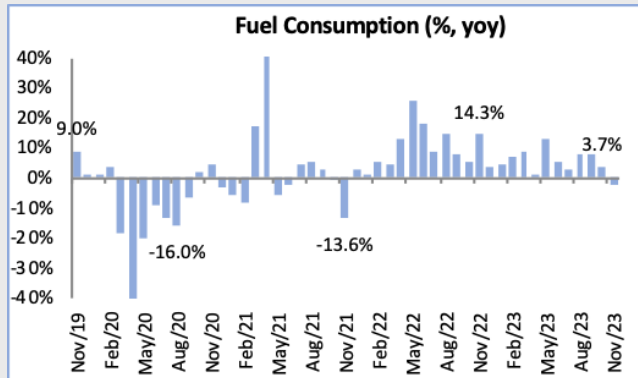
## India Macro Review

### PMI



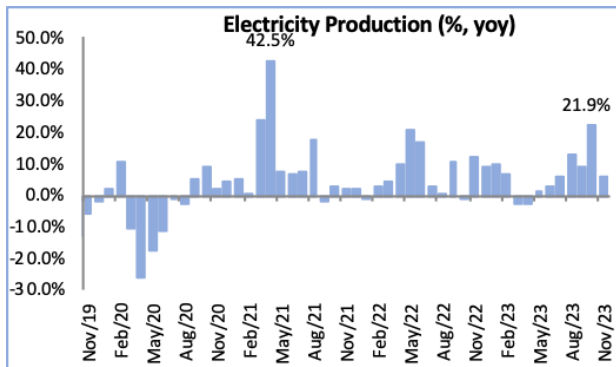
- PMI (Manufacturing) increased to 56 in Nov'23 from 55.5 in Oct'23. However, PMI still in expansion zone ( $\geq 50$ ) suggesting the continued strength in orders pipeline, production despite a slowdown being seen in the exports.

### Fuel consumption YoY Growth %



- Fuel consumption declined by 2% in Nov'23 vs. 3.7% growth in Oct'23. Within fuel category, Consumption for diesel declined by 3%. However, petrol consumption up 9.4% yoy in Nov'23

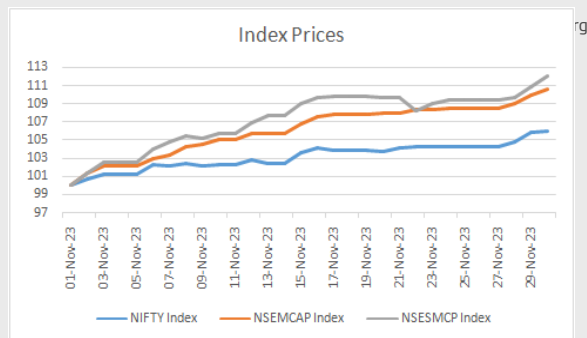
### Electricity Production YoY Growth %



- Electricity production was up 6.1% YoY in Nov'23 vs. 21.9% YoY in Oct'23. The jump in electricity production was estimated to be due to festive demand.

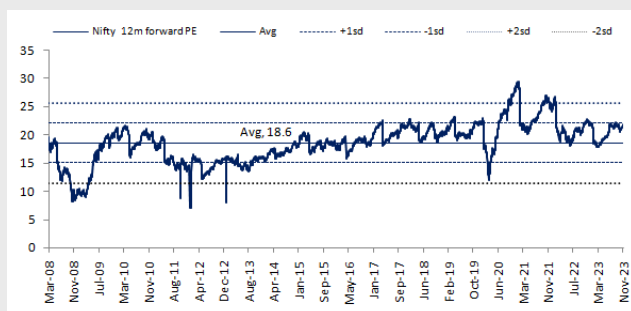
## Equity Outlook and Positioning

### Monthly Index performance



- Equity markets posted a positive month in Nov'23 though large cap indices underperformed midcaps and smallcaps. Nifty 50 closed the month with a return of 6% while CNX Midcap Index gave a return of 11% and Small Cap at 12%.
- Outperforming sectors included Real Estate, Pharma, Oil & gas, Power, Metals, Capital Goods, Consumer Durables, IT and Automobiles while Banking and FMCG were the underperforming sectors

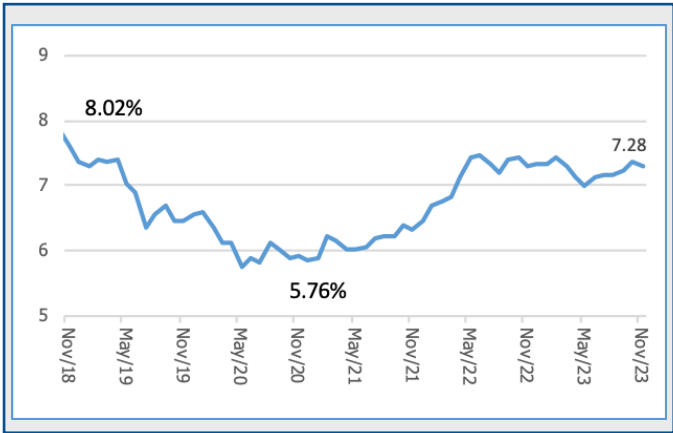
### Nifty Valuation (1 year forward PE)



- Markets are expected to be volatile as expectations swing between US economy hard vs soft landing, India's general elections outcome, geopolitical conflicts' impact on crude and impact on Indian markets from Chinese stimulus measures. However, the longer-term growth prospects remain intact with strong corporate and bank balance sheets and governments' capex push.
- While valuations are higher than longer term averages, the reduced risk of any electoral uncertainty next year post elections and growing expectations of imminent rate cuts in the US may sustain the Indian markets' valuations. While we remain cautious in the near term especially with regards to mid and small caps it is possible that the bullish sentiment of domestic retail investors may get further strengthened by the ruling party's performance in the state elections and the hitherto muted sentiment among FPIs may also see a positive change.
- Nifty earnings over FY23-25 are now expected to grow at a CAGR of 13.8%. Nifty is currently trading at a valuation of 21.4x FY24 and 19.1x FY25. 1-yr forward valuations are higher than long term averages. We continue to be cautious in the short term. However, 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.

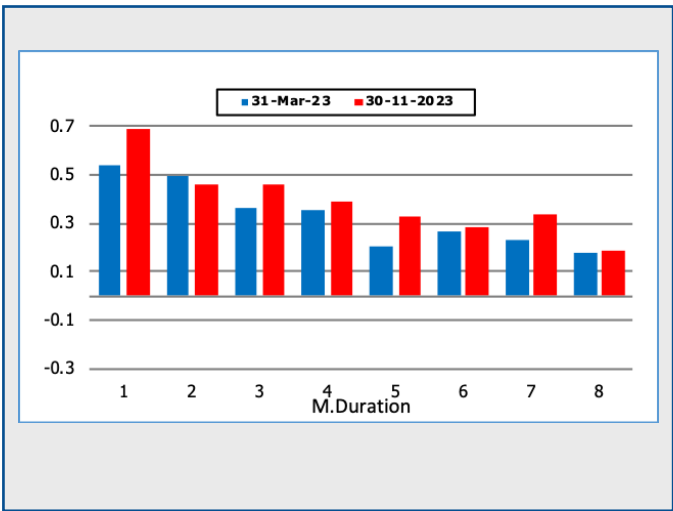
Debt Outlook and Positioning

India 10yr Gsec chart



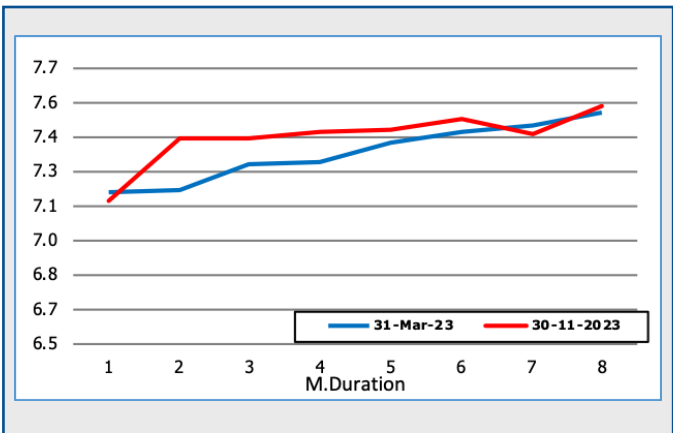
- US bond yields fell sharply by almost 61bp due to macroeconomics data surprising on the down side - lower than expected CPI data and fall in crude prices led to a rally in bond prices. Similarly, soft inflation prints in the UK and EU showed that inflation was falling in other parts of the globe as well. Lower than expected macro data releases prompted the market to price-in an earlier rate cut cycle in 2024.
- In India, the 10yr benchmark yield eased by 7bps from 7.36% to 7.28% tracking fall in global yields. Indian bond markets have been relatively less volatile than US markets.

AAA Curve movement



- At the recently concluded RBI policy, RBI continues to remain on hold and left the stance unchanged. However, the RBI reiterated its focus on getting inflation down to 4% on a durable basis. RBI also revised its growth forecast for FY24 to 7% (earlier 6.5%), but maintained its inflation forecast at 5.4%.

G Sec Curve Movement



- -Bond market is in a prolonged pause mode. As the market gains greater conviction of an end to the rate hike cycle, and rate cuts get visible, bond yields will start trading with a softening bias. Supply-demand dynamics are also expected to get more favourable as the bond index inclusion flows pick up over the coming months.



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