MONTHLY UPDATE
OCTOBER 2022

21 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Oct, 2022

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

- *Warren Buffet*

Equity markets

Indices	31st Oct 2022	30th Sep 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	60,747	57,427	5%	2%
S&P CNX Nifty	18,012	17,094	5%	2%
BSE 100	18,406	17,575	5%	3%
BSE Mid Cap	25,359	24,854	2%	0%
BSE Small Cap	28,818	28,453	1%	3%

Source: Bloomberg

During Oct'22, domestic equity indices bounced back post a weak September – Large cap indices rose 5% MoM while the Small and Mid cap Indices underperformed, up 1% and 2% MoM, respectively. On a 1-year basis, the Large Cap indices have underperformed the Small cap index. Over the past one year, Sensex and Nifty were up 2% each while BSE Mid cap and Small cap Index were flat and up 3% respectively.

During Oct'22, performance across the sector indices was mixed. The performance ranged from 0% to +7%. Banks and Capital Goods sector outperformed the most; up 7% each while FMCG and Consumer Durables sector underperformed; flat MoM. On a 1-year basis, Utilities sector is the best performing sector gaining 46% followed by Capital Goods and Auto sector respectively. IT and Real Estate are the bottom two sectors; down 14% and 12% each respectively.

The yield of benchmark 10-year G-sec moved to 7.45% at the end of Oct'22 from 7.4% at the end of Sep'22.

Most global equity indices rose during the month. The HANGSENG and SHANGHAI Index were the worst performing indices, down 15% and 4% each respectively during the month while the DOW JONES Index rose the most, up 14% MoM. On a 1 year basis, FTSE fell the least, down 2% YoY.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	-1%	-8%
Silver	0%	-20%
Crude Oil	8%	12%
Copper	-1%	-23%
Aluminum	3%	-18%
Lead	3%	-18%
Nickel	3%	11%
Tin	-15%	-54%
Zinc	-10%	-21%

Major commodities had a mixed performance during Oct'22. Zinc and Tin fell the most, down 10% and 15% each, respectively. Crude rose the most, up 8% MoM.

On a YoY basis, most major commodities have posted declines. Crude has appreciated the most up 12% YoY.

Source: Bloomberg

Macro Economic Data

Indicators	Jul-22	Aug-22	Sep-22	Oct-22	Comments
IIP (YoY, %)	2.2%	-0.8%			Industrial output declined by 0.8% yoy in Aug'22 vs. 2.2% yoy growth in Jul'22, mainly led by the fall in Mining output (-3.9% yoy in Aug'22) and Manufacturing output (-0.7% yoy in Aug'22)
Core Sector (YoY, %)	4.5%	4.1%	7.9%		Core sector output grew by 7.9% yoy in Sep'22 led by the increase in coal output (12% yoy), Cement (12.1%) and fertilizers (11.8%).
RBI monetary policy (Repo Rate) (%)	4.90	5.40	5.90	5.90	Repo rate stood at 5.9% in Oct'22. RBI has increased the Repo rate by 190bps in the CY22 YTD.
CPI inflation (%)	6.7%	7.0%	7.4%		CPI inflation increased to 7.4% in Sep'22 from 7% in Aug'22, led by the jump in food inflation from 7.6% in Aug'22 to 8.4% in Sep'22
Trade Deficit ($, bn)	-27.8	-28.0	-25.7		In Sep'22, exports increased by 4.9% yoy to $35.5bn, while imports grew by 8.7% yoy to $61.2bn, as a result trade deficit marginally narrowed to $25.7bn in Sep'22 vs. $28bn in Aug'22.
GST Collection ($, bn)	1490	1436	1477	1517	Total gross GST revenue collections in Oct'22 stood at Rs. 1,517bn, following Rs. 1,477bn collection in Sep'22.
FII Flows-Equity ($, bn)	0.62	6.44	-0.90	0.0	On equity side, FPIs sold $0.5mn in Oct'22, following an outflow of $0.9bn in Sep'22. On debt side, FII sold $0.43bn in Oct'22, following an inflow of $0.5bn in Sep'22.
FII Flows-Debt ($, bn)	-0.26	0.48	0.51	-0.43	
Exchange Rate (INR/USD)	79.42	79.72	81.55	82.39	Indian Rupee depreciated by 1% during Oct'22, as it closed at 82.4 in the end of Oct'22 from 81.6 at the end of Sep'22 per dollar.
GDP (%)					Real GDP grew by 13.5% in Q1 FY23 led by the sharp in investment (19.3% in Q1 FY23) and HH consumption (25.9% in Q1 FY23)

Outlook

There was a coordinated rally in Global Equity Markets in October with all markets, with the exception of China and Hong Kong, posting handsome gains. MSCI World posted a return of 7.1% while MSCI Emerging Markets was negative at -3.2% due to China (-4.3%) and Hong Kong (-14.7%). Most developed markets performed well with S&P500 and Nasdaq returning 8.0% and 3.9% respectively, Germany 9.4%, France 8.8% and Japan 6.4%.

Commodities had a mixed month with Aluminum, Nickel and Lead doing well while Copper, Steel, Zinc and Tin underperformed. With some cut in output by OPEC+ and winter demand approaching, Brent Crude gained 8.3% during the month and is now trading at $93/bbl. This, coupled with Rupee depreciation, has once again started putting additional pressure on India's external and fiscal balance.

The US Federal Reserve, on 2nd November, raised the target range for the fed funds rate by another 75bps to 3.75%-4.00%. This was the fourth consecutive 75bps rate hike. With the latest hike, the Fed has so far taken a cumulative increase of 3.75% in the current cycle and calendar year. RBI, on its part, had hiked the repo rate by 50bps on 30th September to 5.9%, taking a cumulative 190bps increase in the current cycle. With all central banks acting together, global growth is going to take a hit and inflation is expected to eventually start easing off.

Meanwhile, the Russia-Ukraine conflict, currently in its ninth month, has still not shown any signs of a possible resolution. Next few months will see heightened uncertainty as the gas demand usually goes up during winters but the supply situation remains unclear, further worsened by a possible Russian retaliation to US backed measures to cap Russian oil & gas prices. The consequent global risk-off has already resulted in USD 22.4bn of FII outflows from India in YTD CY22. But after the selling witnessed in September, FII were marginal buyers in October with a net inflow of USD 186mn. DIIs continued to be net buyers with net investments of USD 1.1bn in October and a cumulative investment of USD33.6bn in YTD CY22.

In the ongoing Q2FY23 result season, while there hasn't been a material cut in overall Nifty earnings, the trends at a sectoral level have been quite mixed. Financials has been a standout sector with very good performance on all fronts including growth, net interest margins and asset quality. The pressure on operating cost also eased this quarter further aiding the overall performance and resulting in earnings upgrades across the board. IT companies reported a decent revenue print but some moderation was visible in order booking and commentary. Some discretionary consumer categories like automobiles, retail and hotels have done well, partly aided by festival demand and store expansions. But performance in staples and categories like paints has been subdued. Margins in most consumer companies were impacted because of use of high cost inventory this quarter. This pressure on margins should ease to some extent going forward.

Expectations of Nifty earnings growth have moderated to some extent over the last few months. Earnings are now expected to grow at a CAGR of 13% over FY22-24. Near term is likely to be volatile given multiple headwinds, ranging from geo-politics to inflation to extent of rate hikes and pressure on earnings from slowdown and margins. In this overall context, valuations after the current rally at 19.1xFY24 earnings are quite full, making us cautious in the short term. However, we would be 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

Global bond yields continued to harden in October, led by a sharp rise in UK yields on the back of aggressive tax cut announcements leading to a high risk of fiscal slippage. US Treasury yields, too hardened as markets priced in continued rate hikes after strong economic data and persistence of elevated inflation. The US CPI for September remained elevated at 8.2% YoY and core CPI increased by 6.6% YoY, the highest level since 1982. UK inflation remained elevated at 10.1% in the month of September, higher than 9.9% in August. Eurozone inflation hit a new record high of 10.7% in the month of October. On the domestic front the Rupee depreciation continued to roil Indian bond markets as it touched a high of 83.25 per USD, during the month. Brent crude prices rose again as the Nord stream gas pipeline was shut off indefinitely on account of gas leaks fueling fears of high energy prices. Brent crude prices rose to USD 94.83 per barrel compared to its previous close of USD 87.96 per barrel.

The US 10yr yield continued to climb during the month to touch a high of 4.25% during the month but closed lower at 4.05% but still higher than its previous close of 3.83%. The domestic 10yr benchmark bond rose to an intra-month high of 7.53%, tracking the rise in global yields, before closing the month at 7.45% against 7.40% at the end of the previous month. The Indian Rupee depreciated to 83.25/ USD during the month before closing at 82.47 against 81.35 in the previous month. At the beginning of November, the US Fed raised the rates by 75bps for the 4th consecutive time and guided for higher rates although the pace of future rate hikes could be slower.

India's CPI rose to 7.41% for the month of September from 7% in the previous month driven mainly by higher prices for vegetables, cereals, spices, meat and fish, and pulses. Core inflation (CPI Ex-Food Ex-Fuel) rose to 6.2%. The worry for inflation was a pick-up in food prices after crop damages due to delayed withdrawal of monsoons. Headline WPI inflation eased to a 17month low of 10.7% YoY in September 2022 from 12.4% YoY in August 2022 due to a decline in prices of heavy-weight manufactured products.

India's trade deficit softened from the previous month's $28.7bn to a still elevated figure of $25.7bn in September. Among other economic data, IIP growth for August 2022 contracted by -0.8%, lower than the revised reading of 2.2% in July 2022. Goods and Services Tax (GST) revenue collection for October came at Rs 1.52lac cr, the second highest ever. India's Nikkei Markit Manufacturing PMI rose marginally to 55.3 in October 2022, against 55.1 in the previous month, and the Services PMI fell to 54.3 in September from 57.2 in the previous month. Composite PMI fell to 55.1 in September 22 vs 58.2 in the previous month.

Market Outlook –

The persistence of elevated inflation across the globe continues to keep central bankers vigilant leading to markets pricing in higher terminal policy interest rates. The strength in US economic data does not provide any window for the Fed to ease its monetary policy stance. With US Fed expected to continue to raise rates, RBI will have to be cognizant of global developments and rate hikes to calibrate its actions. The continued tightening of the US monetary policy coupled with higher domestic trade deficit is expected to keep the Indian rupee under pressure. The RBI is expected to maintain its tight monetary policy in this environment to help support the Rupee.

Domestic bond markets are expected to closely track global data to take further cues. With India inflation likely peaking in the last month, expectations of an easing trend in inflation prints in the coming months, may temper any rise in bond yields. Indian bonds yields are likely to remain in a range with upward bias.

However, we remain watchful of developments on the global inflation and growth data. Any cooling of growth and inflation indicators, after the series of sharp rate hikes, can lead to markets pricing in an early pause from the Central banks and bonds yields cooling off thereafter.