MONTHLY UPDATE
SEPTEMBER 2023

22 YEARS
Protecting India with Pride

HDFC Life
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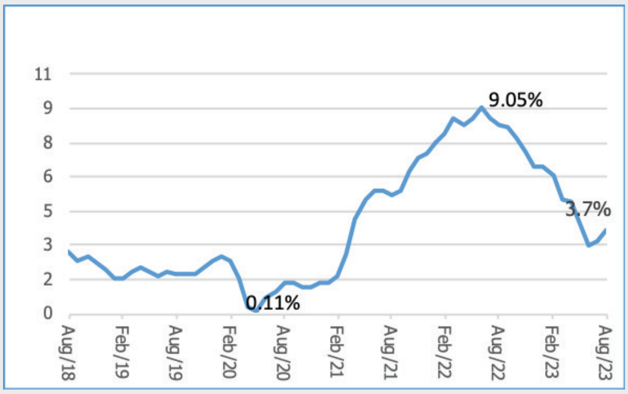
Market Outlook

HDFC Life - Monthly Update (Oct - 2023)

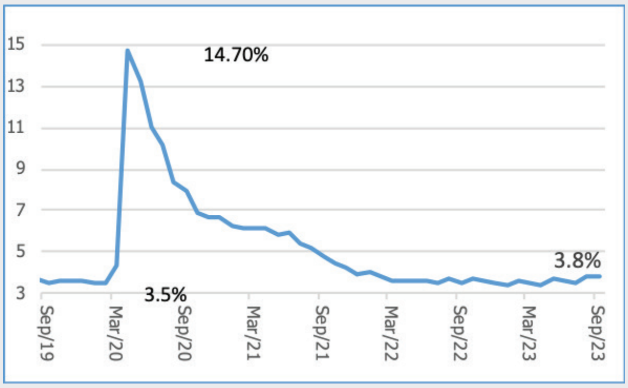
Global Macro Review

US CPI (%)



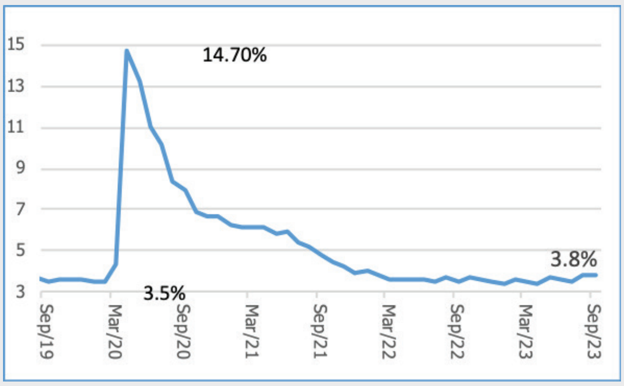
- US CPI for Aug'23 came in at 3.7% YoY, higher than the expectations of 3.6% and compared to 3.2% in July.The uptick in momentum was caused by a sharp rise in energy prices while the core services remained firm.Upside risks to US CPI inflation remain in place from rising energy price, stablization in house prices and tight labour market.
- The FOMC maintained status quo on both policy rates and QT, although it provided a much more hawkish guidance than expected to take in to account the fact that the economy is moving in sync with a 'soft-landing' scenario.The dot-plot showed that the terminal rate would remain at 5.6% for 2023 implying that another 25bps rate hike could be on the cards.

US Unemployment Rate (%)



- The US unemployment rate remained unchanged at 3.8% in September from the previous month and slightly above market expecatation of 3.7%. Also praticipation rate continued to remain unchanged at 62.8% from the previous month. However hourly earnings fell to 4.2% yoy in September vs 4.3% in August.
- US NFP surprised meaningfully on the upside printing at 336K (expectations:170K). It is the strongest growth in 8 months signalling labor market remains resilient despite the Fed tightening.

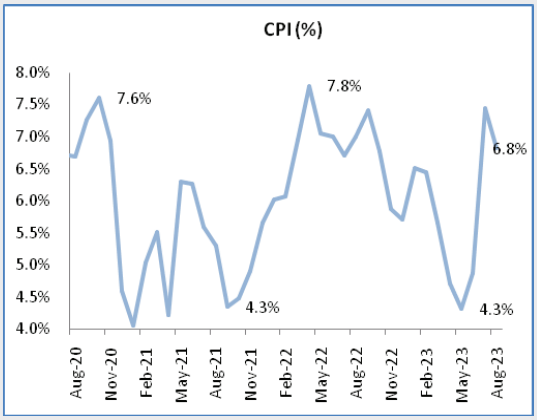
China CPI (%)



- Chinese CPI came in at 0.1% YoY for the month of Aug'23 Vs -0.1% in the previous month. This was largely due to rise in non- food price and fading base effect of last year. However the deflationary impulse has receded with PPI inflation at -3% YoY in August 2023 from -4.4% YoY in July due to fiscal and monetary stimulus undertaken. However, the measures seem to have had a muted impact due to continued property sector slump, weak consumer spending, high debt and rising geopolitical tension.

India Macro Review

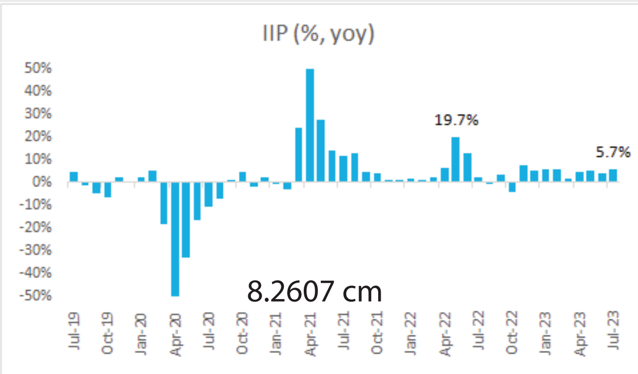
CPI Inflation %



Source: MOSPI

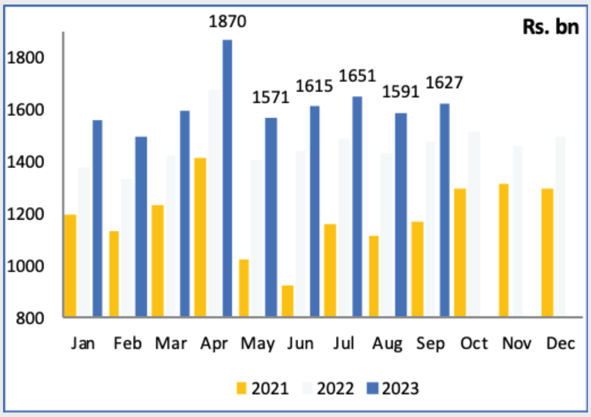
- Inflation (CPI) for Aug'23 stood at 6.83% vs 7.44% in Jul'23 as food CPI which constitutes about 45.9% weight has eased to 9.2% in Aug'23 from 10.6% in Jul'23. Within food, however, inflation for Spices, Pulses, and Cereals remains elevated.
- Fuel inflation which constitutes 6.8% of the CPI rose to 4.3% in Aug'23 vs. 3.7% in Jul'23.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Jul'23 came at 5.7% vs. 3.8% growth during Jun'23 as manufacturing output (4.6% in Jul'23 vs. 3.1% in Jun'23), Mining output (10.7% in Jul'23 vs. 7.6%in Jun'23), Electricity output (8% in Jul'23 vs. 4.2% in Jun'23) have seen an improvement.
- The increase in the Industrial production index reflects the gaining momentum in production activities. Though, Monthly IIP nos can be volatile and difficult to draw a trend from the same.

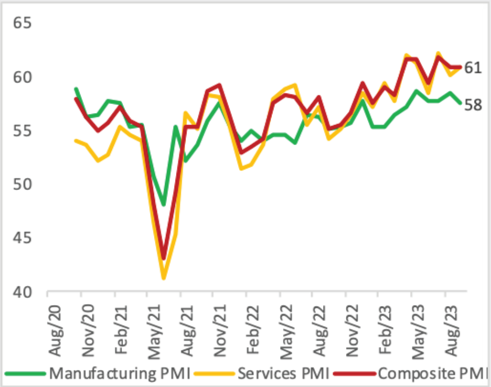
GST Collection (Rs. bn)



- GST revenues for the month of Sep'23 came at Rs. 1,627bn showing a 10% YoY as CSGT (18%), SGST (18.4%) and IGTS (3.9%) increased sharply.
- Avg. monthly GST collections have increased to Rs. 1.7 lakh crore in FY23 vs. Rs. 1.5 lakh crore in FY22 and Rs. 1 lakh crore in FY20 continuing to display very high buoyancy.

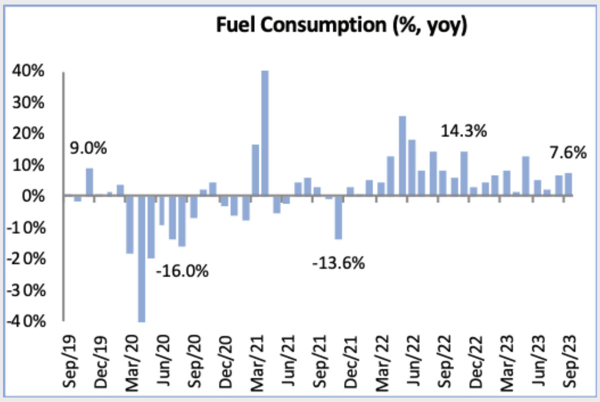
India Macro Review

PMI



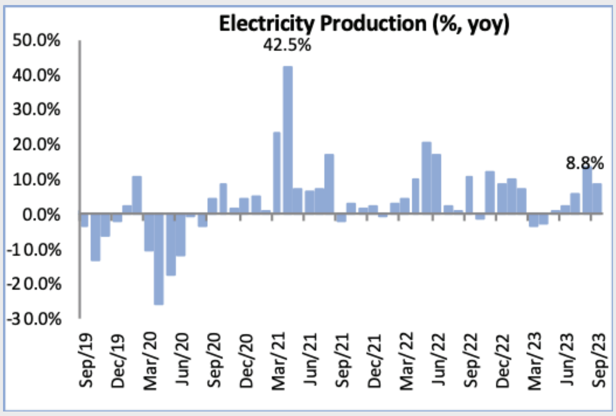
- Mfg PMI eased to 57.5 in Sep'23 from 58.6 in Aug'23. However, PMI still in expansion zone (>=50) suggesting the continued strength in orders pipeline, production and despite a slowdown being seen in exports.

Fuel consumption YoY Growth %



- Fuel consumption grew by 7.6% in Sep'23 vs. 6.5% growth in Aug'23. With in fuel category, consumption for petrol and diesel grew 8.2% and 3.8% respectively .

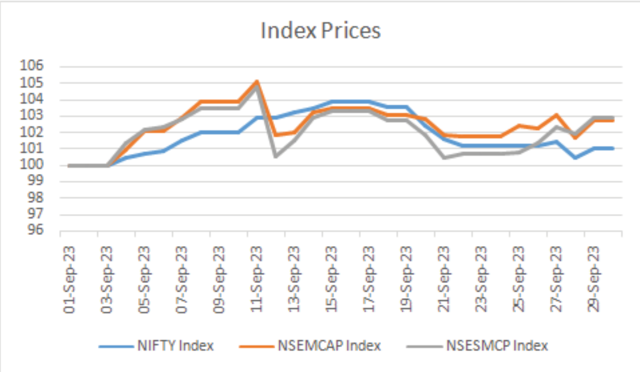
Electricity Production YoY Growth %



- Electricity production was up 8.8% YoY in Sep'23 vs. 13.2% YoY in Aug'23.
- YTD growth in electricity production at 6% is in line with historical growth rates and FY24 is exepcted to see a similar number as well.

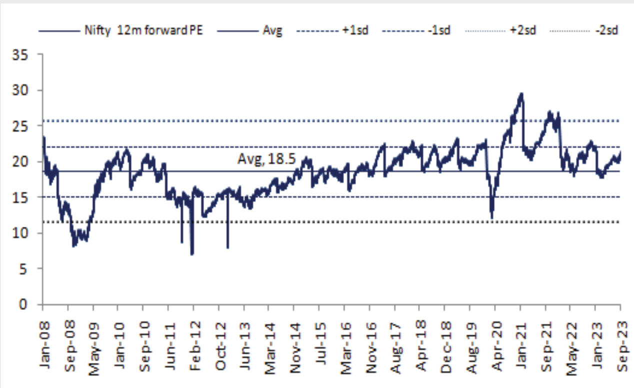
Equity Outlook and Positioning

Monthly Index performance



- Equity markets posted a positive month in Sep'23 with large cap indices underperforming midcaps and smallcaps. Nifty 50 closed the month with a return of 1% while CNX Midcap Index gave a return of 3% and Small Cap at 3%.
- Outperforming sectors included Power, Metals, Capital goods, Oil & Gas, Auto, Realty outperformed while FMCG, Banks, FMCG and Consumer Durables underperformed

Nifty Valuation (1 year forward PE)

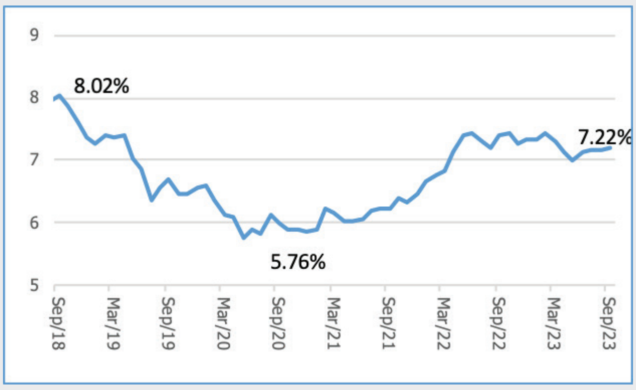


Source: Bloomberg

- Equities faced significant headwinds in the month of September on back of rising bond yields, strength in US Dollar and high crude prices. Brent crude prices touched high of $95bbl, highest seen in this year. In the US, the key concern for investors now is how long interest rates will last at elevated levels, versus how high the rates could go from here.
- India continues to outperform global equities on back of strong fundamentals underpinned by macro stability, government focus on infrastructure investments, emerging private capex cycle, structural rise in discretionary consumption, continuous strength in domestic flows (SIP touched new high of 160bn in August 2023) and above all strong earnings growth outlook.
- Nifty earnings over FY23-25 are now expected to grow at a CAGR of 14%. Nifty is currently trading at a valuation of 20.7x FY24 and 18.3x FY25. 1-yr forward valuations are higher than long term averages. However, despite the valuation levels, we remain optimistic from a medium to long term point of view as India's structural story remains intact.

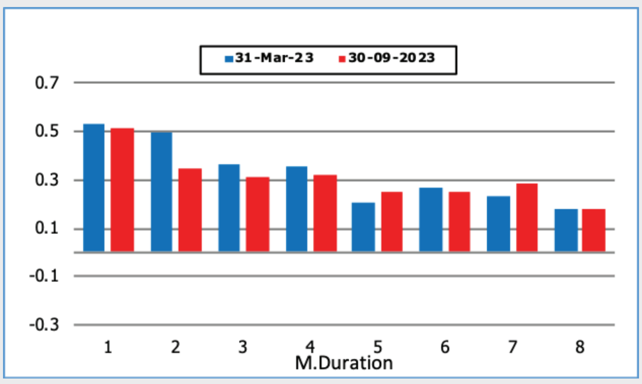
Debt Outlook and Positioning

India 10yr Gsec chart



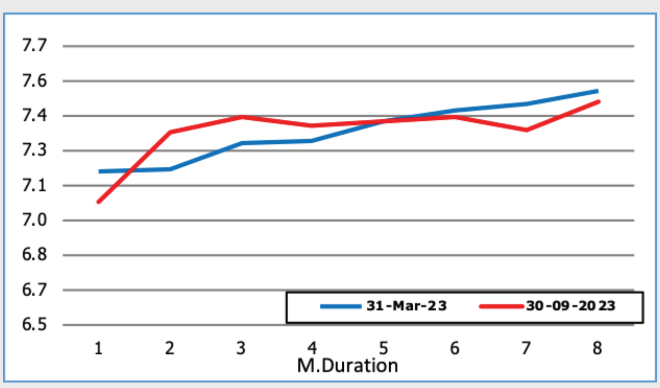
- US bond yields continued to rise largely driven by rising crude prices, huge supply of treasury bonds, hawkish FOMC outcome and pricing of US economy headed for soft landing against an outright recession.
- The Fed kept policy rate unchanged. However the dot plots indicated shallower rate cuts for 2024 and 2025 due to stronger than expected growth expectations, with 2023 GDP revised up from 1% to 2.1%.

AAA Curve movement



- In India, the new 10yr benchmark bond yield rose by 8bp from 7.14% to 7.22% tracking rise in global bond yields. However the extent of rise has been limited versus US yield, which rose by almost 45bp for the monthp.
- The recent announcement of JP Morgan to include India in its Government Bond Index- EM starting June 2024 is viewed highly positive for India rates over the medium term as market expects inflow of about USD 25bn July2024 onwards.

G Sec Curve Movement



- The RBI maintained status quo in its October policy. However they did emphasize on bringing down inflation to 4% and managing surplus liquidity due to reversal of ICRR and FPI Inflow. The RBI also placed OMO sales through auction process, as an additional tool for liquidity management. OMO sales are expected to impact bond yields in short term. However, given we are around the peak of policy hiking cycle and favorable demand-supply dynamics in 2H we expect impact on yields to be limited over the medium term.

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