

MONTHLY UPDATE

DECEMBER 2024



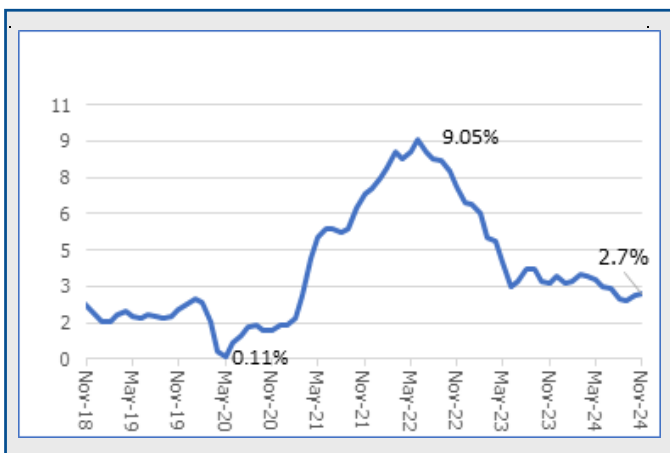
Market Outlook

HDFC Life – Monthly Update (January 2025)



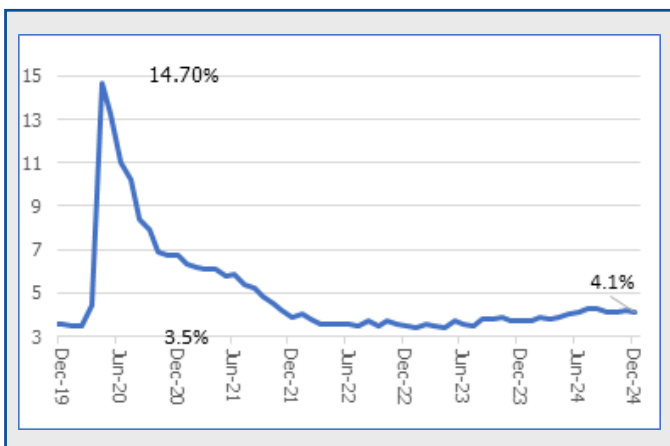
Global Macro Review

US CPI (%)



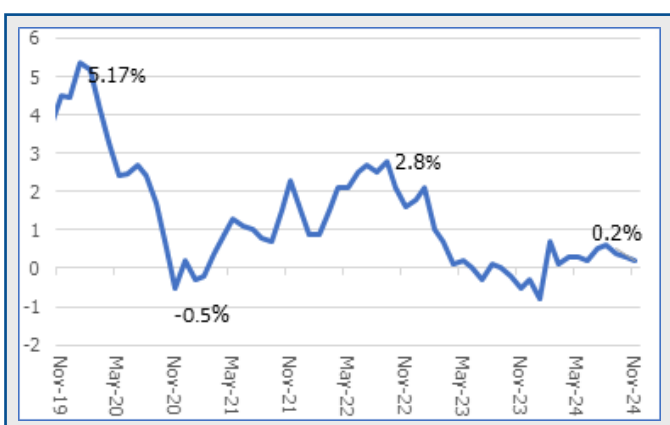
■ US CPI inflation printed 2.7% YoY in November picking up from 2.6% in previous month indicating that the pace of disinflation is moderating. On a sequential basis, CPI inflation rose at 0.3% MoM after rising 0.2% in the previous month. The main drivers of stalling disinflation are the renewed sequential pick-up in the prices of core goods, food prices and energy prices. Given the stickiness in inflation pressure and resilient economic activity, the markets are re-assessing expectations of rate cuts from the Fed.

US Unemployment Rate (%)



■ US Non Farm Payrolls came in higher than expected in December at 256K (expectations: 165K). The rise has been largely driven by services employment. The unemployment rate fell to 4.1% YoY in December vs 4.2% last month. The recent stability of the unemployment rate may give confidence to Fed officials to pause on rate cuts in the upcoming policy.

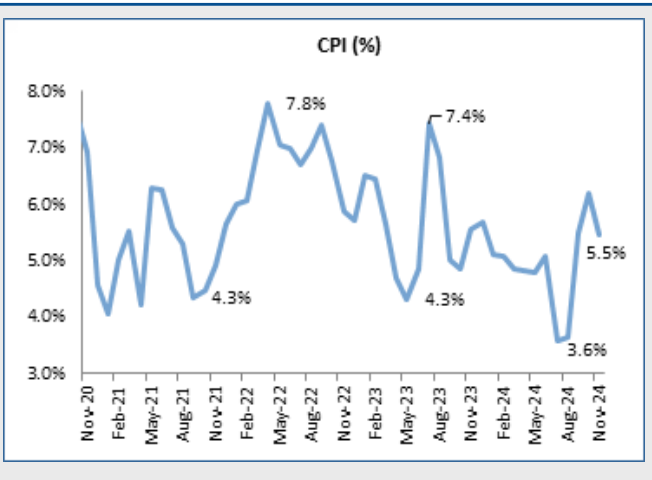
China CPI (%)



■ Chinese CPI fell by 0.2% yoy in November vs 0.3% in October. The fall in inflation was due to lower commodity prices and lower food prices. While the deflation concerns are high, the new US administration imposing tariffs loom over the economy. The outlook for China's growth remains weak and continue to expect loose monetary policy to support growth into 2025.

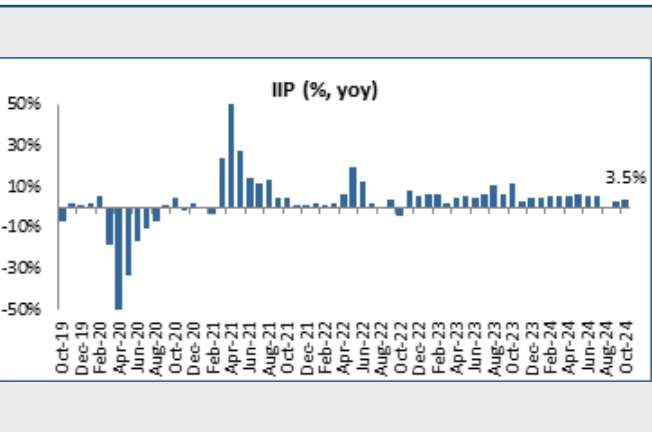
India Macro Review

CPI Inflation %



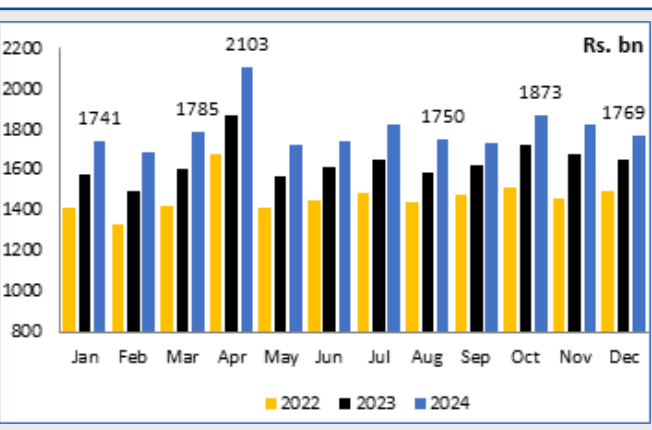
- Inflation (CPI) for Nov'24 moderated to 5.5% vs. 6.2% in Oct'24 as food CPI, which constitutes 45.9% of the index, fell to 8.2% in Nov'24 vs. 9.7% in Oct'24.
- Core CPI excluding food and fuel which constitutes 54% of CPI, eased 3.7% in Nov'24 vs. 3.8% in Oct'24.

Industrial Production Index (IIP) Source: MOSPI



- Industrial Production (IIP) growth for Oct'24 was up 3.5% vs. 3.1% growth in Sep'24 as Manufacturing output rose 4.1% in Oct'24 vs. 3.9% in Sep'24 while electricity generation increased 2%. However, Mining output was largely flat in Oct'24
- The increase in the Industrial production index reflects increasing momentum in production activities. However, monthly IIP numbers can be volatile and difficult to draw a trend from the same.

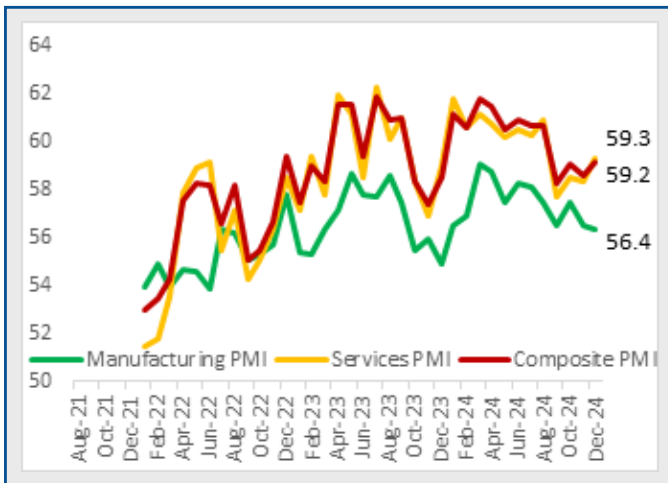
GST Collection (Rs. bn)



- GST revenues for the month of Dec'24 came to Rs. 1,769 bn showing a 7.3% YoY increase vs. Rs. 1,648 bn in Nov'23.
- Avg. monthly GST collections have increased to Rs. 1.8 lakh crore in 9M FY25 vs. Rs. 1.7 lakh crore in 9M FY24 and Rs. 1.5 lakh crore in 9M FY23 continuing to show buoyancy in tax collections.

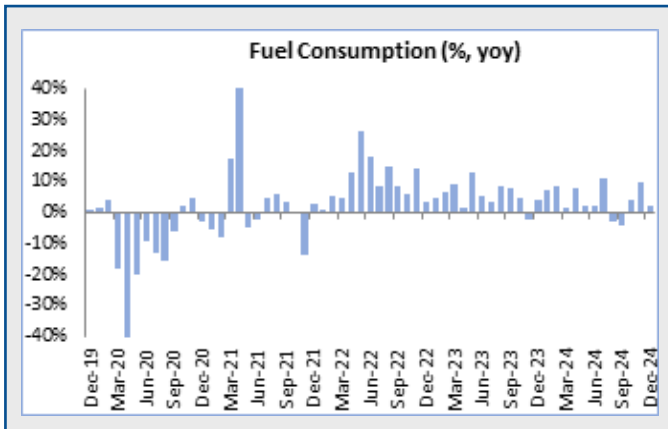
India Macro Review

PMI



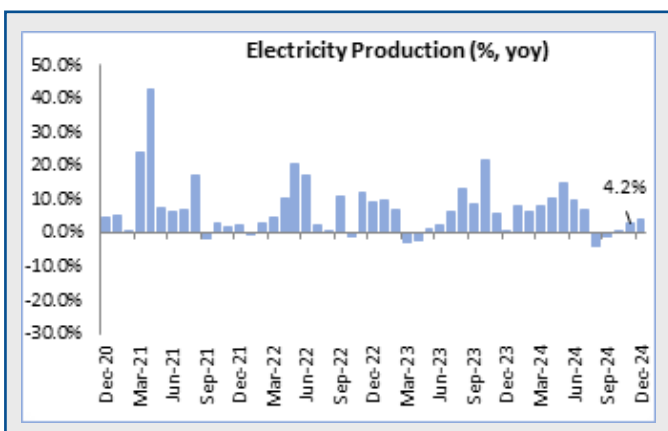
- PMI (manufacturing) eased to 56.4 in Dec'24 from 56.5 in Nov'24. Notably, PMI continuing in expansion zone (≥ 50) indicate the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption was marginally up 2.1% yoy in Dec'24 vs. 9.5% surge in Nov'24
- With in fuel category, petrol consumption increased by 11% yoy in Dec'24. However, Consumption for diesel moderated to 6% in Dec'24 vs. 8.5% in Nov'24.

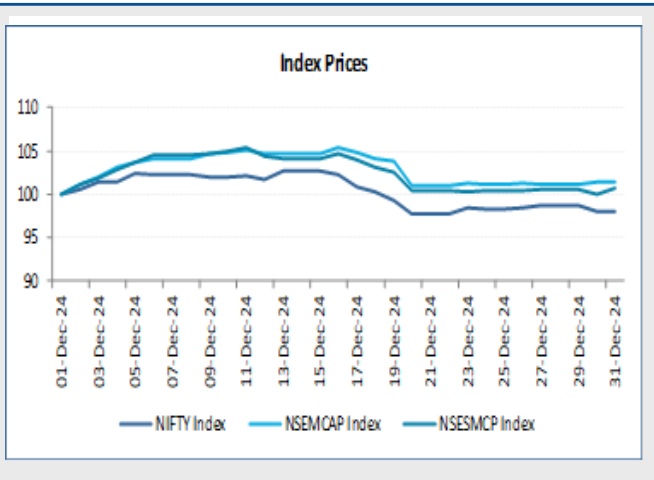
Electricity Production YoY Growth %



- Electricity production increased 4.2% YoY in Dec'24 vs. 2.7% YoY up in Nov'24.

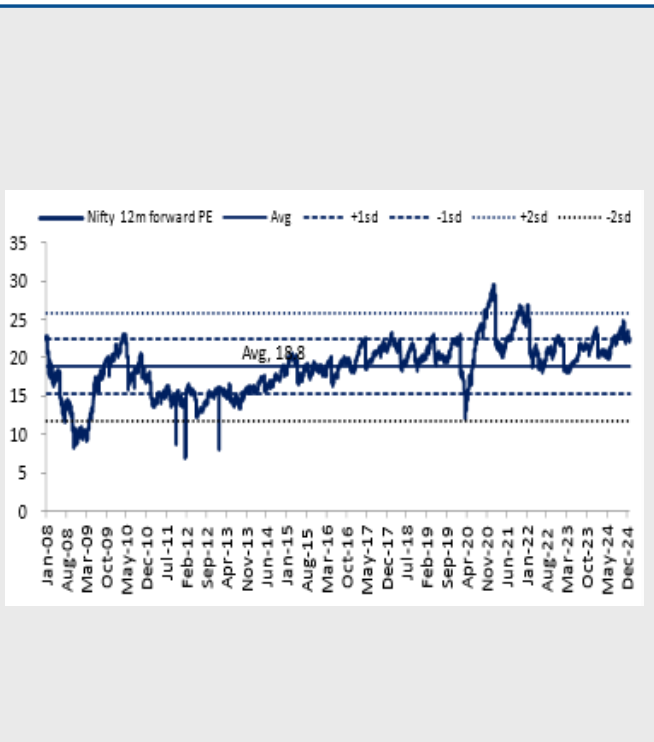
Equity Outlook and Positioning

Monthly Index performance



- Equity markets were mixed in Dec'24 with Mid cap indices outperforming Small cap and Large cap. Nifty 50 closed the month down 2% while CNX Midcap Index was up 1.4% and Small Cap up 1%.
- Outperforming sectors included Healthcare, Realty, Consumer Durables and Information Technology. On the other hand, the underperforming sectors included Power, Metals, Capital Goods, Oil & Gas and Banking.

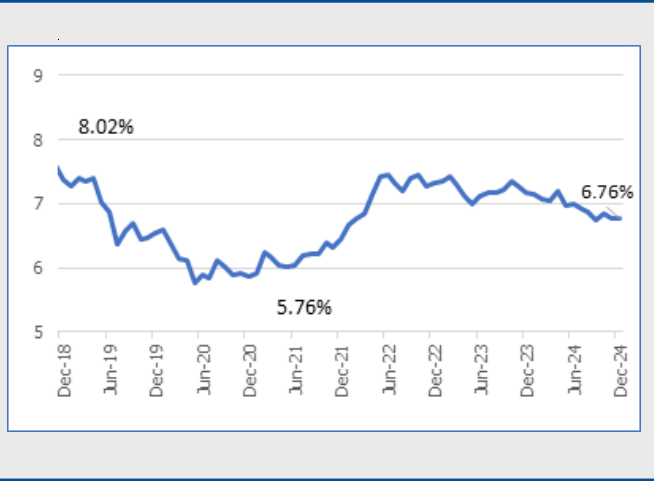
Nifty Valuation (1 year forward PE)



- Heading into 2025, while the initial adjustment to potential Trump policies has largely played out in markets now, the big known unknown for 2025 is the exact contours and implications of the new administration's policy, across tariffs, de-regulation, immigration and fiscal choices.
- Following a strong FY24, H1FY25 experienced a slowdown in key macroeconomic indicators. Real GDP growth fell to 5.4% YoY in 2QFY25, down from 8.2% YoY in FY24 and 6.7% in Q1FY25, due to lower government spending and reduced consumption. The moderation in growth was led almost equally by consumption and investment (gross fixed capital formation + change in stock). While concerns are rising around growth, expectations are that once government capex picks up steam in H2FY25, the growth can re-vitalize.
- Despite the correction, Indian markets still trade at a valuation of 20x FY26 P/E, which is higher than long term averages. This set up makes us cautious in the short term despite having a positive view from a medium to long-term point of view, which in turn is driven by India's long-term potential due to continued investments in infrastructure building, scale up in domestic manufacturing, and a long-term theme of premiumization and discretionary consumption pickup driven by rise in per-capita GDP.

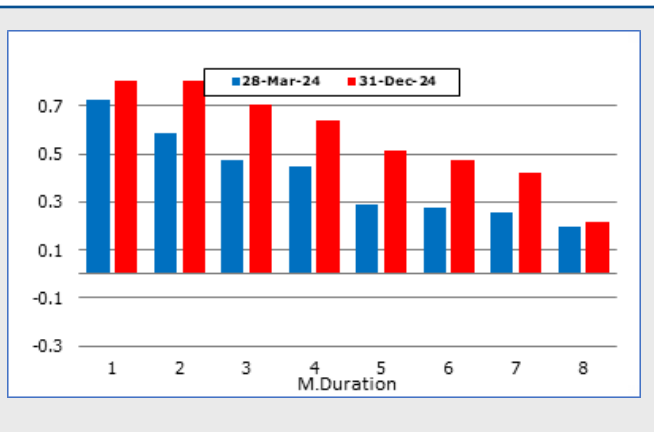
Debt Outlook and Positioning

India 10yr Gsec chart



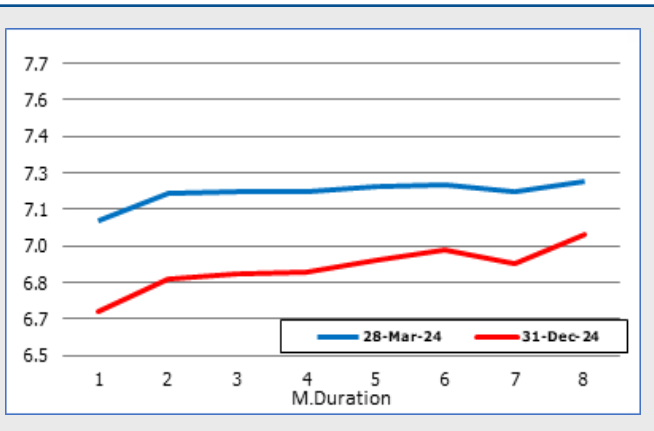
- The 10 yr UST yield saw a sharp rise of 40bps MoM, as it closed at 4.57% in December vs 4.17% in November. The sharp rise UST was largely driven by a re-assessment of the expected inflation and rates trajectory.
- At the December FOMC, the Fed officials cut rates by 25bp at the meeting, and signaled just two rate cuts over the course of 2025 which is 50bp lower than previously forecasts.
- In India, the 10yr bond yield remained range-bound during the month, although it picked up slightly towards the end of the month, on the back of the strengthening of USD and hardening USTreasuries. The 10-year G-sec yield moved in the range of 6.68%-6.79% during the month, closing the month marginally higher at 6.76% (Nov 2024: 6.74%).

AAA Spreads (%)



- Going forward, Indian bonds are likely to be supported by domestic growth slowdown, expectations of easing inflationary pressure in coming months and improved demand. However, the sharp rise in geo-political uncertainty (US Tariffs & fiscal dynamics, strong dollar resulting in pressure on INR, China stimulus, commodities including crude oil, war etc) is likely to keep financial markets volatile in near term.

G Sec Yield Curve Movement (%)



- Although global volatility will continue to impact Indian bond markets in the near term, RBI is expected to cut interest rates to help shore up growth, though the timing of the rate cuts depends on developments in currency markets and US Treasury yield moves.



Sar utha ke jiyo!

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