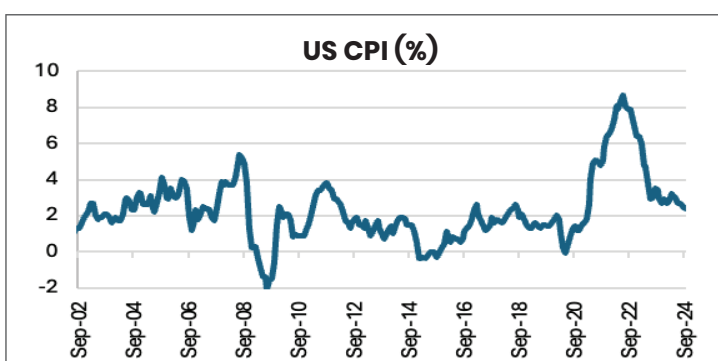
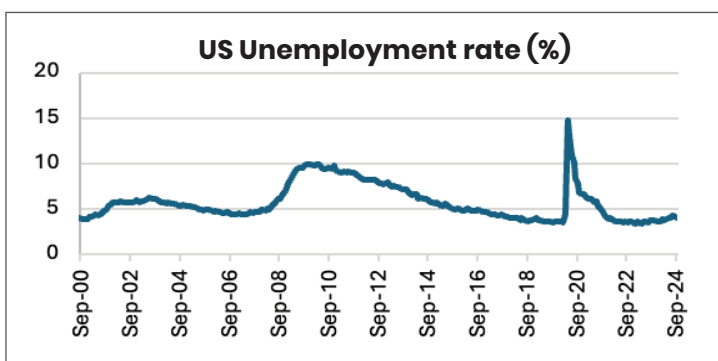
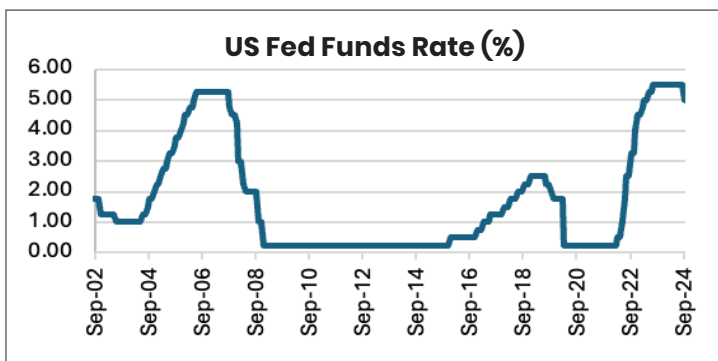
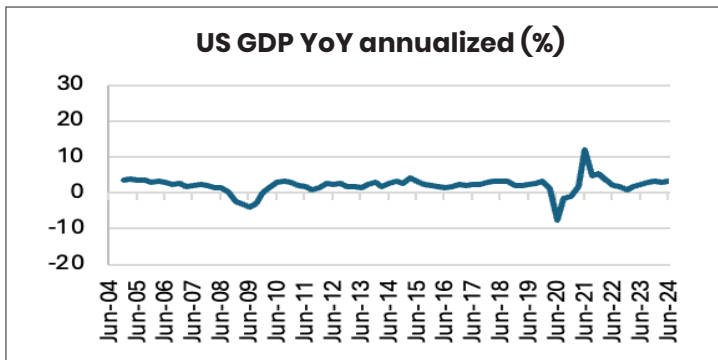




Market Outlook

Mr. Prasun Gajri
Chief Investment Officer, HDFC Life

IH Review-FY25



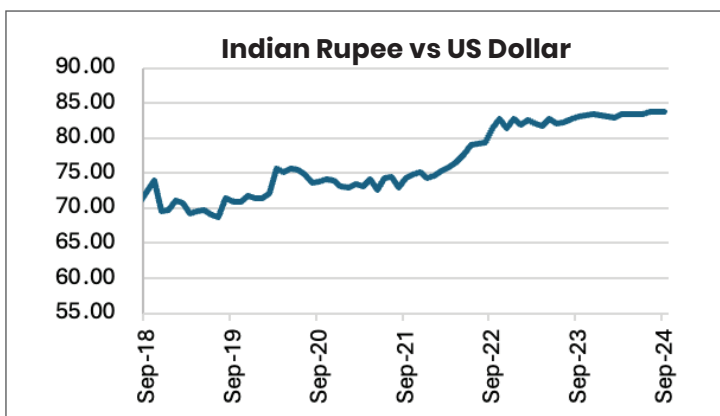
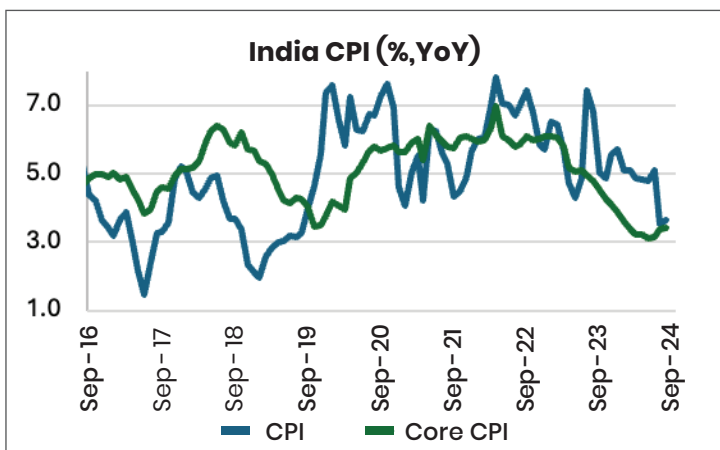
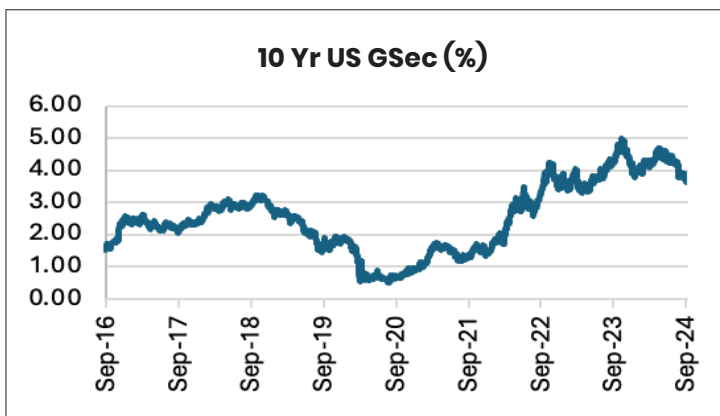
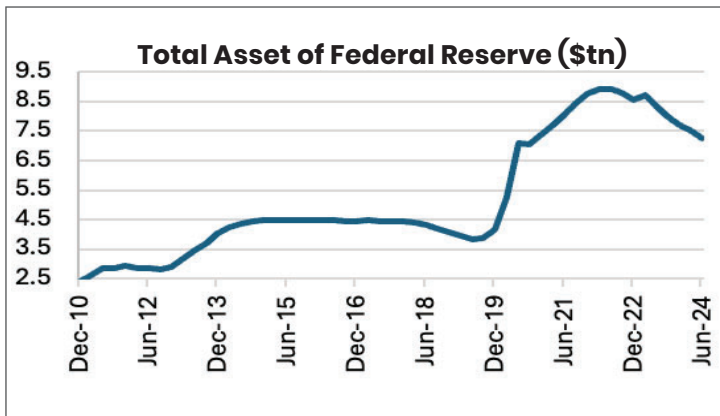
Global Macro Review

- US real GDP increased at an annual rate of 3.0% in 2Q2024 up from 1.6% in 1Q2024. The higher growth was due to increased consumer spending and inventory buildup. However, the economy slowed from 4.2% in 2H2023 to 2.1% in 1H2024, which is consistent with 'soft-landing' outcome. Some of the improvements in 2Q2024 reflect a pull-back from an exceptionally weak 1Q2024 GDP particularly with reference to private consumption. However, US GDP has remained largely resilient even as pandemic era excess savings have been exhausted.

- Eurozone growth has been weaker and consequently the ECB initiated their rate cut cycle in Jun'24. The ECB has cut rates by 75bps so far.

- While the Fed has lagged the ECB in cutting rates; the Fed initiated the rate cut cycle with a 50bps rate cut at its September meeting. The FOMC statement noted that the Committee has gained greater confidence that inflation is moving sustainably toward its 2% target, and judges that the risks to achieving its employment and inflation goals are roughly in balance.

- The US unemployment rate eased to 4.1% in Sep'24 from 4.3% in Jul'24, though higher than 3.7% in Dec'23. Data also showed that the U.S. added 818,000 fewer jobs than previously estimated from March 2023 to March 2024. That brings the total employment growth (not including farm jobs) for the 12-month period from 2.9 million to about 2.1 million, knocking average monthly growth during that period from about 242,000 to about 174,000.



- US CPI inflation is on a moderating trend and stood at 2.4% in September'24. Core inflation is however, proving stickier and stood at 3.3%.

- The Fed has continued with quantitative tightening, although actual tightening has lagged the Fed's announced target. Moreover, the announced pace of tightening was reduced from US\$95bn per month to US\$65bn per month from June'24.

- US yields have moderated from around 4.5% levels in April'24 to ~3.78% by September end.

- China's GDP growth remains uneven despite government efforts to propel demand through loose monetary and fiscal policy. The residential property market sales continue to fall at -30.5% YoY, limiting chances of any recovery in the near term. China's GDP grew by 4.6% in 3Q2024 down from 5.3% in 1Q2024.



Domestic Macro Review

India CPI:

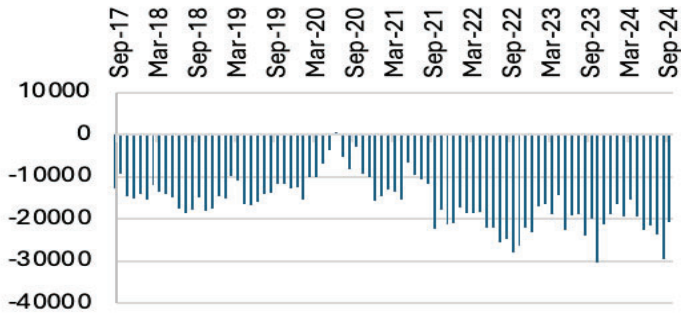
- India CPI inflation has sustained its moderating trend supported by favorable base effects even as food inflation has remained sticky. CPI moderated to ~3.65% in Aug'24 from 4.85% in Mar'24. However, due to unfavorable base and rising food prices, the Sept'24 CPI print came at 5.49%, higher than market expectation. Core CPI is bottoming out and stood at 3.5% in Sept'24 from a low of 3.1% in May-Jun'24. RBI expects CPI inflation to average 4.5% in FY25.

INR & India Trade Deficit:

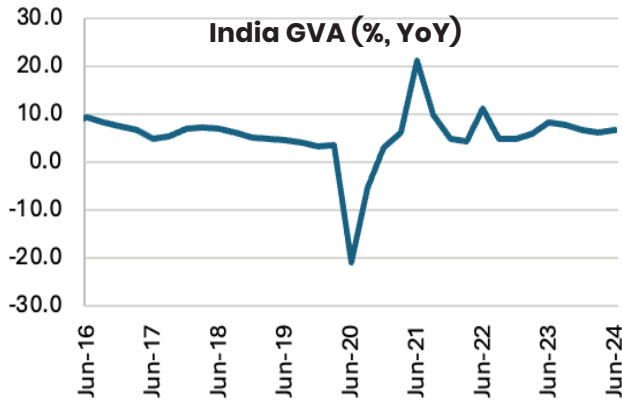
- The INR was largely stable in 1HFY25 and averaged 83.6 vs. 83.2 in 2HFY24. While dollar strength for most of 1HFY25 led to some marginal depreciation pressure, a moderation in CAD (0.7% of GDP in FY24 and a marginal deficit of 1.1% GDP in 1QFY25), was largely due to supportive FPI flows into debt and equity markets, leading to a build-up of foreign reserves near all-time highs. The moderation in crude oil prices and rate cuts by the US Federal Reserve have also lent support to the INR.

- India's trade deficit has averaged ~USD 22.9bn in 1HFY25 vs. USD 20.3bn in 2HFY24 led by higher gold imports. Export growth has largely been weaker than imports. The trade deficit witnessed a spike to USD 29.7bn in Aug'24 as gold imports spiked to USD 10bn

Trade Balance (USD Min)



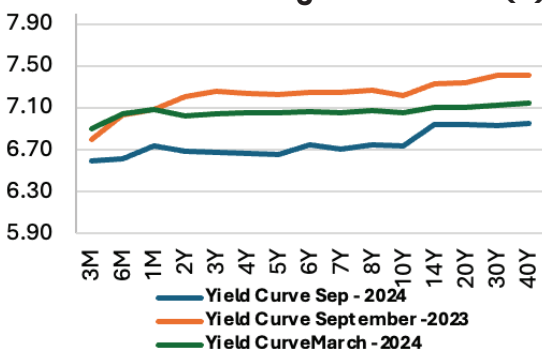
India GVA (% YoY)



10 Yr GSec (%)



India Sovereign Yield Curve (%)



29.7bn in Aug'24 as gold imports spiked to USD 10bn after the government cut import duty on gold in the Jul'24 Budget. The services surplus has moderated from an average of USD 14.bn in 2HFY24 to USD 13.8bn in 1HFY25, but still remains robust.

India GDP:

- India's FY24 GDP growth stood at a much better than expected 8.2%. GVA growth stood at 7.2%. GDP growth moderated from 7.8% in 4QFY24 to 6.7% in 1QFY25 while GVA growth in 1QFY25 at 6.8% was better than 6.3% in 4QFY24. Core GVA growth (excluding agriculture and government) was largely stable at 7.3%. High frequency indicators suggest relative resilience, though there are signs of some cyclical moderation in growth.



Domestic Markets

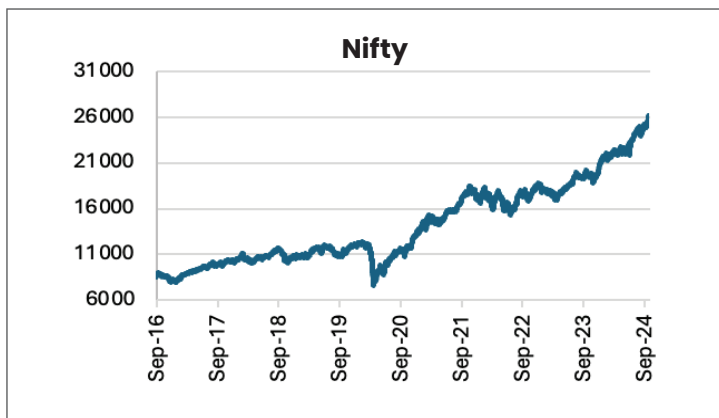
Bond Market:

- At start of 1HFY25 India bond yields witnessed volatility due to rising geo-political tension between Israel and Iran, higher than expected US economic data points, and rising crude price, leading to a spike in yields globally. Subsequently, as US unemployment data kept worsening, India bond yields along with global yields started to cool down. As global growth and inflation outlook moderated, a number of DM Central banks started easing their interest rates. India 10yr benchmark GSec yields also moderated over 30bps, on the back of high RBI dividends, supportive FPI flows, fiscal consolidation (fiscal deficit pegged at 4.9% of GDP in July), an upgrade in rating outlook to 'positive' by S&P and moderation in global yields. Domestic demand for G-Sec also remained favourable as FPI flows into domestic debt stood at ~ US\$9.6bn in 1HFY25. Liquidity remained in deficit until late June, but turned surplus thereafter with pickup in government spending and build-up of FX reserves.

- The 10-year AAA spread was at ~40bps in 1HFY25, marginally below historical levels due to strong demand from Insurance and Pension funds and lower supply in SDL.

Equity Market:

- Indian equity markets remained buoyant in 1HFY25 even as the first quarter was marked by election related uncertainty. After a sharp correction on account of a fractured election mandate; it more than recouped losses on the formation of a stable



over US\$27.7bn into equities while FPI flows, while positive, were relatively muted at ~ US\$8.7bn. FPI flows into equities have picked up in September on the back of rate cuts.

- Broader markets outperformed the large caps. While Nifty 50 was up by 15.6% in 1HFY25, Nifty Midcap 100 was up by 25.1%. Domestic earnings growth continued to be supported by cyclicals such as banks and autos, however overall earnings growth driven by margin expansion is moderating. The market has also seen some sector rotation from domestic cyclicals and industrials to defensives such as consumer, pharma and IT.

Future Outlook

- Global growth has been somewhat resilient, but there are signs of some moderation, with pandemic era excess savings largely exhausted. The narrative has gradually shifted from a primary focus on inflation to growth and labour market concerns. Most major central banks have started easing rates with indications of more to come although the timing and pace of rate cuts remains uncertain.
- The US Fed projections indicate at least two more rate cuts in 2024 and another 100bps of rate cuts in 2025. GDP growth is however expected to remain resilient at 2% in 2024 and beyond. The unemployment rate is expected to remain relatively steady at 4.4% by the end 2024 and going into 2025. PCE inflation in 2024 is pegged at 2.3% moving to 2.1% in 2025 and 2% by 2026. Core PCE is pegged at 2.6% in 2024; 2.3% in 2025, and touching 2% by 2026.
- The US yield curve inversion has now reversed, and US yields are likely to moderate further as the rate cut cycle progresses. However, an elevated fiscal deficit may act as a floor for yields unless there is further deterioration in the labour market. Equity markets are expected to remain buoyant with rate cuts expected to engineer a soft landing of the economy. However, if recessionary conditions do fructify, some correction is likely. Nevertheless, with central banks likely to keep liquidity supportive, corrections may be relatively short-lived.
- The Indian economy and equity market are better-placed vs most other markets. Consequently, India could sustain premium valuations over other EMs. While domestic flows continue to remain strong, any global correction will have a bearing on Indian equities as well. Nonetheless, the medium-term outlook for Indian equities remains quite strong and hence long-term investors should use any volatility to their advantage. In the Indian context, given the recent run up in the broader market, large caps offer relative valuation comfort.
- Moderating global growth and sluggish growth in China is weighing down on most commodities, and hence commodity prices are likely to remain range-bound. Domestically, food inflation remains a concern. However, a good Kharif harvest should provide some respite. Reservoir levels also remain above 10-year averages, which bodes well for the Rabi crop. CPI inflation is expected to average ~4.5% in FY25, according to the RBI's estimate.
- High-frequency indicators in India suggest that growth momentum, though relatively resilient, is seeing some moderation. With most major central banks embarking on a rate cut cycle; RBI is likely to follow suit sooner than later. High real rates can hurt the economy in the medium term. It is reasonable to pencil in 25-50bps of rate cuts in 2HFY25. However, the rate cut cycle in India is likely to be shallow at 50-75bps. Favorable demand-supply dynamics in government securities, moderation in CPI, expectation of further rate cuts, and falling global yields will likely support a further softening of yields in 2HFY25.



Sar utha ke jyo!

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