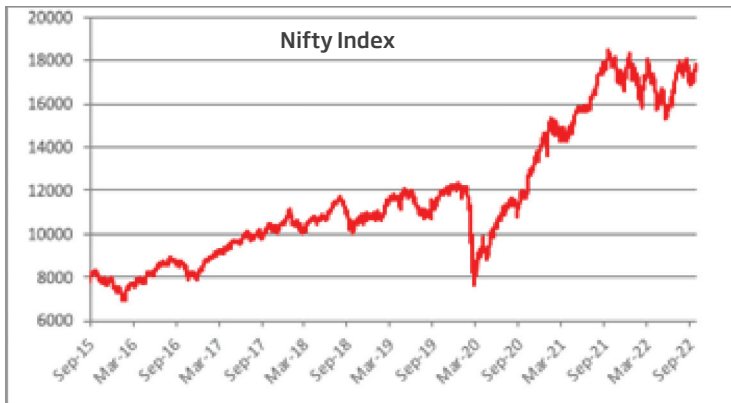




# Market Outlook

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## Market Update



H1 FY23 Nifty returns = -2.12%

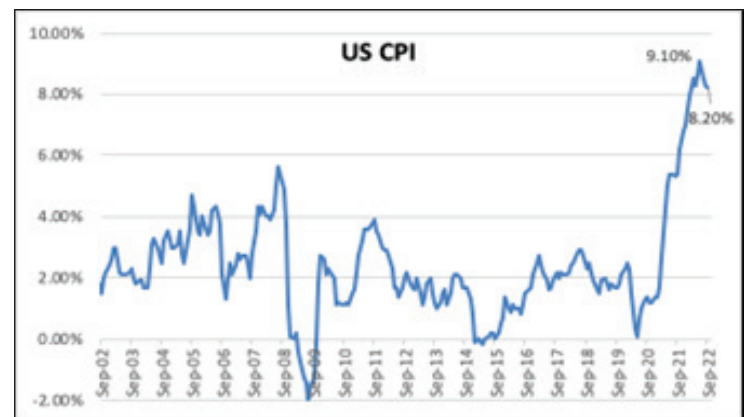
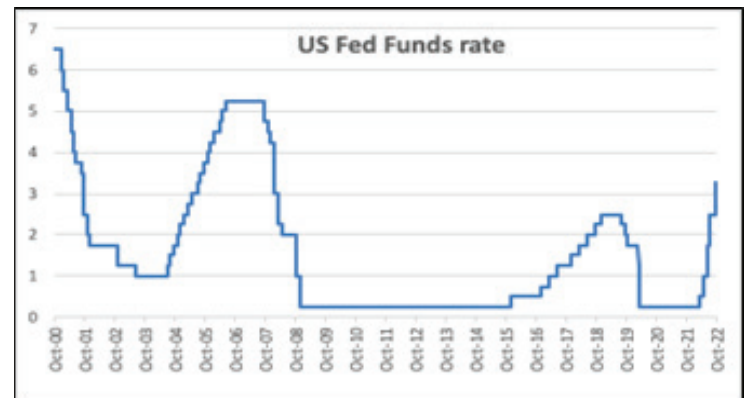


H1 FY23 Change in 10-year GSec yield = 0.56%

## Key Developments

The first half of FY 2022-23 was characterized by an acceleration of rate hikes and monetary tightening by most large central banks, led primarily by the US Federal Reserve. Over the course of the last two quarters, almost all large economies, except China, have seen a quick return to normal economic activity after lifting of Covid related restrictions. The surge in demand, against the still disrupted supply chain logistics, led to a spike in inflation. The continued hostilities in Ukraine and the sanctions on Russia kept oil and gas prices elevated, further feeding into inflation. CPI Inflation in the US is at multi-decade high levels, while inflation has been elevated across most economies. Almost all central banks, have, predictably, raised interest rates.

The RBI, too, has raised the policy repo rate by 190 bps during the last two quarters. Domestic CPI Inflation has stayed above the target range through this period, peaking at 7.79% in April. However, the subsequent easing of inflation has been slow and uneven. RBI projects CPI inflation to ease into the target range by the end of FY2022-23, and projects average inflation in the first





quarter of the next financial year at 5.0%.

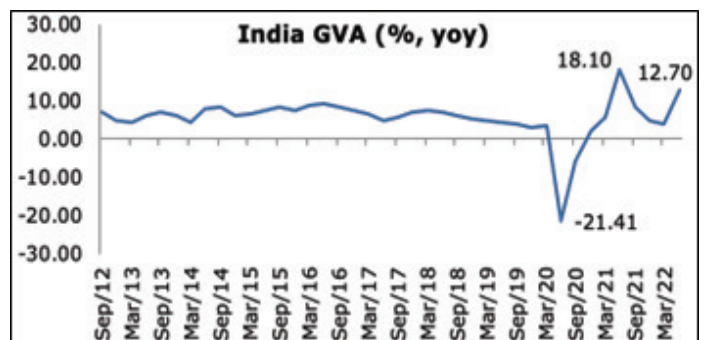
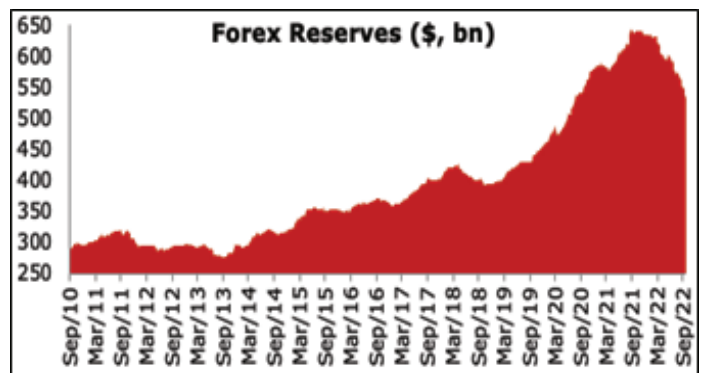
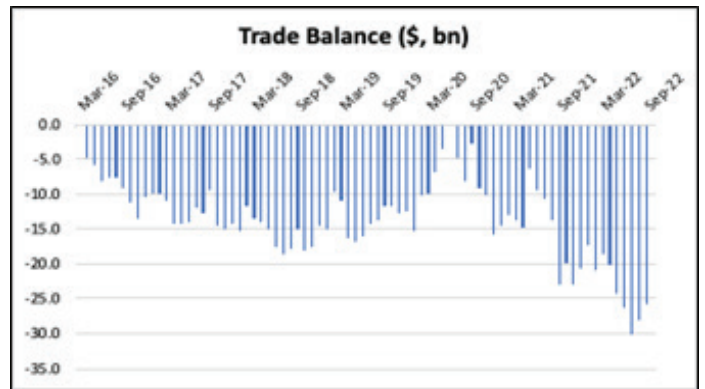
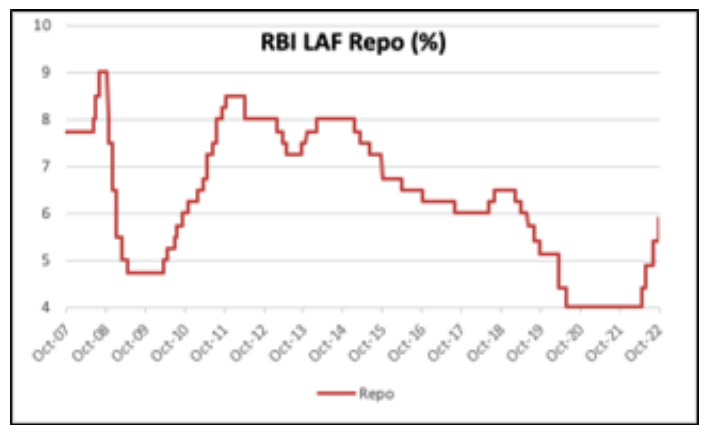
The fallout of the aggressive interest rate hikes by the US Fed was felt by almost all currencies through the capital flows route. The USD appreciated significantly against all, Emerging market as well as Developed market, currencies. The Indian Rupee, too, depreciated against the USD, though the extent has been quite moderate as compared to other EM and DM currencies.

Capital outflows from India picked up during this period as cumulative net capital withdrawals by FPIs during the 12 months ending September 2022, topped USD 27 bn (about Rs 2.2 trn).

The other fallout of the Ukraine war and the high energy prices has been the widening of India's Trade deficit. The sharp rise in the crude oil prices, the highest component of India's import basket, took the monthly trade deficit to around USD 30 bn from the range of around USD 15 - 20 bn per month, prior to the Covid period.

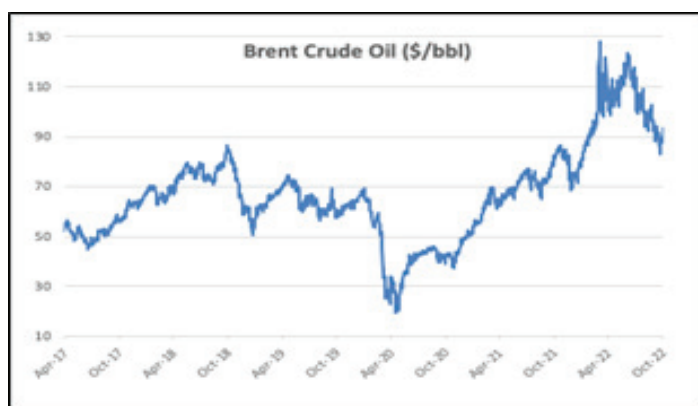
RBI took active measures to relieve the pressure on the INR, by intervening in the currency markets, by selling USD, to reduce the volatility of the daily movements. Over the course of the last 12 months, USD sales by RBI as well as the fall in market value of the foreign currency assets, held by RBI, have led to a fall in India's foreign currency reserve to USD 533 bn, against the peak of about USD 642 bn in October last year.

The Domestic economy saw a complete recovery from the Covid induced contraction and the total GDP surpassed pre-Covid levels. While the recovery from Covid has played out, the scars are still visible. The informal sector of the economy is still beset by weak income and weak consumption while the formal and the higher income segments have recovered handsomely and have led the overall economy higher. The weakness induced by the sharp interest rate hikes around the world, though, has led to some tempering of the growth expectations. While RBI had forecast GDP growth of 7.2% for the current year, recent developments led RBI to trim its estimates to 7.0%. Other economists, though, estimate growth around 6.8% for FY2022-23.



## Peering ahead

- The US Fed is expected to raise the fed funds rate by another 75bps at the forthcoming meeting November, taking the cumulative rate hikes to 3.75%. The subsequent rate hikes are expected to be smaller and the Fed is expected to reach its terminal rate early next year.
- The tapering off of the US rate hikes is expected to ease pressure on other central banks to maintain a tight monetary policy. RBI, too, is expected to reach its terminal repo rate over the coming months. Current market forecasts for terminal repo rate range between 6.15% to 6.50%.
- Crude oil prices had risen sharply in the immediate aftermath of start of the Russia - Ukraine war. However, expectations of weaker growth due to the sharp rate hikes across the world had tempered demand forecasts, leading to lower oil prices, notwithstanding the supply disruptions due to the sanctions on Russia and reduction in output by the OPEC countries. As the impact of the rate hikes are felt across the respective economies, and demand slows further, oil prices are expected to stay around the current range.



- Domestic bond yields have hardened over the course of the last two years. While RBI policy interest rates are likely to peak out soon, other factors like the pace of consolidation of fiscal deficit, tight banking system liquidity, may keep yields around the current range in the coming quarters. While the Government is expected to maintain the deficit within the budget estimates for the current year, despite the higher subsidy expenditure, the outlook for the coming years may turn adverse, if the growth outlook and tax revenue buoyancy, softens.
- Corporate results for the September quarter are expected to be soft due to multiple headwinds viz slowing global growth, high input prices and high energy costs, employee attrition and wage hikes, inventory losses for commodity companies etc. The financial sector, though, is expected to deliver strong results on continued improvement in asset quality as well as a widening in margins. However, the subsequent quarters are expected to see a reversal of some of these trends as commodity and energy prices ease from the high levels, though the outlook on top-line growth may moderate.
- However, structural growth factors like policy reforms, formalization of the economy, leaner and stronger balance sheets, revival of corporate capex and infrastructure focus are expected to sustain a longer period of gains for the equity markets, notwithstanding the near term volatility.



*Sar utha ke jiyo!*

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