MONTHLY UPDATE
MARCH 2024

23 YEARS
Protecting India with Pride

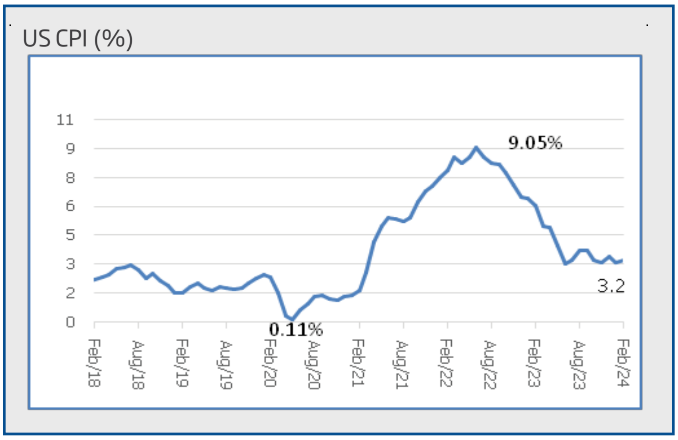
HDFC Life
Sar utha ke jiyo!

Market Outlook

HDFC Life - Monthly Update (April 2024)

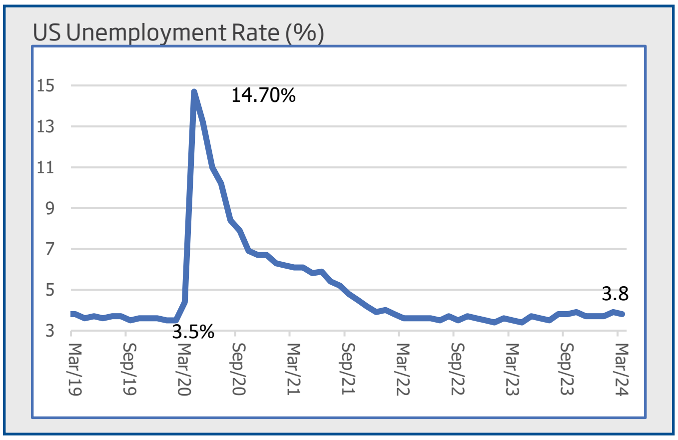
Global Macro Review

US CPI (%)



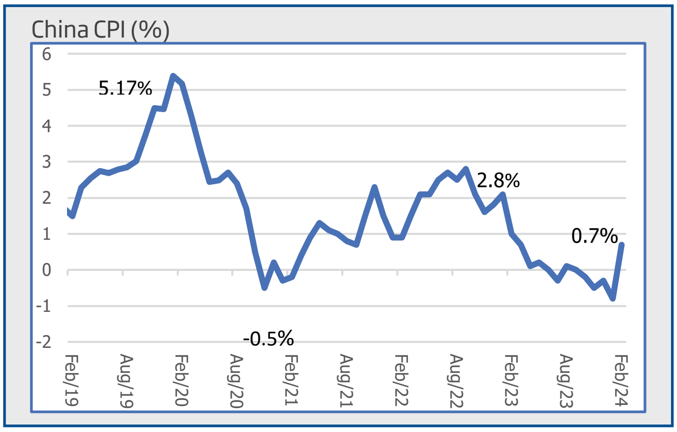
- US CPI came in at 3.2% YoY (expectations: 3.1%) in February vs 3.1% YoY in the past month. On a sequential basis,it remained elevated at 0.4% as core goods surprised marginally to the upside. Shelter and gasoline costs accounted for nearly 60% of the monthly rise.Going forward, the gradual disinflation path is expected to remain intatct as further re-balancing of labour market pulls the wages gradually lower.
- The US unemployment rate inched lower to 3.8% as particpation rate surprisingly moved higher to 62.7% showing that labour supply is improving as employment trends remain firm.

US Unemployment Rate (%)



- US Non Farm Payrolls, surprised to the upside at 303k,higher than the market expectations of 210k. The increase in hiring was spread across the private sector as well as government sector.
- US NFP surprised marginally to the upside printing in at 187K (expectations:170K), although downward revisions to the tune of 110K were made in the previous two months indicating that hiring was weaker than previously expected. The increase in labour supply also resulted in lower growth in hourly earnings which came in at 0.2%MoM vs 0.4% in July.

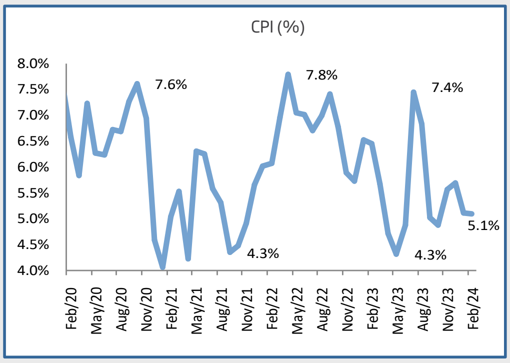
China CPI (%)



- Chinese CPI rose by 0.7% yoy in February vs -0.8% in January due to sharp spend in festival season. The high frequency indicators continued to show rebound in the economy on the back of a seasonal festival related pick-up in activity and mobility, though the undelying headwinds realting to property sector continue to remain a drag on economy over the medium term.

India Macro Review

CPI Inflation %

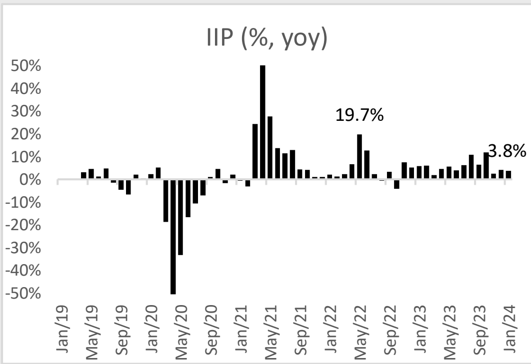


Source: MOSPI

- Inflation (CPI) for Feb'24stood at 5.1%as food CPI, which constitutes 45.9% of the index,stayed elevatedat 7.6%. Within food, inflation for Vegetables, Pulses and Spicesremain elevated in double digits.

- Fuel inflation which constitutes 6.8% ofCPI, contracted by 0.8% in Feb'24 vs. 0.6%fall in Jan'24.

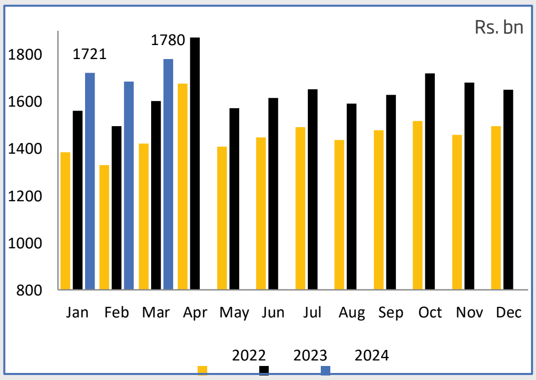
Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Jan'24 came at 3.8% as Manufacturing output surged 3.2% in Jan'24 and Mining output was up 5.9% in Jan'24. However, Electricity output marginally increased by 5.6% inJan'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)

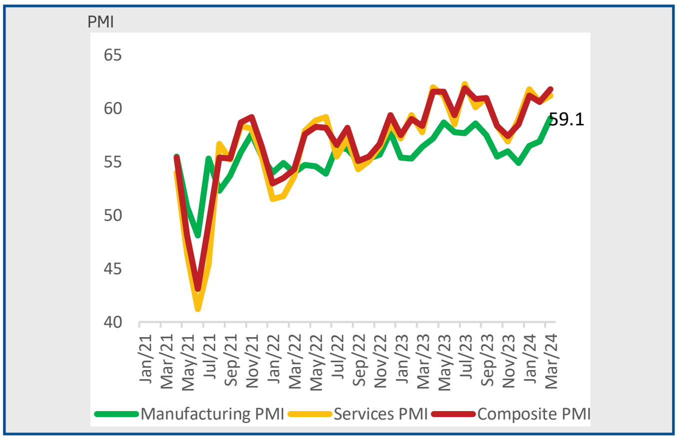


- GST revenues for the month of Mar'24 came at Rs. 1,780bn showing a 11.2% YoY increse vs. Rs. 1,601bn in Mar'23.

- Avg. monthly GST collections have increased to Rs. 1.7 lakh crore inFY24 vs. Rs. 1.5 lakh crore in FY23 and Rs. 1.2lakh crore in FY22 continuing to display very high buoyancy.

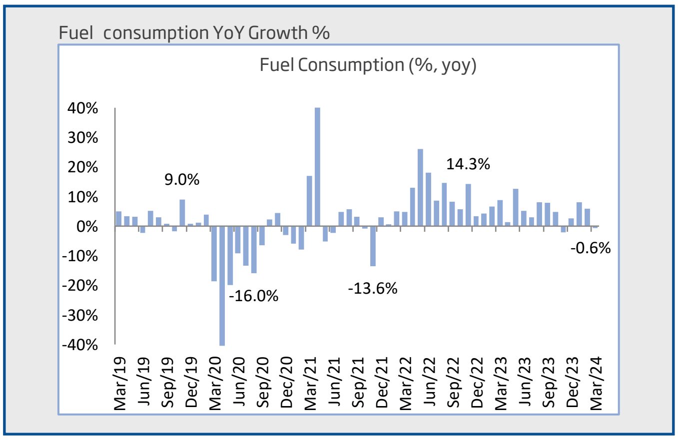
India Macro Review

PMI



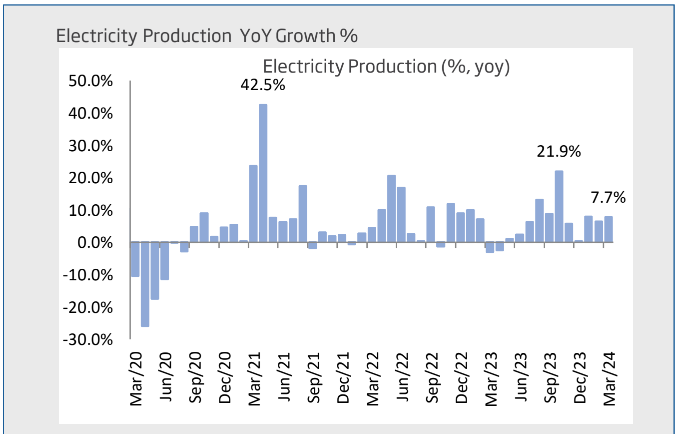
- PMI (manufacturing) increased to 59.1 in Mar'24 from 56.9 in Feb'24. However, PMI continuing in expansion zone (>=50) indicatethe continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption marginally declinedby 0.6% in Mar'24 vs. 5.9% growth in Feb'24. With in fuel category, Consumption for diesel surged by 3.1% yoy in Mar'24 and petrol consumpton increased by 6.9% yoy in Feb'24. However, Diesel and petrol consumption decelerated sequentially.

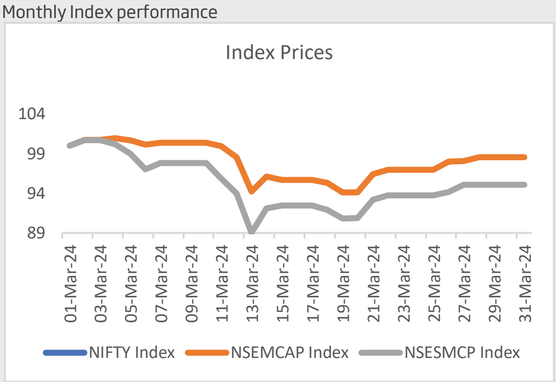
Electricity Production YoY Growth %



- Electricity production wasup 7.7% YoY in Mar'24 vs. 6.4% YoY in Feb'24.
- Strong start to summer season specially in South India driving strong electricity demand

Equity Outlook and Positioning

Monthly Index performance



- Equity markets were mostly negative in Mar'24 with large cap indices outperforming midcaps and smallcaps. Nifty 50 closed the month almost flat with a return of -0.1% while CNX Midcap Index gave a negative return of 1.5% and Small Cap at -4.9%.
- Outperforming sectors included Capital Goods, Auto, Metals, Consumer Durables and Banks. On the other hand, the underperforming sectors included IT, Realty, FMCG and Pharma

Nifty Valuation (1 year forward PE)

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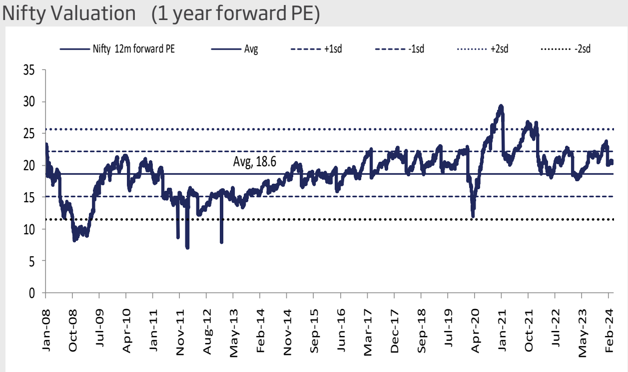
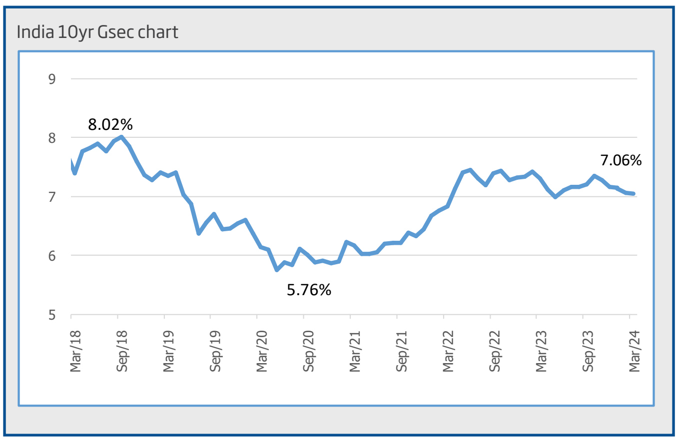


Source: Bloomberg

- Indian equity market delivered strong returns in FY24 with Nifty and BSE 100 gaining 28.6% and 32.3% returns respectively. The midcaps and smallcaps outperformed largecaps indices with Nifty Midcap 100 and Nifty Smallcap 100 index gaining 60.1% and 69.8% respectively. Realty, Power, Capital Goods, Auto, Pharma, Oil & Gas, Metals, Consumer Durables sectors outperformed while Banks, IT and FMCG sectors underperformed.
- Indian market expectations are now close to optimum with continued disinflation trend, soft landing in the US, benign commodity prices and a market favorable outcome from the 2024 general elections. In this scenario, we expect India valuation to remain at higher-than-historical levels, supported by macro stability, greater visibility on earnings, stronger flows and challenges elsewhere in EM. For India, sustained higher commodity/oil prices and an adverse market outcome of general elections are the key structural risks. Globally, the market expects a soft landing. A scenario other than that could lead to higher risk premium and lower valuation. Nifty earnings are projected to grow at 12% CAGR over FY24-FY26. Basis these estimates, valuations at 20.5x FY25e seem to already discounting the good news and don't leave much room for disappointment. We believe market returns are likely to track earnings growth with limited change in market multiples.

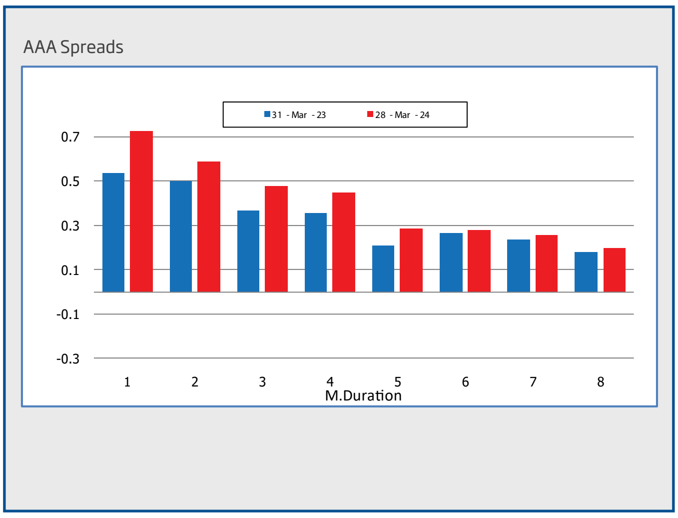
Debt Outlook and Positioning

India 10yr Gsec chart



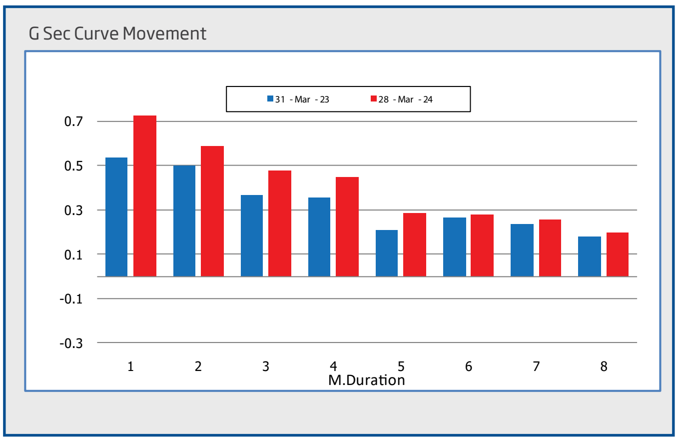
- US bond yields continue to remain volatile on incoming macro data. Yields touched intra month low of 4.03% on the back of dovish FOMC outcome, though closed higher at 4.20% for month vs 4.25% in the previous month.
- In India, the 10yr benchmark yield remained broadly stable around 7.05% marginally lower by 2bps than previous month close, as the higher supply of SDL weighed on market sentiment resulting in the tempering of the down move.

AAA Curve movement



- The FOMC in its latest meeting maintained status quo on rates. However, the Fed forecasts showed 75bps of rate cut for 2024.
- However, the surprisingly strong employment report, led to pricing out of a Fed rate cut in June, pushing it to September that worked to pull US yields higher.

G Sec Curve Movement



- The RBI-MPC in its recently concluded meeting decided to keep repo rate unchanged at 6.5% and retained stanceat withdrawal of accommodation. RBI continued with its guidance on achieving 4% CPI target over the medium term.
- The recently announced borrowing calendar for H1 FY2024 stands at INR 7.5tn (53% of total issuance for FY25), lower than the previous year (57% in H1FY24.Lower supply of government papers in FY25 amidst large expected FPI inflows on bond inclusion, improving global backdrop for fixed income, easing inflation and high real rates augurs well for Indian government bonds.

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