# MONTHLY UPDATE
## FEBRUARY 2025

24 YEARS
Protecting India with Pride

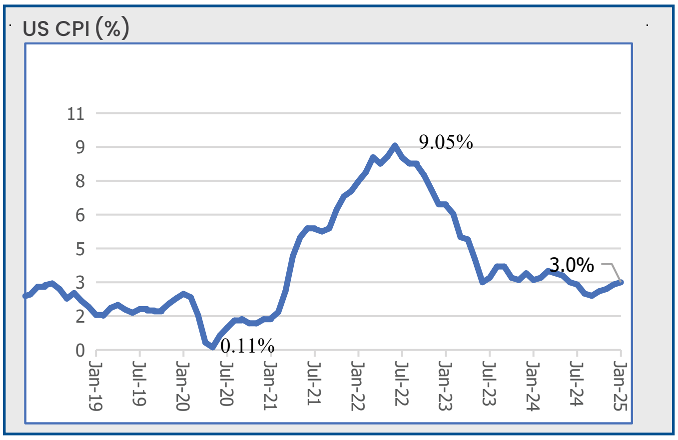
HDFC Life
Sar utha ke jiyo!

# Market Outlook

## HDFC Life – Monthly Update (March 2025)

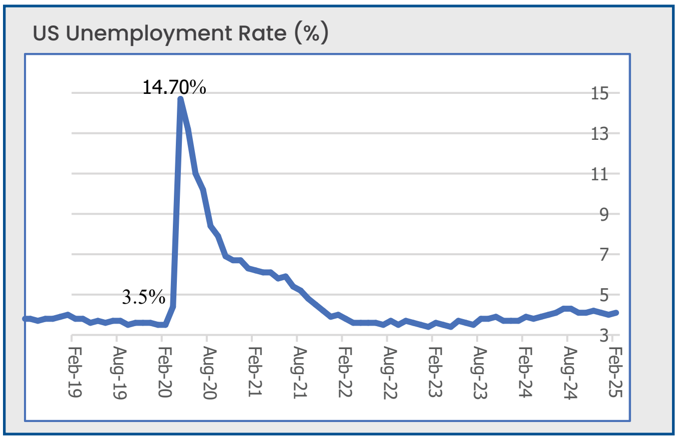
### Global Macro Review

#### US CPI (%)



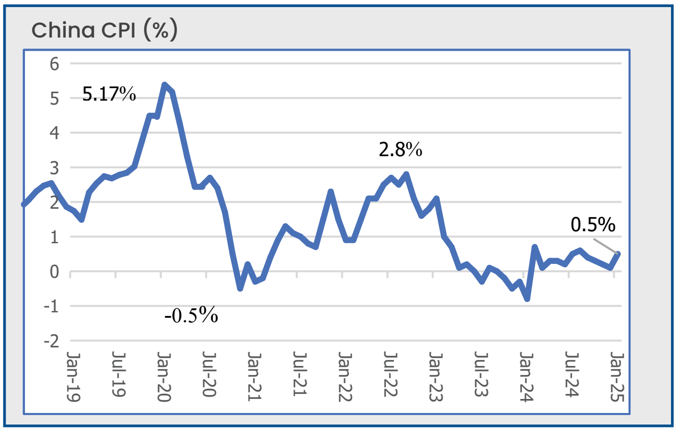

- US CPI inflation accelerated to 3.0% YoY (0.5% MoM) in January picking up from 2.9% YoY (0.4% MoM) in previous month, with broad-based increase visible across major categories. For the FOMC, release would suggest that disinflation is not moving at the desired pace and is settling in 3% threshold against its 2% target. However with softening crude prices, inflationary impulses are expected to fade out over the remaining part of the year.

#### US Unemployment Rate (%)




- US Non Farm Payrolls came in lower at 151k (expectations: 160K). The details were softer than the headline numbers suggest. A drop in participation rate, rise in underemployment rate and low hours worked, suggest a softening trend in labor demand which could be weather releated. However, with the rising trend of layoff of fedral government employees there could be further weakness in the labour market.

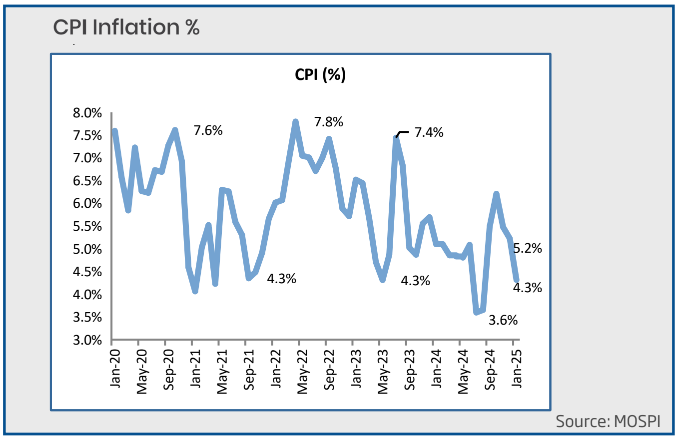
#### China CPI (%)




- Chinese CPI rose by 0.5% YoY in Jan. vs 0.1% in Dec. The rise in demand came from the effects of fiscal stimulus and front-loading of orders prior to the imposition of tariffs imposed by the US. While the high frequency indicators continue to suggest the economy remains fragile, though the headline GDP figure surprised on the upside. The major concern going forward may continue to arise from tarrif related impact on export growth which could prove to have significant headwind for economy. The PBoC may continue to ease policy further to avoid a sharp deceleration.

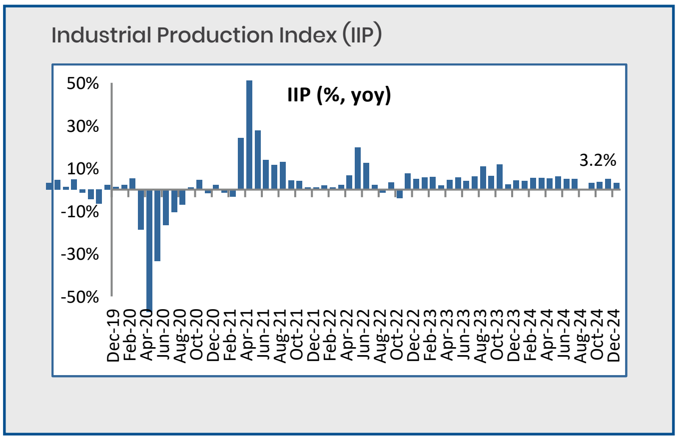
## India Macro Review

## CPI Inflation %



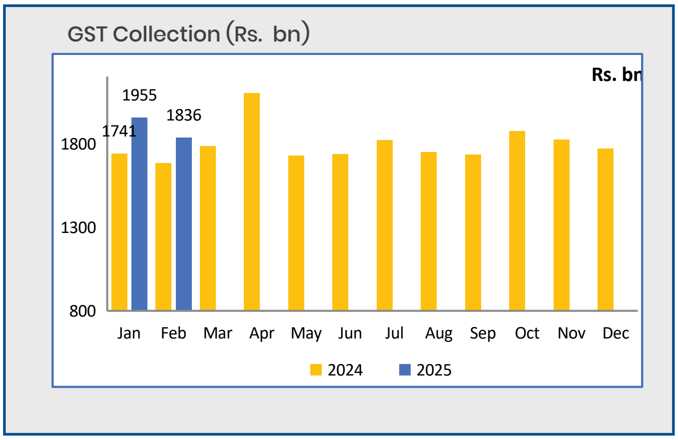

- Inflation (CPI) for Jan'25 moderated to 4.3% vs. 5.2% in Dec'24 as food CPI, which constitutes 45.9% of the index, fell to 5.7% in Jan'25 vs. 7.7% in Dec'24.
- Core CPI, exlcuding food and fuel, which constitutes 54% of CPI, rose marginally up to 3.9% in Jan'25.

## Industrial Production Index (IIP)




- Industrial Production (IIP) growth for Dec'24 decelerated to 3.2% vs. 5% growth in Nov'24 as Manufacturing output slowed to 3% in Dec'24 vs. 5.5% in Nov'24. However, Electricity output surged to 6.2% in Dec'24 vs. 4.4% in Nov'24 and Mining output rose to 2.6% in Dec'24.
- The increase in the Industrial production indexreflects 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)

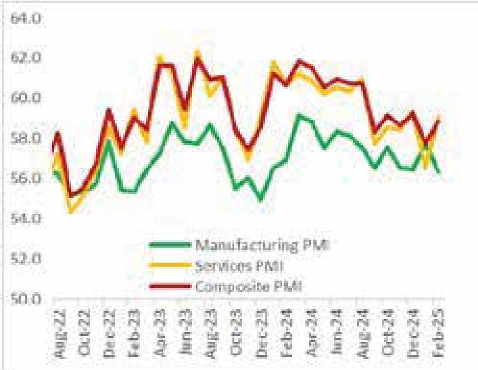



- GST revenues for the month of Feb'25 came to Rs. 1,837 bn showing a 9.1% YoY increase vs. Rs. 1,683 bn in Feb'24.
- Avg. monthly GST collections have increased to Rs. 1.8 lakh crore in CY24 vs. Rs. 1.6 lakh crore in CY23 and Rs. 1.5 lakh crore in CY22 continuing to display very high buoyancy

# India Macro Review

## PMI

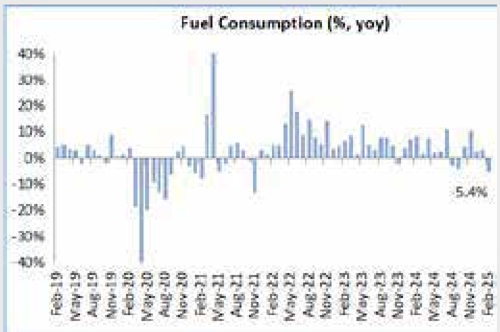
PMI




- PMI (manufacturing) eased to 56.3 in Feb'25 from 57.7 in Jan'25. However, PMI (Services) has increased to 59 in Feb'25 from 56.5 in Jan'25. Notably, PMI continuing in the expansion zone (>=50) indicate the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

## Fuel consumption YoY Growth %

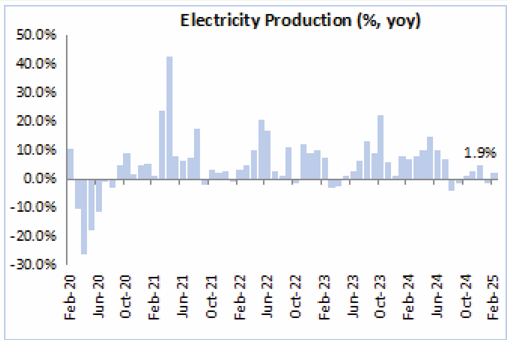
Fuel Consumption (%, yoy)




- Fuel consumption contracted by 5.4% YoY in Feb'25 vs. 3% surge in Jan'25. With in fuel category, diesel consumptondeclined by 1.3% YoY in Feb'25. However, Consumption for Petrol surged by 3.5% in Feb'25.

## Electricity Production YoY Growth %

Electricity Production (%, yoy)

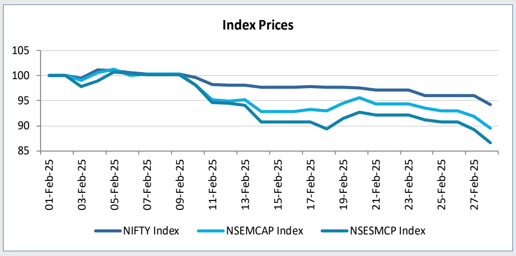



- Electricity productionincreasedby1.9% YoY in Feb'25 vs. 1.3% YoY contractionin Jan'25.

## Equity Outlook and Positioning

## Monthly Index performance

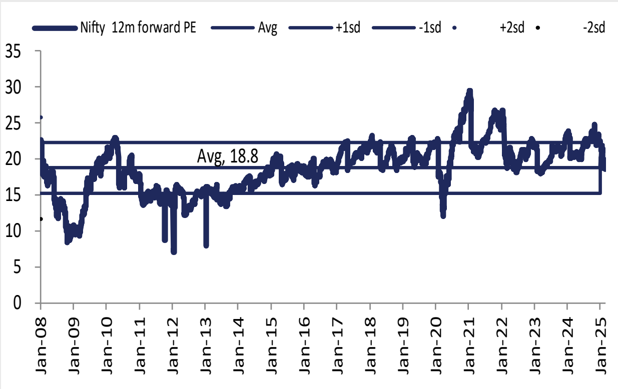
Monthly Index performance




- -Equity markets were negative in Feb'25 with large cap indices outperforming midcaps and smallcaps. Nifty 50 closed the month down 6% while CNX Midcap Index gave a negative return of 10.5% and Small Cap at -13.4%.
- Among the sectors, Capital Goods, Real Estate, Technology, Media and Utilities were the top laggards MoM

## Nifty Valuation (1 year forward PE)

Nifty Valuation (1 year forward PE)

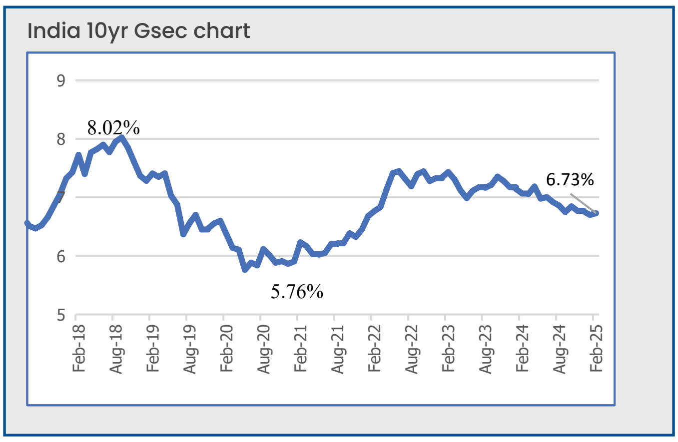



Source: Bloomberg

- Indian markets have been hit with several headwinds in the past couple of quarters. Government capex which was the key driver for investment-led growth is yet to fully pickup with some spends being incrementally diverted towards populist schemes. Consumption has been weak for nearly a year now because of reasons ranging from higher inflation, high interest rates, tighter monetary conditions and the RBI trying to dissuade lenders from growing their unsecured lending book aggressively. All these factors have contributed to an earnings slowdown.
- However, some of these factors are being incrementally addressed by the RBI and the government. RBI, on its part, has taken measures to improve system liquidity. In the recent policy meet, RBI cut Repo rate by 25bps. Government has stepped up spending in recent months. Also, it has tried to give a slight boost to consumption by announcing rationalization of income tax rates.
- Despite the correction, Indian markets still trade at valuations of ~19x FY26E and 17x FY27E P/E. The recent correction factors in some of the potential disappointments in earnings ahead. There has been a shift in allocation from EM to DM post the Trump victory, driven by concerns around potential tariffs that EM may face. This will continue to keep the markets volatile in the near term.

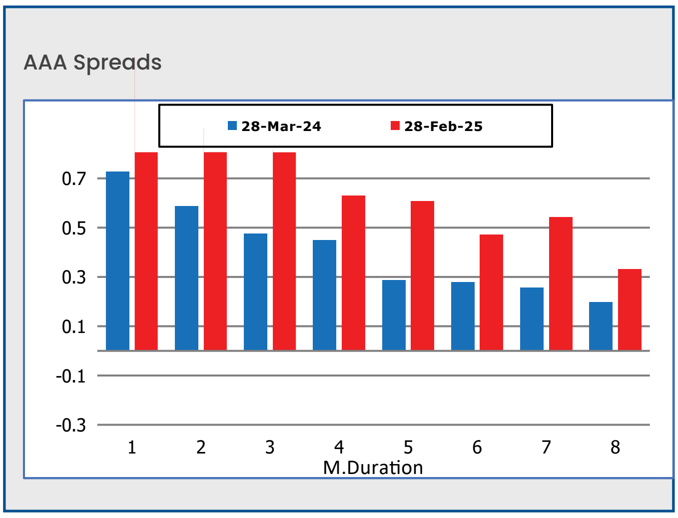
## Debt Outlook and Positioning

### India 10yr Gsec chart



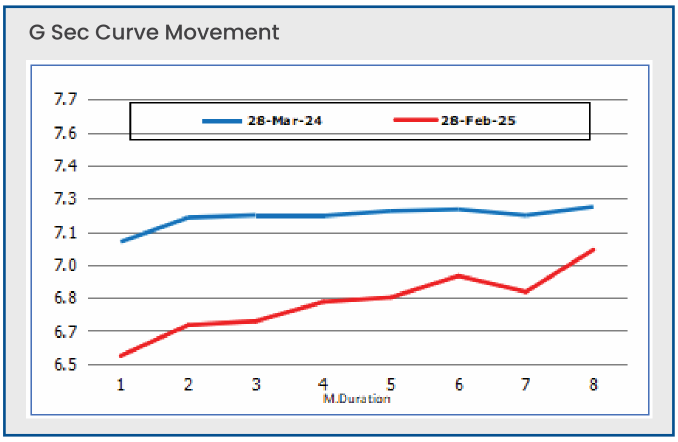

- The 10 yr UST yield saw a sharp dip of 33 bps through the month, from 4.54% at the beginning of the month, to 4.21% by the end of the month. The fall in yields was largely driven by sharp deceleration in high frequency US economic data like soft retail sales, contraction in services PMI, increase in unemployment claims data, fall in housing sales and uncertainty over US tariff policy.

### AAA Curve movement




- In India, the 10yr bond yield were marginally higher at 6.73% vs 6.70% in the previous month. Due to heavy debt supply from states, the longer end of the yield curve saw a sharp rise in yields, steepening the yield curve. However, the softening of US yields, RBI OMO purchases, softening crude price and the expected fall in CPI going ahead, are expected to temper any further rise in long tenure bond yields.

### G Sec Curve Movement




- With US President Trump continuing to use tariffs as a negotiating tool with other economies, markets have started to gradually discount its larger growth impact on the US economy, helping global yields cool down from their recent highs. Additionally, falling crude prices are likely to be positive for India trade deficit and overall forex balance, further supporting bond market sentiments. The benign inflation trends as well as the moderate growth expectations, open room for another rate cut by RBI at its April policy. While the global volatility will continue to impact Indian bond markets in the near term, expectations of further rate cuts and improvement in liquidity are likely to help yields soften.

*Sar utha ke jiyo!*