

MONTHLY UPDATE

MAY 2024



Sar utha ke jiyō!

Market Outlook

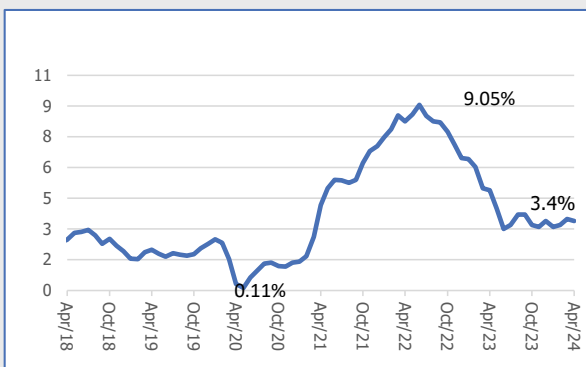
HDFC Life - Monthly Update (June 2024)



Global Macro Review

US CPI (%)

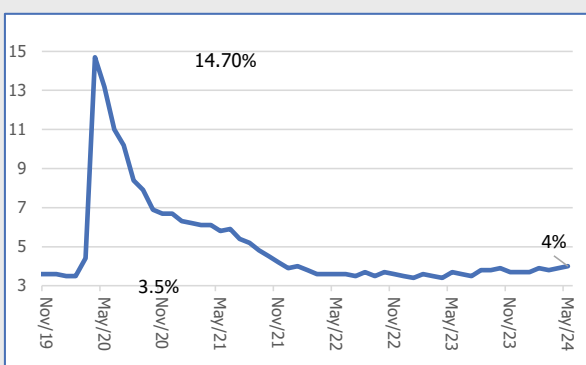
US CPI (%)



■ US CPI inflation inched lower at 3.4% YoY in April vs 3.5% in March, in line with the expectations. However, sequential momentum at 0.3% was lower than expectation of 0.4%. The US Fed expected for further evidence of disinflation unfolding before indicating easing in rates.

US Unemployment Rate (%)

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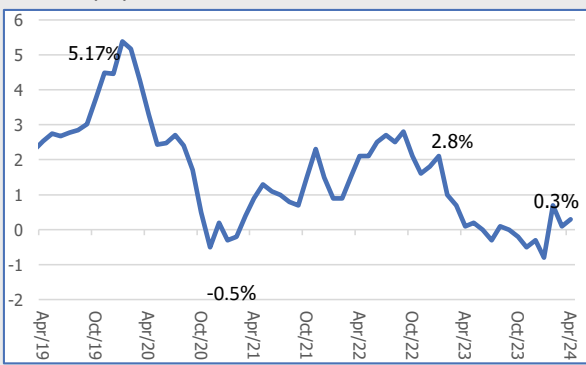


■ The US unemployment rate inched higher to 4% while participation rate eased marginally to 62.5%. The re-balancing of the labour market seems to be proceeding at a slower pace than earlier anticipated.

■ US Non Farm Payrolls, surprised on the upside at 272k which was much higher than 180k expected by the market. The above consensus job addition has pushed back rate cut expectations further.

China CPI (%)

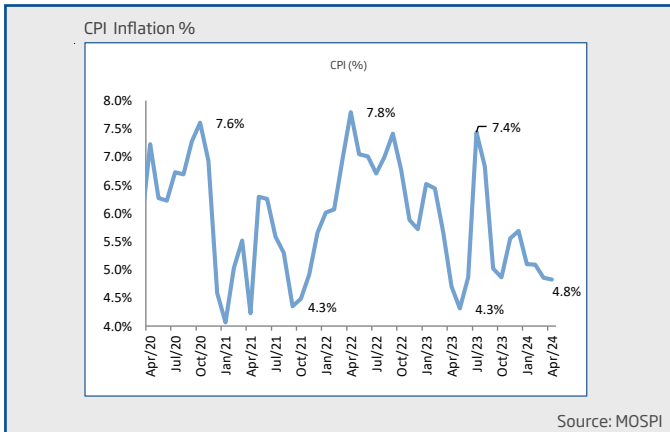
China CPI (%)



■ Chinese CPI rose by 0.3% yoy in April vs 0.1% in March. The upside was largely driven by non-food inflation such as clothing, housing and education. Recent high frequency indicators suggest uneven recovery about the Chinese growth prospect.

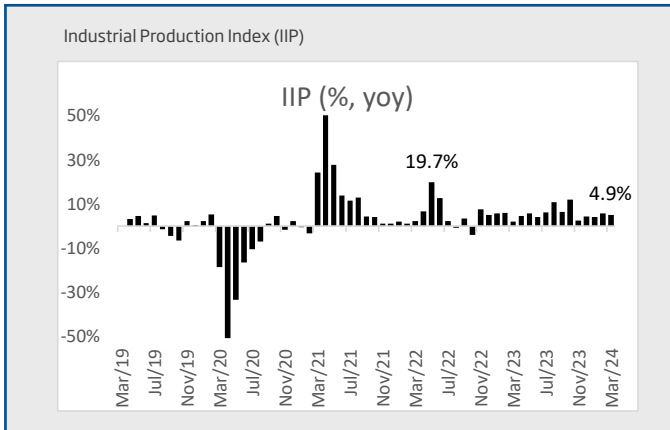
India Macro Review

CPI Inflation %



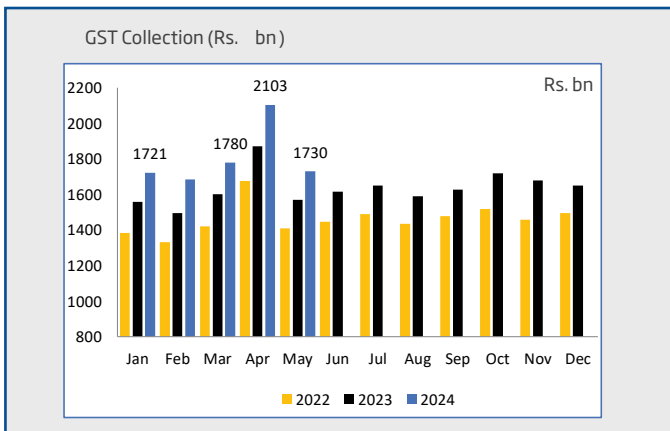
- Inflation (CPI) for Apr'24 stood at 4.8% as food CPI, which constitutes 45.9% of the index, stayed elevated at 7.9%. Within food, inflation for Vegetables, Pulses, Cereals, Meat and Fish, and Spices remain elevated.
- Fuel inflation which constitutes 6.8% of CPI, contracted by 4.24% in Apr'24 vs. 3.4% fall in Mar'24.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Mar'24 came at 4.9% as manufacturing output surged 5.2% in Mar'24 and electricity output was up 8.6%. However, mining output marginally increased by 1.2% in Mar'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.

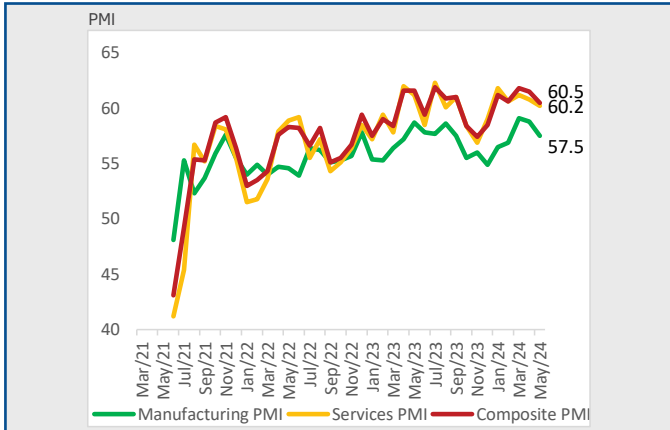
GST Collection (Rs. bn)



- GST revenues for the month of May'24 came to Rs. 1,730 bn showing a 10% YoY increase vs. Rs. 1,571 bn in May'23.
- Avg. monthly GST collections have increased to Rs. 1.7 lakh crore in FY24 vs. Rs. 1.5 lakh crore in FY23 and Rs. 1.2 lakh crore in FY22 continuing to display high buoyancy.

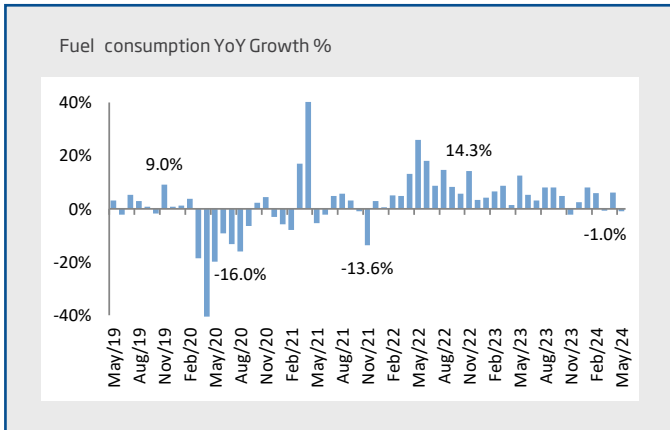
India Macro Review

PMI



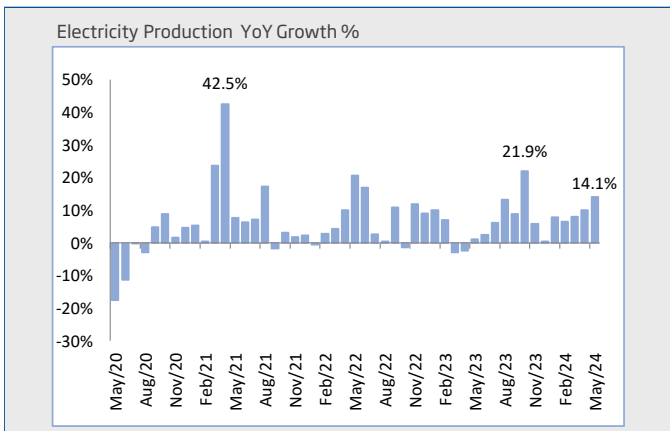
- PMI(manufacturing) eased to 57.5 in May'24 from 58.8 in Apr'24. However, PMI continuing in expansion zone (≥ 50) indicate the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption declined by 1% in May'24 vs. 6.1% up in Apr'24. Within fuel category, consumption for diesel rose 1.8% YoY in May'24 and petrol consumption increased by 2.4% YoYs in May'24. However, diesel consumption decelerated sequentially.

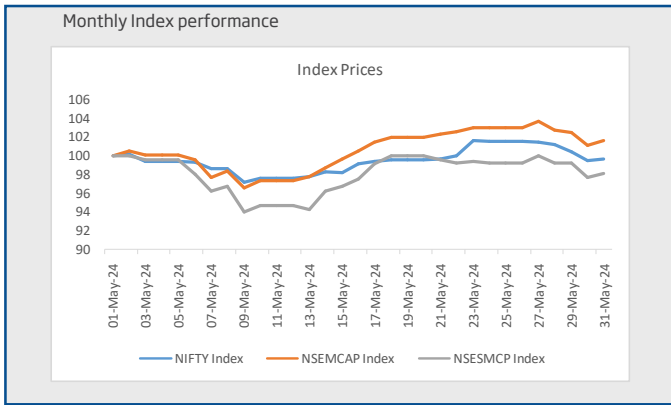
Electricity Production YoY Growth %



- Electricity production was up 14% YoY in May'24 vs. 10% YoY in Apr'24.
- Heatwaves in the north region driving strong electricity demand.

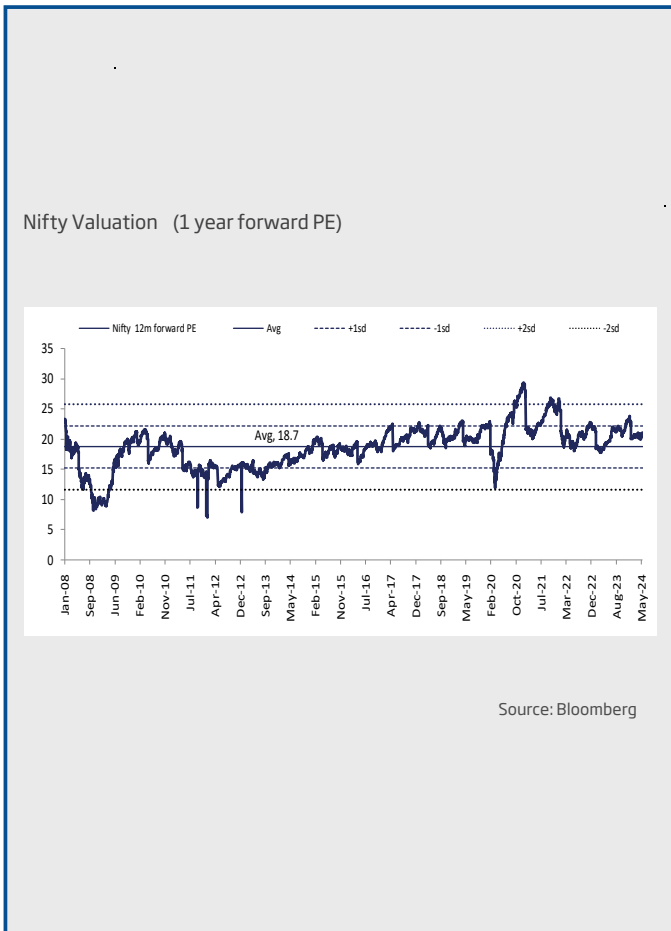
Equity Outlook and Positioning

Monthly Index performance



- Equity markets were mixed in May'24 with large cap indices underperforming the midcaps. Nifty 50 closed the month almost flat with a return of -0.3% while CNX Midcap Index gave a positive return of 1.6% and Small Cap fell 2%.
- Outperforming sectors included Capital goods, Power, Metals, Realty and Auto. On the other hand, the underperforming sectors included Banks, IT, Consumer Staples/ durables, Oil & gas and Pharma.

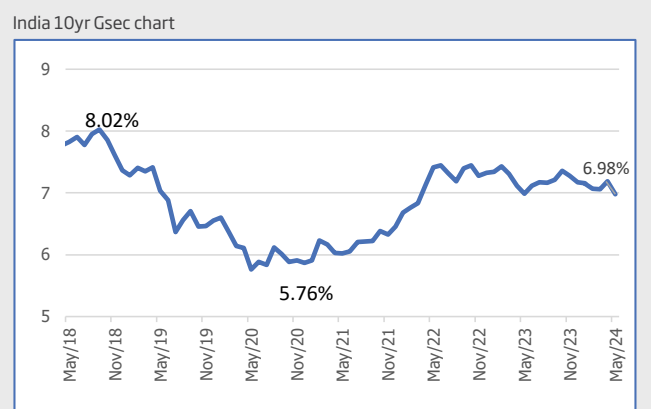
Nifty Valuation (1 year forward PE)



- Q4 FY24 results showed some reversal of trends of previous quarters. Consumption demand continued to be weak although a few companies did highlight incipient signs of recovery in demand from low-income and rural households. Investment demand continued to be robust although order booking was weak for several companies. Outsourcing was a mixed bag with IT services showing further weakness in demand given continued delay in discretionary spending by customers and pharmaceuticals showing continued strong demand from overseas markets.
- The BJP-led NDA coalition won the 2024 national elections narrowly, with 292 out of 543 seats in the Lok Sabha. The market may have concerns about political stability. We expect the government to continue with its investment-led economic agenda, but may tweak its priorities to support consumption and employment. We expect to get a better sense of the same over the next few weeks and in the FY2025 final budget. However, unlike the previous two terms, the BJP has fallen short of majority on its own and hence that may cause some volatility.

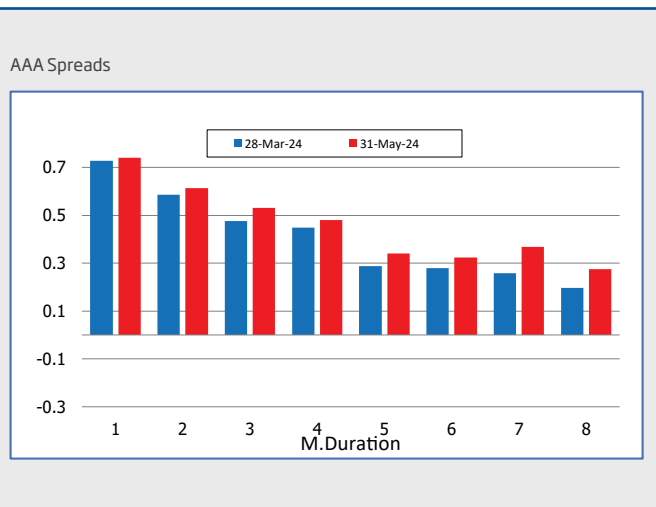
Debt Outlook and Positioning

India 10yr Gsec chart



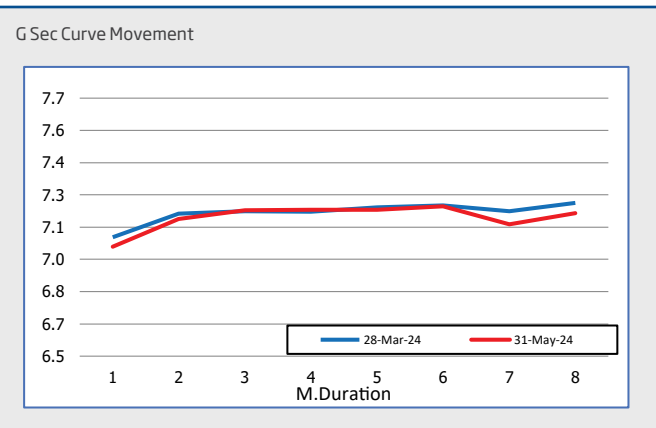
- US bond yields fell to a low of 4.30 % during the month before closing at 4.50% against 4.68% at the end of April'24. The fall in US yields were largely driven by weaker macro data compared to market expectations.
- In India, the 10 yr benchmark yield also fell, tracking fall in UST rates along with supportive bond conducive macro environment. The 10yr benchmark yield closed at 6.98% against 7.18% at the end of the previous month.

AAA Curve movement



- The recent S&P outlook upgrade, higher than expected dividend announcement by RBI (2.1trn vs. 800bn) along with strong exit polls outcome led to fall in India bond yields.
- In the recently concluded MPC meeting the MPC kept repo rate unchanged and retained stance at withdrawal of accommodation. We expect that any change in outlook may happen once RBI has greater clarity on 1) US Fed rate cycle. 2) Union Budget. 3) Monsoon distribution.

G Sec Curve Movement



- With US labor data showing initial signs of weakness, coupled with cooling inflation, expectations of an earlier start to the US rate cut cycle have increased. Other DM central banks, Swiss National Bank, Riksbank, Bank of Canada and the ECB, have already started their respective rate cut cycle. The global bond market environment is increasingly turning benign.
- However, the favorable supply-demand balance for domestic bonds is expected to keep yields soft. FPI inflows, related to the inclusion of Indian bonds in the JP Morgan EM bond index, are expected to pick up in the coming months. India's outlook upgrade from S&P could also lead to higher inflows.



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