MONTHLY UPDATE
SEPTEMBER 2024

23 YEARS
Protecting India with Pride

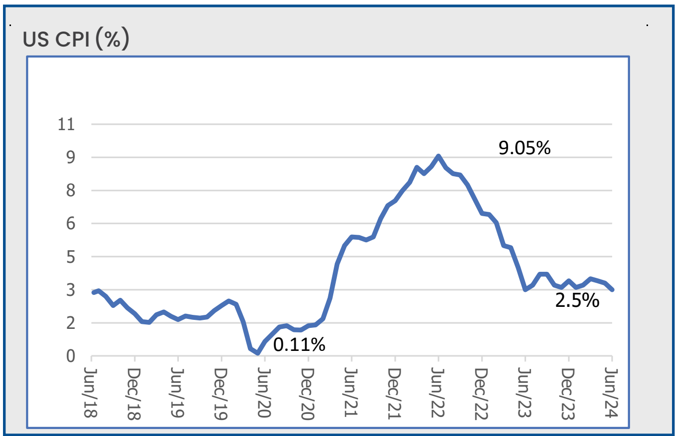
HDFC Life
Sar utha ke jiyo!

Market Outlook

HDFC Life – Monthly Update (October 2024)

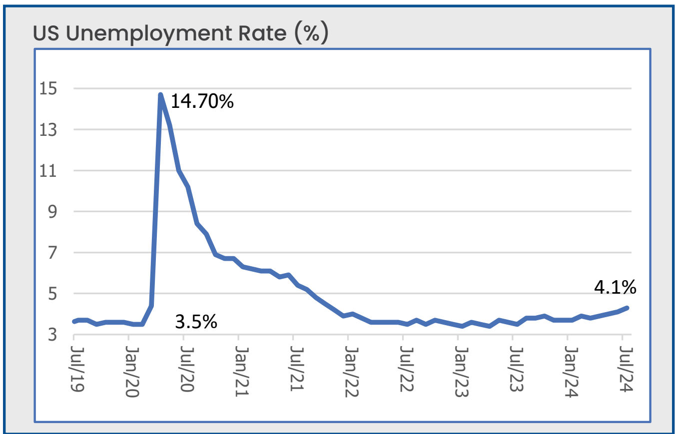
Global Macro Review

US CPI (%)



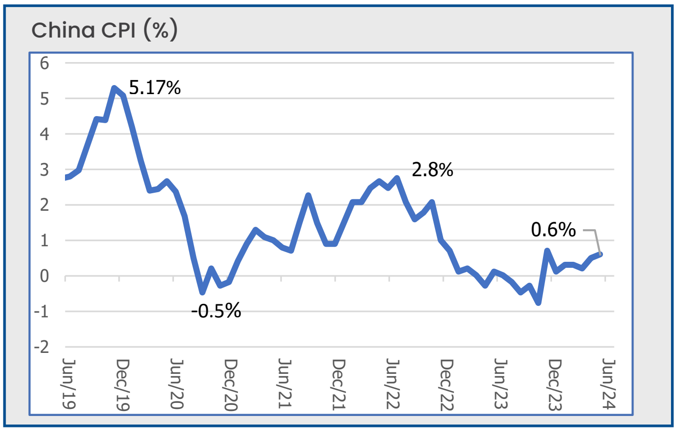
- US CPI inflation inched lower to 2.5% YoY in Aug vs 2.9% in July largely in line with market expecatation highlighting the steady easing trend. Soft labor market and inflation heading towards the 2% target should give confidence to US Fed to continue with its calibrated easing of interest rates.

US Unemployment Rate (%)



- The US unemployment rate declined to 4.1% in September vs 4.2% in Aug. The unemployment has steadily climed from the level of 3.8% recorded in March 2024. However the sequential downtick suggests that the labour market is coming in to better balance and is not deteriorating at a rapid pace as was being feared by the market.
- US Non Farm Payrolls, added close to 254k jobs in Sept, against market expecatations of 150k. The strength in September may just be seasonal adjustment as other labor market metrics, like quit rate and hiring rate, have not shown any meaningful turnaround.

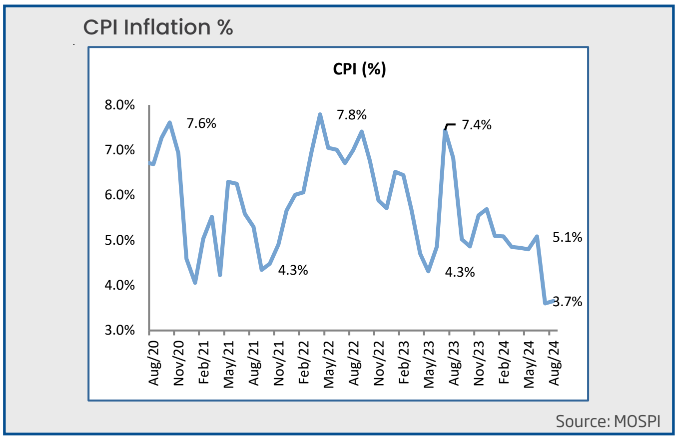
China CPI (%)



- Chinese CPI rose by 0.6% yoy in Aug vs 0.5% in July. The rise in inflation was due to supply led constraints, primarly driven by heavy rainfall distrupting the supply chain. However given the broad based weakness in the real economy Chinese policymakers announced a sizeable stimulus package to revive growth prospects. The PBoC has delivered fairly substantial easing in the form of rate cuts, RRR cuts and liquidity infusion to support the equity markets.

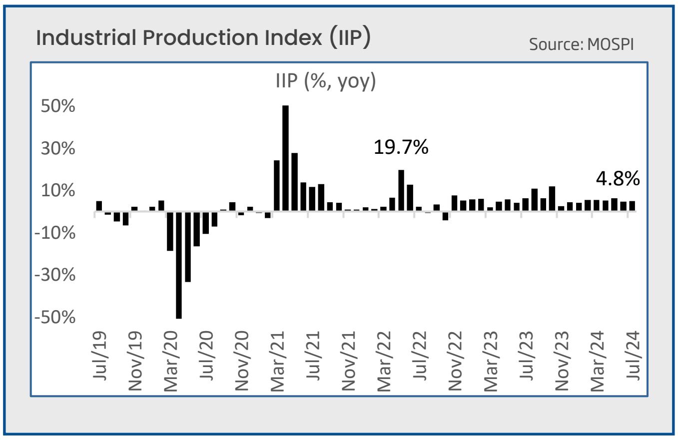
India Macro Review

CPI Inflation %



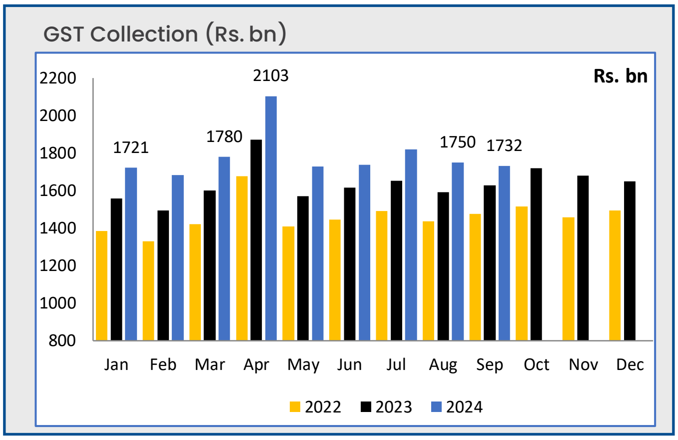
- Inflation (CPI) for Aug'24 marginally crept up to 3.7% vs. 3.6% in Jul'24 as food CPI, which constitutes 45.9% of the index, rose to 5.3% in Aug'24 vs. 5.1% in Jul'24.
- Fuel inflation which constitutes 6.8% of CPI, contracted by 5.3% in Aug'24.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Jul'24 marginally increased to 4.8% vs. 4.7% in Jun'24 as Manufacturing output surged to 4.6% in Jul'24 vs. 3.2% in Jun'24. However, Electricity output slowed down to 7.9% in Jul'24 and Mining output to 3.7% in Jul'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.

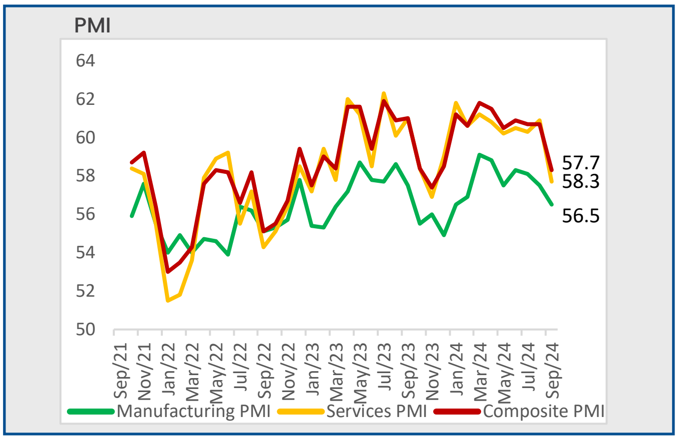
GST Collection (Rs. bn)



- GST revenues for the month of Aug'24 came to Rs. 1,732bn showing a 6.5% YoY increase vs. Rs. 1,627bn in Aug'23.
- Avg. monthly GST collections have increased to Rs. 1.8 lakh crore in 6M FY25 vs. Rs. 1.7lakh crore in 6M FY24 and Rs. 1.5lakh crore in 6M FY23 continuing to display steady growth.

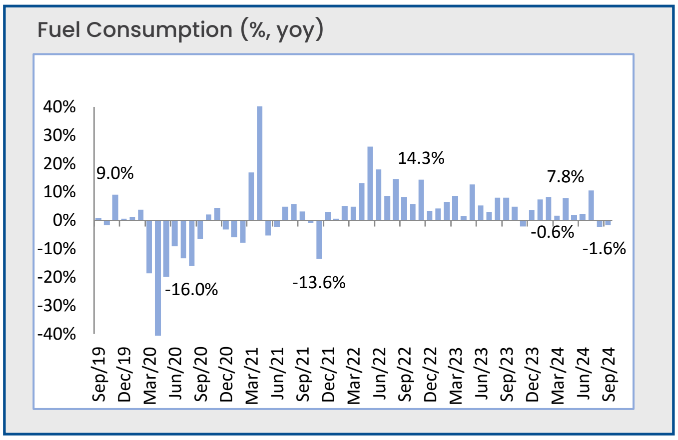
India Macro Review

PMI



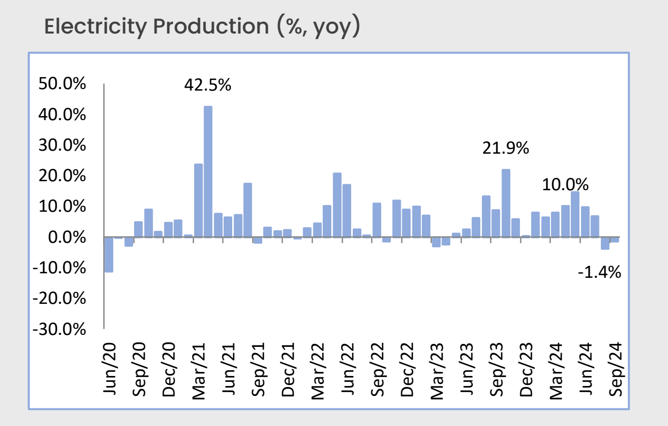
- PMI (manufacturing) eased to 56.5 in Sep'24 from 57.5 in Aug'24. However, PMI continuing in expansion zone (>=50) indicates the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption marginally declined by 1.6% yoy in Sep'24 vs. 2.3% contraction in Aug'24. With in fuel category, Consumption for diesel declined by 1.9% yoy in Sep'24. However, petrol consumpton increased by 3% yoy in Sep'24.

Electricity Production YoY Growth %

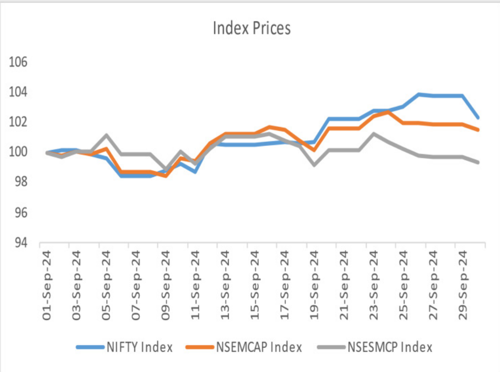


- Electricity production was down 1.4% YoY in Sep'24 vs. 3.8% contraction YoY in Aug'24.

Equity Outlook and Positioning

Monthly Index performance

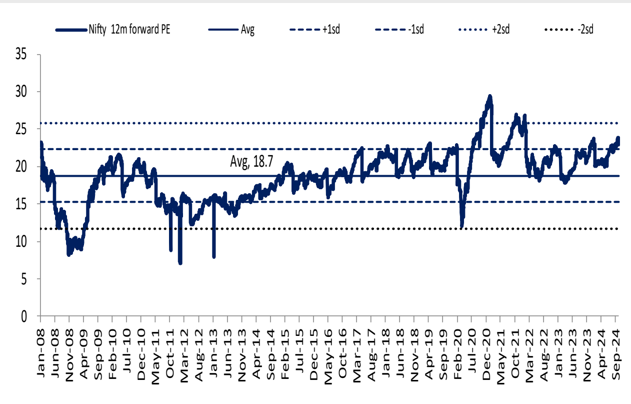
Monthly Index performance



- Equity markets were largely positive in Sep'24 with large cap indices outperforming midcaps and smallcaps. Nifty 50 closed the month with a return of +2% while CNX Midcap Index gave a return of +1.5% and Small Cap fell 1%.
- Outperforming sectors included Metals, Power, Realty, Auto, FMCG, and Banking. On the other hand, the underperforming sectors included Oil & Gas, IT and Capital goods.

Nifty Valuation (1 year forward PE)

Nifty Valuation (1 year forward PE)



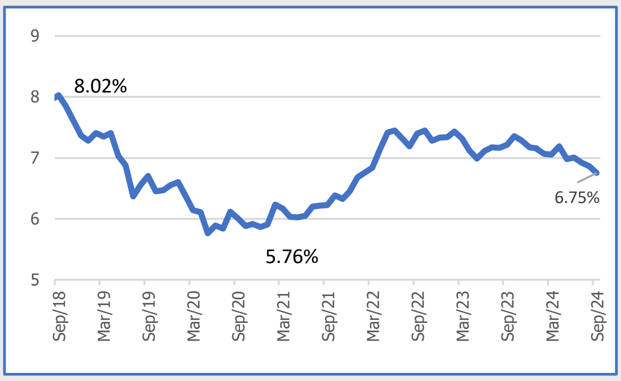
Source: Bloomberg

- Domestic inflows continue to remain strong with the SIP inflows growing every month. The FII inflow saw another positive month and is positive on a YTD basis. On the supply side, we expect to see more IPOs, QIPs and PE exits, along with some promoters sell down. The monetary stimulus by China may also drive tactical FII inflows into China impacting India. We believe that net flows will be the key driver of the markets in the near term
- India's long term growth prospects stand out in extremely volatile global landscape as it is supported by strong domestic economy, stable government, healthy corporate and financial sector balance sheet and growing earnings. Nifty earnings are projected to grow at 12% CAGR over FY24-FY26. Based on these estimates, valuations at 20x FY26e seem to be already discounting the good news and don't leave much room for disappointment. We are even more cautious on the broader market which is trading at historical premium with Nifty Midcap 100 Index trading at 32x P/E (60% premium to Nifty). We believe market returns are likely to moderate in line with earnings growth and are likely to track earnings growth.

Debt Outlook and Positioning

India 10yr Gsec chart

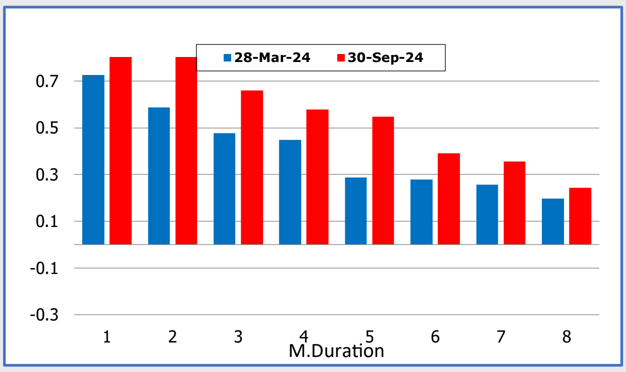
India 10yr Gsec chart



- The 10 yr UST yield eased sharply on back of dovish pivot from the US Fed. The 10yr US yield eased by almost 13bp for the month and closed at 3.78%. However the market sentiments swinging between 'hard-landing' and 'soft-landing' expectations, will continue to drive the path of 10y yield going forward.
- The US FOMC commenced its easing cycle with 50bps cut, at faster pace than expectations. The need to front-load the rate cuts was justified by the change in focus of the policy from upside risk from inflation to deterioration of labor market. The guidance from the FOMC members indicated that rates could ease further by 50bps in 2024, 100bps in 2025 and 50bps by 2026.

AAA Curve movement

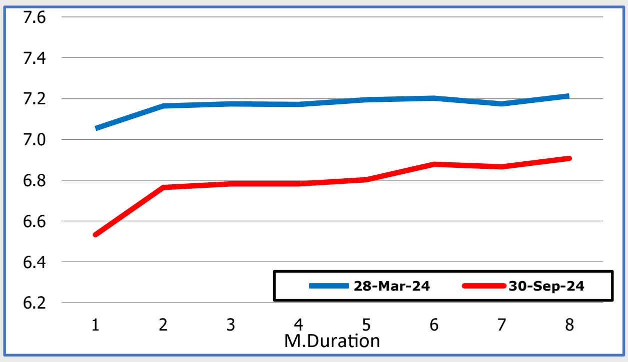
AAA Spreads



- In India, the 10yr benchmark yield eased by 11bps responding to the fall in global yields, softness in crude prices and strong FII demand in Indian bonds. Banks and insurance companies also remained major buyers of Government securities.
- The Borrowing calendarH2FY24 stands at INR 6.61tn (~47% of total issuance for FY25), higher than the previous year (43% in H2FY24) but in-line with Budget estimate. Net borrowing stands at INR 4.95tn versus INR 4.3tn last year.

G Sec Curve Movement

G Sec Curve Movement



- With the start of rate cuts in the US, steady improvement in Indian macroeconomic dynamics and favorable demand-supply balance for domestic bonds, Indian bond yields are expected to continue to decline steadily. However, the rising geo-political risk remains the key risk in the near term.

HDFC Life

Sar utha ke jiyo!