Sampath Reddy, CFA
CIO, Bajaj Allianz Life Insurance

Macro-economic developments

- The U.S. CPI inflation rose by 7.9% in Feb 2022, the fastest pace of annual inflation in 40 years. Rising food and rent costs contributed to the big increase. Excluding volatile food and energy prices, core inflation rose 6.4%. The U.S. consumer price index rose 0.8% MoM in Feb 2022 following 0.6% MoM rise in Jan 2022. The U.S. core consumer prices rose 0.5% MoM in Feb following 0.6% rise in Jan. The US benchmark 10-year treasury yield kept on rising during the month and closed at 2.34% at the end of March 2022 which is 52 bps up from its previous month close.
- The U.S. Federal Reserve (Fed) increased interest rates for the first time since Dec 2018 as it decided to raise the target range for the federal funds rate by 25 bps to 0.25% - 0.5%. The Fed projected an interest rate of 1.9% by the end of the year. On the economic front, the Fed lowered their projections for GDP growth in 2022 to 2.8% from 4.0% and raised their projections for consumer price growth to 4.3% from 2.6%.
- India's fiscal deficit for the period from Apr to Feb of FY22 stood at 82.7% of the annual budget target for FY22. The fiscal deficit was 76.0% of Revised Estimate (RE) of FY21 during the corresponding period of the last fiscal. The total receipts of the government for the same period stood at ₹18.27 lakh crore or 83.9% of the Revised Estimates (RE) for FY22 as compared to 88.2% of the RE of FY21 in the corresponding period of the previous year. The tax (net) revenue so far was at 83.9% of the RE of FY22 as compared to 90.4% of RE of FY21 in the corresponding period of last fiscal.
- India's current account balance recorded a deficit of US$ 23.0 billion (2.7% of GDP) in Q3 of FY22 as against deficit of US$ 9.9 billion (1.3% of GDP) in Q2 of FY22 and US$ 2.2 billion (0.3% of GDP) in Q3 of FY21. The widening of current account deficit in Q3 of FY22 was mainly on account of higher trade deficit. India recorded a current account deficit of 1.2% of GDP in Apr-Dec 2021 as against a surplus of 1.7% in Apr-Dec 2020.
- The index of eight core industries witnessed a growth of 5.8% in Feb 2022 as compared to a growth of 4.0% in Jan 2022 and a decline of 3.3% in the same period of the previous year.
- The Government has maintained interest rates steady on various small savings schemes, including popular schemes like Public Provident Fund (PPF) and Sukanya Samriddhi Scheme. Among the small savings schemes, Sukanya Samriddhi Yojana offers 7.6%, Senior Citizen saving scheme 7.4% and PPF 7.1%.
- The Centre in consultation with the Reserve Bank of India (RBI) to announce ₹8.45 lakh crore in the first half of FY23, accounting for 60% of the total borrowing planned for the year, continuing the trend of frontloading debt raises early in the fiscal year when private demand for funds is low. The move will also enable the government to accelerate its capital spending programme in order to help the economy recover.
- India's merchandise trade deficit widened to $20.88 billion in Feb 2022 from $13.12 billion in Feb 2021. The trade deficit thus widened by 59.18%. Merchandise exports grew 25.10% YoY to $34.57 billion in Feb 2022 from $27.63 billion in Feb 2021. Merchandise imports grew 36.07% YoY to $55.45 billion in Feb 2022 from $40.75 billion in Feb 2021.
- India's Index of industrial output (IIP) grew 1.3% YoY in Jan 2022 as against 0.6% decline in Jan 2021. Manufacturing, mining and electricity grew 1.1%, 2.8% and 0.9%, respectively, in Jan 2022. The manufacturing and mining sector fell 0.9% and 2.4% in Jan 2021, while electricity rose 5.5%. For Apr 2021-Jan 2022, industrial output has clocked a growth of 13.7% as against contraction of 12% in Apr 2020-Jan 2021.
- According to the Ministry of Finance, net direct tax collections for FY22 stood at ₹13,63,038 crore which corresponds to a growth of over 48.4%. Advance Tax collections for FY22 (Till 4th Instalment) stood at ₹6,62,896.3 crore as on Mar 16, 2022 which corresponds to a growth of approximately 40.75%. Refunds aggregating to ₹ 1,87,325.9 crore were issued in the current fiscal.
- According to the Ministry of Commerce and Industry, total foreign direct investment (FDI) inflow to India decreased to $74.01 billion in CY21, down 15% from $87.55 billion in CY20. FDI inflows comprise equity inflows, unincorporated body equity capital, re-invested earnings, and other capital.
- Brent crude oil prices were quite volatile and surged 6.85% during the month of March 2022. The substantial increase in prices due to persisting concerns over escalating geopolitical tensions between Russia and Ukraine. It touched the highs of $127.98/bbl and closed at $107.91/bbl.
- Indian rupee depreciated around 0.60% against the US dollar in the month of March 2022 and closed at INR 75.90/$, relatively a stable performer within peer Asian currencies in last few months.

Equity market developments and Outlook

- After seeing correction in the initial part of the month, the benchmark Nifty 50 index closed with 4% gain however the broader market indices Nifty Midcap 50 index and Nifty Smallcap 100 outperformed with 4.8% & 6% returns respectively.
- Among sectors; top performing sectors were Oil & Gas, Metal and IT with 8.2%, 7.6% and 7.3% returns respectively while Auto & Consumer Durables were the bottom performing sectors with -2.5% & -1.9% returns respectively.
- The MSCI world index was up 2.5% during the month. For the US markets, the benchmark S&P 500 index gained 3.6%. Within Europe, major markets like Germany and France delivered -0.4% & 0.02% returns respectively while UK market relatively did well and delivered 0.8% return during the month.
- Within Asian markets; Singapore, Japan & India were the top performing markets with 5.1%, 4.9% & 4% returns respectively while China, Hong Kong & Malaysia fell by 6.1%, 3.2% & 1.3% respectively. In other emerging markets like Russia & Brazil gained 9% & 6.1% respectively.
- Foreign portfolio investors (FPIs) remained net sellers of equity with outflows of ₹ 36,989 crores in the month of March 2022 compared to a net equity outflow of ₹ 37,689 crores in the previous month.
- Domestic Institutional Investors (DIIs) inflows continued to off-set FPIs outflows, the DIIs inflows were ₹ 39, 677 crores in the month of March 2022 compared to net inflow of ₹42,084 crores in the previous month.
- Higher commodity prices, inflation & on-going geopolitical concerns between Russia-Ukraine causing volatility in crude oil prices. These headwinds may lead to some market volatility in the short term. Although market valuations have moderated from their highs however it is still above the long-term average. We expect that the gradual economic recovery will continue to be healthy going forward.
- Investors can continue to invest systematically in the equities. Any market volatility/dips can be used as an opportunity by them to increase their equity exposure gradually (as per their individual risk profile)

Fixed Income market developments and Outlook

- Bond yields were flattish during the month. The 10-year benchmark yield rose to 6.89% in the beginning of the month however moderated slightly and closed at 6.84%, compared to the previous month close of 6.76% - up 08 bps.
- Goods and services tax (GST) collections touched an all-time high of over ₹1.42 lakh crore in March 2022, boosted by improved economic activity as the Omicron wave effect moderated and rate rationalization. The GST collection for March 2022 is 15% higher than that in the same month last year and 46% up over March 2020. The previous record was ₹ 1.40 lakh crore recorded in January 2022. The average monthly gross GST collection in the last quarter (January-March) stood at ₹ 1.38 lakh crore, against ₹1.10 lakh crore, ₹1.15 lakh crore and 1.30 lakh crore in the first, second and third quarters, respectively.
- Consumer Price Index (CPI) rose to 6.07% YoY in Feb 2022 compared to 6.01% in Jan 2022 and 5.66% in Dec 2021. Core inflation, a measure of underlying inflation which excludes the volatile food and fuel components, was, however, stable at 6% for the third consecutive month. The consumer food price index (CFPI), which accounts for 39% of the CPI basket has increased from 0.68% in September 2021 to reach 5.85% in Feb 2022. The CPI continued to remain above the upper limit of RBI's tolerance band.
- Foreign Portfolio Investors (FPIs) outflows continued and increased to ₹ 4,929 crores in the month of March 2022, compared to a net outflow ₹3,458 crores in the previous month.
- From an investment perspective we prefer the short to medium term part of the yield curve.

Ver: Mar 2022

Regd. Office Address: Bajaj Allianz House, Airport Road, Yerawada, Pune - 411006. Reg. No.: 116. CIN : U66010PN2001PLC015959 | Mail us: customercare@bajajallianzlife.co.in | Call on : Toll free no. 1800 209 7272 | Fax No: 02066026789. The Logo of Bajaj Allianz Life Insurance Co. Ltd. is provided on the basis of license given by Bajaj Finserv Ltd. to use its "Bajaj" Logo and Allianz SE to use its "Allianz" logo.
Please note that the past performance is not indicative of future performance.
© 2021 Bajaj Allianz Life Insurance Co. Ltd. All Rights Reserved.
Any reference to "Bajaj Allianz" is a reference to Bajaj Allianz Life Insurance Company Limited.