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Macro-economic developments

- The U.S. CPI inflation has shot up 8.4% in March 2022, hitting a 41-year high. It is the highest year-on-year increase in the inflation in the United States since December 1981. The US consumer price index has soared by 1.2% in March from its February figure. This increase of 1.2% is itself the highest MoM jump since 2005. The high gas prices have caused an increase in the transportation costs of goods, aggravating the inflation rate. The US benchmark 10-years treasury yield momentum continued during the month as well and closed at 2.93% at the end of April 2022 which is 59 bps up from its previous month close.
- In the continuation from the last meeting of FOMC meeting, the U.S. Federal Reserve (Fed) increased interest rates by 50 basis points, the biggest rate increase in more than two decades. The committee boosted the federal funds rate to a range of 0.75% to 1%. This follows the FOMC's 25 basis point rate increase in March-its first hike since late 2018. The last time the Federal Reserve raised interest rates at back-to-back meetings was in 2006.
- India's exports rose 19.76% to $42.22 billion on account of healthy performance by sectors such as petroleum products, engineering, and leather. Similarly, imports grew 24.21% to $60.74 billion. Thus, trade deficit widened to $18.51 billion in Mar 2022 as against trade deficit of $13.64 billion in Mar 2021. Exports in FY22 increased to a record high of $419.65 billion and imports rose to $611.89 billion, thus leaving a trade deficit of $192.24 billion as against trade deficit of $102.63 billion in FY21.
- Index of eight core industries grew 4.3% in Mar 2022 as compared to a growth of 6.0% in Feb 2022 and a growth of 12.6% in the same period of the previous year. The maximum growth was witnessed in the fertilizers sector which witnessed a growth of 15.3% followed by cement sector and natural gas sector which witnessed a growth of 8.8% and 7.6% respectively. Only coal and crude oil sector witnessed a contraction of 0.1% and 3.4% respectively.
- India's Index of industrial output (IIP) grew 1.7% YoY in Feb 2022 as against 3.2% decline in Feb 2021. Both mining and electricity sector grew 4.5% and manufacturing sector grew 0.8% in Feb 2022. For Apr 2021- Feb 2022, industrial output has clocked a growth of 12.5% as against contraction of 11.1% in Apr 2020 - Feb 2021.
- Exports in April increased by 24% to US$38.2 bn (March: US$42.2 bn) while imports increased by 26% to US$58.2 bn (March: US$60.7 bn). Trade deficit was at US$20.1 bn (March: 18.7 bn). Non-oil exports increased by 12.3% to US$30.5 bn while non-oil imports increased by 9.9% to US$38.7 bn. Top large exports were petroleum products (113% yoy), electronics (64%), chemicals (27%), ready-made garments (16%), and engineering goods (15%). Top large imports were coal, coke, etc. (136% yoy), crude oil and products (81%), chemicals (47%), non-ferrous metals (36%), and vegetable oils (34%).
- India's services exports reached a new high of USD 254.4 bn in FY22. In Mar 2022, exports reached an all-time monthly high of USD 26.9 bn. The top contributors to exports include telecommunications, computer and information services, other business services, and transportation.
- Brent crude oil prices were remained volatile and surged 1.3% during the month of April 2022. The crude oil prices are still on the higher side and remained range bound during the month. The persisting geopolitical tensions between Russia and Ukraine causing crude oil to trade above $100/bbl. Tough it moderated from its highs of $127.98/bbl and closed at $109.34/bbl.
- Indian rupee depreciated around 0.85% against the US dollar in the month of April 2022 and closed at INR 76.52/$, continue to perform well within peer Asian currencies. Relatively, it has been stable consistently for last few months.

Equity market developments and Outlook

- Rising bond yields, surging Covid cases in China, uncertainty around the Russia-Ukraine war and probability of aggressive rate hike by the US Fed to counter inflation led the benchmark Nifty 50 index to fall by 2.1% in April 2022. However, the broader market indices Nifty Midcap 50 index and Nifty Smallcap 100 fell relatively less by 0.2% & 1.7% respectively.
- Among sector indices, IT, realty and metals declined 12%, 4% and 3% respectively, while power, FMCG & Auto gained 18%, 5.6% & 4.8% respectively during the month.
- Due to the persistent geopolitical tensions, rising inflation & interest rate globally, the MSCI world index & the U.S. benchmark S&P 500 index fell 8.4% & 8.8% respectively during the month. Within Europe, major markets like Germany and France also fell 2.7% & 2.0% respectively while UK market relatively did well and was up 0.4% in April 2022.
- Within Asian markets, all major markets closed in red except Indonesia & Malaysia, which were up 2.2% & 0.8% respectively. China was the worst performing market and fell 6.3% during the month. Surprisingly, Russia market was up for the second consecutive month and delivered 5.9% return. However, Brazil market lost the momentum and fell 10.1% during the month of April 2022.
- Foreign portfolio investors (FPIs) remained net sellers however, outflows moderated to ₹17,144 crores in the month of April 2022 compared to a net equity outflow of ₹ 36,989 crores in the previous month.
- Domestic Institutional Investors (DIIs) inflows remained robust and continued to counter FPIs outflows; DIIs inflows were ₹ 30,842 crores in the month of April 2022 compared to net inflow of ₹ 39,677 crores in the previous month.
- The conflict between Russia and Ukraine continues to keep global commodity/ food prices elevated leading to continued inflationary pressures. On the other hand, rise in Covid-19 cases in China has slowed the momentum by keeping the supply side pressures intact. While the near term impact of these measures on the markets are negative, long term prospects remain good.
- 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 are on the rising trend, especially after April's RBI monetary policy. The 10-year benchmark yield kept on rising and closed at 7.13%, which is 29 bps up compared to the previous month close of 6.84%. The rising trend continues as currently it is treading above 7.4% level.
- The RBI MPC, in an off-cycle meeting, unanimously voted to hike repo rate by 40 bps to 4.4% and continued with its focus on withdrawal of accommodation. Consequently, SDF rate and MSF rate increased to 4.15% and 4.65%. The RBI also hiked CRR by 50 bps to 4.5%, which would withdraw liquidity of around ₹ 870 bn. The MPC highlighted that the domestic food inflation was being pushed up by global commodity prices with high and volatile crude oil prices also posing upside risks to inflation. Core inflation is also likely to remain elevated in the near term due to fuel prices and essential medicines. On the growth front, the MPC drew strength from forecast of a normal monsoon and its positive impact on kharif production along with sustained recovery in contact-intensive services. Investment activity is also expected to increase through government capex. The MPC noted downside risks emanating from (1) rising external sector risks, (2) elevated commodity prices, (3) persistent supply bottlenecks, and (4) volatility spillovers from monetary policy normalization in advanced economies.
- India's consumer price index-based inflation (CPI) rose to 6.95% in Mar 2022 as against 6.07% in Feb 2022. The CPI rose due to rising food prices. Consumer Food Price Index (CFPI) also rose 7.68% as compared to 5.76% in the previous month. The CPI continued to remain above the upper limit of RBI's tolerance band.
- Goods and services tax (GST) collections hit an all-time high of ₹ 1.68 lakh crore in April, indicating strong economic activity despite multiple headwinds and better tax compliance. The April number is up 20% from the year earlier and ₹ 25,000 crore more than the previous highest of ₹ 1.42 lakh crore in March this year.
- Foreign Portfolio Investors (FPIs) outflows continued however slightly moderated to ₹ 4,439 crores in the month of April 2022, compared to a net outflow of ₹ 4,929 crores in the previous month.
- It is now evident that the RBI's intention is to counter inflation and reduce the excess liquidity in the system. RBI's surprise move to hike rate intermittently and hawkish commentary on inflation led to hardening of bond yields post the policy announcement. We expect bond yields to continue to rise further during the year, on the expectation of additional rate hikes, normalization of monetary policy by major global central banks, elevated inflation and supply side pressures due to the large market borrowing in FY23.
- From an investment perspective, we prefer the short to medium term part of the yield curve.

Ver: Apr 2022