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Macro-economic developments

- The U.S. CPI inflation dipped slightly to 8.3% in April 2022 but remains elevated and stayed close to March's multi-year high of 8.5%. The food prices rose at the fastest pace since April 1981. The headline annual inflation rate was higher than expected, as was the core inflation rate, which excludes energy and food, dipped to 6.3%, from 6.5% in March. It could likely be the beginning of a sustained decline in inflation as it might have peaked, but it is unlikely that this will stop Federal Reserve from increasing further rate hikes. The US benchmark 10-year Treasury yield crossed the 3% level during the initial part of the month. However, it moderated and closed at 2.85% at the end of May 2022, which is 8 bps down from its previous month's close of 2.93%.
- The U.S. GDP fell by 1.5% in the first quarter of 2022 compared to the previously reported 1.4% drop. The contraction comes after U.S. GDP grew 6.9% in the fourth quarter of 2021.
- Index of eight core industries grew 8.4% in Apr 2022 as compared to a growth of 4.9% in Mar 2022 and a growth of 62.6% in the same period of the previous year. The maximum growth was in the coal sector that witnessed a growth of 28.8% followed by electricity sector and refinery product sector that witnessed a growth of 10.7% and 9.2%, respectively. Only steel and crude oil sector witnessed a contraction of 0.7% and 0.9%, respectively.
- India's fiscal deficit for FY22 stood at 6.71% of GDP. The revenue deficit stood at 4.37% of GDP while the effective revenue deficit stood at 3.34% of GDP. Total receipts stood at Rs. 22.08 lakh crore or 101.3% of the budget estimate as compared to 105.6% in the corresponding period of the previous year.
- India's Index of industrial output (IIP) grew 1.9% YoY in Mar 2022 as against 24.2% rise in Mar 2021. Mining, manufacturing and electricity sector rose 4%, 0.9% and 6.1% in Mar 2022, respectively, as against growth of 6.1%, 28.4% and 22.5% in Mar 2021. For FY22, industrial output has clocked a growth of 11.3% as against contraction of 8.4% in FY21.
- India's merchandise exports rose 15.46% to \$37.29 billion in May 2022 on account of healthy performance by sectors like petroleum products, electronic goods and chemicals. Imports during the month also grew 56.14% to \$60.62 billion. Thus, trade deficit widened to \$23.33 billion in May.
- As per the Reserve Bank of India (RBI), India's foreign exchange reserves declined \$28.05 billion to \$607.31 billion at the end of Mar 2022 from \$635.36 billion at the end of Sep 2021. RBI's net forward asset (receivable) in the domestic foreign exchange market was \$65.79 billion at the end of Mar 2022.
- India witnessed the highest ever annual FDI (foreign direct investment) inflow of \$83.57 billion in FY22 compared with \$81.97 billion in FY21. FDI equity inflow in manufacturing sectors rose 76% YoY in FY22 to \$21.34 billion. Among sectors, computer software and hardware attracted maximum inflows followed by the services sector and automobile industry.
- Surplus transferred by the Reserve Bank of India (RBI) to the government fell 69% to ₹ 30,307 crore for FY22 from ₹ 99,126 crore in FY21 and lower than ₹ 74,000 crore budgeted by the government for the current fiscal.
- Brent crude oil prices were remained volatile and surged 5.7% during the month of May 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 \$115.6/bbl.
- Indian rupee depreciated around 1.4% against the US dollar in the month of May 2022 and closed at INR 77.56/\$. Rupee has been a relative outperformer among EM and other Asian currencies over the past year. Given the way inflation and interest rates are rising and with significant FII outflows, we could see some depreciation in currency in the near term.

Equity market developments and Outlook

- Rising bond yields, resurgence of Covid cases, uncertainty around the Russia-Ukraine war and expectation of aggressive rate hike by the major central banks, led to the Nifty 50 index to fall by 3% in May 2022. The other market cap indices, Nifty Midcap 50 index and Nifty Smallcap 100 Index underperformed and were down 5% & 10% respectively.
- Among sector indices, only Auto and FMCG ended in green, with returns of 5% & 1%, respectively. Metals, Power and

consumer durables indices declined 16%, 12% and 11%, respectively.

- Due to the persistent geopolitical tensions, rising inflation & interest rate globally, the MSCI world index fell 0.16%. The U.S. benchmark S&P 500 index was marginally up by 0.01% only during the month. Within Europe, major markets like UK & Germany did well and were up 2% & 0.8%, respectively, however France market fell 0.2% in May 2022.
- Within Asian markets; China, Japan, Hong Kong & Taiwan were up 6.8%, 1.6%, 1.5% & 1.3%, respectively. However, Singapore, India, Malaysia & Indonesia markets were down 3.7%, 3%, 1.9% & 1.1%, respectively.
- Foreign portfolio investors (FPIs) outflows increased to ₹37,663 crores in the month of May 2022 compared to a net equity outflow of ₹ 20,468 crores in the previous month.
- Domestic Institutional Investors (DIIs) inflows remained robust and continued to counter FPIs outflows; DIIs inflows were ₹ 50,836 crores in the month of May 2022 compared to net inflow of ₹ 30,842 crores in the previous month.
- Corporate earnings have been exceptionally strong in FY21 & FY22, and are also expected to do well in FY23. Market valuation has moderated substantially due to recent correction, and is now trading below its long-term average. Even though the market valuation has come down significantly from earlier highs, there is still a possibility that it could further decline in near term. We expect Equity returns to be moderate in the current year, but the long-term India growth story still remains intact.
- Investors can continue to invest systematically in equities. Any market volatility/dips can be used as an opportunity to increase their equity exposure gradually, as per their individual risk profile.

Fixed Income market developments and Outlook

- Bond yields continued on the rising trend, especially after April's RBI monetary policy and expected further rate hike in upcoming MPC meeting in June 2022. The 10-year benchmark yield rose to 7.46% during the month and closed at 7.41%, which is 30 bps up compared to the previous month close of 7.11%. The rising trend continues as currently it is trading at around 7.5% level.
- India's gross domestic product (GDP) grew 4.1% YoY for the quarter ended Mar 31, 2022 as compared to a growth of 5.4% in the previous quarter and a growth of 2.5% in the same period of the previous year. Meanwhile, the overall growth recorded for the FY22 is estimated at 8.7% as against 6.6% in FY21. However, elevated level of inflation and rising interest rates are expected to temper economic growth momentum in FY23. During the Mar 2022 quarter, Gross Value Added (GVA) agriculture grew at 4.1% while manufacturing contracted 0.2%. Public administration, defence and other services, which represent government expenditure, grew 7.7% during the Mar quarter, boosting overall economic growth. Among other sectors, mining and quarrying and construction grew 6.7% and 2% respectively.
- India's consumer price index-based inflation (CPI) rose to 7.79% in Apr 2022 as against 6.95% in Mar 2022. The CPI rose due to rising food and fuel prices. Consumer Food Price Index (CFPI) also rose 8.38% as compared to 7.68% in the previous month. Food inflation, that accounts for nearly half the consumer price index (CPI) basket, remained elevated due to higher vegetable and cooking oil prices globally. The CPI continued to remain above the upper limit of RBI's tolerance band.
- Goods and services tax (GST) collection in May 2022 increased 44% YoY to 1.41 lakh crore but dropped 16% MoM. In April 2022, GST collections hit the all-time high level since inception of GST. In May 2021, GST collections were ₹ 97,821 crore. This is the fourth time that the monthly GST collection has crossed ₹ 1.40 lakh crore mark since the inception of GST and the third straight month since March 2022, indicating strong economic activity despite multiple headwinds and better tax compliance.
- Foreign Portfolio Investors (FPIs) outflows increased to ₹ 5,378 crores in the month of May 2022, compared to a net outflow of ₹ 4,161 crores in the previous month.
- As per the Reserve Bank of India (RBI) annual report for FY22, the recovery of the Indian economy from the COVID-19 pandemic sustained in FY22 and the momentum is expected to continue in FY23 despite global risks and its spillovers. RBI is of the view that a substantial increase in government capex outlay is expected to bring in private investment that may lead to an improvement in aggregate demand. In addition, RBI expects the National Infrastructure Plan and National Monetization Pipeline to give a boost to infrastructure spending.
- From an investment perspective, we prefer the short to medium term part of the yield curve.