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Macro-economic developments

- The World Bank in its latest Global Economic Prospects report lowered India's real gross domestic product (GDP) growth forecast to 7.5% for 2022- 23 (FY23) from 8%, on the back of inflationary pressures, supply-chain pressures, and geopolitical tensions due to Russia-Ukraine conflict.

- The Organization for Economic Cooperation and Development (OECD) estimated India's FY23 economic growth to be 6.9%. OECD said that India being an importer of energy, fertilizers, and edible oils had been adversely affected by war between Russia-Ukraine. According to OECD, headline inflation is expected to moderate considerably in 2022 and 2023 but will remain above the central bank's top tolerance limit of 6%.

- The U.S. annual inflation rate unexpectedly accelerated to 8.6% in May of 2022, the highest since Dec 1981 and compared to market forecasts of 8.3%. Energy prices rose 34.6%, the most since September of 2005, due to gasoline (48.7%), fuel oil (106.7%, the largest increase on record), electricity (12%, the largest 12-month increase since August 2006), and natural gas (30.2%, the most since July 2008). Food costs surged 10.1%, the first increase of 10% or more since March 1981. Big increases were seen in prices of meats, poultry, fish, and eggs (14.2%). Other increases were also seen in cost of shelter (5.5%, the most since February 1991), household furnishings and operations (8.9%), used cars and trucks (16.1%) and airline fares (37.8%) while cost of new vehicles eased slightly (12.6% vs 13.2%).
- The US benchmark 10-year Treasury yield reached to 3.47% during the month. However, it moderated and closed at 3% at the end of June 2022, which is 16 bps up from its previous month's close of 2.84%.
- Index of eight core industries grew 18.1% in May 2022 as compared to a growth of 9.3% in Apr 2022 and a growth of 16.4% in May 2021. All sectors witnessed growth in May 2022. The maximum growth was in the cement sector which witnessed a growth of 26.3% followed by coal sector and fertilizer sector which witnessed a growth of 25.1% and 22.8%, respectively.
- India's fiscal deficit stood at 12.30% of the Budget Estimates (BE) from Apr to May of FY23. The revenue deficit stood at 12.30 % of Budget estimate. Total receipts stood at ₹3.82 lakh crore or 16.7% of the budget target as compared to 18% in the corresponding period of the previous year. Total expenditure stood at ₹5.86 lakh crore or 14.8% of the budget estimate as compared to 13.7% in the corresponding period of the previous year.
- India's current account deficit (CAD) decreased to US\$ 13.4 billion (1.5% of GDP) in Q4 of FY22 from US\$ 22.2 billion (2.6% of GDP) in Q3 of FY22. The sequential decline in CAD in Q4 of FY22 was mainly on account of a moderation in trade deficit and lower net outlay of primary income. The current account balance recorded a deficit of 1.2% of GDP in FY22 as against a surplus of 0.9% in FY21 as the trade deficit widened to US\$ 189.5 billion in FY22 from US\$ 102.2 billion in FY21.
- India's Index of industrial output (IIP) grew 7.1% YoY in Apr 2022 due to growth in capital goods and consumer durables sector. The manufacturing sector reported a growth of 6.3%, while electricity and mining grew 11.8% and 7.8%, respectively. According to use-based classification, capital goods segment witnessed a growth of 14.7%, while consumer durables expanded 8.5% in Apr.
- India's Manufacturing Purchasing Managers' Index fell to 53.9 in Jun 2022 from 54.6 in May 2022. India's manufacturing activity continued to expand in Jun amid robust domestic and foreign client demand, but the rate of growth slowed to a nine-month low due to heavy price pressures.
- India Services Purchasing Managers' Index rose to 59.2 in Jun 2022 from 58.9 in May 2022. India's services sector rose at its highest level in eleven years as output and new orders grew at an accelerated rate amid improving demand condition. The composite index rose to 58.2 in Jun from 58.3 in May.
- India's merchandise exports grew by 16.8% to \$ 37.9 billion in Jun 2022. In the first quarter of FY23, India's merchandise exports rose 22.2% to \$ 116.7 billion. Non-Petroleum exports rise by 11.9% to \$ 92.5 billion in the first quarter of FY23. Petroleum products (98.01%), Electronic goods (50.66%) and Readymade Garments of all Textiles (44.67%) witnessed major increase in exports in the first quarter of FY23.
- Brent crude oil prices were remained volatile and further surged 5.7% during the month of June 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 \$123.58/bbl and closed at \$109.03/bbl.

- Indian rupee depreciated around 1.8% against the US dollar in the month of June 2022 and closed at INR 78.95/\$. 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 further see some depreciation in currency in the near term.

Equity market developments and Outlook

- Persistent geo political concerns, further US Fed rate hike expectations, resurgence of Covid cases, elevated inflation and expectation on economic slowdown globally led to the Nifty 50 index to fall by 5% in June 2022. The other market cap indices, Nifty Midcap 50 index and Nifty Smallcap 100 Index underperformed and were down 6% & 8% respectively.
- All sectoral indices closed negative except Auto Index, rose to 1% during the month. However, Metals, consumer durable and realty indices underperformed significantly and declined 14%, 9% and 6% respectively.
- The MSCI world index fell sharply by 9%. The U.S. benchmark S&P 500 index declined 8% during the month. Within Europe, major markets like UK, France & Germany also fell 6%, 8% & 11% respectively.
- Within Asian markets, only China & Hong Kong were up 7% & 2%, respectively. However, South Korea, Taiwan & Malaysia markets were down 13%, 12% & 8%, respectively.
- Foreign portfolio investors (FPIs) outflows increased to ₹49,469 crores in the month of June 2022 compared to a net equity outflow of ₹37,663 crores in the previous month.
- Domestic Institutional Investors (DII) inflows remained robust and continued to counter FPIs outflows; DIIs inflows were ₹46,599 crores in the month of June 2022 compared to net inflow of ₹50,836 crores in the previous month.
- Liquidity tightening and rising interest rates have caused increased market volatility globally, including India. Strong domestic inflow in the Indian Equity market has cushioned the decline, causing its relative outperformance to most of the global equity markets. Valuations of Indian Equity market have moderated from their highs and are presently trading at levels that are marginally below the long-term average.
- 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 June's RBI monetary policy and expected further rate hike in upcoming MPC meeting in Aug 2022. The 10-year benchmark yield rose to 7.61% during the month and closed at 7.45%, which is 4 bps up compared to the previous month close of 7.41%. The rising trend moderated a bit as currently it is trading at around 7.3% level.
- The RBI's Monetary Policy Committee (MPC) in its policy review increased key policy repo rate by 50 bps to 4.90%. This was the second consecutive rate hike after 40 bps rate hike in May 2022. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65% while the marginal standing facility (MSF) rate and the Bank Rate stood at 5.15% each. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.
- RBI's real GDP growth projection for 2022-23 is retained at 7.2%, with 16.2% in Q1; 6.2% in Q2; 4.1% in Q3 and 4.0% in Q4 on the back of improvement in urban demand and gradual recovery in rural India. Inflation is projected at 6.7% in 2022-23, with 7.5% in Q1, 7.4% in Q2, 6.2% in Q3, and 5.8% in Q4.
- India's consumer price index-based inflation (CPI) eased to 7.04% in May 2022 as against 7.79% in Apr 2022. The CPI fell mainly on account of softening food prices. Consumer Food Price Index (CFPI) also eased to 7.97% in May as compared to 8.31% in Apr. The CPI continued to remain above the upper limit of RBI's tolerance band. However, with the rising crude oil prices and supply-chain disruptions caused by the Russia-Ukraine war, the effect is anticipated to be short-lived. Vegetable costs are on the rise, which is a matter for concern. In May 2022, they increased by 18.26% YoY.
- Goods and Services Tax (GST) revenue rose 56% YoY to ₹1.45 lakh crore in Jun 2022 as against ₹1.4 lakh crore in May 2022. The gross GST collection in June 2022 is the second highest collection next to the April 2022 collection of ₹1.67 lakh crore. This is the fifth time the monthly GST collection crossed 1.40 lakh crore mark since inception of GST and fourth month at a stretch since March 2022. The collection in June'2022 is not only be the second highest but also has broken the trend of being low collection month as observed in the past.
- Foreign Portfolio Investors (FPIs) outflows moderated a bit to ₹2,005 crores in the month of June 2022, compared to a net outflow of ₹5,378 crores in the previous month.
- From an investment perspective, we prefer the short to medium term part of the yield curve.