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### Macro-economic developments

- The International Monetary Fund (IMF) significantly cut its estimate of India's economic growth for FY23 from 8.2% to 7.4%, citing the impact of external challenges and the quick tightening of monetary policy. It further said that controlling inflation should be India's policymakers' top priority and supported tightening the country's

monetary policy. In light of a number of growth-related downside risks, the IMF also reduced India's growth prediction for FY24 by 0.8% to 6.1% in its most recent World Economic Outlook report.

- The U.S. annual inflation rate unexpectedly accelerated to 9.1% in June of 2022, the highest since Dec 1981 and compared to market forecasts of 8.8%. Excluding food and energy, core CPI rose 5.9%, compared with the 5.7% estimate. Costs surged for gasoline, groceries, rent and dental care. On a monthly basis, headline CPI rose 1.3% and core CPI was up 0.7%, compared to respective estimates of 1.1% and 0.5%.
- Energy prices surged 7.5% on the month and were up 41.6% on a 12-month basis. The food index increased 1%, while shelter costs, which make up about one-third of the CPI rose 0.6% for the month and were up 5.6% annually. This was the sixth straight month that food at home rose at least 1%. Rental costs rose 0.8% in June, the largest monthly increase since April 1986. Much of the inflation rise came from gasoline prices, which increased 11.2% on the month and just shy of 60% for the 12-month period. Electricity costs rose 1.7% and 13.7%, respectively. New and used vehicle prices posted respective monthly gains of 0.7% and 1.6%.
- The US benchmark 10-year Treasury yield traded in the range bound during the month. However, it moderated from its highs and closed at 2.67% at the end of July 2022, which is 33 bps down from its previous month's close of 3%.
- Index of eight core industries grew 12.7% in Jun 2022 as compared to a growth of 19.3% in May 2022 and a growth of 9.4% in Jun 2021. All sectors witnessed growth except crude oil sector in Jun 2022. The maximum growth was in the coal sector which witnessed a growth of 31.1% followed by cement sector and electricity sector which witnessed a growth of 19.4% and 15.5%, respectively.
- India's fiscal deficit stood at 21.20% of the Budget Estimates (BE) from Apr to Jun of FY23. The revenue deficit stood at 20.70% of Budget estimate. Total receipts stood at ₹5.96 lakh crore or 26.1% of the budget target as compared to 27.7% in the corresponding period of the previous year. Total expenditure stood at ₹9.48 lakh crore or 24.0% of the budget estimate as compared to 23.6% in the corresponding period of the previous year.
- India's Index of industrial output (IIP) grew 19.6% YoY in May 2022 as against 7.1% rise in Apr 2022 and 27.6% in May 2021. The electricity sector, manufacturing sector and mining sector grew 23.5%, 20.6% and 10.9%, respectively, in Jun. According to use-based classification, consumer durable goods segment witnessed maximum growth of 58.5% and capital goods expanded 54% in May.
- India Services Purchasing Managers' Index fell to 55.5 in Jul 2022 from 59.2 in Jun 2022. India's services sector experienced a decline as the most recent uptick in company activity was constrained by inflationary pressures and sluggish sales growth. The composite index fell to 56.6 in Jul from 58.2 in Jun.
- India's Manufacturing Purchasing Managers' Index rose to 56.4 in Jul 2022 from 53.9 in May 2022. The manufacturing sector in India expanded at its highest rate in eight months in July as a result of strong increases in output and new orders as demand increased as a result of decreasing pricing pressure.
- India's merchandise exports reached USD 35.24 billion in Jul 2022, closely matching the USD 35.51 billion in Jul 2021. India imported USD 66.26 billion worth of goods in Jul 2022, up 43.59% from USD 46.15 billion in Jul 2021. The trade deficit during the period of Apr - Jul 2022-23 was 100.01 billion USD, compared to 31.02 billion USD in Jul 2022.
- India's foreign exchange reserves rose after falling in the last eight consecutive weeks to \$573.88 billion for the week ended Jul 29, 2022 from \$571.56 billion in the previous week. India's foreign exchange reserves thus at present is at a 20-month low and lowest since Nov 6, 2020, when they were at \$568.49 billion.
- Brent crude oil prices were remained volatile however moderated to 4.2% during the month of July 2022. The crude oil prices are still on the higher side and remained range bound during the month. Prices fell as market participants worried over the possibility of an economic recession later this year. This has led to moderation in crude oil prices, from its highs of \$123.58/bbl, it closed at \$110.01/bbl.
- Indian rupee marginally depreciated around 0.37% against the US dollar in the month of July 2022 and closed at ₹ 79.26/\$. The Indian Rupee has depreciated breaching the 80/\$ mark earlier, but has fared relatively better than a number of peer emerging market currencies. This has been on the back of comparatively better macro fundamentals and comfortable forex reserves in India.

### Equity market developments and Outlook

- Better corporate earnings, return of FPI flows and comments by the US Fed about moderation in pace of rate increase boosted investor sentiment which led to the Nifty 50 index to surge nearly by 9% in July 2022, posting the best month of the CY2022. The other market cap indices, Nifty Midcap 50 index outperformed large cap and delivered 12% return, whereas the Nifty Smallcap 100 Index also rose 9% during the month.
- On the sectoral front – All the sectoral indices closed positive. Realty, Metals and Capital goods were up 17%, 17% and 14% respectively.
- The MSCI world index gained sharply by 8%. The U.S. benchmark S&P 500 index rose 9% during the month. Within Europe, major markets like UK, France & Germany also rose 3%, 9% & 5% respectively.
- Within Asian markets, only Hong Kong & China were down 8% & 4%, respectively. However, Japan, South Korea & Singapore markets were up 5%, 5% & 4%, respectively.
- Foreign portfolio investors (FPIs) flows turned positive to ₹6,720 crores in the month of July 2022 compared to a net equity outflow of ₹ 49,469 crores in the previous month.
- Domestic Institutional Investors (DIIs) inflows decreased to ₹10,546 crores in the month of July 2022 compared to net inflow of ₹ 46,599 crores in the previous month.
- The global macro environment has changed rapidly in the last few months with most central banks aggressively hiking interest rates and withdrawing liquidity. This has stoked fears of a potential recession in the US and other parts of the developed economies over the next few quarters. There have been concerns too on India's macro front as trade and current account deficits rose in the recent months; however, we believe that India's overall macro position is relatively better than in the past with higher FX reserves buffer to cover external trade.
- 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

- The 10-year benchmark yield remained range bound, fell marginally 1.74% during the month and closed at 7.32%, which is 13 bps down compared to the previous month close of 7.45%. It further moderated to 7.15% however; it again went up 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 5.40%. All the members of the MPC unanimously voted to raise the key policy repo rate. With this rate hike, the repo rate is now back to pre-pandemic levels and stand at the highest level since Aug 2019. Thus, MPC has so far raised the repo rate by 140 bps in this fiscal. This is the third consecutive rate hike by the Committee since it embarked on a policy-tightening spree from May this year. It also decided to remain focused on withdrawal of accommodation to ensure that retail inflation remains within the target going forward, while supporting growth.
- The MPC is of the view that easing of global supply bottlenecks is leading to an improvement in supply outlook. Also, with growth becoming broad based, domestic economic activity is expected to remain resilient on the back of government's capex push, increase in capacity utilization and large expansion in bank credit. Thus, the MPC decided to raise the key policy repo rate by 50 bps to ensure that retail inflation comes down below the Reserve Bank of India's (RBI) upper tolerance band of 6% by Q4FY23.
- MPC projected retail inflation at 6.7% for FY23. Retail inflation for Q2FY23 was projected at 7.1%, for Q3FY23 at 6.4%, for Q4FY23 at 5.8%, and for Q1FY24 at 5.0%. MPC retained the real GDP growth for FY23 at 7.2%. Real GDP growth for Q1FY23 was projected at 16.2%, for Q2FY23 at 6.2%, for Q3FY23 at 4.1% and for Q4FY23 at 4.0%. Real GDP growth for Q1FY24 was projected at 6.7%.
- India's consumer price index-based inflation (CPI) eased to 7.01% in Jun 2022 as against 7.04% in May 2022. The CPI continued to remain above the upper limit of Reserve Bank of India's tolerance band. Consumer Food Price Index (CFPI) also eased to 7.75% in Jun as compared to 7.97% in May. The government slashed taxes on gasoline and diesel and set curbs on food exports, which helped to somewhat contain overall inflation despite a recent sharp rise in food prices.
- The Goods and Services Tax (GST) revenues for the month of July 2022 came at ₹1.48 lakh crore, which is 28% higher than the GST revenues in the same month last year of ₹1.16 lakh crore. Notably, for five months in a row now, the monthly GST revenues have been more than ₹1.4 lakh crore, showing a steady increase every month. The growth in GST revenue till July 2022 over the same period last year is 35 per cent and displays a very high tax buoyancy.
- Foreign Portfolio Investors (FPIs) outflows increased to ₹2,318 crores in the month of July 2022, compared to a net outflow of ₹ 2,005 crores in the previous month.
- From an investment perspective, we prefer the short to medium term part of the yield curve.