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Macro-economic developments

- International Monetary Fund (IMF), in Jan 2023 World Economic Outlook Update (WEO) report, the global growth is projected to fall from an estimated 3.4% in 2022 to 2.9% in 2023, then rise to 3.1% in 2024. The forecast for 2023 is 0.2 percentage point higher than predicted in the October 2022 World Economic Outlook (WEO) but below the historical (2000-19) average of 3.8%. The rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh on economic activity. Global inflation is expected to fall from 8.8% in 2022 to 6.6% in 2023 and 4.3% in 2024, still above pre-pandemic (2017-19) levels of about 3.5%.
- In the United States, growth is projected to fall from 2.0% in 2022 to 1.4% in 2023 and 1% in 2024. With growth rebounding in the second half of 2024, growth in 2024 will be faster than in 2023 on a fourth-quarter-over-fourth-quarter basis. Growth in the euro area is projected to bottom out at 0.7% in 2023 before rising to 1.6% in 2024. The 0.2 percentage point upward revision to the forecast for 2023.
- Growth in China is projected to rise to 5.2% in 2023, reflecting rapidly improving mobility, and to fall to 4.5% in 2024 before settling at below 4% over the medium term amid declining business dynamism and slow progress on structural reforms. Growth in India is set to decline from 6.8% in 2022 to 6.1% in 2023 before picking up to 6.8% in 2024, with resilient domestic demand despite external headwinds.
- The annual inflation rate in the US slowed for a sixth straight month to 6.5% in Dec 22, the lowest since Oct 21, in line with market forecasts. It follows a 7.1% reading in Nov 22. The core PCE inflation rate was still 4.4% YoY in Dec 22 (the 15th consecutive month it was above 4% and the 19th consecutive month above 3.5% YoY), well above the Fed's 2% target. Compared to the previous month, the CPI was 0.1% lower, the first decline since May 20, and beating forecasts of a flat reading. Inflation seems to have peaked at 9.1% in June 22 but it still remains more than three times above the Fed's 2% target.
- The Federal Reserve raised its benchmark interest rate by 0.25 basis points. That takes it to a target range of 4.5%-4.75%, the highest since October 2007. The Fed is targeting the hikes to bring down inflation, despite recent signs of slowing, is still running near its highest level since the early 1980s. The US 10-year Treasury yield, touched 3.6%, a level not seen in almost a month.
- The European Central Bank increased its benchmark interest rates by 50 basis points and made it clear that it intends to do so again in March 2023 when it will review the trajectory of its policy rates.
- India's Index of Industrial Production (IIP) rose 7.1% YoY in Nov 2022 as against 4.0% contraction in Oct 2022 and 1% rise in Nov 2021. As per the sectoral classification, manufacturing sector also rose 6.1% YoY, mining sector rose 9.7% YoY and electricity sector increased 12.7% YoY in Nov 2022.
- India's services Purchasing Managers' Index (PMI) fell to 57.2 in Jan 2023 from 58.5 in Dec 2022. Robust growth eased after touching a six month high in Dec 2022, with softening orders prompting caution in companies' business outlooks for the year. The overall S&P Global India Composite PMI Output Index fell to 57.5 in Jan 2023 compared with the previous month's near 11-year high of 59.4.
- India's Manufacturing Purchasing Managers' Index fell to 55.4 in Jan 2023 from 57.8 in Dec 2022. The manufacturing sector fell in Jan as production slowed as well as total sales and output.
- India's core sector growth rose to 7.4% in Dec 2022 as against 4.1% in the same month last year. In Nov 2022, the core sectors' output growth stood at 5.7%. All sectors witnessed growth in Dec except crude oil sector that contracted 1.2%. The cumulative growth in the eight core industries till Dec in FY23 was 8.0%. In the corresponding months in FY22, the cumulative growth stood at 12.6%.
- India's fiscal deficit stood at 59.8% of the Budget Estimates (BE) from Apr to Dec of FY23. The revenue deficit stood at 56.3% of Budget estimate. Total receipts stood at ₹18.25 lakh crore or 79.9% of the budget target as compared to 89.1% in the corresponding period of the previous year. Total expenditure stood at ₹28.18 lakh crore or 71.4% of the budget estimate as compared to 72.4% in the corresponding period of the previous year.
- India's trade deficit expanded \$23.89 billion in Nov 2022 from \$21.23 billion a year ago period due to faster rise in imports than exports. Merchandise exports rose 0.60% YoY to \$31.99 billion while imports rose 5.37% to \$55.88 billion in Nov 2022. The merchandise trade deficit for Apr-Nov 2022 was estimated at \$198.35 billion as against \$115.4 billion in Apr-Nov 2021.
- Brent crude oil prices fell marginally around 2% during the month of Jan 2023, the Brent crude closed at \$84.49/bbl compared to \$85.91/bbl previous month close. Currently it is trading at ~\$85.34/bbl.

- The Indian rupee against USD remained volatile during the month of Jan 2023, strengthened slightly to 82.5/\$ after approaching record lows early in the month as investors digested the latest RBI move and closed at 81.73/\$ as compared to 82.71/\$ close of the previous month. The Indian rupee soared at 82.77/\$ in Jan 2023, the lowest in one month and not far from the record low of 83 touched on Oct 19th 2022.

Equity market developments and Outlook

- The Nifty 50 Index fell 2.5% during the month. The other market cap indices, Nifty Midcap 50 & Nifty Smallcap 100 also fell 1.3% & 2.4% respectively. However, mid & small cap outperformed large cap.
- On the sectoral front - Power, Oil & Gas and Bank were down 11%, 9% & 6% respectively while Auto, IT and Metals indices were the top gainers and were up 5%, 3% and 1%, respectively.
- The MSCI world index gained ~7% during the month of Jan 2023. The U.S. benchmark S&P 500 index returned positive to ~5% while within Europe, major markets like UK, France & Germany also gained ~4%, ~9% & ~8% respectively during the month.
- Within Asian markets, except India, Malaysia & Indonesia, all other major markets closed in green. Hong Kong, South Korea & Taiwan were the top gainers, rose 10%, 8% & 8% respectively.
- Foreign portfolio investors (FPIs) flows continued to remain negative and registered an outflow of ₹29,950 crores during the month of Jan 2023 compared to a net equity outflow of ₹1,356 crores in the previous month.
- After witnessing a net equity outflow in Nov 2022, Domestic Institutional Investors (DIIs) flows remained positive and registered large inflows of ₹47,311 crores in the month of Jan 2023 compared to net inflow of ₹24,159 crores in the previous month.
- Corporate earnings in Q3 FY23 have been in line with expectations and earnings growth in FY24 is expected to be moderate. Elevated market valuations and risk of global growth slow down, may lead to muted equity market returns over the coming year.
- 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 was quite volatile during the month of Jan 2023 and touched 7.40% level, but fell marginally and closed at 7.34%, which is 04 bps up compared to the previous month close of 7.30%.
- RBI's Monetary Policy Committee (MPC) hiked the benchmark policy rate (repo rate) by 25 bps to 6.50%. 4 out of 6 MPC members voted in favour of hiking the Repo rate by 25 bps while 2 members were against the repo rate hike. The marginal standing facility (MSF) rate and the Standing Deposit Facility (SDF) rate stands adjusted to 6.75% & 6.25% respectively. Cash Reserve Ratio (CRR) remained unchanged at 4.50%. RBI maintained its policy stance of 'withdrawal of accommodation' to ensure that inflation remains within the target going forward, while supporting growth. Overall banking system liquidity has moderated but remains in slight surplus, despite the 250 bps of cumulative repo rate hikes (April 22-Feb 23).
- Inflation in India has moved below the upper tolerance band of 6% (moderated significantly since Sep 2022) but core inflation has remained elevated and sticky. RBI revised its inflation projection slightly downwards at 6.5% in FY23 Vs 6.7% earlier and forecast for FY24 was at 5.3% (with risks evenly balanced) whereas real GDP is expected to be 7% in FY23 vs 6.8% earlier and RBI gave a healthy growth estimate of 6.4% for FY24, compared to market participants pricing in a lower growth number for FY24.
- India's consumer price index-based inflation (CPI) eased to 5.72% in Dec 2022 as against 5.88% in Nov 2022. Consumer Food Price Index (CFPI) also slowed to 4.19% in Dec 2022 as compared to 4.67% in Nov 2022. The number has remained within RBI's tolerance band of 2%-6% for the second consecutive month. Lower food prices, particularly the fall in vegetable prices, helped keep inflation within the tolerance range. While core CPI inflation remained sticky and elevated at 6% Dec 2022.
- India saw its second highest ever Goods and Services Tax (GST) collection in Jan 2023 at nearly ₹1.56 lakh crore, a 24% increase from year-ago period. GST collection crossed ₹1.5 lakh crore mark for the third time in FY23. The highest ever GST collection stands at ₹1.68 lakh crore in April 2022.
- Foreign Portfolio Investors (FPIs) flows turned positive to ₹5,090 crores in the month of Jan 2023, compared to a net outflow of ₹1,797 crores in the previous month.
- From an investment perspective, we prefer the medium term part of the yield curve.