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Macro-economic developments

- The US annual inflation (CPI) slowed marginally to 6.4% in Jan 2023 from 6.5% in Dec 2022, higher than market forecasts of 6.2%. Still, it is the lowest reading since Oct 2021. Core CPI, a measure of inflation excluding volatile food and energy prices, rose by 0.4% for the second month in a row and 5.6% YoY. The Federal Reserve's preferred

gauge of inflation, core PCE (Personal Consumption Expenditures) prices in the US, jumped by 0.6% MoM in Jan 2023, and the highest since August 2022, and above market estimates of 0.4%. The annual rate of core PCE accelerated to 4.7% from 4.6% which was higher than the market forecasts of 4.3%.

- The US 10-year Treasury yield, trading around ~4%, remaining marginally below the three-month high of 4.1% touched on March 2nd. On the policy side, Fed Chairman Powell stated that recent economic data might force the central bank to increase interest rates more aggressively and that the terminal rate may be higher than anticipated, the remarks led investors to price high chance of a 50bps interest rate hike instead of back-to-back 25bps increases. As a result, the spread between the 2 and 10-year yields widened to as much as 104 basis points, the deepest inversion since 1981.
- India's gross domestic product (GDP) grew 4.4% YoY for the quarter ended Dec 31, 2022 as compared to a growth of 5.2% in the same period of the previous year. Gross Value Added (GVA) increased 4.6% YoY during the reported period, slower than 4.7% during Dec quarter of 2021. Sector wise under Gross Value Added (GVA), manufacturing sector recorded a negative growth of 1.1% while mining sector rose 3.7%, much slower than 1.3% and 5.4% rise, respectively in a year ago period. Agriculture and construction sector growth accelerated to 3.7% and 8.4% from 2.3% and 6.0%, respectively while public administration, defence and other services, which represent government expenditure, growth slowed to 2.0% from 10.6%, a year ago period.
- India's Index of Industrial Production (IIP) growth accelerated to 4.3% YoY in Dec 2022 as against rise of 1% in Dec 2021. Manufacturing output rose 2.6% YoY in Dec 2022, better than 0.6% in the previous month. Mining and electricity output rose 9.8% and 10.4%, respectively. Capital goods grew 7.6% in the reported month compared with fall of 3% in the corresponding month of the last fiscal.
- According to latest provisional figures, government's direct Tax collections (corporate and personal income tax) up to Feb 10, 2023 rose 24.09% to ₹15.67 lakh crore compared with the gross collections for the corresponding period of last year.
- India's services Purchasing Managers Index (PMI) reached a 12-year peak of 59.4 in Feb 2023 from 57.2 in Jan 2023. The rise in service activity demonstrated robust demand and easing price pressures despite only modest job growth in the nation.
- India's Manufacturing Purchasing Managers' Index fell to a four-month low of 55.3 in Feb 2023 from 55.4 in Jan 2023. Input costs in the manufacturing sector rose further and new orders from abroad went up marginally.
- India's merchandise exports fell 6.58% YoY to \$32.91 billion in Jan 2023 compared to \$35.23 billion in Jan 2022. India's merchandise imports fell 3.63% to \$50.66 billion in Jan 2023 as against \$52.57 billion in Jan 2022. India's merchandise trade deficit stood at \$17.75 billion in Jan 2023 from \$23.76 billion in Dec 2022.
- India's core sector growth accelerated to 7.8% in Jan 2023 from 4.0% rise in the same month last year and 7% increase in the previous month. All sectors witnessed growth except crude oil sector that contracted 1.1%. Refinery products, electricity, steel and coal rose 4.5%, 12.0%, 6.2% and 13.4%, higher than 3.7%, 0.9%, 3.8% and 8.2% rise, respectively. The cumulative growth in the eight core industries till Jan in FY23 was 7.9%, slower than 11.6% in the corresponding months in FY22.
- India's fiscal deficit stood at nearly 67.8% of the Budget Estimates (BE) from Apr to Jan of FY23. The revenue deficit stood at 61.0% of Budget estimate. Total receipts stood at ₹24.32 lakh crore or 81.3% of the budget target as compared to 85.9% in the corresponding period of the previous year. Total expenditure stood at ₹41.87 lakh crore or 75.7% of the budget estimate as compared to 74.5% in the corresponding period of the previous year.

- Brent crude oil prices fell marginally around 1% during the month of Feb 2023, the Brent crude closed at \$83.89/bbl compared to \$84.49/bbl previous month close. It went below the \$80/bbl mark during the month however it went up again and currently it is trading at ~\$82.52/bbl.
- The Indian rupee against USD remained range bound during the month of Feb 2023. INR significantly outperformed its peer in Asia & Emerging Markets. However, INR soared to 82.89/\$ during Feb 2023, the lowest in one month and not far from the record low of 83 touched on Oct 19th 2022. It closed at 82.64/\$ compared to 81.73/\$ in the previous month.

Equity market developments and Outlook

- The Nifty 50 Index declined 2% in the month of Feb 2023—its third consecutive month of decline. The other market cap indices, Nifty Midcap 50 & Nifty Smallcap 100 also fell 2% & ~4% respectively. Large Cap outperformed mid & small cap.
- On the sectoral front – Power, Metals and Oil & Gas declined 16%, 10% and 9% respectively while FMCG and Capital Goods were the only indices to close in green.
- The MSCI world index fell ~3% during the month of Feb 2023. The U.S. benchmark S&P 500 index returned negative to ~3% while within Europe, major markets like UK, France & Germany gained 1%, ~3% & ~2% respectively during the month.
- Within Asian markets, except Taiwan, China, Japan and Indonesia, all other major markets closed in red. Hong Kong, Singapore & Malaysia were the bottom performers, fell 9%, 3% & 2% respectively.
- Foreign portfolio investors (FPIs) flows continued to remain negative and registered an outflow of ₹5,279 crores during the month of Feb 2023 compared to a net equity outflow of ₹29,950 crores in the previous month.
- After witnessing a net equity outflow in Nov 2022, Domestic Institutional Investors (DIIs) flows remained positive and registered inflows of ₹12,825 crores in the month of Feb 2023 compared to net large inflow of ₹47,311 crores in the previous month.
- 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

- Global bond yields rose sharply following expectation of a higher terminal Fed Fund rate. Market is now pricing it at 5.5% against earlier expectation of 5%, as visible in the money market rates. India's 10Y yield has also reflected global yield movements to an extent.
- 10 year benchmark yield traded in the range of 7.28-7.46% in Feb 2023 against the range of 7.29-7.40% in Jan 2023. The 10-year benchmark yield was quite volatile during the month of Feb 2023 and touched 7.46% level, but fell marginally and closed at 7.45%, which is 11 bps up compared to the previous month close of 7.34%.
- India's consumer price index-based inflation (CPI) rose to 6.52% in Jan 2023 as against 5.72% in Dec 2022. Consumer Food Price Index (CFPI) also rose to 5.94% in Jan 2023 as compared to 4.19% in Dec 2022. The inflation rate for vegetables contracted 11.70%, while that for cereals rose 16.12% in Jan 2023. Inflation in spices jumped to 21.09% in Jan 2023. While core CPI inflation remained sticky and elevated at 6.1% Jan 2023.
- The gross goods and service tax (GST) revenue collection in the month of Feb 2023 stood at ₹1.49 crore, up around 12% on an annual basis. With this, the monthly GST revenues remained over ₹1.4 lakh crore for 12 straight months in a row. The highest ever GST collection stands at ₹1.68 lakh crore in April 2022.
- Foreign Portfolio Investors (FPIs) flows remained positive to ₹750 crores in the month of Feb 2023, compared to a net inflow of ₹5,090 crores in the previous month.
- Lower commodity prices are translating into lower input costs which in turn will help in moderating inflation globally. However, the pace of moderation is weaker in the US than earlier anticipated. Core inflation also remains sticky in both the US and Europe. This is likely to put pressure on central banks to keep rates elevated for long. Inflation in India moderated lately from its peak but still remains elevated which is expected to come down. We believe that we are close to the end of interest rate hike cycle in India.
- From an investment perspective, we prefer the medium term part of the yield curve.