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### Macro-economic developments

- In April 2023, the inflation rate in the United States continued to persistently stay high, reaching at 4.9%. The core Personal Consumption Expenditures (PCE) price index, which is the preferred measure of inflation by the Federal Reserve, rose to 4.7% year-on-year in April, slightly higher than the previous month's rate of 4.6%. The yield on the

US 10-year Treasury bond reached to 3.82% before declining below 3.75% as a result of the latest jobless claims data. The number of initial jobless claims surged to its highest level since October 2021. This unexpected rise in jobless claims has led to a decrease in expectations for an imminent rate hike in the Federal Reserve's funds rate, both for the upcoming week and in July.

- In line with the market expectations, the Federal Reserve raised interest rates by 25 basis points (bps) in May 2023. This brings the total cumulative increase in the policy rate to 500 bps. The minutes from the meeting indicated that the Fed may consider pausing the rate hikes and making future decisions based on incoming data. The reason for this is that tight financial conditions could potentially lead to a recession in the current year, followed by a moderately paced recovery. As a result of the rising interest rates and the impact of banking turmoil, the United States is expected to experience tighter credit conditions. This means that obtaining credit or loans may become more difficult for individuals and businesses.
- The BoE raised the benchmark rate by 25bps to tackle the increasing inflation. The U.K. Monetary Policy Committee raised the bank rate by 25bps to 4.5%.
- India's Gross Domestic Product (GDP) of the Indian economy at Constant (2011-12) prices witnessed a growth of 6.1% in the Q4FY23 as compared to a growth of 4.5% in the previous quarter and a growth of 4.0% in the same period of the previous year. The growth in real GDP during FY23 was estimated at 7.2% as compared to 9.1% in FY22. On the sectoral front, the growth of the manufacturing sector slowed to 1.3% in FY23 from 11.1% in FY22. However, growth of Agriculture, Forestry & Fishing improved to 4.0% in FY23 from 3.5% in FY22. Also, growth of Financial, Real Estate & Professional Services accelerated to 7.1% in FY23 from 4.7% in FY22.
- India's Index of Industrial Production (IIP) growth accelerated to 1.1% in Mar 2023 as against rise of 2.2% in Mar 2022. Manufacturing output rose 0.5% YoY in Mar 2023. Mining output rose to 6.8% and electricity output contracted to 1.6%. As per use-based classification, capital goods grew 8.1% in the reported month.
- India's merchandise exports decreased in Apr 2023 by 12.7% to USD 34.66 billion compared to USD 39.7 billion in Apr 2022. Imports declined 14% to USD 49.9 billion in Apr 2023 as against USD 58.06 in Apr 2022. The nation's trade deficit for the month of Apr 2023 was USD 15.24 billion.
- India's index of eight core industries grew 3.5% on a yearly basis in Apr 2023 as compared to growth of 3.6% in the previous month and a growth of 9.5% in the same period of the previous year. Fertilizers witnessed the maximum growth of 23.5% in Apr 2023 followed by steel and cement sector which witnessed a growth of 12.1% and 11.6% respectively. In FY23, the combined index of eight core industries grew 7.7% as compared to a growth of 10.4% in FY22.
- India's fiscal deficit narrowed to 6.4% of GDP in FY23 from 6.71% of GDP in the previous fiscal. Revenue deficit also narrowed to 3.9% of GDP in FY23 from 4.37% of GDP in the previous fiscal. The Indian government was able to meet its budgeted fiscal deficit target for FY23 which can be attributed to buoyant tax collections. Total receipts stood at ₹24.56 lakh crore while total expenditure stood at ₹41.89 lakh crore.
- The country's FDI inflows decreased for the first time in ten years between 2022 and 2023, falling 16% to \$71 billion (on a gross basis) as a result of a weaker global economy. According to the monthly bulletin of RBI, direct inflows during the previous fiscal year were 27% lower at \$41.6 billion after accounting for repatriation and disinvestment by foreign investors.
- Brent crude oil prices saw a notable decrease, dropping from an average of \$83.4/bbl in April to \$75.7/bbl in May. During this period, prices fluctuated within the range of \$72/bbl to \$79/bbl. The decline in prices was primarily driven by data suggesting a tepid recovery of Chinese manufacturing and the uncertainties led by the negotiations on the United States' debt ceiling.
- In the month of May 2023, there was a slight decline in Indian Rupee (INR) compared to the United States Dollar (USD) by approximately 1.1%. This depreciation was primarily influenced by the uncertainties raised during the negotiations regarding the US Debt ceiling. Throughout the month, the average exchange rate between the INR and USD stood at ~82.4/\$. The

INR reached its highest point for the month at around 81.8/\$, while its lowest point was at ~82.8/\$.

### Equity market developments and Outlook

- The Nifty 50 Index gained 2.6% in the month of May 2023. The other market cap indices, Nifty Midcap 50 & Nifty Smallcap 100 also gained 6.4% & 5.1% respectively and outperformed Large Cap.
- On the sectoral front – All sectors ended in green, except Metals and Oil & Gas. The Metal and Oil & Gas indices were down 2.9% & 1.6% respectively while Auto, Realty & IT were the top performers, delivered 7.9%, 7.7% & 6.7% respectively.
- The MSCI world index was down ~1.2% during the month of May 2023. The U.S. benchmark S&P 500 index returned positive to 0.1% while within Europe, major markets like UK, France & Germany fell 5%, 5% & ~2% respectively during the month.
- Within Asian markets; Hong Kong, Indonesia, China & Singapore were the bottom performers, fell 8%, 4%, ~4% & 3% respectively while major markets like Japan, Taiwan & South Korea were the top performers, delivered positive return 7%, 6% & 3% respectively in May 2023.
- Foreign portfolio investors (FPIs) flows remained positive and registered an inflow of ₹41,207 crores during the month of May 2023 compared to a net equity inflow of ₹15,733 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows turned positive and registered inflow of ₹2,447 crores in the month of May 2023 compared to net outflow of ₹5,131 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

- During the month, the 10-year benchmark yields exhibited a trading range between 6.96% and 7.04%. Eventually, it concluded with a sequential decline of 13 basis points, settling at 7%. Notably, the average for the 10-year benchmark yields in May stood at 7.01%.
- In continuation to the monetary policy in April 2023, the Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) has unanimously decided to maintain the repo rate at 6.5%. The marginal standing facility (MSF) rate and the Standing Deposit Facility (SDF) rate stands unchanged to 6.75% & 6.25% respectively. Cash Reserve Ratio (CRR) remained unchanged at 4.50%.
- The RBI governor has emphasized that two major central banks have recently raised their policy rates after a pause, suggesting that the MPC will not hesitate to take further action if necessary. This implies that the RBI may consider increasing rates during the current rate hike cycle if there is a resurgence in inflation. 5 out of 6 MPC members voted in favour of maintaining the policy stance of 'withdrawal of accommodation' to ensure that inflation remains within the target going forward, while supporting growth.
- The RBI has revised its inflation projection for FY24 downward to 5.1% from the earlier projection of 5.2%. The RBI governor also pointed out the potential downside risks to the economic outlook, including weak external demand, geo-economic fragmentation, and prolonged geopolitical tensions. Despite these risks, the RBI has maintained India's GDP forecast for FY24 at 6.5% due to the resilience of the country's economic activity.
- India's consumer price index-based inflation (CPI) rose 4.70% in Apr 2023, down from 5.66% in Mar 2023. Consumer Food Price Index (CFPI) also eased to 3.84% in Apr 2023 as compared to 4.79% in Mar 2023. The inflation rate for vegetables contracted 6.50%, while that for cereals rose 13.67% in Apr 2023. Inflation in spices rose 17.43% in Apr 2023. While core CPI inflation moderated to 5% in Apr 2023 vs 5.8% in Mar 2023.
- The gross Good & Services Tax (GST) revenue collected in May 2023 rose 12% to ₹1.57 lakh crore of which Central GST is ₹28,411 crore, State GST is ₹35,828 crore, Integrated GST is ₹81,363 crore (including ₹41,772 crore collected on import of goods) and cess is ₹11,489 crore (including ₹1,057 crore collected on import of goods). Monthly GST revenues more than ₹1.4 lakh crore for 14 months in a row, with ₹1.5 lakh crore crossed for the 5th time since inception of GST. The collection in May last year was about ₹1.41 lakh crore.
- Foreign Portfolio Investors (FPIs) flows remained positive to ₹3,455 crores in the month of May 2023, compared to a net outflow of ₹475 crores in the previous month.
- From an investment perspective, we prefer the medium term part of the yield curve.