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Macro-economic developments

- According to the IMF, global growth is projected to decline from an estimated 3.5% in 2022 to 3.0% in both 2023 and 2024. However the forecast for 2023 is modestly higher than predicted in the April 2023 which was 2.8%. The rise in central bank policy rates to fight inflation continues to weigh on economic activity. Global headline inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024. Underlying core inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward.
- The International Monetary Fund (IMF) raised India's growth forecast to 6.1% for FY24 from 5.9% estimated in April, citing strong domestic investment but cautioned that the global economy is still not "out of the woods" and that the fight against inflation is far from finished. The 6.3% prediction for FY25 remains the same.
- A major global credit rating agency downgraded the credit rating of the U.S. economy by one notch to 'AA+' from 'AAA' with a 'stable' outlook which led to an all-round sell off in the global equity market and rattled the investor risk sentiment. The rating downgrade can be attributed to rising debt of the U.S. government, decline in governance standards on fiscal and debt matters and potential for a recession.
- In line with market expectations, the US Fed hiked rates by 25bps in its Jul'23 policy meeting, thus taking the benchmark rate to 22-year high of 5.25-5.5%. Steadiness in economic activity (GDP growth), "robust" job additions and "elevated" prices, pushed Fed to hike rates. The Central Bank again cautioned over trajectory of prices and job growth, and now expects "moderate" economic growth versus "modest" rate of growth expected earlier.
- The Bank of England (BoE) and the European Central Bank (ECB) also hiked rates by 25bps each while the Reserve Bank of Australia (RBA) kept policy rates unchanged. The Bank of Japan (BoJ) kept the policy rate steady but adjusted its tolerance for deviation in 10Y bond yield to 1%.
- India's Index of Industrial Production (IIP) growth rose 5.2% in May 2023 as against rise of 19.7% in May 2022. Manufacturing output rose 5.7% YoY in May 2023. Mining output rose 6.4% and electricity output rose 0.9%. As per use-based classification, capital goods grew 8.2% in the reported month.
- The Indian government continues to report increases in direct tax collection between Apr and Jul 2023, with figures at 14.65% higher than the equivalent period from last year. According to preliminary data provided by the Finance Ministry, as of Jul 09, 2023, gross collections stood at ₹5.17 lakh crore. In the meantime, this fiscal year's total net direct tax revenue has increased by over 16% to ₹4.75 lakh crore.
- India's index of eight core industries grew 8.2% in Jun 2023 as compared to a growth of 5.0% in the previous month and a growth of 13.1% in the same period of the previous year. The maximum growth of 21.9% was witnessed in steel sector followed by coal and cement sector which grew 9.8% and 9.4% respectively. However, the crude oil sector witnessed a contraction of 0.6% in Jun 2023. The crude oil sector remained in contractionary phase for the past thirteen months.
- India's fiscal deficit for the period from Apr to Jun of FY24 stood at ₹4.51 lakh crore or 25.3% of budget estimates of the current fiscal. India's fiscal deficit stood at 21.2% of the budget estimate in the corresponding period of the previous year. Total expenditure stood at ₹10.5 lakh crore or 23.3% of the budget estimate as compared to 24.0% of the budget estimate in the corresponding period of the previous year. Total receipts stood at ₹5.99 lakh crore or 22.1% of the budget estimate of the current fiscal as compared to 26.1% of the budget estimate in the corresponding period of the previous year.
- India's merchandise trade deficit narrowed to \$20.13 billion in Jun 2023 from \$22.12 billion in May 2023. The country's merchandise exports fell 22% to \$32.97 billion in Jun 2023 from \$42.28 billion a year earlier while imports declined 17.48% to \$53.1 billion in Jun 2023 compared to \$64.35 billion a year ago. India's exports remained weak due to several reasons including a slowdown in the world's major economies.
- The lower than expected US oil inventory along with the decision to maintain the production cuts from OPEC+ have pushed the Brent crude oil prices to near 4 months highs. Brent crude oil is trading at US\$ 83.9/bbl, much higher than previous month's

average of US\$ 75/bbl.

- The Indian rupee against USD weakened to 82.8, approaching the record low of 83 per USD that was repeatedly seen on various occasions since October 2022 as fiscal concerns in the US triggered an ongoing outflows of capital from the Indian economy.

Equity market developments and Outlook

- The Nifty ended 2.9% higher MoM at 19,754 in Jul'23, after making new highs of 19,992. The index has closed higher for the fifth straight month. The Nifty is up 9.1% in CY23YTD. Valuations are relatively more reasonable than the Oct'21 peak of the Nifty. Nifty is trading at a 12-month forward P/E of 19.1x, at a 5% discount to its own long period average (LPA). The other market cap indices, Nifty Midcap 50 & Nifty Smallcap 100 also gained ~7% & ~8% respectively and outperformed Large Cap.
- On the sectoral front – Except Consumer Durables which was down by 0.3%, all other indices ended in green, with power (+9%), realty (+9%) and capital goods (+8%) gaining the most.
- The MSCI world index was up by 3% during the month of July 2023. The U.S. benchmark S&P 500 index continued to deliver positive return of 3% and within Europe, major markets like UK, Germany & France rose by 2%, 2% & ~2% respectively during the month.
- Within Asian markets; Hong Kong, Malaysia, Singapore & Indonesia were the top performers, gained 6%, 6%, 5% & 4% respectively while major market like Japan was the bottom performer, delivered negative return of 0.1% in July 2023.
- Foreign portfolio investors (FPIs) flows slowed down a bit and registered an inflow of ₹33,994 crores during the month of July 2023 compared to a net equity inflow of ₹55,161 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows remained positive and registered inflow of ₹7,702 crores in the month of July 2023 compared to net inflow of ₹5,664 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

- The yield on the Indian 10-year government bond surged toward 7.20%, the highest in three months. The 10-year benchmark yield remained volatile and traded in the range of 7.06-7.18% in Jul'23 compared to 6.98-7.12% in Jun'23. Upside pressure to domestic yield was visible following higher than expected CPI print in Jun'23. Sudden increase of vegetables, some components of pulses, cereals and spices, have put pressure on headline CPI.
- India's consumer price index-based inflation (CPI) rose more than our expectation of 4.6% to 4.8% in Jun'23 from 4.3% in May'23, on YoY basis. The entire jump in CPI was driven by a 152bps increase in food inflation to 4.5% in Jun'23 from 3.0% in May'23. Core CPI (excl. food and fuel) remained stable at 5.1%. The miscellaneous component however noticed an increase from 4.9% in May'23 to 5.2% in Jun'23. This was driven by transport and communication inflation (2.5% in Jun'23 from 1.1% in May'23, YoY).
- India's Goods and Services Tax revenue increased 11% YoY to ₹1.65 lakh crore as against ₹1.61 lakh crore in Jun 2023. In terms of total receipts, the Central GST accounts for ₹29,773 crore, the State GST for ₹37,623 crore, and the Integrated GST for ₹85,930 crore, which includes ₹41,239 crore in import tax receipts.
- Data from Reserve Bank of India showed that India's foreign exchange reserves fell by \$3.17 billion to \$603.87 billion for the week ended Jul 28 from \$607.04 billion in the previous week.
- Data from Reserve Bank of India showed that reserve money grew 5.3% on a yearly basis for the week ended Jul 28, 2023, compared to an increase of 11.3% in the same period of the previous year. The currency in circulation grew 4.4% on a yearly basis for the week ended Jul 28, 2023, compared to an increase of 8.1% in the same period of the previous year.
- Foreign Portfolio Investors (FPIs) flows remained positive but slowed down a bit to ₹3,113 crores in the month of July 2023, compared to a net inflow of ₹10,153 crores in the previous month.
- From an investment perspective, we prefer the medium to long term part of the yield curve.