Sampath Reddy, CFA
CIO, Bajaj Allianz Life Insurance

Macro-economic developments

- As per World Bank Global Economic Prospects Jan 2024 report, world economic growth slowdown is not as substantial as was expected earlier. US growth has been upgraded for 2023 to 2.5%. However, parts of Europe (esp. Germany) might see a sharper slowdown. China growth has been downgraded to 5.2% in 2023 and 4.5% in 2024. India is expected to see healthy growth of ~6.3% in FY24 & FY25 and will remain one of the fastest growing major economies. While India's official statistical body projects a stronger GDP growth of 7.3% in FY24.
- US Fed again kept its policy rates unchanged at 5.25-5.5% for the 4th consecutive time in Jan'24 meeting. The policy statement dented hopes of a rate cut in Mar'24 but reiterated that the central bank has reached the peak of its rate tightening cycle and will begin cutting rates at some point this year. Timing of that will depend upon incoming macro data. With labour market data still strong and consumer confidence also up, market participants are now expecting possibility of a rate cut in May'24. The US 10 Year treasury yield harden a bit and remained elevated during the month, traded largely range bound and averaged at 4.03% in Jan'24, It closed at 3.91%, currently it is trading at around 4.19%.
- Bank of England (BoE) for the fourth consecutive time since Dec'21 left its policy rate unchanged at 5.25%—16 year high, in its Jan'24 meet. The decision was not unanimous. 6 out of 9 members opted for a pause, 2 members wanted 25bps hike, and 1 member voted for 25bps cut. This was the first time since CY20 when a member voted for a rate cut.
- Following other major central banks, ECB also decided to pause in its Jan'24 meeting. However, unlike US Fed and BoE, ECB President Lagarde reiterated that it is still "premature to discuss rate cuts" and hinted that rates need to remain elevated for inflation to be brought down sufficiently. However, other members of the Governing Council have signalled that the central bank will sooner or later have to take cognizance of falling growth and inflation. Investors are expecting ECB to deliver 5 rate cuts this year, beginning from Apr'24.
- Bank of Japan yet again retained its stance of keeping the monetary policy ultra-loose monetary policy in its Jan'24 meeting. However, the policy statement was more hawkish than expected, as BoJ announced that chances of meeting its price goal as gradually rising. The statement also hinted that even if BoJ decides to end negative rates, it will still keep monetary policy easy and not restrictive.
- As per the interim Union Budget for FY25, fiscal Deficit (as % of GDP) is estimated to be lower (5.8%) than the Budget Estimate of 5.9% in FY24. In FY25BE, it will be brought down to 5.1%. In FY25, Centre's capex spending is expected to increase to ₹11.1 lakh crore from ₹9.5 lakh crore as per FY24RE. Gross borrowings for FY25BE are targeted at ₹14.13 lakh crore, down from ₹15.4 lakh crore as per FY24RE.
- The Union government will provide ₹75,000 crores as interest-free loan for fifty years to assist state reforms in achieving the goal of 'Viksit Bharat'. The government has hiked allocation towards its flagship Production Linked Incentive (PLI) scheme for FY25 to ₹6,200 crores, up 33% from FY24's budgeted estimate of ₹4,645 crores. The PLI scheme, which currently covers 14 sectors, attracted investments of over ₹1.03 lakh crore and generated employment for over 6.78 lakh individuals.
- NSO has estimated that Indian economy is expected to clock a growth of 7.3% in FY24 from 7.2% in FY23. GVA growth is estimated lower at 6.9% (previously 7%). Manufacturing paints a bright picture registering much higher growth at 6.5% in FY24. Construction and mining sector too are expected to grow at much faster pace.
- According to the Income Tax department, net direct tax collection for the fiscal year increased by 20.25 % to ₹15.60 lakh crore, higher than the net collections for the corresponding period of last year. This collection is 80.23% of the total Revised Estimates of Direct Taxes for FY 2023-24. The gross direct tax collection soared to ₹18.38 lakh crore as of 10 February which is 17.30% higher than the gross collections for the corresponding period of last year.
- India's Goods and Services Tax (GST) revenue reached ₹1,72,129 crores in Jan 2024, indicating a remarkable 10.4% YoY growth. Over the course of a 10-month period of FY24, GST collections increased by 11.6% YoY to ₹16.69 lakh crore.
- Industrial production growth in India (IIP) increased by 3.8% YoY in Dec 2023, as compared to 2.4% rise in Nov 2023. Production in the manufacturing industry increased by 3.9%, mining by 5.1% and electricity by 1.2% in Dec 2023.
- The Manufacturing Purchasing Managers' Index climbed to four-month high to 56.5 in Jan 2024 compared to 54.9 in Dec 2023 as the health of manufacturing sector improved substantially on the back of fast growth in new orders and production.
- India's Services Purchasing Managers' Index (PMI) rose to 6-month high to 61.8 in Jan 2024 as compared to 59.0 in Dec 2023 due to an increase in new business activity. Composite PMI also rose to 61.2 from 58.5 in the same period.
- The combined Index of Eight Core Industries increased by 3.8% in Dec 2023 as compared to 8.3% in Dec 2022. The production of all Eight Core Industries recorded growth in Dec 2023 over the corresponding month of last year except crude oil. Coal witnessed the maximum growth at 10.6% in Dec 2023 followed by Natural Gas with 6.6% growth.
- India's fiscal deficit for the period from Apr to Dec of FY24 stood at ₹9.82 lakh crore or 55.0% of budget estimates of the current fiscal. India's fiscal deficit stood at 59.8% of the budget estimate in the corresponding period of the previous fiscal year.
- India's merchandise trade deficit narrowed to $19.80 billion in Dec 2023 from $23.14 billion in Dec 2022. Exports increased by 1% to $38.45 billion in Dec 2023 from $38.08 billion of the same month of previous year and imports fell by 4.9% to $58.25 billion from $61.22 billion during the same period.
- Crude oil prices remained in the upward tractor and averaged at USD 73.68 $/bbl in Jan'24 (up 6% MoM) compared to an average of 72.20 $/bbl in Dec'23, it closed at USD 75.85/bbl due to geopolitical tensions in the Middle East which continued to support oil prices. Meanwhile, demand-side uncertainties could limit oil price gains as inflationary risks could delay Federal Reserve interest rate cuts.
- INR has been quite stable in last few months; INR was the best performing major currency against the dollar in Jan'24. Strong macro fundamentals along with a comfortable external position have contributed to INR's strength, even as other major currencies came under pressure due to a resurgence in dollar strength. It averaged at 83.11/$ during the month compared to 83.25/$ in Dec'23, it closed at 83.09/$, currently it is trading at around 83.2/$.

Equity market developments and Outlook

- After two consecutive months of gains, the Nifty closed almost flat in Jan 2024. The mid-cap and small-cap indices continued their positive momentum for the third consecutive month and were up 5% and 7% respectively thereby outperforming the large caps.
- Post the 23% gains in 2023 the Nifty50 Index has begun the year on a cautious note. It remained extremely volatile and traded in the wide range of ~900 points. Over the last 12 months, midcaps and small caps have gained 58% and 69%, respectively. During the last five years, midcaps have outperformed large caps by 86%, while small caps have outperformed large caps by 60%.
- The 12-month trailing P/E for the Nifty, at 23x, is near its LPA of 22x (4% premium). At 3.6x, the 12-month trailing P/B ratio for the Nifty is above its historical average of 3.0x (19% premium).
- On the sectoral front – during the month the top gainers were Oil & Gas (+10%), PSU Banks (+10%), Real Estate (+9%), Utilities (+9%), and Infrastructure (+8%). While Media (-10%), Private Banks (-5%), and Consumer (-3%) were the top losers.
- Barring Japan (+8% MoM), Russia (+5%), and the US (+2%), Jan'24 saw key global markets such as China (-6%), Korea (-6%), Brazil (-5%), MSCI EM (-5%), the UK (-1%), Indonesia (-1%), Taiwan (-0%), and India (-0%) close lower in local currency terms. Over the last 12 months, the MSCI India Index (+28%) has outperformed the MSCI EM Index (-5%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by 216%.
- After two consecutive months of positive inflows, foreign portfolio investors (FPIs) flows turned negative and witnessed the outflow of ₹26,111 crores during the month of Jan 2024 compared to a strong net equity inflow of ₹58,498 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows remained positive and registered inflow of ₹26,744 crores in the month of January 2024 compared to net inflow of ₹12,942 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

- In the beginning of the month, India's 10Y yield rose by 7 bps to 7.23% from its previous month's close of 7.17%, finally it closed at 7.14% in Jan'24 which was down 3bps. Much of the fall in yields (lowest point 7.05%) was post the Budget announcement. Fiscal prudence, less reliance on market borrowings which was positive for yields.
- However, bond yields rose tracking the rise in U.S. treasury yields after stronger than expected increase was witnessed in non-farm payrolls data in Jan 2024 in U.S. which dampened the expectation of aggressive rate cuts by U.S. Federal Reserve. Losses were extended as the Reserve Bank of India did not provide any major indication of rate cut in its recently conducted monetary policy meeting. Currently it is trading at 7.09% level 4 bps higher from its lowest point 7.05% (2nd Feb'24).
- The consumer price index-based inflation eased to 5.10% in Jan 2024 YoY compared to 5.69% in Dec 2023 due to cool off in food prices. The retail inflation remained below the central bank's upper tolerance level for consecutive five months. The consumer food price inflation fell to 8.30% in Jan 2024 from 9.53% in Dec 2023. The Core CPI (ex-Food and fuel) also eased to 3.5% from 3.8% in Dec'23.
- The RBI's Monetary Policy Committee (MPC) for the 6th consecutive time kept the policy rates unchanged, by keeping repo rate steady at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. The RBI also left its stance of "withdrawal of accommodation" unchanged with the vote of 5-1.
- The central bank highlighted that interest rate transmissions are still not complete, and inflation is yet to be brought down to targeted level on a durable basis. Hence, the RBI's stance should be viewed in this context, and "mix of instruments" will be used by the Central Bank to manage the liquidity situation. The MPC last raised the repo rate by 25 bps to 6.50% in its Feb 2023 meeting.
- The real GDP growth for 2024-25 is projected at 7.0% with Q1 at 7.2%, Q2 at 6.8%, Q3 at 7.0% and Q4 at 6.9%, with the risks are evenly balanced. While CPI inflation is projected at 5.4% for 2023-24 with Q4 at 5.0%. Assuming a normal monsoon next year, CPI inflation for 2024-25 is projected at 4.5% with Q1 at 5.0%, Q2 at 4.0%, Q3 at 4.6% and Q4 at 4.7%, with the risks are evenly balanced.
- Foreign Portfolio Investors (FPIs) flows remained positive and increased to ₹21,063 crores in the month of Jan 2024, compared to a net inflow of ₹19,769 crores in the previous month.
- From an investment perspective, we prefer the medium-term part of the yield curve.

Ver: Jan 2024