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## Macro-economic developments

- The US 10-year Treasury yield rose back to the 4.15% level after the latest US consumer inflation reinforced the view that the Fed would proceed with interest rate hikes only in June'24. Consumer price inflation rose slightly to 3.2%, remaining above both January's figures and the market's expectation of 3.1%. Additionally, the core rate eased less than anticipated to 3.8%, marking its lowest point in nearly three years, yet remaining

marginally above forecasts of 3.7%. Last week, Federal Reserve Chair Powell indicated that reductions in interest rates might not be far away. However, he emphasized that the central bank is still in need of further economic data to confirm that inflation is moving back towards the 2% objective.

- India's Gross Domestic Product (GDP) at constant (2011-12) prices witnessed a growth of 8.4% in the third quarter of FY24. In the Oct-Dec quarter of last year, the GDP growth rate was 4.3%. On the sectoral front, the growth of the manufacturing sector soared to 11.6% in Q3 of FY24 from a negative 4.8% in same quarter of previous fiscal year. However, Agriculture, Livestock, Forestry & Fishing shrank by 0.8% in Q3 of FY24 compared to 5.2% growth in Q3 of FY23.
- IIP growth slowed down from an upwardly revised 4.2% in Dec'23 to 3.8% in Jan'24. The slowdown was led by manufacturing output which decelerated to 3.2% in Jan'24 from 4.5% in Dec'23. On the other hand, both mining and electricity output witnessed an improvement from Dec'23. Mining output rose by 5.9% compared with 5.2% in Dec'23. Electricity output saw a substantial pick up from 1.2% in Dec'23 to 5.6% in Jan'24.
- The Manufacturing Purchasing Managers' Index rose to 5 months high to 56.9 in Jan 2024 compared to 56.5 in Dec 2023 supported by both domestic & external demand and easing of pricing pressures.
- India's Services Purchasing Managers' Index (PMI) eased to 60.6 in Feb 2024 as compared to 61.8 in Jan 2024 due to softer expansions in business activity, sales and jobs. Composite PMI also eased to 60.6 from 61.2 in the same period.
- The combined Index of Eight Core Industries increased by 3.6% in Jan 2024 as compared to 9.7% in Jan 2023. The production of all Eight Core Industries recorded growth in Jan 2024 over the corresponding month of last year except refinery products and fertilizers. Coal witnessed the maximum growth at 10.2% in Jan 2024 followed by steel with 7.0% growth.
- Government data showed that India's fiscal deficit for the period from Apr to Jan of FY24 stood at ₹11.03 lakh crore or 63.6% of budget estimates of the current fiscal.
- India's merchandise trade deficit widened to \$17.49 billion in Jan 2024 from \$17.03 billion in Jan 2023. Exports increased by 3.1% to \$36.92 billion in Jan 2024 from \$35.80 billion of the same month of previous year and imports also rose by 3% to \$54.41 billion from \$52.83 billion during the same period.

## Equity market developments and Outlook

- After consolidating in Jan'24, the benchmark Nifty 50 index closed higher in Feb'24 with 1.2% MoM gain. The Nifty Midcap 100 & Nifty Small Cap 100 fell 0.5% & 0.3% respectively, underperforming large caps. During the last 12 months, midcaps and small caps have gained 60% and 74%, respectively, while large caps have risen 27%.
- The Nifty is trading at a 12-month forward P/E ratio of 19.5x, near its LPA of 20.3x (4% discount). Conversely, the P/B ratio of 3.2x represents a 15% premium to its historical average of 2.8x.
- On the sectoral front – PSU Banks (+10%), Real Estate (+6%), Automobiles (+6%), Healthcare (+6%), and Oil & Gas (+6%) were the top gainers. While, Media (-5%), Private Banks (-2%), Consumer (-2%), and Metals (-1%) were the key laggards.
- Corporate earnings in H1 FY24 have been quite healthy and above expectations. We anticipate some moderation in earnings growth in second half of FY24. We expect Nifty earnings growth of ~19% in FY24 & ~13% in FY25, which is quite strong, amidst the global growth slowdown.
- Barring the UK (flat MoM), Feb'24 saw key global markets such as China (+8%), Japan (+8%), Taiwan (+6%), Korea (+6%), the US (+5%), MSCI EM (+5%), Russia (+2%), Indonesia (+2%), India (+1%), and Brazil (+1%) close higher in local currency terms.
- Over the last 12 months, global market cap increased 12.9% (USD13.1t), whereas India's market cap surged 46.5%. Barring China, and the UK, all

key global markets witnessed a rise in market cap over the last 12 months.

- Over the last 12 months, the MSCI India Index (+36%) has significantly outperformed the MSCI EM Index (+6%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by 214%. In P/E terms, the MSCI India Index is trading at a premium to the MSCI EM Index, above its historical average.
- Foreign portfolio investors (FPIs) flows turned positive and witnessed the inflow of ₹4,000 crores during the month of Feb '24 compared to a net equity outflow of ₹26,111 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows remained positive and registered inflow of ₹25,379 crores in the month of Feb'24 compared to net inflow of ₹26,744 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 fell 8 bps to 7.06% compared to Jan'24 month's closing of 7.14%. The average 10Y yield in Feb'24 remained 11 bps lower at 7.07% compared to 7.18% average in Jan'24, supported by continued buying from FPIs on account of resilient macroeconomic data and growing confidence about fiscal prudence. At the end of the month the 10Y yield closed at 7.07% compared to 7.14% previous month's close.
- In Feb'24, the longer part of the curve shifted downwards completely compared to Jan'24. Even for the 3-month paper, considerable moderation in yield was noticed. This has increased the gap between 3 Month and 30Y paper to 30bps as on 29 Feb 2024 from 23bps as on 31 Jan 2024. In Feb'24, cut off yields inched down across the board, with SDL noticing a sharp drop. Average system liquidity deficit moderated to ₹1.9lakh crore in Feb'24 from ₹2.1 lakh crore in Jan'24.
- CPI inflation was at 5.1% in Feb'24, on YoY basis, broadly unchanged from last month. Food inflation inched up to 8.7% in Feb'24 from 8.3% in Jan'24. Within food, pressure was witnessed in case of meat and fish (5.2% in Feb'24 from 1.2% in Jan'24) and egg inflation (10.7% from 5.6%). Apart from this, vegetable inflation also picked up to 30.2% in Feb'24 from 27.1% in Jan'24. On sequential basis, food inflation has inched up by 0.1% in Feb'24 from -0.7% decline seen in Jan'24. Core inflation softened further to 3.3% in Feb'24 from 3.6% in Jan'24, on YoY basis. All components of core inflation showed moderation.
- India's Gross Goods and Services Tax (GST) revenue collected for Feb'24 is ₹1.68 lakh crore, marking a robust 12.5% increase compared to same month in 2023. This growth was driven by a 13.9% rise in GST from domestic transactions and 8.5% increase in GST from import of goods. GST revenue net of refunds for Feb'24 is ₹1.51 lakh crore which is a growth of 13.6% over that for the same period last year. Average monthly gross collection for FY2023-24 is ₹1.67 lakh crore, exceeding ₹1.5 lakh crore for FY2022-23.
- Crude oil prices remained in the upward tractor and averaged at USD 76.74 \$/bbl in Feb'24 (up 3.2% MoM) compared to an average of 73.68 \$/bbl in Jan'24, closed at USD 78.26/bbl due to a strong outlook for global demand. OPEC said in its monthly report that global oil demand is expected to increase by 2.25 million bbl/day in 2024 and by 1.85 million bbl/day in 2025, unchanged from previous estimates. The group also raised its economic growth forecast for the current year, citing room for improvement. Moreover, industry data showed that US crude inventories unexpectedly declined by 5.521 million barrels last week, a sign of healthy demand in the world's largest oil consumer.
- Globally currencies were mostly depreciated against the dollar in Feb'24, as dollar gained strength. DXY rose by 0.9% as Fed's rate cut expectations have been pushed back to Jun'24 amidst a sustained momentum in the US economy. Continuing with the trend in the last few months, INR traded in a narrow trading range in Feb'24 as well. In Feb'24, INR appreciated by 0.2%, it averaged at 82.96/\$ during the month compared to 83.11/\$ in Jan'24, closed at 82.9/\$, currently it is trading at around 82.89/\$ level. The stability in the exchange rate despite adverse headwinds from a stronger dollar and escalated geopolitical tensions in the Middle East is underpinned by India's robust macro fundamentals.
- Foreign Portfolio Investors (FPIs) flows remained positive and witnessed an inflow of ₹19,693 crores in the month of Feb'24, compared to a net inflow of ₹21,063 crores in the previous month.
- From an investment perspective, we prefer the medium-term part of the yield curve.