Bajaj Allianz Life Insurance Co. Ltd.

LIFE GOALS. DONE.

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Macro-economic developments

- IMF has recently revised its global growth forecasts in its Apr'24 edition of the World Economic Outlook (WEO). The organization believes that overall inflation is moderating, and growth is divergent but remains broadly stable, which has increased the probability of a soft landing rather than a hard landing.
- As per latest estimates, global growth will remain stable at 3.1% in CY24 (2.9% projected in Oct'23 edition of WEO), unchanged from CY23. The upward revision comes from stronger growth expected in the US (2.1% versus 1.5% earlier), China (4.6% versus 4.2%), India (6.5% versus 6.2%), Russia (2.6% versus 1.1%) and Mexico (2.7% versus 2.1%). In contrast Eurozone economy is projected to perform worse than expected (0.9% versus 1.2%), dragged by weaker growth in Germany (0.5% versus 0.9%) and France (1% versus 1.3%).
- The US 10-year Treasury yield remained elevated, the average yield in Apr'24 was 4.53% compared to 4.20% in Mar'24 (33 bps up), due to concerns that supply chains would slow and energy prices would jump following escalated conflict in middle east region. The US inflation increased more-than-expected in Mar'24 mostly driven by petrol and shelter costs, pushing away hopes of a June interest rate cut from the US Federal Reserve. The US consumer price index (CPI) rose 0.4% sequentially higher than market estimates. In the 12 months through March, the CPI increased 3.5% year-on-year (YoY) the biggest gain in six months (since September 2023). This follows a 3.2% rise in Feb'24.
- The latest data on foreign trade shows that in FY24, exports declined by 3.1% compared with an increase of 6.9% in FY23. Imports declined by 5.4% following an increase of 16.8% in FY23. Service exports decelerated to 4.5% due to an elevated base (43% in FY23). As a result, India's overall trade deficit narrowed to US$ 78.1bn in FY24 compared with US$ 121.6bn in FY23. This implies that the current account is likely to be in a small surplus in Q4FY24.
- IIP growth fastened to 5.7% in Feb'24 from 4.1% in Jan'24. The improvement was broad-based. Manufacturing output rose by 5% in Feb'24 from 3.6% in Jan'24. Mining output was up by 8% from 5.9%, and electricity production rose by 7.5% from 5.6%. Within manufacturing, a total of 19 sub-sectors marked an improvement in growth in Feb'24, relative to Jan'24. Sharp improvement was visible in production of computer, electronics & optical products, paper & products, furniture, and electricals equipment.
- The Manufacturing Purchasing Managers' Index eased slightly to 58.8 in Apr 2024 compared to 59.1 in Mar 2024 bolstered by strong demand conditions which resulted in a further expansion of output.
- India's Services Purchasing Managers' Index (PMI) eased slightly to 60.8 in Apr 2024 as compared to 61.2 in Mar 2024 but saw the fastest growth rates in 14 years. Growth was driven by significant rise in new orders, with a notable strength in domestic demand.
- India's eight core industries rose at a much slower pace at 5.2% in Mar'24 from 7.1% in Feb'24. Apart from refinery and fertilizers which registered a contraction in Mar'24, other industries registered a growth for this period. Output of coal, cement and electricity recorded a growth equal to or above 8% in Mar'24. For FY24, infrastructure index registered a growth of 7.5%, a tad lower than FY23 at 7.8%.
- The net foreign direct investment in India dropped sharply by 45.5% in the first eleven months of FY24 to $14.55 billion from $26.71 billion, when compared with the same period a year ago due to a rise in repatriation of capital.
- India's net direct tax revenues increased 17.7% YoY to ₹19.58 lakh crore in the fiscal year that concluded in Mar 2024, exceeding the revised forecasts. Net direct taxes in 2023-24 exceeded the budget estimates by ₹1.35 lakh crore (7.40%) and the revised estimates by ₹13,000 crore, it showed. Higher direct tax collections will give the Centre headroom to meet its fiscal deficit target for FY24.
- India's merchandise trade deficit narrowed to $15.60 billion in Mar 2024 from $18.96 billion in Mar 2023. Exports edged down 0.67% to $41.68 billion in Mar 2024 from $41.96 billion of the same month of previous year and imports also decreased by 5.98% to $57.28 billion from $60.92 billion during the same period.
- Out of the last 8-years, this is the first time in 2024, IMD has forecasted for above normal rainfall (104-110% of LPA) in its first forecast. In the year 2022, the country witnessed above normal rainfall, against the expectation of normal rainfall. Last year in 2023, in line with expectations the country witnessed normal rainfall at 94% of LPA.

Equity market developments and Outlook

- The Nifty ended 1.2% higher MoM at 22,605 in Apr'24 after making new highs of 22,783. The index has closed higher for the third straight month now. The Nifty 50 remained volatile and traded around 1,006 points before closing 278 points higher. The Nifty is up 4% in CY24YTD Midcaps & small caps outperformed large caps by 4.6% & 10.2% in Apr'24 respectively.
- The Nifty is trading at a 12-month forward P/E ratio of 19.7x, near its LPA of 20.3x (3% discount). Conversely, the P/B ratio of 3.2x represents a 15% premium to its historical average of 2.8x.
- On the sectoral front - Metals (+11%), PSU Banks (+9%), Telecom (+8%), Real Estate (+8%), and Utilities (+8%) were the top gainers, whereas Technology (-5%) and Healthcare (flat MoM) were the only laggards.
- Among the key global markets, the UK (+2%), China (+2%) and Taiwan (+1%) ended higher in local currency terms. However, Japan (-5%), the US (-4%), Korea (-2%), Brazil (-2%), and Indonesia (-1%) ended lower MoM in Apr'24.
- Over the last 12 months, the MSCI India Index (+36%) has significantly outperformed the MSCI EM Index (+7%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by 213%
- During the last 12 months, midcaps and small caps have gained 60% and 76%, respectively, while large caps have risen 25% only. During the last five years, midcaps have outperformed large caps by 98%, while small caps have outperformed large caps by 71%.
- India's market capitalization-to-GDP ratio has been volatile, plummeting to 56% (of FY20 GDP) in Mar'20 from 80% in FY19 and then sharply reviving to 112% in FY22; the ratio moderated to 96% in FY23. It is now at 132% (of FY24E GDP of 9.1% YoY), above its long-term average of 85%.
- Foreign portfolio investors (FPIs) flows turned negative and witnessed the outflow of ₹9,175 crores during the month of Apr '24 compared to a net equity inflow of ₹33,252 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows remained positive and registered inflow of Rs. 44,186 crores in the month of Apr'24 compared to net inflow of ₹56,356 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 Apr'24, US Fed, ECB, and BoE, kept their respective rates on hold. Fed's statement clarified that decision to cut rates will be data dependent (trajectory of core PCE). With Fed's benchmark inflation gauge coming higher than expected, the market expectation is the Fed may be able to cut rates only once this year in Sep'24. RBI is also likely to closely monitor the ongoing inflation trajectory and would be data dependent. We believe RBI may have its first rate cut in 2HFY25.
- MPC members, with 5-1 vote in the Apr'24 policy meeting, kept the policy rates steady with repo rate unchanged at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. RBI also left the stance of "withdrawal of accommodation" unchanged to "ensure that inflation progressively aligns to the target, while supporting growth".
- India's 10Y yield rose 14 bps to 7.19% compared to Mar'24 month's closing of 7.05%. The average 10Y yield in Apr'24 remained up 11 bps at 7.16% compared to 7.05% average in Mar'24, due the hawkish outlook for the RBI against the rising demand for Indian sovereign bonds. Prolonged concerns of elevated inflation in India amid elevated geopolitical risks and an uncertain outlook for agricultural output drove the RBI to state that its terminal rate may have to be maintained for an extended period.
- The consumer price index-based inflation eased to 10-month low of 4.85% YoY in Mar 2024 compared to 5.09% in Feb 2024, mainly due to cooling food prices. The retail inflation remained below the central bank's upper tolerance level for consecutive seven months. Consumer food price inflation also eased to 8.52% in Mar 2024 from 8.66% in Feb 2024. Core inflation in Mar'24 also remained unchanged from the previous month at 3.3%.
- India's Gross Goods and Services Tax (GST) revenue collections hit a record high in April 2024 at ₹2.10 lakh crore. This represents a significant 12.4% year-on-year growth, driven by a strong increase in domestic transactions (up 13.4%) and imports (up 8.3%). After accounting for refunds, the net GST revenue for April 2024 stands at ₹1.92 lakh crore, reflecting an impressive 15.5% growth compared to the same period last year.
- Crude oil prices remained in the upward tractor and averaged at USD 84.39 $/bbl in Apr'24 (up 5% MoM) compared to an average of 80.40 $/bbl in Mar'24, closed at USD 83.17 $/bbl. However, lately it is heading back to the lowest levels in nearly two months following the reports that OPEC+ could consider increasing crude production. The group of major producers will meet on June 1 to decide on output policy for the second half of the year. The current supply agreement which removes around 2.2 million barrels per day off the market will expire at the end of June. Elsewhere, industry data showed that US crude inventories increased by 0.509 million barrels last week, defying market expectations for a 1.43-million-barrel decline.
- Globally currencies were mostly depreciated against the dollar in Apr'24, as dollar gained strength. INR averaged against the USD at 83.43 in Apr'24 compared to the average of 83.03/USD in Mar'24 due to global risk-off, rising US Dollar strength, and net FPI outflows.
- Foreign Portfolio Investors (FPIs) flows turned negative and witnessed an outflow of ₹11,218 crores in the month of Apr'24, compared to a net inflow of ₹13,736 crores in the previous month.
- From an investment perspective, we prefer the medium-term part of the yield curve.

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