Bajaj Allianz Life Insurance Co. Ltd.

BAJAJ Allianz
LIFE GOALS. DONE.

Sampath Reddy, CFA
CIO, Bajaj Allianz Life Insurance

Macro-economic developments

- The Gross Domestic Product (GDP) of the Indian economy at constant (2011-12) prices witnessed a growth of 7.8% in the fourth quarter of FY24. In the Jan-Mar quarter of last year, the GDP growth rate was 6.2%. On the sectoral front, the growth of the manufacturing sector soared to 8.9% in Q4 of FY24 from 0.9% in same quarter of previous fiscal year. However, Agriculture, Livestock, Forestry & Fishing slowed to 0.6% in Q4 of FY24 compared to 7.6% growth in Q4 of FY23.
- India's fiscal deficit for FY24 stood at ₹16.54 lakh crore or 95.3% of Budget Estimates (BE) of FY24. India's fiscal deficit stood at 99.0% of the BE in FY23. Total expenditure stood at ₹44.43 lakh crore or 98.9% of the BE as compared to 100.1% of the BE in the previous fiscal year.
- The Manufacturing Purchasing Managers' Index eased slightly to 57.5 in May 2024 compared to 58.8 in Apr 2024. This signaled a slower but still substantial improvement in the country's manufacturing sector, amid a softer rise in new orders and output.
- India's Services Purchasing Managers' Index (PMI) eased slightly to 60.2 in May 2024 as compared to 60.8 in Apr 2024 mainly due to weaker domestic demand. Composite PMI also eased to 60.5 from 61.5 in the same period.
- India's eight core industries increased by 6.2% in Apr 2024 as compared to 4.6% in Apr 2023. The production of all Eight Core Industries recorded growth in Apr 2024 over the corresponding month of last year except fertilizers. Electricity witnessed the maximum growth at 9.4% in Apr 2024 followed by natural gas with 8.6% growth.
- According to data released by the Department for Promotion of Industry and Internal Trade, India's foreign direct investment (FDI) equity inflows into India shrank 3.49% YoY in FY23 to $44.42 billion from $46.03 billion in FY22. Singapore was the top source of foreign inflows last fiscal followed by Mauritius and the U.S.
- India's merchandise trade deficit widened to $19.10 billion in Apr 2024 from $14.44 billion in Apr 2023. Exports edged up 1.07% to $34.99 billion in Apr 2024 from $34.62 billion of the same month of previous year and imports soared by 10.25% to $54.09 billion from $49.06 billion during the same period. India's merchandise exports slightly declined by 3% to USD 437.1 billion in FY24 compared to FY23, while services exports rose to USD 341.1 billion against $325.3 in the same period. Overall exports reached $778.2 billion in FY24 as compared to $776.4 billion in FY23, registering a marginal growth of 0.23%.
- The gross Goods and Services Tax (GST) revenue for the month of May 2024 stood at ₹1.73 lakh crore, representing a 10% YoY growth, driven by a strong increase in domestic transactions and slowing of imports (down 4.3%). After accounting for refunds, the net GST revenue for May 2024 stands at ₹1.44 lakh crore, reflecting a growth of 6.9% YoY.

Equity market developments and Outlook

- The Nifty ended its three-month winning streak in May'24. The Nifty touched a fresh high of 23,111, before closing down -0.3% MoM at 22,531 in May'24. The Nifty 50 remained volatile and traded around 1,290 points before closing 74 points lower. The Nifty is up 3.7% in CY24YTD. Midcaps outperformed large caps by 1.9%, while small caps underperformed by 1.6%. Similarly, in CY24YTD, midcaps and small caps have outperformed large caps and have risen 12% and 10.3%, respectively, vs. a 3.7% rise for the Nifty.
- The Nifty is trading at a 12-month forward P/E ratio of 19.2x, near its LPA of 20.3x (5% discount). Conversely, the P/B ratio of 3.1x represents a 12% premium to its historical average of 2.8x.
- Among sectors, Capital Goods (+11%), Utilities (+7%), Metals (+6%), Real Estate (+5%), and Automobiles (+4%) were the top gainers, whereas PSU Banks (-3%), Technology (-2%), Private Banks (-1%), Media (-1%), and Healthcare (-1%) were the top laggards MoM.
- Among the key global markets, the US (+5%), Taiwan (+4%), the UK (+2%), ended higher in local currency terms. However, Russia MICEX (-9%), Indonesia (-4%), Brazil (-3%), Korea (-2%), China (-1%) ended lower MoM in May'24.
- Over the last 12 months, the MSCI India Index (+31%) has significantly outperformed the MSCI EM Index (+9%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by a robust 197%.
- During the last 12 months, midcaps and small caps have gained 53% and 64%, respectively, while large caps have risen 22% only. During the last five years, midcaps have outperformed large caps by 99%, while small caps have outperformed large caps by 66%.
- 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 FY24 GDP of 9.6% YoY), above its long-term average of 85%.
- India's share in the global market cap stood at 4%, its all-time high and above its historical average of 2.7%. India is among the top 10 contributors to the global market cap. The top 10 contributors accounted for ~81% of the global market cap in May'24.
- Over the last 12 months, global market cap increased 14% (USD14.4t), whereas India's market cap surged 40%. Barring China, all key global markets witnessed a rise in market cap over the last 12 months.
- The 4QFY24 corporate earnings ended on expected lines, with widespread outperformance across aggregates. Domestic cyclicals, such as Autos and Financials, along with Healthcare, Capital Goods, and Cement drove the healthy earnings. Conversely, global cyclicals (Metals and O&G) dragged down overall profitability. Nifty delivered a strong earnings growth with a 12% YoY PAT growth.
- Foreign portfolio investors (FPIs) flows remained negative and witnessed the outflow of ₹19,016 crores during the month of May '24 compared to a net equity outflow of ₹9,175 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows remained positive and registered inflow of ₹55,733 crores in the month of May'24 compared to net inflow of ₹44,186 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 ECB cut its policy rates (in its June'24 meeting) by 25 bps each with the benchmark deposit rate now at 3.75%, main refinancing operation rate at 4.25%, and marginal lending facility at 4.5%. The central bank said that it will keep policy rates "sufficiently restrictive for as long as necessary" to ensure that price gains reliably cool to its 2% medium-term target. It added that it will stay "data-dependent" and take a "meeting-by-meeting" approach to rate decisions. It flagged that inflation is likely to stay above 2% "well into next year". The ECB now expects headline inflation to average 2.5% in 2024 and 2.2% in 2025, before decelerating below its objective to 1.9% in 2026.
- While the US Fed and BoE, kept their respective rates on hold in May'24. Fed officials have reiterated on multiple occasions that bringing inflation down to targeted range remains a key priority. Further, weakness in labour market is also being closely tracked. In case of BoE, markets are pricing in a rate cut in Aug'24 as inflation is inching closer to 2% mark. In contrast, BoJ is expected to hike rates in Jul'24, as inflation is appearing to re-accelerate.
- US 10Y yields ended May'24 lower by 18bps. Macro data including a cooler than expected CPI reading for Apr'24, further weakening momentum in labour market conditions have led to increased expectations for a rate cut in Sep'24. On the other hand, Fed officials continued to advise caution with respect to lowering rates. Weak demand in treasury auctions led to some upward momentum in US yields during the month, which was short-lived. Downward revision to US Q1 GDP, moderation in consumer spending and a softer than expected core PCE reading reaffirmed expectations that the Fed is likely to cut rates in Sep'24. The probability of a Sep'24 rate cut stood at 47% up from about 43% in Apr'24, as per the CME FedWatch Tool.
- On the domestic front, India's new benchmark security has shown a considerable degree of softening bias in May'24 and eased below the 7% mark. RBI's bumper surplus, FPI inflows and an outlook upgrade by S&P were the primary drivers of the exuberance seen in the government bond markets in May'24. However, it started inching up on the back of mixed market expectation on recent general elections results. Currently it is stable and trading at 7.03% level. Going forward, we expect India's 10Y yield to remain in the range bound in Jun'24, led by lower US yields and further FPI investment in debt securities ahead of index inclusion.
- The RBI's Monetary Policy Committee (MPC) for the 8th 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%. Stance was also retained at "withdrawal of accommodation". However, both decisions were not unanimous and were passed with 4-2 vote, a change from 5-1 vote in Apr'24. The MPC last raised the repo rate by 25 bps to 6.50% in its Feb 2023 meeting.
- The RBI projection remains unchanged at 4.5% on CPI inflation for FY25 with Q1 at 4.9%, Q2 at 3.8%, Q3 at 4.6%, and Q4 at 4.5%, with the risks are evenly balanced. The RBI projected real GDP growth for FY25 at 7.2% vs 7% (in Apr'24 meeting) with Q1 at 7.3%, Q2 at 7.2%, Q3 at 7.3%, and Q4 at 7.2%.
- RBI declared a record ₹2.11 lakh crores surplus transfer to the government in FY25, compared with ₹87,416 crores in FY24. This was also much higher than both the budgeted (₹1.02 lakh crores, including dividend from banks and FIs) and street estimates of ~₹1 lakh crores surplus. The higher than anticipated surplus can be attributed to higher interest income led by an increase in both global as well as domestic yields. There were also revaluation gains on forex reserves unlike in 2022. The higher surplus will have a positive impact on government 7 finances. This is positive in terms of maintaining the targeted fiscal deficit. Thus, the additional ₹1 lakh crore gives government the headroom to either cut back on its gross borrowing from the market, putting lesser pressure on domestic yields, or to increase its thrust towards capex.
- The consumer price index-based inflation eased slightly to 11-month low of 4.83% YoY in Apr 2024 compared to 4.85% in Mar 2024. The number has remained within the Reserve Bank of India's (RBI) tolerance level for the eighth consecutive month. Consumer food price inflation grew to 8.70% in Apr 2024 from 8.52% in Mar 2024. Core inflation in Apr'24 was marginally down from the previous month at 3.2% vs 3.3% in Mar'24.
- Crude oil prices remained in the upward tractor and averaged at USD 78.6284.39 $/bbl in May'24 (up 5% MoM) compared to an average of 84.39 $/bbl in Apr'24, closed at USD 76.99 $/bbl. The latest OPEC+ decision stoked concerns about supply surplus. While OPEC+ agreed to extend most supply cuts into 2025, they also announced plans to gradually phase out some voluntary output cuts from eight member countries starting in October. Currently it is trading at 75.32 $/bbl level.
- Major global currencies strengthened against the dollar in May'24. This was supported by the weakness in DXY which was down by 1.5% after surging by 1.7% in Apr'24. The dollar index has declined on the back of the weaker than expected economic data. INR depreciated by 0.03% despite most of the global currencies gained against the dollar. The weakness was on account of lower average oil prices and sharp FPI outflows ahead of the General Election result. The trading range was 83.10/$-83.53/$.
- Foreign Portfolio Investors (FPIs) flows turned positive and witnessed an inflow of ₹11,150 crores in the month of May'24, compared to a net outflow of ₹11,218 crores in the previous month.
- From an investment perspective, we prefer the medium-term part of the yield curve.

Ver: May 2024