Bajaj Allianz Life Insurance Co. Ltd.

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Macro-economic developments

- India's GDP growth in Q1FY25 moderated to 6.7% from 7.8% in Q4Y24 on a YoY basis. This was lower than market expectation of 7.3%. The slower than expected growth was attributed to lower government spending, which declined 0.2% after increasing by 0.9% in Q4FY24 given the reduction of spending due to elections. On the other hand, investment picked up and registered a robust growth of 7.5% from 6.5% in Q4FY24. Both exports and consumption spending also recorded strong growth of 8.7% (8.1% in Q4) and 7.4% (4% in Q4) respectively. Imports recorded a sluggish growth of 4.4% (8.3% in Q4) on account of growing geopolitical tensions.
- India's fiscal deficit for the period from Apr to Jul of FY25 stood at ₹2.77 lakh crore or 17.2% of Budget Estimates (BE) of the current fiscal. India's fiscal deficit was at 33.9% of the BE in the corresponding period of the previous fiscal year. Total expenditure stood at ₹13 lakh crore or 27.0% of the BE as compared to 30.7% of the BE in the corresponding period of the previous fiscal year.
- The Manufacturing Purchasing Managers' Index edged down slightly to 57.5 in Aug 2024 compared to 58.1 in Jul 2024. India's Services Purchasing Managers' Index (PMI) rose to 5-month high to 60.9 in Aug 2024 as compared to 60.3 in Jul 2024. The services sector activity surged in Aug 2024 due to resilient demand and easing inflationary pressures. Composite PMI remained unchanged to 60.7 in the same period.
- The eight core industry growth rose to 6.1% in Jul'24 from 5.1% in Jun'24. This was driven by rebound in output of refinery, steel, fertilizer and cement. Revival in government spending, particularly capex has supported steel and cement sector growth. Fertilizer output has been helped by continuous improvement in Kharif sowing. Refinery production is also up, as prospects of global demand have improved (US and China). On the other hand, electricity output moderated, as progress of monsoon cooled climatic conditions and reduced demand.
- IIP growth for Jun'24 came in at 4.2% versus BoB estimate of 4.5%, from an upwardly revised 6.2% in May'24. Barring mining (10.3% in Jun'24 versus 6.6% in May'24), growth in output of both manufacturing (2.6% versus 5%) and electricity (8.6% versus 13.7%) eased.
- India's merchandise trade deficit was higher, as imports have risen at a sharper pace than exports (both on sequential and cumulative basis). The sequential increase in imports is attributable to non-oil non-gold imports, indicating resilient domestic demand.
- The foreign direct investment inflows surged by 26.4% to reach $22.4 billion from Apr to Jun 2024, showing strong growth as global cross-border investments increase. In the prior quarter, gross inflows had also grown by around 23%, even though FDI had decreased over the last two financial years. Recent figures from the RBI's bulletin showed a 37.6% increase in inflows for Jun 2024, which was less than the 49% growth recorded in May 2024.

Equity market developments and Outlook

- The Nifty touched a fresh high of 25,268 before ending +1.1% MoM at 25,236 in Aug'24. The index has closed higher for the third straight month now. Notably, the index was extremely volatile and traded around 1,375 points before closing 285 points higher. The Nifty is up 16.1% in CYTD24.
- The Nifty is trading at a 12-month forward P/E ratio of 21.1x, marginally above its LPA of 20.4x. Conversely, its P/B ratio of 3.4x represents a 23% premium to its historical average of 2.8x.
- Over the last 12 months, midcaps and small caps have gained 52% and 58%, respectively, while large caps have risen 31%. During the last five years, midcaps have outperformed large caps by 150%, while small caps have outperformed large caps by 126%.
- Among sectors, Healthcare (+7%), Technology (+5%), Telecom (+2%), Consumer (+2%), and Financial (+1%) were the only gainers, whereas PSU Banks (-6%), Real Estate (-4%), Capital Goods (-3%), Utilities (-2%), and Media (-2%) were the key laggards MoM.
- Among the key global markets, Brazil (+7%), Indonesia (+6%), the US (+2%), MSCI EM (+1%), and India (+1%) ended higher in local currency terms. However, Russia (-11%), Korea (-3%), China (-3%), and Japan (-1%) ended lower MoM in Aug'24.
- Over the last 12 months, the MSCI India Index (+40%) has significantly outperformed the MSCI EM Index (+12%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by a robust 205%.
- India's share of the global market cap stood at 4.6%, 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 ~82% of the global market cap as of Aug'24.
- Over the last 12 months, global market cap increased 12.7% (USD13.6t), whereas India's market cap surged 51.8%. Barring China, Brazil, and Russia, all key global markets witnessed a rise in market cap over the last 12 months.
- Foreign portfolio investors (FPIs) flows remained positive however moderated a bit with inflow of ₹11,678 crores during the month of Aug '24 compared to a net equity inflow of ₹19,419 crores in the previous month.
- For the last 13 straight months, Domestic Institutional Investors (DIIs) flows have been positive and registered inflow of ₹ 48,279 crores in the month of Aug'24 compared to inflow of ₹ 23,486 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

- Most of global yields eased in Aug'24. US 10Y yield softened further suggesting possible rate cuts. US Fed minutes and Fed Chair Powell had indicated the same in the recent commentary amidst the moderation in inflation, reflected with the recent PCE data which is inching closer to the target mark along with signs of weakness in labour market. The only uncertainty lies over the quantum of rate cuts, it could vary between 25-50bps with the market pricing increased likelihood of at least 3-cuts this year, followed by more cuts in Cy25.
- On the domestic front, India's 10Y yield eased by 8bps and traded in the range of 6.85-6.91% in Jul'24 from 6.91-7.12% in Jul'24. In Aug'24, 10Y yield touched the 6.85% mark, lowest in over 2-years given the favorable supply demand dynamics. The 10Y yield curve has been supported by RBI's liquidity management strategy through VRRR. Higher FPI-inflows in debt segment with the bond index inclusion also bodes well for the bond market. Going forward, the 10Y yield is expected to trade in the range of 6.8%-6.9% in Sep'24, with risk evenly balanced.
- Average system liquidity surplus in Aug'24 turned out to be 1,52,104 crore ₹from ₹1,02,718 crore in Jul'24. Notably, the banking system liquidity surplus (defined as incremental deposit incremental credit-incremental investment) has risen to ₹ 1.4 lakh crore (as of 9 Aug 2024) compared with ₹ 90,462 in Jul'24.
- CPI inflation in August inched up marginally to 3.7% vs 3.5% in July. However, on a sequential basis the headline index grew mere 0.1% mom led largely by 0.4% mom fall in food prices (July: 2.8% mom)—price of meat and fish, eggs and vegetable prices fell; price of cereals, pulses and fruits rose. Positively, the durable food inflation fell to 4.5% (July: 5.4%), but the volatile inflation picked up to 7% ((-)0.8%mom; July: 5.4%). Core inflation (CPI excluding food, beverages and fuel) remained steady at 3.3%, with the sequential momentum of 0.4% mom (July: 0.5% mom).
- INR depreciated by 0.2% in Aug'24 (-0.4% in Jul'24) to currently trade at 83.87/$, close to its lifetime low of 83.97/$. This was despite weakening US$. The factors that impacted Rupee include slowdown in FPI inflows (mainly equity segment), and increased dollar demand by importers. However, the decline was not as steep as it was in case of other currencies, mainly due relatively steady FPI inflows in the debt segment and lower oil prices. As a result, INR traded in the range of 83.72-83.97/$.
- Foreign Portfolio Investors (FPIs) flows remained positive and witnessed an inflow of ₹16,421 crores in the month of Aug'24, compared to a net inflow of ₹21,864 crores in the previous month.
- From an investment perspective, we prefer the medium-term part of the yield curve.