Bajaj Allianz Life Insurance Co. Ltd.

Srinivas Rao Ravuri,
Chief Investment Officer

Global Macro-economic developments

- Donald Trump led republican party comfortably won the recently concluded US Presidential election Republican has gained a strong majority in the US. A Trump presidency is expected to bring about significant policy changes of the US administration, especially in areas of – immigration, taxes, tariffs and energy policy
- The initial market reaction of this outcome has been a rally in risk assets with US Equities hitting new highs, US dollar strengthening and Bitcoin and other cryptocurrencies also scaling new peaks. Gold and other commodities have corrected, partly due to the dollar strength while US bond yields have inched up.
- The US Fed decided to lower the policy rate by 25bps in its latest meeting in Nov'24, thus bringing the policy rate down to 4.5-4.75%. This is the second rate cut since CY20.
- Bank of England (BoE) in its Nov'24 meeting, lowered the policy rate by 25bps to 4.75% with a vote of 8-1. This is the second rate cut, and it comes after first 25bps rate cut was announced in Aug'24.
- BoJ in Oct'24 kept its policy rates steady, in line with market expectations. Short-term rate was left unchanged at 0.25%.

Domestic Macro-economic developments

- India's fiscal deficit for Apr-Sep'24 (FY25) was Rs4.7 lakh crore (29.4% of the budgeted estimate), lower than the Rs7 lakh crore (39.3%) reported in the corresponding period last year. After having declined the previous month, growth in personal income-tax and corporate-tax collections rebounded in Sep'24 as advance tax instalments were due by mid-Sep.
- Direct tax collections were 46.5% of the budgeted target in H1 FY25. Revenue expenditure was steady, growing 4.4% y/y in Sep'24, while capex was 2.4% lower. FYTD capex was down 15.4% due to the lower transfer of loans to states. However, capex for roads and the railways was above 50% of the budgeted target.
- The Manufacturing Purchasing Managers' Index stood at 57.5 in Oct 2024 compared to 56.5 in Sep 2024. Enhanced demand has led to an increase in job creation and a favorable business environment. India's Services Purchasing Managers' Index (PMI) increased to 58.5 in Oct 2024 as compared to 57.7 in Sep 2024, driven by strong demand and job creation. Composite PMI rose to 59.1 from 58.3 in the same period.
- The combined Index of Eight Core Industries increased by 2.0% YoY in Sep 2024 as compared to 9.5% growth in Sep 2023. The production of the Eight Core Industries remained mixed in Sep 2024 over the corresponding month of last year.
- IIP growth in September was at 3.1% (August: (-)0.1%). According to the sectoral classification, the manufacturing sector led the growth at 3.9%, while growth in mining and electricity remained weak. In terms of the use-based classification, all categories registered growth.
- Gross GST collection in October rose 9% to ₹1.87 lakh crore, the second highest ever, on pick-up in domestic sales and improved compliance. The Central GST collection stood at ₹ 33,821 crore, State GST at ₹41,864 crore, Integrated IGST at ₹ 99,111 crore and cess at ₹12,550 crore during the month.
- India's trade deficit narrowed down to US$ 20.8bn in Sep'24 compared to US$ 29.7bn deficit seen in Aug'24. This is attributable to faster pace of decline in imports. It fell to US$ 55.4bn in Sep'24 from US$ 64.4bn in Aug'24. Gold imports fell to US$ 4.4bn from US$ 10.1bn. Even non-oil non-gold imports moderated to US$ 36.5bn from US$ 43.3bn. Exports on the other hand, were broadly stable at US$ 34.6bn from US$ 34.7bn, attributable to seasonal fluctuations.

Equity market developments and Outlook

- The Nifty ended October with a decline of 6.2%, its largest monthly decline since March 2020. Midcap and small-cap indices also fell 6.7% and 3% respectively.
- Oil & gas (-14%) was the worst-performing sector, followed by auto (-12%) and consumer durables (-10%). The sharp rally in the Chinese market at the beginning of the month, continued FPI outflows, weak 2QFY25 corporate earnings results and geopolitical tensions weighed on investor sentiment. Among the key global markets, Japan (3.1%) and Taiwan (~3%) ended higher in local currency terms. However, France (4%), Hong Kong (-~3%) and the UK (-~2%) ended lower MoM in Oct'24.
- In October, EM ex-China has seen the largest net foreign outflow for more than two years (US$16bn). India was the main source (US $10bn), the largest in more than five years. However, most other EMs (bar Taiwan) have also seen outflows, with ~US$3bn leaving Korea and ~0.8bn each from Indonesia, Thailand and South Africa. Although we no longer have statistics on China Northbound, the Southbound boomed to ~US$11bn. Thus, while investors have repositioned funds away from India and other EMs toward China, there was also likely some reduction in overall EM allocation. FII selling was however counter-balanced by INR 1.07 tn (USD 12.9 bn) of domestic inflows. A key driver of this, is the increasing retail participation in equity markets through SIP flows (up from INR 31 bn/month in Apr'16 to INR 253 bn/month in Oct'24).
- The Q2FY25 earnings season turned out to be weaker than initially expected with a multitude of companies missing earnings by a reasonably large margin. Particularly companies in the consumption space have reported muted earnings owing to demand challenges in urban India. As a result, Nifty 50's FY25 EPS has witnessed downgrades and is now expected to grow by 5% YoY vs an 8% YoY growth expectation at the start of the earnings season. Due to these downgrades, market's multiples have not declined by much despite the correction. The other factor driving the equity market correction in India has been the persistent selling by the FPI's since the last week of September (which also coincides with the Chinese stimulus announcements). Primary market activity too remains buoyant (IPOs, QIP, Promoter sell-down) further diverting some flows away from the secondary markets.
- At 23,559 (as of Nov 13th 2024), Nifty50 is trading at P/E multiple of 22.8x on FY25 earnings, which is a 21% premium to the average one-year forward P/E multiple of 18.8x, observed in the last 10 years.
- 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

- US 10Y yield exhibited sharp upswing post the election outcome in anticipation of expansionary policy. 10 Yr US Treasury yield moved up as high as 4.48% backed by buoyant consumption demand as per Q3 advance estimates, stickier earnings data, higher input cost, upbeat consumer confidence, better services PMI data and pickup in home sales, which pointed towards resilience of US economy.
- Domestic 10Y yield maintained its upward due to higher-than-expected inflation (14 month high). It traded in the range of 6.73-6.87% in Oct'24, exhibiting less volatility compared to last month. Much of the increase in yield was also attributable to sell off by FPI especially in the debt segment. Volatility in global financial market weighed on the same.
- Average system liquidity went into surplus of ₹1.5 lakh crore in Oct'24 from ₹1 lakh crore surplus seen in Sep'24. The frequency of VRRR was more compared to only one VRR conducted in Oct'24. However, demand for funds remained firm as in the VRR auction the amount of bids received was far higher at ₹48,700 crore against notified amount of ₹25,000 crore.
- The October CPI inflation rose further to 6.21% (consensus: 5.9%; September: 5.5%), overshooting the upper bound of the RBI's target range after September 2023. The headline CPI increased 1.3% mom, led by broad-based pickup across the food and core inflation. Food inflation (10.9% YoY) was led by sharp price increases in vegetables, oils and fats, eggs, and fruits. Durable food inflation fell to 3.6% (September: 3.8%), but volatile food inflation picked up to 24.2% (5.9% mom; September: 19.5%) (see Exhibits 1-4). While urban and rural inflation have spiked, rural inflation continues to be relatively higher.
- Crude oil prices remained volatile during FYTD (April'24-Sep'24), it touched 86.91 $/bbl on April 5th, 2024, and dropped to its lowest point on Sep 10th, 2024, at 65.75 $/bbl, currently it is trading at 68.12 $/bbl levels. The market continued to assess OPEC's latest downward revisions to 2024 and 2025 demand growth forecasts, partly due to China's economic slowdown. Beijing's recent debt package to ease local government financing pressures also failed to boost sentiment, further dampened by concerns over potential US tariffs under President-elect Trump. Additionally, the market faces a potential surplus by 2025, driven by slowing demand and OPEC's planned output expansion.
- INR depreciated by 0.3% in Oct'24 (0.1% appreciation in Sep'24) and even fell to its lifetime low of 84.09/$. Currently, it is trading around a new low of 84.12/$. However, this decline was only marginal, when compared with bloodbath witnessed in other major currencies, as US$ strengthened sharply during the month (+3.2%).
- Foreign Portfolio Investors (FPIs) flows also registered net outflows to ₹4,551 crores compared to an inflow of ₹1,268 of the previous month.
- From an investment perspective, we prefer the short – medium term part of the yield curve.