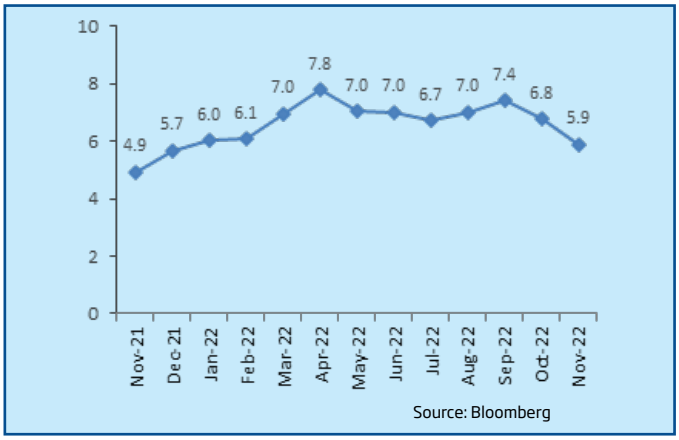
Market Outlook

HDFC Pension - Monthly update (December 2022)

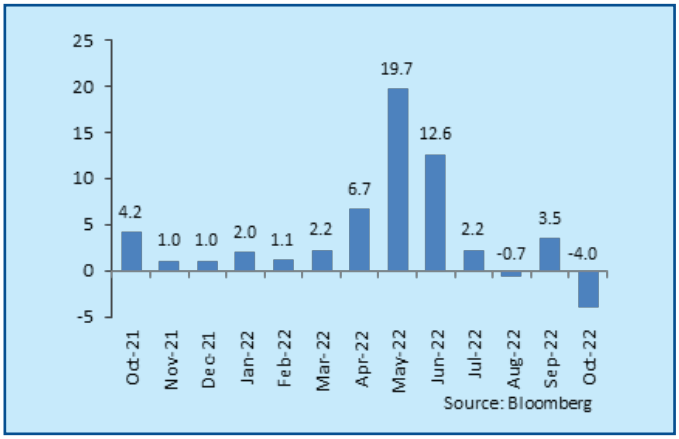
Economic Overview

Inflation %



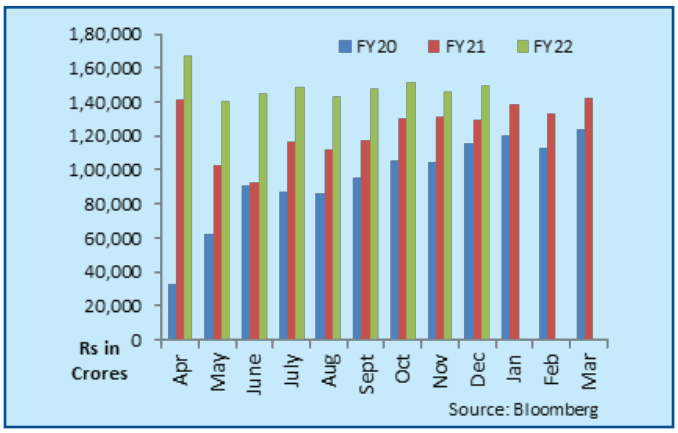
- Inflation (CPI) for November 2022 fell to 11 month low of 5.9% vs 6.8% in October 2022.
- Core inflation (i.e. excluding Food and Fuel inflation) remains sticky and has slightly inched up to 6.3% in November 2022, as compared to 6.2% in October 2022.
- US CPI for November 2022, came at 7.1% (YoY) against expectation of 7.3% and lower than the October 2022 reading of 7.7%.

Industrial Production Index (IIP)



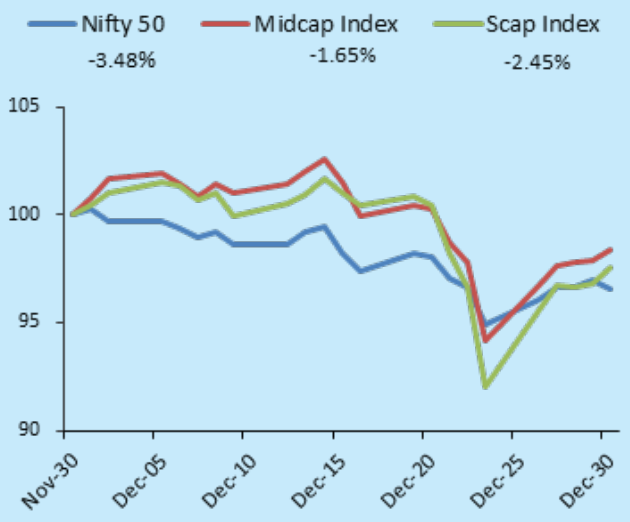
- Industrial Production (IIP) for October 2022 declined by 4%, against a growth of 3.5% in September 2022.
- On YoY basis, mining and electricity sectors grew by 2.5% & 1.2% respectively, as compared to 5.2% and 11.6% respectively in September 2022. The manufacturing sector contracted by 5.6% in October 2022 as compared to 2.2% in September 2022.
- The decline in IIP could be a reflecton of slower growth and weaker exports. However, other high frequency indicators continue to hold up, suggesting strong domestic demand.

GST Collection (Rs. in crs)



- GST revenues for the month of December 2022 came at Rs.1,49,507crs showing a 15% YoY & 2.5% MoM growth.
- During the month, revenues from import of goods was 8% higher and revenues from domestic transactions (including import of services) was 18% higher YoY.
- Continuing strong GST number along with other domestic macro indicators, imply strong domestic economic activities (though IIP was negative) supporting resilent domestic growth story.

Market Review - December 2022



Index Performance:

Nifty50 Index was down 3.5% during the month and is up 3.7% YTD, amidst heightened volatility. Market moves have been influenced by:

1. Negative Institutional flows of INR142.3bn during the month that have put downward pressure on the returns.

2. Volatile Crude oil prices during the month, as prices fell from USD85.4/bbl at November-end to USD76.1/bbl and then recovered back to USD85.9/bbl by December-end. Amidst tight supplies and possible increased demand on China re-opening, Crude prices may remain elevated in short term.

3. Heightened uncertainty on global growth outlook as Central banks continued to remain focused on fighting inflation with even Bank of Japan tightening the policy.

4. Rising inflation concerns on the back of uptick in major commodity prices with Nickel up +11.3%, Iron Ore up +14.2%, Copper up +1.6% during the month. Aluminum prices were down by 4% on MoM basis.

Broader market including Nifty Midcap and Small Cap index outperformed Nifty50 Index by 183bps and 103bps respectively during the month.

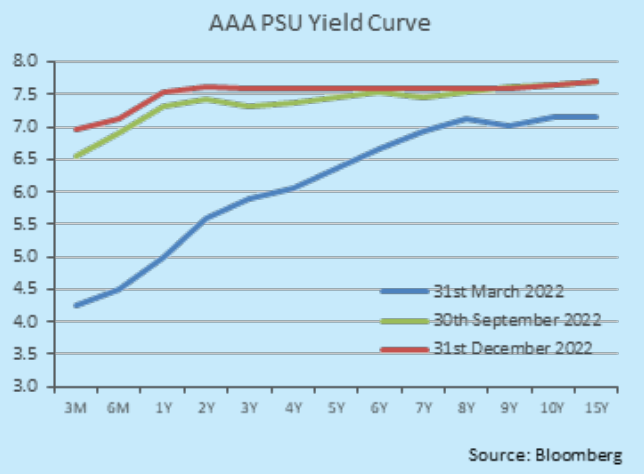
Nifty Valuation & Equity Outlook

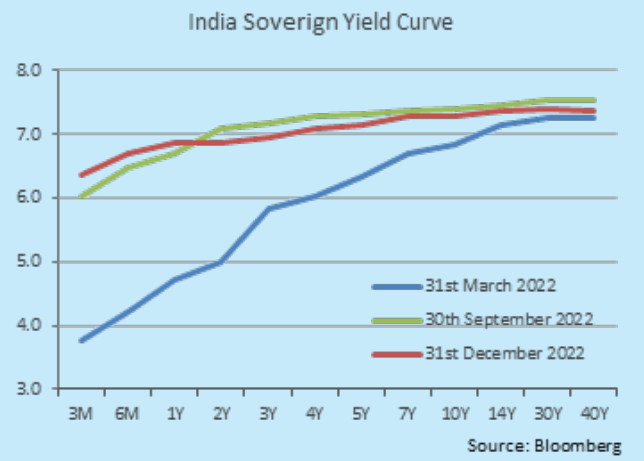
Economic growth outlook remains muted in the short to medium term with Central banks across the world hinting at more rate hikes. Though inflation still remains at elevelated levels, there is some moderation in the inflationary environment and thus the pace of rate hikes might slow down in coming months. Against this macro-environment, Indian economy registered a GDP & GVA growth of 9.7% & 9.0% respectively on YoY basis in H1FY23, following the GDP & GVA growth of 13.7% & 12.8% respectively on YoY basis during H1FY22. High frequency indicators show that the domestic growth is holding up and growth momentum is positive, albeit marginally, on sequential basis. While macro indicators show mixed growth trend in manufacturing sector, rural growth is expected to come back in coming quarters and service sector growth is expected to hold up. Credit growth is largely steady on sequential basis with credit to deposit ratio remaining healthy.

For trailing 12 months the Indian equity market have given 4.3% returns with high volatility. At the same time, Nifty valuations have also witnessed volatility with Nifty now trading slightly below +1SD at 18.1x FY24E. With this backdrop, we expect market to remain range bound with high volatility in short to medium term. Markets will continue to react to evolving recessionary scenario affecting global growth prospects along with rate hikes by central banks.

While we remain cautions for short to medium term given the context of global uncertanties, from a long term perspective the outlook continues to be positive and hence we are buyers in stocks with reasonable valuation and growth prospect, considering it as good opportunities to accumulate from long term perspective. Key risk are any negative surprises in inflation numbers, accelerated interest rate hikes & uptick in crude prices.

Debt outlook and positioning





Global Macros

Central bankers across the globe continued to remain focussed on bringing inflation under control. Bank of Japan (BOJ) which was relatively the last standing dovish central bank also signalled a stance change as it increased the 10 year yield curve target range by 25bps to 50bps while maintaining the benchmark rates. US Federal Reserve (FED) raised the rates by 50bps in December thus bringing fed funds rate to 4.25%- 4.50% band. Bank of England (BOE) followed the FED in raising rates by 50bps in December. ECB too hiked the rates in December by 50bps. RBI too increased the rates by 35bps, taking the rates to 6.25% and retained the inflation forecast at 6.7% for FY23. However, China lowered its reserve requirements for banks from 11.25% to 11% as China was significantly impacted by resurgence of COVID. Indian Rupee depreciated to Rs. 82.75/USD during the month from Rs. 81.44/USD in November-end.

Debt Outlook

Scheme G: The 10 Yr Indian G-Sec moved up to 7.33% from 7.28% during the month whereas US 10 Yr moved up to 3.87% from 3.61%. Overall, December saw muted activity on account of Christmas and New year Holidays and the activity in the markes was very muted. Going forward we expect yield curve to steepen in 4Q. Spreads between the G-Sec and SDLs which remained narrow during 3Q on lower SDL supply are expected to widen. The SDL calendar for Q4 indicates SDL supply of Rs3,40,841.22 Cr. We expect the SDL supply to pick up, even though it may be lower than announced, but still significantly higher compared to first 3 quarters of FY23.

Scheme C: During the month of December corporate bond spreads over G-Sec remained narrow due to robust demand and relatively lower supply. With demand-supply dynamics for corporate bonds expected to normalize, we expect AAA PSU spreads to increase in 4Q. We expect 10y+ AAA PSU bonds to underperform the broader market as supply of PSU bonds picks up. We expect corporate bond yields to remain volatile in 4Q as market awaits directions from Union Budget on government's FY24 fiscal deficit and borrowings target.

Performance Indicator (as on 30th December 2022)

HDFC Pension	3 years	5 years	7 years	SI
Scheme Equity (E)	15.56%	11.99%	13.81%	14.63%
Scheme Corporate Bond (C)	7.22%	8.09%	8.60%	9.45%
Scheme Government Bond (G)	6.34%	8.07%	8.44%	9.03%

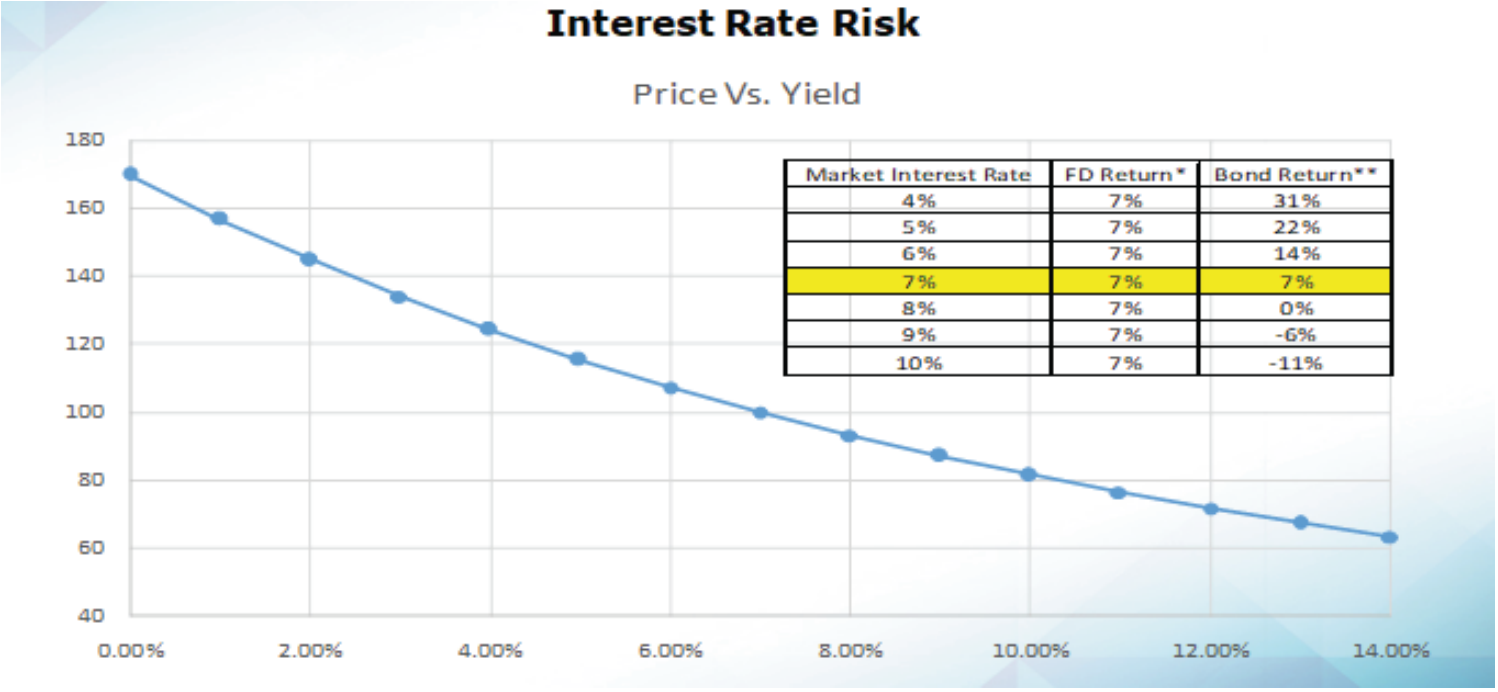
If a person had invested Rs.50,000 on last day of each year, since March 2014, the corpus for the person as of 30th December 2022 would have been:

Asset Allocation*	Aggressive	Moderate	Conservative
Invested Amount (in Rs)	4,50,000	4,50,000	4,50,000
Corpus as on 30th December 2022 (in Rs)	8,37,187	7,81,959	7,26,170

* Note: Asset Allocation
1. Aggressive : E-75%; C- 10%; G-15%
2. Moderate : E-50%; C- 30%; G-20%
3. Conservative : E-25%; C- 45%; G-30%

Thus, over long term, Investment with higher equity proportion tends to give better returns and thus helps to accumulate bigger retirement corpus for the subscribers.

Did you know?



Market Interest Rate	FD Return*	Bond Return**
4%	7%	31%
5%	7%	22%
6%	7%	14%
7%	7%	7%
8%	7%	0%
9%	7%	-6%
10%	7%	-11%

*For FD returns can vary depending on pre-mature closure penalty (if any).

** Bond returns shown are non-realised gains/losses. If held to maturity the returns for both FDs and Bonds will be 7%. All calculations are for changes as on the end of the year.

There is an inverse co-relation between interest rates and price of the bonds. The price of the bond decreases if the interest rates go up and vice versa. The above graph shows this relationship.

Modified Duration (MD) of a bond represents approximate change in the price of the bond to change in interest rates.

For example, in the above table, in base case the market interest rates, FD rates and Bond returns are all assumed at 7%. We have assumed that the bond has a modified duration of 7. In this case, if the market interest rates fall by 1% (7% to 6%), the return on the bond increases from 7% to 14% (1% x MD of 7) and vice versa. The return on FD is not affected by market movements and thus remains the same.

A bond holder also benefits from the convexity of the bond. In the above example, it is important to note that when the market interest rates fall from 6% to 5%, the bond return increases by more than 7% (1% x MD of 7), and when the interest rates rise from 8% to 9%, the returns fall by less than 7%. This benefit by holding a bond is known as the convexity. Convexity means that the increase in the value of the bond from decrease in interest rates is more than the decrease in the value of he bond from the inrease in interest rates.

HDFC PENSION

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