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EQUITY

Market Outlook

December 2024

Good gets better

Macro and Equity Market Outlook

GLOBAL MACRO & MARKETS

India's NSE NIFTY index ended almost flat in November 2024 (-0.3%). Among major global indices, the S&P500 (+5.7%) rallied post the United States (US) Federal election results, with the Euro 50 (-0.5%), and the Japanese NIKKEI (-2.2%) ended the month, November 2024 with negative returns. The Morgan Stanley Capital International (MSCI) World (+4.5%) bucked the trend on a sequential basis, ending the month, November 2024 in green aided by performance of the largest market, the United States (US). Performance was largely negative among Emerging Markets (EM) indices, with the Morgan Stanley Capital International Emerging Markets (MSCI EM), the Hang Seng (Hong Kong), the BOVESPA Brazil (BVSP) recording sequential returns of (-4.4%), (-3.7%), and (-3.1%) respectively.

The London Metals Exchange (LME) Metals Index fell by (-3.0%) in November 2024, driven by weak global demand and limited recovery in largest consumer market, in China. The West Texas Intermediate (WTI) and Brent Crude fell MoM, by (-1.8%) and (-0.3%), respectively, as markets remained cautious given geo-political tensions.

The Dollar index appreciated by (+1.7%) through November 2024, with the US Dollar (USD) losing vis-à-vis Emerging Market (EM) currencies (-2.4%) and appreciating against the Indian Rupee (INR) on the spot market (+0.5%). India 10Y G-Sec yields fell by (-10 bps), while US 10Y G-Sec yields fell by (-10 bps), and the German Bund yield fell by (-30 bps), with rates settling at 6.74%, 4.16% and 2.08% respectively, as hopes of monetary easing remain.

Domestic Macro & Markets

The BSE SENSEX (+0.5%) rose in November 2024, in contrast to the NSE NIFTY index. The BSE Mid-cap index and the BSE Small-Cap index underperformed the BSE SENSEX, rising by (+0.1%), and +0.4% over the month respectively. Sector-wise, Information Technology (IT), Tech and Consumer Durables were the top 3 performers over the month, November 2024 clocking (+5.8%), (+4.9%), and (+3.0%), respectively.

Net Foreign Institutional Investors (FII) flows into equities remained negative for November 2024 (-$ 2.5 Bn, following $ -11.2 Bn in October 2024). The Domestic Institutional Investors (DIIs) remained net buyers of Indian equities in November 2024 (+$4.5 Bn, from +$12.8 Bn last month, October 2024). In Calendar Year (CY2024), Net Foreign Institutional Flows (FII) Flows stood at (-$2.0 Bn), while net Domestic Institutional Investors (DII) investments in the cash markets stood at (+$58.2 Bn), outpacing the Foreign Institutional Investors (FII) investments.

India's high frequency data update:

Record levels of Goods and Services Tax (GST) collections, stable retail inflation, softer input inflation, rising core sector outputs, and elevated credit growth augurs well for the Indian economy.

Purchasing Managers' Index Manufacturing PMI:

India's Manufacturing Purchasing Managers' (PMI) in November 2024 slowed month on month to 56.5 (vs 57.5 in October 2024), remaining in expansion zone (>50) for the 40th straight month. The slowdown was countered by an acceleration in exports and sales, but with the rate of output expansion slowing.

Goods and Services Tax (GST) Collection:

Gross collections of INR 1.82 Tn (+8.5% YoY) in November 2024 concluded the thirty third consecutive month of collections over the INR 1.4 Tn mark, following previous record collections of INR 2.1 Tn in April 2024. Rising compliance, higher output prices, festive season demand, rising collections from imports and domestic transaction volume uptick has driven elevated tax collections.

Core Sector Production:

The index of eight core sector industries grew by (+3.1%) YoY in October 2024, against a (+2.4%) growth in September 2024, as an unfavourable base effect came into play. 7 out of eight constituent segments grew YoY, driven by Coal production (+7.8% YoY).

Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) accelerated MoM to (+3.1%) in September 2024, vs a de-growth of (-0.1%) YoY in August 2024, driven by positive, and YoY growths in 3 of 3 major sectors- Manufacturing, Mining, Electricity.

Credit growth:

Scheduled Commercial Bank Credit growth reached (+11.15%) YoY as of 15th November 2024 against a YoY growth of (+20.64%) as observed on 17th November 2023, as a strong base effect came to play post the merger of Housing Development Finance Corporation (HDFC and HDFC Bank).

Inflation:

October 2024 Consumer Price Index (CPI) inflation rate accelerated sharply MoM to (+6.21%), up from 5.49% in July 2024. Food inflation came in at a faster pace, at (+10.87%). The Wholesale Price Index (WPI) inflation accelerated sequentially in October 2024, with the print at (+2.36%), 52 bps up from September 2024.

Trade Deficit:

Indian Merchandise Exports rose by (+17.26%) YoY to $39.2 Bn in October 2024, while Imports rose by (+3.88%) YoY to $66.34 Bn. Merchandise trade deficit widened by (-10.81%) YoY to $27.14 Bn.

Market View

- November 2024 witnessed slew of global and domestic developments leading to a relatively higher market swings. In the United States (US) with new leadership taking shape early next year material policy shifts, if any needs to be monitored.

- On the domestic space the recent state election results can give a thrust to policy continuity. The Gross Domestic Product (GDP) for Q2 FY'25 came in at 7 quarter low of 5.4% YoY due to multiple factors like weather vagaries, slowdown in urban consumption and lower government spending etc. However, we expect some of these challenges to be behind supported by higher government spending, festive season demand and robust Kharif and Rabi season.

- From corporate earnings perspective we may believe that the worst of the earnings downgrades is over and 2HFY25 may see a minimal earnings downgrade. While overall consumption is weak the premiumisation trend remains strong. Some of the global demand-oriented business like Information Technology (IT) services and metals have minimal risk of earnings downgrades.

- Post this fall large cap valuations are closer to long term averages while the mid and small caps despite the recent correction trade at premium supported by strong domestic flows.

- Considering the recent geopolitical events especially the uncertain policy environment, volatility in currency markets, relative India valuations the market volatility may higher than usual in the near term. Accordingly, investors can consider well diversified large cap-oriented strategies like Large/Flexi/Multi Cap appear over the medium term.

- Investors seeking better downside protection may consider asset allocation products like Multi Asset Allocation, Dynamic Equity ,etc.

- Long term investors with appropriate risk appetite can consider Mid and Small Cap allocations in staggered manner through the systematic route.

Events to watch out for in December 2024:

The United States (US) Policy Shift:

The threat of raising tariffs on foreign goods being imported into the USA remains, as the administration changes, which has implications on inflation and global trade. This remains a key monitorable for global demand and price oriented companies and markets in general.

The Federal Open Market Committee (FOMC) Meeting:

The Federal Open Market Committee (FOMC) meets on December 18th ,2024 to discuss further rate cuts, after cutting rates in the last 2 meetings in September 2024 and November 2024. The policy rate stands at 4.5%-4.75%, and expectations of a rate cut of 25 bps in December 2024 are priced in by the markets. Data flow, especially labour market and inflation may drive further changes in policy rates.

Other things to watch out for:

Festive season demand, Oil market Volatility, and Central Government's Capex stance, The Goods and Services Tax (GST) council meeting remain key events for markets to watch out for.

Monthly Performance for Key Indices:

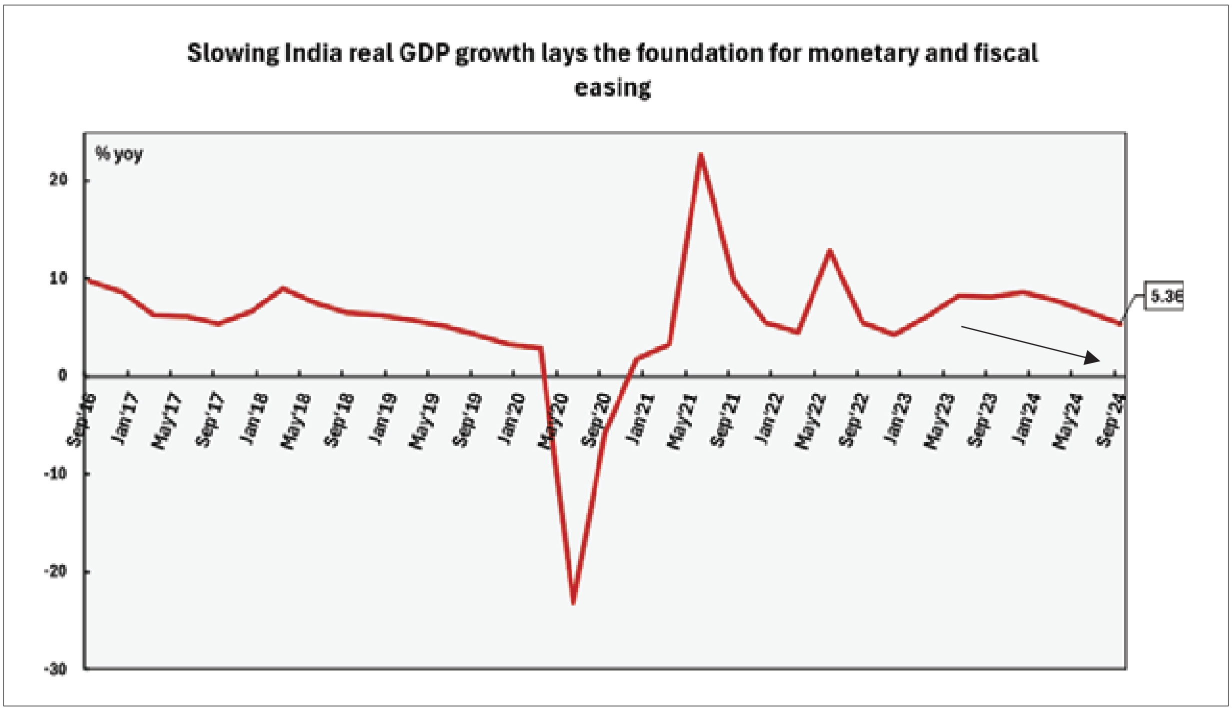
INDEX	2021	2022	2023	Sep-24	Oct-24	Nov-24
MSCI WORLD	20.1%	-19.5%	21.8%	1.7%	-2.0%	4.5%
S&P 500 (US Markets)	26.9%	-19.4%	24.2%	2.0%	-1.0%	5.7%
Euro 50	21.0%	-11.7%	19.2%	0.9%	-3.5%	-0.5%
MSCI EM	-4.6%	-22.4%	7.0%	6.4%	-4.4%	-3.7%
HANG SENG	-14.1%	-15.5%	-13.8%	17.5%	-3.9%	-4.4%
Nifty 50 India	24.1%	4.3%	20.0%	2.3%	-6.2%	-0.3%
LMEX LONDON METALS INDEX	31.8%	-11.5%	-5.6%	6.1%	-3.2%	-3.0%
BRENT	50.2%	10.5%	-10.3%	-8.9%	1.9%	-0.3%
DOLLAR INDEX SPOT	6.4%	8.2%	-2.1%	-0.9%	3.2%	1.7%
BSE SENSEX	22.0%	4.4%	18.7%	2.3%	-5.8%	0.5%
BSE MIDCAP	47.4%	2.5%	40.8%	1.8%	-7.2%	0.1%
BSE SMALLCAP	62.8%	-1.8%	47.5%	2.0%	-3.8%	0.4%
USDINR	1.7%	11.3%	0.6%	-0.1%	0.3%	0.5%

Source: Bloomberg .***Calendar year returns.**

Note: Market scenarios are not reliable indicators for current or future performance. The same should not be construed as investment advice or as any research report/research recommendation
Past performance may or may not be sustained in future.

Chart of the Month:

India's Q3 Calendar Year (CY24) real Gross Domestic Product (GDP) growth dropped to a seven-quarter low of 5.4% year-over-year (yoy) vs. 6.7% yoy in Q2. Private consumption expenditure and fixed investment growth declined to 6.0% yoy and 5.4% yoy respectively. Agriculture sector growth increased to a five-quarter high of 3.5% yoy and bodes well for the rural recovery, while both manufacturing and services sectors' growth disappointed. 1HFY25 growth came in worse than expectations partly due to one off factor and 2HFY25 growth is likely to be better. However, market has started to expect preponement of monetary easing alongside increased Government spending to spur growth.



Source:
NIMF Research, CEIC