Nippon India Mutual Fund

Wealth sets you free

EQUITY

Market Outlook

February 2025

Good gets better

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Macro and Equity Market Outlook

GLOBAL MACRO & MARKETS

India's NSE NIFTY index ended the month of January 2025 negative (-0.6%). Among major global indices, the S&P500 (+2.7%), Morgan Stanley Capital International (MSCI) World (+3.5%), the Euro 50 (+8.0%), the Japanese NIKKEI (-0.8%) ended the month, January 2025 with largely positive returns. Performance was positive among Emerging Market (EM) indices as well, with the Morgan Stanley Capital International Emerging Markets (MSCI EM), Hang Seng (Hong Kong), the BOVESPA Brazil (BVSP) recording sequential returns of (+1.7%), (+0.8%), and (+4.9%) respectively.

The London Metals Exchange (LME) Index rose by (+1.6%) in January 2025, driven by uncertainty in global trade and tariff hikes by major consumers. West Texas Intermediate (WTI) and Brent Crude rose MoM, by (+1.1%) and (+2.8%), respectively.

The Dollar index remained flat (-0.1%), through January 2025, with the US Dollar (USD) appreciating vis-à-vis Emerging Market (EM) currencies (-1.6%) and appreciating against the Indian Rupee (INR) on the spot market (+1.2%). India 10Y G-Sec yields fell by (-6 bps), while US 10Y G-Sec yields fell by 3 bps, and the German Bund yield rose by (+9 bps), with rates settling at 6.7%, 4.53% and 2.46%, respectively.

Domestic Macro & Markets

The BSE SENSEX (-0.8%) fell in January 2025, in line with the NSE NIFTY Index. The BSE Mid-cap index and the BSE Small-Cap index underperformed the BSE SENSEX, falling by (-7.2%), and (-9.5%) over the month, respectively. Sector-wise, Realty, Consumer durables, Healthcare were the top underperformers over the month, January 2025 clocking (-13.2%), (-10.2%), and (-7.7%), respectively. All of BSE's 13 major sectoral indices ended the month, January 2025 in red.

Net Foreign Institutional Investors (FII) flows into equities were negative for January 2025 (at -$9.0 Bn, following +$1.8 Bn in December 2024). Domestic Institutional Investors (DIIs) remained net buyers of Indian equities for the 18th consecutive month (+$9.8 Bn, from +$4.0 Bn last month, December 2024).

India's high frequency data update:

Robust Goods and Services Tax (GST) collections, stable retail inflation, income tax relief in the Union Budget, and improvement in domestic banking system liquidity augurs well for the Indian economy.

Purchasing Managers' Index Manufacturing PMI:

India's Manufacturing Purchasing Managers' (PMI) in January 2025 accelerated month on month to 57.7 (vs 56.4 in December 2024), remaining in expansion zone (>50) for the 42nd straight month. The slowdown was a result of faster pace of growth in new orders, and manufacturing performance remained comfortably in the expansion zone.

Goods and Services Tax (GST) Collection:

Gross collections of INR 1.96 Tn (+12.3% YoY) in January 2025 concluded the thirty fifth 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 (+4.0%) YoY in December 2024, against a (+4.4%) growth in November 2024, as an unfavourable base effect came into play. 6 out of eight constituent segments grew YoY, driven by Coal production (+5.3% YoY).

Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) accelerated MoM to (+5.2%) in November 2024, vs a growth of (+3.5%) YoY in October 2024, driven by positive, and YoY growths in 3 of 3 major sectors- Manufacturing, Mining, Electricity.

Credit growth:

Scheduled Commercial Bank Credit growth reached (+11.47%) YoY as of 10th January 2025 against a YoY growth of (+20.28%) as observed on 12th January 2024, as a strong base effect came to play.

Inflation:

December 2024 Consumer Price Index (CPI) inflation rate decelerated MoM to (5.22%), down from (5.48%) in November 2024. Food inflation came in at a slower pace MoM, at (7.69%), down from (8.2%) in the previous month. The Wholesale Price Index (WPI) inflation accelerated sequentially in December 2024, with the print at (+2.37%), 48 bps up from November 2024.

Trade Deficit:

Indian Merchandise Exports fell by (0.99%) YoY to $21.9 Bn in December 2024, while Imports rose by (+4.9%) YoY to $59.95 Bn. Merchandise trade deficit narrowed by (16.95%) YoY to $21.94 Bn.

Market View

- Union budgetary proposals with their support to Consumption through tax cuts while maintaining fiscal prudence and capex thrust are expected to have a positive impact on the slowing growth.

- Reserve Bank of India also reduced Repo rates by 25 basis points which may also help to revive demand on lower interest cost burden.

- Further the recent market pull back has helped reduce the excess valuations or premiums in some pockets with Large cap valuations closer to long term averages, while the premium in Mid/Small cap segment though elevated has moderated.

- Looking ahead the equity markets are likely to reflect the earnings growth.

- Global policy stance especially the tariff actions by the US and responses from impacted countries is likely to impact the market sentiments.

- Large Banks, Consumer, Power along with structural themes like urbanization, premiumization and localization of manufacturing appear well placed in the current context.

- Large Cap & Large Cap oriented strategies along with hybrid funds appear better placed on risk-reward basis, while Mid/Small cap allocation may be considered in a staggered manner through systematic investments.

- Overall, we believe while the market may consolidate in the near term the domestic fundamentals / lead indicators remain supportive and offer reasonable possibilities from a medium-term perspective.

Events to watch out for in February 2025

- India and United States (US) earnings Seasons: So far, the earnings season in India as well as in United States (US) has been better than pre quarter expectations in aggregate.
- The currency movement and the Oil Market volatility will remain key events for markets to watch out for.

Monthly Performance for Key Indices:

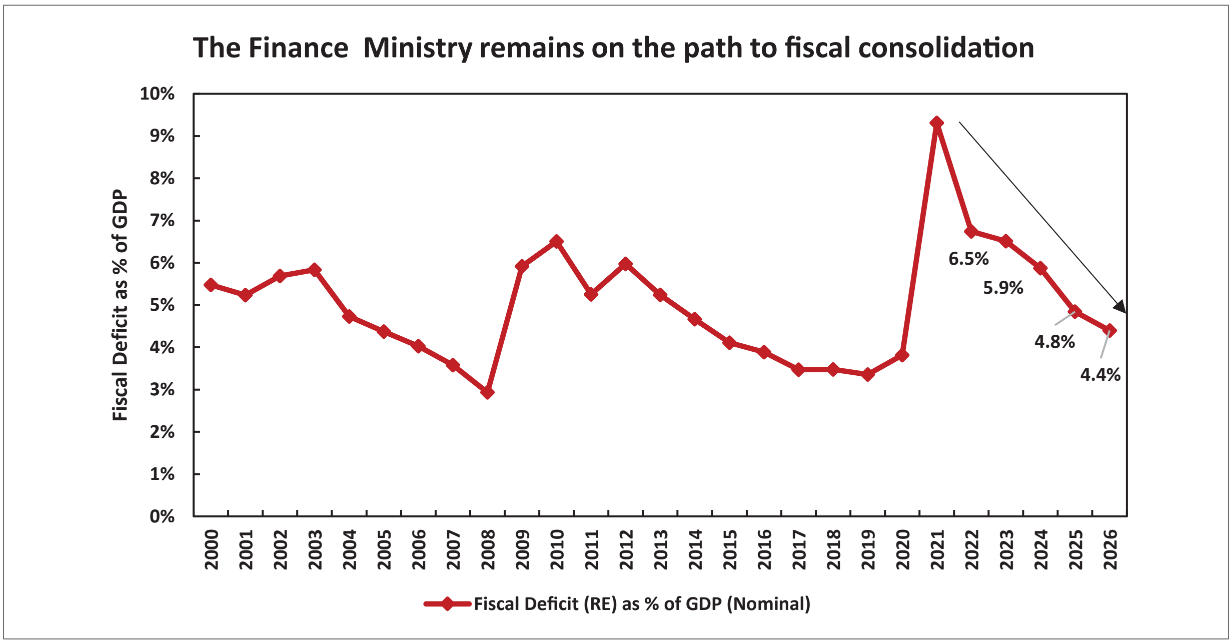
INDEX	2022	2023	2024	Nov-24	Dec-24	Jan-25
MSCI WORLD	-19.5%	21.8%	17.0%	4.5%	-2.7%	3.5%
S&P 500 (US Markets)	-19.4%	24.2%	23.3%	5.7%	-2.5%	2.7%
Euro 50	-11.7%	19.2%	8.3%	-0.5%	1.9%	8.0%
MSCI EM	-22.4%	7.0%	5.1%	-3.7%	-0.3%	1.7%
HANG SENG	-15.5%	-13.8%	17.7%	-4.4%	3.3%	0.8%
Nifty 50 India	4.3%	20.0%	8.8%	-0.3%	-2.0%	-0.6%
LMEX LONDON METALS INDEX	-11.5%	-5.6%	3.8%	-3.0%	-2.7%	1.6%
BRENT	10.5%	-10.3%	-3.1%	-0.3%	2.3%	2.8%
DOLLAR INDEX SPOT	8.2%	-2.1%	7.1%	1.7%	2.6%	-0.1%
BSE SENSEX	4.4%	18.7%	8.2%	0.5%	-2.1%	-0.8%
BSE MIDCAP	2.5%	40.8%	25.8%	0.1%	0.7%	-6.4%
BSE SMALLCAP	-1.8%	47.5%	29.3%	0.4%	0.0%	-9.5%
USDINR	11.3%	0.6%	2.9%	0.5%	1.3%	1.2%

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:

The Central government stuck to the fiscal consolidation path in the first full budget of its third term for Financial Year (FY26): It targeted fiscal deficit at 4.4% of Gross Domestic Product (GDP) in FY26 from the revised estimate of 4.8% in FY25 (5.6% in FY24). Central government capex is budgeted to remain flat (over FY25) as a share of Gross Domestic Product (GDP), at 3.1%. Income tax relief announced to Indian households may help improve domestic consumption.



Source: NIMF Research, CEIC (RE- Revised Estimates) (BE- Budget Estimate) considered for FY26 Data)