Nippon india Mutual Fund

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EQUITY

Market Outlook

January 2025

Good gets better

Macro and Equity Market Outlook

GLOBAL MACRO & MARKETS

India's NSE NIFTY index ended the month of December 2024 negative (-2.0%). Among major global indices, the S&P500 (-2.5%), The Morgan Stanley Capital International (MSCI) World (+4.5%), the Euro 50 (-1.9%), and the Japanese NIKKEI (+4.4%) ended the month, December 2024 with mixed returns. Performance was mixed among Emerging Markets (EM) indices as well, with the Morgan Stanley Capital International Emerging Markets (MSCI EM), the Hang Seng (Hong Kong), the BOVESPA Brazil (BVSP) recording sequential returns of (-0.3%), (+3.3%), and (-4.3%) respectively.

The London Metals Exchange (LME) Metals Index fell by (-2.7%) in December 2024, driven by weak global demand and limited economic recovery in largest consumer market, in China. The West Texas Intermediate (WTI) and Brent Crude rose MoM, by (+5.5%) and (+2.3%), respectively, as markets rallied despite stronger dollar, Non- Organization of the Petroleum Exporting Countries (OPEC) supplies rose to offset on strong demand.

The Dollar index appreciated by (+2.6%) through December 2024, with the US Dollar (USD) losing vis-à-vis Emerging Market (EM) currencies (-2.1%) and appreciating against the Indian Rupee (INR) (+1.3%). India 10Y G-Sec yields rose by (+2 bps), while US 10Y G-Sec yields rose by (+40 bps), and the German Bund yield fell by (-28 bps), with rates settling at 6.76%, 4.56% and 2.36% respectively.

Domestic Macro & Markets

The BSE SENSEX (-2.1%) fell in December 2024, in line to the NSE NIFTY index. The BSE Mid-cap index and the BSE Small-Cap index outperformed the BSE SENSEX, rising by (+0.8%), and 0.0% over the month, December 2024 respectively. Sector-wise, Healthcare, Realty and Consumer Durables were the top 3 performers over the month, December 2024 clocking (+3.7%), (+3.4%), and (+3.1%), respectively. 4 of BSE's 13 major sectoral indices ended the month, December 2024 in green.

Net Foreign Institutional Investors (FII) flows into equities turned positive for December 2024 (+$ 1.3 Bn, following $ -2.7 Bn in November 2024). The Domestic Institutional Investors (DIIs) remained net buyers of Indian equities for the 17th month in December 2024 (+$4.0 Bn, from +$5.3 Bn last month, November 2024). In Calendar Year (CY2024), Net Foreign Institutional Flows (FII) Flows stood at (-$0.12 Bn), while net Domestic Institutional Investors (DII) investments in the cash markets stood at (+$62.9 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, deflated 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 December 2024 slowed month on month to 56.4 (vs 56.5 in November 2024), remaining in expansion zone (>50) for the 41st straight month. The slowdown was a result of slowing new orders, but manufacturing performance remained comfortably in the expansion zone.

Goods and Services Tax (GST) Collection:

Gross collections of INR 1.77 Tn (+7.2% YoY) in December 2024 concluded the thirty fourth 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 to a four-month high by (+4.3%) YoY in November 2024, against a (+3.1%) growth in October 2024, as an unfavourable base effect came into play. Six out of eight constituent segments grew YoY, driven by Cement production (+13% YoY).

Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) accelerated MoM to (+3.5%) in October 2024, vs a growth of (+3.1%) YoY in September 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:

November 2024 Consumer Price Index (CPI) inflation rate decelerated MoM to (+5.48%), down from 6.21% in October 2024. Food inflation came in at a slower pace, at (-8.2%). The Wholesale Price Index (WPI) inflation decelerated sequentially in November 2024, with the print at (+1.89%), 47 bps down from October 2024.

Trade Deficit:

Indian Merchandise Exports fell by (+4.86%) YoY to $32.1 Bn in November 2024, while Imports rose by (+27%) YoY to $69.95 Bn. Merchandise trade deficit widened by (77%) YoY to $37.84 Bn.

Market View

- In December 2024, Indian equity markets ended on a spectacular note for the 9th straight year in a row in CY'24, shrugging off several uncertainties both global & local.

- Key Factors that influenced the Indian markets' move in CY'24 include: Change in the political landscape, Geopolitical unrest, Stimulus by China, Lower earnings by Indian companies and divergent moves by Global Central Banks.

- On the domestic front, weaker near-term growth trends, weak corporate earnings, elevated valuations, Foreign Portfolio Investment (FPI) outflows led to sharp fall in recent 2-3 months.

- Mid-Small cap segments outperformed the large caps supported by sustained flows from domestic investors, while Foreign Portfolio Investment (FPI) outflows was more pronounced in the larger businesses. Midcap valuations are currently, expensive compared with Large cap and small cap due to sudden surge in the last ten months. Large cap valuations are hovering near their 3-year avg level since Jan 2024, while midcap and small cap are well above their 3 year average level.

- Post the recent corrections overall valuations appear to be moderating in relative terms. Given the anticipated demand pick up we expect the muted earnings growth of last 2 quarters to improve. Some of the potential triggers for demand revival may include - Rural Agricultural recovery (Rabbi crops), extended wedding/festive season, higher Government spending and moderating inflation.

- The new Policy actions in the United States (US) post new government may lay the trend towards global growth shift in the next 1-2 years

- Investors are likely to take cues from global trade & monetary policies especially the United States (US). From a domestic perspective corporate earnings maybe a key market trigger.

- Accordingly, investors can consider well diversified large cap-oriented strategies like Large/Flexi/Multi Cap appear over the medium term to manage the likely near term uncertainties .

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

- 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 January 2025:

The Reserve Bank of India (RBI) Policy Stance:

After keeping the policy repo rate unchanged at 6.5% in December 2024, The RBI remains cautious, having changed the policy stance to "neutral" in the October 2024 meet. Expectations for a change in the rate will remain data driven, particularly inflation.

The Federal Open Market Committee (FOMC) Meeting:

The Federal Open Market Committee (FOMC) meets on January 29th ,2025 to discuss further rate cuts, after cutting rates by 100 bps in the last 3 meetings in September 2024, November 2024 and December 2024. The policy rate stands at 4.25%-4.5%, and expectations of a slower rate cut in January 2025 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:

China Stimulus, India and US earnings Seasons and Oil Market volatility remain key events for markets to watch out for.

Monthly Performance for Key Indices:

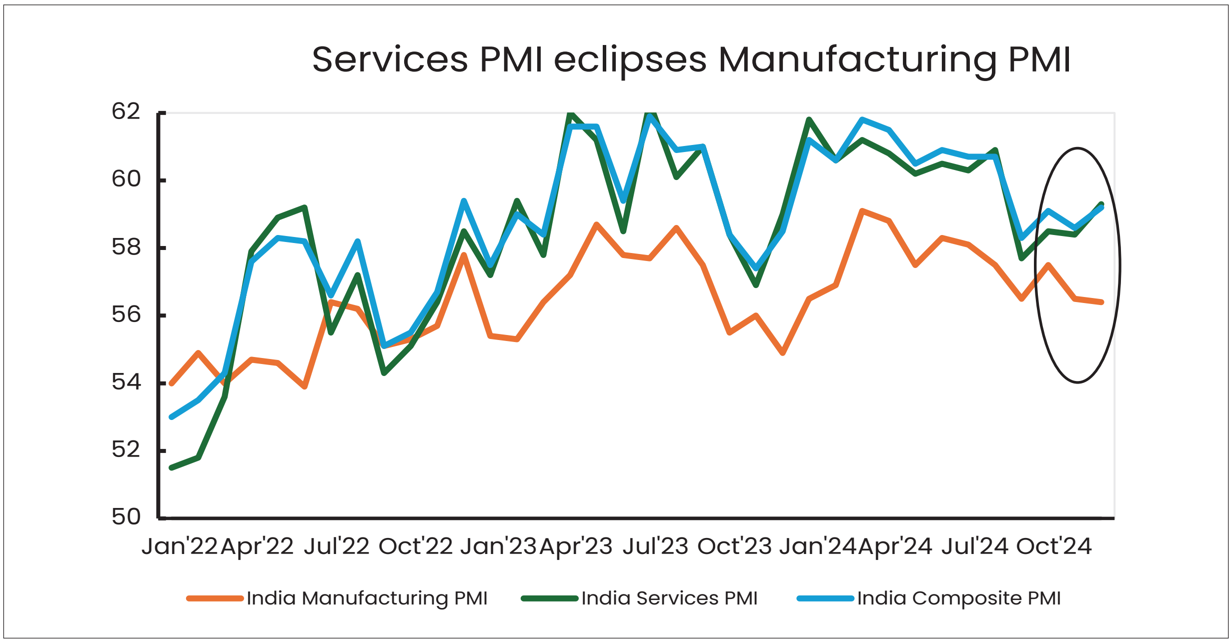
INDEX	2022	2023	2024	Oct-24	Nov-24	Dec-24
MSCI WORLD	-19.5%	21.8%	17.0%	-2.0%	4.5%	-2.7%
S&P 500 (US Markets)	-19.4%	24.2%	23.3%	-1.0%	5.7%	-2.5%
Euro 50	-11.7%	19.2%	8.3%	-3.5%	-0.5%	1.9%
MSCI EM	-22.4%	7.0%	5.1%	-4.4%	-3.7%	-0.3%
HANG SENG	-15.5%	-13.8%	17.7%	-3.9%	-4.4%	3.3%
Nifty 50 India	4.3%	20.0%	8.8%	-6.2%	-0.3%	-2.0%
LMEX LONDON METALS INDEX	-11.5%	-5.6%	3.8%	-3.2%	-3.0%	-2.7%
BRENT	10.5%	-10.3%	-3.1%	1.9%	-0.3%	2.3%
DOLLAR INDEX SPOT	8.2%	-2.1%	7.1%	3.2%	1.7%	2.6%
BSE SENSEX	4.4%	18.7%	8.2%	-5.8%	0.5%	-2.1%
BSE MIDCAP	2.5%	40.8%	25.8%	-7.2%	0.1%	0.7%
BSE SMALLCAP	-1.8%	47.5%	29.3%	-3.8%	0.4%	0.0%
USDINR	11.3%	0.6%	2.9%	0.3%	0.5%	1.3%

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: Weak 2Q GDP show raises policy support expectations.

The S&P India Services Purchasing Managers' Index (PMI) for December 2024 rose to a four month high of 59.3 points, an increase from 58.4 points recorded in November 2024. The HSBC (Hong Kong and Shanghai Banking Corporation) India manufacturing Purchasing Managers' Index (PMI) for December 2024 slipped to a 12-month low at 56.4. The divergence suggests optimism of services companies in new business and future activities, even as production and fresh orders for manufacturers slowed down. With both in expansion territory (>50), economic activity momentum is expected to continue, albeit with services leading performance on the back of an improved outlook for fresh orders.



Source: NIMF Research, Bloomberg

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