January 2025

FUND MANAGERS COMMUNICATION

Global Market:

During the month of December 2024: S&P 500 was down by -2.74%, Dow Jones was down -5%, Nikkie was up by 3.59%, Nifty 50 was down by -2.56%. For the CY2024 Nifty 50 was up by 8.8%, S&P500 was up by 24%, Nasdaq up by 30%, DAX up by 18.7%, Nikkie up by 19.8%.

Global Manufacturing PMI increases after four months: After four months of contraction, the G-20 GDP weighted PMI expanded in Nov'24. Similarly, JP Morgan's global PMI stabilised at 50 in Nov after holding in the contractionary zone for four consecutive months. India continued to lead, but this time with softer moderation in Manufacturing and Services. China's PMI was 51.5, a five-month high, whereas the US saw stabilisation and the eurozone was faced with a deeper decline.

Global inflation moderates: Our G20 GDP weighted inflation moderated by 10 bps to a 3 year low of 4.5% in Oct'24. The Central banks are cautious in easing, as price uptick on account of trade wars remain a top concern.

US Economy: US Fed lowered its benchmark overnight borrowing rate by a quarter percentage point, or 25 basis points, to a target range of 4.50%-4.75%, the commentary from FED has been hawkish on the interest rates. The US economy grew by 3.1% annualised in July-Sep. Consumer spending, housing sales data remains healthy.

Domestic Market:

GST Collection: The (GST) collections fo December 2024 stood at ₹1,76,857 crore, marking a 7.3% year-on-year growth compared to ₹1,66,882 crore in December 2023.

Auto numbers: For December 2024 month : Passenger Vehicles, Tractors, CVs reported healthy growth numbers. Two wheelers numbers were soft, after a strong festive season. Ahead, we expect good volumes in Q4 across segments.

PMI: The HSBC India Manufacturing Purchasing Managers Index fell to 56.4 in December, marking an 12-month low. Credit growth continues to moderate, falling to 11.2% in Nov'24 with deposit growth too falling to 11.2%. Liquidity turned into deficit in Nov'24 due to GST outflows and capital market volatility.

Core sector output back to growth: Core sector output rose to 4.3% in November 2024, up from 3.7% in October. Growth for the first eight months stood at 4.2%, lower than the 8.7% seen in the same period last year. During the month cement grew by 13% in within the eight sectors. First two month of H2 FY25 have reported sustained and positive momentum in the core sector growth. As the government capital expenditure has picked up it will further support to construction sector growth.

IIP: IIP growth rises to 3.5 per cent in October from 3.1 pc in September 2024. The data reflect a gradual recovery in the industrial sector, driven largely by the manufacturing industry. With risks to manufacturing production emanating from weak external demand, the trajectory of industrial production would be driven by recovery in capex along with better consumption. Ahead, the government's focus on capital expenditure could drive a significant rise in infrastructure spending, further boosting economic activity. Besides, favorable rainfall and more sowing should support rural demand. As a result, we anticipate higher growth in H2 FY25.

Consumer price Inflation (CPI):

CPI inflation eased to 5.5% in Nov'24 from 6.2% recorded in Oct'24. The RBI has raised the quarterly average to 5.7% and annual average to 4.8% in its last Monetary Policy Committee (MPC) meeting.

RBI Policy: In DEC Policy no change in Repo rate was done, while RBI reduced the Cash reserve ratio (CRR) rate from 4.5% to 4%. After a weak Q2, FY25 GDP forecasts were slashed from 7.2% to 6.6%. On inflation, the RBI raised its full year projection from 4.5% to 4.8%. It highlighted food inflation should cool down in Q4, contingent upon the kharif output flooding markets and robust rabi sowings. The next policy meeting is scheduled for 5-7th Feb 25.

India's GDP in Q2 FY25 grew 5.4%, below our projected 6.7%, due to moderation in consumption and investment. Despite H1's lower-than- expected growth of 6%, we expect H2 to improve, with 7.7% and 8.1% growth in Q3 and Q4 respectively. Therefore, we maintain our FY25 GDP growth forecast at 7%. Risks to our outlook emanate from weakness in private capex due to China's dumping and policy uncertainties post US elections.

Fund Flow: FII flows were positive in the month of December 2024 at ₹11,085 crores, DII flows remained healthy with inflows of ₹14,467 crores during the month.

Equity Market Outlook:

After a strong rally in markets in the first half of calendar year 2024, markets have corrected in Q3FY25 led by weak corporate results, some softness in economy, and profit booking in high valued stocks and aggressive selling by foreign funds and big-ticket IPOs and QIPs.

We have seen back-to-back two quarters of subdued corporate earnings growth. To gain momentum back, support of earnings would be required. The correction and consolidation period is coming to an end, and once Q3FY25 earnings starts kick in, most likely worst would have been factored in by the market. Post state elections, capex outlay by the government has started and with budget around the corner more clarity on policy continuity would emerge.

With strong discretionary spending in Q3FY25, and execution efficiency picking up in manufacturing sector, earnings are likely to see the recovery. Management commentary along with budget would be keenly watched by investors for future growth visibility.

Overall macro picture is still strong with core inflation and interest rates under control, deficit under control, strong tax collections and stable government. Valuations post correction is now reasonable with Nifty trading at two year forward 17.5x PE multiple. With worst behind us and attractive valuations, Investors can now start for additional investments aggressively for long term.

Regards,
Mayur Shah
(Fund Manager-Anand Rathi Advisors Ltd.)

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