April 2025

FUND MANAGERS COMMUNICATION

Global Market:

During the month of March 2025: S&P 500 was down by -5.75%, Dow Jones was down -4.20%, Nikkie was down by -3.94%, Nifty 50 was up by 5.40%.

Global inflation moderates: Global inflation at a 3.5-year low. Our G20 GDP-weighted inflation eased by 20bps to more than a 3.5-year low of 3.9% in Jan. Moderation in demand and lower crude prices kept inflation in check. However, uncertainty over tariff policies remain a risk for the inflation trajectory.

Our G20 GDP-weighted industrial production index showed strong growth in December 2024, driven by China, Argentina, Russia, Turkey, and South Korea, while India and Mexico slowed. China's factory output hit a nine-month high at 6.2%, and with weak domestic demand and U.S. tariffs, the country may export surplus goods at lower prices, adding to global deflationary pressures.

Global trade improved in Dec'24; outlook uncertain. Global merchandise trade saw slight growth in Dec'24, with imports rising in Japan, the US, Latin America, and the EU, while India saw a sharp decline. Exports increased in the UK, China, Canada, and emerging Asia but fell in India and Latin America. Despite a temporary recovery, indicators like the Baltic Dry Index and Container Throughput Index signal trade uncertainty due to geopolitical tensions and President Trump's aggressive tariff policies

The US Fed held rates at 4.25%–4.50% while trimming GDP growth forecasts, raising unemployment expectations, and admitting inflation is proving a bit more stubborn than hoped. Investors took Powell's cautious stance as a subtle hint that rate cuts are still on the horizon.

Domestic Market:

GST Collection: GST Collection: GST receipts in March hit ₹1.96 lakh crore, marking a 9.9% growth and the second-highest collection ever.

Auto numbers: Auto numbers for March has been in line with better growth number from Eicher and TVS motors in two wheelers, PV sales has been muted, tractor sales has been strong and growth momentum is expected to continue, driven by favourable weather, increased Rabi sowing, and decent water reservoir levels.

PMI: India's Manufacturing Purchasing Managers' Index (PMI) rose to 58.1 in March 2025, up from 56.3 in February, according to data released by HSBC and compiled by S&P Global, its highest level in eight months. (Manufacturing PMI data is an economic indicator that measures the activity level in the manufacturing sector. It is based on a survey of purchasing managers across manufacturing industries and provides insights into business conditions, including production, new orders, employment, supplier delivery times, and inventory levels).

Core industries' growth moderated to 2.9% in Feb'25, with the Jan'25 figure being revised upward to 5.1%. After a weak first half, core sector growth picked up in Q3FY25, averaging 4.3%. While February 2025 showed some moderation, increased capital expenditure by both state and central governments in the final months is expected to drive demand for cement and steel. Additionally, a decline in electricity demand in February led to weaker coal production, but a rebound is anticipated in March due to above-normal temperatures. Moreover, strong momentum in toll and petroleum consumption is likely to support petroleum production in the coming months

IIP: Industrial production rises to a five-month high. After declining in Dec'24, industrial production growth rebounded to a five month high of 5% in Jan'24. However, for the first 11 months of the fiscal year, growth averaged 4.1%, lower than the 5.9% in the same period last year. Industrial activity is expected to gain momentum, driven by two key factors. First, increased capital expenditure from state and central governments will boost infrastructure and construction goods. Second, tax cuts in the FY26 budget, strong rabi sowing, and improving employment levels will support consumption. However, a key risk to this outlook is the potential impact of U.S. tariff threats, which could weigh on Indian exports

Consumer price Inflation (CPI):

CPI inflation moderated sharply to 3.6% in Feb'25, down from 4.3% in Jan. The decline was primarily driven by easing of food inflation, with vegetable inflation turning negative. The average CPI for the quarter is now expected to fall below the RBI's initial projection of 4.4. Easing food prices, coupled with lower global crude oil prices, have provided a supportive backdrop for inflation to align more closely with the RBI's 4% target. Against this backdrop, the RBI, which recently cut the repo rate by 25bps and implemented liquidity measures to address the system's deficit, is likely to maintain its easing cycle. The central bank's stance is likely to be influenced by growing concerns over the economic growth outlook, given rising global trade uncertainties and increasing prevalence of protectionist policies.

Credit growth re-joins path of moderation, declining to 11% with deposit growth too falling to 10.3% from Jan'25 levels. Expectations of a further rate cut by the RBI in Apr'25 along with further un-doing of risk weights will support credit growth in the coming months.

Foreign Trade: In FEB Merchandise trade deficit narrowed to $14.1bn, lower than $23bn observed in Jan'25 while services trade surplus expanded to $18.5bn. Lower crude prices have helped reduce imports, but rising commodity prices and strong domestic demand may keep them high. Merchandise exports face pressure from growing protectionism and Trump's tariff policies, though a bilateral solution with the US is expected soon. While the external balance remains stable, the CAD is projected to reach 1.5% of GDP for FY25. A rising services trade surplus of $18.5bn and strong remittances should help keep the CAD in check.

Highlight of the month: Defence exports grew 12% y-o-y to ₹23,622 crores. The same was ₹1521 crores in FY17. Government is aiming for exports target of Rs.50,000 crores by 2029.

Fund Flow: FII flows were positive in the month of March 2025 at Rs.2014 crores, DII flows remained healthy with positive inflows of ₹37585 crores during the month. FIIs which were aggressive sellers in the last few months, have become incrementally positive, with their buying coming for few days in March. Dollar which has made high of closer to 87.8 in Feb 2025 has seen recovery with gains of 2.4% in the March month to close at 85.47/dollar.

Equity Market Outlook:

Indian Equity markets haven seen a smart recovery in the month of March after a sharp correction in last few months. However, we are going through challenges with respect to global tariff war initiated by US. We have seen retaliation from China against the US Tarriff. Primarily India seems to be less affected compared to other emerging markets like China, Vietnam, Bangladesh etc. Among the top sectors where we have trade surplus relationship with US i.e Electronics, Gems & Jewellery, Pharma, Nuclear Reactor Parts & Machinery, Iron and Steel Products, Textiles, Auto & Auto Components in many sectors we are still competitive as tariff imposed to other exporting countries are higher. Only sectors like Gems and Jewellery, Auto, Seafood are impacted on higher side.

Likely disruption in global trade due to protectionist policy might slowdown the global growth. However, with tariff imposition US external current account would improve with lower imports and higher custom collection which might help in reducing fiscal deficit and bond yield. This to help in improving US balance sheet and refinancing debt at lower rate. There could be risk of inflation in short to medium term in US.

Some Indirect challenges to some sectors could be there in India if outcome of this tariff war go against US and situation worsen. Eg IT services sector might face the challenge for new contracts and revision in pricing.

We are entering earning season for Q4FY25, earnings are likely to see improvement. However watch would be on management commentary about how do they see the US Tariff impact. Over all macro set up in India is quite comfortable with Brent Crude oil is now trading below $65/bbl, healthy GDP growth, lower inflation, lower interest rate in coming quarters, liquidity easing by RBI, revival of government capex, improved consumer discretionary demand led by tax deduction benefits and expected improvement in rural demand would be positive factors. Recovery in profitability of corporate India is expected from Q1FY26 and pick up in coming quarters. We remain constructive on India economy and Indian equities for long term.

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

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