MARKET OUTLOOK

Equity market

BSE-30 and Nifty-50 indices consolidated for the month of November 2024 post a sharp correction in the previous month. Mid-cap and Small Cap indices also performed inline with large caps. On the sectoral Capital Goods, IT, Banks, Consumer Durables and Real Estate were the sectors which outperformed the benchmark index.

The month of November 2024 started weak with some recovery at the end of the month. Most conversation is around the extent of recovery likely to be seen in the 2HFY25 post a weak Q2FY25 for corporate earnings. FII selling remained high at US$2.5bn.

Index Name	As on			Return in %	
	29-Nov-24	31-Oct-24	30-Nov-23	1 Month	1 Year
Nifty 50	24131	24205	20133	-0.3	19.9
S&P BSE Sensex	79803	79389	66988	0.5	19.1
S&P BSE MID CAP	46071	45967	34256	0.2	34.5
S&P BSE SMALL CAP	55200	54983	40372	0.4	36.7
S&P BSE 200	11123	11121	8905	0.0	24.9
S&P BSE AUTO	52898	53540	40053	-1.2	32.1
S&P BSE Bankex	59298	58664	50293	1.1	17.9
S&P BSE Consumer Durable	62469	60656	47120	3.0	32.6
S&P BSE Capital Good	70700	69106	49990	2.3	41.4
S&P BSE FMCG	21213	21663	19157	-2.1	10.7
S&P BSE Health Care	43666	43915	30375	-0.6	43.8
S&P BSE IT	42783	40428	33227	5.8	28.8
S&P BSE METAL	30537	31280	24240	-2.4	26.0
S&P BSE Oil & Gas	26813	27458	20551	-2.3	30.5
S&P BSE Power Index	7490	7829	4921	-4.3	52.2
S&P BSE Realty	7960	7809	5657	1.9	40.7

Index Name	As on			Return in %	
	29-Nov-24	31-Oct-24	30-Nov-23	1 Month	1 Year
Nifty 200	13627	13618	10887	0.1	25.2
Nifty 50	24131	24205	20133	-0.3	19.9
Nifty Auto	23369	23515	17552	-0.6	33.1
Nifty Bank	52056	51475	44482	1.1	17.0
Nifty Commodities	8537	8888	6856	-4.0	24.5
Nifty Energy	37482	39302	29295	-4.6	27.9
Nifty Financial Services	24010	23887	20055	0.5	19.7
Nifty FMCG	57944	59203	53014	-2.1	9.3
Nifty India Consumption	11447	11481	8987	-0.3	27.4
Nifty Infrastructure	8734	8823	6586	-1.0	32.6
Nifty IT	43146	40408	32582	6.8	32.4
Nifty Metal	9034	9327	7017	-3.1	28.7
Nifty Midcap 100	56393	56113	42909	0.5	31.4
Nifty Pharma	22240	22736	16239	-2.2	37.0
Nifty Realty	1020	1000	714	2.1	43.0
Nifty Smallcap 100	18651	18603	14171	0.3	31.6

The Macro picture

	November 2024	October 2024
WPI	2.36% (October 2024)	1.84% (September 2024)
CPI	6.21% (October 2024)	5.49% (September 2024)
Index of Industrial Production	3.09% (September 2024)	-0.14% (August 2024)
Repo rate	6.50% (as on November 30, 2024)	6.50% (as on October 31, 2024)
Marginal Standing Facility Rate	6.75% (as on November 30, 2024)	6.75% (as on October 31, 2024)

Source: RBI, Bloomberg

Inflation: India's Wholesale Price Inflation (WPI) Index came in at 2.36% YoY during the current month as compared to 1.84% for the previous month on account of stable fuel, higher food and lower commodity prices.

Headline CPI inflation for October spiked to 6.21% YoY, primarily due to sequential rise in food inflation (2.6% MoM), particularly in vegetables, with oils & fats, eggs, cereals, and fruits seeing significant momentum. Core inflation also moved higher to 3.8% YoY, mainly due to sustained gold price momentum. November CPI is tracking ~5.4-5.5% with some pullback in food prices so far. Select economists expect core inflation averaging ~3.6% in FY25E and remaining below 4% till end-CY24, FY25 headline inflation is now estimated at ~4.9%, slightly higher than the RBI's forecast of 4.5%.

India's real GDP (at market prices) grew by 5.4% YoY in the September-24 quarter (Q2FY25) and by 6.7% YoY in Q1FY25. FY24 GDP growth stood at 8.2% ahead of the estimated 7.6% for the year. Capital formation growth stood at 5.9% for Q2FY25 and 9% for the full year FY24. Going forward, consensus estimates have been brought down towards a range between growth of 6.0%-6.5% GDP growth for FY25.

Other macro developments (fiscal deficit and household savings)

India's Q1FY25 current account balance registered a deficit of US$9.7bn (1.1 of GDP) compared to a surplus of US$ 6bn (0.6% of GDP) for Q4FY24. The deficit represents higher gold imports which are likely to normalise going ahead.

India's fiscal deficit came much lower than forecasted at 5.6% for FY24 on account of lower revenue expenditure. The government has announced a path to reduce fiscal deficit to 4.9% for FY25 (revised lower from 5.1% earlier) and below 4.5% in FY26.

FY23 net household financial savings rate stood at 5.1% of GDP (7.2% for FY22). The same ratio had moved higher during the pandemic period to 12% in FY21 compared to 7.7% in FY20.

Market Outlook

Our monthly outlook for previous month ie October 2024 talked of corporate earnings being on the weaker side on the back of government capital expenditure being down by 15% for the 1HFY25 compared to 1HFY24 due to general elections along with strong monsoon and effects of past tight monetary policy.

Q2FY25 GDP growth came to 5.4%, lower than economists estimates of >6%. Media and various economists are highlighting that growth is lower and both the government and the RBI need to boost growth through capex pickup and a dovish monetary policy, specially liquidity. We are of the opinion that government capital expenditure is likely to pick up quite well in the 2HFY25 leading to better economic growth for the full year. Infact, as per latest fiscal deficit data released, the Central government has preponed transfer of US$9.5bn to state governments in order to make capital available to boost capex. This amount will be adjusted by end of the year. This is a very good move and highlights the intent of the government to balance growth for the year.

We in our portfolios are focused on companies which can grow earnings at a fast pace and most importantly balance sheets/cash flow being on the positive side with less leverage.

Long-term structural drivers like demographic advantage, low household debt, limited penetration across different consumer categories, increased potential for financial savings and urbanization makes India a compelling equity story from medium to long term perspective.

We believe investors would be well advised to invest with medium to long term perspective and systematically increase exposure to Indian equity markets.

Debt market

	29/11/2024	31/10/2024	Change (bps)
10 Year Benchmark Yield (s.a)	6.74	6.84	-10
10 Year AAA (PSU) (ann)	7.28	7.34	-6
5 Year AAA (PSU) (ann)	7.37	7.52	-15
3 Year AAA (PSU) (ann)	7.48	7.56	-08
1 Year AAA (PSU) (ann)	7.63	7.63	0
3 Month T Bill	6.47	6.51	-04
3 Month CD	7.18	7.18	0
6 Month CD	7.40	7.40	0
9 Month CD	7.40	7.40	0
12 Month CD	7.55	7.55	0
10 Year AAA Spread	54	50	5
5 Year AAA Spread	69	74	-5

Government Securities rallied on the last day due to India's second quarter GDP growth coming at 5.4 percent against market expectation of 6.5 percent. RBI projection for the second quarter GDP growth was 7 percent. The market was volatile due to October CPI inflation coming at 6.21 percent. US yields moving higher due to incumbent US president Donald trump tax cut proposal which could led to higher fiscal deficit and imposition of tariffs which will led to higher inflation in US. The Federal terminal rate cut which was in the 3.25 to 3.50 band has moved to 3.75 to 4 percent band.

The US Dollar strengthened due to the expected tariff increase by the US and expectation of lower fiscal deficits with the appointment of Scott Bressent as new treasury secretary. Scott Bressent has stated he will bring the fiscal deficit to 3 percent from 6 percent prevailing at present by 2026. This is positive for the dollar. The Chinese currency yuan depreciated against the dollar due to expectation of 60 percent increase in tariffs on Chinese goods coming into US. Trump has also indicated he will go for twenty-five tariffs against goods imported from Mexico and Canada. The Chinese yuan has depreciated by 2.7 percent against the dollar and Indian currency depreciation of 0.7 percent. the emerging market dollar index has fallen by 2.5 percent after trump victory.

Liquidity in the banking system has fallen from Rs 4 Lakh crores surplus to Rs 1 lakh crores at present. This is due to currency leakage and RBI selling dollars in the spot and forward market to smoothen the currency depreciation. Liquidity is expected to remain tight in the second half of the fiscal year, even after a CRR cut of Rs 1.16 Lakh crores. This is due to RBI forward sales of USD 20 Billion and expected currency leakage as economic activity picks up in the festival season.

Debt markets were volatile during the month with the ten-year touching 6.86 levels due to higher October CPI inflation of 6.21 percent. Higher food inflation accounted for 74 percent of the rise, even though the weightage for food is 46 percent in the CPI inflation index. CPI Inflation for the month of November is expected at 5.50 to 5.70 percent. December month CPI inflation is expected to be around 5 percent as rabi crop harvest starts coming into the market. Currency weakness led to FII selling in debt market in the month of November from the Fully accessible route (FAR) to the extent of Rs 4300 Crores. Market players created short positions as they pushed back rate cuts to April meeting and expected hawkish comments from RBI in the monetary policy on 6th December 2024.

The second quarter GDP number came at 5.4 percent against market expectation of 6.5 percent. Weakness was reflected in mining and manufacturing sectors and urban consumption demand has weakened in line with management commentary of companies. Private investment is showing a slump with only Government spending and rural demand boosting demand. The first quarter GDP now stands at 6.05 percent. RBI has revised its third and fourth quarter GDP to 6.8 and 7.2 percent and the full year GDP growth to 6.6 percent. CPI inflation for the full year has been revised to 4.8 percent, with the fourth quarter inflation at 4.7 percent. The GDP growth for the second quarter is 8 percent and the first half nominal GDP growth is 8.9 percent. The government while presenting the current year budget has factored nominal GDP growth of 10.5 percent.

RBI in its monetary policy stance has kept rates unchanged but cut the CRR by fifty basis points. The RBI governor has stated the effect of rate cuts should have maximum impact and not be wasted. With liquidity being tight, the priority was to loosen liquidity and subsequently as CPI inflation comes towards target rate, RBI could start prioritizing growth over CPI inflation. We are now in an adverse mix situation with growth slowing down and inflation moving up, this could change in the last quarter. We should expect rate cuts to start from February onwards as CPI inflation moves towards the 4 percent level. Investors should invest in duration products to take advantage of rate cuts and high accruals prevailing at present.