

Pranitya Wealth LLP

Market Outlook

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Overview

In December 2024, the Indian stock market closed 2.01% down (Nifty). The market reached all-time highs in September, with the Sensex peaking at 85,978.25 and the Nifty at 26,277.35.

The Nifty's performance, which is more or less in line with the BSE Index, experienced a dramatic run until the end of September, reaching about 20%. However, after FPIs started selling, it declined by 11% since September. The market's returns over the last three months are negative, at 11%, which is noteworthy. Consequently, the overall gain for 2024 stands at 8.8% for NIFTY 50 for calendar year.

Sectoral performance showed a notable difference, where leaders including Pharma gained at 39.10%, Realty at 34.40%, and Nifty Auto at 22.06%, driven by strong performances from Bajaj Auto and M&M. The worst-performing sector was Media, which declined by 23.80%. The Nifty Midcap 100 delivered a return of 23.05% in 2024, while the Nifty 500 achieved a return of 14.80% in calendar year 2024.

Initial growth was driven by strong corporate earnings and increased domestic fund flows. However, corrections occurred in the latter half of the year due to aggressive selling by Foreign Institutional Investors (FIIs) amid global geopolitical tensions and economic uncertainties. A record number of IPOs highlighted India's robust capital market. As the year progressed, concerns about high valuations, lower consumption and disappointing corporate earnings led to cautious investor sentiment. While December saw some declines, the overall performance for the year was strong, setting a solid foundation for potential growth in 2025.

FED Meeting

In December 2024, the Federal Reserve (Fed) reduced interest rates by 25 basis points, bringing the target range to 4.25%–4.50%. This marks the third consecutive rate cut, signalling a shift from the previous aggressive hiking cycle. Fed's Hawkish tone indicates that future cuts may be slower and more cautious and is data dependent.

The Fed's decision led to a sharp drop in Global markets, sending all global currencies downwards, rupee lost about 2.8% this year. When dollar strengthens capital flows back to US from all over the world. While the rate cuts may attract foreign investment, concerns about high valuations, slower earnings growth, and global uncertainties weighed on sentiment, suggesting potential market consolidation in 2025.

Currency Volatility

The Indian rupee has experienced significant volatility in December 2024, hitting a record low of 85.79 on December 31 against the US dollar and continuing to show instability throughout the month. The implied volatility of the rupee has surged, reaching its highest levels in nearly a year, indicating expectations of further fluctuations in its value. It lost about 2.80% against USD so far for the year.

The huge sell-off by FPI- second highest in the history of above 1.20 lac crores also put pressure on rupee. The volatility of the Indian rupee is driven by several key factors. Global Economic Conditions significantly impact on the currency, as the Federal Reserve's interest rate policies and rising yields

strengthen the dollar, negatively affecting emerging market currencies like the rupee. Trade Deficits are also critical; India's goods trade deficit hit a record high of \$37.8 billion in November 2024, primarily due to increased gold imports and declining exports, raising concerns about currency stability. Lastly, while RBI intervention of close to 9 million dollars in December helped rupee to stabilize through active market participation, these measures may only offer temporary relief against ongoing global economic challenges and domestic pressures, limiting their long-term effectiveness.

It is projected that the Indian rupee will trade within a range of 86 to 87 in the near term, with potential for further depreciation if global conditions remain unstable.

Global Markets

In 2024, global markets experienced notable volatility, with the U.S. stock market leading the way. The S&P 500 rose approximately 23.3%, and the Nasdaq Composite surged over 28.6%, primarily driven by strong corporate earnings in the technology sector, particularly due to advancements in artificial intelligence.

However, other regions faced challenges. The Eurozone struggled with weak economic growth, projected at around 0.8%, amid high inflation and geopolitical tensions. Emerging markets presented a mixed picture, with some countries benefiting from fiscal stimulus while others, like China, dealt with a cooling property market and trade restrictions.

In India as of 2024 concluded, investor sentiment was shaped by concerns about high valuations and potential corrections, particularly following aggressive selling by Foreign Institutional Investors (FIIs) in markets like India. Looking ahead to 2025, caution prevails as investors navigate diverse economic conditions, geopolitical uncertainties, and evolving monetary policies, focusing on sectors with strong fundamentals for growth opportunities.

Indian Consumption

India's economy is projected to grow at 6.5% in FY25 and FY26. However, this outlook is tempered by a notable slowdown in GDP growth, which fell to 5.4% in Q2 FY25, marking a seven-quarter low. This decline is primarily attributed to decreasing private consumption expenditure and gross fixed capital formation, which together accounted for a reduction of 1.5 percentage points in GDP growth. Elevated prices and stagnant wages, particularly in urban areas, have led to reduced consumer spending. The RBI's decision to cut the Cash Reserve Ratio (CRR) by 50 basis points is expected to further boost consumption by making credit more affordable. Liquidity in the banking sector remains poor at around ₹2 lakh crore, compared to the normal level of ₹6 lakh crore, leading to tight liquidity in the business cycle. Liquidity needs to improve to boost consumption.

Even as private consumption showed signs of slowing down, the appetite for premium goods continued to grow. According to the latest GDP data, private final consumption expenditure dropped to 6% in the July-September quarter from a seven-quarter high of 7.4% in the previous quarter. Yet, this did not deter the appetite for expensive, high-quality products. Convenience has been key to this shift. The rise of quick commerce platforms like Blinkit, Zepto, and Swiggy Instamart has made it easier for consumers to access premium products swiftly. The surge in credit card usage and personal loans has been

instrumental in driving consumer spending. Of late, we have observed a pickup in rural consumption, which will aid the overall economy's recovery and support the growth of FMCG and consumer companies going forward. India is fundamentally a consumption-driven economy, and any slowdown in consumption will adversely affect both the market and the economy.

Government Spending

Government spending has consistently contracted, recording negative growth rates of (-)8.4% in October 2024 and (-)14.7% over the first seven months of FY25. Gross fixed capital formation growth is estimated at 5.4% in Q2 FY25, the lowest in six quarters. Private investment demand remains weak, and government investment has contracted sharply, with negative growth of (-)15.4% in the first half of FY25. This was mainly due to elections for the last 7 months starting with general elections followed by Assembly elections in a few states. Government spending has picked up over the last two months, with its impact clearly visible in the order books of companies. This momentum is expected to continue, driving a significant recovery in 2024-25.

Sector Performance

Not all segments of the consumer market flourished in 2024, with the automobile industry facing notable challenges. Car sales slowed down, particularly in the months leading up to Diwali, despite automakers offering significant discounts. Weakening demand was evident from a 13% year-on-year drop in November retail sales and rising inventory levels at dealerships. However, signs of recovery emerged as November sales rose by 4% month-on-month, indicating stabilizing demand post-festive season. In contrast, the two-wheeler market witnessed robust growth, especially in rural areas, where consumer sentiment remained strong and supportive. Real estate and the pharmaceutical sector have performed well, emerging as two of the leading sectors. In contrast, finance and banking have lagged. The Q2 results indicate a slowdown, with not all sectors performing equally well. The market had anticipated broad-based growth; however, we are now likely to witness a period of time correction and price correction across several sectors.

GDP Estimates

Indian economy is likely to grow at 6.5-6.8 per cent this fiscal and slightly higher between 6.7-7.3 per cent in FY2026, boosted by domestic consumption. The growth in the first half of the fiscal year 2025 turned out to be slower than estimated as election uncertainties followed by disruptions in activity due to heavy rainfall and geopolitical events weighed on domestic demand and exports.

The government's continued focus on infrastructure development, digitization, and attracting FDI will be an additional growth booster, enhancing overall efficiency. capital markets have shown stability despite significant FII outflows over the past two and a half months, thanks to rising participation from retail and domestic institutional investors.

However, India continues to show resilience in certain pockets that are worth noting -- be it in consumption trends, services growth, the rising share of high-value manufacturing in exports, or the capital market.

GDP growth has dropped significantly compared to the 8%+ levels of the past few years. However, most analysts and agencies believe this is a temporary dip. It is expected that growth will recover and remain above 6.5% going forward.

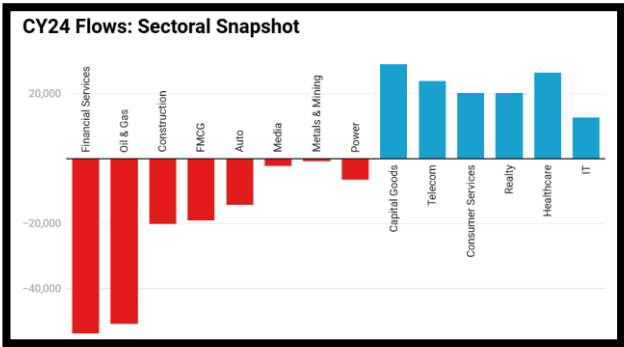
Earnings Growth

In December 2024, the earnings growth outlook for Indian companies reflected a complex landscape influenced by various economic factors. Analysts anticipate an 11% earnings growth for the second half of the fiscal year, driven by increased government spending, improving rural demand, and seasonal boosts from weddings and festivals. However, the first half of FY25 saw challenges, with many companies experiencing downgrades in earnings estimates due to weak consumption and rising inflation, particularly affecting urban areas. Approximately 67.5% of companies faced downgrades in their net earnings estimates for FY25, with construction materials, energy, and consumer staples being notably impacted. Despite these headwinds, sectors such as BFSI (Banking, Financial Services, and Insurance), infrastructure, and jewelry are expected to perform better in the latter half of the fiscal year. The NSE Nifty 50 Index has risen by 8.80% for 2024, reflecting market resilience, while attention remains on earnings growth amid ongoing economic uncertainties and external challenges.

FPI Selling

The year 2024 saw a sharp slowdown in foreign portfolio investor (FPI) activity, with foreign investors pumping in just over Rs 1,600 crore on a net basis into the domestic equity market, a steep fall of 99 per cent from the robust inflows of Rs 1.71 lakh crore in the previous year. The significant shift can largely be attributed to concerns over the valuation of Indian stocks, below-expected domestic GDP growth in the second quarter of fiscal 2025, weak corporate earnings and higher US bond yields.

January, April, May, October and November months witnessed FPI outflows with October witnessing maximum sell-o of Rs 94,017 crore. Meanwhile in January and May, outflows of more than Rs 25,000 crore were seen. Meanwhile, the highest inflows of Rs 57,724 crore were seen in September followed by March and July when FIIs purchased shares worth Rs 35,098 crore and Rs 32,365 crore, respectively



FII selling has definitely slowed down, but the Nifty has declined to its critical support level of 23,500. FIIs have primarily sold large-cap stocks from their holdings, so in the event of a recovery, we expect large caps to rebound more significantly.

RBI Policy

In December 2024, the Reserve Bank of India (RBI) maintained its benchmark policy repo rate at 6.5% for the eleventh consecutive meeting, reflecting a commitment to managing inflation while supporting economic growth. This decision aligns with market expectations amid a recent slowdown in economic activity. Additionally, the RBI reduced the Cash Reserve Ratio (CRR) by 50 basis points to 4%, a move aimed at enhancing liquidity in the banking system ahead of advance tax outflows. The central bank also introduced the Secured Overnight Rupee Rate (SORR) to strengthen interest rate benchmarks.

Regarding economic forecasts, the RBI revised its GDP growth projection for FY25 down to 6.6%, from an earlier estimate of 7.2%, while inflation expectations were adjusted upward to 4.8% for the same period. These measures reflect the RBI's cautious approach in navigating economic challenges, including global uncertainties and domestic inflationary pressures, while aiming to foster a stable financial environment. With the change of guards at RBI and hawkish FED commentary, RBI is not in the mood to oblige with any rate soon. Any external sharp slowdown in Q3 results might change stance.

Market Valuation

In December 2024, the Indian stock market's valuation was influenced by several key factors, including strong corporate earnings and significant investor activity. The market capitalization reached approximately \$5.13 trillion, with expectations of continued growth driven by a robust economic environment and increasing domestic fund flows. Analysts predict that the market could double to \$10 trillion within the next five to six years, supported by consistent corporate performance and a diverse investment landscape.

Throughout 2024, the BSE Sensex and NSE Nifty indices experienced substantial fluctuations, hitting all-time highs in September before facing corrections later in the year. The Sensex peaked at 85,978.25, while the Nifty reached 26,277.35. Despite these corrections, the overall performance for the year remained positive, with midcap and smallcap stocks outperforming large caps.

Investor sentiment was bolstered by favorable government policies and a thriving startup ecosystem, positioning India as an attractive destination for global investments. However, concerns about high valuations led to increased caution among investors, particularly following aggressive selling by Foreign Institutional Investors (FIIs) due to global economic uncertainties.

The year also saw a surge in domestic fund flows, driven by strong retail participation and a shift from fixed income to equities. With numerous IPOs entering the market, including several multibaggers, investor interest remained high despite some volatility. As the market looks ahead to 2025, it faces both opportunities and challenges that will influence its valuation trajectory. Overall, the Indian stock market is not cheap yet, although there are some pockets of undervaluation and overvaluation. Banking and

finance appear attractive going forward. The Nifty trades at 21.13 times Trailing P/E with a price-to-book ratio of 3.52 times. Recently, there has been a correction of about 10% in valuations from the recent high. The Nifty is trading very close to its historical valuation of the last 10 years.

Calendar Year Performance

In 2024, the Indian stock market demonstrated notable performance despite facing significant volatility throughout the year. As of late December, the BSE Sensex had gained approximately 8.94%, rising by 6,458.81 points, while the NSE Nifty increased by 8.80%, or 2,082 points. The market experienced a strong bullish trend in the first half of the year, reaching all-time highs in September, with the Sensex peaking at 85,978.25 and the Nifty at 26,277.35.

However, the latter part of the year saw corrections, primarily due to aggressive selling by Foreign Institutional Investors (FIIs) and disappointing corporate earnings. In October alone, the Sensex dropped by 5.82%, marking significant outflows of ₹94,017 crore, the largest monthly withdrawal on record. Despite these challenges, midcap and smallcap stocks outperformed large caps, showcasing robust returns.

Overall, 2024 marked the ninth consecutive year of gains for Indian equity markets, highlighting resilience amid global geopolitical tensions and economic uncertainties. While the year ended on a positive note with decent returns for investors, concerns about high valuations and external pressures continue to shape market sentiment going into 2025.

Way Ahead

As we look ahead to 2025, the Indian stock market is expected to have challenged a landscape marked by both opportunities and challenges. Analysts from Goldman Sachs forecast a 12-month target of 27,000 for the Nifty index, driven by underlying earnings growth, although they anticipate a cautious near-term outlook due to weak earnings growth and high valuations. The MSCI India index is projected to see earnings growth of 13% in 2025, slightly below consensus expectations.

Global economic conditions will play a crucial role in shaping market sentiment. Anticipated policy changes and trade restrictions in the US could impact export demand and capital flows into India. Additionally, if inflation rises in the West, central banks may refrain from implementing as many rate cuts next year, which could further affect global liquidity. This tightening environment may limit the RBI's ability to adjust its monetary policy effectively.

Investor focus will be directed towards the upcoming budget, which is expected to outline strategic investments and policy measures aimed at enhancing India's competitive advantage. Key priorities will include preparing the workforce for future demands, driving self-reliance, and strengthening India's position in manufacturing and global value chains. Despite the challenges posed by high valuations and potential corrections —Macquarie predicts a possible 10% drop in the first half of 2025—opportunities remain in sectors such as housing, agriculture, defense, IT, and chemicals.

Overall, 2025 presents a mixed outlook for the Indian stock market, emphasizing the importance of a well-diversified investment strategy to capitalize on sectoral opportunities while navigating potential headwinds. We feel stock specific opportunities, sector rotation and staying with safe hands like seasoned fund managers to generate decent returns. We also feel the role of hybrids taking center stage with returns they generate adjusted for risk.

One needs to look at asset allocation carefully. Global trade barriers can change traditional trade patterns very quickly. We remain optimistic about silver and gold as a commodity, and the recent decline can be seen as an opportunity to add to your portfolio. Equity is still likely to emerge as the best asset class for 2024. Therefore, dramatically cutting allocation may not be advisable. Instead, judicious equity distribution, timely profit booking, and sector rotation can help in generating returns. Fixed income as an asset class cannot be ruled out; however, considering taxation, one may prefer using hybrid funds. Considering oil price trends and slower global GDP growth, we expect India to benefit eventually. With favorable demographics on its side, India could return to a 7% GDP growth rate soon.

Some important numbers to note:

- Record IPO collections of ₹1.60 lakh crore.
- Mutual Fund inflows as in equities at ₹3.25 trillion, compared to ₹1.60 trillion in 2023.
- SIP contributions amounted to ₹2 trillion in 2024.
- Spot gold closed at USD 2607.72 per ounce, gaining 26% YTD—one of the best performances.
- The 10-year G-Sec yield stood at 6.95% as of 31.12.2024.
- The rupee closed at 85.61 against the USD.
- Fiscal deficit at 52.50% of the 2025 budget estimates (BE).
- The Indian stock market capitalization on the NSE has reached USD 5.13 trillion, reflecting a 21.5% growth in 2024.
- Forex reserves stood at \$644.29 billion, with a decline of \$9 billion in December 2024.
- FDI (Foreign Direct Investment) for the first half of the year (H1) totalled \$42.10 billion, showing a 26% year-on-year increase.
- Nifty has closed on a positive note for 9 consecutive years.

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