

Pranitya Wealth LLP
Market Outlook
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Overview:

The market sentiment in November 2024 remained subdued, with Foreign Portfolio Investors (FPIs) withdrawing ₹26,000 crores, remaining net sellers since Sept 2024. This selling pressure weighed heavily on the market, with the Nifty index dipping to a low of 23,300 before finding technical support. However, the Maharashtra Assembly election results and record-breaking monthly SIP inflows of ₹25,000 crores provided much-needed support.

Retail investors showed resilience, maintaining their confidence in the Indian economy despite concerns over the sharp slowdown in GDP growth during the September quarter and uncertainties surrounding the U.S. election results. While hopes of recovery persist, inconsistency in FPI buying continues to divide market expectations.

FPI Outflow:

Initially, the flow was towards China as Indian valuations looked attractive, and the Chinese government offered stimulus to the economy on a couple of occasions, committing to do more, either fiscally or monetarily. Post the U.S. elections, when Mr. Trump came into power, the dollar rose, and most of the flow from other markets, including equity and debt, went back to the USA. FPIs reversed their bearish stance on India towards the end of the month and began buying in smaller lots

Slowdown in the Economy:

GDP growth hit 7 quarters low at 5.4% in Q2 as widely expected. This will also affect the overall growth estimate for FY 2024-25. The slowdown is more on the account of lower spend by Central and State governments, which was down by 19% & 28% respectively. Delayed monsoon has also caused supply logistic issues. Consumption also usually goes down in this lean period. Food Inflation also peaked at 10.90% which then led to lower consumption. Economic advisors feel that this is a one-off event and not a structural one.

US Election results:

Donald Trump coming in power in 2024 US election will lead to new tariff war globally. We have earlier discussed in one of our notes, how countries are getting disintegrated rather than globalizing. USA has already shown interest by putting tariff on imports from China and Canada. This could provide opportunities for Indian exporters in sectors like textiles, electronics, and chemicals. However, if U.S. trade restrictions expand to include India, sectors relying heavily on American markets could face challenges. The IT industry might feel the impact of stricter H-1B visa policies, a hallmark of Trump's earlier presidency. This could reduce the ability of Indian tech professionals to work in the U.S., compelling companies to refocus on domestic markets or diversify into Europe and Asia. India's manufacturing sector could gain momentum as the government emphasizes self-reliance under initiatives like "Make in India." A possible increase in defense collaboration between

the U.S. and India could further enhance India's standing in the Indo-Pacific region, particularly as geopolitical tensions rise. Macroeconomic challenges are also a concern. A strong U.S. dollar and higher global interest rates may weaken the Indian rupee, increasing costs for energy imports. At the same time, this could make Indian exports more competitive globally. Overall, Trump's policies may provide both opportunities and risks for India, requiring strategic adjustments in trade, immigration, and economic policy to navigate the changing global dynamics.

Rupee v/s Dollar

The Indian Rupee has effectively become a managed currency, as evidenced by the depletion of foreign exchange reserves. Despite significant foreign portfolio investment (FPI) outflows—Rs. 1.14 lakh crore in October and Rs. 45,974 crore in November 2024—the Rupee has managed to hold steady. The Reserve Bank of India (RBI) has been allowing the currency to depreciate gradually and in a controlled manner. Recent studies indicate that the Rupee is likely to continue its depreciation trend, with projections suggesting it could reach between 88-90 against the US Dollar by next year. This strategy is in line with the RBI's efforts to stabilize the economy while managing external shocks and the impact of FPI movements.

Macros

1. FPIs and FDIs.: Foreign Portfolio Investors (FPIs) continued their sell-off in November 2024, offloading ₹26,000 crore worth of domestic equities so far this month. This brings total net outflows for the year to ₹1,19,940 crore, a sharp reversal from ₹1,32,648 crore for the same period in 2023. While FPIs have broadly reduced exposure across key sectors, the first half of November saw selective buying activity. The IT sector attracted ₹3,087 crore in inflows, followed by Construction with ₹1,917 crore. FPIs also invested ₹734 crore in Healthcare and ₹694 crore in Realty. At the same time, notable outflows persisted in sectors like FMCG, which saw withdrawals of ₹3,589 crore in the first half of November, though lower than the ₹11,582 crore outflows in October. Telecommunications, Metals & Mining, and Capital Goods also recorded outflows of ₹2,136 crore, ₹1,291 crore, and ₹1,004 crore, respectively. In financials, FPIs have increased allocations to Capital Market themes, focusing on Asset Management, Exchanges, and Healthcare-related financial services, indicating a nuanced investment approach amid broader market caution. FDI front good news is that flows jumped 45% to USD 29.79 billion. The main sectors which are being attracted by FDI are Pharma Services, Telecom and Computers.

2. Indian GDP Growth: Private consumption and gross fixed capital formation led to fall in the GDP growth to 5.40% in Q2 from 6.70% of Q1. Thus, the overall growth expectations have been lowered to 6.5% from 7%. We expect Q3 & Q4 to be much better. It is now a much weaker expected growth but we expect that this is not as alarming. Now, the discussion is all about the RBI action in December'24 policy about the possibility of rate cuts which we feel unlikely looking at the inflation numbers. Government is making efforts to pump up the economy as India is consumption driven economy than exports or investments, the rate cut consideration will happen in February'25 policy if not now.

3. Inflation: India's retail inflation rate rose to 5.55% in November 2024, up slightly from 5.49% in October, driven by higher food prices and an unfavorable base effect, according to the Ministry of Statistics and Programme Implementation. While economists had expected inflation to reach 5.8%, the actual figure was lower but still elevated. This marks the 50th consecutive month that inflation has exceeded the Reserve Bank of India's medium-term target of 4%. Looking at the data, Inflation is still not coming down and slow down in the economic growth may not excite RBI to cut rates in India.

4. Bank deposits growth: Deposits and credit are growing steadily, though at a slightly slower pace recently. As of November 15, deposits were up 11.21% year-on-year, reaching ₹218.54 trillion, while credit grew 11.9% to ₹173.62 trillion. Interestingly, deposits have been outpacing credit growth since March 2022, with the gap now at 700 basis points. For the coming year, experts expect credit to grow 13-15% and deposits to grow 12-13%. Banks, especially public-sector ones, are focusing on boosting deposits to keep liquidity in check. For instance, SBI is aiming for 14-15% credit growth and around 10% deposit growth this year.

Moderation in Corporate Earnings

In Q2, corporate earnings grew by 7%, falling short of high expectations. This moderate growth is attributed to the dissipation of benefits from lower input prices and easy liquidity. However, deeper analysis reveals encouraging double-digit growth in specific sectors like metals and oil, with Oil Marketing Companies (OMCs) and metals witnessing an 11% rise. Large-cap companies led the growth with a 10% increase, signalling resilience. Looking ahead, Q3 and Q4 earnings are projected to improve as the ongoing consumption slowdown eases. Both the Reserve Bank of India (RBI) and the Finance Ministry anticipate a revival in demand soon, adding to the optimism.

Factors helping Indian Economic Growth

- GST Collections:** November saw an 8% year-on-year increase in GST collections, reaching ₹1.82 lakh crore. While this highlights steady growth, the sequential increase fell below festive season expectations.

- **Economic Growth:** India remains optimistic about achieving a 7% GDP growth rate in the near future.
- **Rising Exports:** India's share in global exports rose to 1.8% from the 1.7% average, while the share of global services exports climbed to 4.3% in FY23, up from 3.3% in FY16-20. The country is on track to surpass \$800 billion in exports for FY2024-25.
- **Government Fiscal Strength:** Backed by robust GST collections and an RBI dividend, the government continues its focus on capital expenditure (Capex) while maintaining a healthy balance sheet.
- **Banking and Corporate Health:** Non-performing loans declined further in 2024, and corporate balance sheets strengthened due to improved profitability and IPO activity, enhancing Capex support.
- **External Stability:** India's strong forex reserves, the fourth largest globally, ensure coverage for over a year's worth of imports.
- **Policy Reforms:** Accelerated government reforms are showing visible results, contrasting starkly with financial crises faced by neighbouring countries.
- **Rural Recovery:** Favourable monsoon conditions have driven a significant recovery in rural demand, boosting economic optimism.

Valuations are not Cheap

A recent analysis by ICICI Prudential AMC highlights notable observations on market valuations:

- **Large Caps:** The top 50 stocks appear reasonably priced compared to historical averages.
- **Midcaps:** The Nifty Midcap 150 index trades at a price-to-earnings (PE) ratio of 18.3, higher than its historical average of 14–15.
- **Small Caps:** The Nifty Small Cap 250 index trades at a PE of 20, significantly above the historical average of 10–14.

Additionally, there has been a slowdown in key economic indicators, including core sector growth, manufacturing PMI, steel and cement production, electricity usage, IIP, and various transport and consumption metrics such as air travel, vehicle sales, and port traffic. These weak Q2 readings indicate muted economic activity.

Optimism lies in a potential recovery starting October 2024, with improving macroeconomic indicators likely to lead the market to focus positively on FY25–26.

Fixed Income:

Indian bond yields may dip, reflecting a six-basis-point decline in U.S. Treasury yields after Scott Bessent's nomination as Treasury Secretary eased tariff concerns. The 10-year bond yield is expected to trade between 6.83% and 6.86%, slightly below the previous close of 6.8470%.

Key economic data, including India's Q2 GDP growth forecast at 6.5%, could influence RBI's upcoming policy decision. U.S. PCE data will also be watched for indications of a potential Fed rate cut.

As anticipated, the yield dropped to 6.75% on November 29, following a global decline in bond yields.

We feel that long term Gilt or bond funds of high quality are a good option to invest in.

Gold & Silver:

Gold December futures on MCX were trading at ₹74,650 per 10 grams, up nearly 1% or ₹745, around 10 a.m. Silver December futures rose by a similar margin, trading at ₹89,270 per kg, an increase of ₹849.

Despite these gains, gold prices have dropped by ₹4,000 per 10 grams in November so far, while silver has declined by ₹5,630 per kg during the same period.

The U.S. Dollar Index (DXY) remained steady near 106.70, reflecting strength as major global currencies struggled against the dollar. Global equity markets have experienced sell-offs, particularly in emerging markets, following Donald Trump's election victory, which has also eased the safe-haven demand for precious metals.

Mixed U.S. economic data released last week have supported precious metals at lower levels. However, gold and silver prices are expected to face resistance at \$2,614 and \$31.80 per troy ounce, respectively, amid strong U.S. bond yields, a firm dollar index, and an ongoing crypto rally. We still feel with observation of Nov month looking at geopolitical tension, gold to remain firm and Silver gets supported by Industrial demand as discussed in our previous notes.

Indian Equity Markets:

Post overall drop of 10% in NIFTY to around 23300, Indian equities have found bottom and value buying began. Overall equities are still expensive in P/E terms and growth is not maintaining the pace with the expectations. FPIs mainly hold 90% large caps & 10% midcaps. Valuations are attractive for Large caps at this stage as FPIs sold mostly large cap stocks. Whereas corrections were very strong in Midcaps & Small caps where many stocks have fallen 30-40%.

Flexi cap fund category returned an average of 30-45%. JM Flexi cap Fund delivered the highest 45.04% for trailing 12 months. We identified JM Flexi cap much earlier and it delivered on expected lines.

Nifty 50 returned 20.08% trailing one year.

Nifty RTI 500 returned 27.80% trailing one year.

This also helps to answer question about investing in Index Funds. The outperformance of active funds is worth noting and justified.

The market does not like uncertainties and the last few months, we have seen a lot of events including the US elections, geo political tension and wars.

We feel the market will move to between 23500-24500 till January'25 and the next trigger will be Q3 results for it to move further up.

We have moved from 'sell on raise' to 'Buy on Dip' market and yet to finish time correction. We hope the September slowdown was a one-off and the economy have recovered thereafter and at least GST collection in November '24 indicate no slowdown.

FPIs have shown some signs of recovery as they are not long on futures position and we expect that they will come back looking at the India's weight increase in MSCI Emerging markets Index to 20%.

Overall, the macro factors don't indicate a drastic fall in the consumption as none of the Indians have lost in any of the asset class in the recent past.

China recovery will help the commodity prices to stabilize and a stable government can drive the economy as most of the local elections are now over.

Oil at around \$70 and lower interest rates bode well for overall growth. Government spending which is lacking for some time, will kick in and the economy shall be back on track.

We feel that gradual buying from now till January will help to build a good portfolio. Long term India story is intact and equities can shine again. Though the pace of growth of the Index will be moderate post the huge rally seen in the last two years.

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