

POLICY SHIFTS, MARKET MOVEMENTS, AND GLOBAL DEVELOPMENTS

December 2024 marked a month of transitions and tempered optimism across global and domestic markets. The appointment of Sanjay Malhotra as RBI Governor, coupled with a CRR cut to 4%, highlighted RBI's intent to address liquidity challenges. Inflation cooled to 5.48%, within the target range, but growth concerns prompted a downward revision of FY25 GDP forecasts to 6.5%.

Globally, the US Federal Reserve moderated rate cut expectations despite easing by 25 bps, while markets await policy signals from the incoming Trump administration. The INR depreciated 1.3% but fared better compared to many global currencies.

Indian equities saw mixed performance, with the Nifty dropping 2% while midcaps gained. FPIs turned marginal net buyers, but volatility persisted. Eyes are now on the upcoming Union Budget, expected to steer fiscal priorities and shape market trajectories into 2025.

Source: Bloomberg/Internal Research

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- **RBI Governor change:** Mr. Sanjay Malhotra has been appointed as the new RBI Governor. He was serving as the Revenue Secretary in the Ministry of Finance. RBI now has 4 new members in the Monetary Policy Committee. The change in policy stance by way of a rate cut and/or liquidity easing measures would be keenly awaited by financial markets.
- **INR depreciated 1.3%** in the month of December, 2024 to end CY2024 at 85.59. INR despite closing at a lifetime low against US\$, remains one of the better currencies globally as many countries have seen their currency depreciate against US\$ to a greater extent.
- **India CPI came in at 5.48%** for month of November 2024 as against 6.21% in October 2024. The retail inflation has fallen within the RBI target of 2-6% as food inflation and core Consumer Price Inflation both have softened.
- **Mr. Trump will take over the US President role on 20th January 2025** and his statements for improving US economy and the tariffs may be keenly watched. US equity markets and the US Dollar Index both have been the best performing globally as lot of expectations are built for growth recovery and corporate tax rate cuts.
- **The US Federal Reserve announced a 25bps rate cut** but moderated expectations for aggressive rate cuts in future. Consensus expectations for Fed rate cuts in CY25 have been cut to 40bps for the year.
- **RBI cut Cash Reserve Ratio by 50bps** from 4.5% to 4% to boost system liquidity and credit growth, which has slowed a little too much, as mentioned by the RBI report.
- **For Indian equities, the new norms on weekly derivatives expiry** led to a month-on-month drop of 35% on total ADTO for both exchanges combined.

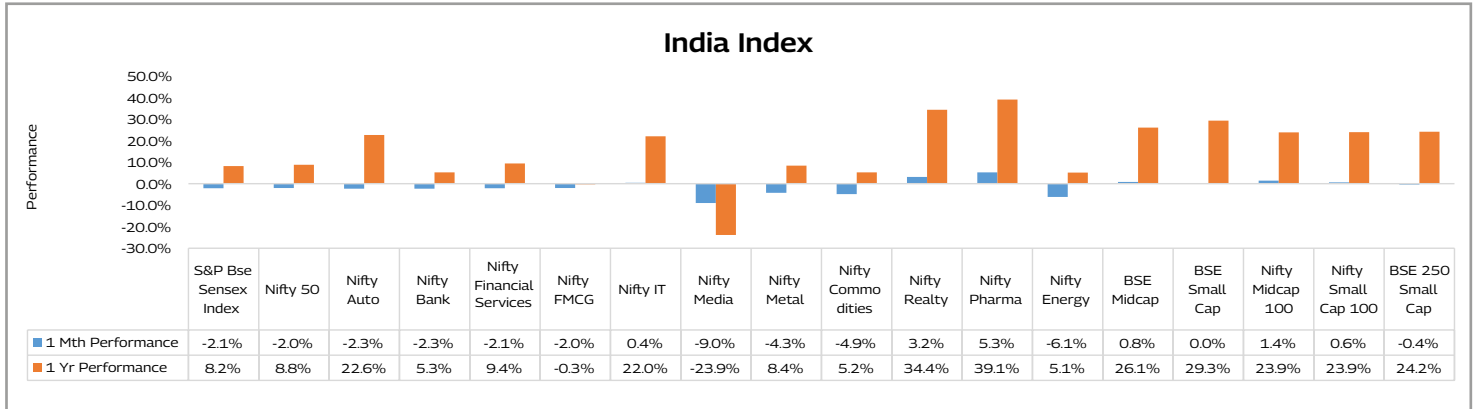
Source: RBI/Bloomberg

WHO MOVED MARKETS

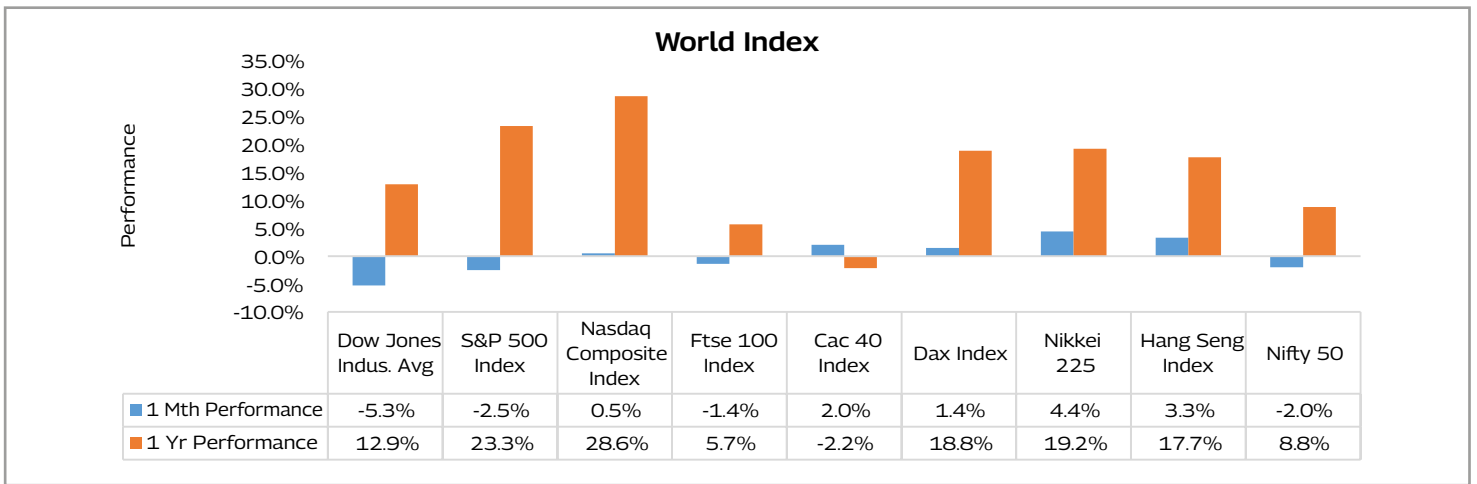
- FPIs turned a marginal net buyer at \$1.8 billion for the month of December, 2024 while FIIs continue to sell in secondary market but participate as buyers in the primary market.

Source: NSDL

MOVERS & SHAKERS



Source: Bloomberg; Data as on December 31, 2024; Performance - Absolute returns. **Past performance may or may not be sustained in future.**



Source: Bloomberg; Data as on December 31, 2024; Performance - Absolute returns. **Past performance may or may not be sustained in future.**

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - MONTH ON MONTH

Indices	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Nifty 50	4.1	-3.5	-2.4	-2.0	0.3	4.1	2.6	3.5	2.9	-2.5	2.0	-2.8	5.5	7.9	0.0	1.2	1.6	1.2	-0.3	6.6	3.9	1.1	2.3	-6.2	-0.3	-2.1
Nifty Midcap 100	1.9	-1.7	-2.6	-1.8	-0.3	5.9	6.2	5.9	5.5	3.7	3.6	-4.1	10.4	7.6	5.2	-0.5	-0.5	5.8	1.6	7.8	5.8	0.5	1.5	-6.7	0.5	1.4
Nifty Small Cap 100	3.0	-2.5	-2.4	-3.6	-1.8	7.5	5.1	6.6	8.0	4.6	4.1	-0.8	12.0	6.9	5.8	-0.3	-4.4	11.4	-1.9	9.7	4.5	0.9	-0.7	-3.0	0.3	0.6

Note - Yellow highlighted cells represent highest returns amongst the 3 indices provided above, for the respective month end period. Performance - Absolute returns. **Past performance may or may not be sustained in future.**

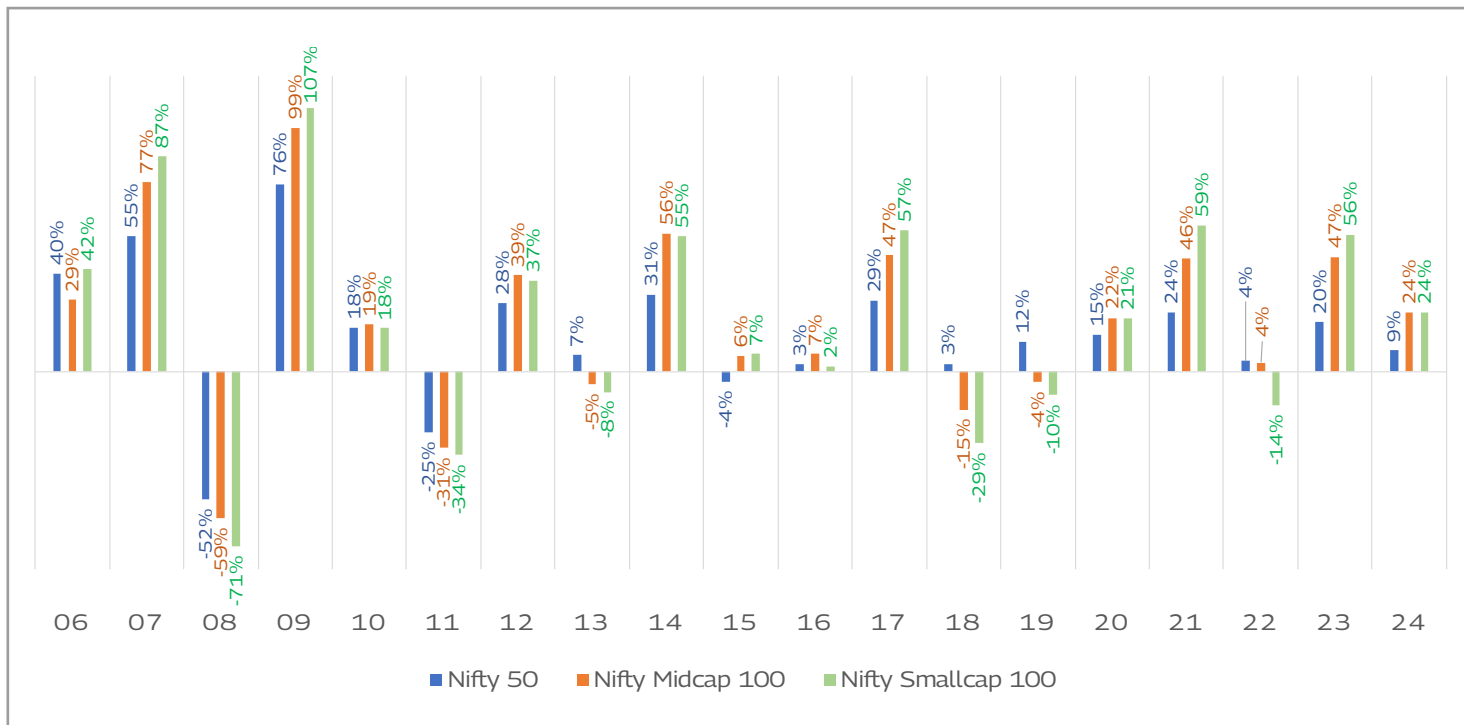
Bloomberg Data as on December 31, 2024

Indices	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Nifty Auto	-1.1	-4.7	5.6	-4.4	-3.8	7.7	7.7	6.7	3.7	-0.2	3.3	-1.7	10.3	6.1	3.3	6.2	4.9	5.0	4.2	7.6	5.9	-1.9	3.3	-13.0	-0.6	-2.3
Nifty Bank	4.7	-0.6	-5.4	-0.9	0.8	6.5	2.1	1.4	2.0	-3.6	1.4	-3.9	3.8	8.6	-4.8	0.3	2.2	4.8	-0.8	6.9	-1.5	-0.4	3.2	-2.8	1.1	-2.3
Nifty Financial Services	4.4	-2.0	-4.7	-0.6	0.4	6.1	1.5	3.1	1.4	-3.7	1.1	-3.1	4.4	7.1	-4.6	-0.4	2.8	4.1	-0.6	7.8	0.0	1.0	3.6	-2.4	0.5	-2.1
Nifty FMCG	2.8	-3.0	0.6	1.1	2.1	4.2	6.8	2.3	0.8	-2.9	1.0	-0.7	3.4	7.5	-3.4	-1.9	-0.1	0.5	-0.2	4.9	9.4	1.6	3.9	-9.7	-2.1	-2.0
Nifty IT	5.8	-5.8	3.9	-0.3	-3.3	-3.5	5.8	0.8	1.2	4.1	2.0	-3.8	6.5	9.0	3.2	3.0	-7.5	-4.9	-2.5	11.6	13.0	4.7	-2.0	-3.7	6.8	0.4
Nifty Metal	11.3	2.4	-3.8	-18.5	4.3	5.5	1.6	5.4	8.8	-1.5	2.7	-5.7	8.8	13.7	-0.1	-0.6	4.2	11.1	6.0	0.9	-2.4	-1.9	8.4	-8.5	-3.1	-4.3
Nifty Realty	2.6	-4.1	-4.7	-4.5	-1.5	14.9	7.6	8.6	9.0	-1.5	3.1	4.8	18.3	9.7	9.3	6.3	-1.1	8.1	4.7	8.4	-1.0	-3.7	4.3	-9.0	2.1	3.2
Nifty Pharma	-0.5	-4.2	-1.9	-5.0	2.3	5.0	0.5	8.6	8.9	0.7	2.2	-4.8	10.6	3.7	6.6	5.9	0.0	-0.1	-0.9	5.0	10.4	6.6	0.3	-2.3	-2.2	5.3
Nifty Energy	2.6	-5.4	-8.3	-8.6	5.2	4.0	0.6	3.4	8.7	-4.2	6.2	-2.0	9.4	14.2	9.8	5.7	0.5	3.4	-0.3	3.8	5.5	-0.7	0.6	-10.7	-4.6	-6.1

Note - Cells highlighted in yellow colour represents top 2 performers and the orange highlighted cells represent bottom 2 performers amongst the indices covered above for the respective months.

Source: Bloomberg. Returns have been calculated on Absolute basis November 2022 to December 2024. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Company Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. **Past performance may or may not be sustained in future.**

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT



Source: ICRA. Data period: January 1, 2006, till December 31, 2024. Returns are absolute returns (1 year) calculated as of the last business day of every calendar year end. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. **Past performance may or may not be sustained in future.**

FIXED INCOME OUTLOOK

BOND AND MONEY MARKET

Shown below is a matrix detailing movement in some key markets (domestic and global) and key events:

Parameters	31-Dec-2024	30-Nov-2024	31-Dec-2023
RBI Repo Rate %	6.50	6.50	6.50
5Y AAA PSU %	7.48	7.41	7.73
1 year CD %	7.63	7.55	7.72
10Y Gsec %	6.76	6.74	7.17
CPI (%)	5.48	6.20	5.55
IIP (YoY) %	3.50	3.10	11.74
US 10Y %	4.57	4.17	3.88

Source: Bloomberg; Data as on 31st December 2024

THE FIXED INCOME GLANCE

A small reflection on the year gone by and the usual lament on the market uncertainties: The US ten year Gilt started the year at around 3.88% and the US Fed cut the Fed Fund rates by 100 basis points (bps), inflation eased and despite all the happy tidings the US 10 year moved up by around 70-75 bps to close around 4.60%. Predicting market outcomes can be cruel!

December 2024 was a month of RBI Monetary Policy Committee ("MPC") committee action; and it continued a status quo approach with keeping Repo rates unchanged. However, RBI cut the CRR rates by 50 bps to address a persistent liquidity challenge in the banking system. The RBI forecasted GDP to grow by 6.6% in the current fiscal year and inflation to keep slowing during the first half of calendar 2025.

What was interesting was the dissent from two external members of the MPC who advocated for a 25-bps repo rate cut citing growth uncertainties and low core inflation. With a new RBI Governor at the helm the next policy to watch out could be interesting.

The domestic 10-year benchmark rose up marginally by 2 bps and similar upward bias was seen in bonds and money market yields.

CPI inflation for the month of November was recorded at 5.48%, with food inflation continuing to print a high of 9.04%.

Domestic liquidity went into a deficit mode with forex outflows and a buildup in currency in circulation putting pressure on overnight and money market rates.

While the Rupee weakened against the USD through the month, it continued to remain a better performer against a basket of major and emerging currencies. However, the Rupee may prove to be an Achilles Heel in face of the possible stronger Dollar Index and a weakening Yuan.

As the world prepares for a Trump 2.0, the market waits in trepidation on what policies will the new President usher. The US 10 year inched up by 40 bps last month as the treasury market prepares for the new era.



Economy Check

- RBI cut FY25 GDP growth forecast to 6.5% vs 7.2% projected earlier as Q2 GDP print of 5.4% as structural factors could have slowed down demand in H1 at 6.1%. However, RBI expects GDP to recover in H2.
- Center’s fiscal deficit for the 8mFY25 reached 52.5% of annual target and 7% lower year-on-year. Capex continues to disappoint at only 46% of Budget Estimate. November capex came at Rs 469 billion vs a required run-rate of Rs1000 billion to meet the full year estimates. Another worry is the

slowdown in corporate tax collections, is 1% lower year-on-year. Personal Income tax continues to be strong at 24% yoy. Government focus has shifted towards revenue expenditure as it reaches 60% BE and up 8% yoy as they front load subsidies.

- India’s Core sector (eight key infrastructure industries) grew by 4.3% in November,2024 up from 3.1% in October 2024.
- GST Collections for December came at Rs 1.76trillion a growth of 7.3% yoy marginally lower than November 2024 collections of Rs 1.82 trillion. Cumulative GST collection for April 2024 to November 2024 is up by 9.1%.

Source: RBI/Ministry of Finance

Markets

- Indian markets remained volatile in the month of December 2024 with Nifty down 2% yoy but Midcap index posting a gain of 1.4% yoy and small cap index flat.
- Globally post a stellar rally, the US markets too were down with SPX losing 2.5% for the month and the Smallcap Russel 2000 index actually falling 8.5% for the month.
- Among the Nifty sectoral indices, Pharma & Realty outperformed Nifty while Commodities and Energy underperformed Nifty.
- Domestic investors continued their equity allocations with Core Equity MF Schemes saw net flows of Rs 359bn for November 2024 down 14% Mom. The Sectoral/Thematic funds inflows at Rs 77bn also had a decline from October,2024 highs. Monthly gross SIP remains steady. Small & midcap fund flows too remains firm.

Source: Bloomberg

Outlook

Markets have been volatile in the last quarter of 2024 led by a poor Q2 earnings season, large FPI selling and a disappointing GDP print. Going forward expectations for growth recovery led by government capex is high along with consumption recovery.

All eyes are on the budget next month as that would be a key determinant of policy direction incrementally as pulls and pushes of revenue and capital expenditure may determine direction for economy & equity markets as well as for the sector and stocks that could do well going forward.

FPI selling intensity could likely abate as Mr. Trump takes office later this month however, the GDP growth acceleration for H2 and the Q3 earnings season may be the key triggers for market direction.

At current valuations the large caps provide valuation comfort versus the other segments of the market primarily led by lower valuations for the BFSI sector.

We believe asset allocation remains key for investors in their journey of wealth creation. The allocation is applicable to both equity as an asset class as well as choice of market capitalization within equities. From investors perspective, we believe as an aggregate large cap offers better value and margin of safety as compared to micro caps, small caps & mid-caps. The risk to large caps lie in further selling by FPI’s as they primarily own large caps.

Investors with near term objectives or low risk appetite, can opt to prefer Equity Hybrid Funds or asset allocation funds. Investors with a longer-term horizon can continue to remain invested with fresh equity allocation towards large caps.

Source: Internal Research

SUMMARISING OUR THOUGHTS



- The street belief is that with the New Governor at the helm, RBI may choose to cut rates in its February 2024 meeting. With possible growth pangs in the future, growth may occupy the MPC’s interest as core inflation moves in a tolerable band.
- The market watches President elect Trump; his policies would be the moments of the market for some time
- While China announced a policy push for economy revival, it has flattered to deceive in the past. We would be closely watching the commodity prices as a harbinger for the recovery in China.
- Our portfolio strategy has marginally changed across our duration-oriented funds a) A neutral approach on duration (b) Bias towards Gilts which is gradually shifting towards credits (c) A steepening of the Yield curve.
- We also believe that as credit spreads have increased and now merit a gradual look into the portfolio.

From the CIO Desk...



Mr. Krishna Sanghavi
CIO – Equity



Mr. Rahul Pal
CIO – Fixed Income

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