mahindra Manulife MUTUAL FUND

THE TIMELESS VALUE OF ASSET ALLOCATION

Market movements are shaped by fundamentals, liquidity, and sentiment. The recent rise in Indian equity markets seems to reflect these factors: robust economic growth expectations over the next 3-5-7 years, savings fuelled by nominal growth, and a positive shift in sentiment towards equities as an asset class. This unique blend includes both under-invested populations and leveraged investors driving market momentum.

Over the past 12-18 months, many investors increased their equity exposure, spurred by a strong rally in mid and small-cap stocks. From 31st May 2023 to 30th November 2024, the Nifty 50 surged ~30%. However, recent months have seen a pause, with the index contracting ~3.58% between 31st July 2024 and 30th November 2024. Meanwhile, other asset classes performed well, with gold rising ~10% and the CRISIL Composite Bond Fund Index delivering ~8.4% annualized returns.

These trends seem to highlight the importance of diversification across asset classes like gold, fixed income securities, REITs, and InvITs. Investors may achieve this through individual allocations or multi asset allocation funds, offering a professionally managed, dynamic investment solution.

Source: Internal/MFI

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- The US Presidential Elections: Donald Trump won US presidential elections by a good margin and led Republicans to sweep Congress & Senate. Post this, US equity markets have been on a roll up ~6% and the dollar index rallied from a low of 103 to a high of 108. Immediate reaction is on expectations of corporate tax rate cut as well.
- US Elections have been fought on enhancing the fiscal deficit resulting in a sharp drop in the expected rate cuts over next 12 months. The December policy rate cut by 25bps too is now at 67% probability vis a vis a near certainty prior to elections.
- Election outcome in Maharashtra came very strongly in favor of BJP and key allies. The policies in Maharashtra on social welfare front could remain a path for future state elections.
- India Consumer Price Index came in much above estimates at 13-month high of 6.2%. RBI reiterated main agenda being fight against inflation.
- India GDP growth came in at a 7-quarter low of 5.4% for Q2 FY25. Weak GDP in Q2 reflects softening of economic metrics as government spending hasn't yet seen pickup post elections. Among sectors, manufacturing GDP slowed to 2.2% while agriculture recovered at 3.5% with services maintaining pace at 7%.
- INR hits a new low of 84.6 vs USD amidst DXY strength. INR however remains one of the best currencies in the world.
- The near-term focus will be on President Trump taking charge and the rollout of policies on global tariff and US tax rate cuts that will determine the market mood and movement. Also geopolitically, change in stance by USA on the wars in Ukraine-Russia and Israel-Hezbollah will have its implication on financial markets. Any news on global peace could lead to reduction of geopolitical risks around crude and the transport of goods within the world.
- For Indian equities, new norms on derivatives have been implemented from 20th November 2024. While expectations remain for reduction in volumes as market participants adjust to new rules, we would like to monitor the impact on market volumes over next 2-3 months.

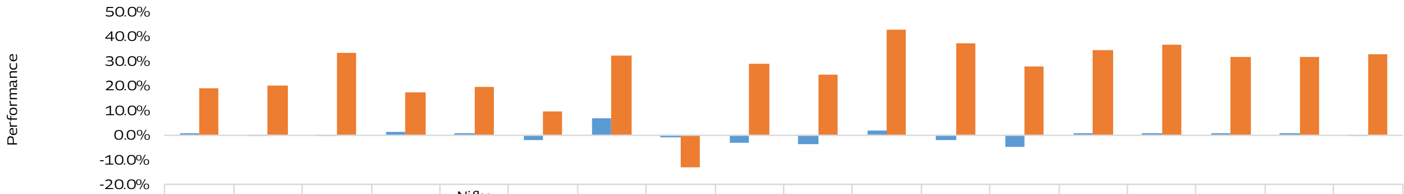
Source: RBI/Bloomberg

WHO MOVED MARKETS

- Foreign Portfolio Investors continues to be net sellers in November as well, but the pace of selling slowed down to a net outflow at over 3.1 bn$ from secondary markets.

MOVERS & SHAKERS

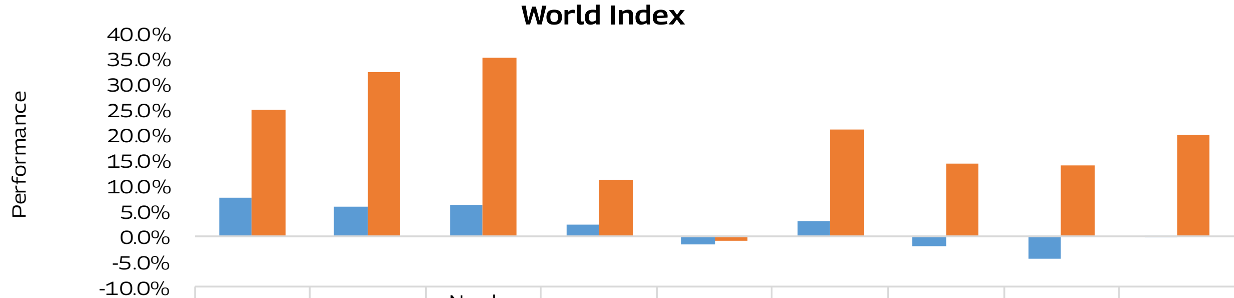
India Index



	S&P Bse Sensex Index	Nifty 50	Nifty Auto	Nifty Bank	Nifty Financial Services	Nifty FMCG	Nifty IT	Nifty Media	Nifty Metal	Nifty Commo dities	Nifty Realty	Nifty Pharma	Nifty Energy	BSE Midcap	BSE Small Cap	Nifty Midcap 100	Nifty Small Cap 100	BSE 250 Small Cap
1 Mth Performance	0.5%	-0.3%	-0.6%	1.1%	0.5%	-2.1%	6.8%	-1.1%	-3.1%	-4.0%	2.1%	-2.2%	-4.6%	0.2%	0.4%	0.5%	0.3%	-0.6%
1 Yr Performance	19.1%	19.9%	33.1%	17.0%	19.7%	9.3%	32.4%	-13.1%	28.7%	24.5%	43.0%	37.0%	27.9%	34.5%	36.7%	31.4%	31.6%	32.6%

Source: Bloomberg; Data as on November 30, 2024; Performance - Absolute returns. ***Past performance may or may not be sustained in future.***

World Index



	Dow Jones Indus. Avg	S&P 500 Index	Nasdaq Composite Index	Ftse 100 Index	Cac 40 Index	Dax Index	Nikkei 225	Hang Seng Index	Nifty 50
1 Mth Performance	7.5%	5.7%	6.2%	2.2%	-1.6%	2.9%	-2.2%	-4.4%	-0.3%
1 Yr Performance	24.9%	32.1%	35.1%	11.2%	-1.0%	21.0%	14.1%	14.0%	19.9%

Source: Bloomberg; Data as on November 30, 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
Nifty 50	4.1	-3.5	-2.4	-2	0.3	4.1	2.6	3.5	2.9	-2.5	2	-2.8	5.5	7.9	0	1.2	1.6	1.2	-0.3	6.6	3.9	1.1	2.3	-6.2	-0.3
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
Nifty Small Cap 100	3	-2.5	-2.4	-3.6	-1.8	7.5	5.1	6.6	8	4.6	4.1	-0.8	12	6.9	5.8	-0.3	-4.4	11.4	-1.9	9.7	4.5	0.9	-0.7	-3	0.3

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.***

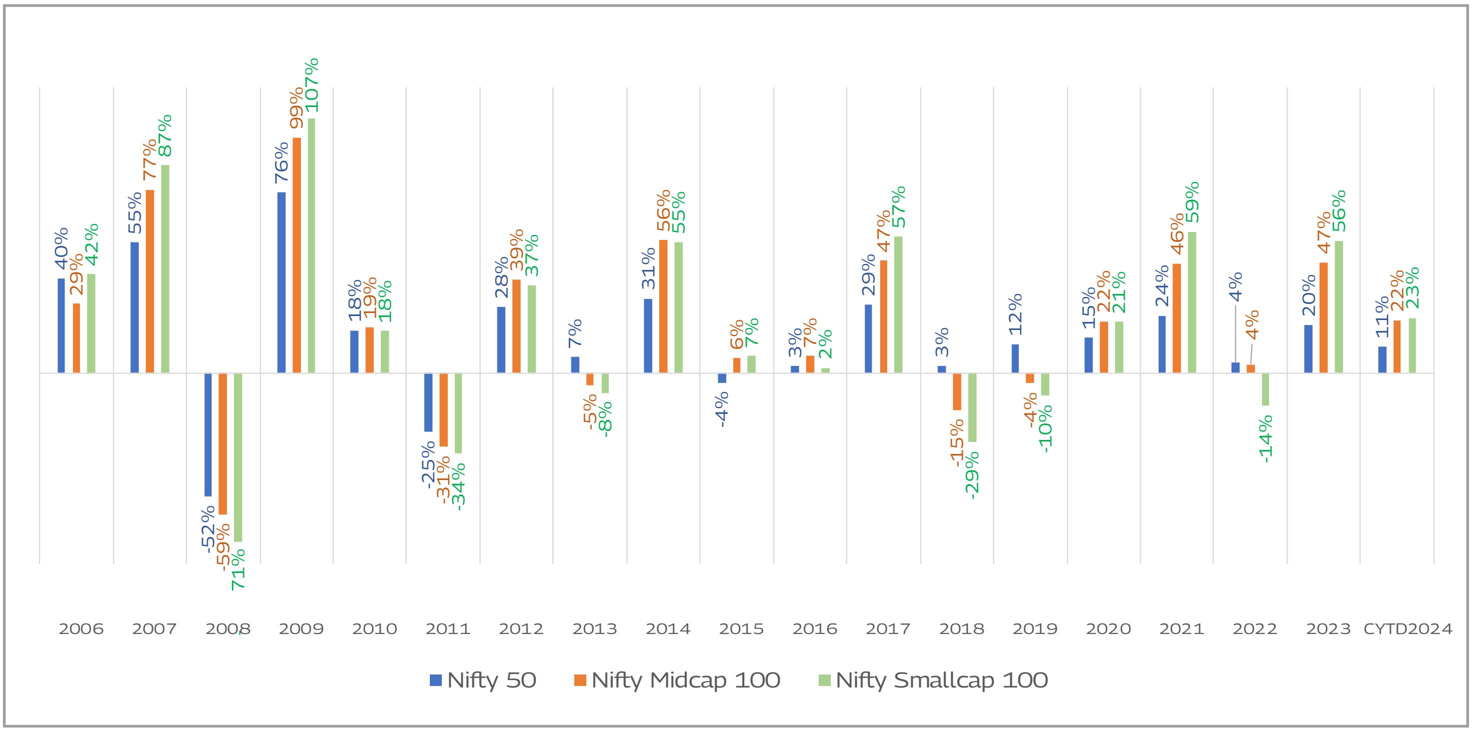
Bloomberg Data as on November 30, 2024

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
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	4.2	7.6	5.9	-1.9	3.3	-13	-0.6
Nifty Bank	4.7	-0.6	-5.4	-0.9	0.8	6.5	2.1	1.4	2	-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
Nifty Financial Services	4.4	-2	-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	1	3.6	-2.4	0.5
Nifty FMCG	2.8	-3	0.6	1.1	2.1	4.2	6.8	2.3	0.8	-2.9	1	-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
Nifty IT	5.8	-5.8	3.9	-0.3	-3.3	-3.5	5.8	0.8	1.2	4.1	2	-3.8	6.5	9	3.2	3	-7.5	-4.9	-2.5	11.6	13	4.7	-2	-3.7	6.8
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	0.9	-2.4	-1.9	8.4	-8.5	-3.1
Nifty Realty	2.6	-4.1	-4.7	-4.5	-1.5	14.9	7.6	8.6	9	-1.5	3.1	4.8	18.3	9.7	9.3	6.3	-1.1	8.1	4.7	8.4	-1	-3.7	4.3	-9	2.1
Nifty Pharma	-0.5	-4.2	-1.9	-5	2.3	5	0.5	8.6	8.9	0.7	2.2	-4.8	10.6	3.7	6.6	5.9	0	-0.1	-0.9	5	10.4	6.6	0.3	-2.3	-2.2
Nifty Energy	2.6	-5.4	-8.3	-8.6	5.2	4	0.6	3.4	8.7	-4.2	6.2	-2	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

Note *- Cells highlighted in yellow colour represents top 2 performers and the pink 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 November 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 November 30, 2024. Returns are absolute returns (1 year) calculated as of the last business day of every calendrer 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	30-Nov-2024	31-Oct-2024	30-Nov-2023
RBI Repo Rate %	6.50	6.50	6.50
5Y AAA PSU %	7.41	7.44	7.80
1 year CD %	7.55	7.46	7.82
10Y Gsec %	6.74	6.85	7.28
CPI (%)	6.2%	5.49	4.87
IIP (YoY) %	3.1%	-0.1	5.83
US 10Y %	4.17	4.28	4.33

Source: *Bloomberg; Data as on November 30, 2024*

THE FIXED INCOME GLANCE

Bond markets went into November with a sense of trepidation on the outcome of the US Presidential election. If Trump victory ensued, the consensus was, that a sharp uptick in yields was imminent. It turned out to be a thumping victory and the naysayers of the bond market got it wrong. The US Sovereign yield, after some frayed nerves, settled in and closed lower at 4.17% lower by almost 11 basis points (bps).

What soothed the nerves, inter alia, was the appointment of Scott Bessent, who in the past has talked about reducing the US Fiscal deficit. While the US Fed did cut rates by 25 bps, what attracted attention was a possible schism between the US Fed Governor Powell and the incumbent President, which may have a bearing on the market as we move ahead.

Domestically what grabbed headlines was a much slower domestic growth number of 5.40% (real GDP), much below the lowest street consensus. The sluggish growth was contributed mostly by Manufacturing (2.2%) and Mining (-0.10%).

CPI inflation for the month of September was recorded at 6.21%, with food inflation recording a high of 10.87 %. While inflation had an element of base effect, yet we believe that food inflation and possible second order effect may have an upward bias to inflation.

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.

WHAT NEXT?

Economy Check

- We await RBI revised estimates for FY25 GDP on 6th December 2024, post a lower than estimated GDP growth of 5.4% for Q2FY25.
- Center's fiscal deficit for FYTD reached 46.5% of annual target vs 29% of FY25BE for H1. The big bump up in October was driven by advanced tax devolution to states to spur spending by Rs800bn. Total expenditure in 7mFY25 is up 3.3% now led by revenue expenditure increase in October. Pace of capex is yet slow but expected to revive as elections and festive is behind.
- India's Core sector (eight key infrastructure industries) grew by 3.1% in October up from 2% in September.
- GST Collections for November came at Rs 1.82trillion a growth of 8.5% year-on-year marginally lower than October collections of Rs 1.87 trillion. Cumulative GST collection for April to October is up by 8.9%.

Source: RBI/MoSPI

Markets

- Indian markets have been flat for the month post a sharp fall in October. Mid-cap & small-cap indices were also flat for the month.
- Globally only US markets rallied post Trump winning the Presidential race with earnings upgrades led by expectations of corporate tax rate cut.
- Among the Nifty sectoral indices, IT & 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 419bn for October. The Sectoral/ Thematic funds led with inflows of Rs 123bn. Monthly gross Systematic Investment Plan (SIP) continues to inch up. Small & midcap fund flows too remains firm, flows at Rs 8,400 Crores.

Source: Bloomberg/NSDL FPI Monitor

Outlook

Market moves are a function of fundamentals, liquidity & sentiments. The Indian equity markets are rising on the back of fundamentals (expected economic growth over next 3-5-7 years), liquidity (savings generated with nominal economic growth) and sentiment towards equities as an asset class (a rare combination of some under-invested population as well as some leveraged investors).

The Liquidity from FPI's clearly turned negative from end September and remained so in November. FPI's ownership of large caps remains high and hence pressure has been felt more in large caps this time. In addition to FPI selling, even the primary issuances (IPO & QIP) as well as selling of promoters' holdings via OFS has reached higher proportion. As usual, the premier rule of economics "supply meets demand to set prices" reigns with prices under pressure. While absolute selling has had a high impact on markets as selling intensity is high in a short period, the absolute selling is just about 1.7-1.8% of FII total portfolio value in India and hence may not be a major worry for now.

Going ahead, we do expect some growth pickup in the second half of FY25 vis a vis first half of FY25 as the earlier part of the year had an impact from elections (labour availability, lower government spend etc). The year on -year growth in the second half may be a challenge due to higher base unless government spends pick up sharply.

The Q2 results have shown wide earnings variation amongst within sectors. While overall earnings growth has been muted, financials have reported healthy growth, commodities reported de-growth and the non-financial & non-commodity sectors showing good growth. Sectoral moves in Indian markets continues to remain short term in nature. The re-pricing is happening fast so an attractive/unattractive sector may change quite quickly based on price moves in near term. From a longer-term perspective, India's core story of economic growth prices makes quite a few sectors attractive within manufacturing, financials & consumption themes.

We believe asset allocation may be one of the key features 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 may offer better value and margin of safety as compared to micro caps, small caps & mid-caps. The risk to large caps lies in further selling by FPI's as they primarily own large caps.

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

Source: Internal Research

SUMMARISING OUR THOUGHTS

- The MPC meets in the first week of December and is expected to continue its neutral stance. While the GDP has slowed, inflation continued to be a bugbear for easy monetary actions. The recent RBI Governor speeches have alluded to prioritize the inflation battle. It seems unlikely that RBI will respond to the softer GDP numbers in the policy. However, it will be interesting to watch if the MPC hints at steps for ensuring durable liquidity.
- The FPI flows in Government of India security post the induction of India bonds in the JP Morgan Bond Index continues to be robust. November also witnessed selling by FPIs in bonds.
- 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 across our duration-oriented funds run in a similar vein a) Relatively heavy on duration (b) Bias towards Gilts which seems 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