THE LIQUIDITY TEST

October put Indian markets through a "Liquidity Test" as Foreign Portfolio Investors (FPIs) withdrew a record $10.5 billion, triggering the Nifty's sharp 6% decline. Domestic institutions stepped up with matching investments, but the outflows pressured prices downward, revealing a liquidity strain. The Reserve Bank of India maintained policy rates yet adopted a neutral stance, paving the way for potential rate cuts. Looking ahead, the election of Donald Trump, Federal Reserve meetings, and Middle Eastern tensions could further impact sentiment. With mixed corporate earnings and global uncertainty, investors may find opportunities in large-cap equities, supported by relatively attractive valuations.

Source: Internal Research

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- The Liquidity Test: Indian markets saw the highest ever FPI outflows during the month at over $10.5 billion. On the other hand, domestic institutions made investments of a nearly matching amount. While overall flows matched, the price adjustment happened sharply lower with Nifty falling 6% and many stocks losing 12%-15%.
- RBI, while maintaining status quo on the policy rate, changed the policy stance to Neutral. This paves way for rate cut in next 2 meetings in FY25.
- Going into November, key global events are election of Donald Trump, as well as the US Fed meeting. The fiscal as well as geopolitical policy by the next President does have potential to influence financial market sentiments in near term and fundamentals over medium term.
- The conflict in the Middle East took a turn as instead of Israel action against Hamas & Hezbollah, a new conflict zone emerged between Israel and Iran. Any escalation in the conflict creates a potential rise in oil prices as well as geopolitical risk premium.
- Earnings Q2FY25: 2QFY25 results suggests a weak patch for the corporates, with less than 5% earnings growth for results declared in October. While quite a few companies are yet to declare results in November, the trend is weak, partly driven by consumption slow down and partly by low capex spend by government. The festive sales are marginally better than the low expectations. The results declared till now for Q2FY25 have been weak with low single digit growth in earnings. Banking & Financial Services and IT have shown good growth while commodities (oil n gas, metals, cement) have reported earnings decline. Based on the results reported and management commentary available, downward revision is seen in earnings estimate mainly for FY25 and partial for FY26. FY25 EPS growth has slowed down to 5% now suggesting a meaningful moderation from the 13-14% a year ago.
- Market Regulator SEBI introduced plans to curtail retail participation in speculative index derivatives by raising trading lot size as well as reducing the Indices available to trade for weekly options.

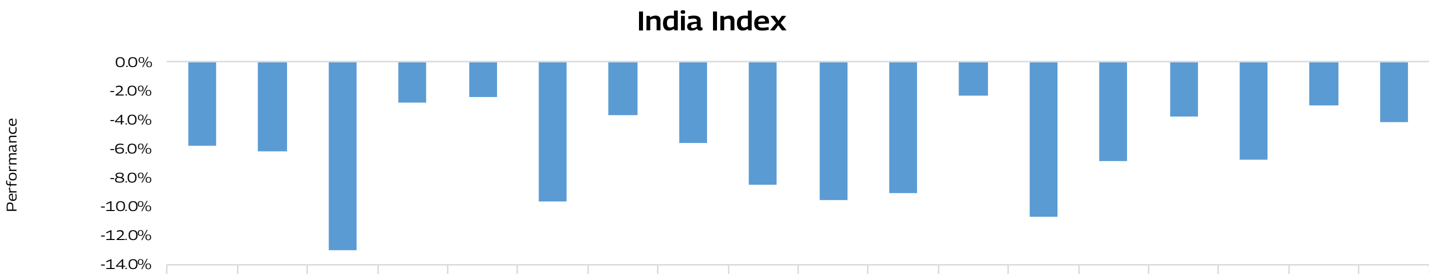
Source: Bloomberg/RBI

WHO MOVED MARKETS

- FPIs turned large sellers in India during October with net outflows at over 10.5 bn$ from secondary markets.

MOVERS & SHAKERS

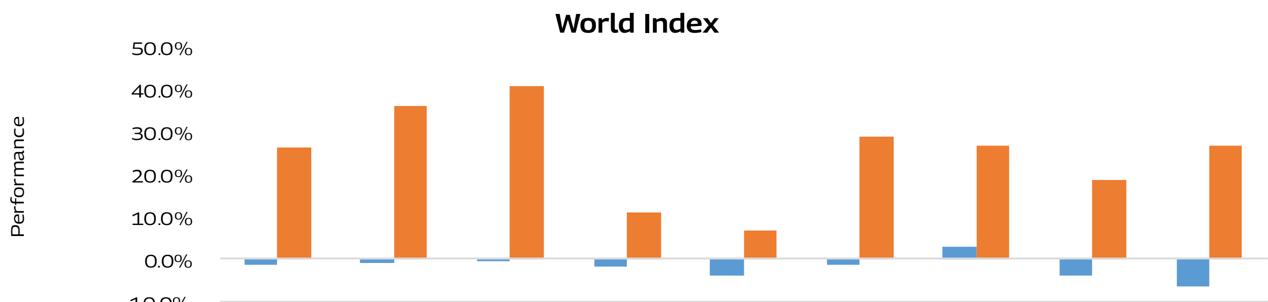
India Index



	S&P Bse Sensex Index	Nifty 50	Nifty Auto	Nifty Bank	Nifty Financial Services	Nifty FMCG	Nifty IT	Nifty Media	Nifty Metal	Nifty Commodities	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	-5.8%	-6.2%	-13.0%	-2.8%	-2.4%	-9.7%	-3.7%	-5.6%	-8.5%	-9.5%	-9.0%	-2.3%	-10.7%	-6.9%	-3.8%	-6.7%	-3.0%	-4.1%

Source: Bloomberg; Data as on October 31, 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	-1.3%	-1.0%	-0.5%	-1.5%	-3.7%	-1.3%	3.1%	-3.9%	-6.2%
1 Yr Performance	26.4%	36.0%	40.8%	10.8%	6.7%	28.8%	26.6%	18.7%	26.9%

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

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - QUARTER ON QUARTER

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Oct-24
Nifty 50	-29.3	19.8	9.2	24.3	5.1	7.0	12.1	-1.5	0.6	-9.6	3.9	5.9	-4.1	10.5	2.3	10.7	2.7	7.5	7.5	-6.2
Nifty Midcap 100	-31.6	25.6	15.5	22.7	13.7	13.8	12.7	0.2	-2.5	-10.9	5.8	2.7	-4.7	19.0	13.4	13.9	4.1	15.9	7.9	-6.7
Nifty Small Cap 100	-38.4	28.4	26.2	21.7	14.5	20.0	11.9	3.7	-7.6	-19.1	4.5	3.1	-7.6	20.5	17.6	18.8	0.8	20.0	4.7	-3.0

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

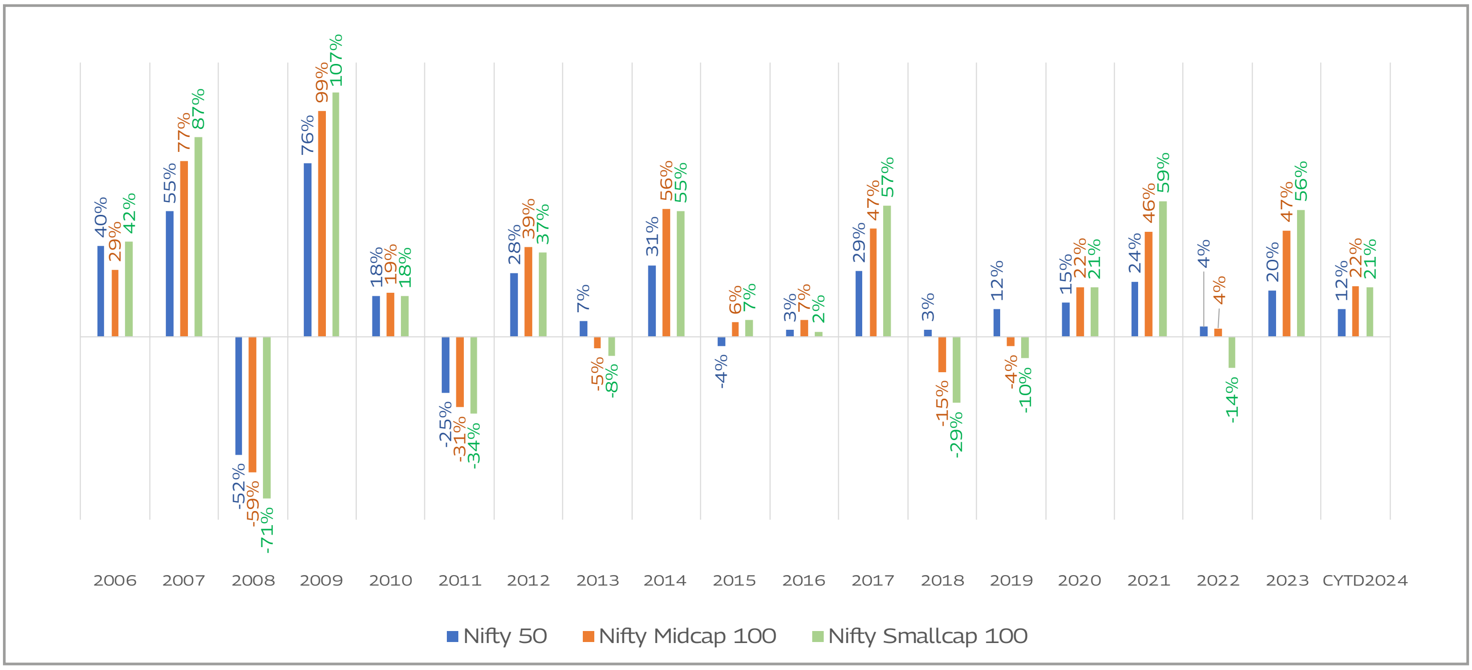
Bloomberg Data as on October 31, 2024

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Oct-24
Nifty Auto	-42.6	42.0	17.7	16.3	7.3	7.5	0.0	3.2	-3.5	10.9	5.9	-0.7	-2.9	23.7	6.8	15.0	15.0	17.7	7.2	-13.0
Nifty Bank	-40.5	11.6	0.4	45.7	6.5	4.4	7.6	-5.2	2.5	-8.1	-1.5	11.3	-5.5	10.2	-0.4	8.3	-2.4	11.1	1.2	-2.8
Nifty Fin Services	-36.0	13.4	0.6	43.2	3.3	4.6	11.3	-5.3	-1.1	-9.8	0.0	8.4	-4.9	11.1	-1.2	8.5	-2.3	11.6	4.5	-2.4
Nifty FMCG	-9.3	10.0	-0.7	14.5	2.2	3.3	12.0	-7.0	-3.4	3.8	9.4	-0.5	3.9	13.7	-1.1	10.4	-5.3	5.2	15.5	-9.7
Nifty IT	-18.5	15.6	35.2	21.6	6.6	12.8	20.1	10.5	-6.2	-23.3	13.0	6.1	0.3	3.0	7.5	11.7	-1.7	3.6	16.0	-3.7
Nifty Media	-42.3	29.2	15.2	6.5	-6.3	16.3	19.0	3.8	7.2	-20.3	7.9	-3.4	-14.7	2.6	30.1	5.3	-24.8	10.9	7.3	-5.6
Nifty Metal	-43.4	25.6	12.6	45.1	22.2	31.1	7.6	-1.6	16.3	-27.4	-2.4	16.6	-18.2	12.9	10.1	16.6	3.5	18.9	3.9	-8.5
Nifty Commodities	-33.1	24.6	8.8	22.2	17.7	14.9	10.9	-2.1	7.4	-16.2	4.2	6.9	-6.6	8.6	7.5	18.9	8.0	11.2	6.0	-9.5
Nifty Realty	-41.2	15.5	4.6	48.1	6.5	2.9	49.4	-5.8	-4.3	-16.9	-1.0	1.8	-10.3	34.2	10.7	36.0	15.0	22.7	-0.5	-9.0
Nifty Pharma	-10.7	39.1	17.9	9.7	-5.0	16.6	1.1	-1.7	-4.5	-10.5	10.4	-2.9	-4.6	14.6	12.0	9.1	12.9	3.9	18.0	-2.3
Nifty Energy	-30.1	29.4	4.4	12.6	7.5	9.0	15.3	-1.0	14.1	-2.8	5.5	1.1	-11.8	8.2	10.6	22.5	16.6	7.1	5.3	-10.7

Note *- Cells highlighted in green colour represents top 2 performers and the pink highlighted cells represent bottom 2 performers amongst the indices covered above for the respective quarter end periods. Performance data for the month of October 2024 (current quarter period.)*

Source: *Bloomberg. Returns have been calculated on Absolute basis for respective quarter end periods beginning March 2020 until October 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 October 31, 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	31-Oct-2024	30-Sep-2024	30-Oct-2023
RBI Repo Rate	6.50%	6.50%	6.50%
5 Year AAA %	7.52%	7.51%	7.76%
1 Year CD %	7.52%	7.56%	7.83%
10 Year G-Sec %	6.83%	6.75%	7.36%
CPI (%)	5.49%	3.65%	5.02%
US 10 Year%	4.28%	3.78%	4.93%
Dollar Rupee	84.06	83.80	83.26

Source: *Bloomberg; Data as on October 31, 2024*

FIXED INCOME IN A GLANCE

It was a sober debt market globally. Despite the 50 basis points (bps) Fed rate cut, the US benchmark 10-year sovereign yield increased around 50 bps to close around 4.38%. What led to the sharp move upwards was a combination of strong US economic data, inflation, and a possible Republican victory in the Presidential election. The sharp movements of yields upwards was unanticipated and that had a sobering effect on yields globally. The India sovereign 10 year moved up by 10 bps to close around 6.85%.

CPI inflation for the month of September was recorded at 5.49%, with food inflation recording a high of 9.24%. 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.

While there was pressure on long term yields, domestic liquidity remained easy supporting low money market rates.

While the Rupee weakened marginally through the month, it remained a better performer against a basket of major and emerging currencies.

WHAT NEXT?

- GDP has seen a deceleration in last 6months as government spending has slowed impacting both consumption and investments. While RBI has kept FY25 GDP estimates intact at 7.2% (International Monetary Fund at 7.0%), it appears difficult as it requires a very high government spend in H2FY25.
- The Central Government's fiscal deficit for H1FY25 remained in check at 29% of FY25BE for H1. Key enablers being the slow pace of capital expenditure and inline revenues. Actual expenditure in H1FY25 is marginally lower on year-on-year basis over H1FY24. This may look good on fiscal deficit front but hurts the growth. Going ahead growth in H2FY25, required run-rate to meet budgeted capex implies a spend growth of 40% year-on-year which seems difficult. On revenue front, growth in GST collection as well as corporate taxes are lower than budgeted and may pose a risk to revenue targets.
- India's Core sector (eight key infrastructure industries) grew by 2% in September, post a de-growth of 1.8% in August.
- GST Collections for October came at Rs 1.87 trillion, growth of 8.9% year-on-year.
- Indian markets had a highly volatile month with Nifty ending with a loss of 6.2% (largest monthly fall since March 2020). Mid-cap & small-cap indices fell 6.7% and 3%.
- The reasons for the sharp fall may be any combination of weak earnings in Q2FY25, FPI outflows, geopolitical tensions and some consolidation post a strong rally in past 12-18 months. Valuations have turned reasonable for many companies, especially in large caps as bulk of the selling by FPI has been in large caps.
- Globally too, India was the worst-performing market, followed by France (-4%), Hong Kong (-4%) and Mexico (-3.5%).
- Among the Nifty sectoral indices, Auto, Energy, FMCG, Realty, Infrastructure underperformed Nifty while IT, Banks & Pharma outperformed NIFTY.
- Equity MF Schemes see Rs 34119 crores of net flows for September with the shift happening towards Sectoral/Thematic funds (Rs 13254 Crores). Monthly gross SIP continues to inch up. Small & midcap funds got flows of Rs 6201 Crores.

Source: Bloomberg/IMF

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 clearly turned negative in October and remains to be tracked. While the premier rule of economics "supply meets demand to set prices" reigns markets, the price setting points changes based on intensity of supply or demand. While demand for equities has been driving markets in last 18 months, supply of equities has for the 1st time taken lead. FPI selling of over 10.5 bn$ was aided by primary issuances of over 6 bn$ leading to the overall pressure.

The core drivers for Indian Economy are Consumption & Investments with External trade being an aspirational driver as India attempts to improves current account by exports growth as well as import substitution. Consumption sector remains a key to assess overall growth. While companies have reported weak numbers it may be categorised into a combination of slowdown partly led by falling income for unorganised sector as well as a case of increasing competition where new entrants are hurting listed incumbents. One of the outcomes of rising formalisation in the digital economy is higher tax compliance that supports government finances while it does create an income loss for the unorganised sector. This income loss hurts purchasing power for those consumers and hence some impact there. On the other hand, the economic growth potential and easy availability of risk capital has created opportunities for many companies (listed as well as unlisted, domestic as well as multinationals) to venture into newer product categories where there are listed companies dominating market share. These new entrants are creating a revenue/profitability pressure on listed incumbents and hence earnings impact.

The Government's thrust on capex has been a critical driver of economic growth post Covid and has led to the Manufacturing boom and Equity market rally over the past 3 years. The capital expenditure for FY24 stood at Rs 9.5 lakh Crores, an increase of 28.2 per cent on a year-on-year basis and was 2.8 times the level of FY20. However, FY25 had elections in Q1, followed by strong monsoons in Q2. Therefore, as of Sep-24, the government has spent only 30% of the full year target of Rs 11.11 lakh Crores which is a 17% year-on-year increase over FY24. RBI's hope of economic recovery seems to be relying on the big jump of 54% in private capex to Rs 2.45 trillion in FY25, up from Rs 1.59 trillion in FY24. Investments are an important cog wheel to steer India towards a developed market status and hence remains a key pillar of income growth for the population at large.

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

SUMMARISING OUR THOUGHTS

- While the MPC has continued its monetary policy stance. With the US Fed announcing its first cut, the MPC may possibly shift the stance to neutral as we go through the year. We believe the MPC would still be in a wait and watch mode before initiating its first cut.
- As the Fed meets in November and the market expecting a 25-bps cut, it would interesting if Fed follows up with the 50-bps cut in November,
- The FPI flows in Government of India securities post the induction of India bonds in the JP Morgan Bond Index continues to be robust. However, October witnessed was also a month which 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.
- With the escalation of the crisis in the Middle East and the bearing on crude prices, we would remain wary about sustainable upward movements in crude. However, we believe that energy prices may not escalate dramatically going ahead.
- Our portfolio strategy across our duration-oriented funds run in a similar vein a) Relatively heavy 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