

Market Outlook: January

2025

Equity Market Outlook

Look back at the month (December 2024)

- A robust recovery is expected in the second half of the fiscal year, driven by increased government spending, capital expenditure, strong investments, and a revival in urban and rural consumption, supported by a decent festive and marriage season.
- Government initiatives such as continued capex allocation and Production Linked Incentive (PLI) scheme is likely to benefit manufacturing, electronics, and renewable energy etc.

January 2025 Outlook

- We have seen some sluggishness in GDP growth and in turn corporate profitability in first half of fiscal year 2024-25, led by muted consumption growth, and some slackness in capex. However, drivers of capex, especially on private side remain intact- led by power, transmission, renewable energy, data centers, Defense, railways etc. This is expected to drive GDP growth and corporate profitability going forward.
- Governments focus on Make in India, import replacement and export focus is expected to offer large investable opportunities going forward.
- Despite near term hiccups, Indias consumption story remains intact, and is expected to come back gradually. We are already seeing some initial signs of rural consumption picking up.

Economic Outlook

Look back at the month (December 2024)

- Inflation:** India's November CPI Inflation came in at 5.48% moderating from 6.21% in the previous month while the Core Inflation inched up slightly to 3.84% vs. 3.72% in the previous month.
- The RBI's Action:** The Reserve Bank of India in its Monetary Policy Committee meeting in December 2024 maintained status quo on Repo rate (4-2 vote) and maintained the neutral stance, however cut the CRR by 50 bps to address the liquidity concerns arising from forex operations and tax related outflows. The minutes showed that all external members were concerned about growth
- Federal Bank's Action:** The Federal Reserve cut rates by 25 bps on anticipated lines while giving hawkish commentary through a revision in its Dot Plot projections of 50 bps cut from an earlier projection on 100 bps.
- Forex:** The INR depreciated to an all-time low of 85.70, however it continued to remain one of the best performing currencies amongst major economies.
- Domestic Bond Yields:** The 10-year Bond continued to remain volatile albeit in a narrow range of 6.68%-6.78%. The Indian sovereign market showed resiliency relative to the global bond sell off especially in the US treasury market.
- Q4 Calendar:** The treasury bill calendar came at 3.94 trillion, whereas the state government securities calendar grossed at 4.7 trillion. Both these numbers were slightly higher than market expectations.

January 2025 Outlook

- Domestic liquidity is expected to remain marginally positive for the first fortnight post which tax related outflows can push in deficit mode. We expect RBI to actively manage the liquidity situation through some durable measures including but not limited to OMO purchases and forex operations.
- The state government securities' spread is expected to widen given the large calendar number, however the actual auctions numbers have been lower from the calendar data in the past. More clarity shall emerge post the first fortnight.
- Markets can remain volatile till the incoming POTUS takes charge on 20th of January 2025, and as more clarity emerges on global front, markets focus is expected to shift on the Union budget and RBI policy due in first week of February.
- We expect policy continuity on the fiscal front, however with the new governor at helm of the monetary policy we expect the rate cuts to begin sooner than earlier envisaged.
- Gilts funds owing to the supply demand imbalance and the shorter end of the AAA corporate curve are expected to fare better as we head to the policy.

Source: Bloomberg, Ministry of Statistics and Programme Implementation (MoSPI), Reserve Bank of India, LIC MF internal research.

POTUS- President of the United States, OMO-Open Market Operations, CPI- Consumer Price Index, GDP- Gross Domestic Product.

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