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Macro-economic developments

- The National Statistical Office (NSO) forecasts India's economy to grow at 6.4% in FY25, down from 8.2% in FY24. Industrial growth is expected to soften, with manufacturing and mining projected at 5.3% and 2.9%, respectively. Agriculture is expected to be robust, supported by rural demand recovery and better rabi sowing.
- India's fiscal deficit for Apr-Nov'24 (FY25) stood at ₹8.5 trillion (52.5% of budgeted estimates), lower than ₹9.1 trillion (50.7%) during the same period last year. Tax collections rebounded in Nov, rising 10% YoY, driven by a 60% surge in personal income tax, while corporate tax collections showed recovery with 8.6% YoY growth in advance tax instalments by mid-Dec. Revenue expenditure remained steady, but capex grew 21.3% YoY in Nov. Capex on roads and railways exceeded 55–65% of the budget target.
- India's current account deficit (CAD) narrowed slightly to \$11.2 billion in Q2 FY25 from \$11.3 billion in Q2 FY24, despite a higher merchandise trade deficit of \$75.3 billion (up from \$64.5 billion). The wider trade deficit was driven by higher non-oil imports, including a \$5 billion surge in gold imports. Meanwhile, the net services balance improved to \$44.5 billion, supported by robust software and business services exports. Private transfer receipts rose to \$29.3 billion from \$25.1 billion.
- According to the latest government data, net direct tax collection rose 16.45% YoY to ₹15.82 lakh crore till Dec 17 for this fiscal year, fuelled by robust growth in both corporate and non-corporate tax segments.
- According to the RBI data, net foreign direct investment (FDI) into the country decelerated to \$2.1 billion during Apr-Oct 2024 from \$7.7 billion a year ago, majorly due to the rise in repatriation and net outward FDI. Gross inward FDI rose to \$48.6 billion during Apr-Oct 2024 from \$42.1 billion a year ago.
- As of January 3, 2025, India's foreign exchange reserves have declined to an eight-month low of \$640.28 billion, marking the fourth consecutive week of reduction. This recent decrease is primarily due to the Reserve Bank of India's (RBI) interventions to stabilizing the rupee, which has depreciated to a record low of 85.82 against the U.S. dollar. Earlier, in September 2024, the forex reserves had reached an all-time high of \$704.89 billion.
- Purchasing Managers' Index (PMI) reflects economic activity in manufacturing and services, with a score above 50 indicating expansion. In December 2024, India's Manufacturing PMI slightly declined to 56.4, while the Services PMI rose to 59.3, the highest since August 2024, leading the composite PMI to 59.2. Industrial production (IIP) grew by 3.5% in October 2024, driven by a 4.1% increase in manufacturing and strong performances in consumer durables and construction goods, despite subdued mining growth at 0.9%. These indicators highlight robust service sector momentum and steady industrial growth.
- The combined Index of Eight Core Industries grew by 4.3% YoY in November 2024, down from 7.9% in November 2023. Cement led the growth with a robust 13.0% rise, followed by coal at 7.5%, while crude oil and natural gas production declined by 2.1% and 1.9%, respectively, reflecting a mixed performance across sectors.
- India's gross GST revenue in December stood at ₹1.76 trillion, the lowest in three months but 7.3% higher year-on-year. After tax refunds, net GST collections were ₹1.54 trillion, reflecting a 3.3% annual growth.

Equity market developments and Outlook

- As CY24 concludes, Indian markets have once again demonstrated strength, with nine consecutive years of positive returns. Despite navigating significant global and domestic headwinds, Indian equities maintained its upward trajectory, with the Nifty50 delivering a 9% gain and India's market capitalization reaching USD 5.2 trillion, accounting for 4.2% of the global market cap. The Midcap & Small cap indices have delivered substantially higher returns of around 24% for the year. The gains during the year have been broad-based with most sectors participating in the rally.
- The Nifty-50 fell 2% MoM in December 2024, marking its third consecutive monthly decline. However, Mid Cap and Small Cap indices were up 2% & ~1% respectively for the month.
- On the sectoral front, Healthcare (+5%), Real Estate (+3%), and Technology (+0.4%) were the only gainers. Conversely, Media (-9%), Utilities (-7%), Oil & Gas (-6%), Metals (-4%), and Capital Goods (-4%) were the top laggards MoM.
- Among the key global markets, Russia (+15%), Japan (+4%), Taiwan (+3%), and China (+1%) ended higher in local currency terms. Conversely, Brazil (-4%), the US (-2%), Korea (-2%), India (-2%), the UK (-1%) ended lower MoM in Dec'24.
- While FPIs remained net sellers in CY24, domestic institutional investors (DIIs) provided a strong counterbalance, investing a record ~INR 5 lac crores during the year. The 17 consecutive months of inflows, surpassing the combined inflows of CY22 and Cy23.
- At 23,526 (As on 09-Jan-2025), the Nifty50 is trading at a P/E of 22.8x FY25 earnings, which is a 21% premium over the 10-year average one-year forward P/E of 18.8x.
- Despite near-term uncertainties, Indian markets are poised for long-term wealth creation, supported by domestic liquidity and a structural economic growth trajectory. Equities continue to offer superior returns for long-term investors, and the Indian growth story remains compelling as we step into CY25. While Nifty earnings growth is expected to moderate to 5% in FY25 after a robust 27% in FY24, it is projected to rebound to 16% in Fy26.
- Investors can continue to invest systematically in equities. Any market volatility/dips can be used as an opportunity to increase their equity exposure gradually, as per their individual risk profile.

Fixed Income market developments and Outlook

- Global yields ended mixed in CY24, with US Treasury yields rising by 69bps to close above 4.5%, reflecting mixed economic signals. The US Fed initiated monetary easing in September 2024, marking the first-rate cuts in three years. Expectations for CY25 rate cuts have been scaled back to just two, lowering the federal funds rate to 3.75-4%. Elevated yields, persistent inflation risks, and rising unemployment highlight potential challenges to further monetary easing.
- In CY24, India's 10Y bond yield moderated down by 44bps. The pressure on yields was lower and boosted demand flow as the market witnessed the bond inclusion in the JP Morgan emerging market index, Bloomberg and FTSE Russel. The Government continue to follow its fiscal prudence path, as it plans to lower its fiscal deficit to 4.9% of GDP with the gross borrowing target of Rs 14tn. Expectation of rate cut by RBI are back on the table beginning with possibly Feb'25 after keeping rates on hold at 6.5% since Feb'23.
- Headline CPI inflation eased to 5.5% year-on-year in November, down from 6.2% in October, driven by a sequential decline in food prices. Despite this moderation, food inflation remained high at 9.0% year-on-year, driven by significant price increases in vegetables, oils and fats, fruits, and cereals. Meanwhile, core inflation, which excludes food, beverages, and fuel, held steady at 3.7% for the second consecutive month.
- In CY24, global currencies depreciated against the US dollar, with the DXY index rising by 7%, driven by geopolitical tensions in the Middle East and the ongoing Russia-Ukraine conflict. The Indian Rupee (INR) fell by 2.8% but outperformed many other currencies, supported by the Reserve Bank of India's forex interventions, stable CAD, and lower oil prices. Despite these factors, the INR remained under pressure in December, trading at record lows nearing 86/USD.
- In December 2024, crude oil prices showed resilience, starting at \$68.1 and ending the year at \$71.72, marking a 5.3% monthly gain. The low for the month was \$67.2 on December 6, while the high of \$71.72 on December 31 reflected optimism about demand recovery in 2025. Key drivers included improved manufacturing data from China, a weaker dollar, and easing recession fears in Europe and the US. December marked the first month since June with a sustained upward trend, suggesting a potential shift in market sentiment.
- Foreign Portfolio Investors (FPIs) remained positive and registered net inflows of ₹3767 crores compared to an inflow of ₹876 crores of the previous month.
- From an investment perspective, we prefer the short - medium term part of the yield curve.