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Srinivas Rao Ravuri,
Chief Investment Officer

Macro-economic developments

- The Economic Survey forecasts India's GDP growth in the range of 6.3-6.8% for FY26, with a nominal GDP growth of 9.8-10.3%. The Survey emphasizes sustainable business growth through deregulation, enhancing internal capacities, and energy transition. It highlights slower manufacturing due to weak exports, disrupted sectors from monsoons, and timing of festivities. Positive fiscal trends include sustained capital expenditure and a stable banking sector, though unsecured credit stress remains a concern. Despite risks, the Survey is optimistic about domestic investment, output growth, and disinflation, with the overall economy showing strong fundamentals for FY26.
- India's fiscal deficit for Apr-Dec'24 (FY25) was ₹9.1 trn (56.7% of the budgeted estimate) compared to ₹9.8trn (55% of the target) in the corresponding period the year prior. Corporate tax collections which had been lagging so far, rose 10.6% YoY in Dec'24, while personal income-tax collections retained its growth momentum with a 15.9% YoY. A significant turnaround was seen in capex during Dec'24, surged 95% YoY, on higher rail and road allocations and transfers to states. YTD capex growth turned positive for the first time after Apr'24. Revenue expenditure, meanwhile, was steady.
- India's merchandise trade deficit widened to $21.94 billion in Dec 2024, up from $18.76 billion in Dec 2023, driven by higher imports. Exports declined marginally by 0.99% YoY to $38.01 billion, while imports rose 4.90% YoY to $59.95 billion. The widening deficit reflects increased demand for imported goods. Persistent export weakness, coupled with rising imports, could exert pressure on the trade balance.
- The Index of Industrial Production (IIP), a measure of industrial activity, grew by 5.2% in Nov'24, up from 3.7% in Oct'24, driven by improvements across all sectors. Manufacturing expanded by 5.8%, with over 15 sub-sectors outperforming last year. Mining and electricity also saw strong growth.
- As of January 31, 2025, India's foreign exchange reserves have continued to decline and stood at $630 billion (10 months of import cover). 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 86.75 (as on 11-02-2025) against the U.S. dollar. Earlier, in September 2024, the forex reserves had reached an all-time high of $704.89 billion (16 months of import cover).
- The RBI increased its gold reserves by 72.6 tonnes in 2024, bringing the total to 876.18 tonnes ($66.2 billion) by Dec-end, up from 803.58 tonnes ($48.3 billion) a year ago. This 27% rise in valuation reflects both higher gold prices and RBI's strategy to diversify reserves amid global uncertainties. The move strengthens India's external buffers, enhancing financial stability.
- Purchasing Managers' Index (PMI) reflects economic activity in manufacturing and services, with a score above 50 indicating expansion. The Manufacturing Purchasing Managers' Index rose to 57.7 in Jan 2025 compared to 56.4 in Dec 2024, it marked the fastest expansion since last Jul 2024. This data indicated that new orders rose at the sharpest pace in six months, driven by the steepest increase in exports. Whereas India's Services Purchasing Managers' Index (PMI) fell to 56.5 in Jan 2025 from 59.3 in Dec 2024. The composite PMI fell to 57.7 in Jan 2025 from 59.2 in Dec 2024.
- The gross GST collections for January reached ₹1,95,506 crores, the highest since April 2024. The amount marks a 12.3% Y-O-Y growth from ₹1,74,106 crores in January 2024. Maharashtra recorded the highest GST collections among all states, registering ₹32,335 crores, followed by Gujarat, Karnataka and Tamil Nadu. This consistent increase could indicate an uptick in economic growth and sustained tax compliance by businesses.

Equity market developments and Outlook

- The Nifty Index declined 0.6% in the month compared to a 2% fall in Dec'24, registering its fourth consecutive monthly loss. Mid-cap and small-cap indices experienced sharper fall, declining 6% and 10%, respectively. Some of the factors weighed on investors sentiments include concerns about US trade policies, continued geopolitical tensions, weak macro and disappointment in corporate earnings growth.
- Despite the recent correction, Mid & Small Cap Indices are still outperforming Nifty 50 by a significant margin since Jan 2023. During this period, Mid & Small Caps were up 70% and 68% respectively, compared to a 29% return for Nifty50. Mid & Small Cap (on a Historical P/E basis) are still trading at relatively high valuations, with further room for correction.
- On the sectoral front, all major sectors ended lower – Media (-13%), Real Estate (-12%), Healthcare (-8%), Utilities (-6%), and Capital Goods (-5%) were the top laggards MoM.
- Among the key global markets, the UK (+6%), Korea (+5%), Brazil (+5%), Russia MICEX (+4%), the US (+3%), Taiwan (+2%), and MSCI EM (+2%) ended higher in local currency terms. Conversely, China (-3%), Japan (-1%), and India (-1%) ended lower MoM in Jan'25.
- With ₹72,676 Cr. of outflows, FPIs remains net sellers in the month of Jan'25 while domestic institutional investors (DIIs) continue to provide a strong counterbalance, investing a net inflow of ₹80,592 crores.
- At 23,361 (As on 03-Feb-2025), the Nifty50 was trading at a P/E of 19.1x FY25 earnings, which is a 5% premium over the 10-year average one-year forward P/E of 18.2x. At Nifty 50 1-Yr Forward P/E has been moderated due to recent market correction however it is still marginally above than its 10 Year long-term average.
- So far, Q3FY25 is turning out to be another weak quarter for corporate earnings with Nifty50 companies expected to deliver single digit PAT growth. Post the weak earnings in Q2 Nifty 50 earnings have been downgraded and are now expected to grow by 5% in FY25 (vs 8% earlier) followed by a 13% growth in Fy26.
- • Overall, our near-term outlook for the market remains cautious as we navigate through a period of domestic economic slowdown and heightened global policy uncertainty. Nevertheless, we continue to believe that India is on a structural growth path and is likely to outperform most other economies in the coming years. If India continues to deliver higher growth, valuations can remain elevated. Hence, we remain constructive on equities.
- • 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

- The US 10-year Treasury yield closed at 4.54% on January 31, 2025, slightly lower than 4.57% on December 31, 2024, reflecting a marginal 0.66% decline. Throughout January, yields exhibited volatility, peaking at 4.792% on January 14 before easing. The yield movement suggests market adjustments to economic data and Federal Reserve expectations. Earlier in the month, higher yields likely reflected stronger economic data or inflation concerns, while the late-month decline indicates increased demand for safe-haven assets or dovish signals from the Fed. The overall trend shows moderate fluctuations without a sharp directional shift.
- The 10-year G-Sec yield declined from 6.76% on Dec 31, 2024, to 6.69% on Jan 31, 2025, marking a 0.91% decrease. The yield exhibited mid-month volatility, peaking at 6.843% on Jan 13 before trending lower. However, the moderation was limited, suggesting cautious market sentiment due to moderating however still elevated inflation concerns.
- The Monetary Policy Committee (MPC) in its sixth bi-monthly monetary policy review of FY25 reduced key policy repo rate by 25 bps to 6.25% with immediate effect. Consequently, the standing deposit facility (SDF) rate shall stand adjusted to 6.00%. The MPC unanimously voted to reduce the policy repo rate by 25 bps. The MPC also decided to continue with the neutral monetary policy stance and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth. Accordingly, the MPC unanimously voted to continue with a neutral stance.
- The RBI has projected CPI inflation for FY25 at 4.8% with Q4 at 4.4%. Assuming a normal monsoon next year, CPI inflation for FY26 is projected at 4.2% with Q1 at 4.5%, Q2 at 4.0%, Q3 at 3.8%, and Q4 at 4.2%, with risks are evenly balanced. The RBI has projected real GDP growth for FY26 at 6.7% with Q1 at 6.7%, Q2 at 7.0%, and Q3 and Q4 at 6.5% each, with risks are evenly balanced.
- CPI inflation moderated to 5.2% in Dec'24 compared to 5.5% in Nov'24, on YoY basis. This comes in the wake of an elevated base and food inflation losing steam. Food inflation went down by 65bps to 8.4% in Dec'24 from 9% in Nov'24. Core (CPI excl. food and fuel) also softened marginally at 3.6% vs 3.7% in Nov'24, led by range-bound global commodity prices. Key risks to overall inflation outlook stem from a depreciating INR which might escalate risks of imported inflation. Apart from this, any volatility in energy prices on account of ongoing sanctions might feed to higher intermediate input prices and hence to overall inflation print.
- Crude oil prices saw volatility in January 2025, closing at $72.53 on Jan 31, up 1.8% from $71.25 on Dec 31, 2024. Prices peaked at $78.71 on Jan 15, followed by a gradual decline. The first half of the month showed an upward trend, reaching nearly $79, before witnessing a correction in the latter half. Volatility was influenced by supply concerns, geopolitical tensions, and demand expectations. The price decline towards the end of January reflects easing supply constraints and softer demand prospects.
- India's INR depreciated against USD from ₹85.554 on Dec 31, 2024, to ₹86.805 on Feb 11, 2025, marking a downward trend. The Jan'25 closing rate was ₹86.536, showing a steady weakness in currency. Feb'25 saw further depreciation, peaking at ₹87.627 on Feb 7, 2025, before slightly recovering. The rupee's depreciation reflects global market volatility, rising crude oil prices, and capital outflows. If external pressures persist, further depreciation is possible.
- Foreign Portfolio Investors (FPIs) turned negative and registered net outflow of ₹3,891 crores compared to an inflow of ₹3767 crores of the previous month.
- From an investment perspective, we prefer the short – medium term part of the yield curve.