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*Based on Retail Loan book size (excluding mortgages). Source: Annual Reports FY 19-20 and No.1 on market capitalisation based on BSE data as on 31st Dec, 2021

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EQUITY MARKET OVERVIEW

FEBRUARY 12, 2025 TO MARCH 12, 2025

Domestic Equity Market Update

Indian equity indices, i.e., BSE Sensex and Nifty 50, ended the period on a negative note to the tune of 2.8% MoM and 2.5% MoM, respectively. Broader market indices such as BSE Midcap delivered a negative return of 3.4% MoM and BSE Smallcap delivered a negative return of 6.4% MoM.

On the BSE sectoral front, most sectors ended on a negative note. IT, Auto, Healthcare, and Realty were the biggest laggards. In February 2025, Foreign Portfolio Investors (FPIs) were net sellers in equities to the tune of ₹466 bn.

Indian equity indices ended the period on a negative note amid a broad-based sell-off across the sectors on concerns over weak corporate earnings in Q3 FY25, continued foreign fund outflows, and over fears of the new US administration's policies causing potential disruptions to global trade. However, losses were limited as sentiment was boosted after the RBI announced several measures to boost liquidity into the banking system.

Domestic Macroeconomic Updates

- As per data from Ministry of Statistics and Programme Implementation (MoSPI), India's industrial output, measured by the Index of Industrial Production (IIP) grew by 5.0% YoY in January 2025, from 3.5% YoY in December 2024.
- According to data shared by MoSPI, India's real Gross Domestic Product (GDP) growth for Q3 FY25 was 6.2% YoY. As a result, the government has revised its full-year real GDP growth projection for FY25 to 6.5% YoY from 6.4% YoY.
- Securities and Exchange Board of India (SEBI) has paved the way for the launch of Specialized Investment Funds (SIFs) from April 2025. The pure equity products include equity long-short funds, equity ex-top 100 long-short funds, and sector rotation long-short funds. The minimum investment size of these funds is ₹1 mn.
- Data released by the Association of Mutual Funds in India (AMFI) shows inflows into equity funds dropped 26% to ₹29,303 crore in February, lower than ₹39,688 crore registered in January and ₹41,156 crore in December. The sharp decline can be largely attributed to the reduced inflows in mid and small-cap funds, which saw a drop to ₹3,406 crore and ₹3,722 crore in February, compared with ₹5,147 crore and ₹5,720 crore in January, respectively.
- As per Reserve Bank of India (RBI) data, credit card spends grew by 10.8% YoY to ₹1.84 trillion in January 2025. Per card spend in the industry stood at ₹16,910, up 1.09% YoY.
- According to official data, the output of eight key infrastructure sectors rose by 4.6% YoY in January 2025 against a 4.2% YoY expansion in January 2024.
- As per data from the Goods and Services Tax Network (GSTN) portal, the growth in e-way bills generated by businesses for transporting goods within and across states slowed down to 14.7% YoY in February 2025.
- As per data from S&P Global, India's Manufacturing PMI fell to 56.3 in February 2025 from 57.7 in January 2025, marking the slowest expansion since December 2023.
- As per data compiled by S&P Global, India's services sector witnessed a strong rebound, with the HSBC India Services PMI rising to 59.0 in February 2025, up from 56.5 in January 2025, which had been its lowest reading in over two years.
- According to India Ratings, the investments in the private sector are likely to plummet to below 11% of the GDP in FY25, based on the trends from the latest national accounts data and company fillings.
- As per Moody's Ratings, India's power sector will need an annual investment between ₹4.5 trillion to ₹6.4 trillion (USD 53 bn to USD 76 bn) of investment until FY35, roughly USD 700 bn investment over the next 10 years, to achieve its 2070 net-zero pledge.
- As per data from Federation of Automobile Dealers Associations (FADA), automobile retail sales across categories, including passenger vehicles and two-wheelers, witnessed a drop of 7% YoY in February 2025 amid declining demand.
- As per data from the Finance Ministry, the number of UPI transactions in January 2025 surpassed 16.99 bn and the value exceeded ₹23.48 trillion, marking the highest number recorded in any month.

Global Market Updates

US equities (S&P 500, Dow Jones Industrial Average) ended the period on a negative note due to persistent worries regarding the economic repercussions of the new tariffs imposed by the US President on Canada, Mexico, and China. Negative sentiment was also elicited in response to a report from payroll processor ADP, which indicated that private sector job growth in February 2025 was significantly lower than anticipated. Weak consumer sentiments and indications that the US Federal Reserve (Fed) is likely to keep interest rates on hold for some time, further impacted the markets negatively.

European equities ended the period on a mixed note due to concerns regarding a potential trade war due to the US President's ongoing threats to impose 25% tariffs on various imported goods. Additionally, persistent geopolitical tensions have contributed to a cautious atmosphere. However, downside was limited as investors responded positively to quarterly earnings reports and the European Central Bank's decision to lower interest rates.

Brent crude price corrected from USD 75.18 per barrel to USD 70.95 per barrel amid growth concerns and expectations of excess supply in the market. Worries about tariffs and their possible impact on global economic growth and oil demand outlook limited the commodity's upside.

Fund Managers' Corner

As per the Fund Managers, interest rate movements, global slowdown concerns, corporate earnings trajectory, volatility in the US bond yields, Trump administration policies on tariffs, Foreign Portfolio Investors' (FPIs') outflows, and decelerating urban demand could continue to pose risks to Indian equities in the near to medium term. Nevertheless, RBI intervention, tax relief in budget, anticipation of improvement in private capex, revival of rural economy and positive Domestic Institutional Investors (DII) flows may provide some respite.

Incremental exposure to defensive sectors like Private Banks and Pharma can be seen across portfolios by the Fund Managers. Lots of Fund Managers also seem to be positive on consumption as a theme going forward and have started to build their portfolio accordingly. After the recent corrections, Mutual Funds seem to have increase cash in hand as the market still remains volatile and uncertain due to higher Rupee depreciation along with policy overhang in the US.

Though valuations have corrected from their peaks, the fund managers' ability to identify better bottom-up ideas and adjust their portfolios periodically could be drivers of relative outperformers vs their peers, irrespective of their investing style. Given that return volatility continues in the market, actively managed equity funds assume importance in an investor's portfolio.

Domestic Indices	Close	12-Feb-25	Absolute Change	% Change
BSE Sensex	74030	76171	-2141	-2.8
Nifty 50	22471	23045	-575	-2.5
Nifty Next 50	59278	60827	-1549	-2.5
Nifty 500	20264	20908	-644	-3.1
BSE 200	10091	10367	-276	-2.7
BSE 100	23408	24024	-617	-2.6
Nifty Midcap 100	48487	50756	-2270	-4.5
Nifty Smallcap 100	15044	16033	-989	-6.2
BSE Bankex	55235	56181	-946	-1.7
BSE IT	35570	40987	-5417	-13.2
BSE Auto	46700	50186	-3486	-6.9
BSE FMCG Sector	18855	19446	-592	-3.0
BSE Oil&Gas	23725	23834	-109	-0.5
BSE Healthcare	39376	40820	-1444	-3.5
BSE Cap Goods	57792	58924	-1132	-1.9
BSE Metal	29984	27712	2271	8.2
BSE Power	6148	5972	176	2.9
BSE Cons Durable	53228	56277	-3049	-5.4
BSE Infra.	525	529	-5	-0.9
BSE Realty	6341	6571	-230	-3.5

Overseas Indices	Close	12-Feb-25	Absolute Change	% Change
S&P 500	5599	6052	-453	-7.5
Dow Jones Ind Avg	41351	44369	-3018	-6.8
Dax (Germany)	22676	22148	528	2.4
FTSE (UK)	8541	8807	-266	-3.0
Hang Seng	23600	21858	1742	8.0
Nikkei	36819	38964	-2145	-5.5
Shanghai Composite	3372	3346	26	0.8

Source: Bloomberg

Note: Closing prices of all the above indices are as on March 12, 2025

Outlook & Investment Strategy

Going forward, the Indian equity market is likely to be driven by movement in the US Dollar index, improvement in consumption demand, FPI/DII flows, tariff deals between India and the US, and further support by the RBI. With improvement in liquidity and incremental money in the hands of the tax payers from the union budget, consumption and rate sensitive sectors could see traction.

In US, the Trump Administration has levied tariffs on Canada, Mexico and China, and in return, Canada and Mexico too have announced tariffs on US products. This can lead to worsening of global trade dynamics. Trump is expected to raise tariffs on more countries, thus impacting both the US and other economies. Reciprocal tariff announcements have also created uncertainty, although Trump has given time till April. Further negotiations can dictate the trajectory in which markets move.

Overall, the fundamentals of the domestic economy remain robust, with a strong external account, calibrated fiscal consolidation, and stable private consumption. With fiscal consolidation remaining on track, some heavy lifting is now expected from the RBI in terms of sharply improving the liquidity in the system and moving towards a longer policy rate cut cycle. That would add to the cheer in the equity markets. Certain macro data points released last week, like GST collections and E-way bills, indicate positive impulses. However, vehicles sales deceleration suggests a further drag on consumption.

The Q4 FY25 earnings would now be in focus after continued earnings downgrades in most of the key indices post Q3 FY25 corporate earnings.

With the recent correction, valuations in most segments of the market have corrected, while earnings estimates have seen further cuts. This could keep the markets volatile in the near term. A sharp decline in the markets could provide investment opportunities from a 2–3-year perspective. In terms of deployment strategy, we continue to maintain our investment deployment strategy of 50% lumpsum and 50% staggered over the next 5-6 months. From an Equity Mutual Fund perspective, investors could look at investing in Diversified funds, Hybrid equity funds, Business cycle funds, and doing SIPs in Smallcap/Midcap funds in line with their risk profile and product suitability from a 2-3 years' time horizon.

DEBT MARKET OVERVIEW