Market Reset, Portfolio Reboot and Rebuild for Growth

Relentless selling by Foreign Portfolio Investors (FPI) has weighed down market sentiments, leading to a sharp correction across indices. While the short-term mood feels like March 2020, the long-term picture may remain strong, with Nifty 50 up 13% CAGR ("Compound annual growth rate") and mid and small caps up 25% CAGR for the two-year period ending in February 2025.

Valuations are now more reasonable, and economic data signals recovery. With much of the price correction likely behind us, markets may enter a phase of time correction. Large caps offer better value and stability, though FII outflows remain a factor to monitor.

Globally, geopolitical and economic shifts could impact FPI flows, but India's structural growth story remains intact. As conditions evolve, disciplined asset allocation is key—hybrid funds for risk-averse investors and fresh equity allocations toward large caps for long-term growth.

Source: Internal Research

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- **Trump tariffs :** President Trump announced intent to impose tariffs on imports from every country that has differential import duties with the USA and hinted that India could possibly be on top of the list. Indian PM Mr. Modi visited USA to hold bilateral discussions with the US President on multiple issues including reciprocal tariffs. India has since then hinted at allowing lesser import duties on EV cars, increasing defense imports from USA.
- The first monetary policy under the new RBI governor announced repo rate cut of 25 bps. RBI also announced slew of measures to improve liquidity in the tight money market. RBI also reversed the risk weights on lending to NBFCs to boost credit growth in the market. RBI has clearly shifted stance to accommodative with a focus to get India on sustainable growth path.
- INR continues to depreciate another 1% for the month to end at 87.5 INR.
- India CPI fell sharply to come at 4.6% for month of January 2025 as against 5.22% in December 2024. Core CPI increased by 3.66% accelerating marginally from 3.58% year-on-year rise in December 2024.
- India GDP rate for Q3 picked up to 6.2% and Q2 data was upgraded to 5.6% vs earlier announced 5.4%. Ministry of Statistics retained FY25 forecast of 6.5% GDP growth implying a 7.6% growth for Q4. The GDP data for FY24 was revised upwards from 8.2% to 9.2% partly the lower rate for FY25 can be seen in that context of high base.
- Recent soft US economic data brings Fed rate cuts back on the table possibly from June 2025. US 10-year rallies from 4.8% in mid-January to close February, 2025 at 4.2% indicating a softening bias.

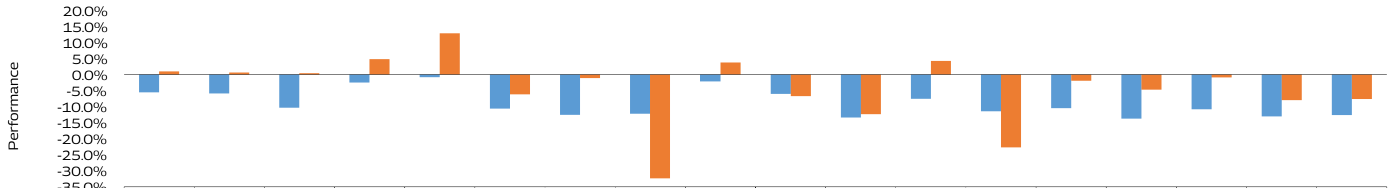
Source: Bloomberg/Union Budget/MOSPI

WHO MOVED MARKETS

- Foreign Portfolio Investors ("FPIs") continued with their selling spree with a total outflow of approx.5.5bn$ for the month of February, 2025.

MOVERS & SHAKERS

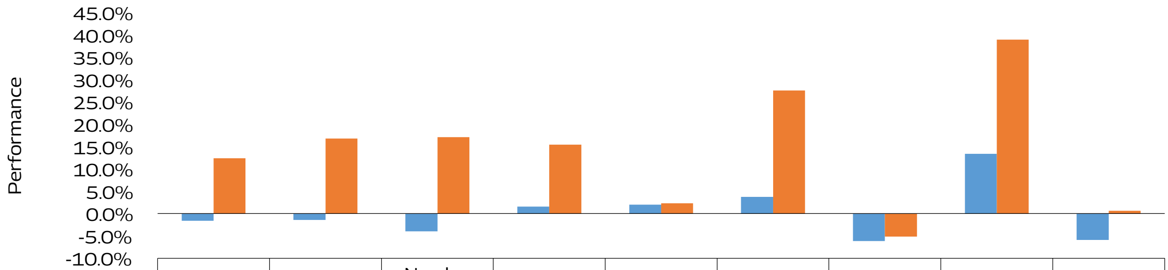
India Index



	S&P Bse Sensex Index	Nifty 50	Nifty Auto	Nifty Bank	Nifty Financial Services	Nifty FMCG	Nifty IT	Nifty Media	Nifty Metal	Nifty Commo dities	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	-5.6%	-5.9%	-10.4%	-2.5%	-0.8%	-10.6%	-12.5%	-12.2%	-2.1%	-6.1%	-13.4%	-7.6%	-11.4%	-10.5%	-13.8%	-10.8%	-13.1%	-12.6%
1 Yr Performance	1.0%	0.6%	0.4%	4.8%	12.8%	-6.2%	-1.1%	-32.3%	3.8%	-6.7%	-12.4%	4.3%	-22.7%	-1.9%	-4.7%	-0.9%	-8.0%	-7.6%

Source: Bloomberg; Data as on February 28, 2025; 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	-1.6%	-1.4%	-4.0%	1.6%	2.0%	3.8%	-6.1%	13.4%	-5.9%
1 Yr Performance	12.4%	16.8%	17.1%	15.5%	2.3%	27.6%	-5.1%	38.9%	0.6%

Source: Bloomberg; Data as on February 28, 2025; Performance - Absolute returns. ***Past performance may or may not be sustained in future.***

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - MONTH ON MONTH

Indices	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Nifty 50	-2.0	0.3	4.1	2.6	3.5	2.9	-2.5	2.0	-2.8	5.5	7.9	0.0	1.2	1.6	1.2	-0.3	6.6	3.9	1.1	2.3	-6.2	-0.3	-2.0	-0.6	-5.9
Nifty Midcap 100	-1.8	-0.3	5.9	6.2	5.9	5.5	3.7	3.6	-4.1	10.4	7.6	5.2	-0.5	-0.5	5.8	1.6	7.8	5.8	0.5	1.5	-6.7	0.5	1.4	-6.1	-10.8
Nifty Small Cap 100	-3.6	-1.8	7.5	5.1	6.6	8.0	4.6	4.1	-0.8	12.0	6.9	5.8	-0.3	-4.4	11.4	-1.9	9.7	4.5	0.9	-0.7	-3.0	0.3	0.6	-9.9	-13.1

Note - Yellow highlighted cells represent highest returns amongst the 3 indices provided above; orange highlighted cells represent lowest returns amongst the 3 indices for the respective month end periods. Performance - Absolute returns. ***Past performance may or may not be sustained in future.***

Source: Bloomberg; Data as on February 28, 2025

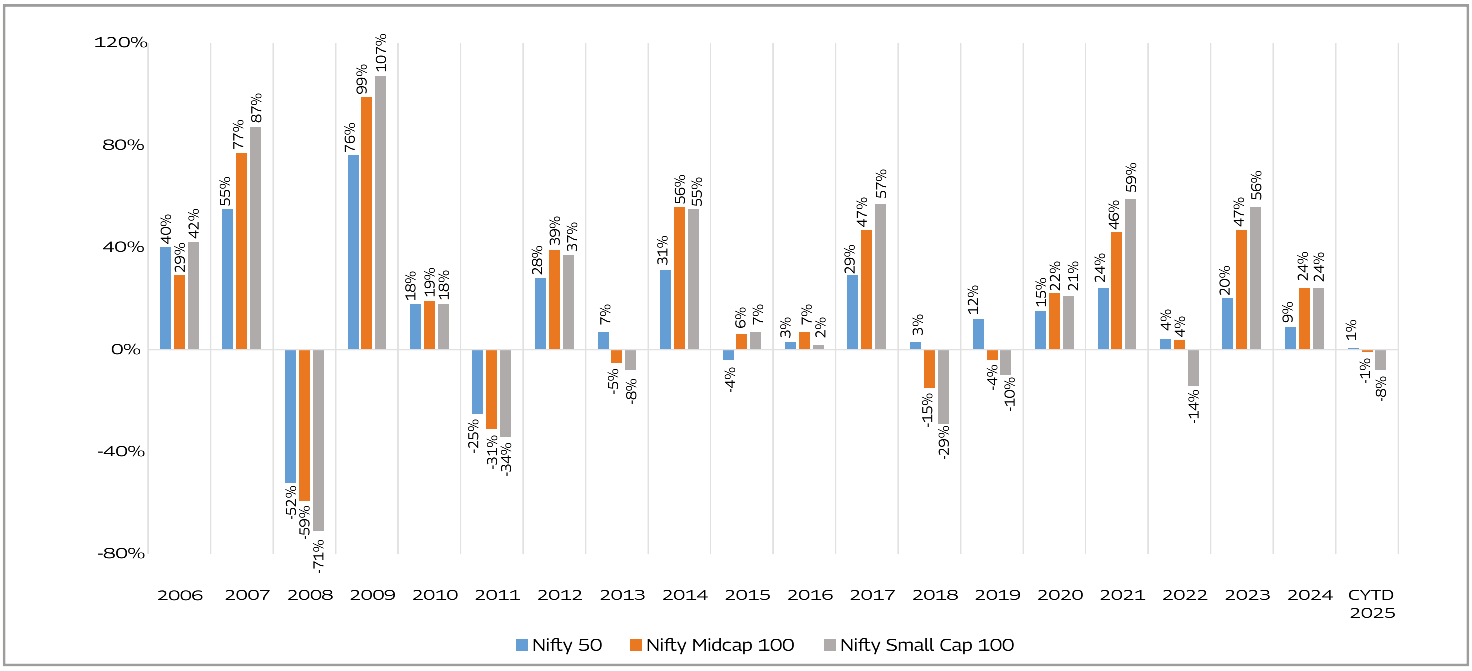
Indices	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Nifty Auto	-4.4	-3.8	7.7	7.7	6.7	3.7	-0.2	3.3	-1.7	10.3	6.1	3.3	6.2	4.9	5	4.2	7.6	5.9	-1.9	3.3	-13	-0.6	-2.3	0.1	-10.4
Nifty Bank	-0.9	0.8	6.5	2.1	1.4	2	-3.6	1.4	-3.9	3.8	8.6	-4.8	0.3	2.2	4.8	-0.8	6.9	-1.5	-0.4	3.2	-2.8	1.1	-2.3	-2.5	-2.5
Nifty Financial Services	-0.6	0.4	6.1	1.5	3.1	1.4	-3.7	1.1	-3.1	4.4	7.1	-4.6	-0.4	2.8	4.1	-0.6	7.8	0	1	3.6	-2.4	0.5	-2.1	-1.2	-0.8
Nifty FMCG	1.1	2.1	4.2	6.8	2.3	0.8	-2.9	1	-0.7	3.4	7.5	-3.4	-1.9	-0.1	0.5	-0.2	4.9	9.4	1.6	3.9	-9.7	-2.1	-2	-0.2	-10.6
Nifty IT	-0.3	-3.3	-3.5	5.8	0.8	1.2	4.1	2	-3.8	6.5	9	3.2	3	-7.5	-4.9	-2.5	11.6	13	4.7	-2	-3.7	6.8	0.4	-1.6	-12.5
Nifty Metal	-18.5	4.3	5.5	1.6	5.4	8.8	-1.5	2.7	-5.7	8.8	13.7	-0.1	-0.6	4.2	11.1	6	0.9	-2.4	-1.9	8.4	-8.5	-3.1	-4.3	-2.9	-2.1
Nifty Realty	-4.5	-1.5	14.9	7.6	8.6	9	-1.5	3.1	4.8	18.3	9.7	9.3	6.3	-1.1	8.1	4.7	8.4	-1	-3.7	4.3	-9	2.1	3.2	-12.4	-13.4
Nifty Pharma	-5	2.3	5	0.5	8.6	8.9	0.7	2.2	-4.8	10.6	3.7	6.6	5.9	0	-0.1	-0.9	5	10.4	6.6	0.3	-2.3	-2.2	5.3	-8.4	-7.6
Nifty Energy	-8.6	5.2	4	0.6	3.4	8.7	-4.2	6.2	-2	9.4	14.2	9.8	5.7	0.5	3.4	-0.3	3.8	5.5	-0.7	0.6	-10.7	-4.6	-6.1	-3.7	-11.4

Note - Cells highlighted in yellow color represents top 2 performers and the orange highlighted cells represent bottom 2 performers amongst the indices covered above for the respective months.

Source: Bloomberg. Returns have been calculated on Absolute basis for respective month end periods beginning February 2023 until February 2025.

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 February 28, 2025. Returns are absolute returns (1 year) calculated as of the last business day of every calendar 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	28-Feb-25	31-Jan-25	29-Feb-24
RBI Repo Rate %	6.25	6.50	6.50
5Y AAA PSU %	7.41	7.39	7.63
1 year CD %	7.61	7.62	7.79
10Y Gsec %	6.73	6.69	7.08
CPI (%)	4.31	5.22	5.10
IIP (Year-on-year) %	3.22	5.2	3.84
US 10Y %	4.21	4.54	4.25
Dollar Rupee	87.51	86.62	82.91

Source: Bloomberg; Data as on February 28, 2025

THE FIXED INCOME GLANCE

February, 2025 was an event heavy month; the Union Budget, the Monetary Policy Committee (MPC) policy and the aftereffects of Mr. Trump's policy measure. The Budget continued the fiscal glide path with the fiscal deficit projected at 4.4%. We believe that while the budget maths work out fine it faces potential downside risk from the revenue assumption of capital gains, RBI dividend and disinvestment. The MPC also met in the first week of February, 2025 and decided to cut rates by 25 basis points (bps); pretty much what the street was expecting. The RBI projected the GDP growth for the next fiscal at 6.70% and the inflation forecast at 4.2%.

The US President did what he had promised: delivered tariff hikes across China, Mexico and Canada. The tariff hikes and the Ukrainian stance adopted by the President created a market uncertainty.

For the domestic fixed income markets, it was largely a stable month with the benchmark 10-year rates moving up by around 4 bps to close at 6.73%. The money market rates remained fairly stable and despite RBI's measures for easing liquidity; the money market rates remained quite firm.

The US 10-year treasury eased by around 33 bps to close at 4.21%. The uncertainty on the tariff regime and a slowing retail sales growth saw a probable safe heaven approach wherein investors preferred to buy the US treasuries till further clarity.

India CPI inflation for the month of January,2025 eased to 4.31%, with food inflation declining to 6.02%.

The Rupee continued to weaken against the USD through the month and depreciated around 1.02%. February,2025 continued to be a one of the worst performances for rupee vis a vis her Asian and Emerging Market peers. The Rupee may prove to be an Achillies Heel in face of the possible stronger Dollar Index and a weaking Yuan.

Source: RBI/Bloomberg

WHAT NEXT?

Economy Check

- Center's fiscal deficit for the 10mFY25 reached 74.5% of annual target vs 63.6% reported last year. Capex got a big boost with a spend of Rs 0.7 trillion in Jan-25 a growth of 50% year-on-year leading to a catchup on YTD capex spend to 88% of revised estimates and an uptick to 5% growth year-on-year. Tax collections for Jan stood at 4.4% year-on-year as personal income tax collections grow 20% year-on-year but corporate tax collections showed a sharp decline due to refunds.
- India's Core sector (eight key infrastructure industries) rose 4.6% in January marginally lower than 4.8% in December 24 and higher than the 4.2% reported in Jan24. Cement sector soared to a 15-month high of 14.5% during the month but crude & natural gas continue to contract.
- Goods and Services Tax Collections for February,2025 came at Rs 1.83 trillion a growth of 9.1% Year-on-year showing a moderation from January collections that came at Rs 1.95 trillion. Cumulative GST collection for April,2025 to February,2025 is up by 9.4%.

Source: Union Budget/Ministry of Finance

Markets

- Indian markets continued its fall in February, 2025 with Nifty down 5.9% but Midcap and Small cap indices showing a big dent down 10.8% and 13.1% respectively.
- Global markets were mixed. Nasdaq saw a sharp 4% pullback, but we saw a good rally in European markets. Hongkong market is standout for the month posting a gain of 13.4%. Chinese markets have shown a strong rally especially in the tech names post Deepseek challenging US tech on lower cost of implementing AI.
- Among the Nifty sectoral indices, Banks (Financial services) & Metals outperformed Nifty while IT, Realty and Energy underperformed Nifty.
- Domestic investors continued their equity allocations with Core Equity MF Schemes saw net flows of Rs 397 billion for January down 3.4% Mom. The Sectoral/Thematic funds inflows at Rs 90 billion supported by 3 NFOs. Monthly gross Systematic Information Plan ("SIP") remains steady. Small & midcap fund flows too remains firm.

Source: Bloomberg

Outlook

Continuous FII selling has perhaps taken out the last bull in the market and the current market sentiments are weak. While covid similarities are not there the current market mood is similar to March 2020. This is the fifth continuous month of FII selling with markets not giving any material pullback. Nifty 50 correction from the peak is 15% while the mid & small cap indices are down 22% and 27% respectively. While ignoring this near-term data of 5 months, the same indices on a 2-year timeframe are up by (on CAGR basis) 13% for Nifty 50, 25% for Nifty Midcap 150 & 25% for Nifty Small Cap 250 indices since February 28, 2023.

Post the correction, Valuations have become reasonable in many segments of the market and the economic data is showing signs of recovery. Going forward, we believe in many stocks, material part of price correction could be largely over, and market could possibly be in a phase of time correction. We would advise investors to start deploying into the markets post the correction as the growth outlook improves as we step into FY26.

We believe asset allocation may be one of the key feature 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 remains in further selling by FPI's as they primarily own large caps.

Globally, the contours of geo-politics as well as economics (tariffs impacting globalization) have changed under new leadership in USA. This has the potential to create policy actions in many countries like China, Hong Kong, Germany, France etc. as they take action to spur growth and counter USA. This may create potential for economic growth recovery in those countries and equity markets there. This can be a monitorable for FPI's focusing on country allocations where India may lose out on incremental flows or in worst case some outflows may continue.

Investors with near term objectives or low risk appetite, can opt to prefer Equity Hybrid Funds or asset allocation funds. Investors with a longer-term horizon can continue to remain invested with fresh equity allocation towards large caps.

Source: Internal Research

SUMMARISING OUR THOUGHTS

- With the fiscal deficit and inflation along the glide path, RBI may choose to cut rates in its April,2025meeting. With possible growth pangs in the future, growth may occupy the MPC's interest as core inflation moves in a tolerable band.
- President Trump assumption of office has created uncertainties around the market direction. Such uncertainties may lead to further softening of US rates as market participants seek the safety-first approach.
- 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.
- Our portfolio strategy has marginally changed across our duration-oriented funds a) A neutral approach on duration (b) Bias towards Gilts which is gradually shifting towards credits.
- The curve has steepened meaningfully with the 10-30-year Government Security spreads widening to 40 bps. We believe such spreads to normalise going forward.
- We also believe that as credit spreads have increased and now merit a gradual look into the portfolio.

Source: Bloomberg/Internal Research

From the CIO Desk...

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CIO - Equity

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