Budget 2025: Consumption Push, Trump Tariffs & Market Realignments

Budget 2025 focuses on demand revival and middle-class growth while maintaining fiscal prudence. The RBI has introduced liquidity measures before a key policy meeting. In its February meeting, the Monetary Policy Committee (MPC) cut the REPO rate by 25 bps to 6.25% while maintaining its policy stance. The RBI forecasts 6.7% GDP growth and 4.2% inflation for the next fiscal, but with real rates still high, there may be scope for further easing.

Globally, Trump's return brings new trade tensions with tariffs in China, Canada, and Mexico. Markets remain volatile, with Indian mid and small caps under pressure, while global indices rallied. Bond yields eased, and inflation moderated, but core inflation remains a concern.

Going forward, fiscal policy, monetary easing, and global trade shifts will shape markets. A balanced asset allocation approach could be a key in navigating uncertainties.

Source: Internal Research

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- **Budget 2025:** Viksit **(Developing)** Bharat through demand revival in a young **Demography** for a vibrant **Democracy**. Finance Minister Ms. Nirmala Sitharaman's budget was stated to be about boosting the incomes for the Indian middle-class taxpayers. The budget's focus was on rural job creation and middle-class enrichment. Capital Expenditure (Capex) allocation, while still having growth, has taken a breather for the first time since Covid, as the government tries to focus on holistic development of the economy.
- RBI, under the new governor Mr. Sanjay Malhotra announced a host of liquidity boosting measures to alleviate the tight money market and ease pressure on the Rupee.
- Mr. Donald Trump took over as the US President and taken executive decisions that include withdrawing from the WHO and Paris Agreement, declaring drug cartels as terrorist organizations and defining strict genders as part of reducing the Diversity-Equity-Inclusion focus of previous administration. Trump imposed 25% import taxes on goods from Canada and Mexico and 10% tax on China.
- Rupee depreciated 1% for the month to end at 86.69 INR despite a 4.4% depreciation in last 12 months is outperforming many of the currencies globally.
- India Consumer Price Inflation came in at 5.05% for month of December 2024 as against 5.47% in November 2024. Core CPI increased by 3.2% decelerating from 3.3% YoY rise in November 2024.
- US Federal Reserve left the rates unchanged in the January policy meeting alluding to an optimistic view on labour market and dropping reference of inflation reaching towards the 2% goal. Economists now expect only 2 rate cuts for the year.

Source: Bloomberg/Union Budget/Economic Survey of India

WHO MOVED MARKETS

- Foreign Portfolio Investors (FPIs)continued with their selling spree with a total outflow of 9.1 bn$ in the month of January.

Source: Bloomberg

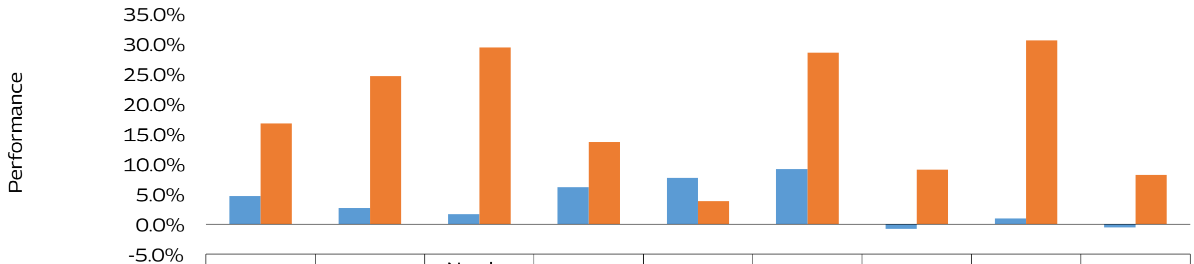
MOVERS & SHAKERS

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	-0.8%	-0.6%	0.1%	-2.5%	-1.2%	-0.2%	-1.6%	-13.1%	-2.9%	-0.4%	-12.4%	-8.4%	-3.7%	-7.2%	-9.5%	-6.1%	-9.9%	-10.1%
1 Yr Performance	8.0%	8.2%	18.9%	7.8%	13.3%	2.9%	16.4%	-26.5%	5.4%	1.4%	7.6%	19.5%	-7.8%	11.1%	9.3%	10.6%	5.5%	4.8%

Source: Bloomberg; Data as on January 31, 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	4.7%	2.7%	1.6%	6.1%	7.7%	9.2%	-0.8%	0.9%	-0.6%
1 Yr Performance	16.8%	24.7%	29.4%	13.7%	3.8%	28.6%	9.1%	30.6%	8.2%

Source: Bloomberg; Data as on January 31, 2025; Performance - Absolute returns. ***Past performance may or may not be sustained in future.***

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - MONTH ON MONTH

Indices	Jan-23	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
Nifty 50	-2.4	-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
Nifty Midcap 100	-2.6	-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
Nifty Small Cap 100	2.4	-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

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.***

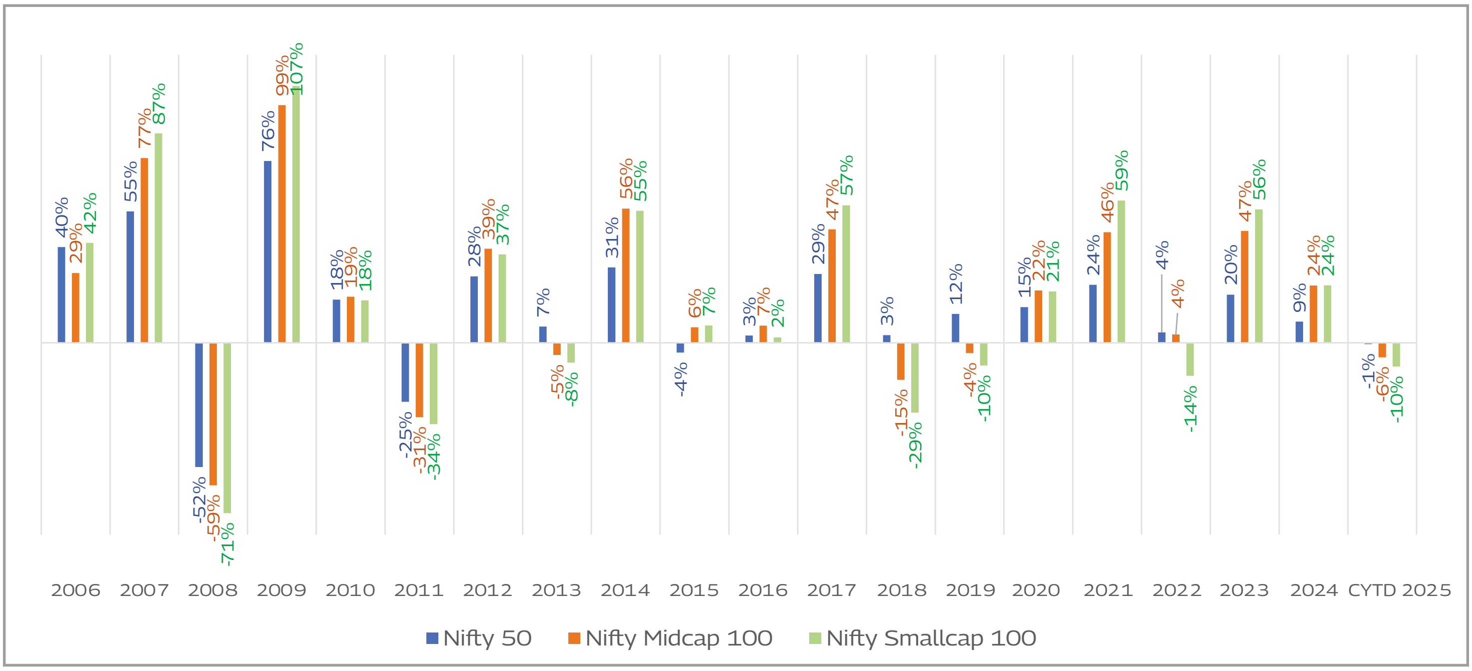
Source: Bloomberg; Data as on January 31, 2025

Indices	Jan-23	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
Nifty Auto	5.6	-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	5.0	4.2	7.6	5.9	-1.9	3.3	-13.0	-0.6	-2.3	0.1
Nifty Bank	-5.4	-0.9	0.8	6.5	2.1	1.4	2.0	-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
Nifty Financial Services	-4.7	-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	0.0	1.0	3.6	-2.4	0.5	-2.1	-1.2
Nifty FMCG	0.6	1.1	2.1	4.2	6.8	2.3	0.8	-2.9	1.0	-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	-0.2
Nifty IT	3.9	-0.3	-3.3	-3.5	5.8	0.8	1.2	4.1	2.0	-3.8	6.5	9.0	3.2	3.0	-7.5	-4.9	-2.5	11.6	13	4.7	-2.0	-3.7	6.8	0.4	-1.6
Nifty Metal	-3.8	-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	0.9	-2.4	-1.9	8.4	-8.5	-3.1	-4.3	-2.9
Nifty Realty	-4.7	-4.5	-1.5	14.9	7.6	8.6	9.0	-1.5	3.1	4.8	18.3	9.7	9.3	6.3	-1.1	8.1	4.7	8.4	-1.0	-3.7	4.3	-9.0	2.1	3.2	-12.4
Nifty Pharma	-1.9	-5.0	2.3	5.0	0.5	8.6	8.9	0.7	2.2	-4.8	10.6	3.7	6.6	5.9	0.0	-0.1	-0.9	5.0	10.4	6.6	0.3	-2.3	-2.2	5.3	-8.4
Nifty Energy	-8.3	-8.6	5.2	4.0	0.6	3.4	8.7	-4.2	6.2	-2.0	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

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 January 2023 until January 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 January 31, 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	31-Jan-2025	31-Dec-2024	31-Jan-2024
RBI Repo Rate %	6.50	6.50	6.50
5Y AAA PSU %	7.39	7.48	7.72
1 year CD %	7.62	7.63	7.84
10Y Gsec %	6.69	6.76	7.14
CPI (%)	5.22	5.48	5.69
IIP (YoY) %	5.2	3.5	2.40
US 10Y %	4.54	4.57	3.91
Dollar Rupee	86.62	85.61	83.04

Source: Bloomberg; Data as on January 31, 2025

THE FIXED INCOME GLANCE

January was a steady state month for the global bond markets. Domestically the rates maintained a benign bias and the 10-year benchmark Government of India security eased by 7 basis points (bps) to close at 6.69%. RBI announced a host of measures to ease the banking liquidity which resulted in the easing bias.

CPI inflation for the month of December eased to 5.22%, with food inflation continuing to print a high of 8.39%.

WHAT NEXT?

Economy Check

- Center's fiscal deficit for the 9mFY 2025 reached 56.7% of annual target and 7% lower year-on-year. Capex got a big boost with a spend of Rs 1.7 trillion in December 2024, leading to a catchup on YTD capex spend to 62% of BE and a modest 2% growth year-on-year. Corporate tax collections have also recovered and grown 10% year-on-year in December.
- India's Core sector (eight key infrastructure industries) moderated to 4% year-on-year led by natural gas production decline. Other seven sectors seem to have recorded a positive growth, supported by government capex and increased power demand.
- GST Collections for January came at Rs 1.95 trillion a growth of 12.3% year-on-year showing a material pick up from December collections that came at Rs 1.76 trillion. Cumulative GST collection for April to December is up by 9.1%.

Source: Union Budget/Ministry of Finance

Markets

- Indian markets seem to remain volatile in January with Nifty down 0.6% but Midcap and Smallcap indices showing a big dent down 6.1% and 9.9% respectively.
- Globally, post a December softening, January saw a better rally across developed markets. S&P 500 was up 2.7% and the European indices were up between 7-10% for the month.
- Among the Nifty sectoral indices, Auto & FMCG outperformed Nifty while Pharma and Realty underperformed Nifty.
- Domestic investors seemed to continue their equity allocations with Core Equity Mutual Fund Schemes saw net flows of Rs 411bn for December up 14% month-on-month. The Sectoral/Thematic funds inflows at Rs 153bn continued at a strong pace. Monthly gross Systematic Investment Plan (SIP) remains steady. Small & midcap fund flows too remains firm.

Source: Bloomberg

Outlook

The Third Ministry of the Modi Government has presented a new direction for the economy and markets by making a change in incremental resource allocation. The baton has been shifted to consumption from capital expenditure as the budget hopes to boost economic growth with the 'C' (Consumption) pillar after pushing the 'I' (Income) and 'G' (Government Spending) pillars for the last 5 years. In a way there seems no change in focus on Investment led growth but vis a vis expectation the growth appears modest.

Overall, the budget retains the fiscal prudence path with fiscal deficit for FY 2025 likely to be 4.8% and for FY26 target set at 4.4%. Two key factors to monitor from FY26 budgeted revenue perspective are RBI Dividend and personal income tax collection. Personal tax collection growth at 14% looks modest but when adjusted for the tax cuts the estimated growth works to 24%. This might require a far higher growth in tax compliance and/or capital gains taxation as nominal GDP growth assumptions remain around 10-10.5% range.

Foreign Institutional Investor selling continued in January and its evident that as long as the Dollar Index remains strong, and US 10-year bond yield remains above 4% the global risk-off for emerging markets may continue.

In January the large caps outperformed the mid & small caps. On valuations front, large caps continue to remain attractive led by BFSI sector. The mid cap and small caps seemed to remain premium valuations led by flows in mid cap, small cap & thematic funds.

We believe asset allocation could be key for investors in their journey of potential 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 may lie in further selling by Foreign Portfolio Investors as they primarily own large caps.

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

- The Budget continued the fiscal glide path with the fiscal deficit projected at 4.4%. While the budget maths works out fine it may face potential downside risk from the revenue assumption of capital gains, RBI dividend and disinvestment.
- The MPC met in the first week of February and reduced REPO rates by 25 basis points to 6.25%. It kept all the other rates including the stance of the monetary policy unchanged. The RBI forecasted growth at 6.70% and inflation at a comfortable 4.2% for the next financial year. With no Cash Reserve Ratio cuts and no change in policy stance the benchmark 10 year gilt moved up by close to 60 basis points . We believe that real rates are still high leaving RBI room to cut rates.
- President Trump's assumption of office has not yet disrupted the bond markets. With initial flip flops in tariff decision, the markets may be setting itself up for larger uncertainties and unpredictability
- 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 seems gradually shifting towards credits (c) A steepening of the Yield curve.
- The curve has steepened meaningfully with the 10-30-year G-secs spread widening to 40 bps. We believe such spreads could normalize going forward.
- credit spreads have increased and now merit a gradual look into the portfolio.

Source: Internal Research

From the CIO Desk...

Mr. Krishna Sanghavi
CIO - Equity

Mr. Rahul Pal
CIO - Fixed Income