



Indian Stock Market Update – Conditions and Outlook as of February 2025

Dear Valued Clients,

We hope this message finds you well. As part of our commitment to keeping you informed, we'd like to share a brief overview of the current state of the Indian stock market and our perspective on its near-term outlook.

Current Market Conditions

As of late February 2025, the Indian equity market has experienced a challenging period. The benchmark indices, such as the BSE Sensex and NSE Nifty 50, have seen a notable decline—approximately 13% from their September 2024 highs. This correction has been driven by a combination of factors:

- **Earnings Slowdown:** Q2 FY25 corporate earnings grew at a modest 4-5% YoY, down from double-digit growth earlier in FY24, reflecting weaker consumption amid food inflation (~6% CPI) and an extended monsoon.
- **FII Outflows:** Foreign Institutional Investors (FIIs) have pulled out ₹3.1 lakh crore (~\$35.5 billion) since September 2024, triggered by a stronger U.S. dollar, high US bond yields, tariff fears, strong US markets and off late interest in China market (given cheap valuation and govt. focus to revive the economy)
- **Sectoral Trends:** Hospitality, Banking and infrastructure has shown relative resilience (aka lower correction), while mid- and small-cap indices have corrected 16-20%.
- **Macroeconomic Pressures:** While India's GDP growth remains robust relative to global peers (projected at 6.4% for FY25), a slowdown from earlier estimates reflects softening domestic momentum. Inflation is expected to stay within the Reserve Bank of India's target range, though global geopolitical tensions and trade policy uncertainties continue to weigh on sentiment.

Despite these headwinds, domestic investor participation remains a stabilizing force, supported by strong macroeconomic fundamentals, including fiscal discipline and a growing middle class. Sectors such as banking (see minor pressure amidst RBI rate cut), infrastructure, and manufacturing continue to show resilience, underpinned by healthy balance sheets and government-led capital expenditure initiatives while consumer discretionary expected to pick up on the back of recent tax relief by the government during latest budget.

Outlook for 2025

Looking ahead, we anticipate a period of cautious consolidation with potential for recovery contingent on key developments:

- **Earnings Revival:** A rebound in corporate earnings, expected to gain traction from FY26, could restore investor confidence. Consensus forecasts suggest revenue and earnings growth of 15–16% for Calendar 2025, particularly in large-cap sectors.

- **Policy Support:** The upcoming Union Budget for FY26, anticipated to emphasize capital expenditure and consumption-boosting measures, could provide a catalyst for market stability. Additionally, the Reserve Bank of India expected to initiate cut rates by 75 basis points during 2025 (25bps already announced in Feb MPC), supporting growth-oriented sectors.
- **Global Factors:** The trajectory of U.S. monetary policy, geopolitical stability, and oil prices will significantly influence foreign inflows. A softening of U.S. interest rates could redirect capital to emerging markets like India, though trade tensions remain a wildcard.
- **Valuation Perspective:** Large-cap stocks currently trade at more attractive valuations (e.g., Nifty 50 PE ~22) compared to Nifty Midcap 100 (PE ~35) and Nifty Small cap 250 (PE ~28), suggesting selective opportunities amid the broader correction.

Our Recommendation

While near-term volatility may persist, **India's long-term growth story remains intact**, driven by structural strengths such as **demographics, infrastructure development, digitization and a shift toward manufacturing and services**. We recommend a balanced approach:

- Focus on fundamentally strong large-cap stocks in undervalued sectors for stability
- Consider gradual accumulation in high-growth areas such as consumer discretionary and renewable energy which align with India's economic priorities.
- Maintain diversification (like gold) to mitigate risks from global and domestic uncertainties.

We will continue to monitor these trends closely and provide updates as conditions evolve. Please feel free to reach out for a **personalized discussion to review your MF/ equity portfolio** in light of these developments.

Thank you for your continued trust in us.

Warm regards,

Team Esdee