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I-CAN COMMUNIQUÉ

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MONTHLY NEWSLETTER – DECEMBER 2024

Sensex : Down 0.17 % Nifty : Down 0.86 %	
Best performing sector: Tourism (7.14%)	Worst performing sector: Utiliteis (- 5.86 %)
Best performing Global index: Merval (Argentina) (22.9 %)	Worst performing Global index: Jakarta Composite (-6.02 %)
Indian Rupee: - 0.48 %	Gold (International): -4.72 %

MACRO ECONOMIC HIGHLIGHTS

The US Federal Reserve announced its seventh policy decision for 2024 after a two-day Federal Open Market Committee (FOMC) meeting and slashed its benchmark interest rate by (25 bps) a quarter of a percentage point to 4.50-4.75 per cent. US Fed chair Jerome Powell-led rate-setting panel cut the federal funds rate for the second straight meeting after reducing the policy rate in September 2024 for the first time in four years on cooling price pressures. The US central bank maintained the key borrowing rate at the 23-year high for 14 consecutive months since July 2023 to combat the worst inflation outbreak in almost 40 years. In its policy statement, Fed policymakers said the inflation gauge has eased to 2.1 per cent in September, while economic growth has remained robust. Fed added the labour market has stayed strong despite a sharp hiring slowdown last month due to weather conditions and a labour strike.

Retail inflation galloped to a 14-month high of 6.2 per cent in October, spurred by a spike in food prices, thus breaching the upper threshold of the Reserve Bank of India's (RBI) target range. This sharp increase apparently extinguishes any remaining hopes of a policy rate cut when the RBI's Monetary Policy Committee (MPC) convenes from December 4-6. Separately, industrial production appears to be on the rebound. The index of industrial production (IIP) grew by 3.1 per cent in September, buoyed by festival-driven demand, reversing a contraction in August.

India's economic growth slowed more sharply than anticipated in the July-September period of FY25, dropping to a seven-quarter low of 5.4 per cent, surprising analysts who had projected growth to hover around 6.5 per cent in the quarter. These factors suggest the current forecast of around 7 per cent growth for FY25 may need to be revised downwards. If this trend continues, it could lead to a reassessment of the economic outlook by forecasting agencies. The deceleration in growth momentum, driven by an industrial slowdown and a moderation in investment demand, has raised concerns among analysts.

"The HSBC Flash India Composite Output Index rose from a final reading of 59.1 in October to 59.5 in November, indicating a sharp rate of expansion that was the strongest in three months and above its long-run average," S&P

Global said. This index combines performance in manufacturing and service sector and based on survey conducted among 400 manufacturing and 400 service providers. Based in response a seasonally adjusted index is prepared that measures the month-on-month change in the combined output of India's manufacturing and service sectors. "Growth ticked lower in the manufacturing industry whilst picking up in services, although the former outperformed again," the survey result showed. While flash Services PMI (Purchasing Manager Index) rose to 59.2 in November as against 58.5 i October, Manufacturing PMI was 57.3 as against 57.5.

Inflation peaked in October and the trajectory is likely to come off hereon, notwithstanding any ugly shocks to vegetable prices in December, according to a new report by Nomura. "Our analysis of WPI inflation suggests that manufacturing input cost inflation has dipped back to contractionary territory in August-September, while output price inflation remains depressed. This suggests that even though core inflation has probably bottomed out, we do not see the incidence of fresh shocks. We expect headline inflation to average 5.6 per cent in Q4 2024, but moderate to 4.6 per cent in H1 2025, with FY25 (year ending March 2025) averaging 4.9 per cent and FY26 at 4.0 per cent," Nomura said.

Credit ratings agency S&P Global pared down its growth forecast for India to 6.7 per cent in FY26 from the earlier estimate of 6.9 per cent. However, in its latest quarterly economic update for Asia-Pacific, the rating agency maintained its growth forecast for the current financial year (FY25) at 6.8 per cent as "high interest rates and a lower fiscal impulse temper urban demand". "While purchasing manager indices (PMIs) remain convincingly in the expansion zone, other high-frequency indicators show some transitory softening of growth momentum due to the hit to the construction sector in the September quarter," the update noted. The update also highlighted that persistent food inflation is delaying rate cuts by the Reserve Bank of India (RBI), and the central bank is expected to cut the policy rate only once in the current financial year.

REFORMS

The Securities and Exchange Board of India (Sebi) has notified the changes in regulations governing alternative investment funds (AIFs) mandating them to provide investors rights and distribution of proceeds in proportion (pro-rata) to their commitments in the scheme. Pro-rata mandate is to ensure that benefits get distributed in ratio of the commitments made by an investor in the AIF scheme while pari-passu rights are to treat investors equally.

AIFs are niche investment vehicles for affluent investors with high entry barriers. These investments are drawn and deployed in tranches based on the investment opportunity, and thus the committed amount is not drawn in one-go.

Sebi's six-step framework for index derivatives officially began on November 20, with the first leg going live. The new rules impose higher margin requirements for index derivatives expiring on the same day, with a 2% increase in the Extreme Loss Margin (ELM). This marks the start of SEBI's phased approach to improve risk management and streamline derivatives trading, set for full implementation by April 2025.

SEBI announced measures to ensure seamless trading during technical outages, particularly in interoperable segments such as equities, derivatives, and currency markets on stock exchanges. The measures aim to strengthen the business continuity and disaster recovery mechanisms of the two stock exchanges- BSE and NSE. Under these measures, SEBI said that for identical or correlated products i.e. single stock derivatives, index derivatives, participants can hedge their positions on another exchange during an outage. Margins for such positions will be netted off. Exchanges must also create "reserve contracts" for stocks or derivatives exclusively listed on one exchange to ensure continuity during outages. Further, exchanges lacking correlated index derivatives must consider creating such indices and introducing related contracts to provide hedging options. The affected exchange has been directed to notify SEBI and the alternative exchange within 75 minutes of an outage. The alternative exchange will activate its continuity plan within 15 minutes of receiving the intimation. Initially, NSE will serve as the backup trading venue for BSE and vice versa. Both exchanges will jointly prepare a Standard Operating Procedure (SOP) outlining responsibilities, processes, and required system updates. The SOP must be submitted to SEBI within 60 days. The new measures, which will take effect on April 1, 2025, aim to enhance investor protection and maintain the smooth functioning of markets during unforeseen disruptions.

The National Stock Exchange (NSE) has revised the eligibility criteria for stocks listed on other exchanges to get directly listed on its mainboard platform. The exchange has raised minimum net worth of such companies to Rs 75 crore for each of the three previous years from the existing Rs 10 crore. If not, the security should have a market capitalisation of over Rs 1,500 crore for six months prior to filing an application for listing on NSE.

The Reserve Bank of India (RBI) made changes to the Know Your Customer (KYC) norms to align them with recent amendments carried out in the Prevention of Money Laundering (Maintenance of Records) Rules and revised certain existing instructions. According to the Amendment to the Master Direction - Know Your Customer (KYC) Direction, 2016, regulated entities (REs) will have to apply the customer due diligence (CDD) procedure at the unique customer identification code (UCIC) level. "Thus, if an existing KYC-compliant customer of a RE desires to open another account or avail any other product or service from the same RE, there shall be no need for a fresh CDD exercise as far as identification of the customer is concerned," it said.

The RBI introduced a streamlined operational framework to allow foreign portfolio investors (FPIs) to convert their investments to foreign direct investment (FDI) when equity holdings in Indian companies surpass the prescribed 10% limit. This regulatory shift addresses scenarios where an FPI, along with its investor group, inadvertently crosses the threshold, providing a structured path to retain the investment under India’s FDI guidelines.

Multi-Asset Allocation Funds

In India, **multi-asset allocation funds** (MAAFs) are mutual funds that invest in a mix of various asset classes, such as equities (stocks), debt (bonds), gold, and sometimes other assets like real estate, commodities, or international securities. The goal of these funds is to provide investors with a diversified investment strategy, reducing risk while targeting returns across different market conditions.

Key Features of Multi-Asset Allocation Funds in India:

1. **Diversification Across Asset Classes**: These funds typically invest across multiple asset classes, which can include:
    - **Indian and Overseas Equity**: For capital appreciation and growth.
    - **Bonds/Debt**: For stability, income, and lower volatility.
    - **Gold/Commodities**: For hedging against inflation and providing stability during market downturns.
2. **Risk Management**: The diversification across asset classes helps to mitigate risk since different asset classes perform differently under various market conditions.
3. **Asset Allocation Strategy**:
    - **Dynamic Asset Allocation**: Some funds actively manage the allocation based on market conditions, economic outlook, or other factors, adjusting the proportions of stocks, bonds, and commodities.
    - **Static Asset Allocation**: Other funds maintain a fixed allocation across the asset classes, regardless of market conditions.
4. **Tax Efficiency**: As these funds often invest in equities and debt instruments, they may have tax advantages based on the holding period. For instance, if the equity component is larger than 65% and is held for over a year, it might qualify for long-term capital gains tax benefits.
5. **Regular Income and Growth Potential**: Multi-asset funds provide both the potential for capital appreciation (from equity) and regular income (from debt). Some funds may also invest in gold to hedge against inflation, adding an additional layer of diversification.

Since the goal of Multi asset allocation funds is to mitigate risks by diversifying across asset classes, let us understand the correlation different asset classes have to equity-

Correlation of Gold and Silver to Indian Equities:

- **Gold and Indian Equities**: The correlation between gold and Indian equities tends to be negative in many cases, meaning that when stock markets fall, gold tends to rise (acting as a hedge). This is typical during periods of economic or market stress.
- **Silver and Indian Equities**: The correlation between silver and Indian equities is somewhat similar to gold, though more volatile due to silver's industrial demand. In times of economic

growth, silver might track equity performance more closely because of its use in industry. However, in times of crisis or market volatility, silver can behave like gold and perform well as a store of value, although it tends to be more reactive and volatile.

- In conclusion, gold and silver in India typically have a low or negative correlation with equities, with gold serving as a safe-haven asset, while silver's performance is more volatile and sensitive to industrial demand. Investors often turn to these metals to diversify their portfolios and hedge against equity market risks. During periods of market stress, both gold and silver tend to outperform equities, although silver's volatility can lead to larger price swings compared to gold.

Correlation Between Debt Mutual Funds and Equities in India:

- Debt mutual funds in India generally have a **low to negative correlation** with equities, meaning they can provide diversification benefits to investors, especially during periods of economic uncertainty, market downturns, or when interest rates are falling. While they tend to underperform equities in a strong bull market, they provide stability and lower risk, making them a suitable choice for risk-averse investors or those looking for steady returns and a hedge against the volatility of equity markets. The key driver for debt funds is the interest rate environment, while equities typically perform better during periods of economic growth and rising corporate profits.

In conclusion, multi-asset allocation funds in India offer a diversified, balanced approach to investing, catering to investors seeking a combination of capital appreciation, income generation, and risk management. They are an attractive option for those who want exposure to multiple asset classes but don't want to actively manage their investments.

Monthly Mantra

If you spend most of your money, you will be poor. If you save most of your money, you will be in the middle class. However, if you wisely invest most of your money, you will be wealthy.

Cartoon of the Month

"If you follow my rules, you will never lose money. Rule #1: Never lose money."

Good News!

1. On October 21, India's labour ministry integrated different social security schemes with the e-Shram portal in a bid to provide seamless access to government welfare programmes to over 300 million unorganised sector workers, who are already registered on the portal. The “One Stop Solution” facility entails consolidating and integrating data from various central ministries and departments into a single repository.

2. India's urban unemployment rate hit a six-year low of 6.4% in the July-September quarter, driven by increased hiring and a record-high overall labor force participation rate of 50.4%. While Jammu & Kashmir reported the highest unemployment, female labor force participation saw a significant rise, with more women entering regular employment and self-employment sectors.

3. After over three years of funding slump, the country’s startup ecosystem is showing signs of recovery. Startup funding in 2024 has increased by 10 per cent year-on-year (Y-o-Y), touching $9.78 billion, compared to $8.88 billion during the same period last year, according to market research firm Tracxn. Investors attribute the revival to the country's strong markets, which are inspiring confidence in initial public offering (IPO)-bound startups offering viable exit opportunities.

4. Increased festive demand in the West pushed up India’s goods exports in October 2024 by 17.23 per cent (year-on-year) to $39.2 billion, the highest this fiscal, despite geopolitical uncertainties and logistical challenges. “Christmas sales are looking better than last year’s and perhaps that is also reflecting in our increased exports. This also reflects that this year is going to be better than last year from now onwards,” Commerce Secretary Sunil Barthwal said at a press briefing. The export numbers are encouraging especially at a time when policy makers are struggling to rein in inflation and prop up sluggish industrial sector performance.

5. The Indian auto industry is poised for continued robust retail performance through the end of the calendar year and with an estimated 4.8 million weddings scheduled nationwide in November and December, vehicle purchases also traditionally witness an uptick during the wedding season, said Federation of Automobile Dealers Associations (FADA). In terms of monthly retail sales, PV sales grew by 32.38 per cent year-on-year (YoY) to 4,83,159 units in October. Two-wheeler retail sales also grew by 36.34 per cent YoY to 20,65,095 units in October. The grand total of all categories of vehicles registrations grew by 32.14 per cent YoY to 28,32,944 units during the month as compared with 21,43,929 units in October 2023, FADA said.

Top Personal Finance News – November 2024

1. public market listings: Senior executives flock to startups poised for public market glory - The Economic Times Click here
2. Individual investors take a step back from IPOs on lower grey market premiums - The Hindu BusinessLine Click here
3. livemint.com/mutual-fund/demat-accounts-reach-179-million-even-as-new-additions-decline-to-3-5-million-in-october-11731395928618.htmls Click here
4. PAN 2.0: Common business identifier and robust system for taxpayers | Economy & Policy News - Business Standard Click here
5. Pvt lender HDFC Bank launches rural and semi-urban focused savings account | Company News - Business Standard Click here
6. Indians see wallets drain by Rs 485 crore in 'UPI scams' in FY25 | Economy & Policy News - Business Standard Click here
7. Link UPI app to bank account having limited funds; set daily limits | Personal Finance - Business Standard Click here
8. Curbing cyber fraud: RB(A)I wants more banks to join hunt for mule accounts - The Economic Times Click here
9. Over 98% of Rs 2,000 notes back with RBI: MoS for finance - The Economic Times Click here
10. Bank Nifty: NSE discontinues weekly expiries for Bank Nifty - The Economic Times Click here