

Executive Summary of the 79th Global Investment Advisory Committee (GIAC) Meeting

27th February 2025

Current stance

The committee has decided to reduce mid-cap and small-cap exposure, reflecting a more conservative stance amid market underperformance. Over the past six months, portfolios have struggled, with mid-caps falling 6%, small-caps down 9%, and Nifty declining by 2% in the last month alone. Growth portfolios have been the worst hit, although one-year returns remain slightly above benchmarks. Given the prevailing market conditions, the focus is on capital preservation rather than aggressive positioning.

The committee acknowledges the market's potential for a technical bounce but remains cautious about its sustainability. The decision to reallocate assets stems from a broader assessment of risk, liquidity concerns, and global economic uncertainties. With foreign institutional investors (FIIs) shifting allocations and US monetary policy direction still unclear, the strategy is to reduce exposure and park funds in money market instruments for the time being.

The move aligns with the committee's broader risk-adjusted approach, ensuring stability in volatile market conditions. A reassessment is planned by mid-March to determine whether reallocation towards equities is warranted.

Key variables to monitor:

- US monetary policy & global liquidity: The Federal Reserve's stance remains pivotal. If asset monetisation efforts accelerate, it could trigger a risk-on sentiment, benefiting emerging markets. However, a recessionary tilt would lead to a risk-off scenario.
- Mid-cap & small-cap trends: Given significant recent underperformance, the committee will monitor whether a technical rebound materialises and if it is sustainable.
- Gold & safe-haven assets: Gold, currently providing soft returns at a 5% allocation, remains a strategic hedge against volatility.
- FII flows & emerging market trends: FIIs have been reallocating away from India, with some flows shifting towards China. Tracking inflows and outflows will be key in assessing market sentiment.
- Liquidity & market sentiment: Liquidity remains tight, and redemption risks persist. Domestic sentiment is largely hope-driven, but without clear earnings visibility, market recovery may take time.

What's changed since our last meeting:

In the US, President Trump is leveraging fiscal policy to influence the Federal Reserve's stance on interest rates. His administration has proposed USD 1 trillion in spending cuts, potentially slowing economic growth to pressure the Fed into rate reductions. While economic indicators signal a possible recession, the Fed has delayed further cuts, citing persistent inflation and solid job market performance. Inflation rose to 3% in January, continuing its four-month upward streak, while consumer confidence fell sharply—the steepest decline in over three years—reflecting concerns over trade policies and inflation expectations, which surged to 6%.

The Fed had previously cut rates by 100 basis points between September and December, but Chair Jerome Powell and other officials now signal a cautious approach, opting to wait until at least June before considering further reductions. Meanwhile, the White House imposed an additional 10% tariff on Chinese imports and postponed planned trade barriers on Mexico and Canada until March. Weekly tariff announcements have heightened uncertainty in global markets, with analysts warning of inflationary pressures from ongoing trade disruptions.

Domestically, India's real GDP grew 6.2% in Q3 FY25, accelerating from 5.6% in the previous quarter but falling short of last year's 9.5%. Growth was primarily driven by an 8.3% increase in government spending, a 6.9% rise in private consumption, and a 10.4% surge in exports, while imports declined by 1.1%, partly due to rupee depreciation. However, Gross Fixed Capital Formation slowed to 5.7%, signalling weaker investment activity. To achieve the 6.5% GDP growth target for FY25, Q4 growth must reach 7.6%, which may be feasible if exports continue rising, capital expenditure picks up, and private consumption surges, particularly with the economic boost expected from the Maha Kumbh.

Retail inflation moderated to 4.31% in January, down from 5.22% in December, driven by easing food prices and a strong kharif crop output. This decline outperformed expectations and provided relief to households grappling with food inflation in previous months. The economic outlook remains stable, supported by improving GST collections, higher public spending, and better electricity generation, though concerns over investment momentum persist.

Viewpoints

The committee has maintained a cautious outlook, focusing on risk mitigation amid ongoing volatility. While a market bounce is anticipated, the ability of equities to sustain gains remains uncertain. Given the global economic landscape, the preference is for a defensive allocation, reducing mid- and small-cap exposure while holding cash positions for potential redeployment.

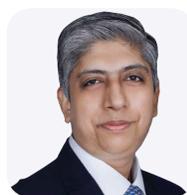
Foreign investor sentiment remains fragile, with outflows persisting and capital shifting to other markets. US economic weakness could introduce further downside risks for Indian equities, though its relative valuations remain attractive. The committee views India as a long-term investment destination, but in the near term, it advocates patience and strategic positioning. The committee will continue to monitor macroeconomic indicators and global policy shifts to assess potential opportunities. A strategic portfolio review is scheduled for mid-March to re-evaluate allocations based on market movements and broader economic trends.



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