

UPDATE ON FED'S RATE CUT

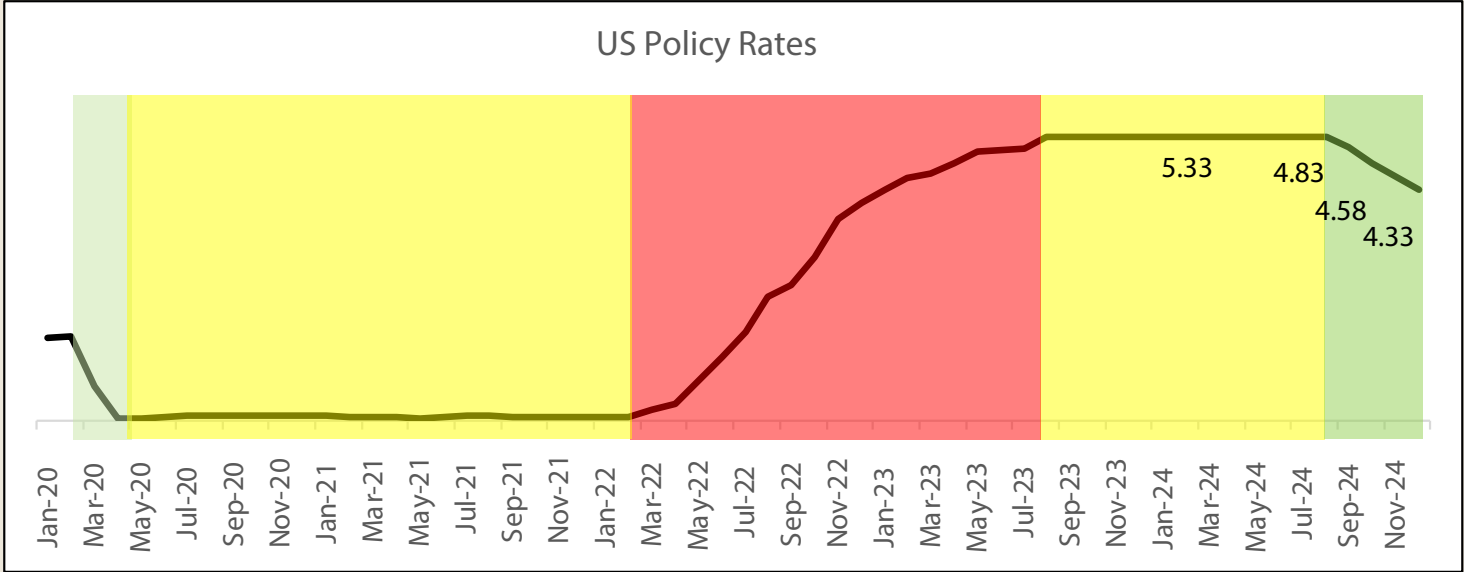


A BALANCING MOVE

19th December, 2024

The US Fed has signalled a slower pace of future cuts with only two projected for 2025. Despite inflation at 2.5% for 2025, slightly above the 2% target, the Fed's actions aim to strike a balance between growth and price stability.

The future course of action is likely to become increasingly data-dependent, prompting markets to closely monitor upcoming data trends.



Data as of 19th December 2024

Source: www.federalreserve.gov

IMPACT ON MARKETS

Higher US bond yields, now exceeding 4.5%, reflect the Fed's commitment to a more stable economic trajectory. This environment, while may lead to short term volatility, and would require disciplined capital allocation to utilize market opportunities.

The global markets reacted with volatility reflecting in the BSE Sensex and NSE Nifty that declined 1.20% and 1.02%, respectively.

ACTIONABLES

For India, this shift underscores the importance of bolstering domestic economic levers. Equity markets may benefit from a focus on structural reforms and growth-oriented policies to attract long-term capital. Defensive sectors such as healthcare and consumption, are likely to outperform in this landscape.

In the fixed income space, rising yields present an opportunity for investors to lock in potential returns through laddered strategies, balancing risks while capitalizing on higher yields.

Our stance on the expected rate cuts remains unchanged for the following reasons:



The growth slowdown and RBI's downward revision to 6.6% for FY25 indicate a high likelihood of a potential policy shift and rate cuts.



Inflation Moderation: Easing food and energy prices, along with prolonged moderation in core inflation, provides ample headroom for rate cuts.



With key central banks globally already having implemented substantial rate cuts, the RBI may have to follow suit sooner.



Moreover, India's \$655 billion forex reserves ensure a sufficient cushion for currency stability, empowering the RBI to deliver rate cuts.



The inclusion of India in global debt indices augurs well, likely stimulating FPI debt inflows annually. This, in turn, will help further soften yields.

All these factors combined indicate that the RBI may deliver rate cuts sooner rather than later. Investors with a holding period of at least 1 year can consider investing in longer duration funds. Investors with lesser appetite for duration risk can consider funds with moderate duration of 3-5 years.

Disclaimer

This document should not be treated as endorsement of the views/opinions or as an investment advice. This document should not be construed as a research report or a recommendation to buy or sell any security. This document alone is not sufficient and should not be used for the development or implementation of an investment strategy. The recipient should note and understand that the information provided above may not contain all the material aspects relevant for making an investment decision. The decision of the Investment Manager may not always be profitable; as such decisions are based on the prevailing market conditions and the understanding of the Investment Manager. Actual market movements may vary from the anticipated trends. Neither Bajaj Finserv Mutual Fund / Bajaj Finserv Mutual Fund Trustee Limited / Bajaj Finserv Asset Management Limited nor its Directors or employees shall be liable for any damages whether direct or indirect, incidental, punitive special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Investors are advised to consult their own investment advisor before making any investment decision in light of their risk appetite, investment goals and horizon. This information is subject to change without any prior notice.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

BAJAJ FINSERV ASSET MANAGEMENT LIMITED