Wealth Management Investment Strategy

January 2025 – *Executive Summary*

IDFC FIRST Bank

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US Equities Shine, Gold Glows While European Equities Fall Behind In 2024

KEY TAKEAWAY

- **Gold –** Most of the year, gold's performance was driven by central banks purchases, geopolitical tensions & safe haven appeal. However, returns moderated due to Trumps victory, strengthening of dollar & Fed's hawkish outlook. Even with this, gold emerged as top performer across asset class
- **Global Markets –** Initially, US stocks performed mainly due to performance in large-caps & AI-exposed firms. Equities remained supported in the interim & have gained vigour with Trump's victory. US mega cap tech ensured that global growth stocks dominated for the second year in a row
- **India Equities –** Have been a leader for much of 2024 but have fallen behind due to muted earnings season & impact of continued FII outflows
- **India Fixed Income –** Delivered double digit returns, initially influenced by central bank's "higher for longer" stance. Was supported by flows from India's inclusion in index

India Macro Update - *Tracking Key Macro Factors*

Brent Crude

Geopolitical tensions intensified in December 2024 as a raft of sanctions were imposed by the European Union on Russia's shadow fleet of tankers that enabled oil trade. Additionally, OPEC decided to postpone its crude oil production increase until April 2025 leading to rise in crude to 74.64 up 3.90% MoM

Currency

Rise in treasury yields, strengthening dollar and BoP outflows has led to depreciation in rupee by 1.18% for the month from 84.56 to 85.55

Foreign Exchange Reserves

Forex reserves declined by $4.112 billion to an eight-month low of $640.279 billion during the week ended December 27. Fall has been attributed to revaluation along with forex market interventions by the RBI to help reduce volatility in the rupee

Manufacturing PMI

The HSBC India Manufacturing PMI dropped to 56.4 in December 2024, down from 56.5 in November. This marked the softest expansion in operating conditions since the start of the year

Services PMI

The HSBC India Services PMI was in expansion zone at 59.3 in December 2024 from 58.4 in November, supported by a continued improvement in demand, with rising new orders

GST

GST collection grew 7.3% YoY to Rs 1.77 lakh crore in December. Indicates steady growth but reflect a slowdown in consumption (post-festive season slump) & a rise in refunds issued

Auto Sales

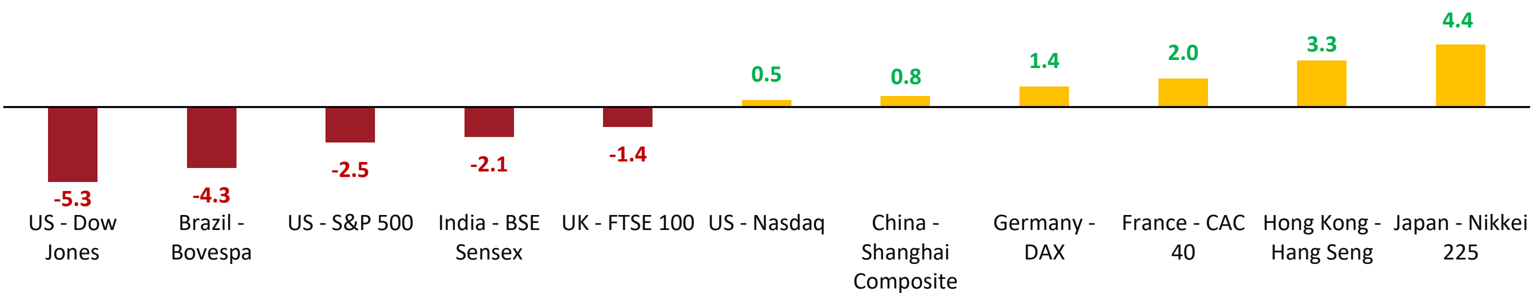
Dec 24 sales declined by -12.4% YoY, with 2W (-17.6%), 3W (-4.5%), PV (-1.9%) and CV (-5.2%) facing de-growth. Only Tractor showed a 25.7% YoY jump. 2W retails were hit by low cash flow, poor sentiment, delayed harvest payments and heightened EV competition

Outlook – *(Source - IDFC FIRST Bank Economics Research, As On 9th January 2025)*

- **Revising down FY25 GDP growth estimate to 6.3% from previous estimate of 6.6%**
- **Preliminary estimate for December CPI inflation is tracking at 5.8%**
- **RBI rate cut cycle is expected to start from February '25 onwards**
- **USDINR expected to rise to 86 to 86.50 by March 2025**

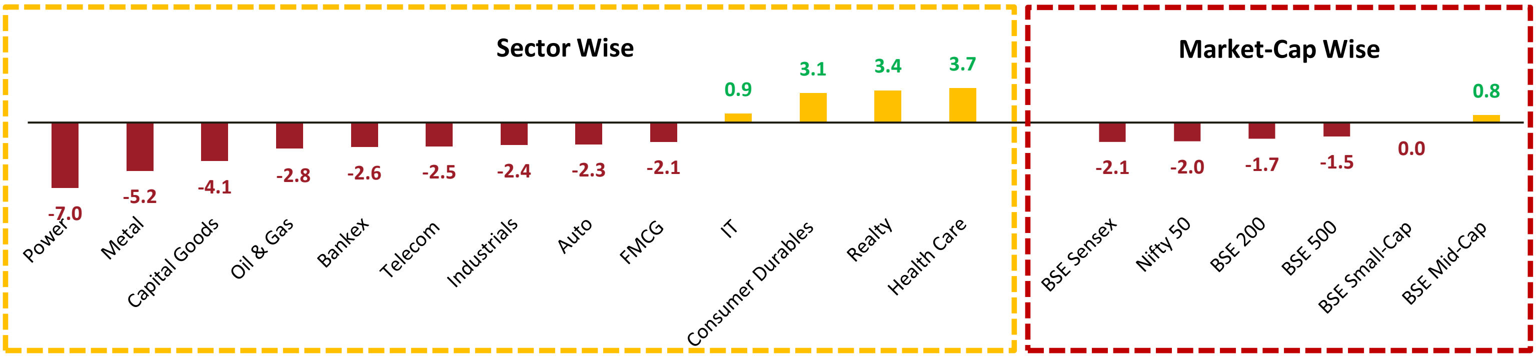
Equity Market Update

Global Indices Performance (%) - December 2024



***Data as on 31st December 2024, Source-ACE MF**

Domestic Indices Performance (%) - December 2024



Above chart presents Total Returns of the indices. Sectoral indices are S&P BSE sectoral indices. *Data as on 31st December 2024, Source: ACE MF

- **Benchmark Indices** – Market was driven by rate cut expectations initially by RBI & fell during second half on hawkish Fed & FII selling. FIIs ended net positive while MFs continued to buy
- **Healthcare** – Sector gained on positive outlook on domestic consumption & export opportunities, especially in the US, which have rebounded due to elevated product shortages & facility shutdowns & compliance issues
- **Realty** – Strong outlook attributed to robust pre-sales figures, expanding project pipelines, and strategic market expansions by real estate companies led to the gains
- **VIX** – Nifty VIX ended month lower at 14.43 attributed to moderation in FPI outflows

- **Metal** – Sector fell on rising energy cost and ongoing conflict

Outlook –

We try to understand equity markets based on following three important pillars:

Valuations

Neutral

Nifty's 12-month forward PE is at 19.76x vs current PE of 21.76x, Nifty Midcap 100's 12-month forward PE is at 31.01x vs current PE of 41.89x, Nifty Smallcap 100's 12-month forward PE is at 23.35x vs current PE of 34.52x (As on 30th December 2024)

- **From a Valuation perspective – Large cap is most attractive, followed by smallcap & then midcap**

Earnings

Neutral

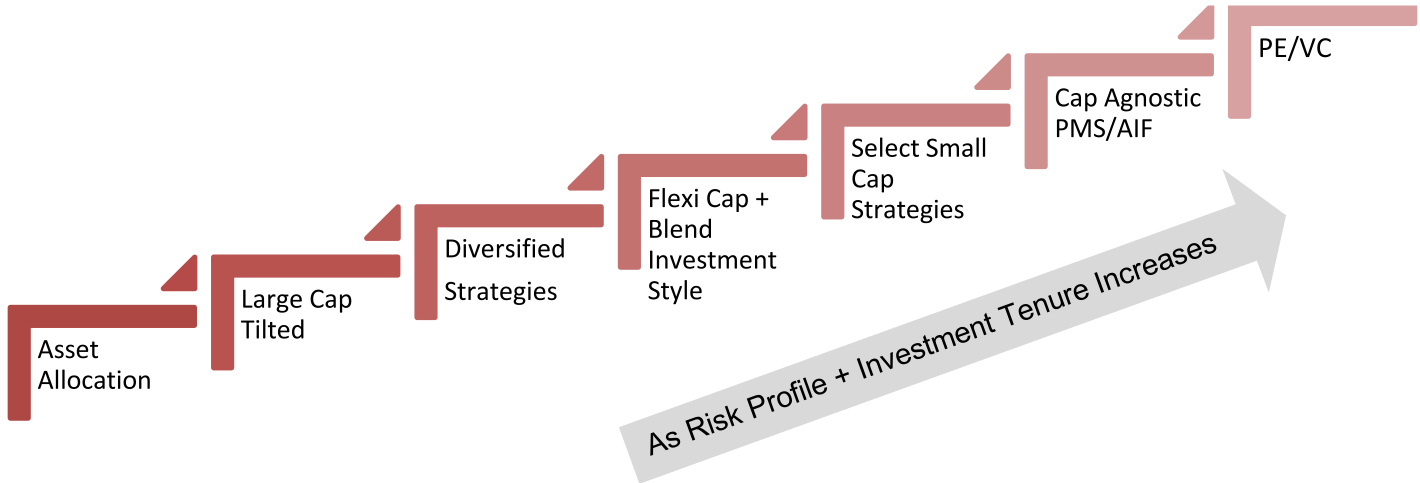
- **The Nifty EPS estimate for FY25 was cut by 0.6% to INR 1,050. FY26E EPS was also trimmed by 1.7% to INR 1,220**
- Financials, Metals, Technology, Automobile, Capital Goods, & Healthcare, are likely to be the key earning drivers with 13%, 13%, 9%, 8%, 25%, 21% YoY growth, respectively

Volatility

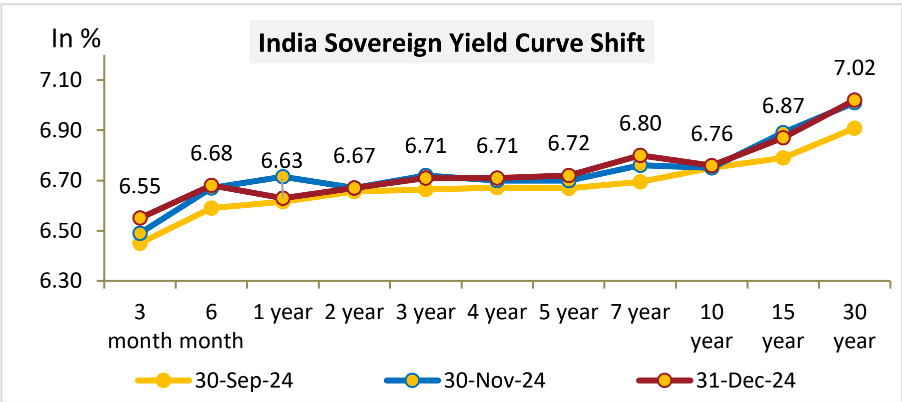
Neutral

- Nifty VIX ended at 14.45 (as on 31st December 2024) as against 14.43 (as on 29th November 2024)
- **Domestic and global macroeconomic data, geopolitics, crude oil prices and global yields to drive the volatility index going ahead**

Equity Investment Strategy



Debt Market Update



Global Bond yields (%)	31-Dec-24	30-Nov-24	1Y Ago
US 10 – Year	4.57	4.18	3.87
UK 10 – Year	4.57	4.24	3.54
Germany 10 – Year	2.36	2.09	2.03
Japan 10 - Year	1.08	1.04	0.62
India 10 – Year	6.76	6.75	7.18

Data as on 31st December 2024, Source- investing.com

- **U.S. Treasury yields:** On 18th Dec, Fed cut policy rate by 25bps to 4.5% however yields rose on hawkish outlook of only 2 rate cuts in 2025. Yield hovered around 7 month high & rose 39 bps as traders anticipate a more hawkish Fed in 2025

- **Euro zone:** The BoE left the benchmark bank rate steady at 4.75% during its December 2024 meeting, in line with market expectations, as CPI inflation, wage growth had risen, adding to the risk of inflation persistence reducing bets of further rate cuts leading to rise in yields. ECB decided to cut its key interest rates for 4th time this year by 25 bps to 3.15% in Dec 24, as expected but yields rose on as Fed signalled slower pace of easing

- **Japanese** yields rose slightly tracking US treasury yields. BoJ kept its policy rate unchanged at 0.25%. Some policymakers gained confidence in an imminent rate increase keeping alive the chance of a Jan hike, while the BoJ will also cut its monthly bond purchases by another 410bn yen p.m.

- **Indian treasury** yields declined initially on rate cut expectations on weaker PMI data however rose on announcement of no rate cut in Dec policy & rose further following US treasury yields ending the month nearly flat

Outlook –

We try to understand debt markets based on following three important pillars:

Interest Rate

Neutral

- **10-yr g-sec yield is expected to ease to 6.5% to 6.6% by March 2025**
- Demand for g-secs supported by index related inflows and strong demand from long-only investors (Insurance, pensions and PFs)
- **Policy rate cut expected to start from February 2025 onwards**

Liquidity

Neutral

- **Core liquidity surplus declined to INR0.4tn as of December 2024 from INR4.6tn as of September 27th 2024.** FX reserves in Q3FY25 (till December 20th) declined by US$60.5bn. This reflects impact of RBI selling dollars and revaluation loss. We estimate RBI has net sold US$40bn of dollars in Q3FY25 (till December 20th), indicating that Balance of Payments has turned negative
- RBI will need to infuse further durable liquidity measures to prevent core liquidity from going negative in Q4FY25

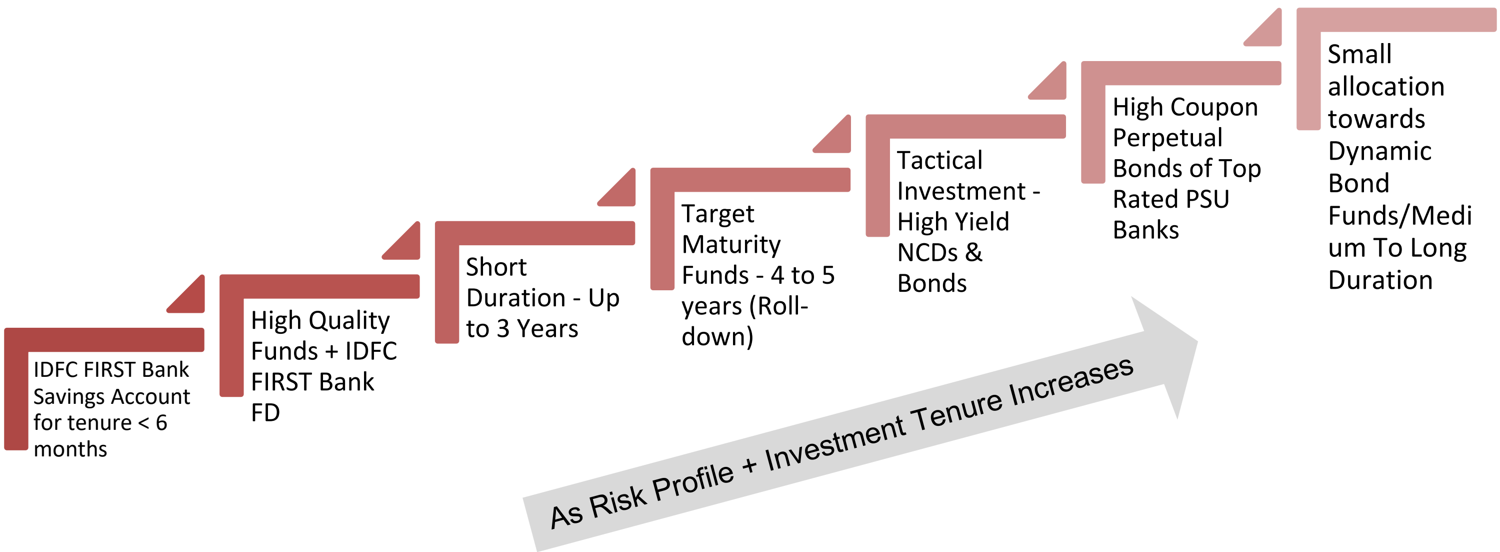
Credit Risk

Neutral

- **Spreads on offer versus additional risk taken are modest –** risk-reward doesn't favour taking credit risk via low rated category. However, selective buying can be rewarding
- **Markets are illiquid in low rated segment,** look at company specific opportunity

****IDFC FIRST Economics Research estimate as on 9th January 2025***

Debt Investment Strategy



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