Nippon india Mutual Fund

Wealth sets you free

OUTLOOK

2025

RECAP 2024

Elections

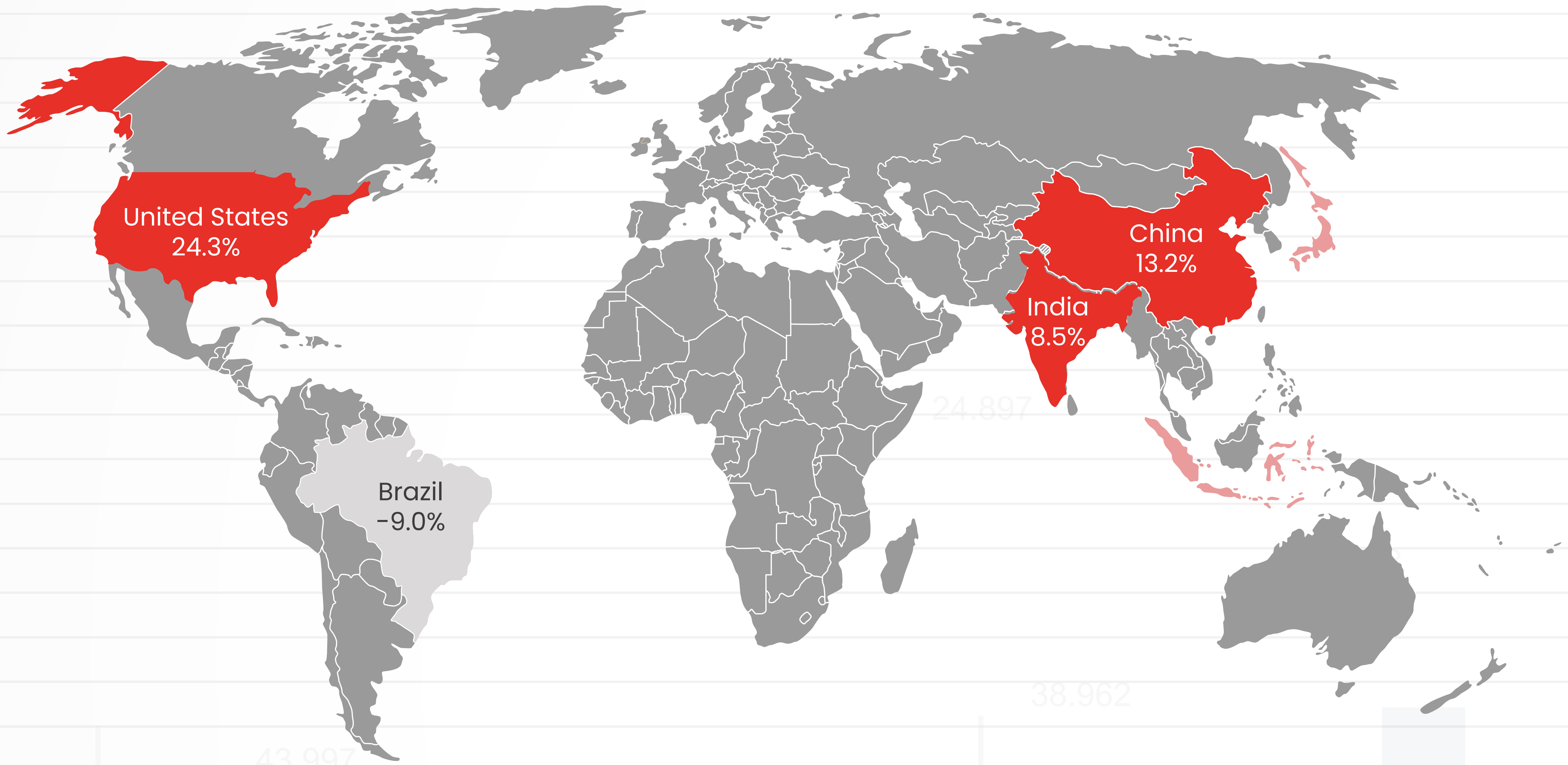
- CY'24 being an election heavy year led to change in the political landscape in geographies across the world.
- In India, regime continuity at the centre, although with lower mandate.
- In US, regime shift in the recent elections is leading to expectations of major policy changes.

Central Bank Moves

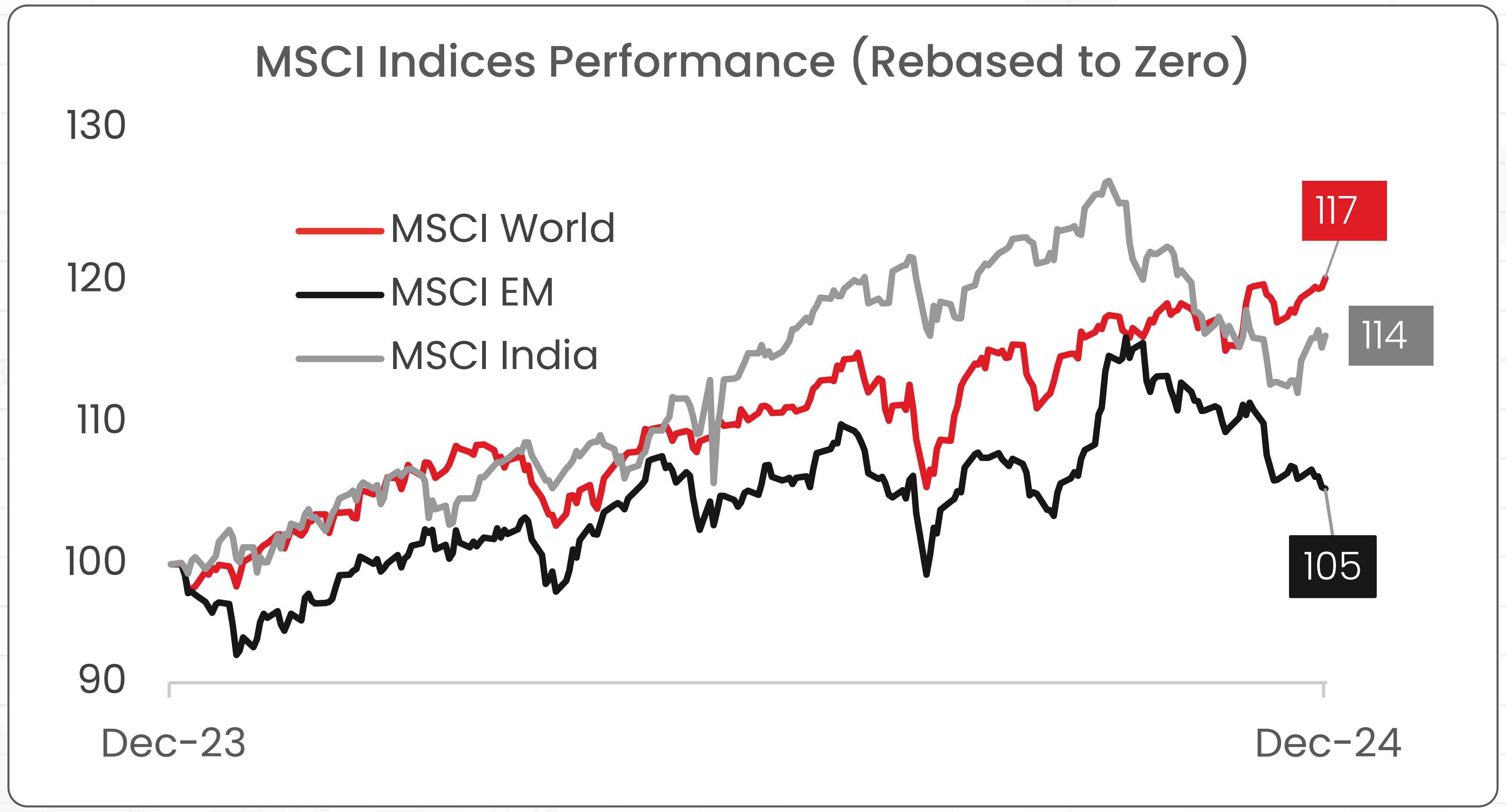
- Most central banks across the globe started normalising the key rates, after maintaining tight monetary policy stance for almost 2 years.
- Key central banks led by US Fed, European Central Bank and Bank of England lowered the key rate by 50-100 BPS signaling an era of easing has begun.
- Bank of Japan raised the key rates to 0.25% from a range of 0-0.10%.
- The Reserve Bank of India (RBI) left the key rate unchanged at 6.50%, changing the stance to neutral and lowering CRR by 50 BPS to 4%.

Amid all these developments one word for India was it remained "**resilient**".

GLOBAL EQUITY MARKET PERFORMANCE



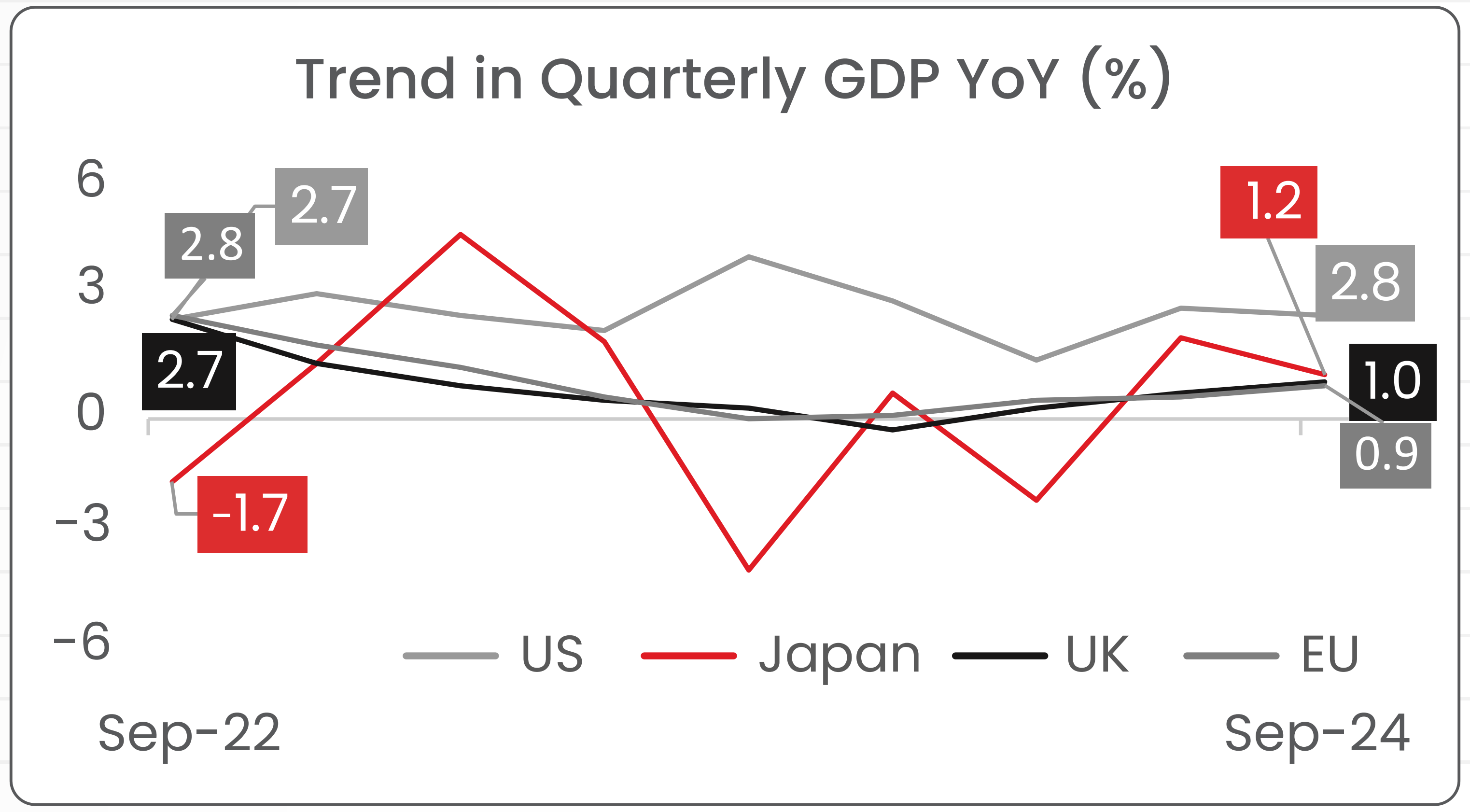
Global Indices	CY'24^
Taiwan Weighted (Taiwan)	25.5%
S&P 500 (United States)	24.3%
Dax (Germany)	18.7%
Hangseng (Hongkong)	15.7%
Nikkei (Japan)	15.7%
Strait Times (Singapore)	14.8%
Shanghai Composite (China)	13.2%
KLSE (Malaysia)	9.4%
Nifty 50 (India)	8.5%
FTSE (United Kingdom)	4.5%
PSE Composite (Phillipines)	-0.7%
SET Composite (Thailand)	-3.6%
Jakarta (Indonesia)	-4.0%
Bovespa (Brazil)	-9.0%
Kospi (S Korea)	9.5%



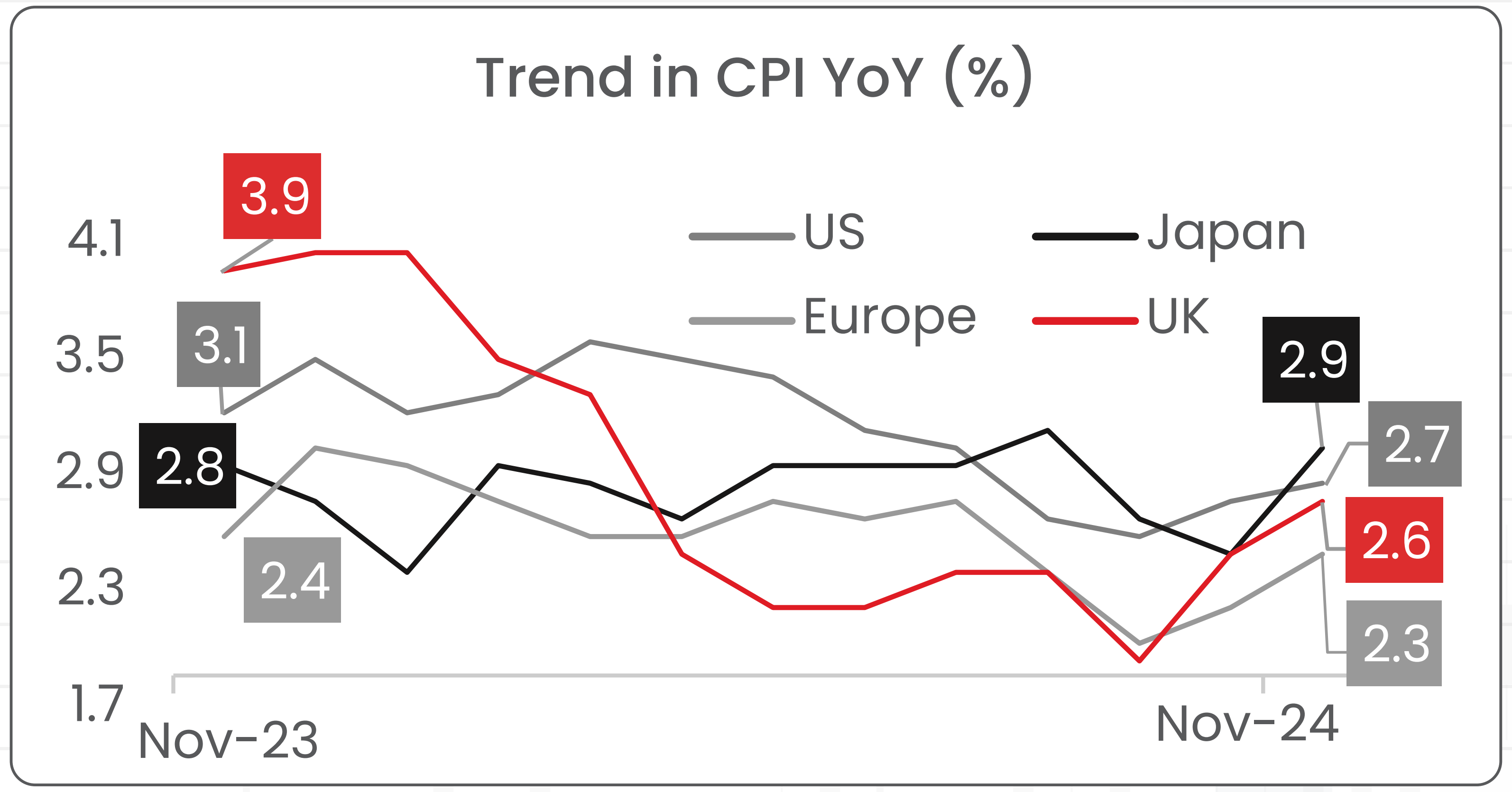
Developed Markets led by the United States drove the rally in CY'24, driven by growing optimism in lower inflation and interest rates.

Source:- Bloomberg | ^CY'24 YTD till 20th Dec'24

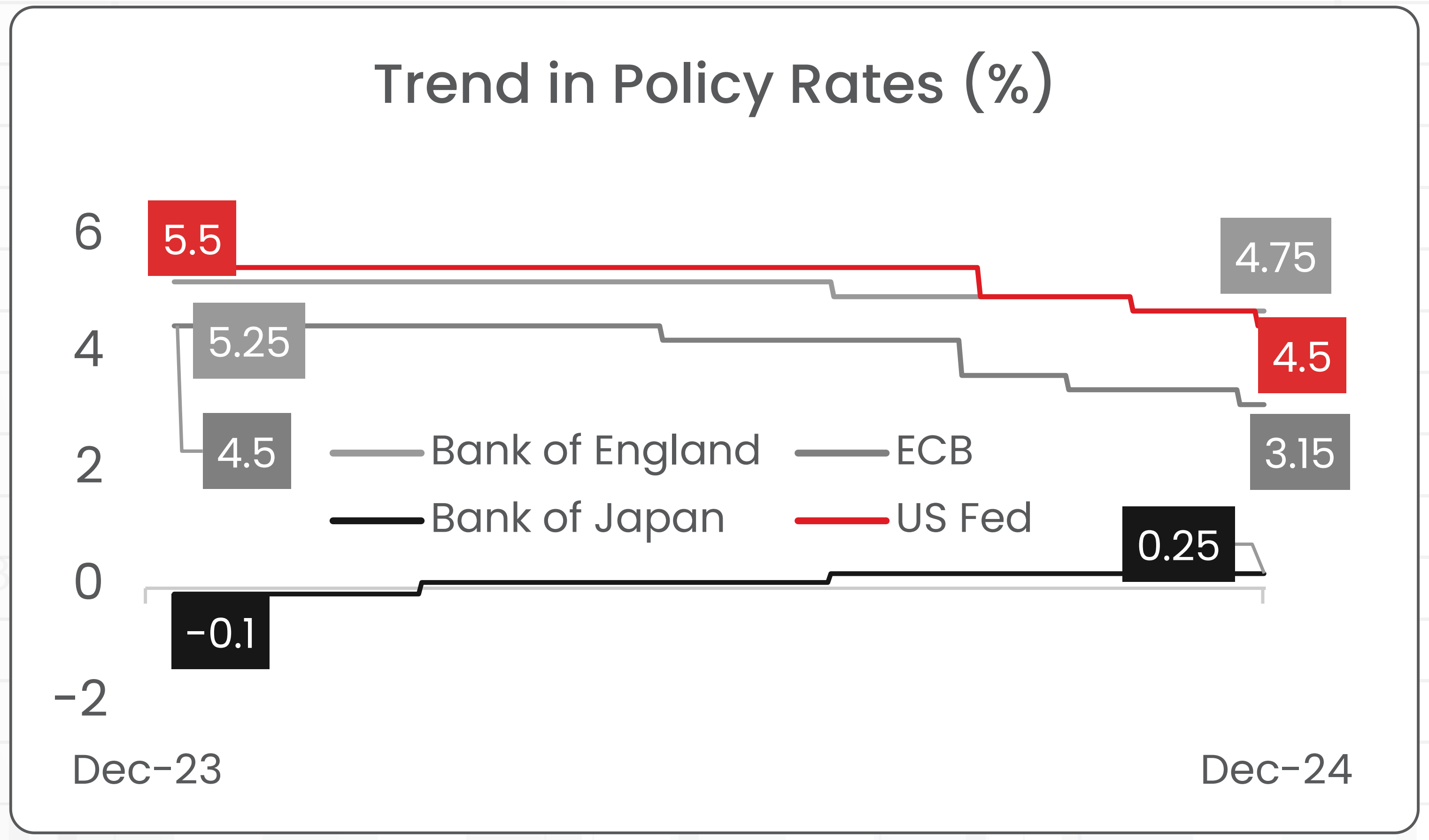
GLOBAL FIXED INCOME / SELECT MACROS AT A GLANCE



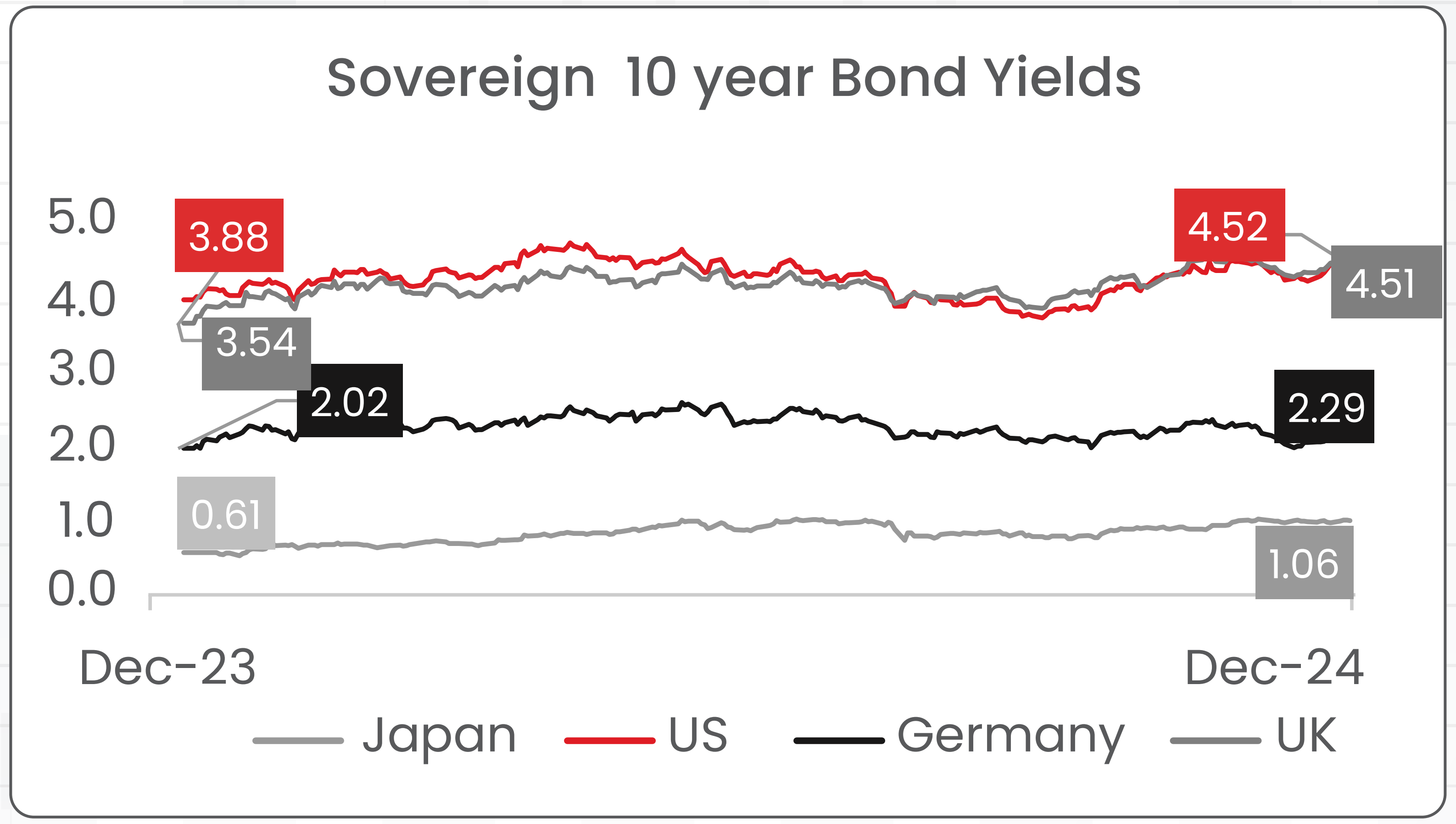
US economic growth remained resilient despite tight monetary policy followed by the US Fed, while growth in other regions moderated as a consequence of tight monetary policy pursued by other central banks.



Inflation has been moderating globally, although the pace of decline has moderated recently.



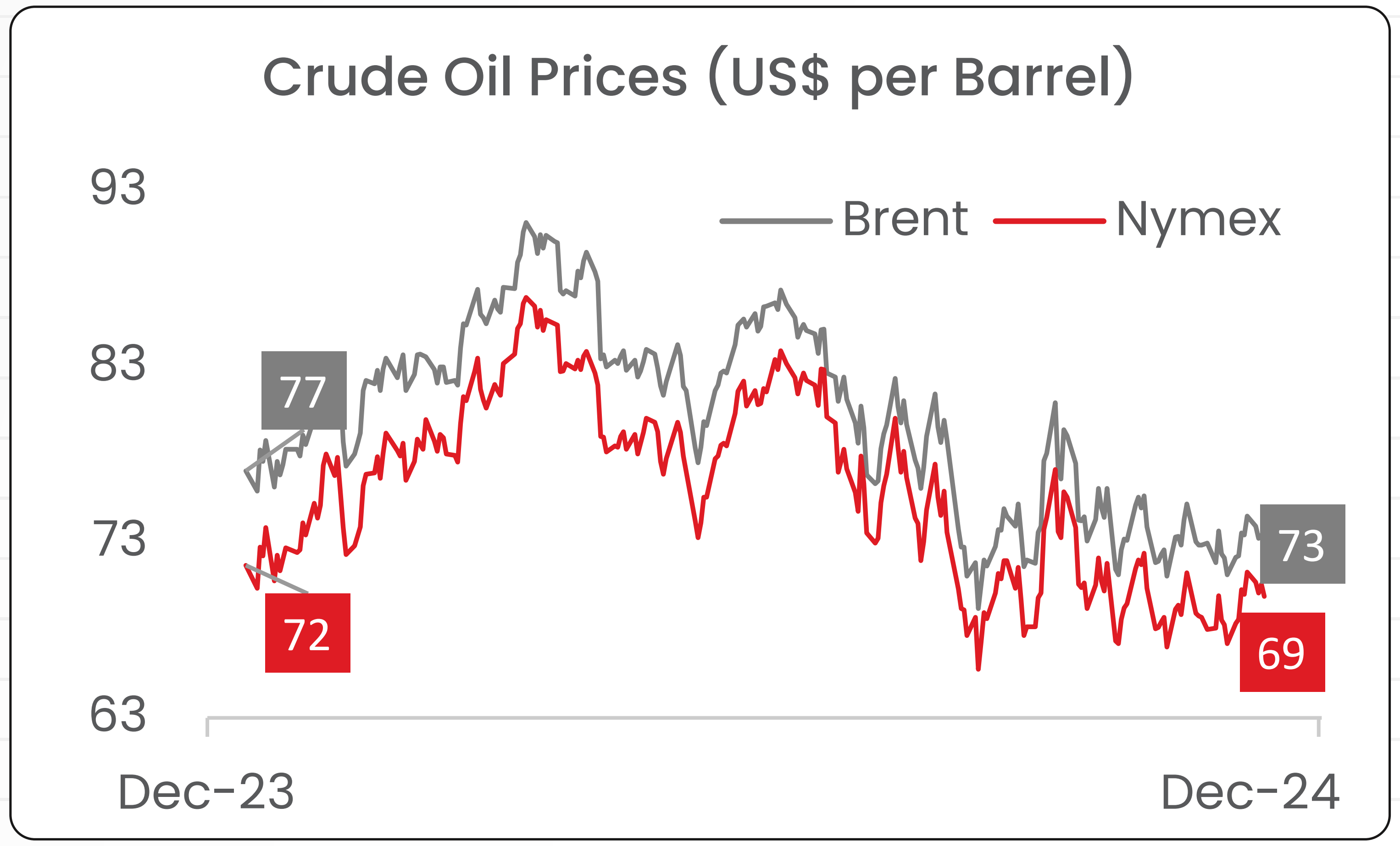
Major global central banks begun normalising policy rates in CY'24 amid softening inflation



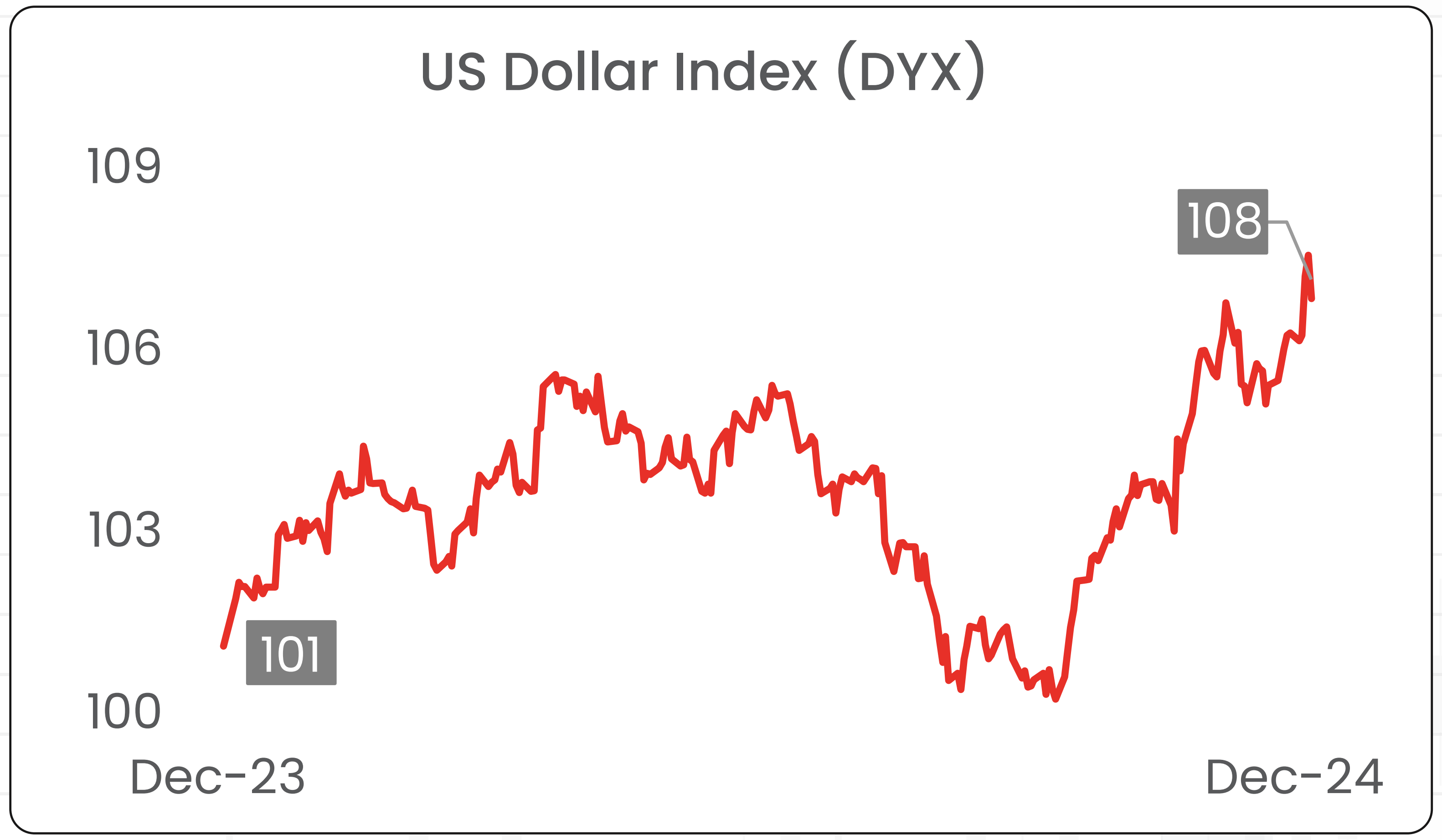
Expectation of major shift in US policies indicating possible lower taxes and higher tariffs, signaling higher debt supply and higher inflation has moved US treasury yields higher. Moreover, US sovereign yields being benchmark, sovereign yields of other countries have also moved higher.

Source:- Bloomberg | Data as on 20th Dec'24

COMMODITIES & US DOLLAR INDEX



International crude oil prices ended on weak note for the 2nd consecutive year YTD in CY'24, with both Brent and Nymex registering YoY losses of 5.4% and 2.4%, respectively despite geopolitical uncertainty in Middle East.



US dollar index rose 6.2% YTD in CY'24 reversing a loss of 2.1% posted in CY'23. Outcome of the US election and indication by the US Fed with respect to fewer rate cuts in CY'25, increased the demand for the currency.

Geopolitical uncertainty, central bank buying and lower interest rates increased demand for precious metals in CY'24. Gold and silver have delivered a CY'24 YTD returns of 26.4% & 21% respectively in US$ terms.

Select Base Metal Moves (Prices in US$ per tonne)

Base Metal	20-Dec-24	29-Dec-23	CY'24 YTD
Copper	8833	8464	4%
Aluminium Alloy	2255	1600	41%
Lead	1954	2035	-4%
Nickel	15136	16375	-8%
Zinc	2950	2640	12%
Tin	28491	25175	13%

Shortage of aluminum amid ban of bauxite a key raw material used for making aluminum, by Guinea raised the prices of aluminum in CY'24.

Source:- Bloomberg LBMA stands for London Bullion Market Association | YTD Represents data till 20th Dec'24

GLOBAL GROWTH ESTIMATES AND KEY RATES

Real GDP YoY %				Key Rates at the end of CY'24		
Region	2023	2024^	2025^	Inflation (%)	Policy Rate	Real Rate
US	2.9	2.8	2.2	2.7	4.5	1.8
UK	0.3	1.1	1.5	2.6	4.8	2.2
EU	0.4	0.8	1.2	2.3	3.2	0.9
Japan	1.7	0.3	1.1	2.9	0.3	-2.7
Brazil	2.9	3.0	2.2	4.9	12.3	7.4
Russia	3.6	3.6	1.3	8.9	21.0	12.1
India	8.2	7.0	6.5	5.5	6.5	1.0
China	5.2	4.8	4.5	0.2	3.1	2.9
S Africa	0.7	1.1	1.5	2.9	7.8	4.9
Indonesia	5.0	5.0	5.1	1.6	6.0	4.5
Philippines	5.5	5.8	6.1	2.5	5.8	3.3

As we transition into 2025 there is likely to be greater emphasis on policy changes in the US across trade, immigration, fiscal, and regulatory policies. These changes may significantly influence outcomes in the US and elsewhere for 2025 and beyond.

Source: IMF, Bloomberg ^Projections Real Rate = Policy Rate–Inflation

KEY VARIABLES TO WATCH

Economy

Economic growth may remain stable amid policy normalisation by major central banks. Downside risk emerges from elevated policy uncertainty.

Commodity

In CY'25, major commodity prices are likely to be driven by the extent to which Ex-China's growth stabilises and China's growth accelerates.

Inflation

The return of inflation to near central bank targets have paved the way for a much-needed policy pivot, although vigilance remains the key. Any imposition of tariffs by various countries may push inflation higher.

US Dollar

Tax cuts and deregulation may attract capital inflows to US markets, while immigration controls could tighten the labour market, potentially keeping interest rates elevated. Tariffs might strengthen the US dollar. Meanwhile, large US fiscal and current account deficits could start to exert downward pressure on the currency.

KEY VARIABLES TO WATCH

Bonds

Policy normalisation by major central banks amid fall in inflation may aid fall in bond yields. The risks remain disruptions to the disinflation process and fiscal imbalances. Deposit rates may see some downward bias in 2025 as policy rates continue to descend.

Equities

Current elevated equity valuations (higher than the long-term averages) amid earnings downgrades could drive a period of consolidation as expectations adjust.

Global Trade

Global trade is likely to be impacted on any intensification of protectionist policies exacerbating trade tensions, reducing market efficiency, and further disrupting supply chains.

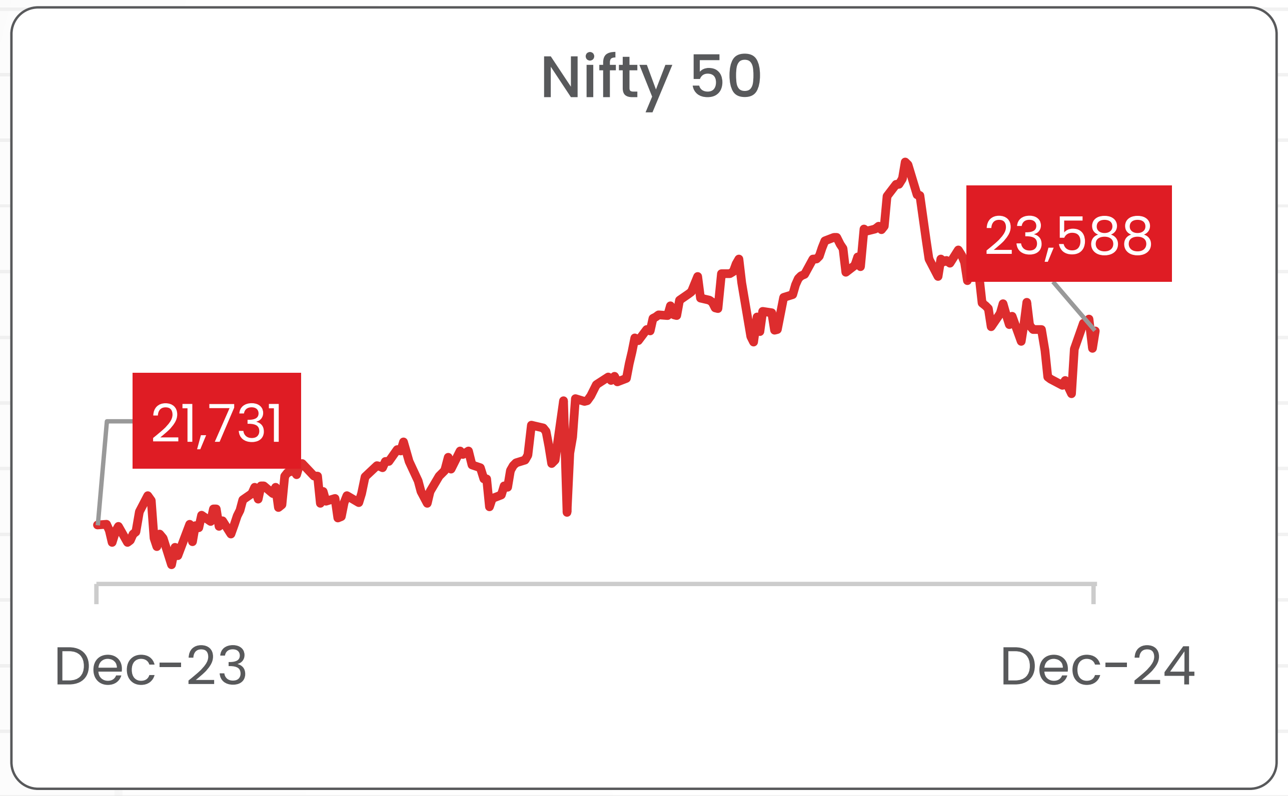
Geopolitics

In addition to the continued war between Russia and Ukraine and the Middle East tensions, the course of China’s relations with other world powers and its neighbours would be closely watched.

INDIA RECAP 2024

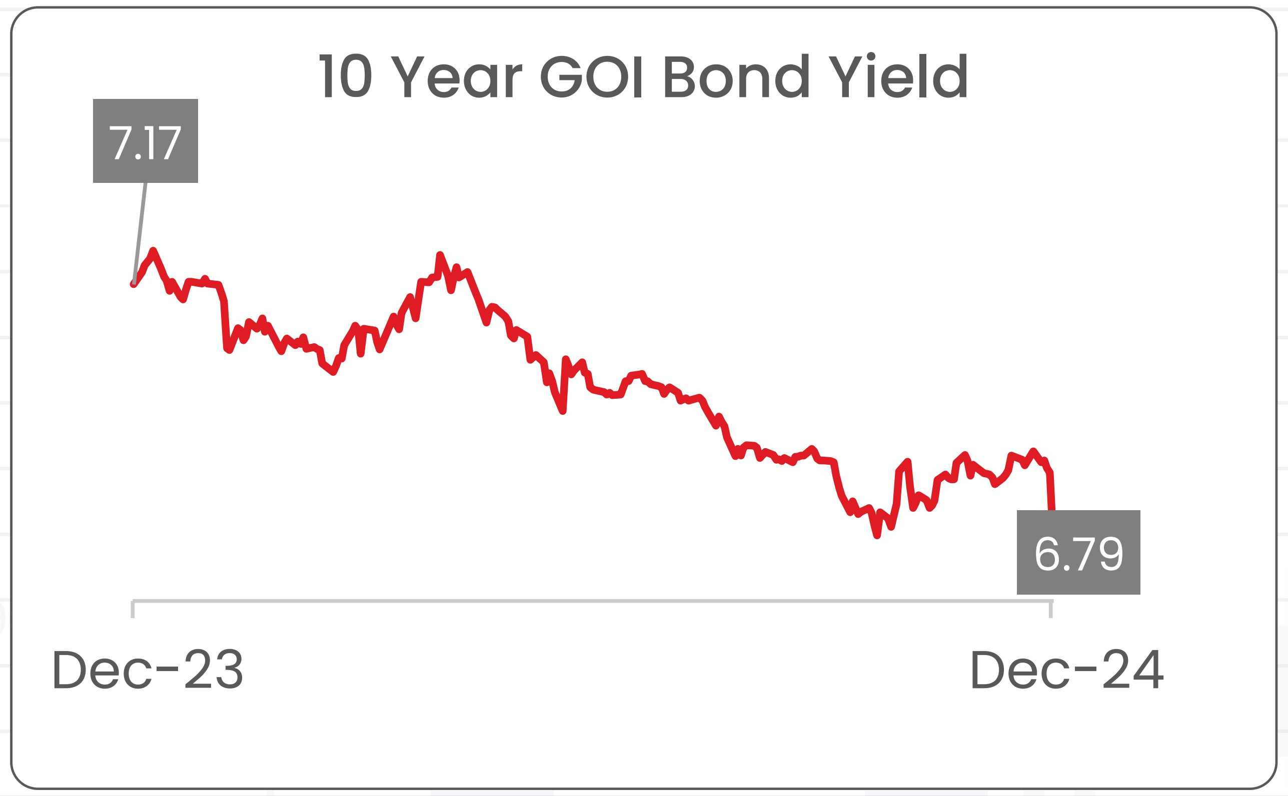
Key factors that influenced the market move in CY'24 include,

- Change in the political landscape
- Geopolitical unrest
- Stimulus by China
- Lower earnings by Indian companies
- Divergent moves by global central banks



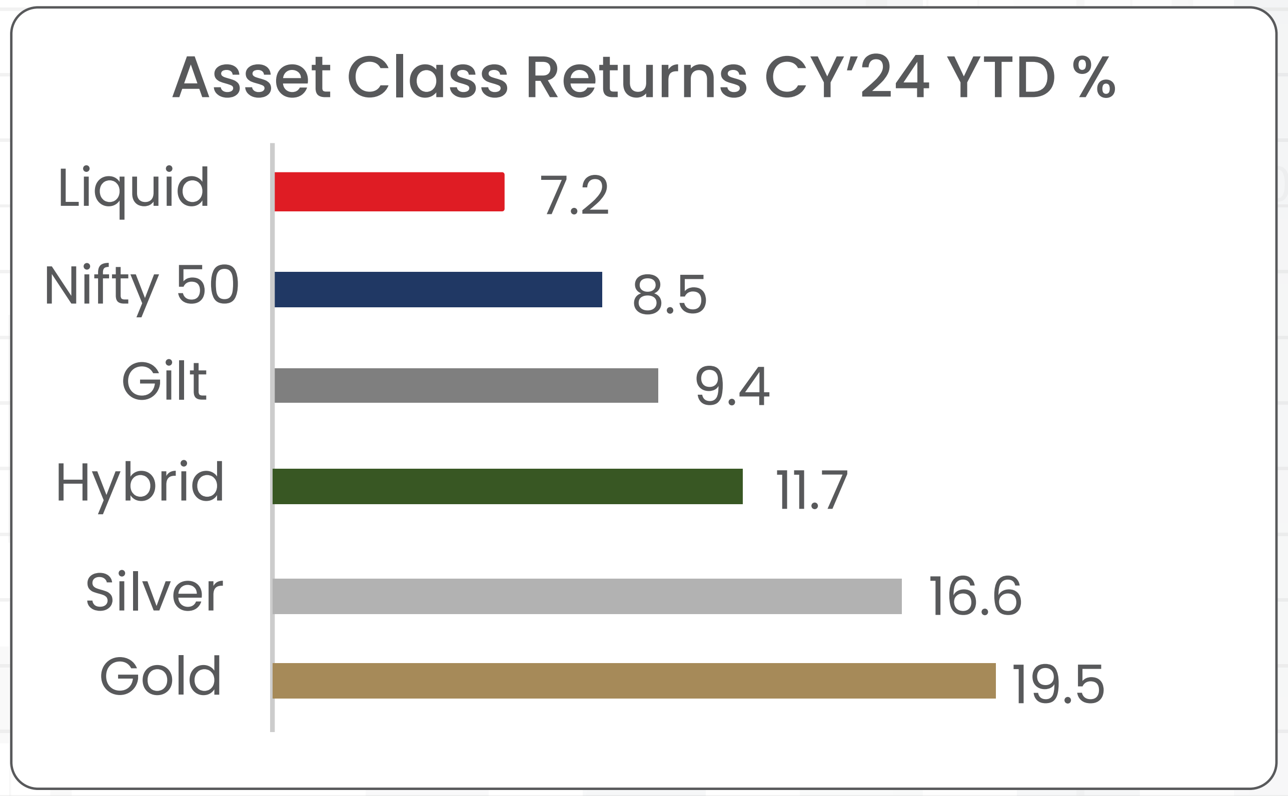
Indian equity markets ended on a spectacular note for the 9th straight year in a row in CY'24, shrugging off several uncertainties both global & local.

Nifty 50 posted gains of 8.5% YTD, hitting higher highs and higher lows on several occasions.



Indian bond markets also ended CY'24 on an upbeat note registering 2nd consecutive yearly drop in the GOI bond yields.

10-year Government of India (GOI) bond yield fell 38 basis points (BPS) YTD to 6.79% as on by 20th Dec'24.



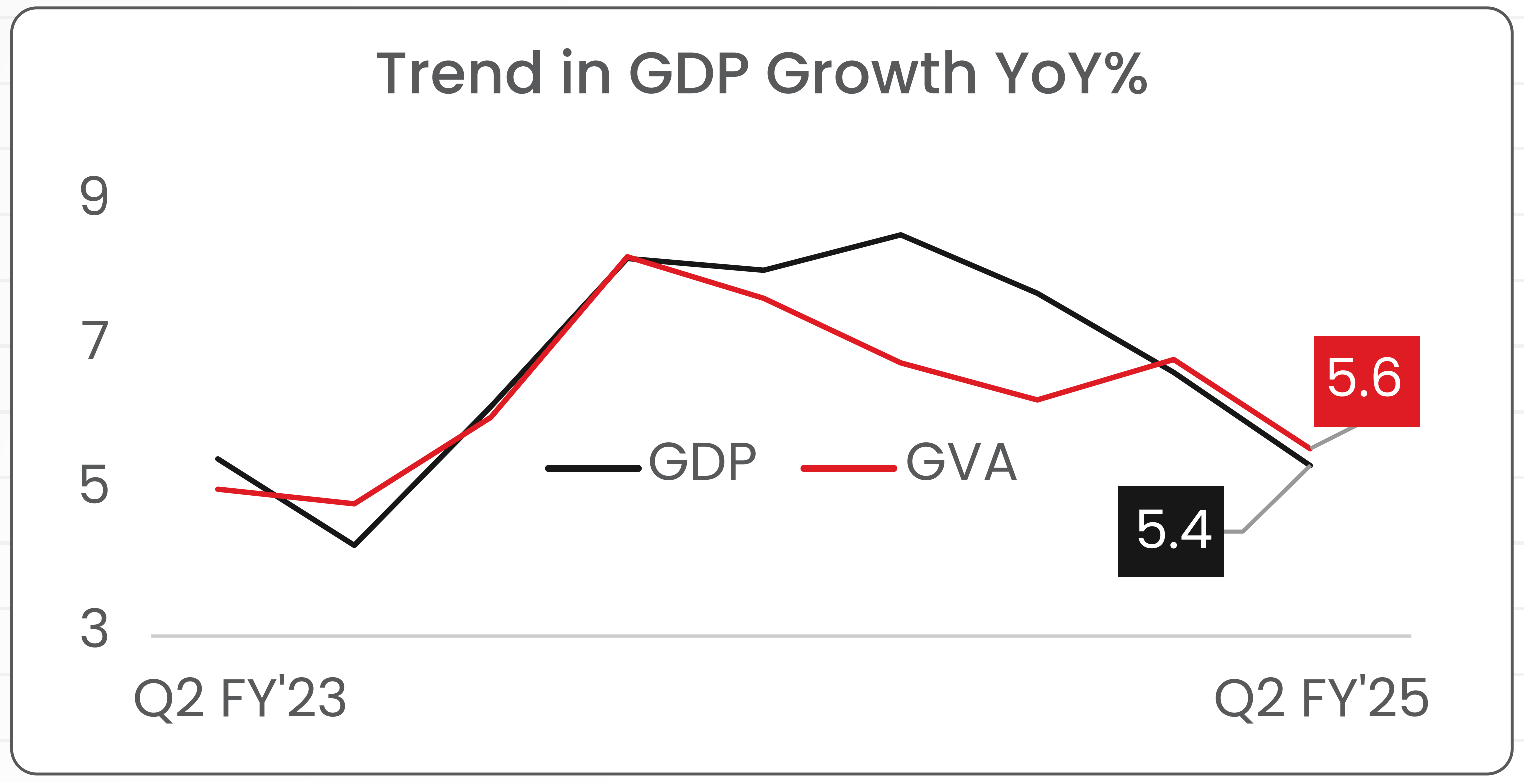
Gold emerged as the best performing asset class in CY'24 with MCX gold rising 19.5% YTD.

Note:- Gilt, Liquid & Hybrid represent performance of CRISIL Long Duration Fund AIII Index, NIFTY Liquid Index A-I and Crisil Hybrid 50 50 Moderate Index respectively.

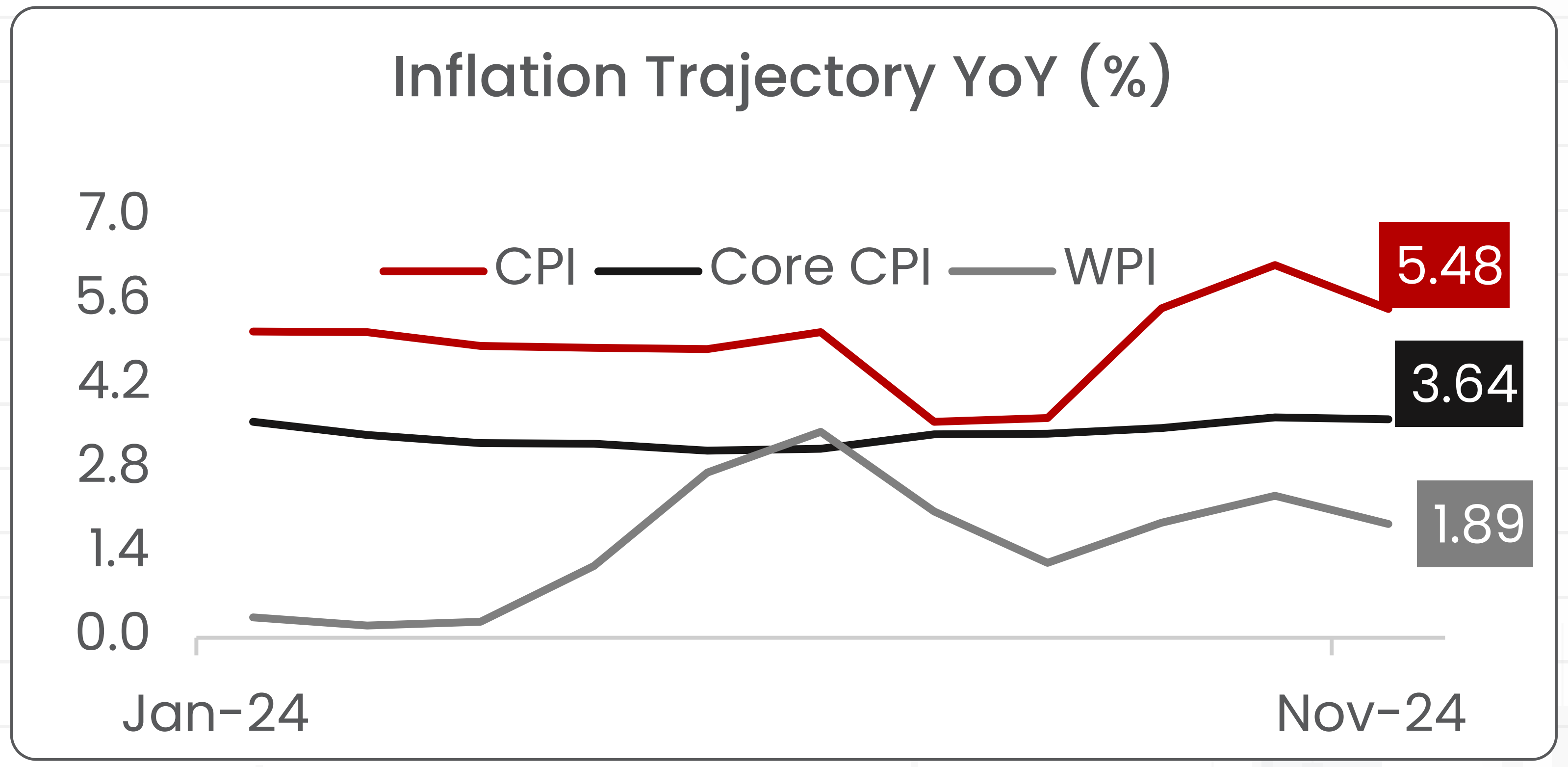
Source:- Bloomberg | ICRA, CRISIL, Bloomberg

YTD Represents data till 20th Dec'24

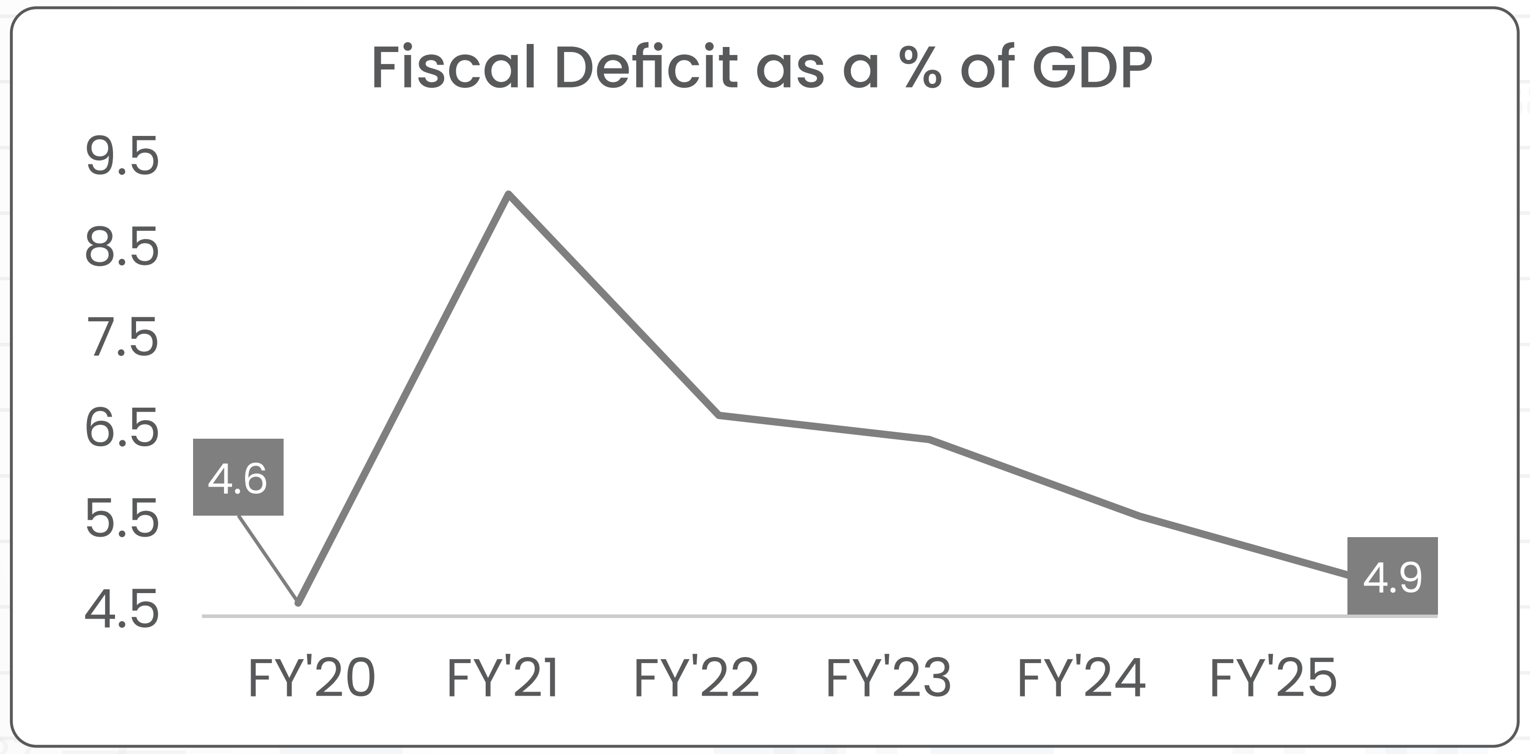
SELECT INDIAN MACROS AT A GLANCE



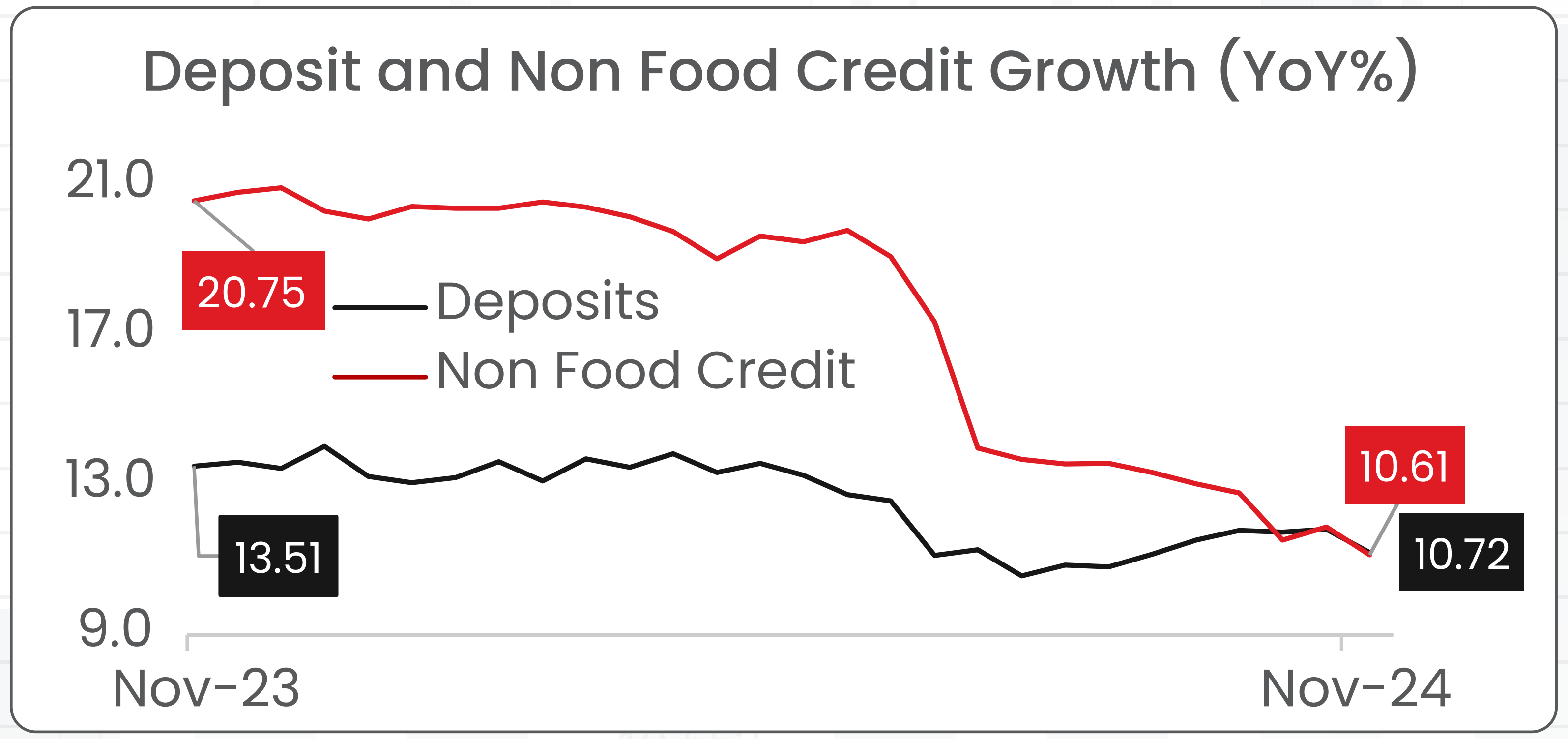
Growth in India's GDP for Q2FY'25 at a 7-quarter low of 5.4%, YoY can be attributed to a moderation in private consumption, CapEx & govt spending. It is expected to have picked up from Q3 FY'25 onwards, driven by private consumption, government spending and exports.



India's CPI came in at 5.48% YoY while core CPI came in at 3.64% YoY for Nov'24. This can be attributed to sequential decline in food prices and favourable statistical base. Food inflation is likely to moderate from Dec'24 onwards, aided by seasonality and improved supply.



Strong growth in the government's tax and non-tax revenue coupled with a rise in its capital expenditure has improved the fiscal deficit both in terms of quality and quantity.



An increase in risk weights on unsecured loans & loans to NBFCs by the RBI has led to a slowdown in credit growth. While strong efforts by banks to increase their deposit growth has aided in closing the gap between the two.

Source:- MOSPI | Union Budget | RBI | GVA stands for Gross Value Added | Data as on 29th Nov'24

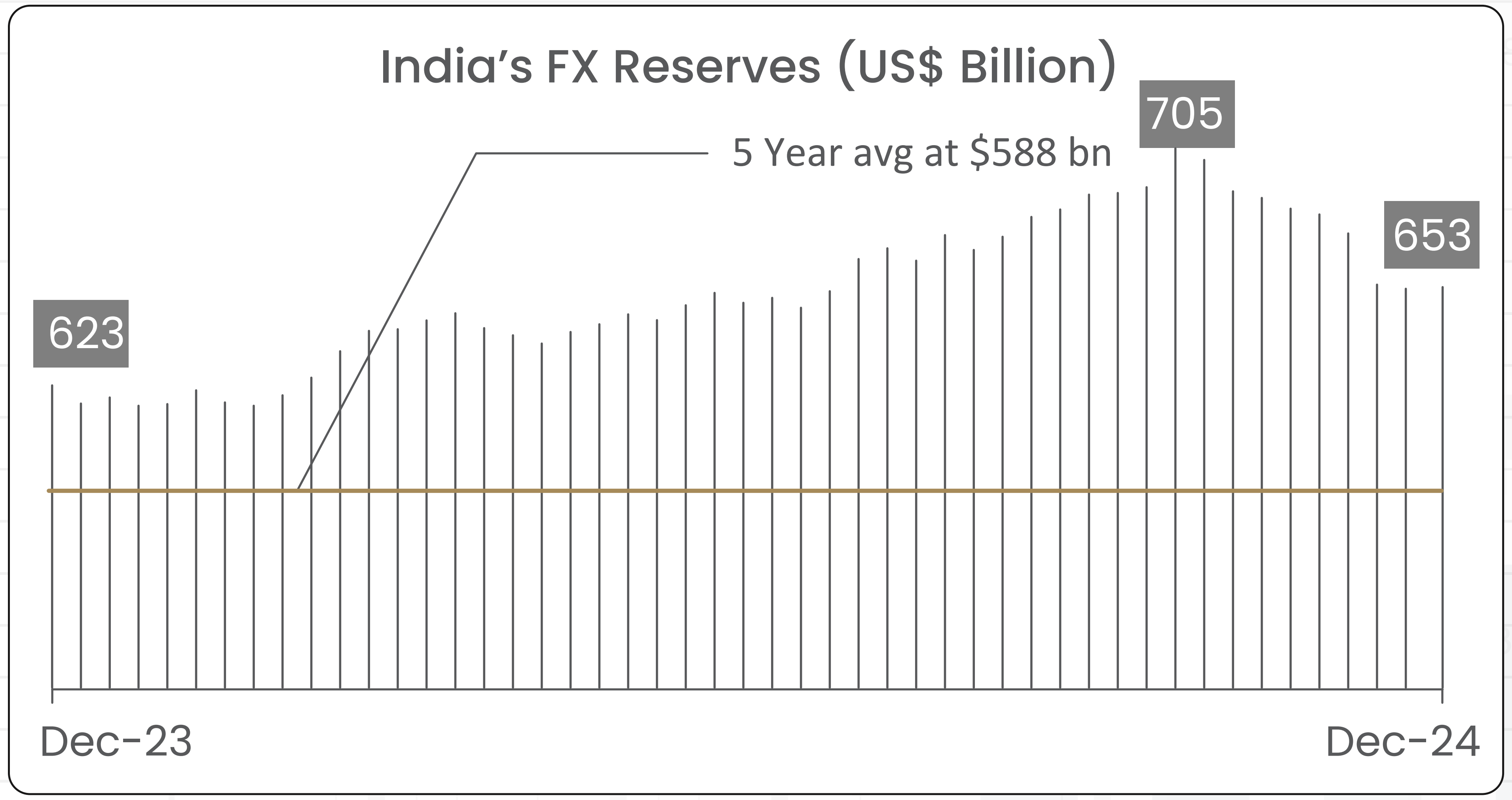
Nippon india Mutual Fund
Wealth sets you free

INDIA'S EXTERNAL SITUATION

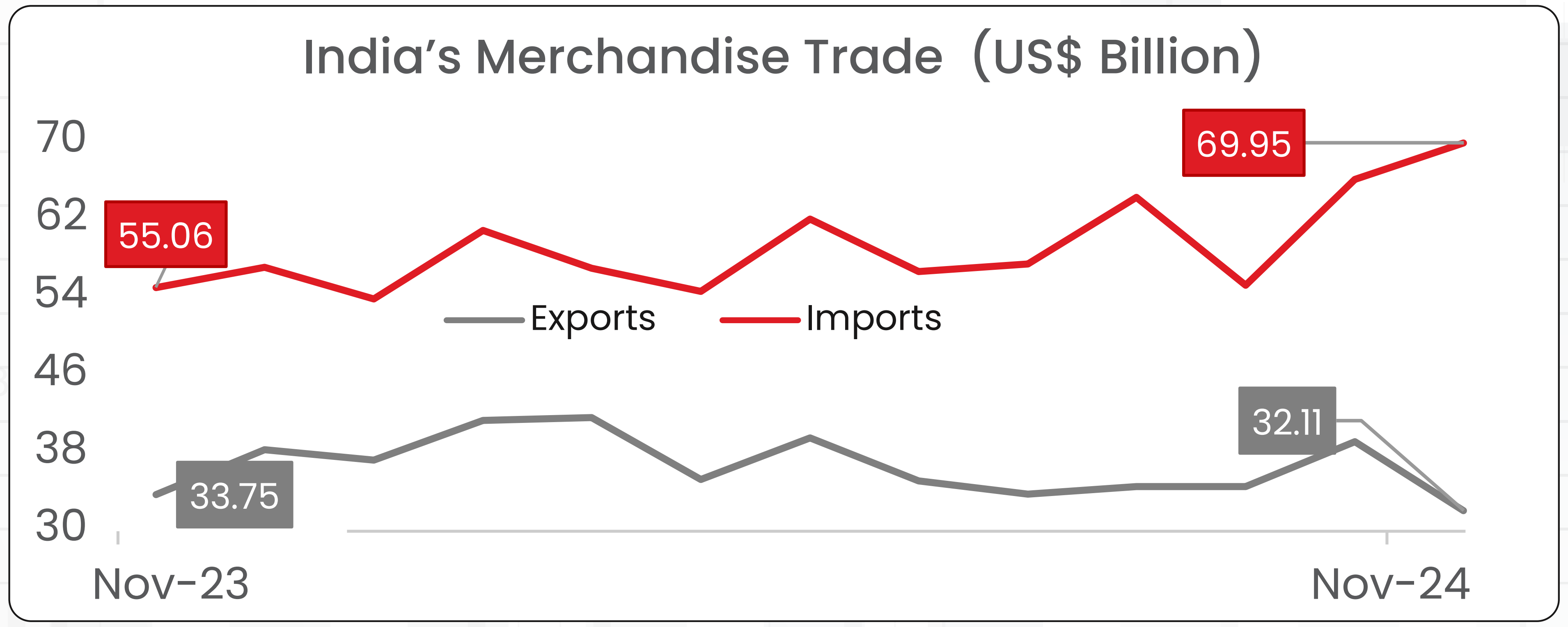
Currency Moves

Move against US Dollar as on 20th Dec'24		
Currency	**CY'24 YTD**	**CY'23**
Hong Kong Dollar	0.5%	-0.1%
Thai Baht	0.0%	1.0%
British Pound	-1.3%	5.1%
Indian Rupee	-2.2%	0.6%
Singapore Dollar	-2.7%	1.4%
China Yuan	-2.8%	-2.9%
Indonesian Rupiah	-5.3%	1.1%
European Euro	-5.8%	3.0%
Japanese Yen	-10.8%	-7.6%
Russian Ruble	-15.0%	-20.6%

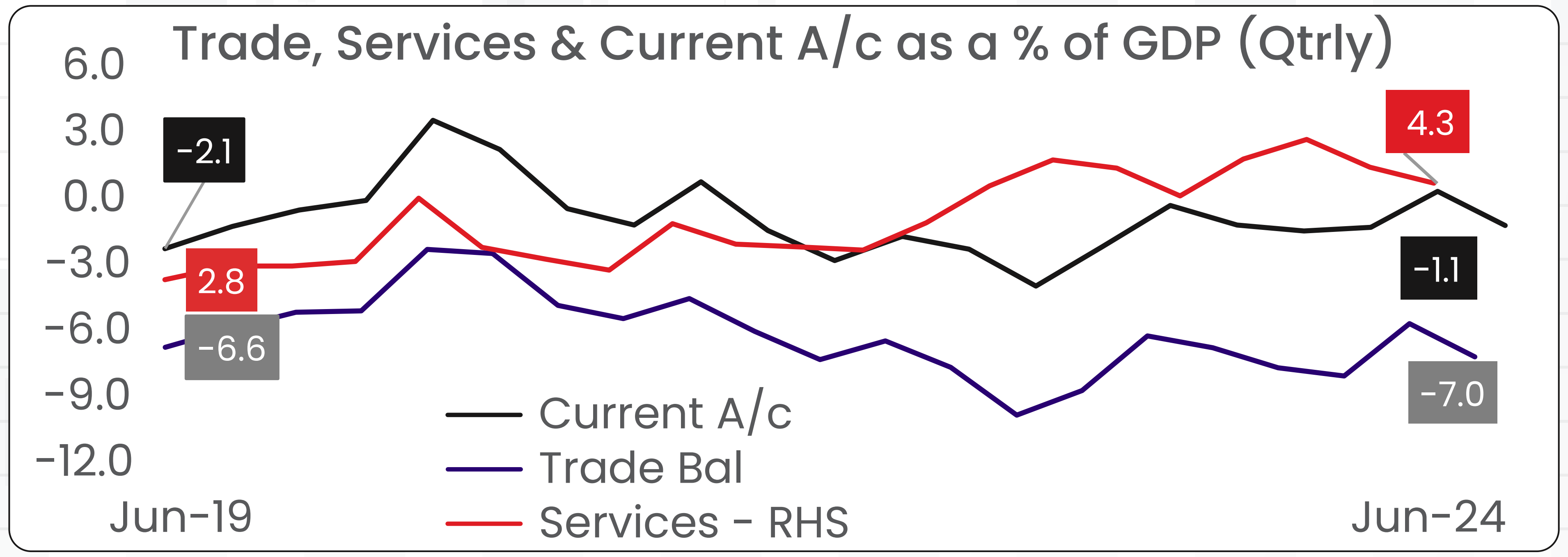
Indian rupee remained relatively stable even as DXY appreciated 6.2% in CY'24 YTD, amid RBI's active intervention in the FX market.



India's forex reserves rose by US$30 billion YTD to US$653 billion as on 13th Dec'24. The RBI's intervention in the forex market & the revaluation effect led to a US$52 billion decline in the reserves from its all-time high level of US$705 billion attained on 27th Sep'24.



India's trade deficit has widened to an all time high of US$38 billion in Nov'24 amid seasonal pick up in the gold demand.

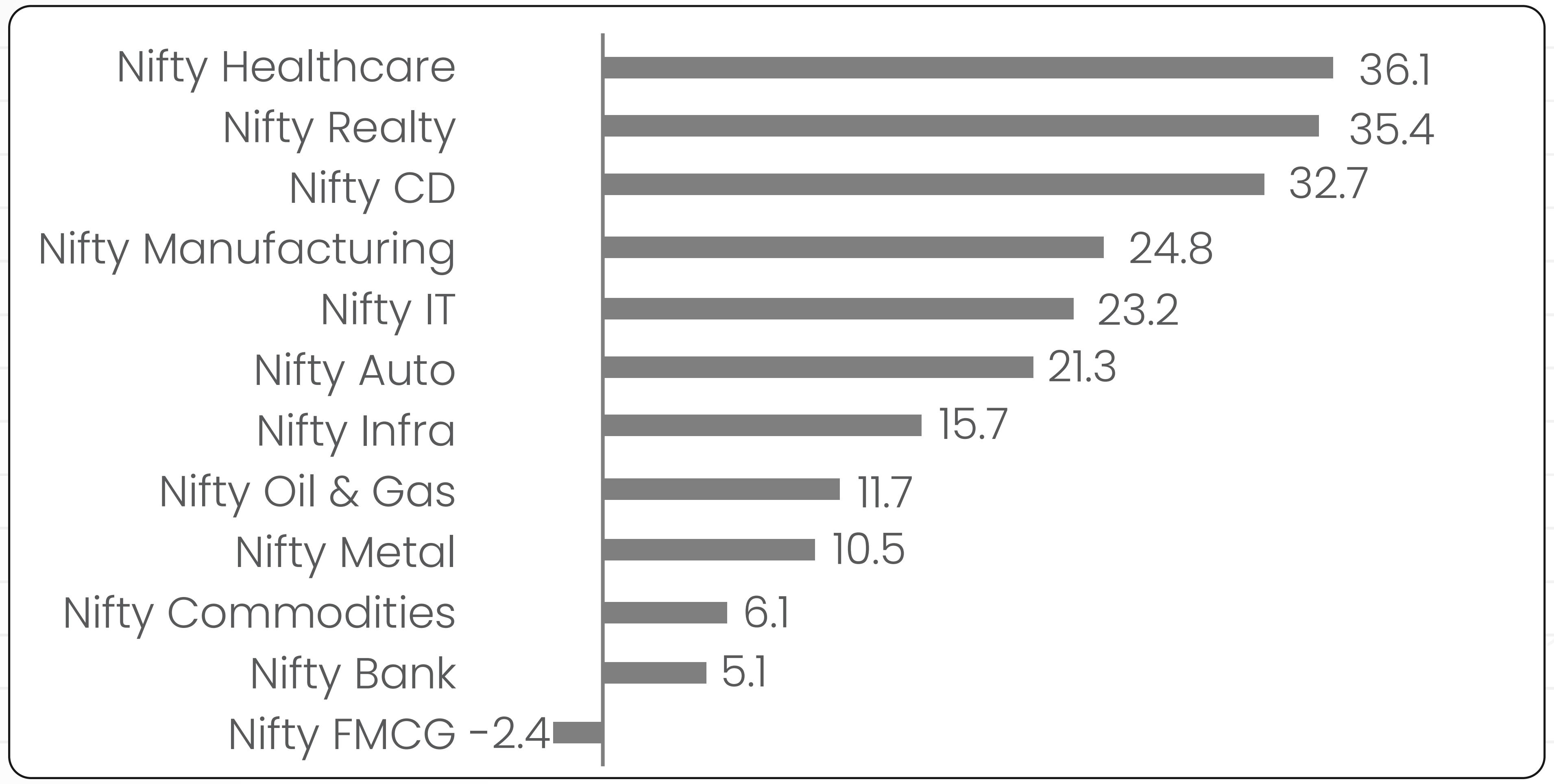


A 100 BPS rise in services exports post covid has more than offset rise in trade deficit, thus reducing the current account as a percentage of GDP.

Source:- Bloomberg | RBI | Ministry of Commerce and Industry

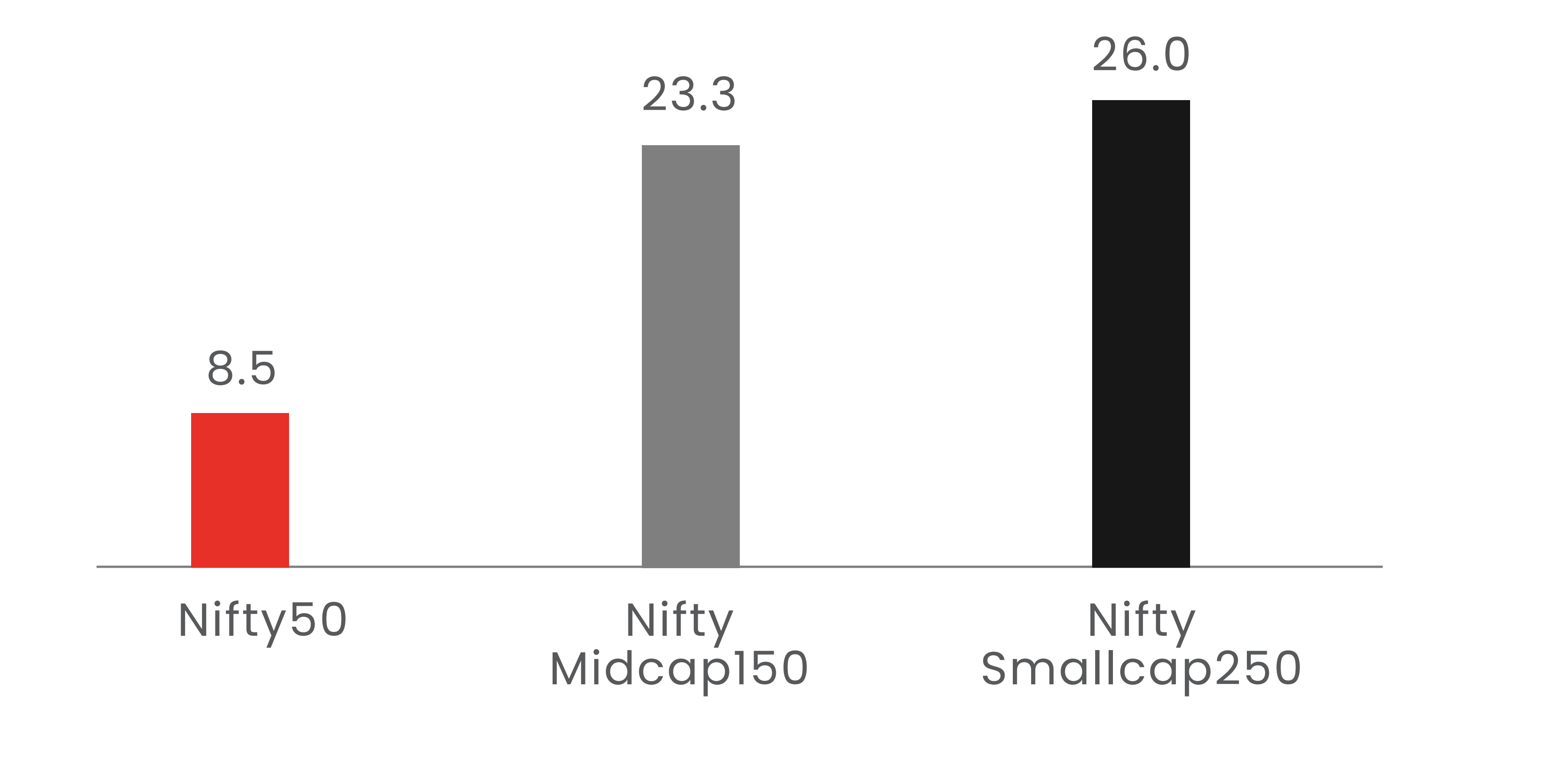
INDIAN EQUITY PERFORMANCE, VALUATIONS & FLOWS CY'24

Sectoral Indices Returns (YTD%)



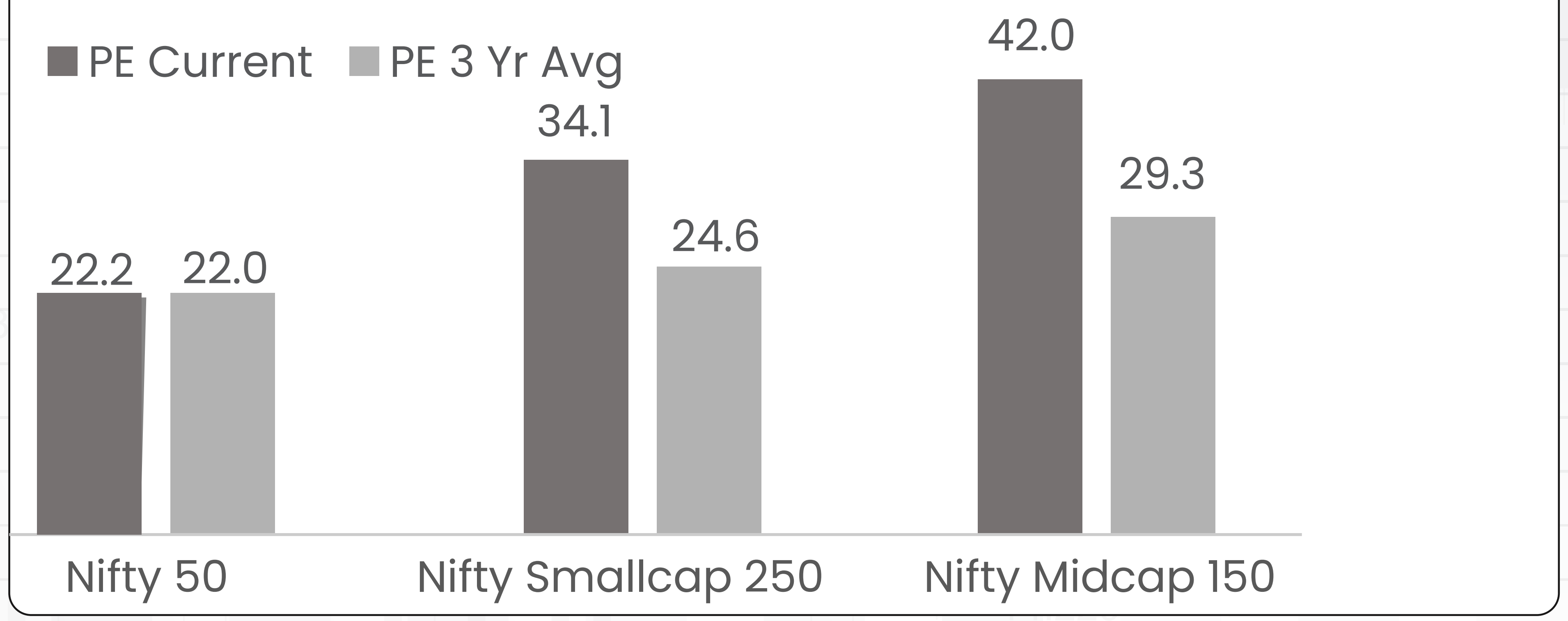
Healthcare, Realty, Consumer Durables were most preferred on better earnings while FMCG, Banks trailed on a relative basis

Market Cap based Performance (YTD%)



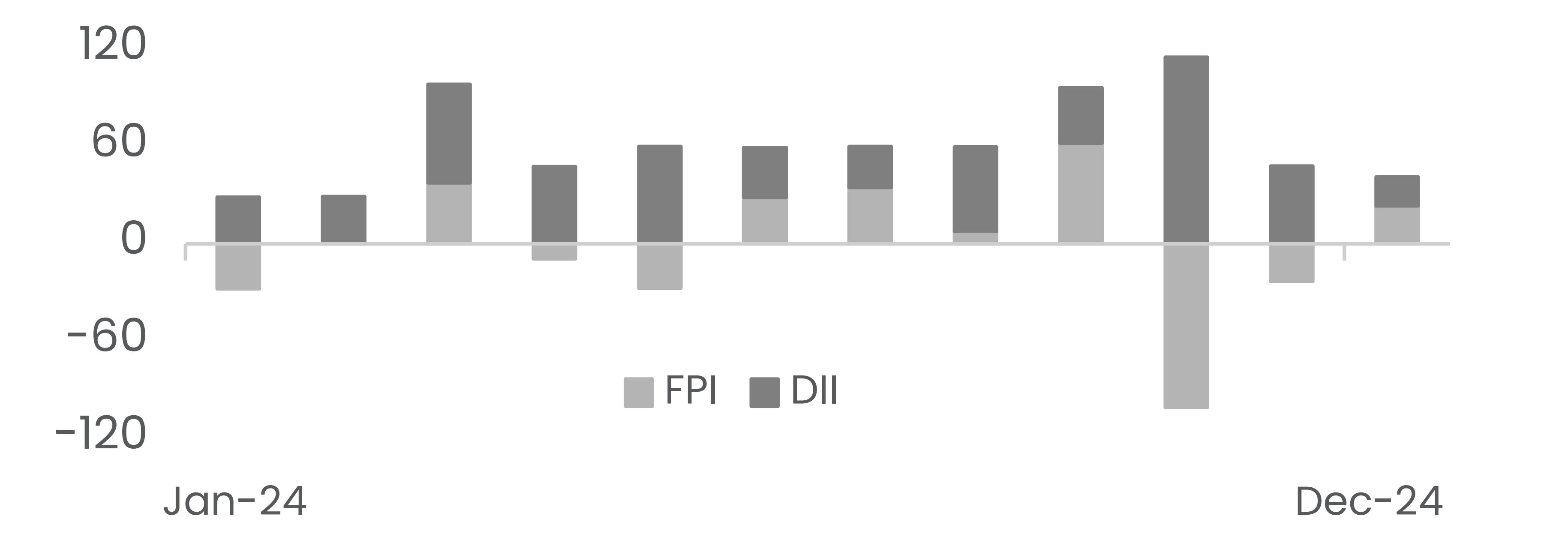
Mid-Small cap segments outperformed the large caps supported by sustained flows from domestic investors, while FPI outflows was more pronounced in the larger businesses.

Relative Valuations based on Trailing PE



Midcap valuations are currently, expensive compared with Large cap and small cap due to sudden surge in the last ten months.
Large cap valuations are hovering near their 3-year avg level since Jan 2024, while midcap and small cap are well above their 3-year avg level.

FPI & DII Flows Net Equity in ₹'000 crores



String support from DIIs negated the impact of sell-off by FPIs in the last quarter of CY'24, limiting the downside. Meanwhile, FIIs have remained net buyers for the 2nd straight year in CY'24, buying Indian equities worth ₹6,770 crore YTD till 20th Dec'24.

Source:- Bloomberg | RBI | Ministry of Commerce and Industry | BSE, NSDL | YTD Represents data till 20th Dec'24
DII stands for Domestic Institutional Investor | FPI stands for Foreign Portfolio Investors

EQUITY MARKET OUTLOOK

Challenges

- Domestic - Weak near term growth trends, weak corporate earnings, elevated valuations, FPI outflows led to sharp fall in recent 2-3 months.
- Peaking margins, lower demand, sticky inflation
- Global - geopolitical tensions, likely policy shifts, trade war, uncertainty over pace of interest cuts, currency volatility.

Opportunities

- Valuations moderating post recent correction in relative terms.
- Worst of earnings growth likely to be behind, FY26 earnings growth may be better than nominal GDP growth.
- Consumption revival possibilities - Rural Agri recovery (Rabbi crops) extended wedding/festive season, higher govt spending, moderating inflation.

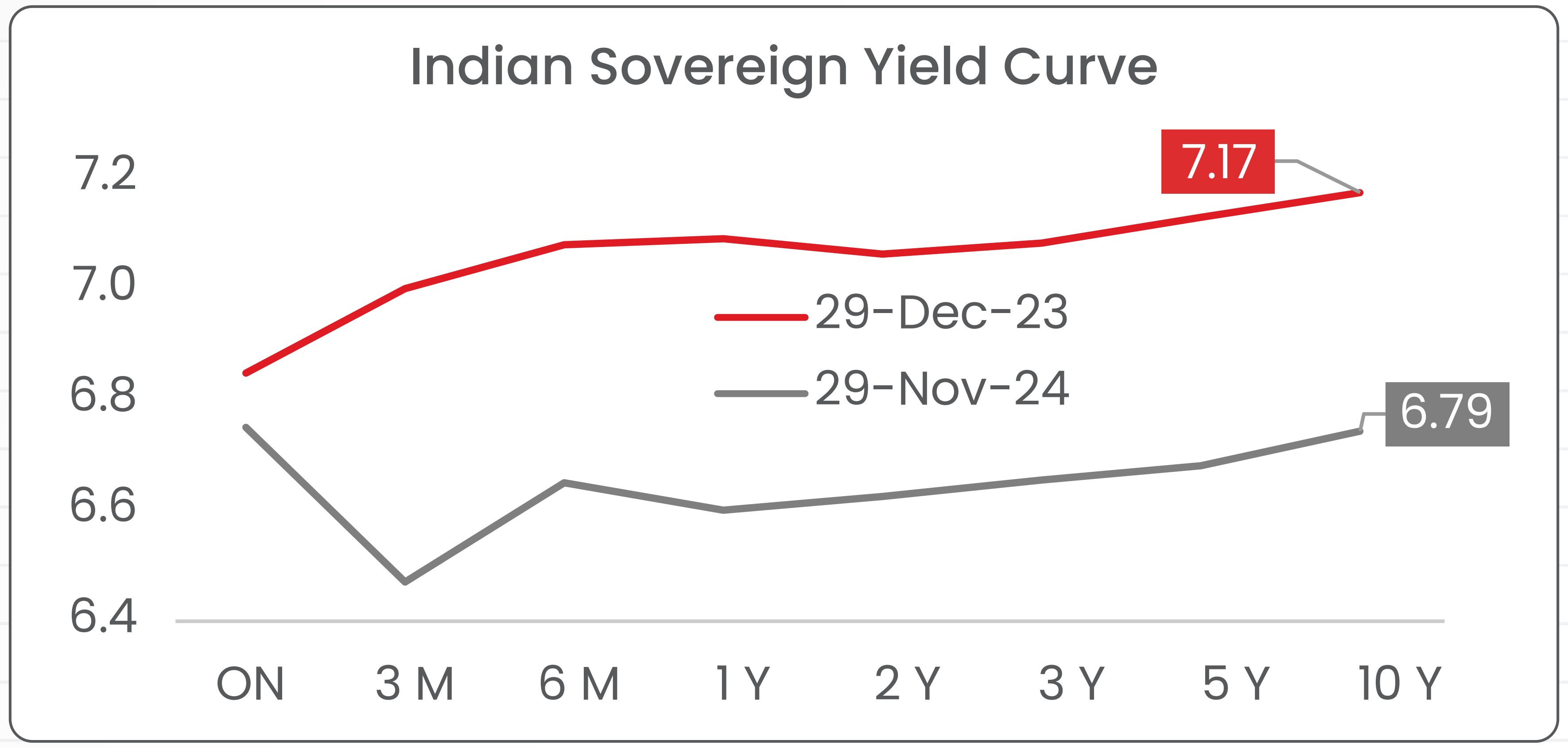
Outlook

- Investors will take cue from global trade & monetary policies especially the US.
- From a domestic perspective corporate earnings to be a key market trigger.
- India fundamentals remains robust and markets may consolidate till better clarity emerges on global/local shifts.

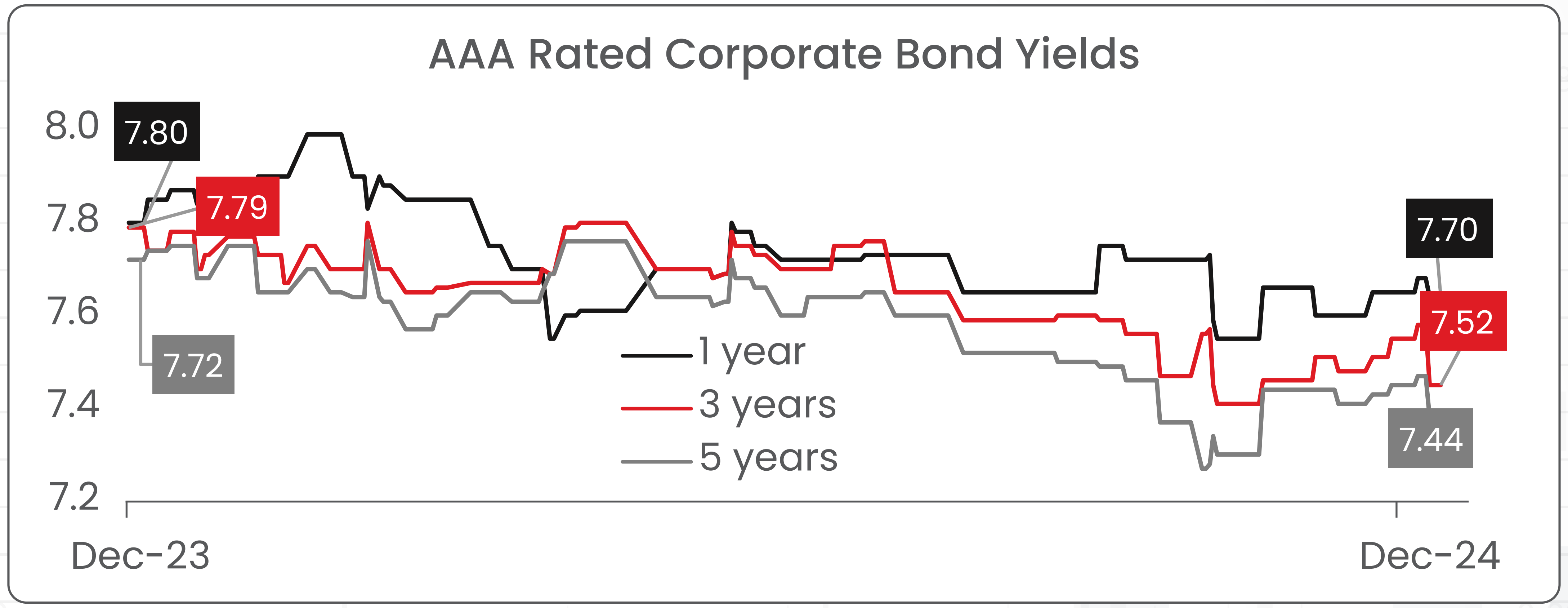
Recommendation

- Large cap oriented categories appear better placed to manage the likely near term uncertainties.
- Asset allocation products across hybrid space can aid in better risk management.
- Small and Mid cap allocations can be considered with a long term horizon with participation through staggered investments.

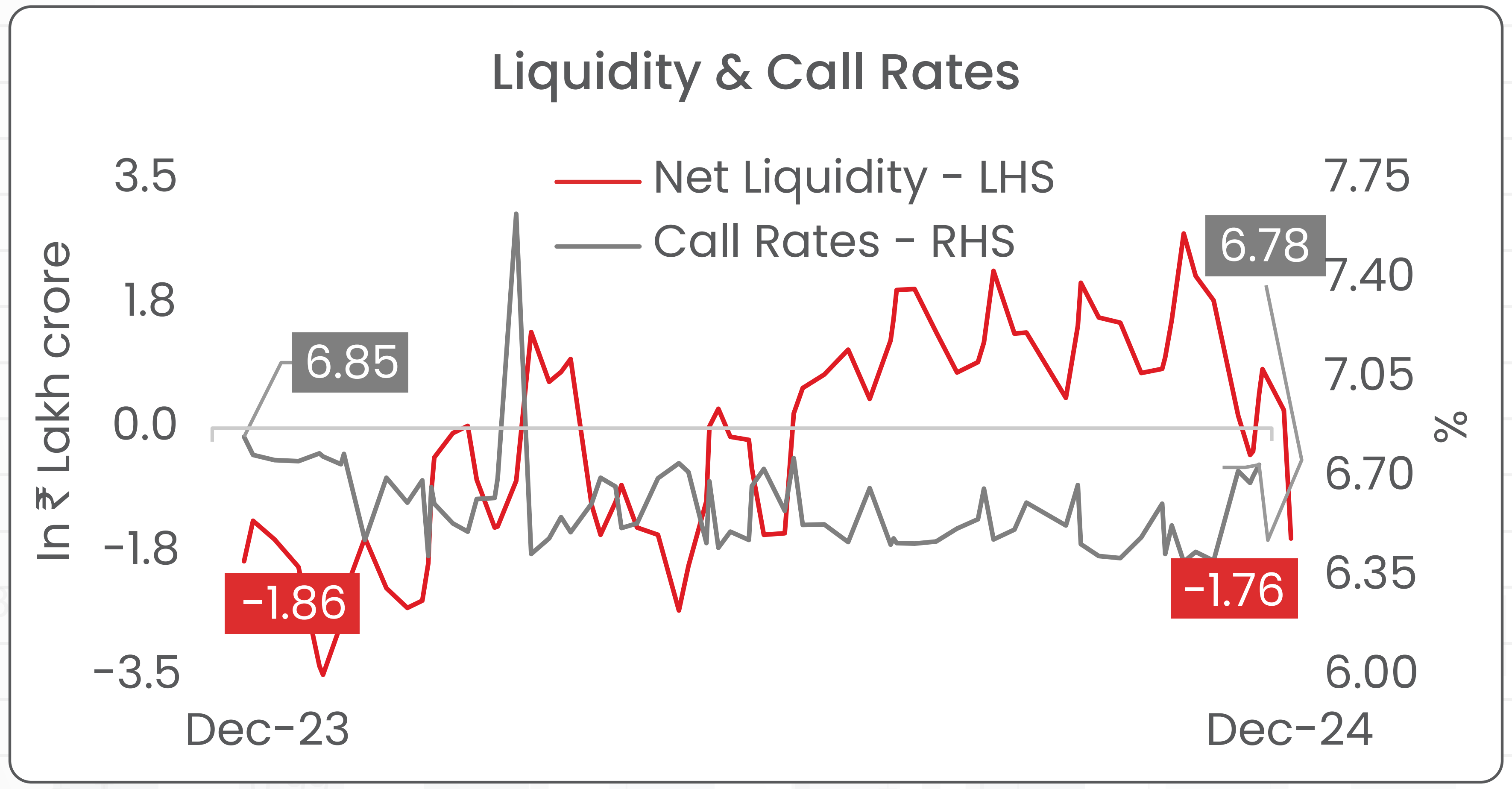
INDIAN FIXED INCOME MARKET AT A GLANCE



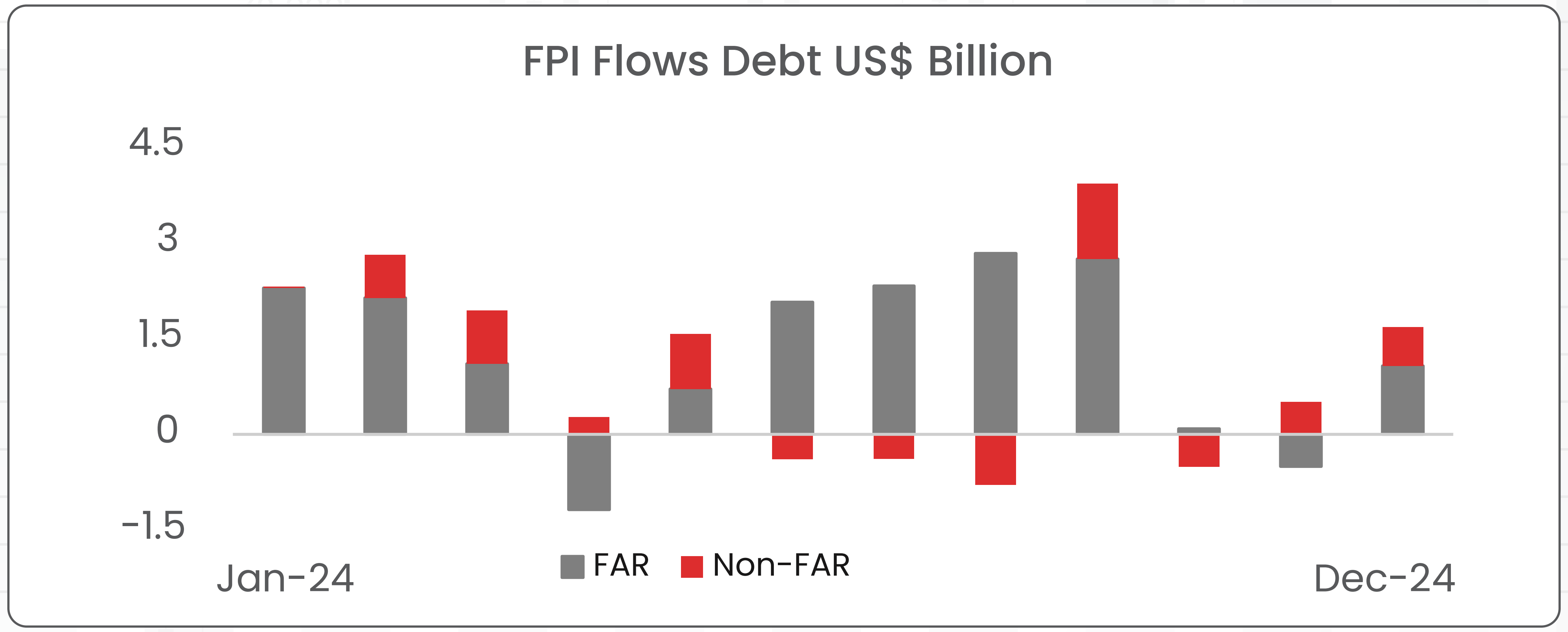
Indian GOI Bond Yield Curve remains flat, with repo rate at 6.50% and 10 year GOI bond at 6.74%, even at has drifted lower.



Indian AAA rated corporate bond curve remains inverted, with 1 year AAA Corp bond trading at 7.70%, while the 5 year AAA Corp bond curve trading at 7.44%.



Banking system liquidity turned positive post elections amid pick up in the government expenditure, keeping the call rates closely aligned to the repo rate. Further, CRR cut by the RBI infused liquidity to the tune of ₹1.16 lakh crore in the banking system.



FIPs remained net buyers for the 2nd straight year in CY'24, in the Indian debt, following India's inclusion in global fixed income indices. They bought Indian debt worth US$18.3 billion YTD till 20th Dec'24.

Source:- Bloomberg | RBI | NSDL | Data till 20th Dec'24

Nippon india Mutual Fund
Wealth sets you free

DEBT MARKET OUTLOOK

RBI Policy

- Focus on growth, while aligning inflation ~4%-4.5% band.
- Likely to cut the policy rate by 25 BPS in Feb'25 meeting (50-75 BPS cumulatively in current cycle)
- More clarity on: i). Growth trajectory (FY25 advance GDP estimates); ii). Inflation trends (Nov-Dec-24 print); iii). Fiscal consolidation (Budget FY26)
- Hopefully some stability on foreign flows and INR by that time.
- Active Liquidity Management crucial amid currency volatility.

Fixed Income Market

- Policy positive for short end of the curve (CRR cut), Neutral for the longer end of the curve.
- With next action likely rate cut, asset class (yields & duration) to perform well.
- 3-5 year corporate segment & 5-10 year G-sec likely to outperform.
- Term Spread to widen: Given current marginal term spread between 3 & 10-year G-sec, term spread to widen. Bull steepening over the 12 months.
- Spread compression across assets class: Especially corporate bonds (3 & 5 year) over GOI bonds likely.

Recommendation

- Intermediate duration: 3–5-year corporate bonds & 5 to 10 year (STF, CBF, BPSU and FRF Fund)
- Investment Horizon 12 months : 60:40/70:30 allocation in intermediate funds (3-year centric portfolio duration) & long duration funds (greater than 7-year centric portfolio duration).

Risk To the View

- Global bond market volatility led by US fiscal concerns.
- USD strength spillovers on core liquidity.
- Sticky food prices.

COMMODITIES MARKET OUTLOOK

Gold

- Lower interest rates, persistent geopolitical risks, and strong dollar-diversification trends and central bank buying may support the yellow metal.
- Further, it may cement its role as a vital hedge against trade wars, tariff threats, and the unpredictability of economic policy under the new US administration.

Silver

- Silver offers best value in commodities in terms of long-term fundamentals on back of Greentech demand.
- Fourth consecutive year of deficit and is likely to persist into 2025.
- Strong fundamentals make silver resilient among metals and a value pick at corrections.

Crude

- Current low prices could lead to lower supply growth in CY'25. Further, OPEC+ is likely to be cautious about increasing supply to support the prices and renewed sanctions on Iran and Venezuela could affect supply.
- Meanwhile, solid economic growth, global interest rate cuts, and fiscal stimulus measures may moderately increase oil demand.

Base Metals

- Base metal price moves are dependent on stimulus measures from China feeding into the growth.

DISCLAIMER

The information herein is meant only for general reading purposes and the views being expressed only constitute opinions and therefore cannot be considered as guidelines, recommendations or as a professional guide for the readers. The document has been prepared based on publicly available information, internally developed data and other sources believed to be reliable. The sponsor, the Investment Manager, the Trustee or any of their directors, employees, associates or representatives ("entities & their associates") do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information. Recipients of this information are advised to rely on their own analysis, interpretations & investigations. Readers are also advised to seek independent professional advice in order to arrive at an informed investment decision. Entities & their associates including persons involved in the preparation or issuance of this material shall not be liable in any way for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including on account of lost profits arising from the information contained in this material. Recipient alone shall be fully responsible for any decision taken based on this document.

THANK YOU