

Equity Market Outlook FY25

We started off this year with almost half of the global population across more than 60 countries going into national elections including world's two largest democracies, geo-political issues still being unresolved and the promise of rate cycle getting reversed. All of this meant higher market volatility. And volatility we did witness. More importantly, the market was a tale of two halves. Indian Equity Market was one of the best performing globally in the first half, whereas second half witnessed lagging performance. The lag was on account of combination of dollar strength and slowdown in Indian economy due to national elections and monsoons. This resulted in slower than expected earnings growth. Overall, the broader market as represented by NSE500 Index returned 18.1% during the 11-months ended on November 30, 2024. This translates into 3-year CAGR of 17.2%, 5-year CAGR of 19.9% and 10-year CAGR of 14.6%. Domestic flows in mutual funds continued to be strong at INR6.2tn* cumulative for the 11 months. The year also witnessed some large IPOs like NTPC Green Energy, OLA Electric Mobility and Swiggy Ltd[&] – signifying the changing landscape of Indian economy.

As we step into 2025, we believe that these emerging themes would only become stronger. Specifically, we expect 4 macro themes and 4 potential growth areas to shape next year's performance. First and foremost, macro theme is the new dispensation in the US President is likely to impact global trade as well as geo-political situation. Secondly, Indian economy should witness a gradual recovery as both government spending and corporate spending picks up. Lastly, we expect innovation led themes to get stronger. We identify 4 specific pockets of opportunity – Financialization, Industry 5.0, Retailization and Energy transition (F.I.R.E.).

From a global perspective, all eyes are on the tariff decisions from incumbent US Presidents administration. India is least exposed to the tariff wars Nevertheless, tariffs would have an inflationary pressure in the US. This would imply that the rates may not come off steeply. This is also reflected in the US 10-year yield, which is higher than the levels at the beginning of this year in spite of 75bps rate cuts during the year by the Fed. A combination of higher tariffs and higher US rates would mean that there would be a continued tendency for the US Dollar to appreciate. We would be looking out for signs of competitive depreciation of emerging market currencies, for them to remain competitive in exports. China's move on the currency front would be noteworthy as the economy is vulnerable to exports shocks in an already slowing domestic demand.

Another expectation is the thawing of geo-political situations across the globe. This along with strong dollar would mean that commodity prices including crude oil prices are likely to remain under check. This is certainly good news from India's perspective.

Coming to India, there have been some aspersions on the growth story given the subdued GDP print in last two quarters. However, we need to put this in perspective of the fact that government spending was impacted on account of national election in first quarter and monsoons in second quarter. We expect a gradual recovery in the spending and hence GDP growth from Q3FY25 onwards. We have

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maintained that 6-7% real GDP growth and 4-5% inflation translating into 10-12% nominal GDP growth is a sweet spot for India.[^]

We firmly believe that the journey of India from developing economy to developed economy has begun. One factor which is going to be at the Centre stage of this journey is Innovation. Specifically, we expect the following 4 trends to shape the economy in the medium term:

- **Financialization.** India has already taken a leadership position in adoption of digital payments. Increasing penetration of seamless digital financial solutions would lead to inclusive growth, higher productivity and better access to capital as well as investment opportunities.
- **Industry 5.0.** We believe that next few years would truly underline the manufacturing renaissance for India. Global move to China +1 strategy in supply chain combined with growing domestic demand in India would mean that Indian manufacturing would gain global scale. Not only this, but we also expect that India would be at the forefront of defining new technology trends as software takes the Centre-stage across industries, where India has a head start of more than 3 decades now.
- **Retailization.** Gen Z is expected to impact spending to the extent of US\$1.8tn by 2035[#]. Technology is likely to play an important role in every aspect of consumption including what they buy and how they buy. We believe that space will go through tectonic change potentially leading to redistribution of market cap.
- **Energy transition.** This is a global theme and is poised to change the energy landscape of India as well. Transition from traditional sources of fossil fuel (coal and crude oil) to renewable sources (Solar, wind and electric vehicles) is already opening significant investment opportunities in the entire value chain.

Finally, a word on valuations. Aggregate valuation for Indian market is in line with 10-year average and hence there is no broad-based exuberance. While there are pockets of overvaluation, we remain excited about multifarious opportunities across the market. Overall, we enter 2025 on an optimistic note where we believe that India would once again stand out as an economy and market which is least impacted by global uncertainties. At the same time, the economy would continue to grow from strength to strength.

*Source: AMFI, includes Growth/Equity Oriented Schemes, Hybrid Schemes, Solution Oriented Schemes, Index Funds, Other ETFs. Past performance may or may not be sustained in future and is not a guarantee of any future returns.

&The sector(s)/stock(s) mentioned in this document do not constitute any recommendation of the same and Baroda BNP Paribas Mutual Fund may or may not have any future position in these sector(s)/stock(s).

[^] Source: Internal, as on November 30, 2024

[#] Source: BCG, data as on November 30, 2024

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