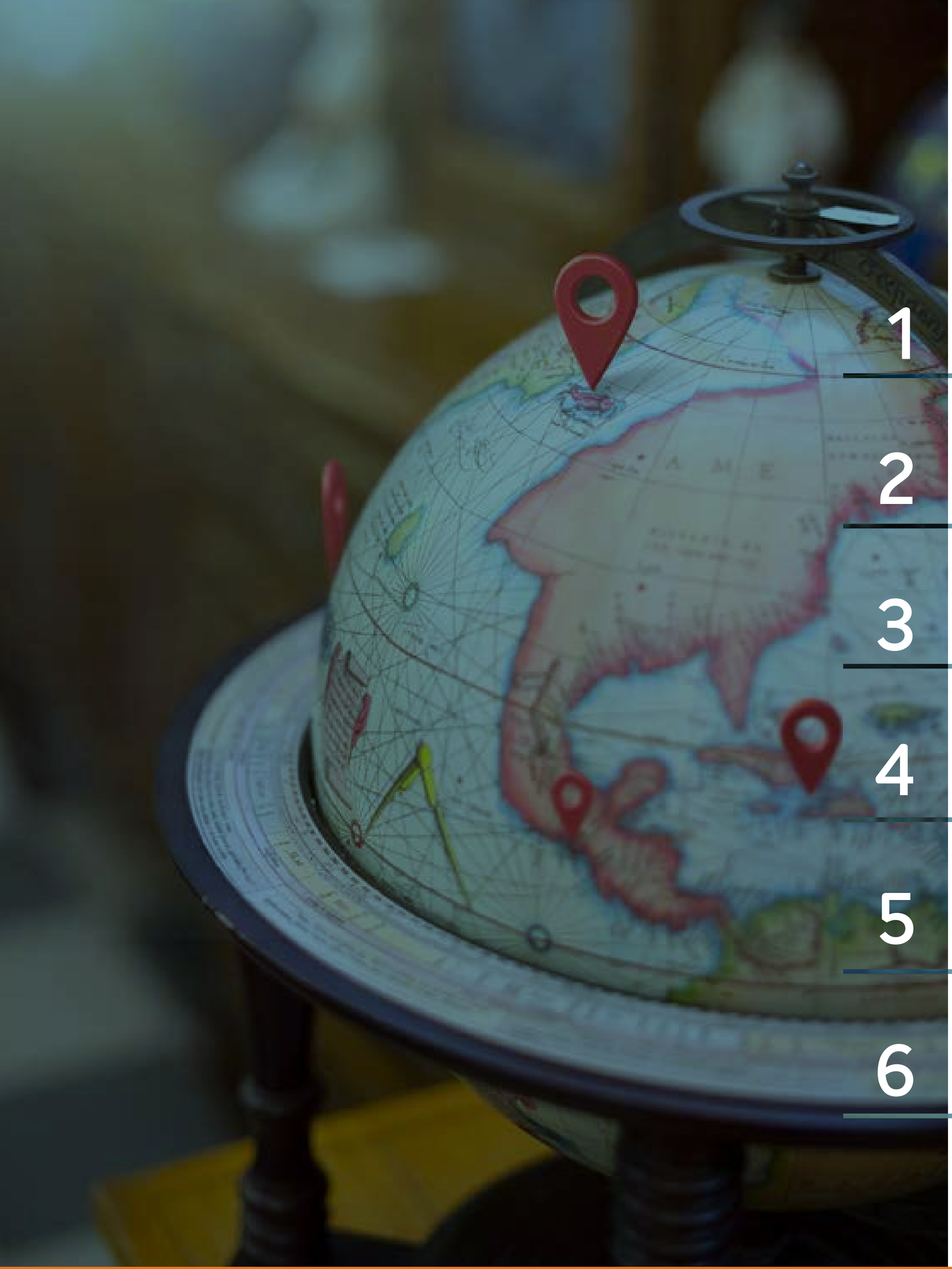
InCred Wealth

Annual

Market Outlook

Modest Equity Returns; Power up with Fixed Income & Alternatives



Index

Outlook Summary

Large Cap

2QFY25 earnings season which has seen the biggest earnings downgrades since early 2020 reflects cyclical slowdown

- Post a 6% correction in October, the Indian stock market was broadly flat in November.
- Nifty 50 Index has been impacted more than the mid and small caps as FPIs pulled out of India even as the valuation argument is relatively in favour of large caps over the broader markets.
- In our view, the correction seems healthy, particularly as it has impacted the most expensive part of the market, while the relatively inexpensive private sector banks have started to outperform of late.
- Domestic flows continue to remain strong running ahead of expanding supply and also pose a credible counterbalance to FPI outflows.
- The recent print from high-frequency indicators, such as power demand, PMI data, GST collections, also indicates a softening in demand.
- Returns from equities could be more stock specific and largely tepid at best in the near term. However, the long term (5yr-10yr) structurally positive story for India continues to hold. This demands investors to not skip the asset class and stay invested.
- We maintain a Neutral stance towards equities to accommodate the likely increase in risk perception which could impact multiples. Earnings trajectory, global monetary policy and unknowns emanating from geo-political turmoil could provide cues market moves from here on. We stay cautiously optimistic on the markets.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Large Cap	Nifty 50	24,131	Neutral

Key Takeaways

- **Investors to deploy 30% - 40% towards large cap as lumpsum investments with balance over next 6 months**

Source: Prices as of 29th Nov' 24; Bloomberg

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Mid and Small Cap

During the last 12 months, midcaps and smallcaps have gained around 35%, and outperformed largecaps, which have risen 20%.

- Nifty 50 or Large Cap stocks thus offer a reasonable margin of safety to allocate incrementally v/s Mid Caps and Small Caps.
- After the continued rally and relative rich valuations in SMID segment (with minimal earnings revision support) we believe it's a good time to book profits and remain underweight small and mid caps by bringing allocations closer to 10% and 20% respectively.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Mid and Small Cap	BSE Midcap	46,071	Underweight

Key Takeways

- **Mid and small cap allocations to be staggered over 6m horizon but capped at tactically lower weights stated above.**

Source: Prices as of 29th Nov' 24; Bloomberg

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Change in MPC stance reflected that there is higher confidence to cut policy rates in the near future, provided geopolitical tensions stabilise & the disinflation in food prices is stronger. We expect a cumulative 25bps - 50bps cut in policy rate over the course of FY25.

- Our view remains that Indian government bonds, are attractively poised given that this moment represents a coming together of structural macroeconomic bullish factors for India and a global peaking of interest rates
- The current inflation targeting monetary policy regime is well entrenched in policy making. Proactive forex management has helped build formidable reserves and thus offers tremendous buffer to the INR v/s the Dollar.
- Indian bonds are just starting to be discovered by FPIs from an allocation perspective and upside is massive. Being the 5th largest economy and heading towards being number 3 soon, alongside a superlative macro narrative, we expect a meaningful bond allocation to start building up.
- Fiscal deficit is expected to consolidate further at 4.9% of GDP for FY25 and glide path of achieving fiscal deficit of 4.5% of GDP in FY26 has been laid out. This allays any lingering fears over fiscal slippages that could result in adverse impact on bond yields.
- With demand expected to be robust, from supply side perspective, government bond supply is actually negative for this fiscal and the next. Thus, next 12m – 18m seem exceptionally well poised for government bonds.
- From bond valuation point of view, 10-year yields are at 25bps spread over the prevailing Repo rate. Also, real rate is at 3%, while RBI would prefer this to be in the range of 1.5% - 1.75% (repo over prevailing headline CPI). This leaves enough room for the nominal yields to fall.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	G-Sec	10-year G-Sec	6.72%	Positive on medium duration and high yield strategies
	AAA Corporate	3y AAA	7.39%	
	AA Corporate	3y AA	8.18%	
	A Corporate	3y A	9.66%	

Key Takeways

- **In summary, we continue to believe it is an ideal time to lock away current yields for longer duration (elongating portfolio maturities). Real money investors should focus on building duration in their portfolios. This is to safeguard portfolios from reinvestment risk that may arise when the investments made today mature.**
- **Upto 50% of fixed income to be allocated towards medium – long duration strategies.**
- **Further, allocation of upto 35% of fixed income portfolio towards high yielding assets (bonds/funds) is suggested.**
- **Balance 15% of the fixed income portfolio can be allocated towards accrual / shorter term strategies.**

Source: Bloomberg; Bond yields as on 6th Nov 24

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Global Equities

- Offer diversified growth story with preference across world, transformational technology, biotechnology etc., themes that are not available in India
- Prefer Global Equities to diversify portfolio from single currency and market risk

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Global Equities	US	S&P 500	6,032	Neutral
	Europe	MSCI Europe	171	
	China	Shanghai Composite	3,326	

Key Takeaways

- **Recommend buy on dips or staggered investment strategy**

Precious Metal

- Gold prices have seen a record breaking year in terms of returns as the prices have hit new highs in 2024.
- Traditionally, a weaker USD and lower U.S. rates increase the appeal of gold. But a significant decoupling started to emerge in early 2022 and gold's relationship with U.S. real yields has broken down even further this year.
- With global macro narrative surrounding rate cuts going ahead, gold stands to benefit as historically gold returned an average of 6% in the six months following the start of rate cutting cycles.
- A general aversion to short bullion financially, despite the outsized rally, underscores gold's structurally bullish drivers outside of U.S. real yields. Geopolitical uncertainty, Central bank buying, monetary policy changes and ETF flows to support gold prices / demand in 2025 as well.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Precious Metal	Gold	LBMA USD	2,651	Neutral

Key Takeaways

- **The structural bull case for gold remains intact, even as prices have risen sharply.**

Source: Prices as of 29th Nov' 24; Bloomberg

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Commodities – Crude

- Growth in oil production next year will come mostly from non-OPEC countries because of ongoing production restraint on the part of OPEC+. OPEC+ announced that it would delay production increases until April 2025.
- EIA forecast suggests that global oil production will increase by 1.6 million barrels per day (b/d) in 2025.
- OPEC+ is generally expected to raise production in line with the new target levels through much of 2025, as the announced targets align with production that EIA expects will keep oil markets relatively balanced next year.
- EIA expects the Brent crude oil spot price will remain close to its current level in 2025, averaging $74 per barrel for the year, as oil markets will be relatively balanced on an annual average basis
- While weaking demand from China puts a lid to prices, geopolitical unrest that could disrupt global oil supply provides a floor to the prices.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Commodities	Crude	Brent Crude (US$/bbl)	72.9	Neutral

Source: Prices as of 29th Nov'24, Bloomberg

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Emerging Markets underperformance continued in November

India outperformed EMs; Crude prices cooled off; Gold prices came off record highs; SMID outperformed; Bond yields softened

As of 29th Nov 2024 EM and DM	Current Level	1M	3M	6M	1Y	CYTD24	CY23	CY22	CY21	CY20	CY19
MSCI Emerging Markets	1,079	-3.7%	-1.9%	2.8%	9.3%	5.4%	7.0%	-16.9%	-4.6%	15.8%	15.4%
MSCI World Index (Developed equities)	3,810	4.5%	4.1%	10.6%	26.0%	20.2%	21.8%	-1.9%	20.1%	14.1%	25.2%
Key Equity Indices											
S&P 500	6,032	5.7%	6.8%	14.3%	32.1%	26.5%	24.2%	0.1%	26.9%	16.3%	28.9%
MSCI Europe	171	0.9%	-3.0%	-1.7%	10.2%	6.3%	12.7%	-0.6%	22.4%	-5.4%	22.2%
Nikkei	38,208	-2.2%	-1.1%	-0.7%	14.1%	14.2%	28.2%	16.2%	4.9%	16.0%	18.2%
Shanghai Composite	3,326	1.4%	17.0%	7.8%	9.8%	11.8%	-3.7%	-18.3%	4.8%	13.9%	22.3%
Nifty	24,131	-0.3%	-4.4%	7.1%	19.9%	11.0%	20.0%	25.2%	24.1%	14.9%	12.0%
BSE MidCap	46,071	0.2%	-6.1%	7.5%	34.5%	25.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE SmallCap	55,200	0.4%	-1.5%	16.8%	36.7%	29.4%	47.5%	44.9%	62.8%	32.1%	-6.8%
Other Assets (levels)											
Brent Crude	72.9	73.2	78.8	81.6	82.8	77.0	85.9	77.8	51.8	66.0	53.8
Gold	2651.1	-3.0%	5.5%	12.9%	30.2%	27.6%	14.6%	15.1%	-4.3%	24.6%	18.4%
Dollar index	105.7	104.0	101.7	104.7	103.5	101.3	103.5	95.7	89.9	96.4	96.2
Credit/ yields (%)											
India 10 year G-sec	6.74	6.85	6.86	6.98	7.28	7.17	7.33	6.45	5.87	6.56	7.37
US 10 year G-sec	4.17	4.28	3.90	4.50	4.33	3.88	3.87	1.51	0.91	1.92	2.68
Germany 10 year G-sec	2.09	2.39	2.30	2.66	2.45	2.02	2.57	-0.18	-0.57	-0.19	0.24

Source: Bloomberg

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SMID hold on to their gains while Nifty corrects; IT Sector outperformed

As of 29th Nov 2024	1M	3M	1Y	CYTD24	CY23	CY22	CY21	CY20	CY19
Overall Markets									
Nifty	-0.3%	-4.4%	19.9%	11.0%	20.0%	25.2%	24.1%	14.9%	12.0%
Nifty Equal weight	-2.4%	-7.9%	20.8%	11.8%	29.8%	38.0%	32.6%	17.6%	2.7%
BSE Mid cap	0.2%	-6.1%	34.5%	25.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE Small Cap	0.4%	-1.5%	36.7%	29.4%	47.5%	44.9%	62.8%	32.1%	-6.8%
Styles									
Nifty 200 Quality 30	-0.2%	-6.8%	23.7%	15.2%	29.9%	21.7%	nm	nm	nm
MSCI India Value	0.1%	-6.0%	25.0%	15.0%	25.9%	24.1%	31.5%	23.7%	9.6%
MSCI India Growth	-0.1%	-5.1%	25.5%	17.3%	14.8%	20.0%	22.7%	10.1%	7.3%
Financials									
NSE Financials	0.5%	1.6%	19.7%	11.7%	13.2%	24.0%	14.0%	4.5%	25.6%
Nifty Bank	1.1%	1.4%	17.0%	7.8%	12.3%	36.1%	13.5%	-2.8%	18.4%
Nifty Private Bank	0.4%	-1.4%	9.5%	1.8%	13.8%	37.9%	4.6%	-2.9%	16.2%
Nifty PSU Banks	1.3%	-2.5%	35.2%	19.3%	32.3%	125.8%	44.4%	-30.6%	-18.3%
Asset heavy sectors									
BSE Oil and Gas	-2.3%	-18.7%	30.5%	16.5%	12.8%	31.5%	24.3%	-4.4%	7.2%
BSE Capital Goods	2.3%	-3.4%	41.4%	27.1%	66.9%	93.5%	53.4%	10.6%	-10.0%
BSE Utilities	-6.5%	-9.7%	45.2%	21.0%	32.6%	62.0%	64.4%	-0.4%	-7.3%
NSE Infrastructure	-1.0%	-7.3%	32.6%	19.6%	39.1%	47.5%	35.6%	12.2%	2.5%
Services oriented sectors									
NSE IT	6.8%	0.8%	32.4%	21.5%	24.1%	-8.2%	59.6%	54.9%	8.4%
BSE Telecom	1.5%	-12.0%	37.0%	29.0%	30.8%	24.9%	43.0%	13.6%	12.9%
NSE Financial services	0.5%	1.6%	19.7%	11.7%	13.2%	24.0%	14.0%	4.5%	25.6%
Others									
NSE Media	-1.1%	-5.1%	-13.1%	-16.4%	19.9%	7.6%	34.6%	-8.6%	-29.7%
NSE Auto	-0.6%	-10.7%	33.1%	25.5%	47.6%	70.2%	19.0%	11.5%	-10.7%
NSE FMCG	-2.1%	-8.1%	9.3%	1.7%	29.0%	51.6%	10.0%	13.5%	-1.3%
NSE Pharma Index	-2.2%	-4.2%	37.0%	32.1%	33.6%	18.3%	10.1%	60.6%	-9.3%
NSE Real Estate	2.1%	-3.2%	43.0%	30.3%	81.3%	61.7%	54.3%	5.1%	28.5%

- Mid Caps underperformed; Small caps performed inline; Growth style did better than Value strategy.
- On CYTD basis, Nifty is up 11.0% with Mid Cap and Small Cap indices delivering 25.1% and 29.4% respectively.
- Broader markets outperformance over Large cap continues after delivering a healthy outperformance in CY22 and CY23
- IT (6.8%), Capital Goods (2.3%) and Real Estate (2.1%) were the top gainers in November 2024
- Value outperformed Growth in the past month
- Utilities (-6.5%), Oil & Gas (-2.3%) and Pharma (-2.2%) were the most underperforming sectors in November 2024.

Source: Bloomberg

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Global Macro & Markets

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Dovish policies expected to continue to support growth as we enter 2025

	Quarterly GDP Sept-24 SA qoq (%)	Inflation Oct-24 yoy (%)	Current Policy Rate Nov-24	10Y bond yield 11-Dec-24
US	2.8%	2.6%	4.50% - 4.75%	4.31%
Europe	0.4%	2.0%	3.25%	2.12%
Japan	0.7%	2.3%	0.25%	1.07%

USA

Upcoming FOMC meeting scheduled for Dec. 18 is expected to bring lower interest rates in the U.S. American traders are pricing in about an 85% chance of a quarter-point rate cut. Powell indicated the Fed is cautiously approaching the neutral rate, with no urgency for aggressive cuts, and election results won't impact near-term policy. Future rate decisions remain uncertain, influenced by incoming data and potential policy proposals, suggesting extended uncertainty around the Fed's rate path. The previously included sentence about having "greater confidence" that inflation is moving sustainably back to the 2% target was notably absent in latest press statement. Beyond December, the rate path is very uncertain. As well as considerations around the neutral rate, the Fed may have to consider the inflation and growth impact of policy proposals. Market Markets are currently projecting roughly two cuts in 2025, per Bloomberg data. Economists expect the Fed Funds rate in a range of 3.5% - 3.75% at the end of 2025.

Europe

The market is going into the European Central Bank meeting with the baseline expectation of a 25bp cut and only a very small tail risk of a bigger 50bp cut. An updated staff forecast that would see the inflation target being reached sooner next year would allow the ECB to pair the smaller cut with a more dovish tone. With a terminal rate pricing of 1.75% the market is already geared towards the central bank taking interest rates into accommodative territory next year. But a dovish stance this meeting would probably allow the market to further undershoot this level if the outlook were to worsen, sensing that the ECB could be even more inclined to supporting growth.

Japan

The Bank of Japan (BoJ) unanimously maintained its key short-term interest rate at around 0.25% during its October meeting, keeping it at the highest level since 2008 and matching market estimates. The verdict came as the BOJ strives to normalize its monetary policy after a long-held ultra-easy approach, without hurting the country's economy. Board roughly maintains inflation forecasts. It said risks around the U.S. economy were somewhat subsiding, signaling that conditions are falling into place to raise interest rates again.

Source: Bloomberg

Bond yields have a message for the Fed

First Fed Rate Cut After a Hiking Cycle (1995 - 2024)				10-Year Treasury Yield		
First Fed Rate Cut	Move	Fed Funds Rate after Cut	10-Yr Treasury Yield Day Before Cut	1 Month After Cut	2 Months After Cut	3 Months After Cut
9/18/2024	50 bps cut	4.75% - 5.00%	3.66%	4.08%	4.42%	?
8/1/2019	25 bps cut	2.00% - 2.25%	2.02%	1.47%	1.64%	1.73%
9/18/2007	50 bps cut	4.75%	4.47%	4.50%	4.08%	4.12%
1/3/2001	50 bps cut	6.00%	4.92%	5.16%	4.95%	4.97%
9/29/1998	25 bps cut	5.25%	4.59%	4.50%	4.72%	4.68%
7/6/1995	25 bps cut	5.75%	6.19%	6.48%	6.17%	6.06%

75bps reduction in the rate cut expectation; Market now expects terminal Fed Funds rate ~3.7-3.8% vs. 3% two months ago

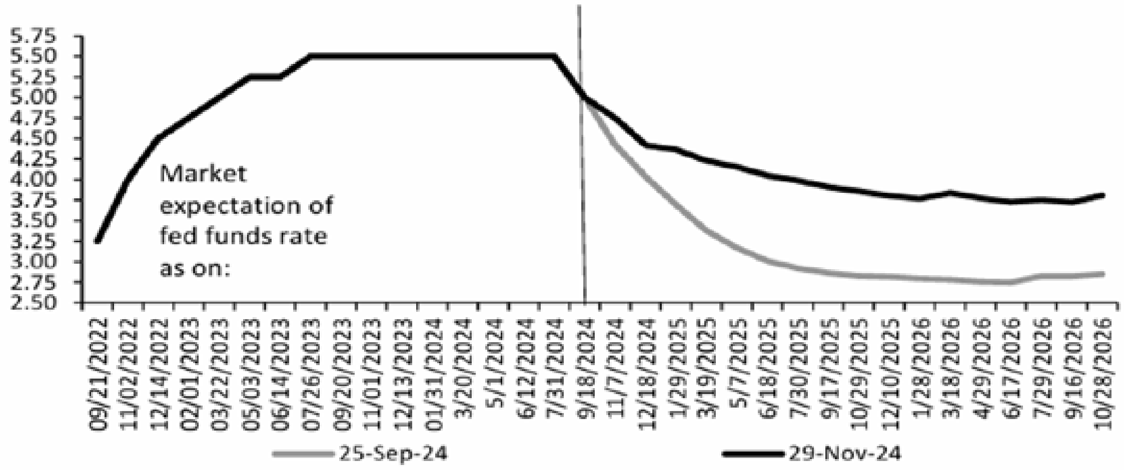

Figure 1.

- It's been two months since the Fed first cut rates and the 10-year Treasury yield is 76 bps higher, moving from 3.66% up to 4.42%.
- That's very different behavior than the start of previous cutting cycles where the 10-year Treasury yield either moved lower or stayed roughly the same.
- Rate of inflation has lowered, but overall CPI still around 2.6% and Core above 3% for 42nd month in a row! The road back to the easy money policies of the past will not be an easy one.
- Dramatic shift seen in Fed Funds Futures over past 2m, with expectation for end 2025 moving from 2.8% up to 3.8% (100bps lesser cuts) – Dec'24 cut probability has fallen from 72% to 55% now

Source: Charlie Bilello Blog; SBI MF Research

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Up To $2 Trillion In Cash Could Find A New Home!!

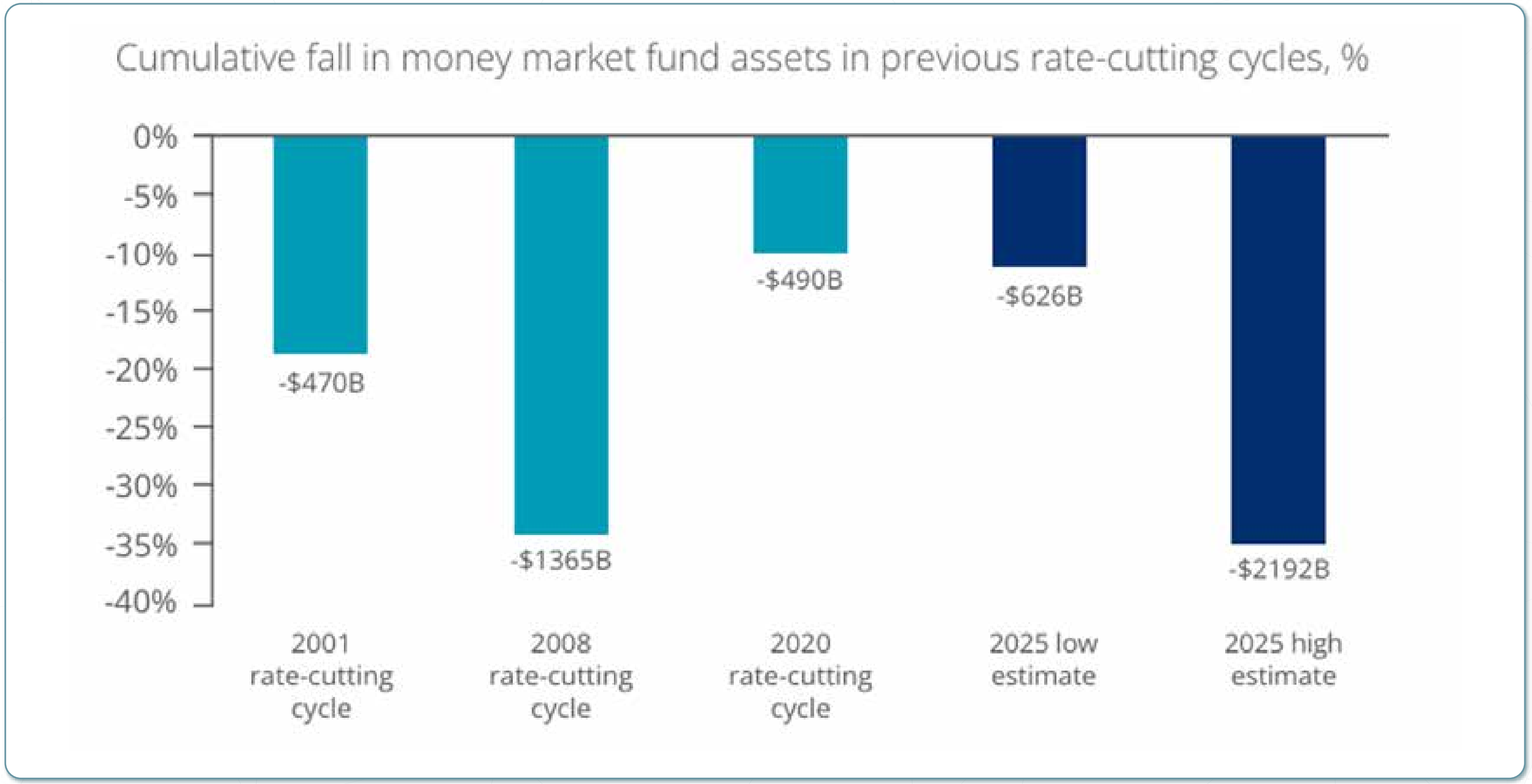
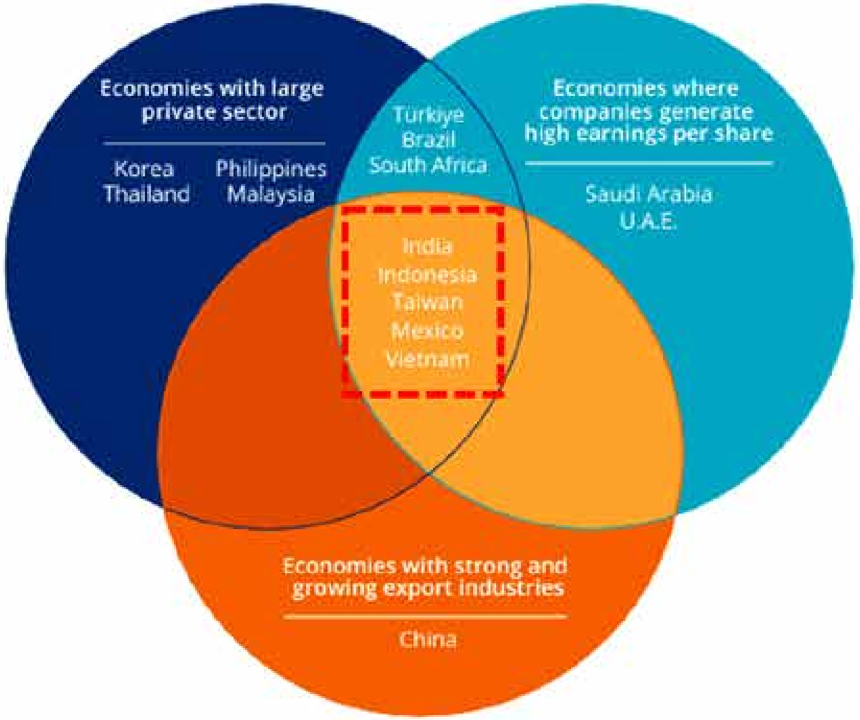


Figure 2. – Cumulative fall in money fund assets in previous rate-cutting cycles, %

- One way to increase portfolio resilience is to increase the share of total return that is driven by income
- Many investors will be looking for new sources of income as cash and Treasury bill yields decline
- If history is any guide, somewhere between $600 billion and $2.2 trillion of money market fund assets will move to find a new home!
- While returns are subject to market fluctuations, high yield investors may find opportunities for attractive returns

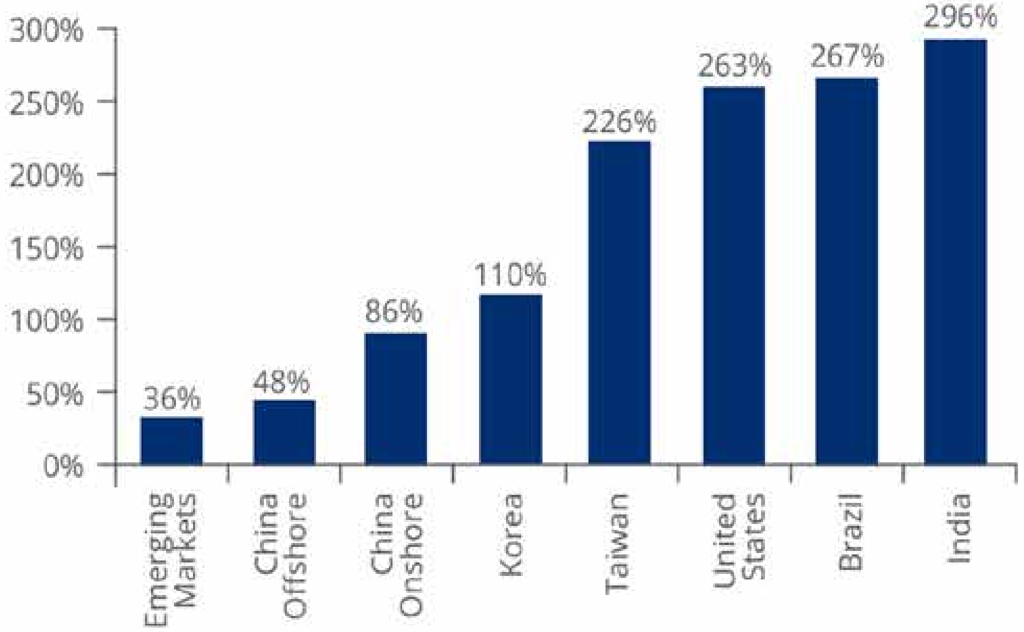
Source: Bloomberg Finance L.P. Data as of September 30, 2024

What could FPIs look at when investing in EMs? – India stands out



Source: J.P. Morgan Wealth Management.

Earnings growth by region, local currency, September 2009–September 2024, %



Source: Bloomberg Finance L.P. Data as of September 30, 2024.
Note: Emerging Markets denoted by MSCI Emerging Markets, China Offshore by MSCI China, China Onshore by CSI 300, Korea by KOSPI, Taiwan by Taiex, United States by S&P 500, Brazil by Bovespa, and India by SENSEX Index.

- Economies that fit in the center of the Venn diagram (on the left) – a combination of thriving private sectors with minimal governmental interference, companies that value shareholders and grow earnings, and growing exports.
- Certain pockets of emerging markets have grown profits at an impressive rate certain pockets of emerging markets have grown profits at an impressive rate – India / Brazil stand out amongst EMs

Source: Bloomberg; I-Sec research

About Bull Markets

Figure 4. – MSCI World bull markets, %

- Since 1970s, we have seen 12 Bull markets (globally)
- Median returns generated by a bull markets has been 103% and the bull market has lasted 29 months (median)
- Shorted bull market being for 14m in 2019 – 2020 and the longest being between 1990 and 1998 lasting 94 months!
- The current bull market that we are witnessing has been going on for the past 24 months
- The questions is – Will the trend sustain in 2025?

Source: Bloomberg; Jefferies

India Macro Outlook

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High frequency indicators suggest economy showing tapering growth

- GST collections at ₹1.82 trn with 8.5% yoy growth (rate of growth has reduced); Auto sales drop in Nov'24; Credit growth momentum continues to slowdown; Core industries output growth also positive but low
- In absolute terms, GST collections momentum fell. Also, the growth rate of GST collections has dropped and remains consistently below estimated nominal GDP growth of 10.5% for FY25 – GST collections have on an average grown at 9.5% this FY.
- Manufacturing PMI remains in expansionary phase

	As on	Unit	Latest	Last	One year back
O/s non-food Credit Growth	Oct-24	yoy (%)	12.8%	14.4%	15.5%
Consumption					
Auto Volumes					
PV	Nov-24	Units Sold	3,21,943	4,83,159	3,73,140
2W	Nov-24	Units Sold	26,15,953	20,65,095	22,58,970
Industries					
Power Consumption	Oct-24	yoy (%)	5.1%	0.7%	8.2%
Manufacturing PMI	Nov-24	X	56.5	57.5	56.0
Core Industries output	Sept-24	yoy (%)	3.1%	2.4%	12.7%
Overall, Economy					
GST Collection	Nov-24	Rs Trn	1.82	1.87	1.68

Source: Bloomberg, FADA, Company Data

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Real GDP growth slows in Q2FY25

- The Indian Economy growth softened to its 7-month low, at 5.4% in Q2FY25 compared to 8.8% in Q4FY24, which was well below what the market anticipated i.e. 6.9%
- Agricultural sector rebounded back for the quarter as it recorded a print of 3.5% compared to a print of 2%
- However, the concerns around global growth and ongoing geopolitical tension has impacted the exports which slowed down by 5.9% for the quarter.
- Performance in the manufacturing and construction sector for the quarter slowed down considerably.
- This time around even the energy sector slowed down, clocking in the lowest print in the last one year.
- Services sector remained stable for the year as it grew by 7.1% compared to 7.2% in Q1FY25.
- Going forward, with normal monsoon, expected pickup in government spending in the coming months, a pickup in consumption spending to aid recovery in the second half of the year

	As on	Unit	Latest	Last	1 year back
GDP quarterly	Sept-24	yoy (%)	5.40%	6.70%	8.10%
GDP Annual	FY24	yoy (%)	8.20%	7.00%	9.70%
Inflation	Oct-24	yoy (%)	6.21%	5.49%	4.87%
Policy Rate	Dec-24	%	6.50%	6.50%	6.50%
IIP	Sept-24	yoy (%)	3.10%	4.80%	10.9%
INR/USD	Nov-24	X	84.56	84.06	83.36

Source :Bloomberg, MOSPI

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Quarterly GDP underwhelms, slowing to a 7-quarter low

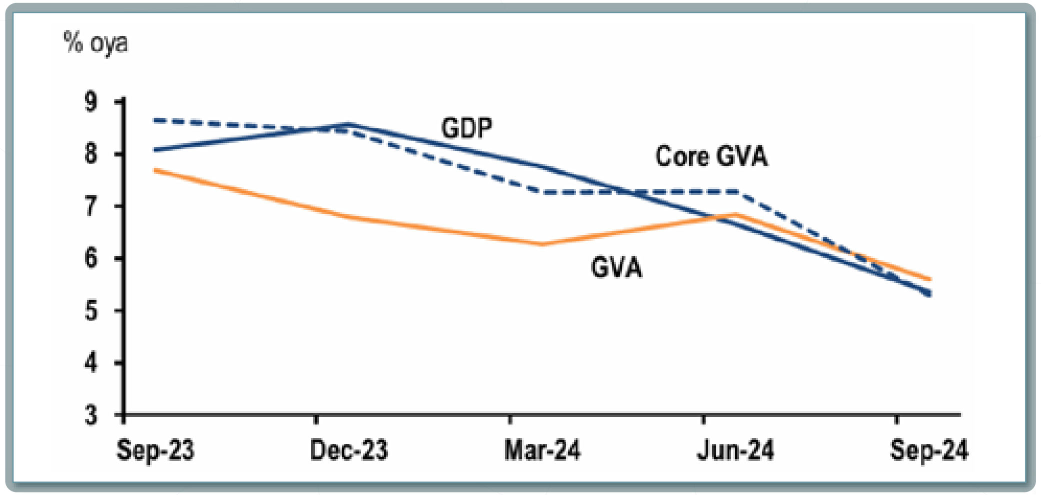

Figure 5. – GDP, GVA and Core GVA

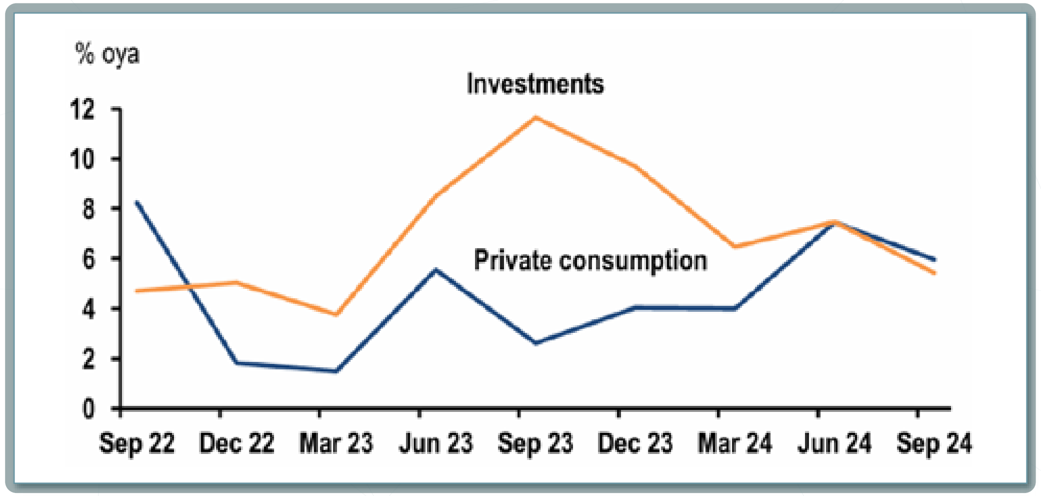

Figure 7. – Private consumption and Investments

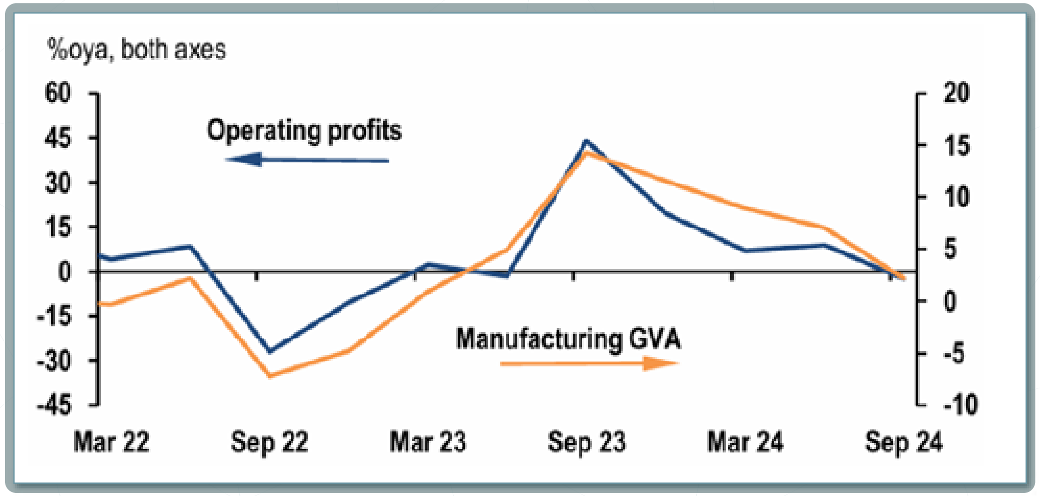

Figure 6. – Manufacturing GVA and Operating profits

- India's 3Q GDP (July-September) slowed to 5.4%, the lowest in 7-quarters and much below expectations (6.5%)
- Similarly, core GVA (which excludes agriculture, public administration and subsidies and is therefore more representative of the underlying private sector business cycle) slowed to 5.3%
- FY25 full year GDP expected to grow at 6% - 6.5% than 7% - 7.25% expected by most economists
- MPC rate cut may get pushed to Feb-25 policy given higher inflation and expectation of growth in H2FY25

Source: RBI, MoSPI, J. P. Morgan

Flows, Valuations, Earnings

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FIIs remained net sellers in Nov'24; MFs remain buyers of equities

- FIIs were net sellers of Indian equities at $2.56bn in Nov-24. DIIs were net buyers at $5.27bn. MFs were net buyers at $3.81bn.
- FIIs have net sold Indian equities in CY24 to the tune of $1.70bn while MFs net bought India equities to the tune of $48.85bn in CY24.
- FIIs were net buyers in debt markets at $0.14bn while MFs were net sellers at $3.95bn in the month of Nov-24.
- In CY24, FIIs bought $12.86bn of Indian debt, while MFs sold $34.25bn.
- SIP flows have averaged ₹23,071 so far in this fiscal vs ₹16,601cr in the last fiscal; Nov'24 SIP flows were at ₹25,320 cr.

Figure 9. - FIIs turn net sellers, DIIs and MFs continue to be net buyers of Equities

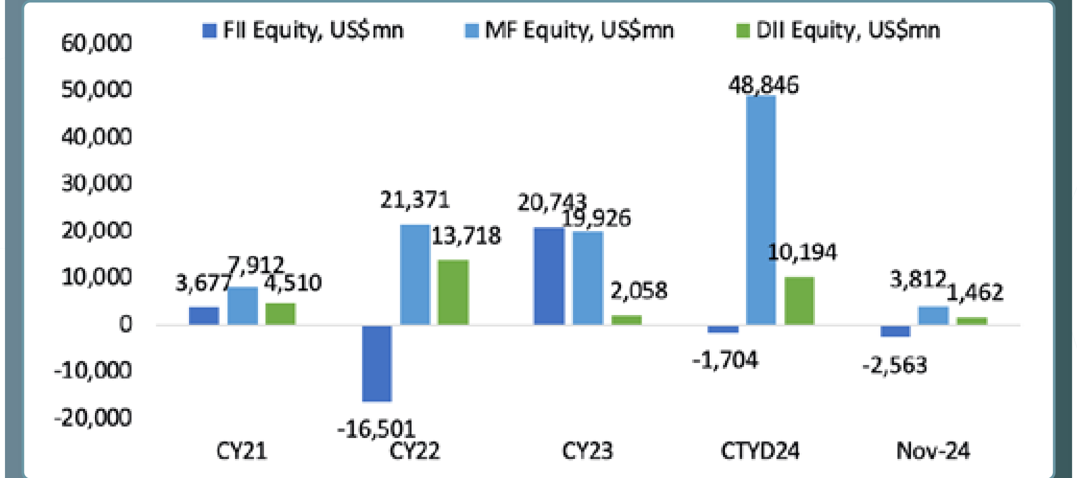


Figure 8. - Nov-24 SIP flows at Rs253bn, up 48%yoy

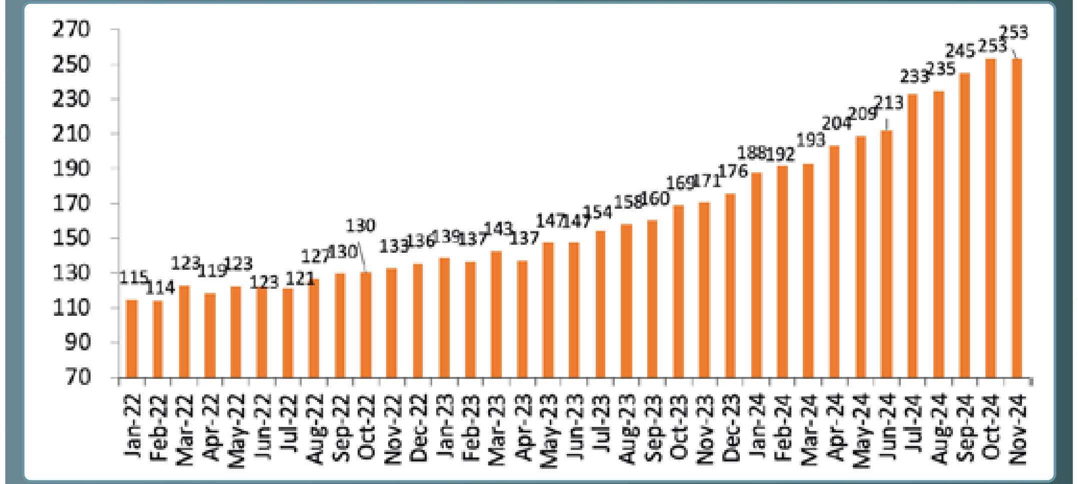
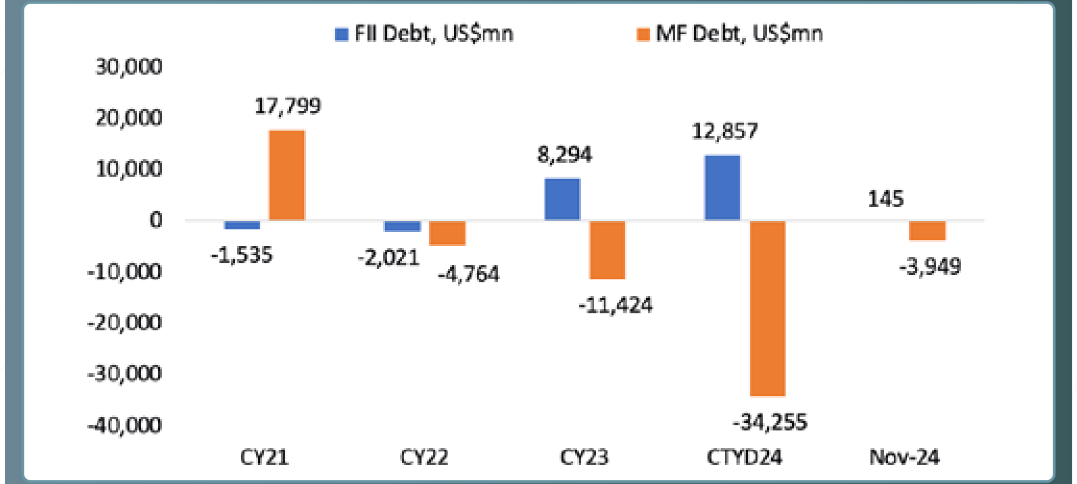


Figure 10. - FIIs turned net buyers of Indian debt in CY24; MFs have been sellers



Source: Bloomberg, NSDL, SEBI, AMFI

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Foreign flows weak, but Domestic flows remain supportive

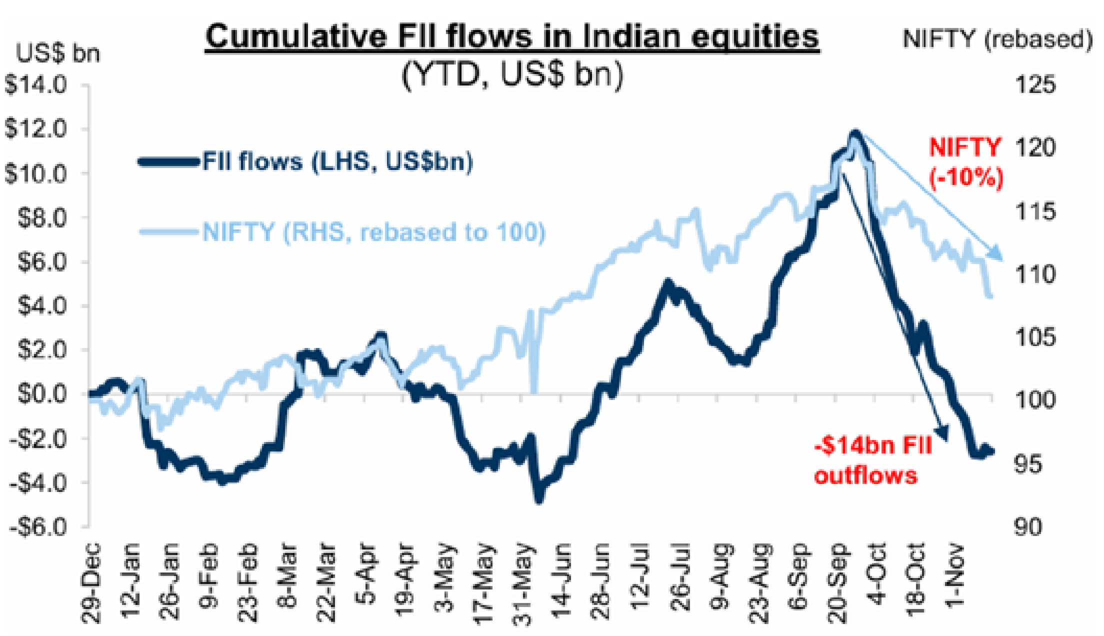

Figure 11. – Cumlative FII flows in Indian equities

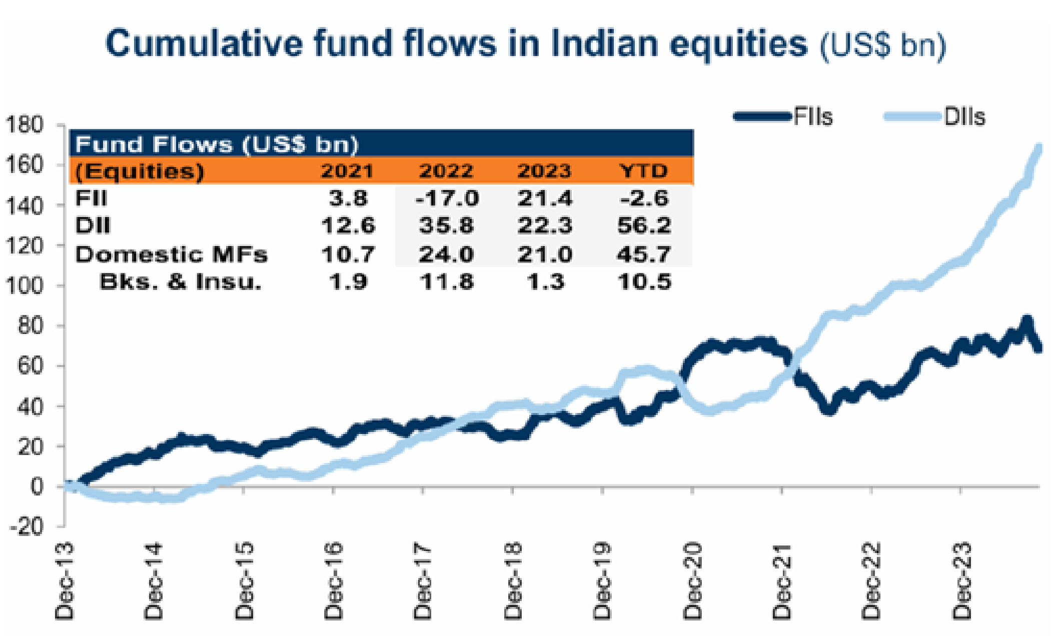

Figure 12. – Cumlative fund flows in Indian equities

- Foreign investors have seen sharp selling of US$14bn from peak over the past 2 months; NIFTY has declined by c.10% during the sell-off
- While foreign investors have been net sellers ytd, domestic investors have remained strong buyers (net buying nearly US$60bn ytd)
- DII strong show has been helped by record retail inflows via SIPs
- This could limit any further large 'price' correction in the markets.

Source: Goldman Sachs India Strategy Report

Nifty valuations significantly above long period average; further upside to be limited till valuation argument further improves.

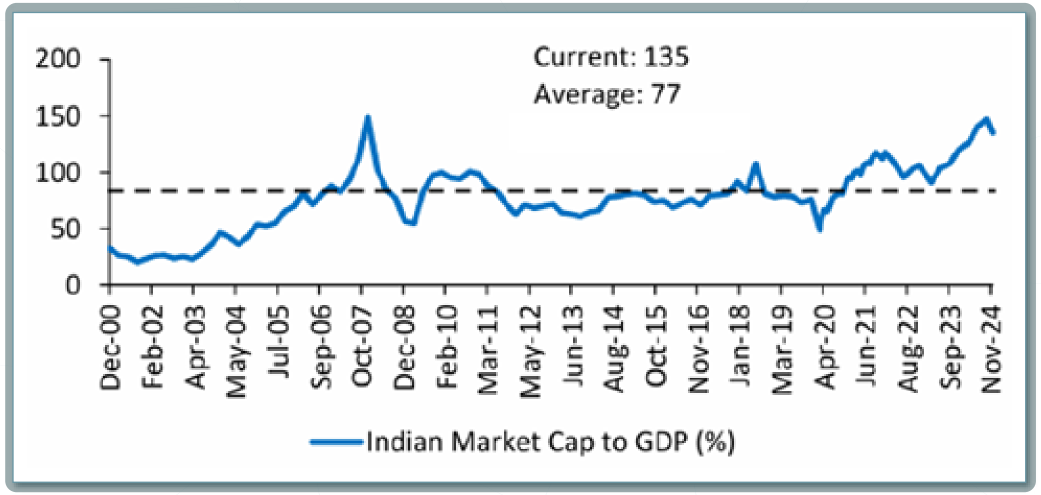

Figure 13. – India's market cap to GDP expensive, continues to move higher

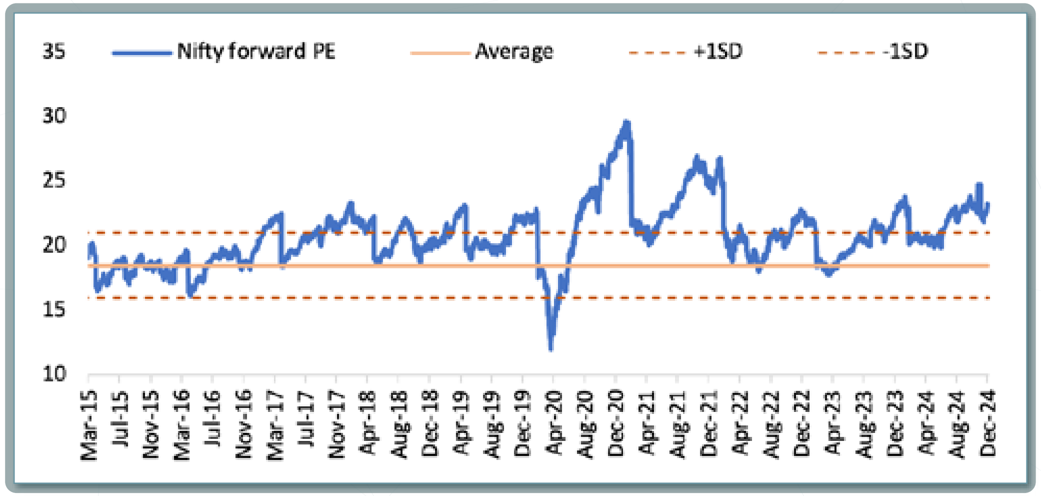

Figure 15. – Nifty forward PE has moved above Average + 1sd levels

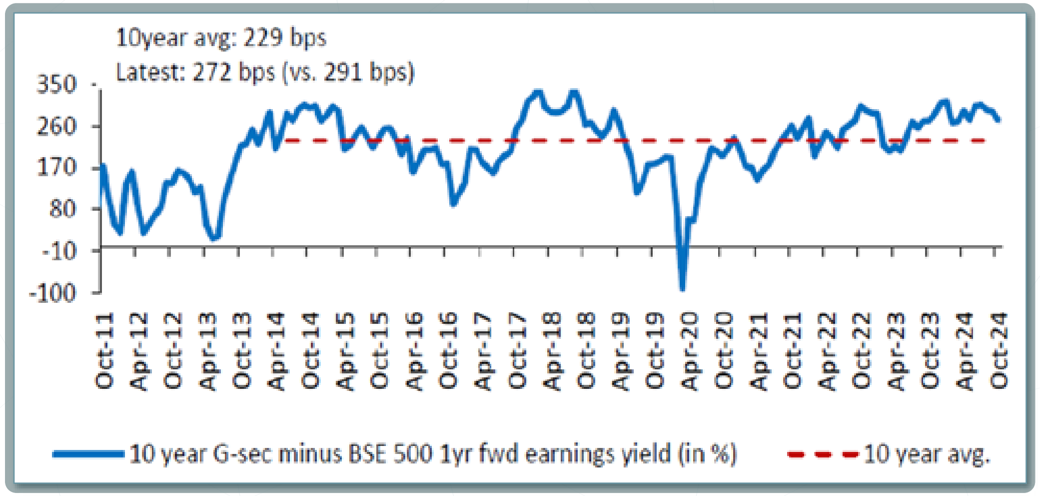

Figure 14. – Gap between G sec and Nifty earning yields indicate bonds are attractive

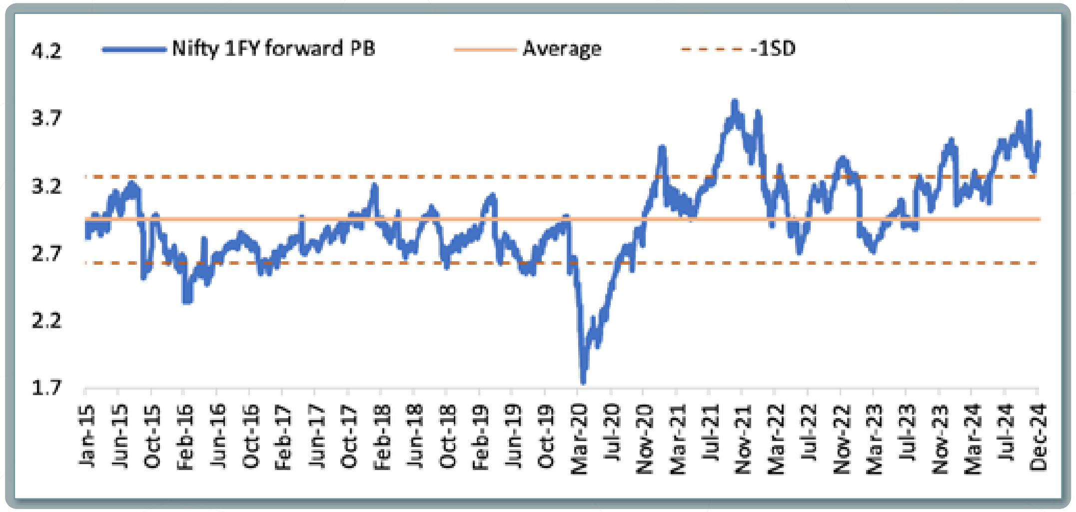

Figure 16. – Nifty PB at +2SD above LPA

Source: SBIMF Research, Bloomberg

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Range-bound near-term markets on weak earning; high PE, back-ended returns

MSCI India Forward Return by Starting P/E and Forward Earnings (since 2003)					
		When earnings see..			
		Upgrades		Downgrades	
When MSCI India	# of	Average Returns		Average Returns	
starting fP/E is...	obs	3-mo	6-mo	3-mo	6-mo
Less than 14.0x	56	12 %	26 %	7 %	13 %
14.0x to 16.5x	51	9 %	18 %	1 %	4 %
16.5x to 18.0x	52	7 %	11 %	2 %	3 %
18.0x to 20.0x	47	7 %	15 %	(2)%	(4)%
Greater than 20.0x	50	5 %	12 %	2 %	0 %
Aggregate since 2003	**256**	**8 %**	**16 %**	**2 %**	**4 %**

Figure 17. – MSCI India Forward Return by Starting P/E and Forward Earnings (Since 2003)

- History suggests muted 3/6m returns when starting valuations are high and earnings are seeing downgrades
- Valuations have de-rated 8% after the recent pullback, but still trade at nearly 23x fwd
- Focus on quality growth, earnings visibility, targeted alpha themes

Source: FactSet, Refinitiv Eikon, MSCI, Goldman Sachs Global Investment Research

InCred Wealth

How have Indian markets traded the 'slowdown' phase?

MSCI India performance and earnings during growth slowdown periods

Start	End	# Months	Growth Slowdown (qoq, CAI, pp)	Performance: MSCI India Returns (LOC, %)	Performance: MSCI India Returns (USD, %)	EPS Revision: MSCI India Fwd. EPS Revision (%)	EPS Revision: EPS cuts?
Oct-08	Feb-09	3	-6.0%	-11%	-14%	-24%	1
May-11	Nov-11	5	-2.3%	-15%	-26%	-8%	1
May-12	Oct-12	5	-1.3%	13%	18%	-3%	1
May-13	Jan-14	8	-0.7%	3%	-7%	-7%	1
Jan-15	May-15	4	-0.9%	-4%	-6%	-7%	1
Nov-16	Feb-17	2	-1.8%	7%	10%	-3%	1
Feb-20	Jun-20	4	-33.4%	-6%	-10%	-29%	1
Apr-21	Jul-21	3	-8.6%	9%	8%	2%	0
Aug-22	Nov-22	2	-1.5%	3%	1%	-1%	1
Apr-24	Oct-24	6	-0.4%	7%	6%	-3%	1
Overall	Average	4	-6%	0%	-3%	-9%	
	Median	4	-2%	3%	-6%	-7%	
	% Occurrence						89%
Non-Recession (excludes 2008/09 and 2020 periods)							
	Average	4	-2%	3%	0%	-4%	
	Median	4	-2%	3%	1%	-3%	
	% Occurrence						86%

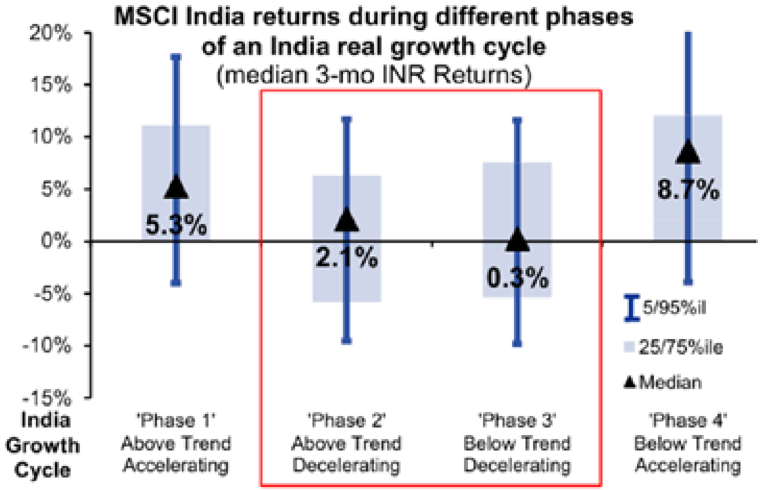


Figure 18.

- While long term growth remains intact, economic growth has been cyclically slowing down across many pockets in recent months
- In the coming year, GDP growth is expected to decelerate, with lower inflation, shallower easing cycle, tighter fiscal and a contained current account deficit
- In the 9 prior episodes of economic growth slowdown, MSCI India saw modestly positive local returns, but saw earnings cuts depending on the extent of economic slowdown
- During the 'slowdown' phases, returns are lower but still positive with three-month median returns for MSCI India index at 2.1% for phase 2 and 0.3% for phase 3. This suggests equity returns tend to be lower but positive during periods of slowing growth.

Source: FactSet,MSCI,RefinitivEikon,GoldmanSachs,GlobalInvestmentResearch

Equity Market Outlook

InCred Wealth

Post a 6% correction in October, the Indian stock market was broadly flat in November.

- The Nifty Index has been impacted more than the mid and small caps as FPIs pulled out of India even as the valuation arguments are relatively in favour of large caps over the broader markets..
- 2QFY25 earnings season which has seen the biggest earnings downgrades since early 2020 reflects cyclical slowdown
- In our view, the correction seems healthy, most particularly as it has impacted the most expensive part of the market, while the relatively inexpensive private sector banks have started to outperform of late.
- Domestic flows continue to remain strong running ahead of expanding supply and also pose a credible counterbalance to FPI outflows.
- The recent print from high-frequency indicators, such as power demand, PMI data, GST collections, also indicates a softening in demand.
- Many consumptions stocks across market caps have corrected sharply alongside downgrades to FY25/FY26 earnings estimates. Given the unforgiving market response to earnings misses so far in Q2 and the likelihood of weak earnings and EPS cuts, we expect it to fall further.
- SIPs / Domestic flows continue to provide support to the markets. Between Promoters, MNC parent, QIPs, IPO / OFS, Private equity fund, there seems to be ample profit booking / supply that is hitting the equity markets and is expected to do so in the coming year.

  With markets at a high, returns would be more stock specific and largely tepid at best in the near term.
- However, the long term structurally positive story for India continues to hold. This demands investors to not skip equities and stay invested.
- Earnings trajectory, domestic economic recovery, global monetary policy and unknowns emanating from geo-political turmoil could provide cues on market moves from here on.
- We maintain a Neutral stance towards equities to accommodate the likely increase in risk perception which could impact multiples.

1: Nifty December 2025 target range based on EPS expectations

	-1SD	10 Year Average	+1SD
Nifty 1-year forward PE	18.6	20.3	22.0
Nifty 50 EPS expectations in FY27		1250	
Nifty range at end of 2025	23,275	25,350	27,438

Key Takeways

- We stay cautiously optimistic on the markets as we believe the Nifty Index to be rangebound in the next 3 – 6 months with a recovery to our Dec 2025 target of ~25,400 driven by underlying earnings growth.

Source: Bloomberg; InCred Wealth

Existing equity holdings

i) It's a good time to revisit equity allocations across investor portfolios. As a steady state allocation within equities, we continue to suggest 60% to Large Caps, 25% towards Mid Caps and balance 15% towards Small Caps as an allocation strategy

ii) However, given the wide outperformance of SMID segment over Large Cap stocks, and the fact that this segment is trading at premium to its average valuations, we think it's necessary to exert some caution here and hence remain marginally underweight in Mid and Small caps. Basis this view, tactically we continue to remain overweight Large Caps (70% of portfolio) and restrict Mid Caps and Small Caps to 20% and 10% respectively.

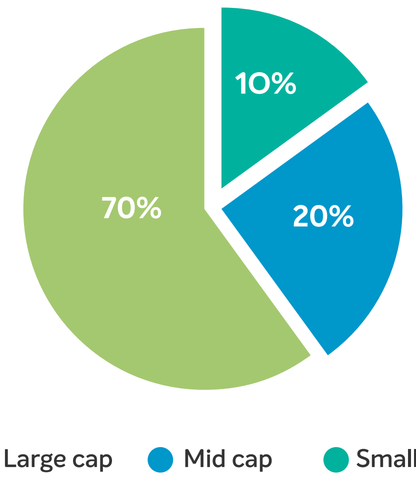
iii) If not already initiated, this continues to be a good time to take profits specially from mid and small cap investments made over past 2 years given the sharp rise in these segments of the market. We envisage a possibility of valuation rationalization here.

iv) Re-invest 30% -40% of these profits immediately as lumpsum back into equities with a large cap tilt. Balance 60% - 70% to be staggered over the next 6 months / partly on market dips.

v) For those under allocated towards the mid and small cap segment, its prudent to deploy over a 6 months stagger or longer.

vi) Alternative investment solutions such as MLD ideas can be considered that generally offer principal protection and accelerated participation in market up-move.

Equity Portfolio Allocation



Investors sitting on the sidelines with cash in portfolios

1) Points ii. through v. in the section above can be followed.

Category	InCred Outlook
Large Cap	Neutral
Mid and Small Cap	Underweight

InCred Wealth

Sectoral View

Sector	View
Financials	Our recent channel check on personal loans in semi-urban areas of Central and Western India indicates a higher focus on pre-approved loans. The next level of lenders is seen streamlining lending norms, with some ruffle at the helm. However, interest rates continue to remain competitive, with HDFC Bank setting the benchmark. Thus, we see that demand continues to remain strong, although lenders continue to walk on a tight rope. We expect the top lenders to continue to grow their personal loan books and see higher caution on mid- to small-size banks and non-banking finance companies or NBFCs. AMC- Mutual funds' AUM in Nov 2024 fell by ~0.7% m-o-m to Rs68tr. We expect the near-term volatility to continue, but we remain optimistic over the mid- to long-term horizon.
Industrial Goods and Services	We expect the strong domestic volume growth to continue led by the transmission cycle push for urban infrastructure and a healthy real estate cycle. Further, the electricals sector is witnessing encouraging signs of a recovery in private capex as well, which is expected to strengthen in coming quarters. We remain Overweight on the electricals sector as the valuations currently factor in a strong capex recovery
Healthcare	Near-term earnings momentum in the US appears sustainable, although growth headwinds post-FY26F and potential policy changes could limit any significant upside. We prefer structural themes like branded/CDMO plays, as US generics now appear fully-priced with limited margin for error. Diagnostics companies witnessed double digit revenue growth led by healthy double-digit volume growth (YoY). The companies witnessed fourth consecutive quarter of margin improvement. B2C companies are strategizing network expansion (tier-3/4 cities), mostly in the northern region (to drive volume growth) and wellness packages (to drive mix).
Information Technology	Furloughs appear to be lesser in 3QFY25F. CY25F IT budget commentary could be constructive. Rising competitive intensity and upfront deal-related investments could continue to weigh on the EBIT margin. We maintain our Overweight stance on the sector as earnings downgrades are behind while improving revenue visibility and INR depreciation could limit the potential cut in margin, which, in turn, could drive an upward revision in earnings.
Autos	We are neutral on the sector as demand recovery seems to be delayed as rising inflation delays interest rate cuts. Festive demand commentaries have been encouraging on a like-to-like period basis. ASP discounts have been universal across product lines.
Consumer Staples	The overall demand trend continues to remain weak, with a gradual improvement in rural demand witnessed during the past quarter; however, urban markets stagnated on account of weak demand, largely led by a slowdown in metro markets (35% sales salience to the FMCG industry). Considering an inflationary environment (low to mid-single digit price hikes expected by our staples pack in FY25F), we expect organized players to regain some lost market share from unorganized/regional players.

Risks that could alter markets

Key risks to watch out for in 2025

InCred Wealth

Trump Government Policy Decisions, Tariffs and Trade war resurfacing

- Evolving trade relations between the United States and China and potential policy shifts under new U.S. leadership, will significantly influence market sentiment
- The coming year will establish national security as the guiding principle of international trade and investment. While global trade is forecast to grow in 2025, globalisation remains under threat as geopolitical competition drives the fragmentation of financial systems and supply chains, while complicating technology choices

Shallow rate cut cycle by the Fed

- Trends in in economic growth and headline inflation will determine the path taken by global central banks in terms of rate guidance and policy stance
- A shallower rate cut cycle could mean relatively lesser fillip to growth and could have a bearing on corporate performance and hence markets
- That also doesn't significantly favour duration assets on the fixed income allocations

Geopolitical developments and market sentiment

- Current geopolitical tensions are fragmented due to the Russia-Ukraine conflict, the US-China rivalry, and regional strife in the Middle East
- Escalation in these conflicts could disrupt global trade, elevate energy prices, and increase inflation.

Rich valuations and slowing corporate earnings is a concern

- If earnings growth does not justify high valuations, market participants might re-rate equities lower, especially in response to external shocks or changes in monetary policy.
- Investors might shift focus to other markets offering similar growth prospects at more reasonable valuations.

Fixed Income Outlook

InCred Wealth

Yield curve continues to remain flat

- G-sec yields have come off over the past few months, across tenures.
- AAA Corporate bond yields have seen some hardening in the 5yr, 7yr and the 10yr corporate bond yield segment
- Movement in rates upto 1yr maturity has been the most subdued.
- Spreads in the AA / A rated segment continue to remain attractive in the 3yr maturity segment. Some spread improvement has been seen in the AAA 3yr segment in the past month.
- Yields were largely stable post the recent MPC policy meeting.

Figure 20. - Yield curve continues to remain flatt

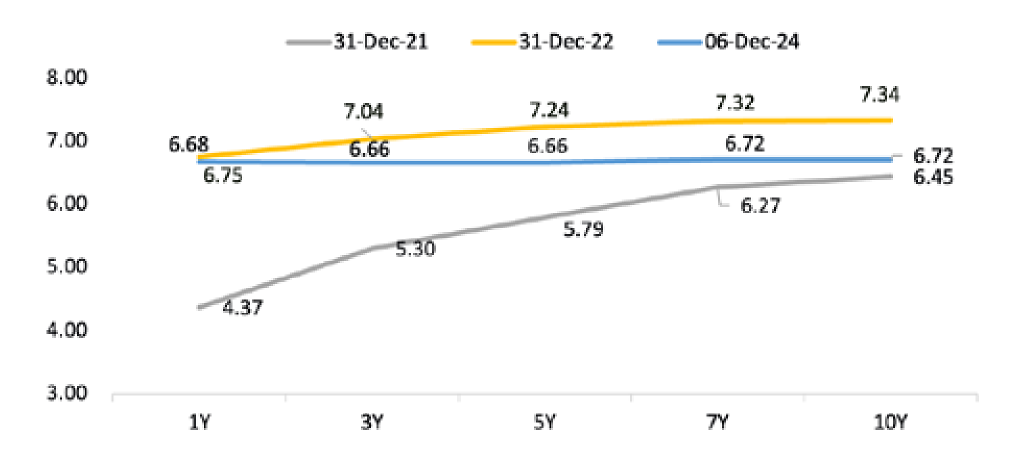
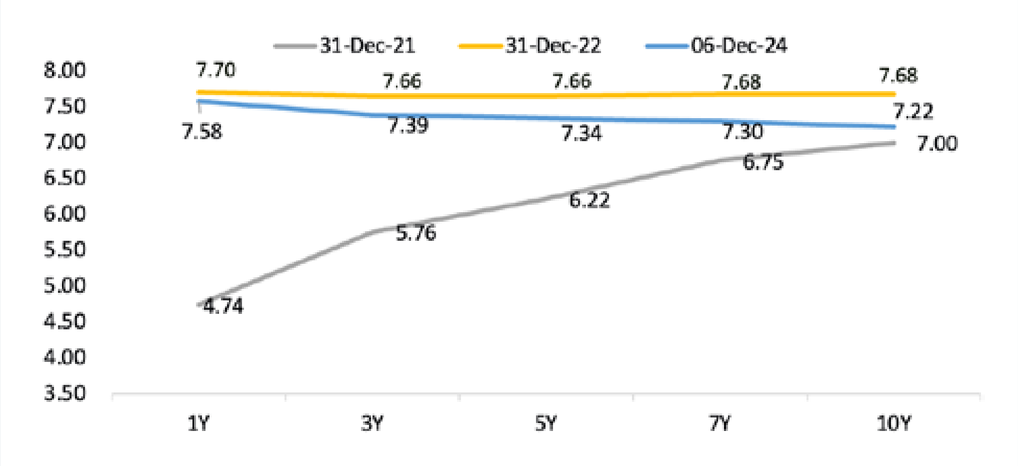


Figure 19. - Issuers with credit rating "A" offers higher credit spreads

3-year tenor	06-12-2024	Dec-23	Dec-22	Dec-21
G sec	6.66	7.23	7.04	5.3
Credit Spreads (bp)				
AAA over G sec	73	56	62	46
AA over AAA	79	67	63	69
A over AAA	227	249	246	260

Figure 21. - AAA Yields followed a similar pattern vis-à-vis G-Sec.



Source: Bloomberg

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Banking system liquidity continues to unwind in the past 2 months

Figure 22. – Banking system liquidity in marginal surplus by end October

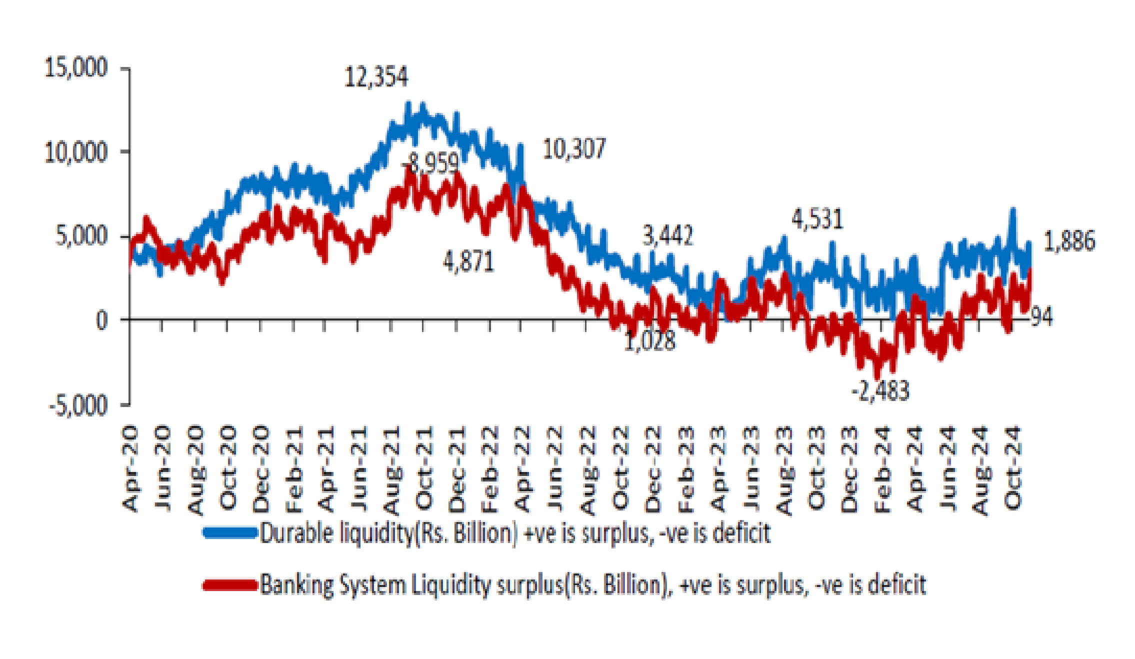
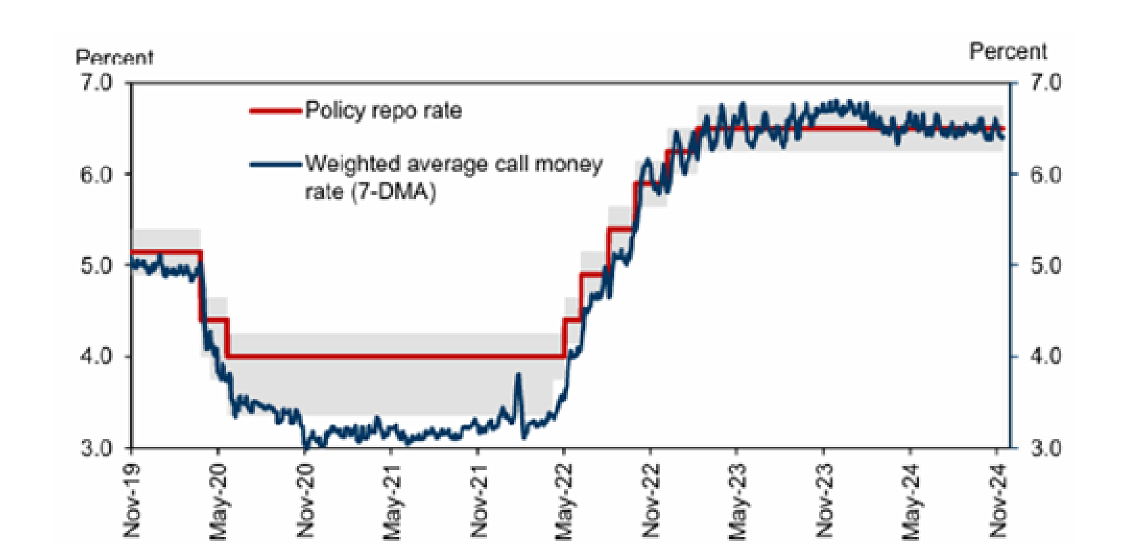


Figure 23. – Overnight rates align close to the Repo rate (shaded area is policy corridor)



NOTE: The shaded area represents the policy corridor, where the upper end represents the MSF and the lower end represents the Reverse Repo or SDF rate. The corridor widened during the pandemic. Weighted average call money rate is the effective rate.

- Currency dynamics have played an important role in shaping the liquidity evolution in the past month
- Material intervention in the Forex market has clearly led to a sharp drawdown in durable liquidity.
- The variation in banking liquidity led by the "Just in time" nature of Government spending would continue to lead to periodic spikes in the overnight rates away from the policy rate.
- With visibility emerging on the liquidity dynamics, the elevated levels at the front end of the curve should settle lower over the coming months.

Source: Bloomberg; SBI MF; Goldman Sachs

InCred Wealth

Outlook

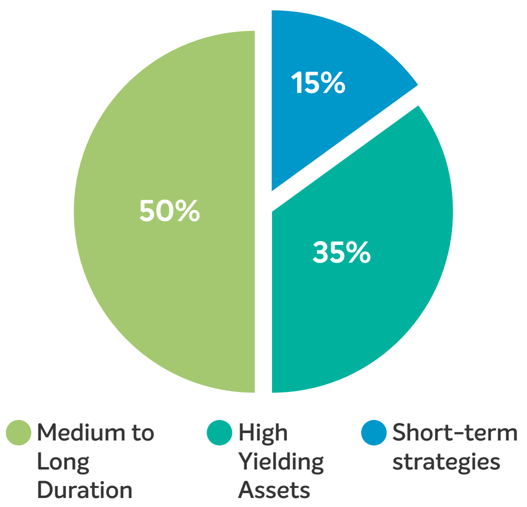
- Change in MPC stance reflected that there is higher confidence to cut policy rates in the near future, provided geopolitical tensions stabilise & the disinflation in food prices is stronger. We expect a cumulative 50bps cut in policy rate over the course of FY25
- Our view remains that Indian government bonds, are attractively poised given that this moment represents a coming together of structural macroeconomic bullish factors for India and a global peaking of interest rates
- The current inflation targeting monetary policy regime is well entrenched in policy making. Proactive forex management has helped build formidable reserves and thus offers tremendous buffer to the INR v/s the Dollar.
- Indian bonds are just starting to be discovered by FPIs from an allocation perspective and upside is massive. Being the 5th largest economy and heading towards being number 3 soon, alongside a superlative macro narrative, we expect a meaningful bond allocation to start building up.
- Fiscal deficit is expected to consolidate further at 4.9% of GDP for FY25 and glide path of achieving fiscal deficit of 4.5% of GDP in FY26 has been laid out. This allays any lingering fears over fiscal slippages that could result in adverse impact on bond yields.
- With demand expected to be robust, from supply side perspective, government bond supply is actually negative for this fiscal and the next. Thus, next 12m – 18m seem exceptionally well poised for government bonds.
- From bond valuation point of view, 10-year yields are at 25bps spread over the prevailing Repo rate. Also, real rate is closer to 3%, while RBI would prefer this to be in the range of 1.5% - 1.75% (repo over prevailing headline CPI). This leaves enough room for the nominal yields to fall.
- In summary, we continue to believe it is an ideal time to lock away current yields for longer duration (elongating portfolio maturities). Real money investors should focus on building duration in their portfolios. This is to safeguard portfolios from reinvestment risk that may arise when the investments made today mature.

Deployment Strategy

- Upto 50% of fixed income to be allocated towards medium – long duration strategies.
- Further, allocation of upto 35% of fixed income portfolio is suggested towards high yielding assets (bonds /funds)
- Balance 15% - 20% could be invested in accrual oriented short-term strategies

Category	InCred Outlook
Fixed Income	Positive on medium to long duration and high yield strategies

Fixed Income Portfolio Allocation



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