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EQUITY | DEBT | PASSIVE

Annual Market Outlook

2025, could be a year characterized by challenges and opportunities depending upon how investors approach it.

WISH YOU A HAPPY NEW YEAR 2025

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Equity Market Outlook

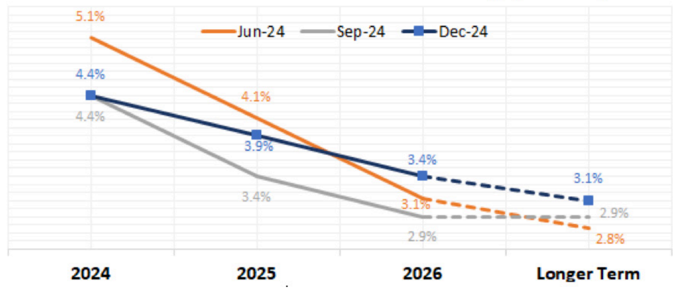
Executive Summary

- 2024 was a year of elections with more than half of world's economy by GDP and population undergoing election including India and US. While India is broadly seeing policy continuity, it would be interesting to watch out for policies adopted by the new administration in US particularly on trade, immigration, deregulation, taxes and government expenditure. This will have a bearing on trade and financial markets globally.
- 2024 also saw a reversal of policy rate trajectory by US Fed which reduced fed funds rate by 100 bps in contrast to a 100 bps hike in 2023. On the other hand, RBI chose to take a pause while changing it's policy stance to neutral and may ease repo rate in 2025 once it sees further moderation in inflation (particularly food prices) around it's target band.
- China continued to grapple with its deep property crisis and suboptimal economic growth. It will continue to take all the measures at its disposal to revive economic growth and real estate market.
- Indian capital markets saw a record surge in primary equity issuances while domestic investors continued to be big buyers in secondary market. Foregin Portfolio Investors (FPI), on the other hand, have remained on the side lines owing to their discomfort on higher valuations. Any significant correction in Indian equities may lead to Foregin Portfolio Investor (FPI) inflows going ahead.
- Despite higher valuations at the start of the year, equities did well with mid and small caps delivering double digit returns. We may see a catch up in earnings growth going ahead which will drive returns in 2025. While equities remain the preferred asset class, asset allocation remains important.

Global Landscape

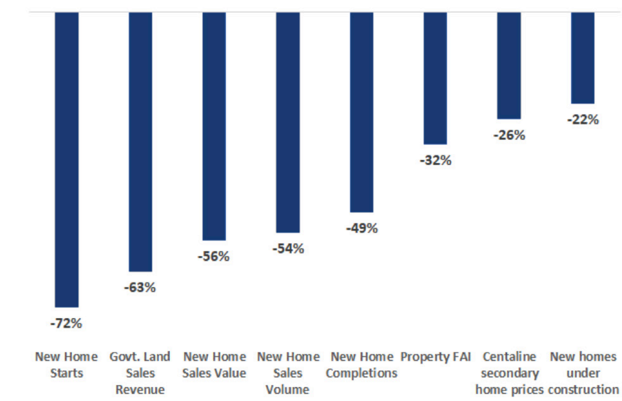
- US equities witnessed another year of higher double digit returns with S&P 500 and Nasdaq delivering 25% and 32% returns respectively on a Calendar Year Till Date (CYTD) basis (as on Dec 23, 2024). Chinese equities did well gaining 13% primarily on account of multiple stimulus measures which led to tactical FPI (Foreign Portfolio Investor) flows. On the other hand, Russia, Brazil and South Korea corrected by 13%, 10% and 8% respectively.
- US Fed reduced policy rate by 100 bps in, 2024 over the last 3 policy meeting at the back of significant moderation in inflation. Contrastingly, 10-year US treasury yield was trading ~65 bps and ~90 bps higher compared to January, 2024 and September, 2024 levels respectively. It is currently trading around 4.5% levels. The disappointment was mainly on account of forward guidance by US fed which indicated slower and lesser rate cuts in, 2024. In our view, the extent of rate cuts by US fed may be broadly guided by the evolving US policy on tariff and fiscal expenditure.
- China on the other hand, continued with a slew of measures both - monetary and fiscal, to support it's faltering economy and property market which has been in a downturn since 2021. China adopted an "appropriately loose" monetary policy marking it's first easing of stance since 2010 in addition to several interest rate cuts during the year. It also indicated to pursue a more proactive fiscal policy. While the measures are positive in the near term, their long-term implications remain uncertain. There is also an expectation that China could face additional US trade barriers post the new administration in US further accentuating the economic pain for China.
- While most of the central banks globally were on an easing interest rate path, Bank of Japan (BOJ) hiked its key short-term interest rates to 0.10% - it's first hike in more than a decade. This was followed by another rate hike taking its short-term interest rate to 0.25% level with BOJ's indication for further rate hikes. This spooked the financial markets globally on concerns of a likely unwinding of yen carry trade - the most popular carry trade strategy globally. However, the financial markets stabilized subsequently post affirmation by BOJ on less likelihood of further rate hikes.

US Fed Rate forecast at FOMC meetings (Dot Plot)

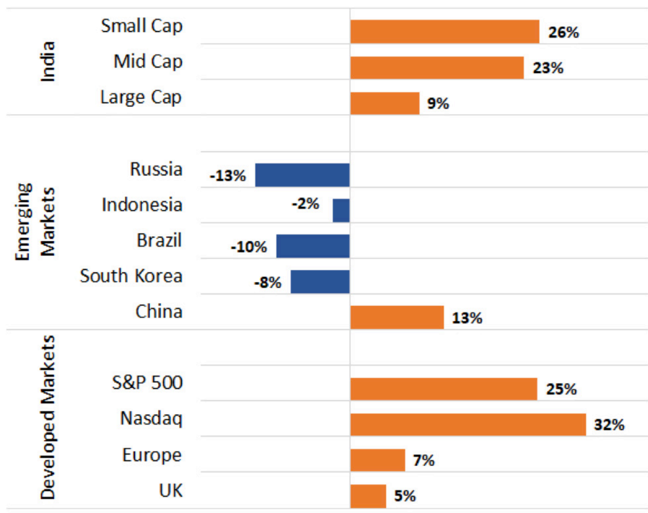


Source: US Fed, Data as on 20th Dec 2024

Decline of major property indicators (Latest versus recent peak in 2020-2021)



Source: CEIC, Goldman Sachs Research, Data as of Dec 2024



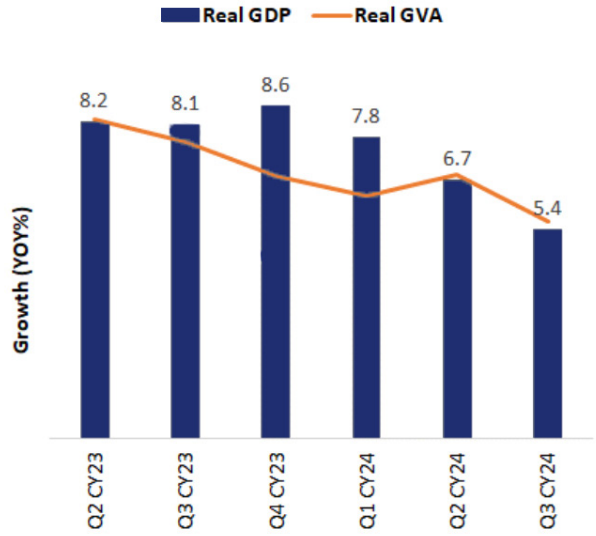
Source: Bloomberg, ACEMF. Data as on 23rd Dec 2024. Past Performance may or may not be sustained in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund. Small Cap: Nifty Smallcap 250, Midcap: Nifty Midcap 150, Large Cap: Nifty 50, China: Shanghai Composite Index, Indonesia: Jakarta Stock Price Index, Russia: MOEX Russia Index, South Korea: Korea Composite Stock Price Index (KOSPI), UK: FTSE 100 Index, Europe: EURO STOXX 50; Nasdaq: Nasdaq 100, UK: UK 100 Index, Brazil: Bovespa Index.

Domestic Landscape

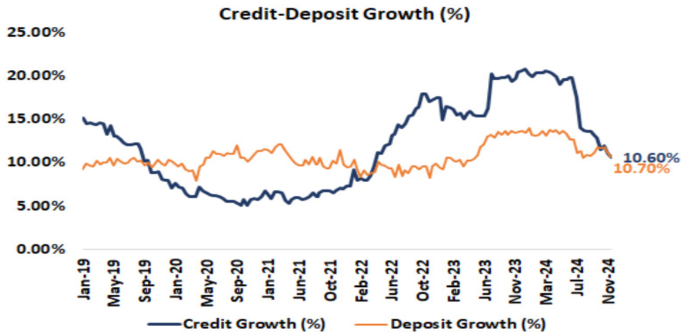
- **GDP growth**: Q3CY24 GDP growth saw some softness on account of slower growth in government capex, slowing credit growth and some weakness in urban consumption. Capex growth was slower on account of elections. Based on historical trends, capex growth tends to be slower in first half (H1) of an election year, but picks up sharply in second half (H2) of that fiscal. We are witnessing a similar trend this year as well with sharp pickup in the government capex over the past couple of months but it may undershoot the budgeted target. On the other hand, slow credit growth can be attributed to restrictive RBI policies on unsecured lending. On the consumption side, while urban consumption has shown some weakness, Rural economy is seeing some green shoots with pickup in sales for tractor & 2-wheelers, improving rural sentiments and positive real wage growth. Overall, India's medium-term outlook remains intact supported by robust macro fundamentals. India's Real GDP is projected to grow ~6.5% p.a. over the next 5 years.
- **Credit and Deposit growth:** Credit and Deposit growth saw significant divergence during first half of, 2024 amid strong credit growth before converging in November. Credit growth fell sharply in second half of the year on account of RBI imposed restrictions on unsecured lending. Expected monetary easing in CY25 may help revive credit growth.
- **Liquidity:** Liquidity conditions remained comfortable during most part of the year. RBI at its December, 2024 MPC announced a cut in CRR (Cash Reserve Ratio) by 50 bps in two tranches (25 bps each) effective Dec 14, 2024 and Dec 28, 2024 respectively in order to infuse more liquidity into the system.
- **Inflation:** Core inflation remained benign and has stayed below 4% over the past 12 months. On the other hand, food inflation which has been a cause of concern for the central bank is expected to stabilize going forward providing room for a supportive monetary policy in 2025.
- **Currency & Forex Reserves:** India's Forex Reserves continue to remain robust while INR has been resilient on the back of stable macro environment. While, INR has shown some weakness post US elections but it may do relatively better in 2025 post the recent US Dollar rally.
- **India's Twin Deficits:** Current Account Deficit (CAD) & Fiscal Deficit have remained under control. Government is expected to remain committed to the projected fiscal glide path while CAD is expected to remain contained around 1% of GDP supported by benign crude oil prices and government's focus on manufacturing through Production Linked Incentive (PLI) & other initiatives.
- **Market Performance:** Indian equities did well on a CYTD basis with Nifty 50, Nifty Midcap 150 and Nifty Smallcap 250 gaining 9%, 23% and 26% respectively (as on Dec 23, 2024). Among sectors Healthcare, Telecom & Power were the top performers while FMCG and Banks underperformed. PSUs as a cohort outperformed. On Style front, Value outperformed while High Beta and Growth underperformed.
- **Flows & Supply:** Dosmectic Institutional Investors (DII) were strong buyers in the equity secondary market while FPIs turned net buyers at the margin. Monthly Systematic Investment Plan (SIP) flows in Mutual Funds (MFs) continue to see secular growth and crossed Rs 25,000 crores mark in October, 2024. Notably, MFs contributed to ~80% of net flows by DIIs in, 2024 on a CYTD basis. While the ownership of Indian households in equities has increased, it is still lower in comparison to global peers. Interestingly, while India's weight in MSCI EM Index has increased significantly, FPI holdings in Indian equities are at a 10-year low making them underweight India. This could reverse if there is a significant correction in Indian equities going ahead.

  On the supply side, 2024 witnessed record primary issuances (Rs 3.4 trillion CYTD) through IPOs, FPOs, OFS and QIPs. We may see this momentum to continue going into 2025 and may keep up with the demand given the strong pipeline.

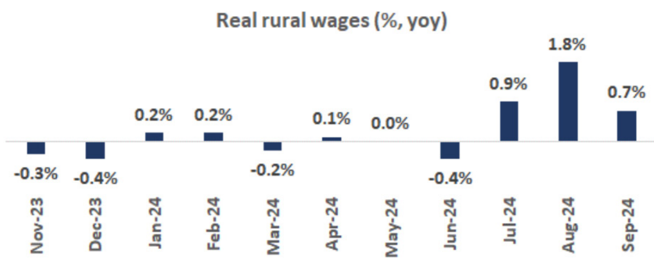
IPO: Initial Public Offer, FPO: Follow on Public Offer, OFS: Offer for Sale, QIP: Qualified Institutional Placement



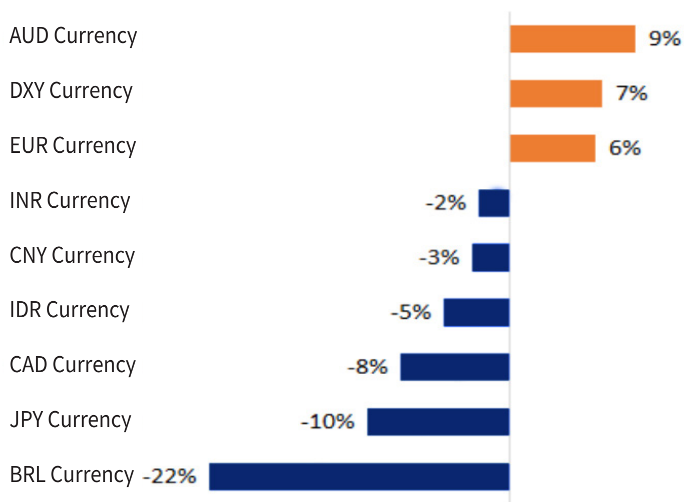
Source: Central Statistics Office Of India, CEIC, IIFL Research
GDP: Gross Domestic Product
GVA: Gross Value Added



Source: RBI, Data as on 29th Nov 2024



Source: GOI, Avendus Spark Research, Equirus, CMIE, Data as on October 2024

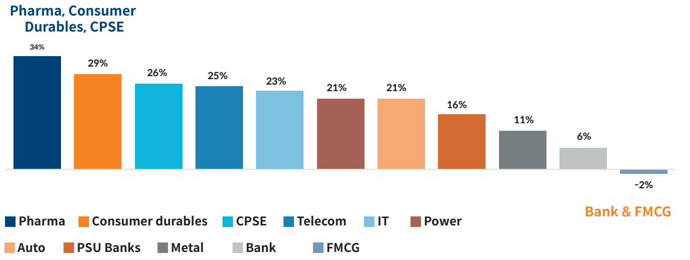


Source: RBI, Trading Economics, Data as on 23rd Dec 2024

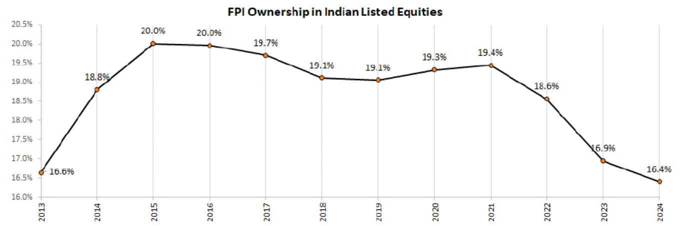
- **Earnings & Valuations:** After four consecutive years of healthy double-digit growth, earnings growth witnessed some moderation in past 2 quarters and FY25 full year earnings growth is expected to close in single digits. If we look beyond FY25, consensus estimates see a double-digit earnings growth for FY26 and FY27. The strength of earnings trajectory across different sectors and market caps will drive respective index performance. On Valuations front, India's premium relative to world has come down while it remains higher relative to EM basket primarily on account of China de-rating. Based on 12-M forward PE (Price to Earnings) multiple, market cap valuations continue to trade at a premium to their respective LTA (Long Term Average). However, the recent correction in equities has made the valuations more palatable from a medium-term standpoint.

Outlook for 2025

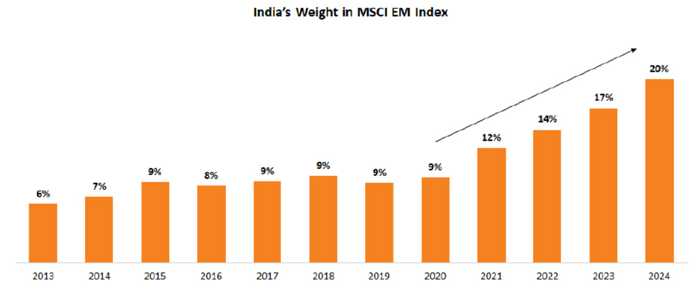
- India's medium to long term outlook remains robust driven by strong macro fundamentals deleveraged corporate balance sheets, robust asset quality, fiscal discipline, favourable demographics, digitization, rising income levels, etc. Household debt levels are also reasonable compared to global standards. India's aggregate debt to GDP is lower than in 2010, while it has risen globally.
- We remain constructive on equities from a medium-term perspective driven by strong profitability and free cash flows. Earnings growth may be a key driver of returns in 2025. Given that valuations are trading at a premium and there is froth in certain segments of the market, bottom up stock selection will be important.
- On the Sectoral front, we remain constructive on Banking & Financial Services given the reasonable valuations and higher return ratios – ROE (Return on Equity) and ROA (Return on Assets). We are also hopeful of revival in consumption and positive on manufacturing given the Government's thrust and China+1 strategy.
- **Key things to watch out for in 2025:** (a) US policy on trade/tariff, fiscal expenditure and deregulation (b) Rate trajectory by the central banks, (b) Oil price trend, (c) Geopolitical issues and (d) Recovery of consumption (e) Private capex growth including Real estate.
- While equities have delivered better returns, we would recommend investors not to extrapolate last three year returns and align their return expectations accordingly. It's important to stick to the defined asset allocation driven by the risk appetite, financial goals and time horizon. Investors may continue to allocate in equities in a staggered manner via Systematic Transfer Plan (STP) /Systematic Investment Plan (SIP) with a long-term perspective. Depending on the risk profile, one may consider investing across market cap strategies. Hybrid funds, given their flexibility in asset allocation can also be made part of the core portfolio. In thematic funds, one may consider Consumption Fund for expected consumption recovery and Banking & Financial Services Fund given the decent risk-reward.



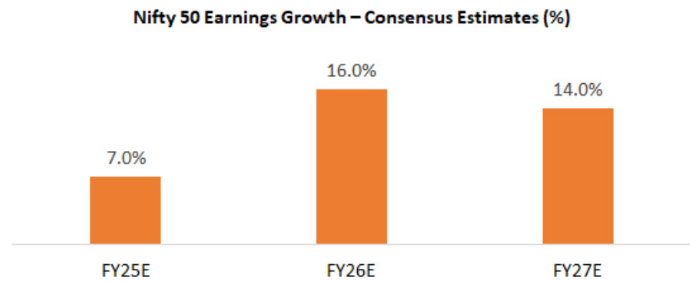
Source: Bloomberg, ACEMF. Data as on 23rd Dec 2024. Past Performance may or may not be sustained in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund. Auto: Nifty Auto Index, Bank: Nifty Bank Index, FMCG: Nifty FMCG Index, IT: Nifty IT Index, Metal: Nifty Metal Index, Pharma: Nifty Pharma Index, PSU Banks: Nifty PSU Bank Index, Power: BSE Power Index, Consumer Durables: BSE Consumer Durables Index, Telecom: BSE Telecommunication Index, CPSE: Nifty CPSE Index,



Source: RIMES, MSCI, Morgan Stanley Research, Data as on 30th Sep' 2024



Source: RIMES, MSCI, Morgan Stanley Research; Data as on 30th Nov' 2024



Source: Internal Research, BofA Global Research, Data as on Dec 2024

E: Estimated

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Debt Market Outlook

2025 – Where Domestic Optimism Dwarfs Global Caution

Global Markets – A volatile year precedes an uncertain one

The year began on an optimistic note for Debt Markets with a dovish US Fed supported by even more dovish markets. Federal Open Market Committee (FOMC) Members were projecting growth to fall to 1.4% in 2024 from 2.6% in 2023 (Refer Figure 1) and Personal Consumption Expenditure (PCE) inflation to fall to 2.4% from 2.8% in 2023 giving way to rate cuts. FOMC Members were projecting rate cuts aggregating 75 basis points (bps) whereas markets were pricing-in a whopping 150 bps of rate cuts. As a result, the curve started the year in deep inversion with 2x10 at -50 bps with the shorter end supported by Fed Fund Rate at 5.25%-5.50% while 10Y at 3.88% representing expectations of a sharp and deep rate cuts for the year.

US Fed did cut policy rates by 100 bps during the year – somewhere between FOMC and market expectations as inflation remained broadly in line with expectations during 2024. Growth, on the other hand remained strong with US projected to grow at 2.5% during 2024 as against expectations of 1.4% at the beginning of the year.

While the above statistics in isolation would have made Fed's job a lot easier, the year was clouded by significant geopolitical events. Just as markets were adapting to the scars of Russia-Ukraine standoff and its second order effects on commodity prices especially on agri-commodities and energy, markets grappled with another shock with rising Geopolitical tensions in the Middle East. Add to that, elections in the US, the consequent threat of Tariffs and expected tax cuts in the US, markets have remained on tenterhooks. Expectations of US Policies remaining inflationary and fiscally imposing and inflation remaining sticky remain on the forefront. Add to that, an ever-increasing US Treasury supply and deteriorating Fiscal Conditions and a reduction in holdings of US Treasuries (USTs) by long-only investors.

The year ends on a less optimistic note. FOMC members continue to weigh the inflationary impact of policies of the incoming president with inflation for 2025 projected to rise to 2.5% as against 2.1% at the beginning of the year even as growth is expected to remain strong. While the shorter-end of the US Treasury curve witnessed significant volatility in view of monetary policy uncertainties in view of geopolitical developments and incoming data, the year ends with 2Y USTs broadly flat vis-à-vis the beginning of the year while 10Y USTs ends ~ 70 bps higher at ~ 4.60% representing hawkish market expectations, deteriorating fiscal conditions and a dis-inverted yield curve (Refer Fig 2). While FOMC Members project rate cuts aggregating 50 bps in 2025 as against 100 bps at the beginning of the year, markets fully price-in just one rate cut with a 50% probability of a second one.

Will the year turn out to be as hawkish as markets currently perceive?

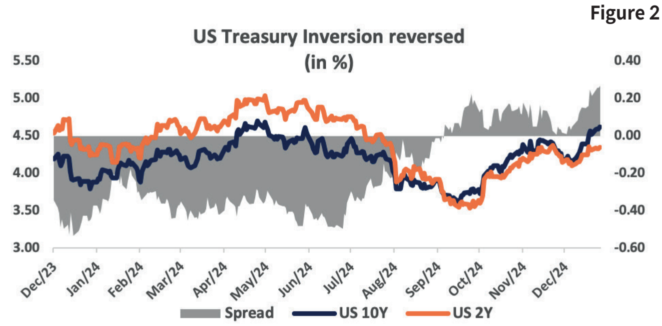
On the fiscal front, markets begin the year with expectations of continued fiscal deterioration and a perception of Trump Tariffs as inflationary. The incoming president has already proposed the Department of Government Efficiency tasked to reduce overall spending, eliminate regulations and restructure federal agencies. The president elect also promises an end to war with statements from Russia supporting a ceasefire even before the president assumes office which could pave way for potentially disinflationary and supportive fiscal dynamics. Additionally, the year ends with Crude at a comfortable band (Refer Figure 3) of USD 70-75 per barrel as against a peak of ~ USD 91 per barrel during the year and USD 77 at the end of last year with potential growth concerns in manufacturing led economies including China expected to limit the inflationary impact of commodity prices. This alludes to the possibility of 2025 possibly ending with a positive surprise as against current hawkish market expectations.

US FOMC Projections — **Figure 1**

	Policy date	2024	2025	2026	Longer run
Real GDP (%)	Dec-23	1.4	1.8	1.9	1.8
	Mar-24	2.1	2.0	2.0	1.8
	Jun-24	2.1	2.0	2.0	1.8
	Sep-24	2.0	2.0	2.0	1.8
	Dec-24	**2.5**	**2.1**	**2.0**	**1.8**
Unemployment rate(%)	Dec-23	4.1	4.1	4.1	4.1
	Mar-24	4.0	4.1	4.0	4.1
	Jun-24	4.0	4.2	4.0	4.2
	Sep-24	4.4	4.4	4.3	4.2
	Dec-24	**4.2**	**4.3**	**4.3**	**4.2**
PCE Inflation(%)	Dec-23	2.4	2.1	2.0	2.0
	Mar-24	2.4	2.2	2.0	2.0
	Jun-24	2.6	2.3	2.0	2.0
	Sep-24	2.3	2.1	2.0	2.0
	Dec-24	**2.4**	**2.5**	**2.1**	**2.0**
Federal Rate Forecast	Dec-23	4.6	3.6	2.9	2.5
	Mar-24	4.6	3.9	3.1	2.6
	Jun-24	5.1	4.1	3.1	2.8
	Sep-24	4.4	3.4	2.9	2.9
	Dec-24	**4.4**	**3.9**	**3.4**	**3.1**

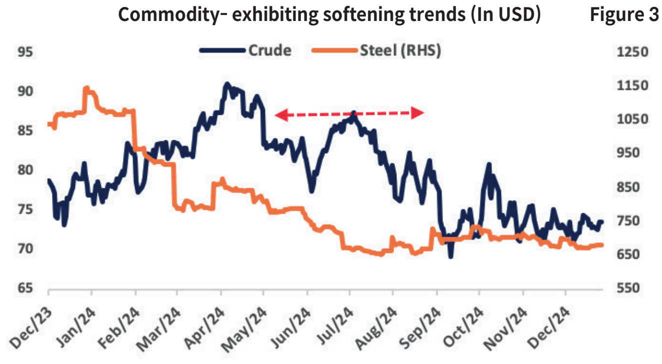
Source: US Fed Website, Data as on 30th December 2024,
FOMC: Federal Open Market Committee

Figure 2



Source: Bloomberg, Data as on 30th December 2024

Figure 3



Source: Bloomberg, Data as on 30th December 2024

Domestic Markets – Strong fundamentals supported by a Central Bank playing T-20s, ODIs and Tests at the same time!

Domestic fixed income markets have remained relatively resilient even as global markets have remained volatile. Robust consumption led growth and deft management of monetary policy by the central bank have safeguarded that markets remain guided on future policy actions. Active consultative approach and interventions by the Central Bank in the form of policy announcements, liquidity and currency interventions have kept markets well anchored. While CPI witnessed swings during the year on account of volatile food inflation (Refer Figure 4), core has remained firmly anchored below 4% and future inflation trajectory remains on course towards the 4% inflation target with inflation expected to fall to 4.8% by the end of the current financial year and 4.1% by the end of the next financial year as per RBI estimates. Growth on the other hand, after having shown strong momentum for most of the year has shown signs of weakness towards the end of the year with RBI revising its growth projections downward for FY 2024-25 to 6.6% from 7.2% at the beginning of the year.

Market Dynamics – A strong year for Fixed Income Markets

Demand-Supply dynamics continue to remain favourable for Government Securities with India's inclusion in global indices and robust domestic demand. The year has witnessed FPI inflows into debt aggregating ~ INR 1.3 lakh crore in 2024 as against ~ INR 57k crore in 2023. The Government continues to elongate its maturity profile in view of increased participation from Provident Funds and Insurance companies with the share of banking system for outstanding Government Securities falling steadily. The trend is expected to continue going forward as the segment grows in view of favourable demographics. As a result, Domestic Government Bond yields have continued to fall even as US Treasuries have remained volatile with Domestic Benchmark yields having fallen from 7.2% at the beginning of the year to ~ 6.75% towards the end of the year.

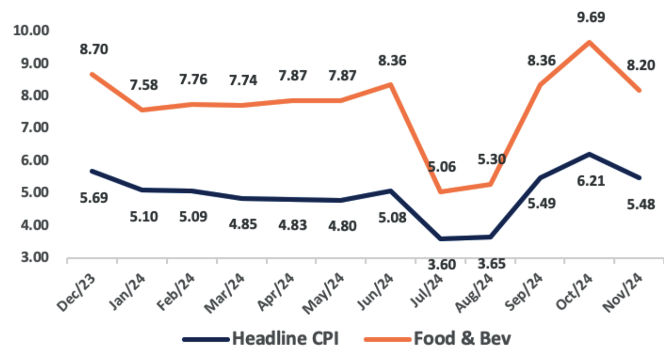
Liquidity conditions on the other hand after having remained benign for most of the year have tightened significantly towards the end of the year with outflows from Equity by FPIs followed by forex interventions by RBI to support the currency. While Government Cash balances have fallen significantly, the liquidity infused into the banking system as a result has been drained on account of RBI interventions on the currency front. As a result, market expectations have drifted towards central bank interventions going forward in the form of durable liquidity measures to improve system liquidity and to aid credit growth. The year ends with a flatter money market curve with Money Markets yields remaining flat in the shorter end (3 months) with longer end (1 year) yields having fallen by 20-25 bps from the beginning of the year in view of expectations of rate cuts during the year.

Navigating the year ahead – Continued optimism despite global uncertainties

In view of robust domestic macroeconomic fundamentals, the year ends with domestic markets decoupling from global markets. Looking forward, while the overall inflation trajectory is expected to fall, the pace is expected to remain gradual with RBI remains focused on ensuring that inflation sustainably moves towards its 4% target. Markets continue to factor-in prevailing policy rates as the peak for the prevailing rate cycle even as the timing of cuts have moved from December 2024 (post the change in stance to Neutral in the October 2024 MPC Meeting) to next year as food price volatility continue to provide transitory shocks. Moreover, the overall cuts are expected to remain shallow at around 50-75 basis points for the current interest rate cycle considering projected 1 year ahead inflation and stated expectations of real rates by RBI. RBI also has headroom in terms of the timing of rate cuts as RBI has continued to maintain status quo as Fed has cut policy rates by a mere 25 basis points on a net basis since February 2023 with future cuts in the US expected to continue into 2026.

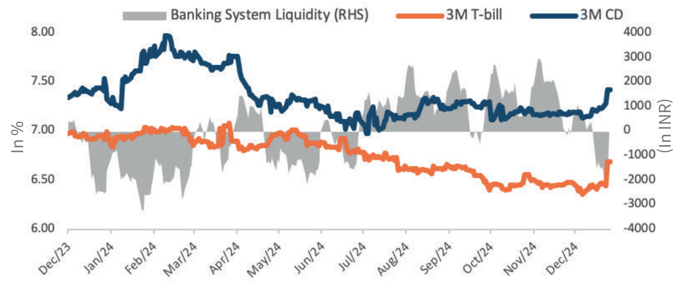
The yield curve (Refer Figure 5 & 6) in the shorter end upto 1 year remains divergent with the Treasury Bill (T-Bill) curve remaining flat in view of limited sovereign supply whereas the Certificate of Deposits (CD) curve remains upward sloping with overall spreads remaining attractive vis-à-vis historical trends. Spreads between Treasury Bills and Certificate of Deposits currently stand at close to 90 basis points for 3m and 6m part of the curve with close to 100 bps in the 1y part of the curve.

India Inflation- Largely impacted by food inflation (in %) **Figure 4**



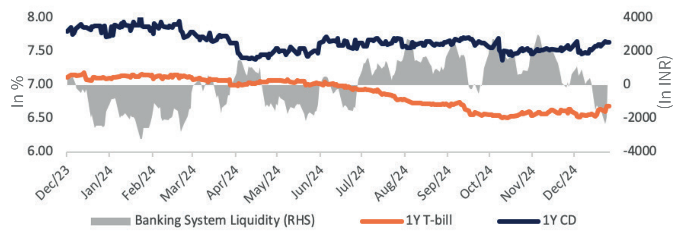
Source: RBI, Data as on 30th December 2024

3m TBill vs CD **Figure 5**



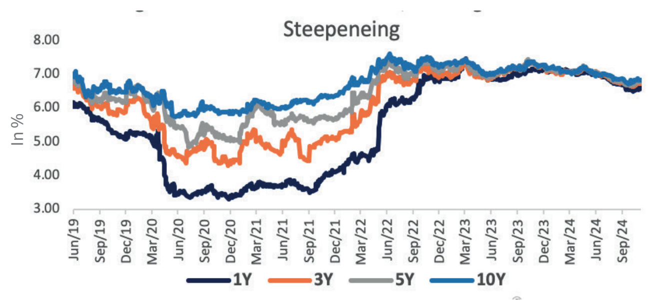
Source Bloomberg, Data as on 30th Dec 2024

1y TBill vs CD **Figure 6**



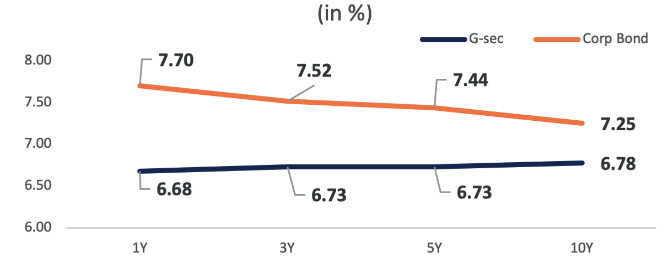
Source Bloomberg, Data as on 30th Dec 2024

India Yield Curve Flat, Moving towards Steepeneing **Figure 7**



Source Bloomberg, Data as on 30th Dec 2024

The Yield Curve (in %) **Figure 8**



Source Bloomberg, Data as on 30th Dec 2024

The Sovereign yield curve remains upward sloping even though the curve stands significantly flat vis-à-vis historical trends as the longer-end of the yield curve largely factors-in expected rate cuts and is expected to remain range bound till actual inflation firmly aligns with expectations. The curve is expected to bull steepen on the other hand as markets are closer ¬¬to actual rate cuts. As such the 3-5 year Sovereign Yield curve remains attractive (Refer Figure 7).

The Corporate Bond curve remains significantly inverted (Refer Figure 8) with 2x5 at -20 bps and 2x10 at -45 bps as against the Sovereign Yield Curve which remains upward sloping but flatter vis-à-vis historical trends. As such, the 2-5 year part of the curve remains significantly attractive with overall spreads in the 3 year segment vis-à-vis Gsec at 90 basis points as compared to historical average of 50-55 basis points. Spreads in the longer-end of the Corporate Bond yield curve remain narrow on account of limited supply and robust demand from long-only investors.

Summing-up

The year ends with a flat sovereign yield curve with a steep money market yield curve on one hand and an inverted Corporate Bond yield curve on the other. With spreads over the sovereign yield curve remaining relatively attractive and expectations of rate cuts going forward, conditions remain ripe for possibly better returns for fixed income investors during 2025.

We continue to believe that choosing an appropriate investment strategy should be guided by the underlying investment horizon of the investor. For investors considering an investment horizon of 3 months, an investor can consider the Ultra-Short duration and Money Market categories which aims to take benefit of a relatively steep money market yield curve with spreads at close to 50 basis points over the Liquid Category. For investment horizon between 6 months to 1 year, an investor can consider the Low Duration Category which aims to take benefit of the money market yield curve as well as corporate bonds in the 1-3 year segment with expectations of normalization in Corporate Bond spreads. Investors considering an investment horizon greater than 1 year may consider the Short-Duration Category which positions on a mix of Government securities and Corporate Bonds in the 3-5 year segment with the view of locking-in yields over the medium term while optimizing capital gains as and when the interest rate cycle aligns with the realized inflation trajectory. Finally, investors looking to take benefit of the overall economic resilience and structural economic strength over the long-term may consider investing into the long-duration category which remains attractive in the current interest rate cycle.

Categorisation of the schemes is as per clause 2.6 of SEBI Master Circular dated June 27, 2024.

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Passive Market Outlook

Asset Under Management (AUM) Update:

- The passive market in India has built up phenomenal momentum over the past five years. The AUM of passive funds in India now stands at ₹ 11.02 Lakh Crores, witnessing more than 2.5 times increase over past three years.
- The proportionate share of passive schemes is now 16.1% of the industry assets in Nov 2024, up from 11.7% in past 3 years.
- The total number of passive schemes in India now stand at 506, with 236 Exchange Traded Funds (ETFs) managing assets worth ₹ 8.30 Lakh Crore and 270 index funds grossing total assets worth ₹ 2.72 Lakh Crore.

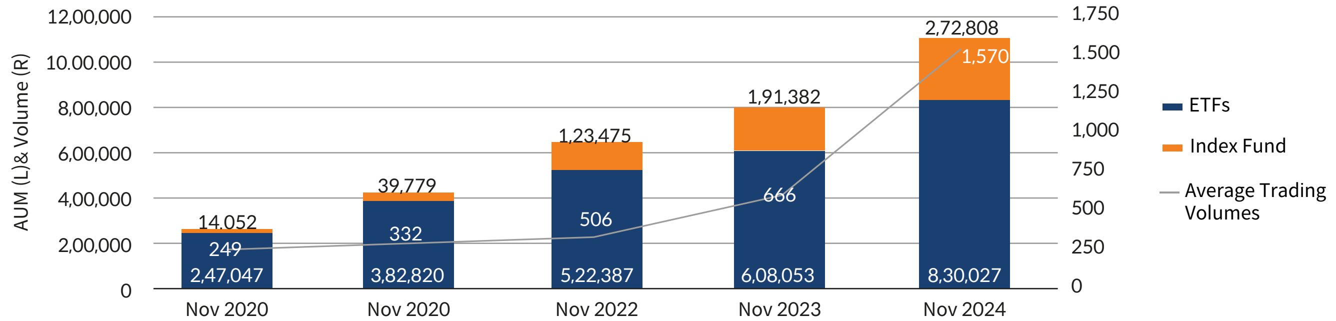
Data as on November 30, 2024, Source ACE MF. 1,3,5 year trends are based on November 2024 ending data

Inflow Update:

- In light of the above, it is perhaps unsurprising that passive funds in India have seen inflows worth ₹ 1,40,710 Crores in the past one year and passive AUM has almost increased 38% from ₹ 7.99 lakh crore in November 30, 2023 to over ₹ 11.02 lakh crore in November 30, 2024.
- Much of this growth may be attributed to Nifty 50, Sensex, smart beta and commodity ETFs and Index Funds.
- The number of passive schemes have almost tripled from 175 in Nov 30, 2021 to 506 as of Nov 30, 2024.
- 35 new Index Funds and 29 new ETFs were launched in the past 1 year which are collectively managing total assets worth ₹ 17,827 Crore.
- Within ETFs, apart from the usual names like Sensex and Nifty 50 ETFs which saw an inflow of ₹ 54,618 Crore and ₹ 23,288 Crore respectively during the past one year (as on November 30, 2024), smart beta passive funds saw record inflows worth ₹ 23,478 Cr during the same period. Commodity funds on the other hand gathered inflows worth ₹ 19,153 Cr in the past one year.
- The year also saw a meteoric rise in trading volumes of ETFs. The average traded volume of ETFs as of Nov 30, 2024 grew to ₹ 1,570 Cr witnessing a rise of 135% compared to previous one-year period.
- The total number of folios in passive funds has skyrocketed nearly 12x, growing from 29.7 lakh in March 2020 to an impressive 3.68 Cr by Nov 2024. A staggering 1.32 Cr new investor folios were added in passive funds in the past one year.
- We are seeing an evolution in investors behaviour towards passive, where conversation is now also about innovative products like smart beta and new age themes, apart from low cost plain vanilla products like Nifty 50 ETFs.

Data as on November 30, 2024, Source ACE MF based on November 2024 ending data

Passive Market AUM & Volume Growth in India (In Rs. Cr.)



Indian Equity Market Performance

The Indian equity markets showcased resilience for most of the first 9 months of CY 2024 with few sharp volatility events due to general election results, yen-carry trade event, , foreign institutional investor outflows etc, though recoveries were swift due to strong domestic inflows but last 2 months have been challenging due to muted GDP growth, lingering inflation, disappointing Q2FY25 earnings, FII outflows, expected slowdown in US Fed easing and geopolitical uncertainties.

In 2024, Indian benchmark indices have given decent returns even with uncertainties surrounding the markets. The BSE Sensex has gained 9.6 per cent while the Nifty 50 rose 9.8 percent on a year-to-date (YTD 2024). Mid and small-caps shined the brightest in 2024. The Nifty Midcap 150 Index and Nifty Smallcap250 Index have registered returns of ~23-27% respectively in 2024 on a year to date basis (as on December 20, 2024).

Broad-based Indices	10 Years	5 Years	3 Years	1 Year	6 Months	3 Months
Nifty 50 Index	12.5%	15.3%	13.7%	12.8%	0.6%	-8.4%
Nifty Next 50 Index	15.5%	20.3%	20.5%	36.0%	-3.7%	-8.9%
Nifty Midcap 150 Index	19.1%	28.5%	25.2%	29.7%	1.7%	-5.3%
Nifty SmallCap 250 Index	17.0%	31.2%	25.4%	32.6%	4.2%	-4.1%
Nifty 500 Index	14.1%	18.9%	17.2%	20.0%	0.5%	-7.6%

Source: NSE Indices & Bloomberg Data as on Dec 20, 2024. Past performance may or may not sustain in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund

Sectoral & Thematic Indices	10 Years	5 Years	3 Years	1 Year	6 Months	3 Months
Nifty Auto Index	11.8%	23.9%	30.6%	29.8%	-10.2%	-14.4%
Nifty Bank Index	11.3%	10.0%	14.8%	7.9%	-1.7%	-5.6%
Nifty Financial Services Index	13.2%	10.8%	13.1%	12.4%	2.8%	-4.8%
Nifty FMCG Index	12.5%	14.8%	17.6%	3.8%	-1.5%	-15.3%
Nifty IT Index	16.9%	24.9%	8.9%	28.5%	26.2%	4.3%
Nifty Metal Index	15.3%	28.6%	20.2%	19.4%	-11.0%	-6.2%
Nifty Pharma Index	8.4%	23.7%	20.4%	40.5%	15.6%	-2.2%
Nifty Realty Index	19.0%	29.9%	33.2%	44.2%	-6.8%	-3.8%
Nifty Consumer Durable Index	20.8%	21.6%	15.7%	37.1%	9.4%	-5.6%
Nifty Oil & Gas Index	15.7%	17.0%	15.5%	18.0%	-11.1%	-15.1%
Nifty EV & New Age Automotive Index	X	31.5%	28.5%	27.6%	-8.5%	-13.6%
Nifty India Manufacturing Index	14.1%	25.2%	23.5%	31.9%	-5.2%	-9.6%
Nifty New Age Consumption Index	14.3%	23.3%	24.4%	41.8%	5.1%	-6.8%

Source: NSE Indices & Bloomberg Data as on Dec 20, 2024. Past performance may or may not sustain in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund

Strategy Smart Beta Indices	10 Years	5 Years	3 Years	1 Year	6 Months	3 Months
Nifty 100 Low Vol 30 Index	14.7%	18.4%	16.5%	17.1%	2.4%	-10.7%
Nifty 200 Alpha 30 Index	22.8%	28.5%	24.9%	32.4%	-4.3%	-7.2%
Nifty Smallcap250 MQ 100 Index	21.0%	31.5%	23.2%	28.8%	0.1%	-5.1%
Nifty 200 Quality 30 Index	13.6%	18.1%	15.1%	19.1%	1.6%	-10.4%
Nifty MidSmallcap400 MQ 100 Index	20.5%	30.2%	24.5%	32.0%	0.4%	-4.5%

Source: NSE Indices & Bloomberg Data as on Dec 20, 2024. Past performance may or may not sustain in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund

2024 was good for most of the sectors apart from Bank and FMCG (Fast Moving Consumer Goods) for reasons mentioned earlier with FMCG Index dipping almost 15% in last 3 months primarily due to poor earnings and weak commentary. Lower 4-wheeler and Commercial vehicle sales dragged down Auto index also in last 3 months, but index is still up 29.8% in last 1 year. Q3 CY 2024 (Calendar year) was good period of Information Technology (IT) Index, which has risen more than 26% in past 6 months.

While Nifty 200 Alpha 30 index has given 32.4% return in last one year, last 6 months have been patchy with no consistent trend emerging in the market on stock or sector outperformers.

Domestic passive Outlook

Pickup in government capex along in H2 2025 with improved liquidity is expected to drive recovery in India's H2 FY 2025 GDP to 6.5% to 7% with FY 2025 GDP in the range of 6.3%-6.6%. Strong housing cycle and private investment is expected to drive next round of capex cycle.

With RBI stance supportive of liquidity infusion, reduction in drag on credit growth, stronger rural consumption due to good monsoon and reservoir levels aiding Kharif and Rabi crops along with welfare income transfer scheme and festive season is expected to drive recovery in consumption especially in rural economy, though data for urban economy may be keenly tracked to look for any longer slowdown.

Domestic inflows have supported the markets (annualizing at around USD 100 Bn in 2024), though equity supply has also increased. With marginally positive Foreign portfolio investment (FPI) flows in 2024 (after significant outflow in October and November 2024), FPIs ownership in India equity market is just below 20%, which may act as a buffer in case of corrections.

Additional risk for Indian equities comes from outward specially the new policy era of United States (US). The dialling back of Fed in terms of rate cuts, any potential tariff impacting India, stronger dollar, higher US treasury yields may act as drag on Indian markets.

Nifty 50 Index earnings growth are projected to rise ~9%-10% in FY25 and ~13%-15% in FY26. The valuations for Nifty 50 Index are trading at 22.3x one-year forward P/E (Price-to-earnings ratio) trading at a premium of 3%-5% above the past 5-year average is reasonable. We expect markets to remain volatile due to the aforementioned reasons especially at the start of 2025. We find comfort in Nifty 50 valuations and ideal expectation in the near term might be in line with the earnings growth, hence expect returns to moderate.

In sectors, we prefer allocation to BFSI segment due to lower valuations and favourable liquidity. Among smart beta products, we think alpha strategy may be volatile and may not significantly outperform due to lack of consistent market trend, but any drawdowns might be good opportunity to invest for the medium to long term. We continue to prefer MidSmallcap product due to its multi factor approach with quality playing an important role. Apart from Nifty 50, we continue to prefer Multicap, which provides diversified exposure to large, mid and smallcap segment with an ideal weightage of 50%; 25%; 25% each. We suggest investors to expect moderate returns in 2025 and use volatility to invest for the medium to long term wealth creation.

Source: NSE Indices & Bloomberg Data as on Dec 20, 2024. Past performance may or may not sustain in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund

Debt and commodity passive outlook:

On debt side, we expect RBI to ease in 2025 due to concerns around GDP growth and attempt to push private capex and revive consumption. Inflation might not be a bigger concern with good kharif and Rabi crop expectation. While much of the easing may happen on the shorter end of the curve, due to duration effect, there is higher return potential on the longer end of the curve. Investor looking to take advantage of the same, may look at our longer duration index funds and ETFs for allocation

Currently, there are cocktail of factors which are positive as well as negative for gold. With higher for longer stance by US fed, sticky inflation in US and stronger dollar, Gold is expected to be volatile in comings months but we expect, strength in gold price may continue due to expected stronger demand from Central banks and Gold possibly playing a role of safe-haven asset in case of trade war escalation and geo-political issues.

We think Silver might continue to be more volatile than gold. While Silver is likely to witness strong industrial demand due to application in several new age economies, the China remains a questions mark. Investors may take advantage of price correction if any to accumulate Gold and Silver in their portfolio.

Global Market Outlook

In US, the trump policies on corporate tax cuts, tariffs and immigration and the direction of US FED, which was more hawkish than expected in December policy is going to be a key driver for markets. We expect strength in US economy and US Dollar to continue along with corporate earnings growth, which for CY 2025, is currently expected to be around 15.0% for S&P 500 Index.

The inflation is expected to remain sticky with upside pressure. We expect US market to be volatile especially in initial months of 2025 with possibility of some correction. Elevated valuations also pose risk if there is any negative surprise. We continue to remain positive on US markets from medium to long term.

We remain cautious on China exposure. We expect Chinese equity market to remain highly volatile in 2025, driven by ongoing domestic and external challenges. Market will keenly watch for economic indicators to judge what impact policy measures since September have had in efforts to revive domestic consumption and stabilize housing market.

Market additionally expects policy support to continue in 2025. The outlook for tech companies looks foggy due to domestic consumption drag, impact of trump policies and how Chinese government will respond to the same. Clearly, there are lot of moving parts. Thus, we advise investor to exercise caution and while valuation may look tempting, we suggest to only invest in Chinese equities if investors are willing to take significant drawdowns.

For detailed commentary and outlook, Please refer to our individual note on different market segments.

Source (All the above data): Bloomberg, Jefferies Market Outlook, Goldman Sachs, JPMC Market Outlook, Internal and research reports as on 20th December 2024. The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer Pursuant to Clause 2.7 of Part IV of SEBI Master Circular dated June 27, 2024. the universe of "Large Cap" shall consist of top 100 companies, "Mid Cap" shall consist of 101st to 250th company and "Small Cap" shall consist of 251st to 500th companies in terms of full market capitalization NSE Nifty methodology link: https://www.niftyindices.com/Methodology/Method_NIFTY_Equity_Indices.pdf

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