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India Equity Playbook 2025: Why the new year should be a good one for investors

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Synopsis
The year 2024 was strong for equities, with global election mandates setting up a promising 2025. Money supply is expected to grow through U.S. tax cuts, China's stimulus, and India's focus on Capex and jobs. Indian equities underperformed in 2024, but increased government spending should address key issues, favoring investments in power, industrials, telecoms, chemicals, and healthcare sectors.

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The year 2024 was a strong one for equities, and election mandates globally have paved the way for a strong 2025. Money supply is expected to grow globally, with: 1) the US set to cut income tax rates, 2) China increasing its stimulus to revive the economy, and 3) the Indian BJP manifesto aiming to increase Capex and jobs. Indian equities underperformed globally in 2024 due to lower credit offtake, weaker consumption, and relatively slower earnings growth. We expect that the increase in government spending should address two of these three issues, with the trough in India's economic growth behind us in 2025.

The themes we would like to invest in during the current environment are largely domestic-facing sectors, such as Capex in the power sector, industrials, capital goods, and telecoms, due to robust domestic tailwinds. We also favor the "Make in India" stories in chemicals and healthcare, despite the possible increase in tariffs from the US in the future.

The year 2024 has been good for global equities but not so favorable for bonds.

The MSCI World Index grew by an impressive ~18%, with the NASDAQ increasing by a mammoth ~32%, and China growing by 25%, beating the MSCI India Index, which grew only ~13%. However, the Indian Small Cap Index grew 30%, in line with the NASDAQ, followed by the Mid Cap Index, which grew 28%. Indian Large Caps were the underperformers, growing by only 10%.

The US 10-year yields moved up 70 bps from 3.9% to 4.6%, driven by expectations of fewer rate cuts in the future and possibly higher inflation due to increased tariffs. This contributed to the underperformance of the global bond market.

Gold and silver grew at an average of 25%, showcasing their shine.

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World Index	1 Yr Return (%)
S&P 500 INDEX	25.6
NASDAQ COMPOSITE	31.8
MSCI WORLD	18.4
MSCI CHINA NETR USD	25.1
MSCI INDIA Net USD	13.6
Indian Index	**1 Yr Return (%)**
Nifty 50	10.8
SENSEX	10.1
BSE SmallCap	30.1
BSE MidCap	28.4

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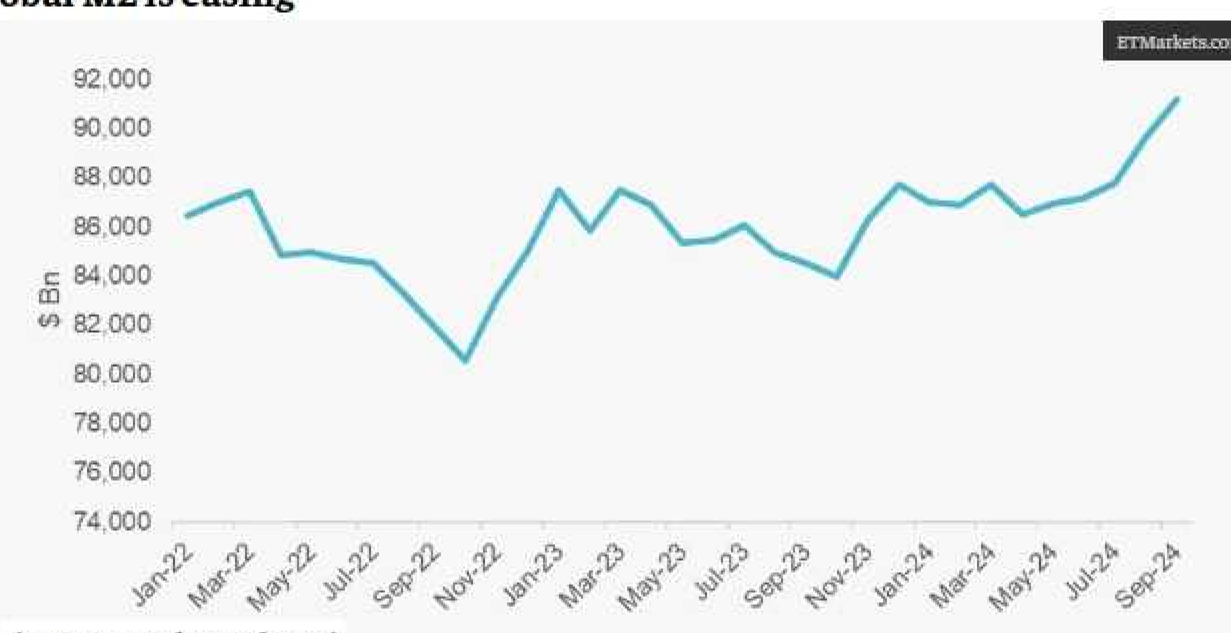
Bond Yields	Current Yield	1 Yr ago	Difference (bps)
US Generic Govt 10 Yr	4.61	3.90	72
US Generic Govt 2 Yr	4.35	4.35	-
India 10Y	6.78	7.18	-40
India 2Y	6.73	7.08	-35
India 10 Yr - India 2 Yr (bps)	5	10	
US 10 Yr - US 2 Yr (bps)	27	(46)	
India 10Yr - US 10 Yr	2.16	3.29	-112

(Source: Bloomberg, JM Research)

The world should transition from QT (Quantitative Tightening) to QE (Quantitative Easing), which would help sustain strong global equity market performance.
The Trump manifesto highlights three main agenda points concerning India: A) Pro-tariffs across the world, B) Income tax cuts for US companies, and C) Job creation for US citizens. This could make the US a preferred equity destination, especially considering the easing of money supply. With elections globally behind us, government spending could start increasing, which would, in turn, raise the money supply. China is also providing strong stimulus to its economy. An increase in global money supply typically leads to a rise in global equities.

An increase in US tariffs could result in higher-than-expected inflation, both domestically and globally. This could lead to a "Higher for Longer" interest rate cycle and a stronger US dollar.

Global M2 is easing



(Source: Bloomberg)

We believe 2025 will see India Inc. shine again, but the currency will remain under pressure

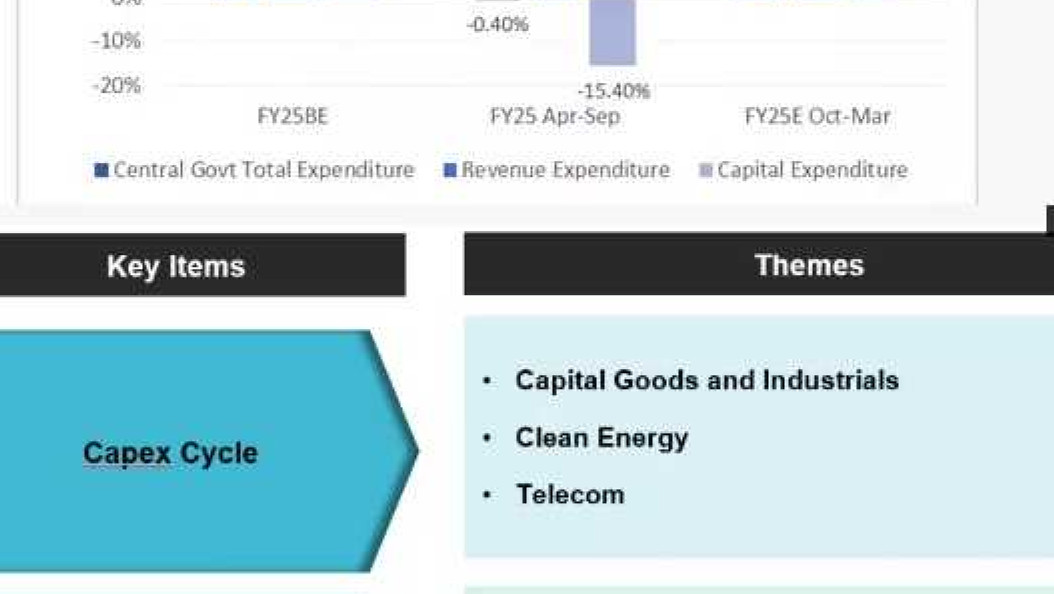
India had three issues in 1H2024

- The RBI, after increasing the GDP forecast over the last 4 years, has revised the FY25 forecast down to 6.6% (from 7.2%) due to the sharp slowdown seen in Q2 GDP growth, which came in at 5.4%.
- Credit growth has slowed from the 15-16% levels to 10-11% due to weaker retail consumption.
- Corporate Q2 FY25 results were a dampener, with overall revenue growth slowing to 8%, while profits declined by 2%, compared to the expected double-digit growth.

Silver linings and offshoots are already visible, as seen in the increase in PMI and GST numbers over the last few months.

We believe India has passed its trough in the relative economic slowdown in Q2 FY24. PMI numbers have already edged up to 57.3 in October, and GST collections also increased to Rs 1.87 trillion, the second-highest ever. The differential between India's 10-year and the US 10-year interest rates has reduced by 110 bps to 2.2%, one of the lowest ever, which could lead to dollar appreciation.

Government capex spend to be the next trigger
Only 30% of the FY2025 capex target has been spent so far by the government, and the budget is just two months away. Around Rs 7 trillion needs to be spent to achieve its target of Rs 11.1 trillion in capex for FY2025.



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Key Items	Themes
Capex Cycle	• Capital Goods and Industrials • Clean Energy • Telecom
Make In India	• Specialty Chemicals • Healthcare

(Source: JM Research)

Why are we bullish Indian Equities?
India is seeing growth in its GDP estimates of approximately 6.6% in FY25, a strong PMI expansion, and robust forex reserves, which currently stand at US$ 653 billion, despite a $50 billion reduction. This is clearly in contrast to the rest of the world, making India a safer haven compared to its global peers. However, valuations of indices are 6% above their 5-year averages, 92% above MSCI Emerging Markets (EMs), and 15% above MSCI World.

Domestic flows have surpassed US$ 48 billion FYTD, the highest India has witnessed in a year. Foreign institutional investors (FIIs) overall ownership levels in the Indian market have dropped to around 16%, the lowest in 12-14 years, and we expect this to improve substantially in the future.

Domestic mutual funds (MFs) are holding Rs 1.9 lakh crore, or 6.3% of their assets under management (AUM), in cash, which will help cushion any major fall.
(Source: Bloomberg, JM Research, CapitalLine)