IONIC WEALTH

BY ANGEL ONE

The Investing Pantheon

February 2025

Classified as Internal

“The Investing Pantheon”, harmonizes timeless wisdom with modern innovation. Just as the ancient Pantheon stands as a sanctuary for all Gods, our Investing Pantheon embraces comprehensive topics in investing, across asset classes and styles

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What Are We Saying?

Global policy vulnerability continues as new policies are being designed and redesigned. Major ministers across the world are doing diplomatic meetings and investors continue to guess what the policy landscape holds for their portfolios. 2025 continues to be the year of asset allocation and there are investing opportunities for an asset allocator's portfolio.

US : Economic strength but uncertainty and inflation pose volatility

US economic numbers have been too good to be true. Markets are jittery about any negative surprise as large cap valuation enter a frothy zone. We believe a stable US call stays alive but active management will be needed

India: Valuation catchup is not too far

India is increasingly getting in fair-valued zone. We believe there will be a buying opportunity close to NIFTY 50 levels of 22000, one must keep the ammunition ready

India's high frequency data is changing

The high frequency data is showing green shoots, but it is not very broad based. Monetary reflation continues to be the need of the hour.

Chinese outperformance to likely continue

The Hang Seng Tech index has outpaced the Nasdaq 100. Given the valuations and business moat, there's more uptick that is possible in Chinese equities

Global policy is now more important than ever

The policy making of Trump and how the countries retaliate will be the most important driver of asset classes hereon. We continue to keep a sharp eye on this space.

2025 will be an interesting year for asset allocators. Global policy landscape will create opportunities across assets. Equity also is likely to offer good buying opportunities, with global equities now looking more promising. However, that may change as domestic equities get in the valuation comfort zone.

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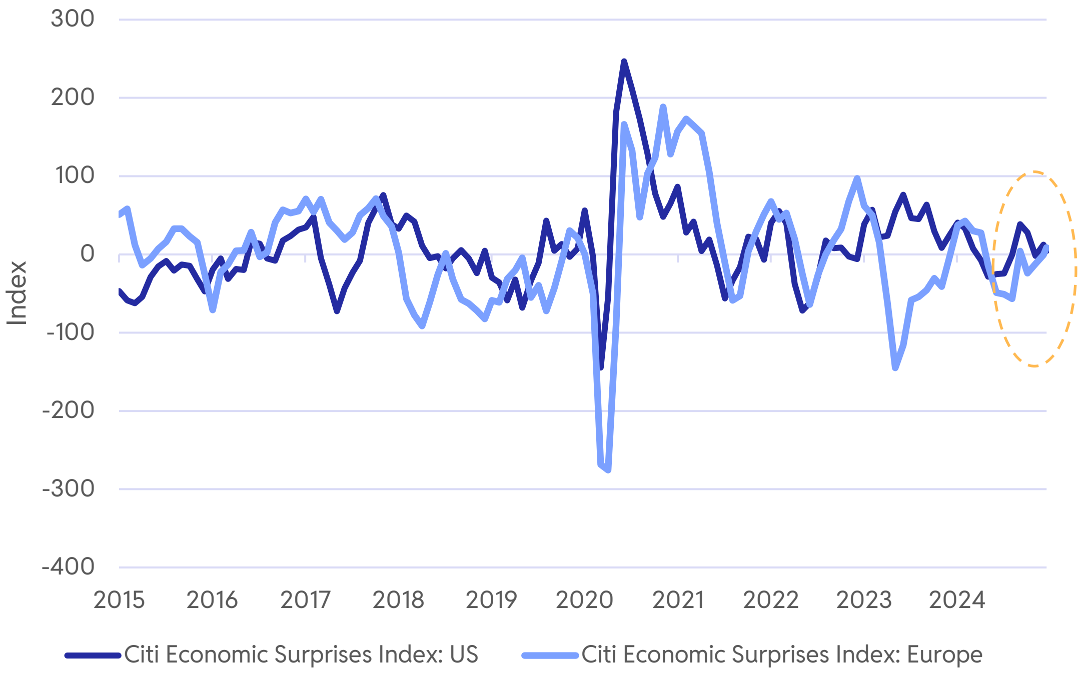
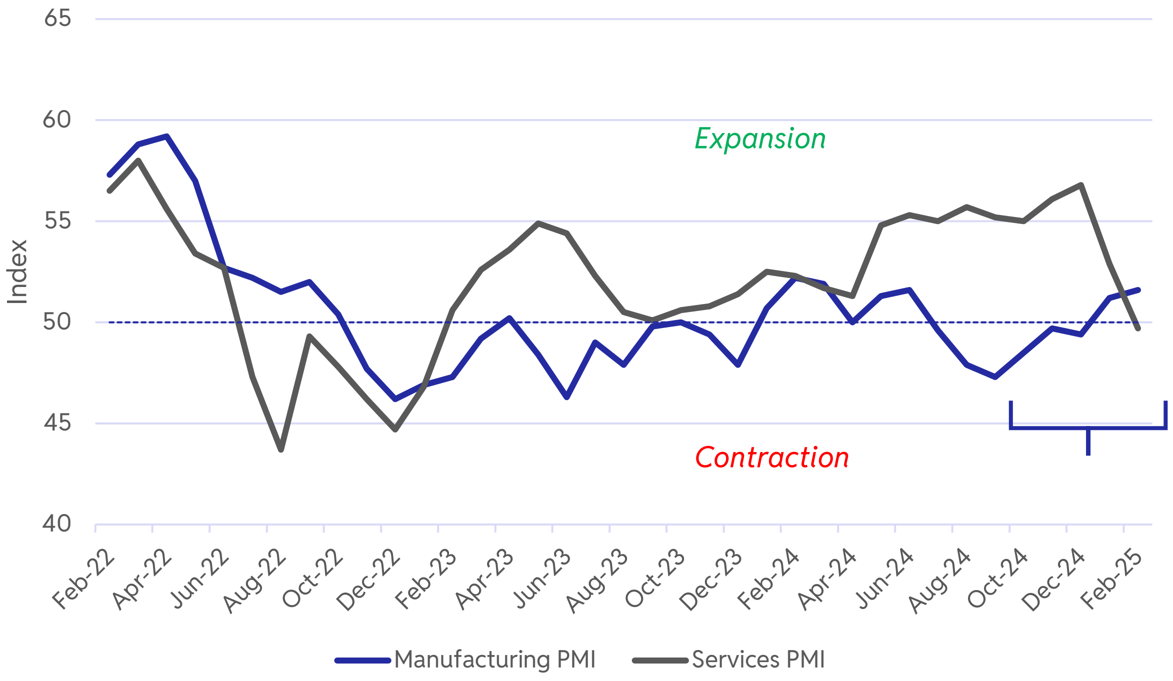
US: Economic Resilience Continues, Some Cracks Now Visible

US Economic surprise index has been positive, suggesting data continues to beat expectations



Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

Manufacturing PMI spiked to 51.6 in January, continuing in the expansion territory. Services PMI, however, has reversed

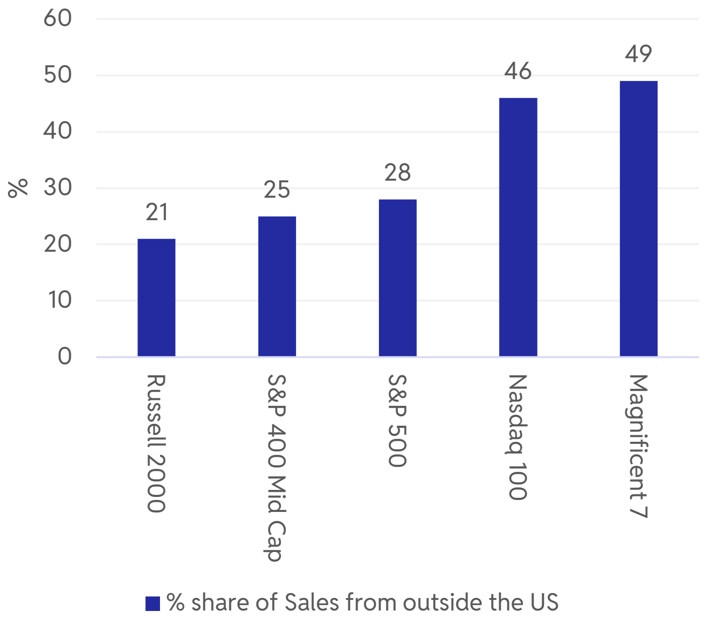


Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

Consumer spending, which accounts for more than two-thirds of the economy, grew at a 4.2% rate last quarter. That was the fastest since the first quarter of 2023 and followed a 3.7% pace in the July-September quarter. Spending is being underpinned by a resilient labor market. Savings remain lofty, though the saving rate slipped to 4.1% from 4.3% in the third quarter. Growth in government outlays moderated and the outlook is cloudy amid plans by the Trump administration to slash spending.

Large Cap In Valuation Froth Zone But American SMIDs May Have More Space

Mid-Caps Have Much Less Exposure to Global Growth Risks Than Mega-Caps

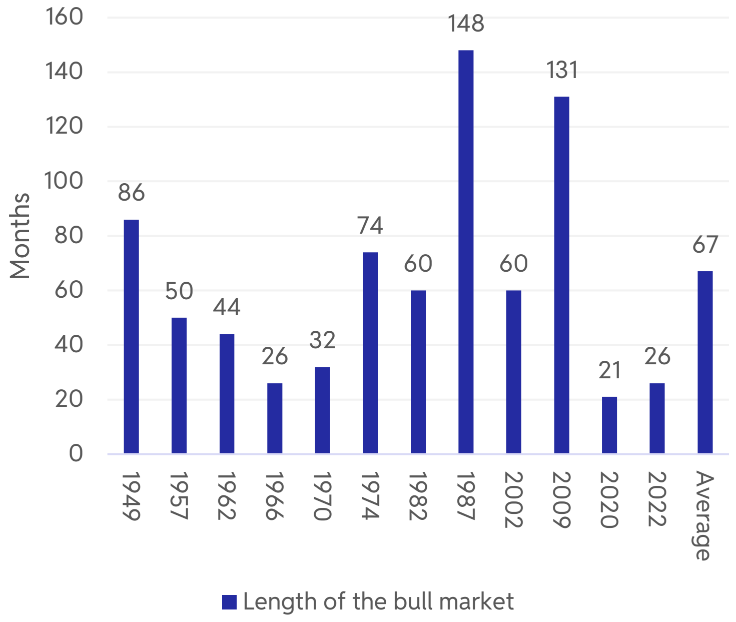


Source: MSIM, Ionic Wealth, Data available as on Feb, 2025

And are also available at relatively better valuations

	Russell 2000 Index	S&P 500 Index	NASDAQ 100 Index
Valuation score	0.44	0.39	-0.83
P/E	33.4	25.5	33.6
P/B	2.2	5.3	8.5
Dvd Yld	1.4%	1.2%	0.7%
P/S	1.4	3.2	5.9
EV/EBITDA	17.5	16.2	22.1

Current bull market is still young relative to historical cycles and is still below the average age of previous bull market cycles by ~40 months

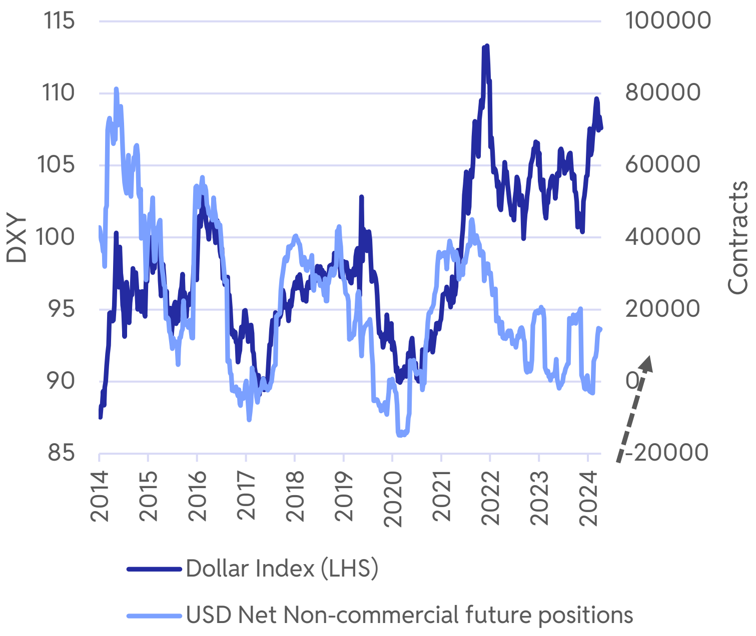


Source: MSIM, Ionic Wealth, Data available as on Feb, 2025

The S&P 500 is coming off two consecutive years of 25%+ total returns. A healthy labor market, steady consumer spending and a growing economy all contributed to favorable market conditions. Recent market volatility reflects concerns over policy moves by the Trump administration initiating reciprocal tariffs on trading partners. Nearly 30% of S&P 500 revenue is derived from overseas markets. Markets are concerned that tariff policies may boost the dollar's strength, thereby reducing impact of overseas revenue.

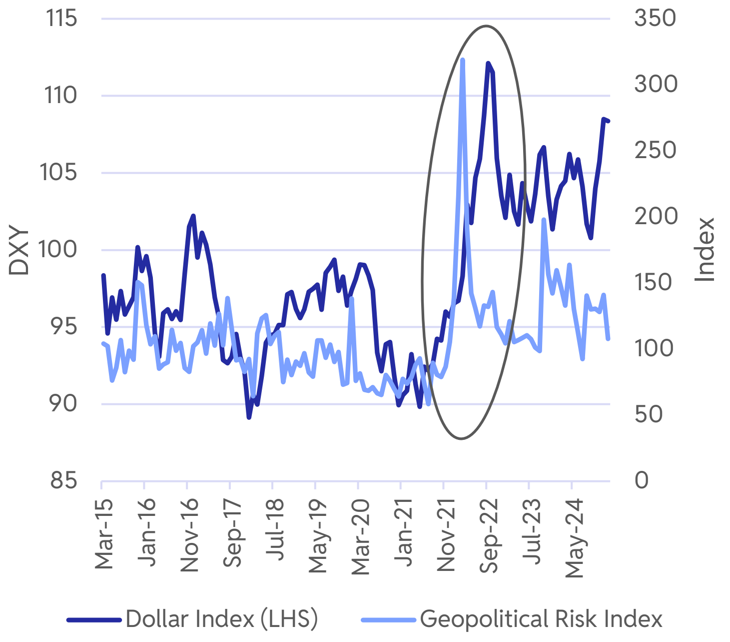
Dollar: Very Short-Term Headwinds Are Hard To See, Medium-Term Easing On The Cards

Build up of dollar future positions are a sign of continued dollar strength ahead



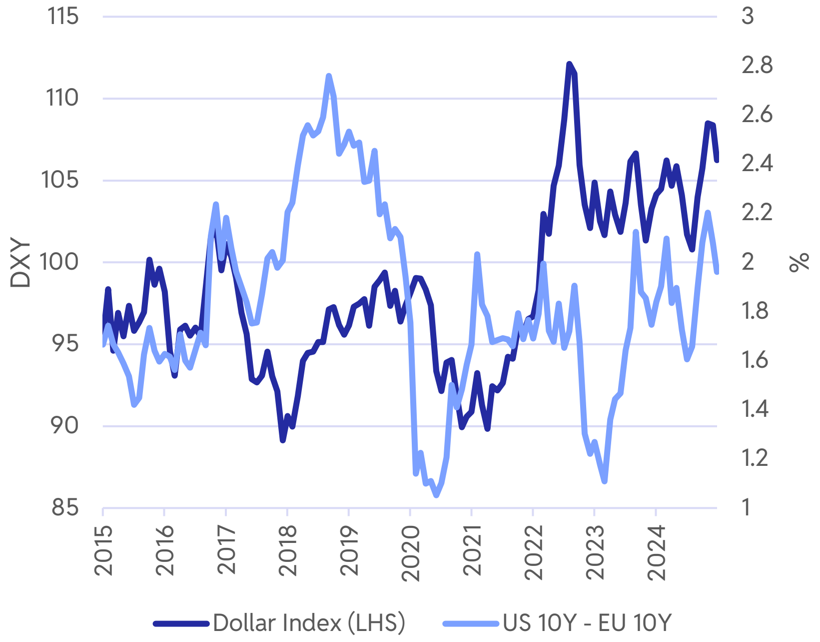
Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

As Geopolitical tensions rise, so does the Dollars dominance, given its presumption of safe haven



Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

Coming back of EU can sustainably ease dollar



Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

The dollar continues to trade on the softer side after US January retail sales fell. However, US dollar index speculators increased net long position near 5-month high. Tariffs are seen as potentially inflationary, which could reduce expectations of future rate cuts and support a stronger USD. President Trump's comments about reciprocal tariffs caused increased market volatility and risk aversion. Where can the DXY head from here? We believe it will take at least couple of quarters for dollar index to go back to pre-election levels of 100.

Risk: Inflation Is Back, Tariffs Can Worsen

Canada and Mexico are the regions to face maximum tariff backlash as US tries to stop rerouting of Chinese exports

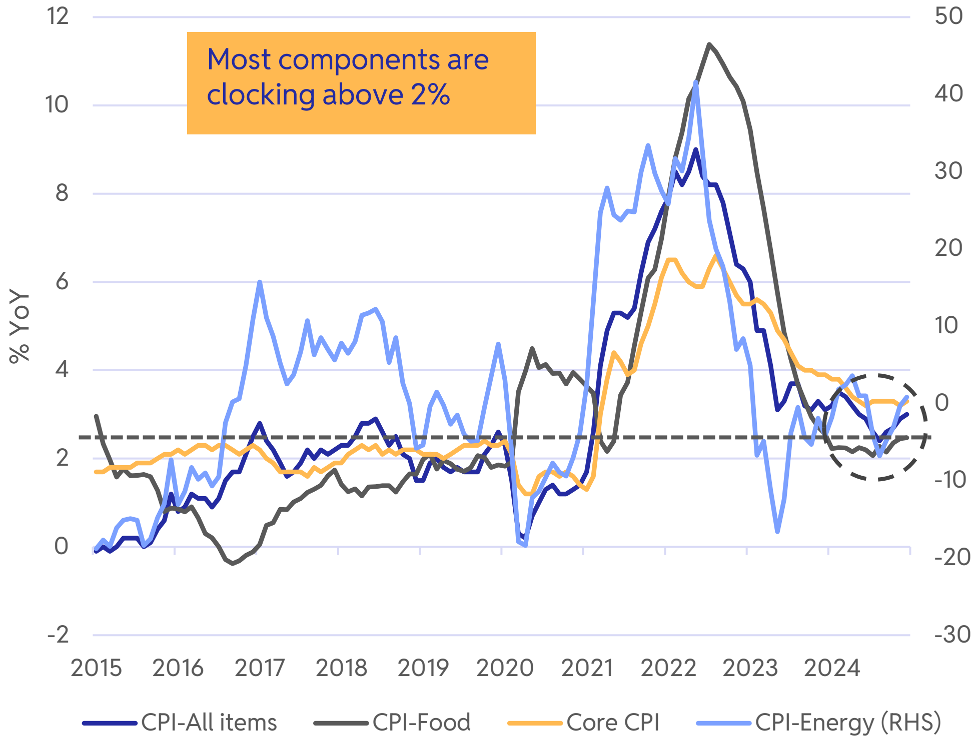
US Import of steel and aluminum by origin in 2024

	Steel imports (% of total)
Canada	25%
Mexico	15%
Brazil	12%
China	12%
Taiwan	9%
South Korea	7%
Germany	7%
Japan	5%
India	4%
Vietnam	4%

	Aluminium imports (% of total)
Canada	66%
UAE	8%
Mexico	5%
South Korea	4%
China	4%
Bahrain	3%
Argentina	3%
South Africa	3%
Australia	2%
India	2%

Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

Commodity prices have risen and are expected to rise given how Trump tariffs play out



Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

Inflation rose to 3% in January, its highest rate for six months. Shelter inflation, which comprises roughly 40% of the core CPI basket drove nearly 30% of the headline increase. However, on a YoY basis, the shelter index rose by a milder 4.4%, the smallest yearly increase since January 2022. Core goods (excluding food and energy) rose by 0.3% MoM in January, the firmest reading in nearly two years. Part of the increase could be related to consumers front-loading goods purchases ahead of potential retaliatory tariffs.

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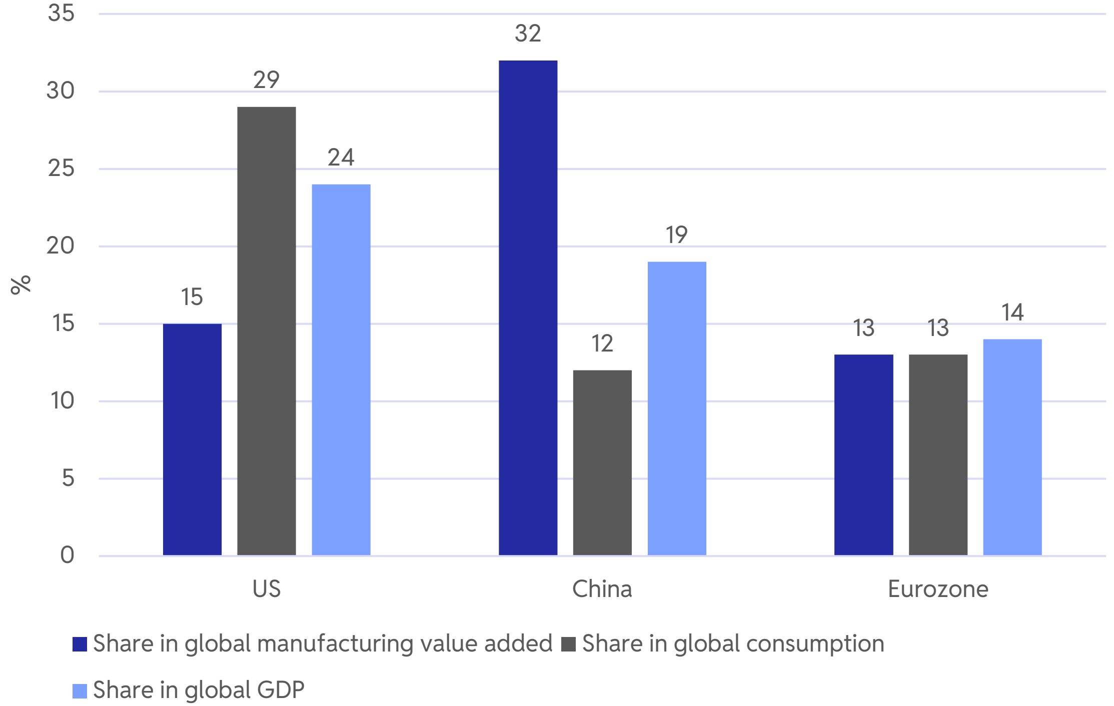
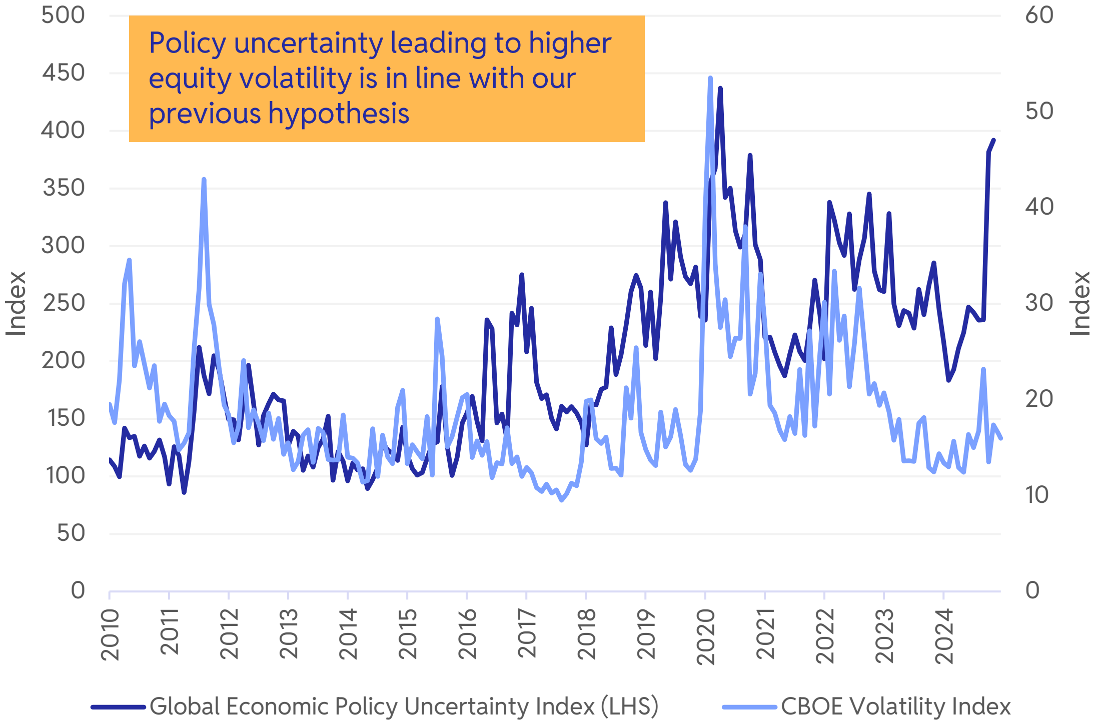
Policy uncertainty: A breeding ground of broad based volatility

US Consumes more than it produces, China produces more than it consumes; Trump wants to change this



Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

An environment of heightened equity volatility



Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

While Trump's proposed policy aims to strengthen US manufacturing and economic competitiveness, it may also escalate global trade tensions, particularly with China and the European Union. Reciprocal tariffs could trigger retaliatory measures, potentially leading to a new wave of trade disputes. This translates to equity volatility seen from spikes in the VIX crossing 20. However, the volatility is not restricted to equity, rather remains broad based across asset classes.

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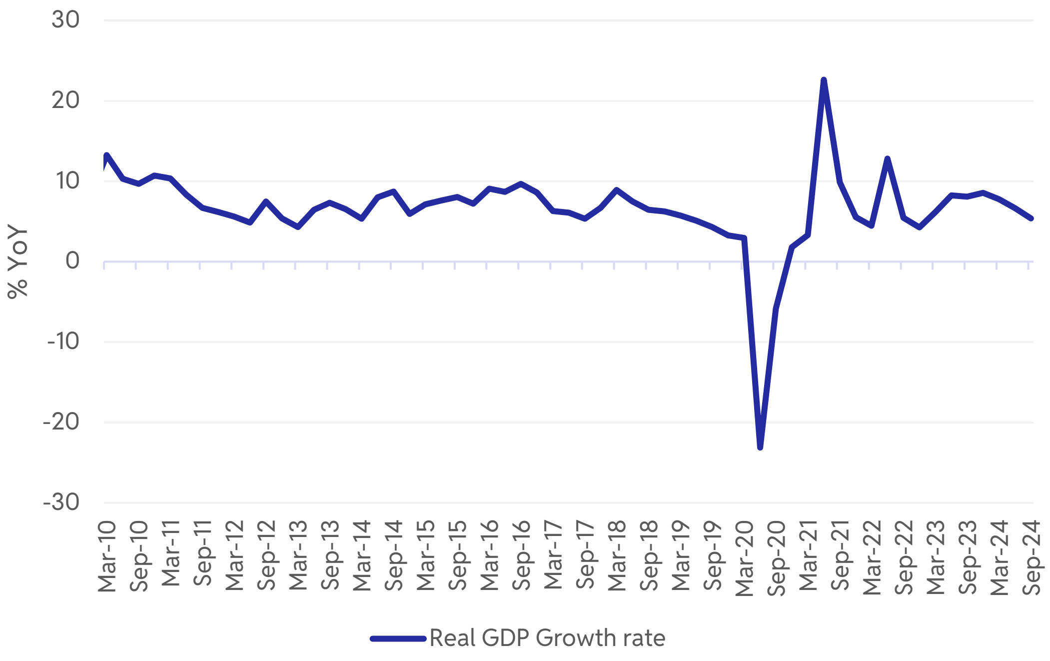
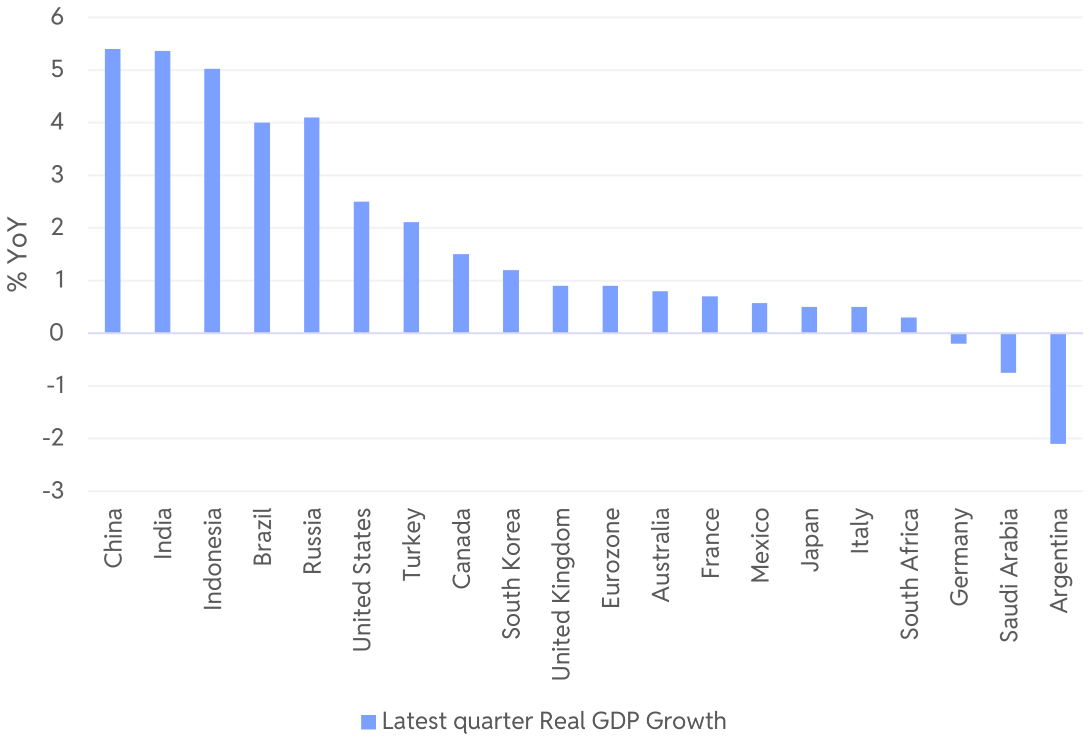
India's economy expected to grow at 6.3-6.8% in FY26

India's GDP growth rate has slipped in recent quarters, from 8.1% in Q2FY24 to 5.4% in Q2FY25...



Source: CMIE, Ionic Wealth, Data available as on Feb, 2025

...However, in the global scheme of things, India is one of the best performing economies

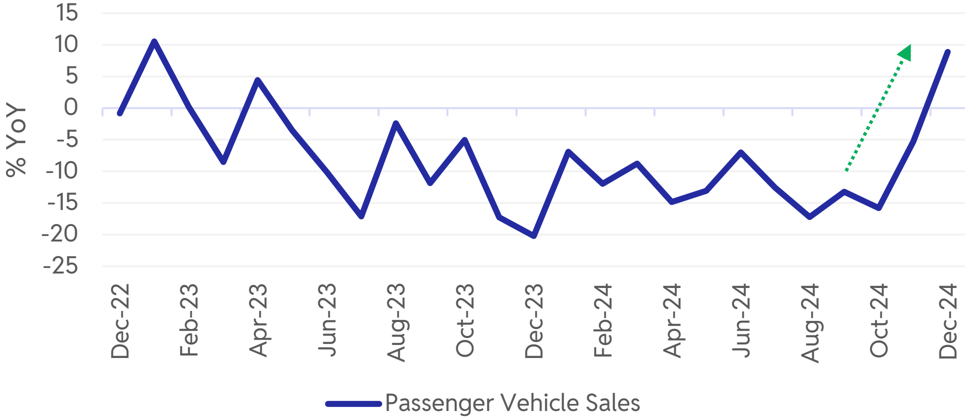


Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

The fall in India GDP is worrying as it beats street's expectations but does not necessarily weaken India's position in the world. What's interesting is that China is growing by about same growth rate and is a USD 17 trillion economy whereas India is USD 3.5 trillion economy. This continues to raise questions for investors but our belief is that once USD eases and EM starts to do well, both India and China can shine, assuming valuations become palatable.

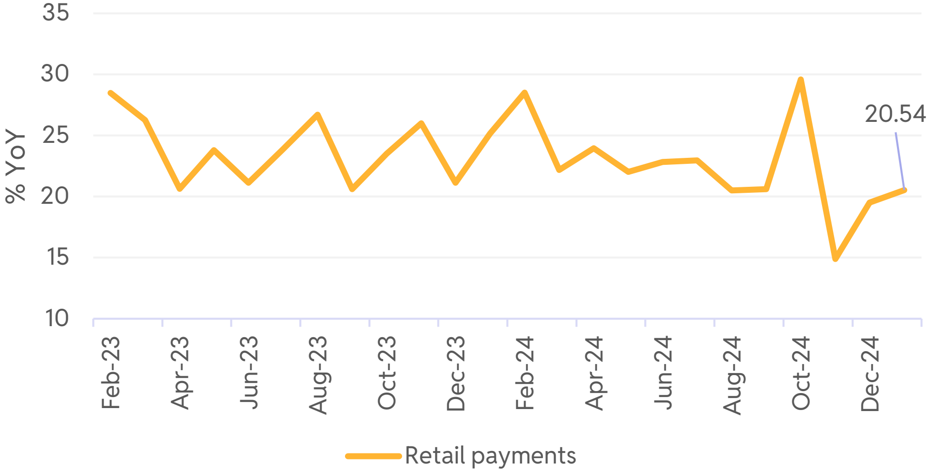
High frequency data looks promising

Passenger vehicle sales saw a sharp uptick in December, growing 8.9% YoY

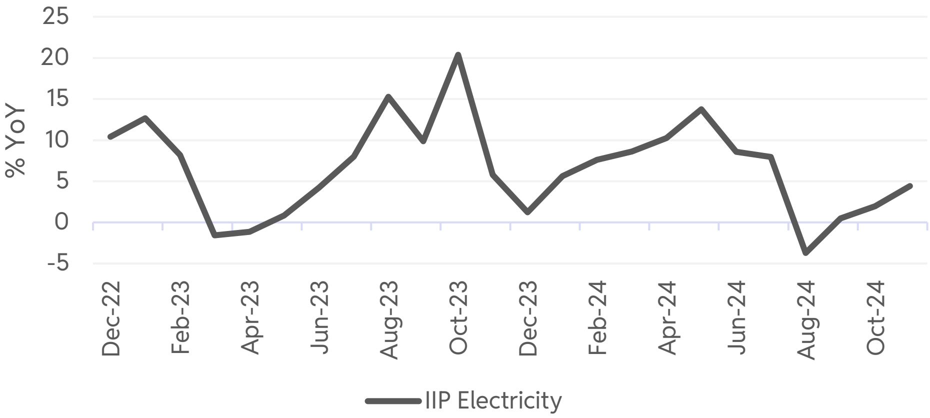


Airport passenger traffic grew at an average of 11% in Q3FY25 vs YTD average of 8.7%

Retail payments continue to be robust



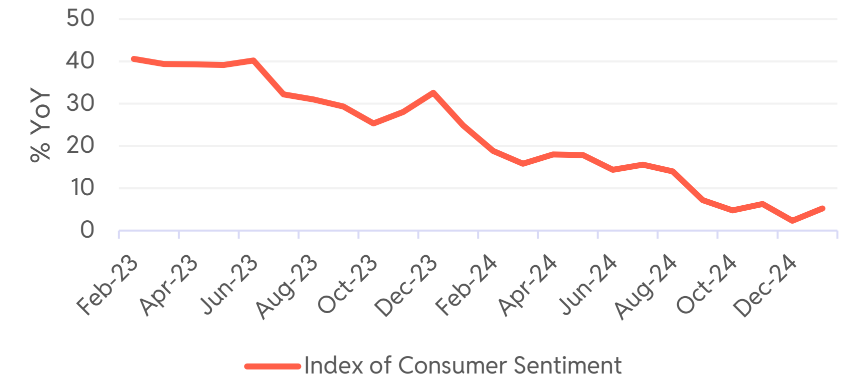
Electricity generation has rebounded from negative levels in August



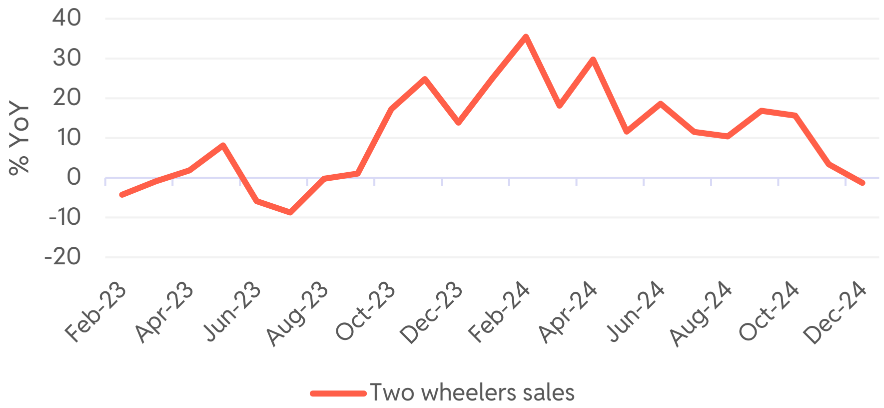
Source: CMIE, Ionic Wealth, Data available as on Feb, 2025

However, It Is Not All Hunky Dory

Consumer sentiment has been tepid

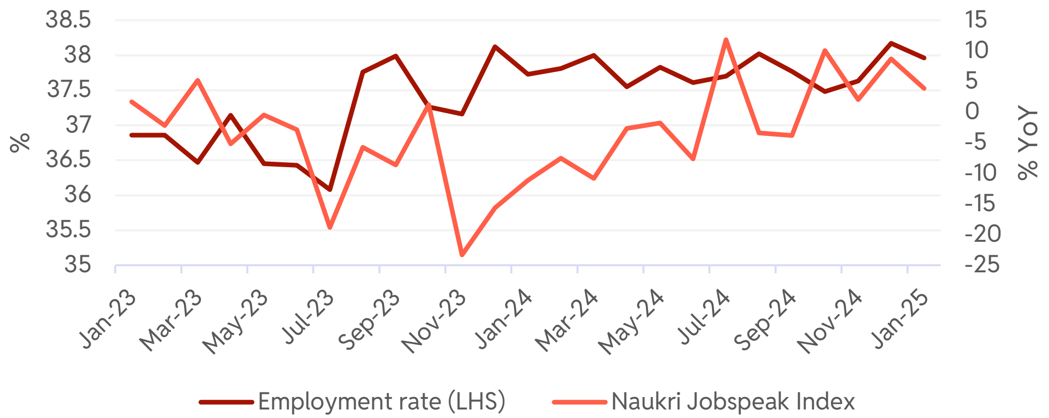


Two-wheeler sales showed degrowth in December, however it has averaged 16% YoY growth in CY24



Personal loan growth also continues to fall

Employment is off-highs, but considerably robust

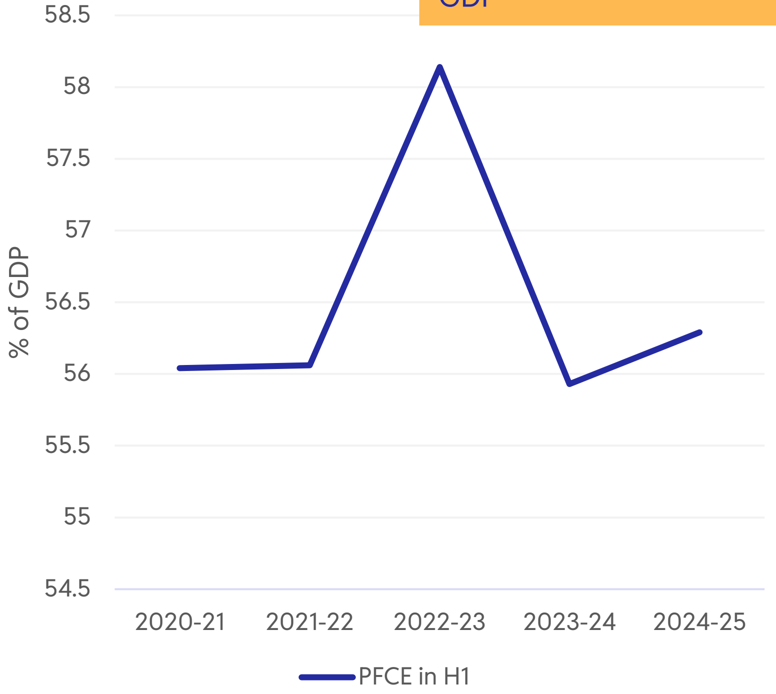


Source: CMIE, Ionic Wealth, Data available as on Feb, 2025

Consumption uptick in H1 FY25 is led by robust rural outlook

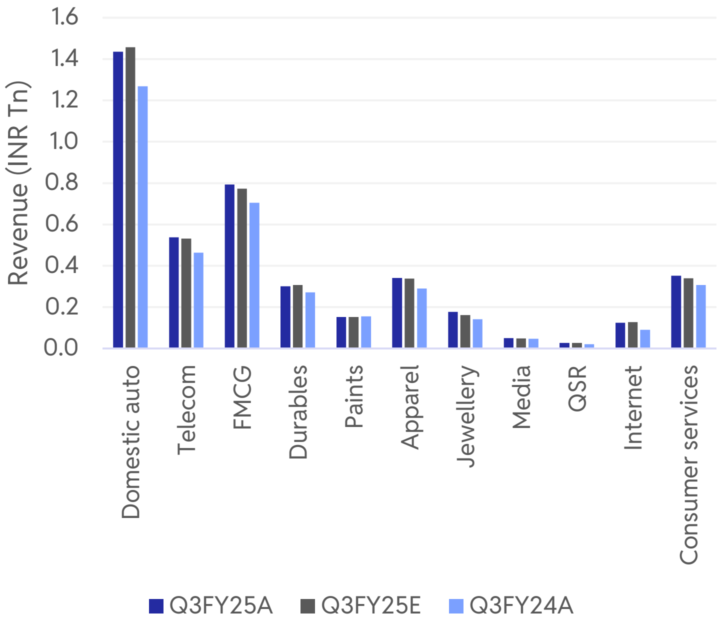
PFCE firmed up in H1 FY25, growing by 6.7% YoY

Consumption continues to contribute 60% of India's GDP



Source: CMIE, Ionic Wealth, Data available as on Feb, 2025

Domestic consumption cos top line grows 14% YoY in Q3FY25



Source: Nuvama, Ionic Wealth, Data available as on Feb, 2025

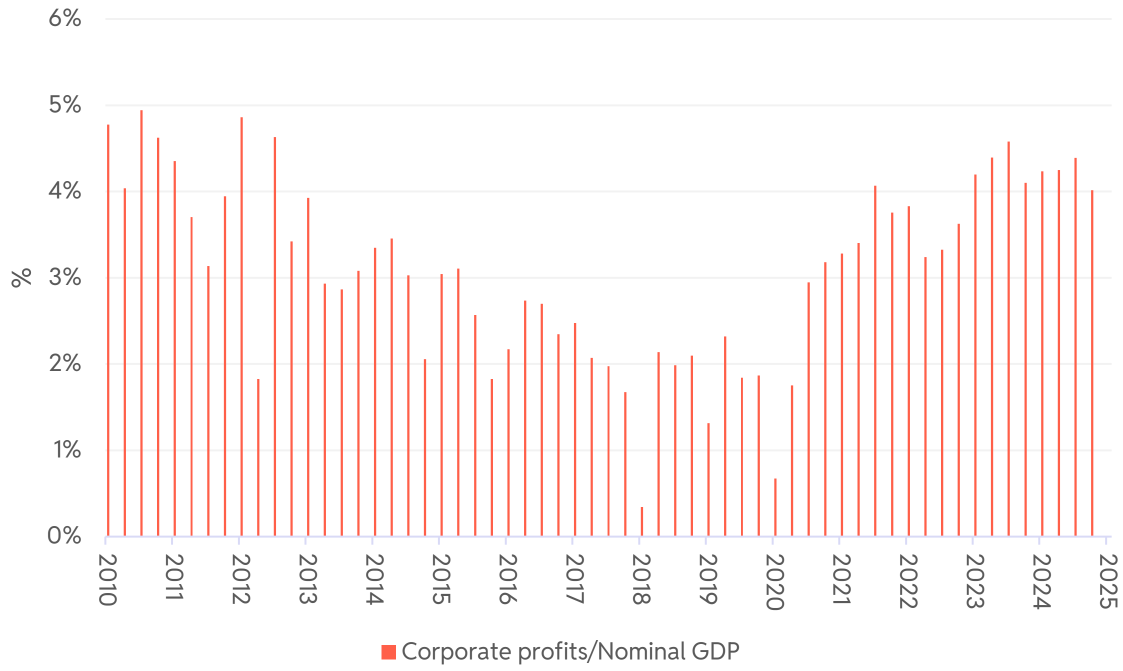
- 78.5% of rural households reported an increase in their consumption expenditure during the last year.
- The impulse from rural demand is expected to continue in the second half of the fiscal year with the returns from a bumper Kharif crop and higher MSPs for a prospectively good Rabi crop.
- The budget has advocated a tax push that can help boost consumption across households
- Household balance sheets suggest that net financial assets grew at an average of 13.4% YoY in FY24.

But what more is needed? Credit uptick and lower rates

There are some green shoots in the India consumption story. It has remained strong, despite the very high interest rates. India's middle class has been resilient as per capita income now crosses minimum sustenance levels. This component growing is vital for India's growth story-so far, so good.

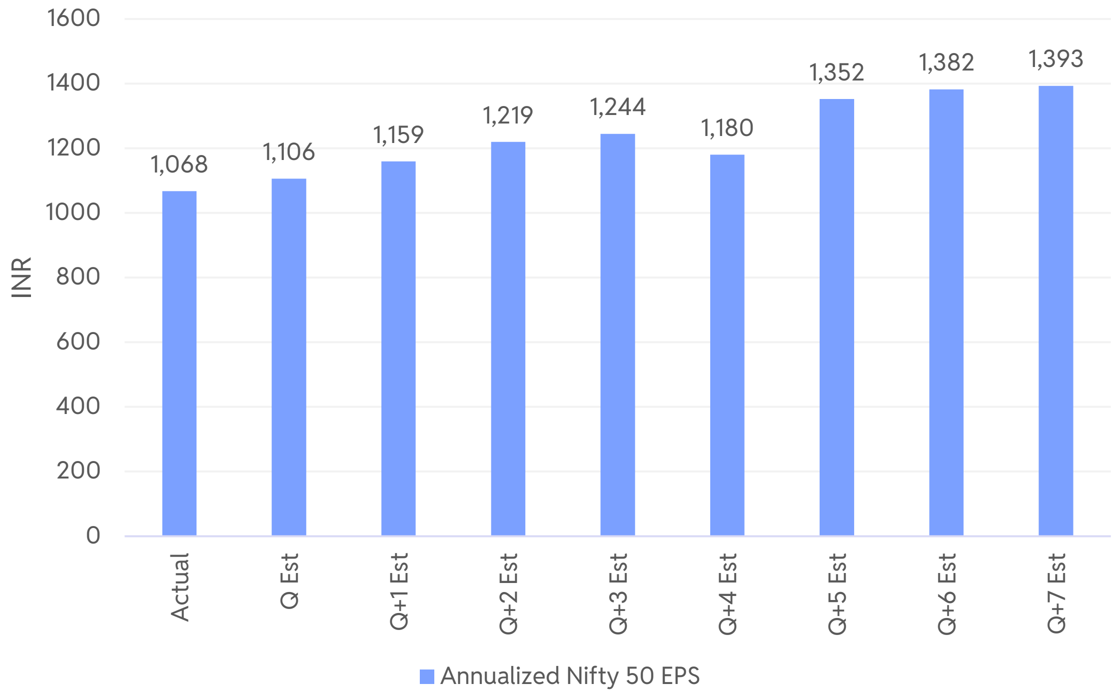
Corporate Profitability Is Off-Highs, Earnings Critical For Markets

Corporate profitability is falling as the growth also slows…



Source: CMIE, Ionic Wealth, Data available as on Feb, 2025

…NIFTY 50 EPS expectations at 1200 for FY26 assumes 12% growth, possible?



Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

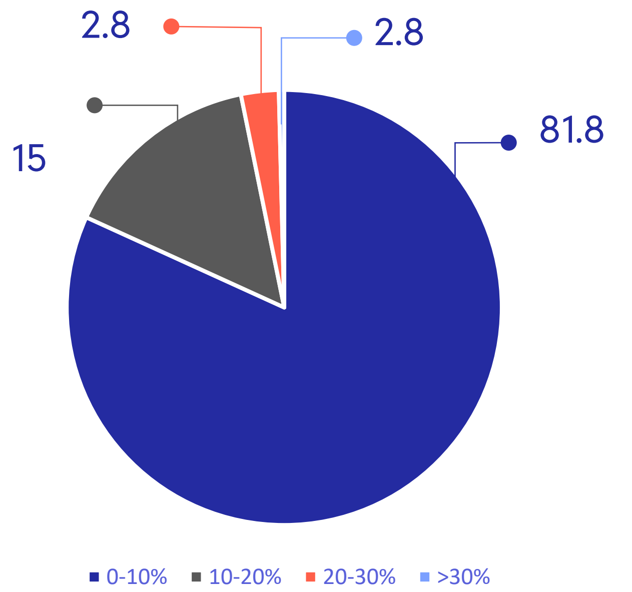
The earnings moderation in the economy, coupled with dollar strength and already stretched valuations have led to a significant correction. Earnings are critical to revive the Indian markets but what will drive earnings? Economic growth needs to be strong, rate cut cycle needs to be appeasing, global growth including US should remain robust. If some of these factors turn in H2CY25, there could be a revival in earnings ahead.

Tariff Remains A Risk, China-1 Strategy Is Not Something India Is Prepared For

India has relatively low % products in the highest tariff rate but has higher rates than other ASEAN economies…

…automobiles, textiles and apparels will be the worst hit sectors

India tariff rate on US (% of total imports, FY 24)



Source: Ministry of commerce, Data available as on Feb, 2025

Tariff differential of US with partner countries (%pp, weighted avg, 2022)

	India	China	Thailand	Indonesia	Japan	Phillipines	Vietnam	Malaysia	Germany	UK	Canada	Mexico
Animals	30.2	9.3	44.2	4.8	19.7	8.9	9.4	-0.2	14.1	3.3	29.7	28.9
Chemicals	10.2	2.4	4.8	2.4	-0.3	3.6	1.2	1.2	0.8	0.7	0	3.3
Footwear	17.2	-5.8	12.6	-7.7	33.1	1.8	-0.9	-7.7	-5.9	-2.4	0	11.9
Fuels	6.8	2.6	0	4.4	0	0	2.2	2	0	-1.6	0	0
Hides and skins	2	-4.6	-2	-1	1.1	8	-6.4	-10	-3.8	-2.1	0.3	4.7
Machinery and elec	6	1.1	2.5	4.6	-0.9	0.2	0.3	0.7	0.6	-0.3	0	2
Metals	7.8	1.7	5.4	4.2	-0.6	5.4	0.6	0.7	0.8	-0.2	0	5
Minerals	8.8	0.7	0.1	4.5	-0.4	2.9	0.6	0.4	-0.2	-0.1	0	0
Miscellaneous	7.8	0.7	9.1	5	-1.1	1.1	0.5	-0.2	0	-0.2	0	4.4
Plastic or rubber	6.8	3	4.7	6.2	-0.9	8	-1.6	5.6	0.8	0.7	0	5.9
Stone and Glass	9.4	3.6	2	3.7	-0.5	3	12.4	4.8	-0.1	-1.4	0	3.8
Textile and clothing	15.6	24.3	-6.7	-11.6	-0.6	0.9	-12.3	-6.7	2.2	0.2	0	9.7
Transportation	14.4	9.8	11.9	9.2	-2.3	7.3	4	-2.2	3.5	0.3	0	6.9
Vegetables	20.5	13.2	33.8	0.7	16.2	2.7	4.3	0.1	0.3	0.9	0.2	10.5
Wood	8.1	0.6	0.9	0.2	0.1	2.4	-0.3	-0.5	-0.1	0	0	2

Source: Emkay research, Ionic Wealth, Data available as on Feb, 2025

Trump's proposed reciprocal tariff plan could pose new challenges for Indian exports. To ease trade tension, India has already cut tariffs on several items, for example to 30% on high-end motorcycles from 50% and 100% on bourbon whiskey from 150%, while promising to review other tariffs, stepping up energy imports, and buying more defence equipment.

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India's Equity Performance Has Led To Valuation Froth But Current Correction Can Lead To Justified Values

India has been the best performing equity market over the 3 year period...

Name	Tot Return 1Y (%)	Tot Return 3Y (%)	Tot Return 5Y (%)	PX > 200D MA
STOCK EXCH OF THAI INDEX (Thailand)	-4.4	-6.1	-0.6	17.2
HO CHI MINH STOCK INDEX (Vietnam)	7.8	-3.9	8.0	50.8
CSI 300 INDEX (China)	20.4	-2.6	2.1	61.0
HANG SENG INDEX (Hong Kong)	45.3	-0.4	-1.3	51.8
MSCI EM LATIN AMERICA (LatAm)	-13.0	2.8	0.1	58.4
CAC 40 INDEX (France)	7.7	7.8	8.6	67.5
FTSE 100 INDEX (UK)	20.2	8.5	6.8	65.0
STXE 600 (Europe)	16.1	8.9	8.2	64.4
S&P/ASX 200 INDEX (Australia)	17.5	11.7	9.1	58.6
DAX INDEX (Germany)	29.4	12.6	9.9	65.0
S&P 500 INDEX (US)	22.5	12.8	14.2	60.6
Nifty 500 (India)	7.6	13.5	17.4	17.8
NIKKEI 225 (Japan)	7.4	14.3	12.4	44.4
NASDAQ 100 STOCK INDX (US)	22.3	16.0	18.6	61.0

Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

...which has resulted in relatively worse valuation score, with no re-ratings in sight

Name	Valuation Score	P/E	P/B	Dvd Yld	P/S	EV/EBITDA
NASDAQ 100 STOCK INDX (US)	-1.7	33.6	8.5	0.7	5.9	22.1
S&P 500 INDEX (US)	-1.3	25.6	5.3	1.2	3.3	16.2
Nifty 500 (India)	-1.1	23.2	3.6	1.2	2.7	17.6
NIKKEI 225 (Japan)	-0.5	19.7	2.1	1.8	1.5	10.1
DAX INDEX (Germany)	-0.1	16.5	2.0	2.5	1.2	8.7
S&P/ASX 200 INDEX (Australia)	0.1	19.9	2.5	4.5	2.5	12.9
STXE 600 (Europe)	0.1	15.3	2.2	3.2	1.6	11.1
CAC 40 INDEX (France)	0.1	15.3	2.0	3.1	1.4	12.3
HO CHI MINH STOCK INDEX (Vietnam)	0.2	12.6	1.7	1.8	1.7	11.9
CSI 300 INDEX (China)	0.2	15.6	1.6	2.9	1.4	16.1
FTSE 100 INDEX (UK)	0.4	13.0	2.0	3.5	1.4	8.3
STOCK EXCH OF THAI INDEX (Thailand)	0.6	18.3	1.3	3.7	0.9	9.6
HANG SENG INDEX (Hong Kong)	1.4	10.0	1.2	3.8	1.5	9.5
MSCI EM LATIN AMERICA (LatAm)	1.5	9.8	1.5	5.5	1.1	5.2

Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

Valuation is one of the critical factors of investing but not the only one. The run up in domestic equities resulting in higher valuations has now caught the eye. However, at NIFTY 50 levels closer to 22500, valuations will once again turn favorable, will that excite FIIs to re-enter India?

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India Needs Monetary Reflation, Rate Cuts + Liquidity Injection

India's real rates are currently at cyclical highs...

Source: CMIE, Ionic Wealth, Data available as on Feb, 2025

...Liquidity could worsen to under INR 2.5 tn ex of RBI intervention

Source: Nuvama, Ionic Wealth, Data available as on Feb, 2025

India's monetary policy has been extremely tight, with real rates much higher than warranted. Now, fiscal policy is in consolidation, and inflation is increasingly getting under control. There's a strong case for RBI to reflate the economy with rate cuts (we expect another 25bps in April) and injection of liquidity towards the quarter end.

China Is Seeing New Year Bonanza, To Continue?

The Hang Seng Tech index has outpaced the Nasdaq 100's 3% increase and a 0.6% decline for the "Magnificent Seven" US tech stocks over the past month.

	Hang Seng Tech Index	Nasdaq 100
Since Jan 25	17%	3%
Since Aug 24	49%	12%
Since Feb 24	74%	27%

Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

Even on the economy front, the data has started to better, ok much better and some uptick is seen on macro data such as inflation

Source: Bloomberg, Ionic Wealth, Data available as on Feb, 2025

China has seen a new year uptick in consumption and in demand. This, coupled with tech announcements, has re-ignited investor interest in China. With markets still trading at a discount to long-term valuations, there's a scope of outperformance continuing, at least in the short run.

In a nutshell,

2025 has started with global policy formation across all major economies. The policy making will pave the way for investing cues ahead. It seems like a cross-roads of policy formation and rather also some policy U-turns. It can be volatile, very volatile. However, the correction will also create opportunities for long-term investors.

Happy Investing.

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Reach us at hello@ionic.in

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