IONIC WEALTH

BY ANGEL ONE

The Investing Pantheon

December 2024

“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

What Are We Saying?

Amidst holiday cheer and season's greetings, markets in red have not been the most appetizing. Having recapped the year 2024 in November, this edition looks at key themes that will be vital as we step into 2025. It is likely to be a different regime from the pre-covid world, with slowdown in growth, possible corrections in equity valuations and new trade and tariff policy formulation. This is the time to position portfolios for what lies ahead, ignoring the recency bias. It's a new year, a new economic cycle and new investing opportunities will emerge.

US is getting to bubble?

There has been a high buoyancy in the US markets but it is still backed by strong economic growth and earnings

US services has done well, manufacturing not really

There is a clear divergence between services and manufacturing output in US, which also reflected in equity performance, with Tech outperforming other sectors

Precious metals will hedge against 2025 risks

Be it higher US debt or resurgence of inflationary pressures, precious metals will offer the right hedge

China's fiscal stimulus is delayed, not cancelled

The growth in China is showing some green shoots but the fall in bond yields show the investors are not yet convinced. Most likely, China will retaliate to Trump policies with fiscal stimulus and therefore a tactical hold call stays

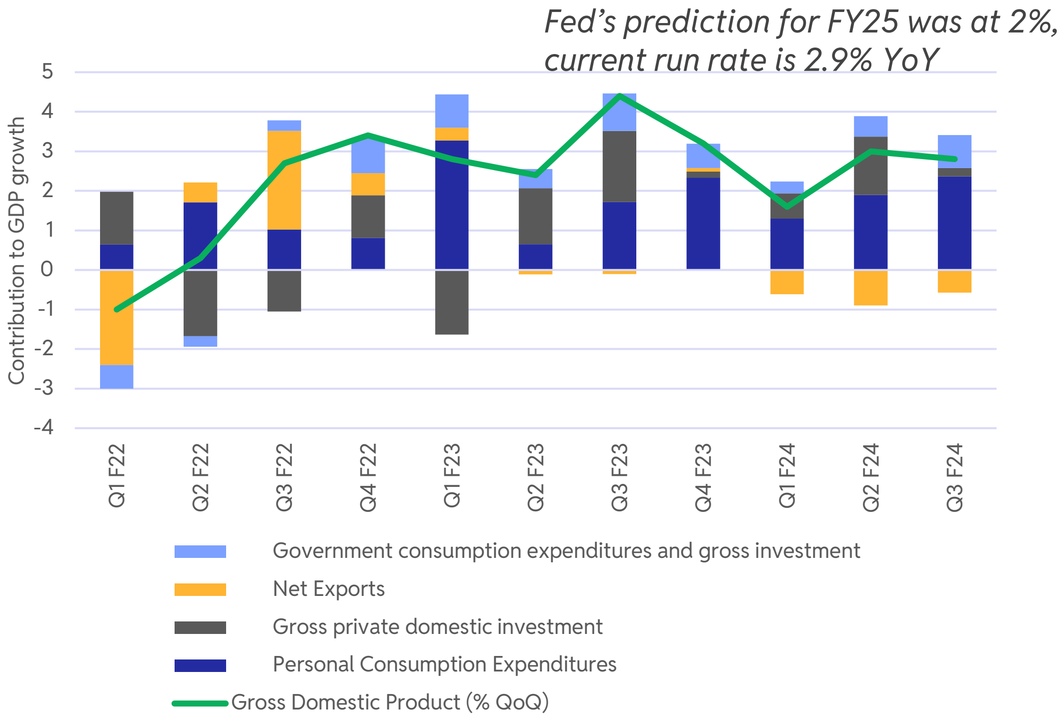
India is still a sweet spot in growth, equity valuations may mean revert

India has its own growth areas on the economic front, but equity valuations correction have been long warranted

There will be new opportunities that will emerge in 2025, as the froth in markets correct. It may also be an interesting year for asset allocators. Watch out for Trump policy formation and the market volatility in the early days of 2025. Domestically, the MPC of February will be an important one to watch out for. Happy Investing and Happy New Year to all our readers.

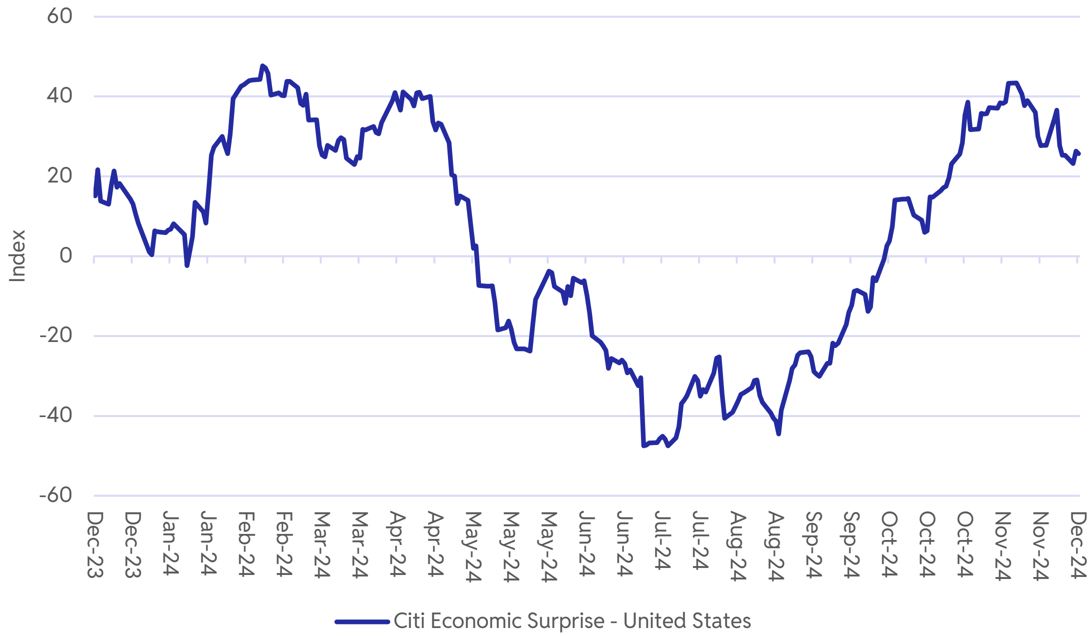
US Growth Is Strong

US Economic growth defies expectations yet again, and is on track to beat Fed's forecasts



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

A string of stronger than expected data points have sent the Economic surprise index soaring this year

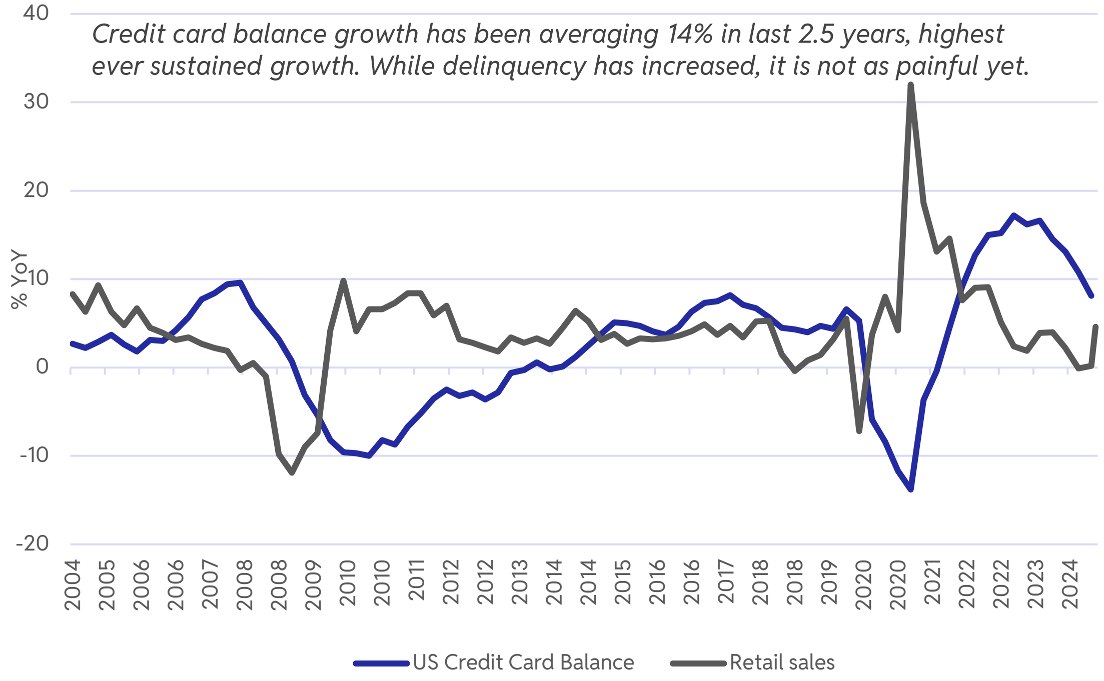


Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

The US economy is set to drive global growth through 2025, fueled by strong consumer spending. The IMF raised the country's growth forecasts to 2.2% for 2025, making it the only developed economy to receive upgrades for both years, 2024 and 2025. The expansion in GDP has been powered by an uptick in consumer spending, surge in exports, stronger federal government spending as well as business investment in equipment.

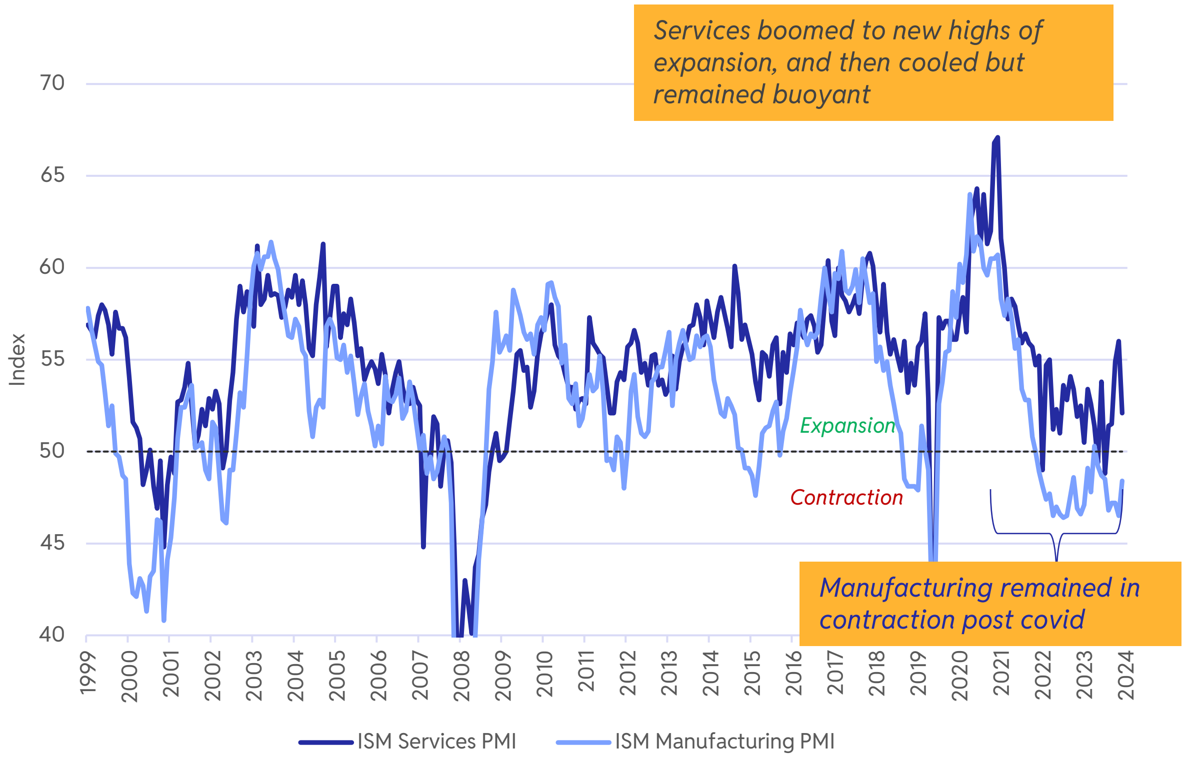
The Growth Is Reasonably Broad, But Manufacturing Can Do Better

Credit card debt hit a record USD 1.17 Tn, rising by USD 24 Bn in Q3 FY 24



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

The expansion in services drove the economy, while manufacturing slowed

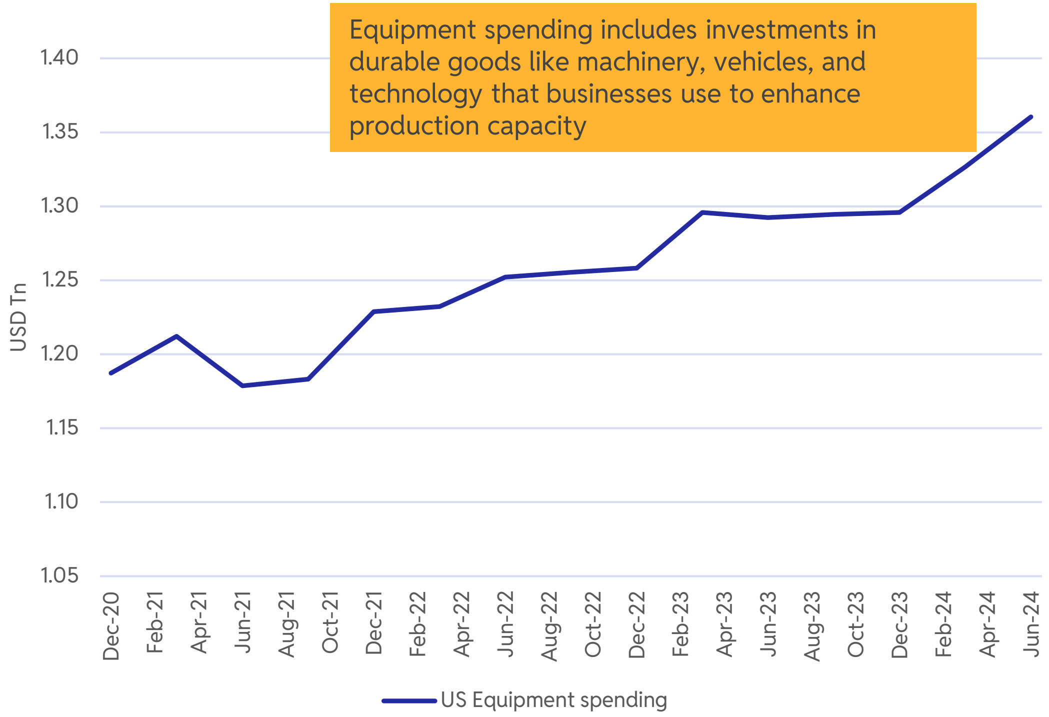


Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

The US consumption sector is strong, visible in both credit card balance and retail sales growth. The services sector remains strong, with Services PMI at 52.1, driven by robust consumer demand, while manufacturing lags in contraction at 48.4. Services account for over 80% of jobs, supporting growth, while manufacturing struggles with weak demand and supply chain pressures. A resilient services sector underpins the economy, but a manufacturing rebound is now expected.

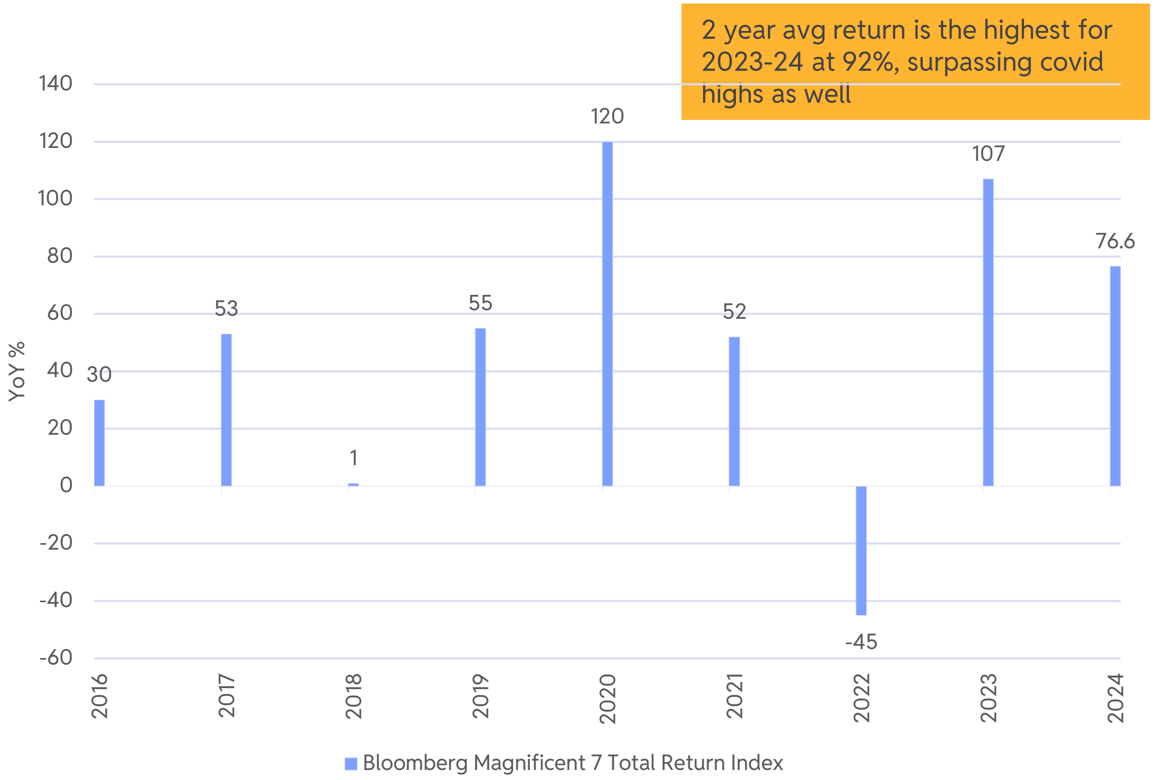
Within Services, Tech Was An Outperformer

US Equipment spending has been rising rapidly since Covid-19…



Source: fred.stlouisfed.org, Ionic Wealth, Data available as on Dec, 2024

… which translated into Mag 7 stocks continuing to gain for a second year

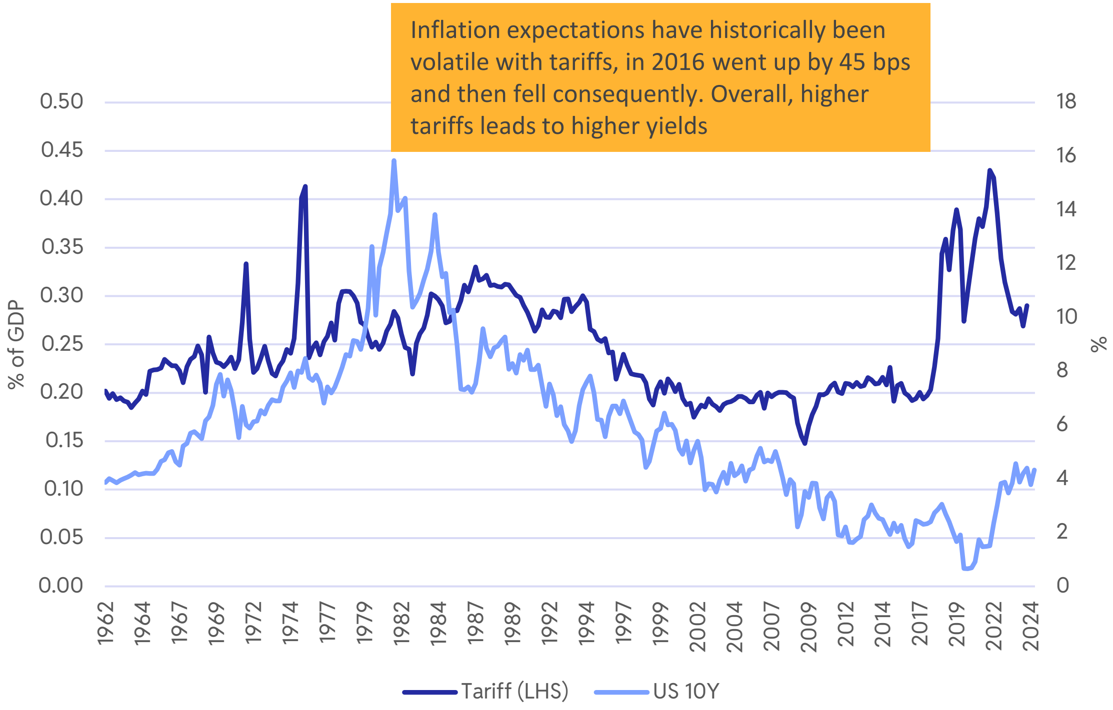


Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

Initiatives to onshore production and boost U.S. manufacturing would require increased automation. Starting 2025 we could see software and service companies begin monetizing these technologies. Mega-cap tech is expected to increase spending on data center development from USD 213 billion in 2024 to USD 250 billion in 2025. Robotics and Internet of Things connectivity hardware are also expected to accelerate.

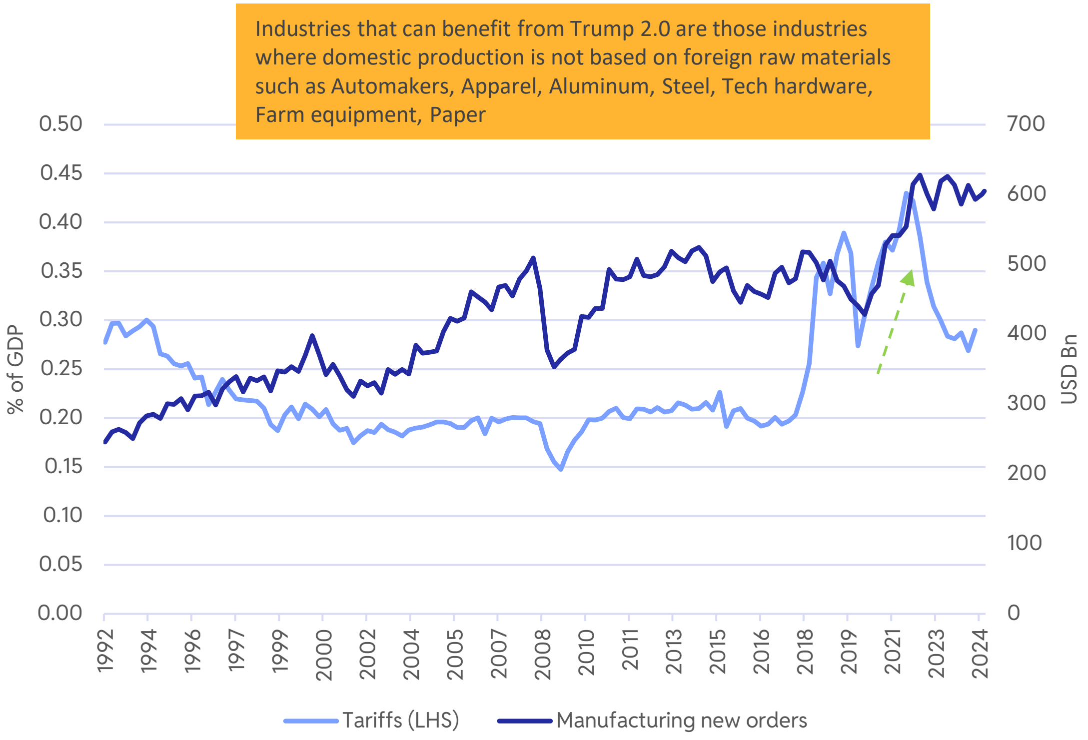
There Are Pros And Cons To Tariffs

Interest rate volatility tends to rise during protectionist periods with higher tariffs…



Source: fred.stlouisfed.org, Ionic Wealth, Data available as on Dec, 2024

…however, tariffs could support US Manufacturing

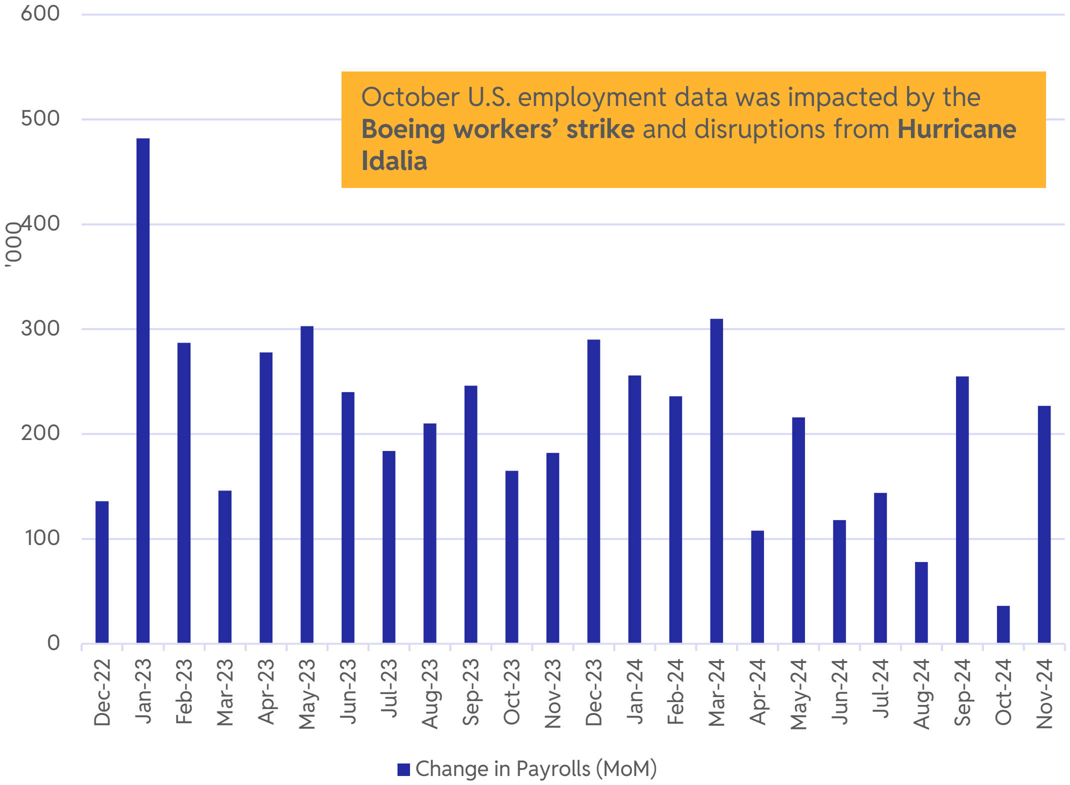


Source: fred.stlouisfed.org, Ionic Wealth, Data available as on Dec, 2024

Tariffs are part of Trump's broader "America First" economic strategy seeking to reduce the U.S. trade deficit, bring manufacturing jobs back to the U.S. and protect domestic industries. However, they would hurt industries like electronics, automotive, and manufacturing, which depend on low-cost foreign components. The US has pursued forward thinking policymaking by instituting policies such as CHIPS Act which reduce the dependency on foreign nations for key components such as semiconductors. Overall, however, tariffs lead to higher inflation, higher volatility in yields and could help domestic industries where dependency on imports is limited.

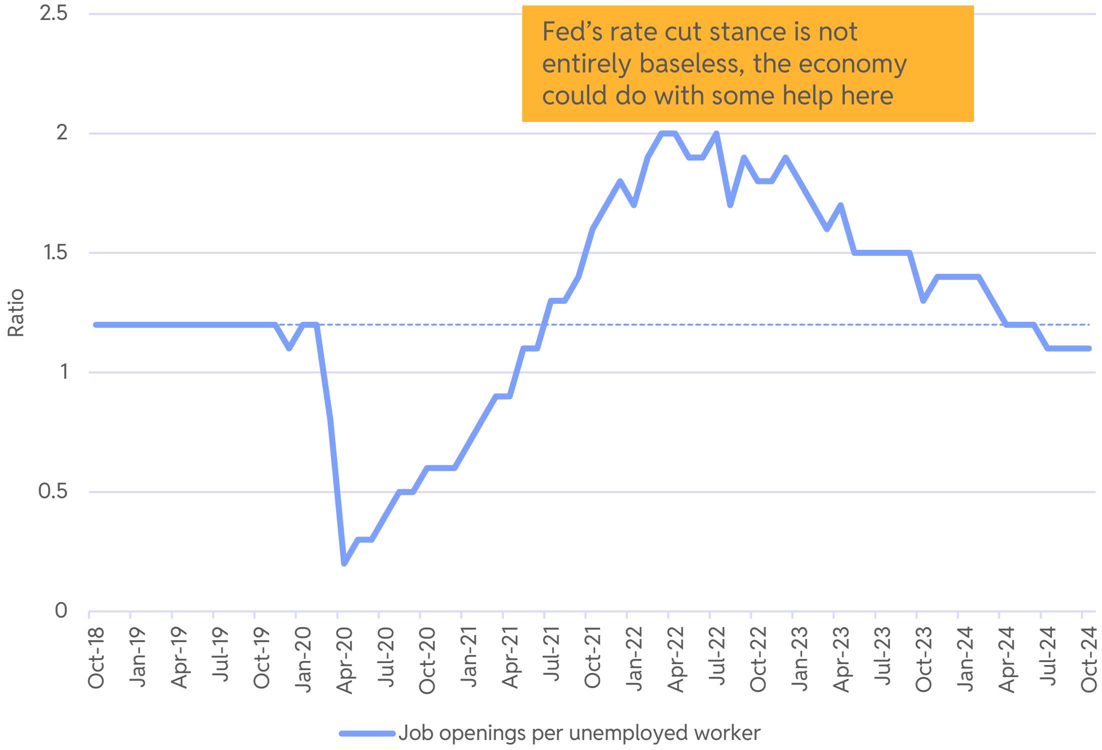
Structural Employment Green Shoots Sprouted Again

US Employment seen inching back up after hurricane, strike…



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

…however, Job openings per unemployed worker remains below pre-pandemic average

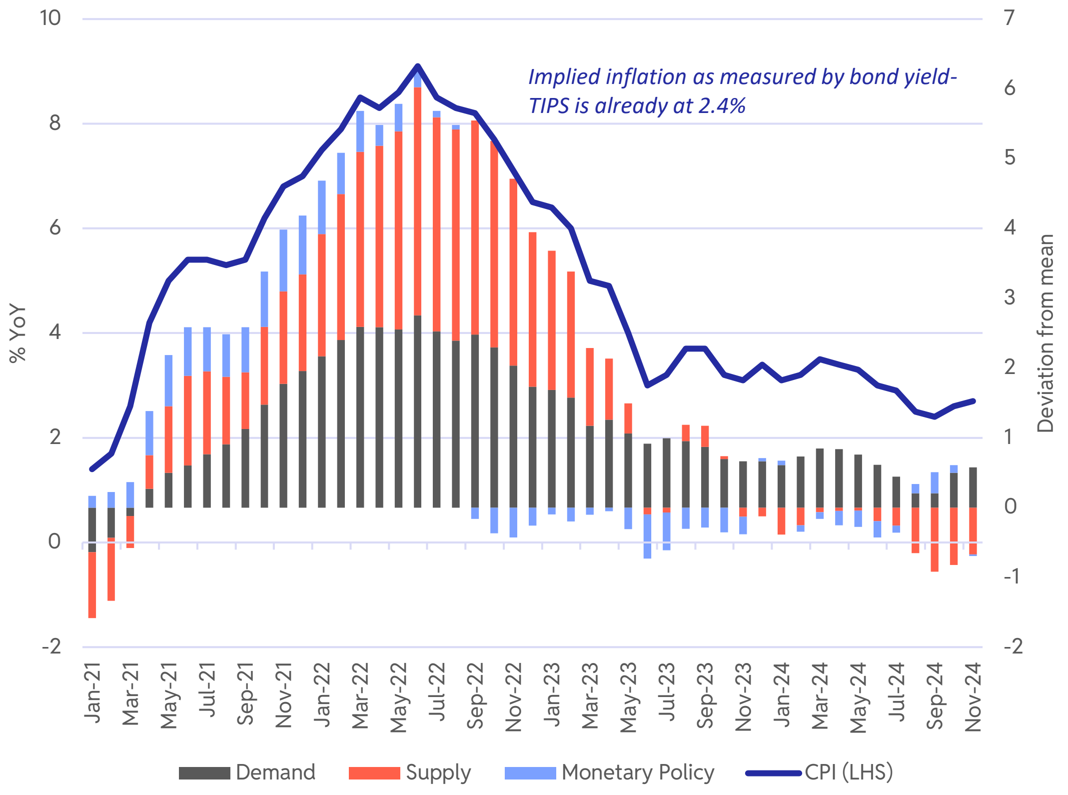


Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

The labor market's resilience is driving the economy through strong consumer spending. Job growth averaged 173,000 per month over the past three months. The acceleration in employment gains was led by healthcare (adding 54k jobs), Hospitality (adding 53k jobs) and Government (adding 33k jobs). However, the recently created DOGE has suggested reducing significant federal labour force (expected reduction in range of 1.5 million jobs) which may keep these numbers volatile.

But High Growth May Bring Inflation Back

Demands influence as a driver of Inflation has picked up again



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

Higher Growth AND Higher Inflation: FOMC revised GDP growth projections for 2025 upwards by 10 bps to 2.1% and PCE Inflation by 40 bps to 2.5%

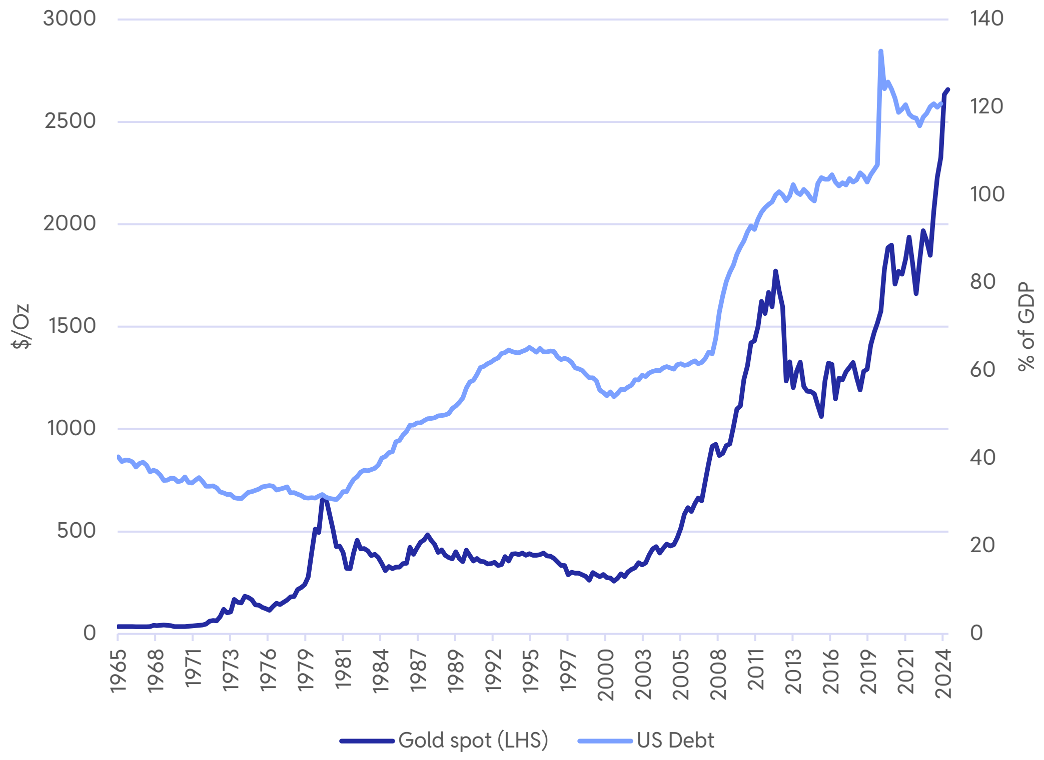
FOMC projection (%)	2024	2025	2026	2027
Change in Real GDP	2.5	2.1	2	1.9
September projection	2	2	2	2
Unemployment rate	4.2	4.3	4.3	4.3
September projection	4.4	4.4	4.3	4.2
PCE inflation	2.4	2.5	2.1	2
September projection	2.3	2.1	2	2
Core PCE inflation	2.8	2.5	2.2	2
September projection	2.6	2.2	2	2

Source: www.federalreserve.gov, Ionic Wealth, Data available as on Dec, 2024

High growth can trigger inflation if demand outpaces supply. GDP growth above 3% with unemployment below 4% may tighten the labor market, driving wages up and raising costs. Global factors, such as energy prices and geopolitical risks, may also fuel inflation. The Fed must manage inflation expectations and act decisively to maintain the 2% target.

Precious Metals Will Continue To Be Hedge Against Inflation

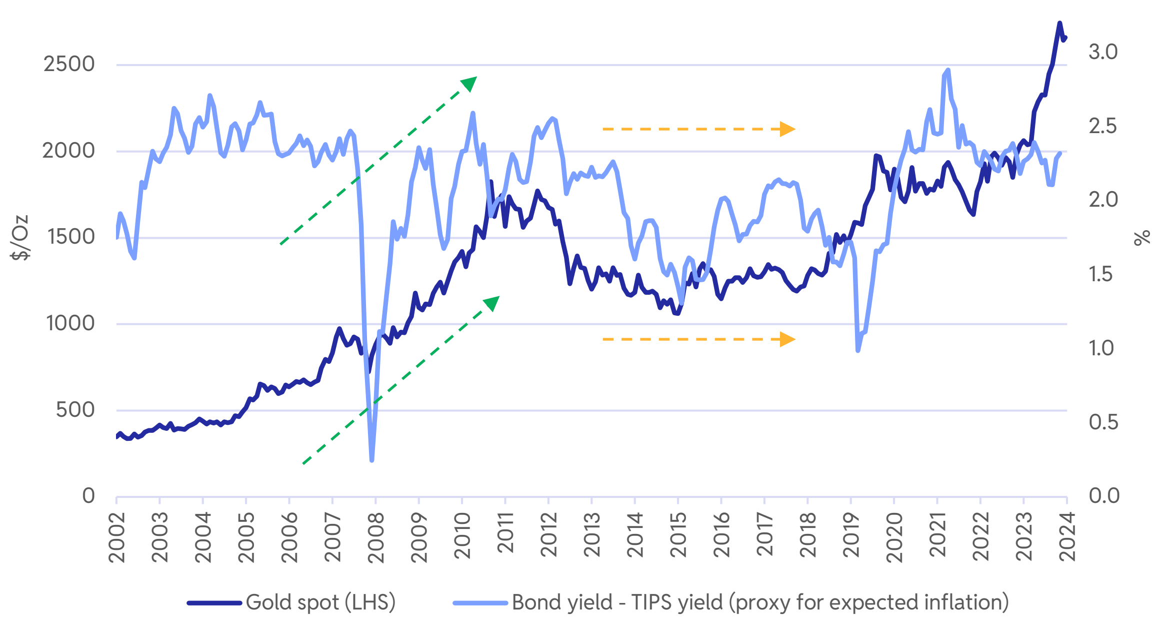
Fiscal expansion under Trump will mean a higher US Debt, which is positive for Gold



Source: fred.stlouisfed.org, Ionic Wealth, Data available as on Dec, 2024

With Inflation expectations inching up, precious metals will act as a hedge against inflation, with silver seemingly appearing more attractive

Average	Gold/Silver Ratio
20 years	69
10 years	80
5 years	83
Today	90

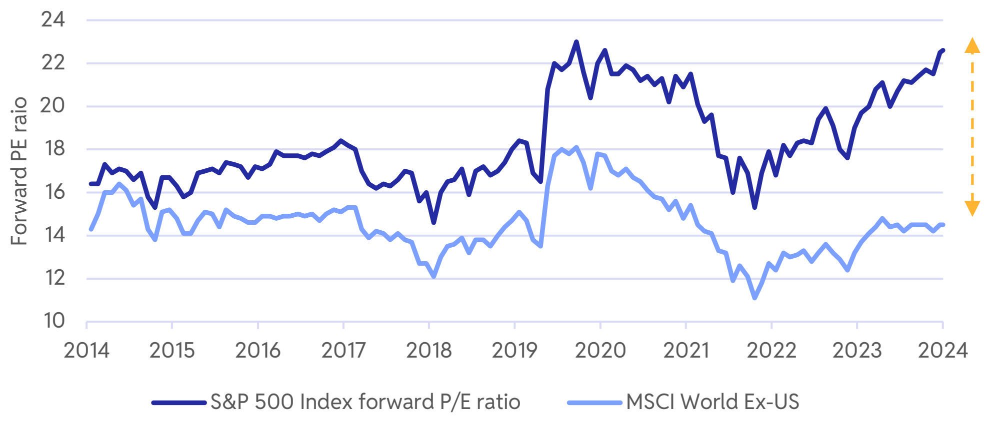


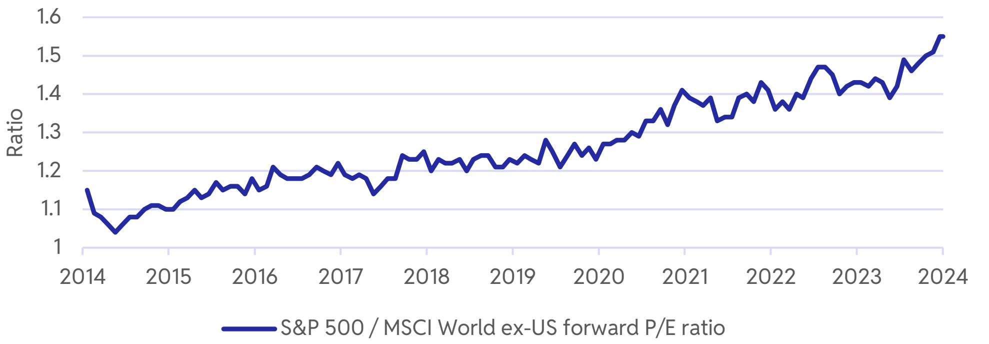
Source: fred.stlouisfed.org, Ionic Wealth, Data available as on Dec, 2024

Gold continues to breach new all-time highs, now at USD 2,639 per ounce, marking 28 % year-to-date performance. The demand for gold mirrors the growingly unsustainable debt levels of US Government. Major central banks have continued to rapidly expand their gold holdings throughout 2024. For Q2, the World Gold Council estimated 183 tonnes of gold accumulation, representing a 6% YoY increase. Global financial institutions will continue to use precious metals as a hedge against geopolitical and financial uncertainty. For investors, it is a great hedge against the return of inflation.

Equity Markets Are Relatively Expensive Yet Buoyant

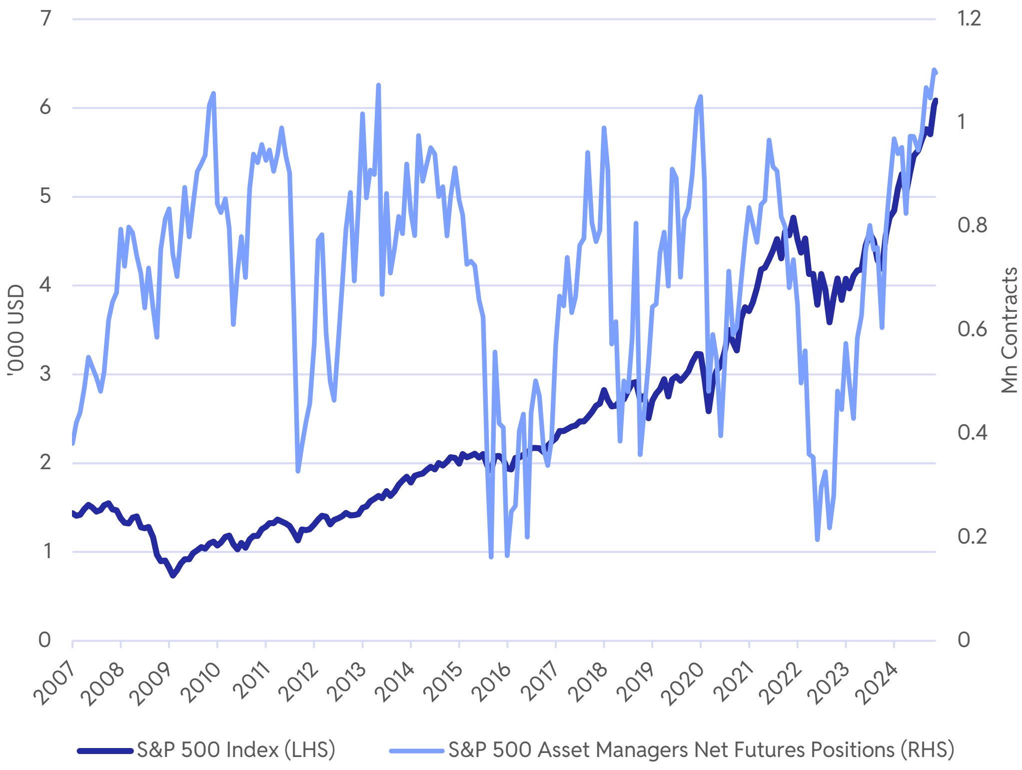
S&P 500 trades at nearly 60 % premium to global stocks





Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

Despite expensive valuations, Asset managers are near record long on US stock futures



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

The S&P 500 has climbed over 25% in 2024 making numerous record highs and largely outpacing the MSCI World EX-USA index. The valuation gap has also widened, with US stocks now trading at a record 60% premium to international peers based on forward P/E. The outperformance has been powered by tech and the artificial intelligence growth.

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In 2024, US Emerges As A Clear Favorite

2016	2017	2018	2019	2020	2021	2022	2023	2024
12.4	35.9	2.3	36.9	39.2	30.2	3.0	25.8	29.3
6.2	22.0	-1.9	31.7	25.6	29.4	0.1	25.0	20.2
3.8	15.9	-3.4	23.4	19.3	16.1	-9.0	20.0	13.4
-1.6	15.3	-9.8	22.2	16.7	15.6	-10.5	17.2	10.2
-1.6	12.2	-10.0	19.0	7.2	-0.7	-11.5	10.2	8.2
-14.9	10.8	-22.7	7.7	-9.6	-4.3	-19.9	-13.4	4.1

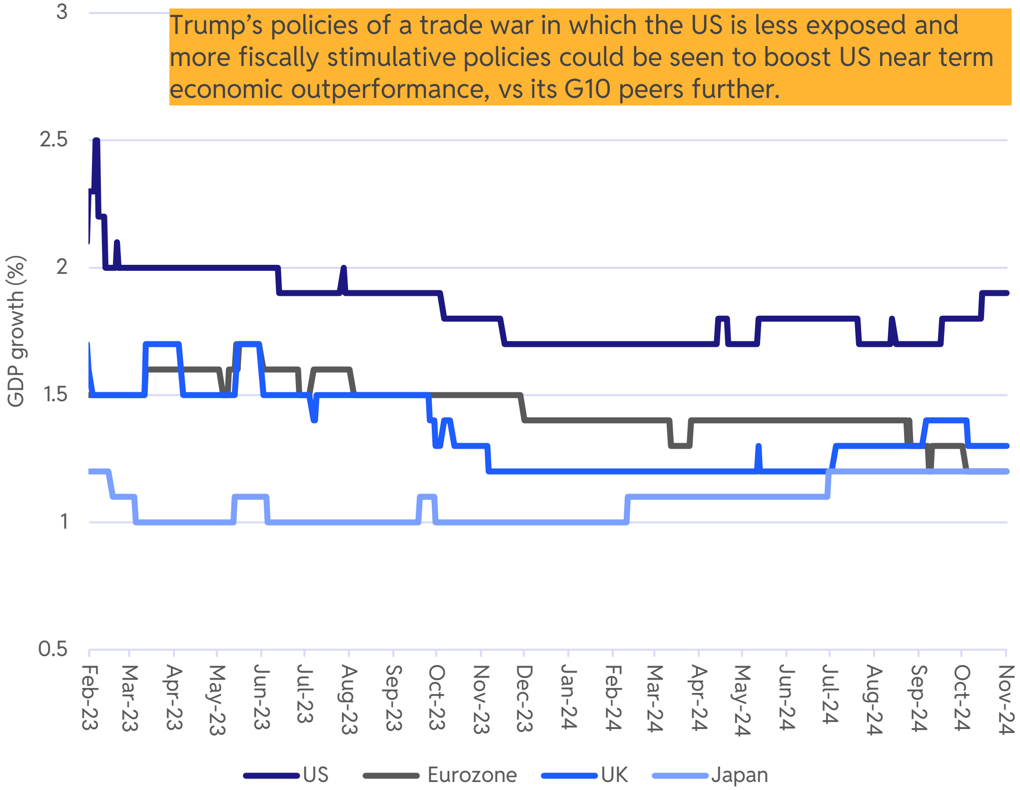
S&P 500 | Stoxx 600 | FTSE 100 | Nikkei 225 | NSE 500 | CSI 300

Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

The S&P has outperformed other markets and has topped the leaderboard after 6 years. Since 1971 the S&P has posted an annualized return of 14.9%. The results were much stronger during rate cutting cycles where Large caps averaged 25.2% while small caps averaged 19.6%. The next leg of the rally can be fueled by solid economic growth, the Fed's easing and AI advancement. Or will another economy top the charts hereon?

The Buoyancy Is Backed By Roaring Growth And Earnings

US Economic Narrative Boost may extend



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

US is well positioned in respect of earnings against other DMs, adding legitimacy to its buoyant markets

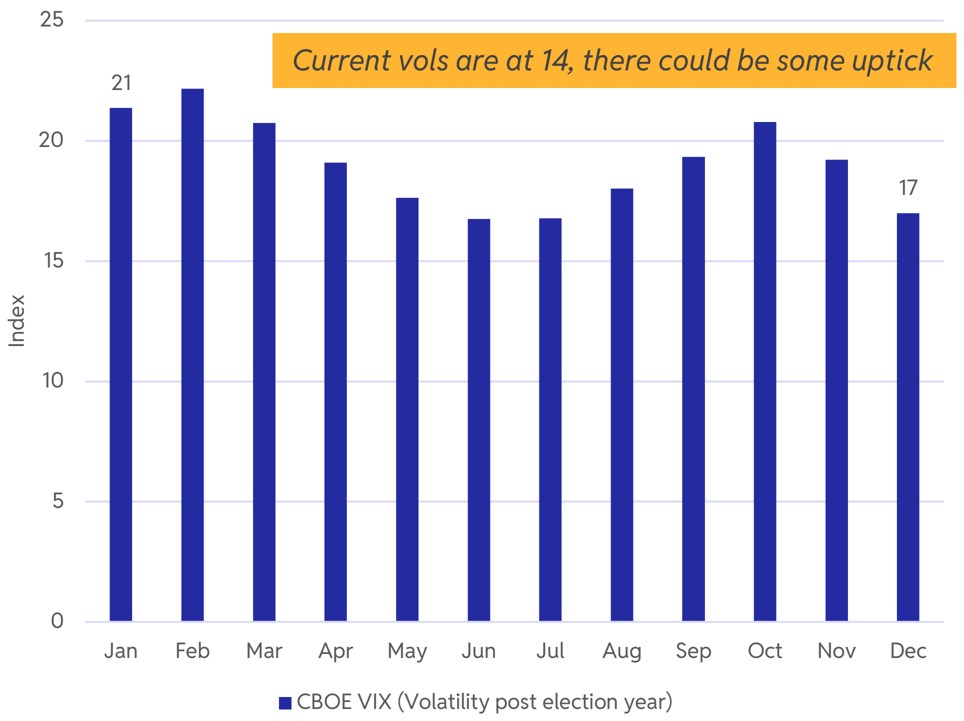
	FY 22		FY 23		FY 24		FY 25	
Indices	**EPS growth**	**ROE**	**EPS growth**	**ROE**	**EPS growth**	**ROE**	**EPS growth**	**ROE**
S&P 500	5.5	17.4	-0.1	18.1	8.7	17.8	**12.5**	**19.1**
Stoxx	11.9	11.8	1.4	12.0	1.1	12.5	6.5	13.1
FTSE 100	29.2	13.8	-13.6	11.4	-2.0	13.2	3.7	13.9
Nikkei 225	-24.4	8.1	10.1	8.1	32.0	10.1	4.3	9.9
NSE 500	10.4	13.8	22.0	14.6	11.2	14.4	16.0	14.9

Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

U.S. growth remains steady, supported by resilient consumer spending. The latest earnings season saw S&P 500 companies report robust profit growth, driven by tech, energy, and consumer discretionary sectors. Tech giants led the way, benefiting from AI and cloud adoption, while cost controls supported margins across industries.

Expect Higher Volatility Ahead As Trump Policy Formation Begins

We can expect volatility to increase by 50% in Jan 2025 with heightened uncertainty as Trump 2.0 commences



Note: CBOE VIX since 1990 has been used for calculations

Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

A plethora of policy changes are expected, which could spike volatility across geographies

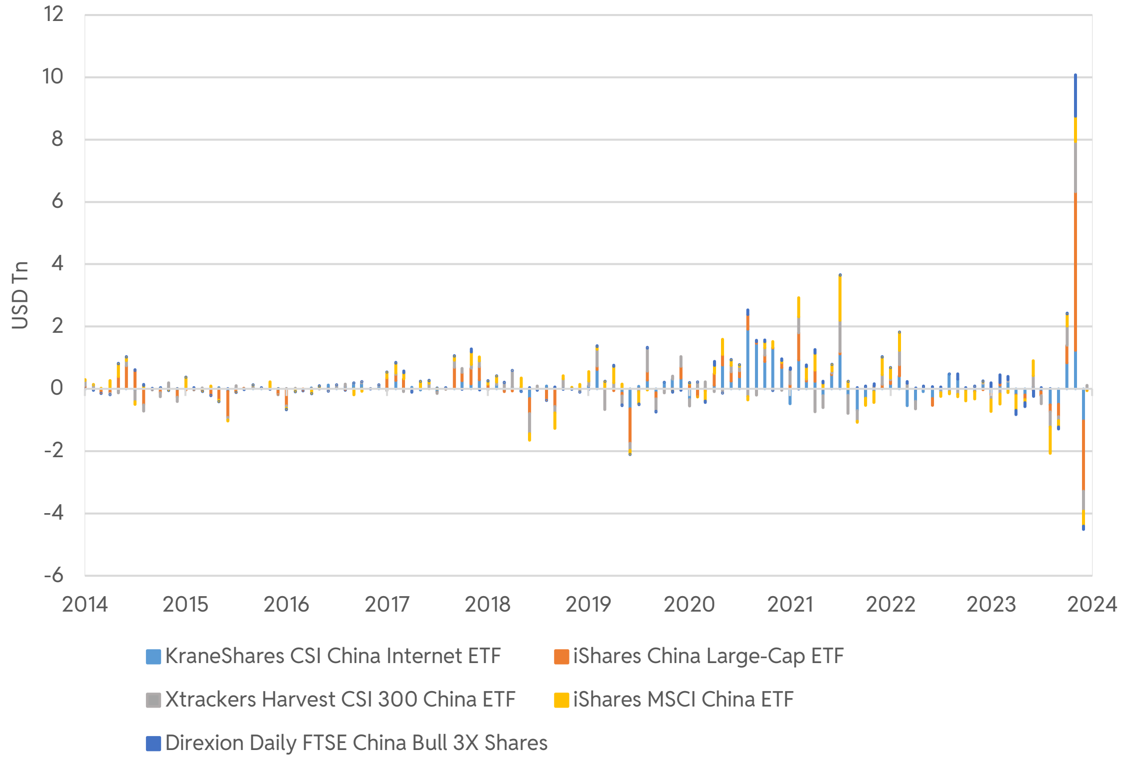
Policy/Action	Description	Economic Implications
Tax Cuts and Jobs Act	Major tax reform reducing corporate and individual tax rates.	Stimulate short-term business investment and growth but increase the federal deficit.
Tariffs on the World	Imposition of tariffs on Chinese and Rest of the world imports to address trade imbalances.	Protect certain U.S. industries but raise consumer prices and disrupt global supply chains with possible retaliation
Deregulation	Reduce federal regulations, particularly in energy, finance, and environment.	Lowers business costs and spurred growth, but risks long-term environmental and financial stability.
Renegotiation of Trade Deals	Replace NAFTA with USMCA and reform trade agreements.	Boost U.S. exports and improved trade balance with key partners, but also lead to some market uncertainties
Immigration Policies	Stricter border control, deportations, and limits on work-based visas.	Increase wages in some sectors but created labor shortages, particularly in agriculture and low-wage industries.

Source: Ionic Wealth, Data available as on Dec, 2024

A Trump 2.0 presidency poses risks including heightened trade wars, which could pressure tech and multinational equities. Rising fiscal deficits may drive bond yields higher, increasing debt servicing costs. However, Markets generally favor Trump's pro-growth policies like tax cuts and deregulation, which boosted corporate profits and equity performance during his first term.

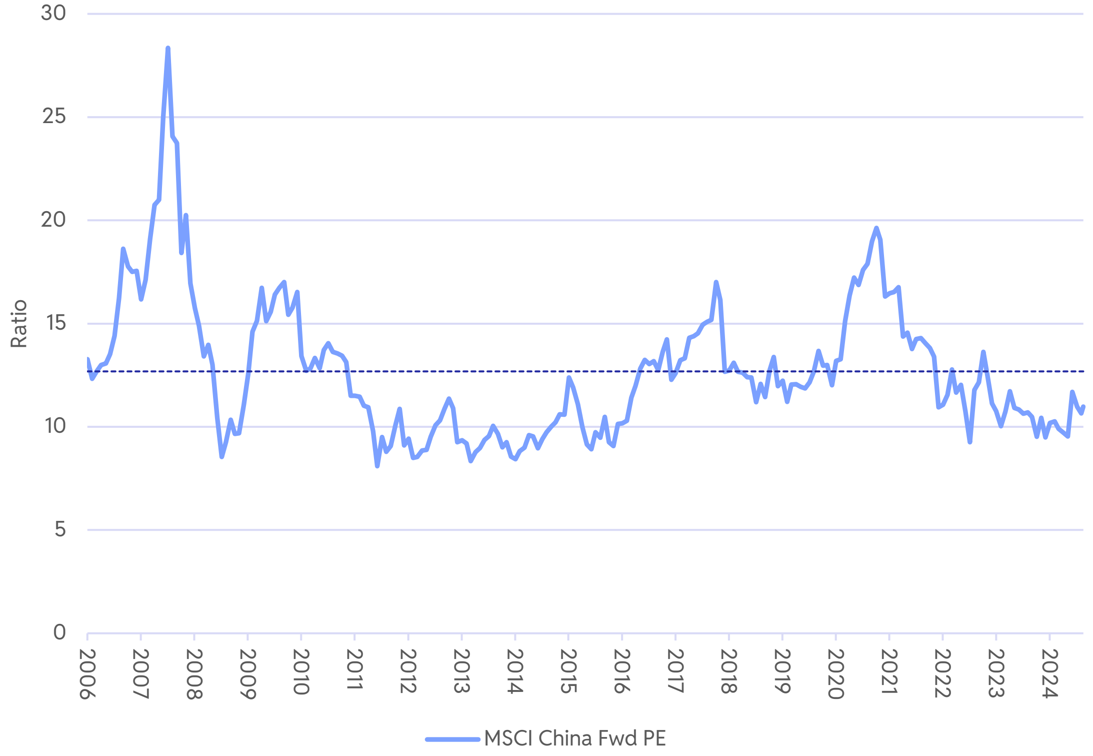
Chinese Equity Investors Are Moving Sideways

China ETF saw outflows on Trump tariff fears…



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

However, Chinese equity valuations being historically cheaper can see a turnaround, given that economy is turning on back of stimulative measures

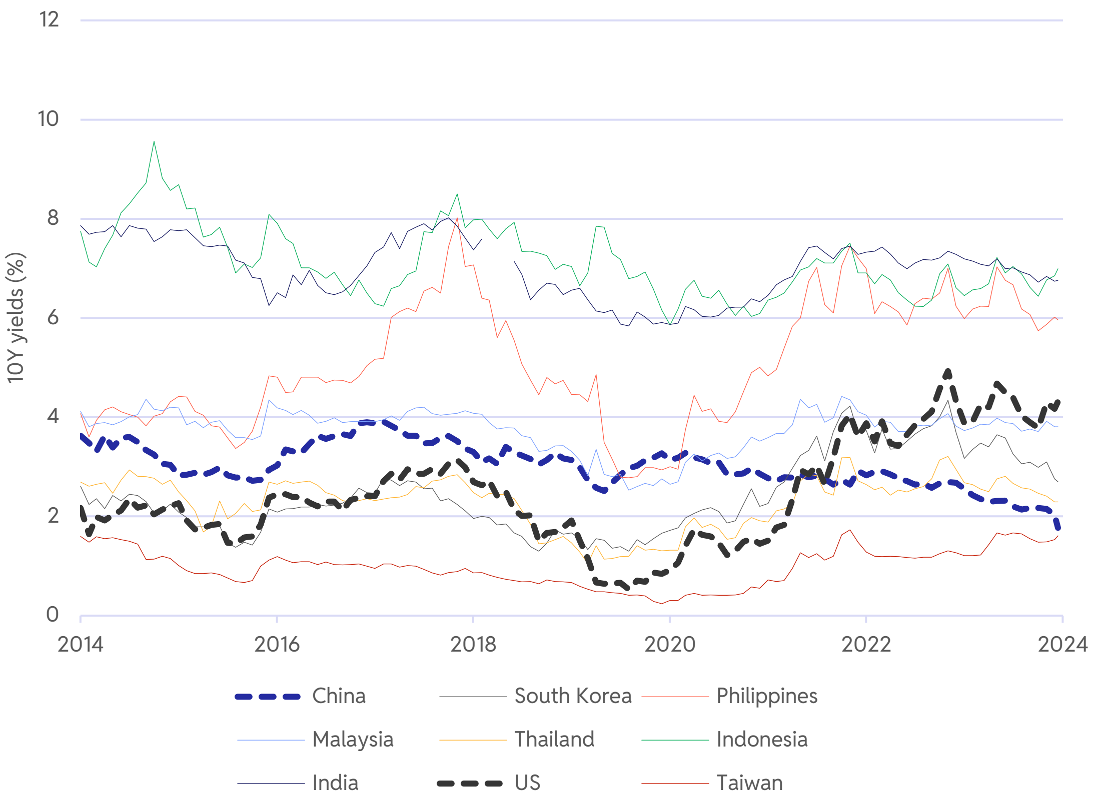


Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

Trump has been historically presumed to hurt China, but China could possibly be better prepared this time around. This signal of intent on stimulus from Chinese policymakers is encouraging. There are higher fears of retaliation from China. We believe China will unleash a stimulus, once the Trump policies are in place.

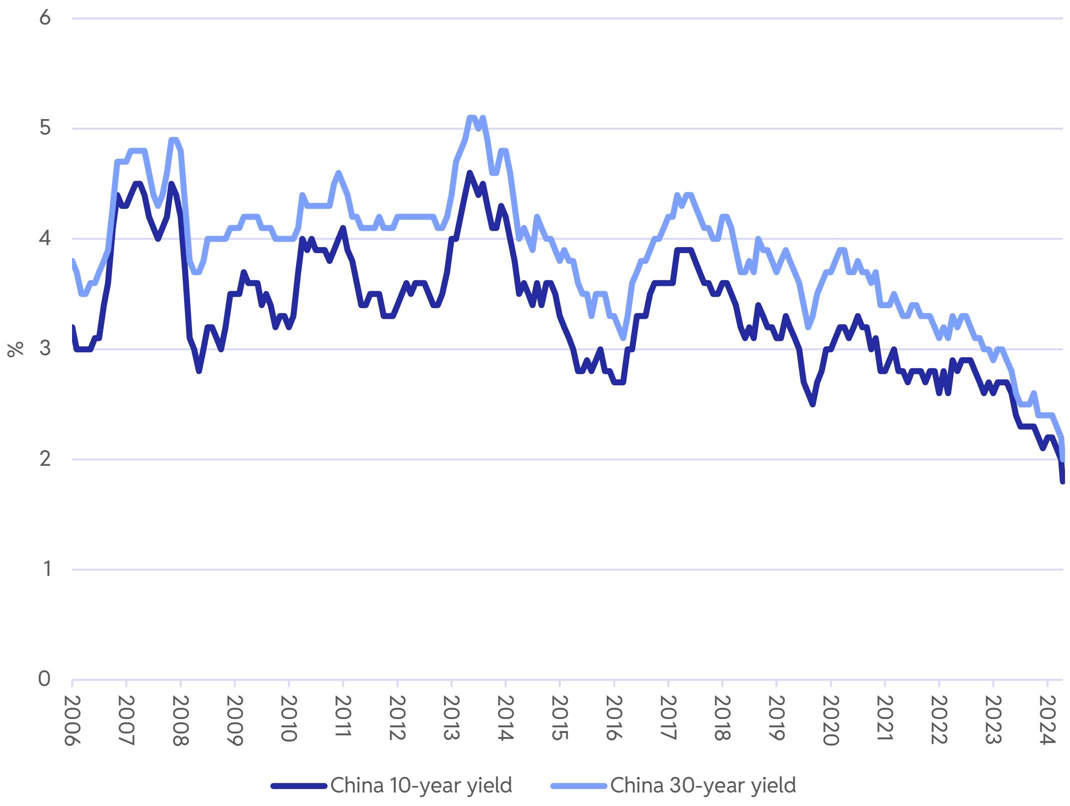
China's Yields Are Below US, Growth Fears Plus Monetary Easing At Play

China's yield are 260 bps lower than US



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

…with monetary easing driving it lower further

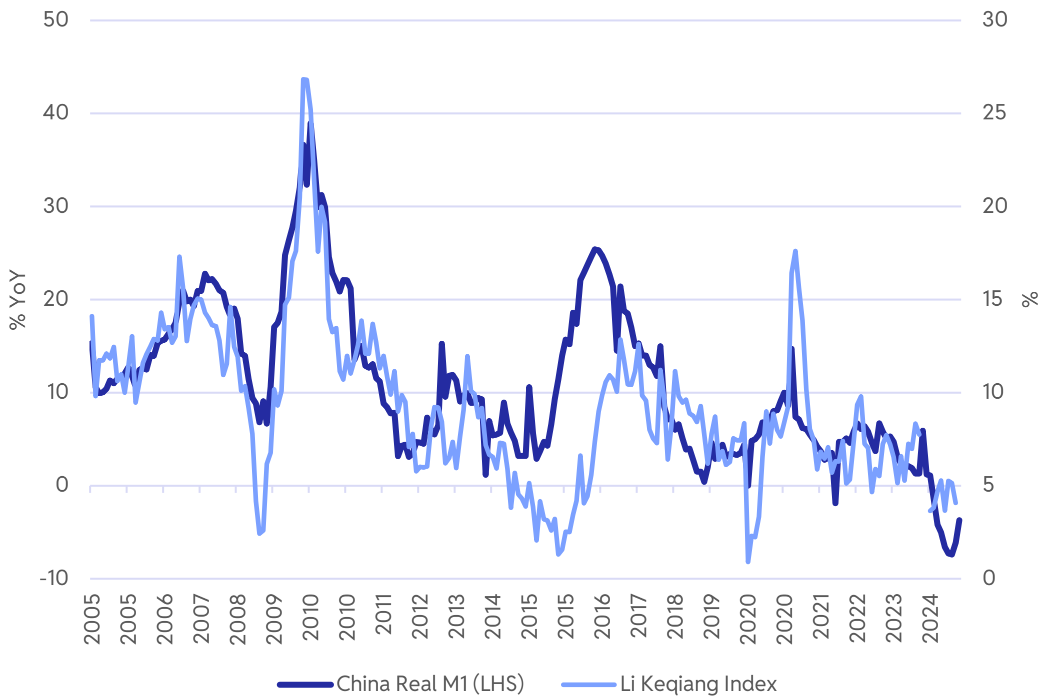


Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

The lower yields come after Chinese Communist party pledged "vigorous" efforts to boost domestic consumption and lower interest rates to revive the economy. The gap between the US (10Y ~ 4.3) and China's (10Y~1.7) borrowing costs has grown to its widest level (260 bps) in more than a decade. Can the monetary easing ultimately drive up growth expectations? If it were to, some upside in yields will rather be applaudable.

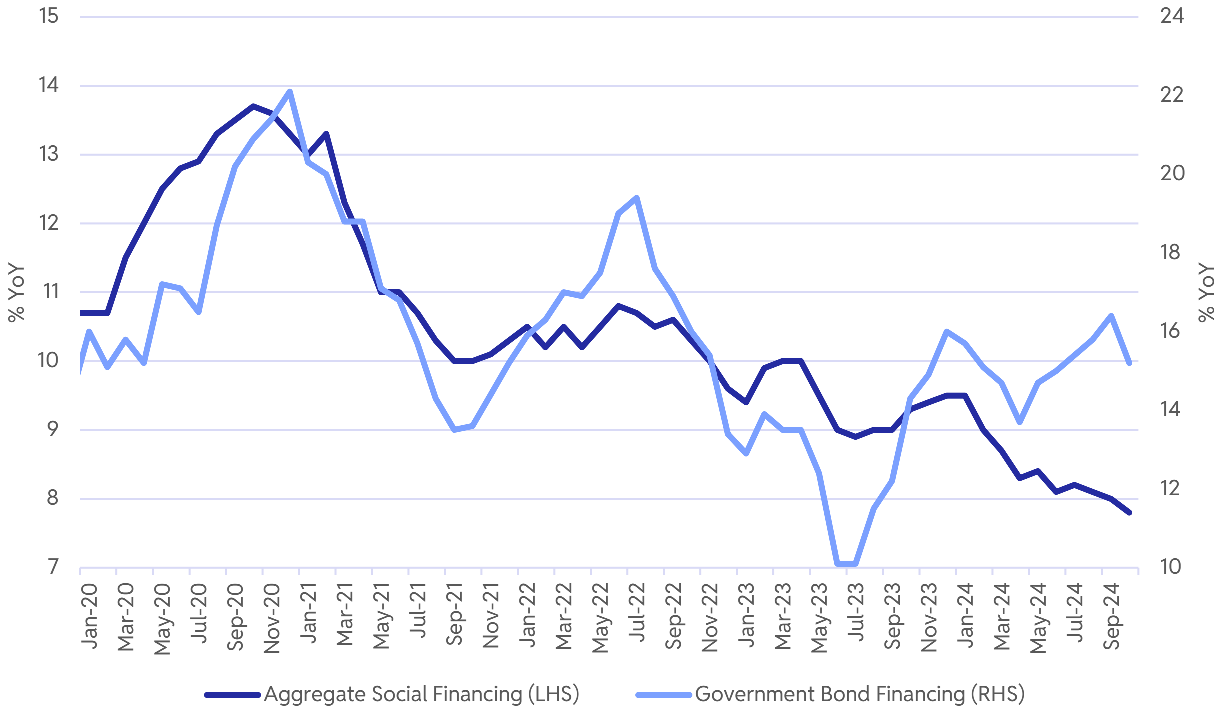
The Data Is Slowly Turning

China's money growth shows strong signs of having bottomed out



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

China's new credit likely to bounce back in November after a seasonal pullback in October

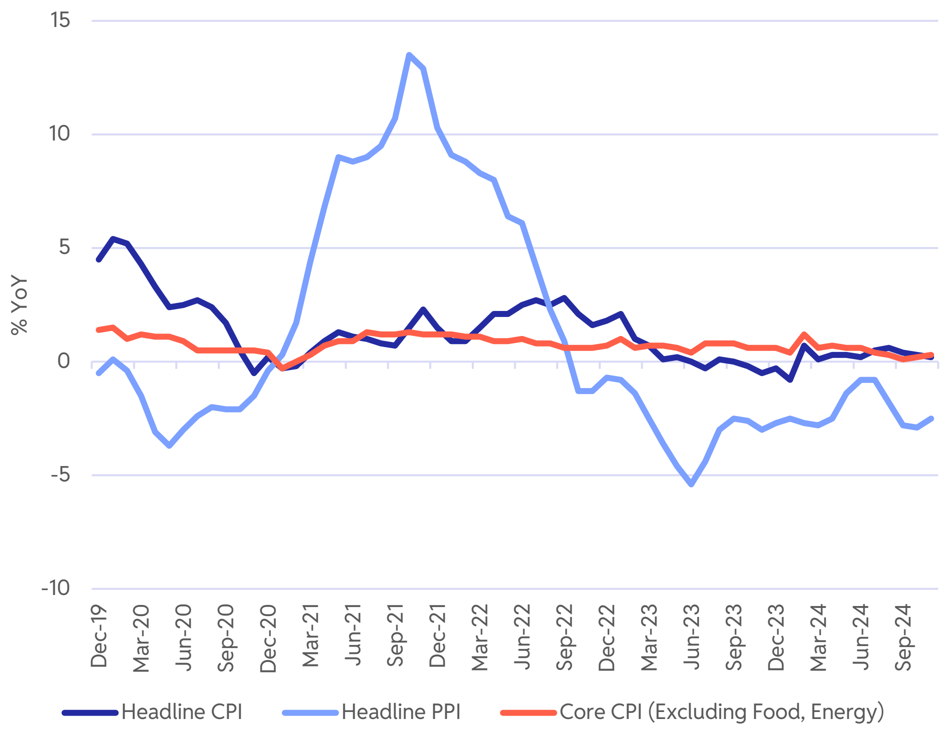


Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

China's industrial output saw a modest acceleration (5.4% YoY) in November, driven by a pickup in manufacturing production. China's leaders have pledged to increase the budget deficit, issue more debt and loosen monetary policy to maintain a stable economic growth rate. They will make good use of local government special bonds next year to support the economic recovery. These point towards green shoots of a steady rebound heading into 2025.

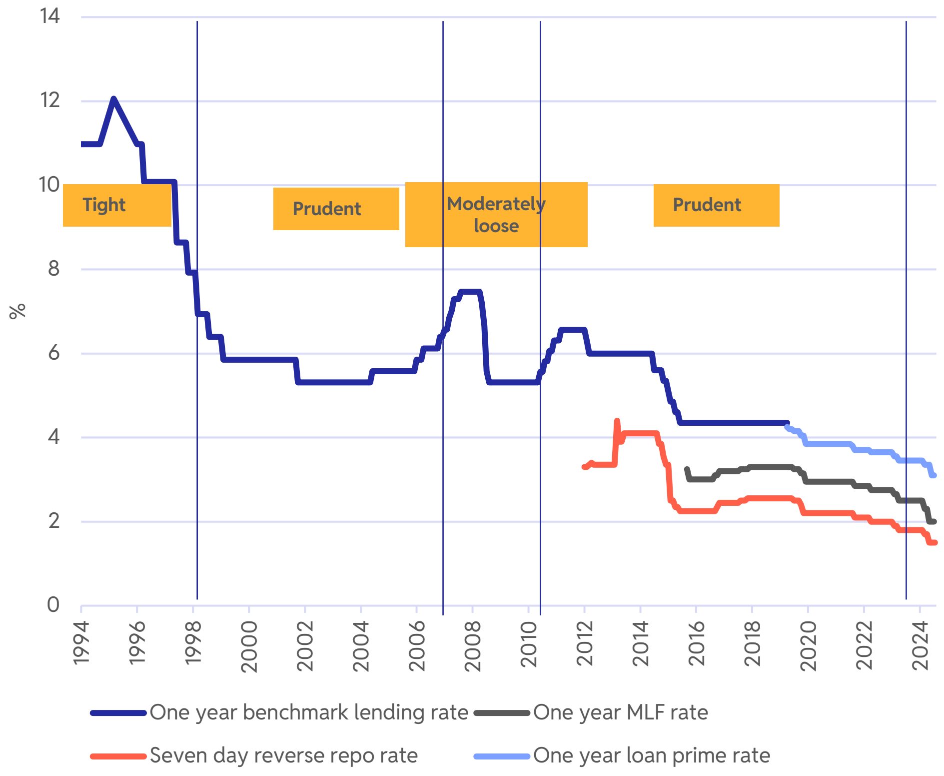
Stronger Government Stimulus Is Required To Fend Off Deflationary Risks

China's consumer prices remain under pressure as deflationary trends persist



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

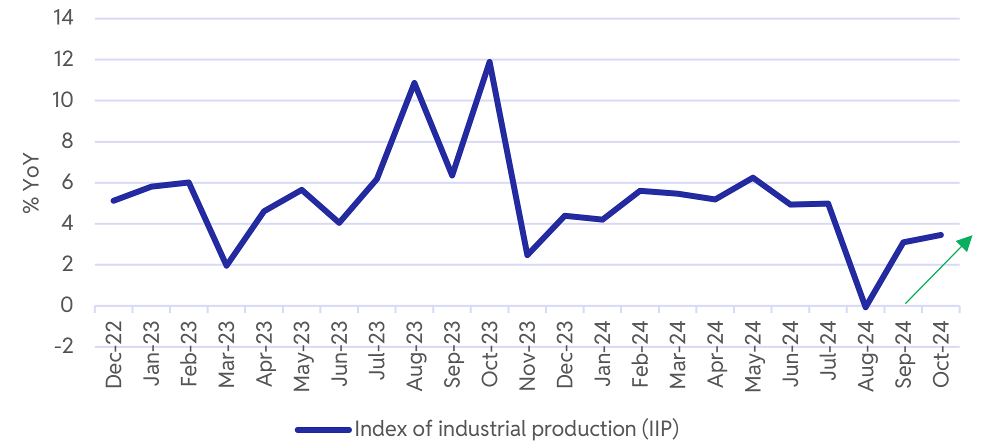
China's interest rate adjustment in policy cycles signals a shift back from 'Prudent' to 'Moderately loose' stance

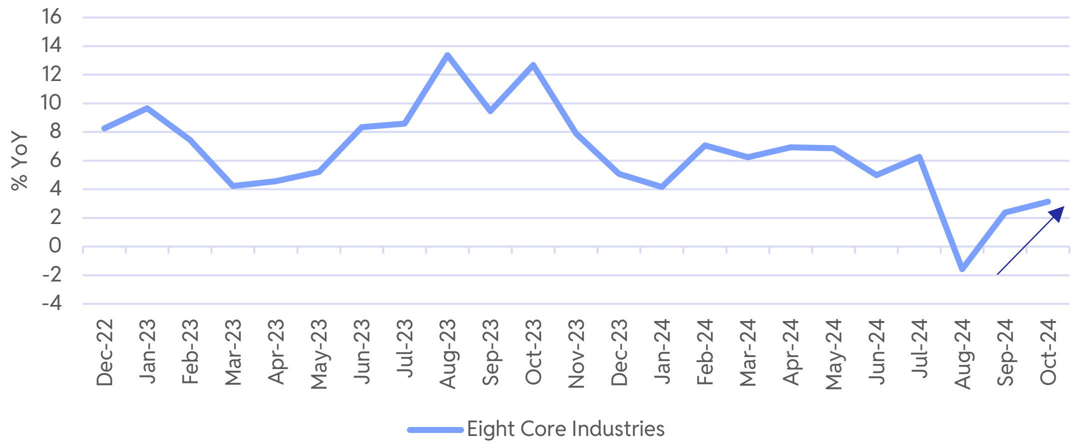


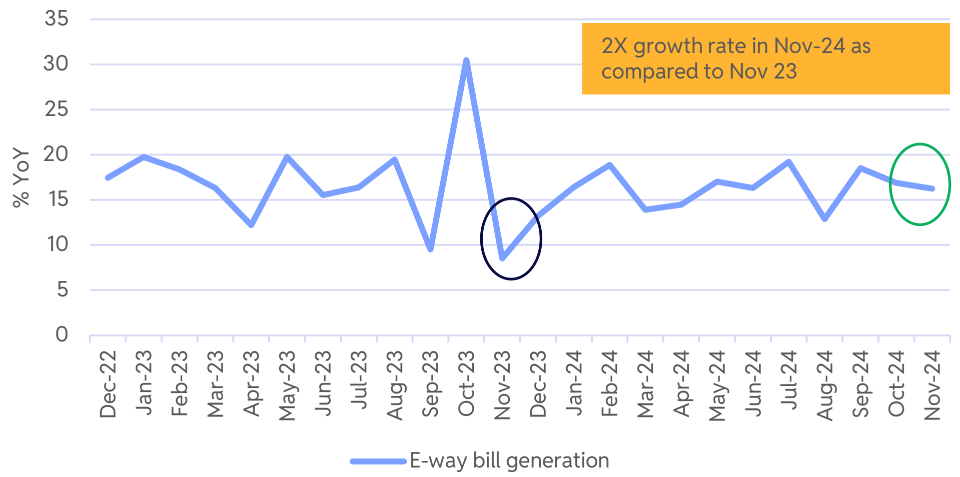
Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

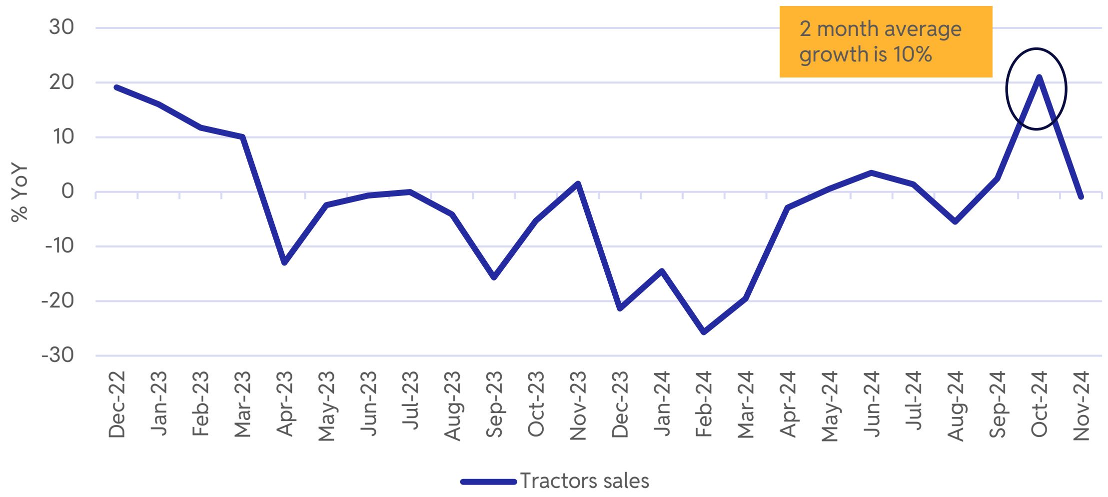
Deflationary risks are the biggest concern for Chinese economy in 2025. Unlike 2012-2015 when China faced downward pressure on domestic prices which were predominately driven by supply-side factors, the current inflation outlook stems from weak domestic demand. PBOC's recent stimulus has been insufficient to address deflationary concerns as their current stance in response to Trump's potential tariff increases is one of "watchful preparation" rather than outright confrontation.

Indian Economy In H2FY25 Is Looking Better Than Q2







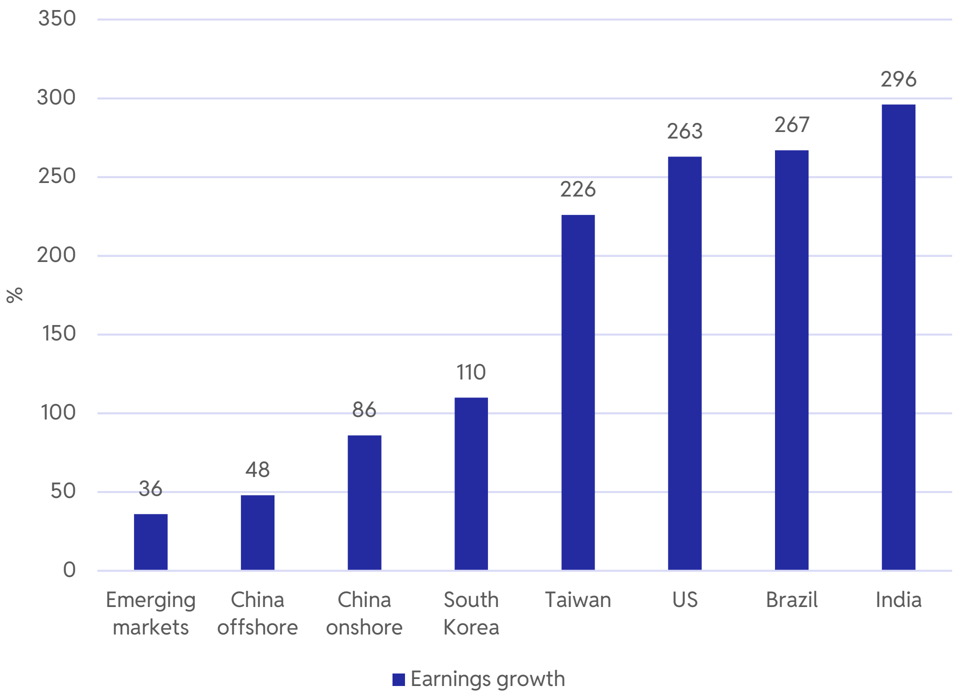


Source: CMIE, Ionic Wealth, Data available as on Dec, 2024

India's economic growth slowed to 5.4 per cent in Q2 FY24. 2024, a slowdown driven by private consumption and government expenditure. While urban consumption is slowing down, rural consumption is picking up. Moderating inflation, good rainfall, and strong crop production have been some of the key drivers of this trend. High frequency data points toward an uptick in industrial output lead by mining, manufacturing, and electricity sector.

India Co. Supported By Optimistic Business Activity Amid Sturdier Demand

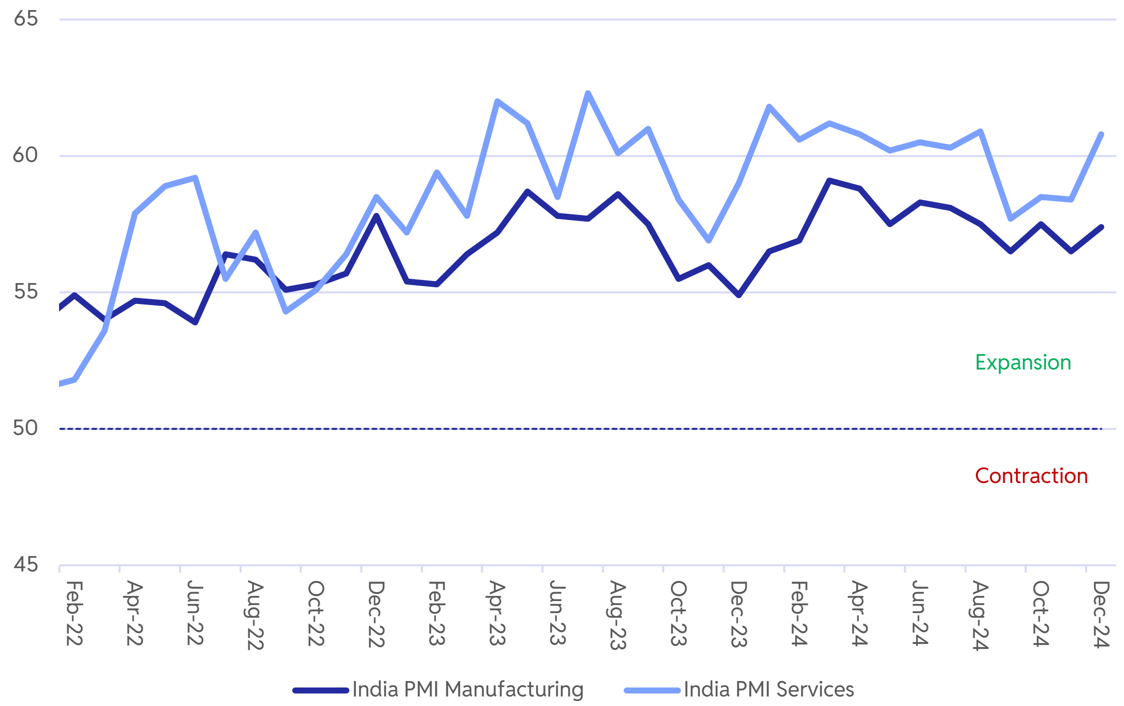
Indian corporate earnings have been booming since 2009



Note: Earnings growth by region in local currency terms from 2009 to 2024

Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

Services PMI has been above 60 in all but 3 months this year, suggesting strong private sector expansion

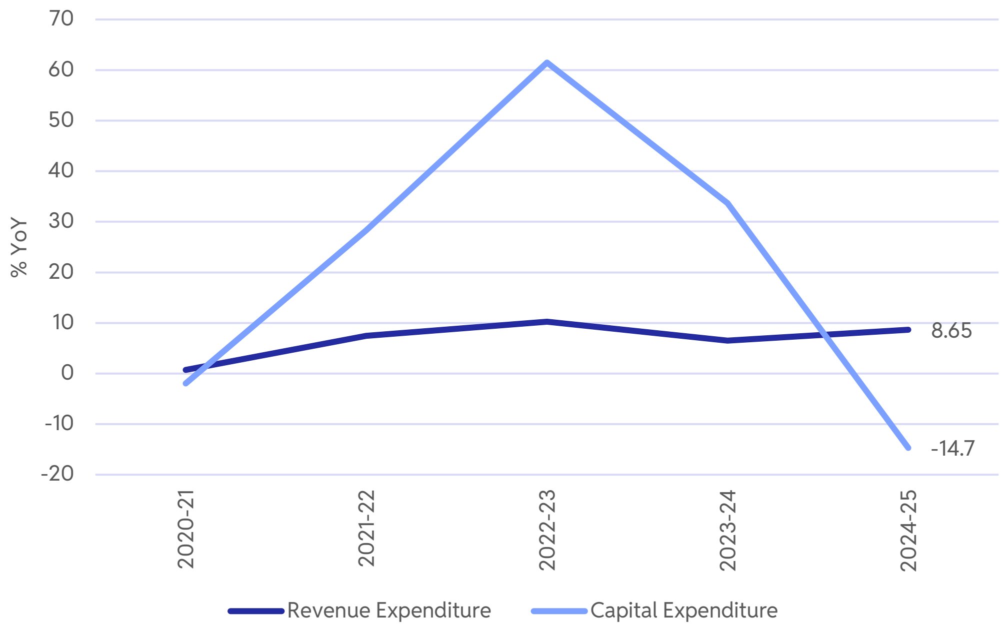


Source: CMIE, Ionic Wealth, Data available as on Dec, 2024

India's composite PMI's performance indicates substantial private sector growth despite the economy experiencing a softer GDP growth of 5.4 % in Q2FY25. The services sector demonstrated particularly impressive momentum, with its PMI reaching a four-month high of 60.8, compared to November's 58.4. Manufacturing similarly showed strength, with its index rising to 57.4. The positive economic indicators translated into heightened business optimism for India co's numbers which would be bolstered by festive demand.

Can India's Fiscal Expenditure Grow By ~INR 5 trillion/month?

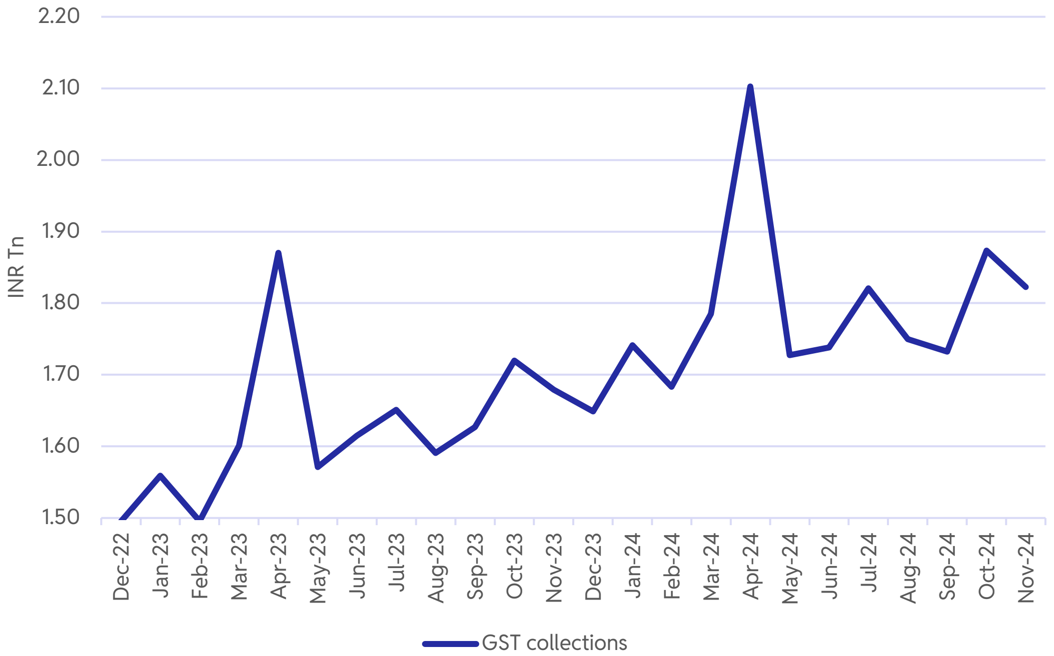
Revenue Expenditure has grown at a steady pace while Capital expenditure needs to grow 60% YoY from hereon to meet BE for FY25



Note: Figures are for April – October for each year

Source: CMIE, Ionic Wealth, Data available as on Dec, 2024

India's GST collections have rebounded from September lows amid festive demand

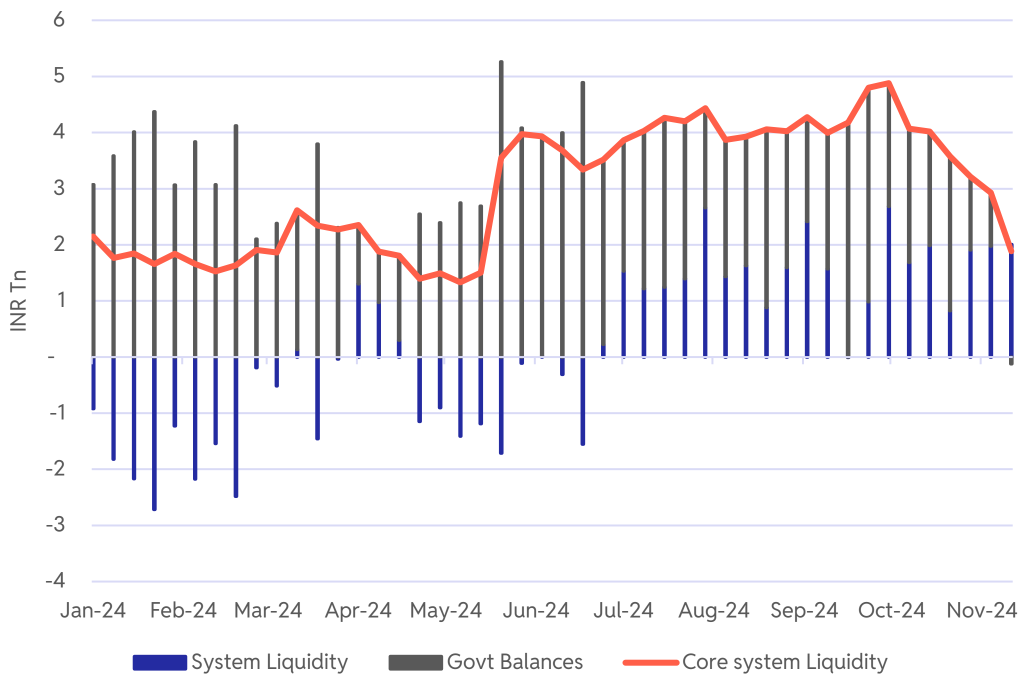


Source: CMIE, Ionic Wealth, Data available as on Dec, 2024

Total expenditure, which showed degrowth of -0.4% YoY in H1 FY25, surged by 31.7% in October, indicating a turnaround. Revenue expenditure jumped by 41.9% during October, reversing earlier negative trends. India's fiscal deficit (April-October FY25) stands at 46.5% of the budget estimate, amounting to INR 7.51 lakh crore. However, challenges persist as the government's capex performance lags significantly, standing at just 42% of the targeted INR 11.11 lakh crore for FY25.

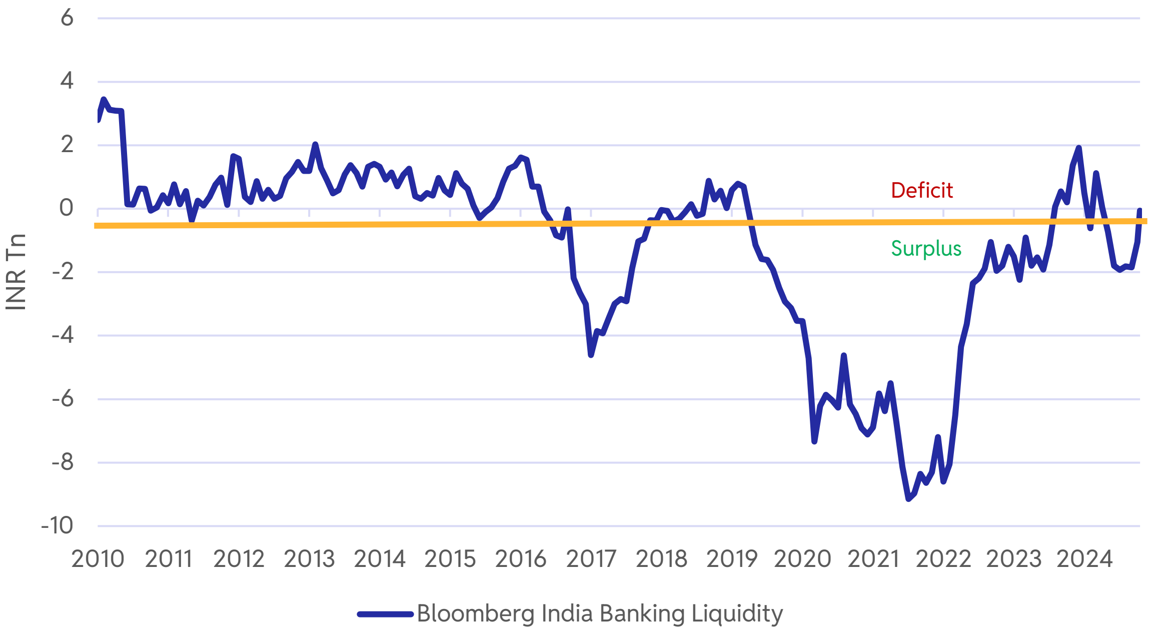
CRR Cut Is Aimed At Liquidity Injection To Help Growth

Core liquidity is seen to be falling ahead of unsterilized FX intervention, advance tax and GST were a drain on liquidity.



Source: Ionic Wealth, Data available as on Dec, 2024

A cut in CRR by 50 bps is expected to increase banking system liquidity by ~ INR 1.2 Trn

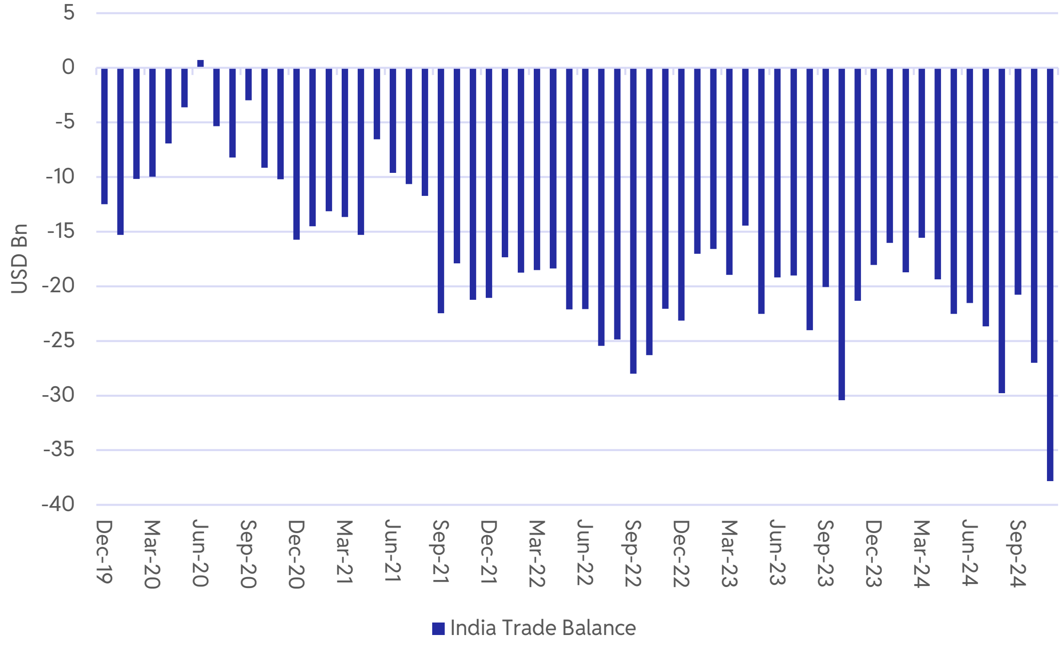


Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

The liquidity deficit in the Indian banking system hit the highest in nearly 6 months on advance tax payments by companies and dollar sales by the central bank to curb rupee volatility. The reduction in system liquidity surplus is led by the balance of payments turning negative in Q3FY25, with a rising trade deficit and an increase in FPI outflows since October. This is also reflected in core liquidity surplus reducing from peak levels of INR 4.6 trillion as of September 27 to INR 1.6 trillion surplus as of November 15. The reduction in core liquidity indicates that system liquidity tightness could persist if BoP outflows continue.

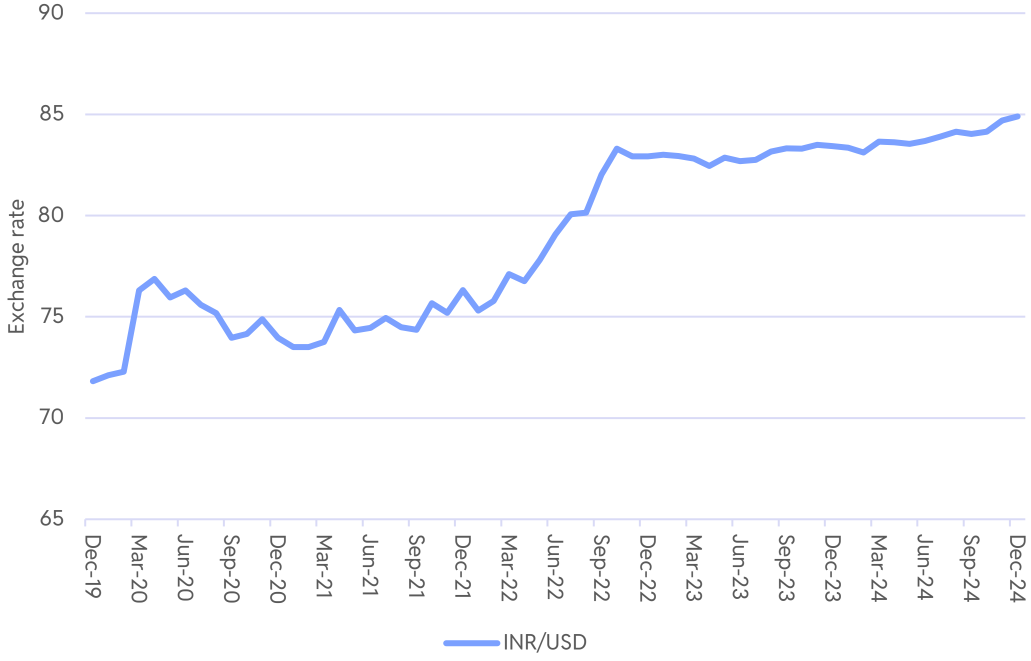
Global Trade Could Take A Hit With Protectionist Policies, But Could Play Out Well For India

India's trade gap widens in October to USD 37.8 Bn driven by gold & silver imports but concerns on data legitimacy remains



Source: CMIE, Ionic Wealth, Data available as on Dec, 2024

The widening deficit + stronger dollar + FII outflows put pressure on the INR, which is already near record lows, prompting the RBI to intervene but ~4% annual depreciation is now inevitable



Source: CMIE, Ionic Wealth, Data available as on Dec, 2024

India's merchandise exports in November fell 4.9% YoY to USD 32.1 Bn, while imports surged by over 27% to USD 69.9 Bn. Gold imports climbed to a record high of USD14.8 Bn last month, more than doubling from USD 7.13 Bn in October, as the fall in global gold prices in November prompted many importers to ramp up inventories to meet rising demand. However, later concerns were raised on the legitimacy of data. Either way, EM FX has been facing pressures from a strong dollar and INR can only be shielded to an extent.

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India’s FII Flows By Sector

‘Information Technology’ and ‘Realty’ saw substantial inflows, which were outweighed by outflows especially from ‘Oil &Gas’ as well as ‘Automobiles’

Date	Total	Automobile and Auto components	Capital goods	Chemicals	Construction	Financial services	Healthcare	Information technology	Metals & mining	Oil, gas & consumable fuels	Power	Realty	Services	Telecommunication	Consumer durables	Fast moving consumer goods
Apr-22	-2967	152	-273	38	-133	-1794	686	-1123	7	-145	72	-103	83	57	20	233
May-22	-4708	-177	21	67	-341	-1586	-80	-2081	-352	-464	298	-69	146	-77	-349	-76
Jun-22	-6549	-316	166	-24	-375	-1713	-262	-791	-511	-484	-355	-5	-210	-485	-666	-304
Jul-22	255	85	241	-69	198	-24	25	-585	-161	-668	196	-23	48	573	8	525
Aug-22	7090	469	422	216	199	1586	1067	50	75	155	183	-187	818	256	259	437
Sep-22	-446	54	244	-39	29	-355	230	-1140	-366	-546	-147	-21	424	307	2	345
Oct-22	-373	95	101	21	117	-531	122	115	27	-186	112	-136	-37	94	10	-85
Nov-22	4156	374	336	92	280	1859	154	474	297	341	-133	-46	347	-133	-157	485
Dec-22	1111	-21	261	-28	154	344	161	-433	202	-337	-112	398	466	-65	-66	486
Jan-23	-3256	125	-10	-91	159	-1929	28	-263	535	-931	-58	2	-351	-280	-340	-112
Feb-23	-500	108	322	-44	65	65	113	128	-319	-600	-353	-62	198	-37	-167	-30
Mar-23	715	327	305	34	440	-91	-183	-839	539	-831	388	176	891	-39	32	214
Apr-23	1653	243	196	51	119	1057	33	-601	173	45	184	-42	33	-18	-22	140
May-23	5860	1056	302	131	117	2295	344	-108	-75	334	-79	69	399	95	129	392
Jun-23	6853	747	709	-31	581	2294	246	-430	214	-20	319	-7	239	125	498	270
Jul-23	5838	387	684	-120	320	1295	223	191	63	526	363	42	117	407	293	489
Aug-23	2217	84	1006	-21	137	-1012	168	495	-839	-288	1590	88	158	-117	88	-315
Sep-23	-1662	77	615	-110	-411	216	33	227	-609	-636	-1188	81	-44	-56	14	-215
Oct-23	-2147	-73	103	-89	-286	-1440	-130	-392	-38	-362	-355	-66	-129	212	-139	-350
Nov-23	2948	49	251	-11	-19	-381	179	97	66	43	-361	132	479	119	-67	-204
Dec-23	10165	438	697	67	542	3699	442	624	157	-64	119	442	542	291	137	60
Jan-24	-790	-236	82	-62	-30	-3496	-44	540	-196	421	301	11	45	311	-127	-286
Feb-24	3834	668	471	-95	-518	-915	626	264	-82	-427	-186	204	1335	329	134	-539
Mar-24	6272	195	456	109	-377	799	-142	-203	145	-275	7	605	1167	960	-161	756
Apr-24	-1947	134	435	93	71	-999	-85	-1146	-209	-284	514	7	457	981	-208	-948
May-24	-1542	-484	723	57	-449	-966	29	-694	36	-666	-373	121	162	132	-91	-501
Jun-24	5003	208	335	234	-111	1054	390	-117	-358	-318	-279	381	748	952	10	-112
Jul-24	5834	735	589	-61	-102	-705	604	1364	874	200	-469	69	233	375	-22	117
Aug-24	3039	-284	-37	-2	-235	-1329	694	481	-450	138	-299	166	737	246	577	429
Sep-24	11153	-266	477	172	8	3544	791	-145	149	-80	154	761	-147	1175	445	584
Oct-24	-11462	-1242	-334	70	-960	-3130	14	-345	23	-2550	-188	-80	-1161	-323	-356	-1378
Nov-24	-2541	-884	-38	2	-85	141	57	653	-146	-1581	-92	286	-468	-608	-1	-167

Note: Figures in USD Mn

Source: CMIE, Ionic Wealth, Data available as on Dec, 2024

FII outflows dropped USD 2.5 billion in November, a stark decline from USD 11.4 billion in October. The month was marked by a significant shift in investor sentiment, as a tale of two halves. During the first half of November, FIIs remained net sellers, but by the second half, they turned net buyers, bringing in USD 159 million. Sector-wise, FII flows exhibited notable variations. The Oil and Gas sector saw the largest outflows for the second consecutive month, at USD 1.6 billion, followed by the Auto sector with USD 884 million in outflows. **However, in December, FIIs have been a net buyer of USD 3.8 bn so far.**

In 2025, The MPC Will Be Treading Over Different Problems, Will It Kill Stagflation?

Sanjay Malhotra, who took over as RBI Governor in December 2024, is leading a **restructured MPC**, including three new external members appointed in late 2024. Additionally, Deputy Governor Michael Patra's term will end in January 2025, potentially leading to more **changes in leadership**. These shifts bring diverse perspectives but also introduce uncertainties about **policy continuity**.

Key Challenges :

Economic Slowdown and Inflation: India's GDP growth is slowing, with the RBI revising its FY25 forecast from 7% to 6.6%. Simultaneously, inflation remains high, with retail inflation breaching 6% in late 2024. Balancing growth and inflation control is a critical challenge.

Liquidity Management: To address liquidity deficits, the RBI recently cut the CRR by 50 basis points, injecting liquidity into the system. However, sustaining sufficient liquidity without driving inflation further complicates policy decisions.

Global and Domestic Uncertainties: Global factors, such as geopolitical tensions and currency volatility, affect India's forex reserves and trade balance. Domestically, weak consumer demand and subdued credit growth hinder economic recovery.

Policy Adjustments and Communication: The RBI may start a rate-cutting cycle in 2025, depending on inflation trends and fiscal measures announced in the Union Budget. Street predicts rate cuts of 50–75 basis points, likely beginning as early as February or April 2025. Effective communication of policy intentions will be vital to avoid market disruptions.

Source: Ionic Wealth, Data available as on Dec, 2024

In a nutshell,

2024 was a year that broke the post covid trends of equity run up and strong global growth. As we bask in the much needed holiday cheer, the equity markets are also reflecting the unwanted red. Start to 2025 could be volatile and markets will watch out for a) Trump policy formation b) retaliation by rest of the world c) geopolitical trend and d) equity market valuations.

Happy Investing and Season’s Greetings.

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Reach us at hello@ionic.in

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