Wealth India

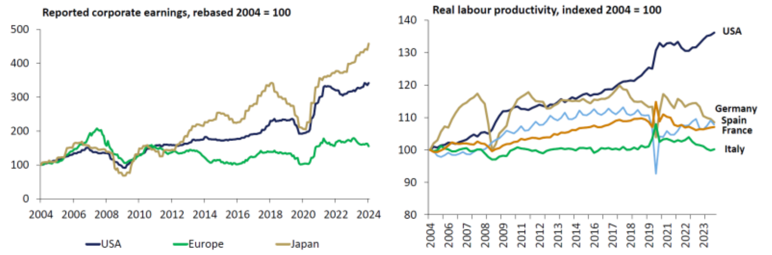
MONTHLY INVESTMENT PERSPECTIVES DEC-24

GLOBAL MACRO: EUROPE IN FOCUS

The EuroStoxx 600 has delivered year-to-date returns of approximately +10%, notably underperforming compared to the U.S. and Japan. Recent macroeconomic news indicates a decline in export demand, coinciding with the looming possibility of new U.S. tariffs. A potential near-term positive catalyst for the region could be a ceasefire or peace process in Ukraine, along with a reduction in tensions in the Middle East, which could benefit Europe.

The European Central Bank appears poised for more interest rate cuts, as disinflation is progressing well, particularly in comparison to the U.S., where the Federal Reserve must adopt a more cautious "wait-and-watch" approach. However, the longer-term outlook remains somewhat uncertain, as neither corporate earnings nor labour productivity—both crucial drivers of GDP—seem convincingly promising.

Neither Earnings nor Labour Productivity at the moment supports EU



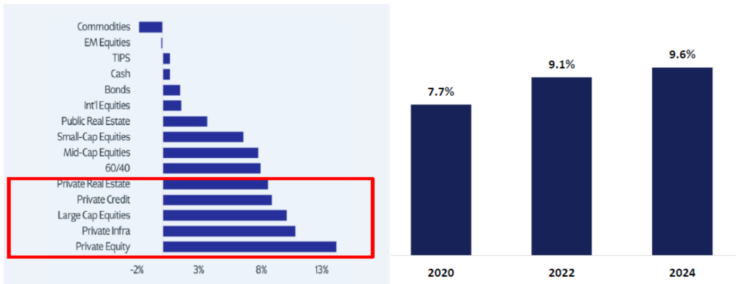
Source: National bourses, central banks, DG ECOFIN, LGT

GLOBAL EQUITIES: FINANCIALS SECTOR OUTLOOK

The year 2025 is anticipated to be a crucial time for financial markets, characterized by an increase in transaction activities such as mergers and acquisitions (M&A) and initial public offerings (IPOs). This surge is driven by improved liquidity and the realization of opportunities resulting from easier monetary stimulus and enhanced visibility following the elections. Strong fundraising efforts have also supported these activities, ensuring that there is sufficient capital available for growth.

The structural growth in alternative investments, particularly in private markets, is noteworthy due to their strong long-term performance and diversification benefits. This sector remains under-allocated in terms of assets, presenting significant growth opportunities. Additionally, the ageing "dry powder" in private equity, along with pressure from limited partners (LPs) to deploy capital, is creating a favourable environment for increased financial activities in the coming months. Companies with strong origination capabilities, scalability, and solid connections with asset owners—especially in the retail and insurance sectors—are well-positioned to benefit.

Private and public asset classes have given strong returns, though HNIs have not allocated as much



Source: KKR website, Cambridge Associates, Bloomberg

Source: Analysis using EEM, VNQ, MDY, SPSM, SPY, EFA, TIP, AGG, DJP, BIL, CDLI, SPW, Cambridge Assoc. LGT, KKR, The Cerulli Report – U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2022: Shifts in Alternative Allocations. PE, Real Estate, & Infra. PE, Pvt. RE, & Pvt. Infra are Net Returns to LPs. Pvt. Credit is a gross unlevered return. 60 /40 represented by 60% SPY and 40% AGG. Data as at 3Q23.

Note: 2024 is an estimate. Individuals have > $5m in investable assets.

GLOBAL FIXED INCOME: NEW ISSUE AND CHINA PROPERTY UPDATE

In the U.S., the Trump administration is likely to implement some economic stimulus measures, including a potential reduction in the corporate tax rate from 21% to 15% and the initiation of certain deregulatory actions. As a result, the Federal Reserve is expected to moderate its earlier aggressive pace of interest rate cuts. The new issue market has been active in recent weeks. Despite uncertainties surrounding the timing of U.S. rate cuts and various geopolitical issues, new issues have demonstrated resilience, although Additional Tier 1 (AT1) issues have underperformed. At the current level, it remains prudent to stay underweight in duration and to prefer investment-grade bonds in the 3-7 year range for carry.

In China, the government has recently provided significant indirect support to local governments to bolster the economy. Debt swapping and deficit financing, while somewhat of a short-term solution, tend to postpone the issue rather than resolve it. This strategy may alleviate immediate pressure but is unlikely to have the same positive direct multiplier effect on the real estate sector as a tax cut or fiscal spending would. Despite these supportive measures from the Chinese government, many property developers continue to face operational challenges, with certain issuances increasingly at risk of bond extensions or exchanges.

Fed Futures pricing in <60% chance of a 25bps cut in Dec-24 and only two 25bps cuts in 2025

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate
12/18/2024	-0.562	-56.2	-0.14	4.441
01/29/2025	-0.776	-21.4	-0.194	4.387
03/19/2025	-1.314	-53.8	-0.328	4.253
05/07/2025	-1.568	-25.4	-0.392	4.189
06/18/2025	-1.988	-41.9	-0.497	4.085
07/30/2025	-2.216	-22.8	-0.554	4.028
09/17/2025	-2.429	-21.3	-0.607	3.974
10/29/2025	-2.606	-17.7	-0.651	3.93
12/10/2025	-2.742	-13.6	-0.685	3.896
01/28/2026	-2.856	-11.4	-0.714	3.868
03/18/2026	-2.871	-1.5	-0.718	3.864
04/29/2026	-3.076	-20.5	-0.769	3.813
06/17/2026	-2.729	34.6	-0.682	3.899
07/29/2026	-2.786	-5.6	-0.696	3.885
09/16/2026	-3.246	-46	-0.811	3.77
10/28/2026	-2.806	44	-0.701	3.88
12/09/2026	-3.593	-78.7	-0.898	3.683
01/27/2027	-3.466	12.7	-0.866	3.715

Priced in lower chanced to have another 25bps cut in December

Chance to see around two 25bps cuts in 2025

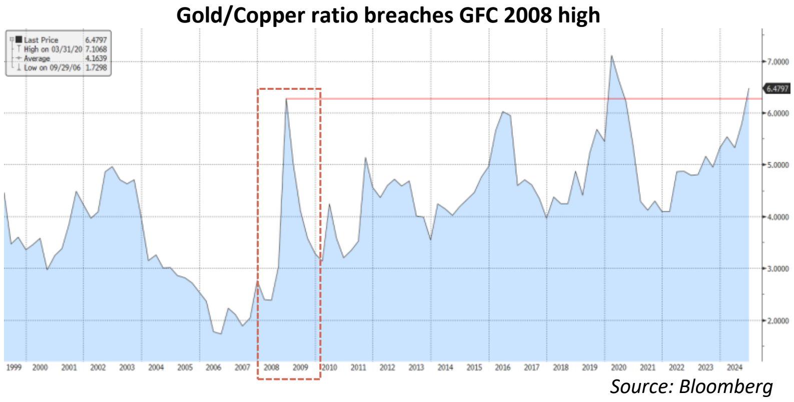
Source: Bloomberg, LGT as of 25-Nov-24

GLOBAL COMMODITIES: BALANCING GEOPOLITICAL RISKS

Crude oil prices have stabilized after a ceasefire between Israel and Hezbollah eased supply disruption fears. However, concerns remain about Iran's involvement in regional tensions. U.S. crude inventories decreased by 1.84 million barrels, indicating strong domestic demand, while gasoline stocks unexpectedly rose by 3.3 million barrels, suggesting mixed demand signals. In Asia, robust demand from China and India, fueled by stockpiling and high refinery activity, continues to support oil markets.

Gold prices are at a crossroads, balancing safe-haven demand against a risk-on sentiment from changing economic policies. The rising gold-to-copper ratio, reaching levels last seen in the 2008 Global Financial Crisis, reflects growing worries about the global economy and a preference for gold over industrial metals. Overall, we maintain a neutral stance on gold.

Gold/Copper ratio breaches GFC 2008 high



Source: Bloomberg

INDIA MACRO: COLD FEET BEFORE GRAND TAKE-OFF

H1FY25 experienced a disappointing year-on-year decrease in capital expenditure (capex) of -15% for the central government and -11% for state governments. This means that for H2FY25, there is a significant requirement for growth, with a targeted increase of 52% and 38%, respectively, to meet the budgeted amounts (a combined total of 46%). However, achieving these targets may not be entirely unfeasible. Approximately INR 70,000 crore (about half) of the INR 1.5 lakh crore in capex development loans from the Centre to the States is expected to be disbursed in Q3FY25 alone. Additionally, the pace of new order announcements and upcoming capex from the private sector, particularly in the renewable energy sector and other areas such as semiconductors, has been encouraging.

Another contributor to GDP growth, consumption, should also play a significant role, driven by the substantial wealth creation among Indian households over the past decade. The trend towards financialization, characterized by an increase in financial savings, is likely to deepen Indian capital markets and may herald a consumption boom. This could work in tandem with Gross Fixed Capital formation (investment/capex) to propel India along a growth path similar to the one that has driven China's impressive progress over the past decade, despite the recent slowdown in its growth trajectory.

Some degree of fiscal populism may arise from the outcomes of the elections (notably with the BJP winning both recent state elections in Maharashtra and Jharkhand), alongside the capex boom. This could lead to fiscal deficit pressures, particularly at the state level. However, overall fiscal deficit levels have been well managed thus far, and a slight relaxation of fiscal discipline for justified reasons ideally should not cause significant concern.

INDIA EQUITIES: FIIs – KING OF RETURNS

Foreign Institutional Investors (FIIs) have significantly sold their Indian equities in October and November 2024, likely reallocating investments to Japan and China. In November, there was further capital flight from India and other Asian economies to the U.S. following Mr. Trump's re-election.

Earnings for Indian companies have seen a temporary statistical decline, primarily due to a high base effect from the approximately 30-40% year-on-year growth seen in the previous Q2 FY24. However, the overall resilient top-line indicates there are no substantial demand issues. EPS misses can be attributed mainly to margin pressures, which have led analysts to lower their earnings estimates for FY25 and FY26 across many companies.

Promoters were among the first to "cash out" at high valuations during Q1 FY25, with several companies experiencing multiple bulk and block deals, where management, private equity, and venture capital firms partially exited. Fast forward to Q2 FY25: while FIIs have continued selling, retail ownership has consequently increased. India's representation in MSCI indices, including ACWI and EM, has seen a remarkable rise, and for valid reasons.

We are adjusting our stance to Overweight (OW) on Equities compared to Bonds. The NIFTY index EPS is currently projected at around ₹1200, reflecting a 4% decrease from expectations set on September 30, 2024, and a market decline of 7% over the same period. This implies a forward valuation of 20 times earnings, which is reasonable compared to historical averages of 22.7 times. Within the equities market, we expect the capex-oriented theme to gain prominence. Among Large and Mid-Caps, we are two notches Overweight on Large Caps compared to Mid-Caps, as valuations for Large Caps appear more attractive.

INDIA FIXED INCOME: 2024 – YEAR OF THE BOND

As of November 29, 2024, the yield on the 10-year government security (G-sec) has dropped to 6.74%, down from 6.85% at the end of October. The spread between the 10-year G-sec yield and the repo rate is now 24 basis points, compared to 35 bps previously. Since the start of the year, the yield has risen by 43 bps, while AAA corporate bond yields have also decreased.

Economic growth is moderating, and inflation is expected to ease soon. In this context, the Reserve Bank of India (RBI) will likely maintain its current interest rate in December while preparing for future rate cuts. We anticipate the RBI will join the global easing cycle in February 2025, with a total reduction of 75 basis points throughout the year, balancing inflation control with growth support.

In the near term, the 10-year G-sec yield is projected to trade between 6.60% and 6.75%, with the possibility of drifting toward 6.50% as we approach the end of the fiscal year. From a risk-reward perspective, it is advisable to maintain an overweight position in the medium to long end of the yield curve, specifically within the 3-10-year range. This segment offers an attractive carry and the potential for a duration play. The short end of the yield curve is expected to remain anchored around the repo rate, primarily influenced by liquidity conditions. Furthermore, considering the current credit spread across various maturities and from a duration perspective, an overweight stance on Government Securities (G-Sec) compared to Corporate Bonds is recommended.

CURRENCY: GEARING UP FOR GEOPOLITICS AND THE GREENBACK

Following a significant increase in foreign exchange reserves, the Reserve Bank of India (RBI) has been actively selling U.S. dollars. These dollar sales may have impacted systemic liquidity, prompting the RBI to inject liquidity back into the market through lending to banks. This strategy could be an effort by the RBI to prevent excessive depreciation of the dollar, a move that both China and Japan have undertaken prior to the RBI's actions.

In the United States, the Personal Consumption Expenditures (PCE) index has seen a slight rise, increasing to 2.3% in October 2024, up from 2.1% in September. Similarly, core PCE inflation climbed to 2.8% from 2.65% in September 2024. Part of the strength in PCE inflation in October can be attributed to one-time factors, such as the need to replace used cars following hurricanes. This inflationary pressure may slow down the pace of interest rate cuts by the Federal Reserve, especially considering the potential inflationary impacts from any increased tariffs under the Trump administration.

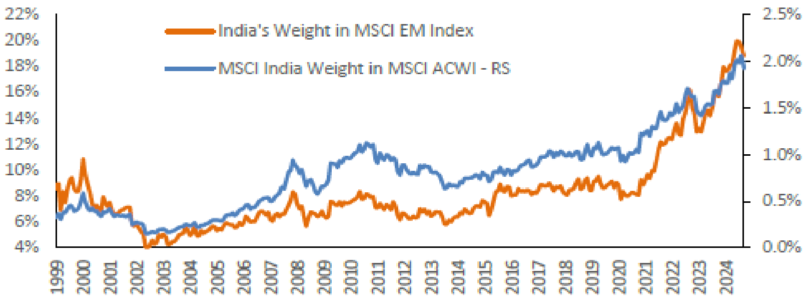
Given the various factors at play, **we are maintaining a neutral stance on the exchange rate between the U.S. dollar and the Indian rupee (USD vs INR).**

Asking Rate for Capex is Steep But Not Unachievable

Central Government Capex (INR Lakh Cr.)	FY23	FY24P	H1FY25	H2FY25	FY25	H1FY25 (Growth %)	Implied H2FY25 (Growth%)	YoY (%)
Ministry of Defense	1.43	1.54	0.58	1.24	1.82	-14%	52%	18%
Ministry of Railways	1.59	2.43	1.36	1.16	2.52	-5%	28%	4%
Ministry of Road Transport & Highways	2.06	2.64	1.41	1.37	2.78	-10%	16%	5%
Ministry of Housing & Urban development	0.27	0.27	0.13	0.16	0.29	6%	28%	6%
Infrastructure linked Capex	**5.35**	**6.88**	**3.47**	**3.94**	**7.41**	**-8%**	**23%**	**8%**
State capex loans	**0.81**	**1.06**	**0.38**	**1.12**	**1.50**	**-37%**	**78%**	**42%**
Others	**1.24**	**1.55**	**0.30**	**1.90**	**2.20**	**-42%**	**150%**	**42%**
Total Capex	**7.40**	**9.49**	**4.15**	**6.96**	**11.11**	**-15%**	**52%**	**17%**

Source: CGA, Union Budget Documents

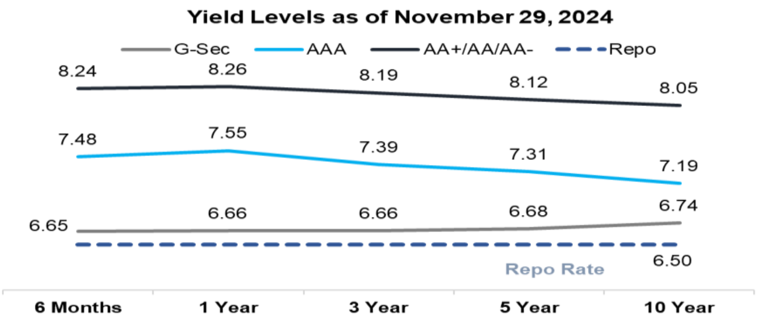
Domestic participation resilient – driving re-rating of India globally



Entity	CY23	CY18	CY13
Insurance companies	5.2%	4.7%	5.2%
Provident Fund	0.9%	0.3%	0.0%
National Pension Scheme	0.5%	0.0%	0.0%
Mutual Funds	6.7%	6.2%	2.4%
Discretionary Portfolio Management	0.8%	0.7%	0.3%
Alternate Investment Funds	0.4%	0.2%	0.0%
Managed Retail Ownership	14.6%	12.1%	7.9%
Direct Retail Ownership	8.9%	8.0%	7.7%
Retail Ownership of India	**23.4%**	**20.1%**	**15.7%**

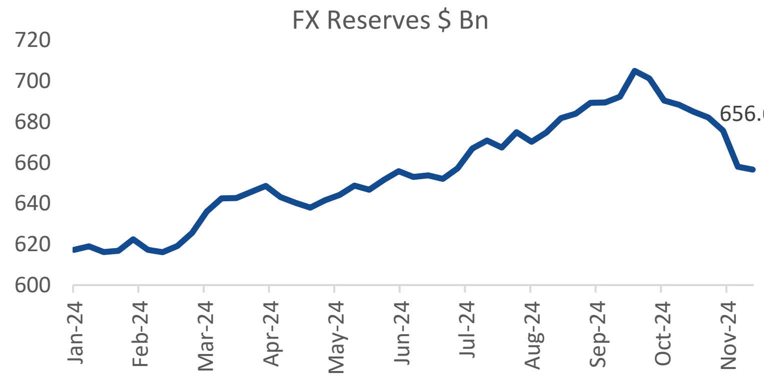
Source: CMIE SEBI, NSDL, RIMES, MSCI NSE, BSE Morgan Stanley Research

Debt Market Snapshot



Source: Bloomberg

India's forex reserves hit fresh highs, currently at $656.6bn.



Source: Bloomberg

TACTICAL ASSET ALLOCATION (TAA) VIEWS & PERFORMANCE

Asset Class Pairs	View	Favouring	Start Date	End Date / Open	Call Status	Alpha Return
Equities Vs Bonds	Positive	Equities	31-Dec-18	30-Apr-19	Close	5.90%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Dec-18	31-Jan-20	Close	-8.00%
Short Term Vs Long Term	Positive	Short Term	30-Nov-18	31-Dec-21	Close	-6.00%
USD / INR	Positive	USD	30-Nov-18	31-Jan-19	Close	2.20%
USD / INR	Positive	USD	31-Mar-19	30-Apr-19	Close	0.60%
USD / INR	Positive	USD	31-Jul-19	31-Dec-19	Close	3.70%
Gold Vs Cash	Negative	Cash	30-Nov-18	28-Feb-19	Close	-7.60%
Gold Vs Cash	Positive	Gold	31-Mar-19	30-Jun-21	Close	32.00%
Equities Vs Bonds	Positive	Equities	30-Nov-20	30-Apr-21	Close	11.80%
USD / INR	Negative	INR	31-Dec-20	31-Jan-21	Close	0.20%
USD / INR	Positive	USD	28-Feb-21	31-May-21	Close	-1.20%
USD / INR	Negative	INR	31-Aug-21	30-Sep-21	Close	-1.70%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Oct-20	30-Nov-21	Close	26.70%
Equities Vs Bonds	Positive	Equities	31-May-21	30-Nov-21	Close	8.90%
Short Term Vs Long Term	Positive	Short Term	30-Nov-18	31-Dec-21	Close	-5.90%
USD / INR	Positive	USD	31-Oct-21	31-Dec-21	Close	-0.70%
Gold Vs Cash	Positive	Gold	31-Jul-21	31-Jan-22	Close	-2.60%
Large Cap Vs Mid Cap	Positive	Large Cap	31-Dec-21	30-Apr-22	Close	0.90%
Gold Vs Cash	Positive	Gold	28-Feb-22	31-May-22	Close	-1.80%
Short Term Vs Long Term	Positive	Short Term	28-Feb-22	30-Jun-22	Close	2.20%
USD / INR	Positive	USD	31-Jan-22	31-Jul-22	Close	6.20%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Jun-22	31-Jul-22	Close	-2.80%
Equities Vs Bonds	Positive	Equities	31-Dec-21	30-Sep-22	Close	0.80%
USD / INR	Negative	INR	31-Jul-22	30-Sep-22	Close	-2.60%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Jul-22	30-Nov-22	Close	-0.60%
USD / INR	Positive	USD	30-Sep-22	30-Nov-22	Close	0.10%
Gold Vs Cash	Negative	Cash	30-Jun-22	30-Sep-22	Close	6.50%
Equities Vs Bonds	Positive	Equities	31-Oct-22	31-Dec-22	Close	-2.00%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Nov-22	31-Dec-22	Close	-1.80%
USD / INR	Negative	INR	31-Dec-22	31-Jan-23	Close	1.00%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Dec-22	31-Jan-23	Close	1.00%
Large Cap Vs Mid Cap	Positive	Large Cap	31-Jan-23	28-Feb-23	Close	-1.10%
USD / INR	Positive	USD	28-Feb-23	31-Mar-23	Close	-0.60%
Large Cap Vs Mid Cap	Positive	Large Cap	31-Mar-23	30-Apr-23	Close	1.70%
Corp Bonds Vs G-Secs	Positive	Corp Bonds	30-Nov-18	30-Jun-23	Close	7.80%
Short Term Vs Long Term	Positive	Short Term	30-Nov-22	30-Jun-23	Close	-0.97%
Equities Vs Bonds	Positive	Equities	31-Mar-23	30-Jun-23	Close	8.10%
Gold Vs Cash	Positive	Gold	30-Nov-22	31-Jul-23	Close	8.80%
USD / INR	Negative	INR	30-Apr-23	31-Aug-23	Close	-1.20%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Jul-23	31-Jul-23	Close	6.10%
Gold Vs Cash	Negative	Cash	30-Sep-23	31-Oct-23	Close	-6.32%
USD / INR	Positive	USD	30-Sep-23	31-Dec-23	Close	0.20%
Gold Vs Cash	Positive	Gold	31-Dec-23	30-Jun-24	Close	10.14%
USD / INR	Negative	INR	31-Dec-23	30-Sep-24	Close	-0.71%
Gold Vs Cash	Negative	Cash	30-Jun-24	30-Sep-24	Close	-12.32%
Short Term Vs Long Term*	Negative	Long Term	30-Jun-23	31-Oct-24	Open	-4.36%
Corp Bonds Vs G-Secs*	Negative	G-Secs	31-Jul-23	31-Oct-24	Open	0.59%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	30-Nov-24	Open	-11.14%

M-o-m Summary	Equity vs Bonds	Large vs Mid	Corp. Bond vs. G-Secs	ST vs LT	USD vs. INR	Gold vs Cash
% of Months calls issued	45.2%	82.2%	98.6%	90.4%	64.4%	82.2%
Success Ratio (%)	63.6%	45.8%	60.6%	47.7%	55.3%	56.7%
Avg. positive alpha	4.3%	2.2%	2.8%	0.6%	1.0%	3.8%
Avg. negative alpha	-2.7%	-2.3%	-0.5%	-0.8%	-0.7%	-3.3%
Avg. alpha	1.8%	-0.2%	1.5%	-0.1%	0.2%	0.7%

*Source: Bloomberg. Assuming a 6% annualised yield for cash. Note: Returns as of 30th November 2024; Also, * - Returns as of 31st October 2024 for Debt Indices.*

GLOBAL ASSET PERFORMANCE SNAPSHOT

	Asset	Current	1m	3m	6m	1y
	Equities					
Global	S&P 500 INDEX	6,032	5.7%	6.8%	14.3%	32.1%
Global	EURO STOXX 50 Price EUR	4,804	-0.5%	-3.1%	-3.6%	9.6%
Global	FTSE 100 Index	8,287	2.2%	-1.1%	0.1%	11.2%
Global	Nikkei 225	38,208	-2.2%	-1.1%	-0.7%	14.1%
India	NSE Nifty 50 Index	24,131	-0.3%	-4.4%	7.1%	19.9%
India	NIFTY Midcap 100	56,393	0.5%	-4.9%	9.1%	31.4%
India	NIFTY Smallcap 100	18,651	0.3%	-3.4%	11.7%	31.6%
India	NSE Nifty 500 Index	22,687	0.0%	-4.4%	7.5%	26.1%
	Fixed Income					
Global	US Generic Govt 10 Yr	4.17%	4.28%	3.90%	4.50%	4.33%
Global	German Bunds	2.09%	2.39%	2.30%	2.66%	2.45%
Global	JGB 10Yr Comp Yield	1.06%	0.95%	0.92%	1.08%	0.69%
Global	UK Gilts 10 Yr	4.24%	4.45%	4.02%	4.32%	4.18%
Global	China 10Y	2.03%	2.15%	2.18%	2.32%	2.69%
India	India 10Y	6.74%	6.85%	6.86%	6.98%	7.28%
India	India 1Y	6.60%	6.54%	6.72%	7.02%	7.13%
India	India 10Y AAA	7.28%	7.34%	7.45%	7.57%	7.84%
India	India 1Y AAA	7.63%	7.63%	7.76%	7.72%	7.79%

	Current	1m	3m	6m	1y
Commodities					
TR Commodity CRB Index	286.9	2.5%	3.6%	-1.1%	4.9%
Indian Crude Oil Basket	72.8	0.7%	-7.6%	-12.0%	-13.6%
Brent	72.9	-0.3%	-7.4%	-10.6%	-11.9%
Gold	2,643.2	-3.7%	5.6%	13.6%	29.8%
Aluminium	2,586.0	-0.6%	6.2%	-1.3%	19.4%
Copper	408.1	-6.0%	-1.6%	-11.3%	6.6%
Corn	423.0	3.0%	11.9%	-5.2%	-8.4%
Soyabean	989.5	-0.5%	-2.7%	-17.4%	-23.9%
Currencies					
Dollar Index	105.74	1.7%	4.0%	1.0%	2.2%
EUR/USD	1.06	-2.8%	-4.3%	-2.5%	-2.9%
USD/JPY	149.77	-1.5%	2.5%	-4.8%	1.1%
GBP/USD	1.27	-1.3%	-3.0%	-0.1%	0.9%
USD/CHF	0.88	2.0%	3.7%	-2.4%	0.7%
USD/CNY	7.25	1.8%	2.2%	0.1%	1.6%
USD/HKD	7.78	0.1%	-0.2%	-0.5%	-0.4%
USD/INR	84.49	0.5%	0.7%	1.2%	1.3%
USD/CAD	1.40	0.5%	3.8%	2.8%	3.3%

Source: Bloomberg Equity/Fixed Income Returns/Yields in local currencies. Commodities in USD. Numbers for Fixed Income are Yields as of November 30, 2024.

Glossary:

US: United States, M&A: Mergers & Acquisition, IPO: Initial Public Offering, LPs: Limited Partners, USD: United States Dollar, PCE: Personal Consumption Expenditure, INR: Indian Rupee, FX: Foreign Exchange, G-sec: Government Securities, Pes: Private Equities, VCs: Venture Capitals, OW: Overweight, ACWI: All Country World Index, EM: Emerging Markets, Capex: Capital Expenditure, MSCI: Morgan Stanley Capital International, GDP: Gross Domestic Product, Fed: Federal Reserve System, BPS: Basis Points, UW: Underweight, EPS: Earnings per Share, FII: Foreign Institutional Investors

LGT Wealth India Private Limited
Registered Office: 7th Floor, A Block, Shiv Sagar Estate, Worli, Mumbai -400018. Tel No: +91 22 62396028 | E-Mail: info@lgtindia.in
AMFI Registration No. ARN-201038; Portfolio Management Registration No. INP00008376