Wealth India

MONTHLY INVESTMENT PERSPECTIVES MAR-25

GLOBAL MACRO: CERTAINLY, UNCERTAINTY SHOULD GO UP

Global economic challenges persist in 2025. The U.S. economy faces policy uncertainties, rising inflation, and fiscal deficits. While the robust services sector (80% of the economy) remains strong, manufacturing is under pressure. Despite the Federal Reserve cutting interest rates, market rates, like the U.S. 10-year Treasury yield, are increasing, leading some economists to predict a potential recession. Europe is experiencing earnings slowdowns and weak credit demand. At the same time, Japan's growth is sensitive to currency fluctuations due to its reliance on exports. India shows stability with a GDP growth rate of 5.5-6.5%. Still, the emerging market offers the best investment opportunities, driven by strong return on equity and increased private sector capital expenditures. China's real estate sector is stabilising, with recovery expected soon, positioning the country as a more stable platform for regional growth in 2025.

GLOBAL EQUITIES: DEEPSEEK HAS SPARKED AN MSCI CHINA RALLY

Deepseek's innovative support has ignited an exciting rally in MSCI China! This time, the momentum is powered by remarkable advancements in technology and AI rather than hopes for policy changes or stimulus measures. These breakthroughs hold tremendous promise for enhancing valuations and igniting sustainable earnings growth over the mid to long-term paving the way for a more resilient recovery. China proudly stands as a global leader in a variety of cutting-edge industries, including AI, electric vehicles (EV), renewable energy, 5G technology, and consumer electronics. In fact, China accounted for over 60% of global electric car sales in 2024! Furthermore, as the leading nation in renewable energy—solar, wind, and hydro—it is projected to possess at least half of the world's renewable energy capacity by 2030. On the trade front, implementing U.S. tariffs on Asia has been less impactful than many feared. Currently, only a 10% tariff rate applies to China, and the nation's response has been measured, reducing the risk of escalating trade tensions. This overall landscape presents an encouraging opportunity for growth and success!

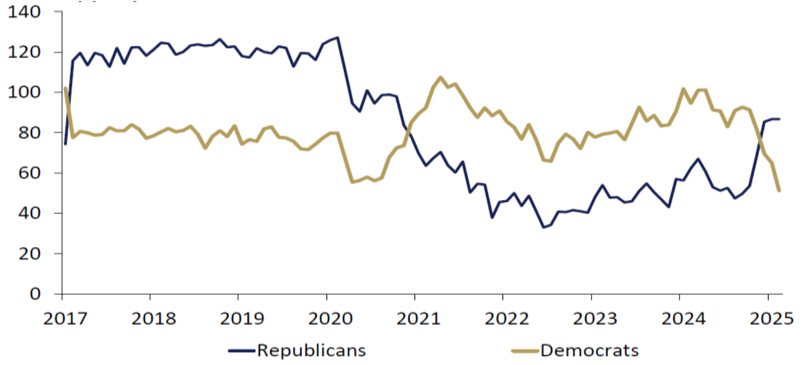
GLOBAL FIXED INCOME: INFLATION IN A WORLD OF RATE CUTS

Investment grade (IG) total returns are mainly influenced by accurately predicting duration rather than credit selection. Thus, it's crucial to evaluate inflation and interest rates closely. In the U.S., inflation is currently at 3% year-over-year and higher on a seasonally adjusted basis over the last few months. The fiscal deficit, already problematic before COVID-19, has worsened due to increased government spending with no explicit measures to address it. While President Trump advocates for lower interest rates, it's important to distinguish between the Federal Funds Rate (FFR) and market interest rates, which the FFR does not solely dictate. Market participants, particularly "Bond Market Vigilantes," appear sceptical of the Federal Reserve's policy of maintaining low rates. In comparison, Chinese bond yields are similar to Japan's. Still, without inflation concerns, China's real yields are significantly higher than Japan's, where inflation is a pressing issue.

GLOBAL COMMODITIES: GOLD'S DEFIANT DANCE AMID RISING YIELDS

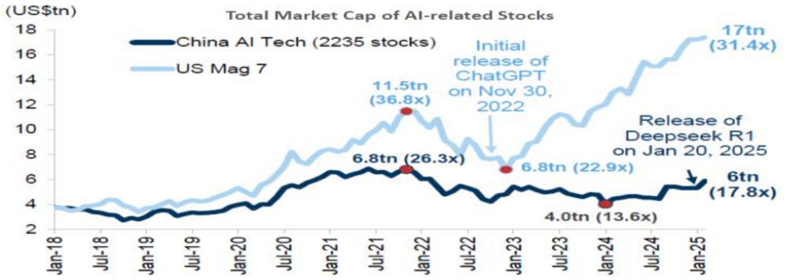
Gold remains a strong choice for investors amid rising inflation concerns fueled by tariff threats and EU fiscal expansion plans. This economic uncertainty and ongoing tensions from the Ukraine-Russia ceasefire talks enhance gold's safe-haven appeal. China's decision to allow major insurers to invest up to 1% of their assets in gold could inject around $27 billion into the market. Interestingly, gold's price rises even as real yields increase, suggesting that central bank interest and global risks are shifting market dynamics. However, a seasonal dip in demand is expected in the second quarter, and increased supply from mining and recycling may moderate the gold rally. Therefore, **we maintain a neutral stance on gold for now**.

Same economy, but very different perception: U Mich. economic sentiment index, by party affiliation



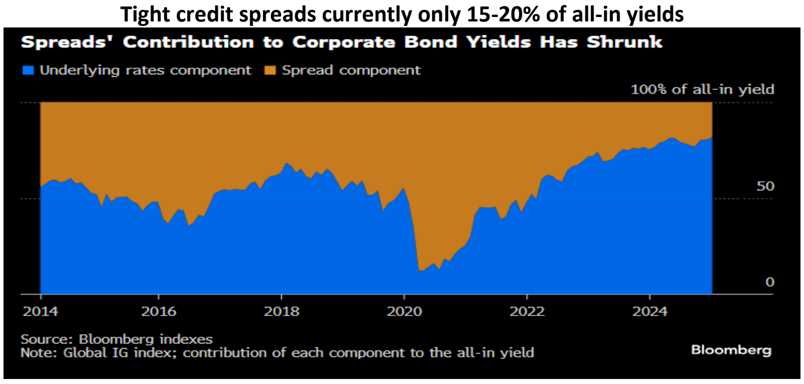
Source: MacroBond, LGT

AI could support China's rerating more sustainably



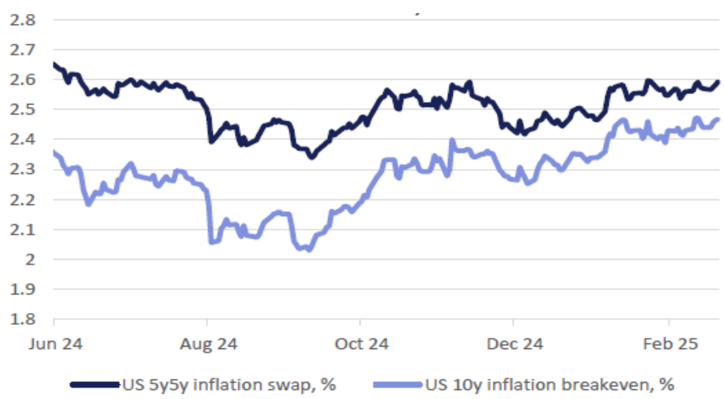
Source: MSCI, FactSet, Goldman Sachs, LGT

Tight credit spreads currently only 15-20% of all-in yields



Source: Bloomberg

US Inflation expectations surge amid economic shifts



Source: Bloomberg, LGT

INDIA MACRO: TRUMP RECIPROCAL TARIFFS, INDIA AND CHINA

From a macroeconomic perspective, India's GDP growth improved notably, rising to 6.2% in Q3 FY25, up from 5.6% in Q2 FY25. This suggests that the cyclical low in growth may be behind us, supported by strong domestic demand and improving industrial activity. Regarding inflation, we expect price pressures to ease in the coming months, allowing for further monetary easing. India's most significant exports to the U.S. are gems, jewellery, and smartphones, contributing significantly to the trade surplus. Exports of gems and jewellery yield an 11-percentage point surplus, while smartphones contribute five percentage points, compare to an overall trade difference of about 16 percentage points. India faces a 2.4% tariff on exports to the U.S. and imposes an 18% tariff on imports from the U.S. In terms of U.S. imports, China India's about USD 540 billion (17% of total imports) compared to USD 86 billion from India (3%). Both countries' imports are heavily weighted toward machinery and mechanical appliances, making up 46% from China and 15% from India. India also excels in chemicals and leather goods, holding a lead over China in these sectors.

INDIA EQUITIES: EPS DOWNGRADES TROUGHING OUT

The equity market is trading near the COVID-19 lows from February 2020, at approximately 18-19 times earnings. However, India's economy is much stronger now, with a GDP growth rate exceeding 6%. Indian banks have low non-performing assets (NPAs) and solid balance sheets, allowing them to support private India's capital expenditure (capex) of ₹11 lakh crore over the next 12 months. Earnings expectations have been adjusted downwards from the highs of General Elections and the 2024 Union budget, leading to a 30-50% decline in stock prices across broader market segments such as defence, railways, and industrials. Overall earnings forecasts for the index have been reduced by 10%, causing indexes to fall by 10-13% from their peak. Due to this reset, companies in India are likely to provide cautious guidance in the current quarter. However, the IT sector may see positive guidance driven by a continued recovery in the U.S. market. India's earnings growth is projected to be around 12-14% for the next 12 months, with an acceleration expected by 2027. Private capex-related sectors are worth monitoring, particularly sub-segments related to public sector enterprises (PSE), which remain robust. The expected capex for FY25 is ₹3.68 lakh crore, but this is likely to be exceeded, with the revised estimate (RE) coming in at ₹3.82 lakh crore and the budget estimate (BE) for FY26 at ₹4.32 lakh crore. From a long-term perspective, the Production-Linked Incentives (PLIs) remain intact. They should receive more allocations in upcoming budgets. It's important to note that Trump's sanctions are broad-based and not explicitly directed at India. As about 70% of India's economy is services, only a few automobiles ancillary companies, chemical manufacturers, and **Trump's seen** energy firms benefiting from U.S. federal subsidies may experience earnings. India's market cap to GDP ratio is currently at 1.1x, down from a previous peak of 1.4x. The Indo-American Fed model suggests a relatively positive outlook for the U.S. 10-year treasury yield. However, recent minor downgrades in the NIFTY50 have slightly increased earnings yield. The depreciation of the Indian Rupee (INR) has statistically overshot expectations. It should stabilise around -3.5%, compared to the current rate of -4.7% over the year. As India approaches a third interest rate cut in May or June, company earnings are expected to cease declining and begin rising. We maintain an "Overweight" (OW) stance on equities relative to bonds.

INDIA FIXED INCOME: 2025 – A YEAR TO CAPITALISE

The Indian bond market remained stable throughout February 2025, with yields mainly affected by global developments, the Reserve Bank of India's (RBI) monetary policy, and strategic liquidity measures. The spread between the 10-year government securities (G-sec) and the repo rate widened to 48 basis points in January and 26 basis points in December 2024. On the shorter end of the yield curve, yields decreased due to the RBI's liquidity-enhancing initiatives, such as foreign exchange (FX) swaps and open market operations (OMOs). In this context, the RBI will likely carefully evaluate incoming economic data and maintain a dovish stance at the upcoming policy meeting in April. However, external risks, such as the U.S. tariff policy and global financial conditions, remain essential to watch. Looking ahead, we anticipate the 10-year G-sec yield to trade within a range of 6.60% to 6.75% in the near term, with the potential to decrease to around 6.50% over the medium term as the market incorporates expectations of further policy easing. We expect two additional rate cuts in this cycle, leading to a gradual decline in yields. From an investment standpoint, we recommend maintaining an overweight position in the medium- to long-end of the yield curve, as it offers an attractive combination of carry and duration. Since bond yields typically adjust early to changes in the interest rate cycle, the 3–6-year segment looks particularly appealing from a risk-reward perspective. Additionally, we continue to favour government securities over corporate bonds, given the relative spread dynamics and expectations of policy-driven yield compression.

CURRENCY: A RATE CUT COULD TEMPORARILY WEAKEN THE INR BUT SPUR GROWTH

While India stands on the brink of a rate cut cycle, questions have been raised about whether a further cut can lead to some INR depreciation, which can lead to imported inflation. However, a member of the MPC (Saugata Bhattacharya) has estimated that while a 5% INR depreciation leads to an uptick of ~35bps in CPI inflation growth, on the other hand, it improves by 25bps due to a short-term boost to exports. FIIs need to continue focusing on India's growth outperformance, though the interest rate differential is also a paramount factor. Hence, should FIIs return, capital inflows could re-rate the INR again. Given these 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).**

Export-Import Profile of US and India

Countries	US Goods imports contribution by countries	US Goods exports contribution by countries	India's total exports %	India's total imports %
China	17%	7%	4%	15%
Mexico	14%	16%		
Canada	13%	17%		
Japan	5%	4%		
Germany	4%	3%	2%	
Vietnam	4%			
Korean Republic	4%	3%		
India	3%	2%		
UK		4%	3%	
Netherlands		4%	5%	
US			18%	6%
UAE			8%	7%
Singapore			3%	3%
Saudi Arabia			3%	5%
Russia				9%
Others	36%	40%	54%	55%

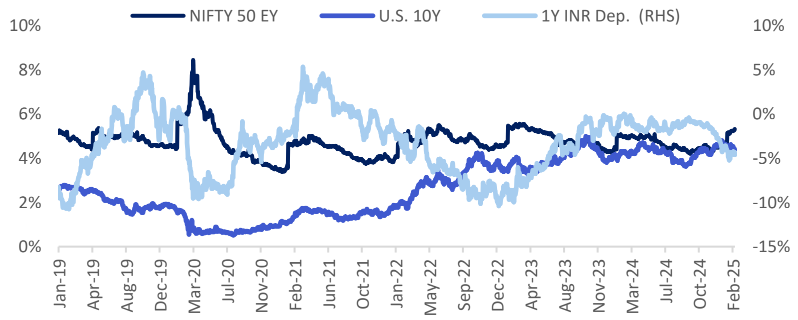
Source: World integrated trade solution website, I-Sec, Ministry of Commerce.

India's Exports to the U.S. (loosely, U.S. imports from India)

Products	India's Export to US in FY24 (USD bn)	% share in total export	Range of US tariff Indian exports
Electrical equipment and machines (largely smartphones)	11.1	14.30%	0 to 5.4%
Gems and jewellery	9.9	12.80%	0 to 10%
Textile and apparel	8.9	11.50%	0 to 28.2%
Pharmaceuticals	8.1	10.40%	0 to 5%
Engineering and machinery	6.2	8.00%	0 to 7.17%
Oil and its derivatives	5.8	7.50%	0 to 6.5% (majority of goods have 0%)
Iron Or Steel	3.3	4.20%	0 to 12.5%
Autos	2.6	3.40%	0 to 7.15%
Organic Chemicals	2.4	3.10%	0%
Others	19.1	24.70%	
India's export to US	**77.5**		

Source: Ministry of Commerce, I-Sec

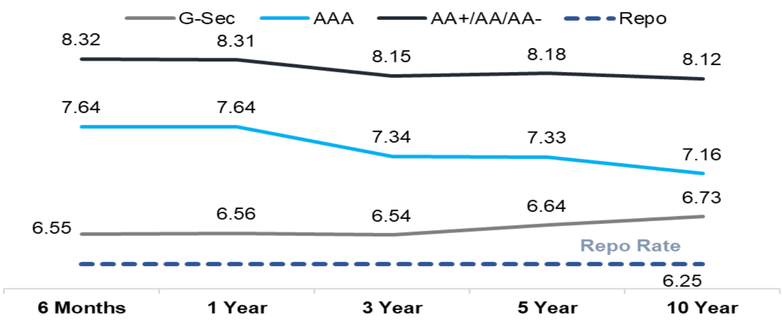
The U.S. - India Yardini Model



Source: Bloomberg

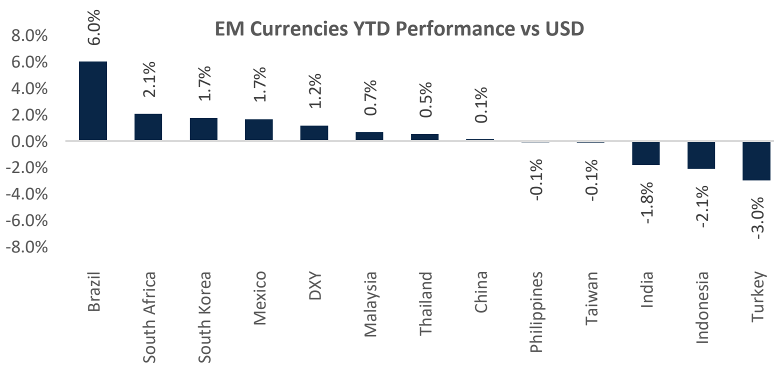
Debt Market Snapshot

Yield Levels as of February 28, 2025



Source: Bloomberg

FX Performance of EMs



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	28-Feb-25	Open	-2.97%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	28-Feb-25	Open	2.83%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	28-Feb-25	Open	-3.38%
Equities Vs Bonds	Positive	Equities	30-Nov-24	28-Feb-25	Open	-8.71%

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	48.7%	82.9%	98.7%	90.8%	61.8%	78.9%
Success Ratio (%)	58.3%	46.8%	56.8%	51.5%	55.3%	56.7%
Avg. positive alpha	4.3%	2.4%	0.5%	0.6%	1.0%	3.8%
Avg. negative alpha	-2.7%	-2.3%	-0.6%	-0.8%	-0.7%	-3.3%
Avg. alpha	1.4%	-0.1%	0.0%	-0.1%	0.2%	0.7%

Source: Bloomberg. Assuming a 6% annualised yield for cash. Note: Returns as of 28th February 2025.

GLOBAL ASSET PERFORMANCE SNAPSHOT

	Asset	Current	1m	3m	6m	1y		Current	1m	3m	6m	1y
			Equities						Commodities			
Global	S&P 500 INDEX	5,955	-1.4%	-1.3%	5.4%	16.8%	TR Commodity CRB Index	301.8	-1.0%	5.2%	9.0%	9.7%
Global	EURO STOXX 50 Price EUR	5,464	3.3%	13.7%	10.2%	12.0%	Indian Crude Oil Basket	76.6	-3.3%	5.3%	-2.7%	-7.1%
Global	FTSE 100 Index	8,810	1.6%	6.3%	5.2%	15.5%	Brent	73.2	-4.7%	0.3%	-7.1%	-12.5%
Global	Nikkei 225	37,156	-6.1%	-2.8%	-3.9%	-5.1%	Gold	2,857.8	2.1%	8.1%	14.2%	39.8%
India	NSE Nifty 50 Index	22,125	-5.9%	-8.3%	-12.3%	0.6%	Aluminium	2,620.8	0.7%	1.3%	7.7%	19.3%
India	NIFTY Midcap 100	47,915	-10.8%	-15.0%	-19.2%	-0.9%	Copper	451.5	5.5%	10.6%	8.9%	17.7%
India	NIFTY Smallcap 100	14,700	-13.1%	-21.2%	-23.9%	-8.0%	Corn	453.5	-5.9%	7.2%	20.0%	9.1%
India	NSE Nifty 500 Index	19,881	-7.9%	-12.4%	-16.2%	-1.0%	Soyabean	1,025.8	-3.0%	1.7%	-1.9%	-10.4%
			Fixed Income						Currencies			
Global	US Generic Govt 10 Yr	4.21%	4.54%	4.17%	3.90%	4.25%	Dollar Index	107.61	-0.7%	1.8%	5.8%	3.3%
Global	German Bunds	2.41%	2.46%	2.09%	2.30%	2.41%	EUR/USD	1.04	0.1%	-1.9%	-6.1%	-4.0%
Global	JGB 10Yr Comp Yield	1.38%	1.25%	1.06%	0.92%	0.72%	USD/JPY	150.63	-2.9%	0.6%	3.1%	0.4%
Global	UK Gilts 10 Yr	4.48%	4.54%	4.24%	4.02%	4.12%	GBP/USD	1.26	1.5%	-1.2%	-4.2%	-0.4%
Global	China 10Y	1.78%	1.63%	2.03%	2.18%	2.35%	USD/CHF	0.90	-0.9%	2.5%	6.3%	2.1%
India	India 10Y	6.73%	6.70%	6.74%	6.86%	7.08%	USD/CNY	7.28	0.5%	0.4%	2.6%	1.2%
India	FBIL FBTB12M	6.53%	6.57%	6.60%	6.72%	7.11%	USD/HKD	7.78	-0.2%	0.0%	-0.2%	-0.6%
India	India 10Y AAA	7.31%	7.17%	7.28%	7.45%	7.63%	USD/INR	87.51	1.0%	3.6%	4.3%	5.5%
India	India 1Y AAA	7.74%	7.71%	7.63%	7.76%	7.88%	USD/CAD	1.45	-0.6%	3.2%	7.2%	6.5%

Source: Bloomberg Equity/Fixed Income Returns/Yields in local currencies. Commodities in USD. Numbers for Fixed Income are Yields as of February 28, 2025.

Glossary:

US: United States, FFR: Federal Funds Rate, RoE: Return on Equity, AI: Artificial Intelligence, EV: Electronic Vehicle, MSCI: Morgan Stanley Capital International, SAAR: Seasonally Adjusted Annual Rate, IG: Investment Grade, GDP: Gross Domestic Product, Capex: Capital Expenditure, RE: Revised Estimates, RBI: Reserve Bank of India, BE: Budgetary Estimates, NPA: Non-Performing Asset, MPC: Monetary Policy Committee, INR: Indian Rupee, USD: United States Dollar, bps: Basis Points, FX: Foreign Exchange, OMO: Open Market Operations, CPI: Consumer Price Index, PSE: Public Sector Enterprises, FII: Foreign Institutional Investors

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