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India Investment Strategy
19 December 2024

Outlook 2025

Bridging the GAP

As we head into 2025, we move Overweight equities in our Foundation allocations, funded by an Underweight on cash. We expect India's growth and corporate earnings to be supported by a pick-up in government spending and a recovery in consumption demand as the RBI commences its policy easing cycle

Trump's policy impact on EM assets including India, China's growth outlook and elevated domestic inflation are hurdles to our positive outlook. We believe investors can bridge the GAP through: **G**earing up by increasing risk in foundation allocations; **A**dding hedges to limit downside and **P**reserving the yield on long- maturity bonds

Within equities, we are Overweight large-cap equities and neutral Mid-cap and Small-cap equities. Within bonds, we are Overweight medium-and long-maturity bonds. Gold is a key portfolio hedge.

We see tactical opportunities in Small-cap equites, India equity sectors, long-maturity bonds, and high-quality corporate bonds.

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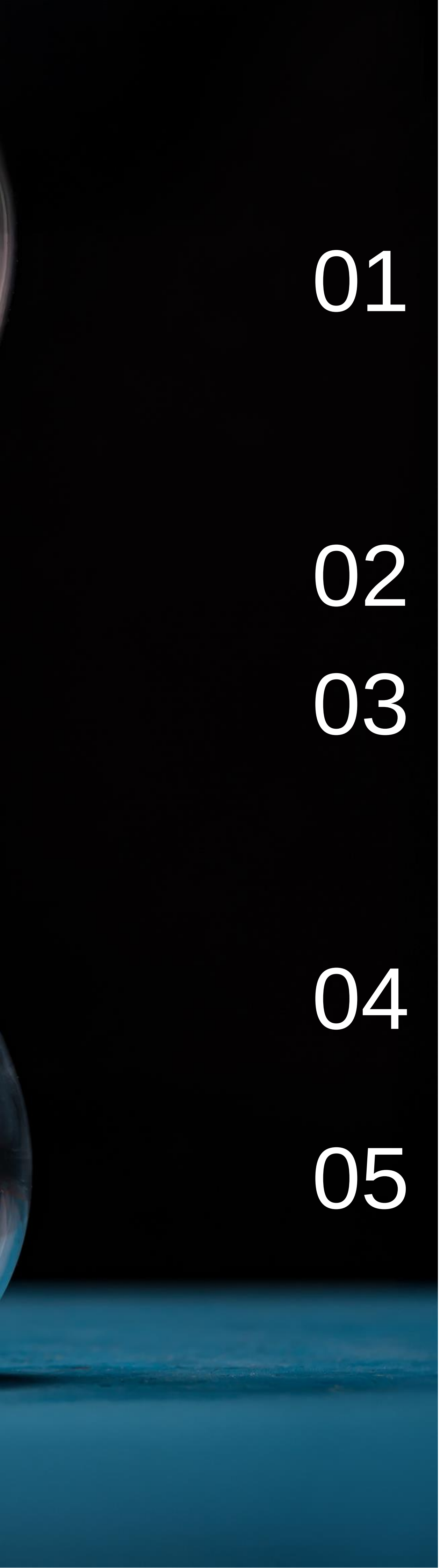
What is our macroeconomic outlook for 2025?	How can investors bridge the GAP in portfolio performance?	What are the risks investors should watch?

Important disclosures can be found in the Disclosures Appendix.



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12m Foundation Overweights:

- Equities
- In equities: Large-cap equities
- In bonds: Medium- and Long-Maturity bonds

Opportunistic ideas - Equities

- Small-cap equites
- Sectors: Financials, Industrials, and Information Technology

Opportunistic ideas – Bonds

- Long-maturity bonds
- High-quality corporate (AAA) bonds

Bridging the GAP

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Fig. 1 **2025 Outlook**

2025 Outlook: Bridging the GAP

Foundation views

1 **Equities** expected to outperform bonds and cash as growth cycle improves and cash yields fall

2 **Within equities** - Overweight large caps

Within bonds – Overweight Medium-and-Long-maturity bonds

3 **Gold to act as a diversifier** and key portfolio hedge

Opportunistic Ideas

Equity

Equities: *Small cap equities

Sectors: Financials, Industrials and *Information Technology

Fixed Income

Bonds : *Long term bonds

High-quality corporate (AAA) bonds

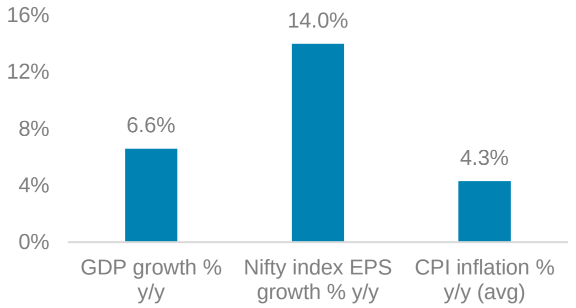
Risks

Risk of inflation surprise that delays RBI rate cuts	Persistent domestic growth slowdown	Specifics of Trump's policy agenda, China's growth

Source: Standard Chartered; *New idea

Fig. 2 **Fundamentals supportive for Indian equities performance**

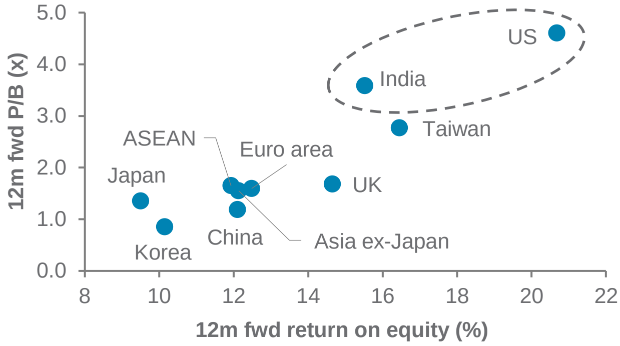
FY 2026 Consensus Estimates



Source: Bloomberg, Standard Chartered

Fig. 3 **India and US premium valuations justified by higher ROE than peers**

12m forward P/B vs 12m forward ROE (%) for major regions



Source: FactSet, Standard Chartered

Improving macros supports Indian assets

2024 was a year of two halves with H1 seeing strong performance of Indian equities and bonds on strong economic growth and corporate earnings delivery. However, H2 witnessed a surge in volatility with economic growth and earnings slowing from a high base amid higher-than-normal interest rates as the RBI stayed focused on limiting credit stress and containing inflationary pressures. This drove record foreign investor outflows from Indian equities dampening risk sentiment. Nevertheless, Indian equities look to end 2024 with positive returns for the ninth consecutive year, marking it the longest streak on record. Indian bonds are also on track for the best year since CY 2020.

We expect economic growth to trend higher in 2025, supported by recovering domestic demand with a pick-up in government spending and improvement in private consumption on improving prospects for rural incomes as key support. Further, the strong performance of the incumbent NDA alliance in recent state elections bode well for policy continuity and is likely to support private investment cycle revival. However, uncertainty around US president-elect Trump's proposed policies especially increased tariffs, is a key macro headwind for emerging markets including India. An intense trade-war is likely to be negative for India's growth outlook. Nevertheless, we expect India to be relatively less impacted given a large domestic focused economy and India exports forming a lower share of overall US imports at ~3%.

We expect the RBI to commence with rate cuts in Q1 2025. However, the easing cycle is expected to be a shallow one, with a possibility of 50-75bps of rate cuts. The RBI is likely to be wary of potential external sector headwinds as growth recovers from a cyclical low. We expect headline inflation to trend lower in 2025, given improved outlook for food prices, modest core inflationary pressures and government's active intervention to curb supply-side shocks, but it is still likely to stay above the RBI's medium-term target of 4%.

Gearing up by increasing risk: Equities

We believe the macro backdrop favours risk assets and **Raise Equities to Overweight** in our Foundation allocations. Improving economic growth, higher government spending and the commencement of the RBI's policy easing cycle bodes well for a pick-up in corporate earnings. Though, elevated valuations are likely to limit multiple expansion, we believe earnings growth would drive total returns, supporting the likely outperformance of equities to cash and bonds. Domestic equities are supported by other profitability measures like return-on-equity (ROE), which remains ahead of major peers. Further, foreign investor positioning in domestic equities remains close to a decadal low.

Within equities, we are **Overweight large-cap equities**, given a greater margin of safety in terms of earnings and valuations. We **upgrade Mid-cap and Small-cap equities to Neutral** as improving banking system liquidity, stable earnings outlook and resilient domestic investor demand through systematic investment plans should off-set concerns on stretched valuation premiums that remain close to peak.

Add hedges to limit the downside

An environment of several known risks warrants the addition of portfolio hedges to limit the downside. For this, we see **gold a solid core holding (neutral)** and a key portfolio diversifier. Central bank demand is likely to remain a key driver of gold prices. This demand is not price-insensitive – indeed, we have seen EM central bank demand decelerating in the face of sharp price increases. In the bigger picture, though, gold's share of EM FX reserves remains small and geopolitical risks stay high. We believe this will continue to be the main support for gold in the next 6-12 months. Support from safe-haven demand, escalation in geo-political tensions, any inflation worries or falling bond yields are added tailwinds. Alternative investments and multi-asset strategies that have lower correlation with major asset classes are also potential routes to improve diversification and lower portfolio risk.

Preserving the yield

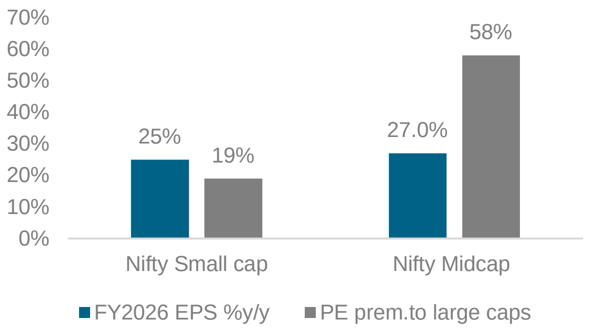
Bonds are a core holding (neutral). We are **OW bonds relative to cash** given the attractive absolute yield on offer. Though, we expect bond yields to decline over the next 12-months, elevated inflation amid a cyclical growth recovery, is likely to limit the fall in yields given shallow rate cuts. Overall, we expect bonds to outperform cash with a higher carry yield on offer. Within bonds, we are **Overweight medium-and-long maturity bonds**. The yield curve has steepened since June 2024, driven by a sharper decline in short-term yields (1-3 years). The higher carry yields on offer provide adequate compensation for extending maturity in fixed income allocations, while increasing the potential for price gains as yields decline over the next 3-6 months.

Opportunistic ideas: Pro-growth, Pro-yield

Within broader markets, we are overweight **Small-cap equities**. Small-cap equities are supported by the following factors: 1) FY 2026 EPS growth for Nifty Smallcap Index at 25%, post 15% EPS cuts, indicates a lower risk of downgrades, 2) Small-cap equities premium to large-cap equites is more reasonable compared to mid-cap equities premium, 3) Small-cap equities allow exposure to a broader set of industries and sub-sectors for investors to participate in India's structural growth story, 4) Historically, a period of easing liquidity and improving economic growth, has been positive for small cap equities outperformance.

Fig. 4 **Small-caps earnings outlook remains strong and trade at lower valuation premium over large caps**

EPS growth estimates – Nifty Small-cap and Nifty Mid-cap indices; PE premium over Nifty index



Source: Bloomberg, Standard Chartered

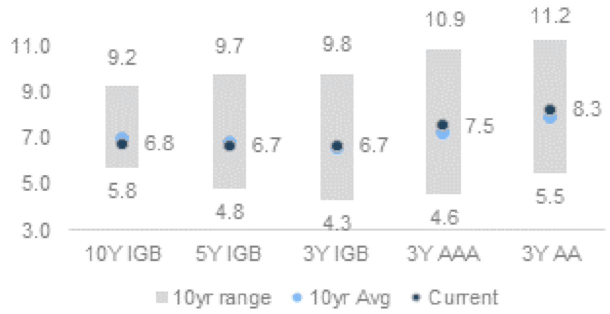
Within bonds, we see an attractive risk-reward for **Long-maturity bonds**. The spread between 10Y-3Y IGB yields has moved positive over the last few months. We see this as an opportunity for investors to rotate into long-maturity bonds and lock-in attractive yields. This is likely to enhance investors' fixed income portfolio performance once the policy easing cycle begins as investors re-deploy from cash and short-maturity bonds. Further, positive government demand-supply balance given robust foreign investor flows and lower government borrowing requirements, is likely to keep bond yields at the long-end anchored to current levels.

We also prefer **High Quality Corporate Bonds.** The yield spread offered by corporate bonds over government bonds are at a cycle high: 3YAAA-3YIGB yield spread is at 85bps vs 10Y average spread of 70bps, thus attractive for locking-in an absolute carry yield. In addition, history indicates that corporate bond spreads narrow more than government bond over a 6-12-month period following the first RBI rate cut, making them attractive on relative returns.

In our Equity Sector strategy, we prefer a barbell approach: **Overweight domestic cyclicals**: **Financials** and **Industrials**, given our view of a pick-up in domestic demand. Industrials are likely to benefit from a higher government capex, private investments revival and superior earnings growth outlook compared to other sectors. This partly off-sets concerns on stretched valuations. Financials offers the best risk-reward with steady earnings growth expectations in FY 2026, with valuations at a discount to long-term averages. We balance this with a defensive overlay by **upgrading Information Technology to Overweight**.

Fig. 5 **Bonds yields have risen from their pandemic-era lows and trade close to long-term averages**

Bond yields (%) across Indian government and corporate bonds



Source: Bloomberg, Standard Chartered

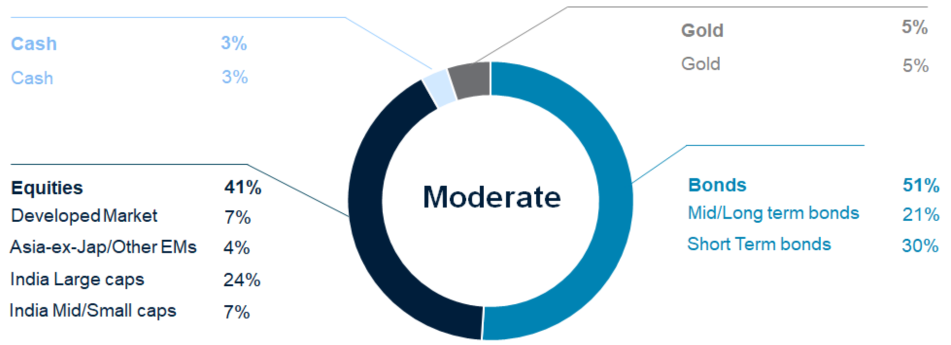
What could cause us to change our mind?

We are at the cusp of pivotal events that risk changing the economic, geopolitical, and financial market narrative. In the US, President Trump is set to take office in January, following which we are likely to get greater clarity on his policy agenda. In China, policymakers are likely to provide further policy support measures which have the potential to revive growth. Finally, stronger US growth raises the risk of inflation limiting the Fed's headroom to continue cutting rates. The above factors can have varying impact on India's growth, FX and foreign portfolio flows, through direct and indirect channels.

We expect the Indian government to provide policy support to reset weakening consumption given the strong political mandate received in key state elections. Lack of policy support measures could dampen risk sentiment and economic growth and earnings outlook, which is still recovering.

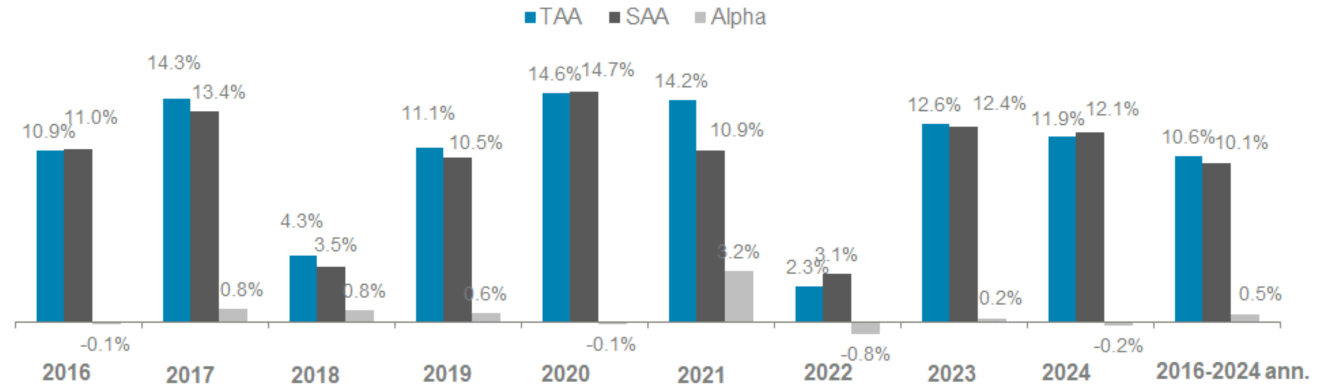
Foundation asset allocation models

Fig. 6 **Foundation asset allocation for a Moderate risk profile**



Our India-focused TAA* underperformed SAA in 2024

Annual performance of our Tactical Asset Allocation* (TAA) relative to the Strategic Asset Allocation* (SAA) baseline model



Source: Crisil, NSE, Bloomberg, Standard Chartered. *SAA is our India-focused moderate strategic asset allocation. The SAA is made up of 5% INR cash, 55% INR bonds, 35% equities and 5% INR Gold. TAA is our India-focused moderate tactical asset allocation which tilts the SAA allocation according to the Standard Chartered Bank's India Investment Committee's views. **SAA and TAA performance is measured from the publication of our Outlook 2023 report on 18 December 2023 to 18 December 2024.

Our tactical asset allocation views (12m) INR

Summary	View	Detail
INR Cash	▼	**+ Safety || - lower starting yields, Risk of missing higher yields elsewhere**
Bonds	◆	
Short-term bonds	◆	**+ Low sensitivity to rising rates || - Elevated inflation**
Mid- to long- term bonds	▲	**+ High absolute yields, improving demand outlook on India's inclusion to global bond index || - sensitive to rising yields**
Equities	▲	
DM Equities	▲	**+ Strong earnings growth, supportive US policy || - Valuations, sensitivity to higher yields**
Asia ex-Japan/ Other EM	◆	**+ Earnings, India growth, China policy support || - China structural growth concerns**
India – Large cap	▲	**+ Growth and earnings reocvery, resilient domestic inflows, low foreign investor positioning || - weaker exports amid slow global growth**
India – Mid/Small Cap	◆	**+ Improving macro fundamentals, strong earnings growth || - stretched relative valuations, lower margin of saftey**
INR Gold	◆	**+ Portfolio hedge, central bank demand || - Resilient USD**

Source: Standard Chartered India Investment Committee. || **Green:** upgrade from prior view | **Red:** downgrade from prior view

Legend: ▲ Overweight | ▼ Underweight | ◆ Neutral

Perspectives on key client questions

Navigating the uncertainties of 2025: Risks every investor should watch

Indian equities look set to post another year of strong gains in 2024, despite a challenging Q4. While the 'goldilocks' macro scenario got challenged in H2, domestic growth is likely to recover supported by a pick-up in demand and potential policy easing as inflation moves closer to the RBI's medium-term target of 4%. The year 2025, however, brings forth a new set of uncertainties. The incoming Trump administration promises anything but business-as-usual and a year of disruptions potentially awaits investors. How then should investors navigate the shifting landscape, which sees intersecting headwinds from trade tensions, geopolitics and a potentially more challenging inflation and growth mix?

In this section, we confront three key questions that could shape investment decisions in the year ahead:

1. What would a persistent growth slowdown mean for portfolio allocation?
2. How would a resurgence in inflation and bond yields mean for portfolio allocation?
3. Are valuations unsustainable for Indian equities?

A persistent slowdown could weigh on Indian equities

Post pandemic, Indian equities enjoyed a valuation premium to other emerging markets, supported by ahead of peers' growth, improving macro stability and most importantly strong corporate earnings delivery (FY20-FY24 Nifty CAGR at ~20%), the best since 2004-08 cycle. This has kept drawdowns in Indian equities shallower compared to past bull-cycles. The recent sell-off though, driven by a cyclical slowdown in growth and earnings, indicates that a protracted slowdown could see equities struggle to keep pace with the momentum in recent years and investors would be better off having a defensive portfolio strategy and adequate portfolio hedges while being selective in risk-taking.

Fig. 7 **Peak-to-trough drawdowns have been relatively shallow since the pandemic**

Nifty index peak-to-trough analysis, since 2000

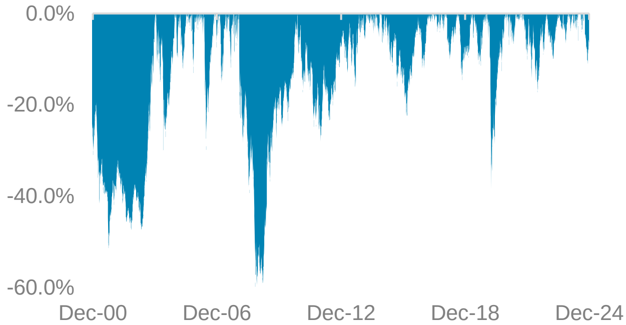


Fig. 8 **Earnings has been the largest contributor to Indian equities performance since 2021**

Contribution to returns from earnings, dividends and valuation multiples

Source: Bloomberg, Standard Chartered

Higher inflation means more positive stock-bond correlation

The lesson of 2022 was clear: a rapid rise in inflation and interest rates can hurt stocks and bonds simultaneously. While we expect the domestic disinflation process to remain on track, the uncertainty posed by volatile food prices and likely inflationary impact of Trump's policy could pose a hinderance to the timing of RBI's policy easing. In this scenario, a resurgence in inflation could push stock-bond correlation higher, reducing the effectiveness of bonds as a buffer against volatility in risk assets. Investors would need to add allocation to real assets, cash and gold that serve as effective inflation hedges in such a scenario. In addition, defensive sectors like consumer staples and quality stocks can offer relative resilience in an inflationary environment.

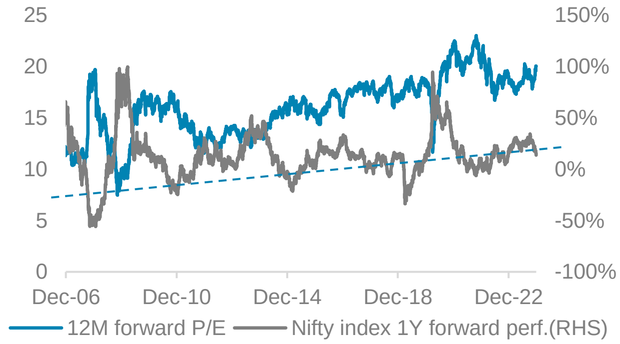
India equities expensive, no reason to go underweight

Valuations alone are a poor indicator of near-term market performance. Equities can stay over valued for an extended period and still deliver positive returns, as long as the drivers of performance – growth, policy certainty and earnings remain on track. For the Nifty index, the average 1-year forward performance since 2006 is ~10%, when 12-month forward price earnings ratio (P/E) is over 18x, like the current P/E. However, there is regime shift: pre-2020 the average returns were -9%, while since 2020 the return averaged 18%.

The reason for strong performance is robust growth and earnings delivery on the back of India's strong structural story - improvements in governance, technological advancements, step-up in investments to boost infrastructure and domestic manufacturing ecosystem. The risk, however, is that as valuations get increasingly stretched, further gains will depend to a greater extent on earnings growth, as given lesser scope for valuations to re-rate from current levels. As can be seen in *chart 8,* earnings have been the largest contributor to Nifty Index performance since 2021. The outlook for Indian equities in 2025 hinges on whether domestic demand recovers from a cyclical slowdown, translating into robust earnings growth.

Fig. 9 At current valuations, Indian equities can continue to deliver positive returns

Nifty index 12m average returns vs PE ratio since 2006



Source: Bloomberg, Standard Chartered

Stay nimble and diversified to unlock opportunities

While we continue to be optimistic on India's growth story, several risks remain on the horizon, highlighting the importance of being nimble to adapt to changing domestic and global dynamics. Historically, a well-diversified portfolio has delivered superior risk-adjusted performance across various growth-inflation regimes, *see chart 10*.

We see the current pullback in Indian equities as an opportunity to add to the asset class on several strong positive drivers including robust domestic macro fundamentals, strong corporate earnings cycle, and low foreign investor positioning. On the other hand, allocation to Bonds can serve as a hedge against the risk of a slowdown while providing a steady source of income in the portfolio. The recent surge in domestic bond yields presents investors an opportunity to lock in still-attractive yields, especially in medium-and-long maturity bonds and high-quality corporate bonds, given our view of rate cuts by the RBI in Q1 2025. Investors also need to maintain an allocation to gold to hedge against the risk of a surge in inflation and escalation in geo-political tensions.

Fig. 10 A diversified portfolio outperforms a 60/40 portfolio in most growth/inflation regimes

Risk-adjusted returns of 60/40 vs a diversified portfolio*

60/40 portfolio

		Real GDP growth		
		<5%	5 - 7%	>7%
Inflation	<4%	0.28	0.37	0.30
	4 - 6%	-0.03	0.51	0.34
	>6%	0.31	0.03	0.30

Diversified portfolio

		Real GDP growth		
		<5%	5 - 7%	>7%
Inflation	<4%	0.34	0.40	0.32
	4 - 6%	-0.01	0.56	0.35
	>6%	0.33	0.06	0.33

Source: Bloomberg, Standard Chartered. *Diversified portfolio defined as a 55% allocation to equities, 35% to bonds, 5% to gold and 5% to cash. Data since Q1 2010.

Source: Bloomberg, Standard Chartered

Macro overview – at a glance

Key themes

We expect India's economic growth to recover from a cyclical slowdown and stay ahead of its major peers in 2025. A pick-up in government capex, recovery in rural demand, improving urban consumption and broadening government policy support are positive for growth. In our view, CPI inflation could trend lower from current levels, driven by a decline in volatile food article prices amid an improved outlook on summer and winter crops on better sowing, likely government policy interventions to manage supply side concerns and disinflationary pressures from policy tightening.

In our assessment, monetary policy support will be key for growth in H1 2025, as tight financial conditions continue to weigh on demand. Continuity of past policy measures undertaken by the government that include (i) greater public capex spend, (ii) structural reforms and (iii) incentives to boost manufacturing and infrastructure, supports India's medium-term growth outlook. In our view, the RBI is likely to kickstart the policy easing cycle, with 50-75bps rate cuts in 2025, as inflation moves closer to its medium-term target of 4% amid slowing growth. However, still elevated inflation and a cyclical uptick in growth are likely to limit policy easing by the RBI in the current cycle.

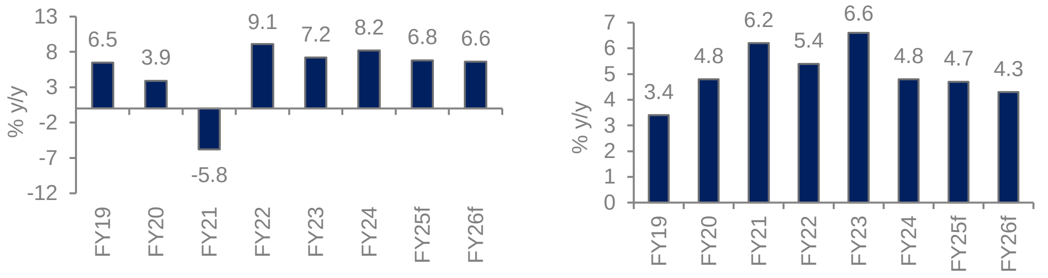
Key risks to our macro-outlook are: 1) Persistent high inflation, 2) Trump's policies and China's growth, 3) Escalating geo-political tensions and higher commodity prices.

Key chart

For FY2026, India's GDP is expected to grow at 6.6% and CPI is expected to average 4.3%.

Fig. 11 **India's growth-inflation dynamics stronger than peers**

GDP Growth (Y/Y) and CPI Inflation (Year average) – Bloomberg consensus estimate*



Source: Bloomberg, Standard Chartered

Macro views at a glance

Factors	View	Comments
Economic growth	◑	**Economic activity moderated in FY 2025.** India's GDP grew 6.1% in H1 FY25 compared to 8.2% in FY24. Industrial production growth has averaged 4.3% YTD CY 2024 (vs 5.9% in CY 2023), while manufacturing and services PMI has averaged 58/60 YTD CY 2024 (vs 57/60 in CY 2023).
Inflation	◓	**India's consumer price inflation eased, averaging 4.9% YTD 2024 (until November 2024)** compared to 5.7% in CY 2023. Moderating core inflation, lower primary and commodity prices are primary drivers of lower inflation.
Fiscal deficit	◓	**The government prioritized fiscal consolidation while supporting growth.** FY 2025 fiscal deficit is estimated at 4.9% of GDP vs interim budget target of 5.1%. GST collections averaged INR 1.8trn so far in CYTD 2024 compared to an average of INR 1.63trn in CY 2023.
External	◓	**India's trade deficit rose to an average of USD 23.1bn in 2024 YTD (until November 2024) compared to an average of USD 20.4bn in CY 2023.** India's current account recorded a deficit of USD 9.7 bn or 1% of GDP in Q1 FY 2025 compared to a surplus of USD 4.6bn or 0.5% of GDP in Q4 FY2024. This was driven primarily by a widening of merchandize trade deficit.
Monetary Policy	◓	**The RBI kept policy repo rate unchanged at 6.5% in its December 2024 policy review for the eleventh consecutive meeting.** The RBI lowered the Cash Reserve Ratio (CRR) by 50bps to 4% to ease banking system liquidity. Further, the RBI lowered its GDP growth forecast for FY 2025 by 60bps to 6.6% y/y and revised its average inflation forecast for FY 2025 upwards by 30bps to 4.8% y/y.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Bonds – at a glance

Key themes

We are neutral on bonds as attractive absolute yields are counterbalanced by below-average yield premiums. Improving bond demand-supply balance given lower government borrowing, robust tax collections and India bonds' inclusion in the global bond indices are tailwinds for bonds. We stay overweight medium and long-maturity bonds given their attractive carry and potential for higher price gains as bond yields fall. We prefer corporate bonds (i.e., bonds that offer a yield premium over government bonds), especially high-quality (AAA) corporates, given higher absolute 'carry' yields and cyclically high spreads.

In our view, the RBI's recent liquidity easing measure indicates an increased likelihood of a policy easing in Q1 2025, which should drive bond yields lower. We expect 10-year IGB yield to trade in the range of 6.50%-6.75% over the next 6-12 months. In our assessment, high quality (AAA) corporate bonds offer a better risk-reward given attractive spreads and improving corporate fundamentals. In addition, India's nominal bond yields is among the highest in Emerging Markets.

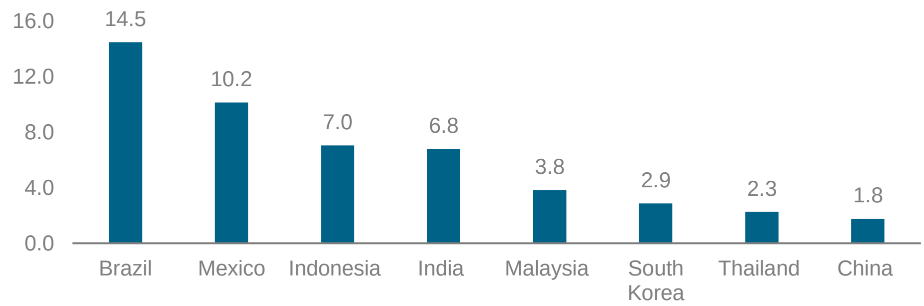
However, three factors for bonds remain unfavorable: 1) High fiscal deficit over the medium-term, 2) Tight banking system liquidity and lack of outright support from the RBI, and 3) A populist tilt in government policy focus could drive inflation higher.

Key chart

India's nominal bond yield higher than most Emerging Market peers.

Fig. 12 **India's nominal bond yield the higher than most Emerging Market peers**

10-year government bond yields (%)



Source: Bloomberg, Standard Chartered.

Bond views at a glance

Factors	Views	Comments
Real Yields	◐	**India's inflation-adjusted yield is lower than most Emerging Market peers**. The 10-year IGB real yield at 1.3% is lower than the average real yield of 3.8% for other major EMs.
Supply dynamics	◓	**Government bond supply dynamics have turned favorable**. The government pegged its gross borrowing for FY 2025 at ~INR 14.0trn compared to INR 15.4trn in FY 2024. Both, FY 2025 fiscal deficit and government borrowing target was lower than market expectations.
Monetary policy	◓	**Market expects no rate cuts by the RBI in the near-term**. 1-year Overnight Indexed Swap (OIS) spread suggests market participants expects the RBI to stay on hold over the next 12 months.
Liquidity	◓	**The RBI's focus remains on withdrawal of excess liquidity**. The banking system liquidity remains in a deficit, currently at INR 1.2trn after hitting a surplus of INR 3trn in early November. Improving government spending could keep the banking system liquidity benign in H1 2025.
Demand dynamics	◑	**Foreign investors remain buyers in 2024**. YTD 2024 foreign investors inflows are positive and is likely to stay robust given India's bond inclusion in global indices. Demand from domestic institutional investors (banks, insurers, and mutual funds) will be a key determinant of bond yields in 2025.
Yield premiums	◓	**Yield premiums trade below-average**. The spread between 10-year IGB yield and repo rate is at 25bps vs. 5yr avg. of 148bps. High-quality (AAA) bonds have turned attractive with the yield spread between 3Y AAA rated bond and 3Y G-sec at 85bps, higher than the 10yr avg. of 70bps.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Equity - at a glance

Key themes

We upgrade equites to Overweight and to outperform cash and bonds. A cyclical growth recovery in 2025 and RBI policy easing are key drivers supporting are positive view. India's superior macro fundamentals relative to peers, robust earnings delivery, strong domestic investor inflows amid a stable policy setting off-sets concerns on stretched valuation premiums. We expect volatility to stay elevated in Q1 2025 on uncertainty regarding Trump's policy priorities and its impact on global trade and financial markets. Within equities, we are overweight large-cap equities given higher margin of safety in terms of earnings and valuations. We upgrade Mid-cap and Small-cap equities to neutral on superior earnings outlook.

In our view, Indian equities is likely to be supported by the below positive drivers: 1) GDP growth and earnings outlook remains robust and is likely to outpace its major peers. 2) Stable inflows from domestic investors driven by inflows into systematic investment plans and 3) Resumption of foreign investor inflows amid superior macro fundamentals, US Fed rate cuts and low foreign investor positioning towards Indian equities.

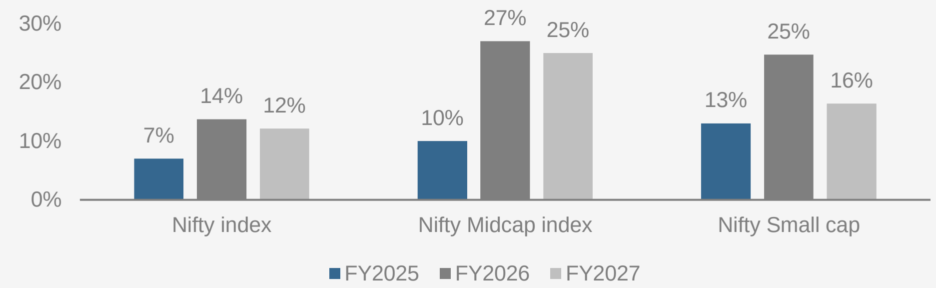
Risks to our positive equity view are: 1) Growth slowdown and probable downgrades of earnings expectations, 2) Elevated equity valuations, both absolute and relative to peers, 3) Foreign investor selling amid slowing domestic investor flows

Key chart

Bloomberg Consensus expectation is for Nifty earnings to rise by 13% over FY2025-2027.

Fig. 13 **Earnings expectations robust for Indian equites**

EPS growth estimates: Nifty 50, Nifty Midcap100 and Nifty Smallcap100 Index



Source: Bloomberg, Standard Chartered

Equity views at a glance

Factors	Views	Comments
Economic environment	◓	**Growth-inflation dynamics remain supportive of equities.** Growth focused fiscal policy, improving real income levels and broadening growth momentum is likely to support corporate profitability. RBI policy easing is likely to be tailwind for equities. Volatile food article prices, remains a key risk.
Earnings growth	◓	**Earnings growth expectations are robust.** Nifty index delivery slowed in H1 FY2025. Bloomberg consensus earnings growth expectations for the Nifty Index for FY 2025, FY 2026 and FY2027 stands at 7%, 14% and 12% respectively. EPS estimates for large-cap equities (Nifty index) have seen modest downward revision compared to broader markets.
Valuations	◓	**Valuations stretched**. Nifty 12-month forward P/E at 20.2x, is below its peak of 23x, but higher than its long-term average of 18.2x. Price-to-book value ratio (P/B) at 3.7x and Market cap to GDP ratio at ~144%, are above long-term averages. Mid-cap equities 12-month forward P/E trades at 58% premium to large-cap equities, significantly higher than its 10-year average premium of 20%.
Flows	◓	**Foreign investors turned net buyers in December after a record USD 11bn in October.** YTD 2024, foreign investors have bought about USD 1bn worth of equities compared to USD 21bn inflows in CY 2023. **Domestic institutional investors remain record buyers in 2024**. YTD 2024, domestic institutional investor inflows touched an all-time high of USD 59.7bn compared to USD 22.3bn inflows in CY 2023.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Equity sector views

Prefer a barbell-sector strategy

We retain our preference for domestic cyclicals given our view cyclical growth recovery and favourable earnings growth outlook. We are Overweight Financials and Industrials and balance this with a defensive overlay by upgrading Information Technology to Overweight. We downgrade Consumer Staples to Underweight.

Information Technology – Overweight

We upgrade Information Technology to an overweight. We like the sector for its defensive nature. The sector has undergone a period of consolidation post-pandemic on weak earnings, lower new-deal wins, stretched valuations and high attrition amid excess capacity added in 2021-2022. We expect the sector to benefit from an improving US growth and financial sector outlook, helping drive improvement in revenue and profitability. Additionally, a depreciating INR is a tailwind for the sector. Though, the sector trades at a premium to its long-term average, this is partly justified by robust earnings growth outlook for FY2026: 15% y/y.

Financials – Overweight

Financials remains an overweight. The sectors strong linkage to domestic growth makes it attractive in a period of recovering growth and declining interest rates. Steady disbursal momentum is likely to off-set interest margin compressions. Further, healthy asset class position given improved contingent buffers and increased regulatory supervision, is likely to contain slippages and provisioning requirements. Earnings expectations remain robust, with ahead of market EPS growth of 25% and 13% for FY25 and FY26. The sector is trading at a 12-month forward P/E of 16.3x, at a significant discount to broad market valuation of 23x for MSCI India.

Industrials – Overweight

Industrials remains an overweight sector. We expect a pick-up in government capex to be catalyst for the sector in the near-term. Further, the sector benefits from a multi-year investment-led economic growth cycle. The government's continued focus on capital expenditure in successive budgets since FY2021, coupled with providing incentives to boost manufacturing and infrastructure spending is a strong structural driver for the sector. Earnings outlook for the sector is among the strongest with FY25 & FY26 EPS growth forecasted at 26%/25% y/y respectively, justifying expensive multiples for the sector.

Fig. 14 **Our sector views**

India
Information Technology ▲
Industrials
Financials
Healthcare
Consumer Discretionary
Consumer Staples ▼
Utilities
Energy
Materials

Source: Standard Chartered

Legends: Overweight | Neutral | Underweight

▲ Upgrade from last quarter | ▼ Downgrade from last quarter

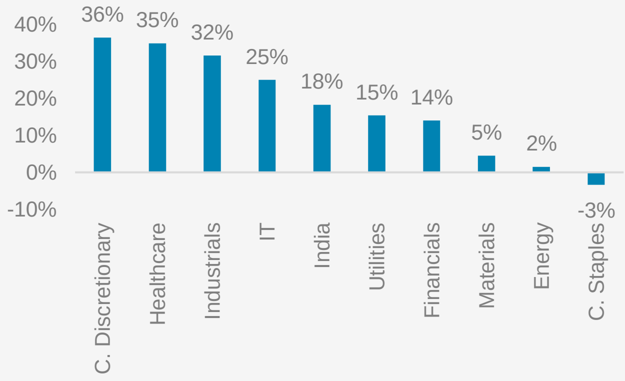
Fig. 15 **Sector valuations and earnings growth**

	12-mth Fwd P/E (x)		EPS Growth (Y/Y)	
MSCI Sector	Current	15yr avg.	FY25f	FY26f
India	23.0	17.7	14%	17%
Cons. Discretionary	32.1	18.1	27%	19%
Cons. Staples	44.6	35.5	7%	14%
Energy	14.0	12.9	7%	6%
Financials	16.3	16.1	25%	13%
Healthcare	32.0	23.0	24%	17%
Industrials	37.3	22.7	26%	25%
IT	30.3	19.8	4%	15%
Materials	20.4	14.3	4%	43%
Utilities	18.4	12.5	4%	10%

Source: Bloomberg, Standard Chartered

Fig. 16 **Domestic sectors outperform in 2024**

YTD 2024 sectoral performance (%)



Source: MSCI, Bloomberg, Standard Chartered. 2024 YTD period from 31 December 2023 to 17 December 2024

Global Equities – at a glance

Key themes

We are upgrading global equities to Overweight and expect them to outperform bonds and cash. **US equities are the catalysts for the upgrade**. We remain **Overweight US equities** as likely expansionary policies following recent elections, such as potential tax cuts and deregulation, add fresh impetus for US companies, on top of accelerating earnings growth.

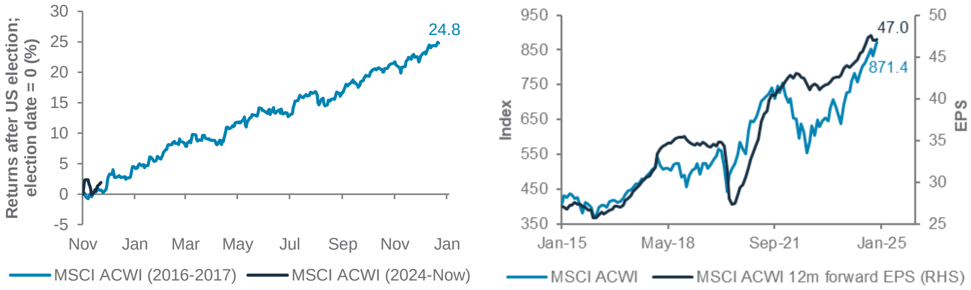
We are **Underweight Europe ex-UK equities** amid a deteriorating earnings outlook and Trump's threat of tariffs, despite cheap valuations. **We see UK equities as a core holding (Neutral)** with an attractive dividend yield and valuation discount. UK equities offer a defensive sector composition, but the lack of growth sectors could limit outperformance.

Japan equities are a core holding (Neutral). We are encouraged by improving share buybacks and the reflationary environment, although they remain vulnerable to swings in the yen carry trade. **Asia ex-Japan equities are a core holding (Neutral)**. The region's projected EPS growth remains elevated at 12.5% in 2025. China, facing deflationary pressures, is likely to try and offset US import curbs with higher exports to non-US markets and increased stimulus to boost domestic demand.

Key chart

Fig. 17 **US equities likely to propel global equities higher, as it did in the first 12 months under Trump 1.0, boosted by strong fundamentals including robust earnings**

Performance of global equities in first 12 months under Trump 1.0; Performance and 12m forward EPS of global equities since 2015



Source: FactSet, Bloomberg, Standard Chartered

*Table below: Prefer China onshore over offshore; Upgraded ASEAN to Neutral

Preference order	The bullish case	The bearish case
US equities ▽ ◇ ▲	+ Tailwinds from a soft-landing scenario + Technology sector propelling performance + Earnings to benefit from tax cuts	– Overconcentration on 'Magnificent 7' stocks – Expensive valuations. Elevated positioning – Fears of resurgent inflation
Asia ex-Japan equities ▽ ◆ △	+ China's fiscal and monetary stimulus + India attractive after pullback + Attractive valuations; Low positioning	– Structural issues; e.g. China properties – Likely tariffs imposed by the US and Europe – Strong USD
Within AxJ	India ▲ China* ◆ Taiwan ◆	ASEAN* ◆ South Korea ▼
UK equities ▽ ◆ △	+ High dividend yield; cheap valuations + Relatively defensive sectors + Relatively unaffected by Trump 2.0	– Wage growth to slow as unemployment rises – Cooling consumer confidence – Low exposure to growth sectors
Japan equities ▽ ◆ △	+ Rising share buybacks and dividends + Rising ROE from corporate reforms + Further improvement in earnings outlook	– Political uncertainty – Rebound in JPY to hurt company earnings – Exposed to global cyclical slowdown, tariffs
Europe ex-UK equities ▼ ◇ △	+ Improving corporate margins + Attractive valuations + Loosening ECB policies	– China stimulus uncertainties – Increasing geopolitical tensions, US tariffs – Slump in economic sentiment

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

FX and commodities – at a glance

Key themes

We expect the INR to trade with a modest depreciating bias to 85.5/USD over a 12-month time horizon. Improving economic growth, attractive real yields, stable balance of payments outlook supported by India's inclusion in global bond index, softer commodity prices, strong RBI FX-reserves are key factors supportive of the INR. However, slowing FDI flows, weak manufacturing export growth amid slowing global demand and narrowing policy rate differential with the US are likely to pressurize the INR**.**

We expect a rangebound USD over the next 3 months, with a bearish bias over 12 months. The key drivers likely to shape the USD outlook in 2025 are the following: (i) US tax policies, (ii) US tariff policies and global trade dynamics, and (iii) US versus Euro area rates. Although pro-growth and protectionist policy expectations from Trump's election win and higher US bond yields have pushed the USD index (DXY) higher, we expect it to stay around the current level of 106 over the next 1-3 months. Trump's nomination of Scott Bessent as Treasury Secretary suggests his non-inflationary growth agenda is likely to partly offset Trump's more inflationary trade and immigration policies, leaving the greenback rangebound over the longer term.

We expect gold to rise to USD 2,900/oz over the next 12 months. Continued robust demand from central banks remains a key driver of our view. While this may have slowed to some degree in late 2024 because of a sharp rise in gold prices (which indicates central banks are not entirely price-insensitive), we expect demand to rebound on pullbacks in the gold price. Lower bond yields or safe-haven demand are likely to pose upside risks to prices, while reduced geopolitical risks or rising bond yields would pose downside risks.

WTI oil prices are expected to ease further to USD 65/bbl over the next 12 months. Worries about excess supply underpin our view on oil. We expect global crude oil supply to remain high relative to demand, Saudi Arabia and the UAE to retain significant spare capacity and Trump's proposed energy policies to focus on increasing US oil and gas supply. Demand expectations remain weak, with Chinese demand being weaker than expected in 2024. On balance, this backdrop is likely to lead to surplus capacity in 2025, keeping downward pressure on prices. A significant improvement in US or China economic growth would be an upside risk, while any shift in OPEC+ output policy towards defending market share is a downside risk.

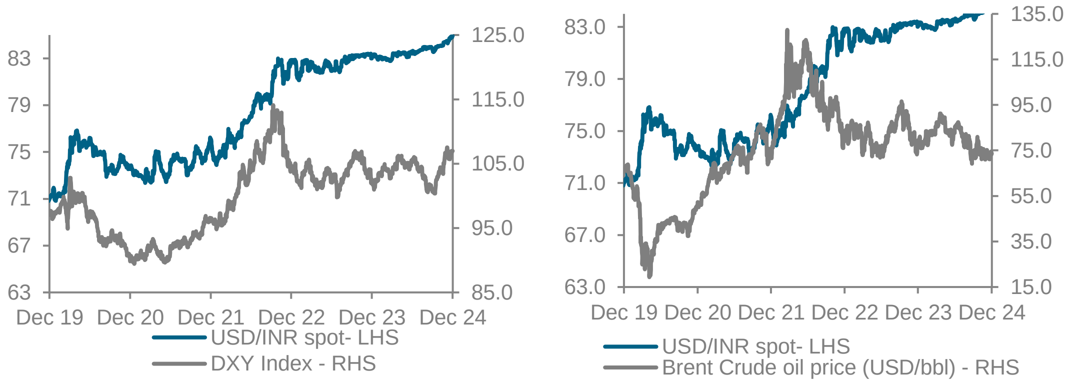
Key chart

Improving domestic growth, high real yield, improving balance of payments and high FX-reserves to off-set weakness in exports and lower interest rates differential.

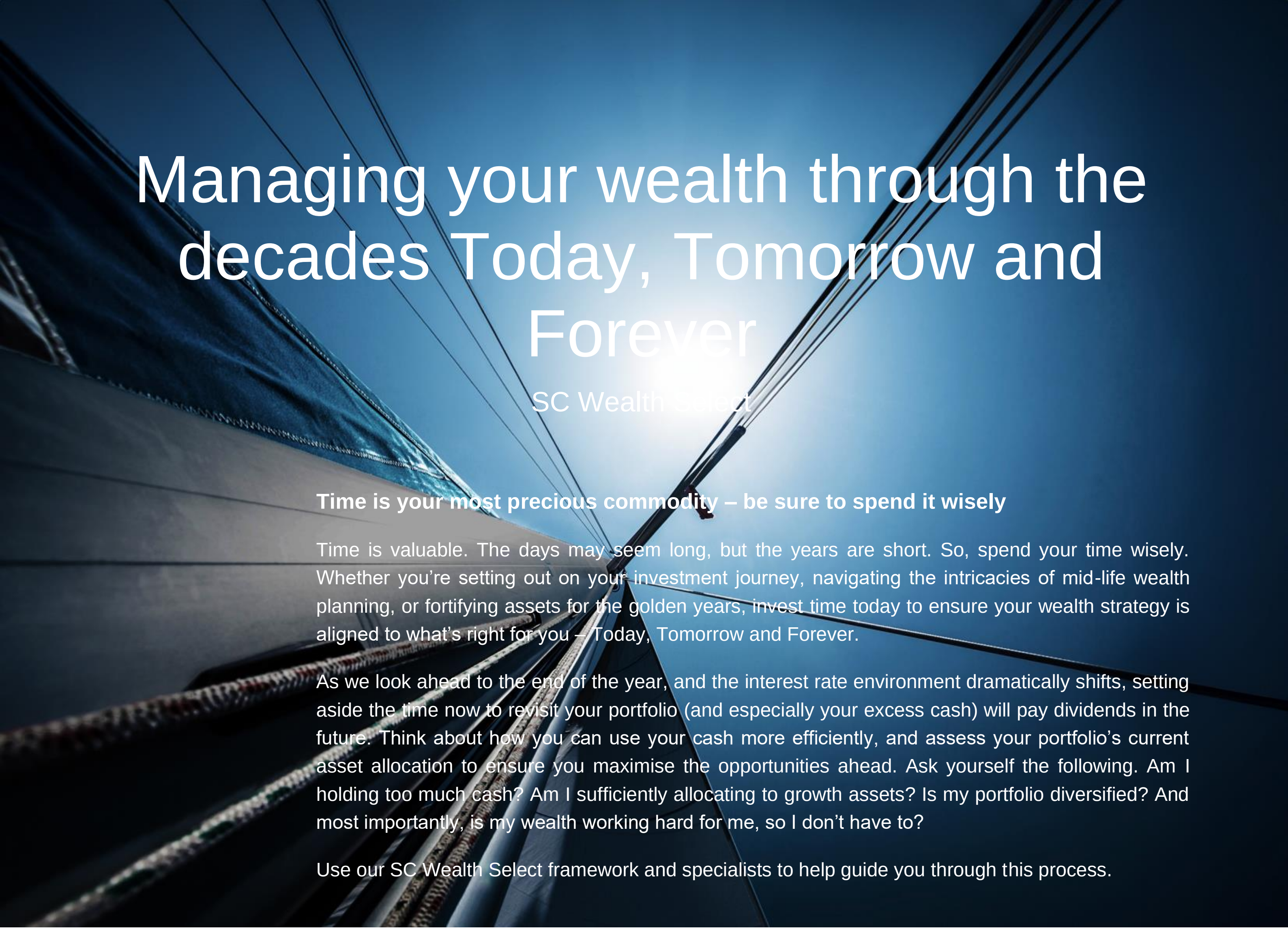
Fig. 18 **Strong macro fundamentals and a modestly weaker USD is supportive of the INR**

LHS chart: USD/INR Spot -LHS and DXY Index – RHS

RHS chart: USD/INR Spot -LHS and Brent Crude oil price (USD/bbl) – RHS



Source: Bloomberg, Standard Chartered



Managing your wealth through the decades Today, Tomorrow and Forever

SC Wealth Select

Time is your most precious commodity – be sure to spend it wisely

Time is valuable. The days may seem long, but the years are short. So, spend your time wisely. Whether you're setting out on your investment journey, navigating the intricacies of mid-life wealth planning, or fortifying assets for the golden years, invest time today to ensure your wealth strategy is aligned to what's right for you – Today, Tomorrow and Forever.

As we look ahead to the end of the year, and the interest rate environment dramatically shifts, setting aside the time now to revisit your portfolio (and especially your excess cash) will pay dividends in the future. Think about how you can use your cash more efficiently, and assess your portfolio's current asset allocation to ensure you maximise the opportunities ahead. Ask yourself the following. Am I holding too much cash? Am I sufficiently allocating to growth assets? Is my portfolio diversified? And most importantly, is my wealth working hard for me, so I don't have to?

Use our SC Wealth Select framework and specialists to help guide you through this process.

Purpose

Today, Tomorrow, Forever

Our approach to wealth is built on your vision of Today, Tomorrow and Forever for yourself, your family and beyond. As you move through life, your needs, life goals and preferences change. However, at every stage, clearly defined goals help to anchor your investment decisions.

Using a 'Today, Tomorrow and Forever' approach, we distinguish your wealth assets intended to be used in the near term (Today) from your wealth assets that are to be used over decades (Tomorrow and Forever). This allows your investments to be segmented into different strategies that can help you meet your short- and long-term goals.

'Today, Tomorrow and Forever' planning is unique to you. Our specialist's partner with you to build well-diversified, long-term Foundation allocations, aligned to your Today, Tomorrow, Forever needs. Opportunistic ideas are added to capture short term opportunities, as well as sufficient protection included to address you and your family's objectives.

Today, Tomorrow, Forever Approach

Planning for Today

Requires ensuring liquidity and income flows take centre stage.

Securing Tomorrow

Entails a well-diversified investment and protection strategies with a focus on growth, while ensuring inflation is accounted for and risks are mitigated.

Building for Forever

Involves greater focus on long-term returns given the time horizon of your investments can be measured in decades, and might also include business interests, real estate, collectibles, or charitable funds.

Principles

that stand the test of time

Adhering to time-tested Principles, to ensure your investment decisions remain robust and consistently applied, is paramount to your success Today, Tomorrow and Forever. We use five Wealth Principles to guide and guardrail your wealth decisions.

Discipline – Ensure consistency and prudence over your emotions

- Reacting to emotions such as optimism and fear can lead to poor investment decisions at the worst times.
- Have a plan and stick to it – this helps you to stay focused on the bigger picture.

Diversification – Simply put, don't put all your eggs in one basket

- Reduce risk by holding a variety of financial assets. Multi-asset diversification in your Foundation portfolio is important.
- As a guide, make sure your portfolio contains a variety of asset classes and investments that have low correlation with one another.

Time in the Market – A more robust strategy than timing the market

- Predicting market selloffs is challenging, and timing your exit and re-entry is difficult
- Missing out on the best performing days of a market can have a significantly detrimental impact on your investments.
- 'Time in the market' and buying the market with a longer-term view provide more consistent returns that can ride out bumps along the way.

Risk and Return – Make sure the risk is worth the return

- To achieve higher investment returns, you will likely have to accept a greater level of risk in your investments.
- Therefore, it's important to understand the risks and manage these on an ongoing basis

Protection – Don't let the unexpected catch you unprepared

- Even though you may feel healthy, or financially stable now, protection offers the ability to overcome times of financial uncertainty and mitigate the long-term impact of unforeseen events on your wealth
- A good protection plan not only safeguards your wealth today, but also considers the value of your future earnings over your lifetime, in today's terms

Process

Following a holistic approach to managing your wealth

We follow a rigorous process to ensure your needs and objectives are well-understood, and your investments aligned and managed to deliver on these objectives.

However, markets constantly evolve and your needs change. Hence, we encourage you to undertake regular reviews to ensure your investments remains aligned to your Today, Tomorrow and Forever objectives. This proactive approach includes strategic rebalancing based on insights from our Chief Investment Office.

Learn more

Scan the QR code below to learn more about our SC Wealth Select approach to growing, managing and protecting your wealth.

The five-step process

Showcase
Learn how our SC Wealth Select framework can help you

Discover
Let us understand your needs, preferences and goals better

Propose
We'll help you construct a Foundation allocation, with Opportunistic overlays

Implement
Allow us to implement your investments seamlessly and efficiently

Monitor and review
Be sure to regularly review and rebalance your investments

Foundation: Asset allocation summary

Summary			View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cash			▼	18.3	3.3	3.1	3.0	0.0
Fixed Income			◆	56.6	50.6	35.4	21.3	12.5
Equity			▲	19.9	41.5	57.0	71.4	83.3
Commodities			◆	5.1	4.6	4.4	4.3	4.2
Level 1	**Level 2**	**Level 3**						
Cash & Cash Equivalents			▼	18.3	3.3	3.1	3.0	0.0
Fixed Income	Short-term Bonds		◆	38.9	29.8	23.2	13.5	7.8
	Mid/Long-term Bonds		▲	17.8	20.8	12.2	7.8	4.7
Equity	DM Equity		▲	3.8	6.8	9.8	12.6	14.9
	Asia Ex-Japan / Other EM Equity		◆	2.2	3.8	5.5	7.1	8.5
	Indian Equities	Large-cap equities	▲	10.9	24.3	32.7	40.6	47.1
	▲	Mid/small-cap equities	◆	3.0	6.6	9.0	11.1	12.9
Commodities (INR Gold)			◆	5.1	4.6	4.4	4.3	4.2
				100	**100**	**100**	**100**	**100**

▼ Underweight ◆ Neutral ▲ Overweight

Source: Bloomberg, Standard Chartered

All INR converted exposure. For illustrative purposes only. Please refer to the disclosure appendix at the end of the document

Performance of our calls

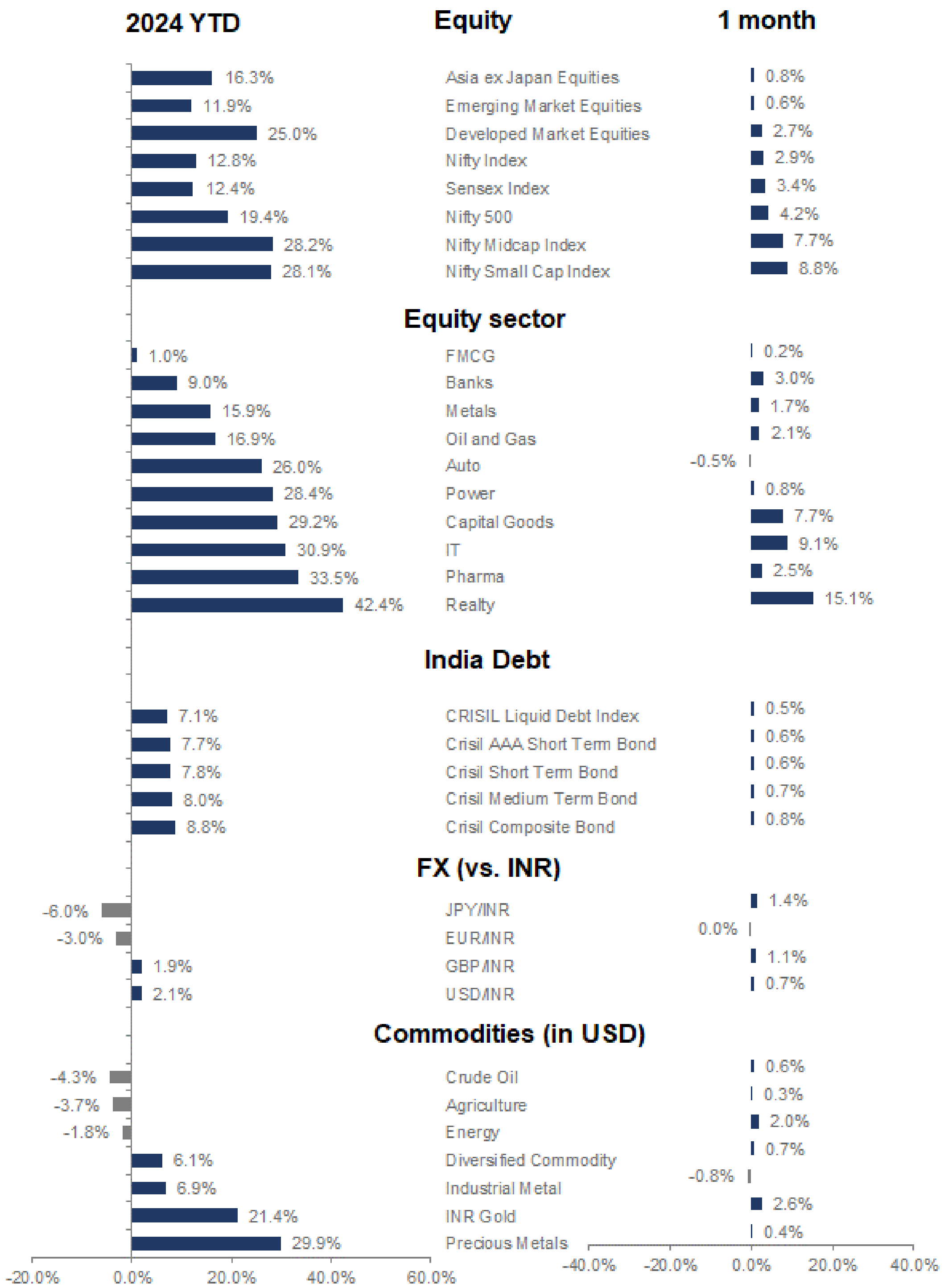
	Closed calls	Open date	Close date	Absolute	Relative
Bonds	Indian mid- and long-maturity bonds to outperform short-maturity bonds	18-Dec-23			✓
	Indian corporate bonds to outperform Indian government bonds	18-Dec-23			✗
Equities	Indian equities to outperform all other asset classes	18-Dec-23	5-Jun-24		✗
	Indian large-cap equities to outperform mid-cap and small-cap equities	18-Dec-23			✗
Equity Sectors	India Industrials Sector to outperform Indian Equities	18-Dec-23			✓
	India Consumer Discretionary to outperform Indian Equities	18-Dec-23	8-Jul-24		✓
	India Healthcare Sector to outperform Indian Equities	18-Dec-23	8-Jul-24		✓
	India Financials Sector to outperform Indian Equities	8-Jul-24			✓
	India Consumer Staples Sector to outperform Indian Equities	8-Jul-24			✗
Thematic	India Value equities to outperform Indian equities	18-Dec-23	8-Jul-24		✓
	Indian Investment sectors to outperform Indian equities	18-Dec-23			✗

Source: Bloomberg, Standard Chartered. Performance measured from 18 December 2023 (release date of our 2024 Outlook) to 18 December 2024 or when the view was closed.

Legend: ✓– Correct call; ✗ – Missed call; n/a – Not Applicable.

Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.

Market performance summary*



Source: MSCI, NSE, S&P BSE, Crisil, Bloomberg, Standard Chartered
*2024 YTD period from 29 December 2023 to 18 December 2024. 1-month period from 19 November 2024 to 18 December 2024.

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