asset 360 ONE

Outlook 2025

Navigating the Rural-Urban Divide

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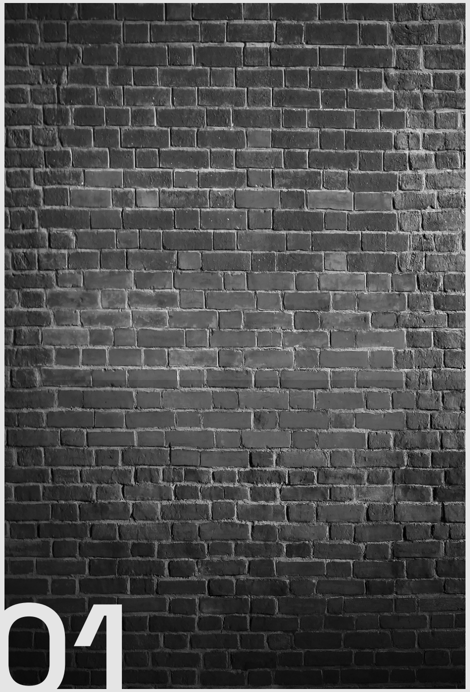

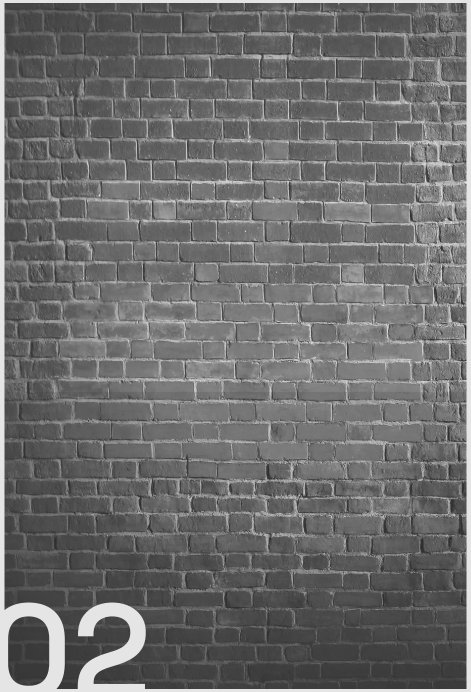

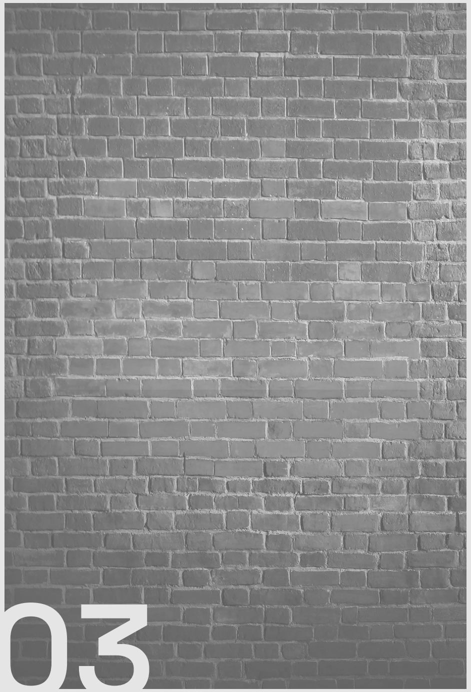

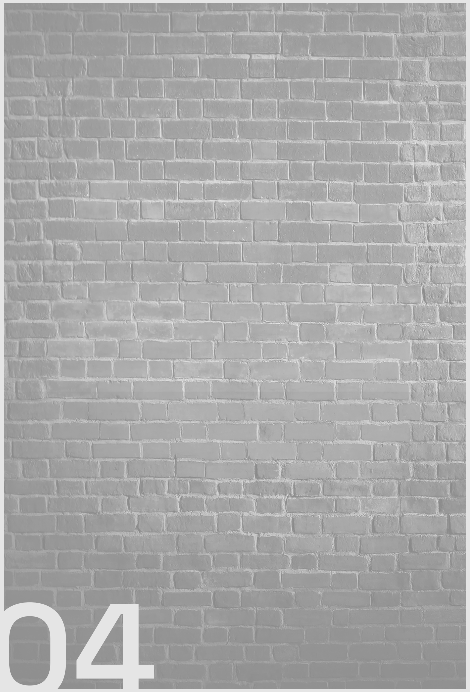

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Preface

Anup Maheshwari
Co-Founder & Chief Investment Officer
360 ONE Asset

2024 was quite an eventful year. Several key presidential and legislative elections were held, some yielding expected outcomes and others producing surprising results. Many developed market central banks shifted to monetary easing as growth faltered and inflation eased. However, the Bank of Japan's rate hikes triggered the unwinding of carry trades, increasing financial market volatility. Geopolitical conflicts remained unresolved, and climate shocks continued to impact various regions worldwide.

India achieved robust real GDP growth of 7.2% YoY in H1 2024, driving strong performance in the equity markets. However, challenges emerged in H2, with the September quarter GDP growth moderating to 5.4% YoY. Corporate earnings fell short of expectations, leading to downgrades and market corrections. A divergence emerged between rural and urban consumption trends: rural demand recovered while urban consumption slowed. Nonetheless, domestic investors supported the markets while foreign investors withdrew.

We expect 2025 to be a year of economic rebound for India, interspersed with periods of increased market volatility due to geopolitical risks, geo-economic fragmentation, and trade wars. We anticipate sustained growth in rural consumption alongside a gradual urban recovery. Food inflation is anticipated to ease, supporting consumption and creating room for the Reserve Bank of India to cut benchmark rates in 2025. The government's commitment to fiscal consolidation bodes well for the debt market. Meanwhile, the equity market may experience volatility due to elevated valuations. We recommend that investors maintain a long-term investment horizon to secure stable returns and navigate near-term fluctuations.

Macro Outlook

Economic growth slows down in H1FY25, largely driven by slowdown in manufacturing activity

YoY% / Sector	Share FY24	FY24	FY24 H1	FY24 H2	FY25 H1
Agriculture	**15%**	**1.4%**	**2.8%**	**0.5%**	**2.7%**
Industry	**22%**	**9.3%**	**9.2%**	**9.5%**	**4.7%**
Mining	2%	7.1%	8.8%	5.7%	3.9%
Manufacturing	17%	9.9%	9.6%	10.1%	4.5%
Electricity	2%	7.5%	6.8%	8.3%	6.8%
Services	**64%**	**7.9%**	**8.6%**	**7.2%**	**7.4%**
Construction	9%	9.9%	11.0%	9.1%	9.1%
Trade, Hotels, Transport, Communication	19%	6.4%	6.9%	6.0%	5.9%
Financial services, Real estate, Professional Services	23%	8.4%	9.3%	7.3%	6.9%
Public Admin, Defence & Other Services	13%	7.8%	8.0%	7.6%	9.3%
Real GVA	**100%**	**7.2%**	**8.0%**	**6.5%**	**6.2%**
Real GDP		**8.2%**	**8.2%**	**8.1%**	**6.0%**

Source: MOSPI, 360 ONE Asset Research

Agricultural growth recovers on account of a good kharif crop season

Manufacturing sector growth moderates due to a decline in the operating profit growth of listed manufacturing firms and weaker IIP manufacturing

Gross Value Added (GVA), a better indicator of growth than GDP, eases to 6.2% YoY in H1FY25 from 6.5% in H2FY24

GDP = GVA + (indirect taxes – subsidies)

Consumption growth recovers in H1 while investment loses momentum

YoY%	Share FY24	FY24	FY24 H1	FY24 H2	FY25 H1
Consumption Expenditure	**68%**	**3.8%**	**4.4%**	**3.3%**	**6.0%**
Private Consumption	58%	4.0%	4.0%	4.0%	6.7%
Government Consumption	10%	2.5%	6.2%	-0.8%	2.0%
Gross Capital Formation	**37%**	**9.4%**	**9.1%**	**15.3%**	**6.5%**
Gross Fixed Capital Formation	33%	9.0%	10.1%	8.0%	6.4%
Changes in Stocks	1%	6%	5.7%	6.2%	3.4%
Valuables	2%	21.2%	-5.8%	67.9%	9.1%
Exports	**23%**	**2.6%**	**-0.7%**	**5.9%**	**5.6%**
Less Imports	**24%**	**10.9%**	**13.3%**	**8.5%**	**0.7%**
Real GDP	**100%**	**8.2%**	**8.2%**	**8.1%**	**6.0%**

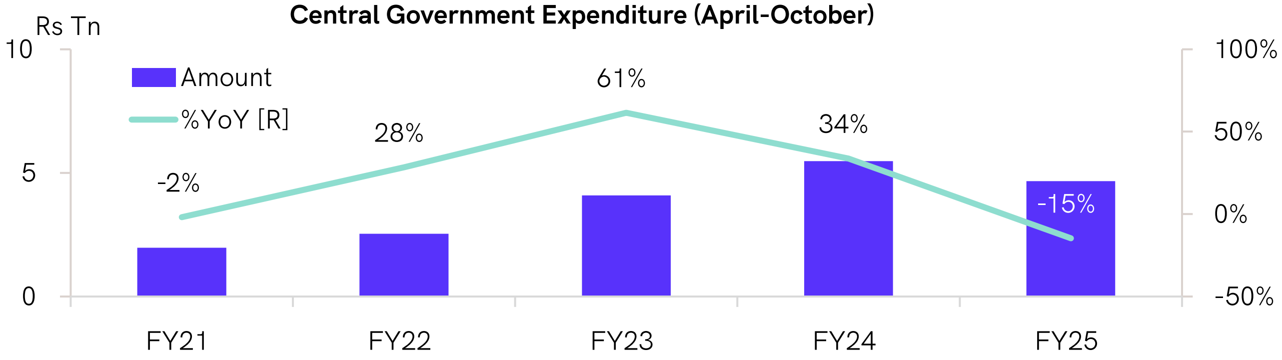
Source: MOSPI, 360 ONE Asset Research

Consumption growth recovers due to strong rural demand, while urban consumption remains subdued

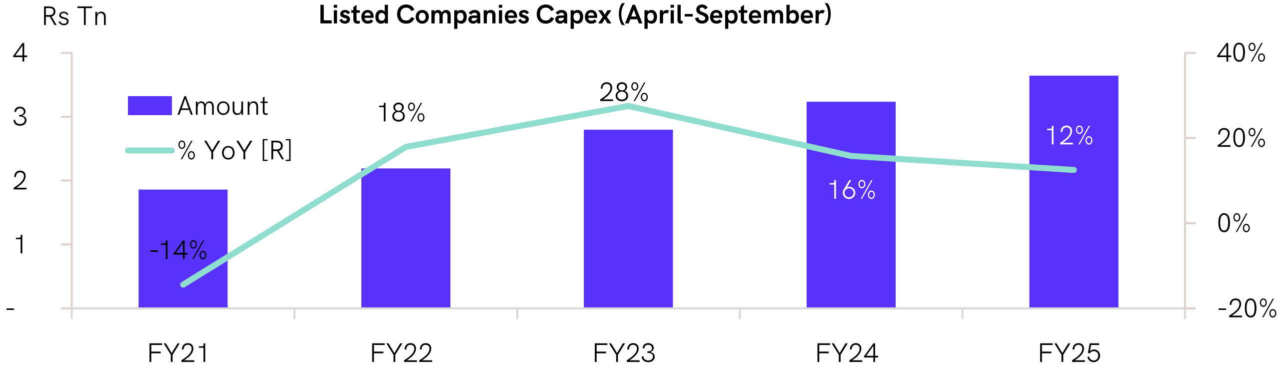
Investment growth slows due to weak central government capital expenditure

However, private capex (listed companies) continues to show steady growth

Robust private capex partially compensates for weakness in government capex



Government capex remains subdued in FY25 to date due to the general elections in Q1FY25



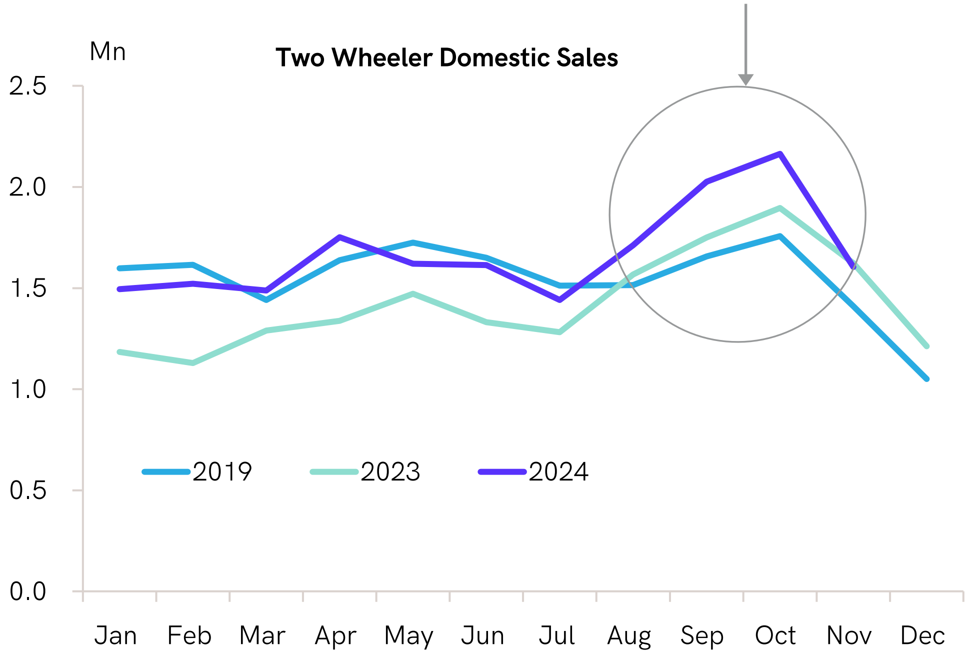
Capital expenditure by listed companies has grown by a healthy 12% YoY as of H1FY25

Source: ACE Equity, CGA, 360 ONE Asset Research

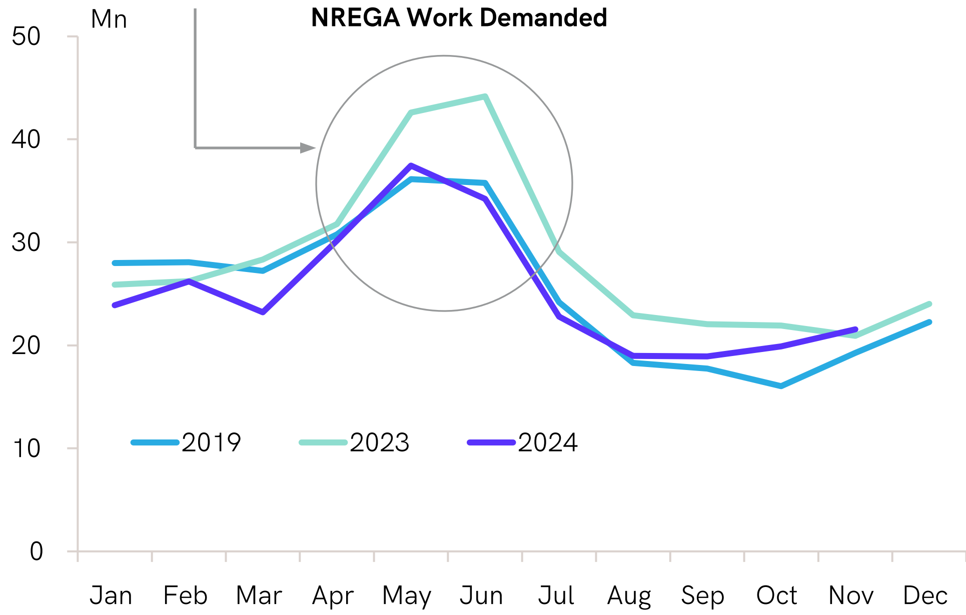
Note: Listed companies capex based on a sample of 960+ companies

The recovery in the rural sector primarily drives consumption growth

Two-wheeler sales, a key indicator of rural consumption, recovered in 2024, surpassing pre-pandemic (2019) levels from August onwards and reporting strong growth during the festive season



The demand for work under the National Rural Employment Guarantee (NREGA) was significantly lower during the peak season (April-June) in 2024 compared to the previous year, implying the availability of better-paying work elsewhere

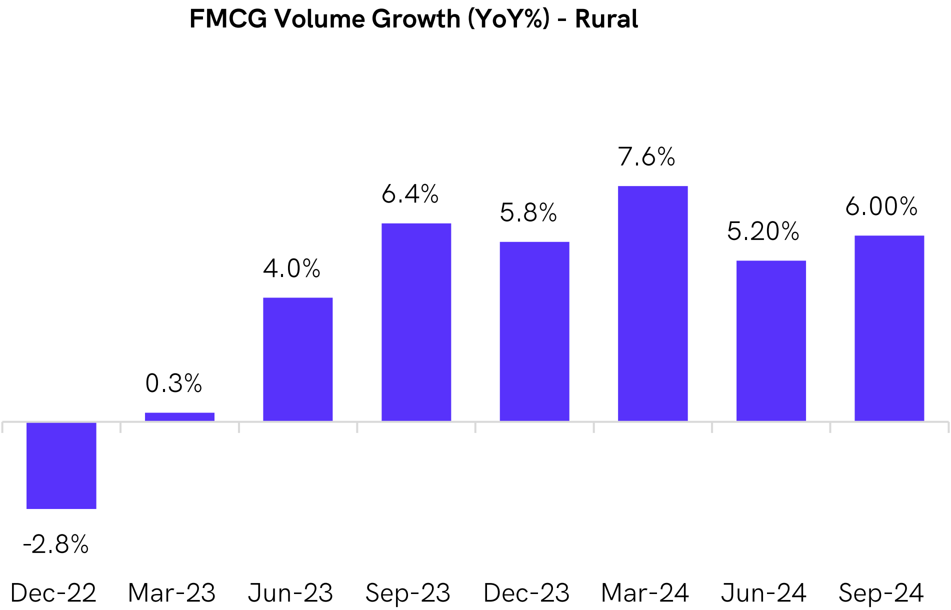


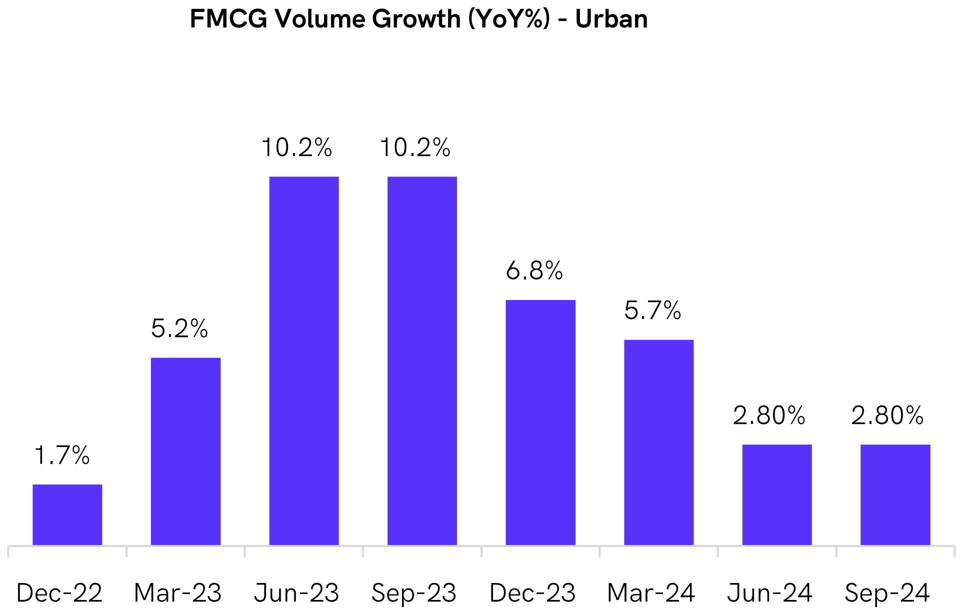
Source: CMIE, 360 ONE Asset Research

FMCG volume growth in rural regions surpasses that of urban regions

Strong rural consumption is also reflected in healthy growth in FMCG volumes in rural regions...

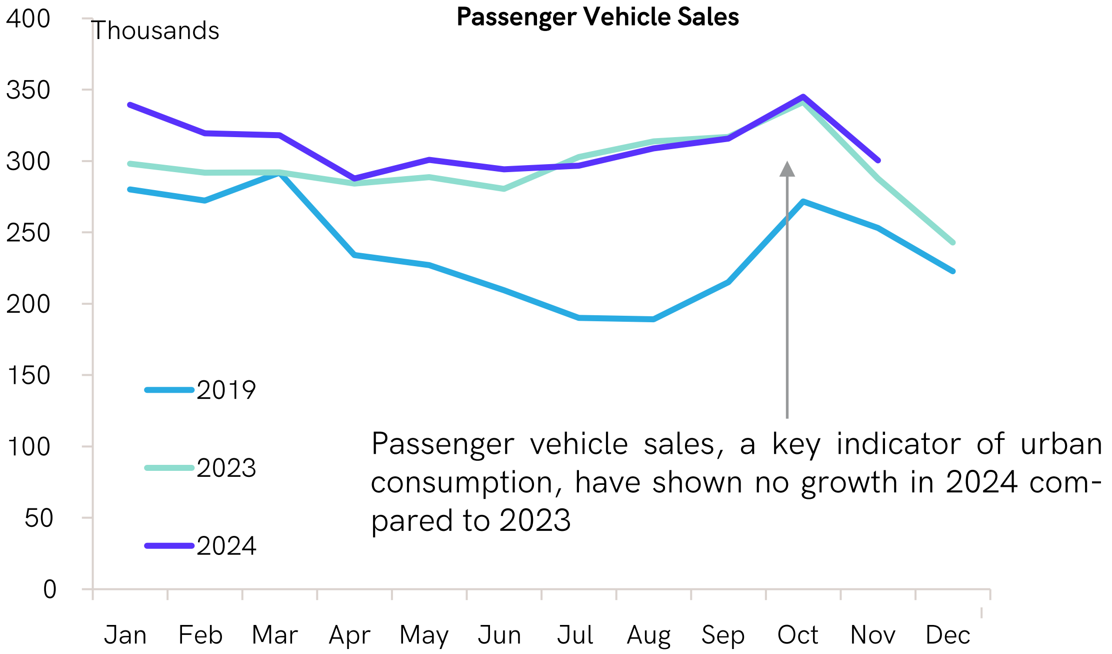
...whereas volume growth in urban regions collapsed in H1FY25





Source: NielsenIQ, News Reports, 360 ONE Asset Research

Weak passenger vehicles sales and commentary from companies also indicate subdued urban consumption



Urban areas facing strain due to sluggish demand
- A large food and beverage company

Sluggish urban consumption tempers Q2 numbers
- A leading FMCG company

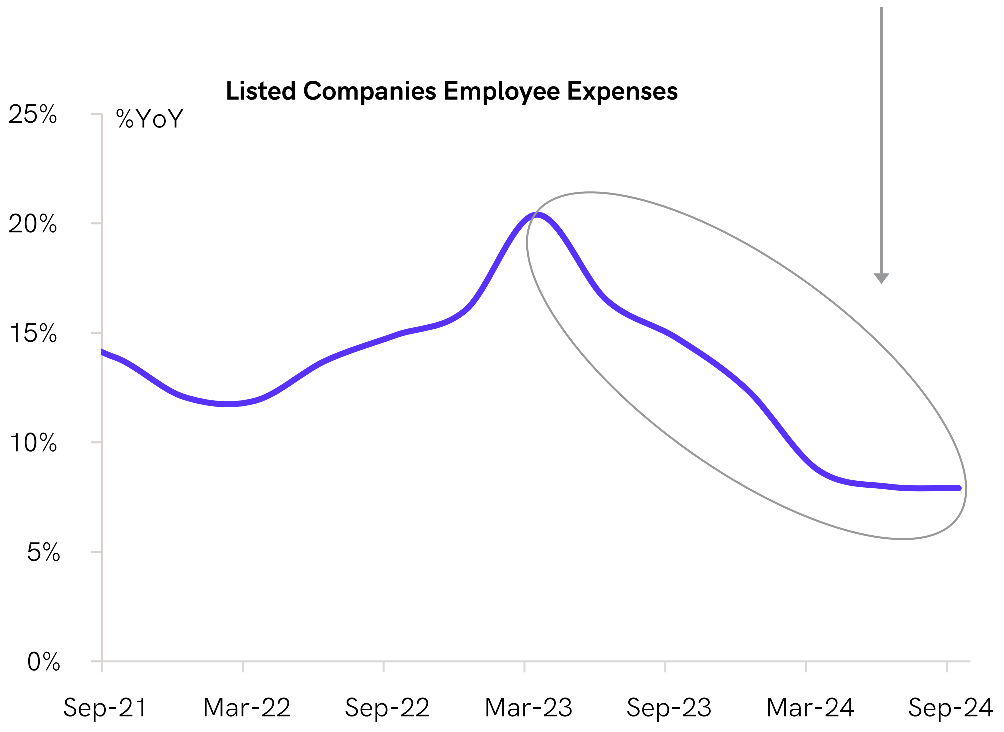
Demand environment was challenging in the September quarter marked by high food inflation and a resultant squeeze in urban demand
- An Ayurvedic & Natural Health Care Company

Rural growing at 2x the pace of urban
- A beauty and wellness company

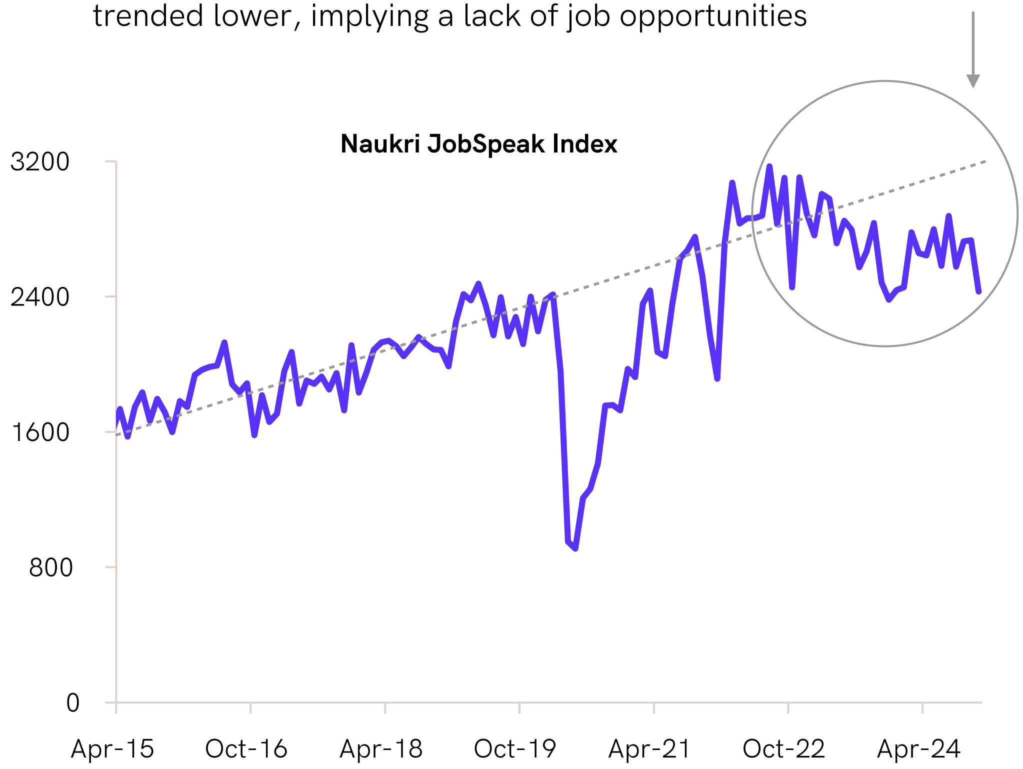
Source: CMIE, News Reports, 360 ONE Asset Research

Weak employment generation is holding back urban consumption

Employee expense growth of listed companies has moderated, implying lower hiring activity, weaker increments, or both



The Naukri JobSpeak Index, an indicator of hiring activity, has trended lower, implying a lack of job opportunities

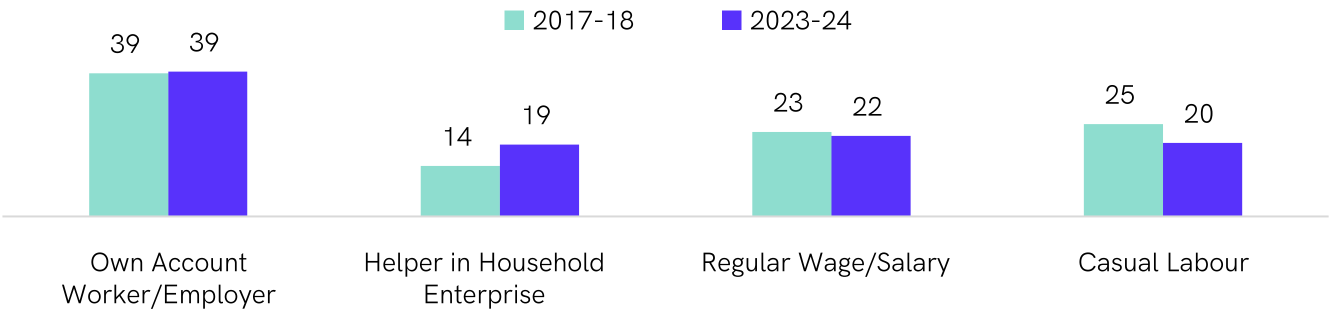


Source: ACE Equity, CMIE, 360 ONE Asset Research

Note: Listed companies' employee expenses based on a sample of 3430 companies

The quality of job creation over the past half decade has been poor

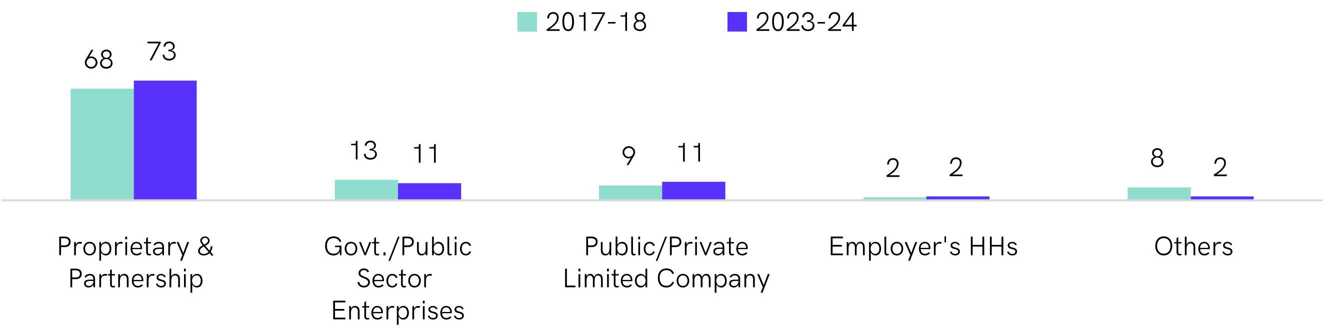
Percentage Distribution of Workers by Employment Status



The share of employers and salaried workers in the Indian workforce has remained steady since 2017-18

The share of employment has shifted from casual labor to helpers in household enterprises, both of which are characterized by low-productivity work

Percentage Distribution of Workers (Non-agriculture) by Enterprise Type



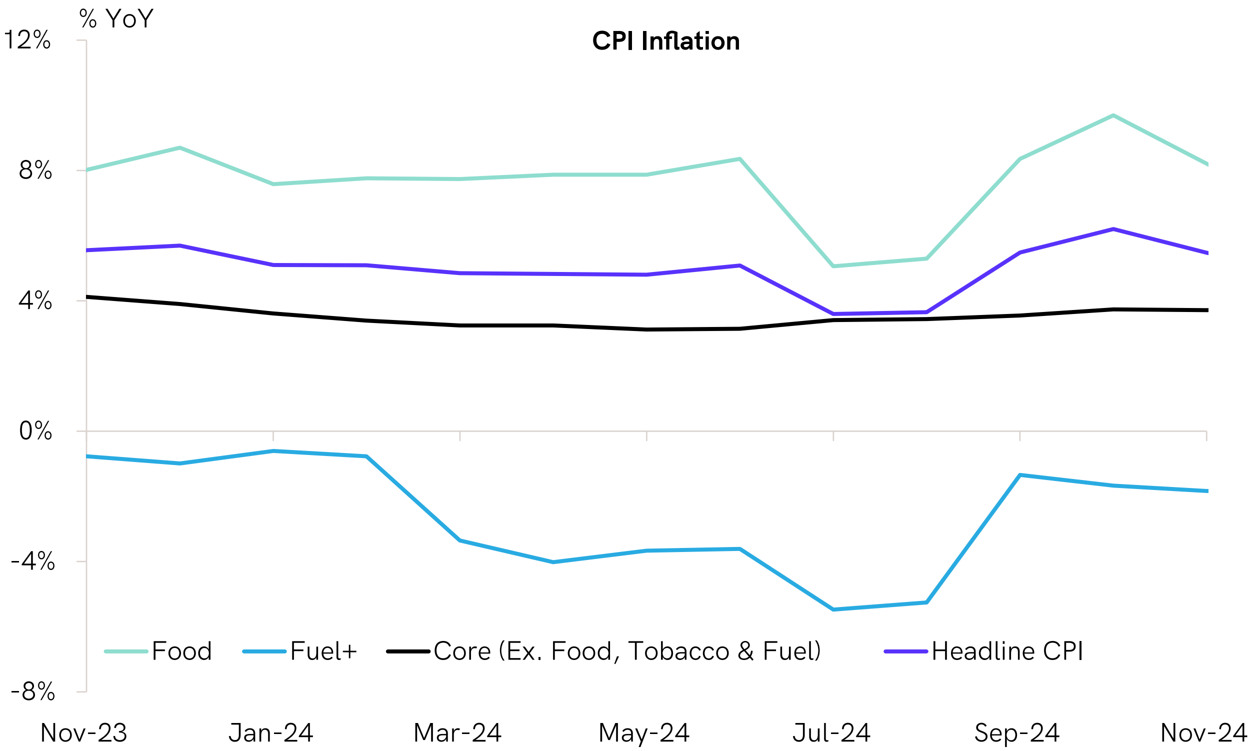
In the Periodic Labour Force Survey, proprietary and partnership enterprises are considered informal sector enterprises

By this criterion, the share of the informal sector in employment has increased from 68% in 2017-18 to 73% in 2023-24, which contrasts with the general expectation of a decline in the informal sector

Source: PLFS, 360 ONE Asset Research

Note: 2023-24 refers to the period July 2023 – June 2024, and likewise for 2022-23, 2021-22, etc.

High inflation, particularly in food products, is also restraining consumption



High food inflation is largely driven by a rise in vegetable prices; however, inflation in pulses and cereals also remains high

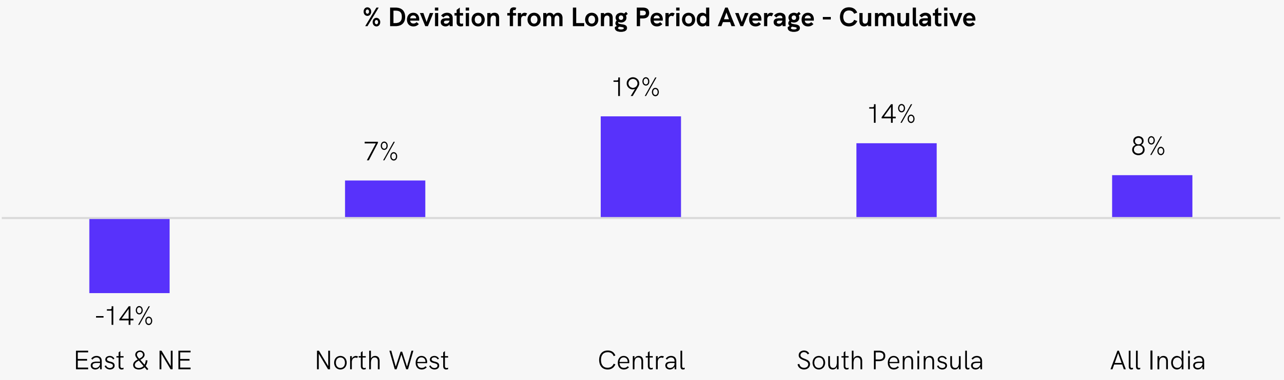
India's headline inflation remains elevated, staying above the 4% target due to higher food inflation

Core inflation has stayed benign, remaining below 4% since December 2023

Fuel remains in deflation due to repeated cuts in LPG prices

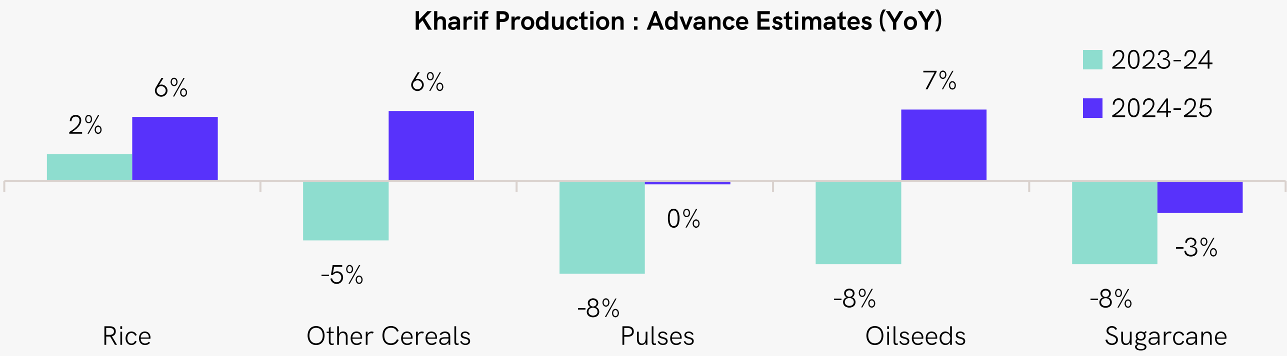
Source: MOSPI, 360 ONE Asset Research

Rural income and consumption will get a boost from healthy agricultural production



The 2024 monsoon season ended with an 8% surplus rainfall

Consequently, reservoir levels and soil moisture remain healthy, improving the prospects for good rabi production



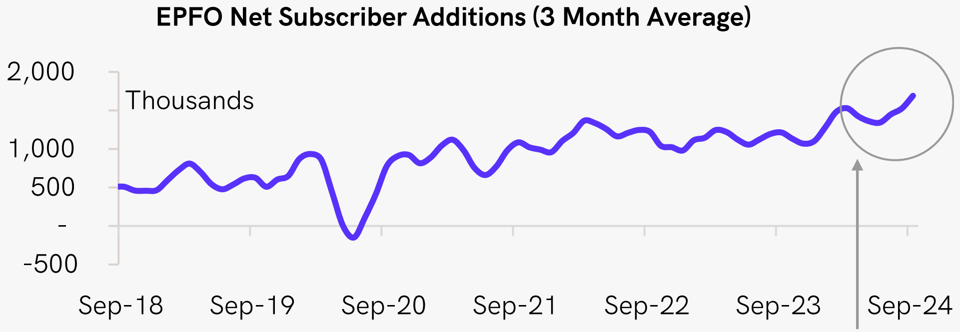
Meanwhile, advance estimates of kharif production indicate strong growth, significantly better than last year

Higher agricultural production would further improve rural consumption and uplift urban consumption by reducing food inflation

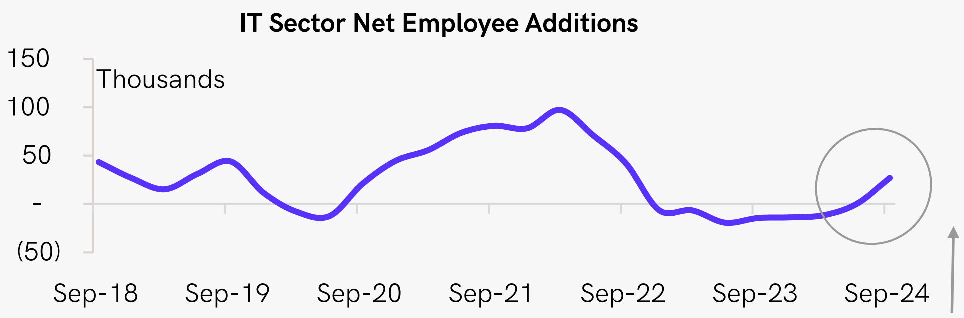
Source: IMD, CMIE, 360 ONE Asset Research

Outlook

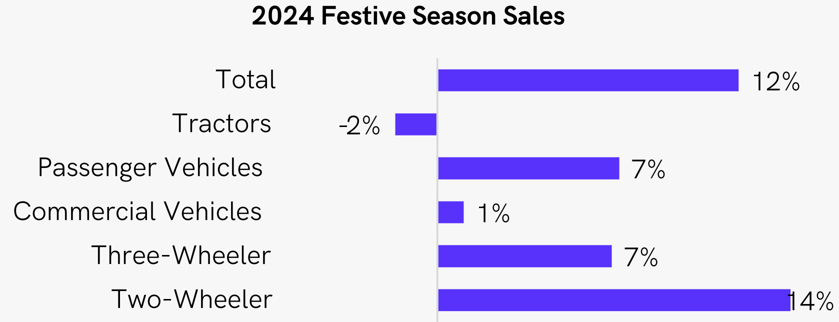
Hiring is showing early signs of recovery, suggesting a possible improvement in urban consumption



EMFO net subscriber additions have started inching up



IT sector net employee additions have also turned positive



The automobile sector witnessed impressive retail sales during the festive season, driven by strong two-wheeler sales

However, passenger vehicle sales also rebounded, exhibiting signs of recovery in urban consumption

We anticipate a gradual recovery in urban consumption from the current low levels, while rural consumption is expected to experience strong growth

Source: CMIE, FADA, Avendus Spark, 360 ONE Asset Research

Note: Sales growth was calculated for the 42-day festive period from the first day of Navratri to 15 days after Dhanteras

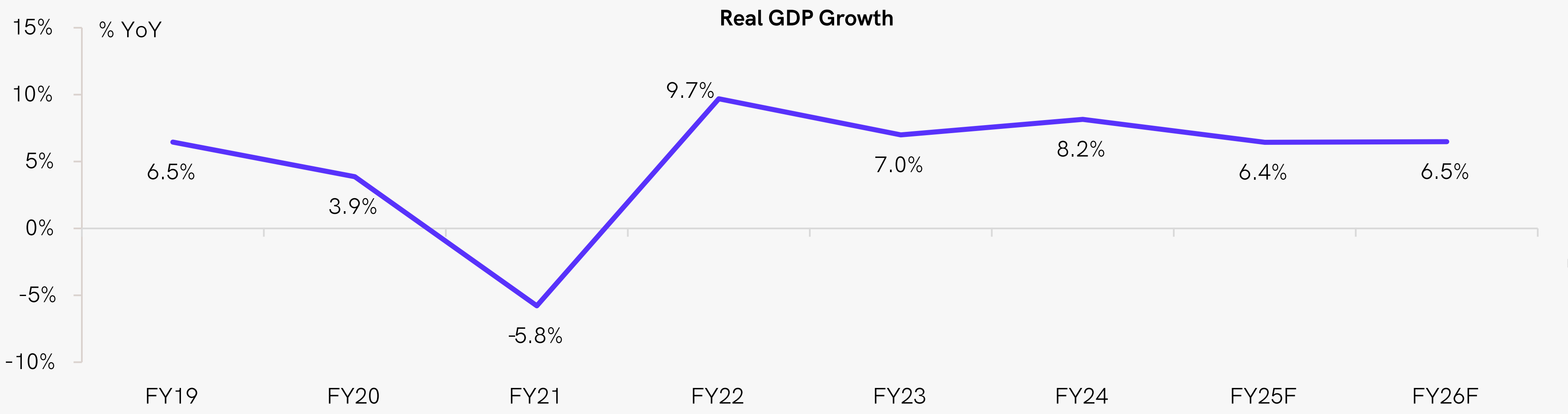
Outlook

We expect India's real GDP growth to be around 6.4 - 6.5% YoY in FY25 and FY26

We expect the real GDP growth for FY25 to be around 6.4% YoY, slightly lower than the RBI's projection of 6.6% YoY in the December 2024 policy

The real GDP growth for FY26 is expected to be around 6.5% YoY

Key risks – Anticipated recovery in consumption does not materialize due to weak employment creation
Global financial volatility escalates due to trade wars, geopolitical tensions, and other factors



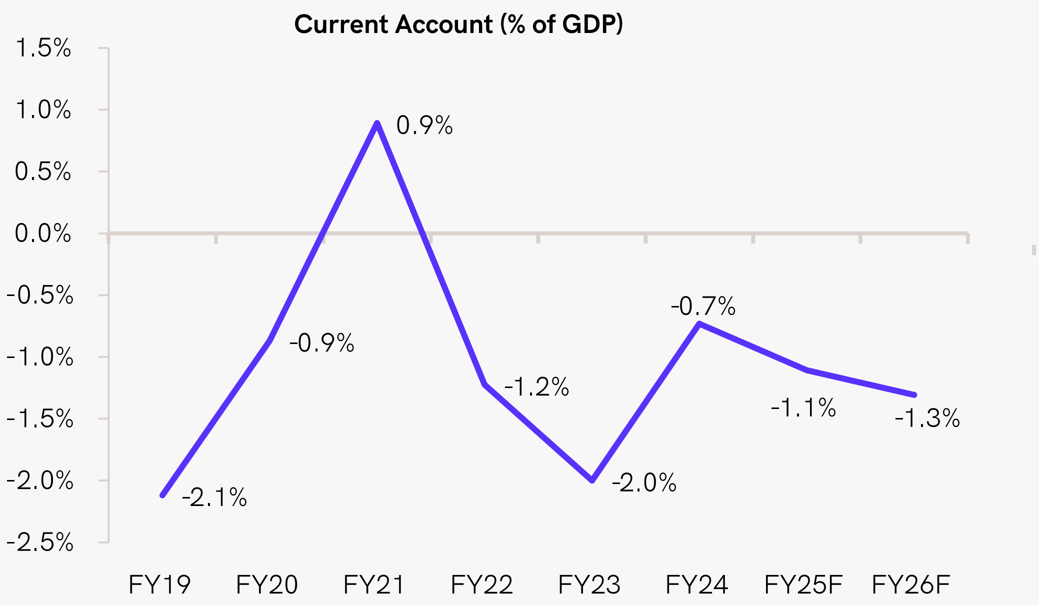
Source: MOSPI, 360 ONE Asset Research

Note: F- Forecasts

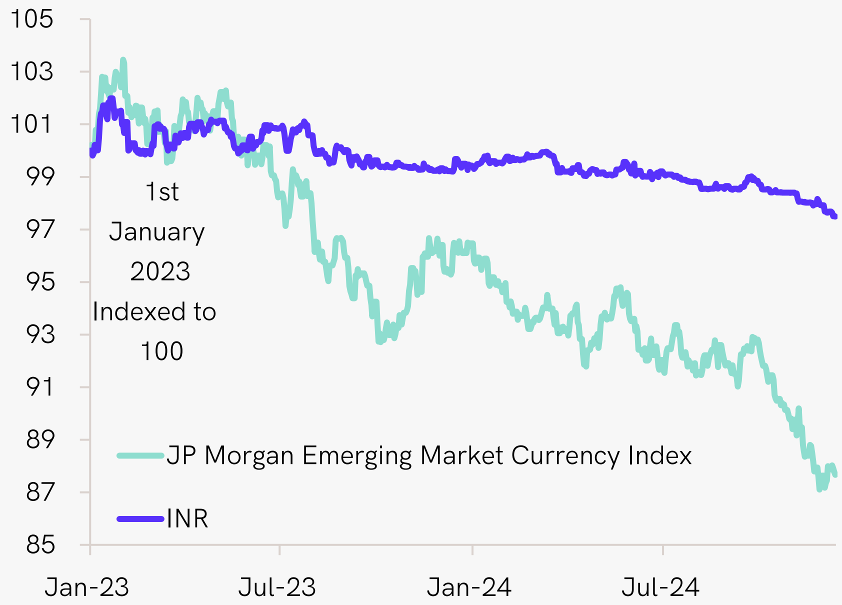
Outlook

India’s current account is expected to stay manageable; RBI to curb excess volatility in INR and ensure gradual depreciation

India's current account is expected to remain under control, assuming that crude oil prices stabilise around $75-80 per barrel



The RBI is also expected to intervene actively to curb excessive volatility in the INR while allowing the currency's gradual depreciation

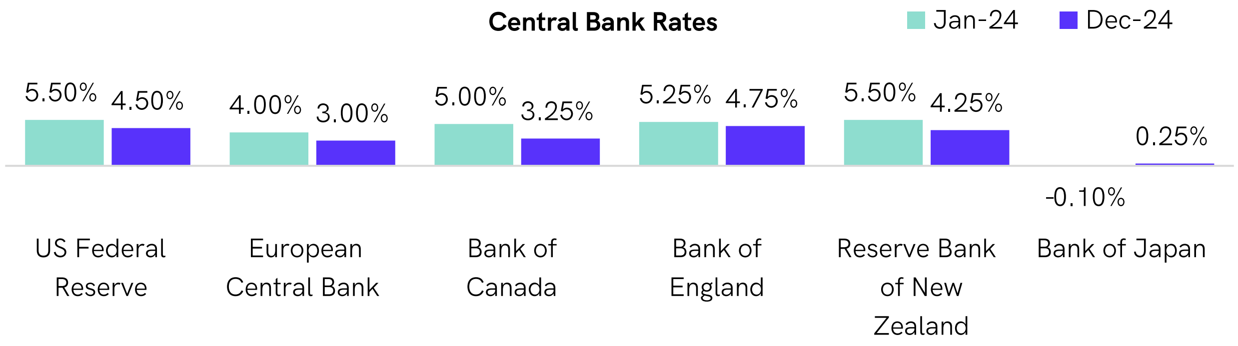


Source: RBI, Bloomberg, 360 ONE Asset Research

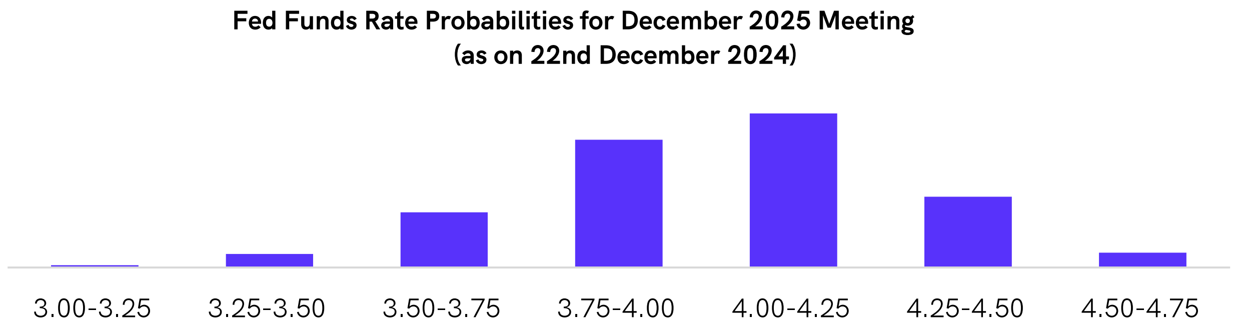
Note: F- Forecasts

Debt Outlook

Central banks are easing monetary policy as inflation cools down and growth slows



Many central banks in developed markets, with the exception of the Bank of Japan, are now easing monetary policy as inflation slowly returns to target and economic growth decelerates

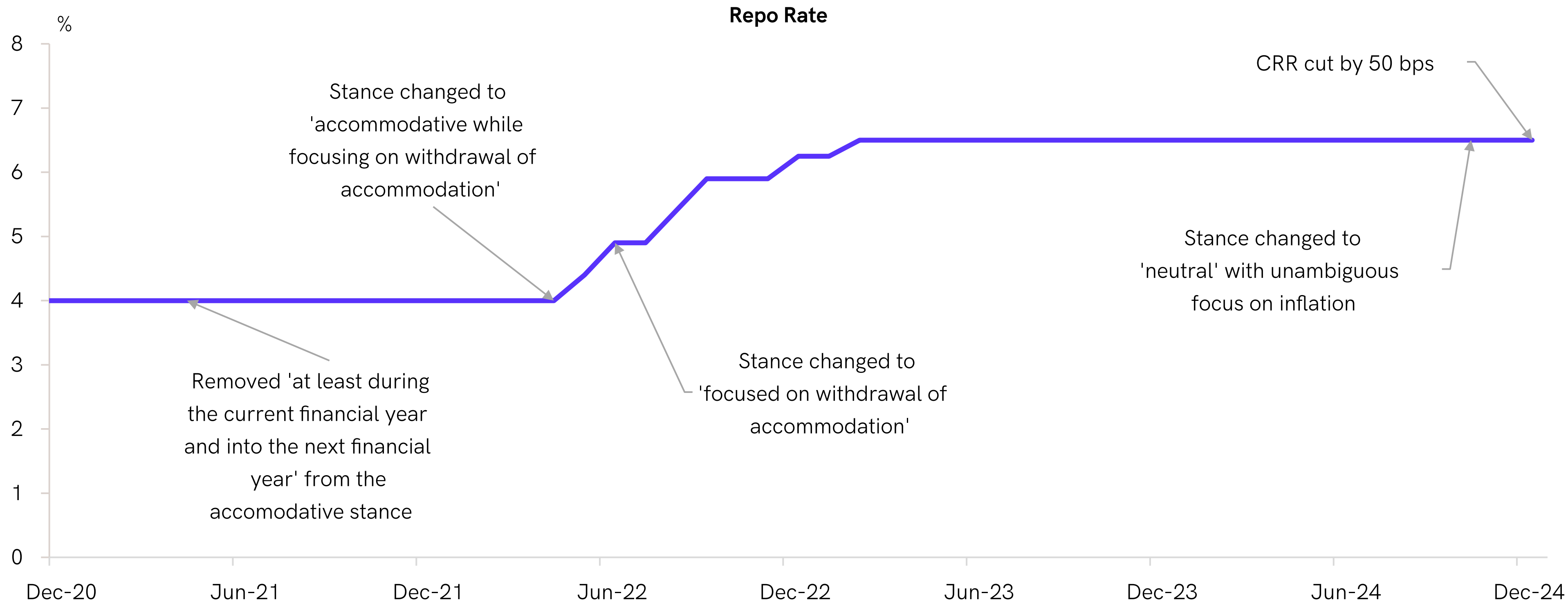


Markets expect the Fed to cut rates by another 25-50 bps by the end of 2025

Source: FedWatch, Bloomberg, 360 ONE Asset Research

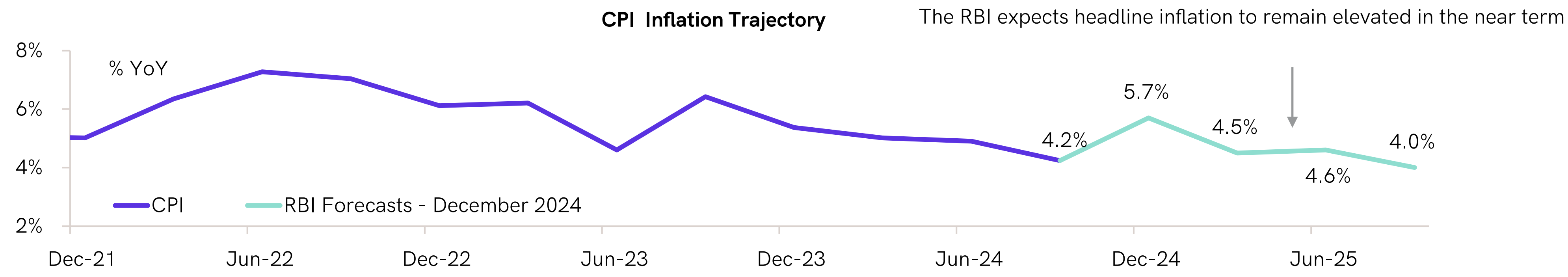
Note: The US Federal Reserve rate refers to the upper limit of the range, while the European Central Bank rate refers to the deposit facility rate. Central banks Interest rates as of 22nd December 2024

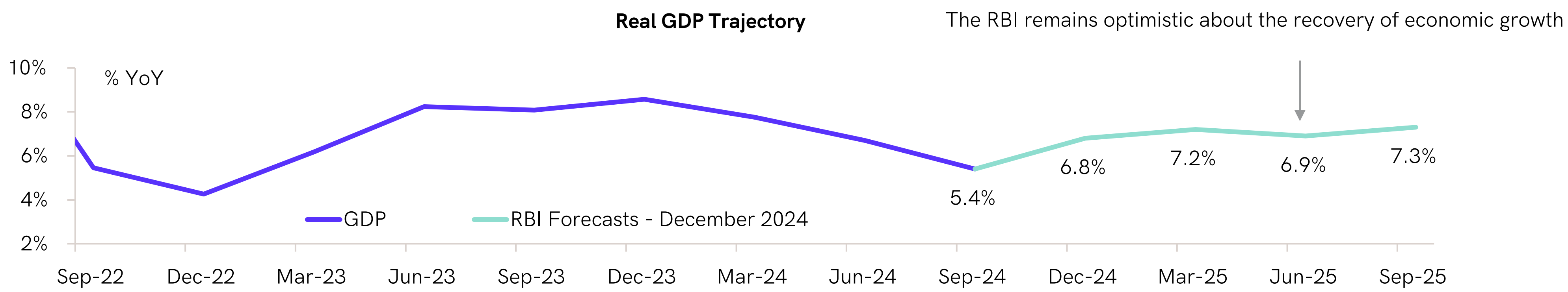
RBI keeps rates on hold but changes the policy stance to ‘neutral’ and cuts Cash Reserve Ratio (CRR) by 50 bps



Source: RBI, 360 ONE Asset Research

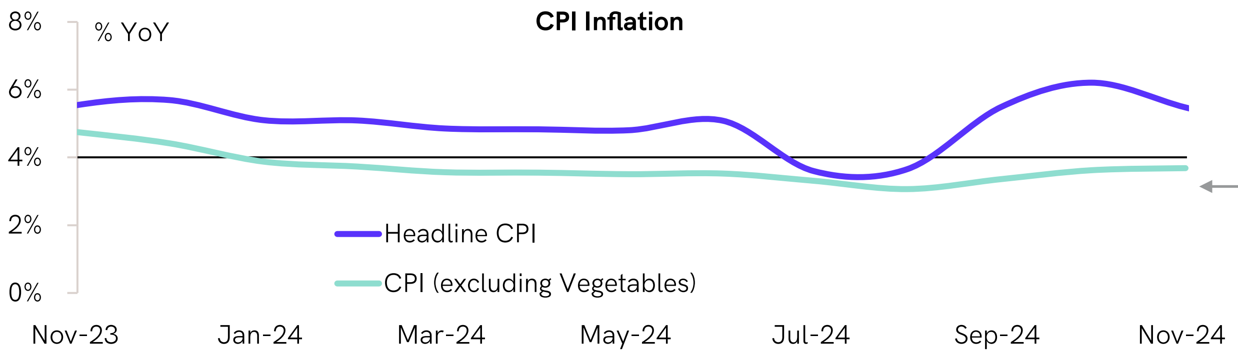
Expectation of healthy economic growth allows RBI to prioritize inflation control



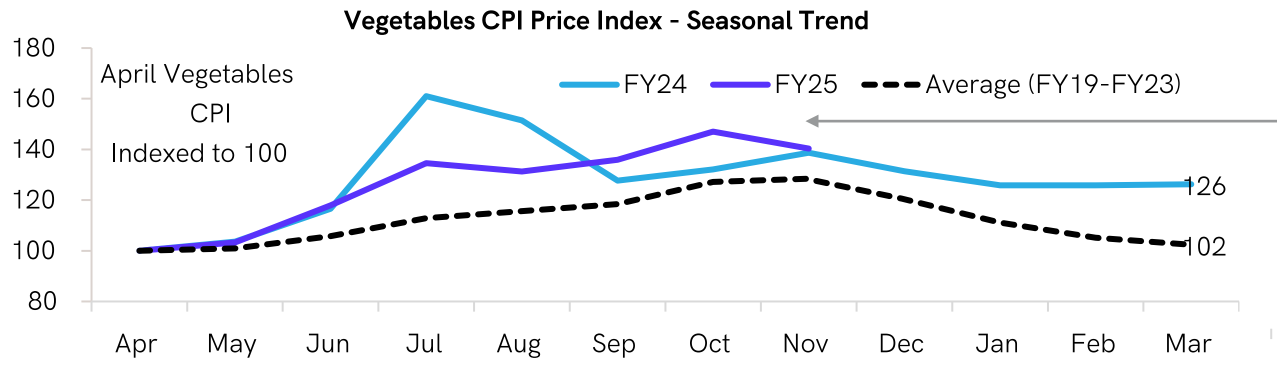


Source: RBI, 360 ONE Asset Research

Vegetables are the primary contributor to elevated headline inflation



CPI (ex vegetables) has been below the 4% target since December 2023



Vegetable prices have exceeded typical seasonal trends since last year

We anticipate a significant correction in vegetable prices going forward, which will help bring headline inflation lower

Source: MOSPI, 360 ONE Asset Research

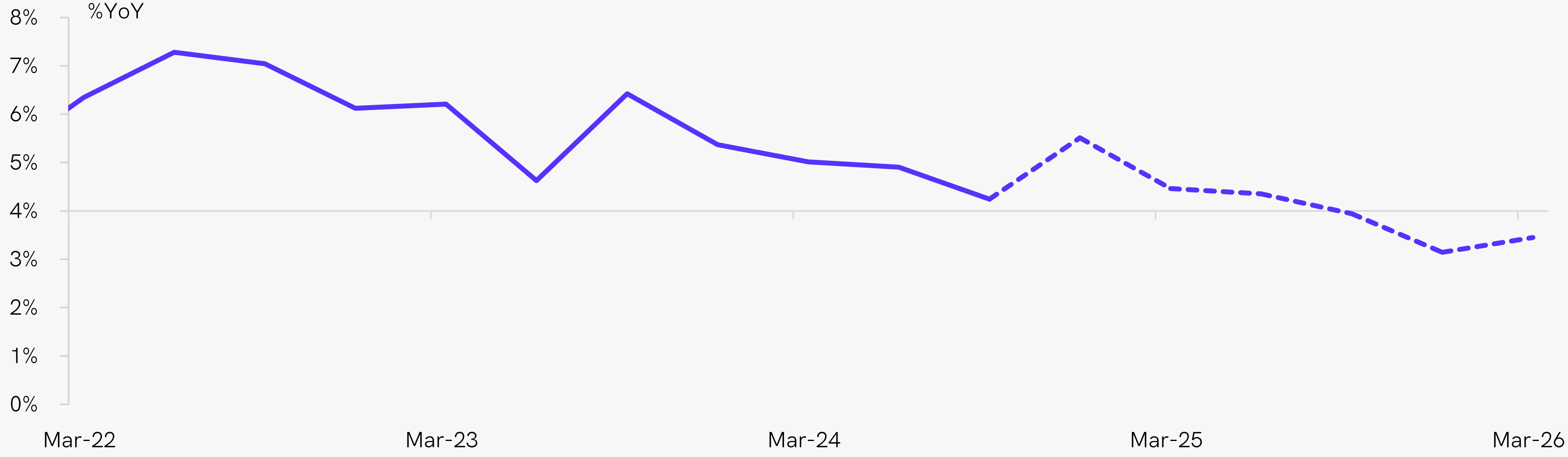
Outlook

We expect inflation to sustainably achieve the 4% target by H2FY26

We expect the RBI to initiate the rate cut cycle from February 2025 policy, as the inflation outlook is expected to improve, while growth conditions may remain weak

Key risks – Unfavorable climatic conditions keep food prices elevated
Core inflation inches up due to additional mobile tariff hikes or a greater-than-expected increase in gold prices

CPI Inflation

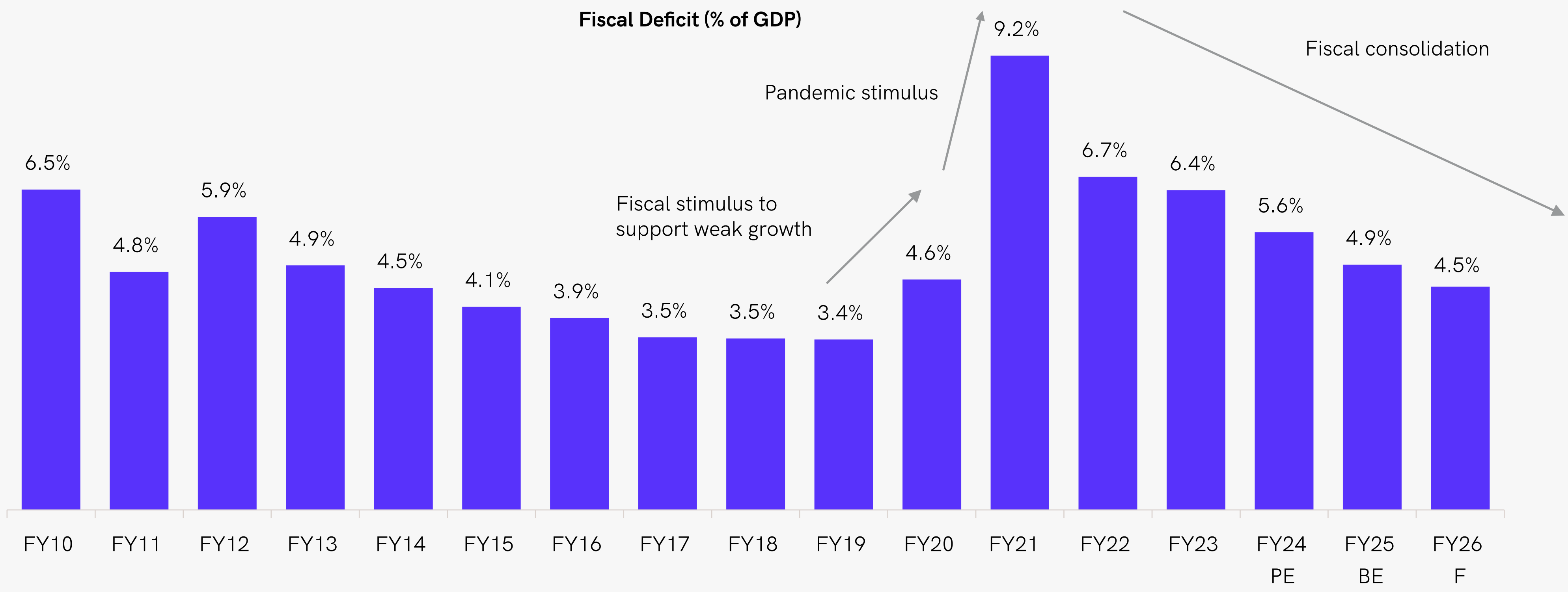


Source: MOSPI, 360 ONE Asset Research

Note: The dashed line signifies internal forecasts

Outlook

We expect budget to remain on the fiscal consolidation path

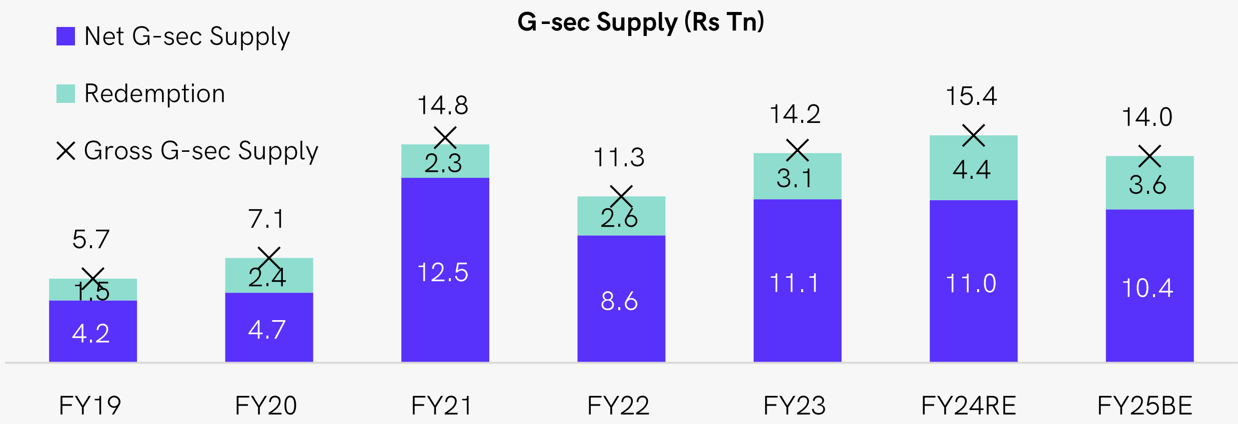


Source: Budget Documents, CMIE, 360 ONE Asset Research

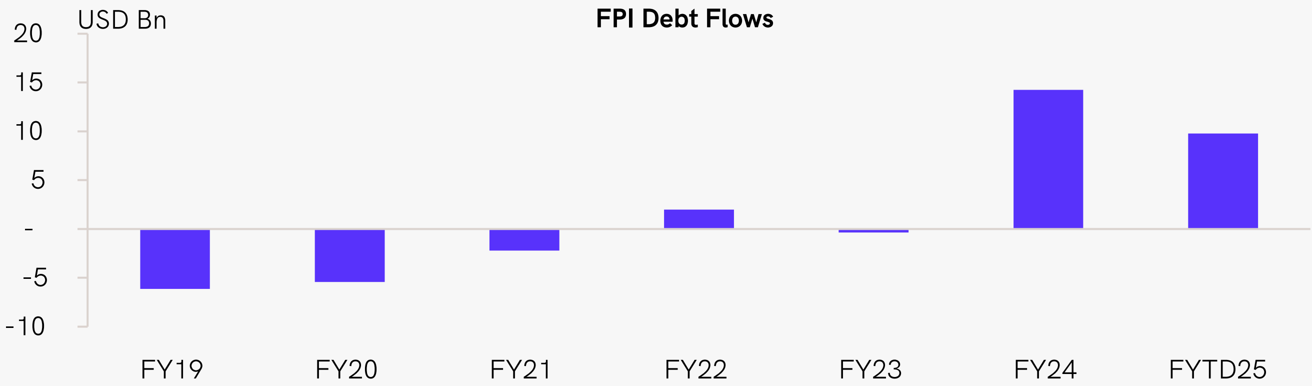
Note: PE – Provisional Estimates, BE – Budget Estimates, F - Forecast

Outlook

G-sec supply-demand dynamics to remain favorable



We do not foresee a sharp increase in the supply of government securities as the government is expected to remain on the fiscal consolidation path



Demand conditions should also remain favorable on account of FPI inflows

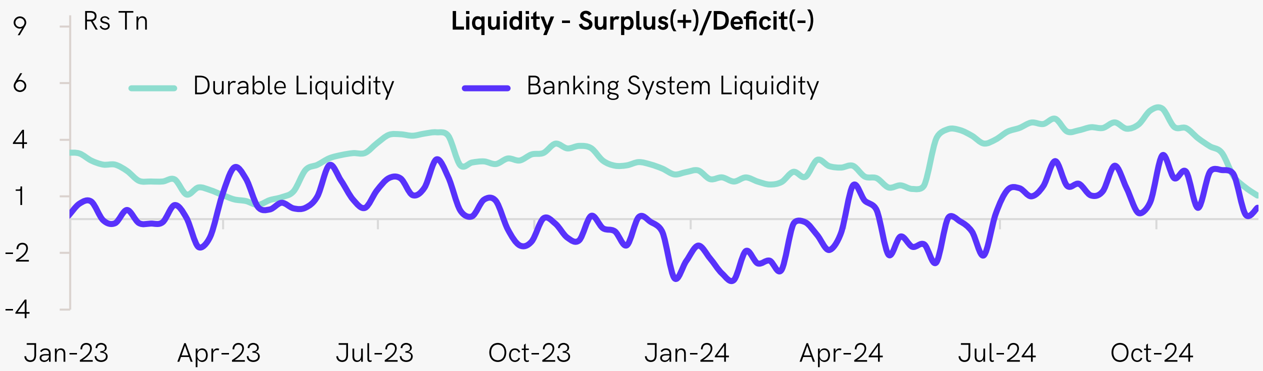
Demand could also increase on rate cut expectations

Source: Budget Documents, NSDL, 360 ONE Asset Research

Note: FYTD FPI debt flows till November 2024. RE – Revised Estimates, BE – Budget Estimates. G-sec supply numbers have been adjusted for borrowings for providing back-to-back loans to States and UTs for GST compensation cess shortfall in FY21-22 and repayment from GST compensation fund in FY24-25

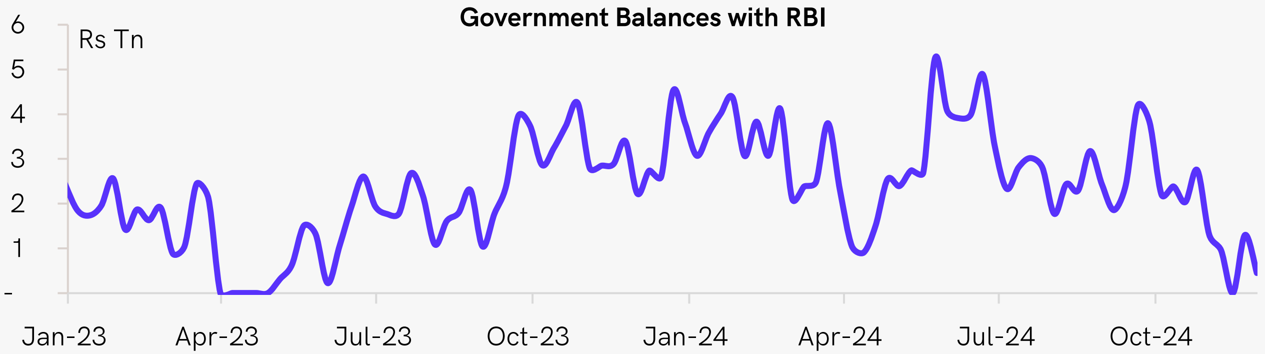
Outlook

Liquidity conditions may tighten in 2025, and the RBI might need to resort to OMO purchases



Durable liquidity in the system has tightened considerably in 2024

In addition to the CRR cut announced in the December 2024 policy, the RBI might need to conduct Open Market Operations (OMO) purchases of government securities to infuse liquidity

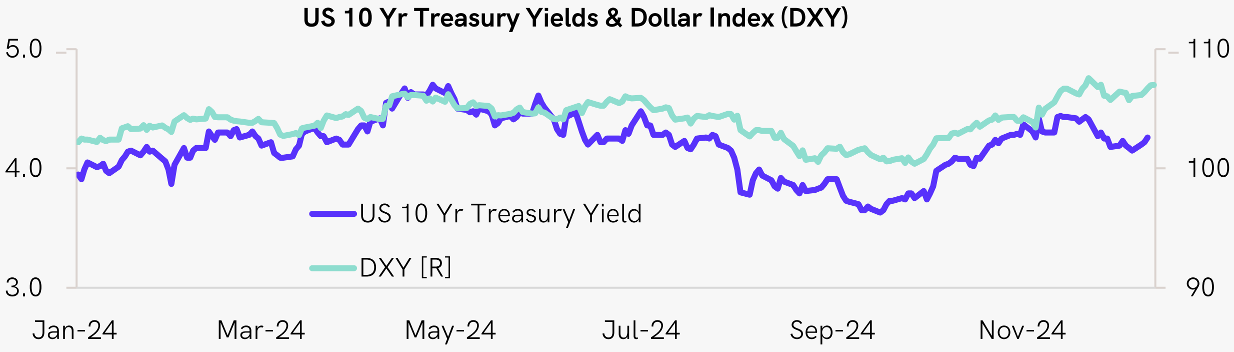


Government balances with the RBI have been drawn down

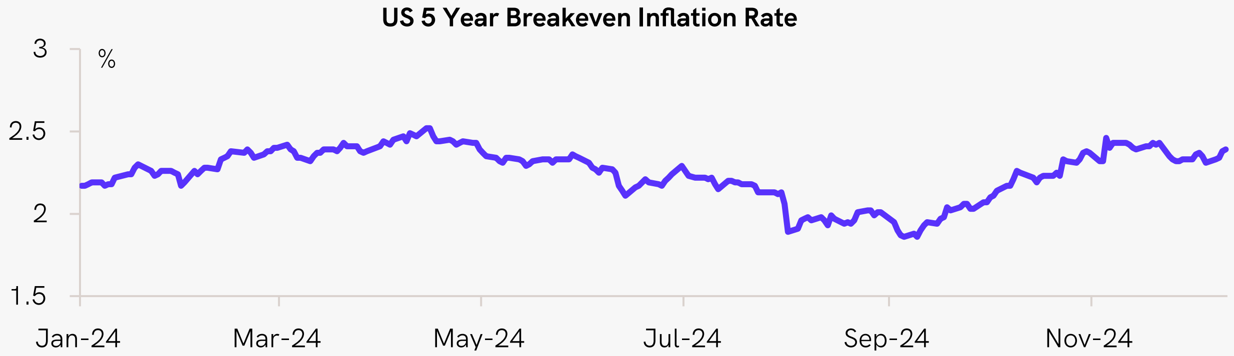
Source: CMIE, 360 ONE Asset Research

Outlook

Rising global yields and the resurgence of inflation pose risks to the outlook



Treasury yields have hardened, and the USD has strengthened as markets have notably reduced expectations for the pace of monetary policy easing by the Federal Reserve



An increase in fiscal deficit and higher import duties are likely to slow the process of disinflation in the US

The 5-year breakeven inflation rate, which implies expected inflation in the next 5 years on average, has already started inching up

Source: FRED, Bloomberg, 360 ONE Asset Research

Equity Outlook

Markets are down from the peak on account of FPI outflows, stretched valuations and weak Q2 earnings season

Index	Performance (%)			Correction from All-Time High
	3M	6M	1 Yr	
Nifty Defence	-2.5%	-10.8%	55.5%	-21.8%
BSE Healthcare	2.4%	22.0%	43.5%	0.0%
BSE Realty	-4.2%	-4.6%	33.1%	-8.6%
BSE Small-cap	-3.4%	5.9%	29.3%	-4.4%
BSE Consumer Durables	-4.8%	9.5%	28.9%	-6.3%
BSE Industrials	-5.8%	-4.8%	28.4%	-9.0%
BSE Mid-cap	-5.9%	0.6%	26.1%	-6.4%
BSE Auto	-15.4%	-9.8%	22.3%	-17.0%
BSE PSU	-11.8%	-11.0%	21.3%	-17.3%
BSE IT	1.9%	16.9%	19.9%	-5.5%
BSE Utilities	-20.1%	-13.2%	13.0%	-21.0%
Nifty	-8.4%	-1.5%	8.8%	-9.8%
BSE Finance	-4.4%	-0.3%	8.8%	-6.5%
Sensex	-7.3%	-1.1%	8.2%	-9.0%
BSE Metals	-16.5%	-12.6%	7.0%	-16.6%
BSE Bankex	-3.8%	-3.2%	6.2%	-6.4%
BSE FMCG	-12.7%	1.1%	1.5%	-13.7%

The defence index has delivered the highest 1Y returns, despite the recent notable decline from peak levels

The small-cap and mid-cap indices continue to outperform despite their stretched valuations

FPI outflows have resulted in a subdued performance of benchmark indices

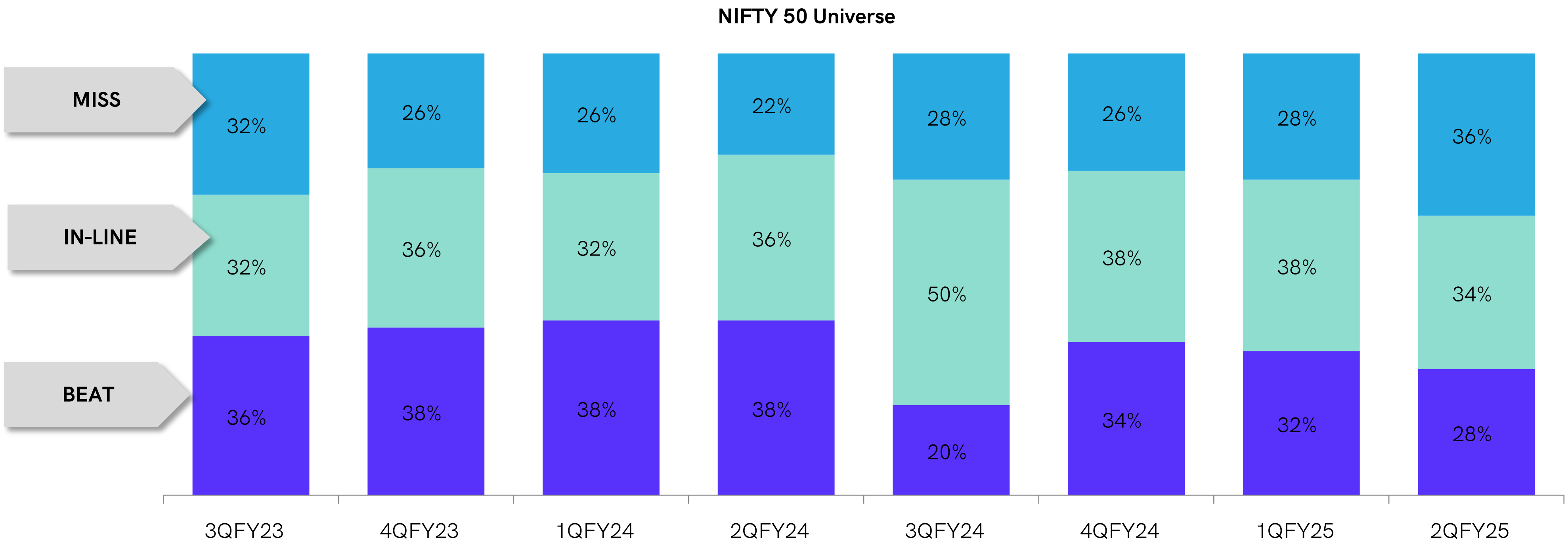
Subdued FMCG sales growth affects equity performance

Source: CMIE, NSE, BSE, 360 ONE Asset Research

Note: Performance as 31st December 2024

Q2 earnings season disappoints as misses outpace beats

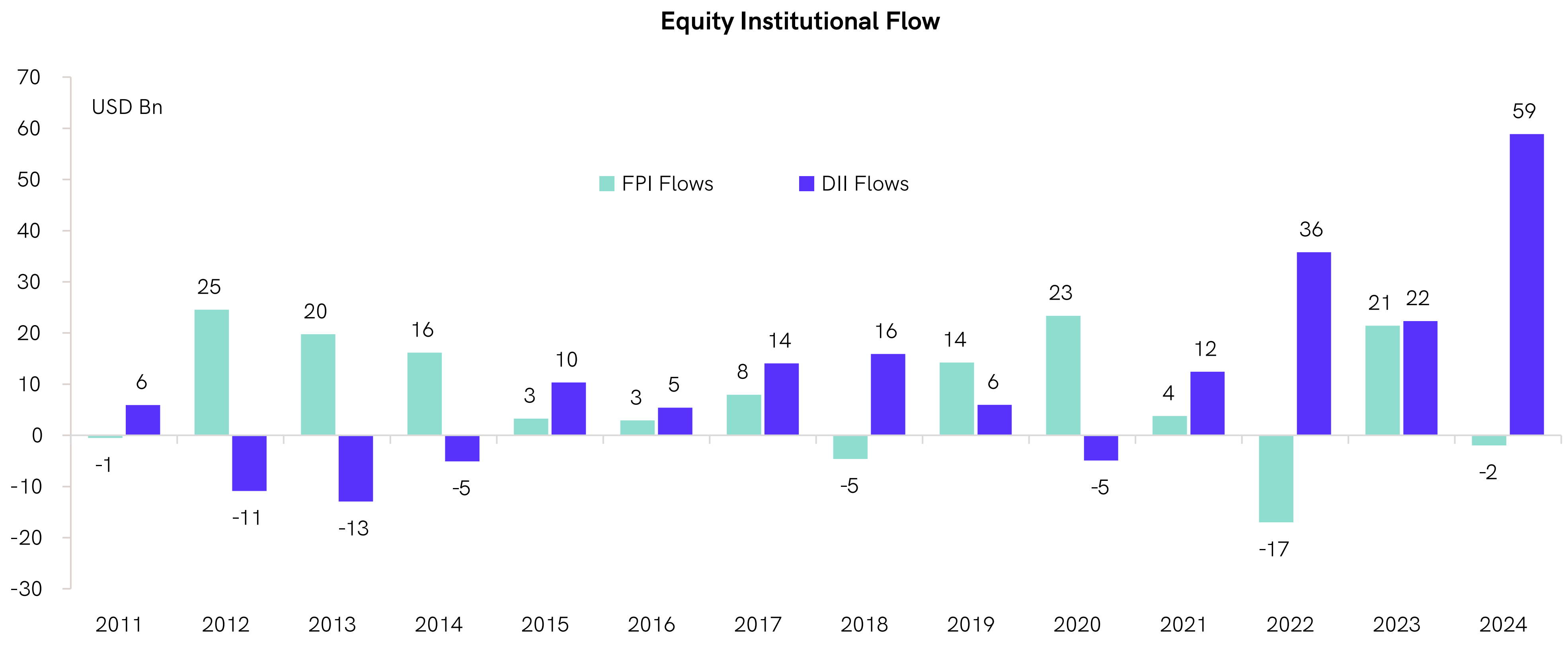
Indian companies reported subdued performance in the September quarter, with many delivering weaker-than-expected results. Misses outpaced beats, as 36% of Nifty 50 companies fell short of earnings consensus estimates, while 28% exceeded them



Source: Avendus Spark , 360 ONE Asset Research

Note: Percentages may not add up to 100% because misses/beats could not be calculated for some companies; Beat/Miss – Actuals greater/lesser than estimates by 5%

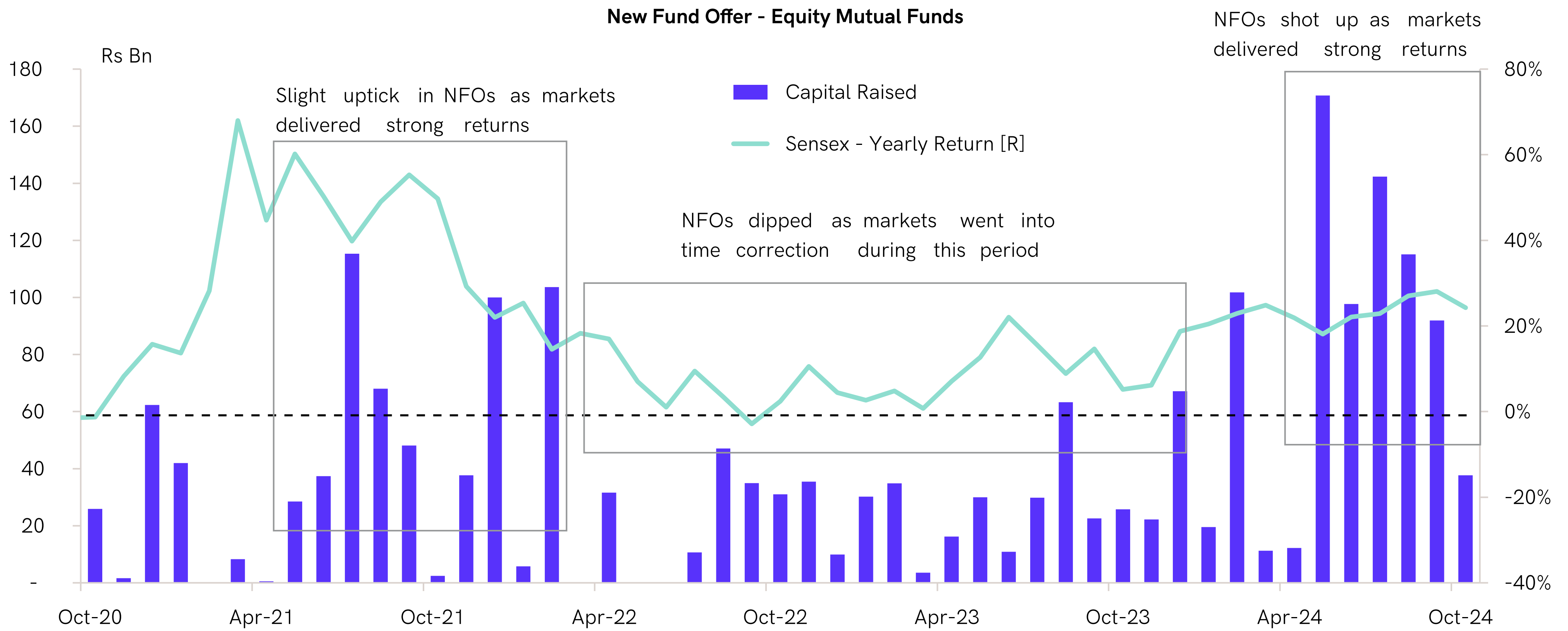
Domestic Institutional Investors (DIIs) support the markets as Foreign Portfolio Investors (FPIs) withdraw



Source: Kotak Institutional Equities, 360 ONE Asset Research

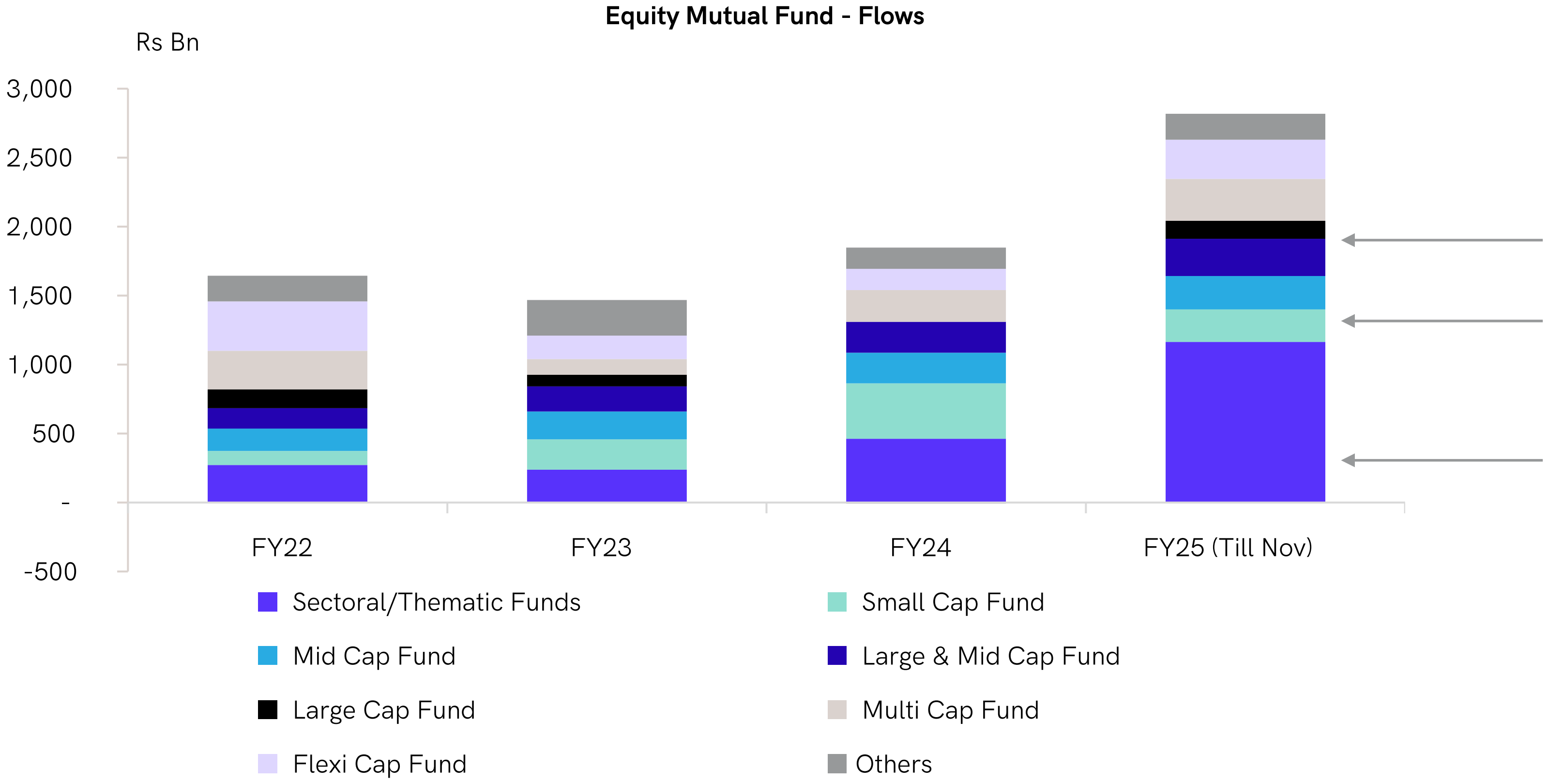
Note: 2024 data as of November 2024

Significant increase in capital raised through new fund offers in H1FY25



Source: ACE MF, 360 ONE Asset Research

Equity inflows surge in FY25, driven by sectoral/thematic fund NFOs



Flows into large-cap funds revive after a muted FY24

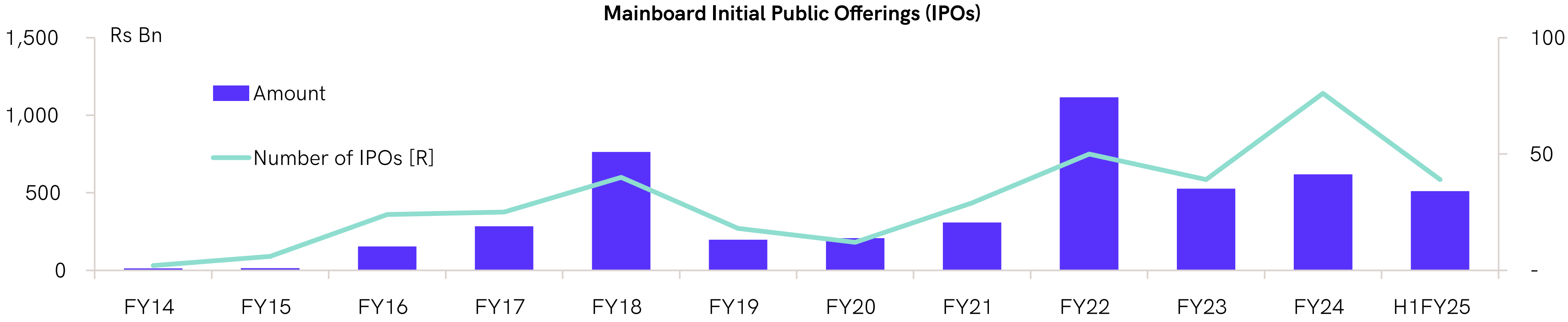
Flows into small-cap funds moderate significantly from FY24

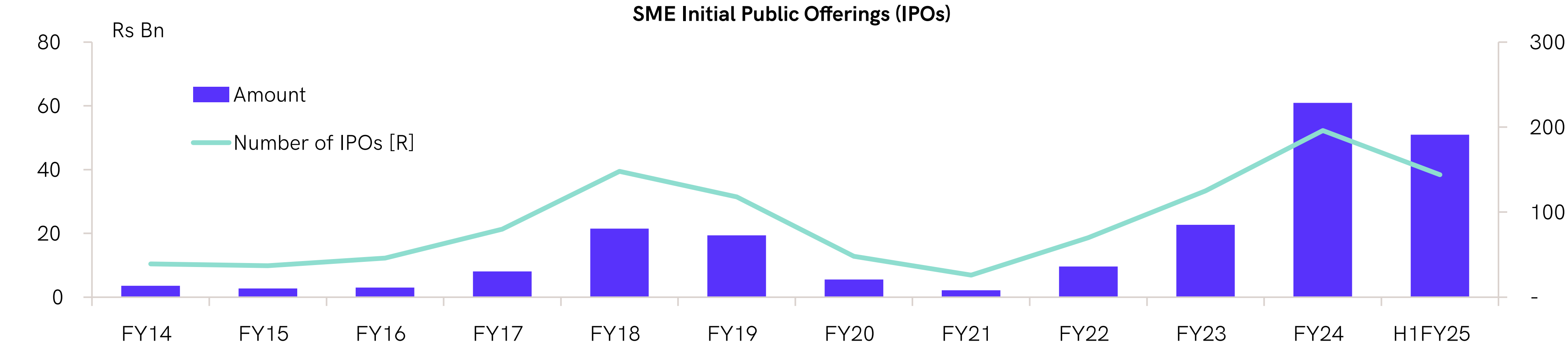
Equity fund flows are driven by sectoral/thematic funds

Sector/thematic funds account for approximately 87% of the total capital raised through New Fund Offers (NFOs) in FYTD25

Source: CMIE, AMFI, 360 ONE Asset Research

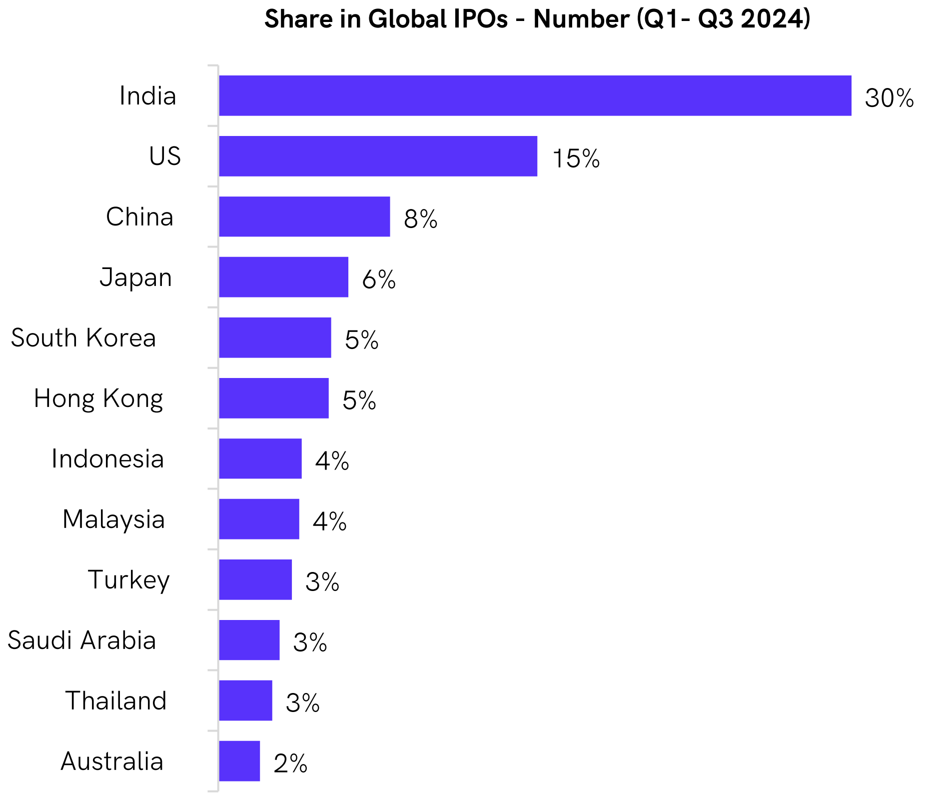
India witnesses surge in IPOs as markets offer rich valuations

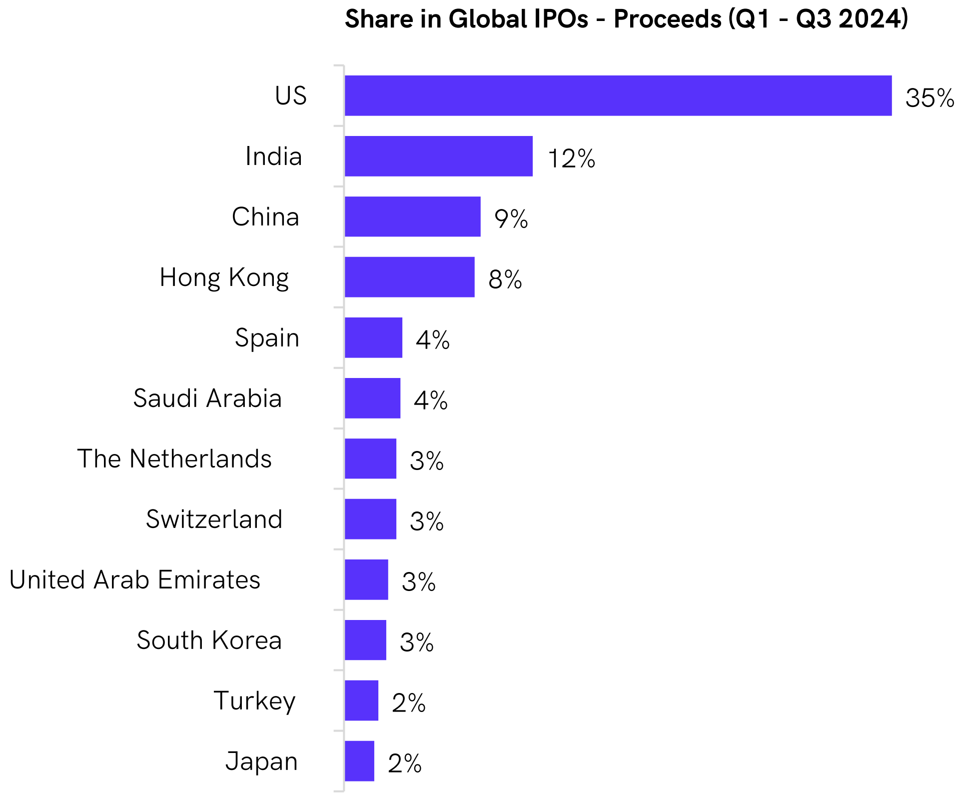




Source: SEBI, 360 ONE Asset Research

India recorded the highest number of IPOs globally during Jan - Sep’24





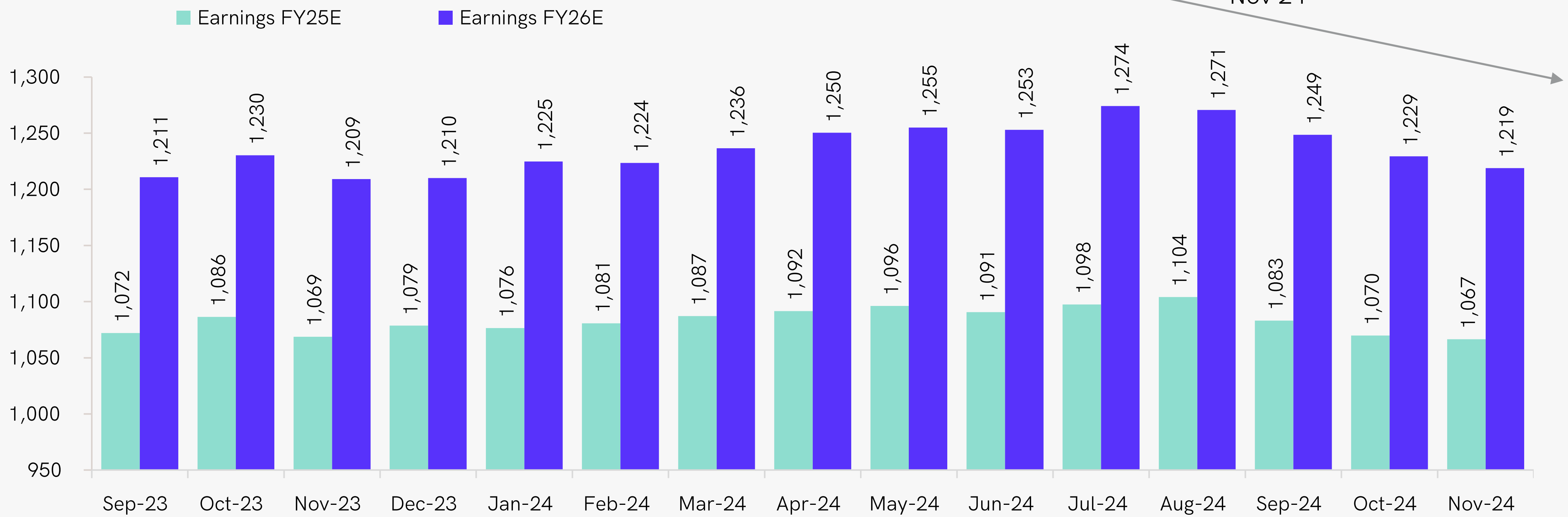
Source: EY Global IPO Trends Q3 2024, 360 ONE Asset Research

Outlook

Earnings estimates are being revised downwards following the disappointing results season

Nifty Consensus EPS Estimates

Following the revisions, FY25 EPS growth has declined from 15% in Aug'24 to 11% in Nov'24



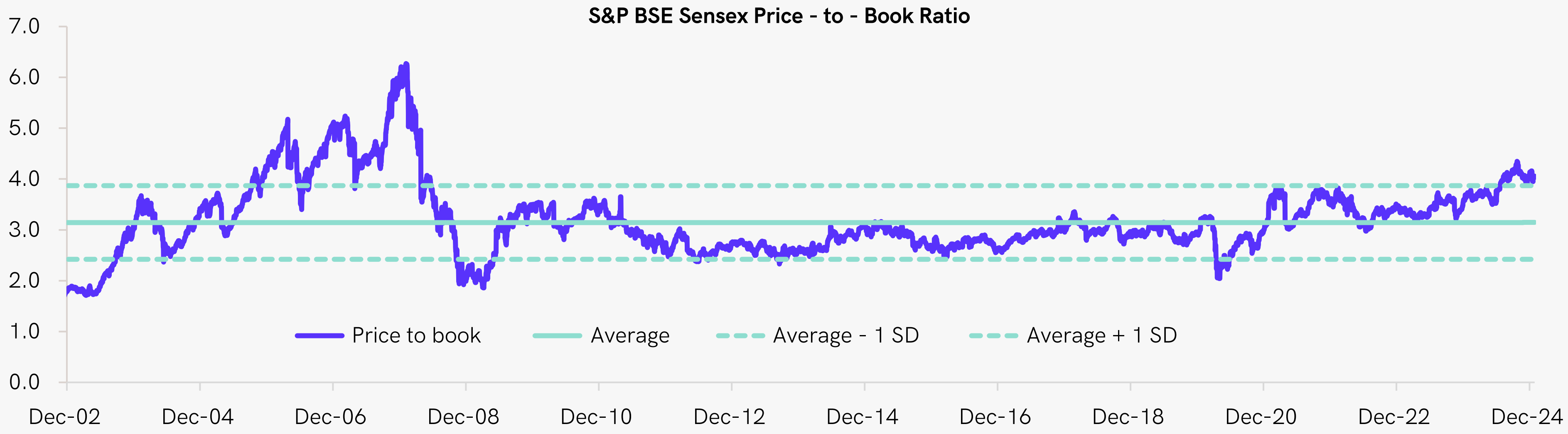
Source: Bloomberg, Avendus Spark , 360 ONE Asset Research

Equity valuations remain elevated despite the recent correction

Investors should prepare for near-term volatility as valuations stay elevated, earnings are downgraded, and FPI flows remain volatile

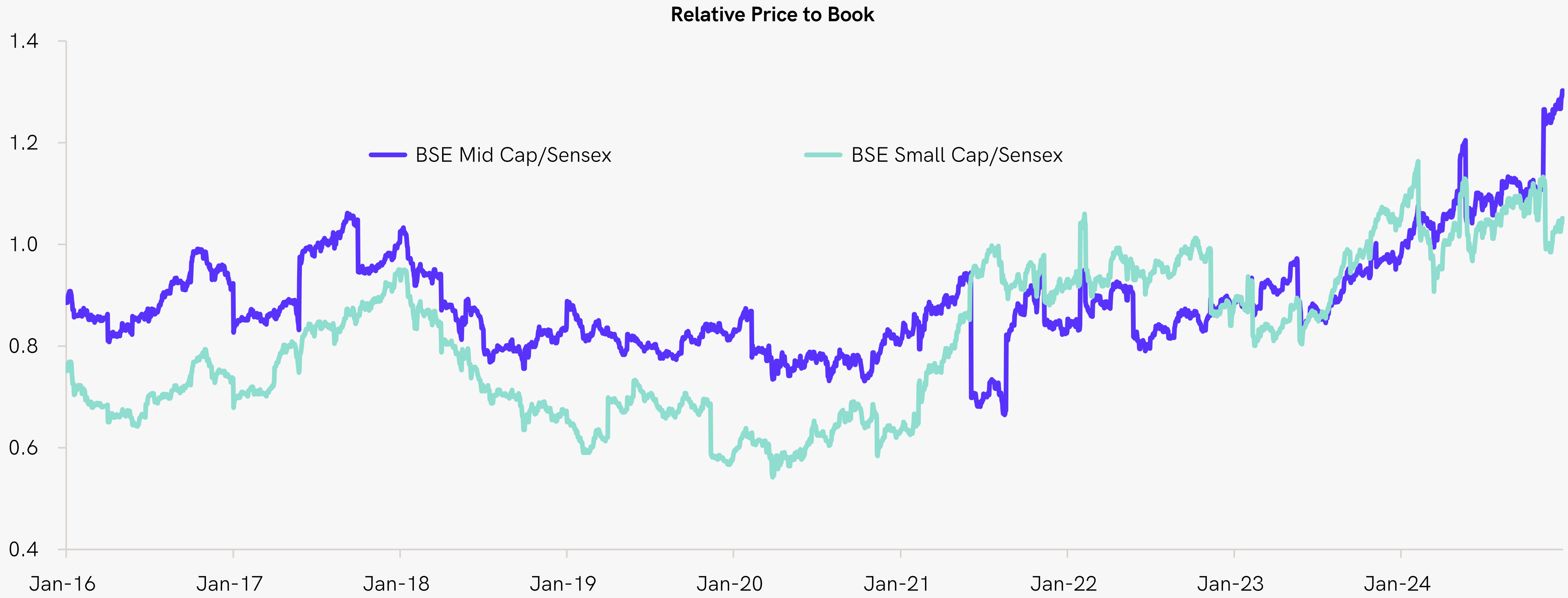
However, the expected recovery in consumption and a pick-up in capex cycle due to higher government spending should support earnings growth in the medium-term

In the long run, the outlook remains positive, driven by strong macro factors – a stable current account balance, fiscal consolidation, healthy corporate and bank balance sheets, lower corporate leverage and revival in private investments



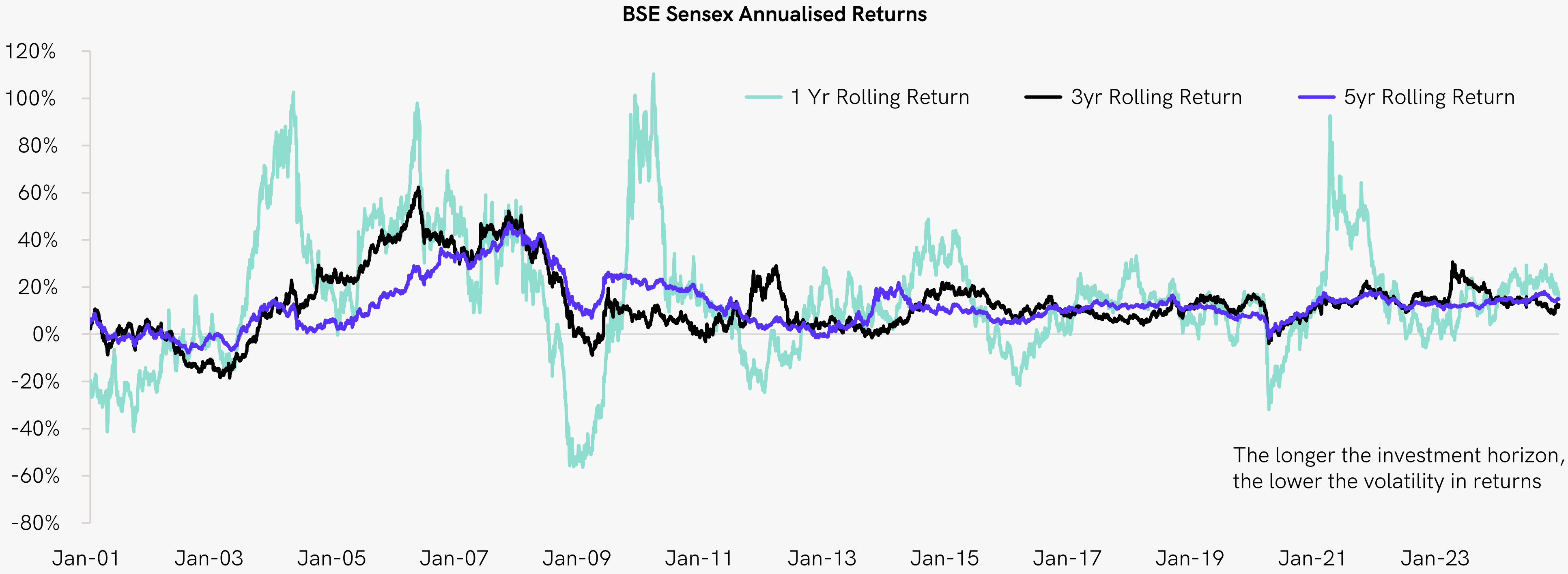
Source: Bloomberg, BSE, 360 ONE Asset Research

Large caps present a better risk-reward ratio, as small- and mid-cap valuations have surged significantly compared to large caps



Source: Bloomberg, 360 ONE Asset Research

Investors should aim for a longer investment horizon to ensure stable returns and navigate near -term volatility



Source: Bloomberg, 360 ONE Asset Research

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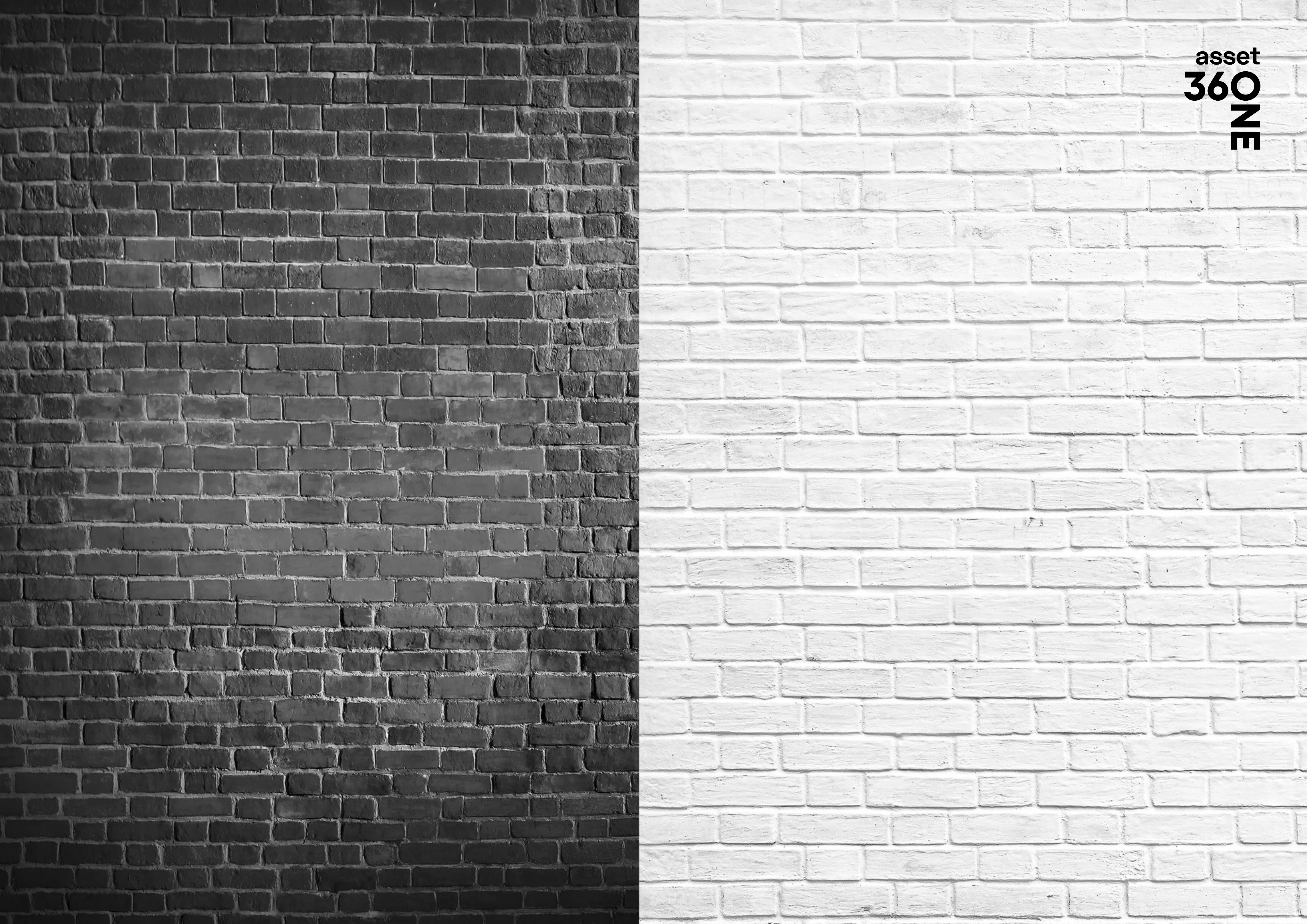
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