JANUARY 2025

MONTHLY REPORT

www.way2wealth.com

mfdesk@way2wealth.com

Way2Wealth Brokers Private Limited: 101-104, A Wing, 1st Floor, Dynasty Business Park, J. B. Nagar, Andheri-Kurla Road, Andheri (E), Mumbai- 400059.

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NIFTY 50
Closing- 23,644.80
PE – 21.79
PB – 3.53sx
Div Yield – 1.27%

NIFTY MIDCAP 100
Closing –56392.65
PE – 42.9
PB – 5.25x
Div Yield – 0.78%

10 Yr. GOI Yield
6.76%

CRUDE
74.64 $/bbl

USD/INR
85.60

GOLD
2,625 $/Oz

Data as on December 31, 2024
Source: Bloomberg

Indicators	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24	Apr-24	Mar-24	Feb-24	Jan-24	Dec-23
Sensex	-7.30%	0.52%	-5.80%	2.35%	0.76%	3.43%	6.86%	-0.70%	1.13%	1.59%	1.00%	-0.68%	7.84%
Nifty	-8.40%	-0.31%	-6.20%	2.28%	1.14%	3.92%	6.57%	-0.33%	1.24%	1.57%	1.20%	-0.03%	7.94%
Nifty Midcap 100 Index	-4.90%	0.50%	-6.70%	1.50%	0.50%	5.84%	7.80%	1.65%	5.81%	-0.54%	-0.50%	5.17%	7.63%
Nifty SmallCap 250 Index	-3.60%	-0.20%	-3.60%	1.30%	1.24%	4.89%	9.50%	-1.31%	10.49%	-4.24%	-0.70%	7.28%	5.96%
S&P 500 Index	2.10%	4.70%	-1.00%	2.00%	2.28%	1.13%	3.47%	4.80%	-4.16%	3.10%	5.20%	1.59%	4.42%
Nifty 50 EPS TTM (Rs)	1069	1069	1021	1018	1016	991	989	990	926	937	955	936	852
Nifty 50 Price/Earnings (PE Ratio)	22.1	22.5	23.6	25.2	24.7	25.03	24	23	24	23	23	23	25
Nifty Midcap 100 (PE Ratio)	40	37	37	41	40	40	37	34	33	30	27	35	35
India Economic Indicator													
Bank Credit Growth (YoY%)	11.28%	11.15%	12.13%	13.35%	13.48%	13.87%	19.16%	19.54%	19.03%	20.18%	20.79%	20.25%	20.14%
Bank Deposit Growth (YoY%)	11.50%	11.21%	12.33%	11.18%	10.88%	11.28%	12.58%	13.28%	13.31%	13.48%	13.68%	13.07%	14.05%
Debt Market Indicator													
RBI Repo Rate (%)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
G-sec 10 year Yield (%)	6.76	6.75	6.85	6.75	6.86	6.93	7.01	6.98	7.19	7.06	7.08	7.14	7.17
Corp Bond 10 Yr AAA Yield (%)	7.24	7.40	7.34	7.31	7.45	7.48	7.55	7.57	7.58	7.52	7.63	7.68	7.76
Corp Bond 10 Yr AA Yield (%)	8.04	8.09	8.03	8.04	8.12	8.12	8.25	8.22	8.23	8.16	8.25	8.34	8.39
Corp Bond 10 Yr A Yield (%)	9.73	9.79	9.78	9.75	9.88	9.95	10.02	9.99	10.15	10.05	10.05	10.13	10.19
Corp Bond 5 Yr AAA Yield (%)	7.46	7.36	7.52	7.50	7.62	7.56	7.74	7.65	7.69	7.61	7.69	7.78	7.79
Corp Bond 1 Yr AAA Yield (%)	7.78	7.63	7.63	7.69	7.76	7.65	7.74	7.72	7.80	7.76	7.88	7.89	7.91
CD 1 Yr (%)	7.63	7.55	7.46	7.76	7.63	7.57	7.62	7.62	7.54	7.62	7.79	7.84	7.72
Commodity & Currency													
Gold Price (USD)	2,625	2,643	2,744	2,635	2,503	2,448	2,327	2,327	2,286	2,230	2,044	2,040	2,063
Gold (Rs/10gm)	75,913	76,400	79,181	75,051	71,679	69,046	71,563	72,127	71,529	66,987	62,010	62,591	62,939
Crude($)	74.64	72.94	73.16	71.77	78.80	80.72	86.41	81.62	87.86	87.48	83.62	81.71	77.04
INR/1 USD	85.60	84.49	84.08	83.80	83.87	83.73	83.39	83.47	83.44	83.40	82.91	83.04	83.21
INR/1 EURO	89.20	89.22	91.39	93.77	92.95	90.65	89.30	90.53	89.50	89.87	89.98	89.88	91.94
Flows													
FII-Equity (Rs.cr)	16,437	-22,602	-91,934	49,793	11,678	27,957	25,940	-25,260	-9,175	2,355	4,000	-26,111	58,498
FII-Debt (Rs.cr)	13,375	-968	-5,978	19,225	16,421	21,863	19,673	15,109	-15,941	4,723	19,693	21,063	19,759
MF-Equity (Rs.cr)	28,138	35,633	32,561	32,264	31,685	20,601	28,226	48,099	32,824	-1,066	14,295	23,011	23,628
MF-Debt (Rs.cr)	-56,887	-32,395	-36,396	-36,890	52,470	-6,612	-4,800	-61,291	14,529	-5,229	-46,298	-21,642	-14,110

Source: Bloomberg, W2W Research

Summary:-

- As of 31st December 2024, Nifty 50 was trading at a PE of 21.79x and Nifty Midcap 100 was trading at a PE of 42.09x.
- India’s CPI inflation in November 2024 rose to 5.48%, compared to 6.21% in October 2024. Meanwhile, India’s WPI inflation increased to 2.36% in November 2024, up from 1.84% in October 2024 driven by the food price index spike by 11.59%.
- Bank credit increased to 11.28% year over year as of December 31, 2024, compared to 11.15% year over year in November 2024. However, the growth of bank deposits decreased to 11.50% year over year.
- GST collection was 1.77 lac cr in December as compared to Rs. 1.82 lac cr in November.
- India’s Manufacturing PMI decreased slightly to 56.4 in December 2024, down from 56.5 in November 2024. However, India's Services PMI rose to 59.3 in December, compared to 58.4 in the previous month.

Debt Market Review

- The US 10-year government bond yield ended the month 40bps higher. Longer-dated yields offer minimal premium over shorter-dated bonds, suggesting that inflation may be more of a medium-term challenge than previously thought.
- Domestic fixed-income markets have remained relatively resilient even the global markets have remained volatile. Robust consumption-led growth and deft management of monetary policy by the central bank have safeguarded that markets remain guided on future policy actions. The 10-year bond yield was at 6.7742 percent.
- Although headline inflation has seen near-term rise, it will be in the 4.5% range this year, while core inflation continues to remain below 4% for more than 12 months. We expect headline inflation to fall further on account of good harvest in both rabi and kharif crops and lower vegetable prices thereof.
- India's trade deficit reached a record high of $37.8 billion in November amid a surge in merchandise imports. This surge in imports influenced the increase in the import bill and widened the trade deficit.
- In the month of December 2024, Foreign Institutional Investors (FIIs) bought ₹13,375 crores in the Indian debt market, while Domestic Institutional Investors (DIIs) were net sellers at ₹56,887 crores.

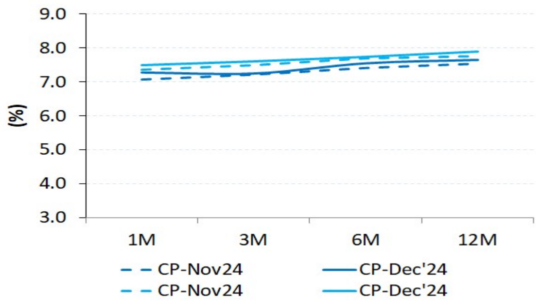
Debt Market Outlook

- January 2025 began on an optimistic note for Debt Markets, supported by the hawkish comments by Federal Reserve. The 10Y US Treasuries yield rose by 70 bps higher at 4.60% in the previous year, representing hawkish market expectations, and deteriorating fiscal conditions. Bond yields are expected to remain within a well-defined range. The U.S. 10-year Treasury yield is expected to stay between 4.5% and 5.0%. The U.S. 2-year Treasury yield is forecasted to be around 4.2%.
- The market expects the European Central Bank's (ECB's) policy rate to settle around the pre-pandemic norm of 2% over the next few years. At its December 2024 meeting, the ECB Governing Council flagged an end to restrictive monetary policy, paving the way for rate cuts at each subsequent meeting until June 2025. However, the fresh challenges from Trump's policies could mean even more European Central Bank and Bank of England rate cuts.
- The prospects of much lower rates in Europe and stronger growth in the US will likely be major positives for euro and sterling bond markets in the coming time, particularly favorable environment for bonds with 0–10 years to maturity; their yields would be pulled lower as central banks cut interest rates. We also expect some steepening of the yield curve, as longer-dated European Treasuries could be hurt by the fiscal deterioration we've seen across governments globally.
- On the domestic front, Indian bond yields may continue to be supported by more liquidity infusion measures like open market operations (OMO) purchases by the RBI. This environment will help stabilize yields, which are currently around 6.8-7% for 10-year government bonds.
- The yield on the 10-year Indian government bond is anticipated to be around 6.5% to 7.0% and the yield on the 2-year Indian government bond is expected to be around 6.8%. These yields will be influenced by various factors, including inflation trends, economic growth, global sentiments, and the Reserve Bank of India's monetary policy stance.
- CPI inflation is at 5.48% on expected lines with some softening in food prices. If this trend continues, the headline inflation might come well within RBI's expected trajectory by Jan 2025. The market is now expecting a 25bps cut in CY25 against the 50bps expectation before the policy meets.

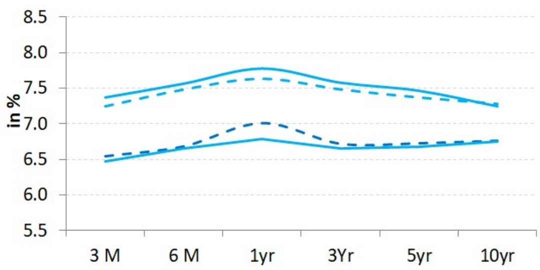
Investment Strategy

- We are at the peak of the interest rate cycle, given this view investors can add duration to their portfolio based on risk appetite through allocation in Gilt, Target Maturity Funds, and Medium to Long Duration Funds category. The bullish view on bonds isn't predicated on an early or deep rate cut cycle, but rather on the ongoing transformation in India's underlying macro-economic dynamics in the context of greater foreign participation given the bond index inclusion.
- Investors should continue to plug, in our view, through appropriate duration selection on incremental fixed-income investments.
- Click here to refer to our special report to support our view on long bonds.
- Investors can consider investing in the recommended Money Market, Ultra Short Duration, Low Duration, Short Term, or Medium Duration funds as per the investment horizon and risk appetite and should consider the reinvestment risk as the biggest risk at the end of the maturity period.

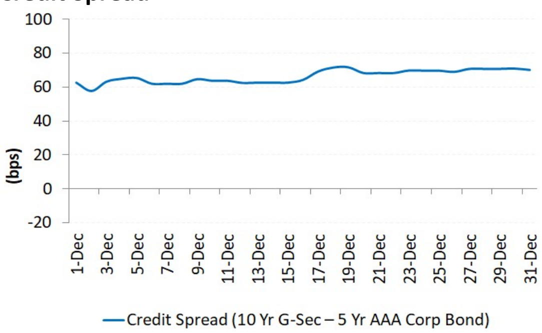
CD Rate Movement



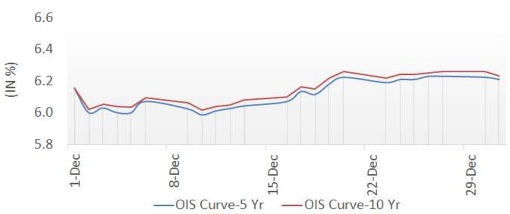
G-Sec and AAA Corp Bond Yield Movement



Credit Spread



OIS Curve

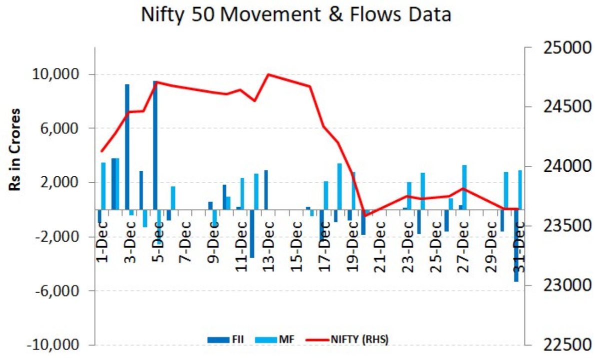


Source: Bloomberg, W2W Research

Equity Market Review

- In December 2024, the U.S. stock market faced challenges, with the Dow Jones falling 5.3% while the Nasdaq gained 0.5%. This volatility followed a 25-basis point rate cut by the Federal Reserve, which aimed to support growth but raised concerns due to a hawkish outlook suggesting only two rate cuts in 2025 instead of four.
- The Indian equity market experienced a notable decline, with the Nifty 50 down by about 2%, the Nifty Midcap 100 losing 4.90%, and the Nifty Small Cap Index falling by 3.60%. The Sensex also recorded a loss of 2.63%. This downturn was influenced by concerns over the US Federal Reserve's interest rate policy and a weakening rupee. Since mid-month, the India VIX exhibited significant volatility, with rapid fluctuations reflecting heightened market anxiety. Despite these challenges, the market showed resilience in certain sectors, reflecting a selective investment approach among investors.
- The Nikkei 225 rose 4.4% after the Bank of Japan decided to maintain interest rates at 0.25%, despite expectations for a future hike.
- The European Central Bank cut interest rates for the fourth time to stimulate economic activity. Meanwhile, the Shanghai Composite Index rose 0.8%, despite concerns over a slowdown due to weak stimulus measures. China's factory activity growth was disappointing, with the official PMI at 50.1, indicating stagnation in the manufacturing sector
- In December, the Indian equity markets experienced a substantial influx of capital, with Foreign Institutional Investors (FIIs) investing 16,437 crores and Domestic Institutional Investors (DIIs) contributing an impressive 28,138 crores.

Nifty, FII & MF Movement



Indices Performance

Index	28-Dec-23 31-Dec-24	28-Dec-23 29-Nov-24	Change	% Chg
	India			
Sensex	78,139	79,803	-1663.8	-2.1%
Nifty 50	23,645	24,131	-486.3	-2.0%
	US			
Dow Jones	42,544	44,911	-2366.4	-5.3%
Nasdaq	19,311	19,218	92.6	0.5%
	EC			
FTSE 100	8,173	8,287	-114.3	-1.4%
	Asia			
Nikkei 225	39,895	38,208	1686.5	4.4%
Hang Seng	20,060	19,424	636.3	3.3%
Shanghai Comp	3,352	3,326	25.3	0.8%
Bovespa	1,20,283	1,34,185	-13901.8	-10.4%
RTS	1,126	1,175	-49.0	-4.2%
	Other			
MSCI WORLD	3,708	3,810	-102.3	-2.7%
MSCI EM	1,075	1,079	-3.1	-0.3%
MSCI EM Asia	597	596	1.0	0.2%

Sector Performance

Sector Index	31-Dec-24	29-Nov-24	Change	% Chg
BSE Auto	51,663	52,898	-1234.9	-2.3%
Bankex	57,742	59,298	-1556.1	-2.6%
BSE CD	9,869	9,869	-0.5	0.0%
BSE CG	67,780	70,700	-2920.8	-4.1%
BSE FMCG	20,772	21,213	-441.5	-2.1%
BSE HC	45,277	43,666	1611.1	3.7%
BSE IT	43,188	42,783	404.3	0.9%
BSE Metal	28,892	30,537	-1644.5	-5.4%
BSE Oil	26,065	26,813	-748.2	-2.8%
BSE Power	6,966	7,490	-523.9	-7.0%
BSE PSU	18,869	19,896	-1026.4	-5.2%
BSE Real	8,234	7,960	274.3	3.4%
BSE TEC	19,478	19,552	-74.3	-0.4%

Equity Market Outlook

- In 2025, U.S. equity markets are expected to experience a strong start, driven by anticipated tax cuts and regulatory rollbacks under Donald Trump's administration. However, potential risks from trade tensions, tariffs, and inflation could create volatility. Additionally, market performance may be influenced by shifts in consumer sentiment and key economic indicators, shaping investment strategies throughout the year.
- In January 2025, the Federal Reserve is expected to keep interest rates between 4.25% and 4.5%, reflecting a cautious stance amid a resilient labor market with an unemployment rate easing to 4.2%, which signals a robust job market. Despite this positive employment outlook, inflation is projected to rise to 2.9%, prompting the Fed to remain vigilant in its monetary policy decisions. The central bank aims to balance economic growth while effectively addressing ongoing inflationary pressures.
- China's GDP growth is projected at 4.5% in 2025, impacted by U.S. tariffs and a struggling property market. Government stimulus and rate cuts aim to boost domestic demand, but the equity market may face volatility amid these challenges. The market's performance will largely depend on the success of policy measures and external economic factors.
- The real GDP growth is forecast at 6.4% for 2024-25, lower than the 8.2% recorded in 2023-24. However, India's GDP is expected to continue growing strongly in the long term, although growth may face some challenges in the near term as government spending and credit growth have slowed down. The outlook is tempered by decreasing public capital expenditure and tightening credit conditions, which may keep the market range bound. Despite these challenges, MSCI India's earnings growth is forecasted at 12%, reflecting a resilient long-term growth narrative supported by favorable demographics and stable governance.
- European stock markets are expected to maintain a positive trajectory in January 2025, driven by strong performance in the energy sector and improving corporate earnings, although ongoing inflation concerns and geopolitical tensions may introduce volatility.
- In Japan, the equity market outlook is influenced by Bank of Japan Governor Ueda's commitment to continue hiking interest rates to address inflation risks, fostering cautious investor sentiment. Despite these challenges, both regions exhibit resilience amid complex economic dynamics, with investors closely monitoring developments.
- CPI inflation in India is projected to stabilize around 5% in early 2025, influenced by lower food prices and stable global commodity rates. Core inflation remained benign and stayed below 4% over the past 12 months. On the other hand, food inflation, which has been a cause of concern for the central bank is expected to stabilize going forward providing room for a supportive monetary policy in 2025.

Investment Strategy

- India's robust fundamentals ensure a promising long-term growth trajectory. For aggressive to moderate investors with a short to medium-term outlook, we suggest diversifying into Multi Asset Allocation and balanced Advantage Funds. Those with a long-term perspective should opt for staggered investments in Multicap, flexi-cap, Midcap, and small-cap funds to Maximize growth potential.
- Looking ahead, the medium-term outlook for India's economy appears optimistic. This optimism is fuelled by policy continuity, benefits from Production-Linked Incentive schemes, opportunities arising from shifts in the global supply chain, enhanced infrastructure investments, the potential of resurgence in private sector capex, and the enduring robustness of consumption. As a part of sectoral allocation, we recommend a staggered allocation to our recommended Consumption fund

with a 3–5-year horizon. (Click to refer to our special note Consumption Fund - An overarching theme for years ahead).

GOLD, OIL & CURRENCY

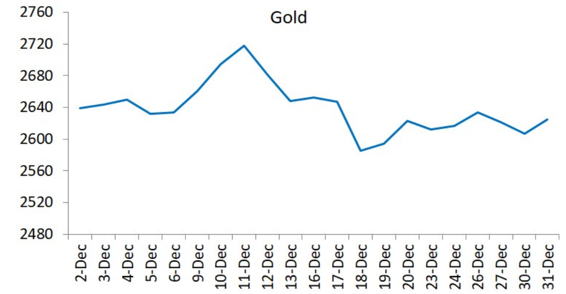
Review

- In December 2024, gold prices in India saw significant volatility, starting at around ₹76,400 per 10 grams and ending the month at approximately ₹75,913, primarily driven by a stronger US dollar, which dampened demand for gold as a safe-haven asset. Additionally, a positive economic outlook and ongoing rate cuts contributed to the downward pressure on prices.
- Crude oil prices fluctuated, with Brent averaging around $72.64 per barrel. The market faced pressures from reduced demand, particularly from China, and geopolitical tensions that initially spiked prices but later eased. OPEC+ maintained production cuts, contributing to a cautious outlook as global oil demand growth is projected at 920 kb/d for 2024, significantly lower than in previous years.
- The USD/INR exchange rate fluctuated, starting around 84.49 and ending near 85.65 level as the dollar index continued to strengthen supported by Donald Trump's U.S. election victory-spurred surge in the dollar, and firmer crude oil prices. The dollar index was traded at 108.01 level. while locally, slowing growth, FII's outflows, and a wider trade deficit weighed on the Indian rupee.

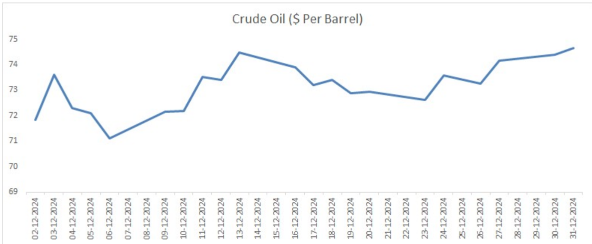
Outlook

- In January 2025, gold prices in India are expected to remain strong, driven by ongoing central bank purchases, trade war concerns, and declining global interest rates. As central banks, including the Reserve Bank of India, continue to buy gold to diversify their reserves, demand is likely to increase. This, coupled with a global economic environment marked by uncertainty, positions gold as a preferred safe-haven asset.
- Crude oil will likely trade around $70 a barrel in 2025 on weak Chinese demand and rising global supplies, offsetting efforts led by the Organization of Petroleum Exporting Countries and its allies (OPEC+) to shore up the oil market. A weaker demand outlook for oil in China forced both the OPEC and the International Energy Agency (IEA) to cut their oil demand growth expectations for 2024 and 2025. The IEA sees the oil market entering 2025 in surplus, even after OPEC+ delayed its plan to start raising output until April 2025 against a backdrop of falling prices, suggesting a bearish outlook for prices in the near term.
- USD/INR exchange rate is expected to be uptrend, driven by a stronger Dollar, weak Chinese Yuan, and negative global factors, despite the interventions from the Reserve Bank of India. Trump's policies might alter global trade dynamics, which may further support the Dollar index. Additionally, India's trade deficit has expanded significantly due to increased gold imports and stagnant export growth, leading to fears of capital outflows from Indian markets which might keep the Indian rupee under pressure.

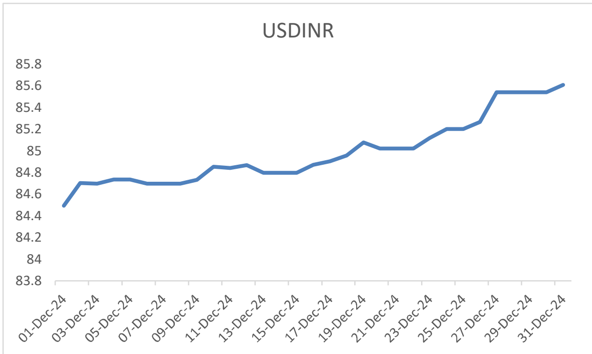
International Gold Movement



Crude Oil Movement



USD/INR Movement



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