Amundi
Investment Solutions

Trust must be earned

SBI FUNDS
MANAGEMENT LIMITED

India Newsletter

December 2024

In this edition…

- **Market overview:** India market update
- **Did you know?** Structural evolution of the Indian equity market leading to consistent wealth creation
- **Hot topic:** Trump and India–US relations: Opportunities amid trade uncertainty

MARKET OVERVIEW: Indian market update

India market views

In November, MSCI India was marginally down -0.5% (in USD terms), outperforming the MSCI EM (-3.7%). Information technology, real estate and communication services were the best performing sectors while utilities, energy and materials were the worst. The broader market was also marginally down, with the MSCI India Large Cap index down -0.5%, the MSCI India Mid Cap down -0.5%, and the MSCI India Small Cap down -0.7%.

Q2 FY 2024-25 (April to March) earnings for Nifty 50 companies showed muted growth: sales rose ~4%, EBITDA by 5%, and PAT by 4% y-o-y. Sector-wise, capital goods, real estate, telecom, and healthcare supported growth, while oil & gas, metals, cement, and consumer goods dragged performance. EPS growth, which was robust in prior years, is now aligned with nominal GDP growth, necessitating a recovery in toplines for further gains.

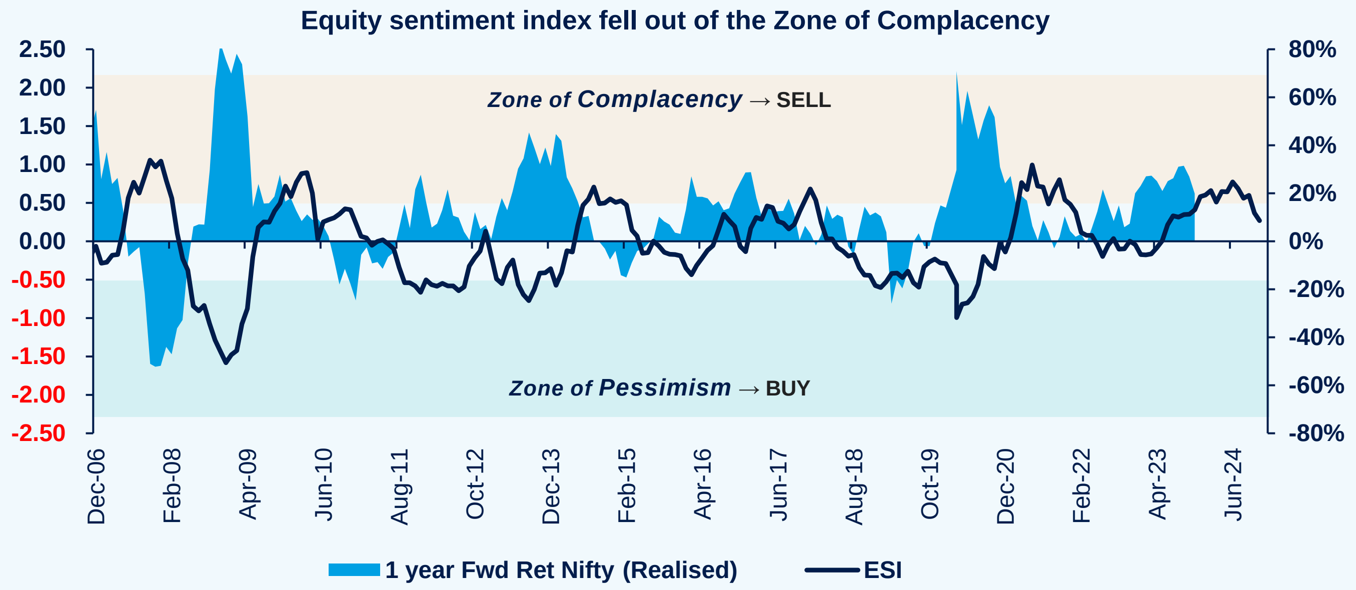
India's Q2 FY 2024-25 GDP growth slowed to 5.4% y-o-y, significantly below RBI's (6.7%), the market's (6.4%), and our (6.0%) expectations. This growth moderation was led almost equally by consumption and investment (gross fixed capital formation and change in stock), each subtracting 0.8% from overall growth compared to Q1. The Q2 GDP print could be an aberration, with growth likely to improve moving forward. However, even factoring in some backlog clearance in real estate, mining, and government spending, we estimate the remaining two quarters will grow at ~6.4-6.5%, resulting in full-year growth of 6.3-6.4%.

Headline inflation exceeded RBI's 6% upper limit in November, driven by a 9.7% spike in food inflation (notably vegetables). Core CPI remained stable at ~3.4%, with most CPI components reporting inflation below 4%. RBI, in its latest meeting, kept the repo rate unchanged at 6.50% and maintained a neutral stance, however it announced a 50-bps cut in the Cash Reserve Ratio (CRR) to 4%, phased over December 2024, which is expected to infuse INR 1.2 trillion into the banking system. Looking ahead, the likelihood of a rate cut in the next two MPC meetings has increased considerably. While a rate cut is anticipated in February, several factors—such as political developments in the US, the February budget, and the outlook for vegetables over the next two months—will play a critical role in the final decision.

As of the end of November 2024, our proprietary Equity Sentiment index has moderated, moving away from levels indicating extreme complacency. However, it is yet to reach levels denoting a complete normalization of excesses. The sentiment measure works as a contrarian indicator. The Sensex was trading at a 24.2x price-to-earnings (P/E) multiple, compared to a historical average of 20.4x, placing it in the 84th percentile since 2001.

Donald Trump's decisive victory in the US Presidential election has introduced notable shifts in the global macroeconomic landscape. The US dollar is now expected to remain resilient, bolstered by the strength of the US economy and anticipated policy measures from the incoming administration. These developments have tempered expectations of rate cuts while contributing to rising bond yields.

Additionally, President Trump's trade rhetoric suggests a possible resurgence of protectionist practices, which could heighten global uncertainties. Nevertheless, we believe India's economy and markets are positioned to perform relatively well, given the structural evolution of its markets and a comparatively lower reliance on US exports than other major economies.



Source: Bloomberg, FactSet, SBIFM Research, as of 30 November 2024. ESI = Equity sentiment Index

DID YOU KNOW?

Structural evolution of the Indian equity market leading to consistent wealth creation

The Indian equity market continues to demonstrate resilience, with key indices, the Nifty 50 and BSE Sensex, poised to deliver positive returns for the ninth consecutive year in local currency.

INR Returns	YTD 2024*	CY 2023	CY 2022	CY 2021	CY 2020	CY 2019	CY 2018	CY 2017	CY 2016
Nifty 50 INR	11.04	20.03	4.33	24.12	14.90	12.02	3.15	28.65	3.01
BSE Sensex India INR	10.47	18.74	4.44	21.99	15.75	14.38	5.91	27.91	1.95

*Source: Morningstar.*As of the end of November 2024.*

Over the past two decades, an investment of USD 10 million in Indian equities has grown to USD 108 million, significantly outpacing many global peers.

Indian equity market – a consistent wealth creator

	1 year	3 years	5 years	7 years	10 years	20 years
India	13	14	20	23	27	108
US	14	14	25	26	35	76
China	12	8	12	12	18	63
MSCI World	13	13	19	22	28	58
MSCI EM	13	10	13	13	15	44
Germany	13	12	16	14	18	44
Korea	11	8	13	11	13	39
France	12	12	16	17	21	36
Brazil	11	12	10	10	11	30
UK	12	13	15	15	15	28

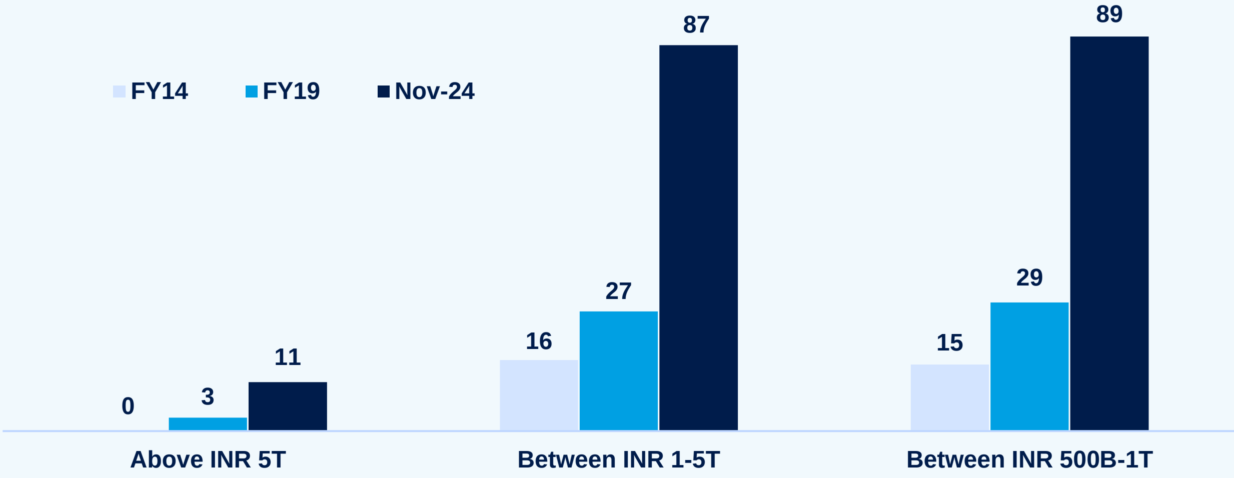
Note: The table indicates the value of USD10M invested in various equity indices across the globe after 1Y, 3Y, 5Y, 7Y, 10Y and 20Y. We have rounded off for clarity. Index tickers used: India: Nifty Index; US: SPX Index; China: SHSZ300 Index; MSCI World: MXWO Index; MSCI EM: MXEF Index; Korea: KOSPI Index; Brazil: IBOV Index; France: CAC Index; Germany: DAX Index; UK: UKX Index. Returns are as of 30th September 2024. India's NSE Nifty 50 India has generated 32%, 11%, 15%, 12%, 11% and 13% (CAGR, USD) over the past 1,3,5, 7, 10, and 20 years.

Source: Bloomberg; SBI Funds Management Limited, November 2024. The data shows point-to-point returns for various periods. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

Weak to stronger data →

This remarkable performance stems from the transformation of India's equity markets. Once characterized by a narrow sectoral breadth and a smaller pool of large-cap companies, Indian markets now offer a diverse array of investment opportunities across market caps and sectors.

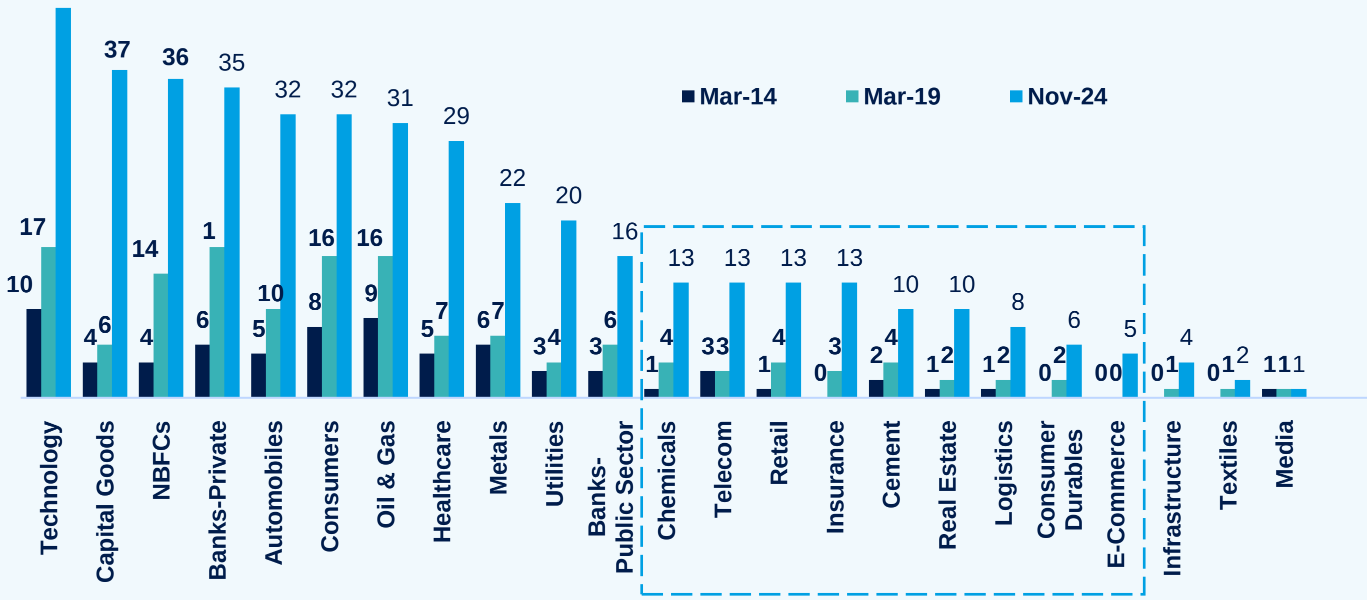
Investible universe (in INR trillion): The number of companies increased significantly across various market cap ranges.



Source: Bloomberg; SBI Funds Management Limited. November 2024. For illustrative purposes only. There can be no assurance that these goals will be met. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

Emerging sectors such as e-commerce, chemicals, consumer durables, and real estate have seen substantial market cap growth over the last decade, reflecting the economy's dynamism.

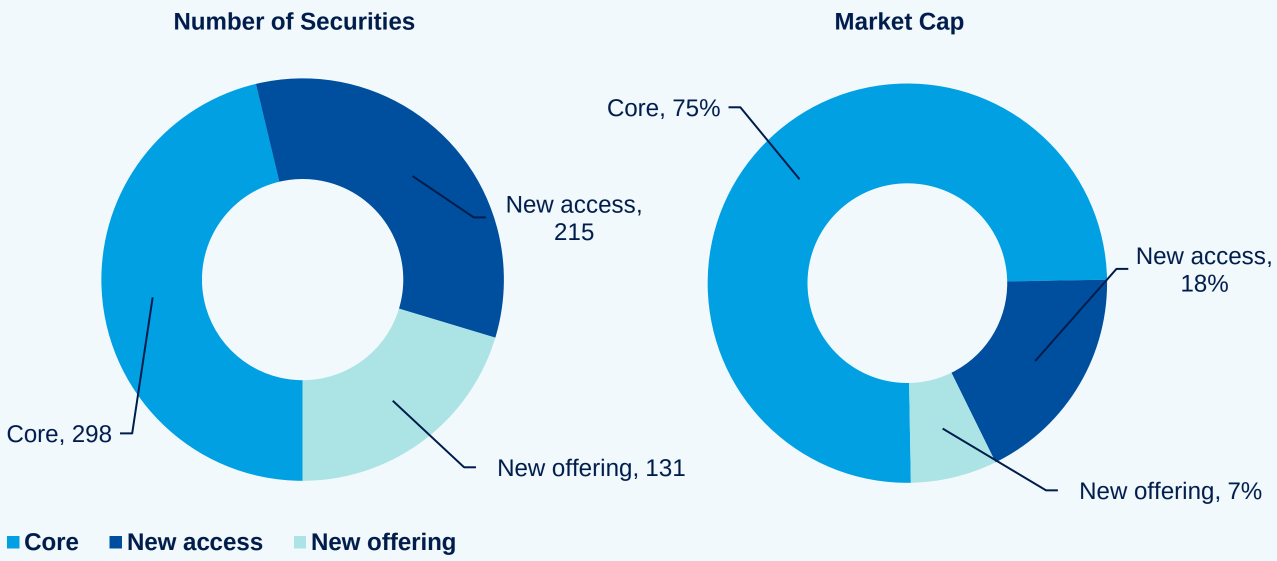
Investible universe



Source: Bloomberg; SBI Funds Management Limited. November 2024. For illustrative purposes only. There can be no assurance that these goals will be met. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

The inclusion of over 300 companies into the MSCI India IMI since the pandemic further underscores this transformation, enhancing both the depth and diversity of India's market composition.

Over half of the MSCI India IMI's constituents joined since 2020



Note: Core comprises the index's constituents before 2020. These firms represented over three-quarters of the country's free-float capitalization as of June 28, 2024. New access includes established public companies that became accessible to global investors after 2020. The new offering includes new public listings since 2020. It accounted for about 20% of the market by number but just under 7% by capitalization. Data as of 28 June 2024.

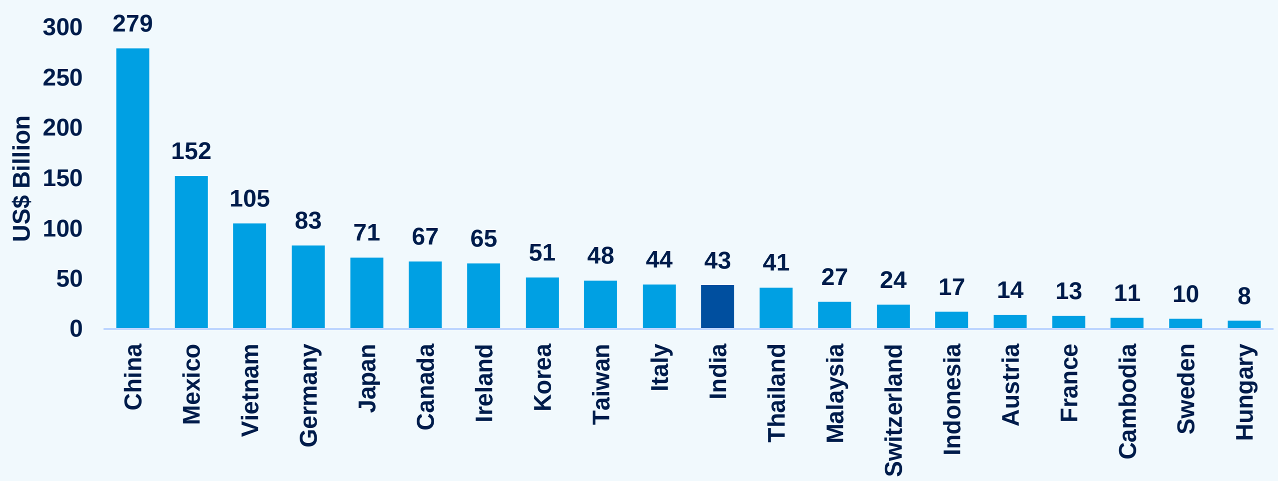
Source: MSCI; SBI Funds Management Limited. July 2024. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

We believe that this transformation, along with the country's growing economic stature, will attract global capital, thus paving the way for a more vibrant Indian equity landscape.

India-US relations: Opportunities amid trade uncertainty

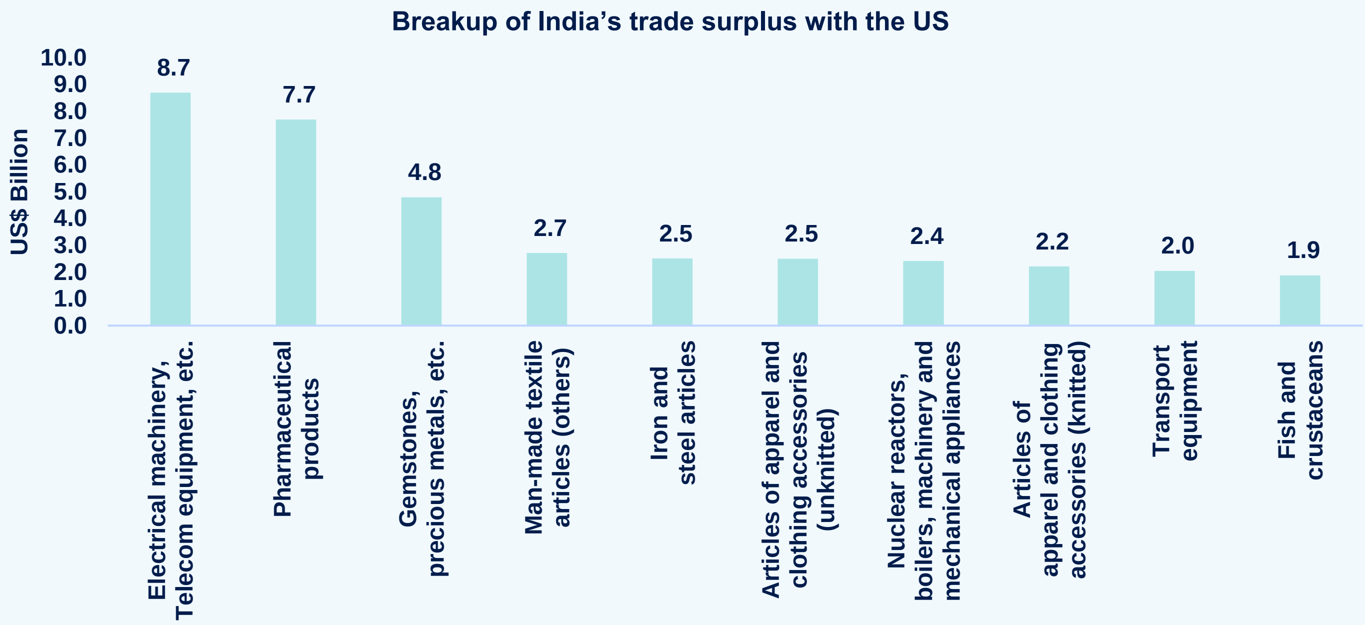
While the Trump administration's potential protectionist policies introduce an element of uncertainty, they could also present opportunities for India. With a relatively lower trade surplus with the US compared to other major economies, India is well-positioned to gain market share.

US trade surplus with major economies



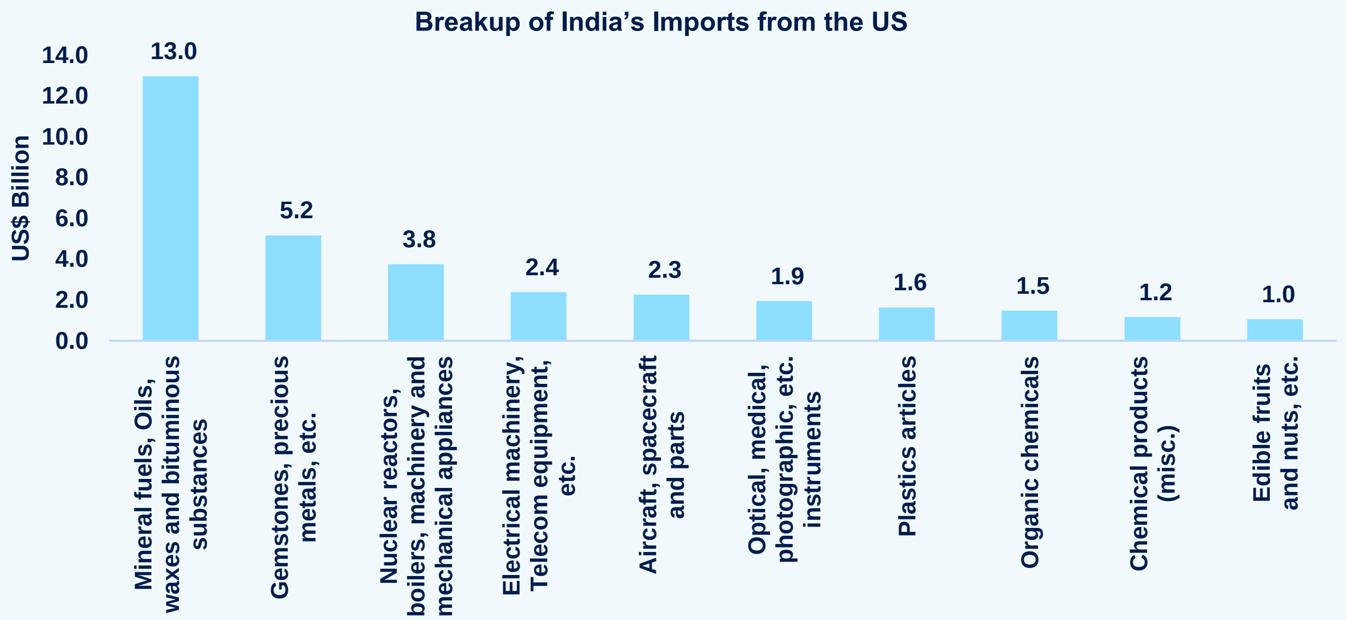
Note: Data for the December calendar year ends 2023 (US$ bn).
Source: Bloomberg; CEIC; SBI Funds Management Limited, November 2024. The data shows point-to-point returns for various periods. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

India's current trade surplus is mainly due to resilient export items such as electronics, pharma and jewellery.



Note: Top 10 trade surplus products for India with US at 2-digit HS code classification, March fiscal year ends, 2024 (US$ Bn)
Source: Ministry of Commerce; SBI Funds Management Limited. December 2024. For illustrative purposes only. There can be no assurance that these goals will be met. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

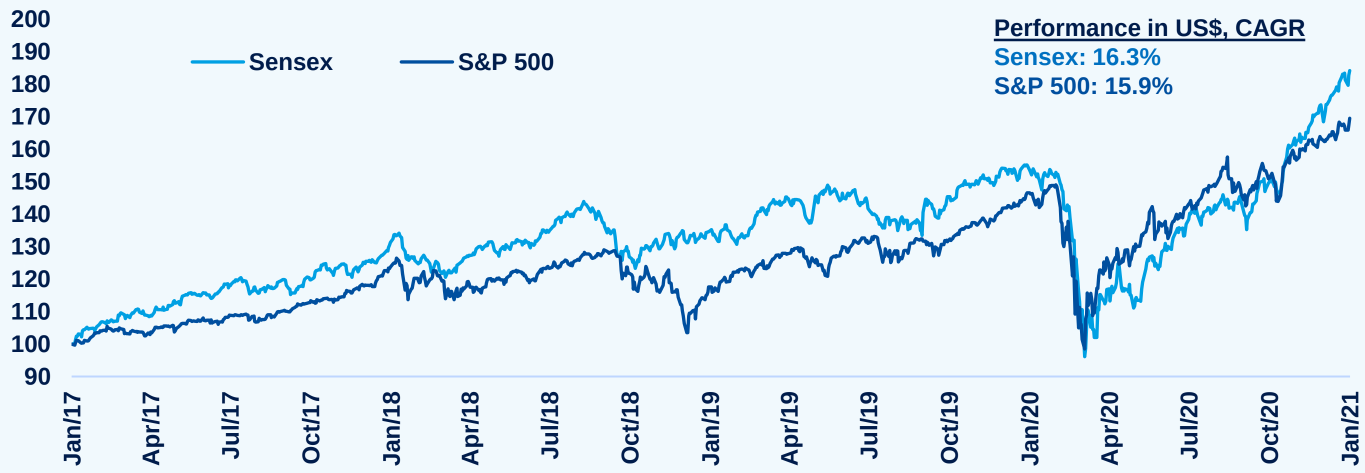
As seen during Trump's previous term, India may face calls to increase imports of energy and electronics rather than direct tariff measures, maintaining a balanced trade relationship.



Note: India's top 10 imports to the US at 2-digit and 4-digit HS code classification, March fiscal year ends, 2024 (US$ Bn)
Source: Ministry of Commerce; SBI Funds Management Limited. December 2024. For illustrative purposes only. There can be no assurance that these goals will be met. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

It is worth recalling that Indian equities performed in line with US equities during Donald Trump's first term (2017-21).

Relative performance of Indian equities during Donald Trump's first term (2017-21)



Note: Relative movement of India's Sensex and S&P 500 between 20/01/2017 to 20/01/2021. Data rebased to 100. Source: Bloomberg; SBI Funds Management Limited. December 2024. For illustrative purposes only. There can be no assurance that these goals will be met. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

The strategic partnership between India and the US, anchored by shared democratic values and mutual geopolitical interests, remains robust. The three pillars of this engagement—India's sizeable consumer market, its geopolitical importance as a counterweight to China, and its potential as a global growth driver—are expected to uphold the relationship, even amid shifts in US trade policy.

Looking ahead, Indian equity markets should continue to thrive on the back of structural reforms and diversification, offering investors compelling growth opportunities. While global trade uncertainties may persist, the Indian economy is likely to remain resilient, supported by its intrinsic strengths and evolving market landscape.

Important information – Marketing Communication

Date of first use: 14 January 2025

Doc ID: 4152540

Amundi Investment Solutions

SBI FUNDS MANAGEMENT LIMITED