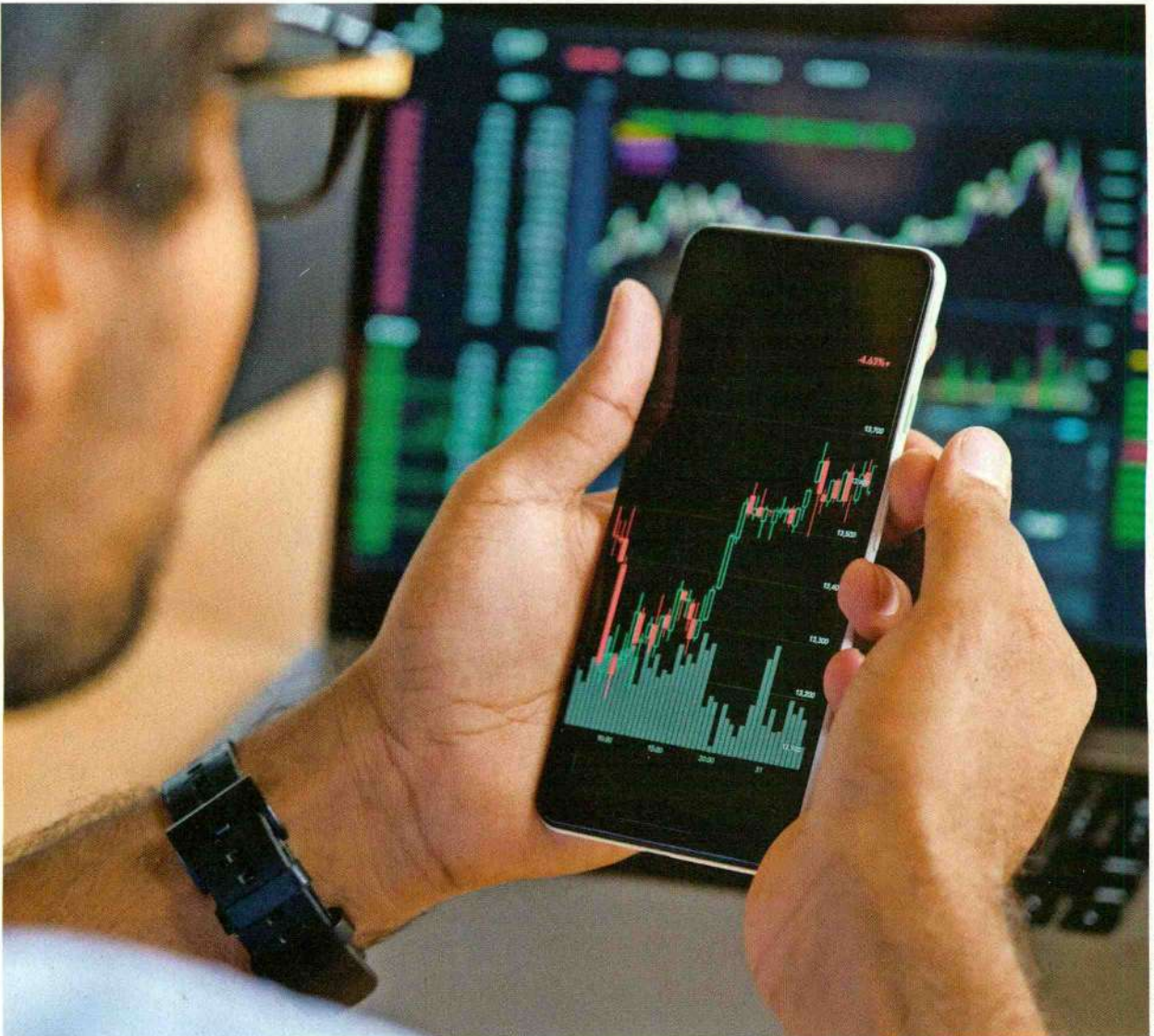


NEW YEAR. NEW HOPE

EQUITY MARKETS
HAVE TURNED
VOLATILE OF LATE.
WHAT TO EXPECT
IN THE NEW YEAR

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SHUTTERSTOCK

Despite the corrections in the past few months, 2024 has generally been a good year for investors. Benchmark indices hit a record high in September, but a massive sell-off by foreign institutional investors in October and November led to the decline. Domestic investors, who were big buyers in 2023, continued to add to their equity investments in 2024, too, which offset the FII selling.

Will 2025 be another strong year for markets, or should investors brace for more volatility and tepid returns? THE WEEK spoke to several experts to understand what is in store.

After ending 2023 at 72,240, the BSE Sensex surged 19 per cent to touch a life-time high of 85,978 on September 27, 2024. There has been some pullback since, and the benchmark closed on December 16 at 81,748, down 5 per cent from its peak.

Midcaps and smallcaps saw a stronger rally this year than last year. The BSE Midcap index jumped about 35 per cent to a life high of 49,701 on September 24, before seeing some correction. On December 16, the Midcap index ended at

48,126, down 3.2 per cent from its peak. On the other hand, the BSE Smallcap index accelerated 34 per cent in 2024, to close at 57,227 on December 16.

In October and November, foreign portfolio investors withdrew Rs 1.15 lakh crore from India's stock markets. The key reasons being the rising global geopolitical uncertainties, a massive stimulus announced by China to lift its economy, and expensive valuations in many pockets in the domestic market. They have returned since, buying more than ₹22,700 crore worth stocks in December. However, for the 2024 calendar year, their total equity investments of ₹10,683 crore (up to December 16) are significantly lower than the ₹1.71 lakh crore they invested in 2023.

A big talking point has been how domestic investors continued to pump in massive amounts, directly to stocks or through mutual funds, in 2024. Mutual fund folios touched an all-time high of 22.08 crore in November 2024, with retail folios at around 17.55 crore, also a record. Retail assets under management





AFP

industries such as power, consumer goods, real estate and automobiles surged. Banks, too, saw balance sheets improve, with non-performing assets declining significantly. Over the financial years 2020-2024, Nifty 50 earnings grew at a 21 per cent compounded annual growth rate. However, for the current financial year ending March 2025, earnings are only expected to grow 5 per cent, noted Kothari.

India's economy, too, has slowed. In the July-September quarter, GDP grew

(AUM) was at ₹39.70 lakh crore in November. The industry's net assets under management as of November 2024 were at ₹68.08 lakh crore, a 39 per cent rise from the ₹49.05 lakh crore in November 2023. More than ₹25,300 crore is coming into mutual funds monthly via systematic investment plans (SIP) alone.

However, a 14 per cent decline in investment into equity schemes in November—₹35,943.49 crore, from ₹41,886.69 crore in October—suggests that they may have turned somewhat cautious. So, what is the mood of the market?

"FPIs have been on a selling spree throughout October and November, primarily driven by global news such as the strength of the US dollar, weak emerging market currencies, and the resulting EM sell-off. Additionally, slowing corporate earnings growth in India and above-average valuations have weighed on investor sentiment," said Jay Kothari, SVP (Equities) at DSP Mutual Fund.

He pointed out that global funds remain underweight on India, while EM funds have light positions in Indian assets, suggesting that flows could return once the situation stabilises.

Ultimately, a key to strong performance of stocks is the underlying earnings growth. Post the Covid-19 pandemic, corporates saw strong earnings growth as demand across

at 5.4 per cent, compared with 6.7 per cent in April-June and 8.1 per cent in the same quarter a year ago.

"Despite all these events (FPI selloff, weak GDP and corporate earnings data), the valuations for many sectors and businesses remain high compared to their own long-term averages," said Raunak Onkar, fund manager at PPFAS Mutual Fund. "A lot of good businesses are priced out of their comfort zone."

As we head into 2025, there are many things to watch out for. For instance, domestic investment related cyclical sectors are expected to re-emerge from an election-related slowdown in 2024, according to Vinod Karki, equity strategist at ICICI Securities.

On the other hand, with only two states (Delhi and Bihar) going to polls in 2025, election-related social spending might abate, which could have an unfavourable base for consumption, although rising agricultural output might have an offsetting effect, said Karki. Global trade environment could become challenging as US president-elect Donald Trump's policies start kicking in.

Karki said capex-driven stocks such as utilities, infrastructure companies and manufacturing companies could be big beneficiaries of investment demand revival in 2025. "There are

signs of bottom formation and recovery in commodity prices such as cement, metals and oil along with gross refining margins of oil companies. Current capex cycle may have additional drivers in the form of new-age sectors such as data centres, AI infrastructure, electric vehicles and green energy," he said.

Midcap and smallcap investors may be in for some disappointment over the next year or so, after a stellar run in the past few years. "Small and midcap stocks have appreciated significantly over the past five years and may experience some slow-down or time correction in the near term. Therefore, if you are investing for just the next 9-12 months, there is a risk of disappointment. However, if you adopt a longer-term view of 3-5 years, these stocks should certainly be part of your asset allocation as they tend to provide higher absolute upside over time," said Kothari.

Over the past few months, as valuations increased and domestic investors continued to pump in money, mutual fund houses have steadily raised their cash positions. According to a recent report, mutual funds were sitting on cash holding of around ₹1.8 lakh crore as of November 2024. It is an indication that fund houses are waiting on the sidelines and will invest the money when valuations turn more reasonable.

While PPFAS is not expecting any major correction, from time to time certain businesses as well as sectors do offer good opportunities to invest, the fund manager believes. "We would rather wait to invest at reasonable valuations than buy expensive businesses," said Onkar.

Eventually, how corporate earnings pan out will determine stock performances in 2025. Where earnings are lacklustre, valuations will increasingly look stretched and may in turn see a correction. On the other hand, companies with strong growth and visibility will continue to trade at some premium.

"It is useful to examine individual business performance and expectations," said Onkar. "This can help build a portfolio of high-quality businesses at reasonable prices." 📌