Dear Investor,

Wishing you a very happy new year! It is that time of the year when it is good to reflect on what has happened in the year gone by and what to expect going into the new year.

In 2024, the world witnessed massive changes that have potential to alter the course of developments going forward. The year reshaped global politics, escalated geopolitical tension, and accelerated the move towards energy transition. Global economic growth remained resilient; and crude oil despite escalating tensions remained rangebound.

Asset class returns: CY24 has been a year characterized by decent return delivery by most of the asset classes.

	CY20	CY21	CY22	CY23	CY24
Global Equities	14%	20%	-19%	22%	**18%**
Commodities	-24%	39%	24%	-6%	**7%**
Agri Commodities	8%	23%	0%	-11%	**7%**
Gold	25%	-4%	0%	13%	**27%**
Bitcoin	305%	58%	-64%	154%	**123%**

Source: Bloomberg, Note, as on 30 December 2024; Note: Global Equities, commodities, agri commodities, gold and Bitcion returns, we have used MSCI World Index, ISHARES S&P GSCI COMMODITY, ISHARES JP MORGAN USD EMERGING, XAU Currency and Bloomberg Bitcoin Index.

With this, let us now look at some of the events that shaped the world in 2024:

- **A year of elections:** 2024 is notable for the large number of elections being held worldwide, in more than 100 countries from around the world – home to nearly half of the global population. The most notable outcome was Donald Trump's victory, which has led to volatility in the global arena including trade. As discussed last month, we believe, this outcome will be net positive for India.
- **Climatic conditions:** Relentless global warming provoked heatwaves, droughts, particularly in India. This heated up the sales of cooling solutions, resulting in a drawdown of inventories for many players in this space. The wet weather proved dramatic, with unseasonal heavy rain and flash floods in the desert prone areas of Dubai, Saudi Arabia, Pakistan and Afghanistan, which bore the brunt predominantly. Extreme weather fluctuations are becoming a norm – the world need to be cognizant. This may have an impact on food inflation structurally.
- **Logistic costs:** Escalating geopolitical worries have led to uncertainties in the global trade flows. The attack on cargoes moving through the red sea in the middle east led to not only sharply higher freight costs but also increasing timelines. This will mean redrawing supply chains and inventories globally.
- **Bangladesh crisis:** The widespread unrest threw the country in disarray. Bangladesh is now facing inflation and violence. This disruption has impacted the textile industry, making global brands think about alternatives. This opens up opportunities for counties like India, Vietnam, Cambodia.

- **Record money raising in India:** 2024 was the best year for fund raising in the Indian primary market. Overall fund raising (including IPO, FPO, OFS and QIP) jumped 2.6 times to Rs 3.3 lakh crore. While fund raising led to improving balance sheet strength and increased entrepreneurism, this sheer large availability of capital also needs to be watched out for its misuse.

Year	IPO	FPOs	OFS	QIPs	Total Equity Raised (₹ Billion)
CY14	15	5	47	321	388
CY15	139	0	355	189	683
CY16	270	0	125	48	443
CY17	760	0	193	587	1,540
CY18	335	0	132	165	632
CY19	178	0	264	352	794
CY20	313	150	215	805	1,483
CY21	1,314	0	240	420	1,974
CY22	613	43	112	117	886
CY23	576	0	189	523	1,289
CY24*	1,575	182	304	1,292	3,353

*Source: Brokerage reports, Note: *As on 20 December 2024*

In the Indian markets, we saw interest in following areas:

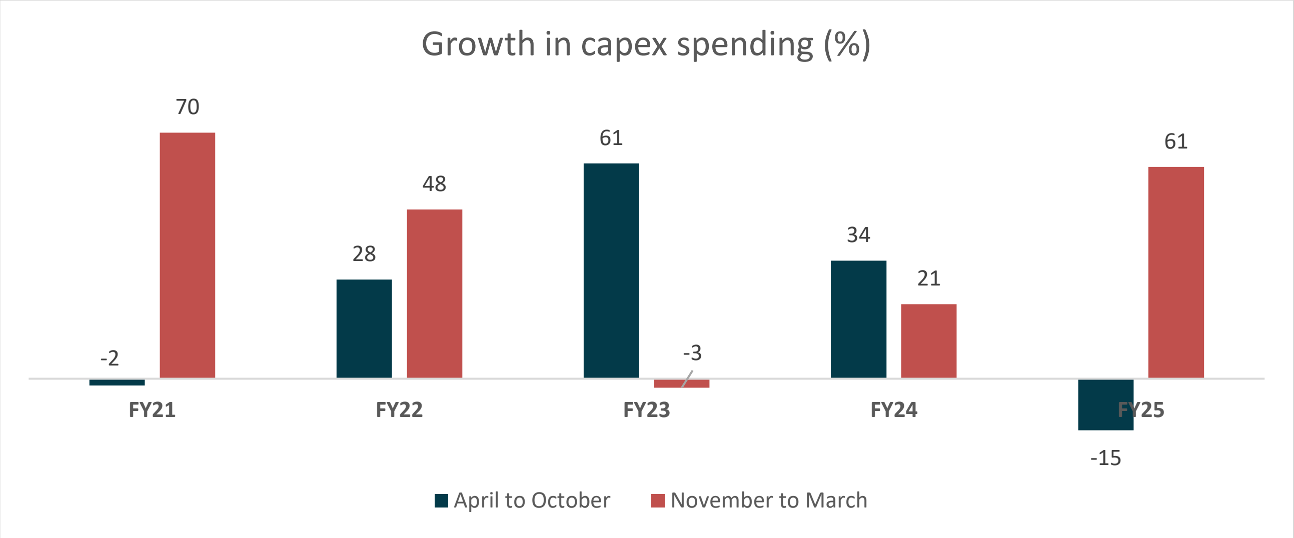
- Renewables stocks: In this space, we have seen new listings and value creation. The multitude of government-related measures and supportive policy led to increased market size and made domestic players withstand the Chinese competition.
- Electronic manufacturing
- Hospitality: The entire tourism space hogged the limelight. Air passengers, hotel occupancy and room rates reached new heights. The availability of improved infrastructure coupled with the trend shift towards experience has led to structural growth for the industry.

We entered 2024 with a positive momentum on earnings. Consequently, the equity market did well in the first half of the fiscal year, in response to corporate earnings and economic growth. Other factors that were beneficial last year include:

- Range bound commodity prices
- Bond inclusion related inflows
- Domestic equity flows supporting markets

Post the election, in H2, volatility increased with earnings growth slowing that led to earnings downgrade. Earnings growth dropped to single digit.

As we progress into 2025, we expect a gradual recovery in growth rates. The government capital expenditure, which has been slow so far, needs to accelerate. Between April and October 2024, the government capex has been down 15% on a year-on-year basis. This means to meet the budgeted target; the government needs to increase the capex spending by 60% for the remaining period.



Source: Brokerage reports

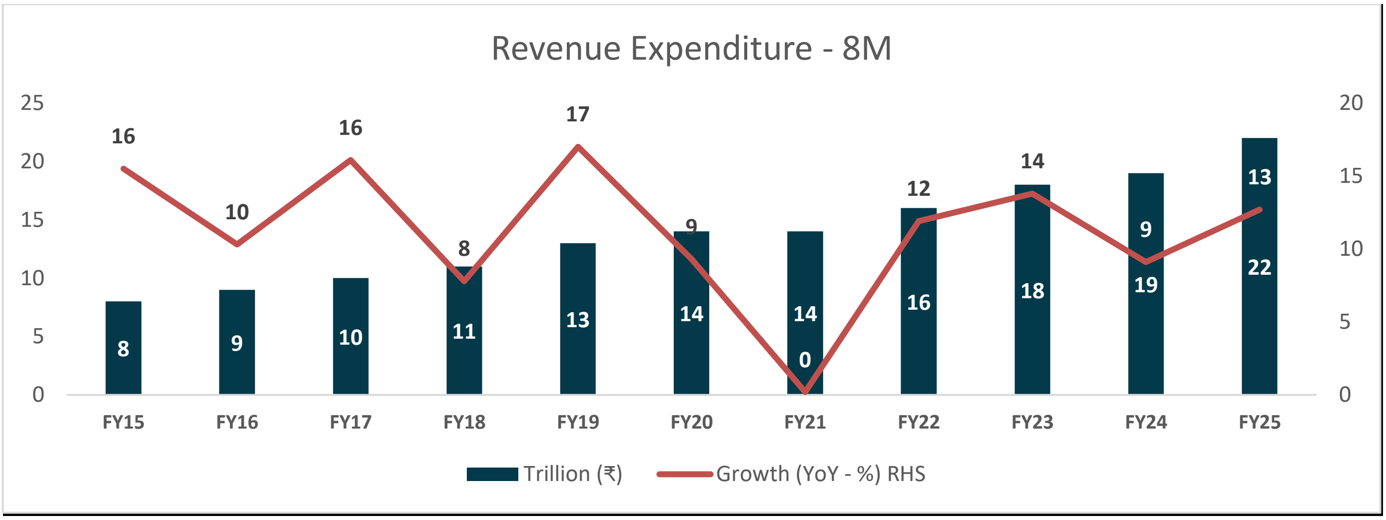
*Note: *Nov-Mar spending and growth for FY25 is the required rate needed to meet FY25BE*

While the government may not be able to meet its budgeted capex, acceleration is a necessity. Also, we expect revenue expenditure, which has been growing at 4.7% CAGR between FY21 and FY25E, should see acceleration.

	Revenue Expenditure (₹ crore)	Year-on-Year	CAGR (FY21 to FY25E)
FY21	30,835	31%	4.7%
FY22	32,009	4%	
FY23	34,531	8%	
FY24	34,940	1%	
FY25E	37,094	6%	

Source: Brokerage reports

On the state side, the welfare spending is taking precedence. In the first eight months of this fiscal, the welfare-linked revenue expenditure rose by ~13%. This should have a positive impact on consumption going forward. We expect the rate of growth for discretionary consumption businesses to get better.



Source: Brokerage report

As we progress, we expect CY25 to be a year of gradual improvement. As it appears now, outlook on macro, earnings should improve – but only gradually.

Areas that need close monitoring:

- Household leverage: Especially the performance of unsecured lending, that can be a lead indicator. This needs to be monitored closely for any turns. A fair amount of pain has already been taken.
- Supply cycle: This can lead to higher competition. The competition may emanate even from imports. This implies that businesses which have pricing power should be preferred.
- Fiscal outlook: The government needs to balance troika of growth in capex, revenue expenditure and tight control on fiscal deficit. The tax collection will play an important role.
- We expect macro positives in consumption trends and private capex.

In an environment of a slow earnings growth, it is important to focus on bottom-up ideation – rather than top-down approach. We believe select businesses in discretionary consumption, manufacturing and pharmaceuticals should do well.

- Consumption should see benefits of improved hiring by IT companies (after almost 6 quarters), moderate inflation and continued income growth. Agri rural income should inch up due to combination of high prices (increase in prices of agri commodities like wheat and rice etc). Non agri-rural income should benefit from an increase in high government spends, driven by welfare expenditure of state and central.
- Manufacturing should continue to do well driven by redrawing of supply lines globally, focus on import substitution and rebuilding or creating infrastructure in India and globally. The businesses operating in electronic manufacturing, energy transition, circular economy, and semiconductor are expected to benefit.

Also, as the profit growth divergence across business sizes is reducing, we expect reduced price performance divergence as well. India Inc, in general, is now settling at a lower profit growth (low double digits).

At ASK, we have a sharp focus on high-quality and growth businesses operating in manufacturing, discretionary consumption, pharmaceuticals, while being underweight on banks. We have focused on businesses that have execution prowess and ability to increase market share across varied business environments. Also, companies with high ROCE and value-adding profit growth should continue to command a valuation premium. The focus has to be on growth, rather than pure cigar butts.

Happy investing.

Sumit Jain

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Source: ASK IM Research and documents available in public domain