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Towards New High: 2025

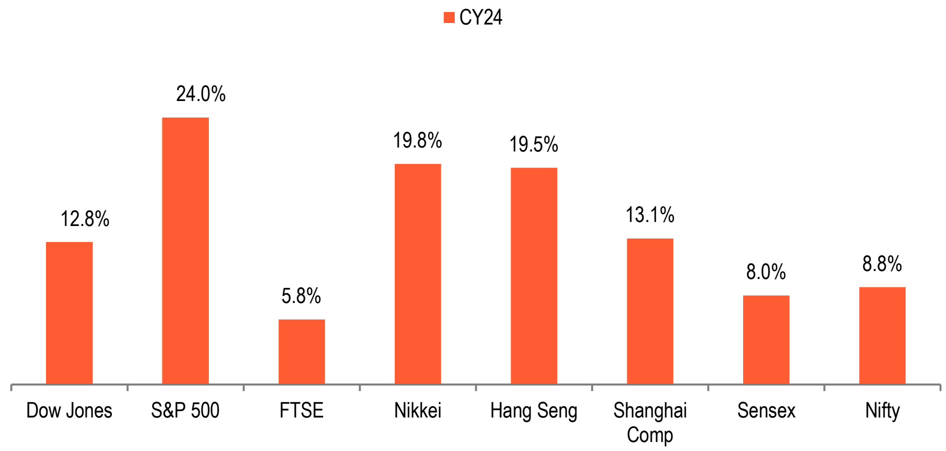
The year 2024 saw a stellar performance by global equity indices. The market was exposed to range of challenges across the globe including geopolitical conflicts in Middle East, Russia-Ukraine ongoing war, slowdown in China, economic contraction in Germany. Moreover the US presidential election and India's Lok Sabha election played a pivotal role in driving the markets through the year. As we ushered in the New Year, the focus will shift towards assessing the impact of Donald Trump induced polices specially the tariff hikes on global trade. Policy divergence by global central banks, stronger dollar and movement of global yields needs careful monitoring.

Equity Market:

Global equity indices performed stupendously ending CY24 on a high with a rally noted across the board. In the US, major indices including S&P 500 and Dow Jones continued to clock double digit gains on an annual basis. Within S&P 500, sectors such as technology, communication services along with consumer discretionary registered biggest gains for the year. US markets are expected to strengthen further especially towards technology sectors and easing of rates by US Fed. Some uncertainty might prevail and investors might turn cautious as they will try and assess the impact of polices by President-elect Trump. Furthermore, both Hang Seng and Shanghai Comp rebounded sharply as they reversed their losing streak and advanced by 19.5% (-17% in CY23) and 13.1% (-5% in CY23) respectively in CY24.

Notably, on the domestic front both Sensex and Nifty 50 surged by 8.7% and 9% for the same period. Sensex touched an all-time high this year as it breached the mark of 85,500. Sectors including real estate, consumer durables and IT were amongst the best performing stocks in CY24. There has been some correction in the last few days however the analyst expect the indices to advance in the beginning of CY25 on the back of recovery expected in earnings, supported by boost to rural spending and pick up in government spending.

Figure 1: Movement of Global Equity in the last 1-year

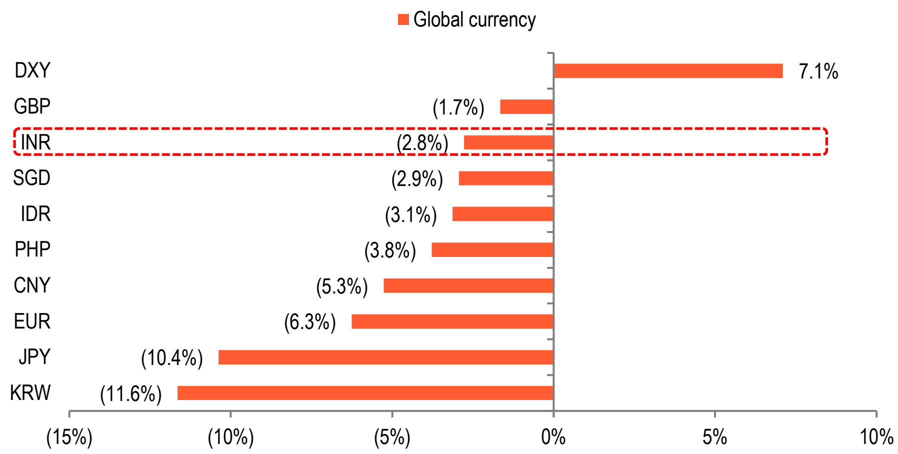


Source: Bloomberg, Bank of Baroda Research

Global Currencies:

Global currencies depreciated against the greenback. In CY24, the DXY index which is used as a measure of dollar's strength against a basket of 6 major currencies gained by 7%. This was supported by the geopolitical conflict in Middle East, the ongoing Russia-Ukraine conflict which all contributed in strengthening dollar's demand. Yen was amongst the weakest performing currency as it weakened (4th time in a row) again as the interest rate differential between US and Japan widened. BoJ ended the year of ultra-loose monetary policy and hiked the rates for the first time in over 17-years. Japan was the last Central bank to exit the negative rates and kept the new policy rate at 0-0.1%. There is expectation of more intervention by the authorities in order to address the currency weakness. INR depreciated by 2.8% in CY24, but remained one of the better performing currencies amongst other its peers. RBI continued with the forex intervention in order to address the weakness in the currency. India's foreign exchange reserves dropped down by US$ 8.5bn to US$ 644.3bn for the week ending 20 Dec 2024. Stable CAD and lower oil prices also supported the rupee. In CY25, INR is expected to depreciate marginally as volatility in FPI flow might continue given the likelihood of stronger dollar.

Figure 2: Movement of Global currencies in CY24



Source: Bloomberg, Bank of Baroda Research

Bonds:

Global yields ended mixed. The benchmark US treasury yields climbed up by 69bps in CY24 ending the year above 4.5%. Mixed economic signals through the data points resulted in the sideways movement of the yields through the year. US Fed began with the monetary easing cycle this year in Sep'24 as it lowered rates for the first time in 3-years. While there was initial expectation of more rate cuts, the Fed dialed back any such reduction in CY25 to only 2, bringing down the federal funds rate to 3.75-4% mark. Despite the cuts, the yields continue to remain elevated yields, this also signal that the inflation risk continue to persist. In CY25, there is some uncertainty at play owing to the impact of the upcoming policies that will laid down by Donald Trump administration and these could be inflationary.

Additionally, Fed shifting gears based on the inflation risk as it continues to remain above the target level along with the recent uptick in unemployment and close tracking of economic activity, signals some risks to rate cut expectation. India's 10Y bond yield moderated down by 44bps. The pressure on yields was lower and boosted demand flow as the market witnessed the bond inclusion in the JP Morgan emerging market index, Bloomberg and FTSE Russel. The Government continue to follow its fiscal prudence path, as it plans to lower its fiscal deficit to 4.9% of GDP with the gross borrowing target of Rs 14tn. Expectation of rate cut by RBI are back on the table beginning with possibly Feb'25 after keeping rates on hold at 6.5% since Feb'23.

Table 1. 10Y Yields movement globally

Countries	10Y sovereign yield, 1 Jan 2024	10Y sovereign yield, 31 Dec 2024	Change in 10Y yield, Dec/Jan, bps
UK	3.64	4.57	93
US	3.87	4.57	69
Japan	0.62	1.10	49
Indonesia	6.52	7.00	48
Germany	2.07	2.37	30
Korea	3.31	2.87	-43
India	7.20	6.76	-44
Thailand	2.70	2.25	-45
China	2.56	1.68	-89

Source: Bloomberg, Bank of Baroda Research

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