mint
December 26, 2024

Asset quilt: How returns varied across assets classes in 2024 and last 10 years

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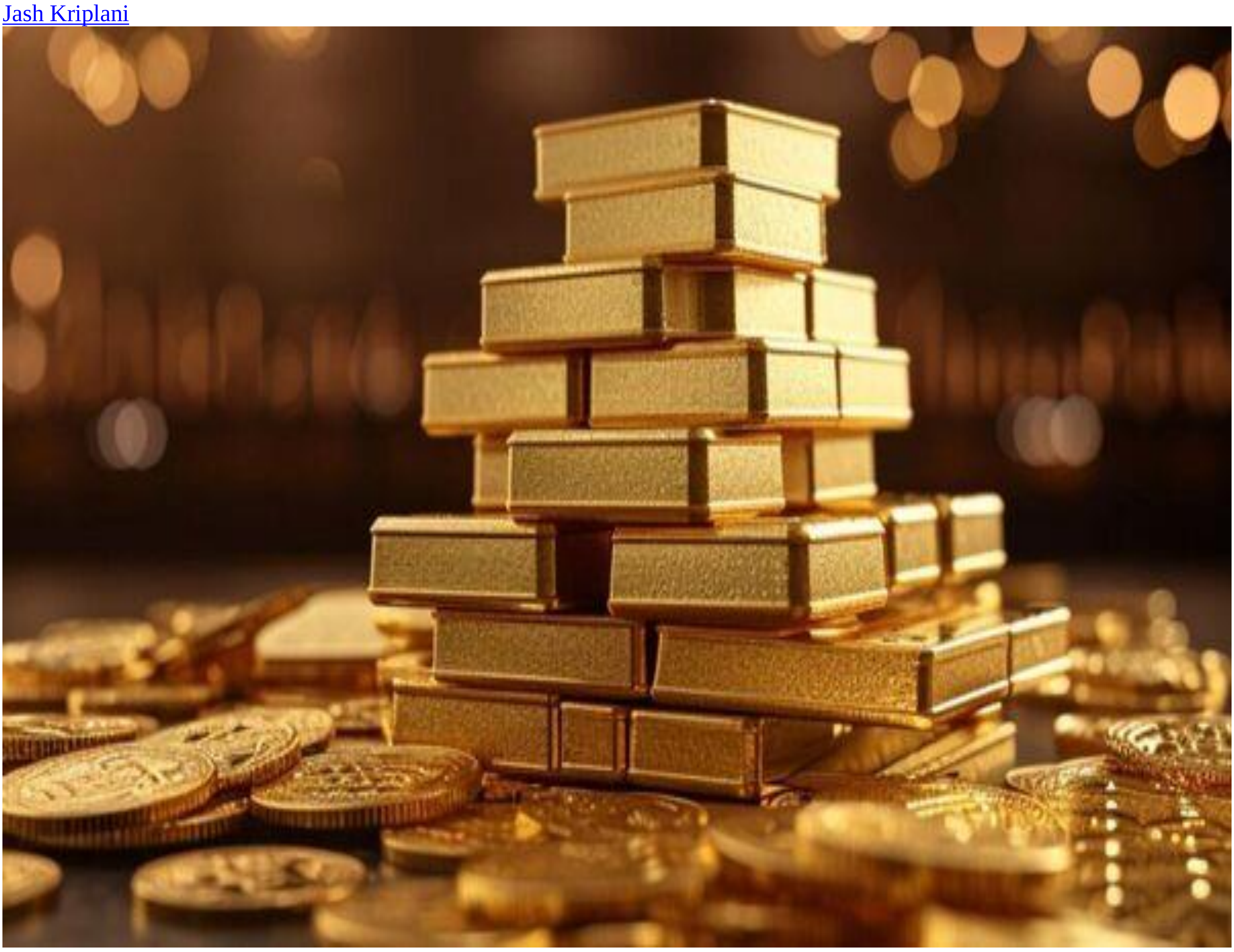
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SUMMARY

Equity returns moderated in 2024 after a strong rally in previous year.

While the winners among asset classes keep rotating every year, the absence of any such pattern over the past 10 years (see chart) reinforces the importance of asset allocation in building a balanced portfolio.

Here's a quick look at the performance of different asset classes in 2024.

India equities: taking a breather

Unlike last year, when Indian stock markets were on a tear with the BSE 250 SmallCap Total Return Index (TRI) delivering 47.3% returns, this year the stock markets seem to have taken a breather. The BSE 250 SmallCap TRI is up 24.1% in year-to-date returns (as of 23 December). The BSE 150 MidCap TRI is up 26.2% this year (from 42.4% in 2023) and the BSE 100 TRI—which tracks large-caps—is up 13.7% (from 23.2% in 2023).

In 2024, the stock markets have been more volatile. The frontline market indices—BSE Sensex and Nifty 50—have corrected as much as 10% from their respective highs touched on 26 September.

The correction came amid a sell-off by foreign investors, downgrades to corporate earnings, and slower economic growth. Foreign portfolio investors (FPIs) have net sold Indian equities worth ₹95,558 crore since October.

Experts expect some moderation in market momentum, but believe India's structural growth story remains intact.

“What we have seen in the last five years in terms of returns across large-cap, mid-cap and small-cap, we are unlikely to see a repeat of that in near-to-medium-term," said Nilesh Shah, managing director of Kotak Mutual Fund.

Shah added that valuations are fair, the base is high, and nominal returns will also decline in line with inflation. “It will also be important to watch FPI flows," Shah said. “Markets will remain weak as long as they are selling aggressively. Their aggressive buying can push market higher."

The asset allocation quilt

The table ranks 10 asset classes in order of their return performance -- from the highest to lowest -- for each calendar year in the 10-year period from 2015 to 2024. The absence of any pattern in the returns of asset classes from one year to the next reinforces the importance of asset allocation to build a balanced portfolio against trying to consistently predict the next winning asset class. A diversified portfolio of stocks, bonds, and physical assets is key to steering through every market condition. Such a portfolio may not deliver the highest return in any given year but will perform competitively across market cycles.

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Returns (in %)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	10 years CAGR (%)
Mid-cap 12.6	G-sec 15.0	Small-cap 57.1	Gold 8.4	S&P 500 31.8	Small-cap 27.9	Small-cap 59.1	Gold 11.7	Small-cap 47.3	S&P 500 26.9	Mid-cap 19
Credit risk 10.0	S&P 500 12.5	Mid-cap 52.7	G-sec 8.0	Gold 21.1	Gold 27.6	Mid-cap 48.7	Large-cap 6.0	Mid-cap 42.4	Mid-cap 26.2	Small-cap 16
Corporate bond 9.0	Corporate bond 12.0	Large-cap 33.3	Corporate bond 5.0	G-sec 12.0	Mid-cap 26.3	S&P 500 29.1	Credit risk 5.4	S&P 500 25.1	Small-cap 24.1	S&P 500 15
G-sec 7.0	Credit risk 12.0	S&P 500 12.3	Credit risk 5.0	Large-cap 10.9	S&P 500 19.0	Large-cap 26.5	Mid-cap 3.6	Large-cap 23.2	Gold 19.0	Large-cap 13
T-Bill 5.4	Gold 10.9	Credit risk 8.0	Real estate 4.8	Corporate bond 10.0	Large-cap 16.8	Credit risk 8.6	Corporate bond 2.9	Gold 12.3	Large-cap 13.7	Gold 11
Real estate 4.5	Real estate 9.6	Corporate bond 7.0	T-Bill 4.1	Credit risk 8.0	G-sec 12.8	Corporate bond 4.9	Real estate 2.7	Credit risk 9.3	G-sec 9.9	Credit risk 9
S&P 500 4.2	Mid-cap 6.8	Real estate 6.4	Large-cap 2.6	T-Bill 4.2	Corporate bond 12.3	Real estate 3.1	G-sec 2.6	G-sec 7.7	Credit risk 8.8	G-sec 8
Small-cap 3.3	Large-cap 5.0	Gold 6.0	S&P 500 2.4	Real estate 4.2	Credit risk 11.4	G-sec 2.2	T-Bill 2.5	Corporate bond 7.0	Corporate bond 7.6	Corporate bond 8
Large-cap -2.0	T-Bill 4.7	T-Bill 4.0	Mid-cap -12.9	Mid-cap 0.9	T-Bill 3.1	T-Bill 2.0	Small-cap -1.0	T-Bill 4.3	T-Bill 4.6	T-Bill 4
Gold -7.9	Small-cap 3.3	G-sec 2.0	Small-cap -23.6	Small-cap -8.4	Real estate 1.2	Gold -2.7	S&P 500 -10.0	Real estate 2.0	Real estate 0.9	Real estate 4

Domestic stock market returns as on 23 December, 2024; T-Bill: treasury bills; G-secs: government securities; for large cap, we have used BSE 100 Total Return Index (TRI); for mid cap, BSE 150 MidCap TRI; for small cap, BSE 250 SmallCap TRI - switched indices for Total Return Index for current year and previous years; for T-Bills, CCIL T-Bill Liquidity Weight data as of 18 December 2024; for G-secs, CCIL All Sovereign Bond Index data as of 30 November 2024; for corporate bonds, Crisil Corporate Bond Composite Index data as of 17 December 2024; for credit risk, Crisil Composite Credit Risk data as of 17 December 2024; for international, S&P 500 data (converted to rupee returns) as of 20 December 2024; for gold, this year we are switching from World Gold Council data to Nippon India ETF Gold BeES data - as of 23 December 2024 - as latter represents transaction-based prices and due to wide divergence between WGC and domestic gold ETF data; for real estate, RBI Housing price Index up to Q2 of FY2024-25 (showing 9-month return)

Source: Mint research; Bloomberg; BSE; Value Research; others mentioned in footnote

Devina Mehra, managing director and chairperson of First Global said, “From one-two-year perspective, we are positive on large-caps and frontline indices, but we are cautious on pockets which have seen froth."

She pointed out that when a correction follows a bull run, and an uptrend resumes after that, it is usually not the same set of stocks that come back—the ones that did well in the past. “The index moves, but the composition of the index changes; more so in the small-cap space," said Mehra.

Debt markets

Within debt markets, government securities (G-Secs) have delivered returns of 9.9% in 2024 (as of 30 November). G-sec yields have fallen by around 38 basis points (bps) in 2024. One basis point is one-hundredth of a percentage point. “Rate hike cycle stopped in 2023, and after that we saw inflation beginning to come down," said Mahendra Jajoo, chief investment officer-fixed income at Mirae Asset Mutual Fund. “And then growth numbers in the US were not as per expectations, unemployment was picking up in the US. So, there was expectation of a rate cut."

In India, there was no rate action, but there was anticipation, Jajoo said, adding that that led to long-term rates coming down, which in turn resulted in good performance of the long-term bond funds, especially long-term G-Secs.

“That is the story of 2024," Jajoo said, before moving to explaining the outlook for 2025.

“We know liquidity was tight in 2024—credit was strong in the first half and then the banks were chasing deposits, so the short-term rates did not come down," he said. “So, that further magnified the performance of the long-term funds”.

Meanwhile, he pointed out that the rate-cut cycle has just started in the developed markets. The US Fed is still talking about a 50 bps rate cut. “They are not saying that they will stop. The first 100 bps was always a low-hanging fruit and next round is there," he said. “So, still there is momentum on the rate-cut side. RBI is also expected to start the rate-cut cycle sometime in 2025." Jajoo reasoned that therefore, 2025 will be a good year for fixed income.

Jajoo said while there is also a long-structural play on the G-secs beyond the next year, investors should diversify their holdings even within the debt basket. “Keep in mind the long-term bonds, especially G-secs, tend to be more volatile than other segments of the debt market," he explained.

He added that in the current market environment, corporate bonds also look attractive as the liquidity is starting to improve for the corporate bond market.

Mehra added that markets’ reading of the US Fed’s rate-cut action is also a variable. “If the US Fed doesn’t cut rates as much as expected, the markets may attribute it to the US economy doing well—the same fact can be used to explain the market going up or down," she said.

Gold

Gold has also had another good year, delivering 19% returns so far in 2024, after delivering 12% returns in the previous year.

Experts are positive on gold for now. Chirag Shah, chief investment officer at Quantum AMC, said that 2025 is likely to be marked by further geopolitical developments that could influence both the US dollar and gold prices. “In times of rising uncertainty and risk, investors are likely to seek refuge in gold, which could lead to a significant surge in its price," he said.

Mehra of First Global added that gold is also a volatile asset, if you look at its past returns in dollar terms. It can be part of one’s overall asset allocation, she warned that it is not a particularly “safe" asset class.

“Gold’s historical price chart looks good in INR terms simply because rupee has been depreciating against the dollar. For example, after reaching a dollar high point in the early 1980s, gold didn’t come back to the same levels for more than two decades and went down 60% in the interim. From its next high, it saw a 40% drawdown," she explained.

Keeping in mind this kind of volatility, Mehra suggested that investors should not look only at gold to get a currency hedge, they should also consider global diversification.

International

The S&P 500, which tracks the stock performance of 500 of the largest listed companies in the US, has been the best-performing index this year compared to other indices on the asset quilt. In INR terms, the S&P 500 has delivered 26.9% returns, slightly ahead of BSE 150 MidCap TRI.

Mehra said investors cannot ignore currency depreciation, especially when people are travelling abroad and sending their kids to study abroad. “Since I started my career, the rupee has moved from ₹12 against the dollar to ₹85. For anyone looking at long-term goals, global diversification cannot be ignored," she said.

Mehra says investors may start their global diversification journey with the US, but they should also look at other geographies over time.

She cautioned that in the near-to-medium term, the developed markets versus emerging markets trade may turn. “The US markets have been outperforming emerging markets for a very long time. At some point, this trade may turn," Mehra said.

Real estate

The housing price index is up 0.9% in 2024 (data available up to September quarter).

Anuj Puri, chairman at ANAROCK Group said that there was marginal decrease in housing absorption in 2024, although overall sales value outpaced the previous year. “In a year that saw general and assembly elections and the accompanying slowing down of project approvals and a wait-and-watch stance by some buyers, this was to be expected," said.

Takeaways

As our study shows, there is no set pattern for when one asset class will outperform and when another will lag. There can be multiple factors—both global and domestic—that can influence price movements of different asset classes.

Hence, trying to time one’s investments, chasing past year’s winners, or deviating from one’s asset allocation to bet on next year’s potential winner, can backfire.

Investors should plan for their financial goals with a well-diversified portfolio, which is a good balance between one’s risk-tolerance and return expectations.