STATE STREET GLOBAL ADVISORS



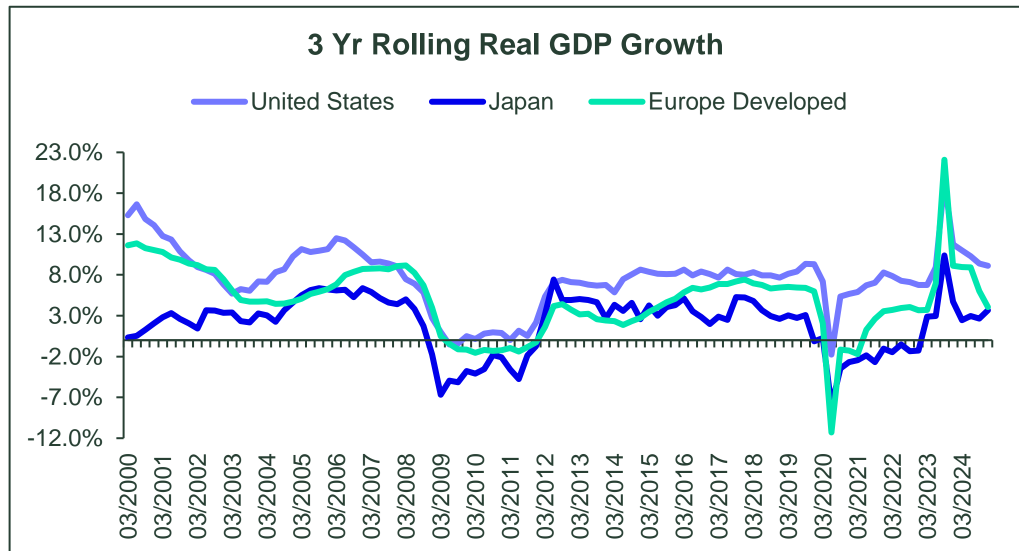
**March 27, 2025**
Commentary

# Weekly Market Update

## Insight of the Week

### US GDP Growth Dominance

In real GDP growth terms, the United States has consistently outperformed other developed economies over the past couple of decades. However, the true measure of U.S. economic dominance is not just its growth rate but its ability to sustain this momentum while being the largest economy in the world. The chart below illustrates this trend, showing that the U.S. tends to outperform in expansionary periods and experience shallower contractions during downturns.




*Source: FactSet. Rolling 3 year quarterly compounded growth (not annualized). As of most recent quarter end 12/31/2024.*

There's an old saying that goes "the stock market is not the economy", implying there is a disconnect between the two. While there are times to agree with this, it's tough to argue against the fact that a healthy economy is supportive of the stock market, especially in a chronic state of superiority. The relative performance of US equities over this time period has largely mirrored this theme.

However this data looks backwards into the past, and markets look forward. It's generally better to invest with the trend, not against, and investing in reversals is extremely difficult. While there have been some recent developments to like internationally, particularly Germany's increasing fiscal spending, will this be enough to spur structural growth in Europe and recent equity outperformance? For now, we're taking the longer view, and continue to have a preference for the US.

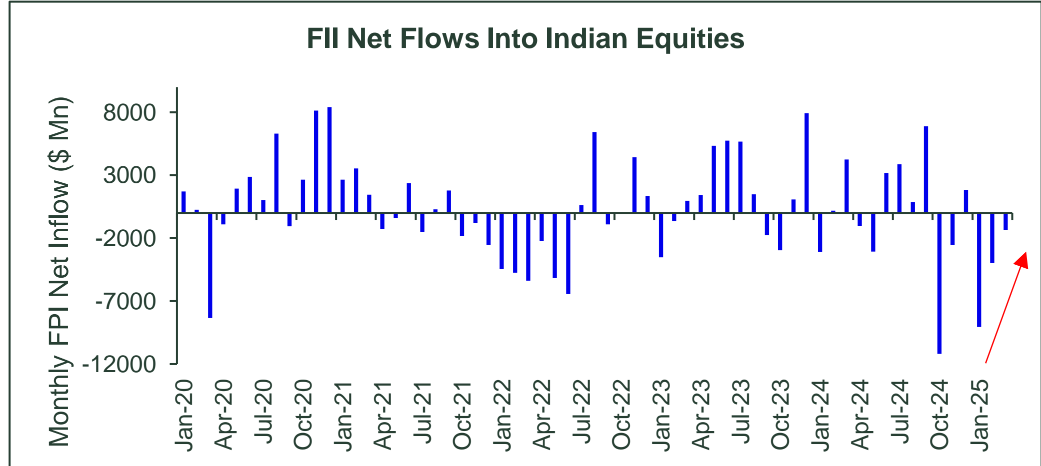
*Source: FactSet, State Street Global Advisors.*

**Equities**

### Is The Worst Behind for Indian Equities?

Despite weak global sentiment amid escalating trade tensions and rising concerns over a slowing U.S. economy, Indian equities surged 6.39% last week[1] , posting their strongest weekly gain in 4 years, after an extended sell-off that had made India the worst-performing major market since October 2024. The post-COVID bull run delivered a 32%[2] annualized return (until the market starting correcting in October 2024), driving valuations to elevated levels, with MSCI India trading at a forward P/E north of 25 during September highs, compared to 21x for the S&P 500 at the time. However, the cyclical slowdown in the Indian economy—evident in Q2 GDP growth[3] of 5.6% (vs consensus estimates of 6.5%-7%)—alongside lackluster Q2 corporate earnings failed to support these stretched valuations, triggering a correction. The correction deepened as FIIs aggressively sold Indian equities, reallocating capital to the U.S. post-Trump's re-election and China amid Beijing's stimulus measures.

Further pressure came from India's LTCG tax hike for FIIs (10% to 12.5%), making it less competitive among EM peers and increasing tracking errors in EM index funds. As a result, FIIs pulled $11.2Bn in October 2024 and $29Bn by mid-March 2025, with financials, oil & gas, consumer, and auto stocks facing the sharpest outflows, driving a 20.7% market decline from September 2024 highs[4] . However, FII selling has slowed recently, moreover since mid-March FIIs has turned net buyers with $2.1Bn inflows.




*Source: National Securities Depository Ltd. (NSDL). Monthly Data from January 2020 till March 2025. March 2025 data is till 27 March 2025.*

Is the worst over for Indian equities? While it is too early to call a sustained reversal, Large-cap valuations now look more reasonable (P/E 20.9x, just below the 3-year median of 21.9x), but midcaps (P/E 36x) and small caps (P/E 28.4x) still remain expensive[5] , leaving them vulnerable to further multiple compression. Going forward, Market direction will depend on global trade tensions and domestic earnings recovery, with India's income tax relief measures potentially aiding urban

[1] MSCI India total return between 17-21 March 2025 in USD.
[2] MSCI India total return between 23 March 2020 till 27 September 2024 in USD.
[3] Q2 refers to April-September Quarter.
[4] MSCI India drawdown from September 2024 highs to February 2025 lows in USD.
[5] Data as of March 27,2025 for Nifty 50, Nifty Midcap 150 and Nifty Small cap 250 Indices .

consumption. However, sustained inflows will require stronger corporate earnings growth to support valuations.

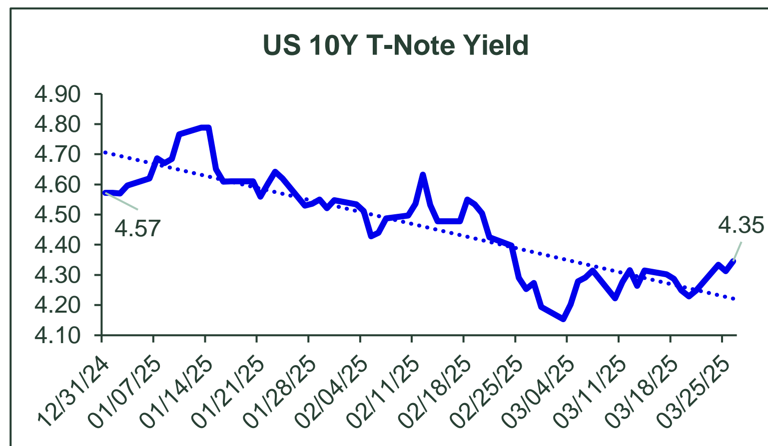
*Source: FactSet, NSDL. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.*

## Fixed Income

### Push and Pull on Treasury Yields

It has long been our view that as the Fed cuts rates, yields will subsequently fall, providing a price return tailwind to owners of fixed income. However, this has not happened as orderly as market participants may have expected. Instead, the market has grappled with the effects of tariffs and policy changes, namely the dynamic of growth and inflation, and the result has been higher interest rate volatility. Recently we've seen some reprieve as volatility has dissipated for now.

The MOVE index has settled from mid-March, now sitting at 91.41 and the 10Y UST yield is 22bps lower than where we started the year.




*Source: FactSet. Data as of 3/26/2025.*

Below we explore some of the forces currently exerting downward pressure on yields.

<u>Softer Economic Data</u>

Each week brings a new data print that disappoints markets and reignites growth fears. Specifically, soft data such as sentiment and survey figures have overwhelmed the relatively healthy hard data. Consumers are feeling bleak. The latest Conference Board's Consumer Confidence Survey reached the lowest reading since January of 2021. Each cloudy print 1) Reignites a flight to treasuries for safety, and 2) Gives the Fed ammo for a rate cut, both pushing yields down.

<u>Liquidity from the TGA</u>

Given the U.S. government has hit the debt ceiling and cannot issue any more debt, the Treasury has been paying its bills and obligations through the Treasury General Account (TGA). This essentially brings money held at the Federal Reserve

into the banking system, increasing bank reserves and boosting overall market liquidity. This has also put downward pressure on yields.

Structural Demand

Demand from large institutions such as well funded corporate pension plans, and from an aging US population, drive a bid to bonds. These large buyers need assets that exhibit capital preservation, such as US Treasuries, applying downward pressure to yields.

Additionally, interest rate differentials drive demand as the 10Y US Treasury continues to offer a higher yield than many other regions. For example, currently the yield on the US 10Y is 156bps higher than 10Y German Bunds and 277bps higher than the 10Y JGB. This continues to drive developed bond market investors to the US for higher yielding assets.

Interestingly, a lower yield on the 10Y US Treasury has been a stated goal of Secretary Bessent. There are a variety of ways the administration could attempt to influence yields. The first of which is to reduce government spending, which DOGE is working towards. It’s questionable whether the impact of DOGE will be large enough to meaningfully reduce the deficit, though if it is, or the deficit is reduced in another manner, this helps to lessen term premium. Of course another privilege of Treasury Secretary is discretion over debt issuance. If the Treasury were to issue more bills as opposed to longer dated bonds, this could have a similar effect.

Though there are a variety of forces pushing yields downward, upward forces exist as well. Some of these include: a resurgence in inflation, worries about fiscal debt, high tariffs, and tax season which will impact market liquidity. Push and pull forces make it difficult to discern the direction of yields in the short run, though we do expect to see lower yields by year end and over the long term.

*Source: FactSet. Data as of 3/26/2025 unless otherwise stated. Past performance is not a reliable indicator of future performance.*

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*Pensions & Investments Research Center, as of 12/31/23.
†This figure is presented as of December 31, 2024 and includes ETF AUM of $1,577.74 billion USD of which approximately $82.19 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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