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# Allocate to optimism—Positioning for growth and innovation in the Technology Sector for 2025

With AI-driven productivity gains, accommodative monetary policy, and forward-looking deregulation, Franklin Templeton believes that 2025 is set for meaningful economic growth. The Trump administration's lighter regulatory touch is also expected to foster a more dynamic business landscape, bolstering opportunities within technology, financial services, industrials, and energy. The article will explore the outlook for growth and innovation in the technology sector.

## Overview

In 2025, it's believed US equity markets are poised for continued growth, supported by three factors:

1. The US economy appears to be entering a new, innovation-led business cycle fueled by the rapid application of artificial intelligence (AI) across multiple sectors, health care innovation, energy infrastructure investment, and re-industrialization as manufacturers move onshore to avoid tariffs.

2. It's anticipated a supportive interest-rate environment as the Federal Reserve (Fed) maintains a neutral to dovish stance, especially if inflation remains subdued and real gross domestic product (GDP) growth is supportive.

3. The incoming Trump administration's deregulatory efforts, combined with Silicon Valley's rising political influence, particularly in support of "little tech," are likely to foster a more dynamic business landscape. Significant opportunities are seen with a lighter regulatory touch for the financial services, crypto, technology, industrial, and energy industries.

While risks exist, investors view them as manageable. To some, valuations may appear elevated, but it's believed earnings estimates may be too low, given the potential acceleration in growth and innovation in coming quarters. In aggregate, the outlook is positive, and investors are encouraged to allocate to optimism in 2025.

## Dawn of a new business cycle

It's believed the United States is on the cusp of an AI-driven productivity boom that could profoundly impact all sectors of the economy, and that many investors continue to underestimate the scale of this opportunity. Even modest gains in productivity, spread across the world's billion knowledge workers, would represent a massive shift in economic output and profitability. Additional value could be unlocked by new science and discovery opportunities beginning to emanate from AI reasoning models.

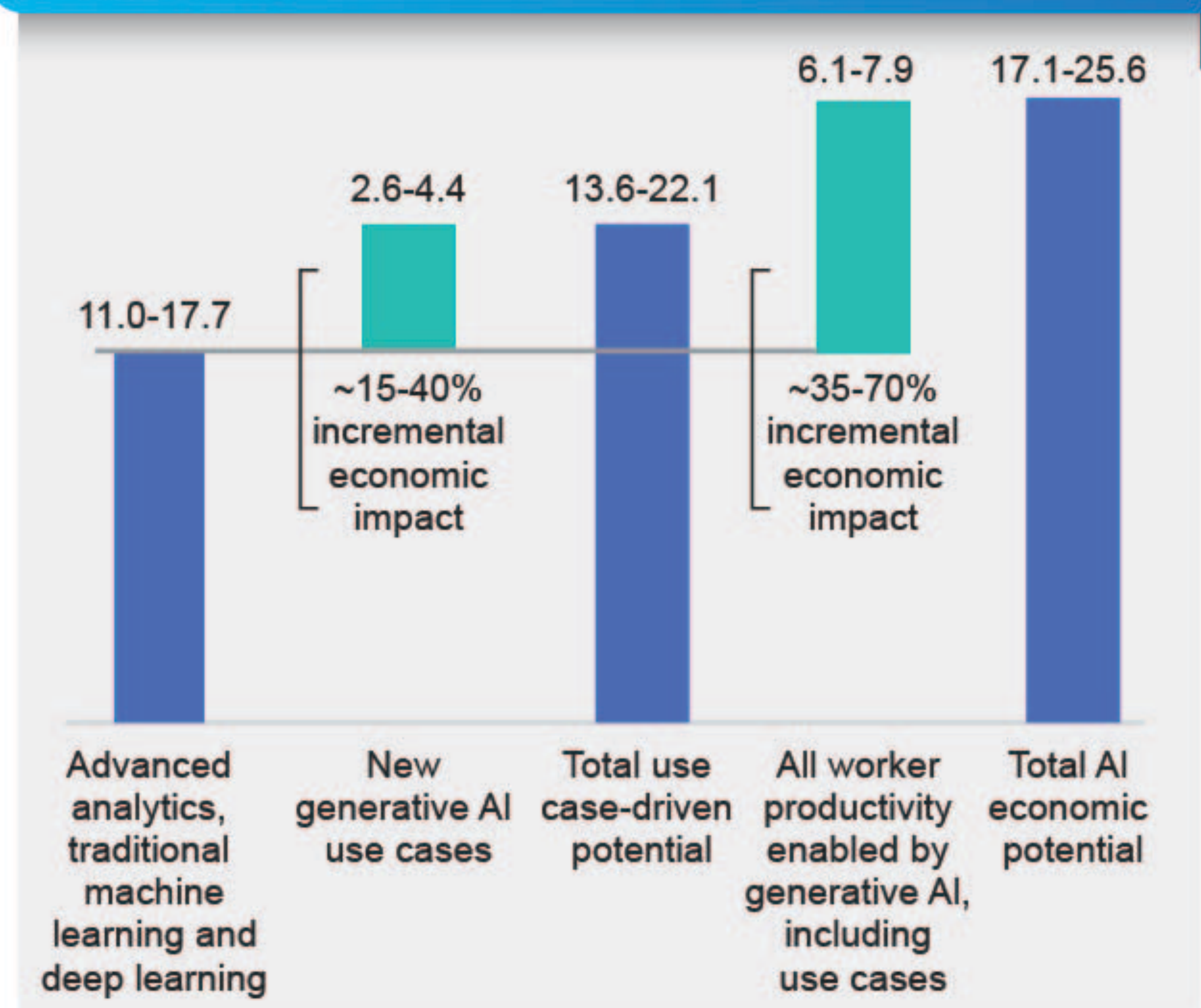
While early, key industries, including technology, health care, consumer staples, financial services, and energy, are already beginning to see tangible benefits from AI experimentation and adoption. It's believed the United States is uniquely positioned to lead this transformation for three reasons:

1. The United States is home to the world's leading AI suppliers

2. The nation's cultural and business environment fosters technological experimentation and implementation

3. The Trump administration should reduce regulatory obstacles to AI development and deployment, extending head start over global competitors

**Chart 1: AI's potential impact on the global economy (US$ trillion)**




Source: McKinsey & Company. "The economic potential of generative AI." June 2023. There is no assurance that any estimate, forecast or projection will be realized.

In addition, investors see promise in continued health care innovation, advanced energy production, and a "re-industrialization" of the US economy. Easing regulatory constraints, especially those affecting the financial services industry, could spur significant growth in the crypto opportunity.

The Trump administration aims to achieve what it calls "energy dominance" on a global scale. Energy infrastructure development holds significant strategic importance, aligning closely with the interests of Trump's tech and industrial-focused supporters. It's expected the administration to prioritize expanding electricity and energy capacity across oil, coal, natural gas, nuclear and interstate transmission, as well as to update and expand electric generating capacity, enhance grid reliability and encourage energy storage technologies, such as batteries. This infrastructure focus supports national priorities, including economic growth and job creation, enhanced energy security and reduced dependence on foreign energy. It could bolster US competitiveness in emerging technologies, particularly AI, while simultaneously addressing rising electricity costs and grid stability issues.

## A neutral-to-dovish Fed

The Fed is expected to maintain a growth-supportive stance through 2025. Market expectations suggest interest rates may settle into a 3.75%-4% range by mid-year, which should help sustain equity valuations. The Fed's careful calibration (supporting growth while balancing inflation risks) should underpin stable financial conditions in 2025, providing a favorable backdrop for equities. While investors should remain vigilant, especially given that any Fed action can sway markets, the current trajectory suggests moderate rates and a measured approach to policy changes. This environment should support innovation-led growth and enhance investor confidence across sectors.

## Deregulation and the influence of innovators, disruptors, and operators

A major catalyst for growth and optimism in 2025 is the incoming administration's push toward deregulation and government efficiency. Drawing inspiration from Reagan-era efforts, current policy direction aims to reduce bureaucratic red tape, rationalize government spending, and streamline federal agencies. The result should be a business-friendly environment that stimulates competition, lowers compliance costs and encourages innovation in finance, transportation, energy and technology.

This movement is reinforced by a new generation of influential policymakers: Silicon Valley entrepreneurs, disruptors and other business leaders. While many of these new players are public policy neophytes, their focus on growth, rapid decision-making, and technological advancement echoes past deregulatory cycles that unleashed periods of robust economic performance.

Key objectives include dismantling outdated dealmaking regulations, accelerating capital formation, and ensuring "little tech" companies can thrive under transparent and minimal regulatory oversight. The emphasis on national security, energy independence, and productivity aligns with a broader vision to maintain US global leadership in innovation. Investments in areas like space exploration, AI-driven manufacturing, robotics, and logistics automation all stand to benefit.

Trump's pro-innovation policies do carry tension and contradictions. They could come with substantial fiscal costs, which could spur inflation and interest rate challenges. They could also result in significant changes to current policies, such as the Chips Act and the Inflation Reduction Act.

## Conclusion

In 2025, the United States stands at the threshold of an innovation-led expansion. The interplay of AI-driven productivity gains, accommodative monetary policy, and forward-looking deregulation sets the stage for meaningful economic growth. Though uncertainties persist, the opportunities—especially among smaller, emerging companies and sectors poised to benefit from a lighter regulatory touch—are compelling.

By maintaining a positive investment outlook and focusing on innovators leading the charge, investors can position themselves to capitalize on a year that promises significant advances in technology, productivity, and long-term prosperity.

# India's promise of resilience in 2025

After being one of the fastest-growing major economies in recent years, the first tinges of doubt are creeping into India's rosy growth picture: the economy is showing signs of a slowdown, the stock market has corrected sharply in recent months, and near-term earnings have been muted. Valuations, however, remain on the higher side.

The article takes a closer look at these areas of concerns, highlighting the reasons why investors remain confident of the longer-term investment potential, and identify where the best opportunities lie.

## Growth prospects: Speed bumps ahead

The Indian growth story had been supported by a resilient macro backdrop, but some of that lustre appears to have been lost. According to government estimates, economic growth for the fiscal year 2024-2025 is expected at 6.4%[1], notably slower than the 8.2% clip in the previous fiscal year.

Multiple factors have contributed to this apparent slowdown, including weaker-than-expected consumer demand and reduced public spending as well as relatively weak government revenue.

While urban demand may remain affected by near-term inflationary pressures, there are signs that the long overdue recovery in rural demand could be coming through gradually – helped by a good monsoon whilst the upcoming harvest season would likely help to keep food prices at manageable levels.

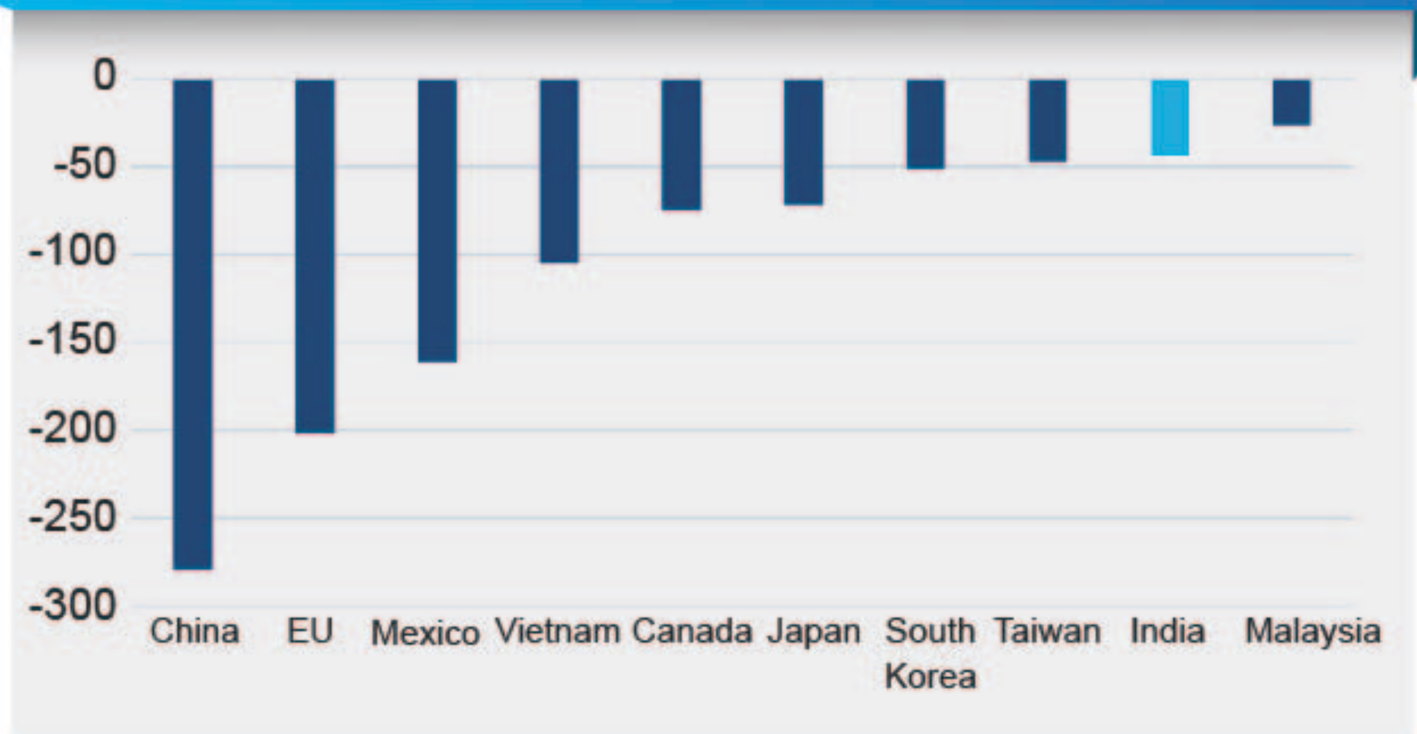
Government spending on capital projects is expected to improve in the second half of the current fiscal year as activities pick up during this period. In the first half, capital expenditure was affected by disruptions from the general election as well as extended monsoon rains. Investors will be watching the government budget for the fiscal year 2025-2026, set to be unveiled on Feb 1, 2025, for signs of spending priorities from the government.

Meanwhile, after a prolonged period of interest rates holding firm, there is growing scope for the Reserve Bank of India (RBI) to cut interest rates this year and for some of the liquidity tightness affecting India's all-important financial sector to ease. Already, the RBI has reduced the cash reserve ratio – the percentage of a bank's deposits that it must hold as cash reserve – by 50 basis points to 4% to address the tight liquidity conditions and to support growth.

## Preparing for Trump 2.0

President Donald Trump has made his intentions clear on tariffs, once he takes office, setting his sights on the likes of China, Mexico and Canada. India appears to be more insulated from the potential impact of stiff tariffs compared to other markets – as shown below – given that the US has a relatively lower trade deficit with the country. However, currency turbulence could pressure the rupee that could prompt the central bank, with its substantial reserves (about US$640 billion as of end-December), to come to the rescue.

**Chart 1: Goods trade balance with the US in 2023 (US$ Billion)**




Source: US Department of Commerce, abrdn, September 2024

## Earnings outlook

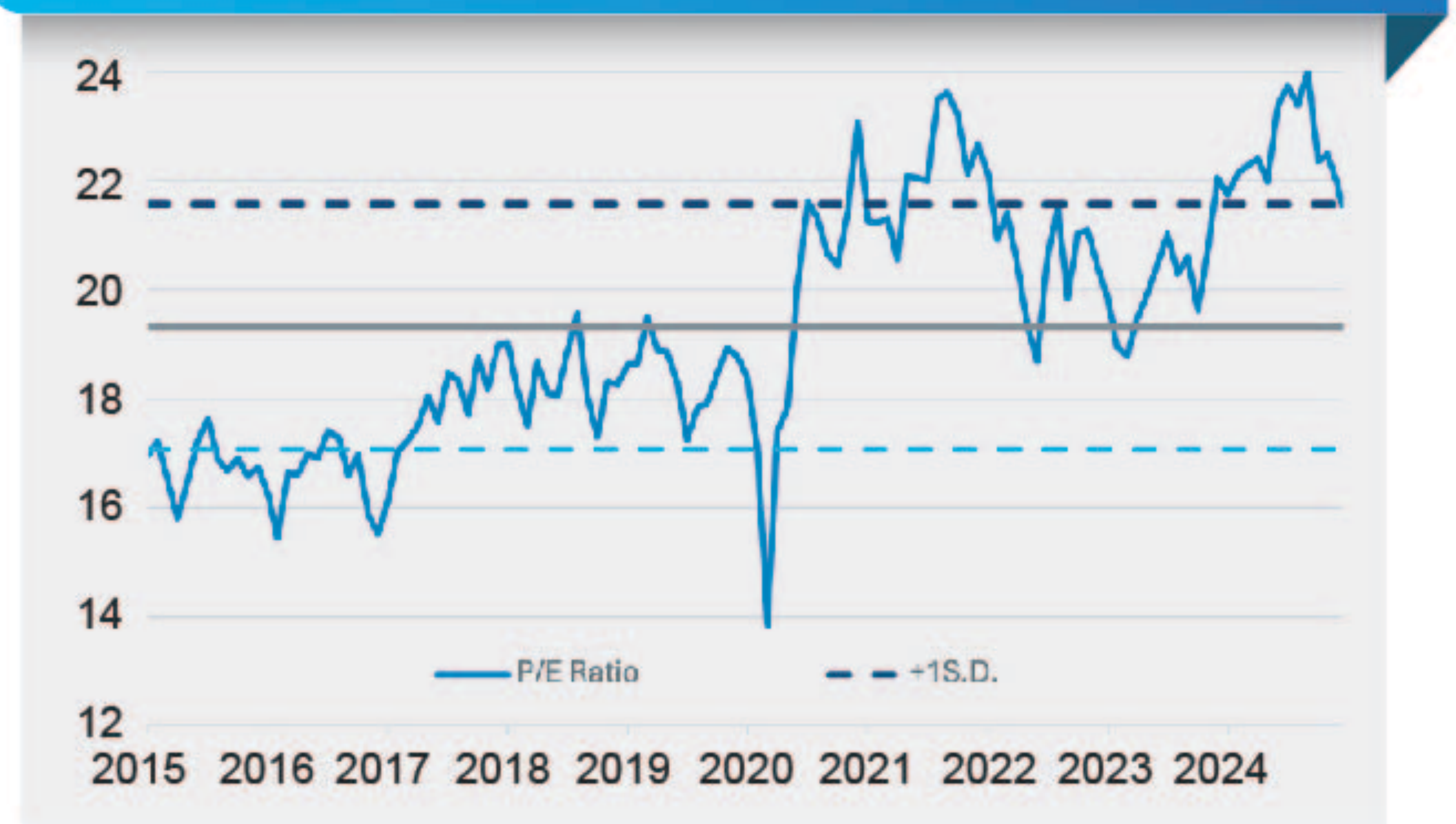
India's earnings growth has moderated in recent quarters, accompanied by a steep and prolonged correction in the stock market. This has been primarily driven by financials and consumer sectors, which make up a large percentage of the local indices. In other sectors such as telecommunications, IT, real estate, and pharmaceuticals, investors are still seeing growth. Structurally, investors also expect corporate profit growth to remain robust, supported by macro tailwinds and strong balance sheets.

Despite the interim challenges, investors' overall outlook is positive as investors expect the strategy's core quality holdings in the portfolios to continue delivering resilient earnings growth, underpinned by strong fundamentals, including pricing power, and robust balance sheets. abrdn's conviction in the experienced management teams has been reaffirmed during multiple research trips to India in 2024, where investors gained more clarity about the situation on the ground.

## Valuation hurdle: Recent corrections a chance to accumulate

While valuations have come off in recent months due to the moderation in earnings growth, it is still elevated compared to emerging markets. Some of this premium is justified by the long-term macro backdrop and the impact of reforms that is feeding through to the broader economy. Corporate India is in a relatively better shape than in the past, reflected in steady earnings growth and delivery in recent years.

**Chart 2: MSCI India valuation**




Source: Bloomberg, 13 January 2025.
Note: Blended Forwards 12 months

For the equity market, it is also important to understand the change around domestic flows. Investors have seen increased retail buying, given a notable shift towards systematic investment plans (SIPs), where investors commit to regular monthly investments in mutual funds. While flows have moderated over the last three months, this trend could continue over the long term as equity savings as a percentage of gross household financial savings stands at about 9%.

Nonetheless, there is still some froth in the market, which is why investors welcome the recent pullback and view this as a buying opportunity given their positive long-term outlook. Ultimately, investors need to take a bottom-up view and assess valuations on a stock-by-stock basis.

## Policymaking: steady and supportive

With the central election out of the way, policymaking would be expected to remain supportive of growth. Despite the Bharatiya Janata Party (BJP) losing its outright majority in parliament, its strong showing in the Maharashtra state elections signalled a mandate for policy continuity.

The coalition government's first budget last year made its intentions clear: the commitment to narrowing the fiscal deficit remained whilst the focus shifted towards increasing allocations to rural and social welfare schemes without significantly cutting overall capex. This included measures to boost unemployment, skilling and other opportunities for millions of youths over a five-year period as well as supporting farmers with measures to improve productivity.

While investors do not expect any significant reforms to pass under the coalition government, the benefits of previous reforms should continue to flow through into the economy.

India should also continue to benefit from the 'China + 1' manufacturing strategy, especially if Trump's punitive trade measures against Beijing kicks off another trade war. In recent years, many global companies have diversified their manufacturing bases to reduce reliance on China. At the same time, India has improved the ease of doing business within its borders and launched production-linked incentive schemes, offering tax breaks and subsidies to multinationals to shift their production bases to the country – particularly in sectors such as smartphones and other electronics.

## Where the best opportunities lie

It's believed that buying into quality is key to leveraging India's potential. This means investing in well-run companies with steady cash flow and strong balance sheets, which lend some degree of defensiveness even in tough times. The best opportunities lie in areas benefiting from long-term structural tailwinds.

One investment theme is aspirational consumption. As GDP per capita increases, the middle class expands, leading to higher demand for goods and services. This shift is evident in the premiumization trend, where consumers prefer higher-quality options. A leading mixed-use developer in India is also its top premium mall operator, as consumers embrace the mall experience.

Another promising area is the growing demand for better healthcare services as wealth rises, with India needing to balance top-notch treatment in urban hospitals with suitable medical facilities for rural areas.

Since the Modi government came into power in 2014, infrastructure development has become a top priority, with central government capital expenditure amounting to about 3.4% of GDP. While there could be some moderation in the pace of growth in public capex, it's expected the cycle to continue, and as such, believe there are attractive opportunities in this area.

Urbanization goes hand in hand with infrastructure development. Investors are invested in the real estate sector, which is in the middle of a longer-term recovery, with other indirect beneficiaries such as construction and building materials companies.

Digitalization is transforming the landscape. The India Stack provides online access to data and services for citizens and businesses, opening new growth areas.

India also faces challenges like chronic power shortages. Recent projections suggest that solar and wind energy deployment could double by 2028, offering many investment opportunities.

## Conclusion

India's growth story remains compelling, despite short-term challenges. This is driven by supportive central government policies and a decade of necessary economic reforms, putting India on a positive trajectory. In a Trump 2.0 world, India is likely to offer resilience and promise, given that it is relatively insulated from trade and tariff wars. The best way to capitalise on India's promise is to buy into quality companies that benefit from long-term structural tailwinds including aspirational consumption, infrastructure development, healthcare and digitalisation.

Source:
https://www.thehindubusinessline.com/economy/fy25-india-gdp-advance-estimates-2025-live-updates/article69071179.ece