



Alpha Strategist – Feb'25

Changing Norms



Summary

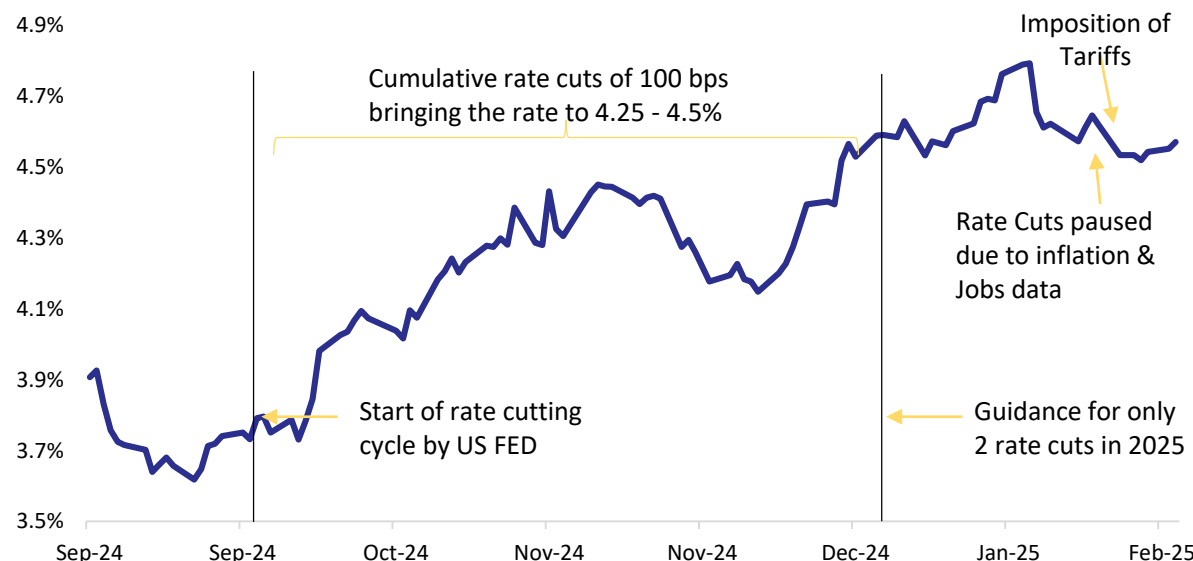
- The global financial landscape is witnessing significant changes, driven by evolving macroeconomic trends and policy decisions. One of the key shifts is the rise in the volatility in U.S. interest rates, influenced by factors such as a rising fiscal deficit, persistent inflation, and uncertainty surrounding Trump's policies. Another major economy Japan seems to be also on the path for higher rates after a period of ultra loose monetary policy for more than 15 years.
- Another major change is the move towards deglobalization as evident from the recent imposition of tariffs by U.S., aimed at protecting domestic interests.
- Possibility of “Higher for longer rates” along with rising fears of trading wars, have strengthened the Dollar Index, leading to currency depreciation and FII outflows from emerging markets.
- Indian Union budget highlighted continuous focus on fiscal prudence. However this time, by providing the income tax cuts, government has given preference to consumption boost over capital expenditure – a shift from the earlier budgets.
- These **Changing Norms** underscore the ever evolving situations which are significant different from what Investor might have witnessed in the last one or two decades and highlight the need for adaptive strategies in navigating financial markets.
- Amidst these uncertainties, Indian equity markets have seen sharp corrections due to continuous FII outflow, rising US Yield and weak earnings growth. However, in our view despite corrections, Mid Cap and Small Cap valuations remain expensive, while Large Caps are looking more reasonable and fair.
- For equity, investors can increase allocation by implementing a lump sum investment strategy for Hybrid & Large Cap Equity Oriented fund and Staggered approach over the next 6 months for Flexi, Mid and Small Cap Strategies.
- We believe that the duration play is in its last leg and long term yields to remain higher for longer and hence duration can be exited fully. Actions by RBI on rate cuts and liquidity, are likely to result into steepening in yield curve. We recommend fixed income portfolio to be Overweight on Accrual Strategies.



Highlights

US Yields – To Stay Higher for Longer ; Shallow Rate Cut Cycle in CY2025E

US 10 Year Yield movement (last 6 months)

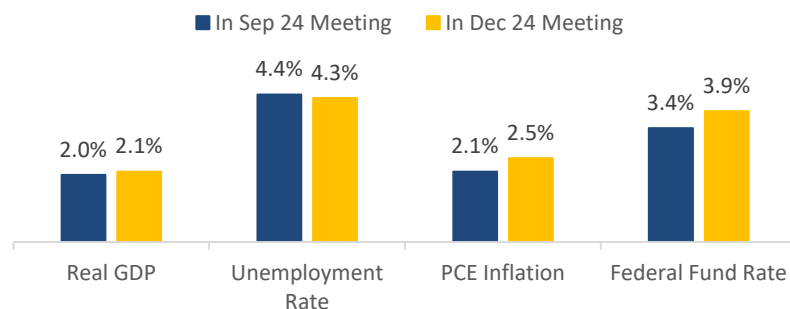


Highest Probability 2nd Highest Probability

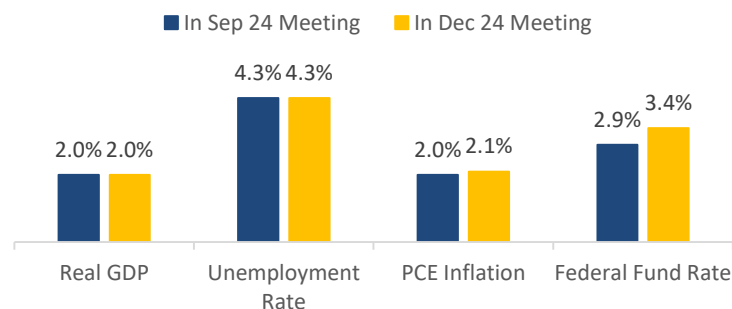
Indicates Shallow Rate Cut Cycle in CY25

CME FedWatch Tool - Probability of Fed Policy Rate										
Meeting Date	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500
19-Mar-25							8.5%	91.5%		
7-May-25						1.6%	24.3%	74.1%		
18-Jun-25					0.5%	9.0%	40.4%	50.1%		
30-Jul-25				0.1%	2.1%	14.8%	42.2%	40.8%		
17-Sep-25				0.7%	5.6%	22.4%	41.8%	29.4%		
29-Oct-25			0.1%	1.6%	8.7%	26.0%	39.6%	24.1%		
10-Dec-25			0.4%	3.1%	12.3%	28.8%	36.3%	19.0%		
28-Jan-26		0.1%	0.7%	3.9%	13.8%	29.5%	34.8%	17.3%		
18-Mar-26		0.1%	1.0%	4.9%	15.3%	30.0%	33.0%	15.6%		
29-Apr-26		0.2%	1.2%	5.3%	16.0%	30.1%	32.3%	15.0%		
17-Jun-26		0.2%	1.4%	6.0%	16.9%	30.3%	31.2%	14.0%		
29-Jul-26		0.3%	1.7%	6.6%	17.6%	30.3%	30.2%	13.2%		
16-Sep-26		0.3%	1.5%	6.0%	16.3%	28.8%	30.3%	15.3%	1.6%	
28-Oct-26		0.2%	1.4%	5.6%	15.4%	27.7%	30.1%	16.6%	2.8%	0.1%
9-Dec-26	0.2%	1.1%	4.6%	13.0%	24.7%	29.5%	19.8%	6.1%	0.8%	

FOMC Projections for CY2025



FOMC Projections for CY2026



- Rising fiscal deficit, sticky inflation, strong US economic growth and uncertainty in Trump's policies around Tariffs, Tax cuts, Deregulation and Deportation led to the rise in yields

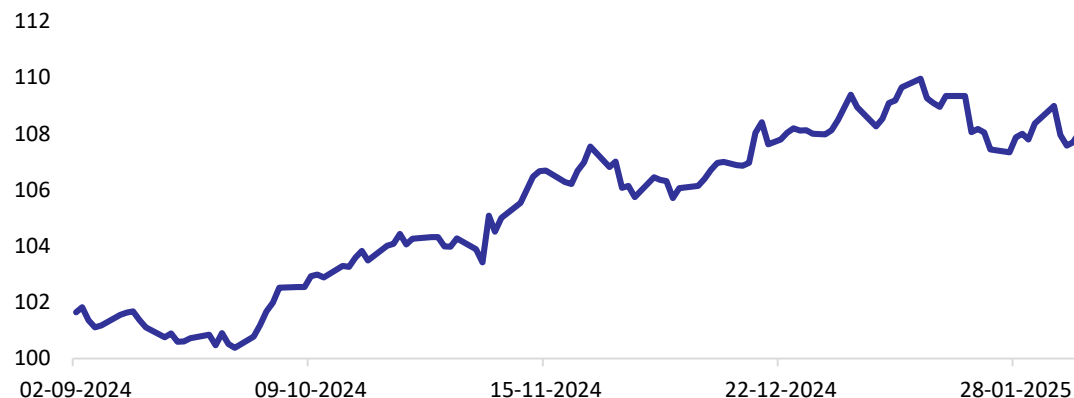
President Trump's Trade Policy

01	02	03	04	05	06
Jan 07, 2025	Jan 20, 2025	Feb 01, 2025	Between 1-3 Feb, 2025	Feb 03, 2025	Feb 10, 2025
Announced plans to impose significant tariffs on imports from Mexico, Canada, and China	Issuance of "America First Trade Policy" to evaluate aspects of U.S. trade policy	Signed executive orders imposing a 25% tariff on imports from Canada and Mexico, and a 10% tariff on imports from China	Mexico & Canada initiated high-level diplomatic consultations with the U.S. administration	Imposition of tariffs was paused after discussions with Mexico & Canada	Announced plans to impose 25% tariffs on all imports of Steel and Aluminum
<ul style="list-style-type: none">• According to Trump, imposition of tariffs on Mexico & Canada were for social reasons like illegal immigration, prevent fentanyl smuggling.• In case of Mexico, both the countries have agreed to measures that will address the above concerns, while discussions with Canada are still on going• 10% tariff imposed on China is in effect as scheduled. China also announced it was investigating Google and imposing tariffs on imports of U.S. oil, coal, gas, cars and farm equipment from Feb. 10• Further, in order to protect American industries and jobs, Trump plans to impose 25% tariffs on all imports of Steel & Aluminum into US					

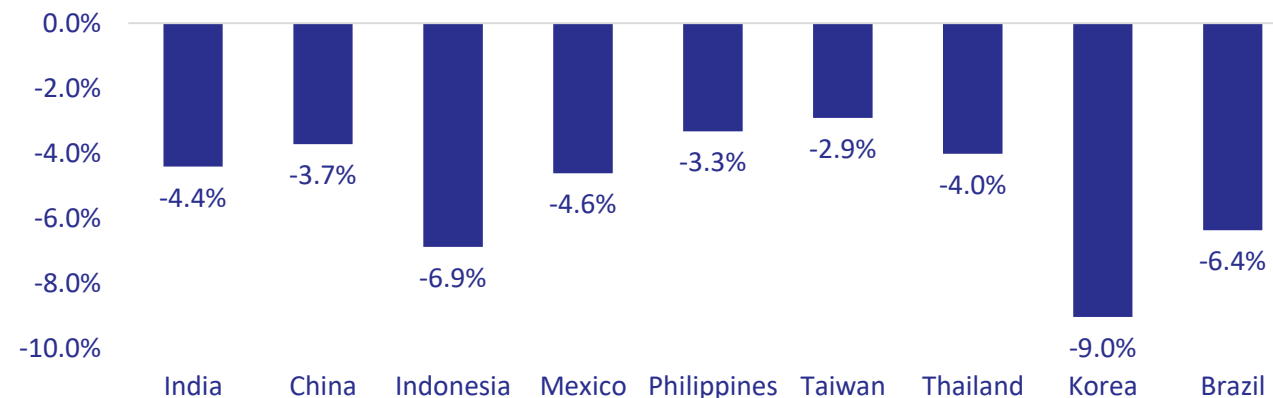
Source: Various Sources

Rise in Dollar Index, depreciation in currencies & FII Outflows

DXY (Last 6 months) - at 108 levels



Emerging Market Currencies vs USD (1st Oct'24 – 7th Feb'25)



India	MSCI EM Index Weight	FY21	FY22	FY23	FY24	FY25TD	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
India	18.1%	37,302	-17,093	-5,971	25,267	-10,531	5,944	-10,428	-2,680	1,321	-8,418
Taiwan	19.5%	-9,515	-20,500	-18,736	3,327	-24,194	-2,297	1,130	-8,045	708	-1,261
Brazil	4.5%	4,564	11,568	8,518	2,913	-788	-295	-453	-520	147	1,158
Indonesia	1.3%	-1,659	4,070	2,484	901	-738	1,418	-719	-1,063	-313	-229
Philippines	0.5%	-2,813	823	-1,644	-182	-685	346	22	-349	-103	-114
South Korea	9.5%	-14,721	-21,158	2,302	17,424	-10,765	-5,727	-3,404	-3,203	-1,530	-1,002
Thailand	1.3%	-5,634	2,723	945	-5,795	-2,529	867	-845	-398	-308	-330
South Africa	3.1%	-6,157	-7,524	-9,058	-8,267	-7,628	-232	-914	-733	-1,177	-1,409
China	28.3%	2,47,366	-14,100	4,277	-1,19,040	13,006	96,396	-21,513	-15,351	-5,686	NA

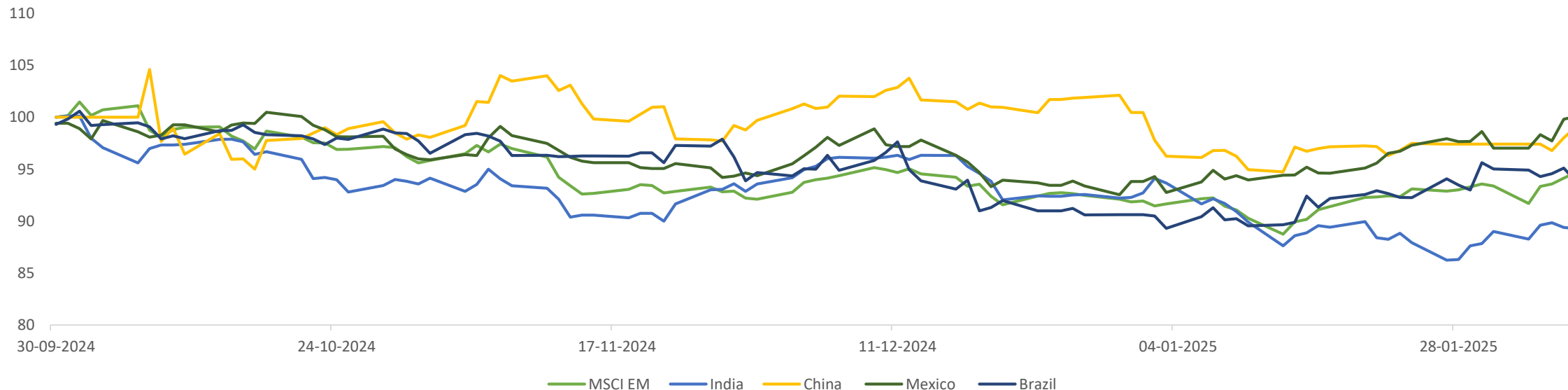
- Post the fall in the DXY from mid Jan'25 onwards, it has started rising back to 108 levels. This is mainly due to rise in trade uncertainty over the imposition of tariffs by the US.
- Multiple factors have contributed to the fall in the emerging market currency rates against the USD with Korea observing the highest depreciation.

Source: internal Research, Investing.com

Infinite Possibilities. Enduring Relationships.

www.motilaloswalpwm.com

Indices Performance since Sep'24 – Emerging Markets



The returns are calculated from 30th Sep'24 to 7th Feb'25

Index	Returns
MSCI EM	-5.3%
Nifty 500 (India)	-10.7%
SSE Composite (China)	-1.0%
S&P/BMV IPC (Mexico)	0.6%
Bovespa (Brazil)	-5.5%

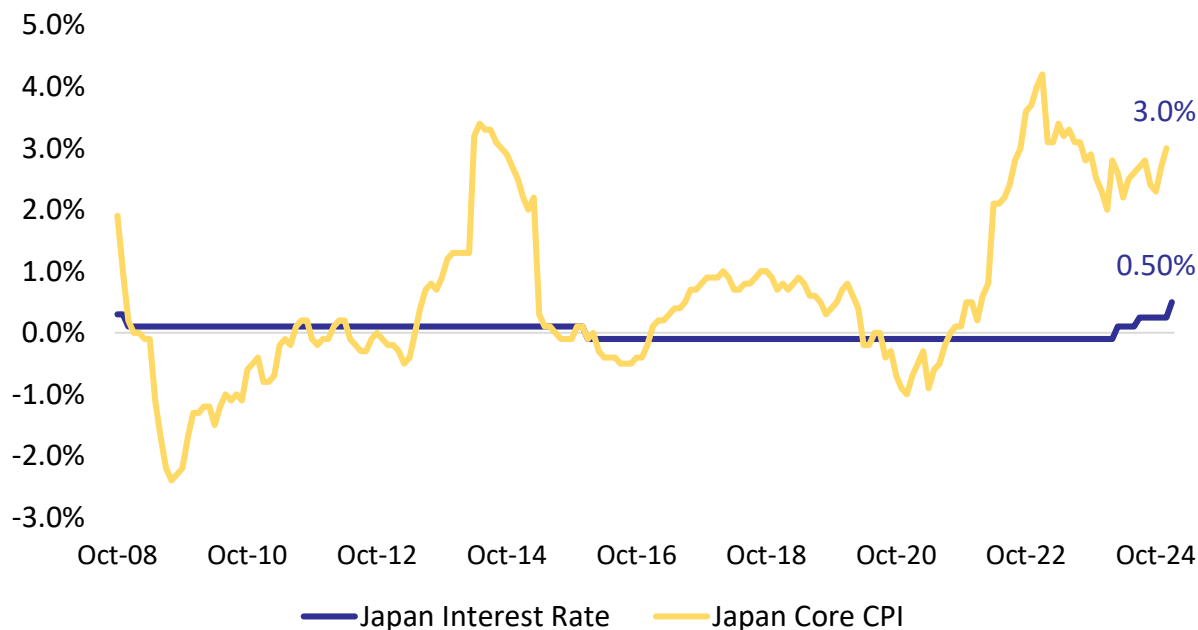
Source: Investing.com

Disclaimer: Past Performance may or may not sustain in future.

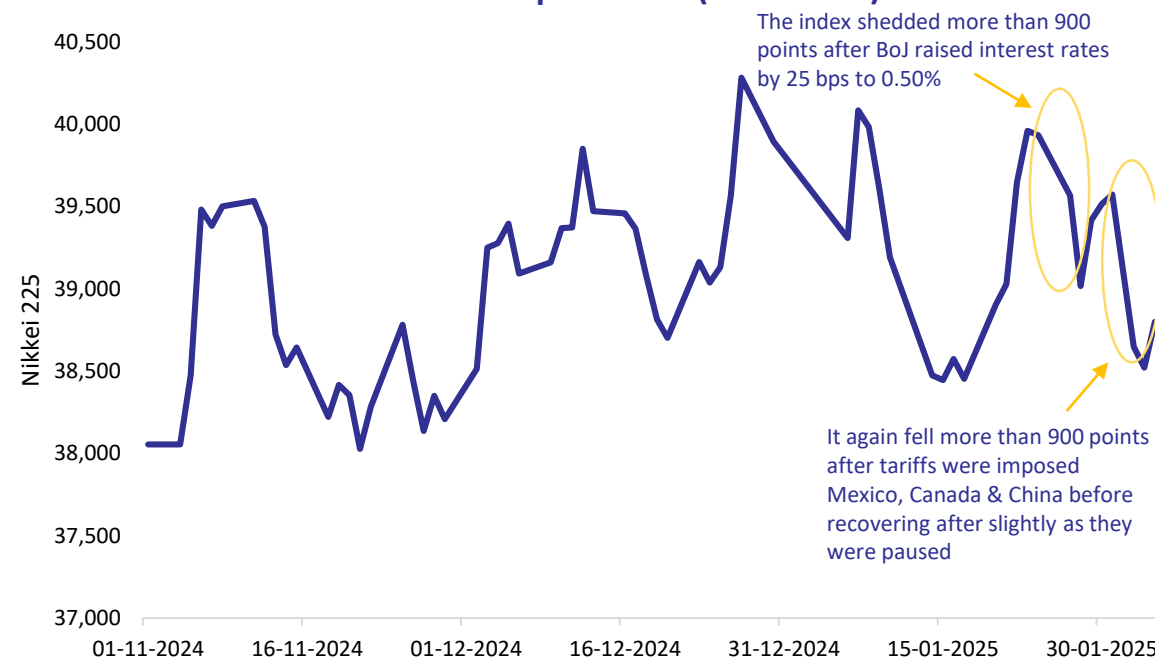
Infinite Possibilities. Enduring Relationships.

Rise in Interest rates by BoJ – its relevance and impact on the markets

Japan policy rate and core inflation



Movement in Japan Index (Nikkei 225)

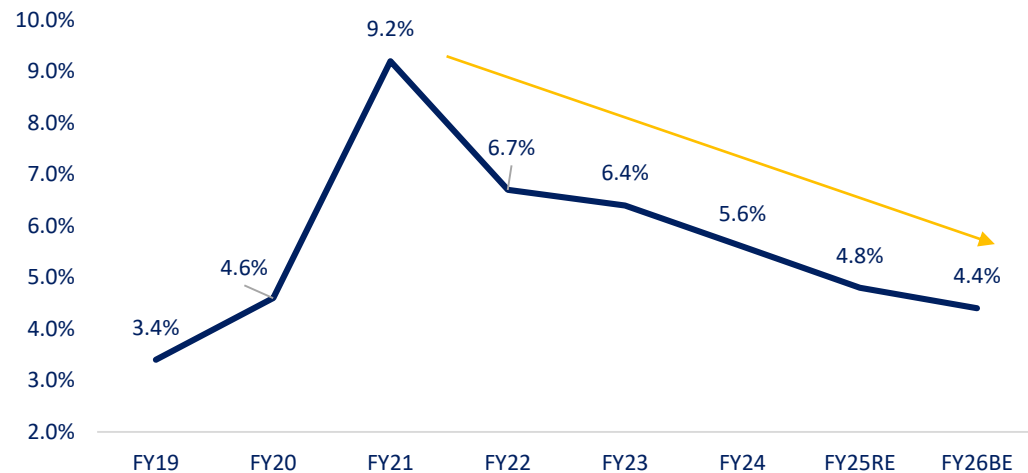


- In Jan'25, Bank of Japan (BoJ) raised interest rates by 25 bps to 0.5% highest since the 2008 GFC and revised up its inflation forecasts, due to rising wages which will keep inflation around 2% target.
- Japan's Index (Nikkei 225) fell by more than 900 points twice in a span of 2 weeks, firstly due to BoJ raising interest rates and secondly due to the imposition of tariffs by US on Mexico & Canada (which were paused later on) and China.

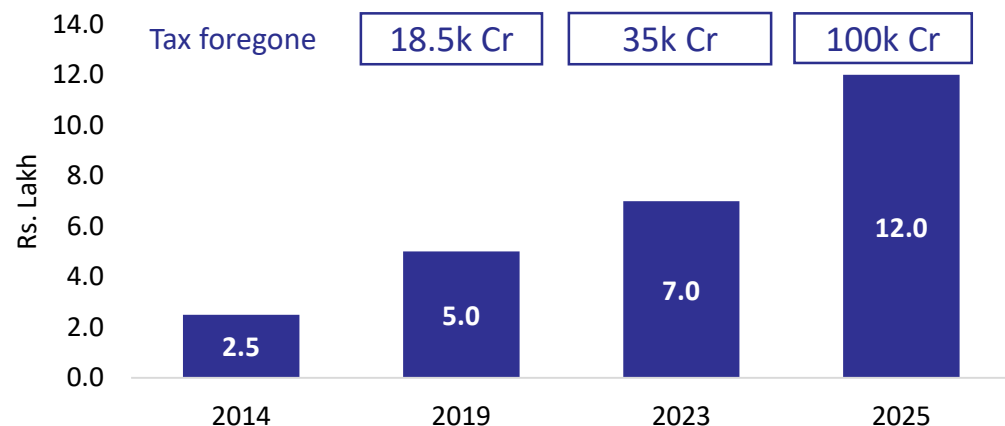
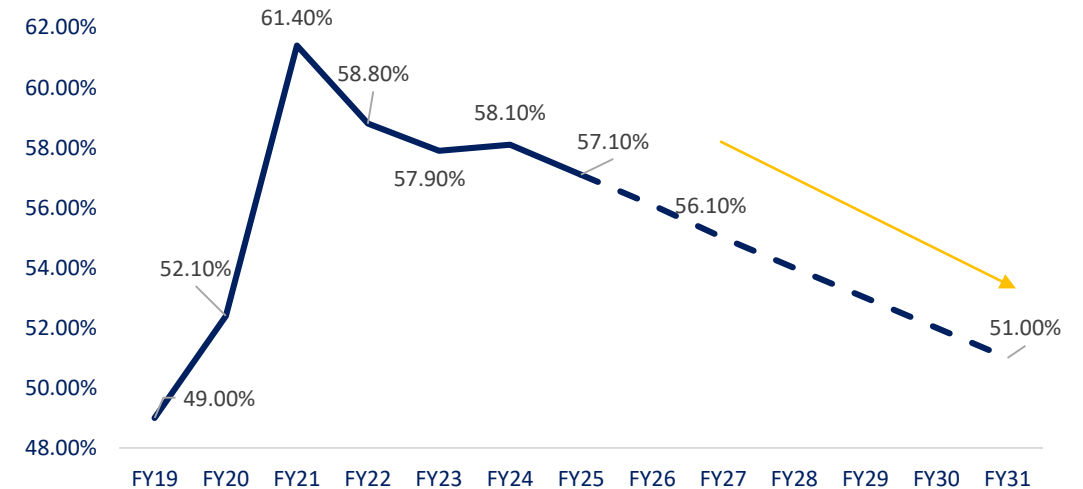
Source: Internal Research, Reuters, Investing.com

Balancing between Fiscal Prudence & Consumption Boost

Fiscal Deficit within FRBM target

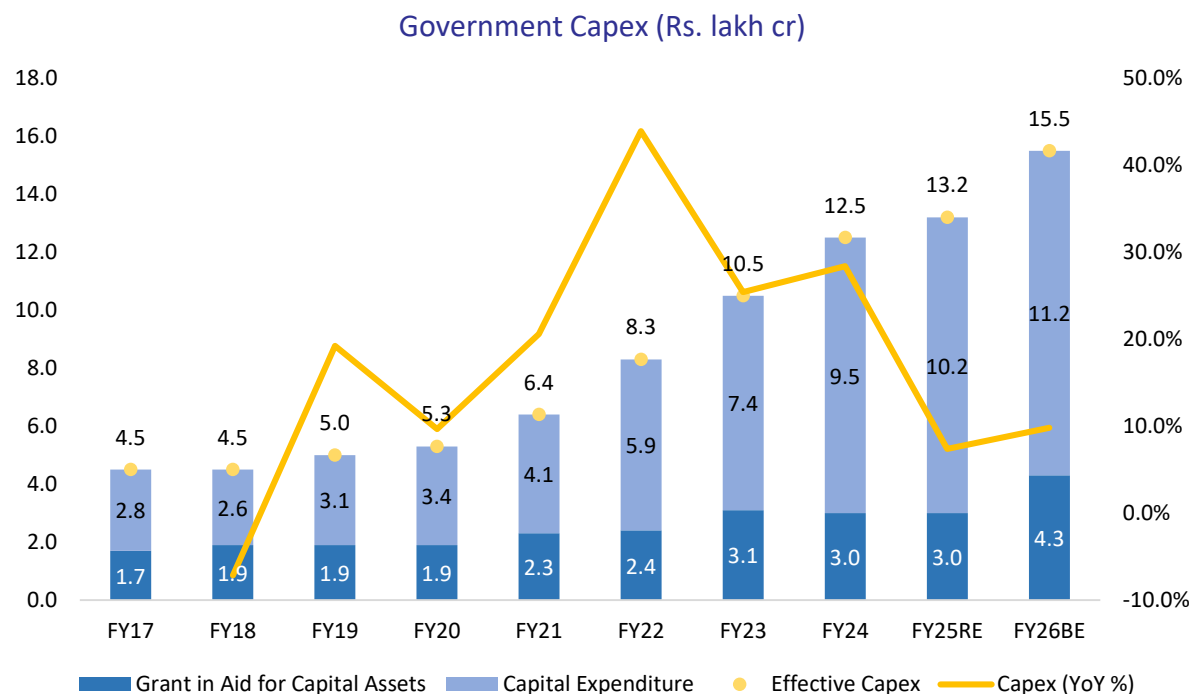


Central Govt Debt-to-GDP Ratio transition



- Continuity in Fiscal Prudence – Fiscal deficit target at 4.4% for FY26
- Commitment to bring down the Debt to GDP ratio from current ~56% to ~51% (in 2031) by ~1% per year for the next 6 years
- In order to provide potential boost to consumption, the government has made changes in the tax slabs foregoing tax revenue of Rs. 1 Lac crore

Capex – YoY growth slowing, challenge at State level



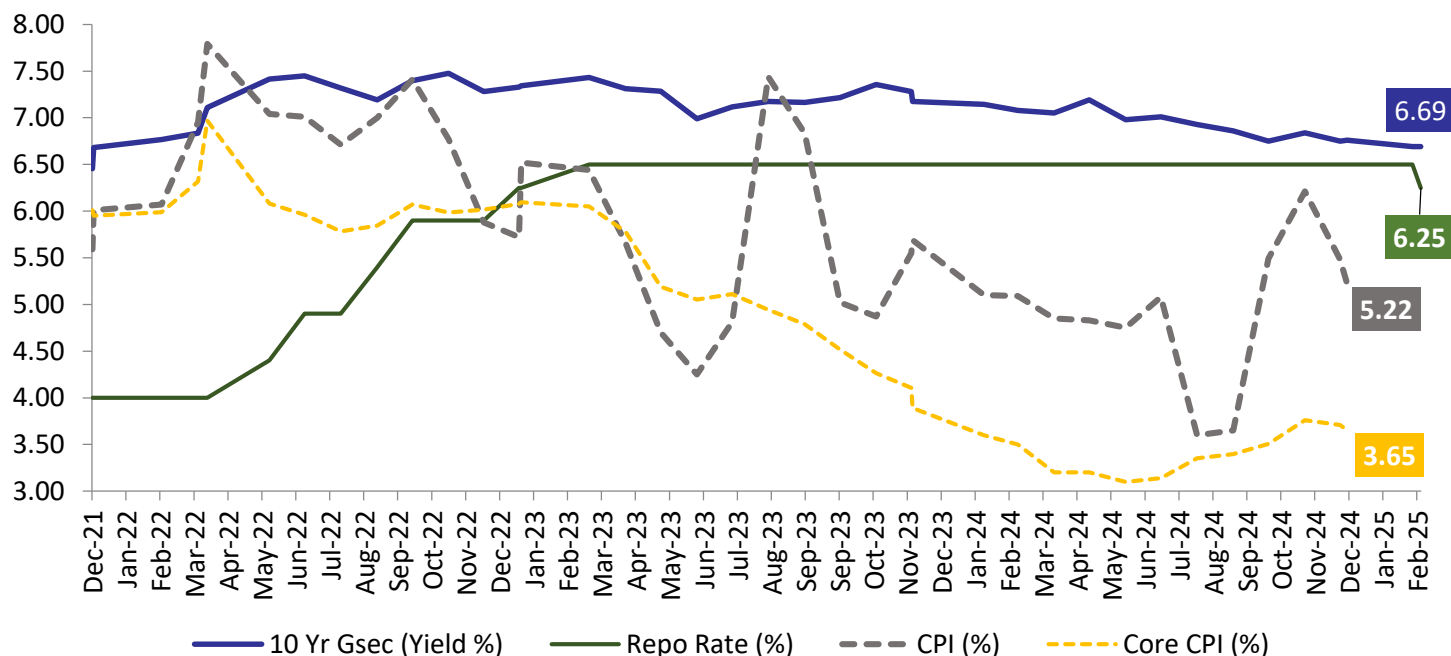
State	Freebie INR Bn	Capex INR Bn
Telangana	836	443
Maharashtra	727	857
Madhya Pradesh	364	672
Karnataka	319	512
West Bengal	277	305
Rajasthan	193	348
Andhra Pradesh	190	311
Tamil Nadu	127	425
Punjab	55	64
Jharkhand	45	217
Assam	23	314
Himachal Pradesh	8	68
Total	3,164	4,536

GSDP – Gross State Domestic Product

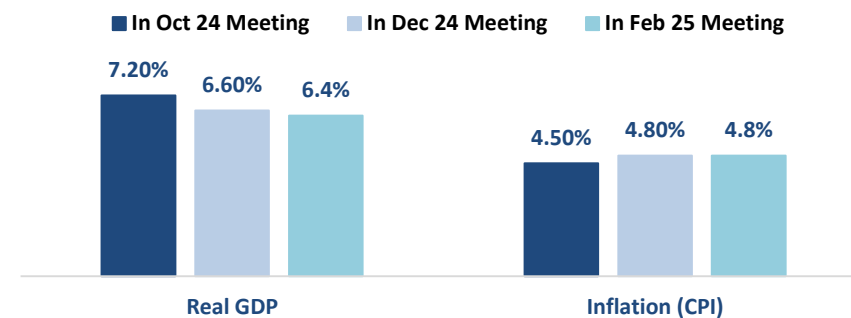
- Effective Capex (GIA + Central Govt Capex) amount continued to be on increasing trend. However, Central Govt Capex YoY Growth (%) seems to be slowing down
- Capital Expenditure at state level also remains a challenge with significant amount allocated towards freebies in the states where election happened

Source: Invesco, ICICI Direct, Buoyant Capital, Budget documents

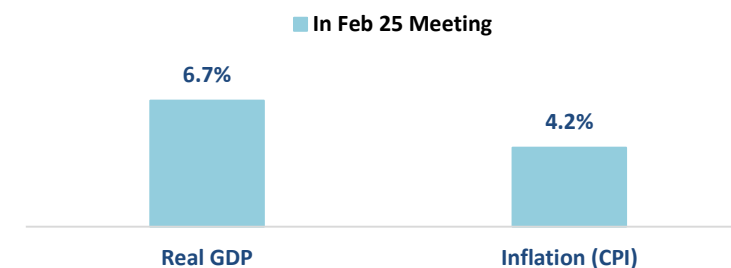
RBI - Reduced Policy Rate ; Kept Stance Neutral



RBI Projections for FY25



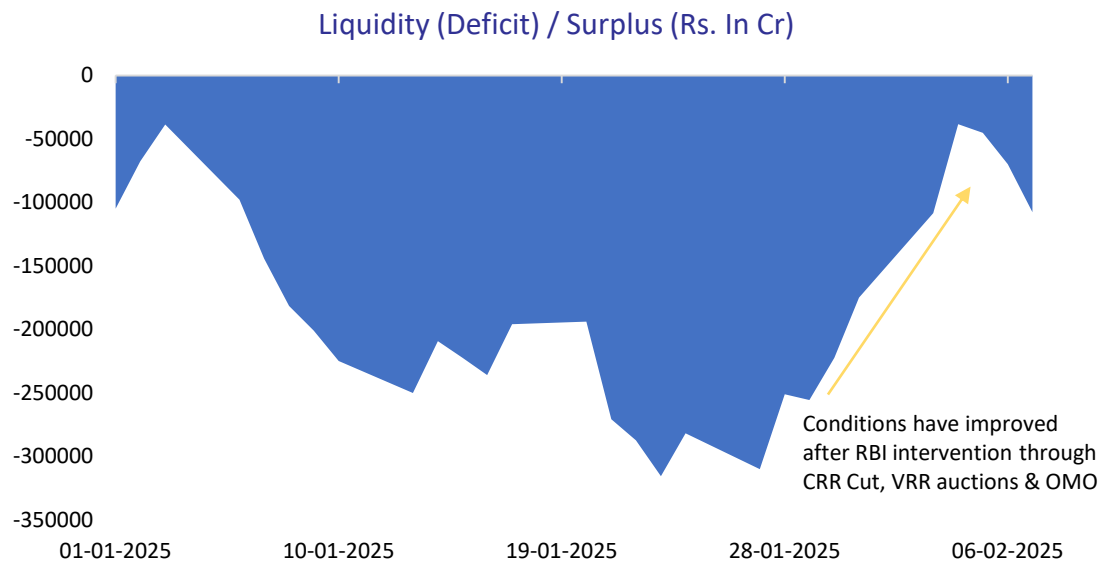
RBI Projections for FY26



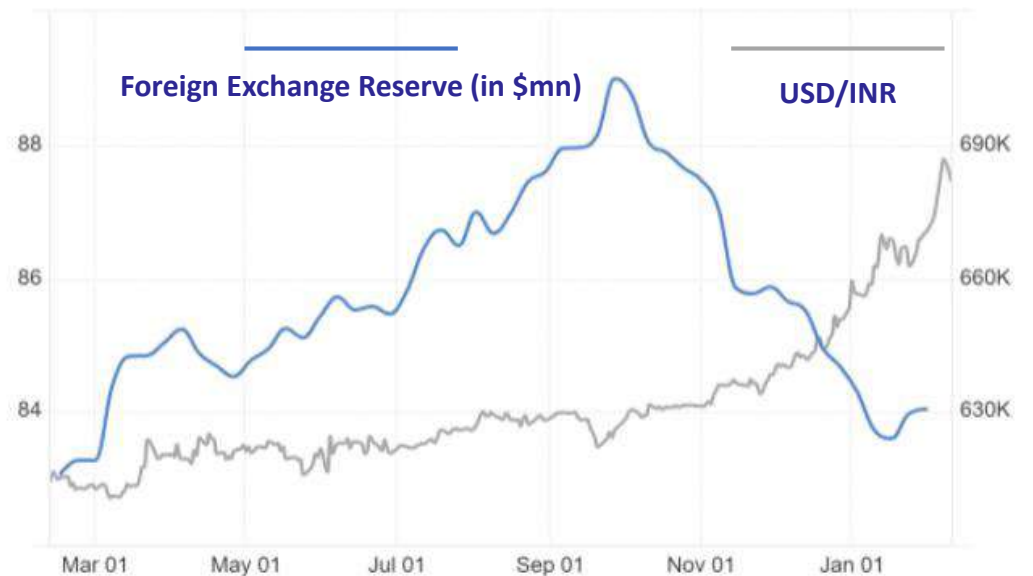
- Flexible inflation targeting & fiscal prudence aided RBI to shift focus on economic growth amidst receding inflationary pressures
- Policy tone was balanced keeping in mind the global uncertainties and downside risks, if any to domestic growth

Measures taken by RBI to ease the tight liquidity conditions

Liquidity Deficit had reached to INR 3.15 lakh crore in Jan'25 ;
Currently at INR 0.70 Lakh Cr deficit post RBI intervention

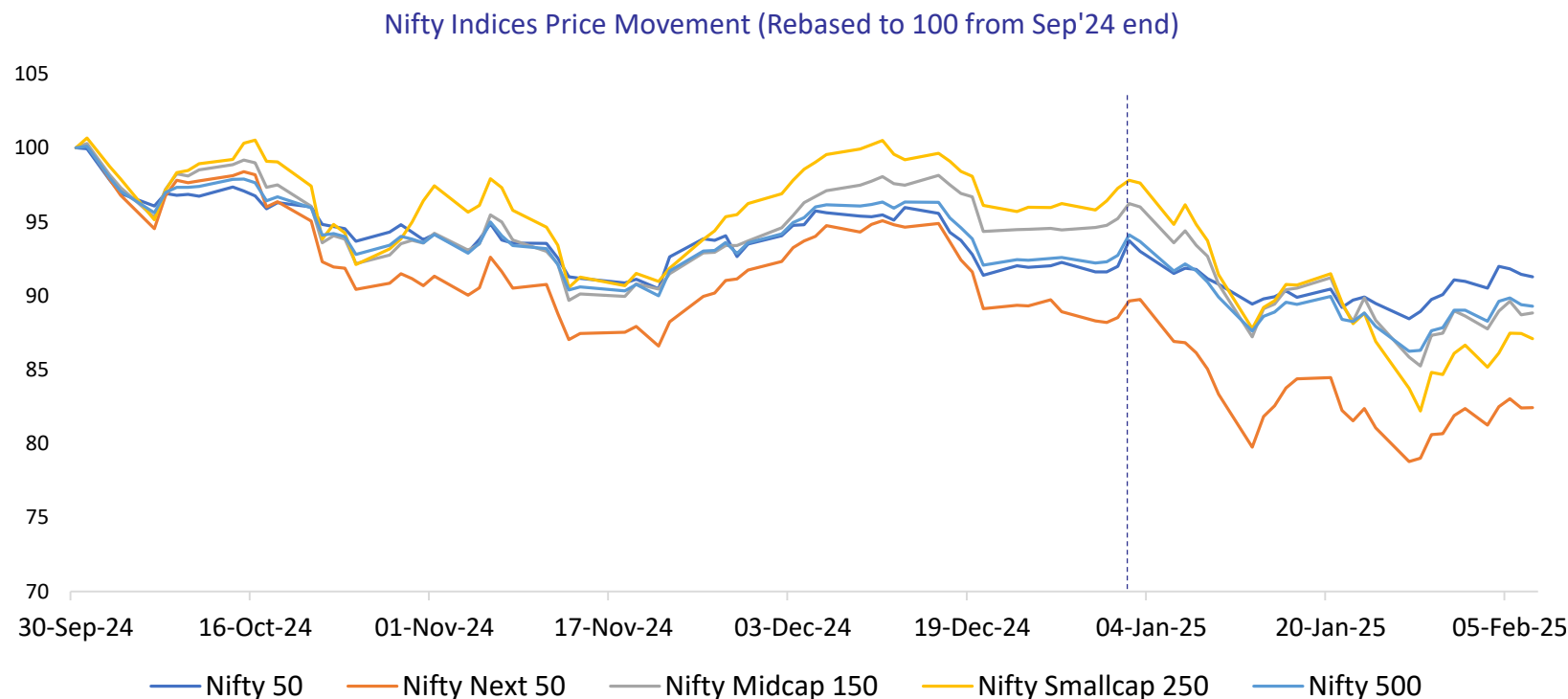


- Tightness in liquidity was mainly due to RBI's continued dollar sales to curb rupee depreciation, resulting in depletion of forex reserve
- Currently stabilization of decline in forex reserve is in line with RBI's stance to avoid forex intervention and let market forces decide the currency trend



- RBI actively intervened in addressing liquidity issues through various tools such
 - CRR reduction by 50 bps to 4% in 2 phases would infuse ~1.1 Lakh Cr liquidity
 - VRR (Variable Rate Repo) of different intervals – INR 1,83,000 till 9th Feb 25
 - OMOs (Open Market Operations) worth INR 80,000 Crs ; Secondary market OMO worth INR 38800 Crs
 - USD/INR Swap worth USD 5 Bn

Nifty Indices – Price performance since Sep'24 end



Index	Returns
Nifty 50	-8.7%
Nifty Next 50	-17.6%
Nifty Midcap 150	-11.2%
Nifty Smallcap 250	-12.9%
Nifty 500	-10.7%

The returns are calculated from 30th Sep'24 to 7th Feb'25

- Heavy FII outflows, poor earnings growth and rising US Yield & USD are weighing on the market.
- Nifty Next 50 index has corrected the most (-18%) followed by Smallcap 250 Index (-13%) in a span of 4 months

Source: Nifty Indices

Extent of Correction across Indices

	Change in Index		Avg % Fall in stock		Number of Stocks with extent of fall from 52W High				
	from 52W High	Since 27 th Sep High	from 52W High	Since 27 th Sep High	<10%	>10% and <20%	>20% and <30%	>30% and <40%	>40%
Nifty 100 Stocks	-11.7%	-11.5%	-22.3%	-15.0%	16	26	30	22	6
Nifty Mid Cap 150 Stocks	-12.0%	-11.4%	-26.3%	-12.7%	15	26	46	50	13
Nifty Small Cap 250 Stocks	-14.2%	-12.8%	-29.8%	-13.5%	17	44	63	70	56

Data as on 7th February 2025. September 27 has been considering as Nifty 50 reached its all time high on that date.

Individual stock correction is more severe than what the index suggests.

01

Large Cap:

58%

of the stocks have corrected more than 20% from 52W High

02

Mid Cap:

73%

of the stocks have corrected more than 20% from 52W High

03

Small Cap:

76%

of the stocks have corrected more than 20% from 52W High

Source: ACE Equity, Internal Research

Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Mid Cap 150 Valuation Movements

Count	As the end of the period							
PE Range	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Jan-25	Feb-25 TD
PE > 100	4.7%	16.0%	14.7%	8.7%	15.3%	15.3%	14.0%	13.3%
PE 70-100	6.0%	6.7%	11.3%	10.7%	10.7%	14.0%	11.3%	12.7%
PE 50-70	11.3%	14.0%	15.3%	22.0%	22.7%	15.3%	16.0%	16.7%
PE 20-50	40.7%	32.0%	29.3%	34.0%	26.7%	36.7%	39.3%	38.7%
PE<20	37.3%	31.3%	29.3%	24.7%	24.7%	18.7%	19.3%	18.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

In %	As on 7 th Feb'25					
ROE*	<5	5-10	10-15	15-20	>20	Total
PE > 100	4.3%	5.0%	2.2%	0.7%	2.2%	14.4%
PE 70-100	0.0%	2.2%	5.8%	0.0%	2.9%	10.8%
PE 50-70	0.0%	3.6%	5.8%	4.3%	4.3%	18.0%
PE 20-50	2.9%	6.5%	10.1%	10.1%	12.2%	41.7%
PE<20	0.0%	0.0%	7.2%	4.3%	3.6%	15.1%
Total	7.2%	17.3%	30.9%	19.4%	25.2%	100.0%

Source: ACE Equity, Internal Research, *(Excluded stocks with negative ROE in Table2)

Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Expensive Valuations

In the last 5 years, there seems to be significant re-rating in the mid cap stocks, with more than 40% stocks currently trading at a PE multiple of more than 50.

Pocket of Opportunities

However, there are 30% stocks presenting opportunities where the valuations look reasonable along with strong return on equity

Small Cap 250 Valuation Movements

Count	As the end of the period							
PE Range	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Jan-25	Feb-25 TD
PE > 100	4.0%	8.0%	9.2%	6.0%	9.2%	16.0%	11.2%	11.6%
PE 70-100	5.2%	2.4%	7.6%	7.6%	12.8%	11.2%	10.8%	10.4%
PE 50-70	7.2%	7.6%	8.8%	12.4%	13.6%	16.4%	12.4%	15.6%
PE 20-50	26.8%	31.6%	35.2%	35.2%	37.6%	30.4%	36.4%	34.4%
PE<20	56.8%	50.4%	39.2%	38.8%	26.8%	26.0%	29.2%	28.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

In %	As on 7 th Feb'25					
ROE*	<5	5-10	10-15	15-20	>20	Total
PE > 100	4.8%	3.9%	1.8%	0.4%	0.9%	11.8%
PE 70-100	1.3%	5.3%	1.8%	1.3%	2.2%	11.8%
PE 50-70	0.4%	1.8%	3.5%	3.5%	4.4%	13.6%
PE 20-50	0.9%	6.6%	14.5%	8.8%	9.2%	39.9%
PE<20	1.3%	3.1%	6.1%	4.8%	7.5%	22.8%
Total	8.8%	20.6%	27.6%	18.9%	24.1%	100.0%

Source: ACE Equity, Internal Research, *(Excluded stocks with negative ROE in Table2)

Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Expensive Valuations

Similarly, over the last five years, small-cap stocks have seen a significant re-rating, with over 35% stocks now trading at a PE above 50, compared to 16% in 2019.

Pocket of Opportunities

However, there are 30% stocks presenting opportunities where the valuations look reasonable along with strong return on equity

Sector Rotation

Nifty Sector Indices	1 st Apr'24 - 30 th Sep'24	Rank	1 st Oct'24 - 7 th Feb'25	Rank
Auto	27.2%	1	-13.4%	6
FMCG	22.9%	2	-15.5%	8
Pharma	21.7%	3	-5.0%	3
IT	21.0%	4	2.3%	1
Metal	19.6%	5	-15.8%	9
Realty	17.2%	6	-16.3%	10
Financial Services	16.5%	7	-3.8%	2
Infrastructure	14.2%	8	-13.4%	7
Media	13.9%	9	-25.1%	12
Private Bank	12.2%	10	-5.8%	4
Energy	12.0%	11	-24.3%	11
PSU Bank	-4.3%	12	-8.4%	5

Data as on 31st Jan 2025

Source: ACE MF, ACE Equity Internal Research

- The highest performing sectors in the first period experienced significant downturn in the second period (Auto, FMCG, Metal, Realty)
- The lowest performing sectors have witnessed an improvement (PSU Bank, Private Bank, Financial Services)

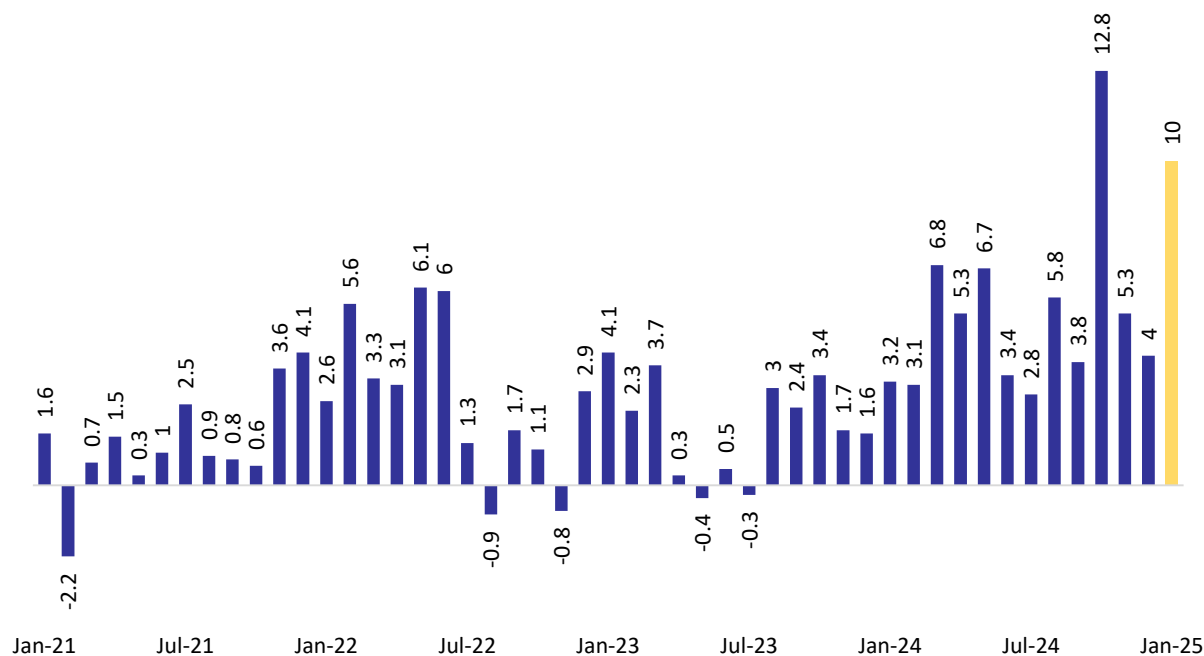


Equities

FII outflows and DII inflows second-highest ever in Jan'25 after a record high in Oct'24

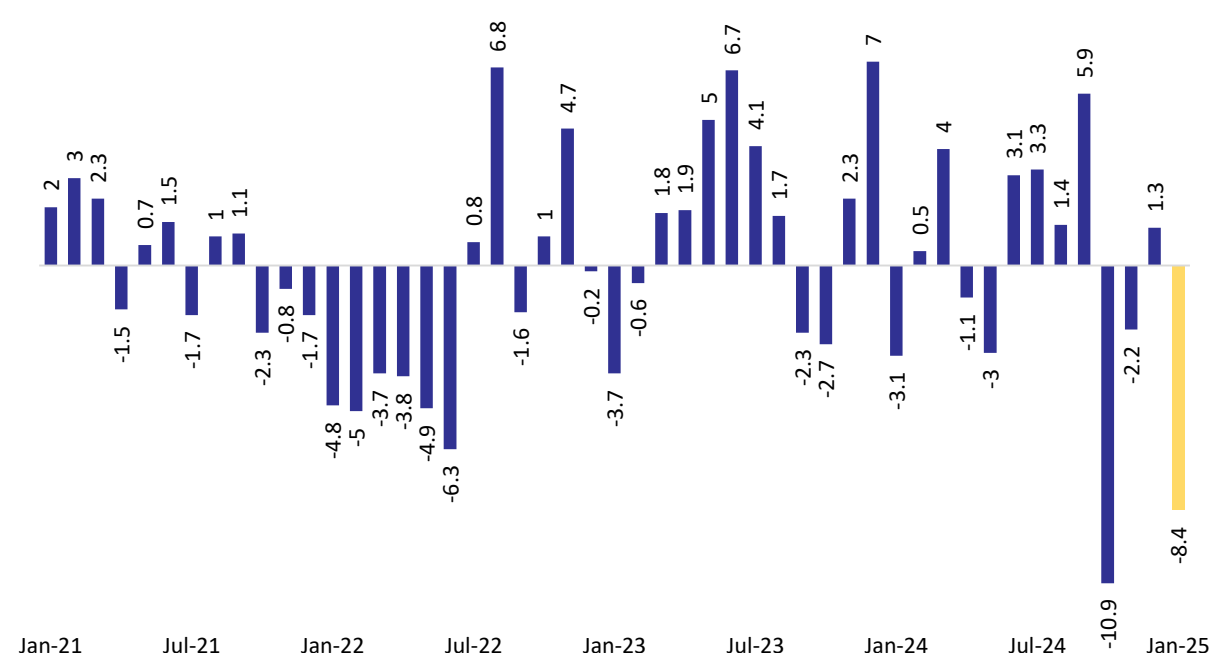
DII's monthly flows into equities continue to be robust

DII's (USD bn)



FIIs record second-highest ever monthly outflows into equities in Jan'25

FIIs (USD bn)



- FIIs continue to sell in Jan'25 offloading more than \$8 bn from the Indian markets
- DII flows into equities were the highest ever at \$62.9 bn in CY24 vs. inflows of \$22.3 bn in CY23. Conversely, FIIs witnessed equity outflows of \$0.8 bn in CY24 vs. inflows of \$21.4 bn in CY23.c

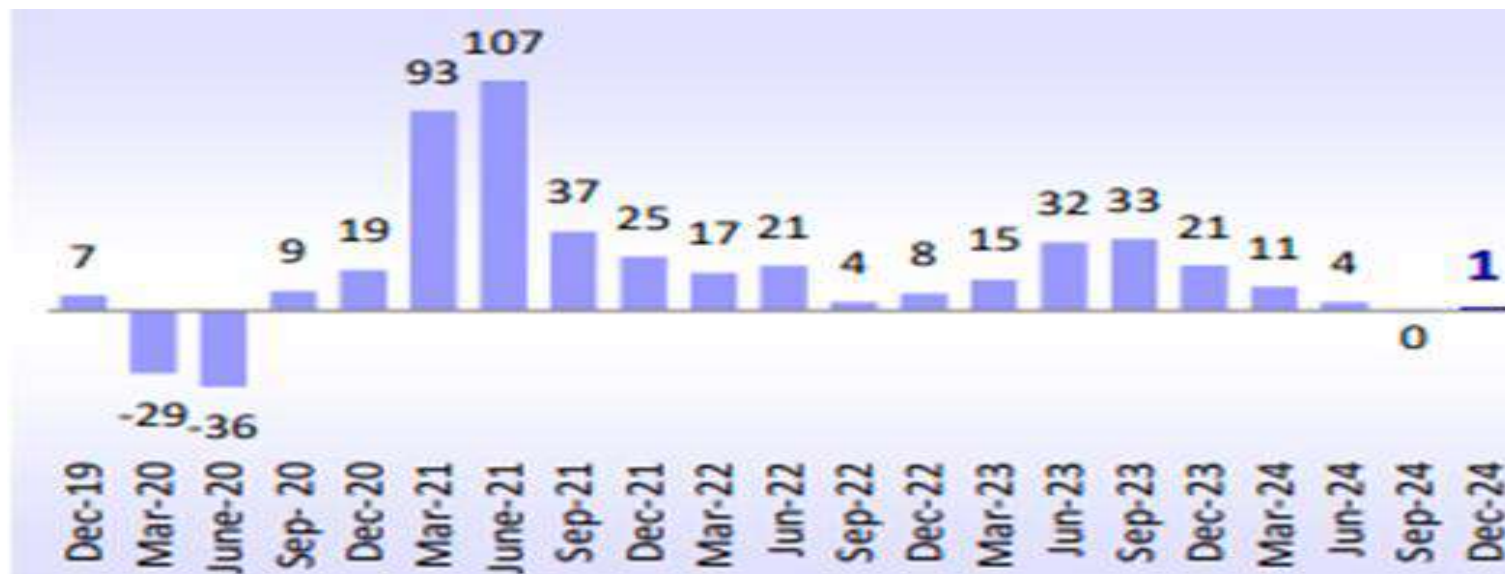
Source: MOFSL, Institutional Equities

Infinite Possibilities. Enduring Relationships.

www.motilaloswalpwm.com

Earnings for Q3FY25 – Flat growth in Nifty stocks

Nifty PAT up 1% YoY (vs. est. of +2% YoY)

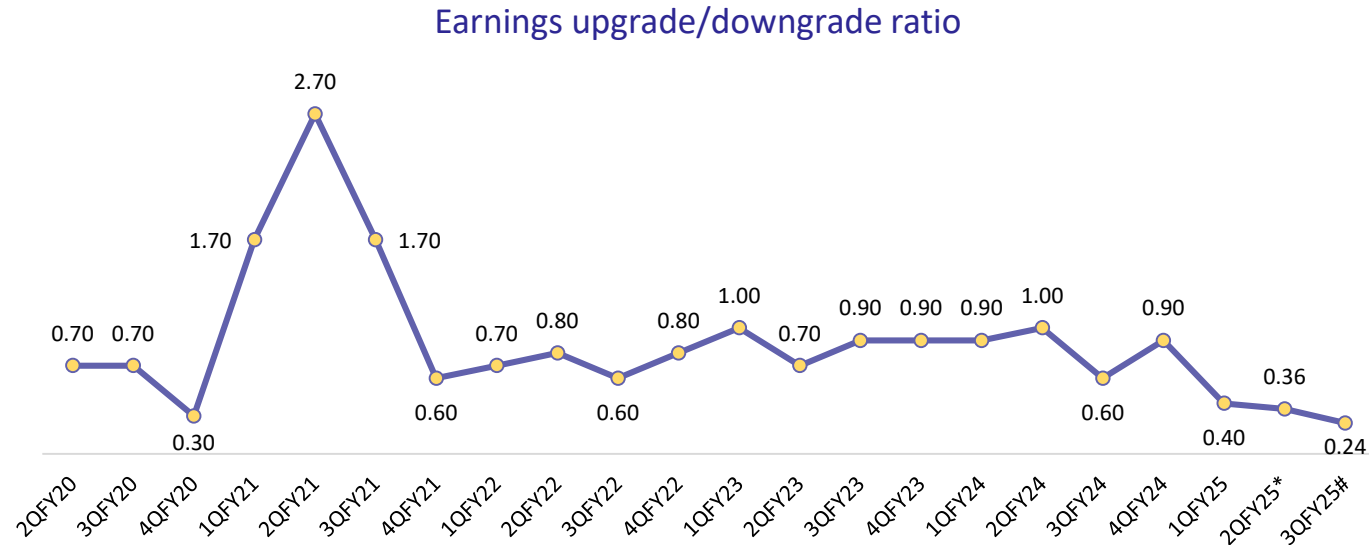


- Nifty 50 PAT is almost flat in Q3 & is likely to clock a modest ~5% EPS growth in FY25E (following a 20%+ CAGR during FY20-24)
- Out of 183 companies under MOFSL universe, earnings growth was weighed down by global cyclicals, such as O&G (-10% YoY), along with Metals (-9% YoY), Cement (-47% YoY), Automobiles (-9%), and Consumer (-1%).
- Excluding BFSI, profits for the MOFSL Universe have declined 1% YoY

Source: MOFSL - Institutional Equities

Trend in Earnings upgrade/downgrade ratio

The upgrade-to-downgrade ratio trend for the MOFSL Universe – the worst since 4QFY20



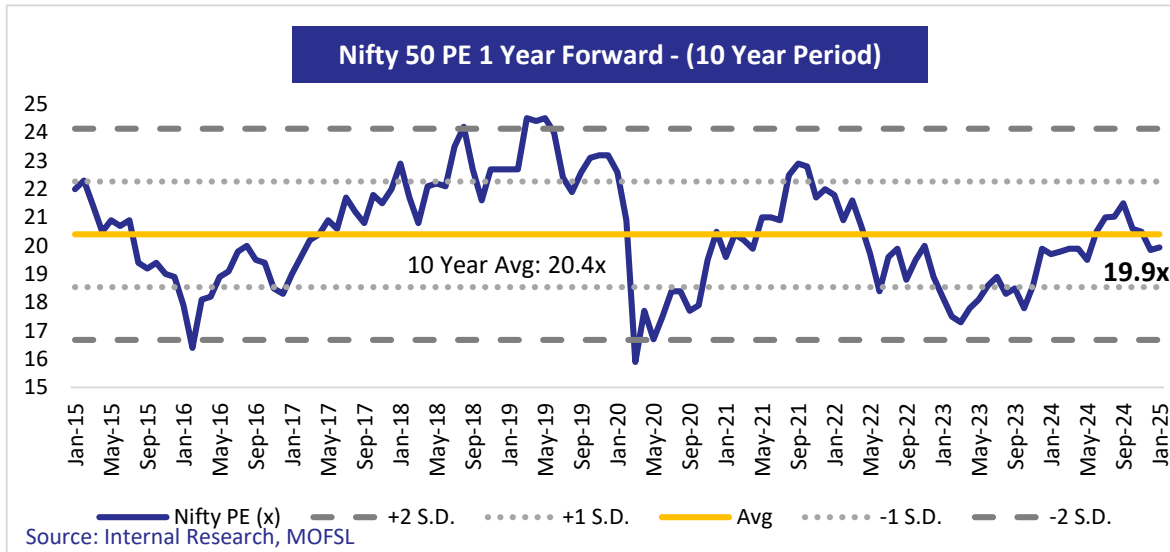
* The Upgrade/Downgrade ratio depicts earnings for FY25

The Upgrade/Downgrade ratio depicts earnings for FY26

- While Q3 earnings are in-line with modest expectations, forward earnings revisions are the weakest in recent times, with downgrades far outpacing upgrades, especially in non-Nifty 50 universe
- Until now, 19/78 companies within the MOFSL Coverage Universe have reported an upgrade/downgrade of more than 3% each, leading to an adverse upgrade-to-downgrade ratio for FY26E

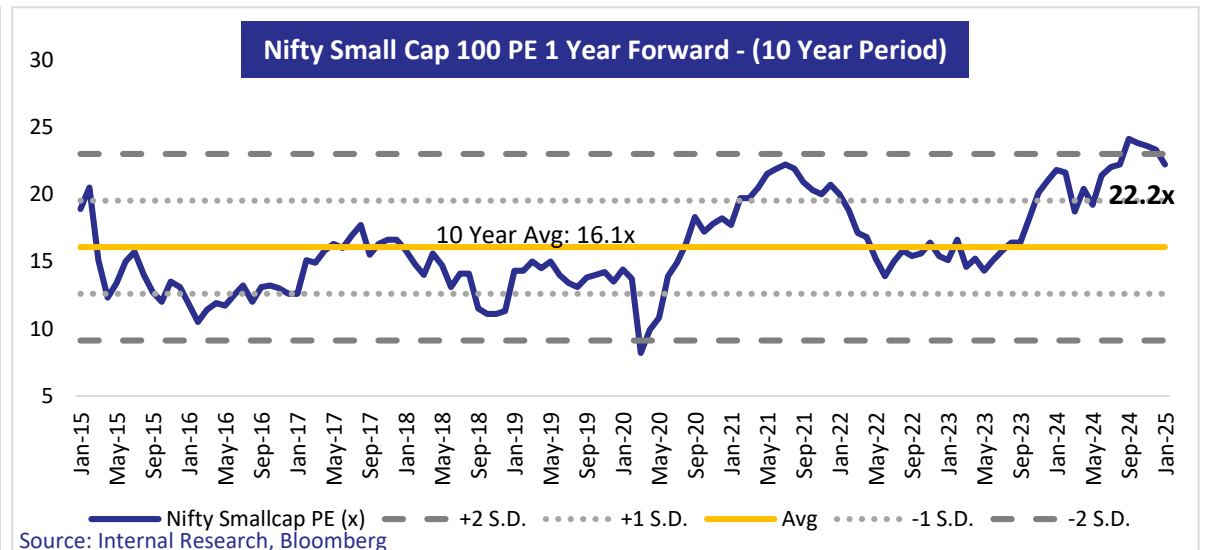
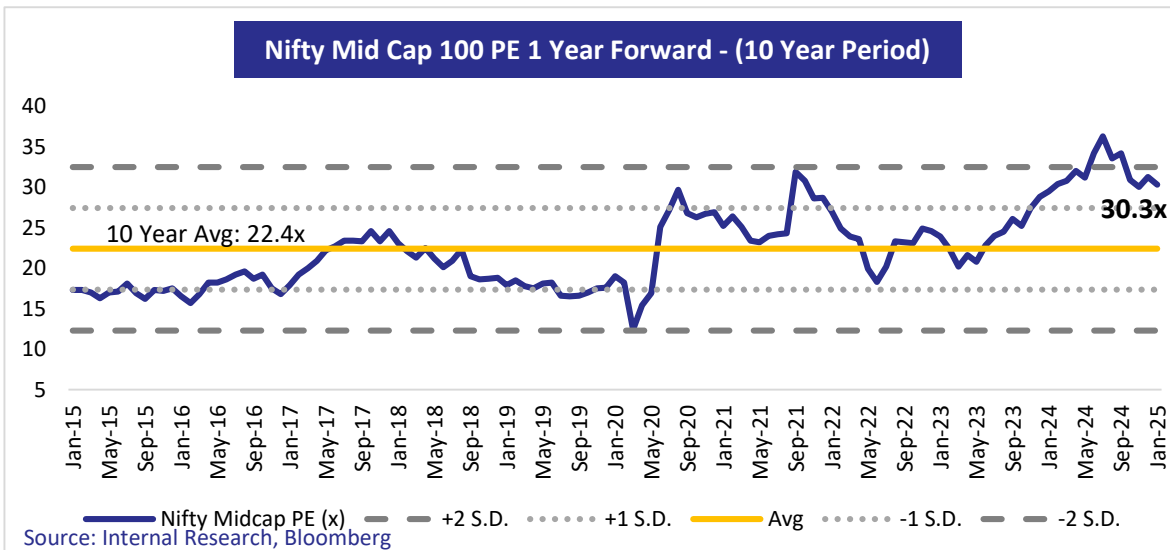
Source: MOFSL - Institutional Equities

Market Indices Valuations – Based on Forward Earnings

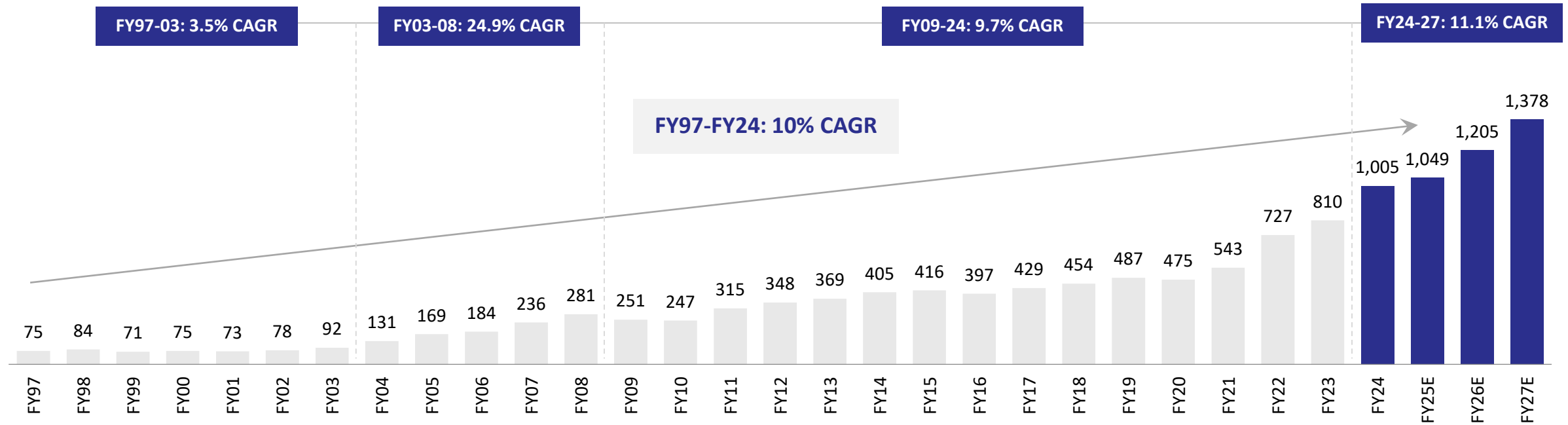


Nifty 50 Forward PE: Currently trading below its long-term average, indicating fair valuation. We recommend investing lumpsum in large cap strategies.

Nifty Midcap and SmallCap Forward PE: Despite corrections, it remains significantly above its long-term average, suggesting overvaluation. Hence, a staggered approach is recommended.



Nifty 50 – Earnings Growth Outlook



Although the EPS growth for FY25 remains flat at a 4.4% growth, expectations for FY26 i.e. 1205 and FY27 i.e. 1378.

Source: MOFSL

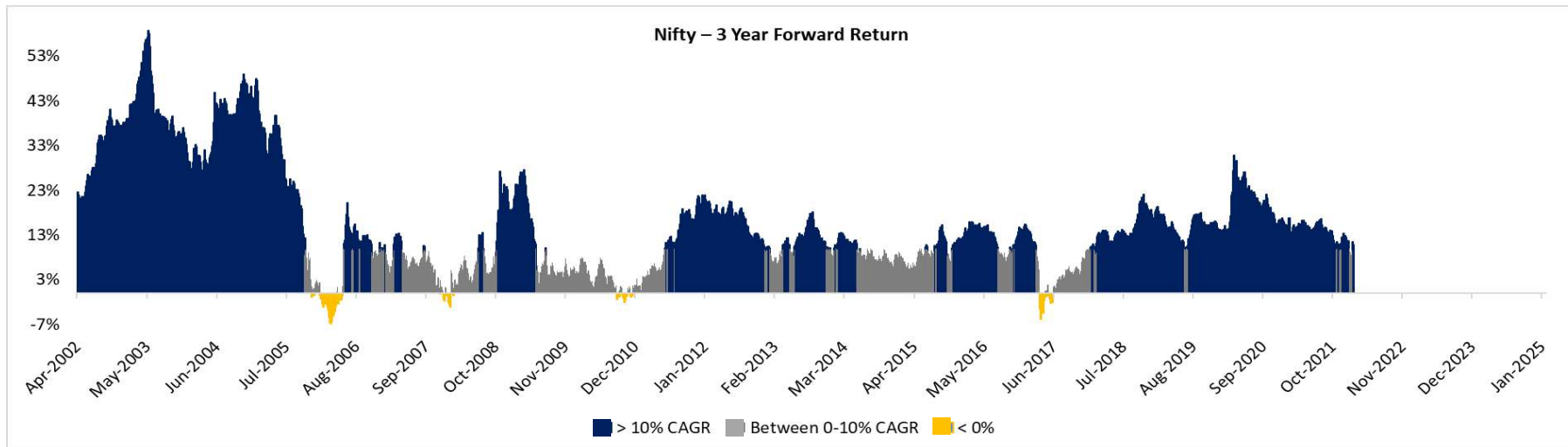
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Infinite Possibilities. Enduring Relationships.

Temperature Gauge Index



Temperature Gauge Index is an equally weighted index of EY-BY and MOVI Index



It incorporates PE Ratio, PB Ratio, Div. Yield and G-sec Yield, and hence is a useful valuation metric.

Data as on 31st January '25

Source: Capital Line, Bloomberg Internal Research

Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

Temperature Gauge Index – Sensitivity Analysis

Temperature Gauge Index - Sensitivity Analysis					
Nifty50/10 Yr Gsec	6.29%	6.49%	6.69%	6.89%	7.09%
22250	103	104	105	106	107
22500	104	104	105	106	107
22750	104	105	106	107	108
23000	104	105	106	107	108
23250	105	105	106	107	108
23500	105	106	107	108	109
23750	105	106	107	108	109
24000	105	106	107	108	109
24250	106	107	108	109	110
24500	106	107	108	109	110
24750	106	107	108	110	111
25000	107	108	109	110	111
25250	107	108	109	110	111

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as on 31st January'25

Source: Capital Line, Bloomberg Internal Research

Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

3 Yr Forward Returns Of Nifty At Different Levels Of Temperature Gauge Index

Nifty 50				36M Return CAGR			Time Positive	% Times	
Index in Range		Count in Range	% of count	Min	Max	Average	% Times Positive	6% to 10%	>10%
65	70	60	1%	24%	57%	43%	100.0%	0%	100%
70	75	202	2%	15%	51%	32%	100.0%	0%	100%
75	80	285	3%	14%	45%	37%	100.0%	0%	100%
80	85	168	2%	15%	43%	34%	100.0%	0%	100%
85	90	207	2%	12%	49%	33%	100.0%	0%	100%
90	95	539	6%	2%	47%	27%	100.0%	2%	97%
95	100	832	10%	1%	44%	18%	100.0%	8%	91%
100	105	714	9%	-2%	30%	13%	98.7%	20%	71%
105	110	859	10%	-4%	22%	10%	78.3%	14%	52%
110	115	1860	22%	-7%	22%	9%	62.3%	27%	22%
115	120	1617	19%	-4%	21%	8%	75.9%	21%	25%
120	125	804	10%	-2%	18%	10%	92.8%	9%	61%
125	130	135	2%	0%	16%	12%	99.3%	4%	80%
130	135	84	1%	-2%	15%	6%	91.7%	0%	36%
135	140	28	0%	-3%	0%	-1%	10.7%	0%	0%

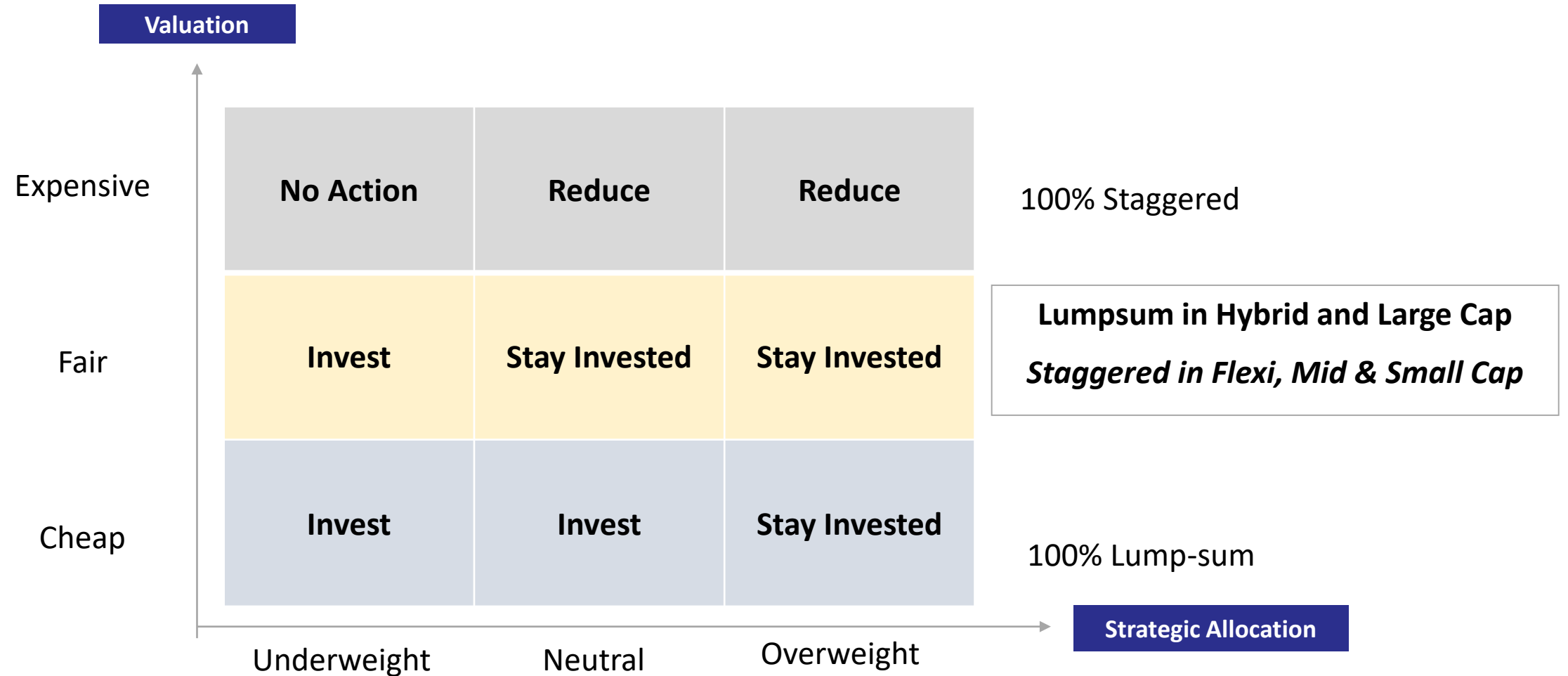
Data as on 31st January'25

Source: Capital Line, Internal Research

Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Equity Allocation & Deployment Grid

Below grid is based on Temperature Gauge Index



Source: Internal Research

Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Equity Portfolio Strategy

- Equity markets continued to remain in the consolidation phase amid eventful month and bout of volatility caused by them. While some of the events like union budget of India, RBI policy action and Q3 earnings have been well absorbed by the markets, uncertainty around actions by Trump on both trade and fiscal front, China measures to revive the economy, rate hikes by BoJ and INR depreciation still persist
- Hence we expect the markets to remain in the such phase for the next 3-4 months till most of these events are unfold and factored in by the markets. Such phase of the markets may be considered for gradual accumulation.
- From longer term perspective, India continues to remain stable and growing economy. Actions taken by the govt and RBI are also likely to revive the economy from the rough patch it is going through currently. Earning growth is also likely to be robust for next two years.
- Therefore based on their risk profile, investors having the appropriate level of Equity allocation can continue to remain invested.
- Considering the ongoing corrections, if Equity allocation is lower than desired levels, investors can increase allocation by implementing a lump sum investment strategy **for Hybrid & Large Cap Equity Oriented fund** and **Staggered approach over the next 6 months for Flexi, Mid and Small Cap Strategies** with accelerated deployment in the event of a meaningful correction.

Budget 2025-26 – Sectoral Outlook

POSITIVES

Auto

- No tax up to income of ₹12.75 lakh, slabs increased for reduced tax burden
- Supporting EV adoption via exemption from customs duty, national manufacturing mission and PLI incentives
- **Higher disposable income and EV boost to drive growth**

Consumer Goods

- Increased tax savings to gradually revive urban demand across consumer durable products and staples
- Schemes to augment farm income and achieve self-sufficiency in pulses, high-yielding seeds + enhanced loan limits on Kisan Credit Card
- Incentivized footwear and toy sector to re-ignite 'Make in India' – leading to higher job creation and driving exports
- **Rise in purchasing power to enable rural spending and improve sales**

Pharma & Healthcare

- BCD exemption of life-saving drugs and diagnostic kits, setup of 200 Day-care Cancer centers, boost to Medical Tourism, and 'Heal in India' – **all factors to drive growth in the pharma/healthcare space**
- 10,000 additional seats in medical colleges + increased allotment to key schemes (Ayushman Bharat, Jan Aushadhi) will benefit overall sector

Budget 2025-26 – Sectoral Outlook

POSITIVES

Insurance

- **Increase in FDI limit from 74% to 100% - big positive as it shall increase inflow in the sector**
- ULIPs to be taxed as capital gains, instead of 'income from other sources' – reduced taxation rate to increase attractiveness of the product
- 100% Tax exemption for Insurance companies on policies issued + profits from units operating in IFSC – will primarily improve bottom-line of life insurance companies

Power

- Increased domestic focus via National Manufacturing Mission, on manufacturing of Solar PV Cells, motors, controllers, batteries, wind turbines, etc.
- Increased outlay in PM Surya Ghar Muft Bijli Yojana + increase capex allocation from the internal & extra-budgetary resources (IEBR) – to boost growth in power sector

Banks

- Increased Tax Savings to increase consumption and **subsequently make BFSI a second order beneficiary** – with improved secured lending growth, and further enhancement of financialization of savings (higher flows into equity markets via SIPs)
- Increased credit guarantee to MSMEs shall boost business prospects for banks/NBFCs in this sector

Budget 2025-26 – Sectoral Outlook

POSITIVES

Real Estate

- Higher customer purchasing power due to lower taxes + increased focus on driving GCCs in emerging Tier-2 cities to drive growth in commercial real estate
- Two houses can now be claimed as self-occupied without any conditions – to boost residential demand

Agriculture

- While allocation to agri-ministry reduced by 3% YoY to ₹1.29 lakh cr., focus has increased on improving farmer income and enabling higher credit availability – with schemes launched for high-yield seeds and setting up a Makhana board in Bihar.
- Subsidy on urea and other fertilizers, and reduced customs to pave way for improved agricultural and ancillary growth.

Telecom

- Introduction of BharatTradeNet (BTN) with an allotment of ₹22,000 cr., as against a revised budget allotment of ₹6,500 cr. in FY25
- Higher allocation to optical fiber cable budget can be beneficial for companies operating in this sector

Budget 2025-26 – Sectoral Outlook

NEGATIVES / NEUTRAL

Infrastructure

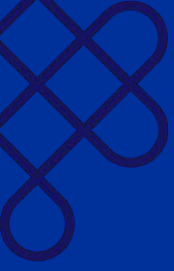
- Outlay for major sectors such as roads and railways have remained flat YoY – making it sentimentally negative for the sector
- **Increased disposable income may drive pvt. sector to increase capacity utilization and opt for capex**

Oil & Gas / Cement

- Outlay for PM Awas Yojana – Urban down by 23%, while outlay for the Rural segment remained flat
- Budgeted support for LPG under-recovery and subsidy much below expected compensation

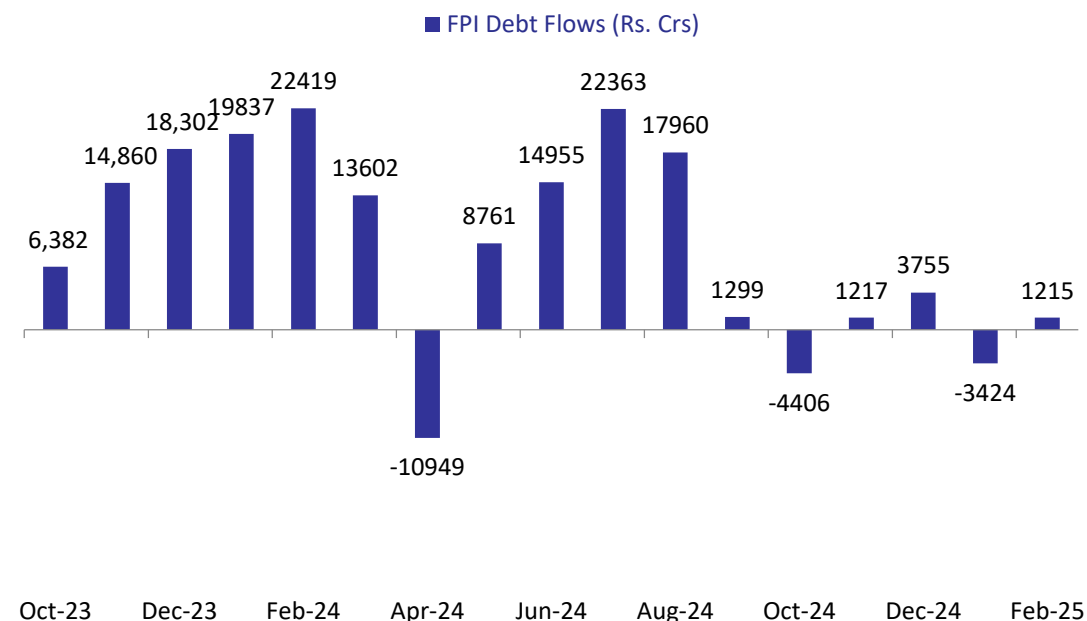
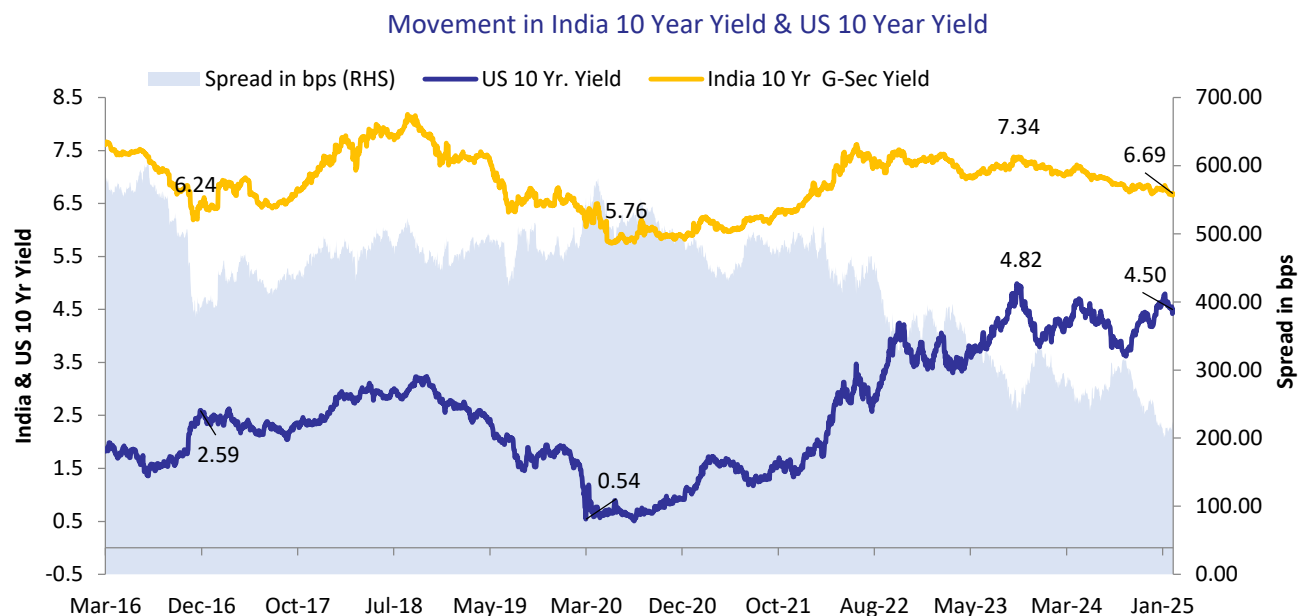
Roads & Railways

- Flat growth in revised and budgeted estimates for FY26 + reduced capex with higher focus on consumption makes it a sentimentally negative sector



Fixed Income

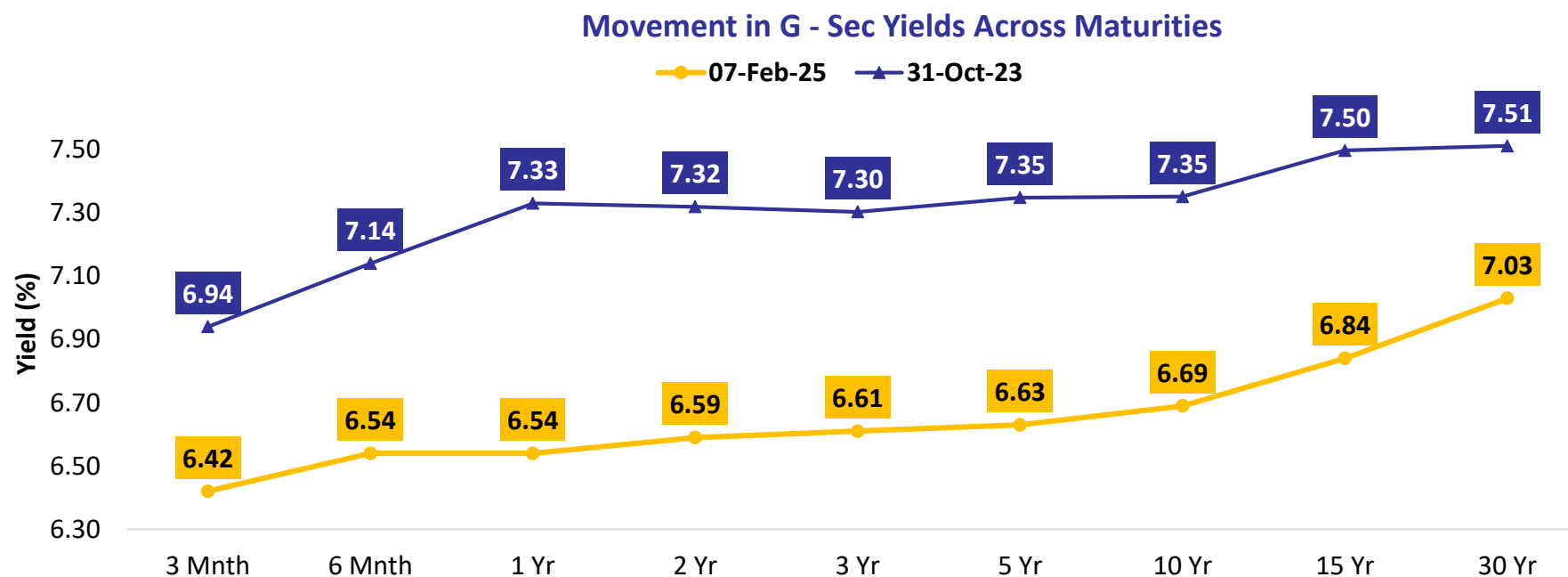
Trend in US/India 10 Yr Yield & FPI Flows in India



- The spreads between US & India 10 Year yields is decreasing and is currently near 200 bps while the historical average spread is of 400-450 bps
- FPI flows in India has been muted in last 6 months on back of higher US treasury yields , stronger dollar & reduced differential in US/India yields

Source: RBI, Internal Research

India G-Sec Yield Curve



- Since Oct 2023 onwards, yield curve has shifted downwards on back of favourable demand supply dynamics, well-contained inflation and stable domestic macros
- Since Oct 2024, global and domestic factors have created interim volatility restricting the yields from falling further

Source: RBI, Internal Research



Fixed Income Portfolio Strategy

With the evolving interest rate scenario, we believe the duration play is in its last leg and long term yields to remain higher for longer and hence duration can be exited fully. Actions by RBI on rate cuts and liquidity, are likely to result into steepening in yield curve. We recommend fixed income portfolio to be Overweight on Accrual Strategies.

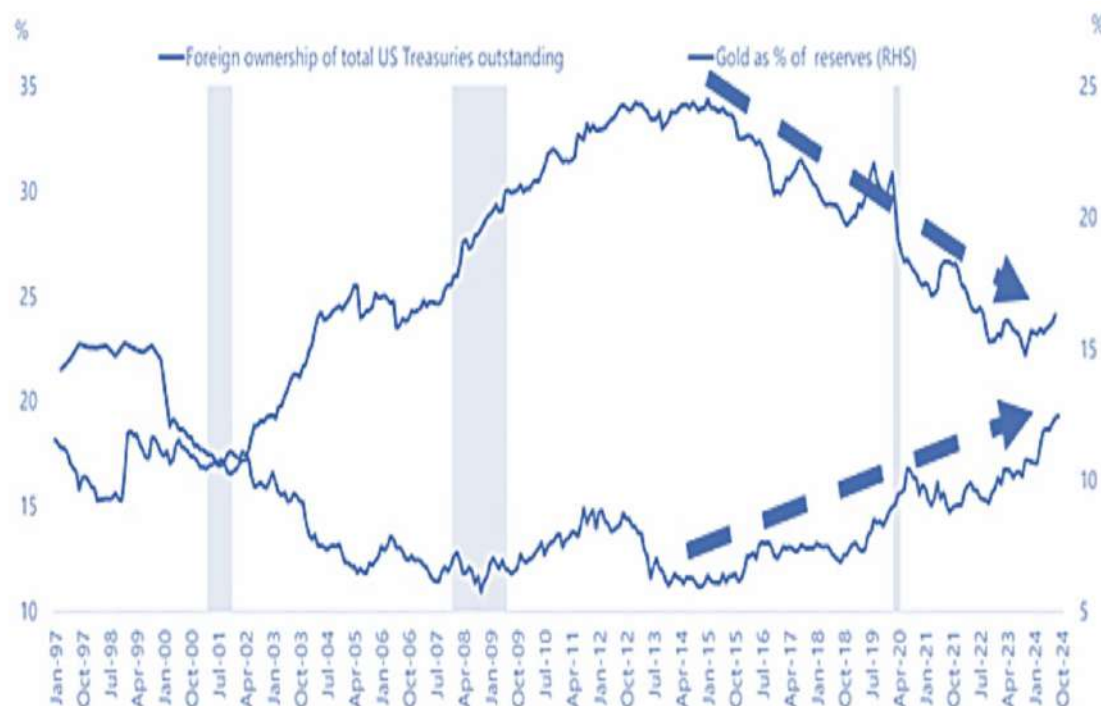
- **Accrual can be played across the credit spectrum by allocating 45% – 55% of the portfolio** to Performing Credit & Private Credit Strategies, InvITs & Select NCDs
 - 30% – 35% may be invested in Performing Credit Strategies/NCDs and InvITs
 - 20% – 25% may be invested in Private Credit including Real Estate/Infrastructure strategies and select NCDs
- **25% - 35% of the portfolio** may be invested in Arbitrage Funds (minimum 3 months holding period), Floating Rate Funds (9 – 12 months holding period), Absolute Return Long/Short strategies (minimum 12 -15 months holding period)
- **For tax efficient fixed income alternative solutions, 20% - 25% of the portfolio** may be allocated in Conservative Equity Savings funds (minimum 3 years holding period)



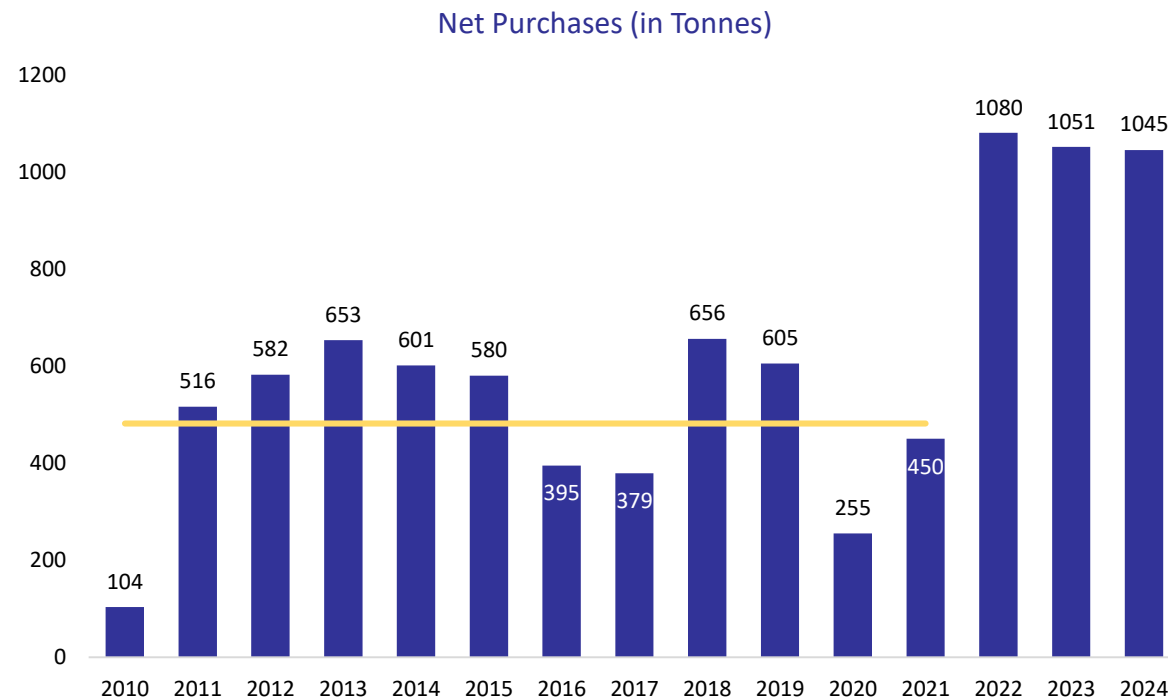
Gold

Gold – Rise in holding & consistent buying by Central Banks

Gold as % of reserves continue to rise



And Gold rally now supported by inflows of central banks



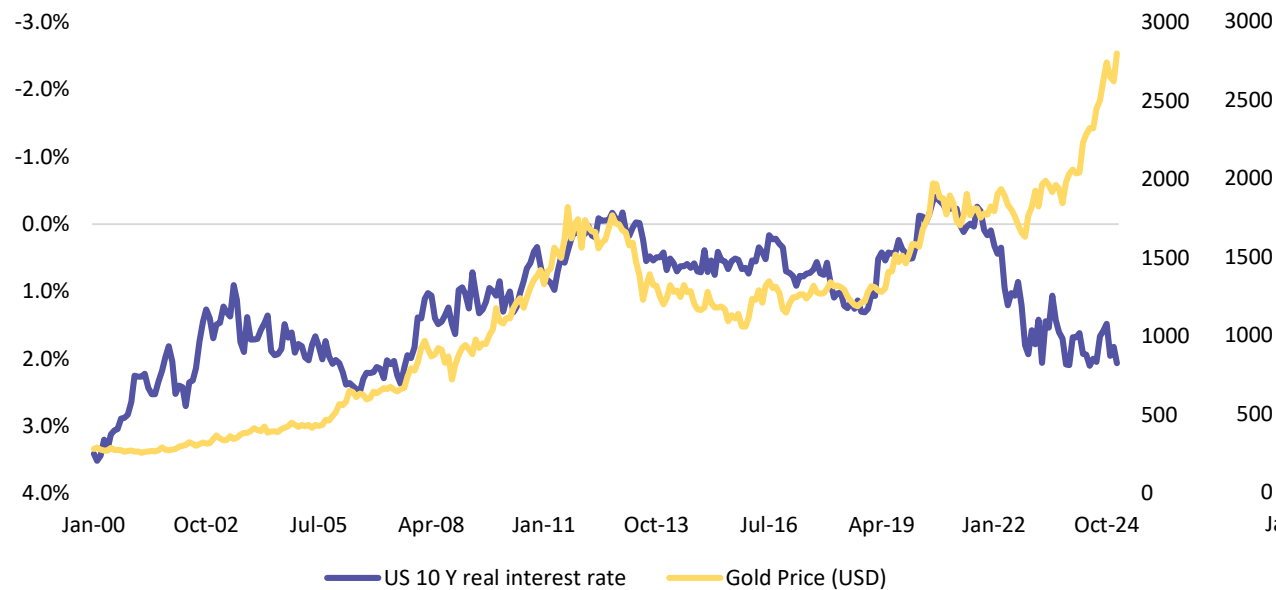
- The Foreign ownership of total US Treasuries has been declining and is currently near all time lows while the proportion of Gold as % of central bank reserves is increasing.
- The central banks net purchases of gold has shot up significantly from 2022 compared to the 10 year average of 480 tonnes. Annual net purchases have been 1000+ tonnes in the last 3 years.

Source: internal Research, World Gold Council, Investing.com. IKIGAI, Kobeissiletter

Gold – Break in correlation with real interest rates & DXY

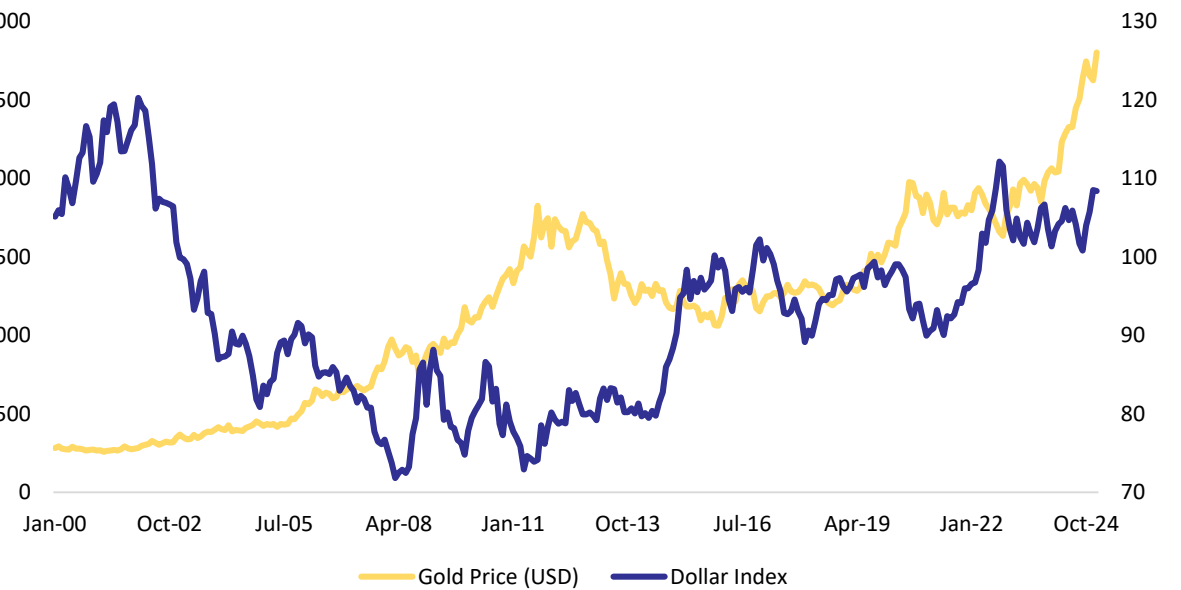
Correlation between US 10 Yr Real rate & Gold

US 10-year real rate % (LHS inverted) vs Gold price USD (RHS)



Correlation between US Dollar (DXY) & Gold

Gold (USD) & Dollar Index



- From 2022 onwards, the correlation between US 10 year real rate & Gold prices (USD) seems to have broken.
- Similarly the negative correlation between DXY and Gold has also broken due to increasing uncertainty and world moving away from US treasuries & towards Gold
- Investment in Gold should be done from the Asset Allocation point of view

Source: internal Research, World Gold Council, Investing.com. IKIGAI, Kobeissiletter

Disclaimer



- Motilal Oswal Wealth Limited (“Motilal Oswal Private Wealth” or “MOPW”), a company incorporated under the Companies act 1956, is registered with SEBI as Portfolio Manager (Portfolio Management Registration No. INP000004409); registered as distributor of mutual funds (AMFI Registration No. ARN 87554) and an Investment Manager to Motilal Oswal Wealth AIF, a trust organised in India and is registered with Securities and Exchange Board of India as a Category III – Alternative Investment Fund (SEBI Registration Number: IN/AIF3/22-23/1142)
- This document is for information and reference purposes only and should not be construed to be investment advice under SEBI (Investment Advisory) Regulations. This document is not a research report as per the SEBI (Research Analyst) Regulations, 2014.
- The information provided herein are for the exclusive and confidential use of the addressee(s) only. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOWL and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. Any distribution, use or reproduction of the information contained in this Document, in full or in part without the written permission of MOPW, is unauthorized and strictly prohibited. If you have received this Document erroneously and you are not the intended recipient(s) of this Document, please delete and destroy it and notify MOPW immediately without making any copies and/or distributing it further. This document is not intended to be an invitation to effect a securities transaction or otherwise to participate in an investment service/offer. Nothing in this Document should be construed as advice nor an offer or recommendation or solicitation of any products/services by MOPW. The products/services referred in this document may not be suitable for all kind of Investors. Investors with any questions regarding the suitability of any of the products or services referred must consult their Financial Advisors, Tax consultants before taking investment decisions. MOPW does not provide any tax advice. Investors should assess the tax impact of their investment(s)/transaction in consultation with their tax advisors prior to investing.
- MOPW does not guarantee yield or capital appreciation or capital protection. It may be noted that past performance does not guarantee similar future performance. MOPW neither assures nor guarantees any future returns or future performance, nor does it guarantee and/or assures that the projections/performance mentioned in this document or elsewhere, will be met. We have included statements/opinions/recommendations which contain words or phrases, that are “forward looking statements”. Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in the industry. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

Disclaimer



- Although MOPW has taken all reasonable steps to ensure accuracy of the data and completeness of the information contained in this document, it neither confirms nor guarantee accuracy or completeness of such information contained in this Document anyway. Investors are expected to make an independent assessment and verify its veracity, separately, before making any investment decisions. You expressly acknowledge and agree that you shall have gone through the respective product documents, disclosure documents, policies and other risk statements as are available on the website of the company and/or with the regulators, before taking any such investment decisions and MOPW shall neither be liable nor take any responsibility for any investment decisions, that is taken solely based on this document. Neither MOWL nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.
- Investment in securities are subject to market risk. Please read all investment related documents carefully before investing.
- For further details, including complaints and suggestions, if any, you may contact us at: Motilal Oswal Wealth Limited
- Registered Office: Motilal Oswal Towers, Junction of Gokhale & Sayani Road, Prabhadevi, Mumbai 400025. E-Mail: privatewealth@motilaloswal.com
- For Distribution Complaints Email us at: mopw.grievances@motilaloswal.com; For PMS & IA Complaints Email us at: grievancesPWM@motilaloswal.com ;



Thank You