Alpha Strategist – June'25

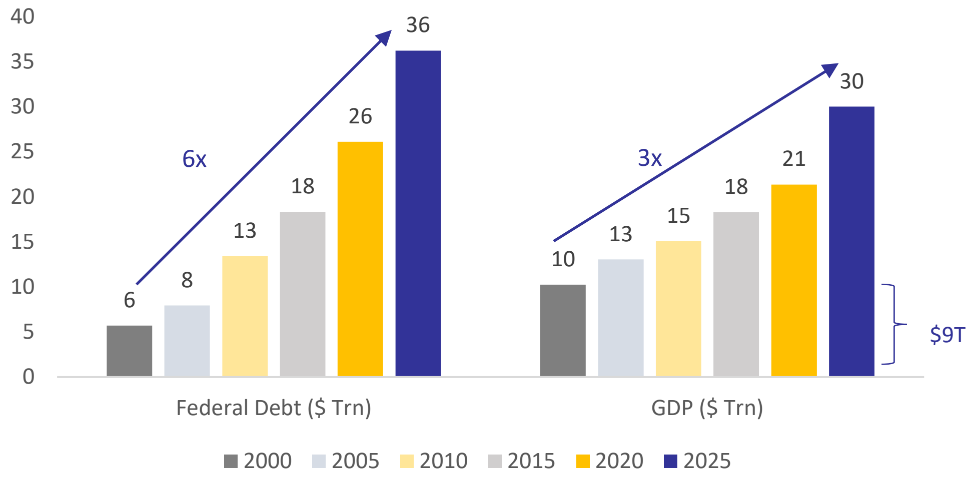
"Risk On"

Summary

- With the backdrop of concerns around US fiscal deficit, rising debt levels and longer term yields not cooling off, refinance of ~$9 tn worth of debt will be a key monitorable. Further the situation in Japan (rising domestic yields) and China's reserve diversification towards gold are pointing to possible weaker foreign demand for US treasuries.
- Market sentiment, however, has improved post the pause in reciprocal tariffs & subsiding recession fears with MSCI World Index making a new all-time high.
- Dollar Index has softened by ~10% from the highs. In the past, softer and stable dollar index has been positive for emerging markets like India in terms of foreign inflows. Resumption of FIIs inflows in India during the last 3 months also validates the same.
- Q4FY25 GDP growth has beaten the expectations and is hinting towards an economic recovery. FY26 Budget tax cuts may lift disposable incomes and spur consumption demand. Government capex has also resumed in full swing during the last 3-4 months.
- Recent 50 bps repo rate cut by RBI plus CRR reduction (effective from Sep'25) are positioned to entrench the growth rebound. Lower rates are expected to accelerate GFCF, enable corporate re-leveraging and boost the demand in rate sensitive segments like auto & real estate.
- Rally in the global equity markets, coupled with pro-growth boost on the domestic front (both at fiscal & monetary side) and healthier macros have led to a **"Risk On"** sentiment
- For equity investments, we suggest neutral allocation – 65:35 to Large and Mid & Small caps with Lump-sum allocations to Large/ Hybrid and Flexi-Cap funds, staggered SIP/STP routes for the more richly valued mid- and small-Cap segments.
- In Fixed income, we suggest to allocation to accrual strategies across the credit spectrum. Due to limited room for further gains, softening of the yields should be used an opportunity to gradually reduce the exposure from Long duration.
- From asset allocation perspective, we maintain a neutral stance on gold. Silver can be considered as a tactical play.

Highlights

Looming US Debt Maturity Wall

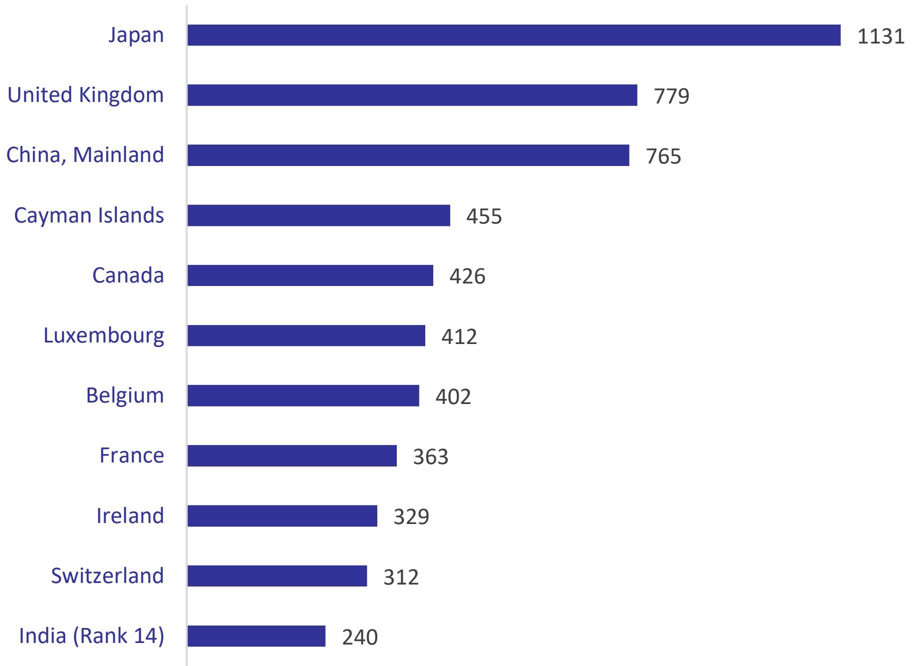


Refinance Challenge : $9 Trillion

~1/3rd Of US Marketable Debt

~30% of US GDP

- ~ 1/3rd of U.S. publicly held marketable debt to mature within 12 months
- Additionally , a projected U.S. federal deficit of $1.9 trillion may increase the treasury issuance even more, pushing total Treasury issuance above $10 trillion for the year.



- Japan , China and UK cumulatively hold ~30% of the foreign US treasury holdings

Source: Internal Research, Fred St Louis, Investing.com, Trading Economics, U.S. Bureau of Economic Analysis, Federal Reserve Economic Data

Concerns around Refinancing

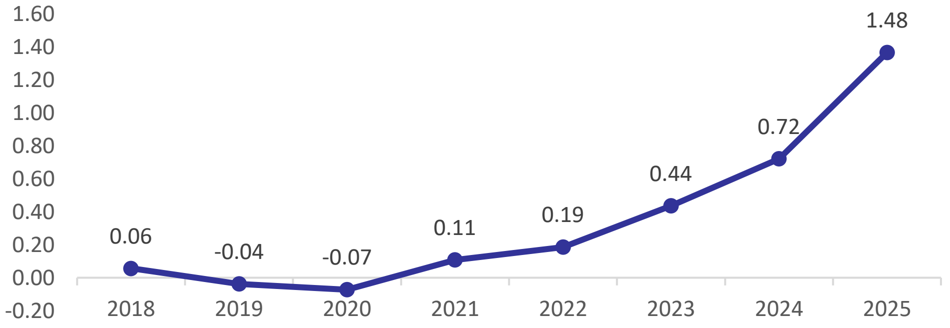
US Debt Downgrade

Country	Moody's Rating	S&P Rating	Fitch Rating
United States	Aa1	AA+	AA+

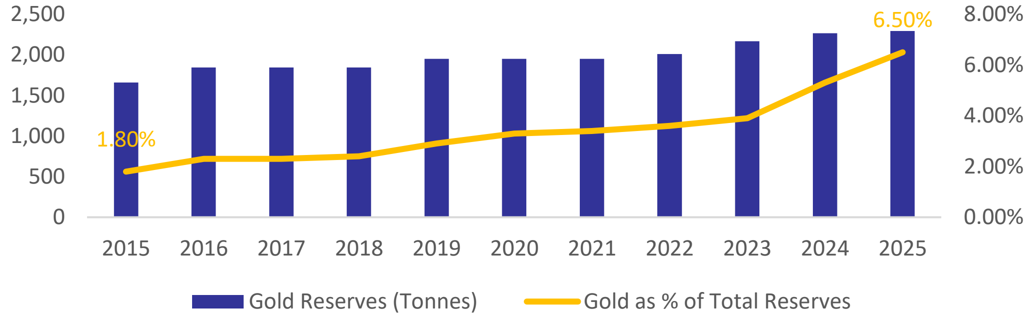
- USA downgraded from the top-notch AAA credit rating by Moody’s
- 10 Countries remain in AAA Category - Germany Australia, Switzerland, Singapore, Sweden, Norway, Denmark, Luxembourg, Netherlands, Canada

Credit default swap spread of US is currently trading at a significant premium to the likes od Spain and Portugal (which have much lower credit rating).

Japan’s rising 10Y Bond Yield could drive investors back; carry trade unwinding

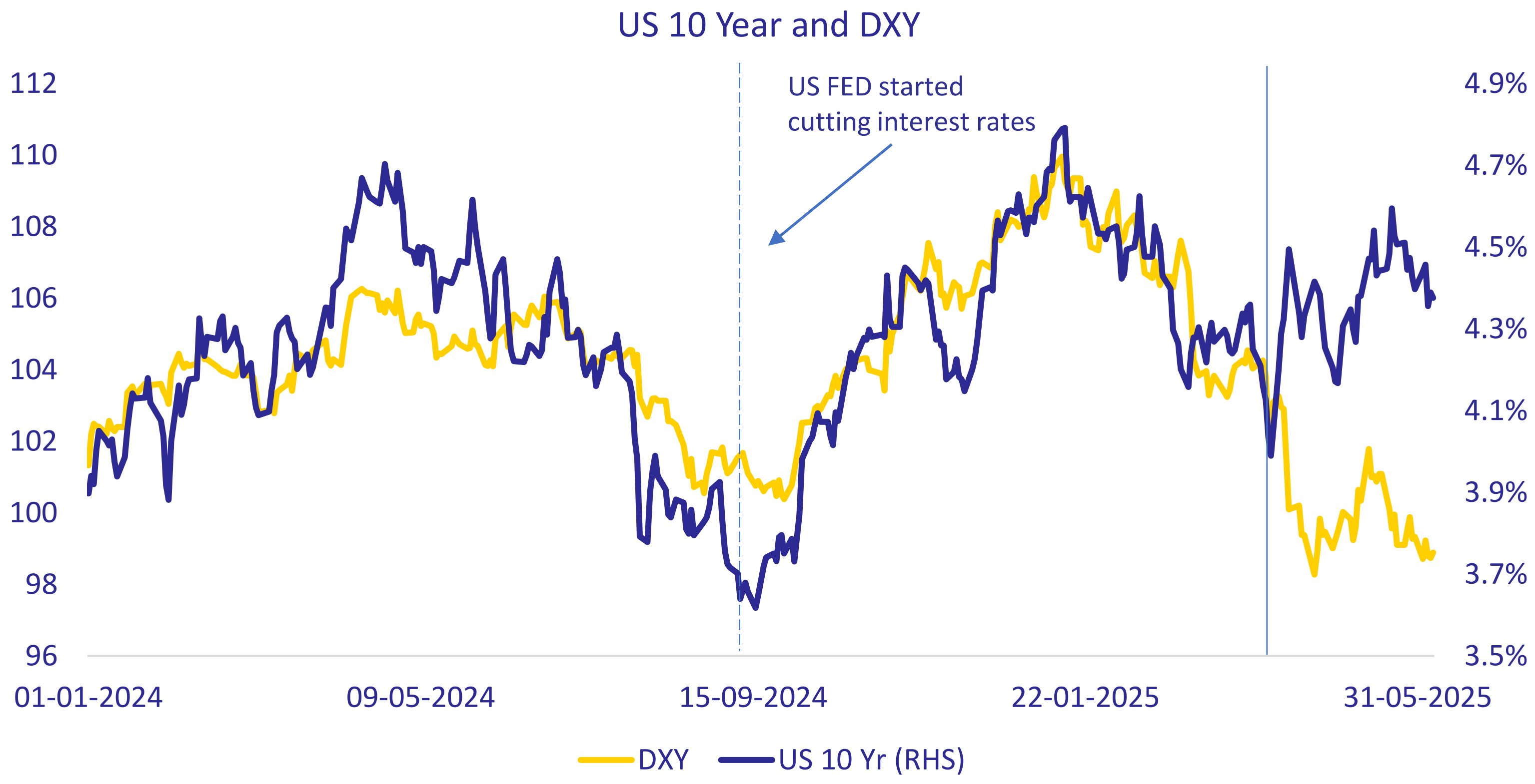


China’s increasing Gold reserve; a strategic move towards de-dollarisation



Source: Internal Research, Fred St Louis, Investing.com, Trading Economics, U.S. Bureau of Economic Analysis, Federal Reserve Economic Data
Disclaimer: The above data is for informational purposes. The analysis may or may not be sustained in future.

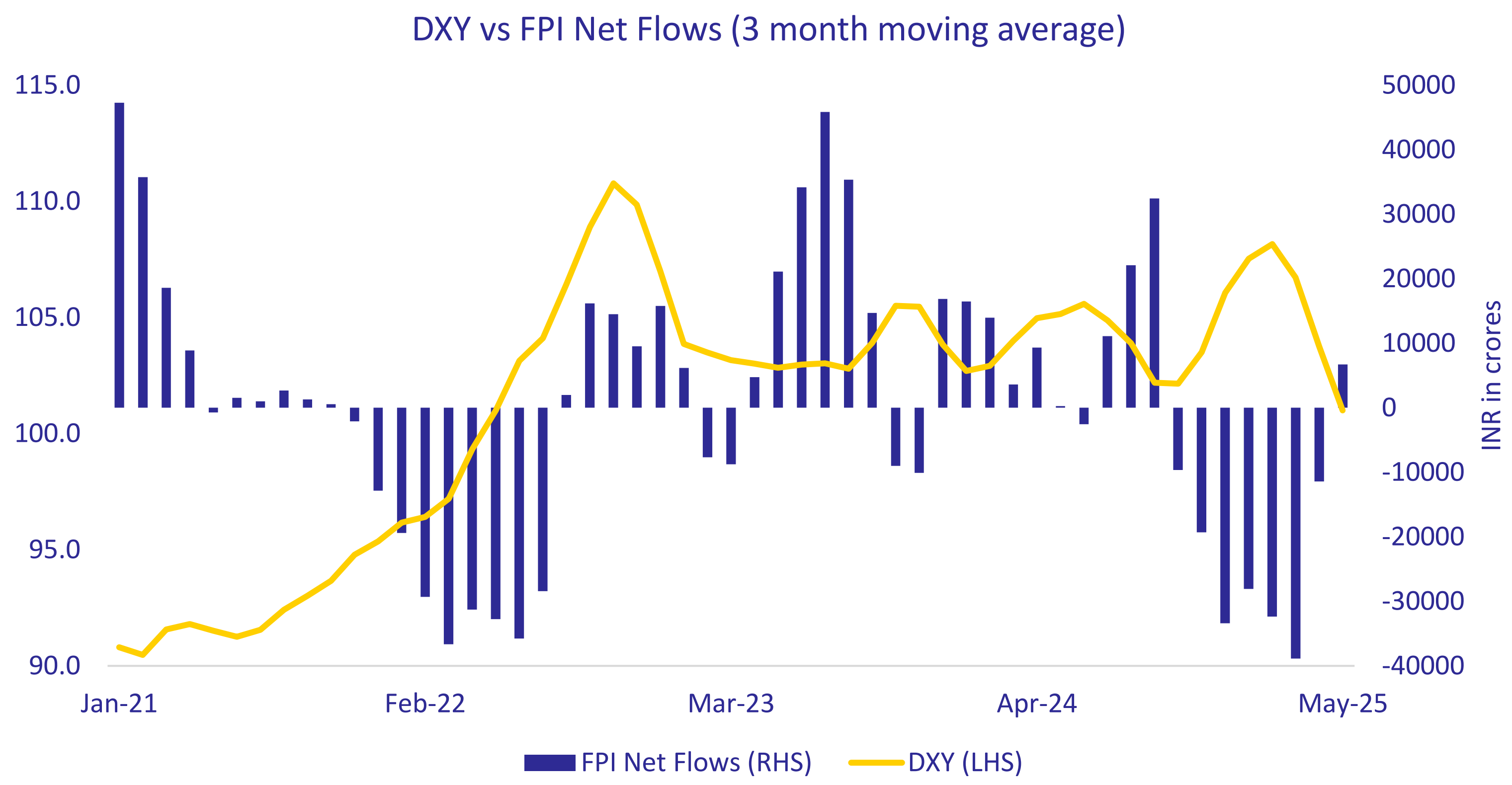
Trend: US 10 year yield & DXY



- US 10 year yields are not easing off even after the rate cutting cycle by FED which started last year.
- With the softening of dollar index, the correlation between DXY and US Yields seems to have broken

Source: Investing.com, Internal Research

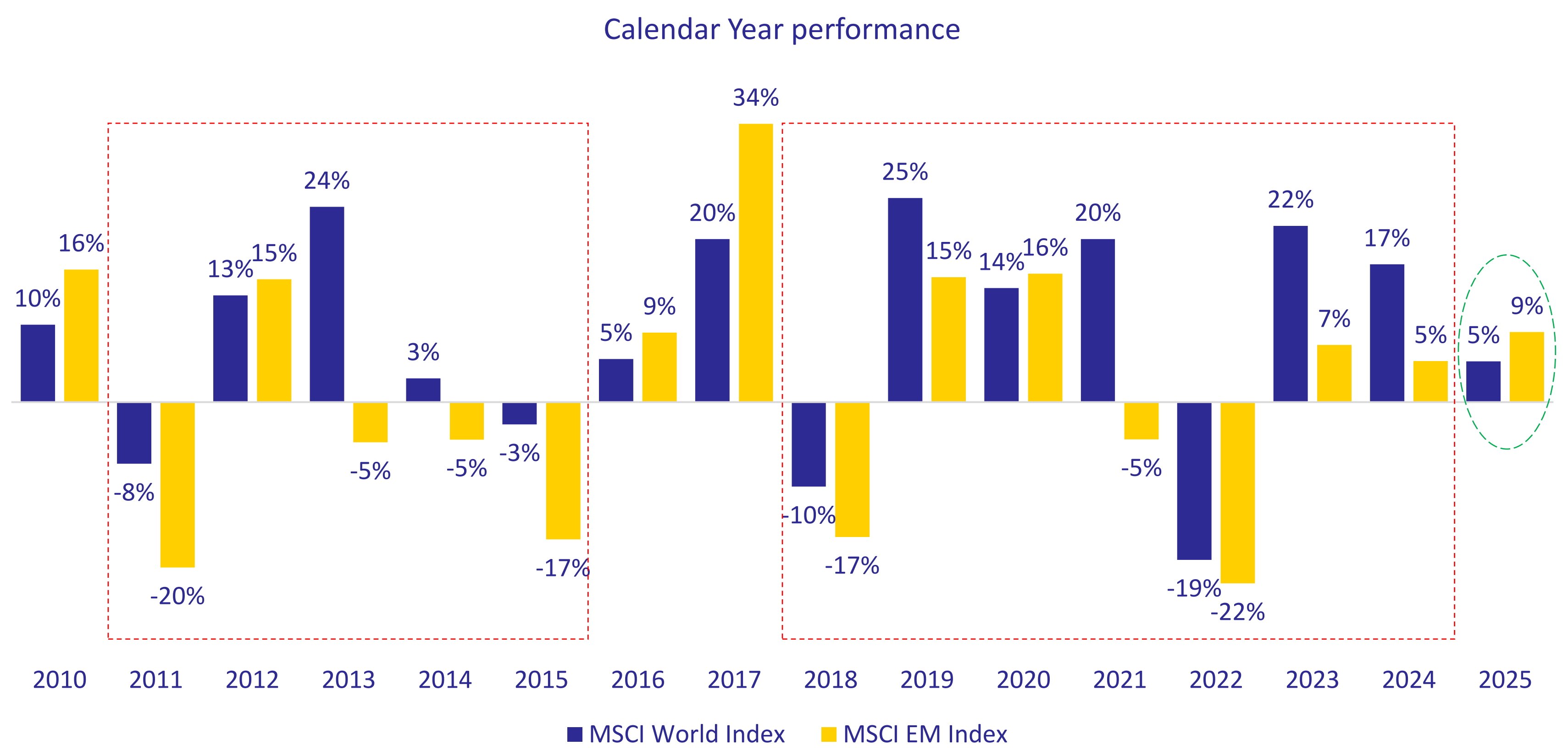
Movement in Dollar Index and FPI net flows



- Softer and stable dollar index has been positive for emerging markets like India in terms of foreign inflows

Source: NSDL, Investing.com, Internal Research

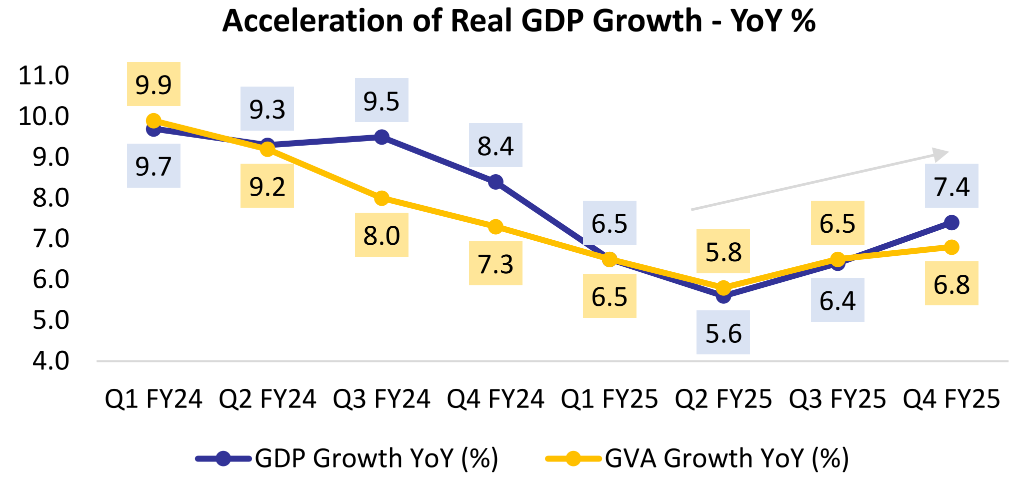
MSCI World vs. MSCI EM – Calendar Year performance

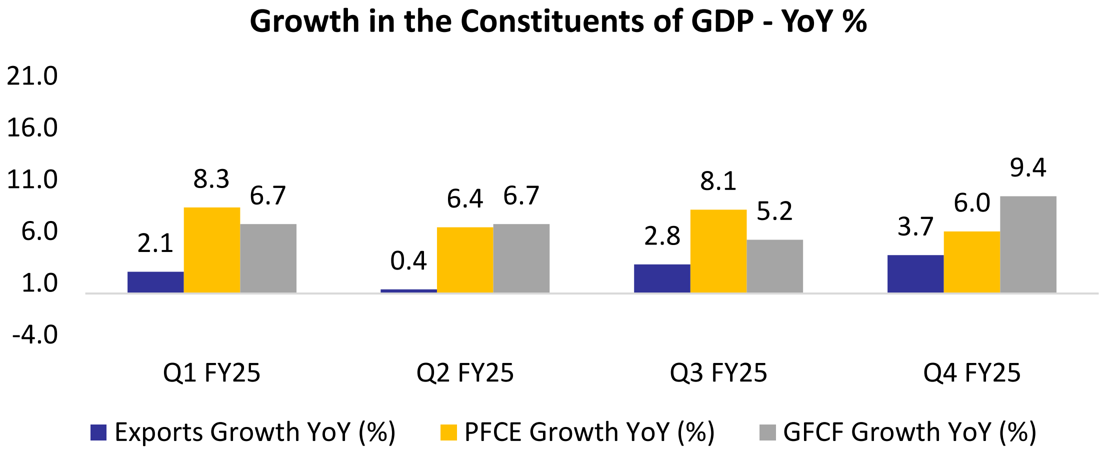


- After seven years of lag, MSCI EM has begun to outperform MSCI World, marking a cyclical leadership turn toward emerging markets.

Source: Investing.com, Internal Research

India – Economic recovery underway





Drivers of Real GDP Growth going forward:

PFCE:

- ₹1 lakh crore tax cuts in 2025 budget.
- Above-normal monsoon predicted by IMD

GFCF:

- 10% increase in government capital expenditure (FY26 budget)
- Recovery in private investment, particularly in manufacturing and real estate.

Agriculture & Exports:

- Above-normal monsoon boosts crop yields, farm incomes, and agricultural exports (rice, sugar, onions).

This combination of tax relief, infrastructure spending, and agricultural growth establishes a **strong foundation for future economic expansion** while indicating that the economy has **recovered from the slowdown seen** in the middle of last year.

Source: MOSPI, Internal research

Note: GVA- Gross Value Added, GFCE – Government Final Consumption Expenditure, PFCE - Private Final Consumption, GFCF – Gross Fixed Capital Formation

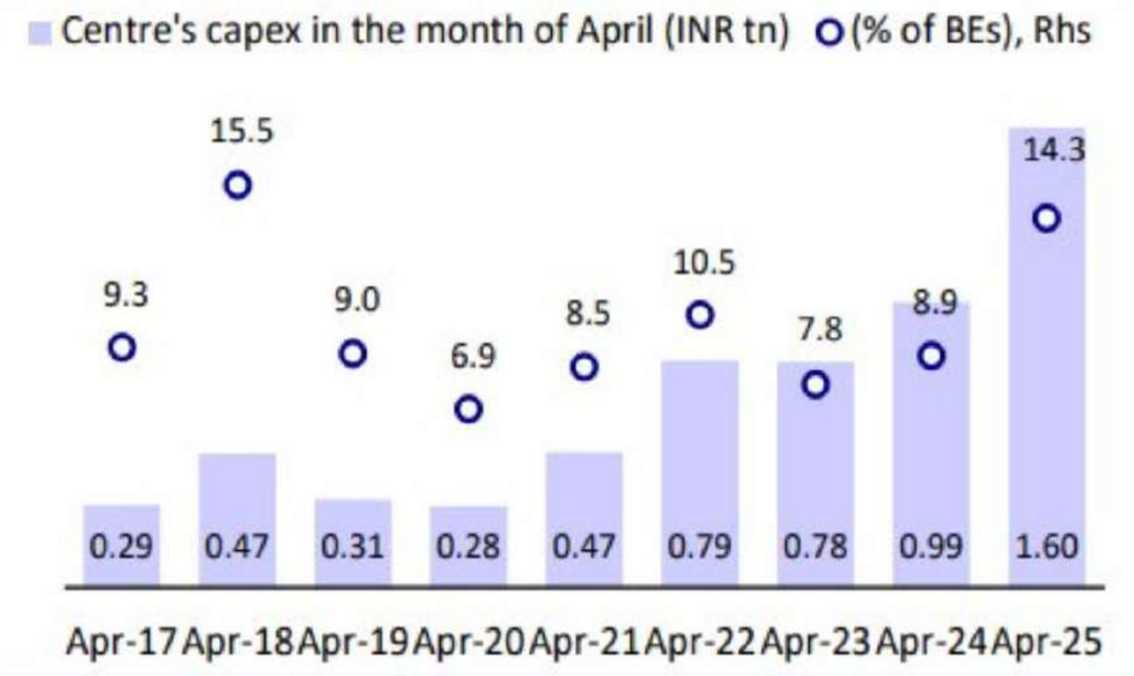
Impact of tax exemption on consumption & multiplier effect

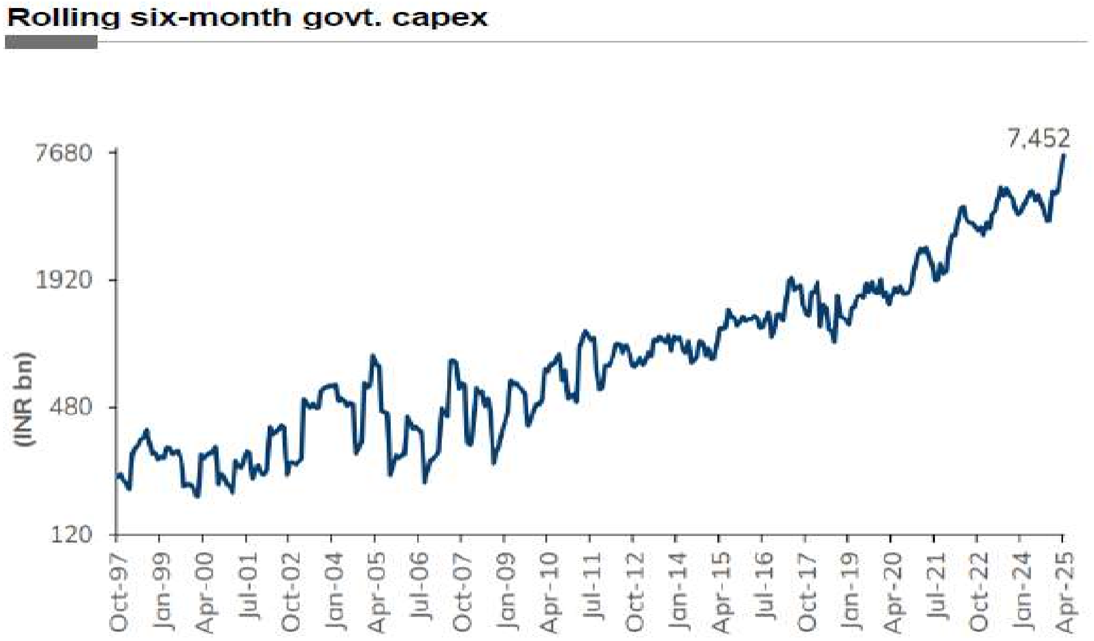
Component	Details
Revenue foregone by government or increase in disposable income due to reduction in income taxes (in INR billion) **(A)**	**1,000**
Average marginal propensity to consume (MPC): 2015 to 2025 **(B)**	0.63
Increase in consumer spending due to increased disposable income (in INR billion) **(C) (A*B)**	**630**
Component	**Details**
Increased disposable income as people no longer needed to invest under Section 80C to save taxes (in INR billion) **(D)**	**1,460.30**
Increase in consumer spending due to reduced mandated investments (in INR billion) **(E) (B*D)**	**920**
Direct consumer spending boost annually (in INR billion) (F) (C+E)	**1550**

Considering multiplier of 2.5x to 3x : a boost to GDP could be in the range of INR 6.5 to 7 trillion

Source: Income Tax of India, Deloitte Analysis

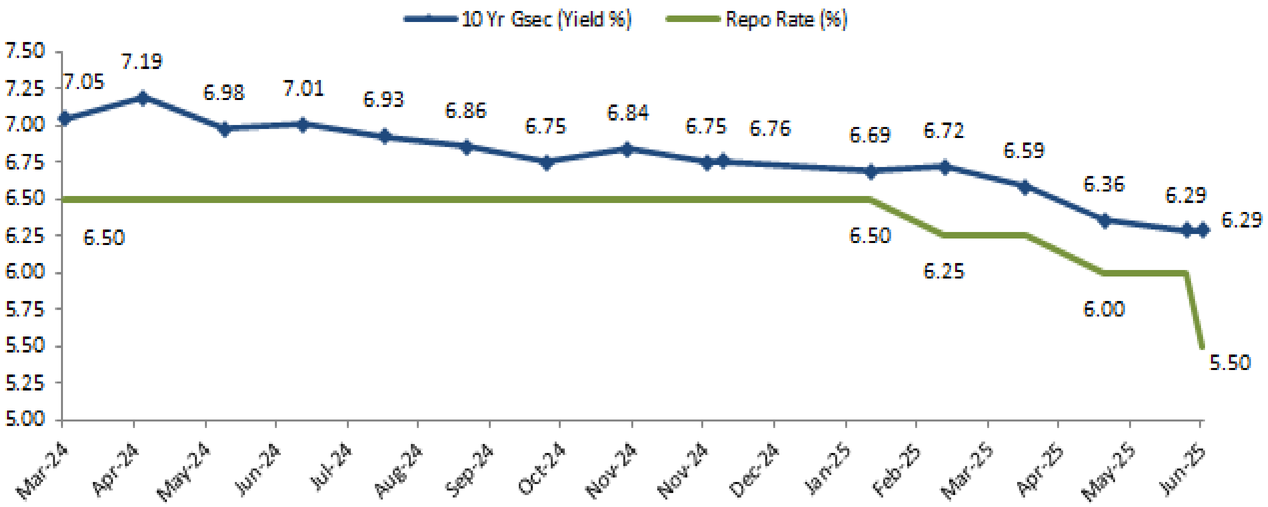
Govt Capex - Back on track

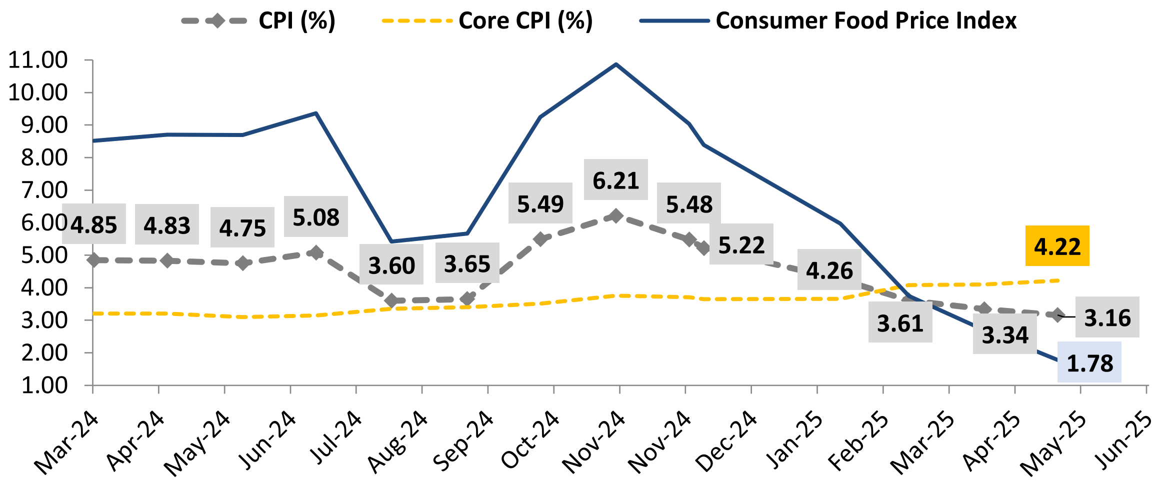




- Central govt Capex is showing signs of improvement by carrying out ~14% of the budgeted capex planned for FY26 in April itself.

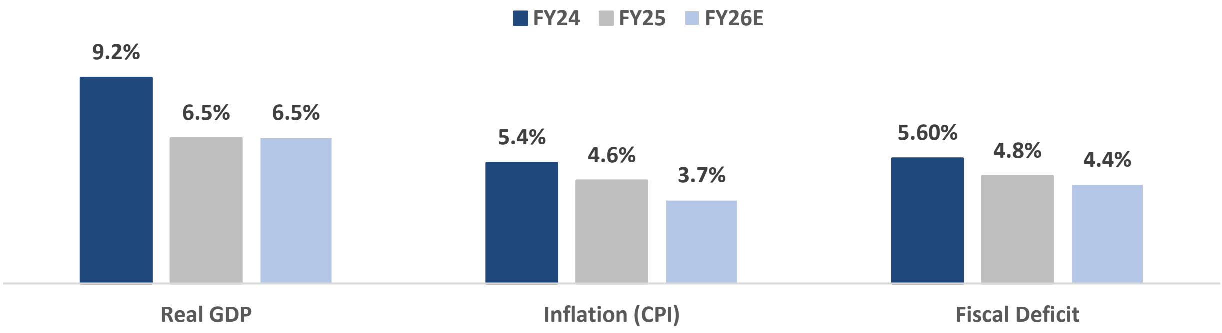
RBI Fillip to Bolster Growth





Moderate growth, benign inflation outlook & fiscal consolidation path warrant Monetary Policy to be growth supportive, albeit wary of global macroeconomic conditions & geopolitical tensions

- ✓ Frontloading of Repo Rate Cut : 50 bps reduction to 5.50%
- ✓ CRR lowered to 3% in 4 equal tranches of 25 bps wef Sep 25
- ✓ Stance changed to Neutral – indicating future policy actions would be data dependent and RBI may pause to assess the impact of the policy actions
- ✓ Rate Cycle Floor nearly Reached: With real rates turning supportive, RBI likely sees limited room for additional easing



Source: RBI, Internal Research

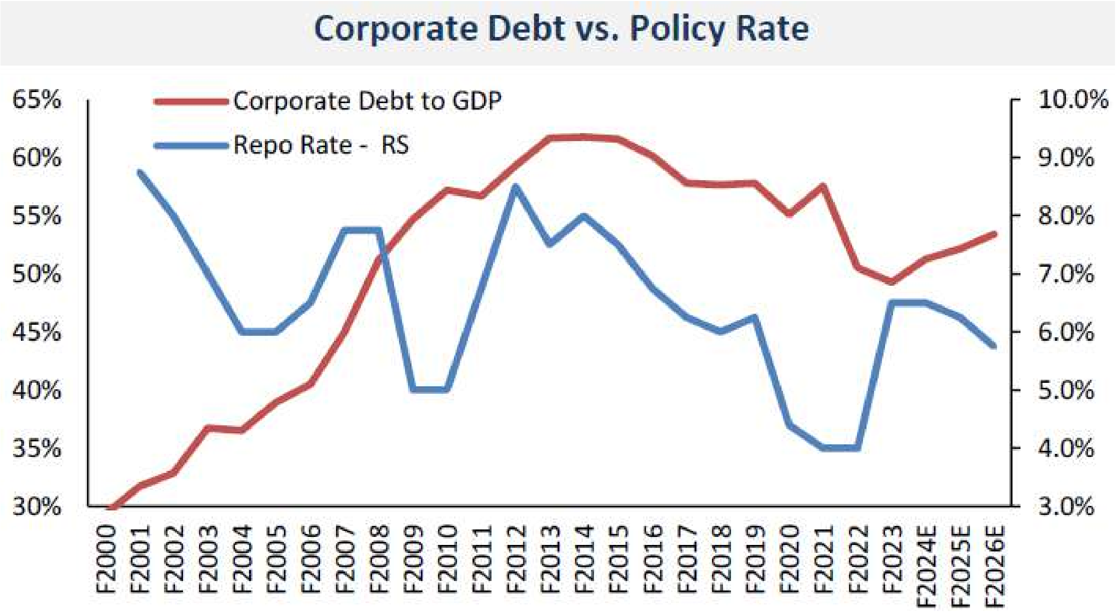
Significant rate cuts by RBI in the past

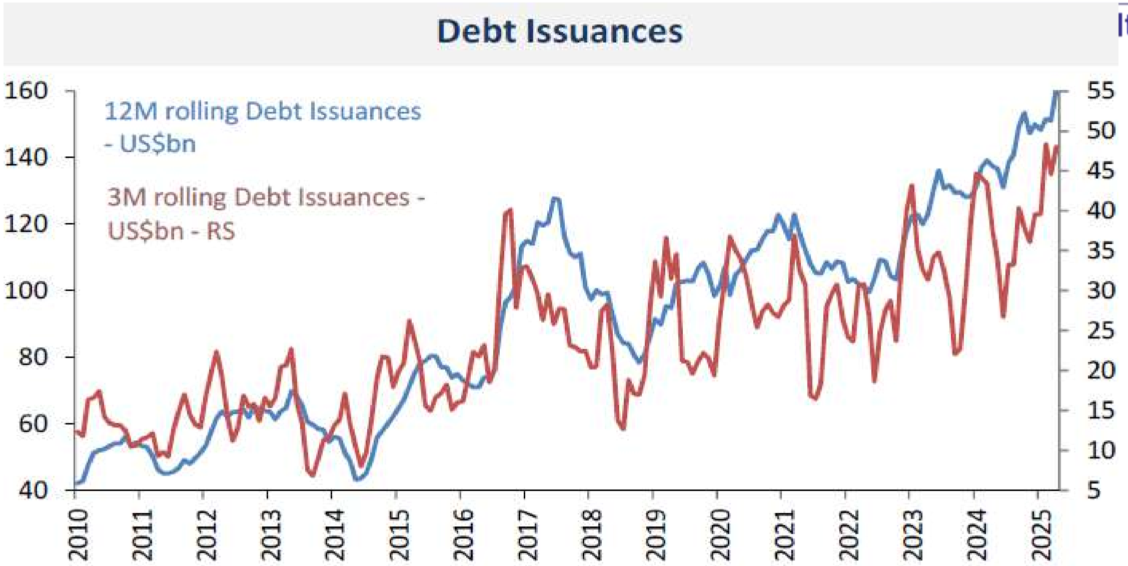
Easing episode (policy-rate cuts ≥ 100 bps)	Cumulative cut & window*	Macro backdrop	Real GDP growth in the next fiscal year	Nifty 50 (1 Year forward returns)	Nifty 500 (1 Year forward returns)
Apr – Oct 2001	↓ 150 bps (8.00 → 6.50%)	Dot-com slowdown, post-9/11 shock, weak industry	4.0% in FY 2002-03 (drought-hit year)	**-2.1%**	**11.2%**
Apr 2012 – May 2013	↓ 125 bps (8.50 → 7.25%)	Eurozone stress, domestic investment freeze	6.4% in FY 2013-14 (modest cap-ex revival)	**20.8%**	**24.0%**
Jan – Sep 2015	↓ 125 bps (8.00 → 6.75%)	Dis-inflation, terms-of-trade gain from cheap oil	8.2% in FY 2015-16 (peak of post-GFC recovery)	**8.3%**	**11.3%**
Feb – Oct 2019	↓ 135 bps (6.50 → 5.15%)	Pre-COVID demand slump, NBFC liquidity crunch	4.2% in FY 2019-20 (growth trough)	**-2.0%**	**-1.1%**
Mar – May 2020	↓ 115 bps (5.15 → 4.00%)	COVID-19 lockdown, deep contraction	8.7% in FY 2021-22 (re-opening rebound)	**62.7%**	**69.1%**
Dec 2024 – June 2025	↓ 100 bps (6.50 → 5.50%)	Slowdown in growth, declining inflation	6.5% in FY2025-26	??	??
Oct 2008 – Apr 2009	↓ 425 bps (9.00 → 4.75%)	Global Financial Crisis, sudden stop in capital flows	8.0% in FY 2009-10 (policy stimulus + normal monsoon)	**51.9%**	**64.0%**

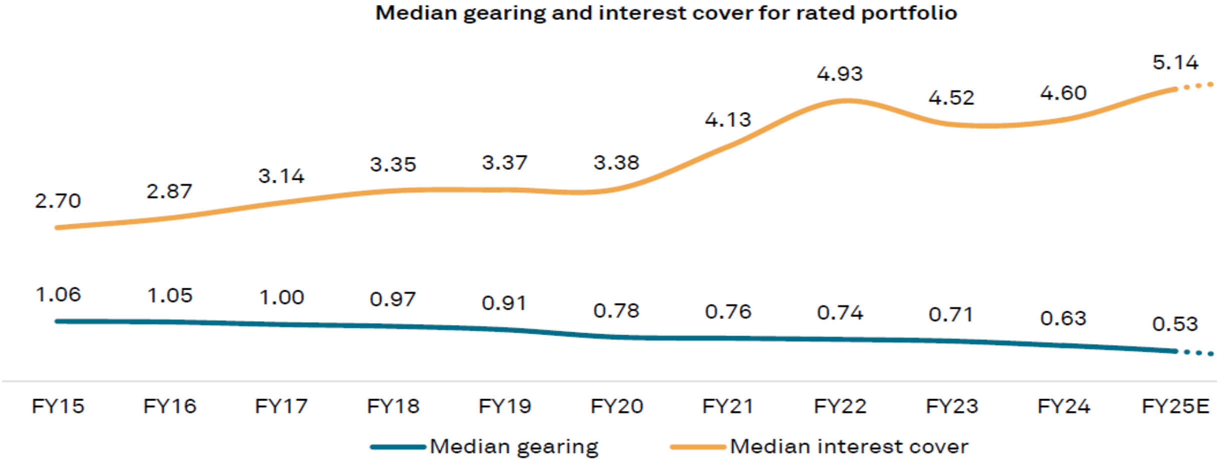
*Window = first to last cut in the cycle

Note: RBI policy rate is not the only deciding factor impacting GDP growth and market returns.

Re-leveraging of corporate balance sheet







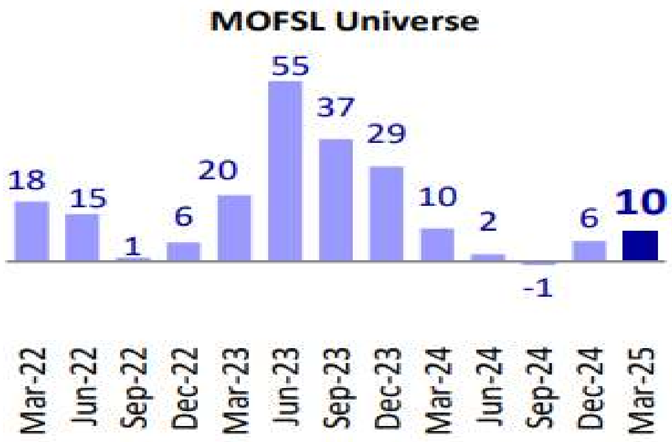
High Interest cover and low gearing – provides a large room for financial leverage as debt issuance happens at lower rates

Source: Morgan Stanley

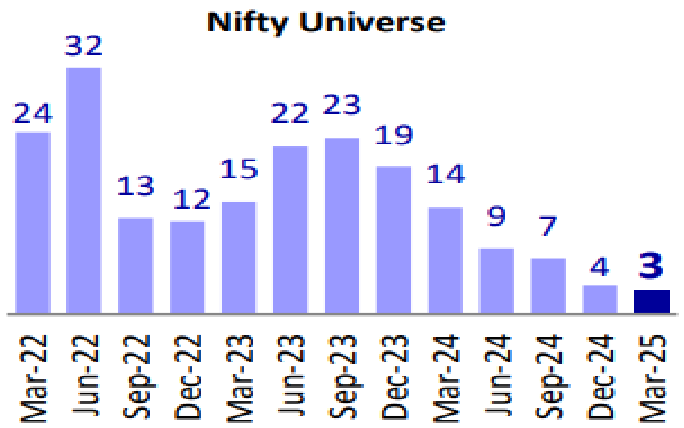
Q4FY25 Earnings summary (Nifty & MOFSL Universe)

motilal oswal
Private Wealth

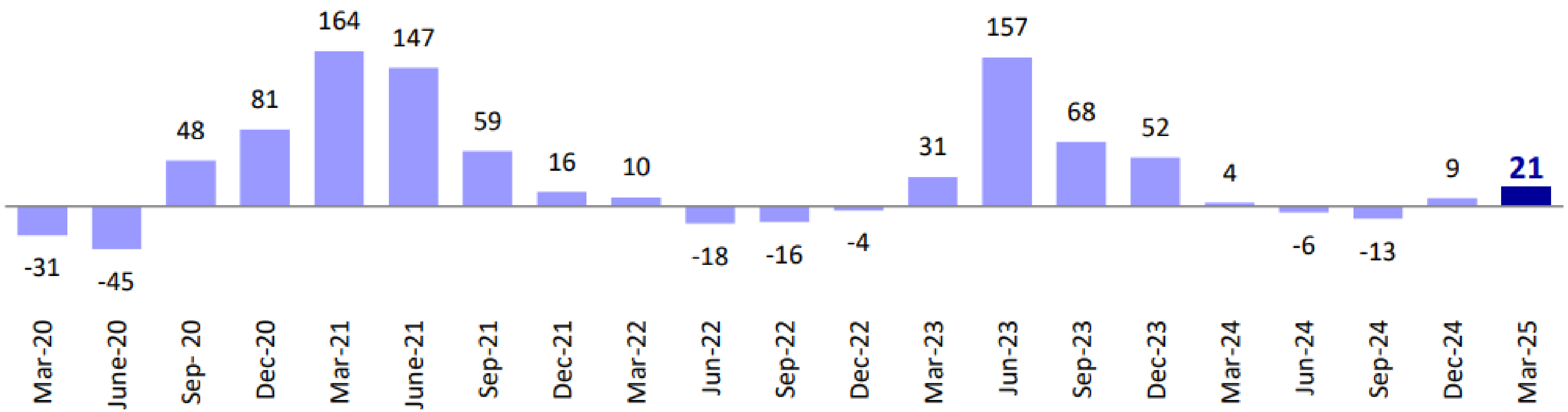
PAT increased 10% YoY for the MOFSL Universe



PAT growth for the Nifty Universe stood at 3% YoY

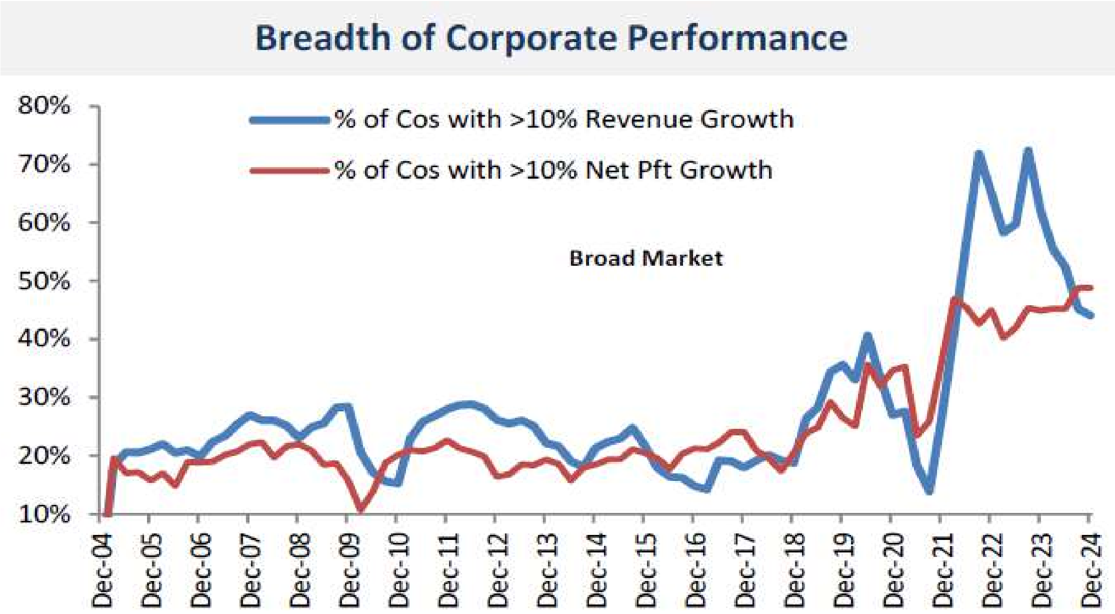


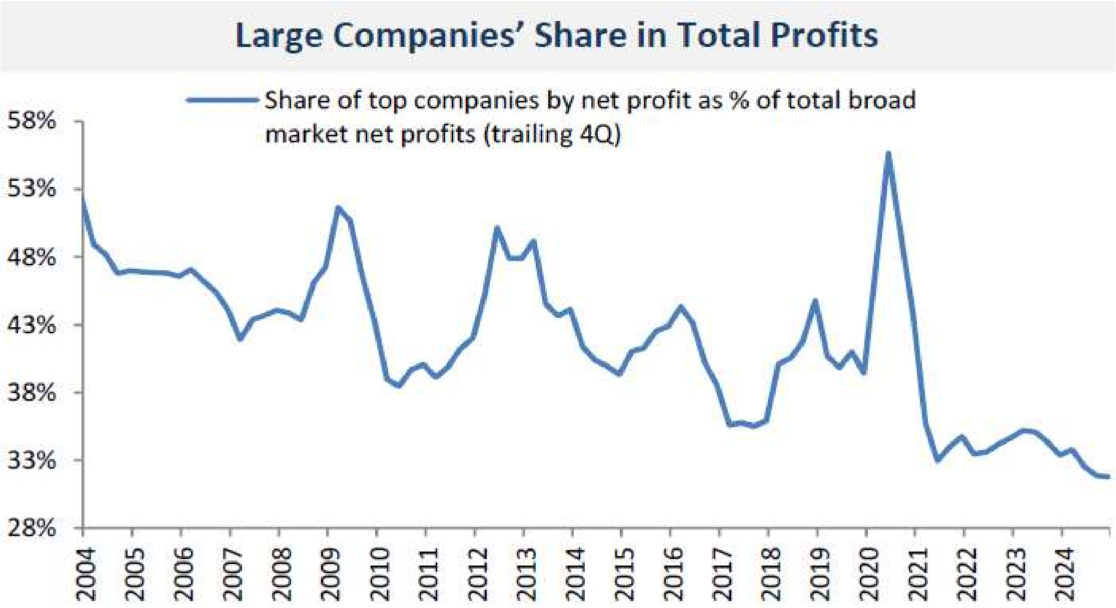
MOFSL Universe (ex-Nifty) posted a profit growth of 21% YoY



Source: MOFSL

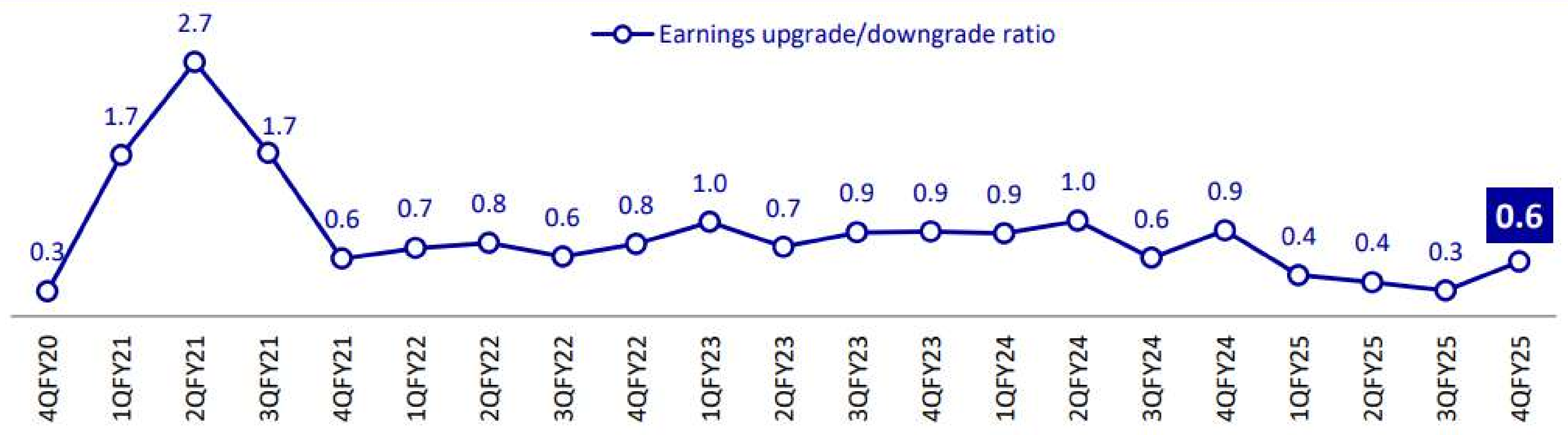
Indian Market getting broad based





Source: Morgan Stanley

Recovery in upgrade/downgrade ratio for FY26

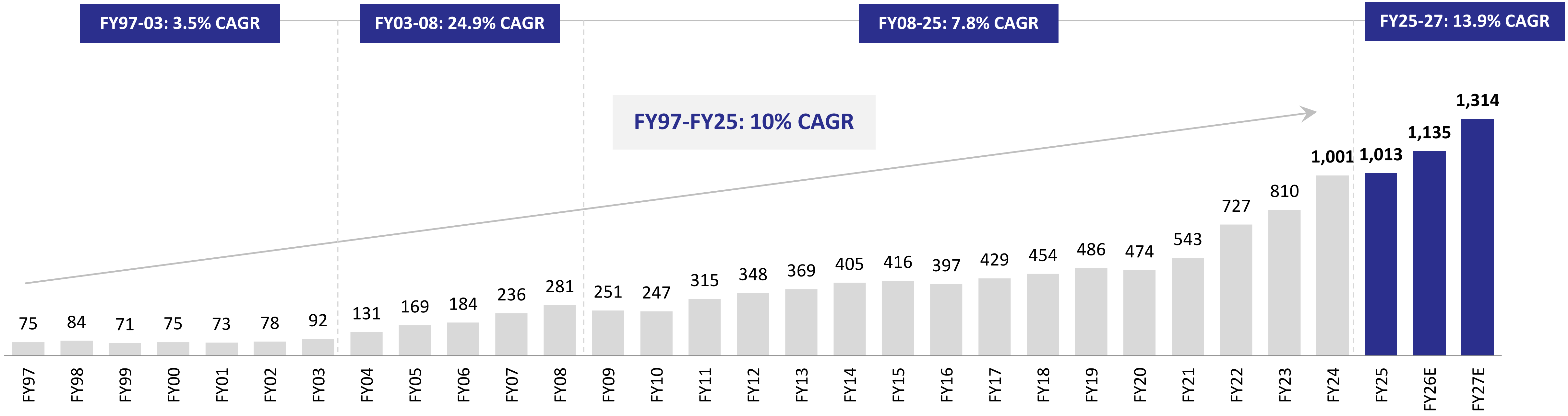


- Earnings upgrade-to-downgrade ratio has improved to 0.6x in 4QFY25 (from 0.3x in 3QFY25 for FY26E), with the earnings of 63 companies having been upgraded by >3%, while the earnings of 110 companies have been downgraded by >3%

Source: MOFSL

Equity

Nifty 50 – Earnings Growth Outlook



Although the EPS growth for FY25 remained flat at a 1.2% growth, expectations for FY26 i.e. 1135 and FY27 i.e. 1314 remains positive.

Source: MOFSL

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

Sector-wise Future EPS growth & P/E

Sector	Market Cap (no of cos)	EPS Growth (Median)			P/E (x) (Median)			Remarks
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	
Automobiles	Large Cap (10)	12%	8%	14%	28.7	26.3	22.7	Prospective growth in Smallcap is relatively better. As per Interim review, commentary on demand for FY26 for PVs remains at a low single digit
	Mid Cap (9)	10%	8%	14%	33.0	32.9	28.8	
	Small Cap (7)	-5%	20%	19%	30.9	22.4	20.3	
Banking - Private	Large Cap (4)	13%	8%	18%	20.2	19.4	16.5	Robust earnings reported by large caps, maintaining stable asset quality. Equitas & RBL dragged in smallcap while Indusind & IDFC lagged in midcap. Future growth in SMIDs is better
	Mid Cap (4)	-25%	29%	32%	24.0	18.6	12.8	
	Small Cap (4)	-13%	60%	43%	14.3	9.0	6.5	
Banking - PSU	Large Cap (3)	18%	5%	15%	7.2	6.3	5.7	While large caps saw some contraction in NIMs, PNB was a standout performer. Strong prospective growth in midcaps is not visible
	Mid Cap (3)	25%	4%	11%	6.2	6.1	5.7	
	Small Cap (0)	NA	NA	NA	NA	NA	NA	
NBFC	Large Cap (5)	16%	20%	19%	14.5	12.1	10.2	Many smallcaps have seen de-growth in FY25 and expected to deliver strong growth in FY26
	Mid Cap (5)	15%	17%	24%	16.2	12.9	10.7	
	Small Cap (15)	12%	23%	22%	22.4	17.5	11.1	
Non Lending financials	Large Cap (0)	NA	NA	NA	NA	NA	NA	Future earnings growth seems to be slowing down. Valuations do not seem to be in reasonable range
	Mid Cap (6)	16%	27%	16%	41.5	34.7	30.6	
	Small Cap (10)	33%	13%	22%	46.8	40.3	34.6	
Insurance	Large Cap (4)	23%	20%	16%	77.8	63.9	53.7	Within large caps, private cos are expected to deliver stronger growth than PSUs. Niva Bupa (Small) future growth is expected to be volatile
	Mid Cap (2)	27%	45%	23%	98.8	61.9	48.9	
	Small Cap (2)	59%	-5%	74%	61.2	77.2	41.1	
Capital Goods	Large Cap (6)	35%	14%	19%	44.2	40.7	34.2	Prospective growth in Mid & Smallcap is much better. Valuations of Smallcap in-line with large caps as of FY25
	Mid Cap (3)	8%	59%	29%	66.5	51.6	43.5	
	Small Cap (7)	33%	30%	27%	38.9	26.9	22.1	
Cement	Large Cap (3)	-23%	33%	26%	53.9	37.9	30.1	Seems that the sector is bound for a recovery in FY26 on account of de-growth in FY25 mainly due to demand fading off and rise in RM prices. Valuations in Smallcaps look relatively better
	Mid Cap (4)	-19%	25%	34%	53.7	38.1	30.5	
	Small Cap (4)	-33%	55%	23%	32.5	22.0	25.8	

Source: MOFSL, Internal Research

Sector-wise Future EPS growth & P/E

Sector	Market Cap (no of cos)	EPS Growth (Median)			P/E (x) (Median)			Remarks
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	
Chemicals	Large Cap (0)	NA	NA	NA	NA	NA	NA	Present only in Mid & Small, the sector is exepected to have good growth in FY26
	Mid Cap (3)	-3%	51%	19%	46.1	33.9	28.4	
	Small Cap (9)	8%	28%	22%	45.6	35.5	29.5	
Commercial Services	Large Cap (0)	NA	NA	NA	NA	NA	NA	Sector is expected to experience robust growth due to Formalization of labor market, Increased outsourcing of non-core business operations, Technological advancements enhancing service delivery
	Mid Cap (3)	-3%	51%	19%	46.1	33.9	28.4	
	Small Cap (9)	8%	28%	22%	45.6	35.5	29.5	
Consumer	Large Cap (11)	-2%	13%	13%	62.9	53.7	47.5	Staples companies had a muted year due to sluggish urban demand, high food inflation, and steep inflation in agri-commodities. Future growth in mid-teens along with high valuation
	Mid Cap (5)	14%	15%	11%	57.5	51.0	46.2	
	Small Cap (5)	4%	16%	15%	33.1	30.2	26.4	
Consumer Discretionary	Large Cap (3)	17%	56%	103%	217.2	124.5	47.8	Large cap data is significantly influenced by Eternal Limited
	Mid Cap (2)	13%	35%	22%	92.4	67.0	54.9	
	Small Cap (2)	49%	30%	17%	40.4	30.6	26.2	
Consumer Durables	Large Cap (2)	14%	16%	21%	54.9	47.3	38.9	
	Mid Cap (2)	132%	19%	21%	49.6	41.8	34.7	
	Small Cap (3)	-2%	12%	19%	47.6	41.6	34.9	
EMS	Large Cap (0)	NA	NA	NA	NA	NA	NA	Sector poised to have high growth & currently at high valuations
	Mid Cap (2)	75%	63%	51%	128.0	79.3	53.0	
	Small Cap (5)	58%	51%	44%	71.8	53.5	34.0	
Health care	Large Cap (6)	21%	12%	12%	29.5	27.1	24.2	Prospective growth in Smallcap seem to be relatively better. The range of growth in largecaps is wide, with cos like Zydus & Cipla expected to de-grow while Divis & Torrent expecting high growth
	Mid Cap (11)	19%	19%	19%	41.4	31.3	26.8	
	Small Cap (9)	11%	25%	29%	60.0	41.9	32.8	
Infrastructure	Large Cap (0)	NA	NA	NA	NA	NA	NA	
	Mid Cap (1)	12%	98%	18%	45.8	23.1	19.6	
	Small Cap (2)	-3%	-9%	34%	16.1	17.9	13.4	

Source: MOFSL, Internal Research

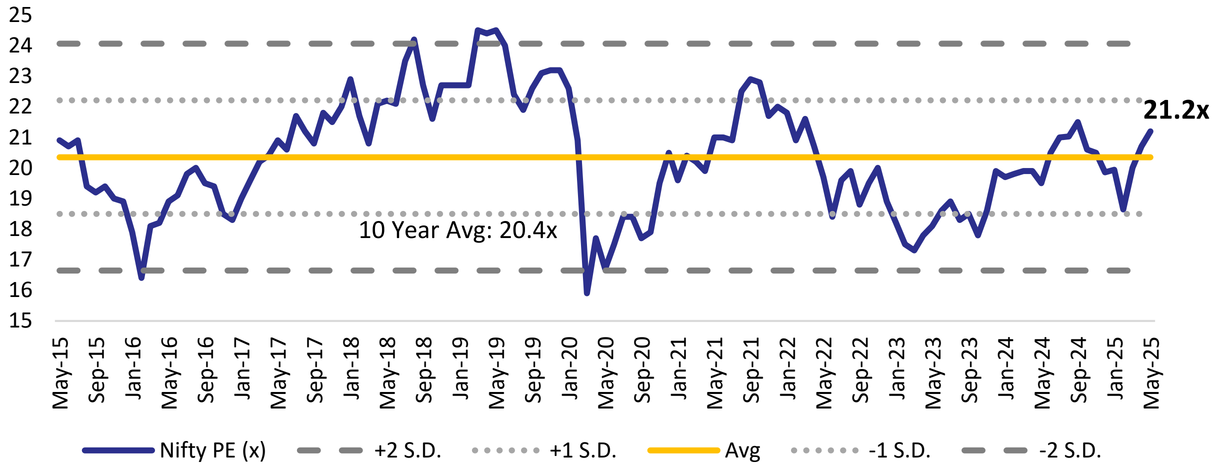
Sector-wise Future EPS growth & P/E

Sector	Market Cap (no of cos)	EPS Growth (Median)			P/E (x) (Median)			Remarks
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	
Logistics	Large Cap (1)	22%	26%	16%	28.6	22.7	19.5	Large and mid cap seem poised for stable growth, while small cap represents a mixed bag - express logistics to outpace 3PL / outbound
	Mid Cap (2)	13%	17%	20%	39.2	34.0	28.2	
	Small Cap (5)	1%	32%	16%	30.4	22.4	19.2	
Media	Large Cap (0)	NA	NA	NA	NA	NA	NA	Muted growth in Q4FY25 due to lower occupancy and weak content pipeline, expect capex-light approach to drive margins
	Mid Cap (0)	NA	NA	NA	NA	NA	NA	
	Small Cap (3)	35%	10%	14%	15.4	14.2	13.0	
Metals	Large Cap (6)	38%	23%	14%	15.5	12.6	10.4	Represents a mixed bag, with large cap showing more stability - volatility in raw material costs due to global trade tensions remains key monitorable
	Mid Cap (5)	13%	19%	23%	21.1	16.0	9.5	
	Small Cap (1)	22%	31%	34%	43.2	33.0	24.7	
Oil & Gas	Large Cap (5)	-32%	8%	10%	13.2	12.2	11.2	Improved / flat margins led to better-than-anticipated performance, expect negative growth across vertical due to global tensions
	Mid Cap (5)	-16%	8%	10%	13.0	10.8	9.9	
	Small Cap (5)	-19%	5%	5%	23.1	22.7	21.6	
Real Estate	Large Cap (2)	65%	14%	-12%	47.4	41.8	49.2	Strong results in Q4FY25; all seem poised for strong growth metrics, led by small cap
	Mid Cap (4)	2%	48%	19%	50.4	30.2	26.0	
	Small Cap (7)	65%	45%	67%	45.3	29.0	17.1	
Retail	Large Cap (3)	8%	27%	18%	96.2	85.5	72.8	Subdued demand with moderated growth - marked by intense competition and higher discounting leading to minimal expected uptrend
	Mid Cap (4)	9%	37%	21%	86.5	73.1	60.2	
	Small Cap (14)	-15%	39%	32%	69.2	52.9	40.9	
Technology	Large Cap (6)	8%	7%	8%	25.7	24.1	21.8	Remains a mixed bag, with macro uncertainty weighing into the IT demand and discretionary spending - cautiously optimistic in the long-run
	Mid Cap (5)	9%	24%	17%	44.5	35.8	29.4	
	Small Cap (2)	-10%	23%	11%	26.8	22.1	19.9	
Telecom	Large Cap (2)	18%	48%	24%	41.1	27.0	21.2	Improved ARPU metrics to drive growth in large cap, higher capex might contract margins
	Mid Cap (3)	13%	66%	39%	64.9	39.8	28.5	
	Small Cap (0)	NA	NA	NA	NA	NA	NA	

Source: MOFSL, Internal Research

Market Indices Valuations – Based on Forward Earnings

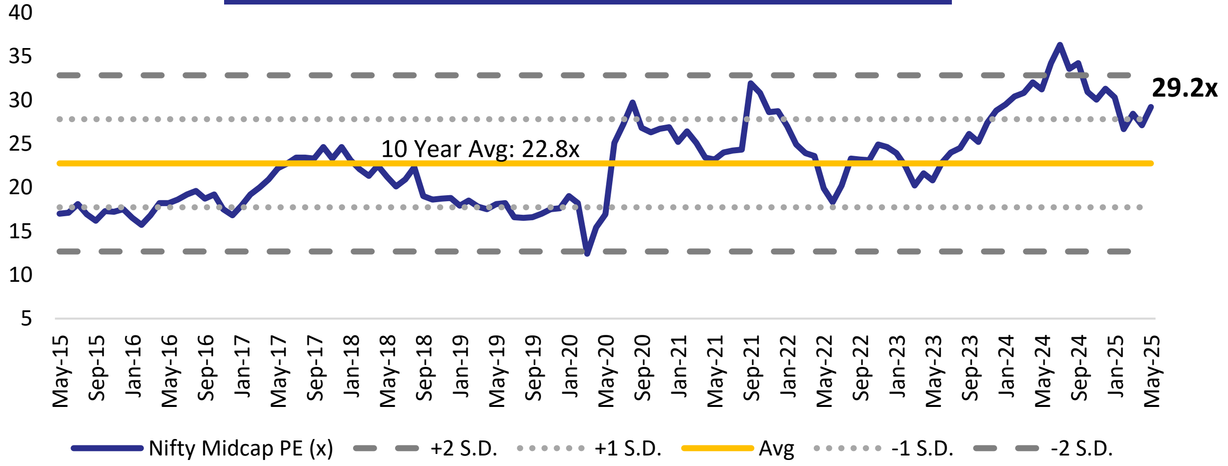
Nifty 50 PE 1 Year Forward - (10 Year Period)



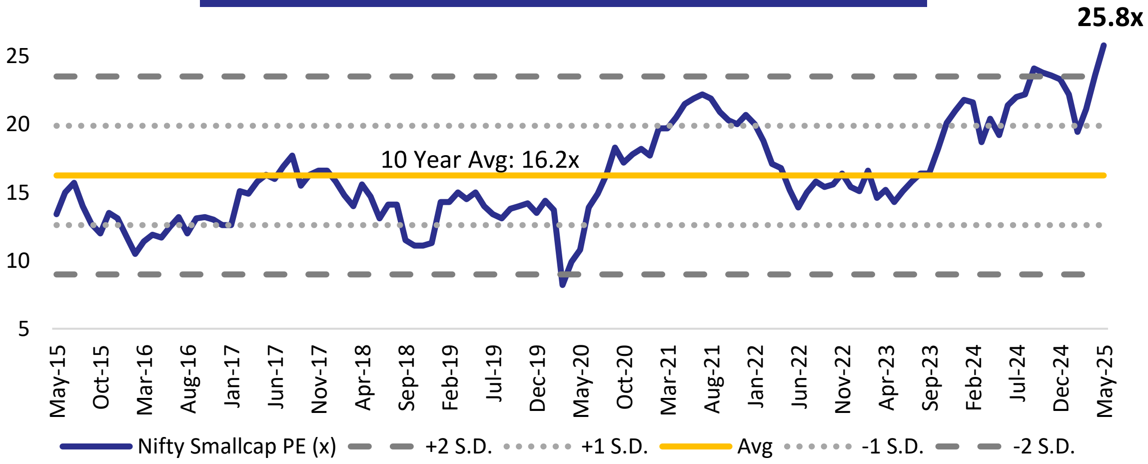
Nifty 50 Forward PE: Currently, Nifty 50 is close to its long term 10-year average. We recommend investing lump sum in large cap strategies.

Nifty Midcap and SmallCap Forward PE: It continues to remain above its long-term average, suggesting overvaluation. Hence, a staggered approach is recommended.

Nifty Mid Cap 100 PE 1 Year Forward - (10 Year Period)



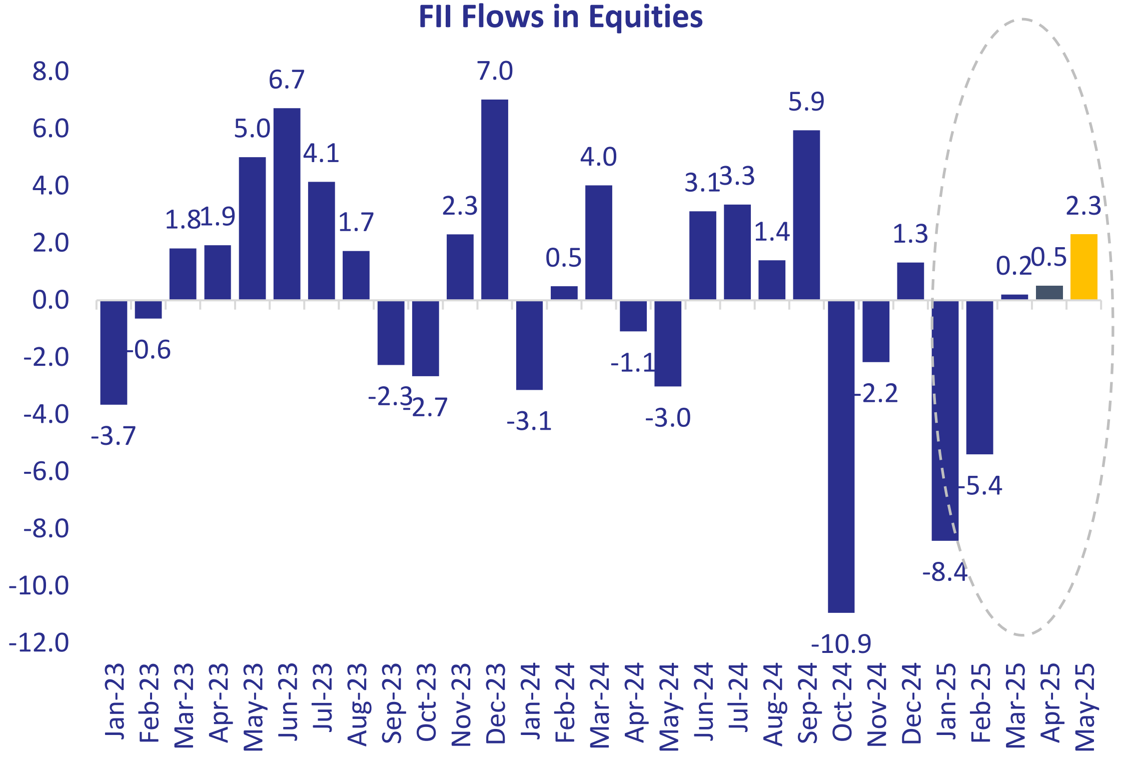
Nifty Small Cap 100 PE 1 Year Forward - (10 Year Period)



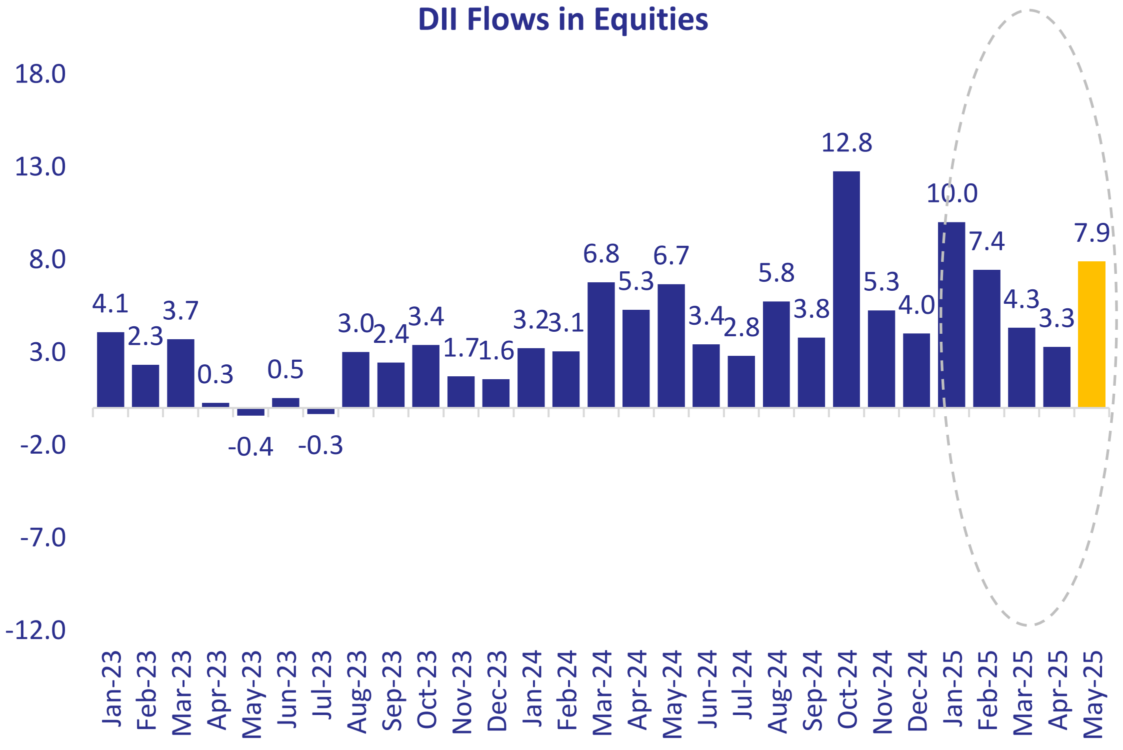
Source: Internal Research, MOFSL
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

FIIs vs DIIs

FIIs record inflows for the third straight month in May'25



DIIs' flows continue to remain robust in May'25



Source: MO Institutional Equities, NDSL, Internal Research

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FPIs allocation over the years

Source: Ionic Wealth
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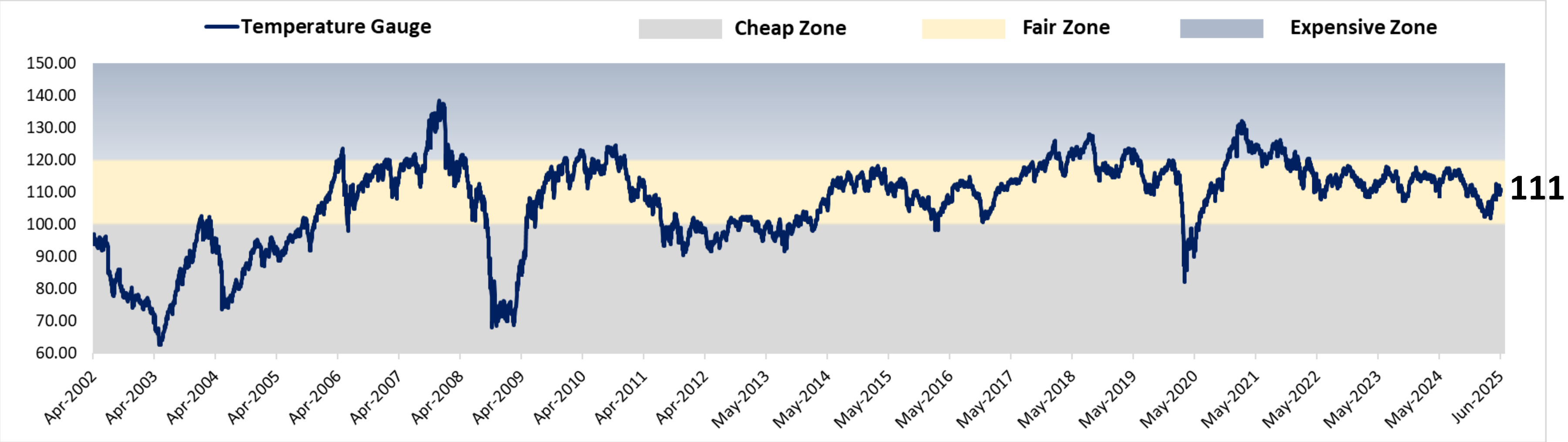
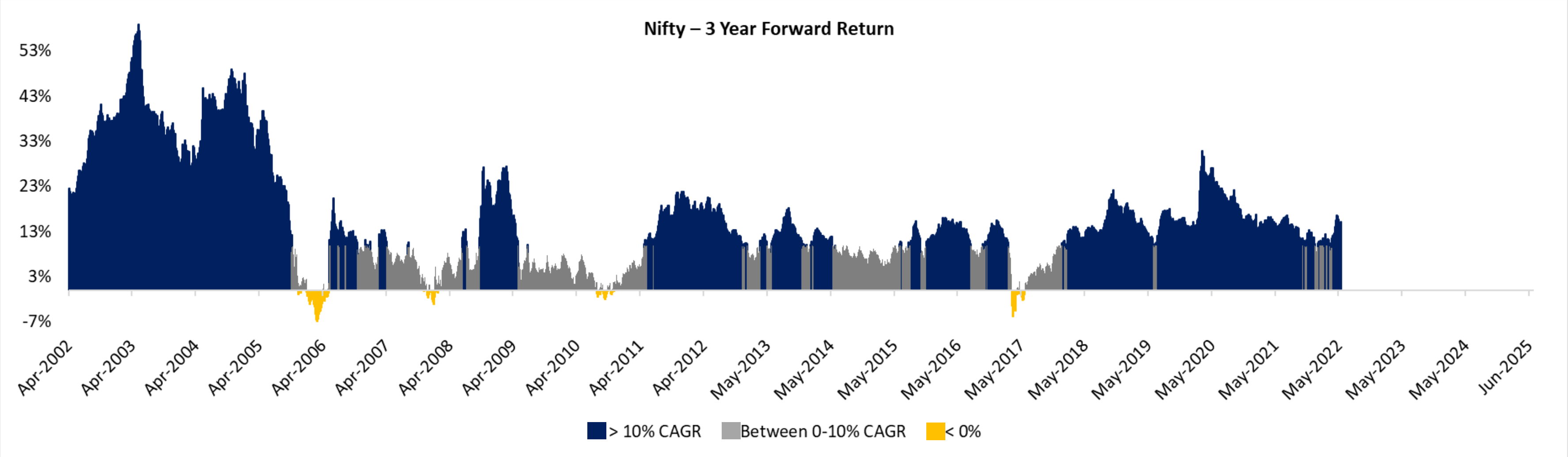
Temperature Gauge Index





Data as on 8th June'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 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.

Temperature Gauge Index – Sensitivity Analysis

Temperature Gauge Index - Sensitivity Analysis					
Nifty50/10 Yr Gsec	5.83%	6.03%	6.23%	6.43%	6.63%
23750	107	108	109	110	111
24000	107	109	110	111	112
24250	108	109	110	111	112
24500	108	109	110	111	112
24750	108	109	111	112	113
25000	109	110	**111**	112	113
25250	109	110	111	112	113
25500	109	110	111	113	114
25750	110	111	112	113	114
26000	110	111	112	113	114
26250	110	111	112	114	115
26500	111	112	113	114	115
26750	111	112	113	114	115

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as on 8th June'25

Source: Capital Line, Bloomberg Internal Research

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	761	9%	-2%	30%	13%	92.6%	19%	66%
105	110	915	11%	-4%	22%	10%	73.6%	13%	49%
110	115	1885	22%	-7%	22%	9%	64.1%	27%	24%
115	120	1617	19%	-4%	21%	9%	80.4%	23%	28%
120	125	804	9%	-2%	18%	10%	93.5%	10%	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 8th June'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.

Equity Allocation & Deployment Grid

Below grid is based on Temperature Gauge Index

Valuation	Underweight	Neutral	Overweight	
Expensive	**No Action**	**Reduce**	**Reduce**	100% Staggered
Fair	**Invest**	**Stay Invested**	**Stay Invested**	**Lumpsum in Hybrid, Large, Flexi** *Staggered in Mid & Small Cap*
Cheap	**Invest**	**Invest**	**Stay Invested**	100% Lump-sum

Strategic Allocation

Data as on 8th June'25
Source: Capital Line, Bloomberg Internal Research
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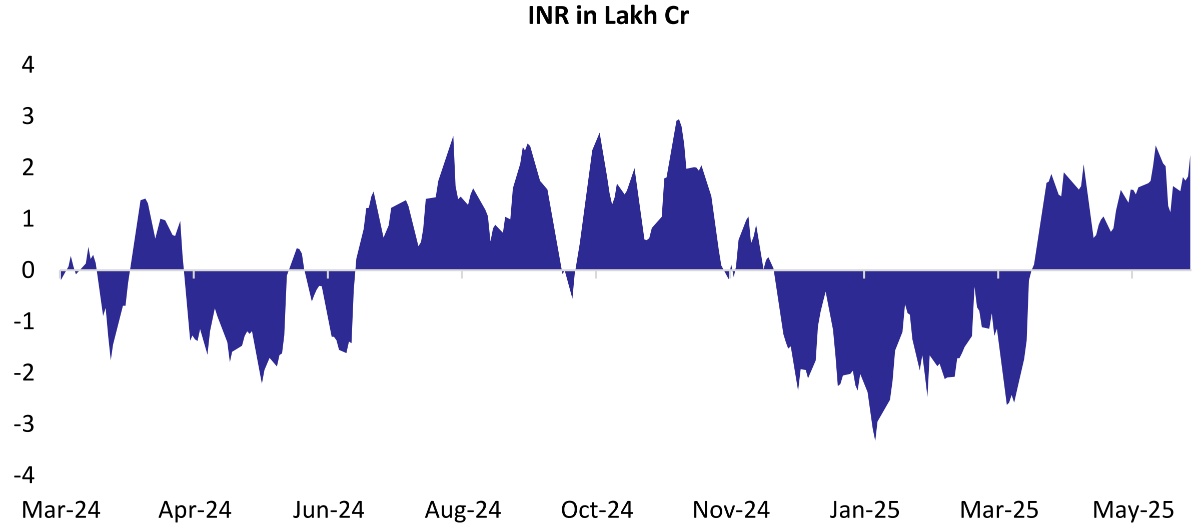
Equity Portfolio Strategy

- After a volatile beginning of Apr and May due to tariff concerns and India Pakistan military conflicts respectively, later half of these months saw recovery in the market as tariffs impositions got postponed while ceasefire was announced. On the global side, while concerns over US debt maturity remains, weakness in dollar index due to this can be considered positive from FII flows in emerging markets like India.
- Global equity markets continued the up move as MSCI world made new all-time high. The pendulum has swung completely on the other side from risk off to **“Risk On”** mode. Domestic macros are showing uptrend in terms of pickup in GDP, cooling inflation and rising GST collection etc.
  - From fiscal, monetary and regulatory perspective, things are also looking supportive for growth – higher tax exemption limit coming into effect, govt capex showing strong y-o-y growth, RBI frontloading the rate cuts and relaxing the norms for lending.
- This optimism is also being reflected in the flows from FIIs in India which have been positive for 3rd consecutive month.
- However, valuations have increased again as earnings lagged – Nifty 50 is trading above its 1-year forward average, while mid- and small-cap valuations, still trade at a premium. Stock selection remains the key in the broader market.
- **Equity Portfolio Allocation Stance: Neutral i.e. 65% allocation to Large Caps and 35% allocation to Mid and Small Caps**
- Investment Strategy:
  - Investors under-allocated to equities may consider lump-sum investments in Large Cap /Hybrid and Flexi Cap funds at current levels.
  - For Mid and Small Cap segments, a staggered SIP/STP approach is prudent given elevated valuations and higher volatility.

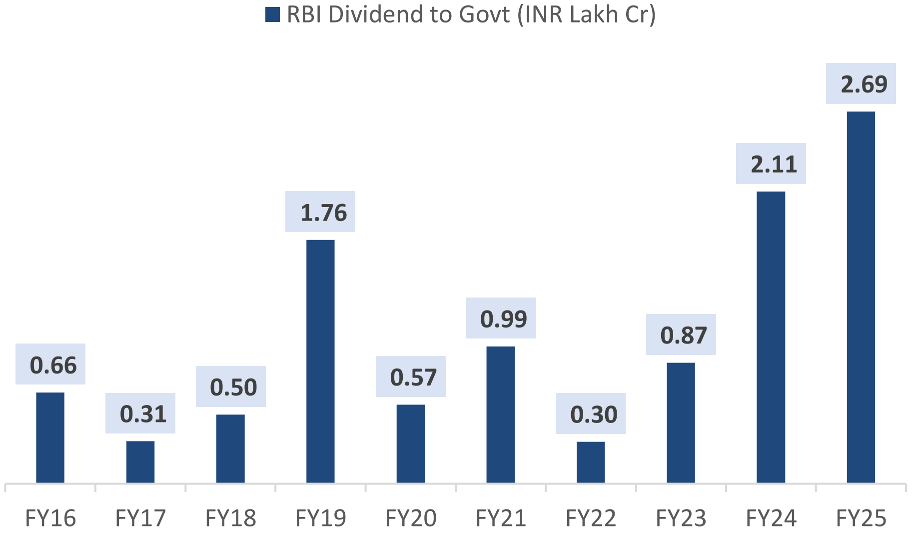
Fixed Income

Liquidity Improves : Supported by RBI Measures

Liquidity Deficit has reached to INR 3.33 lakh crore in Jan'25 ; Currently at INR 2.2 Lakh Cr surplus post RBI intervention

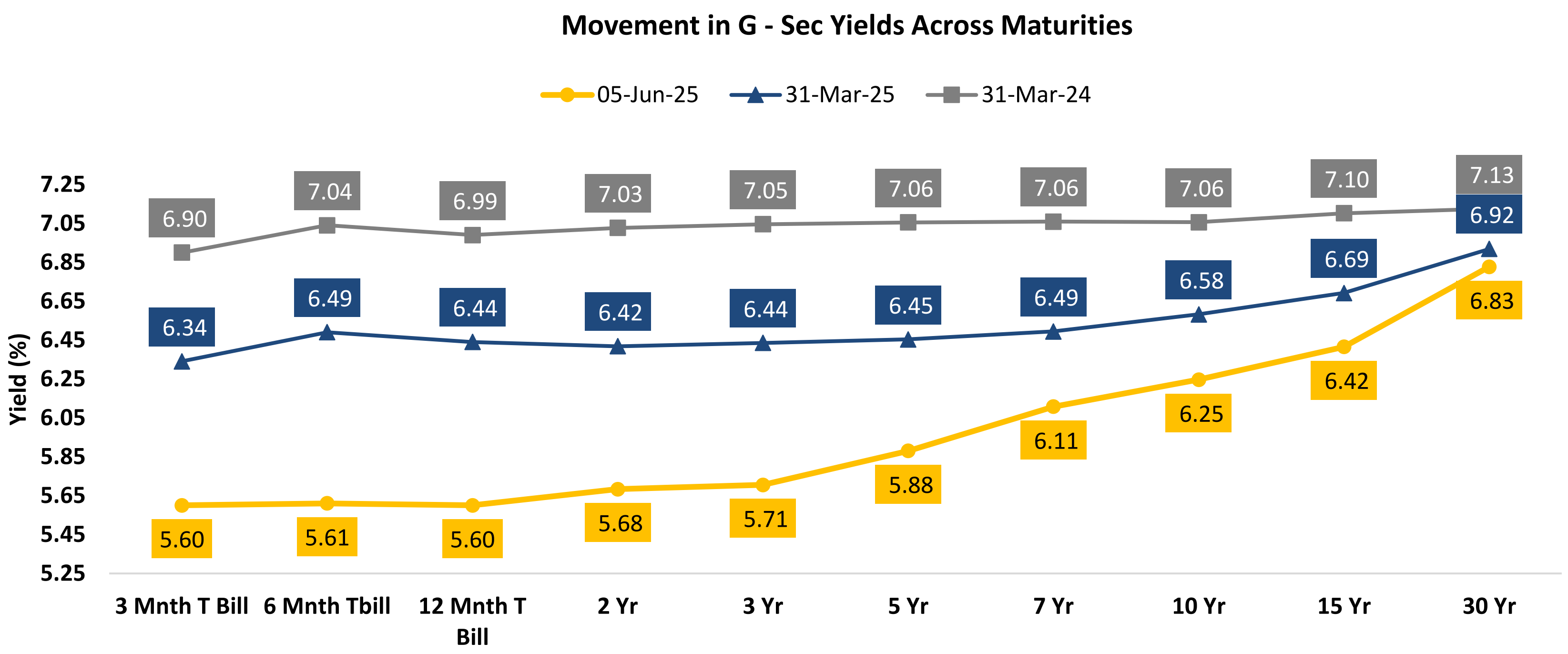


INR 2.69 Lakh Cr Dividend : ~27.5% increase from FY24 mainly driven by gain/income from foreign securities



- ✓ Between Jan - May 2025, RBI injected liquidity into the system to the tune of INR 9.5 Lakh Cr through Open Market Operations, long-term Variable Rate Repo auctions and forex swaps
- ✓ RBI Dividend to Govt may help achieve fiscal deficit target for FY26 & boost liquidity in the system
- ✓ CRR lowered to 3% in 4 equal tranches of 25 bps wef Sep 25 – would inject INR 2.5 Trn into the banking system by end of Nov 25

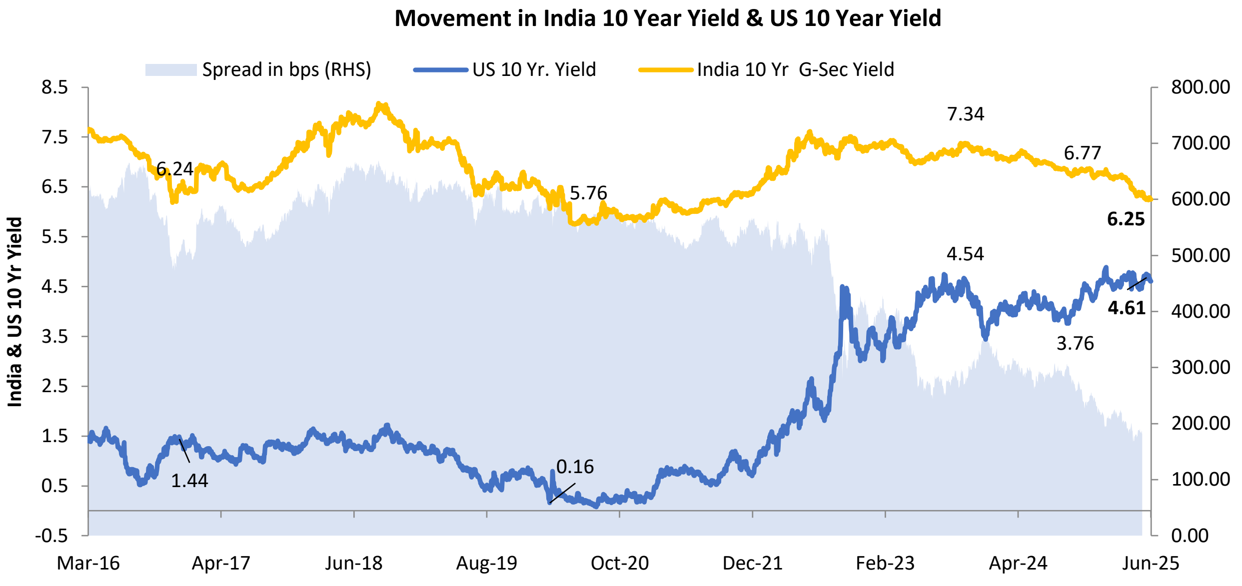
India G-Sec Yield Curve

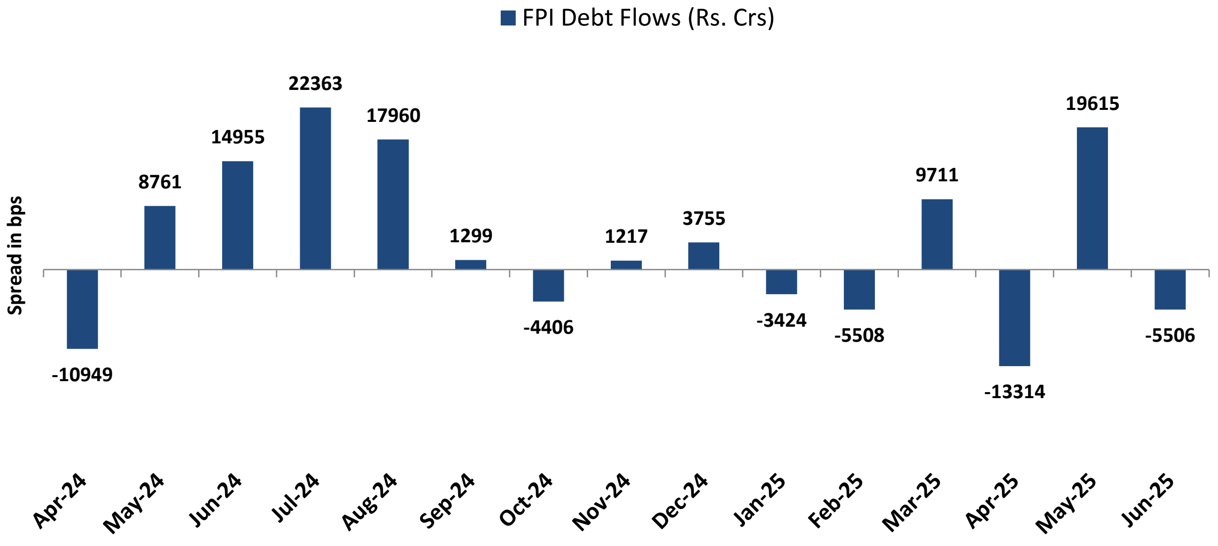


- Yield curve has started steepening
- Surplus liquidity conditions along with rate cuts has softened yields across duration

Source: RBI, Internal Research

Yield Spread Squeeze & Muted FPI Flows in India





- There has been a low beta relationship between US 10 Yr Treasury Yield & India 10 Yr Gsec Yield
- Indian 10 Yr G-Sec Yield has been stable and gradually declining on back of favourable demand supply dynamics, stable growth and benign inflation trend, dovish outlook from RBI, improving liquidity conditions and partial impact of trend in US Yields
- On the other hand, US 10 Yr Treasury Yield has been volatile and remain higher due to a number of moving parts namely tariff imposition, higher debt level of US, Fed’s stance, fear of stagflation and investor moving towards ‘risk off’ assets
- FPI flows in India has been muted in last few months on back of yield spread squeeze, profit booking, investor's risk aversion.

Source: RBI, Internal Research

Fixed Income Portfolio Strategy

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Proactive measures by RBI on policy easing and liquidity are likely to result into steepening of the yield curve. Hence in our view one may be overweight on accrual strategies across the credit spectrum. Due to limited room for further capital gains, softening of the yields should be used an opportunity to gradually reduce the exposure from duration 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

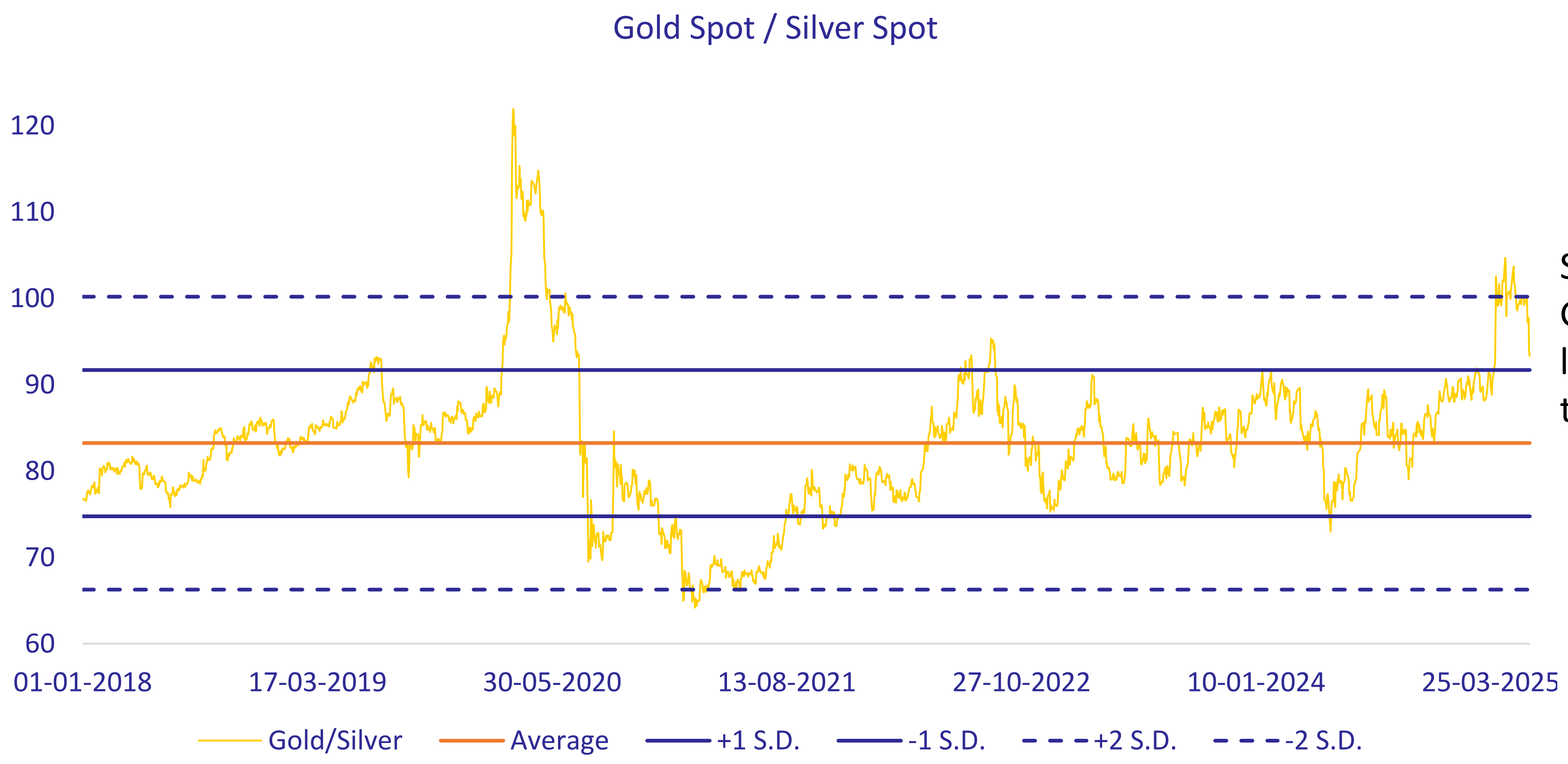
- **25% - 35% of the portfolio** may be invested in Arbitrage Funds (minimum 3 months holding period), Floating Rate Funds (9 – 12 months holding period), Absolute Return Long/Short strategies (minimum 12 -15 months holding period)

- **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)

Source: RBI, Internal Research

Silver

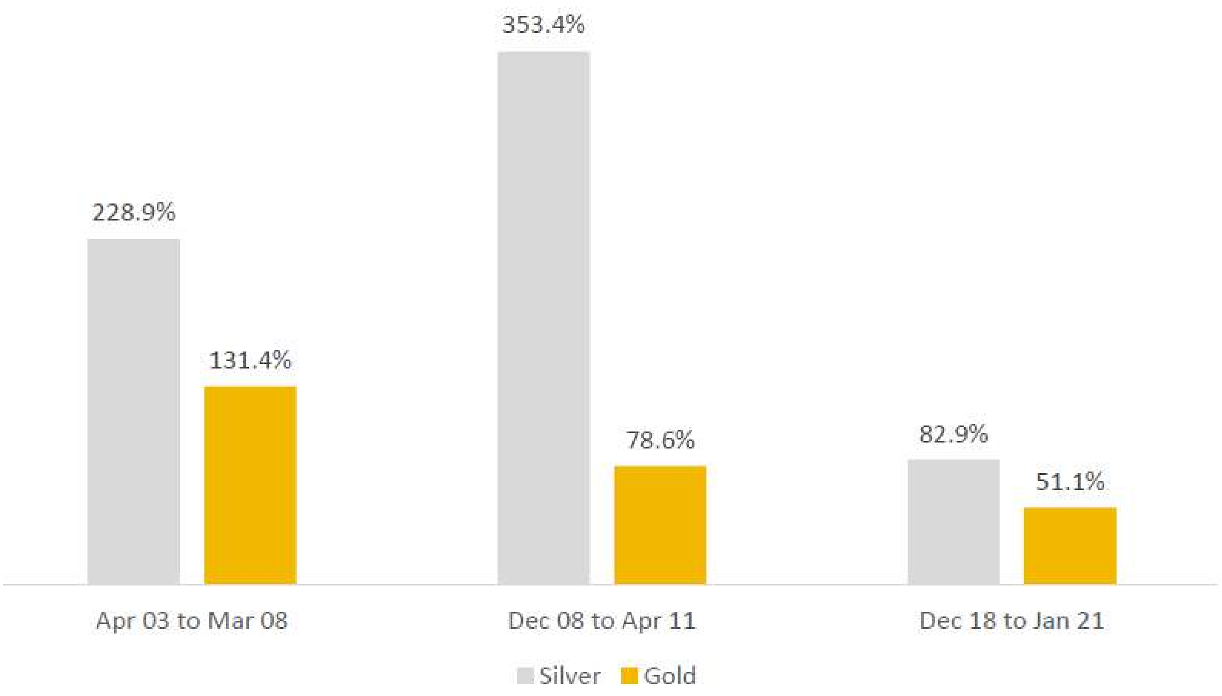
Gold Spot / Silver Spot



Silver has outperformed Gold by 11% during the last one month in INR terms.

Data as on 5th Jun2 2025
Source: Investing.com. Internal Research

Silver Outperformances but not consistently



Gold and Silver prices tend to move in tandem
Calendar year wise Silver has outperformed Gold 10 out of 26 years however during precious metals rally, Silver tends to outperform significantly compared to Gold

Calendar Year	Silver	Gold
2000	-8.7%	1.0%
2001	3.8%	5.9%
2002	2.9%	24.1%
2003	18.2%	13.5%
2004	9.4%	0.5%
2005	34.0%	22.3%
2006	43.9%	21.0%
2007	2.1%	16.6%
2008	-4.8%	30.6%
2009	41.5%	18.9%
2010	76.0%	24.5%
2011	7.0%	30.9%
2012	12.4%	10.4%
2013	-27.6%	-18.7%
2014	-17.6%	0.3%
2015	-7.5%	-6.1%
2016	18.0%	11.4%
2017	-0.1%	6.2%
2018	-0.5%	7.2%
2019	18.2%	21.2%
2020	51.6%	28.3%
2021	-10.9%	-2.4%
2022	15.2%	11.3%
2023	-0.1%	14.2%
2024	25.2%	30.1%
YTD 2025	19.1%	17.7%

Source: DSP

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