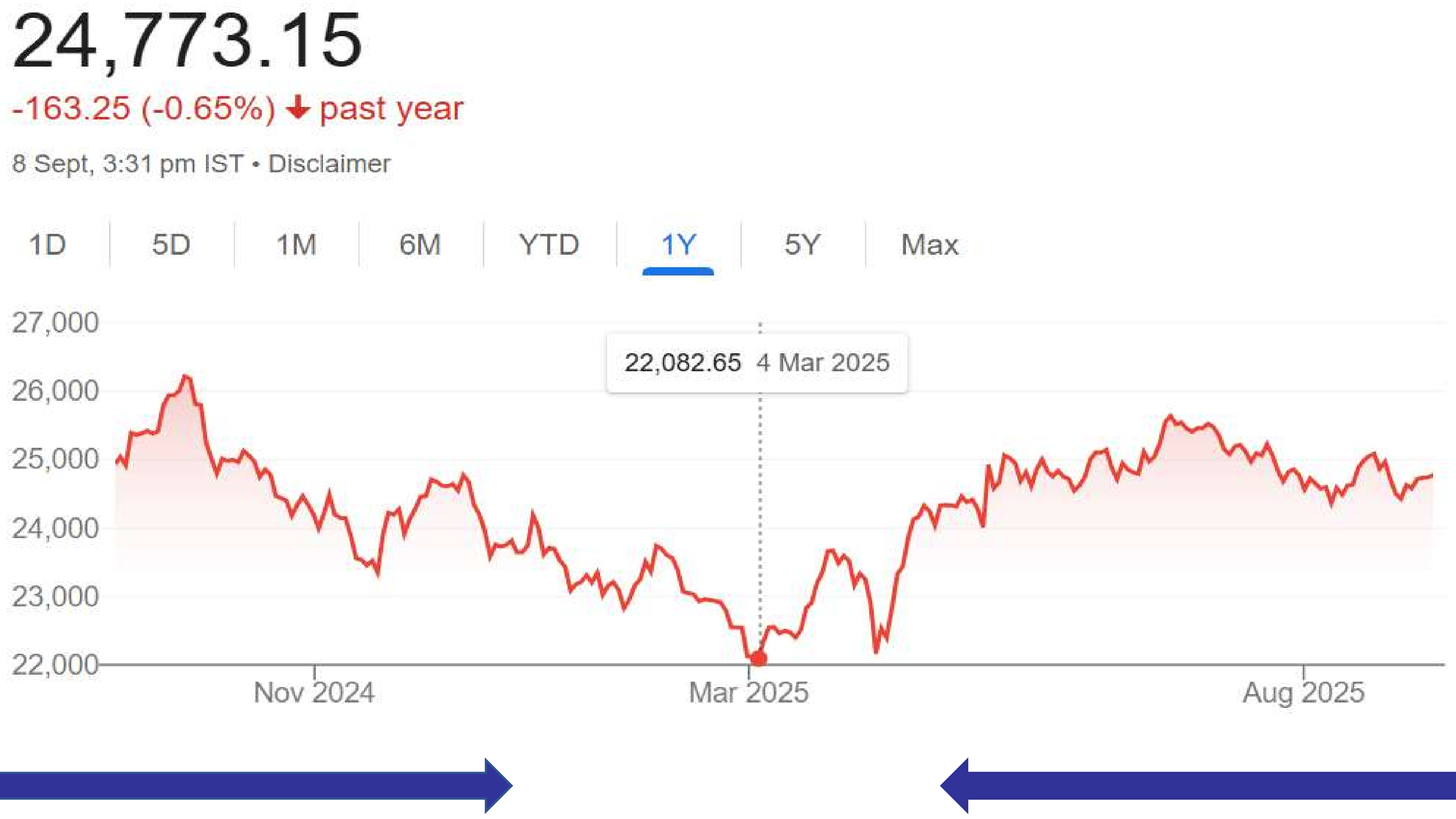
Alpha Strategist – Sep’25

“Tug of War”

Summary

- Concerns around US GDP growth and a softening jobs market have raised the probability of Fed rate cuts, creating a supportive backdrop for risk assets. On the flip side, long term yields have risen across major economies with the 30–10 year spread widening which may impact capital flows and valuations of risky assets.
- INR has been the weakest amongst the EMs against USD, dragged by tariff impacts and sustained FII outflows. India's real GDP accelerated to 7.8% in Q1 FY25, but nominal growth slipped to 8.8%, its lowest in three quarters due to a low GDP Deflator.
- Recently announced GST cuts are expected to spur consumption and ease inflation. This coupled with RBI's rate cut transmission, higher disposable incomes from tax savings, supportive inflation outlook and revival in rural demand may offset the tariff impact and strengthen growth momentum.
- MSCI India's valuation premium to MSCI EM has dropped below its 10-year average as MSCI India has underperformed MSCI EM by ~3% CAGR on 3 year rolling basis. Global funds remain significantly under-allocated to India at a 20-year low, leaving ample room for inflows if sentiments improve. Cash available with domestic MFs may provide support to the markets in case of correction.
- Overall market scenario reflects a **"Tug of war"** between domestic reforms aimed at driving growth versus global uncertainties such as tariffs & rising yields, as well as between persistent FII outflows and resilient DII inflows. We continue to remain positive on the markets from longer term perspective.
- Equity allocation stance continue to remain neutral with exposure of 65% to large-cap and 35% to mid/small. Deployment could be lumpsum in Hybrid Strategies while staggered approach is suggested for pure equity oriented strategies.
- For Fixed Income, we continue to suggest allocation to accrual strategies across the credit spectrum and to income-generating assets.
- We maintain a neutral stance on gold from asset allocation perspective. After sharp rally in Silver, risk-reward does not look favorable at current levels.

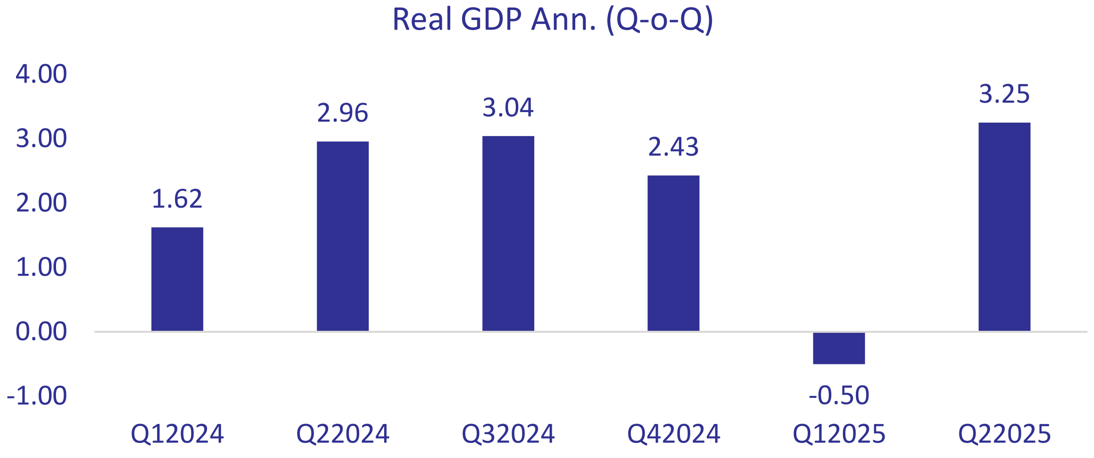
Nifty 50 Index – Last 1 year

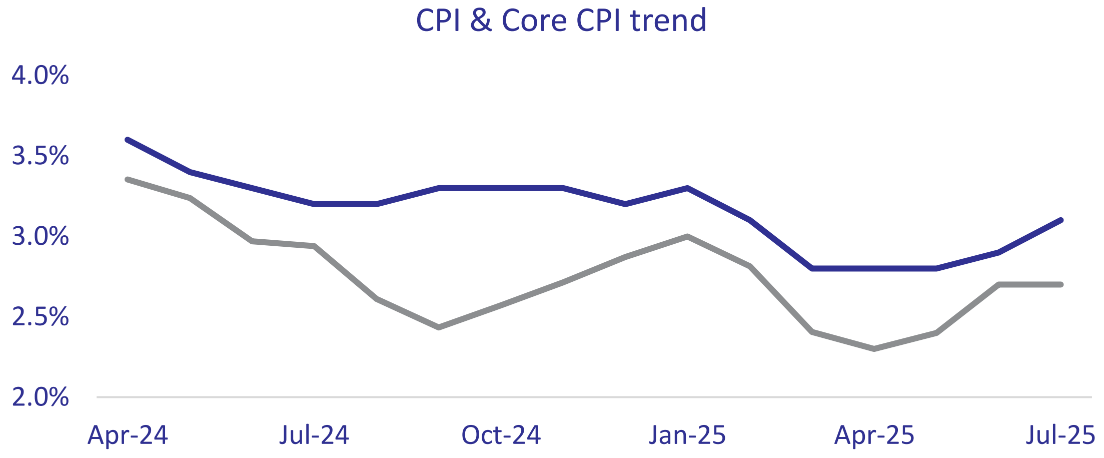


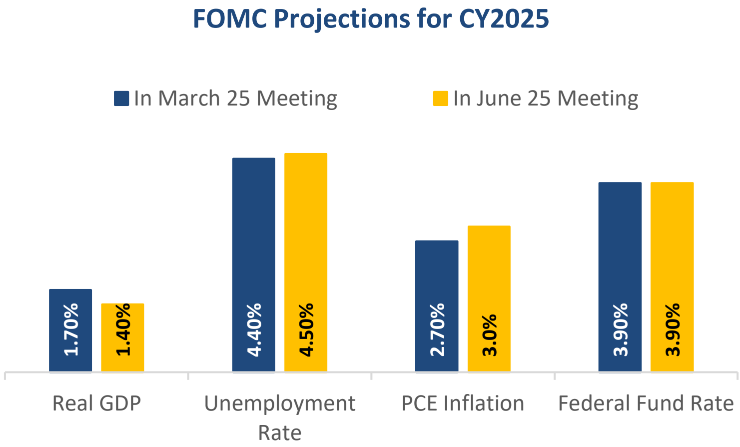
Disclaimer: Past performance may or may not be sustained in the future.

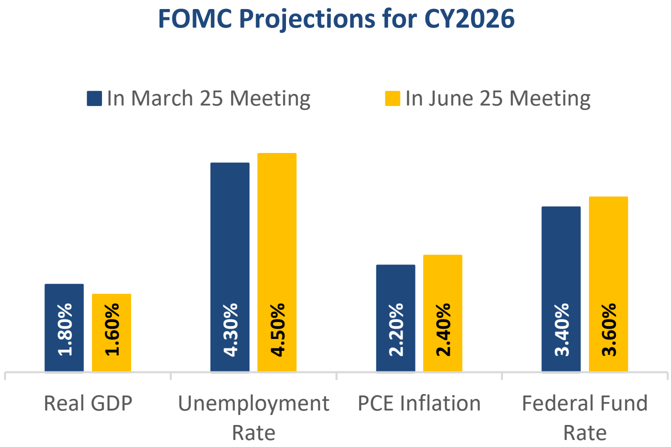
Highlights

US – GDP & Inflation









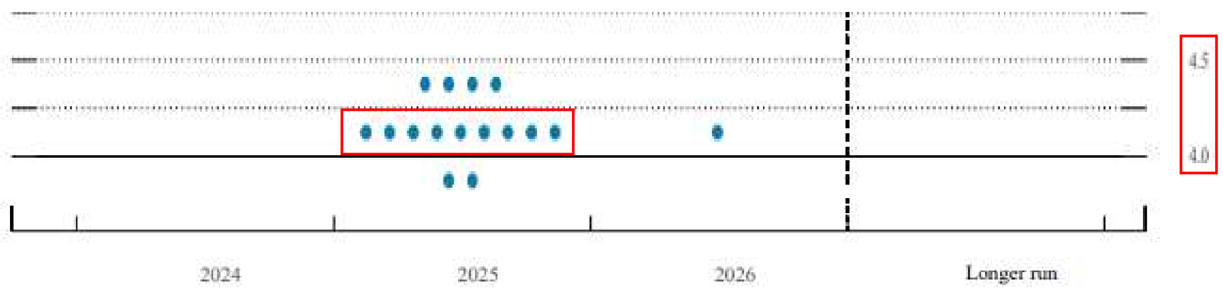
- Real GDP's swing from −0.5% to 3.3% was driven primarily by movements in net trade.
- In Q1, a pronounced increase in imports along with softer government consumption weighed on growth;
- In Q2, a decline in imports and a firming of personal consumption expenditures lifted the headline rate despite softer investment and exports.

Source: Federal Reserve

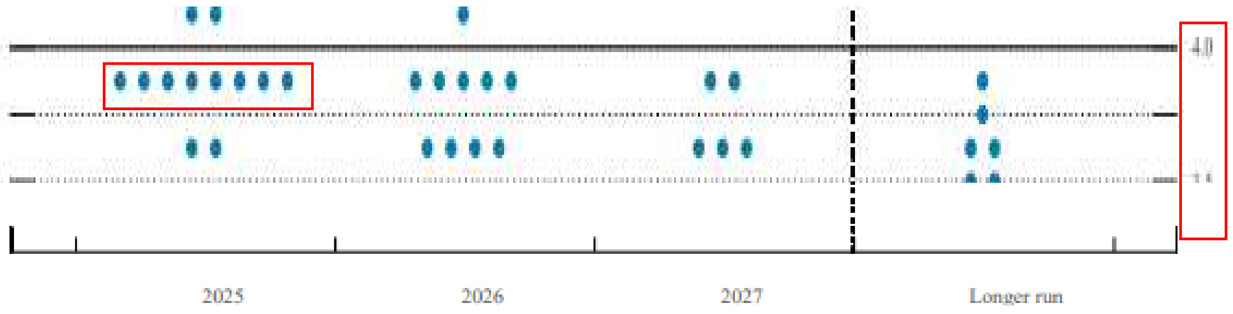
US – Fed Dot Plot & Unemployment rate

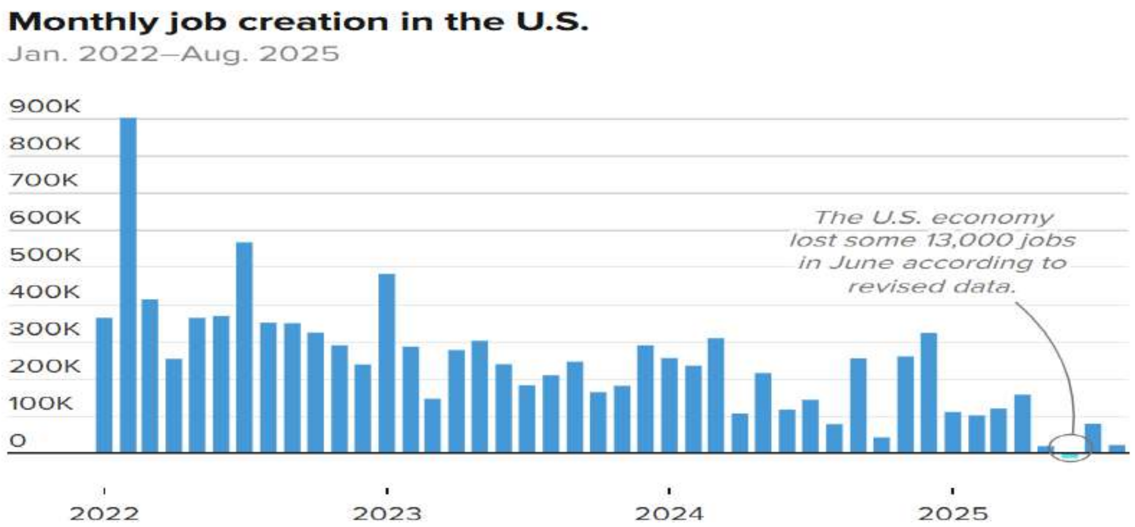
- The median dot for the end-2025 fed funds rate moved down by ~25 bps—from 4.1% in June 2024 to 3.9% in June 2025. In target-range terms, that's a shift from 4.00–4.25% to 3.75–4.00%

June 2024



June 2025



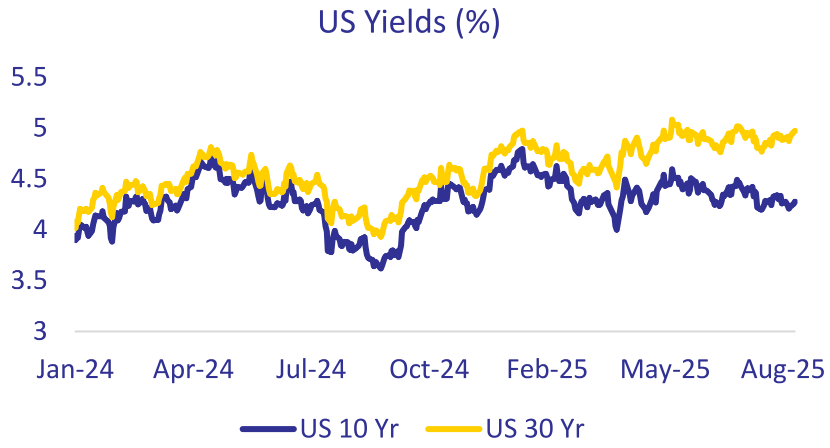


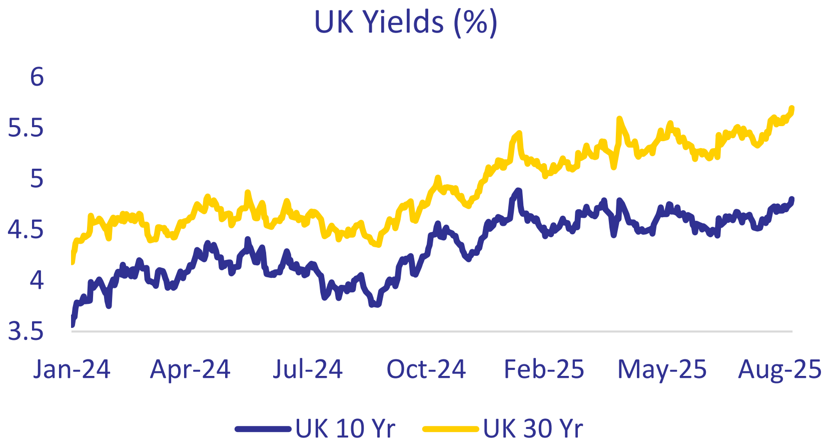
- The U.S. labor market has cooled from hot to lukewarm—slower hiring and softer demand, but no broad layoff wave and no recession trigger in the unemployment data (so far).

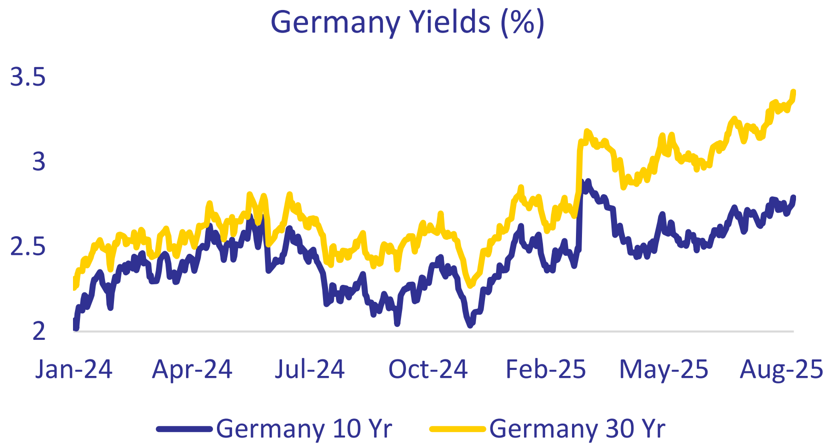
- Aug NFP data came at 22k lower than expectation of 75k.

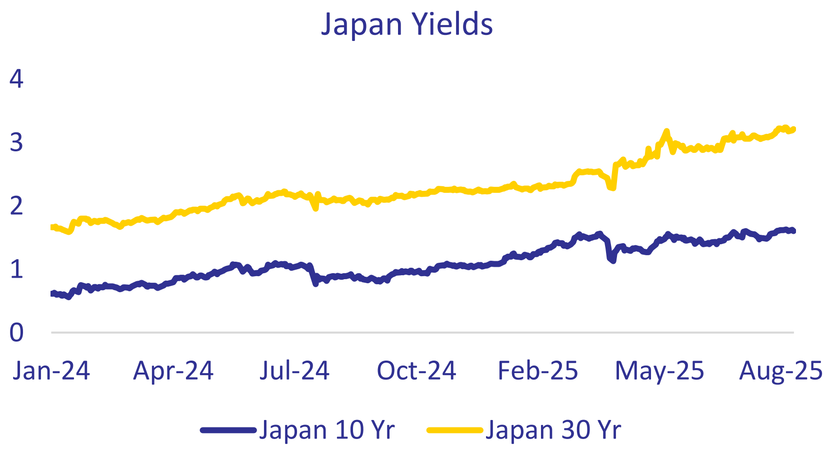
Source: Federal Reserve

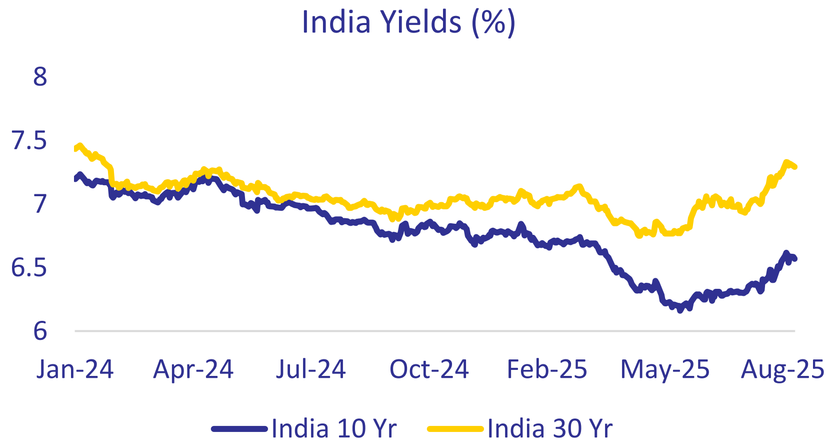
Major economies: Yields have been rising









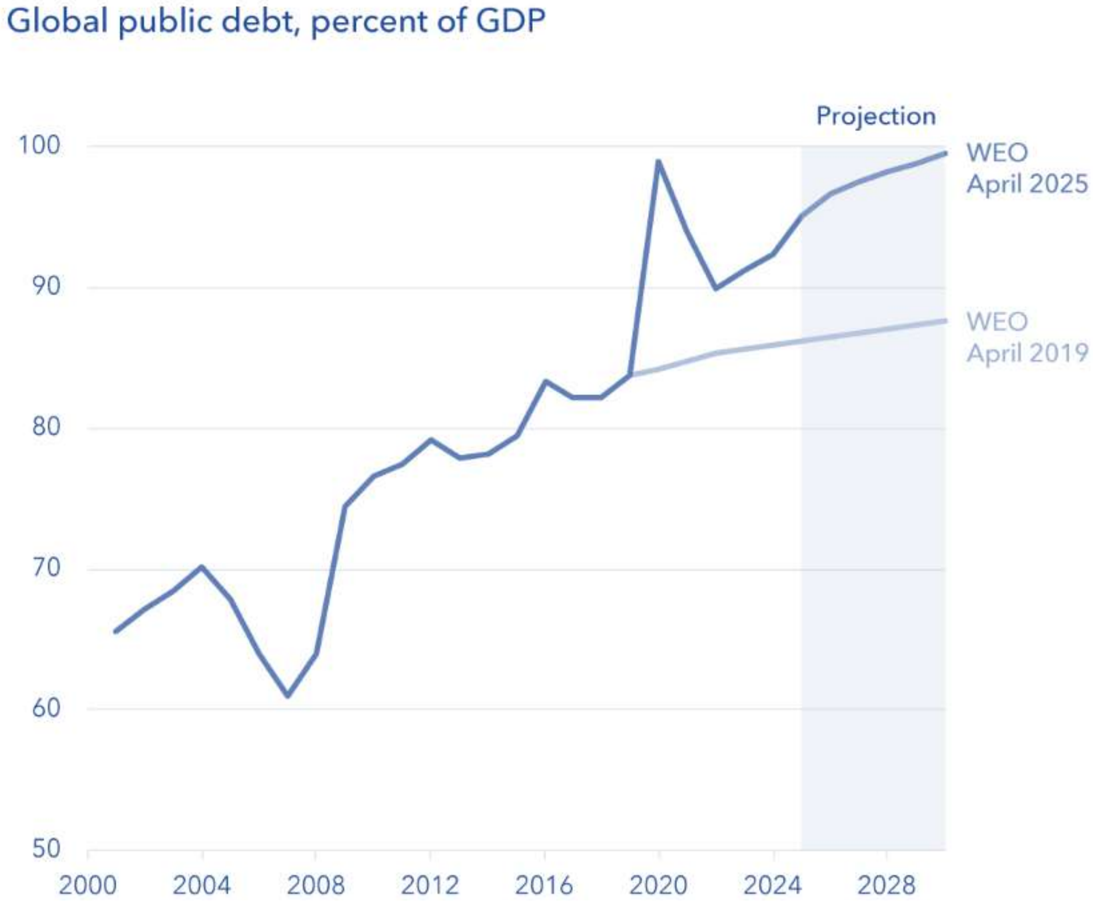


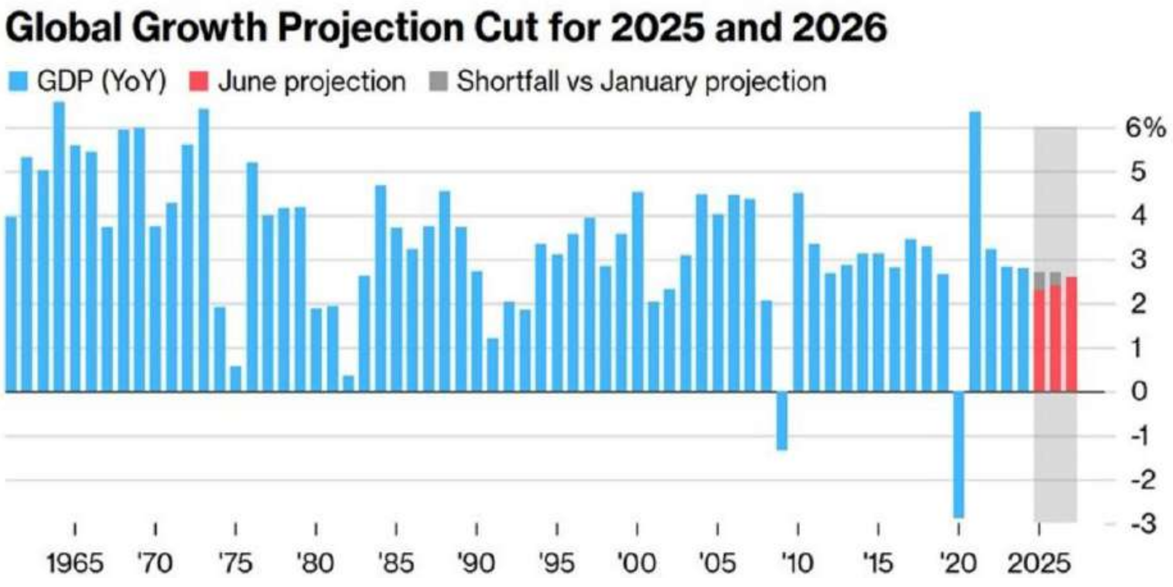
- Rise in yields across the globe is concerning.
- Another emerging trend is increase in the yield gap of 30Yr-10Yr.
- This may have implication on capital flows and valuations of risky assets.

Data as on 1st Sep’25. Disclaimer: The above data is for informational purposes. Past performance may or may not be sustained in the future.

Source: Investing.com, Internal Research

High Inflation and High Debt leading to rise in Yield Despite growth concerns

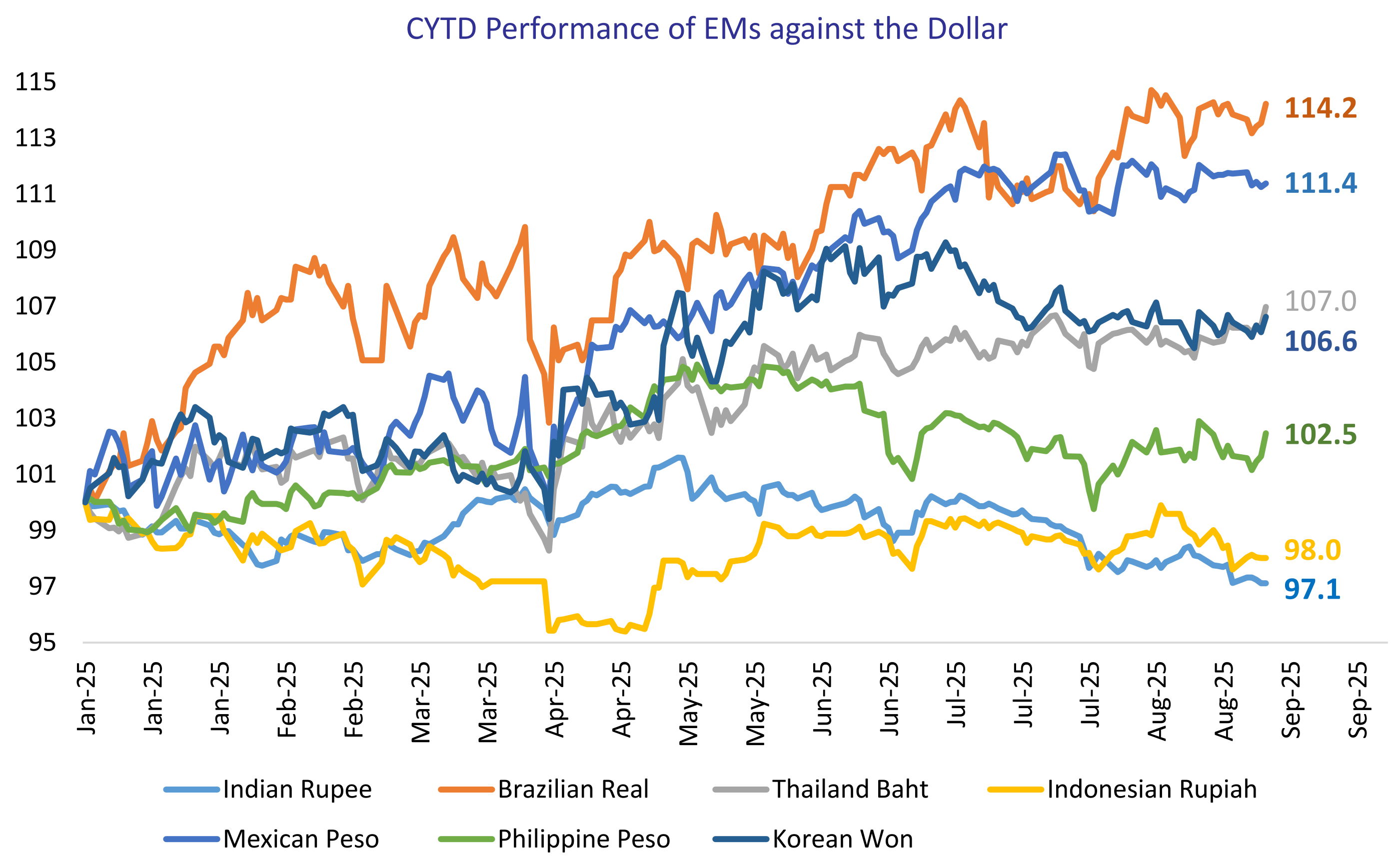




Major reason for rise in yields across global markets is rising inflation and govt debt. Hence despite growth concerns, yields are rising.

Source: IMF, World Bank

Major EM currencies gain as DXY slips while INR hit new low



- On a YTD basis, most EM currencies have appreciated against the U.S. dollar, reflecting the DXY's sharp H1 decline.
- However India has been amongst the worst performing due to concerns around tariffs, FII outflows and oil price volatility.
- Sharp currency depreciation can pause a concern for flows, before it becomes attractive to enter into.

Data as on 5th Sep'25

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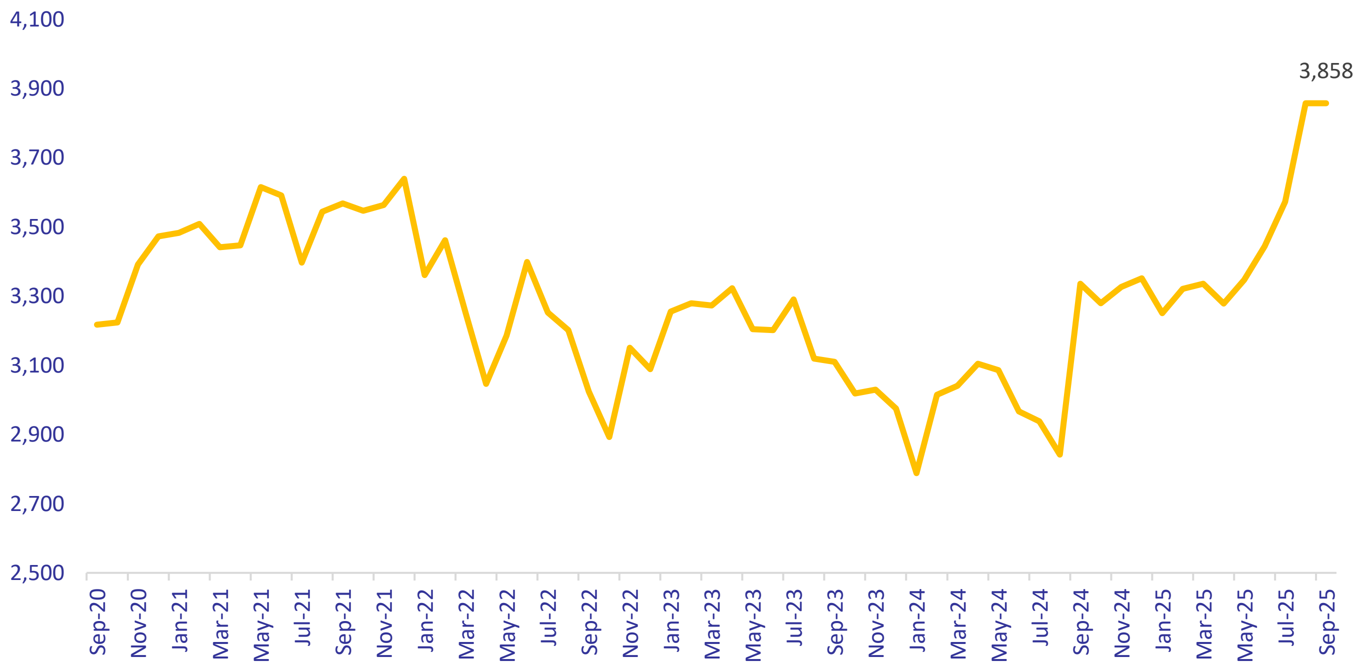
China makes 5 Year high!

Motilal Oswal Private Wealth

China Shanghai Composite



- Market rally fuelled by abundant liquidity, low yields and easing trade tensions with USA

China trading below long term average PE

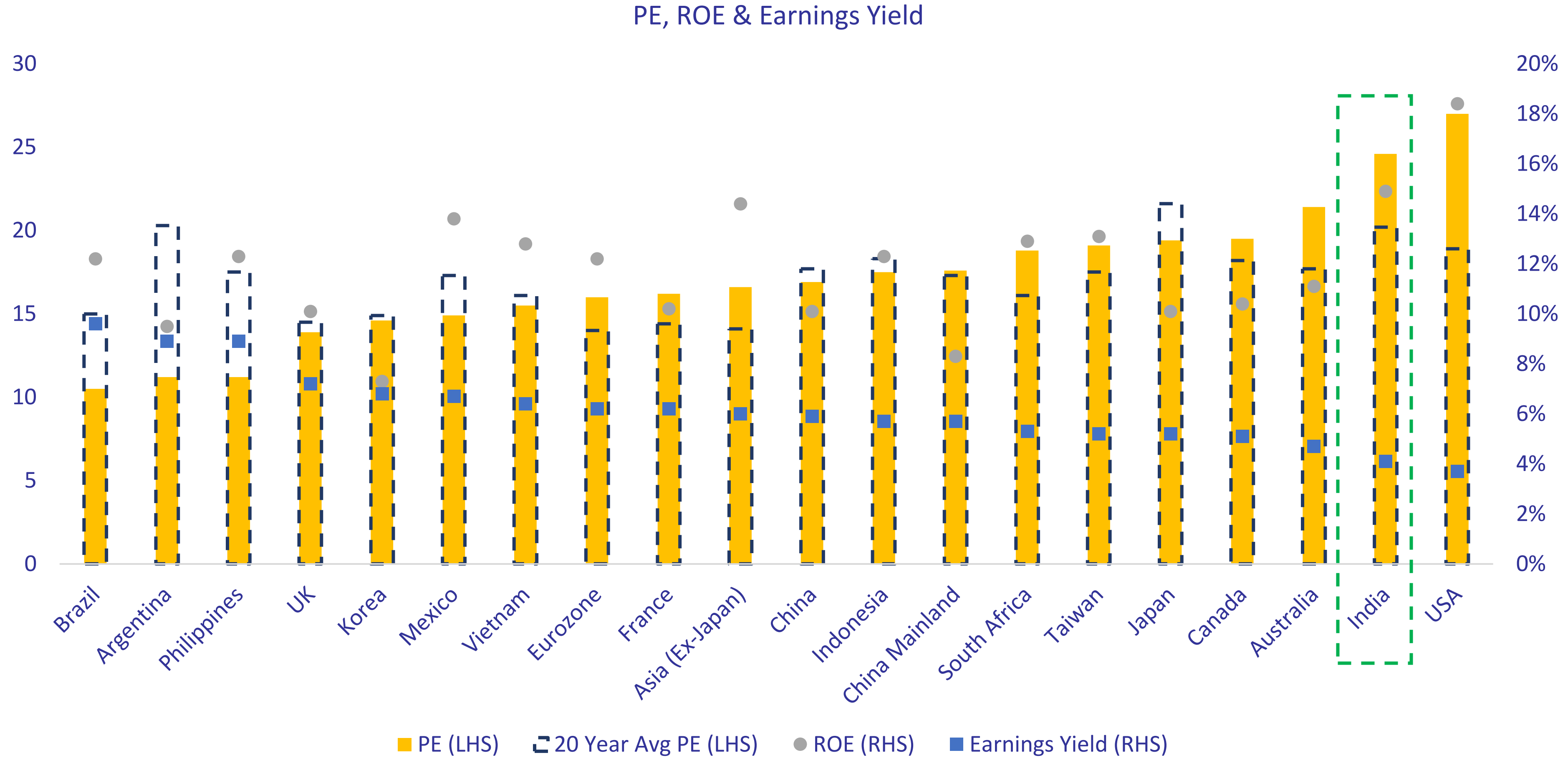
Index	PE	20 Year Avg PE	Earnings Yield
China (SCI)	16.90	17.70	6.3%
India (Nifty 50)	21.60	20.38	4.6%
USA (S&P 500)	27.00	25.11	3.5%

Benchmark equity indices of China have crossed the high made in Sep'24 (sharp rise after stimulus announcement) on the back of policy support, institutional & retail flows, momentum in AI, Tech & EV amid relatively attractive valuation.

Data as on 1st Sep'25. Disclaimer: The above data is for informational purposes. The analysis may or may not be sustained in future.

Valuation and Earnings comparison across countries

motilal oswal
Private Wealth



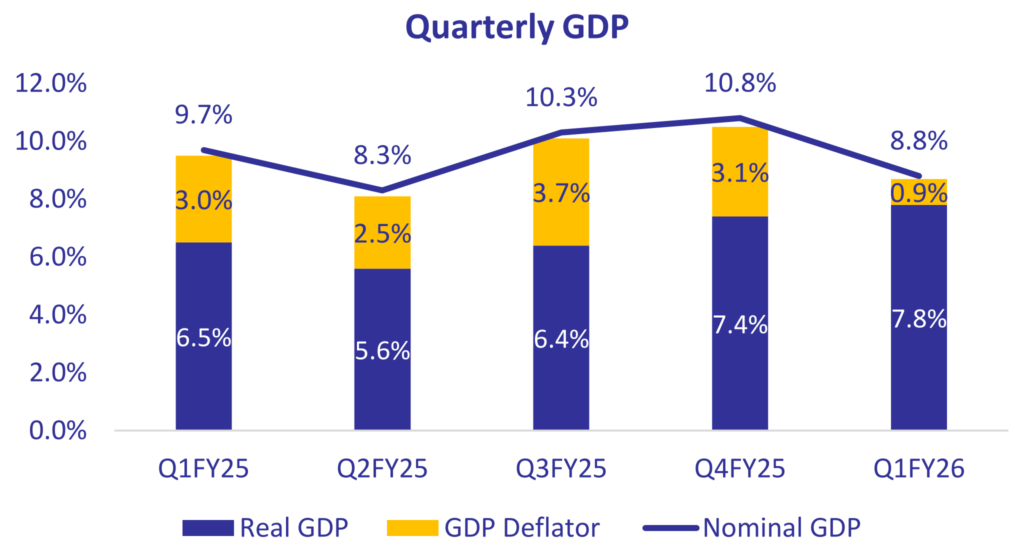
- Indian equities are currently trading at elevated valuations compared to their long-term averages and relatively lower earnings yield

Data as on July 2025. Disclaimer: The above data is for informational purposes. The analysis may or may not be sustained in future.

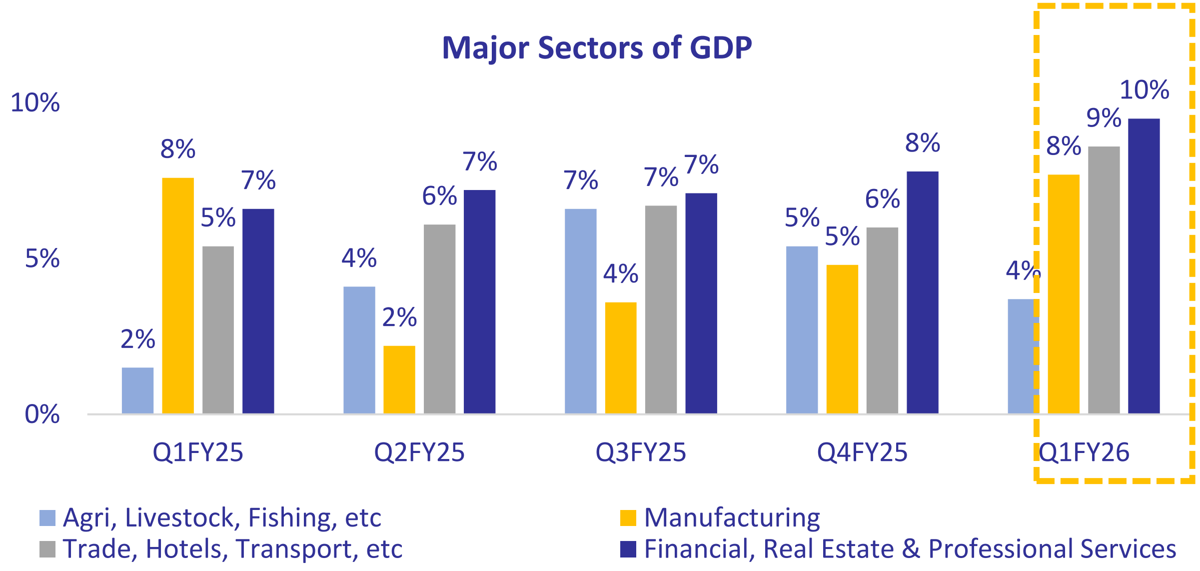
Source: DSP Netra, Internal Research

India’s Q1 GDP driven by service sector

Real GDP higher due to low GDP deflator



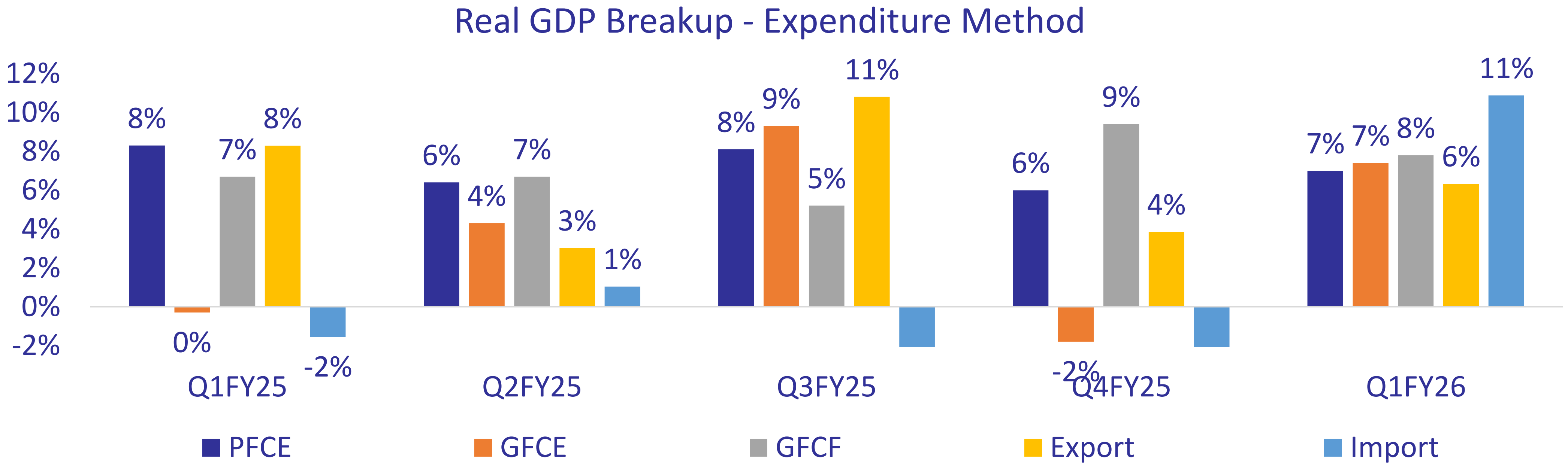
Manufacturing & Service sector leading the growth



- Real GDP growth accelerated to 7.8%, up from 6.5% in Q1 FY25. However, In nominal terms, GDP growth slowed to 8.8%, a three-quarter low
- The WPI, which is heavily weighted towards commodities, registered just 0.3% inflation in Q1 FY26, while CPI stood at 2.7%. leading to a low GDP Deflator

Source: MOSPI, Internal Research

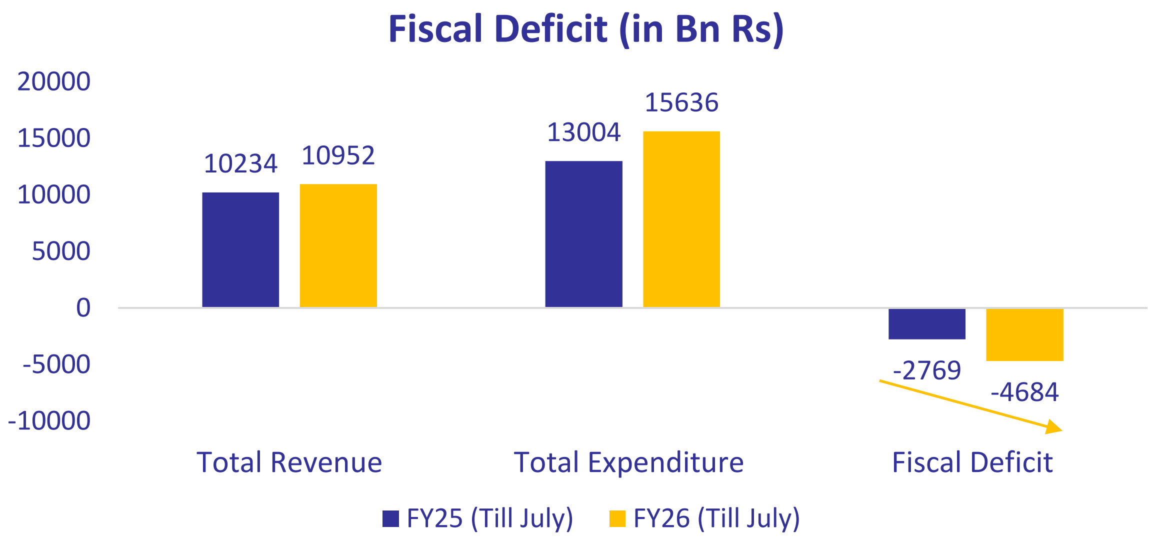
India’s Q1 GDP: Expenditure Method

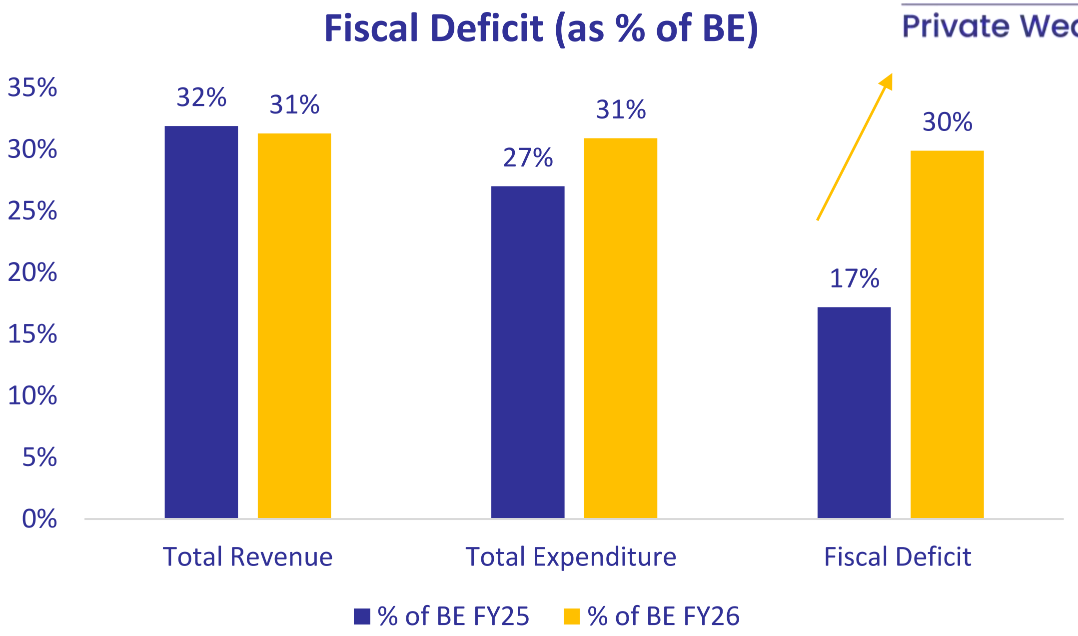


- Private consumption (PFCE) cooled slightly to 7.0% real growth, while Government consumption (GFCE) rebounded impressively with a 9.7% nominal increase.

Source: MOSPI, Internal Research

Rise in Fiscal Deficit





01

Fiscal Deficit till July:

29.9%

As a % of BE FY26 against 17.2% in the same period previous year

02

Capital Expenditure:

30.9%

As a % of BE FY26 against 23.5% in the same period previous year

03

Net tax Revenue:

23.3%

As a % of BE FY26 against 27.7% in the same period previous year

Fiscal Deficit widened to 29.9% of FY26 target (≈₹4.68 trillion), notably higher than 17.2% a year ago, due to elevated spending amid softer tax. However base has been lower due to limited govt spending during Q1FY24 because of general elections

GST Rates Slashed Across Categories

The existing **four-tier** GST structure is being streamlined into a **two-tier system** with 5% and 18% slabs.

Daily Essentials

18% → 5% Hair oil, shampoo, toothpaste, toilet soap, shaving cream

12% → 5% Butter, ghee, cheese, dairy spreads; Pre-packaged namkeens, utensils, feeding bottles, baby napkins, clinical diapers, sewing machines & parts

Agriculture

18% → 5% Tractor tyres & parts

12% → 5% tractors, bio-pesticides, micronutrients, drip irrigation systems, agricultural/forestry machinery

Healthcare

18% → NIL Health and Life Insurance

18% → 5% Thermometers

12% → 5% Medical oxygen
Diagnostic kits, reagents
Glucometers, test strips
Corrective spectacles

Automobiles

28% → 18% Petrol/diesel/CNG hybrid cars (≤1200–1500cc, ≤4000mm)
3-wheeled vehicles
Motorcycles (≤350cc)
Goods transport vehicles

Education

12% → NIL Maps, charts, globes, pencils, sharpeners, crayons, pastels exercise books, notebooks

5% → NIL Erasers

Electronics

28% → 18% Air conditioners
TVs >32” (LED/LCD), monitors, projectors, dishwashers

GST raised to 40% on sin & luxury goods, but the luxury car tax burden falls from nearly 50% to 40% after cess removal

Source: Aequitas Report

GST: "Growth" reform over just "Tax" reform

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Research house	Inflation (CPI) impact	GDP impact	Fiscal deficit impact
HSBC	↓ **0.5–1.0 ppt** depending on pass-through	**~+0.2 ppt** over a year	— (not quantified)
Standard Chartered	↓ **40–60 bps** (annual); **~20–25 bps** in FY26 as it's mid-year	**+0.1–0.16 ppt**	**+0.15–0.20% of GDP** pressure on *combined* deficit (still "limited" overall)
Morgan Stanley	↓ **20–30 bps** in FY26	Growth **unchanged at 6.7%** (expects a consumption boost)	Notes govt's net impact estimate **~0.13% of GDP**
Jefferies	↓ **~25 bps**; raises odds of a 25 bp RBI cut	— (expects demand uplift)	FY26 dent **₹22k–24k cr** (7-month effect, Centre+States); **neutral by FY27**
Bernstein	—	—	Wider by **~5 bps** (if 5% capex trim) to **~20 bps** (no trim); **~40 bps** in a conservative scenario- Centre absorbs all losses
SBI Research	↓ **~20–25 bps** with modest pass-through	**~+0.6% of GDP** via consumption multiplier	Centre's deficit **+~5 bps at most**; overall impact **minimal / non-existent** after offsets
ICICI Bank	↓ **~110–120 bps** with full pass-through	—	**Slippage unlikely** (offsets via dividends/excise, etc.)
Kotak Institutional Equities	—	**+0.7–0.9% of GDP** (annualised) from GST + income-tax relief	**Contained**; Centre's targets still "achievable"
HDFC Bank (Economics)	—	**+~30 bps** to FY26 GDP	—
UBS	—	—	Fiscal cost **~0.3% of GDP** (annual), seen as "manageable"

- As per MOFSL view, the impact of net tax forgone of INR 48K crore (as indicated by finance ministry), on fiscal balances, should be manageable. The government's conservative budgeting and fiscal discipline underpin credibility; should costs run higher, it has multiple levers to bolster revenue
- Most houses see (i) **disinflation** in FY26, (ii) a **one-off consumption lift** that nudges growth, and (iii) **small fiscal leakage** that is either manageable or offset by buoyancy/other revenues.

Source: Various Reports and Articles

Corporate tax Cuts in 2019

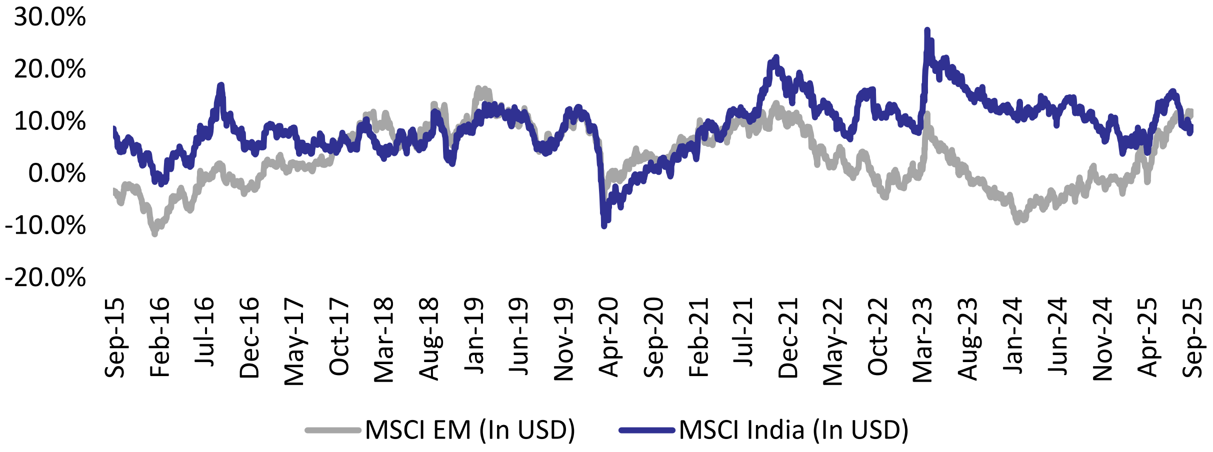
IN Corporate Tax Collection in India (FY2018–19 to FY2024–25)

Financial Year	Net Corporate Tax Collection (₹ Crore)	Notes
FY2018–19	₹6,63,571 crore	Pre-tax cut year
FY2019–20	₹5,56,876 crore	Tax cut announced Sept 2019
FY2020–21	₹4,57,719 crore	COVID-19 impact
FY2021–22	₹7,12,037 crore	Strong post-COVID rebound
FY2022–23	₹8,25,834 crore	Continued recovery
FY2023–24	₹9,11,055 crore *(Provisional)*	Record high
FY2024–25	₹9,86,719 crore *(Provisional Estimate)*	~8.3% YoY growth

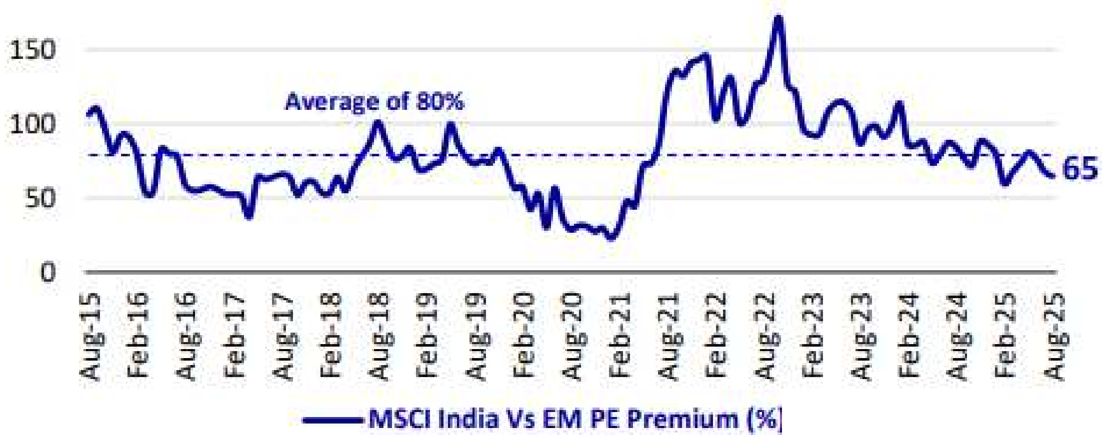
Source: CBDT, Various Reports and Articles

Underperformance of MSCI India vs MSCI EM

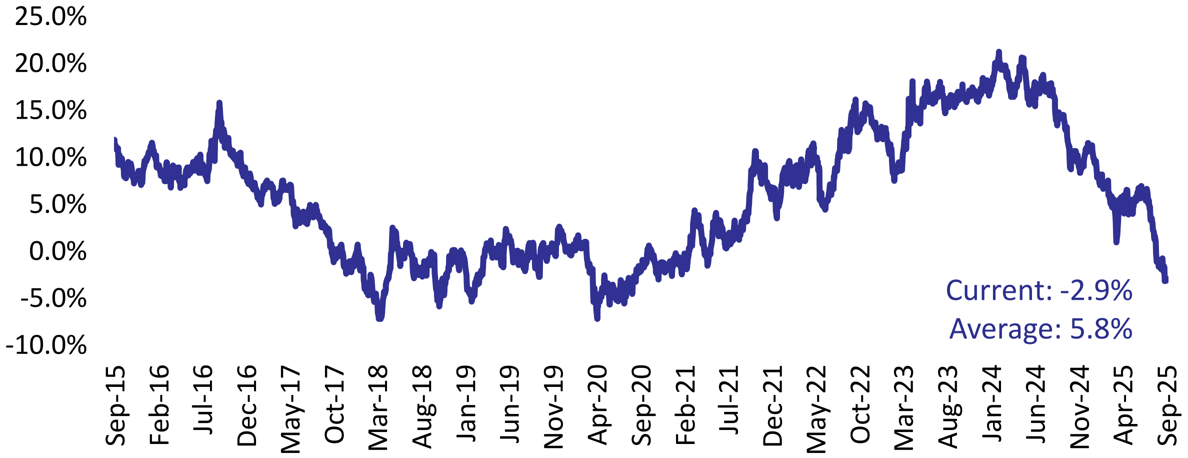
MSCI India vs MSCI EM – Daily 3Y Rolling Returns (%)



In P/E terms, MSCI India as % of MSCI EM (%)



Gap (MSCI India - MSCI EM)



- The gap (MSCI India – MSCI EM) has just turned negative at -2.9%, after staying deeply positive for most of the past 4-5 years (average: 5.8%).
- This could be due to a shift in the global flows, valuation catch-up by EM or China revival.
- As a result, MSCI India's PE vs MSCI EM has fallen below the 10Y average.

Data as on 3rd Sept'25
Source: Internal Research, Investing.com, Bulls and Bears

MSCI India vs MSCI EM - Outperformance
Daily 3Y Rolling Return and 1Y and 3Y Forward Return

MSCI India – MSCI EM				1Y Forward Alpha (Absolute %)								3Y Forward Alpha (CAGR %)							
Daily 3 Year Rolling Return Alpha (CAGR %)		Count	% Times	Min	Max	Average	% times					Min	Max	Average	% times				
							<0%	0% - 5%	5% - 10%	10% - 15%	>15%				<0%	0% - 5%	5% - 10%	10% - 15%	>15%
	-3%	491	15%	-6%	43%	14%	7%	20%	16%	14%	42%	-2%	18%	10%	5%	7%	50%	21%	17%
-3%	0%	587	18%	-19%	41%	11%	33%	14%	11%	1%	41%	-3%	21%	9%	11%	19%	31%	13%	26%
0%	3%	459	14%	-22%	36%	6%	38%	7%	15%	9%	31%	-4%	20%	8%	14%	27%	16%	19%	24%
3%	5%	161	5%	-11%	30%	7%	36%	12%	17%	5%	29%	-6%	18%	3%	58%	5%	6%	15%	16%
5%	10%	848	26%	-19%	33%	2%	48%	21%	12%	8%	12%	-8%	13%	1%	48%	30%	17%	5%	0%
10%		761	23%	-30%	31%	2%	54%	10%	8%	5%	24%	-7%	10%	-1%	79%	16%	4%	0%	0%
		3617																	

Data Period – 1st January 2010 – 3rd September 2025

Current Value: -2.9%

Current band has been highlighted in grey.

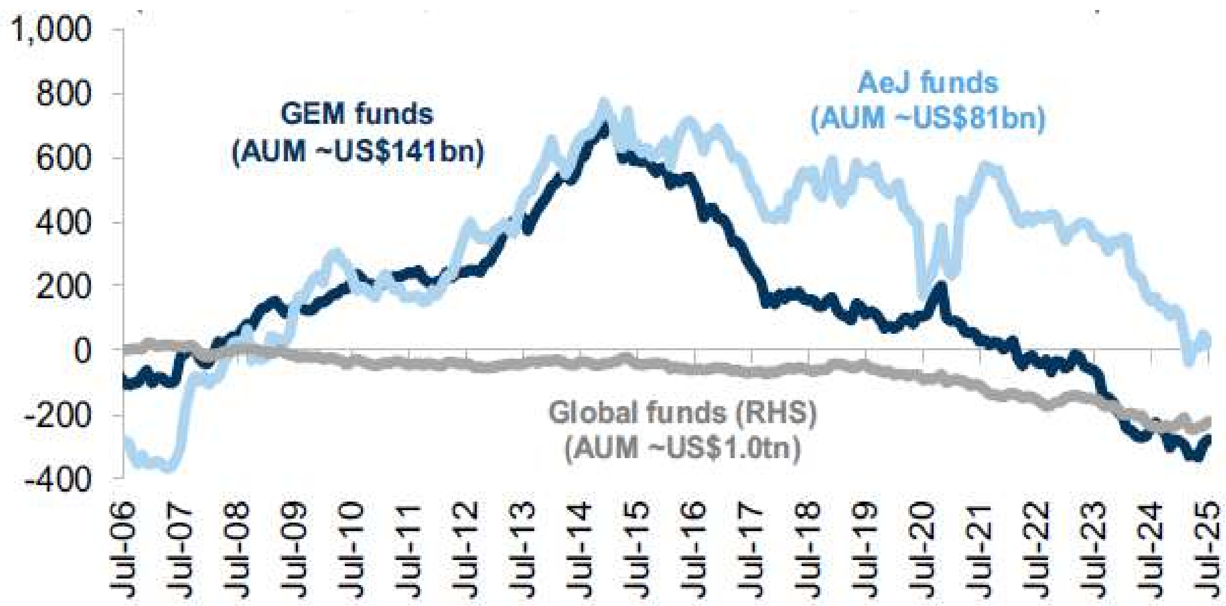
As per the 3-year daily rolling returns:

- For the next 1 year, the average alpha expected is around 11%, with 67% probability of generating the same.
- For the next 3 years, the average alpha expected is 9%, with 89% probability of generating the same.

Source: Internal Research, MSCI

Under-exposure of India in Global Active Funds

India's allocation in active mutual funds is at 2 decadal lows (UW/OW, bps)
(includes GEM, AEJ, Global & Global ex-US funds, AUM: US$1.2tn)



Global funds across EM/Asia/Global mandates are underweight India by c.215bp on aggregate

Equity Mutual Funds	Total Assets (US$ bn)	India allocation: Avg. Fund allocation (%)	India allocation: Benchmark (MSCI)	India allocation: OW/UW (bp) vs. MSCI
Global ex-USA funds	345	1.4%	5.0%	-365 bp
EM Funds	140	14.1%	16.9%	-280 bp
Global funds	625	0.3%	1.8%	-145 bp
AEJ Regional funds	80	19.3%	19.1%	25 bp
Overall (AUM wgt.)	**$1,190 bn**	**3.5%**	**5.7%**	**-215 bp**

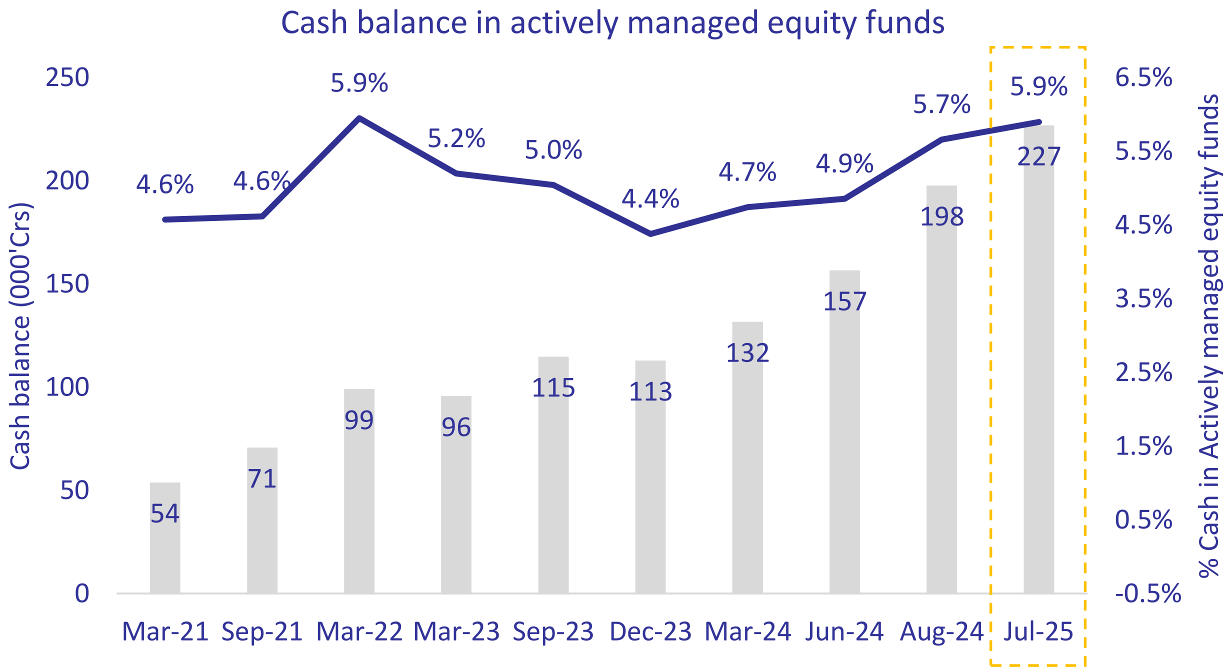
Note: As of Jul-end, 2025

EM – Emerging Market; AEJ – Asian Ex-Japan

With underweights at extreme levels, even a modest sentiment shift (earnings visibility or growth outperformance vs China) could **trigger strong inflows** as active funds move back toward the benchmark weights.

Source: Goldman Sachs Strategy Report

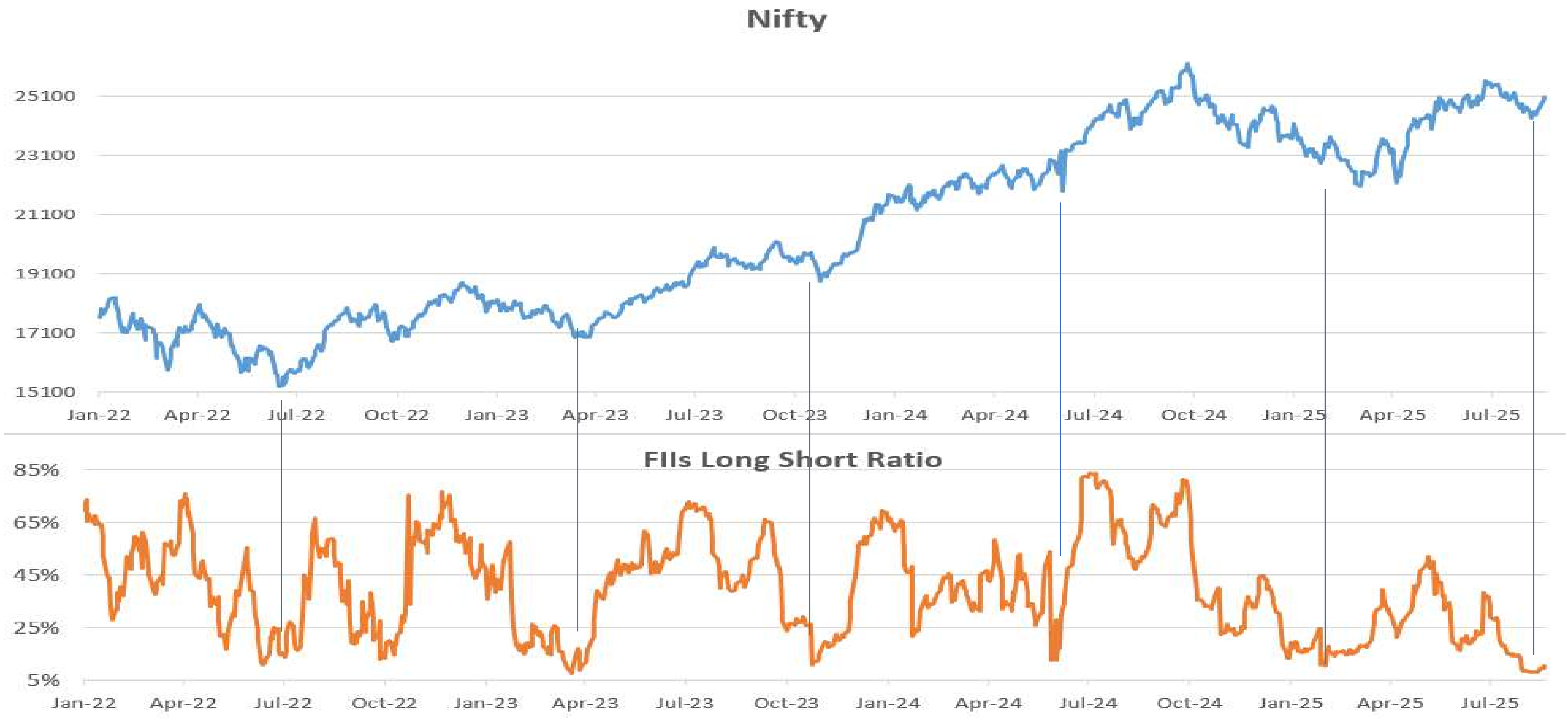
Dry Powder available with DMFs



- In July 2025, equity mutual funds witnessed record high net flows of Rs. 42,702 Crs., while SIP contributions touched an all-time high of Rs. 28,464 Crs.
- Amidst this, cash balances in actively managed equity funds surged to Rs. 2.27 lakh Crs (5.9% of AUM) indicating that fund managers are holding back deployment and maintaining a cautious stance amid elevated market valuations.

Note: The cash balance includes all actively managed MFs, including aggressive hybrid and balanced advantage funds.
Source: Internal Research, ACE MF

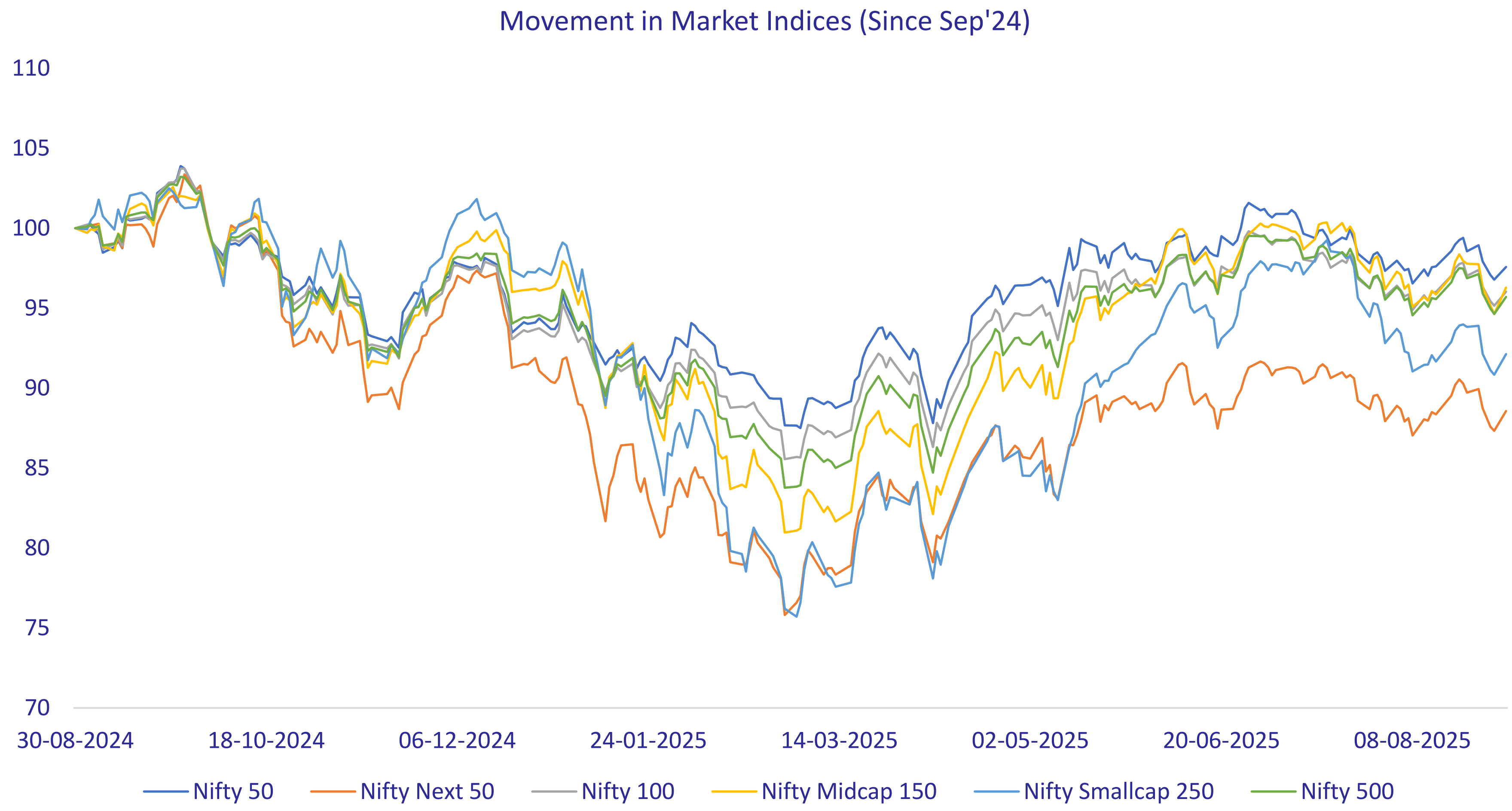
FIIs’ Long/Short Ratio at historical low



- The FII long-short ratio has slipped to just 15 percent, the lowest in the recent period. Historically, whenever the FII long-short ratio drops below the 15 percent mark, markets form the hear term bottom around those levels.

Equity

Nifty Market Cap Indices – movement since Sep’24

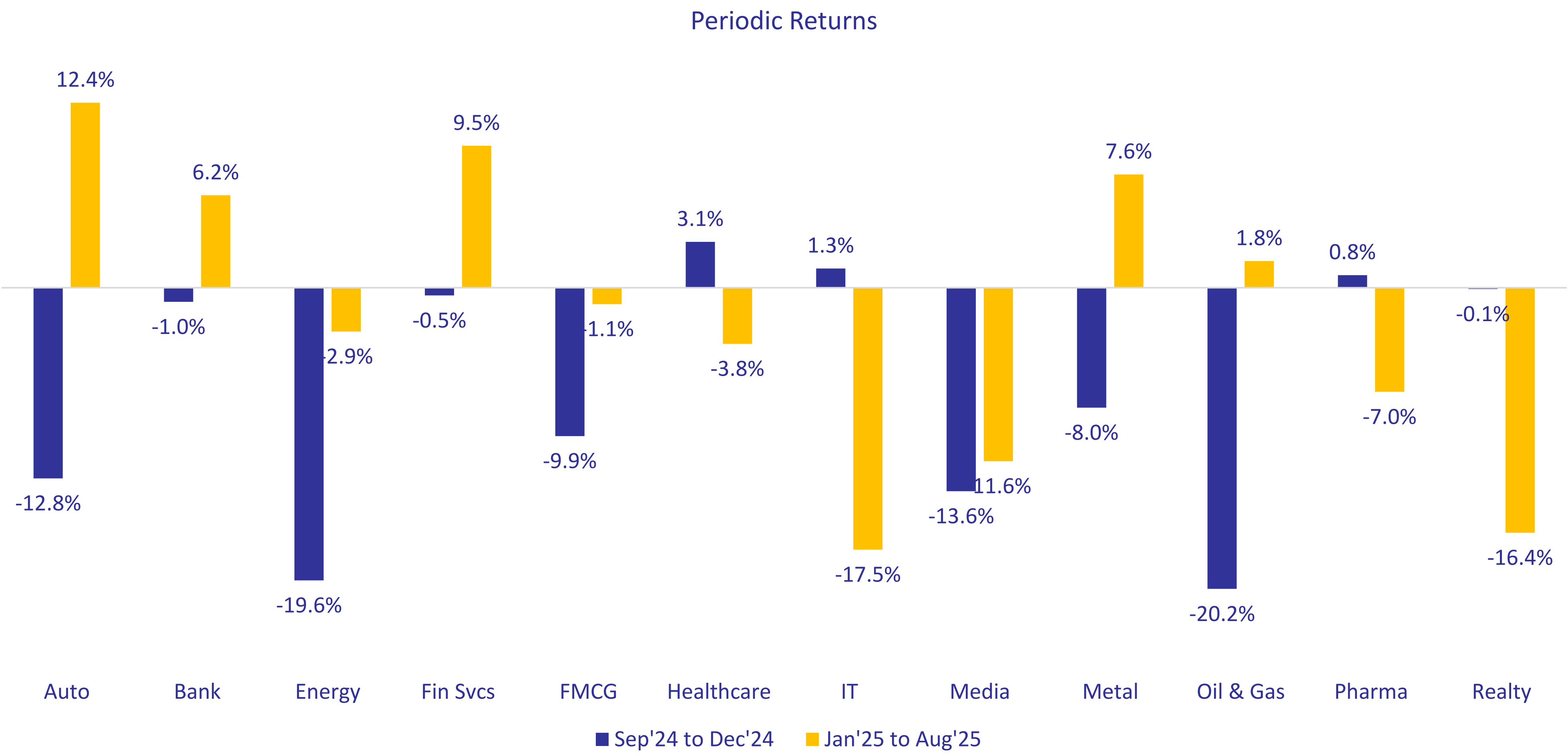


Market Indices	Total returns	Max DD	Recovery from Bottom
Nifty 50	-2.4%	-15.8%	11.5%
Nifty Next 50	-11.4%	-26.7%	16.8%
Nifty 100	-4.0%	-17.5%	12.2%
Nifty Midcap 150	-3.7%	-21.1%	18.9%
Nifty Smallcap 250	-7.9%	-26.1%	21.7%
Nifty 500	-4.3%	-18.8%	14.2%

Data till 01st September 2025

Disclaimer: Past performance may or may not be sustained in the future.

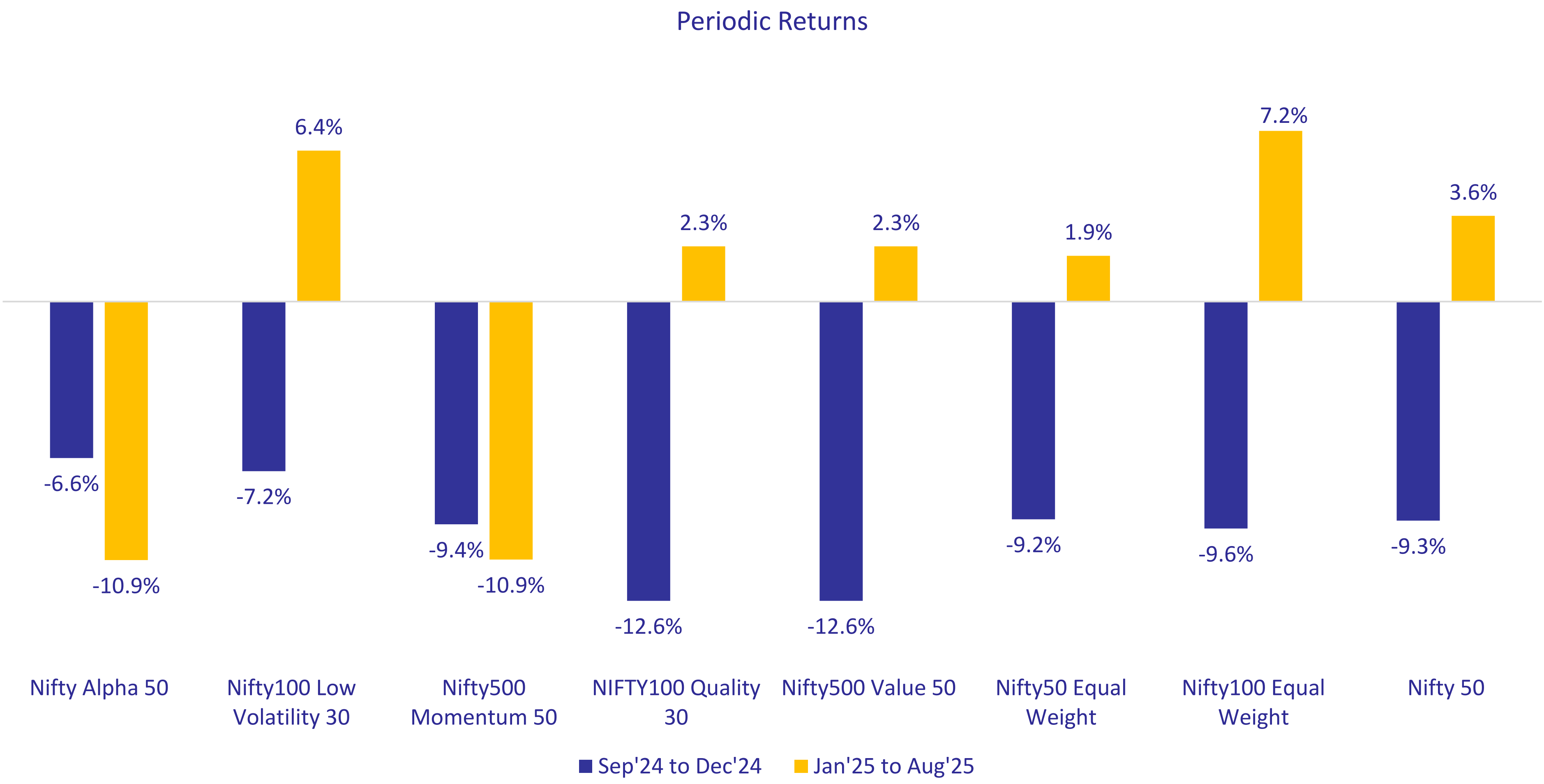
Market Snapshot – Sector Indices



Sector	Sep'24 to Aug'25
Auto	-2.0%
Bank	5.2%
Energy	-21.9%
Fin Svcs	8.9%
FMCG	-10.9%
Healthcare	-0.8%
IT	-16.5%
Media	-23.6%
Metal	-1.1%
Oil & Gas	-18.7%
Pharma	-6.2%
Realty	-16.5%

Source: ACE MF, ACE Equity, Internal Research. Data till 01st September 2025
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Market Snapshot – Factor Indices



Sector	Sep'24 to Aug'25
Nifty Alpha 50	-16.8%
Nifty100 Low Volatility 30	-1.2%
Nifty500 Momentum 50	-19.3%
NIFTY100 Quality 30	-10.6%
Nifty500 Value 50	-10.6%
Nifty50 Equal Weight	-7.4%
Nifty100 Equal Weight	-3.1%
Nifty 50	-6.0%

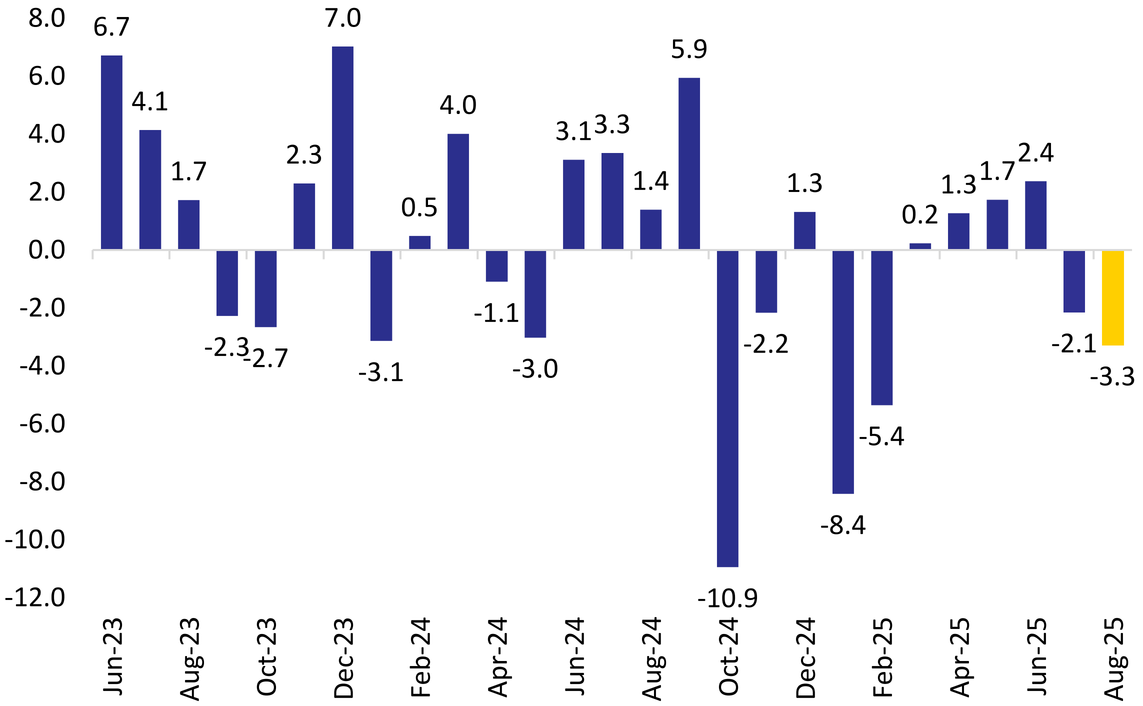
Data till 01st September 2025

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

FII vs DII Flows

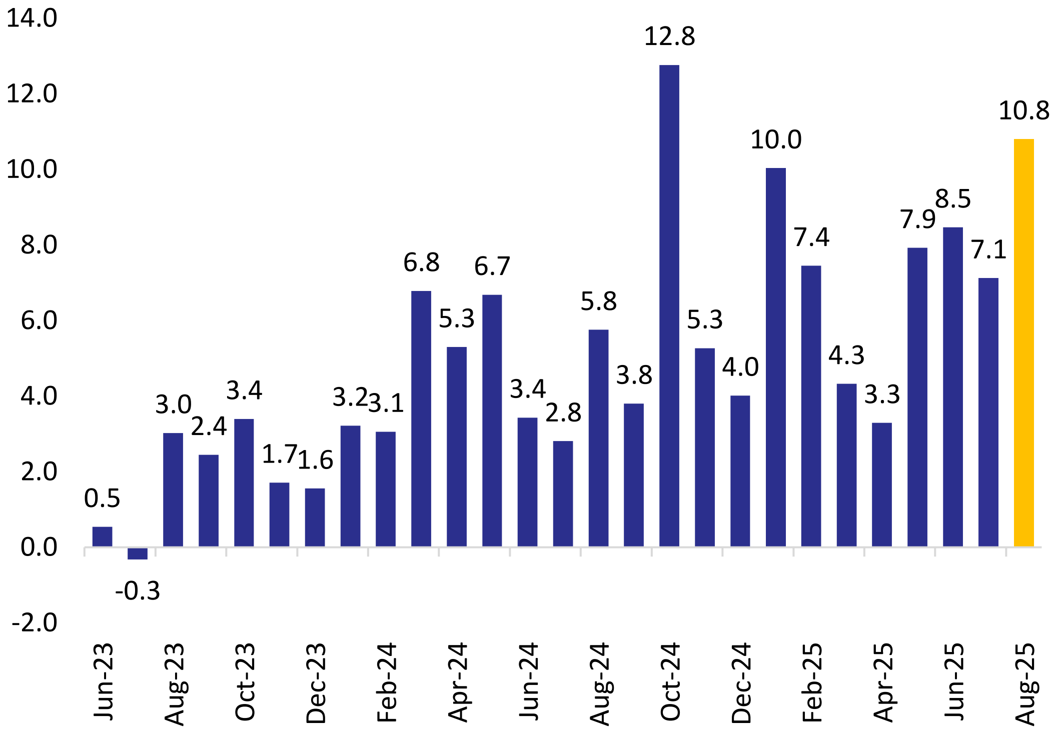
FIIs recorded the second consecutive month of outflows at USD3.3b.

FII Equity Flows (US$ Bn)



In Aug'25, DIIs posted the second-highest ever inflows at USD10.8b after a record high in Oct'24.

DII Equity Flows (US$ Bn)

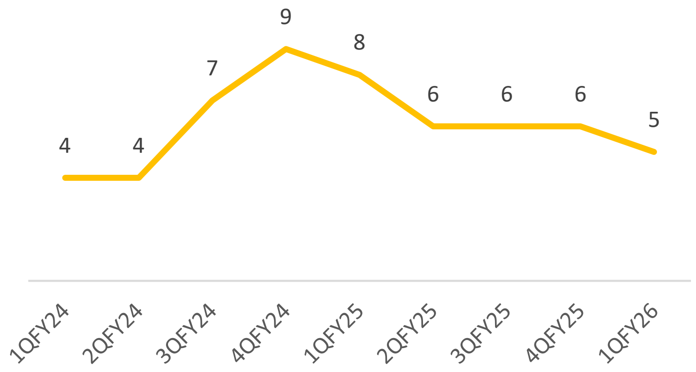


Source: Internal Research, MO Institutional Equities

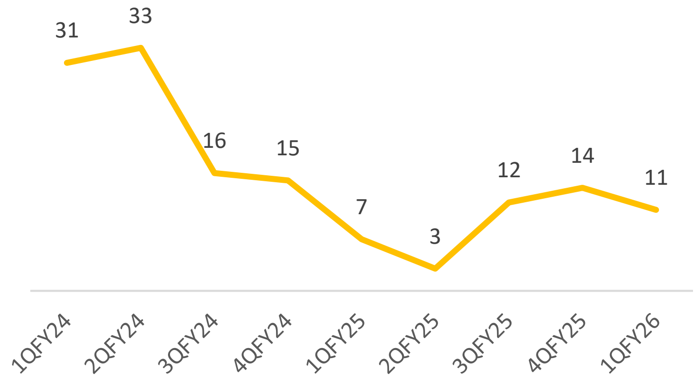
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Q1FY26 Earnings Review

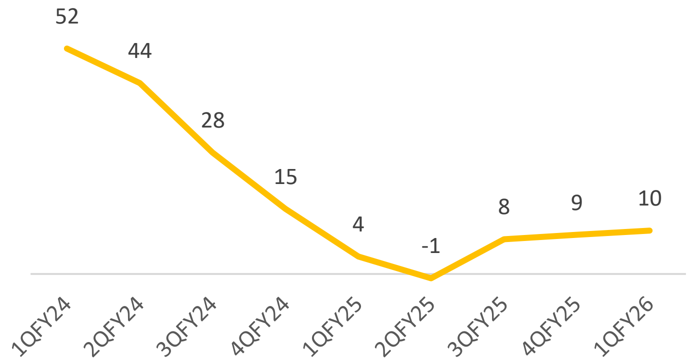
NIFTY500 – Sales YoY Growth (%)



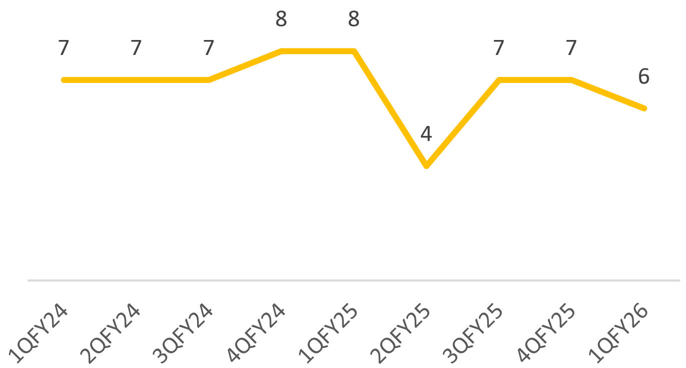
NIFTY500 – EBITDA YoY Growth (%)



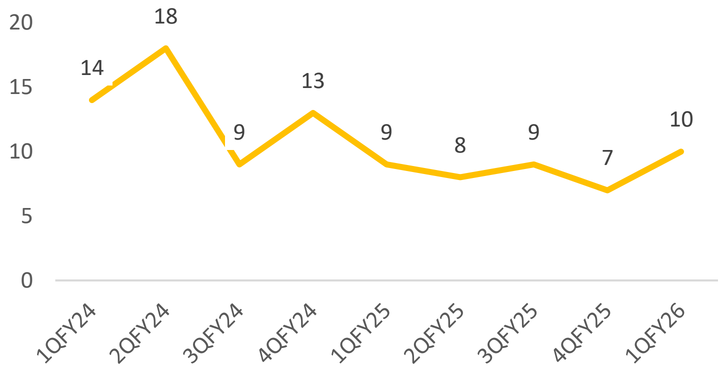
NIFTY500 –PAT YoY Growth (%)



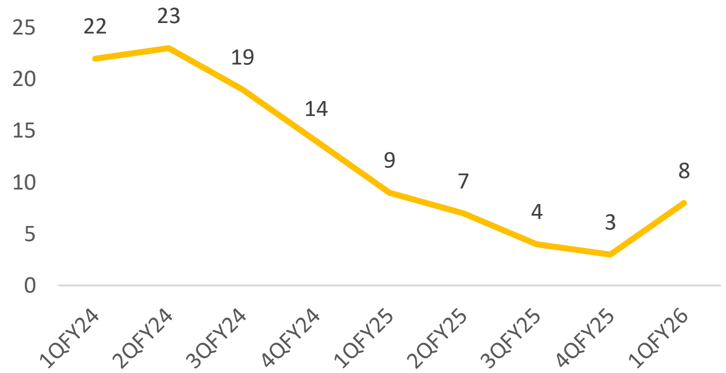
NIFTY 50 - Sales YoY Growth (%)



NIFTY 50 - EBITDA YoY Growth (%)



NIFTY 50 - PAT YoY Growth (%)



Nifty-50 delivers a fifth successive quarter of single-digit PAT post Covid

For NIFTY500, 1QFY26 Earnings marked a transition from the subdued low single-digit earnings growth of FY25 to a sustainable double-digit growth trajectory.

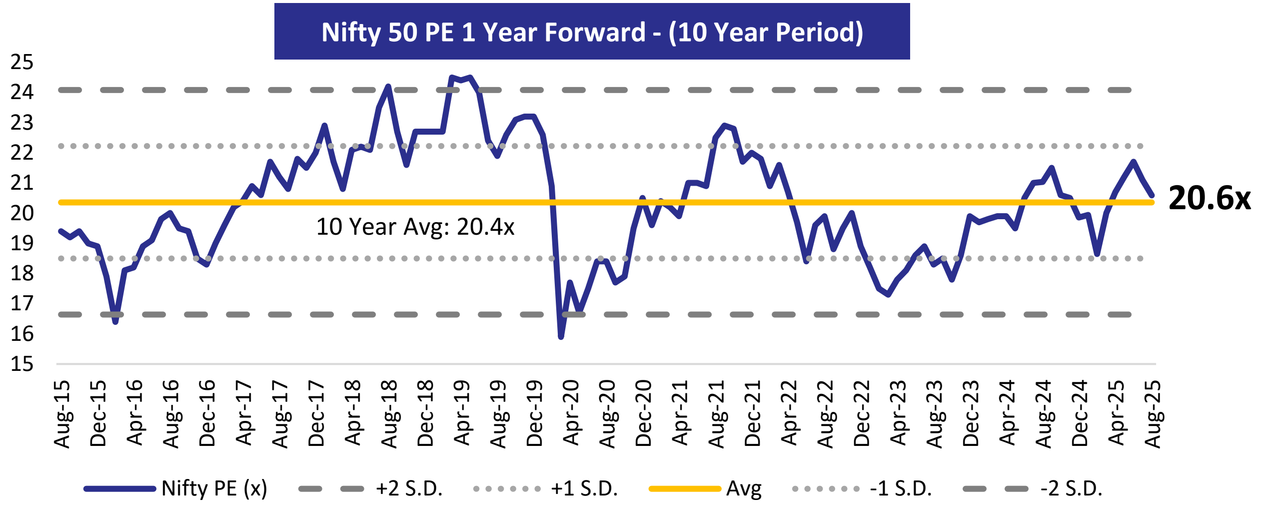
The 1Q earnings performance of Nifty-500 was led by midcap companies. Aggregate earnings of the Nifty Midcap-150 grew 17% YoY, outperforming the Nifty-100 (8%) and the Nifty Smallcap-250 (6%).

Nifty Valuation band expanding as rates soften over years

Month Year	Avg. Nifty EPS (INR)	Avg. Nifty P/E (x)	Avg.Nifty P/B (x)	Avg. Nifty ROE (%)	Avg. Earnings Yield	10-Year India G-Sec Yield (%)	Forward EPS CAGR (%)	Forward Return CAGR (%)
Jan'24 - Aug'25	885.2	20.4	3.0	14.6	4.9	6.7		
Feb'19-Jan'24	751.4	20.4	2.9	14.1	5.0	6.7	10.1	7.3
Feb'14-Jan'19	440.6	20.3	2.7	13.3	5.0	7.6	16.2	14.9
Feb'09-Jan'14	349.3	15.3	2.4	16.0	6.6	8.0	2.8	12.2
Feb'04-Jan'09	229.9	13.9	2.7	20.2	7.6	7.3	10.9	16.2
Feb'99-Jan'04	99.4	13.0	2.3	18.1	8.4	8.9	8.8	9.7
Mar'96-Jan'00	82.9	12.3	2.1	17.5	8.3	13.1	14.5	13.4

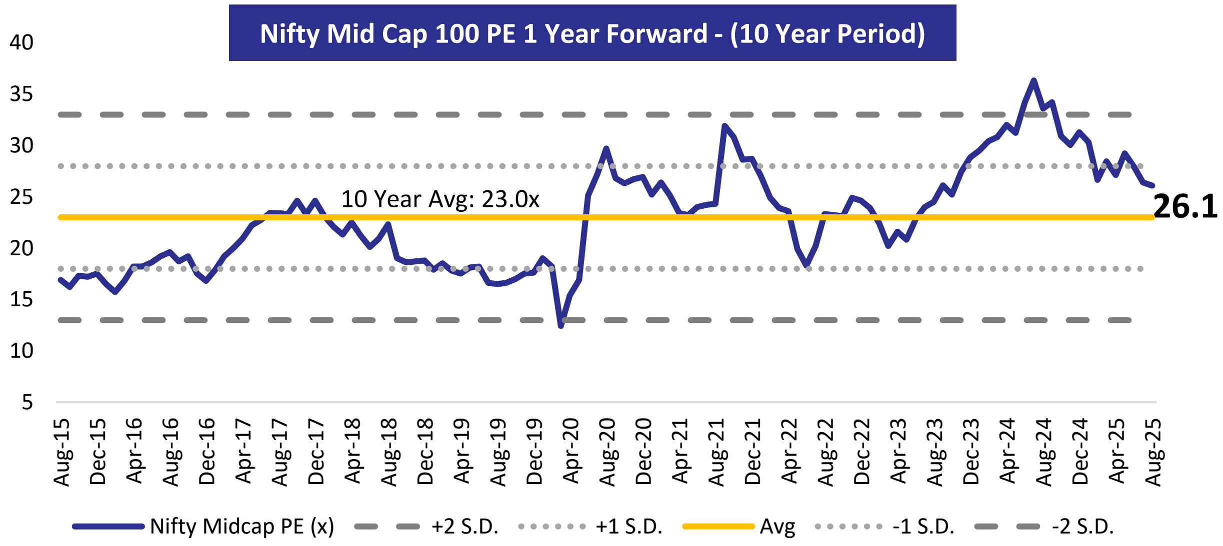
- Over the long term – India 10Y G-Sec yields have gone down with growth in EPS and PE re-rating

Market Indices Valuations – Based on Forward Earnings

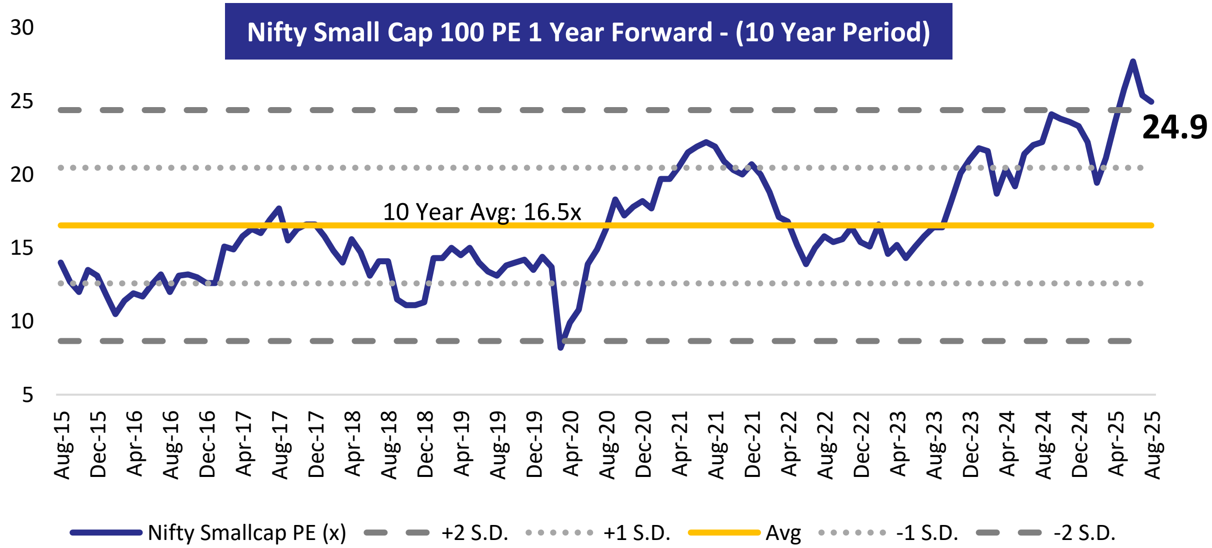


Source: Internal Research, MOFSL

Nifty 50 Forward PE is almost at its long-term average while that of Mid Cap and Small Cap 100 continues to be above its long-term averages, indicating a continued sense of expensive valuations in the market.

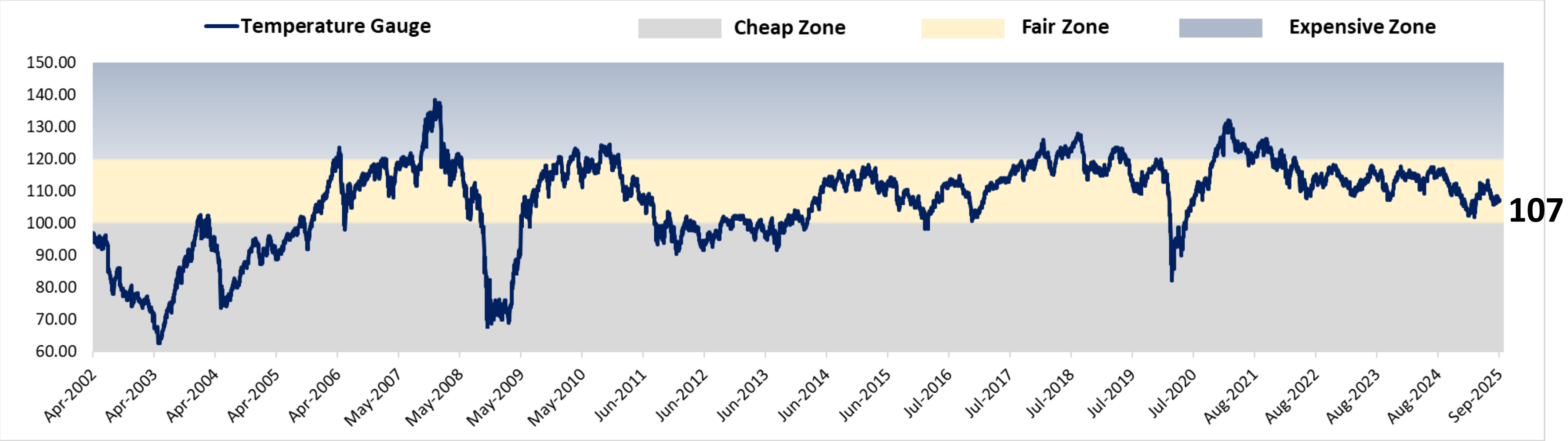


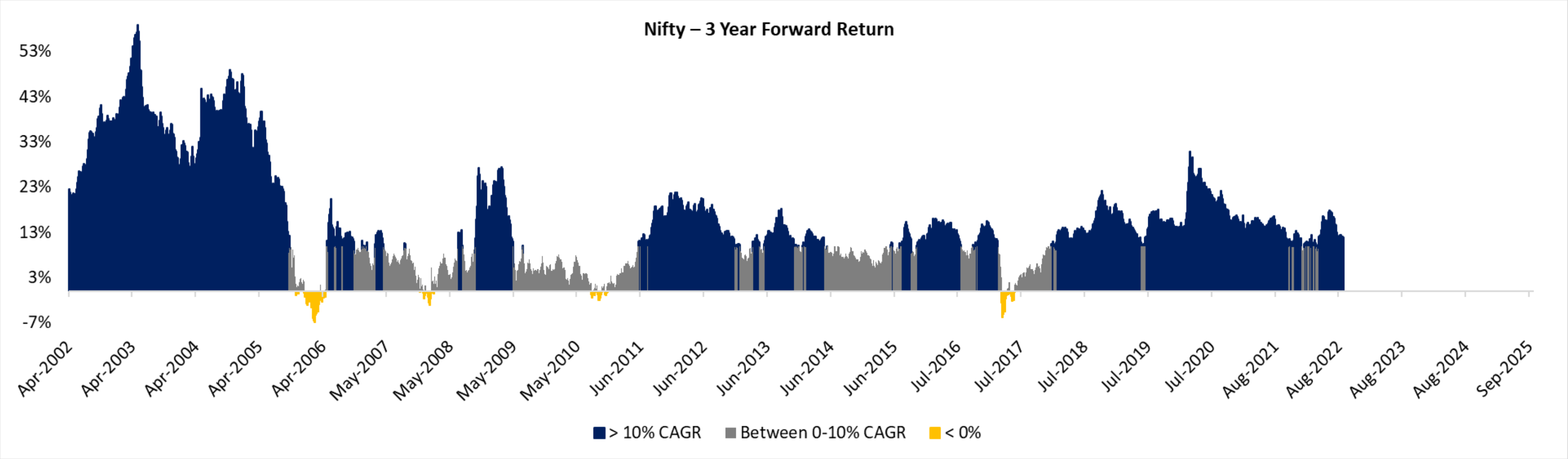
Source: Internal Research, MOFSL, Bloomberg



Source: Internal Research, MOFSL, Bloomberg

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 8th September’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	6.07%	6.27%	6.47%	6.67%	6.87%
23450	103	104	105	106	107
23700	104	105	106	107	108
23950	104	105	106	107	108
24200	104	105	106	107	108
24450	105	106	107	108	109
24700	105	106	**107**	108	109
24950	105	106	107	108	109
25200	106	107	108	109	110
25450	106	107	108	109	110
25700	106	107	108	109	110
25950	107	108	109	110	111
26200	107	108	109	110	111
26450	107	108	109	110	112

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as on 8th September'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	761	9%	-2%	30%	13%	92.6%	19%	66%
105	110	976	11%	-4%	22%	10%	71.3%	13%	48%
110	115	1916	22%	-7%	22%	9%	66.6%	27%	27%
115	120	1617	19%	-4%	21%	9%	80.5%	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 September'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** ***Staggered in Pure Equity Oriented Strategies***
Cheap	**Invest**	**Invest**	**Stay Invested**	100% Lump-sum

Strategic Allocation

Data as on 8th September'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 Portfolio Strategy

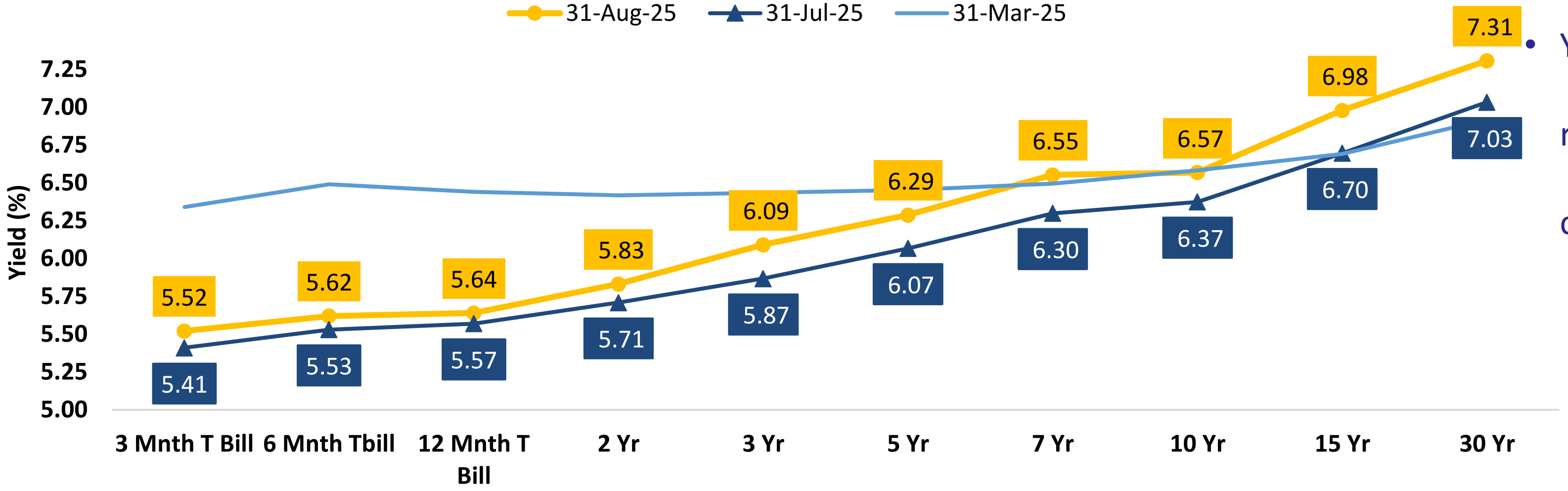
motilal oswal
Private Wealth

- Global Equities remain resilient near highs despite tariffs & geopolitical risks. Expectations of a Fed rate cut offered some-support while ongoing conflicts in Europe, South China Sea & Russia Ukraine kept markets volatile.
- On the domestic front, the US tariffs have come into effect on select Indian exports and may have a multi-layered impact including potential slowdown in economic growth. Amid slowdown concerns, Govt of India has taken actions by cutting GST rates to revive the demand.
  - This coupled with transmission of rate cuts by RBI, higher disposable income due to tax savings, benign inflation outlook and rural demand revival are likely to offset the tariff impact and provide boost to the growth.
- Indian Markets have turned volatile due to FIIs outflows of ~30k Cr in Aug, however strong domestic inflows provided stability. Global funds are underweight on India and any positive momentum build up in economy and earnings may change this sharply. Further, cash available with domestic MFs may provide support in case of sharp correction.
- Nifty index is trading around historical average on 1-yr forward basis. However mid & small caps remain at elevated premiums, warranting caution and selectivity.
- While markets are going through this “Tug of War” between domestic tailwinds and global uncertainty in the short term, we remain positive on the long term India growth story and hence equity markets.
- **Equity Portfolio Allocation: Neutral i.e. 65% allocation to Large Caps and 35% allocation to Mid and Small Caps**
- Investment Strategy:
  - Lump-sum investments in Hybrid funds at current levels.
  - For Pure equity-oriented strategies, a staggered SIP/STP approach is prudent given elevated valuations and higher volatility. Any sharp correction should be used for aggressive deployment.

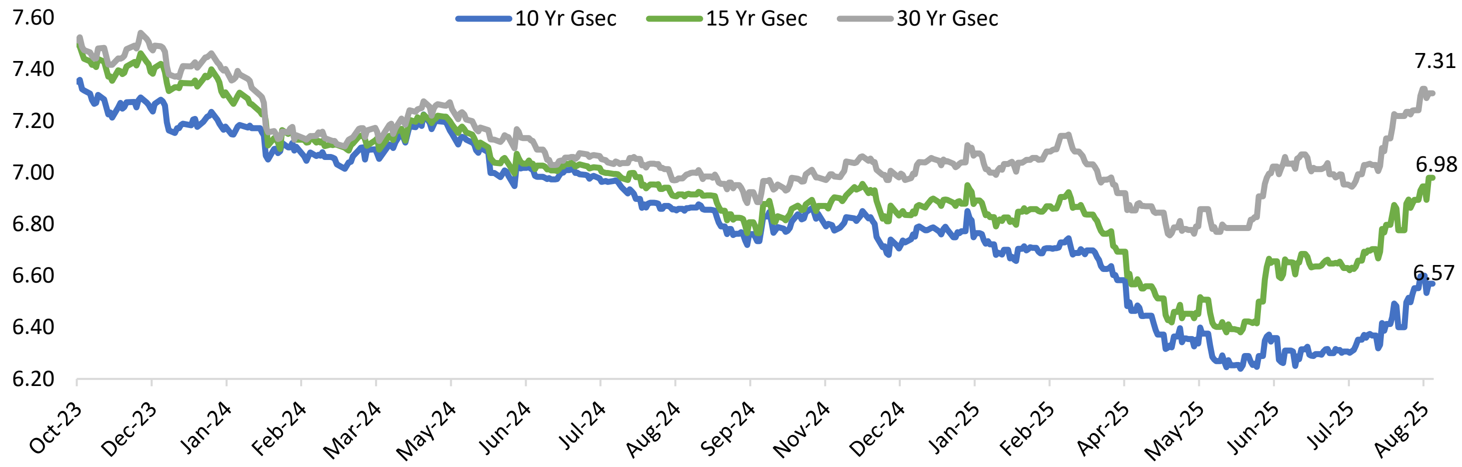
Fixed Income

Indian Yield Curve

Movement in G - Sec Yields Across Maturities



Yield Movement (Annualized) in Long Maturity G Secs



Source: RBI, Internal Research

- Yield curve has bear steepened with yields at longer end rising relatively more than yields at the shorter end of the curve due to :
  - Supply Concerns : Retreat of institutional demand, SDL Borrowing
  - Fiscal consolidation concern on back of capital spending & GST reforms - partly to be offset by rise in consumer demand
  - Reduced Expectation of policy easing through rate cuts/OMOs
  - Currency depreciation and global factors weighing on market sentiments

Current situation of factors impacting the Indian yield curve

Tenor	Factor	Latest developments	Likely Impact
Short-end	**RBI repo rate**	A measured pause by RBI : Status quo on rates with a neutral stance (repo @ **5.50%**), signaling data-dependence for the rest of CY 2025/2026	**Neutral**
	System liquidity	System liquidity remains ample—with an average surplus of ₹2–3 trillion per day—ensuring smooth transmission . The RBI will continue variable-rate repo and reverse repo auctions to keep WACR aligned with the policy rate.	**Neutral to Positive**
Long-end	**Growth outlook**	FY26 growth forecast remains steady at 6.5%, with Q1: 6.5%, Q2: 6.7%, Q3: 6.6%, Q4: 6.3%. Growth for Q1 FY27 projected at 6.6%. However the impact of tariffs , uptick in consumption and the production activity remains to be seen	**Neutral**
	Inflation (CPI)	July-25 headline CPI **eased to 1.6% YoY.** FY26 headline CPI projection revised downward to 3.1%, but core inflation remains persistent above 4%. Q1FY27 inflation projected at 4.9%	**Neutral**
	Fiscal deficit	FY25 deficit printed at **4.8% of GDP**, in line with the revised estimate; the government reiterates a glide path toward **4.4% in FY26**. However recent capex spending and GST reforms have added concerns to fiscal consolidation	**Neutral**
	OMOs	RBI has infused significant liquidity through extensive OMOs. With the recent rate cuts and CRR cuts, use of OMOs would be limited	**Neutral**

Source: Various

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

Fixed Income Portfolio Strategy

RBI's calibrated stance amidst mixed GDP signals, cautious market sentiments on back of fiscal consolidation concerns, impact of US tariffs, currency depreciation etc warrants the case for **maintaining accrual calls across the credit spectrum as the core strategy.**

Accrual can be played across the credit spectrum by allocating 45% – 55% of the portfolio to Performing Credit & Private Credit Strategies, Select InvITs/REITs/NCDs

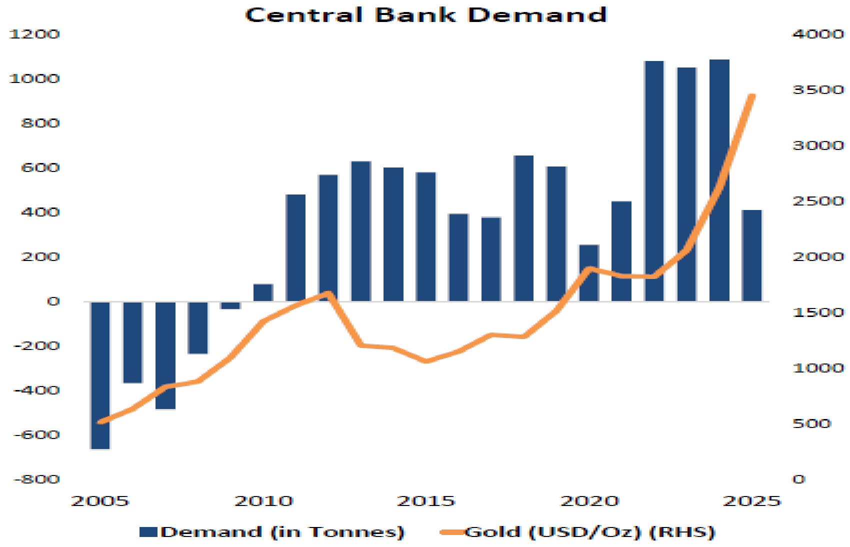
- 30% – 35% may be invested in Performing Credit Strategies/NCDs and Select InvITs/REITs
- 20% – 25% may be invested in Private Credit including Real Estate/Infrastructure strategies and select NCDs

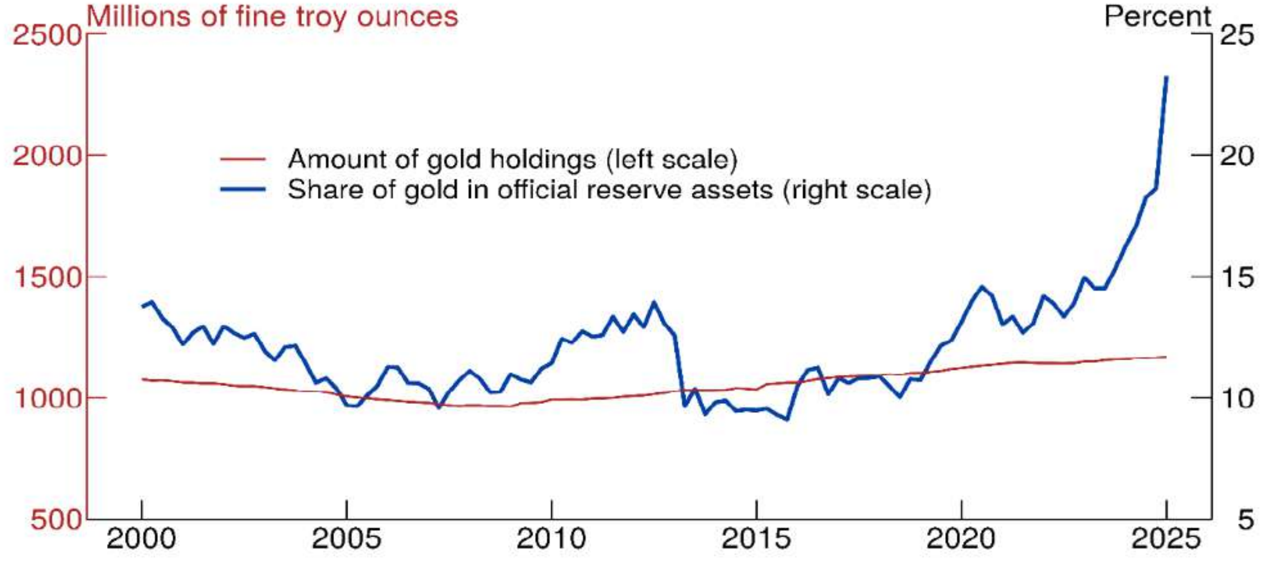
- **25% - 35% of the portfolio** may be invested in Arbitrage Funds (min 3 months holding period), Floating Rate Funds (9 – 12 months holding period), Absolute Return Long/Short strategies (min 12 -15 months holding period), Income Plus Arbitrage Fund of Funds (min 2 yr holding period)

- **For tax efficient fixed income alternative solutions, 20% - 25% of the portfolio** may be allocated in Conservative Equity Savings funds (min 3 years holding period)

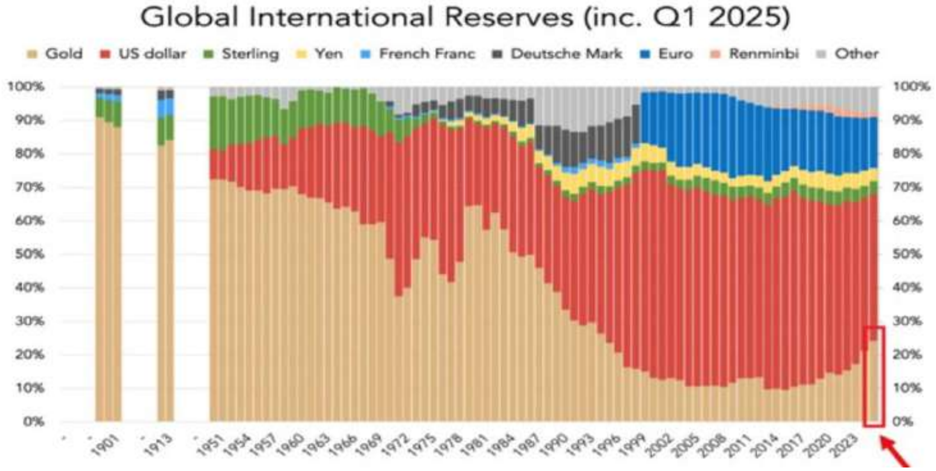
Gold / Silver

Gold rise on the consistent Central banks buying





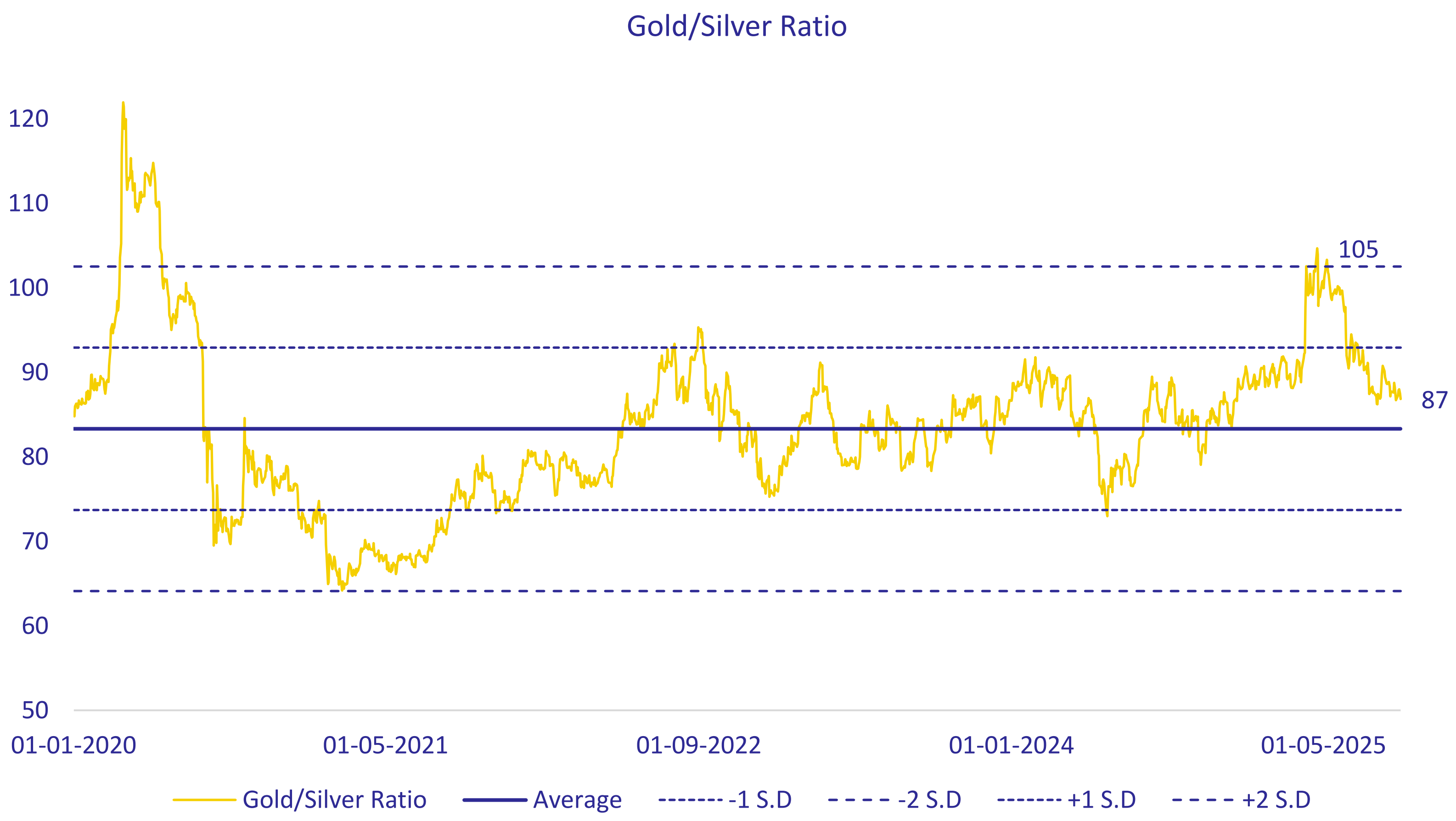
Note: The share of gold in official reserves is the gold reserves at market value as a percent of total reserves.
Source: IMF International Financial Statistics.



- Gold allocation has risen in Central bank reserves on the back of consistent buying by CBs and sharp rise in gold prices over the last 3-4 years.
- Rise in 30 year yields across the globe signaling lower appetite for Govt Debt for the longer term and preference for gold.

Source: RBI, Internal Research

Gold/Silver Ratio reverting towards the mean



- Gold/Silver ratio has come down to 87 after sharp rally in Silver over the last 3-4 months.
- The ratio is now slightly above the 5 year average of ~82.
- While Silver may move higher on the back of buying in precious metals, expectations of revival in Industrial demand etc., current levels ~$42 do not present attractive risk-reward.

Source: RBI, Internal Research

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