



# Alpha Strategist – Jan'26

## “The Daedalus Way”

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# Summary

- Drawing from the Greek myth, Daedalus warned Icarus (his son) not to fly too close to the sun (hubris and overreach) nor too close to the sea (fear and paralysis). Applied to investing, **Daedalus Way** would mean resisting extremes and maintaining balance. It calls for avoiding excessive optimism driven by narratives, as well as excessive pessimism driven by short-term macro noise. Excessive risk-taking during euphoric phases destroys capital, while excessive conservatism during periods of opportunity erodes real wealth. Capital is best compounded by maintaining a disciplined altitude—where risk is acknowledged, valuations are respected, and portfolios are constructed to endure.
- The current global macro environment reflects a phase of normalisation after an extended period of optimism, alongside rising geopolitical risk. Momentum in AI-led capex and earnings expectations is moderating, as focus is shifting from hype to execution and monetization. U.S. military intervention in Venezuela has reignited the geopolitical tensions at the time when world was beginning to stabilise after the recent tariff-related disruptions. Meanwhile, emerging markets are showing relative strength, led by China and South Korea.
- After two strong years, 2025 was a year of consolidation in the Indian equity markets, with returns diverging across market capitalisations. Large caps delivered relatively modest returns, mid caps experienced bouts of volatility, and small caps underwent a correction.
- Looking ahead to 2026, several of the concerns that contributed to the underperformance of Indian markets are beginning to fade. With global markets having rallied sharply while India lagged, India's relative valuation positioning has improved. Earnings are showing early signs of recovery, with the upgrade-to-downgrade ratio improving to 0.9. The AI trade also appears to be losing momentum, as reflected in recent price action. The INR, after breaching 91, now appears to have found its footing.
- The impact of fiscal & monetary measures such as interest rate cuts, tax relief to boost consumption, GST slab rationalisation, and liquidity infusion by the RBI should start reflecting more meaningfully in economic data through 2026, feeding into future growth and earnings.
- As we look ahead to 2026, our outlook is cautiously constructive and firmly anchored in execution rather than narrative. Large caps enter 2026 on a stronger footing with reasonable valuation and earning visibility. Mid & Small cap are in the downward momentum which may create selective opportunities during first 3-4 months.
- From a portfolio perspective, a balanced approach is recommended, anchored by large caps/hybrid funds, complemented by staggered participation in selective mid & small caps. We would prefer index-led or hybrid strategies in large cap while active focused strategies in mid & small cap.
- Equity view – Neutral ; Portfolio Allocation: 50% allocation to Large Caps/Hybrid, 10% to Global and 40% allocation to Mid and Small Caps
- Fixed Income - We continue to favour accrual strategies across the credit spectrum through both direct and managed route, along with income-generating real assets like InvITs for the core allocation. Long term duration (10Yr/15 Yrs) is an attractive play from tactical perspective given high term premium.
- Gold continue to remain neutral from asset allocation perspective.



# The Year Gone By



# Asset Class Performance – Last 10 Years



2016	2017	2018	2019	2020	2021	2022	2023	2024	2025		10 Yr CAGR
Silver 19.6%	Equity-IND 35.9%	Gold 7.9%	NASDAQ 38.3%	NASDAQ 47.0%	Equity-IND 30.2%	Gold 13.9%	NASDAQ 46.0%	NASDAQ 31.6%	Silver 164.2%		Silver 21.2%
Debt 12.9%	MSCI EM 26.3%	Liquid 7.6%	Equity-US 31.9%	Silver 44.4%	Equity-US 29.1%	Silver 9.7%	Equity-IND 25.8%	Equity-US 26.5%	Gold 80.2%		NASDAQ 20.2%
Equity-US 12.5%	NASDAQ 20.6%	Debt 5.9%	MSCI DM 28.1%	Gold 28.0%	NASDAQ 23.5%	Liquid 5.1%	Equity-US 25.7%	Gold 20.6%	MSCI EM 37.3%		Gold 18.5%
MSCI EM 11.5%	MSCI DM 12.9%	NASDAQ 5.0%	Gold 23.8%	Equity-US 19.0%	MSCI DM 22.2%	Equity-IND 3.0%	MSCI DM 22.3%	MSCI DM 20.0%	NASDAQ 26.5%		Equity-US 16.4%
Gold 11.3%	Equity-US 12.3%	Equity-US 2.4%	Silver 21.8%	MSCI EM 18.6%	Liquid 3.6%	Debt 2.5%	Gold 15.4%	Silver 17.6%	MSCI DM 25.6%		MSCI DM 13.7%
NASDAQ 10.4%	Liquid 6.7%	Silver -0.2%	MSCI EM 18.1%	MSCI DM 16.8%	Debt 3.4%	MSCI DM -10.0%	Silver 7.7%	Equity-IND 15.2%	Equity-US 22.3%		Equity-IND 13.5%
MSCI DM 8.1%	Gold 5.1%	MSCI DM -2.2%	Debt 10.7%	Equity-IND 16.7%	MSCI EM -2.9%	Equity-US -10.7%	MSCI EM 7.7%	Debt 8.9%	Debt 6.8%		MSCI EM 9.2%
Liquid 7.5%	Debt 4.7%	Equity-IND -3.4%	Equity-IND 7.7%	Debt 12.3%	Gold -4.2%	MSCI EM -13.5%	Debt 7.3%	MSCI EM 7.9%	Equity-IND 6.7%		Debt 7.5%
Equity-IND 3.8%	Silver -2.8%	MSCI EM -8.9%	Liquid 6.9%	Liquid 4.6%	Silver -8.2%	NASDAQ -26.1%	Liquid 7.1%	Liquid 7.4%	Liquid 6.3%		Liquid 6.3%

Index	Number of times in Top 3
NASDAQ	6
Equity-US	5
Gold	5
Silver	4
Equity-IND	3
Liquid	2
MSCI EM	2
Debt	2
MSCI DM	1

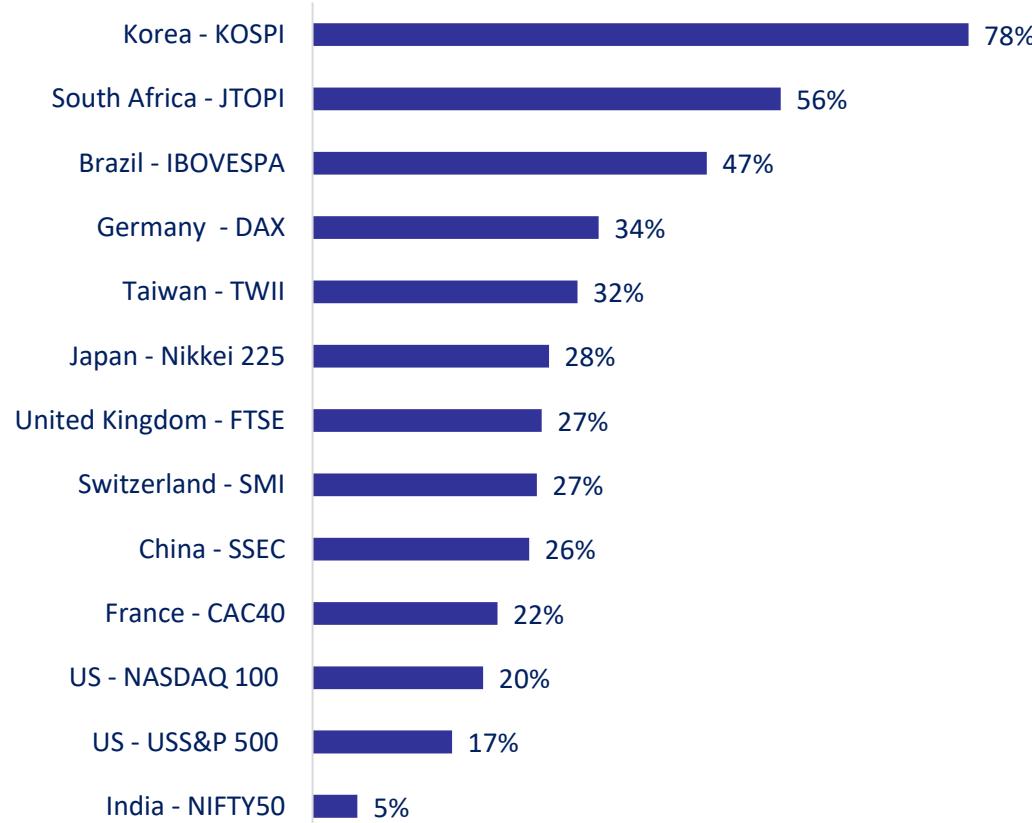
NASDAQ is most consistent at the top, followed by US Equities (S&P) and Gold.



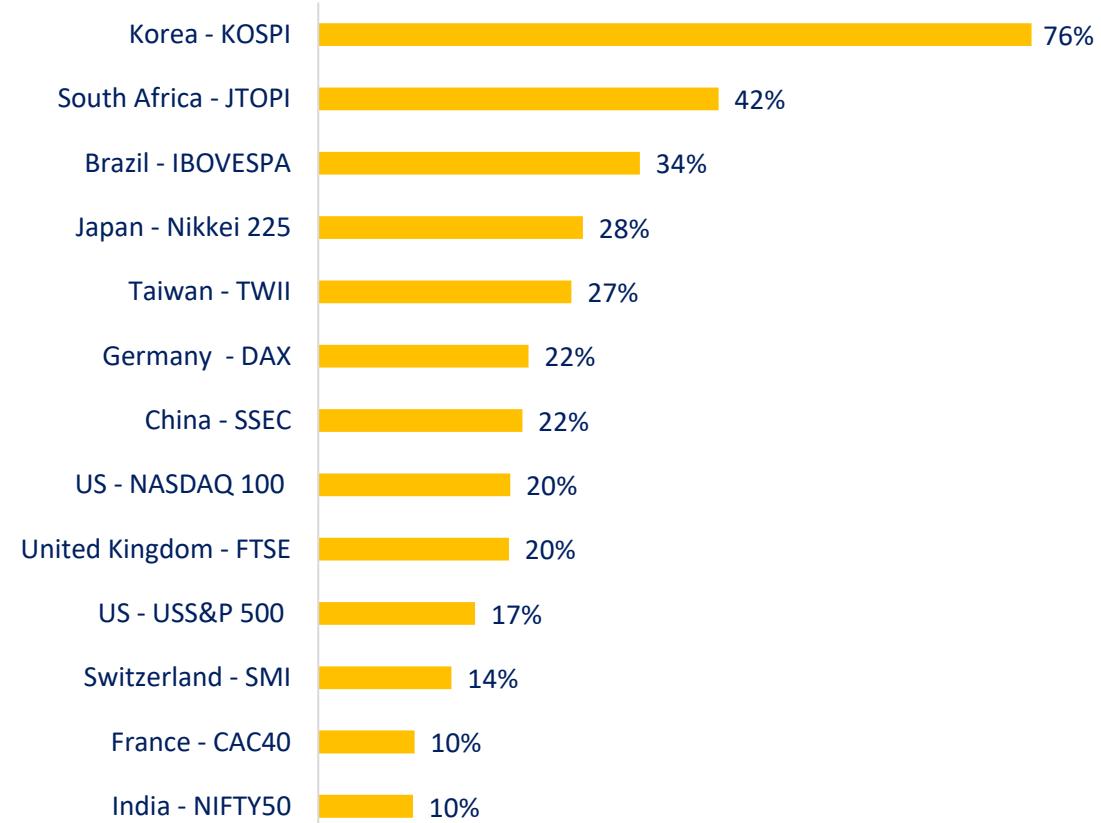
# CY25 Global Markets Performance – Equity



CY25 Returns (USD)



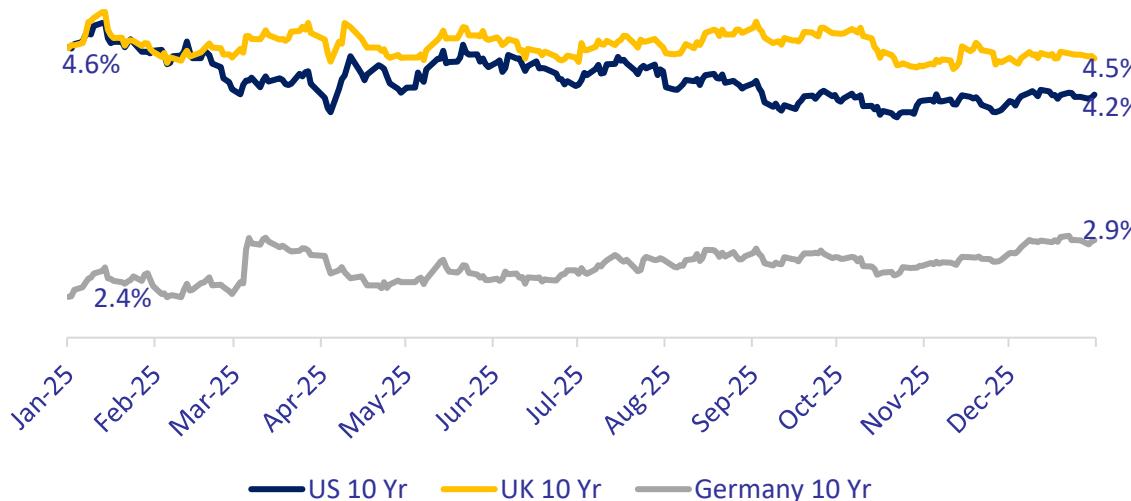
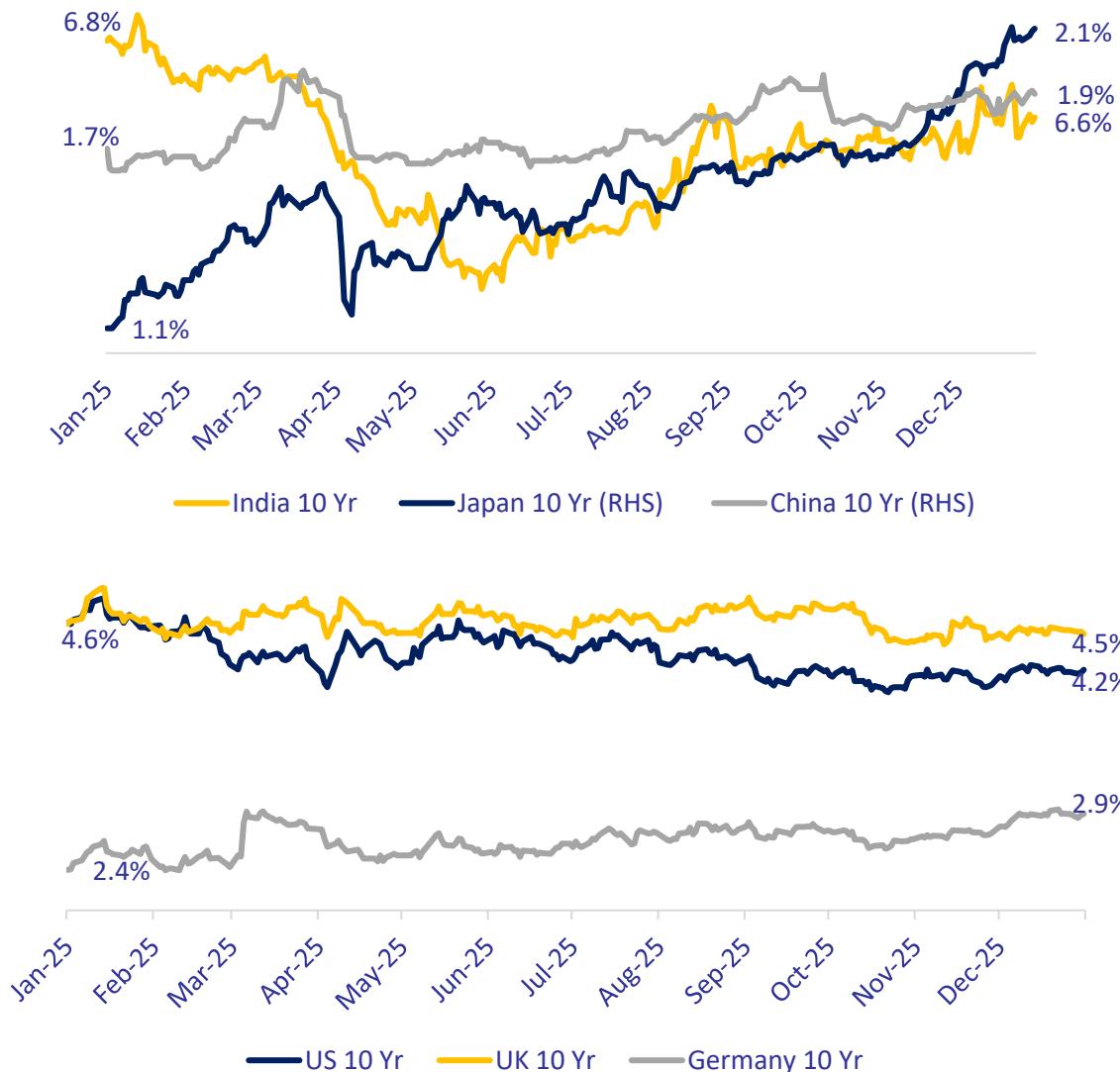
CY25 Returns (Local Currency)



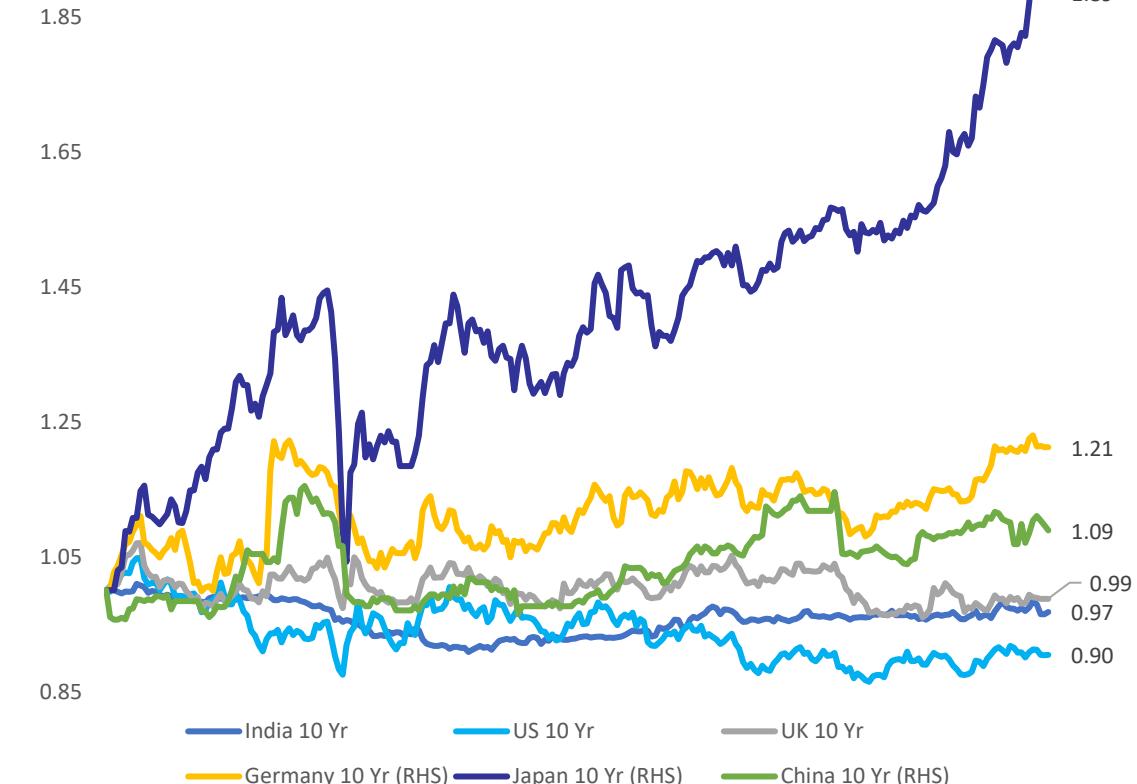
Global markets rallied on the back of AI and Commodities led momentum



# CY25 Global 10Y SOV Yield movements



## 10Y Bond Yields – CY25 Relative Movement



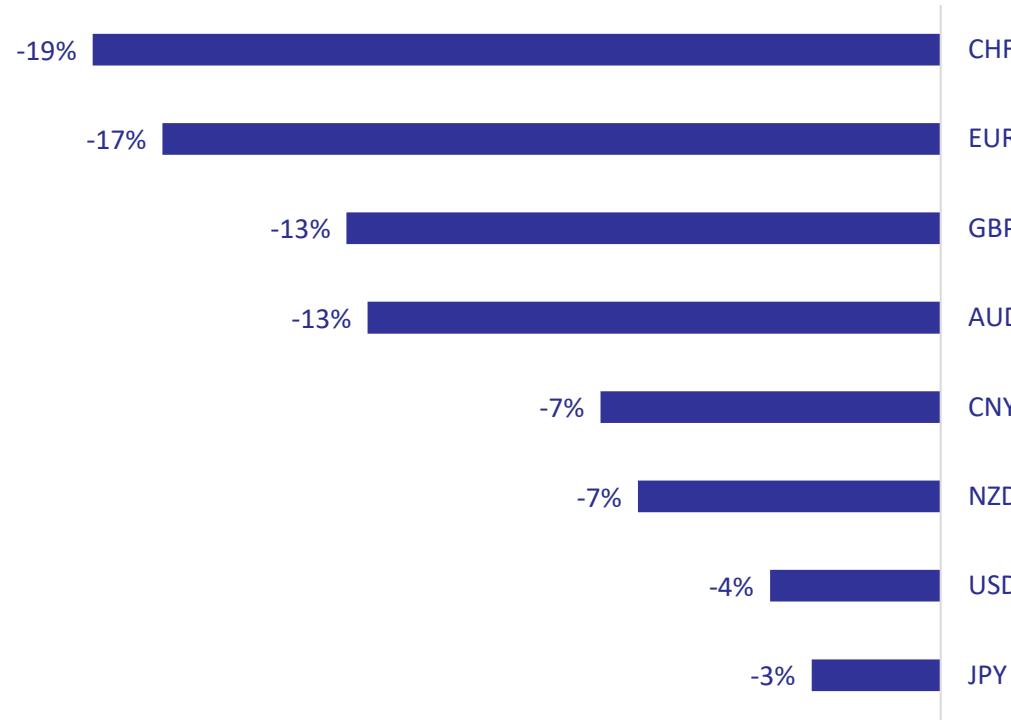
Bonds yields rose in Japan significantly, followed by Germany and China. Yields fell in US and India.



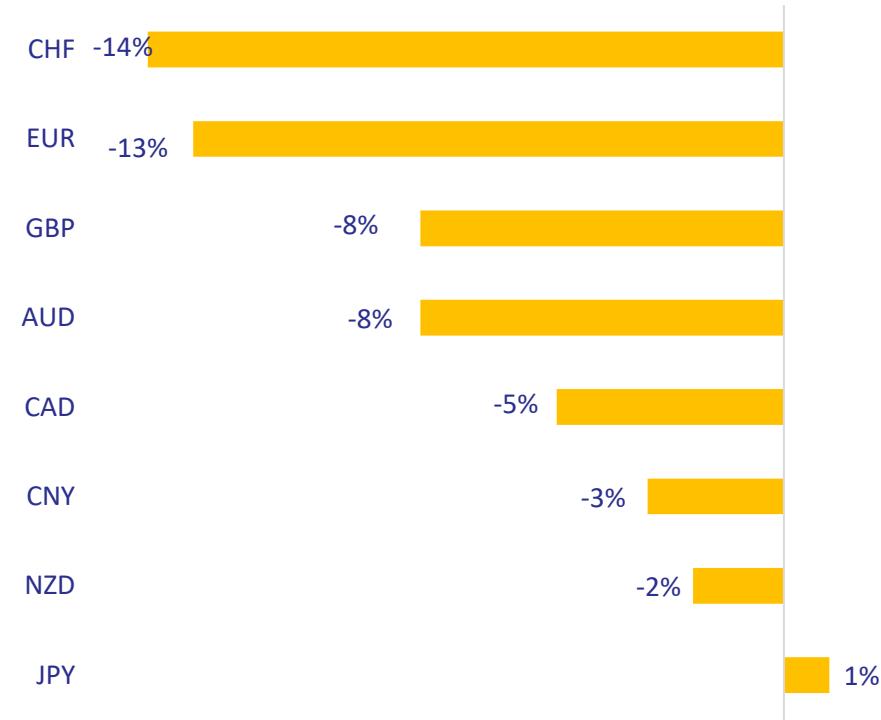
# Currency Performance - CY25



Depreciation of INR against major currencies



Performance of USD Against Major Currencies

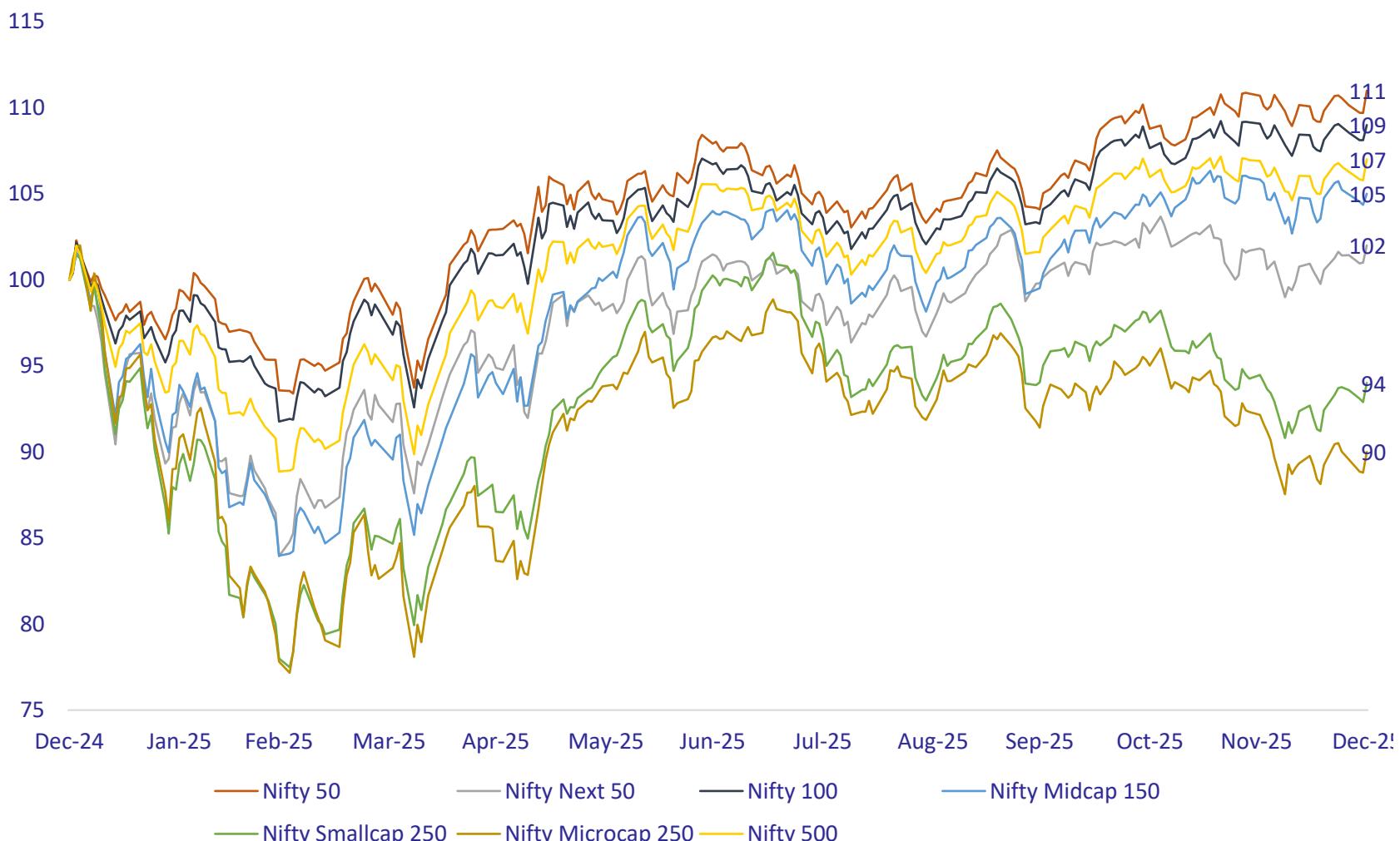


INR depreciated against all the major currencies, although extent of depreciation varied.

USD also depreciated against most of the major currencies while it became stronger vs JPY



# Nifty Broad Indices movement





# Nifty Sector and Factor Indices movement



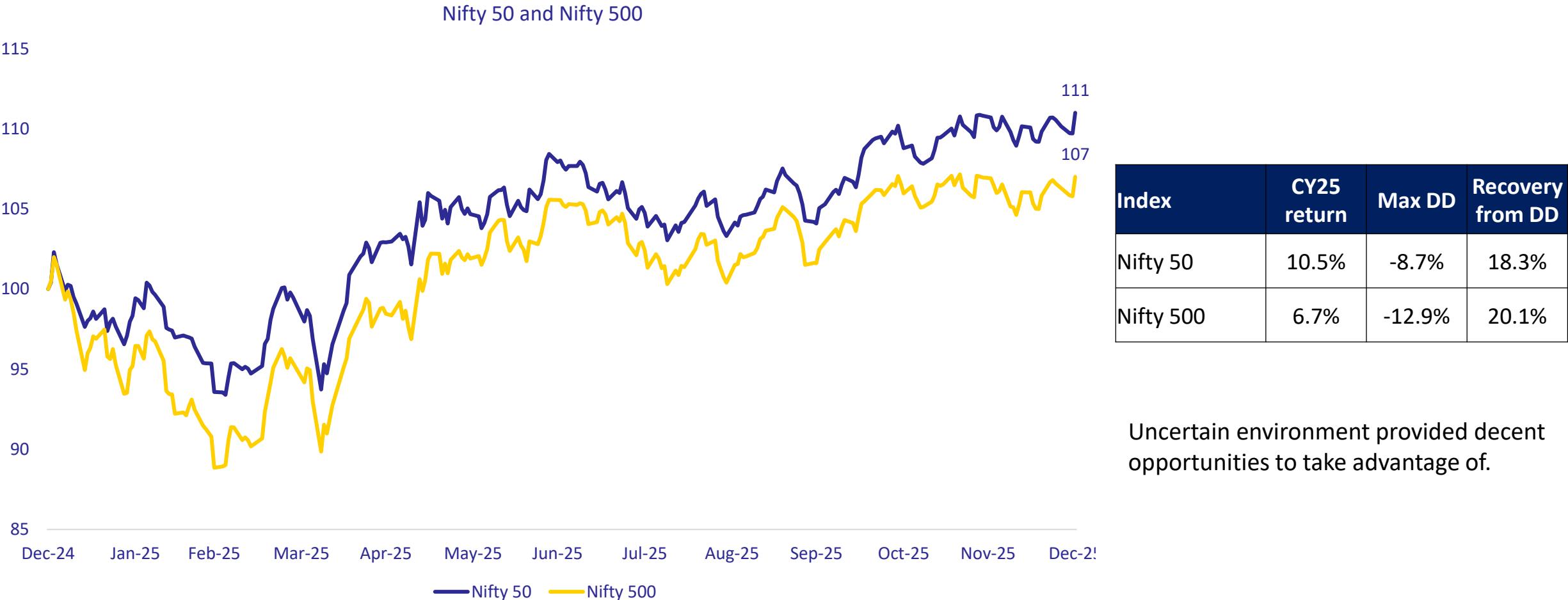
Sector Index	CY25 return	Max DD	Recovery from DD
Nifty Metal	29.1%	-15.3%	42.3%
Nifty Auto	23.5%	-17.5%	42.3%
Nifty Financial Services	17.4%	-6.8%	23.4%
Nifty Bank	17.1%	-7.3%	24.5%
Nifty Oil & Gas	13.8%	-14.1%	28.6%
Nifty Energy	0.4%	-16.4%	17.7%
Nifty Healthcare	-2.1%	-15.9%	15.4%
Nifty FMCG	-2.3%	-13.5%	9.8%
Nifty Pharma	-2.9%	-15.9%	14.7%
Nifty IT	-12.6%	-27.1%	16.5%
Nifty Realty	-16.6%	-26.2%	13.1%
Nifty Media	-20.5%	-26.3%	5.3%

Factor Index	CY25 return	Max DD	Recovery from DD
NIFTY500 VALUE 50	16.9%	-12.6%	30.7%
NIFTY500 LOW VOLATILITY 50	16.1%	-8.3%	22.4%
NIFTY500 QUALITY 50	-2.6%	-19.5%	19.0%
NIFTY500 MOMENTUM 50	-7.6%	-24.5%	19.9%

- Year was dominated by Cycicals (ex-Realty) on the positive side while defensives IT, Pharma, FMCG ended in red.
- In an overall uncertain CY25, Low Volatility and Value Delivered.

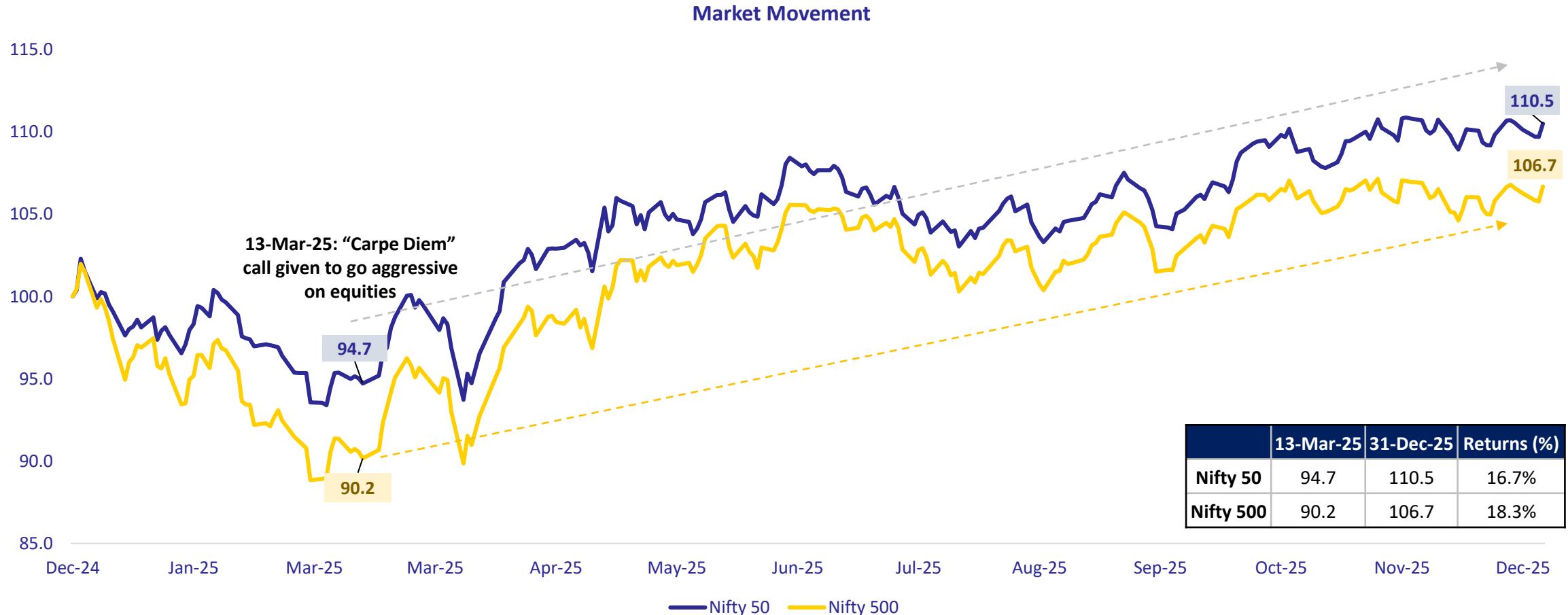


# Jan 2025 theme – Opportunity in Uncertainty



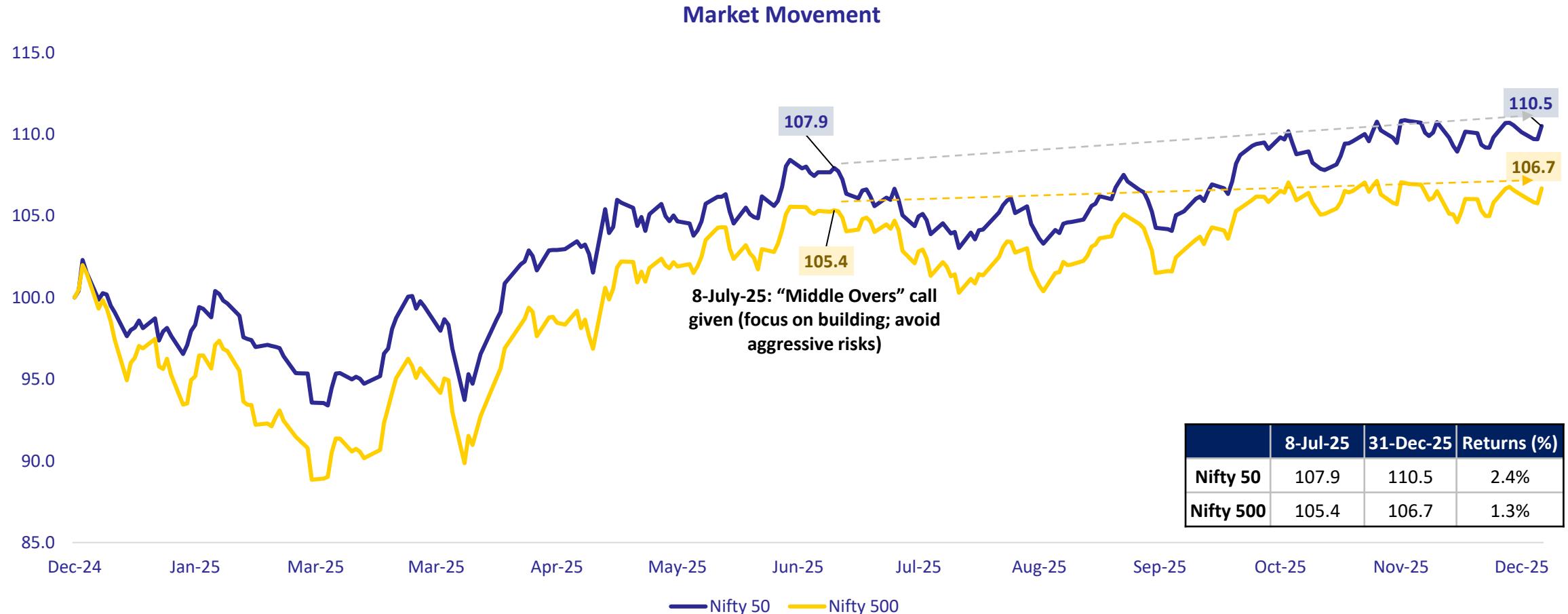


# 2025: How our calls turned out? Equities





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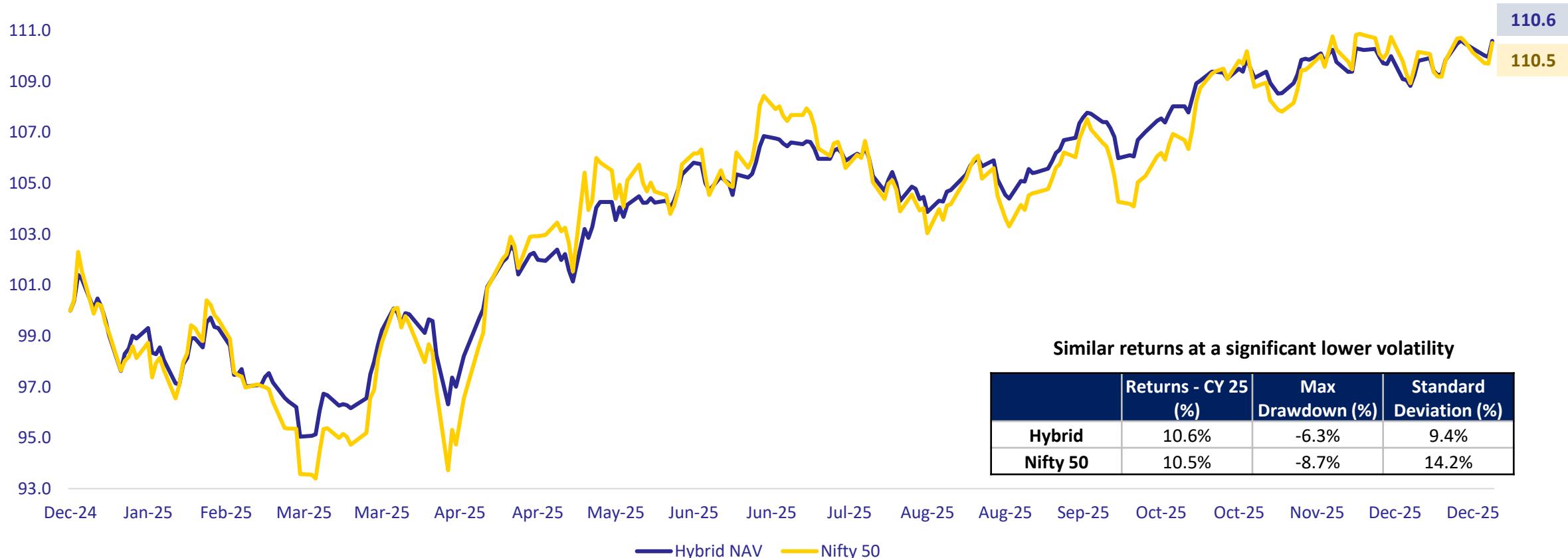




# 2025: How our calls turned out? Hybrids vs Large Cap

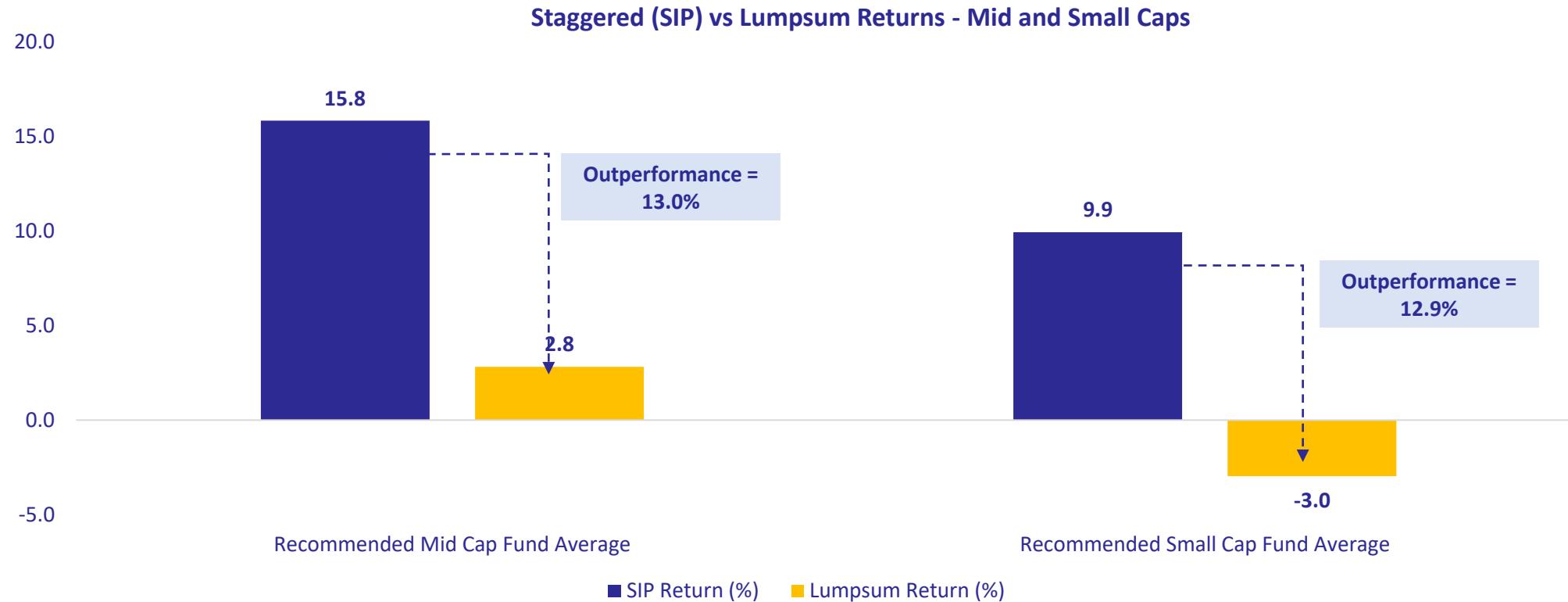


## Hybrids vs Large Cap





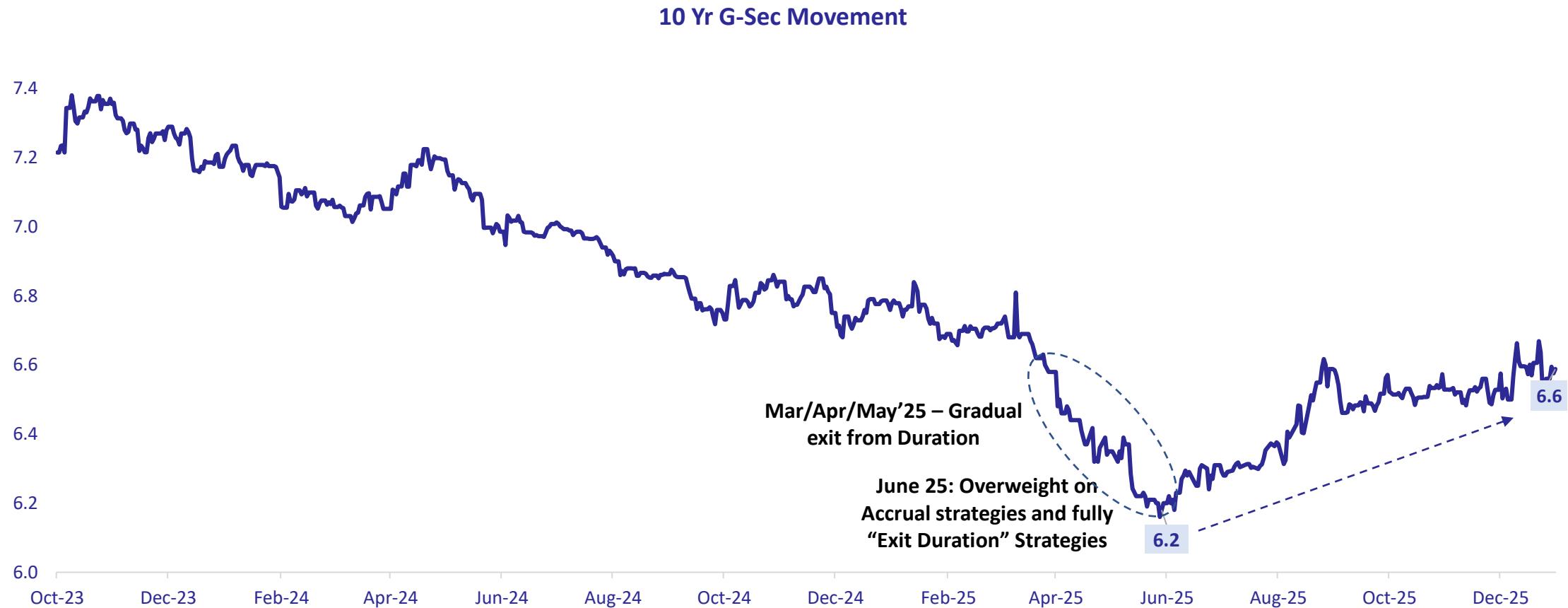
# 2025: How our calls turned out? Staggered in Mid and Small Caps



Recommended Mid Cap Funds include Invesco, HDFC, Motilal and Edelweiss. Recommended Small Cap Funds include Invesco, HDFC, HSBC and Bandhan.

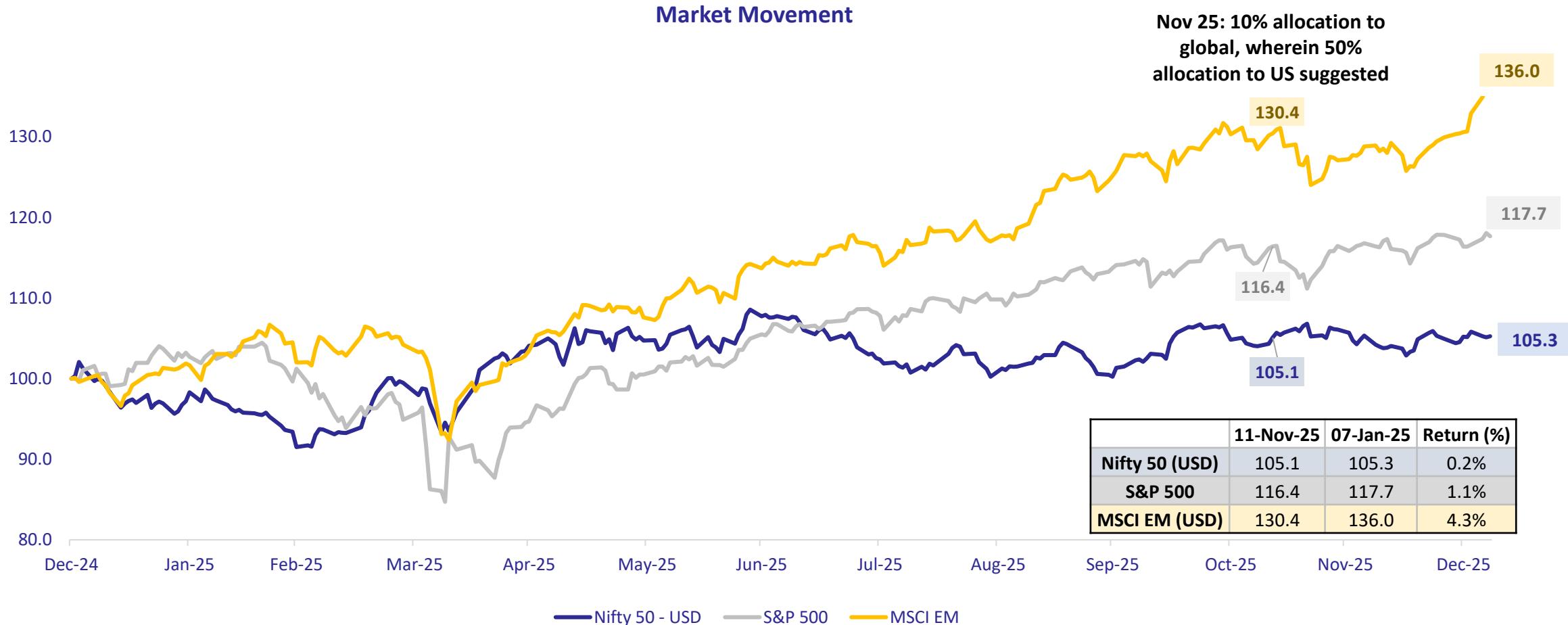


# 2025: How our calls turned out? Fixed Income



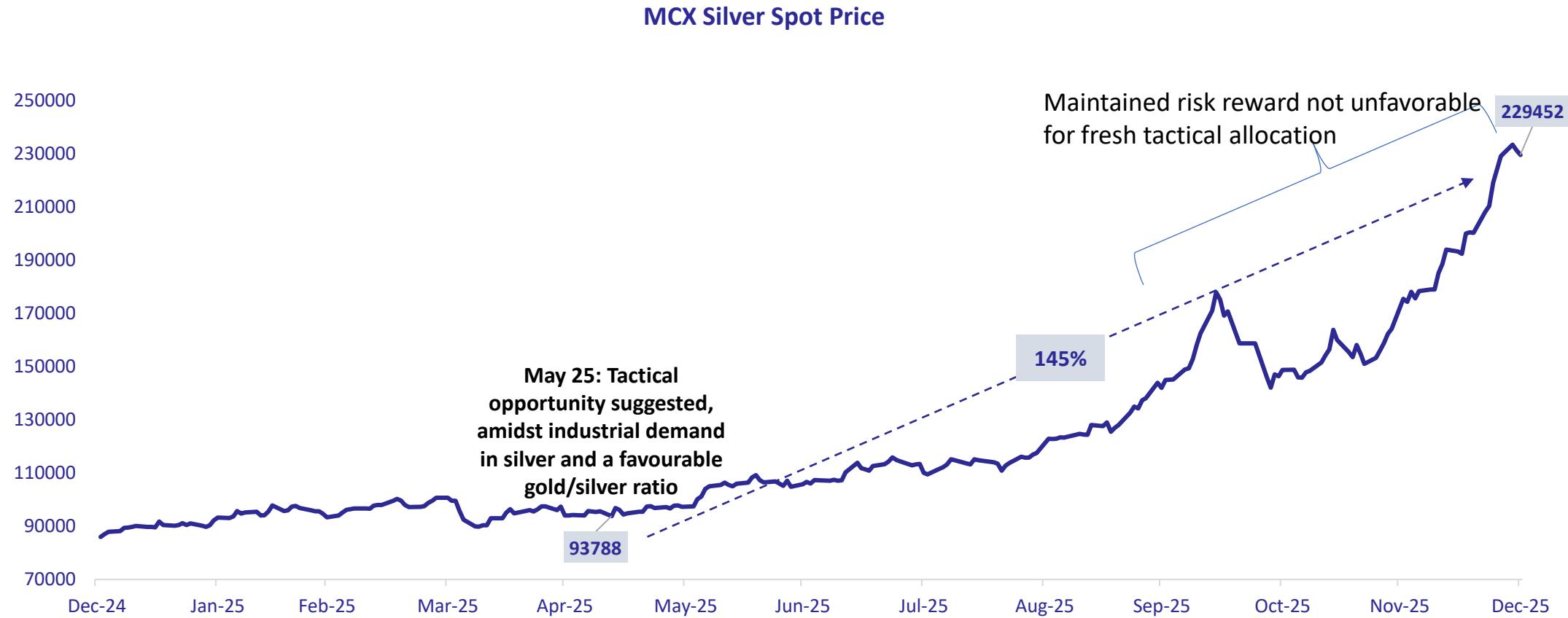


# 2025: How our calls turned out? Global Allocation





# 2025: How our calls turned out? Commodities (Silver)

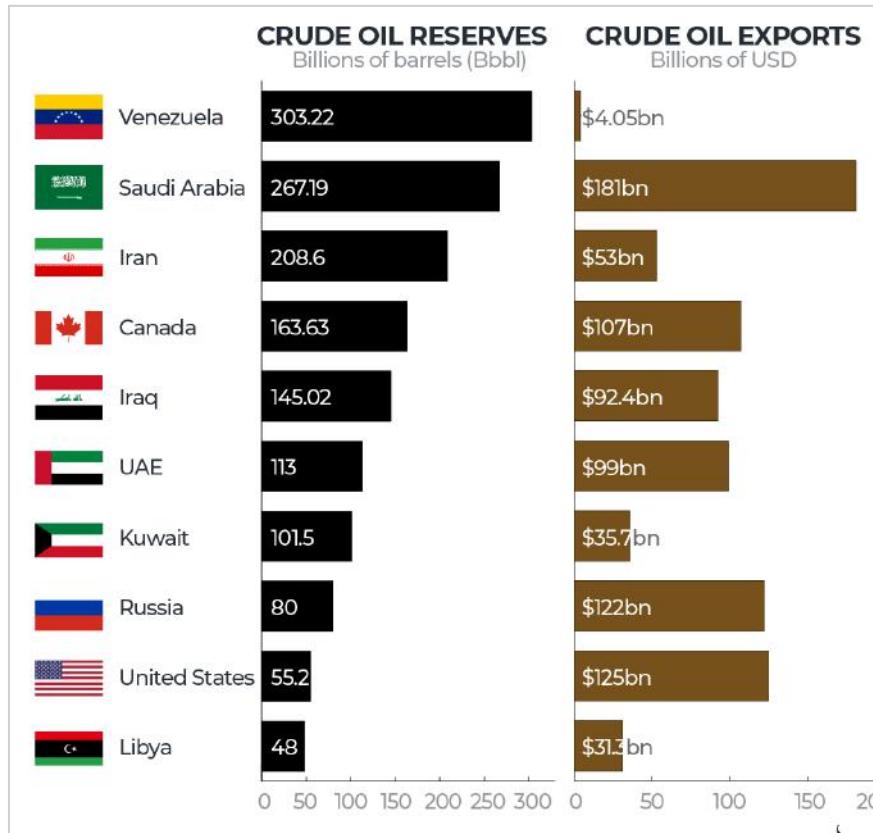




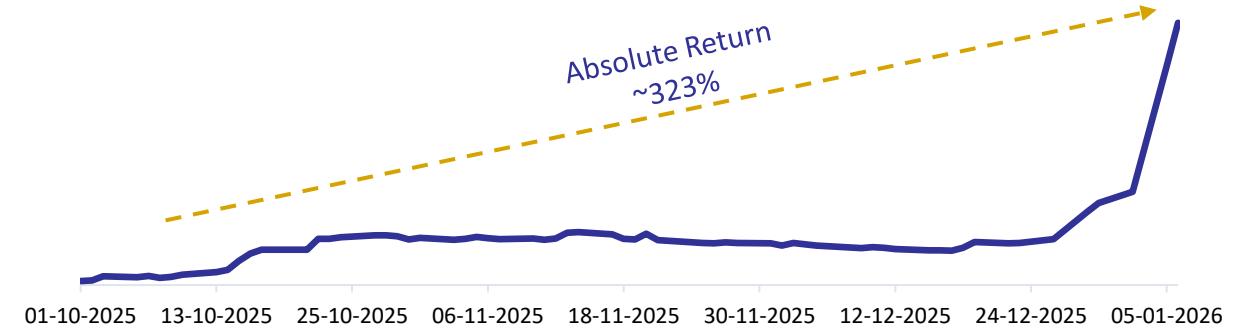
# Highlights



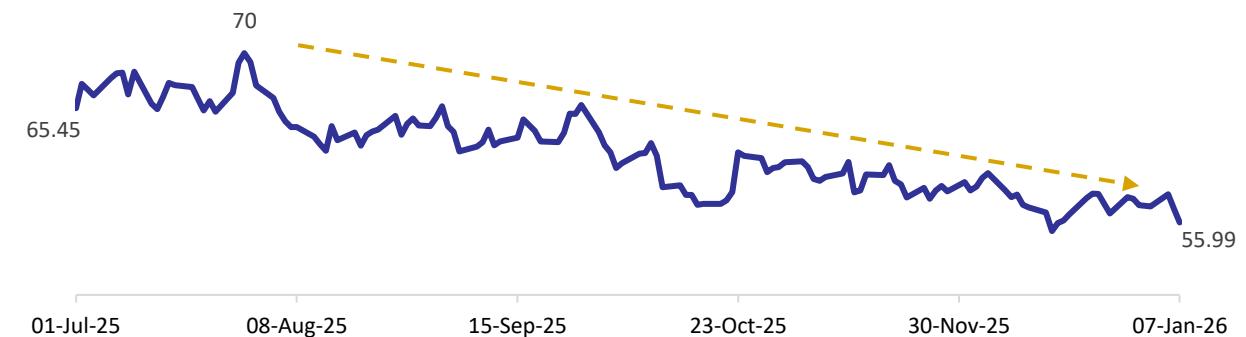
# US Venezuela Crisis – Implications



Venezuela IBC Index - Performance in the last 3 months



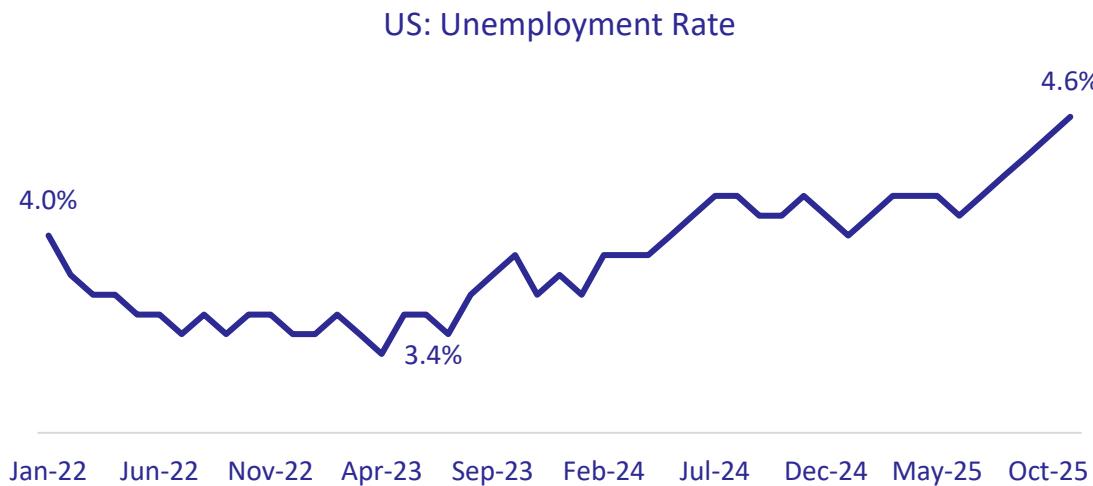
WTI Crude Futures - Trend over last 6 months



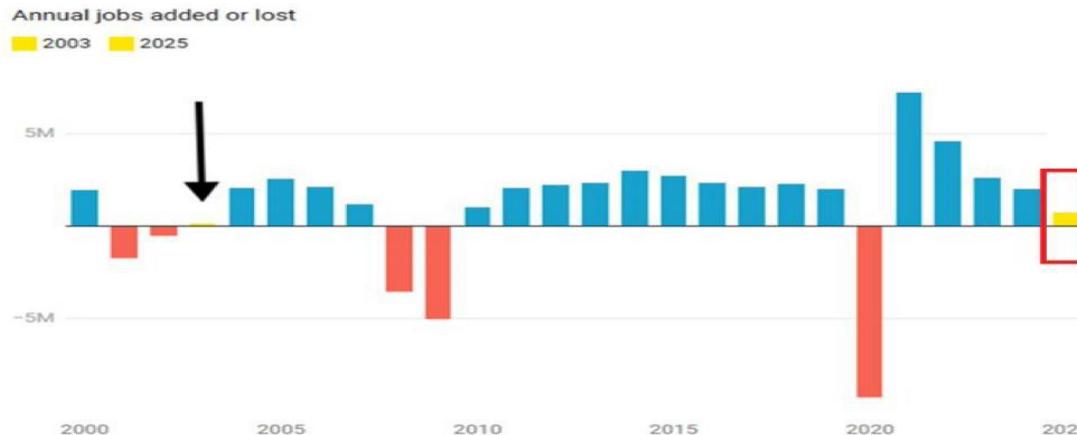
- Venezuela holds the world's largest oil reserves – 5x more than the USA. However, it exports less than 5% of the crude oil - majority of which goes to China. Crude oil is expected to go below further if US' plan to invest and extract crude oil pans out in the long run, and may impede positive relations between US and China
- President Trump hinting on similar strikes at other countries like Cuba, Greenland and Iran, if materialized, can lead to geopolitical risk.



# US – Job Data hinting towards recessionary risk



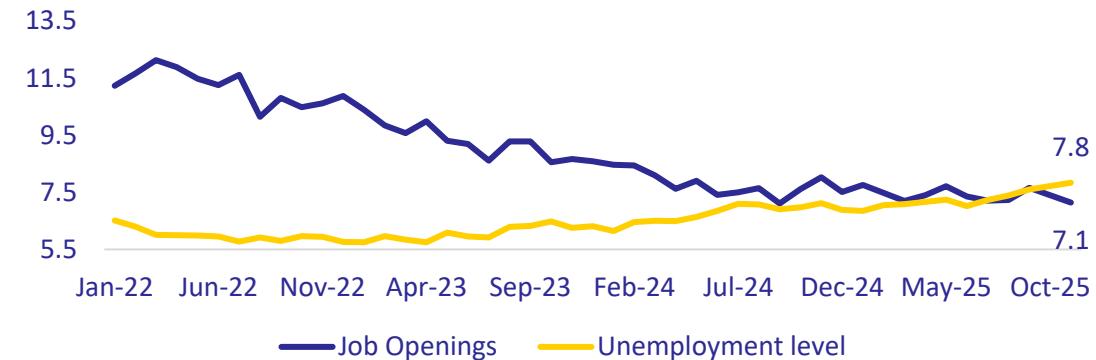
**2025 is likely the worst year for job growth outside of a recession since 2003.**



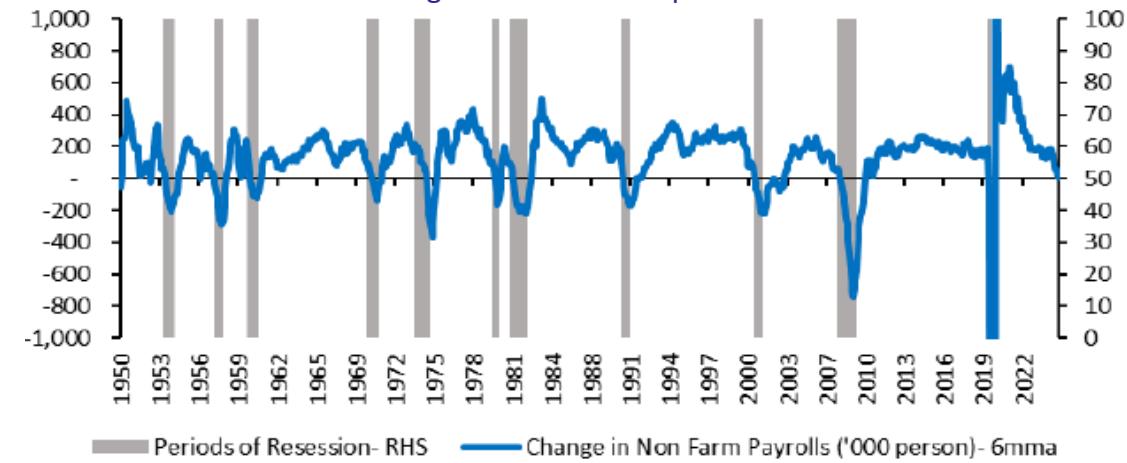
Source: Bureau of Labor Statistics - [Get the data](#) - Created with Datawrapper

There are now 685K more unemployed people than job openings. Widest spread since 2017 except for Covid

Unemployed population vs. Job Openings (in Mn)



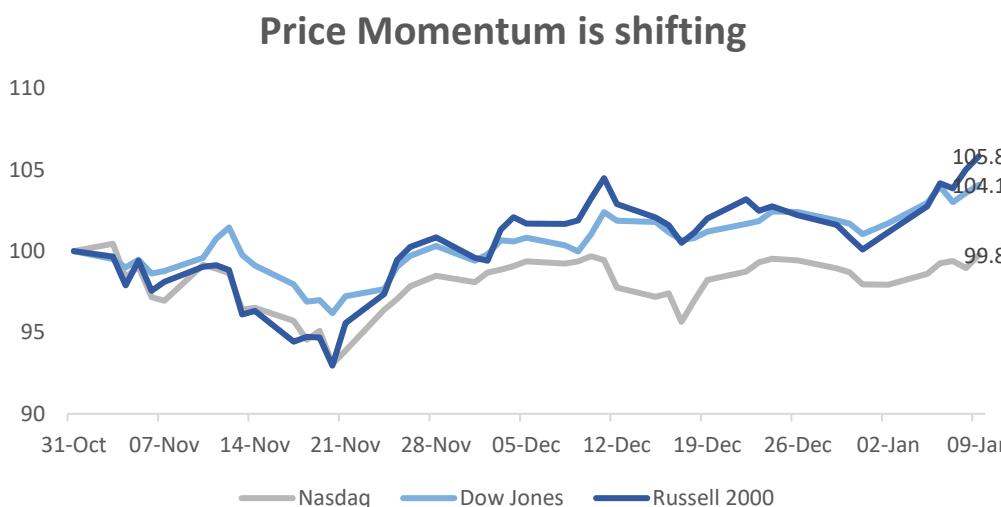
US Non-Farm Payroll additions have weakened to levels associated with sharp growth declines in past



Periods of Resession- RHS



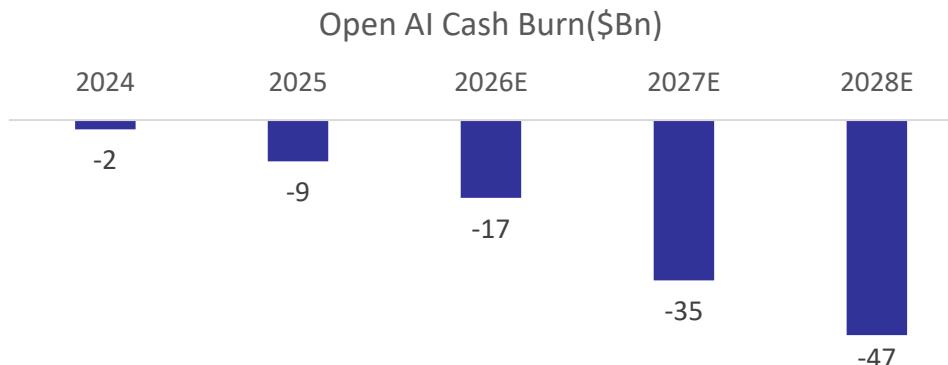
# AI momentum seems to be approaching its peak



## Oracle share price down by ~40% from high



## Open AI is projected to burn ~\$100B by 2029



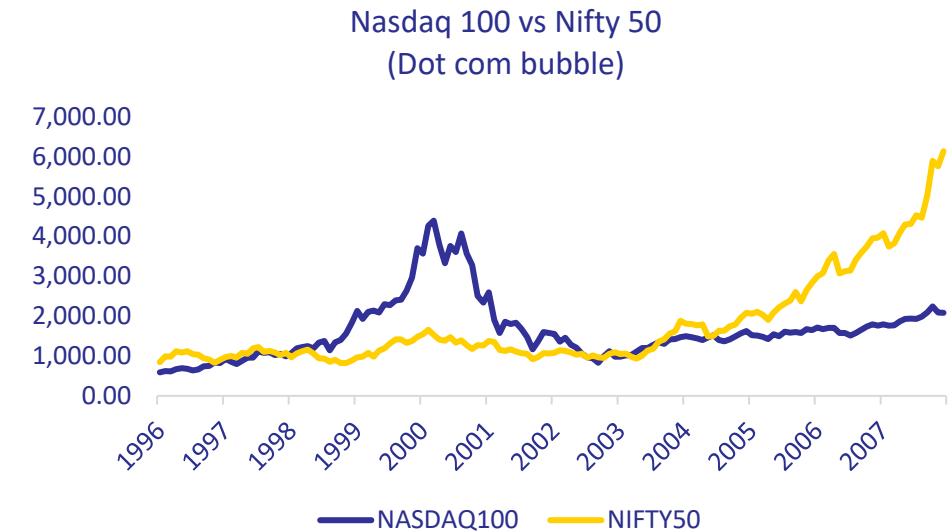
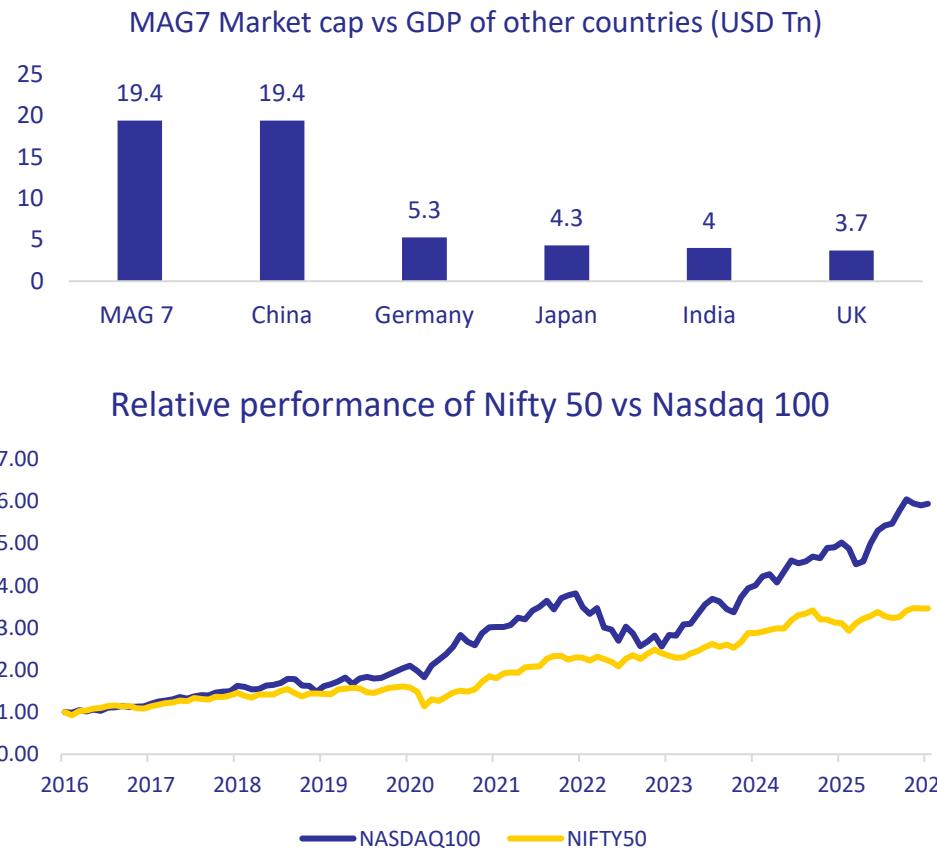
- AI-related capital expenditures contributed 1.1% to GDP growth in first half of 2025
- To justify the cost, the data centers will need to generate \$2 trillion in annual revenue by 2030
- Intensifying race to build artificial intelligence capacity has forced even cash-rich tech firms to borrow heavily to fund that investment.
- Concerns have been rising around profitability and circular economy

Source: Blackrock, Reuters.

Past performance is not an indication of future performance. The performance related information provided herein is not verified by SEBI



# India: Relatively shielded from the AI Boom Cycle



Period	NASDAQ100	NIFTY50
Dot Com Bubble (1996-2000)	643%	80%
Fall From Peak (2000-2003)	-75%	-39%
Recovery from bottom (2003 – 2007)	88%	557%

Period	NASDAQ100	NIFTY50
Returns Till Date (Jan 2016 till Jan 2026)	494%	246%
PE Re-Rating (Jan 2016 till Jan 2026)	88%	28%

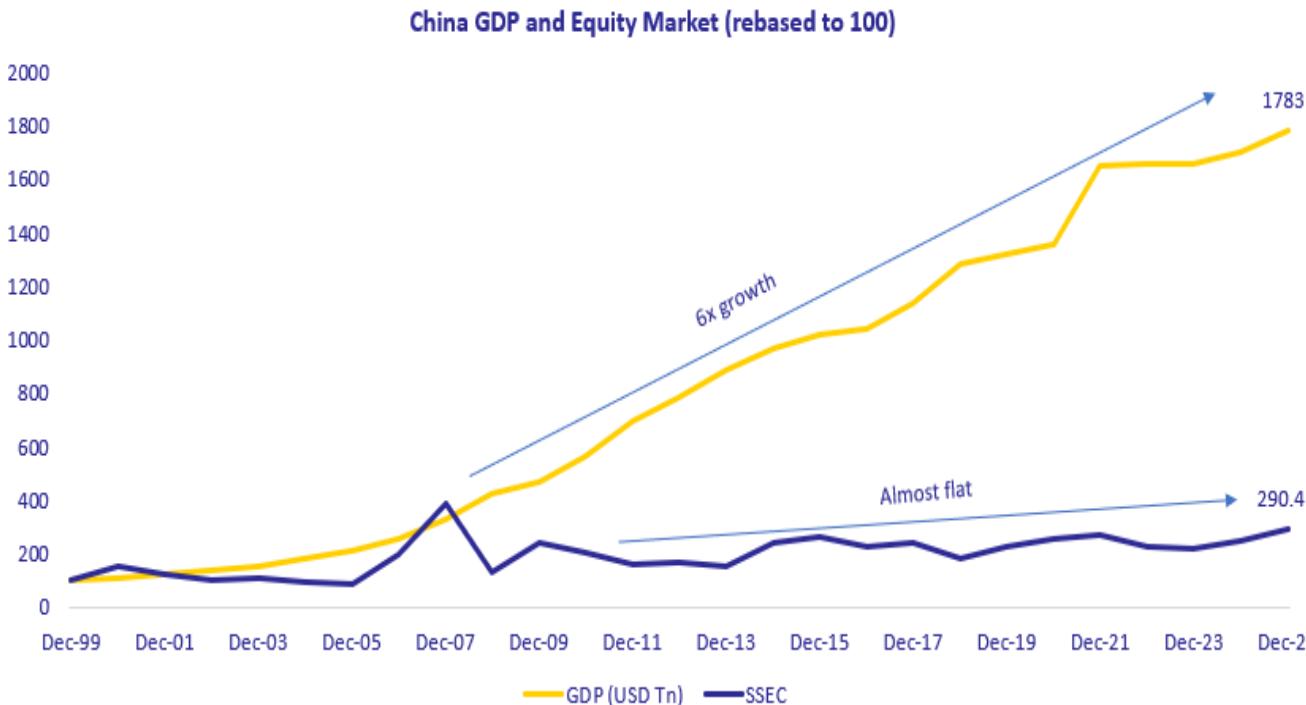
- India remained relatively protected from the boom-burst cycle during Dot Com period
- India's relatively limited exposure to pure-play AI companies offers some protection in the event of an AI bubble burst.

Source: Investing.com , ICICI MF Yearly Outlook

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



# China markets may align to reflect economic growth



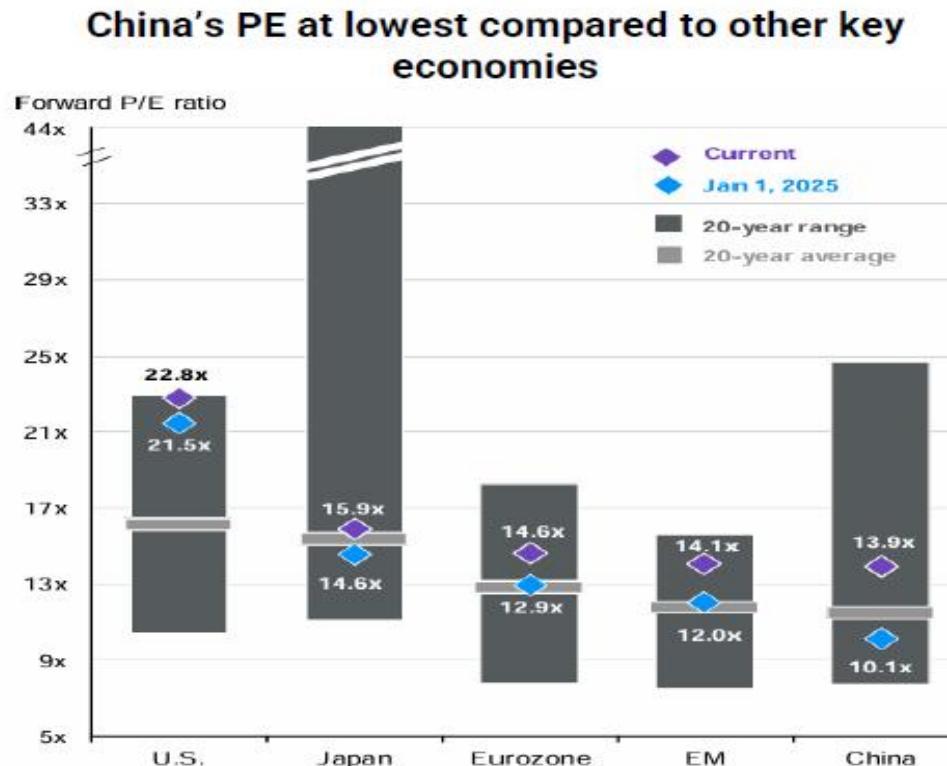
- China's equity markets is not reflecting economic growth happened over the last 15 years.
- Valuation wise China seems to have bottomed out, but still below long term average.

Source: US FRED, Internal Research

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# China economy has changed fundamentally as well



- Chinese economy is fundamentally changing - away from real estate development into AI and Industrial Automation
- Anti Involution policy (less competition in a particular Industry) should improve returns profile for the Chinese companies.
- Launch of Deep Seek was the inflection point for the world to realize China's tech capabilities.
- China's self sufficiency and dominant position in rare earth materials means US adverse actions on China will be limited.
- China has underperformed as 5-year rolling returns are within the historical low range, indicating attractive risk –reward.
- Chinese govt has taken various steps to bolster domestic consumption and increase flows in domestic equities during the last one year.



# MSCI China (USD): 5 year rolling returns data



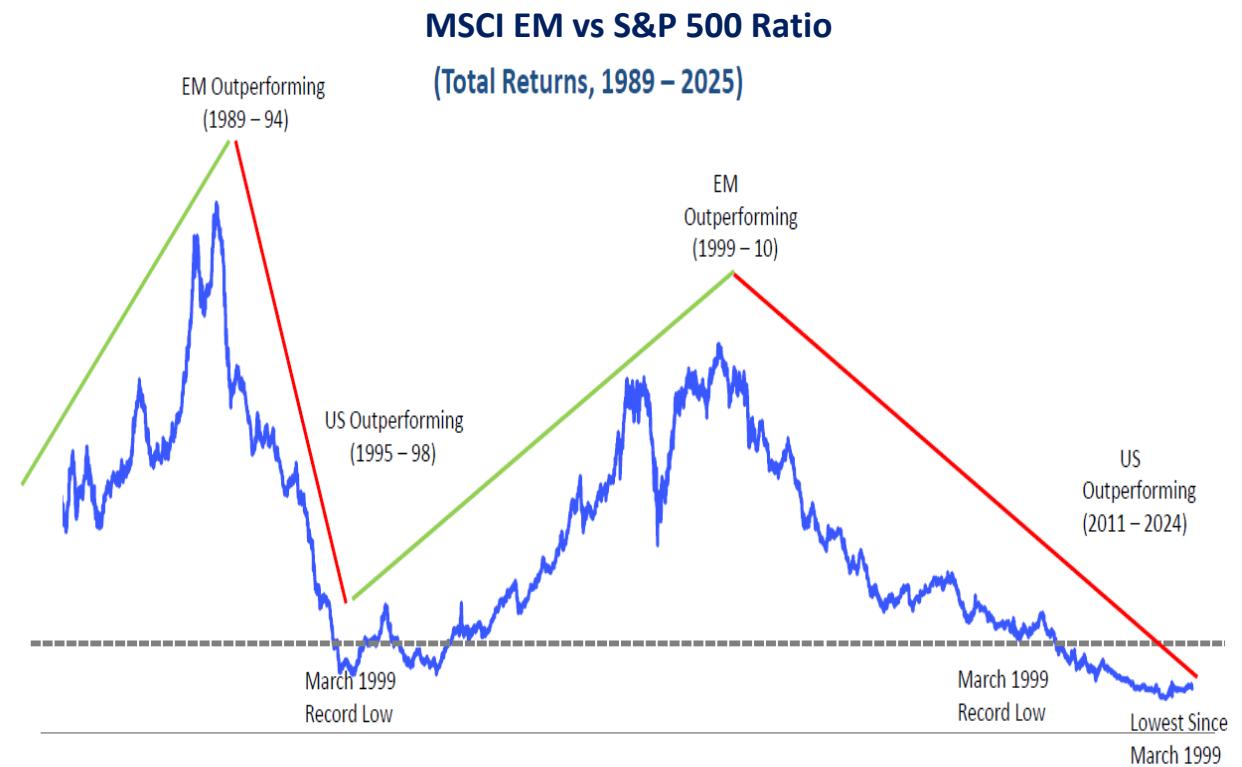
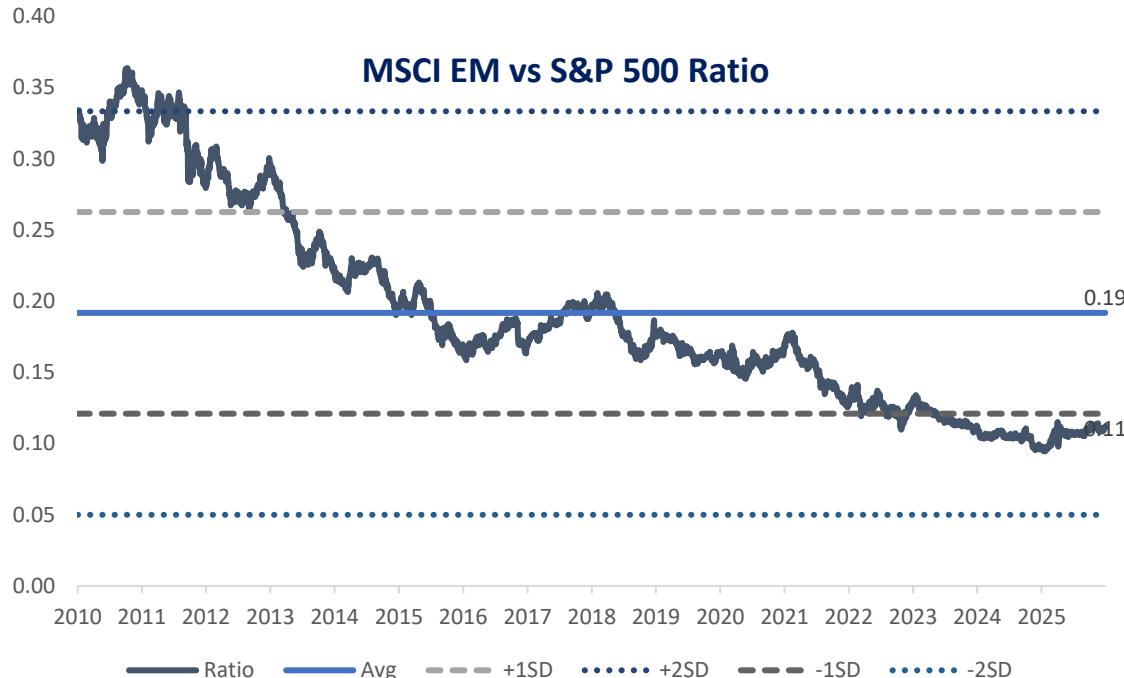
- Post covid period for China is poor in terms of market performance.
- 5 Year rolling returns for the last 5 years have averaged around just 1%

Source: Investing.com, Internal Research

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# MSCI EM vs S&P500 ratio still trading way below avg and lowest since Mar'99



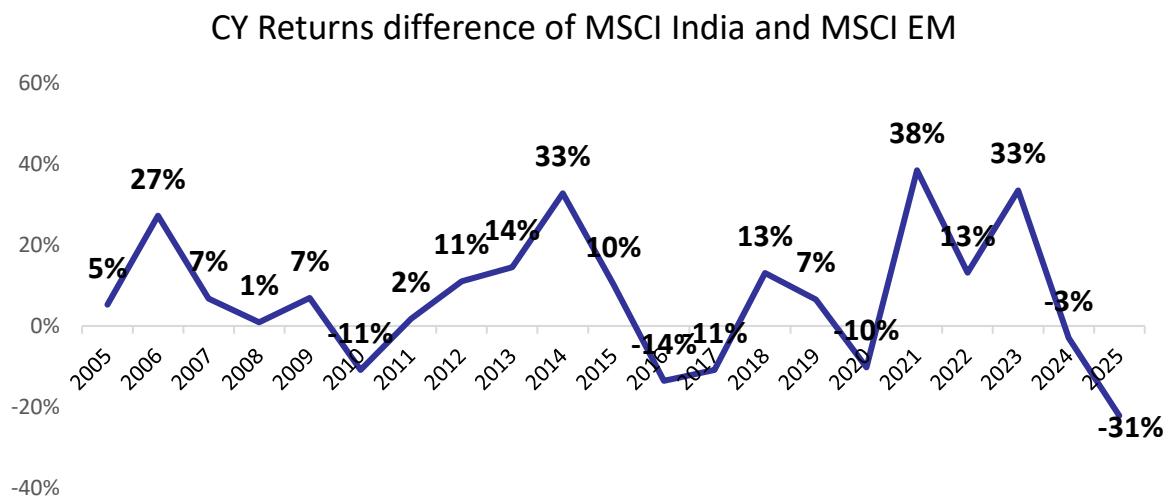
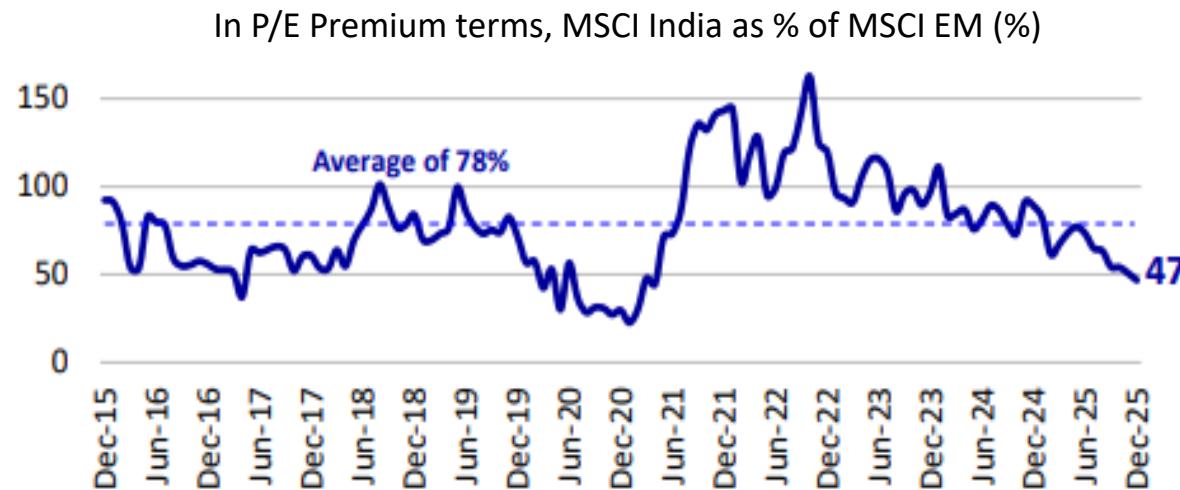
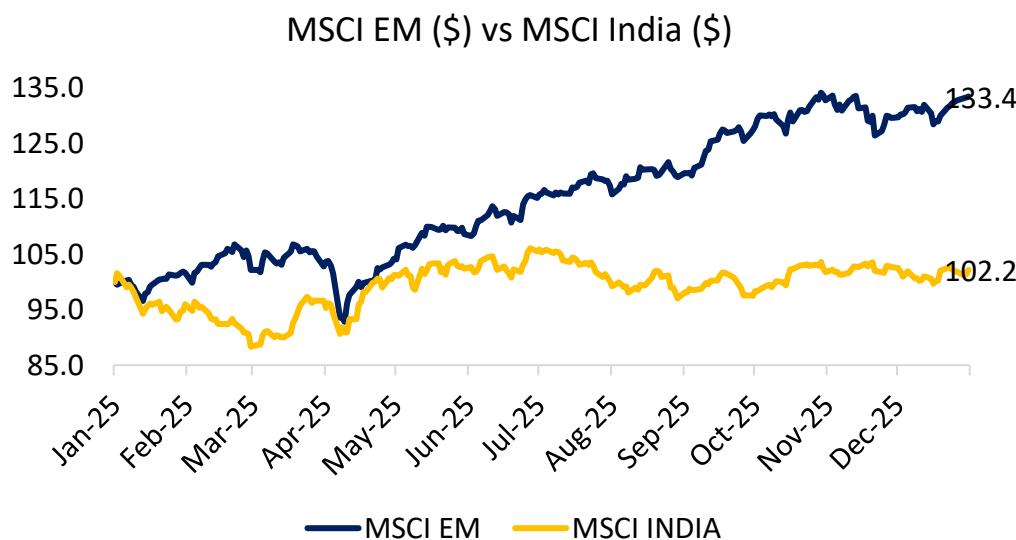
- Emerging markets have started outperforming US markets led by China and Korea.
- EM equities typically underperform when the dollar rallies – but USD weakness is beginning to emerge

Source: Investing.com, Internal Research

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# India Underperformed Broader EM Peers



- MSCI India has underperformed MSCI EM by ~31%
- MSCI India PE Trades at 47% a premium to MSCI EM PE , but much below the average premium of 78%
- Periods of underperformance are generally followed by over-performance

Source: Internal Research, Investing.com, MOFSL Bulls and Bears

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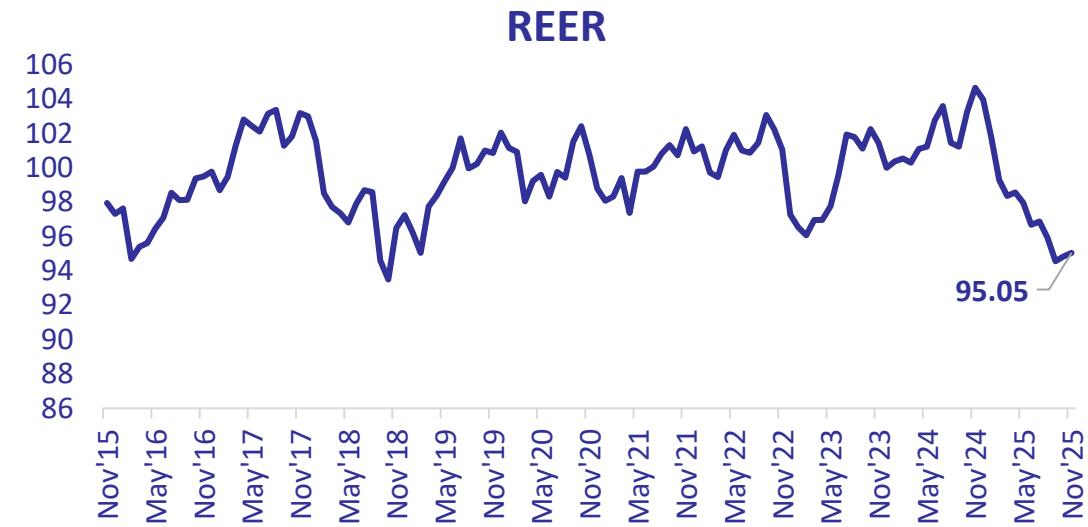


# INR Depreciation is likely behind us

Rupee has depreciated significantly in the past few months led by persistent FII selling, higher tariffs & deficit pressures



With the depreciation in INR, the REER continues to be below 100, showcasing an undervalued scenario.



## Appreciatory Pressure

A Dovish US Federal Reserve

Benign Domestic Inflation and RBI Support

Significant Rupee undervaluation (REER)



## Depreciatory Pressure

The US tariff wall & export slowdown

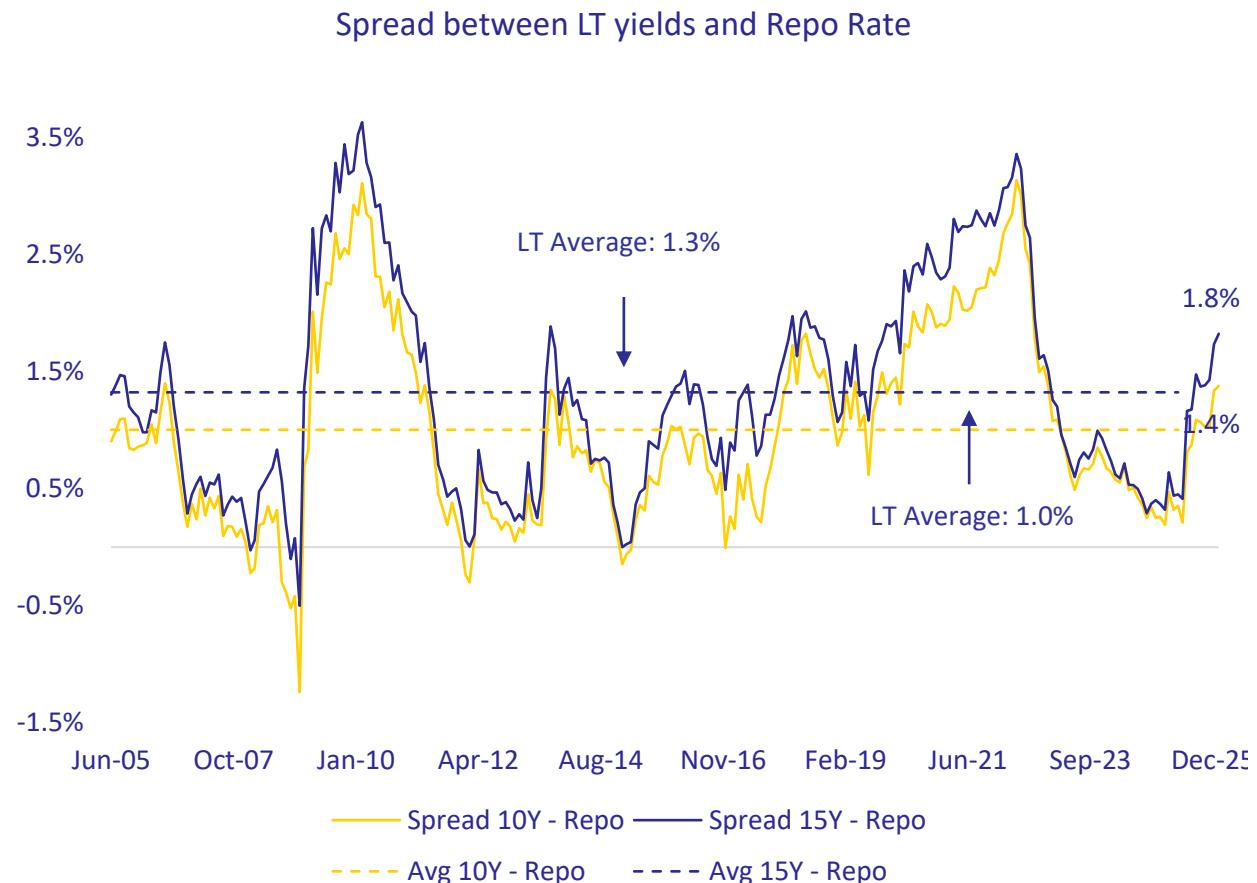
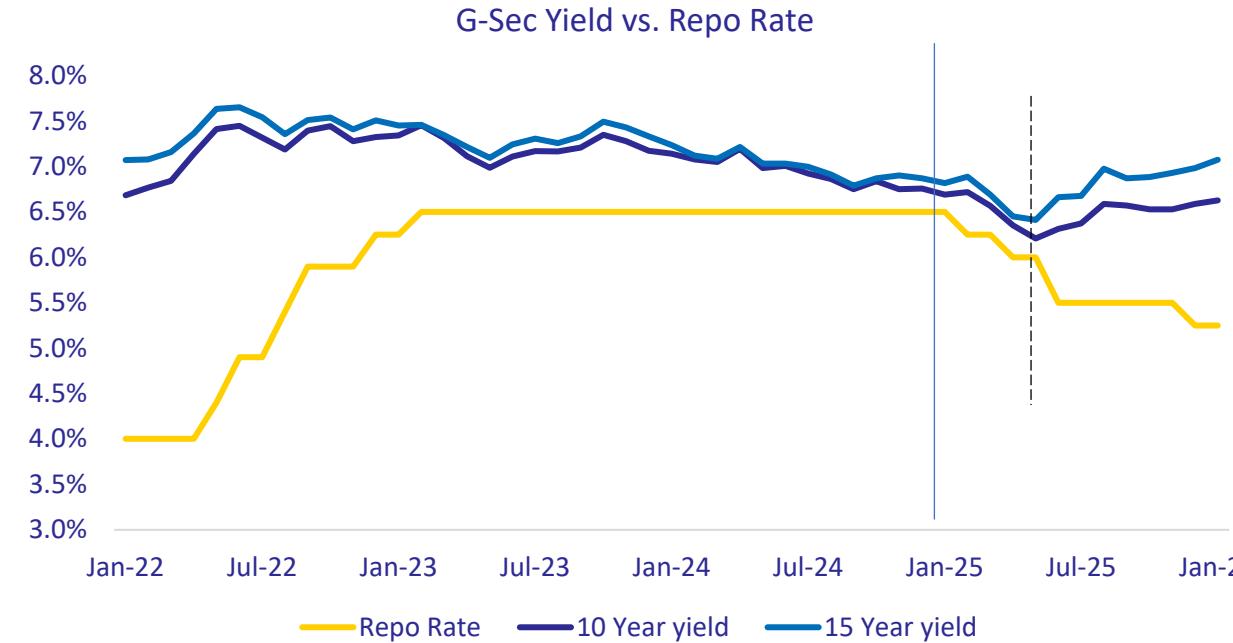
Geopolitical risk premium

Source: Trading view, Fred

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# Term premium between 10/15 Yr Gsec and Repo may move towards mean



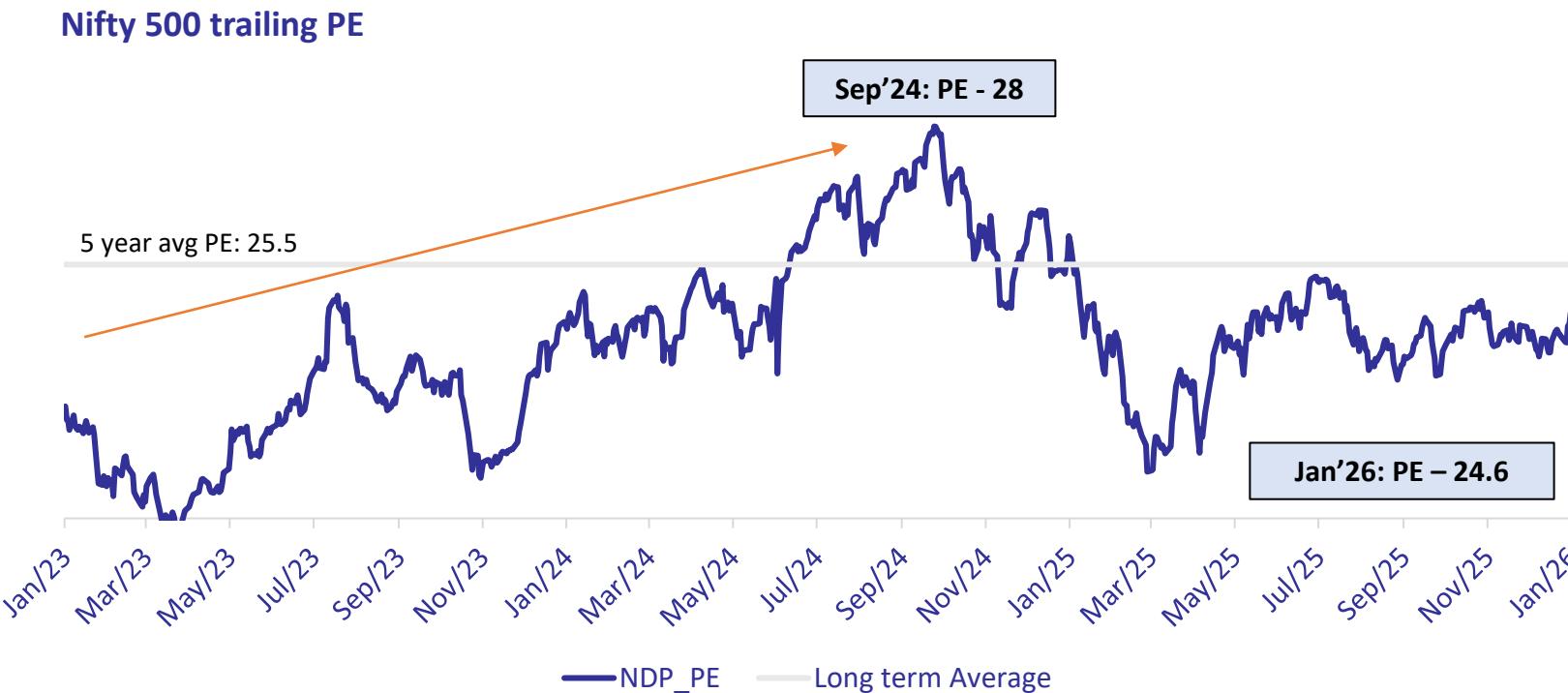
	Spread : 10 Yr Gec/Repo	Spread : 15 Yr Gsec/Repo
<b>Current</b>	1.4%	1.8%
<b>LT Avg</b>	1.0%	1.3%



# Equity



# Valuations reset to reasonable levels



01

Sep'24 Valuations  
**10% Premium**  
To 5 year average valuations

02

Current Valuations  
**-4% discount**  
To 5yr average valuations

**Past** In Sep'24, market valuations were at a meaningful premium to long-term averages, with mid- and small-cap indices trading even above their +1 SD valuation bands.

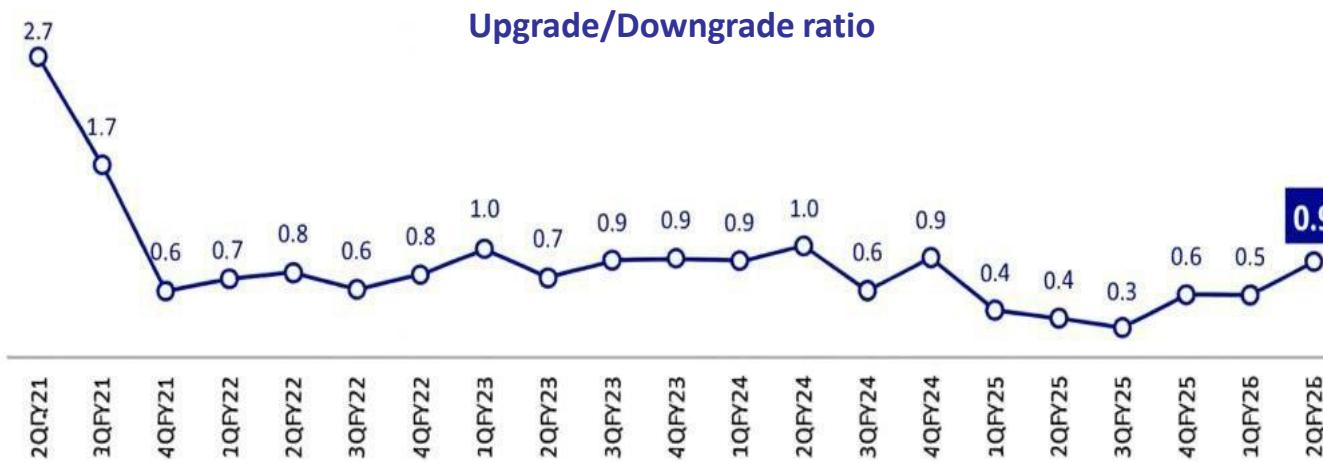
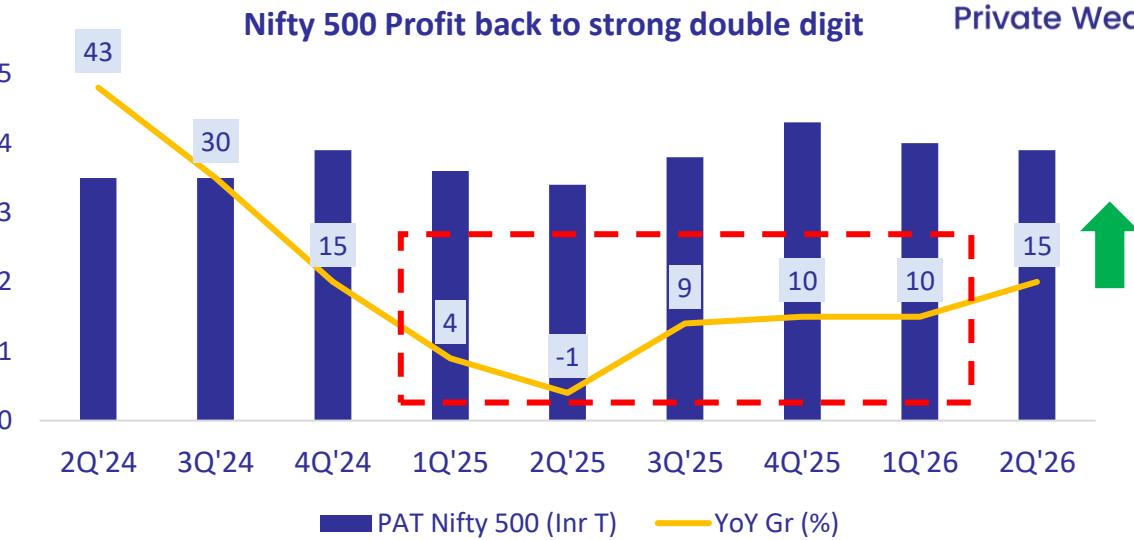
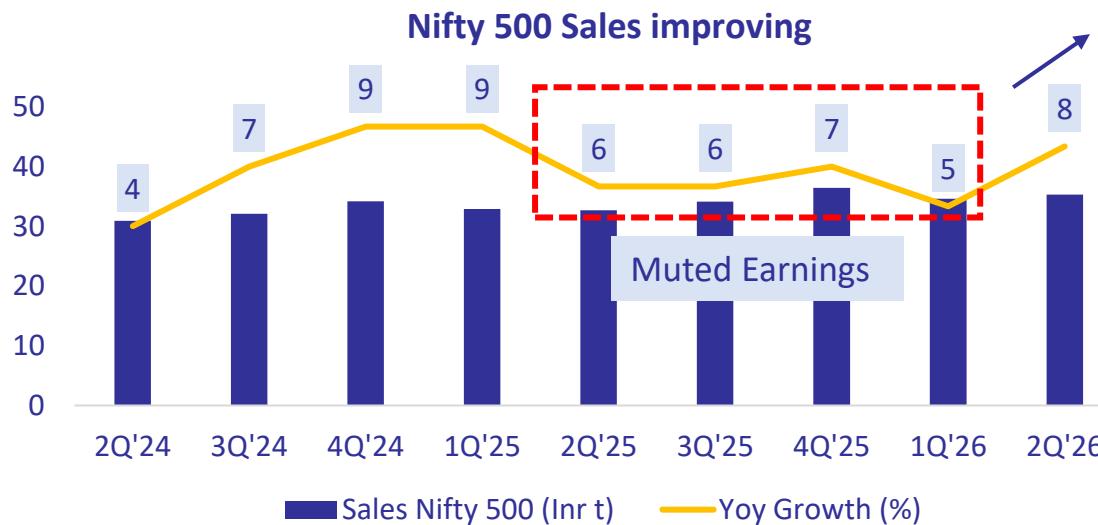
**Future** After a year of consolidation, valuations are now reasonable, with earlier excesses largely corrected.

Source: NSE, 5Yr avg: Jan'21-Jan'26.

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# Earnings Recovery Underway



Corporate earnings are expected to improve further, supported by

- Recovery in demand driven by GST cuts
- Stronger credit growth and profitability in banks
- And higher commodity prices benefiting commodity-linked companies.

**Upgrade-to-downgrade: Strongest reading in 5 months.**

Source: MOFSL, Internal Research

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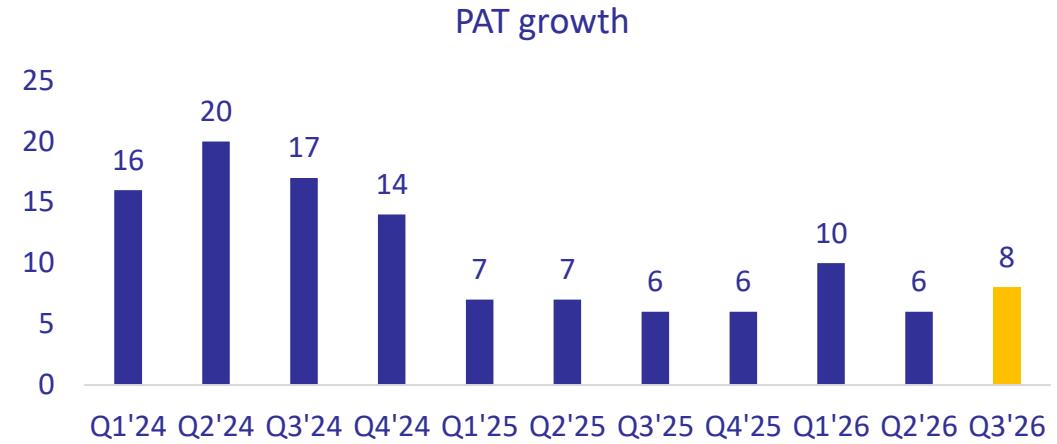


# Q3 earnings preview : Earnings reviving

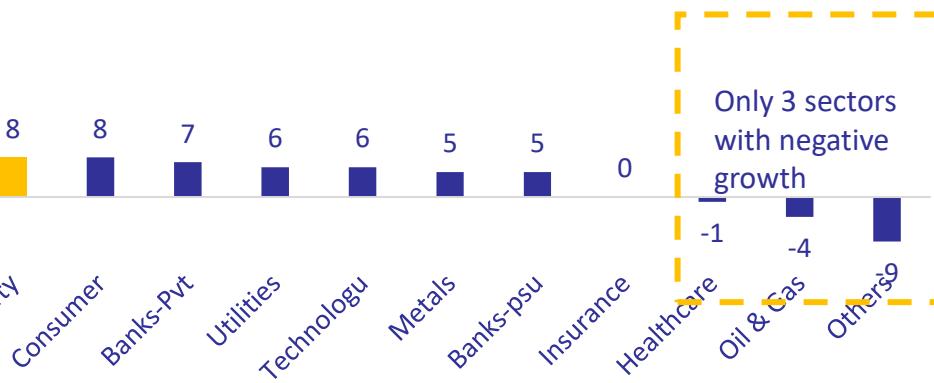
## Nifty 50 revenue growth expected to grow double digit



## Nifty 50 PAT growth to rise 8% YoY



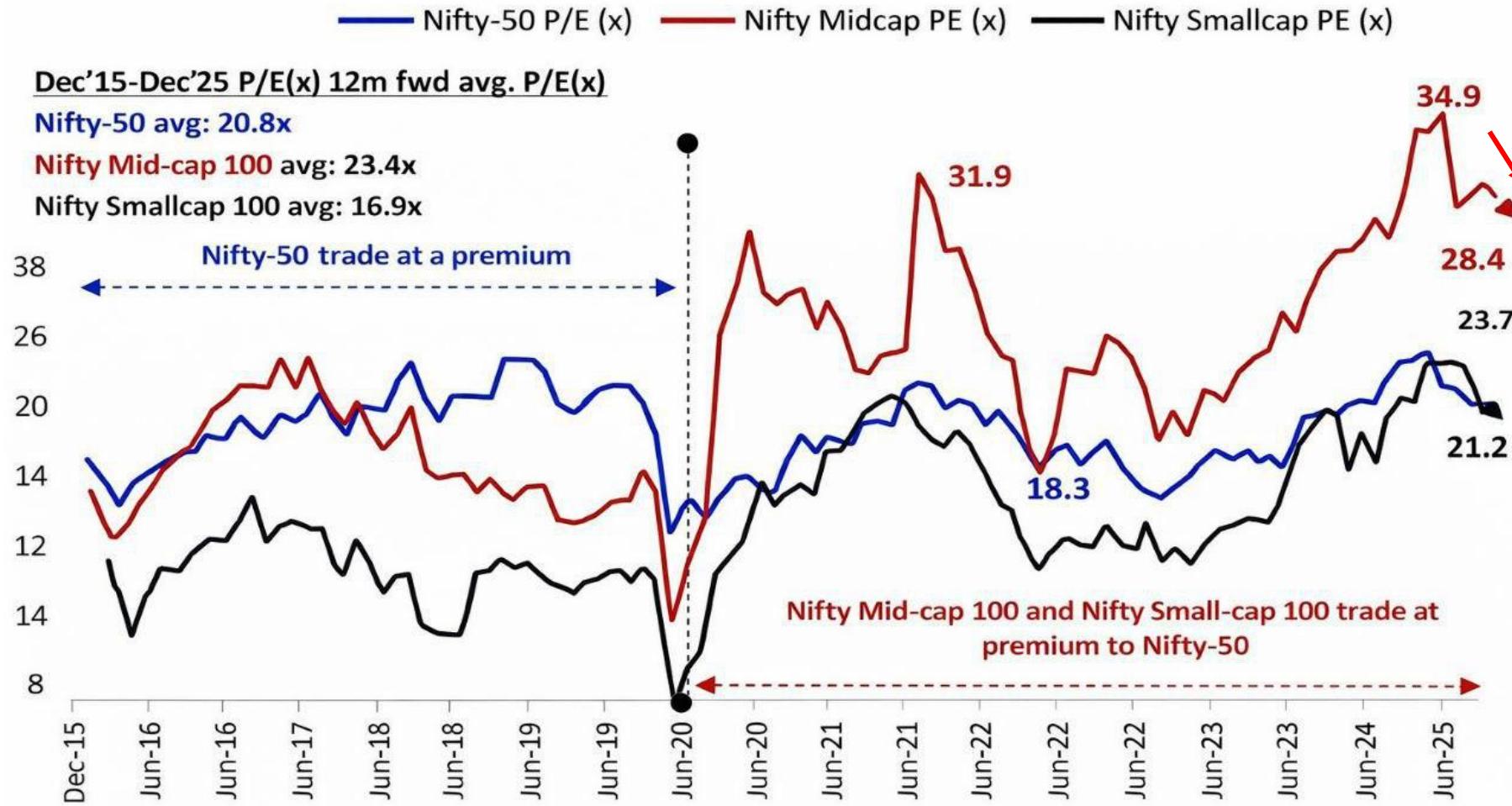
## Nifty 50 sector breakup (Q3 Growth Yo%)





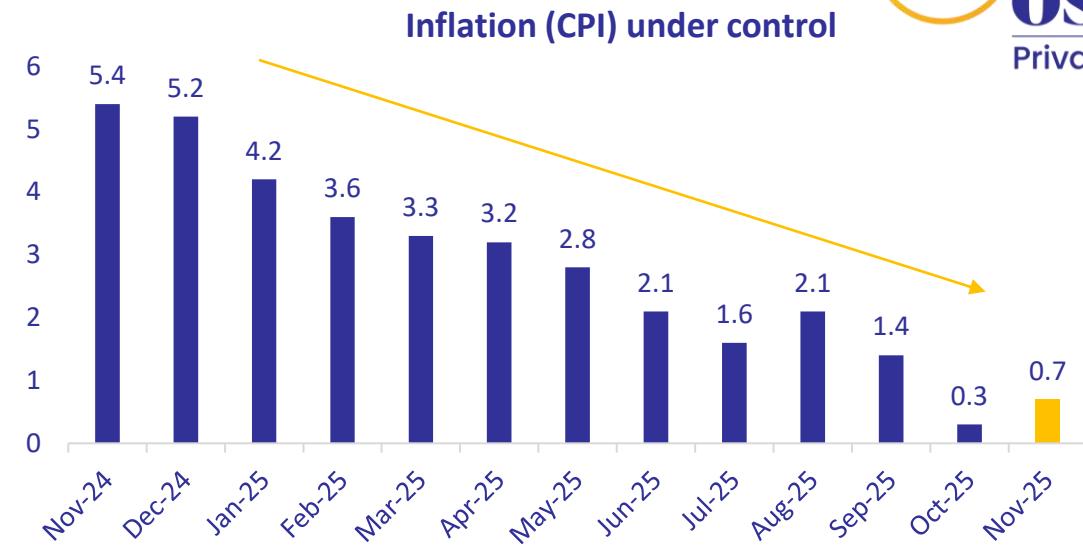
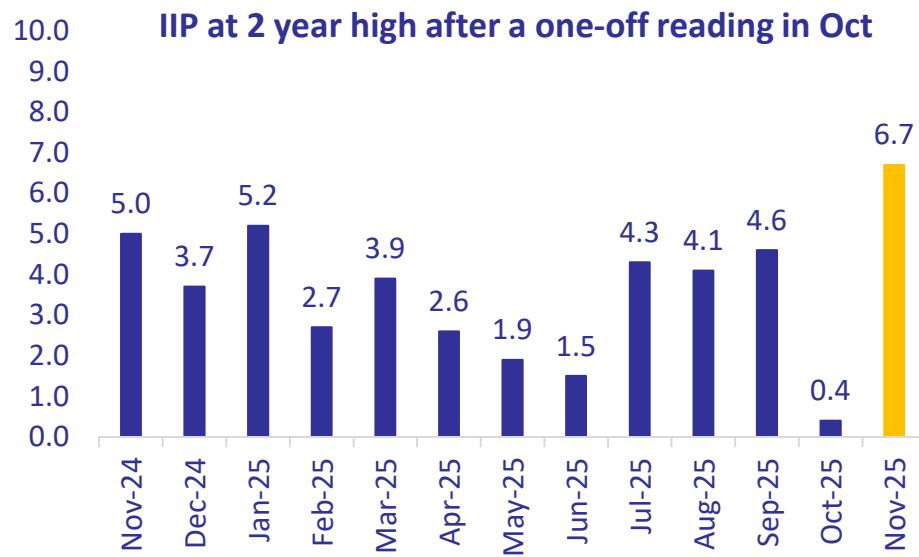
# Valuation have softened compared to Sep'24

Valuations, though below their peak, remain elevated for SMIDs and align with the averages for the Nifty-50

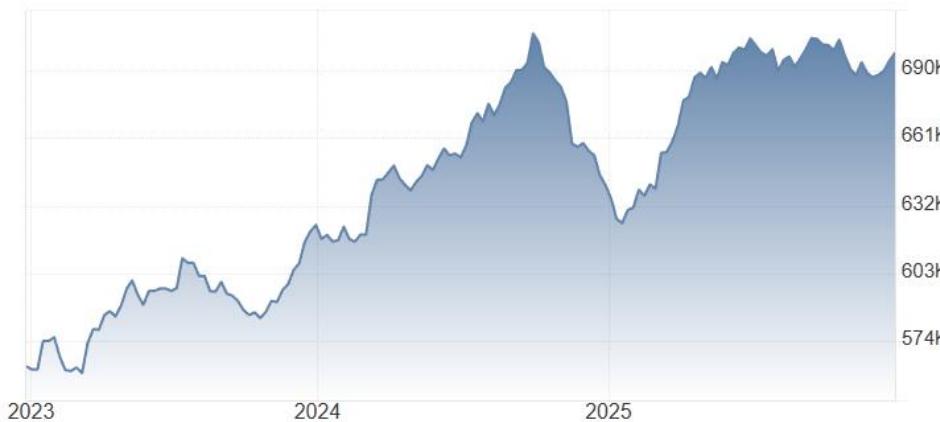




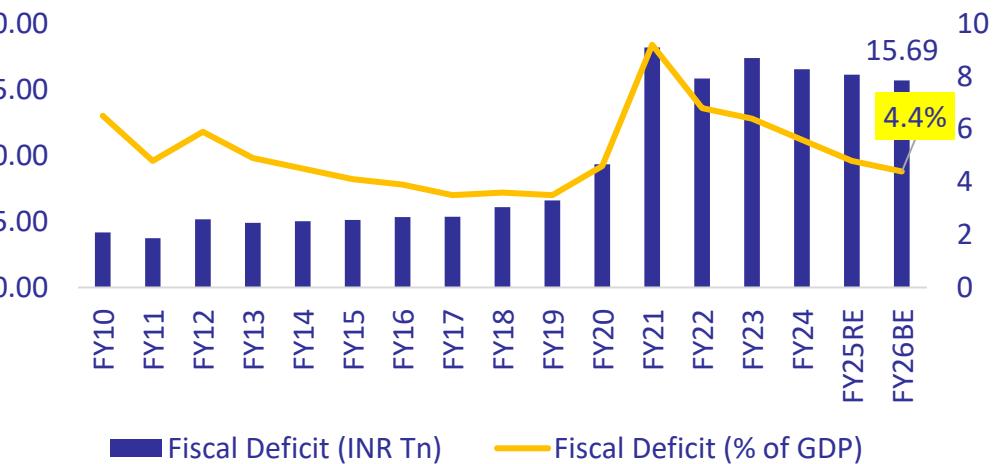
# Favourable Domestic Macros



**Forex reserves at robust levels**

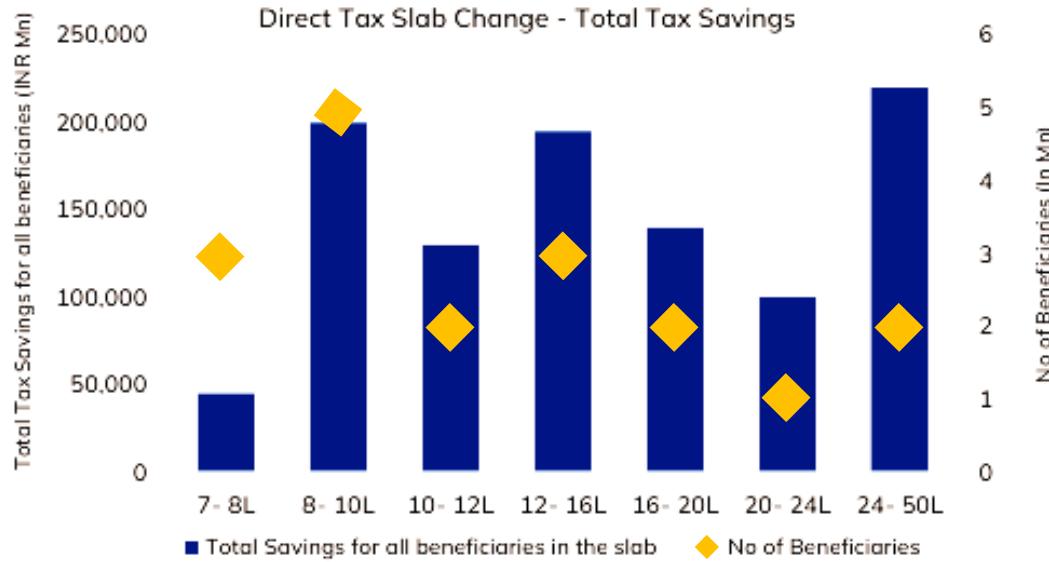


**Fiscal Deficit on a downward trend**

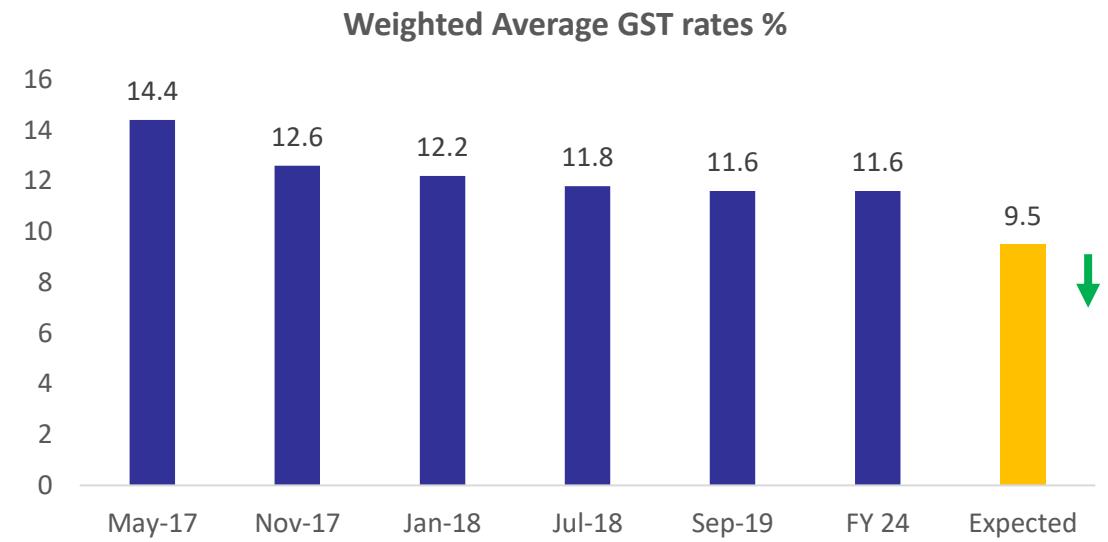




# Government stimulus to boost demand



**20Mn Tax savers likely to save a total of 1030 Bn**

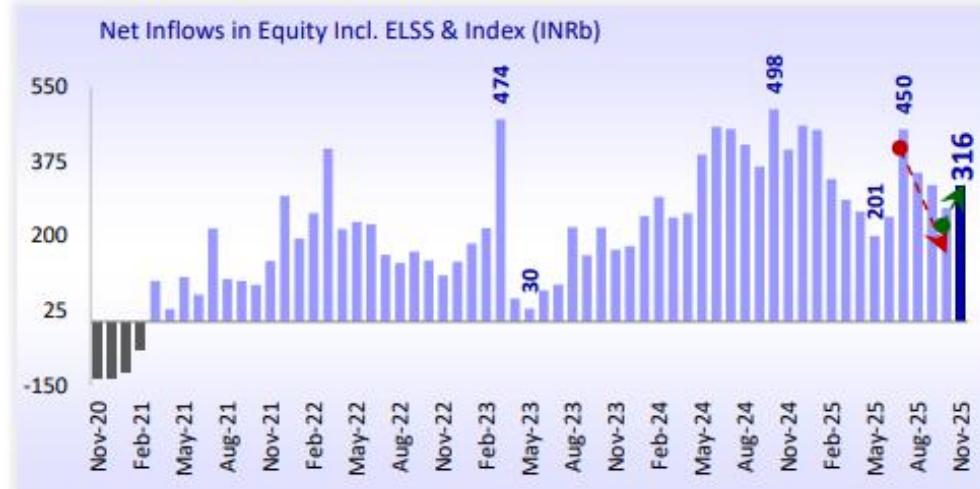


**Benefits to household from GST Rationalization is likely to be 0.6% of the GDP**

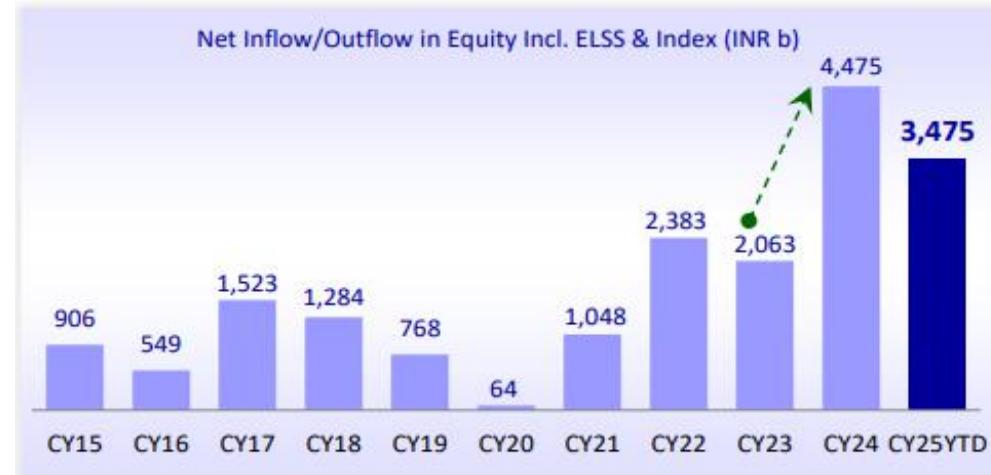


# Strong mutual fund flows supporting the markets

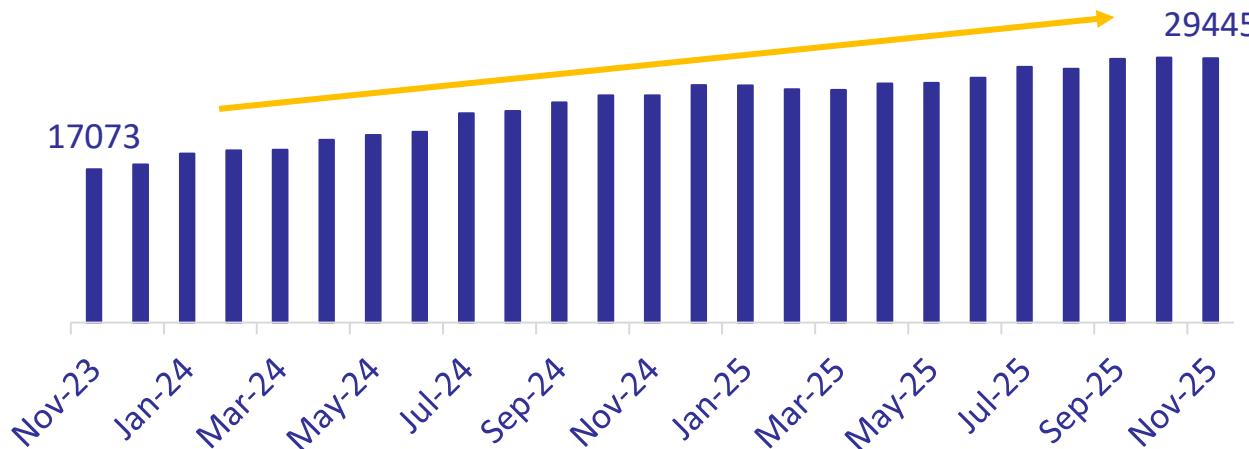
Net equity inflow pick up in Nov'25 to INR 316Bn



Annual trend in net inflows



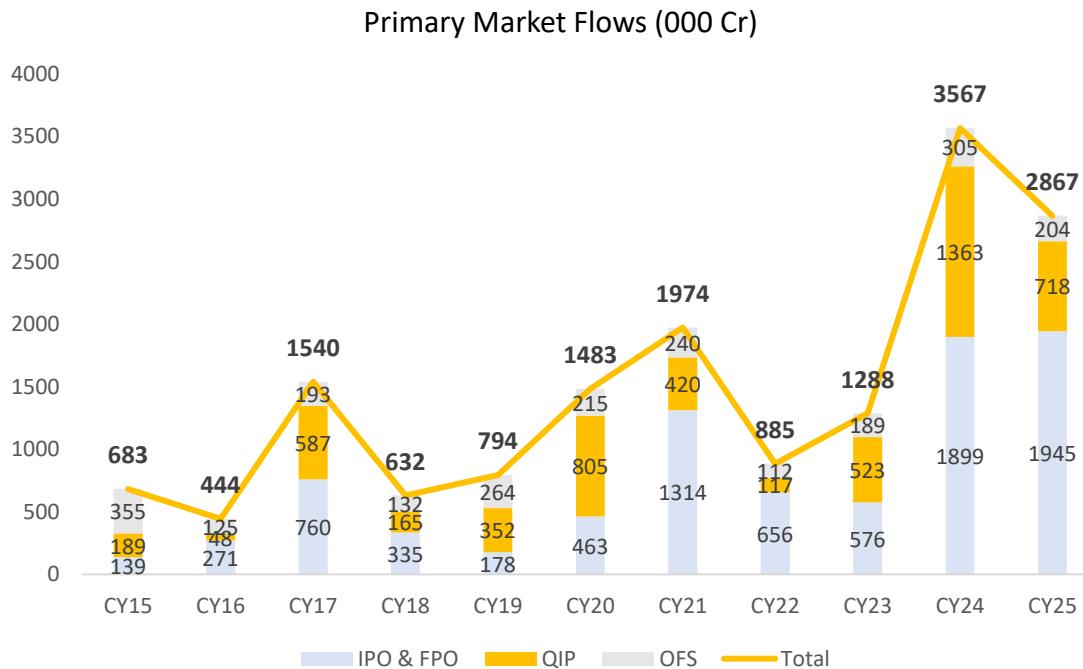
SIP Contribution



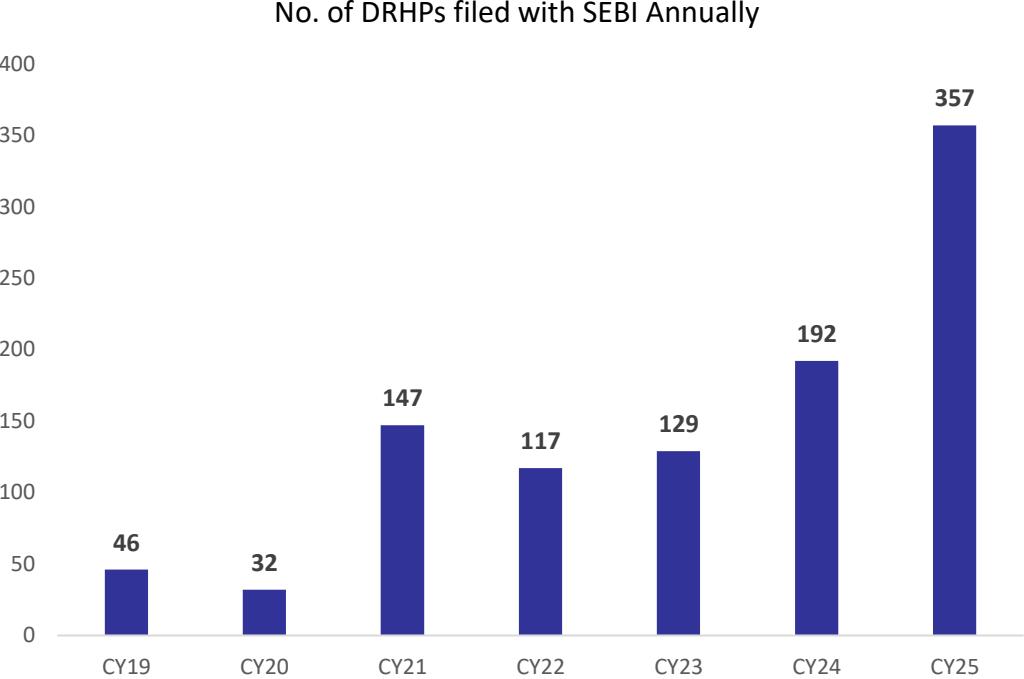
Net equity mutual fund inflows have rebounded after three months of decline, while steady SIP flows continue to support the markets.



# Equity Supply Pressure to continue in CY26



Primary issuances broadly in line with previous years



Issuances to remain strong in CY2026 as well

- Supportive liquidity conditions and elevated valuations have sustained a strong IPO pipeline.
- Primary market fundraising is projected at Rs 3.5–4 lakh crore
- Until the IPO markets cool-off, markets may remain under pressure

Source: MOFSL India Strategy, ET

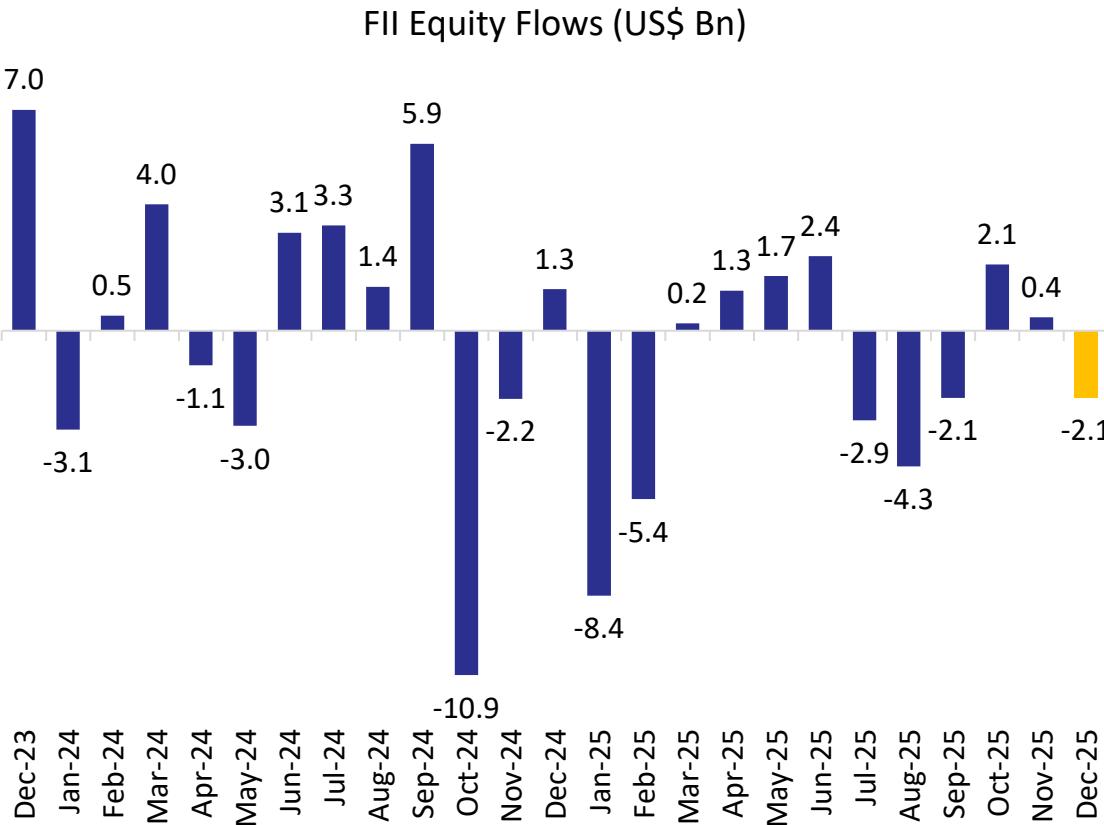
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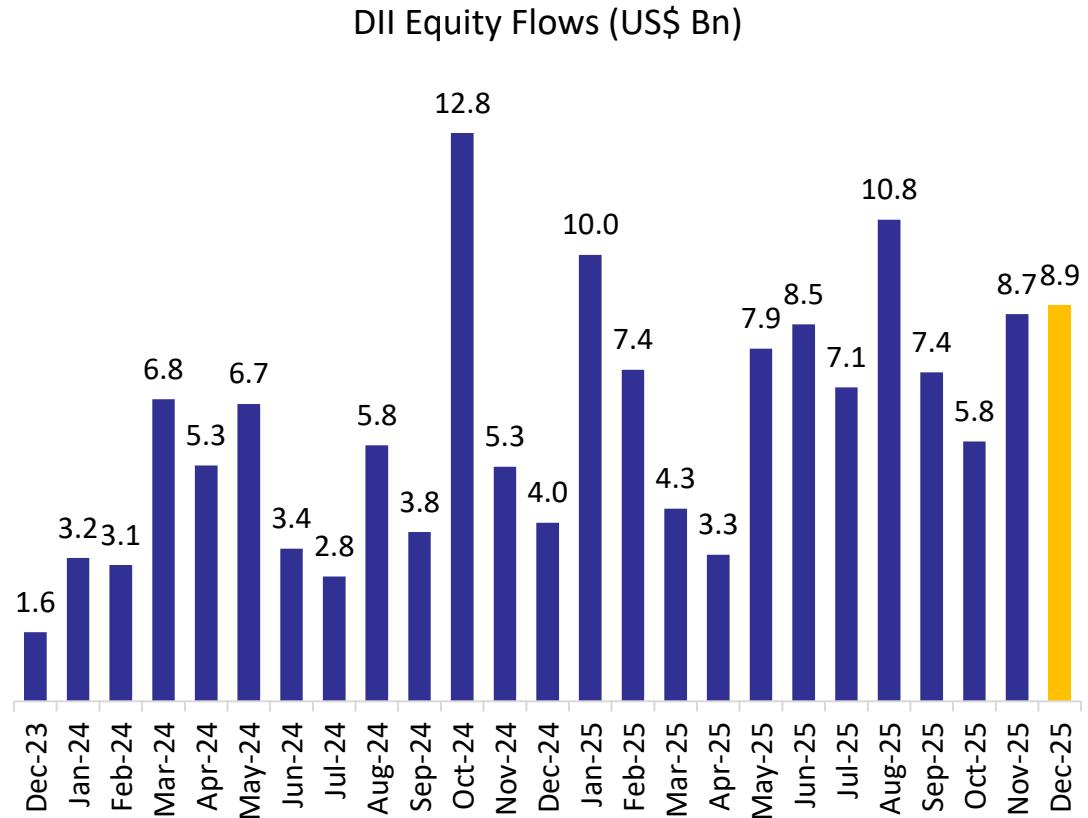
# FII vs DII Flows



FII recorded negative flows after 2 months of positive flows

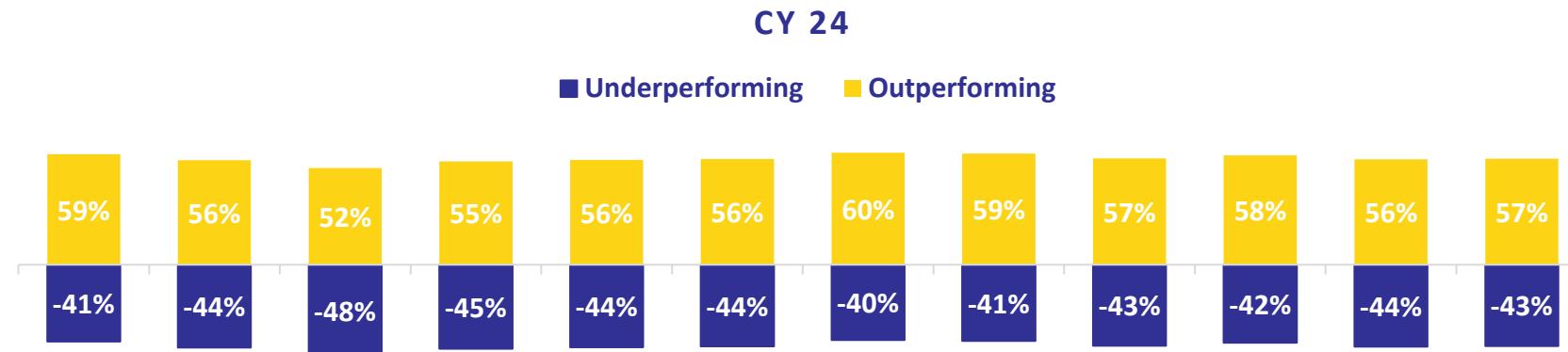


DII's monthly flows into equities continues to remain strong





# Breadth of the market (Nifty 500) narrowed in CY25



57% of the stocks had outperformed the Index in CY24

JAN-24 FEB-24 MAR-24 APR-24 MAY-24 JUN-24 JUL-24 AUG-24 SEP-24 OCT-24 NOV-24 DEC-24

**CY 25**

■ Underperforming ■ Outperforming



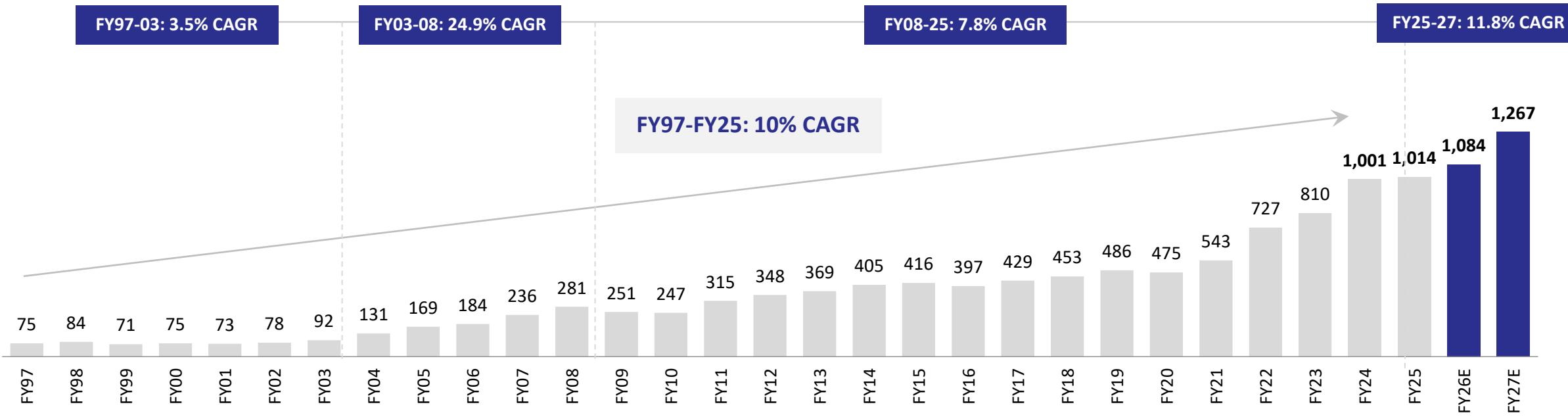
Only 37% of the stocks outperformed the Index in CY25

JAN-25 FEB-25 MAR-25 APR-25 MAY-25 JUN-25 JUL-25 AUG-25 SEP-25 OCT-25 NOV-25 DEC-25

It shows that more stocks in the Nifty 500 outperformed the benchmark in CY 2024, indicating a stronger period of individual stock performance relative to the broader market. In contrast, CY 2025 saw a shift with fewer stocks surpassing the benchmark, suggesting a more challenging market environment or a narrowing of leadership among top-performing stocks.



# Nifty 50 – Earnings Growth Outlook



Nifty EPS expectations: FY26 - to grow by 6.9% to 1084 and FY27 – to grow by 16.9% to 1267.



# Daily 1 Year Rolling Return: Graph



Data Period – 1<sup>st</sup> Jan 2010 to 31<sup>st</sup> Dec 2025. Traded days considered.

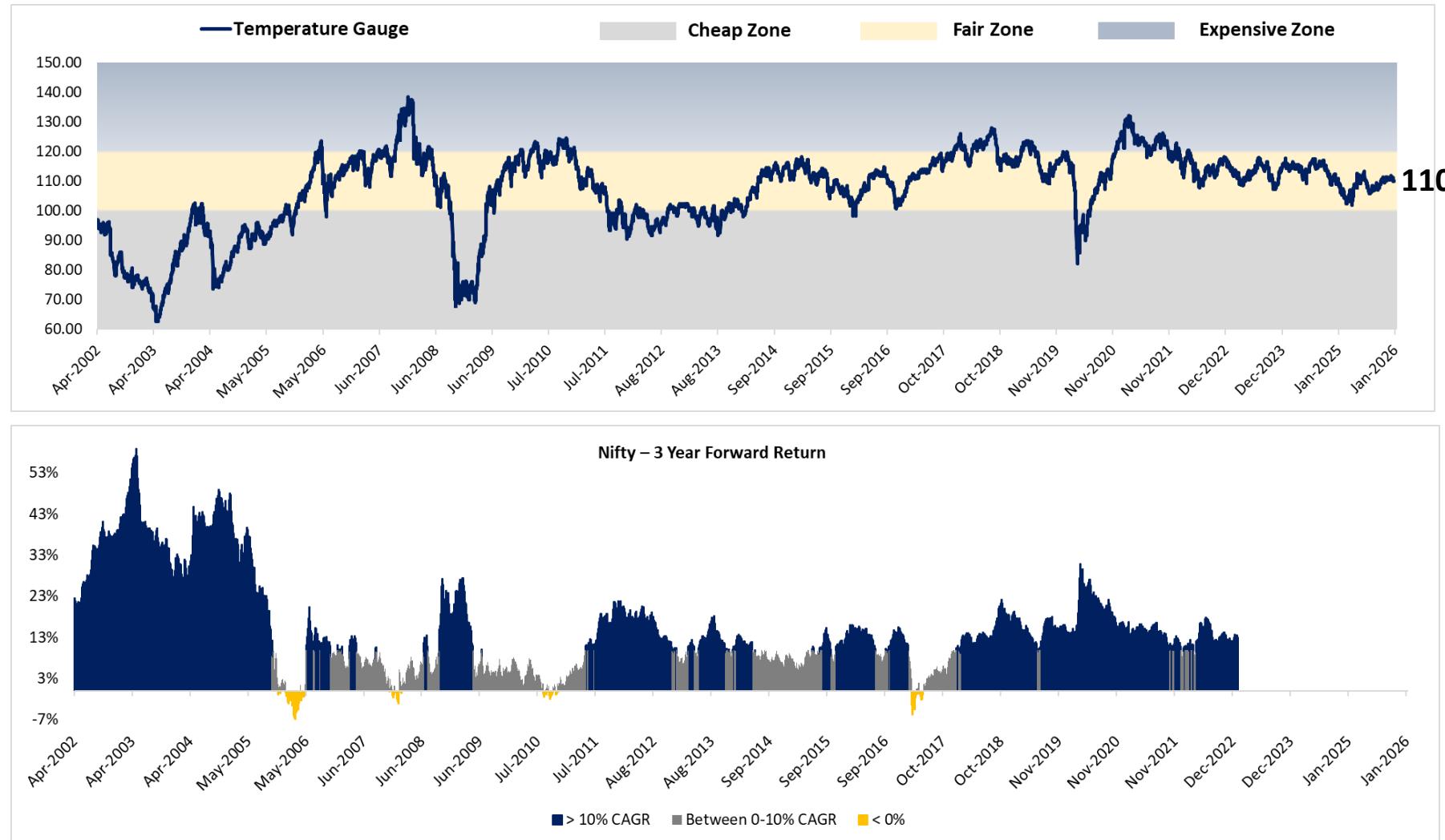
Source: Internal Research, NSE

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# Temperature Gauge Index



# Temperature Gauge Index – Sensitivity Analysis



Temperature Gauge Index - Sensitivity Analysis					
Nifty50/10 Yr Gsec	6.21%	6.41%	6.61%	6.81%	7.01%
24540	107	108	109	109	110
24790	107	108	109	110	111
25040	107	108	109	110	111
25290	107	108	110	111	112
25540	108	109	110	111	112
25790	108	109	<b>110</b>	111	112
26040	108	109	110	112	113
26290	109	110	111	112	113
26540	109	110	111	112	113
26790	109	110	111	113	114
27040	110	111	112	113	114
27290	110	111	112	113	114
27540	110	111	112	114	115

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as on 12<sup>th</sup> January'26

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	1026	12%	-4%	22%	10%	67.8%	12%	46%
110	115	1992	23%	-7%	22%	9%	66.9%	26%	29%
115	120	1617	19%	-4%	21%	9%	84.8%	23%	33%
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%

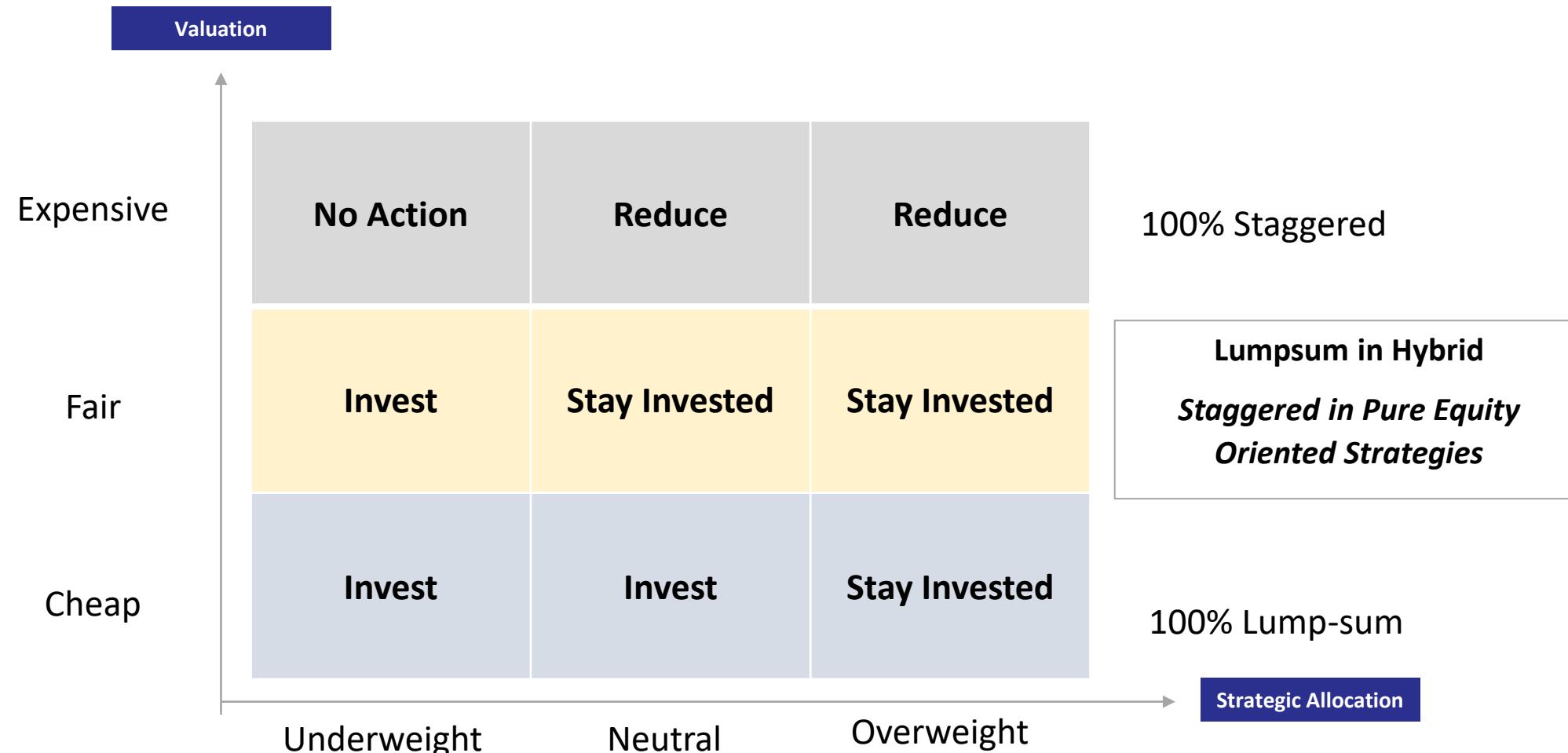
Data as on 12<sup>th</sup> January'26

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



Data as on 12<sup>th</sup> January'26

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

- After two strong years, 2025 was a year of consolidation in the equity markets, with returns diverging across market capitalisations. Large caps delivered relatively modest returns, mid caps saw periods of volatility, and small caps corrected.
- This underperformance can be attributed to a combination of factors—elevated valuation concerns amid tepid earnings growth, the absence of a direct AI-led investment theme in India while global markets chased the AI narrative, and INR depreciation. Muted returns were further compounded by heavy equity supply through IPOs and QIPs.
- Looking ahead to 2026, most of these concerns have either been addressed or are largely priced in. With global markets having rallied sharply while India lagged, India's relative valuation positioning has improved. Earnings are showing early signs of recovery, with the upgrade-to-downgrade ratio improving to 0.9. The AI trade also appears to be losing momentum, as reflected in recent price action. The INR, after breaching 91, now appears to have stabilised. That said, domestic equity supply is expected to remain an overhang through 2026.
- The impact of fiscal & monetary measures such as interest rate cuts, tax relief to boost consumption, GST slab rationalisation, and liquidity infusion by the RBI should start reflecting more meaningfully in economic data through 2026, feeding into future growth and earnings.
- As we look ahead to 2026, our outlook is cautiously constructive and firmly anchored in execution rather than narrative.
- Large caps enter 2026 on a stronger footing, supported by reasonable valuations and improved earnings visibility. With expected earnings growth in double digits, large caps should continue to form the core of equity portfolios, offering stability and steady compounding. Mid- and small-cap segments present a more mixed picture. While valuations have corrected from peak levels and earnings momentum is improving selectively, we expect 2026 to be a year of consolidation and bottom-up stock selection rather than a sharp, index-led rebound in mid and small caps.
- From a portfolio perspective, a balanced approach is recommended, anchored by large caps, complemented by staggered participation in selective mid & small caps. We would prefer index-led or hybrid strategies in large cap while active focused strategies in mid & small cap segments
- **Equity view – Neutral ; Portfolio Allocation: 50% allocation to Large Caps/Hybrid, 10% to Global and 40% 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 over the next 3 months is prudent given elevated valuations and higher volatility. Any sharp correction should be used for aggressive deployment.

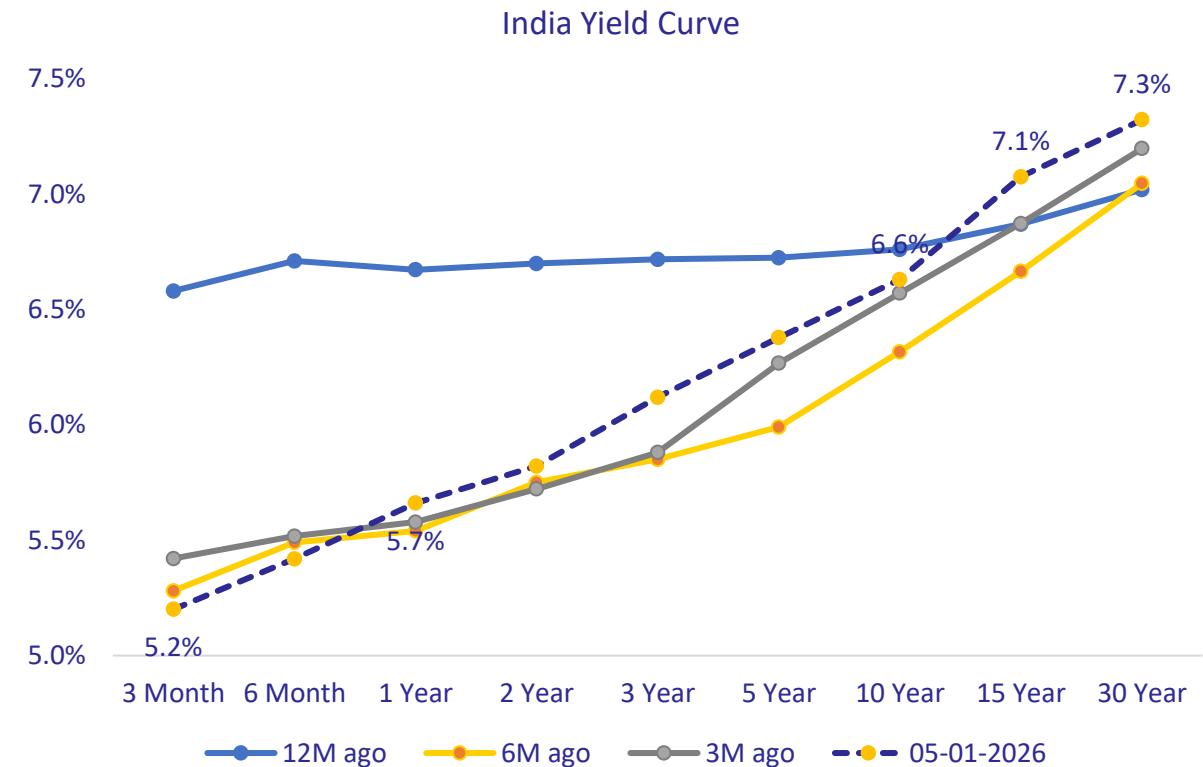
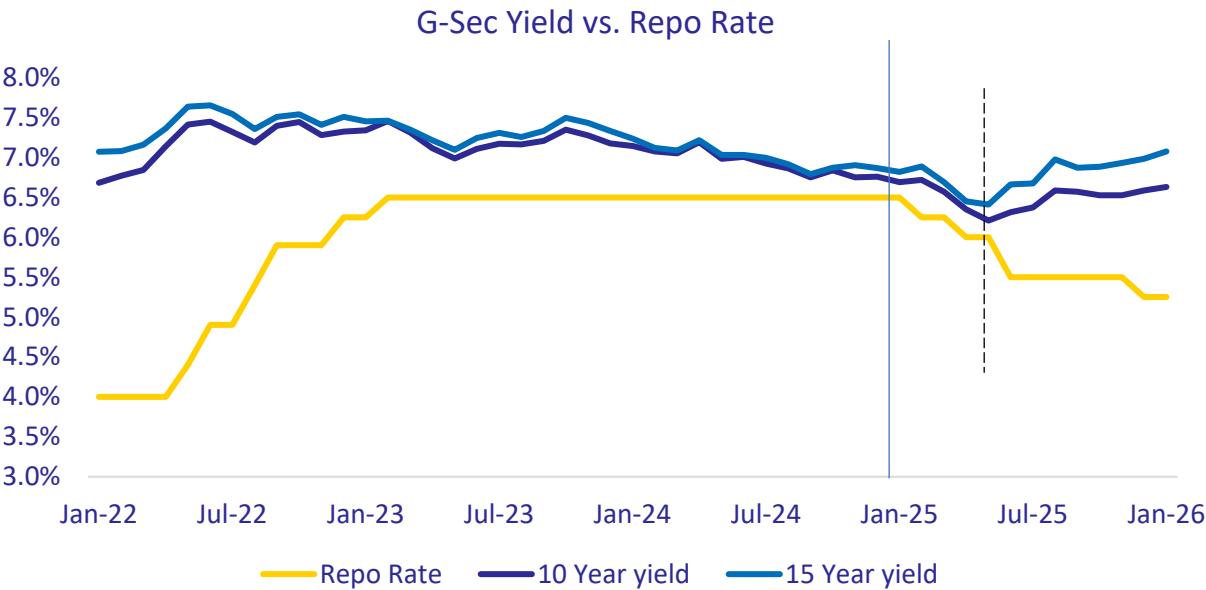
Disclaimer: The Equity Portfolio Strategy is based on our views and the above information is for reference purposes only and should not be construed to be investment advice under SEBI (Investment Advisers) Regulations, 2013. This document is not a research report as per the SEBI (Research Analysts) Regulations, 2014..



# Fixed Income



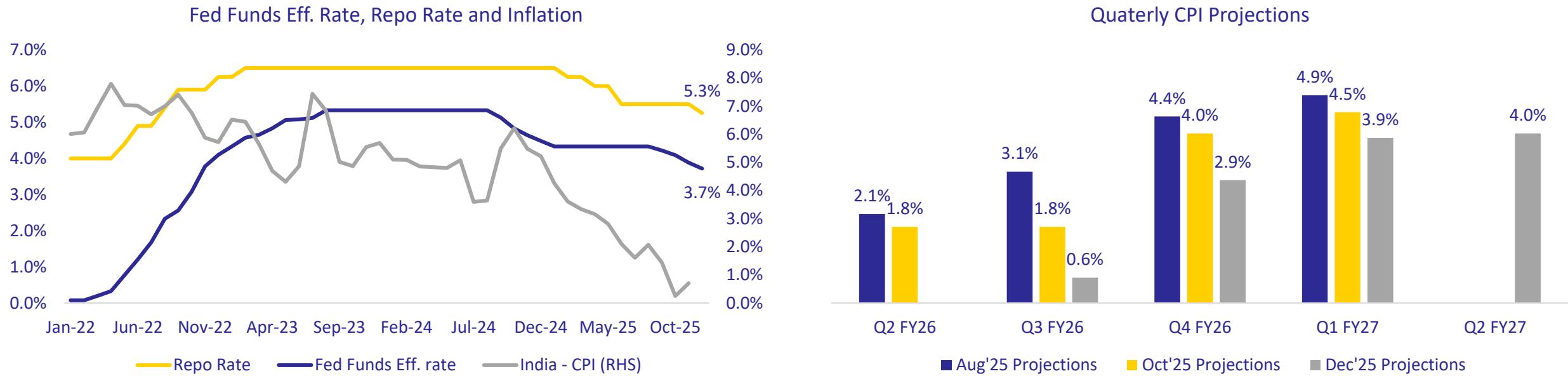
# G-Sec Yield vs Repo and Yield curve steepness



- In 2025, RBI reduced the repo rates by 125 bps to 5.25%.
- While the G-Sec 10-year yields fell to ~6.15%-6.2% during first half of the year amid slowdown fears, yields rose to ~6.6-6.65% by early 2026 due to neutral RBI stance, SDL supply pressures, FII outflows and INR depreciation.



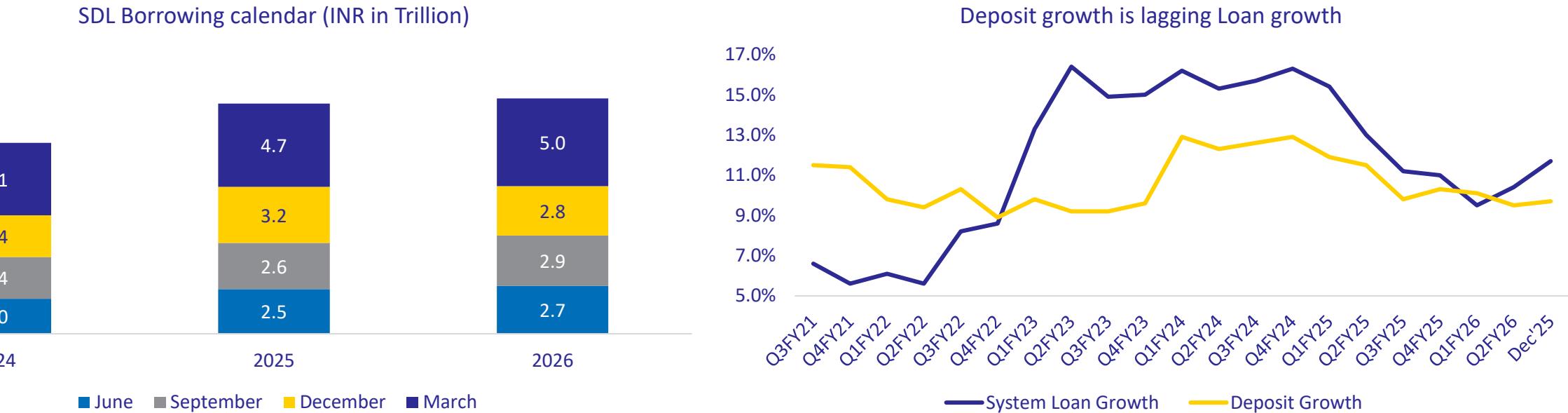
# Gap with US Yield and Inflation Projections



- The US Fed funds rate stands at 3.50-3.75% after 75 bps of cuts in 2025, with projections for one additional 25 bps reduction in 2026 while RBI's repo rate is at 5.25% maintaining a supportive differential of 175 bps in order to aid rupee stability and accordingly FII flows
- Softening of India inflation (with contained food prices) grants RBI greater headroom for further cuts in 2026 as growth becomes the priority.



# Indicative SDL borrowings and Loan vs. Deposit growth



- As per RBI release, States and UTs are planning to raise up to Rs. 4.99 lakh crore for Q4FY26
- Indian banks are experiencing credit growth outpacing deposit mobilization, with advances rising faster than liabilities. Lenders are also seeing a shift in their deposit mix towards higher-cost term deposits over CASA
- Overall loan growth had slowed sharply in mid-2025 due in part to stricter regulations, but recovered strongly since, with analysts citing festive period spending and the government's consumption tax cuts among factors pushing up growth
- In addition to this, govt's decision to small savings rates unchanged for the January-March 2026 quarter exacerbates the issue.



# Factors that could restrict further hardening in LT Yields



Catalyst	What changes (2026 trigger)	Recent datapoint / precedent	What to monitor
<b>RBI OMOs (durable liquidity)</b>	RBI continues/expands OMO purchase auctions to absorb net supply and add durable liquidity.	RBI executed a ₹50,000 cr OMO purchase on 6 Jan 2026; RBI had announced a ₹2 lakh cr OMO purchase programme in four ₹50,000 cr tranches straddling late-Dec and Jan.	OMO calendar + sizes; bid-cover/acceptance (incl. rejected bonds); liquidity indicators (WACR vs policy corridor).
<b>INR stabilises near ~90/USD</b>	If INR holds around the 90 zone, RBI's FX-defence burden reduces and market anxiety around INR-driven term premium eases.	RBI likely active near the 90 level via state-run banks (2 Jan 2026) and that ~90 is a key support zone (6 Jan 2026).	Spot INR and 1–3M implied vols; RBI intervention signals; forward premia / liquidity conditions; FPI behaviour in index-eligible bonds.
<b>Inclusion in Bloomberg Global Aggregate inclusion optionality</b>	Possible inclusion of India FAR government bonds in Bloomberg's Global Aggregate Index (timing subject to Bloomberg's decision process).	Bloomberg sought investor feedback; India's potential weight ~0.7% if eligible FAR securities included. Business Standard (Dec 2025) discussed potential passive inflows of >\$20bn over ~a year (est.).	Bloomberg/official decision updates; FAR bond eligibility; weekly FPI flows in G-Secs; inclusion-related positioning vs continued outflows.



# Fixed Income View & Portfolio Strategy



- Going into 2026, we believe that most of the uncertainties are behind us or have been factored into the price. RBI's approach might be more data dependent as the stance remains neutral. With inflation continuing to remain soft and next year projections are also being revised downward, it may provide some further room for RBI to cut the rates during CY26, especially in the backdrop of likely softening by US Fed.
- While rate action is one measure, RBI has been using OMO purchase and USD/INR swap to infuse liquidity in the system and CRR cut has also come into effect now. Moreover, it seems the tendency to borrow more at the long end of the curve by Govt will also likely be controlled going forward as wt avg. maturity of outstanding sovereign debt has already increased to above 13 years now.
- Given this backdrop and higher term premium of ~140 bps (10Yr – Repo rate) compared to 10 yr avg of 100 bps, we believe that steepness of the yield curve may come down in 2026 and that should be led by softening in long term rates. Hence 10 Yr/15 Yr G-Secs look attractive from tactical perspective.

**We continue to maintain 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 for a period of minimum 3-5 years**
- **For less than 3 years holding period, one may allocate in relatively liquid fixed income alternative solutions like Arbitrage Funds (min 3 months holding period), Hybrid SIF Funds (min 2 yr holding period), Conservative Equity Savings funds (min 3 years holding period)**
- **Tactical allocation to long-duration (10-year/15 Year) G-Secs can also be considered at current levels of ~6.7%/7.1%, as prevailing yields are compelling and provide scope for capital appreciation in addition to regular coupon income for investors comfortable with duration risk.**

Source: RBI, Internal Research. Disclaimer: The Fixed Income View & Portfolio Strategy is based on our views and the above information is for reference purposes only and should not be construed to be investment advice under SEBI (Investment Advisers) Regulations, 2013. This document is not a research report as per the SEBI (Research Analysts) Regulations, 2014.

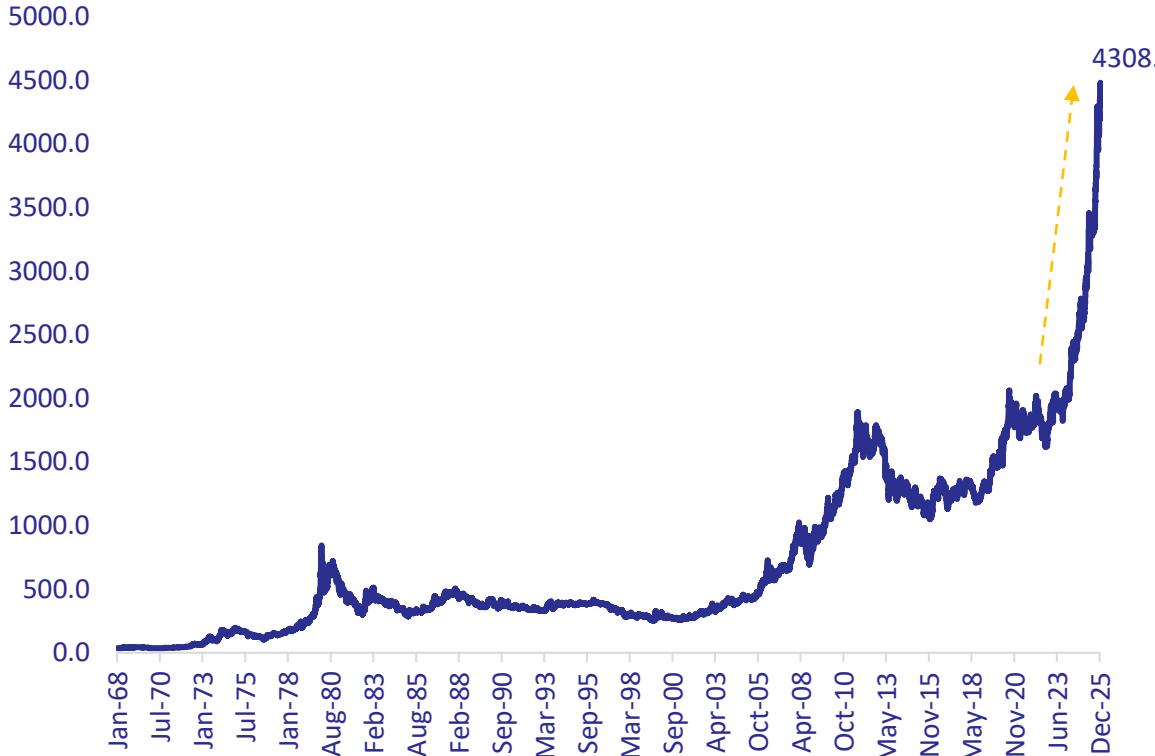


# Gold/Silver

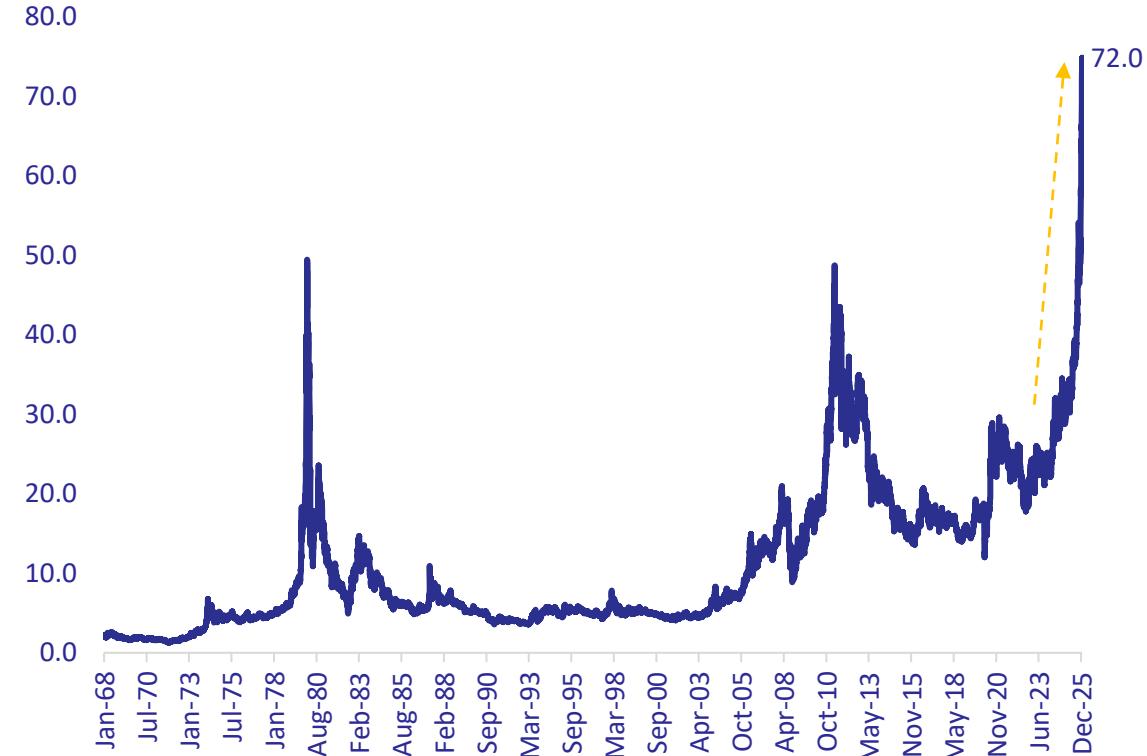


# Super Normal Returns by Gold and Silver in 2025

Gold - LBMA (USD/oz t)



Silver - LBMA (USD/oz t)



- 2025 was the best year for Gold and Silver atleast since 2000 as prices rose by ~80% and ~164% respectively.
- We believe there can be some moderation in the momentum of prices of these while uptrend may continue given the geopolitics scenario.

Source: Internal Research

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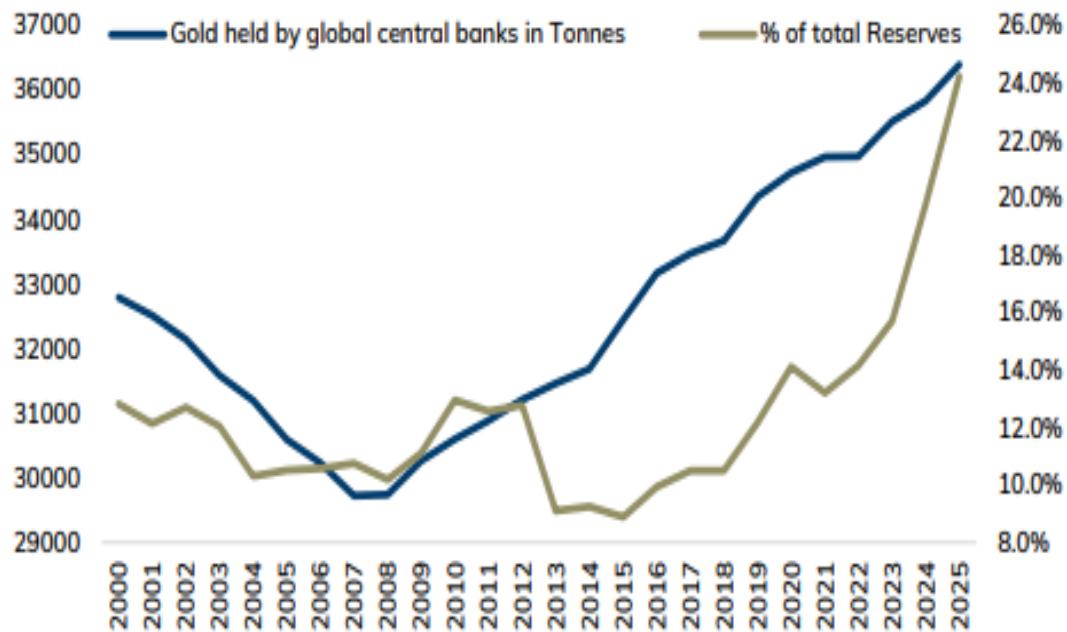
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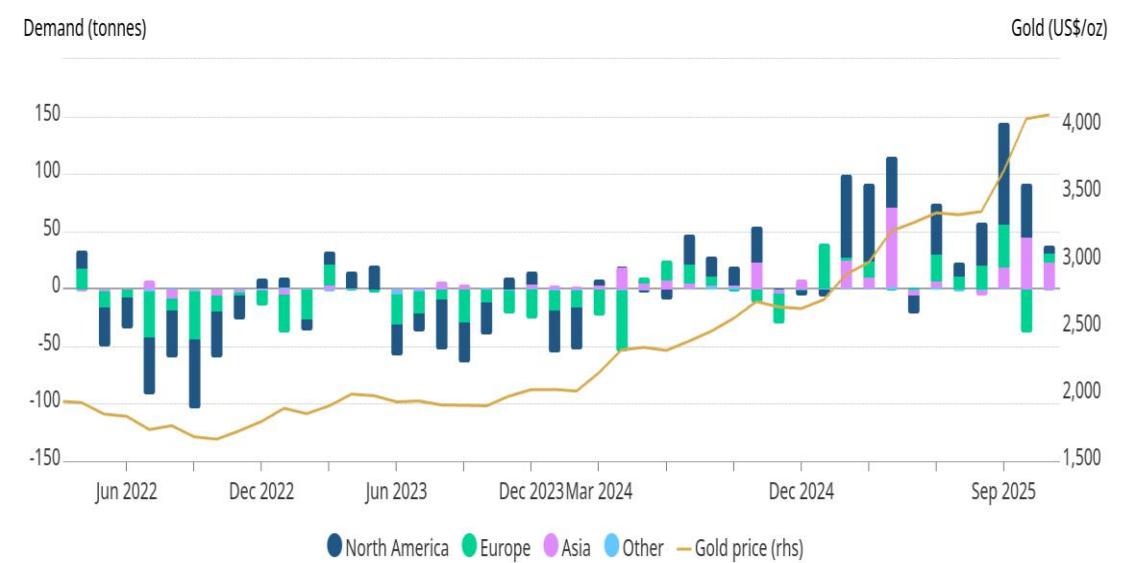
# Gold rallied due to demand by Central Banks and ETF Flows

## 1. Sustained central bank buying along with the rise in Gold as % of total global reserves



Source: ICICI Direct

## 2. Positive flows in Gold ETF joining the demand side



Data as of 19 December, 2025

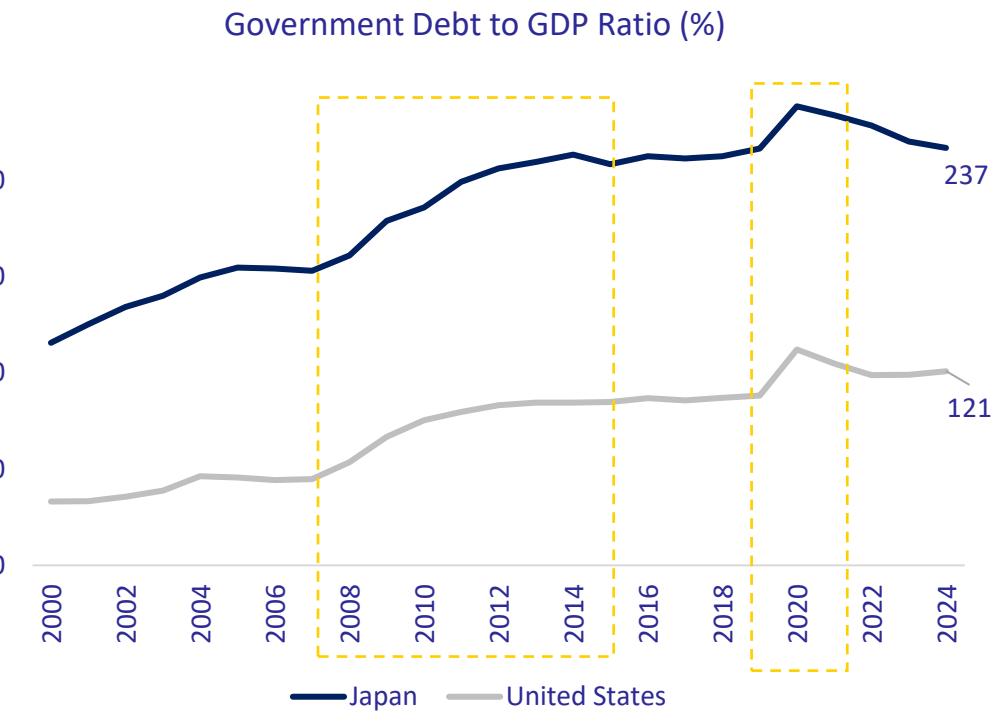
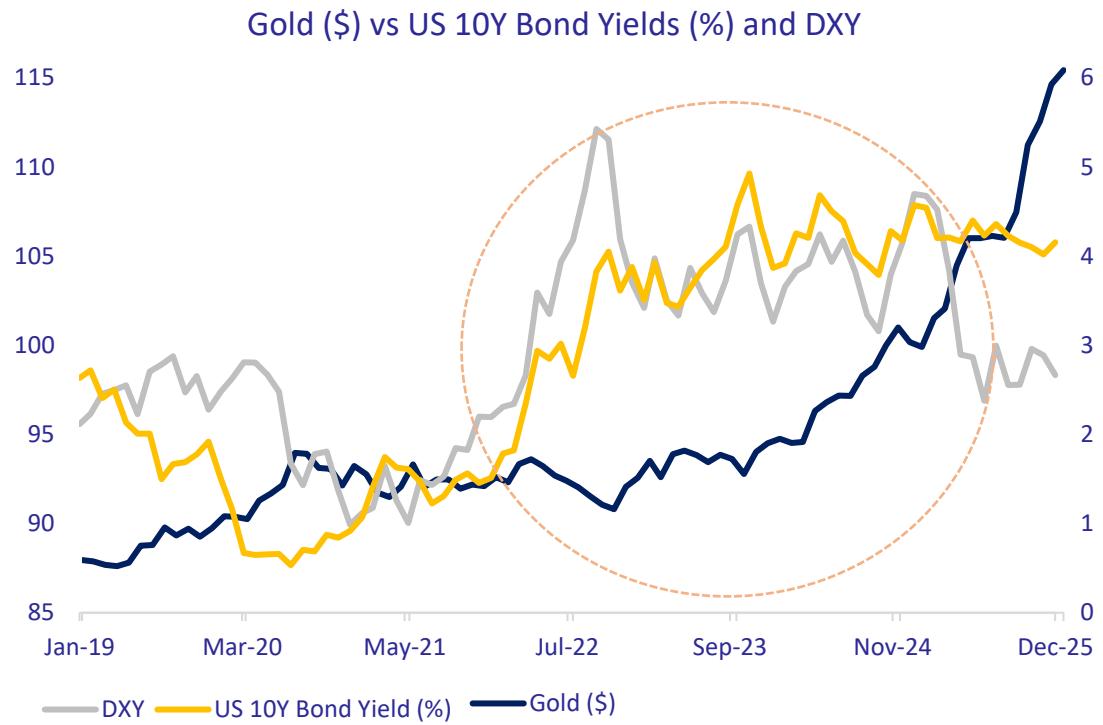
Source: WGC



# Further supported by fall in DXY and rising Debt levels

3. 2022-24, gold prices rose against a non-supportive backdrop (rising yields and DXY). Now, yields and DXY, both have corrected from the highs, which is fundamentally supportive.

4. Elevated debt levels in major economies like US and Japan may lead to more money printing leading to currency debasement, which is conducive for Gold

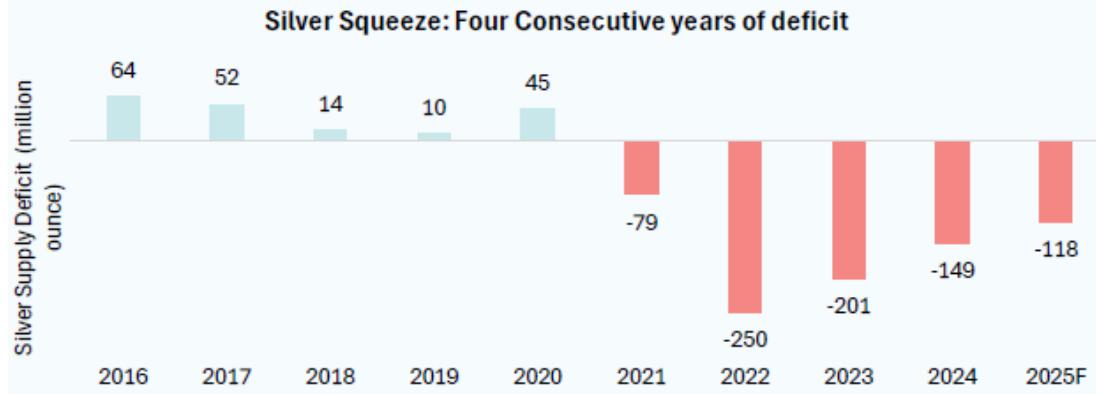


As we enter 2026, gold continues to be viewed not merely as a defensive hedge, but as a strategic portfolio asset amid ongoing fiscal imbalances, currency volatility, and an uncertain monetary policy outlook. We continue to maintain Neutral Asset allocation.

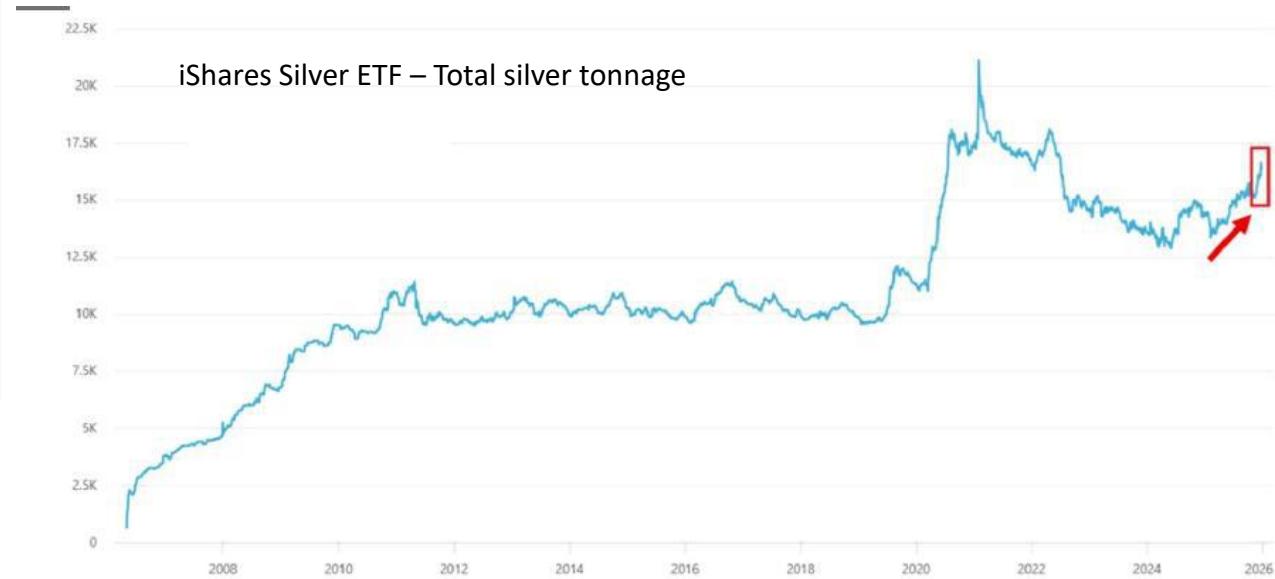


# Volatility in Silver Expected to Continue After a Sharp Rally

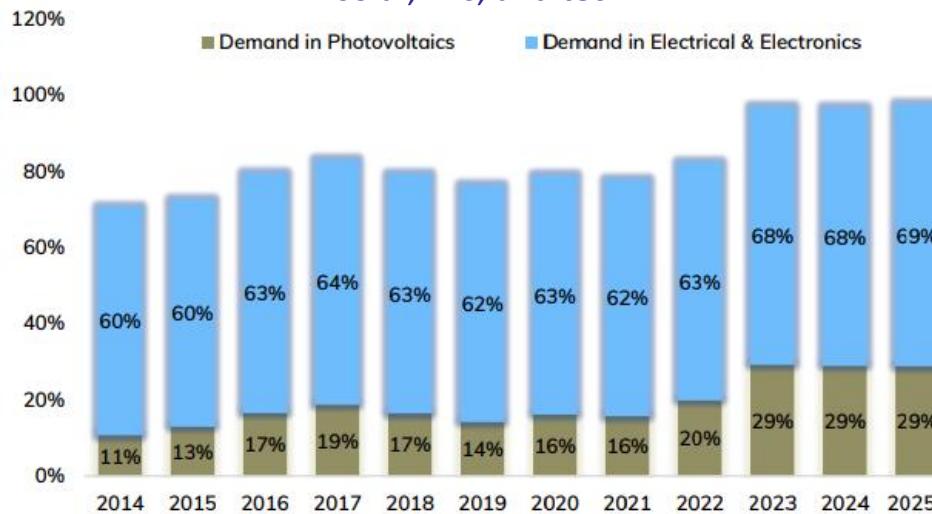
Structural Supply Deficit expected to be continued for the 5<sup>th</sup> Year



Rally, further supported by financial demand driven by a rise in investment flows



..backed by a rise in irreversible industrial demand from solar, EVs, and tech



- Silver is undergoing a structural repricing, establishing a higher long-term base rather than a cyclical peak. However, silver is highly volatile a similar rally in 2026 might not be sustained
- Investors with large exposures may consider partial profit-booking, while those with low/no exposure can accumulate in a staggered manner, capitalizing on market dips.



# Real Estate / Infra

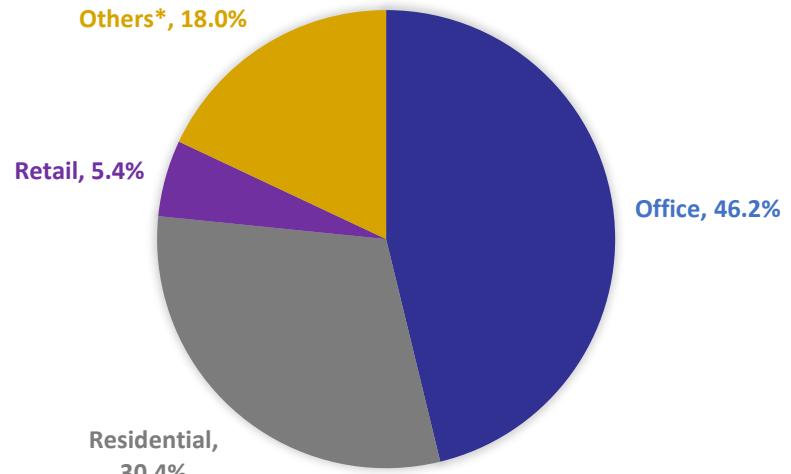


# Real Estate – Showcasing Structural Strength

## Institutional Investments in Indian Real Estate (US\$ mn)



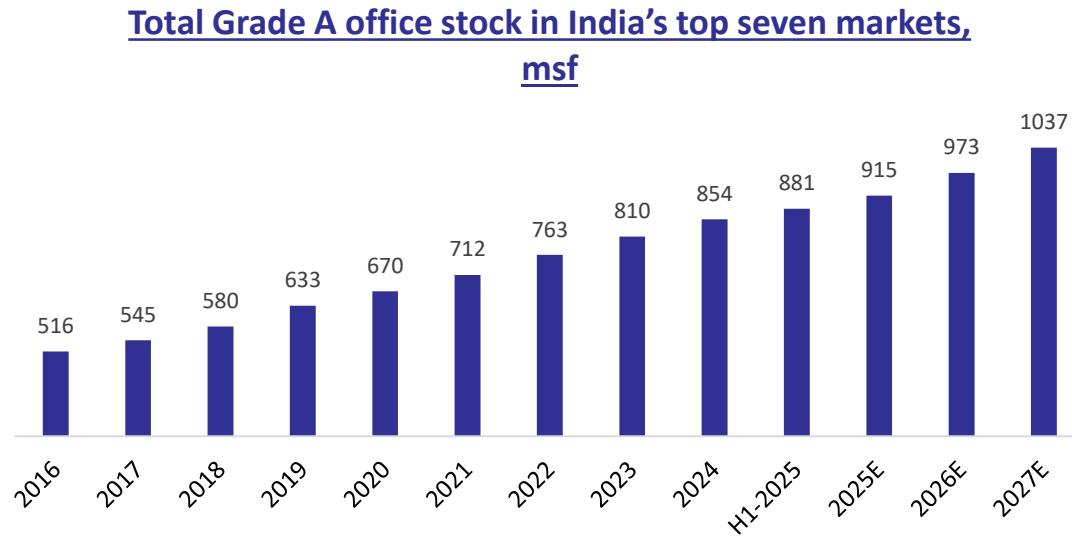
## Distribution of Institutional Investments across sectors (Avg. CY16 – CY24)



- Commercial real estate in India continues to remain in a sweet spot – aided by GCC growth as well as increasing domestic + foreign investments across hotels, warehousing, and data centers.
- In our view, we are in the mid phase of the real estate cycle. We expect that volume should lead this phase of the cycle, while price rise may remain modest.
- Residential real estate is likely to deliver single-digit returns in 2026 amid low rental yield of 2-3%. Future returns will depend more on micro-market selection, developer quality, and execution, rather than broad-based price appreciation.
- Direct real estate carries asset-specific risks – **hence investment via REITs/InvITs/professionally managed real estate funds across debt and structured equity – provide a more institutional and diversified approach to real estate-linked returns**

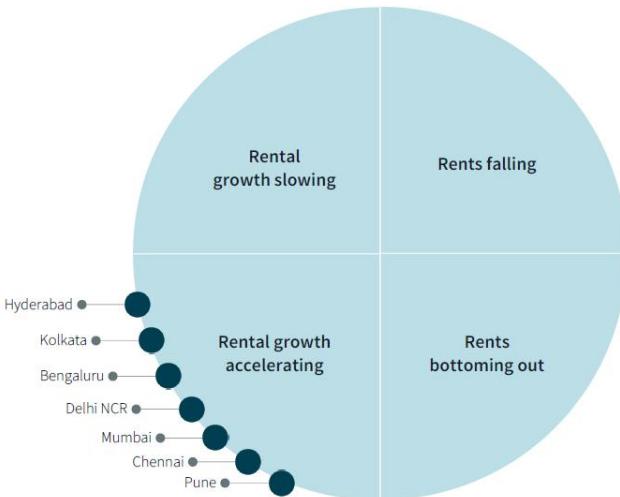


# GCCs – Driving India's Commercial Real Estate Growth



## Office Rental Clock

Core micro-markets continue to remain in the sweet spot, demand for high quality offices pushing rents

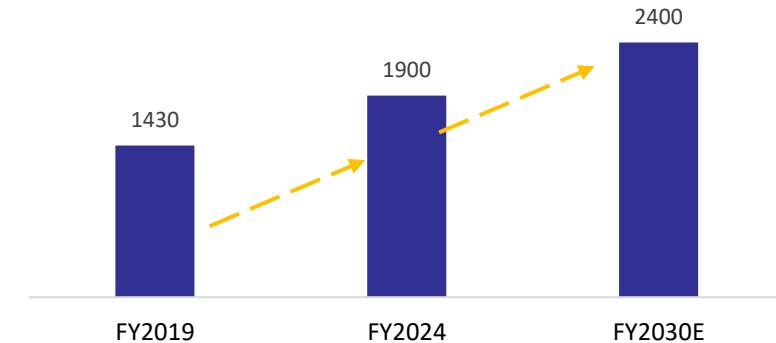


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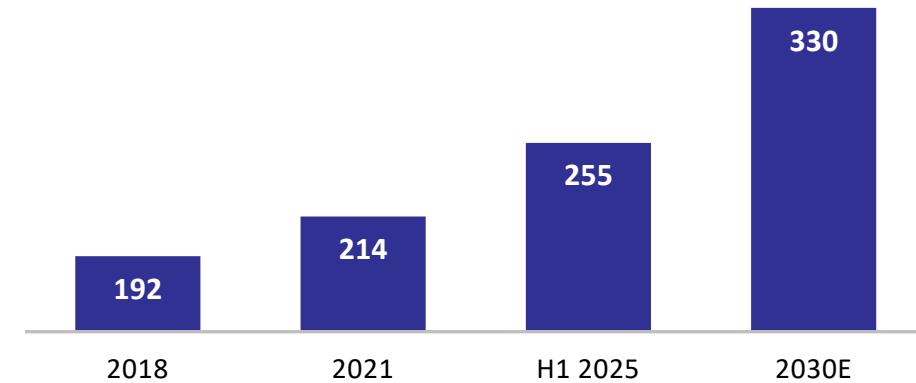
Source: Nasscom, Zinnov Consulting, JLL Research  
Disclaimer: The above data is for informational purpose only

## Future Outlook

Number of GCCs in India



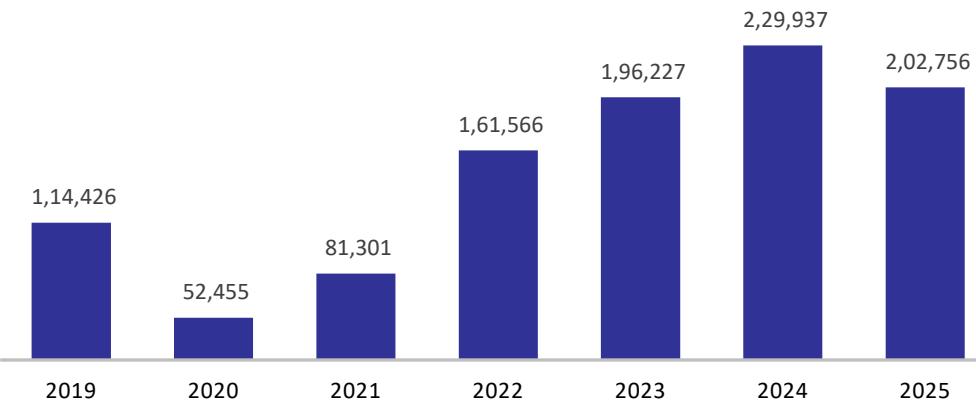
## Grade-A Office Spaces occupied by GCCs in India, msf



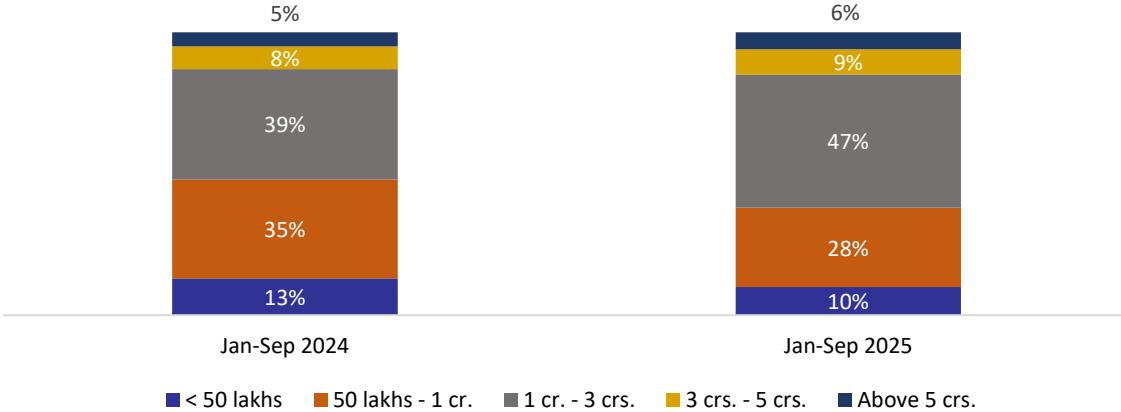


# Residential Real Estate – Down but Not Out

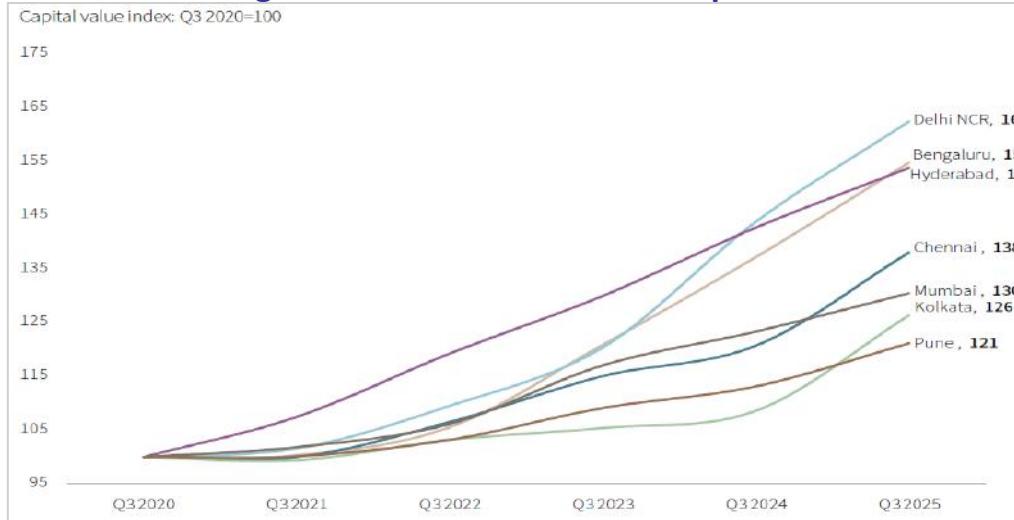
**Total Residential Sales -- Jan-Sep (YTD)**



**Housing Prices and Sales - YTD Comparison**



**Housing Prices remain elevated in top seven cities**



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Source: JLL Research, CBRE

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- Apartment Sales saw a 4% Q-o-Q rise in Q3-FY25; **luxury apartment sales leading the pack with 78% YoY growth**
- Sales marginally slowed down in 2025; however, they maintained momentum and achieved second highest YTD sales in the last six years
- Despite marginal decline in sales, **home prices across seven cities maintained their upward trajectory** – with quality launches seeing robust demand and maintaining premium price levels



# Disclaimer



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