

HDFC Bank – Research Presentation

January 2026

Risk profile-based asset allocation

Asset Class	Overall View	Asset Allocation		
		Aggressive	Moderate	Conservative
Equity Funds	◆	75%	55%	25%
Debt Funds	◆	20%	40%	70%
Gold	▼	5%	5%	5%

Note:	Optimistic	▲
	Cautiously Optimistic	◆
	Cautious	▼

Category-wise view

MF Categories	View	
	Jan-26	Dec-25
Equity Oriented Funds		
Largecap Funds	▲	▲
Large Cap Index Funds	▲	▲
Multicap Funds	◆	◆
Flexicap / ELSS Funds	▲	▲
Large and Mid Cap Funds	▲	▲
Mid cap	◆	◆
Small cap	▼	▼
Value / Contra / Dividend Yield Funds	◆	◆
Focused Funds	◆	◆
Aggressive Hybrid Funds / Dynamic Asset Allocation / Balanced Advantage Funds	▲	▲
Equity Savings Funds	▲	▲
Business Cycle	◆	◆
Sector/Thematic Funds	◆	◆
Multi Asset Allocation Funds	◆	◆

MF Categories	View	
	Jan-26	Dec-25
Debt Oriented Funds		
Short Duration Funds/Medium Duration Funds	▲	▲
Banking & PSU Funds	▲	▲
Corporate Bond Funds	▲	▲
Target Maturity Index Funds	◆	◆
Medium to Long / Long Duration Funds	◆	◆
Dynamic Bond Funds	◆	◆
Gilt Funds	◆	◆
Ultra Short Duration/Low Duration/Money Market Funds	◆	◆
Arbitrage Funds	▲	▲
Liquid/Overnight Funds	◆	◆
Conservative Hybrid Funds	▲	▲
Credit Risk Funds	◆	◆
Income Plus Arbitrage FoF	▲	▲

Research Presentation – Contents

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- Trade shocks and rising debt forced Central Banks across larger economies to push for nominal growth via policy support while inflation saw gradual cooling
- Global Debt continues to expand as more economies look at fiscal support to spur up growth... Geopolitics led to rising defence expenditure... This has brought back 'term premium'
- Diminishing expectations of further policy easing, weakening tax collection and increased SDL supply drove Indian G-sec yields higher during the second half of the year
- Post the inauguration of new governor, RBI cut the policy rates by 125 bps and CRR by 100 bps as focus shifted to supporting nominal growth
- RBI continued to support liquidity during a large part of the year, but forex intervention to aid the falling Rupee towards the end started affecting banking system liquidity
- Higher than expected tariff, delay in trade deal with US and outflow by FPI & FII pushed INR to record low... Current Account continued to remain in Deficit
- Headline inflation continued to remain low despite sticky Core inflation... GST rationalization and improved agricultural output likely to keep inflation benign, giving RBI room to provide further policy support in case required
- High borrowing at the longer end by states put pressure on supply-demand dynamics despite Centre's commitment to maintain fiscal prudence...
- ...putting pressure on the longer end of the G-Sec curve... Whereas the shorter end came off following policy easing, leading to steepening of the curve
- Corporate Bond yield curve moved from being inverted to normal and then steepened
- Expectations from 2026
- Monetary policy actions to be driven by MPC's priority on growth as inflation is expected to remain under check... Development around trade deal to be watched out for (1/2)
- Monetary policy actions to be driven by MPC's priority on growth as inflation is expected to remain under check... Development around trade deal to be watched out for (2/2)
- Disclaimer

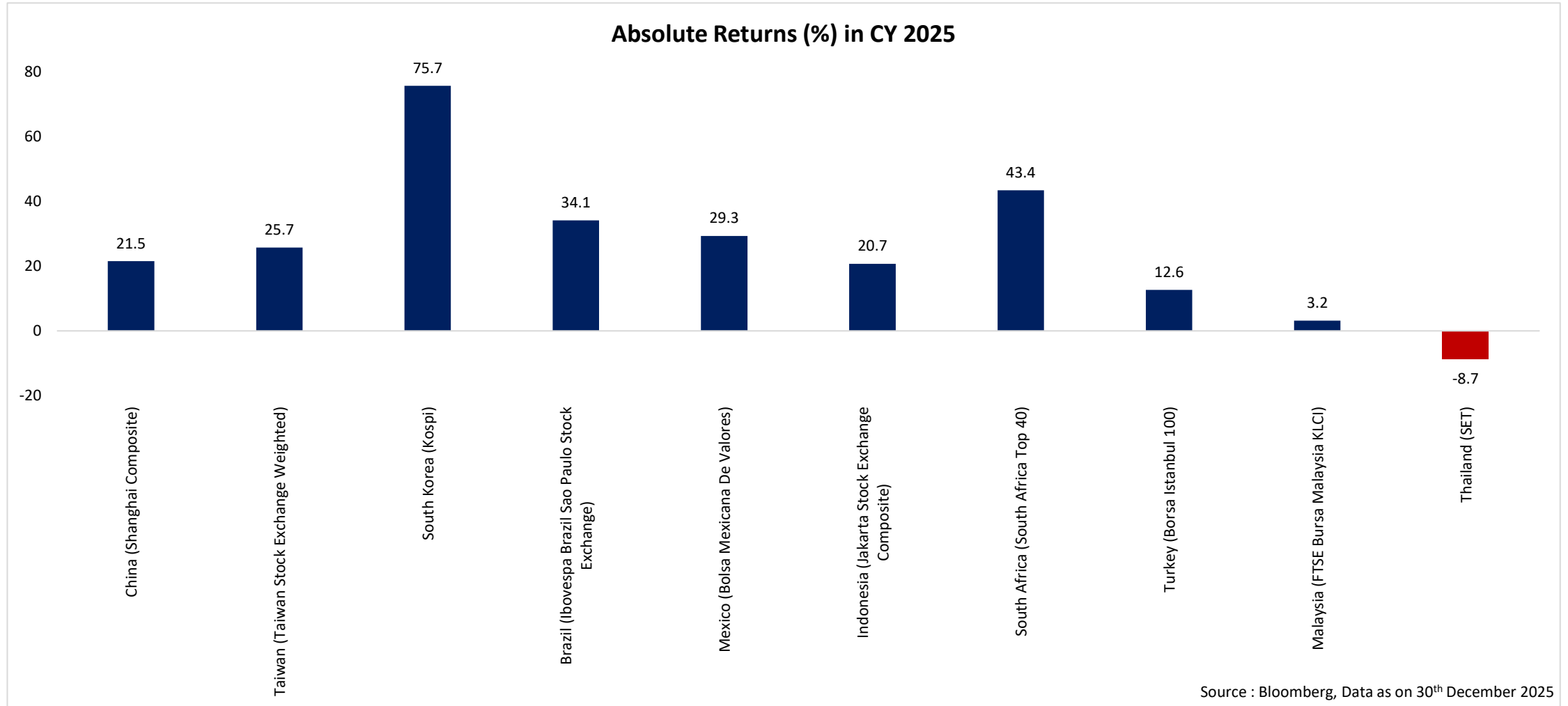
Year 2025

Equity markets consolidated, driven by rising FPI outflows, weak currency, slowing nominal GDP, while EMs rallied on the back of weak Dollar index

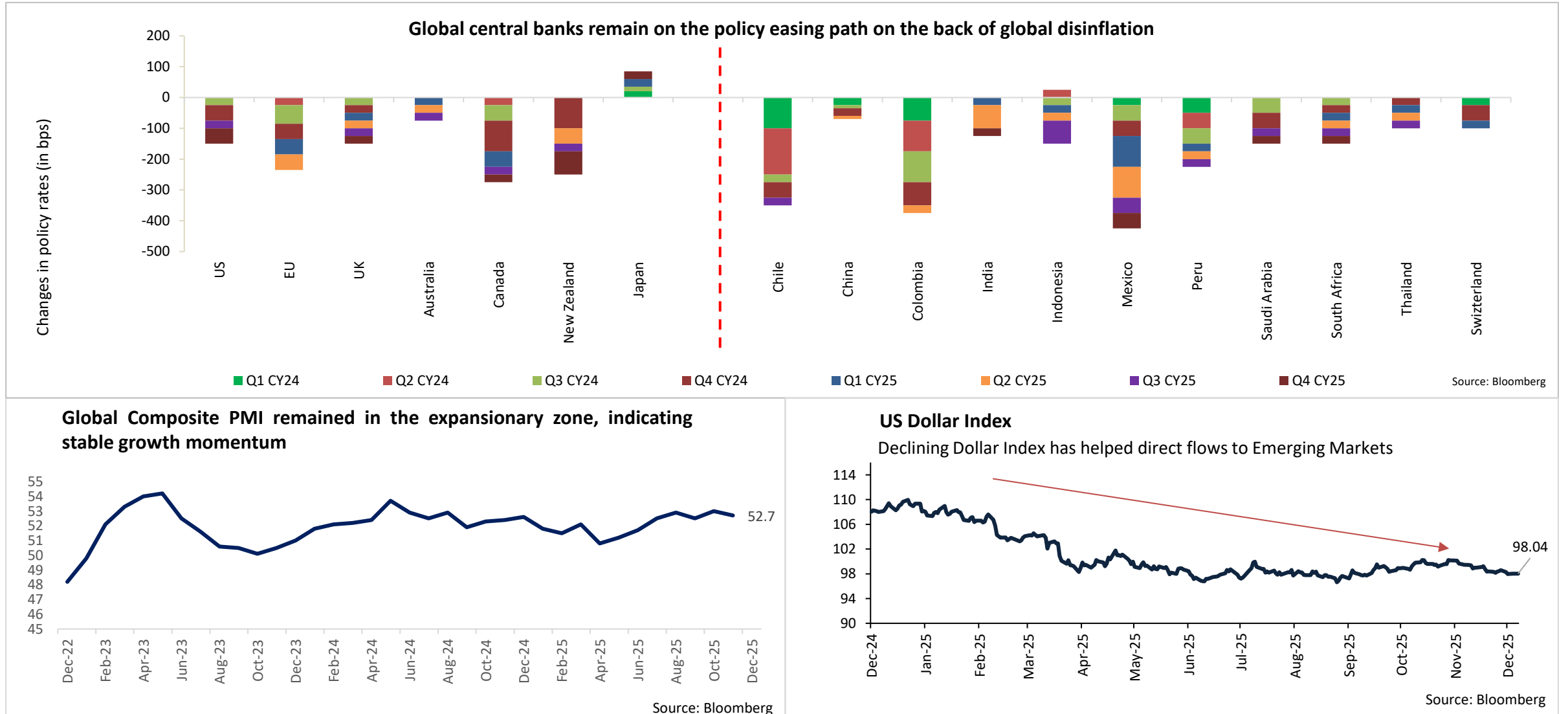
Equity MF Strategy – January 2026

- Calendar 2025 saw another year of strong performance in global risk assets. Most equity markets witnessed positive returns on the back of stable growth conditions, falling inflationary environment and policy rate cuts by global central banks, despite higher trade tariffs from the US. US markets continued to deliver strong returns in 2025 on the back of declining interest rates, stable economic data points and strong gains in tech shares led by big AI spends. While the US Fed cut policy rates during the year, it gave signals that for CY26 further measures to support liquidity could come along to keep the growth momentum going. Global growth expectations for CY25 was raised by the multilateral agencies during the year as the expectation of weakness in the US economy did not materialise. Europe started to see signs of stability in growth driven by very favourable monetary support and higher fiscal spending by its key countries.
- Global industrial commodity prices were strong, led by high capex demand in the power sector and tightening supply in base metals. Agri prices, too, remained stable globally. Crude oil price was weighed down by rising supply and slowing demand. All this continued to weigh down on global inflation. Precious metals rose sharply as a hedge to rising global geopolitical tensions and currency debasement.
- The Dollar Index declined meaningfully during the year. This pushed the FPI flows into emerging markets. Performance of most of the EMs' equity indices were strong. India underperformed its EM peers as FPI outflows remained high.
- Movement in US bonds yields, Fed's liquidity positioning and the US Dollar index remain key data points for assessing the risk on sentiments for EMs in CY25.
- Indian equity markets entered a phase of consolidation in CY25, driven by decelerating earnings, continued FPI outflows, high valuations in the mid and small cap segments and high trade tariffs by the US. This was despite the very strong outperformance on the GDP growth expectations, fiscal support to consumption in the form of Income tax benefits and GST reforms and sustained support from the retail investors. The returns in small and midcap indices were much weaker than the largecap indices, as valuations concerns continued to plague the mid and small cap segments.
- India's overall GDP growth remained strong in CY25 driven by strong support from the Government in terms of capex spending along with its demand supportive actions and sharp policy rate cuts by the RBI. The year also saw a short but effective military action by India on Pakistan and its proxies, which didn't weaken domestic investor enthusiasm. Rural India turned up to be the big pillar of support for consumption demand, while urban India saw steady demand on the high-end discretionary side. Recent actions by the government and the RBI clearly suggest that improving the domestic consumption demand remains a key focus area of the policy makers, as the old paradigms on international trade reset.
- India remained one of the fastest growing large economies in the world. Strong improvement in urban consumption, improved rural demand, steps taken by the RBI to add liquidity and possibly lower policy rates are likely to drive GDP growth going forward.
- As we gaze into CY26, the earnings trajectory in India could be troughing out in Q3 FY25 and sustained pickup from there is likely to drive the equity markets. **The Indian equity markets could see improved earnings performance, driven by better liquidity, higher nominal growth, stable rural demand, pent-up urban demand and policy support by the government. As earning growth starts to pickup in India, strong global liquidity driven by the US Fed and sustained weakness in the Dollar index may ensure that the FPI flows start to turn back positive. Small and mid caps could underperform till the trade deal with key partners is not stitched up favourably or till urban demand doesn't see a strong revival. While in CY25 we have seen overall returns from the equity markets moderating, we expect better performance in CY26 at an aggregate level.** On the valuations front, Large caps still look better than mid caps which in turn look better than small caps.
- CY26 could be marked by global economies and risk assets factoring in the actions by the various central banks, especially the US Federal Reserve, in terms of providing liquidity support to defend their bond yields and growth. The reaction function to the tariffs by the US on China and the EU would be a key monitorable in terms of the space that opens up for Indian corporates. Trade deals of India with US and EU would be key monitorable.
- **Since the aggregate valuations in the market are not cheap, we continue with investment deployment strategy of 50% lumpsum and rest 50% to be staggered over the next 5-6 months. All allocations should be done in line with the risk profile and product suitability of the investor. Mutual Fund investors can look to focus on categories like Flexicap, Large and Midcap, Value and Hybrid funds while using STPs as an instrument to invest in Multicap and Multi asset funds. Aggressive investors may also look at Business Cycle Funds for allocation. All allocations should be done in line with the risk profile and product suitability of the investor.**

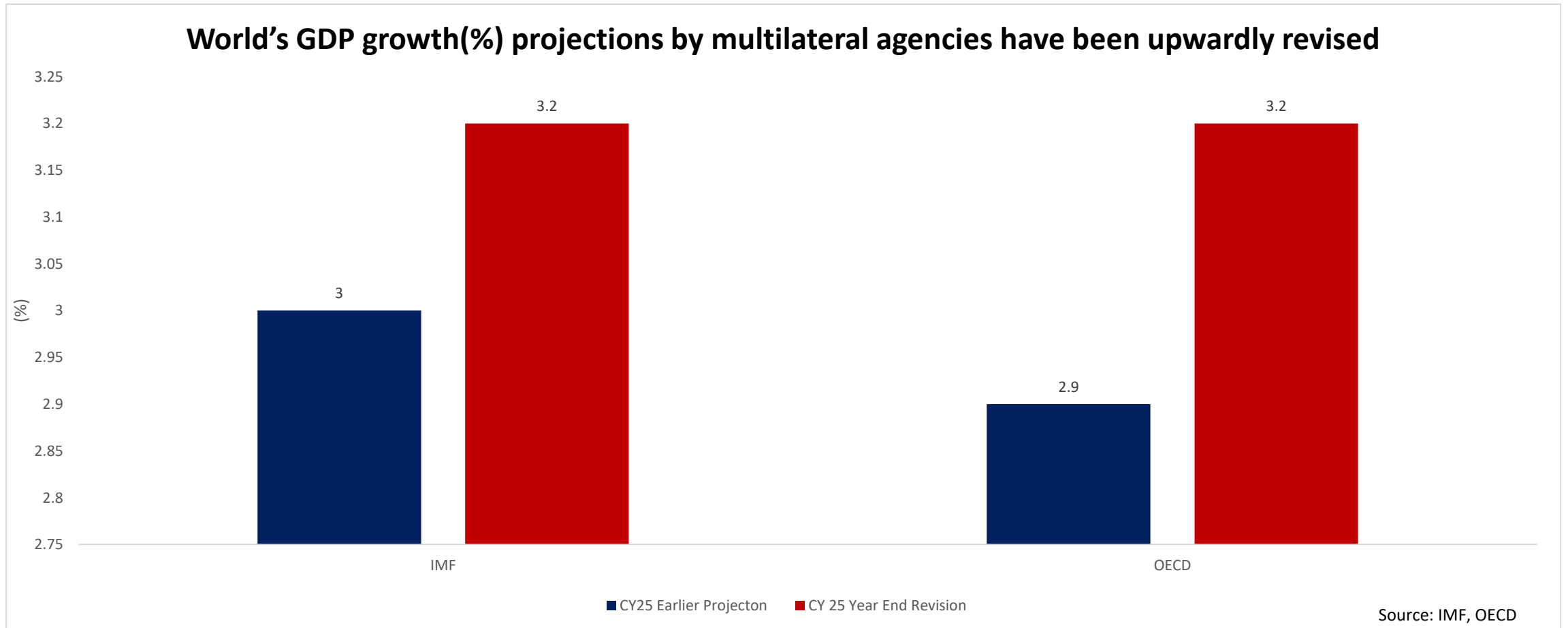
Global Equity markets showed a positive picture in CY25, with majority of indices delivering positive returns...



...Global rally was led by easing liquidity, lower Dollar Index and stable macroeconomic conditions



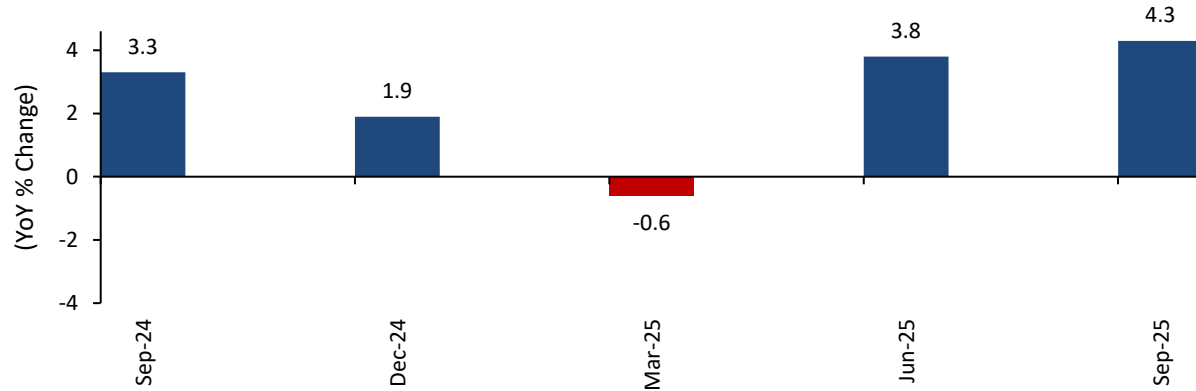
Multilateral agencies upgraded global growth for CY25, as impact of US tariffs did not play out as anticipated



US: Belied expectations of slowdown

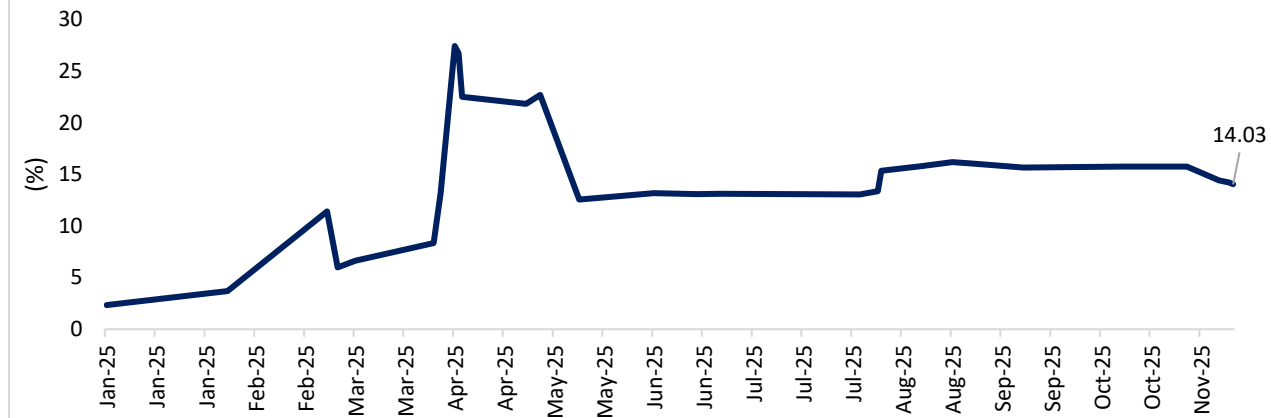
US Quarterly GDP Growth

The US economy has held up despite all the uncertainties



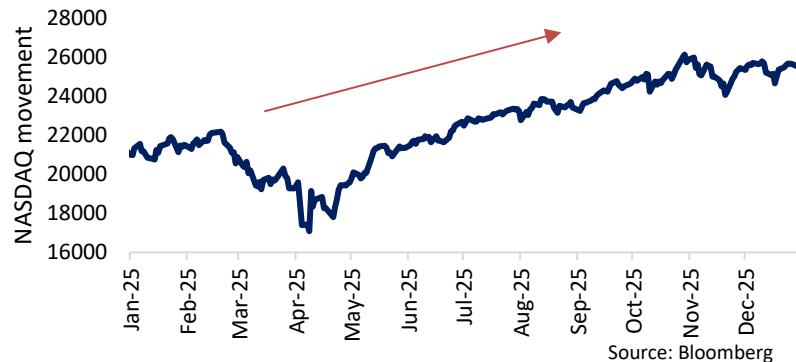
Source: Bloomberg

Effective tariffs on US imports have gone up, though below expectations



Source: Bloomberg

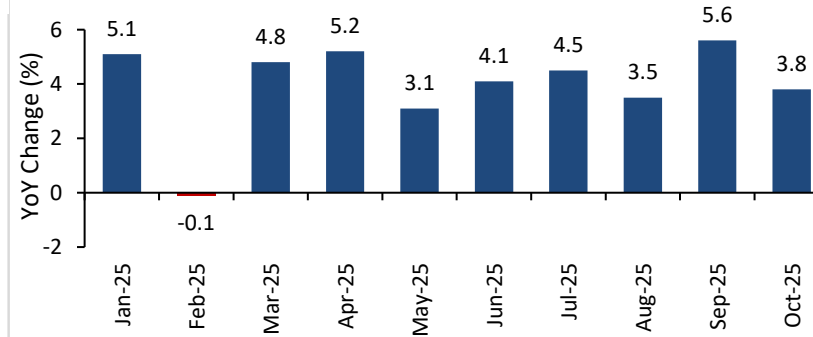
AI capex has led to boom in the technology sector, lending further supporting to the US economy



Source: Bloomberg

US Retail Sales

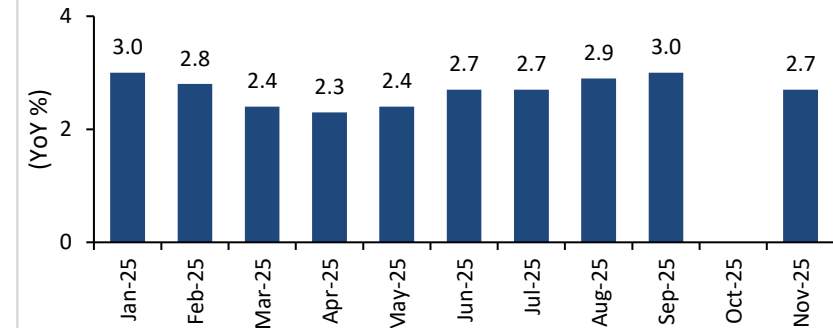
Trend remains favorable, despite tariff concerns



Source: Bloomberg

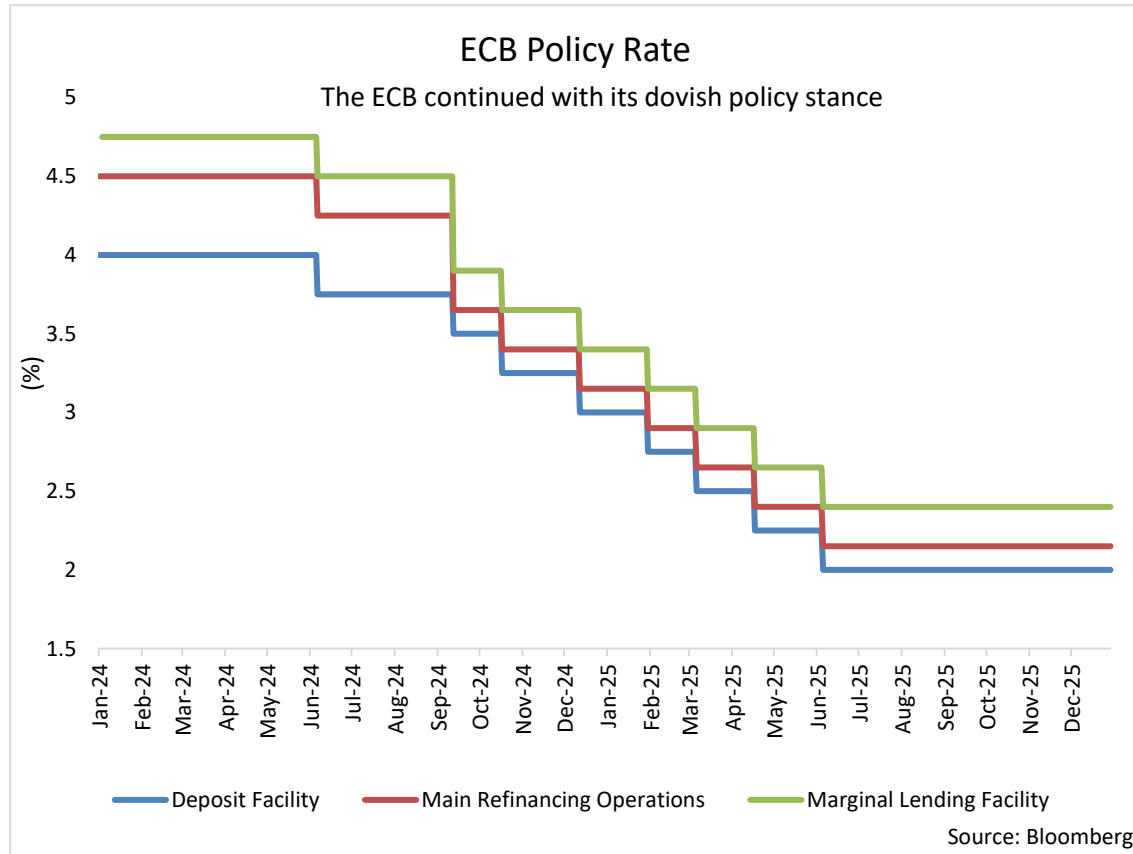
US CPI

US inflation has remained under control



Source: Bloomberg, Data for October not present due to government shutdown

Europe: Stabilize at lower growth driven by ECB policy and capex stimulus



Rising fiscal spending by EU countries to drive corporate profitability

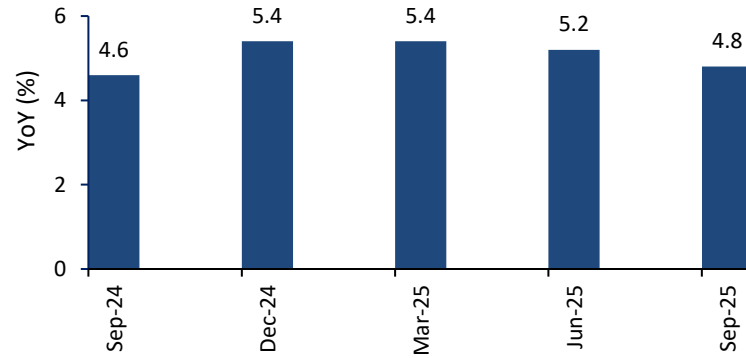
- **Defence spending increase:** To meet the required EUR 800 bn to finance a massive ramp-up in defence spending, each member state must spend 1.5% of its GDP on defence. That would bring the combined amount to EUR 650 bn, the remaining EUR 150 bn would be provided by loans.
- The legislation includes provisions for a EUR 500 bn investment in infrastructure over a 12-year period.
- France set an even higher target for defence spending at 3-3.5% of economic output from the current 2%.

Source: Media Reports

China: Growth steady despite tariffs, tech plays gained post Deepseek, exports remain strong but manufacturing remained weak as domestic consumption remained subdued

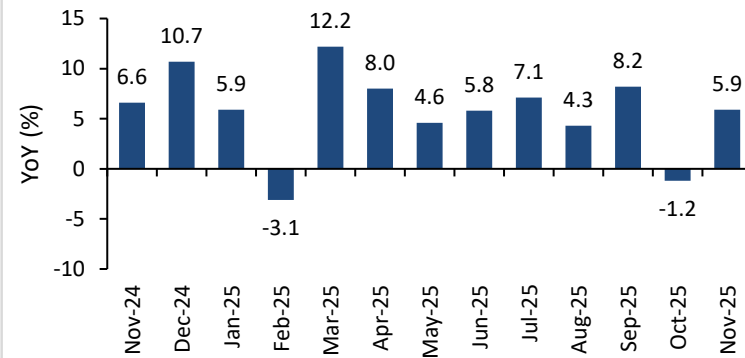
China Quarterly GDP

Growth holding up



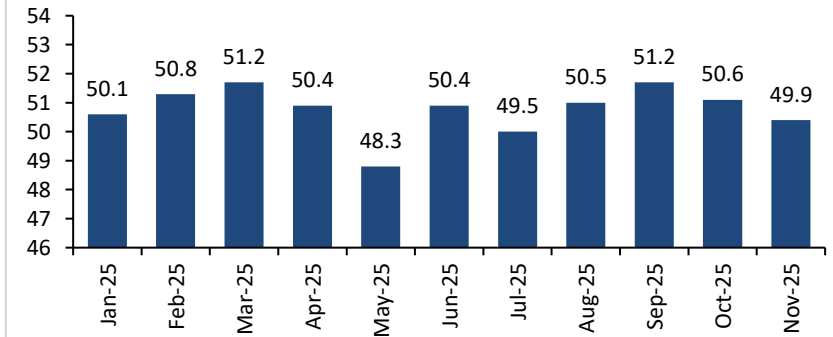
Source: Bloomberg

China's Export Growth remains strong...



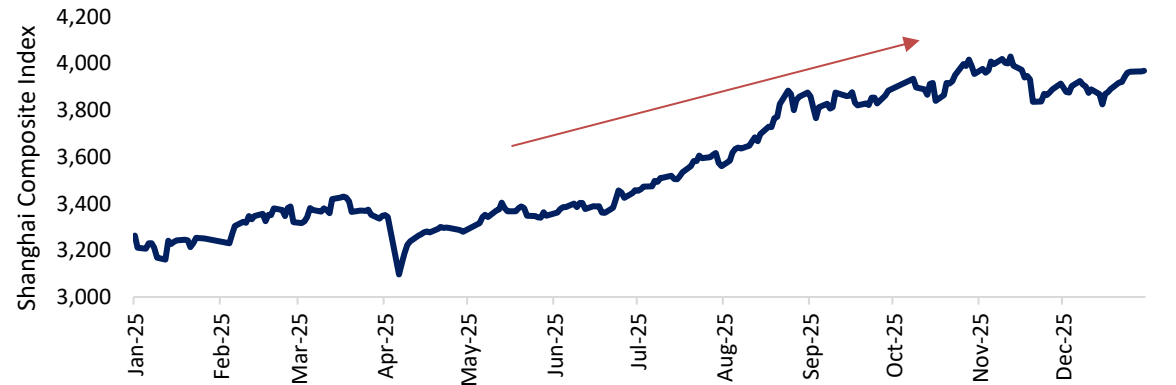
Source: Bloomberg

...while China's Manufacturing PMI remains muted



Source: Bloomberg

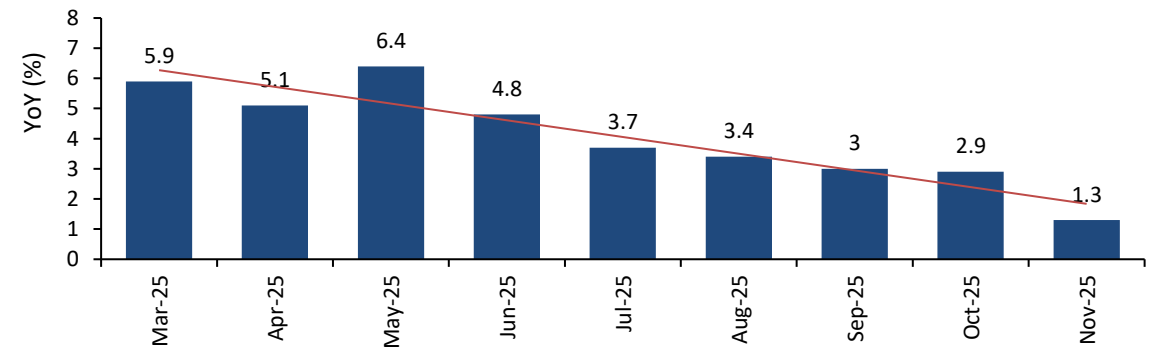
DeepSeek's model offered performance comparable to US giants but at a significantly lower training and inference costs, sparking a re-evaluation of Chinese AI assets



Source: Bloomberg

China Retail Sales

Weak consumption remained a concern despite various stimulus packages announced by the Government.

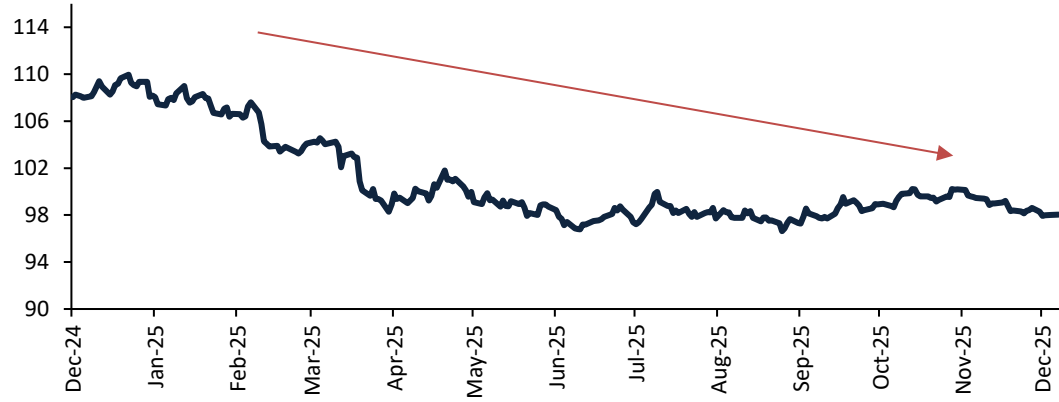


Source: Bloomberg

Emerging Markets: Rally strongly led by low valuation, DXY weakness

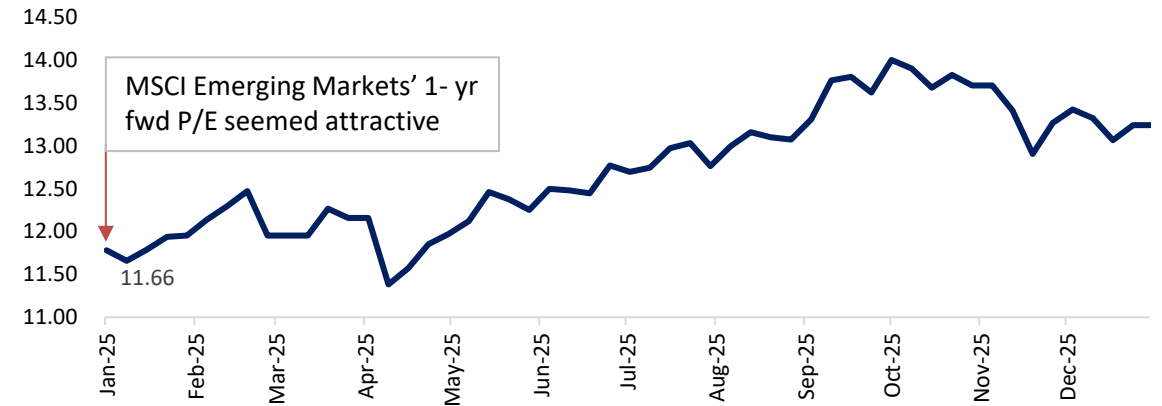
US Dollar Index

Dollar Index has declined... leading to flows into Emerging Markets



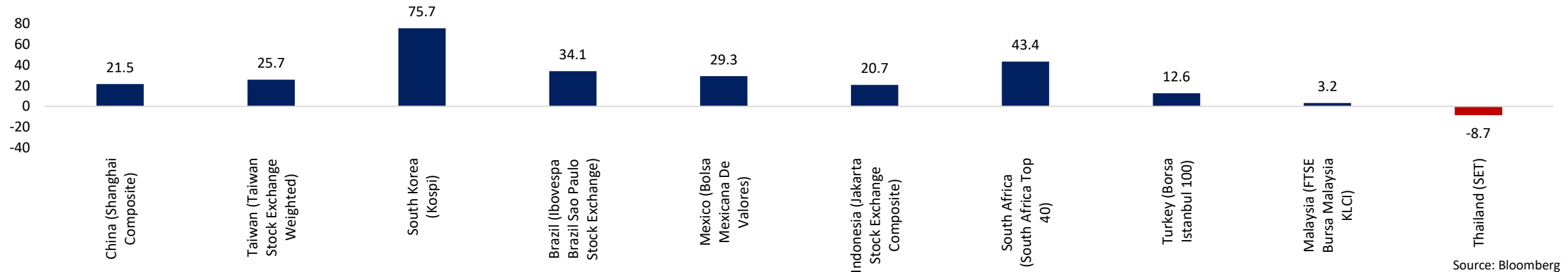
Source: Bloomberg

Further, relatively lower valuations boosted overall flows



Source: Bloomberg

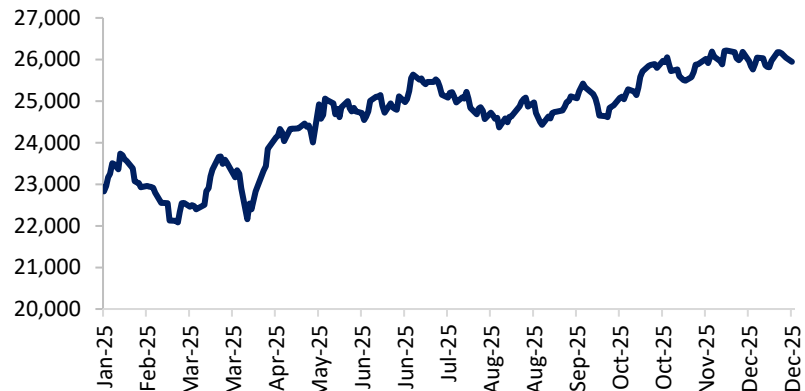
Absolute Returns (%) in CY25



Source: Bloomberg

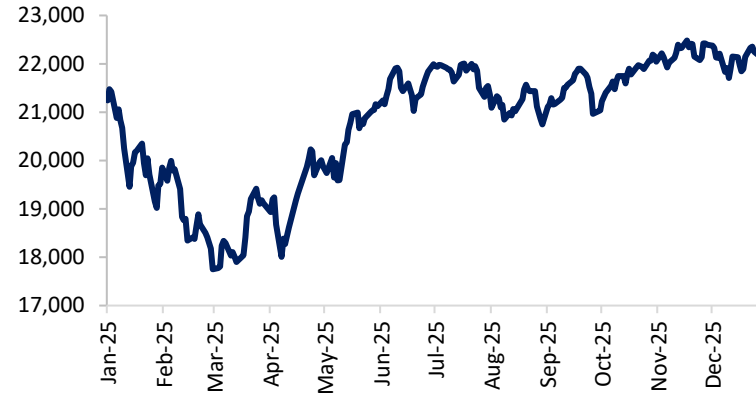
Indian Markets: Remained volatile as FPIs pulled out due to elevated valuations and high tariffs imposed by the US

Nifty 50 price movement



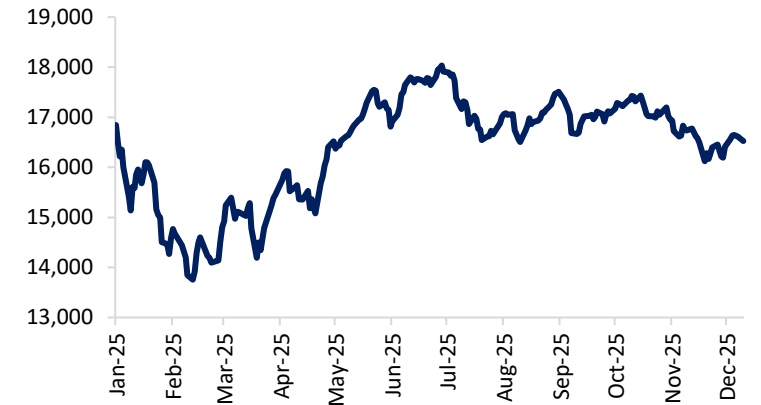
Source : Bloomberg

Nifty Midcap 150 price movement



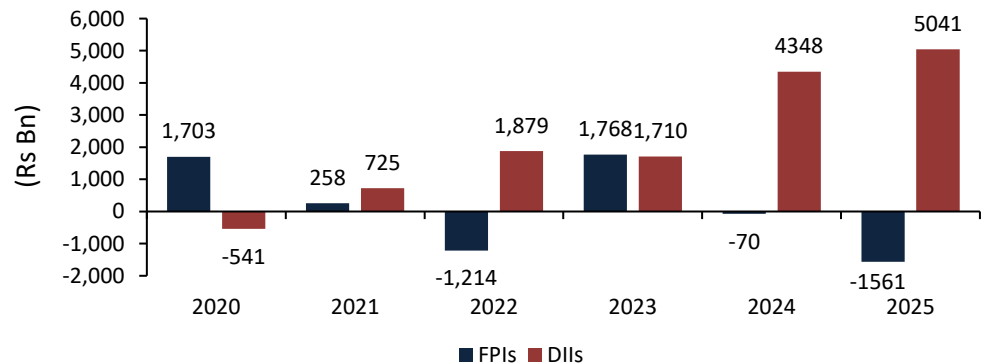
Source : Bloomberg

Nifty Smallcap 250 price movement



Source : Bloomberg

Net Flows In Equities



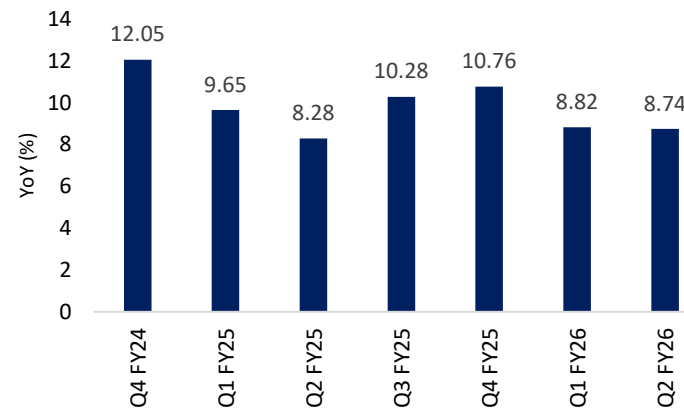
Source: SEBI, CDSL

*For 2025, FPI and DII data is up to 31st December.

**Net Flows In Equities is the sum total of flows in Stock Exchange and Primary market & others

Nominal GDP Growth

Moderating and remains a cause for worry



Source: MoSPI, Bloomberg

Tariff situation uncertainty persists...

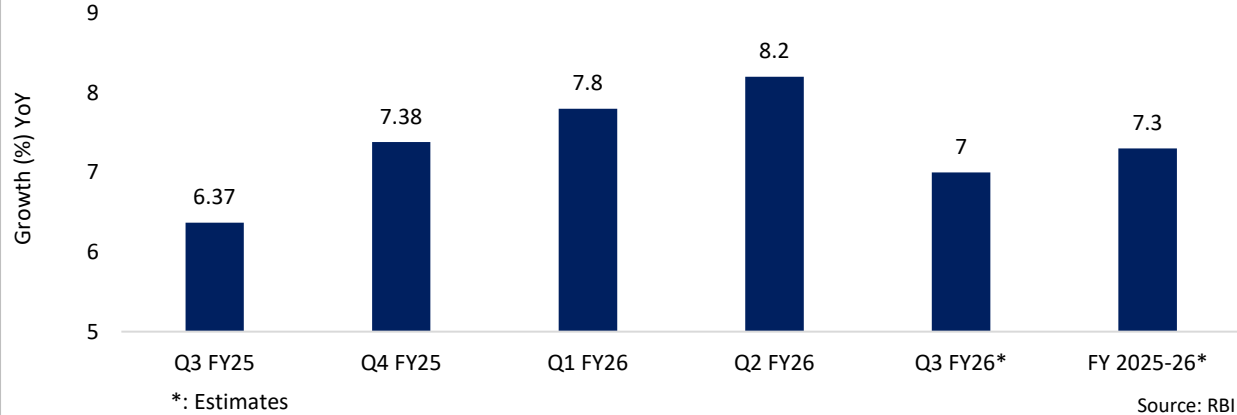
- **The US tariff** on India was increased to 50% on August 27, 2025, impacting over half of India's exports to the US.
- **Affected Sectors:** Textiles, Gems & Jewellery, Leather, Marine, Chemicals; 55% of USD 87 bn exports at risk.
- **Exempted Sectors:** Pharma, Semiconductors, Energy, Critical minerals exempt, preserving supply chain roles.
- **Economic Impact:** Tariffs may cut GDP by 0.3-0.5%, USD 4-5 bn export drop, rupee risks.

Source: Media Reports

Economic Momentum: Though economic momentum continued to remain robust, reforms were implemented to push consumption

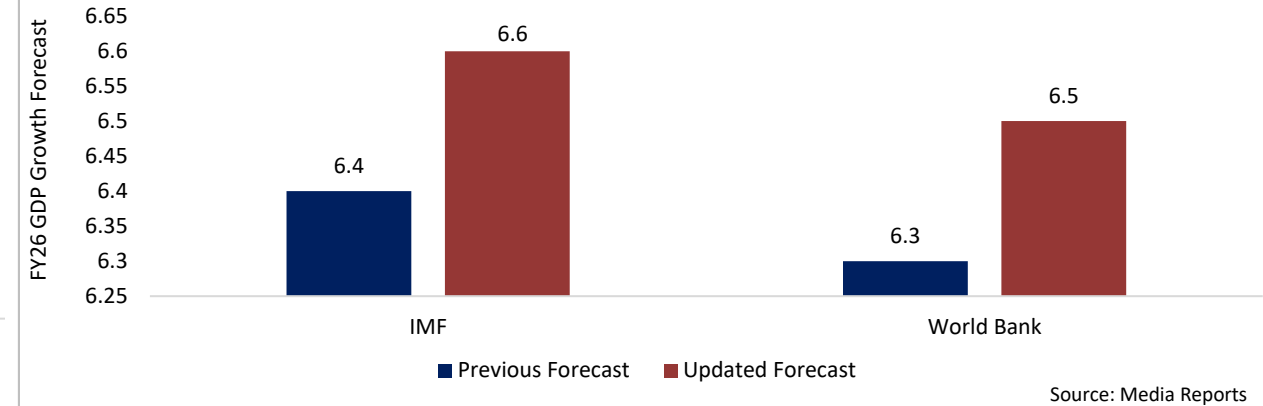
India GDP Growth

Growth numbers came out strong



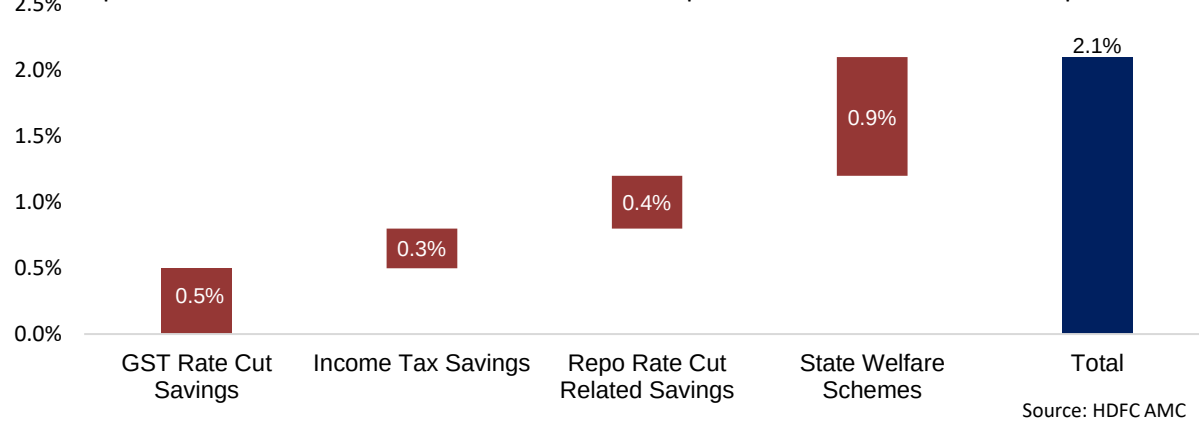
Multilateral Agencies' India Growth Forecast

Multilateral agencies upgraded India's FY26 GDP growth forecast



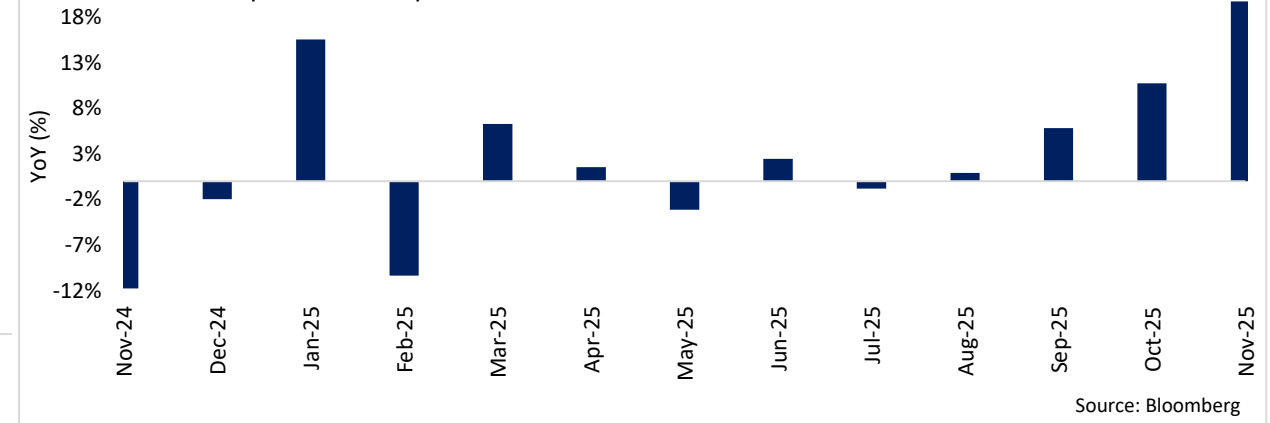
Fiscal Policy Stimulus for Consumption

Implementation of Income Tax & GST rate cuts is expected to stimulate the consumption



Passenger Vehicle Registrations

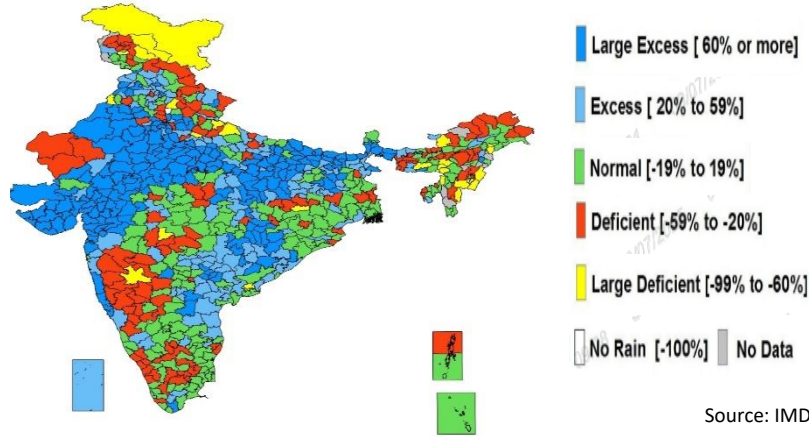
Positive surprise on the upside observed with record sales



Rural Momentum: Rural economy continues to see traction

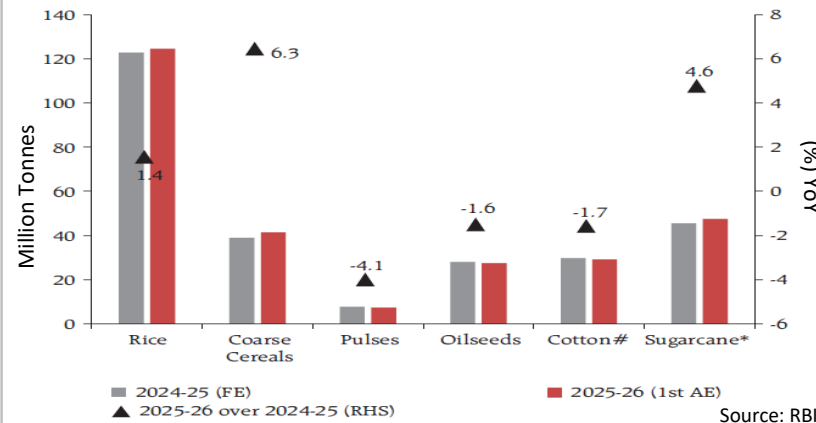
India Monsoon Rainfall (01 Oct 2025 – 31 Dec 2025)

Above average monsoon remained key driver for rural economy

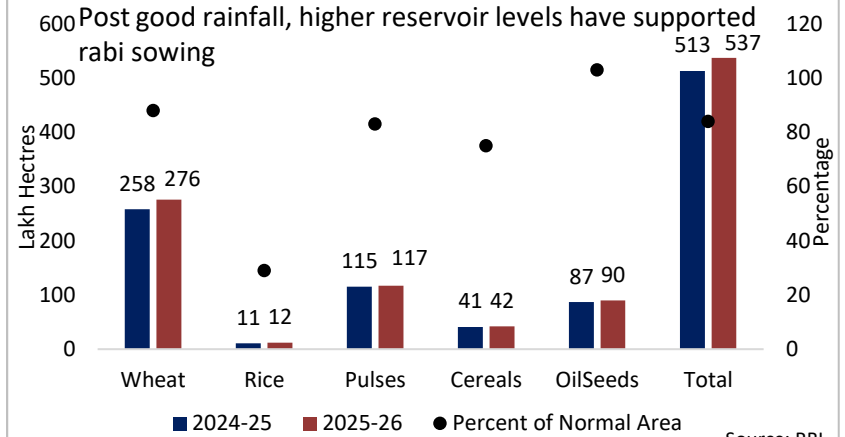


Kharif Crop Production

Increase in production particularly lead by cereals

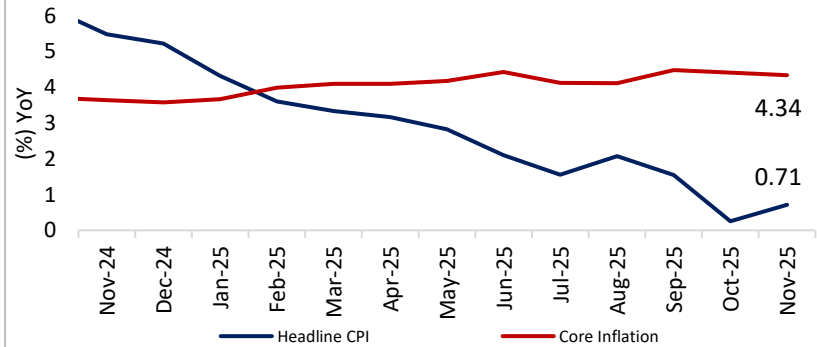


Rabi Crop Sown Area



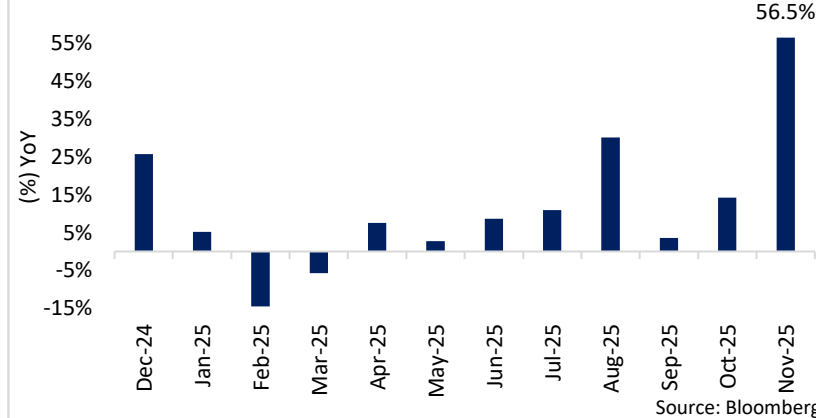
CPI Inflation (% YoY)

Inflation continues to remain low leading to higher disposable income



India Tractor Sales

Sharp increase recorded in sales of tractors



Direct Benefit Transfers

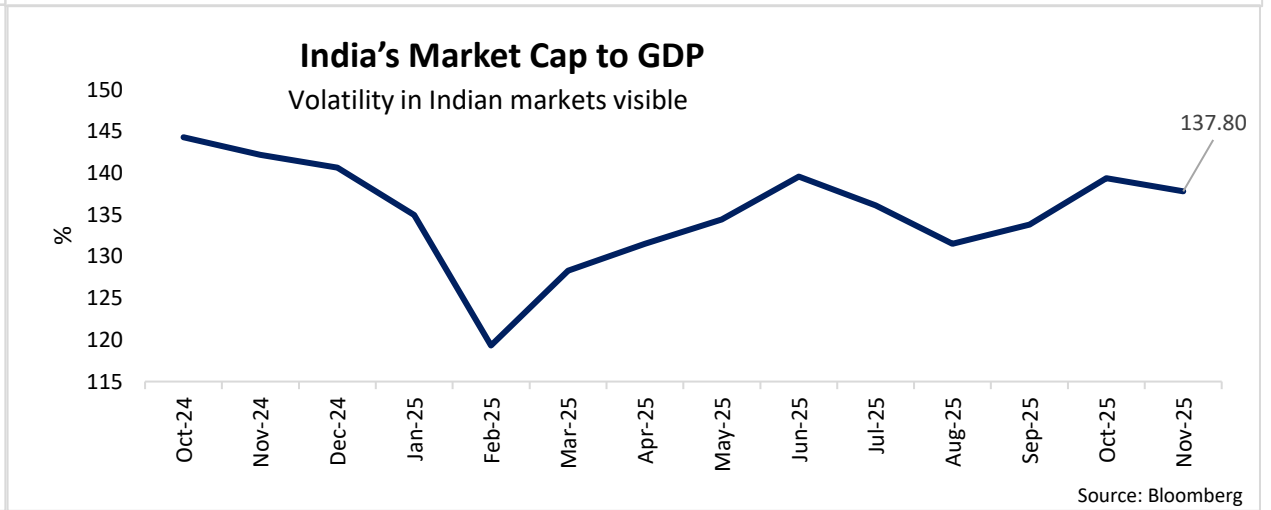
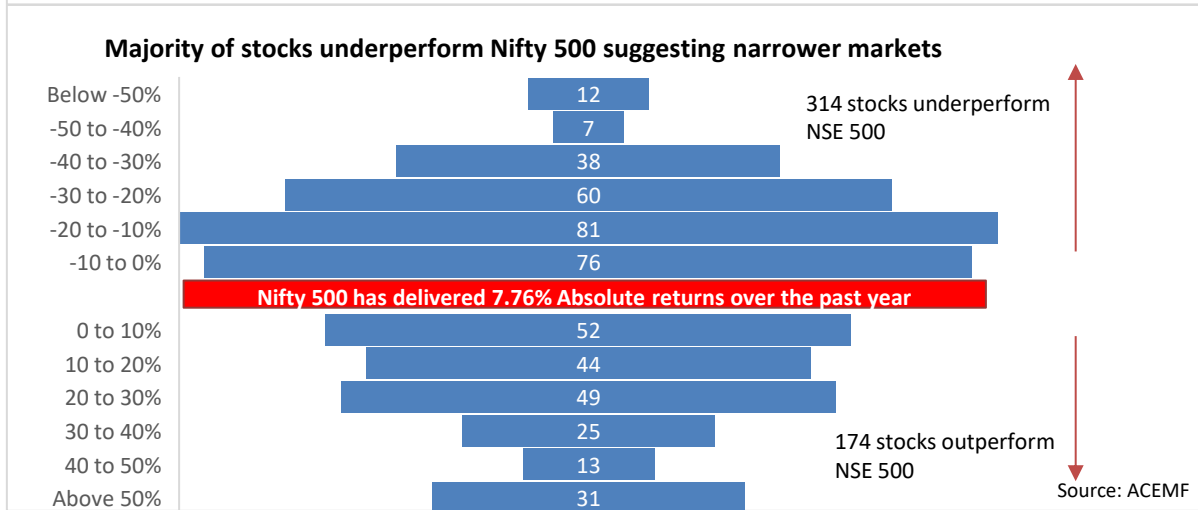
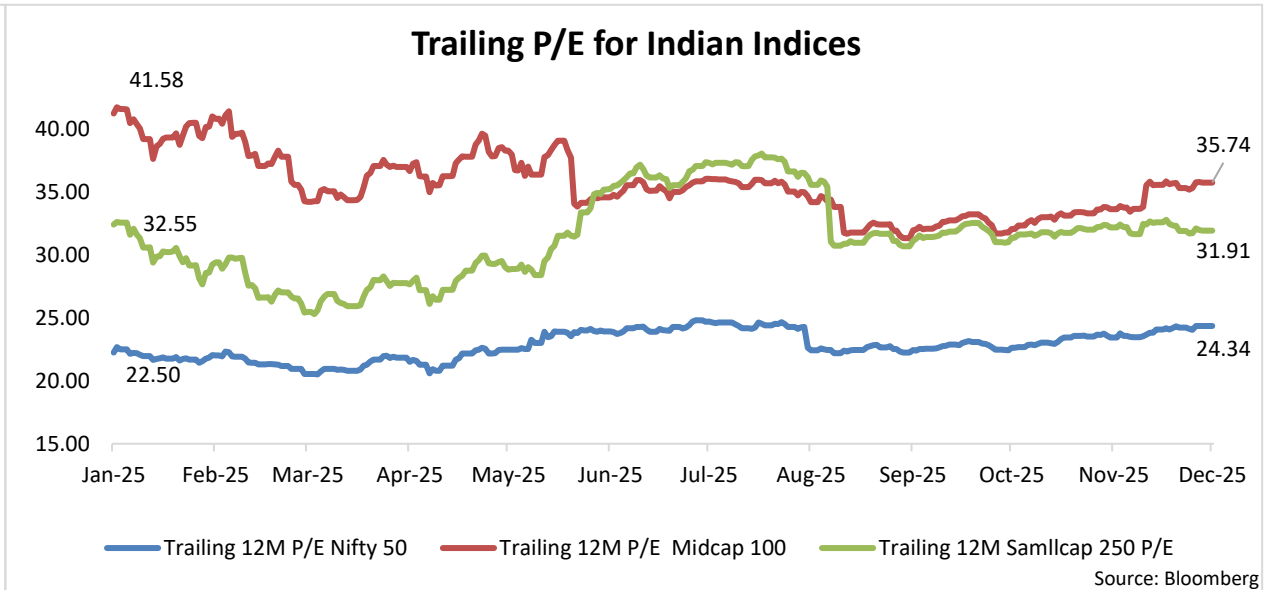
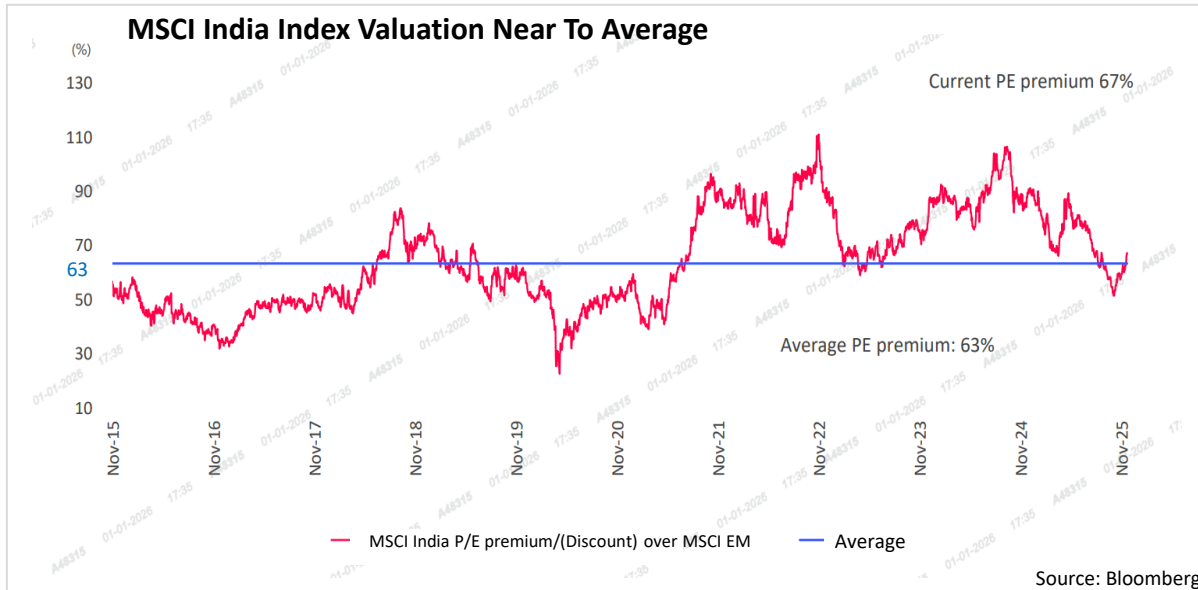
Cash transfers increased disposable income of households

Sr No	Scheme Group Name	Total Direct Benefit Transfer (Bn ₹)
1	PAHAL	124.3042768
2	MGNREGS	572.0040366
3	NSAP	22.8992911
4	SCHOLARSHIP SCHEME	30.23874283
5	PMAYG	297.8001296
6	PDS	833.8219226
7	FERTILIZER	1342.219376
8	OTHERS	940.2509395
	Total	4163.538715

Note: Figures are till Dec 2025

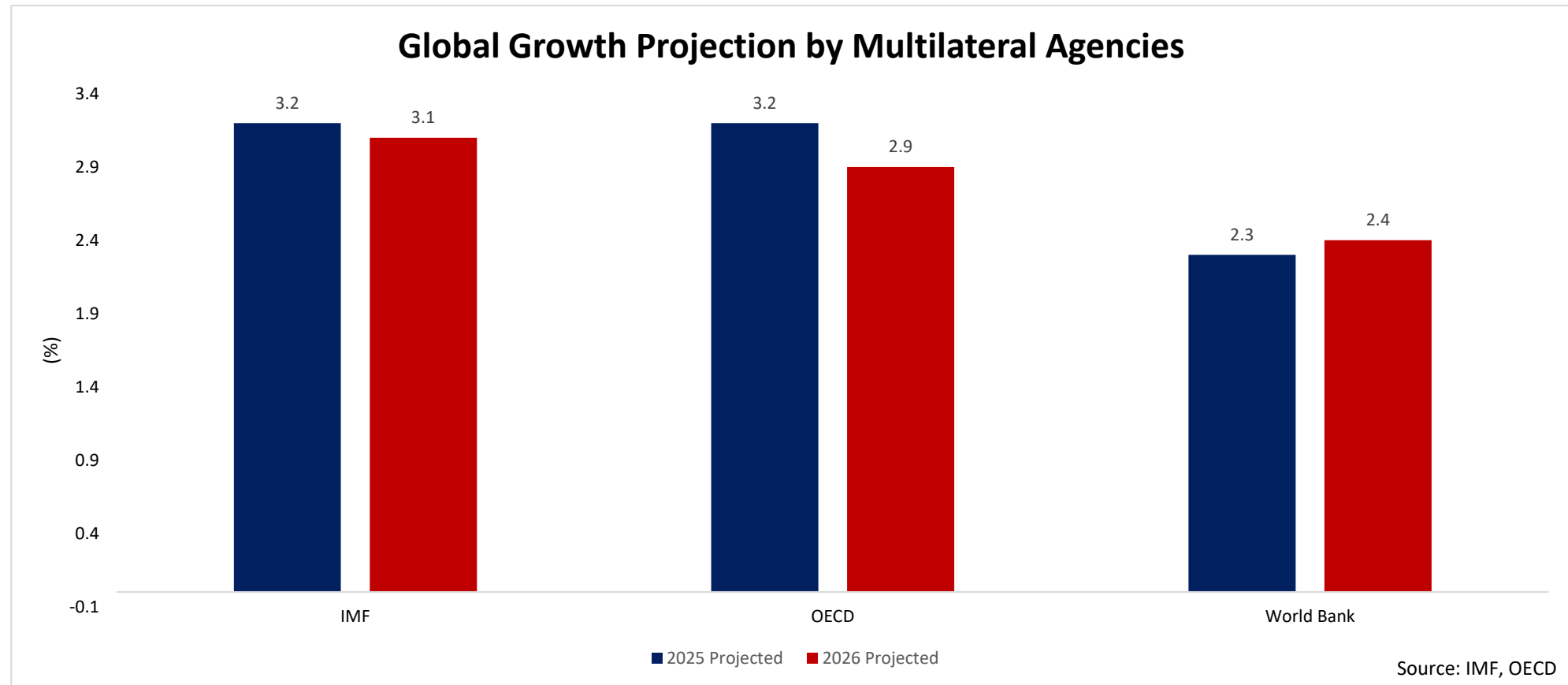
Source: DBT Bharat

India Valuations: have come off but still remain elevated



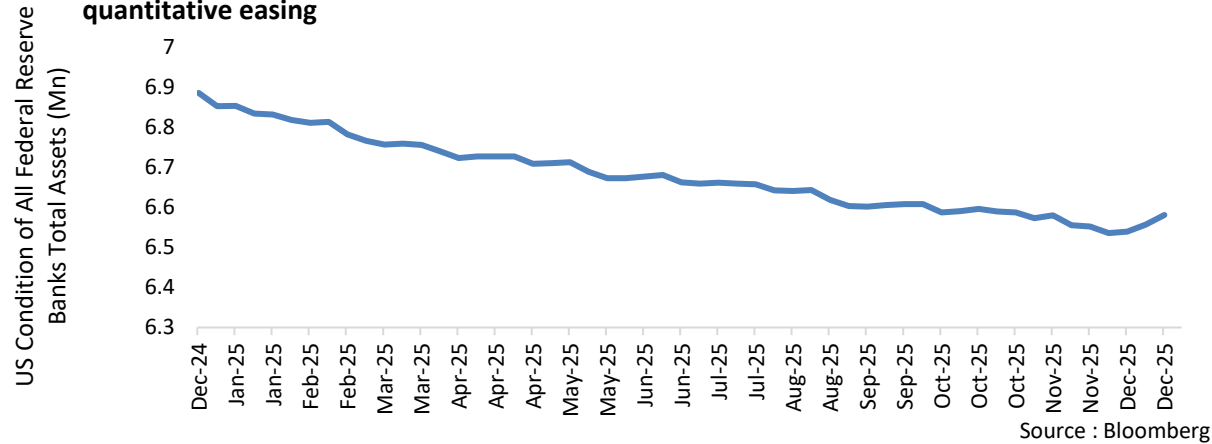
Expectations from 2026...

Global Growth likely to remain stable



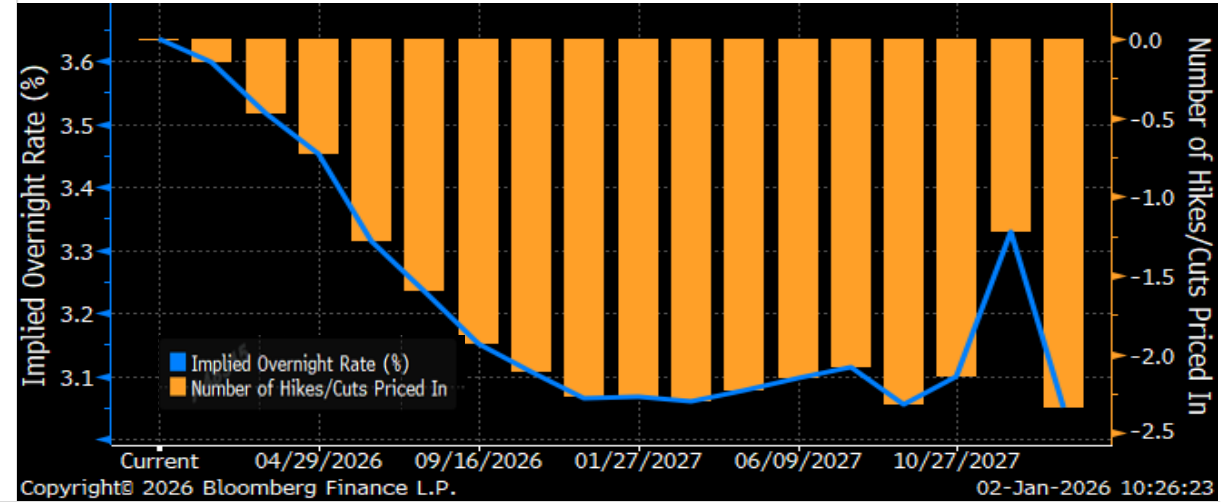
US: Fed likely to infuse liquidity to ensure economic stability

The Fed's latest move includes a proposed USD 40 bn in Treasury purchases in December 2025, reversing several months of balance-sheet runoff. The move signals a return to quantitative easing



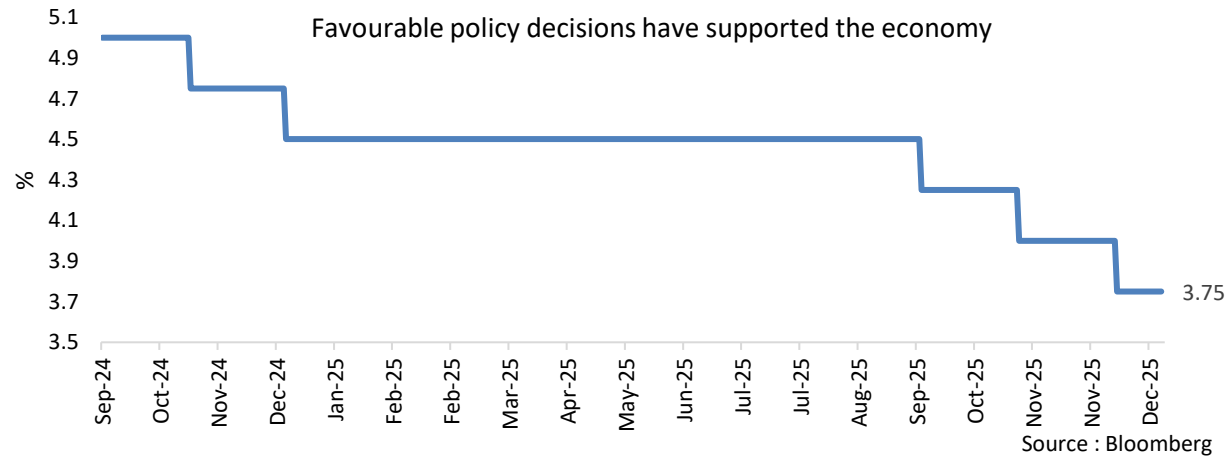
Policy rate cut expectations

Source : Bloomberg



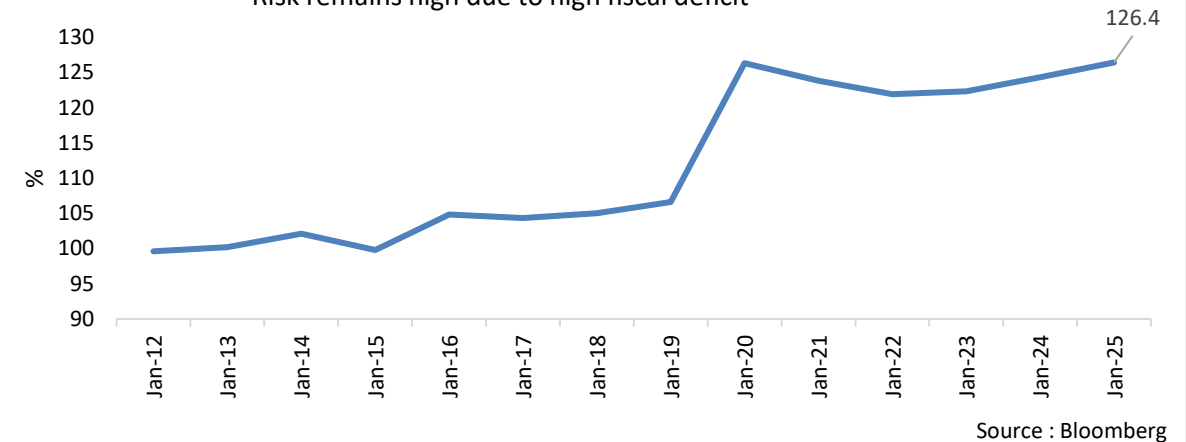
US FOMC Rate Decision - Upper Bound

Favourable policy decisions have supported the economy



US Debt To GDP

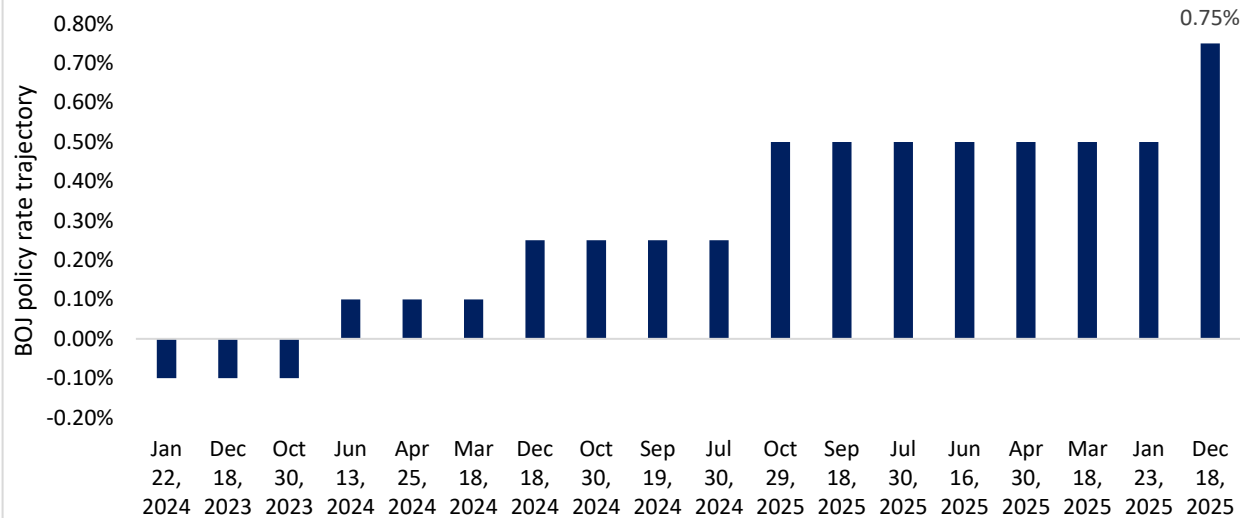
Risk remains high due to high fiscal deficit



Japan: Emerges as a key risk to global flows with its inflation and interest rates rising

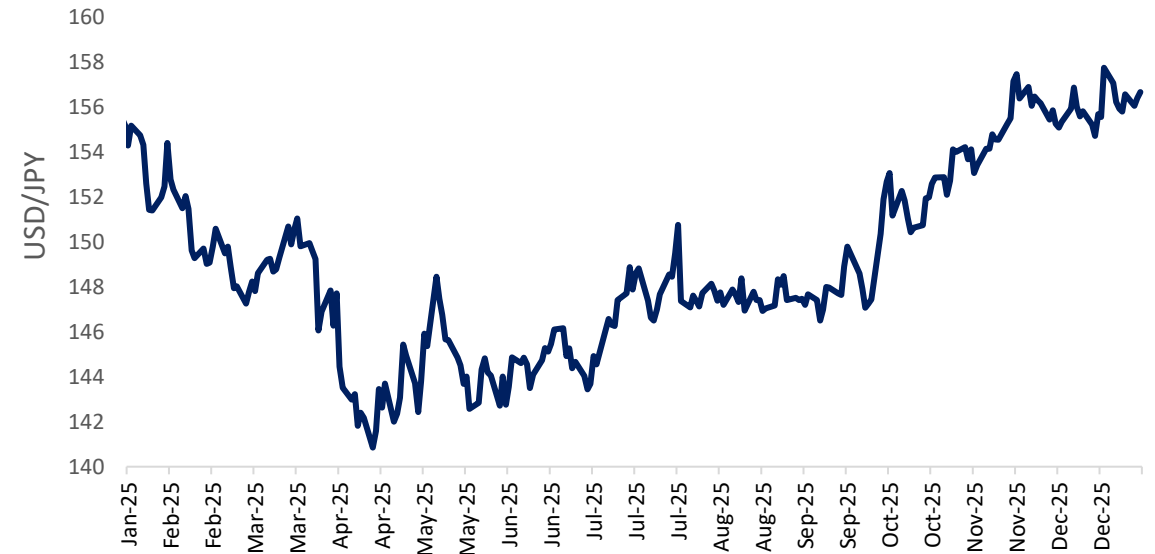
Japan interest rate trajectory

With rising inflation, Japan's central bank embarked on rate hike process which can turn out to be negative for global carry trade; since Japan has been a source of low cost money for investors...



Source : Bloomberg

...though as long as Yen depreciates, the risk of carry trade unwinding remain under check

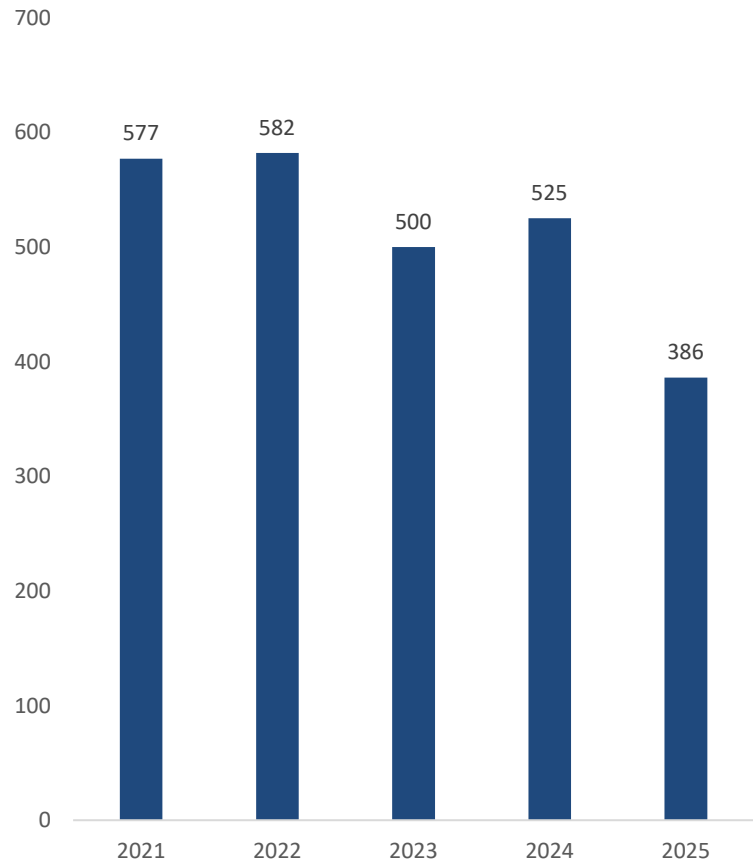


Source : Bloomberg

China – With high tariffs, China continues to push domestic demand and look for newer markets or look at cutting capacity

China's Export to US (USD Bn)

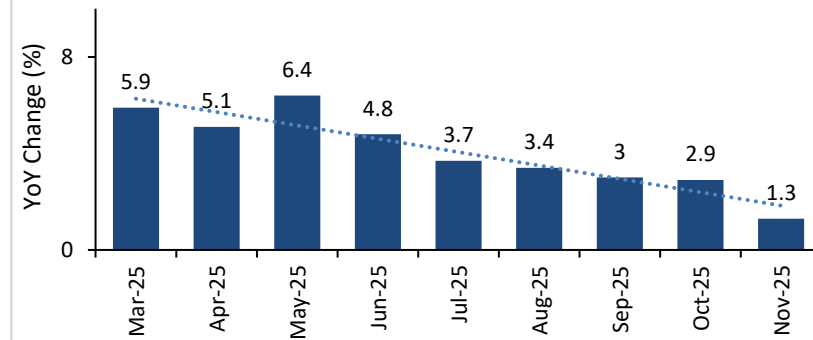
China could look to diversify its exports from US to other countries on back of tariff uncertainty



Source: Bloomberg

China Retail Sales

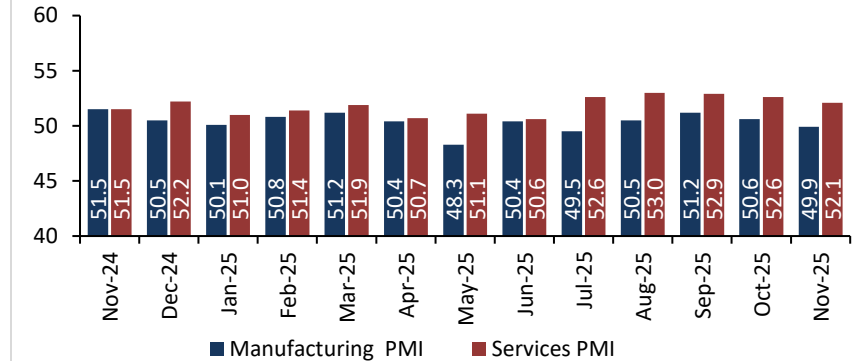
Weak consumption remains a concern despite various stimulus packages announced by the Government.



Source: Bloomberg

China Manufacturing & Services PMI

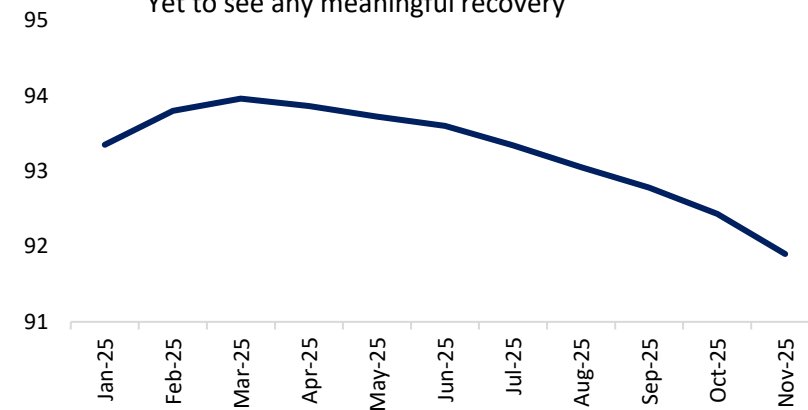
Manufacturing remains weak



Source: Bloomberg

China Real Estate Climate Indicator

Yet to see any meaningful recovery



Source: Bloomberg

Anti-Involution

The issue is that the level of competition has reached a point where the returns are not only diminishing, they are threatening economic instability.

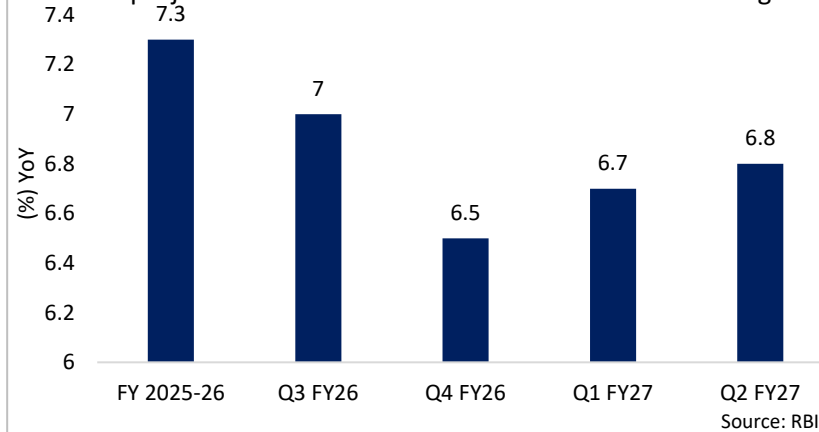
China is looking to improve corporate profitability and reduce excesses which can lead to a lower dumping in other economies.

Source: Media Reports

India: Growth likely to remain robust, liquidity infused by RBI to shore up nominal GDP growth, US-India trade deal remains key monitorable

RBI GDP Growth Projections

RBI projections reflect that momentum will remain strong



RBI Announces Measures to Manage Liquidity

RBI gradually providing the required liquidity in the system

Particulars	Date	Notified Amount (Rs Bn)
Open Market Operation	29-Dec-25	500
	05-Jan-26	500
	12-Jan-26	500
	22-Jan-26	500
USD/INR Buy/Sell Swap	13-Jan-26	10

Source: RBI

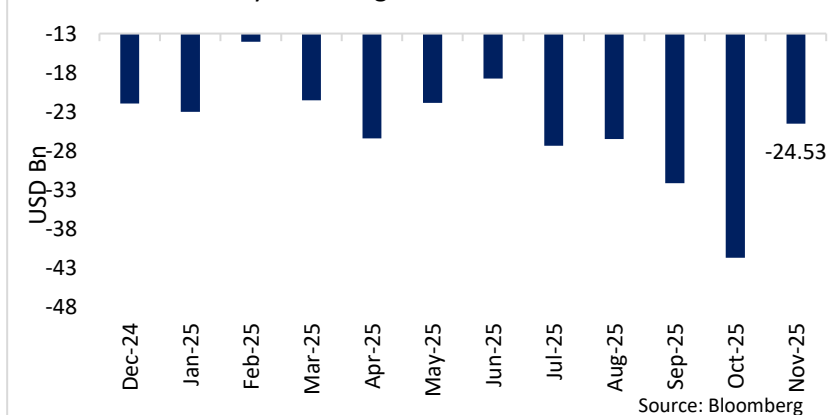
Important Trade Deals Will Be A Further Boost

- **India-US Trade Deal**
- The broader objective of this agreement is to more than double bilateral trade to USD 500 billion by 2030, from the current level of USD 191 billion.
- In FY25, the US remained India's largest trading partner for the fourth straight year, with total bilateral trade valued at USD 131.84 billion, including USD 86.5 billion in Indian exports.
- **India-UK Trade Deal**
- On goods, 99 per cent of Indian exports to the UK will face zero duties, including textiles, leather, engineering goods, marine products, gems and jewellery.
- India agreed to reduce tariffs on nearly 90 per cent of UK goods.

Source: Media Reports

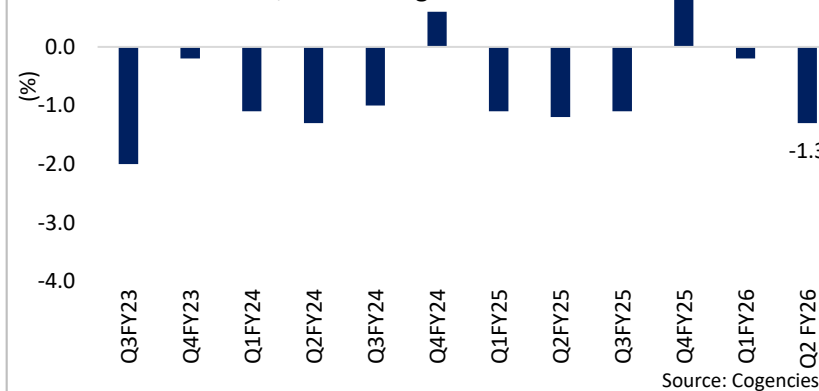
India Merchandise Trade Balance

Weak currency and rising deficit remains a risk



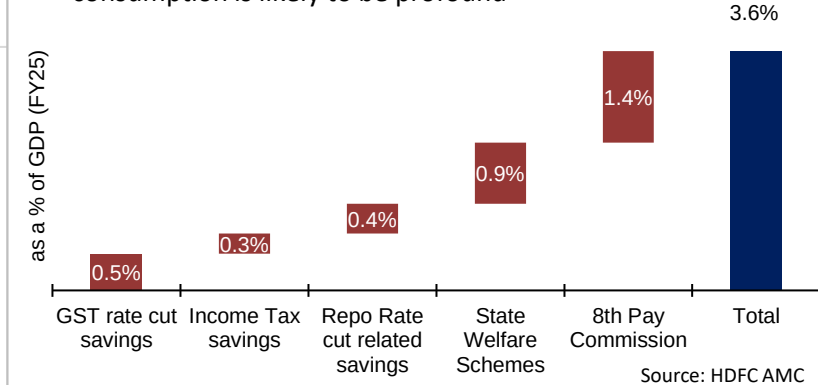
CURRENT ACCOUNT DEFICIT - PERCENT OF GDP

1.0 CAD moderated, but still negative



Fiscal Policy Stimulus for Consumption

Due to the implementation of 8th Pay Commission, boost to consumption is likely to be profound



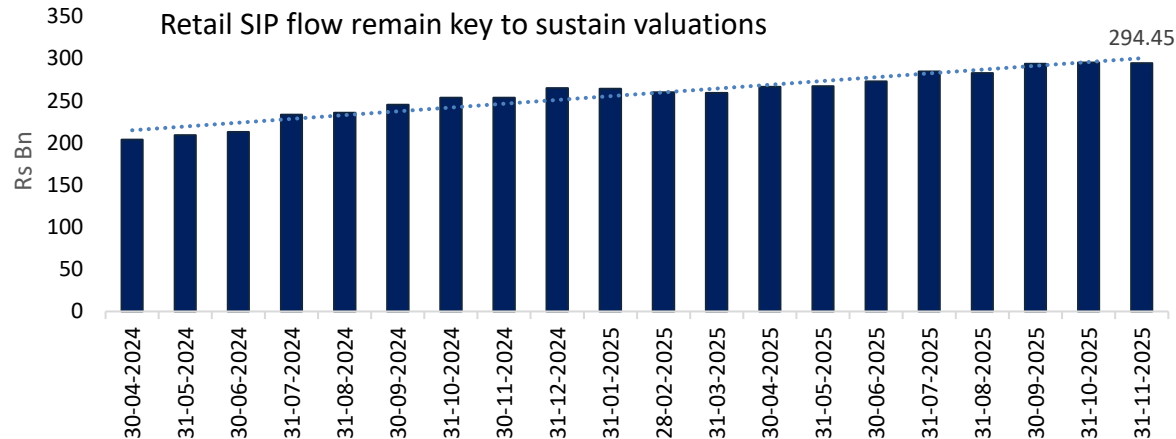
India Valuations: Higher earnings growth require to justify further rerating

Rising liquidity and disposable income to drive growth and support valuations going forward

Index	P/E FY27 (Est.)	P/E FY28 (Est.)	EPS FY27 (Est.)	EPS FY28 (Est.)	PEG FY27 (Est.)
Nifty 50	20.39	17.79	1284	1472	1.193
Nifty Midcap 100	28.38	23.39	2151	2610	1.262
Nifty Smallcap 250	26.65	21.95	671	814	1.041

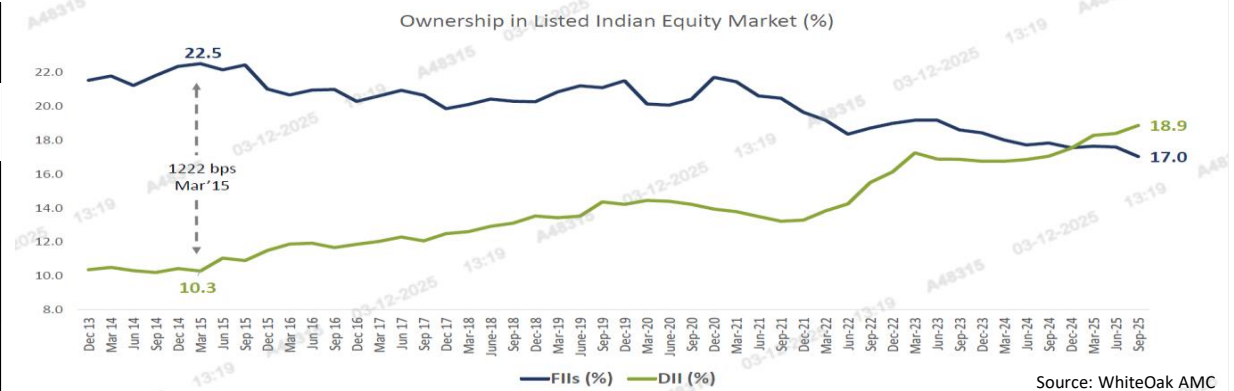
Source : Bloomberg

SIP contribution



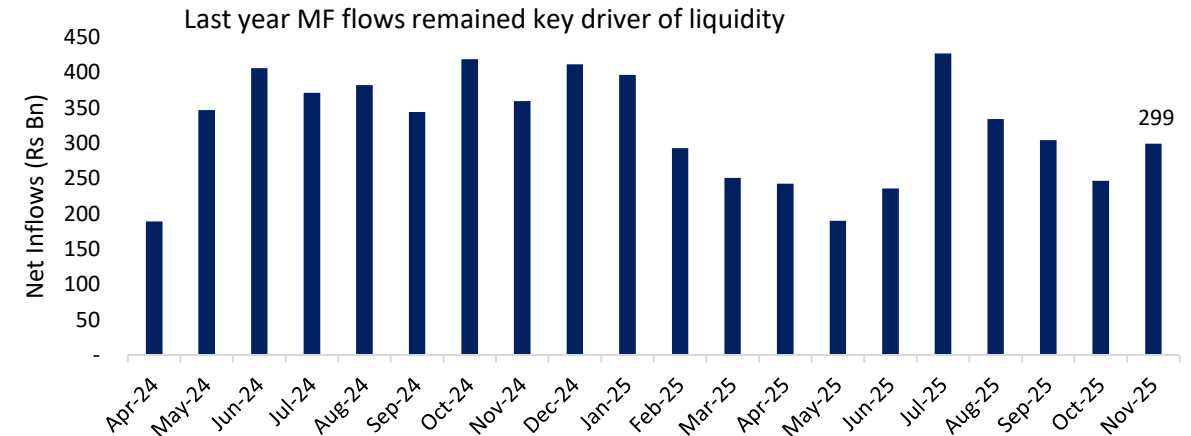
Source : Bloomberg

FPI holding at record low, turnaround in corporate earnings can drive FPIs return



Source: WhiteOak AMC

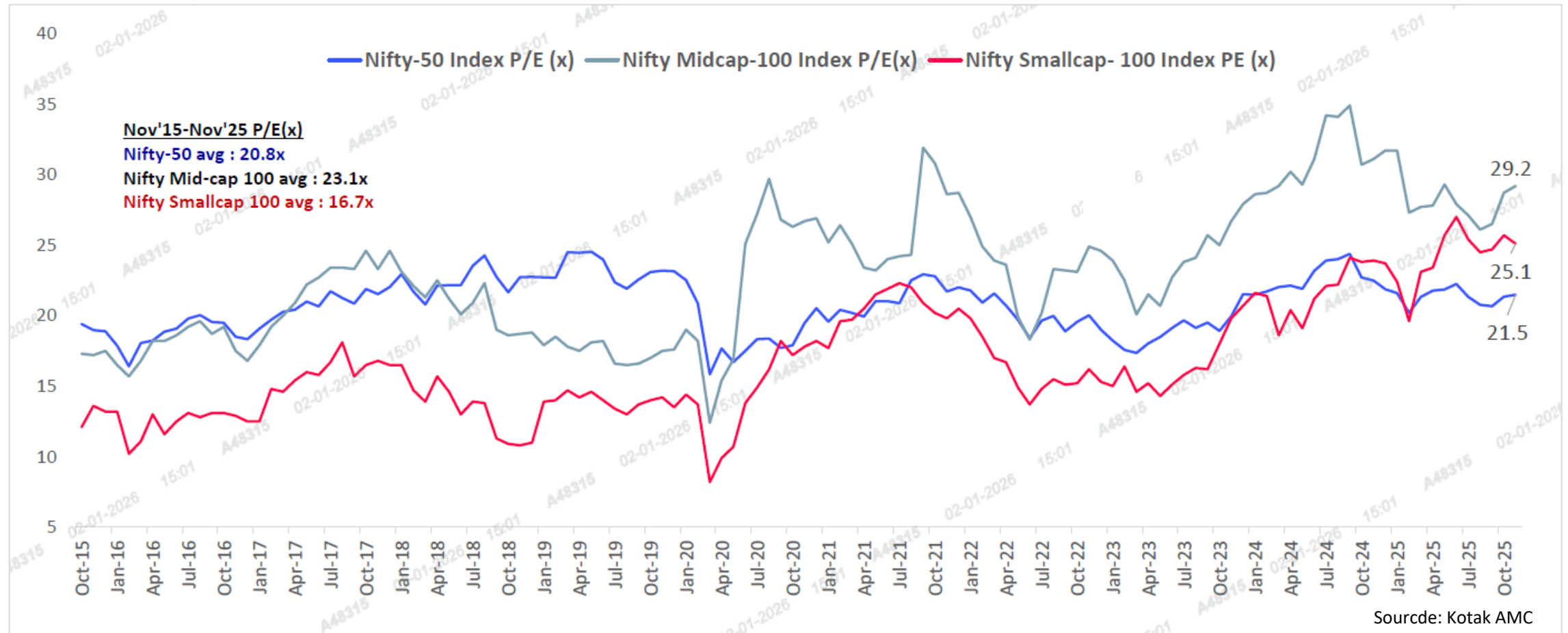
Pure Equity Funds Flows



Source : Bloomberg

Data as on 30th December 2025

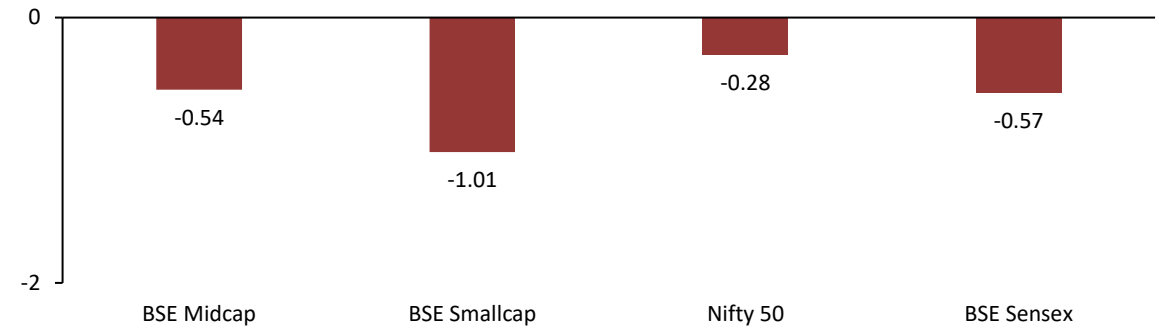
Valuations: Nifty trading closer to long-term average, Small caps at a significant premium



Market Roundup – December 2025

- Indian equities ended the month on a negative note. Large cap-oriented BSE Sensex ended lower by 0.6% (MoM) and Nifty 50 ended lower by 0.3% (MoM).
- While the BSE Midcap index ended lower by 0.54%(MoM) and BSE Small cap index ended lower by 1.01% (MoM).
- In terms of BSE sectoral indices, the sectors ended on a mixed note. Metal, Oil & Gas and Auto were the outperformers during the month.
- Domestic equity markets ended the month on a negative note, weighed down by the rupee's weakness, persistent foreign fund outflows and lack of progress on the US-India trade deal.

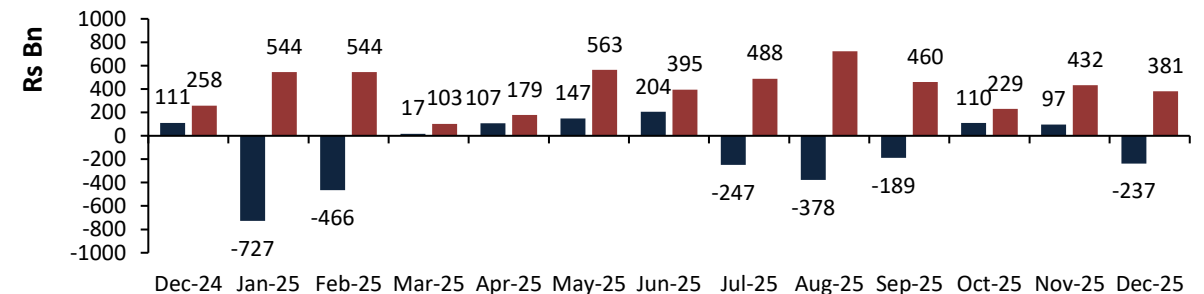
Absolute Return In January 2024 (%)



Source: Bloomberg

Net Flows In Equities (Stock Exchange and Primary market & others)

FPIs were net sellers while DIIs were net buyers in the month of December



*For 2025, FPI and DII data is up to 31st December.

**Net Flows In Equities is the sum total of flows in Stock Exchange and Primary market & others

■ FPIs ■ DIIs

Source: SEBI, CDSL

Key concerns for Indian equities

- Post the boost given by the government to drive consumption demand, conditions still lagging
- Extension of India - US trade deal
- Any significant slowdown in US economy
- Any new Geo-political conflict
- The impact of Dollar Index and US Bond Yields on FPI flows in emerging markets
- Gradual decline of the WTO as an institution and countries doing more bilateral trade deals.

Annexure...

Sectoral outlook by fund managers – Part 1

Sector	Particulars
BFSI	View –Neutral to Positive - Valuations in most of the Banks are reasonable, especially the large cap Private sector banks. Credit and deposit growth expected to improve and NIMs expected to have bottomed out. - Policy support from the RBI is expected to improve the liquidity situation going ahead. - The rally in the smaller banking names may be difficult to sustain. Larger Private banks are expected to see better asset quality. - Capital markets plays are expected to see some valuation correction as growth may decelerate. - Fund Managers have incrementally added names in select PSU Banks, Insurance and NBFCs while taking selective exposure to Private Banks.
IT	View –Neutral to Positive - Market expects that potential corporate tax cuts in the US could act as a booster for Indian IT services companies in the medium-term. - Growth visibility remains a challenge and there could be a situation of excess manpower that needs to be re-trained. Hiring remains muted and attrition rates are stabilizing around 12–13%. - The large cap names are emerging as a value play now and funds are now looking to cut underweights. Midcap IT still finds favour with many Fund Managers due to better growth prospects, despite elevated valuations. - Developments in AI remain a key monitorable; AI implementation orders may bring growth opportunities.
Healthcare	View – Neutral - Domestic demand holding up well, stocks have rallied, valuations have risen considerably - US is seeing abatement of price erosion in the generics space, which should be positive for Indian pharma stocks. - Contract Development and Manufacturing Organization (CDMO) companies' stocks are seeing traction due tailwinds expected from the US. - Funds running overweight as they expect this sector to be a defensive bet. - Some Fund Managers have a cautious view on the Hospitals space due to elevated valuations and their nature of being capital intensive. GLP-1 can provide opportunities in spaces like diagnostics.
Auto	View – Neutral to Positive - GST cuts have helped volume growth and Fund Managers are looking at players with product launch pipelines. 2-Wheeler stocks have seen strong outperformance and the space remains highly penetrated. - Auto ancillaries may do well due to China+1, Europe+1, PLI, export opportunities and EV initiatives. Valuations remain a key challenge in this segment. - Some Fund Managers feel that the CV cycle has bottomed out and are adding exposures there.

Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & real estate	View – Neutral - Housing segment is seeing a gradual bounce back in the upper-end of the segment. - The Government's focus is on infrastructure and investment cycle and has seen strong spending recently. This spending growth rate may gradually taper off in the next few quarters due to strong base in the last quarter of FY25. Recent correction in this segment seems to be giving buying opportunities in few stocks. - Fund Managers prefer investing in this space through proxy sectors such as Cement and Home improvement plays.
Consumption	View – Consumer Services – Neutral to Positive, Consumer Durables and FMCG- Neutral to Positive - Staples – Alcohol companies have seen traction. GST rate cuts are also driving Fund Managers to cut underweights in FMCG product companies. - Hotels/Travel – Valuations are rich, no incremental weights being added. Fund Managers are not looking to cut current exposure. - Consumer Durables – Fund Managers are looking at players who are gaining market share and adding exposure, including to select EMS plays. - Retail and Consumer Tech: Retail valuations are high, focus is on Value Apparel Retailers, growth trajectory expected to decelerate. Earnings have disappointed in the QSR space. Consumer Tech companies are seeing strong overweights. Long-term positives - Higher disposable income due to tax cuts. - Premiumization across categories. - Implementation of GST Cuts and upcoming 8th Pay Commission.
Capital goods, industrials, utilities	View –Negative - With the Government spending growth likely to get more sharpened to fewer sectors, aggregate capital investment growth may take a backseat after many years of robust growth. - US tariffs have also been a dampener for the capital goods exporters. Fund Managers feel that valuations in the sector too seem to be at cyclical peaks. - Fund Managers may look at incremental opportunities in this segment, where earnings visibility remains strong. - Power Transmission, Nuclear Energy and Electronics (import substitution) continues to be the positive themes for capex.
Metals	View – Positive Metals remain a tactical play. China anti-involution to support.

Monthly Sectoral Movement

Absolute Monthly Return By Sector (%)

Index	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
BSE 500	-1.50	-3.49	-7.85	7.29	3.16	3.39	3.43	-2.87	-1.93	1.21	4.20	0.86	-0.25
Auto	-2.33	-0.26	-11.00	4.02	4.73	4.73	2.24	-1.11	5.78	5.89	1.04	3.14	1.31
Bankex	-2.62	-2.57	-2.50	8.55	5.17	0.85	1.62	-3.24	-3.34	2.48	5.56	3.10	-0.28
Basic Material	-3.13	-1.39	-7.22	10.70	-0.62	4.22	5.43	-1.38	-2.36	2.45	2.63	-3.41	4.06
Capital Goods	-4.13	-4.79	-14.39	13.55	0.09	13.24	1.75	-5.66	-4.13	4.39	3.10	-1.70	-3.03
Consumer Discretionary	0.00	-7.01	-10.36	4.40	3.98	4.32	3.49	-1.47	2.52	0.96	1.91	-0.18	-1.42
Consumer Durables	3.15	-10.22	-8.45	2.67	5.65	0.86	3.17	-0.52	1.96	-4.85	4.97	2.16	-3.01
Energy	-3.96	-0.67	-9.09	9.46	5.02	1.95	3.09	-4.70	-3.87	4.22	5.82	-0.42	1.75
FMCG	-2.08	-1.04	-10.57	5.79	5.17	-0.71	-0.33	1.61	0.21	-2.44	2.75	-1.22	-0.31
Finance	-1.67	-2.90	-3.02	7.97	4.61	3.08	3.43	-2.66	-3.82	2.34	4.78	2.30	-0.64
Healthcare	3.69	-7.67	-8.59	8.40	1.91	0.93	3.88	2.51	-3.86	-1.25	3.38	0.80	-2.41
IT	0.95	-2.85	-12.58	-1.52	-2.97	5.26	3.33	-8.69	-1.07	-3.64	5.51	3.69	1.18
Infra	-3.54	-3.88	-13.81	12.36	0.70	5.03	2.72	-3.81	-4.75	4.44	3.21	-2.78	-1.27
Metal	-5.39	-1.12	-1.98	10.07	-5.76	5.89	3.04	-2.56	-1.61	9.43	5.64	-2.89	7.91
Oil & Gas	-2.79	-2.44	-11.23	11.34	5.40	2.03	3.10	-3.84	-4.69	5.36	6.43	-1.51	1.78
Power	-7.00	-5.92	-12.06	14.32	0.90	2.37	1.95	-3.45	-4.56	5.04	3.14	-4.51	-1.66
Realty	3.45	-13.16	-13.42	6.63	3.99	7.21	3.84	-7.33	-4.48	-0.36	9.20	-4.69	-2.96
Telecom	-2.53	-3.32	-10.25	6.84	8.73	3.55	6.10	-7.79	-4.48	0.48	7.22	2.40	1.87
Utilities	-6.57	-5.48	-10.61	15.05	1.02	-0.85	2.95	-2.20	-4.47	5.11	3.18	-5.57	-0.96

The abovementioned sectoral indices pertain to the BSE universe

Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research

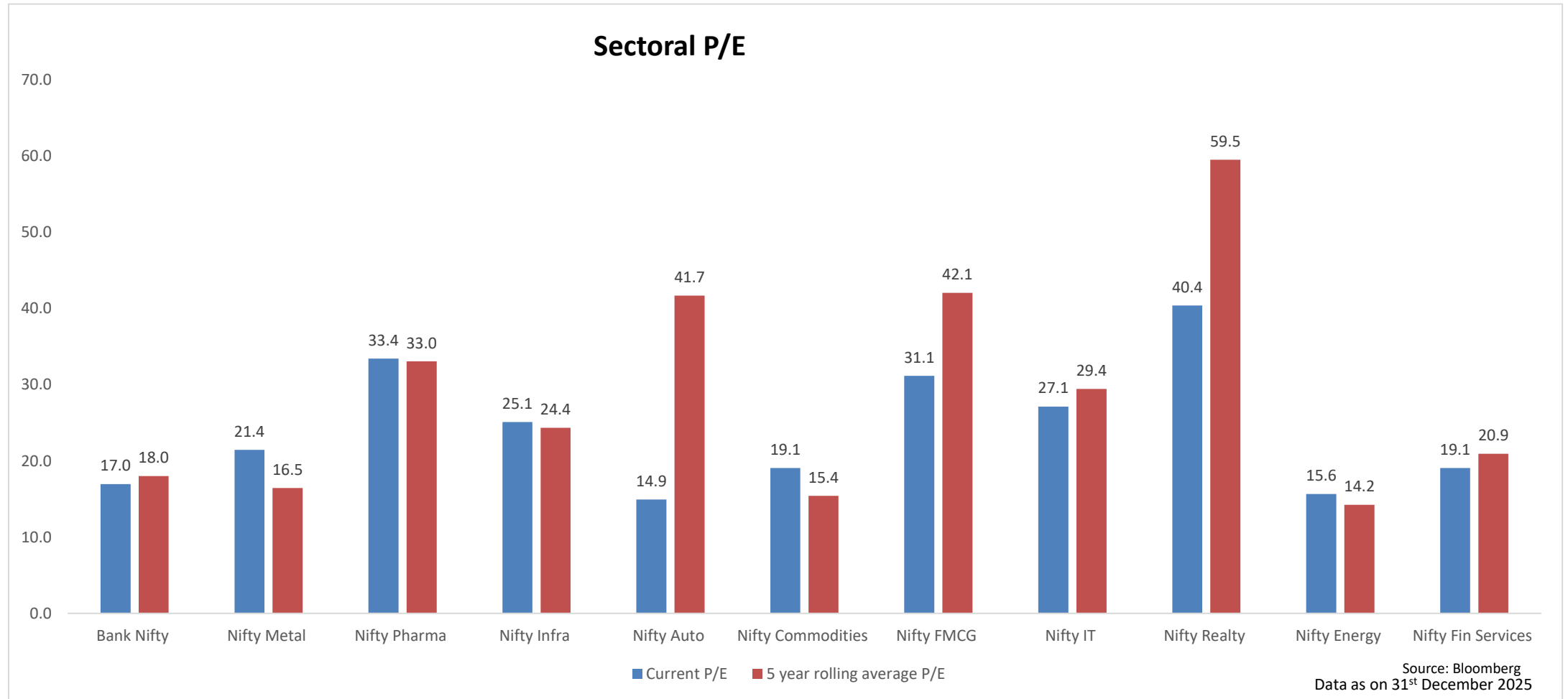
AMC Sectoral Holdings

	Auto & Auto Ancillaries	Banks & Finance	Capital Goods	Commodities	FMCG	Consumer Durables and Consumer Services	Housing & Construction	IT	Media	Oil & Gas, Energy	Other Equities	Pharma	Telecom	Textiles	Transport & Shipping, Logistics & Services
Nifty 500	7.16%	31.72%	5.86%	7.34%	6.26%	6.36%	3.96%	8.08%	0.13%	10.94%	0.10%	6.33%	3.52%	0.25%	1.94%
360 ONE MF	5.13%	33.98%	15.93%	4.47%	1.11%	9.01%	5.30%	3.99%	0.00%	2.91%	0.00%	3.35%	9.41%	0.00%	3.24%
Aditya Birla SL MF	9.05%	30.56%	5.73%	6.55%	6.14%	7.95%	3.60%	9.70%	0.03%	6.55%	0.44%	6.51%	2.97%	0.56%	1.80%
Axis MF	8.85%	26.21%	10.53%	6.89%	2.89%	10.62%	4.03%	5.86%	0.03%	3.93%	0.46%	9.18%	3.94%	0.36%	2.22%
Bajaj Finserv MF	7.93%	28.69%	6.83%	3.84%	5.07%	10.58%	5.31%	5.02%	0.10%	3.82%	1.22%	13.04%	2.78%	1.14%	2.44%
Bandhan MF	5.22%	30.18%	5.06%	5.69%	5.73%	7.67%	5.31%	7.05%	0.10%	6.01%	1.24%	8.60%	2.20%	1.00%	2.78%
Bank of India MF	7.02%	20.95%	13.25%	11.03%	6.26%	6.01%	3.67%	4.59%	0.43%	6.24%	0.35%	8.48%	2.72%	1.29%	2.42%
Baroda BNP Paribas MF	9.37%	24.32%	8.74%	6.46%	4.98%	9.90%	2.71%	6.42%	0.00%	8.73%	0.46%	9.57%	2.47%	0.15%	1.47%
Canara Robeco MF	9.04%	25.30%	9.12%	5.32%	6.74%	13.60%	3.46%	6.40%	0.08%	5.10%	0.96%	7.69%	2.62%	0.37%	1.75%
Capitalmind MF	10.37%	34.56%	4.13%	14.32%	2.38%	6.17%	0.00%	-0.01%	0.00%	1.34%	0.00%	9.60%	3.19%	0.00%	2.76%
DSP MF	9.29%	26.22%	7.58%	8.15%	3.79%	5.92%	3.63%	7.53%	0.00%	6.64%	0.23%	11.86%	2.51%	0.96%	0.92%
Edelweiss MF	8.59%	28.83%	10.55%	7.92%	4.57%	9.24%	3.57%	7.62%	0.00%	3.77%	0.24%	8.76%	2.23%	0.89%	1.17%
Franklin Templeton MF	6.06%	26.31%	8.65%	5.36%	4.06%	10.19%	4.47%	8.61%	0.02%	7.33%	0.19%	7.95%	4.06%	0.55%	2.50%
Groww MF	9.06%	38.74%	8.15%	6.53%	0.83%	2.93%	4.81%	4.06%	0.06%	3.28%	0.00%	3.89%	4.04%	0.00%	2.66%
HDFC MF	11.09%	30.48%	6.34%	5.34%	3.21%	6.39%	2.09%	6.06%	0.32%	4.55%	0.12%	10.16%	2.73%	0.44%	3.35%
Helios MF	5.61%	34.21%	9.12%	0.99%	2.64%	12.66%	4.56%	2.14%	0.45%	9.28%	0.00%	5.44%	2.45%	1.76%	5.86%
HSBC MF	5.19%	29.64%	14.97%	4.16%	5.81%	10.73%	5.24%	5.37%	0.00%	3.92%	0.71%	5.29%	2.03%	2.21%	2.56%
ICICI Pru MF	8.60%	25.38%	5.06%	6.58%	4.35%	6.25%	5.24%	9.04%	0.22%	10.43%	1.05%	7.59%	3.06%	0.52%	1.63%
Invesco MF	5.84%	30.19%	8.66%	2.38%	1.22%	15.48%	5.76%	6.68%	0.00%	1.90%	0.73%	12.84%	1.38%	0.01%	4.43%
ITI MF	6.67%	28.90%	13.08%	7.41%	4.12%	8.22%	4.20%	5.05%	0.28%	4.30%	0.95%	10.80%	2.00%	0.78%	1.57%
JM Financial MF	5.65%	30.68%	9.44%	3.61%	4.80%	9.72%	4.77%	8.87%	0.16%	3.85%	0.00%	8.76%	4.02%	1.62%	2.57%
Kotak Mahindra MF	8.54%	23.36%	9.64%	11.60%	2.79%	9.87%	4.16%	7.61%	0.41%	6.13%	0.09%	8.46%	3.16%	0.19%	1.59%
LIC MF	7.87%	22.81%	17.46%	5.65%	7.43%	6.07%	4.27%	5.01%	0.19%	3.84%	0.56%	7.29%	1.86%	1.09%	2.03%
Mahindra Manulife MF	7.67%	27.17%	10.44%	6.56%	4.82%	6.87%	2.85%	6.74%	0.14%	6.08%	0.31%	10.71%	3.17%	1.56%	1.67%
Mirae Asset MF	8.14%	30.78%	4.48%	5.13%	6.22%	9.07%	4.23%	8.15%	0.00%	5.72%	0.16%	10.36%	3.95%	0.05%	2.76%
Motilal Oswal MF	4.23%	19.57%	17.95%	1.87%	0.76%	21.06%	2.38%	13.76%	0.00%	0.48%	0.25%	2.89%	5.96%	0.26%	0.70%
Navi MF	8.27%	31.46%	12.56%	3.92%	5.17%	7.16%	1.69%	6.24%	0.11%	4.83%	0.00%	7.88%	2.55%	0.38%	2.67%
Nippon India MF	7.05%	26.32%	10.97%	4.86%	6.19%	12.90%	2.67%	4.44%	0.30%	7.62%	0.57%	10.12%	1.07%	0.76%	1.99%
NJ MF	15.33%	26.45%	0.33%	4.19%	16.35%	3.86%	0.00%	13.12%	0.00%	3.09%	0.00%	10.84%	0.00%	2.76%	3.21%
Old Bridge MF	8.47%	15.16%	0.00%	16.31%	6.53%	2.45%	4.43%	8.63%	0.00%	0.00%	1.29%	12.93%	4.87%	0.00%	11.64%
PGIM India MF	7.83%	24.20%	9.38%	8.77%	4.26%	12.36%	2.83%	5.99%	0.00%	3.20%	0.00%	11.16%	2.83%	0.35%	3.48%
PPFAS MF	7.78%	27.20%	0.02%	0.00%	5.84%	2.12%	0.00%	10.44%	0.00%	10.63%	0.00%	4.11%	3.47%	0.00%	4.10%
Quant MF	5.15%	20.61%	3.53%	6.68%	5.13%	3.33%	9.68%	2.54%	1.18%	18.15%	3.36%	10.72%	1.81%	1.79%	1.95%
Quantum MF	17.04%	22.35%	7.86%	4.02%	4.94%	11.61%	0.00%	9.92%	0.84%	2.08%	2.24%	5.46%	0.55%	0.00%	3.13%
Samco MF	10.71%	28.84%	11.61%	5.46%	2.64%	4.92%	1.42%	2.52%	0.00%	0.72%	0.00%	6.87%	1.03%	0.15%	2.41%
SBI MF	7.98%	26.92%	5.89%	7.69%	5.05%	9.09%	3.27%	4.65%	0.14%	9.74%	1.85%	6.56%	2.66%	1.53%	1.77%
Shriram MF	10.74%	33.85%	3.07%	2.69%	2.56%	4.65%	1.46%	8.09%	0.00%	10.47%	0.00%	10.30%	4.74%	0.00%	5.65%
Sundaram MF	6.82%	28.22%	8.09%	5.37%	5.58%	9.86%	3.77%	6.71%	0.18%	7.65%	0.31%	7.61%	4.28%	0.11%	2.17%
Tata MF	4.59%	22.19%	8.02%	7.09%	5.42%	7.76%	3.28%	17.92%	0.17%	6.07%	0.89%	5.63%	2.29%	0.60%	3.33%
Taurus MF	9.43%	21.99%	6.37%	6.82%	8.96%	3.39%	2.26%	10.67%	0.00%	13.77%	0.00%	9.53%	3.61%	0.74%	0.85%
The Wealth Company MF	8.08%	7.92%	10.90%	4.53%	3.92%	8.12%	0.00%	32.56%	0.00%	10.00%	0.00%	6.22%	0.00%	0.00%	2.12%
Trust MF	8.30%	28.51%	17.99%	2.54%	2.65%	8.78%	3.46%	7.14%	0.00%	2.83%	0.00%	9.03%	1.86%	0.00%	3.24%
Unifi MF	6.07%	28.32%	3.25%	5.18%	4.37%	0.99%	4.17%	5.96%	0.00%	5.25%	2.15%	11.96%	5.91%	1.19%	5.44%
Union MF	9.43%	27.36%	13.19%	5.80%	3.23%	10.64%	4.16%	7.17%	0.14%	3.80%	0.00%	8.06%	3.00%	0.47%	1.56%
UTI MF	9.92%	25.72%	5.98%	4.98%	4.04%	13.98%	2.70%	10.34%	0.22%	4.67%	0.46%	8.80%	3.08%	0.51%	1.90%
WhiteOak Capital MF	5.92%	31.21%	9.33%	3.70%	2.48%	9.63%	2.05%	8.32%	0.01%	3.31%	1.56%	11.29%	4.29%	0.04%	2.41%

Source: ACE MF

Data as on 30th November 2026

While sectoral valuations have improved vs. long term averages, earnings growth trajectory has weakened in many cases



US trade tariffs by Country... With punitive tariffs, India's position weak vs. peers

Country/Territory	Adjusted Reciprocal Tariff
India	25% + 25%
Afghanistan	15%
Algeria	30%
Angola	15%
Bangladesh	20%
Bolivia	15%
Bosnia and Herzegovina	30%
Botswana	15%
Brazil	50%
Brunei	25%
Cambodia	19%
Cameroon	15%
Chad	15%
Costa Rica	15%
Côte d'Ivoire	15%
Democratic Republic of the Congo	15%
Ecuador	15%
Equatorial Guinea	15%
European Union	15%

Country/Territory	Adjusted Reciprocal Tariff
Falkland Islands	10%
Fiji	15%
Ghana	15%
Guyana	15%
Iceland	15%
Indonesia	19%
Iraq	35%
Israel	15%
Japan	15%
Jordan	15%
Kazakhstan	25%
Laos	40%
Lesotho	15%
Libya	30%
Liechtenstein	15%
Madagascar	15%
Malawi	15%
Malaysia	19%
Mauritius	15%
Moldova	25%
Mozambique	15%
Myanmar (Burma)	40%
Namibia	15%
Nauru	15%

Country/Territory	Adjusted Reciprocal Tariff
New Zealand	15%
Nicaragua	18%
Nigeria	15%
North Macedonia	15%
Norway	15%
Pakistan	19%
Papua New Guinea	15%
Philippines	19%
Serbia	35%
South Africa	30%
South Korea	15%
Sri Lanka	20%
Switzerland	39%
Syria	41%
Taiwan	20%
Thailand	19%
Trinidad and Tobago	15%
Tunisia	25%
Turkey	15%
Uganda	15%
United Kingdom	10%
Vanuatu	15%
Venezuela	15%
Vietnam	20%
Zambia	15%
Zimbabwe	15%

Source: White House, Media Reports

Year 2025

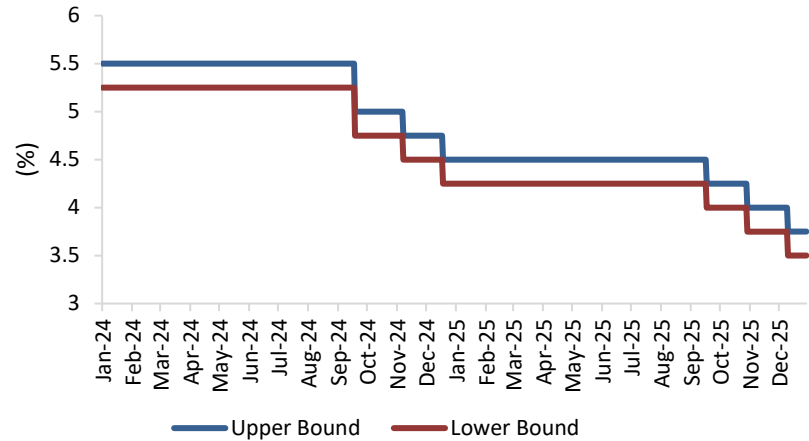
Supportive Policy amidst Surging Debt and Elevated Yields

Fixed Income Outlook and Strategy – January 2026

- The liquidity moved to deficit at the end of CY25, owing to advance tax and GST pay-outs and RBI's forex intervention to manage the depreciating INR. However, going forward, it is expected to improve as RBI has announced overall ~Rs 2.9 trillion of liquidity infusion via OMO & forex swap auction. Market participants further expect the RBI continue to injecting durable liquidity in the system and are also expecting a change in stance from neutral to accommodative due to benign inflation outlook.
- The CPI inflation remained benign throughout the year and below the RBI's target of 4% YoY, driven by deflationary food prices. Going forward, inflation is expected inch up owing to base effect playing out and reallocation of underlying weightage of its components from February 2026. But the same is still expected to remain within RBI's comfort zone, aided by the effect of GST rationalisation and higher than average reservoir levels.
- India's Q2 FY25 GDP came at higher than expectations with a real growth rate of 8.2% YoY. However, nominal GDP came in lower on the back of low deflator. **Downside risks have persisted due external factors like the delay in a trade deal with the US and geopolitical developments, leading to a rise in the trade deficit and weakening of the currency. The same will remain a key challenge for RBI to deal with and may decide future course of policy actions.**
- Going forward, the probability of aggressive rate cuts is low, and we may see a '**lower for longer**' policy rate regime near or at current policy rates. Also, if the projected benign inflation continues to hold, the RBI has enough space for policy manoeuvrability if the growth number falters and the economy needs a push.
- In the US, the Federal Reserve (Fed) is guiding to slowing the pace of policy rate cuts. While inflation trajectory in the US remains on a downward path, recent GDP growth data showed improvement. Going forward, the announcement of a new Fed Governor and his stance and views may direct future policy path. The European Central Bank (ECB) may stay on pause for now with a data dependant approach without committing to any particular rate path.
- Globally, while the disinflationary trend has slowed down, major central banks across the world have been using policy easing to spur up growth. Going forward, we expect them to remain growth supportive with policy easing measures depending on each country's macroeconomic factors, but the pace of any further easing may be slow and gradual and expected to be data dependant.
- Domestically, a tactical opportunity has emerged for duration strategy due to the recent uptick in long end yields. With inflation moderating, RBI's commitment to providing adequate liquidity and sustained demand from FPIs along with a probable inclusion of Indian G-secs in Bloomberg Global Aggregate Index, we may see yield compression going forward.
- Government is likely to meet its fiscal deficit target on the back of higher than budgeted RBI dividend despite relatively muted tax collection due to GST rationalisation taking effect in the second half of FY26. Any further shortfall may get compensated via lower than budgeted final capex.
- Well managed system liquidity along with probable lowering of G-sec yields should benefit corporate bonds.
- With this backdrop, corporate bond yields can see spread compression against G-secs or a parallel downward shift going forward, making the case for investment into corporate bonds at the 1-4-years segment of the curve.
- Hence, investors can look at Corporate Bond Funds for a horizon of 15 months and above.
- For a horizon of 24 months and above, investors may consider Income Plus Arbitrage FoF or consider Dynamic Bond Funds for tactical opportunity.
- For a horizon of 3 months and above, investors can consider Arbitrage Funds or Money Market Funds.
- Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds.
- Investors should invest in line with their risk profile and product suitability.

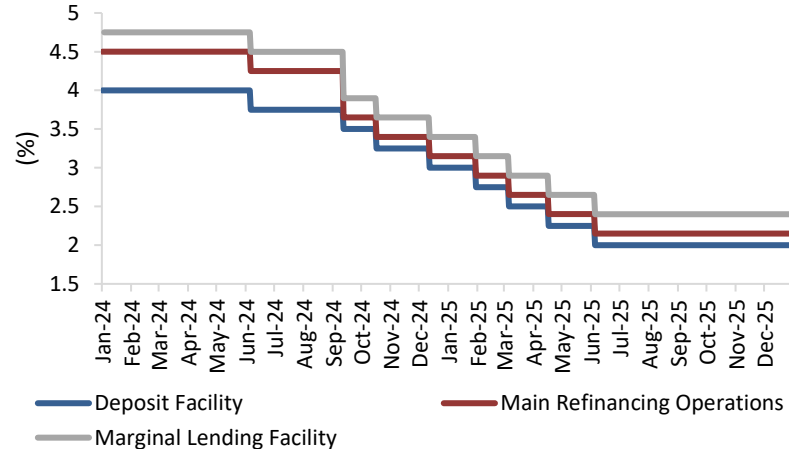
Trade shocks and rising debt forced Central Banks across larger economies to push for nominal growth via policy support while inflation saw gradual cooling

US Federal Funds Target Rate (%)



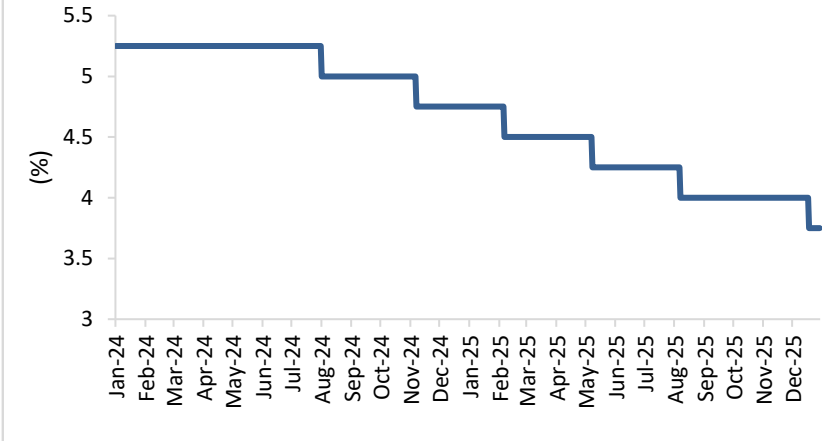
Source : Bloomberg

ECB Policy Rate (%)



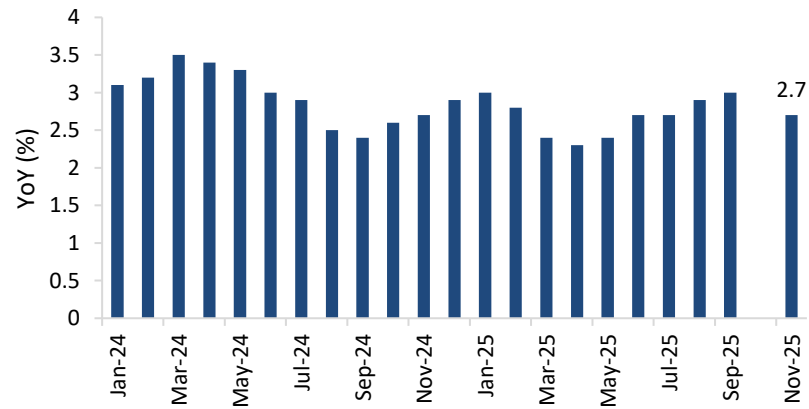
Source : Bloomberg

Bank Of England Policy Rate (%)



Source : Bloomberg

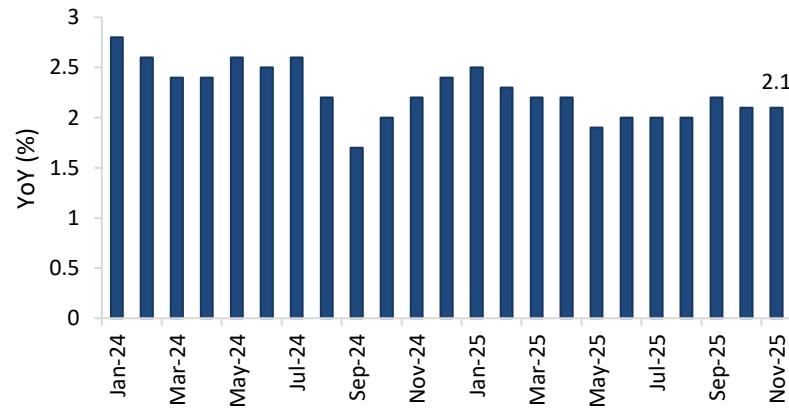
US Consumer Price Index (YoY %)



*Data for October not available due to US Government blackout

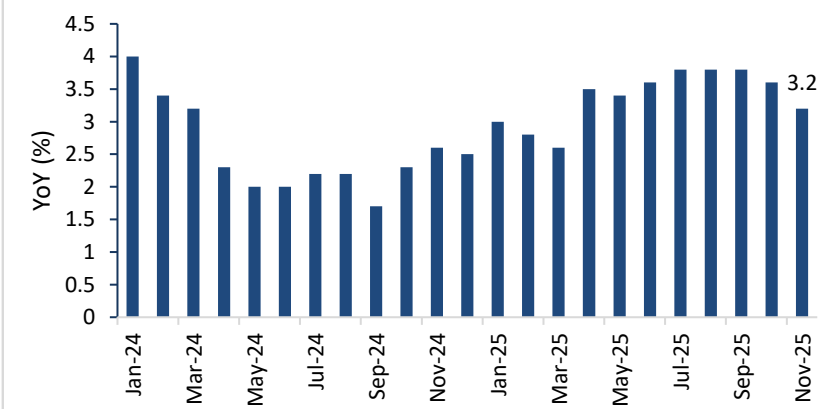
Source : Bloomberg

Euro Area Consumer Price Index (YoY %)



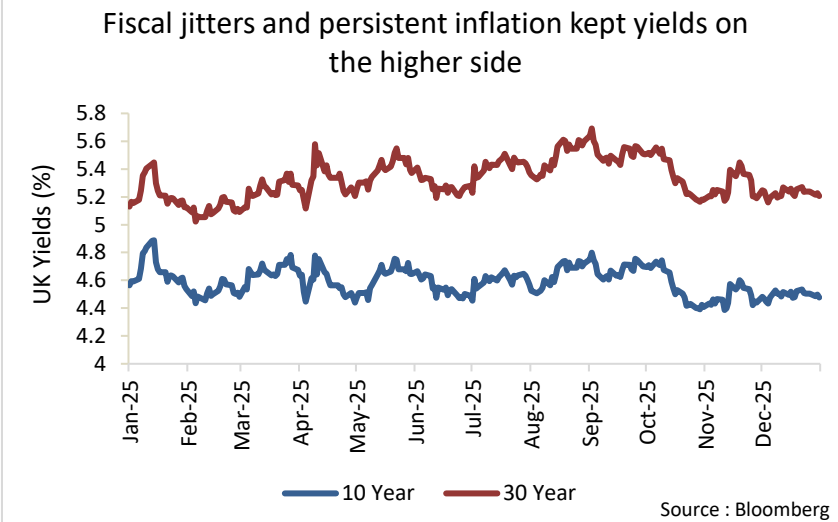
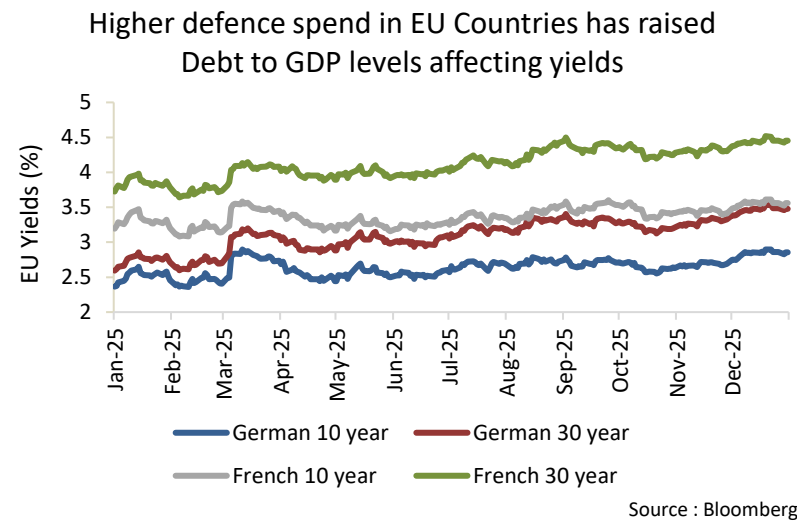
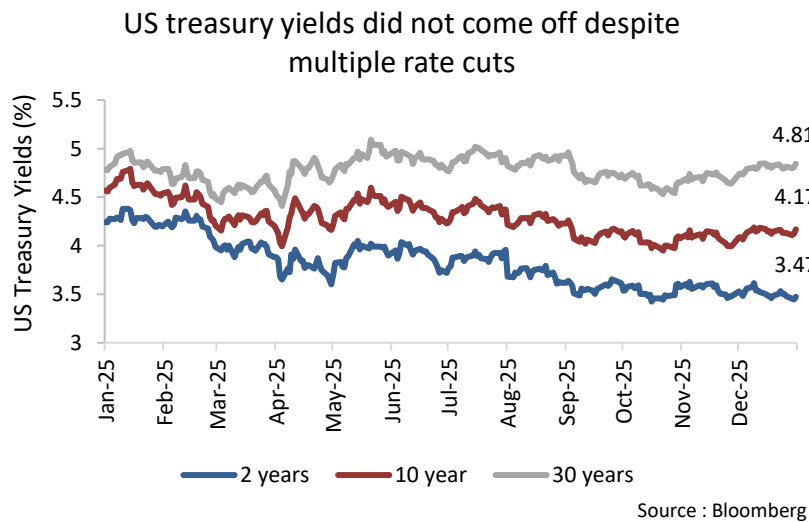
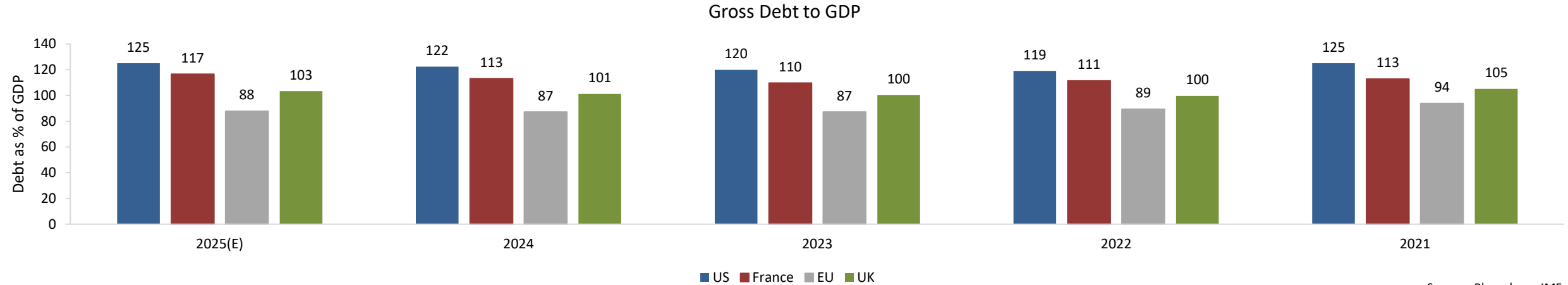
Source : Bloomberg

UK Consumer Price Index (YoY %)

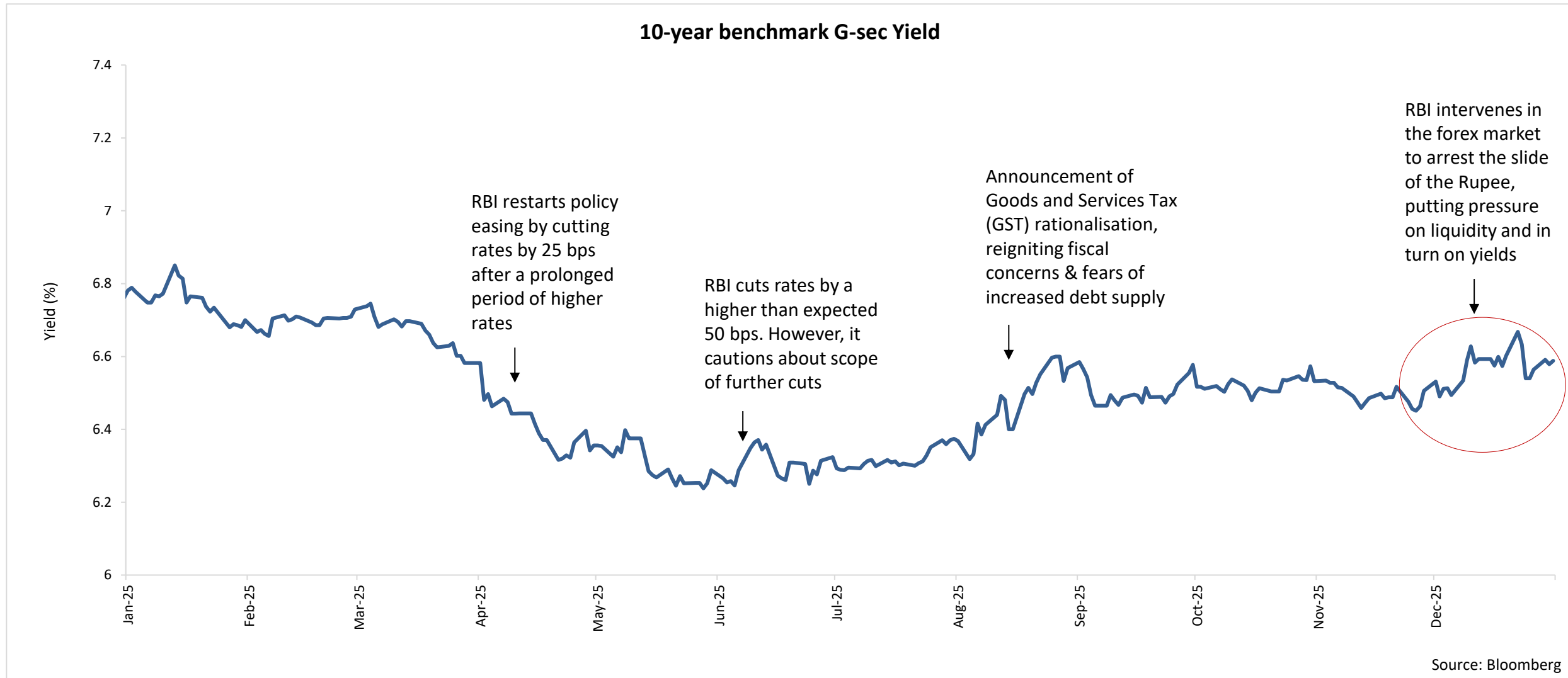


Source : Bloomberg

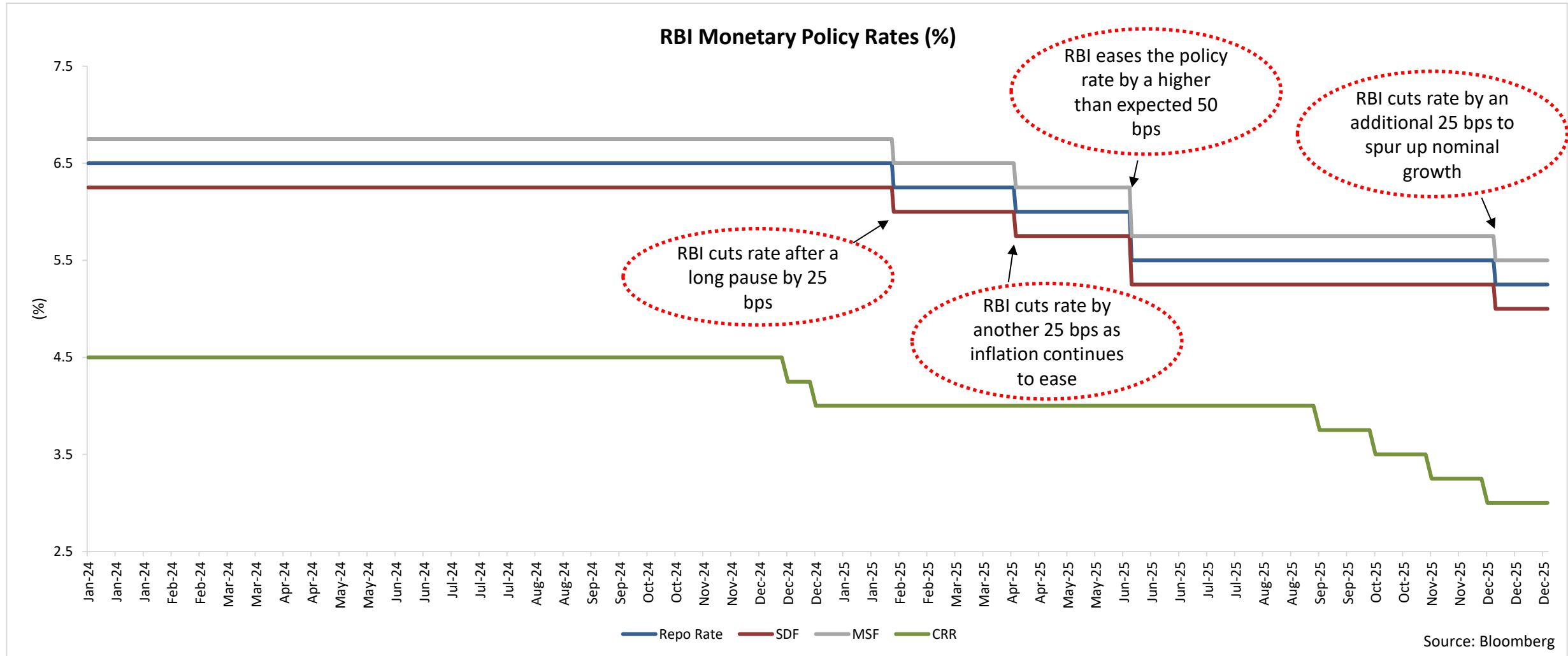
Global Debt continues to expand as more economies look at fiscal support to spur up growth... Geopolitics led to rising defence expenditure... This has brought back 'term premium'



Diminishing expectations of further policy easing, weakening tax collection and increased SDL supply drove Indian G-sec yields higher during the second half of the year

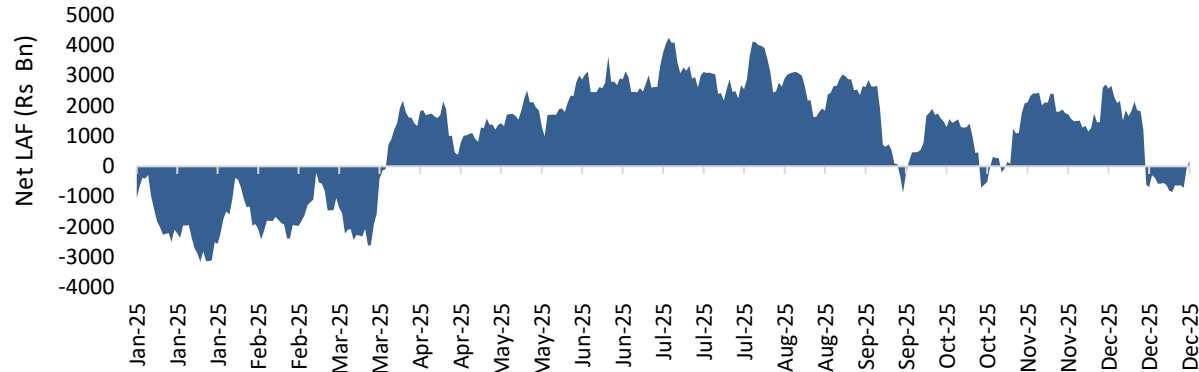


Post the inauguration of new governor, RBI cut the policy rates by 125 bps and CRR by 100 bps as focus shifted to supporting nominal growth

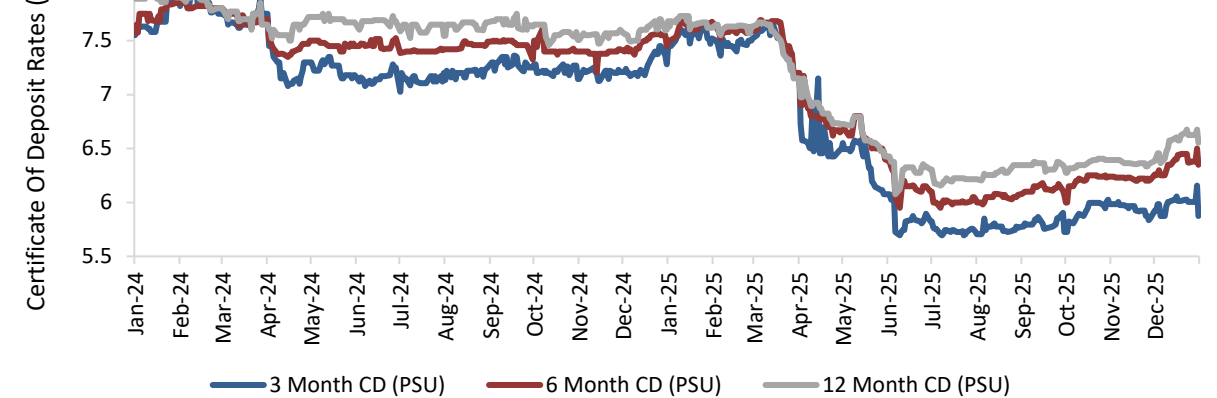


RBI continued to support liquidity during a large part of the year, but forex intervention to aid the falling Rupee towards the end started affecting banking system liquidity

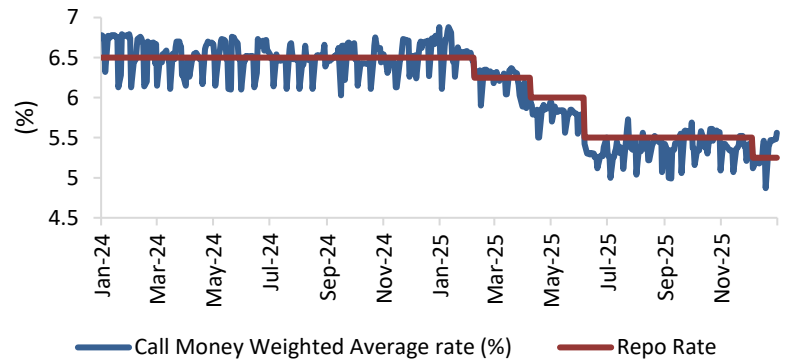
Liquidity was in comfortably surplus mode during a large part of the year, but it tightened by the end of the year on possible forex intervention by RBI



Short term rates came off with rate cuts as RBI governor also highlighted expectations of rates remaining low for long



RBI consistently managed to keep call money rates at or around policy rates



As growth started taking roots deposit growth remained below credit growth... High quality durable liquidity infusion remained the need to the hour



Liquidity action conducted by RBI in 2025

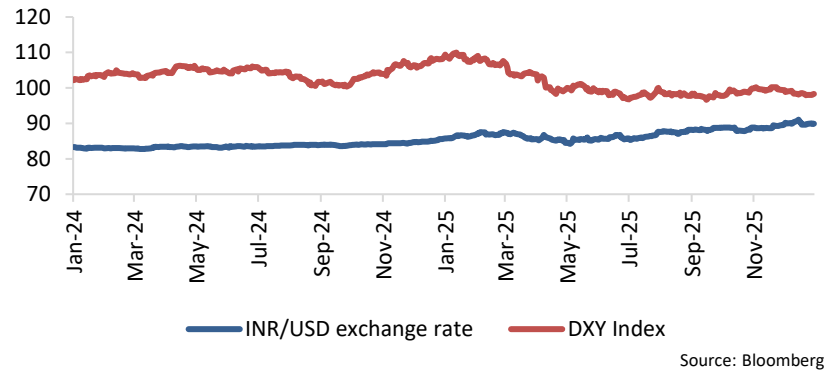
OMO Purchase	6.5 trillion
USD/INR Buy Sell SWAP	~2.7 trillion*
14-Day VRR	5.5 trillion
CRR Cut	~2.6 trillion
Total	~15.3 trillion

*USD 30 bn converted at ~Rs 90/ USD

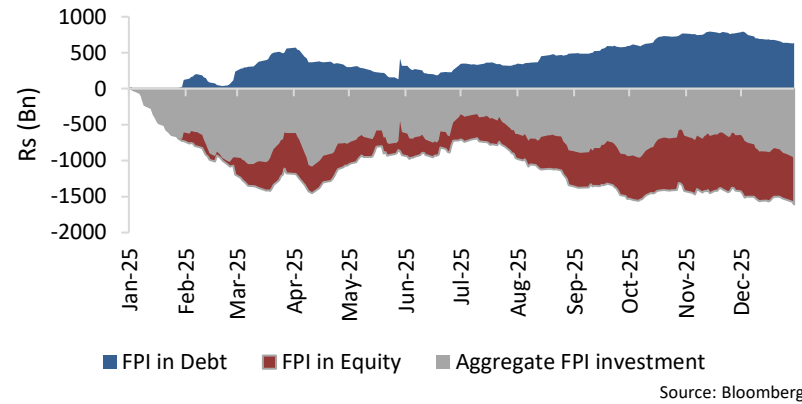
Source : RBI press release

Higher than expected tariff, delay in trade deal with US and outflow by FPI & FII pushed INR to record low... Current Account continued to remain in Deficit

Despite US Dollar Index coming off its highs post liberation day tariff announcements INR remained under pressure



FPIs, on an aggregate, remained net sellers during the year

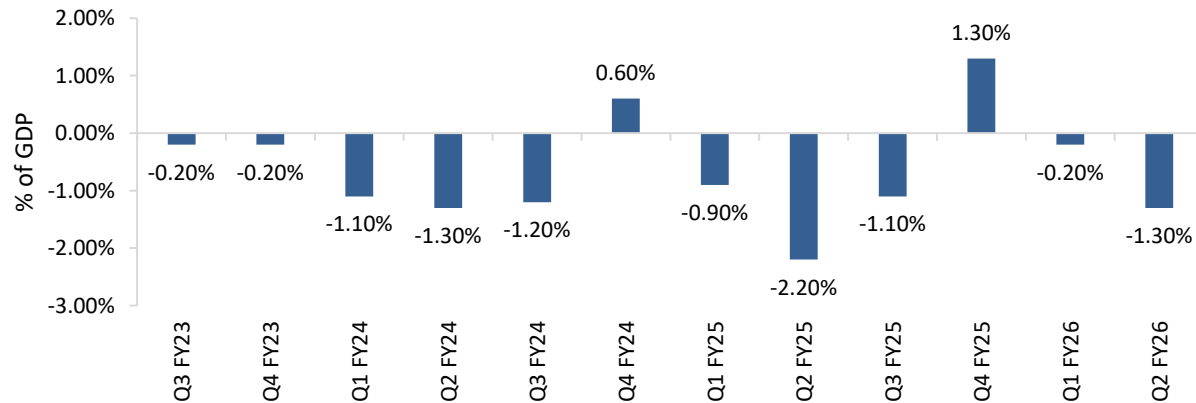


US tariffs on India continue to remain high

US trade tariff on India	
On liberation Day	26%
Current	25% + 25% (Punitive) = 50%

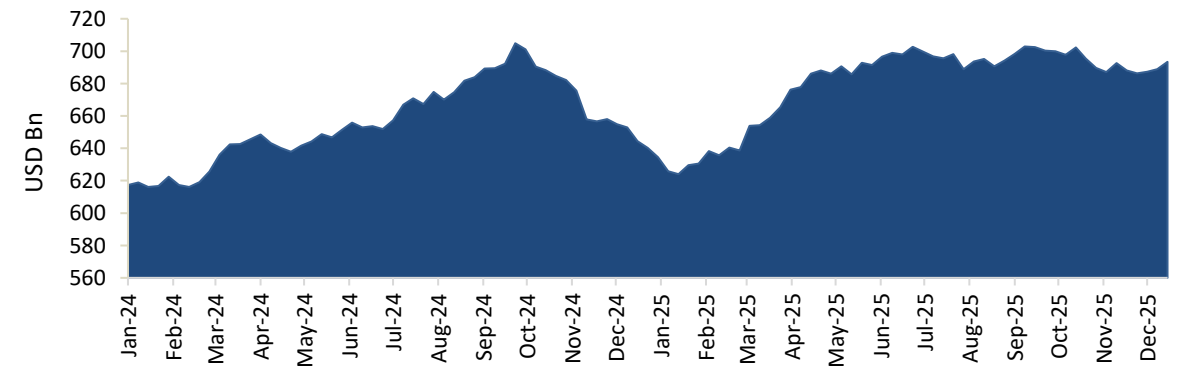
Source: Media Reports

India - Current Account Balance



Source: RBI

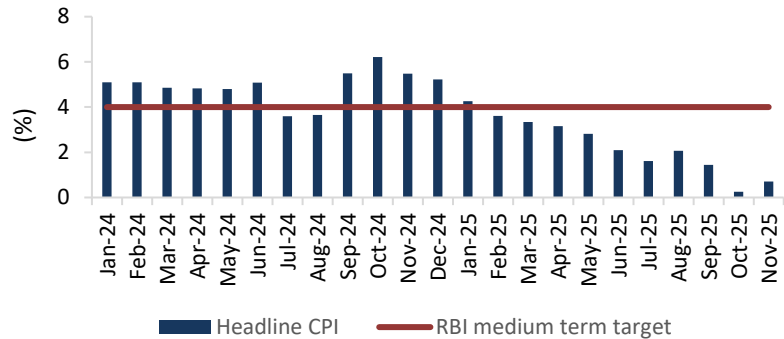
Forex reserves was rebuilt but net dollar short position may pose pressure going forward



Source: Bloomberg

Headline inflation continued to remain low despite sticky Core inflation... GST rationalization and improved agricultural output likely to keep inflation benign, giving RBI room to provide further policy support in case required

Inflation mostly remained below the medium term target of 4% and also breached the lower band towards the end



Source: MoSPI

Deflationary food inflation weighed down on headline prices



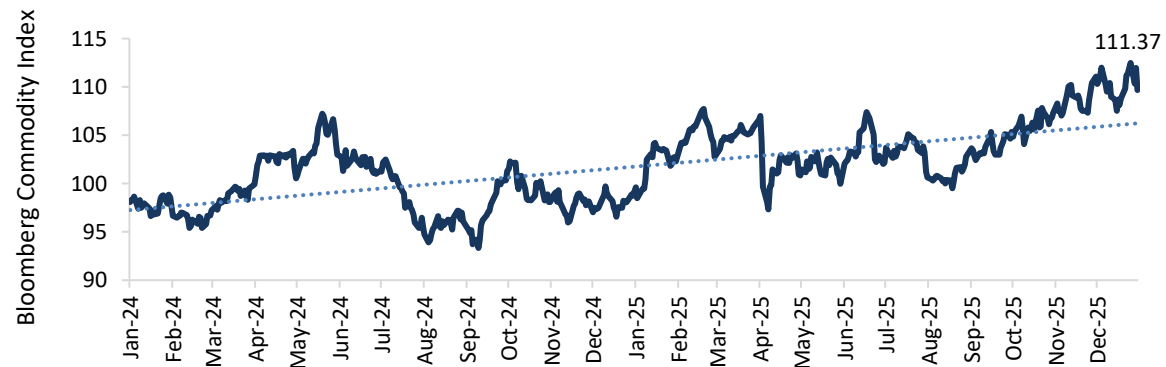
Source: MoSPI

Core inflation remained sticky as Gold & Silver prices saw record surge



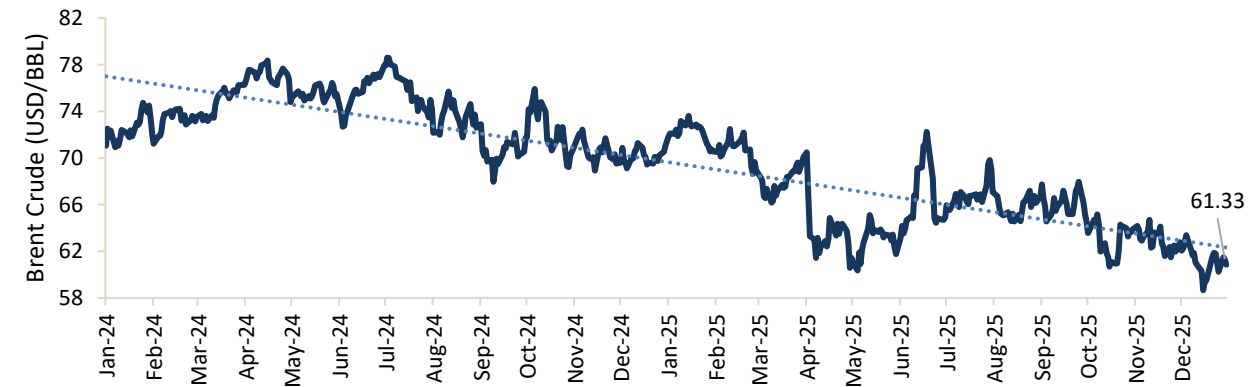
Source: MoSPI

Geopolitical developments continued keeping commodities prices volatile



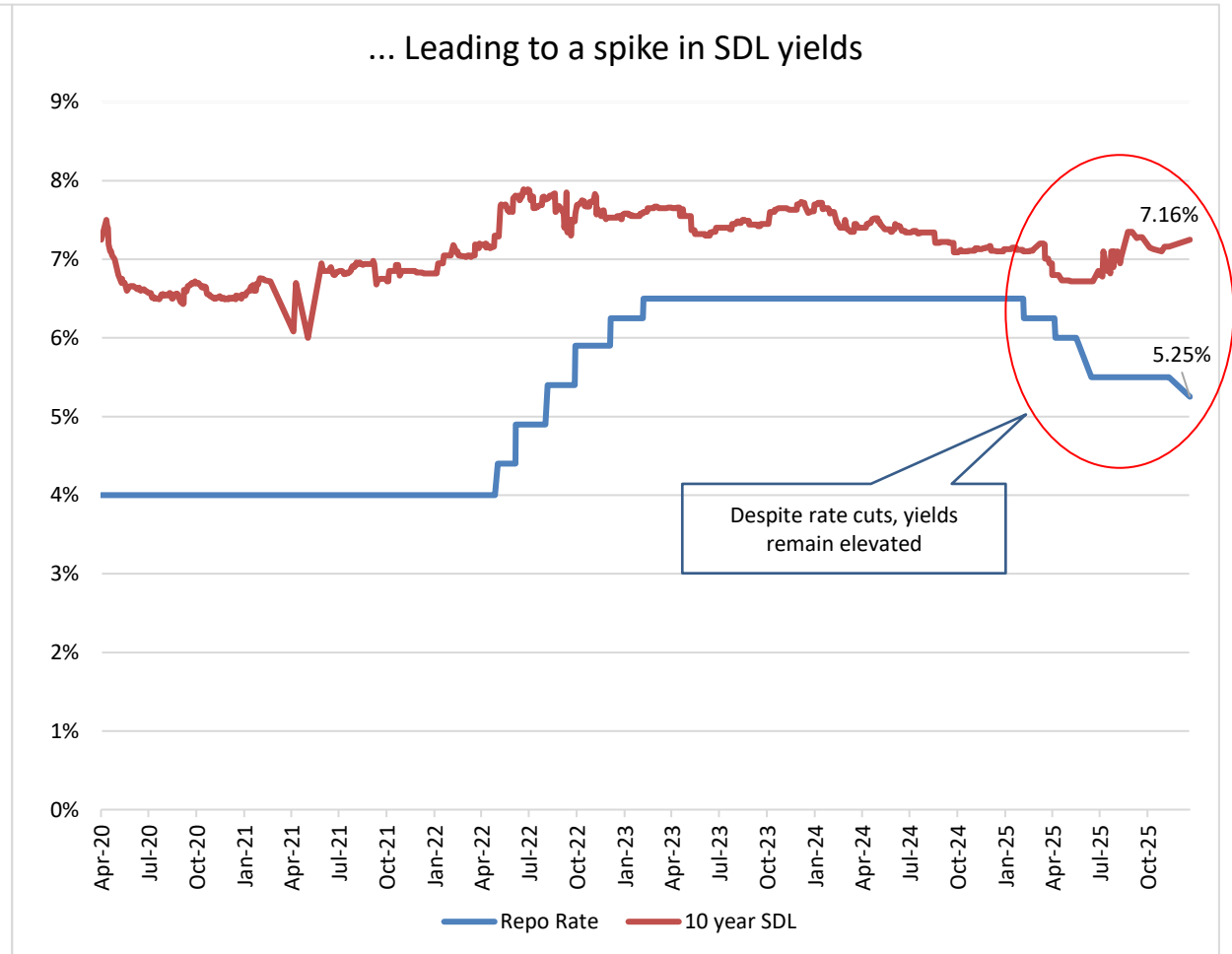
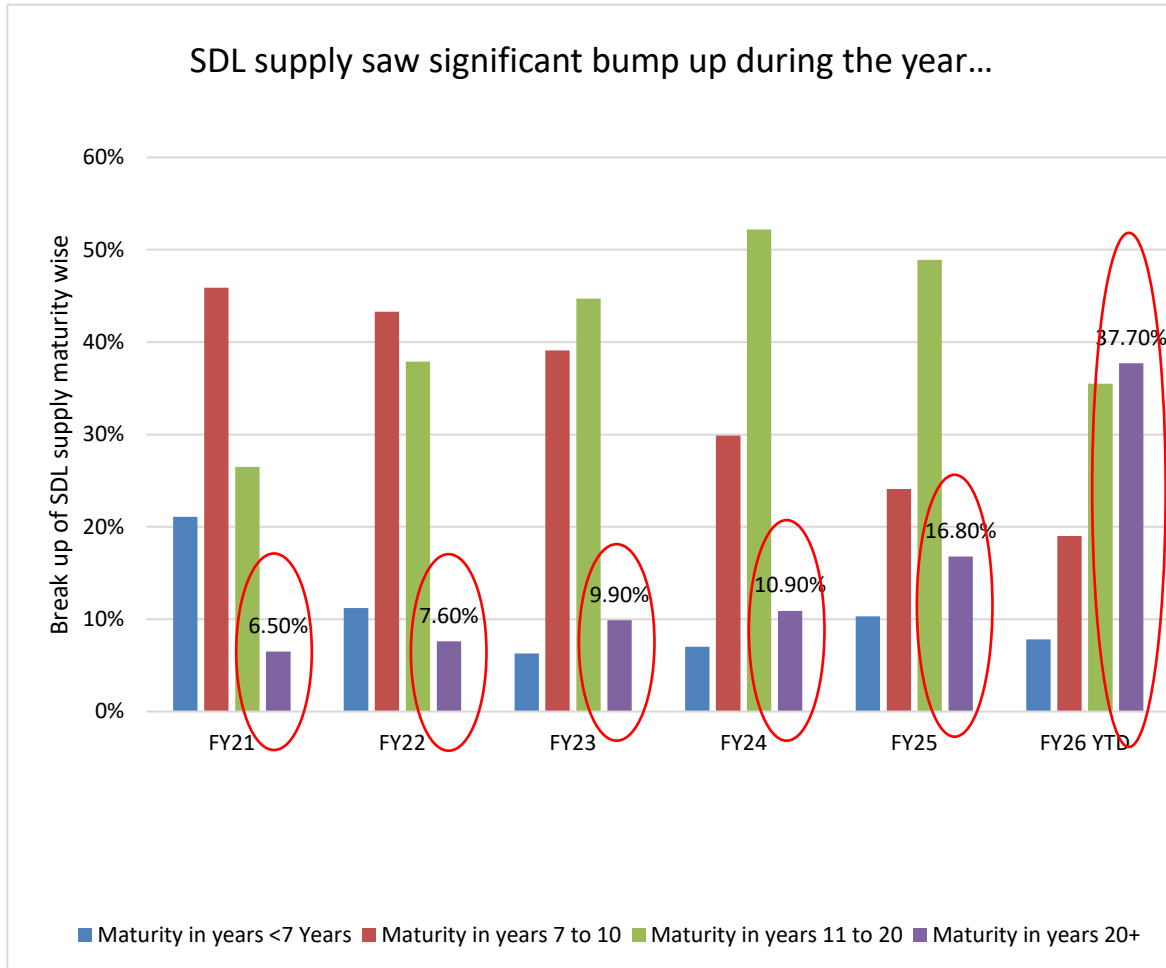
Source: Bloomberg

Massive supply and weak global demand pushed oil prices lower



Source: Bloomberg

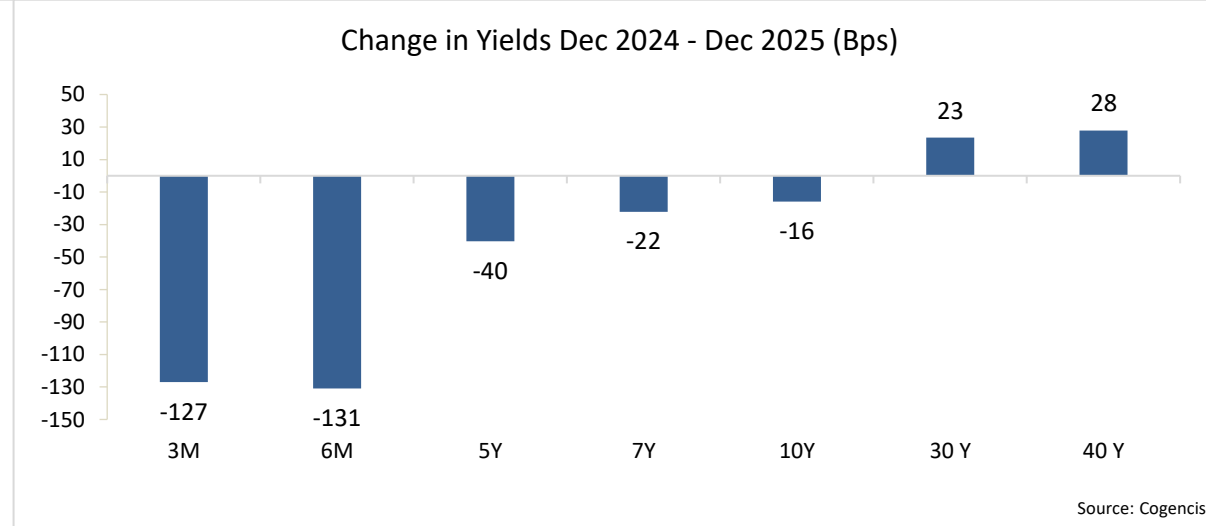
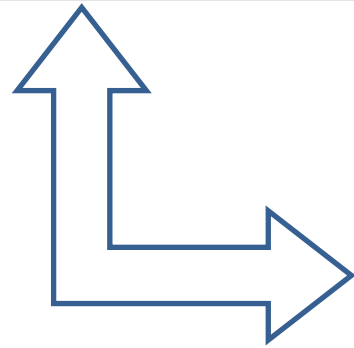
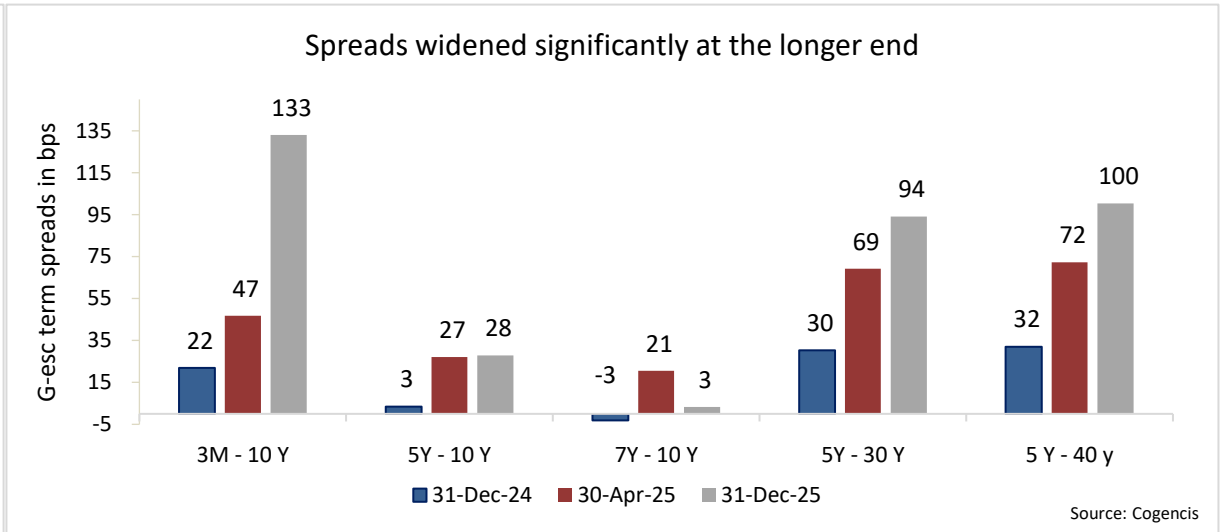
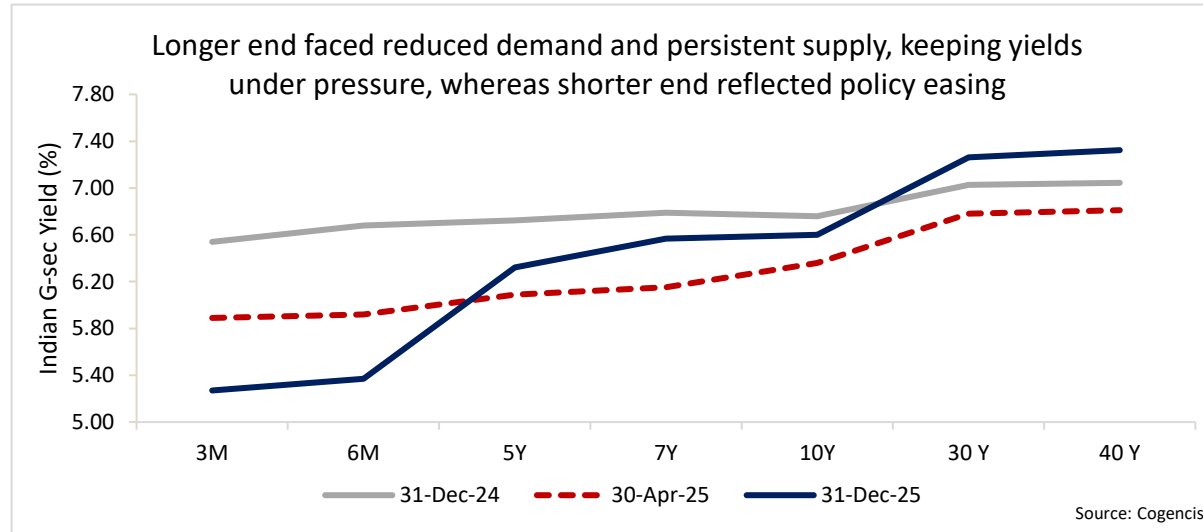
High borrowing at the longer end by states put pressure on supply-demand dynamics despite Centre's commitment to maintain fiscal prudence...



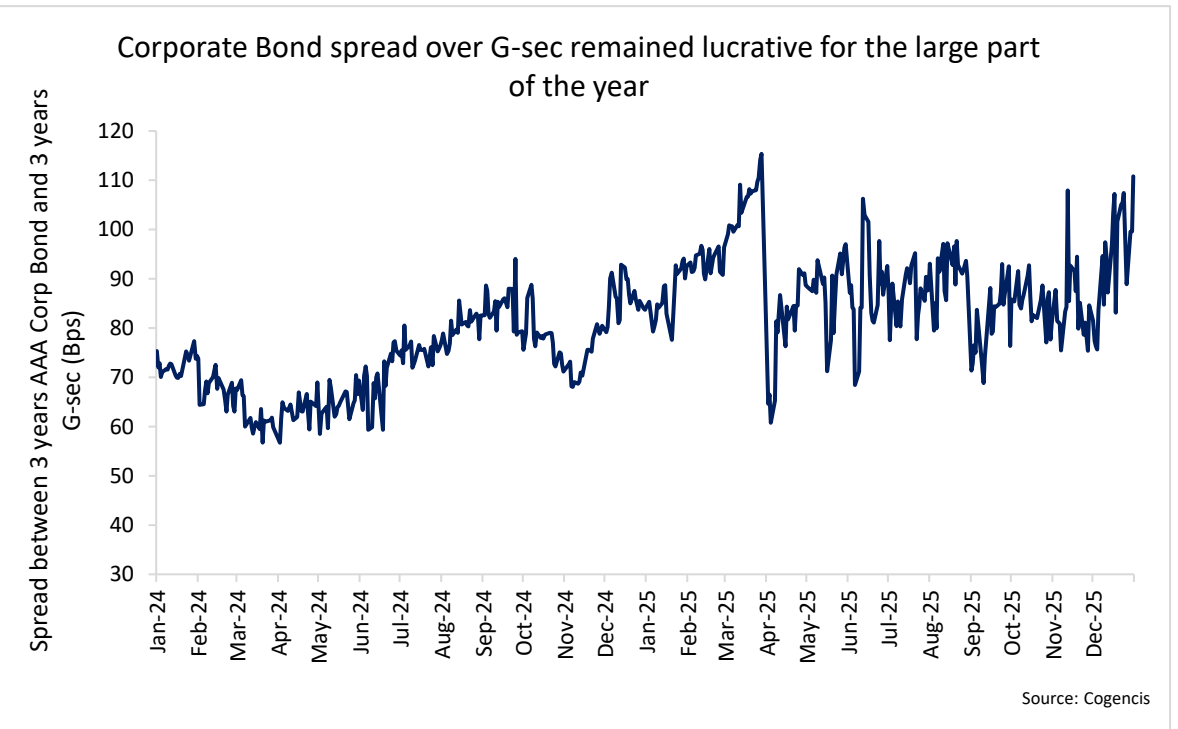
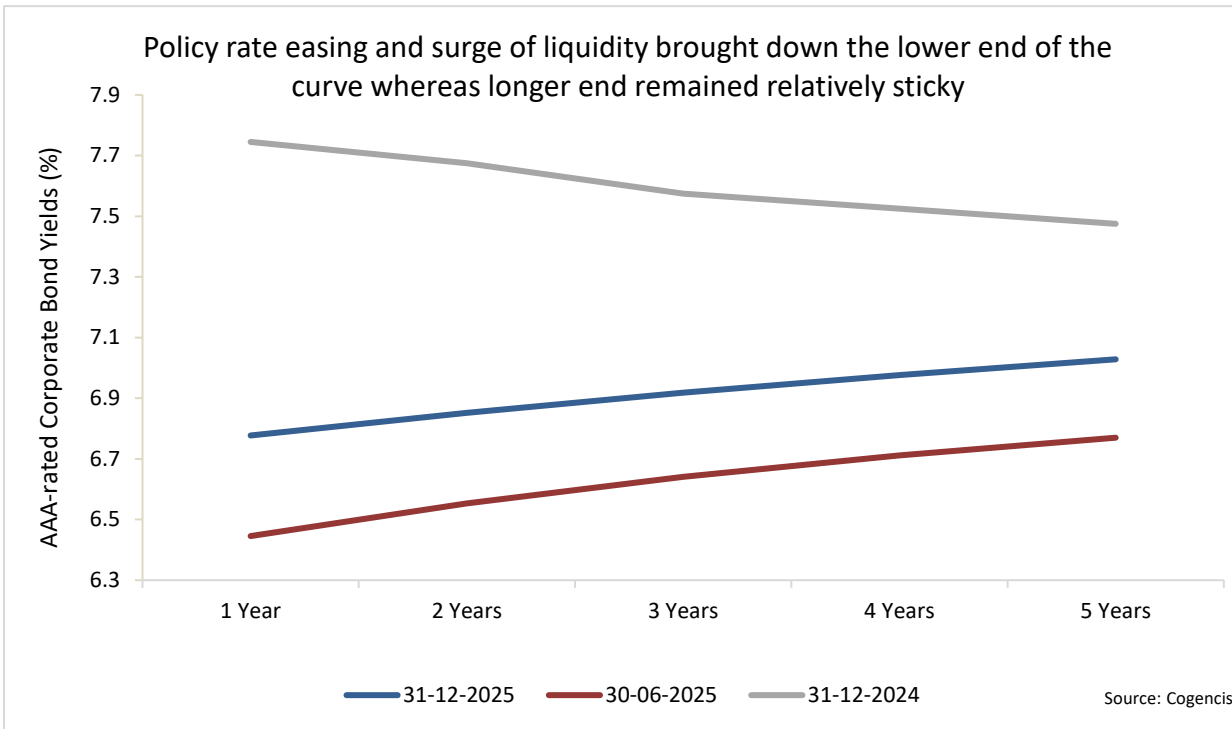
*Data for G-sec is from 11-May-2020 till 24-Dec-2025, data for SDL is from 3-Apr-2020 till 23-Dec-2025

Source : Bloomberg & Aditya Birla Sun Life AMC

...putting pressure on the longer end of the G-Sec curve... Whereas the shorter end came off following policy easing, leading to steepening of the curve



Corporate Bond yield curve moved from being inverted to normal and then steepened



Expectations from 2026...

Monetary policy actions to be driven by MPC's priority on growth as inflation is expected to remain under check... Development around trade deal to be watched out for (1/2)

Monetary Policy

- Policy rates are expected to remain lower for longer with diminishing probability of further rate cuts.
- However, if growth concerns return on the back of delay in a trade deal with the US, we may see RBI easing policy rates basis updated growth-inflation dynamics.

Inflation

- GST rationalization and high reservoir levels are expected to aid in keeping prices within RBI's target range.
- Inflation is likely to remain benign in the H1 CY26 and likely to inch up in H2 CY26 as liquidity support from RBI and base effect play out.
- New CPI Basket is expected in February 2026, may have implications on inflation calculations going forward.

Liquidity

- Any delay in trade deal and resultant effect on Rupee can have detrimental effect on system liquidity.
- RBI is expected to ensure adequate liquidity in the system through further OMOs if required.
- Inclusion in the Bloomberg Global Aggregate Index may add ~ USD 25 bn of additional liquidity in the system.

Yields

- G-sec term spread likely to see compression driven by liquidity support from the Central bank, conscious fiscal management by the Centre, and resumption of demand from entities like Insurance & Pension.

Monetary policy actions to be driven by MPC's priority on growth as inflation is expected to remain under check... Development around trade deal to be watched out for (2/2)

Corporate Bond Spreads

- Expectation of ample liquidity from RBI can drive corporate bond spread against G-sec lower.
- At this point of time, corporate bond funds are providing lucrative accrual opportunities with possibilities of capital gains as we go further into the year.

Fiscal Deficit

- Government's budgeted Fiscal Deficit is likely to be met despite lower tax collection on the back off higher than budgeted RBI dividend and probable reduction in capex thrust. Fiscal Deficit for FY27 may remain at par with FY26 as space for further improvement narrows.

Market borrowings

- Incremental State borrowing at the longer end could continue pulling up yields despite RBI's actions.

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