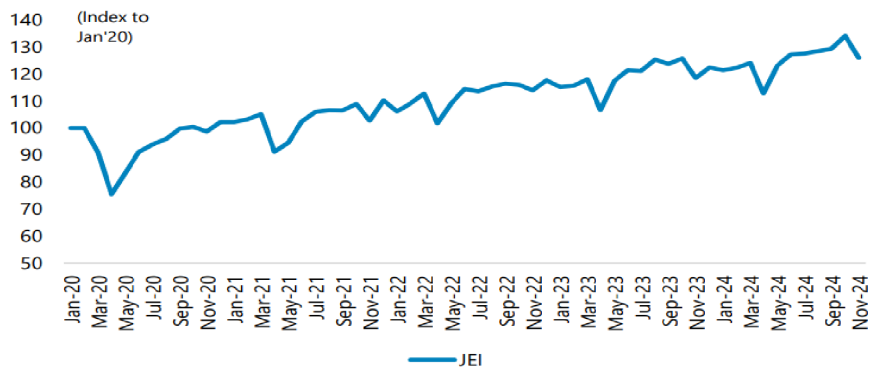
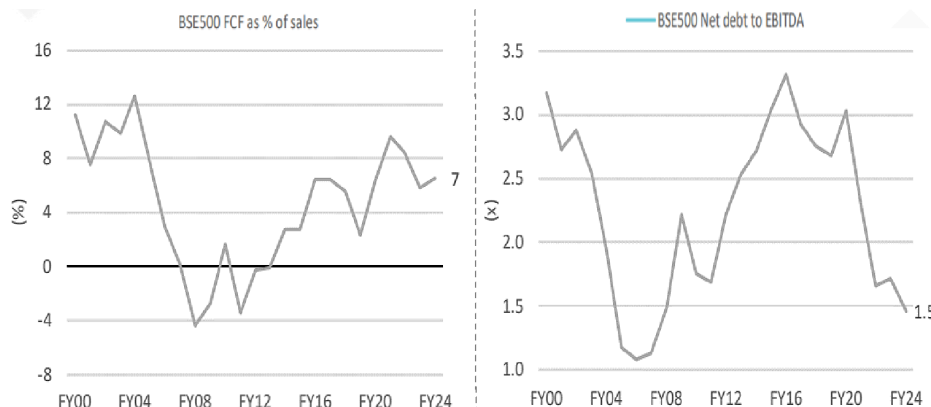


Indian Economy

- GST collection is lower than estimated nominal GDP growth. GST growth mirrors the slowdown in GDP growth.
- Subdued GDP growth in Q2 FY25 was influenced by factors such as the heat wave, heavy rains, the Shradh period, and low government spending.
- The Services PMI rose to a four-month high of 59.3, while the Manufacturing PMI fell to a twelve-month low of 56.4. Both Services & Manufacturing remain in the expansion phase.
- Advance tax collections for the third quarter increased by 16.8%.
- Economic activity is showing signs of recovery, indicating sustained growth. Capacity utilization, currently at around 74%, is expected to rise in CY25.



- Rural demand growth continues to outpace Urban demand as indicated by FMCG sales.
- Corporate India continues to remain healthy with strong balance sheets. Free cash flows are steadily increasing and Net debt to EBITDA is decreasing.



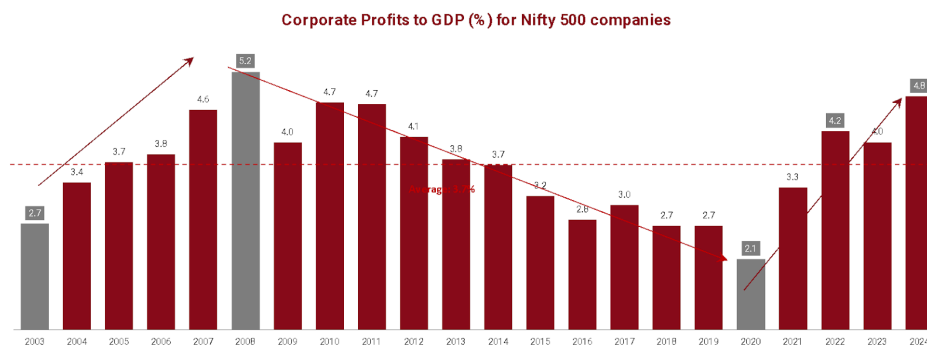
- All India rainfall is at 8% surplus. Reservoir levels are higher than last year, which bodes well for the Rabi crop.

Global Economy

- US equities, as measured by S&P, 500 outperformed all other major equity markets in 2024, with total returns of 25%.
- For 2025, global growth is expected to moderate slightly from 2024, with the U.S. economy forecast to slow to 2.1% in 2024 and stabilize at around 2.0% in 2025. Europe is likely to see very modest growth, with a slight recovery to 1.0% in 2025, following a challenging year. In China, growth is anticipated to ease from 4.8% in 2024 to 4.5% in 2025, as the economy continues to face headwinds from its property crisis and high leverage across sectors.
- Oil is expected to continue to remain subdued.

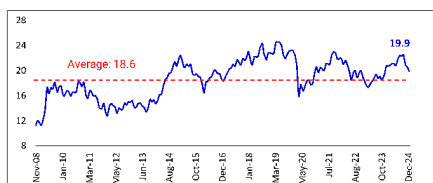
Outlook

- Since 2020, corporate profits as a percentage of GDP have nearly doubled, driven by faster profit growth relative to topline growth. This increase can be attributed to the transition of the unorganized sector to the organized sector, deleveraging of balance sheets, and previously loss-making companies turning profitable. Looking ahead, profit growth is expected to align with topline growth.

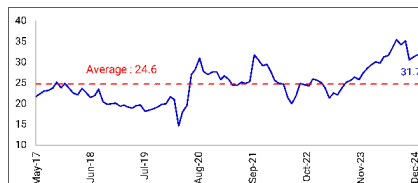


- For FY26, above average growth was seen in following sectors – Metals, Cement, Realty & Retails. Below average growth seen in – FMCG, Autos, Financials Power
- Valuations are above long-term averages, with large caps trading at a slight premium, while mid and small caps are at significantly higher premiums.

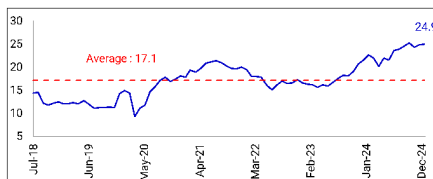
NIFTY P/E (x) - 1 Year Forward



NIFTY Midcap 150 P/E (x) - 1 Year Forward



NIFTY Smallcap 250 P/E (x) - 1 Year Forward



Valuation

Largecap	7% premium to historical average
Midcap	29% premium to historical average
Smallcap	45% premium to historical average

- Key short-term risks include growth falling below expectations—especially as markets have priced in a soft landing—and fewer or slower-than-expected rate cuts, which could trigger a deflationary impact on asset prices.
- Despite these risks, the medium-to-long-term outlook remains positive. Nifty earnings are expected to grow at a compounded annual growth rate (CAGR) in the low-to-mid teens over the next three years, providing a strong foundation for equity returns.
- **Debt:** Yields of sovereign 10 yr paper have risen in most large economies, including the US, despite interest rate cuts by central bankers. The Fed has indicated 2 rate cuts in 2025, but it remains to be seen if these would be implemented in face of inflationary policies of Mr Trump.
- The retail inflation Index (CPI) has come in at 5.22% at a 4 -month low well within the RBI's comfort zone. However, our 10-year G-sec yield at 6.89% has inched up with the hardening of US interest rates. Liquidity in the system also remains tight.
- It would be a good opportunity to enter duration funds as the 10-year G-sec yield inches closer to 7%. Long term debt exposure can be taken through a combination of Long Duration Debt Funds, Corporate Fixed deposits and the tax efficient conservative hybrid funds. Arbitrage Funds are recommended for a 3m to 1 year time horizon.

