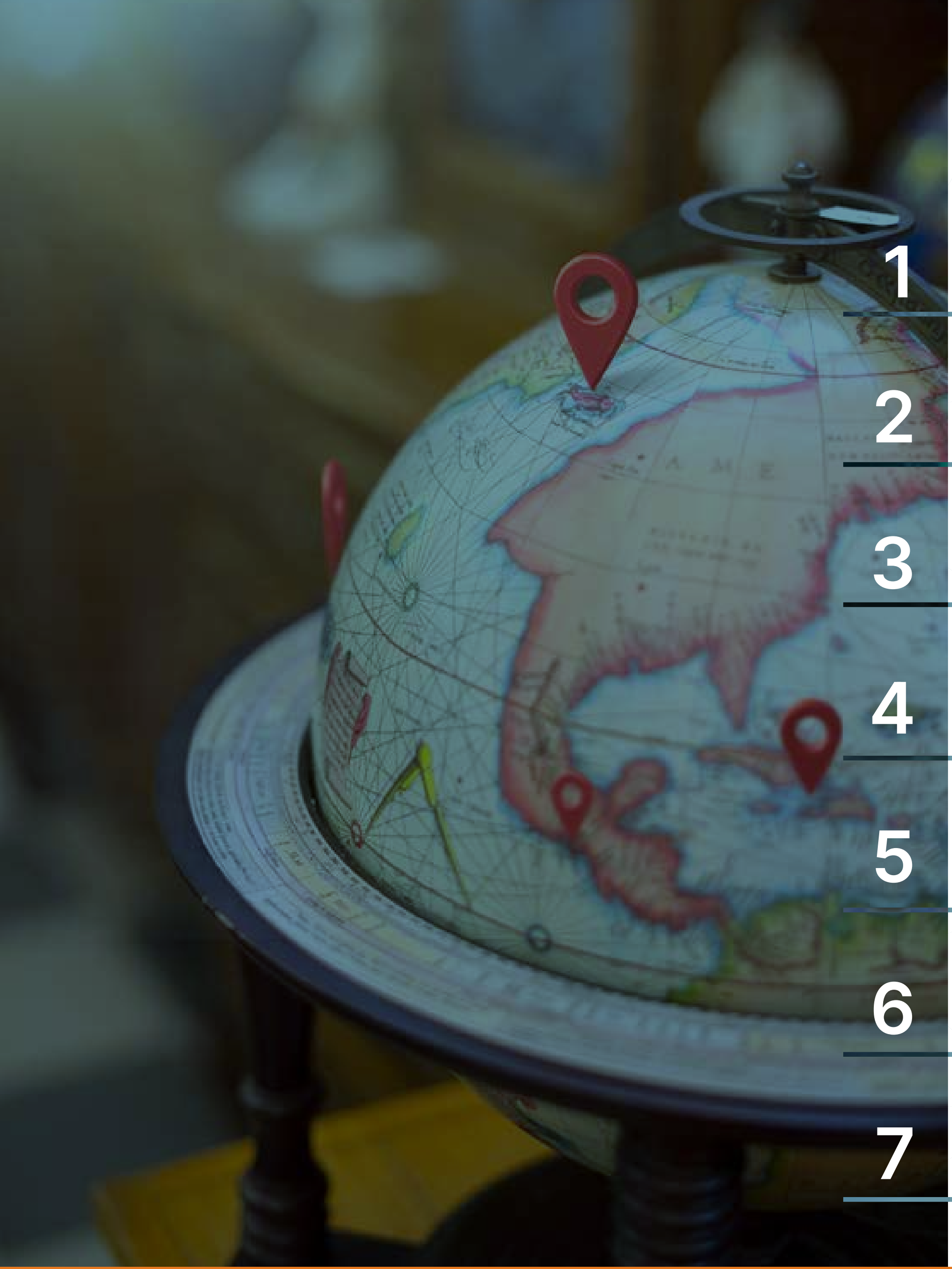
InCred Wealth

May 2025

Market Outlook

Post Tariffs and Indo-Pak flareup, Fundamentals to Take the Lead



Index

Outlook Summary

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Large Cap

FIIs turned net buyers in the second half of the month, after being sellers throughout this CY.

- Nifty continued its upward trend in April'25, delivering the highest monthly returns in the past nine months.
- India - Pakistan tensions having abated for now, investor sentiments are broadly undamaged, and markets have inched higher from the lows seen during the month, laced with intermittent volatility.
- US announcement of pausing the reciprocal tariffs for 90-days came as a positive, while the baseline 10% reciprocal tariff continues to remain applicable during this period.
- While many countries are in the process of negotiating trade deals, the effect of tariffs may wear off in months leading to a sideways market at best.
- Price correction on equity indices (Nifty), has brought headline valuations closer to historical averages. If post the 90-day period more long-term trade deals do not come through, sharper drop in P/E levels remains a possibility as the market would try to factor in potential shocks from renewed macro disruptions
- Also, expectations for FY26 corporate earnings have seen some rationalization, however, are still elevated in our opinion. Given the underlying crosscurrents of macro-micro backdrop, earnings are ripe for further downgrades.
- We remain watchful of the situation that's unfolding in global markets. We believe the Nifty could be rangebound in the next 6 months with a slow recovery as global stability returns.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Large Cap	Nifty 50	24,334	Neutral *(Since: Jun-24 Level: 23,519)*

Key Takeways

- **We maintain a Neutral stance towards equities in view of heightened uncertainties and potential slowdown and suggest deploying over the next 3 months.**

Source: Prices as of 30th Apr' 25; Bloomberg

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Mid and Small Cap

During the last 5 years (until 2024), midcaps and smallcaps have outperformed largecaps.

- During this period, midcaps have significantly outperformed largecaps by 154%, while smallcaps have outperformed largecaps by 156%.
- In Apr-25, Midcap 150 and Smallcap 250 indices gained 3.3% and 1.6% respectively.
- Since 27th Sept-24, the median mid-cap and median small-cap has lost 13% and 17% respectively.
- For those under allocated, consider phased investments into mid and small caps over a 6-9 months period, while maintaining tactical allocation limits—20% for mid caps and 10% for small caps.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Mid and Small Cap	BSE Midcap	42,884	Underweight *(Since: Feb-24 Level: 41,531)*

Key Takeways

- Despite the sharp sell-off, SMID continues to trade at ~25% premium to its own long period averages. We suggest booking profits in this segment, given the potential for additional downside.

Source: Prices as of 30th Apr' 25; Bloomberg

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With Repo Rate at 6% and view on durable liquidity to be positive, the recent transmission into market interest rates is expected to sustain.

- The RBI cut rates by 25bps for the second time in a row, in lines with market expectations. Also the policy stance was changed from neutral to accommodative, entailing easy policy that is geared towards stimulating the economy through softer interest rates.
- While debate around the terminal rate may persist amid shifting views on further easing, we expect the overall magnitude of cuts to remain modest (incremental 50bps to 75bps in this financial year).
- The Budget outlines continued fiscal consolidation, targeting a 4.4% deficit-to-GDP by FY26. While minor slippages warrant monitoring, strong demand and stable-to-negative net government bond supply create a supportive backdrop for bonds over the next 12–18 months.
- As external volatility reshapes market expectations, a dynamic and continuously reassessed approach to duration will be essential.
- Today's yield landscape offers compelling, lower-risk relative value plays through select funds—well-suited to investor appetite across both risk and duration.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	G-Sec	10-year G-Sec	6.35%	Positive on medium duration and high yield strategies
	AAA Corporate	3y AAA	6.88%	
	AA Corporate	3y AA	7.76%	
	A Corporate	3y A	9.03%	

Key Takeways

- **Positioning into duration-driven dynamic bond funds and also allocating to credit strategies can unlock attractive opportunities for investors.**
- **Upto 50% of fixed income to be allocated towards medium – long duration strategies.**
  Further, allocation of upto 35% of fixed income portfolio is suggested towards high yielding assets (bonds /funds)
- **Balance 15% of the fixed income portfolio can be allocated towards accrual / shorter term strategies – upcoming strategies such as income plus category of funds can be encouraged**

Source: Bloomberg; Bond yields as on 6th May 2025

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Global Equities

- While allocation to global markets offers diversified growth story with preference across world, transformational technology, biotechnology etc. (themes that are not available in India), current uncertainty that emanates from global macro and policy transformation might take time to settle down and hence would wait for atleast 6 months before re-considering this segment of the market.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Global Equities	US	S&P 500	5,569	Negative
	Europe	MSCI Europe	176	
	China	Shanghai Composite	3,279	

Precious Metal

- Gold prices have seen a record-breaking year in terms of returns as the prices have hit new highs in 2025.
- Traditionally, a weaker USD and lower U.S. rates increase the appeal of gold. But a significant decoupling started to emerge in early 2022 and gold's relationship with U.S. real yields has broken down even further this year.
- As global concerns about trade tensions seem to dissipate for now—especially after the United States – China bilateral trade agreement underway—investors might turn back to risk assets in the interim thus providing a near term lid to gold prices.
- A general aversion to short bullion financially, despite the outsized rally, underscores gold's structurally bullish drivers outside of U.S. real yields. Any further flare up in geopolitical uncertainty, incremental Central bank buying, monetary policy changes and ETF flows to support gold prices further.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Precious Metal	Gold	LBMA USD	3,302	Positive
	Silver	LBMA USD	32.26	Positive

Key Takeways

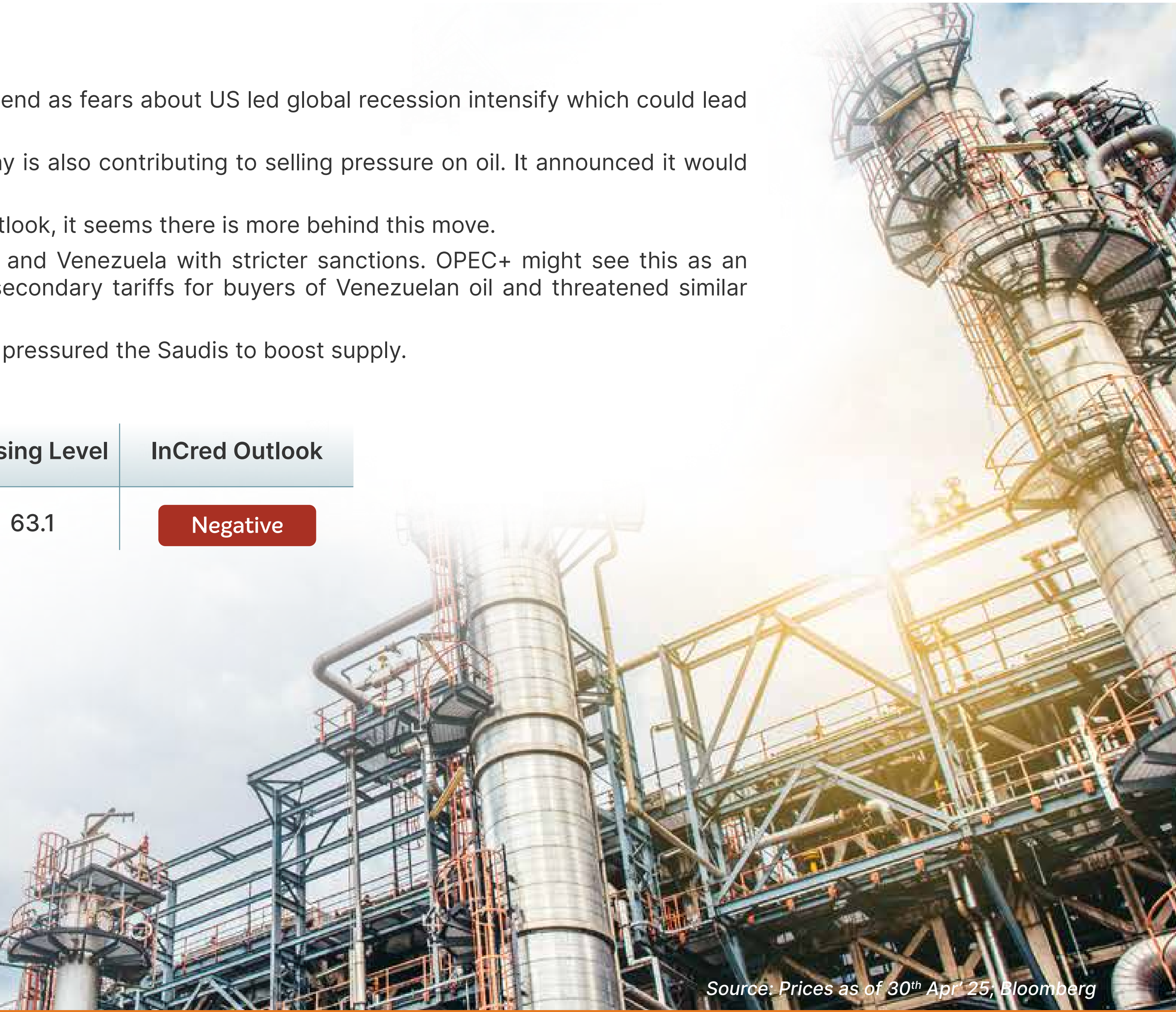
- **The structural bull case for gold remains intact, even as prices have risen sharply.**

Source: Prices as of 30th Apr' 25; Bloomberg

Commodities – Crude

- Price slump in crude oil that has begun recently is expected to extend as fears about US led global recession intensify which could lead to demand uncertainty.
- Additionally, a planned production increase by OPEC+ starting May is also contributing to selling pressure on oil. It announced it would increase the oil supply by 411k b/d in May.
- While OPEC+ said the supply increase is due to a more positive outlook, it seems there is more behind this move.
- US President Trump is taking a more hawkish view towards Iran and Venezuela with stricter sanctions. OPEC+ might see this as an opportunity to boost supply, especially after Trump announced secondary tariffs for buyers of Venezuelan oil and threatened similar measures for buyers of Iranian and, potentially, Russian oil.
- Secondly, it is no secret that Trump wants lower oil prices and has pressured the Saudis to boost supply.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Commodities	Crude	Brent Crude (US$/bbl)	63.1	Negative



Source: Prices as of 30th Apr' 25, Bloomberg

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Indian Equities outperforms most of the global markets in Apr'25

Equities continue its upward trend in Apr'25; Large Caps outperformed; Crude corrects; EU, China & US underperformed

As of 30th Apr 2025 EM and DM	Current Level	1M	3M	6M	1Y	CY24	CY23	CY22	CY21	CY20	CY19
MSCI Emerging Markets	1,113	1.0%	1.8%	-0.6%	6.4%	5.1%	7.0%	-22.4%	-4.6%	15.8%	15.4%
MSCI World Index (Developed equities)	3,656	0.7%	-4.7%	0.2%	10.6%	17.0%	21.8%	-19.5%	20.1%	14.1%	25.2%
Key Equity Indices											
S&P 500	5,569	-0.8%	-7.8%	-2.4%	10.6%	23.3%	24.2%	-19.4%	26.9%	16.3%	28.9%
MSCI Europe	176	-1.4%	-2.4%	4.2%	4.2%	5.8%	12.7%	-11.9%	22.4%	-5.4%	22.2%
Nikkei	36,045	1.2%	-8.9%	-7.8%	-6.1%	19.2%	28.2%	-9.4%	4.9%	16.0%	18.2%
Shanghai Composite	3,279	-1.7%	0.9%	0.0%	5.6%	12.7%	-3.7%	-15.1%	4.8%	13.9%	22.3%
Nifty	24,334	3.5%	3.5%	0.5%	7.7%	8.8%	20.0%	4.3%	24.1%	14.9%	12.0%
BSE MidCap	42,884	3.3%	-0.5%	-6.7%	1.8%	26.1%	45.5%	1.4%	39.2%	19.9%	-3.0%
BSE SmallCap	47,400	1.6%	-5.1%	-13.8%	0.2%	29.3%	47.5%	-1.8%	62.8%	32.1%	-6.8%
Other Assets (levels)											
Brent Crude	63.1	74.7	76.8	73.2	87.9	0.0	85.9	0.1	51.8	66.0	53.8
Gold	3302.1	6.0%	17.4%	20.8%	43.1%	25.5%	14.6%	0.4%	-4.3%	24.6%	18.4%
Dollar index	99.5	104.2	108.4	104.0	106.2	0.1	103.5	0.1	89.9	96.4	96.2
Credit/ yields (%)											
India 10 year G-sec	6.36	6.58	6.70	6.85	7.19	-0.06	7.33	0.14	5.87	6.56	7.37
US 10 year G-sec	4.16	4.21	4.54	4.28	4.68	0.18	3.87	1.57	0.91	1.92	2.68
Germany 10 year G-sec	2.44	2.74	2.46	2.39	2.58	0.17	2.57	-15.53	-0.57	-0.19	0.24

Source: Bloomberg

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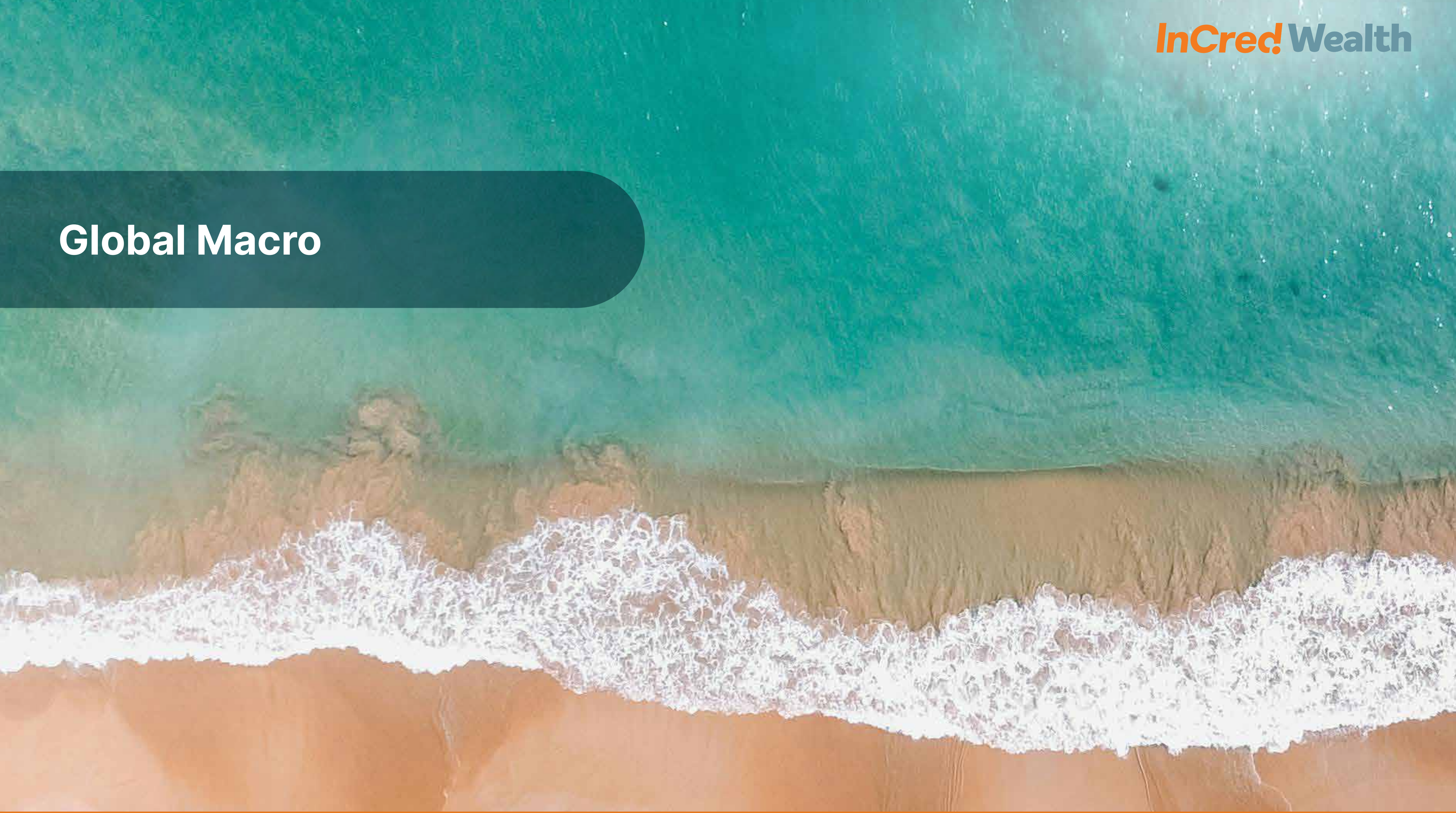
Most sectors rebound from their Mar'25 lows; IT declinest
- Large Caps outperformed Small & Mid Caps in Apr-25.

As of 30th Apr 2025	1M	3M	1Y	CY24	CY23	CY22	CY21	CY20	CY19
Overall Markets									
Nifty	3.5%	3.5%	7.7%	8.8%	20.0%	4.3%	24.1%	14.9%	12.0%
Nifty Equal weight	3.4%	2.6%	6.2%	9.7%	29.8%	6.4%	32.6%	17.6%	2.7%
BSE Mid cap	3.3%	-0.5%	1.8%	26.1%	45.5%	1.4%	39.2%	19.9%	-3.0%
BSE Small Cap	1.6%	-5.1%	0.2%	29.3%	47.5%	-1.8%	62.8%	32.1%	-6.8%
Styles									
Nifty 200 Quality 30	3.2%	-3.3%	5.5%	12.7%	29.9%	-6.3%	nm	nm	nm
MSCI India Value	3.6%	2.6%	3.0%	12.1%	25.9%	-1.4%	31.5%	23.7%	9.6%
MSCI India Growth	3.6%	2.9%	7.9%	16.5%	14.8%	4.5%	22.7%	10.1%	7.3%
Financials									
NSE Financials	4.1%	12.5%	19.6%	9.4%	13.2%	9.5%	14.0%	4.5%	25.6%
Nifty Bank	6.8%	11.1%	11.5%	5.3%	12.3%	21.2%	13.5%	-2.8%	18.4%
Nifty Private Bank	6.7%	12.6%	11.9%	-0.4%	13.8%	21.2%	4.6%	-2.9%	16.2%
Nifty PSU Banks	4.5%	3.6%	-14.0%	14.5%	32.3%	70.7%	44.4%	-30.6%	-18.3%
Asset heavy sectors									
BSE Oil and Gas	5.4%	4.2%	-8.6%	13.2%	12.8%	16.6%	24.3%	-4.4%	7.2%
BSE Capital Goods	0.1%	-2.7%	-0.4%	21.8%	66.9%	16.0%	53.4%	10.6%	-10.0%
BSE Utilities	1.0%	3.9%	-10.3%	13.0%	32.6%	22.2%	64.4%	-0.4%	-7.3%
NSE Infrastructure	3.9%	5.2%	2.5%	15.9%	39.1%	6.1%	35.6%	12.2%	2.5%
Services oriented sectors									
NSE IT	-3.0%	-16.1%	7.8%	22.0%	24.1%	-26.0%	59.6%	54.9%	8.4%
BSE Telecom	8.7%	4.3%	6.2%	25.8%	30.8%	-4.5%	43.0%	13.6%	12.9%
NSE Financial services	4.1%	12.5%	19.6%	9.4%	13.2%	9.5%	14.0%	4.5%	25.6%
Others									
NSE Media	2.6%	-4.2%	-20.0%	-23.9%	19.9%	-10.2%	34.6%	-8.6%	-29.7%
NSE Auto	4.8%	-2.4%	-0.8%	22.6%	47.6%	15.3%	19.0%	11.5%	-10.7%
NSE FMCG	5.3%	-0.4%	4.1%	-0.3%	29.0%	17.5%	10.0%	13.5%	-1.3%
NSE Pharma Index	3.0%	1.6%	14.8%	39.1%	33.6%	-11.4%	10.1%	60.6%	-9.3%
NSE Real Estate	4.1%	-3.9%	-9.0%	34.4%	81.3%	-10.8%	54.3%	5.1%	28.5%

- **Large Caps outperformed broader markets in Apr-25 after an underperformance in Mar-25.**
- Value & Growth gave similar returns in Apr-25 leaving little to choose between the two styles. While, with earnings growth tapering, businesses with better quality of growth continue to see investor interest.
- Telecom, Banks and Oil & Gas were the best performing sectors in Apr-25.
- IT, Capital Goods and Utilities were the worst performing sectors in Apr-25.

Source: Bloomberg



Global Macro

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Central Bank policy response to Tariffs needs to be watched

	Quarterly GDP Mar-25 SA qoq (%)	Inflation Mar-25 yoy (%)	Current Policy Rate Apr-25	10Y bond yield 9-May-25
US	-0.3%	2.4%	4.25% - 4.50%	4.38%
Europe	0.2%	2.2%	2.25%	2.55%
Japan	2.8%	3.7%	0.50%	1.36%

USA

- The Federal Reserve (Fed) held interest rates steady at the 4.25% to 4.5% range during its May meeting, as expected. Currently, the Fed sees the economy growing at a modest pace, with inflation slightly above their 2% target.
- However, the Fed acknowledged that since their last meeting in March, the risks of higher inflation and higher unemployment have increased, in part due to trade policy.
- Fed Chair Powell noted that their existing policy is “in a good place” and can allow them to respond swiftly as economic conditions evolve.
- On the tariff front, US & China declare 90-day tariff pause, where the US will lower its tariffs on Chinese goods from 145% to 30% and China will bring down tariffs on American imports from 125% to 10%.

Europe

- The ECB lowered its three key interest rates by 25 basis points on April 17, 2025, reducing them to 2.25% (deposit facility), 2.40% (main refinancing operations), and 2.65% (marginal lending facility).
- This decision was widely expected by markets, reflecting concerns about slowing economic growth and the impact of US tariffs on the eurozone.
- The ECB has been trimming interest rates for the seventh time in the year, bringing the key rate to its lowest level since late 2022.

Japan

- BOJ held rates steady at 0.50%.
- Uncertainty from trade policies heightened sharply. BoJ expected to keep raising rates if economy, prices move in line with projections. Trade policies announced in each region likely to push down economies.
- Timing of underlying inflation to achieve 2% goal will be somewhat delayed.
- Timing of next rate hike could be swayed a lot depending on impact of tariffs on economy.

Source: Bloomberg

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Weak US$ theme favors increased global asset allocation to Emerging Markets

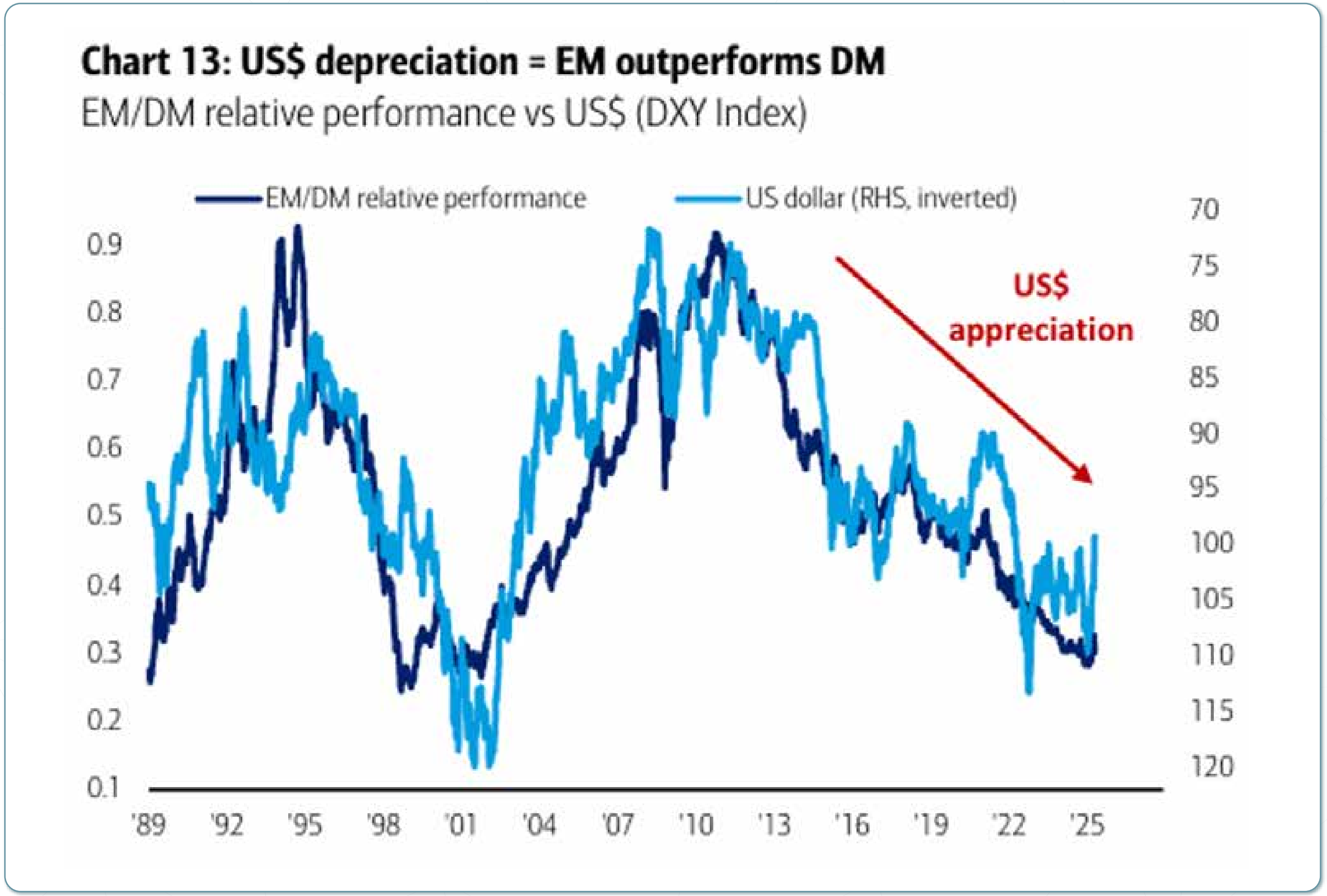


Figure 1.

Source: BofA Global Investment Strategy

Is it the Golden Age for GOLD?

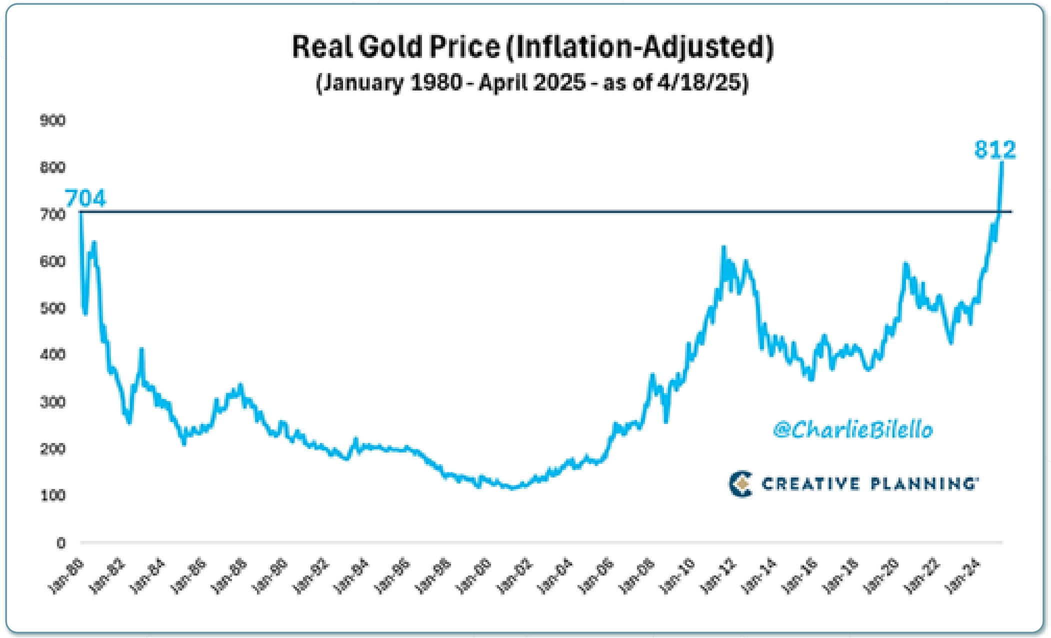


Figure 2.

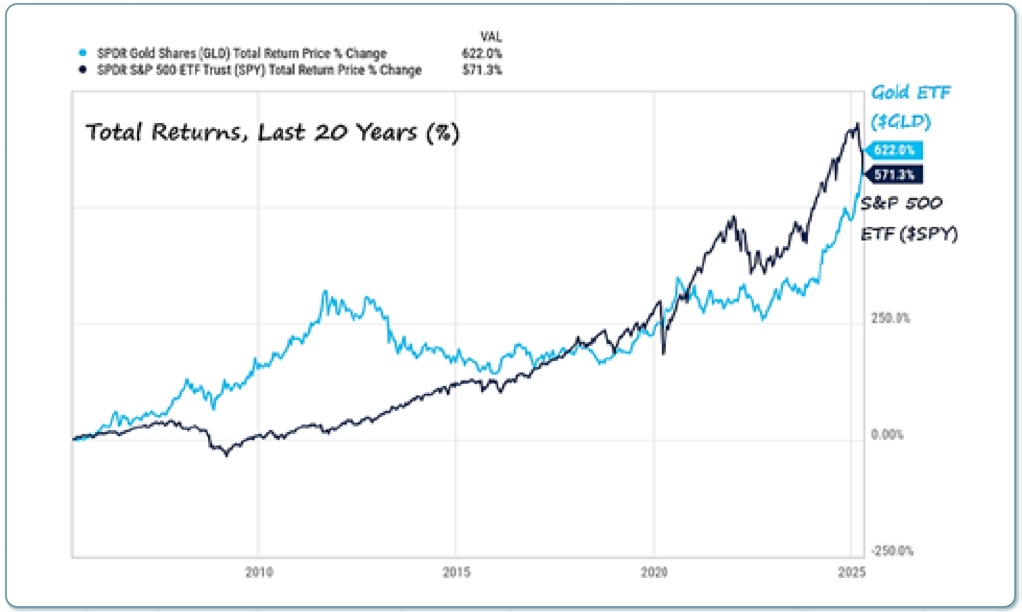


Figure 4.

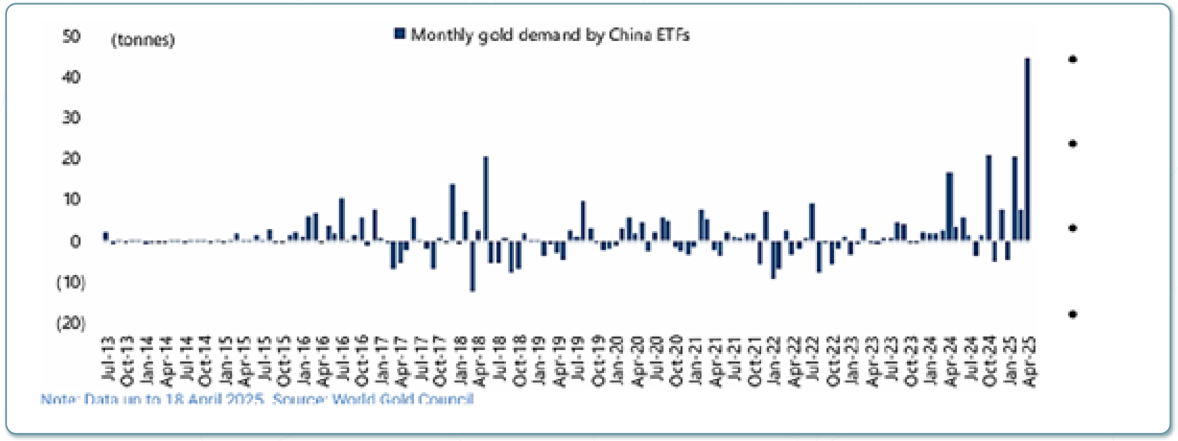


Figure 3. Monthly gold demand by China gold ETFs

- The US Dollar's rapid decline coupled with massive uncertainty over trade policy has been a boon for Gold.
- The yellow metal is up 27% on the year, on pace for its best annual return since 1979.
- It took 45 years to get there, but inflation-adjusted Gold prices are back at an all-time high, surpassing the prior peak from 1980.
- The Gold ETF is now outperforming the S&P 500 ETF over the last 20 yr: $GLD: +622% ; $SPY: +571%

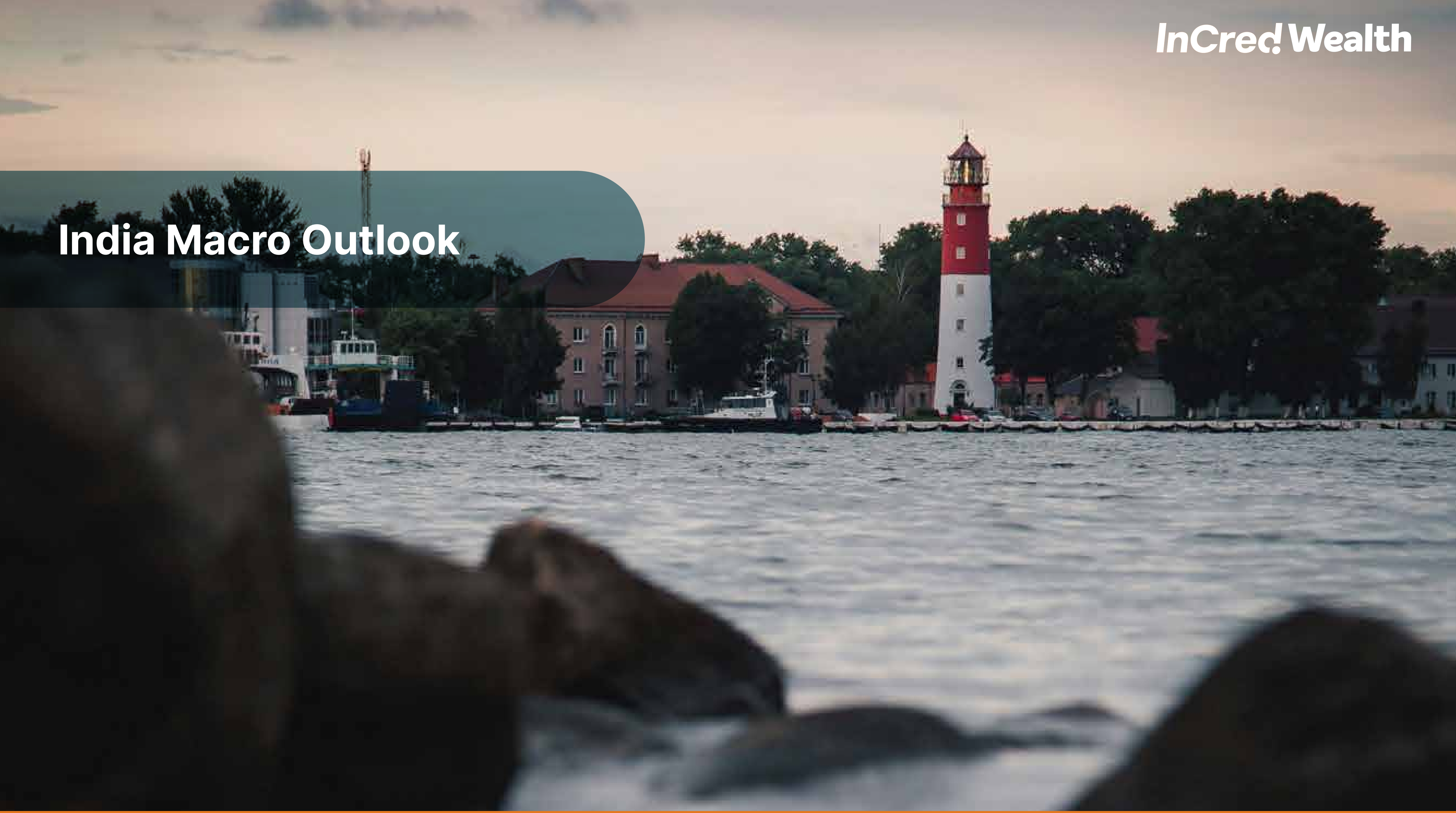
Source: Bloomberg; WGC

GOLD: Is $4,000/oz coming?

- Tariff-driven recession and stagflation risks are forecasted to continue to supercharge gold's structural bull run
- JPM expects gold prices to reach $3,675/oz by Q4CY25 on the way towards $4,000/oz and above by Q2CY26
- Expectations of continued strong investor and central bank gold demand averaging around 710 tonnes a quarter on net this year **(Factcheck: Every 100 tonnes of QoQ increase in holdings from investors and central banks being worth around a 2% QoQ increase in the price of gold)**
- Forecasts suggest CBs to buy 900 tonnes in CY25 and further expansion in investor holdings from ETFs and China
- CBs will buy gold given combination of economic, trade, and US policy uncertainty, as well as shifting, more unpredictable geopolitical alliances
- For investors, we think gold remains one of the most optimal hedges for the unique combination of stagflation, recession, debasement and US policy risks facing markets in 2025 and 2026
- Increased probabilities of recession and recent bouts of uncharacteristic volatility and higher US yields amid boosted US tariffs and a US/China trade war also add a significant tailwind to gold investment
- Chinese retail investor demand stays strong and there could be potential new set of investors (from other countries) that expands gold investment pool **(Every 1% increase in China's reported gold holdings equates to ~323 tonnes of gold)**
- Silver too should benefit due to rising Gold demand and high prices, however some counterbalance due to industrial activity slowing down / uncertainty could weigh in
- Silver should be a **"catch-up" trade** and should see prices move up steadily in H2CY25 towards $39/oz by end 2025

Source: JP Morgan

India Macro Outlook



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High frequency indicators suggest economy showing tapering growth

- GST collections rise to all-time high of ₹2.37 trn with 12.6% yoy growth; Auto sales were flattish in April'25; Credit growth momentum continues to remain steady; Core industries output growth remains positive but hints of slowdown
- GST collections rose to an all time high in April 2025. While this reflects ongoing recovery and growth, a significant contributor is also the year-end reconciliation process, which typically results in additional tax payments by businesses to align their returns during the year.
- Manufacturing PMI remains in expansionary phase

	As on	Unit	Latest	Last	One year back
O/s non-food Credit Growth	Mar-25	yoy (%)	12.0%	12.0%	16.3%
Consumption					
Auto Volumes					
PV	Apr-25	Units Sold	3,49,939	3,50,603	3,44,594
2W	Apr-25	Units Sold	16,86,774	15,08,232	16,49,591
Industries					
Power Consumption	Apr-25	yoy (%)	2.2%	6.9%	10.5%
Manufacturing PMI	Apr-25	X	58.2	58.1	58.8
Core Industries output	Mar-25	yoy (%)	3.8%	3.4%	6.3%
Overall, Economy					
GST Collection	Apr-25	Rs Trn	2.37	1.96	2.10

Source: Bloomberg, FADA, Company Data

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Real GDP growth improves in Q3FY25

- The Indian Economy growth improved from its 7-month low, at 5.6% in Q2FY25 to 6.20% in Q3FY25.
- The improvement in real GDP growth was mainly led by the six-quarter highest growth in final consumption expenditure (7.1% in 3QFY25 vs. 5.3%/5.6% in 3QFY24/2QFY25). Both private and government consumption witnessed an improvement during the quarter.
- Nominal GDP growth was 9.9% in 3QFY25, lower than 12.9% in 3QFY24 but better than 8.3% in 2QFY25.
- In 9MFY25, real GDP grew 6.1%, which was lower than 9.5% in 9MFY24 and the lowest in the last four years during the corresponding period.

	As on	Unit	Latest	Last	1 year back
GDP quarterly	Dec-24	yoy (%)	6.20%	5.60%	9.50%
GDP Annual	FY24	yoy (%)	8.20%	7.00%	9.70%
Inflation	Mar-25	yoy (%)	3.34%	3.61%	4.85%
Policy Rate	Apr-25	%	6.00%	6.25%	6.50%
IIP	Mar-25	yoy (%)	3.00%	2.70%	5.50%
INR/USD	Apr-25	X	84.60	85.45	83.45

Source :Bloomberg, MOSPI

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Advantage India - Low External Vulnerability

		Year preceding taper tantrum	US-China trade tiff	Covid	Conflicts	Conflicts	Conflicts	Trade tiff
Indicator		FY13	FY19	FY21	FY23	FY24	FY25F	FY26F
External liabilities	CAD (% of GDP)	4.8	2.1	-0.9	2.0	0.7	1.0	1.3
	External debt (% of GDP)	22.4	20.1	21.4	18.6	18.8	18.5#	
	Short-term external debt (% of GDP)	5.3	4.0	3.8	3.8	3.5	3.4#	
Adequacy of forex reserves	Months of import cover	7.2	9.4	18.0	9.7	11.4	10.6^	
	Reserves/(short-term debt + CAD)	1.6	2.5	7.5	3.0	4.2	4.1#	
Domestic macroeconomic health	GDP growth (% y-o-y)	5.5	6.5	-5.8	7.6	9.2	6.5	6.5
	CPI inflation (% y-o-y)	9.9	3.4	6.2	6.7	5.4	4.7	4.4
	General government deficit (% of GDP)	7.5	7.8	8.8	9.2	7.8	7.3	7.0
	General government gross debt (% of GDP)	67.7	76.5	84.7*	84*	83.7*	82.9*	81.7*

F – Crisil forecast

Vulnerability indicator: High (red) | Low (green) | Neutral (amber)

^As of January 2025, #as of September 2024, *estimates by S&P Global (December 9, 2024)

Source: Reserve Bank of India (RBI), National Statistical Office (NSO), Ministry of Commerce and Industry, S&P Global, Crisil

Figure 5. - India's exports to US amount to 18% of its total exports in CY24..

- India's external vulnerability is low and reasonably well covered by existing forex reserves
- Increasing share of services in India's total exports provides sufficient buffer against global trade disruptions
- INR depreciation has been orderly despite recent capital outflows

Source: Crisil Research

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Sectoral assessment of new tariff structure imposed by the US

Sector	Export as a share of domestic production	Export to the US	Old tariff	Additional ad valorem duty	Tariff including additional duty	Impact
Pharmaceuticals	32%	53%	1.27%	Exempt	1.27%	Neutral
Textiles and apparel	28%	37%	11%	26%	37%	Marginally favourable
Gems and jewellery	26%	37%	0-7%	26%	26-33%	Unfavourable
Smartphones	30%	37%	0%	26%	26%	Marginally favourable
Auto components	15%	28%	0-2%	25%*	25%	Marginally unfavourable
Chemicals	40%	13%	3.70%	26%	29.70%	Marginally unfavourable
Photovoltaics	26%	97%	Nil	Exempt	Nil	Neutral
Agriculture	NA	11%	0%	26%	26%	Marginally favourable
Steel	~5%	~1%	0%	25%*	25%	Neutral
Aluminium	47%	6%	2.60%	25%*	25%	Marginally unfavourable

Notes:
1. Duty on auto components, steel and aluminium were announced in previous executive orders
2. The new tariff figures are as on April 4, 2025. These are subject to change basis further announcements, policy revisions, or alternative interpretations by regulatory authorities
3. The old tariff figures are as per the last updated weighted average MFN before the reciprocal tariff announcement

Source: ITC Trade Map, WTO, Crisil Intelligence

Figure 6.

- Basis Crisil research, India Inc's revenue growth of 7-8% for FY26 has a downside risk for now, along with possible pressure on profitability / earnings

Source: Crisil Research

Flows, Valuations, Earnings

FIIs buy around $0.5bn in Apr-25; MFs / DIIs remain buyers of equities

- FIIs turned net buyers of Indian equities at $0.5bn in Apr-25.
- DIIs & MFs continued to be net buyers at $3.3bn and $2.2bn respectively.
- FIIs were net sellers in debt markets at $1.6bn while MFs were net sellers at $1.6bn in the month of Apr-25.
- SIP flows started off this fiscal at ₹26,632cr vs ₹24,113cr in the last fiscal.

Figure 8. - FIIs continue to be net sellers, DIIs and MFs are net buyers of Equities

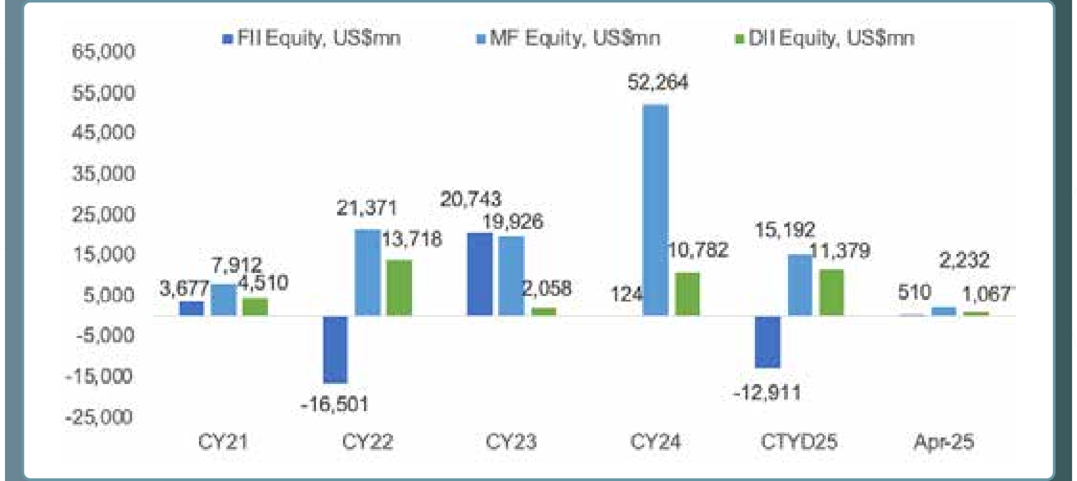


Figure 7. - Apr-25 SIP flows at Rs266bn, up 31%yoy

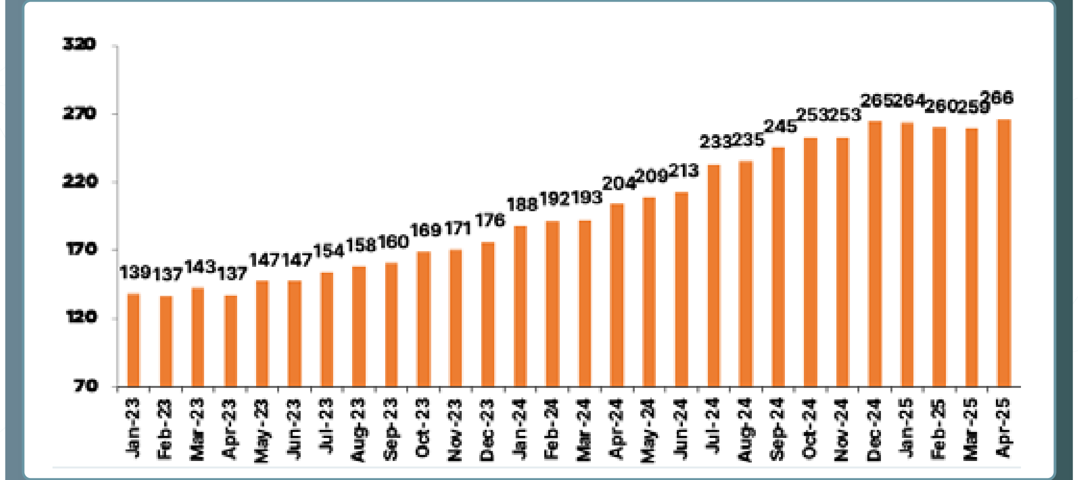
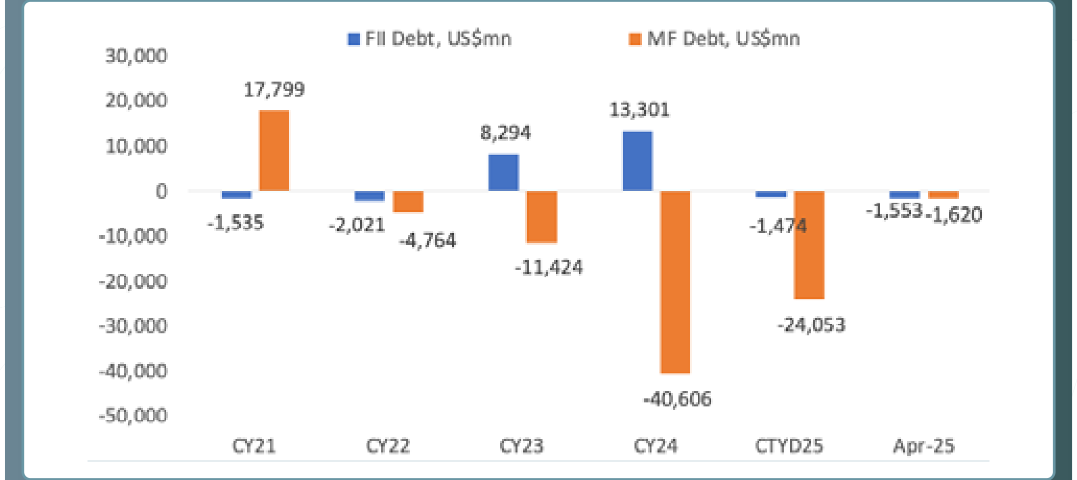


Figure 9. - FIIs turned net buyers of Indian debt in Mar-25; MFs have been sellers



Source: Bloomberg, NSDL, SEBI, AMFI

InCred Wealth

Nifty valuations above long period average; Could see moderation basis the extent of risk from tariffs and geopolitical uncertainty

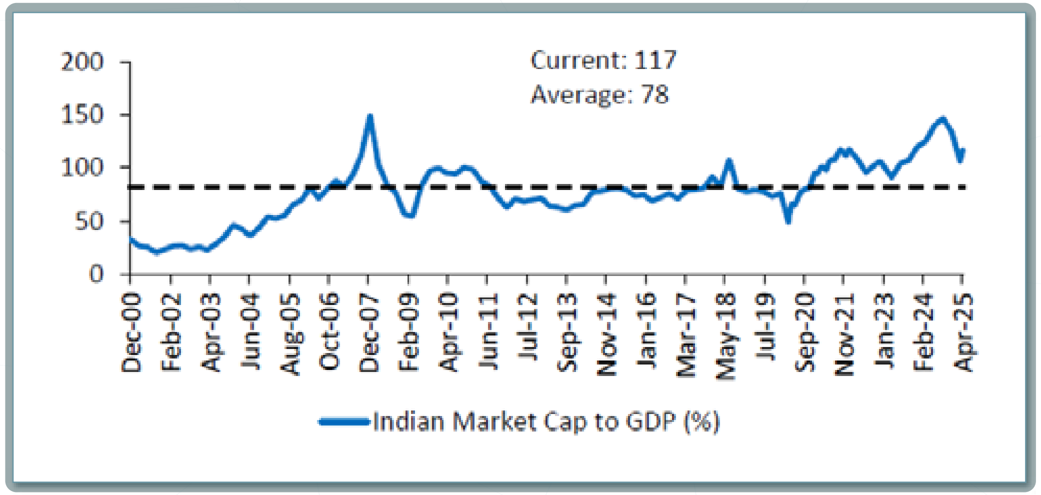


Figure 10. - India's market cap to GDP down from all time highs

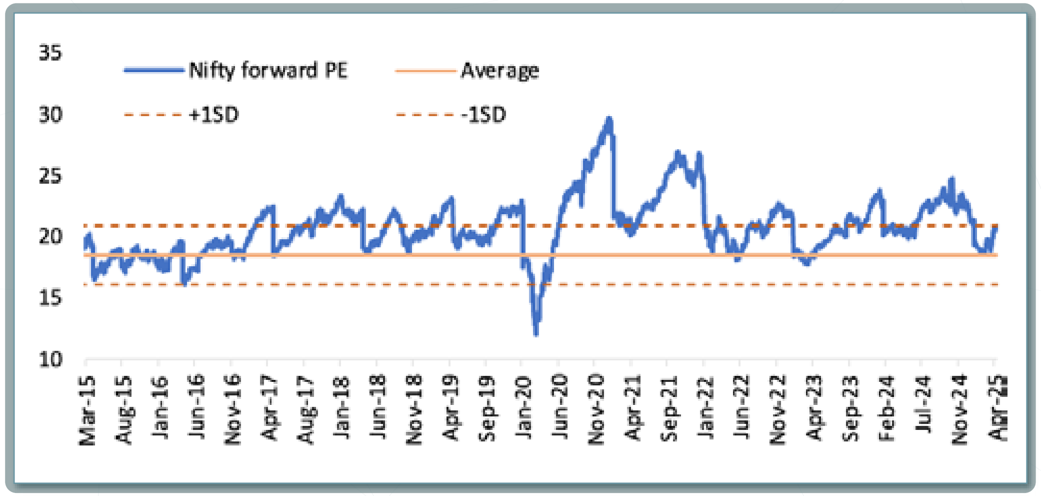


Figure 12. - Nifty forward PE has fallen closer to LPA levels

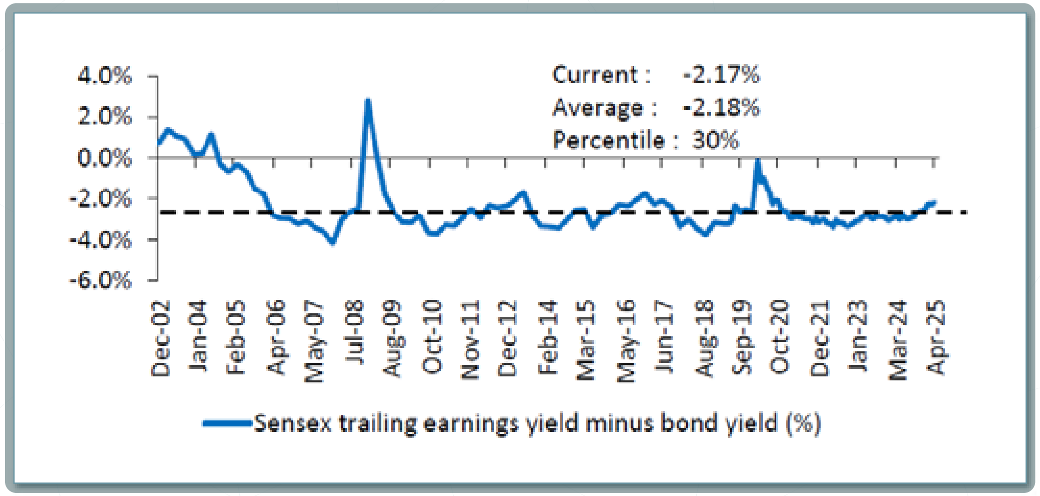


Figure 11. - Earnings yield to bond yield spread has corrected

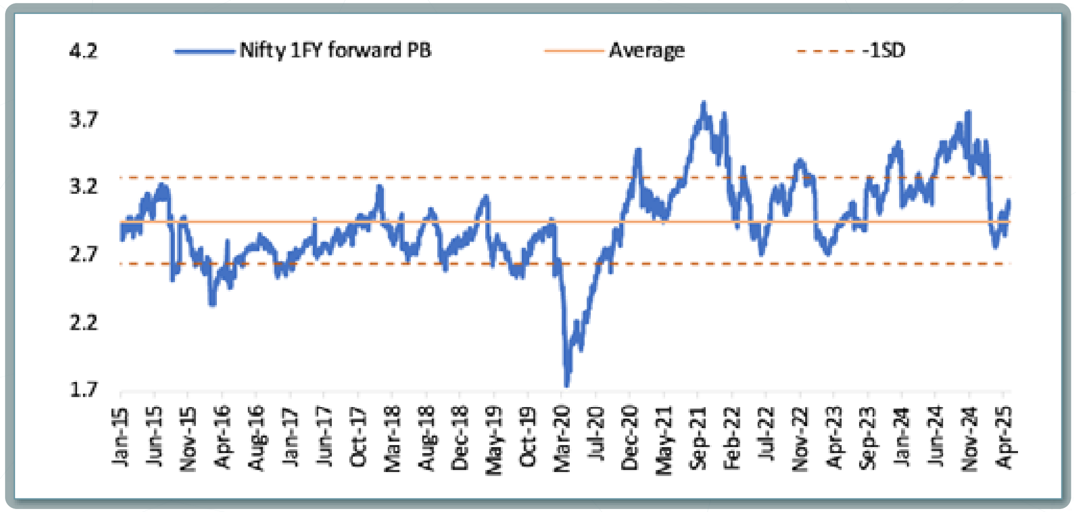
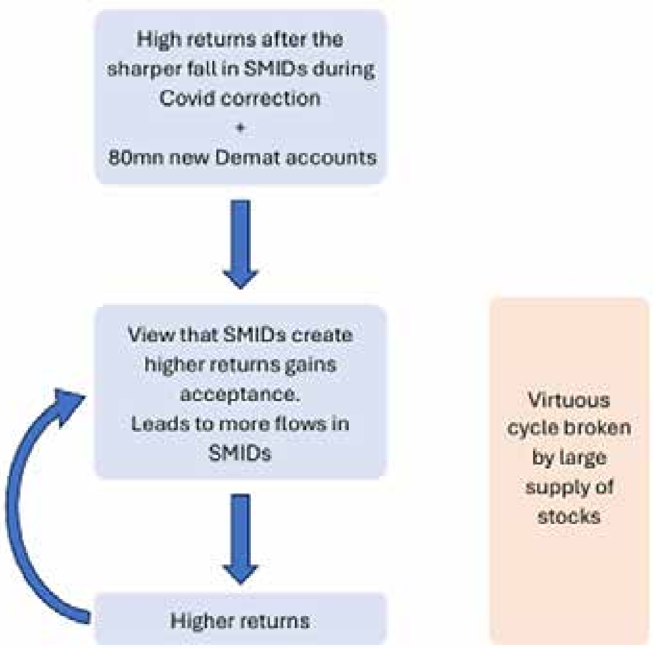


Figure 13. - Nifty PB has fallen below LPA; closer to -1SD

Source: SBIMF Research, Bloomberg; MOFSL

FY26 – Play between Large Caps and Mid & Small Caps

The origins of SMID outperformance



Recent Correction

% of Top 400 SMID Companies in Various Return Brackets		
<= -20%	(-20% , 0%)	>= 0%
48	36	16

Fig. 16

Source: FactSet, 3PIM calculations
Note: Top 400 SMID companies considered as per latest AMFI classification. IPOs after 26th September 2024 have been omitted.

SMID and Large Cap valuations

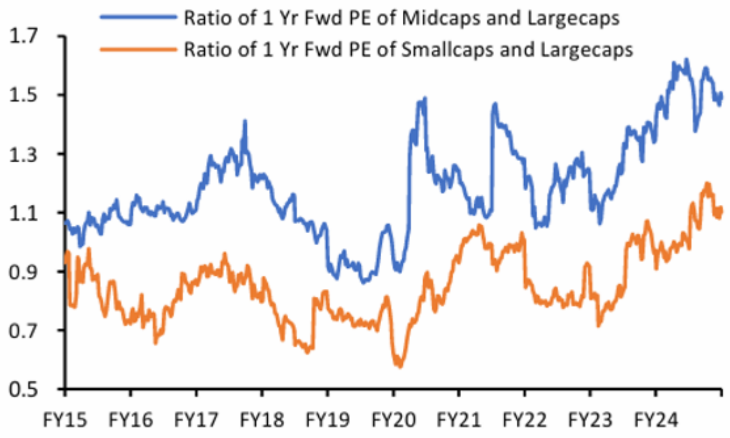


Figure 14.

- The origins of the outperformance by SMIDs lie in the sharper fall SMIDs experienced in Covid. As a result of the low base, the subsequent returns were higher vs largecaps. This period also marked a large addition of new to market investors
- A view gained acceptance that SMIDs generate higher returns versus largecaps. This led to further participation in SMIDs creating a virtuous cycle until it was broken by the large supply as Promoters, PE investors, etc found it lucrative to sell / dilute their stake aggressively
- NIFTY corrected 10% while NIFTY Midcap 150 and NIFTY Smallcap 250 indices corrected 15% and 19% respectively. 48% of SMIDs have fallen more than 20%.
- Despite the recent underperformance of SMIDs, the risk reward is not yet favourable as the gap in both valuations and returns between SMIDs and largecaps despite lack of higher profit growth in SMIDs

Source: 3P Asset Management

Equity Market Outlook

InCred Wealth

Nifty continued its upward trend in April'25, delivering the highest monthly returns in the past nine months.

- FIIs turned net buyers in the second half of the month, after being sellers throughout this CY.
- India - Pakistan tensions having abetted for now, investor sentiments are broadly undamaged, and markets have inched higher from the lows seen during the month, laced with intermittent volatility.
- US announcement of pausing the reciprocal tariffs for 90-days came as a positive, while the baseline 10% reciprocal tariff continues to remain applicable during this period.
- Many countries are in the process of negotiating deals, the effect of tariffs may wear off in months leading to a sideways market at best.
- Price correction on equity indices (Nifty), has brought headline valuations closer to historical averages.
- If post the 90-day period more long-term trade deals do not come through, sharper drop in P/E levels remains a possibility as the market would try to factor in potential shocks from renewed macro disruptions
- Also, expectations for FY26 corporate earnings have seen some rationalization, however, are still elevated in our opinion.
- Given the underlying crosscurrents of macro-micro backdrop, earnings are ripe for further downgrades.
- We maintain a Neutral stance towards equities in view of heightened uncertainties and potential slowdown.
- Earnings, economic recovery, global monetary policy and extent retaliatory tariffs / trade deals could provide cues on market.

1: Nifty December 2025 target range based on adjusted EPS expectations

	-1SD	10 Year Average	+1SD
Nifty 1-year forward PE	18.6	20.3	22.0
Nifty 50 EPS expectations in FY27		1250	
Nifty range at end of 2025	23,275	25,350	27,438

Key Takeways

- We remain watchful of the situation that's unfolding in global markets. We believe the Nifty could be rangebound in the next 6 months with a slow recovery as global calm and stability might not return anytime soon.

Source: Bloomberg; InCred Wealth

InCred Wealth

Existing equity holdings

i) It's a good time to revisit portfolio allocations across investor portfolios.

ii) During the past 5yr period, midcaps & smallcaps have significantly outperformed largecaps by ~155%. SMID segment continues to trade at a premium relative to Large Cap stocks, and to its respective long period average valuations by 25% (despite recent correction). We suggest booking profits in this segment, given the potential for additional downside.

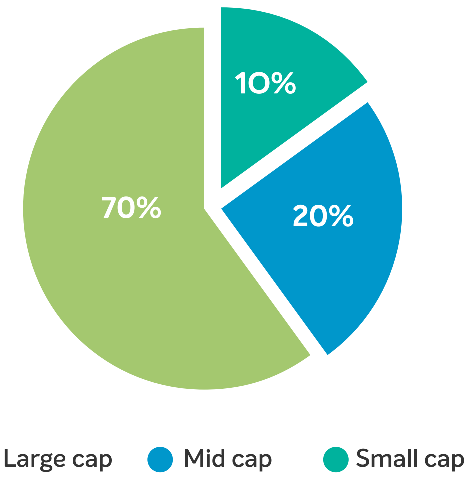
iii) We continue to advocate caution here and hence remain marginally underweight in Mid and Small caps. Basis this view, tactically, we continue to remain overweight Large Caps (70% of equity portfolio) and restrict Mid Caps and Small Caps to 20% and 10% of equity portfolio respectively. Large caps to be allocated over the next 3 months.

iv) If not already initiated, this continues to be a good time to take profits specially from mid and small cap investments made over past 2 years. Re-invest 30% - 40% of these profits immediately as lumpsum back into equities with a large cap tilt. Balance 60% - 70% to be staggered over the next 6 months / partly on market dips.

v) For those under allocated towards the mid and small cap segment, its prudent to deploy over a 6 – 9 months stagger or longer.

vi) Alternative investment solutions such as MLD ideas can be considered that generally offer principal protection and accelerated participation in market up-move.

Equity Portfolio Allocation



Investors sitting on the sidelines with cash in portfolios

i) Prudent to deploy over the next 3 months into large caps and over the 6 – 9 months into mid & small caps / buy the declines for greater than 2-year perspective.

Category	InCred Outlook
Large Cap	Neutral
Mid and Small Cap	Underweight

Fixed Income Outlook

Yield curve continues to offer relative value in medium to long duration

- G-sec yields have come off over the past few months, across tenures.
- AAA Corporate bond yields have seen some hardening in the 5yr, 7yr and the 10yr corporate bond yield segment
- Movement in rates upto 1yr maturity has been the most subdued.
- Spreads in the AA / A rated segment continue to remain attractive in the 3yr maturity segment. Some spread improvement has been seen in the AAA 3yr segment in the past month.
- Yields were largely stable given active yield curve management by RBI.

Figure 15. - Issuers with credit rating "A" offers higher credit spreads

3-year tenor	6-May-25	Dec-24	Dec-23	Dec-22
G sec	6.02	6.72	7.09	7.04
Credit Spreads (bp)				
AAA over G sec	86	81	56	62
AA over AAA	88	76	67	63
A over AA	127	184	134	165

Figure 16. - Yield curve has steepened marginally in 2025

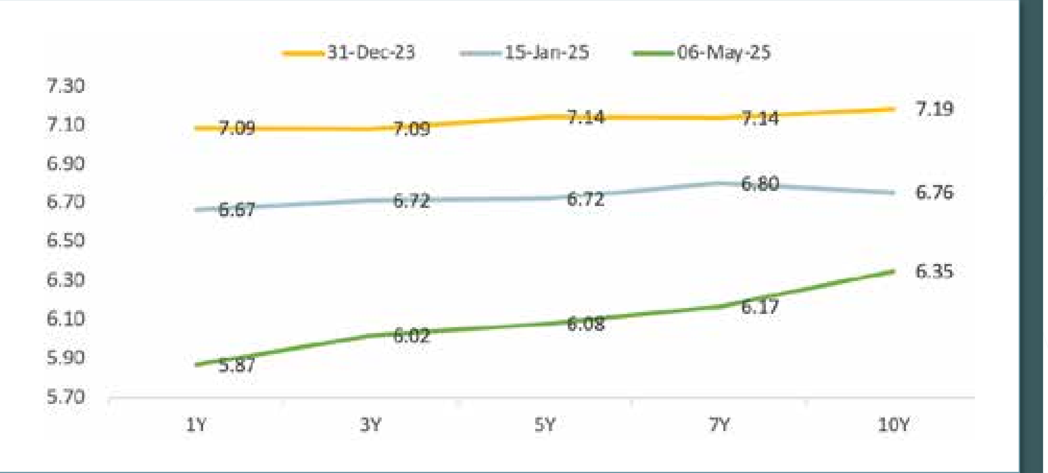
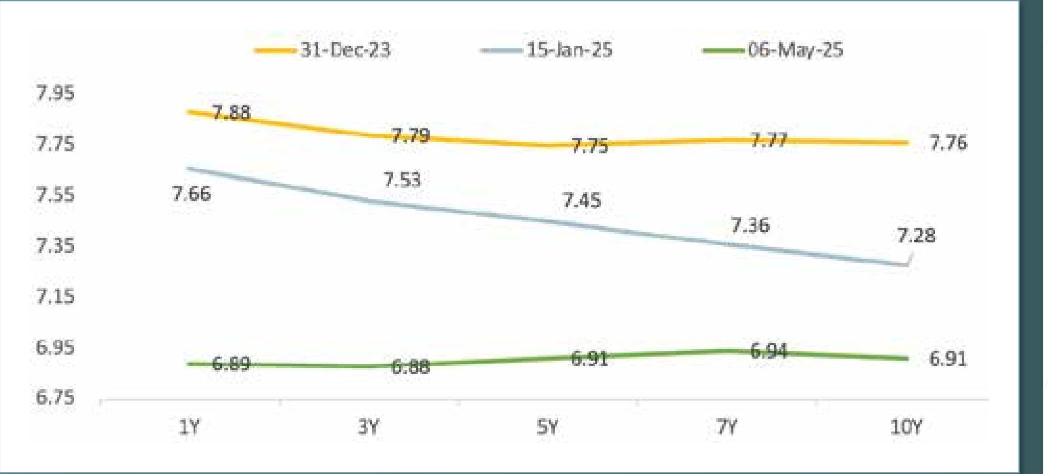


Figure 17. - AAA curve is inverted give the sharp fall in short term liquidity; Should get addressed



Source: Bloomberg

InCred Wealth

Overnight and Short-term rates come off their highs

Figure 18. - Banking system liquidity in deficit

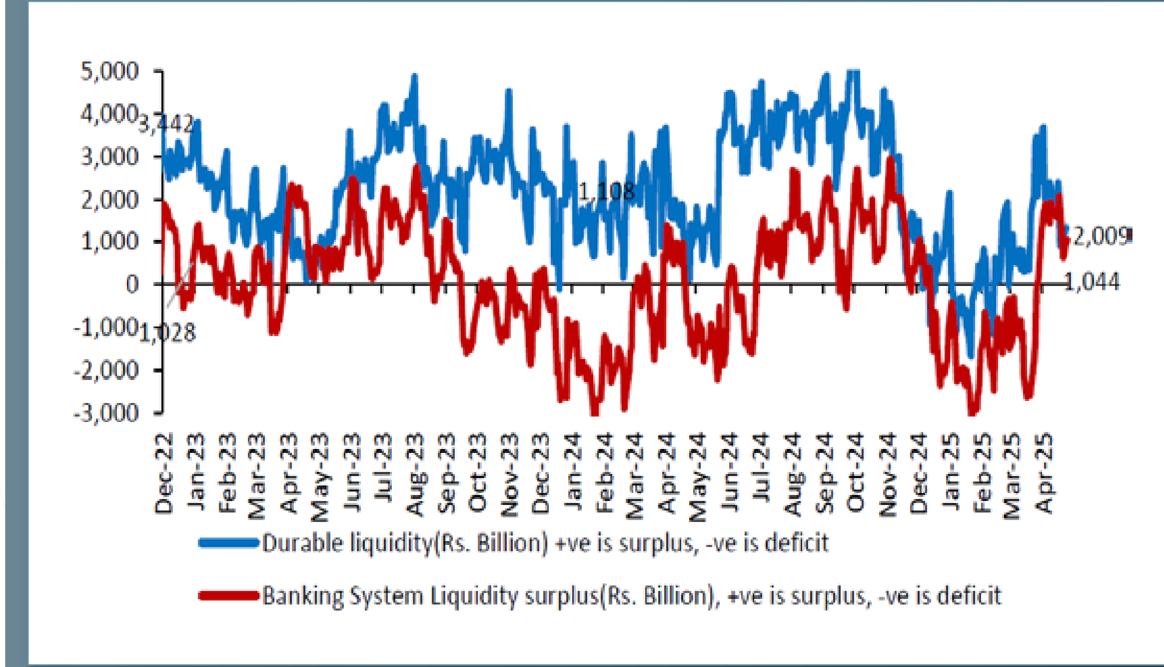
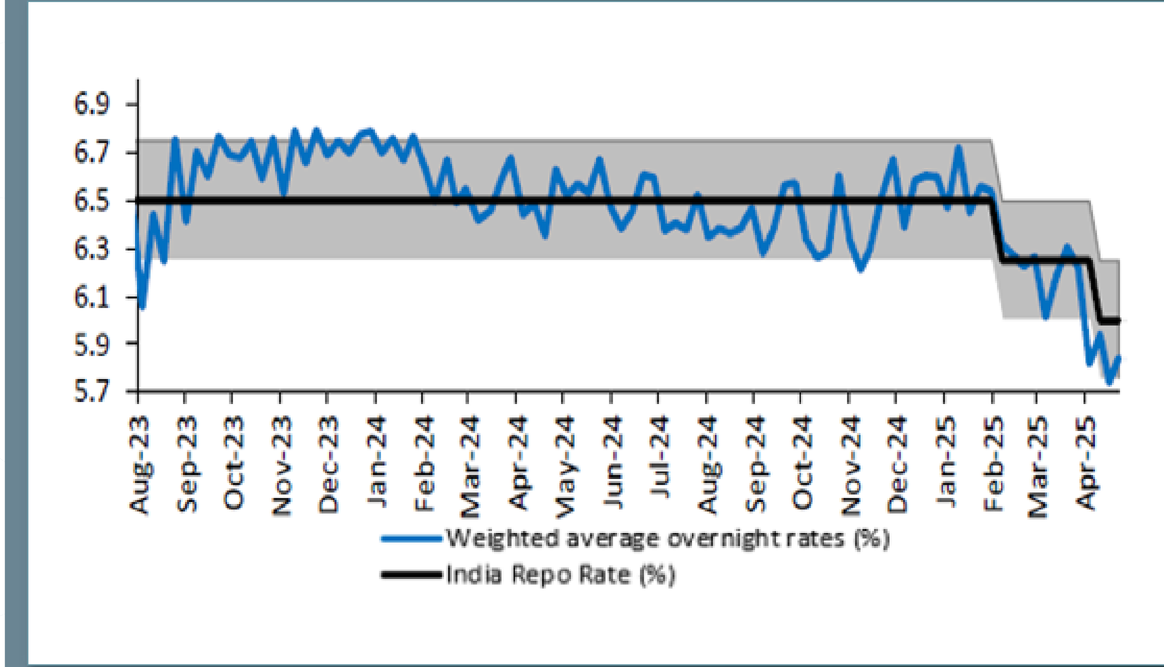


Figure 19. - Overnight rates align close to the Repo rate (shaded area is policy corridor)



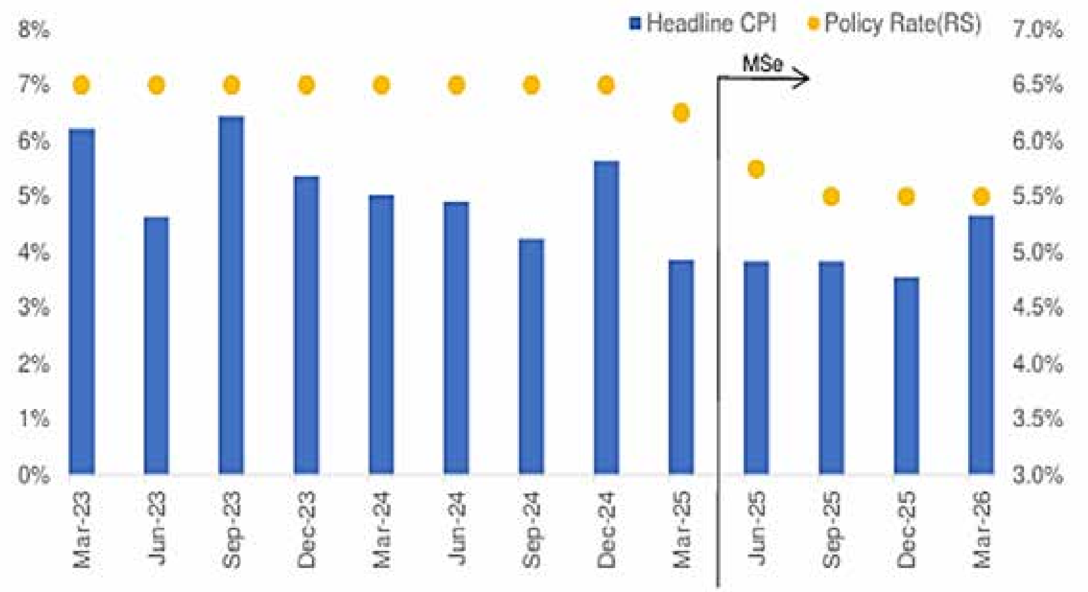
- RBI has taken various measures to inject cumulatively ~INR 11 lakh crore since Dec-2024 – measures include CRR cut, OMO purchases, Fx Buy / Sell swaps and multiple VRR auctions
- At the start of the new FY, remained in surplus to the tune of INR 1 lakh crore through most of April
- RBI intends to continue supporting systemic liquidity in the coming months thus anchoring near term / over night rates close to the operative rate (Repo)
- The large impending dividend transfer in May would also help in liquidity calibration
- We anticipate the RBI to continue with conducting future rate cuts that would further help in managing systemic liquidity.

Source: Bloomberg; SBI MF

InCred Wealth

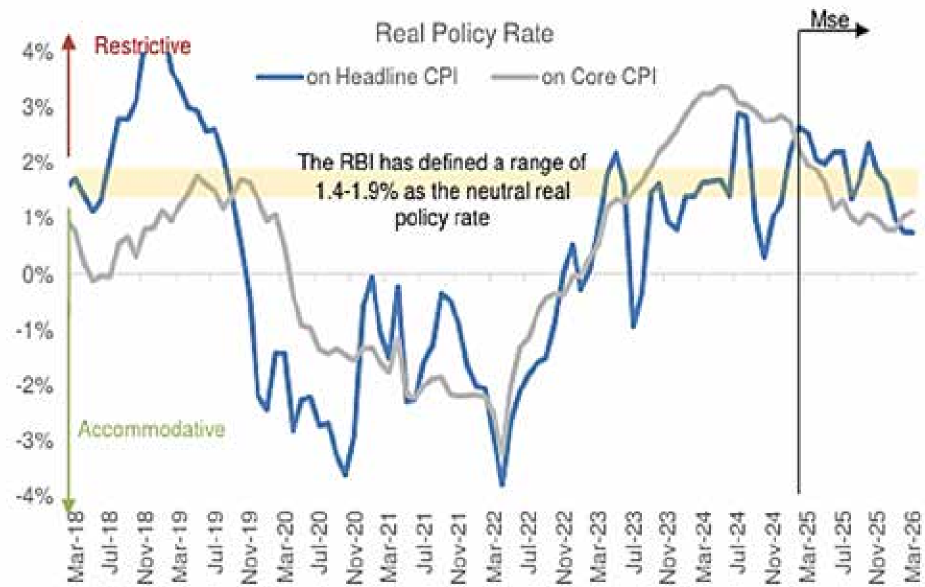
RBI's Policy response – to be supportive of growth

Figure 20. - We Expect A Cumulative Rate Easing Of 100bps, With A Terminal Policy Rate Of 5.5%



Source: CEIC, Morgan Stanley Research, Morgan Stanley Research Estimates

Figure 21. - ...with Real Policy Rates Turning Accommodative



Source: CEIC, Morgan Stanley Research, Morgan Stanley Research Estimates

Fixed income Outlook and Allocation Strategy

InCred Wealth

Outlook

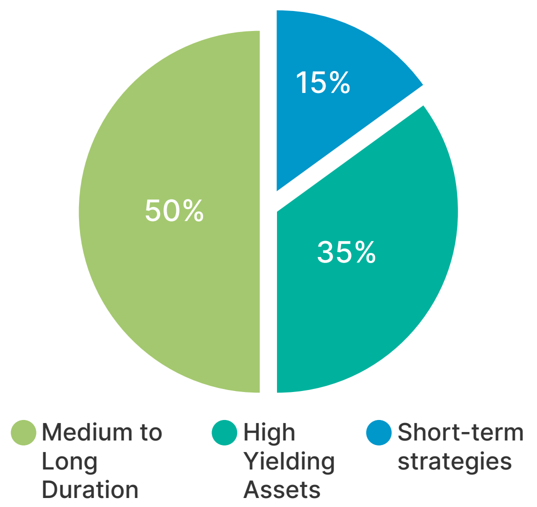
- The RBI cut rates by 25bps for the second time in a row, in lines with market expectations. Also, the policy stance was changed from neutral to accommodative, entailing easy policy that is geared towards stimulating the economy through softer interest rates.
- With Repo Rate at 6% and view on durable liquidity to be positive, the recent transmission into market interest rates is expected to sustain. At the same time, given that the neutral stance was linked to external uncertainties, there may possibly be no change in the stance as possibly being anticipated.
- While debate around the terminal rate may persist amid shifting views on further easing, we expect the overall magnitude of cuts to remain modest (incremental 50bps to 75bps in this financial year).
- The Budget outlines continued fiscal consolidation, targeting a 4.4% deficit-to-GDP by FY26. While minor slippages warrant monitoring, strong demand and stable-to-negative net government bond supply create a supportive backdrop for bonds over the next 12–18 months.
- As external volatility reshapes market expectations, a dynamic and continuously reassessed approach to duration will be essential.
- Current yield landscape continues to offer compelling, lower-risk relative value plays through select funds—well-suited to investor appetite across both risk and duration.
- Positioning into duration-driven dynamic bond funds and also allocating to credit strategies can unlock attractive opportunities for investors.

Category	InCred Outlook
Fixed Income	Positive on medium to long duration and high yield strategies

Deployment Strategy

- Upto 50% of fixed income to be allocated towards medium – long duration strategies.
- Further, allocation of upto 35% of fixed income portfolio is suggested towards high yielding assets (bonds /funds)
- Balance 15% of the fixed income portfolio can be allocated towards accrual / shorter term strategies – upcoming strategies such as income plus category of funds can be encouraged.

Fixed Income Portfolio Allocation



Focused Investment Ideas

InCred Wealth

AIF - Special Situations

InCred Special Opportunities Fund – I

Tenure: 6.5 years | Risk Score - 6

- InCred Special Opportunities Series I (ISOF I), is Cat II Closed ended Credit Fund focussed on Special Opportunities which targets Market Agnostic returns with fixed Income protection
- **Investment Approach:** Profitable Businesses, Threshold Asset/Security Cover, Deep Value on entry, Potential of revival & debt control
- **Disciplined risk management approach: Investment** (Deep diligence for underwriting, adequate security cover, mutiple exit options) and **Credit Monitoring** (well laid out monitring terms, regular updates, and financials & covenants)
- ISOF I will have around 15-18 investments with indicative allocation in: **25%** (Acquisition Finance, Bridge to monetization, Financing PE Exit, Holdco Financing), **50%**(Reterming of Liabilities, Last Mile Financing, Super Senior Financing), **25%** (Dislocated Secondaries, Liquidity to Existing Lender(s), Cash Flow Mismatches)
- Targeted fund size: INR 1000 cr with a green shoe of additional 500 cr
- Tenure: 6.5 years from first close
- Targeted Gross Returns :~21-23% with Quarterly distributions
- Hurdle rate: 12% IRR, Carry: 15% with 100% catchup (1-25 Cr)

AIF - Credit

Northern Arc Finserv Fund - Debt (CAT II AIF)

Tenure: 4 years | Risk Score - 6

- CAT II Debt AIF targets higher risk-adjusted returns and regular investor cashflows by investing in a diversified pool of debt securities of financial institutions
- AIF largely targets Agri business financing, Small Business Loans, Vehicle Finance, Microfinance, Consumer Finance, FinTech sub-sectors
- Nature of instruments: Secured & unsecured NCDs, Unsecured bonds, Redeemable preference shares, PTCs, MLDs, Debt funds
- 4 years fund tenure from first close of June 2024. Targeted Gross Yield: 14.50% pa XIRR, Quarterly coupon payment, Bullet principle repayment
- Earlier investment examples: Fusion Microfinance (Microfinance), EarlySalary Services(Consumer finance), Kogta Financial (Vehicle Finance)
- Client profile & suitability: Stable risk profile (RS S 6 & above)

InCred Wealth

Franklin India Credit AIF - Scheme I

Tenure: 4 years

Risk Score - 6

- Financial Services focused Private Credit AIF (Cat II)
- 10-15% Yielding segment -> Develop the credit market for this segment through a disciplined investing approach
- Minimize liquidity drag on investor returns through predictable and time bound capital calls
- Periodic payments through quarterly coupons/amortization
- Participate in India's secular growth trajectory through investing in financial services sector
- Product positioned like a credit FMP. Structure would be like a Credit MF with Quick deployment (under 3 months), regular cashflows (quarterly) and payback on exact maturity (no re-investments)
- Targeted IRR: 12-13%, investments 10-12 opportunities

Nippon India Credit Opportunities (NICO) AIF Scheme – 1

Tenure: 4.5 years

Risk Score - 6

- Close ended Cat II AIF investing in securities of issuers with investment grade ratings with an endeavor to generate extra yield over traditional investment options without significant incremental credit risk
- NICO will typically invest in both listed and unlisted debentures
- Invest in fixed income instruments in a gross yield range of 12.00% - 16.00%. Optimum mix of regular and back ended cashflows. Sweet spot for gross yield 14.5-15%
- Sector agnostic portfolio of 8-12 issuers. Weighted Average Maturity of the fund likely to be between 3-3.5 years
- Indicative constituent of the portfolio would be structures rated in A & BBB scale
- Investment Manager will endeavor to exit all investments in the portfolio within 5.5 years from initial closing date (Oct 2023)
- Commitment period: 12 months from final close (March 2025); extendable by 6 months
- 5 opportunities identified: FMCG Franchise (IRR: 14.5%, Coupon payment : Monthly), Microfinance (IRR: 13.6%, Coupon payment : Quarterly), Pharma (IRR: 13.5%, Coupon payment : Monthly), Airport (IRR: 15.8%, Coupon payment : Annual), Cement (IRR: 14.9%, Coupon payment : Monthly)

AIF - Long Short

ASK Absolute Returns Fund

Tenure: > 3 years | Risk Score - 5

- ASK Absolute Returns AIF (Cat III) has a fund Objective to deliver absolute returns over medium term with lower degree of volatility compared to broader Indian equity indices
- Targeted Returns: An alpha of 100-150 bps over liquid fixed income alternatives from a 12+ month investment horizon
- Current AUM Size: Rs 1000+ Cr as on January 23, 2025
- Investment are largely done in 3 core buckets: A. Cash Markets B. Derivatives- Futures C. Fixed Income
- Out of total 11 months since its inception(Jan-24), AIF has delivered positive returns in 10 months translating into a hit rate of ~91%
- Out of these 11 months, fund has delivered an alpha over benchmark (NIFTY 50 Arbitrage) in 10 instances, translating into Alpha generating rate of 91%
- AIF has much lower volatility (3.13%) vs 11.32% of NIFTY 50 TRI since Inception and hence risk adjusted returns (Sharpe ratio:4.01) is higher than NIFTY 50 TRI
- On a 6M Rolling Returns basis inception(Jan-24), AIF has delivered annualised returns in the range of 14.6 to 21.1% without a single instance of negative rolling return

Helios India Long Short Fund

Tenure: > 3 years | Risk Score - 5

- Helios India Long-Short AIF (Cat III) has an objective to Outperform India Long-Only benchmark (NIFTY 50 TRI) using a Long/Short strategy
- With Current AUM Size: Rs 450 Cr as on December 2024, Investment are largely done in 3 core buckets: A. Cash Markets B. Derivatives- Futures C. Fixed Income
- Number of longs: 30-50; Number of individual stock shorts: 15-25 and Liquidity restrictions for at least 60% of portfolio
- Out of total 25 months since its inception(Dec-22), AIF has delivered positive returns in 19 months translating into a hit rate of ~76%
- On a 1 yr Rolling Returns basis, out of total 14 months since its inception(Dec-22), AIF has delivered positive returns in 10 months translating into a hit rate of ~71.4%
- AIF has much lower volatility (8.23%) vs 11.35% of NIFTY 50 TRI since Inception and hence risk adjusted returns (Sharpe ratio) is higher than BM (NIFTY 50)

InCred Wealth

Equity MF

Nippon India Banking & Financial Services Fund

Tenure: > 3 years | Risk Score - 6

- Fund provides Sectoral/Thematic opportunity in Banking & Financial Services sector
- Key drivers for positive outlook on BFSI Sector: 1. Improvement in Asset Quality 2. Resurgence in profits and 3. Monetary policy easing cycle to favor upgrades
- Currently, asset are allocate to the following sub-sectors: Banks (66%), Finance (16%), Insurance (9.9%), Capital Markets (5.7%), Fintech (1%)
- Top 5 holdings include: HDFC Bank: 20.6%, ICICI Bank: 15.8%, Axis Bank: 8.3%, IndusInd Bank: 4.8%, KMB: 4.8%
- Segment Allocation: Largecap: 73.2%, Midcap: 11.4%, Smallcap: 13.6%, Cash : 1.8%
- Allocation in BFSI Sector can be ~5-8% of overall equity allocation in clients' portfolios with an investment timeframe of 2-3 years. While the overall BFSI sector might see bouts of volatility and near term consolidation(around 6 months or so) inline Monetary Policy Easing cycle by major central banks, we believe the risk-reward currently favours relatively undervalued BFSI segment

Hybrid MF

WhiteOak Capital Multi Asset Allocation Fund

Tenure: > 3 years | Risk Score - 5

- WhiteOak Multi Asset Allocation Fund (WMAA) offers diversification across various asset classes like different asset classes like domestic equity & related instruments, Gold, Fixed income, Foreign Equity etc.
- Economic Cycles and Markets across the globe are very dynamic and it is not possible to consistently time the winning asset class. However, suitable diversification across major asset classes may aid stable returns over long term investment timeframe
- Fund is managed by Ramesh Mantri (~ 2 decades of experience in India MF industry). WMAA invests in various asset classes using internal Proprietary Model to figure out relative attractiveness of these asset classes
- Portfolio construction of WMAA in major asset classes and range of weights: Domestic Equity (15% to 45%), Foreign Equity (0% to 10%), Gold (0% to 40%), Fixed Income (10% to 55%). One of the few funds in the industry whose Gold/Silver allocation has upper bound of 40%
- With inception date of May 2023, Fund has delivered 9% in 6 months (vs category avg: 6.2%) and 20.3% in 1 years (vs category avg: 20.4%). Fund has broadly performed inline with CRISIL Hybrid Index
- Given its a Multi Asset Allocation Fund (Hybrid MF), LTCG Taxation for holding period of > 2 years is 12.5%, for STCG taxation for holding period of < 2 years is at Marginal Rate

InCred Wealth

Debt FoF

Bandhan Income Plus Arbitrage FoF

Tenure: > 2 years | Risk Score - 6

- Bandhan Income Plus Arbitrage Feeder fund invests up-to 60-65% in a dynamically managed debt strategy & would manage portfolio duration by strategically investing in Debt oriented schemes. Debt portfolio will not exceed 65% of the portfolio
- Up-to 35-40% of the portfolio will be allocated to equity arbitrage MF & non - directional Equity exposure
- 35+% allocation in Arbitrage funds has been introduced to improve FoF's tax efficiency. When held for 24M+ duration, LTCG would be taxed at 12.5%, for holding period below 24M, taxation would be at Slab rate
- Current Allocation includes: 1. Bandhan Arbitrage Fund(G)-Direct Plan (36.64%) 2. Bandhan Corp Bond Fund(G)-Direct Plan (62.95%) and Cash & Cash Equivalents (0.41%)
- The product is suitable for investors looking at more tax Efficient returns compared to a pure Debt Strategy amid a comparable risk profile

PMS - Multi Cap

InCred Multicap PMS

Tenure: > 3 years | Risk Score - 6

- InCred Multicap strategy, managed by Mr. Aditya Sood, adopts a balance across Large Cap, Mid Cap and Small Cap
- Benchmark agnostic bottom-up stock picking, High conviction portfolio of around 30 stocks
- Investment Framework: Buy 'Great' businesses at fair value, Buy 'Good' businesses at a discount and Avoid 'Bad' businesses

PMS - Mid & Small Cap

InCred Small & Midcap PMS

Tenure: > 3 years | Risk Score - 6

- InCred Mid & Smallcap strategy, managed by Mr Aditya Sood, adopts a midcap and small cap centric approach with Growth oriented focus
- Benchmark agnostic bottom-up stock picking, High conviction portfolio of around 30 stocks
- Investment Framework: Buy 'Great' businesses at fair value, Buy 'Good' businesses at a discount and Avoid 'Bad' businesses

InCred Wealth

PMS - Healthcare

InCred Healthcare PMS

Tenure: > 3 years

Risk Score - 6

- InCred Healthcare strategy, managed by Mr Aditya Khemka, will invest at least 65% in healthcare segment including pharmaceuticals, hospitals, diagnostic, insurance etc.
- Multicap strategy is balanced across Large cap, Midcap and Small cap
- Benchmark agnostic bottom-up stock picking, High conviction portfolio of around 15 stocks
- Investment Framework: Buy 'Great' businesses at fair value, Buy 'Good' businesses at a discount and Avoid 'Bad' businesses

PMS - AllCap

Buoyant Capital Opportunities PMS

Tenure: > 3 years

Risk Score - 6

- Incepted in June 2016, Buoyant Capital AMC (BCA) specialises in 'Investing through Cycles' and generating cross-cycle alpha
- Buoyant Capital Opportunities PMS strategy adopts a sector and segment agnostic Allcap approach
- Sector weight decision is taken on 'Top-Down' basis, Stock selection is on 'Bottom-Up' basis
- BCA believes that stocks and sectors undergo periods of 'Extraordinary returns' and 'Consolidations' and so focuses on Earnings based Early mover advantage to benefit from outsized returns
- BCA actively channelises allocations in outperforming sectors and systematically trims exposures in underperforming segments across phases. BCA believes in Active management and are against 'BUY & HOLD' philosophy

ValueQuest Growth PMS

Tenure: > 3 years

Risk Score - 6

- ValueQuest invests in fundamentally sound, high-quality companies with proven track record at reasonable valuations. Idea is to ride the growth phase in the company over rolling 3-5 years' time frame
- Incepted in October 2010 and managed by FM Sameer Shah, VQ operates on S.C.A.L.E Framework which helps distil companies which are current or future leaders: 1. Scalable Companies 2. Competitive Advantage 3. Adaptive 4. Long runway 5. Superior Execution
- Strategy has delivered an alpha of 8+% over the Benchmark over long term. Strategy has delivered an alpha in the range of 4-9% over BSE 500 TRI index on 1-5 Yr Rolling Returns basis
- Strategy has delivered an alpha in 9 out of 15 calendar years over BSE 500 TRI benchmark (60% of instances)
- AMC AUM : Rs 19,081 Cr across 2022 clients (as on December 31, 2024)| ValueQuest Growth PMS AUM: INR 2,175 Cr (as on Dec'24)

Omni Alpha Multi Manager Equity PMS

Tenure: > 2 years

Risk Score - 6

- Omni Alpha adopts Multi manager Equity PMS approach that intends to fix the problems of conventional mutual fund management
- DPMS adopts a Research based fund selection, Discipled approach to investment, strong processes, active management and periodic review & rebalance
- Omni Alpha has a holistic approach to portfolio construction, with aim to optimize risk adjusted returns
- Investment Universe: Equity, Hybrid and Other Mutual Funds. Unallocated Cash through liquid/overnight MF
- With investment horizon of atleast 2 years, and min ticket size of 3 Cr, Omni Alpha intends to beat S&P BSE 500 TRI benchmark with strategic and tactical allocations primarily in Mutual Funds

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