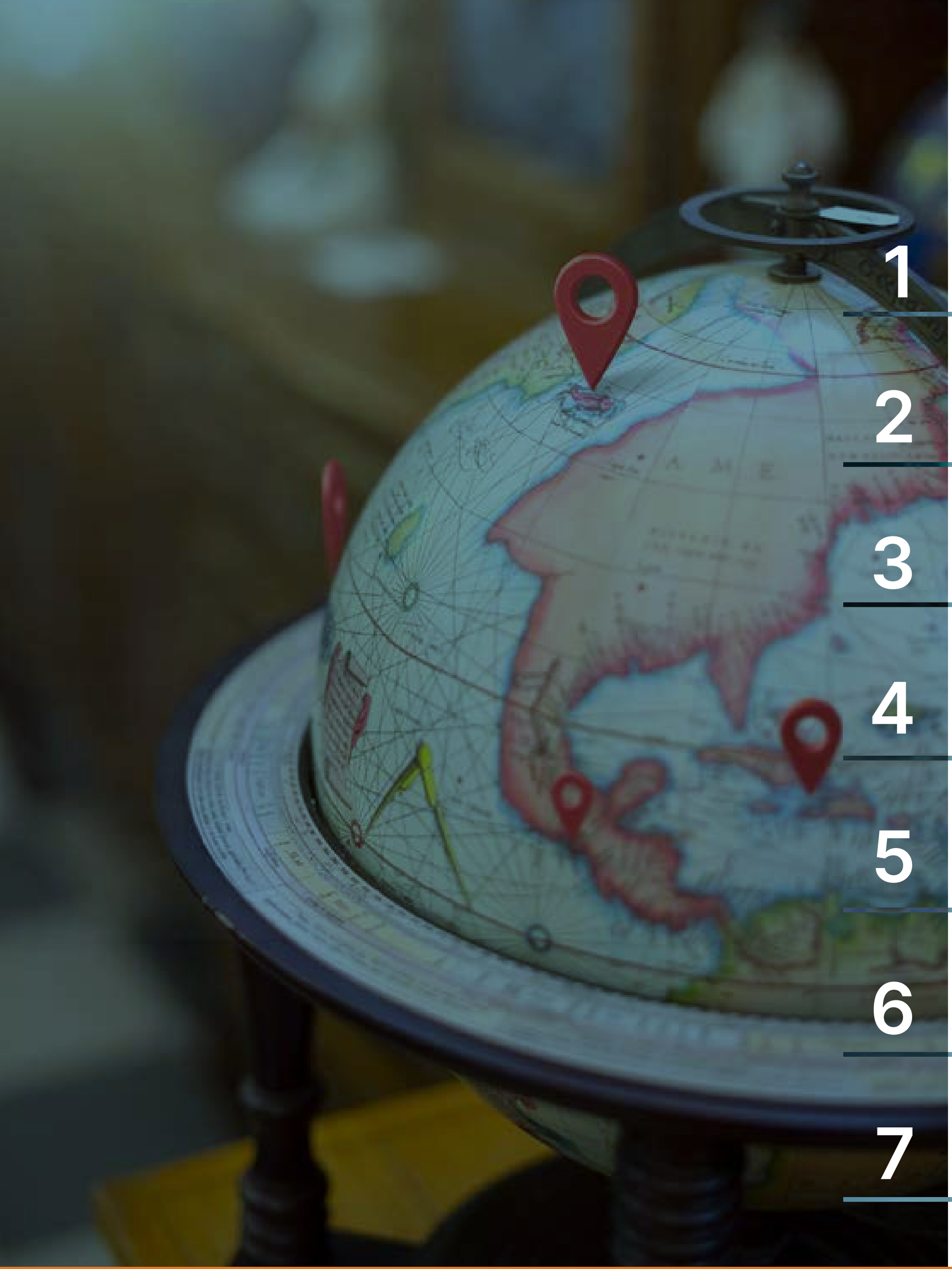
InCred Wealth

June 2025

Market Outlook

RBI Frontloads Rate Cuts to Spur Growth; Global Risks on the Rise



Index

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Outlook Summary

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Large Cap

FIIs remained net buyers in this month, after being sellers throughout this CY until March 2025.

- Post a stellar April, Indian equities continued to gain in May-25 despite the tariff uncertainties and geopolitical turmoil.
- Markets have moved considerably higher from the lows seen during the previous month, with intermittent volatility also dropping substantially.
- Incremental news flow on US induced tariffs were limited and provided a much-needed calm to the markets, globally.
- Process of bi-lateral deal negotiations continues and would help in softening the effect of tariffs in coming months leading to a sideways market at best.
- Recent price surge on equity indices (Nifty), has moved headline valuations back above 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.
- RBI's jumbo rate cut and impending CRR cut could be a positive for certain sectors such as BFSI, consumption in the medium term. Also, Q4FY25 earnings scorecard was modest (single digit growth). Earnings growth expectations for FY26 corporate earnings have seen some rationalization, and hover around 10% - 11% YoY
- 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	24,751	Neutral *(Since: Jun-24 Level: 23,519)*

Key Takeaways

- **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 31st May' 25; Bloomberg

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 May-25, Midcap 150 and Smallcap 250 indices gained 5.3% and 10.6% 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	45,136	Underweight *(Since: Feb-24 Level: 41,531)*

Key Takeways

- Despite the sharp sell-off since Sept-24, SMID continues to trade at ~27% premium to its own long period averages. We suggest booking profits in this segment, given the potential for additional downside.

Source: Prices as of 31st May' 25; Bloomberg

With Repo Rate now at 5.50% and view on durable liquidity to be positive, the recent transmission into market interest rates is expected to accelerate.

- RBI delivered a jumbo rate cut of 50bps in June-25 and announced a further 100bps reduction in CRR between Sep-25 and Dec-25 thus infusing Rs. 2.5 lakh crore in the system.
- Reduction in cost of funds (better NIMs) could mean lowering of borrowing rates thus reducing EMIs and leaving more surpluses in the hands of consumers that could in part aid discretionary spends.
- While debate around the terminal rate may persist amid shifting views on further easing, we do not expect incremental repo rate cuts from here as most of the easing seems to be front-ended post June rate action.
- RBI's rate action has also reduced the spread between Fed Funds rate and the Repo rate to 100bps-125bps v/s historical averages of 350bps-400bps.
- As external volatility reshapes market expectations, a dynamic and continuously reassessed approach to duration remains essential. The compelling opportunity that duration strategies have offered over the past 15m – 18m seems to have significantly played out now.

  Incrementally, positioning majority of the fixed income portfolio into duration-driven funds may have marginal value addition.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	G-Sec	10-year G-Sec	6.29%	Positive on 2y-5y maturity funds and high yield strategies
	AAA Corporate	3y AAA	6.52%	
	AA Corporate	3y AA	7.36%	
	A Corporate	3y A	8.76%	

Key Takeways

- **Given the expected steepening of yield curve (with short end aggressively coming off in the coming months), we are going overweight strategies focusing on 2yr – 5yr segment of the yield curve.**
- **We, thus, suggest allocating upto 45% of fixed income portfolio towards accrual-oriented strategies.**
- **Consequently, we now revise our allocation to dynamic / long duration strategies upto 20% of fixed income portfolio.**
- **Credit environment continues to remain stable, and credit spreads remain attractive. Thus, balance 35% allocation of fixed income portfolio is suggested towards high yielding assets (bonds /funds).**

Source: Bloomberg; Bond yields as on 11th June 2025

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Global Equities

- Markets are in flux and investors need to contend with this uncertainty. We expect the global economy to soften in the short term. Recession risks have clearly risen.
- Of course, no one can precisely predict the trajectory of U.S. policy, and that will be a key determinant for markets around the world.
- Global market Hedge funds can potentially strengthen portfolio resilience for suitable investors.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Global Equities	US	S&P 500	5,912	Negative
	Europe	MSCI Europe	183	
	China	Shanghai Composite	3,347	

Precious Metal

- Gold prices have seen a record-breaking year in terms of returns as the prices hit new highs this year.
- Traditionally, a weaker USD and lower U.S. rates increase the appeal of gold.
- 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	3,278	Positive
	Silver	LBMA USD	32.08	Positive

Key Takeways

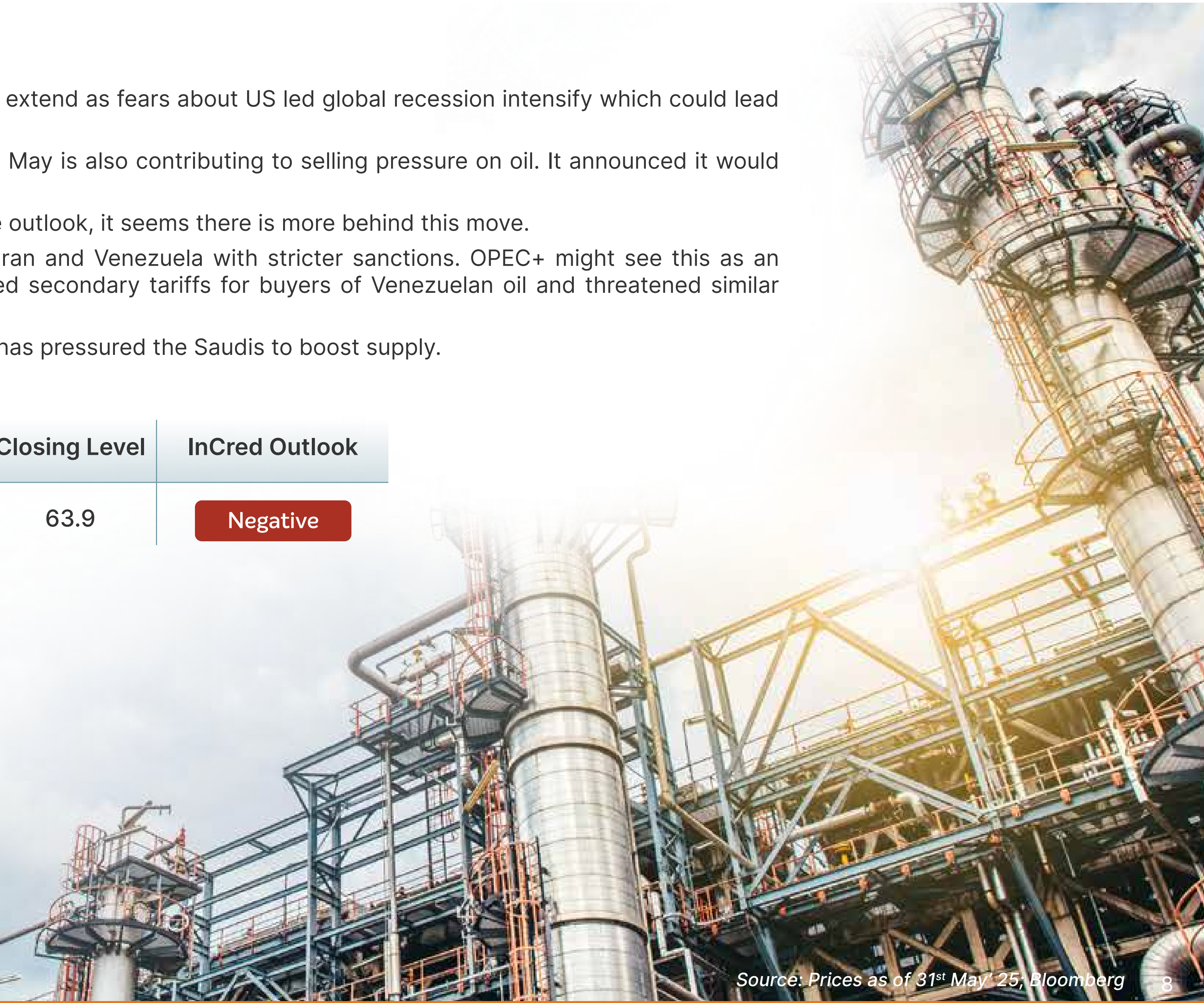
- The structural bull case for gold remains intact, even as prices have risen. Using dips to accumulate gold is suggested. Instruments such as gold MLDs might look attractive at this point in time.

Source: Prices as of 31st May' 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)	63.9	Negative



Source: Prices as of 31st May' 25, Bloomberg

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DMs outperform EMs May'25; India SMID outshines

Equities continue its upward trend in May'25; Mid and Small Cap outperformed; Crude remains stable; UST sell-off

As of 30th May 2025	Current Level	1M	3M	6M	1Y	CY24	CY23	CY22	CY21	CY20	CY19
EM and DM											
MSCI Emerging Markets	1,157	4.0%	5.5%	7.3%	10.3%	5.1%	7.0%	-16.9%	-4.6%	15.8%	15.4%
MSCI World Index (Developed equities)	3,863	5.7%	1.5%	1.4%	12.1%	17.0%	21.8%	-1.9%	20.1%	14.1%	25.2%
Key Equity Indices											
S&P 500	5,912	6.2%	-0.7%	-2.0%	12.0%	23.3%	24.2%	0.1%	26.9%	16.3%	28.9%
MSCI Europe	183	3.9%	-2.0%	7.4%	5.6%	5.8%	12.7%	-0.6%	22.4%	-5.4%	22.2%
Nikkei	37,965	5.3%	2.2%	-0.6%	-1.4%	19.2%	28.2%	16.2%	4.9%	16.0%	18.2%
Shanghai Composite	3,347	2.1%	0.8%	0.6%	8.4%	12.7%	-3.7%	-18.3%	4.8%	13.9%	22.3%
Nifty	24,751	1.7%	11.9%	2.6%	9.9%	8.8%	20.0%	25.2%	24.1%	14.9%	12.0%
BSE MidCap	45,136	5.3%	17.0%	-2.0%	5.3%	26.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE SmallCap	52,413	10.6%	21.7%	-5.0%	10.9%	29.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Other Assets (levels)											
Brent Crude	63.9	63.1	73.2	72.9	81.6	0.0	85.9	77.8	51.8	66.0	53.8
Gold	3,278	-0.7%	15.6%	23.6%	39.6%	25.5%	14.6%	15.1%	-4.3%	24.6%	18.4%
Dollar index	99.3	99.5	107.6	105.7	104.7	0.1	103.5	95.7	89.9	96.4	96.2
Credit/ yields (%)											
India 10 year G-sec	6.29	6.36	6.73	6.74	6.98	-0.06	7.33	6.45	5.87	6.56	7.37
US 10 year G-sec	4.40	4.16	4.21	4.17	4.50	0.18	3.87	1.51	0.91	1.92	2.68
Germany 10 year G-sec	2.50	2.44	2.41	2.09	2.66	0.17	2.57	-0.18	-0.57	-0.19	0.24

Source: Bloomberg

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Most sectors rebound from their Mar'25 lows; Pharma Index declines
- Large Caps underperformed Small & Mid Caps in May-25; FMCG / Pharma sees price correction

As of 30th May 2025	1M	3M	1Y	CY24	CY23	CY22	CY21	CY20	CY19
Overall Markets									
Nifty	1.7%	11.9%	9.9%	8.8%	20.0%	25.2%	24.1%	14.9%	12.0%
Nifty Equal weight	2.3%	12.2%	8.5%	9.7%	29.8%	38.0%	32.6%	17.6%	2.7%
BSE Mid cap	5.3%	17.0%	5.3%	26.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE Small Cap	10.6%	21.7%	10.9%	29.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Styles									
Nifty 200 Quality 30	3.7%	13.1%	5.6%	12.7%	29.9%	21.7%	nm	nm	nm
MSCI India Value	1.3%	10.9%	4.0%	12.1%	25.9%	24.1%	31.5%	23.7%	9.6%
MSCI India Growth	3.4%	15.7%	10.6%	16.5%	14.8%	20.0%	22.7%	10.1%	7.3%
Financials									
NSE Financials	1.5%	15.1%	22.0%	9.4%	13.2%	24.0%	14.0%	4.5%	25.6%
Nifty Bank	1.2%	15.3%	13.8%	5.3%	12.3%	36.1%	13.5%	-2.8%	18.4%
Nifty Private Bank	0.5%	13.8%	13.8%	-0.4%	13.8%	37.9%	4.6%	-2.9%	16.2%
Nifty PSU Banks	6.6%	23.4%	-5.6%	14.5%	32.3%	125.8%	44.4%	-30.6%	-18.3%
Asset heavy sectors									
BSE Oil and Gas	2.0%	19.7%	-5.6%	13.2%	12.8%	31.5%	24.3%	-4.4%	7.2%
BSE Capital Goods	13.2%	28.7%	1.5%	21.8%	66.9%	93.5%	53.4%	10.6%	-10.0%
BSE Utilities	-0.9%	15.2%	-13.5%	13.0%	32.6%	62.0%	64.4%	-0.4%	-7.3%
NSE Infrastructure	2.1%	17.0%	3.5%	15.9%	39.1%	47.5%	35.6%	12.2%	2.5%
Services oriented sectors									
NSE IT	4.3%	0.0%	15.2%	22.0%	24.1%	-8.2%	59.6%	54.9%	8.4%
BSE Telecom	3.5%	20.3%	6.4%	25.8%	30.8%	24.9%	43.0%	13.6%	12.9%
NSE Financial services	1.5%	15.1%	22.0%	9.4%	13.2%	24.0%	14.0%	4.5%	25.6%
Others									
NSE Media	13.0%	23.4%	-8.5%	-23.9%	19.9%	7.6%	34.6%	-8.6%	-29.7%
NSE Auto	4.6%	13.8%	-0.4%	22.6%	47.6%	70.2%	19.0%	11.5%	-10.7%
NSE FMCG	-2.1%	9.1%	2.2%	-0.3%	29.0%	51.6%	10.0%	13.5%	-1.3%
NSE Pharma Index	-1.5%	8.2%	14.1%	39.1%	33.6%	18.3%	10.1%	60.6%	-9.3%
NSE Real Estate	7.2%	19.0%	-6.9%	34.4%	81.3%	61.7%	54.3%	5.1%	28.5%

- **Large Caps underperformed broader markets in May-25 after an outperformance in Mar-25.**
- Growth outperformed Value in May-25. While, with earnings growth tapering, businesses with better quality of growth continue to see investor interest.
- Capital Goods, Media, PSU Banks and Real Estate were the best performing sectors in May-25.
- FMCG, Pharma and Utilities were the worst performing sectors in May-25.

Source: Bloomberg

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Global Macro & Markets

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Central Bank policy response to Tariffs needs to be watched

	Quarterly GDP Mar-25 SA qoq (%)	Inflation Apr-25 yoy (%)	Current Policy Rate Apr-25	10Y bond yield 11-June-25
US	-0.2%	2.3%	4.25% - 4.50%	4.49%
Europe	0.6%	2.2%	2.00%	2.54%
Japan	0.0%	3.5%	0.50%	1.47%

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 June 5, 2025, reducing them to 2.00% (deposit facility), 2.15% (main refinancing operations), and 2.40% (marginal lending facility).
- While this move was largely in line with market expectations, the ECB's accompanying communication signaled a potential pause in its monetary easing cycle, which began in mid-2024.
- The ECB has been trimming interest rates for the eighth time or by 200 bps since last June. The latest decision comes against the backdrop of Eurozone inflation returning to the ECB's medium-term target of 2%, providing the central bank with some policy space to reassess the pace of further accommodation.

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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The Fed Pause Continues

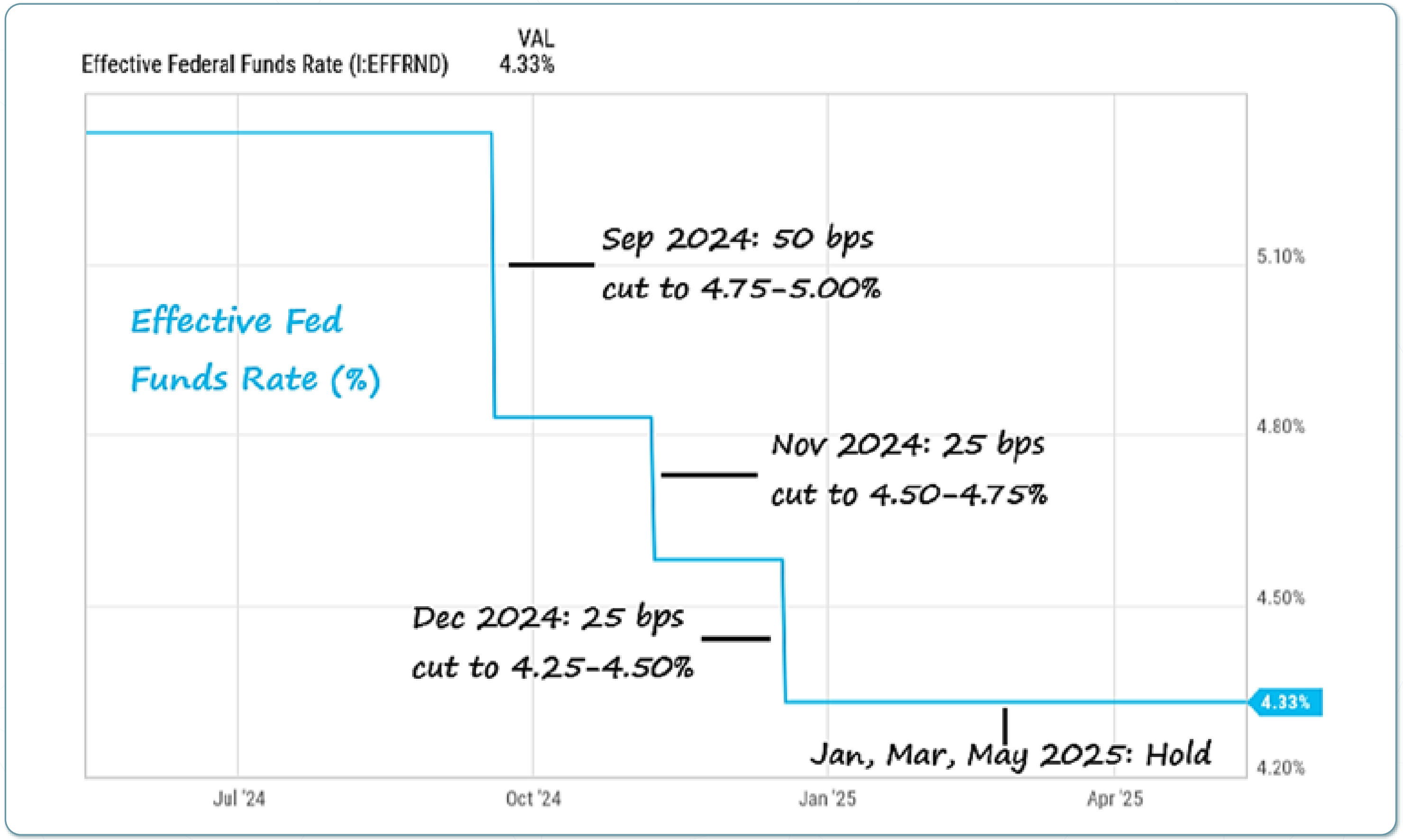

Figure 1.

- As expected, the Fed continued to hold interest rates at 4.25-4.50% at its last policy, citing tariff uncertainty as their chief concern.
- After cutting rates by 100 bps in the last 3 meetings of 2024, this was the 3rd meeting a row with no change
- Market participants now pricing in only two 25 bps rate cuts in 2025, down from four cuts a month ago (expected in Sept-25)

Is it an end of an era?

Figure 2. MSCI AC World ex-USA Index

Source: Bloomberg; WGC

- Global equities have now broken out decisively on the chart with the MSCI All Country World ex-US breaking a trading range that has held since 2007.

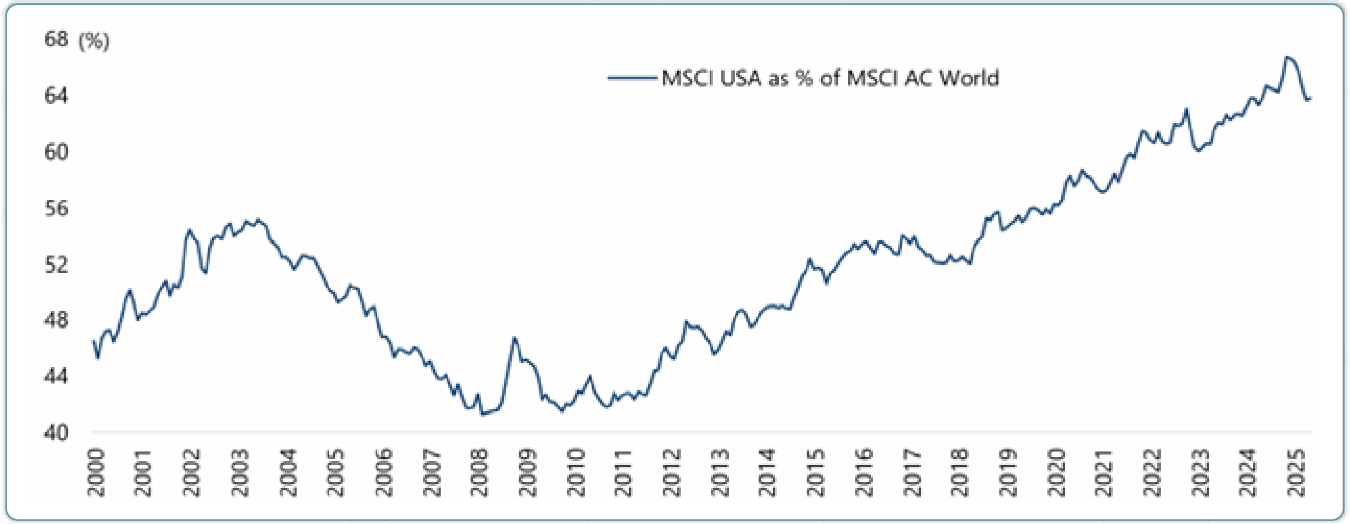

Figure 3. MSCI USA as % of MSCI AC World Index

Source: Factset, MSCI

- US reached an all-time peak of 67.2% of the MSCI All World Index on 24th Dec-24
- While the chart was on the point of breaking out then, but it has now finally happened!
- This doesn't mean US markets would collapse, but at 67% of Global M-Cap US share is huge when it accounts for only 26% of world economy (by Nominal GDP)!!

India Macro Outlook

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GST collections cross ₹2.00 trn again in May, with 16% yoy growth; Auto sales were down in May; Credit growth momentum continues to remain steady; Core industries output growth dropped sharply hinting of slowdown

- GST collections cross ₹2.00 trn again in May, with 16% yoy growth; Auto sales were down in May; Credit growth momentum continues to remain steady; Core industries output growth dropped sharply hinting of slowdown
- May 2025's collection of ₹2.01 lakh crore is a significant milestone, reflecting rising consumption, a widening tax base, and stronger economic activity. Manufacturing PMI remains in expansionary phase
- While PVs faced challenges, two-wheeler sales showed more stability, with some manufacturers experiencing growth

	As on	Unit	Latest	Last	One year back
O/s non-food Credit Growth	Apr-25	yoy (%)	11.2%	12.0%	15.3%
Consumption					
Auto Volumes					
PV	May-25	Units Sold	3,02,214	3,49,939	3,11,908
2W	May-25	Units Sold	16,52,637	16,86,774	15,40,077
Industries					
Power Consumption	May-25	yoy (%)	-4.1%	2.2%	13.7%
Manufacturing PMI	May-25	X	57.6	58.2	57.5
Core Industries output	Apr-25	yoy (%)	0.5%	4.6%	6.9%
Overall, Economy					
GST Collection	May-25	Rs Trn	2.01	2.37	1.73

Source: Bloomberg, FADA, Company Data

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Real GDP growth shows a sharp bounce in Q4FY25

- The Indian Economy grew by 6.5% in FY 2024–25 (₹187.97 lakh crore) in real GDP terms.
- Nominal GDP increased by 9.8% (₹330.68 lakh crore) implying a deflator of 3.8%
- Q4 FY25 real GDP came in at 7.4% y-o-y (vs. 6.4% in Q3), surpassing RBI's and market expectation of 7.2% and 6.8% respectively. This was driven by sharp rebound in fixed asset investments and sustained momentum in agricultural activity.
- India's external trade performance remained resilient despite global uncertainties. Although export growth moderated in Q4, overall exports of goods and services in FY25 grew by 6.3%, while imports contracted by 3.7%, contributing positively to the net trade balance.
- Currency has moved in a range over the month
- Inflation has been dropping and currently trends below RBI's steady state 4% mark

	As on	Unit	Latest	Last	1 year back
GDP quarterly	Mar-25	yoy (%)	7.40%	6.40%	8.40%
GDP Annual	FY25	yoy (%)	6.50%	9.20%	7.60%
Inflation	Apr-25	yoy (%)	3.16%	3.34%	4.83%
Policy Rate	Jun-25	%	5.50%	6.00%	6.50%
IIP	Apr-25	yoy (%)	2.70%	3.00%	5.20%
INR/USD	May-25	X	85.53	84.60	83.42

Source :Bloomberg, MOSPI

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Flows, Valuations, Earnings

FIIs buy around $2.3bn in May-25; MFs / DIIs remain buyers of equities

- FIIs remained net buyers of Indian equities at $2.3bn in May-25.
- DIIs & MFs continued to be net buyers at $6.6bn and $1.3bn respectively.
- FIIs were net buyers in debt markets at $2.2bn while MFs were net sellers at $10bn in the month of May-25.
- SIP flows continue to surge this fiscal at ₹26,688cr – that is a 28% increase YoY.

Figure 5. - FIIs remained net buyers, alongside DIIs and MFs of Equities

Figure 4. - May-25 SIP flows at Rs267bn, up 28%yoy

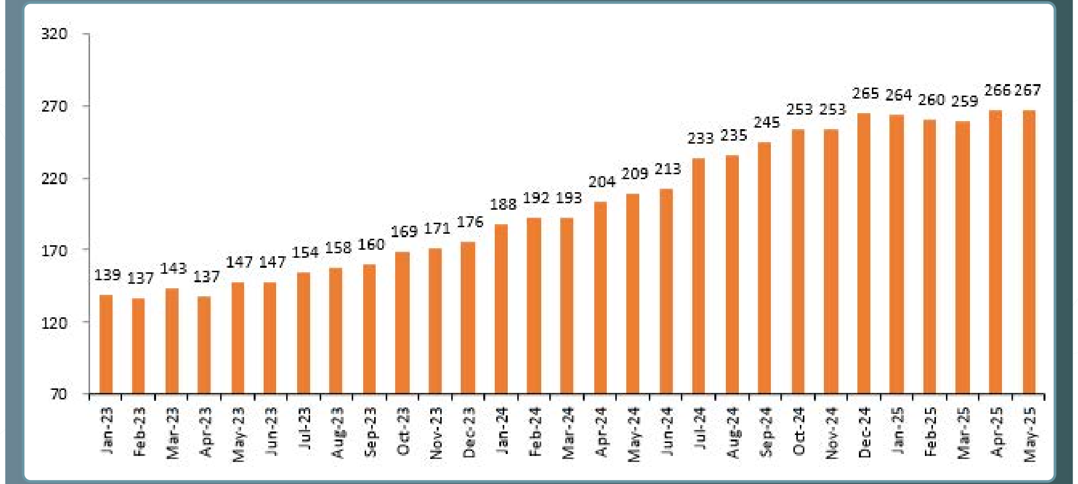
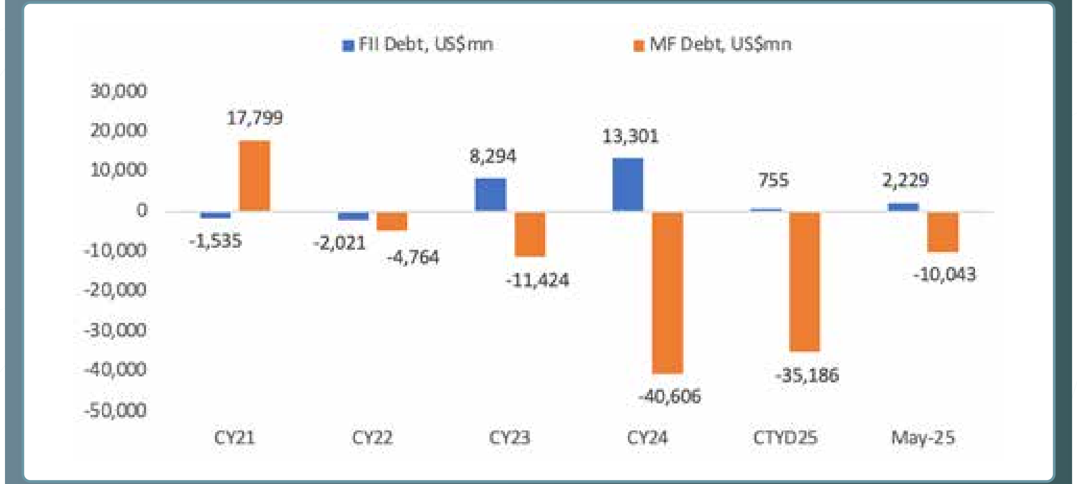


Figure 6. - FIIs turned net buyers of Indian debt in May-25; MFs have been sellers



Source: Bloomberg, NSDL, SEBI, AMFI

Equity market valuations have rationalized; could see further consolidation

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Nifty valuations above long period average; Could see moderation basis the extent of risk from tariffs uncertainty, earnings trend

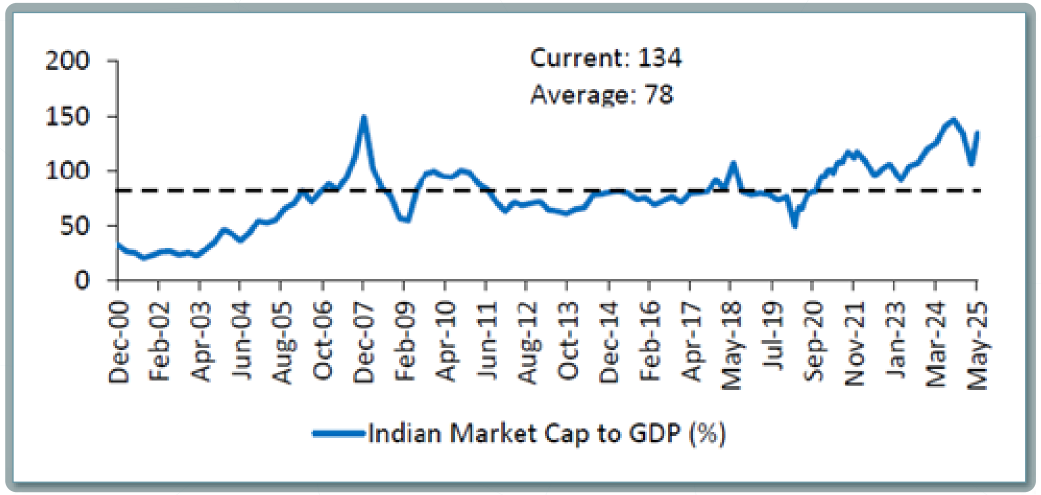

Figure 7. - : India's market cap to GDP down from all time highs

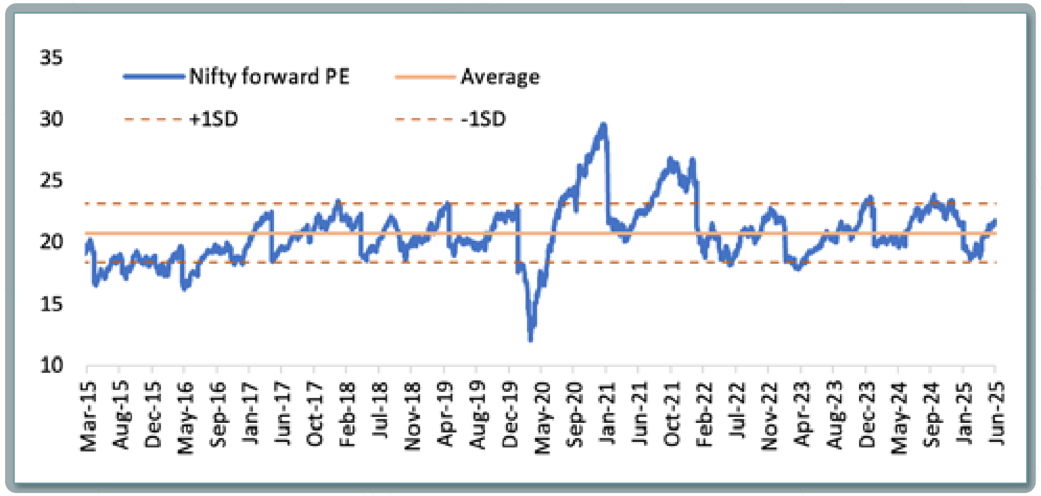

Figure 9. - Nifty forward PE has risen above LPA levels

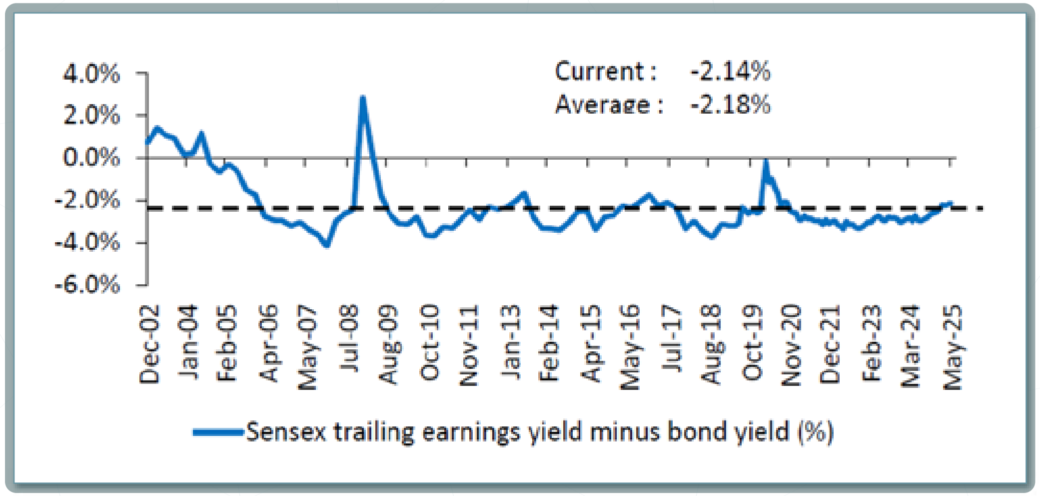

Figure 8. - Earnings yield to bond yield spread has corrected

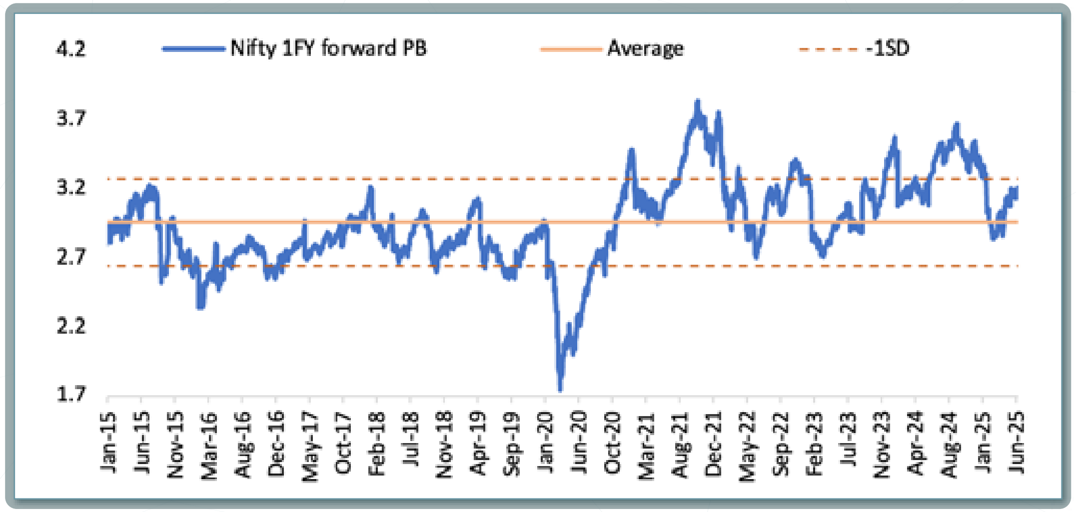

Figure 10. - Nifty PB has risen above LPA; closer to +1SD

Source: SBIMF Research, Bloomberg; MOFSL

Equity Market Outlook

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

- Post a stellar April, Indian equities continued to gain in May-25 despite the tariff uncertainties and geopolitical turmoil.
- FIIs remained net buyers in this month, after being sellers throughout this CY until March 2025.
- Markets have moved considerably higher from the lows seen during the previous month, with intermittent volatility also dropping substantially.
- Incremental news flow on US induced tariffs were limited and provided a much-needed calm to the markets, globally.
- Process of bi-lateral deal negotiations continues and would help in softening the effect of tariffs in coming months leading to a sideways market at best.
- Recent price surge on equity indices (Nifty), has moved headline valuations back above 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
- RBI's jumbo rate cut and impending CRR cut could be a positive for certain sectors such as BFSI, consumption in the medium term.
- Also, Q4FY25 corporate earnings scorecard was modest (single digit growth). Earnings growth expectations for FY26 corporate earnings have seen some rationalization, and hover around 10% - 11% YoY.
- We remain watchful of the situation that's unfolding in global markets. We continue to believe the Nifty could be rangebound in the next 6 months with a slow recovery as global stability might not return anytime soon.
- 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 maintain a Neutral stance towards equities in view of heightened uncertainties and potential slowdown.

Source: Bloomberg; InCred Wealth

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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.

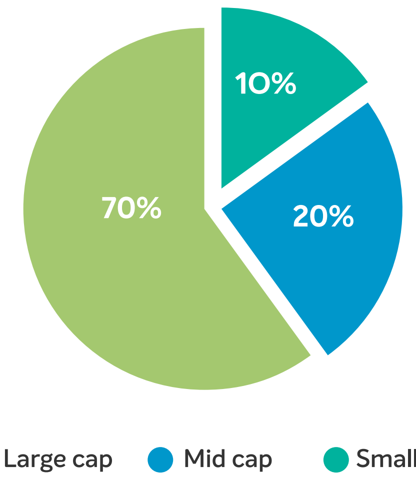
iii) We continue to advocate caution here and hence remain marginally underweight in Mid and Small caps. Basis this view, tactically, we continue to remain overweight Large Caps (70% of equity portfolio) and restrict Mid Caps and Small Caps to 20% and 10% of equity portfolio respectively. Large caps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

InCred Wealth

Given planned CRR cuts / front-ended Repo cut, medium term offers value

- G-sec yields have inched up since the last RBI policy in June, across tenures as the policy stance shifted back to neutral from being accommodative.
- AAA bond yields have seen some hardening in the 5yr+ segment
- 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 12. - Yield curve has steepened marginally in 2025

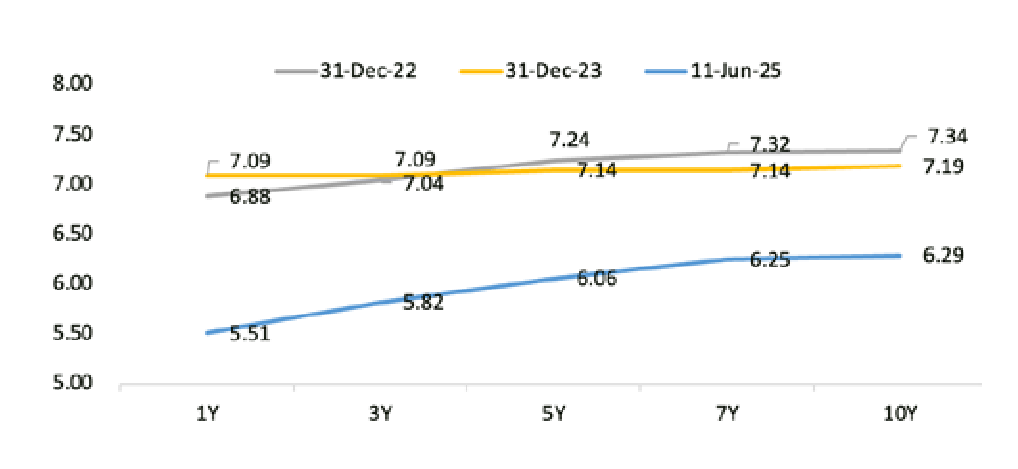
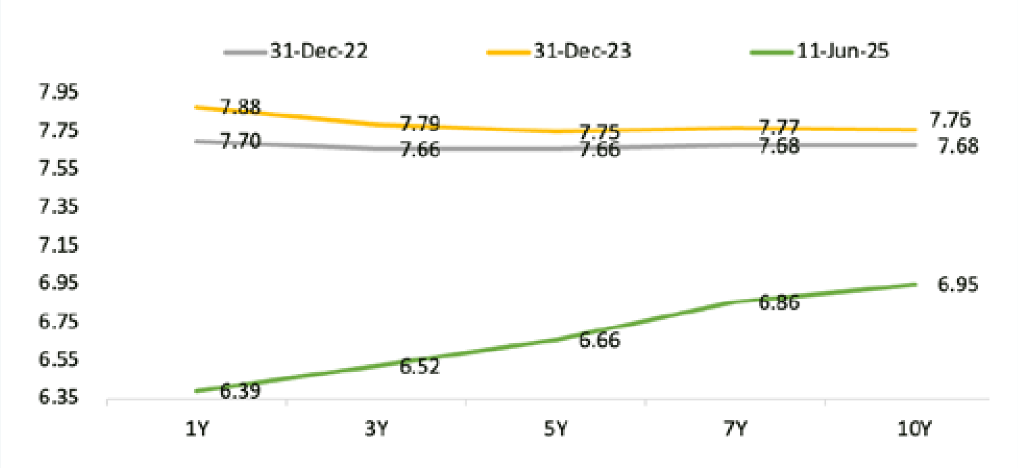


Figure 11. - Issuers with credit rating "A" offers higher credit spreads

3-year tenor	11-Jun-25	Dec-24	Dec-23	Dec-22
G sec	5.82	6.72	7.09	7.04
Credit Spreads (bp)				
AAA over G sec	70	81	56	62
AA over AAA	84	76	67	63
A over AA	140	184	134	165

Figure 13. - 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 14. - Banking system liquidity in deficit

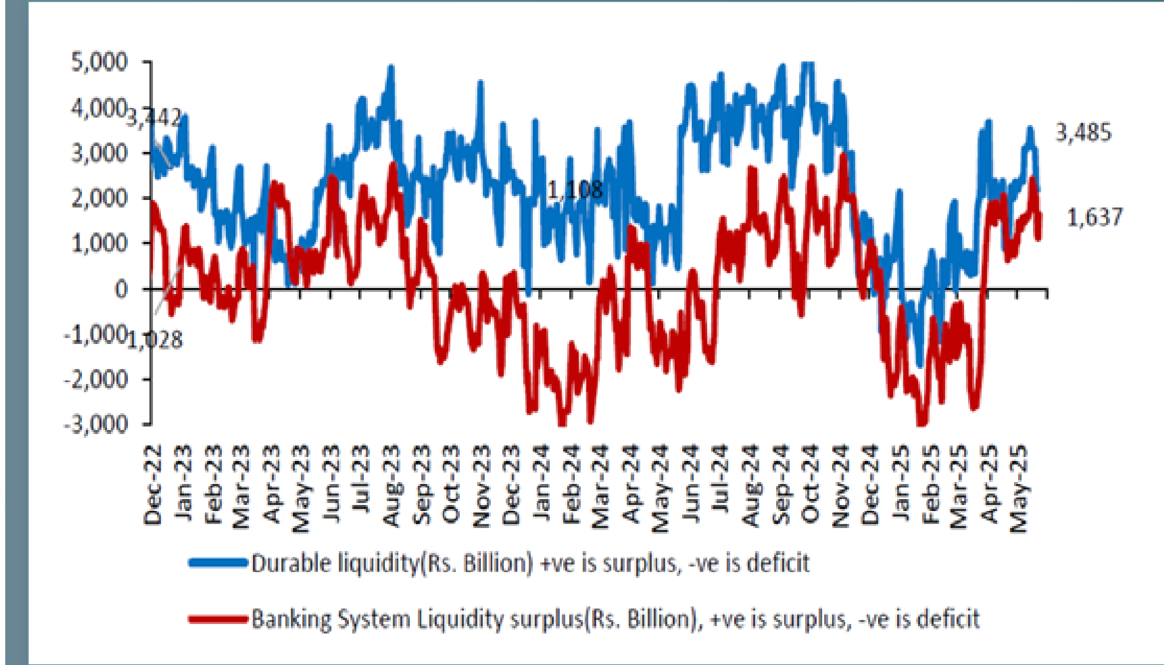
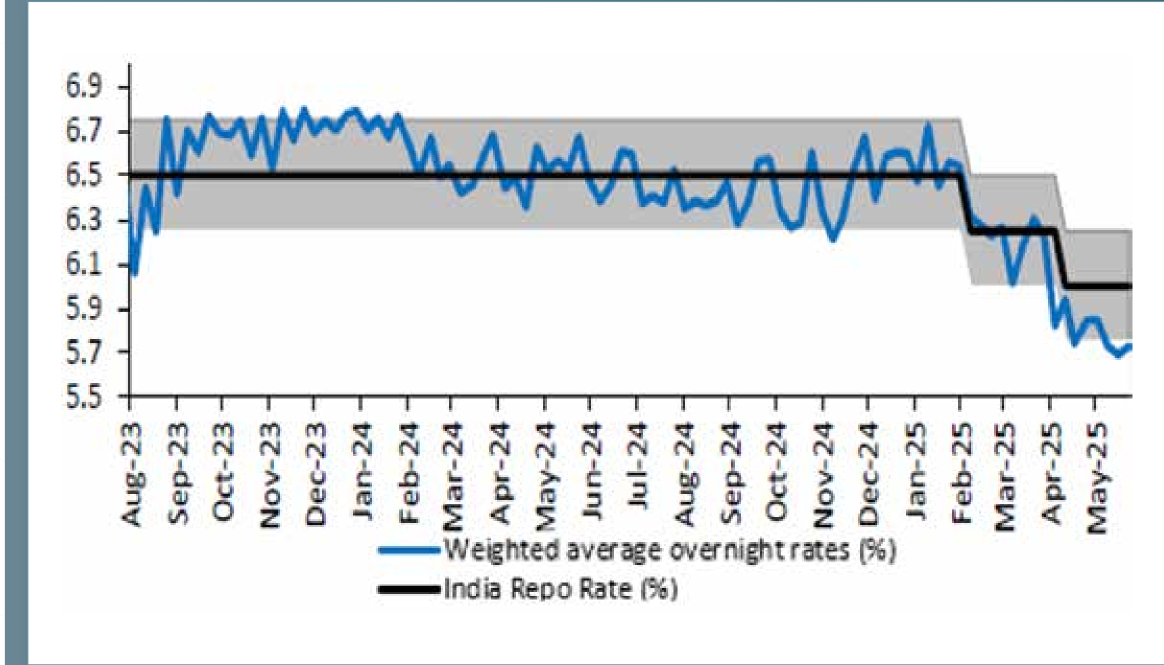


Figure 15. - Overnight rates align close to the Repo rate (shaded area is policy corridor)



- System liquidity, as measured by the average net position under the liquidity adjustment facility (LAF) was in deficit in Jan-25, leading to net injection of ₹3.1 lk cr on 23rd Jan'25.
- However, as a result of a slew of measures undertaken by the RBI it has injected Rs. 9.5 lakh core of durable liquidity since then (Rs. 5.2 lk cr OMO + Rs. 2.1 lk cr VRR + Rs. 2.2 lk cr Fx buy-sell swap). Liquidity conditions have thus remained in surplus since mid-March 2025.
- This reflects in the fact that weighted average call rate (WACR) traded at the lower end of the LAF corridor since Apr-25 policy
- CRR reduction of 100bps (eventually bringing it to 3%) will commence from Sept-25 through Nov-25 in four equal tranches of 25bps cut releasing Rs. 2.5 lk cr of liquidity by Dec-25. This should further enhance policy rate transmission to credit market

Source: Bloomberg; SBI MF

InCred Wealth

Outlook

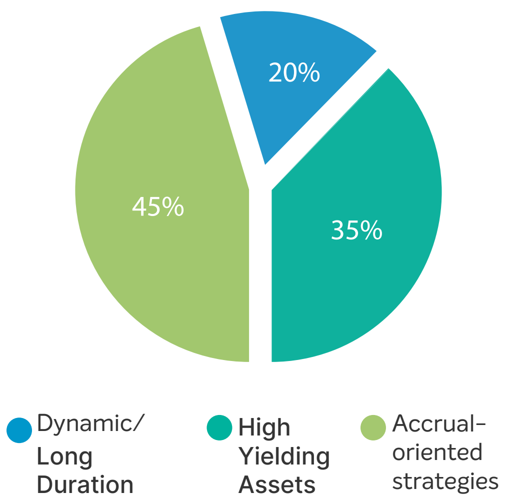
- RBI delivered a jumbo rate cut of 50bps in June-25 and announced a further 100bps reduction in CRR between Sep-25 and Dec-25 thus infusing Rs. 2.5 lakh crore in the system.
- With Repo Rate now at 5.50% and view on durable liquidity to be positive, the recent transmission into market interest rates is expected to accelerate.
- Reduction in cost of funds (better NIMs) could mean lowering of borrowing rates thus reducing EMIs and leaving more surpluses in the hands of consumers that could in part aid discretionary spends.
- While debate around the terminal rate may persist amid shifting views on further easing, we do not expect incremental repo rate cuts from here as most of the easing seems to be front-ended post June MPC rate action.
- RBI's rate action has also reduced the spread between Fed Funds rate and the Repo rate to 100bps-125bps v/s historical averages of 350bps-400bps.
- As external volatility reshapes market expectations, a dynamic and continuously reassessed approach to duration remains essential. The compelling opportunity that duration strategies have offered over the past 15m – 18m seems to have significantly played out now.
- Incrementally, positioning majority of the fixed income portfolio into duration-driven funds may have marginal value addition.

Category	InCred Outlook
Fixed Income	Positive on 2y-5y maturity funds and high yield strategies

Deployment Strategy

- Given the expected steepening of yield curve (with short end aggressively coming off in the coming months), we are going overweight strategies focusing on 2yr – 5yr segment of the yield curve. We, thus, suggest allocating upto 45% of fixed income portfolio towards accrual-oriented strategies. Consequently, we now revise our allocation to dynamic / long duration strategies upto 20% of fixed income portfolio.
- Credit environment continues to remain stable, and credit spreads remain attractive. Thus, balance 35% allocation of fixed income portfolio is suggested towards high yielding assets (bonds /funds).

Fixed Income Portfolio Allocation



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Registered Office and Corporate Office Address: Unit No 1203, 12th Floor, B Wing, The Capital, C 70, B Block, BKC, Bandra (E), Mumbai 400051; Phone: +91 22 68446100;

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Thank you