InCred Wealth

July 2025

Market Outlook

Sluggish Nominal Growth,
Tepid Earnings – Markets Stuck in range

Index

Outlook Summary

Equity View

Large Cap

Indian Equities continued the upward streak in June clocking in 3.1% returns and ending Q1FY26 up by 8.5%. This was primarily fueled by strong domestic macros. For the month, broader indices saw relatively stronger gains, led by a ~4.3% rise in small-caps and a 4% uptick in mid-caps.

- FIIs posted net inflows of $1.7bn in June-25. While FII flows for the year still stand negative, the last quarter (Apr-Jun) has witnessed inflows of ~$4.5 bn indicating foreign investors' renewed faith in Indian equities.
- As the world approached 9th July tariff deadline set by the US, trade deal announcements commenced with tariffs ranging between 25% to 35%.
- Price rally over the last 4 months has resulted in a valuation rebound, with headline valuations moving back above historical averages but still not near the expensive territory. There is room for further up-move given improving corporate earnings growth, low interest rates, ample liquidity and steady macroeconomic recovery.
- Earnings for Nifty50 are expected to grow at 5% yoy in Q1FY26, anchored by oil & gas, telecom, technology, BFSI & healthcare sectors. However, the various stimulative monetary and fiscal accommodation announced this year should begin to yield significant results starting 2HFY26. This is anticipated to result in improved economic expansion and corporate earnings growth.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Large Cap	Nifty 50	25,517	Neutral *(Since: Jun-24 Level: 23,519)*

Quick Overview

- We remain watchful of the situation that's unfolding in global markets. We believe the Nifty could be rangebound in the next 6 months as corporate earnings are expected to mirror a rather subdued nominal GDP growth as inflation cools further and we see a gradual return in global stability.
- We maintain a Neutral stance towards equities in view of the above and suggest staggered deployment over the next 3 – 4 months.

Source: Prices as of 30th June 2025; Bloomberg

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Equity View

Mid and Small Cap

Following a strong rally between Apr'23 and Sep'24, mid & small cap outperformance has continued to narrow over the past nine months.

- Nifty midcap 100 and smallcap 100 fell 21% and 25% from their all time highs, later recovering by 25% and 30% respectively, resulting in marginal negative returns of 2-3%.
- 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	46,854	Underweight *(Since: Feb-24 Level: 41,531)*

Quick Overview

- Moderating earnings and stretched valuations continue to remain key concerns in this space. We suggest booking profits in this segment, given the potential for additional downside.

Source: Prices as of 30th June 2025; Bloomberg

Fixed Income View

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
Fixed Income	G-Sec	10-year G-Sec	6.30%	Positive on overweight strategies focusing on 2yr – 5yr segment of the yield curve
	AAA Corporate	3y AAA	6.57%	
	AA Corporate	3y AA	7.46%	
	A Corporate	3y A	8.87%	

Quick Overview

- 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 7th July 2025

Other Asset Classes

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.
- US trade deal letters to about 20 countries are out and it will be important to watch how this development influences global trade dynamics and its potential ripple effects across markets and supply chains.
- 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	6,205	Negative
	Europe	MSCI Europe	181	
	China	Shanghai Composite	3,444	

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 , lower U.S. rates and escalating geopolitical uncertainties have increased 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.
- Fading US exceptionalism and declining comfort in Treasuries enhance gold's attractiveness, valuations are increasingly stretched. After a period of inactivity following the market volatility of 2022, US gold ETF investors are beginning to return.
- 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.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Precious Metal	Gold	LBMA USD	3,287	Positive
	Silver	LBMA USD	35.98	Positive *(since – Jun'24 Level – $29/Oz)*

Source: Prices as of 30th June 2025; Bloomberg

Other Asset Classes

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)	67.6	Negative

Source: Prices as of 30th June 2025; Bloomberg

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EMs outperform in Jun'25; India Broader markets bounce back

India underperforms Emerging & Developed Markets in June & CYTD; however macro outlook remains positive for H2FY26

As of 30th June 2025	Current Level	1M	3M	6M	1Y	CY25	CY24	CY23	CY22	CY21	CY20	CY19
EM and DM												
MSCI Emerging Markets	1,223	5.7%	11.0%	13.7%	12.5%	13.7%	5.1%	7.0%	-16.9%	-4.6%	15.8%	15.4%
MSCI World Index (Developed equities)	4,026	4.2%	11.0%	8.6%	14.4%	8.6%	17.0%	21.8%	-1.9%	20.1%	14.1%	25.2%
Key Equity Indices												
S&P 500	6,205	5.0%	10.6%	5.5%	13.3%	5.5%	23.3%	24.2%	0.1%	26.9%	16.3%	28.9%
MSCI Europe	181	-1.4%	1.1%	6.5%	5.0%	6.5%	5.8%	12.7%	-0.6%	22.4%	-5.4%	22.2%
Nikkei	40,487	6.6%	13.7%	1.5%	2.2%	1.5%	19.2%	28.2%	16.2%	4.9%	16.0%	18.2%
Shanghai Composite	3,444	2.9%	3.3%	2.8%	15.0%	2.8%	12.7%	-3.7%	-18.3%	4.8%	13.9%	22.3%
Nifty	25,517	3.1%	8.5%	7.9%	5.7%	7.9%	8.8%	20.0%	25.2%	24.1%	14.9%	12.0%
BSE MidCap	46,854	3.8%	12.8%	0.9%	0.4%	0.9%	26.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE SmallCap	54,691	4.3%	17.3%	-0.9%	3.3%	-0.9%	29.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Other Assets (levels)												
Brent Crude	67.6	63.9	74.7	74.6	86.6	-0.1	0.0	85.9	77.8	51.8	66.0	53.8
Gold	3287.5	0.3%	5.5%	26.0%	41.1%	26.0%	25.5%	14.6%	15.1%	-4.3%	24.6%	18.4%
Dollar index	96.9	99.3	104.2	108.5	105.9	-0.1	0.1	103.5	95.7	89.9	96.4	96.2
Credit/ yields (%)												
India 10 year G-sec	6.32	6.29	6.58	6.76	7.01	-0.06	-0.06	7.33	6.45	5.87	6.56	7.37
US 10 year G-sec	4.23	4.40	4.21	4.57	4.46	-0.07	0.18	3.87	1.51	0.91	1.92	2.68
Germany 10 year G-sec	2.61	2.50	2.74	2.37	2.61	0.10	0.17	2.57	-0.18	-0.57	-0.19	0.24

Source: Bloomberg

Most sectors rebound from their Mar'25 lows; Consumer Index declines

Large Caps underperformed Small & Mid Caps in Jun-25; however continue to outperform SMID indices on a CYTD basis.

- Large Caps continue their underperformance vis-à-vis broader markets in Jun-25 however on CYTD basis performance down the capitalization curve has been much worse compared to the headline index.
- Growth outperformed Value in Jun-25. While, with earnings growth tapering, businesses with better quality of growth continue to see investor interest.
- Most sectors are in the green compared to last month. Telecom, Infrastructure & IT were the best performing sectors in Jun-25.
- FMCG, Capital Goods and Auto were the worst performing sectors in Jun-25.

As of 30th June 2025	1M	3M	1Y	CY25	CY24	CY23	CY22	CY21	CY20	CY19
Overall Markets										
Nifty	3.1%	8.5%	5.7%	7.9%	8.8%	20.0%	25.2%	24.1%	14.9%	12.0%
Nifty Equal weight	3.7%	9.7%	5.5%	9.2%	9.7%	29.8%	38.0%	32.6%	17.6%	2.7%
BSE Mid cap	3.8%	12.8%	0.4%	0.9%	26.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE Small Cap	4.3%	17.3%	3.3%	-0.9%	29.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Styles										
Nifty 200 Quality 30	2.4%	9.6%	0.5%	1.1%	12.7%	29.9%	21.7%	nm	nm	nm
MSCI India Value	3.2%	8.3%	0.1%	5.3%	12.1%	25.9%	24.1%	31.5%	23.7%	9.6%
MSCI India Growth	3.6%	11.0%	6.5%	6.8%	16.5%	14.8%	20.0%	22.7%	10.1%	7.3%
Financials										
NSE Financials	2.5%	8.4%	15.0%	15.6%	9.4%	13.2%	24.0%	14.0%	4.5%	25.6%
Nifty Bank	2.8%	11.1%	9.0%	12.7%	5.3%	12.3%	36.1%	13.5%	-2.8%	18.4%
Nifty Private Bank	2.5%	9.8%	7.8%	14.0%	-0.4%	13.8%	37.9%	4.6%	-2.9%	16.2%
Nifty PSU Banks	3.2%	15.0%	-1.5%	10.1%	14.5%	32.3%	125.8%	44.4%	-30.6%	-18.3%
Asset heavy sectors										
BSE Oil and Gas	3.1%	10.9%	-5.7%	6.9%	13.2%	12.8%	31.5%	24.3%	-4.4%	7.2%
BSE Capital Goods	1.7%	15.3%	-0.5%	6.7%	21.8%	66.9%	93.5%	53.4%	10.6%	-10.0%
BSE Utilities	3.0%	3.1%	-12.5%	0.2%	13.0%	32.6%	62.0%	64.4%	-0.4%	-7.3%
NSE Infrastructure	4.9%	11.3%	3.0%	11.2%	15.9%	39.1%	47.5%	35.6%	12.2%	2.5%
Services oriented sectors										
NSE IT	4.4%	5.6%	5.6%	-10.1%	22.0%	24.1%	-8.2%	59.6%	54.9%	8.4%
BSE Telecom	6.1%	19.4%	0.8%	10.7%	25.8%	30.8%	24.9%	43.0%	13.6%	12.9%
NSE Financial services	2.5%	8.4%	15.0%	15.6%	9.4%	13.2%	24.0%	14.0%	4.5%	25.6%
Others										
NSE Media	2.5%	18.9%	-14.0%	-3.5%	-23.9%	19.9%	7.6%	34.6%	-8.6%	-29.7%
NSE Auto	2.3%	12.1%	-5.7%	4.5%	22.6%	47.6%	70.2%	19.0%	11.5%	-10.7%
NSE FMCG	-0.7%	2.4%	-4.0%	-3.4%	-0.3%	29.0%	51.6%	10.0%	13.5%	-1.3%
NSE Pharma Index	2.8%	4.3%	11.5%	-5.9%	39.1%	33.6%	18.3%	10.1%	60.6%	-9.3%
NSE Real Estate	3.9%	15.9%	-10.4%	-6.3%	34.4%	81.3%	61.7%	54.3%	5.1%	28.5%

Source: Bloomberg

Global Macro & Markets

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Global Macro

Central Bank policy response to Tariffs needs to be watched

	Quarterly GDP Mar-25 SA qoq (%)	Inflation May-25 yoy (%)	Current Policy Rate June-25	10Y bond yield 9-Jul-25
US	-0.2%	2.4%	4.25% - 4.50%	4.41%
Europe	0.6%	1.9%	2.00%	2.63%
Japan	0.0%	3.5%	0.50%	1.50%

USA

- The Federal Reserve (Fed) held interest rates steady at the 4.25% to 4.5% range during its June meeting, as expected. Currently, the Fed sees the economy growing at a solid pace, with inflation slightly above their 2% target.
- However, the Fed acknowledged that uncertainty about the economic outlook had diminished but remained elevated.
- The assessment that uncertainty had declined reflected, in part, a reduction in the expected level of tariffs, which appeared to peak in April and had subsequently declined.
- On the tariff front, US has issued tariff letters to over 20 nations, warning that higher import duties will take effect from August 1, 2025 if bilateral trade deals are not reached.

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

Global Macro

The Fed Pause Continues

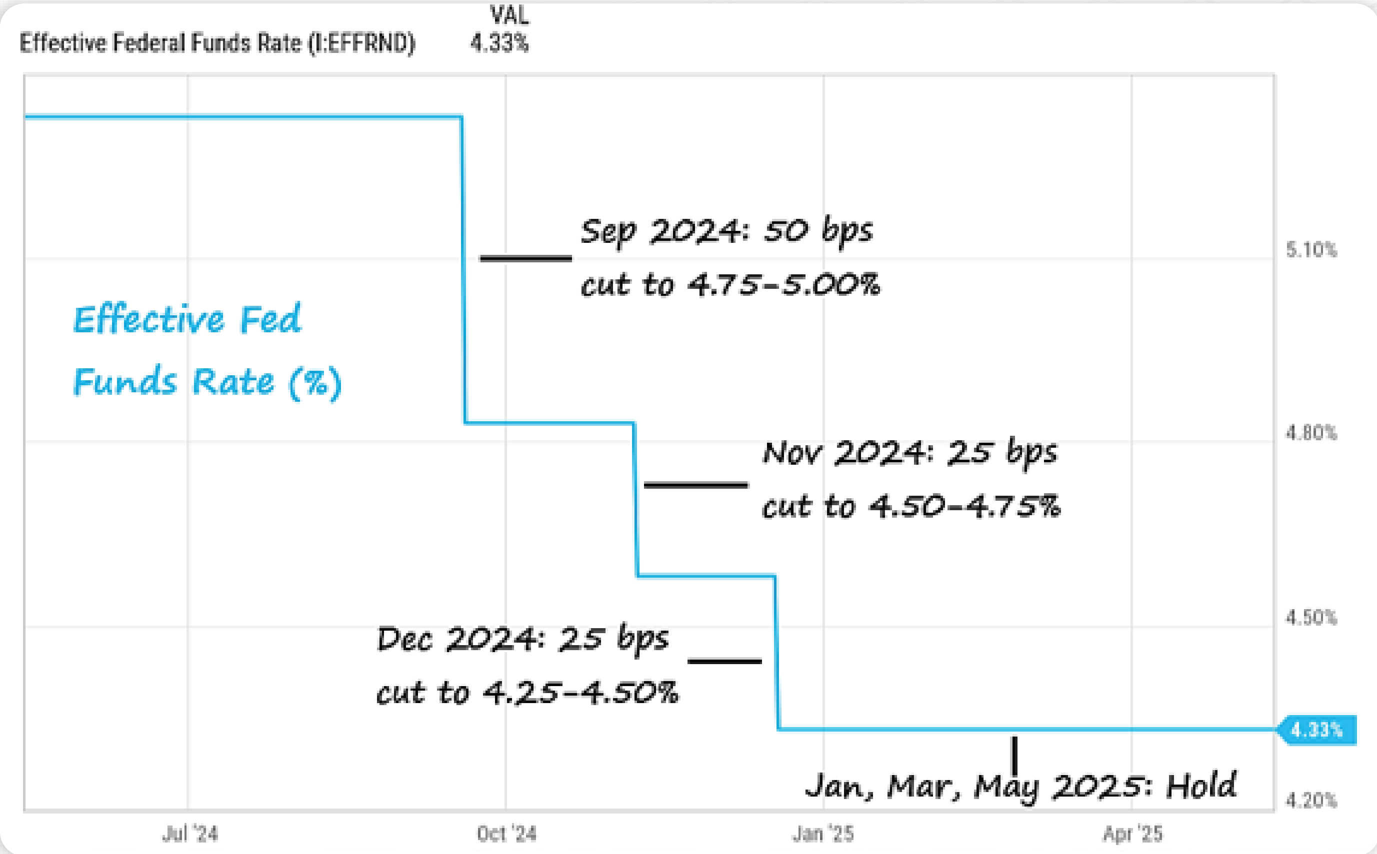


Figure 1.

- 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)

Indian Macro Outlook

India Market Outlook

High frequency indicators suggest mixed near-term signals; but underlying resilience persists

GST collections slowed to ₹1.85trn in Jun; Auto sales were down too; Credit growth momentum moderated; Core industries output growth dropped to a nine-month low – All in all hinting towards a slowdown

- As GST completes 8 years, the government said that the collections have doubled over the past five years to reach a record Rs 22.08 lakh crore in FY25, up from Rs 11.37 lakh crore in FY21.
- The collections in FY25 represent a 9.4% year-on-year growth compared to Rs 20.18 lakh crore collected in FY24, marking the highest-ever annual GST collection since the rollout of the indirect tax system in July 2017.
- 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	May-25	yoy (%)	9.8%	11.2%	16.2%
Consumption					
Auto Volumes					
PV	Jun-25	Units Sold	2,97,722	3,02,214	2,90,593
2W	Jun-25	Units Sold	14,46,387	16,52,637	13,81,040
Industries					
Power Consumption	Jun-25	yoy (%)	-1.5%	-4.1%	8.6%
Manufacturing PMI	May-25	X	58.4	57.6	58.1
Core Industries output	May-25	yoy (%)	0.7%	1.0%	6.9%
Overall, Economy					
GST Collection	Jun-25	Rs Trn	1.85	2.01	1.82

Source: Bloomberg, FADA, Company Data

India Macro Outlook

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 of	Unit	Latest	Last	1 year back
Real GDP quarterly	March-25	yoy (%)	7.40%	6.40%	8.40%
Real GDP Annual	FY25	yoy (%)	6.50%	9.20%	7.60%
Inflation	May-25	yoy (%)	2.82%	3.16%	4.80%
Policy Rate	Jun-25	%	5.50%	6.00%	6.50%
IIP	May-25	yoy (%)	1.20%	2.60%	6.30%
INR/USD	Jun-25	X	85.70	85.53	83.36

Source :Bloomberg, MOSPI

Flow, Valuations, Earnings

Flows, Valuations, Earnings

FIIs buy around $1.7bn in Jun-25; MFs / SIP Flows at all time high

- FIIs remained net buyers of Indian equities at $1.7bn in Jun-25.
- DIIs & MFs continued to be net buyers at $3.1bn and $5.3bn respectively.
- FIIs turned net sellers in debt markets at $0.7bn while MFs continued to be net sellers at $3.6bn in the month of May-25.
- SIP flows continue to surge this fiscal. Q1FY26 SIP flows stand at ₹80,589cr – that is a 29% increase YoY for the same period.

Figure 2. - SIP inflows hit all time high in Jun-25 at Rs273bn, up 28%yoy

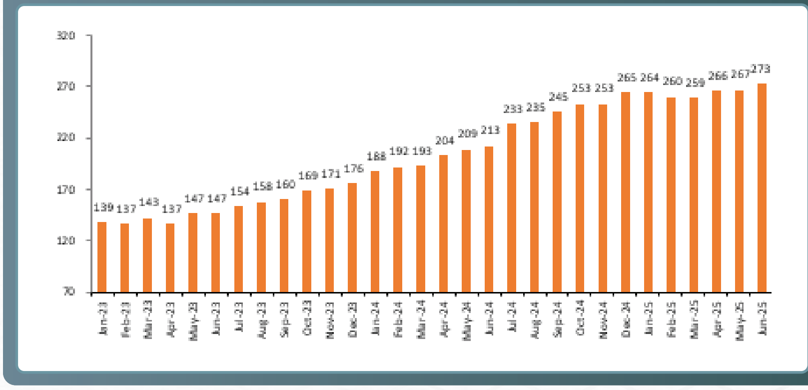


Figure 3. - FIIs remained net buyers, alongside DIIs and MFs, of Equities

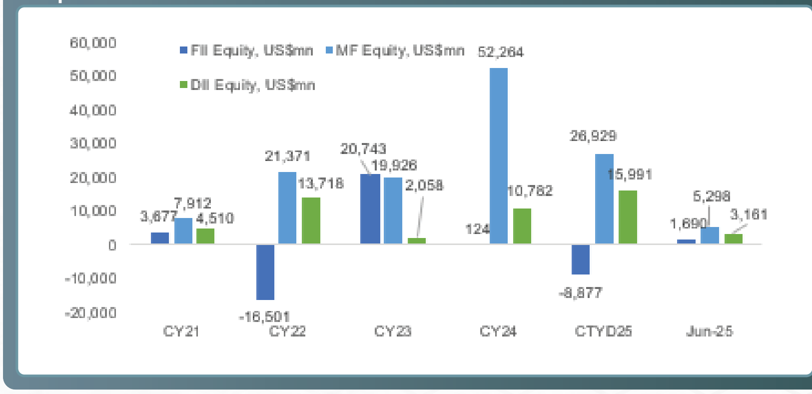
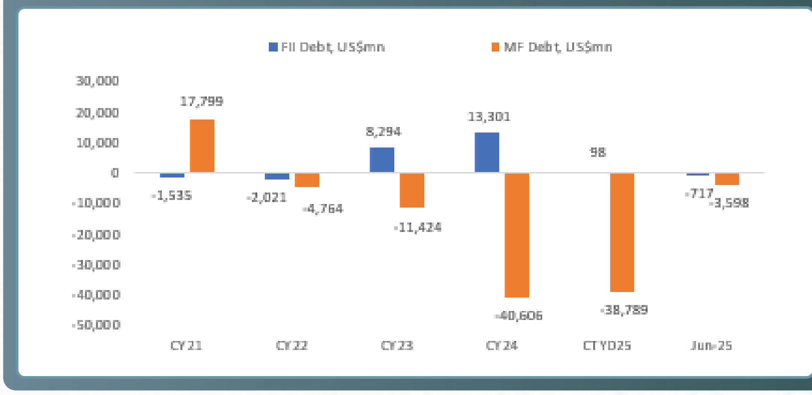


Figure 4. - FIIs turned net sellers of Indian debt in Jun-25; MFs have been sellers



Flows, Valuations, Earnings

Foreign Inflows Elude even as India seems to have delivered

- India’s macro picture strongest over past 5 years with capital market delivering handsome returns
- However, FDI flows lowest in FY25. Total foreign flows of only $4.5bn in FY25 – lowest in 20 years!
- Part explained by flow reversal seen globally

Over The Past 5 Years India Has Delivered, Steadily

India Delivers Outstanding Numbers	5yr CAGR / Avg
Nominal GDP Growth	10.5%
Equity Earnings Growth	20%
Equity Index Returns	24%
Avg. Rupee Volatility (Annualized)	4%
CPI Inflation	5.60%
Avg. Real 10Yr Govt. Security Yield	1.40%

Figure 5.

Yet Foreign Flows Have Dried Up

Foreign Flows Into India (USD Bn)

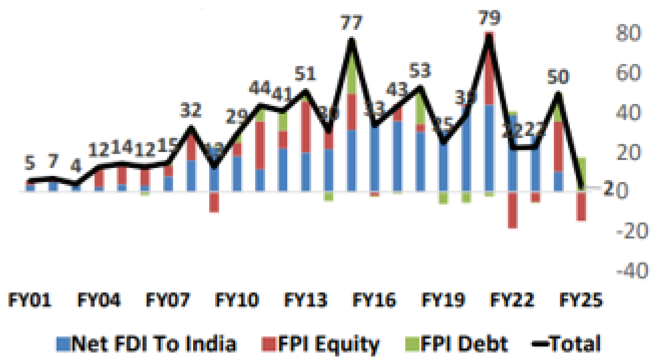


Figure 6.

Data Shows Slowing Inflows, Rising Outflows

	FY20	FY21	FY22	FY23	FY24	FY25
Net foreign direct investment	43.0	44.0	38.6	28.0	10.1	0.4
Foreign direct investment to India	56.0	54.9	56.2	42.0	26.8	29.6
Gross inflows/gross investments	74.4	82.0	84.8	71.4	71.3	81.0
Repatriation/disinvestment	18.4	27.0	28.6	29.3	44.5	51.5
Foreign direct investment by India	13.0	11.0	17.6	14.0	16.7	29.2

Figure 7.

But It’s Not Just India, Global Flows Have Collapsed

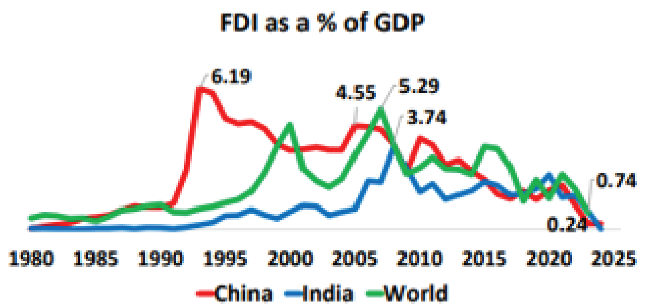


Figure 8.

Flows, Valuations, Earnings

Equity market valuations are elevated yet again; could consolidate

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

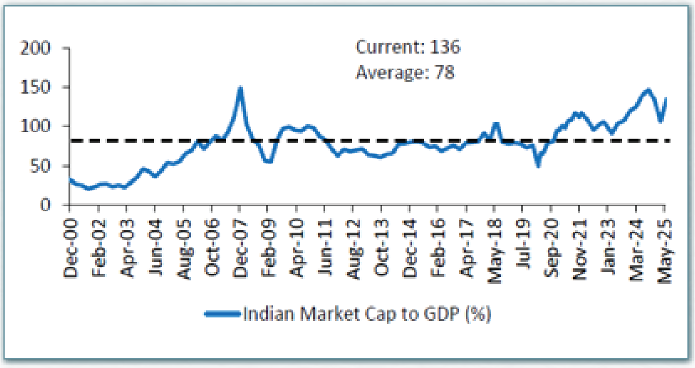


Figure 9. - India's market cap to GDP down from all time highs

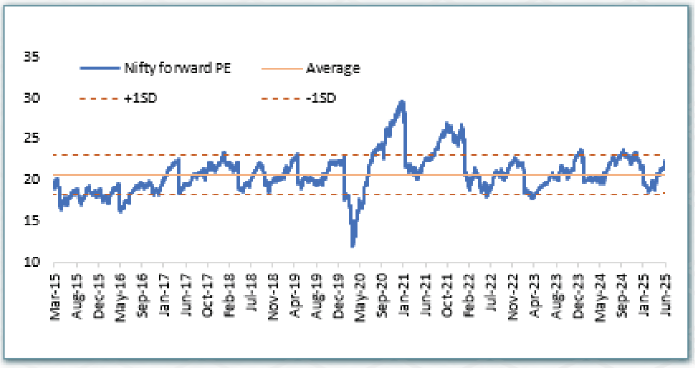


Figure 10. - Nifty forward PE has risen above LPA levels

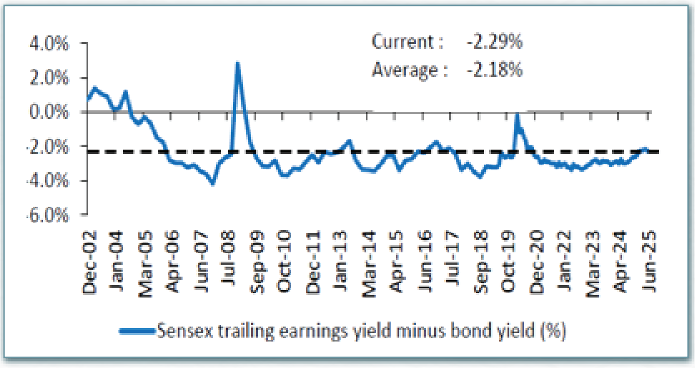


Figure 11. - Earnings yield to bond yield spread has corrected

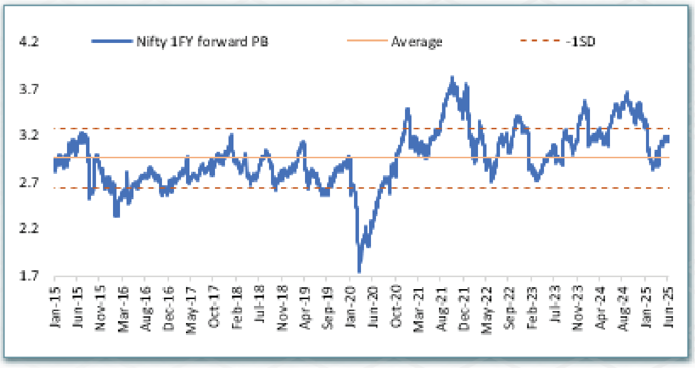


Figure 12. - Nifty PB has risen above LPA; closer to +1SD

Source: SBIMF Research, Bloomberg; MOFSL

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Flows, Valuations, Earnings

Valuations – an issue again for broader markets

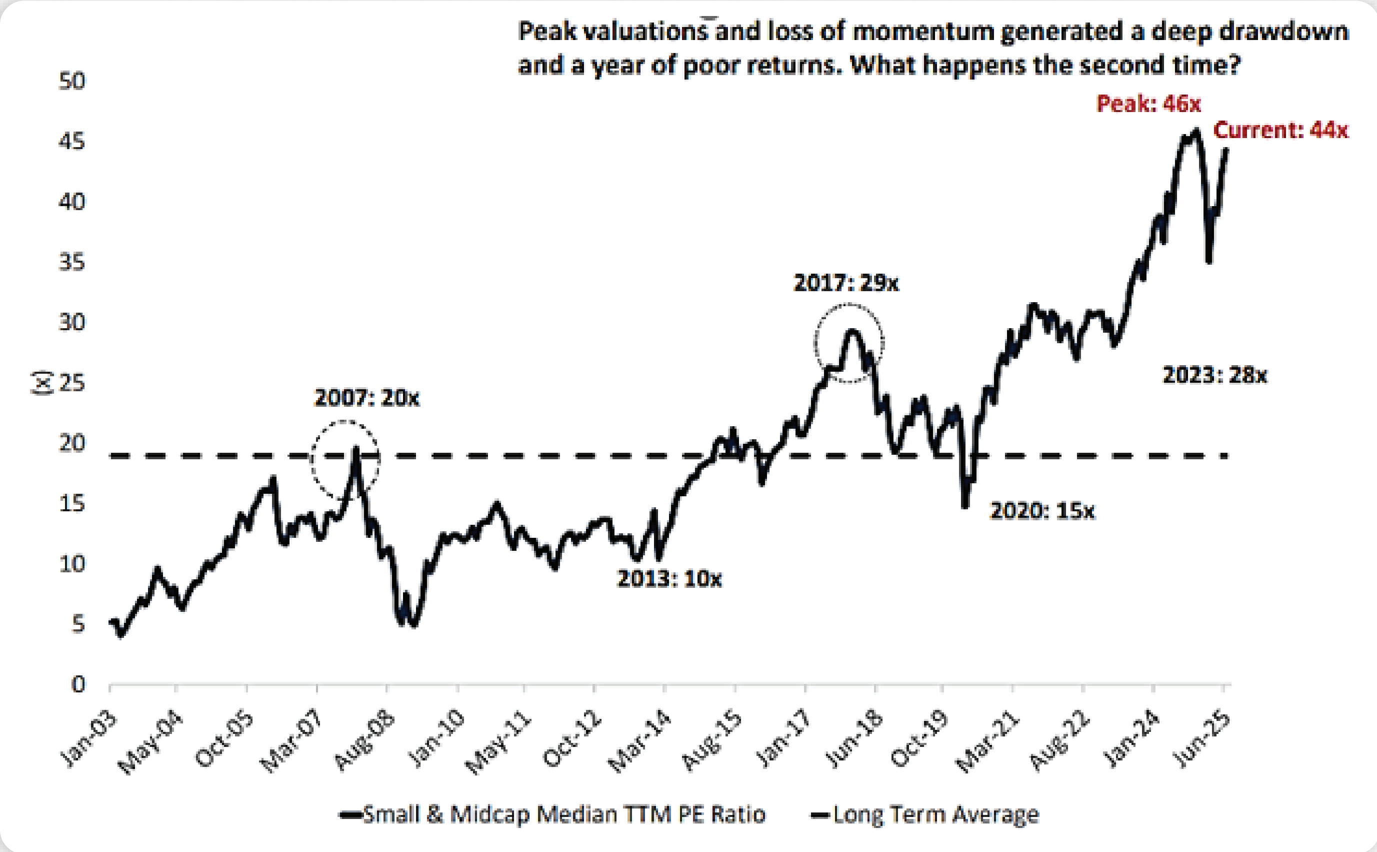

Figure 13.

- The re-rating for SMIDs which began post COVID has caused the median multiple to rise to unprecedented levels.
- LPA for SMID is 19x – If market undergoes any capitulation this might bring the multiple to much lower levels

Source: Bloomberg; DSP

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Flows, Valuations, Earnings

LARGEST 10 Stocks Close To Their Most Attractive Level vs The Broader Market

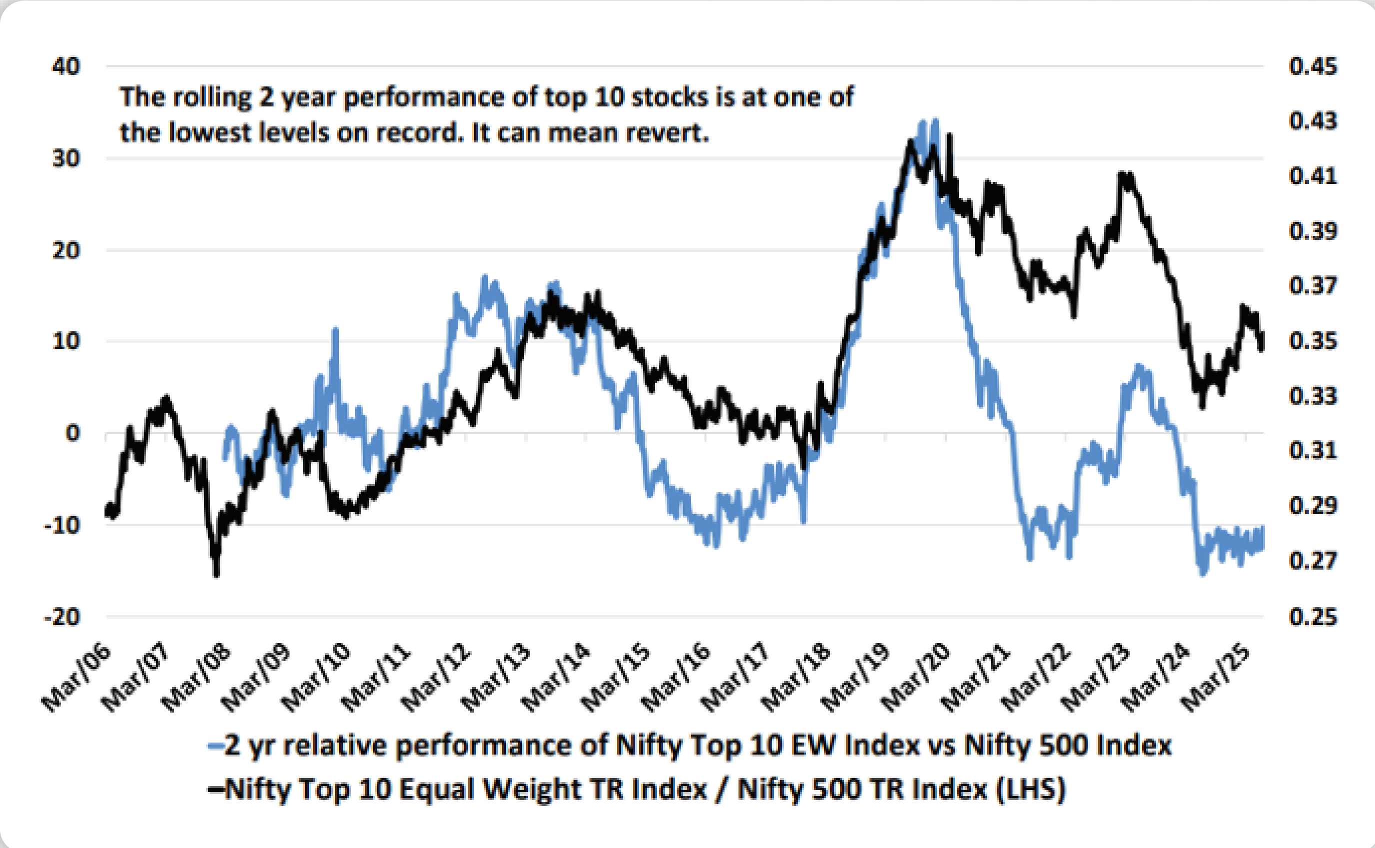

Figure 14.

- Top 10 companies by market capitalization have underperformed since COVID. However, relative valuations and macro structure favour Large Caps
- This makes the Top 10 stock universe an attractive proposition to analyse

Flows, Valuations, Earnings

Margins Hold Near Peak, So What Will Drive Profits?

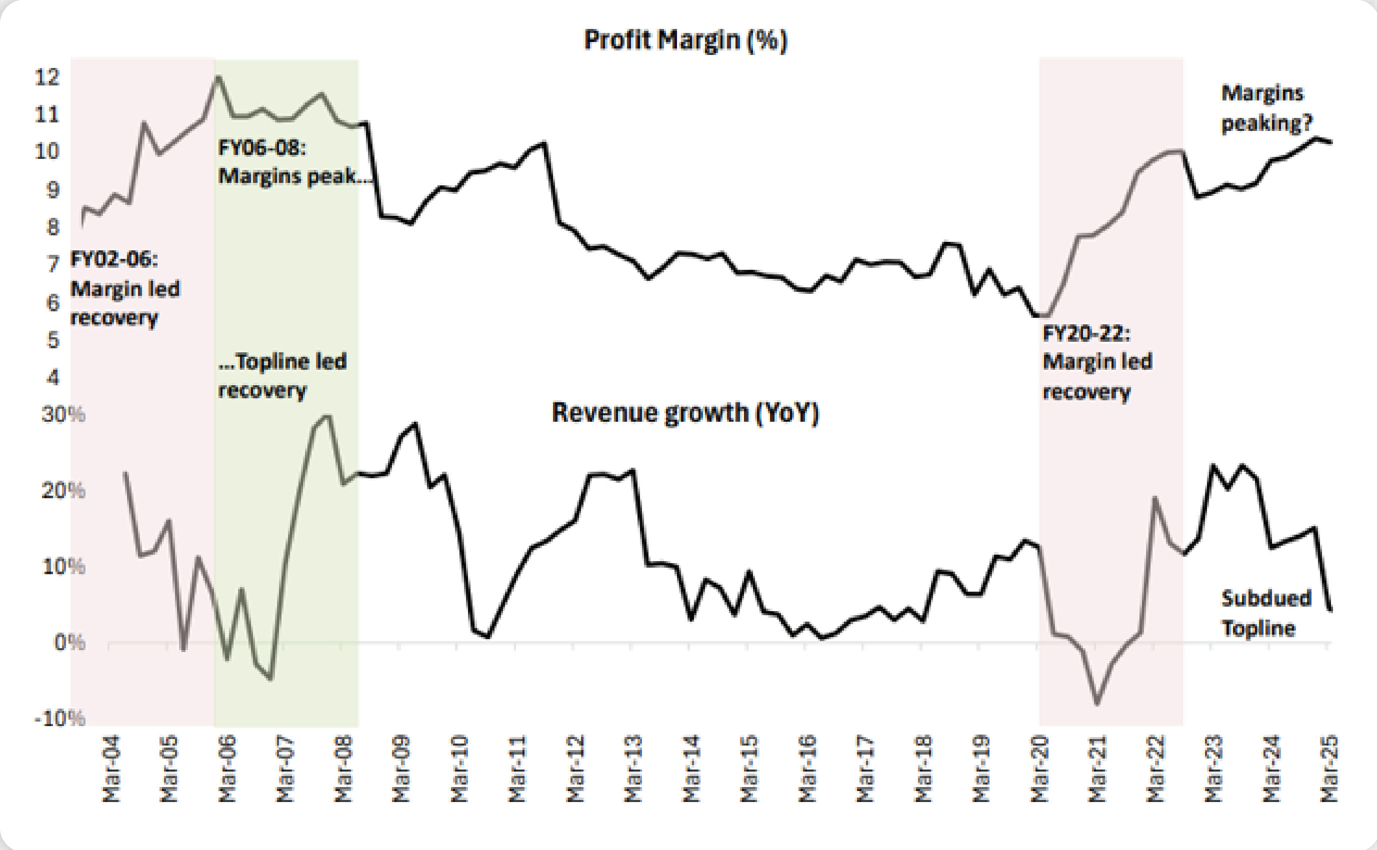

Figure 15.

- Post-Covid, combination of strong revenue growth and margin expansion has been the primary driver of PAT. Key concern now is sustainability given structural limitations for further margin expansion **(margins here are largely a function of distribution efficiencies and cost control, rather than durable pricing power)**
- Even during the early 2000s cycle, margin gains plateaued after a surge, despite robust topline growth
- Demand revival remains the only credible pathway to sustain earnings growth.
- With revenue growth subdued, question is will FY26 revive it?

Source: DSP AMC

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Flows, Valuations, Earnings

A slower nominal GDP may weigh on corporate revenue and earnings growth

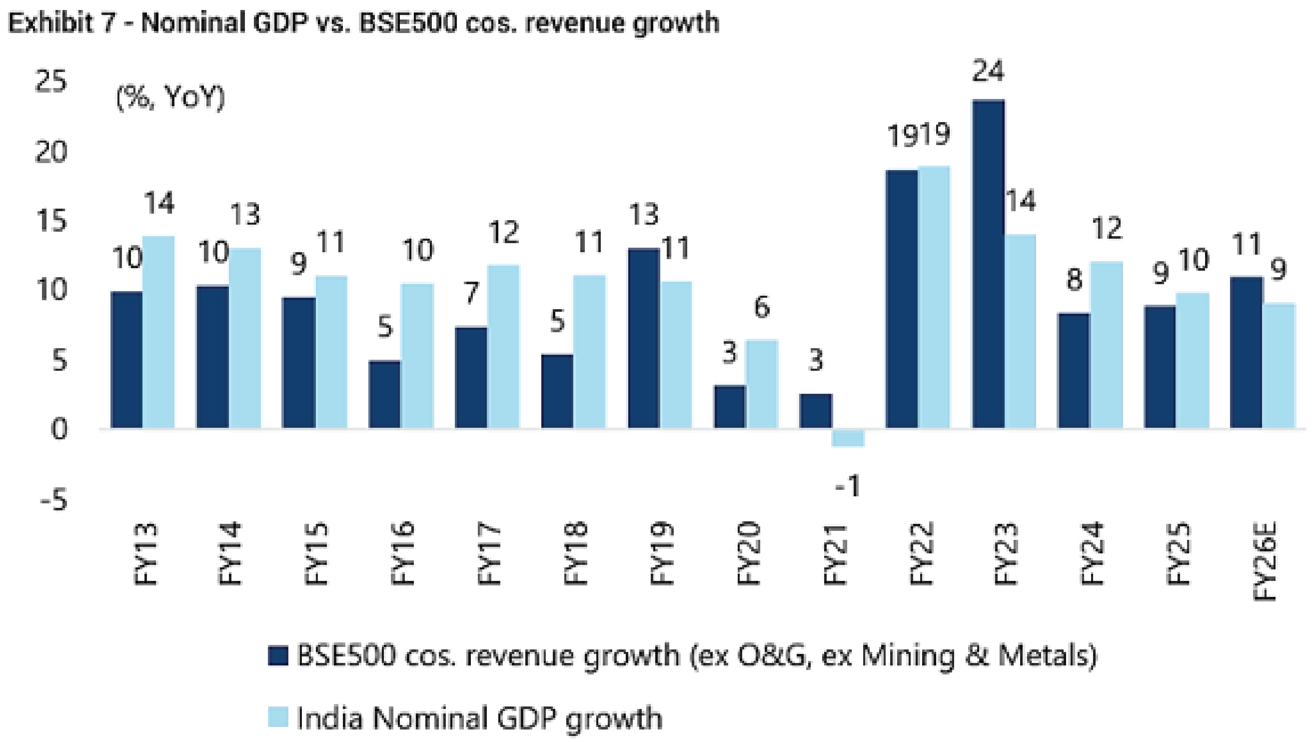

Figure 16.

- India's nominal GDP growth will likely slow down to 9% in FY26 - the second lowest pace since FY04 (barring covid) - due to low inflation, despite a healthy 6.5% real GDP growth. This could soften corporate revenue growth, credit growth etc.
- But lower nominal growth implies possible EPS cuts. This re-affirms our base case for sideways equity markets for this year

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Flows, Valuations, Earnings

Sectoral returns during the last low nominal GDP growth phase

Exhibit 10 - Sectoral returns in CY19 (Low nominal GDP growth year)

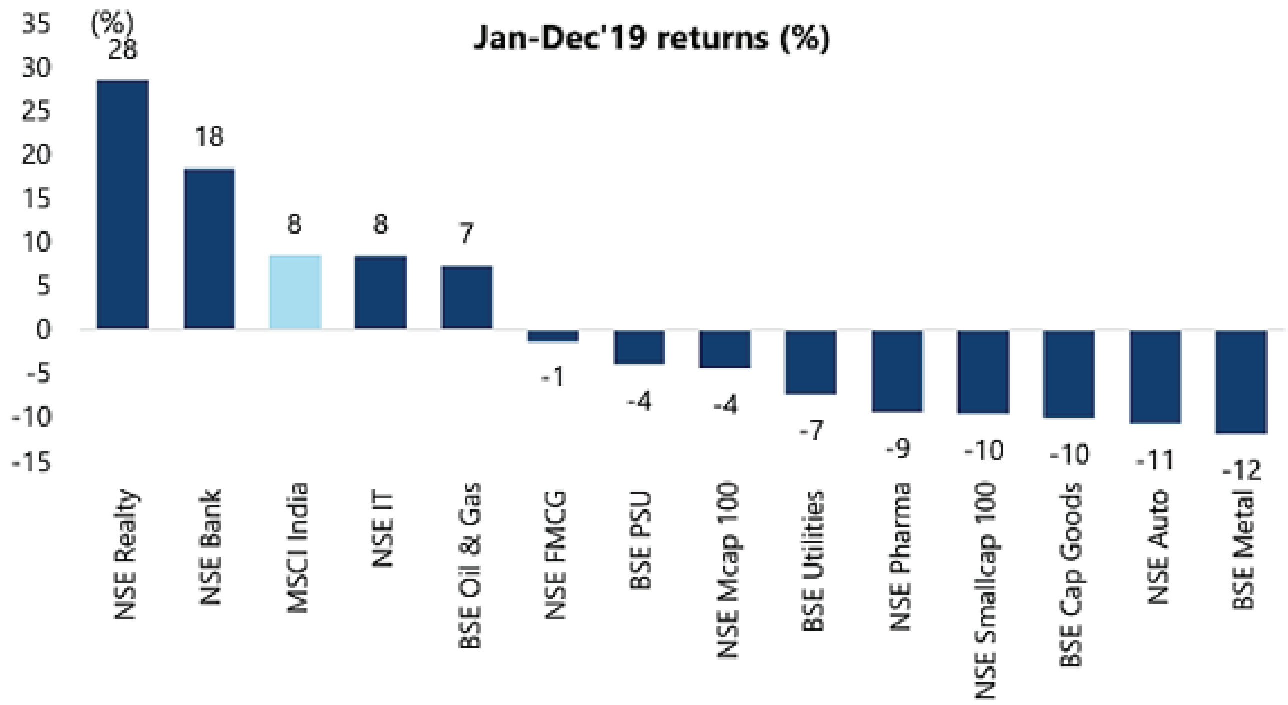


Figure 17.

- Banks and real estate outperformed during the last nominal GDP slowdown phase
- IT and Oil&Gas were in line with the market / Small Caps Underperformed

Source: Bloomberg; Jefferies

Equity Macro Outlook

Equity Outlook & Strategy

Indian Equities continued the upward streak in June clocking in 3.1% returns and ending Q1FY26 up by 8.5%. This was primarily fueled by strong domestic macros. For the month, broader indices saw relatively stronger gains, led by a ~4.3% rise in small-caps and a 4% uptick in mid-caps.

- FIIs posted net inflows of $1.7bn in June-25. While FII flows for the year still stand negative, the last quarter (Apr-Jun) has witnessed inflows of ~$4.5 bn indicating foreign investors' renewed faith in Indian equities.
- Incremental news flow on US induced tariffs were limited and provided a much-needed calm to the markets, globally. However, as the world approached 9th July tariff deadline set by the US, trade deal announcements commenced with tariffs ranging between 25% to 35%.
- 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, but still not near the expensive territory.
- There is room for further up-move given improving corporate earnings growth, low interest rates, ample liquidity and steady macroeconomic recovery.
- RBI's jumbo rate cut and impending CRR cut could be a positive for certain sectors such as BFSI, consumption in the medium term.
- Earnings for Nifty50 are expected to grow at 5% yoy in Q1FY26, anchored by oil & gas, telecom, technology, BFSI & healthcare sectors. However, the various stimulative monetary and fiscal accommodation announced this year should begin to yield significant results starting 2HFY26. This is anticipated to result in improved economic expansion and corporate earnings growth.

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 as corporate earnings are expected to mirror a rather subdued nominal GDP growth as inflation cools further and we see a gradual return in global stability.
- We maintain a Neutral stance towards equities in view of the above and suggest staggered deployment over the next 3 – 4 months.
- Earnings, economic recovery, global monetary policy and extent retaliatory tariffs / trade deals could provide cues on market.

Source: Bloomberg, IhnCred Wealth

InCred Wealth

Equity Outlook & Strategy

Existing equity holdings:

1) It's a good time to revisit portfolio allocations across investor portfolios.
2) 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.
3) 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.
4) 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.
5) For those under allocated towards the mid and small cap segment, its prudent to deploy over a 6 – 9 months stagger or longer.
6) 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

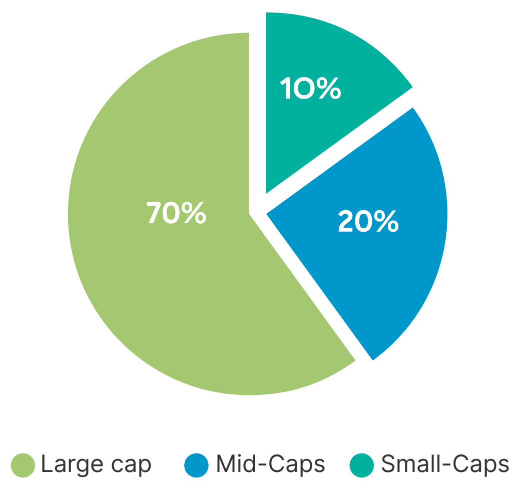
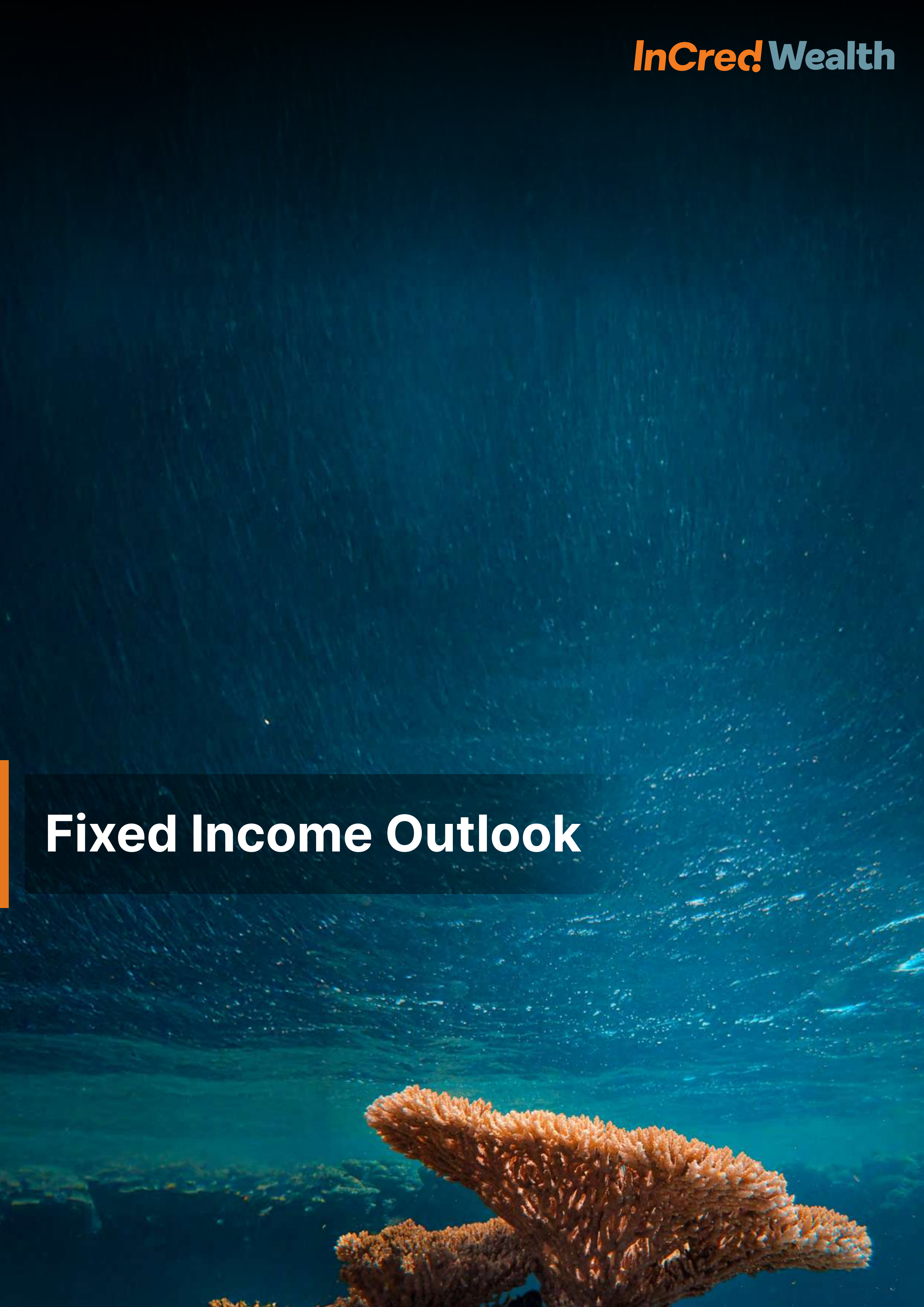


Figure 18.

Category	InCred Outlook
Large Cap	Neutral
Mid and Small Cap	Underweight

Investors sitting on the sidelines with cash in portfolios:

1) 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.



Fixed Income Outlook

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Fixed Income Outlook

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 19. - Issuers with credit rating "A" offers higher credit spreads

3-year tenor	7-Jul-25	Dec-24	Dec-23	Dec-22
G sec	5.83	6.72	7.09	7.04
Credit Spreads (bp)				
AAA over G sec	74	81	56	62
AA over AAA	89	76	67	63
A over AA	141	184	134	165

Figure 20. - Yield curve has steepened marginally in 2025

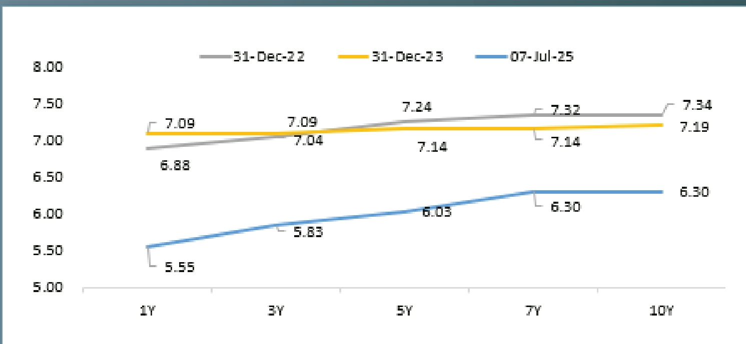
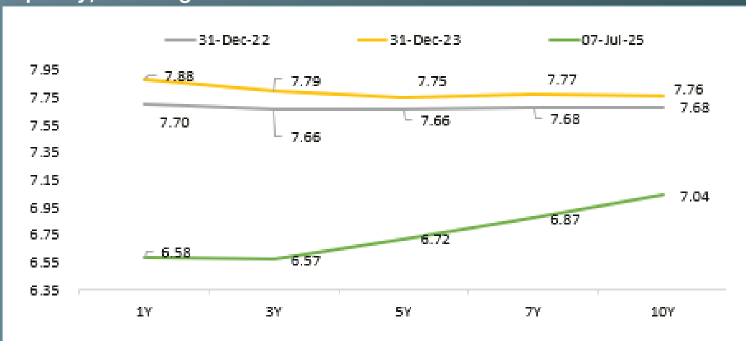


Figure 21. - AAA curve is inverted give the sharp fall in short term liquidity; Should get addressed



Fixed Income Outlook

Overnight and Short-term rates come off their highs

Figure 22. - Banking system liquidity in surplus

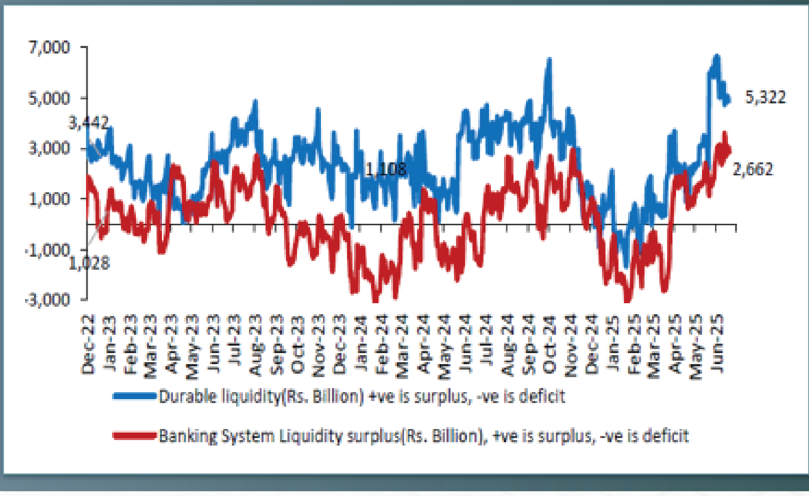
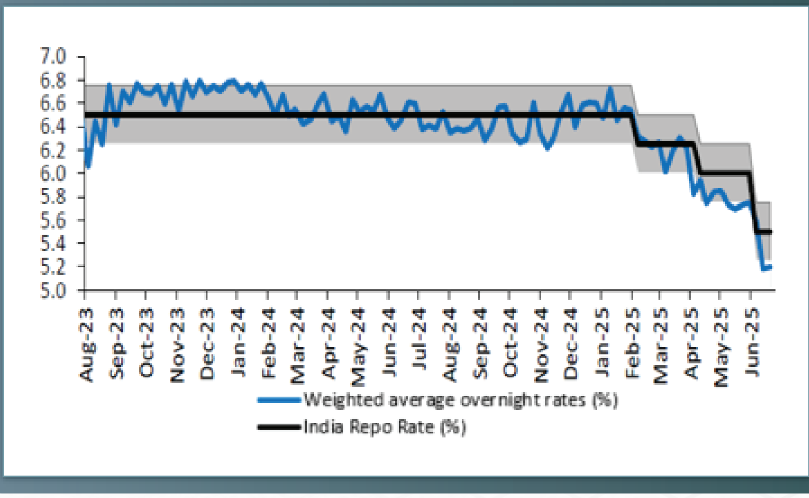


Figure 23. - Overnight rates align close to the Repo rate (shaded area is policy corridor)



- The banking system liquidity surplus average Rs. 2.76 tn in Jun-25, while durable liquidity reached Rs. 6 tn last month on account of dividend transfers.
- 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
- Weighted Average Overnight Rates are comfortably below the Repo Rate indicating market positioning given impending liquidity infusion through CRR cuts over next few months
- Accrual oriented strategies, to our mind, would benefit from the excessive liquidity seen in the banking system as term premia is expected to collapse in this segment of the term structure.

Source: Bloomberg; SBI MF

Fixed Income Outlook

EM bonds have outperformed DM bonds, but the risk premia is now wiped out

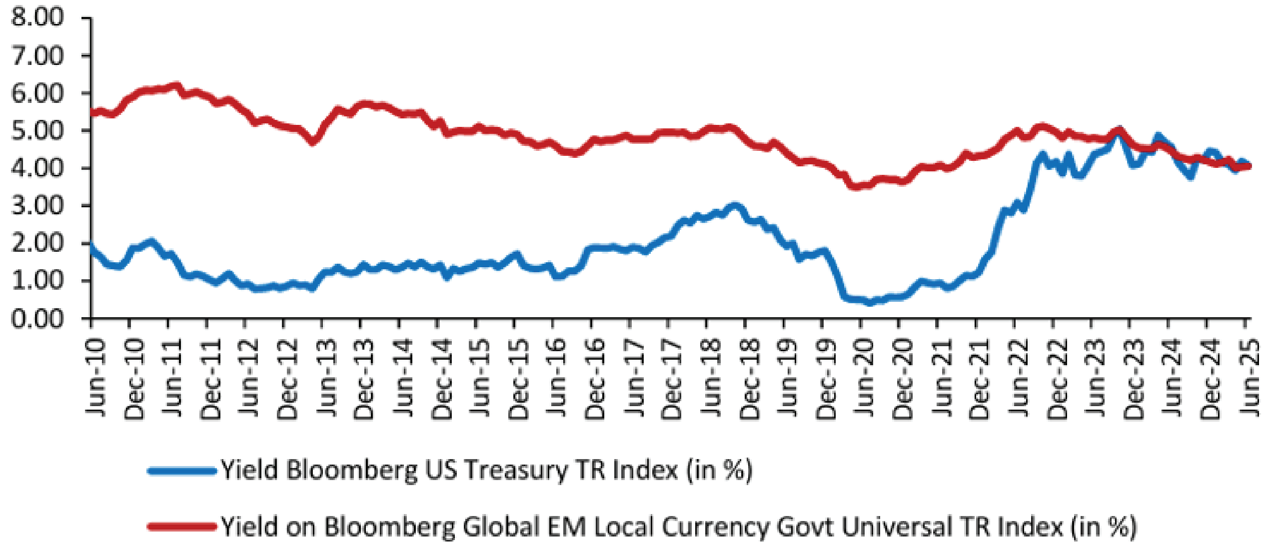


Figure 24.

- Near zero risk premium could be one of the major reasons for a subdued India bond market performance relative to other EM bonds in the recent past (this is despite JPM EM Bond Index inclusion)
- Another reason why we shifted FI call to accruals and high yield over duration

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Fixed Income Outlook and Allocation Strategy

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.

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).

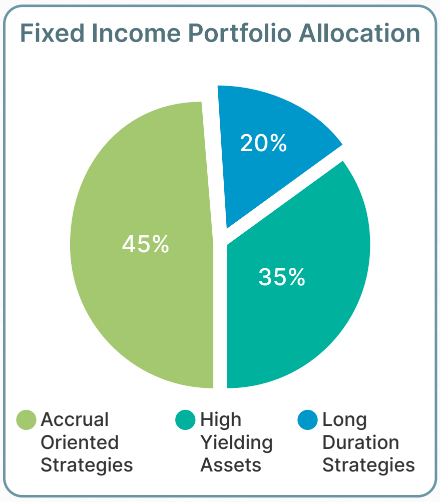

Figure 25.

Category	utlook
Fixed Income	Positive on overweight strategies focusing on 2yr – 5yr segment of the yield curve

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