InCred Wealth

August 2025

Market Outlook

US Tariff Overhang To Keep Markets Under Check

Index

Outlook Summary

Equity View

Large Cap

FIIs turned net sellers this month amid uncertainty stemming from unexpectedly high US tariffs, stretched valuations and subdued earnings performance.

- Indian Equities corrected in July by 3%, breaking the upward streak seen in the first three months of this fiscal. This was primarily on the back of US Tariffs on Indian imports and slowing domestic corporate profits.
- Evolving developments on the 50% US tariffs and any potential negotiations between the two economies in the near term could offer some support to investor sentiment in the near term.
- Correction in the equity indices has moved headline valuations closer to their historical averages, but they continue to remain overvalued. Premium valuations along with modest earnings hint towards a limited headroom going forward.
- Lower inflation and interest rates are expected to support economic recovery. This combined with Budgetary announcement on personal tax relief measures could boost the performance of consumer discretionary sector in the upcoming quarters.
- Q1FY26 earnings have broadly been in line, showing a relative slowdown in earnings cuts, although an increasing trend in number of downgrades continued. EPS growth for the Nifty-50 is expected to increase to ~10% in FY26, up from a modest 1% in FY25.
- Nifty could be rangebound in the next 6m as corporate earnings would mirror a subdued nominal GDP growth with inflation cooling further and as the world crawls back gradually towards stability.
- We maintain a Neutral stance towards equities and suggest staggered deployment over the next 3 – 4 months.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Large Cap	Nifty 50	24,768	Neutral (Since: Jun-24 Level: 23,519)

Quick Overview

- We remain watchful about the events unfolding in global markets and their possible impacts on India equities and economy at large.

Source: Prices as of 31st July 2025; Bloomberg

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 ten months. In July, broader indices corrected to the tune of 2.3% across both mid & small caps.

- Mid-caps sustained their strong momentum from the previous two quarters, posting the highest earnings growth at 12% YoY, while small-caps remained under pressure with continued weakness and widespread underperformance.
- 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.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Mid and Small Cap	BSE Midcap	42,884	Underweight (Since: Jun-24 Level: 23,519)

Quick Overview

- 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.

Source: Prices as of 31st July 2025; Bloomberg

Fixed Income View

With Repo Rate at 5.50% and view on durable liquidity positive, the recent transmission into market interest rates has seen acceleration.

- RBI maintained status quo on rates in Aug-25 and continued to hold on to its policy stance indicating future action, if any would be data dependent.
- 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 18m seems to have largely played out as the on-going bond auctions at higher cut-off rates has seen the benchmark 10yr GOI yield rise by 30bps since the June MPC.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	G-Sec	10-year G-Sec	6.48%	Positive on 2y-5y maturity funds and high yield strategies
	AAA Corporate	3y AAA	6.61%	
	AA Corporate	3y AA	7.54%	
	A Corporate	3y A	8.87%	

Quick Overview

- Incrementally, positioning majority of the fixed income portfolio into duration-driven funds to have marginal value addition.
- We, thus, suggest allocating upto 45% of fixed income portfolio towards accrual-oriented strategies.
- Consequently, allocation to dynamic / long duration strategies would be 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: Prices as of 12th August 2025; Bloomberg

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 announced trade tariffs for most countries set to be applicable from this month. While some nations are still negotiating to reduce these duties, it will be crucial to monitor how this move impacts global trade dynamics and its potential ripple effects on 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	6,339	Negative
	Europe	MSCI Europe	182	
	China	Shanghai Composite	3,573	

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—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	3,299	Positive
	Silver	LBMA USD	36.2	Positive

Source: Prices as of 31st July 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 slowdown intensify which could lead to demand uncertainty.
- Additionally, a planned production increase by OPEC+ 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)	72.5	Negative

Source: Prices as of 31st July 2025; Bloomberg

InCred Wealth

EMs outperform in Jul'25; India broad-based underperformance

India underperforms Emerging & Developed Markets in July & CYTD; however macro-outlook continues to remain positive

As of 31st July 2025	Current Level	1M	3M	6M	1Y	CY25TD	CY24	CY23	CY22	CY21	CY20	CY19
EM and DM												
MSCI Emerging Markets	1,243	1.7%	11.7%	13.5%	14.6%	15.6%	5.1%	7.0%	-16.9%	-4.6%	15.8%	15.4%
MSCI World Index (Developed equities)	4,076	1.2%	11.5%	5.8%	14.1%	9.9%	17.0%	21.8%	-1.9%	20.1%	14.1%	25.2%
Key Equity Indices												
S&P 500	6,339	2.2%	13.8%	4.4%	14.8%	7.8%	23.3%	24.2%	0.1%	26.9%	16.3%	28.9%
MSCI Europe	182	0.7%	3.2%	0.8%	4.8%	7.2%	5.8%	12.7%	-0.6%	22.4%	-5.4%	22.2%
Nikkei	41,070	1.4%	13.9%	3.9%	5.0%	2.9%	19.2%	28.2%	16.2%	4.9%	16.0%	18.2%
Shanghai Composite	3,573	3.7%	9.0%	9.9%	21.6%	6.6%	12.7%	-3.7%	-18.3%	4.8%	13.9%	22.3%
Nifty	24,768	-2.9%	1.8%	6.5%	-0.7%	4.8%	8.8%	20.0%	25.2%	24.1%	14.9%	12.0%
BSE MidCap	45,782	-2.3%	6.8%	8.1%	-5.9%	-1.4%	26.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE SmallCap	53,425	-2.3%	12.7%	8.9%	-3.4%	-3.2%	29.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Other Assets (levels)												
Brent Crude	72.5	67.6	63.1	76.9	80.7	74.6	77.0	85.9	77.8	51.8	66.0	53.8
Gold	3,298.9	3,287.5	3,302.1	2,787.3	2,426.3	2,609.1	2,078.4	1,813.8	1,805.9	1,887.6	1,514.8	1,279.0
Dollar index	100.0	96.9	99.5	107.8	104.1	108.5	101.3	103.5	95.7	89.9	96.4	96.2
Credit/ yields (%)												
India 10 year G-sec	6.37	6.32	6.36	6.68	6.93	6.76	7.17	7.33	6.45	5.87	6.56	7.37
US 10 year G-sec	4.37	4.23	4.16	4.52	4.03	4.57	3.88	3.87	1.51	0.91	1.92	2.68
Germany 10 year G-sec	2.70	2.61	2.44	2.52	2.30	2.37	2.02	2.57	-0.18	-0.57	-0.19	0.24

Source: Bloomberg

Pharma & FMCG end in the green while broader market corrected

Broad-based correction across segments in Jul-25; however, continue to find value in Large caps vis-à-vis SMID indices.

- Large Caps continue their underperformance vis-à-vis broader markets in Jul-25 however on CYTD basis performance down the capitalization curve has been much worse compared to the headline index.
- Growth fell less compared to Value index in Jul-25. While, with earnings growth tapering, businesses with better quality of growth continue to see investor interest.
- Most sectors are in the red compared to last month. Pharma & FMCG were the only sectors to deliver positive returns in Jul-25.
- IT, Telecom and Real Estate were the worst performing sectors in Jul-25.

As of 31st July 2025	1M	3M	1Y	CY25TD	CY24	CY23	CY22	CY21	CY20	CY19
Overall Markets										
Nifty	-2.9%	1.8%	-0.7%	4.8%	8.8%	20.0%	25.2%	24.1%	14.9%	12.0%
Nifty Equal weight	-3.3%	2.6%	-3.0%	5.6%	9.7%	29.8%	38.0%	32.6%	17.6%	2.7%
BSE Mid cap	-2.3%	6.8%	-5.9%	-1.4%	26.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE Small Cap	-2.3%	12.7%	-3.4%	-3.2%	29.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Styles										
Nifty 200 Quality 30	-3.9%	2.1%	-9.3%	-2.9%	12.7%	29.9%	21.7%	nm	nm	nm
MSCI India Value	-3.5%	0.9%	-6.5%	1.6%	12.1%	25.9%	24.1%	31.5%	23.7%	9.6%
MSCI India Growth	-2.8%	4.1%	-0.4%	3.8%	16.5%	14.8%	20.0%	22.7%	10.1%	7.3%
Financials										
NSE Financials	-1.9%	2.1%	13.8%	13.3%	9.4%	13.2%	24.0%	14.0%	4.5%	25.6%
Nifty Bank	-2.4%	1.6%	8.6%	10.0%	5.3%	12.3%	36.1%	13.5%	-2.8%	18.4%
Nifty Private Bank	-4.1%	-1.3%	5.3%	9.3%	-0.4%	13.8%	37.9%	4.6%	-2.9%	16.2%
Nifty PSU Banks	-4.9%	4.7%	-7.4%	4.7%	14.5%	32.3%	125.8%	44.4%	-30.6%	-18.3%
Asset heavy sectors										
BSE Oil and Gas	-3.8%	1.2%	-17.7%	2.8%	13.2%	12.8%	31.5%	24.3%	-4.4%	7.2%
BSE Capital Goods	-5.7%	8.7%	-9.8%	0.7%	21.8%	66.9%	93.5%	53.4%	10.6%	-10.0%
BSE Utilities	-2.2%	-0.2%	-20.4%	-2.0%	13.0%	32.6%	62.0%	64.4%	-0.4%	-7.3%
NSE Infrastructure	-3.6%	3.2%	-4.6%	7.1%	15.9%	39.1%	47.5%	35.6%	12.2%	2.5%
Services oriented sectors										
NSE IT	-9.4%	-1.4%	-13.6%	-18.5%	22.0%	24.1%	-8.2%	59.6%	54.9%	8.4%
BSE Telecom	-7.8%	1.3%	-10.3%	2.1%	25.8%	30.8%	24.9%	43.0%	13.6%	12.9%
NSE Financial services	-1.9%	2.1%	13.8%	13.3%	9.4%	13.2%	24.0%	14.0%	4.5%	25.6%
Others										
NSE Media	-7.3%	7.4%	-24.3%	-10.5%	-23.9%	19.9%	7.6%	34.6%	-8.6%	-29.7%
NSE Auto	-0.9%	6.0%	-11.4%	3.6%	22.6%	47.6%	70.2%	19.0%	11.5%	-10.7%
NSE FMCG	1.7%	-1.1%	-10.1%	-1.7%	-0.3%	29.0%	51.6%	10.0%	13.5%	-1.3%
NSE Pharma Index	3.3%	4.6%	4.6%	-2.7%	39.1%	33.6%	18.3%	10.1%	60.6%	-9.3%
NSE Real Estate	-7.5%	3.0%	-16.6%	-13.3%	34.4%	81.3%	61.7%	54.3%	5.1%	28.5%

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 Jun-25 SA qoq (%)	Inflation Jun-25 yoy (%)	Current Policy Rate Jun-25	10Y bond yield 12-Aug-25
US	0.7%	2.7%	4.25% - 4.50%	4.29%
Europe	0.1%	2.0%	2.00%	2.71%
Japan	0.0%	3.3%	0.50%	1.51%

USA

- The Federal Reserve (Fed) held interest rates steady at the 4.25% to 4.5% range during its July meeting for the fifth straight time. However, the Fed acknowledged that uncertainty about the economic outlook remains elevated.
- The Fed noted that "economic activity moderated in the first half of the year," downgrading its earlier characterisation of growth as "solid," which may pave the way for a potential rate cut in September.
- Powell said although higher tariffs impact have begun to show up more clearly in the prices of some goods, their overall effects on the economy and inflation remain to be seen.

Europe

- The European Central Bank held its key interest rate at 2% at its July meeting, citing an "exceptionally uncertain" environment due to trade disputes.
- While the annual inflation in the euro area hit the central bank's 2% target in July, it was widely expected to hold rates largely due to geopolitical volatility.
- ECB President Lagarde noted that the euro zone economy had performed better than expected in the first quarter, partly because of front-loading of exports ahead of expected tariff hikes, but also due to stronger private consumption and investment, rising real incomes and easier financing conditions
- The ECB has been trimming interest rates by 200 bps since last June, however in Jul'25 Lagarde stated the economy was now in a "good place" and growth is in line with projections or a "little bit better", bolstering market bets that the ECB may be done with cutting rates altogether.

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

UST yields in the medium to long terms have risen sharply

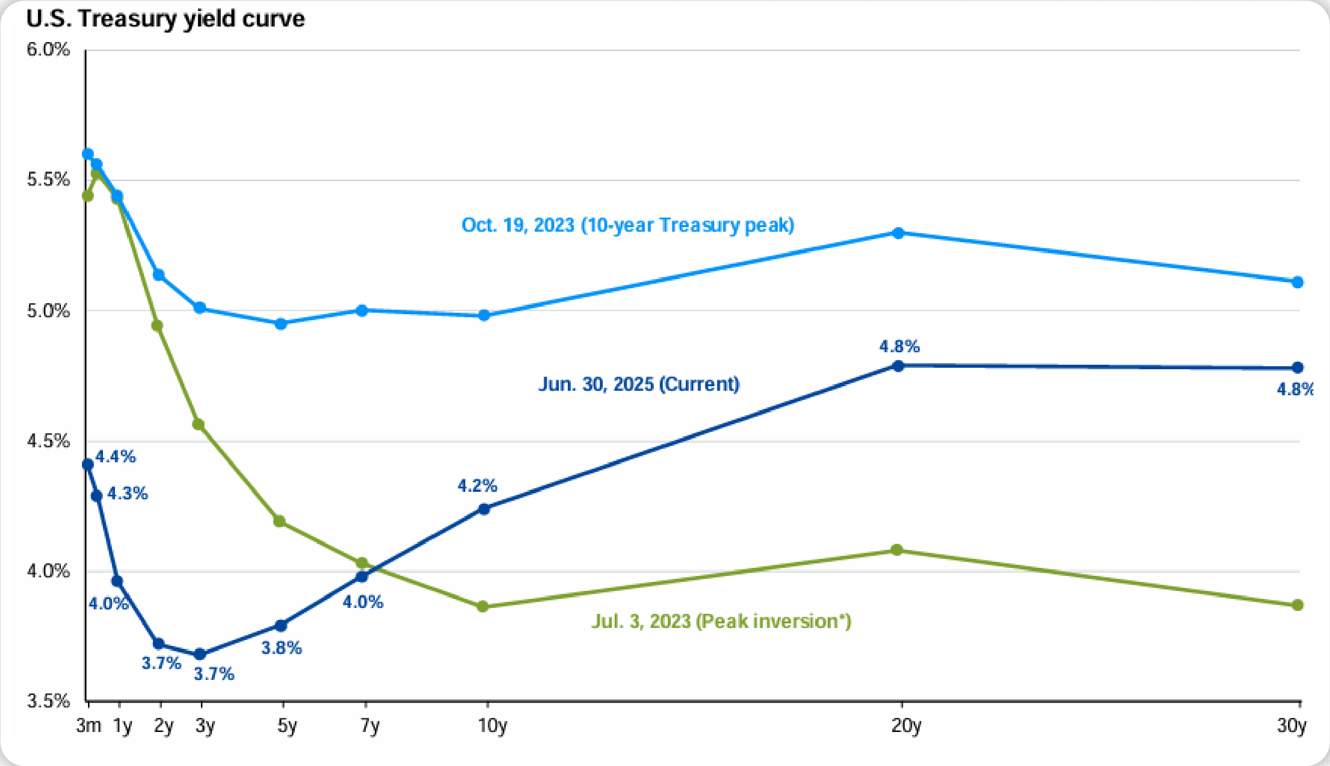

Figure 1. 10-year Treasury bond yield flirting with the 4.5% level again.

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India Macro Outlook

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High frequency indicators suggest underlying resilience persists

GST collections at ₹1.96trn in Jul; Auto sales improved; Credit growth steady; Core industries output growth picked up vis-à-vis last month

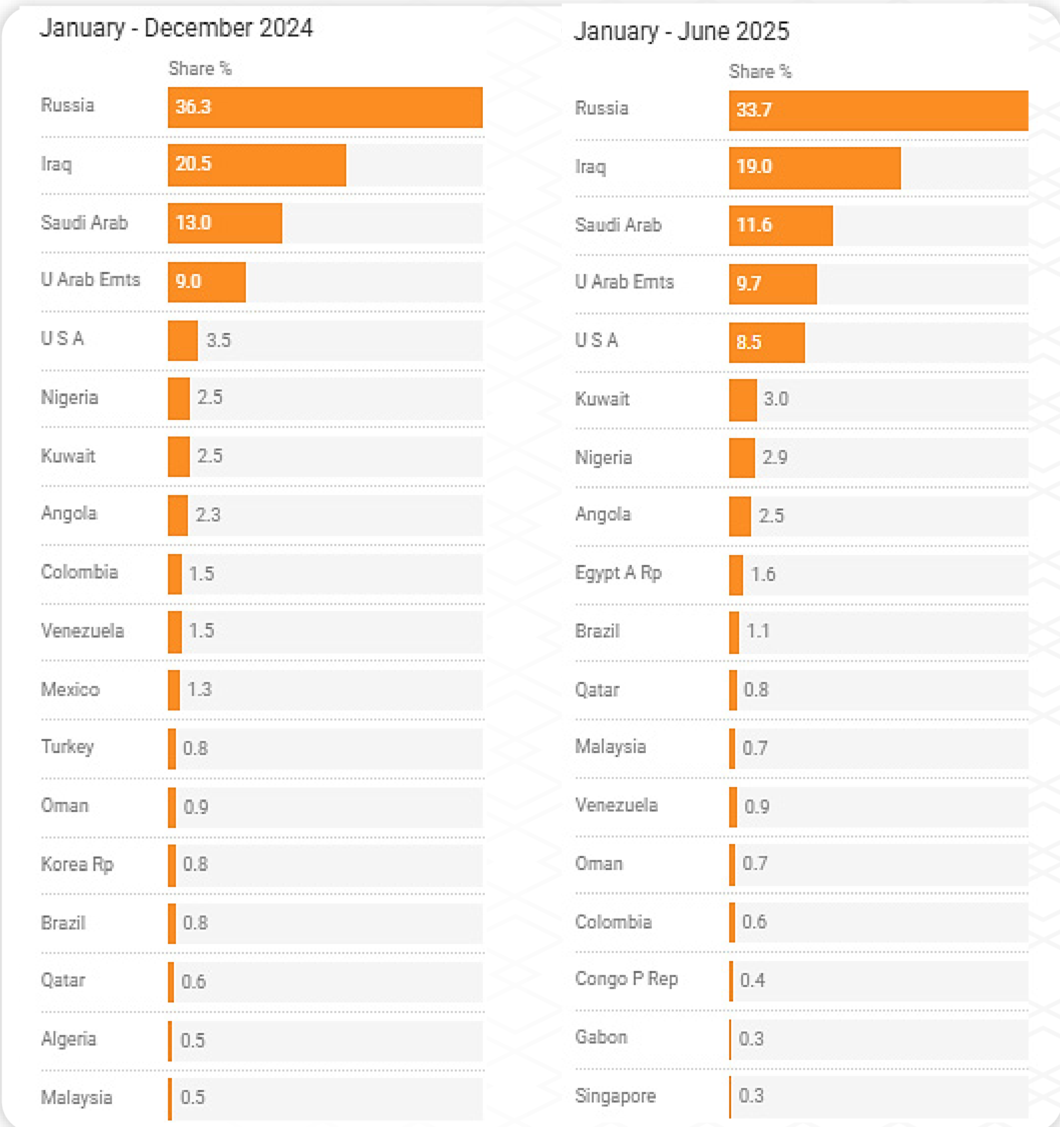
- The collections in July-25 represent a 7.5% year-on-year growth compared to Rs 1.82trn collected in Jul-24, showing a reviving tax base and improved compliance levels. The comparatively lower GST collections noted in last couple of months were attributed to the non-festive season, with expectations of a pickup in subsequent months due to seasonal trends.
- Manufacturing PMI remains in expansionary phase shows strong growth
- While PV encountered difficulties, two-wheeler sales remained relatively stable and are anticipated to gain momentum in the second quarter with the start of the festive season.

	As on	Unit	Latest	Last	One year back
O/s non-food Credit Growth	Jun-25	yoy (%)	10.2%	9.8%	13.8%
Consumption					
Auto Volumes					
PV	Jul-25	Units Sold	3,28,613	2,97,722	3,31,280
2W	Jul-25	Units Sold	13,55,504	14,46,387	14,49,487
Industries					
Power Consumption	Jun-25	yoy (%)	2.7%	-1.5%	6.6%
Manufacturing PMI	Jul-25	X	59.1	58.4	58.1
Core Industries output	Jun-25	yoy (%)	1.7%	1.2%	5.0%
Overall, Economy					
GST Collection	Jul-25	Rs Trn	1.96	1.85	1.82

Source: Bloomberg, FADA, Company Data

India Import Of Crude Oil Country-wise

- India increases US oil imports share sharply as Russia sanctions loom
- This seems to be a strategic shift in the Apr – June period
- Prior to Ukraine war, India sourced only 2% of its total oil imports from Russia which moved up to 40% since
- Russia still tops the list but its share has fallen sharply now to 33%
- Stringent curbs on Russian crude (by EU and USA) will not only impact India but also global crude prices
- Every $10/bbl rise in crude results in CAD moving up by 0.3% of GDP and as per RBI can increase CPI by 20bps
- Current all estimates of CAD (including RBI) has factored crude at $80/bbl (current India crude basket is priced between $65-$70/bbl)



Source: Bloomberg

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.
- INR has depreciated by ~2% over the month owing to US trade deal uncertainties
- Inflation has dropped to its lowest level in eight years, on the back of falling prices of food items. Core inflation also fell sharply from 4.4% to 4.1% in Jul'25.

	As on	Unit	Latest	Last	1 year back
Real GDP quarterly	Mar-25	yoy (%)	7.40%	6.40%	8.40%
Real GDP Annual	FY25	yoy (%)	6.50%	9.20%	7.60%
Inflation	Jul-25	yoy (%)	1.56%	2.10%	3.60%
Policy Rate	Aug-25	%	5.50%	5.50%	6.50%
IIP	Jul-25	yoy (%)	1.50%	1.90%	5.00%
INR/USD	Jul-25	X	87.52	85.70	83.70

Source: Bloomberg, MOSPI

Flow, Valuations, Earnings

FIIs turn net sellers in July, DII continue to buy; SIP Flows hit all-time high

- FIIs turned net sellers in Jul-25 at $2.1bn, after being buyers for three consecutive months.
- DIIs & MFs continued to be net buyers at $7.1bn and $5.7bn respectively.
- FIIs were net sellers in debt markets at $0.03bn while MFs continued to be net sellers at $2.0bn.
- SIP flows continue to come at all time high levels.

Figure 2. - SIP inflows hit all time high in Jul-25 at Rs285bn, up 22%yoy

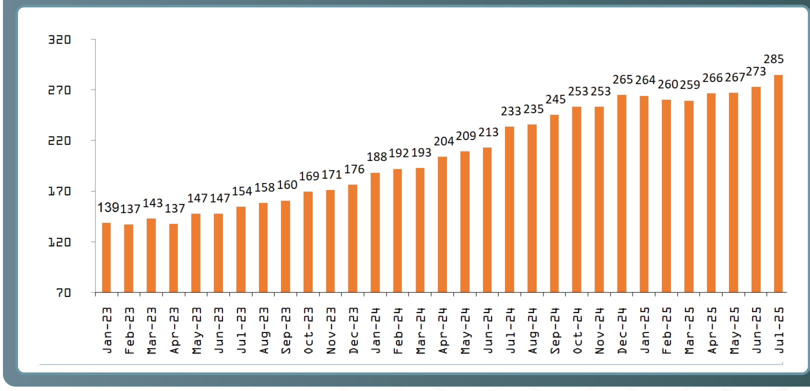


Figure 3. - FIIs turn net sellers; DIIs and MFs remain net buyers of Equities

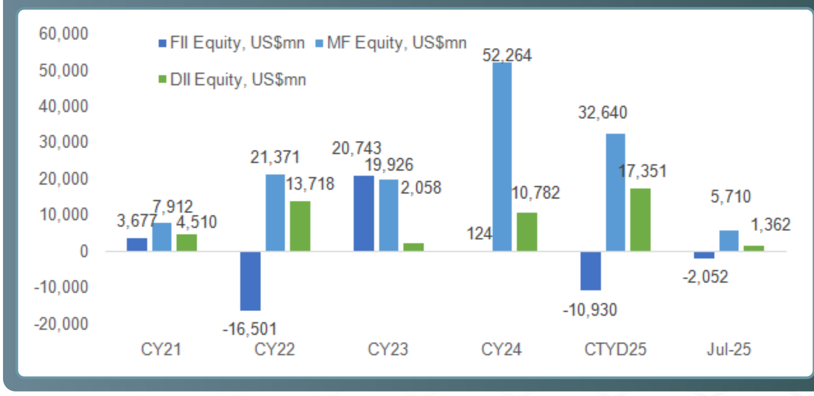
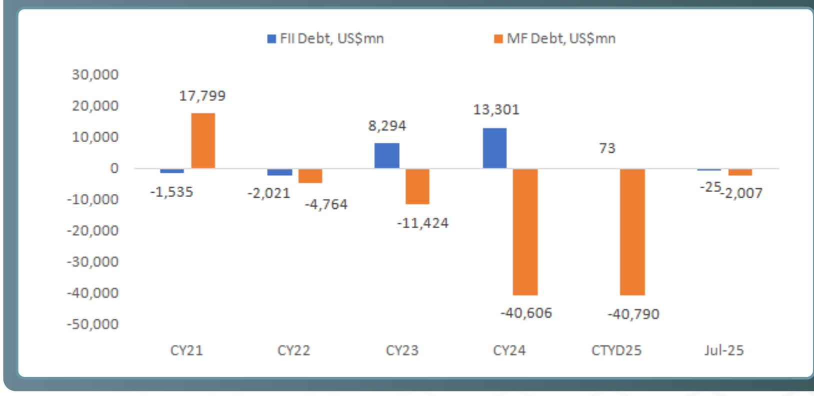
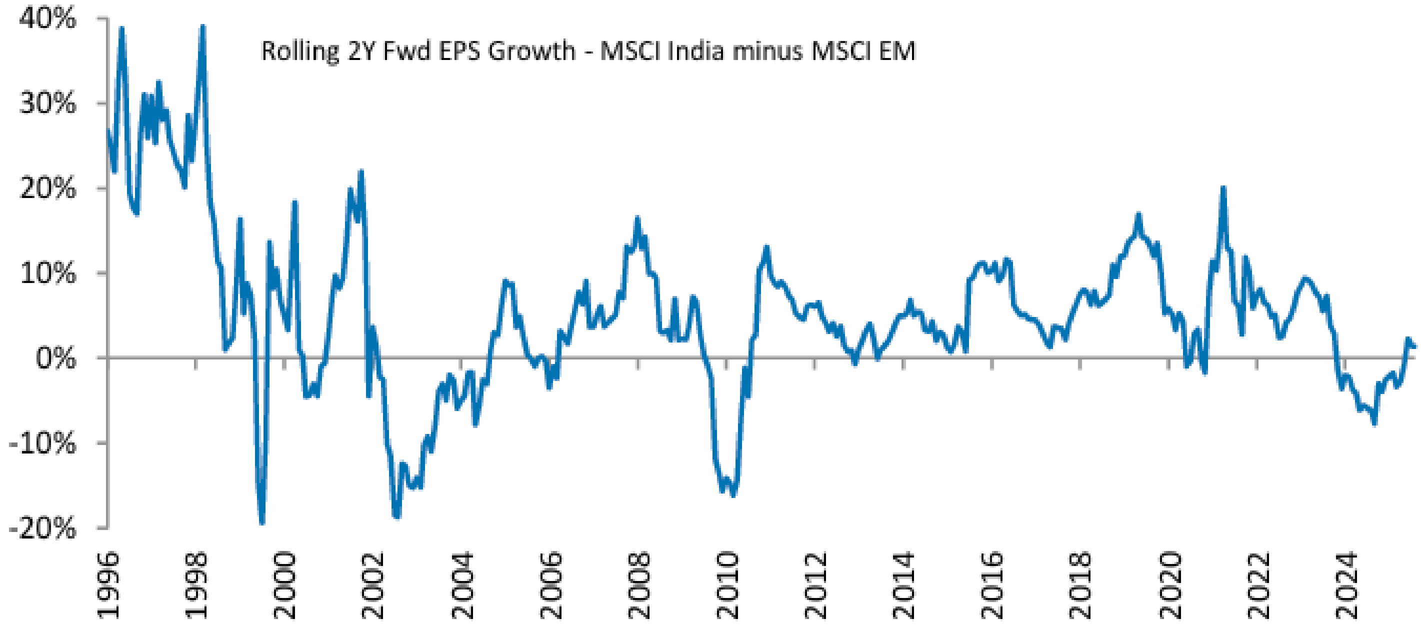


Figure 4. - FIIs & MFs extend the net debt outflow in Jul-25



India's Relative EPS growth to EM is Improving – Will FPIs return?



Source: Bloomberg, CMIE, CEIC, RIMES, IBES, SBI, MSCI, Morgan Stanley Research

Equity market valuations remain stretched - potential consolidation could follow

Nifty valuations remain above long period average; US Tariffs impact and earnings trend to determine the course ahead

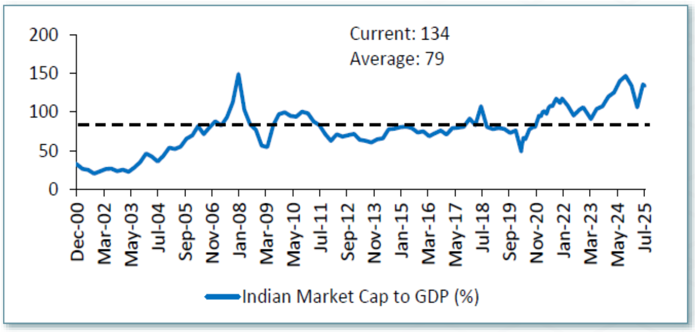


Figure 5. - India's market cap to GDP down from all time highs

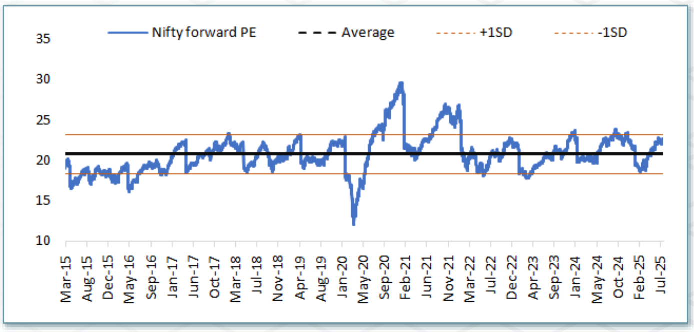


Figure 7. - Nifty forward PE has surpassed LPA levels

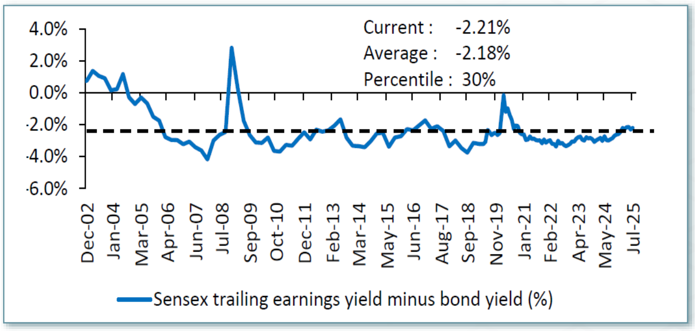


Figure 6. - Earnings yield to bond yield spread has corrected

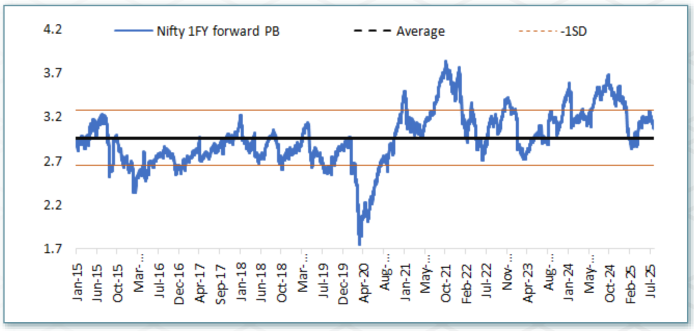


Figure 8. - Nifty PB has risen beyond LPA, edging toward +1SD

Source: SBIMF Research, Bloomberg; MOFSL

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Equity Macro Outlook

Equity Outlook & Strategy

Nifty could be rangebound in the next 6m as corporate earnings would mirror a subdued nominal GDP growth with inflation cooling further and as the world crawls back gradually towards stability.

- Indian Equities corrected in July by 3%, breaking the upward streak seen in the first three months of this fiscal. This was primarily on the back of US Tariffs on Indian imports and slowing domestic corporate profits.
- For the month, broader indices saw corrections as well to the tune of 2.3% across both mid & small caps.
- FIIs turned net sellers this month amid uncertainty stemming from unexpectedly high US tariffs, stretched valuations and subdued earnings performance.
- Evolving developments on the 50% US tariffs and any potential negotiations between the two economies in the near term could offer some support to investor sentiment in the near term.
- Correction in the equity indices has moved headline valuations closer to their historical averages, but they continue to remain overvalued.
- Premium valuations along with modest earnings hint towards a limited headroom going forward.
- Lower inflation and interest rates are expected to support economic recovery. This combined with Budgetary announcement on personal tax relief measures could boost the performance of consumer discretionary sector in the upcoming quarters.
- Starting Q3FY26, the impact of reduced interest rates and enhanced liquidity are likely to positively contribute to the overall growth.
- Q1FY26 earnings have broadly been in line, showing a relative slowdown in earnings cuts, although an increasing trend in number of downgrades continued. EPS growth for the Nifty-50 is expected to increase to ~10% in FY26, up from a modest 1% in FY25.
- 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 about the events unfolding in global markets and their possible impacts on India equities and economy at large.
- We maintain a Neutral stance towards equities in view of the above and suggest staggered deployment over the next 3 – 4 months.

Source: Bloomberg; InCred 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.

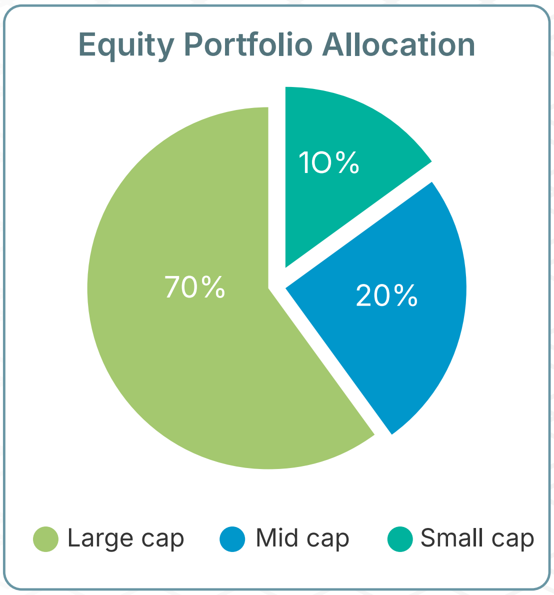


Figure 9.

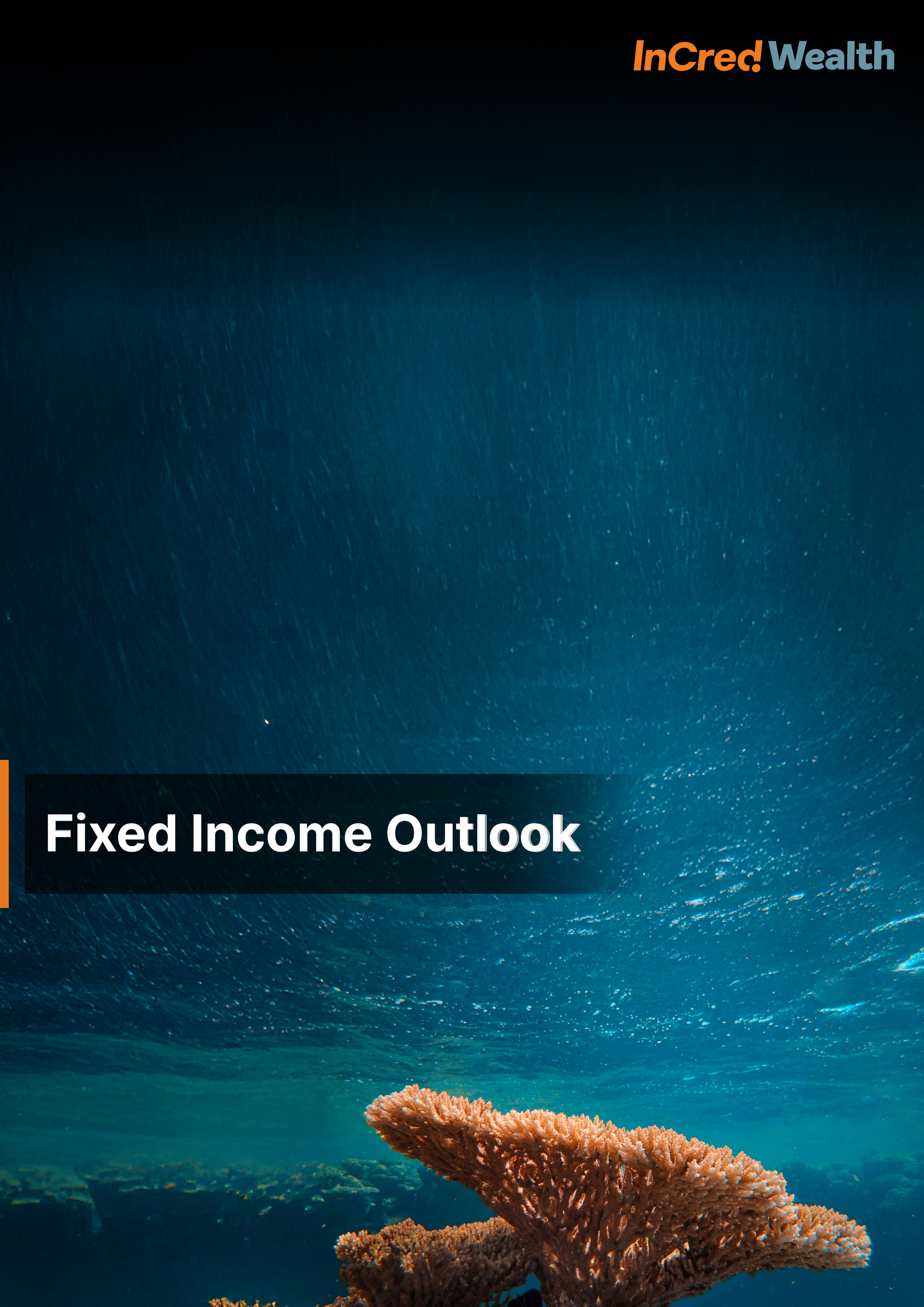
Category	InCred Outlook
Large Cap	Neutral
Mid and Small Cap	Underweight

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.

InCred Wealth

Fixed Income Outlook



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

- G-sec yields have moved up by 30bps since June MPC and trade closer to 6.50%. Shift in policy stance to neutral from being accommodative, multiple Bond auctions at higher cut-off yields expectations of higher CPI in Q1FY27 is weighing on market participants.
- AAA bond yields have seen hardening in the 5yr+ segment
- 3yr Spreads in the AA / A rated segment continue to remain attractive
- Short term yields have come off in anticipation of the impending CRR cuts and comfortable systemic liquidity.

Figure 10. - Issuers with credit rating "A" offers higher credit spreads

3-year tenor	12-Aug-25	Dec-24	Dec-23	Dec-22
G sec	5.95	6.72	7.09	7.04
Credit Spreads (bp)				
AAA over G sec	66	81	56	71
AA over AAA	94	76	67	57
A over AA	133	184	134	191

Figure 11. - Yield curve has steepened significantly over the last 2 months

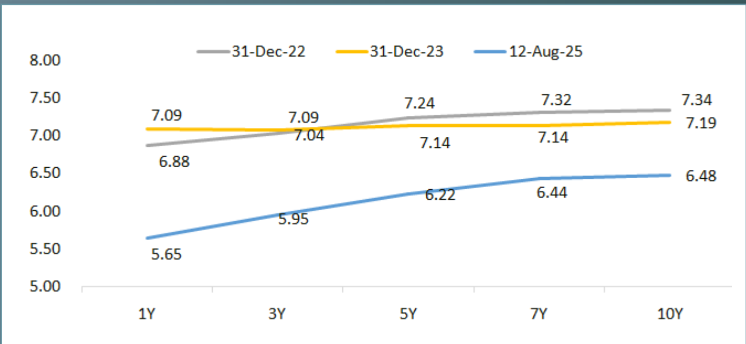
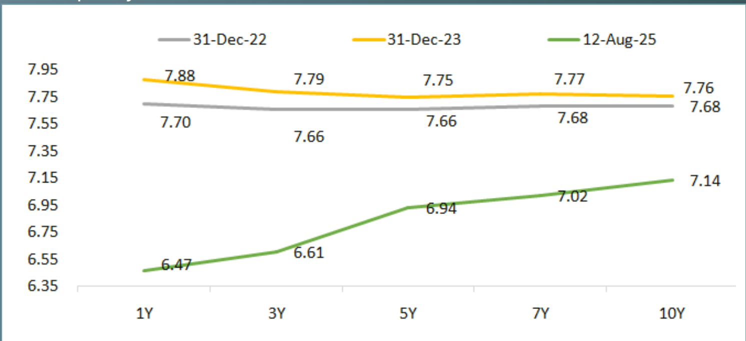


Figure 12. - AAA curve seen bull steepening given the sharp fall in short term liquidity



Overnight rates hover around Repo rate; Short term rates off peaks

Figure 13. - Banking system liquidity in surplus

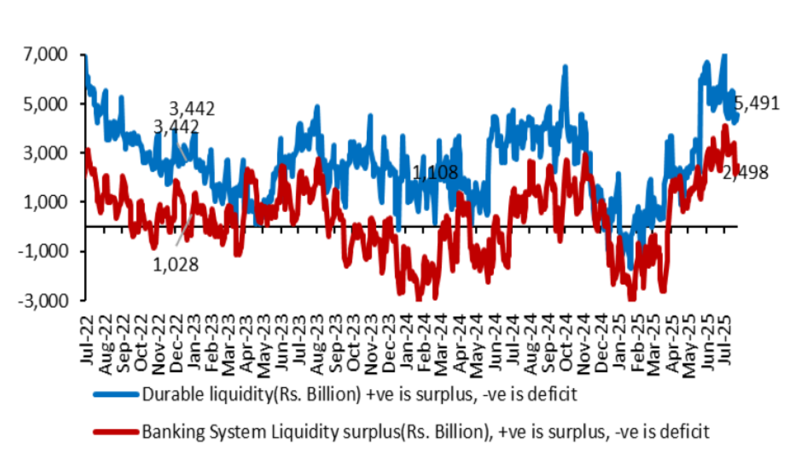
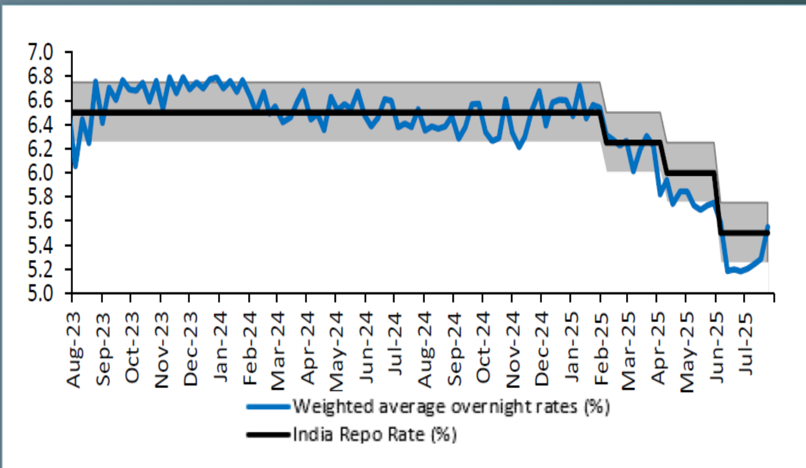


Figure 14. - Overnight rates align close to the Repo rate (shaded area is policy corridor)



- The banking system liquidity surplus average stayed over Rs. 2 trn in June & July.
- 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 have inched back and are now anchored to the Repo Rate
- 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.

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Fixed income Outlook and Allocation Strategy

Outlook

- RBI maintained status quo on rates in Aug-25 and continued to hold on to its policy stance indicating future action, if any would be data dependent.
- With Repo Rate at 5.50% and view on durable liquidity positive, the recent transmission into market interest rates has seen acceleration.
- 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 18m seems to have largely played out as the on-going bond auctions at higher cut-off rates has seen the benchmark 10yr GOI yield rise by 30bps since the June MPC.
- Incrementally, positioning majority of the fixed income portfolio into duration-driven funds to have marginal value addition.

Deployment Strategy

- We, thus, suggest allocating upto 45% of fixed income portfolio towards accrual-oriented strategies. Consequently, allocation to dynamic / long duration strategies would be 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).

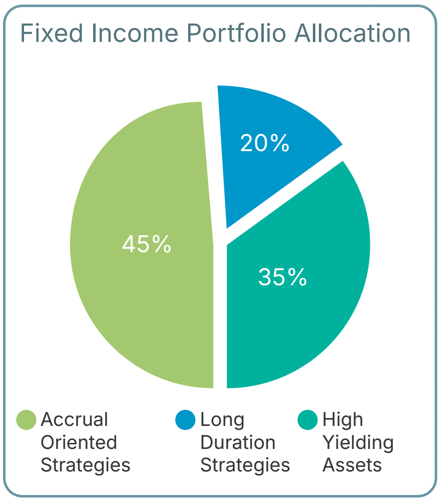

Figure 15.

Category	InCred Outlook
Fixed Income	Overweight strategies focusing on 2yr - 5yr segment of the yield curve

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