Invesco Mutual Fund

Market Outlook

Summary: Developed world growth holding up well while global inflation has been largely contained

Global Macro:

- US growth has been holding up despite tariff concerns. Chinese economy remains in slowdown despite policy measures. European growth is holding up well. Emerging Markets remain in wait-and-watch mode on tariff related uncertainties.
- Global inflation has been on a downward trajectory. US inflation has shown divergence due to tariffs but is less than earlier envisaged.
- US Labour market has been weakening, as un-employment been inching up gradually but not yet seen a sharp uptick.
- Global rate cut cycle is likely on its last legs.
- Tariff policies and global geo-politics may still induce bouts of volatility; World order rearranging : On trade, debt and defence

Domestic Macro:

- Growth was strong until Q2FY26 at 8.2% but nominal growth was weak, partly due to low inflation. Expected to moderate in 2HFY26 due to lower fiscal impulse, weaker exports, even as GST rate cuts boost consumption. FY26 growth is still expected to remain healthy at around 7.3-7.4%.
- US has imposed a severe 50% tariff on Indian goods. While manageable, it may dent the economic growth trajectory.
- Inflation has moderated sharply to ~2% for FY26 on the back of low food inflation. Core inflation remains steadily at ~4% largely due to increase in gold and silver prices. FY27 inflation is expected to normalise to ~4%.
- Current account deficit remains manageable, with import cover remains close to 11 months. However, capital account is witnessing pressure on account of FDI repatriation and portfolio outflows. US tariffs of 50% will be a key monitorable from a CAD perspective, as well as from a sentiment perspective impacting portfolio flows.

Equity:

- Expect cyclical recovery in corporate earnings likely in FY27 but growth momentum to be much lower than 2021-24. Returns need to be calibrated accordingly.
- Valuations have seen modest correction; steep underperformance relative to other developed and emerging markets can potentially reverse.
- Stability in INR and moderation in global tech trade will be key to reversal of FII flows.
- Flexicap funds (growth or value) and multi-asset strategies best placed under current market conditions. Accumulate smallcap funds for potential returns beyond FY27.

Fixed Income:

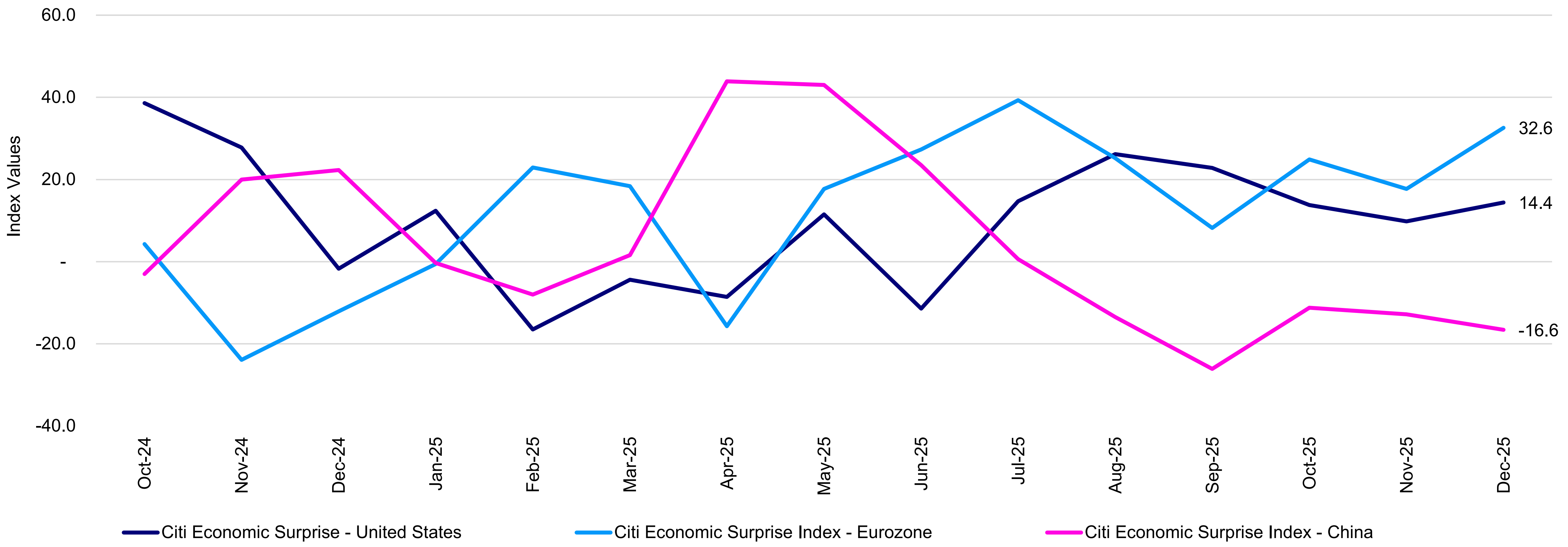
- Inflation has moderated and will continue to be within RBI’s comfort zone over the coming months.
- On the fiscal side, the central government is expected to meet the projected deficit of 4.4%, which will be a consolidation from 4.8% in FY25. Fiscal consolidation is expected to continue in FY27 with GoI budgeting for 4.3% deficit. Debt / GDP is budgeted to decline to 55.6% in FY27 vs 56.1% in FY26
- CY2026 will be challenging year for Fixed Income market as RBI’s rate cut cycle comes to end and as fiscal supply pressure remains high.
- Currently high yields and low inflation provide favourable risk reward in 1 – 4 yr corporate bonds. Additionally, 5-10 yr G-Sec may get support from RBI’s expected OMO operations.

Source: Invesco Asset Management (India). EM: Emerging Markets, DM: Developed Markets, Bps: Basis points. Note based on our views.

Global Macro

US and Europe economic surprise index in steady expansion zone post tariff announcement, China has remained in contraction zone

Citi Economic surprise index



Source: Bloomberg. Data as at end Dec 2025
Note: Above 0 is positive for growth and below 0 is negative for growth.

PMIs have been steady across countries driven largely by Services PMIs. Manufacturing PMIs remain sluggish, although improving

Manufacturing PMIs	Dec-25	Nov-25	Oct-25	Sep-25	Aug-25	Jul-25	Jun-25	May-25	Apr-25	Mar-25	Feb-25	Jan-25
US	51.8	52.2	52.5	52.0	53.0	49.8	52.9	52.0	50.2	50.2	52.7	51.2
Eurozone	48.8	49.6	50.0	49.8	50.7	49.8	49.5	49.4	49.0	48.6	47.6	46.6
Japan	50.0	48.7	48.2	48.6	49.7	49.0	50.1	49.4	48.7	48.4	49.0	48.7
UK	50.6	50.2	49.7	46.2	47.0	48.0	47.7	46.4	45.4	44.9	46.9	48.3
China	50.1	49.9	50.6	51.2	50.5	49.5	50.4	48.3	50.4	51.2	50.8	50.1
India	55.0	56.6	59.2	57.7	59.3	59.1	58.4	57.6	58.2	58.1	56.3	57.7
Brazil	47.6	48.8	48.2	46.5	47.7	48.2	48.3	49.4	50.3	51.8	53.0	50.7
Indonesia	51.2	53.3	51.2	50.4	51.5	49.2	46.9	47.4	46.7	52.4	53.6	51.9
Mexico	46.1	47.3	49.5	49.6	50.2	49.1	46.3	46.7	44.8	46.5	47.6	49.1

Services PMIs	Dec-25	Nov-25	Oct-25	Sep-25	Aug-25	Jul-25	Jun-25	May-25	Apr-25	Mar-25	Feb-25	Jan-25
US	52.5	54.1	54.8	54.2	54.5	55.7	52.9	53.7	50.8	54.4	51.0	52.9
Eurozone	52.4	53.6	53.0	51.3	50.5	51.0	50.5	49.7	50.1	51.0	50.6	51.3
Japan	51.6	53.2	53.1	53.3	53.1	53.6	51.7	51.0	52.4	50.0	53.7	53.0
UK	51.4	51.3	52.3	50.8	54.2	51.8	52.8	50.9	49.0	52.5	51.0	50.8
China	52.0	52.1	52.6	52.9	53.0	52.6	50.6	51.1	50.7	51.9	51.4	51.0
India	58.0	59.8	58.9	60.9	62.9	60.5	60.4	58.8	58.7	58.5	59.1	56.5
Brazil	53.7	50.1	47.7	46.3	49.3	46.3	49.3	49.6	48.9	52.5	50.6	47.6

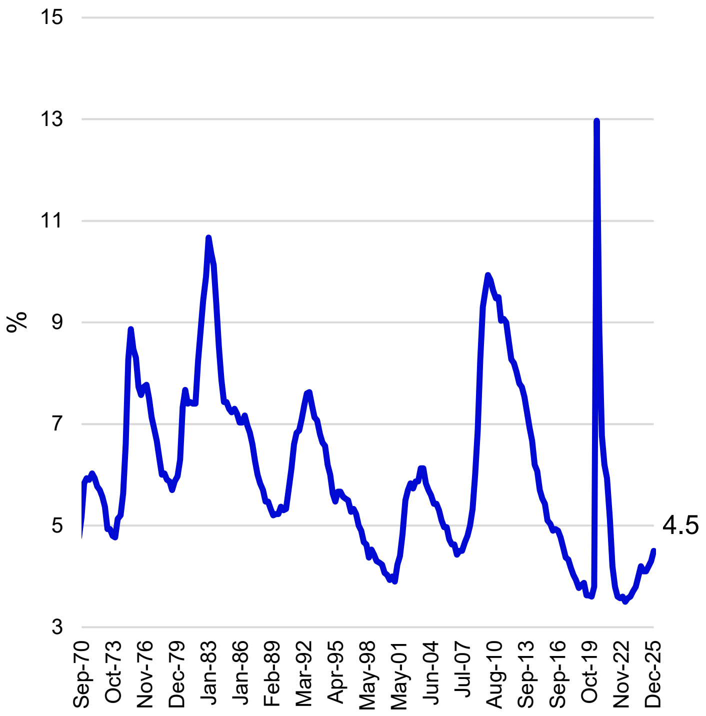
Weak Average Strong

- PMIs for developed countries remain steady.
- Manufacturing PMIs remain sluggish.
- Services PMIs continue to be relatively resilient.
- India PMIs look robust across manufacturing and services compared to other economies

Source: Bloomberg. PMI: Purchasing Managers' Index

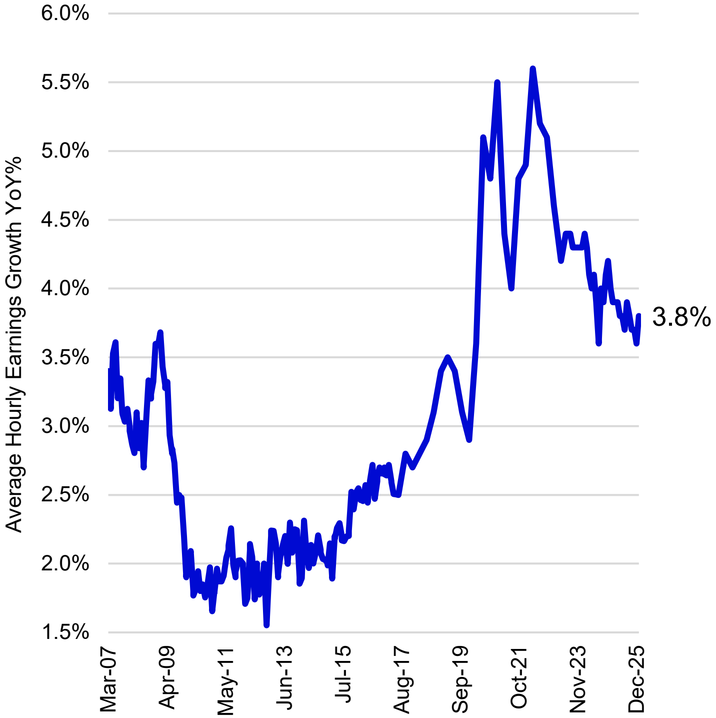
US labour market has been weakening gradually, as unemployment rate inches up. Job openings and wage growth have tapered down, but remain elevated vs historic levels

US unemployment rate - %



US job opening in '000

US employee earnings

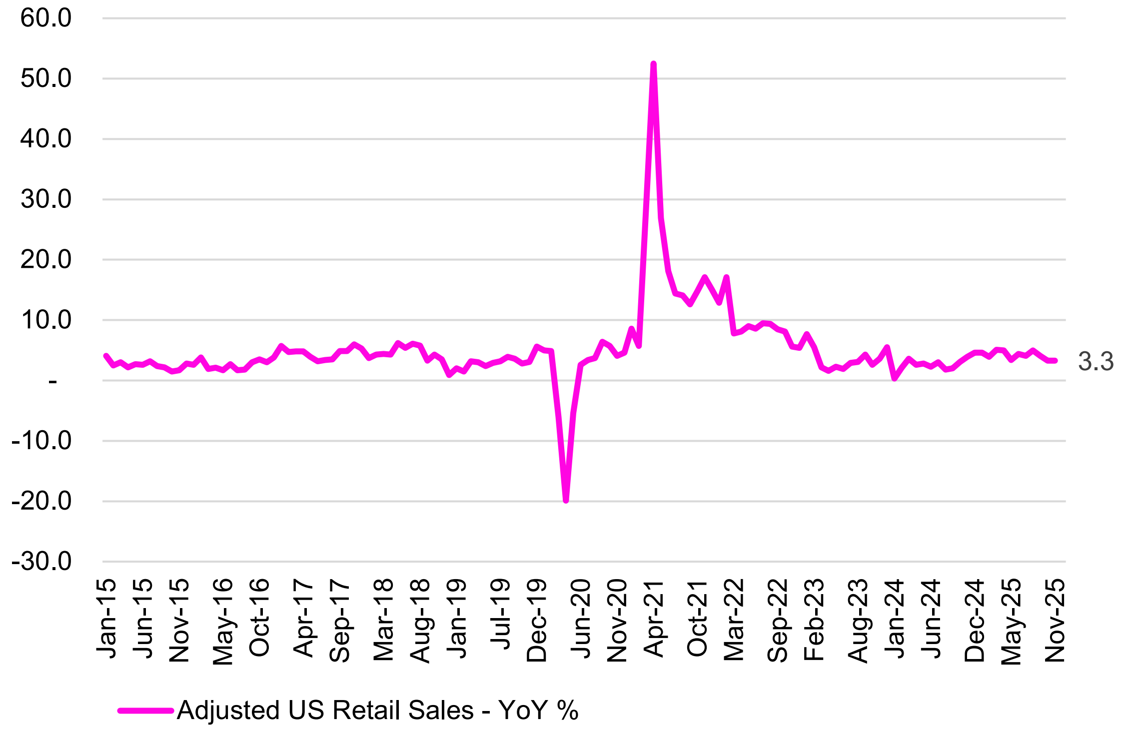


- US labour market has been showing gradual signs of weakening. Unemployment rate has been slowly inching up and reached levels of 4.5%.
- Employee earnings have tapered down; however they are increasing at a decent pace compared to last 15 years.

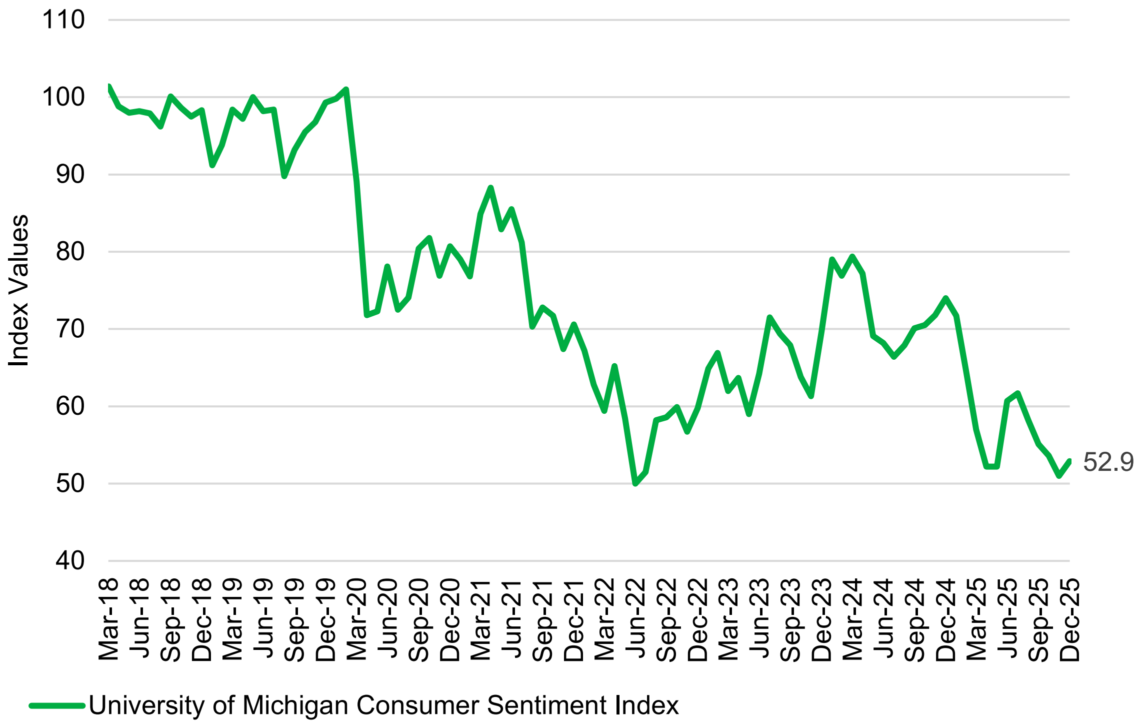
Source: Bloomberg

US's consumer spending has remained robust despite the gradual weakening in labour markets; US consumer sentiment remains weak vs historical levels

Adjusted US Retail Sales - YoY %



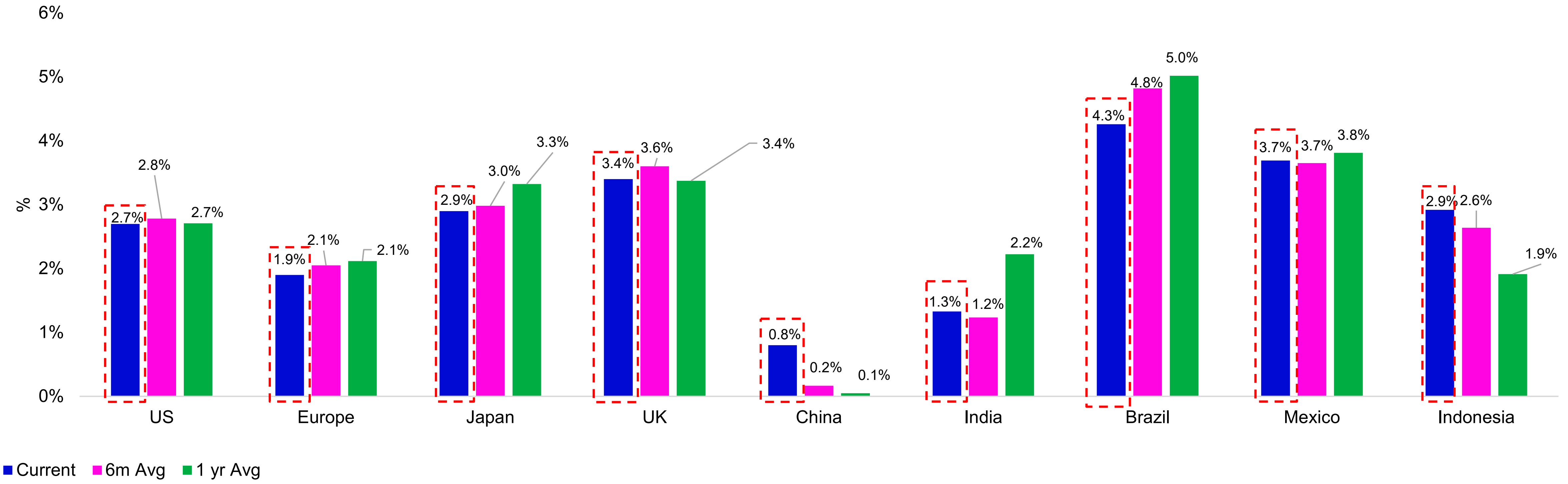
University of Michigan – Consumer sentiment index



Source: Bloomberg. Data as at end of the month.

Inflation continues to be on a declining trend across most DM & EM geographies (ex-US & China)

Headline CPI Inflation

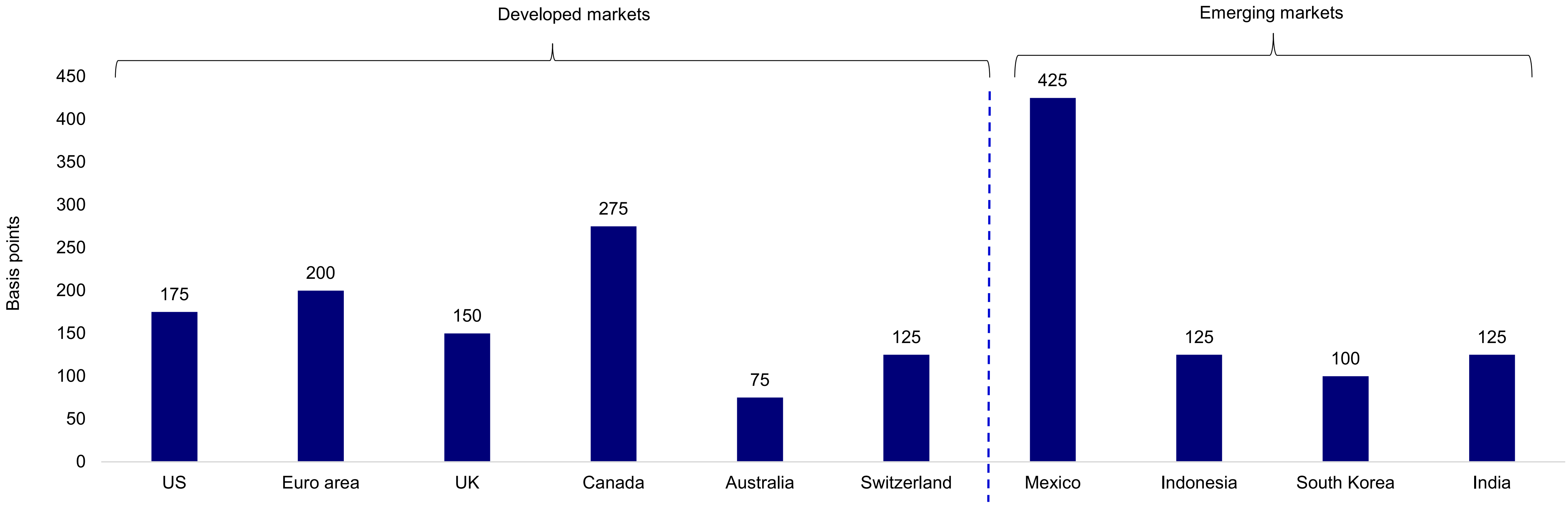


- US inflation has been inching up, as pass through of tariff rates. However, inflationary impact of the tariffs has been lower than earlier envisaged.
- China's inflation is inching up, and is more of a normalization from very low levels

Source: Bloomberg. Data as at end Dec 2025.

Wide range of policy rate cuts across countries; domestic factors driving the monetary policies

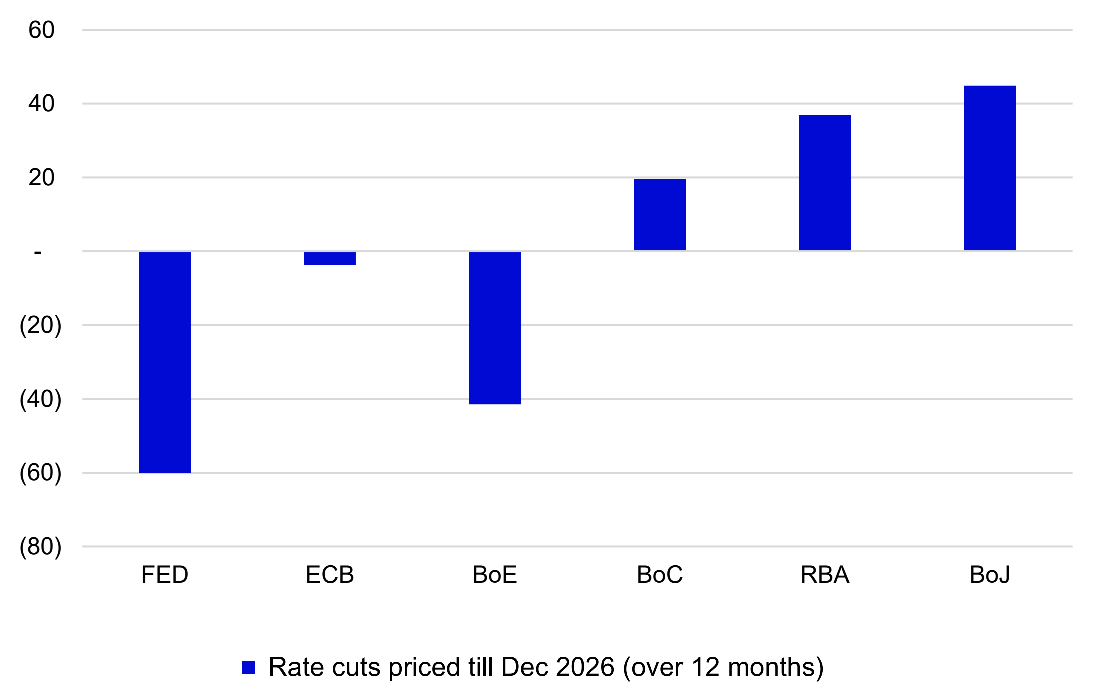
Rate cuts since December 2023 (BPS)



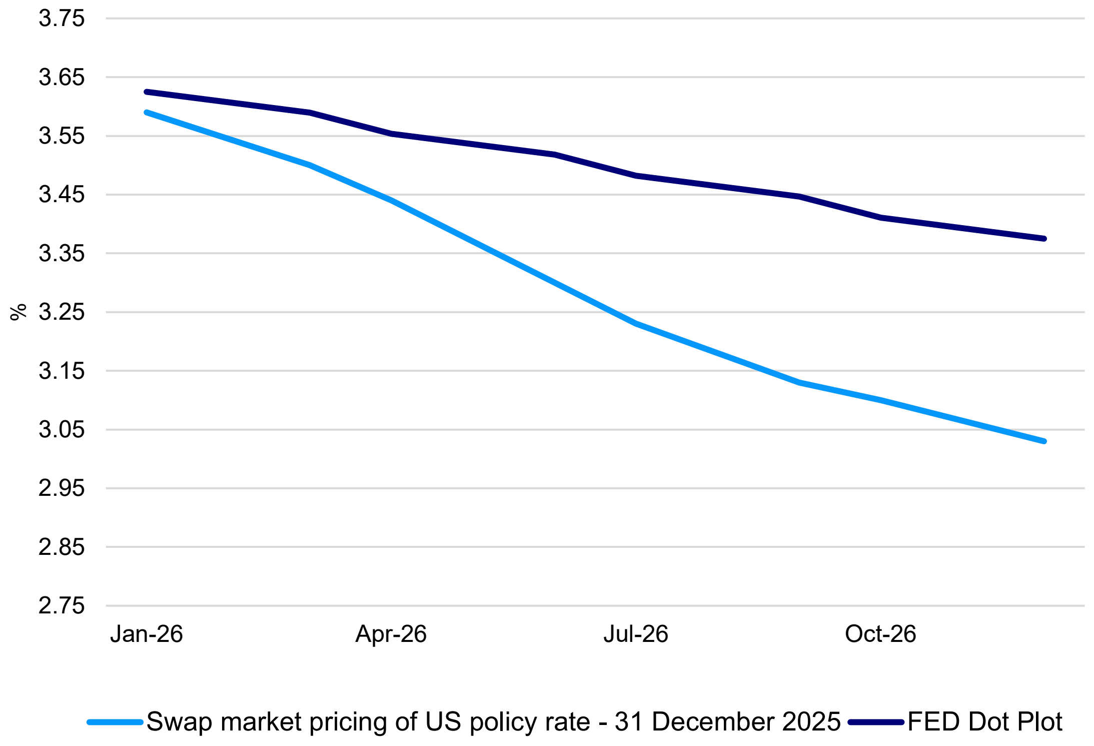
Source: Bloomberg. Data as at 31 December 2025

Markets have started pricing in hikes across some of the developed markets over the next year

Market pricing of policy rate changes – change in bps



Swap markets and FED expectations on policy rates

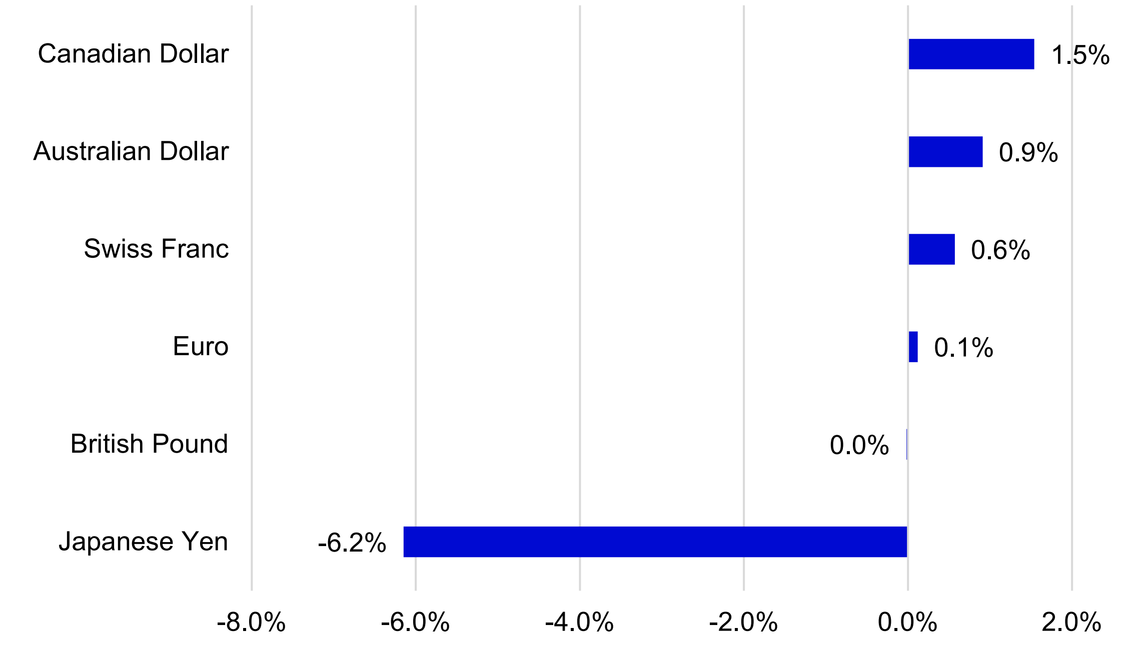


Source: Bloomberg data as at 31 December 2025. FED: US Federal Reserve, ECB: European Central Bank, BoJ: Bank of Japan, BoE: Bank of England. RBA : Reserve Bank of Australia, BoC: Bank of Canada

USD has been weak across major DM (ex-Japan) currencies; EM currencies reaction has been a mixed bag

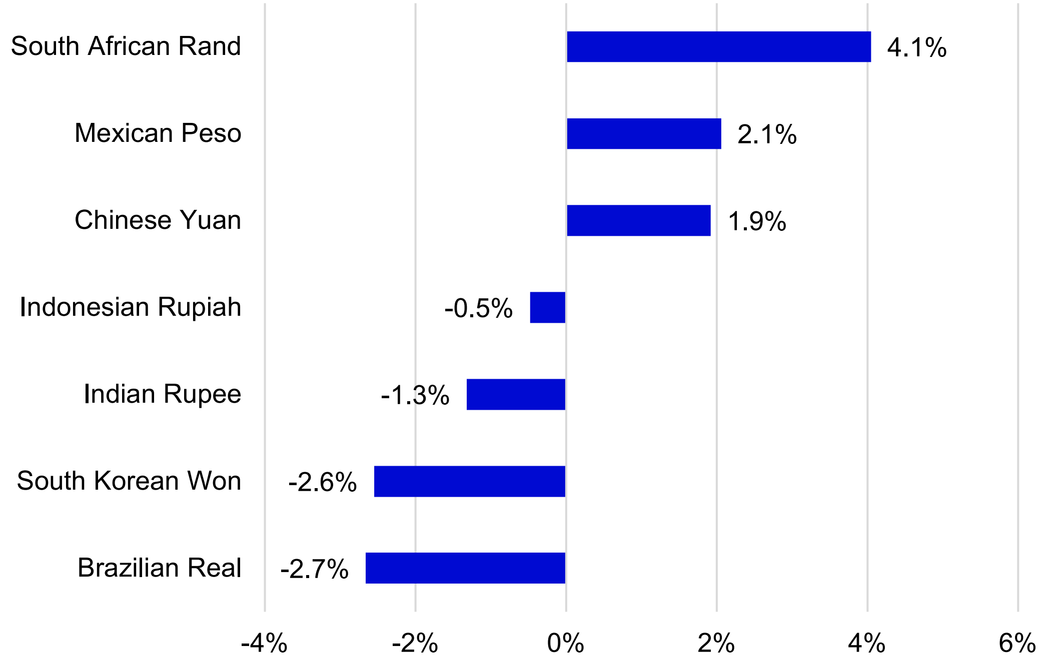
Developed Markets

1 Oct 2025 – 31 Dec 2025 % change in select currencies vs USD



Emerging Markets

1 Oct 2025 – 31 Dec 2025 % change in select currencies vs USD



Source: Bloomberg

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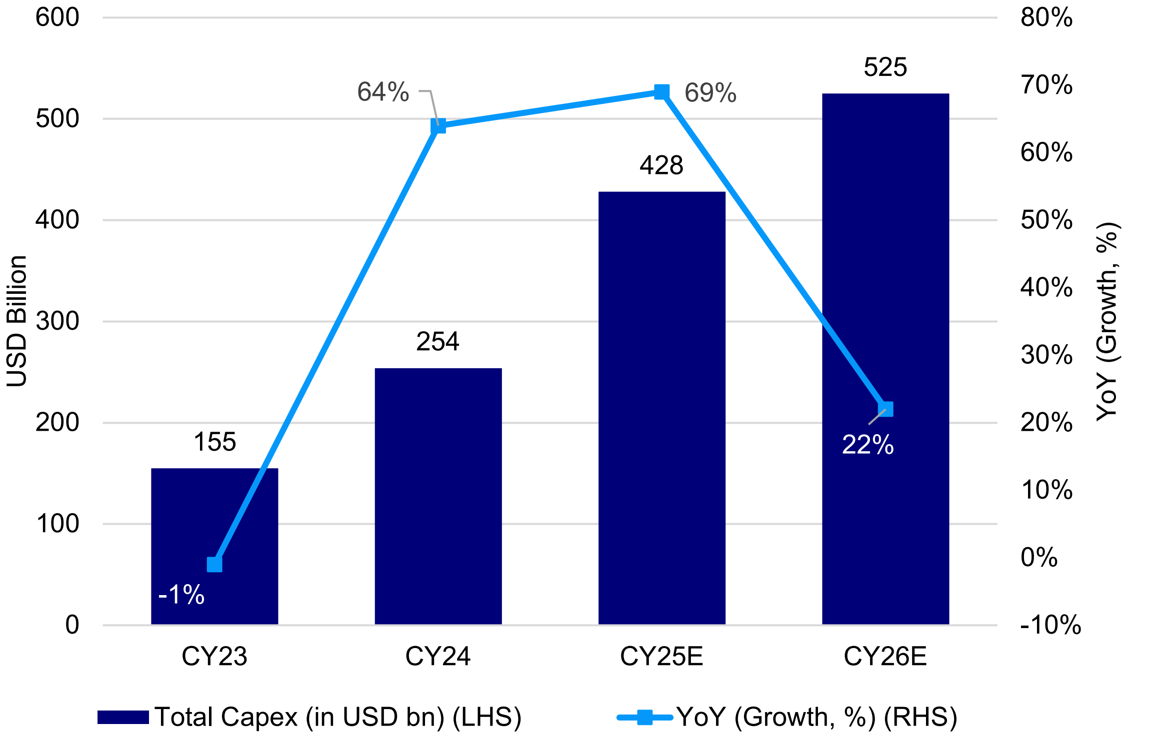
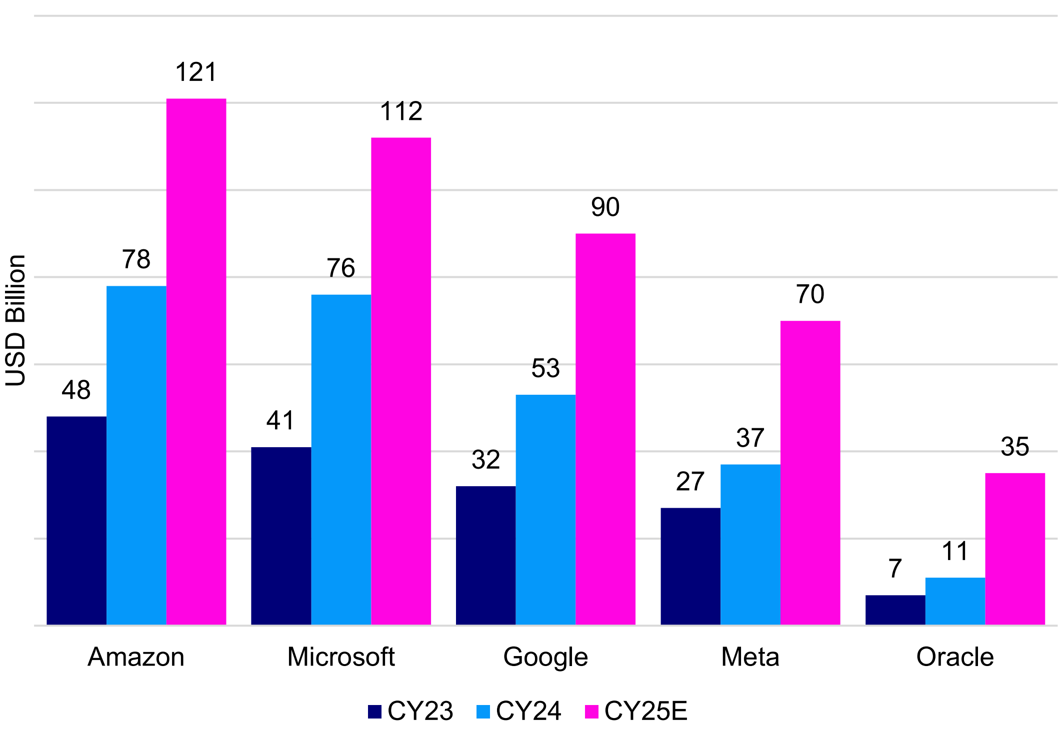
Investments in AI continue despite tariff fueled uncertainty across businesses

Total Capex Spend Growth (YoY) (%)



Capex (USD Billion)

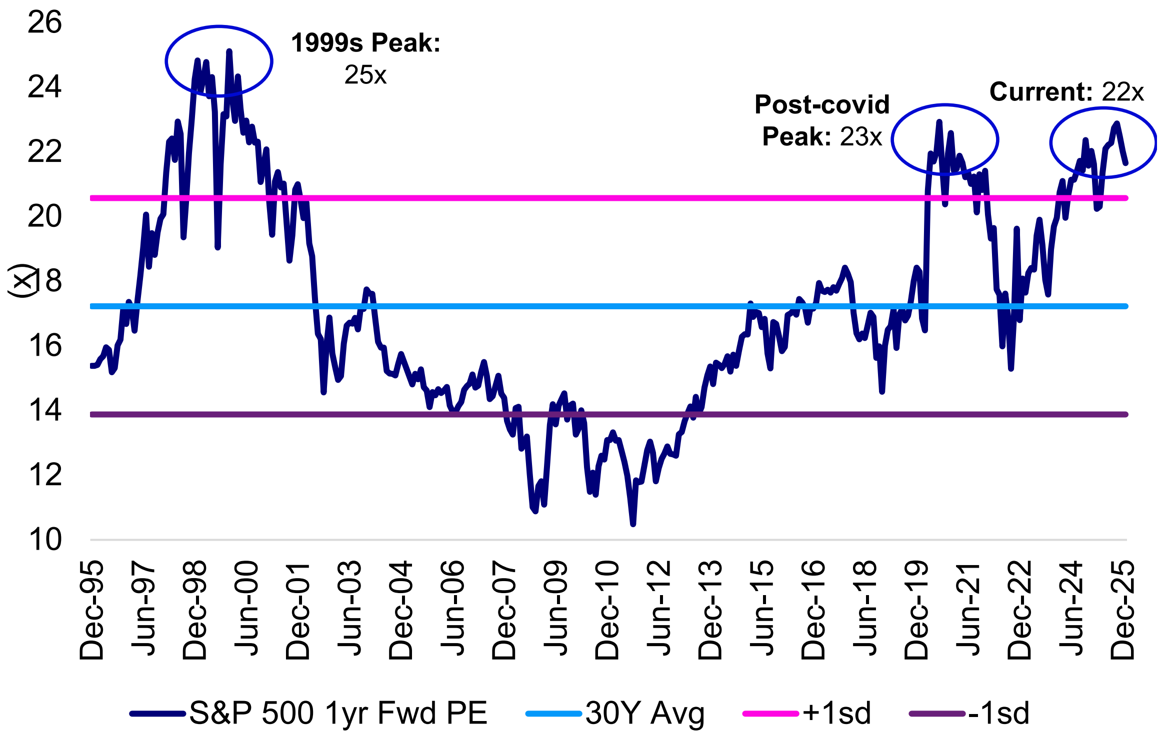


Source: Jefferies

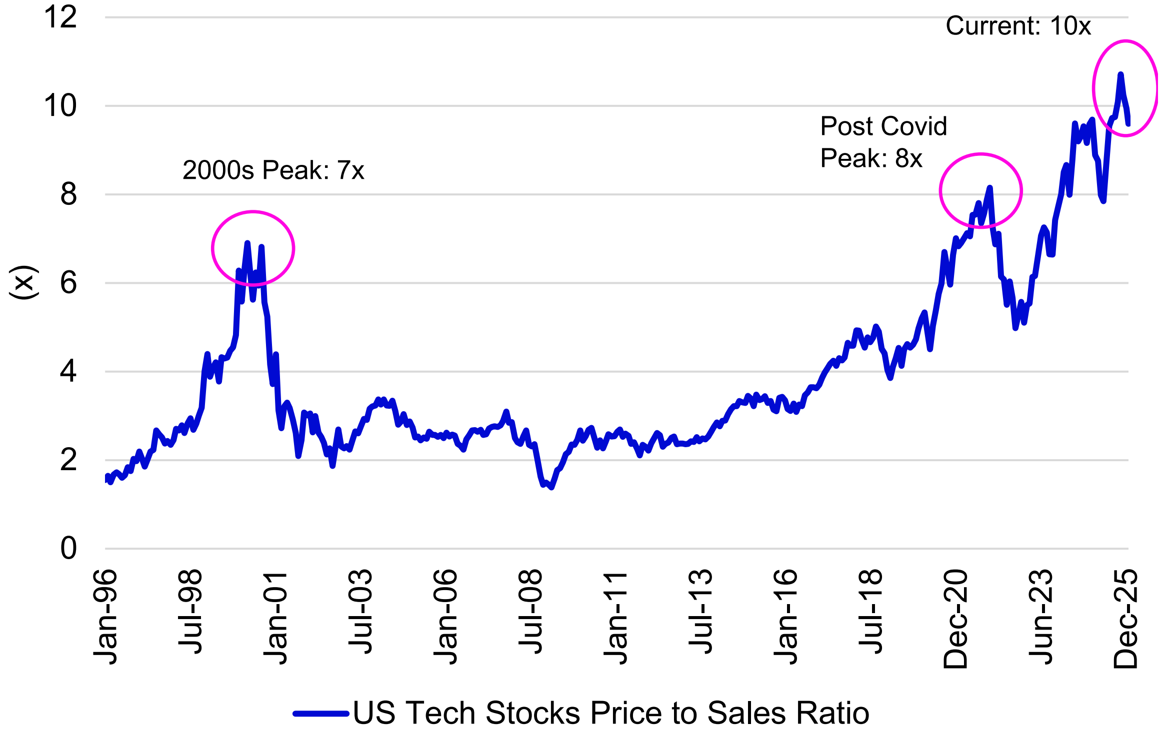
Disclaimer: The above chart is for illustration purposes only and should neither be used for the development or implementation of an investment strategy nor construed as an investment advice to any party. The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied.

US valuations look stretched by historical standards driven by tech stocks

US stocks trading near historical valuation highs



US tech stocks trading at 10x price to sales —a historic high



Source: Nuvama Research

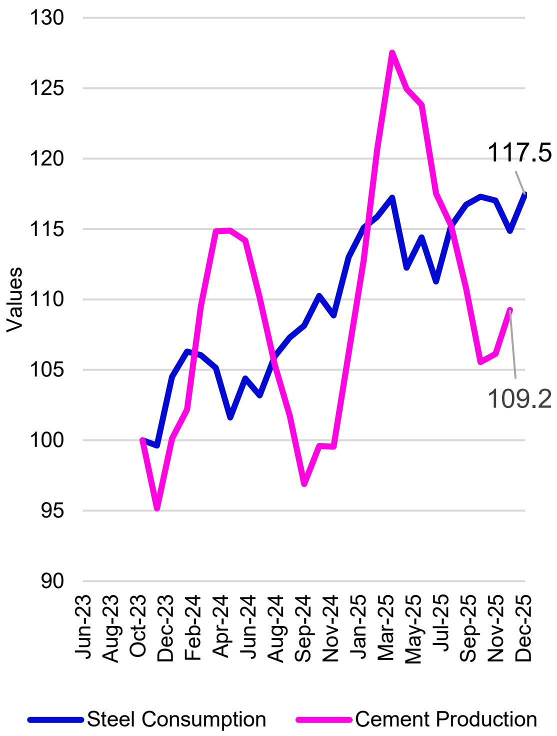
Disclaimer: The above chart is for understanding that at current juncture the US stock are trading at peak valuation which is lead by tech stocks and should not be construed as recommendations, advice to buy, sell or transact in any manner in these stocks / companies neither should it be considered as Research Report from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund. It shouldn't be used for development or implementation of an investment strategy.

Domestic Macro

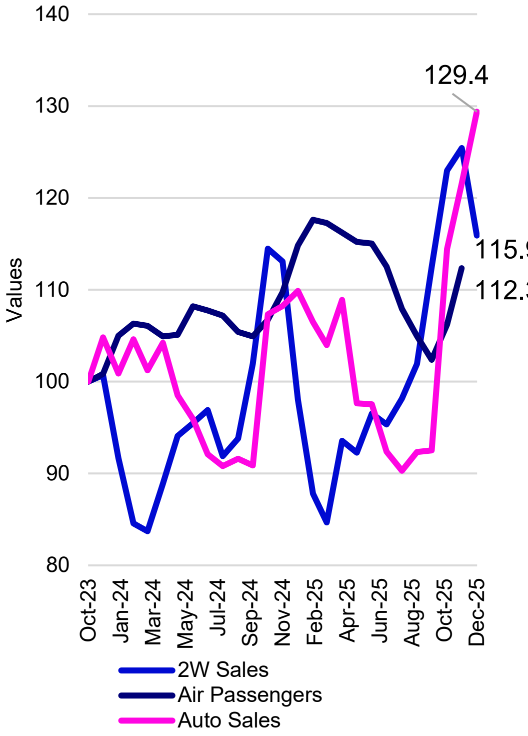
High frequency indicators have shown improvements post GST rate cuts and festive season

Values are rebased to 100 based on 3 month moving average

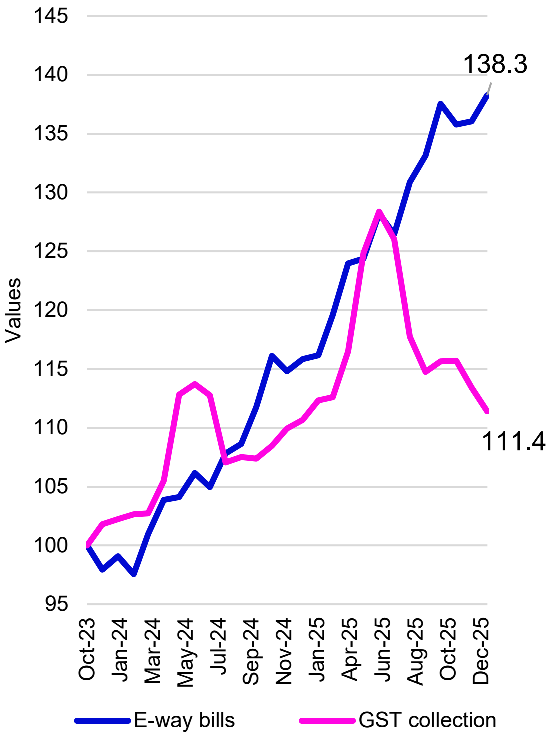
Commodity consumption / production



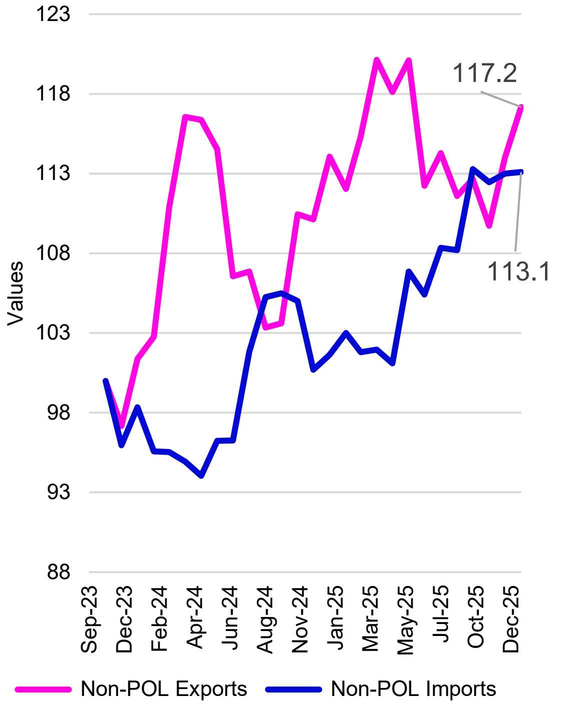
Vehicle Sales/Movement



Goods movement



Non Oil - Exports and Imports

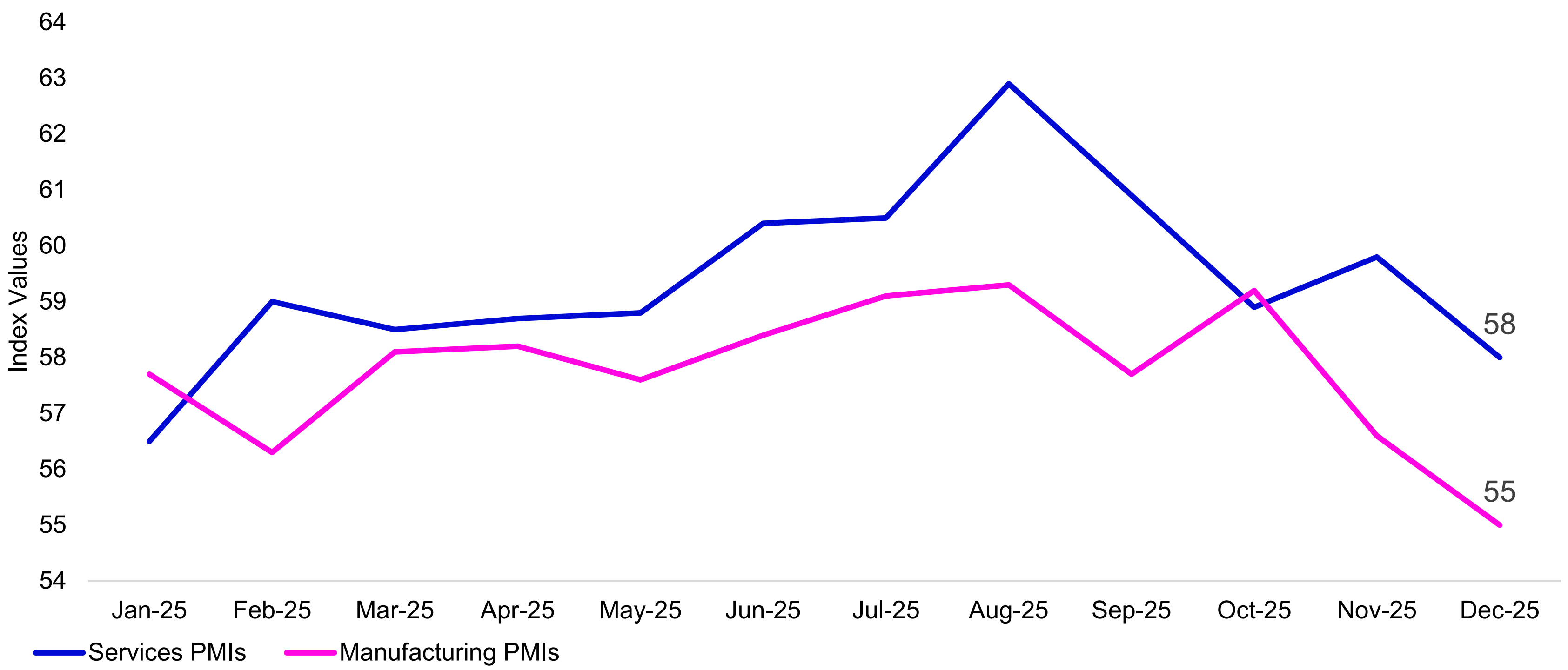


- High frequency indicators for India have been improving in recent months. Bank lending and auto sales data show improvement.
- Rural economy remains steady as reflected through two-wheeler sales.

Source: Invesco India Asset Management. CMIE. POL: Petroleum

Disclaimer: The above chart is for understanding how the high frequency indicators have moved after the GST rate cut. The sectors referred above should not be construed as recommendations, advice to buy, sell or in any manner transact in this sector and neither should it be considered as Research Report from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund.

PMIs across manufacturing and services have tapered down recently, however it has remained above the neutral level mark continuously over the past year

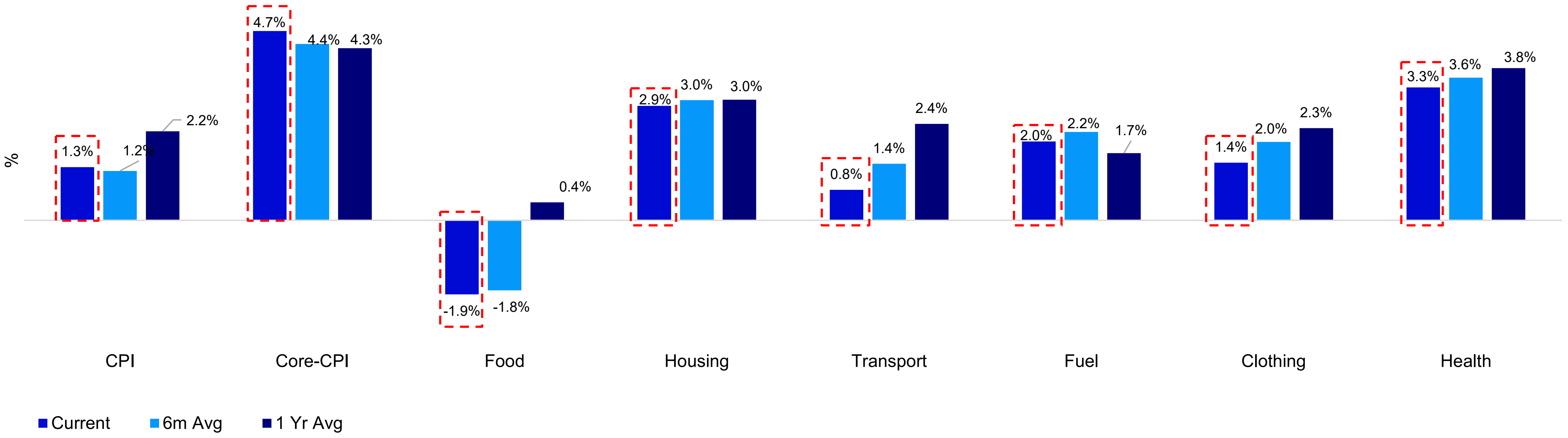


- Manufacturing PMIs have tapered but continue to show healthy demand conditions.
- Services PMIs continues to remain elevated.

Source: Bloomberg. PMI: Purchasing Managers' Index

Headline inflation has eased sharply below 4% for the last 11 months, led by steep fall in food inflation, Core inflation inched up marginally due to gold and silver prices but remains moderate

India Inflation and its components

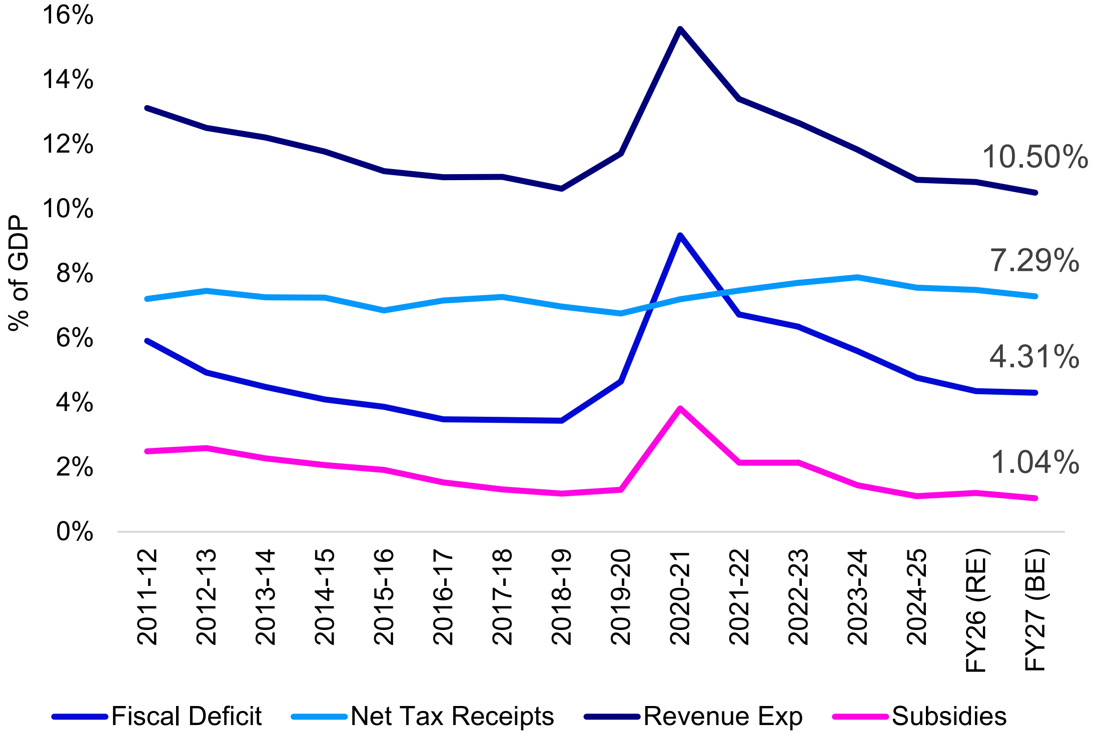


- Vegetable prices have cooled off, leading to lower headline CPI inflation. Stability in overall food prices should help to maintain inflation at comfortable levels going forward.
- Core CPI has inched up in recent months but remains at moderate levels. Increase in core inflation has been due to increase in gold and silver prices.

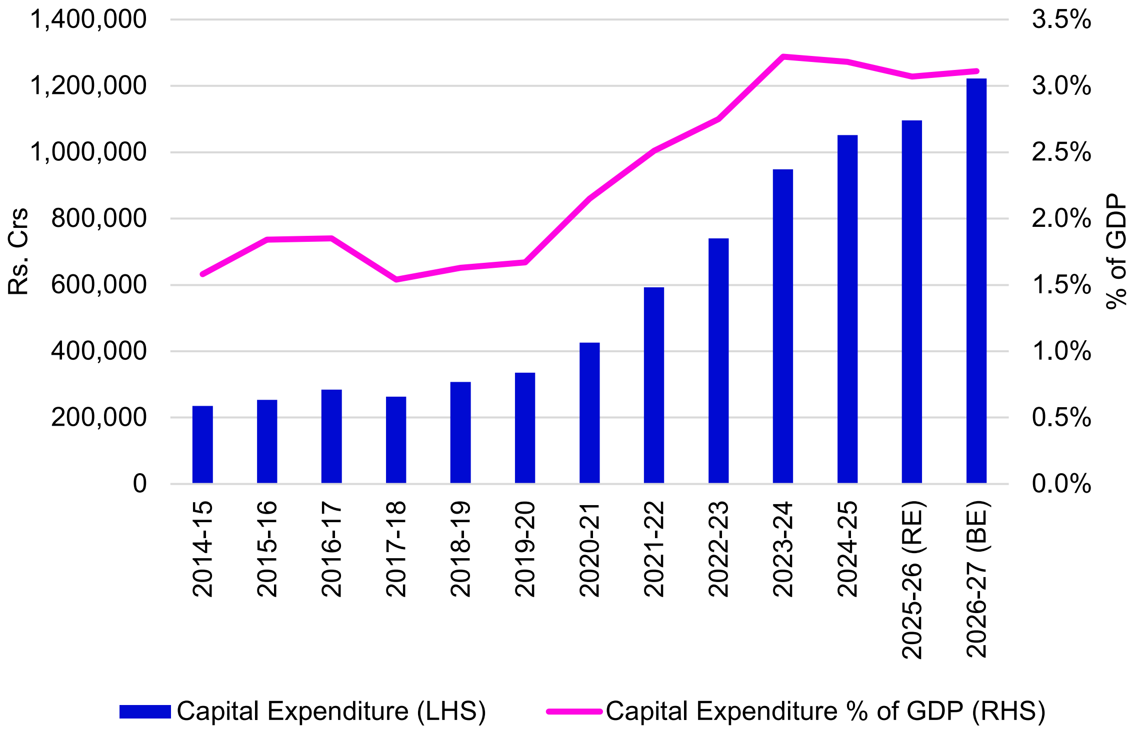
Source: Bloomberg. Data as at 31 December 2025.
Note: 6 months average is calculated since July 2025 and 1 year average is calculated since Jan 2025.

Fiscal deficit for FY27 is on path of fiscal consolidation; with continued focus on capex spending and no populist spending

Fiscal Deficit



Capex as % of GDP

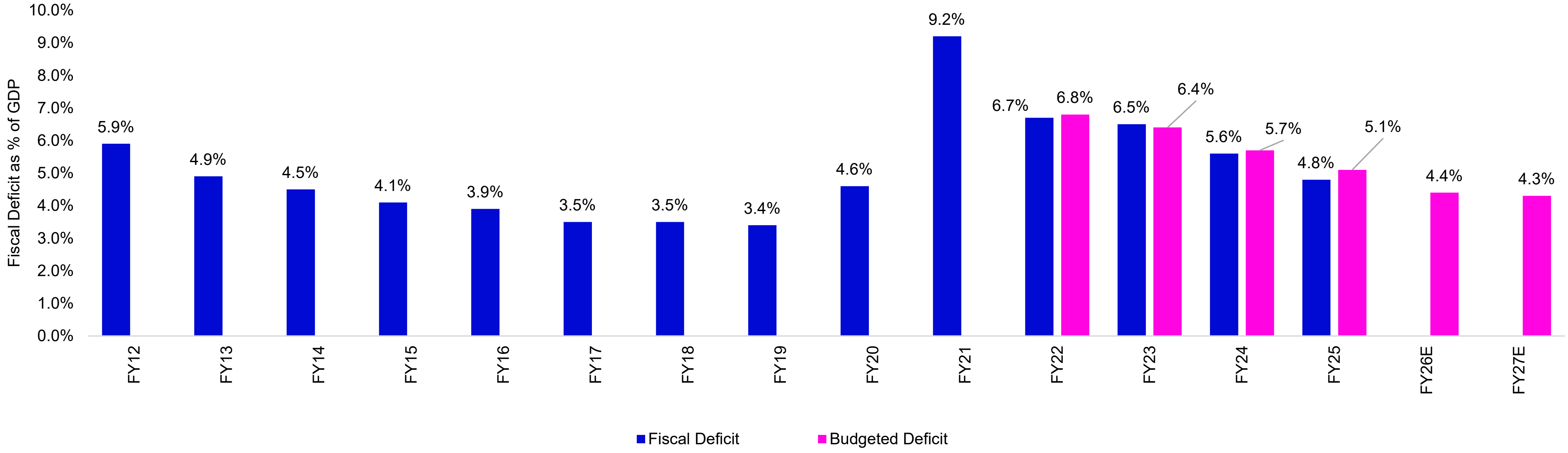


- FY27 fiscal math looks credible with Nominal GDP growth assumption at 10% and net tax revenue growth at 7.2% from FY26BE.
- Capex spending thrust from Government to ensuring continuity.

Source: CMIE; Invesco Asset Management (India). BE: Budget Estimates.

Government of India has demonstrated a strong track record of fiscal prudence; gives confidence on maintaining fiscal targets going forward

Central Govt Fiscal Deficit as % of GDP coming down and within budgeted targets

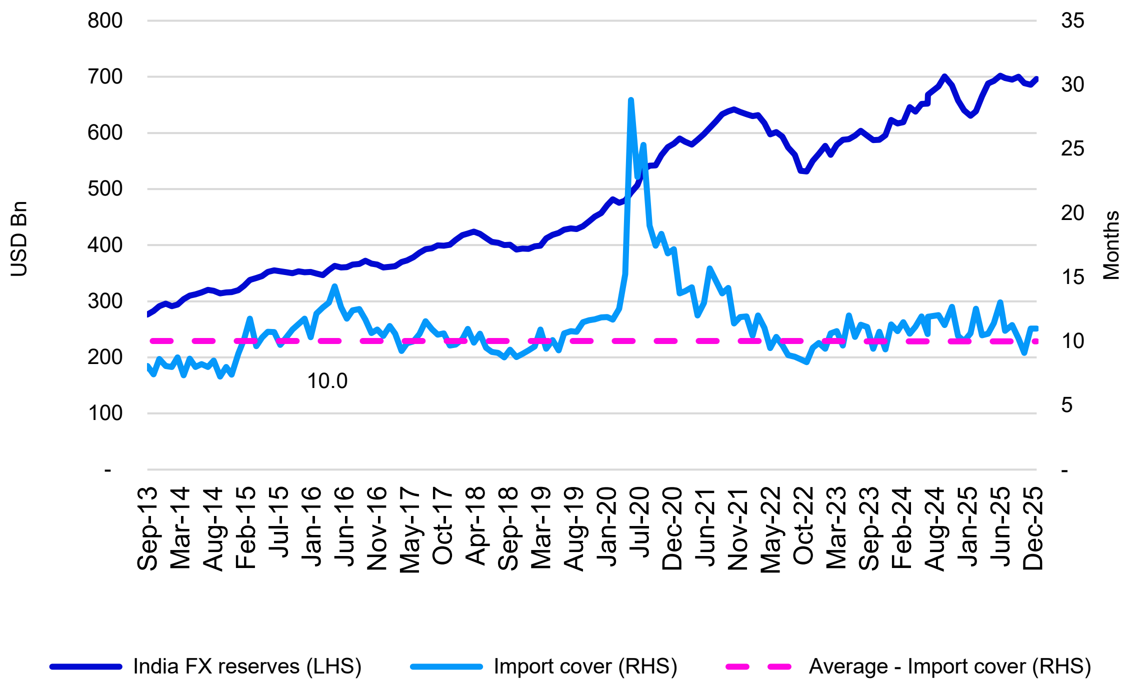


- Fiscal deficit had been declining every year prior to Covid.
- While the deficit increased during Covid, the GoI has budgeted for a sharp consolidation thereafter. Each year, the GoI has met the deficit consolidation targets.

Source: CMIE

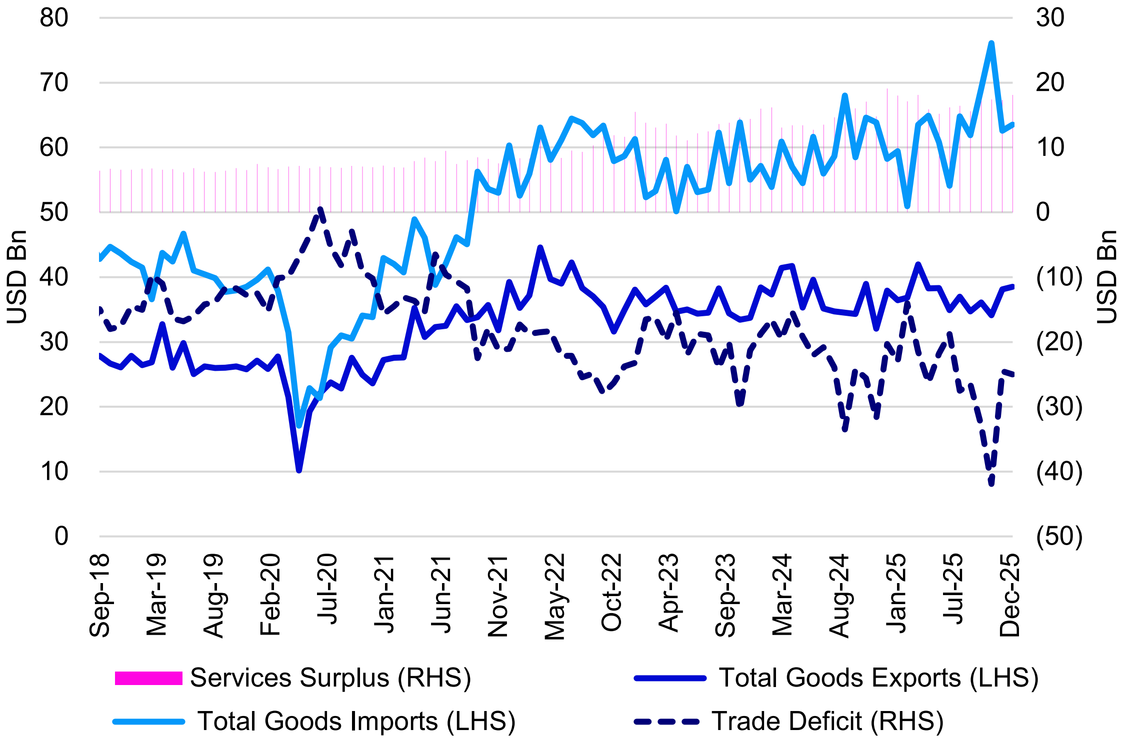
Foreign exchange reserves are closer to all time highs; import cover remains comfortable

FX Reserves (USD bn) and Import Cover (Months)



Note: *Average is for period between March 2013 to March 2020*

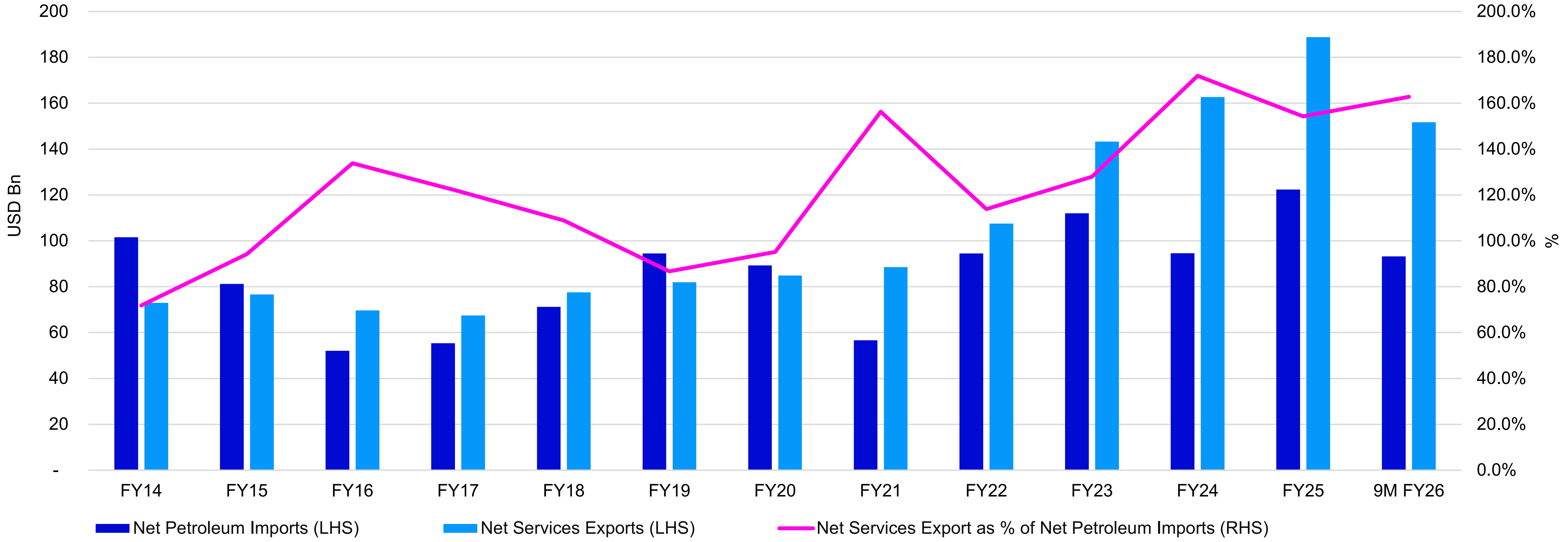
India monthly Exports / Imports – USD bn



- Robust services exports have provided strong cushion to CAD, capital flows remains the volatile item. Import cover is around pre-Covid average.

Source: Bloomberg. Data at end of Dec 2025.

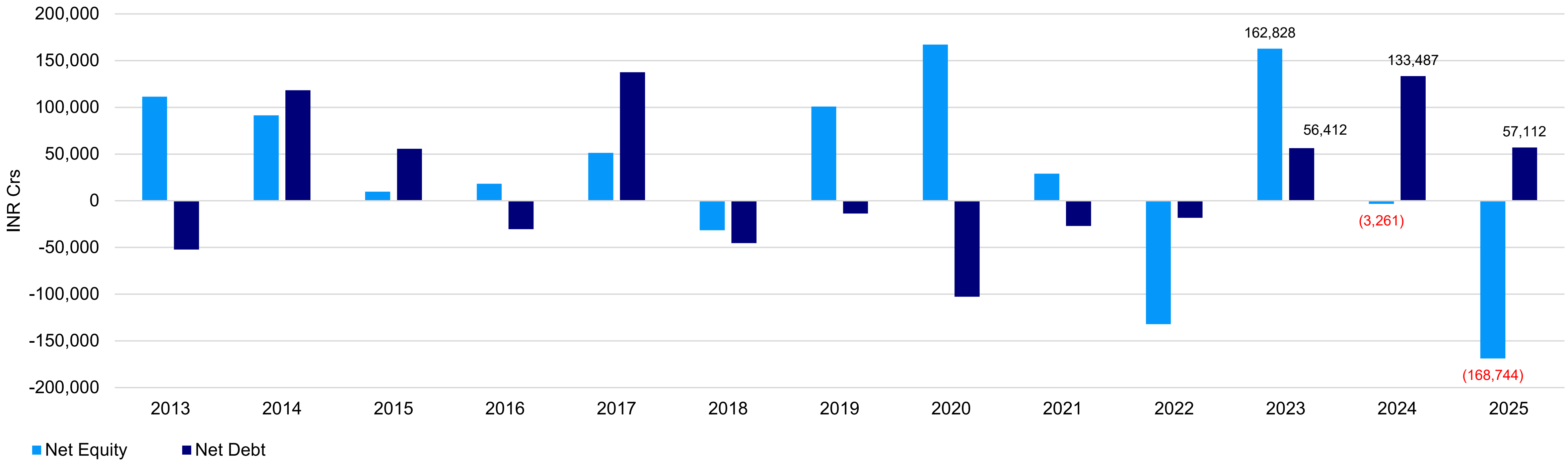
India’s service exports have seen significant rise post Covid and now covers more than the annual net petroleum imports thereby strengthening external position



Source: CMIE; Invesco Asset Management (India)

Net FPI inflows in Debt for CY25 despite global volatility on the back of strong domestic macro factors. Equity has seen net outflows for CY25 as tariff related uncertainties have caused broad outflows from emerging market equities

Annual FPI flows



Source: HSBC India. YTD: Year to date till 31 December 2025.

Equity Outlook

Summary - Equity Market Outlook

We prefer domestic oriented industries; value opportunities have begun to emerge in global sectors

Domestic Factors

- India remains one of the faster growing large economies. Global tariff conflicts could hurt; will increase importance of strengthening domestic demand drivers
- Economic headwinds from weak job creation and docile income growth could recede as we move into the second half with tax cuts, GST rationalization and easy monetary policy
- Weaker CPI will likely translate into faster real income growth for both rural and urban consumers
- Investment cycle is stable but still not broad-based. Power, defense and parts of manufacturing doing the heavy lifting. Private sector active in select pockets
- Earnings expectations for FY27 are cautiously optimistic on the back of lower base of FY26 and recent fiscal and monetary measures

Global Factors

- Global economy, driven by US, continues to hold well but is at risk of slowing due to impending tariff conflicts
- AI driven investment cycle in US/China have supported recent growth but can be at risk if investment returns get pushed out in time.
- Current US policies may imply a different economic environment for the world. Volatility in trade policies with USA as a partner is impairing the global investment climate
- Geopolitical situation remains unstable, and any new/further escalations may translate into disrupted logistics and/or raw material price and impact inflation
- Another big pivot by Central Banks has been higher allocation towards gold as a part of their reserves compared to USD

Recommendation

- We maintain a pro-cyclical stance and are overweight financials, consumer discretionary and healthcare. Our current portfolio skew is more towards domestic investment and consumption growth opportunities
- Mean reversion in certain domestic and global cyclicals and a value opportunity in IT services is also attracting our attention
- Our overarching view remains that India is at the cusp of seeing a better economic growth cycle in the coming decade compared with previous one, which in turn would make its equity market one of the attractive investment destinations on a 3–5-year scale

Note: The sectors referred above should not be construed as recommendations from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund. The Scheme may or may not have any present or future positions in these sectors.

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2025 a year of many extremes; stay watchful of potential areas of mean reversion in 2026

Global Extremes:

- Strong technology-led market performance: Magnificent 7 contributed 40% of S&P 500 gains in 2025, share of market cap rises to 33%, up from less than 20% two years earlier
- US dollar retreated 9% in 2025; most global currencies appreciated v/s the dollar
- Record-breaking gains in global precious metals – gold doubled, silver more than tripled
- Tariff and Geopolitics dominated headlines and drove most economic decisions

Local Extremes:

- Earnings growth slowed well-below trend (mid-single digit EPS growth for Nifty in 2025 v/s more than 20% between 2021-24)
- India underperformed global and emerging markets by ~20%; foreign outflows were at a record US$20bn
- Sharp underperformance of INR v/s the USD
- Median equity returns for the Nifty 500 at -2%, negative for the first time post-Covid

Source: Invesco Asset Management (India).

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India – expected to be one of the fastest growing large economies in 2025-26

Country	GDP (Dec 24) (USD Bn)	Market Cap (11 January 2026) (USD Tn)	2025E (GDP Estimates)	2025E (GDP Estimates)	2026E (GDP Estimates)	2026E (GDP Estimates)
			Before tariff announcement	After tariff announcement	Before tariff announcement	After tariff announcement
India	**3,913**	**5.19**	**6.50%**	**7.80%**	**6.50%**	**6.50%**
Saudi Arabia	1,238	2.39	3.40%	4.50%	3.60%	3.90%
China	18,744	14.10	4.50%	4.90%	4.20%	4.80%
Canada	2,241	4.26	1.70%	1.20%	1.90%	1.30%
Brazil	2,179	0.82	1.90%	2.30%	1.50%	2.00%
United States	29,185	73.19	2.00%	2.20%	1.40%	2.60%
United Kingdom	3,644	3.93	0.90%	1.40%	1.50%	0.90%
Mexico	1,853	0.49	0.50%	0.50%	1.20%	1.40%
South Africa	400	0.51	2.00%	1.30%	1.90%	1.90%

Source: Morgan Stanely. Bloomberg. For India data is for financial year, rest calendar year. E: Estimate. Tn: Trillion. GDP Data as at 09 January 2026
Note: The absolute GDP number are Nominal GDP numbers, while growth rate is based on Real GDP data.
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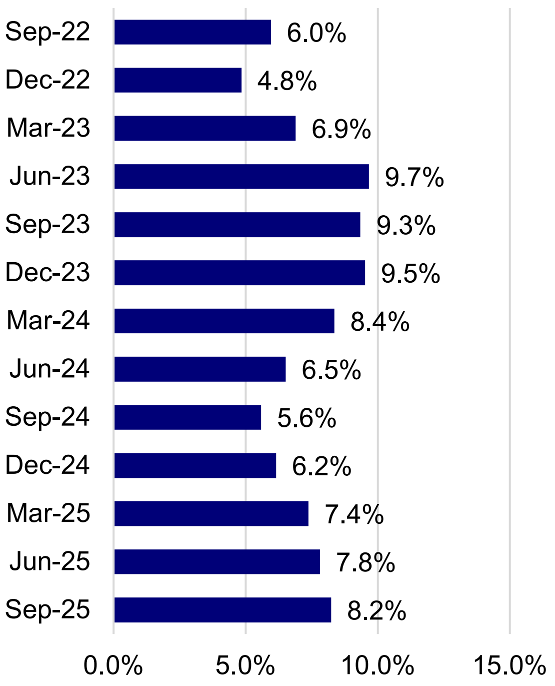
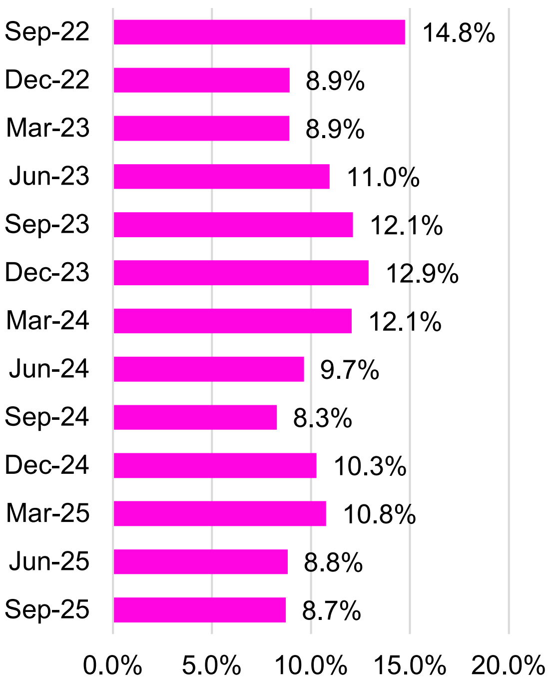
India – near term growth tempered – slowdown sharper in nominal GDP due to subdued inflation

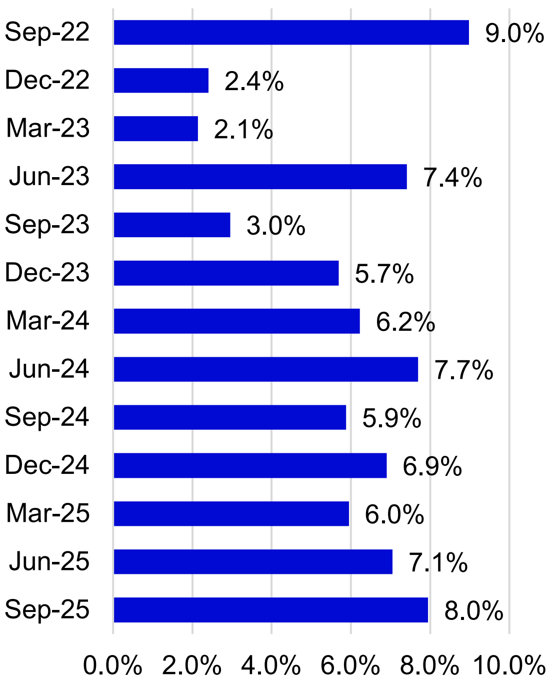
Real GDP Growth (YoY Growth)



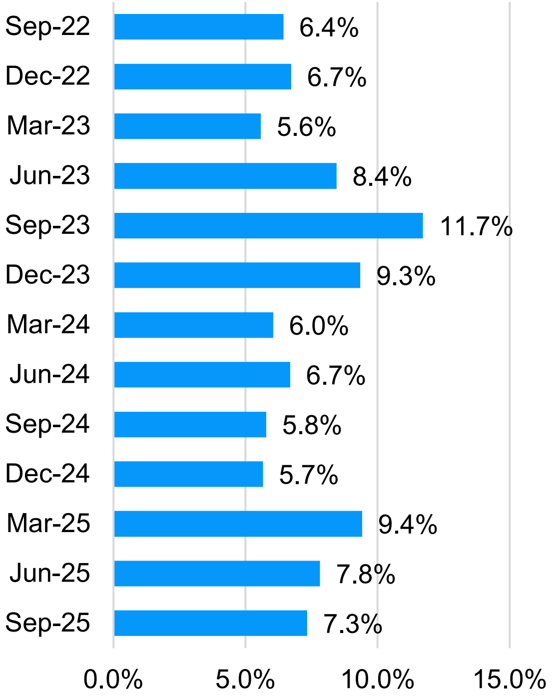
Nominal GDP Growth (YoY Growth)



Private Consumption Growth (YoY Growth)



Fixed Investment Growth (YoY Growth)



Source: Anand Rathi Institutional Equities

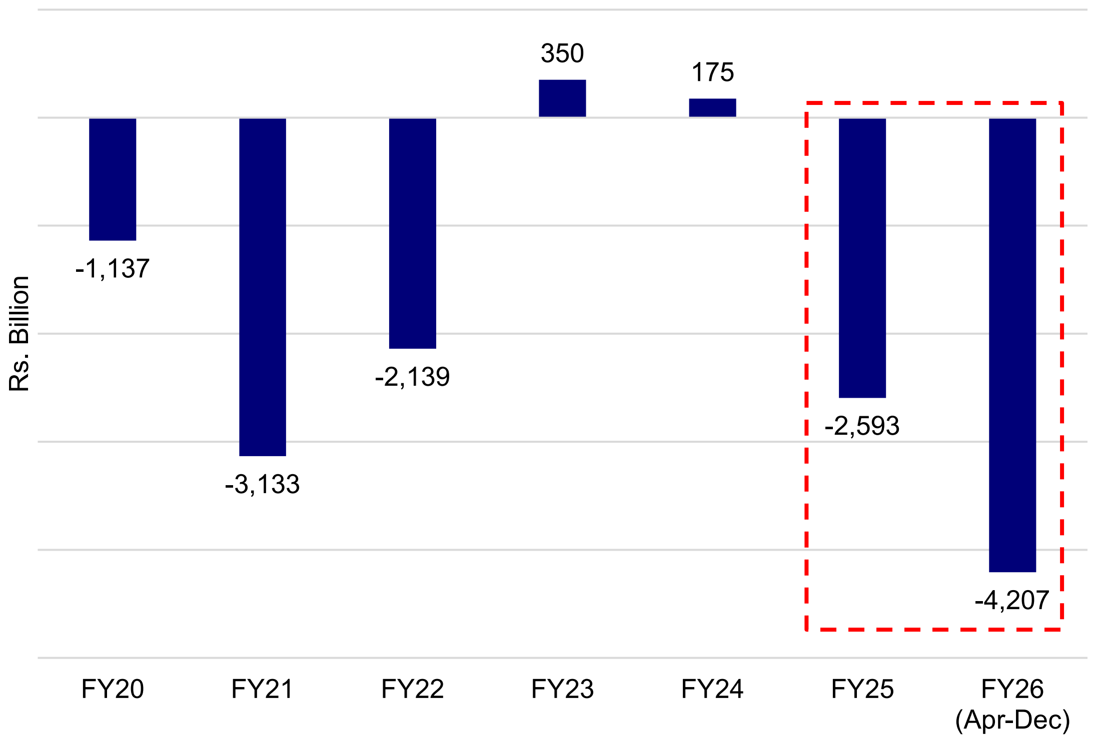
RBI relaxed several regulations starting 2025 to boost credit growth; will play out now in economy

Relaxations	Description
Reduction in repo rate	RBI had kickstarted the rate cut cycle in Feb-25, reducing the policy repo rate from 6.50% to 5.25% as of Dec-25
Reversal of risk weight increase on bank credit to NBFCs	Risk weight on bank funding to NBFCs were reduced by 25% in Feb-25, wherever the extant rating-based risk weights were below 100%.
Liquidity measures	RBI has bought (including announced) G-Secs worth Rs. 6.7 tn and announced dollar swap worth USD 25 bn in YTD FY25 (till Jan 2026).
Large Corporate exposure	Ceiling on exposures to large corporates by individual banks removed. Will enhance credit supply to large borrowers.
Reduction in cash reserve ratio	RBI announced cash reserve ratio cut of 150 bps (50bps in Dec-24, 100 bps reduction in a staggered manner starting Sep-25)
Review of risk weights on microfinance loans	Microfinance loans classified as consumer credit will carry 100% risk weight. Other microfinance loans may be classified under regulatory retail portfolio (RRP) with 75% risk weight, provided banks put in place appropriate policies to ensure fulfilment of the qualifying criteria of RRP.
Implementation of final LCR regulations	RBI reviewed the LCR framework for banks and came out with final guidelines on haircuts for HQLA and run-off rates on certain categories of deposits. As per RBI’s impact analysis, the change in LCR for the system has been quantified at +6% and shall come into force with effect from Apr-26.
Project financing guidelines	As against the onerous draft directions which required a general provision of 5% of the funded outstanding to be maintained during the construction phase, and 2.5% during the operational phase, the provisioning requirements per the final guidelines were much lower, with projects which achieve financial closure by 1st October 2025 (effectively the current stock of loans) being out of the ambit of these final directions.
Delayed implementation of ECL framework	In the MPC meeting held on Feb-25, the RBI Governor stated that the earliest implementation of ECL framework would be Mar-26.
PSL guidelines for SFBs	The additional component (35%) of PSL will be reduced to 20%, thereby making the overall PSL target for Small finance banks as 60% of Adjusted net bank credit or Credit Equivalent of Off-Balance Sheet Exposures, whichever is higher.
ECL framework	Banks given glide path until Mar 2031. This will likely even out the impact on their books
Revised Basel 3 norms for credit risk on capital charge	Applicable starting April 2027. To reduce risk weights on exposures to SME/real estate thus freeing bank capital.

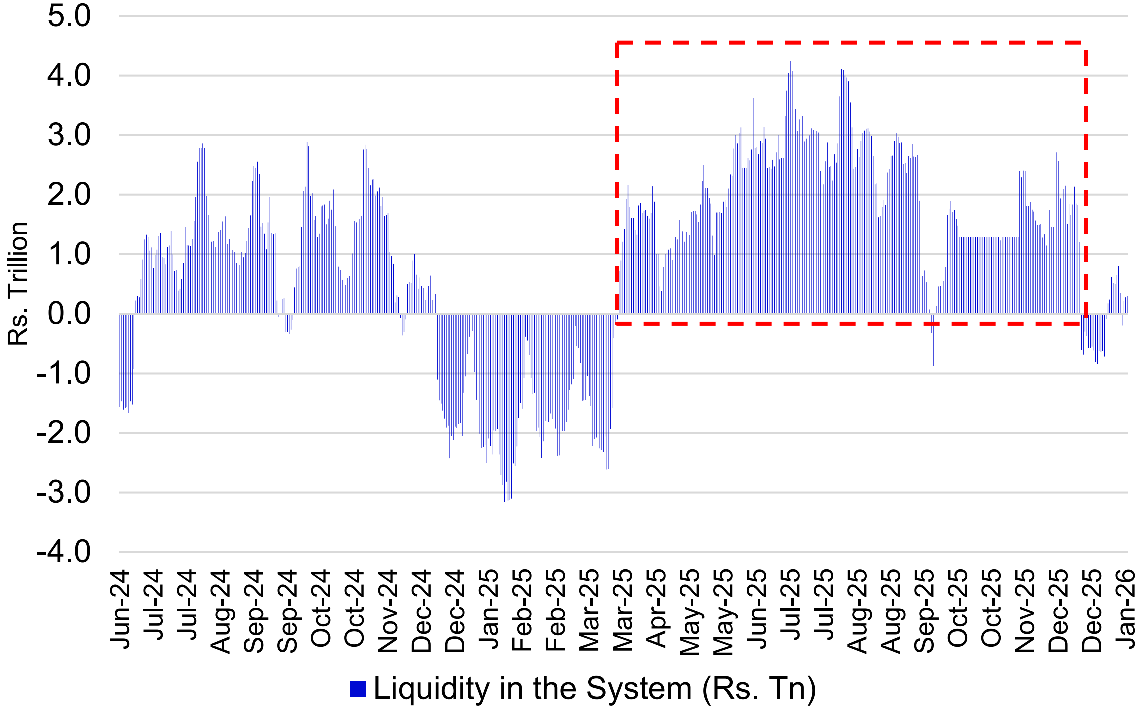
Source: Avendus Spark. NDTL: Net Total Deposits Liabilities. LCR: Liquidity Coverage Ratio. ECL: Expected Credit Loss. OMO: Open Market Operations. VRR: Variable Rate Repo. PSL: Priority Sector Lending. HQLA: High Quality Liquid Assets. SMF: Small and Medium Enterprises.

Decisive steps taken by RBI to ease liquidity in the system and rejuvenate growth

Open Market Operations



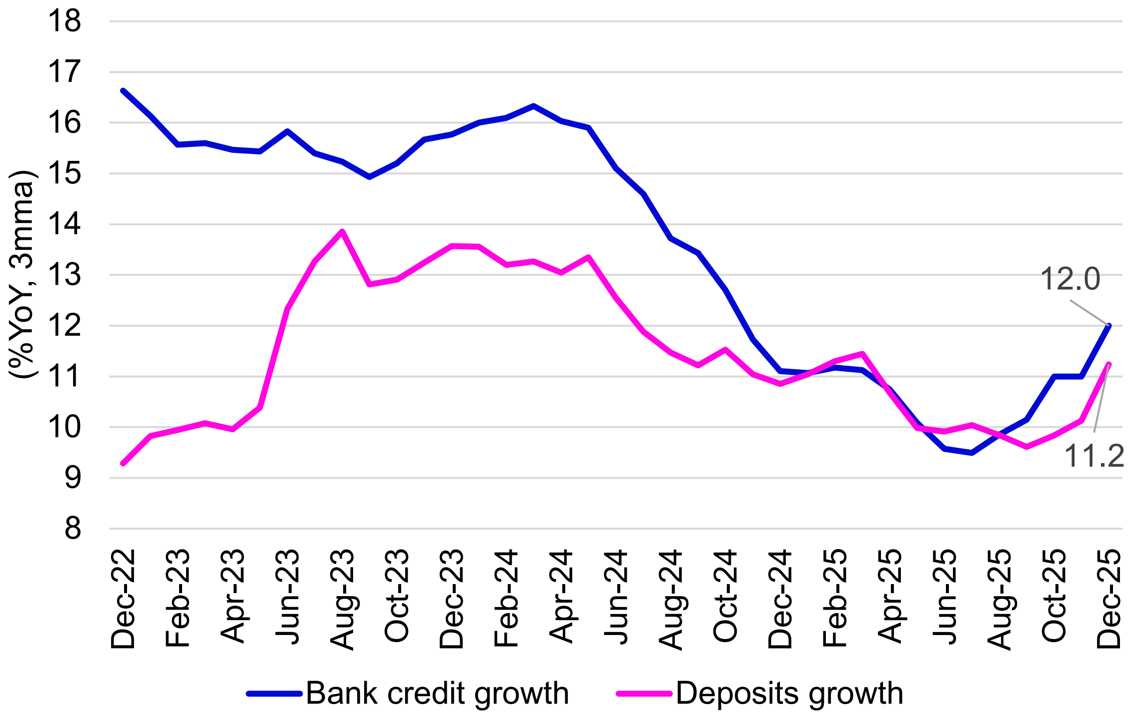
Liquidity in the system



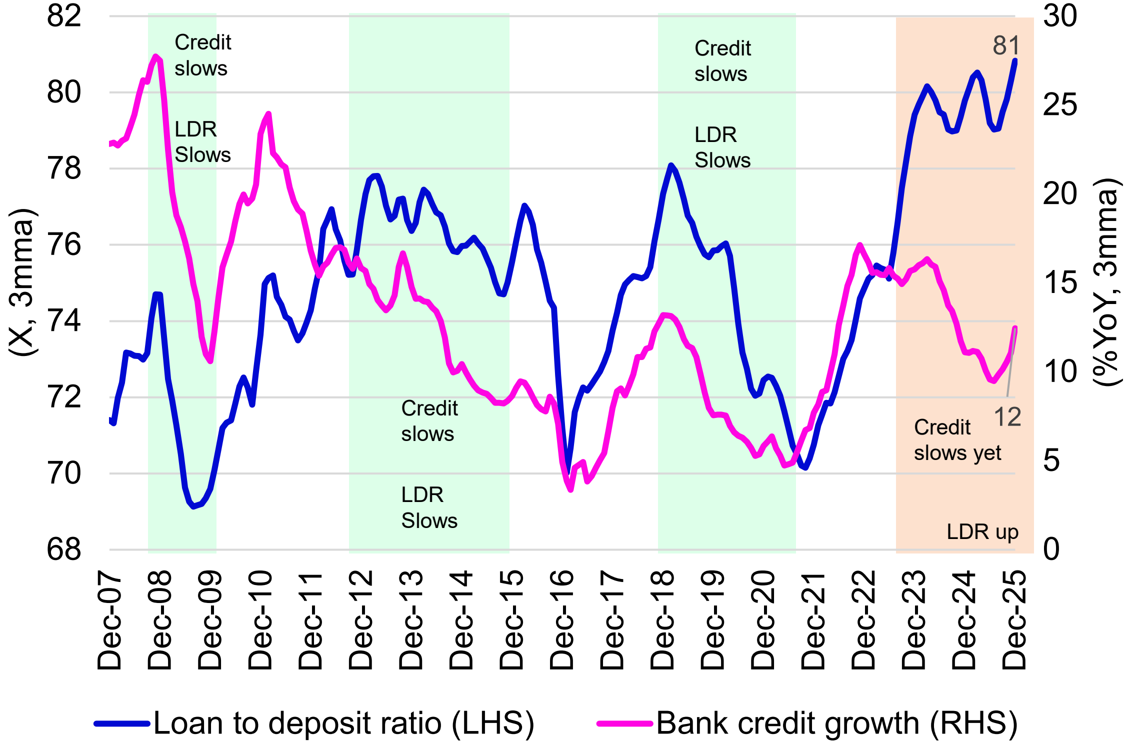
Source: Avendus Spark. The data for liquidity in the system showcases for 11th January 2026.

Demand for credit has begun to improve but deposit growth continues to present constraints

Deposit growth continues to undershoot credit growth



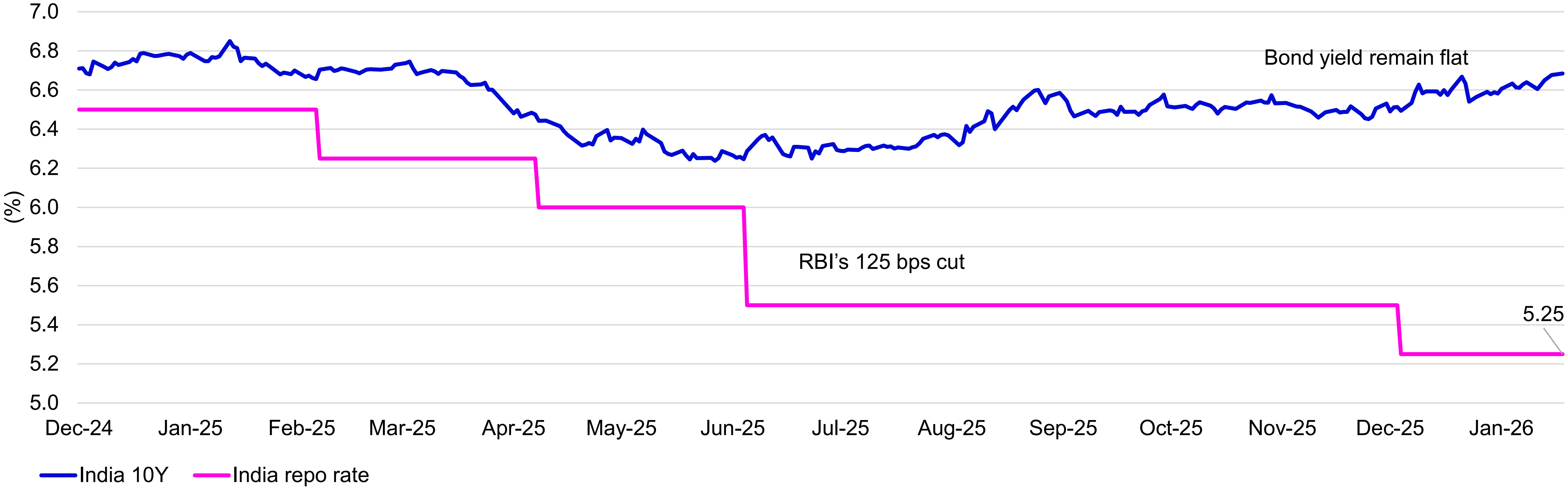
Banks' LDR now very high despite low credit growth



Source: Nuvama Research. 3MMA: 3 months moving average.

Domestic policy drags are receding, but not yet stimulative

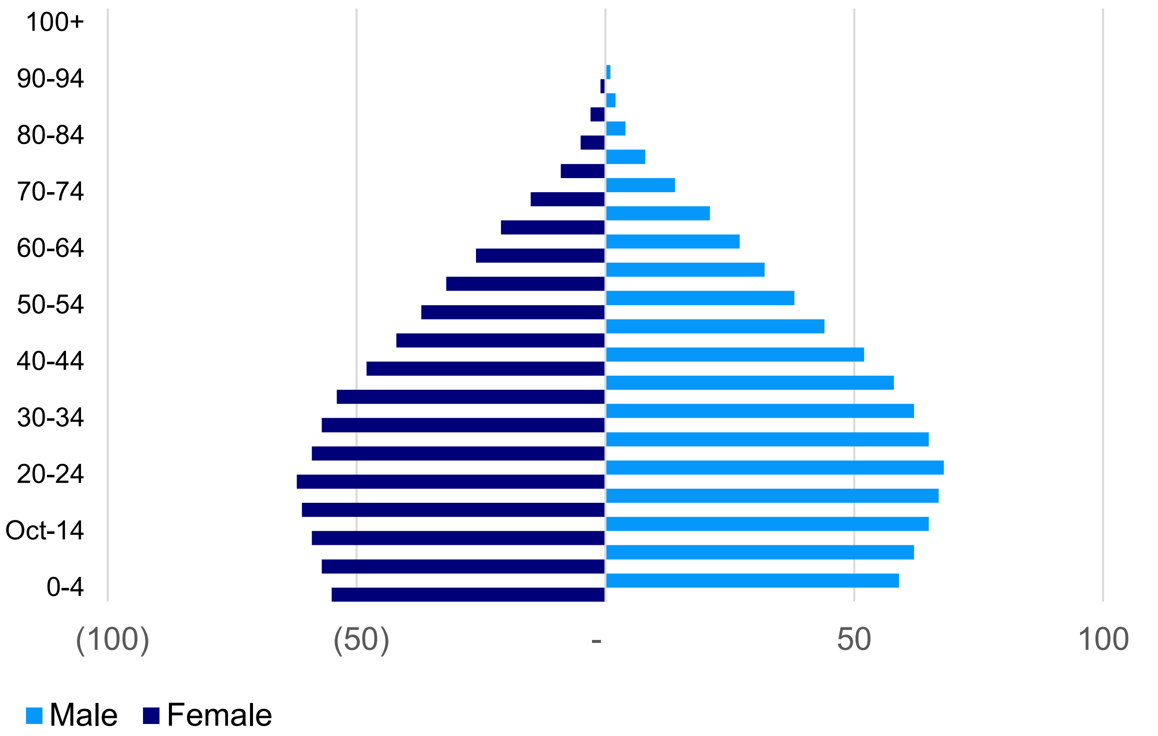
Despite 125 bps cut, bond yields remains high



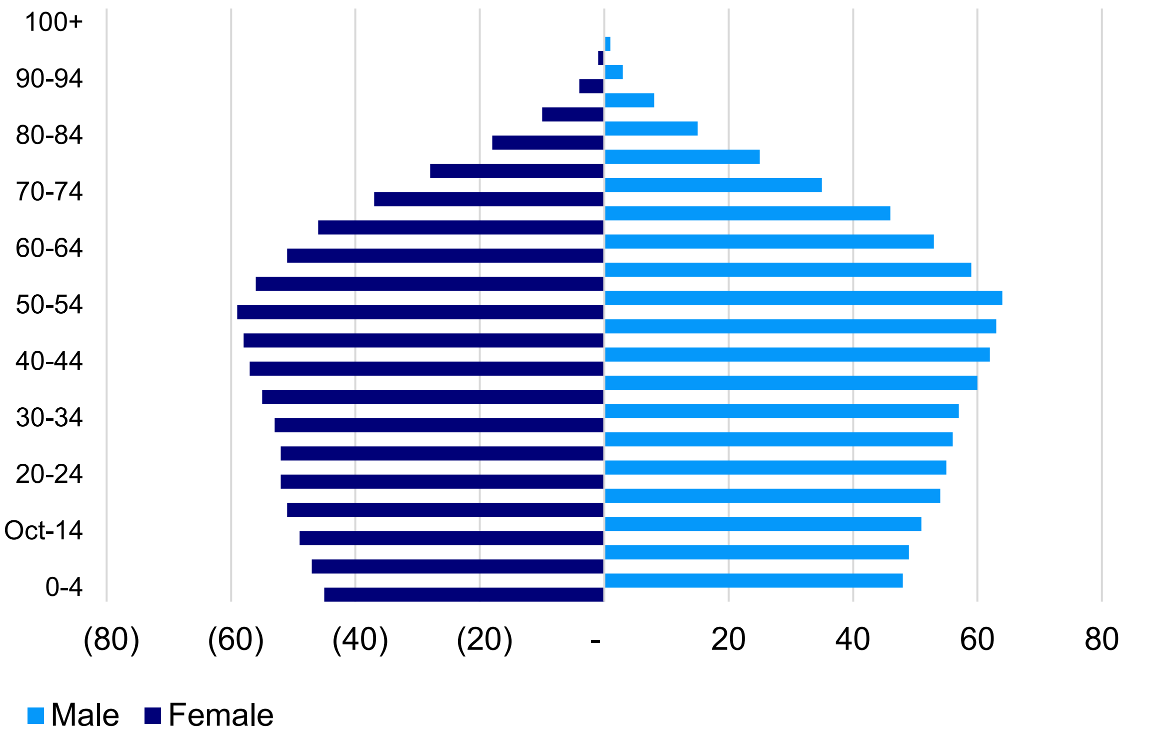
Source: Nuvama Research, Data as on 19 Jan 2026

India consumption – long term growth supported by favorable demographics
Steady increase in working age population of India over the next three decades

Population pyramid of India, calendar year-ends, 2024 (in million)



Population pyramid of India, calendar year-ends, 2054 (in million)

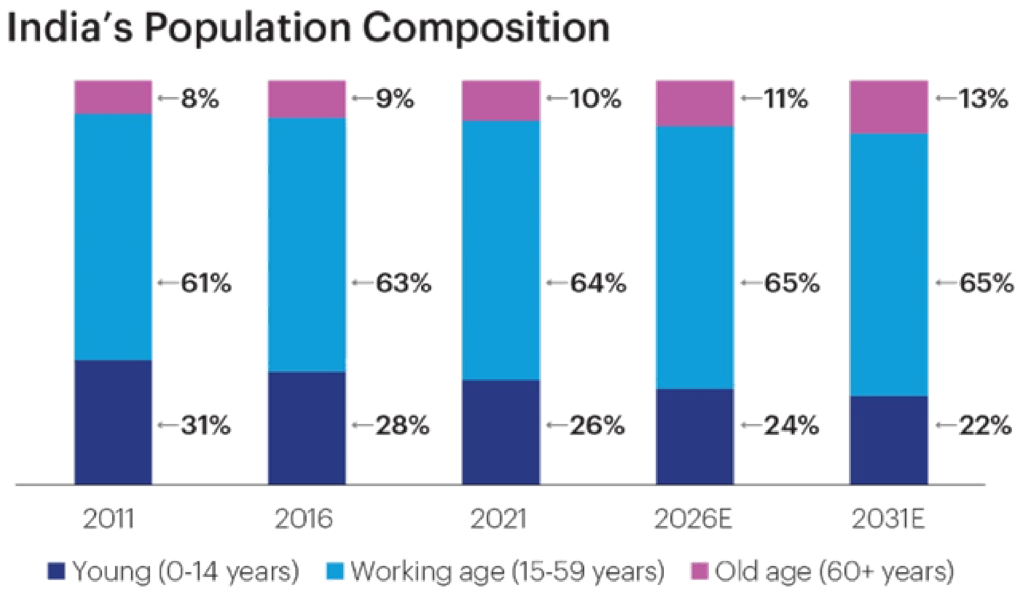


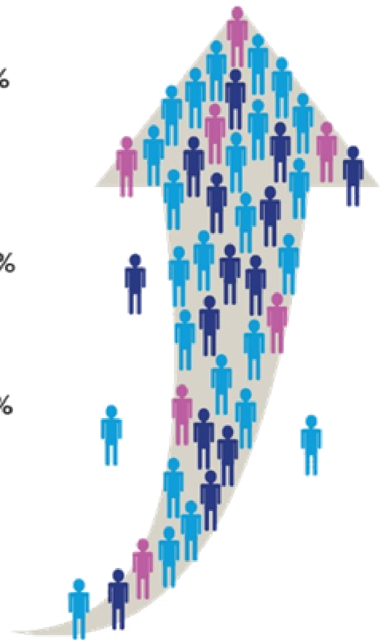
Source: Kotak Securities Limited

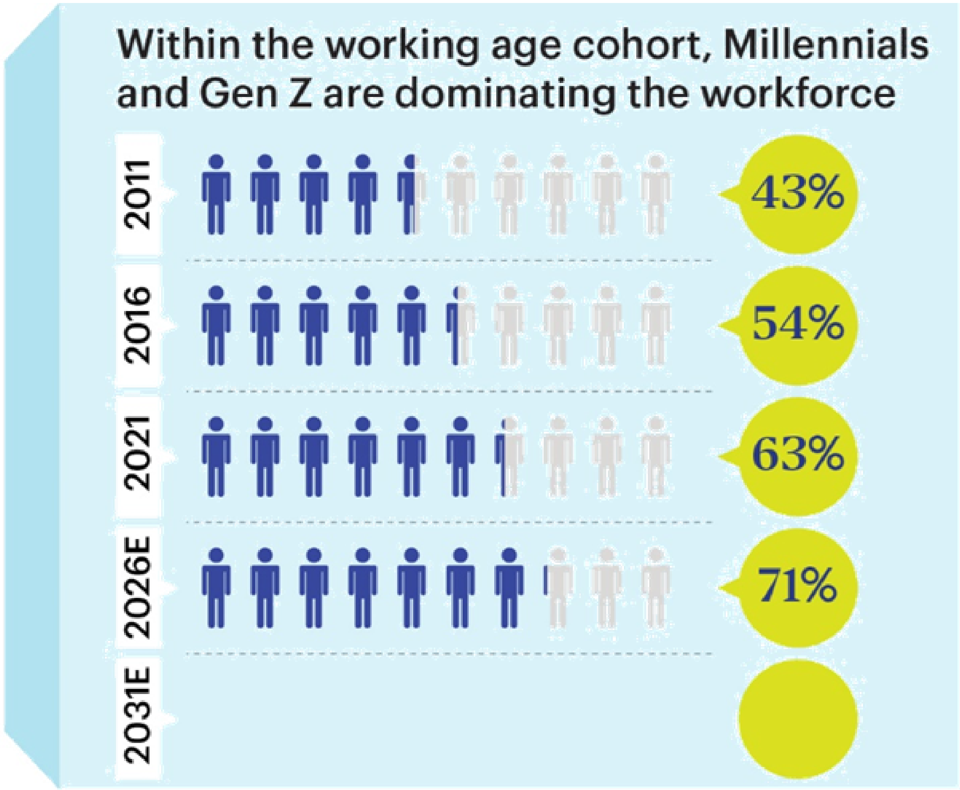
Disclaimer: The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied.

Demographic – workforce getting younger…

Rising young and earning population is a key positive for consumption





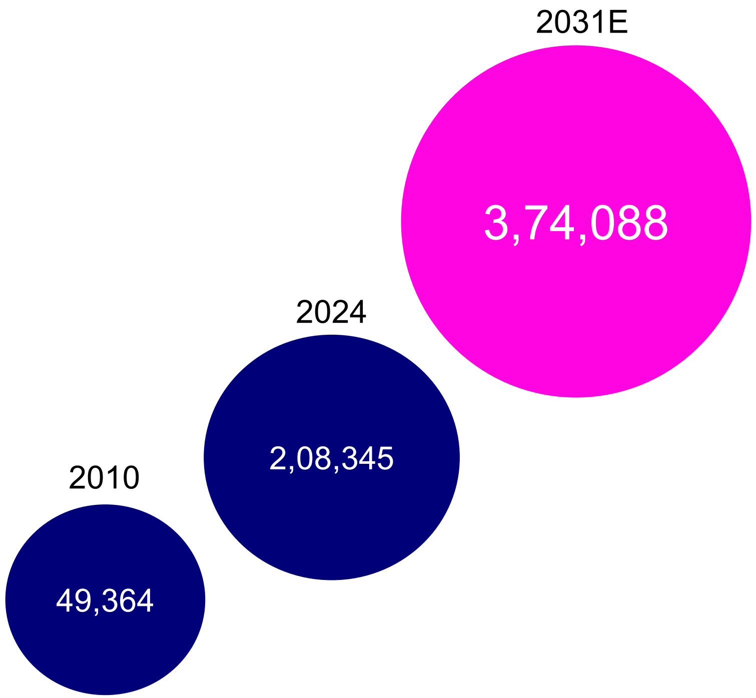


E- Estimates Source: CLSA

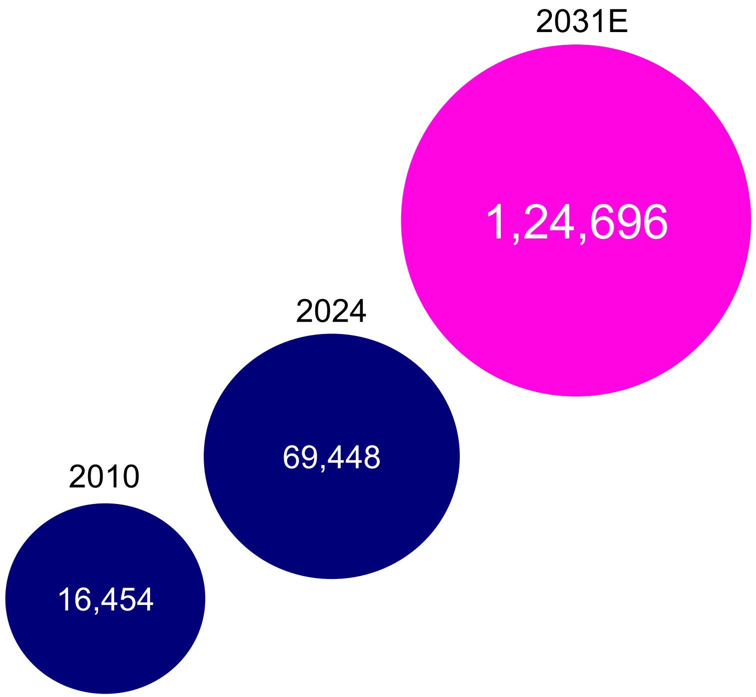
Disclaimer: The above chart is for illustration purposes only and should neither be used for the development or implementation of an investment strategy nor construed as an investment advice to any party. The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied.

...and richer!

Per capita income (in INR)



Per household income (in INR) (Per month)



Household Income distribution

Income (INR)	2013	2024	2031E
0-8,80,000	86%	64%	47%
8,80,000-30,80,000	13%	33%	46%
30,80,000+	1%	3%	7%

E- Estimates

Source: Morgan Stanley Research, CLSA. Invesco Asset Management (India). **Note:** The per household income (in INR, per month) is calculated based on the assumption of four earning members within a single-family unit.

Government also, in action along with RBI

GST rationalized after 8 years - A structural reform to boost growth

GST 2.0 changes

- GST slabs rates are rationalized from earlier four main slab rates (i.e. 5%, 12% 18% and 28%) to two slab rates (i.e. 5% and 18%) since September 22, 2025.
- Items currently in the 12% or 18% slab (e.g. Daily Essentials, Medical Instruments, Fertilizer Inputs, etc.) will move to the 5% slab.
- Items currently in the 28% slab (e.g. Small Cars, Compact SUVs, Two Wheelers, TVs, Air-Conditioners, etc.) will move to the 18% slab.
- A sin tax of 40% will apply to Tobacco and Luxury Goods, including high-end Cars and Bikes.

Impact of these changes

- The proposed changes would give fillip to consumption by enhancing purchasing power and stimulating demand.
- The GST 2.0 regime is estimated to provide benefit of Rs. 1.8 lakh crore (i.e. ~0.5% of GDP). A fall of ~7-10% in prices is likely to boost volume in some of the categories such as Consumer Durables, Autos, Insurance, Hospitality, etc.

Source: Axis Research, CRISIL Intelligence

Note: The sectors referred above should not be construed as recommendations, advice to buy, sell or in any manner transact in this sector and neither should it be considered as Research Report from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund.

Government nudge to consumption engine may boost the biggest section of the economy

Rs. 6.75 lakh crore consumption boost on the horizon

Income Tax relief announced in FY26
Rs. 1 lakh crore
(~0.28% of GDP)

Interest rate cut benefit to accrue in FY26
Rs. 45,000 crore
(~0.1% of GDP)

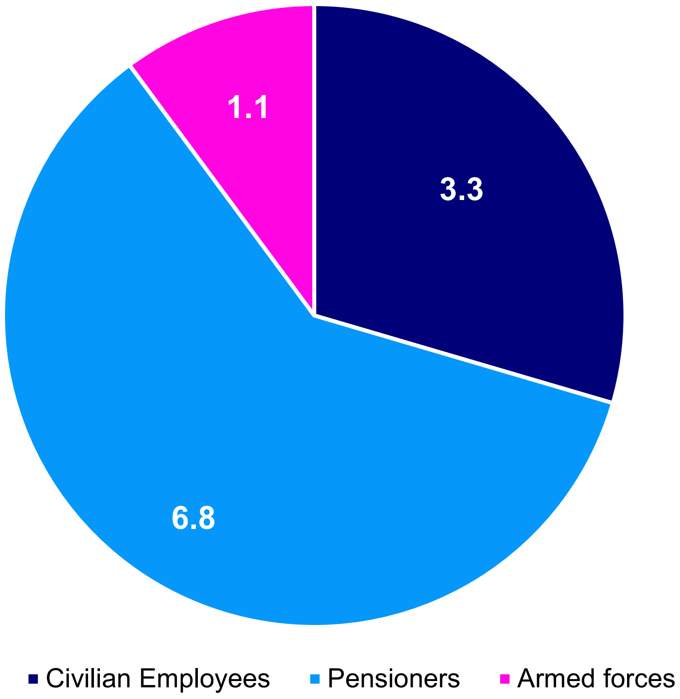
GST revision benefits to accrue over 2 years
Rs. 1.8 lakh crore
(~0.5% of GDP)

Upcoming 8th Pay Commission benefit to accrue over 2 years
Rs. 3.5 lakh crore
(~1% of GDP)

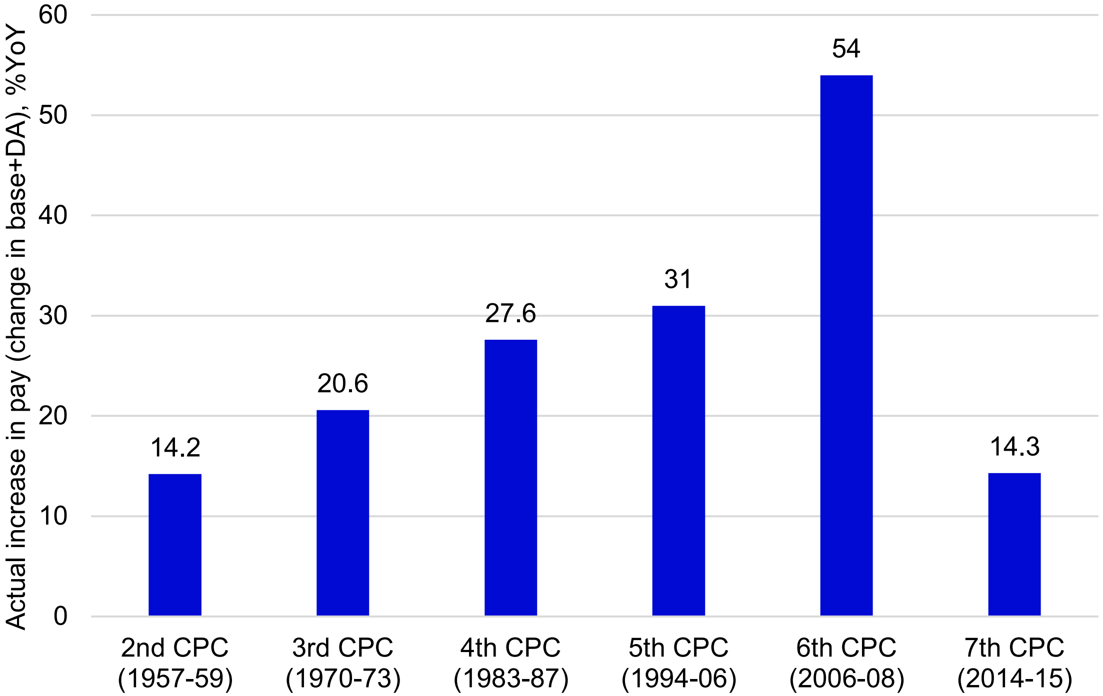
Source: Nirmal Bang, Axis Research

Upcoming 8th Pay Commission can stimulate consumer demand over the medium term – once implemented

~11.2mn people will directly benefit from the 8th Pay Commission
Central government employees and pensioners (in mn) (FY25)



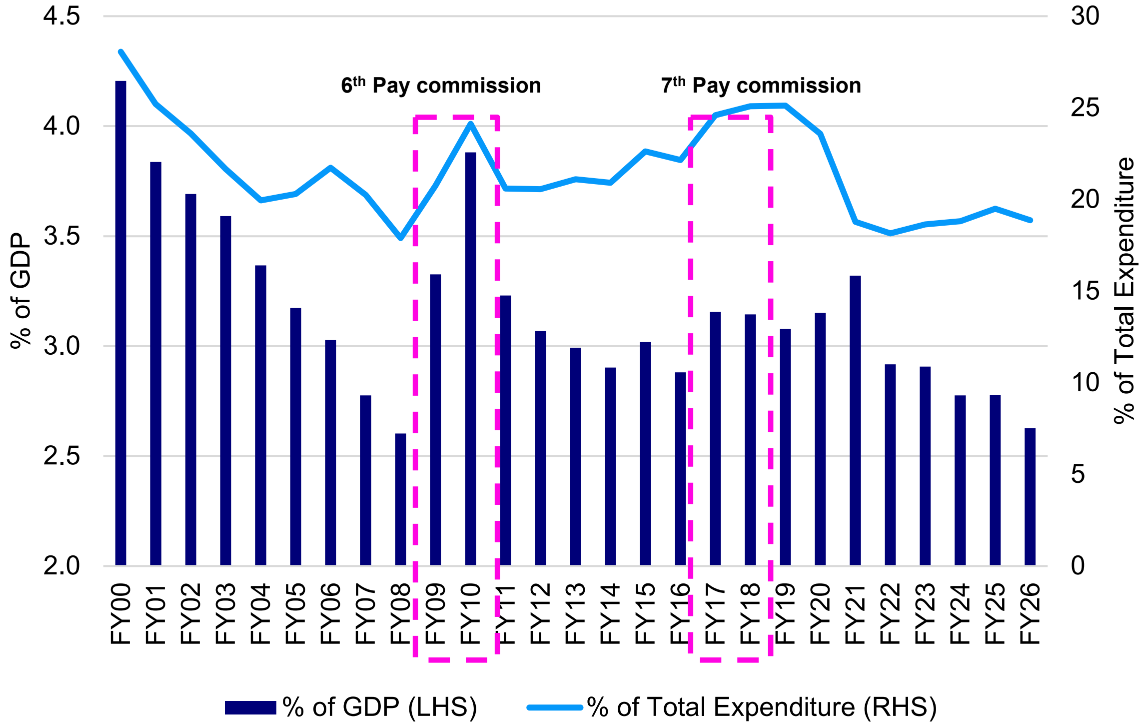
Historically, increases in salaries have been between 14-54% during implementation of pay hikes



Source: Ambit Capital research. Data as at 09 July 2025

Outgo towards 8th pay commission should be manageable at central level despite fiscal constraints; States also will have a role to play

Pension and wages seem to have a 1-year impact on finances



States' Pay Commission recommendations led to additional employee spending by at least Rs1 tn

State	Month/Year of Monetary benefit	Additional spend due to 8th PC between FY18-20 (Rs bn)	% of GSDP
Karnataka	Apr'18	234	1.4%
Tamil Nadu	Oct'17	183	1.0%
Chhattisgarh	Jul'17	102	3.0%
Rajasthan	Oct'17	87	0.9%
Odisha	Sep'17	76	1.4%
Madhya Pradesh	Jul'17	69	0.7%
Gujarat	Aug'16	62	0.4%
Bihar	Apr'17	45	0.8%
Jharkhand	Apr'17	25	0.8%

Source: Ambit Capital research. Data as on 09th July 2025. GSDP: Gross State Domestic Product
Note: Pensions constitute Rs2.8 trillion, and salaries account for Rs 5.1trillion – if this pay commission translates into a similar increase as the 7th pay commission then it implies an additional outgo of INR 1.1 trillion

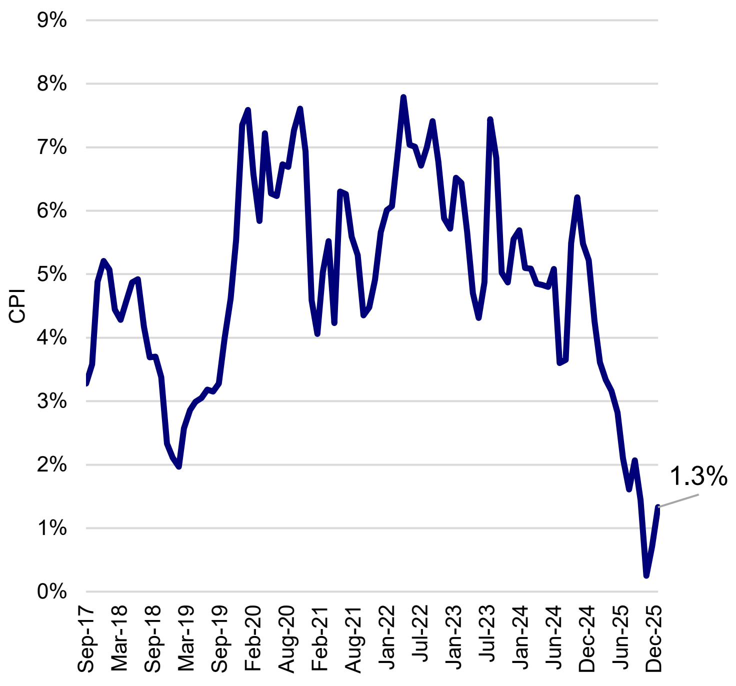
State governments have also opened the purse strings – more money into the hands of economically weaker section

S.No	State	Scheme Name	(INR Bn)				
			FY23	FY24	FY25BE	FY25RE	FY26BE
1	Madhya Pradesh	Ladli Behna Yojana	-	147.3	189	194.09	186.6
2	Maharashtra	Majhi Ladki Bahin Yojana	-	-	460	332	360
3	Karnataka	Gruha Lakshmi Yojana	-	169.6	286	235	0
4	West Bengal	Lakshmi Bhandar Scheme	119	136	144	231.9	267
5	Jharkhand	Mukhyamantri Maiya Samman Yojana	-	-	-		133
6	Odisha	Subhadra Yojana	-	-	100	111.9	101
7	Haryana	Lado Lakshmi Yojana	-	-	-	-	50
8	Telangana	Mahalakshmi Scheme Telangana	-	-	30.8	30.8	30.8
9	Tamil Nadu	Kalaignar Magalir Urimai Thittam (KMUT)	-	70	137	-	138
10	Chhattisgarh	Mahtari Vandan Yojana	-	-	30	30	55
11	Assam	Orunodoi Scheme	24.3	32	38	38	50
12	Himachal Pradesh	Indira Gandhi Pyari Behna Sukh Samman Nidhi Yojana		8	23	-	23
13	Delhi	Mahila Samridhi Yojana	-		20		51
	Total		**143.3**	**562.9**	**1457.8**	**1203.69**	**1445.4**
	As % GSDP		**0.09**	**0.30**	**0.71**	**0.58**	**0.62**

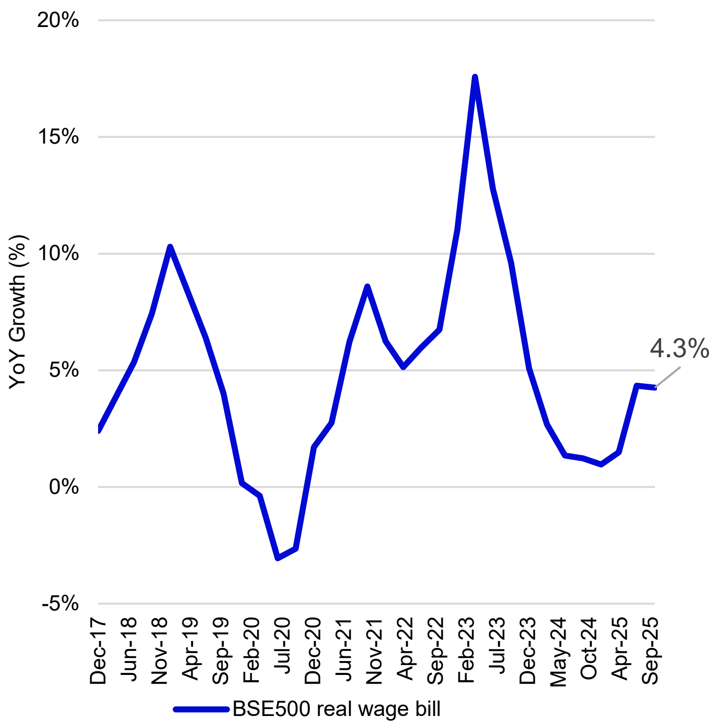
Source: Elara Securities Research

Inflation cool-off triggering faster real income growth – for both rural and urban consumer

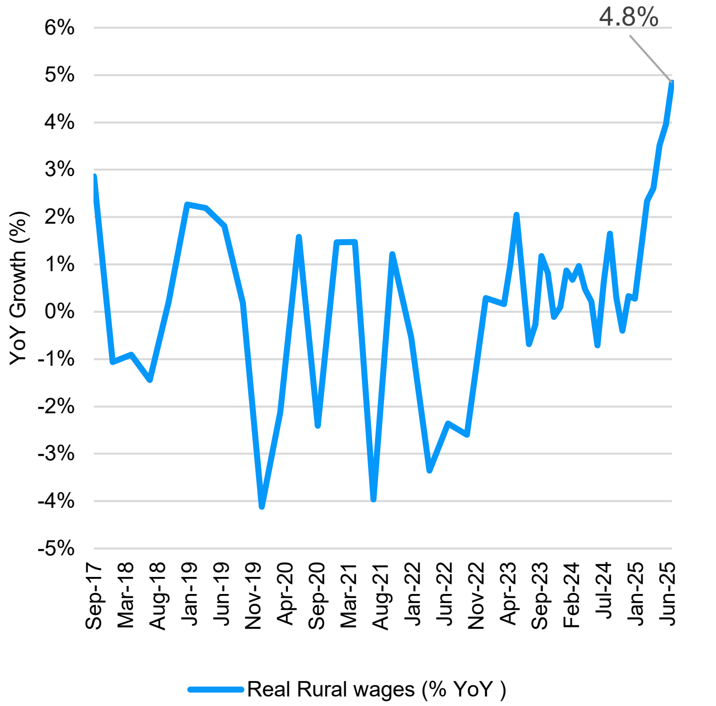
CPI



Real Wage bill



Rural economy showing signs of bottoming out



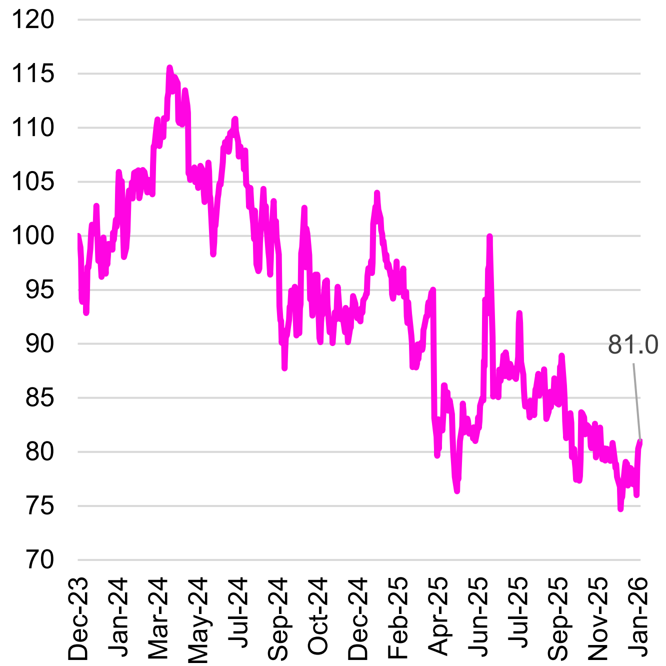
Source: Nuvama Research.
Note: Real wage bills are calculated by adjusting Consumer Price Index (CPI)

Weak USD driving commodity prices where demand/supply equation is favorable this can lead to inflation firming up in 2026

Aluminum
(Values are rebased to 100)

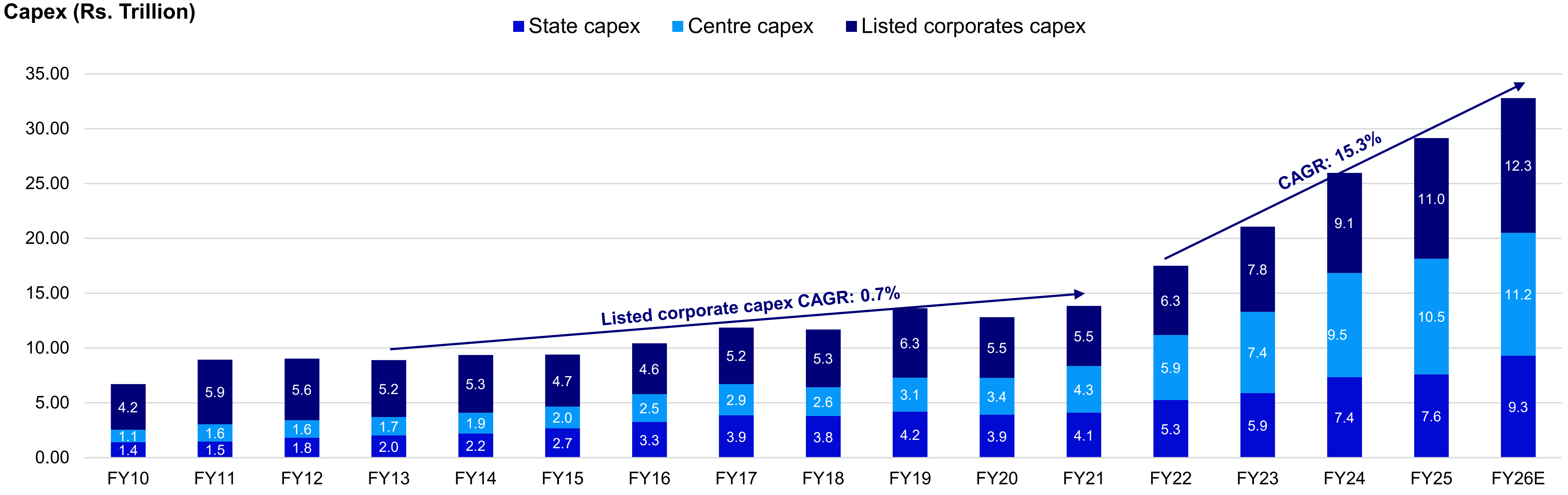
Copper
(Values are rebased to 100)

Brent
(Values are rebased to 100)



Source: Morgan Stanely

Corporate capex recovering post a "lost-decade" though still below potential. Falling interest rates can provide a further boost



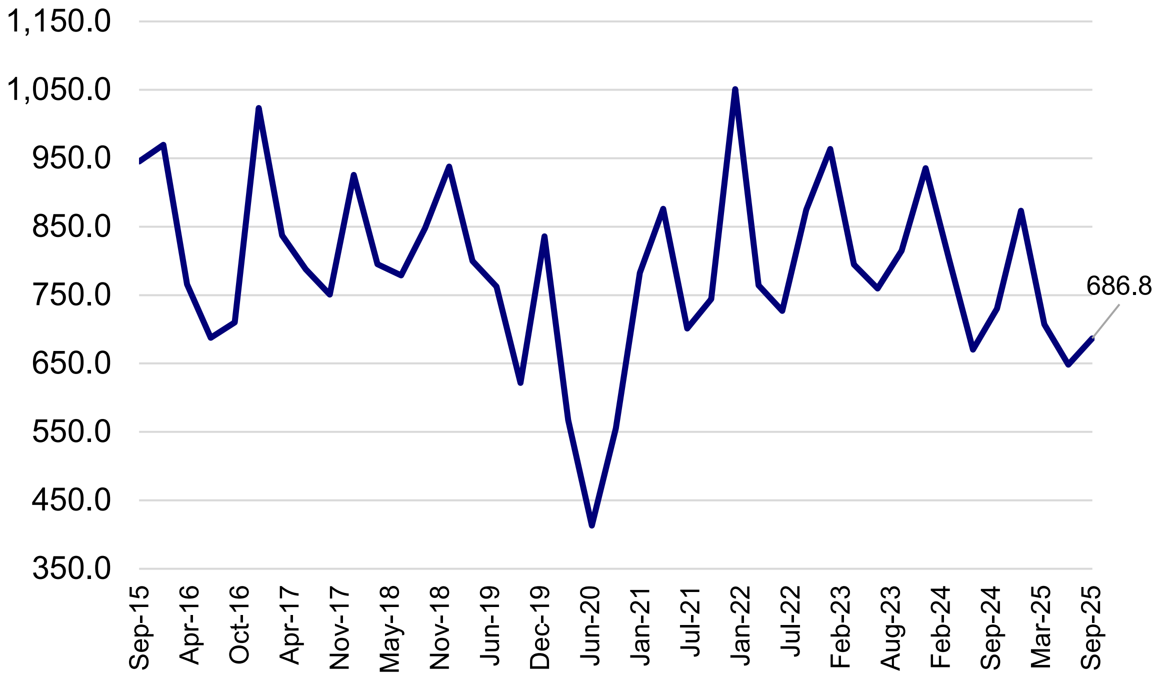
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E
Listed corporates capex	4.2	5.9	5.6	5.2	5.3	4.7	4.6	5.2	5.3	6.3	5.5	5.5	6.3	7.8	9.1	11.0	12.3
Centre capex	1.1	1.6	1.6	1.7	1.9	2.0	2.5	2.9	2.6	3.1	3.4	4.3	5.9	7.4	9.5	10.5	11.2
State capex	1.4	1.5	1.8	2.0	2.2	2.7	3.3	3.9	3.8	4.2	3.9	4.1	5.3	5.9	7.4	7.6	9.3

Source: ICICI Securities. E: Estimates. Data as at 13 January 2026

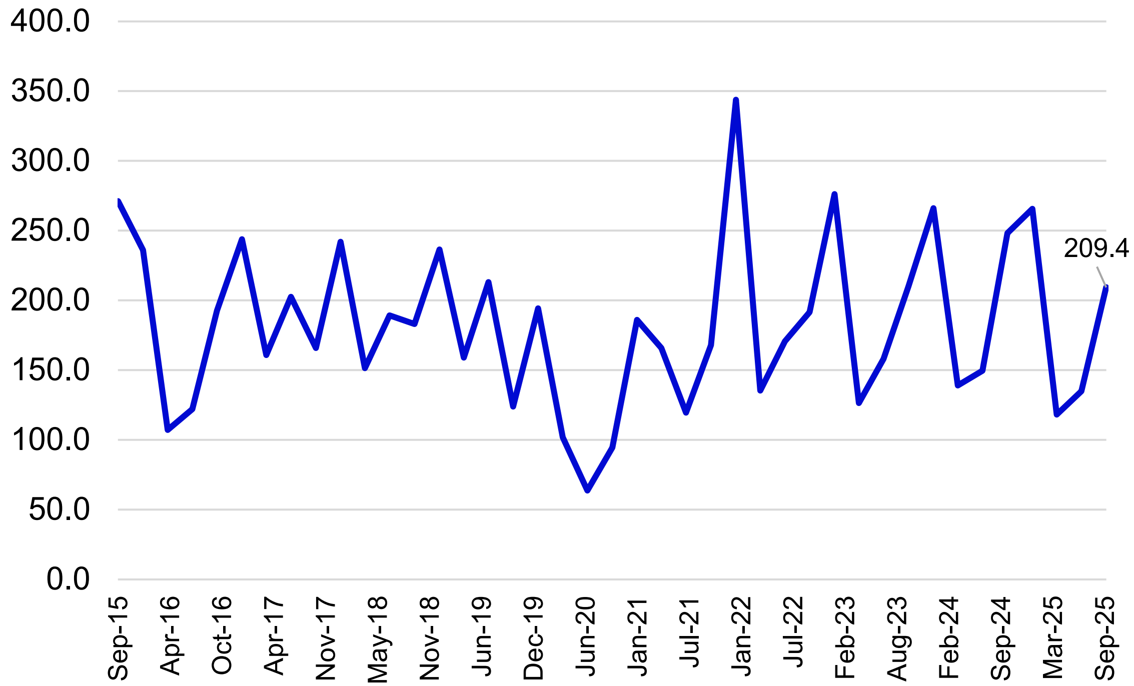
Disclaimer: The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied.

Overall demand for gold has been stable – Central Banks increasing share of gold within reserves has driven prices higher

World Gold Demand (In tonnes)



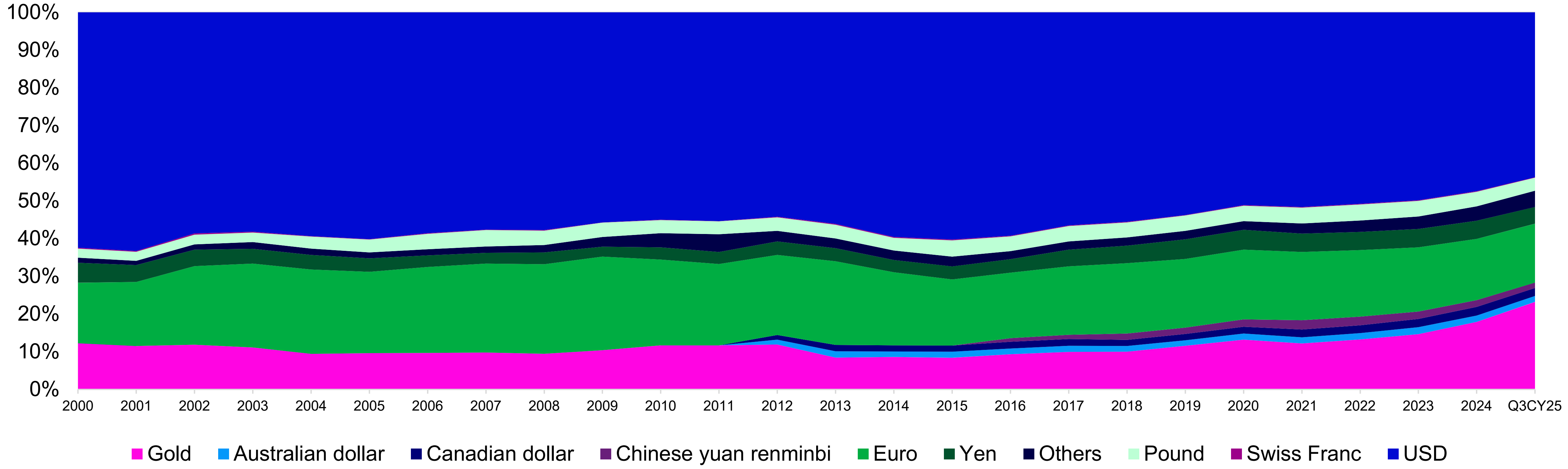
India Gold Demand (In tonnes)



Source: Morgan Stanley

Central Banks demand for USD has pivoted towards Gold

Global international reserves (in %)

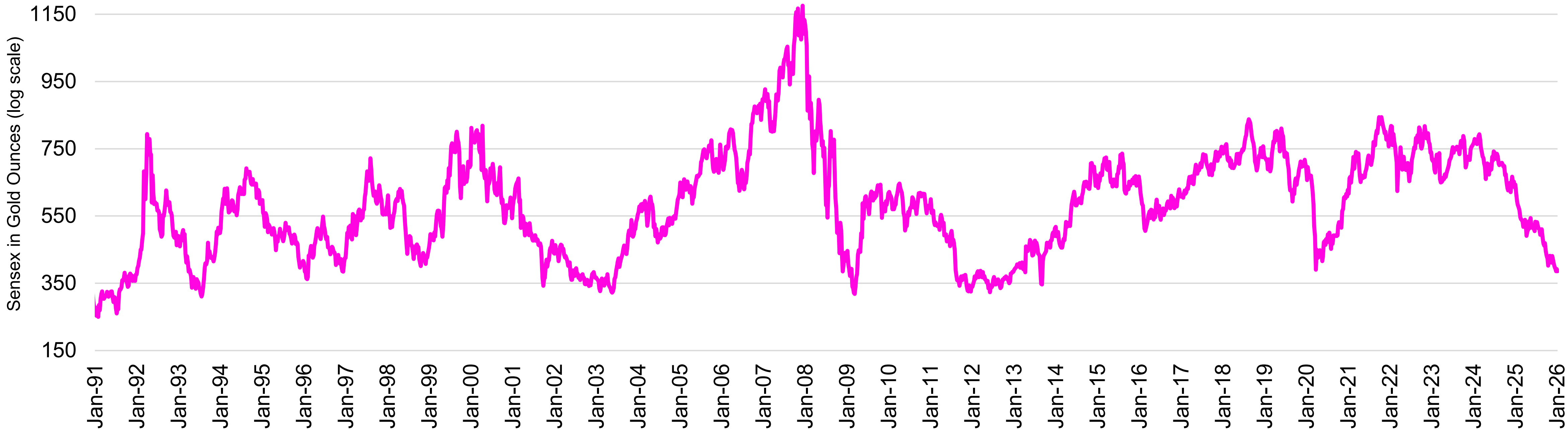


Source: Elara Securities Research

Disclaimer: It should not be construed as recommendations, advice to buy, sell or transact in any manner in these currencies neither should it be considered as Research Report from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund. It shouldn't be used for development or implementation of an investment strategy. Invesco Asset Management (India) Private Limited/Invesco Mutual Fund is not guaranteeing or promising or forecasting any return.

Equities have lost considerable ground to Gold in recent years. Can the trend reverse?

Sensex in gold terms, lowest since 2012



Source: Morgan Stanely.
Note: The above calculation is based on Sensex vs Gold Ratio.

Our Gold/Silver Ratio (GSR) framework

Gold/Silver Ratio (GSR)

Opportunity

- Gold: Uncorrelated returns vs. equity & debt; strong in volatility.
- Silver: Sharp, short-term outperformance during GSR extremes.

Insight

- 25-year GSR trend shows cyclicality with an upward bias.
- Deviations beyond ±1 SD signal allocation shifts for alpha capture.

Strategy:

- Dynamic allocation based on Gold Sliver Ratio (GSR) zones
- Core Zone (±1 SD): 80:20 Gold-Silver
- Outer Zones (±2 SD): Tactical overweight
- Extreme Zones: Maximize silver bursts

Source: Invesco Asset Management (India). Data as at 21 January 2026

Note: The above is to explain Gold / Sliver Ratio is currently much below -2 Std Dev of long-term linear regression indicating extreme overvaluation of Silver vs Gold, historically seen unsustainable and should not be construed as recommendations, advice to buy, sell or in any manner transact and neither should it be considered as Research Report from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund.

Putting the framework to work

Performance Analysis: Strategy vs. Alternatives

	Gold	Silver	Equal weight (Gold 50% & Sliver 50%)	Index (Gold 60% & Sliver 40%)	Strategy (Dynamic Allocation)
CAGR 1 year	88.1%	227.6%	140.1%	127.7%	148.8%
CAGR 3 Year	41.8%	65.0%	51.9%	49.7%	54.0%
CAGR 5 Year	26.8%	35.7%	30.9%	30.0%	34.1%
CAGR 10 Year	19.6%	24.7%	21.9%	21.4%	25.1%
CAGR (inception)	14.8%	14.9%	14.9%	14.9%	18.4%
Volatility 1 Y	18.0%	31.1%	21.3%	20.2%	22.2%
Volatility 3 Y	15.2%	28.7%	19.1%	17.9%	19.5%
Volatility 5 Y	14.6%	28.2%	18.7%	17.5%	18.4%
Volatility 10 Y	14.4%	26.9%	18.1%	17.0%	19.7%
Volatility (inception)	16.7%	28.7%	20.7%	19.6%	21.2%
Sharpe Ratio 1Y	4.53	7.11	6.28	6.01	6.42
Sharpe Ratio 3Y	2.36	2.06	2.40	2.44	2.46
Sharpe Ratio 5Y	1.45	1.07	1.36	1.40	1.55
Sharpe Ratio 10Y	0.91	0.68	0.85	0.88	0.95
Sharpe Ratio (inception)	0.50	0.29	0.40	0.43	0.56

Strategy:

- Dynamic allocation based on Gold Sliver Ratio (GSR) zones
- Core Zone (±1 SD): 80:20 Gold-Silver
- Outer Zones (±2 SD): Tactical overweight
- Extreme Zones: Maximize silver bursts

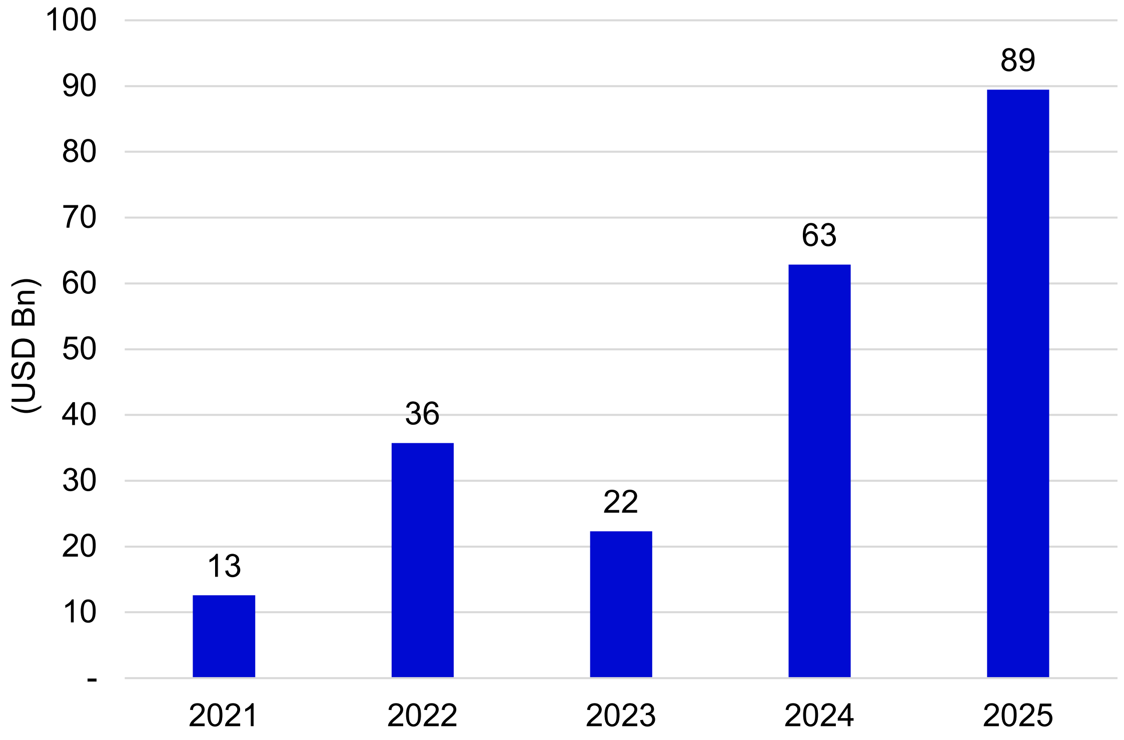
Outcome:

- Back-tested results: Higher risk-adjusted returns vs. Gold-only, Silver-only, and Equal Weight portfolios

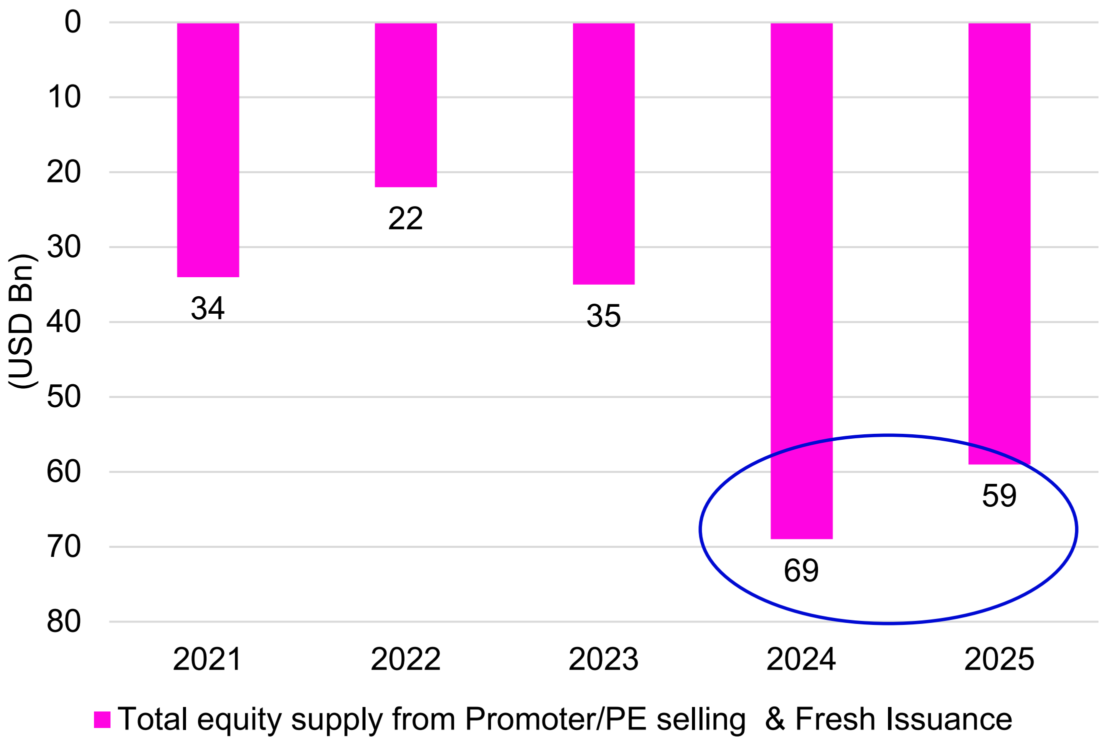
Source: Invesco Asset Management (India). Inception Date: 03 January 2000. Data as at 21 January 2026. Gold and Sliver prices are represented by International prices converted to INR.
Note : The above is to explain the concept of Dynamic allocation of Gold and Silver (Strategy) in the portfolio based on Gold / Silver Ratio level, which offers better risk adj return (Sharpe ratio) compared to static allocation over a medium to long time and should not be construed as recommendations, advice to buy, sell or in any manner transact and neither should it be considered as Research Report from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund.

Strong DII flows could not buoy markets higher as FII outflows and promoter supply offset

DII flows have remained strong in the past 5 years



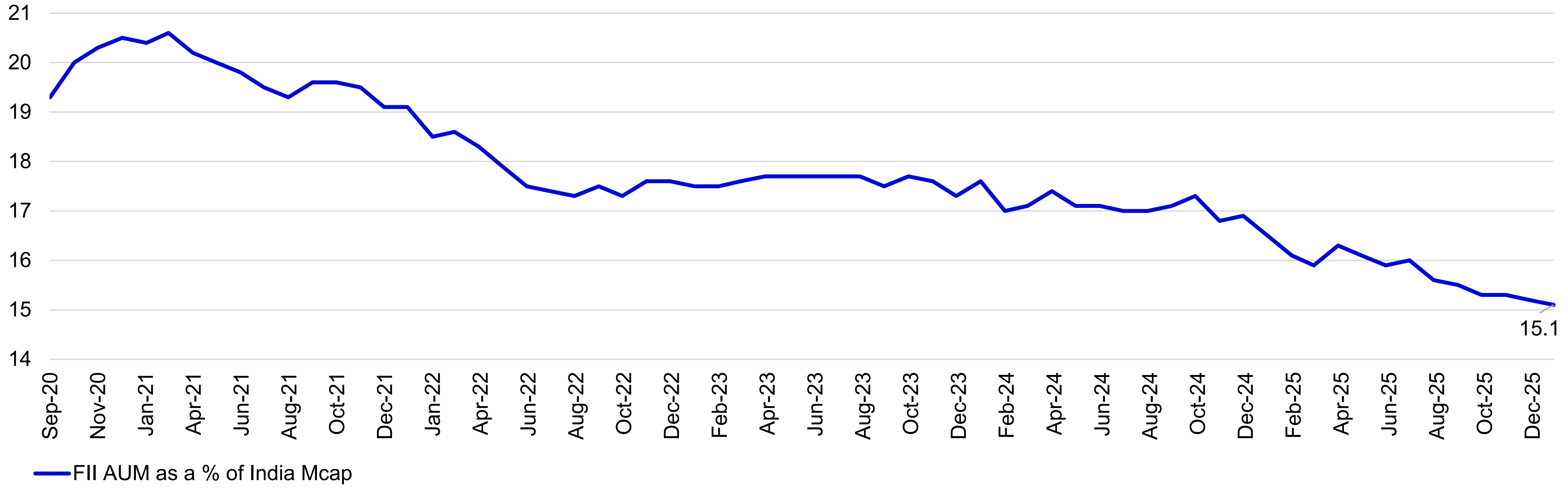
Promoter/Corporate supply also remained high



Source: Nuvama Research

FII AUM as a percentage of Indian market cap slipped down

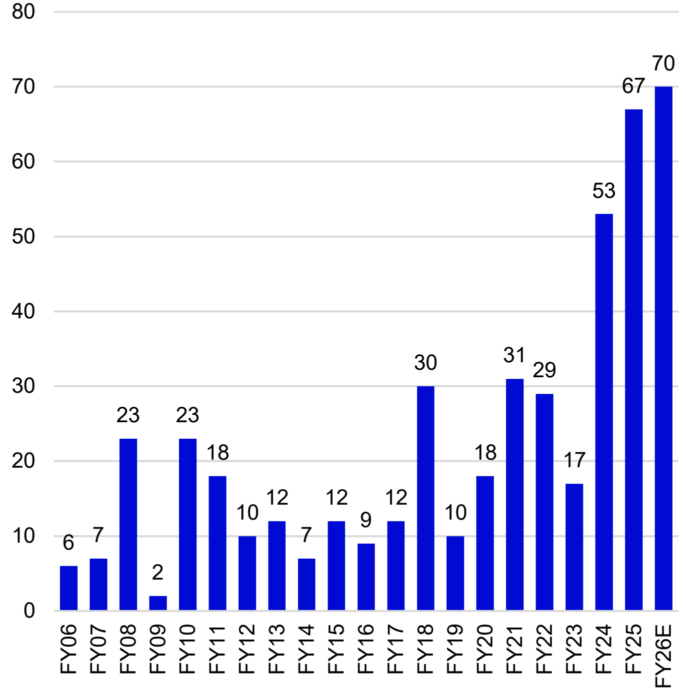
Monthly FII AUM as a percentage of India market cap



Source: CLSA

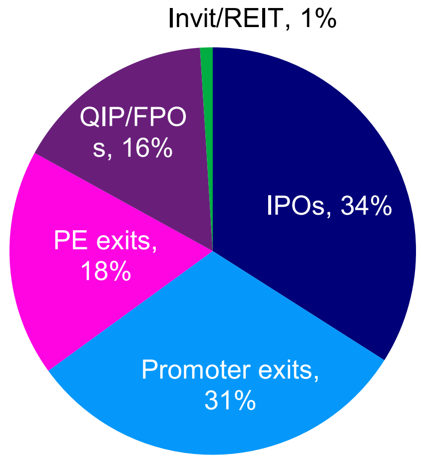
Equity supply to remain elevated - could cap market upside

Total equity supply
(USD Billion)

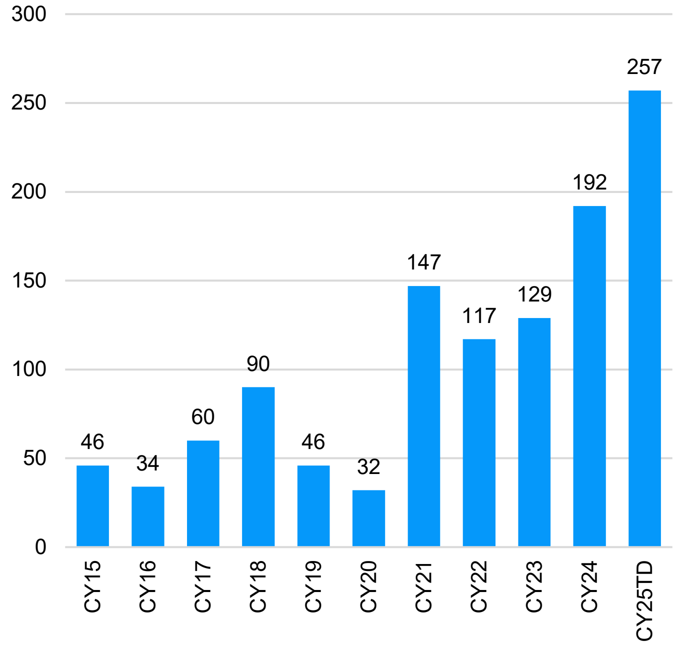


Equity fund raising through various instruments in CY25TD (Jan-Nov'25)

Total Equity supply in CY25TD (Jan-Nov25): US$ 56bn



No. of DRHP's filed with SEBI annually
(Count)

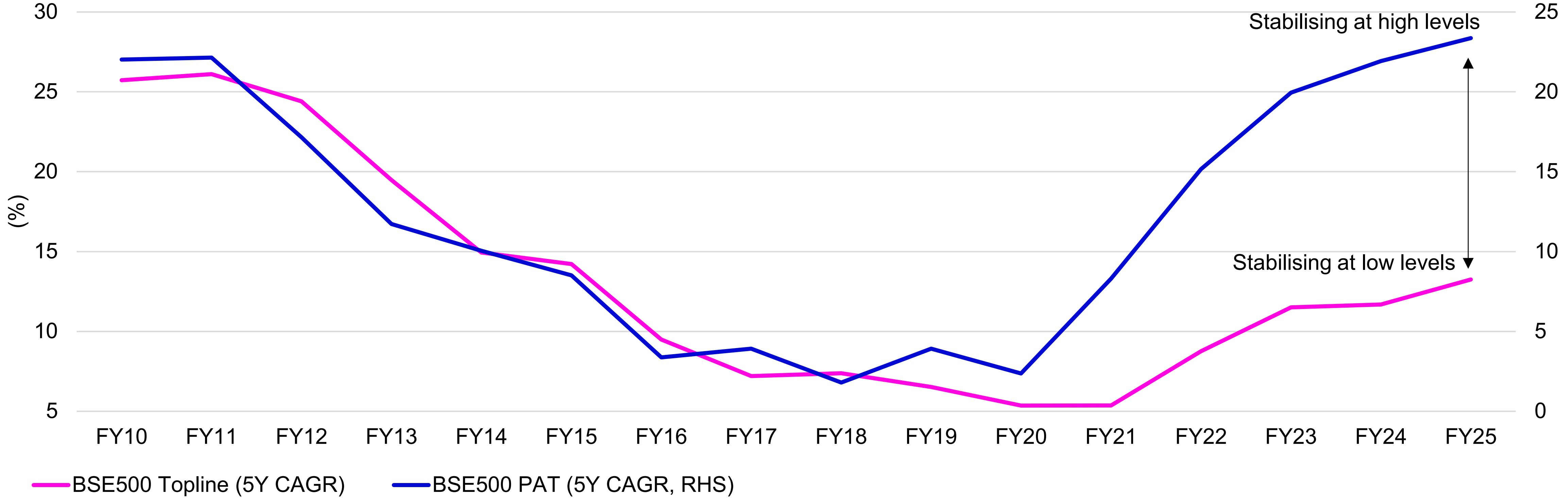


Source: Jefferies. DRHP: Draft Red Herring Prospectus.

Earnings and Valuations

Post-covid, India Inc has reported a good improvement in profits while top line has been lackluster; this needs to change

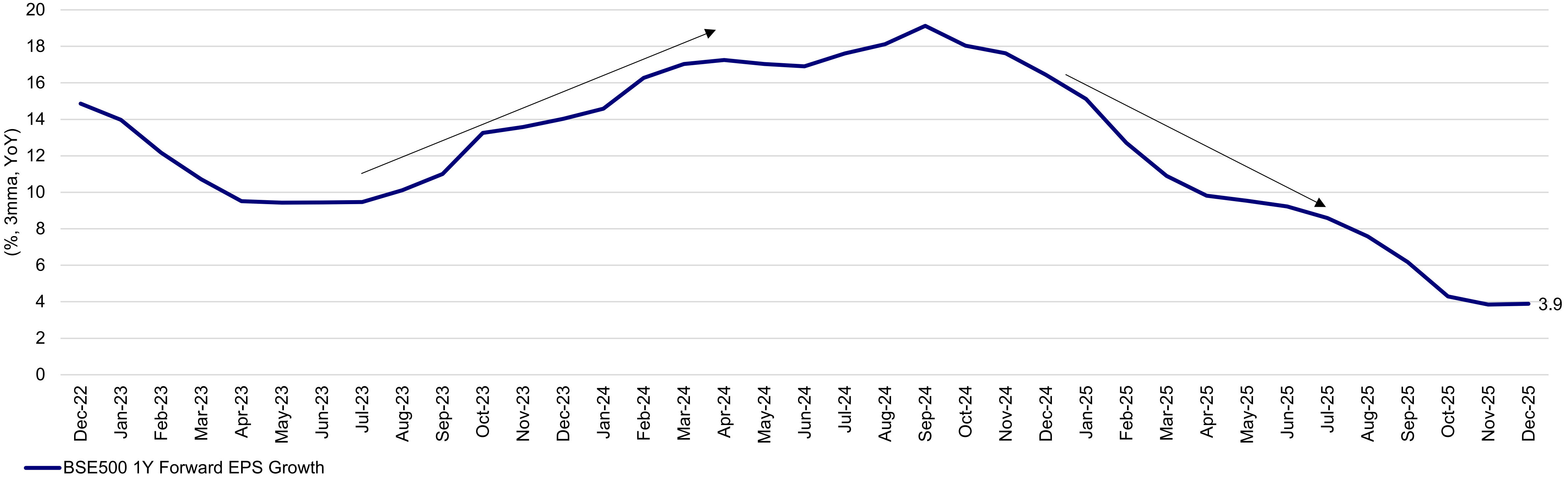
Profit growth diverges from weak top-line growth



Source: Nuvama Research

Earnings downgrade cycle has been steep but is likely bottoming out

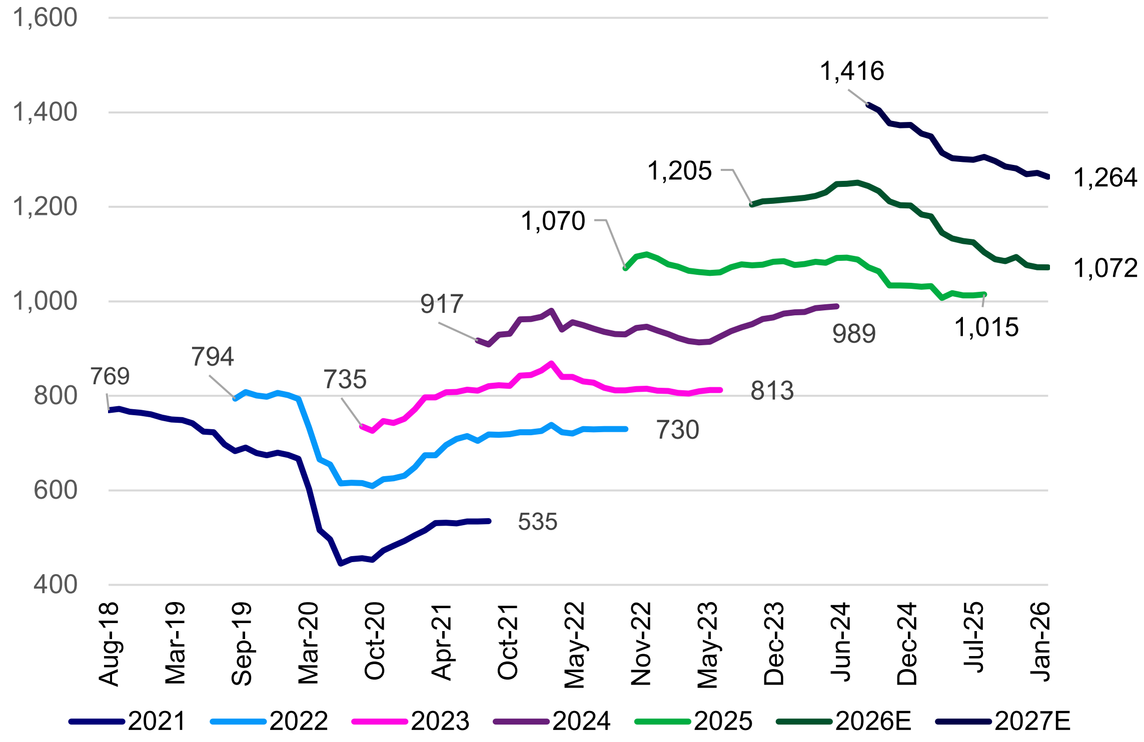
Sharp deceleration in 1Y forward earnings growth



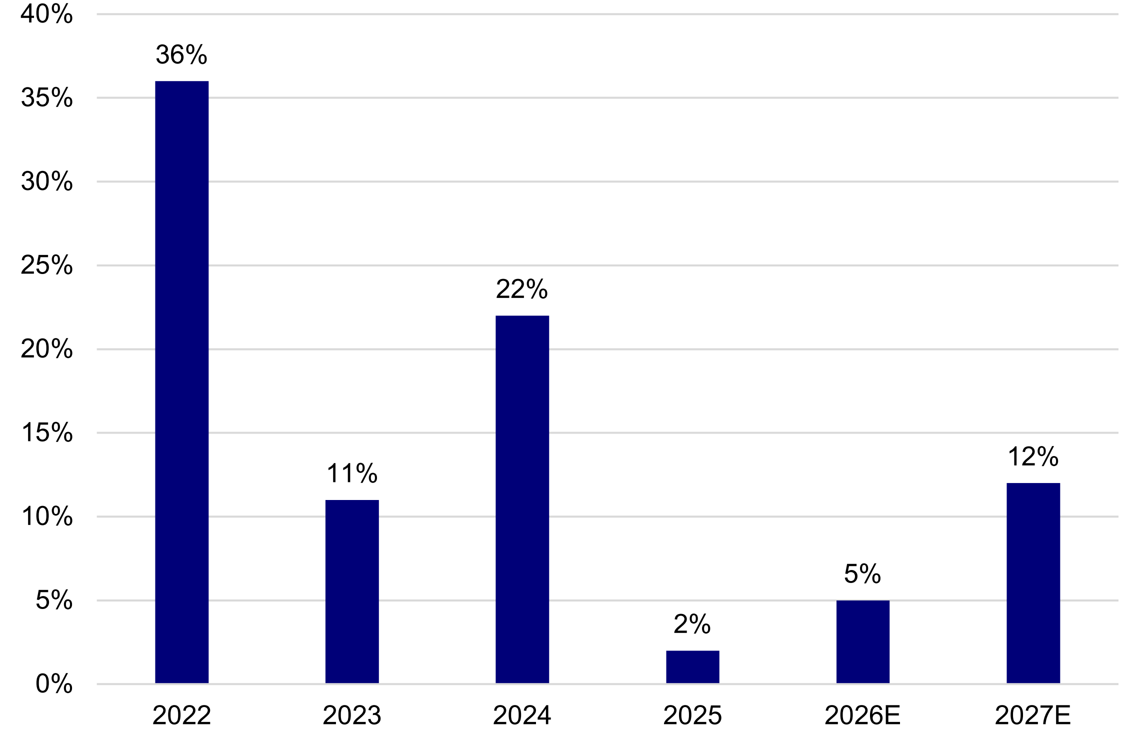
Source: Nuvama Research. 3MMA: 3 months moving average.

EPS growth downgraded – expected to pick up pace in FY27

Nifty-50 EPS estimates



Nifty-50 EPS Growth



Past performance may or may not be sustained in future. Source: Kotak Institutional Equities. E: Estimates.
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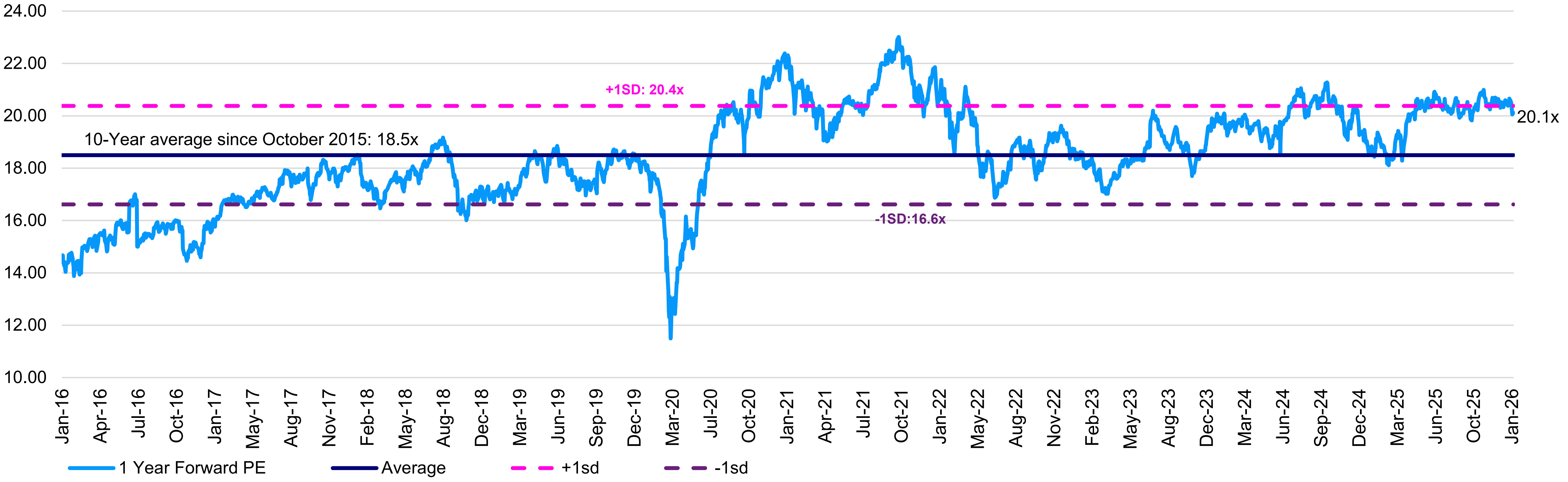
Nifty 50 valuations hover around the +1-sigma mark

1-Year Forward P/E – Currently trading at +1SD to its long-term average



Past performance may or may not be sustained in future.

Source: Bloomberg, Invesco Asset Management (India) Research, Bloomberg. PE: Price to Earning- 1 Year forward PE. Data as on 12 January 2026.

Note: +1 Standard deviation is calculated by adding standard deviation of 1 year forward PE to its own average. It denotes that valuation/data is not exceptionally high.

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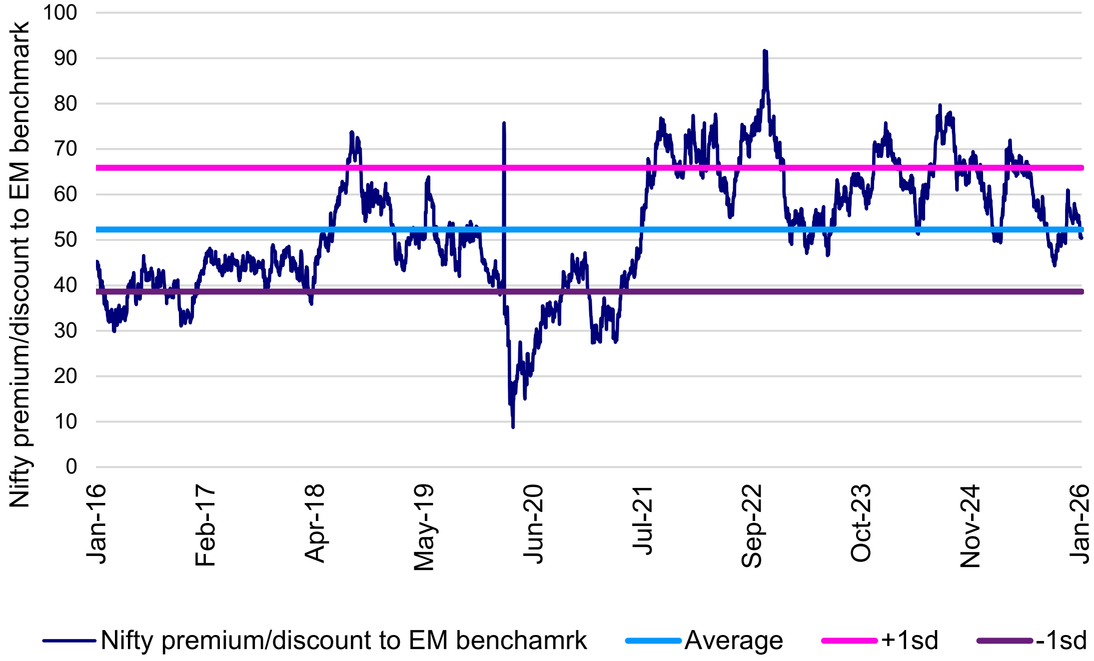
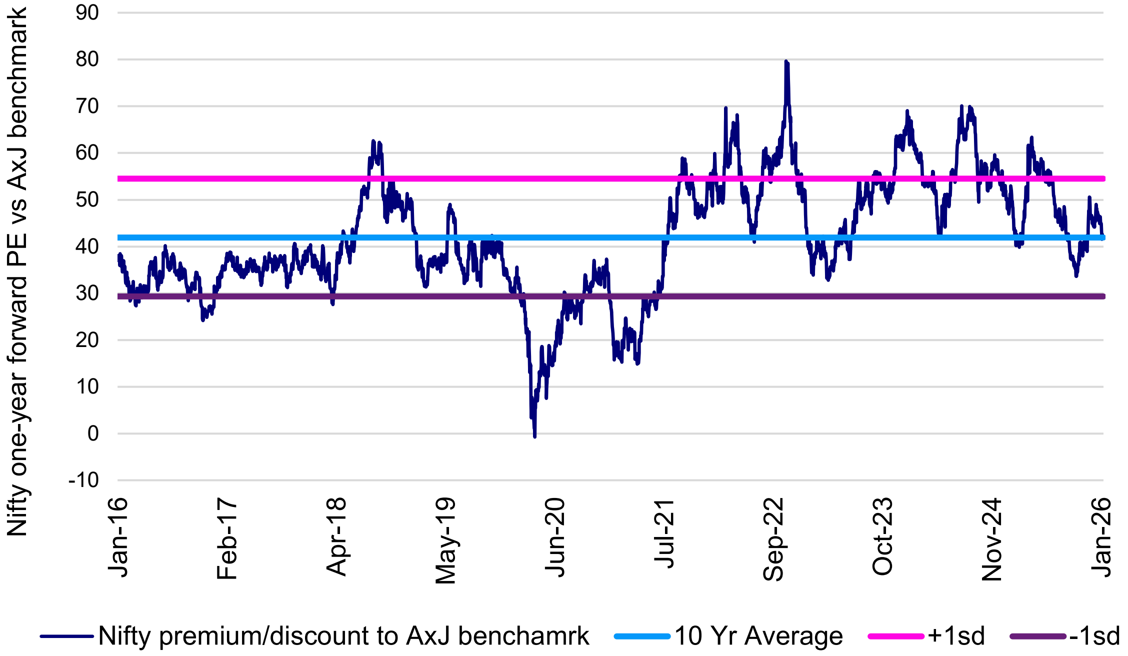
Nifty 50 premium to emerging markets corrected sharply – now trades below 10-year average

Nifty 50 one-year forward PE premium to EM benchmark trades below 10-year average



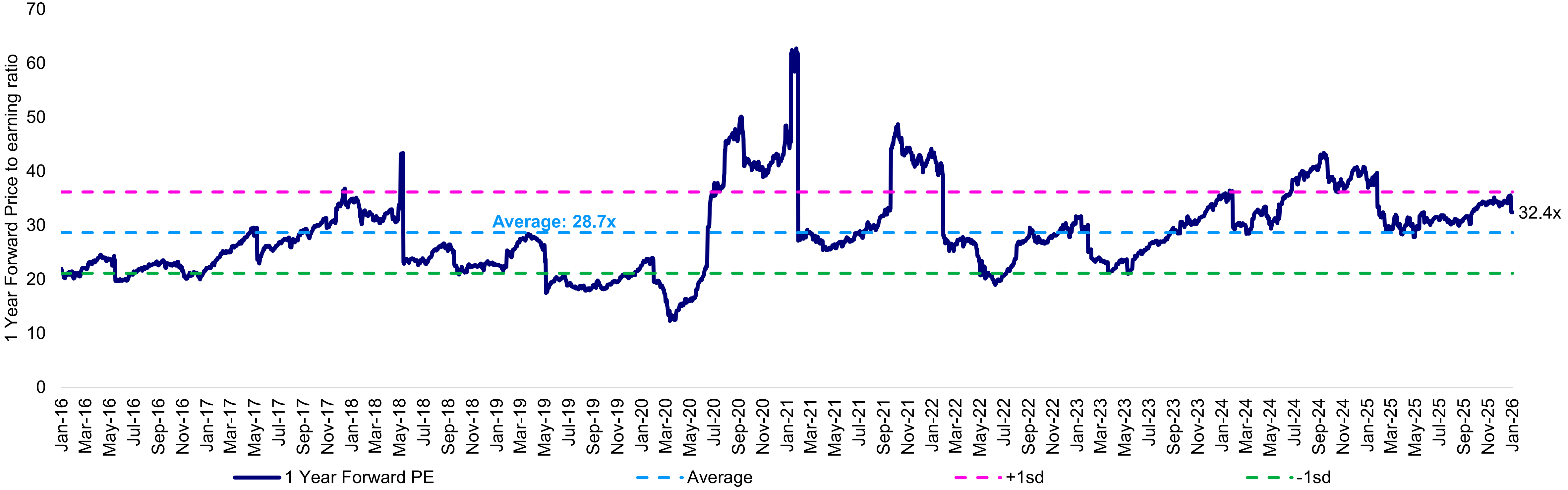
Nifty 50 one-year forward PE premium to AxJ benchmark closer to 10-year average



Source: Bloomberg, CLSA. EM: MSCI Emerging Market Index. AxJ: MSCI Asia Index (ex Japan). Data as at 12 January 2026.
Disclaimer: The above chart is for information purposes only and should neither be used for the development or implementation of an investment strategy nor construed as an investment advice to any party

Midcap valuations slightly above long-term averages – faster earnings growth temper the forward multiples

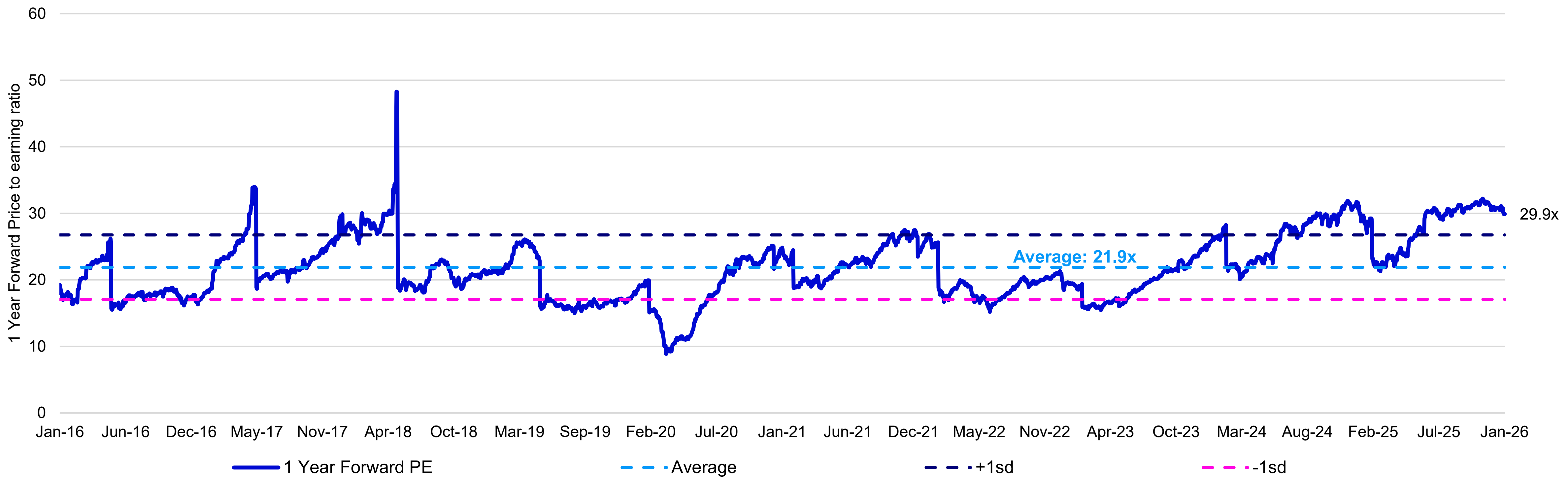
Mid cap valuations (Nifty Midcap 100)- based on 1 year forward PE



Past performance may or may not be sustained in future. Source: Invesco Asset Management (India) Research, Bloomberg, Kotak. Data as on 12 January 2026. The above chart is for illustration purpose only and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party or construed as a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.
SD: Standard Deviation. **Note:** +1 or -1 Standard deviation is calculated by adding or subtracting standard deviation of 1 year forward PE to its own average. It denotes that valuation is not exceptionally high or low.

Smallcap valuations still elevated but overall set-up appears attractive for investment from a 2–3-year horizon

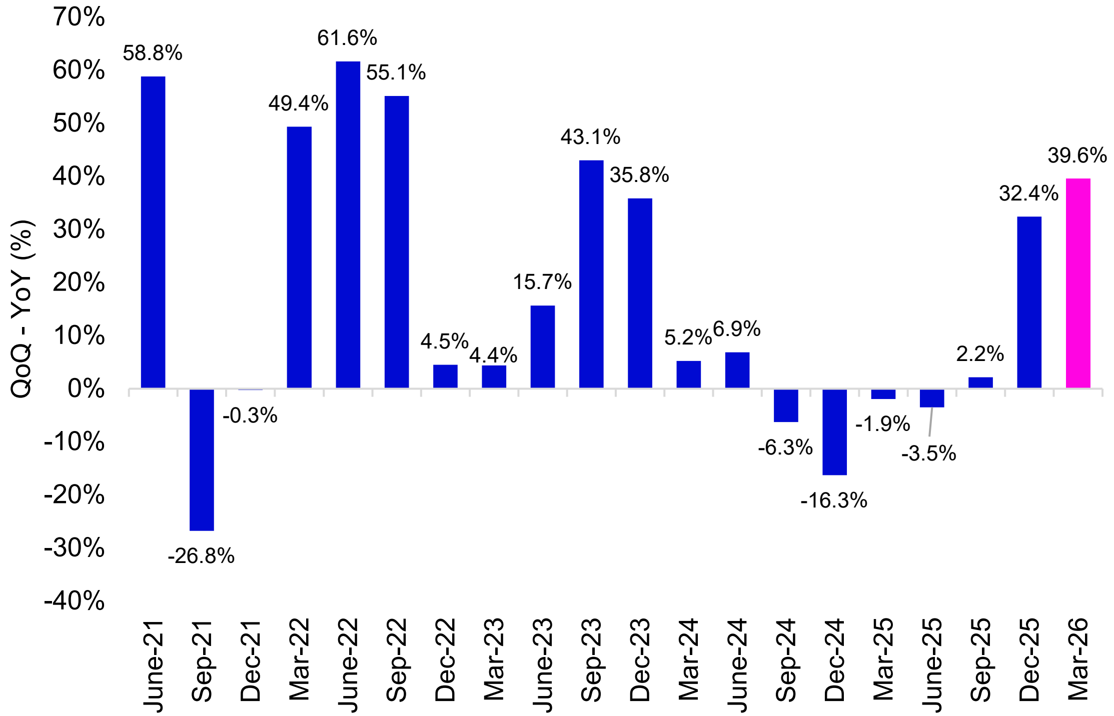
Small cap valuations (BSE 250 Smallcap Index)- based on 1 year forward PE



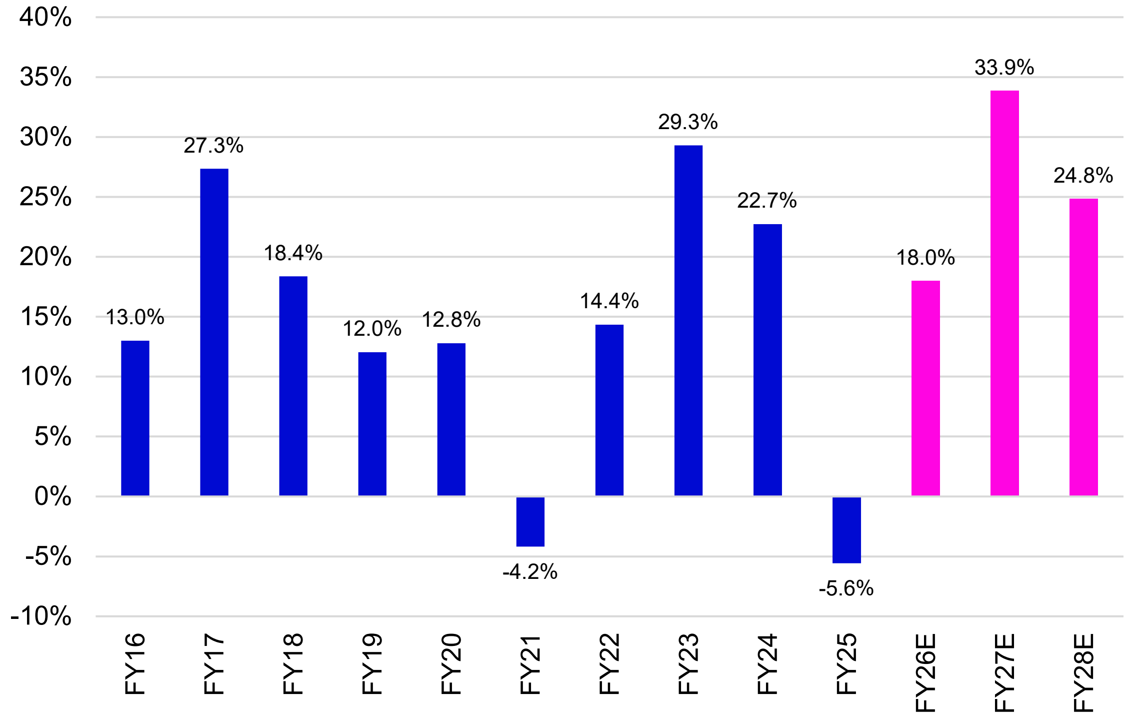
Past performance may or may not be sustained in future. Source: Invesco Asset Management (India) Research, Bloomberg, Kotak. Data as 12 January 2026. The above chart is for illustration purpose only and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party or construed as a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.
SD: Standard Deviation. **Note:** +1 or -1 Standard deviation is calculated by adding or subtracting standard deviation of 1 year forward PE to its own average. It denotes that valuation is not exceptionally high or low.

Smallcap earnings revival is on the cards

PAT Growth – QoQ - YoY (%)



PAT Growth - YoY (%)



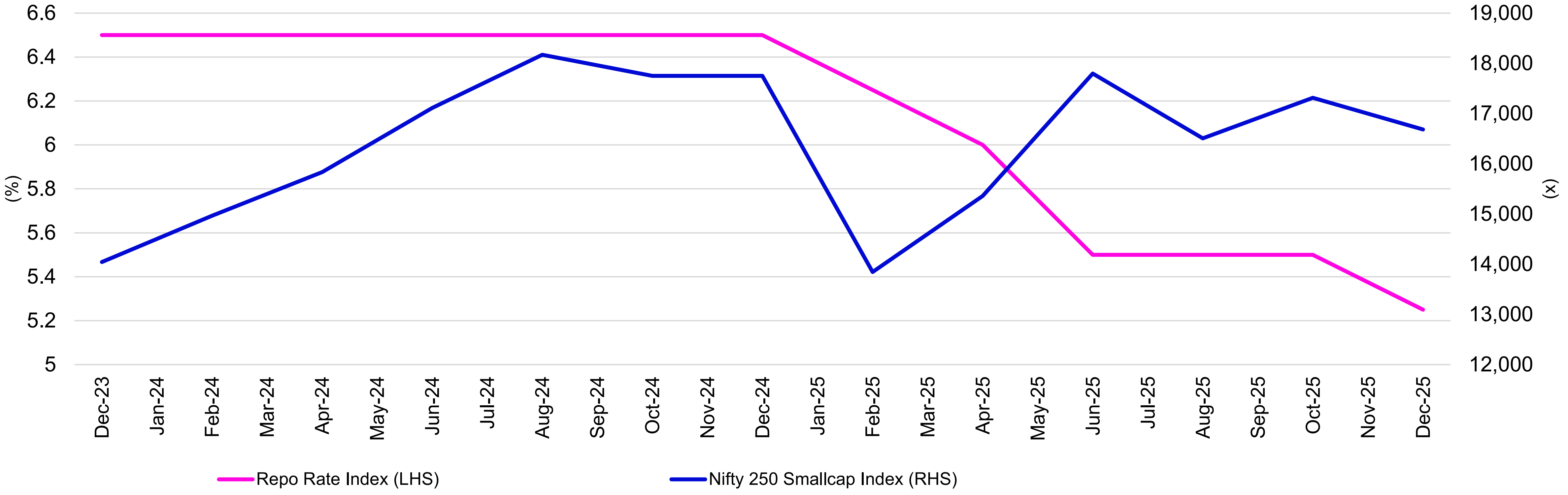
Past performance may or may not be sustained in future. Source: Motilal Oswal. PAT: Profit After Tax. [1]E: Estimates.

Note: The Small Cap universe consider for the here are of Motilal Oswal and around 166 companies are covered based on SEBI defined criteria. Pursuant to para 2.7 of SEBI Master Circular dated June 27, 2024: Large Cap companies mean 1st - 100th company, Mid Cap companies mean 101st - 250th and Small Cap companies mean : 251st company onwards in terms of full market capitalization based on average of full market capitalization of the stock on all such stock exchange or such other companies specified by SEBI, which is updated every six months as on end of June and December, each year.

Disclaimer: The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied.

Smallcaps have corrected despite policy easing

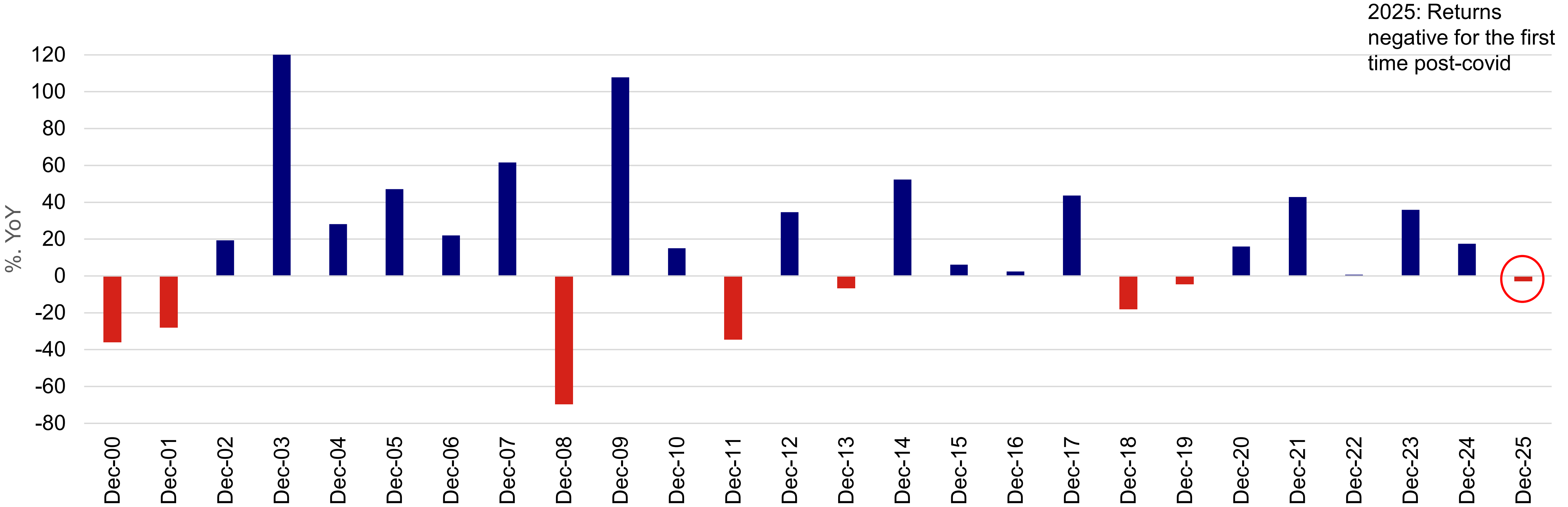
Small caps remain weak despite 125 bps rate easing



Source: Nuvama Research

Median stock returns turns negative for the first time in five years

Median BSE 500 Returns



Source: Nuvama Research

Fixed Income Outlook

Indian Fixed Income Market : Amidst elevated fiscal supply and global overhang

Domestic Macros

- Growth was strong in Q2FY26 at 8.2%, on top of a strong Q1FY26 growth of 7.8%. However, nominal growth was weak, partly supported by low inflation. Growth is expected to moderate in 2HFY26 due to lower fiscal impulse, weaker exports. However, FY26 growth is expected to remain healthy at around 7.3-7.4%
- Good monsoon season and a steady core inflation should help to bring FY26 inflation to ~2%
- US tariffs of 50% could impact exports, and hence growth. Exports to US is 2% of GDP, which is much lower than APAC EMs, but still material

Monetary Policy

- Policy rate cut by 125 bps since Feb'25
- Rates are expected to be towards the fag end of the cutting cycle. While we do not expect further cuts in a baseline scenario, we could see maximum of 1 more cut in case of a slowdown in growth. This is likely to be followed by an elongated pause
- Inflation is expected to remain benign supported by healthy monsoon, robust kharif sowing and GST rate cuts
- Focus is likely to shift to liquidity management policies from the central bank through additional OMOs and forex swaps. Large OMOs are expected to continue in FY27

Fiscal demand-supply

- Fiscal consolidation continues with FY27 fiscal deficit budgeted at ~ 4.3%.
- Govt has articulated the commitment to bring debt / GDP below 50% +/- 1% by FY30
- However, even with the fiscal consolidation, gross G-Sec supply is elevated at Rs 17.2 lakh cr in FY27. Additionally, State's cumulative fiscal deficit is expected to remain elevated, keeping higher SDL supply
- Overall, fiscal demand-supply dynamics is expected to remain an overhang in FY27 and will test the market appetite, especially in the absence of any more rate cuts and foreign participation
- RBI may continue to do OMOs which can release some demand side pressure to an extent

External factors

- Global conditions remain volatile as many global central banks come to end of rate cut cycle and as fiscal pressure remain elevated
- India's current account deficit has been manageable due to strong services exports and remittances. Foreign exchange reserves remain near all time highs, providing meaningful cover to absorb global volatilities
- However, capital account is witnessing pressure on account of FDI repatriation and portfolio outflows. FPI's outflows also remain elevated. US tariffs of 50% will be a key monitorable from a CAD perspective, as well as from a sentiment perspective impacting portfolio flows
- Currency under pressure has added to the negative Market sentiments

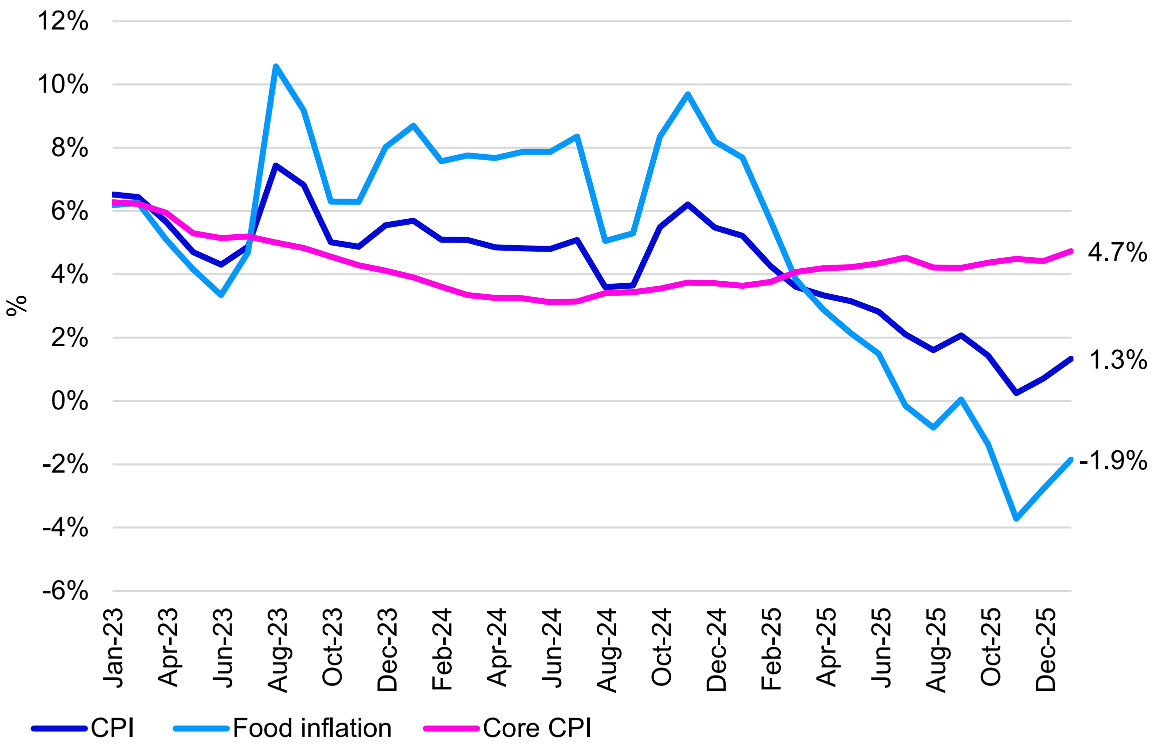
Risk factors

- US's tariff policies can impact exports and growth (India's exports to US at 2% of GDP). Impact is lower than other EMs, but still meaningful
- Geo-political risks can flare up the energy prices impacting the inflation trajectory
- Continued high fiscal deficits by developed economies can cause global bond yields to remain elevated and thereby cause capital flows in EMs to be moderate

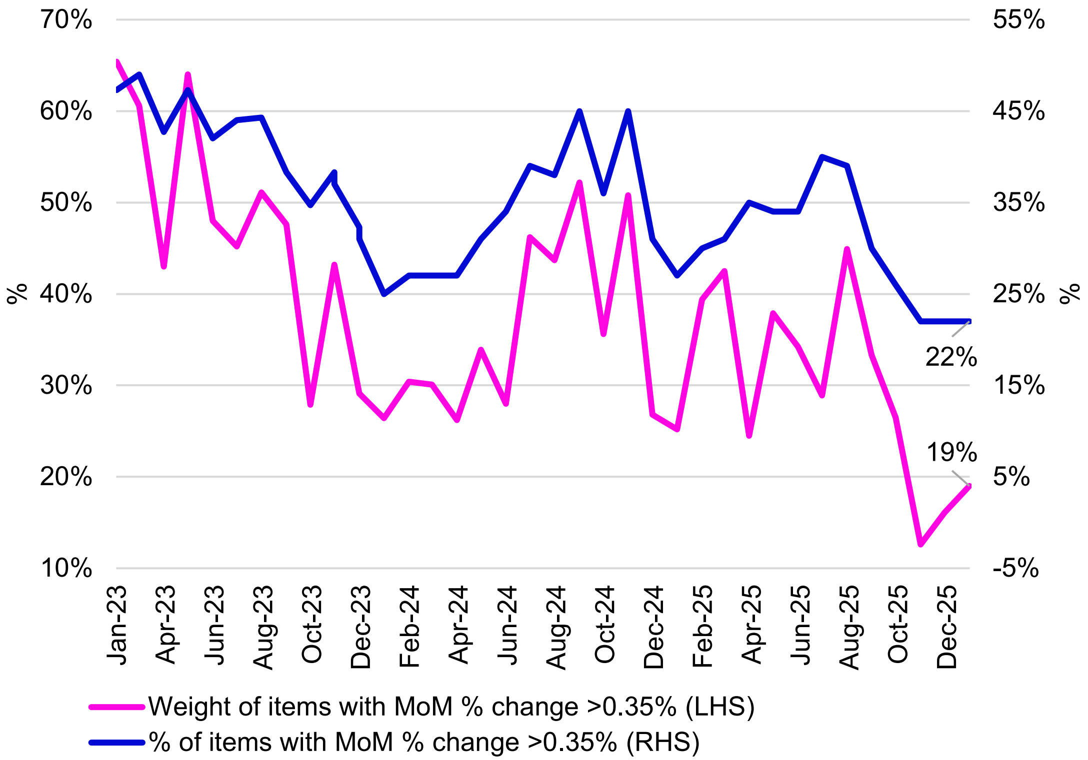
Source: Invesco Asset Management (India), Bloomberg, RBI. OMOs – Open Market Operations, FDI – Foreign Direct investments, FPI – Foreign portfolio Investments. CAD – Current Account Deficit. **Note:** The above views are based on prevailing market condition and subject to change from time to time.

Moderation in inflation is broad based

Food inflation



MoM% change in CPI components

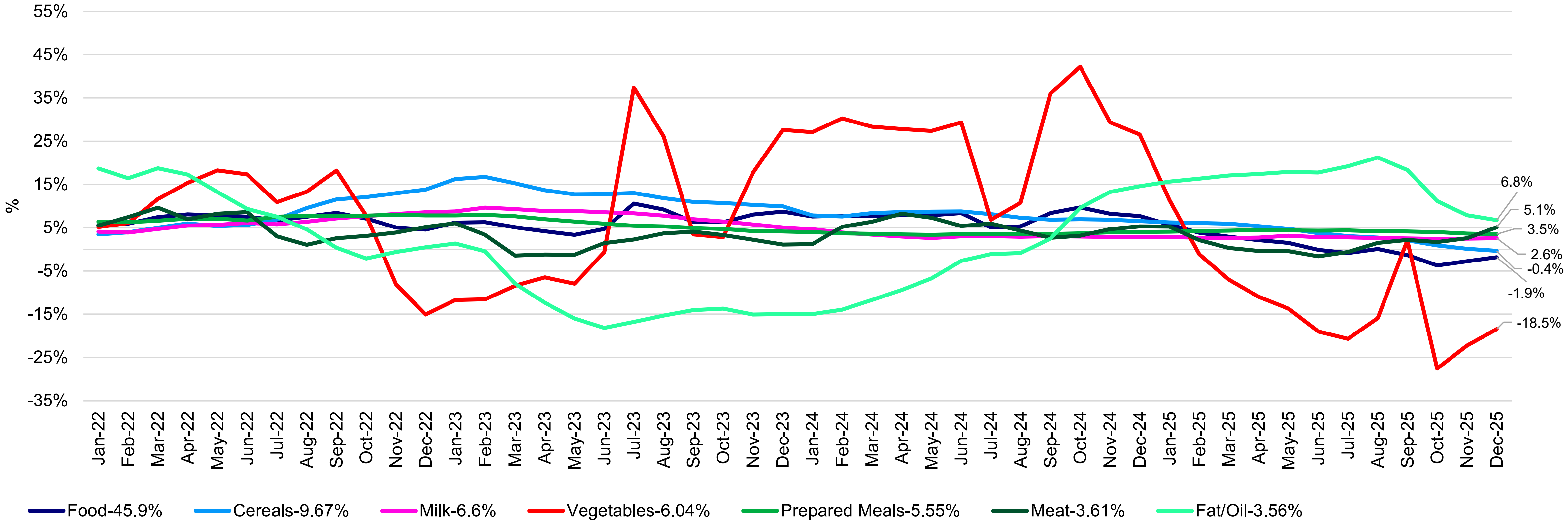


- Core inflation has been inching up from low levels due to increase in prices of precious metals. However, core inflation continues to remain within comfortable levels.
- % and weight of components which are showing MoM % change >0.35% have come down from the highs in Jan 2023.

Source: CMIE / Bloomberg.

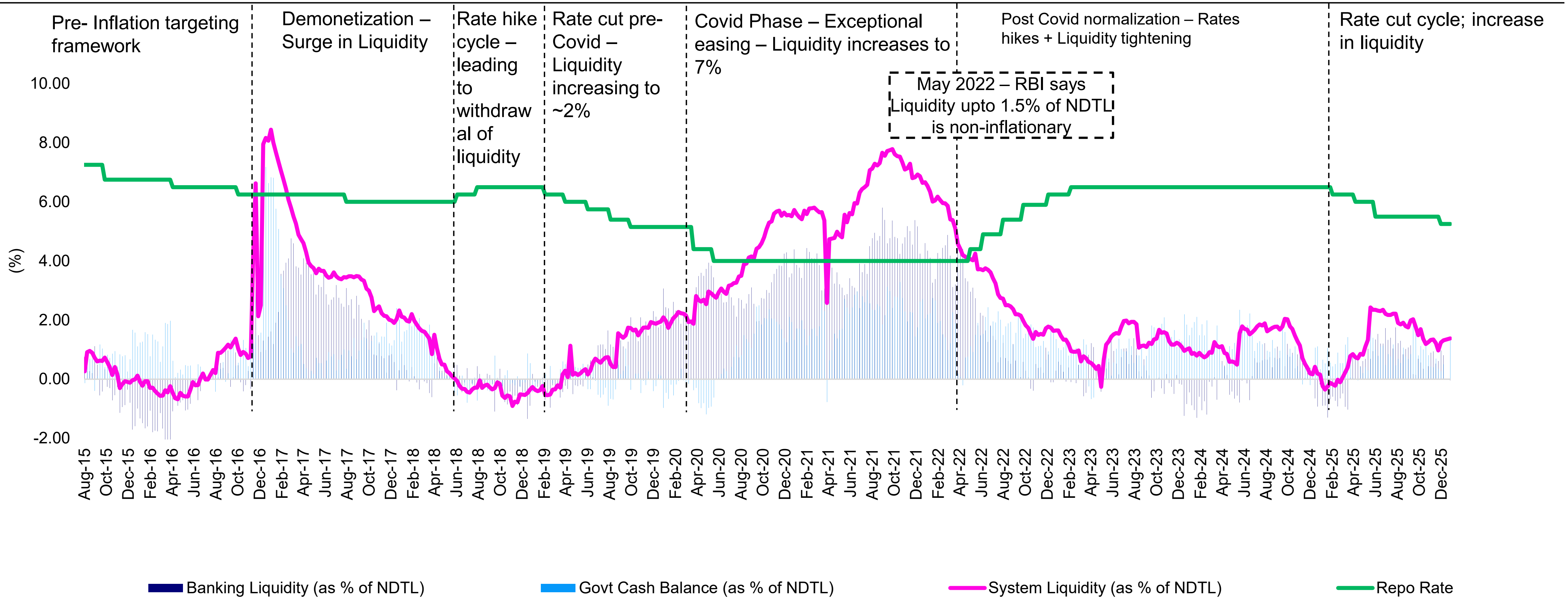
Sharp cooling off in vegetable inflation has led to moderation in food inflation. GST rate cuts and strong Rabi production will keep inflation moderate

Components of food inflation and their weights in overall inflation basket



Source: Bloomberg.

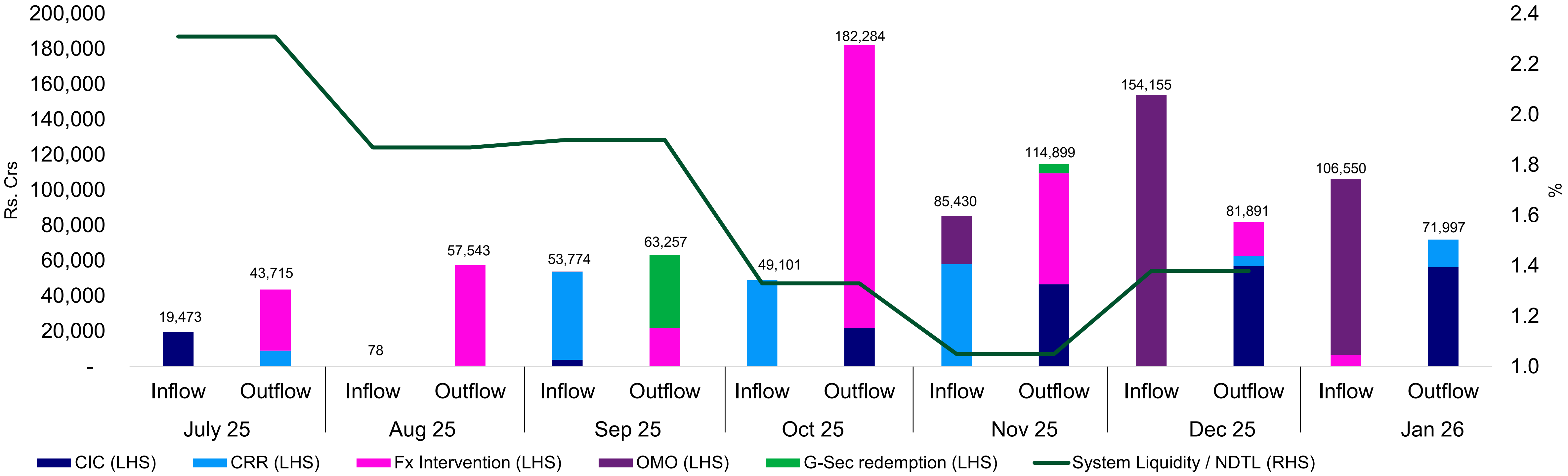
Liquidity remains in a narrow range of 1-2% of NDTL



Source – Bloomberg

Disclaimer - The above chart is for illustration purpose only to show movement of system liquidity during various phases of rate cycle. The information alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy.

As RBI's intervention is constraining the liquidity; RBI is actively providing liquidity through OMOs & Fx Swaps



Source: RBI, Bloomberg.

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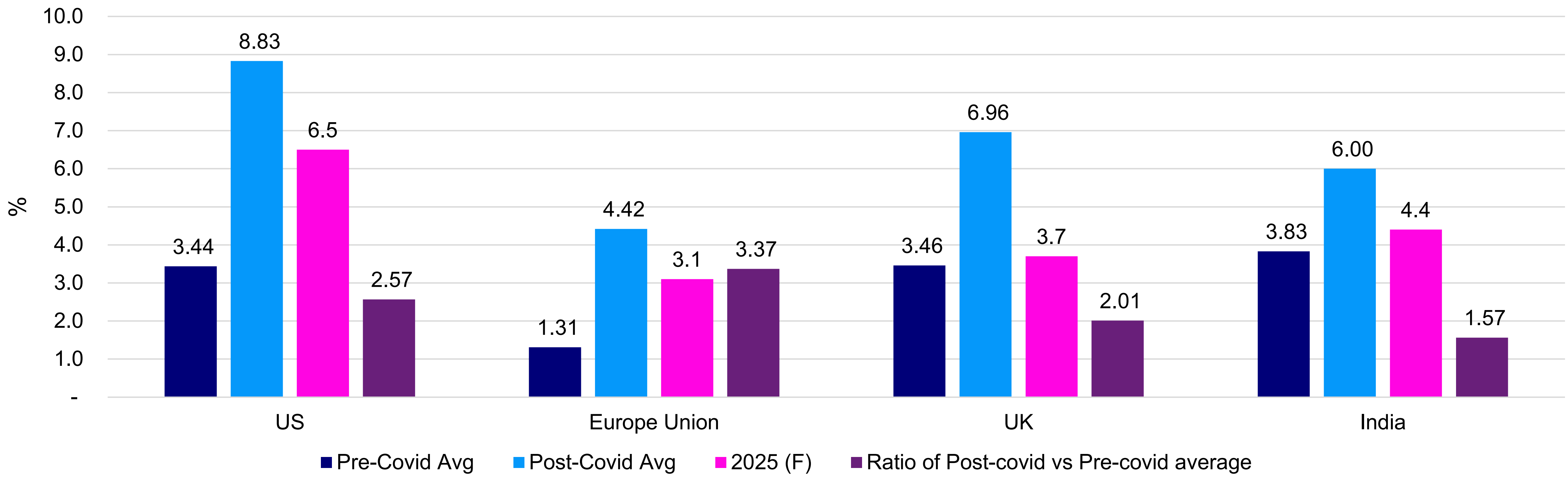
Fiscal deficit in US running high vs pre-covid average. India fiscal deficit post covid increased at a lower rate compared to US, Europe and UK

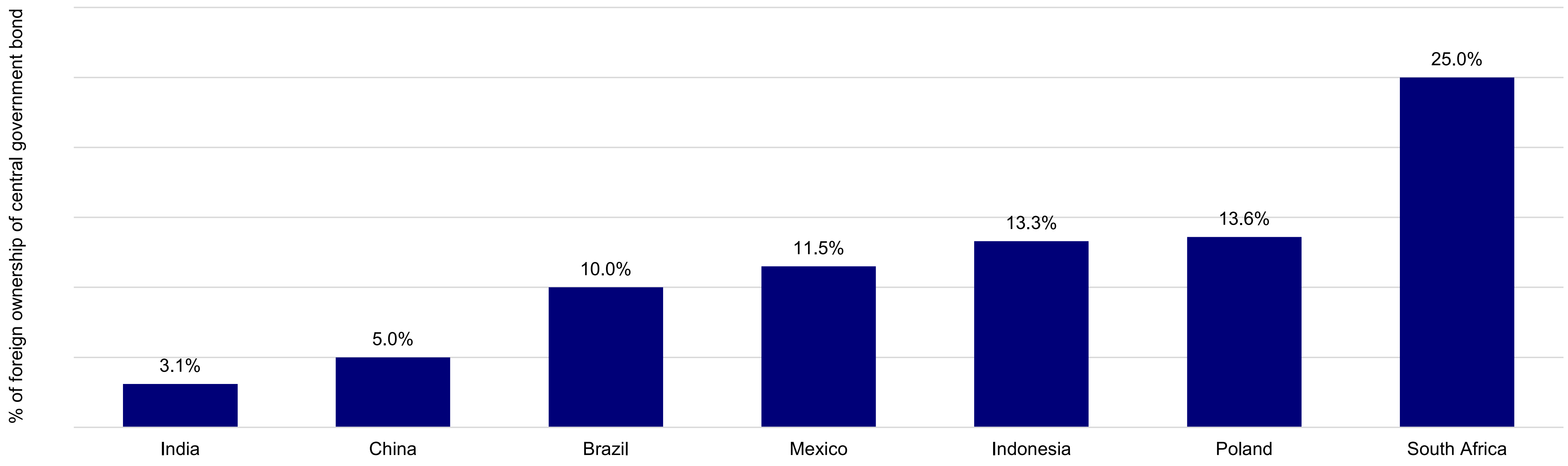
Annual Fiscal Deficit % of GDP



Source: Bloomberg; IAMI. Pre-Covid average is for 2014 to 2019. Post Covid average is for 2020 to 2024. For India annual data is for Fiscal year and for US and UK is for calendar year.

Indian bonds remain under-owned by foreign investors. Bond index inclusion continues to be a meaningful positive catalyst

Foreign ownership of central government bonds

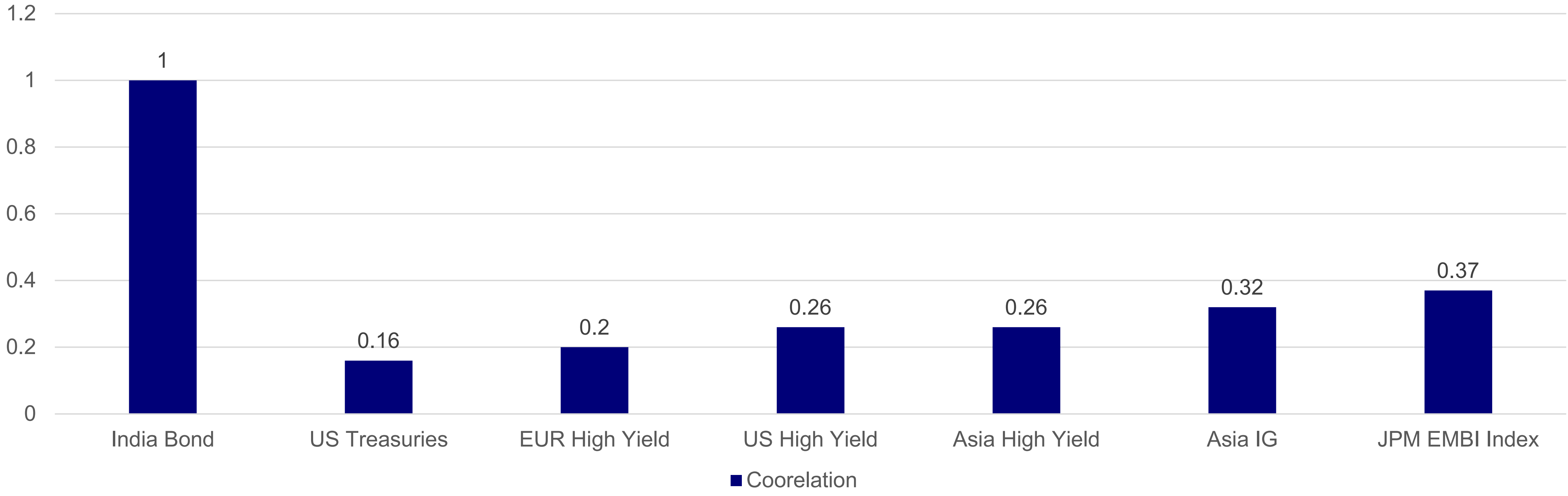


Despite index inclusion, foreign ownership of Indian bonds remains low in comparison to other EMs

Source: Bloomberg. HSBC. The number only includes pure nominal local currency central government bonds, which is a better reflection of foreign ownership. Data as per HSBC dated Jan 23, 2026

India Bonds provides low correlation vs Global / Emerging market bonds

Correlation vs India Bond



Source: Bloomberg. Data since 30 September 2015 till 30 September 2025. Weekly observation is applied.
India Bond is represented by Markit iBoxx ALBI India TRI Index. US Treasury is represented by Bloomberg US Treasury Index. EUR HY is represented by Bloomberg Pan-European High Yield Index. US HY is represented by US Corporate High Yield Index (2% Issuer Cap). Asia HY is represented by J.P. Morgan JACI Non-Investment Grade Total Return Index. Asia IG is represented by J.P. Morgan JACI Investment GradeTotal Return Index. JPM EMBI Index is represented by J.P. Morgan EMBI Global Diversified Composite Index.

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