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TRU INSIGHTS

March 2025

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From the MD & CEO's desk

"Amid global trade uncertainties and persistent FPI outflows, India's improving macroeconomic conditions and policy support signal resilience. Normalizing valuations and fiscal measures are expected to aid recovery, with large caps offering stability in the near term."

Dear Investors,

Indian equities fell for the fifth month in a row, despite a well-balanced Union Budget aimed at reviving consumption, RBI's dovish 25 bps rate cut and other liquidity improvement measures announced by the RBI. The escalation in the global tariff war weighed on sentiment, leading to sustained selling pressure. Foreign Portfolio Investors (FPIs) remained net sellers for the fifth consecutive month, offloading Indian equities worth around ₹59,000 crore in February 2025. Average daily turnover (ADTO) on the exchanges fell sharply in February, exacerbating the impact cost of FII selling.

Q3FY25 earnings were largely subdued, in line with expectations, and provided little support to markets. However, there was marginal improvement sequentially, with large caps reporting better yoy earnings growth than mid and small caps. Management commentary indicated that rural consumption continued to outpace urban growth, driven by a healthy monsoon, strong reservoir levels, and robust Rabi sowing. While urban demand remains a concern, tax benefits from the Union Budget and the RBI's rate cut cycle should help disposable incomes and reduce borrowing costs, thereby supporting consumption recovery.

Though domestic macroeconomic indicators appear to have bottomed out and are poised for improvement, global uncertainties persist. The U.S. president has escalated the use of tariffs as a negotiation tool, with 25% tariffs on Canada and Mexico coming into effect from 4th March 2025, though the auto sector and goods & services covered by the United States–Mexico–Canada Agreement were exempted from the tariffs. Tariffs on China were hiked which imposed counter tariffs on the U.S. Additionally, the U.S. has threatened reciprocal tariffs on the European Union, India, and other countries from 2nd April citing high import duties imposed on American goods by target countries.

While in all likelihood the global tariff war may prove to be temporary, with the U.S. president using it as a negotiating tool in order to pursue his America first policy, volatility will remain elevated globally and in India till the time trade deals are not in place. However, improving domestic macros and improving corporate earnings growth in FY26, coupled with more reasonable valuations relative to what they were at their peak, should limit downsides from current levels.

Despite near-term volatility, I firmly believe that equities will continue to outperform other asset classes over the long run, given India's strong economic growth trajectory which will help drive equitization of savings. The current market correction, in my view, presents an attractive opportunity for investors to accumulate high-quality growth stocks at reasonable valuations. From an allocation standpoint, we maintain our preference for large caps as they offer better risk adjusted returns vis-à-vis mid/small caps supported by higher earnings growth and relatively better valuations.

In this edition of Tru Insights, we provide a comprehensive recap of key global and domestic macroeconomic trends, an equity outlook where we cover key highlights of the Q3FY25 results season, fixed income outlook and a deep dive into "SIP strategies during market volatility". And as always, you will find a curated collection of insightful essays in our Reading Room.

I trust that you will find Tru Insights to be a valuable resource in navigating market developments and making well-informed investment decisions.

Warm Regards

Dhiraj Relli
MD and CEO – HDFC Securities

Macro Economic Highlights

Global Trade, Inflation and Geopolitics: Key Economic Shifts in 2025

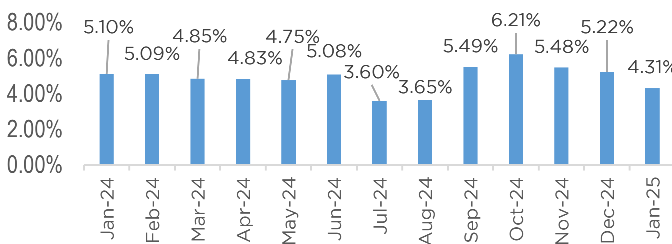
India's GDP growth picked up in Q3 FY25, while inflation eased, increasing chances of another RBI rate cut. The fiscal deficit widened, but services rebounded, and GST collections remained strong. OPEC plans to boost oil production, influencing India's energy costs.

Domestic Macro Highlights

GDP Outlook: India's Gross Domestic Product (GDP) growth accelerated to 6.2% in the third quarter of fiscal year 2024-25 (October-December 2024), up from 5.4% in the previous quarter. This uptick is attributed to improved rural consumption following a favorable monsoon and increased government expenditure. Consequently, the full-year GDP growth estimate for FY25 has been revised upward to 6.5%, positioning the economy on track to reach the $4 trillion mark in FY26. The 2023-24 GDP growth estimate has been revised sharply upwards by 100 bps to 9.2% from the earlier 8.2%, making the growth during the financial year one of the fastest in the last decade. However, this upward revision also highlights a sharp deceleration from the revised 9.2% in FY24 to the projected 6.5% in FY25.

Inflation: India's retail inflation, measured by the Consumer Price Index (CPI), declined to 4.31% in January 2025, down from 5.22% in December 2024. This decrease is primarily due to a significant drop in food prices, with food inflation falling to 6.02% in January, the lowest since August 2024. The Reserve Bank of India (RBI) responded by cutting the repo rate by 25 basis points to 6.25% on February 7, 2025, and the continued decline in inflation may provide room for further rate cuts to support economic growth.

India CPI Inflation



Source: Tradingeconomics, Federal Researve

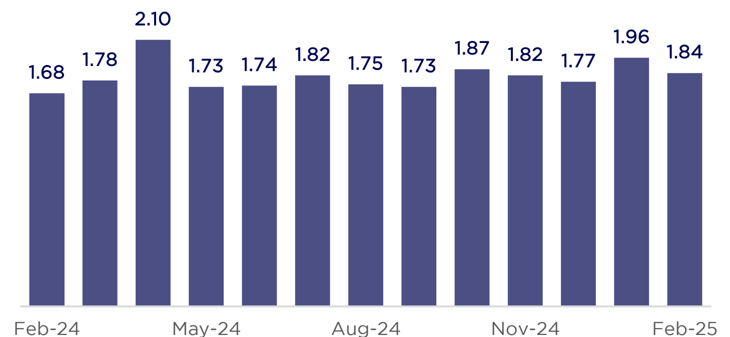
Fiscal Gap: India's fiscal deficit for the first ten months of FY25 (April 2024 to January 2025) reached ₹11.70 lakh crore, accounting for 74.5% of the annual revised target. This marks an increase from 63.6% during the same period in the previous fiscal year. Total receipts during this period were ₹24 lakh crore (76.3% of the revised budget target), while total expenditure stood at ₹35.70 lakh crore (75.7% of the revised budget target).

February's PMI: Services Surge, Manufacturing Dip: In February 2025, India's services sector experienced robust growth, with the Services PMI rising to 59.0 from 56.5 in January, driven by strong domestic and international demand, leading to increased employment. Conversely, the manufacturing sector's growth slowed, with the Manufacturing PMI dropping to a 14-month low of 56.3 in February from 57.7 in January, due to cooling demand. Despite the manufacturing slowdown, the Composite PMI, which combines both sectors, increased to 58.8 in February from 57.7 in January, reflecting the strength in services.

GST Collections: India's Goods and Services Tax (GST) collections remained robust, reaching ₹1.83 lakh crore in February 2025, a 9.1% year-on-year increase. This reflects strong domestic economic activity despite global geopolitical uncertainties. In January 2025, GST collections were ₹1.96 lakh crore, marking a 12.3% year-on-year growth.

India's GST Collections shrank from Rs. 1.96 lakh crore in Jan-25 to Rs. 1.84 lakh crore in Feb-25

India's GST Collection in Rs. Lakh Crore



Source: IMF

Crude Cutback Reversal: The Organization of the Petroleum Exporting Countries (OPEC) announced plans to increase oil production starting April 2025, reversing previous cuts aimed at boosting prices. This decision led to a decline in global oil prices, with Brent crude reaching its lowest point since November 2024. OPEC's share in India's 2024 crude imports rose to nearly 51.5%, up from 49.6% in 2023, while Russia's share remained around 36%. Changes in OPEC's production levels directly influence India's energy costs, as the country continues to diversify its oil import sources.

Global Macro Highlights

Trade & Tariff Implications

Trump's Tariff war: On March 4, 2025, the United States implemented additional tariffs of 25% on imports from Mexico and Canada, and 10% on Chinese goods. These measures aim to address concerns over inadequate actions by these nations in curbing the flow of fentanyl and its precursor chemicals into the U.S. The tariffs could disrupt approximately $2.2 trillion in annual trade (as per Reuter's estimates), potentially slowing economic growth and increasing consumer prices across various sectors, including automobiles, electronics, and food.

Monetary Strategies & Inflationary Pressures

UK Interest Rates Reduced to 4.5%: On February 6, 2025, the Bank of England's Monetary Policy Committee reduced the base interest rate by 0.25 percentage points to 4.5%, the lowest level since June 2023. This decision reflects concerns over a halved UK growth forecast and anticipated rising price pressures.

ECB Continues Rate Cuts to Stimulate Economy: The European Central Bank (ECB) reduced its deposit facility rates by 25 bps to 2.5% on March 6, 2025, marking its sixth cut since June 2024. This move reflects a shift toward a less restrictive monetary policy amid easing inflation and slowing economic activity. However, the ECB cautioned that trade tensions and rising defense expenditures could reignite inflation, potentially leading to a pause in further rate cuts.

March FOMC: Rate Hold Expected: The Federal Open Market Committee is scheduled to meet on March 18-19, 2025. Amid concerns over the new U.S. tariffs and potential economic growth implications, markets anticipate that the Federal Reserve will maintain current interest rates at 4.25%-4.5% during this meeting.

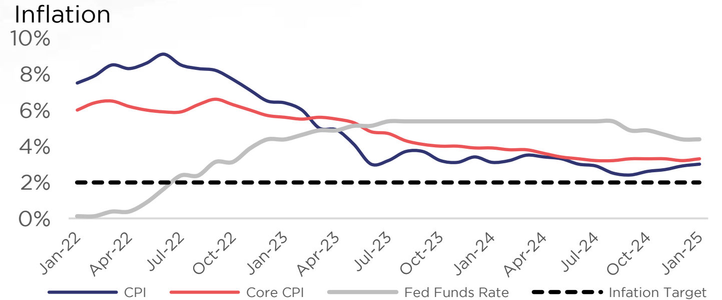
Euro Area Inflation Slows to 2.4%: Euro area annual inflation is expected to be 2.4% in February 2025, a slight decrease from 2.5% in January, according to a flash estimate from Eurostat. The main components contributing to inflation include services (3.7%), food, alcohol & tobacco (2.7%), and energy (0.2%).

US Inflation and Interest Rates

US core inflation measure hits 2.6% in January: In January 2025, the U.S. Commerce Department's Personal Consumption Expenditures (PCE) price index rose by 0.3%, consistent with December's increase. Year-over-year, the PCE price index increased by 2.5%, down from 2.6% in December. The core PCE price index, excluding food and energy, also increased by 0.3% in January, with a year-over-year rise of 2.6%, a decrease from 2.9% in December.

US inflation & Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Tradingeconomics, Federal Researve

Geopolitical Landscape

Trump Ukraine Tensions: On March 4, 2025, U.S. President Donald Trump received a letter from Ukrainian President Volodymyr Zelensky expressing willingness to negotiate an end to the ongoing conflict with Russia. This development follows the U.S. suspension of military aid to Ukraine, which has been engaged in conflict since February 2022.

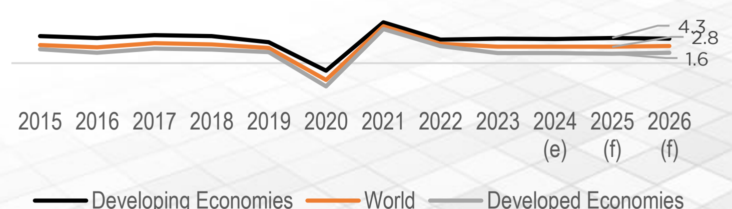
EU Defense Spending Boost: The European Commission has proposed a plan to mobilize up to €800 billion ($841 billion) for defense spending over four years, including borrowing up to €150 billion ($157.76 billion) to lend to EU governments. This initiative is driven by concerns over Russian aggression and potential uncertainties regarding U.S. protection, aiming to strengthen European defense capabilities.

Global Growth Projections

China's 2025 Economic Plan: China aims for approximately 5% economic growth in 2025, increasing fiscal spending to counteract deflation and U.S. trade tariffs. Key 2025 targets include a 4% deficit-to-GDP ratio, 5.5% urban unemployment, and 2% CPI inflation. The highest fiscal deficit in 30 years is meant to cushion the impact of higher tariffs imposed by the US.

UN predicts world economic growth to remain at 2.8% in 2025: The United Nations projects global economic growth to remain at 2.8% in 2025, unchanged from the previous year. This forecast considers modest recoveries in the European Union, Japan, and the United Kingdom, alongside robust performance in large developing economies, notably India and Indonesia.

UN World Economic situation and prospects 2025 (%)



Note: e= Estimates, f= Forecasts
Source: United Nations DESA Report

Equity Market

Market Volatility Persists Amid Global Headwinds and FPI Outflows

Indian equities extended their decline in February, led by weak earnings, FPI outflows, and trade tensions. Rural demand remains strong, while RBI's rate cuts may support credit growth. Valuation moderation favors large caps, with banking, IT, and consumer discretionary as preferred sectors.

Equity Outlook

"Amid ongoing FPI outflows and global trade tensions, Indian equities faced continued pressure. However, resilient rural demand, fiscal measures, and RBI's rate cut cycle are expected to support consumption recovery, with large caps better positioned for stability."

Indian equities fell for the fifth month in a row in Feb-25, despite a well-balanced Union Budget and a 25bps rate cut and other liquidity improvement measures announced by the RBI. While Nifty fell by 5.9% during the month, the pain was much worse for broader markets, which witnessed an even steeper selloff with the mid/small cap indices down by 10.8%/13.1% for the month.

A subdued Q3FY25 results season, escalating global tariff war with India being called out by the U.S president due to high tariffs on U.S. imports weighed on sentiment, leading to sustained selling pressure. Foreign Portfolio Investors (FPIs) remained net sellers for the fifth consecutive month, offloading Indian equities worth around ₹59,000 crore in February 2025. Average daily turnover (ADTO) on the exchanges fell sharply in February, exacerbating the impact cost of FII selling.

The aggregate performance of the Q3FY25 earnings season was subdued, in line with expectations, but reflected marginal improvement on a QoQ basis, led by energy, auto, and cement sectors. Large caps reported better earnings growth momentum vs-a-vis mid and small caps. A double-digit YoY earnings growth was reported by lenders, insurance, real estate and pharma. Further, earnings declined for consumer staples, cement, chemicals, power and metal sectors.

As highlighted by managements, rural growth continues to outpace urban for most consumption categories. Healthy monsoon, abundant reservoir levels and encouraging Rabi sowing are key drivers behind this optimism which we believe can sustain in the short term. While urban slowdown impacted by persistent inflation is a concern, the recent tax benefits announced in the union budget are expected to uplift consumption. Notably, government focus shifted from "capex" to "consumption" in the budget which will boost consumer discretionary sector.

However, growth expectations from capex dependent sectors need to normalise as capex allocation growth has been modest. The recently kickstarted rate cut cycle by the RBI is expected to reduce interest burden on corporate and consumers creating room for credit growth and credit driven consumption. Currency fluctuations led by global uncertainties and reciprocal tariffs are key monitorable for export-driven sectors.

The Nifty 50 index is currently trading at ~18.7x FY26 (10 yr avg: 20.4x) and ~16.1x FY27 (10 yr avg: 17.3x) vis-a-vis consensus EPS. Valuation has moderated from peak levels, creating room for marginal upsides for the Nifty. Our preferred sectors are large banks and IT, consumer discretionary, real estate and insurance. We remain underweight on oil & gas, mid-cap IT, small banks, and NBFCs. We prefer large caps over mid/small caps for FY26.

Debt Market

Bond Yields Stay Rangebound Amid RBI Liquidity Measures and Rate Cut Cycle

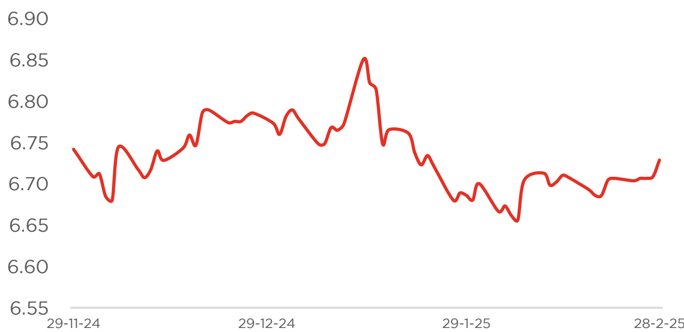
India's bond market remained stable, with the 10-year G-sec yield steady amid RBI's liquidity measures. Inflation eased, raising expectations of another rate cut, while tight liquidity widened corporate bond spreads. Long-duration G-Secs are set to benefit from falling yields, with global and domestic factors shaping the fixed-income outlook.

Fixed Income Outlook

India's 10-year G-sec yield edged up by 3 bps to 6.73% in February 2025 from 6.70% in January. The yield remained rangebound throughout the month, hovering around 6.7%, supported by RBI's domestic liquidity measures and a decline in U.S. Treasury yields in the latter half of the month. The RBI's Monetary Policy Committee (MPC) unanimously cut the repo rate by 25 bps to 6.25% in its February meeting, aligning with market expectations. However, the bond market reaction was muted as the RBI retained its neutral policy stance, signaling a cautious approach to future rate cuts contingent on growth and inflation dynamics amid global headwinds.

India's 10-Year G-Sec Yield Flat at 6.7% in February 2025

Indian 10 Year G-Sec Movement (For last 3 months)



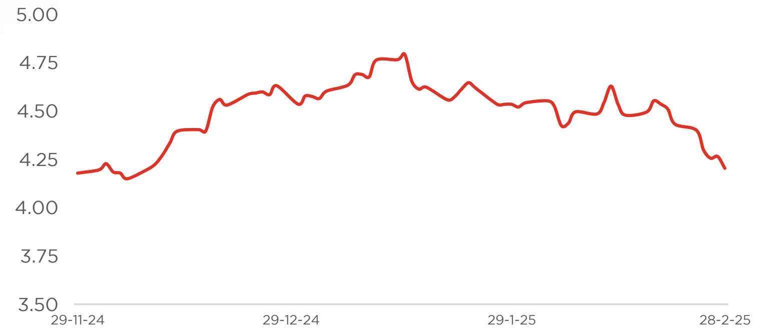
Source: CCIL

The U.S. 10-year Treasury yield fell sharply by 34 bps to 4.20% in February from 4.54% in January. While the yield initially spiked beyond 4.6% following higher-than-expected January CPI inflation, it declined by over 40 bps in the latter half of the month as markets priced in two potential Fed rate cuts in 2025 due to weakening economic sentiment and soft jobs data.

The banking system continued to face a significant liquidity deficit, averaging ₹1.67 lakh crore in February, compared to ₹2.04 lakh crore in January. The liquidity shortfall was driven by the RBI's forex operations to curb rupee depreciation, FII outflows, and an increase in currency circulation.

US Yields fell by thirty four basis points to 4.20% in Feb 2025

US 10 Year G-Sec Movement (For Last 3 Months)

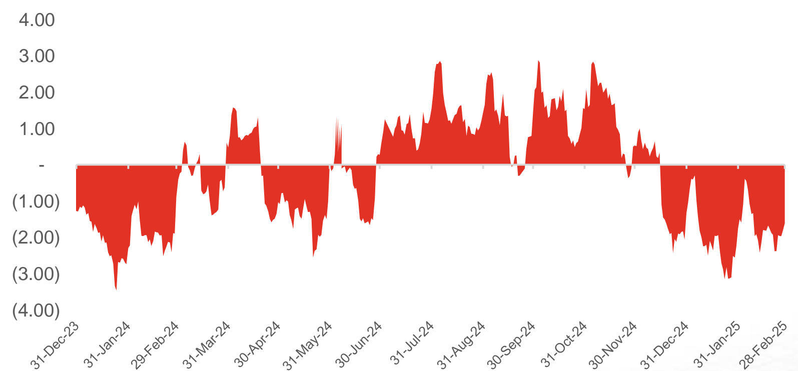


Source: Investing.com

To address liquidity constraints, the RBI undertook durable liquidity measures in January and February 2025 amounting to approximately ₹4 lakh crore, including Open Market Operation (OMO) purchases, INR-USD buy-sell swap auctions, and longer-term Variable Rate Repo (VRR) auctions. RBI has also announced liquidity measures worth ₹1.9 lakh crore via OMO purchase and INR-USD buy-sell swap auctions to be conducted in March 2025. Market participants anticipate further interventions from RBI to facilitate effective monetary policy transmission.

RBI's Measures Fail to Ease Liquidity Crunch

India's banking system liquidity (Rs Lakh cr)



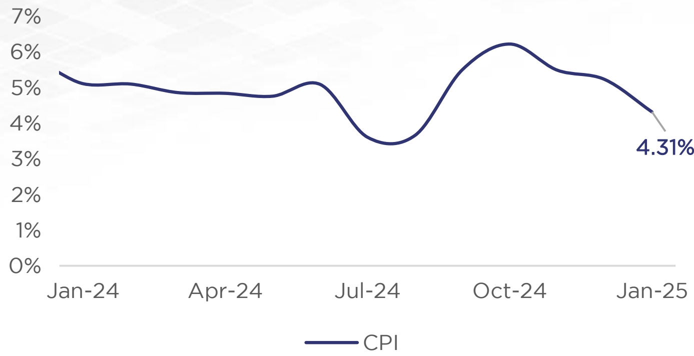
Source: RBI

India's CPI inflation moderated to 4.3% YoY in January 2025 from 5.2% in December, primarily due to lower food inflation. Headline inflation is projected to average 4.4% in Q4 FY25 and 4.2% for the full FY26.

Fixed Income Outlook

India's Inflation Rates Eases in Jan 2025 Due to Drop in Food Prices

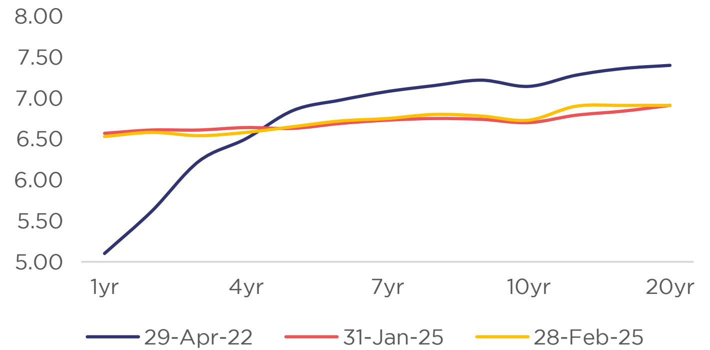
Inflation %



Source: MOSPI

G-Sec Yield Curve continues to remain flat

G-Sec Yield Curve



Source: Bloomberg

We expect the RBI to frontload rate cuts, with another 25 bps reduction likely in the April 2025 policy meeting. Further rate cuts beyond this will depend on domestic and global economic conditions, with a total of 50 bps of additional cuts anticipated in 2025.

Spreads on 3–5 year AAA-rated PSU corporate bonds over corresponding G-secs have widened, currently offering a carry premium of 75–90 bps. This widening is attributed to increased corporate bond supply and tight liquidity conditions.

Long-duration G-secs are expected to benefit from an anticipated decline in yields, driven by monetary policy easing and favorable bond demand-supply dynamics.

Several factors will shape India's fixed-income landscape, including global monetary policy decisions, geopolitical developments, commodity price movements, currency fluctuations, bond market demand-supply trends, and domestic growth-inflation dynamics.

In Conversation with Bhanutej K B: Head of HDFC TRU South

Q: Would like to check with you on How Large is the Stock markets America Bubble?

A: The US has grown to nearly two-thirds of global equity market value, driven by a decade-long rally in the tech sector, particularly AI-led businesses. Historically, the S&P 500's P/E ratio has been around 15-16, but it now often surpasses 20 or even 25, indicating elevated valuations. There has been a significant increase in retail investor participation in the US stock market, especially in technology and meme stocks. This surge in trading volume and the rise of a "get-rich-quick" mentality can signal the formation of a bubble. Ultra-low interest rates in recent years have driven investors into riskier assets, inflating stock prices. Some argue that low rates artificially inflated stock prices and that any increase in rates could trigger a correction. The rise of cryptocurrencies and the speculative frenzy around them may indicate broader market irrationality. Reflecting on past bubbles like the dot-com bubble (1999-2000) and the housing bubble (2007-2008), the current stock market shows similar signs of overvaluation.

Q: Please Elaborate on Trump tariff on India and other countries

A: Investors across the globe are increasingly becoming wary about rising geopolitical tensions and the prospect of tit-for-tat tariffs worsening the global trade.

Stock markets across the globe sank after US President Donald Trump made it clear that tariffs on Mexico and Canada would go into effect as planned. Trump's comments made on Monday struck fears of a trade war in North America and sent financial markets reeling. The US stocks tumbled sharply in late afternoon trading, while the Mexican peso and Canadian dollar also fell.

US President Donald Trump is planning to announce tariffs on more products as he pushes to shrink America's trade deficits, boost domestic manufacturing and achieve other policy goals. According to the President, new levies will be imposed on cars, semiconductors, and pharmaceuticals over the next month or sooner. This move would lead to further Negative sentiments Globally and will deter the clients from investing in Equities for some time.

Q: Please Elaborate why European Defense stocks rally is happening in a very short span of time

A: European leaders are under tremendous pressure to boost Defense spending after Trump refused to offer US security guarantees, which are widely regarded as a necessary deterrent to any future Russian aggression. Also I feel India might be their next best ally after PM Modi visit happened with President von der Leyen where EU-India Strategic Partnership discussions are ongoing. Some Examples of EU Defense stock which rallied are: Shares in Rheinmetall, Germany's largest defense company, closed up 15 per cent while Leonardo climbed 17.3 per cent in Milan. Paris-listed Thales surged 16.7 per cent, BAE Systems gained 14.3 per cent and Sweden's Saab was up 11.6 per cent

Q: Will it make sense to invest in Global Funds / Stocks for Indians?

A: Yes, It reduces Risk. Global funds invest in diverse classes of assets over many regions. This diversification spread over various countries and sectors curbs market volatility to a potentially significant extent. Therefore, if downturns are experienced in some markets, others that are up will make up for any losses felt. So for Indians, Opportunities will be to invest in US, UK and Japan as this diversifies ones portfolio very well.

Q: Please elaborate why Relevance Of Gold / Silver as an asset class is rising and should one invest in it now

A: Investing in gold can often be a prudent choice for those seeking to diversify their portfolios, hedge against inflation, and protect their assets during economic uncertainty. Gold's enduring value and its role as a safe haven asset make it a compelling investment, particularly in volatile or unpredictable markets. One should choose the option of Gold and Silver ETF's while investing as this is more liquid and easily tradeable.

Deep Dive

Assessing SIP strategies during market volatility

SIPs remain a resilient investment strategy, with disciplined investing outperforming market timing over the long run. Cost averaging helps mitigate volatility, making SIPs a reliable tool for wealth creation and financial stability

Deep Dive

Assessing SIP strategies during market volatility

Systematic Investment Plans (SIPs) have become one of the most popular investment strategies among Indian retail investors, offering a disciplined approach to wealth creation. However, during turbulent times, investors often question the efficacy of SIPs. The concern arises because volatility can create short-term losses, testing the patience and conviction of investors. However, historical data and investment principles strongly support SIPs as a robust strategy, even during market downturns.

Key Investor Questions

In this note, we try to address the two most common investor questions with respect to SIPs:
- Should one stay the course or pause SIPs during market uncertainty?
- Starting SIPs at the top or bottom-end of a cycle: Does it really matter?

Historical Market Corrections: A Common Occurrence

Over the past two decades, markets have seen multiple corrections exceeding 15%. We compile all the historical periods in the last 20 years, when equity markets (Nifty 50 TRI) had fallen >15% from the top (refer table below). Data Period: 1st April, 2005 to 28th Feb, 2025.

Market Cycle	Equity Correction Cycle		Nifty 50 TRI		Maximum Drawdown (%)	Correction tenure (Months)
	Top	Bottom	Top	Bottom		
1	May-06	Jun-06	4,447	3,125	-30%	1.2
2	Feb-07	Mar-07	5,071	4,302	-15%	0.9
3	Jan-08	Oct-08	7,643	3,096	-59%	9.8
4	Nov-10	Dec-11	7,917	5,764	-27%	13.7
5	Mar-15	Feb-16	11,857	9,289	-22%	11.5
6	Jan-20	Mar-20	17,349	10,710	-38%	2.3

Source: NSE Indices Data.

Key takeaways from the above tables:

- Corrections are a part of stock market investing. We have had 6 market corrections of >15% in the past 20 years.
- For the Nifty 50 Index;
  - 3 out of the 6 corrections lasted less than 3 months (from peak to bottom).
  - 2 out of the 6 corrections lasted between 9 to 12 months
  - Only 1 correction lasted for more than 12 months.
- In terms of magnitude of equity market corrections;
  - 3 out of the 6 corrections in the Nifty 50 were >30%
  - 2 of the 6 corrections were >20%
  - Only 1 correction <20%.

Deep Dive

Question 1: Is "staying the course" a prudent strategy during market uncertainty?

Let's assume there are two types of SIP investors:

- **Disciplined Investor (Stays invested through all cycles)**: This investor stays committed to the market regardless of volatility, trusting in long-term strategy over short-term fluctuations.
- **Market Timer (Times the equity market cycle perfectly)**: This investor skilfully times the market, stopping his SIP at the top and re-starting at the bottom of the cycle with precision.

Both the investors start a 5-year SIP in the Nifty 50 TRI as of 1st Jan 2006 of Rs 1,000 p.m. (on 1st day of each month) with a target to continue their SIPs till 31st Dec, 2010. After 2 years (i.e. from Jan-08), the global markets witnessed its worst ever equity correction cycle (the "GFC" crisis), with the Nifty TRI Index witnessing a maximum drawdown of ~ 60%. During the significant market correction period (i.e. Jan-08 to Oct-08), both the investors adopt the following strategies:

- **Disciplined Investor:** Remains unfazed by the GFC crisis and decides to continue his SIP in the Nifty50 TRI.
- **Market Timer:** Stops his SIP on Jan-08 (top of the cycle) and starts a new SIP in a Debt fund (CRISIL Composite Bond Index has been used as a proxy). Post the market correction, he pauses his SIP in the debt fund and resumes his equity SIP in the Nifty50 TRI from Nov-08.

	Total Investment Value (INR)	Value as on 31st Dec, 2010 (INR)	Missed Opportunity Cost (INR)	Equity Cost Value (per unit)	XIRR (%)
Disciplined Investor	60,000	92,216	-	5,009	17.20%
Market Timer	60,000	90,361	1,855	4,921	16.40%

Source: NSE Indices Data. Data Period: 1 Jan, 2006 to 31 Dec, 2010.

Key takeaways from the above analysis:

- The Disciplined Investor invested a total of Rs. 60,000 and the current value of investment as on 31st December, 2010 stood at Rs. 92,216, delivering an XIRR of 17.2%.
- In contrast, the Market Timer's SIP investment strategy delivered an XIRR of 16.4% (0.8% less vs. Disciplined Investor).
- Despite being able to time the market beautifully, the Market Timer's average cost value was just 2% lower than the Disciplined Investor, who just stayed put in the equity market despite the volatility.
- The "Missed Opportunity Cost" of pausing equity SIPs can be huge over the long term. In our example, the opportunity cost lost is calculated as the difference in the final end value, which was around Rs 1,855 for the Market Timer.

Net-net, this underscores that "staying the course" in SIP investments is a more prudent strategy, as during the bear-market-to-bull recoveries, SIPs often recover faster, effectively pulling ahead in the early stages of the rebound. Thus, being a Disciplined Investor is a better choice in a volatile market rather than trying to time the market.

Deep Dive

Question 2: Should one start a long-term SIP at the top or bottom-end of an equity cycle?

The next key question, we try to answer is whether an investor should enter into a long-term SIP, when the markets have peaked or wait for a correction. We test this for all periods when equity markets (Nifty 50 TRI) fell >15%. For this analysis, we assume the following investor scenarios:

- **Disciplined Investor –** He starts his long-term SIP at the top-end of the cycle.
- **Market Timer –** He waits for the market correction and begins his long-term SIP from the bottom-end of the cycle.

Data Assumptions:

- Data Period: Since 1st April, 2005.
- SIP Tenure: 3-year SIP (1st day of each month).
- Monthly SIP: Rs. 100.

XIRR Comparison of the Disciplined investor v/s a Market Timer in the Nifty50 TRI Index (3-year Period)

Market Cycle	Equity Correction Cycle		XIRR (%)	
	Top	Bottom	Disciplined Investor	Market Timer
1	May-06	Jun-06	10.2%	10.3%
2	Feb-07	Mar-07	11.8%	12.1%
3	Jan-08	Oct-08	5.3%	7.2%
4	Nov-10	Dec-11	20.7%	27.2%
5	Mar-15	Feb-16	10.2%	10.8%
6	Jan-20	Mar-20	14.2%	14.2%

Disciplined investor v/s a Market Timer in the Nifty50 TRI Index (3-year Period)

Start Period		End Period		Investment Value (INR)		End Market Value (INR)		Difference in SIP XIRR (%)
Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	
May-06	Jun-06	May-09	May-09	3,700	3,600	4,325	4,196	-0.1%
Feb-07	Mar-07	Feb-10	Feb-10	3,700	3,600	4,430	4,307	-0.3%
Jan-08	Oct-08	Sep-11	Sep-11	4,500	3,600	4,977	4,011	-1.8%
Nov-10	Dec-11	Nov-14	Nov-14	4,900	3,600	7,414	5,316	-6.5%
Mar-15	Feb-16	Jan-19	Jan-19	4,700	3,600	5,742	4,234	-0.6%
Jan-20	Mar-20	Feb-23	Feb-23	3,800	3,600	4,744	4,442	0.0%
MEDIAN (%)								-0.4%

Deep Dive

Key takeaways from the above analysis:

- We note that the "Disciplined Investor", despite starting his SIP at the top of the cycle, generated decent results with returns almost on par with the Market Timer.
- The median of the difference in SIP XIRRs for the Disciplined Investor vs. was just 0.4%. This suggests that % return is only marginally higher for SIPs started at the bottom of the market cycle.
- The End value is higher for the disciplined investor, which is a function of slightly higher invested amount, but the more important thing to note is the average cost value, which tends to be lower for the disciplined investor in most of the cases.
- This illustrates that SIP is an "averaging tool, not a maximizing tool" – its purpose is to ensure consistent investing and even out market volatility, rather than try to hit the perfect market timing.

Conclusion:

- The advantage of SIP is most pronounced when a major downturn occurs early or mid-way through the investment period (a bear phase followed by recovery). In such cases, the SIP delivers superior returns compared to a lump-sum invested before the crash.
- Our analysis highlights that irrespective of whether a SIP was started at the top or bottom, the difference in % returns is very marginal and the marginal difference of % return goes away over the long-term (i.e. 5+ years).
- We did a similar analysis for the mid and smallcaps. The broader results were in-line with the large caps, which showed no major variance in SIP XIRRs for the Disciplined Investor vs. the Market Timer (see annexures below for more details).

Deep Dive

ANNEXURE - 1 : Monthly SIP in the Nifty Midcap 150 TRI Index at the peak and bottom of a cycle

Data Assumptions:

- Data Period: 1st April, 2005 – 28th Feb, 2025.
- SIP Tenure: 3-year SIP (1st day of each month).
- Monthly SIP: Rs. 100.

History of market corrections: Nifty Midcap 150 TRI

Market Cycle	Equity Correction Cycle		Nifty Midcap 150 TRI		Maximum Drawdown (%)	Correction tenure (Months)
	Top	Bottom	Top	Bottom		
1	May-06	Jun-06	1,912	1,186	-38%	1.2
2	Feb-07	Mar-07	1,957	1,631	-17%	0.9
3	Jan-08	Mar-09	3,457	937	-73%	14.2
4	Aug-15	Feb-16	5,417	4,418	-18%	6.8
5	Jan-18	Mar-20	8,924	5,082	-43%	26.8
6	Oct-21	Jun-22	15,104	11,914	-21%	8.2

Returns of a Disciplined investor v/s a Market Timer in the Nifty Midcap 150 TRI Index (3-year Period)

Start Period		End Period		Average Cost Value (per unit)		End Market Value (INR)		Difference in SIP XIRR (%)
Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	
May-06	Jun-06	Jun-09	Jun-09	1,690	1,685	4,143	4,045	-0.3%
Feb-07	Mar-07	Mar-10	Mar-10	1,846	1,843	5,247	5,118	-0.7%
Jan-08	Mar-09	Mar-12	Mar-12	2,052	2,263	6,331	4,278	2.6%
Aug-15	Feb-16	Feb-19	Feb-19	6,432	6,703	4,831	3,989	1.6%
Jan-18	Mar-20	Mar-23	Mar-23	9,199	10,664	9,728	4,928	-2.5%
MEDIAN (%)								-0.3%

Deep Dive

ANNEXURE - 2: Monthly SIP in the Nifty Smallcap 250 TRI Index at the peak and bottom of a cycle

Data Assumptions:

- Data Period: 1st April, 2005 – 28th Feb, 2025.
- SIP Tenure: 3-year SIP (1st day of each month).
- Monthly SIP: Rs. 100.

History of market corrections: Nifty Smallcap 250 TRI

Market Cycle	Equity Correction Cycle		Nifty Smallcap 250 TRI		Maximum Drawdown (%)	Correction tenure (Months)
	Top	Bottom	Top	Bottom		
1	Sep-05	Oct-05	1,579	1,292	-18%	1.3
2	May-06	Jun-06	2,126	1,325	-38%	1.2
3	Feb-07	Mar-07	2,284	1,899	-17%	0.9
4	Jan-08	Mar-09	4,201	1,027	-76%	14.4
5	Aug-15	Feb-16	5,450	4,180	-23%	6.9
6	Oct-16	Nov-16	6,132	5,165	-16%	0.9
7	Jan-18	Mar-20	8,987	3,615	-60%	26.6

Returns of a Disciplined investor v/s a Market Timer in the Nifty Smallcap 250 TRI Index (3-year Period)

Start Period		End Period		Average Cost Value (per unit)		End Market Value (INR)		Difference in SIP XIRR (%)
Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	Disciplined Investor	Market Timer	
Sep-05	Oct-05	Oct-08	Oct-08	2,071	2,093	2,449	2,360	0.0%
May-06	Jun-06	Jun-09	Jun-09	1,969	1,968	3,901	3,801	-0.1%
Feb-07	Mar-07	Mar-10	Mar-10	2,106	2,103	5,156	5,027	-0.7%
Jan-08	Mar-09	Mar-12	Mar-12	2,328	2,481	5,773	3,930	1.9%
Aug-15	Mar-16	Mar-19	Mar-19	6,142	6,393	4,674	3,776	2.0%
Oct-16	Nov-16	Nov-19	Nov-19	6,606	6,625	3,366	3,268	0.0%
Jan-18	Mar-20	Mar-23	Mar-23	7,434	8,278	9,307	4,909	-3.9%
Jan-22	Jun-22	Feb-25*	Feb-25*	14,397	14,893	4,624	3,882	0.6%
MEDIAN (%)								0.0%

Reading Room

Billion Indians have no spending money

Despite India's 1.4 billion population, only 130-140 million belong to the "consuming class" that can afford discretionary spending, while another 300 million are emerging but cautious consumers. The wealth gap is widening, with the top 10% controlling 57.7% of national income, while the bottom half's share is shrinking. Instead of mass-market expansion, demand is shifting towards premium goods like luxury housing, high-end phones, and exclusive experiences. Meanwhile, stagnant wages and declining financial savings are squeezing the middle class, limiting broader economic growth. The rise of AI and automation further threatens white-collar jobs, potentially exacerbating the consumption slowdown. With economic growth increasingly reliant on high-income consumers, the lack of broad-based spending power could hinder long-term stability..

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Analyzing Trump's Approach to Tariffs

President Trump's second-term agenda includes tariffs as high as 50%, aiming to reshape global supply chains, boost domestic revenue, and reinforce economic nationalism. While tariffs are intended to protect U.S. industries, economists question their effectiveness, arguing they may raise consumer costs without significantly revitalizing struggling sectors. History warns of trade war risks, as seen with the Smoot-Hawley Tariff of 1930, which deepened the Great Depression. Trump's approach raises strategic questions about whether the U.S. should maintain protectionist policies or promote freer trade. His tariffs could also be used as diplomatic leverage, influencing allies and adversaries alike. The ongoing debate highlights whether trade restrictions will strengthen or weaken the U.S. economy in the long run.

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How India created a generation of brainwashed investors. And the macro disaster this has created

Indian retail investors have been conditioned to believe they are smarter than Foreign Institutional Investors (FIIs), largely due to media narratives and financial industry influence. Despite FIIs regularly pulling out capital, retail investors absorb these exits without fully understanding liquidity risks and market volatility. The financial sector has failed to provide meaningful education, promoting an oversimplified and overly optimistic view of stock market stability. As a result, many investors focus on short-term gains, unaware of deeper economic risks. This misinformed investing culture allows FIIs to exit without disruption but drains forex reserves and shifts financial risks onto retail participants. Ultimately, this dynamic transfers wealth upward, making the broader economy more fragile in the long term.

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