
TRU INSIGHTS

June 2025



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From the MD & CEO's desk



“Markets rebounded strongly as inflation cooled and India’s GDP growth accelerated to 7.4% Q4FY25, lifting equities despite global trade tensions and political volatility. Early signs of earnings recovery, robust rural demand, and a supportive interest rate backdrop offer hope for the near term, though investors must remain watchful for earnings risks and emerging valuation pressures.”

Dear Investors,

Amid a turbulent global macroeconomic environment marked by trade wars and escalating geopolitical tensions, Indian equities have demonstrated remarkable resilience. Inflation continues to ease, with expectations of further rate cuts by the Reserve Bank of India. India's GDP growth accelerated to 7.4% in Q4FY25, up from 6.2% in the previous quarter. The pause in reciprocal tariffs by President Trump and India-Pakistan ceasefire, have helped improve sentiment. These have fueled an equity market rally despite considerable interim volatility.

In May 2025, the Nifty rallied by 1.7%, while mid- and small-cap stocks outperformed, gaining 6.1% and 8.7%, respectively. The rebound in mid and small-caps came after a 20-22% correction in the beginning of 2025, which had made valuations more attractive. While certain sectors like Railways, Defence, and Metals have seen a sharp rebound, it is important to be selective in the SMID space as valuations are again becoming stretched.

After a period of subdued earnings growth, early signs of recovery are emerging. Strong rural demand, improving government capex, early arrival of monsoon, tax relief measures, and a supportive interest rate environment signal a positive earnings outlook. Consensus expects mid-teen earnings growth over the next 18-24 months, following a subdued FY25. Despite the recent rally, the Nifty is trading at approximately 19.0x FY27E EPS, broadly in line with its average historical valuations. The key risk to the markets would be earnings. If earnings growth fails to materialize as expected, markets may witness a period of muted returns.

While government expenditure and rural consumption are encouraging, challenges remain. Private capex has yet to gain significant momentum, and urban consumption continues to face headwinds. Falling crude oil prices and India's potential gain from a reconfiguration of global supply chains provide additional support in the medium term. India's goods exports to the U.S. account for less than 5% of GDP, relatively insulating from direct impact of trade war. Moreover, Indian policymakers have responded swiftly to address trade concerns, further reducing potential risks.

Longer term, India's macro narrative remains distinct and resilient. Investors should be prepared for episodic volatility but stay focused on high-quality, earnings-compounding businesses. These businesses could be well-positioned to capitalize long term structural themes (such as manufacturing, formalization, growth of the middle class and digitalisation).

In this edition of Tru Insights, we provide a comprehensive review of global and domestic macroeconomic trends, a forward-looking perspective on fixed income markets, and a Deep Dive into Equity MF cash levels to determine whether active fund managers are good at timing markets. Additionally, our Reading Room section presents a curated collection of thought-provoking essays to help inform your investment decisions.

We trust that Tru Insights continues to be a valuable resource to guide your investment strategy.

Warm Regards,

Dhiraj Relli
MD and CEO – HDFC Securities



Macro Economic Highlights

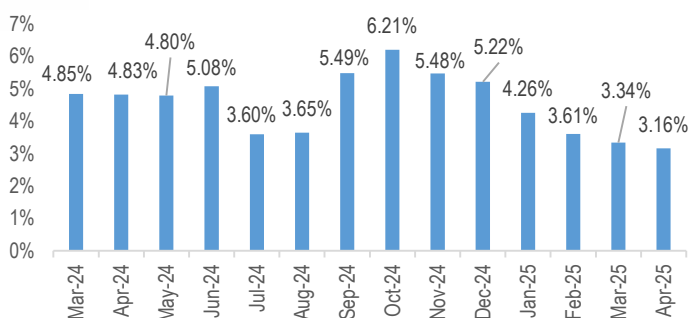
Resilient Domestic Momentum and Global Trade Frictions

India's economy showed strong momentum in May 2025 with inflation easing to a multi-year low, GDP growth rising to 7.4% in Q4 FY25, and GST collections highlighting robust activity. The RBI's 50 bps rate cut supported this positive backdrop. Globally, the U.S. doubled steel and aluminium tariffs, while a temporary U.S.-China tariff truce buoyed markets. Euro zone disinflation triggered ECB rate cuts, and the Fed held rates steady despite inflation concerns. Amidst this, the OECD and UN lowered global growth forecasts, citing trade frictions and fragile demand.

Domestic Macro Highlights

Inflation: India's annual retail inflation cooled to 3.16% in April 2025, down from 3.34% in March 2025, marking its lowest since July 2019 and comfortably below the Reserve Bank of India's 4% target. This moderation was driven primarily by a sharp deceleration in food price inflation, which eased to 1.78% in April 2025 from 2.69% in March 2025 — the lowest since October 2021 — as vegetable prices fell by 11% Yoy compared to a 7.04% decline in March 2025. Core inflation remained steady at 4%-4.1% in April 2025, while the RBI revised its GDP growth estimate downward to 6.5% from 6.7% for this fiscal year.

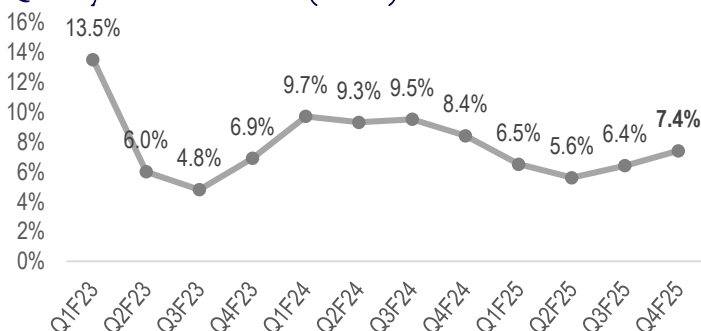
India CPI Inflation



Source: MoSPI

India's GDP at a Four-Quarter High: India's real GDP expanded by 7.4% in Q4 FY2025, the highest in four quarters, up from 6.4% in Q3 FY25 and 8.4% in Q4 FY24. This lifted full-year FY2025 growth to 6.5%, supported by strong investment demand and public spending. The fourth-quarter momentum was underpinned by robust growth in construction (10.8%), public administration and defence (8.7%), and financial services (7.8%), highlighting the resilience of India's infrastructure and government-led activity. For FY2024-25, real GDP is projected to grow by 6.5%, with nominal GDP expected to increase by 9.8%.

Quarterly GDP Growth Rates (YoY%) at Constant Prices



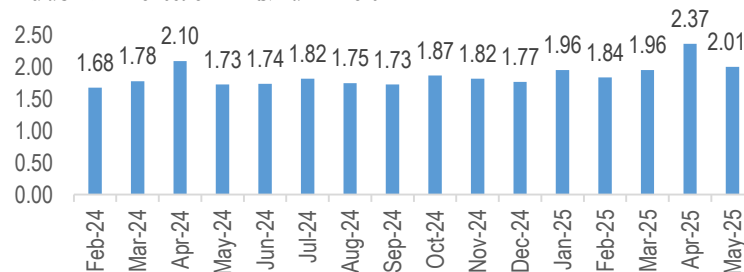
Source: MoSPI, press release dt 30th May, 2025

Services Sector Momentum Amid Rising Price Pressures: India's services sector maintained strong momentum in May 2025, with the HSBC India Services PMI inching up to 58.8 from 58.7 in April 2025, driven by robust export demand and record-high hiring. Nearly 16% of firms surveyed added staff—the fastest rate since 2005. However, this surge in demand also brought heightened price pressures, with both input costs and output charges rising at the fastest pace since January 2025. Despite this, the HSBC India Composite PMI Output Index, which combines manufacturing and services activity, dipped slightly to 59.3 in May 2025 from 59.7 in April, reflecting continued expansion in the private sector.

GST Collections: Goods and Services Tax (GST) collections for May 2025 rose to ₹2.01 lakh crore, a notable 16.4% year-on-year increase from ₹1.72 lakh crore in May 2024. While marginally below the record ₹2.37 lakh crore in April 2025, this figure underscores resilient economic activity and strengthened tax compliance. Net GST revenue post refunds stood at ₹1,73,841 crore in May 2025, up 20.4% year-on-year.

India's GST Collections rose from Rs. 2.37 lakh crore in Apr-25 to Rs. 2.01 lakh crore in May-25

India's GST Collection in Rs. Lakh Crore



Source: gst.gov.in

“Operation Sindoor” Reshapes Anti-Terror Posture: In response to the terrorist attack in Pahalgam on April 22, 2025, India launched “Operation Sindoor” on May 7, 2025, executing targeted precision strikes on terrorist infrastructure in Pakistan and Pakistan-occupied Kashmir. This operation reflects India's measured yet decisive approach to national security—assertive in its pursuit of justice while mindful of regional stability—demonstrating a mature military doctrine shaped by decades of complex challenges.

RBI Delivers 50 Bps Rate Cut, Revises FY26 Inflation Down: On June 6, 2025, the Reserve Bank of India (RBI) slashed the key repo rate by 50 basis points to 5.50% and change their stance to “neutral” from “accommodative”. The RBI also revised its FY26 inflation forecast downwards to 3.7% (from 4% earlier), with Q1 at 2.90% (vs 3.60%) and Q2 at 3.40% (vs 3.90%), citing softening inflation and broad-based moderation. Despite geopolitical tensions, the real GDP forecast for FY26 was maintained at 6.5%, with Q1 at 6.5%, Q2 at 6.7%, Q3 at 6.6%, and Q4 at 6.3%.

Global Macro Highlights

Trade & Tariff Implications

Trump's Steel & Aluminum Tariffs Double to 50%: The United States has doubled tariffs on foreign steel and aluminum imports to 50%, effective June 3, 2025, aiming to bolster domestic industry and counter low-cost imports. Britain remains an exception, with its 25% tariff holding until at least July 9, 2025. Canada and Mexico, the largest steel exporters to the U.S., are actively negotiating exemptions, while the EU is engaged in talks to avoid retaliatory tariffs totaling €21 billion if no resolution is reached during discussions on June 5, 2025, in Paris.

Appeals Court Reinstates Trump Tariffs, Overturning Trade Court Block: On May 29, 2025, a U.S. federal appeals court temporarily reinstated President Trump's sweeping tariffs just a day after a U.S. trade court ruled he had overstepped his authority. This decision paused the lower court's ruling, giving plaintiffs until June 5, 2025, and the administration until June 9, 2025, to respond as the appeals process unfolds.

US and China Agree to Temporary Tariff Reduction, Boosting Global Markets: In a breakthrough, the U.S. and China reached a 90-day tariff reduction agreement on May 12, 2025, during talks in Switzerland. Under this deal, U.S. extra tariffs on Chinese imports dropped to 30% from 145%, while Chinese duties on U.S. goods fell to 10% from 125%. This temporary truce lifted global trade sentiment and sparked the largest single-day percentage gains on Wall Street since April 9, 2025.

Monetary Strategies & Inflationary Pressures

ECB Cuts Rates to 2% Target, Hints at Pause in Easing Cycle: The European Central Bank (ECB) cut interest rates by 25 bps on Thursday, June 5, 2025, lowering borrowing costs by 2 percentage points, as inflation cooled to 1.9% in May 2025 from 2.2% in April 2025, dropping below the ECB's 2% target. Core inflation also fell to 2.3% from 2.7%, according to flash data from Eurostat released on June 3, 2025, to its 2% target. This takes the deposit facility rate to 2%, down from a mid-2023 high of 4%. ECB President Christine Lagarde signaled a likely pause in the year-long easing cycle, given inflation's trajectory and the current rate path being "in a good position."

Fed Holds Rates Steady Amidst Rising Inflation and Unemployment Risks:

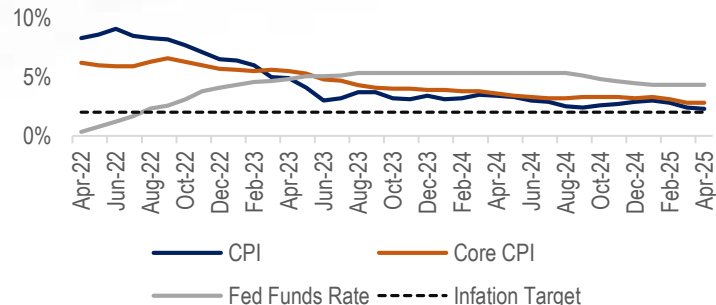
During its May 2025 meeting, the Federal Reserve kept interest rates unchanged at 4.25%-4.5%, in line with expectations. This cautious stance reflects moderate economic growth and inflation slightly above the 2% target, alongside heightened risks of inflation and unemployment since March 2025, partly due to trade tensions. Fed Chair Jerome Powell noted that the current policy is "in a good place," ready to adapt as economic conditions evolve.

US Inflation and Interest Rates

US core inflation measure hits 2.3% in April: The annual U.S. inflation rate eased to 2.3% in April 2025, down from 2.4% in March, the lowest since February 2021. This was driven by a 3.7% fall in energy costs (v/s -3.3% in March), with gasoline prices down 11.8% (v/s -9.8%) and fuel oil down 9.6% (v/s -7.6%), though natural gas prices surged 15.7% (v/s 9.4%). On a monthly basis, the Consumer Price Index rose 0.2% in April 2025, rebounding from a 0.1% decline in March, largely due to a 0.3% rise in shelter costs. Core CPI inflation remained steady at 2.8% annually.

US Inflation & Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Tradingeconomics, Federal Reserve

Geopolitical Landscape

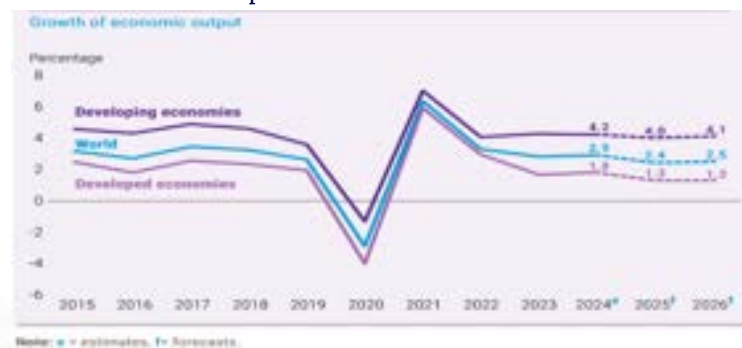
Intensified Warfare Precedes Ukraine-Russia Peace Talks: On June 1, 2025, Ukraine launched "Operation Spider's Web," deploying 117 explosive-laden drones to attack Russian military bases in Siberia, damaging 41 warplanes—including nuclear-capable bombers—and destroying 34% of Russia's strategic cruise missile carriers, with losses estimated at \$7 billion. On June 2, 2025, direct peace talks in Istanbul resulted in an "all-for-all" prisoner swap and the return of 6,000 soldiers' bodies. Although described as "not negative," the meeting produced limited tangible progress.

Global Growth Projections

OECD Lowers Global Growth Forecasts Due to US Trade War Impact: On June 3, 2025, the OECD lowered its global growth forecast, projecting a slowdown to 2.9% in both 2025 and 2026, down from March's estimates of 3.1% and 3.0%, respectively. This downward revision is mainly attributed to the Trump administration's escalating trade war, with U.S. economic growth now expected at just 1.6% for 2025, down from 2.2% and 1.5% in 2026. Annual G20 inflation is projected to moderate from 6.2% to 3.6% in 2025 and to 3.2% in 2026.

UN Report: Global Economic Outlook Dims Amidst Trade Tensions: A UN report published on May 15, 2025, forecast global economic growth to slow to 2.4% in 2025, down from 2.9% in 2024 and 0.4 percentage points below the January 2025 forecast. The report highlights that the effective U.S. tariff rate surged to about 14% by mid-May 2025, up from 2.5% earlier in the year, even after the temporary U.S.-China tariff reduction. These heightened trade barriers are expected to strain supply chains, raise production costs, and dampen investment, particularly for manufacturing-heavy economies with deep U.S. ties.

Growth of Economic Output



Note: * = estimates, F = forecasts.

Source: UN, World Economic Situation and Prospects as of mid-2025 dt 15th May, 2025.

Equity Market

India Sustains Momentum Amid Geopolitical Tensions and Earnings Recovery



Indian equities rose for the third consecutive month in May, with the Nifty gaining 1.7%, and mid- and small-cap segments climbing by 6.1% and 8.7% respectively. Despite early volatility from geopolitical tensions, the market rebounded on improving earnings, rural demand, and policy support, though challenges like muted urban consumption and slow private capex persist.

Equity Outlook

“Indian equities extended their winning streak in May, driven by robust mid- and small-cap performance. Easing geopolitical tensions, supportive RBI policy and strong rural demand supported this uptrend, though muted urban consumption and delayed private capex remain concerns.”

Indian equities extended their upward trajectory in May, marking the third consecutive month of gains for the Nifty, which closed higher by 1.7%. Mid- and small-cap segments outshone the broader index, registering robust monthly gains of 6.1% and 8.7% respectively.

The month was not without turbulence with geopolitical tensions between India and Pakistan. In early May sparked short-lived volatility, but the prompt ceasefire reached on May 10th swiftly restored investor confidence. With geopolitical concerns temporarily set aside, market attention shifted to the unfolding Q4 FY25 earnings season.

After a protracted phase of muted earnings growth, early signs of a revival are emerging. While Urban demand continues to remain weak, rural demand continues to be strong. The early onset of Monsoon has led to the IMD upgrading their monsoon rainfall forecast to 106% of LPA which bodes well for kharif output and the rural economy.

The RBI front loaded its monetary easing and surprised markets with a 50bps rate cut to 5.5% in its MCP meeting on the 6th of Jun-25 and announced a 100bps reduction in CRR in 25bps tranches between September and November. The recent 50bps rate cut by the RBI has led to a total of 100bps reduction in policy rate from the peak, transmission of which would lead to reduction in interest burden on consumers. Benign interest rate environment, and Supportive tax policies, should help in improve disposable income leading to gradual revival in Urban demand.

Nevertheless, near term challenges persist. Private capital expenditure has yet to gain the anticipated momentum, consumption is expected to remain sluggish in the near term, and the IT services sector faces headwinds from policy uncertainties in the United States. If the expected earnings recovery does not materialize, sustaining current market valuations could prove challenging.

Despite these headwinds, India's economic fundamentals remain resilient. Structural drivers—such as global supply chain diversification and a revival in domestic demand—continue to underpin optimism among long-term investors.

However, global geopolitical risks continue to cast a shadow. The absence of progress in U.S. trade negotiations with key partners like China and the EU is a near-term concern. The escalating Russia-Ukraine conflict, and the potential for direct intervention by other European nations, also represent significant risks.

Against this backdrop, we advocate for a selective, quality-driven investment approach. High-quality, earnings-compounding businesses that are well-aligned with structural themes—like manufacturing growth, formalization, and digital consumption—are likely to thrive. Tactical drivers such as rural recovery and the capital expenditure cycle further support this view. While mid- and small-cap stocks have recently delivered impressive returns, we continue to prefer large-cap equities for their relative valuation comfort and stability.

We project mid-teen earnings growth over the next 18-24 months. The Nifty currently trades at ~19x FY27E EPS—a reasonable valuation given robust growth expectations going forward, post subdued earnings growth in FY25. From a sectoral perspective, we maintain a constructive stance on large banks, real estate, industrials, engineering and manufacturing services (EMS), and consumer discretionary. Conversely, we remain underweight on consumer staples, oil & gas, mid-cap IT.



Debt Market

Buoyed by Surplus Liquidity and Easing
Inflation

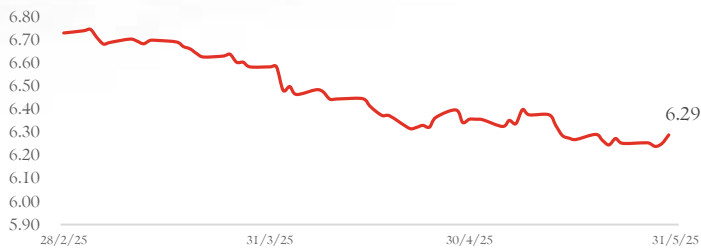
Surplus banking system liquidity, RBI's supportive policy actions, and the record dividend payout to the government have all contributed to a buoyant market sentiment. With inflation remaining moderate and liquidity conditions expected to remain favorable, the outlook for long-duration bonds has improved significantly. Additionally, the corporate bond yield curve is expected to steepen further, reflecting growing investor confidence.

Fixed Income Outlook

India's 10-year G-sec yield declined by 7 bps to 6.29% in May 2025 from 6.36% in April 2025, driven by surplus banking system liquidity and favorable demand-supply dynamics, supported by the RBI's continued OMO (open market operations) purchases.

India's 10-Year G-Sec Yield Fell by 7 bps to 6.29% in May 2025

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



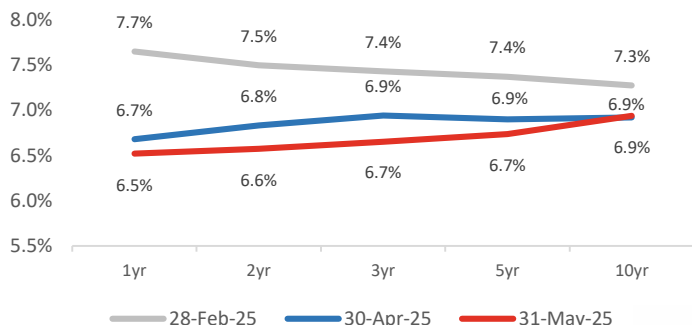
Source: CCIL

RBI's MPC voted (5:1) to reduce the repo rate by 50 bps to 5.50% in its Jun 2025 meeting and changed the stance to 'neutral' from 'accommodative'. RBI also decided to cut cash reserve ratio (CRR) by 100 bps to 3% of net demand and time liabilities (NDTL) in four equal tranches of 25 bps each during Sep to Nov 2025. As per RBI, the CRR cut would release liquidity worth Rs 2.5 lakh cr in the banking system by Dec 2025. RBI kept FY26 real GDP growth forecast unchanged at 6.5% but lowered the FY26 CPI inflation projection by 30 bps to 3.7%.

RBI declared its highest-ever dividend payout of ₹2.7 lakh crore to the central government for FY2025, approximately 27% higher than the ₹2.1 lakh crore transferred in FY2024. This amount exceeds the Centre's FY2026 budgeted dividend estimate of ₹2.6 lakh crore from the RBI and PSU banks combined. Although the payout fell slightly below market expectations of ₹3 lakh crore due to the RBI's decision to raise its risk buffer by 1% in FY2025. The higher-than-budgeted dividend provides additional fiscal headroom to either expand capital expenditure in FY2026 or reduce gross market borrowings.

The corporate bond yield curve has seen a notable steepening recently, supported by the RBI's recent repo rate cut and continued surplus banking system liquidity.

AAA PSU Corporate Bond Yield Curve



Source: Bloomberg

The U.S. 10-year yield rose by 23 basis points to 4.40% in May 2025 from 4.17% in April 2025, as expectations for near-term rate cuts receded amidst global trade tariff concerns, a weaker dollar, and mounting U.S. fiscal deficit pressures.

US Yields rose by 23 bps to 4.40% in May 2025

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

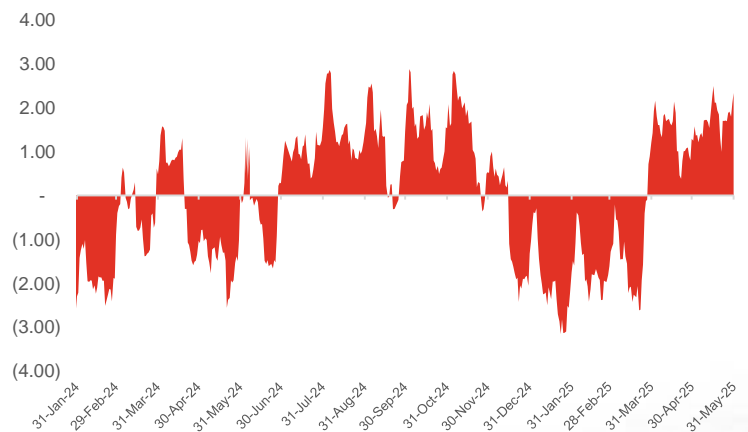


Source: Investing.com

India's average banking system liquidity surplus improved further to ₹1.7 lakh crore in May 2025 from ₹1.4 lakh crore in April. This increase was driven by the RBI's OMO and recent FPI inflows. RBI's substantial dividend is expected to further boost system liquidity as the government begins to spend these funds in the coming months.

RBI's Measures Finally Easing Liquidity Crunch

India's banking system liquidity (Rs Lakh cr)

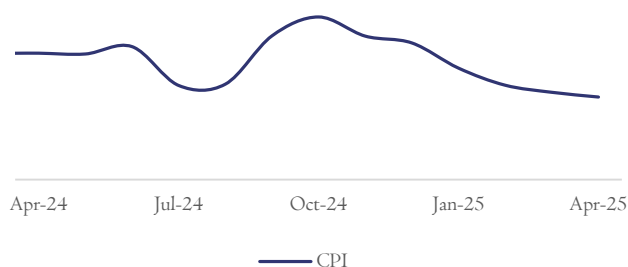


Source: RBI

Fixed Income Outlook

India's CPI inflation moderated further to 3.2 YoY in April 2025, down from 3.3% in March 2025, mainly due to declining food prices. This marks the third consecutive month of CPI inflation remaining below the RBI's medium-term target of 4%, creating space for the central bank to maintain its dovish monetary policy stance.

India's Inflation Rate Eases in Apr 2025 Due to Drop in Food Prices CPI Inflation YoY%



Source: Investing.com

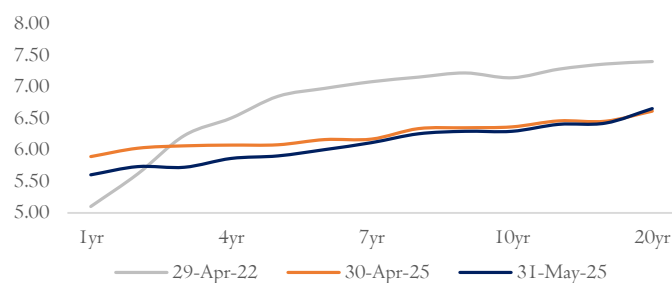
In our base case, we expect policy rate to remain unchanged at 5.5% in 2025. If growth shows significant signs of weakness, RBI could look at cutting rates further.

Looking ahead, with surplus banking system liquidity expected to persist in the near to medium term, the AAA corporate bond yield curve is likely to decline and steepen further.

Long-duration G-Secs may continue to benefit from falling yields, supported by surplus liquidity and favourable demand-supply dynamics.

G-Sec Yield Curve continues to remain flat

G-Sec Yield Curve



Source: Bloomberg

Navigating the path forward, global monetary policy decisions, geopolitical developments, fluctuations in commodity prices and currencies, as well as bond market supply-demand conditions and India's own growth-inflation trajectory will be critical in shaping the fixed income landscape in the months ahead.





Deep Dive

Equity Mutual Fund Cash Calls: Are mutual fund managers good at timing the market?

Indian equity mutual funds have significantly increased their cash holdings, with aggregate cash as a % of the total equity AUM in April 2025 at 6%, up from the long-term median of 4%. While most equity mutual funds (~70%) have taken elevated "cash calls" over the past decade, these are typically short-lived (1-2 months). However, our analysis highlights that the success rate of the equity fund managers in timing the market downturns is limited, standing at *less than* 40%.

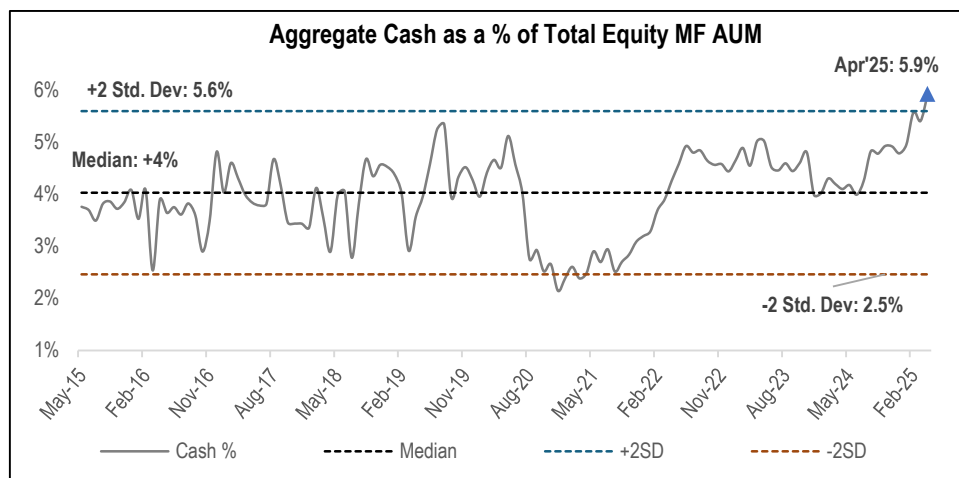
Equity Mutual Funds Cash Calls: Are mutual fund managers good at timing the market?

Executive Summary:

In Apr-25, actively managed Indian equity mutual funds collective cash holdings, stood at approximately 6% of their total equity AUM, a notable increase from the long-term median of around 4%. This uptick in cash holdings was largely driven by volatile market conditions, robust monthly inflows, and a tactical positioning by fund managers who anticipated a near-term market correction and aimed to generate outperformance relative to their benchmarks.

An equity fund with a high cash allocation typically outperforms its benchmark during market downturns and underperforms during market rallies. Elevated cash calls by fund managers are, therefore, a defensive strategy to safeguard investor capital, mitigate downside risks and help manage possible redemption pressures during volatile phases. Additionally, equity mutual funds maintain cash reserves as a liquidity buffer and a risk management tool to handle large redemptions.

The general view within the investment community is that equity fund managers prefer to maintain low cash levels, staying fully invested to capitalize on market opportunities. To test this belief, we have analyzed historical cash calls taken by equity fund managers over the past 10 years, starting from 2015. This period captures a wide array of economic events and market cycles, including Demonetization, the GST rollout, the 2018 NBFC crisis, the COVID-19 pandemic, the Russia-Ukraine conflict, the US tariff wars, and, more recently, the India-Pakistan tensions.



Source: ACE MF. **Note:** (1) We have only considered the diversified equity MFs (ex-sector funds); (2) Newly launched funds (i.e. funds launched in the past 6 months) with >25% cash holdings have been excluded and (3) The above chart shows the aggregate cash across all the diversified equity funds and not the average cash levels at an individual fund level.

Pivotal Investor Questions:

In this note, we address two key investor questions using data-backed insights, focusing on historical cash allocation trends in equity mutual funds and the effectiveness of cash calls made by fund managers:

- **Question 1:** Do equity mutual fund managers actively take cash calls?
- **Question 2:** How successful are these cash calls, and what is the typical time horizon for their outcomes?

Our definition of a “Cash Call”?

For the purpose of this note, a “cash call” is identified when:

- A fund's monthly cash allocation exceeds its historical median cash holding by > two standard deviations (+2SD);
- Its actual monthly cash holdings exceed 8% of AUM

This dual condition ensures that only significant, deliberate increases in cash are captured, reflecting proactive risk management or tactical allocation decisions by fund managers.

Sample Data Set:

For our deep-dive analysis, we have considered all categories of equity mutual funds, excluding sectoral funds. Additionally, we have included only those funds with a minimum operating history of more than six months. For newly launched funds (less than six months old), we have included only those with cash holdings below 25%.

Based on the above conditions, the total number of active equity funds in April'25 stood at 508 and excluding sector mutual funds as well the newly launched funds (with >25% cash holdings), the total number of funds came in at 294.

Key reasons for excluding sector funds, as follows:

- **Different Mandate and Strategy:** Sector funds have a narrow investment mandate focused on specific industries (like banking, pharma, IT). Their cash holding decisions are driven by sector-specific factors, not by an overall market view
- **Limited Flexibility to Hold Cash:** Sector funds often have lower flexibility to hold cash compared to diversified funds. Their performance is more directly tied to the performance of the underlying sector.

Key reasons for excluding the newly launched funds (with >25% cash holdings), as follows:

- **Early Cash Allocation Noise:** Newly launched funds typically hold higher cash levels initially, as they gradually deploy investor capital into equities. This temporary elevated cash position is operational rather than a deliberate tactical move by the fund manager
- **Not Representative of Active Cash Calls:** Cash positions in newly launched funds generally reflect fund setup and onboarding activity, not an active risk-management decision based on market outlook. Including them would misrepresent true cash calls taken by experienced funds.

In short, sector funds have unique mandates and cash usage patterns that don't reflect the broader equity market's risk-on or risk-off sentiment. Additionally excluding the newly launched diversified funds with cash holdings >25% helps avoid including funds still in the process of deploying investor capital. This ensures a **clearer picture** of how fund managers are navigating cash calls in the larger equity universe.

Our View:

Question I: Do equity mutual fund managers actively take cash calls?

We analyzed the monthly cash holdings (% of AUM) for the entire sample set of diversified equity mutual funds and for each fund, we calculated its unique historical standard deviation (SD) of cash levels over the last 10 years (2015-2025). A fund's cash holding in any given month was flagged as an "elevated cash call" if it met two simultaneous conditions:

- The monthly cash allocation exceeded its historical median cash holding by more than two standard deviations.
- The actual monthly cash holdings was above 8% of AUM.

It's important to note that funds holding more than 8% cash but not breaching their respective +2SD threshold were excluded from this analysis. This ensures we focus only on instances where funds exhibited a significantly unusual or strategic cash build-up relative to their own historical patterns, rather than a naturally higher operational buffer.

Key Takeaways:

- Of the 294 unique funds analyzed, 208 funds have taken at least one "cash call" over the last decade. This suggests that nearly 70% of the diversified equity fund universe has, at some point, engaged in what can be considered a deliberate or exceptional cash build-up.
- On a more granular basis, we note around 25% of unique equity funds have taken a "cash call", more than 5 times across the entire study period (10 years). While 75% of the funds have taken a "cash call" less than 5 times in the last decade, which further reiterates the industry perception that **equity fund managers maintain low cash levels**.
- **Net-net**, equity mutual fund managers do take cash calls, but they rarely deploy cash strategically and generally keep low cash levels.
- **In the current context (April'25), we see that only 16 funds out of the eligible 294 funds, have taken a "cash call" (i.e., funds holding more than 8% cash and breaching their respective +2SD threshold).**

Number of times a fund has taken a "cash call"	Number of Unique Equity MFs
0 times	86
1 time	46
2 times	34
3 times	22
4 times	17
5 times	17
> 5 times	72
Total	294

Source: ACE MF. Data Period: May'15 to Apr'25.

Question 2: How successful are these cash calls, and what is the typical time horizon for their outcomes?

We now look at how long the equity fund managers kept their cash levels high and their relative success ratio in taking these “cash calls”. To determine the typical holding periods for these significant cash positions, we analyzed fund behaviour when cash holdings consistently exceeded both 8% and their respective +2 standard deviation thresholds. Our focus was on identifying consecutive months where these elevated cash levels were sustained.

How do we define a “Successful Cash Call”: A successful cash call is defined as an instance where the cash holdings meet the threshold criteria defined earlier for at least one month, during which the market (benchmark index) gives a negative return, indicating that the fund manager was anticipating the downturn in markets.

Additionally, to analyze their success and typical timeframes, we focused on the **number of unique cash call instances**. We classified these instances into three broad categories based on the consecutive months of high cash holdings: a) **1-2 months**, b) **3-5 months**, and c) **more than 5 months**.

Consecutive period of high Cash Holdings	Number of instances of “cash calls”	No. of instances the cash call was “successful”	Success (%)
1-2 consecutive months	495	187	38%
3-5 consecutive months	65	33	51%
> 5 consecutive months	13	5	38%
Total	573	225	39%

Source: ACE MF. **Data Period:** May’15 to Apr’25.

Note: The above table shows the unique number of instances, where “one instance” refers to a continuous period where a fund’s cash holdings meet the “cash call” criteria.

Key Takeaways:

- Fund managers prefer short-term cash calls. As per the table above, the duration for over 85% of the cash calls are for 1-2 consecutive months.
- Overall, fund managers were “successful” with their cash calls only 39% of the time, suggesting that elevated cash holdings do not consistently translate into outperformance.
- Net-net**, we note that, fund managers haven’t enjoyed much success when it comes to taking strategic “cash calls” and the typical timeframe of “cash calls” has been for the very short-term (i.e. 1-2 months).

Temporal Analysis – Monthly Patterns of Elevated Cash Calls:

Beyond assessing the duration of elevated cash holdings, it's vital to pinpoint the specific months when funds collectively raised cash above the defined thresholds. This monthly analysis sheds light on whether such decisions coincided with broader market events or sentiments, potentially reflecting a “herd mentality” among fund managers. Periods with a notable spike in these elevated cash instances suggest a widespread consensus among managers to bolster cash reserves, often mirroring a shared response to prevailing market conditions.

The table below illustrates the notable peaks where a fund's cash level surpassed both its actual monthly cash holding of 8% and its individual +2SD threshold, over the last 10 years:

Calendar Year	Month	No. of funds which took a “cash call”	Remarks
2018	September	20	In 2018, equity mutual fund managers took notable cash calls driven primarily by the NBFC crisis. The default by IL&FS in Sep-18 triggered a credit market scare, causing liquidity tightening in the financial system.
	October	25	
2019	July	21	In July 2019, equity fund managers increased their cash holdings due to a combination of disappointing Indian budget proposals (like higher FPI taxes) and continued concerns over economic slowdown
2020	March	22	The most pronounced spike occurred in March and April, directly aligning with uncertainty of COVID-19 pandemic and its severe market disruptions. Funds adopted a “wait-and-watch” approach, boosting cash balances.
	April	23	
	May	21	

Source: ACE MF.

Our Take:

- **Aggregate Cash as a % of Equity MF AUM – at 10 year high.** In April 2025, actively managed Indian equity mutual funds held about 6% of their total equity assets in cash. This is a significant rise from the typical 4% they usually hold.
- **Strategic cash deployment is rare.** A significant portion of diversified equity funds don't significantly increase cash holdings, reiterating the general industry view that equity fund managers prefer to maintain low cash levels and like to stay fully invested to capitalize on market opportunities.
- **Fund managers prefer short-term cash calls.** Our analysis suggests that 85% of the times, the fund managers have taken cash calls for a consecutive 1-2 months, while holding high cash levels for >2 consecutive months only 15% of the time.
- **Limited success in taking “cash calls”:** Despite the strategic intent, fund managers were successful with their cash calls only 39% times, reflecting that elevated cash holdings doesn't consistently translate into superior returns.

Reading Room



Obscure Tax Item in Trump's Big Bill Stokes Wall Street Angst

A new tax provision, Section 899, included in Trump's House-passed bill, aims to raise taxes on U.S. income earned by investors from countries with "discriminatory" tax policies against U.S. firms. This has raised concerns among Wall Street investors as it could dampen foreign investment in U.S. assets like Treasuries and even weaken the dollar. Countries targeted include those with digital services taxes, such as the UK, France, and Canada, which could impact sovereign wealth funds, pension plans, and businesses investing in the U.S. While the measure is seen as a potential bargaining chip in trade negotiations, its unintended consequences may include spooking financial markets and complicating funding efforts for the U.S. economy.

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How Trump's tariffs turned the 'TACO' trade into Wall Street's biggest debate

The term "TACO" trade, short for "Trump Always Chickens Out," describes how investors have grown accustomed to Trump's aggressive tariff threats rarely being fully implemented, leading to quick market recoveries. However, Trump's latest inflammatory comments about China and renewed plans to tighten tech restrictions have upended this assumption, reigniting uncertainty in financial markets. Some strategists now warn that the president could indeed follow through with actual tariffs, signaling a potential departure from the past pattern. This shift has amplified market volatility and spurred debates over the reliability of the "TACO" trade as an investment strategy. Legal challenges to tariffs and Trump's unpredictable trade policy have further complicated corporate investment decisions. As a result, long-term economic planning has become increasingly difficult, underscoring the heightened sense of risk in global markets today.



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