
TRU INSIGHTS

October 2025



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From the MD & CEO's desk



"Global uncertainties and market swings continue, yet India's domestic fundamentals remain steady. Structural reforms like GST rationalisation are supporting consumption, while resilient demand from both rural and urban segments adds strength. Though foreign flows remain uneven, robust domestic participation and stable macro indicators provide balance, underscoring the economy's inherent resilience"

Dear Investors,

September opened on a positive note as the Government's GST 2.0 restructuring brought the much-anticipated relief. With meaningful reductions in rates across segments, the move is expected to significantly boost domestic consumption and provide a supportive backdrop for growth.

Despite persistent FII outflows through the month, the selling pressure was relatively contained in the first three weeks and comfortably absorbed by strong DII inflows. Sentiment was further lifted by the resumption of trade talks between India and the U.S. However, the imposition of higher H1B visa fees and fresh tariffs on pharmaceutical imports by the Trump administration unsettled markets. The absence of a breakthrough in trade negotiations continues to create uncertainty, as any rollback of tariffs now hinges on a comprehensive deal.

Globally, the U.S. economy has been navigating gradual inflationary pressures following the Trump-era tariffs. With a cooling labour market, the Federal Reserve has found space to act, cutting policy rates by 25 bps at its September FOMC meeting and signalling the likelihood of two further cuts in 2025. Softer-than-expected private sector job additions in September, combined with a record downward revision of 911,000 jobs for the year ending March 2025, highlight labour market fragility. The risk of a U.S. government shutdown in October may exacerbate this weakness.

On the domestic front, the RBI's Monetary Policy Committee chose to hold the repo rate steady at 5.5% in its September review, even as it lowered its FY26 CPI inflation forecast for the second consecutive time—down to 2.6% from 3.1%. Growth projections, meanwhile, were nudged higher by 30 bps to 6.8%. While the MPC acknowledged the drag from ongoing global uncertainties, it preferred to wait for the impact of past policy actions to play out before deciding on further policy action.

In the near term, unresolved India–U.S. trade frictions, visa fee hikes, and tariff concerns could inject volatility into markets. Nonetheless, the supportive combination of GST rate cuts and accommodative interest rates should provide a cushion. A modest correction of 5–6% owing to global factors cannot be ruled out, but over the medium term, strengthening corporate earnings are expected to anchor market momentum.

In this edition of **Tru Insights**, we explore these global and domestic developments, highlight emerging opportunities in fixed income, and present a focused deep dive on **The One Year Return Trap**¹. Our **Reading Room** continues to feature a curated selection of essays designed to inspire long-term, strategic thinking.

We thank you for your trust and hope that **Tru Insights** continues to serve as a valuable guide on your investment journey.

Warm Regards,
Dhiraj Relli
MD and CEO – HDFC Securities



Macro Economic Highlights

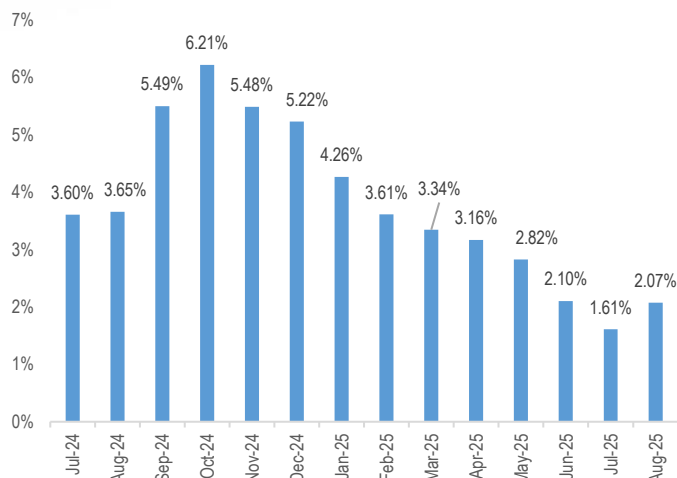
Steady Economic Trends at Home Amid an Evolving International Landscape

The economy has exhibited resilience with steady activity across key sectors, supported by stable domestic demand and policy measures. At the same time, the global backdrop has been marked by shifting trade policies, monetary adjustments by major central banks, and signs of slower growth in large economies. Together, these dynamics underline a phase where local stability contrasts with the evolving global environment.

Domestic Macro Highlights

Inflation: India's consumer price inflation edged higher to 2.07% year-on-year (YoY) in August 2025, up from a revised 1.61% in July - the first monthly uptick in ten months. Food prices, a key driver of the CPI basket, declined by 0.69%, moderating from July's 1.76% fall. Price pressures rose modestly in categories such as pan, tobacco, and intoxicants (2.49% vs. 2.45% in July) and miscellaneous items (5.05% vs. 5.01%). In contrast, housing (3.09% vs. 3.17%) and fuel and light (2.43% vs. 2.67%) registered a slower pace of increase.

India CPI Inflation



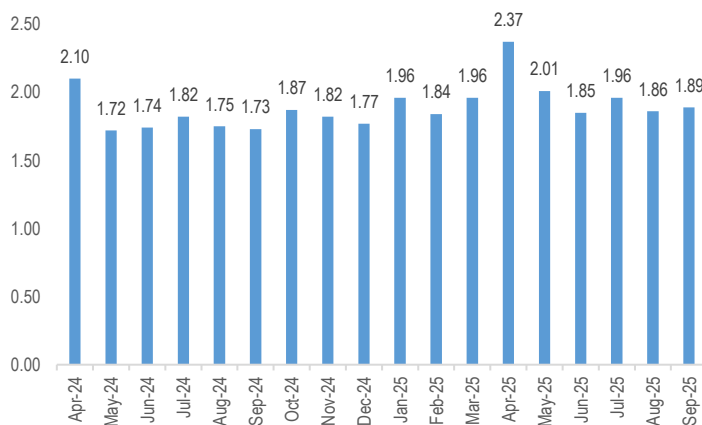
Source: MoSPI

India Manufacturing PMI Cools Slightly in September: The HSBC Manufacturing Purchasing Managers' Index (PMI) eased slightly to 58.5 in September 2025, from August's 17.5-year high of 59.3. While this marks a moderation, the index remains well above both the neutral 50.0 threshold and the long-run average of 54.2, reflecting robust expansion. New orders continued to grow strongly, albeit at a slower pace, while firms reported accelerated input cost inflation. Output charges rose at the fastest rate in over 12 years, though business optimism for future activity remains high.

OECD lifts India's FY26 growth outlook to 6.7%; S&P retains at 6.5%: The OECD revised India's FY26 GDP growth forecast upwards by 40 basis points to 6.7%, attributing the improvement to monetary easing, fiscal support, and GST reductions. It also projects average consumer inflation to decline sharply to 2.9% in FY26, from 4.1% previously, and stabilize near 3% in FY27. Meanwhile, S&P Global retained its forecast at 6.5% for FY26 and anticipates a 25-basis-point rate cut by the Reserve Bank of India during the fiscal year.

GST Collections: Gross Goods and Services Tax collections stood at ₹1.89 lakh crore in September, reflecting a 9.1% YoY increase. This represents the fastest growth in four months (compared with 6.5% growth in August) and is the ninth consecutive month that collections have remained above the Rs 1.8 lakh crore mark. However, the collections in the second quarter were Rs 5.71 lakh crore, a 7.7% YoY growth, which was a slowdown from the 12% YoY growth witnessed in the previous quarter. The surge comes despite subdued non-durable consumer spending ahead of the GST rate cuts, which took effect on September 22, 2025.

India's GST Collections increased from Rs. 1.86 lakh crore in August 25 to Rs. 1.89 lakh crore in September-25



Source: gst.gov.in

India's Fiscal Deficit Reaches 38.1% of FY26 Target by August: India's fiscal deficit in the April-August period of the financial year 2025/2026 stood at 5.98 trillion rupees (\$67.34 billion), or 38.1% of the full-year target, which is wider as against the comparable year-ago period, when it stood at 27%. Total government expenditure for this period rose to 18.8 trillion rupees, compared with 16.5 trillion rupees a year earlier. Crucially, Capital Expenditure increased significantly to 4.3 trillion rupees, up from 3 trillion rupees a year ago. However, Net tax receipts decreased to 8.1 trillion rupees, down from 8.7 trillion rupees collected in the same period last year, while non-tax revenue rose to 4.4 trillion rupees compared with 3.3 trillion rupees a year ago.

Global Macro Highlights

Trade & Tariff Implications

U.S. Announces 100% Tariff on Imported Branded Pharmaceuticals: U.S. President Donald Trump announced on September 25, 2025, that the United States will impose a 100% tariff on imports of branded or patented pharmaceutical products starting October 1. The tariff is part of a strategy to strengthen domestic manufacturing and can be avoided only if a pharmaceutical company is actively "building" a manufacturing plant in the U.S. (defined as "breaking ground" or "under construction"). This massive import tax will effectively double the price for U.S. importers and consumers and has triggered global concern, particularly in major exporting countries like India, Ireland, Switzerland, and Germany, leading to a drop in the share prices of pharmaceutical companies across Asia and Europe.

Geopolitical Landscape

China's Economic Momentum Slows Sharply in August: China's economic momentum (factory output + retail sales) slowed sharply in August 2025. Industrial output rose 5.2% YoY (lowest since August 2024; vs. 5.7% in July and below 5.7% forecast); retail sales growth cooled to 3.4% (slowest since November 2024; from 3.7% in July). Also, fixed-asset investment increased just 0.5% YoY in the first eight months; and the unemployment rate ticked up to a six-month high of 5.3% from 5.2% in July, all casting doubt on achieving the "around 5%" annual growth target.

U.S. Job Growth Revised Down Significantly Amid Labor Market Concerns: U.S. job growth is revised down materially on September 9, 2025. The U.S. Bureau of Labor Statistics (BLS) reported 911,000 fewer jobs for the year through March 2025 than initially estimated. This significant downward revision, which was 50% higher than the adjustment in the previous year, follows a lackluster August report which added just 22,000 jobs, June 2025 showed a rare loss of 13,000 (first since December 2020), and unemployment rose to 4.3%, a high since 2021 - amplifying concerns about labor-market durability.

Global Growth Projections

OECD Lifts Global and U.S. Growth Forecasts: The Organisation for Economic Co-operation and Development (OECD) has upgraded its 2025 global growth forecast to 3.2% (from 2.9%) in June, citing "more resilient" momentum, especially in emerging markets. U.S. 2025 growth is raised to 1.8% for 2025 (from 1.6% in June), still below the 2.8% pace in 2024. The OECD warns that the full effects of new U.S. tariffs - lifting the effective rate to ~19.5% by end-August, the highest since 1933 - have yet to be felt and trims the 2025 U.S. inflation forecast to 2.7% (from 3.2%).

U.S. GDP Growth Revised Up to 3.8% in Q2 2025: U.S. GDP growth for Q2 (April-June) 2025 is revised up to 3.8% annualized (from previous 3.3%, and above the initial 3.0% estimate). This was driven mainly by stronger consumer spending at 2.5% in Q2 (vs. 1.6% in the second estimate), signaling firmer demand than first reported.

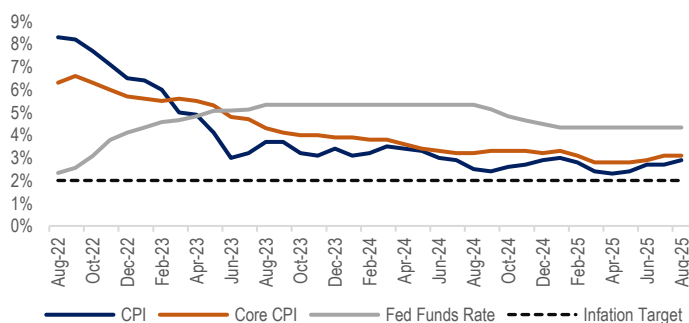
Fed Cuts Rates, Raises Growth and Inflation Forecasts: The U.S. Federal Reserve cut the federal funds rate by 25 basis points (bps) in September 2025, bringing the new range to 4.00% - 4.25%, marking the first reduction since December. GDP growth forecasts were revised higher for all three years: to 1.6% for 2025 (up from 1.4% in June), 1.8% for 2026 (up from 1.6%), and 1.9% for 2027 (up from 1.8%). While the PCE inflation forecast remains at 3% for 2025 (same as June), it was revised higher for 2026 to 2.6% (up from 2.4%). The unemployment rate forecast for 2026 was slightly lowered to 4.4% (from 4.5% in June). Traders are currently pricing in a 90% chance of a Fed rate cut in October, with an around 65% probability of another easing in December, according to the CME FedWatch Tool. (Reuters).

US Inflation and Interest Rates:

US Inflation Steady, Core Inflation Rises: The U.S. annual inflation rate accelerated to 2.9% in August 2025, the highest since January, after holding at 2.7% in both June and July. This rise was driven by faster price increases for food (3.2% YoY vs. 2.9% in July), used cars and trucks (6% YoY vs. 4.8%), and new vehicles (0.7% YoY vs. 0.4%). On a monthly basis, the CPI increased by 0.4%, the most since January, with shelter contributing the largest upward pressure. The annual core consumer price inflation rate in the United States, which excludes food and energy, remained stable at 3.1% in August 2025, unchanged from July and in line with market expectations.

US inflation & Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Tradingeconomics, Federal Reserve

Equity Market

Equities Regain Ground Amid Policy Support, but Global Headwinds Persist



Indian equities closed in the green for the first time in three months, with the Nifty up 0.8% in September. Market sentiment was lifted by GST 2.0 reforms and the resumption of India–U.S. trade talks, even as higher H1B visa fees and new pharmaceutical tariffs unsettled investors. Mid- and small-cap indices outperformed the Nifty, while FIIs stayed net sellers and DIIs absorbed the flows. Globally, U.S. markets advanced for the fifth consecutive month, supported by rate cuts and strength in technology stocks.

Equity Outlook

“Indian equities ended September in positive territory for the first time in three months, with the Nifty up 0.8%. Market volatility intensified amid the Government's GST 2.0 overhaul and renewed India–U.S. trade talks. However, the positive momentum was offset by fresh tariffs on pharmaceutical imports and higher H1B visa fees, which collectively unsettled sentiment and maintained an elevated level of uncertainty.”

Indian equities closed in the green for the first time in three months in September, with the Nifty up by 0.8% for the month. However, September continued to witness volatility as the month opened on apposite note as the Government's GST 2.0 restructuring brought the much-anticipated relief. To the markets. Sentiment was further lifted by the resumption of trade talks between India and the U.S.

However, the imposition of higher H1B visa fees and fresh tariffs on pharmaceutical imports by the Trump administration unsettled markets. The absence of a breakthrough in trade negotiations continues to create uncertainty, as any rollback of tariffs now hinges on a comprehensive deal. Mid & small caps also witnessed extreme volatility though the Nifty Midcap 100 & Smallcap 100 indices outperformed the Nifty, closing up by 1.4% and 1.9% respectively for the month. FIIs remained net sellers in Indian equities in August, on continued concerns over U.S. tariffs and a lackluster Q1FY26 results season, while DIIs remained large buyers.

U.S markets maintained its upwards trajectory and closed in the green for the 5th month in a row. The S&P 500 rallied by 3.5% for the month driven by the tech heavy Nasdaq which was up by 5.6%. Post the pivot by the U.S fed chief at the Jackson hole symposium in Aug-25, the U.S. fed cut rates by 25bps in its September FOMC meeting and signaled the likelihood of two further cuts in 2025.

Though the U.S. economy has been navigating gradual inflationary pressures following the Trump-era tariffs a cooling labour market is providing the U.S Fed with some elbow room to adopt a dovish stance. Softer-than-expected job additions in August, combined with a record downward revision of 911,000 jobs for the year ending March 2025, highlight the labour market fragility. The risk of a U.S. government shutdown in October may exacerbate this weakness.

On the domestic front, the RBI's Monetary Policy Committee chose to hold the repo rate steady at 5.5% in its September review, even as it lowered its FY26 CPI inflation forecast for the second consecutive time—down to 2.6% from 3.1%. Growth projections, meanwhile, were nudged higher by 30 bps to 6.8%. While the MPC acknowledged the drag from ongoing global uncertainties, it preferred to wait for the impact of past policy actions to play out before deciding on further policy action.

Going forward all eyes will now be on the Q2FY26 results season. After a significant downgrade in Q4FY25, the pace of earnings cuts moderated in Q1FY26. While a minor downward revision in FY26 estimates cannot be entirely ruled out, we do not anticipate any major earnings downgrades going forward. On the positive side, consumption sector is expected to pick up, driven by GST rate reductions, and NIM compression for banks is likely to begin normalizing from Q3FY26. These two factors should help cushion against any substantial earnings revisions.

In the near term, unresolved India–U.S. trade frictions, visa fee hikes, and tariff concerns could inject volatility into markets. Nonetheless, the supportive combination of GST rate cuts and accommodative interest rates should provide a cushion. A modest correction of 5–6% owing to global factors cannot be ruled out, but over the medium term, strengthening corporate earnings are expected to anchor market momentum.

We continue to maintain our preference for large caps given better risk adjusted returns in favour of large caps. Our preferred sectors are large banks, auto, consumer discretionary, real estate, cement, and capital goods. We remain underweight on oil & gas, mid-cap IT, small banks, and metals.



Debt Market

Fiscal Concerns Keep Yields Elevated Amid Weaker Rupee and Lower Liquidity

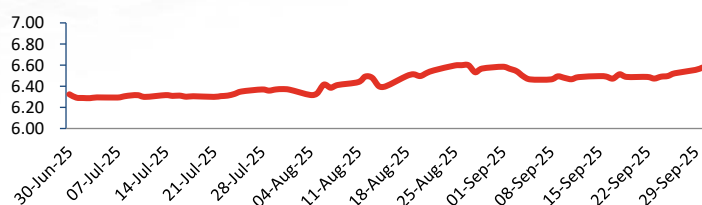
G-sec yields stayed firm in September as worries over fiscal slippage from GST rationalisation and lower nominal GDP weighed on sentiment. The rupee weakened against the dollar, while banking system liquidity moderated. RBI kept policy rates steady with a neutral stance, while inflation remained soft despite a slight uptick. Global tariff risks and Fed moves added to the market caution.

Fixed Income Outlook

India's 10yr G-sec yield closed September at 6.58%, nearly flat as compared to August. The G-sec yields continued to remain elevated during the month on account of potential fiscal slippage concerns due to GST rate rationalisation and lower FY26 nominal GDP growth expectations. Persistent weakness in INR against USD also weighed on the bond yields. RBI will auction new 10yr G-sec in weekly G-sec auction on 3rd Oct 2025.

India's 10-Year G-Sec Yield remained closed flat in September 2025

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



Source: CCIL

In its October 2025 monetary policy meeting, the RBI's MPC voted unanimously to keep the repo rate unchanged at 5.50%. The MPC also decided to continue with the neutral monetary policy stance. However, 2 out of 6 MPC members were of the view that the stance be changed to accommodative from neutral. RBI revised up FY26 real GDP growth forecast by 30 bps to 6.8% while lowered FY26 CPI inflation projection by 50 bps to 2.6%.

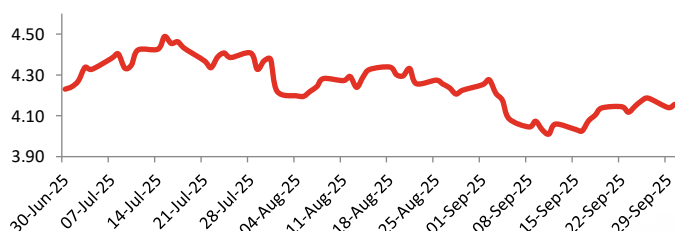
In H2FY26, central government's gross borrowing is pegged at Rs 6.77 lakh cr. With Rs 7.95 lakh cr borrowed from the market in H1FY26, the total gross borrowing for FY26 is estimated at Rs 14.72 lakh cr, slightly lower than the budget estimate of Rs 14.82 lakh cr. No additional borrowing has been considered by the Centre for the revenue loss due to GST rate rationalisation.

INR continued to weaken against the USD and closed September at 88.8 from 88.2 in August. FPI outflows and global tariff concerns continue to keep rupee under pressure.

US 10-year Treasury yield fell to 4.16% in September (down from 4.23% in August). In line with market expectations, US Fed cut the Fed Funds rate by 25-bps to 4.0-4.25%. Newly appointed member Stephen Miran voted for a 50-bps rate cut. In addition, the dot plot didn't show any aggressive rate cut path by the Fed with a further 50-bps rate cut in 2025 (from the earlier 25-bps), and another 25-bps rate cut in 2026 (like the June policy) and 25bps in 2027.

US Yields fell by 7 bps to 4.16% in September 2025

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



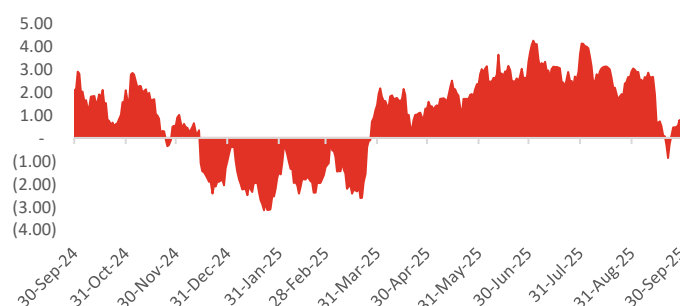
Source: Investing.com

The FOMC downgraded its view on the labor market in its policy statement, remarking that "job gains have slowed, and the unemployment rate has edged up but remains low". On the other hand, concerns around inflation risks remained intact and the Fed said it would ensure that the tariff impact on inflation would be one time and temporary.

India's banking system liquidity surplus moderated to an average of Rs 1.5 lakh cr in September down from an average of Rs 2.8 lakh cr in August. The liquidity went into deficit for few days post the advance tax outflows in mid-September. The liquidity surplus is expected to build up in near term with CRR (Cash Reserve Ratio) cut implementation of 75 bps in Oct and Nov (25 bps CRR cut already implemented in Sep) and government spending.

Advance tax outflows led to fall in liquidity surplus

India's banking system liquidity (Rs Lakh cr)

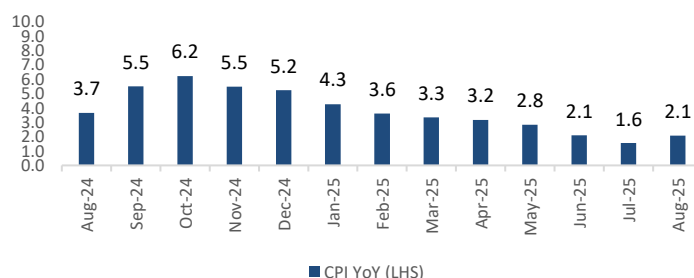


Source: RBI

India's CPI inflation rose to 2.1% YoY in August from 1.6% in July but extended the continued softness in retail inflation seen over the last few months.

India's Inflation Rate Rose in August 2025 Driven by Fading Impact of High Base Effects

CPI Inflation YoY%



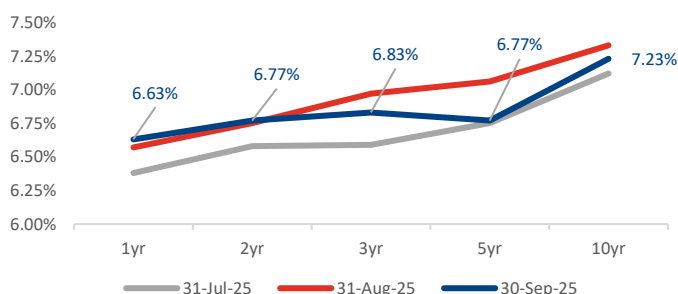
Source: MoSPI

Fixed Income Outlook

Given the comfortable inflation trajectory, the RBI Governor has acknowledged that the MPC has space to cut repo rate further. We believe that Dec 2025 is now a live policy, and the possibility of a rate cut would hinge on how both the tariff news flow as well as domestic demand conditions progress. If economic momentum disappoints, with continued increasing tariff risks, we could see the repo rate inching towards 5% by end of FY26. However, with a favourable turn of events on tariffs, global growth and domestic consumption, 5.5% could very well be the bottom for this cycle.

Spreads in 2-5yr AAA PSU corporate bond yields are in the range of 60-100 bps over corresponding G-secs, offering an attractive investment opportunity from an accrual perspective. Furthermore, spreads in 3-5yr state government securities over G-secs are currently elevated in the range of 45-65 and offers a healthy accrual.

AAA PSU Corporate Bond Yield Curve

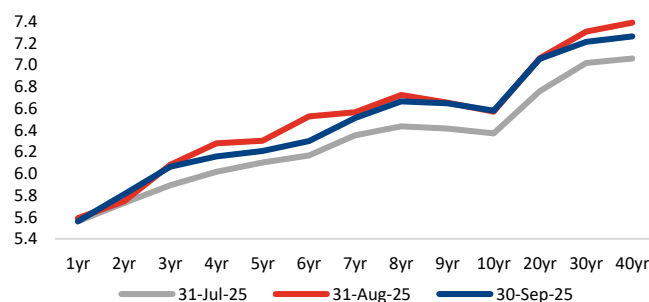


Source: Bloomberg

Long-term G-sec yields remain elevated and term spreads (spread between repo rate and long-term yields) are at higher-than-historical levels. Investors could benefit from a tactical exposure to high duration led by a fall in the policy rate or a compression in the term spread.

India's G-Sec Yield Curve continues to remain steep

G-Sec Yield Curve



Source: Bloomberg

Domestic fixed income markets will continue to be driven by a mix of global and domestic factors. Key drivers include a dovish stance from the US Fed, ongoing moderation in domestic inflation, and surplus banking system liquidity. However, risks remain, amplified by global volatility, particularly related to tariff policy, and potential fiscal concerns arising from GST rate rationalization and lower than expected nominal GDP growth.



Deep Dive

The 1 Year Return Trap

Stop focusing on short-term wins! This analysis, spanning mutual fund data from 2005 to 2025, shows that a fund's recent stellar performance especially its 1-year return is often a misleading boost that inflates its overall record and doesn't reliably predict future success. The main lesson is to resist the urge to "chase" the current top-ranked funds; true investing strength comes from consistency over the long haul, not from a single, spectacular sprint.

The 1 Year Return Trap

Imagine you're an investor, and an equity asset manager approaches you, showcasing a set of brilliant returns. They're in the middle of a "purple patch", a period of excellent, recent outperformance—and they're eager to show off. They present periodic returns (1-year, 3-year, 5-year) stacked against the market benchmark and their competitors.

You look at the numbers, and they all look impressive. This happens because the manager's incredible recent outperformance (the 1-yr return) simply folds into and inflates the 2-yr, 3-yr, and 5-yr performance as well.

Also, often the time proven schemes go through temporary rough patch. In such situations, the fund manager could be under pressure to change selection thesis.

In this study, we evaluate the efficacy of looking at only the recent

One year return folds into other period returns

As indicated above, the funds who hit a purple patch (recent outperformance – 1 year return in this case) approach investors and showcase their periodic returns as against the benchmark / peer group.

Illustration listed below demonstrates that recent outperformance (1 year in this case) folds into 2 yr, 3 yr, 4 yr, 5yr returns as well.

If one looks at point to point returns as of Aug-25, it shows as:

	Point to Point CAGR Returns as on 31-Aug-2025				
	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr
Fund 1	15.0%	15.0%	15.0%	15.0%	15.0%
Fund 2	45.0%	19.8%	17.1%	16.4%	15.1%

Fund 2 looks better than Fund 1 across time horizons.

Now, Consider the performance of the following 2 funds in each of the last 5 years

	Last 5 Year Returns (As on 31-Aug-2025)				
	2025	2024	2023	2022	2021
Fund 1	15.0%	15.0%	15.0%	15.0%	15.0%
Fund 2	45.0%	-1.0%	12.0%	14.0%	10.0%

As we deep dive, we can see that Fund 1 has been a consistent fund across the 5 calendar years. Whereas, Fund 2 has done exceptionally well in 2025 (could be that a couple of stocks gave exceptional returns in 2025).

Though, Fund 2 looks better than Fund 1 across time horizons. However, we know that fund 1 has been more consistent.

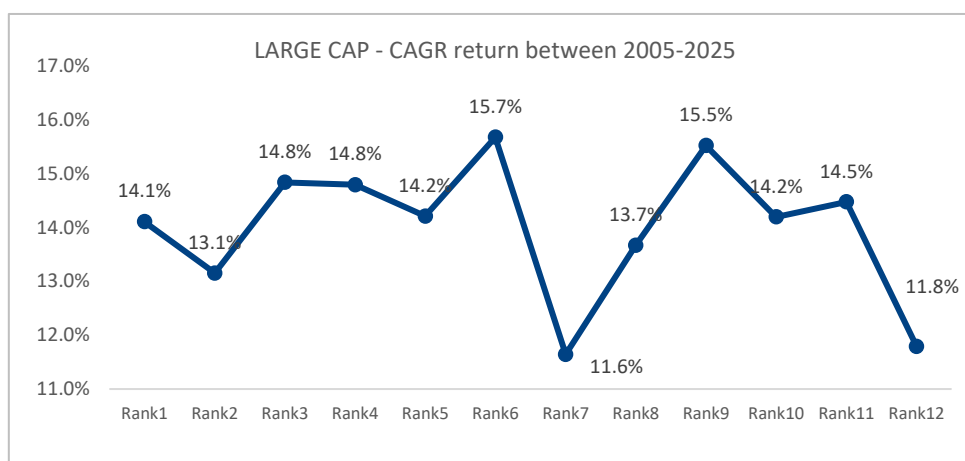
- Should we only look at recent outperformers amongst a peer group?
- Should we sulk unduly if our trusted manager lagged peers in the last 1 year?

In an attempt to answer these questions, we did the following analysis on mutual fund schemes. We have picked MFs because of the depth of available data. The thesis should be equally true for all other asset managers.

Test (1) – Investing for next 1 year basis last 1 year's ranking

- We ranked 32 large-cap mutual funds each year based on their 1-year performance, starting from 2005.
- For the next 20 calendar years (2005–2025), we invested annually in the fund that was ranked #1 in the previous year.
- To summarize, we redeemed the investment at the end of each calendar year and reinvested the proceeds into the top-ranked fund based on the prior 12-month return.

We got the following CAGR returns at the end of the testing period (2005-2025):

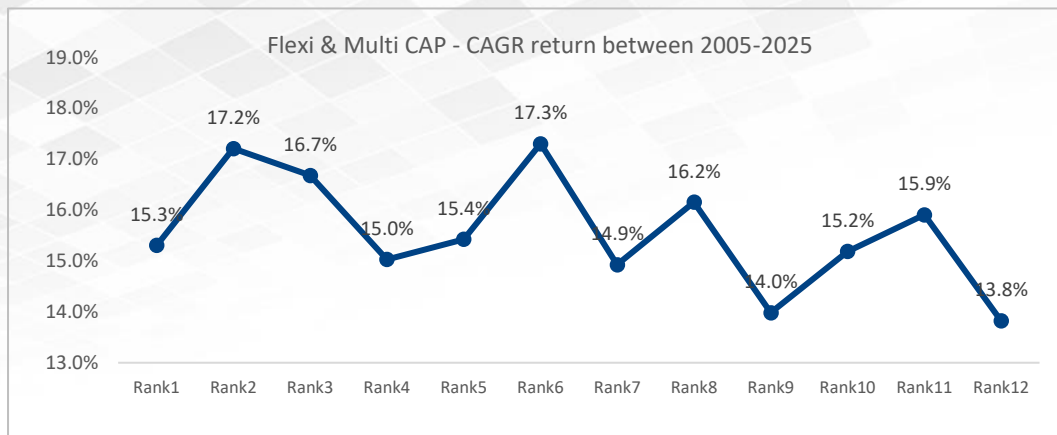


In the chart x axis – Rank 1 means investing every year into #1 ranked funds, Rank 2 means investing into #2 ranked fundand so on. Rank 12 means investing every year into #12 ranked fund

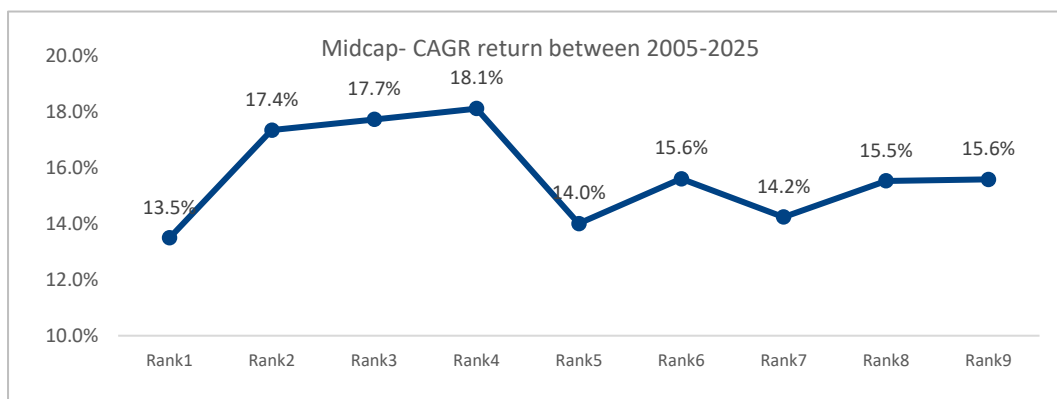
Findings: - Test (1)

- Selecting the #1 ranked fund each year resulted in a CAGR of 14%. Interestingly, consistently choosing the #6 ranked fund each year delivered a higher CAGR of 16%.
- It is a random dispersion. Next year's performance has no relation with last year's performance.

We extended the same analysis to Multi/Flexi-cap mutual funds (30 funds) and Midcap mutual funds (29 funds) for the period from 2005 to 2025. The CAGR return, at the end of the period are shown below:



In the chart x axis – Rank 1 means investing every year into #1 ranked funds, Rank 2 means investing into #2 ranked fundand so on. Rank 12 means investing every year into #12 ranked fund



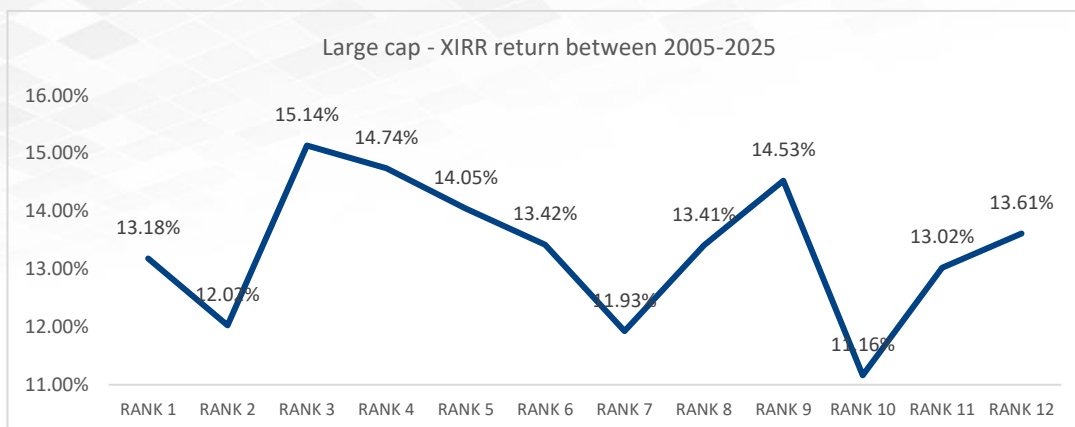
In the chart x axis – Rank 1 means investing every year into #1 ranked funds, Rank 2 means investing into #2 ranked fundand so on. Rank 12 means investing every year into #12 ranked fund

As can be seen in the chart above, a similar trend of random dispersion is evident in Flexi/Multi Cap and Midcap strategies.

Test (2) – Investing for longer horizons! Investing for next 3 years basis last 1 year's ranking

- Acknowledging that a 1-year investment horizon may be too short to assess outperformance, we extended the analysis to evaluate 3-year returns of the selected funds.
- Each year, ₹100 was invested into the fund that ranked #1 based on the previous year's 1-year performance, and this investment was held for next 3-year period.
- We get a set of cash flows wherein Rs. 100 is invested every year into #1 ranked fund of last year and each year some money is maturing (which was invested 3 years before).
- To simplify, we are comparing 3-year performances of the funds based on last 1 year ranking.

We got the following XIRR returns at the end of the testing period (2005-2025):

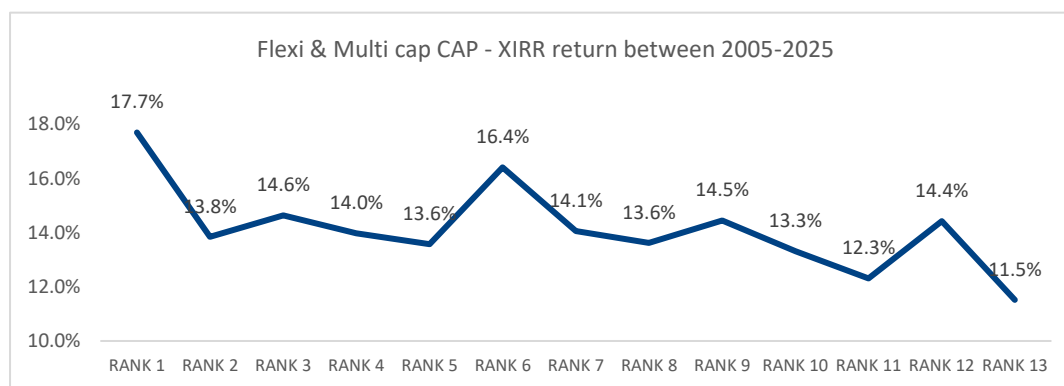


In the chart x axis – Rank 1 means investing every year into #1 ranked funds, Rank 2 means investing into #2 ranked fundand so on. Rank 8 means investing every year into #8 ranked fund

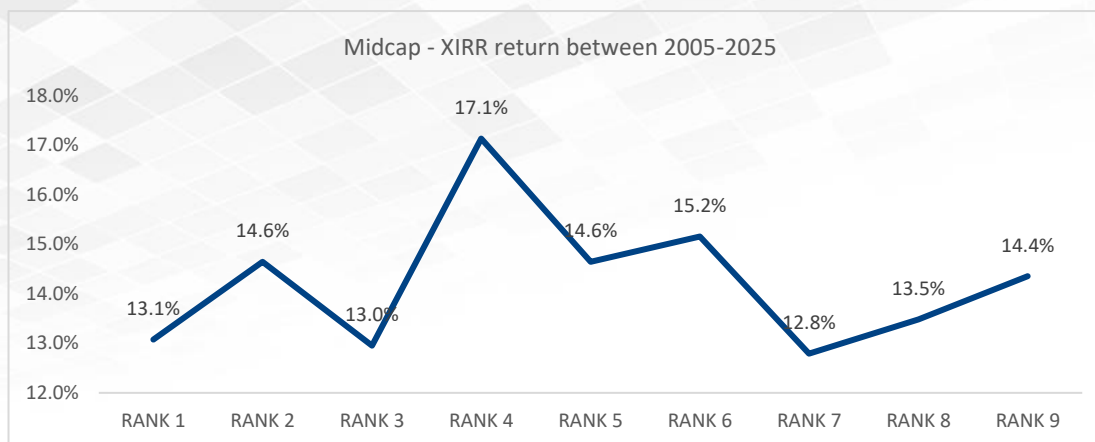
Findings – Test (2):

- Choosing #1 ranked fund each year gives a XIRR of 13%. Whereas, if one had invested in #3 ranked fund, it would have generated higher returns of 15% XIRR!
- It is a random dispersion. Long term performance has no relation with last year's performance.

We extended the same methodology to Multi/Flexi-cap mutual funds (30 funds) and Midcap mutual funds (29 funds) over the period from 2005 to 2025. Key observations are highlighted in the chart below: -



In the chart x axis – Rank 1 means investing every year into #1 ranked funds, Rank 2 means investing into #2 ranked fundand so on. Rank 8 means investing every year into #8 ranked fund



In the chart x axis – Rank 1 means investing every year into #1 ranked funds, Rank 2 means investing into #2 ranked fundand so on. Rank 8 means investing every year into #8 ranked fund

We're seeing similar results in Midcap and Flexi/Multi Cap strategies, where return dispersion is quite evident.

A unique trend in the Flexi/Multi Cap category shows that while the Rank 1 fund has delivered the best performance, there's a lack of consistency among the other ranked funds. Notably, the Rank 6 fund emerges as the second-best performer, clearly highlighting the disparity in returns across the ranking spectrum.

Conclusions:

- Recent outperformance folds into periodic returns (2yr, 3 yr, 5yr).
- Higher periodic returns do not imply consistency in fund's performance.
- Selecting funds on basis of recent outperformance does not ensure future outperformance.

Reading Room



A frozen labor market is creating hidden risks for workers and companies.

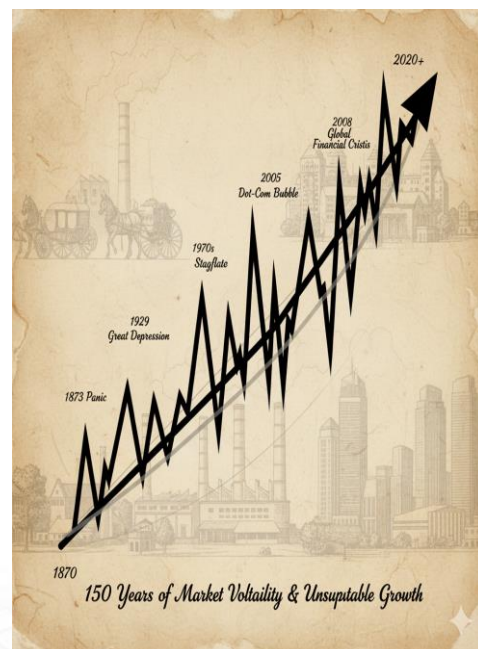
- **Shift to the "Great Stay":** The high rate of voluntary employee turnover seen during the COVID-19 pandemic ("Great Resignation") has largely ended, transforming into the "Great Stay," where U.S. workers are generally holding onto their current positions, leading to unusually low turnover rates.
- **Economic Uncertainty and Cost of Living:** A primary factor is caution driven by economic uncertainty and the high cost of living. Employees are hesitant to leave a stable income source, making them less willing to quit without having another job secured, regardless of any current workplace dissatisfaction.
- **"No-Hire, No-Fire" Job Market:** Companies are contributing to the trend by exercising caution. Many employers have adopted a "no-hire, no-fire" approach, being reluctant to make new hires due to economic uncertainty, which in turn leads to fewer outside opportunities for workers seeking a new role.
- **Improved Job Conditions:** Many workers who stayed or moved during the Great Resignation are now in roles that meet their desired conditions, such as offering better salaries, increased benefits, or preferred flexibility like remote work, reducing their motivation to search for a new position.

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What We've Learned From 150 Years of Stock Market Crashes

- **The Market Always Recovers:** The most essential lesson is the long-term resilience of the stock market. While crashes vary significantly in length and severity (from the quick four-month recovery during the COVID-19 downturn to the 12-year recovery after the "Lost Decade"), **the market has always eventually recovered** and gone on to new highs.
- **Crashes Are Regular Events:** Bear markets, defined as a decline of 20% or more, are not anomalies but regularly occurring events, happening **approximately once a decade** throughout the past 150 years. This history demonstrates that market volatility is a normal and expected part of investing.
- **Recovery Time is Unpredictable:** It is **impossible to predict** how long any specific stock market recovery will take. For example, the downturn of December 2021 took 18 months to recover, while the first part of the Great Depression (starting in 1929) took more than four years.
- **Long-Term Strategy is Key:** The best way for an investor to navigate volatile markets is to **stay invested** and avoid panicking and selling during a downturn. History shows that investors who remain in the market are rewarded in the long run. The article stresses the need for a **well-diversified portfolio** that aligns with one's time horizon and risk tolerance.

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