
TRU INSIGHTS

December 2025



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From the MD & CEO's desk



"Indian markets stayed resilient in November despite global trade frictions and geopolitical tensions. The reopening of the U.S. government and softer inflation data supported global sentiment, easing fears of aggressive tightening. Back home, India's festive season boosted consumption across key categories, while Q2FY26 earnings delivered broad-based strength in banking, industrials, and consumer sectors. With valuations above long-term averages, index returns are expected to track earnings growth."

Dear Investors,

Global markets navigated a complex but improving landscape in November. Trade negotiations between major economies have remained uneven, with tariff-linked frictions resurfacing between the U.S. and China over technology exports and critical mineral sourcing. Meanwhile, geopolitical tensions across the Middle East and renewed instability in the Red Sea shipping lanes have kept supply-chain risks alive, influencing global commodity prices and risk appetite.

Despite these external uncertainties, equity markets have displayed resilience. The reopening of the U.S. government following the brief shutdown helped restore near-term economic clarity, while the latest payroll data indicated cooling labour market conditions without signalling a hard landing. Combined with softer than expected inflation prints across the U.S. and Europe raised expectations of policy calibration rather than aggressive tightening, helping global equities stabilize after bouts of risk-off sentiment. While central banks continue to strike a cautious tone, markets have welcomed the more balanced policy stance.

Back home, India continues to stand out as a relative outperformer. The recently concluded festive season delivered a broad-based uplift in consumption—reflected in strong sales data across autos, consumer durables, jewellery, e-commerce and discretionary categories. Corporate earnings for Q2FY26 also surprised positively, with profitability improving across banking, industrials, and select consumer segments. Management commentary from several leading companies points to sustained demand visibility into the next two quarters.

Domestic fund flows remain an important market anchor and continue to cushion the impact of intermittent FPI selling. The combination of healthy macro fundamentals, corporate earnings traction and household financialization continues to underpin India's market positioning versus global peers.

The Nifty 50 index is currently trading at ~23.9x FY26 (10Y avg: 20.4x) and ~20.7x FY27 (10Y avg: 17.3x) vis-à-vis consensus EPS. The recent run-up of Nifty has left limited room for rerating, so index returns from here are expected to be commensurate with earnings growth. Our preferred sectors are large banks, auto, insurance, real estate, chemicals, and capital goods. We remain underweight on mid-cap IT, and upstream oil& gas.

In this edition of **Tru Insights**, we highlight the evolving global macro landscape, evaluate opportunities across equities and fixed income, and present an analytical view on whether active debt fund managers are able to beat markets by taking active duration calls.

Thank you for your continued trust. We remain committed to guiding your investment journey with clarity, discipline, and perspective.

Warm Regards,
Dhiraj Relli
MD and CEO – HDFC Securities



Macro Economic Highlights

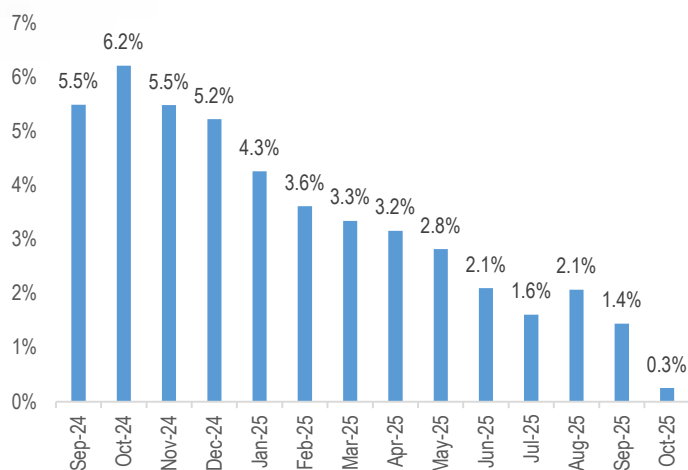
Global Realignments and India's Macroeconomic Stability

Global markets remained uneven as China's trade momentum softened and geopolitical tensions persisted, even while the U.S. reopening and cooler inflation supported sentiment. Against this backdrop, India stood out with strong domestic fundamentals Q2FY26 GDP surged to 8.2%, inflation eased sharply, and consumption stayed robust. Manufacturing moderated but services strength and steady GST flows reinforced economic stability. An improving current account position further highlights India's resilience amid global uncertainty.

Domestic Macro Highlights

Inflation: India's consumer price inflation rate fell to a record low of 0.25% in October 2025, down sharply from the revised 1.44% in September and below the consensus of 0.48%. This marks the ninth consecutive month below the RBI's 4% target and the third consecutive month below the 2% lower tolerance band. The decline was driven by food prices, which fell a record 5.02% annually. Inflation also moderated for housing (2.96%), and fuel and light held at 1.98%. Indian consumer prices rose 0.15% from the previous month.

India CPI Inflation



Source: MoSPI

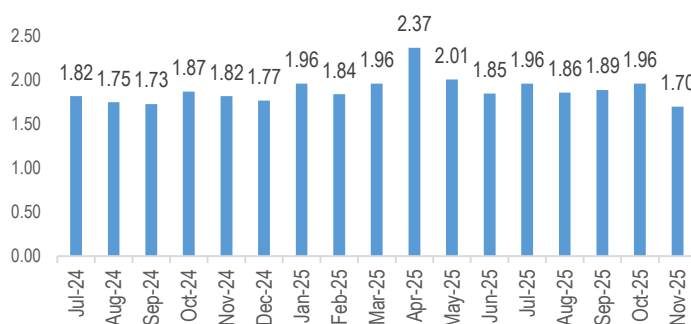
India's Manufacturing Slows, Services Ease in November PMI: The HSBC India Manufacturing PMI fell to 57.4 in November 2025 from 59.2 in October, signaling the slowest improvement in factory activity since February. This slowdown was characterized by factory output rising at the softest pace since May, with new orders expanding modestly (slower than in October) and employment rising at its weakest rate in over a year and a half. The HSBC India Services PMI rose to 59.5 in November 2025 (preliminary estimates), increasing from October's five-month low of 58.9, though it was slightly below the market forecast of 59.7. The sector saw a faster expansion supported by stronger output growth and a tick higher in new orders. However, foreign demand experienced a mild loss of momentum, and the pace of job creation eased compared with the previous month.

India's Q2 GDP Growth Surges to 8.2%: India's Gross Domestic Product (GDP) quickened to 8.2% in the second quarter (Q2 FY26), marking a six-quarter high and sharply higher than the 5.6% growth in Q2FY25, exceeding the 7% RBI projection. This strong performance, following 7.8% growth in the April-June quarter, was led by the manufacturing sector, which grew 9.1% (vs 2.2% last year). Real GDP has registered 8.0% growth rate in H1 (April-September) of FY 2025-26, as compared to the growth rate of 6.1% in H1 of FY 2024-25.

Fiscal Deficit Reaches Half-Year Target: India's fiscal deficit for the first seven months of the fiscal year (April-October) 2025-26 stood at ₹8.25 lakh crore. This figure represents 52.6% of the full-year Budget Estimate (BE) for FY26, which is higher than the 46.5% recorded in the corresponding April-October period of the previous fiscal year, FY 2024-25. The total expenditure reached ₹26.25 lakh crore (51.8% of BE), with capital expenditure (Capex) rising significantly to ₹6.17 lakh crore, a strong increase from ₹4.7 lakh crore YoY, indicating continued government focus on infrastructure.

GST Collections: India's Gross GST collections for November 2025 stood at ₹1.70 lakh crore, rising a marginal 0.7% year-on-year (YoY) from ₹1.69 lakh crore in November 2024. This figure is down from the 4.6% rise in October collections of ₹1.96 lakh crore. Domestic GST revenue slightly declined, falling 2.3% YoY (to ₹1,24,300 crore from ₹1,27,281 crore last year), though GST from imports showed healthy momentum, growing 10.2% (₹45,976 crore). Year-to-date (April-November 2025) gross collections grew 8.9% to ₹14,75,488 crore.

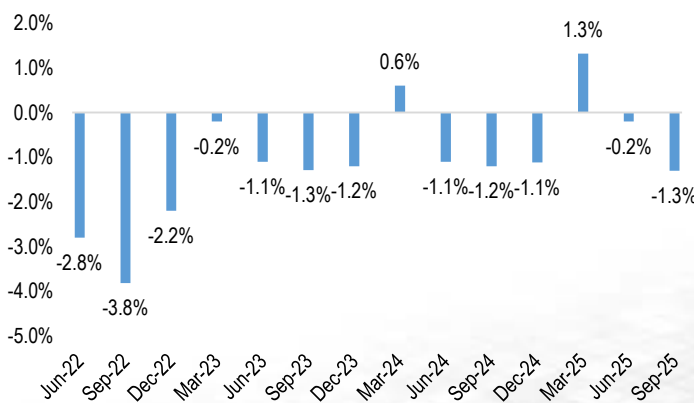
India's GST Collections decreased from Rs. 1.96 lakh crore in October-25 to Rs. 1.70 lakh crore in November-25



Source: gst.gov.in

India's CAD Narrows on Lower Trade Deficit: India's current account deficit (CAD) moderated to \$12.3 billion in Q2 FY26, or 1.3% of GDP, down significantly from an upwardly revised \$20.8 billion (2.2% of GDP) in Q2 FY25. This moderation was driven by a lower merchandise trade deficit (\$87.4 billion in Q2 FY26 vs \$88.5 billion in Q2 FY25) and higher net services receipts (\$50.9 billion vs \$44.5 billion a year ago). However, foreign portfolio investment (FPI) saw a net outflow of \$5.7 billion (against a net inflow of \$19.9 billion in Q2 FY25). For the first half (H1 FY26), the CAD declined to \$15.0 billion (0.8% of GDP) from \$25.3 billion (1.3% of GDP) in H1 FY25.

CAD as % of GDP



Source: CEIC, reuters

Global Macro Highlights

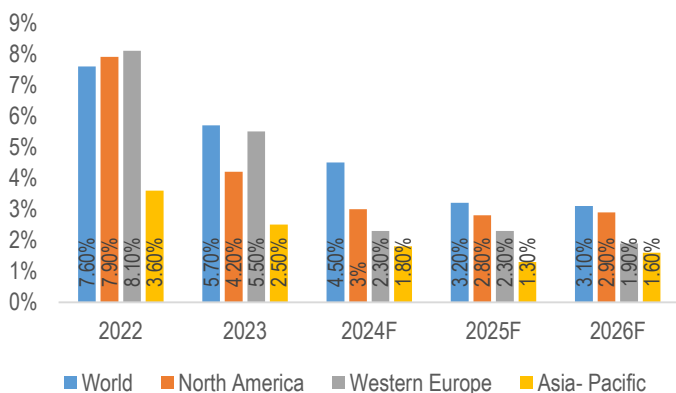
Trade & Tariff Implications

China's Exports Hit November Low: China's exports unexpectedly shrank 1.1% in October (reversing an 8.3% rise in September), marking the worst performance since February and missing a forecast for 3.0% growth. This signals the fading of front-loading effects ahead of U.S. tariffs. Shipments to the U.S. tumbled 25.17% year-on-year, while those to the EU and Southeast Asia grew by just 0.9% and 11.0%, respectively. Imports also expanded at their slowest pace in five months (up 1.0% vs 7.4% in September), highlighting weak domestic demand. China's trade surplus with the U.S. rose to \$24.76 billion in October, up from \$22.82 billion a month prior.

Global Growth Projections

S&P Global Upgrades China Forecasts, Warns on U.S. Data Volatility: The end of the longest U.S. government shutdown leaves the economic outlook clouded by uncertainty and potential volatility in upcoming data releases. S&P Global's PMIs suggest U.S. economic conditions have remained solid, with the U.S. continuing to lead major developed economies in output growth. S&P Global slightly lifted its global real GDP growth forecasts for 2025 and 2026. The major change is a more positive assessment of mainland China's growth prospects: annual real GDP growth forecasts for 2025–27 have been raised to 5.0%, 4.6%, and 4.5%, respectively, about a quarter of a percentage point higher than October projections.

Consumer Price Inflation (% annual change)



Data compiled Nov. 18, 2025.

F = forecast.

Source: S&P Global Market Intelligence.

Geopolitical Landscape

China Retail Sales Slow, Beats Forecast: China's retail sales grew 2.9% year-on-year (YoY) in October 2025, easing slightly from the 3.0% increase in September, marking the slowest growth since August 2024. Despite this, the result beat market expectations of 2.7%. Sales slowed for cars (-6.6% vs 1.6% in September) and household appliances (-14.6% vs 3.3%), but saw sharp gains in categories like gold, silver, and jewelry (37.6% vs 9.7%) and communication equipment (23.2% vs 16.2%). For the first ten months of 2025, retail trade increased 4.3% from a year earlier.

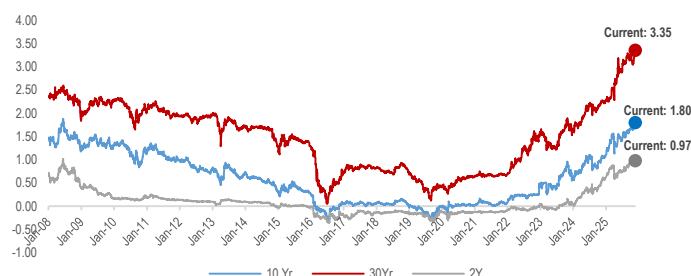
China's Trade Surplus Narrows on Unexpected Export Decline: China's trade surplus narrowed to USD 90.07 billion in October 2025, falling from USD 95.72 billion in the same month last year. This was driven by an unexpected decline in exports, which fell 1.1% YoY to an eight-month low of USD 305.4 billion (reversing the 8.3% gain in September). Specifically, shipments to the U.S. plunged 25.0% YoY. Meanwhile, imports rose 1.0% YoY to USD 215.3 billion in October (slowing sharply from a 7.4% surge in September and missing the 3.2% forecast), with this weak pace highlighting subdued domestic demand. Despite the October slump, year-to-date exports still showed a 5.3% YoY increase totaling USD 3.08 trillion.

Bank of England Holds Rates, Cut Bets Rise: The Bank of England (BoE) kept its benchmark Bank Rate at 4.0% on November 6, 2025, following a narrow 5-4 vote by the Monetary Policy Committee (MPC). This marks the first pause in rate cuts since August 2024. Governor Andrew Bailey, though voting to hold, was the only one of the five to feel that overall inflation risks (which remain high at 3.8%) had moved down. The BoE expects inflation to fall from its peak and remains above its 2% target until Q2 2027 (forecasting 1.9% then). Economic growth forecasts were raised to 1.5% for 2025 (up from 1.25%) and kept at 1.2% for 2026 (little changed from August).

Monetary Strategies & Inflationary Pressures

Japan's Bond Yield Hits 17-Year High on Rate Hike Bets: Japan's 10-year, 30Y and 2Y government bond yield touched 1.8%, 3.35% and 1% respectively, its highest level since 2008, reflecting surging market expectations for a policy shift by the Bank of Japan (BOJ). Swap markets now price a 76% chance of a BOJ rate hike at the December 19 meeting, a sharp jump from only 30% two weeks ago, with the probability rising to over 90% for January. This surge follows comments from Governor Kazuo Ueda hinting at a more flexible tightening stance, which has also caused the yen to strengthen by 0.4% against the dollar despite the currency having dropped roughly 5% this quarter. The central bank continues to face pressure as Japan's inflation remains above the 2% target.

Japan 10, 30 & 2 Year Bond Yields



Source: Investing

Japan's Annual Inflation Rises to 3.0%: Japan's annual inflation rate edged up to 3.0% in October 2025 from 2.9% in September, marking the highest reading since July. This was primarily driven by electricity costs, which rose at the fastest pace in four months (3.5% vs 3.2% in September), even as gas prices slowed (0.7% vs 1.6%). Food prices rose 6.4% YoY, the softest gain since December 2024, due to the smallest rise in rice prices in 14 months (40.2%). Core inflation also came in at 3.0%, matching forecasts. Monthly, the CPI rose 0.4%, recording the highest level since January.

Equity Market

Equities Advance on Festive Demand and Supportive Global Cues



Indian equities gained for the third straight month in November, driven by positive news around the India–U.S. trade deal, a strong festive season and better-than-expected Q2FY26 results. Broader markets delivered a mixed performance, with midcaps edging higher while small caps declined. Domestic flows strengthened even as FIIs remained sellers, helping maintain market breadth. U.S. markets also stabilised later in the month as policymakers acknowledged cooling labour market trends. Back home, earnings exceeded expectations, supported by resilient banking performance and management commentary indicating sustained demand recovery.

Equity Outlook

“Indian equities recorded a third consecutive month of gains in November, supported by firm domestic inflows and a stronger-than-expected Q2FY26 earnings season. The Nifty rose 1.9% during the month, aided by robust festive demand and favourable developments around the India–U.S. trade discussions. Broader market performance was mixed, with midcaps edging higher while small caps declined. Global sentiment remained uneven, though U.S. markets recovered mid-month as labour market data pointed to a cooling trend. In India, earnings surprises—particularly in banking, where funding costs eased more than anticipated—contributed to overall market stability.”

Indian equities rallied for the third month in a row for November, with the Nifty up by 1.9% for the month. Sentiments were buoyed due to positive news flow around the India–U.S. trade deal, a vibrant festive season and better than expected Q2FY26 results season. Broader markets were however mixed with the Nifty Midcap 100 closing up by 2.0% while the Smallcap 100 index fell by 3.0% in November.

While FIIs remained sellers for the month Domestic flows accelerated month on month which helped support market breadth and sentiment. U.S. markets were volatile in November and sold off in the first half of the month as the Fed chief had indicated that a rate cut in December was not a done deal citing stubborn inflation. However, the reopening of the U.S. government following the brief shutdown helped restore near-term economic clarity, while the latest payroll data indicated cooling labour market conditions without signalling a hard landing.

Moreover, few of the FOMC members including the New York Fed president (and FOMC vice chair) John Williams voicing their concerns over a cooling labor market, led to Markets pricing in increased probability of a 25bps rate cut in the Dec FOMC meeting. This resulted in the U.S. markets recovering most of the losses with the S&P 500 registering marginal gains of 0.1% while the Nasdaq closed down by 1.7% for the month.

Back home, the Q2FY26 earnings season—though muted in absolute terms— have exceeded expectations. Key positive surprise was the lower-than-expected NIM compression for most banks due to larger than expected decline in cost of funds which offset lower yield on assets to a large extent. Though temporary deferral in consumer demand post GST rate cuts announced in early September had an adverse impact on the Q2 numbers for few sectors like consumer durables and Auto, management commentary was positive pointing to sustained demand recovery going forward.

While the Nifty is consolidating near the all-time high levels, delay in the U.S. India trade deal is weighing on markets. However, possibility of further rate easing by the U.S. Fed and the Reserve Bank of India, combined with improving corporate earnings, continues to anchor market confidence.

The Nifty 50 index is currently trading at ~23.9x FY26 (10Y avg: 20.4x) and ~20.7x FY27 (10Y avg: 17.3x) vis-à-vis consensus EPS. The recent run-up of Nifty has left limited room for rerating, so index returns from here are expected to be commensurate with earnings growth.

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, insurance, real estate, chemicals, and capital goods. We remain underweight on mid-cap IT, and upstream oil& gas.



Debt Market

Yields Stay Elevated as Currency Moves Shape Market Conditions

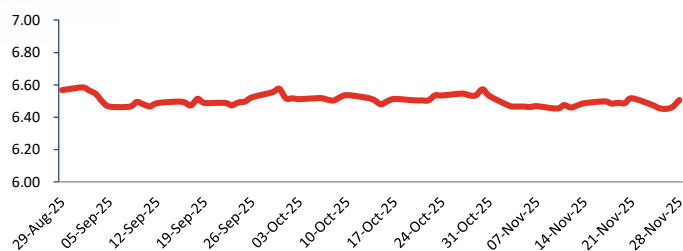
The fixed income market this month was shaped by rupee weakness, shifting policy expectations and changes in domestic growth and inflation trends. Bond yields moved higher as the currency came under pressure due to foreign portfolio outflows, delays in the U.S.–India trade deal, a wider trade gap and reduced intervention in the forex market. These developments, along with the backdrop of strong real growth and subdued inflation, framed the policy environment going into the upcoming monetary review. Market conditions were influenced by global and domestic factors, including central bank actions, bond demand–supply trends and risks linked to global volatility, tariff developments and fiscal constraints arising from softer nominal growth.

Fixed Income Outlook

India's 10-year G-sec (new) yield rose by 4 bps in November 2025 to 6.51%, up from 6.47% in October. The rise in yield was primarily driven by sharp INR depreciation against USD and fading rate cut expectations in December RBI monetary policy given higher than expected Q2 FY26 real GDP growth. Compounding this pressure, likely softer nominal GDP growth in FY26 (around 8.0-8.3% in FY26 expected vs. 9.7% in FY25) have limited the scope for further fiscal consolidation.

India's 10-Year G-Sec (new) Yield rose marginally in November 2025

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



Source: CCIL

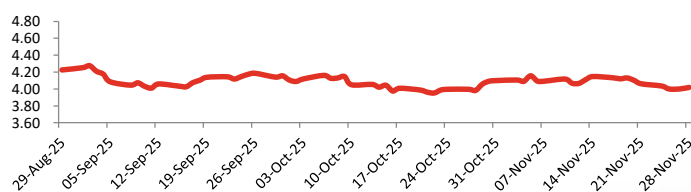
INR depreciated sharply by ~0.6% in November and closed at 89.3 against USD. After staying in a tight range for some time, the rupee weakened sharply to an all-time low of 89.5, driven by continued FPI outflows, delays in finalizing the US-India trade deal, a widening trade deficit, and - most notably - the RBI stepping back from defending the rupee at specific levels, which triggered margin calls.

RBI's MPC is scheduled to deliver its monetary policy decision on 5th December. Given the strong Q2 FY26 real GDP print of 8.2%, the RBI's rate decision remains a close call. However, the lingering risks on growth (H2 FY26 GDP growth expected at 6.6% vs 8.0% in H1 FY26) and inflation expected to remain well below 4% until Q3 FY27, there might still be a chance of another 25bps rate cut at the upcoming policy.

The market will also focus on whether the RBI announces or provides any guidance towards liquidity supporting measures such as open market operations (OMO) purchases. RBI had purchased G-secs worth Rs 27,280 cr in the month of November and there is a likelihood of OMO calendar announcement soon to support the banking system liquidity and elevated bond yield levels.

US Yields fell to 4.02% in November 2025

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



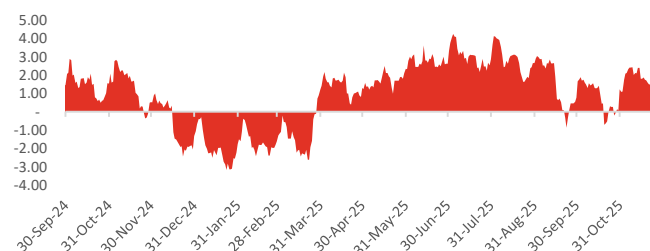
Source: Investing.com

The US 10-year Treasury yield closed November at 4.02%, down by 8 bps from 4.10% in October led by weakening economic data and dovish remarks by US Fed members which has increased the prospects for rate cut in December policy meet. As per CME FedWatch tool, there is an 88% probability (at the time of writing) of 25 bps rate cut in December meeting.

India's banking system liquidity surplus improved sharply to an average of ~Rs 1.8 lakh cr in November from ~Rs 85,000 cr in October. With RBI's forex market interventions (aimed at preventing sharp rupee depreciation) and the seasonal increase in currency in circulation, the banking system liquidity may remain volatile in the coming months.

Banking system liquidity improved in November 2025

India's banking system liquidity (Rs Lakh cr)

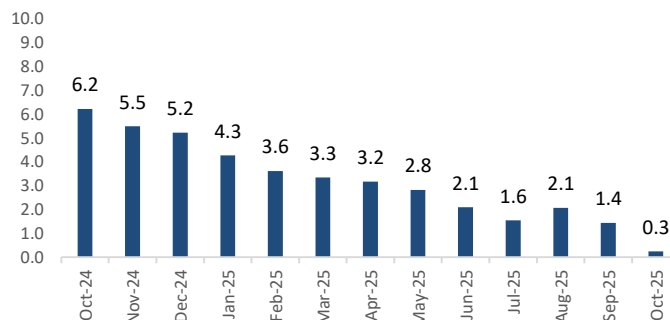


Source: RBI

India's CPI inflation eased to 0.25% YoY in October vs 1.44% YoY in September (revised down from the earlier 1.54%) on account of fall in food prices, GST rate cuts and favourable base-effect. Importantly, October marked the first month to fully capture the CPI impact from GST rate reductions. The inflation print came below the market estimate of 0.48%.

India's CPI Inflation eased in October 2025 Driven by Moderation In Food Prices

CPI Inflation YoY%



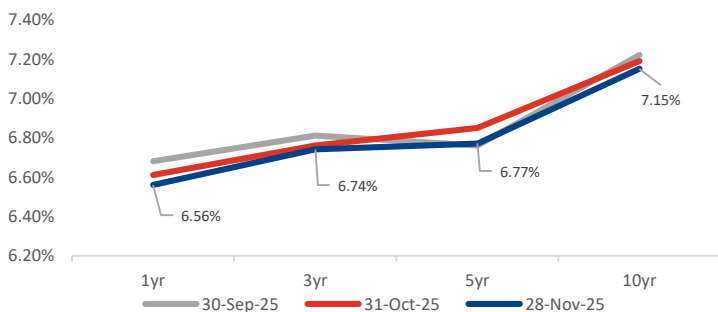
Source: MoSPI

Fixed Income Outlook

The current and forward-looking growth/inflation trajectory raises the chances of another 25-bps repo rate cut in December policy. RBI Governor, recently remarked in a media interview that there is a scope of further rate cuts but didn't indicate the timelines. Even with another 25-bps rate cut, the real policy rate (adjusted for inflation) would stand at 1.5-1.8% considering 3-4 quarters ahead inflation (i.e., Q1 and Q2 FY27). The real neutral policy rate has been estimated between 1.4-1.9% by the RBI.

We believe, currently spreads in 3-5yr AAA PSU and NBFC corporate bond segment over corresponding G-secs are healthy in the range of 55-110 bps, offering an attractive opportunity from an accrual perspective.

AAA PSU Corporate Bond Yield Curve

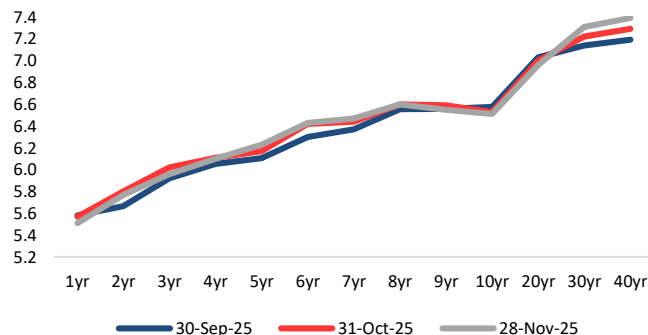


Source: Bloomberg

With the demand-supply outlook for long tenure bonds turning less favourable and nominal GDP growth for FY26 looking softer (reducing the scope for fiscal consolidation), the case for further long-end yield rally has likely diminished. Hence, investors should remain cautious on long duration strategies.

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

G-Sec Yield Curve



Source: Bloomberg

Domestic fixed income market will continue to be driven by a mix of global and domestic factors. Key drivers include US Fed and RBI monetary policy decisions, domestic bond demand-supply dynamics and ongoing moderation in domestic inflation. However, risks remain, amplified by global volatility, particularly related to tariff policy, and potential fiscal concerns arising from lower-than-expected India's nominal GDP growth for FY26.



Deep Dive

Duration Chess: Are Debt Fund Managers Playing the Right Game?

Are aggressive duration bets worth it, or does patience pay more? Unlock the truth behind duration calls in Indian debt mutual funds!

This note dives deep into a decade of gilt fund strategies, revealing how most fund managers react, not predict, interest rate cycles. Passive constant maturity funds have quietly outshone most active managers, delivering superior returns.

Insightful reading for investors seeking to separate market timing myths from hard results.

Duration Chess: Are Debt Fund Managers Playing the Right Game?

Introduction

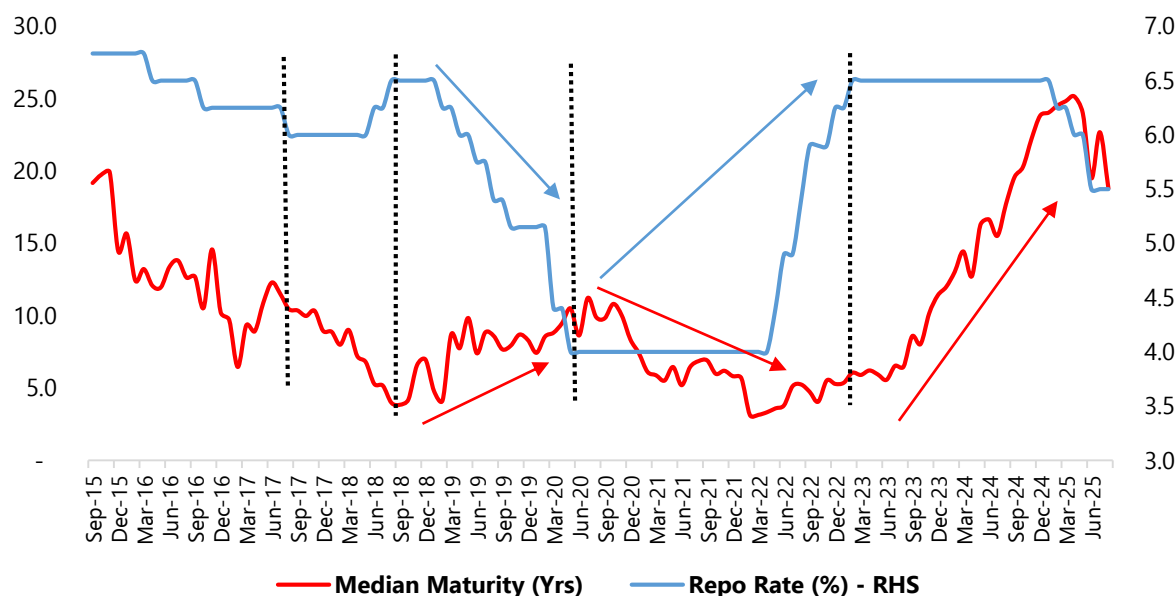
Duration management is a critical lever for generating alpha in debt mutual funds, as interest rate movements significantly impact bond prices. Fund managers often take active duration calls to benefit from anticipated rate cycles, aiming to enhance returns beyond accrual income. However, the effectiveness of these calls remains debated, given the unpredictability of macroeconomic factors and rate actions. This note examines whether debt fund managers in India have been successful in executing duration strategies and delivering superior outcomes for investors.

Duration Positioning vs. Interest Rates: A 10-Year Perspective

For our analysis, we have chosen gilt fund category as it allows the fund managers to take exposure across the entire government securities curve without any credit risk. Unlike dynamic bond funds, which can allocate to non-sovereign securities (or in other words take some credit risk), gilt funds provide a pure play on interest rate movements through duration management.

The chart below maps the median portfolio maturity of gilt funds against the RBI repo rate over the last decade. This comparison illustrates how fund managers have adjusted duration in response to monetary policy cycles and whether these adjustments align with rate movements.

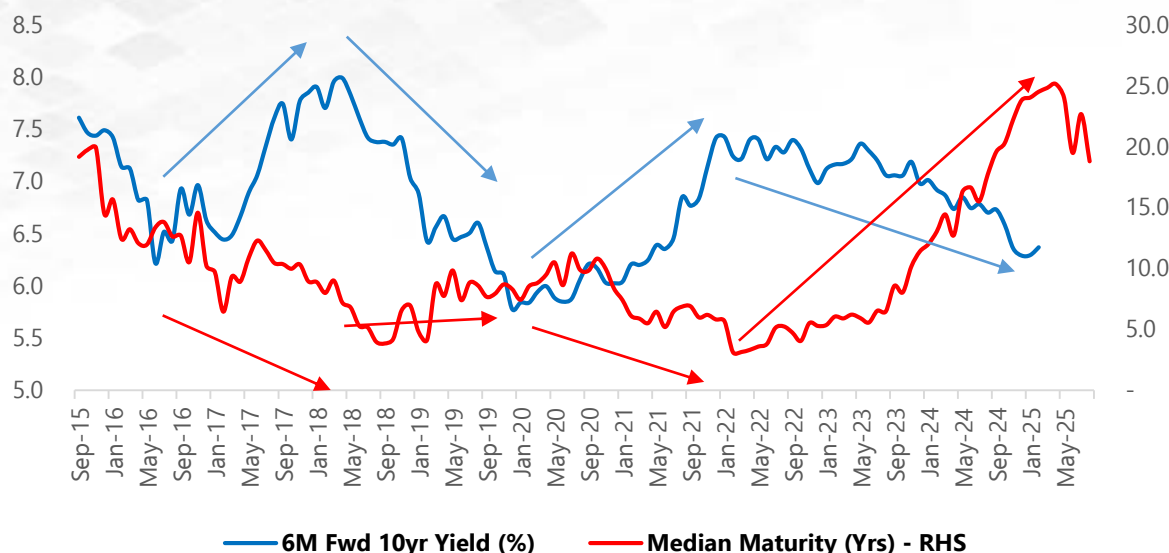
Median Portfolio Maturity vs. Repo Rate



Source: ACEMF, RBI, Bloomberg; HDFC TRU

- Median portfolio maturity consistently drops when the repo rate rises, showing managers actively reduce duration in anticipation of higher rates and mark-to-market losses.
- Following periods of repo rate stability or cuts, managers gradually extend portfolio maturities; this highlights a strategic risk-on stance to benefit from falling yields.
- Duration often lags repo rate inflection points rather than leading them, suggesting managers predominantly react to, rather than forecast, policy changes.

Median Portfolio Maturity vs. India's 10yr G-sec yield (6M Forward)



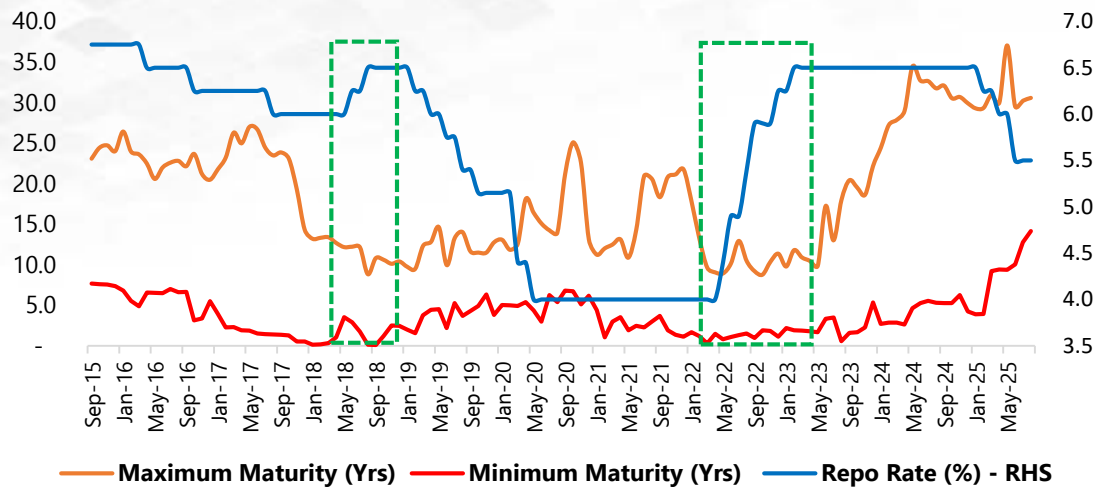
Source: ACEMF, RBI, Bloomberg, HDFC TRU; Note – 6M Forward yield is actual yield 6 months ahead

- The relationship between median maturity and forward 10yr G-sec yield is not perfect. There are instances where manager action lags or is out of sync with subsequent yield moves. This highlights both the inherent difficulty of rate prediction and the diversity in fund manager approaches.
- Where the red line (median maturity) rises before or during periods when the blue line (future 10yr yield) falls, fund managers successfully anticipated falling yields and positioned portfolios for duration gains.
- There are stretches (highlighted in green boxes) where median maturity increases or remains flat but future yields rise instead of fall, indicating managers took on higher duration but were ultimately penalized by rising rates, reflecting mistimed duration extension. Similarly, there have been periods where median maturity decreases but future yields fall, limiting the capital gains.
- Rapid reductions in median maturity often precede or coincide with periods of future yield surges, showing managers' attempts to limit mark-to-market losses by cutting risk in advance or as the uptrend in yields begins.

Range of Duration Calls: Max vs. Min Maturities in Gilt Funds

To understand the extent of active duration positioning, we plotted the maximum and minimum portfolio maturities within the gilt fund category over time. Unlike a single median figure, this range highlights the dispersion of strategies - from the most aggressive duration stances to the most defensive ones - taken by fund managers during different interest rate cycles. Observing this spread helps assess whether managers exhibit conviction, cluster around similar positions, or diverge significantly when policy signals are uncertain.

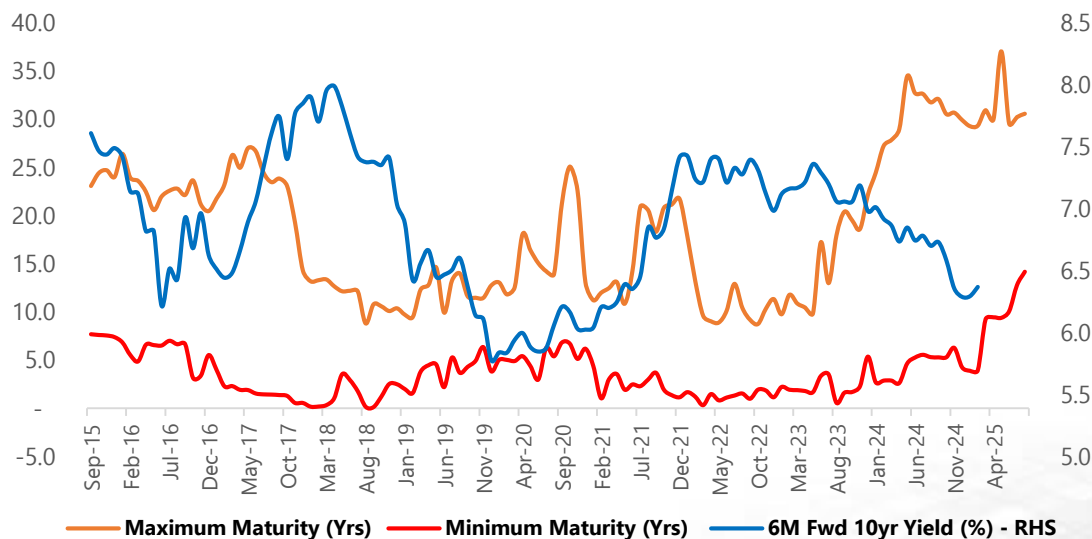
Portfolio Maturity Dispersion vs. Repo Rate



Source: ACEMF, RBI, Bloomberg, HDFC TRU

- Minimum maturity stays within a range across all periods, showing that some managers are consistently conservative regardless of policy shifts. On the other hand, changes in maximum maturity are more pronounced, especially during rate cuts or periods of high uncertainty, suggesting that a few managers actively take duration calls for capital gains.
- When repo rate rises steeply, the difference between maximum and minimum maturities contracts (refer green box in above chart), reflecting reduced conviction and risk appetite among managers - most move to defensive short duration strategies.
- During periods when repo rates are stable or declining, the gap between maximum and minimum maturities increases, reflecting managers' diverse market views and varying willingness to take interest rate risk.

Portfolio Maturity Dispersion vs. India's 10yr G-sec yield (6M Forward)



Source: ACEMF, RBI, Bloomberg, HDFC TRU; Note – 6M Forward yield is actual yield 6 months ahead

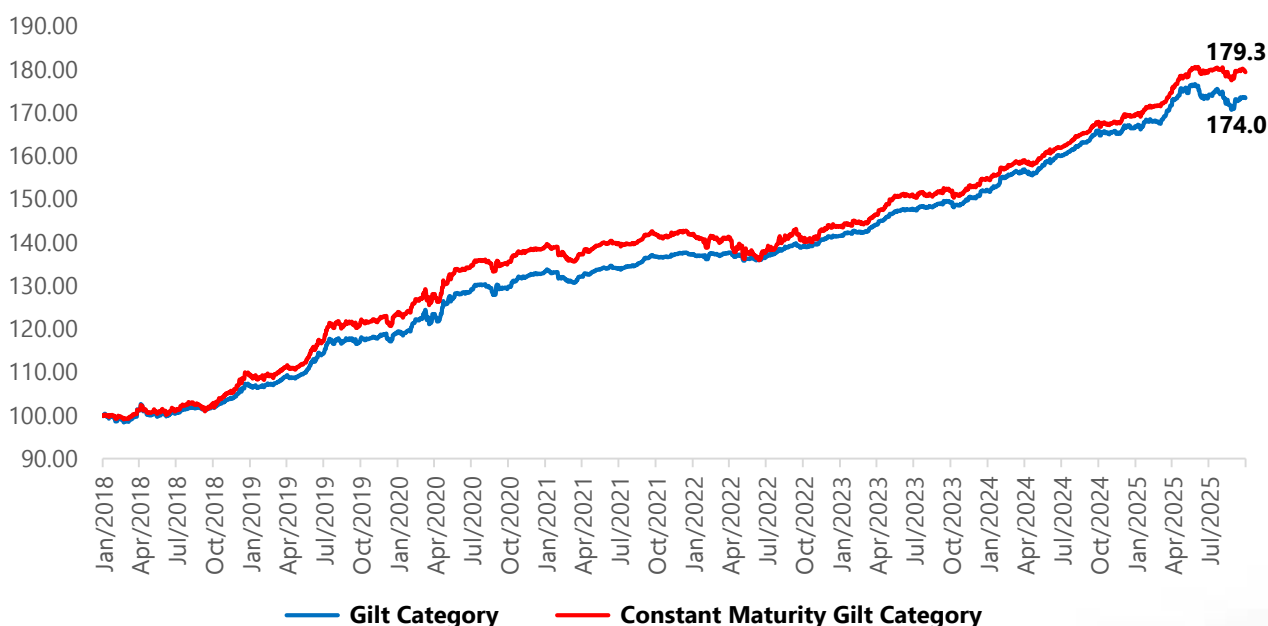
- During periods preceding a sharp increase in the 10-year yield (such as 2017-2018 and 2021-2022 spike), the band between maximum and minimum maturities narrows - indicating a consensus among managers to cut duration in anticipation (or early response) to higher yields and rising risk.
- When yields are stable or trending lower, dispersion expands. This shows managers adopting a range of duration strategies, with some extending maturities aggressively in search of capital gains and others remaining defensive, reflecting mixed views on policy and macro signals.
- Spikes and crashes in the max-min gap often precede or coincide with turning points in the forward yield, giving an early indication of shifts in consensus and rising uncertainty or risk aversion within the fund manager community.

Performance Comparison: Gilt Funds vs. Constant Maturity Gilt Funds

To quantify the efficacy of duration calls by debt fund managers, we analysed the return performance of gilt funds and constant maturity gilt funds category. According to SEBI's norms, both gilt funds and constant maturity gilt funds are required to invest a minimum of 80% of their assets in government securities. The key distinction lies in their duration mandates.

Gilt funds may invest across a broad range of maturities and typically reflect active management, with fund managers adjusting portfolio duration dynamically to navigate interest rate cycles. Conversely, constant maturity gilt funds maintain a near-passive approach by adhering to a fixed average portfolio maturity of around 10 years. Our analysis focuses on the post-2017[#] period to capture the uniform regulatory definitions and gain comparability of fund behaviours.

Cumulative performance: Gilt vs. Constant Maturity Gilt Funds (Jan 2018 – Sep 2025)



[#] "Categorization and Rationalization of Mutual Fund Schemes" by SEBI in Oct 2017 led to standardisation of scheme categories and characteristics of each category across mutual funds.

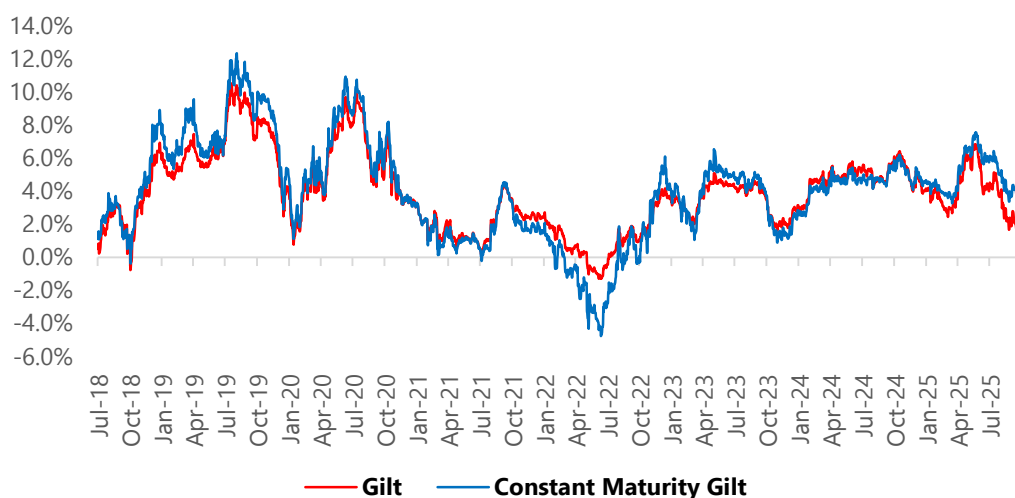
Performance Comparison (Jan 2018 – Sep 2025)

Category Returns	Gilt Fund (A)	Constant Maturity Gilt Fund (B)	Difference (B-A)
Average CAGR	7.4%	7.8%	0.4%
Average Absolute	74.0%	79.3%	5.4%
Median CAGR	7.4%	8.1%	0.7%
Median Absolute	73.8%	82.5%	8.6%

Source: ACEMF, HDFC TRU; Note – Performance is shown for Direct Plan

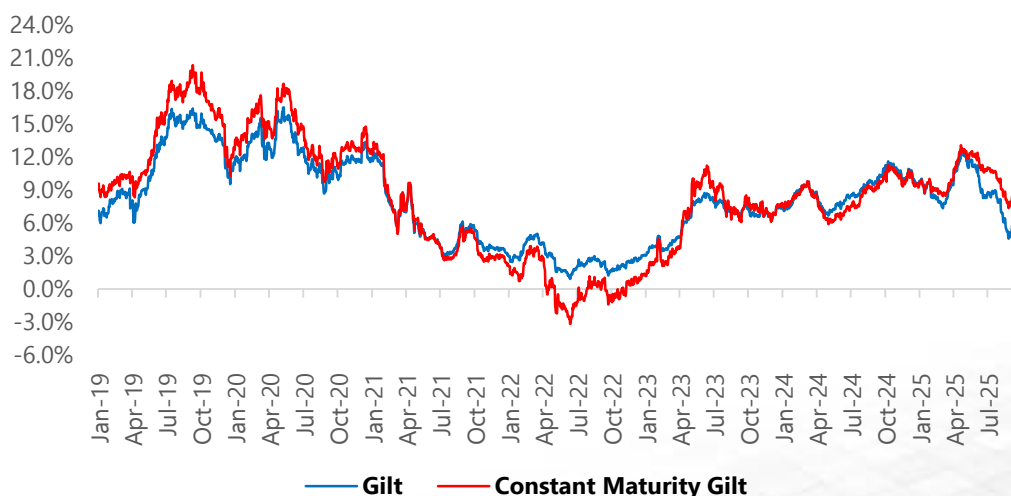
As can be seen in the table above, Constant Maturity Gilt Funds have outperformed Gilt Funds during Jan 2018-Sep 2025.

6M Rolling Return: Gilt vs. Constant Maturity Gilt Funds (Jan 2018 – Sep 2025)



Source: ACEMF, HDFC TRU; Note – Performance is shown for direct plan; Rolling returns computed daily

1Yr Rolling Return: Gilt vs. Constant Maturity Gilt Funds (Jan 2018 – Sep 2025)



Source: ACEMF, HDFC TRU; Note – Performance is shown for direct plan; Rolling returns computed daily

Key Conclusions:

- Constant maturity gilt funds have outperformed actively managed gilt funds, indicating that passive duration strategies have delivered better investor outcomes over the last 8-9 years (since the SEBI's categorization and rationalization of mutual fund schemes).
- Most debt fund managers adjust duration reactively after rate cycle inflection points, rather than consistently predicting them ahead of time.
- Aggressive duration calls by managers sometimes fail to anticipate actual yield movements, resulting in mistimed risk exposure and missed capital gains.
- The dispersion in duration positioning widens during periods of policy easing, but contracts sharply in rate hike cycles, showing consensus risk aversion among managers.
- Overall, active duration management has struggled to generate excess returns, and tracking RBI signals alone has proven insufficient; disciplined passive positioning has yielded more reliable results for investors.
- Fund managers generally prioritize risk management and capital preservation, which leads them to avoid aggressive duration calls. Additionally, the need to protect returns for incoming investors and the open-ended nature of mutual funds, with ongoing redemptions, may constrain managers, contributing to relative underperformance compared to passive strategies.

Reading Room



How the Top 1% of Traders Think

- **The Losing Majority's Paradox:** The vast majority of traders (82%) fail, even though most (65%) have a winning rate over 50%. This is because they take small profits out of fear and allow small losses to balloon into large losses out of hope, leading to a disastrous risk-reward ratio.
- **The 1% Focus on Risk-Reward:** Profitable traders understand success isn't about the frequency of wins, but the size of them. They do the opposite: they cut losses immediately and let their successful positions run, often scaling into winners for maximized returns.
- **Mastering the Psychology:** Trading success is fundamentally a test of psychology. The 1% have trained themselves to act rationally against human instincts like loss aversion, viewing actions that feel uncomfortable (like taking a quick loss) as necessary discipline.
- **Quality Over Quantity:** The elite shift their focus to high-quality setups where the risk-to-reward ratio is highly favorable. They trade less frequently, exercising patience to wait for the strongest opportunities rather than trading out of boredom or impulse.

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The chip made for the AI inference era – the Google TPU

- **The Focus on Inference:** AI has two phases: Training (model creation) and Inference (using the model to make real-time predictions). Inference is the most frequent phase, occurring billions of times daily in applications like chatbots, recommendation engines, and autonomous vehicles.
- **Need for Specialization:** Traditional general-purpose processors (CPUs) and older GPUs are wildly inefficient for AI inference. Specialized AI chips, such as ASICs and FPGAs, are essential to achieve the massive scale and cost-effectiveness required for modern AI deployment.
- **Key Design Metrics:** Inference chips are designed with three primary goals: high speed (low latency) for instant responses, high throughput, and maximum energy efficiency (TOPS/Watt) to reduce operating costs and power consumption in data centers.
- **Industry Trend:** Major cloud providers are increasingly developing their own custom silicon (e.g., AWS Inferentia, Google TPUs) to optimize their infrastructure. This allows them to achieve dramatically lower costs-per-inference and better performance compared to relying on commercial general-purpose hardware.

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