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HDFC TRU
HONESTY | EXPERTISE

# TRU INSIGHTS

January 2026

# Contents

# From the MD & CEO's desk

*"Indian equities experienced a year of consolidation in 2025, weighed down by elevated valuations, trade-related uncertainties, a weakening rupee, and persistent FPI selling. While benchmark indices closed positive, significant weakness emerged across mid- and small-cap segments. Domestic flows sustained through SIP contributions, inflation remained steady, and global uncertainties moderated toward the end of the year. Investors to remain selective, prioritising quality businesses with strong fundamentals and reasonable valuations."*

**Dear Investors,**

**Wishing you a very Happy New Year and tremendous success in your investing journey in 2026!**

The year 2025 was one of consolidation for Indian equities. Elevated valuations, trade-related uncertainties, a weakening rupee, and persistent foreign portfolio investor (FPI) selling kept upside potential in check. While the Nifty managed to close the year in positive territory, this headline number concealed significant pain across mid- and small-cap segments.

As we step into 2026, the outlook appears considerably stronger. Markets have undergone a healthy valuation reset after an extended period of elevated multiples, creating a firmer base for future gains. Corporate earnings growth, which limped along at low single digits through FY25, is projected to accelerate meaningfully to 10–15% over the next two years. This anticipated improvement in earnings provides a solid foundation for market appreciation.

Domestic flows remain resilient, with Systematic Investment Plan (SIP) contributions continuing to support steady demand despite global volatility. Inflation is under control, giving the Reserve Bank of India flexibility to cut rates if economic conditions warrant. Global uncertainties have also moderated, and foreign investor sentiment is showing early signs of stabilization. Taken together, these factors suggest that double-digit returns in 2026 are not only reasonable but could even prove conservative if corporate India delivers on expectations.

That said, caution remains essential because stock returns will likely continue to diverge significantly. Indian indices continue to trade at valuation multiples above their long-term averages and at a premium to many emerging markets, leaving limited room for broad-based multiple expansion. Moreover, valuations in the mid- and small-cap segments are still elevated, making extreme selectivity critical. Investors should focus on quality businesses with strong fundamentals and reasonable valuations while maintaining discipline in position sizing. The market has shifted from rewarding "growth at any price" to demanding "quality at a reasonable price," and companies with weak balance sheets are likely to face harsher penalties than before.

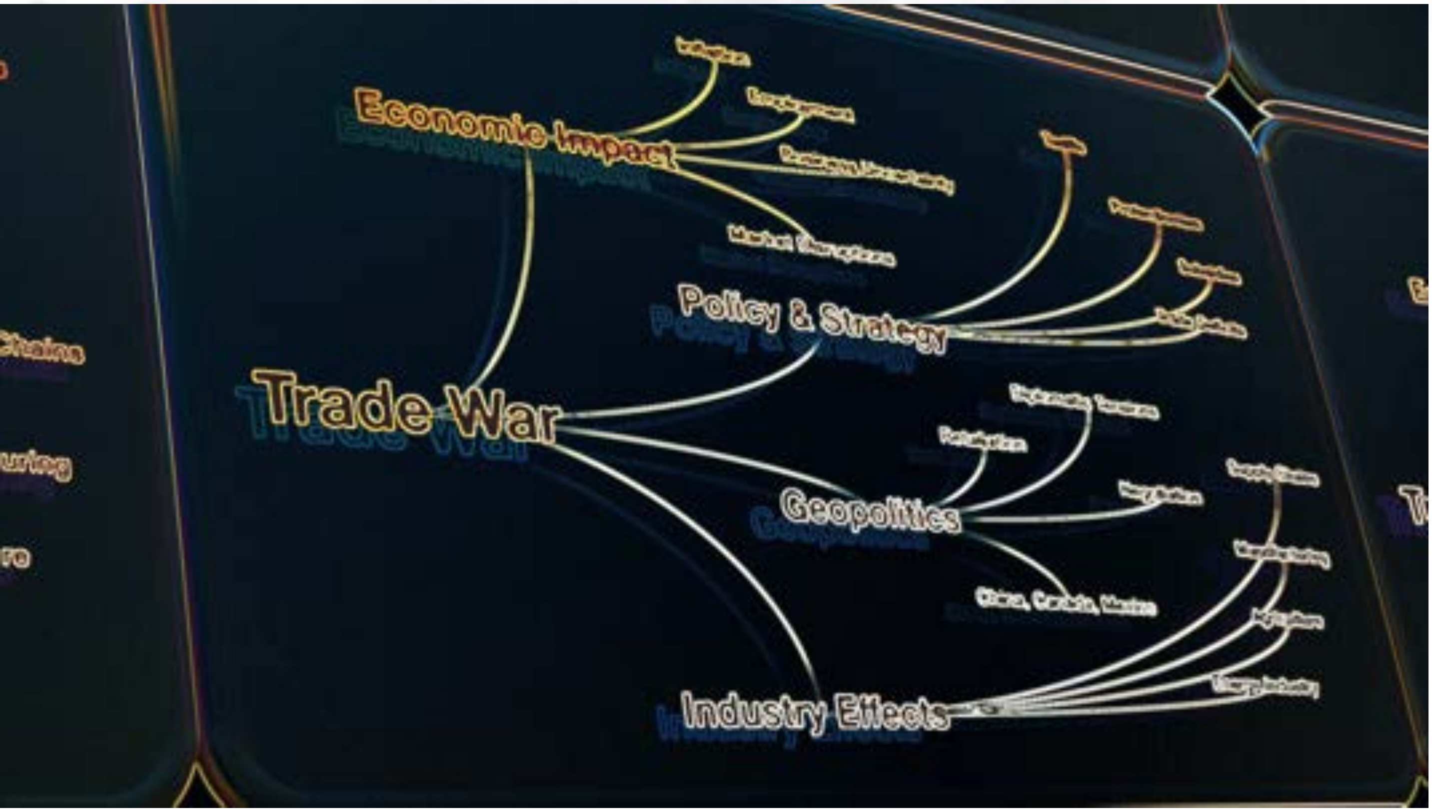
We expect market performance in 2026 to be stock-specific rather than index-driven. Opportunities will emerge across individual names and select sectors rather than through broad-based rallies. We remain constructive on financials, consumer discretionary, building materials and cement, and defence, which are well-positioned to benefit from structural growth trends.

However, investors should remain mindful of key risks, including geopolitical tensions, elevated commodity prices, global liquidity pressures from rising US debt levels, and the domestic gap between robust government infrastructure spending and a stalled private capex cycle.

Despite these challenges, India's long-term structural growth story remains intact. With favorable policy measures, strong medium-term earnings prospects, and resilient domestic flows, the foundation for a strong year has been laid. Active stock selection will be the key to unlocking opportunities beyond benchmark performance.

**I am confident that Tru Insights will become an integral resource in your investment journey. Here's to making 2026 a year of informed decisions and rewarding outcomes!**

***Warm Regards,***
***Dhiraj Relli***
**MD and CEO – HDFC Securities**




# Macro Economic Highlights

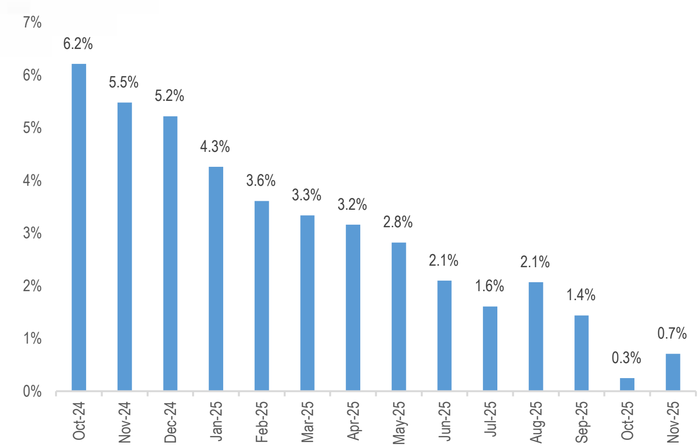
## Global Economic Shifts and India's Macro Fundamentals

Global macro conditions were shaped by significant trade realignments, mixed growth signals, and divergent monetary policy actions. China recorded a historic trade surplus despite weak domestic demand, while the U.S. economy showed resilient growth alongside cooling labour market indicators. Major central banks adopted varied policy stances, with rate cuts in the U.S. and U.K. contrasting with policy tightening in Japan. Domestically, India's macro environment reflected low inflation, moderated manufacturing and services activity, steady GST collections, higher capital expenditure, and an improved fiscal position.

# Domestic Macro Highlights

**Inflation:** India's consumer price inflation picked up to 0.71% YoY in November 2025 from October's record low of 0.25%. This marked the third straight month below the RBI's 2% lower tolerance threshold, as food prices declined 3.91% YoY (compared to a 5.02% YoY decline in October). Price pressures eased in clothing and footwear (1.49% YoY vs 1.70% YoY) and miscellaneous goods (5.64% YoY vs 5.71% YoY), while housing was nearly unchanged at 2.95% YoY. Conversely, fuel and light inflation accelerated to 2.32% YoY from 1.98% YoY in the previous month.

**India CPI Inflation**



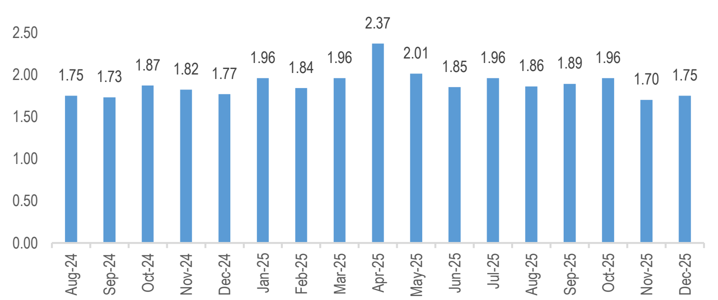

***Source:*** *MoSPI*

**India's Manufacturing and Services Soften in December:** The HSBC India Services PMI fell to 59.1 in December 2025 from 59.8 in November, marking the weakest expansion in business activity since February. Simultaneously, the HSBC India Manufacturing PMI eased to 55.7 from 56.6 in November, its lowest level since December 2023, as 50% US tariffs pressured labor-intensive sectors. While factory output hit a ten-month low, export demand strengthened to a three-month high, and input cost inflation across both sectors remained muted, reaching near five-and-a-half-year lows. Employment remained largely stable or increased marginally, reflecting sufficient staffing levels despite overall business sentiment dipping to its lowest since mid-2022.

**India's Fiscal Deficit Hits 62.3% of Annual Target:** India's fiscal deficit for the April–November 2025 period stood at ₹9.8 trillion, reaching 62.3% of the full-year target for FY26, compared to 52.5% (₹8.47 lakh crore) recorded in the same period last fiscal. While net tax receipts fell to ₹13.9 trillion (down from ₹14.4 trillion a year ago), non-tax revenue surged to ₹5.2 trillion (up from ₹4.3 trillion). Total government expenditure rose to ₹29.3 trillion (vs ₹27.4 trillion last year), driven significantly by a 28% jump in capital expenditure, which reached ₹6.6 trillion (compared to ₹5.1 trillion in the previous year). The government maintains its full-year deficit target at 4.4% of GDP (₹15.7 trillion).

**GST Collections:** India's gross GST collections reached ₹1.75 lakh crore in December 2025, marking a 6.1% YoY increase from ₹1,64,556 crore in December 2024 and an acceleration from the 0.7% YoY growth seen in November (₹1.70 lakh crore). Gross import revenue surged 19.7% YoY to ₹51,977 crore, while domestic GST revenue saw modest growth of 1.2% YoY (₹1,22,574 crore vs ₹1,21,118 crore last year). Net GST revenue for the month stood at ₹1,45,570 crore, up 2.2% YoY.

**India's GST Collections increased from Rs. 1.70 lakh crore in November-25 to Rs. 1.75 lakh crore in December-25**




***Source:*** *gst.gov.in*

**RBI Cuts Repo Rate to 5.25% in December Meeting**: On December 5, 2025, the RBI, led by Governor Sanjay Malhotra, concluded its 58th Monetary Policy Committee (MPC) meeting by announcing a 25 basis point (bps) cut in the repo rate. This move brought the policy rate down from 5.50% to 5.25%, signaling a decisive pivot toward supporting growth in what the Governor described as a "rare goldilocks period" of high growth and low inflation. This marked the second consecutive reduction in 2025, following a steady decline from 6.50% in December 2024. The repo rate saw a cumulative drop of 125 bps over the CY25.

**India Surpasses Japan as World's 4th Largest Economy:** India officially became the world's fourth-largest economy in December 2025. With an estimated GDP of $4.51 trillion compared to Japan's $4.46 trillion, India is currently the fastest-growing major economy with a projected growth rate of 7.2% for 2025.This milestone follows a year of robust growth, highlighted by a 8.2% real GDP expansion in Q2 FY2025-26- the fastest in six quarters. While India's per capita income remains at USD 2,900 nominal, the country maintains its status as the world's fastest-growing major economy.

# Global Macro Highlights

## Trade & Tariff Implications

**China's Historic $1 Trillion Trade Surplus:** China's trade surplus reached a historic $1.076 trillion in the first 11 months of 2025, a record high despite exports to the US plummeting by nearly a third in November. While overall exports grew 5.4% YoY this year, specific sectors like semiconductors surged 24.7% YoY, and exports to the EU jumped 14.8% YoY in November compared to 0.9% YoY in October. Despite this export boom, domestic consumption remains weak at 50% of GDP (as against 80% in the US), while imports from Indonesia to the US rose by nearly a third YoY, signaling a shift in global trade flows.

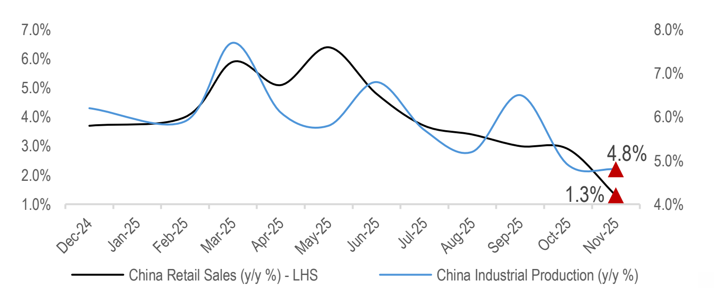
## Global Growth Projections

**U.S. GDP Growth Accelerates in Q3 2025:** The U.S. economy expanded at a robust annual rate of 4.3% in Q3 2025, an acceleration from the 3.8% growth rate recorded in Q2 2025. Unlike the previous quarter, where growth was largely driven by a technical decline in imports, the Q3 expansion was built on "healthier" domestic demand, with real final sales to private domestic purchasers rising 3.0% YoY (as against 2.9% YoY in Q2). Exports turned positive after declining in Q2, while the PCE price index rose 2.8% YoY (compared to 2.1% YoY in Q2) and core PCE increased 2.9% YoY (versus 2.6% YoY previously). Corporate profits also surged by $166.1 billion YoY in Q3, significantly outperforming the $6.8 billion YoY growth seen in Q2 2025.

## Geopolitical Landscape

**US Job Market Mixed Amid Shutdown Distortions:** The US labor market showed signs of cooling in late 2025 as the economy added 64,000 jobs in November, rebounding from a significant loss of 105,000 jobs in October. The October decline was largely driven by a sharp reduction in federal government employment, which shed 162,000 positions due to administrative cutbacks and the impact of a 43-day federal government shutdown. Despite the November gains, the unemployment rate rose to 4.6% (up from 4.4% in September), reaching its highest level since late 2021.

**China's November industrial output grows 4.8% y/y, retail sales up 1.3%:** China's industrial output rose 4.8% YoY in November 2025, slowing from 4.9% YoY in October. Retail sales, a key gauge of consumption, grew only 1.3% YoY, significantly lagging the 2.9% YoY rise seen in the previous month. This marked the weakest retail performance since December 2022. Meanwhile, fixed asset investment shrank 2.6% for the January-November 2025 period, a steeper decline than the 1.7% contraction recorded through October. The data highlights a broad-based domestic slowdown, largely attributed to a deepening property crisis and fading consumer subsidy programs.

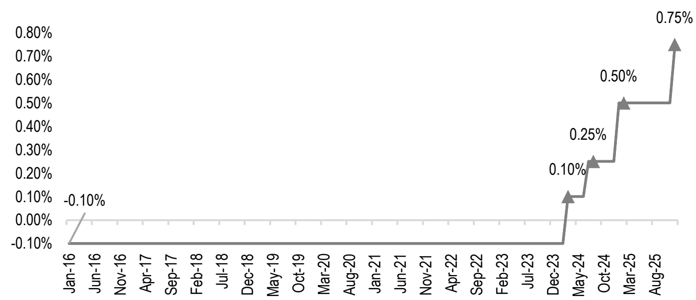



***Source:*** *Trading Economics, HDFC TRU.*
***Note:*** *China reports combined Jan-Feb data for industrial production and retail sales.*

## Monetary Strategies & Inflationary Pressures

**US and UK Central Banks Lower Rates:** The US Federal Reserve cut its interest rate by 25 bps to 3.50-3.75% on December 10, 2025, marking its third cut of the year, while the Bank of England (BoE) similarly trimmed its benchmark rate by 25 bps to 3.75% on December 18, marking the fourth cut of the year. Both central banks signaled a cautious outlook for 2026, with the Fed projecting just one additional cut and the BoE forecasting 0% QoQ growth for Q4 2025.

**Japan Hikes Rates to 30-Year High:** The Bank of Japan (BOJ) raised its benchmark interest rate by a quarter of a percentage point to around 0.75% on December 19, 2025, marking the highest level since 1995. This decision follows the previous hike in January 2025 and comes as official figures showed November inflation (excluding food and fuel) rising by 3% YoY, remaining consistently above the 2% target. Governor Kazuo Ueda's move contrasts with other major economies; for context, the Bank of England (cut rates to 3.75%) and the US Federal Reserve (lowered its range to 3.50%–3.75%).

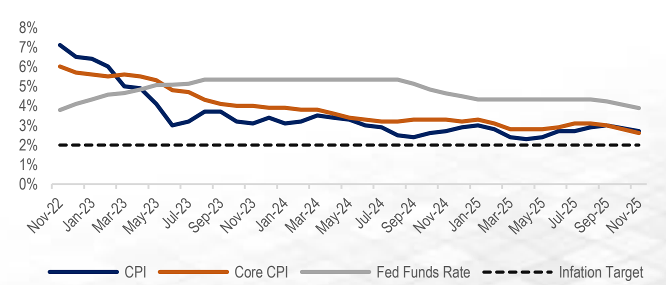



***Source:*** *Bank of Japan, Trading Economics*

## US Inflation and Interest Rates

**US Annual Inflation Hits 2.7% in November 2025:** The annual inflation rate in the US fell to 2.7% YoY in November 2025, the lowest since July, down from 3.0% YoY in September. Core inflation, which excludes volatile food and energy, fell to 2.6% YoY, its lowest level since March 2021. The energy index rose 4.2% YoY, led by fuel oil (11.3% YoY) and natural gas (9.1% YoY), while food prices increased 2.6% YoY. Due to a 43-day government shutdown, October 2025 survey data were not collected, and monthly percentage changes for November were not published.

**US inflation & Interest Rates**
Benchmark interest rates and YoY change in the CPI Inflation




***Source:*** *Tradingeconomics, Federal Reserve*

# Equity Market

## Domestic Flows Cushion Global Uncertainty

Indian equities posted modest gains, but market participation remained narrow and sector-led. Performance was driven by Auto, Metals and Banking, while broader markets reflected cautious investor sentiment. Institutional flows stayed mixed, with steady domestic support offsetting volatile foreign flows. Globally, equities outperformed India, even as strong retail participation helped anchor markets amid ongoing volatility.

# Equity Outlook

*"Indian equities posted modest gains in 2025, with the Sensex up 9% and Nifty up 10%, though the rally remained narrow and sector-specific. Auto, Metals and Banking led performance, while Midcap and Smallcap indices showed limited participation, reflecting cautious sentiment. Market flows were volatile, with FIIs heavy early outflows and mid-year inflows, while DIIs provided steady support, recording a record US$80 billion inflow in FY25. Globally, equities outperformed India, with Silver surging 148.7% and Gold rising 50%, driven by inflation-hedge demand. Despite volatility, monthly SIP inflows sustained double-digit growth, highlighting strong retail participation."*

In 2025, Indian equity markets posted modest gains, with the Sensex and Nifty rising 9% and 10%, respectively, but the rally was narrow and sector-specific. Auto, Metals, and Banking drove the performance, while sectors like Realty and IT lagged sharply. Broader indices such as BSE Midcap and Smallcap reflected limited participation, signaling cautious investor sentiment. Institutional flows shaped market volatility, with FIIs showing erratic trends - heavy outflows early in the year and strong inflows mid-year - while DIIs provided consistent support, reaching record inflows of US$ 80bn in FY25. Despite intermittent corrections, markets regained momentum in late 2025, aided by robust domestic liquidity.

Globally, equities outperformed India, with major indices like Nasdaq, S&P 500, and Nikkei delivering strong returns. Precious metals were standout performers, with Silver soaring (+148.7%) and Gold rising (+50%), driven by demand for inflation hedges. Monthly SIP inflows maintained double-digit growth, underscoring strong retail participation despite global and domestic volatility.

Global monetary policy in late 2025 reflected contrasting strategies among major economies. The Bank of Japan (BoJ) raised its policy rate to a 30-year high of 0.75% on December 19, signaling further hikes in 2026 as inflation stayed above the 2% target and growth improved. While the U.S. Federal Reserve cut its key benchmark rates by 25 bps to 3.50–3.75%, the dot plots indicate only one more rate cut in 2026.

While the latest U.S. CPI inflation print surprised on the downside and U.S. inflation fell to 2.7% YoY in November, its lowest since July, it continues to remain above the Fed's comfort zone. Moreover, better than expected Q3CY25 GDP growth numbers of 4.3% also bolster's the Fed's case of keeping rates on hold in the near term. However, labor market conditions continue to soften with unemployment rising to 4.6% in Nov-25, and any further softness in the labor market can force the U.S. Fed to aggressively cut rates in 2026.

While global cues will impact markets, the Q3FY26 earnings season and management guidance will determine near term market directions. Post temporary deferral in spends in Sep-25 due to GST rationalization, high frequency data like auto sales numbers point to strong recover in discretionary spending from October. Improving consumer spending along with expected NIM reflation for banks should drive improvement in corporate earnings growth in Q3FY25 from low single digit witnessed in Q2FY25.

While inflation remains a concern globally, India continues to witness a very benign inflation environment thus giving the RBI flexibility to cut rates if economic conditions warrant support. Accelerating corporate earnings growth along with a benign interest outlook sets up India positively for 2026 relative to peers post significant under performance in 2025.


# Debt Market

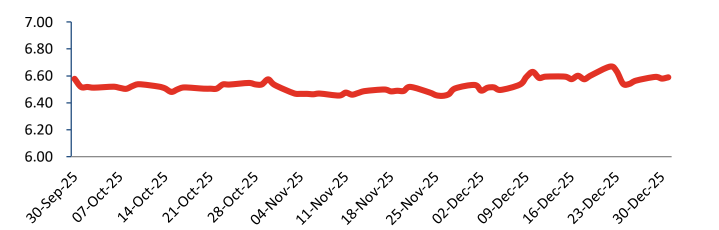
## Liquidity Tightness and Global Yields Keep Bond Markets Under Pressure

Domestic bond yields moved higher during the month despite a policy rate cut, reflecting tight system liquidity, currency volatility and elevated global yields. The RBI announced sizeable liquidity measures through bond purchases and dollar-rupee swaps to address year-end cash pressures. Banking system liquidity fluctuated sharply due to tax outflows, forex intervention and strong credit growth. Global bond markets also remained volatile, led by higher US Treasury yields amid shifting rate expectations and fiscal concerns.

# Fixed Income Outlook

India's 10-year G-sec yield rose by 8 bps in December 2025 to close at 6.59%, up from November's 6.51%, defying RBI's dovish 25 bps repo rate cut to 5.25%. The bond yields remained under pressure on account of tight banking system liquidity (despite RBI's OMOs and forex swaps), excessive INR volatility against USD, elevated global yields, expectations of higher bond supply from states in Q4 FY26 and weaker nominal GDP growth limiting the scope for further fiscal consolidation.

**India's 10-Year G-Sec Yield rose in December 2025**
Indian 10 Year G-Sec Movement (For last 3 months)

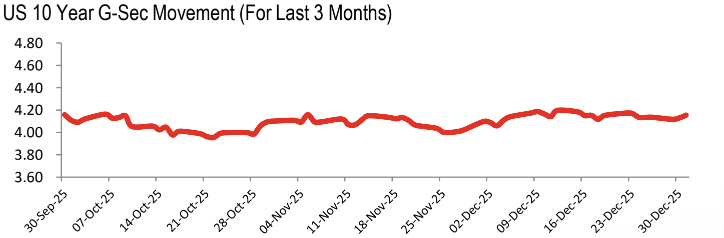



***Source:*** *CCIL*

In line with our expectations, the RBI cut repo rate by 25 bps in Dec'25 MPC meeting to 5.25%, keeping its policy stance neutral. To ease year-end cash shortages in banks, it announced about Rs 1.5 lakh cr in support: Rs 1 lakh cr worth of bond purchases plus a $5 bn dollar-rupee swap for three years. Growth outlook for FY26 got a bump with real GDP growth projected at 7.3% from 6.8%, even with some recent slowdown signals. CPI inflation forecast dropped sharply to 2.0% for FY26 from 2.6%.

The US 10-year Treasury yield closed December at 4.15%, up 13 bps from 4.02% in November led by fading hopes for aggressive monetary policy easing, ballooning deficits from tax cuts and spending, tariffs threats driving inflation expectation higher, and rising Japanese bond yields. The US Fed voted 9-3 to cut the policy rate by 25 bps to 3.50%-3.75% in Dec FOMC meeting. Inflation forecasts for next year were reduced while growth estimates were revised up materially. Moreover, the dot plot suggested one rate cut in 2026 and one in 2027 (unchanged from the September meeting projections).

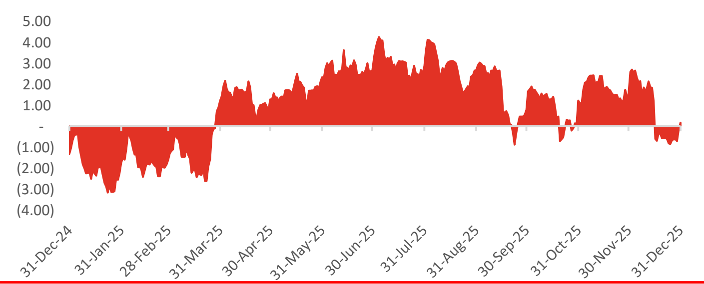
**US Yields rose to 4.15% in December 2025**
US 10 Year G-Sec Movement (For Last 3 Months)




***Source:*** *Investing.com*

Besides the December monetary policy measures, RBI announced additional Rs 2 lakh cr in bond purchases and a $10 bn dollar-rupee swap to tackle tight liquidity conditions in banks. Banking system surplus dropped to Rs 73,000 cr in December from Rs 1.8 lakh cr in November. Liquidity turned negative in late December due to advance tax payments and RBI's ongoing dollar sales to support the rupee. Elevated bank credit to deposit ratio, rise in currency in circulation in Q4 FY26, FPI outflows, and RBI's forex intervention is likely to keep banking system liquidity volatile in the near term. We expect RBI to provide adequate liquidity to the banking system as it remains critical for transmission of rate cuts done so far.

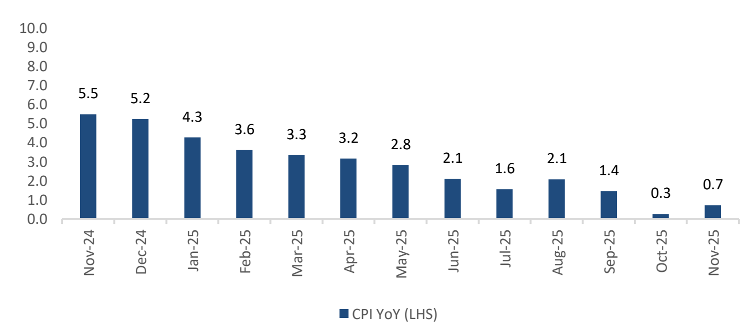
**Banking system liquidity dropped in December 2025**
India's banking system liquidity (Rs Lakh cr)




***Source:*** *RBI*

India's CPI inflation remained below 1% at 0.71% y-o-y in November, even though it picked up from last month's 0.25% y-o-y. We expect CPI inflation to pick-up in the coming months as the support from a favourable base effect wane. However, GST rate cuts and healthy agricultural output is likely to keep inflation below 3% for the rest of the year.

**India's CPI Inflation eased in November 2025 Driven by Moderation In Food Prices**
CPI Inflation YoY%




***Source:*** *MoSPI*

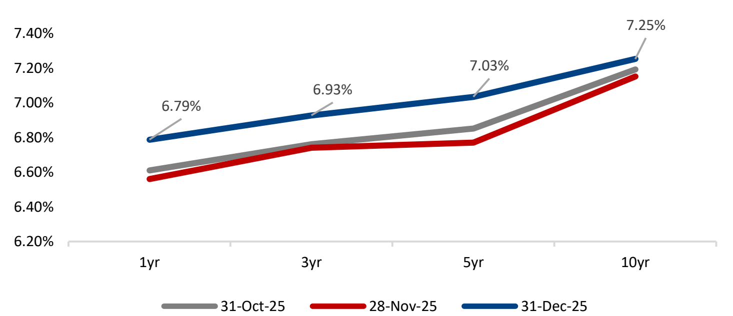
# Fixed Income Outlook

With a comfortable inflation trajectory in place and need to support growth, we believe that the RBI has space to cut rates further by 25 bps to 5%, even though it remains a close call.

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.

We believe, currently spreads in 3-5yr AAA PSU and NBFC corporate bond segment over corresponding G-secs are healthy in the range of 70-125 bps, offering an attractive opportunity from an accrual perspective.

**AAA PSU Corporate Bond Yield Curve**

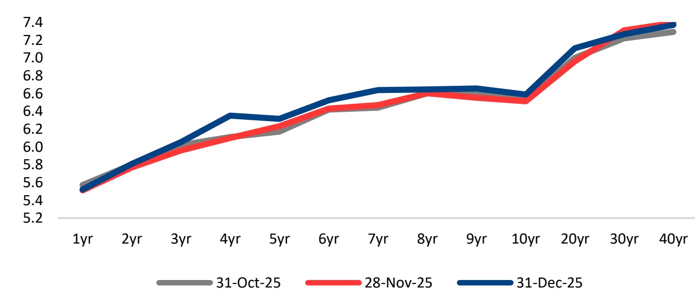



***Source:*** *Bloomberg*

Currently, the G-sec yield curve is fairly steep, with a term spread of about 185 bps between the 1-year and 40-year G-sec, and 107 bps between the 1-year and 10-year G-sec. We expect the yield curve to bear flatten in the medium term.

**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.

# Asset Class Return Quilt: Leadership Rotates, Allocation Endures

**Over the last decade, leadership across asset classes has been highly cyclical. No single asset has delivered persistent outperformance across market cycles, with sharp rotations observed between equities, fixed income, real assets, and global exposures. Overall, the below table reinforces that long-term portfolio outcomes are driven by disciplined asset allocation and diversification, rather than tactical positioning or performance extrapolation.**

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | Silver 19.6% | US Equities 14.9% | Debt 12.9% | EM Equities 11.4% | Gold 11.3% | MAAF 9.6% | World Equities 8.4% | Real Estate 7.7% | Mid-Cap Equities 6.5% | Large-Cap Equities 5.0% | Micro-Cap Equities 3.8% | Small-Cap Equities 1.4% | Crypto N/A |
| **2017** | Micro-Cap Equities 75.6% | Small-Cap Equities 58.5% | Mid-Cap Equities 55.7% | Large-Cap Equities 32.9% | EM Equities 26.2% | MAAF 15% | US Equities 14.4% | World Equities 14.2% | Gold 5.1% | Debt 4.7% | Real Estate 1.0% | Silver -2.8% | Crypto N/A |
| **2018** | Gold 7.9% | Real Estate 6.1% | Debt 5.9% | US Equities 4.4% | Large-Cap Equities 2.6% | MAAF 1.2% | Silver -0.2% | World Equities -3.1% | EM Equities -9.0% | Mid-Cap Equities -12.6% | Small-Cap Equities -26.1% | Micro-Cap Equities -27.1% | Crypto -79.4% |
| **2019** | US Equities 34.4% | World Equities 26.8% | Gold 23.8% | Silver 21.8% | EM Equities 18.0% | Large-Cap Equities 11.8% | Debt 10.7% | MAAF 10.2% | Crypto 9.4% | Real Estate 4.8% | Mid-Cap Equities 0.6% | Small-Cap Equities -7.3% | Micro-Cap Equities -23.5% |
| **2020** | Crypto 286.4% | Silver 44.4% | Micro-Cap Equities 38.4% | Gold 28.0% | Small-Cap Equities 26.5% | Mid-Cap Equities 25.6% | US Equities 21.4% | EM Equities 18.8% | World Equities 17.3% | MAAF 17.1% | Large-Cap Equities 16.1% | Debt 12.3% | Real Estate 1.8% |
| **2021** | Crypto 158.4% | Micro-Cap Equities 77.9% | Small-Cap Equities 63.3% | Mid-Cap Equities 48.2% | US Equities 31.2% | Large-Cap Equities 26.4% | MAAF 22.6% | World Equities 19.1% | Real Estate 4.5% | Debt 3.4% | EM Equities -2.7% | Gold -4.2% | Silver -8.2% |
| **2022** | Gold 13.9% | Silver 9.7% | Micro-Cap Equities 9.7% | Real Estate 7.1% | MAAF 6.4% | Large-Cap Equities 4.9% | Mid-Cap Equities 3.9% | Debt 2.5% | Small-Cap Equities -2.6% | US Equities -9.1% | World Equities -11.0% | EM Equities -13.8% | Crypto -66.9% |
| **2023** | Crypto 141.1% | Micro-Cap Equities 67.4% | Small-Cap Equities 49.1% | Mid-Cap Equities 44.6% | US Equities 27.1% | MAAF 24.7% | Large-Cap Equities 21.2% | World Equities 20.8% | Gold 15.4% | EM Equities 7.7% | Silver 7.7% | Debt 7.3% | Real Estate 4.7% |
| **2024** | Crypto 70.6% | Micro-Cap Equities 34.7% | US Equities 28.6% | Small-Cap Equities 27.2% | Mid-Cap Equities 24.5% | Gold 20.6% | World Equities 19.0% | Silver 17.6% | MAAF 16.9% | Large-Cap Equities 13.0% | Debt 8.9% | EM Equities 8.0% | Real Estate 7.2% |
| **2025** | Silver 167.3% | Gold 74.7% | EM Equities 37.2% | World Equities 26.7% | US Equities 23.9% | MAAF 19.2% | Large-Cap Equities 10.2% | Debt 6.8% | Mid-Cap Equities 6.0% | Real Estate 3.1% | Small-Cap Equities -5.5% | Micro-Cap Equities -9.5% | Crypto -14.8% |

**Source:** Bloomberg, CRISIL, NHB, Ace MF, HDFC TRU.
**Note:** **(1)** Gold & Silver = MCX Spot Prices; **(2)** Debt = Crisil Composite Bond Index; **(3)** Crypto = Bloomberg Galaxy Crypto Index; **(4)** Real Estate = NHB Residex Index; **(5)** Large-Cap Equities = Nifty 100 TRI, Mid-Cap Equities = Nifty Midcap 150 TRI, Small-Cap Equities = Nifty Smallcap 250 TRI, Micro-Cap Equities = Nifty Micro-Cap 250 TRI, World Equities = MSCI ACWI Index, EM Equities = MSCI EM Index and US Equities = S&P 500 TR and **(6)** MAAF = Category Median Returns for Multi-Asset Mutual Funds (Direct Growth).


# Deep Dive

## Re-thinking Precious Metals Allocation

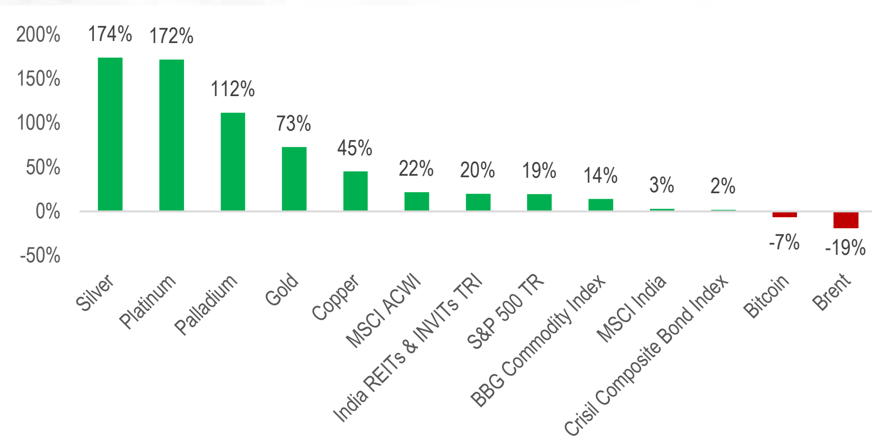
After a strong rally in 2025, Precious metals are currently trading in a stretched zone and appear to have entered a phase where price momentum is increasingly driven by financial flows (ETFs). History suggests that such phases often lead to heightened volatility and meaningful drawdowns. While the strategic long-term case for Precious metals (especially Gold) remains intact, the current market conditions suggests a cautious approach, favoring patience until prices and positions reset.

# Re-thinking Precious Metals Allocation

## Precious Metals: The Best-Performing Asset Class of 2025

The entire precious metals complex (Gold, Silver, Platinum and Palladium) staged a sharp and near-vertical rally over the past year, driven by a potent mix of central-bank buying, geopolitical anxiety, US dollar weakness, and investor FOMO.

**Figure 1: Asset Class Performance CY2025 YTD (%, US$)**

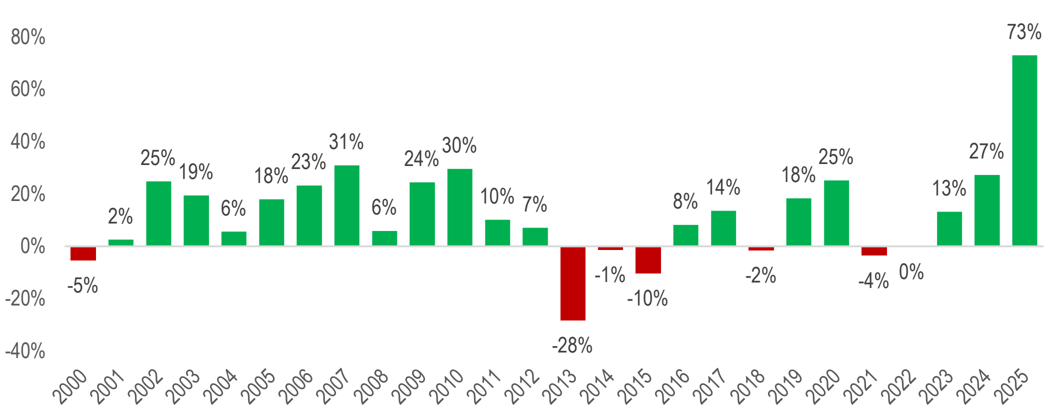



**Source**: Bloomberg, Investing.com, HDFC TRU. **Note:** Priced as of 26th December 2025.

**...In fact, 2025 stands out as a historic milestone for Precious Metals, delivering their best-ever calendar-year performance since 1980; however, history serves as a reminder that greatest years of outperformance in precious metals are typically followed by extended lulls...**

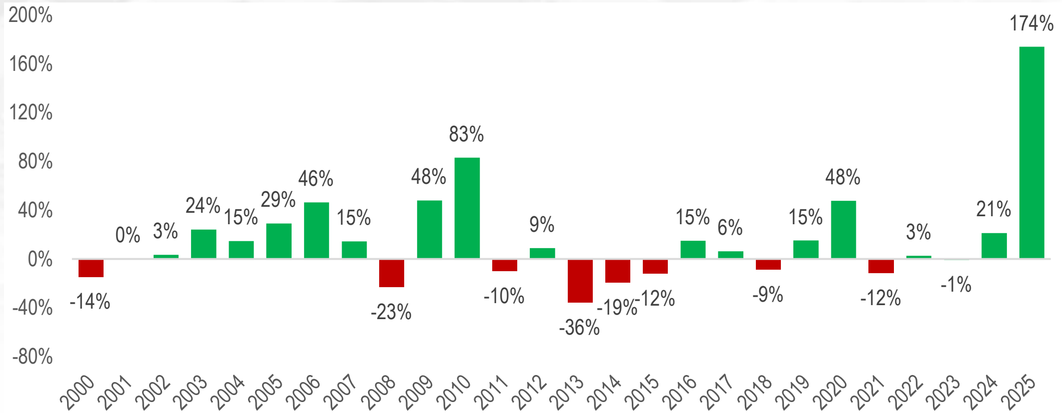
- **Gold is currently witnessing a 'once-in-a-generation' rally.** With returns reaching ~75% in CY2025, the metal has not only eclipsed but has also doubled its best-ever annual performance of 31% in 2007. This emphasizes just how significantly Gold has repriced in the current market.
- **Silver has been the undisputed star of CY2025, with returns exceeding 150%, effectively more than doubling Gold's performance.** However, Silver's profile remains inherently more volatile; historically, such vertical rallies, like those seen in 1979 and 2011, are followed by multi-year periods of consolidation.

**Figure 2: Gold – Calendar Year Returns (%, US$)**




**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26th December 2025.

**Figure 3: Silver – Calendar Year Returns (%, US$)**




**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26th December 2025.

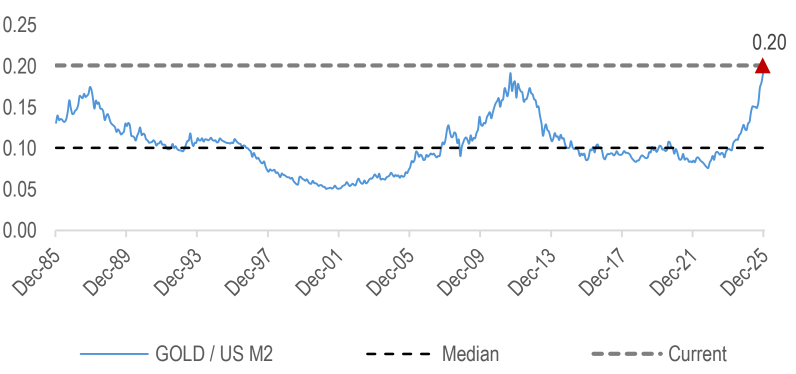
## Setting the Case for Caution in Gold and Silver:

Precious Metals historically served as portfolio insurance, i.e., stores of value during periods of inflation, currency debasement, and systemic stress. Over the last cycle, however, the narrative has shifted from insurance to performance chasing. Prices have surged well ahead of trend, supported by aggressive ETF inflows, speculative positioning, and a belief that central-bank buying represents a one-way structural bid.

**1. Gold Prices have run ahead of its Anchors:**

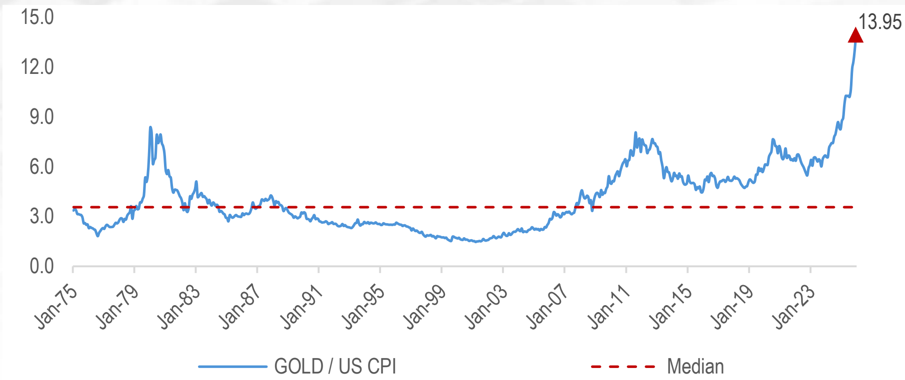
- Valuing Gold is tricky because they don't work like a business or a rental property. When you value a company, you look at how much cash it earns (dividends or profits) and use that to set a price. Since a bar of gold just sits there and doesn't "grow", the best way is to look at its value relative to the money around it.
- To do this, we compare Gold to two most important things: the amount of money in the system (M2) and the cost of living (CPI). Gold prices, when adjusted for both US inflation (CPI) and US Money Supply (M2), are now trading at their highest real premium since the mid-1980s.
- Historically, such valuation extremes have tended to precede periods of consolidation, higher volatility, or subdued forward returns rather than sustained upside.

**Figure 4: Gold Prices Adjusted for US Money Supply…at its highest level in over 40 years**




**Source**: Bloomberg, FRED, HDFC TRU. **Note:** Priced as of 26th December 2025.

**Figure 5: Gold Prices Adjusted for US Consumer Price Index…at all-time highs**

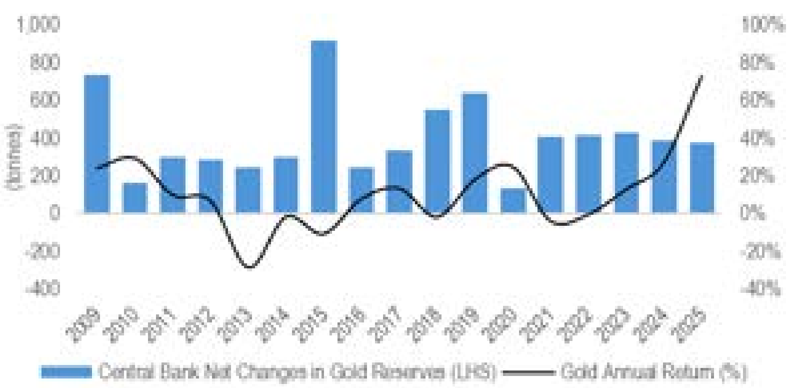



**Source**: Bloomberg, FRED, HDFC TRU. **Note:** Priced as of 26th December 2025.

**2. The Rate of Incremental Central Bank Buying Appears to Be Slowing:**

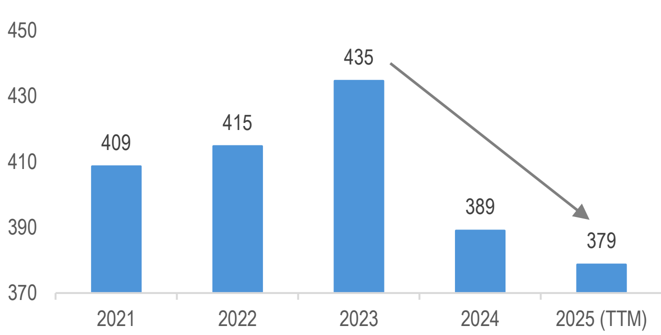
- Central banks buying, particularly from emerging markets, have been the backbone of the recent rally in Gold. However, while absolute demand remains strong, the rate of incremental buying appears to be slowing.
- While Gold holdings remain elevated, the pace of incremental buying has slowed. Some countries (e.g. Singapore, Uzbekistan) have begun to rebalance their reserves, monetize gains, or pause accumulation after front-loading purchases.

**Figure 6: Despite Central Banks being net buyers of Gold every single year since 2008, history shows that periods of aggressive price appreciation have been followed by meaningful corrections…**




**Source**: Bloomberg, World Gold Council, HDFC TRU. **Note:** Priced as of 26th December 2025.

**Figure 7: Reported Changes In Central Bank Reserve Holdings (in Tonnes)**

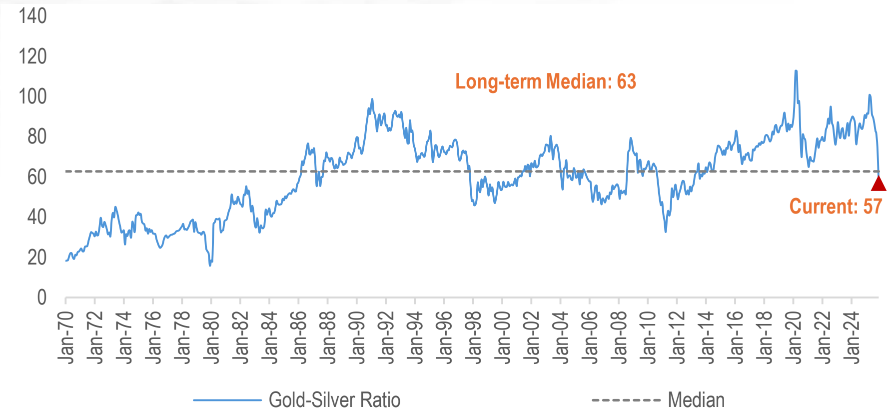



**Source**: World Gold Council, HDFC TRU. **Note:** 2025 data was only available till Oct-25, therefore, we have used a TTM number to make it like-for-like vs. prior years.

**3. The Current Gold-Silver Ratio indicates muted returns especially for Silver in the near to medium-term…**

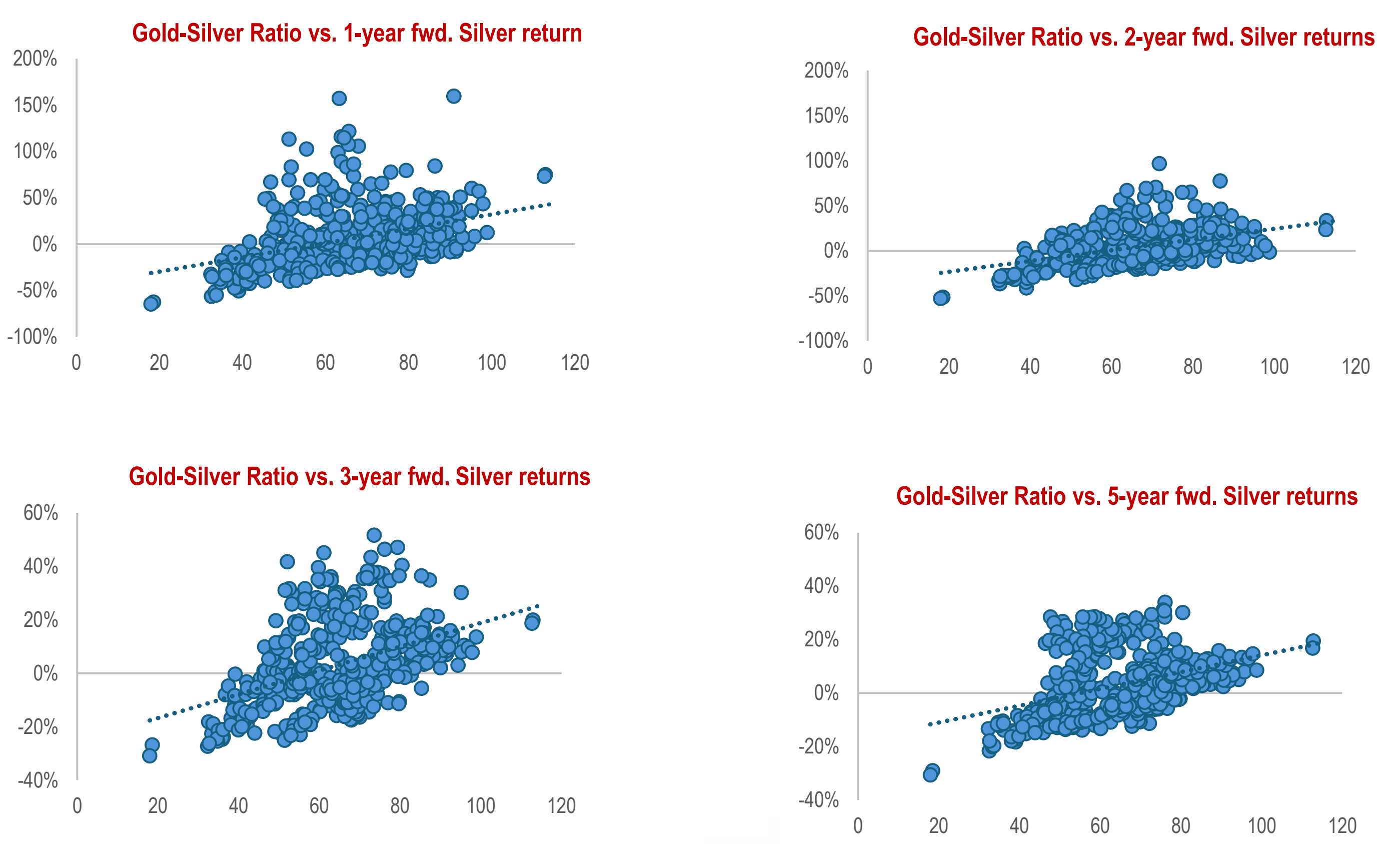
- The Gold–Silver ratio has retraced to 57, positioning it just under the long-term median of 63. Historically, lower ratios have coincided with late-cycle / risk-off phases, where forward returns, especially for Silver, tends to be muted.
- In this context, the current Gold–Silver ratio suggests asymmetric risk for Silver, with limited upside from current levels with a higher probability of consolidation or drawdowns if macro/demand tailwinds soften.\

**Figure 8: Gold-Silver Ratio (Monthly) trending below 60 levels (vs. long-term median of 63)…lowest level since 2013**




**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26 December 2025.

**Figure 9: Gold-Silver Ratio (Monthly) vs. Silver forward returns**




**Source**: Bloomberg, HDFC TRU. Priced as of 26 December 2025. **Note:** We have used Monthly data for the above charts since 1980.

**Figure 10: Our analysis highlights muted median returns for Silver across periods, whenever the Gold-Silver ratio is less than or equals to 60…**

| | Next 1 year Return (US$, %) | | | Next 2-year CAGR (US$, %) | Next 3-year CAGR (US$, %) | Next 5-year CAGR (US$, %) |
|---|---|---|---|---|---|---|
| Gold-Silver Ratio | No. of Observations | % times Silver > Gold | Silver Median Return (%) | Silver Median Return (%) | Silver Median Return (%) | Silver Median Return (%) |
| 10 ≤ 20 | 8 | 0% | -17% | -12% | 4% | 17% |
| 20 ≤ 30 | 28 | 0% | -2% | 10% | 25% | 20% |
| 30 ≤ 40 | 101 | 38% | 20% | 18% | 13% | 14% |
| 40 ≤ 50 | 67 | 24% | -8% | -8% | -6% | -6% |
| 50 ≤ 60 | 105 | 31% | -9% | 1% | 0% | 4% |
| 60 ≤ 70 | 117 | 38% | 2% | 1% | 1% | -1% |
| 70 ≤ 80 | 139 | 49% | 0% | 3% | 2% | 1% |
| 80 ≤ 90 | 71 | 52% | 19% | 16% | 10% | 8% |
| 90 ≤ 100 | 22 | 82% | 19% | 14% | 11% | 7% |
| >100 | 2 | 100% | 74% | 28% | 19% | 18% |

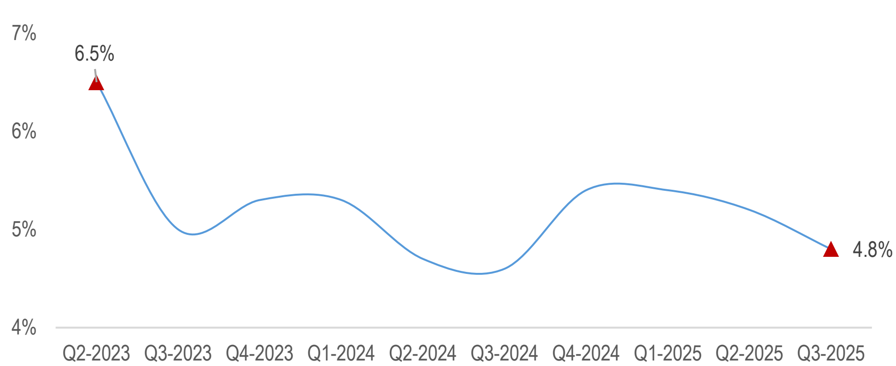
*In April 2025, we published a note [(link)] highlighting 'Silver' as materially undervalued when the Gold-Silver ratio was at **102**, a level which historically yields a high double digit median return.*

**Source**: Bloomberg, HDFC TRU. **Data Period:** Jan-1970 to Dec-2025.
**Note:** The above calculations are based on monthly Gold-Silver Ratio data.

## 4. China's Growth Slowdown: A Headwind for Metals

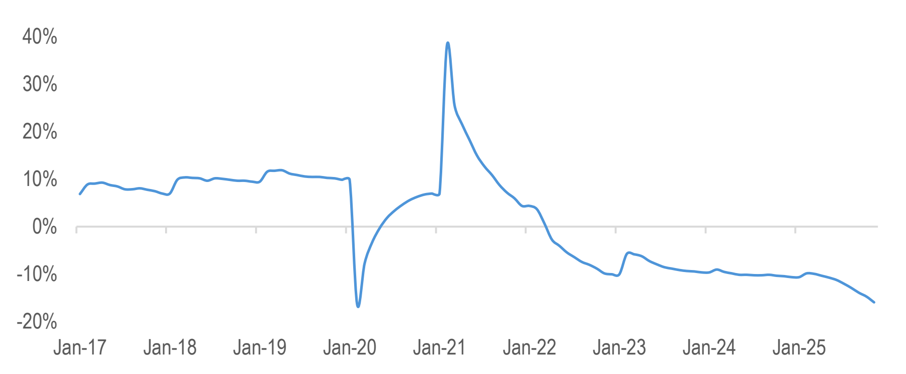
- China remains the single largest marginal consumer of global metals, particularly for industrial commodities and Silver, where fabrication demand is closely tied to construction, electronics, and manufacturing activity.
- The ongoing weakness in China's economy, marked by a prolonged property-sector downturn, subdued credit growth, and fragile consumer confidence, poses a structural headwind to physical metals demand.
- Moreover, an ***IMF paper (here) highlighted that a 1% slowdown in China's industrial growth can lead to about 5–7% decline in metal prices*** over the following year, underscoring China's outsized influence on metals demand. In a slowing China scenario, this sensitivity poses downside risk for metals, particularly Silver with its industrial exposure.

**Figure 11: China's Real GDP Growth (%) continues to be in a downtrend... with IMF estimating 4.5% for 2026E**



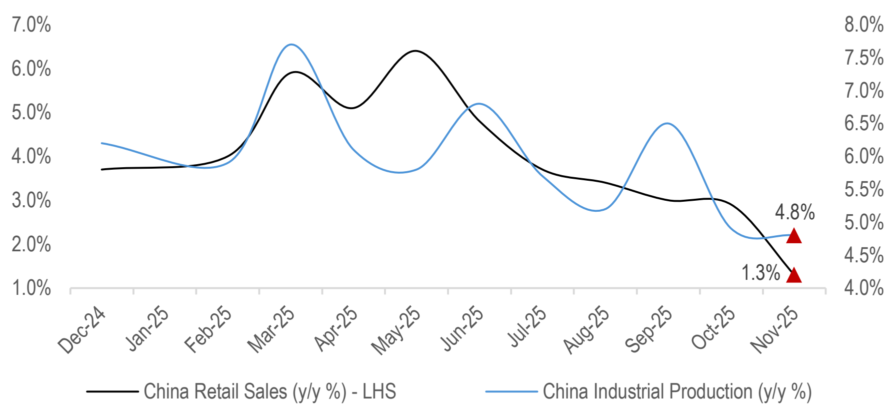

**Source**: Trading Economics, HDFC TRU.

**Figure 12: Chinese Investment in Real Estate Development (y/y change %)…almost at COVID-19 lows**




**Source:** Bloomberg, Silver Institute, HDFC TRU.

**Figure 13: China's economic momentum cooled materially as factory output hit a 15-month low and retail sales slumped to levels not seen since the lifting of "zero-COVID" restrictions…**




**Source**: Trading Economics, HDFC TRU. **Note:** China reports combined Jan-Feb data for industrial production and retail sales.

**5. Growing dominance of financial demand (Gold / Silver ETFs), materially increases downside risk by amplifying flow-driven volatility**

- In 2025, the precious metals market saw a historic structural shift as financial demand increasingly decoupled from traditional physical consumption. While record-high prices have naturally cooled the appetite for jewelry and retail bullion, institutional and digital inflows have reached unprecedented heights.
- Especially in Silver, we note that the surge in ETF holdings relative to reported exchange inventories highlights the growing dominance of financial demand over physical consumption.
- ETF flows have played a disproportionate role in tightening the market balance over the past two years. In 2025 alone, net investment into ETFs amounted to ~200 million ounces (oz), materially exacerbating an already tight physical market. Excluding ETFs, the underlying market deficit stood at ~95 million ounces (oz); however, once ETF flows are included, the effective deficit widened sharply to ~295 million ounces (oz). Any reversal or even moderation in ETF inflows therefore poses a meaningful risk of downside volatility, as the market would need to rapidly re-absorb this incremental supply.
- When price discovery is driven more by flows and positioning than end-use fundamentals, price action tends to become more reflexive / volatile. This raises the risk that any reversal in sentiment could lead to disproportionately sharp drawdowns.


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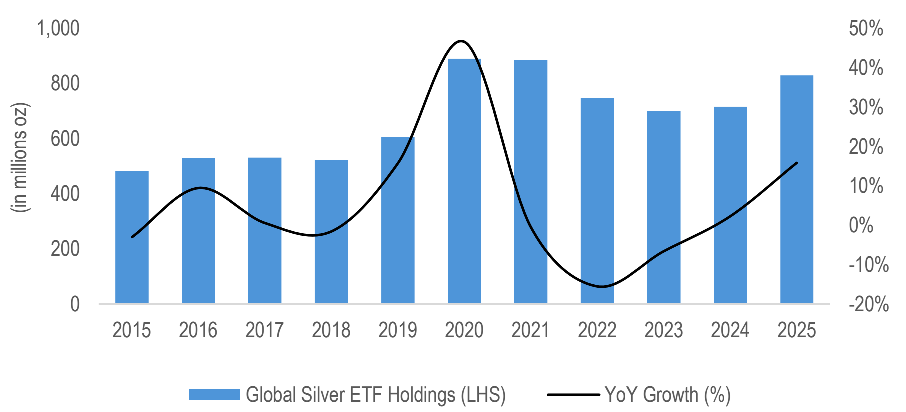
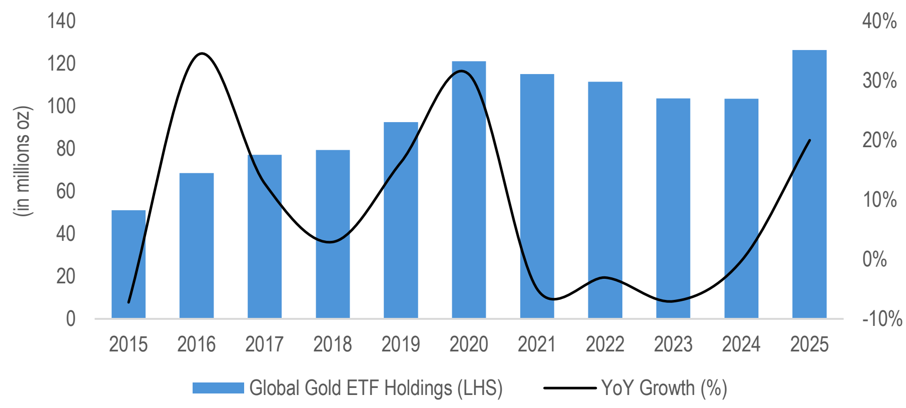
**Figure 14: Global Silver ETF Holdings (in millions oz) have increased at a CAGR of ~9% over the last 2 years…**




**Source**: Bloomberg, HDFC TRU. **Note:** 2025 Data is as of Nov-25.

**Figure 15: …While Global Gold ETF Holdings (in millions oz) increased at a CAGR of >10% over the last 2 years**

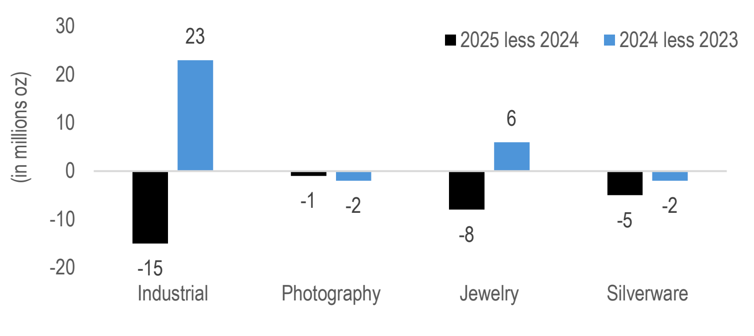



**Source**: World Gold Council, HDFC TRU. **Note:** 2025 Data is as of Nov-25.

### 6. Silver's Physical Supply-Demand Market Deficit Narrowing

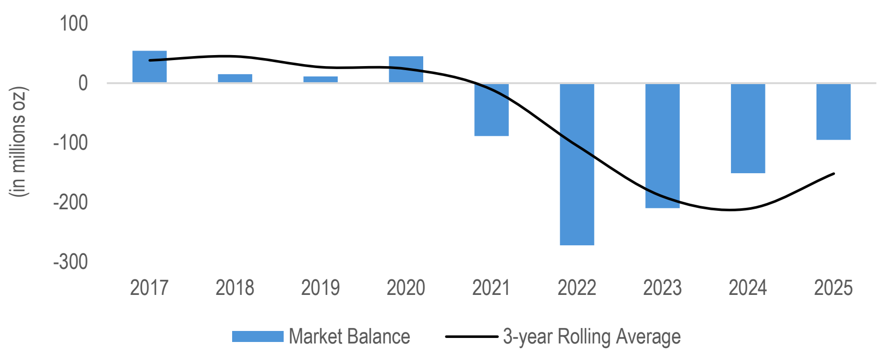
- Photovoltaics (PV) were the key demand drivers for Silver over the last decade or so (~16% of the total 2025E Demand). While we note that the growth remains intact, rapid innovation in solar cell technology is structurally reducing Silver intensity.
- Newer cell architectures such as PERC (Passivated Emitter and Rear Cell), TOPCon (Tunnel Oxide Passivated Contact) and HJT (Heterojunction Technology) are designed to improve efficiency while lowering material costs.
- Under sustained cost pressure, manufacturers are steadily reducing Silver paste usage per watt and increasingly substituting Silver with Copper-based metallization where feasible. As a result, Silver loading per watt has been on a clear downward trend, implying that Solar demand growth for Silver is becoming less Silver-intensive despite rising module installation (see figure 18).
- This combined impact is effectively narrowing the Silver supply–demand gap, steering the market more towards equilibrium.

**Figure 16: Silver – Demand Swings by Sector; all the key segments saw a decline in demand y/y (2025 vs. 2024)**



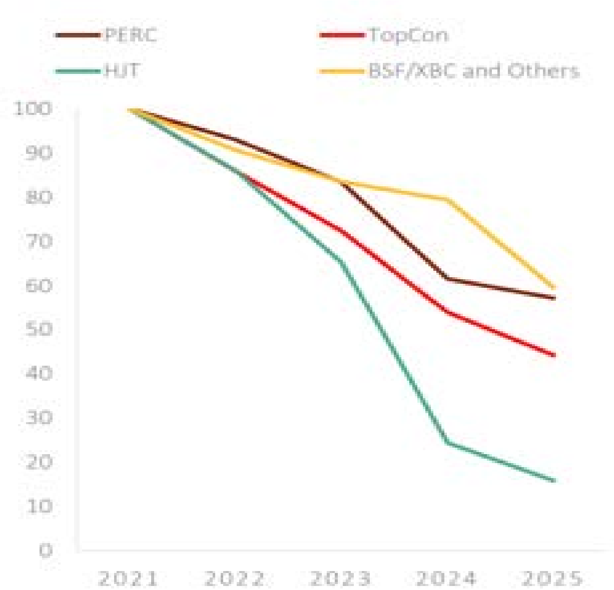

**Source**: Silver Institute (13 Nov, 2025 Publication, here), HDFC TRU.

**Figure 17: Physical market deficit for Silver continues to narrow year-on-year: 2025E Demand is expected to slip to a four-year low, while Supply is anticipated to edge up to three-year highs…**




**Source**: Silver Institute (13 Nov Publication, here), HDFC TRU.

**Figure 18: Photovoltaics (PV) cost pressures driving Silver loadings lower (indexed to 100)… using Copper to substitute Silver usage**

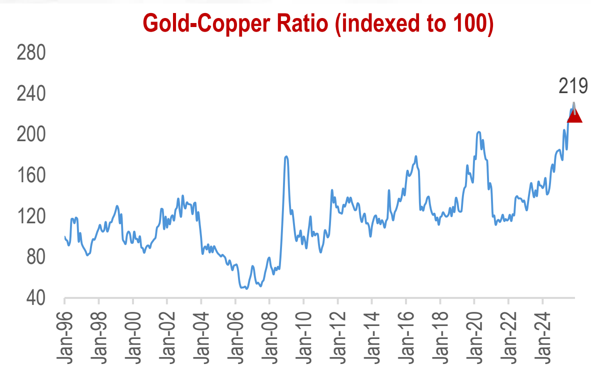


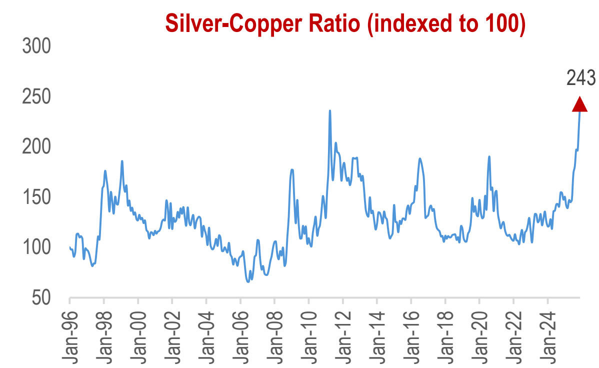

**Source**: Silver Institute, HDFC TRU.

### 7. Gold & Silver's outperformance shows up across the Commodity Complex

- To test whether Gold & Silver are "expensive" (i.e., stretched vs. the rest of the real-asset universe), we look at a ratio framework that compares Gold & Silver against (1) industrial commodities such as Oil and Copper, (2) Broad commodity benchmarks like the Bloomberg Commodity Index (BCOM).
- If Gold & Silver-to-Oil and Gold & Silver-to-Copper ratios are elevated, it suggests that Silver has run significantly ahead of the commodity inputs that typically represent "global activity" (Oil) and "industrial cycle" (Copper).

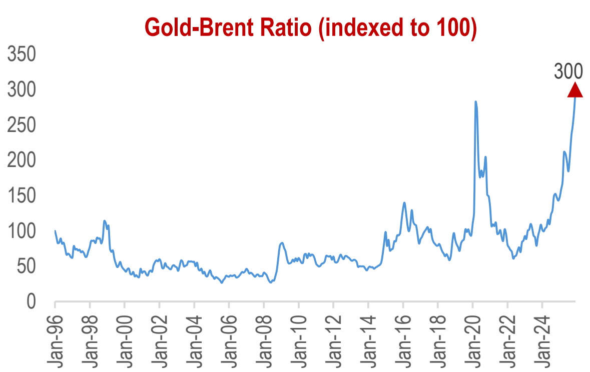
**Figure 19: The Gold-to-Copper and Silver-to-Copper ratios are currently trading at their highest levels in over 30 years…**

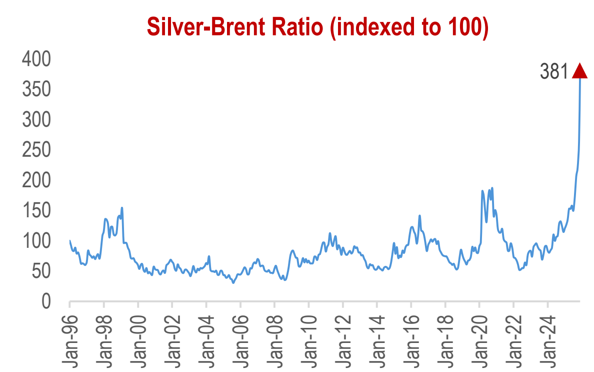



**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26th December 2025. **Data Period:** Jan-1996 to Dec-2025.

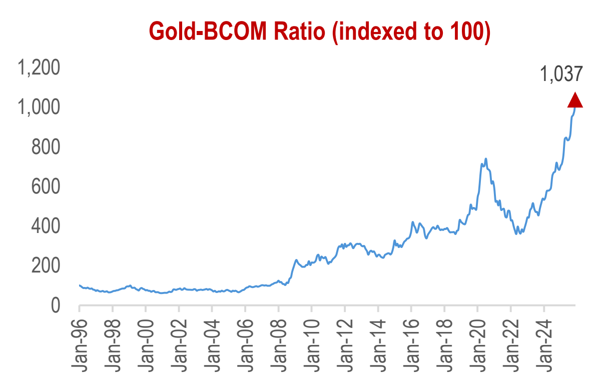
**Figure 20: The Gold-to-Oil and Silver-to-Oil ratios are also trading at their highest levels in over 30 years…**

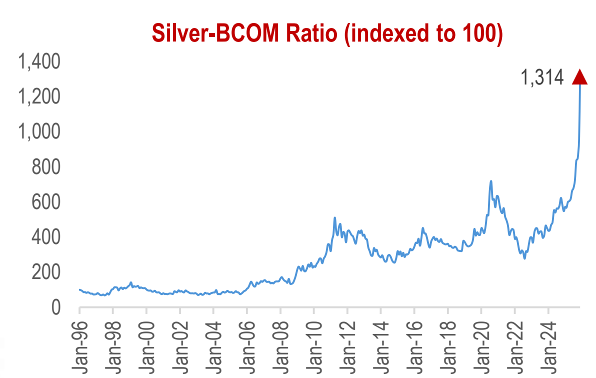



**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26th December 2025. **Data Period:** Jan-1996 to Dec-2025.

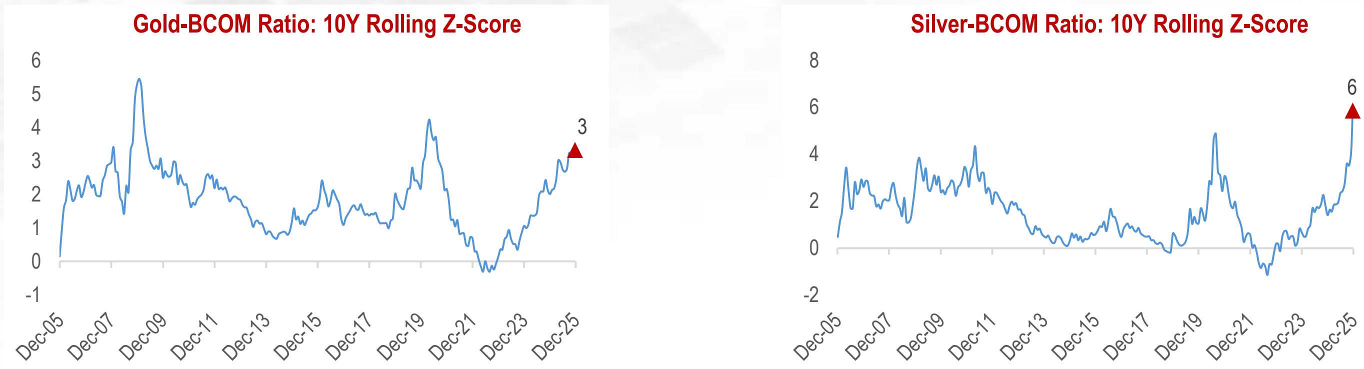
**Figure 21: The Gold / Silver-to-Bloomberg Commodity (BCOM) Index ratio is also at its highest level in over 30 years…**




**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26th December 2025. **Data Period:** Jan-1996 to Dec-2025.

**Figure 22: Gold & Silver Relative Valuation vs. Bloomberg Commodity Index (10-year Rolling Z-scores)**



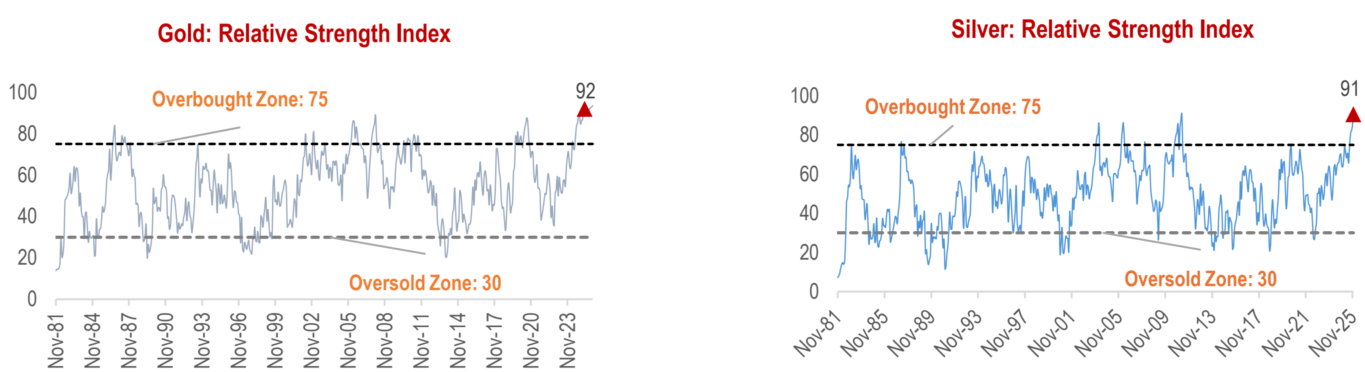

**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26th December 2025. **Data Period:** Jan-1996 to Dec-2025.

**Net-net, based on 10-year rolling Z-scores vs. the Bloomberg Commodity Index (BCOM), Precious metals appear meaningfully stretched.** Gold, with a Z-score of around +3, is already trading well above its long-term relationship with the broader commodity complex, suggesting more asymmetric forward returns and a higher likelihood of consolidation. Silver, however, is an extreme outlier, with a Z-score close to +6, indicating it has vastly outperformed the overall commodity basket by historical standards. Such elevated readings do not imply an immediate correction, but they do point to significantly higher volatility and downside risk, with Silver appearing far more extended than Gold at current levels.

**8. Even from a technical perspective, both Gold and Silver are currently trading in "Overbought" territory**

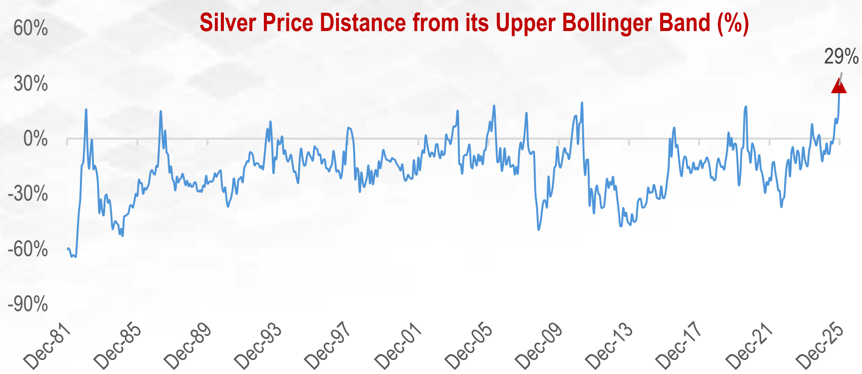
- Momentum indicators such as RSI signal stretched conditions. Historically, such phases of technical exuberance in Precious metals have rarely been sustained without a period of consolidation or correction.
- Importantly, this matters because drawdowns in Precious metals can be severe. Despite their safe-haven perception, both Gold and Silver have experienced large peak-to-trough declines in past cycles, with Silver in particular exhibiting sharp and rapid corrections due to its higher volatility and dual industrial–investment nature.

**Figure 23: Technical indicators like the RSI suggests both Gold and Silver are trading in Overbought territory…**



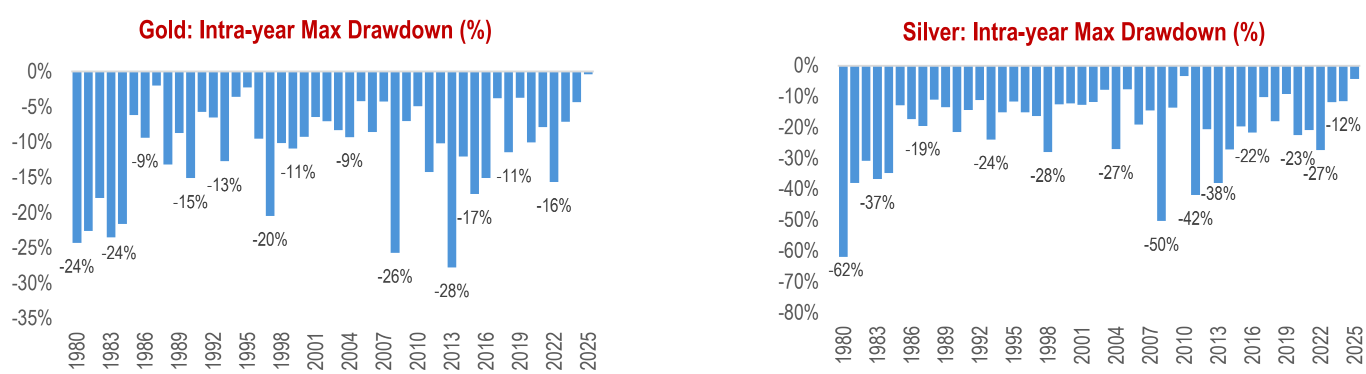

**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26th December 2025.

**Figure 24: Silver is currently trading at ~30% above its Upper Bollinger band…the widest divergence since 1980**




**Source**: Bloomberg, HDFC TRU. **Note:** Priced as of 26th December 2025.

**Figure 25: Drawdowns in Precious Metals (especially Silver) tends to be severe…**




**Source**: Bloomberg, HDFC TRU. **Note:** Intra-year Drawdowns are calculated using monthly data.

## Our Take: Why the risk–reward in Precious metals has become increasingly asymmetric?

- **Positioning and Financialization Add to Volatility.** High levels of financial participation and concentration through ETFs increase sensitivity to changes in investor sentiment. In such environments, price movements can be amplified in both directions, raising the risk of abrupt corrections.
- **History Shows Drawdowns Can Be Deep.** Precious metals are often perceived as defensive assets, yet historical data shows they are prone to large and prolonged drawdowns. Silver, in particular, has experienced severe intra-year and cycle-level declines, underscoring its higher downside risk during periods of exuberance.
- **Valuations Are Stretched on a Relative Basis.** Both Gold and Silver are trading at elevated levels versus the Bloomberg Commodity Index, indicating meaningful outperformance relative to the broader commodity complex. Rolling Z-scores place Gold in stretched territory, while Silver stands out as an extreme outlier, highlighting valuation excess rather than a broad-based Commodity cycle.
- **Silver's Supply–Demand Tailwinds Are Moderating.** While long-term structural themes such as energy transition remain supportive, near-term demand growth, especially from solar, faces headwinds from technology-led Silver substitution. This reduces the likelihood of sustained upside driven purely by physical tightness.
- **Technical Indicators Signal Overbought Conditions.** Momentum indicators suggest both Gold and Silver are currently overbought, a phase that has historically preceded consolidation or corrective moves. Such technical setups tend to compress forward returns, even if absolute prices remain elevated for some time.
- **Portfolio Implication.** At current levels, Precious metals, particularly Silver, offers asymmetric risk-reward, with limited upside and elevated downside volatility. We believe this environment calls for prudence, selective exposure, and active risk management, rather than incremental allocation chasing recent performance.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# Reading Room

## Different Kinds of Smart

- **Why "smart" failed at LTCM**: The collapse of Long-Term Capital Management is used to illustrate that extreme intellectual brilliance and elite credentials did not prevent failure. The lesson is that intelligence is not singular, certain critical forms of "smart" were missing despite exceptional analytical capability.
- **Cross-disciplinary intelligence matters**: One form of smart is understanding that the world cannot be explained through one discipline alone. Relying only on financial models while ignoring history, politics, psychology, and incentives creates blind spots that can be fatal.
- **Balancing confidence with paranoia**: A distinct kind of intelligence lies in combining conviction with caution, having enough confidence to act, while maintaining enough fear to survive adverse outcomes. LTCM had confidence without sufficient paranoia.
- **Storytelling as a form of intelligence**: The ability to communicate ideas clearly and persuasively is itself a type of smart. Ideas that cannot be understood or trusted by others regardless of how correct they may be lose influence and effectiveness.
- **Humility about what you don't know**: Another form of intelligence is recognizing the limits of one's knowledge. Overestimating what models can explain and underestimating uncertainty was a key weakness exposed in LTCM's failure.
- **Delayed gratification through attention control**: Patience is not just self-control, but the ability to structure decisions so short-term temptations lose relevance. This kind of smart supports long-term outcomes over immediate gains.

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## The Odds Are Changing: 2026 Is a Market for Investors, Not Gamblers

- **A Clear Regime Shift: From Broad Beta to Selective Alpha**: The market environment is transitioning away from the post-pandemic phase where risk-taking and broad exposure were consistently rewarded. Return dispersion is rising sharply across sectors, companies, and asset classes, marking a shift to a regime where fundamentals, balance-sheet strength, and earnings quality drive outcomes rather than momentum or speculation.
- **Macros Are Normalising, But New Risks Are Emerging**: While inflation pressures have eased and monetary policy uncertainty has reduced, the focus is shifting toward slowing labour dynamics, margin sustainability, and late-cycle risks such as downgrades and defaults. This creates a more complex backdrop where macro stability no longer guarantees uniform asset-price appreciation.
- **AI Is a Structural Productivity Lever, Not a Short-Term Trade**: Artificial intelligence is framed as a long-term cost-efficiency and productivity driver rather than an immediate revenue accelerator. The real beneficiaries are likely to be firms that can deploy AI to improve margins, operating leverage, and capital efficiency, leading to differentiated performance across industries.
- **2026 Rewards Discipline, Income, and Fundamental Investing**: The coming phase of markets favours patient capital, income generation, and selective risk-taking. Quality fixed income, resilient cash-flow businesses, and carefully chosen growth opportunities are positioned to outperform speculative strategies, reinforcing that 2026 is a market for investors focused on process and fundamentals—not gamblers chasing momentum.

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