
TRU

INSIGHTS

March 2026



Contents

From the MD & CEO's desk	03
Macro Economic Highlights	04
<i>Domestic Macro Highlights</i>	05
<i>Global Macro Highlights</i>	06
Equity Market Outlook	07
Debt Market Outlook	09
Deep Dive	12
Reading Room	18

From the MD & CEO's desk



“Indian equities experienced volatility in February 2026 as optimism following the India–U.S. and India–EU trade agreements faded amid renewed global uncertainties. Escalating geopolitical tensions between the U.S. and Iran further weighed on market sentiment, contributing to the broader market decline. While near-term volatility may persist, markets are expected to stabilize as clarity on global trade policies and geopolitical developments emerges. This correction may present opportunities for investors to enter the market before the conflict concludes.”

Dear Investors,

Global markets experienced a turbulent February as optimism around trade progress was quickly overshadowed by geopolitical tensions and technological disruption.

The month began on a constructive note. The signing of the India–U.S. trade agreement, coming soon after the landmark India–EU Free Trade Agreement, reinforced India's growing strategic role in global supply chains. These developments initially improved investor sentiment and strengthened expectations around export-led growth and manufacturing expansion.

However, global policy uncertainty soon resurfaced. The U.S. Supreme Court's ruling on the legality of Trump-era tariffs created fresh ambiguity around global trade frameworks leading to the U.S. president announcing a new 10% tariff which is expected to increase to 15% in the immediate future. In response, the European Union temporarily paused negotiations around a U.S.–EU trade agreement, while India also chose to delay further discussions pertaining to the India-US trade agreement. This renewed uncertainty around tariffs and trade relationships weighed on global risk appetite.

At the same time, technology disruption emerged as another key theme for markets. Indian IT stocks faced significant pressure following the launch of advanced artificial intelligence tools by Anthropic which raised concerns about long-term growth potential of Indian IT companies, resulting in a sharp correction in the Nifty IT index.

Geopolitical developments added further volatility. Despite multiple rounds of diplomatic engagement brokered by Oman, tensions between the United States and Iran escalated sharply, culminating in U.S. military strikes on Iranian targets. The development raised concerns about energy market disruptions and broader instability in the Middle East, triggering a global risk-off sentiment and a correction in Indian equities during the latter half of the month.

Bank home the Q3FY26 results were mostly in line with expectations with management commentary pointing towards improving demand visibility into the next few quarters. We expect growth outlook at the aggregate level to improve from here, as earnings of heavy-weight sectors like BFSI, IT, and consumption have almost bottomed out.

The Nifty 50 index is currently trading at ~18.5x FY27E (10Y avg: 20.4x) based on consensus EPS, hence we expect index to deliver returns in line with earnings growth. Our preferred sectors are financials, industrials, power, OMCs, real estate, and auto. We remain underweight on, mid-cap IT, cement, and telecom.

While volatility may persist in the near term, a confluence of signals across valuations, earnings, market breadth, now points to the market being in its final corrective phase. We believe that the current market level presents a compelling entry point and expect the markets to bottom out well before the Middle-East conflict ends.

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 **Thematic NFOs outperform the index in the long run.**

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

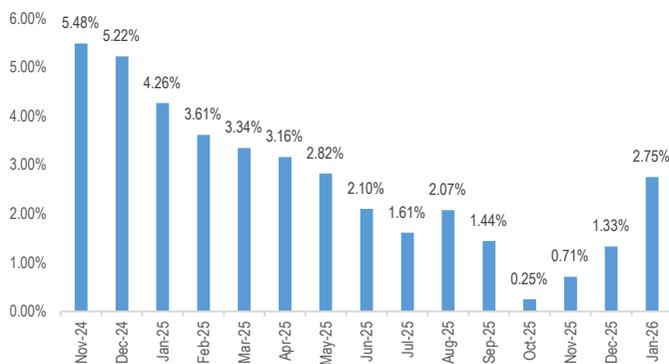
India Holds Firm as Global Growth Signals Remain Mixed

India's macroeconomic indicators remain strong, with GDP growth estimated at 7.6% for FY26, supported by robust manufacturing activity and steady GST collections. Inflation has moderated to 2.75%, remaining within the RBI's target band, though the current account deficit widened to \$13.2 billion due to higher import costs. Globally, growth signals remain mixed as the US and Japan show signs of slowing while China sets a lower growth target. Meanwhile, escalating geopolitical tensions in the Middle East and shifting global trade policies continue to add uncertainty to the global economic outlook.

Domestic Macro Highlights

Inflation: India's annual inflation rate rose to 2.75% YoY in January 2026, returning to the RBI's 2%–6% tolerance band for the first time since August 2025. This was the first reading under the new CPI (Base 2024=100), which reflects updated consumption patterns. Food inflation (CFPI) surged to 2.13% YoY, rebounding from -2.71% YoY in December 2025 (under the old series). Notably, personal care and social protection hit 19.02% YoY, while health and clothing/footwear stood at 2.19% YoY and 2.98% YoY, respectively. On a monthly basis, the new index rose by 0.35% MoM.

India CPI Inflation



Source: MoSPI

India's GDP Growth and Measurement Framework Overhaul: On February 27, 2026, the National Statistical Office (NSO) released India's revised GDP estimates, shifting the base year from 2011–12 to 2022–23 to more accurately reflect the post-pandemic economic structure. Real GDP growth for FY 2025–26 is estimated at 7.6% YoY, an acceleration from the 7.1% YoY recorded in FY 2024–25, while nominal GDP is projected to grow by 8.6% YoY. Quarterly performance also showed a steady climb, with Q3 FY 2025–26 growth reaching 7.8% YoY (against 7.4% YoY in Q3 FY 2024–25 and 7.1% YoY in Q3 FY 2023–24).

Manufacturing Hits High as Services Soften: The HSBC India Manufacturing PMI rose to 56.9 in February 2026 from 55.4 in January, reaching a four-month high despite growth in new export orders slowing to the weakest in 17 months. Conversely, the HSBC India Services PMI edged down to 58.4 in February from 58.5 in January, though international sales grew at the fastest pace since August 2025. While 16% of manufacturing firms anticipate annual growth, services firms faced input costs rising at the steepest rate in two-and-a-half years. Both sectors reported increased hiring to manage workloads and rising backlogs, with manufacturing backlogs hitting a seven-month high.

GST Collections: India's gross GST collections rose 8.1% YoY to ₹1.83 lakh crore in February 2026, down from ₹1.93 lakh crore in January, with total FY26 collections reaching ₹20.27 lakh crore (+8.3% YoY). Gross Import Revenue surged 17.2% to ₹47,837 crore, while Gross Domestic Revenue grew 5.3% to ₹1.36 lakh crore. Total refunds increased 10.2% YoY to ₹22,595 crore, resulting in a net GST revenue of ₹1.61 lakh crore. Notably, net cess revenue plummeted to ₹5,063 crore from ₹13,481 crore in February 2025, marking a sharp decline as industrial states like Maharashtra (₹10,286 crore) led contributions.

India's GST Collections decreased from Rs. 1.93 lakh crore in January-26 to Rs. 1.83 lakh crore in February-26.



Source: gst.gov.in

India's Current Account Deficit Widens to \$13.2 Billion: India's current account deficit widened to \$13.2 billion in the December 2025 quarter (Q3 FY26), up from the \$11.3 billion gap recorded in the corresponding period of the previous year. This was primarily driven by the goods account deficit, which expanded to \$93.6 billion from \$79.3 billion last year, as refiners switched from cheap Russian oil to more expensive alternatives. Offsetting this, the services surplus rose to \$57.5 billion, compared to \$51.2 billion in the same quarter of the previous year.

Global Macro Highlights

Trade & Tariff Implications

Trump Signals Fresh Country-Specific Tariffs: During a press conference with German Chancellor Friedrich Merz on March 3, 2026, President Trump announced the US could maintain global tariffs at 15% for up to five months. This follows his recent invocation of a separate statute to impose a 10% duty after the Supreme Court invalidated his broader global tariffs. The administration is also seeking a 90-day delay in refund litigation-following a 32-day formal judgment window - after the court's ruling potentially triggered up to \$175 billion in refunds. Trump argued these measures are necessary to counter countries that "move their money like a yo-yo," signaling that new, specific tariffs on various nations are currently in development.

Middle East Conflict Triggers Maritime Rerouting: Major shipping giants like Maersk, MSC, and Hapag-Lloyd have suspended operations through the Strait of Hormuz and Bab el-Mandeb Strait following U.S. and Israel strikes on Iran. The Strait of Hormuz is a critical chokepoint that averaged 20.9 million barrels of oil per day in 2023, accounting for 20% of global petroleum consumption, while the Bab el-Mandeb handled 12% of seaborne oil and 8% of LNG trade in H1 2023. The Strait of Hormuz coming to a standstill caused a tidal wave of disruption for global logistics operations, forcing shippers to re-route vessels and suspend bookings, with limited access to the strait also causing spikes in oil and gas prices.

Global Growth Projections

China Sets Record-Low 2026 Growth Target: China announced a GDP growth target of 4.5% to 5% for 2026 on March 5, its lowest on record (excluding the 2020 pandemic year), down from the "around 5%" target set for the previous three years. Beijing maintained its budget deficit target at around 4% of GDP (matching the 2024 record high) and set a consumer inflation goal of around 2%, the lowest in over two decades, following flat price growth (0% YoY) in 2025. The government also plans to issue 1.3 trillion yuan in special treasury bonds and 4.4 trillion yuan in local government bonds, both unchanged from last year. Additionally, China aims for an urban unemployment rate of 5.5% (against 5.2% in 2025) while navigating fixed-asset investment declines of 3.8% YoY and a 17.2% YoY plunge in real estate investment recorded last year.

Geopolitical Landscape

US-Israel War on Iran: Global Escalation: The Middle East conflict has exploded into a multi-front regional war following the February 28, 2026, assassination of Iranian Supreme Leader Ayatollah Ali Khamenei in a joint US-Israeli "decapitation strike" dubbed Operation Epic Fury. The US military has struck nearly 2,000 targets across Iran, while Tehran has retaliated with massive missile and drone barrages hitting US bases and civilian infrastructure in the UAE, Qatar, Kuwait, and Bahrain. Key developments include the effective closure of the Strait of Hormuz, where Iran has threatened to "burn any ship" to drive oil prices toward \$200, and the expansion of the war into Lebanon, where Israel is conducting heavy airstrikes against Hezbollah.

Japan's Q4 GDP Misses Expectations: Japan's economy grew at a much slower rate than expected in the fourth quarter of 2025, as business spending came in well below consensus, while exports faltered amid U.S. tariffs and a diplomatic row with China. Gross domestic product grew 0.2% year-on-year in the three months to December 31, government data showed on Monday. The print was well below expectations of 1.6% and improved only marginally after a 2.3% contraction in the third quarter, the economy's biggest decline in two years.

Russia-Ukraine War: Momentum Shifts Amid Global Turmoil: On the third anniversary of the Ukraine invasion, leaders renewed diplomatic engagement and sanctions enforcement, although no formal ceasefire has emerged. The Russia-Ukraine war continues to be a brutal conflict of attrition, now heavily influenced by the escalating US-Israel-Iran war. Ukrainian forces have regained the strategic initiative, liberating 9 eastern settlements in early March and regaining more territory in February than Russia captured. However, the Kremlin remains committed to a long-term war, with internal reports suggesting a timeline extending to at least September 2026.

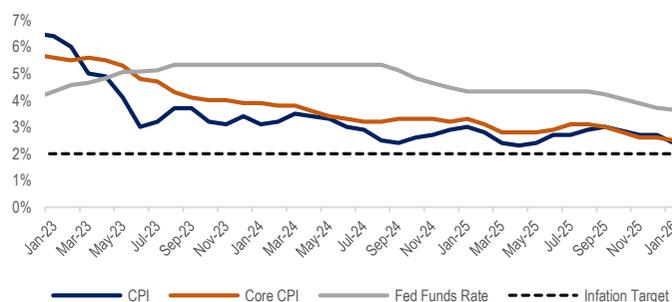
Monetary Strategies & Inflationary Pressures

Japan's Core Inflation Hits Two-Year Low: Japan's annual core CPI (excluding fresh food) slowed to 2.0% YoY in January 2026, matching market forecasts and dropping from the 2.4% YoY recorded in December 2025. The broader headline inflation fell even further to 1.5% YoY (against 2.1% YoY in December), marking its first dip below the Bank of Japan's (BOJ) 2% target in nearly four years. While the "core-core" index (excluding food and fuel) remained elevated at 2.6% YoY, it decelerated from 2.9% YoY in the prior month. Services inflation remained steady at 1.4% YoY, though private services price growth softened slightly to 1.9% YoY from 2% YoY.

Euro Zone Inflation Surges Amid War: Euro zone headline inflation jumped to 1.9% YoY in February 2026, up from 1.7% YoY in January and exceeding market expectations. Underlying core inflation, which excludes volatile food and fuel, rose to 2.4% YoY from 2.2% YoY in the previous month, driven by accelerating services costs. Analysts warn that a 10% rise in Brent crude prices could lift headline inflation by 0.11 percentage points within three months, potentially pushing rates into the mid-2% range if the Middle East conflict persists. While the ECB deposit rate remains at 2%, markets now see a 50% chance of a rate hike by year-end due to these returning upside risks.

US Inflation & Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Trading Economics, Federal Reserve

US GDP Growth Misses Q4 Estimates: US economic growth cooled more than expected in the final quarter of 2025, with GDP expanding at an annualized rate of 1.4% YoY in Q4. This marked a significant deceleration from the 4.4% YoY growth recorded in Q3 2025. For the full year, the US economy grew 2.2% YoY, down from the 2.8% YoY expansion seen in 2024. President Trump attributed the slowdown to the government shutdown that lasted from October to mid-November, claiming it cost the country two percentage points in GDP growth.

Equity Market

Trade Breakthroughs and Global Shifts Shape Equity Outlook



Indian equities saw significant volatility during February 2026, ending the month largely flat despite a constructive start driven by progress on the India–EU and India–U.S. trade agreements. Sentiment weakened as Indian IT stocks corrected sharply following the launch of advanced AI tools by Anthropic. Global uncertainty also increased after developments around U.S. tariffs and rising geopolitical tensions in the Middle East. Despite these headwinds, corporate earnings remained broadly in line with expectations, supporting the broader market outlook.

Equity Outlook

“Indian equities witnessed significant volatility in February 2026, ending the month largely flat with the Nifty 50 declining 0.6% MoM, while the Nifty Midcap 100 and Smallcap 100 rose 1.2% and 0.3% respectively. Early optimism from the India–EU FTA and India–U.S. trade agreement faded as Indian IT stocks corrected sharply following the launch of advanced AI tools by Anthropic, with the Nifty IT index falling 19.5% for the month. Global uncertainty also increased after the U.S. Supreme Court ruling on Trump tariffs created ambiguity around trade frameworks. Escalating U.S.–Iran tensions and military strikes on Iranian targets further triggered a global risk-off sentiment.”

Indian equities ended February 2026 on a largely flat note, with the Nifty 50 declining by 0.6% MoM. The Nifty Midcap 100 and Smallcap 100 outperformed the Nifty and were up by 1.2% and 0.3% respectively for the month. However the headline numbers do not reflect the true picture as we witnessed significant volatility during the month.

The month began on a constructive note after signing of the India–EU Free Trade Agreement on the 27th of Jan followed by the India–U.S. trade agreement, which reinforced India’s growing strategic role in global supply chains. However, the positive sentiments around the trade deals were short lived as Indian IT stocks sold off sharply, negating the positive impact of the trade deals. The sell off was triggered by the launch of advanced artificial intelligence tools by Anthropic which raised concerns about long-term growth potential of Indian IT companies, resulting in a sharp correction in the Nifty IT index by 19.5% for the month.

The U.S. Supreme Court’s ruling against the legality of Trump tariffs under IEEPA created fresh ambiguity around global trade frameworks leading to the U.S. president announcing new tariffs under section 122 of the trade act of 1974. Geopolitical developments also contributed to market volatility. Despite multiple rounds of diplomatic engagement brokered by Oman, tensions between the United States and Iran escalated sharply, culminating in U.S. military strikes on Iranian targets. The development raised concerns about energy market disruptions and broader instability in the Middle East, triggering a global risk-off sentiment in global equities in the first week of March.

The Q3FY26 results were mostly in line with expectations as year-on-year earnings growth improved on a sequential basis with management commentary pointing towards improving demand visibility into the next few quarters. We expect growth outlook at the aggregate level to improve from here, as earnings of heavy-weight sectors like BFSI, IT, and consumption have almost bottomed out.

The Nifty 50 index is currently trading at ~18.5x FY27E (10Y avg: 20.4x) based on consensus EPS, hence we expect index to deliver returns in line with earnings growth. Our preferred sectors are financials, industrials, power, OMCs, real estate, and auto. We remain underweight on, mid-cap IT, cement, and telecom.

While volatility may persist in the near term, a confluence of signals across valuations, earnings, market breadth, now points to the market being in its final corrective phase. We believe that the current market level presents a compelling entry point and expect the markets to bottom out well before the Middle-East conflict ends.



Debt Market

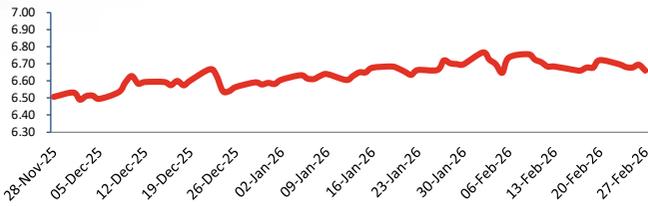
Bond Market Rallies Amid Oil Price Pressures

Domestic bond markets witnessed a sharp rally during the month, supported by improved banking system liquidity, increase in oil prices and softer global bond yields. The central bank maintained its policy stance, while liquidity conditions in the banking system remained comfortable. During the period, authorities also introduced updated GDP and CPI series, reflecting revisions in macroeconomic measurement and statistical methodology. At the same time, crude oil prices moved higher amid escalating geopolitical tensions, influencing inflation expectations and broader macroeconomic conditions.

Fixed Income Outlook

India's 10-year G-sec yield eased by about 4 bps in February 2026, ending the month at 6.66% versus 6.70% in January. The modest decline in yields was driven primarily by an improvement in banking system liquidity, which helped absorb the elevated government bond supply. Additionally, a softening in US Treasury yields provided further support to domestic bonds, contributing to the slight easing in the benchmark yield over the month.

India's 10-Year G-Sec Yield fell in February 2026
Indian 10 Year G-Sec Movement (For last 3 months)



Source: CCIL

Brent crude oil has spiked above USD 100 per barrel, triggered by escalating geopolitical tensions in West Asia that threaten key supply routes like the Strait of Hormuz. This sharp rally has led to increase in bond yields, as investors reprice the heightened risks of imported inflation and broader macroeconomic pressures. Sustained crude prices near these elevated levels would likely prolong upward pressure on yields. For oil-importing economies like India, this implies faster pass-through to domestic CPI via higher fuel and input costs, alongside a widening current account deficit from ballooning import bills. Additionally, it narrows the RBI's room for easy monetary policy, as policymakers balance inflation control against growth concerns in a volatile global backdrop.

In line with our expectations, the RBI's MPC unanimously kept the policy repo rate unchanged at 5.25% and retained its neutral stance in its February meeting. The RBI's decision was guided by an upward revision in both GDP growth and CPI inflation projections for H1FY27. We believe the current level marks the trough of the rate-cutting cycle and do not anticipate any further reductions in the policy rate during FY27. With liquidity conditions having improved, we also do not expect additional liquidity-support measures from the RBI in Q4 FY26. That said, we still see room for durable liquidity infusions in FY27 to support the monetary policy transmission.

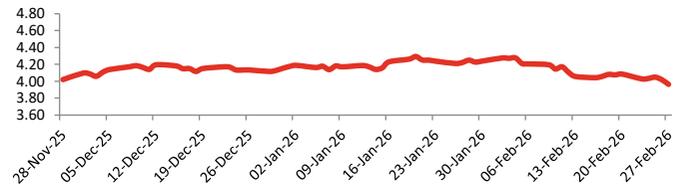
With the introduction of the new GDP series using 2022-23 as the base year, the nominal GDP estimate for FY26 has been revised down to Rs 345 lakh crore from the earlier estimate of Rs 357 lakh crore. Because of this lower GDP number, the fiscal deficit as a percentage of GDP has increased slightly for the Central Government.

Under the new series, the fiscal deficit to GDP ratio is now 4.5% for FY26 (compared to the earlier revised estimate of 4.4%) and 4.5% for FY27 (compared to the budget estimate of 4.3%). This means the government would need to reduce the fiscal deficit by around Rs 50,000 crore in FY27 to meet the 4.3% budgeted target.

We believe this deviation is small. Given the government's conservative assumptions for nominal GDP growth (10% for FY27) and tax revenue growth, we do not see any immediate risk of fiscal slippage.

The US 10-year Treasury yield eased from 4.24% in January 2026 to 3.96% by end-February, a decline of roughly 28 bps. This move was largely driven by a slightly softer inflation print, which reinforced confidence in the ongoing disinflation trend and lowered term premia. Expectations that the Fed's easing cycle will keep real policy rates lower for longer, along with intermittent safe-haven demand amid macro and policy uncertainties, further supported the rally in longer-dated Treasuries.

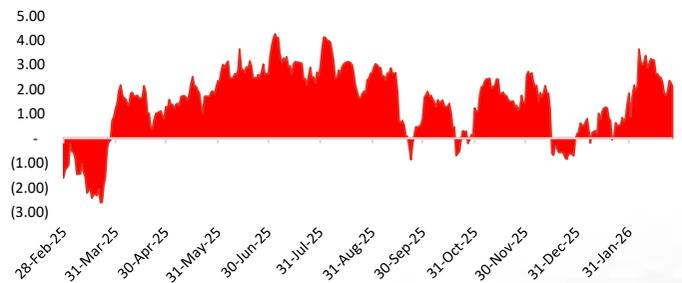
US Yields eased to 3.96% in February 2026
US 10 Year G-Sec Movement (For Last 3 Months)



Source: Investing.com

India's average banking system liquidity surplus improved to around Rs. 2.53 lakh cr in February 2026, from about Rs. 66,000 cr in January. The improvement in liquidity conditions was driven by the RBI's durable liquidity operations, renewed FPI inflows, reduced rupee depreciation pressures that lowered the need for FX intervention by RBI, and higher government spending. However, short-term yields remained firm despite easier liquidity, as a heavier supply of money-market and other short-term securities, combined with strong credit growth and an elevated credit-to-deposit ratio, continued to keep funding costs elevated.

Banking system liquidity improved in February 2026
India's banking system liquidity (Rs Lakh cr)



Source: RBI

Fixed Income Outlook

The new CPI series for India has been released, with January 2026 CPI inflation at 2.75% YoY, compared with 1.2% in December 2025. On a MoM basis, headline CPI rose by 0.3%, broadly in line with expectations and without any major negative surprises, further confirming the moderating inflation trend witnessed over the past 12 months. We expect CPI inflation to gradually edge up over the coming months, driven by a lower base effect and a pickup in momentum in both food and core inflation.

India's CPI Inflation edged higher in January 2026 Driven by new CPI series

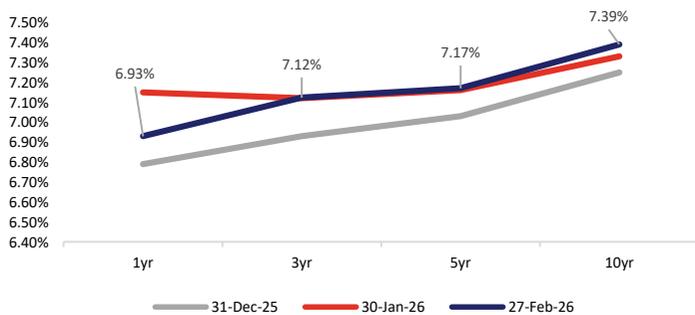


Source: MoSPI

US headline CPI for January 2026 came in slightly below consensus, at around 2.4% YoY, down from 2.7-3.0% readings since June 2025 and reflecting a continued disinflation trend. The inflation print reinforced the view that inflation is moderating toward the Fed's target band, easing concerns about a re acceleration, and supporting expectations of a prolonged period of accommodative monetary policy by US Fed.

We believe, currently spreads in 3-5yr AAA PSU and NBFC corporate bond segment over corresponding G-secs are healthy in the range of 90-140 bps, offering an attractive opportunity from an accrual perspective.

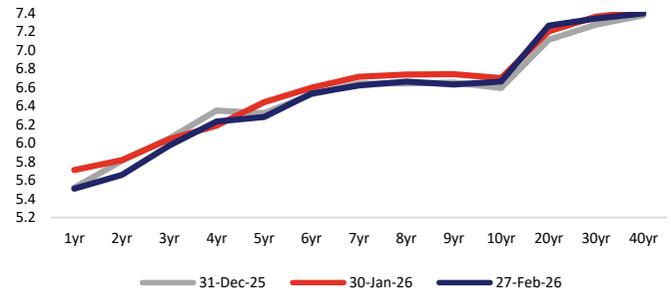
AAA PSU Corporate Bond Yield Curve



Source: Bloomberg

The G-sec yield curve continues to remain steep, with a term spread of about 190 bps between the 1-year and 40-year G-sec, and 115 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



Source: Bloomberg

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

Unpacking India's Latest Investment Craze



Deep Dive

Do Thematic NFOs outperform the index?

By analysing post-2020 thematic fund launches, this study examines whether the recent surge in thematic mutual funds has translated into consistent outperformance versus broad-based indices, or whether returns have largely been driven by short-term market trends.

Executive Summary

We had earlier published this study titled “Do Thematic NFOs Outperform the Index” in March 2021. In that report, we analysed 62 schemes launched over a 22-year period from 1998 to 2020. Our observations showed that only 44% of the funds outperformed their respective benchmark indices one year after launch, and just 37% of the funds managed to outperform their benchmarks over a three-year period.

We also noted that several thematic funds were launched following strong performance of their respective themes in the period immediately preceding the NFO. However, the outcomes were evenly mixed. Out of 42 such schemes, the respective benchmark indices outperformed 23 schemes.

We finally concluded that funds launched when their underlying themes had outperformed the Sensex prior to the NFO tended to underperform the Sensex post launch, while funds whose underlying themes had underperformed the Sensex before launch generally went on to perform broadly in line with the Sensex.

Post-2020: our Analysis

In this Deep Dive report, we attempt to highlight the recent trends observed in thematic funds, focusing on developments post 2020. For this purpose, we considered all schemes launched from 2020 up to January 2026 as our sample set.

We also seek to understand why thematic funds have emerged as a preferred choice among Retail and HNI investors, and how their performance compares with diversified, broad-based funds. While thematic strategies are available across multiple investment vehicles such as mutual funds, PMSs, and AIFs, our analysis is restricted to thematic mutual funds, as comprehensive and consistent data is most readily available for this category.

Through this report, we have attempted to answer the following questions:

- **Question 1:** Were the thematic themes launched only because they did great in the immediate period before the launch?
- **Question 2:** Returns performance of the thematic funds vs. the diversified index?
- **Question 3:** What did the past relative performance of the underlying themes (vs. NIFTY) prior to their launch mean for the relative performance of these funds after the launch in the future?

Performance of Sectoral Indices

Thematic funds are among the riskier categories of mutual funds and are therefore suitable only for investors with an aggressive risk profile, given their higher volatility compared to traditional diversified funds. Typically, thematic funds are best positioned as tactical allocations and should act as satellites to an investor's core portfolio.

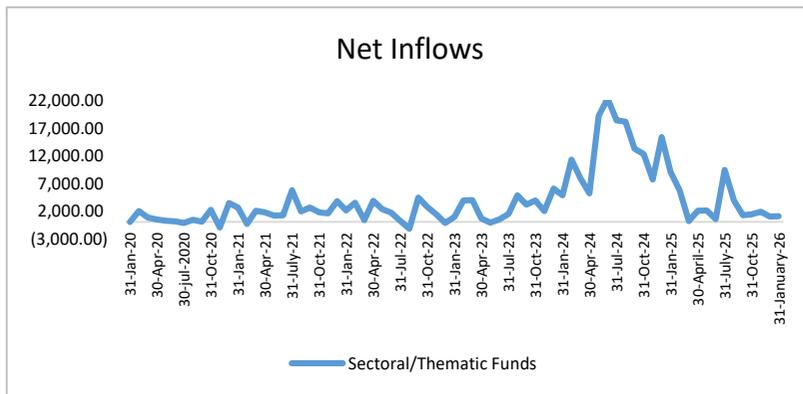
One key takeaway from the table is that leadership among themes changes over time; there is no single theme that consistently outperforms every year. Market leadership keeps rotating. For example, BSE Industries and BSE Capital Goods delivered strong outperformance relative to the BSE 500 during the 2020–2024 period. However, this trend has reversed in 2025, with both themes now underperforming the index (-1% versus a 6% gain for the BSE 500).

Date	2020	2021	2022	2023	2024	2025
BSE 500	17%	30%	3%	25%	15%	6%
BSE AUTO Index	13%	19%	17%	46%	22%	21%
BSE Basic Material	26%	62%	1%	18%	8%	13%
BSE Capital Goods	11%	53%	16%	67%	22%	-1%
BSE Consumer Discretionary Goods & Services	20%	30%	-1%	39%	24%	0%
BSE Consumer Durables	22%	47%	-11%	26%	29%	-7%
BSE Energy	17%	24%	18%	14%	9%	12%
BSE Fast Moving Consumer Goods	11%	9%	17%	27%	1%	-2%
BSE Financial Services	1%	14%	11%	17%	9%	16%
BSE Health Care	61%	21%	-12%	37%	44%	-3%
BSE Industrials	18%	67%	20%	69%	28%	-1%
BSE Information Technology	57%	56%	-24%	26%	20%	-15%
BSE PSU	-17%	41%	23%	55%	21%	9%

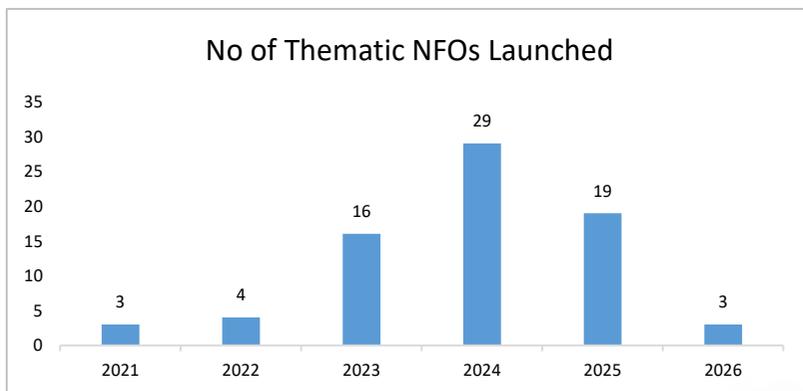
Source: ACE MF

Note: i) Calendar year returns provided above; ii) Cell colours signify the highest to lowest returns in that period (green to red).

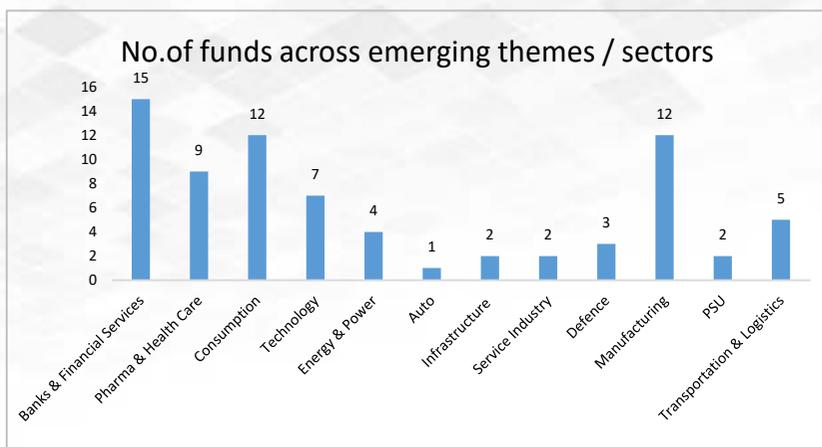
Thematic Mutual Funds: Brief overview, latest trends and key charts:



Source: AMFI Industry Report



Source: ACE MF.



Source: ACE MF.

As seen from the above charts, it is evident that inflows into thematic mutual funds began to pick up meaningfully from 2023, coinciding with a sharp increase in the number of schemes launched. 2024 emerged as the peak year, witnessing both the highest inflows and the maximum number of thematic NFO launches. This momentum moderated in 2025, with a decline in inflows as well as fewer scheme launches.

In terms of theme-wise distribution, Banking & Financial Services, Consumption, Manufacturing, and Pharma & Healthcare have been among the most dominant themes, accounting for a significant share of thematic fund launches during this period.

Q1) Were the thematic themes launched only because they did great in the immediate period before the launch?

Before the launch of each thematic fund, we compared the performance of the respective theme index over the preceding 12 months with that of a diversified benchmark. For instance, for an IT-themed NFO, we analysed the relative performance of the BSE IT index over the previous year against the BSE 500.

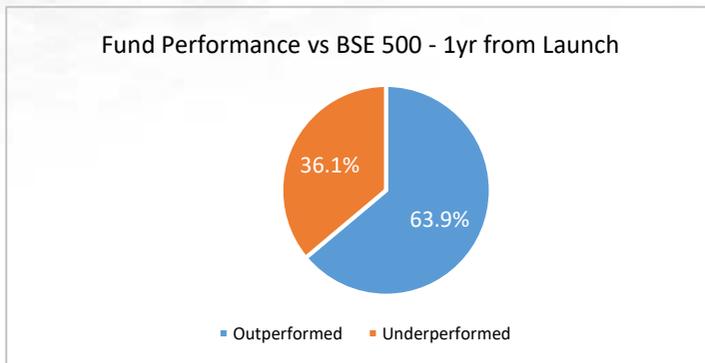
We have excluded the following from our analysis – i) very old funds or those schemes for which the underlying benchmark data was not available, ii) the international equity funds and iii) funds whose underlying benchmark is similar to the as diversified broad-based index, for e.g.; BSE 500 TRI, NIFTY 200 TRI, NIFTY 50 TRI etc.

Based on this screening approach, data was available for 73 thematic funds launched since 2020 with clearly defined benchmark indices. Among these, the benchmark indices of 24 funds had outperformed the BSE 500 TRI on a one-year return basis prior to launch, while the remaining benchmarks had underperformed the broader index.

While some thematic indices showed recent outperformance before NFO launches, this may not be a reliable indicator, as most funds were launched when the underlying themes were not at their peak. Consequently, the analysis suggests that thematic NFO launches are driven more by fund houses' conviction in the long-term growth potential of specific sectors rather than an attempt to capitalize on short-term sectoral outperformance to attract higher AUMs.

Question 2: Returns performance of the thematic funds vs. the diversified index?

For this analysis, out of a total of 73 schemes, we evaluated the one year return performance of 61 thematic funds, as sufficient data was available from their respective launch dates. These returns were compared against the BSE 500 benchmark to assess relative performance.

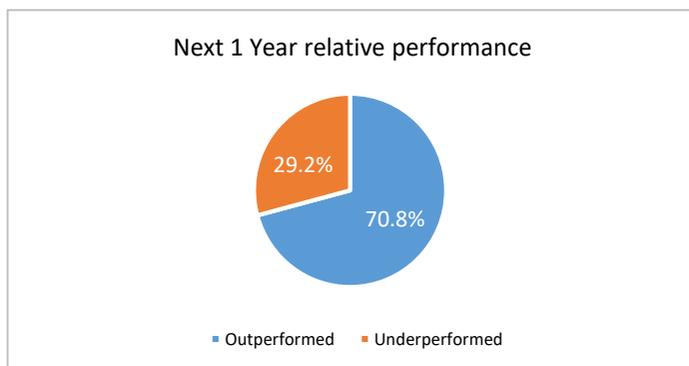


Source: ACE MF.

In the first year from launch, many thematic funds delivered stronger performance relative to the BSE 500, with 63.9% of the schemes outperforming the benchmark. However, 36.1% of the funds underperformed the index, indicating that while early performance has been favourable for many funds, outcomes have not been uniform across all thematic launches.

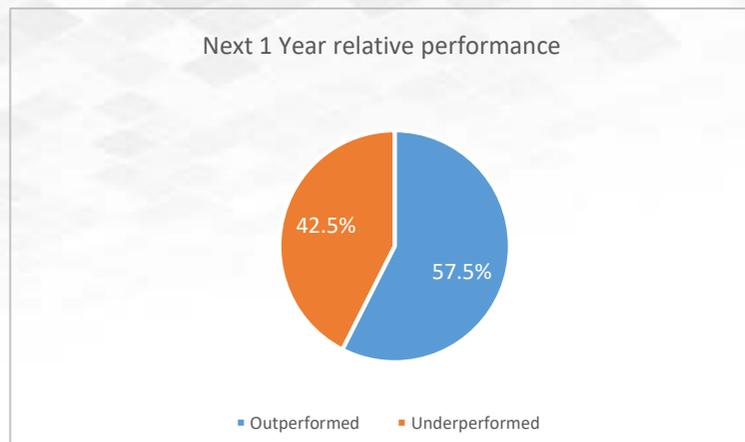
Question 3: What did the past relative performance of the underlying themes (vs. NIFTY) prior to their launch mean for the relative performance of these funds after the launch in the future?

For this study, out of the total of 73 schemes, there were 24 funds whose underlying indices had outperformed the NIFTY 500 during the 12 months preceding the NFO. For the one-year performance analysis, all 24 schemes were considered.



Source: ACE MF.

Similarly, we took 39 schemes whose indices underperformed BSE 500 prior to their launch.



Source: ACE MF.

As reflected in the charts above, schemes whose underlying indices had outperformed prior to their launch largely continued to outperform post launch, with around 71% of such schemes beating the index, though not all were able to do so.

Interestingly, even among schemes whose underlying indices had underperformed the BSE 500 before launch, 57.5% of the schemes went on to outperform the index after launch, despite the weaker pre-launch performance of their respective indices.

Conclusions:

- Thematic fund launches post-2020 are not purely driven by recent theme outperformance, suggesting launches are based on longer-term sectoral conviction rather than short-term AUM gathering.
- A majority of thematic funds have outperformed the benchmark in the first-year post launch, but outcomes remain mixed, highlighting the limitations of relying on short-term performance.
- Pre-launch performance of the underlying theme is not a reliable predictor of post-launch fund performance, as funds linked to both outperforming and underperforming themes have shown the ability to beat the benchmark.

Reading Room



The 2028 Global Intelligence Crisis

- **AI Productivity Surges, Human Wages Collapse:** As AI rapidly replaces white-collar roles, productivity soars but income for knowledge workers shrinks. Consumer demand weakens as high earners lose jobs or accept far lower-paying work.
- **The Automation Feedback Loop Intensifies:** Companies fire workers, save costs, and reinvest those savings into even more AI. This accelerates displacement, shrinking the spending base and pushing firms into further rounds of automation.
- **Intermediary Industries Disintegrate:** AI agents remove friction from commerce, destroying business models dependent on human behavior - SaaS, customer service, travel, insurance, delivery platforms, and payments all see revenues collapse.
- **Financial System Strains:** Private Credit & Mortgages: AI-driven job loss undermines the income assumptions behind trillions in software LBO debt and prime mortgages. Defaults rise, private credit marks deteriorate, and housing markets in tech hubs weaken.
- **Government Revenue Falls as Social Stress Rises:** Tax receipts drop sharply as labor income erodes. Meanwhile, demands for transfers grow, exposing that the fiscal system was built on the assumption of stable human employment.
- **The "Intelligence Premium" Unwinds:** Human intelligence, once the scarce and valuable input, becomes abundant due to AI. The economy begins a painful repricing, and survival depends on developing new frameworks faster than AI progresses.

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Can AI Replace Humans for Market Research?

- **AI "Digital Twins" Replace Traditional Market Research:** Simile creates AI agents modeled on real people to simulate human behavior. Companies can query these agents instead of running slow, expensive human surveys.
- **Digital Twins Built Using Real Human Data:** Simile interviews actual people and integrates their behavioral + purchase data. These AI clones replicate opinions, preferences, and likely reactions with high realism.
- **Large Enterprises Already Adopting the Tech:** CVS and Gallup are early users - using thousands of AI twins to test messaging, simulate customer behavior, and explore hard-to-reach populations. CVS reports up to 95% accuracy vs real surveys.
- **Faster, Cheaper, Always-On Insights for Companies:** Instead of waiting months for research panels, firms can instantly ask unlimited questions to AI agents. Costs range from \$150K to millions per year but replace traditional research spend.
- **Use Cases Stretch Beyond Retail to Healthcare & Policy:** CVS uses twins for medication-adherence studies and pet-care messaging.
- **Next Step: Multi-Agent Social Simulations:** Simile aims to simulate interactions between digital twins- enabling predictive modeling of real-world group behavior before it happens
- **Human Validation Still Necessary:** Experts warn AI won't fully replace traditional panels yet. CVS backtests results against real people to avoid hallucinations and ensure reliability.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400

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Registered Address: I Think Techno Campus, Building, B, Alpha, Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai - 400 042.

Tel: +91-22-30753400 Fax: +91-22-30753435 www.hdfcsec.com.

Member of NSE, BSE, MSEI, MCX | Reg No.: INZ000186937 | Member: CDSL | Reg No.: IN-DP-372-2018 | Research Analyst: INH000002475 |

Investment Adviser: INA000011538 | PFRDA: POP-11092018 | AMFI: ARN13549 | Corporate Identity Number (CIN) - U67120MH2000PLC152193

Compliance Officer: Mr. Murlu V Karkera. Ph: 022-3045 3600, Email: complianceofficer@hdfcsec.com.

For any complaints / grievance: services@hdfcsec.com