
TRU

INSIGHTS

April 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



“The escalating US-Iran conflict triggered severe global market volatility, shutting down the Strait of Hormuz and pushing Brent crude oil prices significantly higher in the month of February. Indian equities witnessed corrections due to inflation and trade deficit concerns. Despite this near-term turbulence, historical precedents indicate that geopolitical shocks rarely derail long-term equity returns unless accompanied by deep macroeconomic imbalances, a vulnerability India currently avoids. With valuations at an attractive historical discount, this near-term volatility presents a compelling entry point for disciplined investors.”

Dear Investors,

Global markets witnessed extreme volatility in March driven by significant escalation in geopolitical tensions in the middle east as the US and Israel launched a military strike against Iran which effectively led to shut down of the strait of Hormuz which accounts for ~20% of global crude oil movement. This led to sharp jump in global energy prices with Brent crude trading consistently above the USD 100/bbl mark which had a negative impact on risk assets globally.

While global market corrected on back of the US Iran War, Indian equities was hit especially hard due to fears over crude supply routes and broader risk aversion. For India, which imports a large share of its crude and gas from this region, concerns about inflation, the current account deficit, and growth are entirely understandable.

While high energy prices have raised the risk of imported inflation and a wider current account deficit for India, increased caution by central banks globally have impacted capital flows adversely. This has kept Foreign Institutional Investors (FIIs) on the sidelines, even as domestic institutions continue to provide crucial support.

The Nifty, Midcap and Small cap indices fell by over 10% each in Mar-26, the pain in the broader markets and especially high beta sectors like were far deeper than the headline index suggests. In such an environment, thoughtful asset allocation and strict valuation discipline matter more than trying to time daily index movements.

During past geopolitical events, such as the Cuban Missile Crisis, 9/11, and the Russia Ukraine war, markets experienced similar volatility and drawdowns. Yet, as uncertainty eased and worst case scenarios were priced out, indices typically recovered within weeks to months. After the invasion of Ukraine in 2022, for example, the S&P 500 regained its initial losses within about a month, even as crude prices remained elevate.

The key takeaway is that geopolitical shocks alone rarely derail long term equity returns. Lasting damage usually happens only when these shocks coincide with deep macroeconomic imbalances which is not the case for India today. Provided crude does not stay well above USD100/bbl for an extended period, the macro impact, while uncomfortable, is manageable. While volatility may persist in the near term, like it has been during periods of other geopolitical crisis, markets typically recovered within weeks to months as uncertainty eased and worst case scenarios were priced out.

Post the correction the Nifty is trading at ~17.6x 12M forward P/E which is at a discount of ~9% to its 10-year median. While Nifty50 P/E is below its LPA, earnings growth estimates for FY26 and FY27 are estimated at 11–14% as compared to low single digit earnings growth witnessed in growth witnessed in FY25 and FY26. 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 explore these key domestic and global shifts, examine the evolving opportunities in fixed income, and take a deep dive into “Quality Factors in Indian Markets”.

We thank you for your continued trust, and hope Tru Insights remains your reliable companion on the investment journey.

Warm Regards,
Dhiraj Relli
MD and CEO – HDFC Securities



Macro Economic Highlights

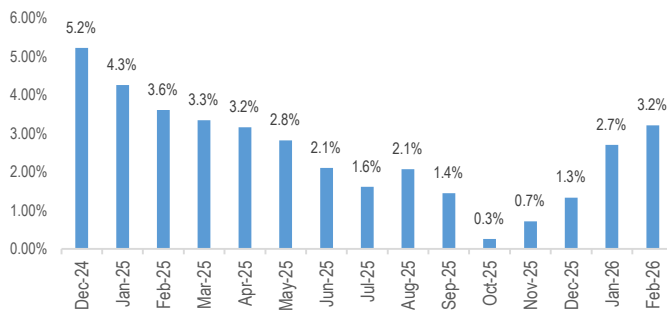
Global Volatility Rises While India Remains Resilient Amid Emerging Pressures

World economic conditions have become increasingly uncertain, with Middle East tensions driving sharp increases in energy prices and disrupting supply chains, while growth in major economies like the US and Japan shows signs of moderation and central banks maintain a cautious stance on interest rates. In contrast, India continues to demonstrate resilience with stable inflation near 3% and strong GST collections, though rising crude prices, rupee depreciation, and softening PMI trends indicate emerging pressures on growth.

Domestic Macro Highlights

Inflation: India's annual retail inflation (CPI) rose to 3.21% YoY in February 2026, up from 2.74% YoY in January, with rural and urban rates at 3.37% YoY and 3.02% YoY, respectively. Food inflation (CFPI) climbed to 3.47% YoY from 2.13% YoY in the previous month, while housing inflation stood at 2.12% YoY. High-impact items included Silver Jewellery at 160.84% YoY (against 160.12% in Jan) and Tomato at 45.29% YoY (against 64.58% in Jan), while Garlic remained in deflation at -31.09% YoY. On a monthly basis, the combined index edged up to 104.57 points from 104.45 points in January 2026.

India CPI Inflation



Source: MoSPI

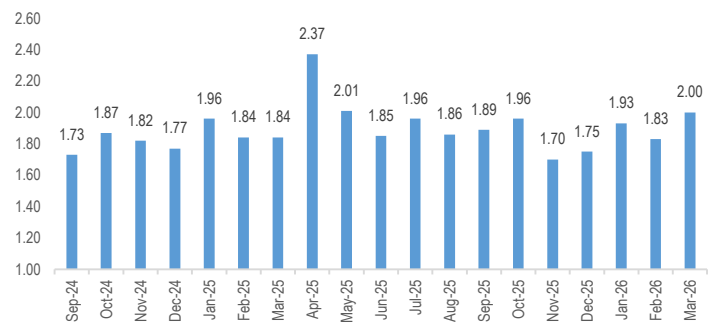
India Flags Downside Risks to FY27 Growth: India has warned that its 7.0%–7.4% GDP growth forecast for FY 2026–27 faces "considerable downside" risk due to energy price spikes and supply-chain disruptions from the Iran war according to the government's monthly economic report. The Chief Economic Adviser noted that the trade deficit and current account deficit will widen significantly, as India relies on the Strait of Hormuz for 50% of its crude and most of its LPG imports. While the government cut central excise duties on petrol and diesel by ₹10 per liter to shield consumers, the Indian crude basket has surged from below \$80 to nearly \$140 per barrel. Private-sector activity already hit its weakest level since October 2022 in March, with cost inflation reaching a four-year high.

India's PMI Hits Multi-Year Lows: The HSBC India Manufacturing PMI dropped to 53.9 in March 2026 from 56.9 in February, marking its weakest expansion since September 2021. Similarly, the Services PMI dropped to 57.2 in March from 58.1 in February, the softest growth since January 2025, as Middle East tensions disrupted international travel and domestic demand. While manufacturing input costs jumped at a 45-month high, services employment expanded at its fastest rate since August 2025 to support rising backlogs. Despite these headwinds, both sectors saw record-breaking surges in export orders, though overall business activity was weighed down by the sharpest inflationary pressures in nearly four years.

TRU INSIGHTS | April 2026

GST Collections: India's net Goods and Services Tax (GST) collection rose to ₹1.78 lakh crore in March 2026, marking an 8.2% YoY growth compared to March 2025. Gross GST collections for the month crossed the ₹2 lakh crore milestone, an 8.8% YoY increase from ₹1.83 lakh crore in the previous year. For the full financial year 2025-26, gross collections reached ₹22.27 lakh crore (+8.3% YoY), while net revenue grew 7.1% YoY to ₹19.34 lakh crore.

India's Gross GST Collections decreased from Rs. 1.83 lakh crore in February-26 to Rs. 1.78 lakh crore in March-26.



Source: gst.gov.in

India's Forex Reserves Plunge by \$30 Billion in March: India's foreign exchange (forex) reserves fell by \$11.41 billion to \$698.35 billion for the week ended March 20, 2026, marking a total decline of \$30.14 billion over three weeks. The contraction was primarily driven by a \$13.49 billion drop in gold reserves (now at \$117.19 billion), though foreign currency assets rose slightly by \$2.13 billion. The rupee has depreciated by over 4 per cent in March against the dollar. The rupee has depreciated by over 4 % in March against the dollar. In the current financial year (2025-26/FY26), the Indian unit has fallen 9.85%, the worst decline since 2011-12.

India-UK FTA Implementation Set for May: India's Free Trade Agreement (FTA) with the UK is expected to be implemented by early May 2026, while the EU pact is slated for ratification by November 2026. Under the Comprehensive Economic and Trade Agreement (CETA) signed on July 24, 2025, 99% of Indian exports will enter the UK at zero duty. Similarly, the "mother of all deals" with the EU, concluded on January 27, 2026, will grant duty-free access to 93% of Indian shipments. Conversely, trade talks with Israel and the GCC have slowed due to regional conflict, and the US-India pact remains contingent on preferential market access.

Global Macro Highlights

Trade & Tariff Implications

Middle East Conflict Disrupts Global Supply: The escalating Middle East conflict has triggered a severe supply chain shock, with Brent oil rising 25% to \$91 on March 11 from \$73 on February 27, while European gas futures surged 56% to €50/MWh from €32. The Strait of Hormuz, carrying 20% of global petroleum and 20% of LNG, faces disruption alongside commodities like Helium, which rose 35%, and Urea, up 26% following a Qatari facility shutdown. Logistics are severely strained as Maersk reroutes via the Cape of Good Hope, adding 8-15 days to transit, while CMA CGM implemented a \$2,000 emergency surcharge per 20-foot container. These disruptions across energy, transportation, and industrial inputs are driving broader inflationary pressures and risking extended lead-time volatility for global businesses.

\$166 Billion US Tariff Refund Process Begins: Following the Supreme Court ruling that invalidated tariffs imposed under the IEEPA, the US government is preparing to refund approximately \$166 billion to over 330,000 importers. While 26,664 importers (covering \$120 billion in payments) have already registered for electronic refunds, President Trump has warned that the full process could take up to five years. The US Customs and Border Protection (CBP) is currently building a dedicated refund system, reported to be 60% to 85% complete, with a launch target of late April 2026.

Geopolitical Landscape

IEA Strategy to Combat Global Oil Crisis: The International Energy Agency (IEA) has declared the Middle East conflict the largest supply disruption in global oil history, with Strait of Hormuz traffic-usually carrying 20 million barrels per day (20% of global consumption)—reduced to a trickle. In response, IEA members initiated their largest-ever stock draw of 400 million barrels on March 11, 2026, to combat crude prices exceeding \$100 per barrel. To further shield consumers, the IEA's new report outlines 10 immediate demand-side measures, primarily targeting road transport (45% of global demand). These include reducing highway speed limits by 10 km/h, working from home, and diverting LPG from transport to essential cooking needs to stabilize strained diesel, jet fuel, and LPG markets.

Japan's factory growth slows in March as Iran war weighs, PMI shows: Japan's factory activity expanded at a slower pace in March as growth in output, orders and manufacturers' confidence cooled and cost pressures hit a 19-month high due to the Middle East conflict, a private-sector survey showed. The final S&P Global Japan Manufacturing Purchasing Managers' Index (PMI) fell to 51.6 in March from a 45-month high of 53.0 in February, but slightly overshot the flash figure of 51.4. A reading above 50.0 indicates expansion, while below that level signals contraction.

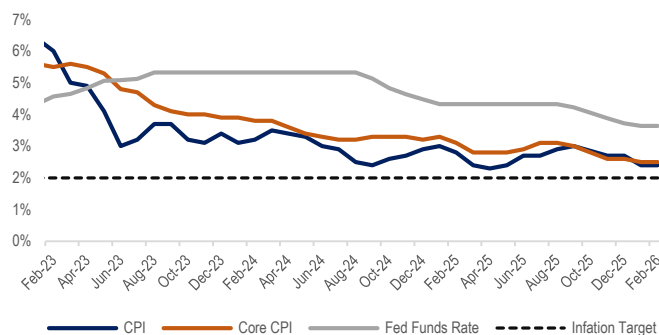
Monetary Strategies & Inflationary Pressures

Federal Reserve Holds Rates Steady Amid Iran War: The Federal Open Market Committee (FOMC) voted 11-1 on March 18, 2026, to keep the benchmark federal funds rate at 3.5%–3.75%, citing "uncertain" economic implications from the three-week-old Iran war. While the Fed signaled one potential rate cut later this year, it raised its 2026 inflation projection to 2.7% (up from previous estimates) and increased its GDP growth forecast to 2.4% for the year. Chair Jerome Powell, facing pressure from President Trump to ease rates and a legal battle over a DOJ subpoena regarding Fed headquarters renovations, stated he has no intention of leaving the board until investigations are complete, even as his term as Chair expires in May 2026.

UK BoE Hold Draws Hawkish Read From Analysts, Hike Risks Move Into View: The Bank of England kept interest rates unchanged at 3.75% at its March meeting, but analysts say the decision came with a surprisingly hawkish tone that has shifted market expectations and raised the possibility of rate hikes rather than cuts in the months ahead. The central bank's Monetary Policy Committee voted unanimously to hold rates steady as it assesses the economic impact of the Middle East conflict and rising energy prices. While the hold was widely expected, the hawkish messaging caught many analysts off guard and triggered a sharp repricing in UK rates markets.

US Inflation and Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Trading Economics, Federal Reserve

US Q4 GDP Revised Down to 0.7% as February Inflation Holds at 2.4%: The US economy faced a significant cooling at the end of 2025, with Q4 GDP growth sharply revised down to a 0.7% annualized rate—well below the initial 1.4% estimate and the 4.4% recorded in Q3. This downward shift, driven by a record 43-day government shutdown and weaker consumer spending (lowered to a 1.9% domestic demand pace from 2.4%), came as the annual inflation rate held steady at 2.4% YoY in February 2026. While inflation remained at its lowest level since May 2025, a 0.5% YoY rebound in energy prices and a 6.2% YoY surge in fuel oil were offset by a 3.2% YoY drop in used vehicle prices. Core inflation also remained unchanged at 2.5% YoY, though a 0.3% MoM rise in the CPI—fueled by a 0.8% monthly jump in gasoline—indicates persistent price pressures as the ongoing US-Israeli war with Iran continues to cloud the 2026 economic outlook.

Equity Market

Global Shocks Trigger Correction; Valuations Re-align Amid Capital Flow Shifts



Indian equities experienced a sharp correction during the month, with benchmark and broader indices declining in double digits, driven by escalating geopolitical tensions and a surge in crude oil prices above \$100/bbl, which weighed on global risk sentiment and impacted India due to its energy dependence. Record FII outflows, coupled with currency depreciation, intensified the decline, although strong domestic institutional inflows provided partial cushioning. The correction has led to a meaningful moderation in valuations below long-term averages, even as earnings growth expectations remain intact, reflecting a market recalibration amid evolving global and macroeconomic conditions .

Equity Outlook

March 2026 marked a phase of intensified market volatility, with the Nifty 50, Midcap 100, and Smallcap 100 correcting 11.3%, 10.9%, and 10.3% respectively, as global developments pertaining to US-Iran took centre stage. The escalation of geopolitical tensions and disruption in energy supply routes drove crude prices above \$100/bbl, altering risk perception and triggering a shift in global capital flows. This was reflected in record FII outflows of over ₹1.2 lakh crore, further amplified by currency depreciation, while domestic institutional participation helped absorb part of the selling pressure.

Indian equities corrected sharply in March 2026, with the Nifty 50 declining by 11.3% MoM. The Nifty Midcap 100 and Smallcap 100 also fell by 10.9% and 10.3% respectively for the month. While the benchmark indices witnessed double digit cuts for the month, the volatility and pain was even more pronounced in the broader markets.

Indian equities continued to sell off throughout the month with no let off as the US Israel combined launched an attack on Iran on the 27th of Feb-26 with Iran retaliating by targeting US assets and infrastructure in neighboring gulf countries and shutting down the strait of Hormuz which accounts for ~20% of global oil flows. This led to sharp jump in global energy prices with Brent crude trading consistently above the USD 100/bbl mark which had a negative impact on risk assets globally.

While global markets corrected due to the US Iran War, Indian equity markets were hit especially hard. For India, which imports a large share of its crude and gas from this region, concerns about inflation, the current account deficit, and growth are entirely understandable.

While high energy prices have raised the risk of imported inflation and a wider current account deficit for India, increased caution by central banks globally have impacted capital flows adversely. Mar-26 witnessed record selling by FIIs at Rs. 1.22 lakh Cr., which eclipsed the previous record outflows of Rs. 1.14 lakh Cr. in Oct-24. The INR corrected sharply increasing the pain for FIIs which also contributed to net selling. DIIs absorbed a fairly significant part of this net selling through net purchases of Rs. 1.43 lakh Cr.

However, during past geopolitical events, markets experienced similar volatility and drawdowns but bottomed out as uncertainty eased and worst case scenarios were priced out. In most cases benchmark indices recovered within weeks to months. Case in point being the Russian invasion of Ukraine in 2022 where the S&P 500 regained its initial losses in about a month, even though crude prices continued to remain elevated for a prolonged period of time.

The key takeaway is that as long as crude does not stay well above USD100/bbl for an extended period, the macro impact, while uncomfortable, is manageable. Though volatility may persist in the near term, like it has been during periods of other geopolitical crisis, markets typically recovered within weeks to months as uncertainty eased and worst case scenarios were priced out.

Post the correction, the Nifty 50 is trading at ~17.6x 12M forward consensus P/E which is at a discount of ~9% to its 10-year median. While Nifty 50 P/E is at a significant discount to its LPA, earnings growth for FY26 and FY27 are expected to accelerate to 11–14% as compared to low single digit earnings growth witnessed in FY25 and FY26.

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. Our preferred sectors are Financials, Industrials, Power, OMCs, Real Estate, and Auto. We remain underweight on, mid-cap IT, Cement, and Telecom.



Debt Market

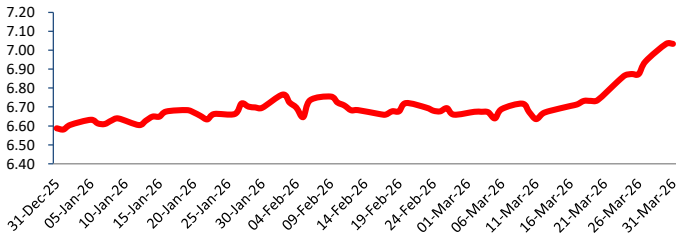
Yield Dynamics Shift Amid Global Risks and Liquidity Tightening

Bond yields moved higher during the month of March, influenced by rising crude prices, geopolitical developments, and global rate movements, with India's 10-year G-sec trending above 7% alongside an uptick in US Treasury yields. Domestically, liquidity conditions tightened due to tax outflows and forex interventions, while currency depreciation and fiscal considerations shaped market sentiment. Inflation remained broadly contained but sticky, keeping central banks cautious and contributing to the upward shift in yields amid a dynamic global environment.

Fixed Income Outlook

India's 10-year G-sec yield rose by 37 bps to 7.03% in March 2026, from 6.66% in February 2026. Despite the geopolitical conflict in West Asia, domestic bond yields remained largely stable during the first half of the month, supported by the RBI's open market operations (OMO) purchases. However, as crude oil prices stayed above the \$100 per barrel mark and global yields continued to rise, bond markets came under pressure. Concerns over fiscal slippage (following the government's excise duty reduction on petrol and diesel) and the risk of imported inflation further weighed on sentiment. Additionally, the sharp depreciation of the rupee to the 95 level against the USD added to market volatility.

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

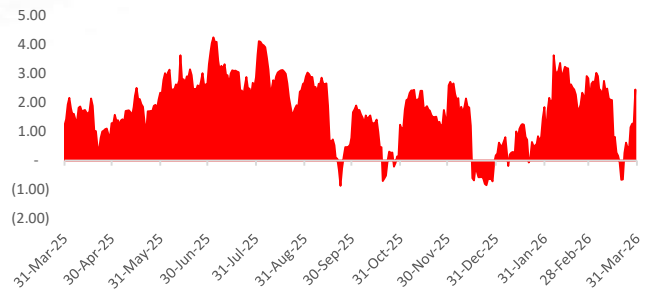


Source: CCIL

The Government of India plans to borrow Rs 8.2 lakh crore in H1 FY27, accounting for 51% of the revised gross borrowing target of Rs 16.1 lakh crore (after Rs 1.1 lakh crore worth of recent G-sec switches). This is lower than both H1 FY26's 54.4% and the last three-year average of 55%. The borrowing mix shows a clear shift towards shorter maturities, with 61% of issuances scheduled in up to the 10-year segment. Within this, the 10-year share has increased to 29% (from 26% in H1 FY26), while long-end issuances (30Y-40Y) have declined to 15% (from 25% in H1 FY26). This tilt toward short- and medium-term securities could contribute to further flattening of the yield curve.

The average banking system liquidity surplus declined to Rs 1.5 lakh crore in March 2026 from Rs 2.5 lakh crore in February 2026. The reduction was driven by advance tax and GST outflows, along with the RBI's forex interventions to contain sharp rupee depreciation. Amid tighter liquidity conditions and elevated supply of corporate bonds and money market instruments, short-to medium-term AAA corporate bond yields rose by 30-70 bps during the month. Looking ahead, liquidity conditions are expected to improve in Q1 FY27, which should support some narrowing of AAA corporate bond spreads over corresponding G-secs as supply pressures ease.

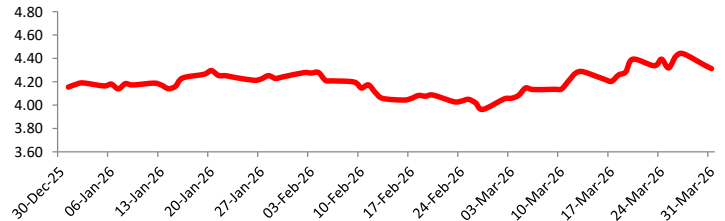
Banking system liquidity declined in March 2026
India's banking system liquidity (Rs Lakh cr)



Source: RBI

The US 10-year Treasury yield rose by 35 bps in March 2026 compared with end-February, ending the month at 4.31%. The move was driven by rising inflation concerns on account of higher oil prices amid West Asia tensions, and expectations that the Fed would remain cautious on policy easing.

US Yields rose to 4.31% in March 2026
US 10 Year G-Sec Movement (For Last 3 Months)



Source: Investing.com

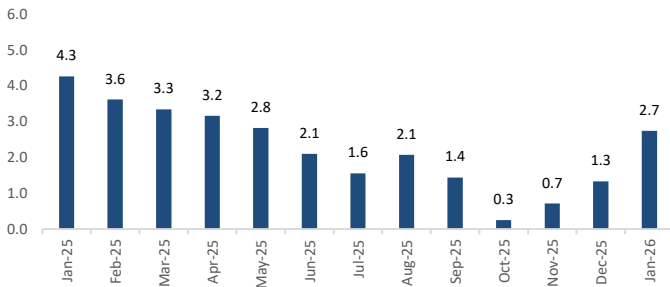
In the March 2026 policy meeting, the FOMC kept the policy rate unchanged at 3.50-3.75% and retained its projection of one rate cut in 2026, though the dot plot signalled a slightly more cautious path amid higher inflation and growth forecasts. Chair Powell reiterated that inflation remains above target and stressed that the Fed is in no hurry to ease, while also highlighting uncertainty from developments in West Asia. Overall, the March 2026 policy outcome was read as mildly hawkish, with Powell reinforcing a patient, data-dependent stance.

Fixed Income Outlook

India's CPI inflation edged higher to 3.2% YoY in February 2026 vs 2.75% in January majorly driven by an unfavourable base effect. The print was broadly in line with the market expectation of 3.1%. However, on a sequential basis, CPI inflation moderated to 0.1% MoM vs 0.3% MoM in January, with moderation seen in both food and core inflation.

India's CPI Inflation edged higher in February 2026 Driven by an unfavourable base effect

CPI Inflation YoY%



Source: MoSPI

US CPI inflation remained steady at 2.4% YoY in February 2026, unchanged from January, while the monthly reading edged up to 0.3% from 0.2%. Core CPI held at 2.5% YoY, indicating that inflation remains sticky but broadly contained. The print was largely in line with expectations and had a muted market impact, though it reinforced the Fed's cautious stance and capped hopes of near-term policy easing.

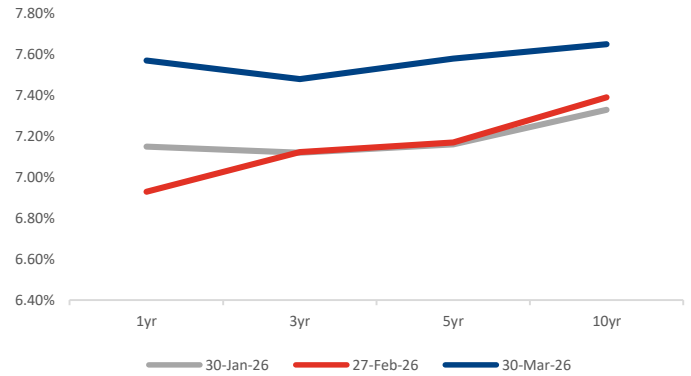
We do not expect the RBI to turn overtly hawkish at this stage and believe the central bank is likely to adopt a cautious wait-and-watch stance in the upcoming policy meeting (8th Apr). While markets are beginning to price in the possibility of rate hikes in 2026, we see two-way risks to interest rates depending on how the current crisis evolves. In our base case, we expect the RBI to keep the policy rate unchanged through 2026.

If the conflict remains largely inflationary in nature and acts primarily as a price shock, the RBI may adopt a somewhat hawkish tone in its commentary, though it is still likely to avoid pre-emptive rate hikes given the benign inflation backdrop, with CPI averaging around 2% in FY26. However, if the conflict persists and starts to materially disrupt energy supplies and weigh on production and GDP growth, the RBI may shift toward supporting growth through a more accommodative policy stance.

In the near term, we expect liquidity support to continue, with a higher probability of further OMOs or other durable liquidity injection measures.

Currently spreads in short duration AAA PSU and NBFC corporate bond segment over corresponding G-secs are healthy (above 100 bps) and offer an attractive opportunity from an accrual perspective.

AAA PSU Corporate Bond Yield Curve

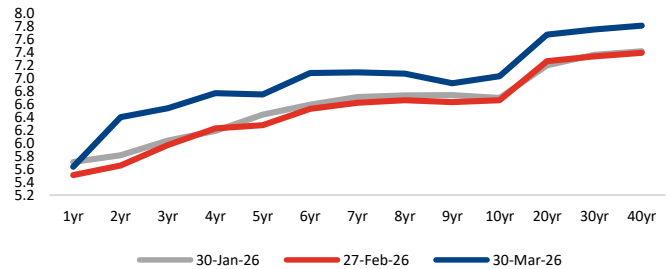


Source: Bloomberg

We expect the G-sec yield curve to flatten in the near to medium term with increase in supply of short-to-medium duration maturities as part of Centre's H1 FY27 borrowing calendar.

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

G-Sec Yield Curve



Source: Bloomberg

We continue to believe that the demand-supply outlook for long tenure bonds remains less favourable and scope for further fiscal consolidation remains limited. Hence, investors should remain cautious on long duration strategies.



Deep Dive

Boring is Beautiful: The Quality Factor in Indian Markets

Indian equities structurally rewards “quality” and the evidence is very hard to ignore. The reasons are distinctly Indian; (i) promoter-dominated ownership, (ii) corporate governance dispersion and (iii) wide earnings variability mean that disciplined selectivity carries a durable edge. Quality portfolios, which are, screened on ROE, low debt/leverage and earnings stability, have consistently delivered superior returns with shallower drawdowns. In a market where growth is abundant, but earnings integrity is scarce, quality is not a style preference, it is a structural advantage.

Executive Summary: What is Quality Factor?

Factor investing identifies persistent, pervasive characteristics of securities that explain differential returns across stocks over time. Quality is one of the most academically well-grounded of these factors. Unlike momentum (which is purely price-driven) or value (which focuses on cheap multiples), “quality” targets companies with demonstrably superior business fundamentals.

One of the most officially accepted academic framework, articulated by Asness, Frazzini and Pedersen, defines a quality company as one that is Safe, Profitable, Growing and Well Managed ([here](#)). The MSCI / NSE Quality Index framework, operationalises this through three core descriptors:

PROFITABILITY <i>Return on Equity (ROE)</i>	FINANCIAL SAFETY <i>Debt-to-Equity Ratio</i>	EARNINGS STABILITY <i>EPS Growth Variability</i>
Measures the efficiency with which a company generates earnings from shareholder equity. A persistently high ROE indicates durable competitive advantage.	Reflects the balance-sheet discipline of management. Low-leverage companies are better placed to withstand credit cycles and economic shocks.	Rewards predictability. Companies with consistent earnings trajectories command premium valuations and suffer fewer drawdowns.

The NSE applies this framework across its family of Quality strategy indices, including the Nifty100 Quality 30, Nifty200 Quality 30, and Nifty500 Quality 50. The Nifty100 Quality 30 selects the top-30 quality companies from the Nifty100 universe; the Nifty200 Quality 30 draws from a broader mid-to-large-cap pool; and the Nifty500 Quality 50 extends coverage across the full large, mid-cap and small-cap spectrum.

Methodology

The Quality factor in India, has delivered a compelling and durable return premium in Indian equity markets. With factor-based investing gaining rapid traction in India through mutual funds and ETFs, the “Quality” style offers investors a transparent, rules-based path to superior risk-adjusted returns with lower drawdown and portfolio churn.

Table - 1: NSE Quality Index Construction & Methodology

Index / Metric	Quality Index	Broader Markets Index (Nifty50, Nifty 500 etc.)
Primary Quality Screen	ROE, D/E, EPS Variability (5yr)	Market Cap Weighted
Rebalancing Frequency	Semi-Annual	Quarterly
Constituent Count	30 – 50 stocks	50 – 500 stocks
Weight Cap per Stock	5% maximum	Typically uncapped
Pledged Promoter Shares	Excluded (>20%)	No restriction
Illiquidity Filter (based on ADTV and Turnover Ratio)	Bottom 10 th percentile excluded	Standard liquidity

“Quality Factor” Performance Overview: Global Markets and India

Globally, MSCI's analysis confirms that quality indexes have outperformed their parent benchmarks by around 100-300 basis points since 1994, with lower drawdowns and higher sharpe ratio. During periods of elevated market volatility, “Quality” tends to outperform, underscoring its defensive character.

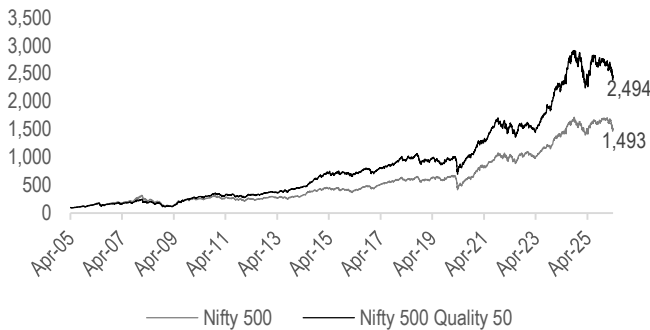
Table - 2: MSCI Quality Strategy Performance (in USD, since 30 June, 1994)

Index / Metric	All-Country World Index		Developed Markets		Emerging Markets	
	MSCI ACWI Quality	MSCI ACWI	MSCI World Quality	MSCI World	MSCI EM Quality	MSCI EM
Annualized Returns	11.8%	8.7%	12.1%	8.9%	7.6%	6.6%
Sharpe Ratio	0.67	0.45	0.69	0.47	0.33	0.28
Maximum DD	49.6%	58.1%	48.0%	57.5%	62.9%	65.1%

Source: MSCI, HDFC TRU. Priced as on 27 Feb, 2026.

We note that these dynamics also translate directly to the Indian setting (refer Figure 1 below).

Figure - 1: NSE Quality Strategy (Nifty500 Quality 50) Cumulative Curve (re-based to 100, since 1 April, 2005)



Source: NSE, HDFC TRU. Data Period: 1 April, 2005 to 27 March, 2026.

On a rolling return basis, Quality portfolios consistently outperformed the market for longer investment horizons. Rolling returns analysis was conducted to eliminate recency bias in performance. Figures in Table 3 below shows number of instances of outperformance of “Quality factor” with respect to the NIFTY 500 index.

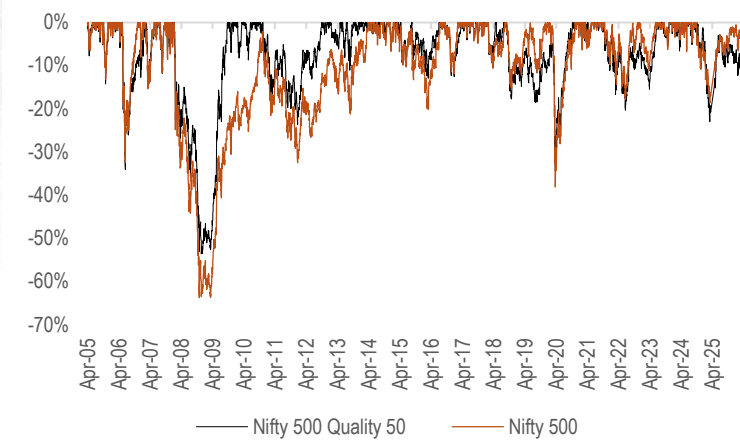
Table- 3: NSE Quality Strategy Rolling Returns Performance (April' 05 – March'26)

Investment Period	No. of Observations	Nifty500 Quality 50 outperforming Nifty 500 (% instances)			Total Instances of Outperformance (%)
		Outperformance (<0%)	Outperformance (0-5%)	Outperformance (>5%)	
1-year	4,960	40%	15%	45%	60%
3-years	4,463	30%	33%	37%	70%
5-years	3,967	24%	41%	35%	76%
7-years	3,471	16%	53%	31%	84%
10-years	2,727	6%	55%	38%	94%

Source: NSE, HDFC TRU. Data Period: 1 April, 2005 to 27 March, 2026.

A drawdown is the peak-to-trough decline during a specific period of an investment. Our analysis suggests that “Quality” portfolios record lower drawdowns compared to the broader market (e.g. Nifty500), resulting in relatively better performance during periods of market correction.

Figure - 2: NSE Quality Strategy (Nifty500 Quality 50) Drawdowns materially lower vs. the broader market (Nifty 500)

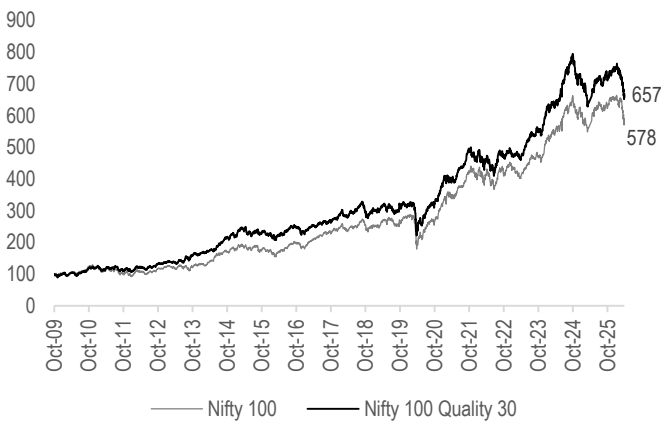


Source: NSE, HDFC TRU. Data Period: 1 April, 2005 to 27 March, 2026.

How does the “Quality Style” perform across Market Capitalizations in India?

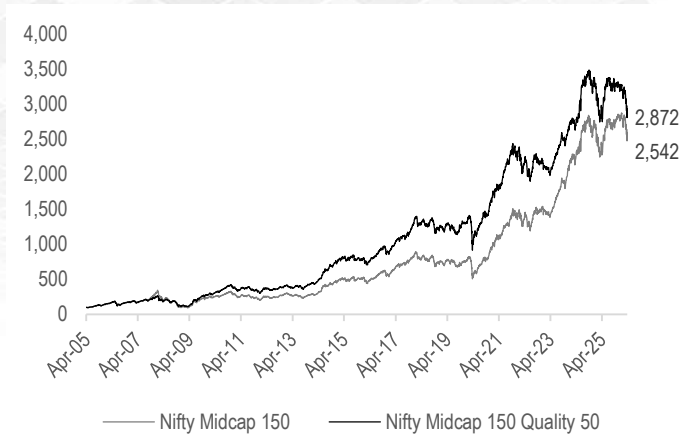
While the preceding charts and tables clearly demonstrate that the "Quality" factor tends to outperform the broader diversified market (e.g. Nifty 500) over longer horizons, both on a cumulative and rolling basis. We note that, Quality also outperforms across various market capitalizations (i.e. large, mid & small-caps), in the longer-term.

Figure - 3: NSE Large-Cap Quality Strategy Performance (re-based to 100, since 1 October, 2009)



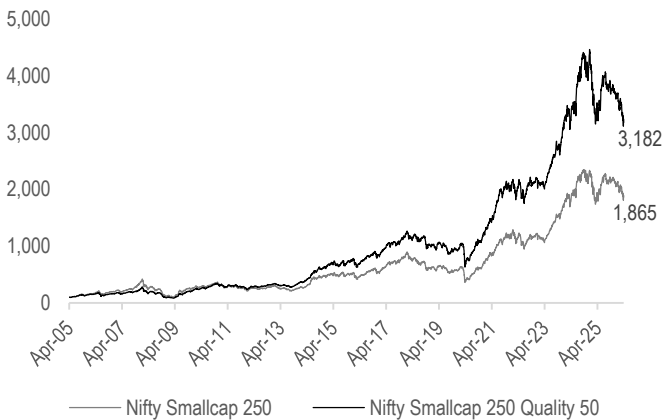
Source: NSE, HDFC TRU. Data Period: 1 October, 2009 to 27 March, 2026.

Figure - 4: NSE Mid-Cap Quality Strategy Performance (re-based to 100, since 1 April, 2005)



Source: NSE, HDFC TRU. **Data Period:** 1 April, 2005 to 27 March, 2026.

Figure - 5: NSE Small-Cap Quality Strategy Performance (re-based to 100, since 1 April, 2005)

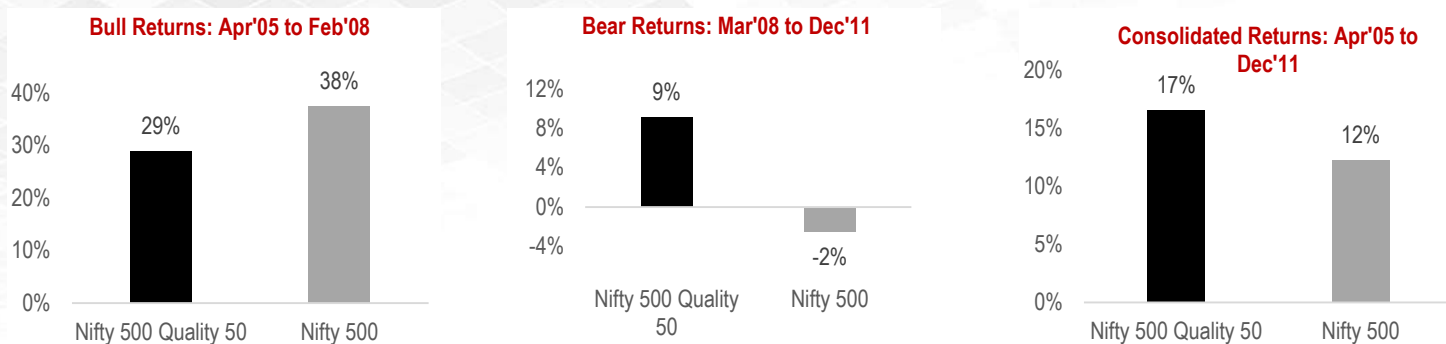


Source: NSE, HDFC TRU. **Data Period:** 1 April, 2005 to 27 March, 2026.

Assessing the performance of “Quality Factor” across Market Regimes / Cycles (since 2005)

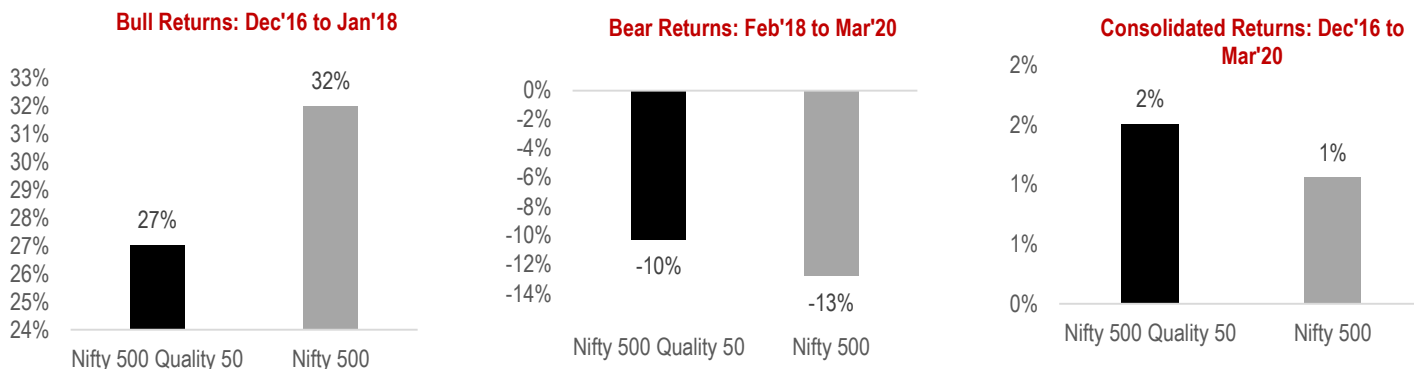
We now examine how the “Quality” factor impacts returns throughout a specific market cycle. For this analysis, we evaluated the period from April 2005 to March 2026, dividing the timeframe into four distinct market cycles. Each cycle was further categorized into bull and bear phases, resulting in a total of four bull and four bear phases. Notably, as the bear phase of the fourth cycle is currently ongoing, our data for this final period concludes on March 27, 2026. **Our analysis was conducted on the Nifty500 Quality50 Index vs. the Nifty 500 Index.**

Figure - 6: Market Cycle 1 (CAGR Return %, Apr'05 – Dec'11)



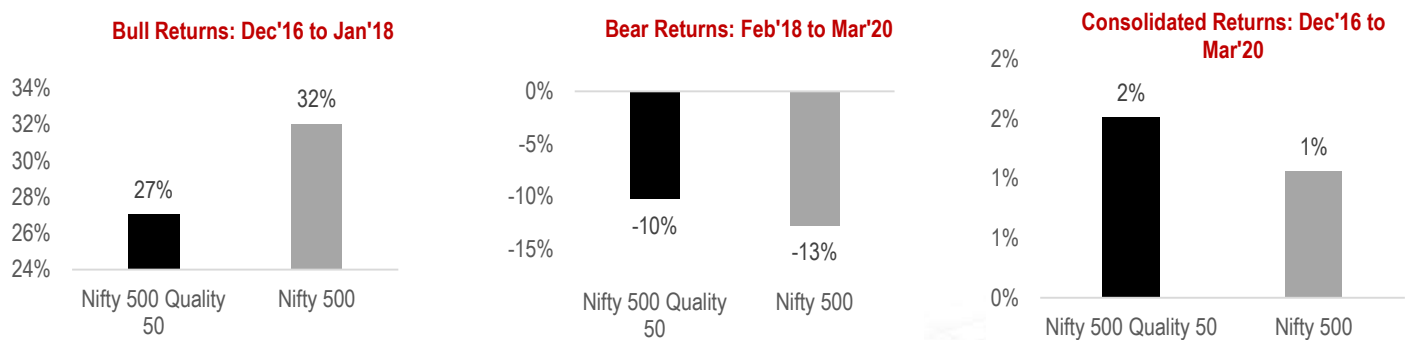
Source: NSE, HDFC TRU.

Figure - 7: Market Cycle 2 (CAGR Return %, Aug'13 – Mar'16)



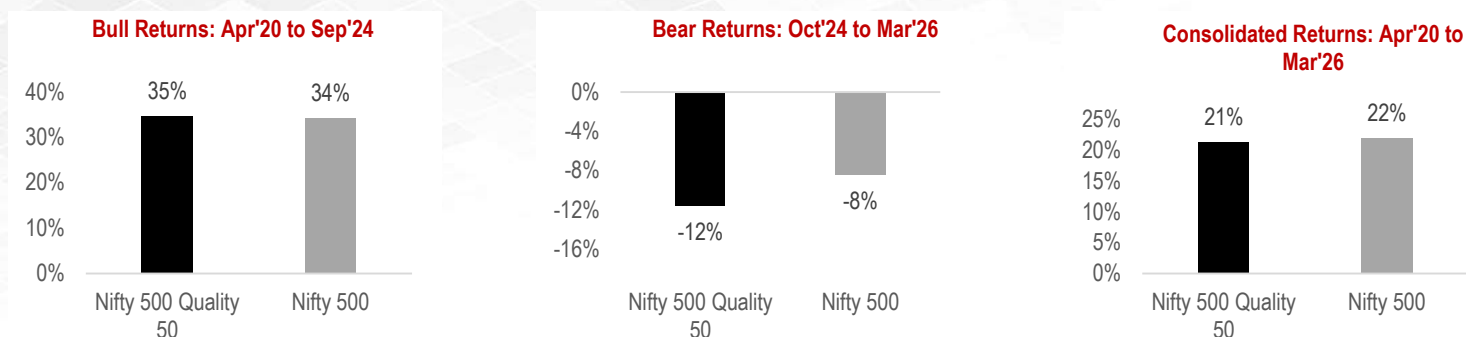
Source: NSE, HDFC TRU.

Figure - 8: Market Cycle 3 (CAGR Return %, Dec'16 – Mar'20)



Source: NSE, HDFC TRU.

Figure - 9: Market Cycle 4 (CAGR Return %, Apr'20 – Mar'26)



Source: NSE, HDFC TRU.

Key Results / Takeaways:

- During bull phase, across cycles analyzed above, quality companies tend to underperform the broader market in a bull run.
- During the bear phase, quality companies had lower drawdowns and outperformed the broader market by wide margins (ex- the post COVID-19 cycle).
- However, on a consolidated basis and across a full market cycle, returns of top quality companies are significantly higher as compared to the broader market.
- The only outlier is the April 2020 to March 2026 cycle (4th cycle), which followed a prolonged sideways market and just prior to this cycle, Quality had outperformed Value by a historic margin, pushing the Quality-to-Value ratio to >2.
- Bull cycles typically begin with high-quality companies trading at a significant premium. However, as economic growth accelerates, lower-quality firms often deliver higher returns by benefiting from rapid margin expansion, deleveraging through equity raises, and aggressive P/E expansion. This dynamic reverses during bear phases, where lower-quality companies face sharper margin contraction, rising leverage, and severe multiple compression. In contrast, high-quality companies demonstrate fundamental resilience and lower P/E volatility, allowing them to consistently outperform over the full duration of a market cycle.
- Above results are consistent with studies in other markets which suggest higher returns for high quality companies over the long run. If anything, above results suggest that the quality premium in India could be substantial. This is possibly because of the wide difference in quality between the top and bottom companies.

Risks and Considerations

While the Quality factor has delivered structural outperformance, investors should be aware of the following:

- **Factor Cyclicity:** Quality, like all factors, can underperform for extended periods. In strongly risk-on environments, particularly early bull cycles following sharp drawdowns; lower-quality, high-beta stocks can outperform. The 2023 Indian small- and mid-cap rally, for instance, saw a broad-based surge that temporarily disadvantaged quality screens.
- **Valuation Risk:** India already trades at a premium to most global emerging markets. Within India, quality companies typically command further valuation premiums. Investors entering at peak multiples face the risk that valuation reversion offsets the fundamental quality premium.
- **Sector Concentration:** Quality screens in India tend to overweight consumer staples, IT services, and Industrials sectors with historically high and stable returns on equity. This can result in meaningful active sector bets relative to a market-cap-weighted benchmark.

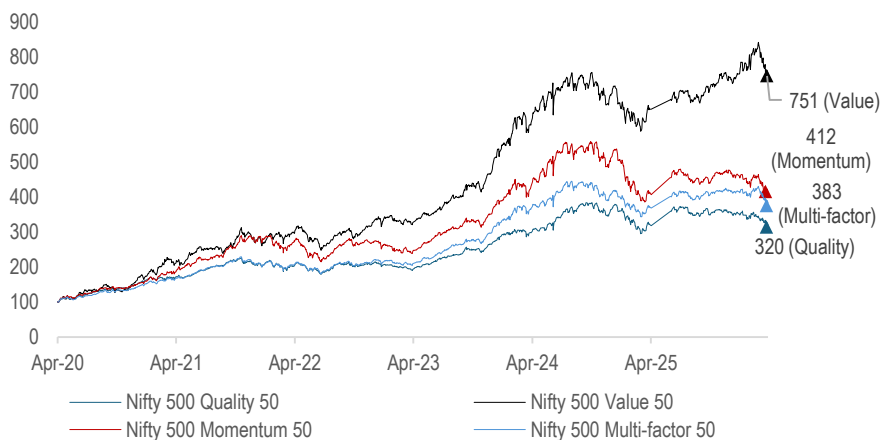
Our View

We view the current environment, characterised by heightened global uncertainty as a particularly constructive entry point for Quality-oriented India equity allocations. The factor's inherent defensiveness, combined with India's structural long-term growth story, creates a compelling combination of resilience and participation.

We recommend that investors consider Quality factor exposure both as a standalone smart-beta allocation and as a lens for stock selection. Stocks with demonstrated quality discipline, measurable through high ROE, low leverage, and earnings stability, have historically delivered superior downside protection while capturing an adequate share of market upside.

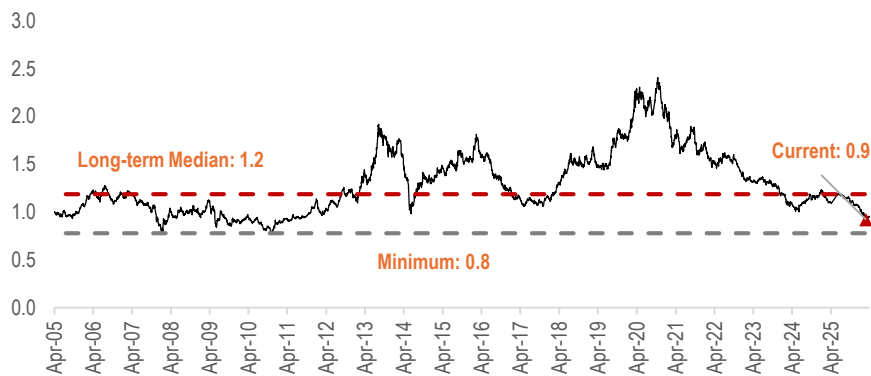
The Quality factor is one of India's most robust and academically validated return premia. A well-implemented quality tilt provides superior risk-adjusted returns, lower drawdowns and a natural corporate governance screen. With an expanding universe of passive and active vehicles now available, Quality deserves a strategic allocation in most long-horizon Indian equity portfolios.

Figure - 10: Since April-2020 (post COVID-19 era), Value style has led the Indian equity market followed by Momentum, while Quality has materially lagged, but we now anticipate a shift toward mean-reversion...



Source: NSE, HDFC TRU. Data Period: 1 April, 2005 to 27 March, 2026.

Figure - 11: ...Quality and Value historically have exhibited an inverse relationship, with Quality-to-Value Ratio now at a multi-year low... further strengthening the case for Quality



Source: NSE, HDFC TRU. Data Period: 1 April, 2005 to 27 March, 2026.

Reading Room



The 2026 Financial Overextension Crisis

- **Retail Sentiment Hits Peak, Returns Set to Crater:** Household allocation to U.S. stocks has hit a record 55.1%, far above the 36.3% historical average. Such extreme retail bullishness has historically marked market cycle peaks and precedes major downturns.
- **The "Single Greatest Predictor" Turns Bearish:** Household equity allocation-highly correlated (0.60 R-squared) with future returns-now signals the most negative forward outlook on record, implying inflation-adjusted market levels may be lower a decade from now.
- **Institutional Exit vs. Retail Entry:** A classic late-cycle pattern is unfolding as professional investors distribute risk to retail buyers. This transfer typically occurs near the end of long-term bull markets and ahead of sustained bear phases.
- **Financial System Strains: Disconnect from Reality:** Record valuations were set before recent geopolitical escalations, indicating markets have failed to price rising global risk. Extreme positioning alongside instability creates a fragile setup for risk assets.
- **The Decadal Return Collapse:** Because household exposure best predicts 10-year outcomes, current conditions point toward a potential "lost decade," as expectations rooted in past growth regimes are forcibly repriced.
- **The Survival Framework:** With exposure two standard deviations above its long-term mean, investor survival hinges on moving away from equity-heavy models. The scarce asset is no longer capital-but timely exit before repricing accelerates.

[CLICK HERE TO READ THE FULL ARTICLE](#)

Blue Collar's Tech-Powered Revival?

- **A Shift Beyond White Collar:** The future of work is moving to factories, construction sites, warehouses, and energy projects - blue-collar roles already make up about one-fourth of the workforce and are becoming central to growth.
- **Severe Skills Shortage:** Aging workers and new green/digital demands are creating massive gaps - by 2033, nearly half of new U.S. manufacturing jobs could go unfilled due to lack of skilled talent.
- **Automation Can't Fully Replace Humans:** These jobs require physical dexterity, real-time judgment, and problem-solving in unpredictable environments - areas AI and robots still can't independently handle.
- **Technology Is Augmenting, Not Replacing:** Robotics, AI, and augmented reality are boosting productivity and job quality, allowing workers to manage complex systems while machines handle repetitive tasks.
- **Workers See AI Positively:** Most blue-collar workers view AI as beneficial, and those trained in new technologies show significantly higher engagement and productivity.
- **Rise of Skills-First 'New-Collar' Jobs:** Employers are slowly shifting from degree-based hiring toward skills, apprenticeships, and certifications - opening faster, fairer career paths without four-year degrees.
- **What Leaders Must Do Next:** Treat skilled trades as a strategic priority, build genuine skills-first pipelines for Gen Z, and adopt an "augment, don't replace" approach to technology.

[CLICK HERE TO READ THE FULL ARTICLE](#)



Disclaimer

This communication is being sent by the Investment Advisory Group of HSL IA., registered under SEBI (Investment Advisors) Regulations, 2013 under the Registration number INA000011538.

This note has been prepared exclusively for the benefit and internal use of the recipient and does not carry any right of reproduction or disclosure. Neither this note nor any of its contents may be used for any other purpose without the prior written consent of HSL IA, Investment Advisory Group (HSL IA). In preparing this note, we have relied upon and assumed, without any independent verification, accuracy and completeness of all information available in public domain or from sources considered reliable. This note contains certain assumptions and views, which HSL IA considers reasonable at this point in time, and which are subject to change. Computations adopted in this note are indicative and are based on current market prices and general market sentiment. No representation or warranty is given by HSL IA as to the achievement or reasonableness or completeness of any idea and/or assumptions. This note does not purport to contain all the information that the recipient may require. Recipients should not construe any of the contents herein as advice relating to business, financial, legal, taxation, or other matters and they are advised to consult their own business, financial, legal, taxation and other experts / advisors concerning the company regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this note and should understand that statements regarding future prospects may not be realized. It may be noted that investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. Investors are advised to undertake necessary due diligence before making an investment decision. For making an investment decision, investors must rely on their own examination of the Company including the risks involved. Investors should note that income from investment in such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Neither HSL IA nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This note does not constitute an offer for sale, or an invitation to subscribe for, or purchase equity shares or other assets or securities of the company and the information contained herein shall not form the basis of any contract. It is also not meant to be or to constitute any offer for any transaction. HSL IA and its affiliates, officers, directors, key managerial persons and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein. HSL IA may at any time solicit or provide commercial banking, credit, advisory or other services to the issuer of any security referred to herein. Accordingly, information may be available to HSL IA, which is not reflected in this material, and HSL IA may have acted upon or used the information prior to, or immediately following its publication.

HSL IA neither guarantees nor makes any representations or warranties, express or implied, with respect to the fairness, correctness, accuracy, adequacy, reasonableness, viability for any particular purpose or completeness of the information and opinions. Further, HSL IA disclaims all liability in relation to use of data or information used in this report which is sourced from third parties.

Please note that HDFC Securities has a proprietary trading desk. This desk maintains an arm's length distance with the HSL IA team and all its activities are segregated from HSL IA activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

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

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

This information is for educational/information purposes only.



Thank You!

HDFC securities Ltd.

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. Murl V Karkera. Ph: 022-3045 3600, Email: complianceofficer@hdfcsec.com.

For any complaints / grievance: services@hdfcsec.com