

December 30, 2025

2025 Round-Up: Year Gone By Reiterates Asset Allocation is Key!

What's the Point?

2025 was year of consolidation for Indian equities. Valuations have moderated across market cap segments, providing reasonable entry point for investors with a medium to long term view. DIIs continued to be net buyers for the 5th consecutive year in Indian equities, providing cushion against FII outflows and reinforcing the structural support for Indian equity markets. Fixed income saw steepening of the yield curve with extreme longer end of the curve edging higher. Precious metals continued their strong run in 2025. Brent crude was down for the third year in a row, which is positive for oil importing countries like India. Looking ahead to 2026, India's economic growth is expected to be strong, however uncertainties will persist, hence, investors should focus on balanced portfolios via asset allocation.

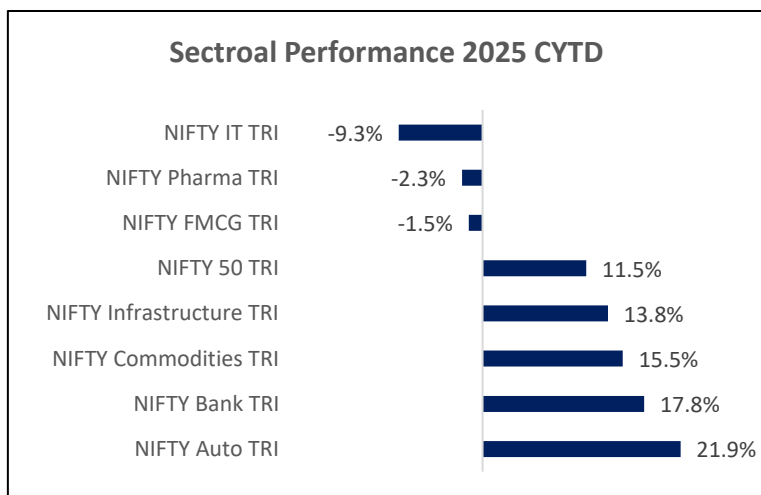
Global Equities – AI led rally

Global equities delivered steady returns in CY 2025. AI-led themes outperformed, with KOSPI being the best-performing global index. U.S. equities remained resilient, however ex-Mag7, it underperformed MSCI All Country World Index. Magnificent 7 posted a third consecutive year of outperformance, supported by AI-driven earnings growth, though returns were more measured than in previous 2 years.

Indian Equities – Year of Consolidation

Indian equity markets (NIFTY 50 Index) delivered positive returns for the 10th consecutive year, a streak that has never been witnesses before. After 2 years of strong outperformance of mid and small cap indices, 2025 was the year for large caps. Large Caps outperformed small caps by the widest margin since 2019. There was a diverse performance in sectors as well. Consumer discretionary stocks outperformed driven by policy measures in the form of tax changes and GST cuts, while IT was the worst-performing sector due to its limited exposure to AI-driven growth.

On relative basis, India saw its worst relative underperformance vs MSCI Emerging Market Index in the last 30 years. Historically, such underperformance is followed by periods of outperformance. With markets going through a time correction over the past 15 months, valuations have now moderated, providing reasonable entry point for investors with a medium to long term view.



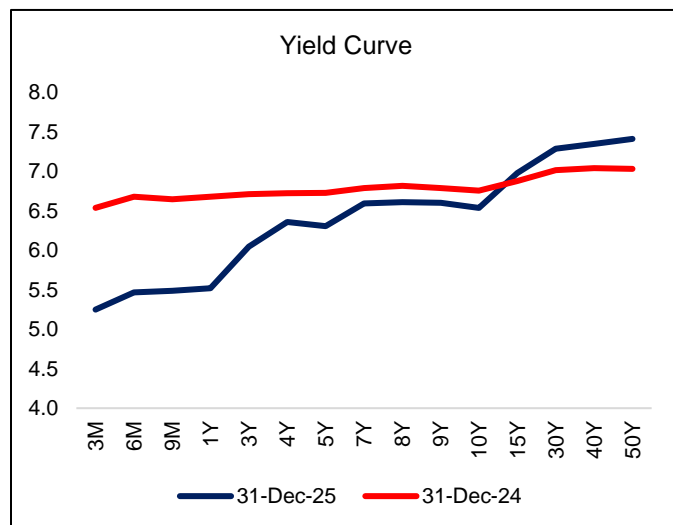
Market Cap Segment Wise Performance (%)

Period	NIFTY 100 TRI	Nifty Midcap 150 TRI	Nifty Smallcap 250 TRI
Dec-25 (YTD*)	8.5	3.3	-8.4
Dec-24	12.9	24.3	27
Dec-23	21.3	44.7	49.2
Dec-22	5	3.9	-2.6
Dec-21	26.5	48.2	63.3
Dec-20	16	25.5	26.4
Dec-19	11.8	0.6	-7.3
Dec-18	2.6	-12.6	-26
Dec-17	33	55.9	58.6
*upto 24th Dec'25			

Fixed Income Markets – Yield Curve Steepens

In 2025, the yield curve steepened with short-term yields declining, while long-term yields edged higher.

The RBI initiated its policy easing cycle in February 2025 with a 25-basis point rate cut and has since delivered cumulative rate cuts of 125 basis points up to December 2025. The reduction in policy rates, along with sustained surplus liquidity, led to a sharp decline in short-term yields during the year. The yield on the 1-year government bond declined by 116 basis points during the year, compared with a relatively modest 22 basis point decline in the benchmark 10-year government bond yield. In contrast, longer-tenor yields moved higher, with 15-year and 30-year government bond yields rising by 10 basis points and 27 basis points respectively, contributing to the steepening of the yield curve. Given the current yields at the long end, it may be an opportune time for a longer-term investor to take advantage of the yields and potential spread compression.



Commodities - Safe Haven Assets continued to do well in 2025

Gold and Silver continued their strong run in 2025. Gold strengthened due to softening dollar, lower US yields and purchases from Central Banks. Gold has surged 71% for the year, its best annual run since the 126% spike in 1979. Silver has also jumped ~150%, its best annual performance since of 462% witnessed 46 years ago. The gold to silver ratio is now at 62x vs 10-year average of 81x.

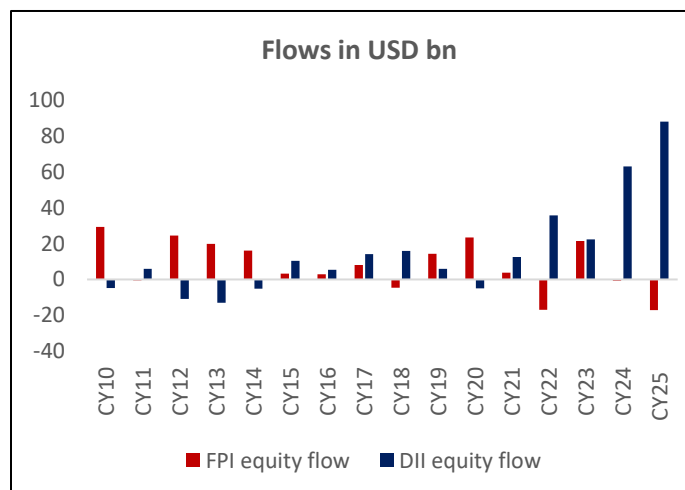
Brent crude was down for the third year in a row, the first time we are seeing this trend since 2015. Brent was down ~15% on demand fears due to more EV adoption and investments in renewable energy. Lower oil prices are positive for oil importing countries like India.



DII and FII Flows - DIIs Steady, FIIs Shaky

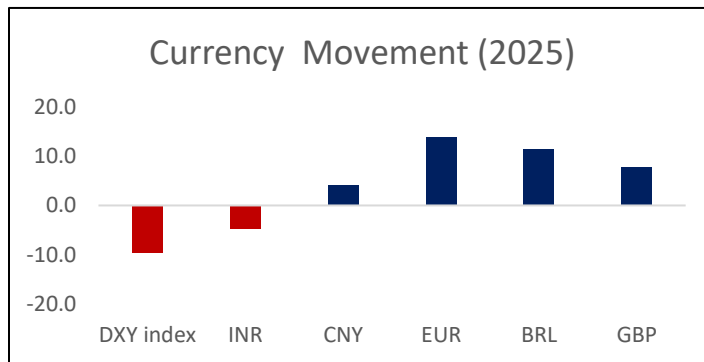
Foreign Institutional Investors were net sellers in the Indian equity markets to the tune of ~ USD 17 bn in CY 2025. With this, FIIs are now net sellers in 3 out of last 4 CYs. The outflow in current year was largely influenced by trade uncertainty between Indian and US, high valuations and other markets offering exposure to AI led themes.

In contrast, Domestic Institutional Investors flows remained consistently strong, led by mutual funds, insurance companies and sustained SIP inflows. DIIs have been net buyers in Indian equity markets for the 5th consecutive year and 29th consecutive month, a streak never seen before. The continued strength of domestic savings has helped cushion FII outflows and reinforced the structural support for Indian equity markets.



Currency – Dollar Drifts, INR Slips

DXY fell by ~9.5% in CY 2025 due to rate easing cycle and reducing preference for US treasuries as a safe haven asset class. Most of the currencies appreciated against the USD. However, INR depreciated ~5% against the USD in 2025. Capital outflows and trade uncertainty were amongst the factors impacting the INR. A weaker rupee could boost exports, shields local manufacturers, offsets higher tariffs on India and protect from China's dumping.



DXY Index – Dollar index, INR – Indian Rupee, CNY- Chinese Yuan, EURO – Euro, BRL – Brazilian Real, GBP – Great Britain Pound

Events to watch out for in 2026

- Progress on India–US Trade Deal and India-EU Free Trade Agreement
- AI spends and its Impact on economy and markets
- Will the US rate easing cycle continue?
- Impact of China's overcapacity on other economies
- Union Budget 2026
- Will there be reversal of FPI flows into India?
- Impact of monetary & fiscal stimulus on consumption
- Private capex revival

Sources: Bloomberg, NIFTY Indices and other publicly available information.

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