HDFC MUTUAL FUND
BHAROSA APNO KA

MARKET REVIEW

December - 2025

Macroeconomic Update

CY25 was a year when global growth held up well despite heightened uncertainties. The growth was particularly resilient in US which benefitted from strong AI/Tech related investments. However, resilient growth did not help the labour markets in the US where job creations fell, and unemployment rate inched up. EU and Japan also witnessed growth acceleration in CY25. Growth in China on the other hand remained subdued due to depressed domestic consumer demand amidst a slump in the property markets which deepened further in CY25.

Inflation remained contained across geographies which helped central banks reduce rates in CY25 (except Japan). While the US Fed cut the policy rate by 75 bps, ECB by 100bps, and China by ~85bps, Bank of Japan raised rates by 50bps as inflation there remained above target.

Few key developments in CY25 were:

- Mr. Donald Trump was elected as the President of the USA for the second time. He signed 225 sweeping directives in 2025 alone, which included protectionist tariffs against major economic partners such as China, Mexico, Canada, the EU, India, etc. However, some of the tariff impact has been mitigated through trade deals and negotiations. The new government has adopted a more stringent stance on immigration as mass deportation campaigns have commenced, while H-1B visa processing norms have been tightened.
- During the first half of 2025, tension in the Middle East heightened as the US and Israel conducted airstrikes in Iran but eventually it eased as Israel and Hamas entered a ceasefire agreement.
- The Russia-Ukraine war entered its fourth year with intensified drone strikes and stalled negotiations.
- A brief armed conflict erupted between India and Pakistan after India's Operation Sindoor missile strikes on May 7 targeted terrorist camps in Pakistan following the April 22 Pahalgam attack that killed 26 tourists.
- Japan undertook a rate hike cycle: Japan increased its policy rates twice, with the rate currently at 0.75%, the highest in 30 years. Japan's tight monetary policy actions are a response to elevated inflation in the country.
- Major European countries undertook a shift in fiscal policy. Germany announced in March 2025 that it plans to loosen its constitutionally enshrined limit on annual borrowings.
- In October 2025, China drastically expanded export controls on rare earths, battery materials, and superhard materials, notably asserting extraterritorial jurisdiction via a "0.1% Chinese-origin" licensing rule for global products.

Real GDP growth remained robust in CY25:

India's real GDP grew by 7.8% YoY in 9MCY25 (as against 6.8% YoY in 9MCY24) despite uncertainties on the external front. Growth was driven primarily by Agriculture and Services sectors. While consumption growth remained steady on the back of strong rural demand and tax cuts, investment growth accelerated led by Government capex. However, Government consumption expenditure decelerated as revenue expenditure was curtailed in the face of slowing tax revenue growth. India's nominal GDP growth decelerated compared to last year as both WPI and CPI trended lower leading to much lower deflator.

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Macroeconomic Update (contd...)

YoY change (%)	9MCY24	9MCY25	YoY change (%)	9MCY24	9MCY25
GDP	6.8	7.8	**GVA**	6.5	7.5
Private Consumption	7.0	7.0	Agriculture, Forestry and Fishing	2.0	4.3
Government Consumption	3.7	0.8	Industry	7.3	6.8
Gross Capital formation	7.7	6.7	Manufacturing	7.0	7.2
Gross Fixed Capital Formation	6.5	8.2	Construction	9.0	8.6
			Services	7.3	8.6
Exports	6.3	5.2	Trade, Hotels, Transport, etc.	5.9	7.2
Imports	3.2	4.0	PADO	8.9	9.4

Source- MoSPI, CEIC, Ambit Capital research. Note- PADO: Public Administration and Defence

Going forward, real GDP growth is likely to normalize as inflation picks up from current levels. However, growth is expected to remain steady on the back of Government's renewed push to revive demand through tax cuts and reform measures and lagged effect of monetary easing. However, the impact of higher US tariffs and flareup in geo-political tensions are key risks to growth this year.

Indian economic activity remained upbeat in Dec: The high frequency indicators for December suggests that growth continues to hold up well. The effect of tax cuts on demand is clearly visible especially on vehicle registrations which continue to post strong growth for third month in a row (GST cuts became effective on 22nd September 2025). Power demand too rebounded in December following two consecutive months of contraction.

Indicators	Units	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Retail registration - Auto@								
2W	YoY, %	5.2	-6.1	2.7	7.3	52.5	-2.7	9.7
PV		5.8	1.9	4.3	10.1	14.8	22.1	25.7
MHCV		4.4	0.8	10.7	-1.3	-1.2	22.6	28.0
LCV		7	2.9	8.3	2.3	27.4	20.9	25.1
Tractors		8.4	10.7	29.8	2.4	13.8	56.1	15.0
Gross GST Collection		6.2	7.5	6.5	9.5	4.6	0.7	6.1
Average E-Way bill generated		19.3	25.8	22.4	21.0	8.2	27.6	23.5
Power demand		-1.5	2.1	4.3	3.2	-6	-0.8	6.1
Digital Spending (UPI + IMPS)		16.5	18.2	16.8	17.4	13.1	19.7	18.2
Railway Freight Tonnage		1.4	1.8	5.5	11.8	4.6	6.9	4.9
Manufacturing PMI^	Index	58.4	59.1	59.3	57.7	59.2	56.6	55.0
Services PMI^	Index	60.4	60.5	62.9	60.9	58.9	59.8	58.0
Unemployment *	%	7.7	7.8	6.4	8.6	7.5	6.5	6.9

Source: www.gstn.org.in, www.icegate.gov.in, CMIE, PIB, RBI, www.vaahan.parivahan.gov.in, www.posoco.in
^Number >50 reflects expansions and number <50 reflects contraction compared to previous month. @ - figures are preliminary data and are subject to revision. * based on CMIE survey

Going forward, demand is likely to remain healthy on the back of tax cuts and lagged effect of monetary easing. Prospects of a good rabi harvest and low inflation is likely to keep rural demand buoyant. However, external dynamics remain a key risk to growth.

Tax revenue growth remains under pressure: Tax revenue growth has remained sluggish due to income tax and GST cuts announced by the Government to boost demand. Gross tax revenue in the first 8 months of this fiscal is up just 3.3% YoY. On the spending side, the Government has shown restraint. While capex growth has started moderating post front loading in the first of the fiscal, revex is up just 1.8% YoY in 8MFY26.

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Macroeconomic Update (contd...)

Risk of tax collections under shooting the budgeted target remains high. However, this is likely set off by the higher RBI dividends, and possibility of lower spending. Overall, we believe the risk of fiscal slippage has increased, although issuance of additional dated market borrowing remains low as this can be managed by higher small savings, improvement and / or usage of government cash balance.

INR bn	8MFY25	8MFY26	YoY growth
Gross tax revenue	22,610	23,364	3.3
Direct Tax Collections	12,124	12,998	7.2
Indirect Tax Collections	10,073	9,988	-0.8
Less: Share of states & others	8,175	9,425	15.3
Net Tax collections	14,434	13,939	-3.4
Non-Tax revenues	4,270	5,164	20.9
Total revenue receipts	18,705	19,103	2.1
Total Capital rceipts	240	389	62.5
Total Receipts	**18,944**	**19,492**	**2.9**
Total Revenue Expenditure	22,275	22,677	1.8
Total Capital Expenditure	5,135	6,582	28.2
Total Expenditure	**27,410**	**29,259**	**6.7**
Fiscal Deficit	**8,466**	**9,767**	**15.4**
Fiscal deficit (% of RE)	**50.2%**	**62.3%**	
Fiscal deficit (% of GDP)	**2.6%**	**2.7%**	

Source: CMIE

CAD remains low but capital flows a concern: India's Current Account deficit (CAD) remained low on the back of higher services exports even as goods trade deficit expanded. Weak FDI flows and a significant outflow of FPI, especially in the equity segment, kept the capital account under pressure. Net FDI flows were lower due to repatriation (which was in turn due to strong IPO pipeline) even as gross flows remained healthy. FPIs shunned Indian equities likely due to trade related uncertainty as India faces one of the highest US tariffs in the world and is perceived to be behind in the global AI race/supply chain.

Going forward, CAD is likely to remain manageable and a likely trade deal with the US should help revive FPI interest and should result in higher inflows.

USD bn	9MCY24	9MCY25	Change
Trade (Deficit) / Surplus	**-200.3**	**-215.6**	**-15.3**
Net Oil Imports	-82.9	-92.0	-9.0
Net Gold Imports	-35.6	-33.3	2.3
NONG net imports	-81.8	-90.4	-8.6
Net Invisibles exports Surplus / (Deficit)	**179.6**	**214.2**	**34.7**
Current account deficit	**-20.8**	**-1.4**	**19.4**
% of GDP	**0.7%**	**0.05%**	
Capital Account Surplus / (Deficit)	**74.4**	**2.9**	**-71.5**
FDI	5.7	8.1	2.4
FII	32.2	-10.0	-42.2
Trade credits, ECBs, etc.	18.5	14.2	-4.3
Banking capital	15.9	-8.6	-24.5
Currency & Deposit	15.6	8.9	-6.7
Others	-0.1	-0.1	0.0
Balance of Payments	**2.2**	**-0.7**	**-2.9**

Source: CMIE

Retail inflation moderates significantly: CPI inflation moderated significantly in CY25 led by moderation in food prices especially that of vegetables and pulses. The GST cuts (which came into effect on 22nd September 2025) have also aided in lower inflation. CPI inflation is likely to rise from here on but will likely remain contained and close to RBI's target.

YoY, %	FY24	11MFY25	Change in %
CPI	4.9	2.3	-2.7
Food & beverages	7.6	0.6	-7.0
Fuel and Light	-2.8	1.6	4.4
Housing	2.8	3.0	0.2
Transportation & communication	2.0	2.5	0.5
Core-Core CPI@	3.2	3.3	-0.1

Source: CMIE; @-CPI excluding Food, Fuel & light, Petrol, Diesel, Gold and Silver

Commodity prices: CY25 witnessed divergence in commodity prices. While precious metal prices soared due to safe haven demand, the prices of industrial metals like steel struggled. On the other hand, demand from new age businesses such as EVs, data centres and renewable energy led to surge in copper & aluminium prices.

	Market price (USD)*	CY24 (%)^	CY25 (%)^
Brent Crude (per barrel)	61	-3.1	-18.5
Gold (per ounce)	4,319	27.2	64.6
Steel (per tonne)	468	-17.2	-1.6
Zinc (per tonne)	3,082	11.9	4.3
Copper (per tonne)	12,504	2.7	43.6
Aluminium (per tonne)	2,968	7.7	17.5
Lead (per tonne)	1,962	-5.4	2.1

Source: *Market prices as on December 31, 2025, ^YoY change

Macroeconomic Update (contd...)

Summary and Conclusion:

Contrary to expectations, global growth held up remarkably well in CY25 led by the US where the growth consistently surprised on the upside supported by AI/tech related investments and strong consumer demand. However, job creation in the US has not kept pace with rising GDP growth. Growth in EU and Japan too accelerated and held up well in CY25. On the other hand, growth in China remains subdued as property markets continue to slump dampening consumer sentiments. The outlook for CY26 remains clouded amidst trade related uncertainties and risk of geopolitical flareups. The sovereign debt levels remain uncomfortably high especially in the advanced economies, and pressure to increase expenditure has resulted in long-term Government bond yields being elevated. This is also a potential source of risk going forward.

Real GDP growth in India surprised on the upside in CY25 even as nominal GDP growth came off due to significant fall in both CPI and WPI. Government's stimulus measures in the form of tax cuts and monetary easing by the RBI have helped lift urban consumer demand while rural demand has held up well due to back-to-back bumper crops and lower inflation. CPI inflation moderated significantly in CY25 led by a fall in food prices and GST cuts and even though inflation is likely to rise from current levels, it will remain close to RBI's target.

Looking ahead, India's growth is likely to be steady as Government continues take up reform measures. Monetary easing too will continue to boost demand this year as monetary policy works with a lag. However, lack of trade deal with US will continue to be a drag on growth as India faces on the of the highest tariff rates in the world by the US. Overall, medium-term outlook for the Indian economy seems optimistic, in our view.

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Debt Market Update

CY25 was a year when major central banks undertook synchronised rate cuts (except Japan which undertook rate hikes). US exhibited exceptionalism with falling inflation and strong growth (sans employment) which provided the Fed with opportunity to cut policy rates by 75bps during the year. However, long term bond yields remained elevated despite rate cuts due to concerns on elevated sovereign debt levels and rising fiscal deficits.

10-year Government bond yield in India fell by 17bps during the year ending at 6.59% even as RBI cut policy rates by 125bps in the face of falling inflation. Apart from rate cuts, RBI was also proactive in providing ample liquidity The yields on 10-year G-sec were a story of two halves last calendar year where yields fell by 44bps during Jan-Jun 2025 but rose by 27bps between Jun-Dec. 10-year AAA corporate bond yields rose by 3bps and the spread between 10-year AAA and 10-year G-sec widened by 21bps. Average liquidity remained in surplus mode last year due to various measures taken by RBI to ease liquidity conditions. The table below gives a summary view of the movement of key rates and liquidity:

	CY24	CY25	Change (in bps)
MIBOR Overnight Rate (%)	7.15	5.67	-1.48
3M Gsec yield (%)	6.55	5.26	-1.29
10Yr Benchmark G-Sec Yield^ (%)	6.76	6.59	-0.17
AAA 10Year Corporate Bond Yields#, & (%)	7.20	7.23	0.03
AAA 10Y Corporate bond spread against 10Y benchmark@ (bps)	44	65	0.21
Average net liquidity absorbed/infused by RBI* (INR billion)	-21	979	

^-bi-annual yield; #-annualised yield; & - Average yield of NABARD paper provided by independent valuation agencies has been taken. @ - Spreads calculated by subtracting non-annualised Gsec yields from annualised corporate bond yields.
*Average net daily liquidity infused / absorbed through Liquidity Adjustment Facility, exports refinance, marginal standing facility and term repos/reverse repos. Source: Bloomberg, RBI

Average net liquidity surplus increased to ~INR980bn in CY25, from deficit of ~IN21bn in CYY24.
In the debt market, FPIs ended the year with net buying of USD 7.5 billion in CY25 (CY24 net buy: USD 16.8 billion).

Outlook

In its latest monetary policy review, the RBI decided to reduce policy rate by 25 bps and announced upfront OMOs along with buy/sell swap of USD 5 bn which pleasantly surprised the market participants. However, despite policy rate cuts (down 125bps in CY25), CRR reduction, and liquidity infusion measures, in last 6 months yields have remained elevated or even risen during this period. We believe that current yield levels have priced in most of the negative factors. Looking ahead, several potential positive triggers could drive yields lower.

Key Positive Catalysts for Debt Markets in the coming year:

- **Global Index Inclusion:** Indian sovereign bonds are under consideration for inclusion in Bloomberg Barclays Global Bond Indices, which could lead to significant FPI buying .
- **Trade Agreement with the U.S.:** While uncertainty persists, a potential trade deal could ease pressure on the INR and revive foreign portfolio inflows.
- **Prudent Union Budget:** The FY27 Union Budget, expected in a month, is likely to remain prudent and continue fiscal consolidation, thereby limiting excessive central government borrowing.
- **Shift in Domestic Asset Allocation:** Following revised guidelines, Provident and Pension Funds were permitted to enhance their equity exposure to 25% (from 15%). We understand that this reallocation phase is nearing completion, suggesting a likely return to buying SLR securities by PFs and Pension funds.
- **Supportive Liquidity Environment:** RBI's commitment to maintaining ample liquidity through proactive measures should help keep yields contained.

Going forward, on the policy front RBI is likely to remain data dependent keeping one more rate cut hope alive in case growth or inflation surprises on the lower side. RBI also sounded comfortable with a benign inflation outlook – headline as well as core (especially excluding precious metals which contributed 50 bps)- citing structural factors at play despite resilient growth outlook.

Debt Market Update (contd...)

The medium-term outlook on Indian fixed income market remains favourable, considering:

- Benign inflation outlook likely to persist and average near RBI's target of 4% in H1FY27
- Liquidity is likely to be in ample surplus in the coming few months in view of constant assurance by RBI governor to maintain sufficient surplus to meet the real economy needs.
- External sector likely to remain comfortable in view of manageable CAD (on back of robust growth in services exports and healthy remittances) and adequate foreign exchange reserves.
- Low risk of additional market borrowings, despite risk of fiscal slippage, as it can be managed by issuing short term cash management bills or using cash balance. Over the medium term, supply of market borrowings is likely to remain contained as government remains committed to its fiscal consolidation path.
- Growth has likely reached its peak in Q2FY26, and impact of elevated tariffs and the durability of the consumption uplift following GST rationalisation remains uncertain.

Key risks to the favourable outlook:

- Significant widening in fiscal deficit in view of GST rationalisation and slowing nominal GDP growth weighing on tax collections
- Weather related uncertainty leads to rise in food prices
- Flare up in geopolitical tensions leads to rise in commodity prices especially that of crude oil

Overall, in our view, yields are likely to trend lower in view of congenial financial and monetary conditions. Subdued inflation, comfortable liquidity and proactive monetary policy are positives from yield perspective. Hence, one may consider investment in short to medium duration (schemes with duration of up to 5 years) categories especially corporate bonds focussed funds in line with individual risk appetite.

Moreover, as mentioned by RBI governor in his statement in December policy review, “changes in the short-term interest rates will transmit to various long-term rates”, we believe the spreads of longer-maturity bonds over 10-year G-secs could compress hence providing an opportunity for investors in long-duration space.

Source for various data points: Bloomberg, NSDL, CMIE, RBI, Kotak Institutional Research, World Bank, Daily valuation provided by ICRA/CRISIL

Equity Market Update

Indian equity markets showed resilience in CY25 with NIFTY 50/BSE Sensex ending year with 10.5%/9.1% returns respectively (compare to 8.8%/8.2% returns in CY24). However, there was significant moderation in mid/small cap indices returns in CY25. While mid-cap index was up 5.7% in CY25 (CY24: 23.9%), small cap index declined 5.6% compared to gain of ~24% in CY24. Key drivers/events during the year included a new administration in US and resultant global trade uncertainty with India being subject to one of the highest tariff rates in the world, Government announcing income tax and GST cuts to boost demand, RBI easing policy rates by 125bps and Fed lowering policy rates by 75bps. Amongst broad sectors while Metals, Autos, and Banks outperformed, IT, Power and Healthcare underperformed.

Globally most equity indices ended the year with strong gains with countries perceived to be ahead in AI race doing particularly well. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	CY24	CY25
BSE Metal	7.0	27.4
BSE Auto	22.3	21.1
BSE Bankex	6.2	15.6
BSE Oil & Gas	13.2	10.1
BSE Capital Goods	21.8	-1.0
BSE Fast Moving Consumer Goods	1.5	2.1
BSE Healthcare	43.5	-3.3
BSE Power	19.7	-6.6
BSE Information Technology	19.9	-14.9
BSE Sensex	8.8	**10.5**
NSE Nifty 50 Index	8.2	**9.1**
NIFTY Midcap 100	23.9	**-5.6**
NIFTY Smallcap 100	23.9	**5.7**

% Change	CY24	CY25
KOSPI	-9.6	75.6
MSCI Emerging Markets	5.1	30.6
Hang Seng	17.7	27.8
Nikkei 225	19.2	26.2
DAX	18.8	23.0
FTSE 100	5.7	21.5
NASDAQ Composite	28.6	20.4
Shanghai Composite	12.7	18.4
S&P 500	23.3	16.4
CAC 40	-2.2	10.4

Source: Bloomberg

FIIs sold net equities worth USD 2.6 billion in December 2025 (November 2025: Net bought USD 0.04 billion) and have cumulatively sold net equities worth USD 18.9 billion in CY25 (CY24: net sold USD 0.8 billion).

DIIs bought net equity worth USD 8.8 billion in December 2025 (November 2025: USD 8.7 billion) and have cumulatively bought net equities worth USD 90 billion in CY25 (CY24: USD 63 billion). Net flows into Mutual funds were ~INR 35,375 crore in November 2025 (October 2025: ~INR 29,032 crore & November 2024: ~INR 39,229 crore), cumulatively amounted to ~INR 366,315 crore in 11MCY25 (11MCY24: ~INR 398,923 crore).

Outlook

As on December 31, 2025, NIFTY 50 Index was trading at ~20.5x one year forward price to earnings multiple. Further, Market cap-to-GDP stood ~141% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield* has widened recently [*Earnings yield = 1/ (one year forward P/E)*].

Chart 1

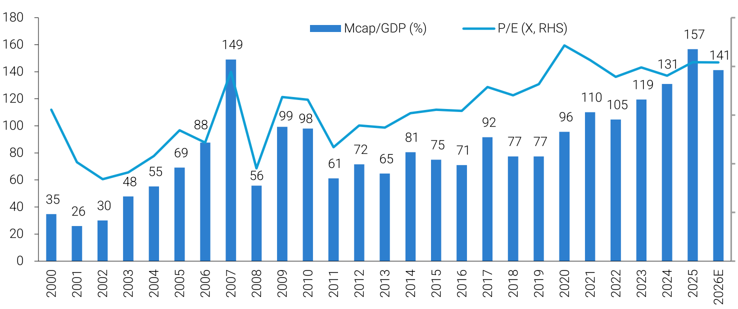
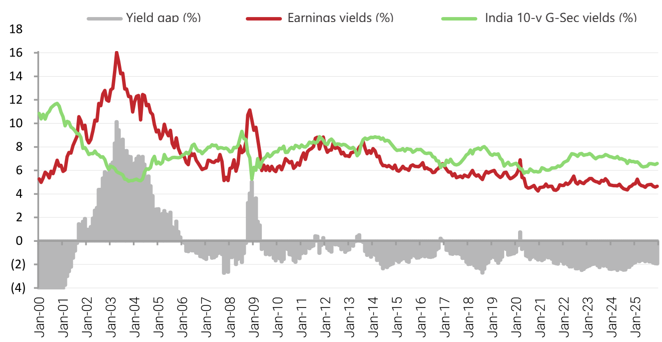


Chart 2



Source: Kotak Institutional Equities; For 2025 and 2026, the market cap as on December 31, 2025 is taken and divided by GDP estimates for CY25 and CY26

Equity Market Update (contd...)

As of December 31, 2025, the valuations of all sectors except Private Banks are trading at a premium to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	31-Dec-25	**LTA**	**Discount / Premium^**
Cement	40.3	30.9	30.4
Utilities	14.4	11.5	25.0
Metals	12.4	10.1	22.2
Industrials	33.1	27.2	21.6
PSU banks @	1.3	1.1	19.9
Pharma	28.6	24.4	17.3
Automobiles	23.9	20.5	16.5
Energy	14.6	12.8	14.1
Consumer Discretionary	57.9	55.4	4.5
Tech	21.9	21.2	3.5
FMCG	36.5	36.4	0.2
Pvt Banks @	2.3	2.5	-9.9

Source: Kotak Institutional Equities. Stocks are part of Kotak Institutional Equities universe.
LTA – 10 Years average. Cells in green are sectors which are trading at premium. All figures are calculated based on 12 months forward estimates.
^to Long term (LT) average, @-Price to Book value

Given the global uncertainties and aggregate valuation being higher than historical average, the importance of stock selection increases even more.

Over medium to long term, we remain optimistic on Indian equities considering strong macroeconomic fundamentals, attractive domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies like income tax and GST relief to consumers and renewed reform momentum. However, near-term risks include uncertainty over US India trade deal and cyclical moderation in corporate earnings.

Glossary

AE	Advanced Economies
BoE	Bank of England
BoJ	Bank of Japan
BoP	Balance of Payment
bps	Basis points
CAGR	Compound Annual Growth Rate
CMIE	Centre for Monitoring Indian Economy
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CV	Commercial Vehicle
DIIs	Domestic Institutional Investors
EA	Euro Area
ECB	European Central Bank
FOMC	Federal Open Market Committee
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GFCE	Government Final Consumption Expenditure
GST	Goods and Services Tax
GVA	Gross Value Added
IMD	India Meteorological Department
INR	Indian Rupee
IMF	International Monetary Fund
IMPS	Immediate Payment System
JGB	Japanese Government Bonds
LCV	Light Commercial Vehicle
Mbpd	Million Barrels Per Day

MHCV	Medium and Heavy Commercial Vehicle
MIBOR	Mumbai Interbank Offered Rate
M-o-M	Month on Month
MPC	Monetary Policy Committee
MSP	Minimum Support Prices
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NFP	Non-Farm Payroll
NONG	Non-Oil Non-Gold
NSO	National Statistical Orgnization
OMO	Open Market Operation
PIB	Press Information Bureau
PLI	Production Linked Incentive
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PSU	Public Sector Undertaking
PV	Passenger Vehicle
RBI	Reserve bank of India
RE	Revised Estimates
RRR	Reserve Ratio Requirement (for banks in China)
SLR	Statutory Liquidity Ratio
UPI	United Payments Interface
US	United States of America
USD	United States Dollar
UST	US Treasuries
YoY	Year on Year