HDFC MUTUAL FUND
BHAROSA APNO KA

MARKET REVIEW

March 2026

Macroeconomic Update

Globally, FY26 was a year of intense uncertainty, marked by major geo-political conflicts and imposition of tough U.S. reciprocal tariffs on economic partners. Together, these developments have clouded the outlook for the global economy in FY27. However, the US economy continued to exhibit exceptionalism despite headwinds from government shutdowns and macro uncertainty caused by tariffs. Growth in US was robust due to AI/tech related capex, but high growth did not translate into job creation as non-farm payroll kept declining. However, as crackdown on illegal immigration reduced the supply of labour as well, the unemployment rate did not increase materially. Europe witnessed a rebound in growth in last 12 months led by the services sector, however future growth remains uncertain due to the fallout from the West Asia war. Ongoing geopolitical tensions and related surge in energy prices continue to pressure manufacturing competitiveness and raise the risks of a general increase in price levels. China, meanwhile, experienced subdued growth over the past year, weighed down by weak domestic demand and sluggish property sector. However, China's exports continued to show resilience even in the face of US tariffs as exports to rest of the world (ex US) surged last year.

The war in West Asia poses significant risks to the global economy. It's akin to a supply shock especially for Asia given its dependence on the zone of conflict for its energy needs. If the conflict gets elongated, it risks a general increase in price levels and lower output increasing stagflationary risks.

Throughout 2025 and early 2026, a widespread calibrated easing cycle saw major central banks like the U.S. Fed and ECB cut rates by 75-100 bps as the global economy shifted from fighting inflation to supporting growth. Japan was an exception which undertook rate hikes. However, with energy prices rising sharply due to the war in West Asia, globally central banks may need to reassess their policy stance. Higher energy costs are spilling over into other commodities, increasing the risk of worsening commodity prices and a rebound in overall inflation and lower growth.

Few key developments in FY26 were:

- **Liberation Day tariffs:** On April 2, 2025, U.S. President invoked emergency powers to impose broad reciprocal tariffs, triggering a global market shock and a year of trade volatility. The US Supreme Court in February 2026 ruled the "Liberation Day" emergency tariffs illegal, forcing the administration to pivot to statutory trade laws.
- **India-Pakistan 2025 Conflict:** A four-day military escalation in May 2025 led to the suspension of the Indus Waters Treaty and the closure of regional airspaces before a ceasefire was reached on May 10.
- **Nato's 5% Defense Spending Pivot:** Member nations at the June 2025 Hague Summit agreed to target 5% of GDP for defense, a massive increase driven by prolonged conflict in Ukraine.
- **Bank of Japan Interest Rate Hikes:** The BOJ signaled a series of rate hikes to stabilize the Yen, ending years of ultra-loose monetary policy and rattling global bond markets.
- **Fed rate cuts:** Fed resumed rate cuts and cut policy rates by a total of 75bps between September and December 2025.
- **The Israel-U.S.–Iran War:** The conflict has escalated into a direct "crushing" exchange between the U.S., Israel, and Iran, resulting in the near-total closure of the Strait of Hormuz and a global surge in oil prices.

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Macroeconomic Update (contd...)

GDP growth accelerated in 9MFY26: The Government in February 2026 released the new GDP series with 2022-23 as base year (from 2011-12 earlier). The Government not only changed the base year but also incorporated significant methodological changes in the new series to make GDP measurement more robust and reflective of changes which has taken place in the past decade. The new GDP series confirms continued growth momentum. India's GDP grew by 7.7% YoY in 9MFY26 (as against 7.1% YoY in 9MFY25). The acceleration was led by sectors, such as manufacturing and *'trade, hotels, transport etc'*. Agriculture growth on the other hand decelerated due to high base effect. On the demand side, the growth in 9MFY26 was led by private consumption and investments even as Government consumption demand moderated.

YoY change (%)	9MFY25	9MFY26	YoY change (%)	9MFY25	9MFY26
GDP	7.1	7.7	**GVA**	7.3	7.8
Private Consumption	5.9	8.7	Agriculture, Forestry and Fishing	4.3	2.5
Government Consumption	7.4	5.7	Industry	7.6	9.2
Gross Capital formation	6.7	6.3	Manufacturing	8.3	12.5
Gross Fixed Capital formation	6.5	7.1	Construction	7.1	6.9
			Services	8.3	8.9
Exports	7.0	7.4	Trade, Hotels, Transport, etc.	6.7	10.3
Imports	5.2	7.3	PADO	5.7	5.2

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

Indian economic activity was mixed in March: The high frequency indicators were mixed in March. While vehicle registrations continued to grow at a strong pace, power demand and PMIs for both manufacturing and services decelerated. The PMIs also revealed rising input cost pressure as energy prices continue to climb higher due to the war in West Asia.

Indicators	Units	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
Retail registration - Auto@									
2W	YoY, %	2.7	7.3	52.6	-2.6	10.3	21.2	25.1	28.2
PV		4.3	10.1	15.0	22.7	28.8	8.9	25.3	22.9
MHCV		10.7	-1.3	-1.2	22.6	28.1	15.1	36.1	20.0
LCV		8.3	2.3	27.4	21.1	25.8	5.8	31.4	19.9
Tractors		29.8	2.4	13.8	56.1	15.0	22.7	36.5	10.9
Gross GST Collection		6.5	9.5	4.6	0.7	6.1	6.2	8.1	8.8
Average E-Way bill generated		22.4	21.0	8.2	27.6	23.5	15.8	18.8	N.A.
Power demand		4.3	3.2	-6.0	-0.8	6.1	3.9	4.9	0.7
Digital Spending (UPI + IMPS)		16.8	17.4	13.1	19.7	18.2	18.7	20.6	17.4
Railway Freight Tonnage		5.5	11.8	4.6	6.9	4.9	2.7	3.7	3.1
Manufacturing PMI^	Index	59.3	57.7	59.2	56.6	55.0	55.4	56.9	53.9
Services PMI^	Index	62.9	60.9	58.9	59.8	58.0	58.5	58.1	57.5
Unemployment *	%	6.4	8.6	7.5	6.5	6.9	6.9	6.7	6.6

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, the direction and strength of demand will depend whether the temporary truce between Iran and US holds and energy supplies are restored to pre-war levels.

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Macroeconomic Update (contd...)

Tax revenue growth in slow lane: As Government cut both personal income tax and GST rates last fiscal, tax revenue growth has been slower, and the Government might miss the revised revenue targets for FY26. Despite the shortfall in tax revenue, the Government is likely to meet the fiscal deficit target in FY26 through a mix of higher non-tax revenue and lower expenditure than budgeted.

INR billion	11MFY25	11MFY26	YoY growth (%)
Gross tax revenue	32,042	34,195	6.7
Direct Tax Collections	17,586	18,628	5.9
Indirect Tax Collections	13,895	15,027	8.1
Less: Share of states & others	11,886	12,743	7.2
Net Tax collections	20,156	21,452	6.4
Non-tax revenues	4,933	5,812	17.8
Total revenue receipts	25,090	27,264	8.7
Total Capital rceipts	374	655	75.4
Total Receipts	**25,463**	**27,919**	**9.6**
Total Revenue Expenditure	30,813	31,153	1.1
Total Capital Expenditure	8,119	9,293	14.5
Total Expenditure	**38,932**	**40,446**	**3.9**
Fiscal Deficit	13,469	12,526	-7.0
Fiscal deficit (% of RE)	85.8%	80.4%	
Fiscal deficit (% of GDP)	4.2%	3.6%	

Source: CMIE

Current account deficit narrows but capital account weakens: India's CAD narrowed in the first 9 months of FY26 due higher invisibles surplus even as trade deficit widened. However, capital account surplus narrowed significantly due to large FPIs outflows from equities leading to widening of BoP deficit.

USD billion	9MFY25	9MFY26	YoY growth (%)
Trade (Deficit) / Surplus	**(228)**	**(252)**	**24.0**
Net Oil Imports	(92.1)	(93.8)	1.6
Net Gold Imports	(47.3)	(55.3)	13.2
NONG net imports	(90.2)	(84.8)	8.0
Net Invisibles exports Surplus / (Deficit)	**190.9**	**221.4**	**30.4**
Current account deficit	**(36.7)**	**(30.2)**	**-6.4**
% of GDP	**1.3%**	**1.1%**	
Capital Account Surplus / (Deficit)	**22.2**	**0.1**	**-22.2**
FDI	0.3	3.0	2.4
FII	9.4	(4.3)	-13.7
Trade credits, ECBs, etc.	23.7	23.0	20.5
Banking capital	(0.8)	1.0	1.8
Rupee debt service	(0.1)	(0.1)	4.0
Others	(10.6)	(22.6)	-12.1
Balance of Payments	**(13.8)**	**(30.8)**	**-17**

Source: CMIE

Retail inflation cools in FY26, likely to rise in FY27: CPI inflation moderated by 270bps in 11MFY26 led by decline in food prices. Ex of precious metals, core inflation too was benign as benefit of GST cuts led to decrease in prices.

CPI inflation is likely is to increase this year due to higher crude oil and other commodity prices, adverse base effect and likelihood of lower monsoon which could lead to higher food inflation

YoY, %	FY25	11MFY26	Change in %
CPI	4.6	1.9	-2.7
Food & beverages	6.8	1.0	-5.8
Housing, Fuel and Light	1.1	1.9	0.8
Transportation	2.3	1.3	-1.0
Gold, Silver and jewelleries	21.7	38.0	16.3
Core-Core CPI@	3.2	3.1	-0.1

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

Commodity prices: While oil price remained largely benign through most of FY26, they spiked in Mar'26 following the escalation of the West Asia conflict, with the Strait of Hormuz, a critical choke point accounting for around 34% of global oil trade, remaining shut. Elevated geo-political uncertainty continued to support gold prices during FY26. Moreover, industrial metals such as copper and aluminium benefited from increased investments in data centres and the accelerating adoption of electric vehicles. In contrast, steel prices saw only moderate gains, weighed down by Chinese overcapacity and subdued global demand.

	Market price (USD)*	FY25 (%)^	FY26 (%)^
Brent Crude (per barrel)	118	-14.6	58.3
Gold (per ounce)	4,668	40.1	49.4
Steel (per tonne)	480	-10.1	3.2
Zinc (per tonne)	3,220	18.5	13.5
Copper (per tonne)	12,160	10.8	25.7
Aluminium (per tonne)	3,521	9.7	39.9
Lead (per tonne)	1,881	1.9	-6.0

Source: *Market prices as on March 31, 2026, ^YoY change

Macroeconomic Update (contd...)

Summary and Conclusion:

Global economy faces heightened uncertainty due to in geo-political tensions in west Asia although the 2-week truce between US and Iran offers hope of early resolution of the conflict. If the conflict gets elongated, it can have profound implications for the global economy as not only energy but supply chains for various sectors will get disrupted. Growth in the US so far has held up well and prospects too were bright before the conflict started. This was due to higher AI/tech related capex and expansionary fiscal policy. However, labour markets have remained weak as evidenced by low non-farm payrolls although unemployment rate has not risen sharply as labour supply too has gone down simultaneously due to crackdown on illegal immigration. Growth in China is following a two-speed path where domestic consumption and property markets are in a slow lane, but exports and manufacturing are holding up well.

Before the start of conflict in west Asia, growth in India too had held up well on the back of fiscal (income tax and GST cuts) and monetary (lowering of interest rates) stimulus. High frequency indicators have steadily improved over the last few months with rural demand continuing to hold up well and urban demand too showing signs of uptick. Inflation remains well anchored and though it's expected to rise from here on due to rise in crude oil and other commodity prices, and adverse base effect, it's unlikely to increase significantly. RBI has projected an average inflation of 4.6% in FY27.

Looking ahead, the medium-term outlook for the Indian economy seems optimistic, in our view. This optimism is driven by policy continuity, benefits from production-linked incentive schemes, opportunities arising from shift in the global supply chain, and the likely boost to private consumption due to income tax relief and lower borrowing cost. However, the flare up in geo-political tensions remains a key risk to growth this year.

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Debt Market Update

FY26 was a year when major central banks undertook synchronised rate cuts (except Japan which undertook rate hike). Softness in labour markets prompted Fed to cut rates by 75bps last year. However, yields on the longer end increased despite policy rate cuts. By the end of the year, 10-year Government bond yields were higher by 11bps in US, 27bps in Germany and 75bps in Japan.

10-year Government bond yield in India rose by 46bps during the year ending at 7.04% even as RBI cut rates by 100bps during the year as supply demand mismatch in G-sec and flare up in geo-political tensions in March led to rise in yields especially at the longer end. 10-year AAA corporate bond yields also witnessed rise of 58bps during the year and the spread between 10 year AAA and 10 year Gsec widened by 12bps. The table below gives a summary view of the movement of key rates and liquidity:

	FY25	FY26	Change (in bps)
MIBOR Overnight Rate (%)	7.20	6.98	-0.22
3M Gsec yield (%)	6.52	5.33	-1.19
10Yr Benchmark G-Sec Yield^ (%)	6.58	7.04	0.46
AAA 10Year Corporate Bond Yields#, & (%)	7.14	7.72	0.58
AAA 10Y Corporate bond spread against 10Y benchmark@ (bps)	56	68	0.12
Average net liquidity absorbed/infused by RBI* (INR billion)	-341	1,749	

^-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 ~INR1,750bn in FY26, from a deficit of ~INR341bn in FY25 due various measures taken by the RBI including large OMO purchase of Government of India securities.
In the debt market, FPIs ended the year with net buying of USD 2.1 billion in FY25 (FY25 net buy: USD 16.1 billion).

Outlook

The US and Iran agreed to a two-week ceasefire which resulted in oil prices declining and fixed income market rallying. Further, RBI's decision to keep the policy rate and stance unchanged in its latest monetary policy with inflation forecast for FY27 up only marginally was considered dovish by the markets. RBI governor's comment on real rates still being high and probability of rates being lower for longer along with only marginal upward revision in inflation forecast for FY27, moderated the rate hike expectations and pulled yields lower. Moreover, RBI's assurance that it will continue to be *proactive and pre-emptive in liquidity management and ensure sufficient liquidity also went well from yields perspective.*
In view of the aforesaid we believe that the medium-term outlook on Indian fixed income market, remains favourable, considering:

- Fall in oil prices should ease pressure on CAD and INR and could result in capital flows improving, thus easing pressure on BoP.
- Risk of growth surprising to downside due to supply chain disruption along with expectation of inflation remaining within comfortable range, reduces risk of significant rise in policy rates.
- Liquidity is likely to be in ample surplus in the coming few months in view of constant assurance by RBI governor's to maintain sufficient surplus to meet the real economic needs.
- Supply and demand dynamics for SLR is favourable placed in view of likely revival of demand from Banks (due to lower SLR holding) and Pension funds. Further, to maintain sufficient liquidity, RBI might be required to conduct open market purchases of Gsec in FY27 as well.

Key risks to the favourable outlook:

- Reescalation of tension of West Asia conflict resulting in oil prices higher than forecasted
- El Nino conditions in FY27 leading to large deficiency in southwest monsoon and reduced crop production
- Slight risk of fiscal slippage remains as the projected oil price can result in additional fertilizer subsidy and lower revenue due to reduction in excise duty. The possibility of expenditure rationalization and higher dividend from RBI is likely to cushion impact, to a large extent.

Looking ahead, despite heightened global uncertainty, the medium-term outlook for Indian fixed income remains optimistic, considering that the markets have priced in most of the negatives. Expectation of lower oil prices, ample systemic liquidity and balanced supply-demand dynamics for government securities provide meaningful support. With growth risks tilted modestly to the downside and inflation expected to remain broadly well behaved, the likelihood of aggressive rate hikes appears limited. Key risks to monitor include any escalation in conflict or adverse food price movement due to weak monsoon.

Equity Market Update

Indian equity markets saw broad based decline in returns in FY26. NIFTY 50/BSE Sensex ended year with -5.1%/-7.1% returns respectively (compare to 5.3%/5.1% returns in FY25). Returns of small cap indices also declined while that of mid-caps ended with marginal gain. Key drivers/events during the year which affected equity markets were US administration imposition of tariffs across its trading partners leading to heightened trade uncertainty, rapid development in AI and major geo-political flare ups including the US-Israel-Iran conflict in West Asia towards the end of the fiscal. Amongst broad sectors while Metals, Autos and Capital goods outperformed, IT, FMCG and Banks underperformed.

Globally most equity indices ended the year with strong gains with Korean, Japanese and US markets outperforming. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	FY25	FY26
BSE Metal	9.3	19.4
BSE Auto	-2.9	10.3
BSE Capital Goods	2.9	2.4
BSE Oil & Gas	-9.1	1.7
BSE Power	-1.7	1.3
BSE Healthcare	18.2	0.9
BSE Bankex	11.3	-5.0
BSE Fast Moving Consumer Goods	0.7	-13.7
BSE Information Technology	1.3	-22.7
NIFTY Midcap 100	7.5	1.9
NIFTY Smallcap 100	5.4	-5.5
NSE Nifty 50 Index	5.3	-5.1
BSE Sensex	5.1	-7.1

% Change	FY25	FY26
KOSPI	-9.7	103.6
Nikkei 225	-11.8	43.4
MSCI Emerging Markets	5.6	26.9
NASDAQ Composite	5.6	24.8
FTSE 100	7.9	18.6
Shanghai Composite	9.7	16.7
S&P 500	6.8	16.3
Hang Seng	39.8	7.2
DAX	19.9	2.3
CAC 40	-5.1	0.3

Source: Bloomberg

FIIs sold net equities worth USD 14.2 billion in March 2026 (February 2026: Net bought USD 1.7 billion) and have cumulatively sold equity worth USD 21.1billion in FY26 (FY25: USD 15.7 billion).

DIIs bought net equity worth USD 15.4 billion in March 2026 (February 2026: USD 4.2 billion) and have cumulatively bought USD 95.7 billion in FY26 (FY25: USD 71.7 billion). Net flows into Mutual funds were ~INR 32,813 crore in February 2026 (January 2026: ~INR 32,466 crore & February 2025: ~INR 31,230 crore) cumulatively amounted to ~INR 366,195 crore in 11MFY26 (11MFY25: ~INR 431,766 crore).

Outlook

As on March 31, 2026, NIFTY 50 Index was trading at ~17x 1 year forward multiple. Further, Market cap-to-GDP stood ~127% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield has narrowed recently [*Earnings yield = 1/ (one year forward P/E)*].

Chart 1

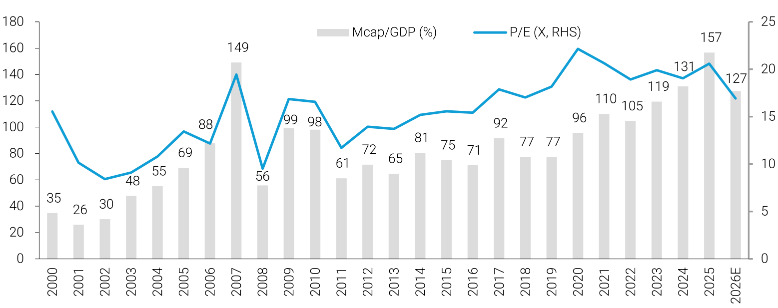
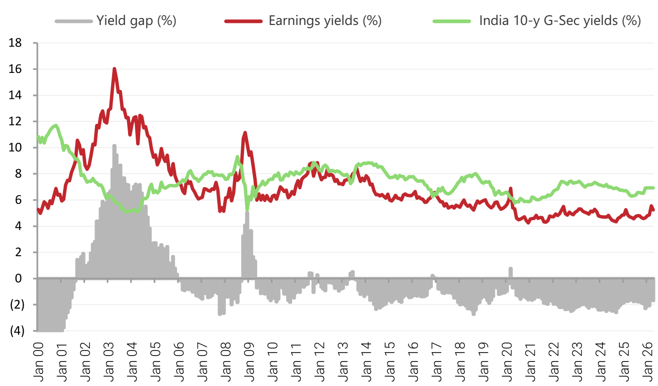


Chart 2



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

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Equity Market Update (contd...)

After the recent fall, 6 out 12 sectors are now trading at a discount to long term average (10 years) and rest 6 are still trading at a premium. (refer to the table below for details):

	12 months forward Price To Earnings		
	31-Mar-26	**LTA**	**Discount / Premium^**
Utilities	16.1	11.6	38
PSU banks @	1.3	1.1	16
Metals	11.6	10.1	15
Cement	36.0	31.4	15
Pharma	27.7	24.5	13
Industrials	30.9	27.5	12
Energy	12.9	12.9	0
Automobiles	19.4	20.7	-6
Consumer Discretionary	50.1	55.7	-10
FMCG	32.4	36.6	-11
Tech	16.4	21.2	-23
Pvt Banks @	1.9	2.5	-26

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

The global economy today faces unprecedented uncertainty as supply chains get disrupted leading to rise in general increase in prices and lower growth. Given the global uncertainties, the importance of stock selection increases even more.

Over medium to long term, we remain optimistic on Indian equities considering key trade deals, 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 risk of elongated conflict in West Asia and cyclical moderation in corporate earnings.

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

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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