

The Lighthouse

by HDFC Mutual Fund

*Cut Through the Noise.
Engage with Clarity.*

October 2026

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Market sentiment in the last few months has been shaped largely by events abroad. A prolonged conflict in West Asia pushed crude oil higher, bond yields rose across the developed world, and Indian equities saw a broad-based correction. India's own fundamentals held firm though, as growth stayed resilient, inflation remained within the RBI's tolerance band, and steady domestic flows absorbed much of the foreign selling.

*This edition's **Macro Guide** works through the three forces behind the quarter. The first is the rate cycle: with both the US Fed and the RBI raising rates, we look at how Indian equities, and banks and autos in particular, have fared through past hiking cycles. The second is the global AI investment boom, how it echoes earlier technology cycles, and why India's market is far less concentrated than the US. The third is foreign portfolio flows: why they turned negative, where domestic money went instead, and what history suggests once positioning reaches an extreme. The **Valuation Guide** then shows how the correction has improved valuations across market caps, with earnings growth broadening beneath the surface.*

*The **Investor Guide** puts today's flat stretch in perspective: past flat phases in Indian equities have typically been followed by strong recoveries, a reminder that patience through such periods has tended to reward investors.*

HDFC MF's Lighthouse is designed to support more meaningful and informed conversations with your investors. The objective remains consistent: to cut through the noise and provide clarity on the key drivers of markets, enabling more confident and effective investor engagement.

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- Index Scorecard: Winners and Laggards
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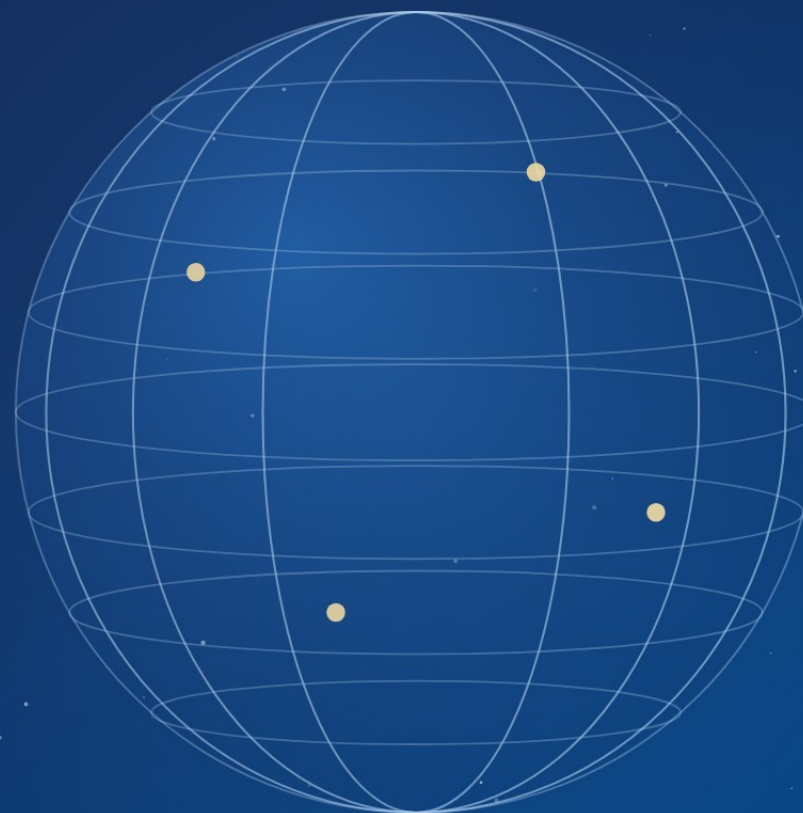
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Quarter at a Glance: Key Talking Points

1	Crude crosses US\$100, but external balances hold	The current account deficit was 0.5% of GDP in Q1FY27, and FX reserves reached a record US\$740.8 billion . <i>(Covered in TTP - India's Comfortable External Balances Situation even as Crude crosses US\$100)</i>
2	RBI's October FX measures stabilise the rupee	The RBI's October FX measures helped stabilise the rupee despite a stronger US dollar and elevated crude prices. <i>(Covered in TTP - RBI's October FX Measures Help Stabilize the Rupee Amid Global USD Pressure)</i>
3	Fiscal deficit target holds despite the West Asia conflict	The FY27 target of 4.3% of GDP looks achievable, with strong direct taxes, divestment and a record ₹2.87 lakh crore RBI dividend absorbing higher costs. <i>(Covered in TTP - India could hold its Fiscal Deficit Target despite the West Asia Conflict)</i>
4	Monsoon ends below normal, but buffers cushion the impact	Rainfall ended about 13% below normal , but kharif acreage is only 1.4% lower than last year and reservoirs hold 71% of live capacity. <i>(Covered in TTP - Monsoon 2026 ends below normal, but rural India has more buffers than before)</i>
5	Growth is broad-based beyond the GDP print	Real GDP grew 7.8% in Q1FY27, ahead of RBI's 7.0% projection, and bank credit grew 19.3% YoY . <i>(Covered in TTP - Beyond the GDP Print: High-Frequency Indicators point to a Broad-Based Economic Growth!)</i>
6	Q1FY27 earnings: profit growth broadens	NIFTY 500 Index's net profit grew 12% YoY on 19% revenue growth, with 18 of 29 sectors posting double-digit profit growth, led by banks and small caps. <i>(Covered in TTP - Q1 FY27 Earnings: Profit Growth Broadens as Banks and Small Caps Lead)</i>
7	Data centres: India's footing in the AI race	Colocation data centre capacity of about 2 GW today is projected to reach close to 10 GW by 2031 . <i>(Covered in TTP - Data Centres and India's Footing in the AI Race – 2 GW Today, 10 GW by 2031!)</i>

TTP: Tuesday's Talking Point. Source: various publicly available information.

For disclaimer refer slide 51

Index Scorecard: Winners and Laggards

+20.3%

Defence
Best performer ·
CY2026

-25.9%

IT
Correction in
CY2026

+8.4%

5-year CAGR gap
Mid cap[^] vs NIFTY 50
14.8% vs 6.4%

+8.1%

5-year CAGR gap
Small cap* vs NIFTY
50
14.5% vs 6.4%

Broad Market

Index	3M	CYTD	1Yr	3Yr	5Yr	10Yr
NIFTY 50	-4.9	-12.6	-7.1	6.1	6.4	11.5
NIFTY 500	-3.7	-6.8	-2.0	9.5	9.0	12.8
NIFTY Midcap 150 [^]	-3.8	-1.3	4.6	13.7	14.8	16.6
NIFTY Smallcap 250*	0.7	7.2	7.2	14.0	14.5	14.6

Mid and small caps have continued to outperform large caps in calendar year 2026 so far.

Commodities

Index	3M	CYTD	1Yr	3Yr	5Yr	10Yr
Gold	5.7	3.5	18.7	37.5	25.7	16.5
Silver	5.6	-9.7	42.5	45.4	29.6	16.4

Key Sectors (Sorted by 1-year return)

Index	3M	CYTD	1Yr	3Yr	5Yr	10Yr
NIFTY Metal	2.2	15.4	28.5	24.1	19.3	19.8
NIFTY Pharma	4.6	17.0	24.0	20.4	13.6	9.5
NIFTY India Defence	-2.4	20.3	18.8	42.3	51.0	NA
NIFTY Energy	-7.3	4.7	5.9	11.8	11.6	16.4
NIFTY Bank	-4.9	-7.7	0.7	7.8	8.7	11.6
NIFTY Auto	-0.1	-5.8	0.1	18.6	21.0	11.3
NIFTY Fin. Services	-6.9	-10.0	-4.4	8.6	7.1	12.8
NIFTY IT	5.7	-25.9	-15.9	-2.4	-2.6	12.6
NIFTY FMCG	-8.5	-19.2	-17.9	-3.3	3.6	9.2

In CYTD26, Defence, Pharma and Metals have outperformed, while IT and FMCG have lagged

Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Source: MFI360 Explorer, Morningstar, Bloomberg, internal calculations. Returns to 30-Sep-2026; all indices are Total Return (TRI); periods over 1 year are compounded annualised (CAGR). NA = not available. Gold and silver in INR. CYTD = calendar year 2026 to date.

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India's domestic fundamentals remain steady. This quarter's macro guide examines three developments shaping the outlook for Indian equities, and the questions investors are asking on each

1. Inflation and the Hiking Cycle



How have Indian equities fared in past rate hiking cycles?

- ▶ Why is the US raising rates again?
- ▶ Why is RBI following the Fed?
- ▶ How do rate hikes affect banks?

2. AI Capex: Transformation and Excess



What does the AI investment cycle mean for markets?

- ▶ How have past tech cycles played out?
- ▶ How is AI capex being funded?
- ▶ How concentrated are Korea and Taiwan?

3. The FPI Puzzle



Where do foreign investor flows stand?

- ▶ Why did FPIs move away?
- ▶ Which Sectors have borne the brunt of FPI selling?
- ▶ How do things look now for India?

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Inflation and the Hiking Cycle

Indian equities have performed well even in past rate hike cycles

“Everything is interwoven.”

— Marcus Aurelius, Meditations



Why the US is hiking rates?

In September 2026, the FOMC raised the Federal Funds Target Range by **25 bps** to commence a new rate hike cycle

AI Capex Boom

Data centre investment adds to demand for power, chips, construction and labour.

Energy Inflation

Brent was **USD ~110/bbl*** at 20-Oct-26, against USD 67 a year earlier.

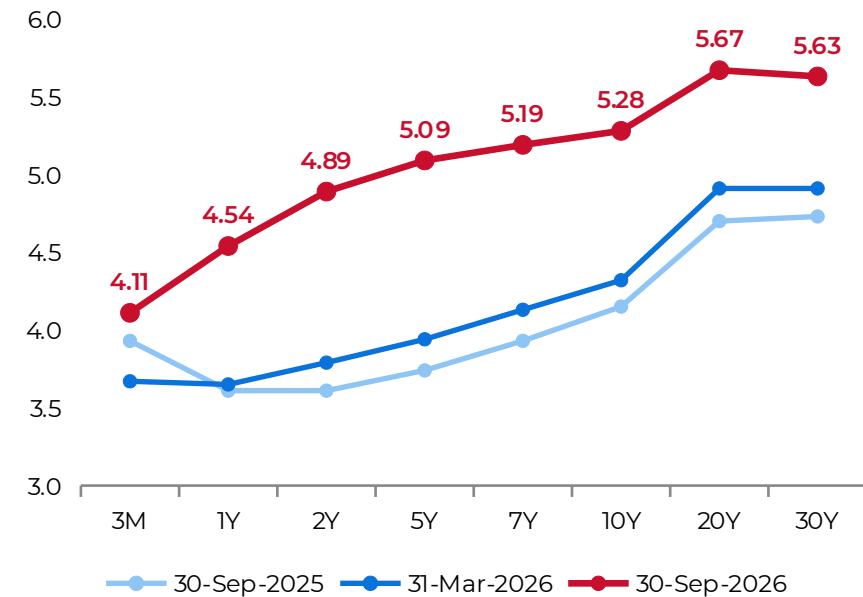
Widening Fiscal Deficit

The federal deficit was **USD 2.0 trillion** in FY26, **~12% higher** than FY25

Healthy Economy

- Real GDP grew **2.2%** annualised in Q2 2026 with a relatively modest unemployment rate at **4.2%** (Sep-26).
- The FOMC sees core PCE inflation at **3.4%** in 2026, well above its 2% goal.

US Treasury Yield Curve (%)

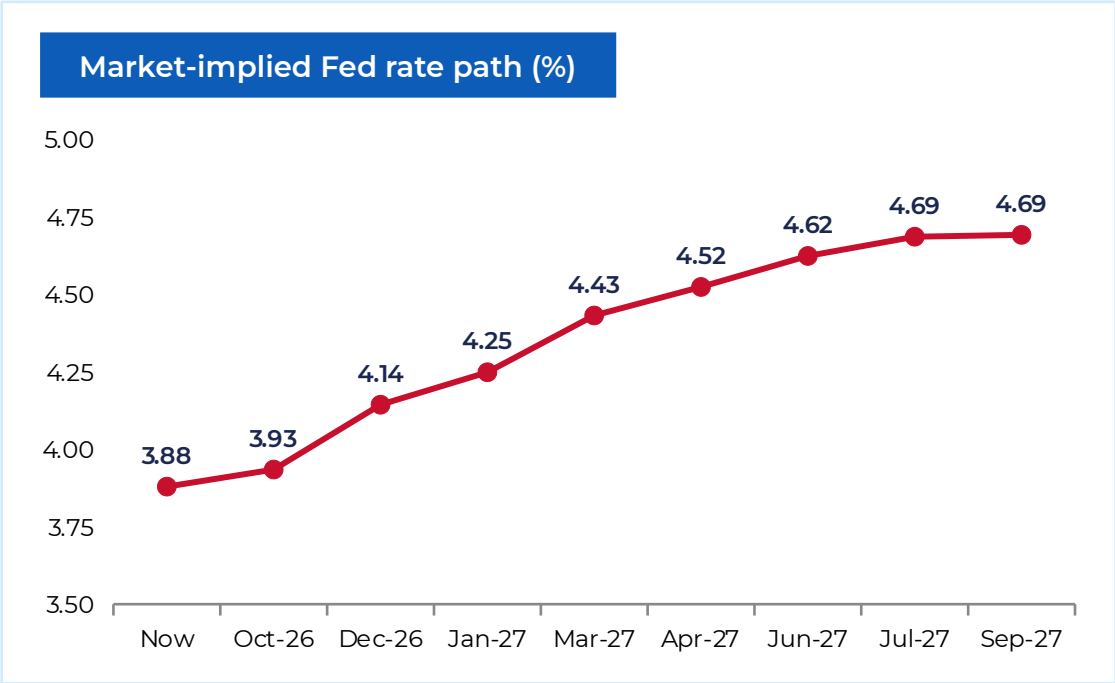


US Treasury Yield curve has shifted upwards as **2Y and 10Y yields rose 128 bps and 113 bps in a year (Sep-25 to Sep-26)**. This remains a key risk for global financial markets.

*ICE Brent Crude Oil generic front-month futures
Source: Bloomberg

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How many more hikes in US? Other Central Banks are hiking too



1 hike of 25 bps
By Dec-26, Implied by market pricing

3 hikes of 25 bps
By Sep-27, Implied by market pricing

Central Bank	Policy Rate (Oct-26)	Cumulative, Apr to Oct-26	Stance
US Fed	3.75% to 4.00%	+25 bps (1 hike)	Tightening
ECB	2.50%	+50 bps (2 hikes)	Tightening
Bank of England	3.75%	0 bps (on hold)	On hold, ready to tighten
Bank of Japan	1.25%	+50 bps (2 hikes)	Tightening

US markets price about **three 25 bps Fed hikes** over the next 12 months

India Equities have performed well during past US Hiking Cycles

Jun-2004 to Jun-2006

US Fed hikes **+425 bps** 1.00% to 5.25%

NIFTY 50 Index CAGR during the cycle

+40.6%

1,518 to 2,998 over 2.0 years

RBI policy rate
6.00% to 6.75%

Hiked 75 bps

India 10Y G-sec
5.81% to 8.13%

+231 bps

USD/INR
46.0 to 46.3

Rupee down 0.7%

Dec-2015 to Dec-2018

US Fed hikes **+225 bps** 0.25% to 2.50%

NIFTY 50 Index CAGR during the cycle

+12.5%

7,701 to 10,967 over 3.0 years

RBI policy rate
6.75% to 6.50%

**Cut 75 bps, then
hiked 50 bps**

India 10Y G-sec
7.79% to 7.22%

-57 bps

USD/INR
66.9 to 70.4

Rupee down 5.2%

Mar-2022 to Jul-2023

US Fed hikes **+525 bps** 0.25% to 5.50%

NIFTY 50 Index CAGR during the cycle

+13.4%

16,663 to 19,778 over 1.4 years

RBI policy rate
4.00% to 6.50%

Hiked 250 bps

India 10Y G-sec
6.82% to 7.10%

+28 bps

USD/INR
76.6 to 82.0

Rupee down 7.0%

Through the last three Fed hiking cycles, **NIFTY 50 delivered double-digit CAGR each time**. The rupee weakened in each of these cycles; this time it has already depreciated, with the REER at 92* (Aug-26), below its 2015-16 base of 100.

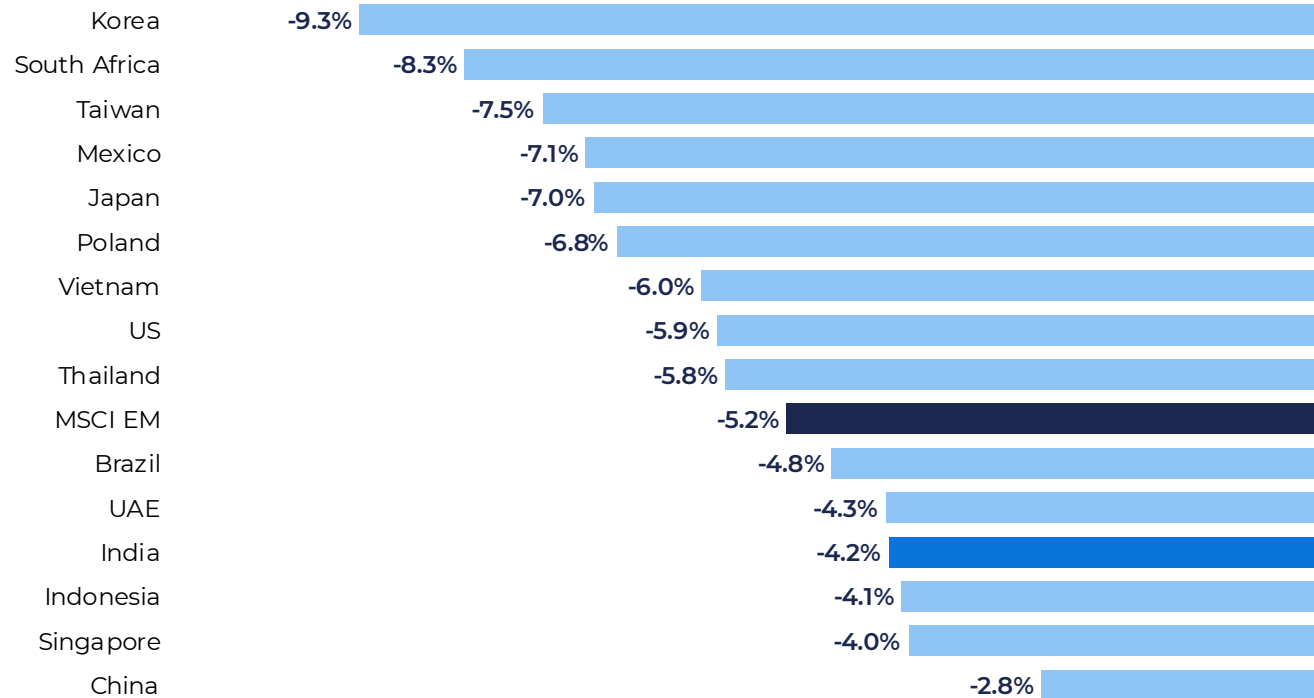
Past performance may or may not be sustained in future and is not a guarantee of any future returns. Each window runs from the close before the first Fed hike to the date of the last hike. NIFTY 50 returns are CAGR over each window. Fed funds: upper bound of the target range. Source: Federal Reserve, RBI, Bloomberg.

*Source: RBI, Trade-Weighted

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India among the least sensitive markets to US Real Yields

Change in MSCI Market Return (USD) for a 1 percentage point rise in the US 10Y Real Yield



Why Indian Equities hold up?

- A 1 percentage point rise in the US 10Y real yield has on an average resulted in **~4% fall in MSCI India**, against **~5% for MSCI EM**
- Corporate earnings in India are driven mainly by domestic demand
- Domestic flows, including SIPs, absorb FPI selling
- Forex Reserves are stronger than in past episodes
- Broader Indian equity indices have a relatively lower exposure to the technology sector, which is sensitive to changes in US interest rates

Indian equities have historically been relatively less sensitive to US yields

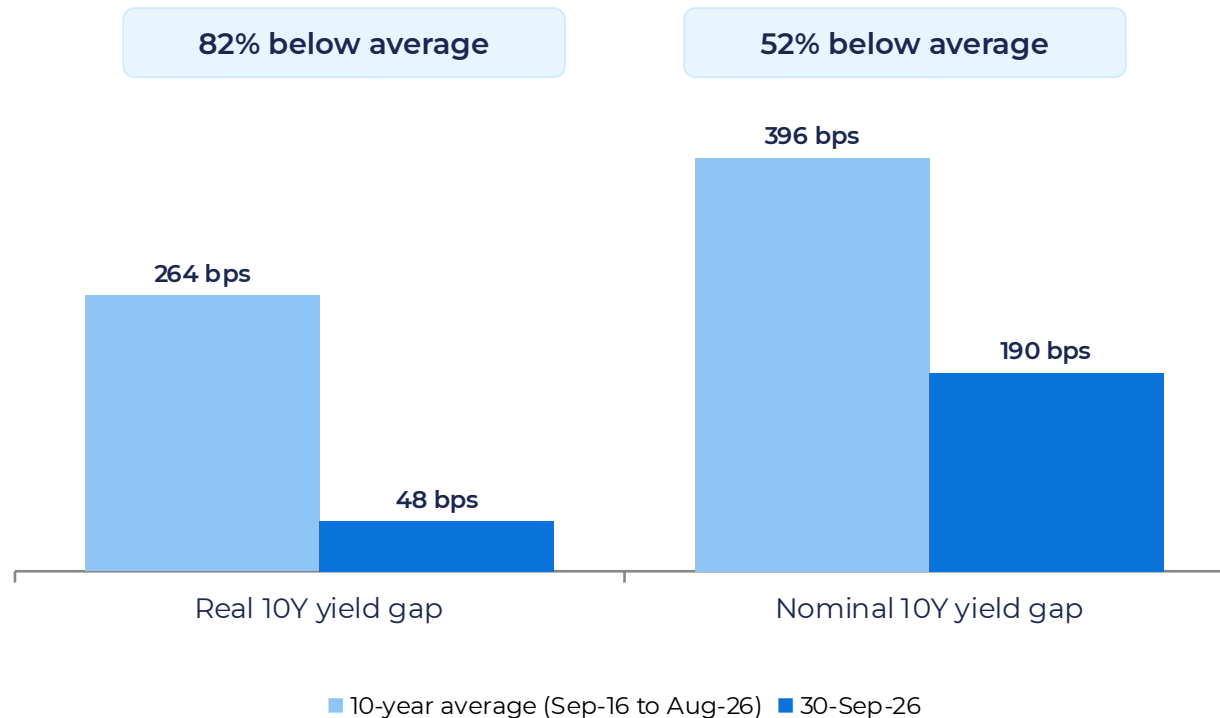
Past performance may or may not be sustained in future and is not a guarantee of any future returns. Sensitivity: UBS estimate of the change in equity returns (USD terms) for a 1 percentage point rise in the US 10Y real yield. Source: UBS.

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Why is RBI following the Fed in this Cycle?

India minus US 10Y Yield Gap: Today vs Long-Term Average

Basis points, month-end



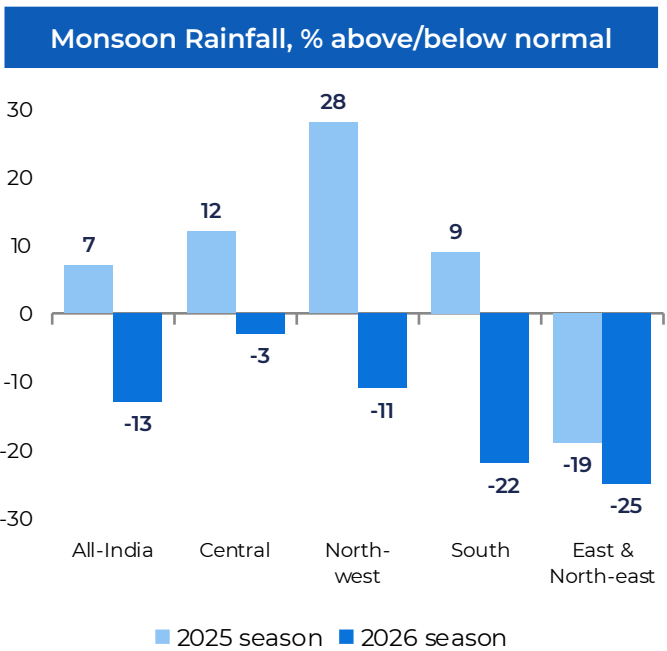
Why RBI is tightening

- A thin yield premium over the US, well below its 10-year average on both real and nominal measures, reduces the appeal of Indian bonds
- RBI expects CPI inflation to be **5.2%** in FY27
- Crude volatility from the West Asia conflict, a deficient monsoon and El Niño add to supply-side risks
- The Fed's September hike has reinforced expectations of higher global rates
- RBI raised the repo rate by **25 bp to 5.50%** on 7-Oct-26 and moved to calibrated tightening

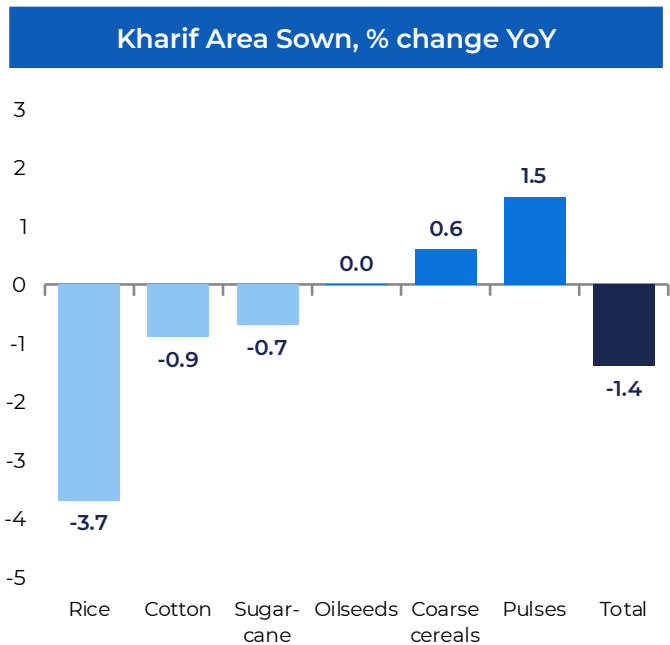
RBI is hiking due to an uptick in inflation, volatile energy prices, a weak monsoon, a slim real yield spread over the US and rising global bond yields

India Inflation: A Weak Monsoon, with buffers in place

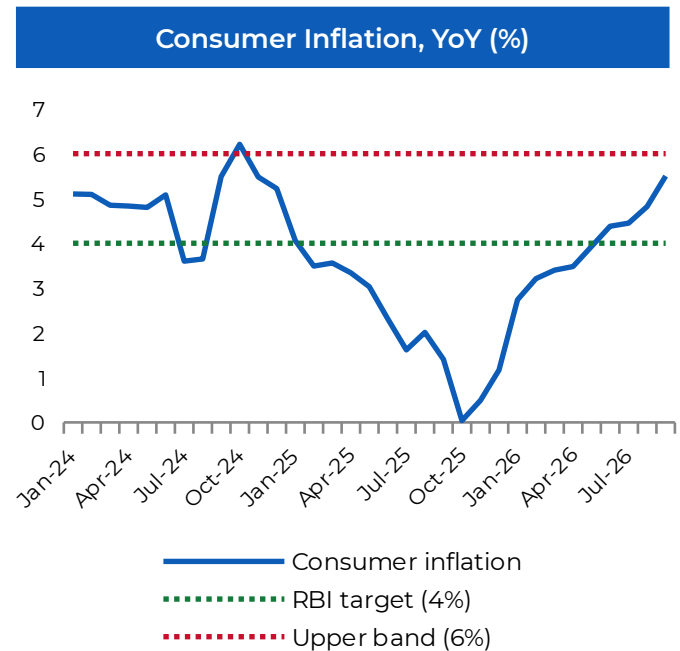
The monsoon ended **~13% below normal**, but Central India, the core kharif belt, stayed close to normal



Area sown is only **1.4% below last year**; rice is the soft spot, pulses and coarse cereals higher



The MPC sees CPI at **5.2% for FY27**, peaking at **6.0% in Q3**, with limited broad-based pressure



Sowing, reservoirs and food stocks have cushioned a weak monsoon. **Food and crude prices remain the upside risks to inflation.**

Source: IMD; Ministry of Agriculture, Motilal Oswal; Central Water Commission; FCI; MoSPI; Department of Consumer Affairs. Data as of Sep-2026.

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Banks and Autos beat NIFTY 50 Index in 3 major RBI Hiking Cycles since 2010

What triggered each hiking cycle

2010-11 Repo 4.75% to 8.50%

Inflation stayed high after the post-GFC stimulus. Wholesale inflation was above 8% from Jan 2010.

2013-14 Repo 7.25% to 8.00%

Rupee sell-off with consumer inflation near 10%. The rupee fell after the US Fed signalled it would slow bond buying (Taper Tantrum).

2022-23 Repo 4.00% to 6.50%

Commodity shock from the Ukraine war, with global interest rates rising together. Consumer inflation hit 7.8% in Apr 2022.

2026: RBI has increased the repo rate by 25 bps to 5.50% on 7 Oct 2026

12-Month Total Return (%) from the month-end before the first rate hike

Sector	2010-11	2013-14	2022-23	Ahead of NIFTY 50
NIFTY 50 (benchmark)	9.5	47.2	6.9	Benchmark
Banks	20.7	75.6	20.8	3 of 3
Auto	15.5	79.0	20.2	3 of 3
Capital goods	-7.4	113.0	35.6	2 of 3
Consumer durables	42.1	64.9	-9.7	2 of 3
Financials ex-banks	10.5	74.2	5.0	2 of 3
FMCG	29.1	19.9	27.8	2 of 3
PSEs	-14.3	66.5	12.6	2 of 3
Pharma	18.1	45.5	-5.5	1 of 3
Infrastructure	-12.8	61.3	5.3	1 of 3
Metals	-5.8	62.4	-6.4	1 of 3
IT	17.5	29.9	-10.5	1 of 3
Realty	-38.6	48.4	1.2	1 of 3
Energy	1.2	32.6	-16.3	0 of 3

Bold blue: beat the NIFTY 50 in that cycle.

Past performance may or may not be sustained in future and is not a guarantee of any future returns. Total return indices, 12 months from the month-end before the first hike; excludes 2018. Source: Bloomberg, ICRA Analytics Limited; RBI.

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Rate Hikes: Bank Margins expand early in the cycle

RBI hikes the
repo rate

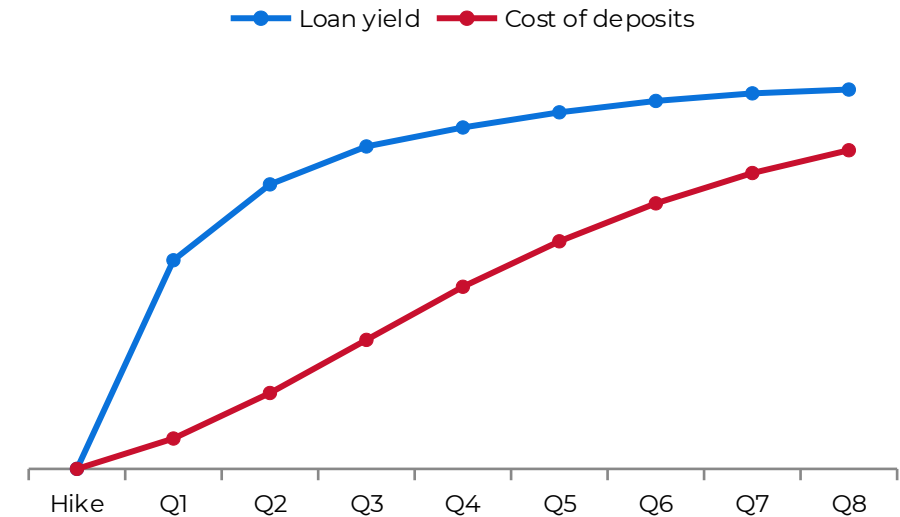
Loan Side: Reprices first

- **EBLR (External Benchmark based Lending Rate) loans:** mostly linked to the repo rate; reset at least once a quarter. Covers home, retail and small business loans taken since Oct-2019.
- **MCLR (Marginal Cost of Funds based Lending Rate) loans:** most reset once a year. Mainly covers large corporate loans and older floating-rate loans
- **Fixed-rate loans:** reprice as loans roll over.

Deposit Side: Reprices with a lag

- **Term deposits:** reprice only when they are renewed
- **Savings deposits:** rates are set by banks

Net Interest Margins widen early, then narrow



Illustrative, not to scale. Quarters after the first hike.

Loan yields rise first as EBLR loans reset. Deposit costs follow as term deposits renew

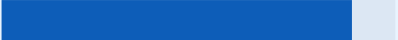
Since loans reprice faster than deposits, **bank margins widen in the early quarters of a hiking cycle**

Private Banks: Less of the Loan Book on slow-moving MCLR

How fast a floating loan reprices depends on the benchmark it is linked to

EBLR (External Benchmark based Lending Rate) - Reprices fast

% of floating-rate loans linked to EBLR

Private Banks  **89%**

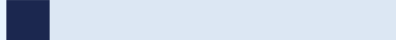
PSU Banks  **51%**

Mainly home, retail and small-business loans. EBLR resets at least once a quarter, so a repo hike passes through to Bank's income sooner

A repo hike reaches banks' income sooner

MCLR (Marginal Cost of Funds based Lending Rate) - Reprices slowly

% of floating-rate loans linked to MCLR

Private Banks  **11%**

PSU Banks  **49%**

Mainly large corporate loans. MCLR resets about once a year, so these loans lag the repo rate.

A repo hike reaches banks' income with a lag

Valuation snapshot

P/B vs 10-year average

Private Banks

29% discount

to 10-year average P/B

1.78x vs 10-year average of 2.50x

PSU Banks

4% premium

to 10-year average P/B

1.15x vs 10-year average of 1.11x

Private banks hold more of their book on fast-repricing EBLR and **trade at a 29% discount to their 10-year average P/B**, so banks' income responds faster to rate moves while valuations stay below average

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AI Capex through the Lens of Past Tech Cycles

Tech transformations create productivity gains, but history cautions on excesses

“We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run.”

— Roy Amara



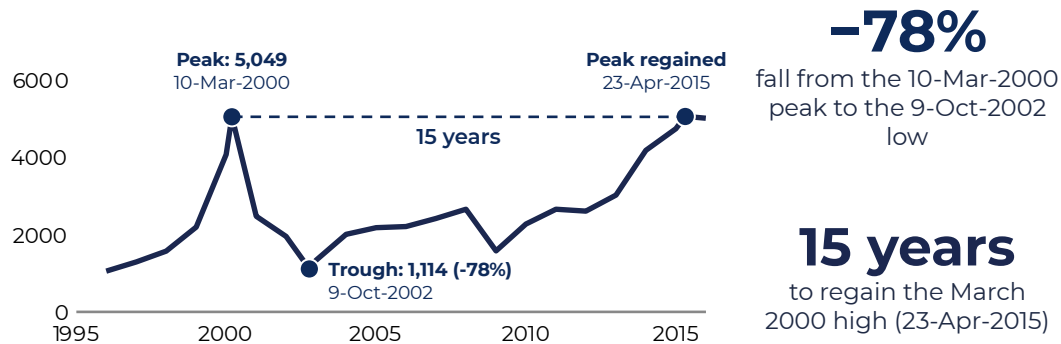
Tech Revolutions in the past have led to Financial Excess

The Five Stages of a Tech Boom



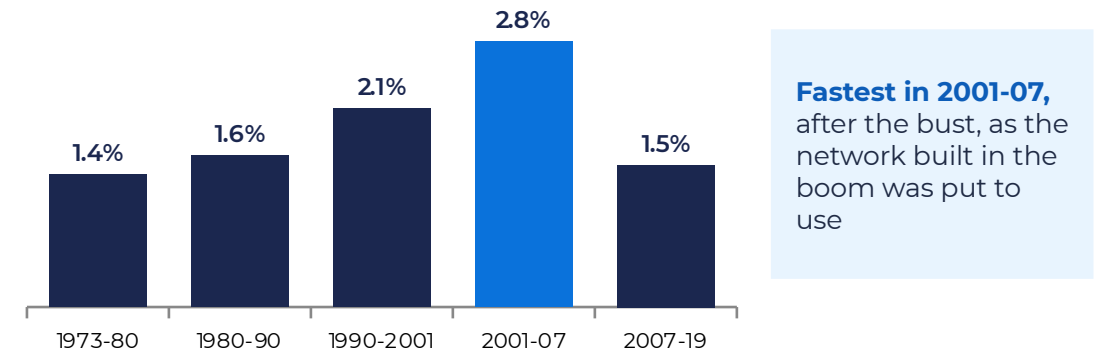
Investors lost: Nasdaq Composite took 15 years to recover

Nasdaq Composite (1995 to 2015)



US Economy gained: Productivity rose after the bust

US Labour Productivity Growth (% a year by Business Cycle)



The Internet outlived the dotcom crash and lifted the economy, even as investors who bought at the peak lost significantly

Source: Federal Reserve Bank of Richmond, Economic Quarterly, Fall 2003 (fibre capacity, carriers, Nasdaq telecom index); J. Ritter, University of Florida (IPOs); World Bank, WDI (internet users); Nasdaq via FRED (Nasdaq Composite); US Bureau of Labor Statistics (productivity, non-farm business sector).

Railways, Electricity, Internet: Similarity in Each Cycle

Three Episodes, One Pattern

	1. The Boom	2. The Bust	3. What endured?
 Railway Network UK, 1840s Steam railways	6.7% of GDP invested in railways at the 1847 peak ¹	 -66% UK railway share index, 1845 to 1850 ²	~2,000 → ~6,000 miles UK rail network nearly trebled, 1844 to 1851 ³
 Electricity, Radio, Autos US, 1920s Electrification, mass production	US\$8.5 billion of broker loans funding share buying, Oct-1929 ⁴	 -89% Dow Jones Industrial Average, 1929 to 1932 ⁵	1.7% → 1.9% a year US productivity growth, 1920s vs 1930s ⁶
 Internet and Telecom US, 1990s Internet, fibre-optic networks	2.2x rise in US telecom equipment investment, 1996 to 2000 ⁷	 -78% Nasdaq Composite, 2000 to 2002 ⁸	43% → 72% online Americans using the internet, 2000 vs 2010 ⁹

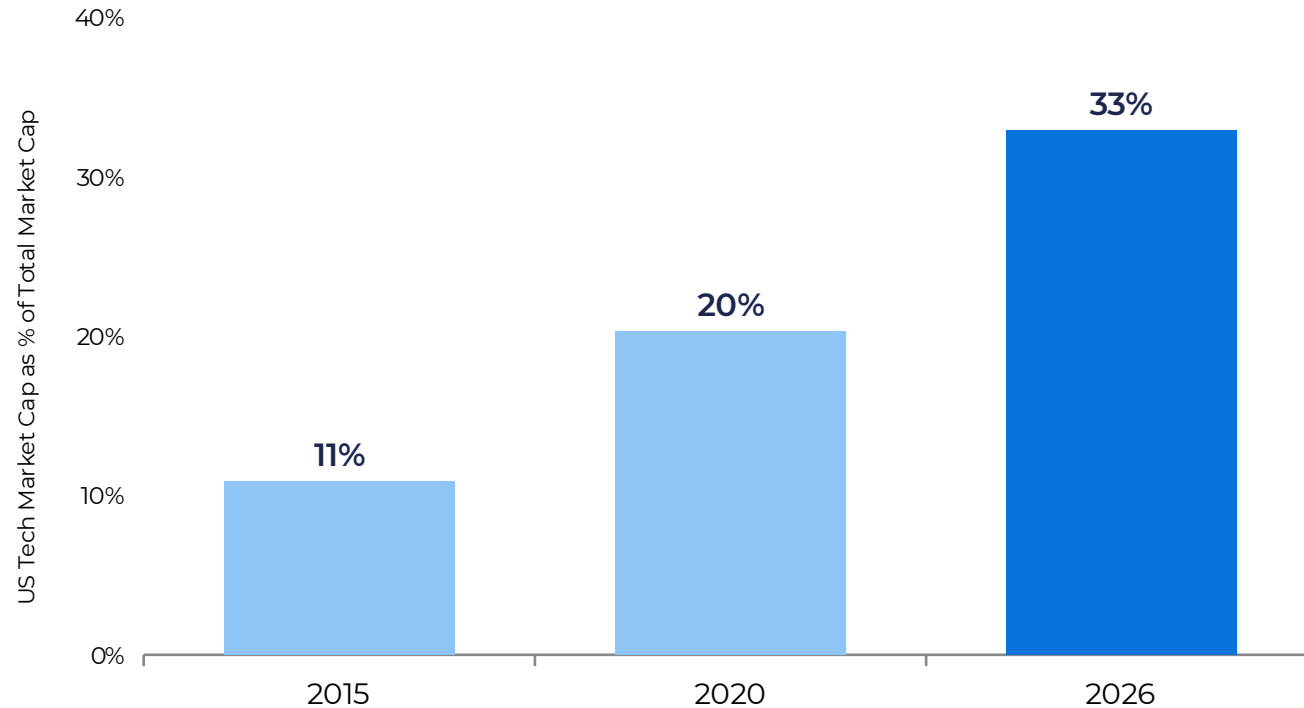
While past booms each tended to end in a bust, **the technology built went on to transform the economy**

Dates: ¹calendar year 1847; ²Aug-1845 peak to 1850 trough (weekly index); ³network length in 1844 and 1851; ⁴1-Oct-1929, brokers' loans outstanding; ⁵3-Sep-1929 peak to 8-Jul-1932 trough; ⁶1919-29 vs 1929-41, average a year; ⁷Q1-1996 to Q4-2000 (annual rate, constant 1996 dollars); ⁸10-Mar-2000 peak to 9-Oct-2002 trough; ⁹calendar years 2000 and 2010.

Source: S&P Dow Jones Indices; Nasdaq; US BEA; US Federal Reserve

The current AI episode: US Tech hits dotcom-peak weight

US Tech's Share of the Total Market Cap has tripled since 2015



3x

Rise in US tech's share of total US market cap,
2015 to 2026 (11% to 33%)

33% vs 34%

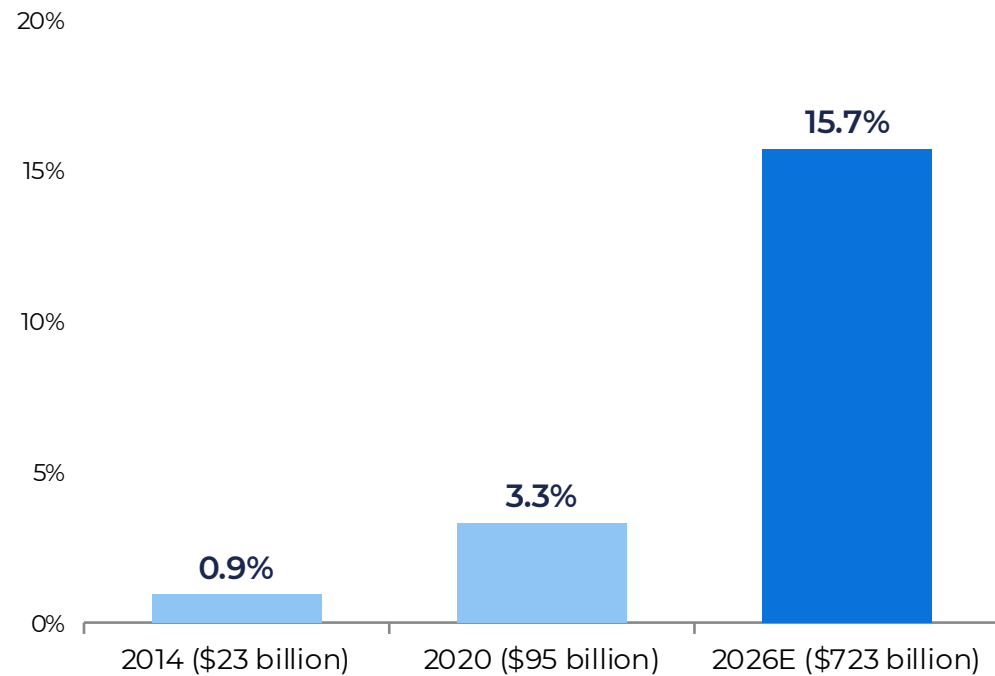
US tech's share of the US market today vs the
IT sector's share of the S&P 500 in Aug-2000,
at the end of the dotcom boom

- The climb has been fastest since 2020: from 20% to 33%
- Future returns now lean heavily on how AI spending pays off

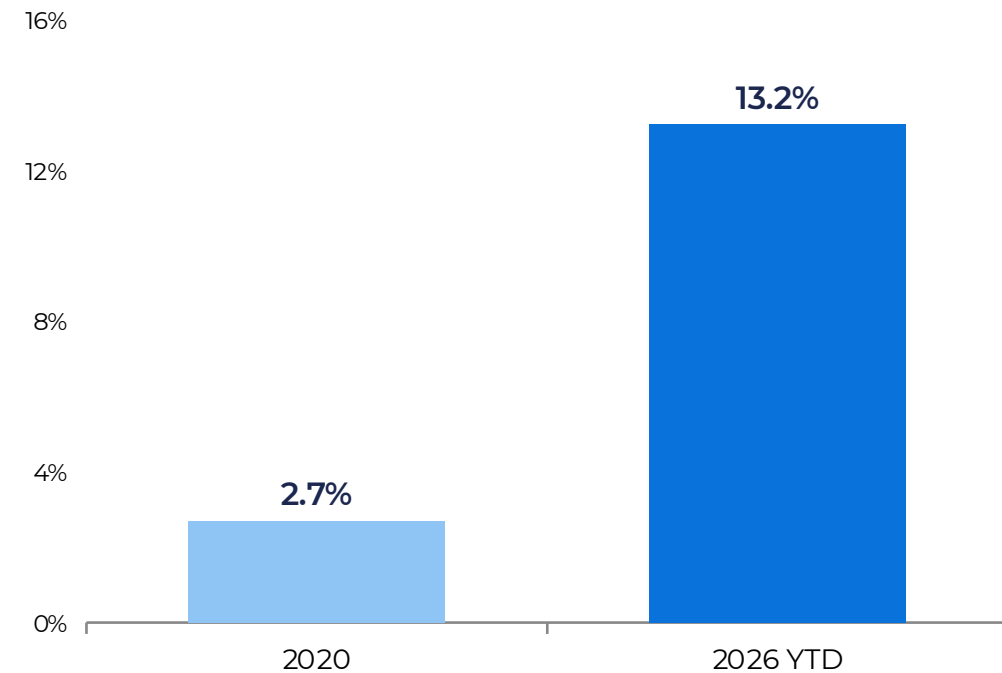
US tech now carries about as much weight in the market as it did at the height of the dotcom boom

AI Capex: Bigger, and Increasingly Borrowed

Hyperscaler Capex is expected to reach ~16% of US Private Non-Residential Fixed Investment by 2026

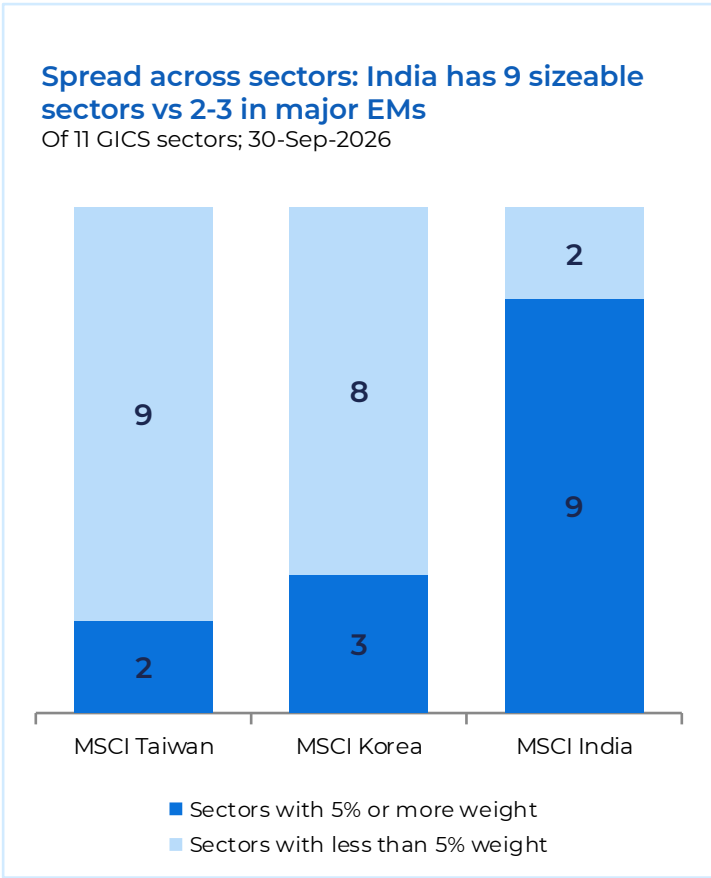
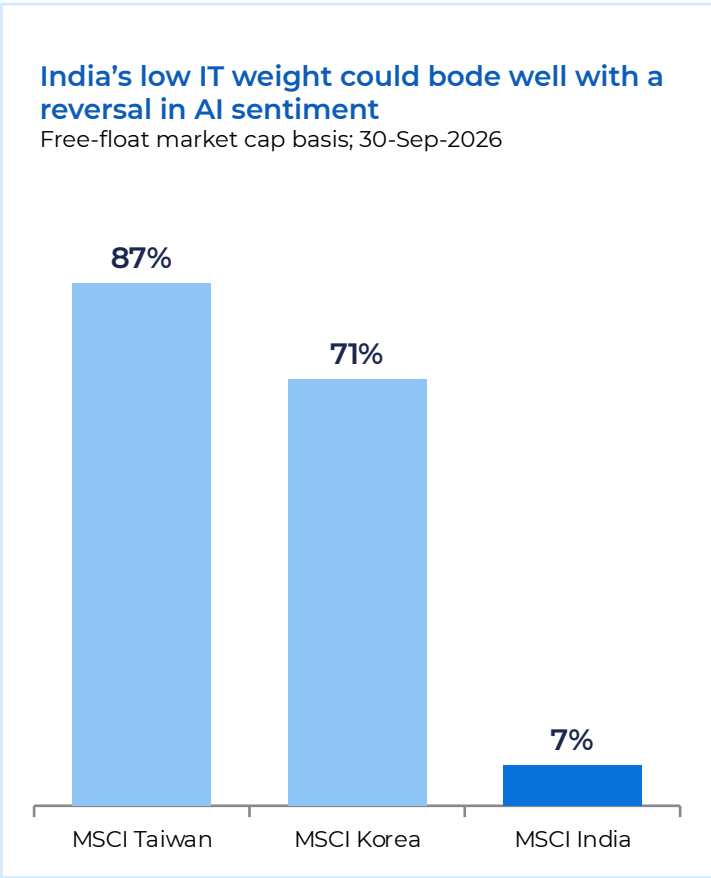
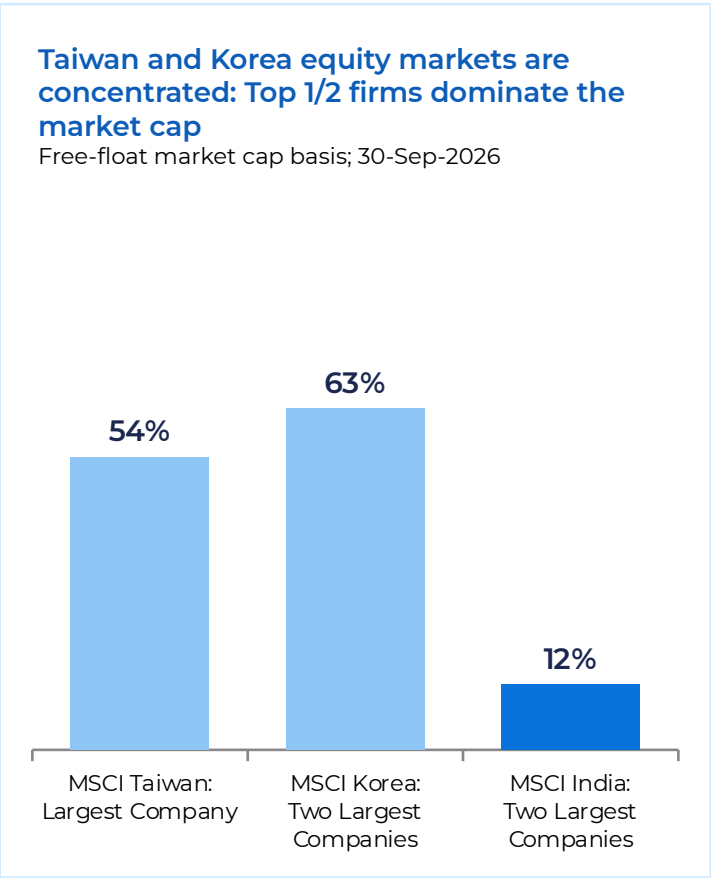


Hyperscalers' Share of US Investment-Grade Bond Issuances has jumped from 3% to 13% since 2020



AI spending is growing fast and leaning more on debt, which ties its fortunes to US economic growth and bond yields

Hyperscalers: The largest cloud-computing companies, running data centres at a large scale – Microsoft, Amazon, Alphabet (Google) and Meta (for capex), plus Oracle (for bonds). Source: Jefferies, Company Filings; BEA via FRED. 2026E capex: midpoint of company guidance, excl. finance leases; investment base for 2026E: Q1-2026 annualised rate. Right chart: 2026 YTD = 1-Jan-2026 to 2-Sep-2026; 2020 = full calendar year.



While equity markets in Taiwan and Korea ride on a few companies, India's market is spread across multiple companies and sectors

Source: MSCI, 30-Sep-2026 (constituent and sector weights, % of index free-float market cap). Sector counts use the 11 GICS sectors.
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The FPI Puzzle

Foreign selling has been heavy, but some of the triggers behind it have eased

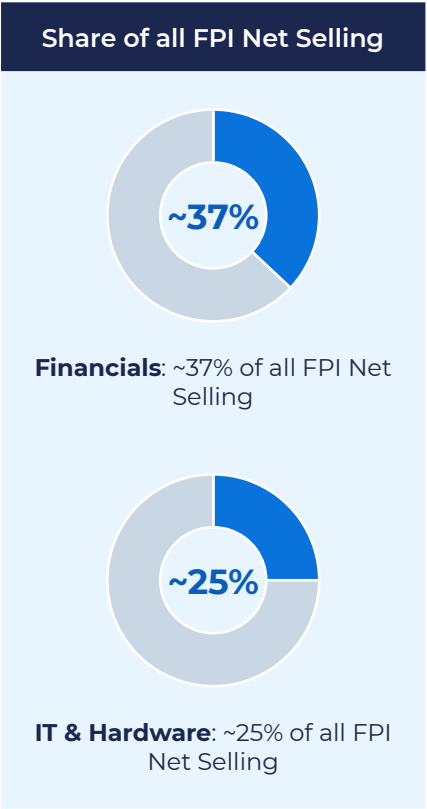
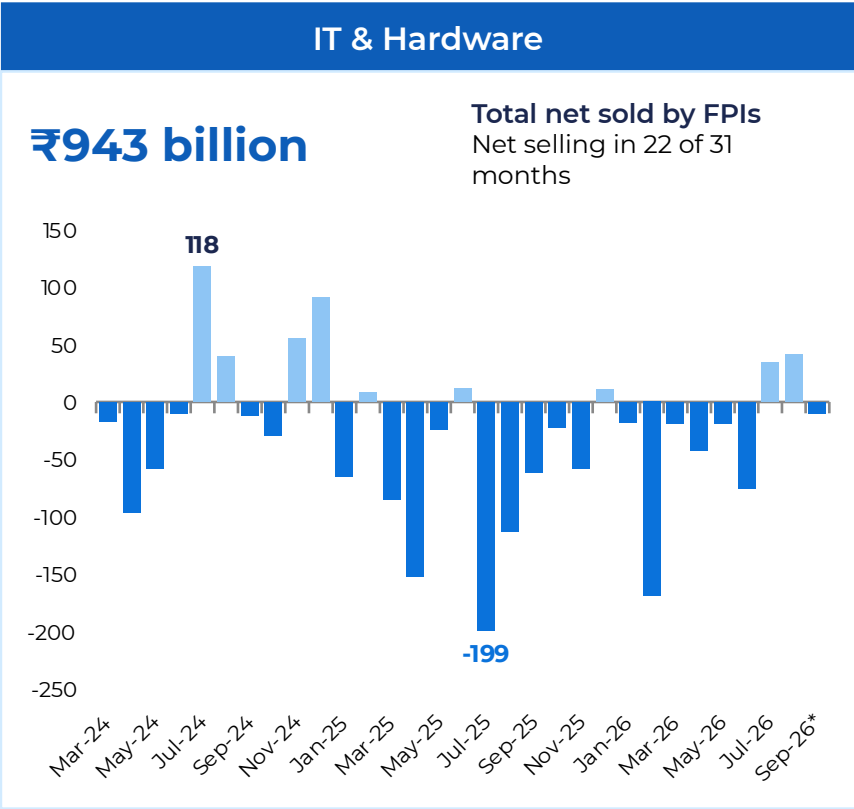
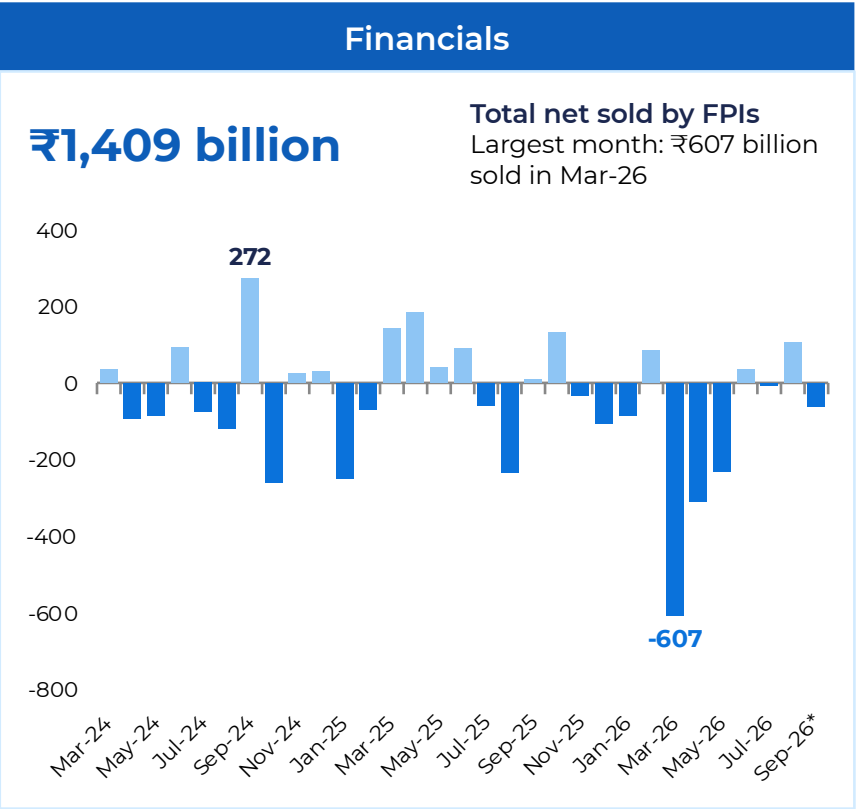
“In the short run, the market is a voting machine but in the long run, it is a weighing machine.”

— Benjamin Graham



Banks and IT have borne the brunt of FPI selling

FPI Net Equity Flows by Sector, Mar-24 to Sep-26* Monthly, ₹ billion



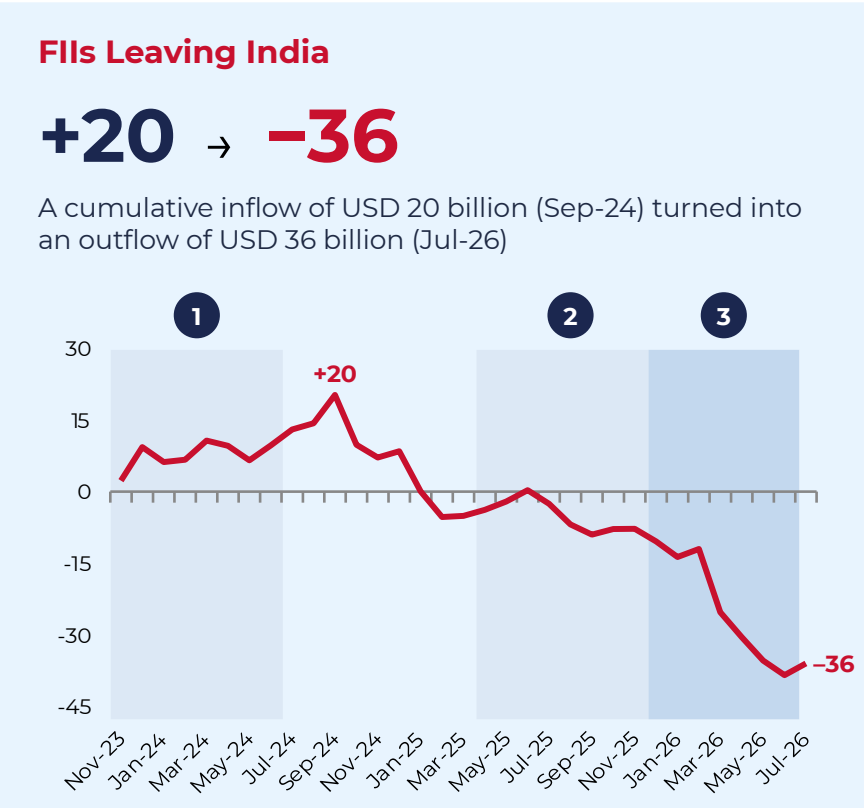
FPI Selling has been concentrated in Banks and IT over the last 2 years
It remains to be seen if this scenario presents contrarian investment opportunities given potential mean reversion

Dark blue = net selling, light blue = net buying. *Sep-26 is month-to-date to 15-Sep-26. Source: Kotak Institutional Equities.

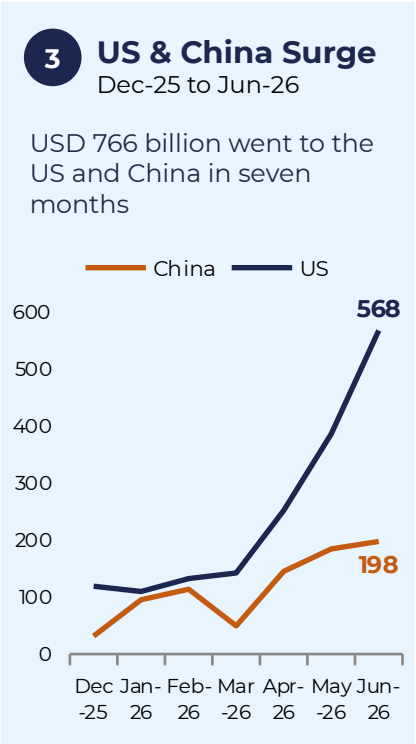
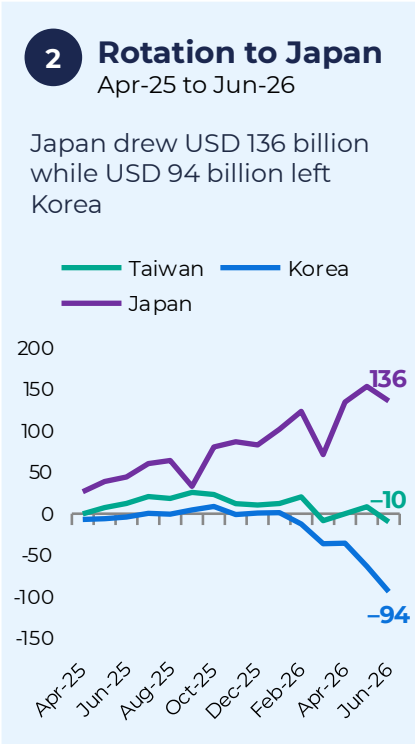
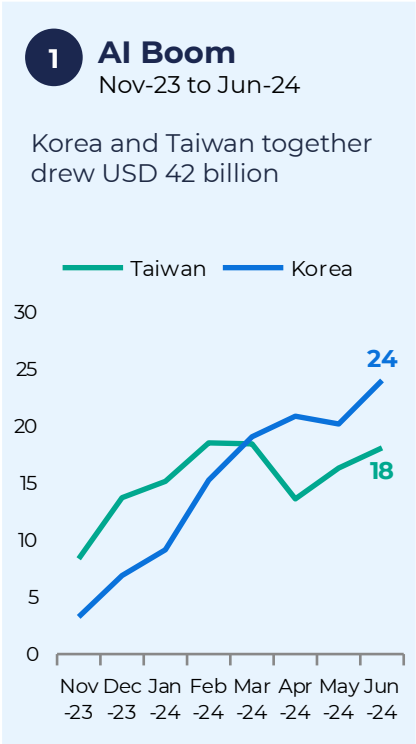
For disclaimer refer slide 51

Flows followed the AI Theme more than the Macro Fundamentals

Foreign Equity Flows since the AI Boom Cumulative Net FII Equity Flows, USD billion



Where it went instead

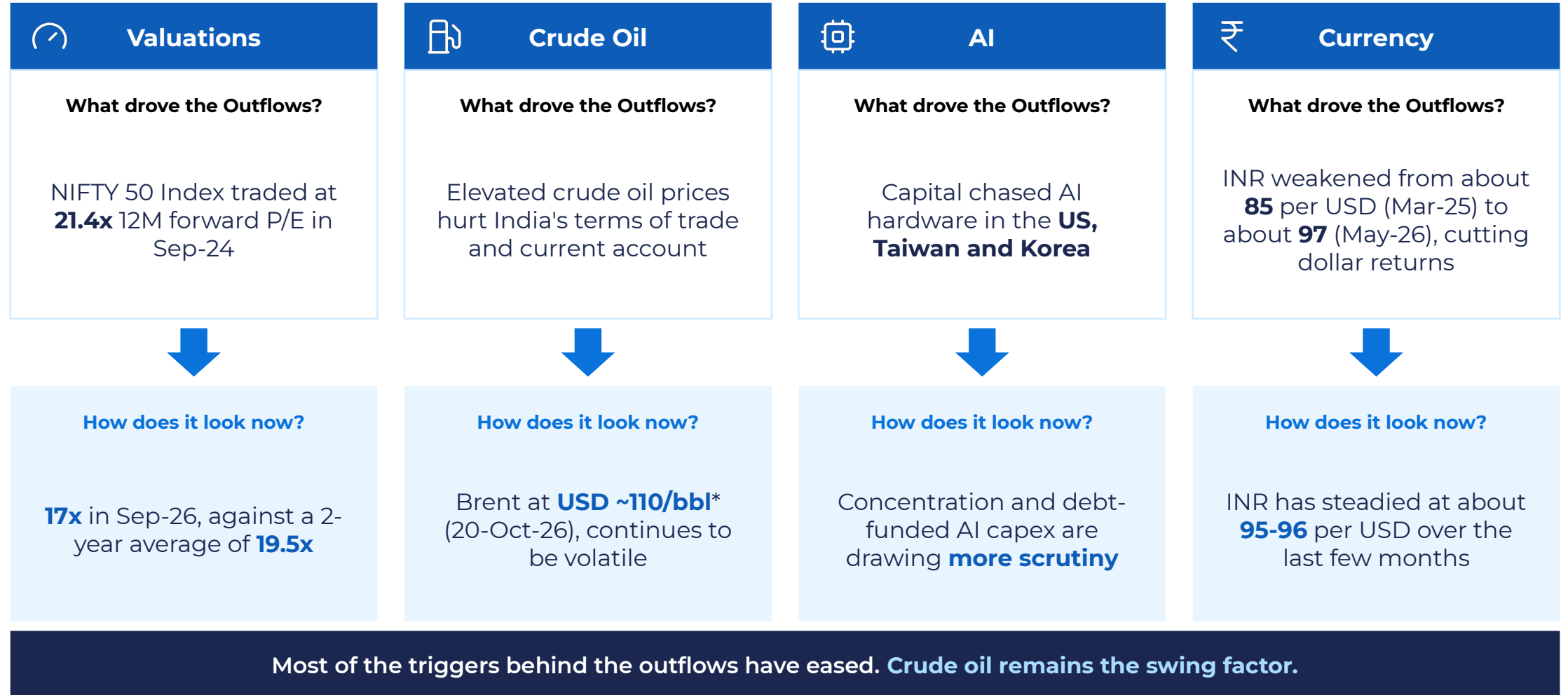


Money moved to **AI-themed markets** over the past couple of years
A mean reversion in AI-trade could benefit India

Source: Bloomberg. Cumulative net FII equity flows from the start of each period. Each chart has its own scale.

For disclaimer refer slide 51

Why FPIs moved away, and how things look now for India

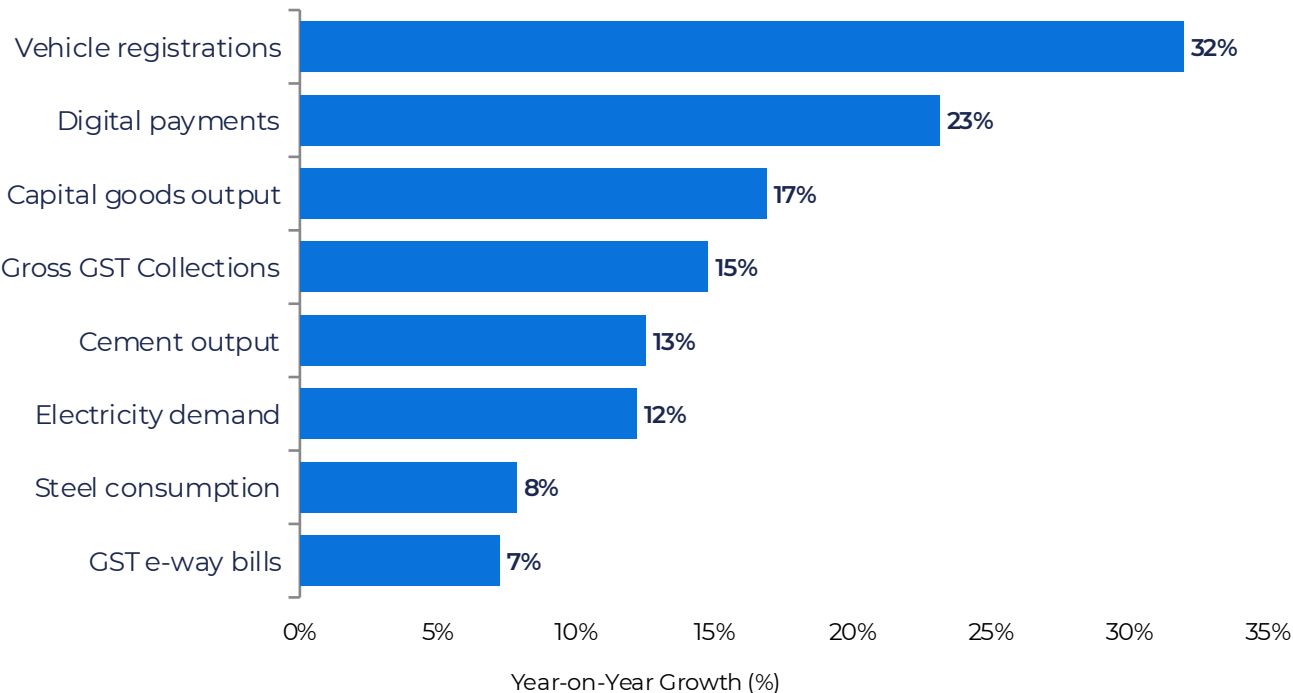


*ICE Brent Crude Oil generic front-month futures
Source: Bloomberg, NSDL, RBI. Data as of 30-Sep-26.

For disclaimer refer slide 51

India's Healthy High-Frequency Indicators: Growth is broad-based

Most Key Indicators are growing at a healthy pace



Other Indicators (Latest Month)

Composite PMI Sep-26

55.9 Remains expansionary

Manufacturing PMI Sep-26

55.1 Remains expansionary

Services PMI Sep-26

55.2 Remains expansionary

Domestic air passengers Aug-26

-6.8% Y-o-Y; a key indicator that witnessed a decline

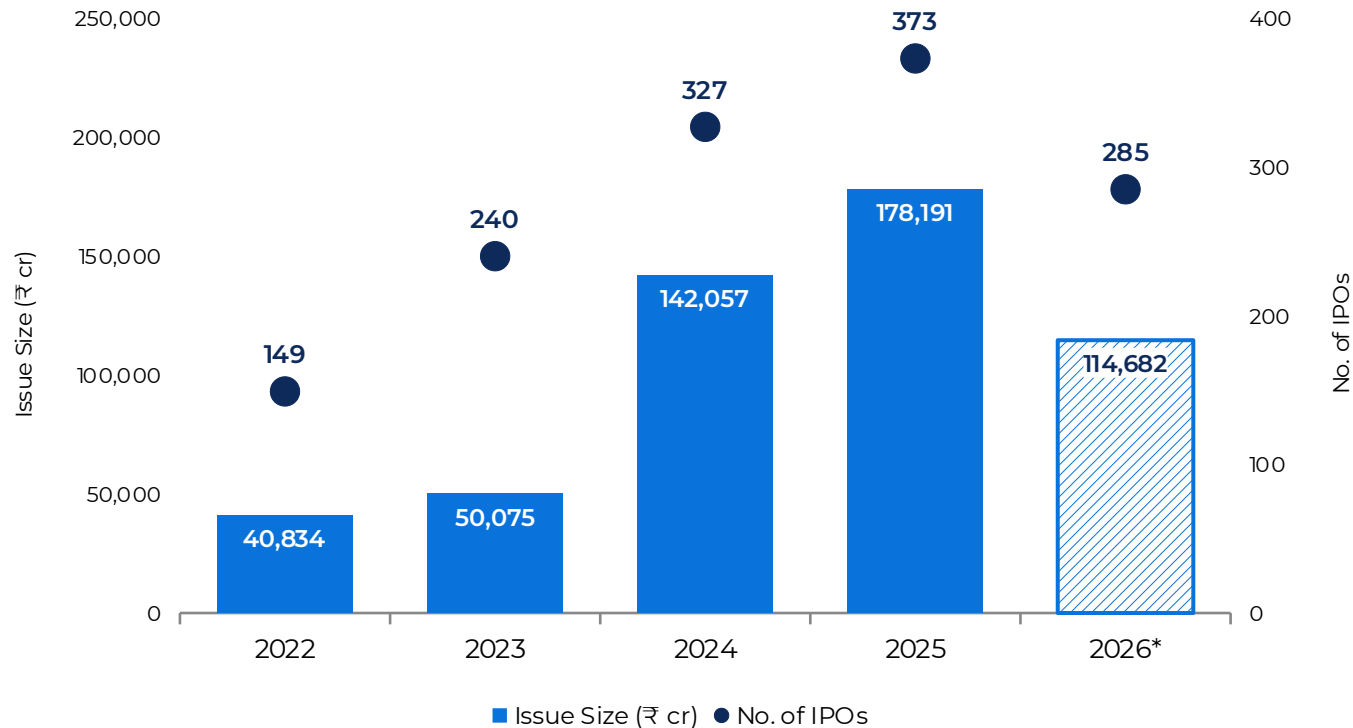
Steady growth in various High Frequency Indicators keep India's economic growth more broad-based

Source: CMIE. Year-on-year growth for the latest month available: Sep-26 for vehicle registrations, Gross GST Collections, steel consumption and GST e-way bills; Aug-26 for digital payments, capital goods output, cement output and electricity demand.

For disclaimer refer slide 51

IPOs: Record Flows and Widening Opportunity Set

Mainboard IPO Issuance, 2022 to 2026



Record and Rising Flows

Issue sizes scaled from ₹40,834 cr in 2022 to a record ₹178,191 cr in 2025; 2026 is already at ₹114,682 cr year-to-date across 285 IPOs

Broad-based and well-supported

IPOs now span a wider set of sectors, expanding the investment universe, with strong domestic participation supporting robust demand

Healthy IPO momentum points to positive sentiment towards Indian equities

Bars: issue size (₹ cr, left axis). Circles: number of IPOs (right axis). 2026 is year-to-date. Source: Internal; Mainboard IPOs.

For disclaimer refer slide 51

02

Valuation Guide



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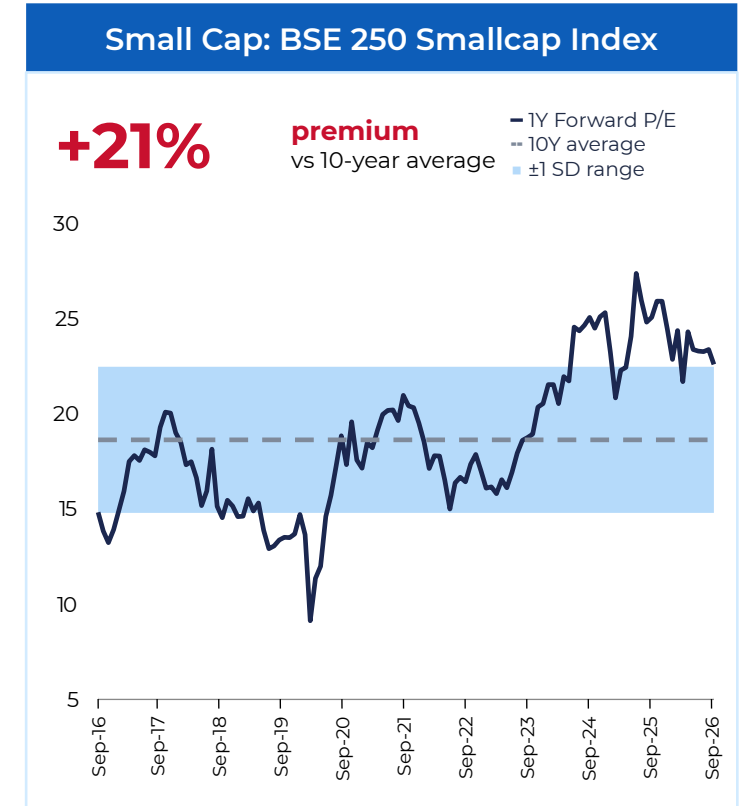
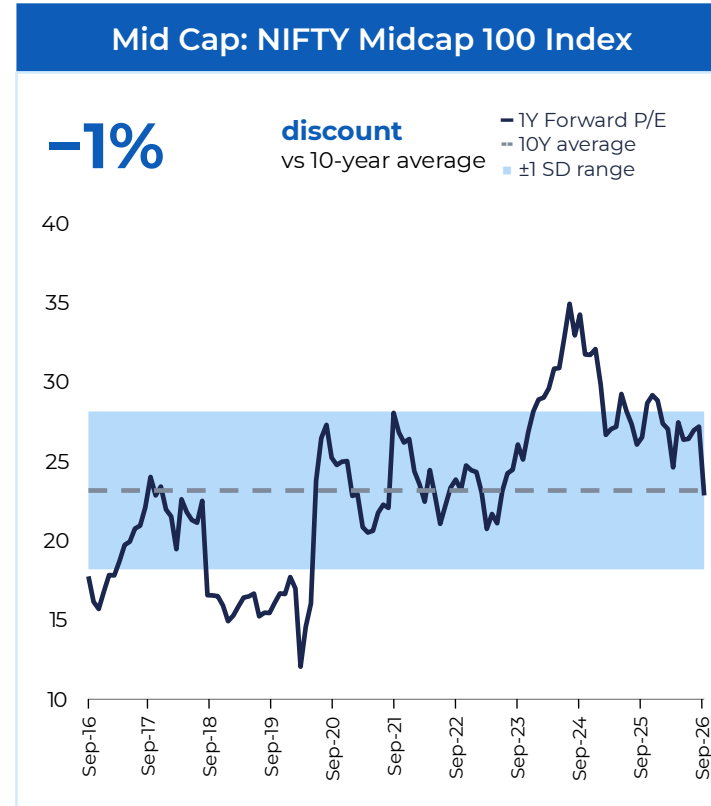
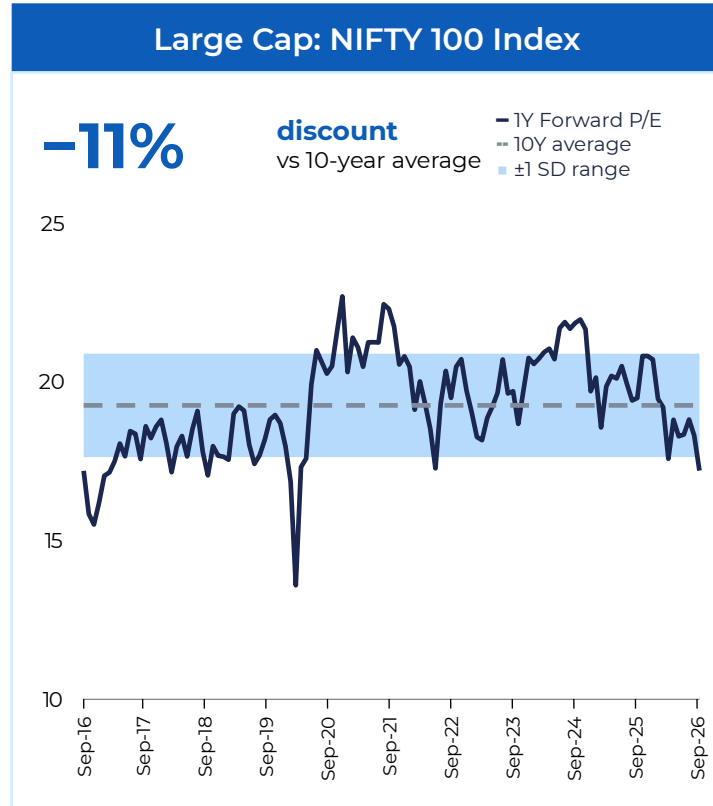
03 Investor Guide

04 Asset Allocation Guide

05 HDFC MF Edge

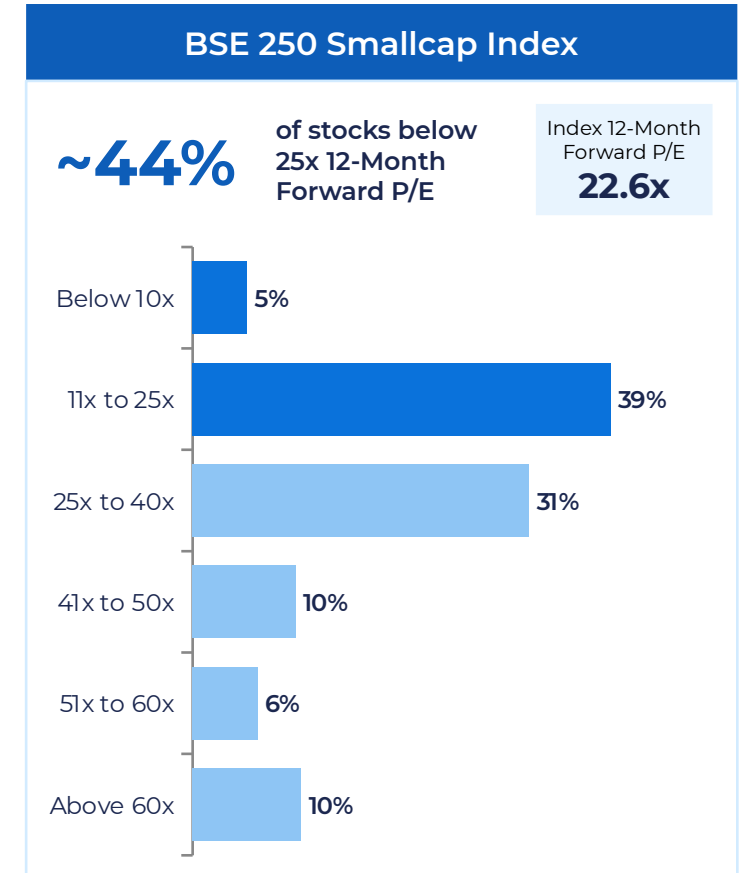
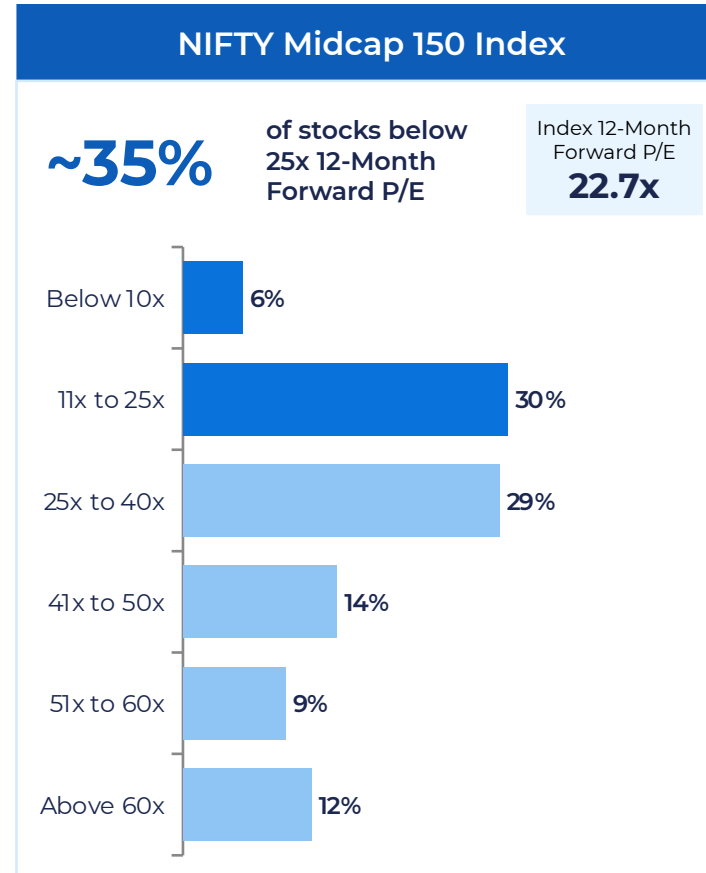
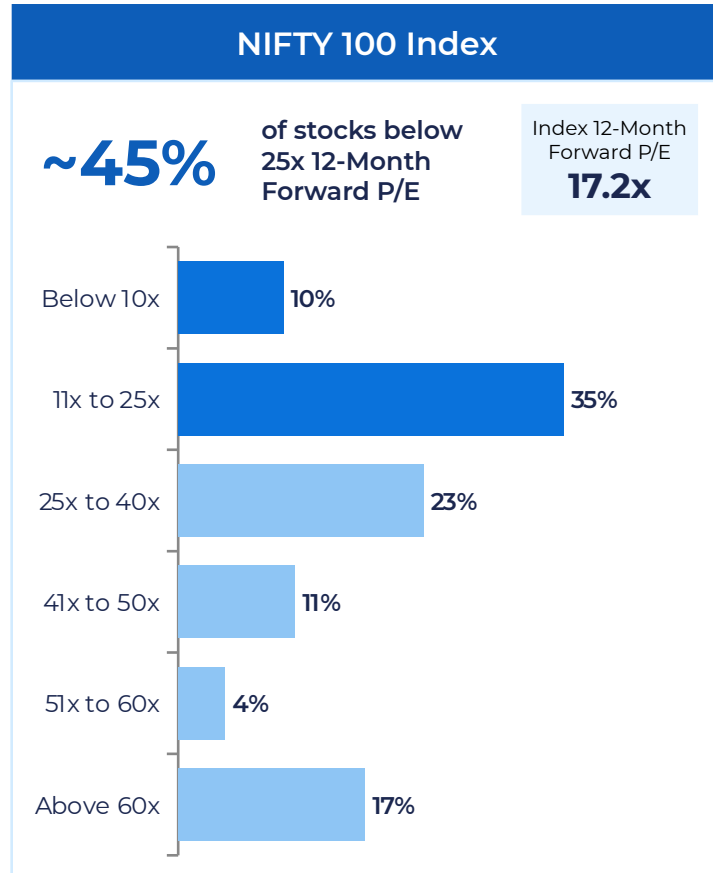
Valuations vs Long-term History: Large, Mid and Small Caps

1-year Forward P/E vs 10-year history



Large caps now trade **below their 10-year average valuation**, while small caps remain at a premium

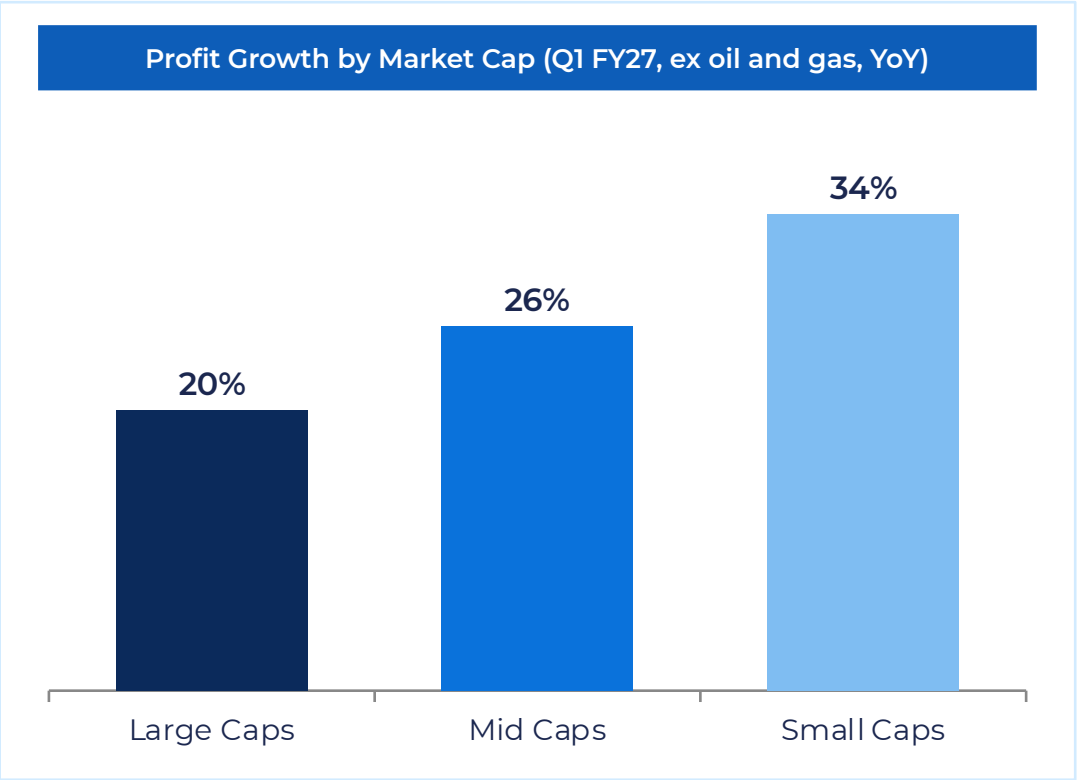
Valuation Opportunities emerging across Market Caps



Over a third of the stocks in each index trade below 25x 12-month forward earnings

Earnings: Profit Growth is broadening

Q1 FY27 saw healthy profit growth across sectors and market-cap segments, with banks and small caps leading.



Growth	In Q1FY27, NIFTY 500 net profit rose 12% YoY , and 23% excluding oil and gas , on 19% revenue growth
Broad-based	18 of 29 sectors posted double-digit profit growth in Q1FY27
Who led?	Financials were the largest profit pool, with bank profits up 24% ; metals and gas utilities grew fastest
Widening Base	In Q1FY27, Large caps' share of NIFTY 500 profits eased to 73% from 78% a few years earlier, as mid and small caps gained

A wider base of earnings growth **bodes well for equity market outlook**

03

Investor Guide



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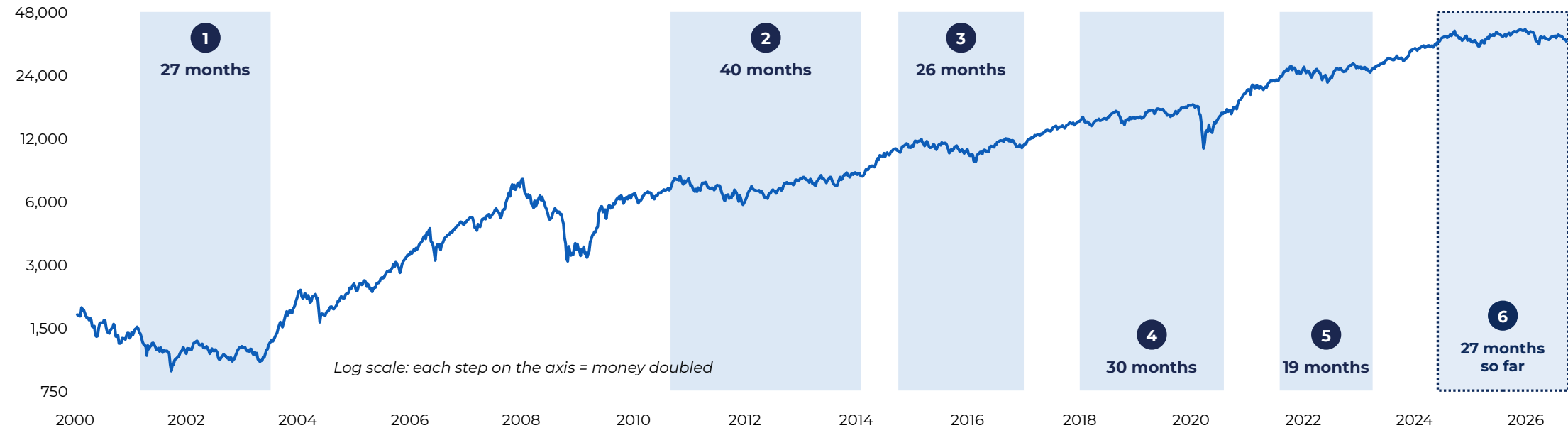
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Flat Markets test Patience. What History teaches us?



#	Flat phase	What was going on	Months flat	Return during flat (% Absolute)	Next 1 year	Next 3 years (% CAGR)	Next 5 years (% CAGR)
1	Mar 2001 – Jun 2003	Post dot-com slump	27	+3.4%	+36%	+43.0% CAGR	+31.1% CAGR
2	Sep 2010 – Jan 2014	Euro crisis, inflation, taper tantrum	40	+5.0%	+46%	+13.3% CAGR	+13.6% CAGR
3	Oct 2014 – Dec 2016	China slowdown, demonetisation	26	+0.8%	+30%	+15.9% CAGR	+17.5% CAGR
4	Jan 2018 – Jul 2020	IL&FS crisis, slowdown, Covid	30	+3.8%	+44%	+22.7% CAGR	+18.9% CAGR
5	Aug 2021 – Mar 2023	Rate hikes, Russia-Ukraine war	19	+3.0%	+30%	+10.0% CAGR	–
6	Jun 2024 – now	FII selling, Iran war, high US yields	27+	–3.3%	?	?	?

Past performance may or may not be sustained in future and is not a guarantee of any future returns. Index returns are not indicative of any scheme's returns. Flat phase: a stretch of 18 months or more in which the NIFTY 50 TRI gained under 5% in total and neither rallied strongly nor crashed. Deep bear markets such as 2000-03 and 2008-13 are excluded. Next 1/3/5-year returns are measured from the last month of each flat phase, which is known only in hindsight. "–" = period not yet complete. Source: NIFTY 50 TRI (NSE Indices) via MF1360 Explorer, ICRA Analytics; month-end values, Jan 2000 to Sep 2026.

Flat Markets may be ideal for Cost-averaging with SIPs

Metric	Mar-1995 to Mar-2003	Sep-2024 to Sep-2026
NIFTY 500 TRI CAGR	0.2%	-3.7%
Real GDP CAGR	5.8% (FY95-FY03)	7.4% (FY24-FY26)
NIFTY 500 PAT CAGR#	-0.3% (Mar-96 to Mar-03)	8.0%
Largest fall in TRI	-67.0% (21-Feb-00 to 21-Sep-01)	-17.8% (01-Oct-24 to 28-Feb-25)
Monthly SIP in NIFTY 500 TRI XIRR	0.7%	-1.3%

₹10,000 monthly SIP in NIFTY 500 TRI: 28-Apr-95 to 31-Mar-03 (96 months)

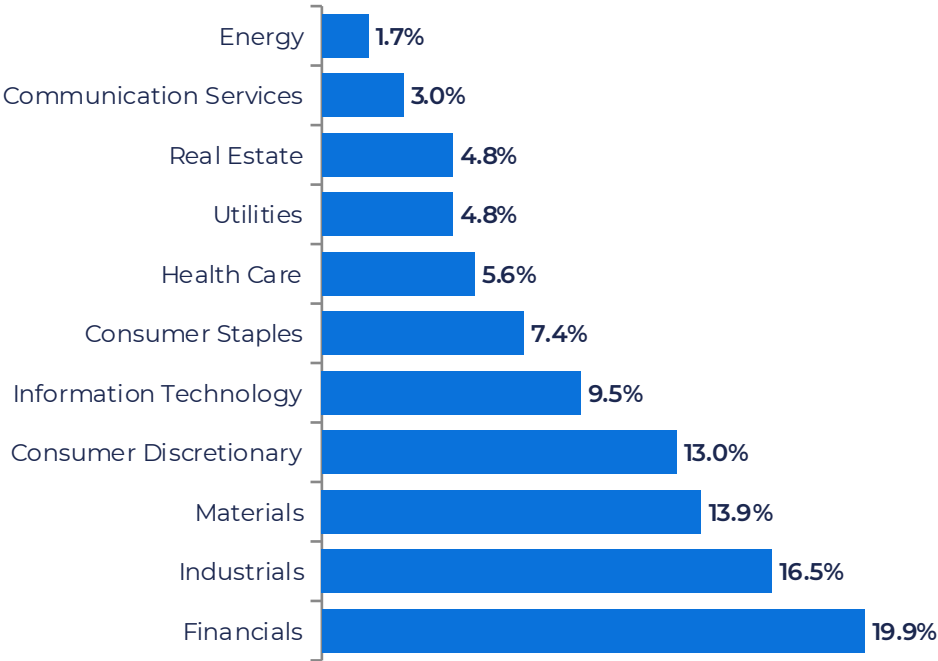


As in 1995-2003, a flat market with a growing economy lets SIP investors buy more units at lower prices, which eventually prove useful in the journey of compounding

Source: NSE Indices Ltd (www.niftyindices.com) for NIFTY 500 TRI, price index and P/E; Central Statistical Organisation, MoSPI, GDP at factor cost at 1999-2000 prices (RBI Handbook of Statistics on Indian Economy 2006-07, Table 2) for FY95-FY03; MoSPI Press Note of 5-Jun-2026 (GDP at 2022-23 prices) for FY24-FY26. #NIFTY 500 PAT is the index-level earnings implied by NIFTY 500 price index ÷ P/E (trailing earnings of constituents); P/E data is available from January 1996. TRI and P/E values on the last trading day of the month. Largest fall: peak-to-trough decline on daily closing TRI within the period. SIP assumes ₹10,000 invested on the last trading day of each month from 28-Apr-1995 to 31-Mar-2003 (96 instalments) and held without further investment till the valuation date; expenses and taxes not considered. *1 unit = 1 point of NIFTY 500 TRI; average cost per unit = total invested ÷ units bought. XIRR: annualised return on the monthly cash flows up to the valuation date. Real GDP for FY95-FY03 is GDP at factor cost in ₹ crore at 1999-2000 prices. Past performance may or may not be sustained in the future and is not a guarantee of any future returns. The above is for illustration only and should not be construed as a recommendation.

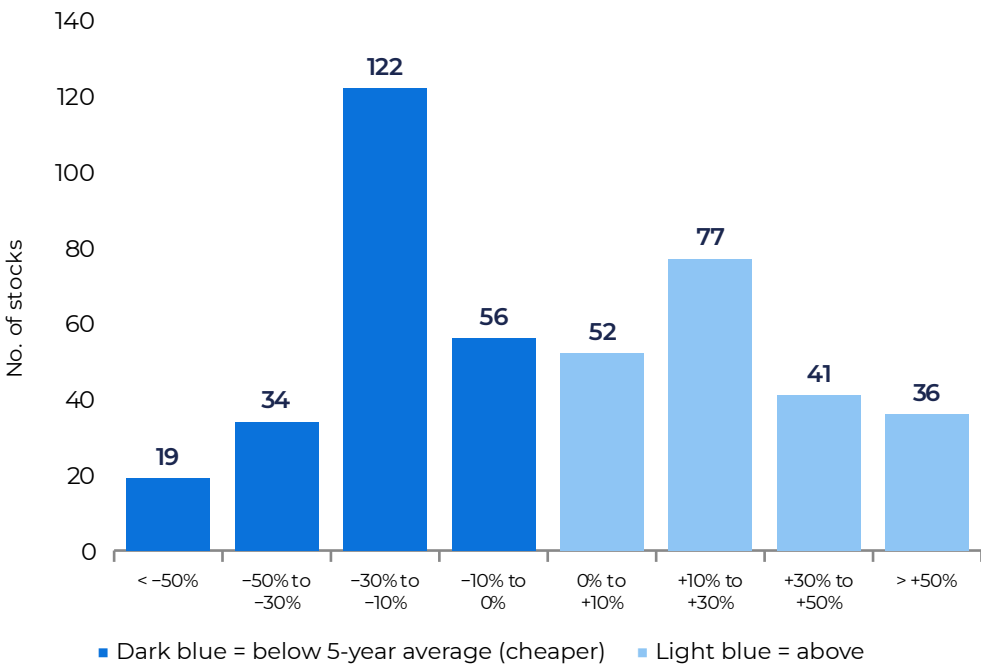
Time and Price Correction have created discounted valuations across sectors

Share of discounted stocks, by sector (% of all below-average stocks)



Over 50% of NIFTY 500 companies trade below their 5-year average, 40% by more than 10%

NIFTY 500 stocks by valuation vs 5-year average

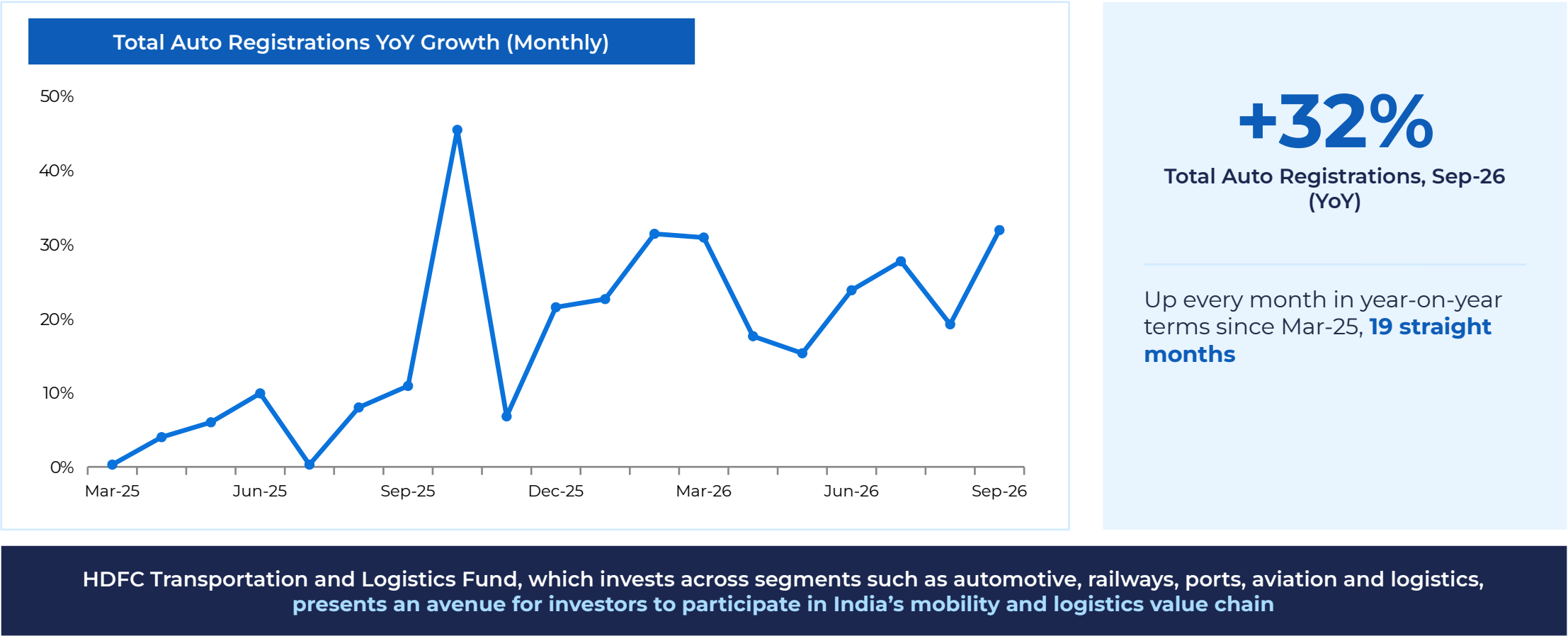


Price and time correction have created pockets of opportunity across market caps and sectors trading at favourable valuations
Investors with a long-term horizon can invest in HDFC Value Fund, a diversified strategy with a value bias, to potentially benefit from earnings growth and a re-rating of multiples

Source: Bloomberg, as of Oct 2026. Based on NIFTY 500 constituents.

For disclaimer refer slide 51

Registrations have climbed steadily since Mar-25 despite crude and energy price volatility. GST 2.0 (Sep-25) and low vehicle penetration support the momentum



Source: RBI High Frequency Indicators (CMIE). Monthly YoY growth in vehicle registrations; Mar-25 to Sep-26.

For disclaimer refer slide 51

04

Asset Allocation Guide



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05, HDFC MF Edge

Asset Allocation: No one size fits all



Investment Horizon



- A longer horizon can enable more risk-taking with a higher allocation to equities
- A shorter time frame mandates a more conservative approach with a higher allocation to fixed income



Risk Tolerance



- An investor's ability and willingness to tolerate market risk shapes the allocation mix
- Investors with a higher risk appetite can take a more aggressive approach with a higher allocation to equities



Age



- Younger investors can usually take a more aggressive approach, as they have time to recover from downturns
- Older investors approaching retirement may take a more moderate or conservative approach



Financial Goals



- Long-term goals like retirement could merit a higher allocation to equities
- Near-term goals like buying a car or saving for a vacation could require a more conservative approach

The above is not a recommendation and in view of individual circumstances and risk tolerance, each investor is advised to consult his/her professional advisor before making a decision to invest.

For disclaimer refer slide 51

Asset Allocation Framework: Why Equity, Debt and Gold

	Why Equity?	Why Debt?	Why Gold?
Role in portfolio	Enables potential long-term wealth creation	Provides relative stability to the portfolio	A safe-haven asset that can hedge against inflation
Key Characteristics	- Higher long-term return potential, with high intermittent volatility - Broader indices tend to track the economy over time	- Lower return potential and volatility than equity - Relatively steady returns - Sensitive to changes in interest rates	- Low correlation with equity and debt - Downside protection during bouts of market volatility and geopolitical stress
Current outlook	- Over the medium to long term, we remain optimistic on Indian equities, supported by key trade deals, an attractive domestic growth outlook, healthy corporate profitability and pro-growth policies - The NIFTY 50 trades near 17x one-year forward earnings and 7 of 12 sectors are below their 10-year average; with global uncertainty, stock selection matters more - Near-term risks: elongation of geo-political conflicts and some cyclical moderation in corporate earnings	- The RBI raised the repo rate by 25 bps to 5.5% and changed its stance to calibrated tightening. In our view this reflects the direction of the policy rate, not the magnitude, and does not imply an aggressive rate-hike cycle - Several factors should contain upward pressure on yields: low risk of fiscal slippage, a well-positioned balance of payments and large FCNR(B) inflows. With much of the tightening and higher US yields already priced in, we do not expect a sustained sell-off and remain constructive from a medium- to long-term perspective - Investors may consider high-quality corporate bond focused funds in the 2- to 4-year segment and, given elevated yields at the long end, a staggered increase in long-duration funds in line with risk appetite. Key risks: crude staying elevated and US yields rising further	- Gold eased about 6% in September as markets priced in a global rate-hike cycle - Firmer US yields and a stronger dollar are near-term headwinds, while gold retains its long-term role as a portfolio diversifier and inflation hedge

Asset allocation holds the key

Source: Bloomberg, NSDL, CMIE, RBI, Kotak Institutional Research, World Bank

For disclaimer refer slide 51

Model Portfolios: A Simplistic Product Mix

Aggressive

Equity allocation 70% to 80%

40%	15%	15%	5%	15%	10%
■ 40% HDFC Flexi Cap Fund		■ 5% HDFC Income Plus Arbitrage Omni FOF			
■ 15% HDFC Small Cap Fund		■ 15% HDFC Equity Savings Fund			
■ 15% HDFC Mid Cap Fund		■ 10% HDFC Gold ETF Fund of Fund			

Moderate

Equity allocation 45% to 55%

20%	15%	20%	20%	15%	10%
■ 20% HDFC Flexi Cap Fund		■ 20% HDFC Equity Savings Fund			
■ 15% HDFC Value Fund		■ 15% HDFC Income Plus Arbitrage Active FOF			
■ 20% HDFC Balanced Advantage Fund		■ 10% HDFC Gold ETF Fund of Fund			

Conservative

Equity allocation 20% to 30%

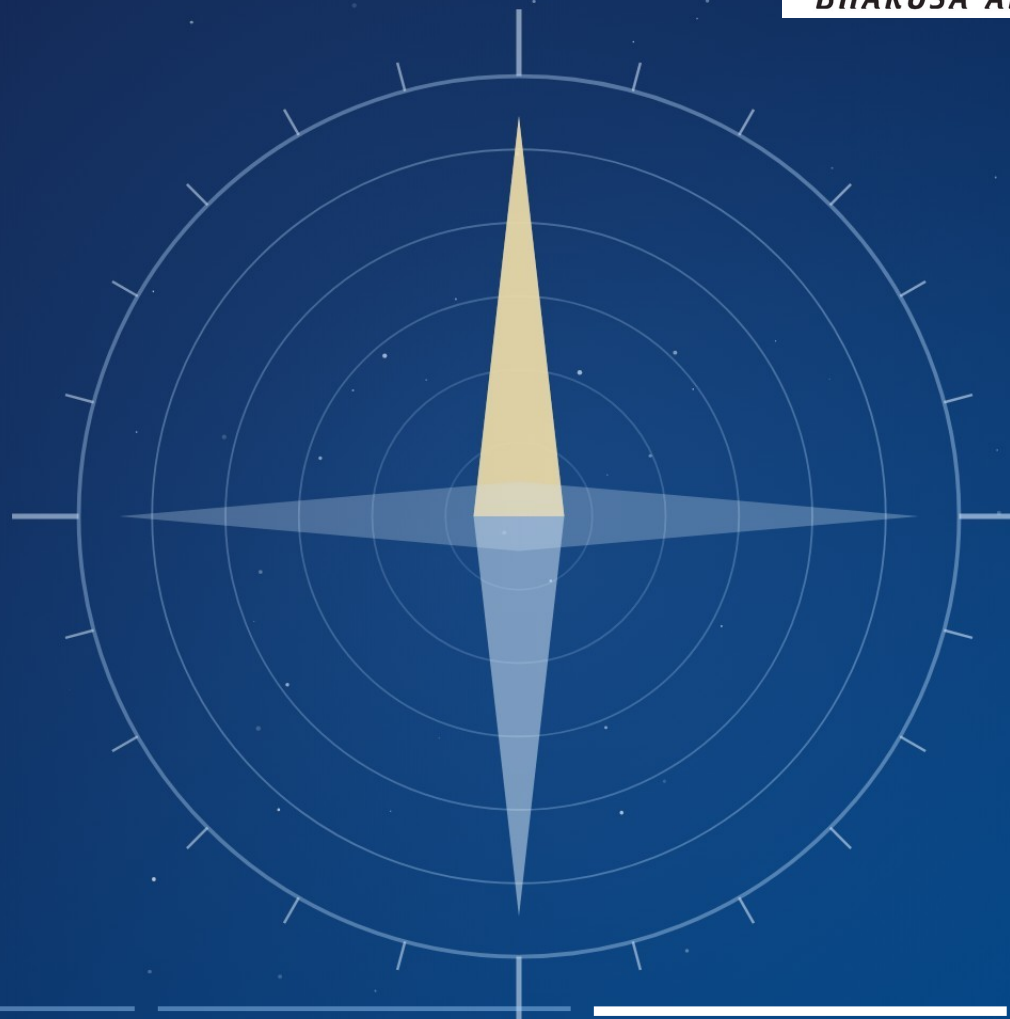
20%	15%	20%	25%	10%	10%
■ 20% HDFC Balanced Advantage Fund		■ 25% HDFC Income Plus Arbitrage Active FOF			
■ 15% HDFC Large Cap Fund		■ 10% HDFC Short Term Fund			
■ 20% HDFC Multi Asset Allocation Fund		■ 10% HDFC Gold ETF Fund of Fund			

The schemes mentioned here are for illustrative purposes only and should not be considered investment advice. HDFC AMC / the Fund is not indicating or guaranteeing any returns. Readers should seek professional advice before taking investment decisions.

For disclaimer refer slide 51

05

HDFC MF Edge



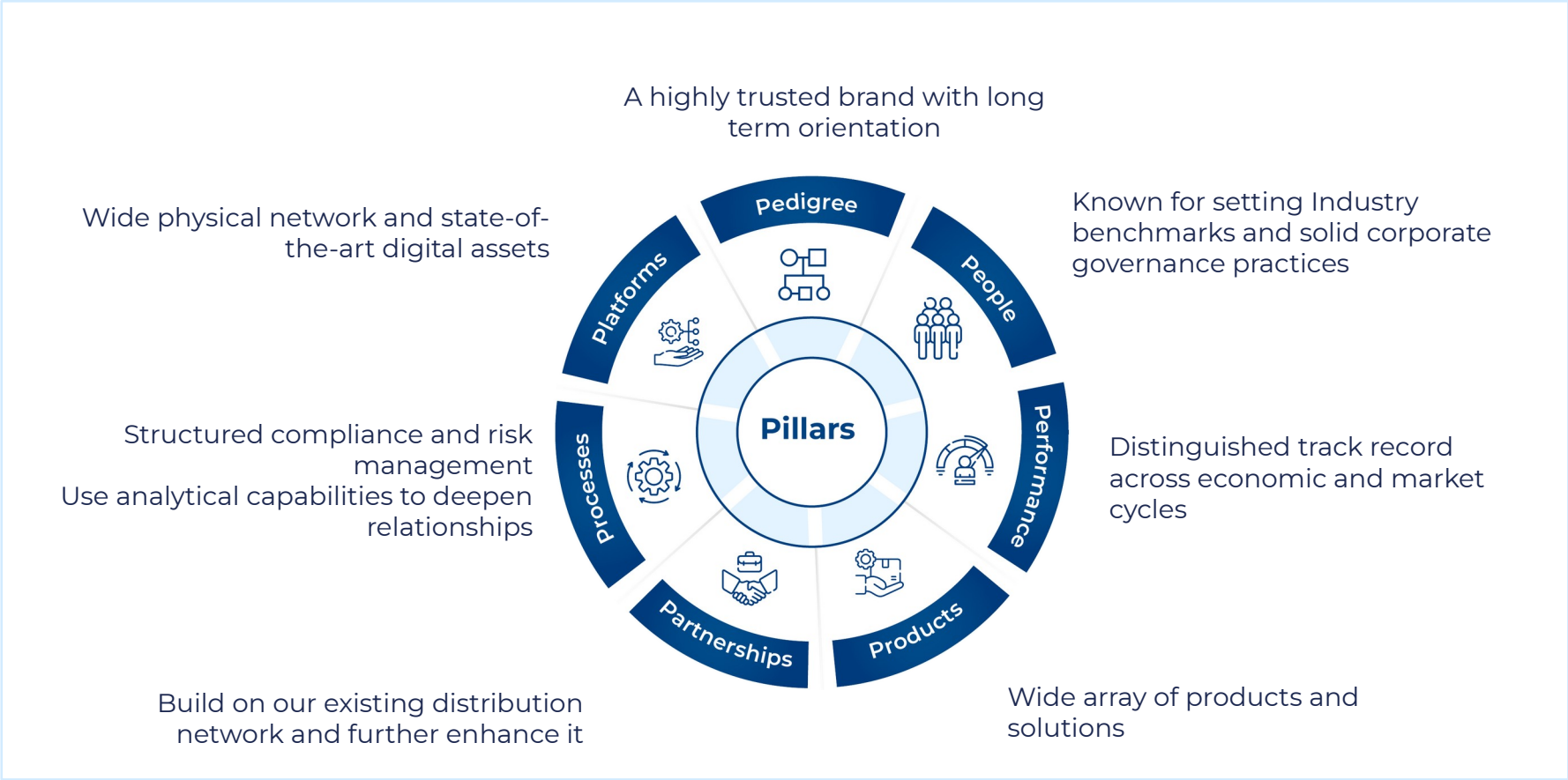
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Purpose
(Mission)

To be the wealth creator for every Indian

Passion
(Vision)

To be the most respected asset manager in the world

Why choose HDFC MF?

At HDFC AMC, our aim is to help our clients achieve the investment outcomes they seek

Some of the key factors that define us include:



Strong parentage that reinforces our market credibility and brand recall



Long-term track record in select schemes of nearly 3 decades



Sound risk management and governance process



Ability to service clients across the country, with extensive capabilities across a host of investment categories



Investment team comprising experienced fund managers and analysts



Time-tested investment philosophy and research process that have weathered multiple market cycles



An expanding phygital reach



Experienced Board and leadership team

Active Investing that creates Long-term Value

Investment Discipline

- Aligning the investment strategy/asset allocation with the fund objective/mandate
- Not compromising on sanctity of the product or mandate even under 'competitive pressures'
- Avoid investing in assets where effective risk mitigation strategies cannot be implemented

Long-term Focus

- Constructing portfolios on the basis of medium to long-term fundamentals
- Do quality research with long term focus and aim to understand the businesses that we invest in

400+

Core List of Securities

85%

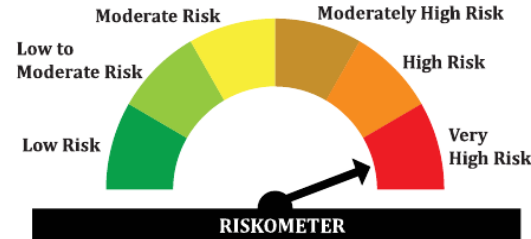
Indian Market Cap covered

30

Equity Investment Team

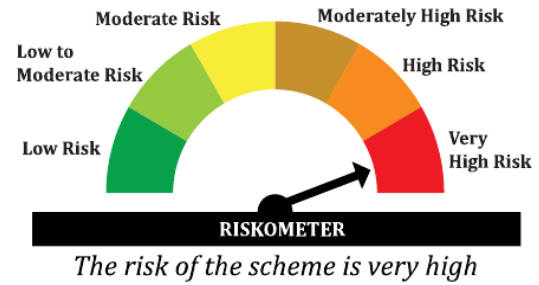
19 years

Average Experience of Equity Investment Team

Name of Scheme	This product is suitable for investors who are seeking~	Riskometer of the Scheme#
HDFC Value Fund (An open ended equity scheme following a value investment strategy)	- To generate long-term capital appreciation / income in the long term - Investment primarily in undervalued stocks	 RISKOMETER <i>The risk of the scheme is very high</i>
HDFC Transportation and Logistics Fund^ (An open-ended equity scheme investing in Transportation and Logistics theme)	- To generate long-term capital appreciation - Investment predominantly in equity & equity related instruments of companies under Transportation and Logistics theme	
HDFC Flexi Cap Fund (An open ended dynamic equity scheme investing across large cap, mid cap & small cap stocks)	- To generate long-term capital appreciation / income - Investment predominantly in equity & equity related instruments	
HDFC Large Cap Fund (An open ended equity scheme predominantly investing in large cap stocks)	- To generate long-term capital appreciation / income - Investment predominantly in Large-cap companies	

~Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #For latest riskometer, investors may refer to the monthly portfolios disclosed on the website of the fund viz. www.hdfcfund.com

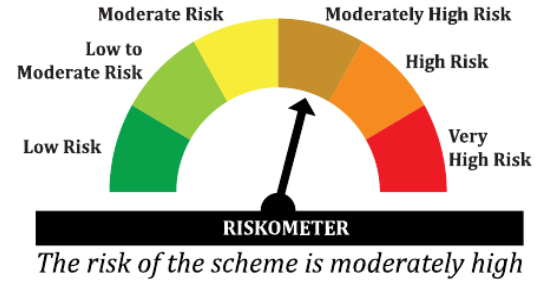
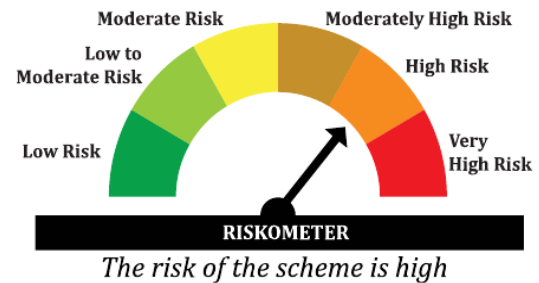
^The Scheme being sectoral in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks. Scheme Riskometer as on September 30, 2026.

Name of Scheme	This product is suitable for investors who are seeking~	Riskometer of the Scheme#
HDFC Mid Cap Fund (An open ended equity scheme predominantly investing in mid cap stocks)	- To generate long-term capital appreciation / income - Investment predominantly in Mid-cap companies	
HDFC Small Cap Fund (An open ended equity scheme predominantly investing in small cap stocks)	- To generate long-term capital appreciation / income - Investment predominantly in Small-cap companies	
HDFC Balanced Advantage Fund (An open ended dynamic asset allocation fund investing in debt and equity instruments only)	- To generate long-term capital appreciation / income - Investments in a mix of equity and debt instruments	
HDFC Multi Asset Allocation Fund (An open-ended scheme investing in Equity and Equity related instruments, Debt & Money Market Instruments, Gold/Silver/other permitted Commodities ETFs and Exchange Traded Commodity Derivatives)	- To generate long-term capital appreciation / income - Investments in a diversified portfolio of equity & equity related instruments, debt & money market instruments and Commodities ETFs such as Gold/Silver/other Commodity ETFs as permitted and ETCD	

~Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #For latest riskometer, investors may refer to the monthly portfolios disclosed on the website of the fund viz. www.hdfcfund.com
Scheme Riskometer as on September 30, 2026.

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Product Labelling and Riskometers

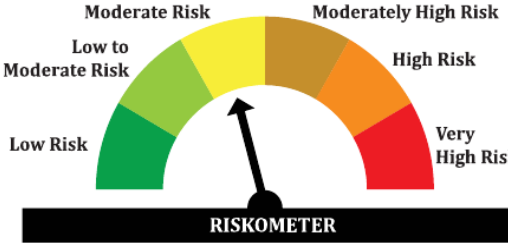
Name of Scheme	This product is suitable for investors who are seeking~	Riskometer of the Scheme#
HDFC Equity Savings Fund (An open ended scheme investing in equity, arbitrage and debt)	- Capital appreciation while generating income over medium to long term - Provide capital appreciation and income distribution to the investors by using equity and equity related instruments, arbitrage opportunities, and investments in debt and money market instruments	 The risk of the scheme is moderately high
HDFC Income Plus Arbitrage Omni FOF^ (An open-ended Fund of Fund Scheme investing in units of domestic Arbitrage Schemes and active/passive Debt-oriented Schemes)	- Capital appreciation / generate income over long term - Investment in Units of domestic Arbitrage schemes and active/passive Debt-oriented schemes	
HDFC Gold ETF Fund of Fund^ (An open ended Fund of Fund scheme investing in HDFC Gold ETF)	- Capital appreciation over long term - Investment in Units of HDFC Gold ETF (HGETF). HGETF invests in gold bullion of 0.995 fineness	 The risk of the scheme is high

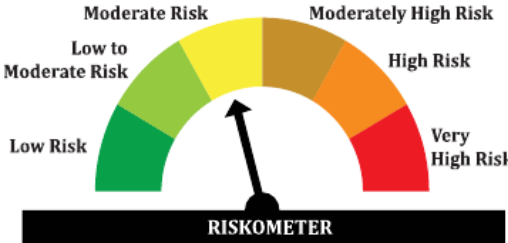
~Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #For latest riskometer, investors may refer to the monthly portfolios disclosed on the website of the fund viz. www.hdfcfund.com

^Investors in the scheme shall bear the recurring expenses of the scheme in addition to the expenses of other schemes in which this fund of fund scheme makes investments (subject to regulatory limits). Scheme Riskometer as on September 30, 2026.

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Product Labelling and Riskometers

Name of Scheme	This product is suitable for investors who are seeking~	Riskometer of the Scheme#
HDFC Income Plus Arbitrage Active FOF[^] (An open ended Fund of Fund scheme investing in Arbitrage and Debt Mutual Fund Schemes)	- Capital appreciation over long term - Investment in Units of Arbitrage and Debt schemes	 RISKOMETER <i>The risk of the scheme is moderate</i>

Name of Scheme	This product is suitable for investors who are seeking~	Riskometer of the Scheme#	Potential Risk Class																								
HDFC Short Term Fund (An open ended short term debt scheme investing in instruments such that the Macaulay Duration of the portfolio is between 1 year to 3 years. A Relatively High Interest Rate Risk and Moderate Credit Risk)	- Income over short term - To generate income / capital appreciation through investments in Debt and Money Market Instruments	 RISKOMETER <i>The risk of the scheme is moderate</i>	<table><tr><td>Credit Risk →</td><td>Relatively Low (Class A)</td><td>Moderate (Class B)</td><td>Relatively High (Class C)</td></tr><tr><td>Interest Rate Risk ↓</td><td></td><td></td><td></td></tr><tr><td>Relatively Low (Class I)</td><td></td><td></td><td></td></tr><tr><td>Moderate (Class II)</td><td></td><td></td><td></td></tr><tr><td>Relatively High (Class III)</td><td></td><td>B-III</td><td></td></tr><tr><td colspan="4">B-III - A Scheme with Relatively High Interest Rate Risk and Moderate Credit Risk.</td></tr></table>	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓				Relatively Low (Class I)				Moderate (Class II)				Relatively High (Class III)		B-III		B-III - A Scheme with Relatively High Interest Rate Risk and Moderate Credit Risk.			
Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)																								
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Relatively High (Class III)		B-III																									
B-III - A Scheme with Relatively High Interest Rate Risk and Moderate Credit Risk.																											

~Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #For latest riskometer, investors may refer to the monthly portfolios disclosed on the website of the fund viz. www.hdfcfund.com

[^]Investors in the scheme shall bear the recurring expenses of the scheme in addition to the expenses of other schemes in which this fund of fund scheme makes investments (subject to regulatory limits). Scheme Riskometer as on September 30, 2026.

The views expressed herein are as of 22nd October 2026 and are based on internal data, publicly available information and other sources believed to be reliable. Any calculations made are approximations, meant as guidelines only, which you must confirm before relying on them. The information contained in this document is for general purposes only and not an investment advice. The document is given in summary form and does not purport to be complete. The document does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. The information/ data herein alone are not sufficient and should not be used for the development or implementation of an investment strategy. The statements contained herein are based on our current views and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Past performance may or may not be sustained in future and is not a guarantee of any future returns. Stocks/Sectors referred are illustrative and should not be construed as an investment advice or a research report or a recommendation by HDFC Mutual Fund ("the Fund") / HDFC AMC to buy or sell the stock or any other security covered under the respective sector/s. The Fund may or may not have any present or future positions in these sectors. HDFC AMC / HDFC Mutual Fund is not guaranteeing / offering / communicating any indicative yield on investments made in the scheme(s). Neither HDFC AMC and HDFC Mutual Fund (the Fund) nor any person connected with them, accepts any liability arising from the use of this document. The recipient(s) before acting on any information herein should make his/her/their own investigation and seek appropriate professional advice and shall alone be fully responsible / liable for any decision taken on the basis of information contained herein.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

Mission: To be the wealth creator for every Indian

Vision: To be the most respected asset manager in the world

Thank You