Invesco Mutual Fund

Union Budget 2025-26

Synopsis

- Budget 2025 continues on the path to a 'Viksit Bharat' with a balanced growth objective across agriculture, consumption, manufacturing and infrastructure. In a backdrop of slowing economic growth, it walked the tightrope of stimulating growth while maintaining macro-stability. Importantly, it laid out the fiscal roadmap for next 5 years in terms of lowering India's debt to GDP by 6-7% by FY31.
- By over-achieving on the fiscal deficit for FY25 and with the target of 4.4% for FY26, govt will aim to keep its borrowing in check and cede space for the private sector (with healthy balance sheets) to lever up, potentially encouraging the central bank to commence rate cuts. This along with recent RBI measures on liquidity should bolster growth.
- Careful pruning of central govt. schemes and better tax compliance, however, will be critical towards meeting fiscal targets.
- Cuts in personal taxes will likely boost consumption especially in discretionary segments and probably trickle down to staples as well. This will likely provide better balance to economic growth relative to the past 2-3 years.
- Capex estimates imply a pick-up in the last quarter of this fiscal year. While growth for FY26 is a deceleration from last four years, it is at respectable level and in line with nominal GDP growth. Allocations to critical areas like defence, renewables, urban transport and technology appear impressive.
- Even as budgeted fiscal deficit is lower than market expectation, net borrowing and gross borrowing for dated G-Sec is higher than expectation by ~Rs 50,000 crs, largely due to NIL net T-bill supply. Continuous commitment to fiscal consolidation even beyond FY26 through debt/GDP reduction will however be supportive of the fixed income market.
- Simplification of the tax structure via the introduction of a new direct tax code will likely structurally increase disposable incomes, improve compliance and drive consumption through a wider swathe of the middle class.
- Beyond the fiscal math, the deregulation/ease of doing businesses has been the key theme of Budget 2025. It emphasizes on the need to ease permissions, documentation, certifications and licenses specifically for MSMEs, which would work to increase employment as well.

Source: Budget 2025-2026 Speech. FY – Financial Year. RE: Revised Estimates. MSMEs: Micro, Small and Medium Enterprises.

Key Highlights

Fiscal Management

- The government continues to focus on fiscal consolidation while finding a fine balance in capex and consumption boost.
- FY25 actual fiscal deficit lower at 4.8% of GDP vs 4.9% budgeted largely as Capex fell short of budgeted.
- FY26 budgeted fiscal deficit pegged at 4.4%, meeting the earlier commitment to bring below 4.5%.
- Commitment re-iterated to lower Government Debt as a % of GDP beyond FY26.
- FY26 Net dated G-Sec borrowing at Rs 11.54 lakh crs vs budgeted Rs 11.63 lakh crs in FY25 – almost flat.
- FY26 Gross dated G-Sec borrowing at Rs 14.82 lakh crs vs Rs 14.00 lakh crs in FY25 – an increase of 5.9%.
- Nil T-bill borrowing on net basis in FY26.

Our views

- FY25 fiscal deficit revised estimate is in line with market expectations.
- FY26 budgeted fiscal deficit is lower than the market expectation which were at 4.5%.
- Total borrowing through Net dated G-Sec and T-bills is in line with market expectations.
- However, net borrowing and gross borrowing number for dated G-Sec are higher than our expectations by ~Rs 50,000 crs. This can be largely attributed to nil net T-bill supply in FY26 as against the expectations of Rs 50,000 crs. There is some cushion on the borrowing side as government has assumed lower receipts from small savings schemes.
- Government has maintained a fine balance in Capex & Consumption. Capex as a % of GDP remains healthy at 3.1% in FY26, similar as in revised estimate of FY25. Release of ~Rs 1 lakh crs through reduction of direct income taxes will help in boosting consumption.
- FY26 fiscal math looks credible. Nominal GDP growth assumption at 10.1% looks reasonable. Tax buoyancy at 1.07% in FY26 vs 1.15% in revised FY25 – lower due to tax rate cuts. RBI dividend for FY26 is expected to be at similar levels as in FY25 which was a record high level.
- Government remains committed on fiscal gliding path with FY26 fiscal consolidation of ~40 bps and continuous reduction in Debt / GDP ratio beyond FY26. Pace of reduction of Debt / GDP ratio will remain a monitorable FY26 onwards.
- Overall – reassuring budget on fiscal consolidation while maintaining the quality of fiscal spend with high proportion of Capex spend.

Source: Budget 2025-2026 Speech. RBI. Invesco Asset Management (India).

Fiscal deficit break-up

In Rs. Crs

	FY 2025 BE	FY 2025 RE	FY 2026 BE	Difference	% change vs FY25 RE
Revenue Receipts	31,29,200	30,87,960	34,20,409	332,449	10.8%
Capital Receipts	78,000	59,000	76,000	17,000	28.8%
TOTAL RECEIPTS	**32,07,200**	**31,46,960**	**34,96,409**	**349,449**	**11.1%**
Revenue Expenses	37,09,401	36,98,058	39,44,255	246,197	6.7%
Capital Expenses	11,11,111	10,18,429	11,21,090	102,661	10.1%
TOTAL EXPENSES	**48,20,512**	**47,16,487**	**50,65,345**	**348,858**	**7.4%**
FISCAL DEFICIT	**16,13,312**	**15,69,527**	**15,68,936**	**(591)**	**-0.04%**
Nominal GDP	**326,36,903**	**324,11,406**	**356,97,923**	**32,86,517**	**10.1%**
Fiscal Deficit % of GDP	***4.94%***	***4.84%***	***4.44%***	***(0.40%)***	

- FY26 Fiscal deficit is almost flat in absolute terms, while the Nominal GDP is up by 10.1%. This has resulted in 40 bps consolidation in Fiscal deficit to 4.44% in FY26.
- FY26 Capex is budgeted to increase by a healthy 10.1% and remain at 3.1% of GDP.

BE: Budget Estimates, RE – Revised Estimates
Source: Budget documents

Funding of Fiscal Deficit

In Rs. Crs

	FY24 Actual	FY25 BE	FY25RE	FY26 BE	% Change over FY25RE
Fiscal Deficit	16,54,643	16,13,312	15,69,527	15,68,936	0%
Funding of Fiscal Deficit					
Dated G-Sec Borrowing (Net)	11,77,754	11,63,182	10,74,514	11,53,834	7%
T-Bill Borrowing	53,205	-50,000	-1,20,000	-	-100%
External Loan	55,121	15,952	31,992	23,490	-27%
Securities issued against Small Savings	4,51,399	4,20,063	4,11,871	3,43,382	-17%
State Provident Fund	5,059	5,000	5,000	5,000	0%
Other Receipts	-88,689	-81,282	26,034	40,745	57%
Draw-Down of Cash Balance	794	1,40,397	1,40,115	2,484	-98%
Borrowing					
Dated G-Sec Borrowing (Net)	11,77,754	11,63,182	10,74,514	11,53,834	7%
Repayments	*3,62,542*	*2,37,818*	*2,37,818*	*3,28,166*	*38%*
Buyback			*-88,164*		*-100%*
Funding through GST Compensation Fund	*-78,104*	*-1,23,604*	*-1,23,604*	*-67,500*	*-45%*
Gross dated G-Sec Borrowing	15,43,000	14,01,000	14,00,697	14,82,000	6%
T-Bill Borrowing	53,205	-50,000	-1,20,000	-	-100%

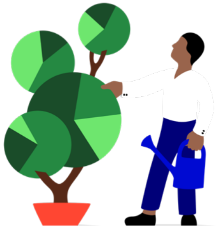
- FY26 Net G-Sec supply at Rs 11.54 lakh cr is marginally lower than the budgeted Rs 11.63 lakh cr in FY25 (including Rs 88,164 cr of buyback). Gross G-Sec supply at Rs 14.82 lakh cr is ~6% higher over FY25. These numbers are higher by ~Rs 50,000 cr than our expectations.
- NIL net T-bill supply in FY26 as against our expectations of Rs 50,000 cr.
- Sharp reduction in Securities issued against Small Savings by 17%, which may provide some upside and reduce lower G-Sec borrowing.

BE: Budget Estimates, RE – Revised Estimates. Source: Budget documents.

Budget focuses on four key areas:

- Agriculture
- Micro, Small and Medium Enterprises (MSMEs)
- Investments
- Exports

Key Highlights - Agriculture



1

Enhanced Credit through Kisan Credit Cards
To facilitate short term loans for 7.7 crore farmers, fishermen, and dairy farmers

2

Mission for Cotton Productivity
5-year mission will facilitate significant improvements in productivity and sustainability of cotton farming and promote extra-long staple cotton varieties.

3

National Mission on High Yielding Seeds
Targeted development and propagation of seeds with high yield, pest resistance and climate resilience.

4

Aatmanirbharta in Pulses
6-year mission with special focus on Tur, Urad and Masoor. Enhancing protein content, Increasing productivity, Improving post-harvest storage and management, assuring remunerative prices to the farmers.

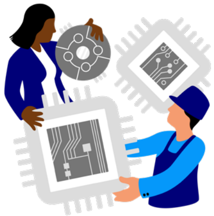
5

India Post
To be repositioned as a catalyst for the rural economy providing services such as rural community hub colocation, insurance, assisted digital services, credit services to micro enterprises etc.

Source: Budget 2025-2026 Speech. Invesco Asset Management (India).

Disclaimer: The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied

Key Highlights - Micro, Small and Medium Enterprises (MSMEs)



1

Revision in classification criteria of MSMEs

The investment and turnover limits for classification of all MSMEs will be enhanced to 2.5 and 2 times respectively.

2

Credit Cards for Micro Enterprises

Customised Credit Cards with a Rs. 5 lakh limit for micro enterprises registered on Udyam portal. In the first year, 10 lakh such cards will be issued.

3

Fund of Funds for Startups

A new Fund of Funds, with expanded scope and a fresh contribution of another Rs. 10,000 crore will be set up.

4

Enhanced credit availability with credit guarantee cover

Credit guarantee cover has been enhanced to Rs.10 crores for Micro and Small Enterprises and Rs. 20 crores for startups. Further, for exporter MSMEs, term loans up to Rs. 20 crores.

5

Scheme for first time Entrepreneurs

For 5 lakh first-time entrepreneurs including women, Scheduled Castes and Scheduled Tribes, a new scheme, to be launched, to provide term loans up to Rs.2 crore during the next 5 years.

6

National Manufacturing Mission

Providing policy support, execution roadmaps, governance and monitoring framework for central ministries and states to MSMEs. Focus on quality products and building ecosystem for clean tech manufacturing i.e. solar PV cells, EV batteries, wind turbines etc.

Ev – Electric Vehicles, PV: Photovoltaic

Source: Budget 2025-2026 Speech. Invesco Asset Management (India).

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Key Highlights - Investments

People

- Nutritional support through Saksham Anganwadi and Poshan 2.0.
- Broadband Connectivity to Government Secondary Schools and primary health centers in rural areas.
- Expansion of capacity in IITs.
- Set up of center of excellence in AI for education with a outlay of Rs. 500 crs.
- Day Care Cancer Centres in all District Hospitals.

Economy

- An outlay of Rs. 1.5 lakh crs. is proposed for the 50-year interest free loans to States for capital expenditure and incentives for reforms.
- Jal Jeevan Mission extended till 2028 with an enhanced outlay.
- Urban Challenge Fund of Rs. 1 lakh crore to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water & Sanitation.
- Power Sector Reforms to incentivize electricity distribution reforms and augmentation of intra-state transmission capacity by states.
- Asset Monetization Plan 2025-30: launched to plough back capital of Rs. 10 lakh crs in new projects.

Innovation

- Allocation of Rs. 20,000 crs in research, development and innovation initiatives
- To provide ten thousand fellowships for technological research in IITs and IISc.
- Deep Tech Fund of Funds will also be explored to catalyze the next generation startups as a part of this initiative.
- Digitalization of more than 1 crs. Manuscripts
- National Geospatial Mission: To facilitate modernization of land records, urban planning, and design of infrastructure project

Source: Budget 2025-2026 Speech. Invesco Asset Management (India).

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Key Highlights - Exports

- **Export Promotion Mission:** With sectoral and ministerial targets to facilitate easy access to export credit, cross-border factoring support, and support to MSMEs to tackle non-tariff measures in overseas markets.
- **BharatTradeNet:** A digital public infrastructure, 'BharatTradeNet' (BTN) for international trade will be set-up as a unified platform for trade documentation and financing solutions. Support for integration with Global Supply Chains.
- **National Framework for Global Capability Centres (GCC):** As guidance to states for promoting GCC in emerging tier 2 cities.
- **Warehousing facility for air cargo:** To facilitate upgradation of infrastructure and warehousing for air cargo including high value perishable horticulture produce.

Source: Budget 2025-2026 Speech. Invesco Asset Management (India).

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Key Highlights - Reforms

Financial Sector Reforms and Development

- FDI limit for the insurance sector will be raised **from 74% to 100%.**
- Services of India Post Payment Bank will **be deepened and expanded in rural areas.**
- **Revamped Central KYC Registry** to be rolled out in 2025.
- Requirements and procedures for speedy approval of company mergers will be rationalized.
- NaBFID will set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure.

Regulatory Reforms

- High-Level Committee for Regulatory Reforms will be set up for a **review of all non-financial sector regulations, certifications, licenses, and permissions.**
- **Investment Friendliness Index of States** will be launched in 2025
- Financial Stability and Development Council, a mechanism will be set up to evaluate impact of the current financial regulations and subsidiary instructions.
- Government to bring up **Jan Vishwas Bill 2.0** to decriminalize more than 100 provisions in various laws

Source: Budget 2025-2026 Speech. Invesco Asset Management (India). NaBFID: National Bank for Financing Infrastructure and Development. KYC: Know Your Customer.
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Key Highlights –Tax Proposals

Personal Income Tax

- No income tax payable upto income of Rs. 12 lakh under the new tax regime
- Tax deduction limit for senior citizens doubled from Rs 50,000 to Rs. 1 lakh.
- The annual limit of Rs. 2.40 lakh for TDS on rent increased to Rs. 6 lakh.
- Tax slabs under New Tax Regime

Income tax slab (Earlier)	Tax Rate	Income tax slab (Proposed)	New Tax Rate
Upto Rs. 3 lakh	Nil	Rs. 0-4 lakh	Nil
Rs 3-7 lakh	5%	Rs 4-8 lakh	5%
Rs. 7-10 lakh	10%	Rs 8-12 lakh	10%
Rs. 10-12 lakh	15%	Rs 12-16 lakh	15%
Rs. 12-15 lakh	20%	Rs 16-20 lakh	20%
Above Rs. 15 lakh	30%	Rs. 20-24 lakh	25%
-	-	Above Rs. 24 lakh	30%

Indirect Tax reforms

- To remove seven tariff rates. This is over and above the seven tariff rates removed in 2023-24 budget.
- Social welfare surcharge to be exempt from 82 tariff lines
- 36 lifesaving drugs/medicines added in exempted list as well as 6 lifesaving medicines to the list attracting concessional customs duty of 5%
- Exemption to open cell for LED/LCD TV, looms for textiles, capital goods for lithium ion battery of mobile phones and EVs.

Source: Budget 2025-2026 Speech. Invesco Asset Management (India). TDS: Tax Deducted At Source.

Key Highlights – Rationalization tax deducted at source (TDS) and tax collected at source (TCS) rates

Section	Present TDS/TCS Rate & Threshold	Proposed TDS/TCS Rate & Threshold
(1G) of section 206C - TCS on remittance under LRS for purpose of education, financed by loan from financial institution	0.5% after Rs. 7 lakhs	Nil
194 - Dividend, for an individual shareholder	Rs. 5,000	Rs. 10,000
194K - Income in respect of units of a mutual fund or specified company or undertaking	Rs. 5,000	Rs. 10,000
206C(1G) - Remittance under LRS and overseas tour program package	Rs. 7,00,000	Rs. 10,00,000
194-I Rent	Rs. 2,40,000/- during the financial year	Rs. 50,000/- per month or part of a month

Source: Budget 2025-2026 Speech. Invesco Asset Management (India). LRS: Liberalized Remittance Scheme

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Sector Views & Impact

Sector Impact

Positive Negative Neutral

Sector	Budget Announcement	Impact	Our views
Banking, Financial Services and Insurance (BFSI)	▪ Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund 2 of Rs.15,000 crore will be established for expeditious completion of another 1 lakh units in housing projects. ▪ Enhanced credit guarantee scheme for MSMEs by additional credit of Rs 1.5 lakh crore to facilitate term loans for the purchase of machinery and equipment without collateral. ▪ Change in tax slabs and higher attractiveness of New Tax regime (no tax till Rs.12 lakhs) ▪ Increase in FDI limit in insurance from 74% to 100%	Positive	▪ It marks continuation of government's effort in providing housing to poor. This is positive for affordable housing loan providers. ▪ Credit guarantee scheme will continue to support growth and asset quality of MSME lenders. ▪ Change in direct tax will reduce consumer leverage thereby benefiting consumer focused lenders. ▪ Increase in FDI limit can help widen the insurance net in the country but can increase competitive intensity.
Infrastructure	▪ Total capital expenditure increased to Rs.11.2 lakh crore, up 10.1% YoY. ▪ Capital outlay on defense increased to Rs.1.8 lakh crore, up 12.9% YoY. ▪ Railways capex expenditure flat YoY. However, focus on metro stays with allocations up 26.3% YoY. ▪ Road capex flat but leg up to road building in north-eastern states, up 37.5% YoY. ▪ Rs.1.7 lakh crore (up 22.4% YoY) allocated to states as long-term interest free loans for capital expenditure	Positive	▪ Positive for defense and infra sectors. ▪ Continued focus on renewables theme.

Source: Budget 2025-2026 Speech. Invesco Asset Management (India). MSME: Micro, Small, and Medium Enterprises, FDI: Foreign Direct Investments

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Sector Impact

Sector	Budget Announcement	Impact	Our views
Consumer (FMCG/ Consumer Discretionary/ Consumer Durables)	▪ No major hike in rural focused subsidy programs. ▪ Income tax exemption limit hiked to Rs.12 lakhs ▪ Change in income tax slab which could provide a tax relief of upto Rs1.1 lakh crore. ▪ Cigarette: No change in cigarette taxation for the second straight year. ▪ Increase in basic custom duty (BCD) on Interactive Flat panel displays. Reduction in BCD on open cell for flat panel display module, touch glass sheet and touch sensor PCB for manufacture of flat panel display module. Exemption of BCD on inputs or parts/sub-parts of components going into cellular mobile phones		▪ Neutral for rural specific FMCG companies. ▪ Positive for companies operating in urban consumer discretionary segments. ▪ Changes in BCD to spur increased manufacturing/assembly of flat panel display modules and to make mobile-phone assembly and exports from India more competitive.
Oil and Gas	▪ Petroleum subsidy budget targeted for FY25 is revised down to Rs 5 bn as against Rs.15 bn earlier for Direct Benefit Transfer for LPG consumer. ▪ A reduction in customs duty on the import of propane, butane and LPG (both Auto and Non-Auto) to 2.5%, 2.5%, and 5%, respectively, from the previous rate of 15% ▪ Revival of 3 urea plants, including 1.27 mmtpa to be set up in Namrup, Assam ▪ Strategic Petroleum Reserve – A creation of phase-II of 12.5 mtpa capacity at various locations across India in addition to current 5.33 mtpa		▪ Reduction in subsidy negatively impacts oil marketing companies. ▪ Reduction in customs duty hurts city gas distribution companies, as prices of competing fuels get cheaper vis-à-vis gas in few segments they operate. ▪ Revival of plants will lead to higher gas demand, benefitting the upstream companies operating in that region. However, it will take 3 to 4 years. ▪ Creation of reserves to increases energy security for the country.

Source: Budget 2025-2026 Speech. Invesco Asset Management (India). FMCG: Fast Moving Consumer Goods, PCB: Printed circuit board, LPG: Liquefied petroleum gas

Sector Impact

Sector	Budget Announcement	Impact	Our views
Automobile	▪ Income tax savings: No tax till Rs. 12 lakhs under new regime, from Rs 7 lakhs earlier. Tax rate reduced for lower income slabs. ▪ Support to EV adoption in the form of exemption of basic custom duty on scrap, critical minerals and capital goods for EV battery manufacturing, formation of national manufacturing mission to build ecosystem for EV batteries and higher allocation for PLI incentives for Auto/component.		▪ Higher disposable income can potential aid 2W/4W demand. ▪ Support on EV can potentially provide additional impetus for local manufacturing and reduction in costs thereby spurring sales.
Real Estate	▪ Annual value of 2 self occupied properties considered NIL, without any conditions. ▪ Annual limit of Rs 2,40,000 for TDS on rent is being increased to Rs. 600,000 ▪ **SWAMIH Fund 2-** Special Window for Affordable and Mid-Income Housing Fund 2.0 of Rs. 15,000 crores will aim another 1 lakh units. ▪ **National Framework for GCC**- A national framework will be formulated as guidance to states for promoting Global Capability Centres in emerging tier 2 cities.		▪ Overall relief in Individual tax rates shall boost discretionary spending and shall help real estate companies having retail portfolios. ▪ Push for GCC shall help real estate companies having office portfolios. ▪ Development of 50 tourist locations to help companies operating in the Hotel segments.

Source: Budget 2025-2026 Speech. Invesco Asset Management (India). PLI – Production linked incentive, EV – Electric Vehicles, 2W – Two wheeler, 4W – Four wheeler

Sector Impact

Positive Negative Neutral

Sector	Budget Announcement	Impact	Our views
Healthcare	▪ Pharmaceuticals (formulations) PLI budgeted at Rs. 23 bn for FY26. ▪ PLI Promotion for bulk drugs park revised upwards to Rs. 14.6 bn. ▪ Daycare cancer centers. ▪ 36 lifesaving drugs now fully exempt of basic custom duty. ▪ Jan Aushadhi budget- Raised to Rs. 3.54 bn from Rs. 2.84 bn in FY25. Sharp increase in the last 2 years.	⟷	▪ Positive for IPM Formulation companies ▪ Positive for API companies if Budget utilized. ▪ Pharma: Can potentially increase demand for onco medicines. ▪ No impact on IPM companies as these are MNC patented drugs. ▪ Negative for trade generics IPM.
Agri & Chemicals	▪ Urea subsidy stands flat vs. FY25 RE at Rs. 1,19,000 crore. ▪ P&K subsidy is down 6% vs. FY25 RE to Rs. 49,000 crore. ▪ Efforts to boost production of EV batteries is long term	⟷	▪ Budgeted subsidy has been reduced for complex, it is only sentimentally negative and key profitability determinants are declaration of NBS scheme which happens twice a year in April and October. ▪ Positive for phosphoric acid (a key input material) manufacturers. ▪ Positive for chemical companies manufacturing electrolytes for EV batteries

Source: Budget 2025-2026 Speech. RBI. Invesco Asset Management (India). P&K: Phosphatic & Potassic, RE: Revised Estimates, API: Active Pharmaceutical Ingredient, PLI: Production Linked Incentive. NBS: Nutrient Based Subsidy. IPM: Indian Pharmaceutical Manufacturing.

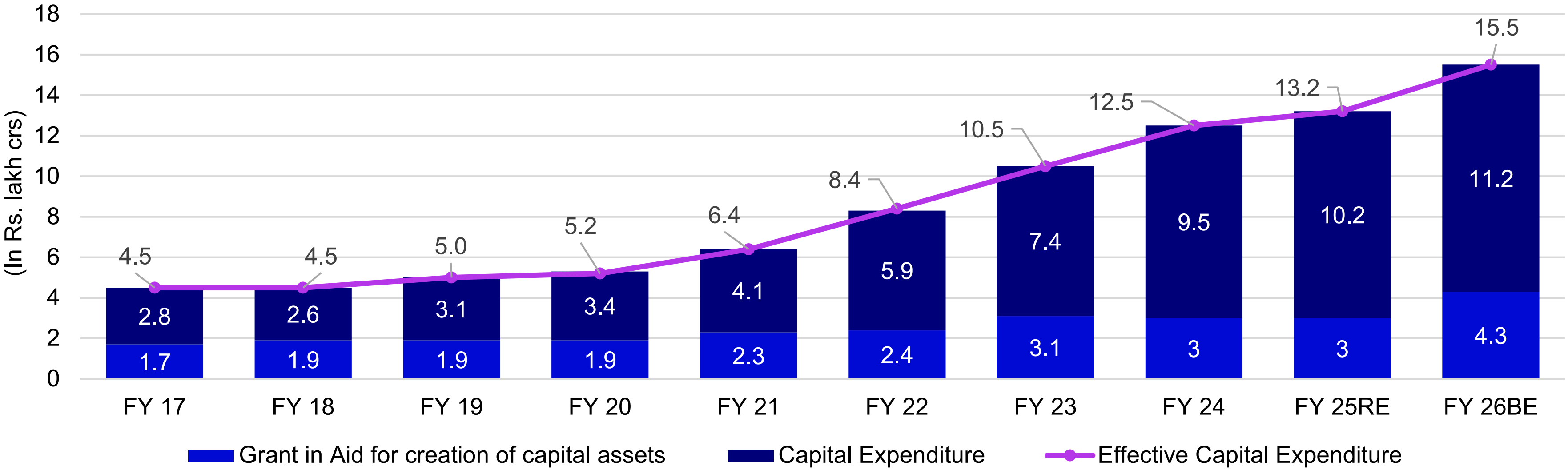
Key Capex Heads

In Rs. Crs

	FY22	FY23 (Actual)	FY24 (Actual)	FY25 (Revised Estimates)	FY26 (Budget Estimates)	YoY growth (FY26 over FY25)
Ministry of Road Transport and Highways	1,13,312	2,05,986	2,63,912	2,72,481	2,72,241	*-0.1%*
Ministry of Railways	1,17,271	1,59,256	2,42,579	2,52,000	2,52,000	*0.0%*
Capital Outlay on Defence Services	1,37,987	1,42,940	1,54,256	1,59,500	1,80,000	*12.9%*
Transfers to States	22,534	92,705	1,22,872	1,39,376	1,70,595	*22.4%*
Department of Telecommunications	3,328	54,729	59,380	74,995	51,785	*-30.9%*
Ministry of Housing and Urban Affairs	25,946	26,878	26,441	31,662	37,623	*18.8%*
Total	**5,92,874**	**7,40,025**	**9,49,195**	**1,01,8000**	**11,21,090**	***10.1%***

Source: Budget Speech 2025-26

Trend in Capital Expenditure



Source: Budget at a glance 2025-2026. BE: Budget estimates. RE: Revised Estimates.
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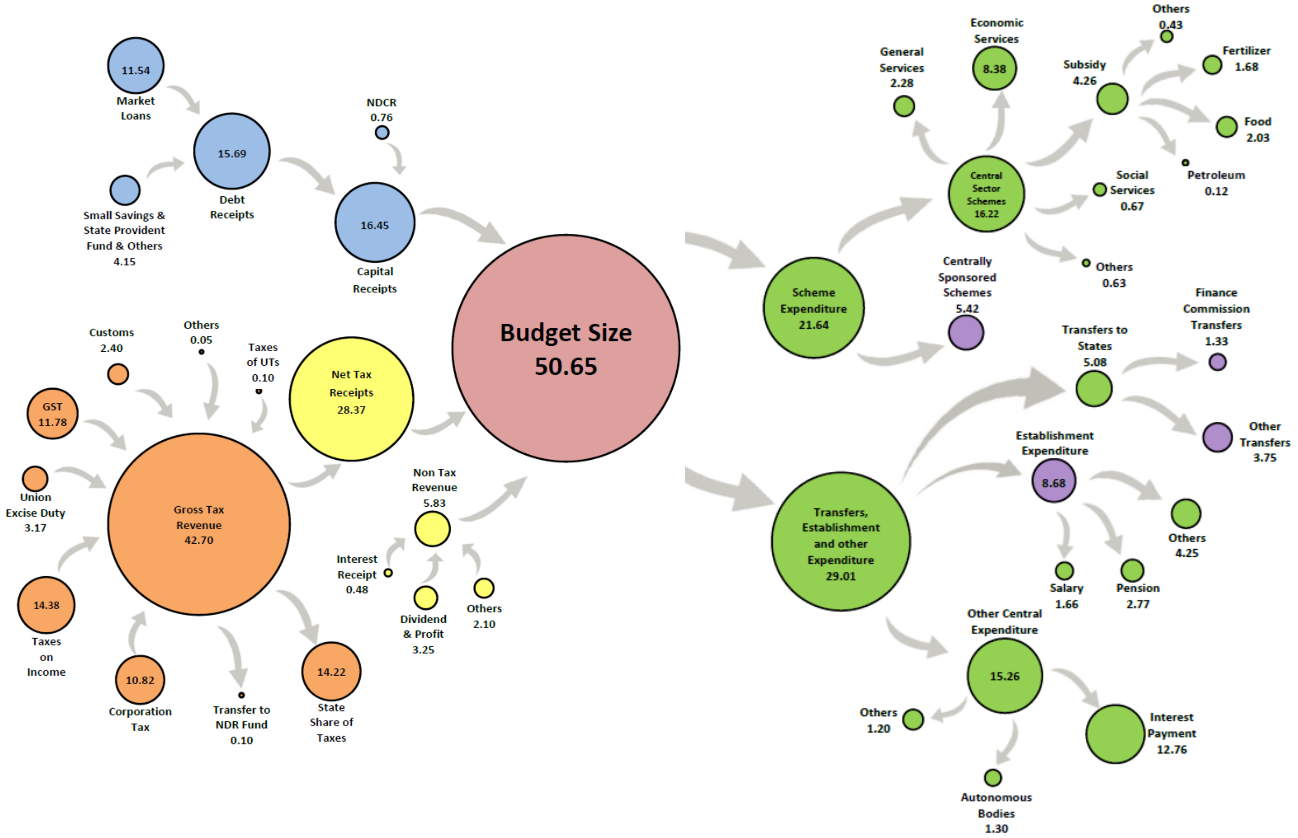
Budget Profile – in Rs. Lakh Crs



 Source: Budget at glance 2025-2026

Market Outlook

Equity Market Outlook

We prefer domestic oriented industries; value opportunities have begun to emerge in global sectors

Domestic Factors

- India remains one of the fastest growing large economies in 2025
- The economy is facing headwinds from weakness in job creation and docile income growth creating pressure on consumption. We expect this to improve incrementally
- Core inflation has softened but remains above the comfort levels of the Central Bank
- Investment cycle pace slower this year – fiscal consolidation constraint limits government expenditure towards capex. Private capex yet to pick up meaningfully
- Earnings expectation for the current fiscal year have moderated to low single digit. Any further earnings cut may dampen the earnings growth expectations for FY26 as well

Global Factors

- Global economy, driven by US, continues to gain better growth despite adverse geopolitical developments
- Change in guard at the US may translate into a different economic environment for the world. Clarity to emerge over the next few months
- Geopolitical situation remains volatile and any further escalations which may translate into disrupted logistics and/or raw material price increase may impact our economy negatively over the medium term
- Global Central Banks have started aligning to softer inflation rates and weakening growth – most have commenced reducing policy rates.

Recommendation

- We maintain a pro-cyclical stance and are overweight financials, industrials and consumer discretionary. Our current portfolio skew is more towards domestic investment and consumption growth opportunities while tactically we have increased allocations to IT sector. We are incrementally seeing value in financial sector.
- Our overarching view remains that India is at the cusp of seeing a much better economic growth cycle in the coming few years relative to its recent past, which in turn would make its equity markets one of the attractive investment destinations on a 3–5-year scale.

Indian Fixed Income Market remains in a Sweet spot

Domestic Macros

- FY 2025 inflation has been elevated due to higher food inflation. Good monsoon season and a steady core inflation should help to bring FY26 inflation closer to 4%.
- India's GDP growth has been softer due to lower fiscal impulse, weaker exports and declining bank lending growth. This will likely improve going forward as government spending improves and inflation cools down.

Monetary Policy

- As FY26 inflation recedes to ~4%, & growth moderates, MPC is expected to begin the rate cut cycle from Feb 2025. Current policy rate at 6.5% leaves the positive real policy rates at an elevated 225 - 250 bps providing room for rate cuts.
- However, domestic rate cut cycle is expected to be shallow at 50-75 bps.
- Central Govt's continued fiscal consolidation for FY26 bodes well for the beginning of rate cut cycle.

Fiscal demand-supply

- Fiscal consolidation continues as Central Govt budgets 4.4% fiscal deficit in FY26 down from 4.8% in FY25.
- FY26 net G-Sec supply is almost flat, gross G-sec supply is higher by ~5.9% over FY25. Net T-bill supply in FY26 is NIL.
- While dated gross G-Sec supply is marginal higher, demand is expected to rise faster from domestic investors. In addition to that, demand for G-sec is expected to remain robust in FY26 with inclusion sovereign bond in Bloomberg's and FTSE's EM Bond Indices.
- RBI is also expected to continue OMO purchases in FY2026.

External factors

- A strong USD has caused broad weakness in flows in EM countries and India has also suffered.
- However, India's current account deficit has been manageable due to strong services exports and remittances. Foreign exchange reserves of ~USD 640 bn[1] provide meaningful cover to absorb global volatilities.

Risk factors

- Global geo-politics with new US president can cause uncertainties and a resurgence in inflation.
- Continued high fiscal deficits by developed economies can cause global bond yields to remain elevated and thereby cause capital flows in EMs to be moderate.

FY – Financial Year, MPC – Monetary Policy Committee, Bps – Basis Point, FOMC - Federal Open Market Committee, FDI - Foreign Direct Investment, FPI - Foreign portfolio investment, Fx – Foreign Exchange, EM – Emerging Markets. OMO: Open Market Operations. [1]Foreign exchange data is as on 31 December 2024.

Disclaimer - The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied.

Fund Positioning

Equity funds positioning

- Budget provides a platform for a balanced growth model for the Indian economy while continuing on the path of fiscal consolidation. India will likely benefit from continuing policy support for agriculture, consumption, manufacturing and infrastructure.
- We believe that India's economy basks in a healthy mix of micro and macro factors that favour strong overall growth.
- Funds that can be considered:
  - Invesco India Contra Fund
  - Invesco India Flexi Cap Fund
  - Invesco India Large and Midcap Fund
  - Invesco India Smallcap Fund
  - Invesco India Focused Fund
  - Invesco India Financial Services Fund

Source: Invesco Asset Management (India).
Disclaimer: The factors mentioned above include some of the factors which the Fund Manager may consider for deciding fund positioning and is not comprehensive listing of various factors/ parameters which could have bearing on the fund positioning. The Fund Manager may or may not consider all such factors for deciding fund positioning and may change fund positioning from time to time based on prevailing market conditions/other factors. The factors mentioned above for influencing fund positioning are merely indicative in nature and should not be construed as an investment advice or recommendation to any party to invest in various schemes of Invesco Mutual Fund or to adopt any investment strategy.

Fixed income funds positioning

- FY26 budget is overall positive for debt market as the fiscal consolidation continues. Govt has shown its commitment to FRBM Act which pegs to steadily reduce General Govt Debt / GDP after FY26.
- As a knee-jerk reaction to marginally higher than expected dated G-Sec borrowings in FY26, market may react negatively and we may see some steepening of G-Sec yield curve. However, healthy structural fiscal demand-supply dynamics, scheduled OMO purchases by RBI and expectation of rate cuts will continue to provide support to the market.
- Budget is positive for short end of the yield curve as it has budgeted a NIL net supply of T-bill in FY26, against the market expectations of Rs 50,000 crs, thereby reducing the supply in short end. Higher G-Sec switch of Rs 2.5 lakh crs in FY26 vs Rs 1.46 lakh crs in FY25 is also positive for the short end of yield curve.
- Budget is also structurally positive for long end of the yield curve as Finance Minister has clearly laid out a fiscal consolidation path over next few years. While the Government had much more room to reduce the dated G-sec borrowing in FY26, they have opted to reduce T-bills instead, given the healthy G-Sec demand from domestic investors and also from foreign investors. G-Sec inclusion in Bloomberg & FT Russell index in FY26 will support demand from foreign investors.
- RBI is expected to carry out Open Market Purchase operations of G-Sec in FY26 for releasing durable liquidity, which bodes well for the belly (5-10 yr) of G-Sec yield curve.
- This budget with continued fiscal consolidation reinforces our view that Growth slowdown has to be addressed by MPC and we expect first rate cut of 25 bps in the coming week. In this rate cut cycle, we expect 50-75 bps rate cuts in CY2025.
- For short term investors - 6 months to 2 year segment of the yield curve provides opportunity for carry income as corporate bond yield curve provides healthy pickup over policy repo rate.
  - Invesco India Ultra Short Duration Fund, Invesco India Money Market Fund & Invesco India Low Duration Fund are suited for this opportunity.
- For investors looking at the core allocation - medium duration funds with mix of corporate bonds and G-Sec provide an opportunity of capital gains with expected policy rate cut cycle.
  - Invesco India Short Duration Fund, Invesco India Corporate Bond Fund, Invesco India Medium Duration Fund are well positioned to capitalise upon the capital gain opportunity
  - Invesco India Gilt Fund can be seen as a tactical allocation to the longer end of G-Sec which can benefit from overall duration rally and also with term spread compression over next few months with demand from long investors like EPFO, PFs and Insurance Companies.

Source: Invesco Asset Management (India). EPFO: Employees' Provident Fund Organisation. FPI: foreign portfolio investment. NPS: National Pension System. OMO: Open Market Operations. PFs: Provident Fund. FRBM: Fiscal Responsibility and Budget Management.

Product Labelling
This product is suitable for investors who are seeking*

Data as at 31st January, 2025

Invesco India Flexi Cap Fund
(An open ended dynamic equity scheme investing across large cap, mid cap and small cap stocks)
- Capital appreciation over long-term
- Investments in a dynamic mix of equity and equity related instruments across largecap, midcap and small cap stocks

Invesco India Contra Fund
(an open ended equity scheme following contrarian investment strategy)
- capital appreciation over long-term
- investments predominantly in equity and equity related instruments through contrarian investing

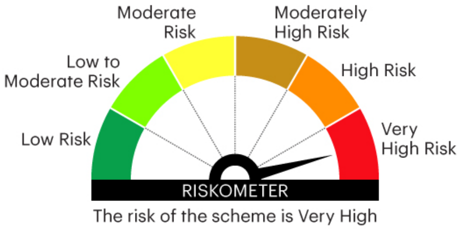
Invesco India Financial Services Fund
(an open ended equity scheme investing in financial services sector)
- capital appreciation over long-term
- investment predominantly in equity and equity-related instruments of companies engaged in the business of banking and financial services

Invesco India Large & Mid Cap Fund
(Large & Mid cap Fund - An open ended equity scheme investing in both large cap and mid cap stocks)
- capital appreciation over long-term
- investments predominantly in equity and equity-related instruments of large and midcap companies

Invesco India Smallcap Fund
(Small Cap Fund – An open-ended equity scheme predominantly investing in small cap stocks)
- Capital Appreciation over long term
- Investments predominantly in equity and equity-related instruments of Smallcap companies

Invesco India Focused Fund
(An open ended equity scheme investing in maximum 20 stocks across market capitalization (i.e Multicap))
- capital appreciation over long-term
- Investments primarily in equity & equity related instruments across market capitalization subject to maximum 20 stocks

Scheme Risk-o-meter



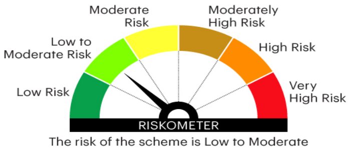
* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Product Labelling

This product is suitable for investors who are seeking*

Data as at 31st January, 2025

Invesco India Money Market Fund
(an open ended debt scheme investing in money market instruments. A relatively low interest rate risk and relatively low credit risk.)
- income over short term
- investment in money market instruments



Invesco India Low Duration Fund
(an open ended low duration debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 6 months to 12 months. A relatively low interest rate risk and relatively low credit risk.)
- income over short term
- investment in debt and money market instruments

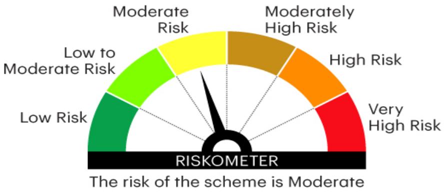
Invesco India Ultra Short Duration Fund
(an open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 3 months to 6 months. A relatively low interest rate risk and moderate credit risk.)
- income over short term
- investments in a portfolio of short term money market and debt instruments

Invesco India Corporate Bond Fund
(an open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and relatively low credit risk.)
- income over medium to long term
- investments in AA+ and above rated corporate bonds

Invesco India Gilt Fund
(an open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.)
- credit risk free returns over medium to long-term
- investments primarily in securities issued and guaranteed by the Central and the State Government across maturities

Invesco India Medium Duration Fund
(An open ended medium term debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 3 years and 4 years. A relatively high interest rate risk and moderate credit risk.)
- income over medium term
- investments predominately in debt and money market instruments with portfolio Macaulay duration of 3-4 years

Scheme Risk-o-meter



Invesco India Short Duration 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 moderate interest rate risk and relatively low credit risk.)
- income over short to medium term
- investments in short term debt and money market instruments

* Investors should consult their financial advisers if in doubt about whether the product is suitable for them

^Macaulay duration of a bond is the number of years taken to recover the initial investment of a bond. It is calculated as the weighted average number of years to receive the cash flow wherein the present value of respective cash flows is multiplied with the time to that respective cash flows. The total of such values is divided by the price of the security to arrive at the duration

Fixed Income Funds’ Potential Risk Class Matrix

Scheme Name

Invesco India Money Market Fund

Invesco India Low Duration Fund

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)	A-I		
Moderate (Class II)			
Relatively High (Class III)			

Scheme Name

Invesco India Short Duration Fund

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)	A-II		
Relatively High (Class III)			

Scheme Name

Invesco India Gilt Fund

Invesco India Corporate Bond Fund

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

Scheme Name

Invesco India Ultra Short Duration Fund

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)		B-I	
Moderate (Class II)			
Relatively High (Class III)			

Scheme Name

Invesco India Medium Duration Fund

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		B-III	

Disclaimer

Disclaimer: This write up is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. This information alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. It should be noted that the data mentioned in the note are based on the budget proposals presented by the Honourable Finance Minister in the Parliament of India on February 1, 2025 and the said budget proposals may change or may be different at the time the budget is passed by the Parliament and notified by the Government. The information contained in this document is for general purposes only and is not a complete disclosure of every material fact / aspect of Union Budget FY 2025-26. For detailed study, please refer to budget document available on www.indiabudget.gov.in. The information provided herein may include statements/data of future expectations that are based on budget proposals and our views and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied. Views are subject to change without any notice. The sectors / stocks / companies/ issuers, if any, referred to in this document are for illustration purpose only and for explaining the impact of budget proposals on them and should not be construed as recommendations, advice to buy, sell, transact or otherwise deal in any manner in those sectors / stocks / companies/ issuers and neither should it be considered as Research Report from Invesco Asset Management (India) Private Limited and /or Invesco Mutual Fund. The schemes of Invesco Mutual Fund may or may not have any present or future positions in these sectors / stocks / companies/ issuers. The data / information used in this document is obtained by Invesco Asset Management (India) Pvt. Ltd. from the sources which it considers reliable. Invesco AMC / Invesco MF is not indicating or forecasting any returns on any investments. While utmost care has been exercised in preparing this document, Invesco Asset Management (India) Pvt. Ltd. / Invesco Mutual Fund does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. The content of this note is confidential and intended solely for the use of the addressee. If you are not the addressee, or the person responsible for delivering it to the addressee, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it is prohibited and may be unlawful. The recipient(s) before acting on any information should make his/their own investigation and seek appropriate professional advice.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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