Invesco Mutual Fund

Market Outlook

Summary – Global growth seems ok as of now but may slow on tariff impact. India equity could stay resilient with liquidity, rate cuts, policy actions and likely good monsoon. Geo-politics can create event risk and cause risk assets to be volatile. Impending rate cuts and improving fiscal dynamics continue to make domestic Fixed Income attractive.

Global Macro:

- US economy remains steady with healthy labour market and consequent robust consumer spending, though sentiments are on a declining trend and inflation expectations are on the rise. Chinese economy remains in slow-down despite policy measures. European growth showed an uptrend while emerging markets are anxious on impending tariffs.
- Inflation in US seems to be in a steady range, with slow progress towards the 2% target. However broad-based tariffs and pro-growth policy present upside risk.
- Volatility can remain high as global geo-politics can cause uncertainty across countries.

Domestic Macro:

- Growth in recent months has been slowing on back of slow government capex, slower bank lending growth and weak consumption. As government spending picks up, consumption impulse will likely pick up. RBI's regulatory easing, two consecutive rate cuts & further cuts can re-energise the growth cycle.
- Inflation will continue to moderate over the rest of the year as core inflation remains steady. Food inflation remains high but should trend lower on back of declining agri inflation with the help of robust Rabi crop.
- External position is in good shape with manageable current account deficit. Import cover remains close to 11 months.
- Impact of US tariffs seems likely restricted short-term and probably beneficial long-term.

Equities:

- Earnings expectations have moderated but so have valuations. Strengthening domestic growth outlook will likely support valuations hereon. Large-caps appear better placed on near-term growth/valuation metrics whereas SMID's provide the best proposition for long-term alpha generation.
- Portfolio positioning remains pro-cyclical, but preference continues for high quality companies with strong business execution.

Fixed Income:

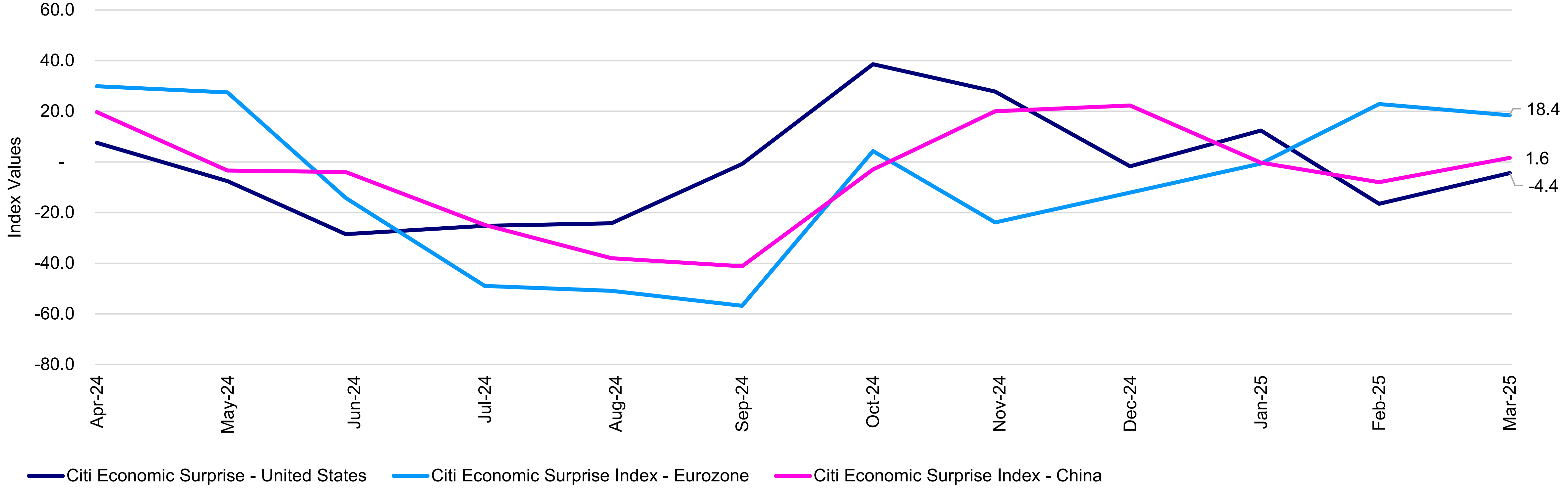
- Inflation will moderate over coming months. Fiscal situation of Central Government looks in good shape as FY26 continuing to see fiscal consolidation. Addition of Indian sovereign bonds to Bloomberg's and FTSE's EM Bond Indices will continue to provide demand support. Demand from pension funds and insurance companies also remains strong.
- Long dated G-sec (5 yr+) look attractive on demand-supply dynamics and as India likely enters a rate cut cycle.
- High quality corporate bonds in 1-5 year maturity band look attractive as credit spreads are elevated.

Source: Invesco Asset Management (India). EM: Emerging Markets, DM: Developed Markets, Bps: Basis points. Note based on our views.
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.

Global Macro
Present state of play

Economic surprise index has remained tepid for US and China. Europe shows an improving trend; however global tariff war can impact it significantly

Citi Economic surprise index



Source: Bloomberg. Data as at end March 2025
Note: Above 0 is positive for growth and below 0 is negative for growth.

PMIs steady across countries driven largely by Services PMIs while Manufacturing remain sluggish. India picking pace after moderation in 2H2024.

Manufacturing PMIs	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24	Apr-24
US	50.2	52.7	51.2	49.4	49.7	48.5	47.3	47.9	49.6	51.6	51.3	50.0
Eurozone	48.6	47.6	46.6	45.1	45.2	46.0	45.0	45.8	45.8	45.8	47.3	45.7
Japan	48.4	49.0	48.7	49.6	49.0	49.2	49.7	49.8	49.1	50.0	50.4	49.6
UK	44.9	46.9	48.3	47.0	48.0	49.9	51.5	52.5	52.1	50.9	51.2	49.1
China	51.2	50.8	50.1	50.5	51.5	50.3	49.3	50.4	49.8	51.8	51.7	51.4
India	58.1	56.3	57.7	56.4	56.5	57.5	56.5	57.5	58.1	58.3	57.5	58.8
Brazil	51.8	53.0	50.7	50.4	52.3	52.9	53.2	50.4	54.0	52.5	52.1	55.9
Indonesia	52.4	53.6	51.9	51.2	49.6	49.2	49.2	48.9	49.3	50.7	52.1	52.9
Mexico	46.5	47.6	49.1	49.8	49.9	48.4	47.3	48.5	49.6	51.1	51.2	51.0

Services PMIs	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24	Apr-24
US	54.4	51.0	52.9	56.8	56.1	55.0	55.2	55.7	55.0	55.3	54.8	51.3
Eurozone	51.0	50.6	51.3	51.6	49.5	51.6	51.4	52.9	51.9	52.8	53.2	53.3
Japan	50.0	53.7	53.0	50.9	50.5	49.7	53.1	53.7	53.7	49.4	53.8	54.3
UK	52.5	51.0	50.8	51.1	50.8	52.0	52.4	53.7	52.5	52.1	52.9	55.0
China	51.9	51.4	51.0	52.2	51.5	52.0	50.3	51.6	52.1	51.2	54.0	52.5
India	58.5	59.0	56.5	59.3	58.4	58.5	57.7	60.9	60.3	60.5	60.2	60.8
Brazil	52.5	50.6	47.6	51.6	53.6	56.2	55.8	54.2	56.4	54.8	55.3	53.7

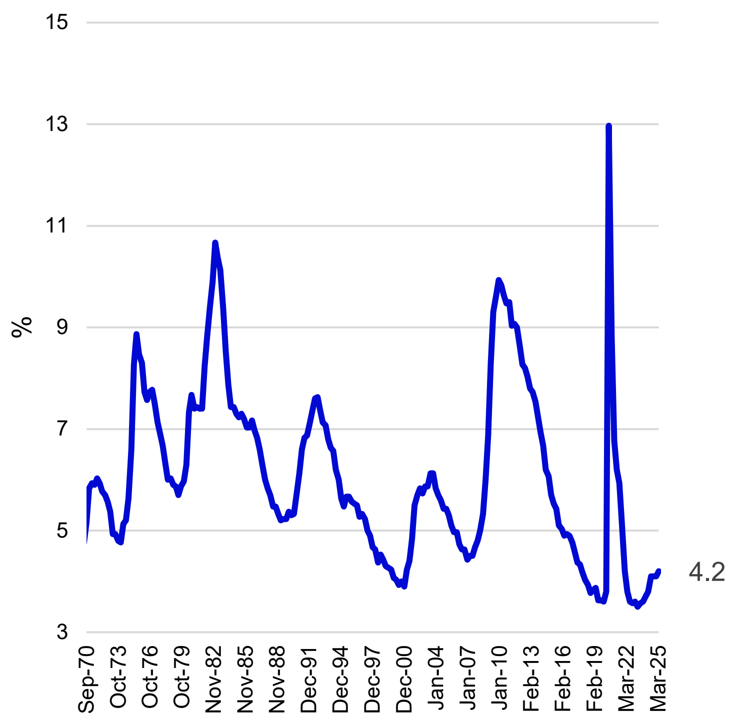
Weak Average Strong

- PMIs for developed countries remain steady.
- Manufacturing PMIs remain sluggish.
- Services PMIs continue to be resilient.
- India PMIs looking up after slower 2H2024.

Source: Bloomberg. PMI: Purchasing Managers' Index

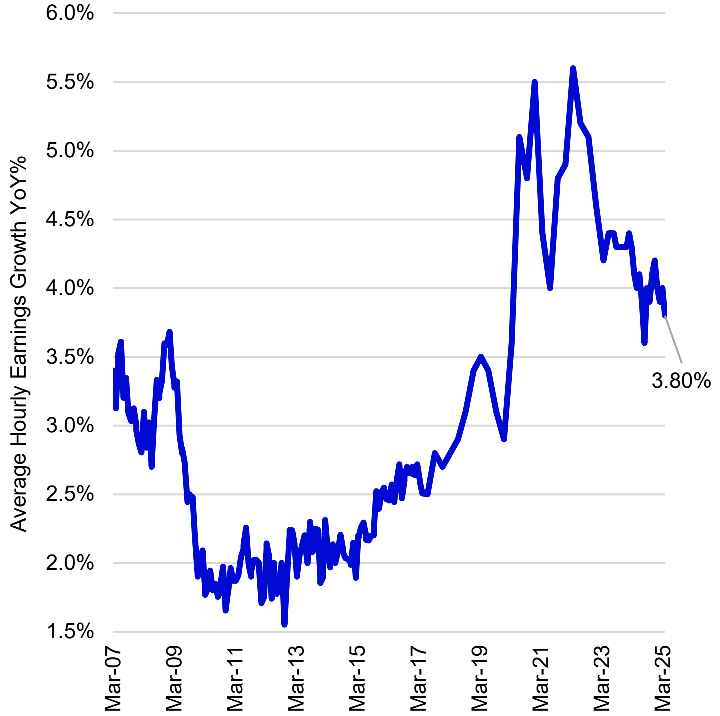
US labor market remains steady with robust job openings, low unemployment and steady wage gains; some moderation witnessed in recent months

US unemployment rate - %



US job opening in '000

US employee earnings

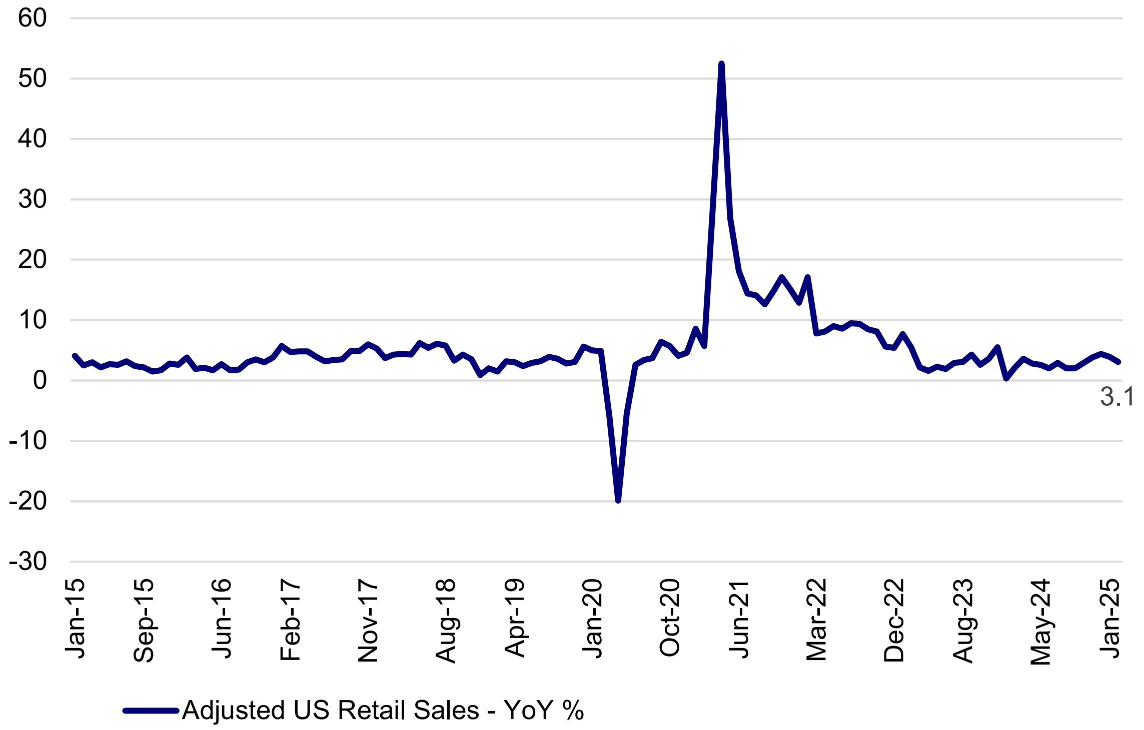


- US labor market remains steady. Unemployment rate has been low but inched up recently to 4.2% and job openings have been at elevated levels.
- Employee earnings are increasing at a decent pace compared to last 15 years.

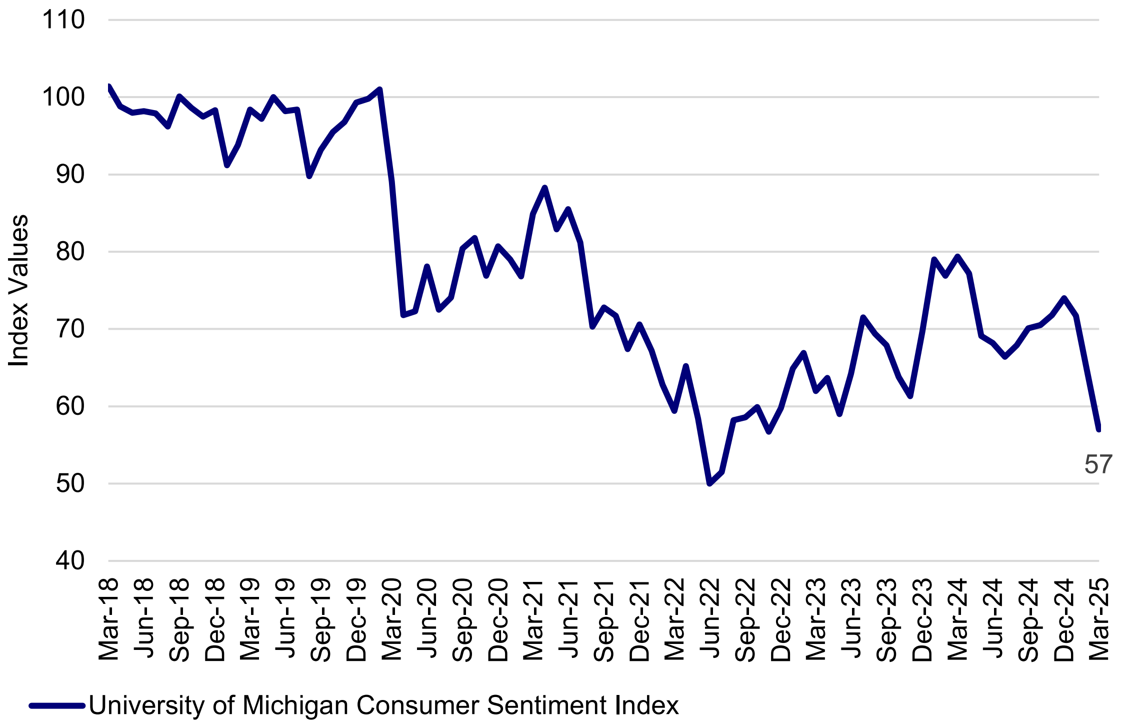
Source: Bloomberg

Consumer spending steady for now but may need support from real disposable income growth. US consumer sentiment falling down with tariff overhang.

Adjusted US Retail Sales - YoY %



University of Michigan – Consumer sentiment index

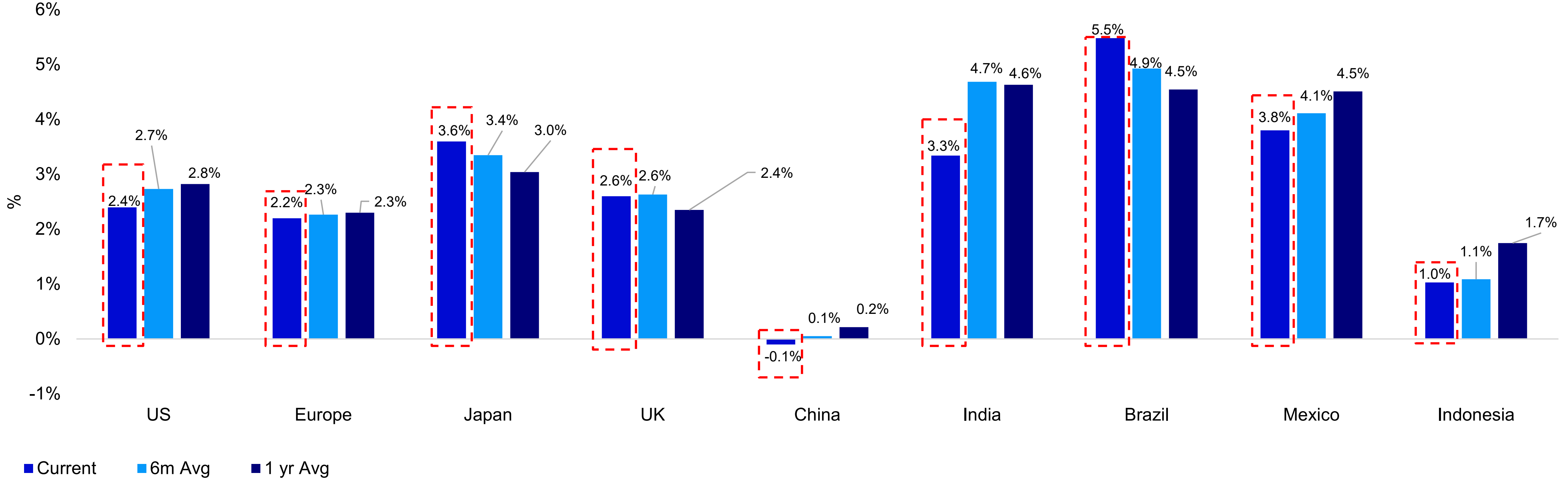


Source: Bloomberg. Data as at end March 2025.

.

Inflation has been moderating across most developed and emerging market economies. However the last mile of disinflation is proving to be a slow process.

Headline CPI Inflation

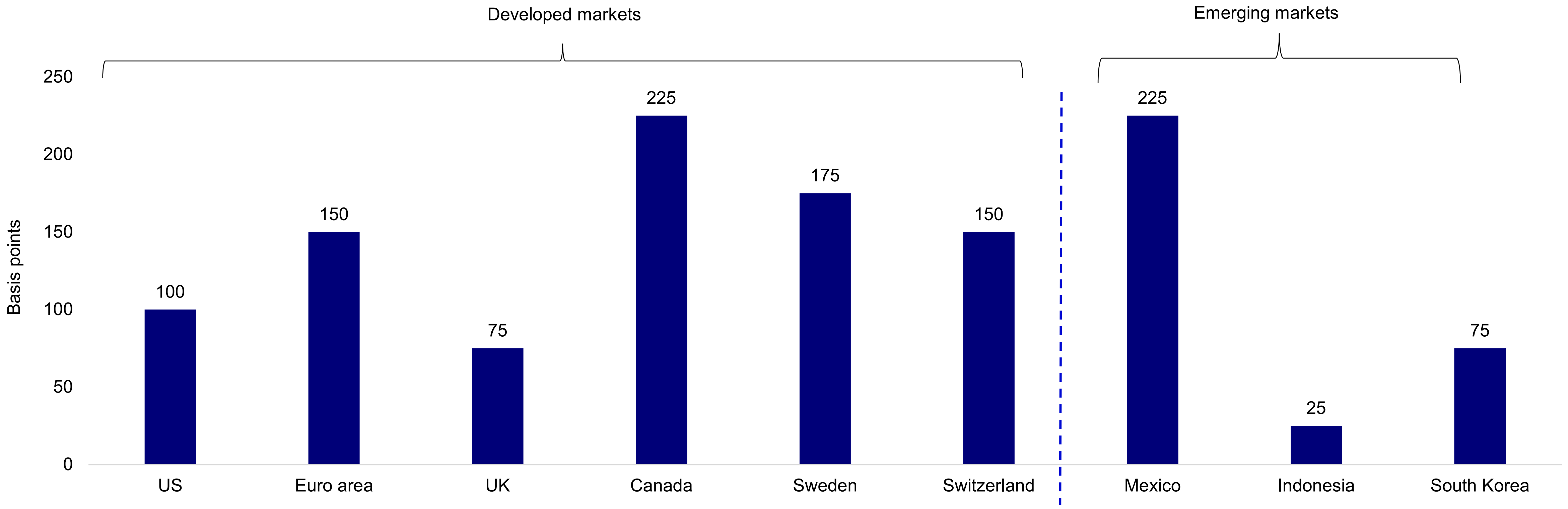


- US inflation has moderated as goods inflation drops and core inflation softens. Shelter inflation albeit high has started to come down.

Source: Bloomberg. Data as at end March 2025.

Interest rate cuts have started in many developed as well as emerging market countries. India has headroom for 75-100bps in aggregate

Rate cuts since December 2023 (BPS)

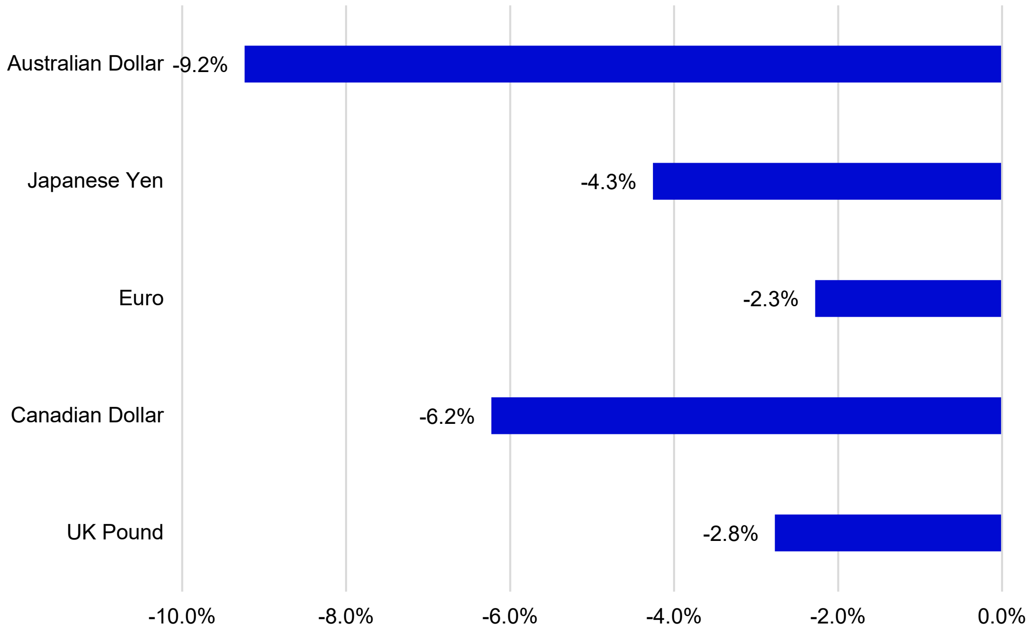


Source: Bloomberg. Data as at March 31, 2025

USD has been very strong over the last quarter against all major currencies on back of higher long-end bond yields and stronger growth in US

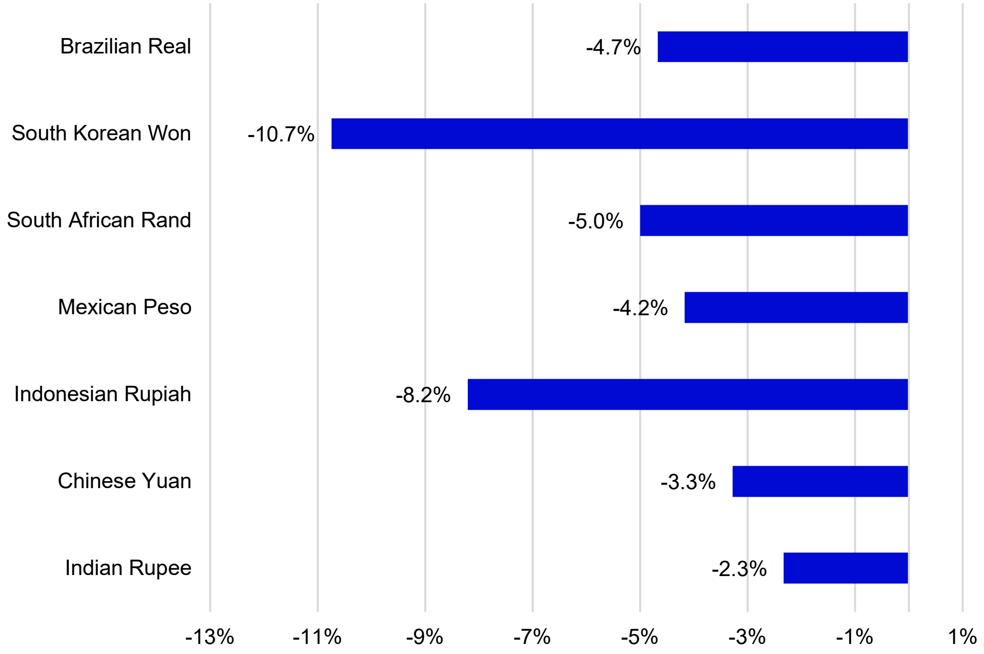
Developed Markets

1 October 2024 – 31 March 2025 % change in select currencies vs USD



Emerging Markets

1 October 2024 – 31 March 2025 % change in select currencies vs USD



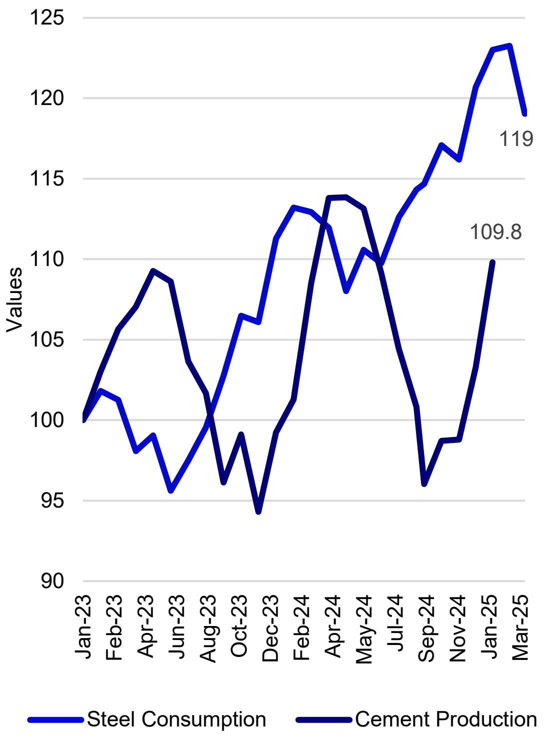
Source: Bloomberg

Domestic Macro
Present state of play

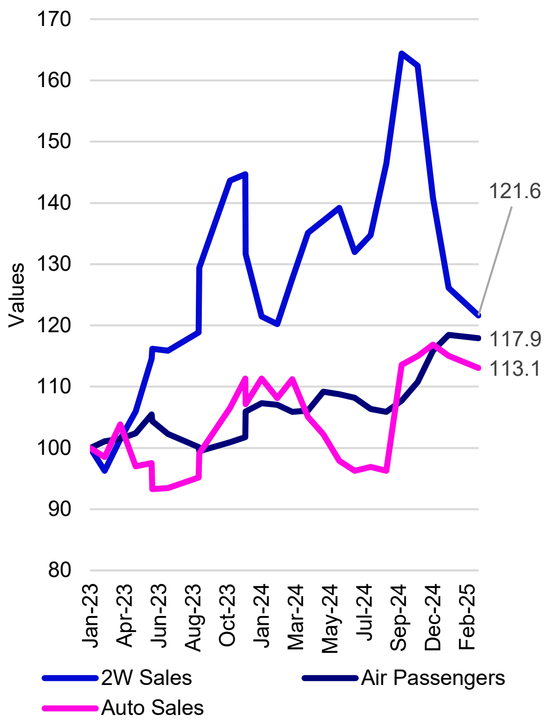
High frequency indicators have been mixed recently. Urban growth seems to have slowed but rural is steady

Values are rebased to 100 based on 3 month moving average

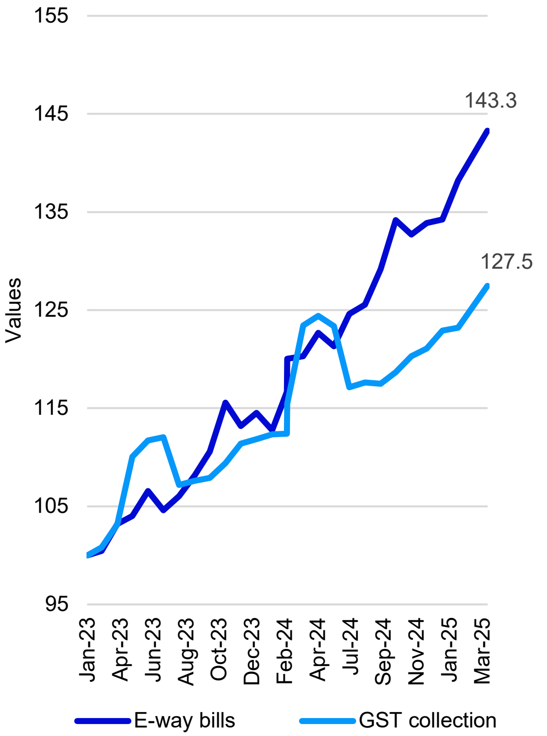
Commodity consumption / production



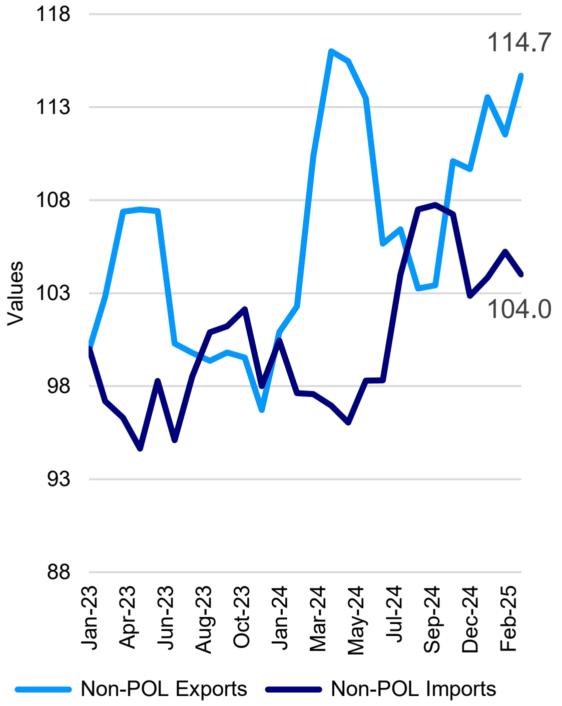
Vehicle Sales/Movement



Goods movement



Non-Oil - Exports and Imports

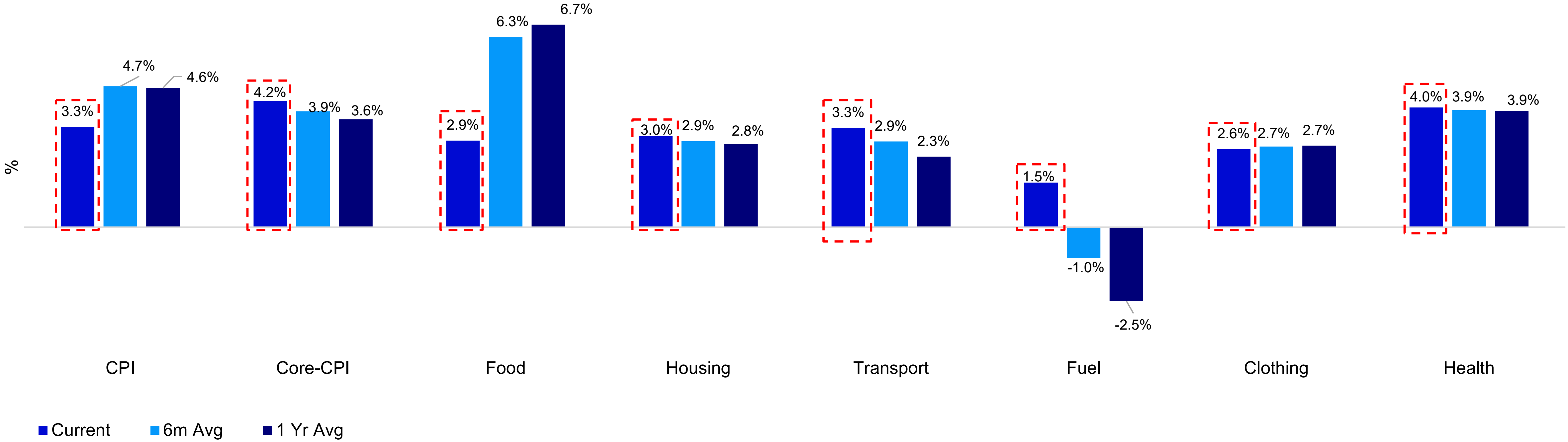


- High frequency indicators for India have been mixed with a bit of slow-down.
- GST collections, exports and bank lending show growth is slowing.
- Rural economy seems to be steady as reflected through two-wheeler sales.

Source: Invesco India Asset Management. CMIE. POL: Petroleum

Headline inflation has come below 4% after a long time, led by sharp fall in food inflation…Core inflation inched up marginally due to gold prices but remain moderate.

India Inflation and its components



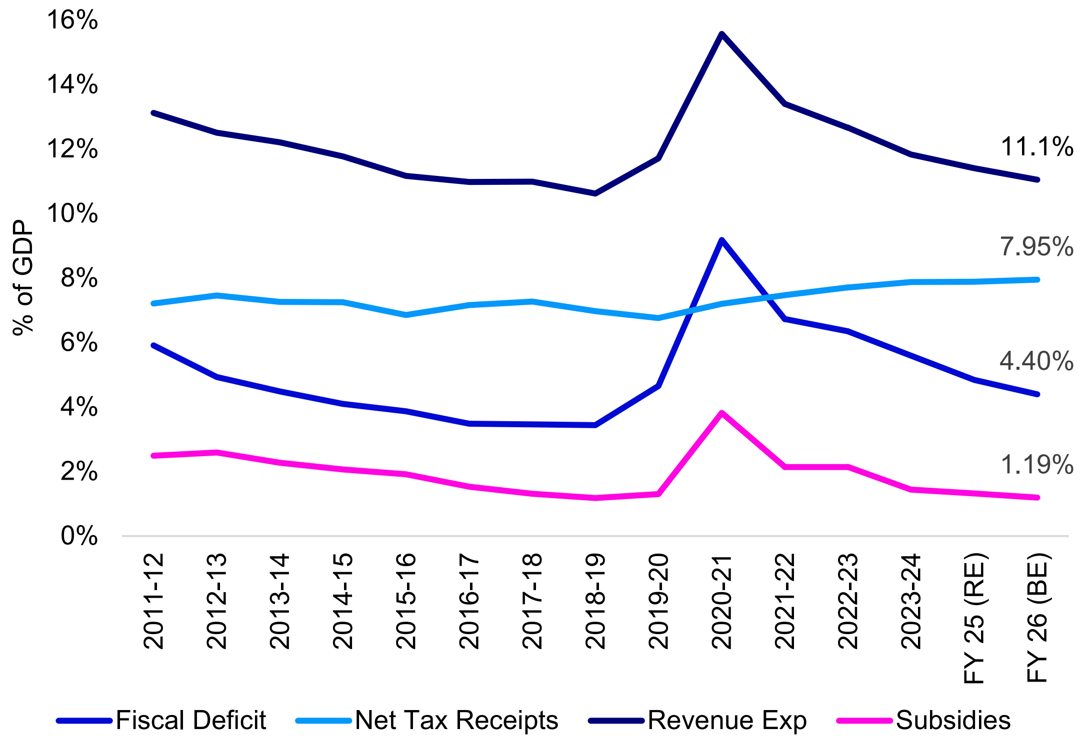
- Vegetable prices have cooled off, leading to lower headline CPI inflation. Stability in overall food prices should help to maintain inflation at comfortable levels going forward.
- Core CPI has inched up in recent months, but remains at moderate levels. Increase in core inflation has been due to increase in gold prices.

Source: Bloomberg. Data as at 31 March 2025.

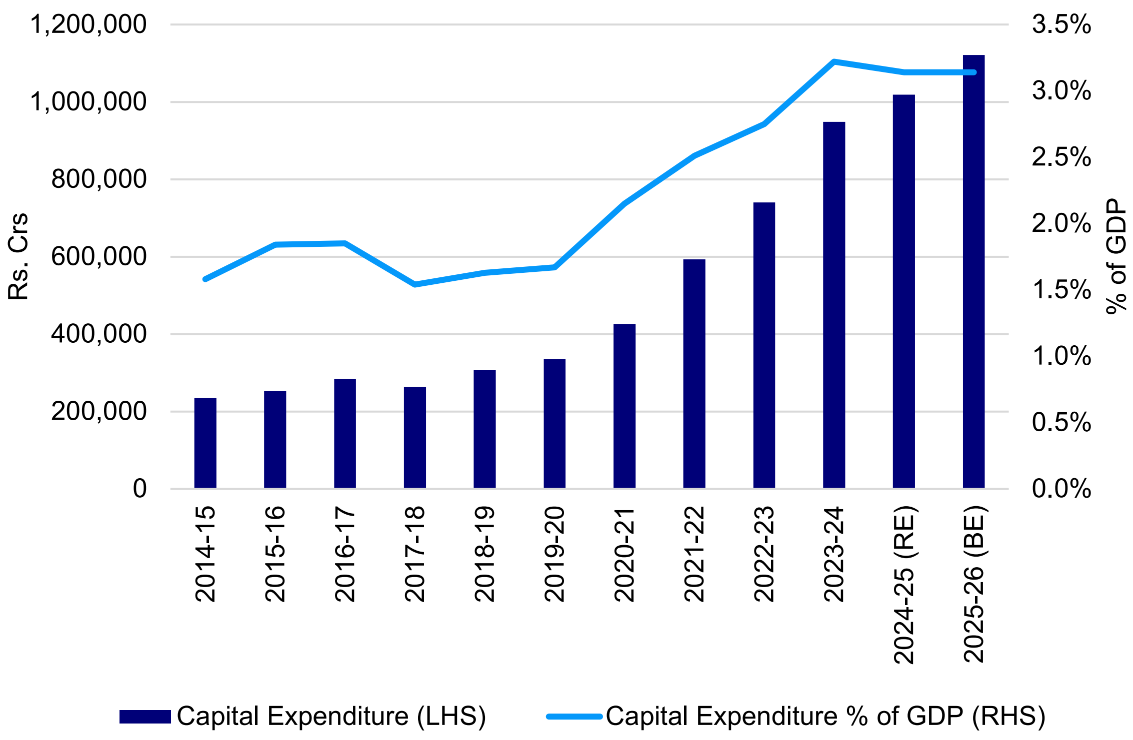
Note: 6 months average is calculated since June 2024 and 1 year average is calculated since January 2024.

India keeps on the path of aggressive fiscal consolidation but with continued focus on capex and no populist spending

Fiscal Deficit



Capex as % of GDP

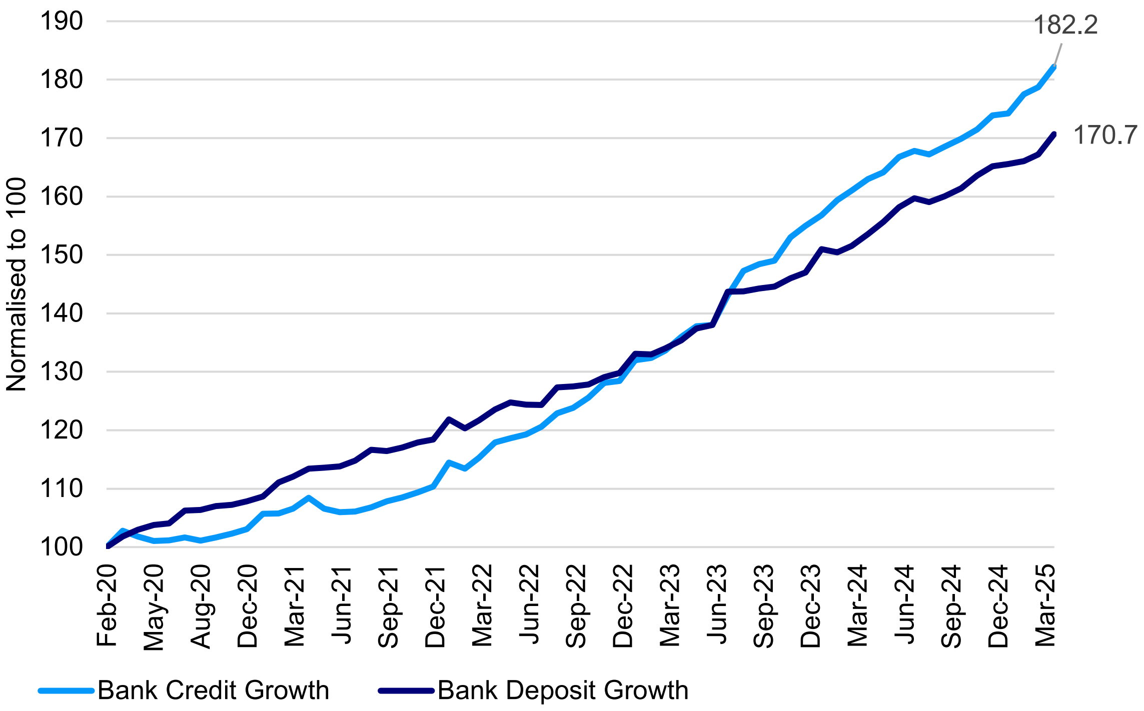


- FY26 fiscal deficit target looks achievable as robust tax collections and RBI's massive dividend help.
- Capex spending thrust from Government to ensuring continuity from previous two years.

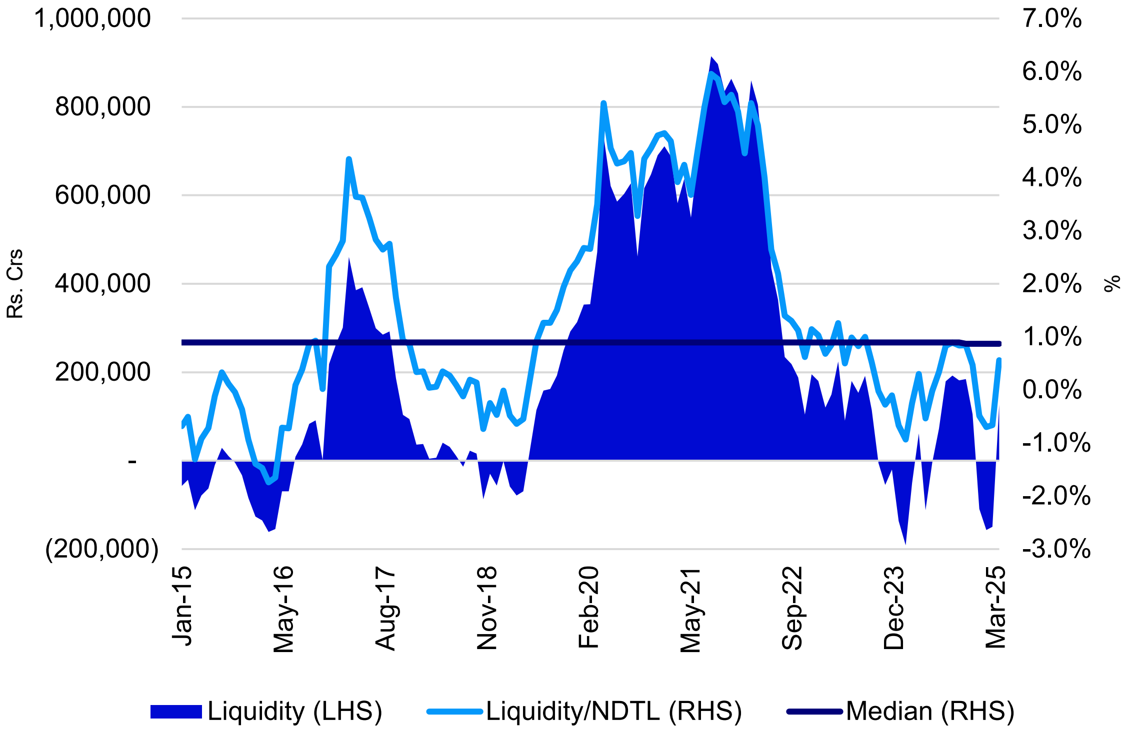
Source: CMIE; Invesco Asset Management (India). BE: Budget Estimates.

Credit growth picking up recently due to RBI measures. RBI remains highly pro-active to ensure appropriate systemic liquidity

Credit growth and Deposit growth



Systemic Liquidity

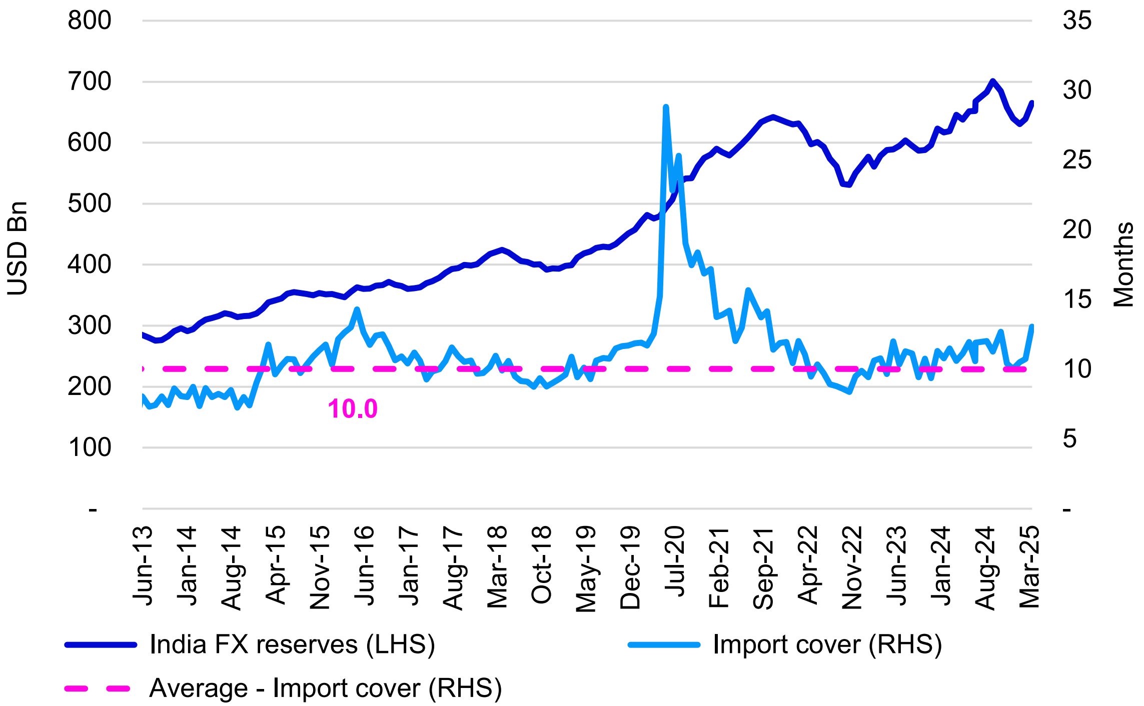


- Credit growth has been strong than deposit growth rate but will likely continue to slow-down.
- Liquidity conditions are being dynamically managed by RBI to ensure appropriate monetary transmission.

Source: Bloomberg. NDTL: Net Demand and Time Liability.

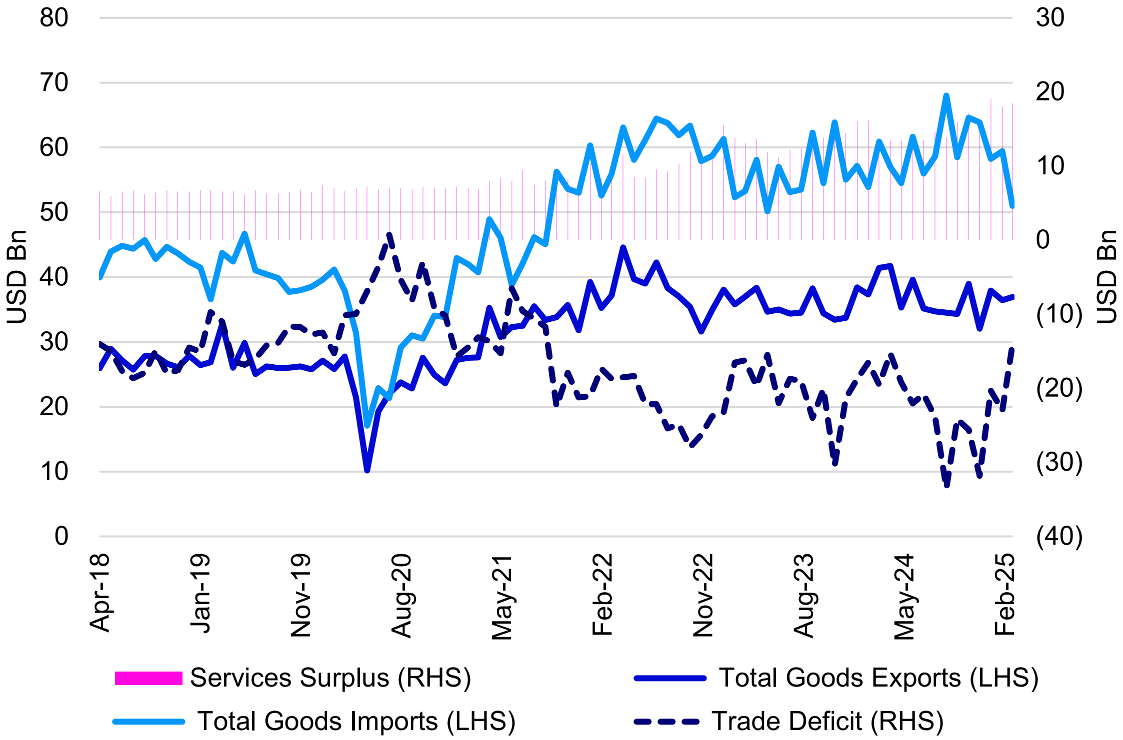
Foreign exchange reserves have moderated from high levels due to capital outflows; import cover remains comfortable

FX Reserves (USD bn) and Import Cover (Months)



Note: *Average is for period between March 2013 to March 2020*

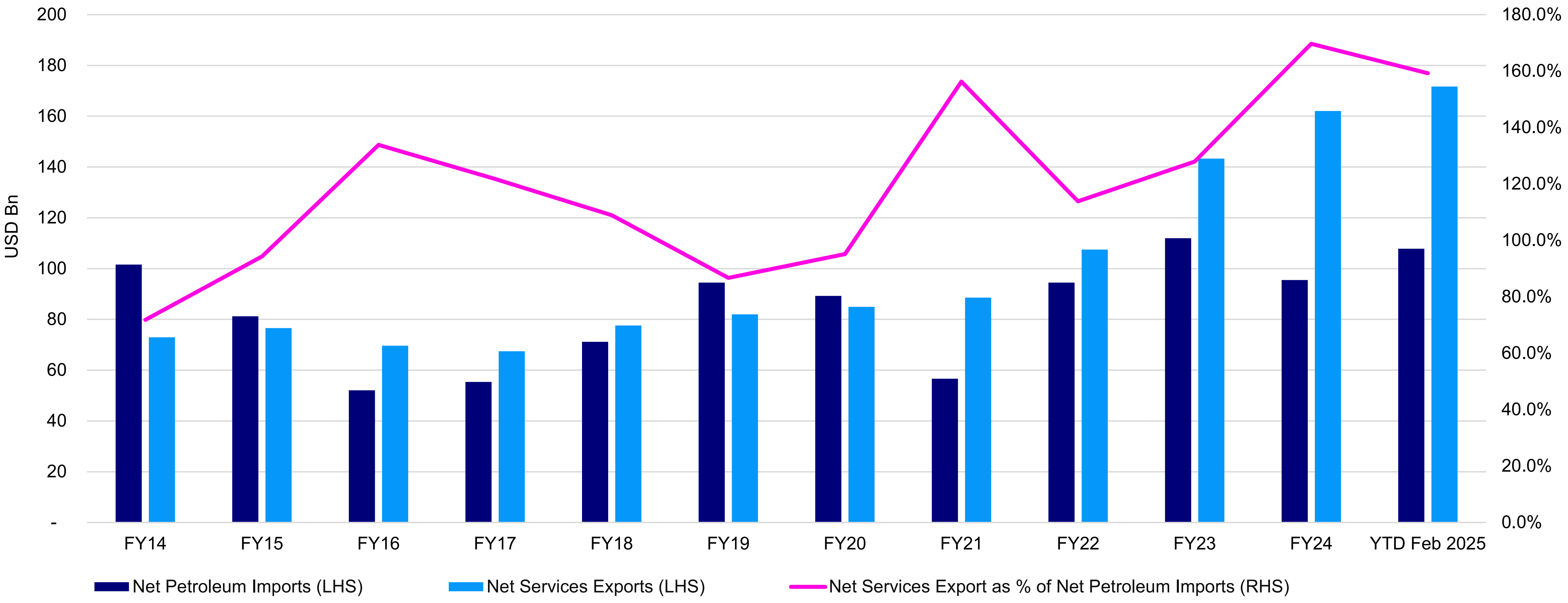
India monthly Exports / Imports – USD bn



- FX reserves have moderated from highs due to capital outflows. Robust services exports have provided strong cushion. Import cover is around pre-Covid average.
- Services exports have shown remarkable robustness and are at multi-year highs.

Source: Bloomberg. Data at end of March 2025.

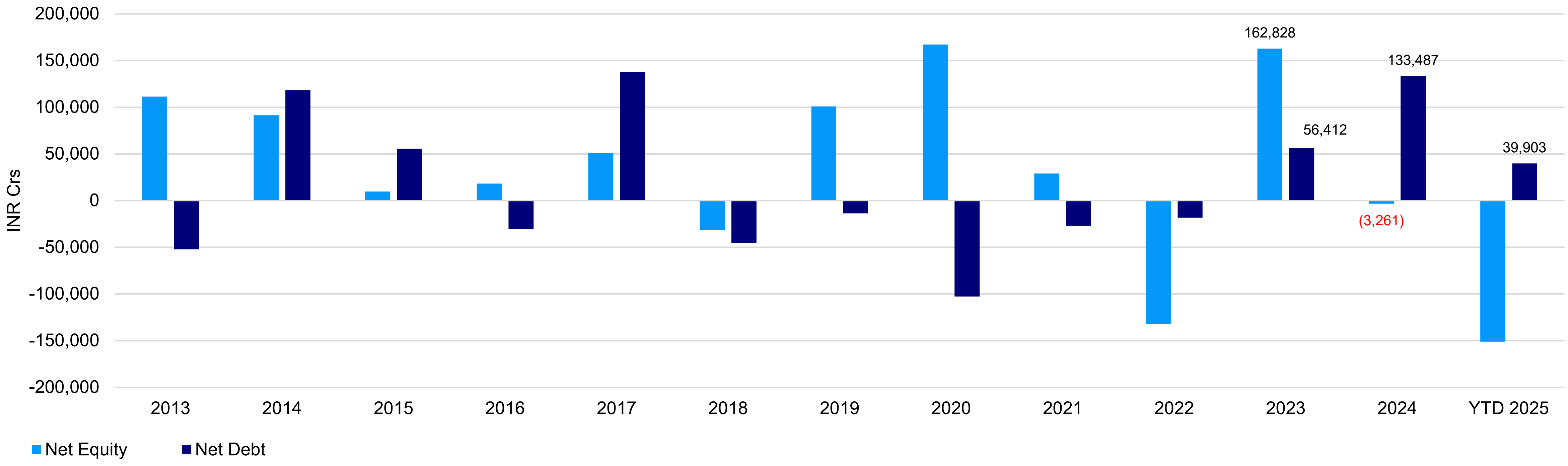
India's service exports have seen significant rise post Covid and now covers more than the annual net petroleum imports thereby strengthening external position



Source: CMIE; IAMI

FPI flows in Debt have been strong for 2024 and CYTD, as strong macros & bond index inclusion story played out. Equity flows continue their losing streak since late 2024 due to strong USD and broad-based outflows from emerging market equities.

Annual FPI flows



Source: HSBC India. YTD: Year to date till April 8, 2025.

Equity Outlook

Summary - 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. Global tariff conflicts can hurt but seem manageable given its low external sector exposure.
- The economy is facing headwinds from weak job creation and docile income growth creating pressure on consumption. We expect this to improve incrementally with better system liquidity, lower interest rates, tax cuts and govt spending
- Core and food inflation have softened to within comfort levels of the Central Bank
- Investment cycle slower since 2HFY25 but expected to pick pace with improved Govt spends. Private capex has displayed improving trends; rate cuts can provide a shot in the arm.
- Earnings expectation for FY25 have moderated to low single digit. Recent fiscal and monetary measures may signal an end to the downgrade cycle.

Global Factors

- Global economy, driven by US, continues to hold well but is at risks of slowing due to impending tariff conflicts.
- Change of 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.

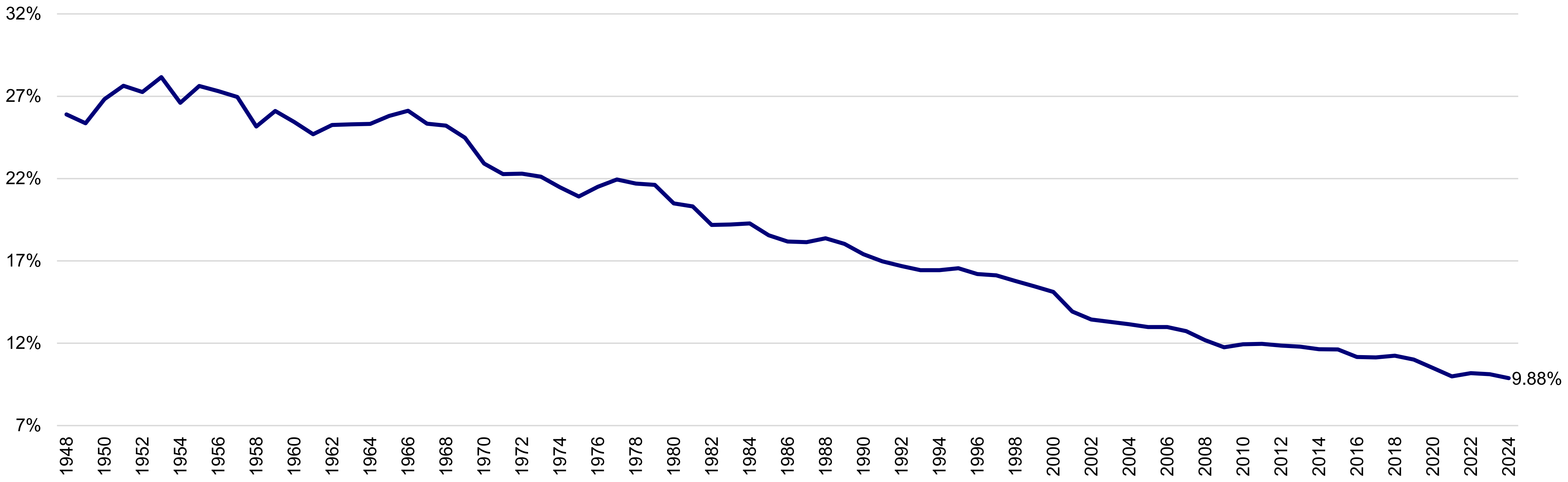
Recommendation

- 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.
- 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

Note: The sectors referred above should not be construed as recommendations from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund. The Scheme may or may not have any present or future positions in these sectors.

Eroding US manufacturing makes new US tariffs a reality though quantum likely to be lower than ‘Liberation Day’ pronouncements

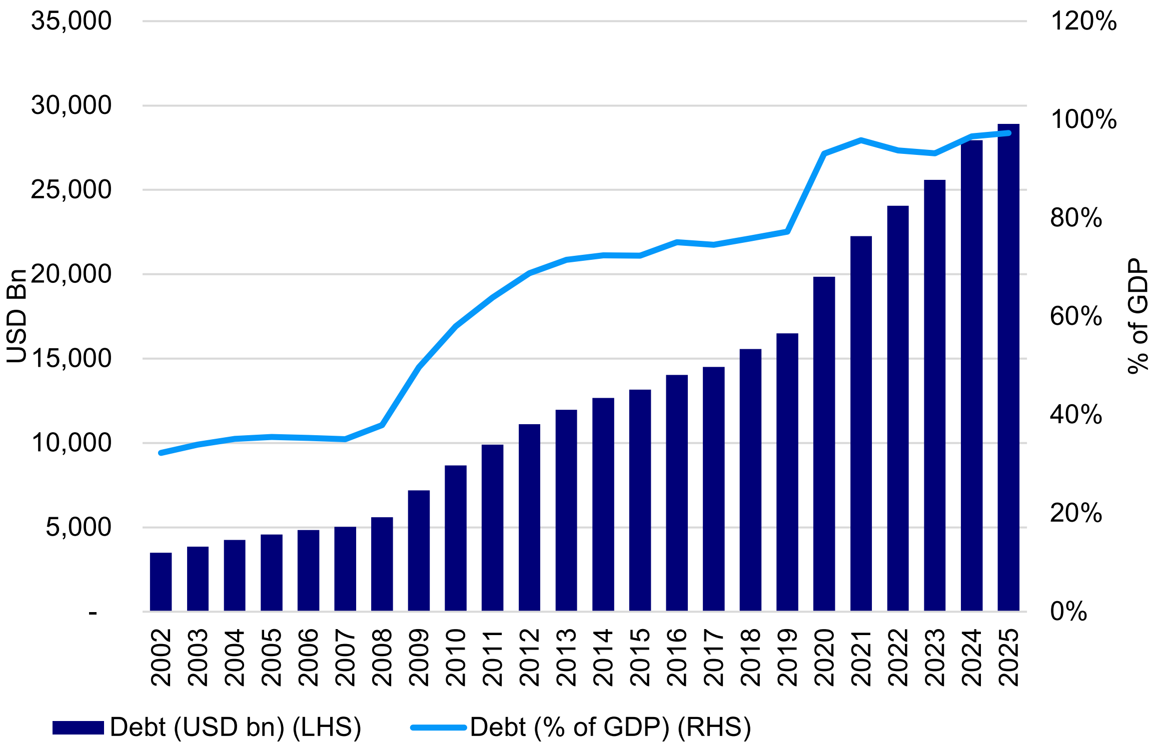
US manufacturing GVA as % of GDP



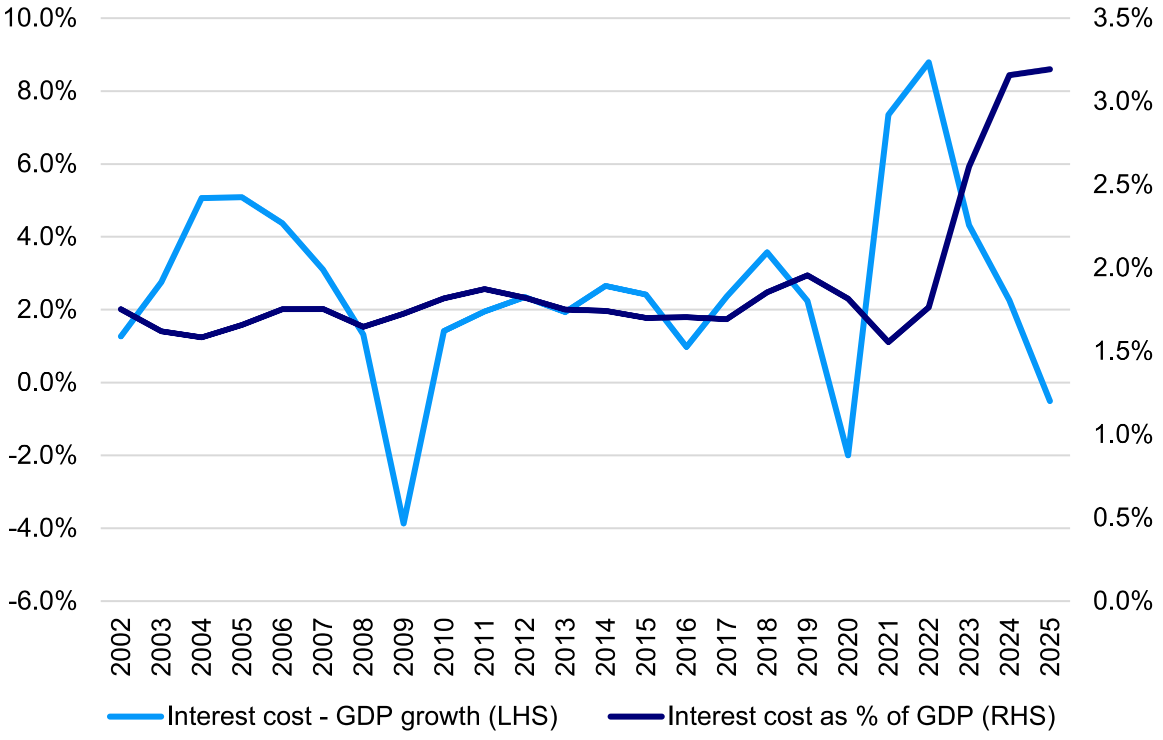
Source: Jeffries

US debt and interest payment position is precarious. Tariffs and resultant inflation may thus limit FED's choices. Behavior of UST to play a critical role in final outcome on trade conflict

US Government Debt (% of GDP)

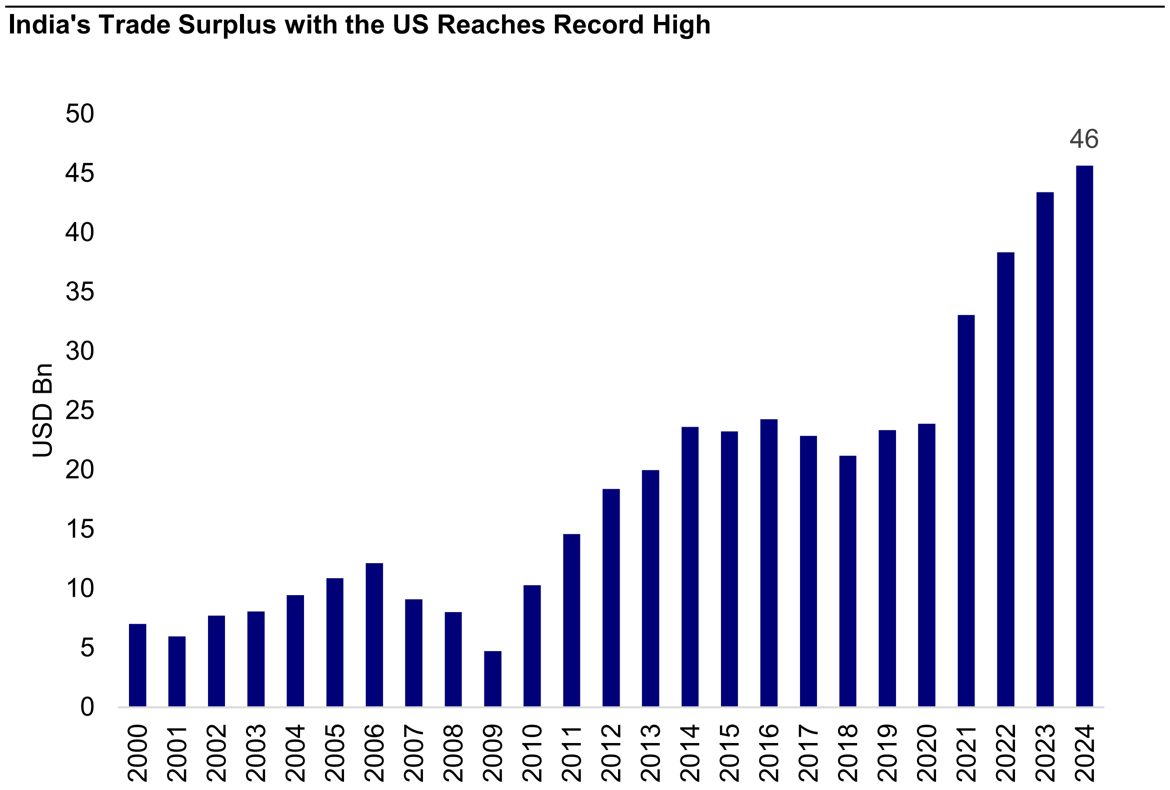


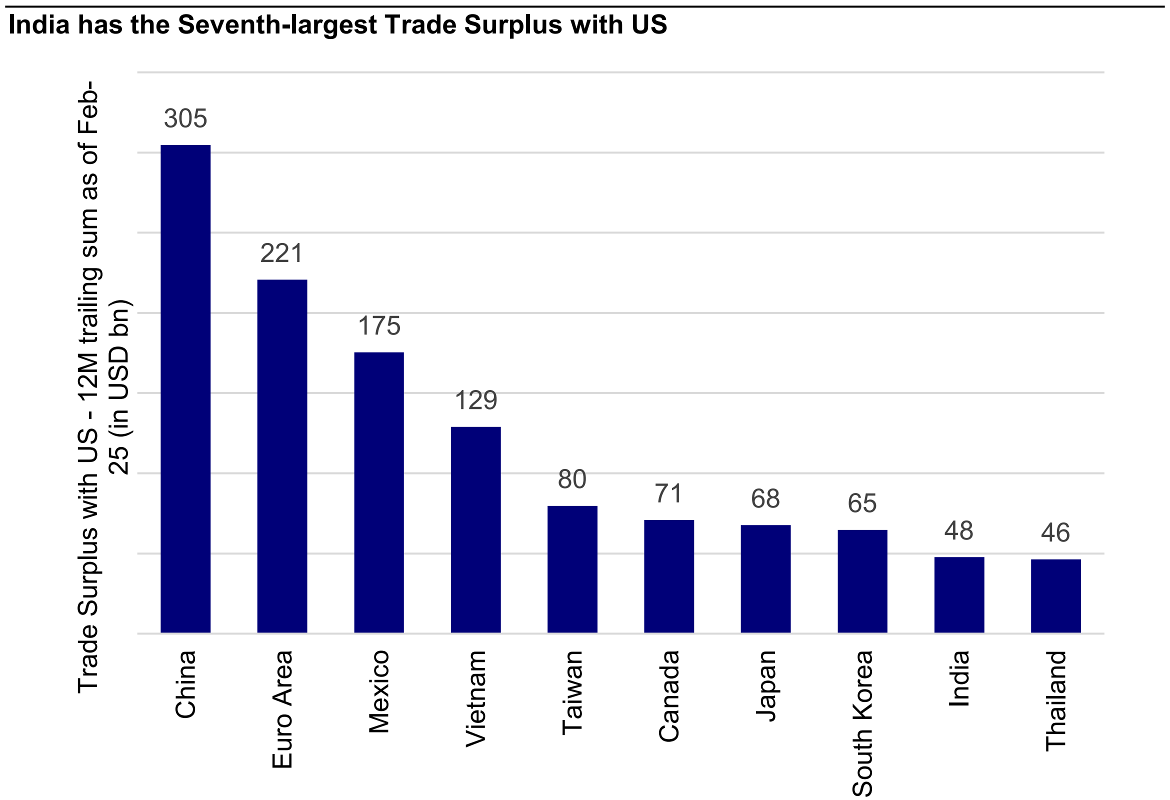
Cost of servicing US Government Debt



Source: Yes Securities

India's trade surplus with the US has scaled up, seventh-largest trade surplus that US has with any country



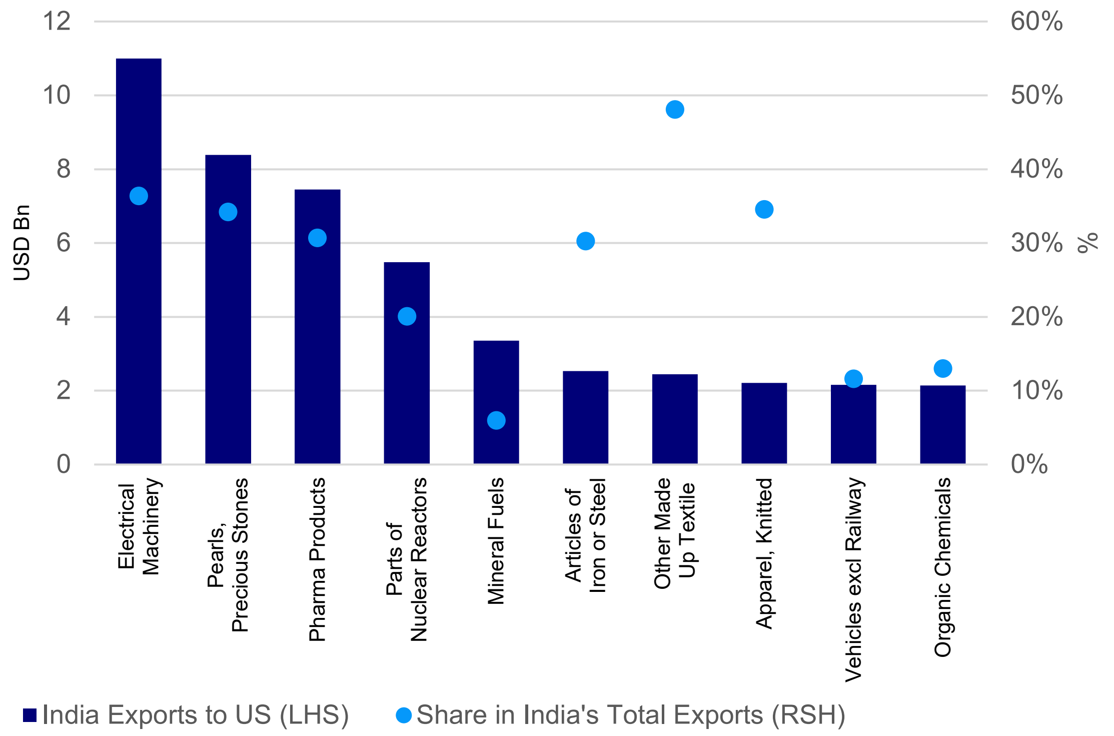


- At USD 46 billion, trade surplus is approximately 1.1% of India's GDP (estimated at approximately USD 4 trillion in CY 2025)
- Any negative growth implications due to elevated tariffs would hence have minimal impact on India's GDP growth
- The second order impact on economic growth, due to slower global GDP growth, could manifest though

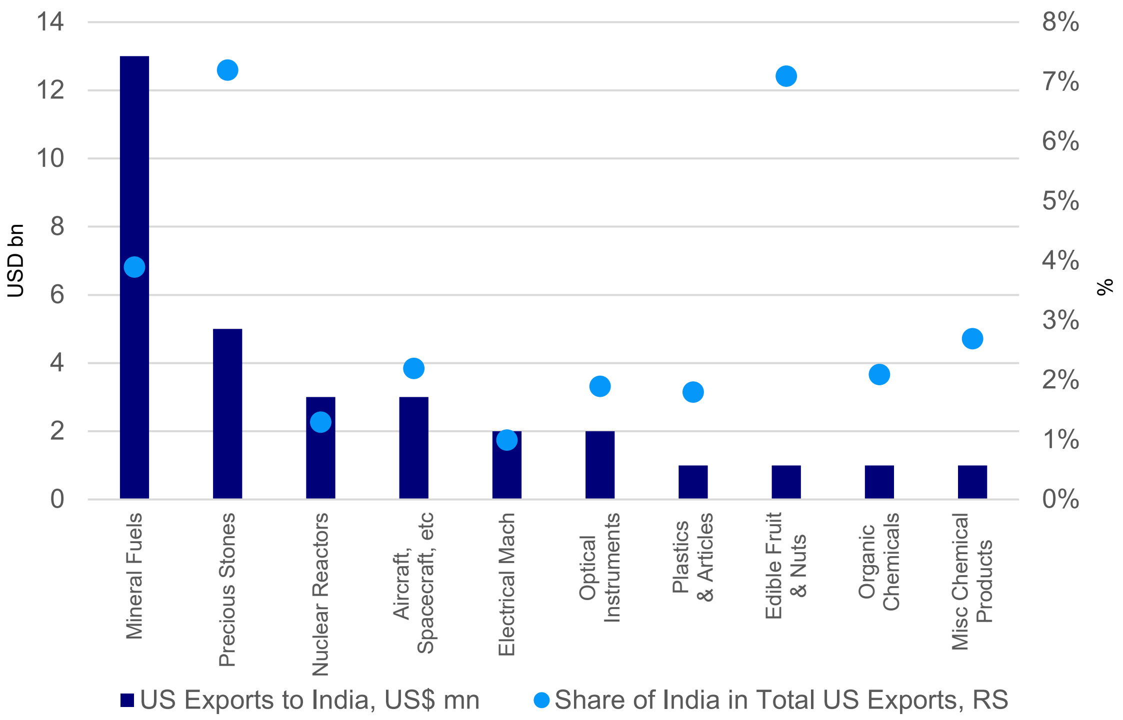
Source: Morgan Stanley

Indian economy may benefit by modulating its imports from USA to counter the effect of reciprocal tariffs

Top 10 India Exports to the US (as of FYTD2025)



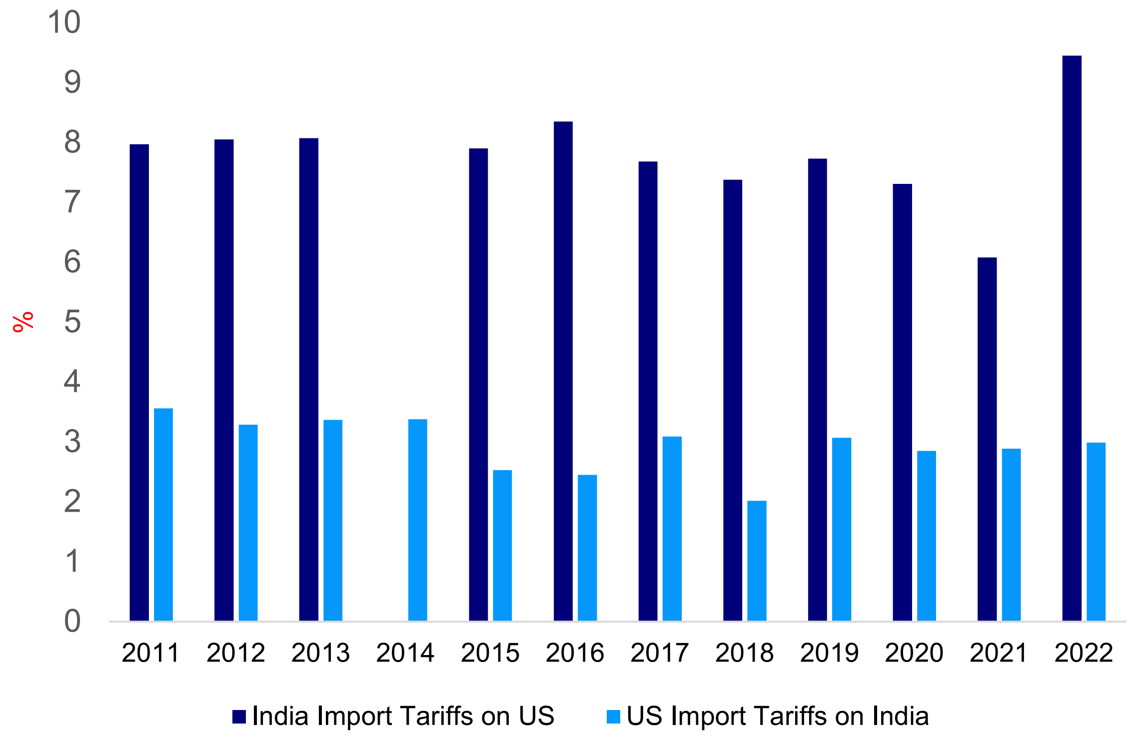
Top 10 US Exports to India (as of CY2024)



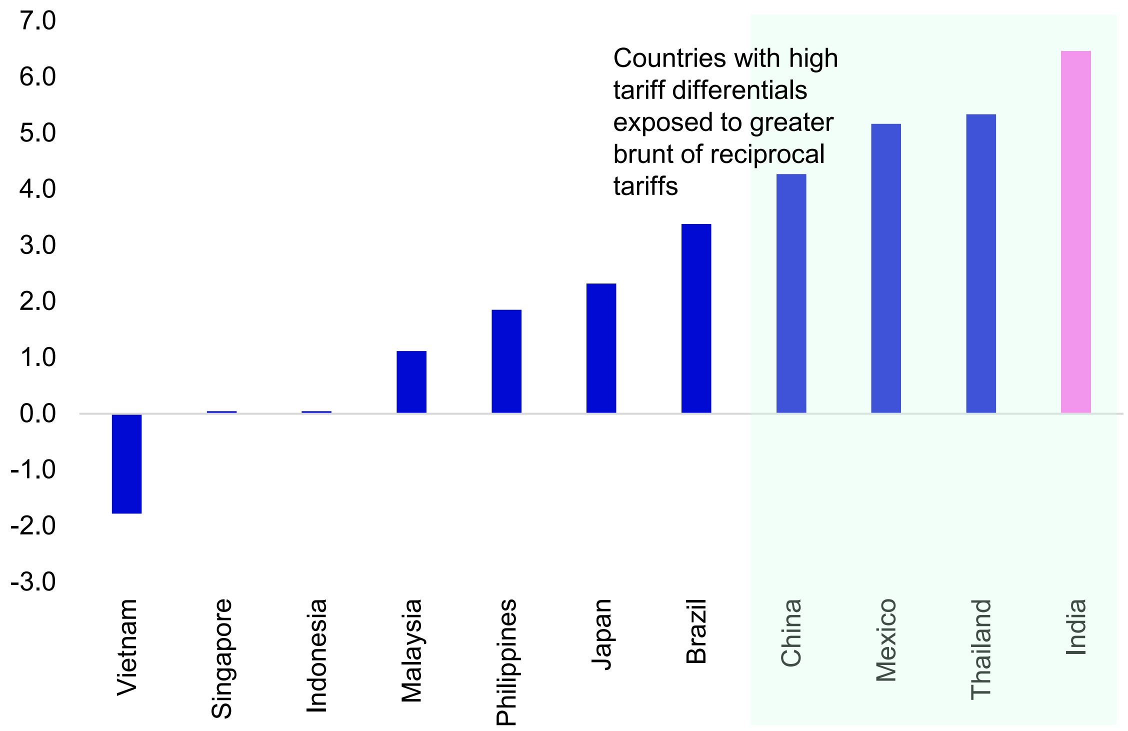
Source: Morgan Stanley

India has one of the highest tariff differentials, making it more vulnerable to reciprocal tariffs

Trend in India's import tariffs



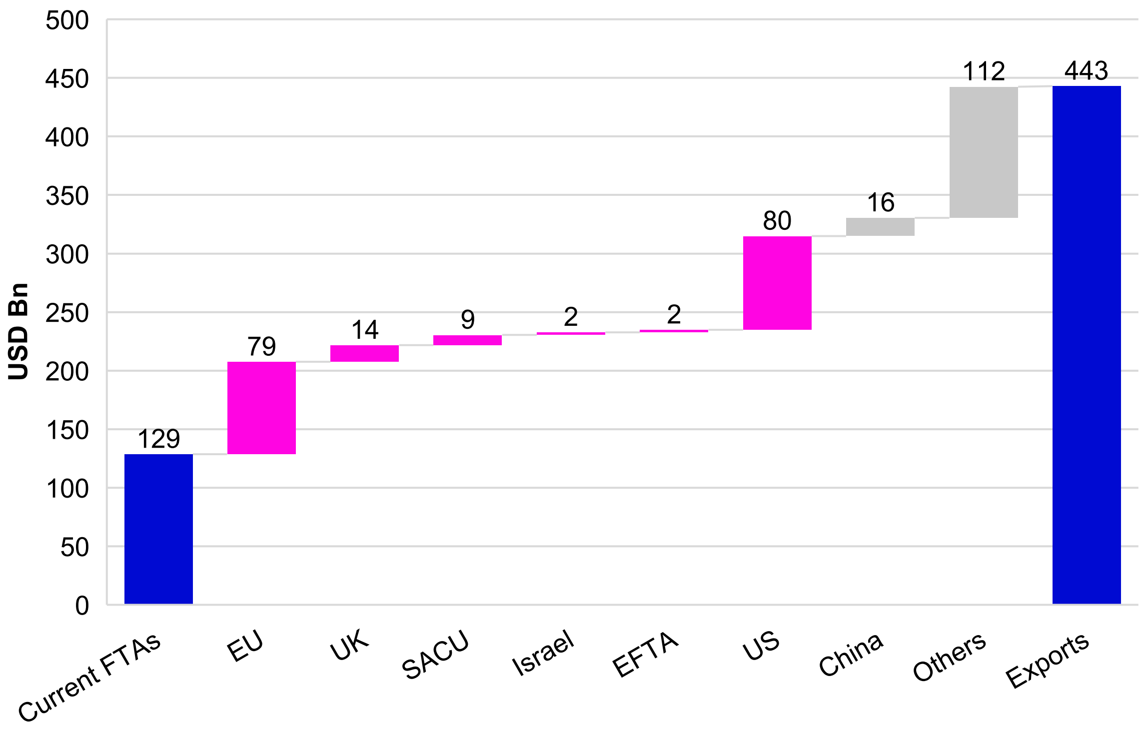
Tariff Differential for India is one of the Highest



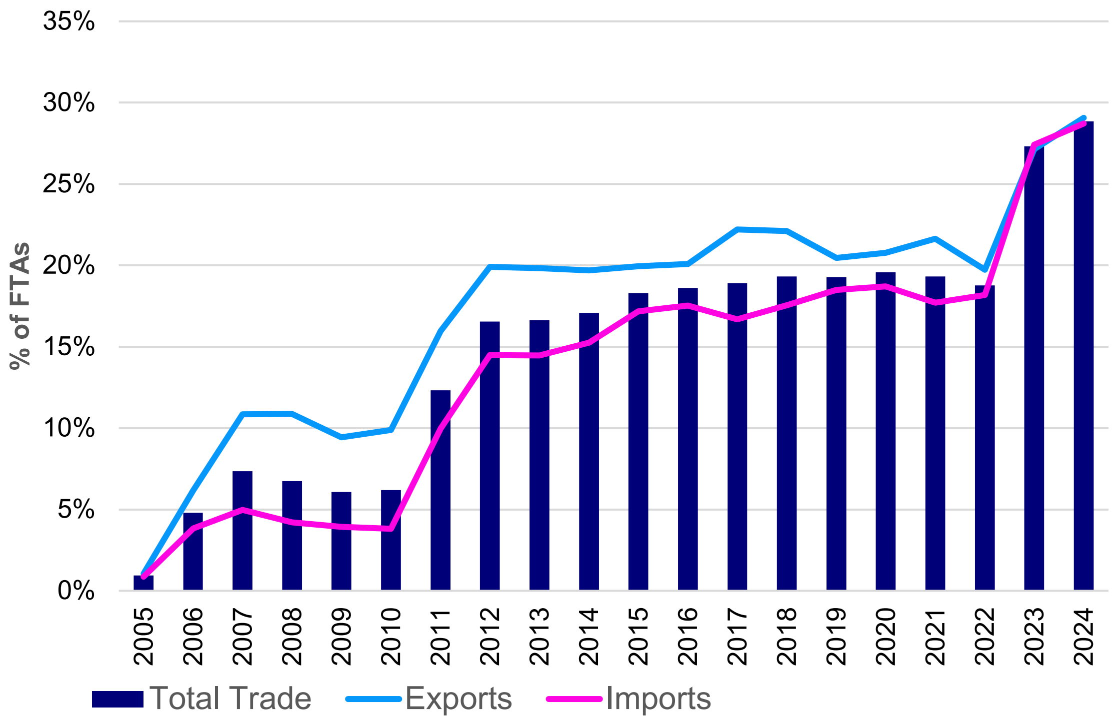
Source: Morgan Stanley

Some alleviation to impact on trade is possible through bilateral deals

13 FTAs currently cover <30% of India's trade



FTAs underway can take coverage to 53%, US deal 71%



Source: Axis Bank Research. Free Trade Agreement.

Additionally; higher tariffs on other countries may create opportunities for India

	Vietnam			China			Bangladesh			India		
USD Billion	Exports	Earlier	New Rate	Exports	Earlier	New Rate	Exports	Earlier	New Rate	Exports	Earlier	New Rate
Non-electrical machinery	29	1	46	85	1	54	8	10	37	7	1	26
Clothing	15	9	46	28	9	54	-	-	-	8	12	26
Wood, paper, etc	15	3	46	15	3	54	-	-	-	1	1	26
Leather, footwear, etc	13	3	46	16	8	54	-	-	-	2	4	26
Chemicals	5	2	46	36	3	54	-	-	-	7	3	26

Source: Axis Bank Research

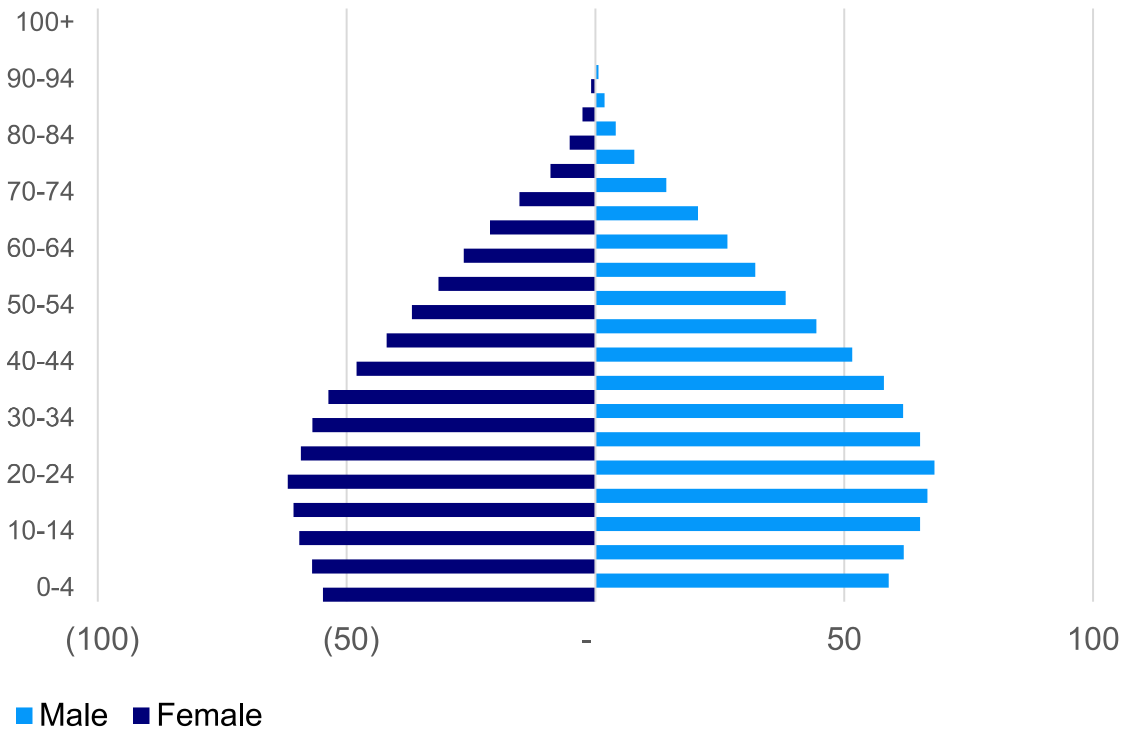
India – still one of the fastest growing large economies in 2025-26

Country	GDP (Dec 23) (USD Bn)	Market Cap (17 April 2025) (USD Tn)	2024E (GDP)	2025E (GDP)
India	3,567	4.22	6.50%	6.50%
Saudi Arabia	1068	2.55	3.30%	4.10%
China	17,795	9.83	4.60%	4.50%
Nigeria	364	0.33	3.20%	3.00%
Canada	2,142	3.22	2.00%	2.00%
Spain	1,620	0.96	2.30%	1.80%
Brazil	2,174	0.69	2.20%	2.20%
United States	27,721	54.87	2.70%	2.10%
Russian Federation	2,021	0.32[1]	1.40%	1.20%
United Kingdom	3,381	3.23	1.60%	1.50%
France	3,052	3.17	0.80%	1.10%
Mexico	1,789	0.38	1.40%	2%
Germany	4,526	2.72	0.30%	1.10%
South Africa	381	0.35	1.50%	1.60%
Japan	4,204	6.43	0.30%	1.10%
Italy	2,301	0.85	0.70%	0.90%

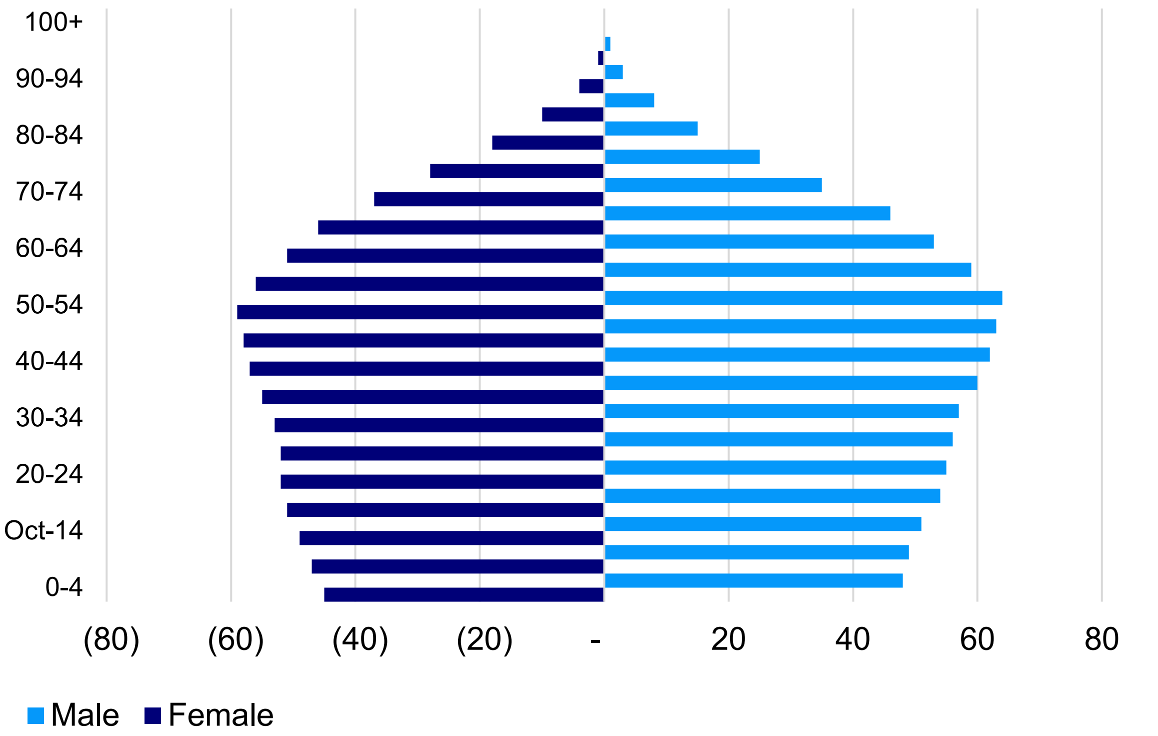
Source: Spark Capital. Bloomberg. For India data is for financial year, rest calendar year. E: Estimate. Tn: Trillion. [1]Data as at 30 September 2024.
Note: The absolute GDP number are Nominal GDP numbers, while growth rate is based on Real GDP data.
Disclaimer: The information provided herein may include 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.

India – long term growth supported by favorable demographics
Steady increase in working age population of India over the next three decades

Population pyramid of India, calendar year-ends, 2024 (in million)



Population pyramid of India, calendar year-ends, 2054 (in million)



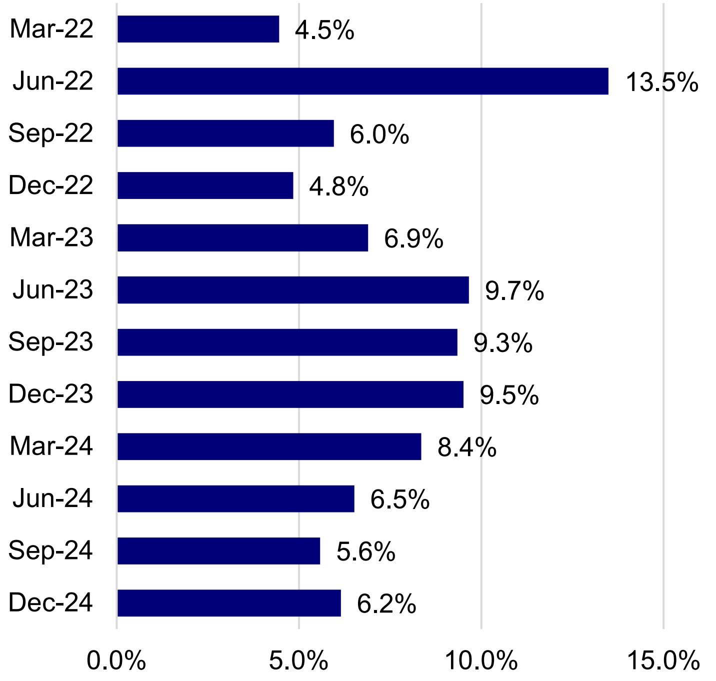
Source: Kotak Securities Limited

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.

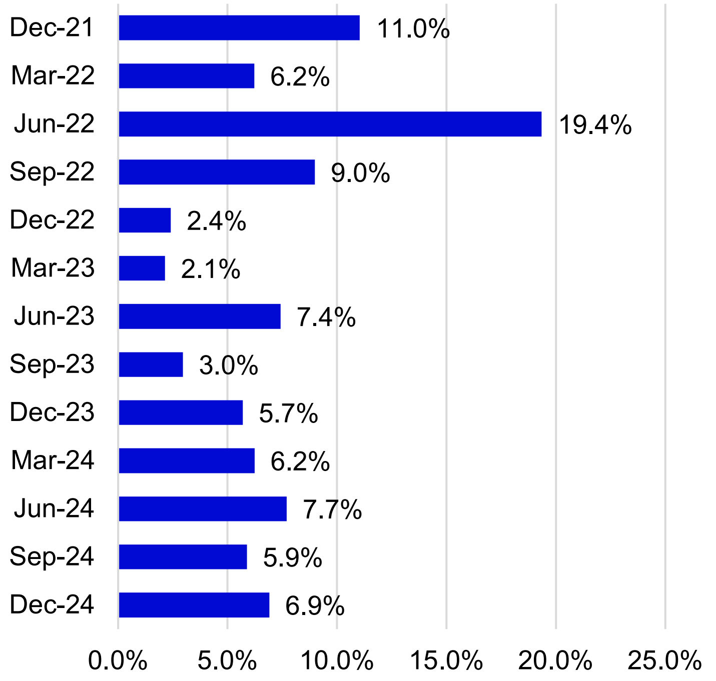
India – near term growth tempered

Tempering investment growth drags overall GDP growth

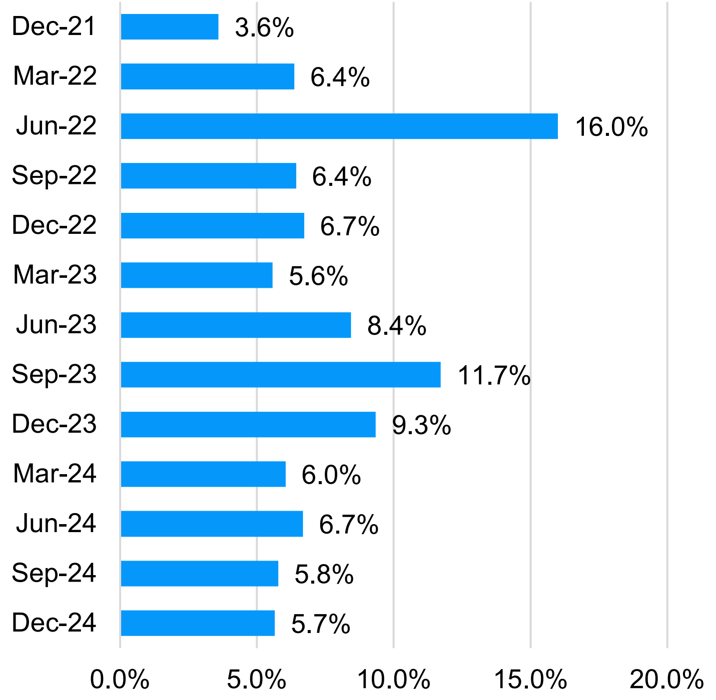
GDP Growth (YoY Growth)



Private Consumption Growth (YoY Growth)



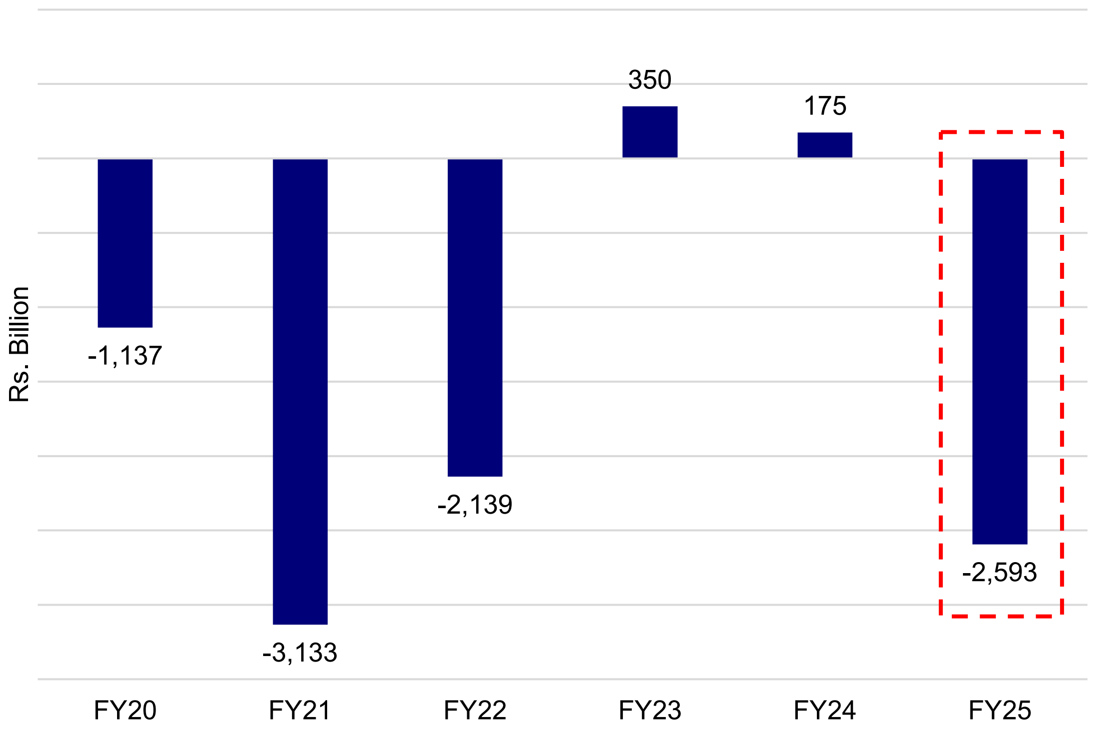
Fixed Investment Growth (YoY Growth)



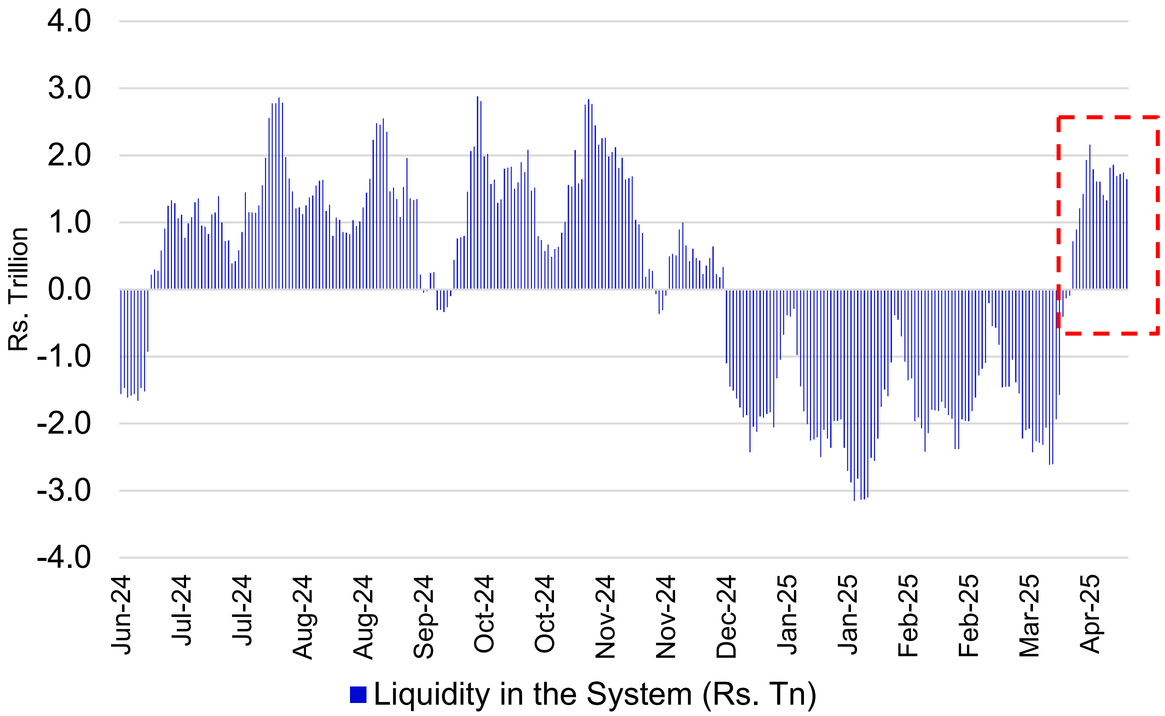
Source: Anand Rathi Institutional Equities

Decisive steps taken by RBI to ease liquidity in the system and rejuvenate growth

Open Market Operations



Liquidity in the system



Source: Avendus Spark. The data for liquidity in the system showcases for 14 April 2025.

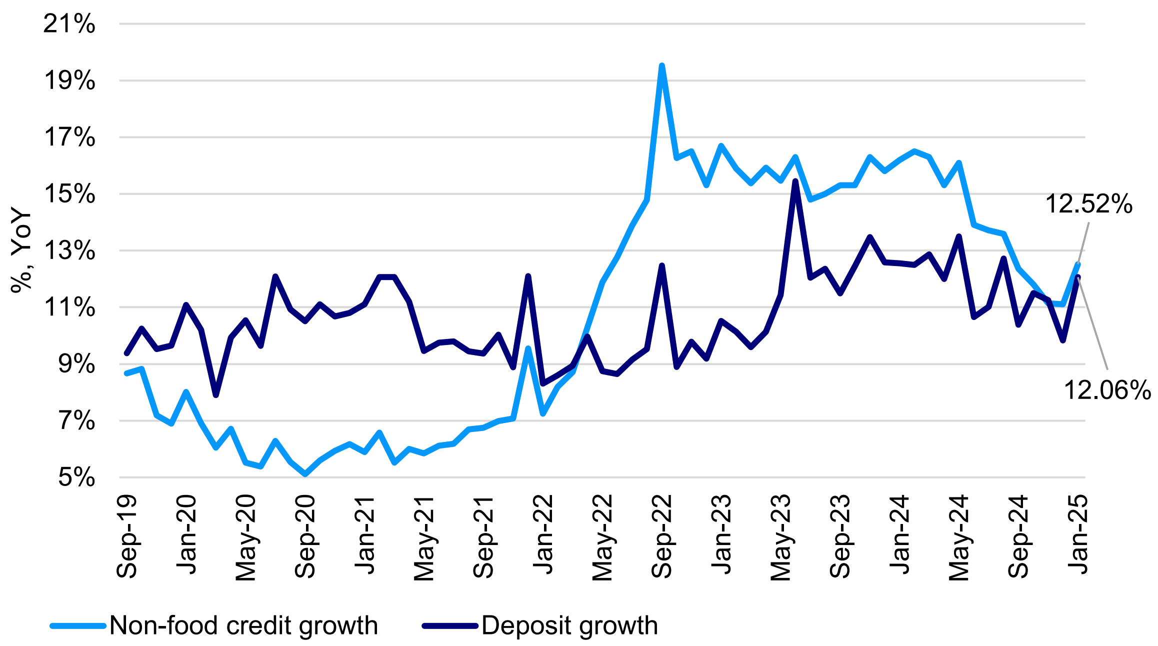
Recently, RBI has also relaxed several regulations that were impeding credit growth

Relaxations	Description
Reversal of risk weights on lending to NBFCS	RBI reversed the increase in risk weights for bank lending to NBFCs and for microfinance sector, while leaving the higher risk weights intact for credit cards and unsecured personal loans in Feb-25
Repo rate cut	RBI had kickstarted the rate cut cycle in Feb-25, reducing the policy repo rate twice - from 6.50% to 6.00% with further cuts expected in FY26
CRR cut	The RBI announced cash reserve ratio cut of 50bps to 4.0% of NDTL
Delayed implementation of LCR regulations	In the MPC meeting held on Feb-25, the RBI postponed the implementation of the draft LCR circular with the earliest implementation effective in FY27.
Delayed implementation of ECL framework	In the MPC meeting held on Feb-25, the RBI Governor stated that the earliest implementation of ECL framework would be Mar-26
Liquidity measures	RBI has been conducting various measures incl. OMO of Rs. 2.4tn, USD-INR buy sell swap of $15bn (Rs. 1.2tn) and other money market operations (VRR auctions of Rs. 1.75tn) to help improve banking system liquidity.

Source: Avendus Spark. NDTL: Net Total Deposits Liabilities. LCR: Liquidity Coverage Ratio. ECL: Expected Credit Loss. OMO: Open Market Operations. VRR: Variable Rate Repo.

Relaxation of regulations may catalyze faster credit growth

Bank credit growth and deposit growth remains weak

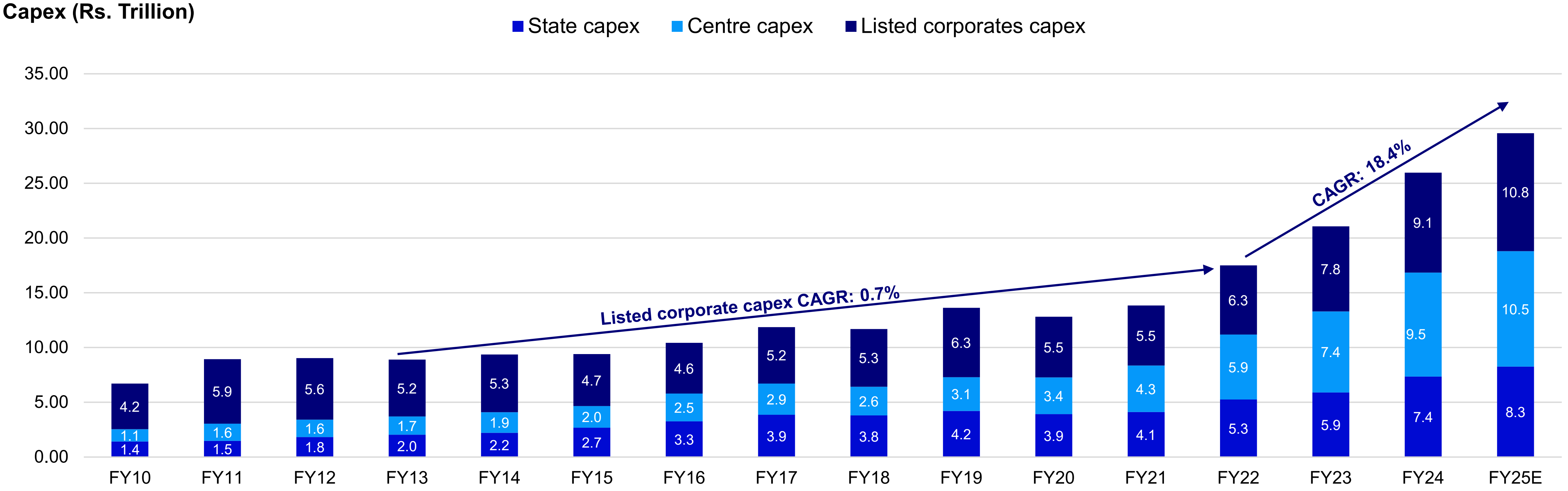


Rs. Trillion	Feb/23	Feb/24	Feb/25	Incremental credit (Rs. Bn)	Growth (%, yoy)
Personal Loans	**41**	**53**	**59**	**6,150**	**11.7%**
Construction	**1.2**	**1.3**	**1.5**	**165**	**12.4%**
Infrastructure	**12**	**13**	**13**	**104**	**0.8%**
-Power	6.1	6.5	6.6	158	2.4%
-Telecommunications	1.1	1.3	1.2	-114	-8.9%
-Roads	2.9	3.2	3.2	-18	-0.6%
-Others	1.7	1.7	1.8	72	4.1%
Industry	**33**	**36**	**39**	**2,585**	**7.1%**
-Micro and Small	6.2	7.2	7.8	697	9.7%
-Medium	2.6	3.0	3.5	540	18.1%
-Large	24.4	26.0	27.4	1,348	5.2%
Total Credit	**135**	**162**	**180**	**17,759**	**11.0%**

- Loan to deposit ratio cools as credit growth slows down
- Credit offtake growth in medium and small/ micro segments grows faster than large corporates

Source: Nuvama Research, Avendus Spark

Corporate capex recovers post a “lost-decade” though still below potential. Falling interest rates can provide a further boost



Source: ICICI Securities. E: Estimates. Data as at 21 April 2025

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.

Govt springs back into action after a pause; defence orders pick up pace

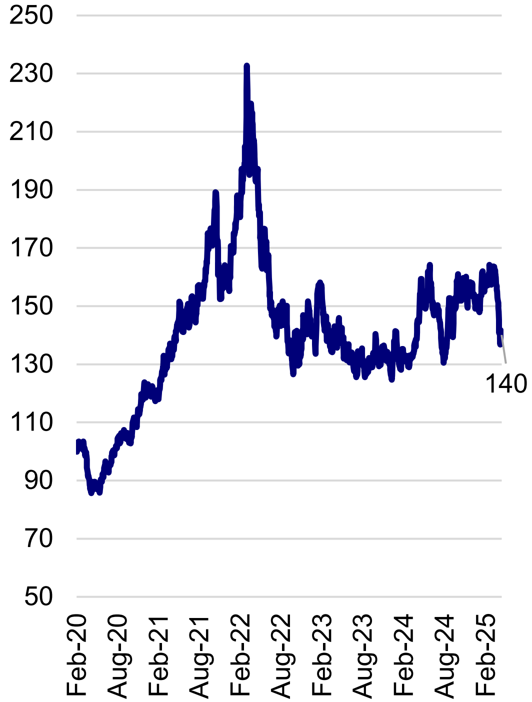
Values are in Rs. Billion

Defence orders in FY25	Q1FY25	Q2FY25	Q3FY25	Q4FY25	FY25 (Total)
Hindustan Aeronautics	180	210	160	657	1,207
Bharat Electronics	49	25	23	91	187
Bharat Dynamics	-	-	-	75	75
Solar Industries	13	27	33	85	158
Bharat Forge	-	-	-	41	41
Cochin Shipyard	19	-	12	-	31
Mazagon Docks	-	62	21	-	83
GRSE	6	15	12	1	33
TATA Advanced Systems	-	-	-	3	3
Goa Shipyard	-	-	4	-	4
L&T	-	-	76	-	76
Armoured Vehicles Nigam Ltd	-	-	-	16	16
JCB India & ACE Ltd	-	-	-	7	7
Total (In Rs. Billion)	**267**	**338**	**341**	**975**	**1,921**

Source: BSE, Corporate announcements. Data as at 31 March 2025.
Note: The above data includes announcements by corporates and therefore at certain places approximation numbers are used.

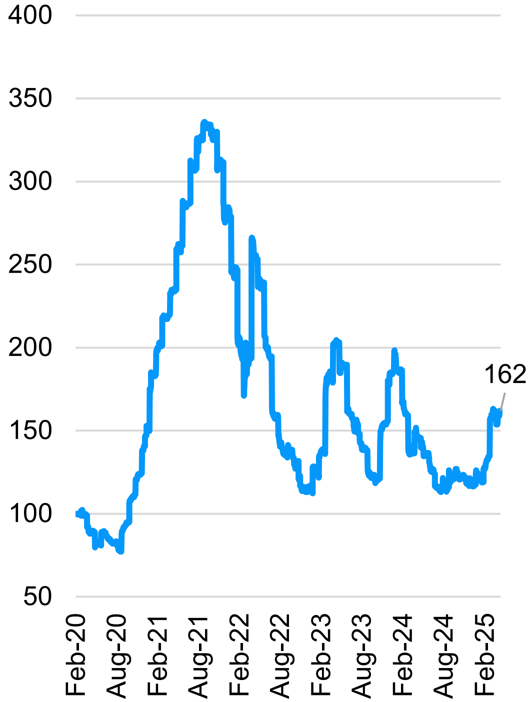
Commodity price environment remains conducive for the profitability of the corporate sector

Aluminum
(Values are rebased to 100)

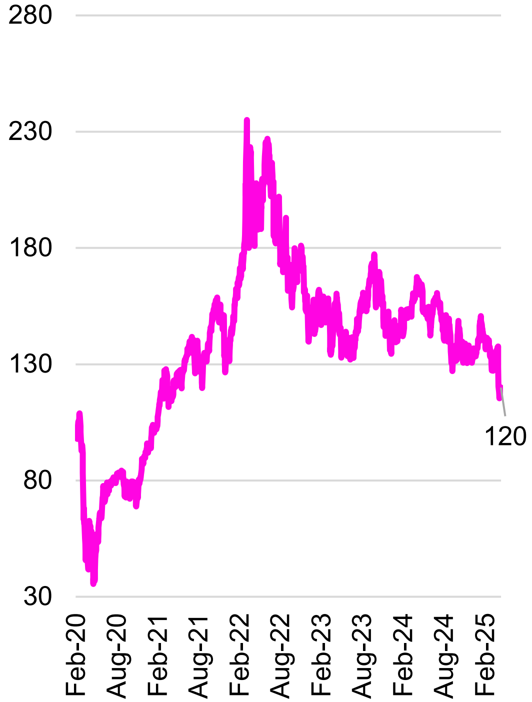


Copper
(Values are rebased to 100)

Steel
(Values are rebased to 100)



Brent
(Values are rebased to 100)

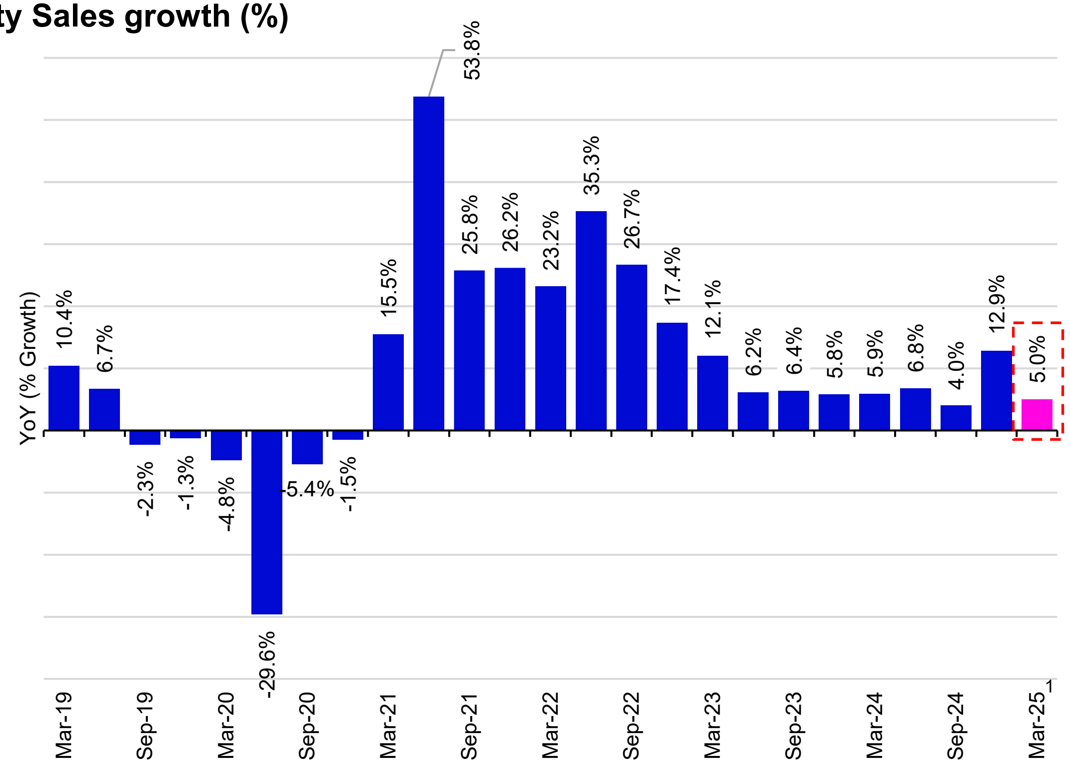


Source: Bloomberg

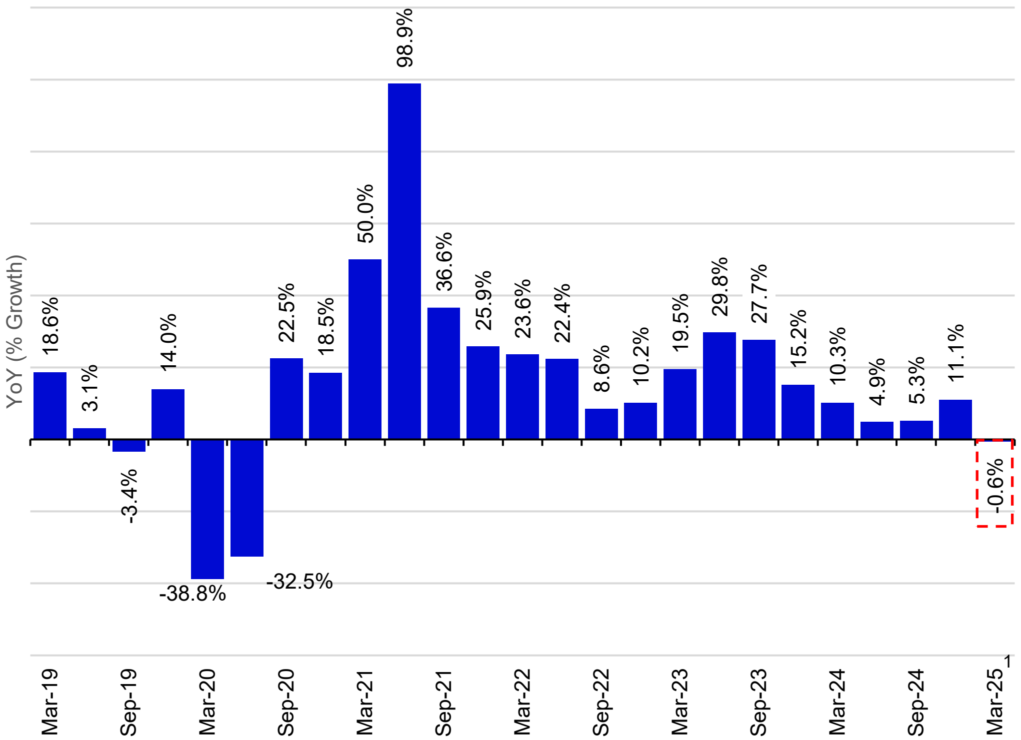
Earnings and Valuations

Earnings growth cycle: FY25 growth expected to be slower than FY24 as gross margins tailwind recede

Nifty Sales growth (%)



Nifty PAT Growth (%)

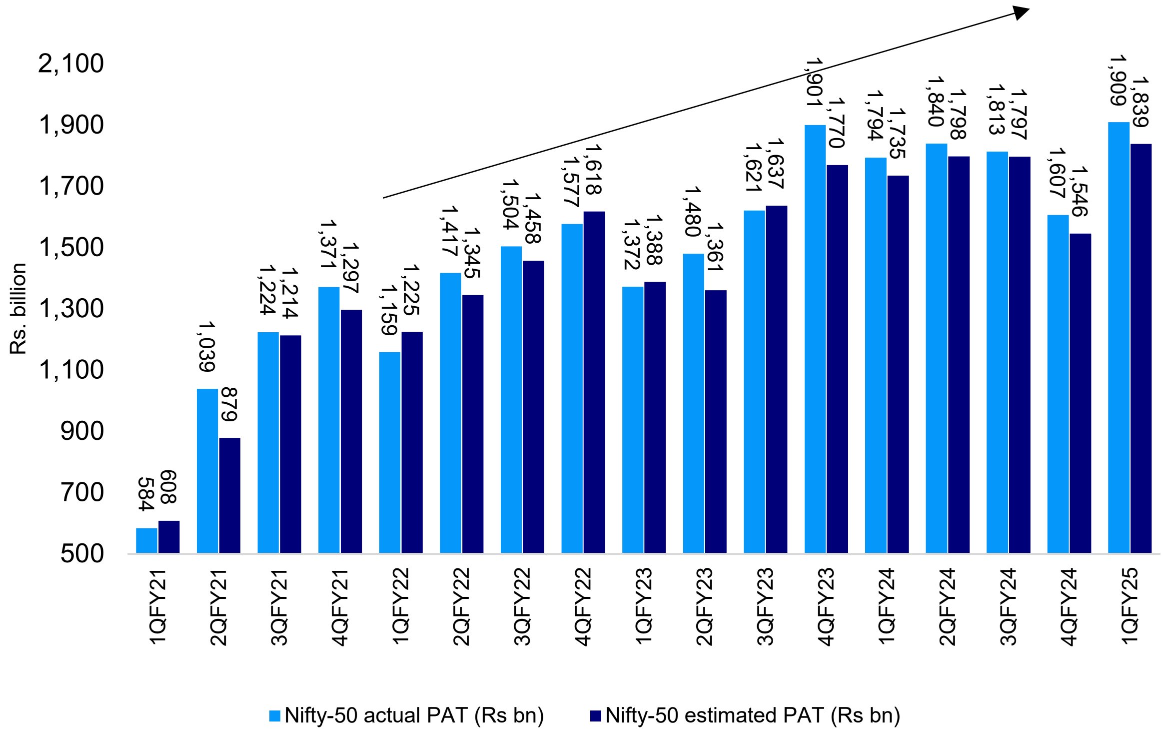


Past performance may or may not be sustained in future. Source: Kotak, Nifty companies Profit Growth. PAT: Profit After Tax. [1]E: Estimates. CAGR: Compounded Annualised Growth Rate.

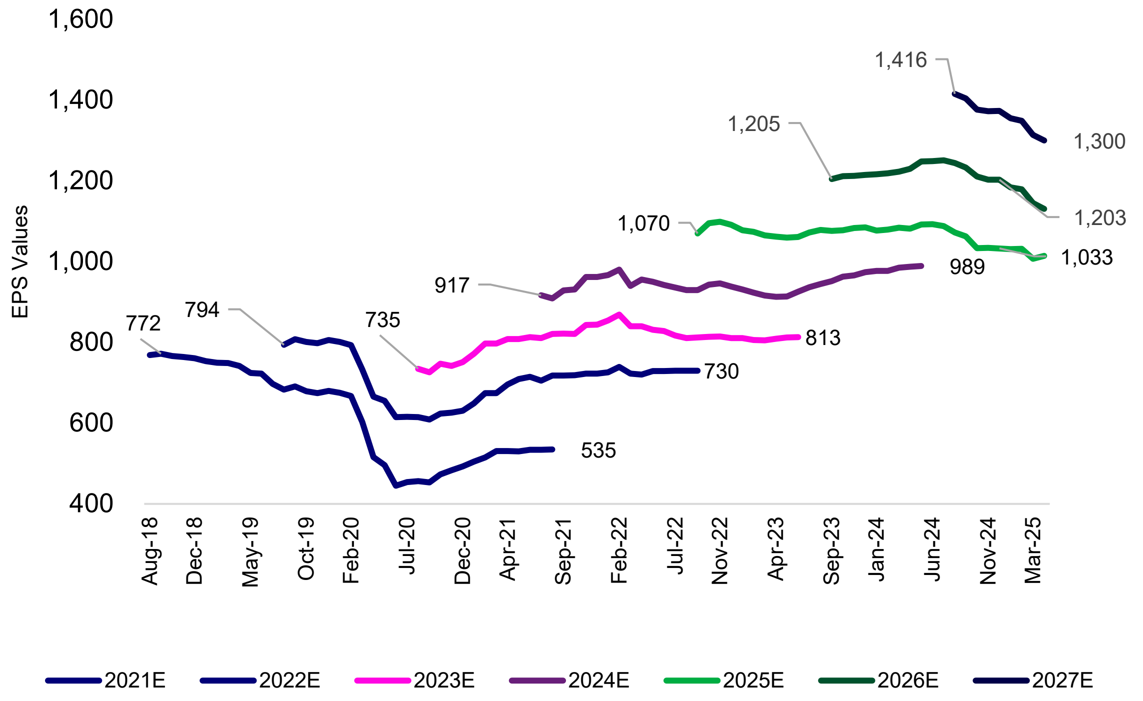
Disclaimer: The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied.

EPS estimates continue to witness downgrades

Nifty-50 PAT – Estimated vs Actual



Nifty-50 EPS estimates

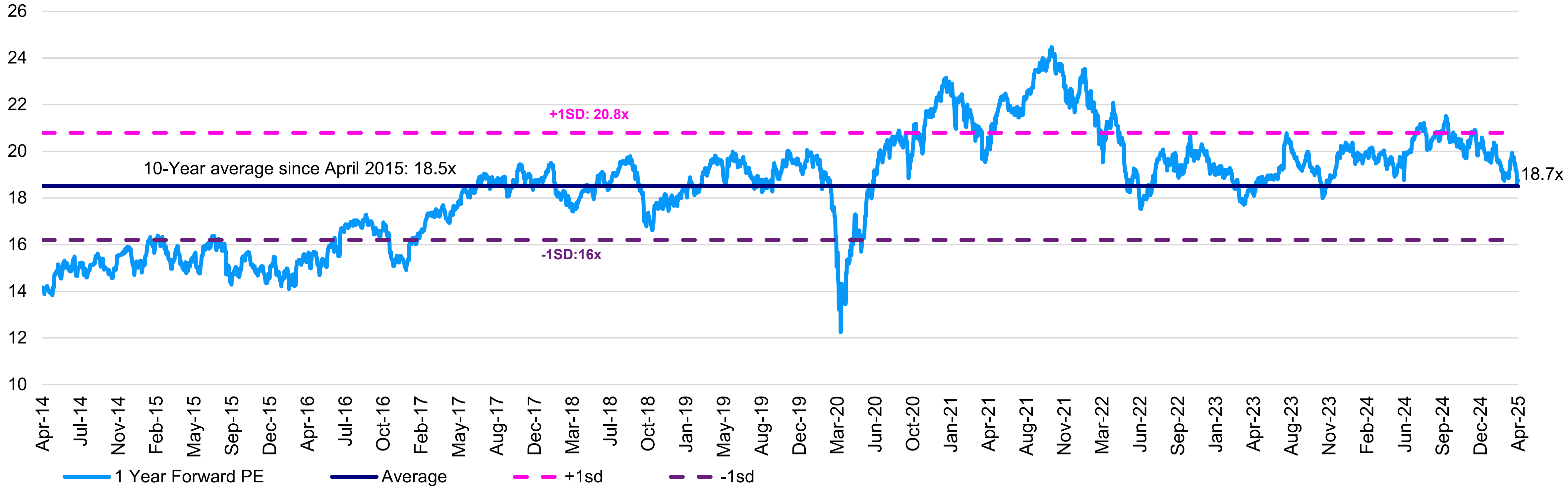


Past performance may or may not be sustained in future. Source: Kotak Institutional Equities. E: Estimates.

Disclaimer: The above simulation is for illustration purpose only 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 or a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.

Sensex valuations revert to 10-year average…

1-Year Forward P/E – Currently trading at +1SD to its long-term average



Past performance may or may not be sustained in future.

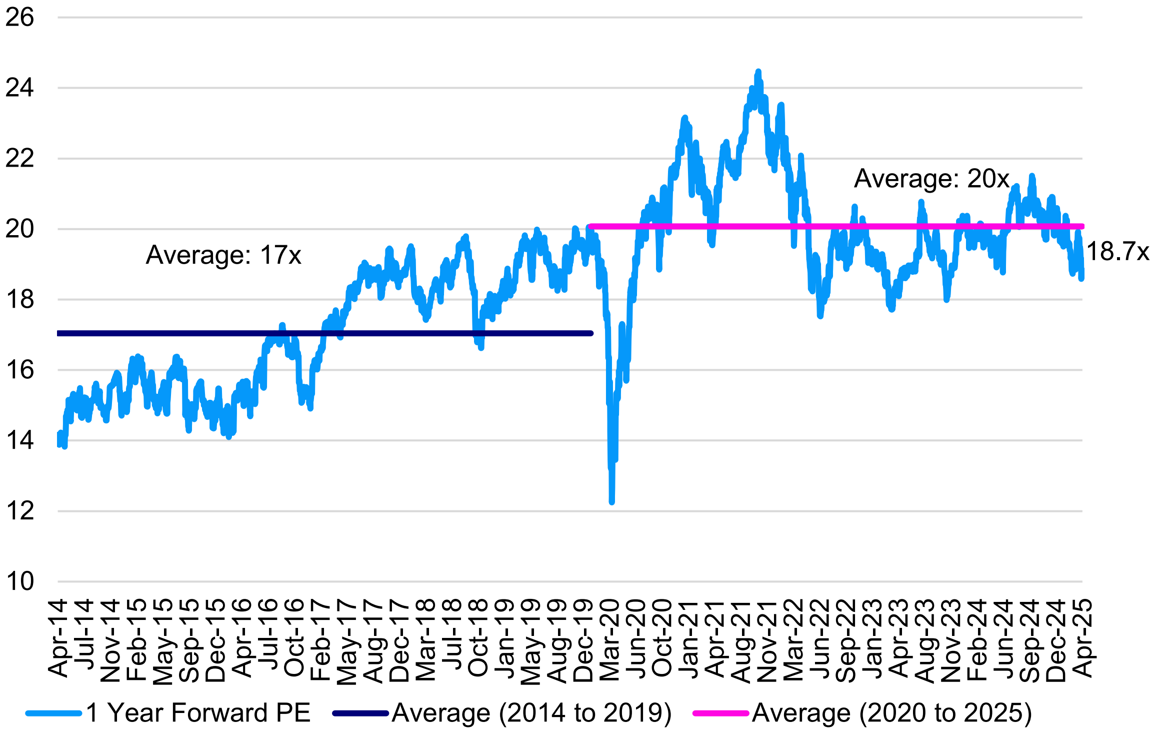
Source: Bloomberg, Invesco Asset Management (India) Research, Bloomberg. PE: Price to Earning- 1 Year forward PE. Data as on 11 April 2025.

Note: +1 Standard deviation is calculated by adding standard deviation of 1 year forward PE to its own average. It denotes that valuation/data is not exceptionally high.

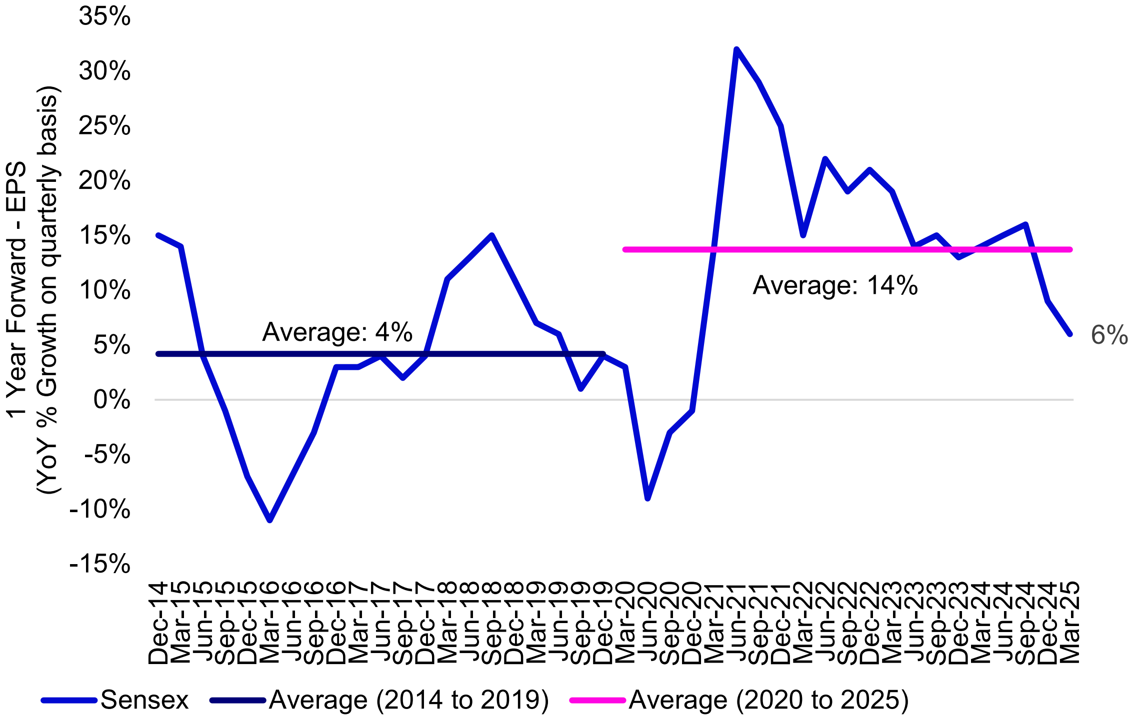
Disclaimer: The above simulation is for illustration purpose only and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party or a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.

… as earnings slow down

1-Year Forward P/E for Sensex



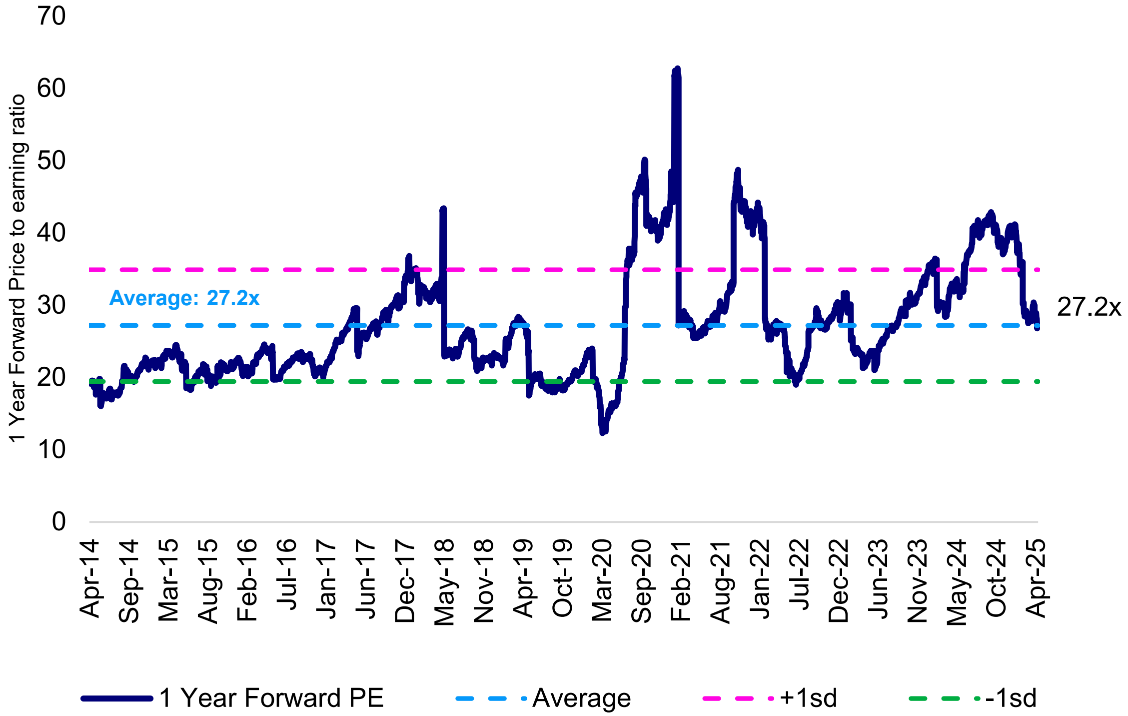
…supported by earnings growth which has been consistent



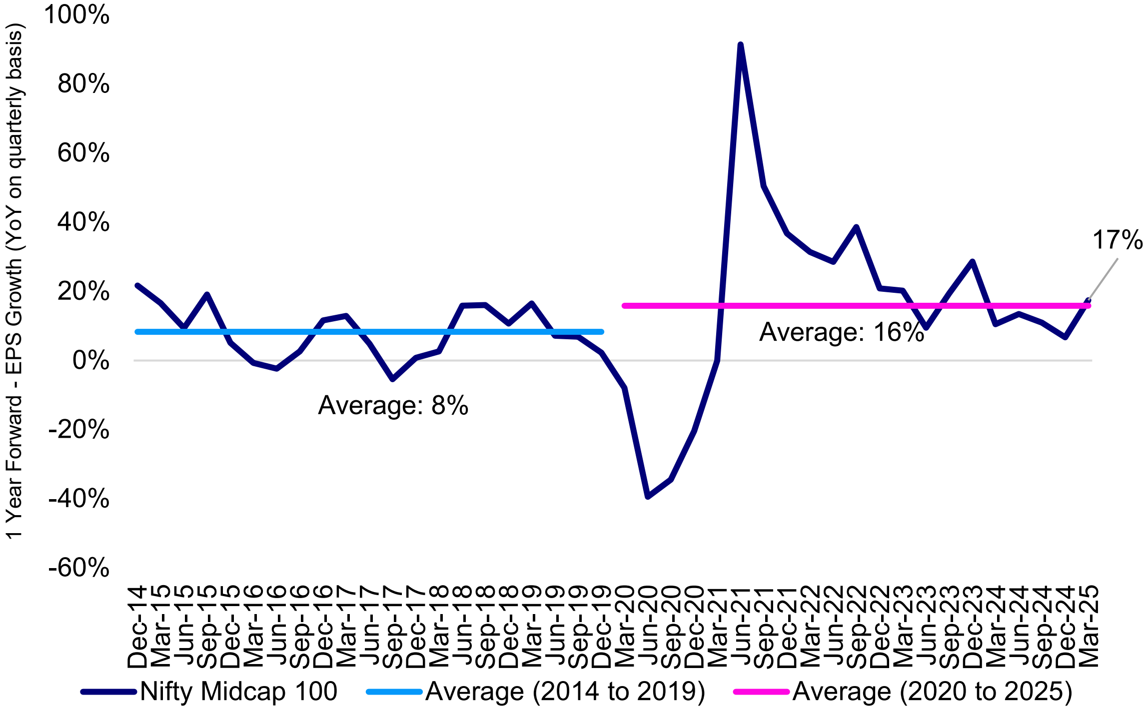
Past performance may or may not be sustained in future.
Source: Bloomberg, Invesco Asset Management (India). Kotak. PE: Price to Earning Ratio (1 Year Forward PE Levels). Data as on 11 April 2025.
Disclaimer: The above simulation is for illustration purpose only and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party or a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.

Midcap valuations revert to long-term averages as earnings growth show resilience

Mid cap valuations (Nifty Midcap 100)- based on 1 year forward PE



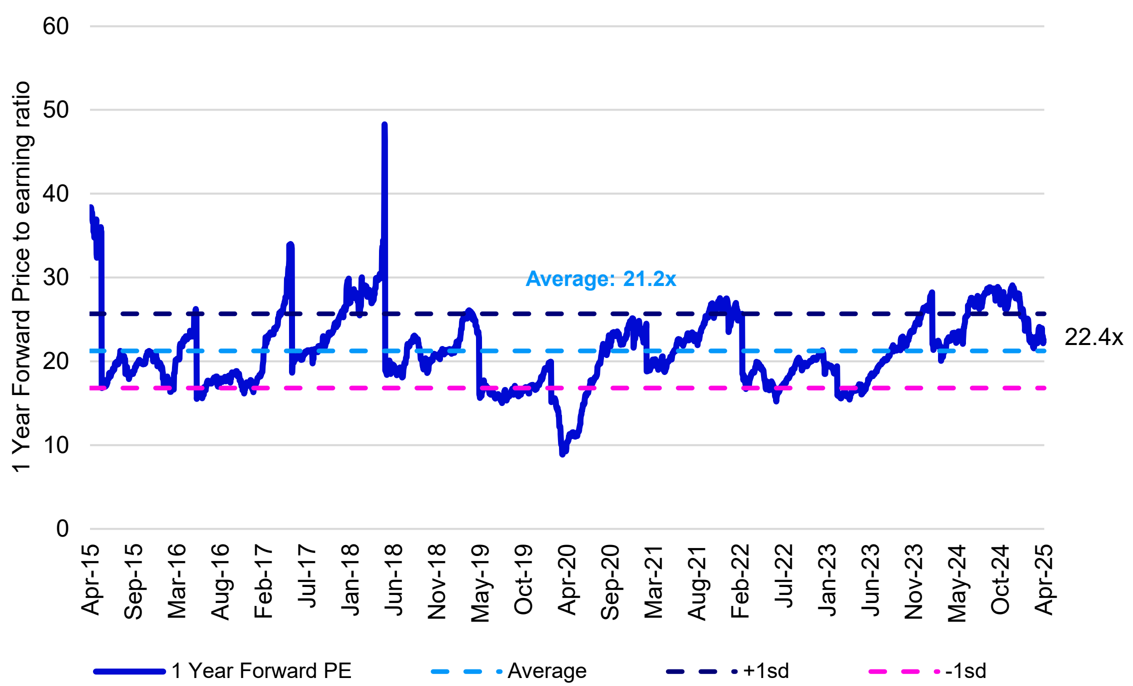
Nifty Midcap 100 – 1 Year Forward EPS Growth



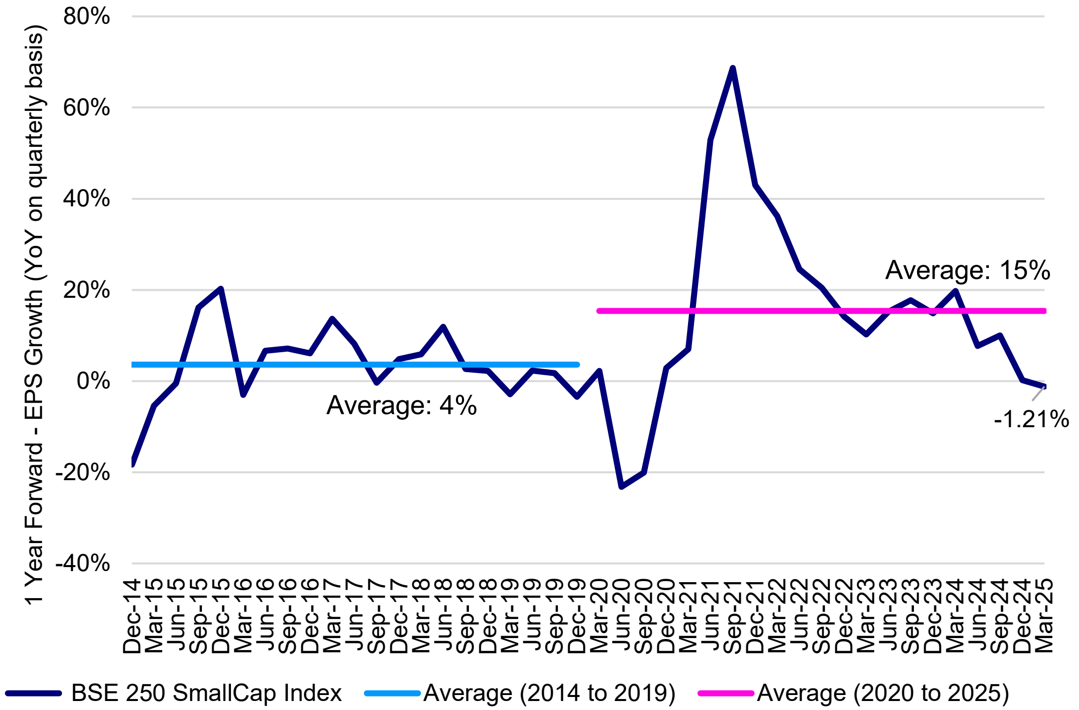
Past performance may or may not be sustained in future. Source: Invesco Asset Management (India) Research, Bloomberg, Kotak. Data as on 11 April 2025. The above chart is for illustration purpose only and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party or construed as a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.
SD: Standard Deviation. **Note:** +1 or -1 Standard deviation is calculated by adding or subtracting standard deviation of 1 year forward PE to its own average. It denotes that valuation is not exceptionally high or low.

Smallcap valuations still at premium to long-term average while earnings momentum recedes

Small cap valuations (BSE 250 Smallcap Index)- based on 1 year forward PE



BSE 250 Small Cap – 1 Year Forward EPS Growth



Past performance may or may not be sustained in future. Source: Invesco Asset Management (India) Research, Bloomberg, Kotak. Data as 11 April 2025. The above chart is for illustration purpose only 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 or construed as a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.
SD: Standard Deviation. **Note:** +1 or -1 Standard deviation is calculated by adding or subtracting standard deviation of 1 year forward PE to its own average. It denotes that valuation is not exceptionally high or low.

Fixed Income Outlook

Indian Fixed Income Market remains in a Sweet spot

Domestic Macros

- FY 2025 inflation was 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

- MPC has kickstarted the rate cut cycle with 2 consecutive 25 bps rate cut and stance changed to "Accommodative".
- As FY26 inflation recedes to ~4%, current policy rate at 6.0% leaves the positive real policy rates at an elevated 200 bps.
- With growth slower than expected, MPC may focus on lowering the policy rates further. Global growth slowdown due to tariff war will further open up space for rate cuts.

Fiscal demand-supply

- Fiscal consolidation continues with FY26 fiscal deficit budgeted at ~ 4.4%. RBI dividend may surprise on positive side.
- With largely similar amount of Gsec supply in FY26 and healthy demand from investors, demand-supply dynamics for Gsec remain favourable. RBI's OMOs further sweetens the demand.
- In addition to that, inclusion in Bloomberg's and FTSE's EM Bond Indices is expected to bring USD 4-5bn worth of demand for Gsec in FY26.

External factors

- Global conditions remain volatile due to overhang of US's policies under President Trump.
- India may also get impacted but to a relative lesser extent on healthy domestic fundamental factors.
- India's current account deficit has been manageable due to strong services exports and remittances. Foreign exchange reserves of ~USD 665 bn[1] provide meaningful cover to absorb global volatilities.

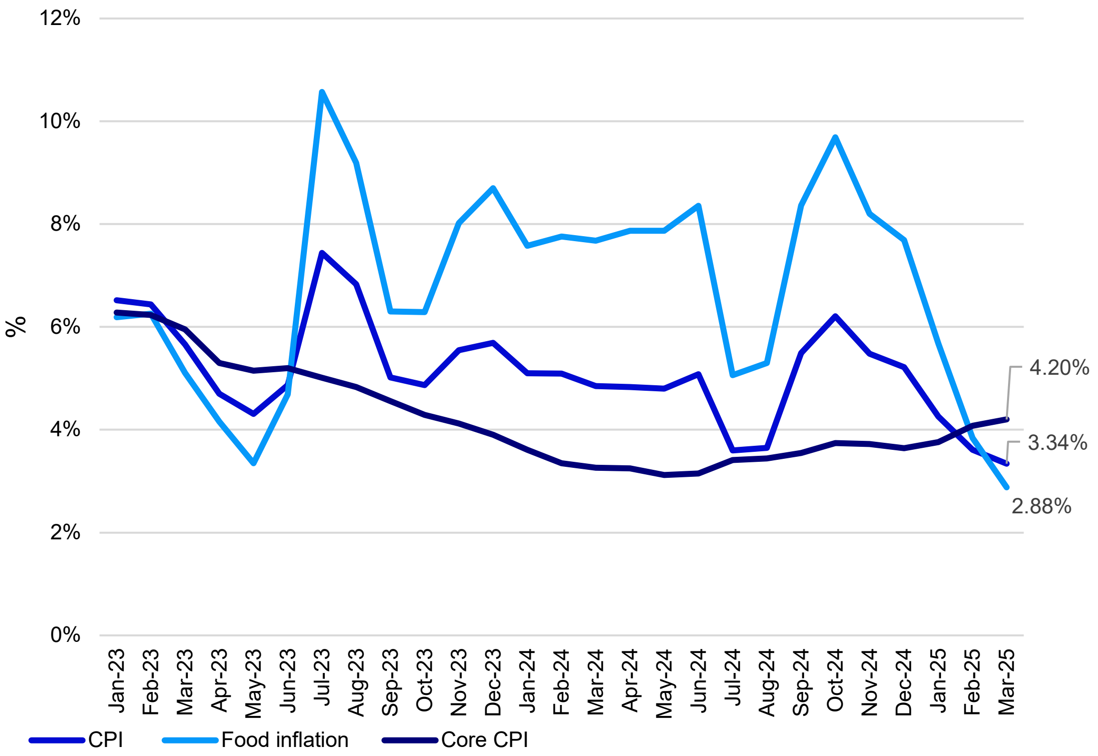
Risk factors

- US's tariff policies can have major dislocation in global financial markets. It may lead to global growth slow down & wide swings in currency markets.
- 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.

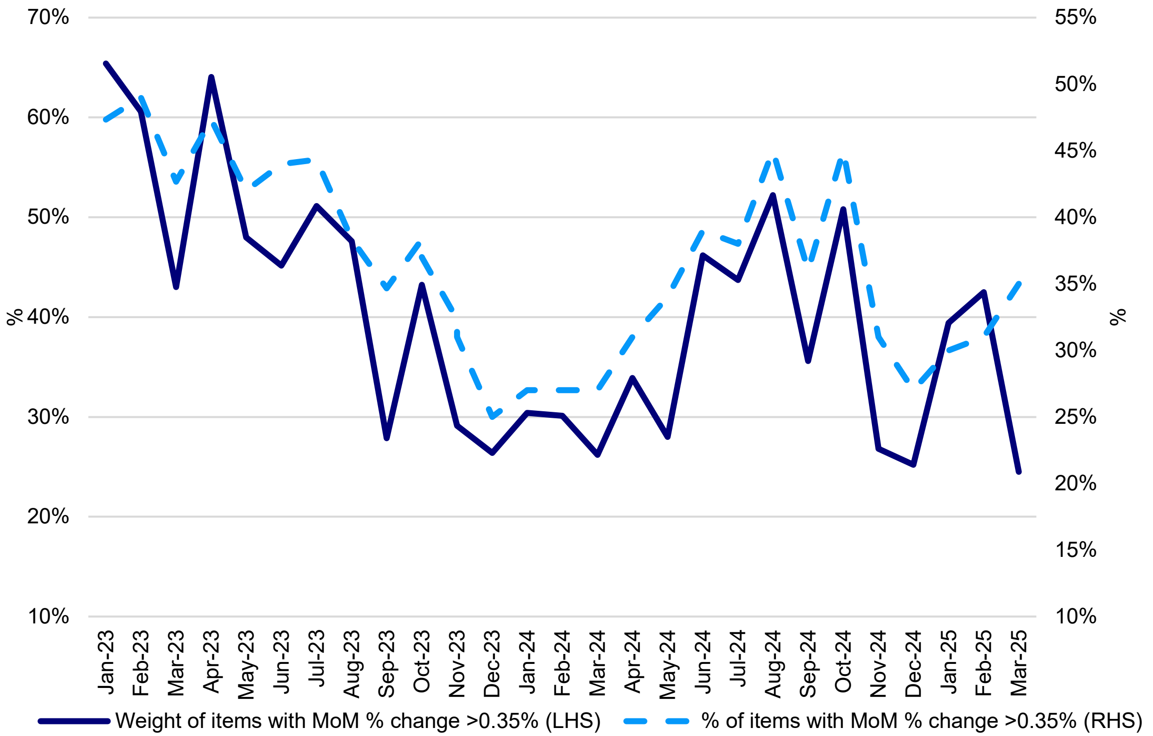
FY – Financial Year, MPC – Monetary Policy Committee, Bps – Basis Point, FOMC - Federal Open Market Committee, FDI - Foreign Direct Investment, FPI - Foreign portfolio investment, Fx – Foreign Exchange, EM – Emerging Markets, OPEC+ It is a group of 23 oil exporting countries which meets regularly to decide how much crude oil to sell on the world market. At the core of this group are the 13 members of OPEC (Organization of the Petroleum Exporting Countries), which are mainly Middle Eastern and African nations. [1]Foreign exchange data is as on 31 March 2025.

Headline inflation has come below 4% after a long time, led by sharp fall in food inflation. Core inflation inched up marginally due to gold prices but remain moderate. FY26 inflation may remain close to 4% and decline further if global growth gets disrupted…

Food inflation



MoM% change in CPI components

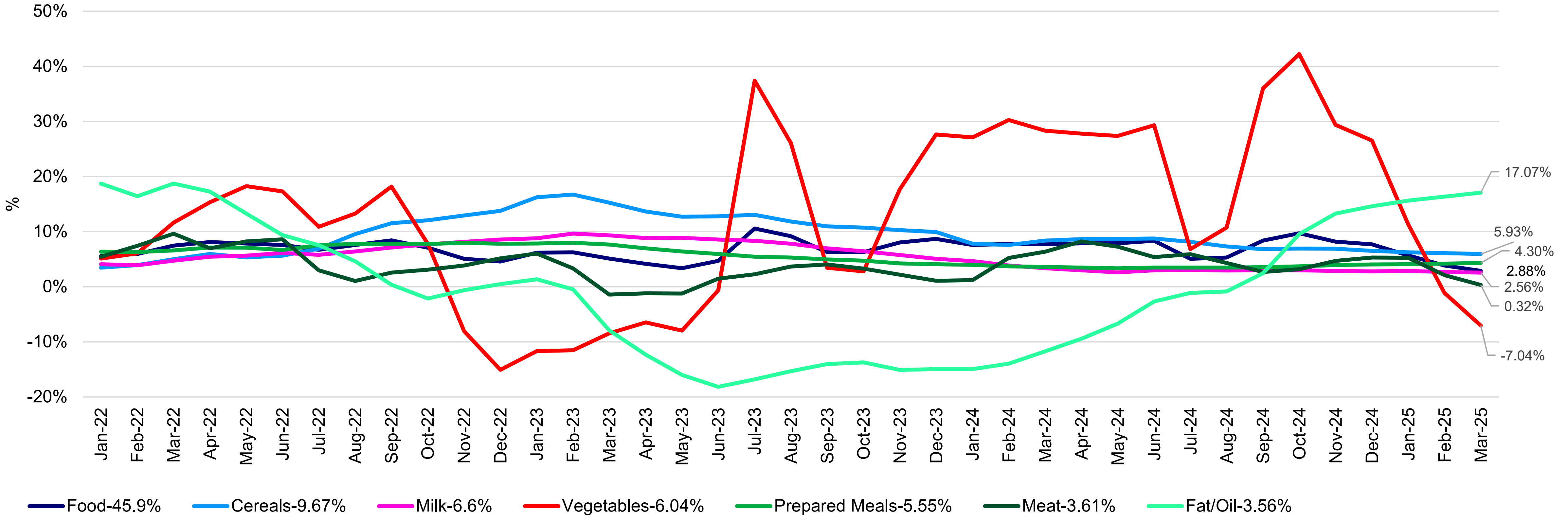


- Core inflation has been inching up from low levels due to increase in gold prices. However, core inflation continues to remain within comfortable levels.
- % and weight of components which are showing MoM % change >0.35% have come down from the highs in Jan 2023.

Source: CMIE / Bloomberg.

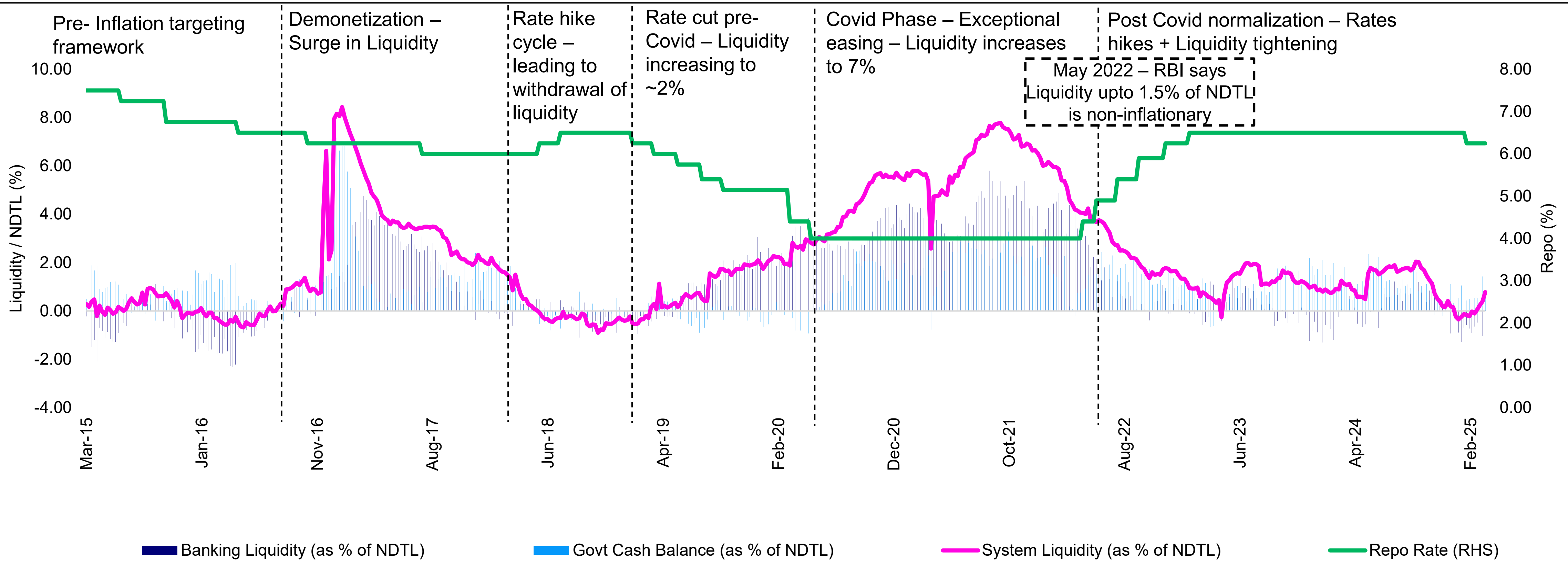
Sharp cooling off in vegetable inflation has led to moderation in food inflation. Strong Rabi production will keep food inflation moderate

Components of food inflation and their weights in overall inflation basket



Source: Bloomberg.

Rate easing cycle coincides with improvement in liquidity

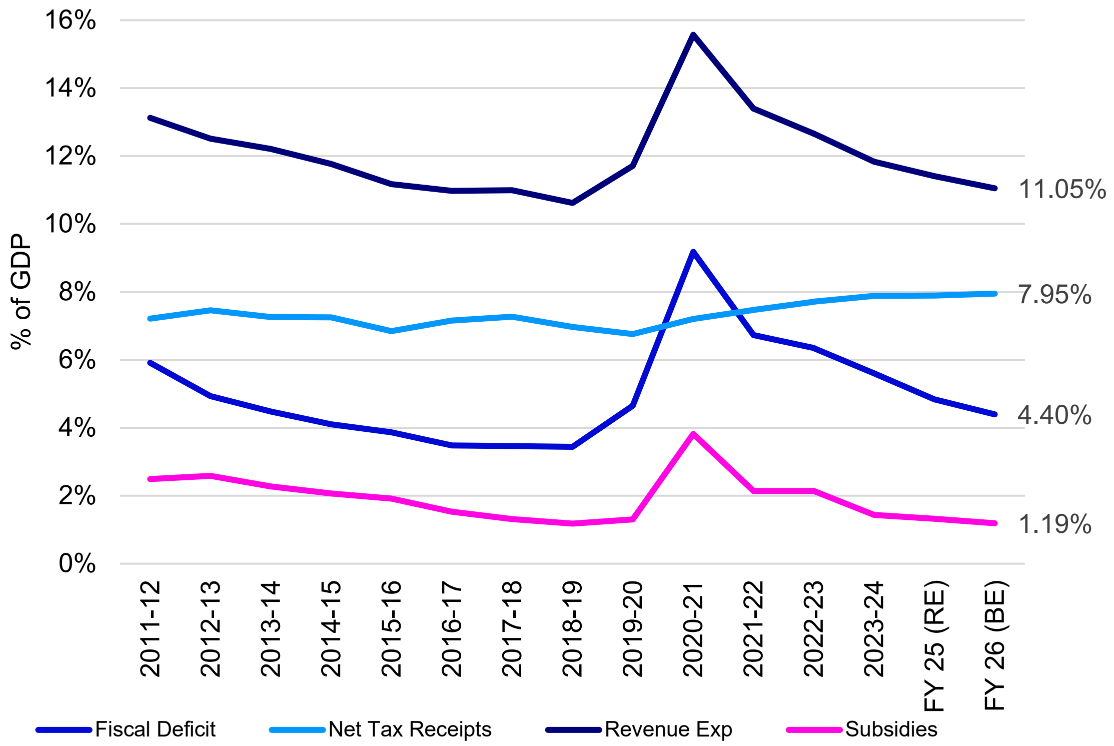


Source – Bloomberg

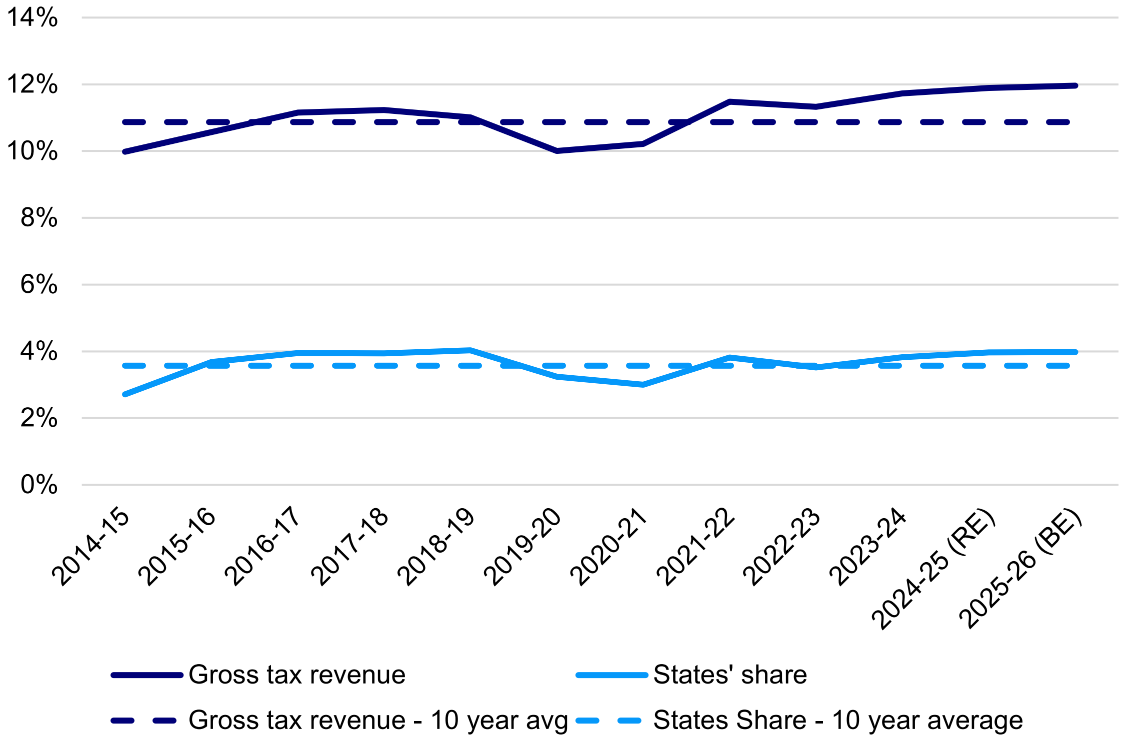
Disclaimer - The above chart is for illustration purpose only to show movement of system liquidity during various phases of rate cycle. The information alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy.

Fiscal deficit for FY26 is on path of aggressive fiscal consolidation with better quality of spending

Fiscal Deficit



Revenue as % of GDP

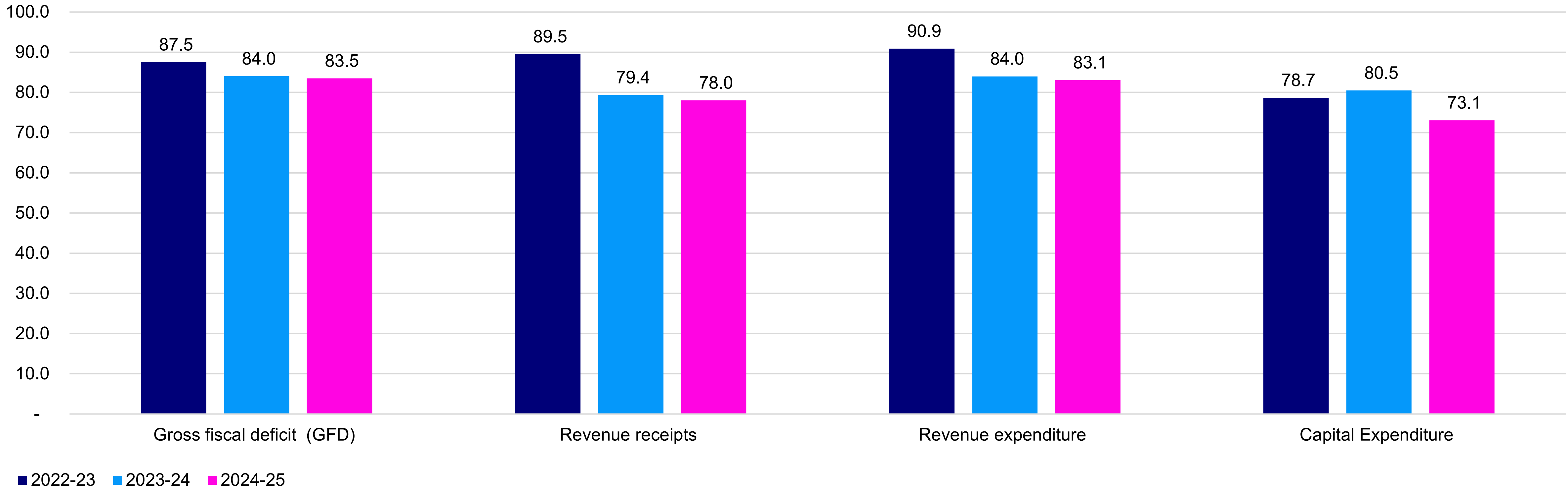


- FY25 fiscal deficit target looks achievable as robust tax collections and RBI's massive dividend help.
- FY26 fiscal deficit budgeted at 4.4% looks credible.
- RBI's dividend in FY26 is expected to exceed the budgeted number.

Source: CMIE; Invesco Asset Management (India). BE: Budget Estimates.

Fiscal deficit for the period April-February 2025 shows good performance as capex has been slow. Lower revenue receipts have been offset by lower expenditure

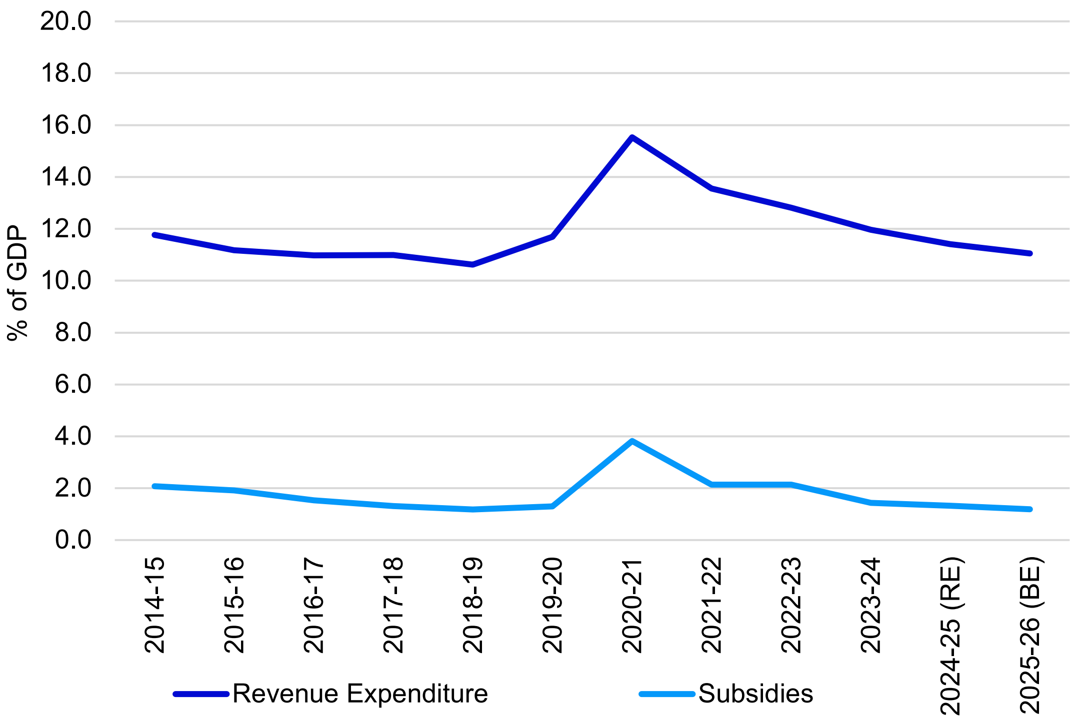
Cumulative for April-February as % of Budgeted Estimates



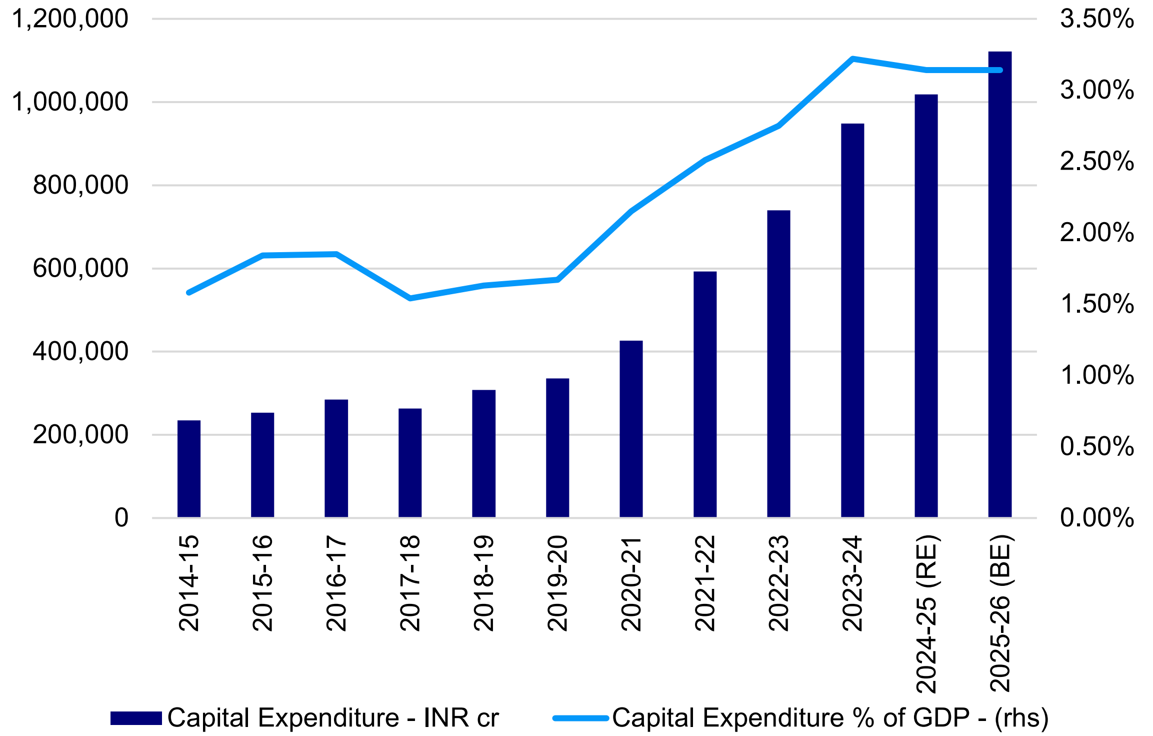
Source: CMIE

FY26 budget continues focus on capex spending and no populist spending.

Revenue Expenditure



Capex as % of GDP

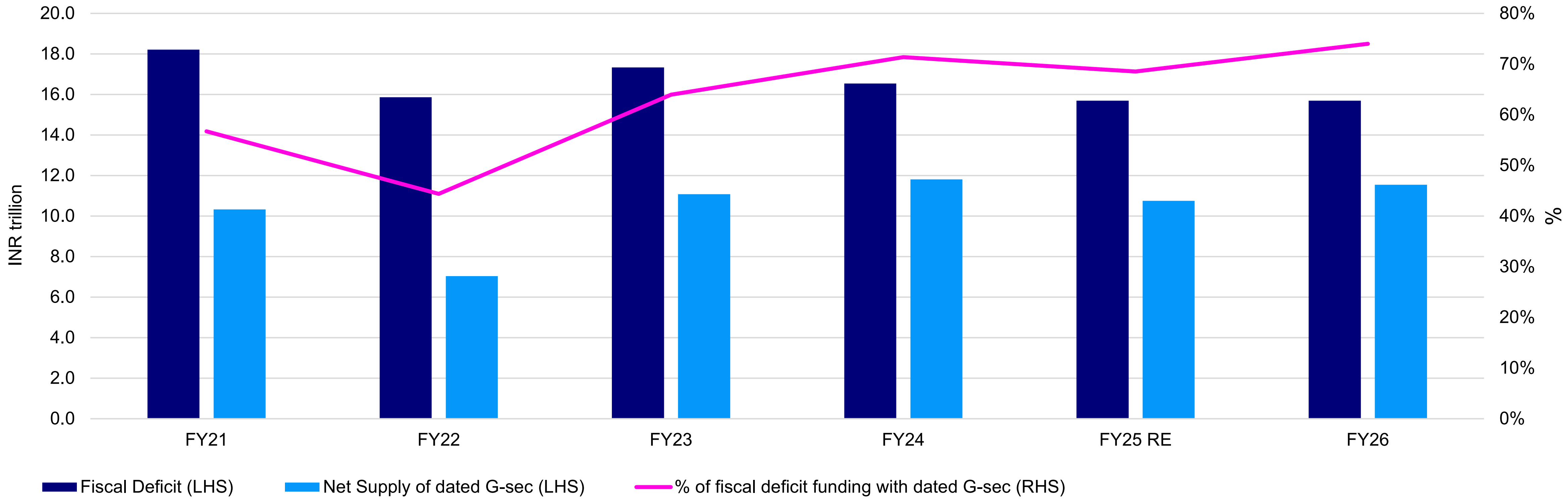


- Capex spending thrust from government to continue ensuring continuity from previous two years.

Source: CMIE; Invesco Asset Management (India). BE: Budget Estimates.

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

Fiscal deficit lower and share of dated government securities in funding increases slightly in line with increased demand for duration



Source: Government Budget document. 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.

In continuation, the demand-supply dynamics for FY26 appear favorable

IGB issuance is marginally higher in FY26 due to reduction in T-Bill issuances (INR Trillion)

		FY25 (RE)	FY26 (BE)
A.	Central govt. fiscal deficit -INR Tn (% of GDP)	15.7 (4.84%)	15.7 (4.40%)
B.	Net Market Borrowing (IGBs only)	10.75	11.54
C.	IGB redemptions	3.26[1]	3.28[2]
D.	Gross IGB supply (B+C)	14.01	14.82
E.	States' deficit- INR Tn (% of GDP)	8.60 (2.65%)	9.45 (2.65%)
F.	States net borrowing via SDLs	7.64	8.50
G.	SDL redemptions	3.20	3.72
H.	Gross SDL issuance (F+G)	10.84	12.22
I.	**Net IGB+SDL supply (B+F)**	18.39	20.04
J.	Gross IGB+SDL supply (D+H)	24.85	27.04

FY26 demand/supply remains in balance (IGB and SDLs estimates, INR Trillion)

Investor	Ownership[3]	Net demand H2FY24 + H1FY25	Net demand FY26 estimate
Banks	36%	5.75 (35%)	5.8-6.2 (29-31%)
Insurance Firms	26%	3.38 (21%)[4]	5.2-5.6 (26-28%)
Provident Funds	11%	2.60(16%)	1.8-2.2 (9-11%)
RBI	8%	-0.98(-6%)	1.0-1.5 (5-7%)
Pension Funds	5%	1.38 (9%)	1.6-2.0 (8-10%)
FPIs	2%	1.50 (9%)	0.3-0.6 (1-3%)
Others[5]	12%	2.61 (16%)	2.0-3.0 (10-15%)
Total	**100%**	**16.24**	**17.7-21.1 (88-105%)**

Left hand table: [1]Budgeted redemptions for FY25= INR 2.378 Trillion and planned buyback of IGBs maturing in subsequent years= INR 882 Bn; [2]current redemptions= INR 3.95 Trillion, of which INR 675 Bn are met via GST compensation collection; BE: Budget estimates. RE: Revised estimates; IGB: Indian government Bond. SDL: State Development Loan. OMO: Open Market Operation. GST: Goods and Services Tax. Source: Budget documents, Standard Chartered Research..
Right hand table: [3]End Sep-2024; [4]actual FY26 demand is likely to be higher; [5]Others include mutual funds, corporates, state governments etc. Source: RBI, Standard Chartered Research.
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

1HFY26 G-Sec borrowing calendar

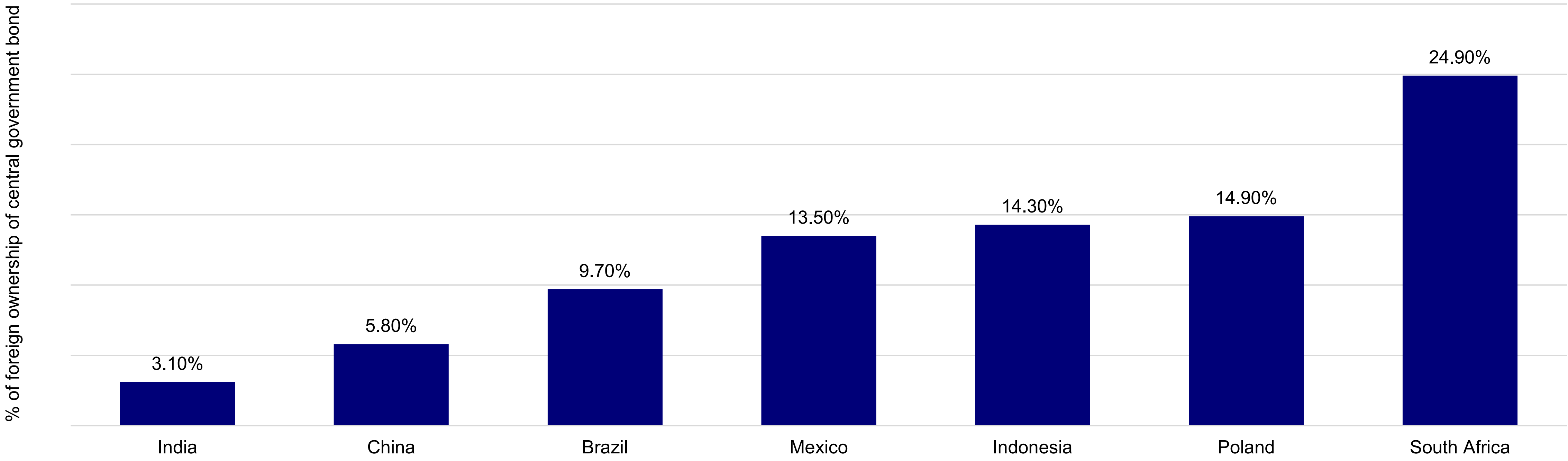
Rs. Crs

Month	Gross Supply	Maturities	Net Supply
April 2025	1,61,000	-	1,61,000
May 2025	1,20,000	55,367	64,633
June 2025	1,57,000	79,719	77,282
July 2025	1,20,000	-	1,20,000
August 2025	1,21,000	-	1,21,000
September 2025	1,21,000	71,616	49,384
Grand Total	**8,00,000**	**2,06,701**	**5,93,299**

Source: RBI

Indian bonds remain under-owned by foreign investors. Bond index inclusion continues to be a meaningful positive catalyst

Foreign ownership of central government bonds



Despite index inclusion, foreign ownership of Indian bonds remains low in comparison to other EMs

Source: Bloomberg. HSBC. The number only includes pure nominal local currency central government bonds, which is a better reflection of foreign ownership. Data as at 31 March 2025

Disclaimer

Disclaimer: This presentation is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. The 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. All opinions, figures, charts/graphs and data included in this presentation are as on date and are subject to change without notice. The sectors referred in this presentation are for illustrative purposes only and should not be construed as recommendations from Invesco Asset Management (India) Private Limited and/or Invesco Mutual Fund. Schemes of Invesco Mutual Fund may or may not have any present or future positions in these sectors. The content of this document is 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 data used in this presentation is obtained by Invesco Asset Management (India) Private Limited from the sources which it considers reliable. While utmost care has been exercised while preparing this document, Invesco Asset Management (India) Private Limited 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. Neither Invesco Asset Management (India) Private Limited nor any person connected with it accepts any liability arising from the use of this information. The recipient(s) before acting on any information herein 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.

Get in touch

Corporate Office:

Invesco Asset Management (India) Private Limited
2101 A, 21st Floor, A- Wing,
Marathon Futurex, N.M. Joshi Marg, Lower Parel, Mumbai – 400 013
+91 22 67310000 F +91 22 23019422

To invest:
Call 1800-209-0007 ∆ sms 'Invest' to 56677
Invest Online www.invescomutualfund.com

Follow us on:

Invesco Mutual Fund