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Dear Investor,

Global markets are contending with a mix of slowing growth, high interest rates, and geopolitical tensions, yet India continues to stand out as the fastest-growing major economy, with 2025 GDP growth projected at 6.5%. Domestic drivers remain strong—manufacturing PMI stayed above 59 in July, services PMI held firm, and bank credit growth is running around 14.1% year-on-year. External buffers are equally robust. Forex reserves have reached \$688.90 billion, providing the RBI with ample room to manage currency volatility, while the USD/INR remains broadly stable despite global dollar strength. Brent crude prices have been around \$76 - 78/bbl are easing imported inflation pressures, with core CPI anchored near 4% and headline inflation at 4.8% in July. India's foreign policy of strategic neutrality has helped preserve trade access across multiple blocs, allowing it to benefit from both Western and Eastern capital flows. Combined with a growing share in global manufacturing and services exports, these factors position India as a rare macroeconomic outlier—stable internally, yet agile in navigating external volatility.

Global Trade Backdrop: Strategic Openings and Overhangs

India-US: The Strategic Overhang

India-US trade continues to exceed US \$200 billion annually, but unresolved tariffs—averaging around 50% on steel, aluminum, agricultural goods, and certain textiles—remain a major drag on competitiveness. On the macro side, US inflation stood at 2.7% in June 2025, below the Fed's 2% target but still elevated. Q2 GDP growth rebounded at a healthy 3.0% annualized. The Fed has held the policy rate at 5.25–5.50% since mid-2023, the highest in two decades, while signaling possible cuts to cushion the downturn. High tariffs risk fueling import-led inflation just as the US seeks cost relief.

Strategically, Washington must manage tense trade relations with China, Russia, Iran, Mexico, and the EU. Adding India—the fastest-growing major economy, a key tech and defense partner, and an Indo-Pacific counterweight—into the mix could strain strategic bandwidth. Yet, easing trade terms with India would diversify supply chains, ensure stable access to pharmaceuticals, IT services, and specialized manufacturing, and counterbalance Chinese influence.

For India, a deal would open preferential access to the world's largest consumer market, elevating exports of engineering goods, processed foods, and beyond. Given the shared advantages, resolution may be a matter of “when” not “if”—paving the way for a possible re-rating of India's export sectors.

India-UK: From Negotiation to Execution

The India-UK Free Trade Agreement, concluded in-principle agreement in July 2025, eliminates tariffs on 99 % of Indian exports, aiming to double bilateral trade—from about US \$64 billion in 2024 to US \$120 billion by 2030. India is also the second-largest source of FDI projects in the UK, following the US. Key sectors poised to benefit include engineering goods, textiles & apparel, gems & jewelry, IT services, and processed foods—thanks to tariff relief and easier market access. With the UK's GDP per capita around US \$53,000, this deal secures India's entry into a high-value market, strengthens Commonwealth ties, and enhances its presence in developed economies as EU compliance costs climb under new carbon and trade rules.

Domestic Macro Tailwinds

India's growth outlook is supported by strong public and private capital expenditure. The Union Budget for FY26 has allocated ₹11.11 lakh crore for central government capex — about 3.4% of GDP — with a focus on transport infrastructure, renewable energy, and digital connectivity. Capacity utilization in manufacturing rose above 76% in Q1 FY26 (RBI), encouraging private investment in steel, cement, electronics, and defense manufacturing. The PLI scheme has so far attracted committed investments exceeding ₹1.25 lakh crore, further boosting domestic production.

Urban consumption remains resilient, supported by rising disposable incomes, credit growth and a buoyant real estate sector. Rural demand is showing signs of revival ahead of the festive season, aided by above-normal monsoon forecasts and record rabi procurement. Bank credit growth stands at 10% YoY, Corporate debt levels remain contained, providing Indian companies with balance sheet strength to leverage upcoming investment opportunities and GST collections have stayed above ₹1.6 lakh crore for five consecutive months — indicating a stable tax base and fiscal strength. Together, these trends create a solid domestic platform for accelerating growth in H2 FY26.

Monetary Policy & Liquidity Cycle

The Reserve Bank of India began its easing cycle in June 2025 with a 50-bps cut in the repo rate to 5.5 %, its first reduction in over four years. The decision was backed by easing price pressures — headline CPI moderated to 4.8% in July 2025 and core inflation remained anchored near 4% — alongside the need to support growth as Q1 GDP momentum softened. The RBI's August policy minutes indicated room for further calibrated cuts if inflation stays within the 2–6% target band.

Liquidity conditions have improved meaningfully. Average daily system liquidity surplus rose above ₹1.25 lakh crore in early August 2025, driven by higher government spending, consistent FPI inflows, and RBI's open market operations. The 10-year G-Sec yield eased to below 6.5%, reflecting softer rate expectations, while corporate bond spreads have narrowed, lowering funding costs. Transmission typically lags by one to two quarters, meaning the bulk of the stimulus will flow through in H2 FY26 — aligning with the festive season, increased capex deployment, and potential trade breakthroughs.

Near-Term Earnings Trajectory

Corporate earnings for Q1 FY26 posted moderate strength—aggregate net profit growth for India Inc. stood at around 8–8.5% YoY, with revenue growth near 8–9%—softening from prior quarters, reflecting softer rural demand, subdued export volumes, and base effects from a strong prior period. Margins contracted in consumer staples, cement, and select industrials due to elevated energy and logistics costs, while financials, defense manufacturing, and capital goods continued to outperform.

Q2 FY26 is expected to remain muted, as it usually takes 1–2 quarters for policy impacts like the June 2025 50 bps repo rate cut (to 5.5%) and improved liquidity to filter through. Rural demand is slowly reviving, supported by above-normal monsoon forecasts and record rabi procurement, but urban consumption remains the primary growth driver. Export-linked sectors may face headwinds, given softer demand in the EU and US amid ongoing trade frictions.

Earnings momentum is forecast to pick up in H2 FY26, driven by lower borrowing costs, festive-season spending, front-loaded government capex (~₹11.11 lakh crore), and momentum in trade negotiations. Prime beneficiaries are likely to be in capital goods, market infrastructure, defense, fertilizers, and agri-linked industries—backed by resilient domestic demand and policy incentives.

Currency & External Resilience

The rupee traded near its record low, briefly testing around ₹87.8 per USD before stabilization through RBI intervention. Forex reserves stood at ~US \$688.9 billion as of August 1, 2025, just below the record high of US \$704.8 billion in Sept 2024—reflecting a strong external buffer. The RBI's proactive interventions have helped avoid a disorderly slide past the ₹88 mark.

A depreciated rupee has enhanced export competitiveness and bolstered USD inflows from services and remittances. Services exports surged 12 % YoY in June 2025 to US \$32.11 billion, while IT exports hit US \$224.4 billion in FY25, registering a 12.5 % rise. With reserves covering nearly 11 months of merchandise imports, India's external position remains robust, enabling it to weather global volatility while seizing long-term trade opportunities.

Long-Term Macro Drivers & Crude in Control

India's long-term growth narrative remains intact—underpinned by urbanization, a growing youthful workforce, and continued economic formalization. Domestic consumption and tax revenues are on a steady upward trajectory, thanks to government emphasis on infrastructure, renewables, and manufacturing. The PLI scheme and trade diversification strategies are reinforcing India's integration into global supply chains.

Crude prices have largely stayed below US \$75 per barrel through much of 2025, which has helped moderate import inflation, enhanced corporate margins, and preserved fiscal space for capital expenditure. Alongside steady FDI inflows and growing interest from sovereign wealth funds, these macro-fundamentals reaffirm India's position as a stable, resilient investment destination—and a supportive environment for sustained equity market growth.

Deep Dive into The Sectors From Portfolio

We see the current market environment as a period where volatility is driven more by sentiment than by structural weakness. India's macro drivers—stable inflation, controlled crude prices, robust reserves, and steady domestic demand—remain firmly in place, even as near-term earnings softness and global trade uncertainties create short-lived pullbacks.

For long-term investors, such phases have historically provided attractive entry points. Our portfolio remains positioned towards sectors benefiting from domestic demand and policy support, including fertilizers, defense, capital goods, market infrastructure, and select financials. These segments offer structural growth levers, are less exposed to external shocks, and stand to benefit from both government spending and private capex revival in H2 FY26.

1. Fertilizers: Policy Support Meets Earnings Momentum

The fertilizer sector continues to benefit from strong policy support, with the FY26 fertiliser subsidy budgeted at ₹1.67 lakh crore (₹1,67,887 crore), underpinning price stability and steady farmer demand. Monsoon forecasts remain favourable, supporting nutrient uptake across kharif and rabi seasons. Global input costs have eased from 2024 peaks, reducing cost pressure and improving working-capital cycles. In Q1 FY26, leading producers delivered solid results, with ~10–15% YoY profit growth supported by healthy volumes, efficiency gains, and a richer mix of complex/specialty fertilizers. Balance sheets strengthened and capacity utilization improved. Valuations near ~12–14x forward earnings remain reasonable versus prior cycle peaks, keeping the sector well placed for steady earnings momentum in H2 FY26.

2. Defense: Riding the Indigenization Wave

India's defense cycle remains robust. The FY26 defense allocation is ₹6.78 lakh crore, with ₹1.80 lakh crore set aside for capital outlay, the highest ever. Policy continues to prioritize domestic procurement, giving multi-year visibility to Indian manufacturers across aircraft, warships, missile systems, sensors and electronics. Operation Sindoor (May 2025), India's targeted response after the Pahalgam terror attack (22 Apr 2025), showcased the performance of indigenous systems. The Akash surface-to-air missile (developed by DRDO; produced by BDL, with BEL providing key radar/command components) was part of India's layered air-defense architecture highlighted during and after the operation. With defense production at a record ₹1.5 lakh crore in FY25 and exports at ₹23,622 crore, rising order books and growing foreign interest support sustained growth into H2 FY26 and beyond.

3. Capital Goods: Benefiting from India's Capex Revival

The capex cycle remains a key tailwind. The Union Budget FY26 allocates ₹11.11 lakh crore to central capex (~3.4% of GDP), the fourth straight year of double-digit infrastructure outlay, focused on transport corridors, renewables, defense manufacturing and heavy engineering. While private-sector new project announcements slowed late in FY25, execution pipelines and tendering remain healthy. Our positioning favors best-in-class private players with strong balance sheets, diversified customers and visible capacity scaling. Recent quarters show resilient revenue growth, stable margins, and expanding order books, with export traction in power generation and transmission equipment. Price performance has tracked fundamentals, and we remain selective within this leadership cohort.

4. Market Infrastructure: Exchanges & Brokers

Financialization continues to deepen. Demat accounts crossed ~20.13 crore by end-July (CDSL 16.1 cr; NSDL 4.05 cr as of June), reflecting broader participation. SIP contributions hit a record ₹28,160 crore in July 2025, while equity mutual fund net inflows jumped to a record ₹42,702 crore; industry AUM reached ₹75.36 lakh crore. With bank FDs around the mid-6% range, the savings shift toward market-linked assets persists. These trends are durable tailwinds for exchanges and brokers: more funded accounts, higher SIP-linked cash volumes, steady derivatives activity, and rising monetization per active client (data/connectivity/clearing/subscriptions). Primary issuance cycles add to exchange revenue mix. Despite day-to-day turnover swings, the 20-crore demat universe + record SIPs + peak AUM frame a multi-year growth runway for market-infrastructure names.

Fund View

We remain constructive on India's equity markets. The initial volatility triggered by tariff announcements is now being absorbed, with domestic fundamentals—robust GDP growth, stable inflation, healthy corporate balance sheets, and resilient consumption—continuing to anchor market performance. The upcoming 15 August meeting between Russia and the US offers a potential diplomatic turning point—one that could lay the groundwork for ending the conflict and paving the way for tariff rollbacks. Such a resolution would meaningfully improve global risk sentiment, ease trade frictions, and unleash a stronger external tailwind to India's growth story.

Against this backdrop, we view the current environment as a favorable window for portfolio top-ups and fresh capital deployment, with a three-year investment horizon. Domestic liquidity, strong FPI interest, expanding earnings visibility, and sectoral rotation into structural growth areas further strengthen the investment case. Government capex momentum, rising private investment, and expanding market participation create a virtuous cycle for equities. Our conviction is that the confluence of strong domestic demand, sustained policy support, and potential relief on the global trade front positions India for above-trend returns, making this an opportune moment to stay invested and add exposure ahead of the next growth leg.

Warm regards,

Anirudh Garg
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