NETRA

Early Signals Through Charts

November 2025

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King Dollar – A Deeper Look At US Debt Situation

The State of The Overall US Balance Sheet

When you hear the chatter around how fast the US Debt situation is deteriorating you would feel nervous.

For a moment, think about this question. In Jan 2020, the total credit to Nonfinancial sector in the US was 252% of GDP. (Total credit to Nonfinancial sector is the cumulative debt of Federal, state & local governments, Corporate Businesses and Households in the United States of America).

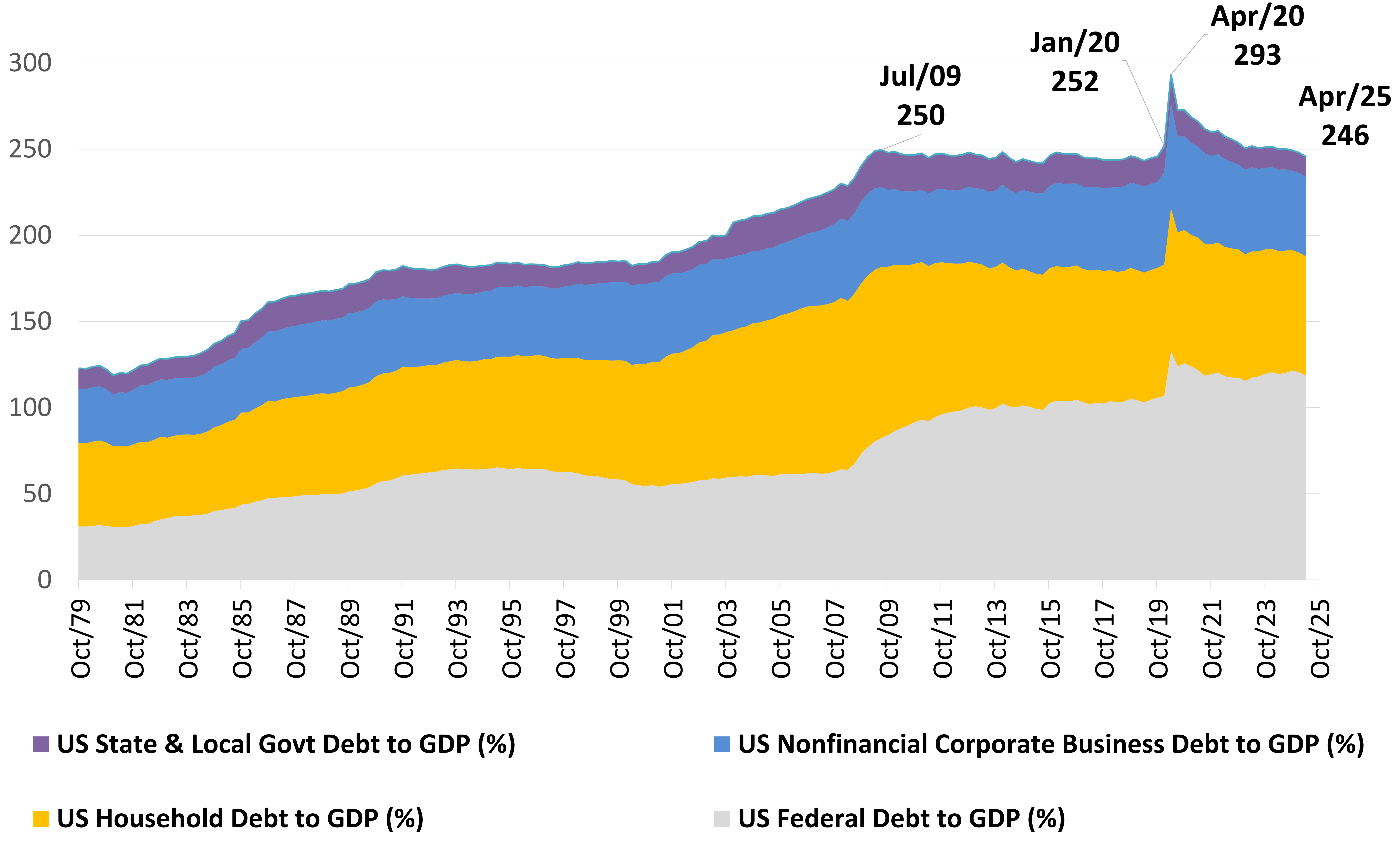
Now ask yourself, from 252% of GDP what would this number be today after all the 'money printing' and post COVID 0% rates and the noise we hear all around?

As of the latest update the total credit to Nonfinancial sector in US has DECLINED to 246% of GDP.

The next slide will show you how.
Important note: The overall economic leverage of the three economic agents – Government, Business and Households – cumulatively has FALLEN.

Next time when you worry about the US Debt situation, keep this data in mind. Although there are still reasons to worry.

US Total Credit to Non-Financial Sector Is Back to Pre-Covid Levels



DSP

Source: Fred, DSP. Data as of October 2025.

Who De-Levered?

The US Federal Government took the mantle of economic revival, bailouts, and widespread credit push upon itself, fearing a repeat of the great depression of the 1930s and the aftermath of the global financial crisis of 2008.

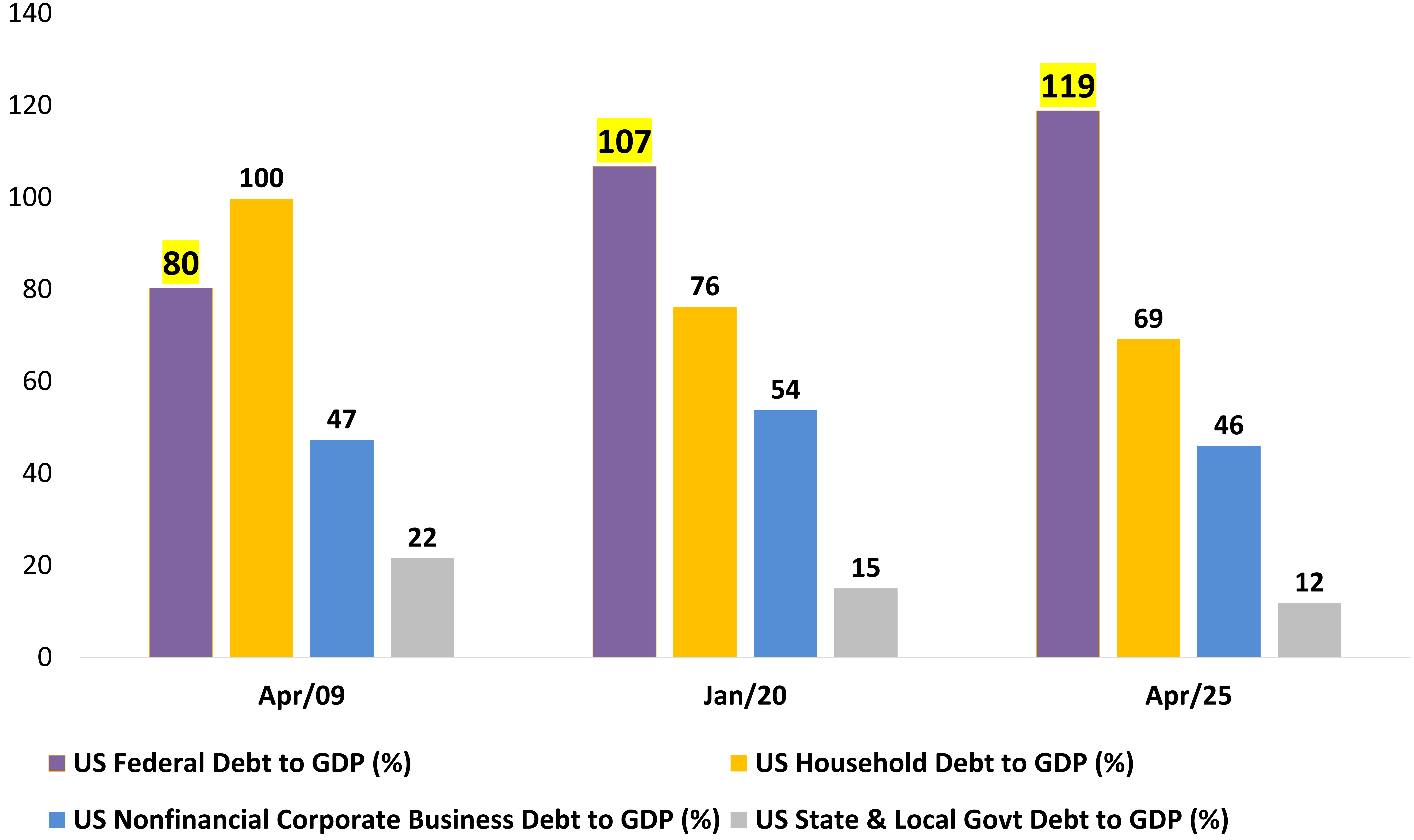
From about 60% Federal Debt to GDP in 2007s, the Federal Debt expanded to 120% to GDP in 2024. At the same time households' debt as a % of GDP fell from 100% to 69% while nonfinancial corporate business debt remained at ~46% of GDP.

This means, in the aftermath of GFC, the US Federal Government became the backstop for the US economy, while Households and Businesses repaired their balance sheets.

Therefore, at this time, US Businesses, Households and state governments are sitting on one of the most robust balance sheets that they have seen in a long time. The same is not true for the Federal Government. But cumulatively, the narrative that US, as a country, is witnessing a rapid deterioration in its debt profile fails the test of data.

How did this de-leverage playout? Read the next slide.

Except The US Federal Government All Segments of US Economy Have De-levered



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Source: Fred, DSP. Data as of October 2025.

Businesses and Households in US Have De-Leveraged While The Federal Debt Zoomed

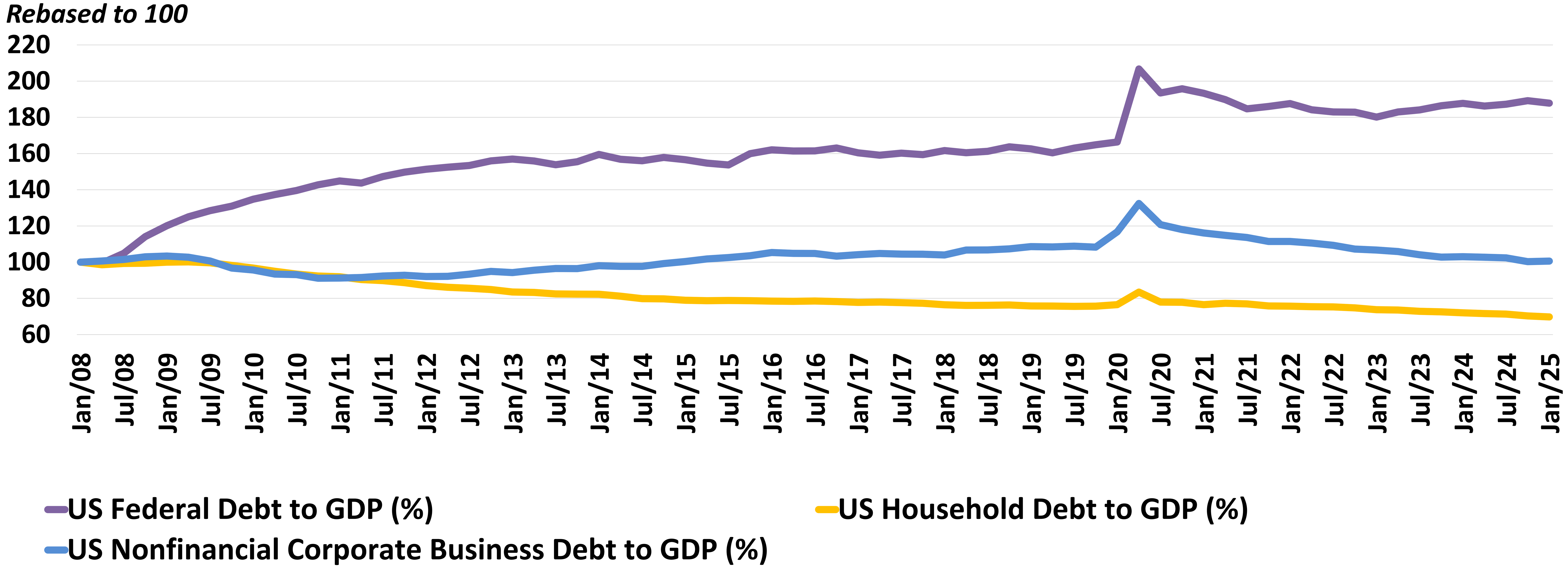
Since the Global Financial Crisis of 2008 (GFC), US federal debt has nearly doubled, while households deleveraged and corporate business leverage barely changed.

Post-GFC, fiscal and monetary policymakers understood that they could use as much policy support as they wanted to bring the US economy back from the brink.

When the COVID pandemic struck, US policymakers went into overdrive. At the federal level, the US added about $10 trillion in new debt from the time the pandemic hit to when emergency measures were more or less rolled back in mid-2023. This means that nearly 40% of all US federal debt ever issued was issued in this period.

But during the same period, corporate businesses and households were borrowing at a pace lower than nominal GDP growth, thereby DEFLATING their way out of indebtedness.

Conclusion: The US debt situation at the federal level is stretched, but not yet dire. At the whole-economy level, the US debt situation is stretched but improving, not deteriorating. Hence, the biggest anti-consensus positioning from this standpoint is the return of “KING DOLLAR.”



CAGR

Time Period	Dec’99 – Sep’08	Mar’09 – Sep’19	Mar’20 – Mar’25
Federal Debt	7.3%	6.9%	6.5%
NF Corporate Debt	4.8%	4.6%	2.9%
HH Debt	8.7%	1.3%	4.8%
Nominal GDP	4.4%	4.1%	8.8%

DSP

Source: Fred, DSP. Data as of October 2025.

King Dollar – Sovereigns Have Shied Away, Institutions Are Hungry For Dollar Assets

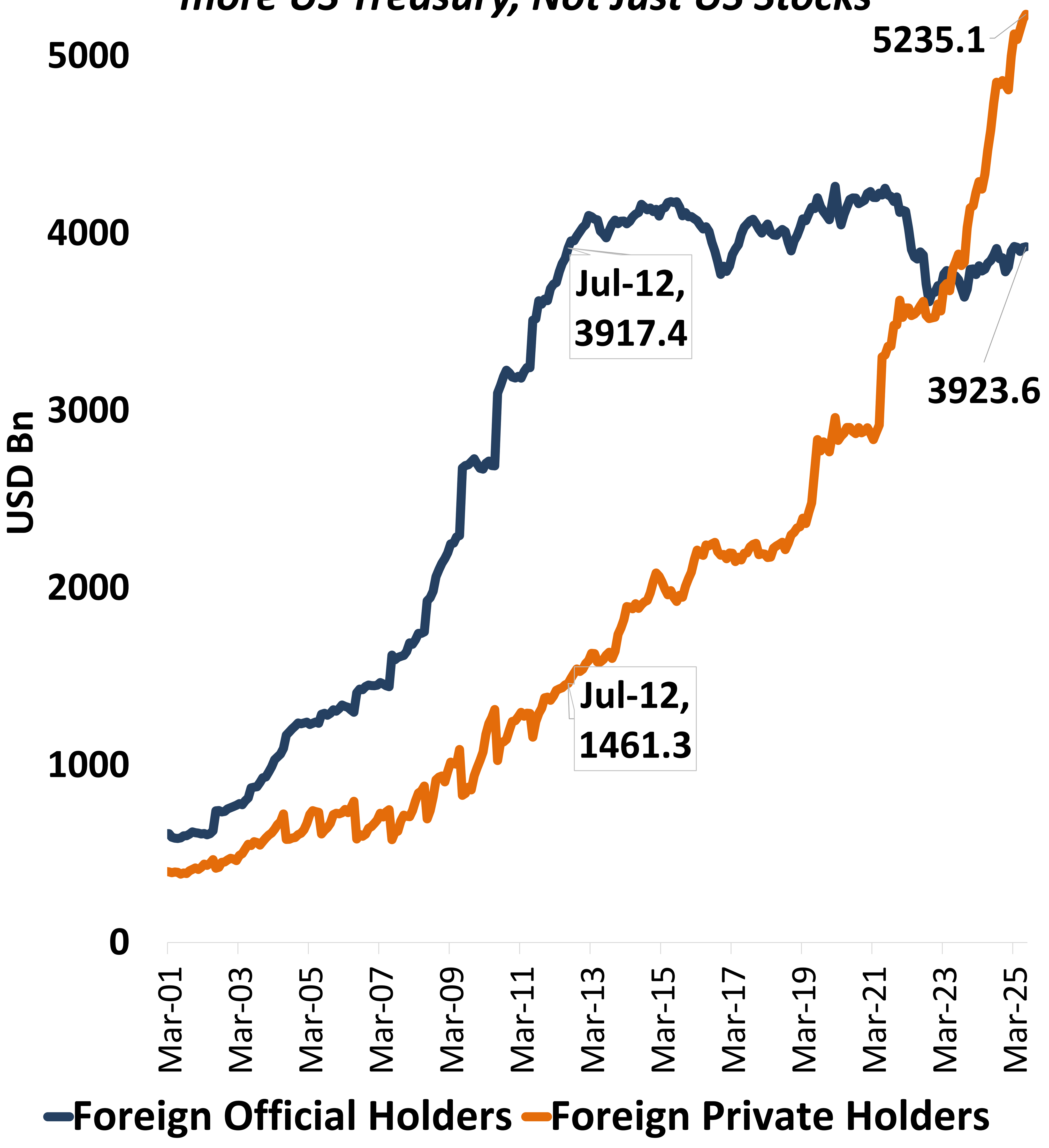
The demise of the dollar, De-dollarization, new world currency and returns to Gold Standard are some of the most common narratives at this time.

All of them are based on two underlying facts:

1. US is borrowing huge sums of money. This is unsustainable – This is a half truth because when seen collectively the three agents of US Economy haven't seen an increase in indebtedness.
2. The US government's policy of fighting trade war with the world and alienating its allies is reducing demand for US treasury. Once again, the data tells you that if you look only at official demand (from foreign sovereigns) it seems true, but demand from private institutions is stronger than ever.

This means that the overcrowded ship of De-dollarization has tilted, may be a bit too much. This sets the stage for a halt in DXY Index's decline and a probable reversal in the next few months and quarters. US Fed's reluctance to lower the Fed Funds rate can further put a floor under the US Dollar's decline. The repercussions can be negative for hard assets and emerging markets dependent on US imports.

Private institutions from the world over are buying more US Treasury, Not Just US Stocks



US Treasury Offers Competitive Real Returns

Country	10Y yield (%)	CPI YoY 6m avg (%)	Real 10Y (%)
United States	**4.0**	**2.7**	**1.3**
United Kingdom	**4.4**	**3.7**	**0.8**
Euro Area	**3.1**	**2.1**	**1.0**
Japan	**1.7**	**3.2**	**-1.5**
Germany	**2.6**	**2.1**	**0.5**
France	3.4	0.9	2.5
Italy	3.4	1.7	1.6
Spain	3.2	2.5	0.7
Canada	3.1	1.9	1.2
India	6.5	2.2	4.3
China	**1.8**	**-0.1**	**1.9**
Brazil	13.7	5.3	8.4
Taiwan	1.3	1.6	-0.3
South Korea	2.9	2.0	0.9
Canada	3.1	1.9	1.2

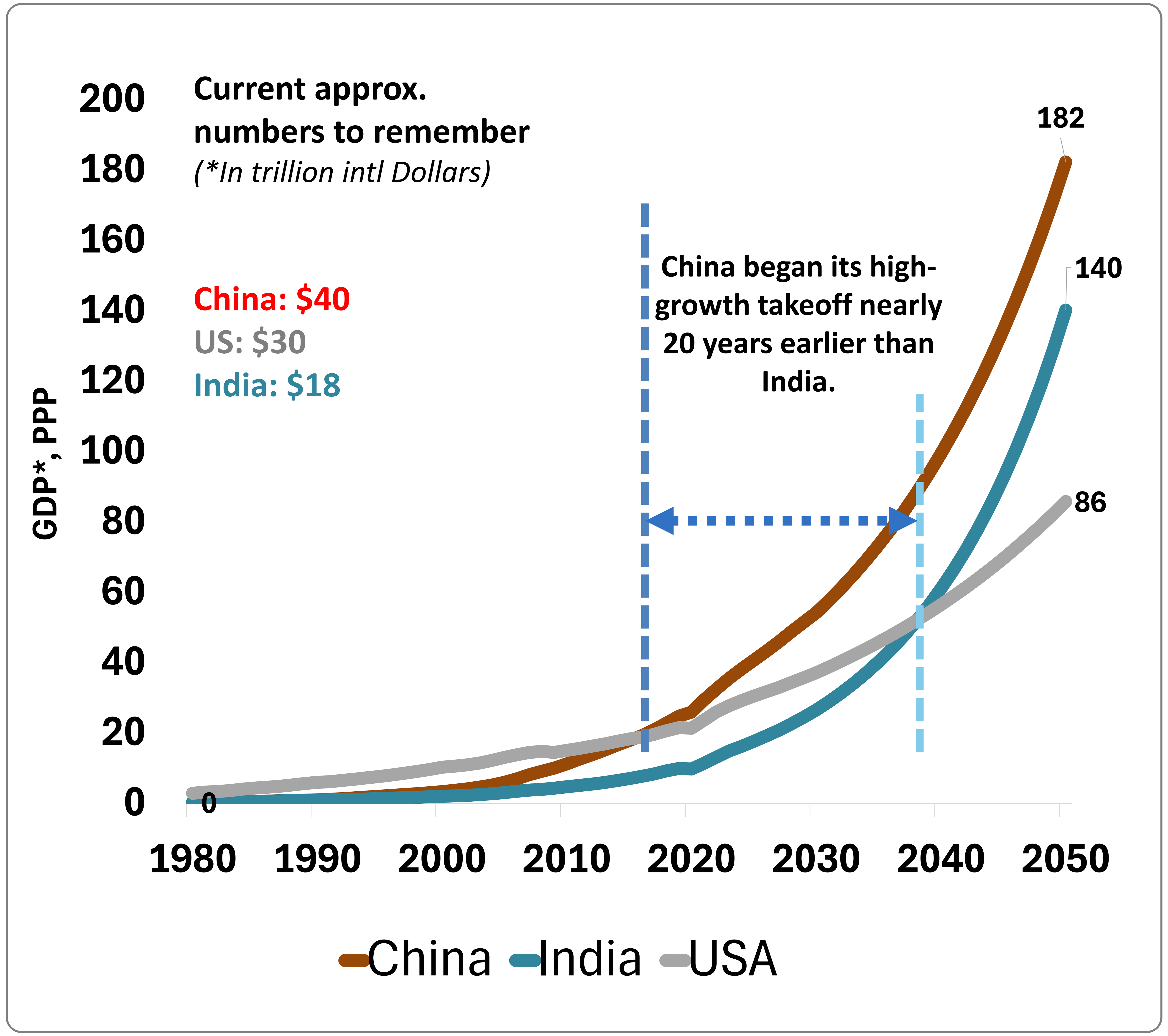
DSP

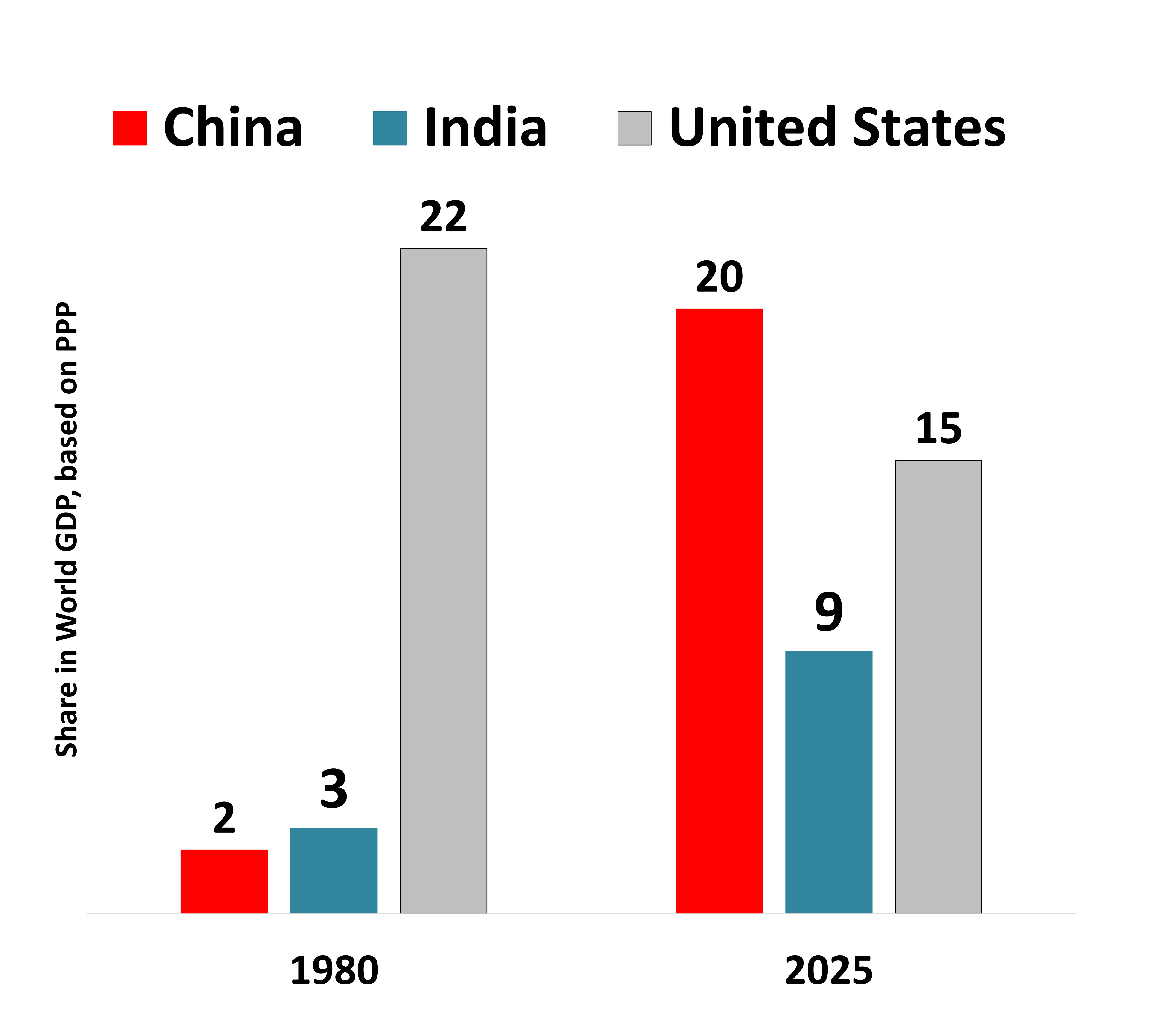
Source: Bloomberg, IMF, DSP. Data as of October 2025.

India Growth – Zoom Out & Zoom In

Zoom Out: Consistent Compounders Likely To Change The Complexion Of The World

If China and India maintain their lower end of long-term growth trends, they will effectively be a third of the world economy.





DSP

Source: IMF, DSP. Data as of September 2025. PPP- Purchasing Power Parity

Zoom Out: The Scale & Pace Is Gaining Traction

DSP

Source: IMF, DSP. Data as of September 2025. PPP- Purchasing Power Parity

Insight: Why Spending Varies So Much Across Countries

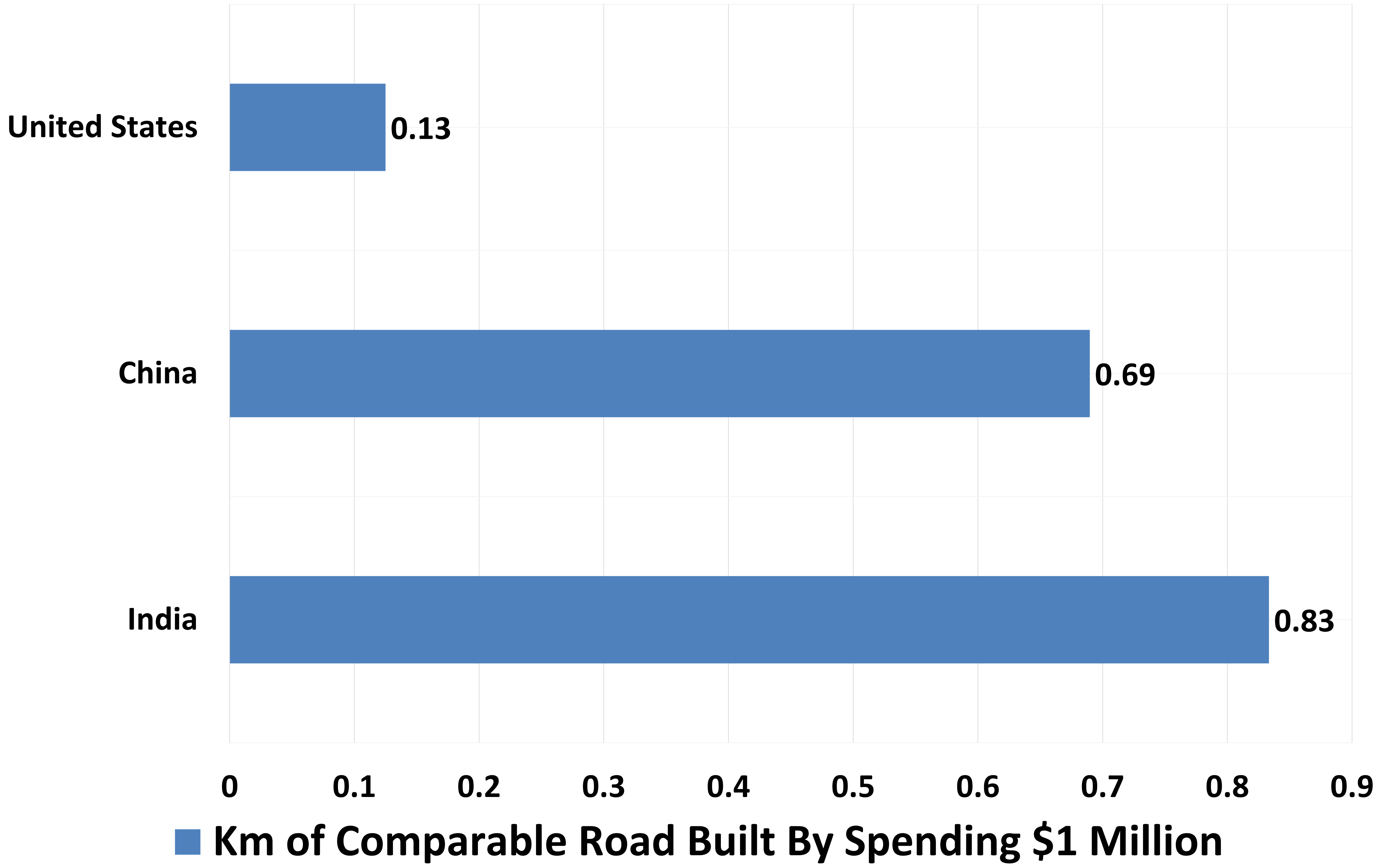
For identical capex, India stretches the rupee/dollar farthest: $1 mn ⇒ 0.83 km (India) vs 0.69 km (China) vs 0.125 km (US).

Takeaway: deployment efficiency matters as much as budget size.

Broadly there are 5 reasons for this:

1. Land & right-of-way (ROW) US: land is expensive, ROW clearances are strict, utilities relocation is costly. India/China: more state control, cheaper peri-urban land, faster ROW in many projects.
2. Standards & specs: US highways often overbuilt (pavement thickness, shoulders, drainage, safety hardware, signage, ITS, snow/temperature design). India/China sections are often built to functional, traffic-fit standards.
3. Labour & local inputs Wage levels, contractor overheads, insurance, and equipment rental are far higher in the US. India especially benefits from low labour cost + competitive EPC bidding.
4. Regulatory & time costs mean US projects carry long design/permitting/environmental reviews. India/China can compress timelines which leads to less "soft cost" per km.
5. Urban complexity: Many US cost benchmarks are for urban/complex freeway work (interchanges, flyovers, utility conflicts), these explode per-km cost.

Same $1 Million, Very Unequal Roads: India Builds 6–7× More than the U.S.



DSP

Source: MORTH, US FHWA, Compass International, Recent Road Projects Estimates, DSP. Data as of October 2025

Zoom In: High Frequency Indicators Are Still Middling or In The Slow Lane

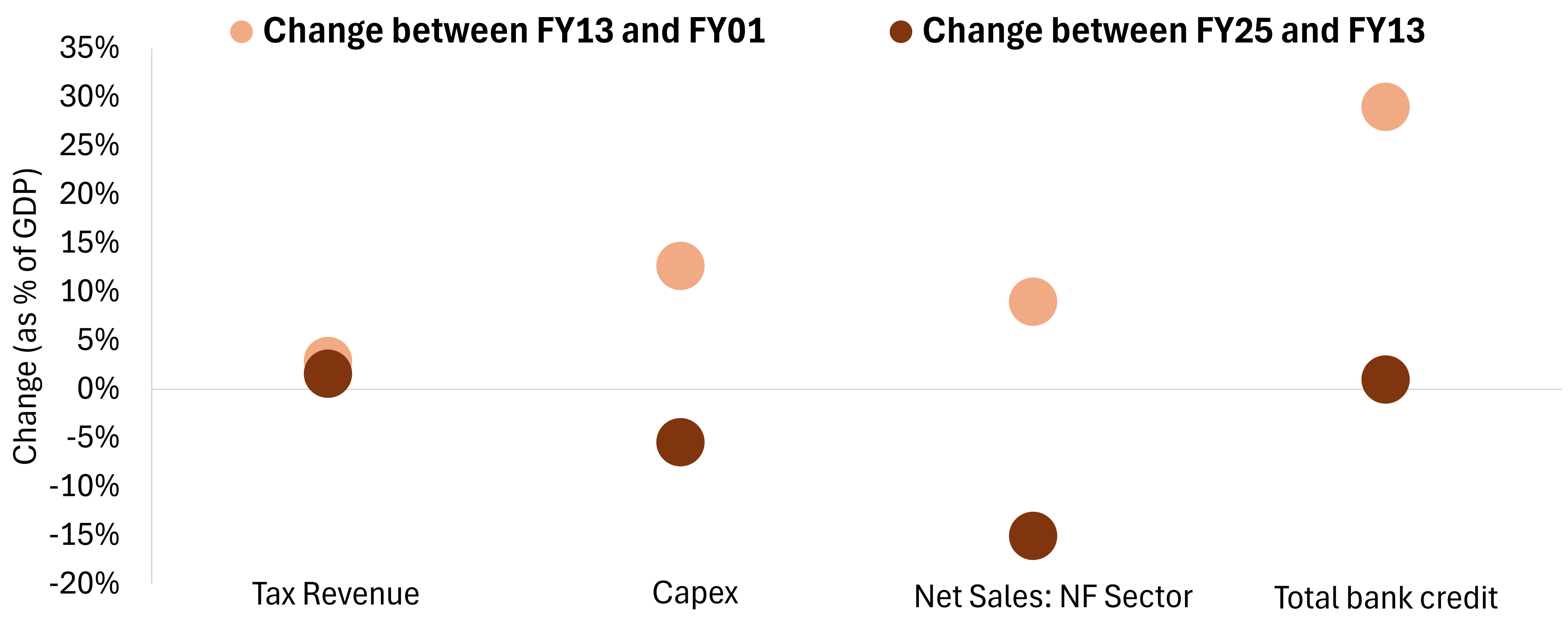
Zoom in, and it's clear the economy has slipped into a slower lane, even if only for now. After circling around recovery for years, that pace now seems to be moderating. The 2000s were a standout period for India's growth story. The decade after wasn't as strong, and the post-Covid phase, after an initial burst, has clearly cooled off.

August to October usually brings a pickup in activity, thanks to the festive season. This year, though, demand has been tepid.

One of the most telling indicators of such demand is the auto sales. Say for one of the biggest in this segment, Maruti's three-month average (Aug–Oct) is down 2% from last year, which itself was already down 6%. Hyundai saw a 4% drop, while M&M, focused on UVs, bucked the trend with a 12% rise. So, while the overall segment did suffer a decline, there could be still some respite in the premium segment.

It is too early to gauge GST cut impact. For now, the growth of the past 3 months has slowed to mid single digits, compared mid-teens for the larger part of the past 2 years.

Personal loans, however, have remained rather high, through most of the post-covid cycle, to make up for the slowed wage growth, with Households basing much of their consumption on leverage. But now even this segment has begun to show some signs of weakness, without any significant respite in income of the households.



12MMA yoy Change, as of	Personal loans	POL Cons	Credit to Industry	Housing Loans	Railway freight traffic	GST	Passenger Car Sales	Eight Core Industry
Sep-22	16.5%	7.3%	7.4%	15.6%	8.6%	25.3%	24.6%	7.5%
Sep-23	22.8%	6.8%	7.7%	20.3%	3.2%	12.3%	12.5%	7.1%
Sep-24	24.5%	3.2%	8.2%	30.7%	4.9%	10.9%	5.3%	5.8%
Sep-25	12.0%	1.5%	6.9%	10.5%	2.0%	9.5%	2.3%	3.8%

DSP

Source: CMIE, DSP. Data as of October 2025.

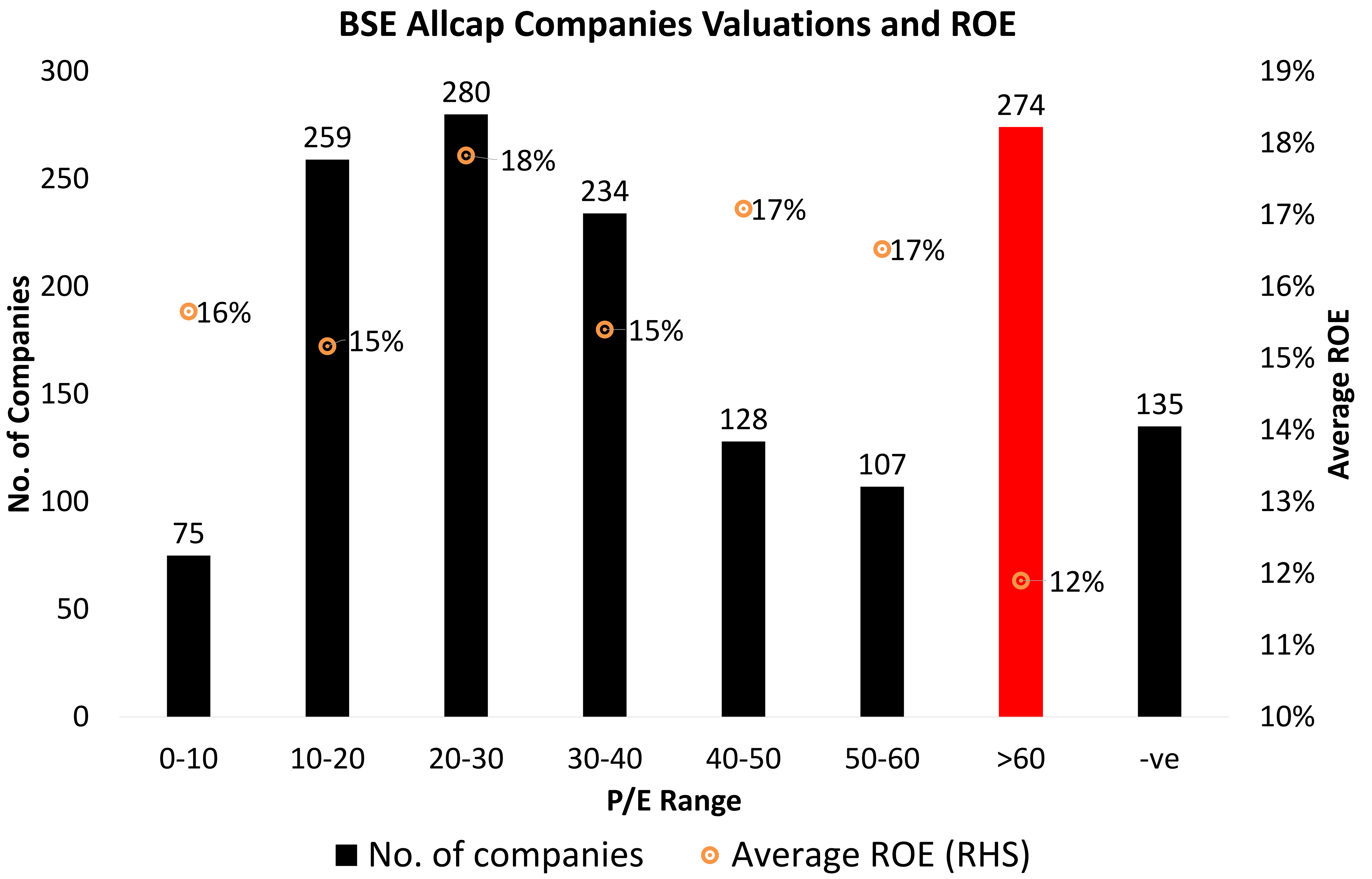
Valuations & The IT Sector

Bargains Are Becoming Harder to Find, Broader Market Remains Pricey

When we first created this chart in August 2024, the number of companies trading at above 40x earnings multiples was twice the number of those trading below 20x. A year later, the situation remains largely unchanged. The market continues to exhibit an abundance of highly valued stocks, with companies above 40x still outnumbering those below 20x by roughly two to one.

At the same time, the overall return on equity (ROE) profile of listed companies has been deteriorating, and genuine value opportunities have become increasingly scarce. Only a handful of stocks are available at below-average valuations while still delivering superior ROEs.

Notably, several companies trading at or above 60x valuations also exhibit subpar ROEs; a concerning combination of high valuation and low profitability. Historically, markets have eventually corrected such imbalances; while the timing of that correction is uncertain, we remain cautious toward this segment of the market.



DSP

Source: Capitaline, DSP. Data as of Oct 2025. The average ROE is the average of all those companies falling within that PE Range.

Déjà Vu in the Markets

After nearly five consecutive years of a strong bull run, one might have expected some mean reversion; a period where valuations and sentiment realign closer to long-term averages. However, that hasn't been the case this time. Despite a year of largely flat returns, many investors now believe that the worst is behind us and that a new leg of the bull market is about to begin.

In reality, fundamentals haven't improved meaningfully from where they stood a year ago. Valuations remain elevated, and earnings growth visibility continues to be uncertain.

When we raised similar concerns last year, it may have sounded contrarian amidst the market optimism, yet the underlying data then and now tell a similar, if not weaker, story.

It's worth pausing to reflect: Are we truly at the start of a new bull cycle, or are we setting ourselves up for disappointment?

		Sep 2024 High	Current (Oct 2025)
Trailing Numbers			
P/E	In Line	24.7	23.6
P/B	In Line	3.9	3.5
Earnings Yield	In Line	4.0	4.2
ROE	In Line	15.9	15.0
Forward Valuations			
P/E	In Line	21.3	20.7
P/B	In Line	3.4	3.0
Sales Growth			
Trailing 1 Year	Worse	13.2	0.8
Earnings Growth			
Trailing 1 Year growth	In Line	6.4	6.9
1 Year Forward Estimate growth	Worse	16.9	11.7
Technical Indicators			
Members >200DMA	In Line	98%	82%
Distance from 200DMA	Worse	14%	6%

DSP

Source: Bloomberg, DSP. Data as on Oct 2025. Nifty 50 is considered.

Fewer Bargain Opportunities, Bottoms Up Approach Needed.

Bargain opportunities in Indian equities are currently scarce. Few sectors are offering attractive entry points, and most of the areas that led the post-COVID bull run such as Capital Goods, Consumer Durables etc. now appear fully priced with limited margin of safety.

Among major sectors, Financial Services and Information Technology continue to offer select opportunities, while the rest of the market appears expensive on both absolute and relative valuation metrics.

Given the prevailing earnings trajectory and ROE profiles, the broader market still looks stretched from a value standpoint. However, selective opportunities can be found in Financial Services and IT segments. In this environment, a bottom-up stock-picking approach focusing on company-specific fundamentals rather than broad sector calls may be the key to uncovering genuine value.

Sector	Total Companies	Companies trading below 33rd percentile	% of Companies trading below 33rd percentile
Financial Services	95	24	25%
Capital Goods	65	1	2%
Healthcare	52	3	6%
Automobile and Auto Components	35	2	6%
Fast Moving Consumer Goods	30	2	7%
Information Technology	28	3	11%
Chemicals	26	2	8%
Consumer Services	26	6	23%
Consumer Durables	19	1	5%
Oil, Gas & Consumable Fuels	19	2	11%
Power	18	3	17%
Metals & Mining	17	1	6%
Services	14	0	0%
Construction	12	0	0%
Telecommunication	10	1	10%
Construction Materials	10	1	10%
Realty	10	0	0%
Textiles	6	0	0%
Media, Entertainment & Publication	4	2	50%
Diversified	3	1	33%

DSP

Source: Investec, DSP. Data as on Oct 2025. For all sectors except Financial services P/E ratio is used and for Financial Services P/B Ratio is used. Trailing 12 Month profits before exceptional items considered for PE Calculations. Negative earnings are excluded from calculations. Valuations considered are of last 20 years or since listing whichever is earlier.

Market Valuations are Frothy, Beware!

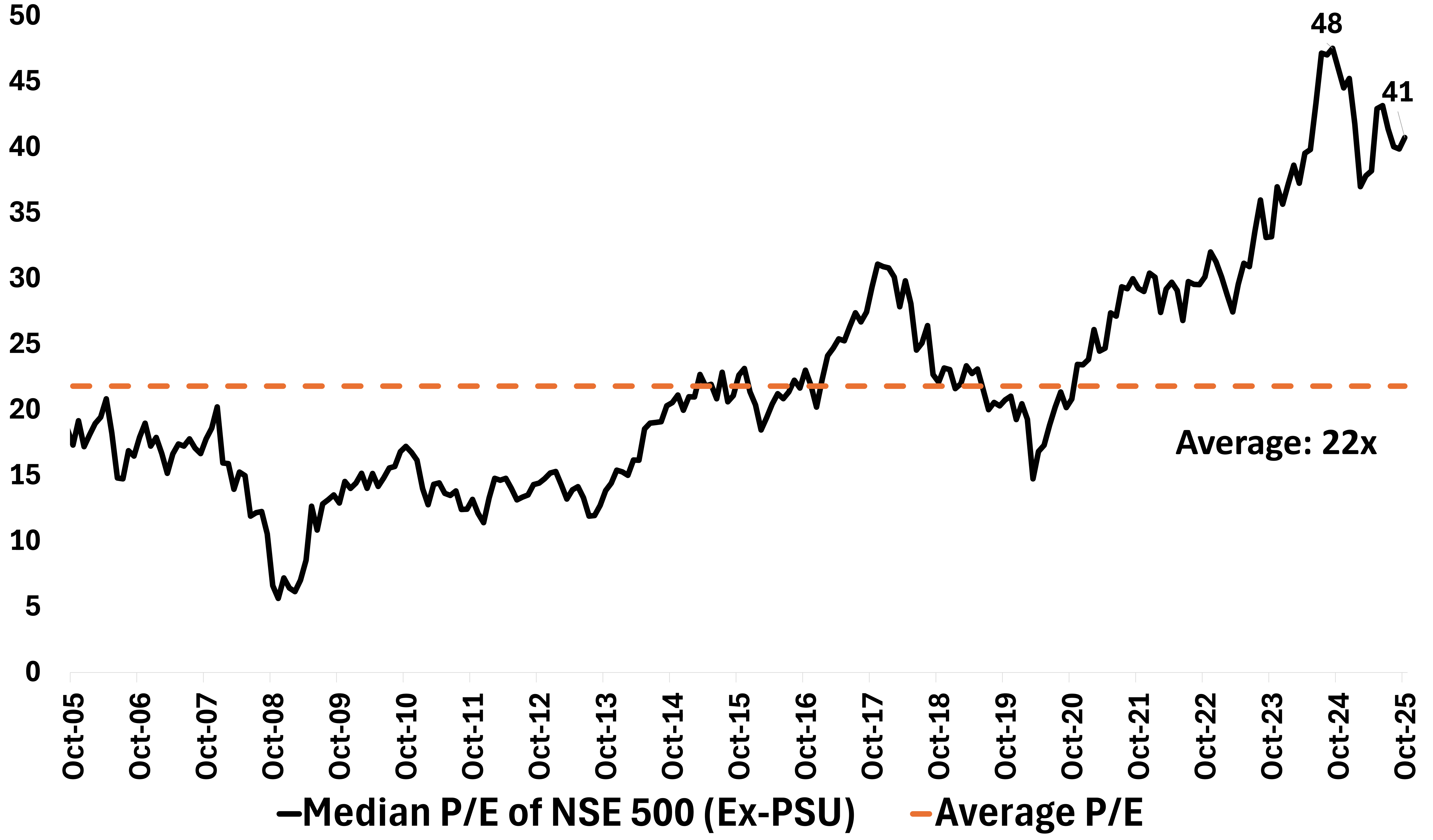
The broader market is currently trading at elevated valuation levels, which may not offer an ideal entry point for long-term investors. The median P/E ratio of NSE 500 stocks (excluding PSUs) stands at 41x, which is over two standard deviations above its historical average, a level rarely seen before.

Market valuations appear frothy, and a meaningful reset can occur only through earnings growth or a price correction. However, with limited visibility on near-term earnings growth, the continued rise in stock prices has pushed the market back toward its previous all-time highs.

If the market experiences a capitulation event, either through rising earnings or panic-driven selling, valuation multiples could normalize to levels where select companies once again present attractive buying opportunities. Alternatively, the time correction which began in 2024 can extend with earnings creeping up overtime.

Investors should remain patient.

With Sales and PAT growth below 10%, ROEs at 15%, Valuations Multiples Are Stretched



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Source: Investec, DSP. Data as on Sep 2025. Trailing 12 Month profits before exceptional items considered for PE Calculations. Current Nifty 500 (ex-PSU) stocks are considered.

IT Sector: Neglected, Not Broken

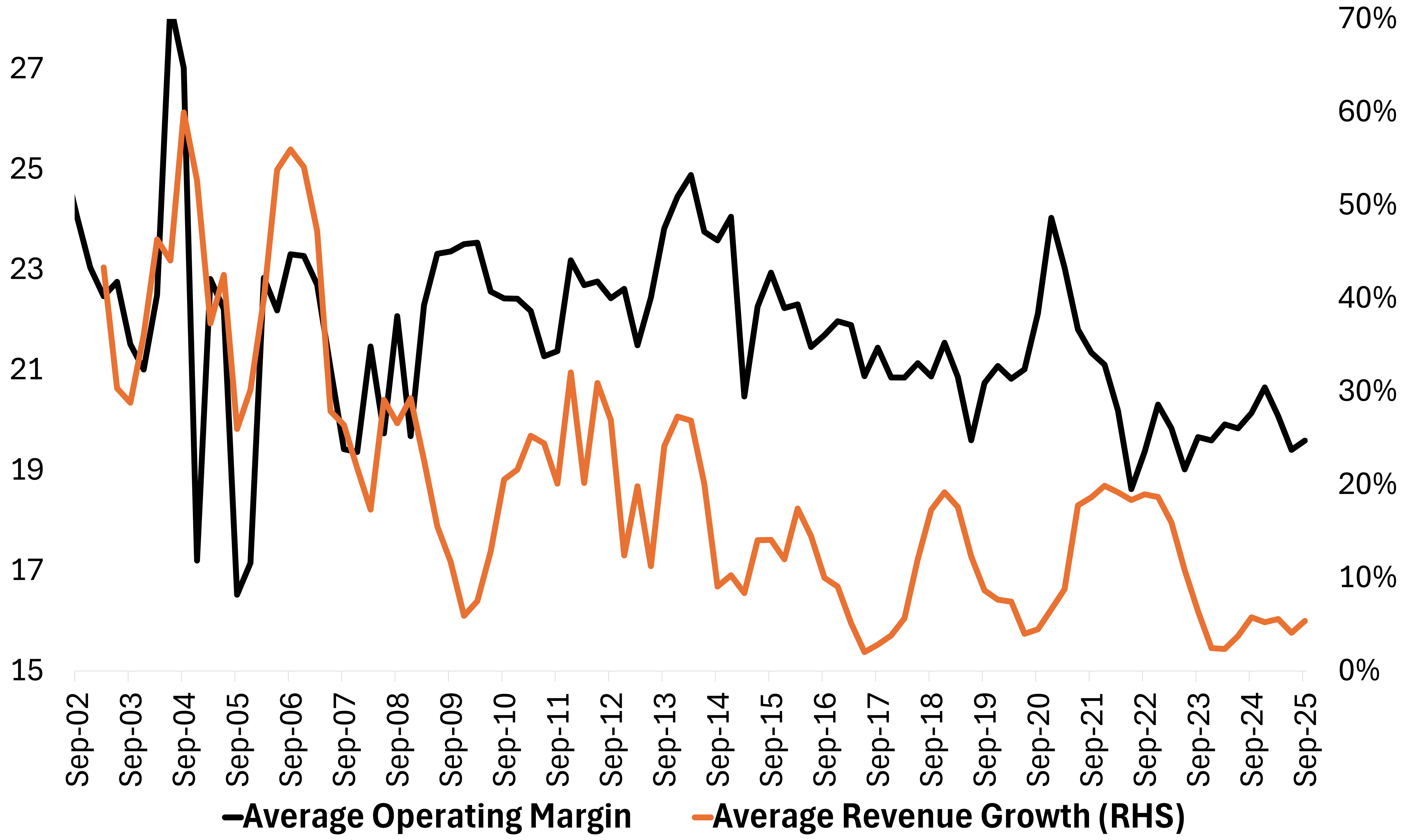
Indian IT companies have been among the most neglected segments in this market cycle. The key reasons are weaker growth and limited visibility, along with the absence of the "AI froth" that has boosted global tech valuations.

This is not the first time such skepticism has emerged. A similar phase played out in 2016–2017, when clients shifted from traditional outsourcing to digital and cloud. Investors worried about disruption, and margins and growth did weaken. But Indian IT firms adopted these technologies, tweaked delivery models, and returned to a steadier growth path.

Businesses evolve, and legacy sectors like IT services have done so repeatedly. The AI-led transition may look distant today, but it is early to doubt their ability to adapt.

Even after the recent derating, the sector still shows solid ROEs, disciplined capital allocation and reasonable valuations, which makes it relatively attractive versus the broader market. A 15% or so price fall can make this sector attractive on an absolute basis. Till such times a systematic investing approach seems logical.

Currently, large-cap IT companies are undergoing a rough business cycle. Operating margins have been stable over the past 3 years, but revenues have slid to no growth zone.



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Source: Bloomberg, DSP. Data as on Oct 2025. Companies considered for average are Infosys, TCS, HCL Tech and Wipro.

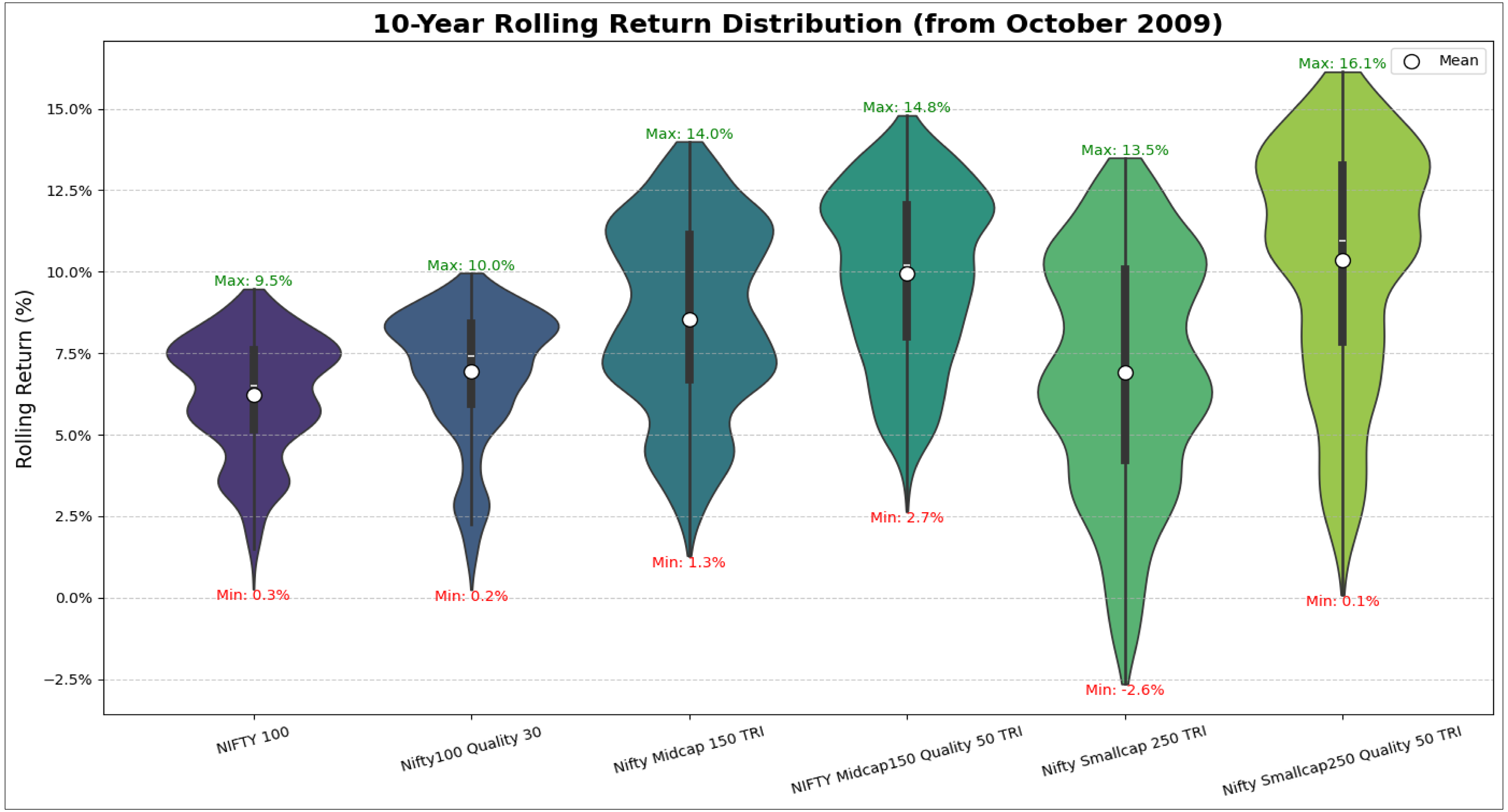
How Quality Changes Your Return Profile

The chart shows the 10-year rolling return distribution for major indices since 2009. Each violin represents how frequently different return levels occurred over time. For instance, the Nifty Smallcap250 Quality 50 TRI shows a thicker distribution between 10% and 15%, indicating most 10-year periods delivered strong returns. In contrast, the plain Nifty Smallcap250 TRI has wider distribution below 7.5%, reflecting more frequent low-return phases.

Similar return distribution observations can be made between all plain-vanilla benchmarks V/s their respective Quality benchmarks.

This uplift reflects the resilience of quality companies that sustain profitability and stable growth across market cycles. While broader indices capture the full market volatility, quality indices compress the downside tail and enhance consistency of outcomes.

Over The Long-term, The Quality-based Indices Shift The Return Profile Towards Better Odds



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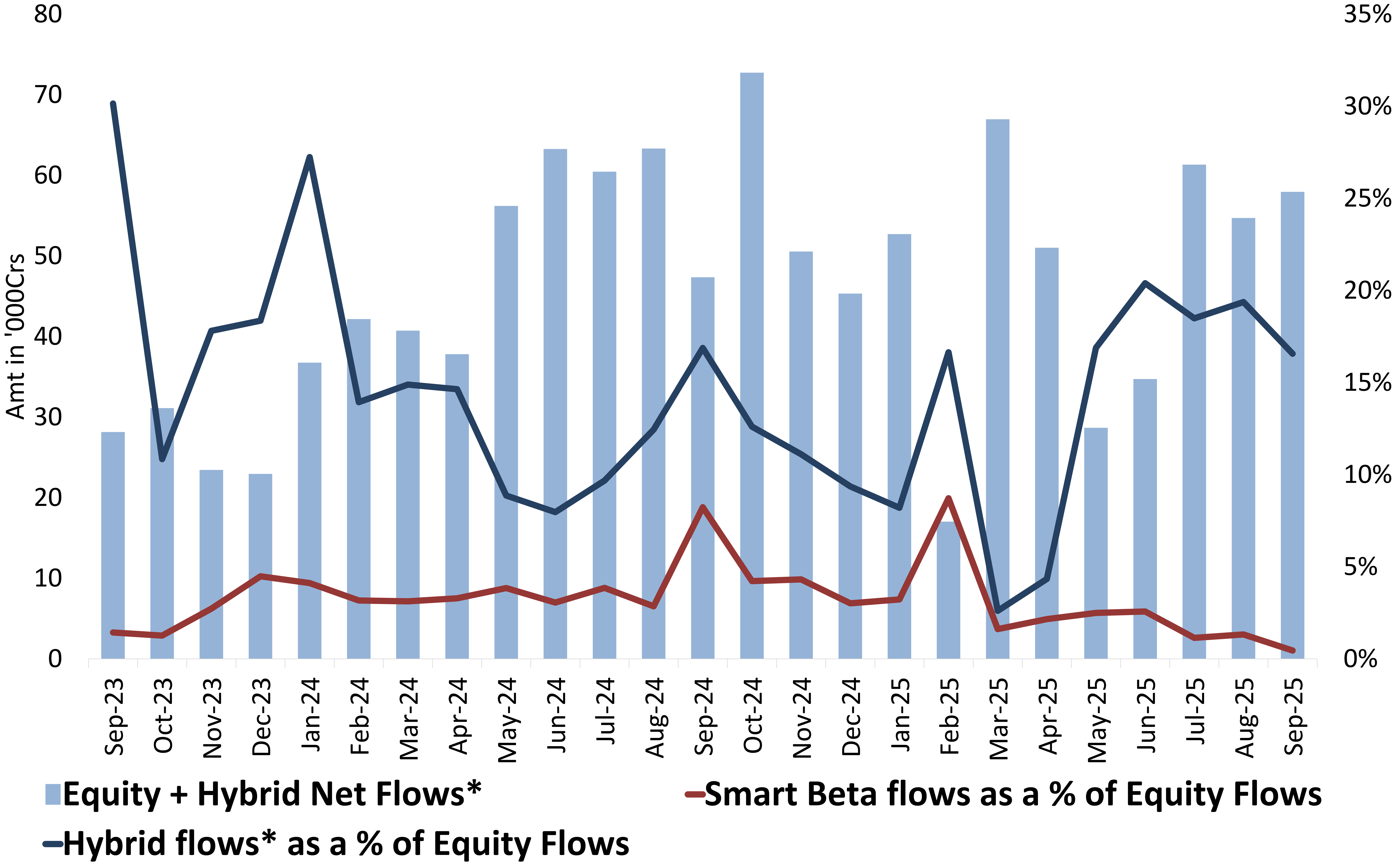
Source: NSE, DSP. Data as of September 2025.

Investor Flows Signal Changing Risk Appetite

The chart highlights three distinct trends in investor behavior.

First, overall equity net flows have remained relatively steady, reflecting continued participation despite short-term market volatility. Second, Smart Beta flows as a percentage of total equity flows, once a meaningful share, have gradually weakened and now stand at their lowest level in the last two years. This indicates waning investor enthusiasm for factor-based products, possibly due to subdued recent performance.

Third, hybrid funds have started regaining investor attention. In a market environment marked by heightened uncertainty, the preference for hybrid funds visible through their rising share of equity flows suggests that investors are leaning toward products offering a balance between equity participation and downside protection, rather than purely equity-based Smart Beta strategies.



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Source: MFIE, DSP. Data as of September 2025. *Hybrid category flows = Hybrid flows – Arbitrage flows

The Tragedy of Commons

Picture an equity market open to all. It is natural that each investor will try to deploy as much capital as possible into the same set of popular stocks.

For long periods, this arrangement can appear to work: cycles, crashes, and liquidity shocks keep participation and valuations from running too far ahead of fundamentals.

But when stability, easy money, and optimism line up, the day of reckoning arrives.

At that point, the inner logic of the "market commons" starts to generate excess.

As a rational investor, each investor asks, "What is the payoff to me of adding one more unit of risk, one more trade, one more leveraged position in this rising market?"

The positive component is obvious: if prices keep going up, he captures almost the entire gain. That feels like +1. The negative component is less obvious: every extra rupee of speculative demand pushes valuations a bit higher, narrows future returns, and makes the market more fragile. But that cost is socialized. It is spread across all market participants. For any single investor, the negative utility is only a fraction of 1.

Add the two together and the rational conclusion is: keep adding risk. Add another high-beta name; add another momentum trade; add more leverage. And this is not the conclusion of one investor. It is the conclusion of every rational investor in a market that celebrates unfettered participation and infinite liquidity.

Therein lies the tragedy. Each participant is locked into a system that nudges him to increase exposure without limit. In a market whose underlying earnings, cash flows, and liquidity are very much limited. The destination is the same: a vulnerable, over-owned, over-valued market rushing toward a correction, each investor pursuing his own best outcome in a market-commons where the downside is shared.

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