

# NETRA

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## Early Signals Through Charts

October 2025





# What To Think When You Think About Gold & Silver

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# How To Value Gold & Silver

*Gold prices traded within one percent of the midpoint of the theoretical price framework; Silver has more room to run*

How To Value Gold		
Total mined Gold (above-ground stock in tonnes) <i>(Aug'25 estimate)</i>	1	2,18,065
Total mined Gold (Bn troy ounce)	2	7.01
US M2 Money Supply (USD Bn)	3	22,195.4
Value of total mined Gold per troy ounce w.r.t US M2	$4 = 3 \div 2$	3166
Additional EU Money Supply (taken at 50% of total) (USD Bn)	5	9243
Value of total mined Gold per troy ounce w.r.t EU M2	$6 = 5 \div 2$	1318
Final Value of total mined Gold per troy ounce	$7 = 6 + 4$	4484
<b>Approx Price Range for Gold</b>	<b>8</b>	<b>\$3166- \$4484</b>
Midpoint		<b>\$ 3,825</b>

Source: DSPNetra, Metals Focus, Refinitiv GFMS, US Geological Survey, World Gold Council



Source: DSP. Data as of September 2025.

How To Value Silver		
Current Gold Silver Price Ratio	1	85
Historical Gold to Silver Ratio	2	
The Roman Empire		12:1
Medieval Europe		9.4:1
US Coinage Act of 1792		15:1
US Decision To Raise Gold price to \$35 in 1939		98:1
Abandonment of Gold standard & aftermath		97.5:1
Average Gold to Silver Ratio in 21st Century		69:1
<b>Assuming a Gold to Silver Ratio of 60:1</b>	3	
Lower band		53
Upper band		75
<b>Derived price range for silver</b>	4	<b>\$53 to \$75</b>
Midpoint		<b>\$ 64</b>

Source: DSPNetra, Metals Focus, Refinitiv GFMS, US Geological Survey, World Gold Council

# Gold Prices Have Risen To Fair Valuation Based On Monetary Base

When the trend is kind to your portfolio, but the margin of safety is eroded, say, “thank you, but no thank you.”

This chart shows a timelapse of the theoretical price framework. Notably, in each bull market, gold trades at or above its long-term theoretical price. Currently, Gold is trading at \$3868, which is over the modelled theoretical price.

How is the theoretical price derived?  
(U.S. M2 + ½ EU M2) ÷ Total Gold Mined.  
*The assumption is that gold is money, so its value should roughly track the combined money supply of reserve-currency blocs.*

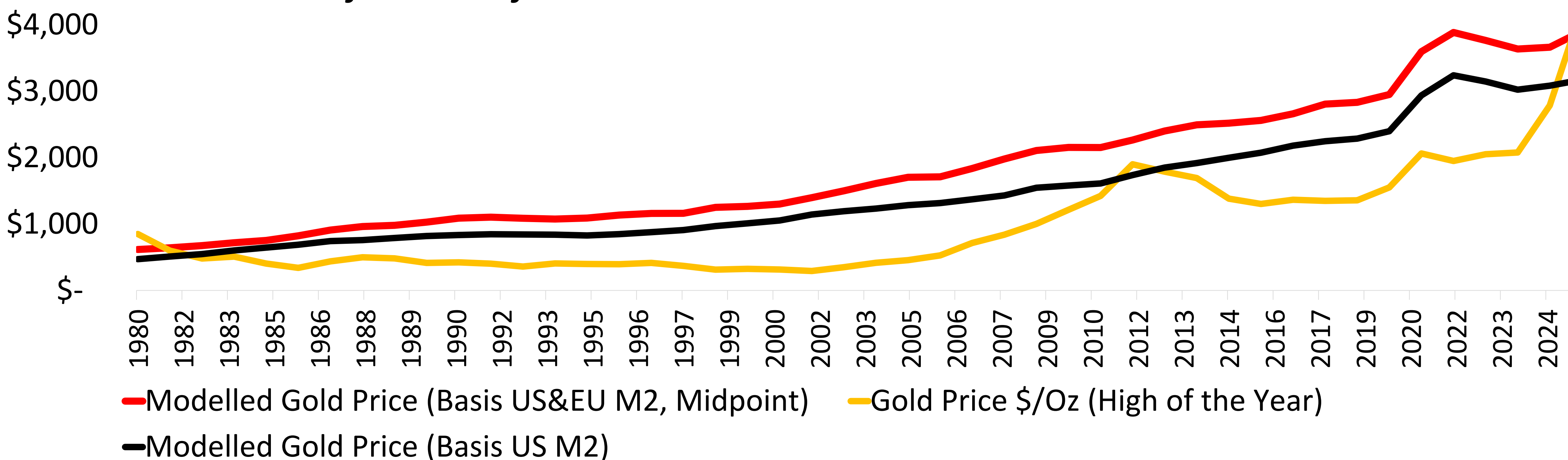
Why half of EU M2?  
To reduce double counting, since the euro area also holds gold and U.S. dollars as reserves.

What does the current framework tell us?  
After nearly four decades, price has risen to the midpoint of the theoretical range.

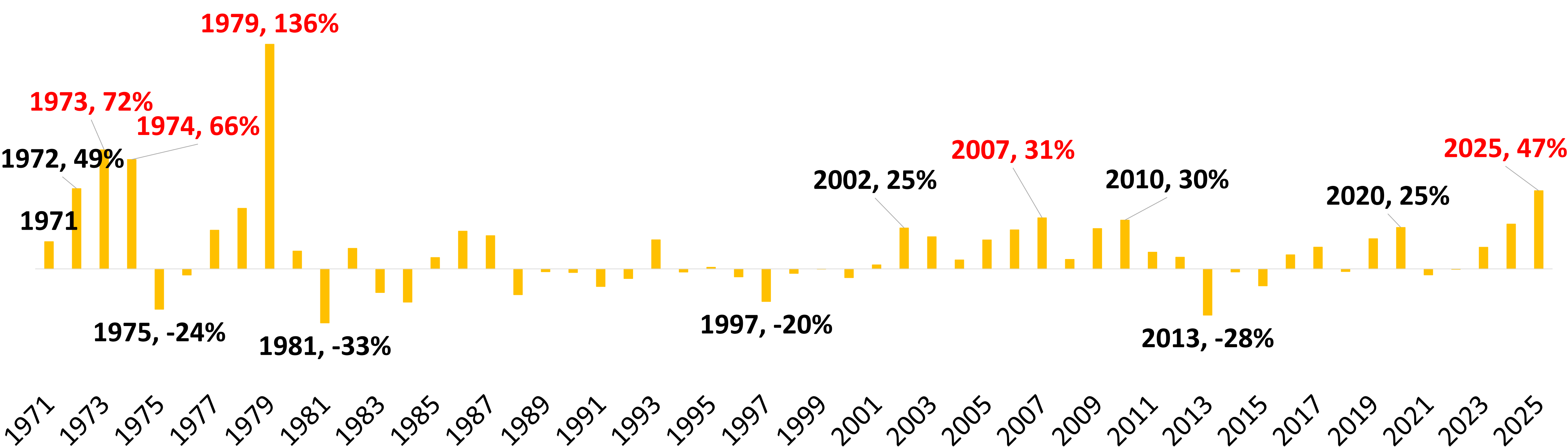
Can it go higher? Are we sure?  
Yes, it can. Certainty? No.

See the next slide to know the probable ways to act.

*This is the first time after 1980 that Gold Has Rallied Above The Modelled Price*



*2025YTD gain for Gold is now the highest on record after 1979 Hunt Brothers Silver Frenzy*





# How To Approach Gold & Silver- Time To Be Conservative?

Gold prices (LTP: \$3895) have rallied and exceeded the midpoint (\$3,825) of our theoretical price framework. Are there any red flags in the gold bull run? For now, no.

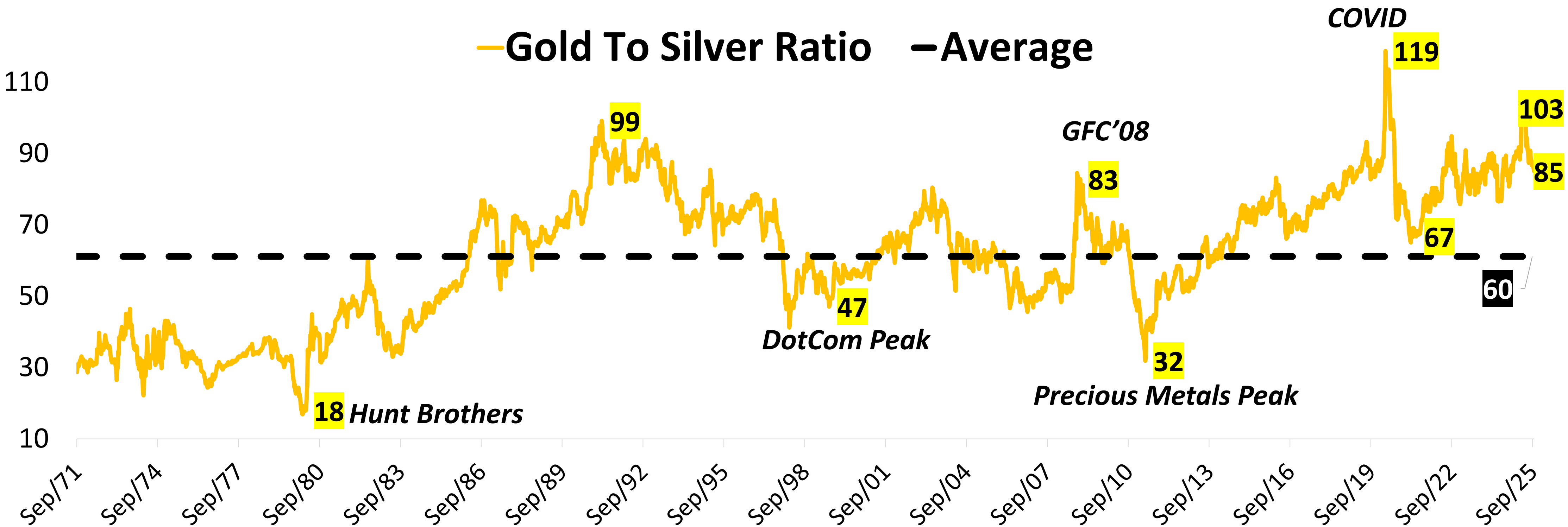
The current bull market is driven largely by central-bank purchases and is reflected in a weaker U.S. dollar and other currencies. Since the price has approached the fair-value zone, here’s how investors can think about gold allocation:

- 1. Do nothing and hold on: In past cycles (e.g., the 1980s), prices have run as much as 40% above the theoretical range, but this leaves investors dependent on market sentiment and with no margin of safety.
- 2. Reduce gradually: Trim about 5% per week to cut at least half (or more) of the overweight position i.e., **sell into strength between \$3860 to \$4000**. This is the time to turn conservative.

Silver still has room to close in on its theoretical midpoint at \$64. Taking some profits off from now (at \$47) to close to low end of \$53 is advisable. Ancillary exposures like gold miners no longer warrant an overweight and should be reduced to normalized weights or gradually phased out.

The gold bull market seems far from over, but it may pause for an extended period, and meaningful pullbacks could offer chances to add. We’ll watch for them.

*While Silver remains attractive, Gold 10Yr CAGR is approaching equity like returns. A rarity.*



			CAGR Returns			5 Year CAGR*			10 Year CAGR*		
Start Date	End Date	Period (Yrs)	Gold Returns	S&P 500 Returns	US Treasury Returns	Gold Returns	S&P 500 Returns	US Treasury Returns	Gold Returns	S&P 500 Returns	US Treasury Returns
Aug-76	Jan-80	3.4	85%	7%	5%	37%	15%	6%	-	-	-
Feb-85	Dec-87	2.8	22%	16%	12%	2%	17%	12%	12%	15%	11%
Sep-99	Mar-08	8.5	17%	1%	7%	24%	11%	5%	13%	4%	6%
Nov-08	Sep-11	2.8	42%	15%	6%	24%	0%	7%	21%	2%	6%
Dec-15	Aug-20	4.6	16%	14%	4%	14%	12%	4%	6%	14%	3%
Sep-22	Sep-25	3.0	30%	21%	3%	15%	17%	-1%	13%	15%	1%



# Gold Bull Market Faces It's First Hurdle?

During the 2000–2011 bull market, gold suffered a sharp 26% drawdown from its peak during the Global Financial Crisis (GFC). Although gold resumed its uptrend afterward, the global sell-off triggered forced selling in gold, especially by investors nursing losses elsewhere. The “sell what you can” dynamic drove the GFC crack in gold prices.

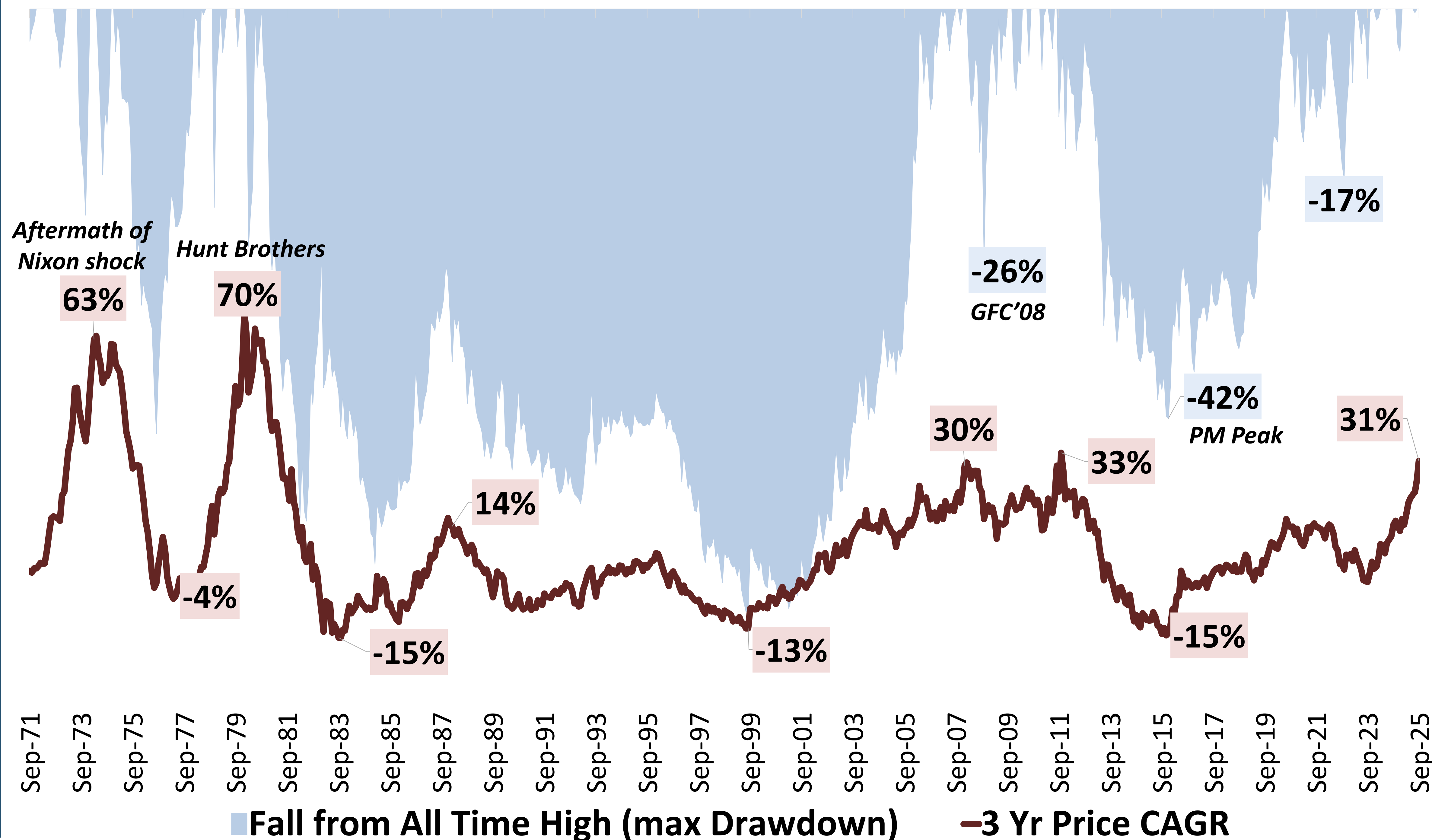
We don't know whether gold has peaked. Both the theoretical price framework and price momentum (3-year price CAGR) suggest the margin of safety is no longer present.

What is the utility of tracking the rolling CAGR? For one, it shows you the role of Gold as a store of value. Another signal that Gold as a store of value is close to fair price.

This is not a call on the end of the bull market, it may well continue, but steep drawdowns are possible.

Investors can still benefit from those drawdowns, if they stick to prudent asset allocation.

**Gold Prices See Large Drawdowns Even During Bull Markets.**  
**Since Nov'22 the max drawdown has been less than 8%**



# Gold’s Domination In the 21<sup>st</sup> Century Is Now Complete

*Gold is now outperforming ALL major equity markets across the world. A big feat for a non-yielding asset.*

Developed Markets (returns in 21st century)*	Equity Market Returns (In Local currency)	Gold Returns (in Local Currency)	Gold’s Excess Returns over Equity Market
Japan	4.9%	12.2%	7.3%
UK	4.6%	11.3%	6.7%
France	4.1%	9.9%	5.8%
Canada	7.8%	10.3%	2.5%
USA	8.0%	10.5%	2.5%
Australia	9.8%	10.5%	0.7%

Country	Index	Gold Returns in 20 Years	No. of stocks outperforming Gold	% of stocks outperforming Gold <sup>#</sup>
India	NSE 500	14%	162	35%
USA	S&P 500	11%	34	7%
UK	FTSE 100	11%	3	3%
Japan	Nikkei 225	12%	6	3%
China	CSI 300	10%	82	30%

*# Percentage of stocks outperforming gold, excluding adjustments for mergers and acquisitions.  
Note: Change in market cap is considered for stock’s outperformance. Indices’ portfolio taken from Bloomberg.*

Emerging Markets (returns in 21st century)*	Equity Market Returns (In Local currency)	Gold Returns (In Local currency)	Gold Excess Returns over Equity Market
Turkey	21.1%	30.8%	9.6%
Argentina	36.9%	46.1%	9.2%
Brazil	8.7%	15.2%	6.5%
Malaysia	5.0%	10.9%	5.9%
Poland	4.8%	10.0%	5.2%
Chile	8.5%	13.1%	4.6%
South Korea	7.0%	11.4%	4.4%
China	6.2%	9.8%	3.6%
Mexico	10.8%	13.4%	2.6%
Hungary	9.8%	11.7%	2.0%
South Africa	14.0%	15.0%	1.0%
India	13.3%	13.6%	0.3%

## Economic Growth Is In The Slow Lane



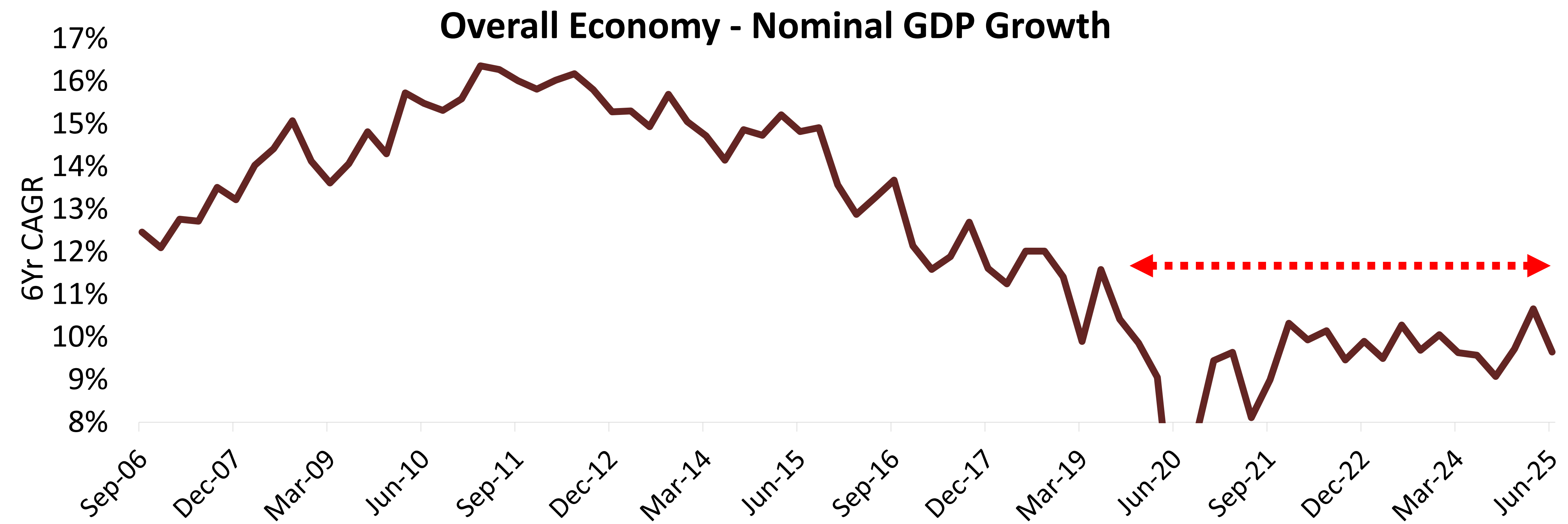
# Nowhere To Hide In India's Growth Story

India's latest GDP print may look respectable, but the nominal story is far less flattering. Over the post-Covid years, nominal growth has averaged just 9.6%. Strip out 4–5% inflation, and the underlying volume growth is closer to 6%.

The weakness isn't confined to one part of the economy. Consumption remains soft despite households taking on more debt. Govt spending has provided support, but it can't carry the load indefinitely. Investment, meanwhile, sits at the mercy of corporates. And even with balance sheets in strong shape, companies don't see the environment as compelling enough to commit.

The external side is also losing some shine. Services exports and remittances, longstanding strengths, are showing cracks. Remittance flows are increasingly driven by Indians in tech and finance working in the US, UK, and Singapore. But these very sectors face global headwinds, casting doubt on the durability of those inflows. Oil-linked remittances, by contrast, have grown only slowly as real oil prices have flatlined for two decades.

Put together, India's slowing domestic growth at a time when external sector is slack is a headwind for the corporate topline and for the Rupee.



External Sector				
		FY05-FY25	FY05-FY15	FY15-FY25
Net Inflows	Services	13%	17%	9.4%
	Software services	12%	15%	8.5%
	Transfers: Private	9%	12%	6.5%
Inflows	Services	12%	14%	9.4%
	Software services	12%	15%	9.5%
	Transfers: Private	10%	13%	6.8%

# Real Economic Growth Hasn't Responded Well To Credit Revival

CAGR			CAGR		
Segment Loan Growth			Segment Demand Growth		
FY14-FY20 FY20-FY25			FY14-FY20 FY20-FY25		
Industry Loans	2.7%	6.0%	6.4%	5.5%	Manufacturing GVA*
Personal Loans (ex housing)	19.4%	20.3%	6.8%	5.2%	Private Final Consumption Expenditure*
Housing Loans	16.7%	13.0%	8.1%	14.3%	Household GFCF
Vehicle loans	21.3%	12.9%	2.7%	3.5%	Vehicle Sales Volume
Consumer durables loans	3.9%	7.8%	1.2%	1.5%	IIP: Consumer Durables
Services loans	12.2%	14.1%	7.9%	5.2%	Services GVA*
Priority Sector: Export Credit	-13.4%	-8.6%	0.0%	6.9%	Goods Exports

## How Well Has The Loan Growth Established Into Demand Growth

Manufacturing GVA growth has barely moved even as credit growth has doubled, with loans to MSME rising 15% to 30%.

Despite poor wage growth, households have based much of their consumption on leverage. The household borrowing has dwarfed the actual consumption growth.

Housing sales have picked up post-pandemic, but housing loans haven't. Likely, stock market gains are being diverted into real estate. If equities fall, housing, could too.

The growth here majorly comes from SUVs. Two-wheelers have particularly suffered. The growth is concentrated in the premium segment of the market.

While loan growth has doubled across the 2 periods. This segment has hardly seen any uptick in volume of production, which eventually hinges on lack of demand.

After the post-Covid demand surge, the slowdown has been felt most by the average consumer. This is also the segment where the deepest cuts in consumption tend to occur.

Exports growth is anemic.



# Valuations, Relative Performance by Market Cap

# LARGEST Caps Are Relatively Better Priced

This table divides the universe by Market Cap and sectors. As is visible, the largest firms are priced better on valuations versus rest of the market.

SMIDs continue to trade at premium across sectors, especially cyclicals. SMIDs in sectors like Auto & Auto Ancs, Construction, Realty, Capital Goods and industrials are trading at expensive valuations.

A purely bottoms-up approach to stock picking can bring forth the pockets of opportunity and mispricing.

Broadly, the margin of safety remains low. This is especially the case with firms where valuations are high versus history and ROEs remain low and vulnerable.

Caution is warranted.

Sectors	Valuation Metric	LARGEST	Large	Mid	Small	Micro
Oil, Gas & Consumable Fuels	EV/EBITDA	7	6	21	19	15
Telecommunication	EV/EBITDA	12	--	71	29	85
Construction Materials	EV/EBITDA	26	16	16	61	15
Power	EV/EBITDA	11	18	21	8	16
Capital Goods	EV/EBITDA	29	46	43	33	17
Metals & Mining	EV/EBITDA	15	9	13	15	13
Financial Services	P/B Ratio	3	4	4	6	13
Information Technology	P/E Ratio	22	32	41	47	48
Fast Moving Consumer Goods	P/E Ratio	53	67	59	45	37
Automobile and Auto Components	P/E Ratio	30	43	52	46	39
Construction	P/E Ratio	33	--	61	29	33
Healthcare	P/E Ratio	34	51	58	68	67
Consumer Services*	P/E Ratio	112	86	218	173	62
Services	P/E Ratio	30	--	82	40	33
Consumer Durables	P/E Ratio	71	134	71	59	47
Realty	P/E Ratio	--	41	64	91	41
Chemicals	P/E Ratio	--	85	59	43	49
Textiles	P/E Ratio	--	--	54	24	34
Others#	P/E Ratio	--	--	47	35	22



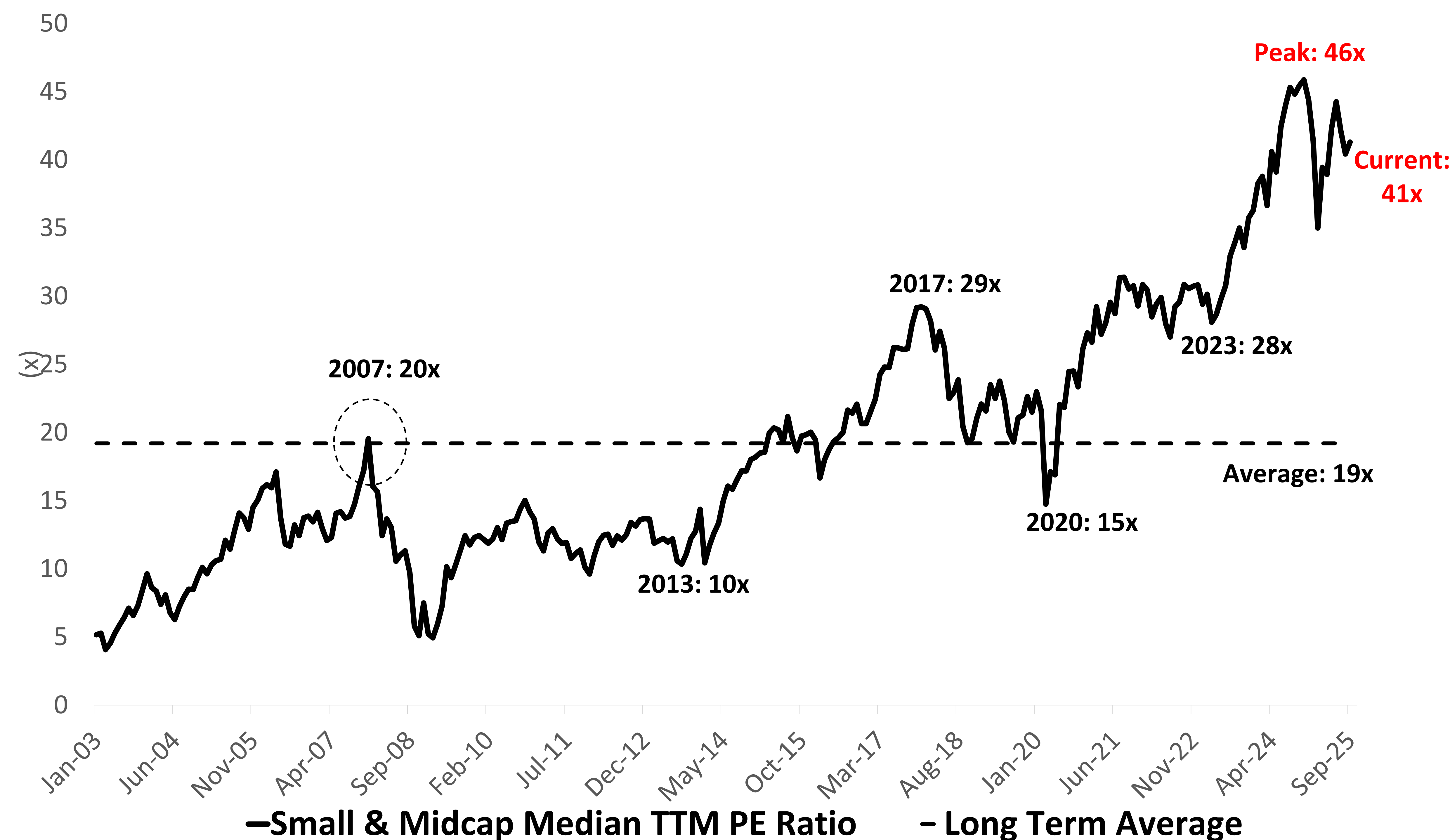
# SMIDs Median Valuations Are Frothy, Beware!

The median earnings multiple for Small & Midcap stocks craters during bear markets. In the past bear markets, the median SMID multiple has declined to low-to-mid single digits where SMIDs became exceptional opportunities for long term investors.

The re-rating for SMIDs which began post COVID has caused the median multiple to rise to unprecedented levels. (On a side note, this is another instance which shows that market keeps surprising investors).

The long-term median multiple for SMID universe now stands at 19x. If an investor were looking at this multiple in 2007, it would have appeared highly inflated but is now just the average.

If the market undergoes a capitulation event, rising earnings and panic selling brings these multiples to levels at which SMIDs become bargain buys. Watch out!



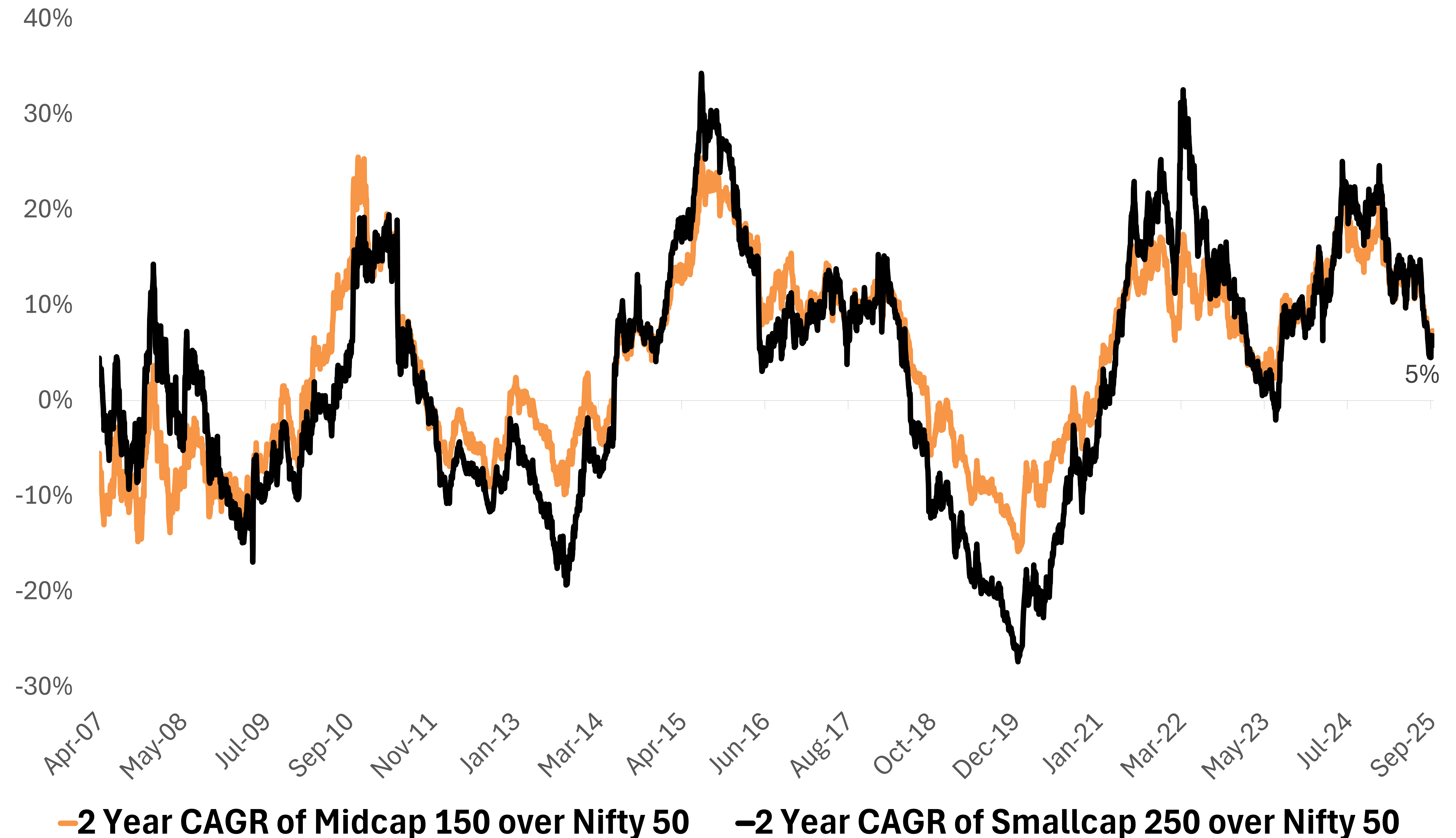
# SMIDs Outperformance Vs Large Caps Is Losing Momentum

In mid-2024, SMIDs (small & mid caps) peaked in their outperformance versus large caps. A six-month decline in SMIDs' relative performance ended in February 2025, followed by another six months of gains.

The broader trend and historical data still suggest that large caps are likely to outperform SMIDs unless valuation and price-froth differentials normalize.

This normalization may take time, as sub-par SMID performance begins to pinch investors who were willing to pay "any price" for smaller firms' stellar past returns.

The SMIDs-versus-large-caps cycle is tied to investors' greed-and-fear psychology and is likely to repeat, in varying degrees, over time.





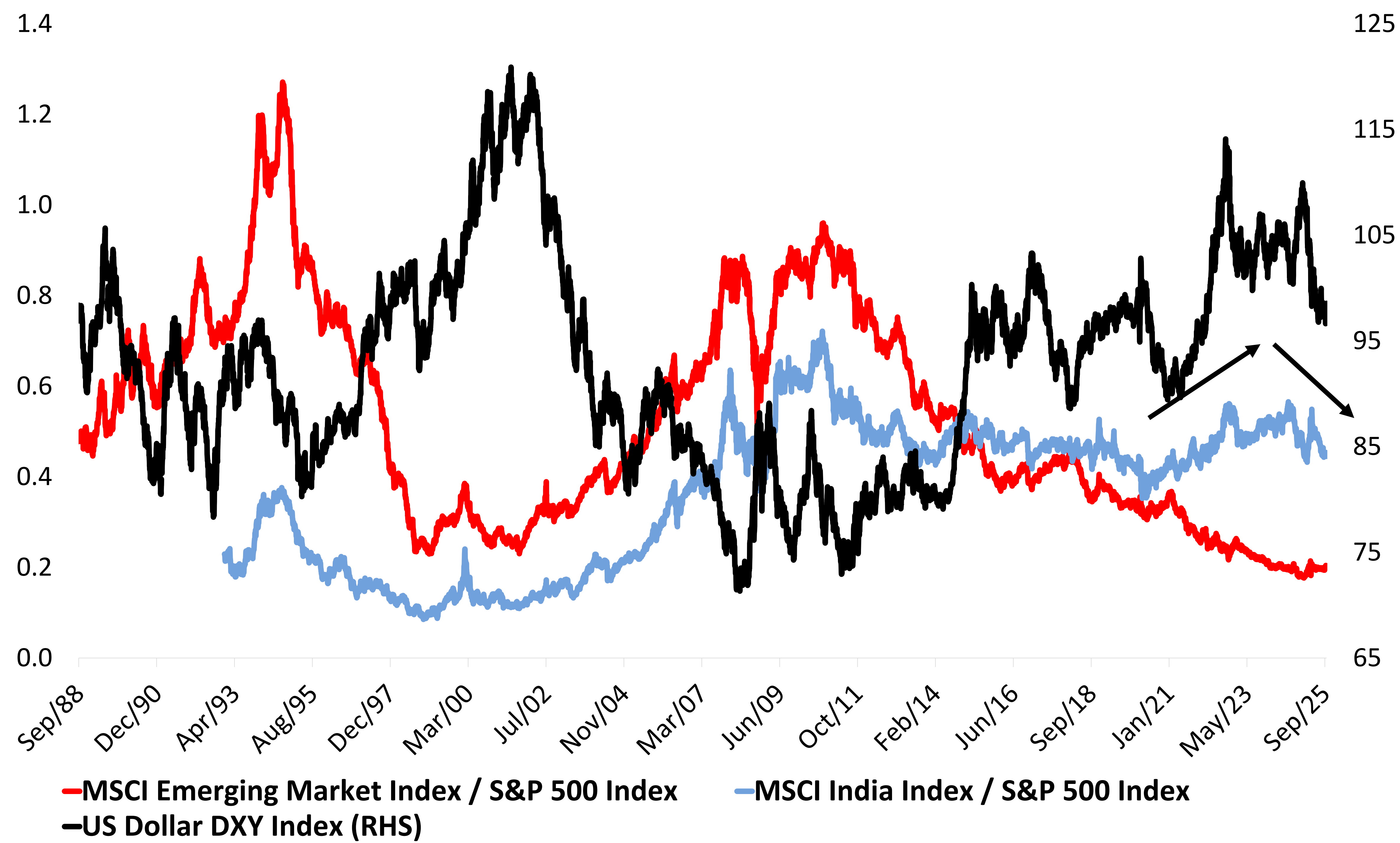
# India's Outperformance Gap Vs Emerging Markets Reversing

From the COVID bottom until Oct'24 India outperformed the emerging markets and S&P 500 by a large margin. Even amidst a rising USD Index, India kept its outperformance trajectory steady.

A large part of underperformance of Emerging markets was attributed to the underperformance of China. Over the last few months, China has outperformed almost all emerging markets. However, EMs are still underperforming the S&P 500 Index. This is now the 15<sup>th</sup> year of continuous deterioration in performance of EM vs US, punctuated by short bouts of upticks.

The differential in valuations between US and rest of the world, especially EMs, it is quite likely that the red line in the graph (EM vs US) would rise with a decline in US equities rather than the other way around.

In Oct'24, India's Outperformance Peaked and Began Its Journey of 'Reversion to Mean'



# The Illusion Of Stability In Unstable Times

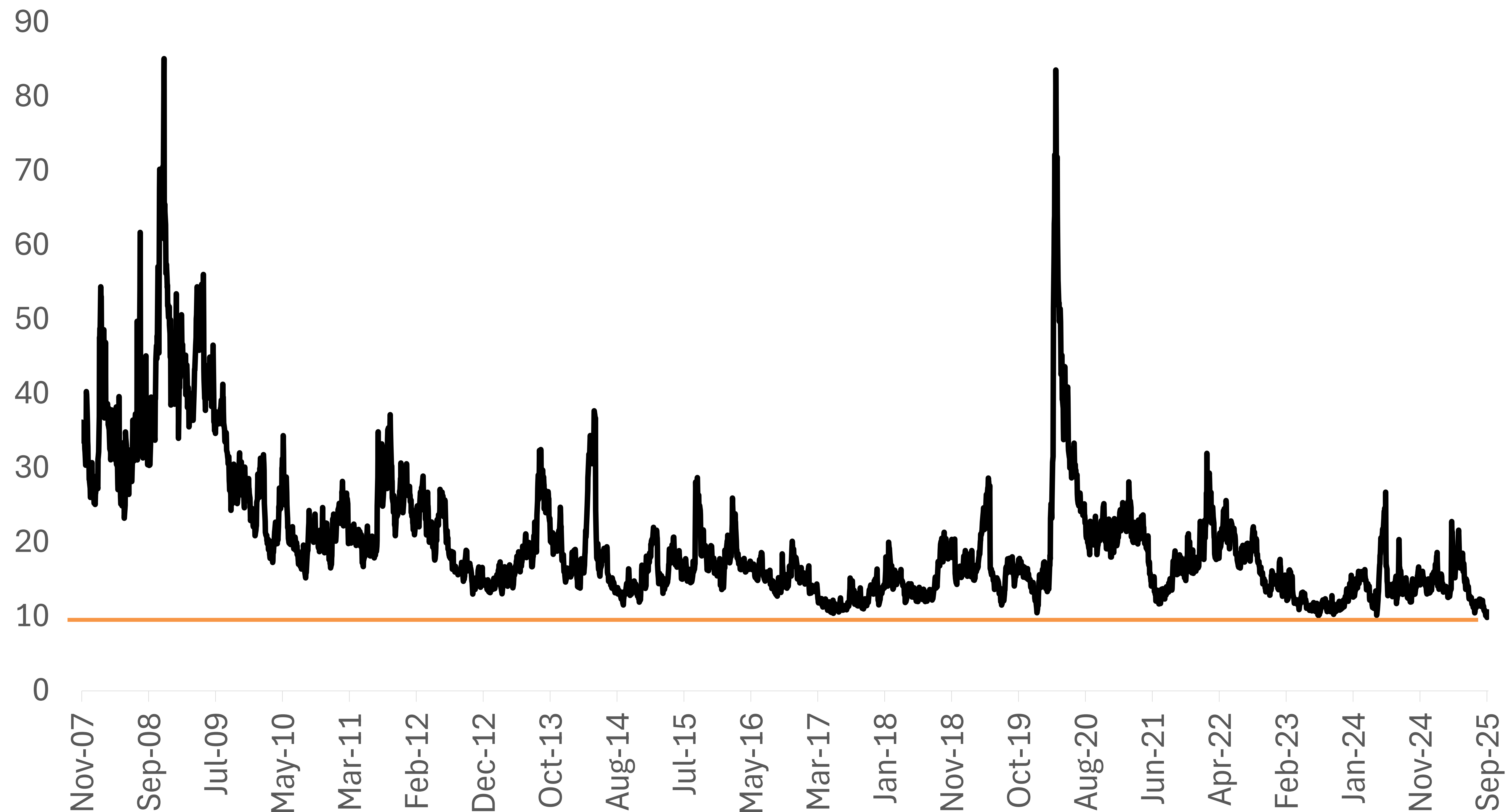
Current Market scenario:

- 1) Valuations remain elevated
- 2) Visibility on earnings growth is limited
- 3) Currency at an all time low
- 4) Geopolitical tensions continue to add uncertainty

Yet, despite these headwinds, the VIX is trading at record lows, reflecting one of the highest levels of complacency in Indian markets. This suggests that participants largely believe the market will navigate these challenges without significant disruption.

However, in such an environment, an unknown event could trigger heightened volatility, driving markets on sentiment and noise rather than fundamentals. While markets can remain irrational for extended periods, the confluence of these factors calls for a heightened degree of caution.

## India VIX At One of The Lowest Readings On Record





# The IT Sector Is Getting Close To Average Valuations

Nifty IT Index is down 27% from its Dec 2024 high and is back to the price it traded at in August 2021, completing more than four years of consolidation.

The largest IT firm, TCS, has delivered a 4% price CAGR since its October 2018 peak and has declined to levels last seen in October 2020. Earnings-growth projections for the sector are undergoing rapid cuts. AI adoption is raising serious questions about the future of these businesses, at least, that’s the narrative.

In hard numbers, IT firms continue to hold strong margins and large caps now trade at average valuations. The missing piece is earnings growth. When the business cycle is at its worst, growth visibility is poor and bad news is commonplace. These are the times that allow investors to hunt for bargains.

If the Nifty IT Index were to decline another ~15%, it would become a bargain. For now, it presents an attractive, albeit relative, way to add equity exposure, in tranches.

Company Name	PAT Growth (10 Year CAGR)	EPS Growth (10 Year CAGR)	Change in No. of Shares	Current P/E	Post Covid Average P/E	10 Year Average P/E
Wipro	4%	7%	-3%	18.5	21.0	18.3
TCS	9%	12%	-2%	21.5	29.0	24.4
Infosys	8%	10%	-2%	22.2	25.4	20.7
HCL Technologies	10%	11%	-1%	22.3	20.6	17.0
Mphasis	10%	12%	-2%	30.0	28.1	22.3
Tech Mahindra	5%	6%	-1%	29.4	25.3	19.6
Coforge	22%	23%	-1%	56.8	45.7	32.2
Persistent Sys	17%	18%	-1%	51.3	44.7	31.6
Oracle Fin. Serv.	7%	7%	0%	31.5	20.4	19.0

# Nifty IT Index – At Relative and Rolling Worst Vs Nasdaq

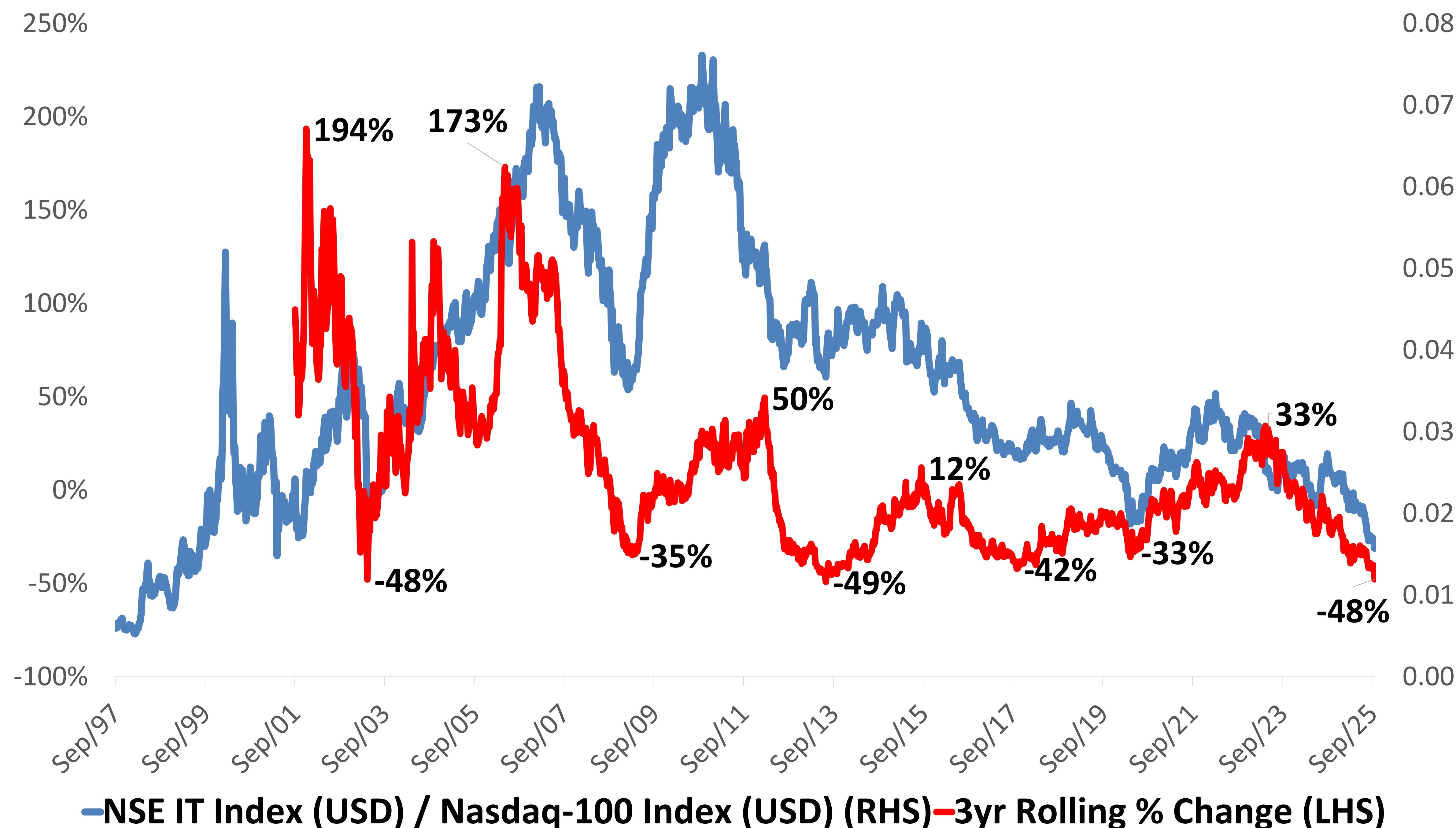
Nifty IT Index is at its relative (price) and rolling three-year performance worst versus the Nasdaq. The U.S. tech-heavy index has outperformed India's Nifty IT since mid-2023, when the AI frenzy began.

Right now, both the AI frenzy and the doubts about Indian IT feel euphoric. While it's impossible to know whether this is the trough or more pain lies ahead for Indian IT, it's a good time to consider doing the opposite—choosing Indian IT firms over U.S. tech.

The Nasdaq, driven by the big tech cohort, now has its highest weight in global equity markets, while Indian IT has its lowest weight in the Nifty and in global indices.

The choice is clear: overbought, overowned, and overvalued U.S. tech; or underowned, oversold, and not yet undervalued (perhaps close to fair value) Indian IT.

## Indian IT Stocks Are Now Underperforming Nasdaq By 48% On A Rolling 3-Yr Basis





# An Early Warning Signal – Stocks Bought On Margin

Margin Trading Facility (MTF) has compounded ~101% between FY20–FY25, as subdued volatility and easy broker financing encouraged investors to use leverage. MTF lets investors buy equities by paying only a margin; the broker funds the balance against pledged collateral and charges interest.

Loans against securities (LAS), credit secured by shares/units, has also surged. NBFC LAS (especially broker-owned and capital-markets NBFCs) has grown ~28% CAGR since FY20, while bank LAS has risen steadily.

The overall ‘leverage’ linked to stocks is now close to the high of 2007-08. It should be noted that prior to 2009, promoter pledging was not reported. Loan against shares by NBFC wasn’t reported as a line item. Leverage was rampant through brokers and unregulated entities. Today’s the structures are clearer and cleaner.

Why it matters: higher system leverage amplifies drawdowns. When prices fall, collateral values drop and haircuts rise, triggering margin calls and forced selling. The result is pro-cyclical de-leveraging that can deepen and extend downside moves.

**How to read this:** Outstanding MTF + LAS implies ~₹2.4–₹2.8 lakh cr of collateral at typical LTVs. Relative to “client” holdings, that’s ~5% depending on definition (direct individuals ~10% of market wide mcap). NBFC LAS is capped at 50% LTV by RBI; MTF margin is VaR/ELM-based (not a flat 50%). A ~15% equity market drawdown can trigger margin calls/forced selling, amplifying downside.

## Securities Purchased On Borrowed Funds On The Rise

Date	MTF (₹ Cr)	LAS book of Banks(₹ Cr)	LAS book of NBFCs (₹ Cr)
FY05	31		
FY06	125		
FY07	139		
FY08	221	4,075	
FY09	145	2,287	
FY10	215	2,860	
FY11	134	2,880	
FY12	119	3,000	
FY13	84	3,100	
FY14	36	3,800	
FY15	65	5,434	
FY16	77	6,419	7,669
FY17	84	4,750	12,782
FY18	4,137	5,556	16,092
FY19	3,522	6,456	15,723
FY20	3,061	6,188	7,940
FY21	12,084	5,587	8,304
FY22	23,975	6,807	11,473
FY23	24,918	7,633	13,389
FY24	54,503	8,492	21,780
FY25	68,070	10,080	26,136
Sep-25	99,628	10,584	27,443
% CAGR Since FY20	101%	11%	28%

Source: RBI, NSE, DSP

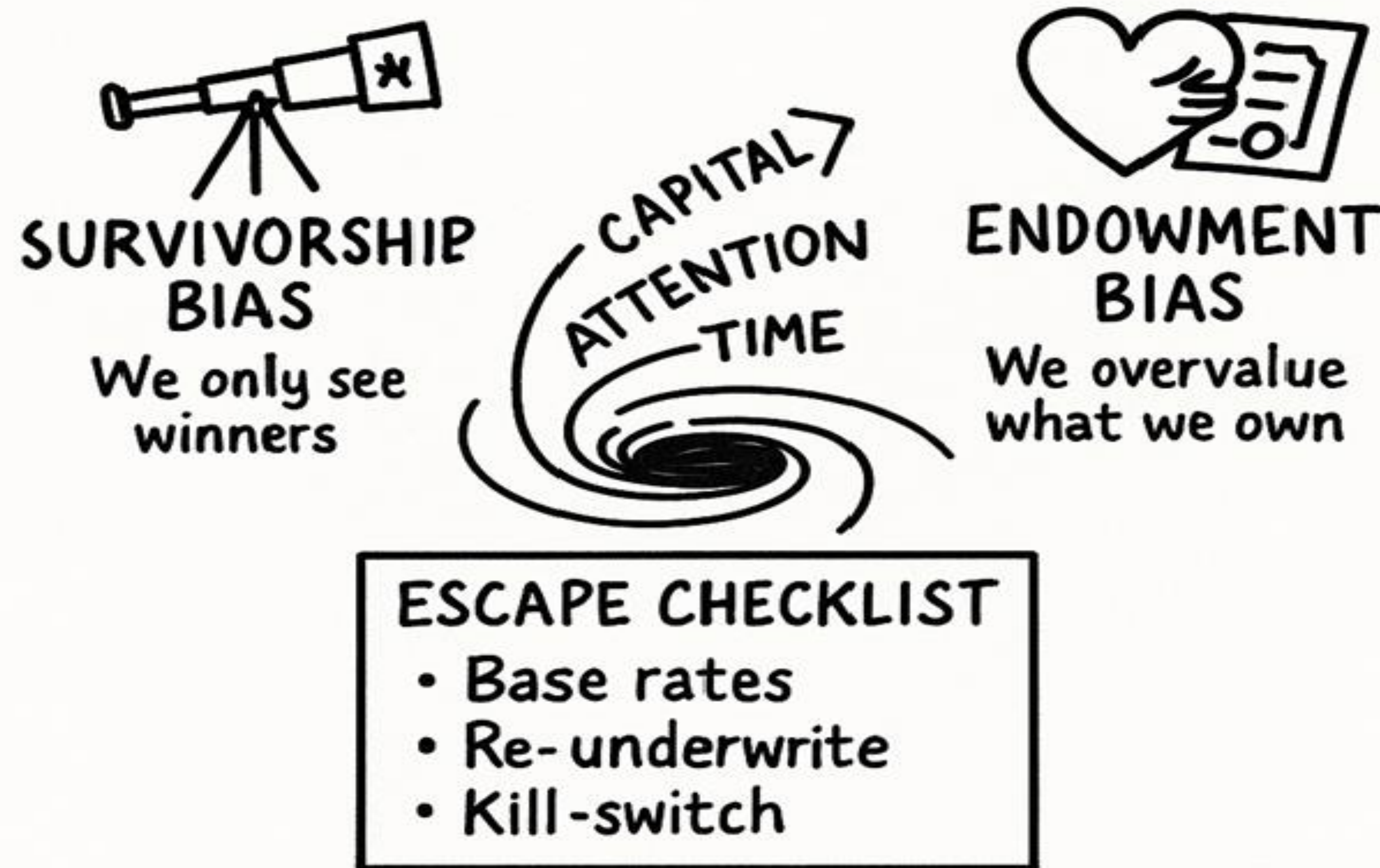
**Note:** LAS = loans secured by shares/units (bank and NBFC books); MTF = broker financing against pledged collateral  
**LAS book at the peak of 2007 was estimated to be ~Rs. 30,000 Cr (as per author’s written notes, no structured data is available).**



“The investor's chief problem – and even his worst enemy – is likely to be himself.” - Ben Graham

## SURVIVORSHIP BIAS + ENDOWMENT BIAS

### THE INVESTING BLACK HOLE







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