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BETWEEN THE RATE CUTS AND THE RISKS: A FRAMEWORK THAT HOLDS

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Across markets and economies, a quiet recalibration is underway. Inflation is cooling—but the world is far from calm, and fragility is just beneath the surface due to geopolitical and tariff related uncertainty.

Now, the core data sets the stage:

- Headline inflation across OECD economies eased to 4.2% in April 2025, the lowest in nearly three years, while core inflation remained elevated at 4.6%, underscoring that pricing pressures are cooling—but underlying volatility persists.
- The IMF (International Monetary Fund) projects global inflation declining from 5.9% in 2024 to around 4.5% in 2025, even as headwinds from protectionist policies and fiscal strain reshape global trade.

But behind these numbers lies the deeper question: can investors plan with confidence in a world that appears to be settling—but isn't? Stability remains relative. True advantage will go to those who can adapt swiftly. And clarity today begins with how portfolios are built.

India's Economy: A Steady Ship Amid Geopolitical Tempests

India's retail inflation hit a six-year low of **2.82% in May 2025**, down from 3.16% in April 2025. The RBI remains optimistic—in both its minutes and its monthly bulletin—about sustaining inflation under its 4% target through FY26 (RBI estimate for FY 26 is 3.7%). Its recent policy actions—including a **50-bps rate cut in June, bringing the repo rate down to 5.5%, and a 1% CRR (Cash Reserve Ratio) reduction—are expected to infuse approximately ₹2.5 trillion in liquidity.** We believe the RBI is using this opportunity to **strengthen structural credit growth and expand potential GDP.**

To us, this marks the beginning of a new RBI—one that prioritizes not only the current business cycle but also India's long-term growth potential.

Despite global pressures, India's high-frequency indicators show resilience across **industry, services, and agriculture,** supported by the RBI's "data-dependent" approach to sustaining growth under stable price conditions.

Investment Challenge? Striking the Right Balance!

In this period of **moderating inflation, easing policy,** and global uncertainties, investors face a dual mandate: preserve capital and capture long-term growth. A **static, one-size-fits-all portfolio won't suffice.**

Strategic asset allocation is anchored in discipline. It ensures that investors remain committed to their long-term plan regardless of short-term market movements.

Broadly, there are three key approaches to asset allocation:

1. Strategic Asset Allocation: The Long-Term Core

This approach is built on a **pre-defined mix of asset classes,** aligned to an investor's long-term goals, time horizon, and risk profile. Once set, the allocation typically stays stable, with **periodic rebalancing** to maintain proportions.

Strategic asset allocation is **anchored in discipline.** It ensures that investors remain committed to their long-term plan regardless of short-term market movements. This approach works well for those who:

- Have a clear sense of their investment goals and timeline
- Prefer consistency and minimal intervention
- Are focused on building wealth steadily over the long run

By setting a strategic framework upfront, investors can avoid reacting emotionally to market noise — which is especially valuable in today's macro environment of mixed signals.

2. Tactical Asset Allocation: Built for Flexibility

Tactical asset allocation allows for **short- to medium-term shifts** in the portfolio based on market trends, economic indicators, or specific opportunities. While the long-term goal remains the same, the path to get there is adjusted more actively.

This is where **do-it-yourself investors** often create their own adaptable frameworks. One such model includes three essential layers:

- **Emergency Liquidity**
  A reserve set aside to cover **several months of essential expenses,** held in low-risk, highly liquid instruments. This foundation isn't about returns—it's about **readiness when life takes an unexpected turn.**

- **Stabilizers**
  Typically a **modest allocation to assets like gold,** which tend to lowly co-relate with equities. These components can act as cushion—**preserving value when market sentiment turns.**

- **Growth Drivers**
  The majority of the portfolio can be anchored in **well-diversified equity strategies,** across categories such as value, large cap, and small cap through active funds or ETFs / passive funds. This layer is designed to **capture long-term economic opportunity** while navigating market cycles.

This approach allows investors to make **informed, tactical shifts** based on evolving market dynamics — without abandoning the core allocation philosophy.

3. Dynamic Asset Allocation: A Tool with the Fund Manager at the Wheel

Think of this as an **asset allocation tool where the fund manager is in the driver's seat**—constantly assessing, adjusting, and rebalancing the mix of assets in response to real-time market conditions.

Dynamic Asset Allocation is neither fixed like strategic models, nor entirely investor-directed like tactical DIY portfolios. Instead, it blends structure with adaptability, often through **Multi Asset Allocation Funds (MAAF)** that aim to:

- Allocate across multiple asset classes—**equity, debt, gold, or others**
- Adjust exposures dynamically based on valuation signals, risk metrics, or macro triggers
- Provide professional oversight and automatic rebalancing, reducing the need for investor intervention

For investors who want a **hands-free yet responsive portfolio,** this approach offers a ready-made way to stay diversified while adapting to evolving risks.

By staying disciplined, diversifying with intent, and building in flexibility, investors can navigate today's uncertainty—now and tomorrow.

Why This Matters Now

India's macro landscape is relatively stable in today's chaotic world.

But globally, uncertainty hasn't eased. Trade friction, supply-side challenges, and geopolitical risks continue to pressure markets and sentiment. In this environment, portfolios must be built for **resilience, not just return.**

Amid these global crosswinds, **India continues to stand out.** Q4 FY25 GDP growth came in at **7.2%—above expectations.** With a good monsoon season and stronger sowing cycle, a rural pickup could act as a **further booster to the economy.**

This makes asset allocation more than a strategy—it becomes a necessity. A balanced mix of liquidity, gold, and equity is the foundation investors require in 2025 and beyond.

Seemant Shukla is a veteran in the BFSI sector with over 24 years of experience in Banking, Insurance, Wealth, AMC, and Distribution. He has over two decades of experience handling multi-channel businesses, including Branch Banking, Digital, Distribution, and IFA/MFD.

He was previously associated with ICICI Group, Reliance General, Dhanlaxmi Bank, and JM Financial AMC before joining Quantum Asset Management Company. He has also spent ten years with the Edelweiss Group as part of Edelweiss AMC until 2018. He was then elevated to set up the HNI and Mass Affluent Wealth business at Edelweiss from the ground up.

He holds an honorary role as a Board Member of the Board of Studies at the Institute of Management Technology (IMT-CDL), Ghaziabad. Previously, Seemant was also a member of the AMFI ARN Committee.

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