Index, small cap or global funds? Here's how mutual fund investors can plan for 2025

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With international funds offering the highest return and investors chasing small cap funds in 2024, experts believe that investors should invest with a 7–10-year investment horizon using a combination of flex cap funds, index funds and international funds through a SIP/ STP strategy for 2025.

Among the equity mutual funds, the top three performers were international funds. Mirae Asset NYSE FANG+ETF Fogh and Mirae Asset S&P 500 Top 50 ETF FoF offered 88% and 66% returns respectively in the current calendar year. Motilal Oswal Nasdaq 100 FOF delivered 58% return in the said period.

“Investors in equity funds should invest with a 7-10 year investment horizon using a combination of flex cap funds, index funds and international funds through a SIP/ STP strategy. They should be prepared for significant volatility on the back of both an earnings slowdown and global events,” recommends Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

Another expert recommends that investors with a balanced approach should focus on hybrid equities as equities can drive growth whereas fixed income and precious commodities could provide stability and diversification.

“For an investor with a moderate risk appetite, a balanced approach focusing on hybrid equities is advisable. Equities can drive growth, while other asset classes like fixed income and precious commodities (Gold & Silver) could provide stability and diversification. Aggressive Hybrid funds (a mix of equity and fixed income) or Multi Asset Allocation funds (including equity, fixed income, gold, and silver) would be suitable options to achieve both growth and risk diversification,” recommends Krishna Sanghavi, CIO, Mahindra Manulife.

Index funds and ETFs

Motilal Oswal BSE Healthcare ETF offered around 41% in the current calendar year. CPSE ETF and Mirae Asset S&P 500 Top 50 ETF gave 37.80% and 37.01% returns respectively in the said period. SBI Nifty Next 50 ETF and HDFC NIFTY Next 50 ETF posted a return of 35.88% and 35.80% respectively in the above-mentioned period.

Small cap funds

Motilal Oswal Small Cap Fund offered the highest return among all small cap funds available in the said period. Bandhan Small Cap Fund delivered 43.17% return in 2024. LIC MF Small Cap Fund offered 40.54%, followed by Invesco India Smallcap Fund which gave 37.51% return in the current calendar year.

Flex cap funds

Motilal Oswal Flexi Cap Fund offered the highest return among all flexi cap funds in 2024 of around 44.63%. Invesco India Flexi Cap Fund delivered 34.80% in the said period. JM Flexicap Fund gave 33.15% return in 2024.

Midcap funds

Among all mid cap funds, Motilal Oswal Midcap Fund offered the highest return of around 55% in the current calendar year. Invesco India Midcap Fund gave 43.20% return in the same period. HSBC Midcap Fund posted a return of around 38.82% in the said time period.

With these funds delivering this performance, Vishal Dhawan advises that investors should not go by past performance of mid and small cap funds and should be cautious of the valuations. Further, it will be a good idea to allocate 80% in domestic mutual funds and 20% in international funds.

“Investors should not get carried away by the past returns of mid and small cap funds and be aware that valuations in that space are significantly over long term averages. It may be a good idea to consider allocating 80% to domestic mutual funds and 20% to international funds. Within the 80% domestic allocations, a combination of index funds, flexicap funds and smart beta / factor funds can be considered,” recommends Vishal Dhawan.

“Considering that equity markets continue to be overvalued at this point vis a vis historical valuation, for investors investing in equity funds, a SIP or STP strategy is suggested. For investors considering investing in hybrid funds, lumpsums can be considered,” he further added.

Another expert recommends that investors should start investing through a balanced advantage or multi asset allocation funds. Among pure equity funds, a large cap fund appears to be a good bet.

“Investors should start investing through a dynamically managed BAF or Multi Asset Allocation Fund. If looking for a pure equity fund, a large cap fund with high active weights also appears to be a good strategy- as large caps offer good risk reward balance as of now,” recommends Nimesh Chandan, CIO, Bajaj Finserv AMC.

Another expert thinks that maybe a 40-40% allocation in balanced/hybrid/multi asset funds and core diversified categories will work and the rest allocation should be made in small cap and sectoral funds.

“The asset allocation may be 40% in Balanced/Hybrid/multi asset funds, another 30-40% in core diversified categories like large caps coupled or Large and Midcap, and the remaining in small cap/sectoral funds (Banking/Healthcare). However, it also depends on every investor’s risk appetite and goals to be achieved. Investors are advised to consult their financial advisors before investing,” recommended Rahul Singh, CIO – Equities, Tata Mutual Fund.

Investors should always consider their risk appetite, investment horizon, and goals before making any investment decision.