

Nifty Bank hits 57,000. Is it time for mutual fund investors to bet on banking funds?

By Surbhi Khanna, Published on 10th June 2025



With Nifty Bank crossing the 57,000 mark to hit 57,049 on Monday, a market expert mentioned that the recent rally has been fueled by robust earnings growth, improved asset quality, and attractive valuations in the banking sector. Banks are now seen as reasonably valued, offering a margin of safety for investors.

“If you look at the numbers, the banking sector's Q4 consolidated net profit stood at a historically higher level. Notably, bank earnings contributed over a third of all listed companies' total profits. Furthermore, Net Non-Performing Assets (NNPA) are at historic

lows,” Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai, shared with ETMutualFunds.

“Tax and interest rate cuts are likely to boost consumption, credit demand is expected to rise. Higher consumption could drive stronger loan disbursements,” he added.

The banking index closed at 56,839, down marginally by 0.37% from the day's high level. The Nifty Bank index has surged by 16.66% in the last three months, whereas it went up by 5.73% in the last six months.

In the last year, the banking index has gained 13.60%, and in the current calendar year, it has gone up by 11.24%.

Commenting on current allocations to banking and financial sector funds, the expert suggests that aggressive investors may consider a 5–10% exposure. However, they emphasise that diversified equity funds remain a more resilient choice for most investors, given their broader exposure across sectors, market capitalisations, and geographies, which helps mitigate market volatility.

“For aggressive investors, one can take exposure to thematic funds from 5% to 10%. That's because themes are cyclical and very hard to time correctly; getting in or out at the wrong moment could significantly impact the entire portfolio,” Dhawan told ETMutualFunds.

“Diversified equity funds, by contrast, are much better at weathering market swings due to their broader exposure across different sectors, market caps, and geographies. Remember, diversification is key for long-term growth,” he adds.

There are around 21 actively managed mutual funds focused on the banking and financial services sector, which have delivered an average return of 10.67% so far in the current calendar year — the only category to post double-digit gains during this period.

DSP Banking & Financial Services Fund offered the highest return of around 14.07% in 2025 so far. Helios Financial Services Fund offered the lowest return of around 6.68% in the same defined period.

On the passive side, 20 funds benchmarked to the Nifty Bank index delivered an average return of 11.22% so far this calendar year. Among them, the UTI Nifty Bank ETF posted the highest return at 11.39%, while the Bandhan Nifty Bank Index Fund recorded the lowest at around 10.90%.

While choosing between active or passive funds focused on the banking sector, Dhawan recommends opting for an active fund, citing the fund manager's ability to navigate market cycles and selectively allocate to high-conviction banking and financial stocks as a key advantage over passive strategies.

“The Bank Nifty largely comprises private and public sector banks. This means it offers little to other important financial sectors like insurance companies and Non-Banking Financial Companies (NBFCs). If you rely only on the Bank Nifty to represent the entire financial sector, you could miss out on opportunities

that may emerge from other financial sectors, like insurance or NBFCs, that may offer better fundamentals. Thus, an active fund may be preferred,” Dhawan shared with ETMutualFunds.

According to a report by ETMarkets, high-weighted financials and private banks led the gains on Monday, lifting the Bank Nifty to a record high of 57,049.50 — its first-ever close above the 57,000 mark — as investors welcomed the Reserve Bank of India’s surprise rate cut and a shift to a neutral policy stance aimed at boosting credit growth and bank profitability.

The Reserve Bank of India on Friday slashed the repo rate by 50 basis points to 5.5% and gave a 100 basis point CRR cut, to which Dhawan expects that this aims to boost liquidity and support growth and banks may face short-term margin pressure, as lending rates fall faster than deposit rates adjust and also margins (NIMs) may bottom out in Q2FY26, with recovery expected as deposit rates decline gradually.

“Liquidity infusion from the CRR cut (Rs 2.5 trillion) will lower funding costs and boost loan growth. Overall, the outlook remains stable to positive for well-managed banks,” Dhawan further stated.

One should always invest based on their risk appetite, investment horizon, and goals.