YOUR MONEY

Gold and silver: What steps should investors take?

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Prime Minister Narendra Modi recently urged Indians to avoid purchasing gold jewellery for the next year. Upon evaluating their portfolios, investors who follow an asset allocation plan may also find that after the past year's sharp run-up in gold and silver, they should book partial profits in these precious metals.

Equities: Earnings growth needs to revive

The Indian equity market has been range-bound since mid-2024. "Returns over the past two years have been sub-optimal because valuations were extremely high in 2024 and earnings growth began to slow down," says Chandraprakash Padiyar, senior fund manager, Tata Asset Management.

Largecap funds: This segment has underperformed over the past 12 months because nominal GDP growth slowed despite strong real growth. "Lower inflation meant business earnings growth depended largely on volume growth, which led to slower profit growth," says Padiyar. In the near term, crude prices, global cues, and foreign institutional investor (FII) flows will determine the market's direction. "Earnings guidance across sectors remains cautious, with management monitoring input costs and geopolitical developments," says Shreyash Devalkar, head of equity, Axis Mutual Fund. A prolonged delay in the resolution of the West Asia crisis could lead to demand destruction. A few positives exist. "Largecaps and select cyclicals now appear more reasonably priced after the correction," says Devalkar. Padiyar expects higher inflation from FY27 to create the potential for higher earnings growth.

Mid and smallcap funds: The 12-month returns of mid- and smallcap funds look better than that of largecap funds due to a lower base. Pockets of the midcap and smallcap segments led the recovery in April. Padiyar is optimistic that select companies could deliver strong earnings growth going ahead. Devalkar points out that valuation comfort is uneven across the market. According to Padiyar, scope for time correction exists in the midcap segment.

Debt funds: Inflation trajectory holds the key

The war in West Asia, higher crude oil and gas prices, a weaker rupee, and expectations of a below-par monsoon have affected inflation expectations, causing yields to move up.

"Longer maturity debt funds get affected more by yield movements due to their higher modified duration, which acts as a multiplier on market movements," says Joydeep Sen, corporate trainer, financial markets, and author.

On the positive side, accrual levels have improved, which could support the performance of debt funds provided yields do not rise further. But a larger-than-expected negative shock from oil prices and inflation could push yields higher and pull down returns. Funds with a portfolio maturity of two to four years look attractive, according to Sen. Investors should match their investment horizon with the portfolio maturity of the debt fund they choose.

Precious metals: Avoid going overweight

Gold has delivered high returns. "Global uncertainty, fiscal imbalances in the developed world, weakening of the dollar, and strong central bank demand benefited gold," says Chirag Mehta, chief investment officer, Quantum Asset Management Company (AMC).

Real interest rates are a major long-term driver of gold prices. As they move lower, demand for gold rises. "Inflationary pressures arising due to high energy prices have reduced the possibility of interest rate cuts. However, rate hikes may also be difficult due to the high debt levels in developed economies," says Mehta.

Geopolitics and uncertainty could lead to stagflationary conditions (slow growth combined with sticky inflation). "Gold tends to do well in such conditions," says Mehta. Maintain a 10-15 per cent allocation to the yellow metal and about 5 per cent to silver, which tends to be more volatile and could be affected by a slowdown in global economic growth.

Rebalance your portfolio

Rebalancing helps correct the drift in asset allocation caused by disparate movements in asset classes. Over the past year, gold and silver have outperformed domestic equities and debt, causing many investors to become overweight on them. "Reduce exposure to these precious metals and reallocate the money to domestic equities and debt," says Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors.

Commodities have outperformed over past year

Returns (%)

Fund category	1-year	3-year	5-year	10-year
Commodities: Silver	170.8	51.6	NA	NA
Commodities: Gold	62.2	34.9	24.6	16.4
Equity: Smallcap	8.9	20.5	19.3	17.8
Equity: Midcap	7.9	21.3	18.9	17.3
Debt: Money market	6.5	7.3	6.4	6.7
Debt: Liquid	6.2	6.9	6.1	6.1
Debt: Medium duration	5.7	7.6	7.3	7.5
Debt: Long duration	-1.3	5.4	5.2	7.3
Equity: Largecap	-1.6	13.0	12.2	12.8

Returns are for direct plans. Returns as on May 12, 2026. Above one-year returns are annualised. Source: Value Research