



S.P. HINDUJA

BANQUE PRIVÉE

India House View

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Thoughts of the CEO

“Rewiring Capital: The Financialization of Indian Savings”

India stands at a pivotal moment in its economic evolution. What we are witnessing today is not simply a cyclical upswing, but a deep structural transformation in the way savings are mobilized, allocated, and ultimately translated into growth. The theme of this edition, *the financialization of savings*, captures a shift that is both profound in scale and far-reaching in its implications for investors.

For decades, Indian households have demonstrated a strong propensity to save, but these savings were predominantly held in physical assets such as gold and real estate. While culturally rooted and historically justified, this allocation limited the productive deployment of capital within the broader economy. Today, that paradigm is changing. Savings are increasingly being channeled into financial instruments (equities, mutual funds, and a growing array of market-linked products) creating a more dynamic and efficient financial ecosystem.

This transition is being driven by a confluence of factors. Macroeconomic stability, lower inflation expectations, and a more disciplined policy framework have reduced the traditional appeal of physical stores of value. At the same time, regulatory reforms, tax incentives, and the rapid expansion of digital financial infrastructure have made financial markets more accessible than ever before. What was once the domain of a relatively narrow investor base is now open to a broad and diverse population.

One of the most notable aspects of this transformation is the rise of the domestic investor. Retail participation has expanded significantly, both in scale and in geographic reach, supported by the widespread adoption of digital platforms. Systematic investment plans have embedded a culture of disciplined, long-term investing within the middle class, creating a steady and resilient flow of capital into markets. This growing domestic liquidity is fundamentally reshaping Indian market dynamics, reducing reliance on foreign capital and contributing to greater stability.

For global investors, this shift carries important implications. India is evolving from a market often characterized by volatility and external dependency into one that is increasingly anchored by domestic fundamentals. The presence of a strong local investor base not only enhances market depth and liquidity but also alters the risk-return profile of Indian equities. At the same time, increased competition for high-quality assets underscores the need for selectivity and a nuanced understanding of local dynamics.

Beyond equities, the financialization trend is also fostering the development of new asset classes and financing channels, from infrastructure investment vehicles to alternative funds. This broadening of the investment landscape reflects a maturing financial system, one that is better equipped to support India’s long-term growth ambitions.

As we look ahead, we believe this structural shift will remain a defining feature of India’s economic trajectory. It represents a transition toward a more self-sustaining growth model, driven by domestic capital and underpinned by improving financial intermediation.

In this context, India offers not only compelling growth prospects but also increasing resilience and depth. Understanding this transformation is essential to capturing the opportunities it presents.

Yours sincerely,

Fabrice d’Erm





The Great Financialization of Savings in India

The Indian economic landscape is currently undergoing a structural shift. Historically, Indian households have been ‘savers’ in the most literal sense, burying wealth in physical assets like gold and real estate. However, a ‘Great Financialization’ is underway, shifting trillions of rupees from traditional stores of wealth and household savings into capital markets, mutual funds, and digital assets.

The Paradigm Shift: From Physical to Productive Assets

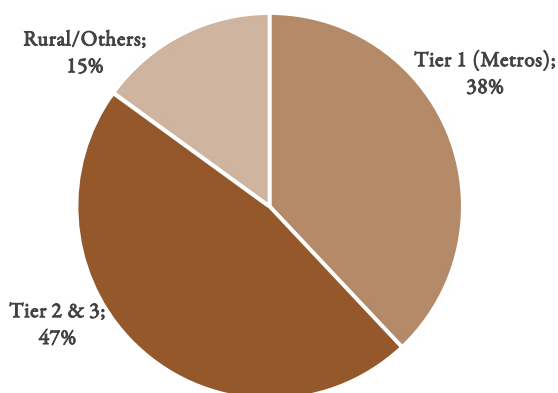
For decades, the Indian household balance sheet was defined by a deep-seated cultural trust in tangible assets. Nearly two-thirds of household wealth was locked in gold and real estate, assets that acted as stores of value but remained largely ‘idle’ from the perspective of the broader economy. Now, we are witnessing a structural migration toward financial assets.

This transition is not merely a change in preference but a response to a maturing economic environment. Lower inflation expectations and a disinflationary trend in food and fuel have reduced the ‘inflation-hedge’ appeal of physical gold and other real assets. Simultaneously, the normalization of real estate prices and the introduction of tax-efficient financial instruments have made ‘paper wealth’ more attractive. For the foreign investor, this means a massive pool of domestic capital is now competing for and supporting Indian equities, reducing the historical ‘beta’ associated with emerging market volatility.

The Rise of the ‘Invincible’ Retail Investor

Perhaps the most striking development of the last 18 months has been the resilience of the Indian retail investor. As of December 2025, the number of unique investors in India surpassed **120 million**. This demographic shift is characterized by two distinct ‘new’ cohorts:

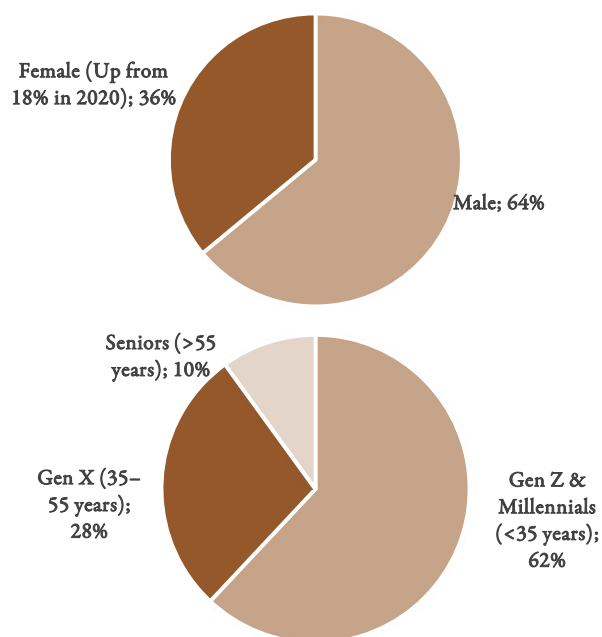
Figure 1: India’s Retail Investor Revolution



Source: NSE Market Pulse

Gender Diversification: Women now account for over **54%** of new registrants in certain formal saving portals and are increasingly visible in mutual fund folios.

Figure 2: Demographic Profile of New Investors



Source: SBI Ecowrap

Geographic Expansion: The growth is no longer confined to ‘Tier-1’ cities like Mumbai or Delhi. ‘Bharat’ (Non-metro India) contributed over **45%** of new demat accounts opened in 2025, driven by smartphone penetration and localized fintech interfaces.

Market Impact as a Stabilizer: This surge in domestic participation has fundamentally altered India's market dynamics. In 2025, when global uncertainty led to record Foreign Institutional Investor (FII) outflows of nearly USD18.4 billion, the Indian markets did not collapse as they might have a decade ago. Instead, robust domestic inflows - reaching over USD 30 billion annually via Mutual Funds - acted as a crucial cushion, keeping the benchmark indices remarkably resilient.



Table 1: Domestic vs Foreign Flows

Year	FII Net Flow (USD Bn)	DII Net Flow (USD Bn)	Unique Retail Investors (Mn)
2021	3.8	12.7	55
2022	-17	34.5	80
2023	21.4	22.2	93
2024	12.1	37.3	108
2025	-18.4	57.7	122
2026 (YTD)	-20.8	23.2	125

Source: NSE, CSDL

Implications for Foreign Investors

The ongoing financialization of Indian household savings has meaningful implications for foreign investors, fundamentally altering both the opportunity set and the risk profile of Indian equities.

First, the rise of domestic institutional and retail participation provides a **structural source of demand** for equities. Systematic inflows through mutual funds, pension vehicles, and insurance products create a persistent bid for the market, particularly in large-cap and benchmark-oriented names. This domestic liquidity reduces the historical dependence on foreign institutional investors (FIIs) as the marginal price setters, thereby anchoring valuations more firmly in local fundamentals.

Second, this shift contributes to a moderation in market volatility. Unlike foreign flows, which are often pro-cyclical and sensitive to global liquidity conditions, domestic flows tend to be more stable and counter-cyclical. Periods of FII outflows are increasingly absorbed by domestic investors, leading to shallower drawdowns and faster recoveries. As a result, India's traditional **"emerging market beta" is gradually declining**, and correlations with broader EM risk cycles may weaken over time.

Third, the growing pool of domestic capital introduces greater competition for quality assets. Foreign investors must contend with well-capitalized and increasingly sophisticated domestic institutions that have structural advantages in terms of market access, local knowledge, and investment horizon. This dynamic may compress excess return opportunities, particularly in widely owned sectors, and necessitates a more selective, differentiated approach to alpha generation.

At the same time, the deepening of domestic markets enhances market depth, liquidity, and price discovery,

improving the overall investability of Indian equities. This is particularly relevant for large global allocators seeking scalable exposure without materially impacting market prices.

The 'SIP-ification' of the Middle Class

The Mutual Fund industry has crossed a historic milestone, with Assets Under Management (AUM) hitting USD970 billion approx. in early 2026. This growth is powered by the 'Systematic Investment Plan' (SIP) culture.

A Systematic Investment Plan (SIP) is a disciplined investment approach in which an investor allocates a fixed amount of money at regular intervals, typically monthly, into a mutual fund or similar financial instrument, regardless of market conditions.

More than just a mechanism, SIP represents a **behavioral shift in savings and investing**:

- It automates investing, embedding it into an individual's monthly cash flow, much like a recurring expense
- It reduces timing risk by spreading investments across market cycles (rupee-cost averaging)
- It encourages long-term wealth creation through compounding rather than short-term speculation

Table 2: Monthly SIP Statistics

Month	Monthly SIP Inflow (USD Bn)	SIP Accounts (Millions)	Avg. Ticket Size (INR/USD)
JAN 2025	2.49	82.4	2,600/30.1
JUN 2025	2.88	89.1	2,780/32.3
DEC 2025	3.15	96.5	2,920/32.6
MAR 2026	3.45	104.2	2,975/32.0

Source: AMFI Monthly Mutual Fund Data

In the Indian context, the "SIP culture" refers to the widespread adoption of this method by retail investors, transforming equity investing from an episodic, market-driven activity into a habitual, rules-based allocation process. This has led to stable, recurring inflows into capital markets, making retail participation more resilient and less sensitive to short-term volatility.

Consistency over Timing: Monthly SIP inflows have stabilized at approximately USD 3.25 bn, representing a 'disciplined' flow of capital that is price-insensitive.

Asset Allocation Trends: While equity remains the core, there is a visible shift toward 'Core + Satellite' strategies. Investors are using Large-cap or Index funds for stability (the





‘Core’) while adding Mid-cap or Thematic funds (like Infrastructure and Manufacturing) to capture India's high-growth industrial cycle.

Technological Catalysts: The Fintech Backbone

India's fintech infrastructure has effectively turned financial access into a public utility. By removing barriers to entry, lowering costs, and embedding financial services into everyday digital behavior, it ensures that the ongoing shift toward financial assets is not only rapid but also structurally persistent.

The transformation of India's savings landscape would not be possible without the rapid build-out of a digital public infrastructure (DPI) that has fundamentally redefined access to financial services. What began as the JAM Trinity, Jan Dhan (bank accounts), Aadhaar (digital identity), and Mobile connectivity, has now evolved into a full-stack fintech ecosystem that is arguably among the most advanced globally.

At its core, this infrastructure has driven a near-elimination of traditional frictions in financial intermediation:

Customer acquisition costs have collapsed :

Digital identity (Aadhaar) combined with e-KYC enables account opening in minutes at negligible cost. This is a structural break from the legacy model, where onboarding was paper-intensive, time-consuming, and expensive—effectively excluding large segments of the population.

Transaction costs have approached zero:

UPI has created a real-time, interoperable payments layer that is free or near-free for users. This has not only digitized payments but also generated rich transaction data, enabling credit underwriting and personalized financial product distribution at scale. For investors, the ease of ‘e-KYC’ and instant onboarding through platforms like Groww and Zerodha has removed the friction that previously kept the masses out of the capital markets. This digital-first approach ensures that the financialization trend is ‘sticky’ - once an investor is onboarded into a digital ecosystem, the barriers to exit are high and the ease of further allocation is seamless.

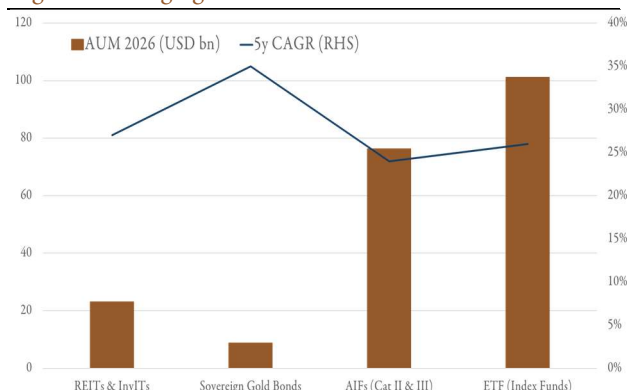
Emerging Asset Classes: Beyond Equities

As India's financial system matures, the ongoing shift toward financial assets is increasingly accompanied by a broadening of the investment universe beyond traditional equities. Household and institutional savings are progressively diversifying into yield-oriented and alternative instruments,

reflecting both rising investor sophistication and a growing demand for differentiated sources of return.

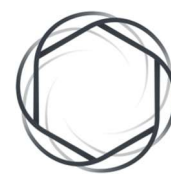
Real Estate Investment Trusts (REITs) and **Infrastructure Investment Trusts (InvITs)** have emerged as key pillars of this evolution. These vehicles effectively bridge the gap between physical and financial assets by offering exposure to income-generating real estate and infrastructure, while retaining the benefits of liquidity, transparency, and regulatory oversight. Recent regulatory developments, including SEBI's reclassification of REITs as equity-related instruments, have further enhanced their accessibility and attractiveness to institutional investors. The strong performance observed in 2025 underscores not only favorable cyclical conditions but also a structural repricing of yield assets in a more stable inflation environment. Over time, these instruments are likely to play an increasingly important role in income-oriented portfolios, particularly as domestic institutional capital deepens.

Figure 3: Emerging Asset Classes



Source: SEBI AuM Data

At the same time, the government has made notable progress in redirecting traditional gold savings into financial channels through **Sovereign Gold Bonds (SGBs)**. By offering a yield component alongside price exposure, SGBs preserve the cultural affinity for gold while eliminating the inefficiencies associated with physical ownership, such as storage and security costs. From a macroeconomic perspective, this shift is significant: it reduces reliance on gold imports and allows household savings to be intermediated into productive government expenditure. The continued growth of this segment highlights the effectiveness of policy-led financialization in reshaping long-standing investment preferences.



Further up the risk spectrum, the rapid expansion of **Category II and III Alternative Investment Funds (AIFs)** points to the emergence of a more sophisticated domestic capital base. These structures channel capital into private equity, venture investments, private credit, and hedge fund-like strategies, providing access to opportunities beyond public markets. Their growth has been driven primarily by high-net-worth individuals and family offices, but their broader significance lies in the role they play in supporting India's entrepreneurial ecosystem and enhancing market efficiency. In particular, AIFs are becoming an important conduit for risk capital, complementing traditional banking and public market financing.

In parallel, the rise of **exchange-traded funds (ETFs)** and index funds reflects the increasing adoption of low-cost, rules-based investment strategies. These instruments are gaining traction among both retail and institutional investors, supported by their simplicity, transparency, and scalability. Their growth is reinforcing flows into benchmark indices and contributing to overall market depth, although it also introduces a degree of concentration in large-cap segments.

Taken together, these developments signal a broader transition toward multi-asset portfolio construction within the Indian market. Investors are no longer confined to a binary choice between physical assets and equities, but are increasingly allocating across a spectrum of instruments that offer varying combinations of income, growth, and risk mitigation. This diversification enhances the efficiency of capital allocation across the economy, reduces reliance on traditional financing channels, and contributes to the resilience of the financial system.

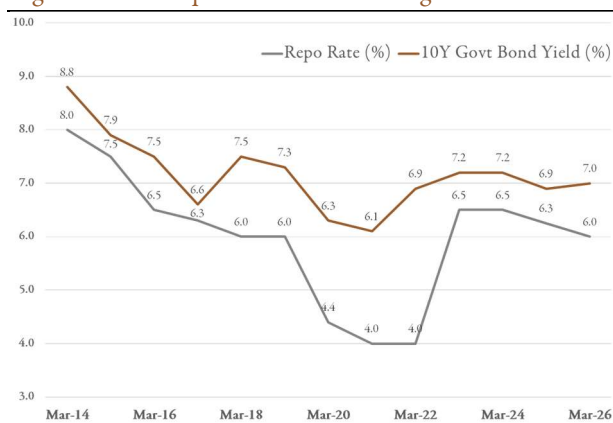
For investors, the expansion of these asset classes represents a meaningful step in India's progression toward a more mature and institutionalized market structure. It provides a richer opportunity set, improves portfolio construction capabilities, and aligns the domestic investment landscape more closely with global standards.

Macroeconomic Implications and Outlook

The ongoing transition of India from a "hoarding" economy, characterized by idle savings in physical assets, to an "allocating" economy, where capital is actively intermediated through financial markets, has far-reaching macroeconomic consequences. This shift is not merely cyclical but structural, with meaningful implications for capital formation, financial stability, and India's positioning within the global investment landscape.

A key outcome of this transformation is a **structural reduction in the cost of equity**. As domestic savings are increasingly channelled into financial instruments, equity markets benefit from a persistent and growing pool of local liquidity. This reduces reliance on foreign capital as the marginal source of funding and compresses the risk premium historically associated with emerging markets. For corporates, this translates into improved access to capital at more competitive rates, enabling higher investment, supporting earnings growth, and reinforcing the broader economic expansion cycle. Over time, a lower cost of equity also facilitates greater formalization and encourages companies to access public markets earlier in their growth trajectory.

Figure 4: India Repo rate vs. 10Y Sovereign Yield



Source: SEBI AuM Data

Equally important is the role of financialization in enabling **sustainable infrastructure financing**. Instruments such as InvITs, along with long-duration capital from insurance and pension funds, are increasingly aligning household savings with the funding needs of India's National Infrastructure Pipeline. This represents a structural improvement in how infrastructure is financed: moving away from reliance on bank balance sheets and public expenditure toward market-based funding mechanisms. As a result, the burden on the fiscal deficit is reduced, capital allocation becomes more efficient, and project execution benefits from greater transparency and discipline. This deepening of capital markets is critical for sustaining India's long-term growth ambitions, particularly given the scale of infrastructure investment required.

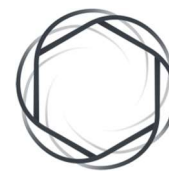
Finally, the shift strengthens India's external **resilience and macroeconomic stability**. Historically, India's growth model exhibited vulnerability to external shocks, particularly



through dependence on foreign capital inflows and exposure to current account pressures driven by gold imports and energy prices. The increasing role of domestic capital in financing both public and private investment mitigates these risks. A more balanced current account, supported by reduced gold imports and stronger domestic investment flows, lowers reliance on volatile external financing. In turn, this enhances currency stability, improves policy flexibility, and reduces the economy's sensitivity to global liquidity cycles.

Taken together, these dynamics point to a **structural improvement in India's macroeconomic quality**. The interplay between domestic savings, financial intermediation, and capital market development is creating a more self-sustaining growth model, less dependent on external conditions and more anchored in internal demand and capital formation. For global stakeholders, this implies that India is not only a high-growth market, but increasingly a high-quality growth market, combining scale with improving stability and resilience.





India Asset Allocation

Asset Class	Strategic Opinion	Tactical Opinion	Constituents	Most Preferred	Least Preferred	Commentary	May 2026
Cash	-	+				Building dry powder to deploy on further selloffs in risk assets. High cash levels serve as a tactical buffer to preserve capital while the market searches for a bottom amidst geopolitical instability.	
Fixed Income	=	+		Segments Floating Rate Bonds Duration 3-to-5 Year Segment	Long-dated credit	We focus on the 3-to-5 year duration; as the yield curve is relatively flat, this segment providing decent yields without the extreme volatility of long-dated paper. USD-denominated Indian bonds offer protection against the Rupee at record lows (~94/\$). We also like selective short-tenor (12-month) high-yield bonds where credit spreads are substantial.	
Equities	++	--		Sectors PSU Banks Defensives (Staples, Healthcare) IT & Pharma (Exporters) Styles Well Diversified large caps Thematic Plays	Consumer Discretionary Small caps	<p>Tactically Underweight, even as the Nifty valuation has cooled to 17.5x forward earnings (below 10-year average). India is a "net energy loser" in the current West Asia conflict.; \$100+ Crude Oil price spikes inflation and hurt corporate margins.</p> <p>We add to PSU Banks (SBI) that are relatively safe haven even as private financials weaken. We allocate to defensives such as Staples, Telecom & Healthcare until the war-driven volatility cools. Exporters like IT & Pharma act as natural hedges with the sharp decline in the INR. Upstream Oil and Metals (Aluminium) benefit from higher realizations and supply shocks (pushing LME prices to 4-year highs). We see long-term investor interest in defence PSUs due to the shifting global order and the accelerating "Aatmanirbhar" mandate.</p>	
Alternatives	+	+		Growth Capital & Late Stage Pre-IPO Precious Metals and REITs	Private Credit	Gold remains a structural anchor as institutional allocations increase despite short-term volatility. REITs offer steady 6-7% yield in a volatile environment.	

Opinion legend: (--) very unattractive; (-) unattractive; (=) neutral; (+) attractive; (++) very attractive.





India macro data and projections *

	2022/23	2023/24	2024/25	2025/26E	2026/27E
Real GDP (percent growth) Fiscal Year	7.6	8.2	6.4	6.6	6.2
CPI (percent growth) Fiscal Year	6.7	5.4	3.4	2.8	4.0
Industrial Production (percent growth)	11.4	5.2	4.0	6.2	5.5
Interest Rates (percent) Fiscal Year	6.25	6.50	6.50	5.25	5.25
Fiscal Deficit (percent of GDP)	(6.5)	(5.6)	(4.8)	(4.4)	(4.3)
Trade Balance (percent of GDP)	(6.0)	(7.9)	(6.8)	(7.1)	(7.0)
Current Account Balance (percent of GDP)	(2.0)	(0.7)	(0.6)	(1.0)	(1.4)
Public Debt (percent of GDP)	82.0	82.7	82.7	81.1	80.7
FX reserves (USD bn)	578	646	668	709	733

Sources: IMF

* Data are for Apr-Mar fiscal years

MSCI India (USD) 1Y Performance



Source: Bloomberg

Nifty50 (INR) 1Y Performance



Source: Bloomberg

Sector Performances	Index Market Cap (USD Bn)	CY 2025	April 2026	% YTD	Fwd PE (x)
Nifty Realty	21.3	-16.6%	19.3%	-9.6%	22.1
Nifty Pharma	89.2	-2.9%	5.7%	2.4%	27.6
Nifty IT	119.9	-12.6%	-1.1%	-22.5%	14.5
Nifty Financial Services	467.7	17.4%	7.0%	-7.1%	14.1
Nifty Auto	122.3	23.5%	6.9%	-8.1%	20.8
Nifty Metal	98.2	29.1%	12.5%	14.9%	13.1
Nifty Energy	290.3	0.4%	15.2%	15.4%	15.0
Nifty FMCG	112.8	-2.3%	10.7%	-7.9%	32.3
Nifty India Consumption	347.7	8.2%	8.3%	-7.1%	29.5
Nifty Media	4.1	-20.5%	11.3%	0.8%	16.8
INR/USD		-5.0%	-2.0%	-5.3%	

Source: Bloomberg





Figure of the Month

32,087

According to the India Mutual Fund Association (AMFI), and as of March 2026, Indian mutual fund SIP inflows are currently running at approximately INR 32,087 crore (**USD 3.5 bn**) per month, based on the latest 2026 data. This reflects a stable range of INR 30,000–32,000 crore, (USD 3.2-3.4 bn), indicating strong and consistent domestic participation. Annualised, this translates to roughly INR 3.6–3.8 lakh crore (USD 43.4-45.8 bn) of steady equity market inflows for investors today.

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We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

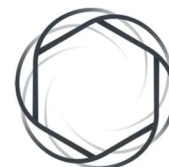
The future of banking is emerging at the intersection of profit and purpose.

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