EBONY RESEARCH – MONTHLY MARKET UPDATE

DECEMBER 2025

Stocks are pieces of paper with stories attached to them - Martin T. Sosnoff

Global Scenario

Table 1: Global PMI Composite Eased Modestly, Export Orders Come out of Contraction

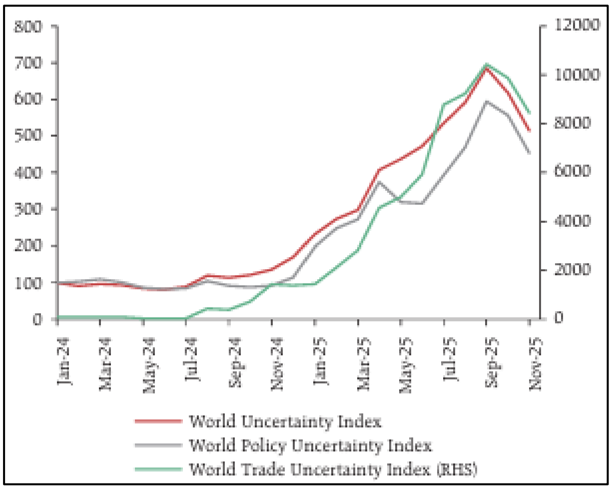
	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
PMI composite	52.4	52.6	51.8	51.5	52.1	50.8	51.2	51.7	52.5	52.9	52.5	52.9	52.7
PMI manufacturing	50.1	49.6	50.1	50.6	50.3	49.8	49.5	50.4	49.7	50.9	50.7	50.8	50.5
PMI services	53.1	53.8	52.2	51.5	52.7	50.8	52	51.8	53.5	53.3	52.9	53.4	53.3
PMI export orders	49.3	48.7	49.6	49.7	50.1	47.5	48.0	49.1	48.5	48.9	49.7	48.5	50.0
PMI export orders: manufacturing	48.6	48.2	49.4	49.6	50.1	47.3	48.0	49.2	48.2	48.7	49.5	48.3	49.9
PMI export orders: services	51.3	50.3	50.2	50.2	50.1	48.2	47.9	48.7	49.4	49.3	50.1	49.3	50.3

50

<<<<<<Contraction--Expansion>>>>>>

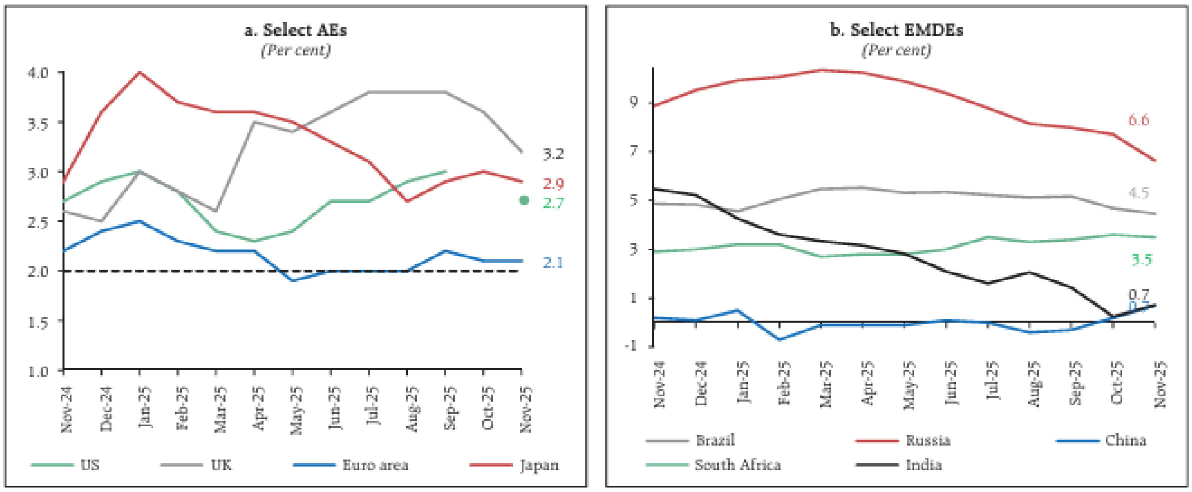
Source: S&P Global. Notes: 1. The Purchasing Managers' Index (PMI), a diffusion index, captures the change in each variable compared to the prior month, noting whether each has risen/improved, fallen/deteriorated or remained unchanged. A PMI value >50 denote expansion, <50 denote contraction, 50 is no change. 2. Heat map is applied on data from April 2023 till November 2025. The map is colour coded–red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series

Chart 1: World Uncertainty Indices



Source: World Uncertainty Index (WUI) database, Bloomberg

Chart 2: Inflation in Advanced and Emerging Economies



Source: Bloomberg

U.S. Equities - Much of the optimism appears priced in

2025 Earning strength again was driven by the Mag 7, 2026 poised for a more mixed and selective environment

The past year once again reinforced the importance of remaining invested through periods of heightened uncertainty and persistent market noise. The year 2025 was marked by sweeping political shifts, disruptions to global trade flows, a sharp correction in equity markets, changes to the U.S. tax framework, and the longest government shutdown in U.S. history. Despite these challenges, outcomes for investors were broadly positive. Nearly all major asset classes ended the year in positive territory, with broad equity segments including U.S. large caps, U.S. small caps, developed international markets, and emerging markets each delivering double digit returns.

A central force behind this strong market performance was earnings growth. Even as volatility dominated headlines, steady expansion in corporate profits quietly powered market gains, allowing long term investors to continue compounding wealth through the cycle.

Heading into 2026, the U.S. equity market appears to be on a sound fundamental footing. Robust profit growth remains the primary driver and is expected to extend into the coming year. Additional support could emerge from a combination of tax relief and lower interest rates, benefiting both corporations and consumers. While concerns around a potential AI driven bubble may surface over time, current valuation levels and underlying fundamentals do not yet point to an immediate risk. Investors should closely monitor developments in the U.S. Treasury market, where early signs of deeper concerns such as rising deficits or renewed inflation risks would likely appear first.

Looking further ahead, uncertainty shows little sign of abating. Geopolitical tensions remain elevated, the global role of the U.S. continues to evolve, and domestic politics remain deeply polarized. Federal debt levels continue to rise with no clear resolution in sight. At the same time, technological innovation is advancing at a rapid pace, forcing companies, investors, and workers alike to adapt quickly to avoid being left behind.

Even so, 2026 could still prove to be a rewarding year for investors. Several supportive forces are in place. Corporations are only beginning to benefit from the corporate tax measures introduced in 2025, which could further reinforce earnings momentum. The Federal Reserve has already begun cutting rates, with additional cuts potentially ahead. Economic growth has remained intact, and a renewed upcycle in corporate investment, particularly capital expenditure or CapEx, is laying the groundwork for longer term growth opportunities.

Path forward for investors - Constructive drivers tempered by macro uncertainties

<u>**Positive catalysts**</u>

A) Broad based earnings growth

The earnings momentum that underpinned equity markets in 2025 shows little sign of slowing as 2026 approaches. In addition to expectations of continued strength, the earnings recovery is becoming healthier, with a broader range of companies contributing to overall profit growth.

Consensus estimates suggest that companies within the S&P 500 Index are on track to deliver double digit earnings growth for calendar year 2025. Looking ahead to 2026, analysts are forecasting another year of double-digit earnings growth, with the potential for acceleration relative to 2025.

Earlier in the year, earnings growth was heavily concentrated among a small group of mega cap technology companies. During the second quarter of 2025, the Magnificent 7 generated earnings growth of 27 percent, while the remaining 493 companies in the S&P 500 recorded profit growth of 8.1 percent. Encouragingly, earnings participation has gradually broadened beyond this narrow group.

B) Tailwinds from tax cuts and interest rate cuts

A key factor to watch in 2026 is the earnings impact from corporate tax changes enacted under the One Big Beautiful Bill Act, which was signed into law in July 2025. While the statutory federal corporate tax rate remains unchanged at 21 percent, a level set permanently in 2019, the legislation is expected to lower effective tax rates through changes in the treatment of deductions and expenses. Some estimates suggest this reduction could be as much as 7 percent, providing a meaningful boost to corporate cash flows and profitability.

On the monetary policy front, while further rate cuts by the Federal Reserve are not guaranteed, both the Fed's own projections and market expectations indicate that additional easing remains possible. Lower interest rates could provide relief to rate sensitive segments of the market, including housing and small cap stocks, both of which have faced sustained pressure in recent years. Historically, when the Fed has been able to cut rates during an economic expansion, U.S. equities have benefited from a combination of rising earnings and expanding price to earnings multiples.

<u>What Are the Risks?</u>

1) Valuations are stretched

The S&P 500 forward price to earnings ratio has recently stood at approximately 21.95, compared with its 10-year average of 18.7. While elevated valuations do not automatically trigger market corrections, they do indicate that a meaningful amount of optimism is already reflected in prices.

Historically, higher valuation levels have often represented confidence in future earnings visibility. However, elevated valuations can increase market sensitivity to negative surprises and potentially deepen the severity of any pullbacks should expectations not be met.

2) Currency Shifts - Global dollar diversification trend

One of the most significant market developments in 2025 was the decline of the U.S. dollar. As of mid December, the dollar had fallen by approximately 8.7 percent for the year against a basket of developed market currencies. This move was a major contributor to the strong performance of non-U.S. equities, with developed international stocks rising by roughly 28% in dollar terms from the start of 2025 through mid December.

While currency movements are difficult to predict over short periods, many of the forces driving dollar weakness remain in place. These include a gradual shift toward a more multipolar global order, diversification by global central banks away from U.S. Treasurys, and the fact that the dollar remains relatively expensive after decades of capital inflows. In addition, increased domestic spending by non U.S. economies may encourage the repatriation of local capital.

For U.S. based investors, continued dollar weakness could translate into higher returns from assets denominated in foreign currencies. At the same time, a softer dollar can support large U.S. multinational companies by increasing the dollar value of revenues earned overseas.

3) Federal Reserve – Independence of the Policy Maker

Questions surrounding the Federal Reserve's political independence gained prominence in 2025 and are likely to persist into 2026. Investors should remain alert to any shifts in policy orientation, such as a stronger inclination to cut rates despite elevated inflation, changes to the long standing 2 percent inflation target, or increased emphasis on managing long term interest rates such as the 10 year Treasury yield.

If policy rates were pushed below levels justified by economic fundamentals, concerns around long term inflation and central bank credibility could emerge. Such fears would likely surface first in the Treasury market through higher long term yields. While markets have so far remained largely complacent about the growing U.S. debt and deficit burden, any change in sentiment could spill over into equity markets via higher interest rates and compressed valuations.

4) AI Euphoria - Innovation or the Next Speculative Cycle?

Although the everyday impact of artificial intelligence on consumers remains limited, its influence on the U.S. economy and financial markets is already substantial. Investment in AI related infrastructure and capacity is projected to exceed USD 2trn by 2026, highlighting the scale of this transformation.

At the same time, sustained enthusiasm carries the risk of excess. In the race to remain competitive, companies may overinvest in AI infrastructure, which could pressure profitability if returns are slower or thinner than anticipated. Over time, this dynamic could contribute to stretched valuations and bubble-like conditions.

2026 – Uncertainty about Uncertainty

Market stability is rarely the norm. Volatility remains a structural feature of financial markets, yet it often serves as the foundation for long term value creation. The year ahead is expected to be shaped by a complex interaction of macroeconomic forces including policy direction, trade dynamics, inflation trends, and geopolitical developments, alongside evolving sector specific opportunities.

From a macro perspective, the balance between growth and inflation will remain central. While monetary policy has turned more supportive, fiscal pressures and supply side adjustments may periodically reintroduce uncertainty into interest rate expectations. As a result, asset prices are likely to respond more frequently to shifts in economic data and policy communication, reinforcing the importance of staying focused on fundamentals rather than short term market movements.

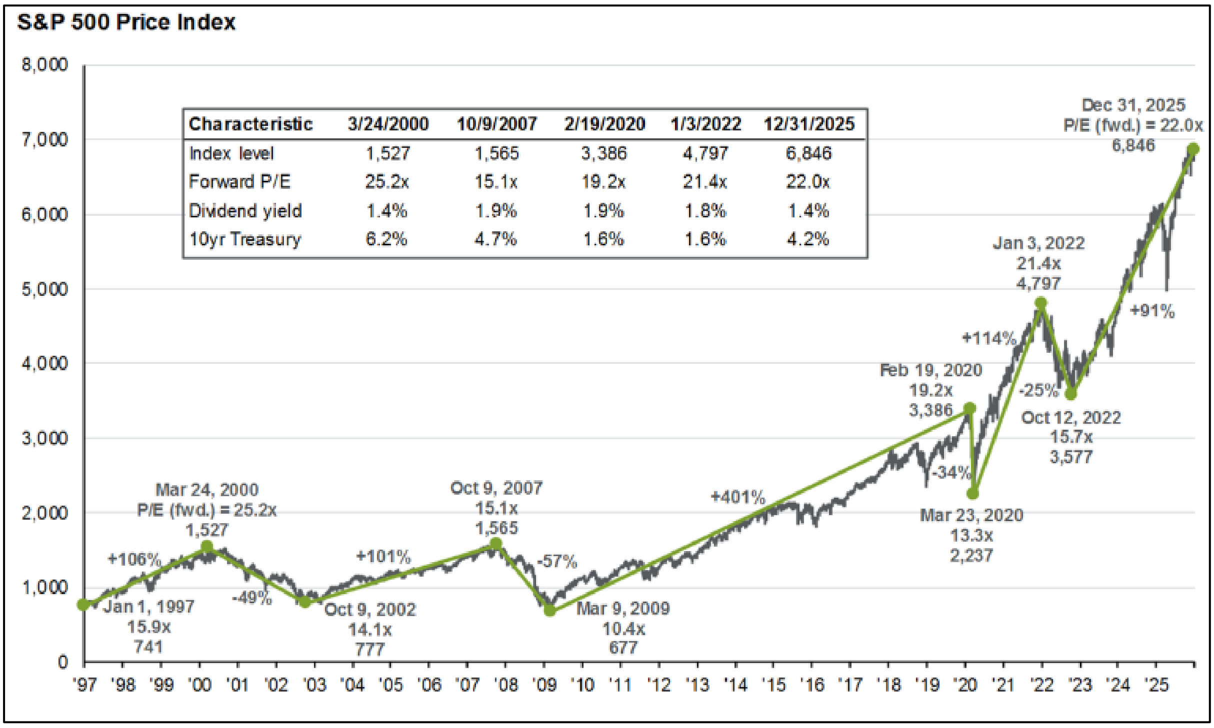
Equity markets may continue to experience periods of rotation rather than broad based rallies. As earnings growth becomes more evenly distributed, leadership could shift away from a narrow group of large companies toward a wider opportunity set across sectors and market capitalisations. This environment may reward active allocation decisions and diversified exposure rather than concentrated positioning.

At the same time, global diversification is likely to play an increasingly important role. Differences in growth trajectories, currency movements, and policy responses across regions may create dispersion in returns, offering investors opportunities to enhance risk adjusted outcomes through geographic balance.

Technological investment, particularly in areas such as artificial intelligence and automation, is expected to remain a powerful long-term driver of productivity and corporate profitability. However, returns from these investments may be uneven, reinforcing the need for selectivity and valuation discipline.

Overall, 2026 is likely to be a year where patience, diversification, and adherence to a well-defined investment framework matter more than market timing. For investors who remain strategically invested and adaptable to changing conditions, the evolving market landscape may offer meaningful opportunities to build long term value despite intermittent volatility.

Chart 3: S&P 500 Index Valuation relative to last 30 years



Source: JPMorgan

Table 2: Global Heat Map

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Q4 '25
Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITS 32.6%	Cmdty 16.1%	Growth 37.3%	Growth 26.2%	MSCI EM 34.4%	Cmdty 5.9%
Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 24.4%	DM Equities 19.2%	Value 21.6%	MSCI EM 4.8%
Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.3 %	Small cap 16.3%	Value 12.3%	DM Equities 21.6%	Value 3.5%
DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 16.5%	DM Equities 22.4%	DM Equities -17.7%	Value 12.4%	Small cap 8.6%	Growth 21.3%	DM Equities 3.2%
Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	Global REITs 10.9%	MSCI EM 8.1%	Small cap 20.4%	Small cap 2.9%
Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.3%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	MSCI EM 10.3%	Cmdty 5.4%	Cmdty 15.8%	Growth 2.8%
MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITs -23.7%	Global Agg 5.7%	Global REITs 2.8%	Global REITs 8.4%	Global Agg 0.2%
Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -10.4%	Global Agg -4.7%	Growth -29.1%	Cmdty -7.9%	Global Agg -1.7%	Global Agg 8.2%	Global REITs -0.8%

Source: Bloomberg, FTSE, LSEG Datastream, MSCI, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT Global Real Estate Investment Trusts; Cmdty: Bloomberg Commodity Index; Global Agg: Bloomberg Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 December 2025.

U.S. Bonds – Likely easing by the federal reserve in 2026 however it will be a case of pause, cut, pause

Just a reminder the Fed has a dual mandate of full employment (economic growth) and price stability (inflation).

The global economy and markets are closing the year in a surprisingly good place. The impact of tariffs and geopolitical pressures are fading, fiscal stimulus is coming, and the corporate world's focus is on the hot new thing-AI. Policymakers' bias is to protect against any downside.

It appears that U.S. has largely adjusted to the tariff policy and continues to move forward with confidence. Companies have managed higher input costs by absorbing part of the increases internally and passing a portion on to consumers. Corporate earnings and revenue guidance currently rank among the strongest seen in recent quarters, suggesting room for further acceleration ahead. Although there are signs of softness among lower-income consumers, overall household spending remains stable. Moreover, additional fiscal support in the form of upcoming tax refunds tied to the One Big Beautiful Bill Act (OBBBA) is expected to provide a boost in the coming months.

On the other side, Inflation remains persistently above target, with core personal consumption expenditures rising 2.8% yoy, marking nearly five years since the Federal Reserve last met its 2% objective. A growing contingent of Fed officials has voiced concern over lingering inflationary pressures, signalling hesitance toward additional policy accommodation. However, we expect two rate cuts in the year ahead. Why? because the Fed continues to indicate a neutral rate of 3% relative to the current policy rate of 3.625%, labor market conditions are softening and disinflation in services and wages remains intact. Additionally, the appointment of a new Fed Chair expected to lean dovish could further tilt policy expectations toward easing. In this environment, we anticipate the 10-year U.S. Treasury yield to trade within a relatively stable range of 3.75% to 4.25% over the coming quarters.

Evolving Role of the Fed's Balance Sheet

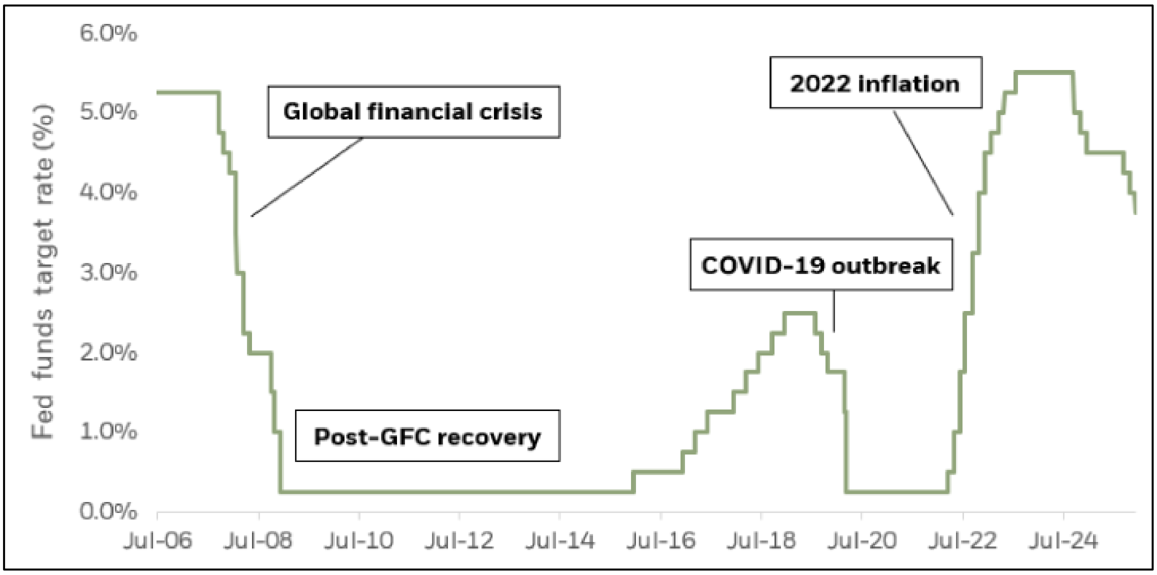
Since the Global Financial Crisis, the Federal Reserve has increasingly used its balance sheet through holdings of U.S. Treasuries, agency debt, and mortgage-backed securities (MBS) as a tool to influence longer-term interest rates. By purchasing bonds, the Fed seeks to lower long-term yields, reduce borrowing costs, and support economic growth. Conversely, shrinking the balance sheet through asset sales or natural maturities tends to push rates higher, tightening financial conditions.

The Fed's balance sheet was increased through bond purchases during the COVID-19 pandemic.

- In May 2022, the FOMC announced that it would begin reducing the size of the balance sheet.
- In May 2024, the committee announced that it was slowing the pace of the reduction from USD 60bn to USD 25bn for U.S. Treasuries while maintaining the MBS reduction at USD 35bn per month. The Fed is accomplishing this by letting bonds mature and not selling them into the market. From May 2022 to December 2025, the Fed's balance sheet declined by USD 2.4trn, from USD 8.9trn to USD 6.5trn.
- Beginning in December 2025, the Fed will reinvest maturing U.S. Treasury principal payments into Treasuries and maturing agency MBS into Treasury bills.

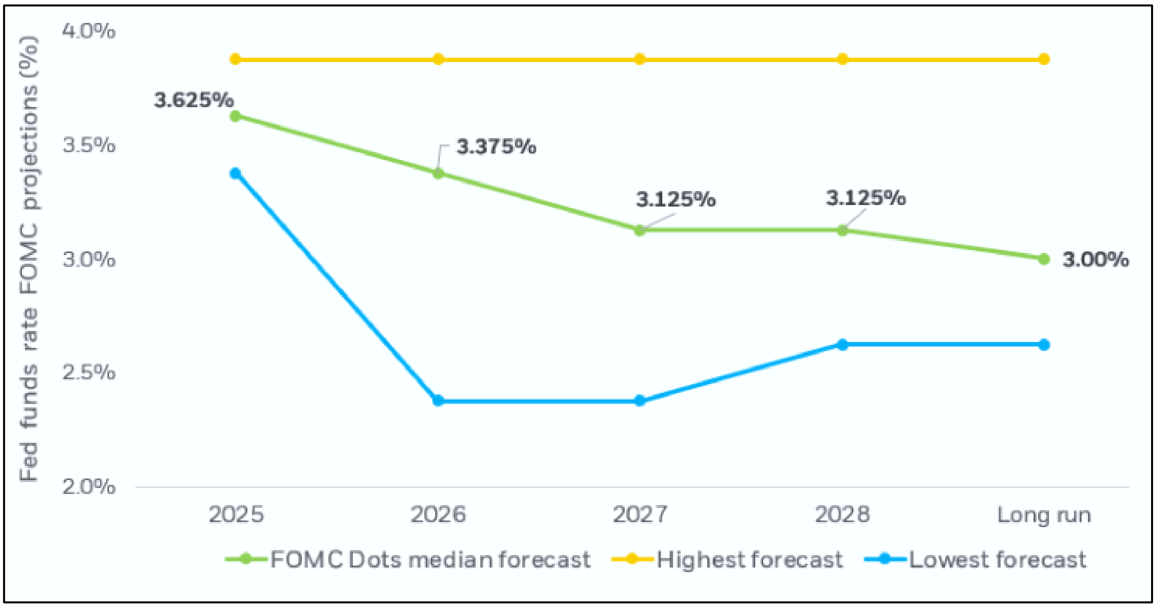
At the December 2025 meeting, the Fed approved new purchases of Treasury bills and coupon bonds out to three years at the pace of up to USD 40bn per month for reserve management. This pace will serve to increase the balance sheet and provide the central bank with an ample supply of reserves.

Chart 4: History of Federal Funds Rate



Source: Bloomberg and US Federal Reserve using the federal funds rate, upper bound from July 06 to Dec 2025

Chart 5: December 2025 "Dot Plot"



Source: US Federal Reserve Summary of Economic Projections as of Dec 2025

The Dot Plot is not a perfect predictor but can help provide investors with a guide to the likely path of Fed policy. For example, the December 2024 Dot Plot indicated the governors' forward expectations for the overnight rate was in the 3.75% to 4% range. The overnight rate ended this year at 3.50-3.75%, within 0.25% of the median dot from last year.

The Fed meetings in H2 of 2025 revealed a committee with more dissenters, or governors who did not vote with the majority. The highest, or most "hawkish" estimates call for a longer run policy rate as high as 3.875%, while the lower, more "dovish" governors expect that rate to be around 2.625%.

India – Economic Landscape

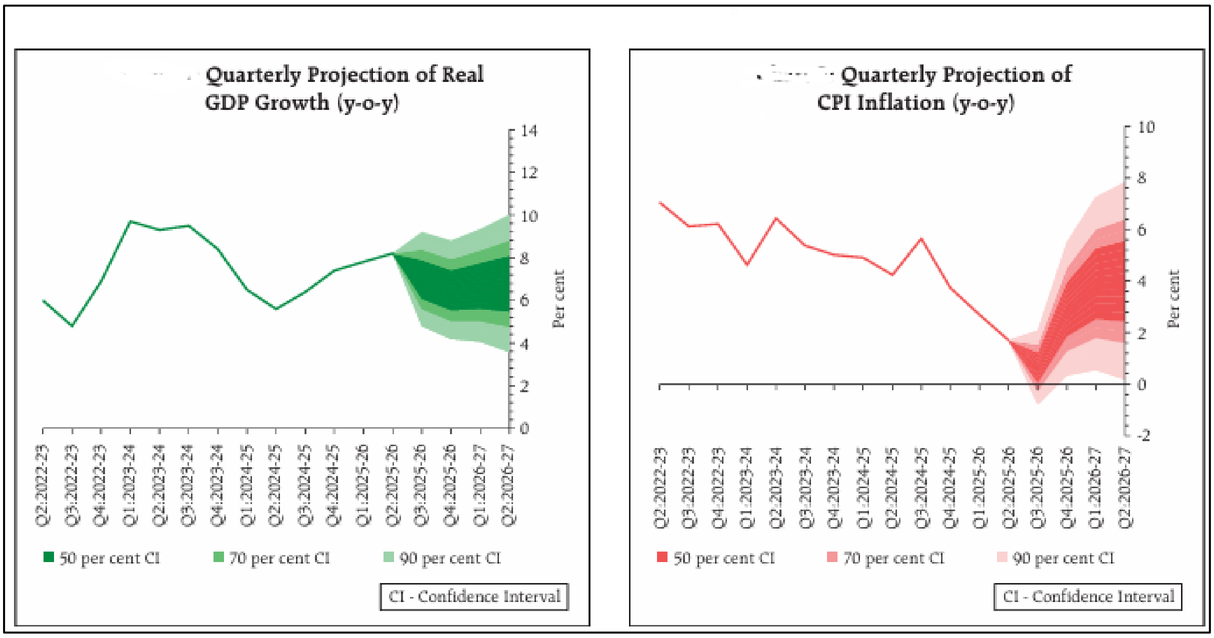
The Monetary Policy Committee (MPC) held its 58th meeting from December 3 to 5, 2025.

MPC after a detailed assessment of the evolving macroeconomic and financial developments and the outlook, voted unanimously to reduce the policy repo rate under the liquidity adjustment facility (LAF) to 5.25%. Consequently, the standing deposit facility (SDF) rate shall stand adjusted to 5% and the marginal standing facility (MSF) rate and the Bank Rate to 5.5%. The MPC also decided to continue **with the neutral stance**.

Real GDP registered a six-quarter high growth of 8.2% in Q2:2025-26, underpinned by resilient domestic demand amidst global trade and policy uncertainties. On the supply side, real gross value added (GVA) expanded by 8.1 per cent, aided by buoyant industrial and services sectors. Economic activity during the first half of the financial year benefited from income tax and goods and services tax (GST) rationalisation, softer crude oil prices, front-loading of government capital expenditure, and facilitative monetary and financial conditions supported by benign inflation. Taking all these factors into consideration, real GDP growth for 2025 26 is projected at 7.3%.

Headline CPI inflation declined to an all-time low in October 2025. The faster than anticipated decline in inflation was led by correction in food prices, contrary to the usual trend witnessed during the months of September-October. Core inflation (CPI headline excluding food and fuel) remained largely contained in September-October, despite continued price pressures exerted by precious metals. Excluding gold, core inflation moderated to 2.6% in October. Both headline and core inflation are expected to be around the 4% target during the first half of 2026-27.

Chart 6: GDP and Inflation projection



Source: RBI

Table 3: High Frequency indicator – Industry Growth

Indicator	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
IIP-headline	5.0	3.7	5.2	2.7	3.9	2.6	1.9	1.5	4.3	4.1	4.6	0.4	
IIP manufacturing	5.5	3.7	5.8	2.8	4.0	3.1	3.2	3.7	6.0	3.8	5.6	1.8	
IIP capital goods	8.9	10.5	10.2	8.2	3.6	14.0	13.3	3.0	6.8	4.5	5.4	2.4	
PMI manufacturing	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6
PMI export order	54.6	54.7	58.6	56.3	54.9	57.6	56.9	60.6	57.3	56.1	56.5	54.7	54.1
PMI manufacturing: future output	65.5	62.5	65.1	64.9	64.4	64.6	63.1	62.2	57.6	60.5	64.8	62.3	57.1
Eight core index	5.8	5.1	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.5	3.3	0.0	
Electricity generation: conventional	2.6	4.5	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.8	1.0	0.8	-10.6	-5.1
Electricity generation: renewable	19.0	17.9	31.9	12.2	25.2	28.0	18.2	28.7	26.4	22.7	16.4	21.4	
Automobile production	8.0	1.3	9.4	2.3	6.5	-1.7	5.2	1.2	10.7	8.1	10.8	-2.8	22.3
Passenger vehicle production	6.5	9.2	3.7	4.5	11.2	10.8	5.4	-1.8	0.1	-4.1	16.1	9.8	22.8
Tractor production	24.7	20.9	23.7	-7.8	18.5	20.5	9.1	9.8	11.5	9.4	23.0	13.0	37.5
Two-wheelers production	8.8	-0.6	10.3	1.6	5.6	-4.1	4.7	1.4	12.3	10.0	9.8	-5.6	20.9
Three-wheelers production	-5.5	7.6	16.2	6.5	6.0	4.1	16.9	8.6	24.0	15.8	15.9	15.9	55.4
Crude steel production	4.5	8.3	7.4	6.0	8.5	9.3	11.0	12.6	13.8	12.8	13.2	9.4	11.8
Finished steel production	2.8	5.3	6.7	6.7	10.0	6.6	7.0	10.9	13.8	13.8	13.8	10.0	13.5
Import of capital goods	4.4	6.1	15.5	-0.5	8.6	24.5	15.7	3.4	13.3	0.2	12.8	8.7	13.1

<<Contraction -- Expansion>>

Notes: 1. The y-o-y growth (in per cent) has been calculated for all indicators (except for PMI). 2. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series. 3. The heatmap is applied on data from April 2023 to the latest month for which data is available. 4. All PMI values are reported in index form. A PMI value >50 denotes expansion.

Sources: Ministry of Statistics and Programme Implementation (MoSPI); S&P Global; Central Electricity Authority (CEA), Ministry of Power; Society of Indian Automobile Manufacturers (SIAM); Office of Economic Adviser, GoI; Joint Plant Committee; Directorate General of Commercial Intelligence &Statistics; and Tractor and Mechanisation Association.

Table 4: High Frequency indicator – Economic activity

Indicator	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
GST E-way bills	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8	22.4	21.0	8.2	27.6
GST revenue	0.6	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1	4.6	0.7
Toll collection	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8	12.7	4.5	4.6	2.9
Electricity demand	3.7	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.6	3.8	3.5	-5.8	-0.6
Petroleum consumption	10.6	2.0	3.0	-5.2	-3.1	0.2	1.1	0.5	-4.4	4.8	7.6	-0.4	3.0
Of which Petrol	9.6	11.1	6.7	5.0	5.7	5.0	9.2	6.8	5.9	5.5	8.0	7.4	2.6
Diesel	8.5	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4	1.2	6.6	-0.3	4.7
Aviation turbine fuel	8.5	8.7	9.4	4.2	5.7	3.9	4.4	3.3	-2.3	-2.9	-0.8	2.1	5.4
Digital payments - Volume	30.1	33.1	33.0	26.7	30.8	30.0	29.2	28.3	30.9	31.1	28.1	21.5	27.2
Digital payments - Value	9.5	19.6	18.6	9.5	17.3	18.4	12.6	17.4	16.6	5.3	13.4	8.8	14.9

<<Contraction -- Expansion>>

Notes: 1. The y-o-y growth (in per cent) has been calculated for all indicators. 2. The heatmap is applied on data from April 2023 to the latest month for which data is available. Digital Payments data for November 2025 are provisional. 3. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series. 4. The data on toll collections for November 2025 growth rate is calculated by aggregating daily data. Sources: Goods and Services Tax Network (GSTN); RBI; Central Electricity Authority (CEA); National Payments Corporation of India (NPCI); and Ministry of Petroleum and Natural Gas, GoI

Table 5: High Frequency indicator – High Frequency Indicators - Robust Demand Condition

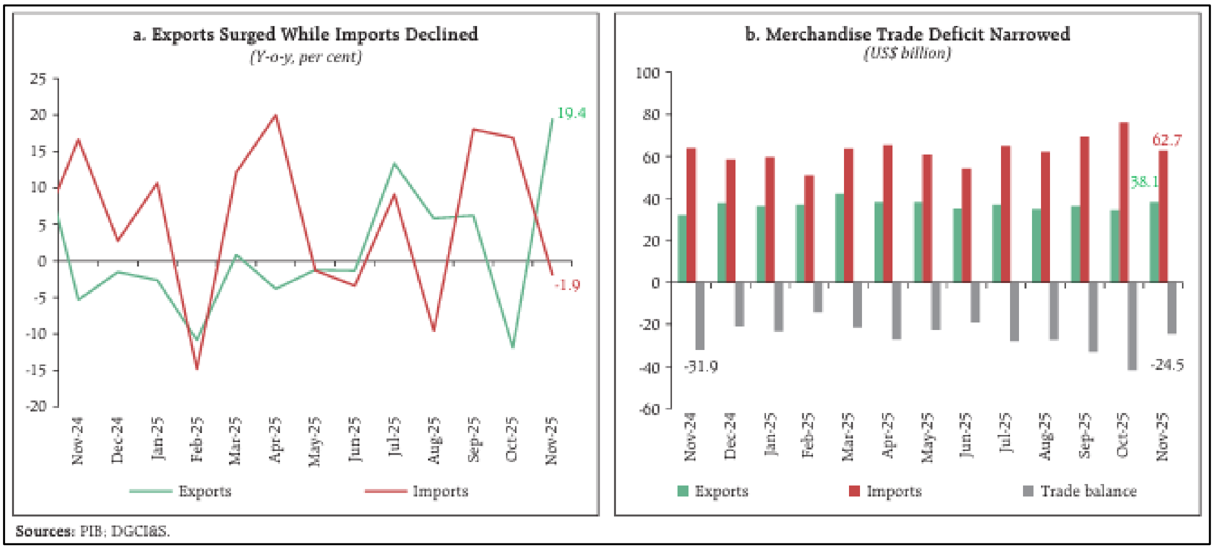
	Indicator	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
Urban demand	Domestic air passenger traffic	13.8	10.8	14.1	12.1	9.9	9.7	2.6	3.7	-2.5	-0.5	-2.5	3.5	6.7
	Retail passenger vehicle sales	-11.8	-2.0	15.5	-10.3	6.3	1.6	-3.1	2.5	-0.8	0.9	5.8	10.7	19.7
Rural demand	Retail automobile Sales	12.0	-12.5	6.6	-7.2	-0.7	2.9	5.4	4.8	-4.3	2.8	5.2	40.5	2.1
	Retail tractor sales	29.9	25.8	5.2	-14.5	-5.7	7.6	2.8	8.7	11.0	30.1	3.6	14.2	56.5
	Retail two-wheeler sales	16.3	-17.6	4.2	-6.3	-1.8	2.3	7.3	4.7	-6.5	2.2	6.5	51.8	-3.1

<<Contraction ---------- Expansion>>

Notes: 1. The y-o-y growth (in per cent) has been calculated for all indicators. 2. The heatmap is applied on data from April 2023 to the latest month for which data is available. 3. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corre sponding to the highest values of the respective data series. 4. The data on domestic air passenger traffic for November 2025 growth rate is calculated by aggregating daily data. Sources: Airports Authority of India; Federation of Automobile Dealers Associations (FADA); and Ministry of Rural Development, GoI.

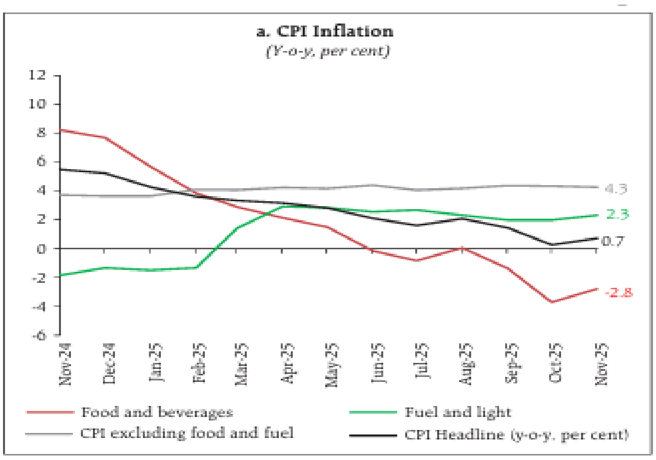
Chart 7: India's merchandise trade

The merchandise trade deficit during April-November 2025 was at USD 223.1bn as against USD 203.3bn during April-November 2024.



Source: RBI monthly bulletin

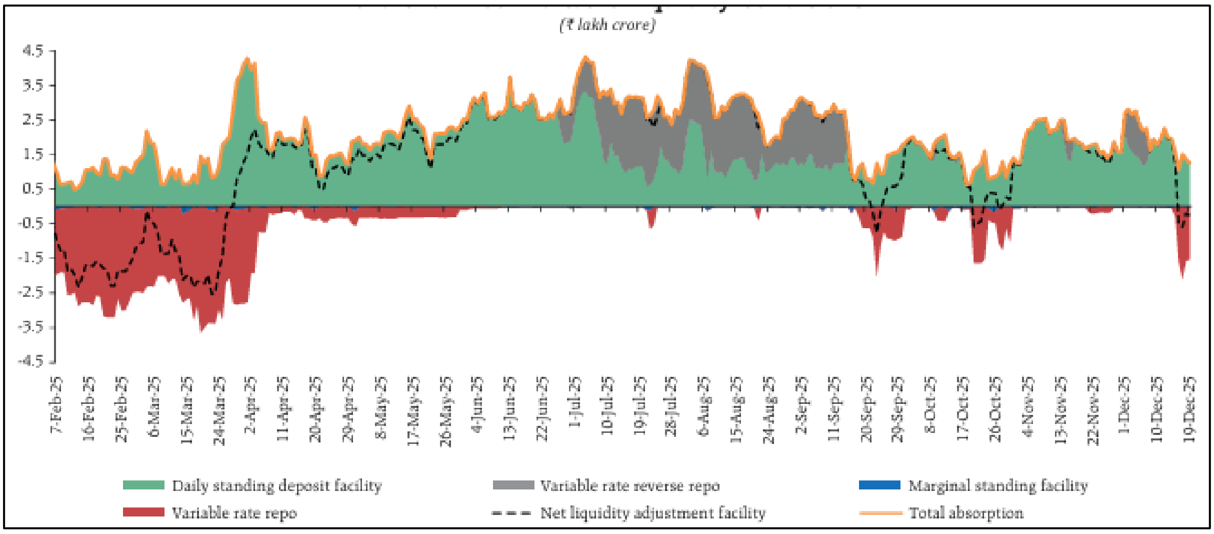
Chart 8: Inflation



Source: National Statistical Office, RBI

Chart 9: Liquidity Operations

Banking system liquidity remained largely in surplus during the second half of November and December (up to 19th). Temporary increases in government cash balances due to GST related payments and an increase in currency-in-circulation led to some decline in system liquidity during the second half of November. The last tranche of CRR reduction, effective November 29, 2025 improved liquidity conditions till mid-December. System liquidity turned into deficit in the second half of December (up to 19th) on account of buildup in government cash balances due to advance tax payments. To offset the transient liquidity tightness, the Reserve Bank conducted variable rate repo auctions. With the aim of injecting durable liquidity into the system, the Reserve Bank conducted open market operation (OMO) purchases of government securities amounting to ₹1 lakh crore and 3-year USD/ INR Buy/Sell swaps of USD 5bn in December.

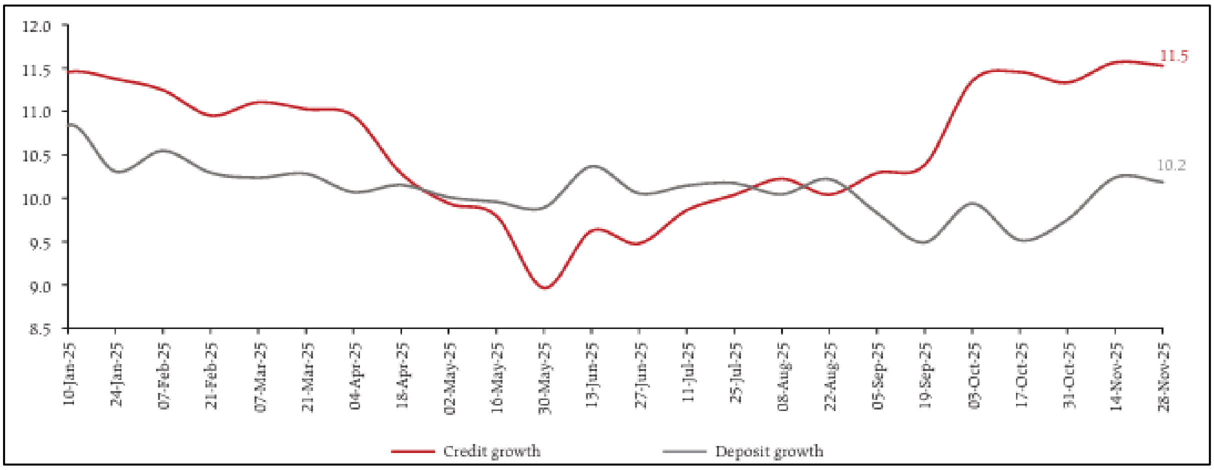


Source: RBI

Foreign exchange reserves 3 As on November 28, 2025, India's foreign exchange reserves stood at USD 686.2 bn, providing a robust import cover of more than 11 months.

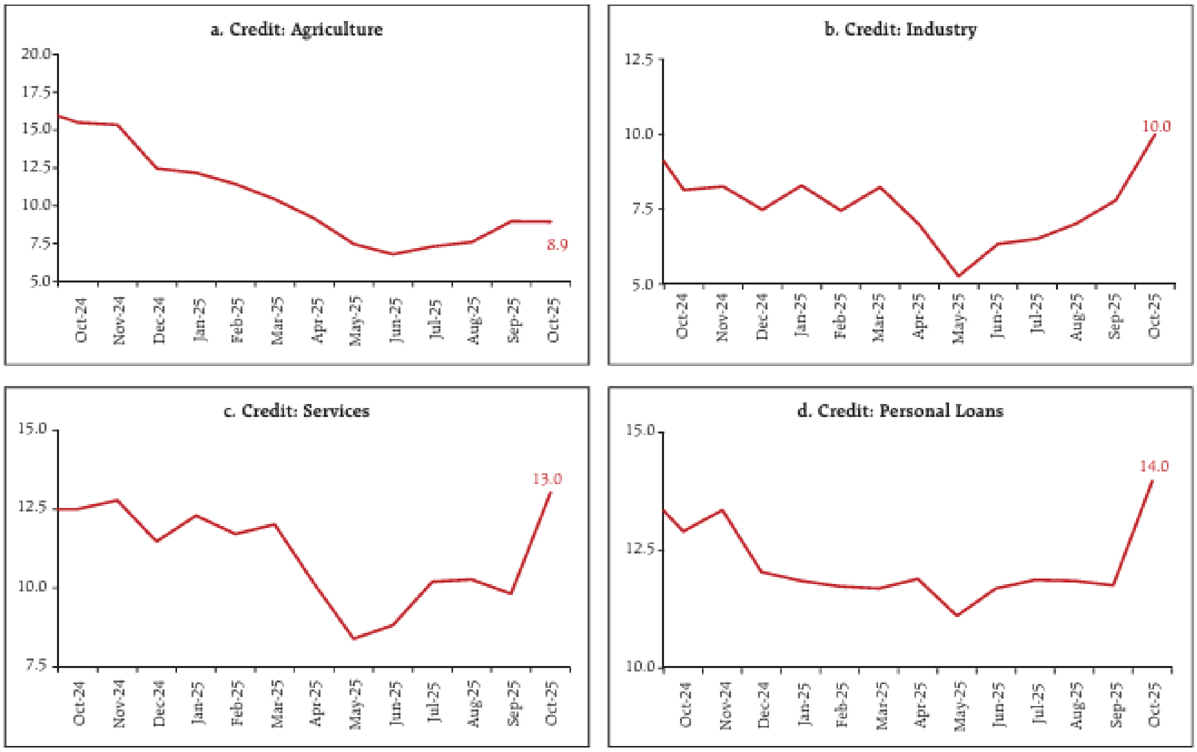
Trends of Scheduled Commercial Banks

Chart 10: Credit and Deposit growth of SCBs y-o-y



Credit growth in scheduled commercial banks (SCBs) sustained its pace during November (up to 28th). Bank deposits, on the other hand, registered a significant pickup in growth. Consequently, the wedge between credit and deposit growth narrowed from 1.5% in end October to 1.3% in end-November.

Chart 11: Credit growth across sectors y-o-y



Source: RBI

India Equities: Earnings Season and Path ahead

As India enters 2026, the equity market appears to be at a critical transition point—shifting away from liquidity led rallies toward a phase where earnings uptick, policy execution, and macro stability are likely to be the primary drivers of returns. After a phase of relative underperformance in 2025, improving earnings visibility and resilient domestic fundamentals are setting the stage for a more balanced recovery.

While global uncertainties around geopolitics, trade realignments, and monetary policy remain fluid, India stands out for the strength of its internal growth engines. Real GDP growth is projected at around 7.3% in FY26 followed by 6.5% growth in FY27, supported by stable macro fundamentals, improving consumption trends, and continued public and private investment. The government's expansive fiscal stimulus exceeding USD 100bn, including personal income tax relief and GST rationalisation has materially improved the outlook for discretionary spending and household balance sheets over the medium term.

Corporate earnings are expected to regain momentum following a weak base in FY25 and FY26. Nifty EPS is forecast to grow at a 12% CAGR in FY27, driven by margin recovery in financials, a revival in consumer staples aided by GST adjustments, and sustained growth across discretionary and capital-intensive sectors. Importantly, large-cap valuations have corrected meaningfully, with the market now trading close to long-term averages at approximately 21x forward earnings, improving the risk-reward equation.

A structural shift in household savings continues to provide a powerful domestic liquidity buffer. Since 2013, bank deposits as a share of financial assets have declined from 67% to 45%, while allocations to equities, mutual funds, and insurance have risen sharply. This financialisation trend has translated into persistent domestic inflows, helping reduce the market's dependence on foreign capital. At the same time, foreign institutional investor positioning in India is near historical lows, creating scope for renewed inflows as clarity emerges on U.S.–India trade dynamics.

India's long-term growth narrative is increasingly anchored in manufacturing and infrastructure. Electronics manufacturing is scaling rapidly, with output expected to rise from USD 48bn to USD 500bn by FY30. Semiconductor fabrication projects involving USD 18bn in investments are moving toward execution, while defence exports are projected to grow fivefold to USD 5.7bn by FY29. Infrastructure development remains relentless, with approximately 28 km of roads being built daily, metro rail networks expanding significantly, and renewable energy capacity accelerating to meet rising power demand from data centres, industrial activity, and electrification.

The country's digital ecosystem further strengthens India's competitive advantage. With over 35 crore UPI users, 89 crore internet users, and rapidly expanding e-commerce and quick-commerce penetration, Indian companies benefit from unmatched scalability and cost efficiencies. Progress on trade agreements with the UK, EU, EFTA, and potentially the U.S. could further unlock export opportunities and ease tariff-related concerns weighing on sentiment.

India's equity market capitalisation has grown to approximately USD 5trn, making it the world's fifth largest market. Retail participation continues to deepen, with demat accounts increasing fivefold over the past five years and SIP inflows reaching a record ₹293bn per month, reinforcing the domestic ownership base

With inflation easing, RBI rate cuts transmitting in to lower rates for the borrowers, credit growth stabilising, and capital expenditure momentum remaining strong evidenced by 40% yoy growth in H1 FY26, India offers a rare convergence of structural growth, reform momentum, and reasonable valuations. For long-term investors, the Indian equity market continues to present a compelling opportunity for sustained wealth creation despite near-term volatility.

Despite the presence of several structural and cyclical tailwinds, the risk environment for Indian equities in 2026 is likely to be shaped as much by global developments as by domestic fundamentals. On the positive side, policy support remains clearly growth-oriented. Fiscal and monetary conditions continue to be accommodative, supported by ample liquidity and a benign inflation backdrop that allows the central bank to prioritise growth. Recent GST and income tax reductions are improving household disposable incomes, which should translate into stronger consumption and better earnings visibility across consumer-facing sectors.

India's equity market also benefits from positioning and relative performance dynamics. After underperforming global and emerging market peers over the past year largely due to sustained FII selling, valuations and ownership structures appear better balanced, creating scope for a catch-up phase if global risk sentiment stabilises. In addition, expectations around a potential India-U.S. trade agreement over the coming months could act as a meaningful sentiment catalyst, particularly for export-oriented sectors.

However, external risks remain an important source of uncertainty. A global growth slowdown triggered by geo political tension, tariff-related disruptions could weigh on growth and investor confidence. A renewed rise in inflation in developed markets may force central banks to pivot back toward tighter monetary policy, pushing bond yields higher and compressing equity valuations globally. Geopolitical shocks especially those impacting energy markets or supply chains along with any disappointment in AI or broader technology earnings, could also trigger a broad risk-off phase across global equities.

Financial market specific risks are equally relevant. A disorderly unwinding of the Japan yen carry trade, driven by faster-than-expected Bank of Japan policy normalisation, could result in sharp currency moves, cross-asset selling, and tighter global financial conditions, with spillovers into emerging markets. Elevated equity valuations in the U.S. and high levels of government debt in major economies such as the U.S. and Japan further increase vulnerability to market corrections.

From a domestic perspective, India faces its own set of risks. Inflation could re-emerge due to base effects and stronger demand conditions, potentially limiting the pace of monetary easing. A widening current account deficit driven by higher imports, particularly if gold prices remain elevated, and weaker exports due to trade frictions could also become a headwind. Additionally, market valuations and the risk of fiscal slippage, especially in the second half of FY27, warrant close monitoring.

Overall, while India's medium-term equity story remains intact, 2026 is likely to require a more selective and risk-aware investment approach, balancing strong domestic fundamentals against an increasingly complex global backdrop.

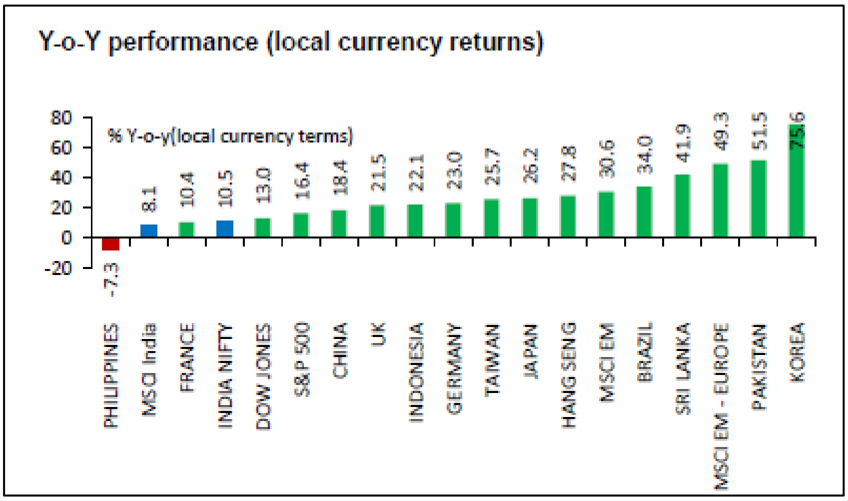
Investor Action Plan

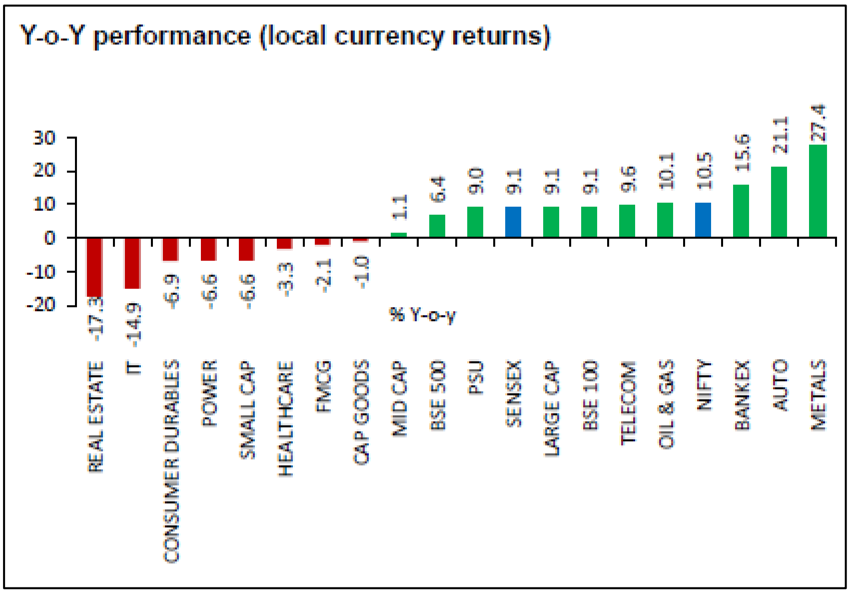
In the current environment, investors should focus on risk-adjusted opportunities and disciplined allocation:

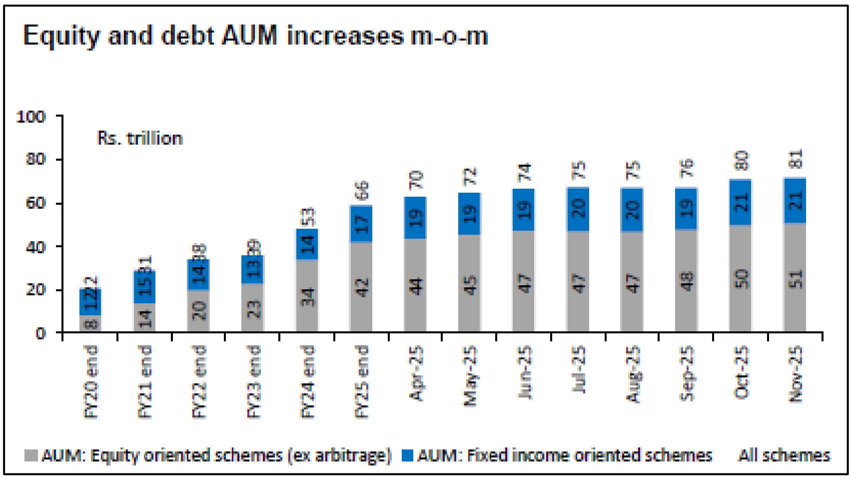
- Buy on Dips: Use meaningful market corrections as entry opportunities, with a greater allocation to large- and mid-cap stocks. These segments offer better earnings visibility and liquidity, while small and micro caps show signs of speculative excess.
- Be Selective on IPOs: The surge in primary market activity warrants caution. Focus on fundamentally strong businesses with profitability visibility.
- Reassess Valuation and Earnings Outlook: Despite the narrowing of India's valuation premium versus other emerging markets, subdued earnings growth remains a deterrent for stronger foreign investor participation. Clear earnings acceleration will be key to renewed FII inflows.
- Stay Anchored in Core Sectors: Maintain allocations to financials, manufacturing, infrastructure, and consumption—sectors best positioned to benefit from policy reforms, domestic demand recovery, and improving liquidity conditions.

Trends in Indian Equity Market

Charts 12-13-14: Global and Domestic markets performance, domestic sectors performance and domestic SIP flows

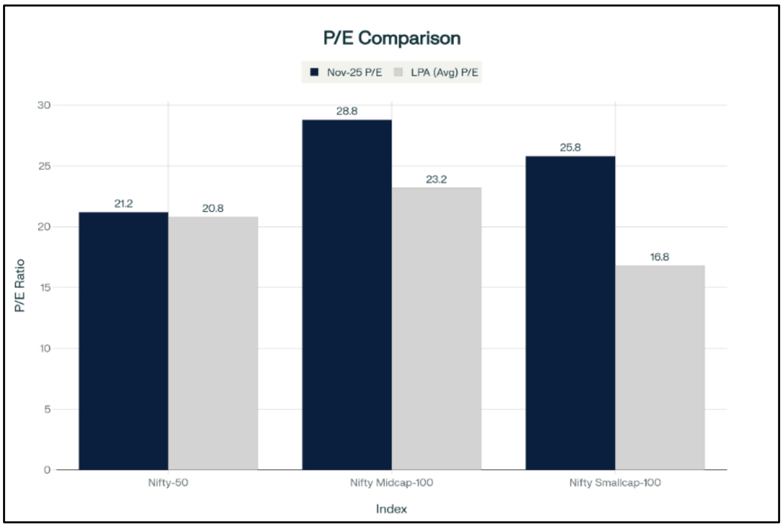






Source: AMFI, NSE India, SBI MF, BSE

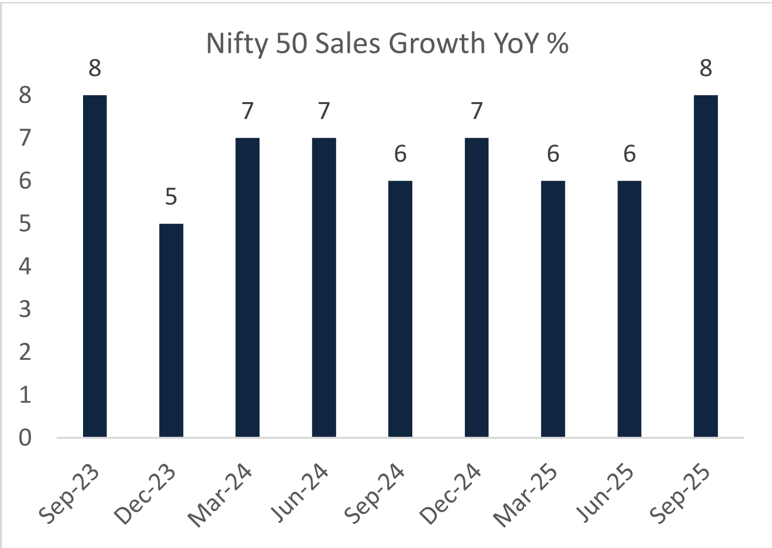
Chart 15: Nifty largecap, midcap,smallcap valuation relative to long period average

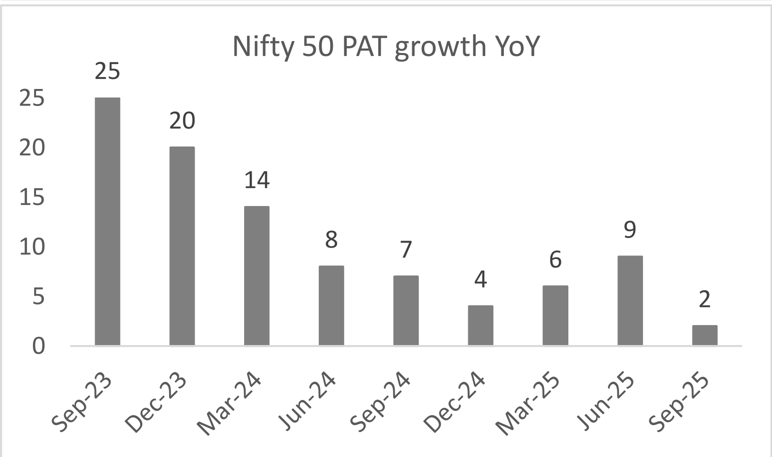


Source: StatLane, NSE india.

Note: LPA is long period average, in this case period between 2015-2025

Chart 16 & 17: Nifty 50 Sales and PAT trends





Source: StatLane Research

Chart 18: EPS trends. Earnings likely to recover in FY27 on the back of positive catalysts

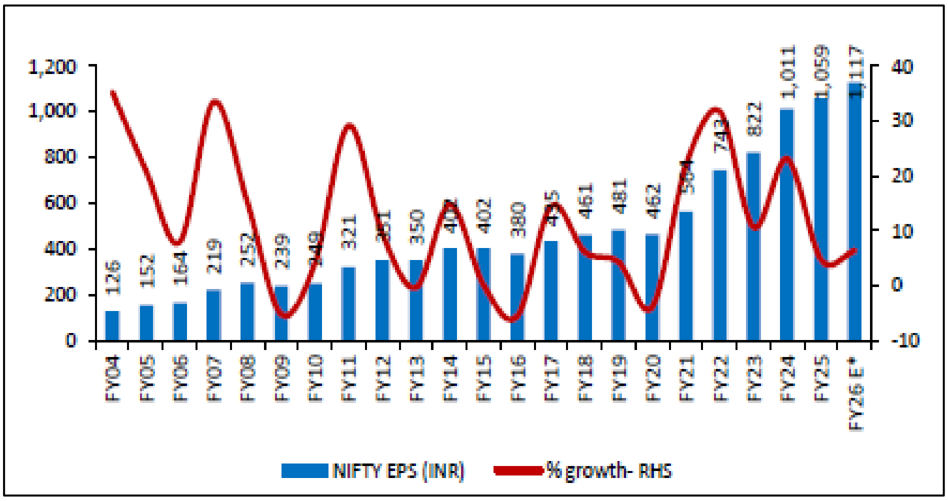


Chart 19: FII trends

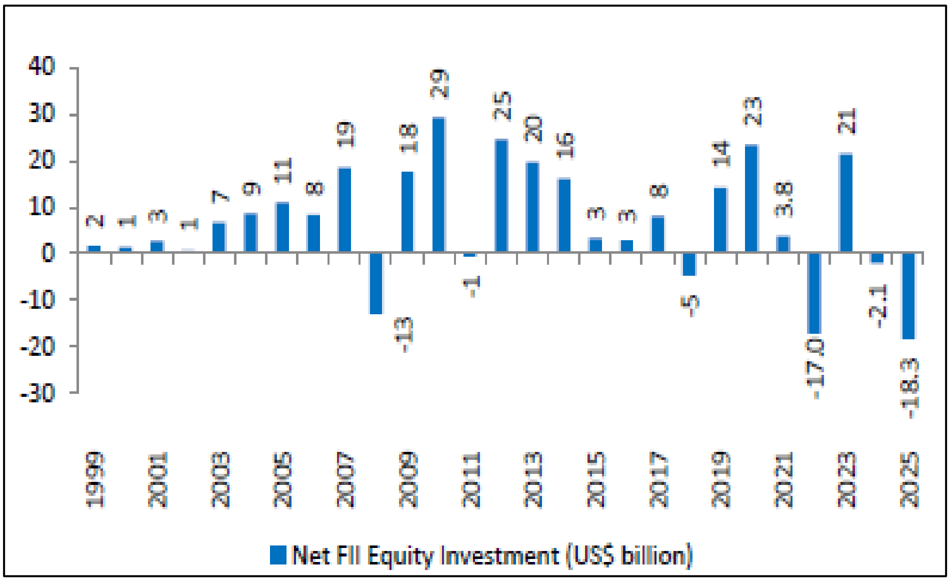
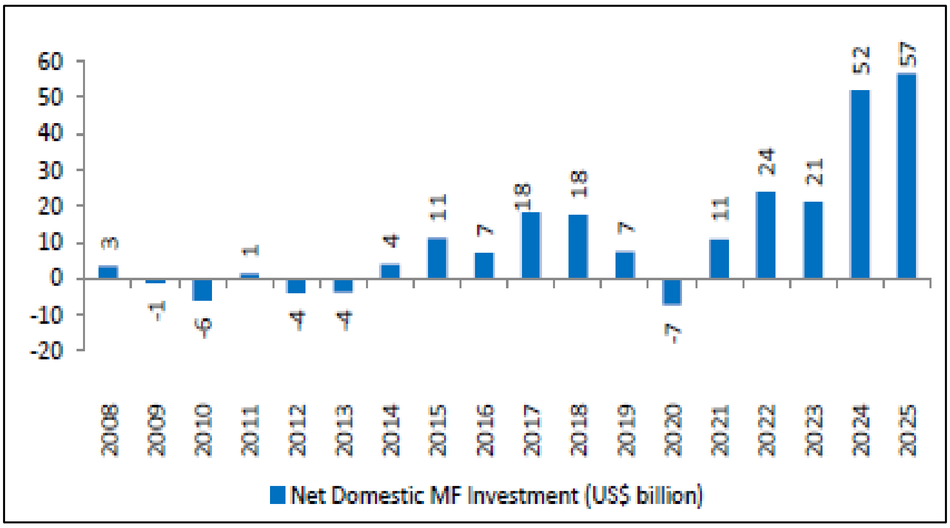


Chart 20: DII trends



Source of charts on this page: Bloomberg, SBIMF

Chart 21: Domestic Equity MF flows

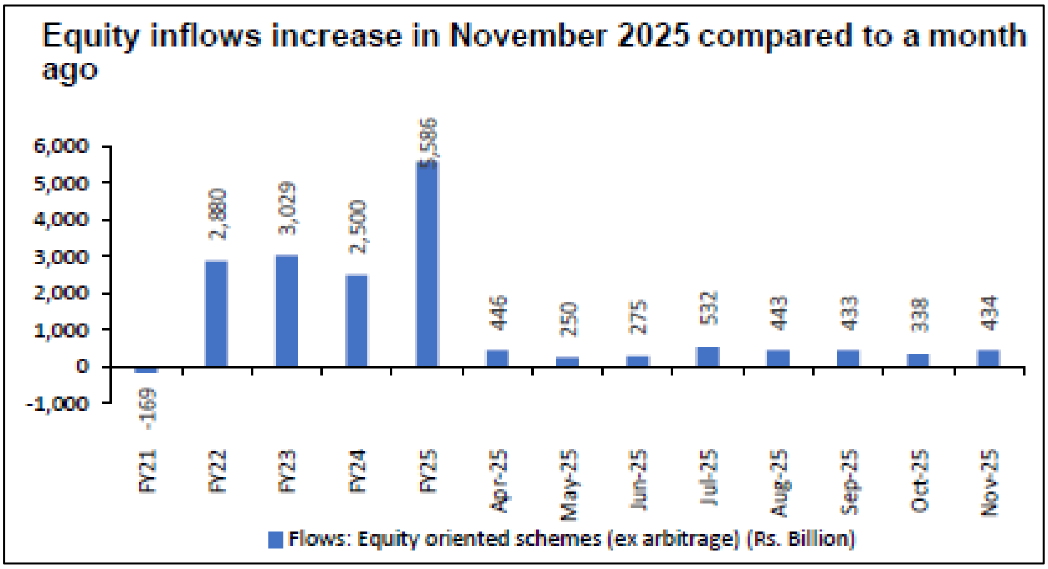


Chart 22: Marketcap to GDP

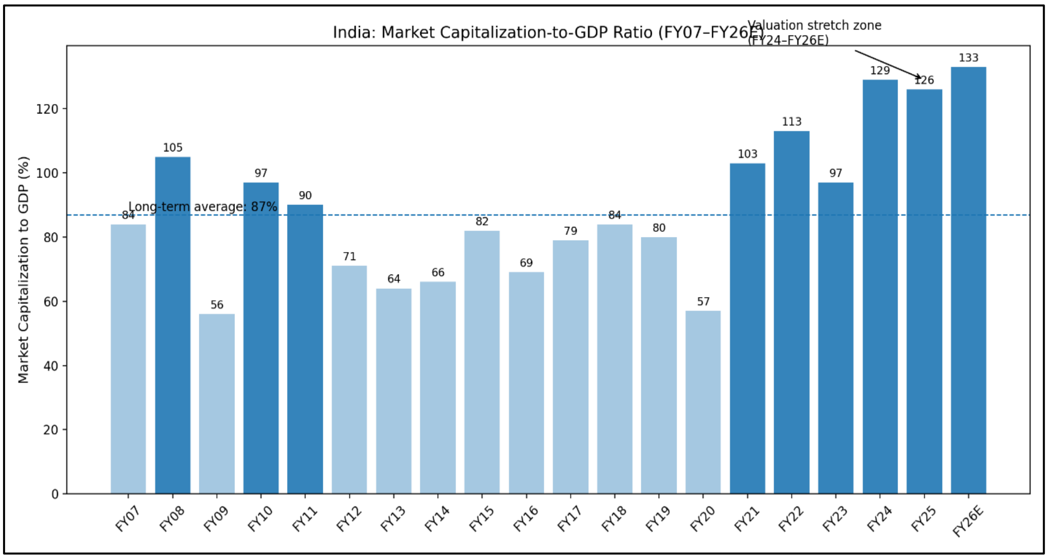
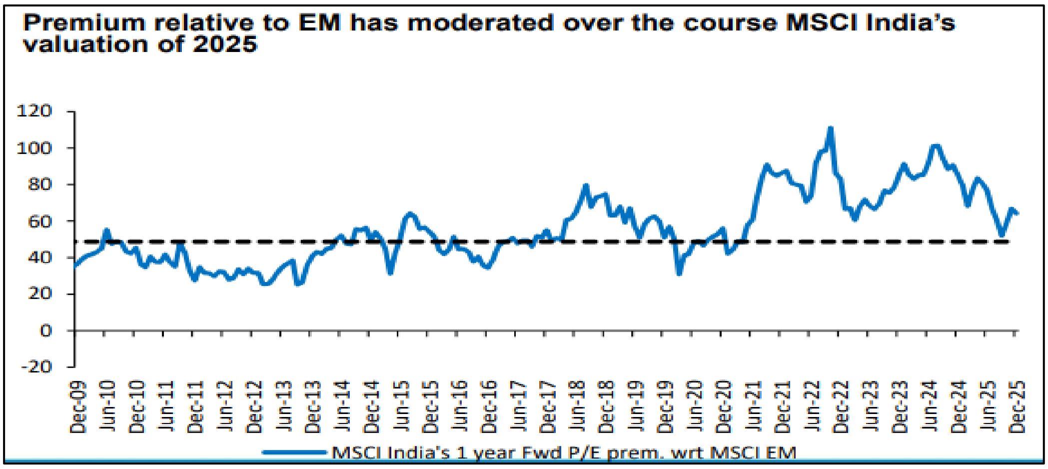


Chart 23: India vs EM



Source of charts on this page: Bloomberg, SBIMF, AMFI

India Bonds: RBI's major rate cuts are largely behind us

The Monetary Policy Committee (MPC) held its 58th meeting from December 3 to 5, 2025.

MPC after a detailed assessment of the evolving macroeconomic and financial developments and the outlook, voted unanimously to reduce the policy repo rate to 5.25%. Consequently, the standing deposit facility (SDF) rate shall stand adjusted to 5% and the marginal standing facility (MSF) rate and the Bank Rate to 5.50%. The MPC also decided to continue **with the neutral stance**.

Real GDP registered a six-quarter high growth of 8.2% in Q2 FY26, underpinned by resilient domestic demand amidst global trade and policy uncertainties. On the supply side, real gross value added (GVA) expanded by 8.1%, aided by buoyant industrial and services sectors. Economic activity during the first half of the financial year benefited from income tax and goods and services tax (GST) rationalisation, softer crude oil prices, front-loading of government capital expenditure, and facilitative monetary and financial conditions supported by benign inflation. Taking all these factors into consideration, real GDP growth for FY26 is projected at 7.3%.

Headline CPI inflation declined to an all time low in October 2025. The faster than anticipated decline in inflation was led by correction in food prices. Core inflation (CPI headline excluding food and fuel) remained largely contained in September-October. Excluding gold, core inflation moderated to 2.6% in October. Both headline and core inflation are expected to be around the 4% target during the 1st half of FY27.

Supportive Drivers

- The RBI still has room for 1 more rate cut should economic conditions soften, offering a cushion for the market.
- Consumer price inflation is expected to stay comfortably below the 4% target for FY27
- Despite a marginal rise in the fiscal deficit due to GST reforms, there is unlikely to be any change to the government's borrowing calendar, avoiding additional supply pressures.
- Globally, the U.S. Federal Reserve is expected to resume rate cuts amid rising global uncertainty, which could further boost sentiment toward Indian fixed income.

Key Challenges

- Tax revenues may come under pressure, with direct tax collections running below target and GST receipts likely to soften following recent GST changes.
- The income tax reductions announced in the FY25 Budget have constrained the government's revenue-raising ability.
- While reforms may boost consumption and efficiency in the long run, higher demand could eventually rekindle inflationary pressures, partly offsetting the current disinflation trend.

Investment Strategy

In this environment, we continue to prefer short-duration strategies—focusing on bonds and debt funds with modified duration below 3 years and maintaining overweight exposure to AAA and AA+ rated issuers over lower-quality credits.

Post the October 2025 monetary policy outcome, investors should moderate expectations for fixed income returns, as yields have already rallied substantially over the past year and the bulk of the RBI's rate-cut cycle now appears to be behind us. We expect 1 more rate cut given the supporting inflation and Fed rate cut cycle.

We reiterate our guidance to reduce portfolio duration and explore hybrid mutual fund products, which can offer better tax efficiency and diversification compared to pure fixed income allocations. Investors should align such decisions with their individual risk profile and investment objectives.

Table 6: Yield movement

	2023 end	2024 end	2025 end	m-o-m (in bps)	y-o-y change (in bps)
Repo rate	6.50	6.50	5.25	-25	-125
1 Yr T-Bill	7.13	6.69	5.54	0	-115
3M T-Bill	6.93	6.55	5.26	-11	-129
3 year GSec	7.07	6.73	5.50	-3	-123
5 year GSec	7.09	6.72	5.81	5	-91
10 year GSec	7.18	6.79	6.60	9	-20
3 Yr Corp Bond*	7.78	7.58	7.00	22	-58
5 Yr Corp Bond*	7.79	7.46	7.10	18	-36
10 Yr Corp Bond*	7.76	7.24	7.30	8	6
1 Yr IRS	6.64	6.51	5.45	-1	-106
5 Yr IRS	6.19	6.20	5.92	16	-28
Overnight MIBOR Rate	6.90	7.15	5.67	8	-148
10 year SDL	7.65	7.15	7.30	12	15
INR/USD	83.21	85.61	89.88	-0.5^	-4.8^
Crude oil Indian Basket**	77.43	73.34	62.20	-3.3^	-15.2^

Source: SBI MF

Market Data

India Index Performance % 31 Dec 2025	1M	3M	1Yr	3Yr
Nifty 50	-0.3	6.3	11.9	14.3
Nifty Next 50	**0.3**	**2.3**	**2.9**	**18.9**
Nifty 200	-0.3	5.9	9.6	16.2
Nifty 500	**-0.3**	**5.1**	**7.8**	**16.7**
Nifty Midcap 150	-0.5	6.0	6.0	24.0
Nifty Smallcap 250	**-0.3**	**0.0**	**-5.5**	**21.5**
Nifty Microcap 250	-2.5	-1.4	-9.6	26.8
Nifty Total Market	**-0.3**	**4.9**	**7.1**	**17.0**
Thematic/Sectoral Index				
Nifty Auto	1.5	6.2	24.6	31.8
Nifty Bank	-0.3	9.1	18.1	12.4
Nifty Chemicals	0.9	1.6	8.2	7.8
Nifty FMCG	-0.2	1.6	-0.4	9.8
Nifty IT	1.3	13.4	-10.4	12.1
Nifty Metal	8.5	11.3	29.9	19.1
Nifty Oil & Gas	1.6	8.5	15.3	14.1
Nifty Pharma	-1.2	5.9	-2.3	22.6
Nifty PSU Bank	0.2	13.4	31.3	26.4
Nifty Realty	-2.8	1.2	-16.3	27.1

Source: NSE India, StatLane Research, Index = Total Return Index, Performance over 1 year is CAGR

India Index Data 31 Dec 2025	P/E	P/B	Dividend Yield (%)
Nifty 50	22.8	3.6	1.3
Nifty Next 50	20.2	3.6	1.4
Nifty 200	23.8	3.7	1.2
Nifty 500	24.5	3.7	1.2
Nifty Midcap 150	33.6	4.5	0.8
Nifty Smallcap 250	29.4	3.6	0.7
Nifty Microcap 250	27.6	2.9	0.8
Thematic/Sectoral Index			
Nifty Auto	30.6	4.8	1.1
Nifty Bank	16.4	2.2	1.0
Nifty Chemicals	39.5	4.3	0.6
Nifty Consumer Durables	61.3	11.5	0.4
Nifty Financial Services Ex-Bank	24.4	4.5	0.8
Nifty FMCG	40.7	10.0	2.0
Nifty IT	26.7	7.0	3.0
Nifty Metal	19.9	2.9	1.6
Nifty Oil & Gas	11.3	1.7	2.8
Nifty Pharma	33.6	4.9	0.7
Nifty PSU Bank	8.8	1.4	2.2
Nifty Realty	40.5	4.3	0.3

Source: NSE India, StatLane Research

Global Index Performance (%) 31 Dec 25	1M	QTD	YTD
S&P 500	0.1	2.7	17.9
Dow Jones Industrial Average	0.7	3.6	12.9
S&P Europe 350	4.0	6.6	36.6
S&P Asia 50	4.9	6.7	49.0
S&P EM BMI	1.4	1.4	24.2
S&P U.S. Treasury Current 10-Year	**-0.8**	**1.0**	**8.0**
S&P GSCI	**-0.3**	**0.9**	**7.1**

Note 1: Source: S&P Dow Jones Indices LLC and/or its affiliates. 2 Index performance based on total return (USD)

U.S. Smart Beta Index Performance (%) 31 Dec 25	1M	QTD	YTD
S&P 500 Momentum	-0.5	-1.2	26.9
S&P 500 Equal Weight	0.5	1.4	11.4
S&P 500 Growth	-0.2	2.2	22.2
S&P 500 Value	0.4	3.2	13.2
S&P 500 Low Volatility	-2.2	-2.2	4.4

Note 1: Source: S&P Dow Jones Indices LLC and/or its affiliates. 2 Index performance based on total return (USD)

India Fixed Income Indices			Index Return %	
As of 31 Dec 2025	Yield (%)	MD (Yrs)	1M	1Y
Nifty 5Y SDL Index	7.20	4.18	-0.28	6.58
Nifty 3Y SDL Index	6.56	2.52	0.36	7.18
NIFTY 10 yr Benchmark G-Sec	6.71	7.26	-0.15	6.85
NIFTY Corporate Bond Index	7.27	2.24	0.09	7.55
NIFTY Banking and PSU Debt Index	6.84	2.65	0.02	7.64
NIFTY Low Duration Debt Index	6.75	0.63	0.42	7.28
NIFTY Short Duration Debt Index	6.76	1.67	0.26	7.59
NIFTY Credit Risk Bond Index	8.73	1.78	0.24	7.68
NIFTY Long Duration Debt Index	7.20	7.99	-0.28	3.04
NIFTY Short Duration G-Sec Index	5.91	2.46	0.33	7.81
NIFTY Long Duration G-Sec Index	7.07	9.67	0.42	3.30

Source: NSE India, StatLane Research, MD=Macaulay Duration

Commodities	31 Dec 25	30 Nov 25
Oil (Brent D)	62.7	65.0
Gold (D)	4314	4232

Source: StatLane Research

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