ECONOMY AND MARKETS

December 2025

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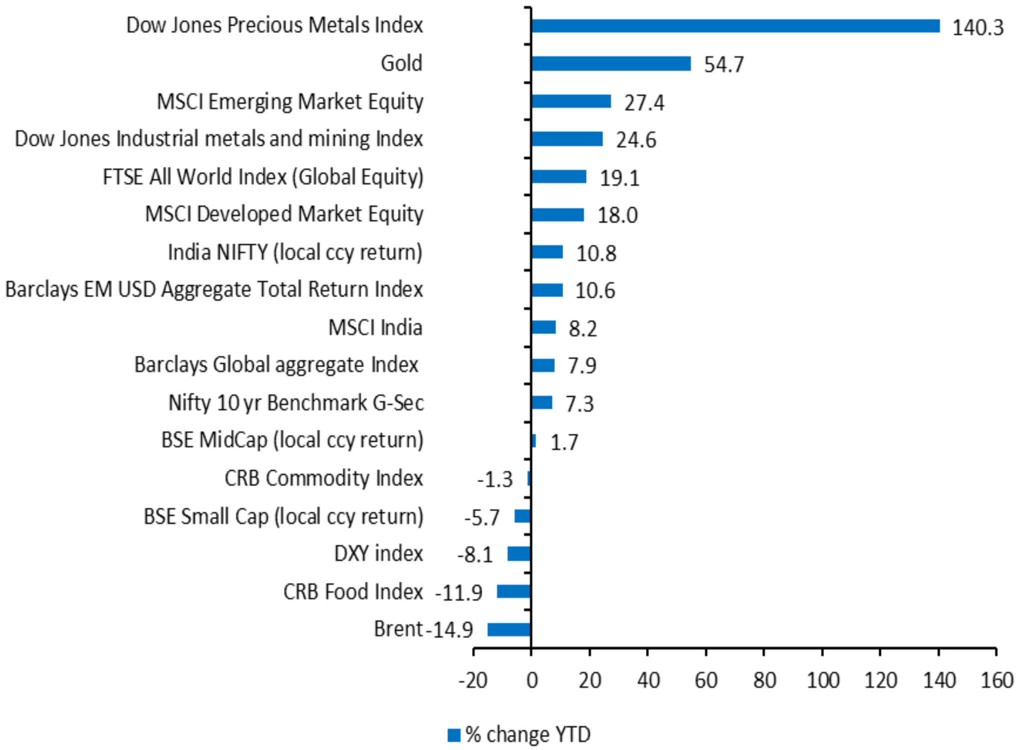
Global asset class performance and India's position

Precious metals is the best performing asset class Year-to-date: EM equity follows

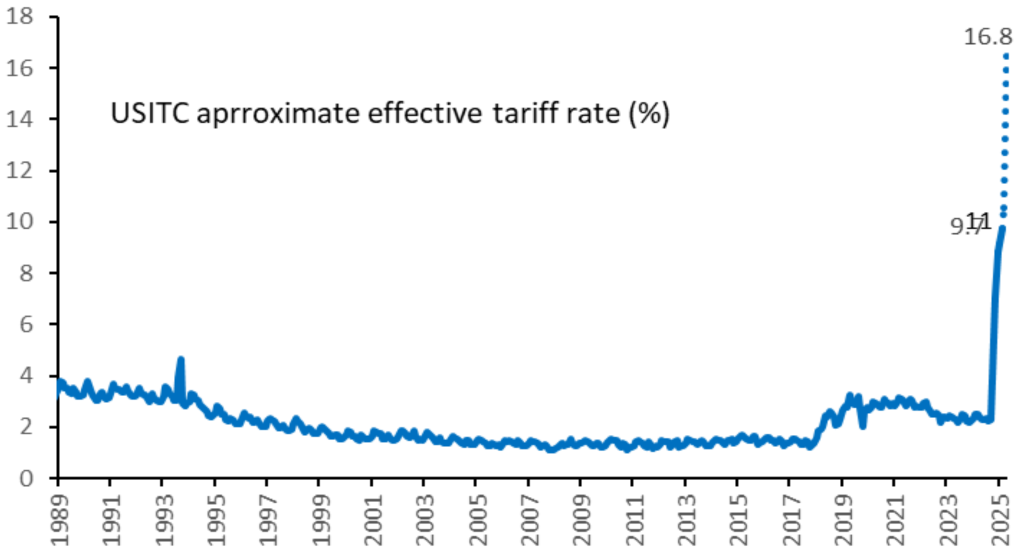


- 2025 has witnessed a broad-based performance across multiple asset classes, with developed and emerging market equities, EM fixed income, and both precious and industrial metals delivering healthy returns.
- Year-to-date, Brent crude, the US dollar, and global food prices have been among the few key asset classes posting negative returns.
- In India, equities staged a notable comeback in November, likely supported by strong earnings. The NIFTY index rose approximately 11% year-to-date.
- Year-to-date, global equities and global fixed income have significantly outperformed Indian markets.
- Returns from Indian equities and fixed income at the index level have remained broadly similar so far.

Source: Bloomberg, SBIFM Research

Tariffs and their ripple rffects: Inflation, Investment, and Geopolitics

Effective tariff rate in the US is 17% (vs. 2-3% in pre liberation day)



NB: Data till August. Yale's effective tariffs are at ~17% (vs less than 3% under Biden) whereas current collection indicates tariffs closer to 10-11%

- Eight months have passed since April 2nd – Liberation Day. A Harvard study concludes that most tariff-related costs have been absorbed by U.S. importers and consumers, which remains incrementally negative for U.S. growth.
- Tariffs have added about 0.7% to U.S. CPI. Without tariffs, inflation would have been closer to 2.3% instead of 3%.
- Average effective tariffs are estimated at 17% by Yale Lab, while current collections suggest 10–11%.
- Tariffs seem to be stabilizing, but U.S. CPI could rise into 2026. Ahead of mid-term elections, Trump may seek to ease tensions and reduce inflationary pressures, though disputes could flare up later.
- Impact on investment is unclear. Non-AI gross fixed capital formation is stagnating, and commitments to future investments remain vague (source: Macquarie Research).
- Geopolitically, the U.S. has retreated from talks with Mexico and Canada. China-U.S. relations remain tense, U.S.-EU ties have weakened, and even allies like Japan, Korea, and Australia show signs of hedging. Trade policies appear to have eroded U.S. influence and accelerated global fragmentation.
- In summary, tariffs have stabilized at lower-than-feared levels, with costs borne by U.S. importers and consumers. Other policies such as kickbacks, industry protection, and immigration are eroding key pillars of U.S. exceptionalism. Investors are likely to keep hedging USD exposure.
- Unless global imbalances are addressed, such developments may define the current era. To shrink its current account deficit, the U.S. will need a weaker dollar (especially against China) and slower growth.

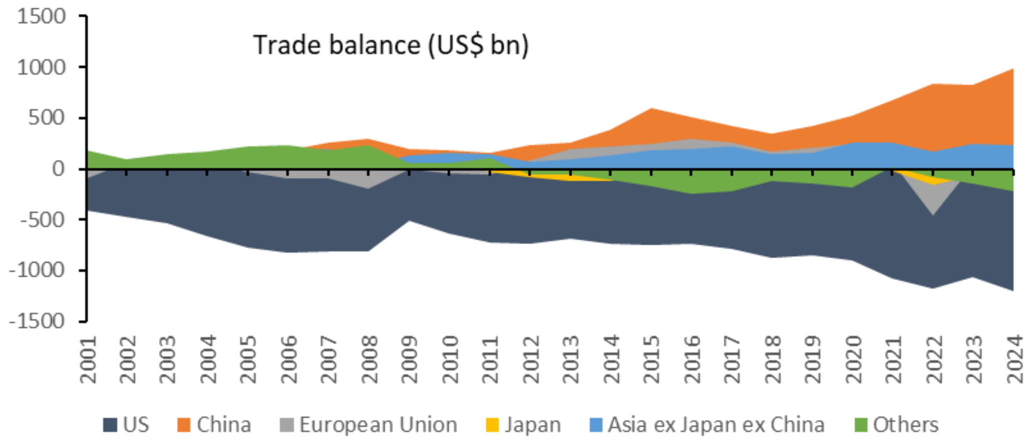
Source: Bloomberg, SBIFM Research NB: The Budget Lab (TBL) estimated that consumers face an overall average effective tariff rate of ~17%, the highest since 1934. https://budgetlab.yale.edu/research/state-us-tariffs-november-17-2025

Geopolitical shifts will continue: Root cause of the problem is economic imbalance

Global economic imbalance: China overinvests under consumes; US underinvests over consumes

	US	China	India
Investment (% GDP)	22	42	33
Household Consumption (% GDP)	68	40	62
Goods Trade Balance (US$ billion)	-1,202	992	-275
Current Account Balance (% GDP)	-3.2	1.4	-1.1
Savings (% GDP)	18	43	33
External Debt (US$ trillion)	27.6	2.4	0.7

US faces over US$1 trillion trade deficit; China holds similar quantum of surplus

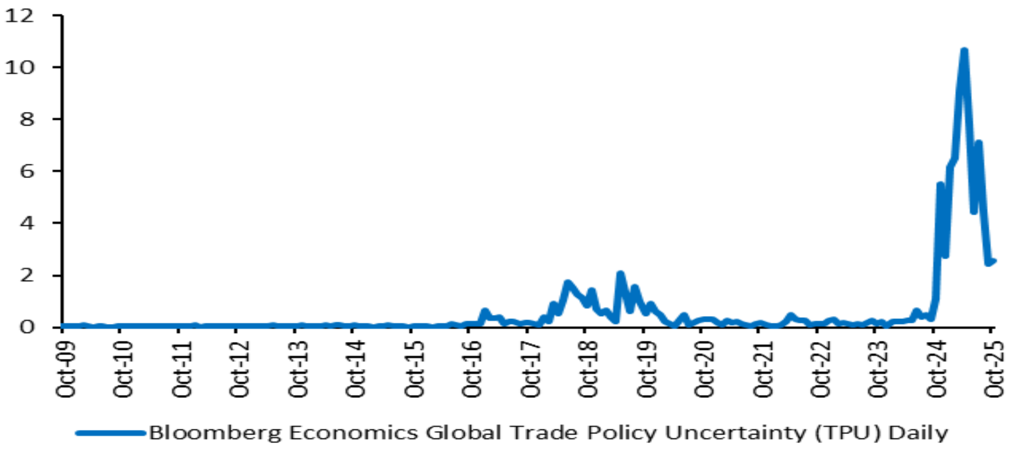


- The tariff issue highlights the deeper economic imbalance between the U.S. and China.
- US runs an annual trade deficit of ~US$1 trillion and China runs a similar quantum of surplus. Hence, US absorbs most of the worlds' surplus output of goods. This has led to rising levels of US overseas indebtedness. US administration wants to address this imbalance.
- China invests more than it spends while US consumption runs far higher than its investment. **US acts as a consumer of last resort.**
- The level of indebtedness in the US economy is rising to levels, which is perhaps getting difficult to sustain.
- Trump administration has initiated a fundamental debate- which is here to stay. There is a likely changing global order in the offing. Without robust demand from the US, global trade volumes may remain uncertain—unless China or the European Union undertakes substantial fiscal stimulus to boost demand.

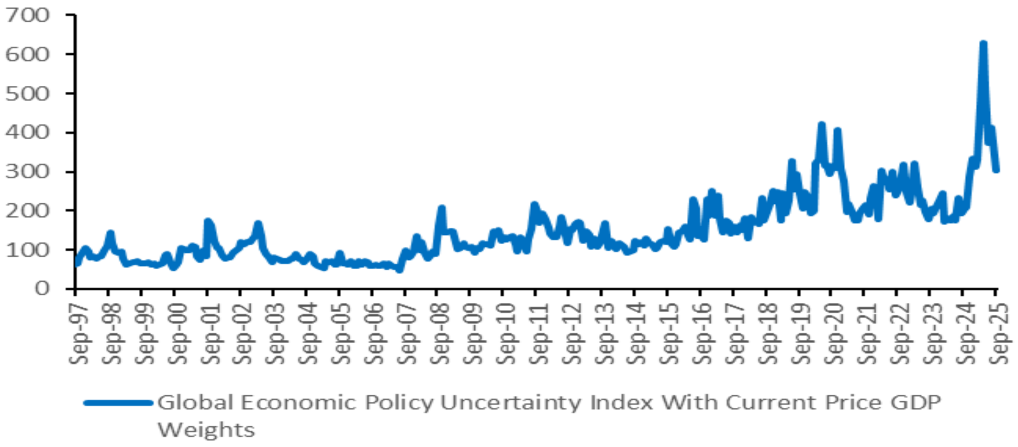
Source: IMF, CEIC, SBIFM Research; NB: Figures as of 2024 end

Some near-term de-escalation in global uncertainty

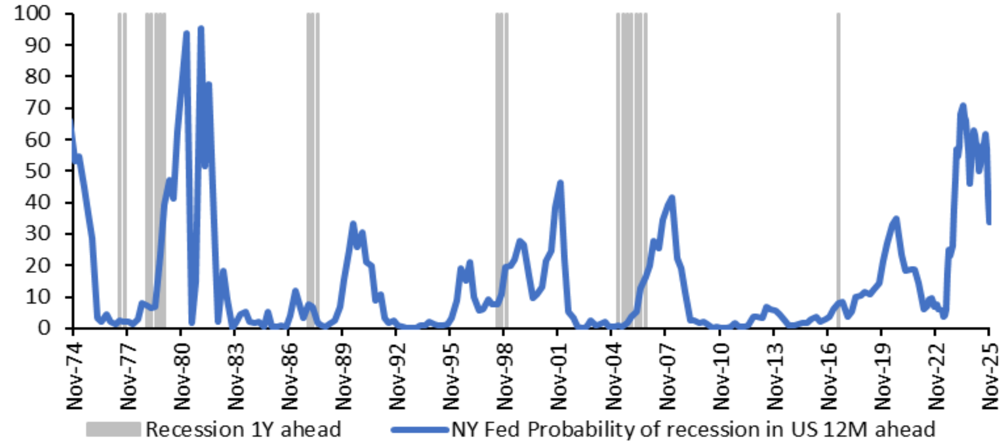
Some reprieve to trade uncertainty from its April peak



Policy uncertainty also cools off to pre-Trump levels



Probability of recession 12M ahead has eased from its peak but stays high

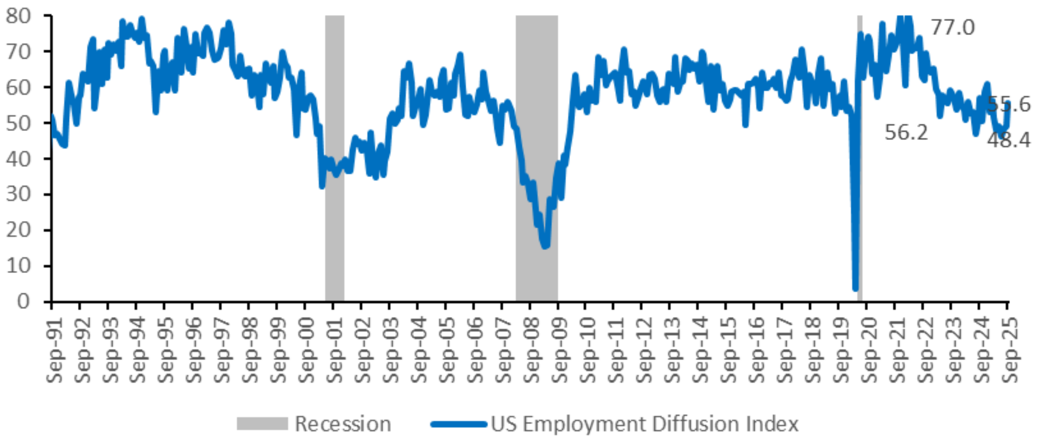


- The policy uncertainty has eased from its April peak.
- In the immediate aftermath of the tariff announcement, recession risks surged in April. However, the U.S. economy has avoided a meaningful downturn thus far. While the corporate balance sheet in the US is running profitable, aided by AI boom, productivity gains and easy fiscal policy, there are increasing debates on US exceptionalism

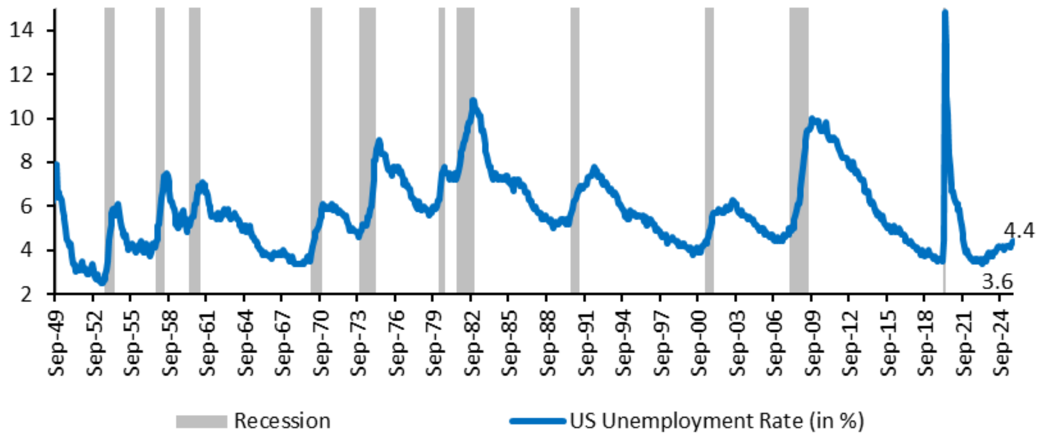
Source: Bloomberg, SBIFM Research

US labour market sees signs of weakness…

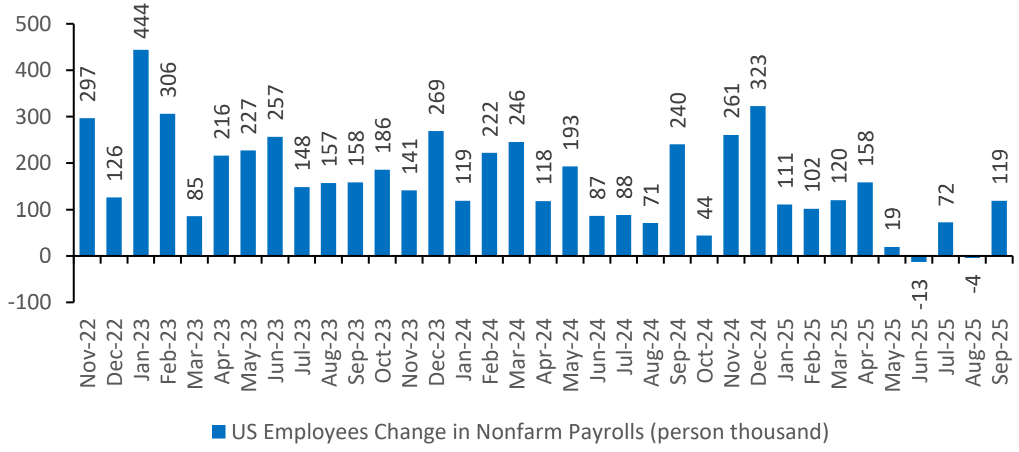
Hiring intention sees a moderation



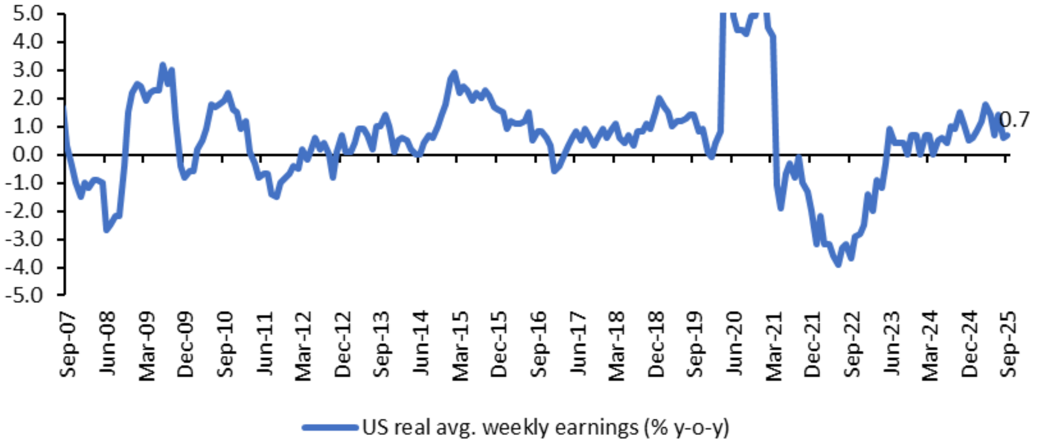
Unemployment rate inches up



August saw a subtraction in nonfarm payroll jobs; Though September number was better than expectations



Household real earnings growth nearly flat in y-o-y terms



Source: Bloomberg, SBIFM Research; NB: Recent data not released due to US government shutdown

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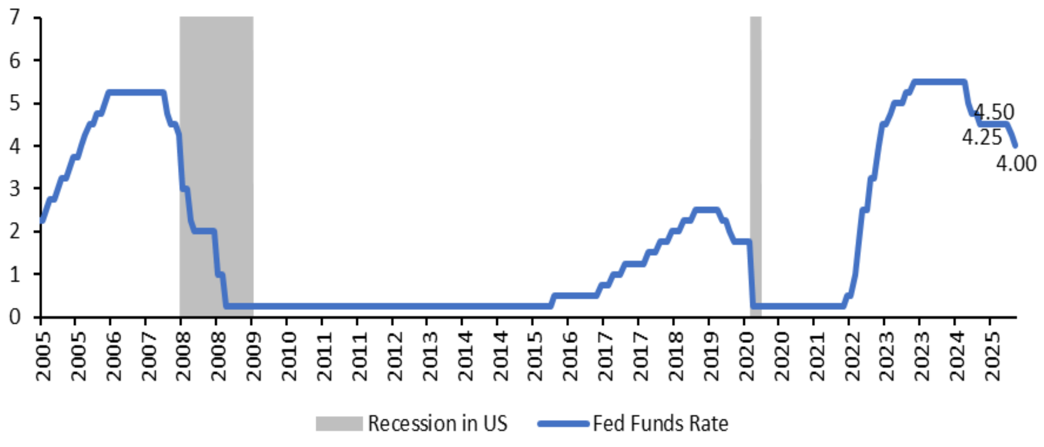
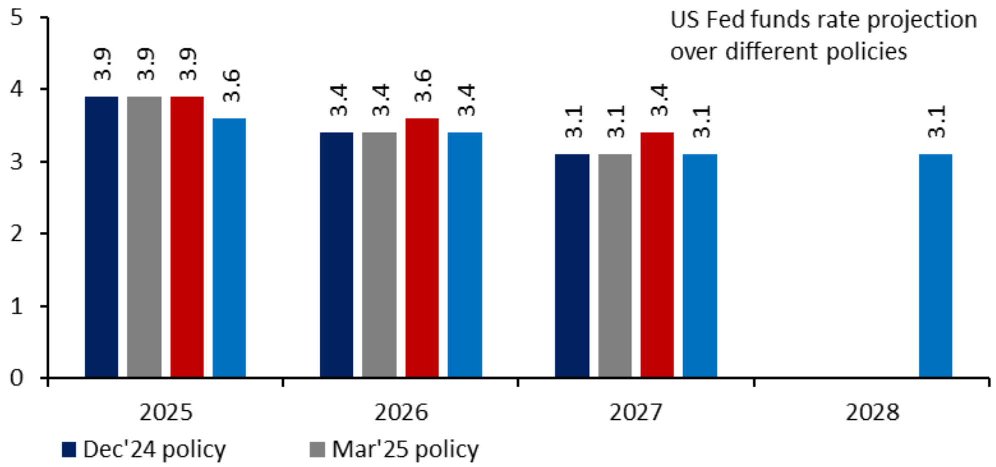
…prompting US Fed to cut interest rates

US Fed cuts rates by 25bps each in September and October



Federal reserve dot plot projects one more rate cut in 2025

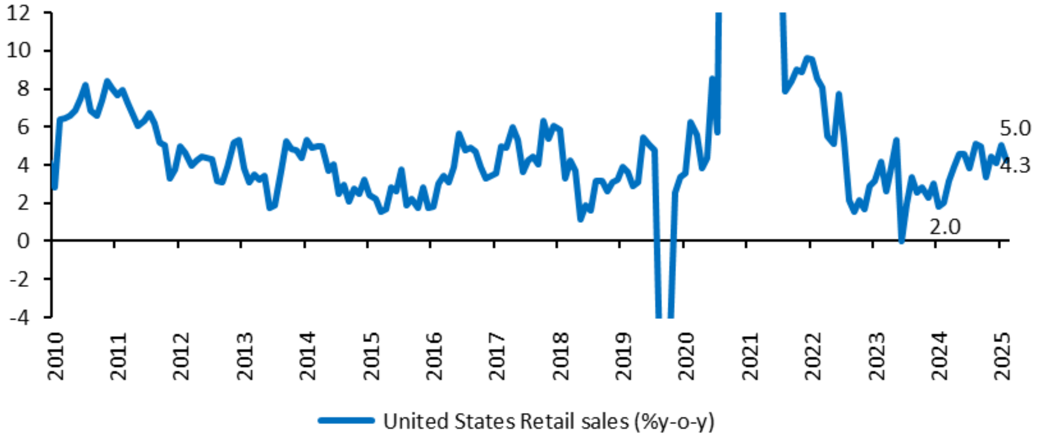


- The weakening in labour market prompted the Federal Reserve to deliver two consecutive rate cuts.
- The Federal Reserve cut rates by 25bps to 3.75-4.00% on expected lines. One more rate cut is projected in 2025, though Powell said that an additional cut at the December meeting "is not a foregone conclusion".
- **The Fed will end the quantitative tightening starting 1st December 2025.**
- The Fed's second consecutive 25 bp cut was expected, but Powell's press briefing signalled a pivot toward caution. A divided FOMC and limited data—due to the government shutdown—have raised the threshold for further easing. With growth stabilizing and inflation sticky, insurance cuts appear complete. Market pricing of 1 pp in additional cuts looks aggressive even as the Fed appears willing to tolerate modest inflation overshoots to preserve employment stability. In our view, UST 10Y yields below 4% are unsustainable as 1pp rate cuts are fully priced in and lower UST yields make long duration borrowing (borrowing mix to shift away from T-Bills) more attractive thus putting upward pressure.

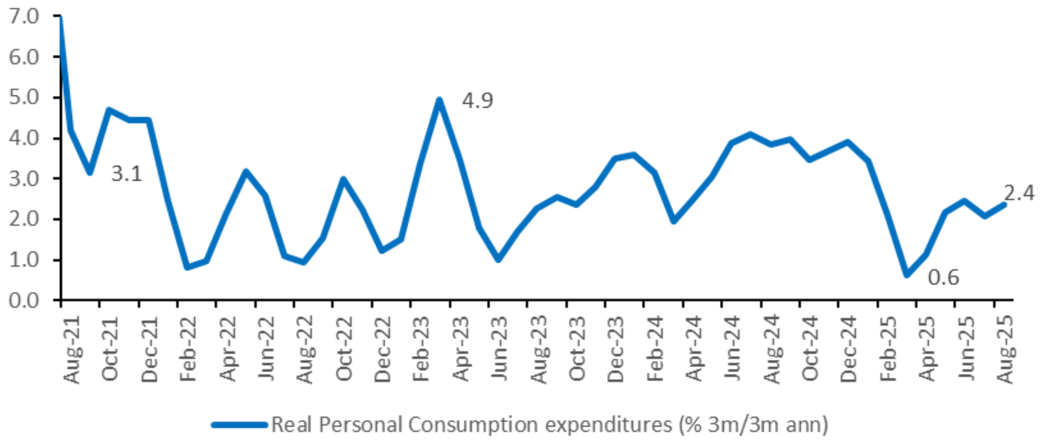
Source: Summary of economic projections September 2025, Bloomberg, SBIFM Research

Even as labour data is weakening, US consumption demand holds up likely supported by wealth effect

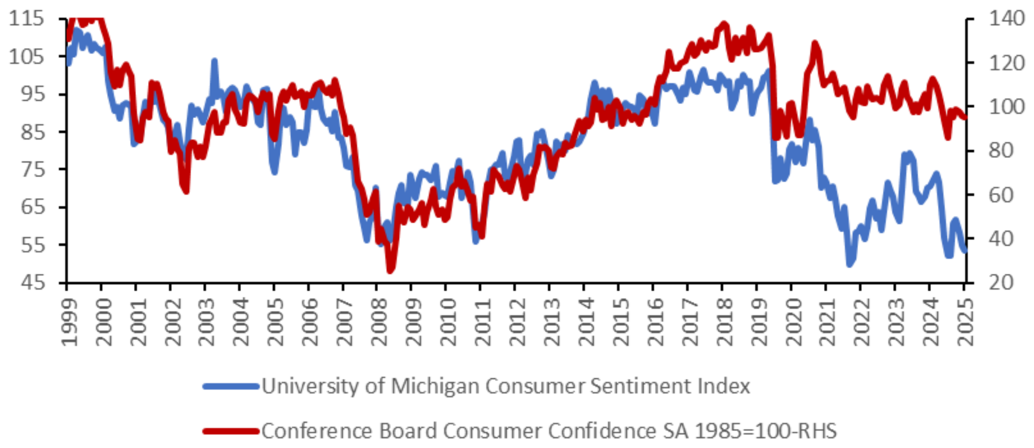
Retail sales stay strong; grows by 4-5% y-o-y in Aug-Sep 2025



Consumer spending patterns remain stable



Consumer confidence continues to show positivity

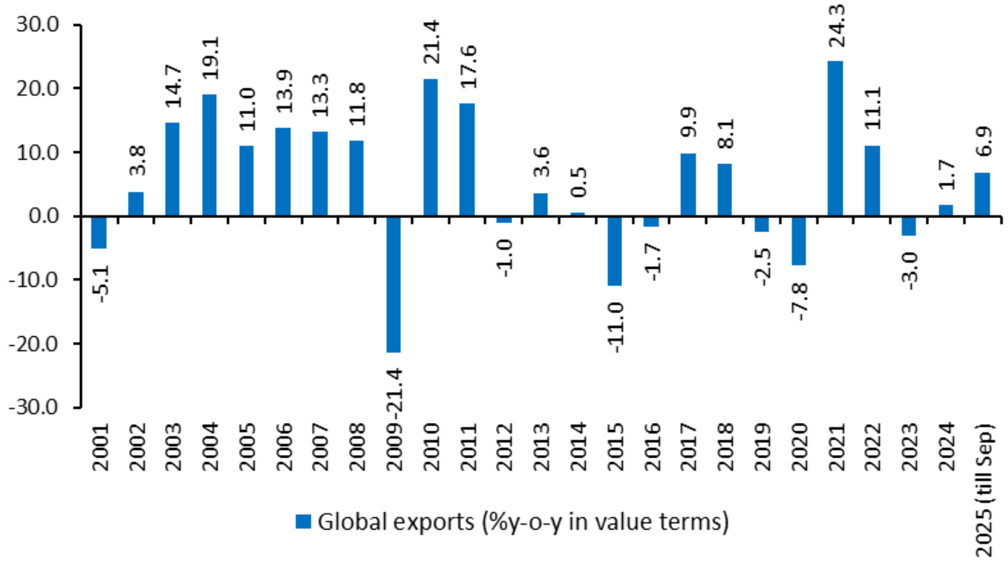


- While firms have slowed hiring, there hasn’t been a corresponding increase in layoffs—a typical precursor to recession.
- Even the consumer spending data remains inconclusive, leaving markets hesitant to abandon their cautiously optimistic stance. To sum, hard economic data paints a mixed picture on US growth skewed towards a modest moderation.

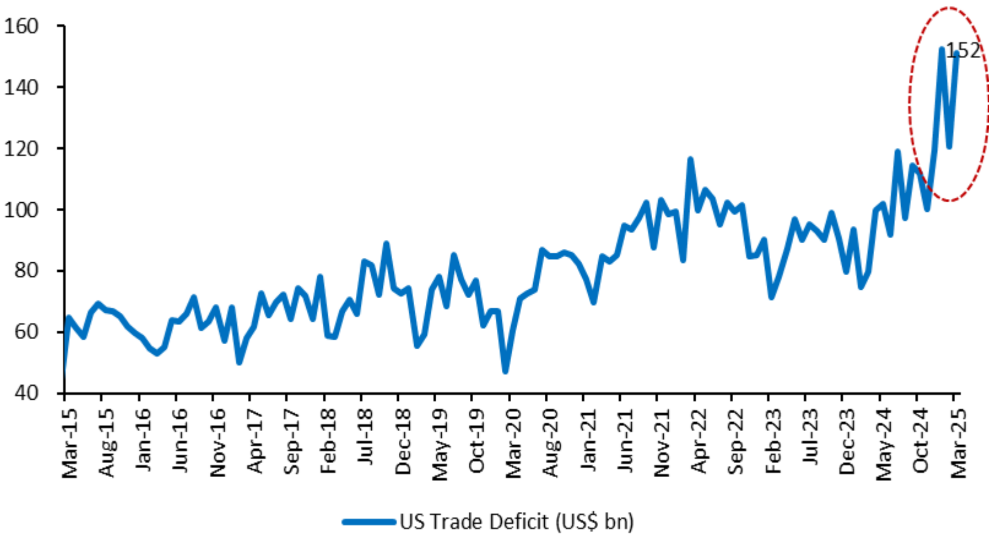
Source: Bloomberg, SBIFM Research

While trade shifts create a headwind for growth…

Global exports stay resilient till September; the outlook stays challenged



US merchandise trade deficit shot up significantly as firms-built inventory post Trump victory; this trend could reverse

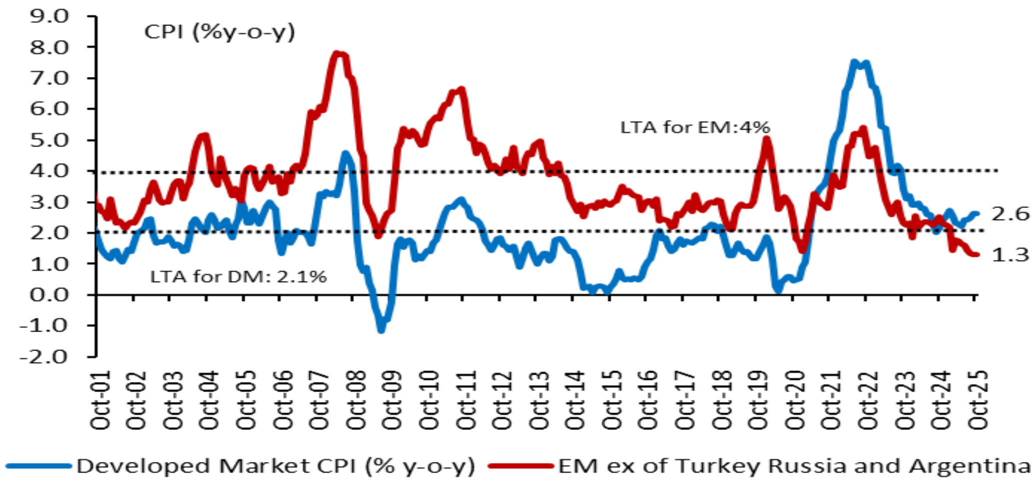


- U.S. goods trade deficit widened sharply as firms front-loaded imports ahead of Trump tariff implementation.
- Exports trend has held up well thus far until August but could be headed into material softness for rest of the year.
- One area of resilience in U.S. import demand has been AI-related IT hardware from Korea and Taiwan, which has surged despite ongoing uncertainty around semiconductor tariffs. This strength highlights how sector-specific booms have helped cushion headline trade figures.

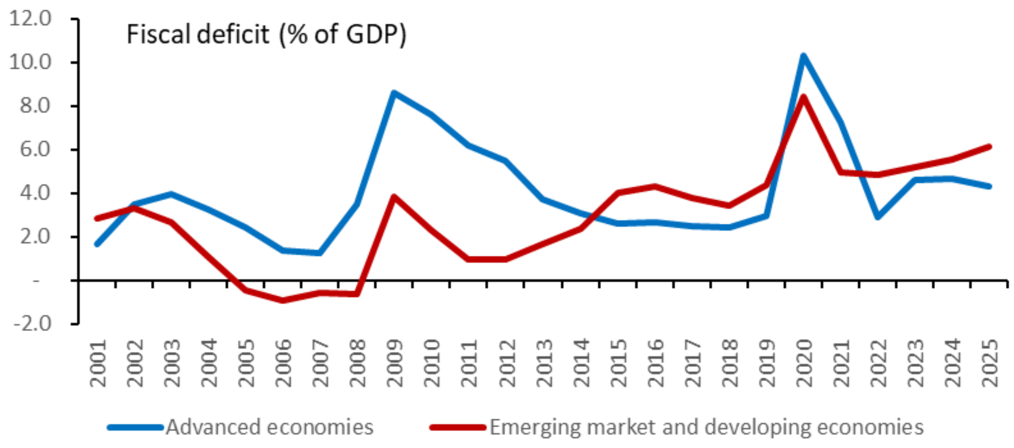
Source: Bloomberg, SBIFM Research

…pro-growth global monetary and fiscal policy provides some offsetting impact

Inflation levels remain contained ex of the US



Fiscal policy gets incrementally growth supportive



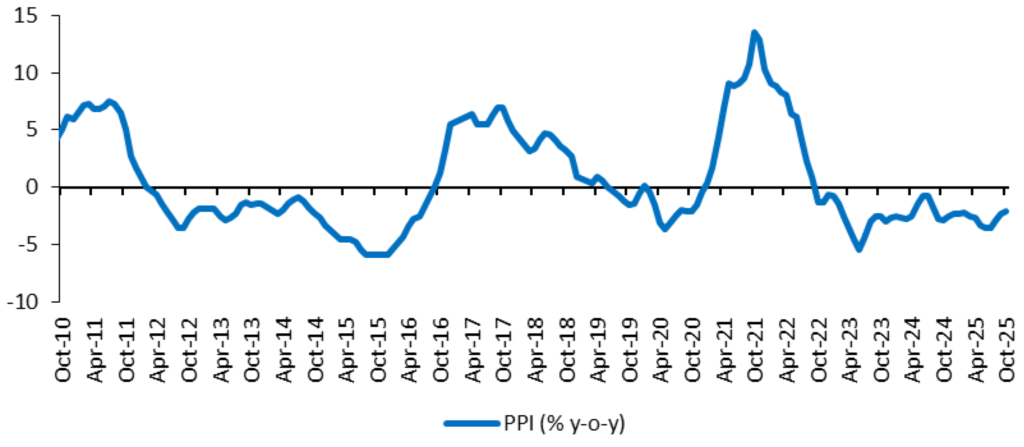
Monetary policy remains accommodative across most developed and emerging market economies

Annual Policy Rate (in %)	2023	2024	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
US	5.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25	4.00	4.00
Eurozone	4.50	3.15	2.40	2.40	2.15	2.15	2.15	2.15	2.15	2.15
UK	5.25	4.75	4.50	4.25	4.25	4.25	4.00	4.00	4.00	4.00
Japan	-0.10	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Canada	5.00	3.25	2.75	2.75	2.75	2.75	2.75	2.50	2.25	2.25
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India	6.50	6.50	6.00	6.00	5.50	5.50	5.50	5.50	5.50	5.50
South Korea	3.50	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Indonesia	6.00	6.00	5.75	5.50	5.50	5.25	5.00	4.75	4.75	4.75
Thailand	2.50	2.25	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50
Malaysia	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.75	2.75	2.75
Philippines	6.50	5.75	5.50	5.50	5.25	5.25	5.00	5.00	4.75	4.75
Russia	16.00	21.00	21.00	21.00	20.00	18.00	18.00	17.00	16.50	16.50
Turkey	42.50	47.50	46.00	46.00	46.00	43.00	43.00	40.50	39.50	39.50
South Africa	8.25	7.75	7.50	7.25	7.25	7.00	7.00	7.00	7.00	6.75
Brazil	11.75	12.25	14.25	14.75	15.00	15.00	15.00	15.00	15.00	15.00
Mexico	11.25	10.00	9.00	8.50	8.00	8.00	7.75	7.50	7.50	7.25
Colombia	13.00	9.50	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Chile	8.25	5.00	5.00	5.00	5.00	4.75	4.75	4.75	4.75	4.75

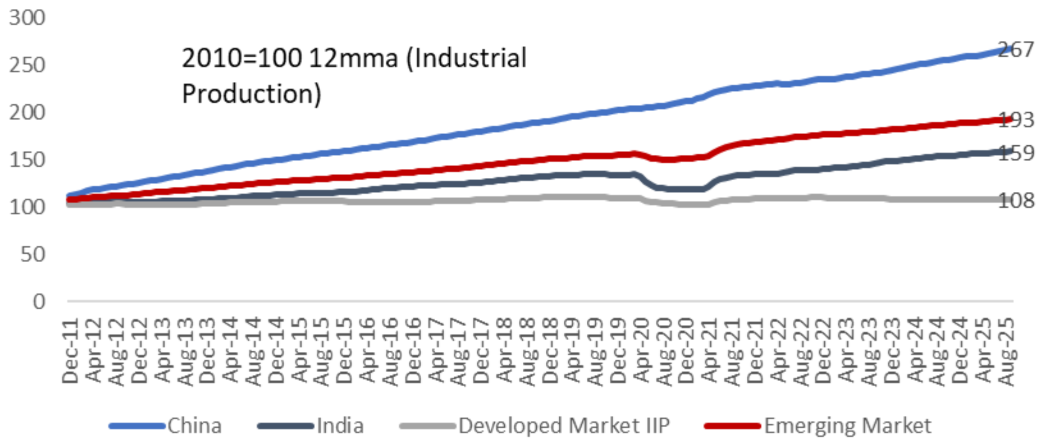
Green denotes rate cut; red denotes rate hike

The world faces the fallout of China’s industrial overcapacity

China exports deflation to rest of the world



China’s manufactured goods production surge the most amongst global economies

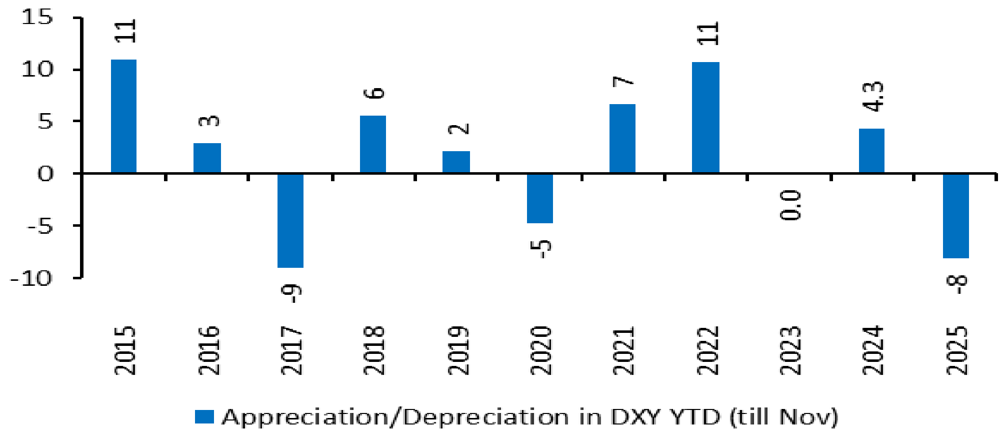


- While inflation remains a concern in the US, much of Asia is in a disinflationary phase — partly driven by China’s rising exports to non-US markets.
- Some of these goods are destined for re-export to the US, while others serve Asia’s domestic consumption, contributing to deflationary pressures in the region, including India.
- Anti involution campaign in China to rein in unhealthy competition due to excess capacity in many industries.
- Main objective is to get China out of deflation. However, China’s measures aren’t as aggressive yet and demand is weak. Hence, could be a slow path to reflation.

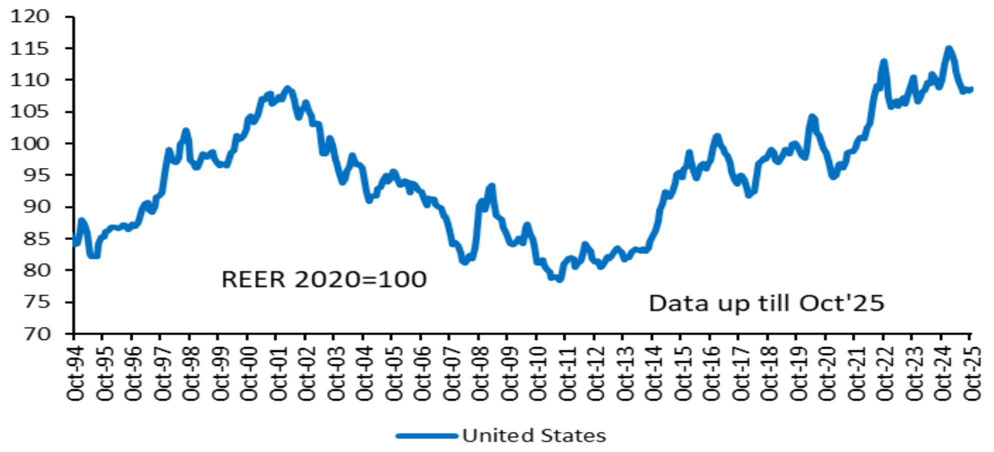
Source: Bloomberg, SBIFM Research

Dollar under pressure while global currencies strengthen; INR remains soft

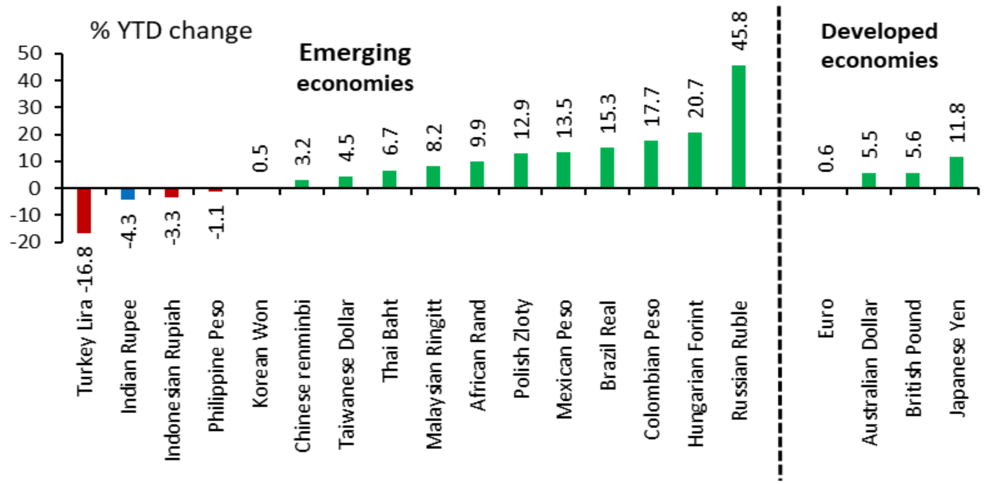
DXY depreciates



DXY is still overvalued; could it fall further?



Weakness in DXY YTD drives appreciation across Asian currencies

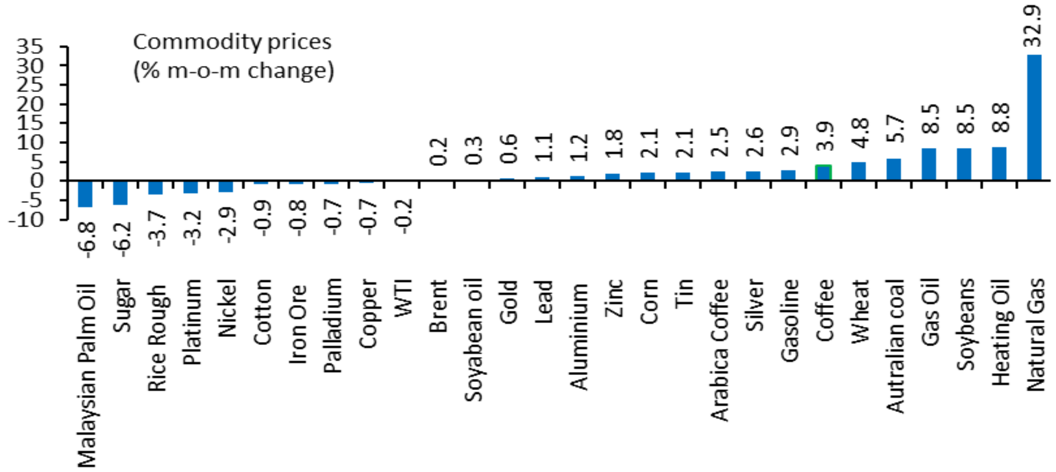


- The adjustment to economic imbalance also warrants a weaker dollar. Despite the recent correction, dollar is significantly overvalued on REER basis. The debate on ebbing US exceptionalism is making investors re-assess their USD exposure. On a bore structural basis, USD could continue to weaken.
- Weaker dollar helps cheaper non-US assets to outperform.

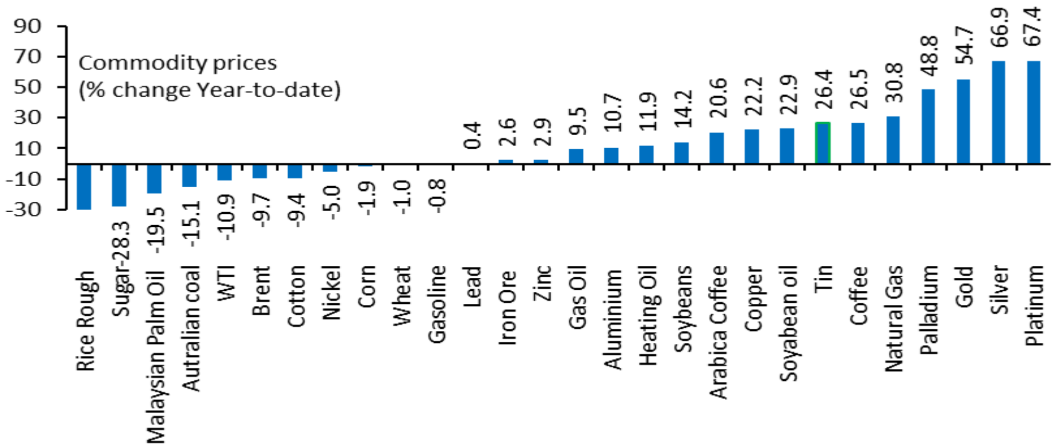
Commodity prices trends: precious metals and industrial metals have been best performers

Commodities rose marginally m-o-m in November

Energy prices see a sequential uptick in November; select metal prices see a marginal rise m-o-m



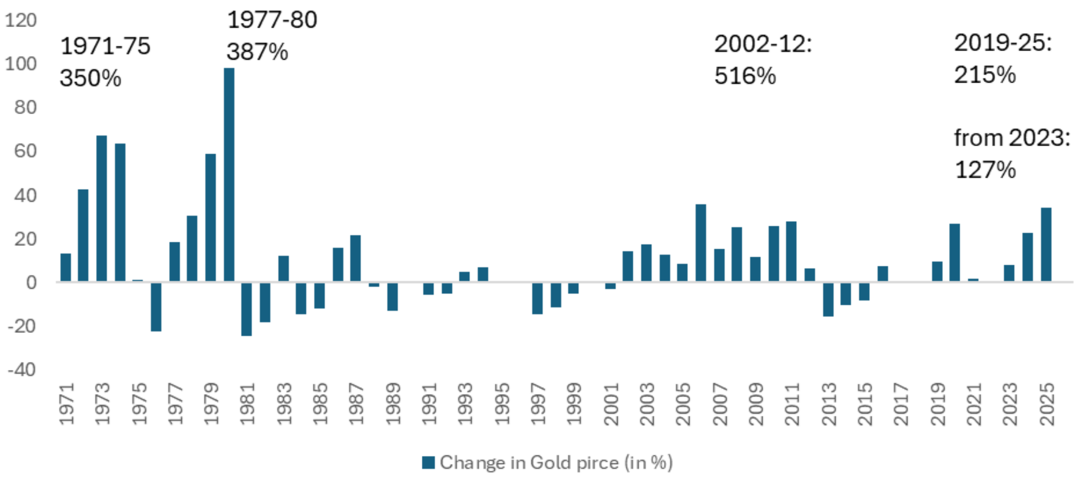
Year-to-date, precious metals and industrial metals have been the best performing commodity basket



- Commodities prices rose marginally m-o-m in November 2025 on account of energy prices rising.
- Precious metals continue to gain YTD.
- Global fiscal stimulus continuity and easing in trade tensions help commodity prices stay supported even as tariff related growth risks persist.

Gold outlook: Strength amid geopolitical and economic uncertainty

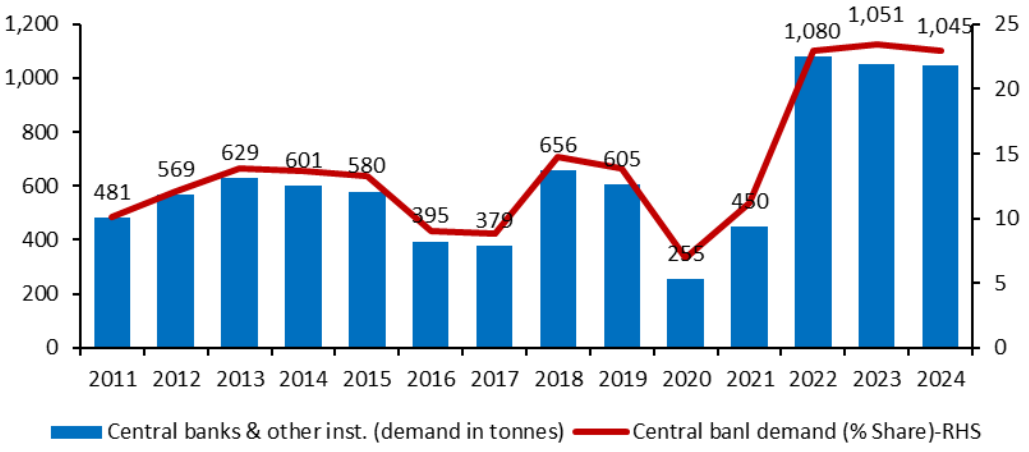
Gold price movements



Gold demand supply dynamics

	2019	2020	2021	2022	2023	2024
Total supply	**4,886.9**	**4,740.5**	**4,703.2**	**4,755.7**	**4,945.9**	**4,974.5**
Demand						
Jewellery fabrication	2,152	1,324	2,231	2,195	2,191	2,004
Technology	332.7	309.0	337.2	314.8	305.2	326.1
Investment	1,274.7	1,794.9	991.5	1,112.5	945.5	1,179.5
Total bar and coin	871	902	1,180	1,222	1,190	1,186
ETFs & similar products	404	893	-189	-110	-244	-7
Central banks & other inst.	605.4	254.9	450.1	1,080.0	1,050.8	1,044.6
Gold demand	**4,364.5**	**3,682.6**	**4,009.6**	**4,702.6**	**4,492.5**	**4,553.7**
OTC and other	522.3	1,057.9	693.6	53.1	453.4	420.7
Total demand	**4,886.9**	**4,740.5**	**4,703.2**	**4,755.7**	**4,945.9**	**4,974.5**

Central bank has been the biggest buyer since 2022



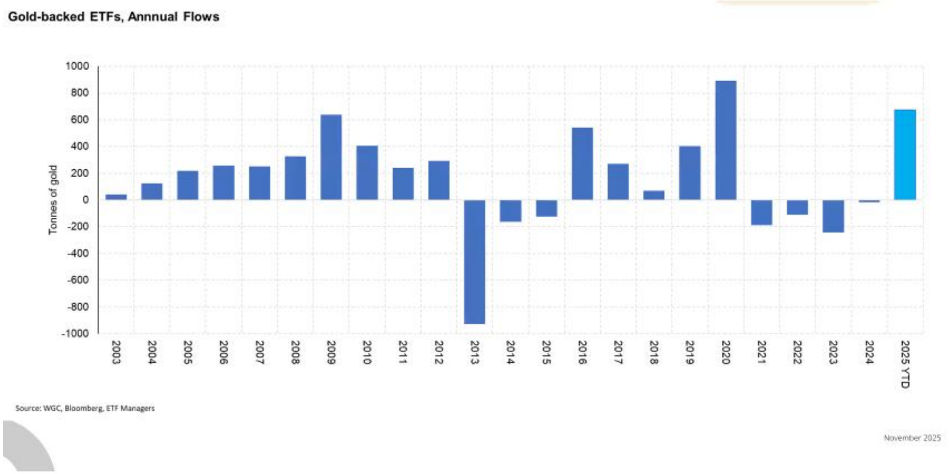
RBI is amongst the top three central bank to buy of gold, and gold now forms nearly 11% of India's official reserves as of 2024 end

Buying in tonnes	Additional buying by Central banks between 2021-2024	Buying in last decade
China	331	894
Poland	220	126
India	200	119
Singapore	93	-
Japan	81	-
Thailand	81	54
Hungary	79	28
Brazil	62	34
Qatar	54	44
Uzbekistan	50	151
Egypt	47	5
Czech Republic	42	-3
Ghana	22	-
Kyrgyzstan	21	14
Serbia	13	23
Jordan	10	49
Total for key economies	1,409	1,538

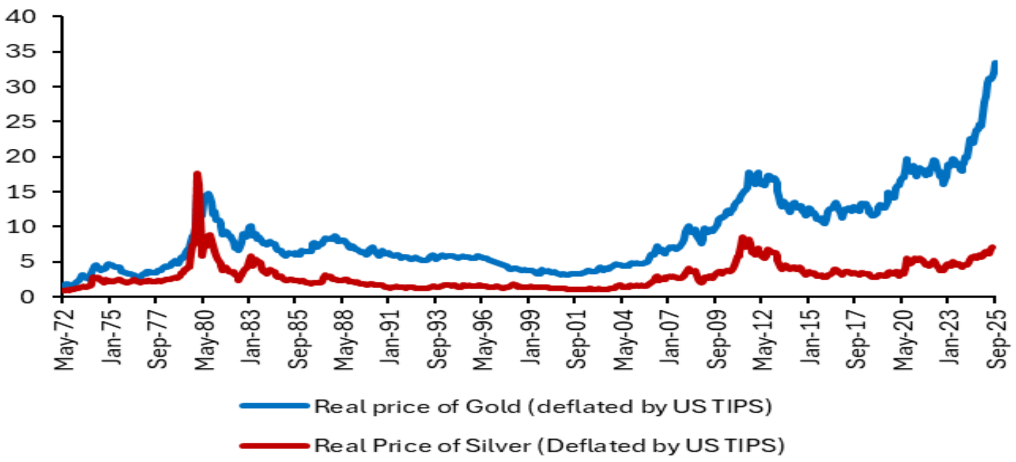
Source: WGC, Bloomberg, SBIFM Research

Gold Outlook: strength amid geopolitical and economic uncertainty

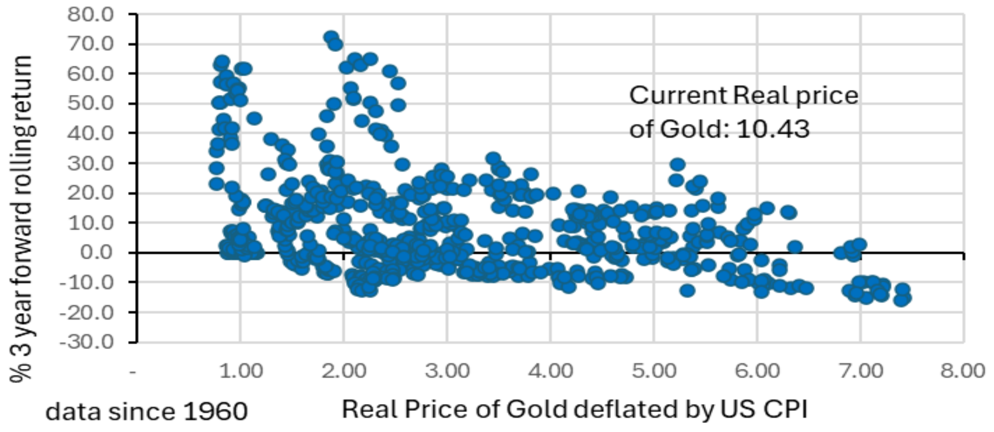
ETFs turn net buyers



Price of gold in real terms at an all time high



Gold valuations high compared to past trends; Yet we continue to prefer the asset as a portfolio diversifier



- Gold prices have surged since March 2025, driven largely by a weakening US dollar and escalating geopolitical uncertainty.
- Several underlying factors continue to offer solid support for gold. These include: 1) rising concerns for stagflation 2) shifting dynamic in traditional safe-haven assets 3) current tariff disputes may act as a further catalyst, encouraging investors to reduce reliance on US Treasuries in favour of alternative stores of value like gold.
- After a period of inactivity following the market volatility of 2022, US gold ETF investors are beginning to return.
- Fading US exceptionalism and declining comfort in Treasuries enhance gold's attractiveness, valuations are increasingly stretched.
- As a result, it is prudent to maintain gold as a core holding within diversified portfolios. However, investors should also be prepared for a potential pause or consolidation in gold's rally over the near term.

Source: WGC, Bloomberg, SBIFM Research

INDIA ECONOMIC ACTIVITY

Q2FY26 Real GDP growth improved to 8.2% y-o-y; Nominal growth slowed to 8.7%

Q2 FY26 Nominal GDP growth at 8.7% y-o-y- A weak print by historical standards

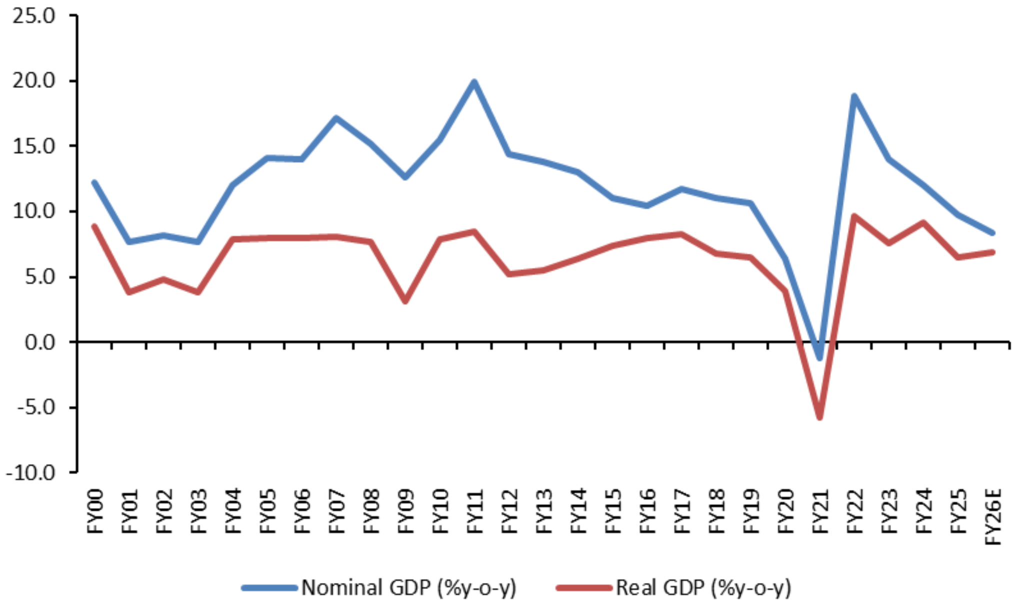
	% Share in GDP (5Yr avg)	% y-o-y							Quarterly % y-o-y					
		FY19	FY20	FY21	FY22	FY23	FY24	FY25	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Nominal GDP	100	10.6	6.4	-1.2	18.9	14.0	12.0	9.8	9.7	8.3	10.3	10.8	8.8	8.7
Private consumption	61	11.6	9.3	-0.9	18.6	14.9	9.7	12.0	13.1	10.1	13.6	11.0	9.2	9.3
Govt. consumption spending	10	11.2	8.1	4.2	7.2	11.5	12.6	6.4	4.0	8.1	14.6	1.5	9.7	-1.4
Gross Capital formation	33	15.4	-1.0	-5.1	32.0	19.3	11.2	8.3	8.0	9.8	6.1	9.1	8.0	7.5
GFCF	31	15.6	2.7	-5.2	28.7	20.3	9.2	7.9	8.3	7.3	5.5	10.1	8.3	8.2
Change in stocks	1	33.9	-57.5	-71.6	456.0	40.2	53.3	8.2	10.3	5.2	7.5	9.7	5.4	6.7
Valuables	1	-6.4	-13.8	43.1	38.1	-10.5	23.3	17.9	-12.7	47.2	16.7	-14.0	-4.4	0.8
Exports	22	17.3	-0.4	-1.1	36.1	23.8	3.3	8.3	9.2	4.8	11.3	8.0	8.1	11.0
Imports	25	19.3	-4.6	-11.3	49.7	27.2	-1.7	9.5	9.6	11.5	10.7	6.3	5.9	8.4

- Q2FY26 real GDP rose 8.2% YoY (Q1: 7.8%) even as Nominal GDP remained muted at 8.7% YoY (Q1: 8.8%).
- Consumption continued to outpace capex—a pre-covid trend, suggesting an economy lacking buoyancy.
- Real GDP strength is at odds with modest growth in several high-frequency indicators, including corporate data.
- We maintain that Nominal GDP is the clearer indicator of economic growth.
- Looking ahead, GST cuts and RBI's regulatory easing will offer some support, but a global slowdown, likely moderation in government spending and weak incomes could weigh on demand. Given dynamics and incoming data, we are raising FY26E Real GDP by 50–70bp to 7–7.5% while retaining Nominal growth expectations at 8.5%.

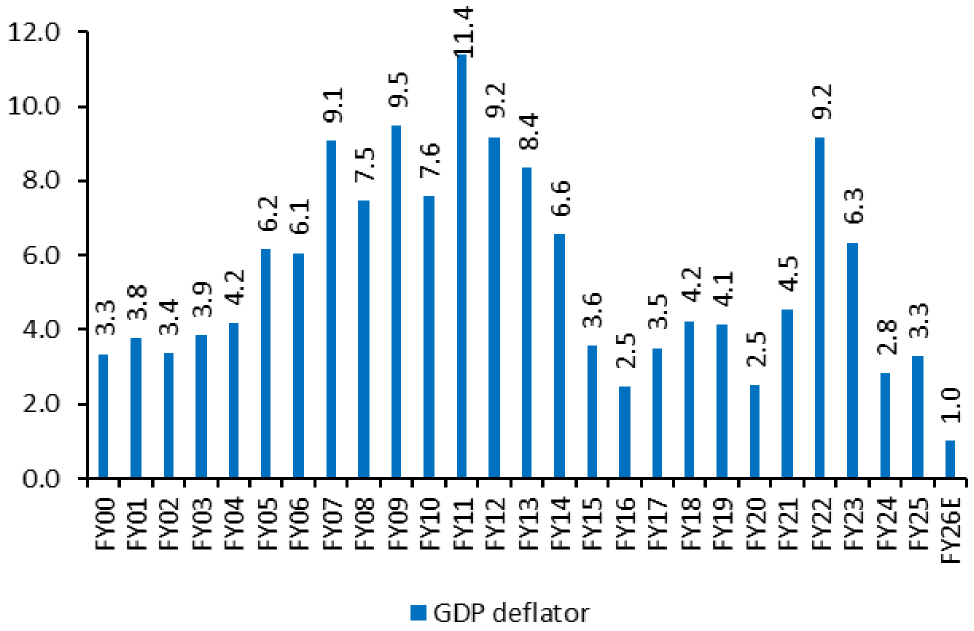
Source: CMIE Economic Outlook, SBIFM Research; NB: Change in Stock turned from negative to positive in FY22

Deflator issues are overstating the pace of India's real growth; Nominal growth more reliable

India's real GDP growth appears healthy while nominal growth is 3-4% pt lower than trend seen during FY04-12



GDP deflator (a proxy for aggregate inflation in economy) at its historical low

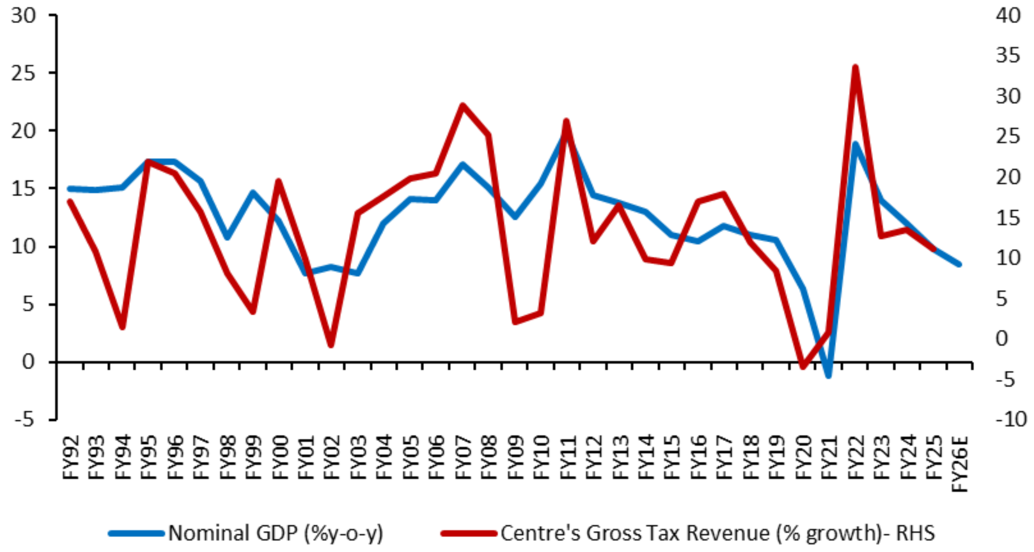


- Nominal growth is at its historical low (barring COVID). Higher nominal growth often signals rising prices, influencing expectations and wage negotiations.
- Weakness in pricing power, policy can be growth supportive

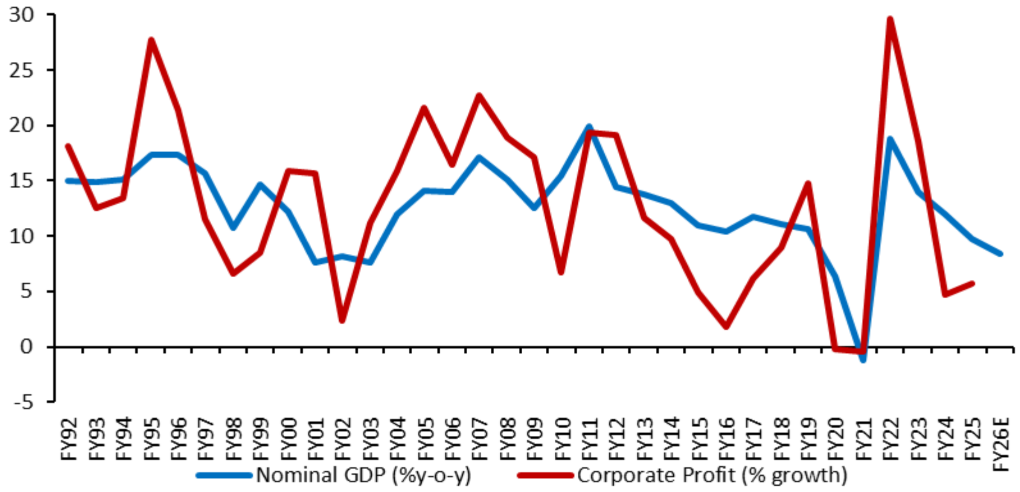
Source: CMIE Economic Outlook, SBIFM Research

Why does nominal growth matter?

Tax collection weakens: Lower revenues may force higher borrowing or spending cuts



Corporate revenues and earnings weaken: Signals poor demand and pricing power leading to reduced capex



Corporate profit for ~27-28K non financial sector companies

- If inflation is very low, real rates may remain high even with low nominal rates → dampening investment and consumption.
- Nominal wage increases tend to be subdued → affecting household consumption and savings.
- Weak nominal growth can lead to depreciation pressures if foreign investors pull out due to poor returns.
- Lower nominal growth often leads to lower yields, especially if inflation expectations fall.
- Equity Markets: Growth-sensitive sectors underperform

Source: CMIE Economic Outlook, SBIFM Research

Modest improvement in economic activity improve amidst festivities and GST cut impact (1/2)

Weakness in GST collection, electricity demand, government spending, goods exports, and inflation; On the other hand, momentum healthy in bank credit, auto sales, steel consumption and services exports

%y-o-y		Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Overall Macro Indicators	GST collections (Rs. Billion)	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1	4.6
	Bank Credit (Rs. Tn)	11.5	10.6	11.2	11.4	11.0	11.0	10.3	9.0	9.5	10.0	10.0	10.4	11.7
	Petroleum Consumption (000 MT)	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	0.5	-3.9	2.6	7.6	-0.4
	Eletcricity generation (bn KWh)	2.0	4.5	6.2	2.4	3.7	7.5	1.8	-4.7	-1.2	3.6	4.2	3.1	-6.2
Logistics and Movements of Goods	Air Traffic: Passengers handled (mn passengers)	9.8	13.2	10.5	13.5	11.2	9.3	10.3	2.2	3.7	-1.0	1.2	-0.7	na
	Air Traffic: Cargo handled ('000 tonnes)	14.5	9.7	8.0	7.0	-4.9	3.8	11.5	5.1	0.3	4.2	5.3	2.9	na
	National Electronic Toll Collection (mn numbers)	7.9	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8	16.1	13.8	na
	Total E-way bills (mn numbers)	16.9	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8	22.4	21.0	8.2
	HSD Consumption (000 MT)	0.1	8.5	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4	1.2	6.6	-0.3
	Total Port traffic (mn tonnes)	0.8	-4.8	5.0	7.4	-0.7	6.8	5.8	1.1	3.1	2.8	5.1	8.1	na
Consumer	Digital Payments (Value INR tn)	33.9	19.8	22.1	21.4	13.2	20.0	17.9	17.2	14.1	15.8	10.8	14.8	na
	Nauki Job Speak Index (Jul 2008=1000)	10.0	2.0	8.7	3.9	4.0	-1.5	8.9	0.3	10.5	6.8	3.4	10.1	-9.3
	Rural Wage (Rs./ day)	6.3	6.3	6.0	5.9	6.1	5.9	6.5	6.6	6.6	na	na	na	na
	Domestic Passenger vehcile sales ('000 units)	0.9	4.0	10.0	1.6	1.9	3.6	3.9	-0.8	-7.4	-0.2	-8.8	4.4	17.2
	Domestic two wheeler sales ('000 units)	14.2	-1.1	-8.8	2.1	-9.0	11.4	-16.7	2.2	-3.4	8.7	7.1	6.7	2.1
	Urban consumer sentiment index	104.7	106.0	105.2	106.2	104.3	107.7	108.8	106.8	108.8	110.7	108.7	111.0	107.3
	Rural consumer sentiment index	110.0	112.8	111.0	112.2	112.8	114.1	111.9	115.5	119.3	119.5	125.4	110.8	117.2
	IIP: Consumer durables (2011-12=100)	5.5	14.1	8.3	7.1	3.7	6.9	6.2	-0.9	2.8	7.3	3.5	10.2	na
	IIP: Consumer non- durables (2011-12=100)	2.8	0.4	-7.5	0.1	-2.1	-4.0	-2.7	-1.0	-0.9	0.5	-6.4	-2.9	na
Business	Manufacturing PMI	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2
	Services PMI	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9
	Coal (mn tonnes)	7.8	7.5	5.2	4.7	1.6	1.7	3.5	2.7	-6.8	-12.3	11.3	-1.3	na
	Fertilizers(mn tonnes)	0.4	2.0	1.7	3.0	10.2	8.8	-4.2	-5.9	-1.2	2.0	4.6	1.6	na
	Steel(mn tonnes)	5.7	10.5	7.3	4.7	6.9	9.3	3.0	7.4	9.7	16.6	13.6	14.1	na
	Cement(mn tonnes)	3.1	13.1	10.3	14.3	10.8	12.2	6.7	9.7	8.2	11.6	5.4	5.3	na
	Import of Capital Goods (US$ mn)	6.5	11.3	14.1	25.6	6.3	9.9	27.3	26.2	10.1	19.1	1.0	16.3	na

Source: CMIE, SBIFM Research

Modest improvement in economic activity improve amidst festivities and GST cut impact (2/2)

Weakness in GST collection, electricity demand, government spending, goods exports, and inflation; On the other hand, momentum healthy in bank credit, auto sales, steel consumption and services exports

%y-o-y		Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Government	Centre Revex ex Interest Payment (Rs. Tn)	45.0	1.2	-2.5	10.7	-23.2	-2.9	8.4	2.8	9.0	12.2	-37.2	-2.8	-17.3
	Centre Capital expenditure (Rs. Tn)	-8.4	21.3	95.3	51.4	-35.4	68.0	61.0	38.7	43.7	-10.5	113.1	30.9	-28.3
	State Revex ex interest payment (Rs. Tn)	47.5	-9.5	14.0	16.5	-0.6	7.6	6.8	7.6	20.1	6.5	3.4	5.4	na
	State Capex (Rs. Tn)	10.6	-11.6	16.6	-5.5	7.0	37.1	5.0	44.6	31.0	0.3	2.4	-2.1	na
	Tax collection (Rs. Tn)	7.2	12.1	7.8	9.2	9.5	4.6	3.2	16.1	-1.6	-4.2	3.8	9.5	na
Trade	Exports of Goods (US$ bn)	16.6	-5.3	-1.5	-2.6	-11.1	0.6	8.6	-2.8	-0.1	6.9	1.2	6.0	-11.8
	Imports of Goods (US$ bn)	1.9	16.1	2.3	10.3	-16.3	11.3	19.1	-1.7	-3.4	8.7	-10.1	16.7	16.9
	Non oil and non gold imports (US$ bn)	4.2	4.2	1.8	18.0	0.4	4.1	17.2	10.4	-0.4	7.7	-0.6	12.8	7.3
	Exports of Services (US$ bn)	22.7	14.2	16.9	12.0	11.6	18.6	8.8	9.6	12.0	10.3	2.8	12.6	11.9
Prices	CPI (2011-12=100)	6.2	5.5	5.2	4.3	3.6	3.3	3.2	2.8	2.1	1.6	2.1	1.4	0.3
	WPI (2011-12=100)	2.8	2.2	2.6	2.5	2.4	2.2	0.9	0.4	-0.2	-0.6	0.5	0.1	-1.2

- Looking beyond Q2, high-frequency indicators for October show encouraging signs: a pickup in bank credit, healthy services exports, increased digital payments and freight activity (likely aided by GST rate cuts and festive demand), strong steel consumption, and resilient auto sales across two-wheelers, tractors, and passenger vehicles.
- On the other hand, concerns persist—particularly weak tax collections, which could constrain both central and state government spending in 2H FY26. Energy demand remains subdued, especially industrial consumption. Exports have underperformed despite steady global trade activity. Aviation demand is soft, possibly due to supply constraints. Weather-related crop damage has impacted the Kharif season, though Rabi sowing is progressing well.
- Overall, trade uncertainties and fiscal constraints are key cyclical headwinds for India’s growth. Additionally, competition from low-cost Chinese imports continues to weigh on manufacturing recovery.
- On the positive side, policy measures aimed at boosting demand appear to be gaining traction, reflected in a modest recovery in consumer spending. Recent reforms include relaxation in bank lending norms, easing of quality control requirements, labour code reforms, and reductions in personal income tax and GST rates. States are also becoming more aggressive on ease of doing business and deregulation.

2025 growth supportive policy measures; though near-term headwinds to growth in 2H

Policy efforts to step up growth; though near-term headwinds persist

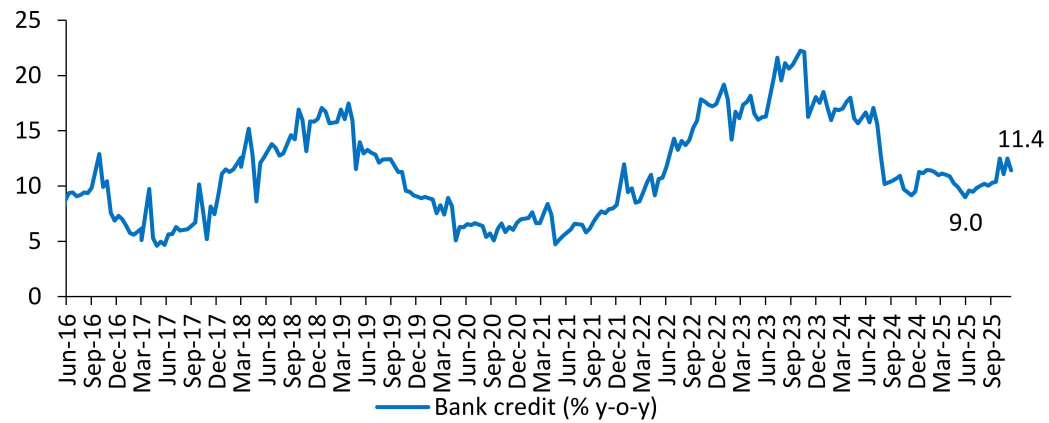
Positives

- Personal income tax reduction
- GST reduction
- Banking regulations eased (CD ratio norms, LCR requirement, provision for unsecured loans)
- Easing of quality control orders covering 114 intermediate products
- Labour code reforms

Headwinds

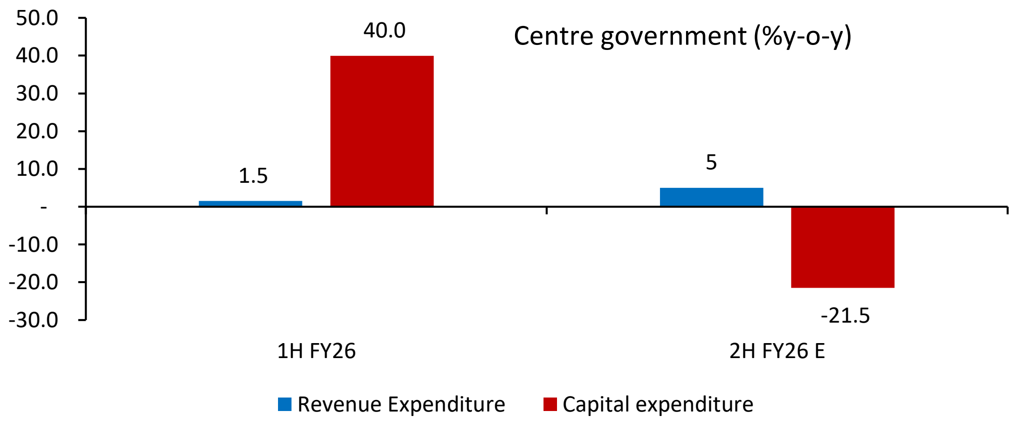
- 2H FY26 government capex and revex to moderate
- Trade continues to be an unsolved issue
- Labour code reforms in the near term could lead to increased employee cost or dent in take home salary for employers
- Structural issue of weak income growth in India

Bank credit improves with relaxation in lending norms



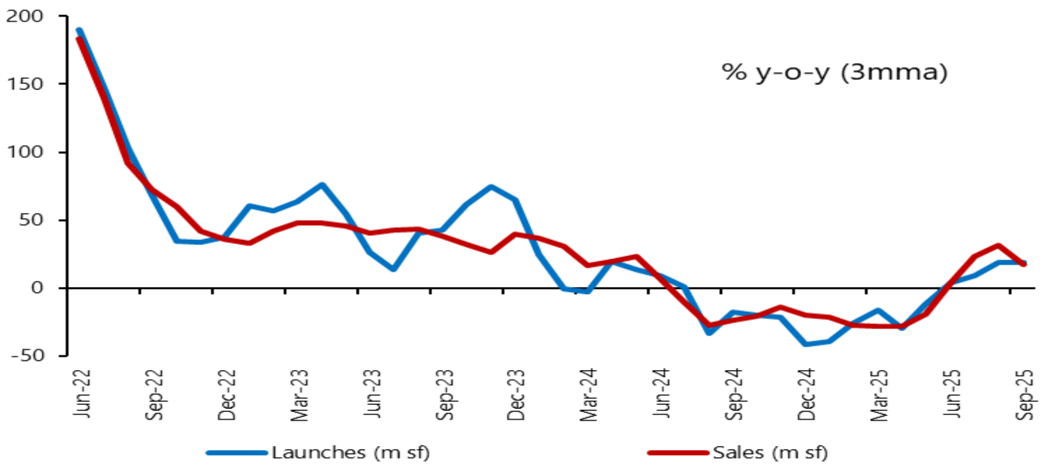
Figures are adjusted for HDFC merger from 14th Jul'23 to 28th Jun'24

Centre revenue and capital expenditure to moderate sharply in 2HFY26

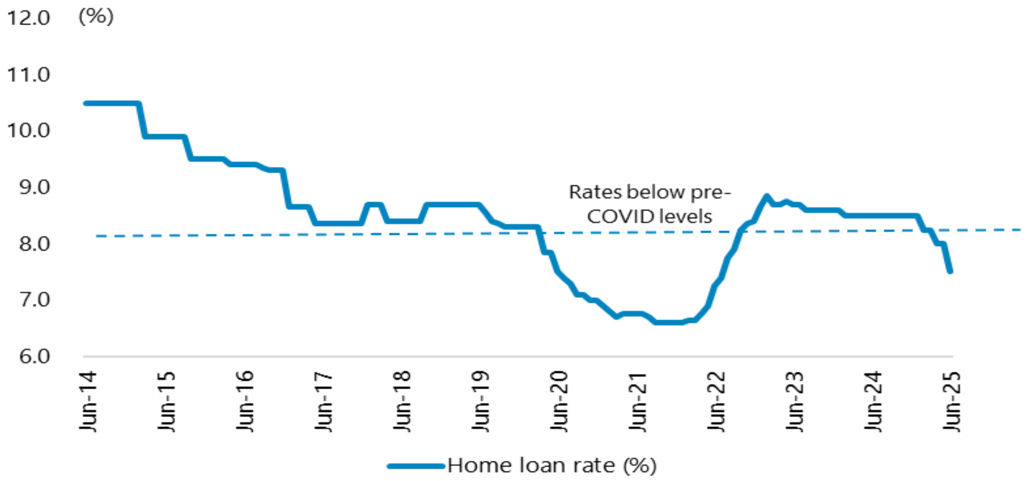


Real estate: Momentum is moderating

Real Estate launches and sales growth is underwhelming till September 2025; sees some improvement though



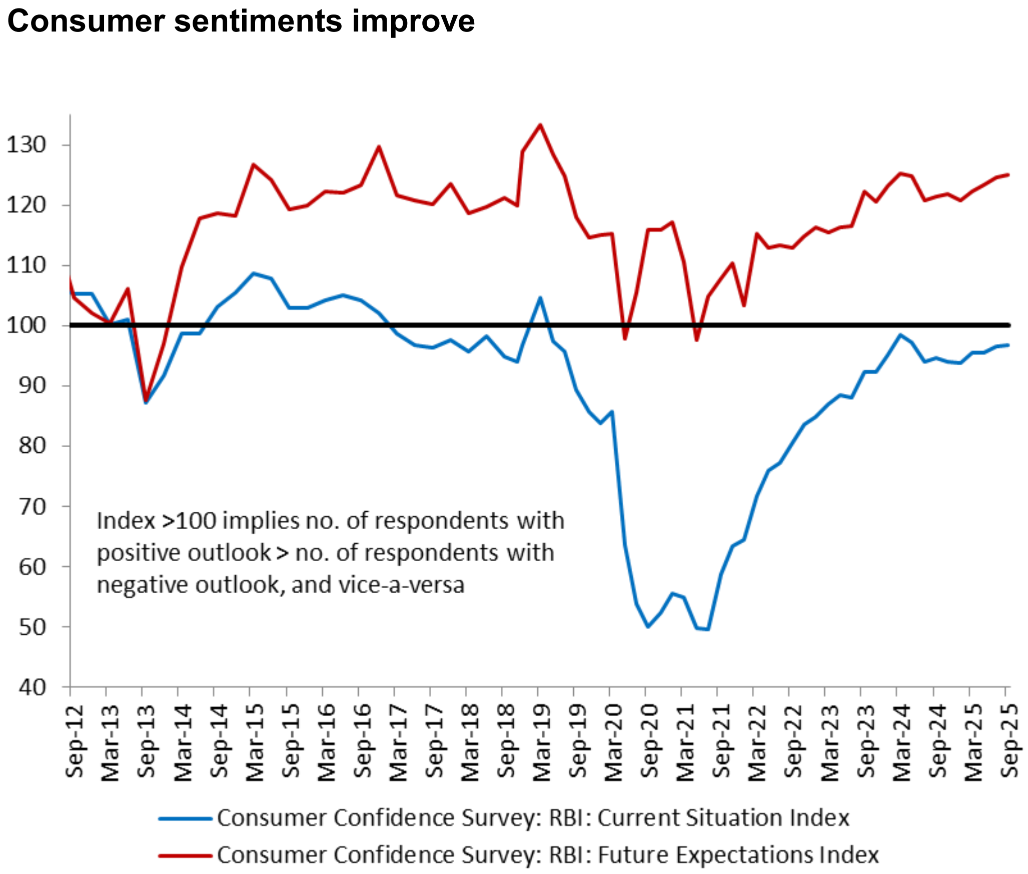
Fall in home loan rates improves affordability, developers still positive on outlook



- Real estate sales volumes contracts marginally y-o-y in September quarter. Launches (by value) saw an ~6% decline in the Sep-25 quarter.
- Unsold inventory remains comfortable at 16 months, allowing developers to hike prices. Prices have increased on y-o-y basis in all major cities.
- The underlying demand remains intact, and most developers attributes any softness to delays in regulatory approvals rather than a deterioration in buyer interest.
- A 50bps reduction in home loan rates this year has led to increased enquiries, particularly in the mid-income housing segment.
- A recovery could materialize over the next few quarters if project clearances are expedited.

Source: Jefferies; SBIFM Research

Consumer sentiments improve – multiple policy effort to support growth



States’ welfare measures

Personal Income Tax reduction

GST reduction

Monetary easing

Regulatory relaxation in retail lending

Healthy Agriculture prospects

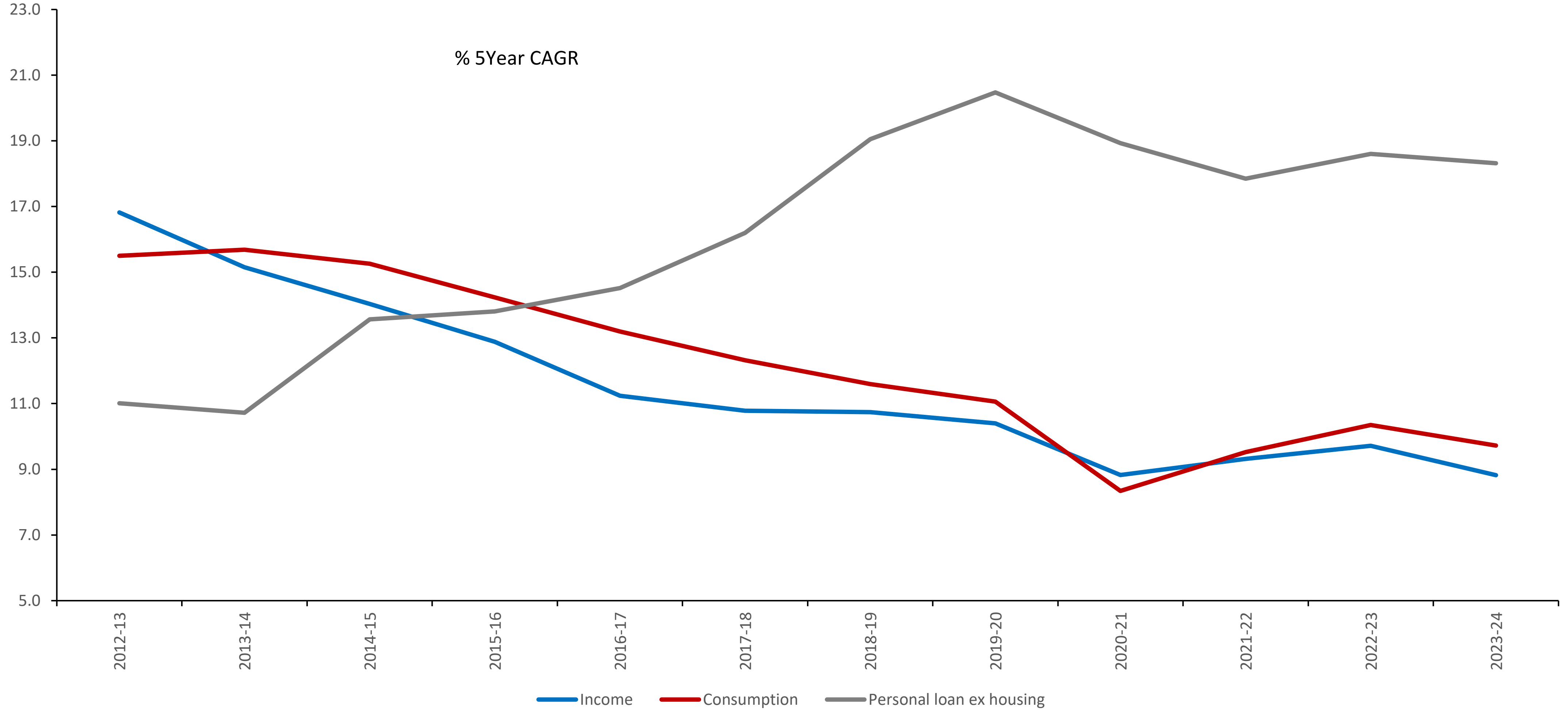
Reduced inflationary pressures

8th Pay commission the next in line

Source: CMIE Economic Outlook, SBIFM Research

But Income growth is a structural issue, thus structural rise in consumer cycle is still lacking

Weak income drags consumption even as debt rises



Source: CMIE, SBIFM Research

Skilling and job creation in productive sectors are problem in India

India has a problem of low skill set translating into low labour productivity and disguised unemployment

	Labour Force Participation Rate (>15 years)- in %	Employment Rate% (>15 years)- in %	Unemp rate (in %)	Output per worker (GDP constant 2021 international $ at PPP)	Output per worker / India Output per worker	Skill Set (enrolment to tertiary education) 2023- in %
World	61.1	58.1	4.9	48,127	2.0	43
US	61.9	59.4	4.1	1,50,755	6.2	79
China	65.4	62.4	4.6	44,004	1.8	75
India	60.1	58.2	3.2	24,216	1.0	33
Euro Area	57.2	53.3	6.8	1,16,849	4.8	82
Brazil	62.7	57.9	7.7	41,949	1.7	60
Indonesia	67.0	64.8	3.3	29,615	1.2	45

Agriculture and Construction which accounts for 23% of Value addition accounts for 55% of Job creation in India

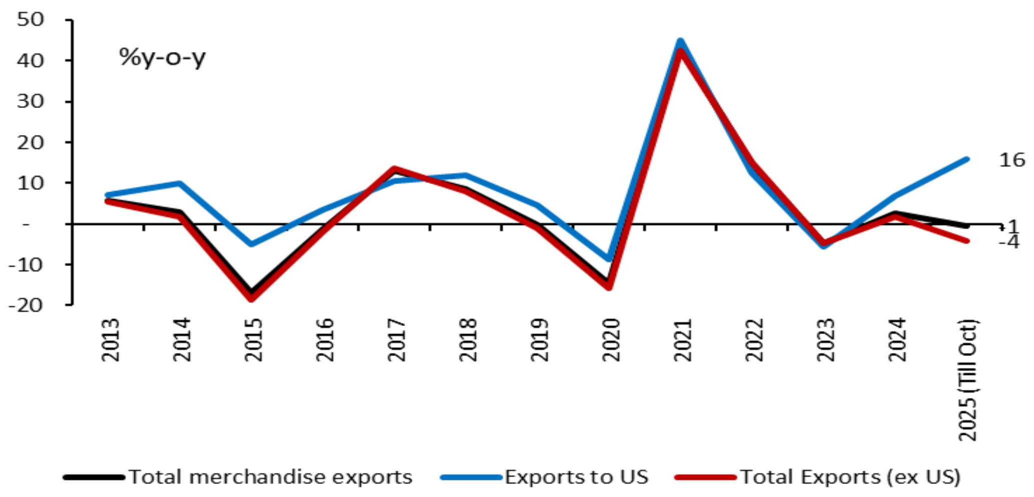
2024 Data (in %)	Distribution of Employment by Sector	Contribution to Real Output	Labour Productivity (in FY23)
Agriculture	43	14	90
Construction	12	9	175
Manufacturing	12	17	397
Services	32	55	400
Others (utilities and mining)	1	5	1,441

- While there is a policy support to improve household disposable income (via welfare schemes at state levels, reduction in personal income tax and GST and easier access to credit), Indian households struggle with an inherent challenges of job creation in the high paying productive sectors of the economy.
- India is faced with structural challenges of lack of skilled workers. 55% of working population is deployed in less productive agriculture and construction sector which accounts for less than 25% of economic output. 96% of annual financial savings of Indian households are towards fixed or no earning products (like currency, deposits, pension fund, insurance and government schemes). This stymies the wealth effect.
- Owing to these structural challenges, the consumption upcycle may lack a meaningful support and could be more cyclical in nature. .

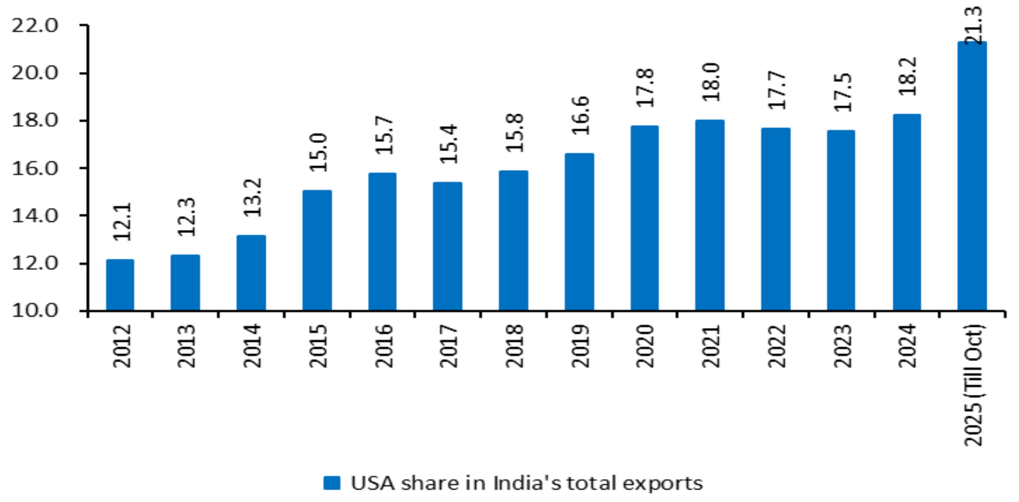
Source: CMIE Economic Outlook, PLFS survey, World Bank, ILO Statistics SBIFM Research

Market increasingly betting on some resolution to India US trade and tariff deadlock: critical for India's growth

Exports to the US holds important position in India's recent economic activity



~22% of India's merchandise shipment in 2025 directed towards the US; US share in India's exports moderated in September (15%)

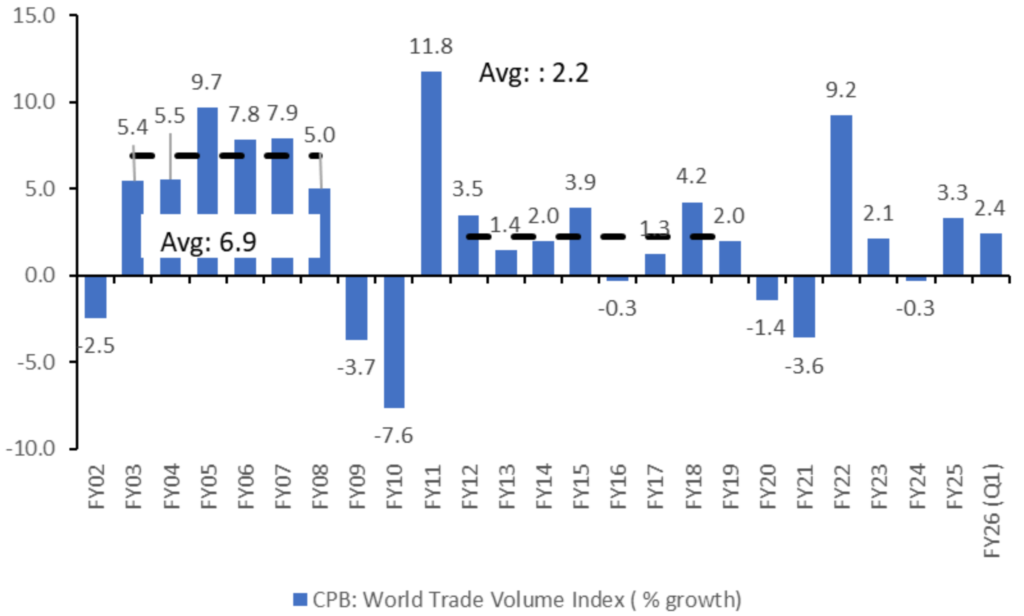


- US President Donald Trump imposed a 25% tariff on Indian goods effective 1st August and an additional 25% tariff effective 27th August, alluding to trade barriers and India's defence and energy ties with Russia.
- The announcement runs contrary to popular belief that India was in a relatively favourable position with the US. It was widely assumed that other Asian nations—viewed as transshipment conduits for Chinese exports—would bear the brunt of stricter US tariffs.
- US now accounts for 21% of India's goods exports (2.2% of GDP), of which one-third remains exempt from tariffs (e.g. pharmaceuticals, critical minerals, and fuels) and some sectors face differential tariffs (autos, steel and aluminium).
- One can argue that the effective tariff rate is then closer to 35%, lower than 50%. However, if it sticks for a year, India's GDP growth can get impacted, with much of the burden falling on labour intensive sectors such as jewellery, textiles, and food items. At these rates, tariffs on India will be higher than in neighbouring economies.

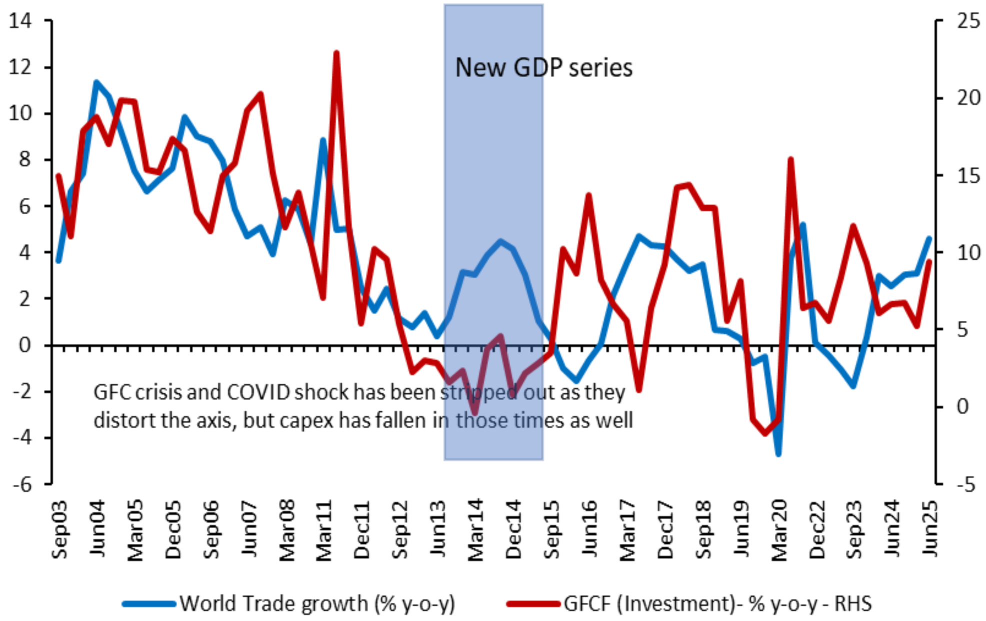
Source: CMIE Economic Outlook, SBIFM Research

Trade outlook shapes India's private capex too

Global goods trade momentum is weak



Weak exports adversely affect investment decision in India



- Effective tariffs rate in the US has risen from 2% in 2024 to 18% now (as per Yale study)
- US accounts for 14% of global goods demand

Source: CMIE Economic Outlook, SBIFM Research

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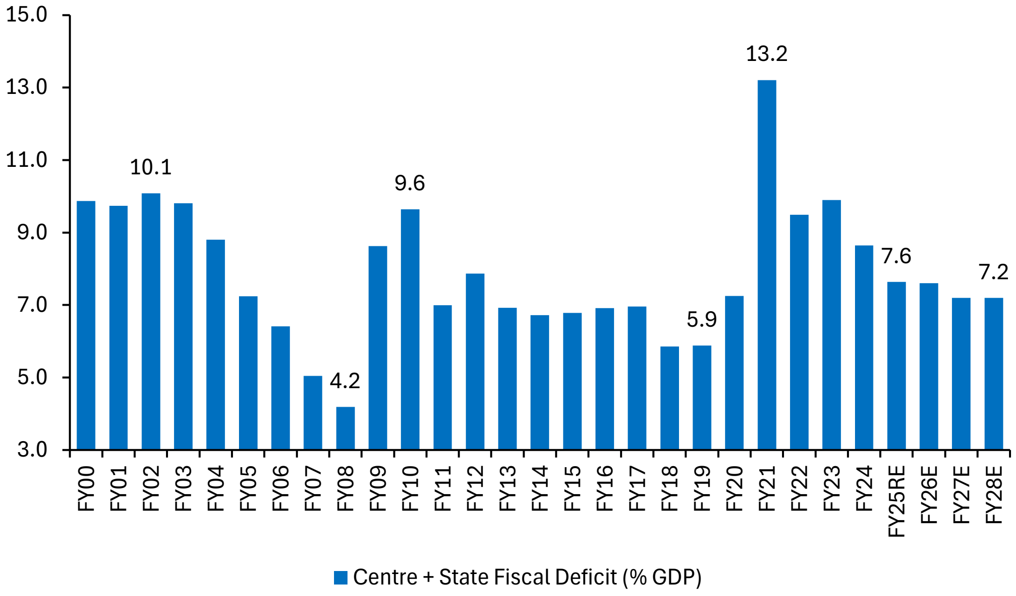
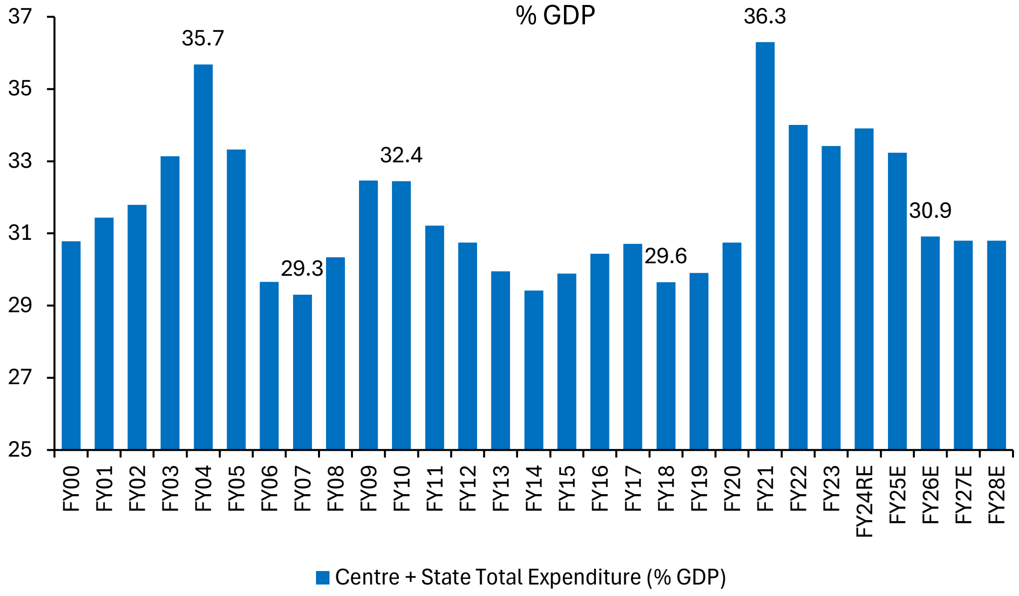
India's fiscal discipline constrains public expenditure, though marginal growth shift seen in 2025

Are we at the end of fiscal consolidation?



Consolidation implies constrained spending



- In India, there is a policy realisation that growth needs support. Multiple policy efforts in progress to support growth.
- Government is still on a path of fiscal consolidation that constraints aggregate public expenditure.
- If growth strains do not subside, we are likely at the end of fiscal consolidation in India.

Source: CMIE Economic Outlook, SBIFM Research

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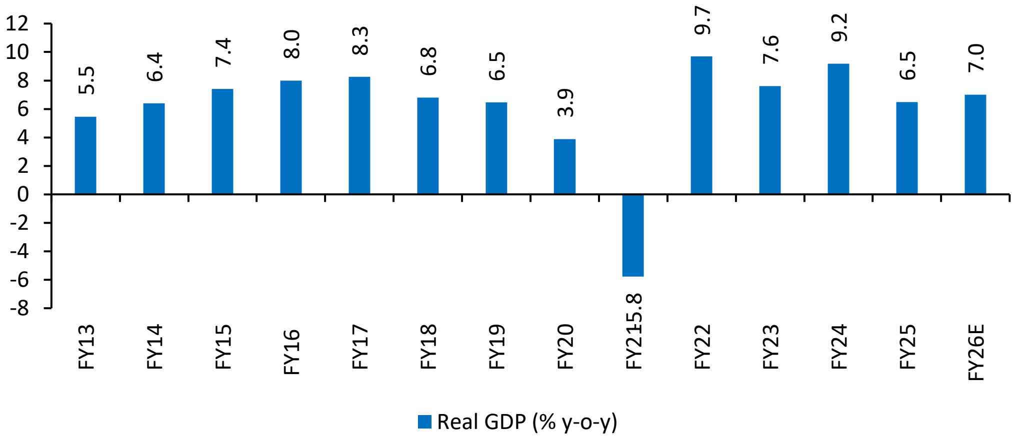
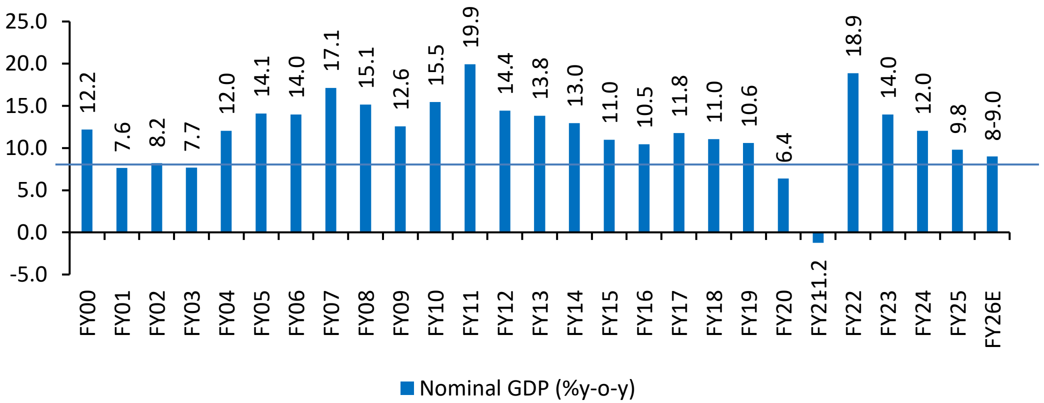
FY26 growth prospects not materially exciting

India's growth expected at ~7% y-o-y in FY26



Nominal growth in FY26 could soften significantly



- Q2 FY26 GDP came in at 8.2%, an improvement from 7.8% in Q1 FY26.
- In nominal terms, GDP growth slowed to 8.7% in Q2FY26.
- As per our assessment, weak tax collections and subdued core inflation (~3%) point to underlying softness in economic activity and pricing power.
- Two cyclical headwinds—trade uncertainties and the government's fiscal capacity—pose risks to growth. That said, policy measures aimed at boosting demand appear to be yielding results, with signs of a modest recovery in consumer spending.
- We expect 2H FY26 real GDP growth to track around 6.5-6.7% y-o-y, implying full-year real GDP growth of 7.3% y-o-y, while nominal growth is projected at 8.5% y-o-y.
- On the positive side, structural reforms continue to gain traction. For banks, regulatory stance has shifted from risk aversion to growth orientation. Throughout 2025, we've seen tacit relaxations in credit-to-deposit ratio norms, liquidity coverage requirements, and provisioning for unsecured loans. A trade deal could serve as a near-term catalyst to alleviate export pessimism.
- Overall, growth remains weak, but the worst appears to be behind us. We expect a gradual, directional improvement going forward.

Source: CMIE Economic Outlook, SBIFM Research

EQUITY MARKET

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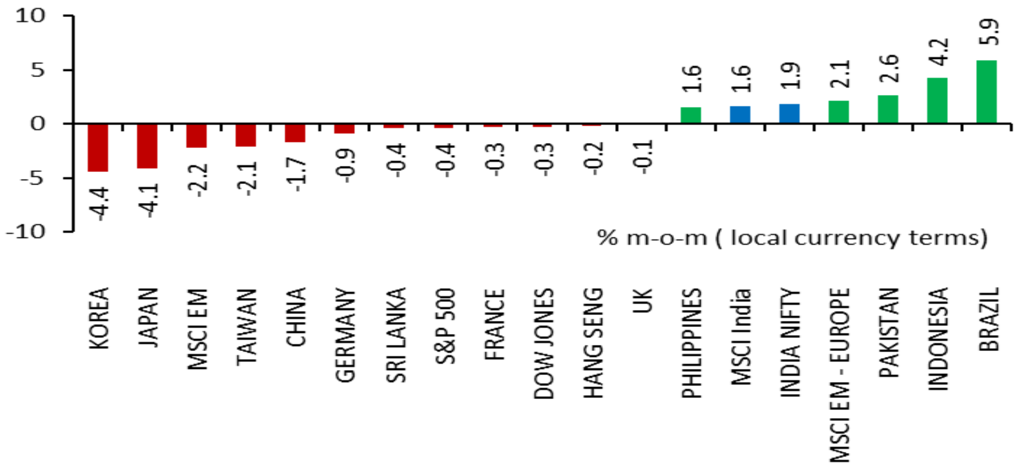
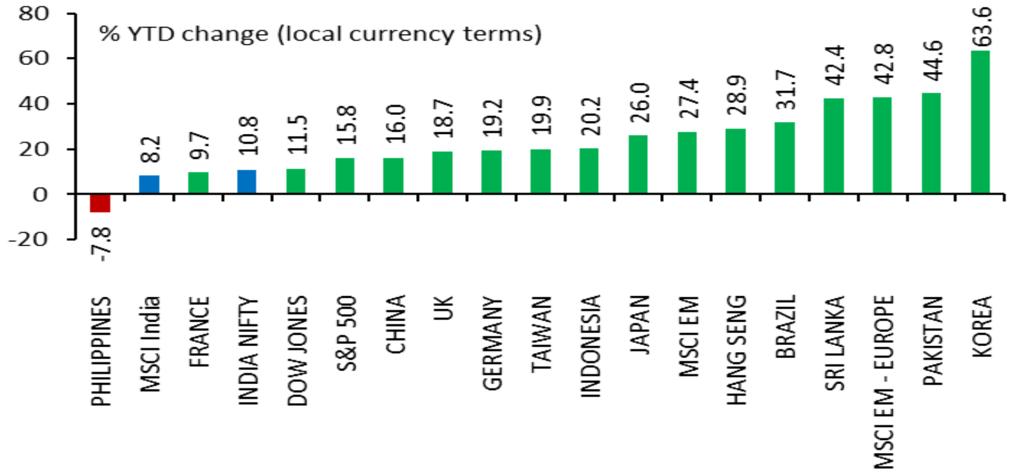
Global equity market snapshot: November 2025

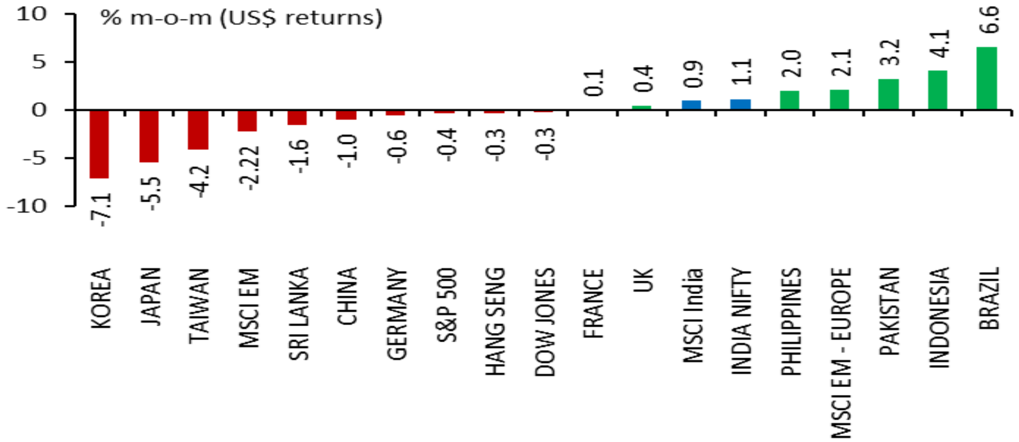
Performance in November 2025 (local currency returns)



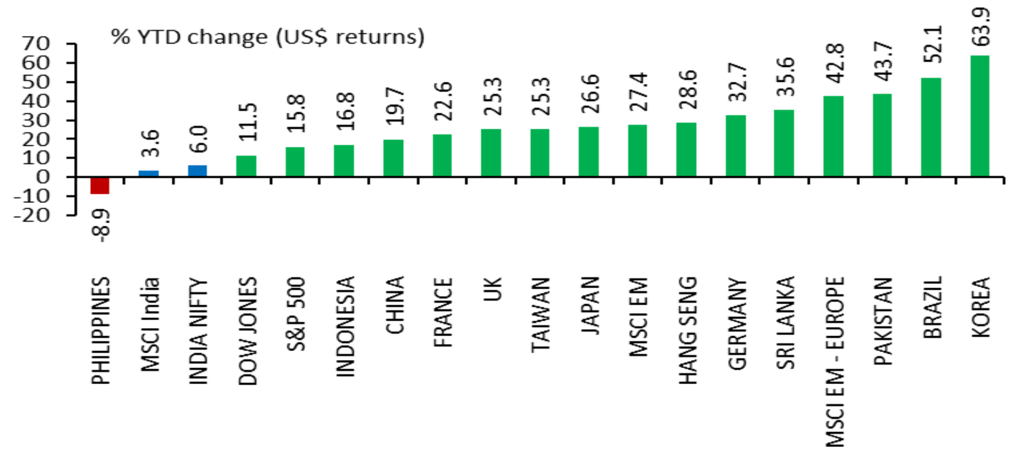
YTD performance (local currency returns)



Performance in November 2025 (US$ returns)



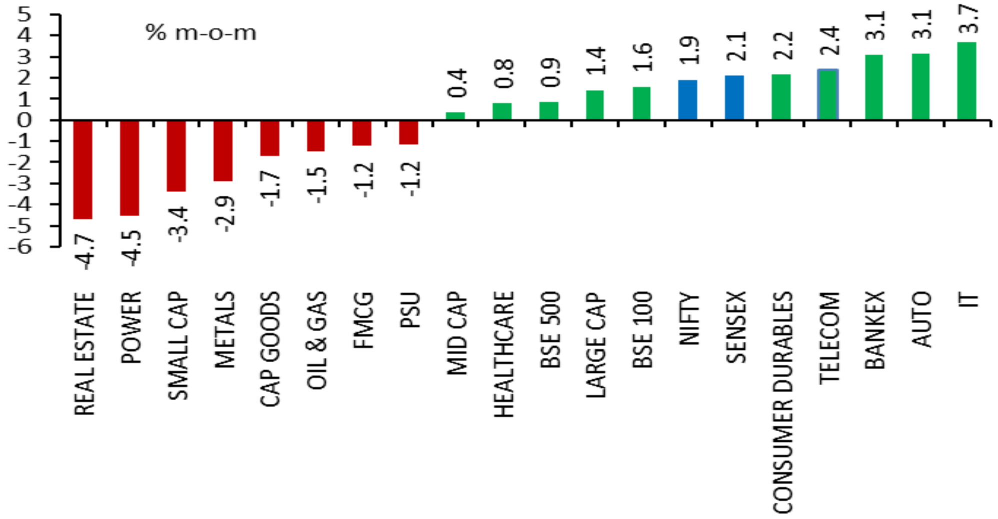
YTD performance (US$ returns)



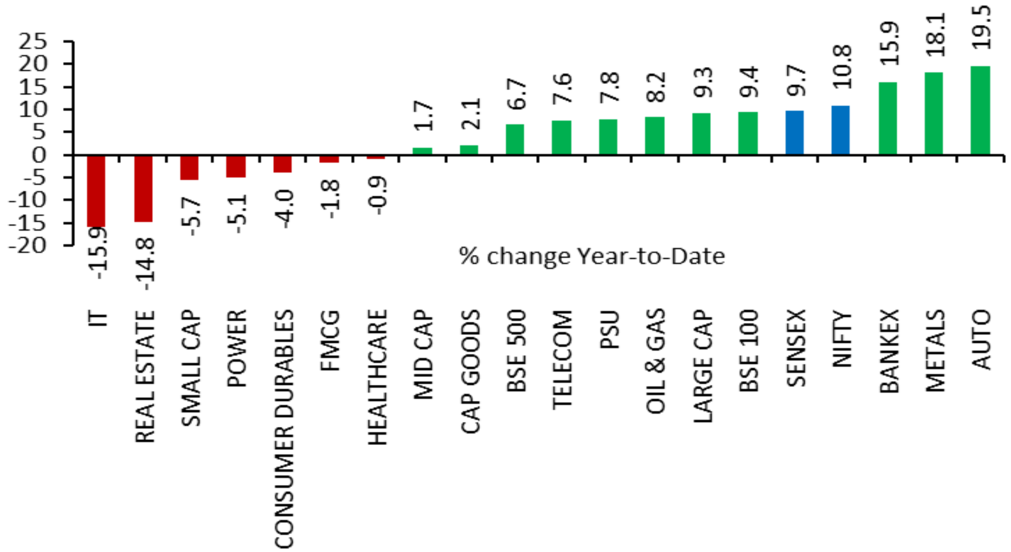
Source: Bloomberg, SBIFM Research

Indian equity market snapshot: November 2025

Indian equity market performance in November 2025 (local currency returns



YTD performance (local currency returns)

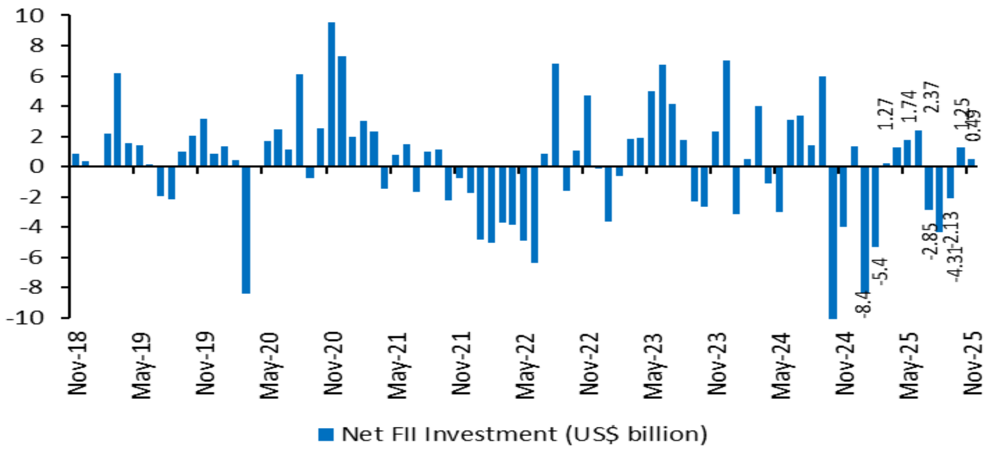


- NIFTY rose this month marginally by 2% in November. YTD, NIFTY witnessed a rise of ~11%. Performance down the capitalization curve has been much worse. Small cap has fallen by 6%, while mid cap and large cap gained by 2% and 9% year-to-date respectively.
- Real estate, Power and Metals see the sharpest sequential fall in November. On the other hand, IT. Auto and Bankex recorded the highest returns m-o-m.
- IT, Real estate, and power delivered the lowest returns YTD.

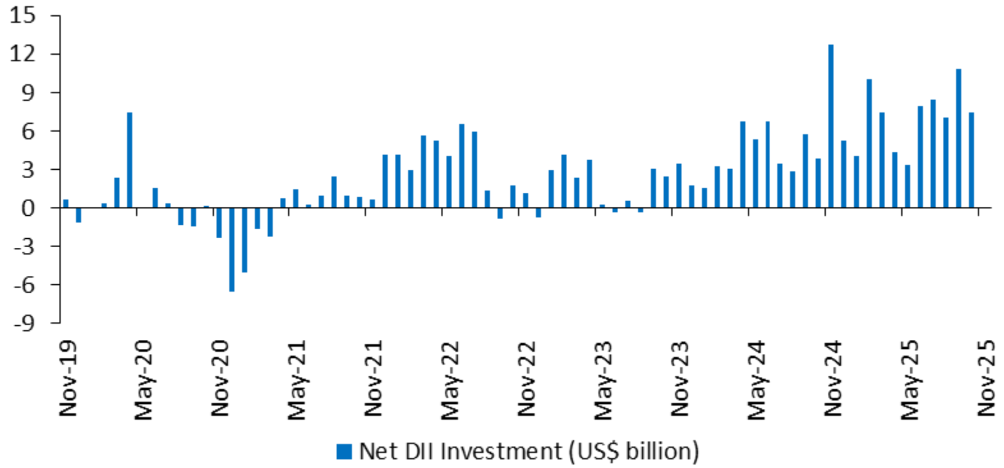
Source: Bloomberg, SBIFM Research

Liquidity: FIIs remain net buyers in Indian equity market; pick up in primary issuances

FIIs purchased US$0.5bn in November(vs. purchase of 1.3bn in Oct’25)



DIIs are net buyers (purchase of USD ~8.2bn in November (vs. 6bn last month)

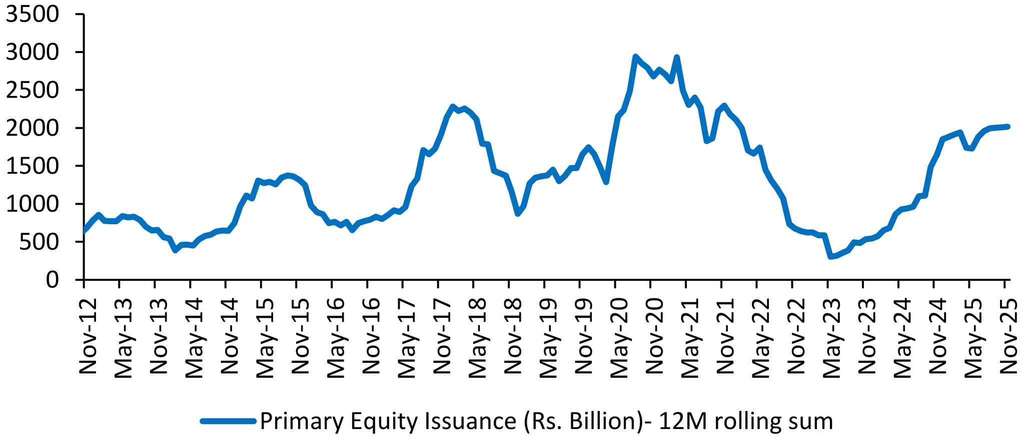


Retail flows into Equity (both Cash and Derivates) surge; Category wise net inflows into Indian equities:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025*
In Rs crore													
FPIs	1,13,136	97,069	17,946	20,493	49,234	-34,252	1,01,111	1,70,260	24,004	-1,21,439	1,71,107	427	-1,39,909
DIIs	-73,052	-28,557	67,587	35,363	90,738	1,09,662	42,257	-35,663	94,846	2,75,726	1,81,482	5,27,438	6,31,481
Individuals#	-22,000	-30,100	-8,243	-26,382	-37,988	-8,523	-25,280	52,897	1,42,755	88,376	5,243	1,65,810	7,185
In US$bn													
FPIs	20.1	16.1	3.2	3.2	7.5	-4.6	14.4	23.0	3.8	-16.5	20.7	0.1	-16.0
DIIs	-12.8	-4.8	10.4	5.2	14.0	16.0	6.0	-4.8	12.6	35.7	22.0	63.0	72.8
Individuals#	-3.8	-4.9	-1.3	-3.9	-5.8	-1.4	-3.6	7.1	19.3	11.7	0.6	19.8	0.84

As of Oct 31st, 2025. # Data for individuals include net flows on NSE in the secondary market only. Individuals include individual /proprietorship firms, HUF and NRI.

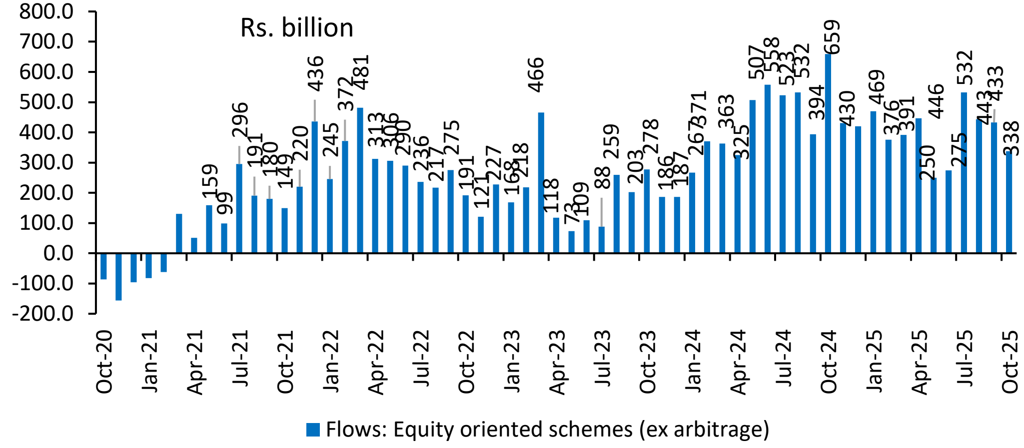
Primary market supply trending up from last year lows



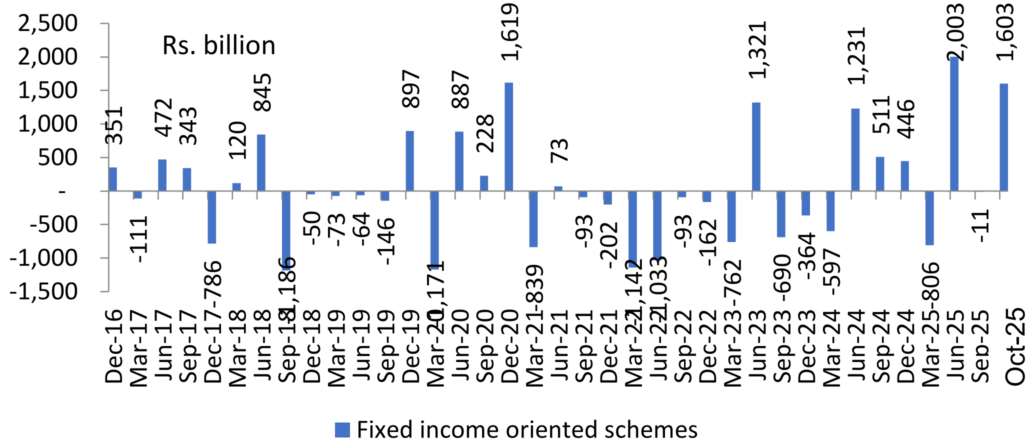
Source: NSE, Bloomberg, SBIFM Research; NB: FII and DII data till 26th November 2025

MF flows: SIP inflows improves while non SIP equity inflows moderate m-o-m in October 2025

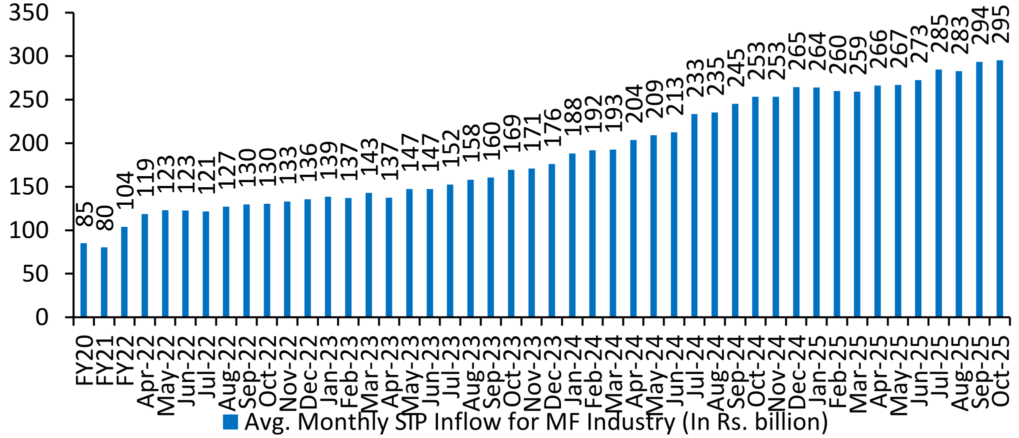
Equity inflows moderate in October 2025 compared to a month ago



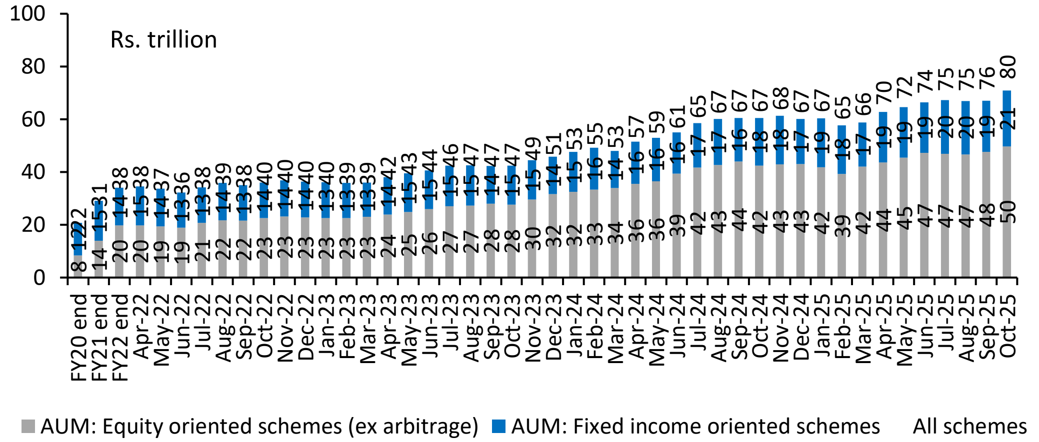
Debt inflow of INR 1.6tn in Q3FY26 (Till October) vs. outflow of INR 11bn in Q2FY26



Monthly SIP inflow improves in September m-o-m



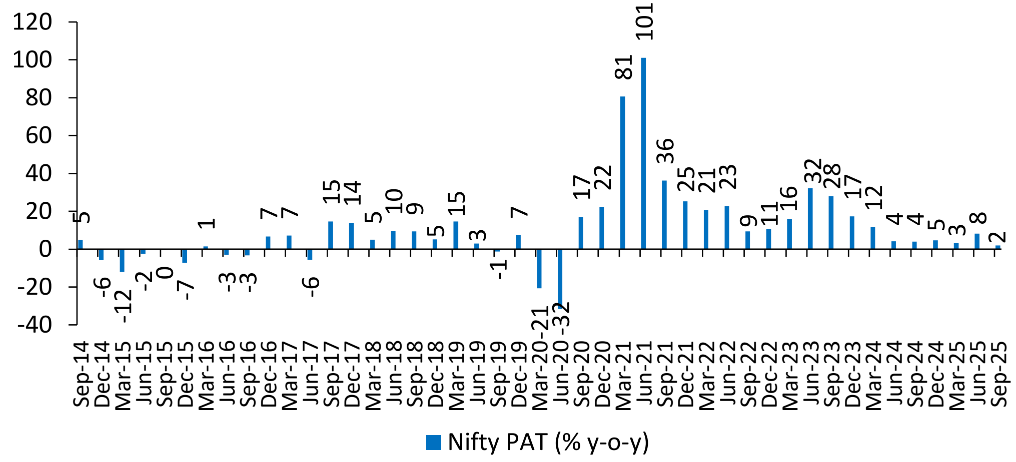
Debt and equity AUM improved sequentially



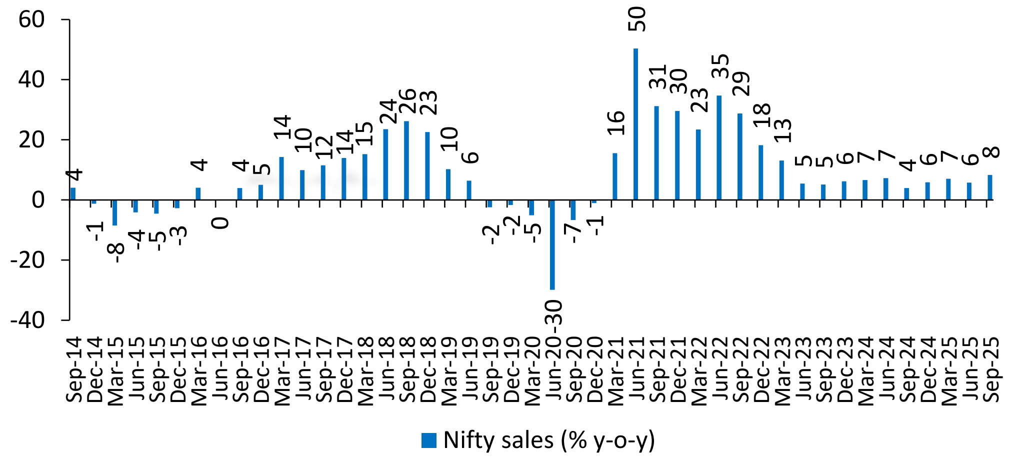
Source: CMIE Economic Outlook, Association of Mutual Funds of India(AMFI), SBIFM Research

Q2 FY26 earnings: Weak PAT growth; Topline has been weak for 9 consecutive quarters

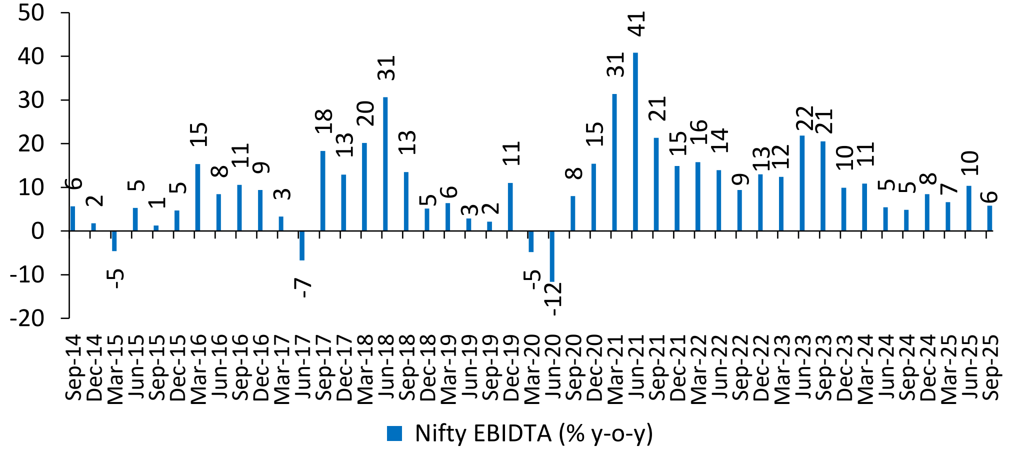
NIFTY PAT growth underwhelms expectations for select Oil & Gas, auto and insurance companies



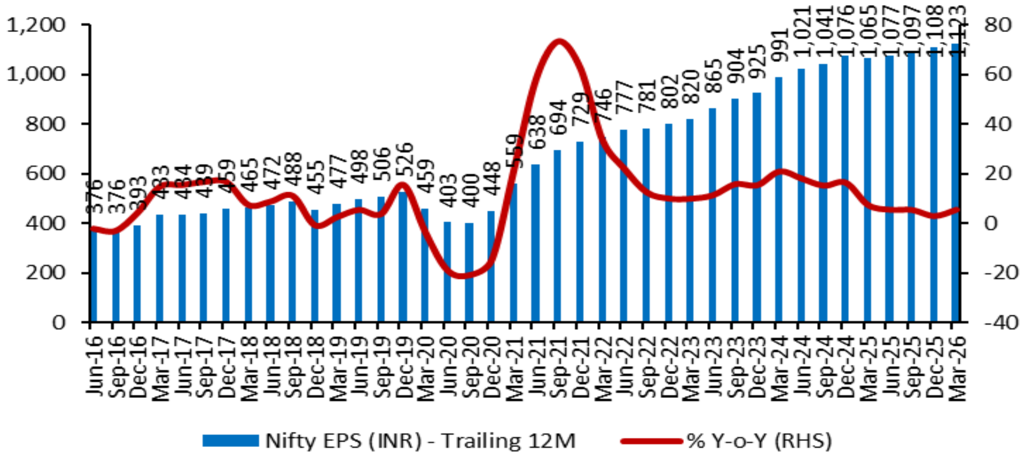
Q2 FY26 NIFTY sales growth in line with expectations



EBITDA growth also in line with expectations



EPS growth moderates



Source: MOSL, SBIFM Research; NB**: Results released for 50 NIFTY companies for September 2025 quarter, historical data is for all the NIFTY 50 companies**, EPS growth is adjusted for Axis bank losses for FY23

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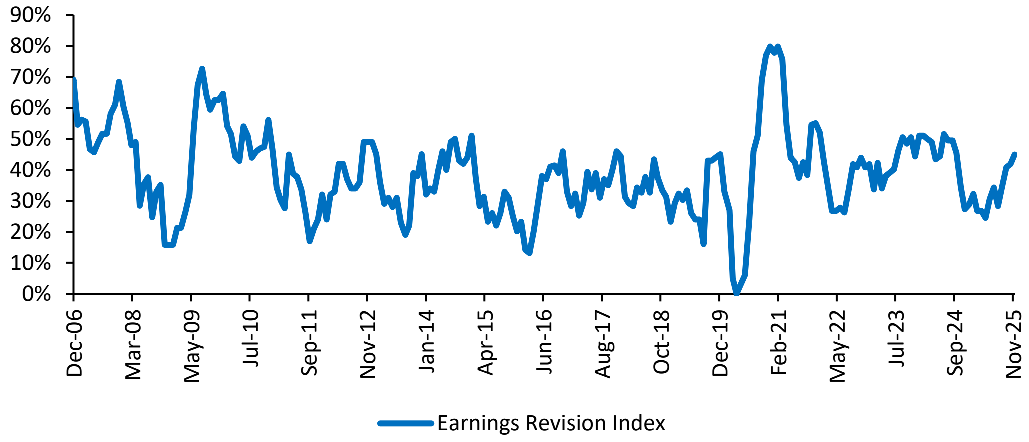
Q2 FY26 earnings' review: Weak results

- The Q2FY26 corporate earnings scorecard was modest (single digit profit growth), but largely in line with expectations.
- NIFTY PAT growth was 2% y-o-y in Q2FY26. Even as metals, NBFC, capital goods, cement and telecom have recorded a healthy profit growth, weakness in private banks results coupled with a drag from Oil & Gas (ex OMCs), automobile, consumer and insurance companies put pressure on profitability.
- FY26 NIFTY earnings growth expected ~8%. Revival in India's economic growth and hence topline is critical for the expectations to be met.
- An important trend was the disparity between mid- and small-caps versus large-caps. On a YoY basis, 51% of mid-cap companies and 35% of small-cap companies reported PAT growth above 15%. This suggests broader earnings resilience in the mid- and small-cap space, despite their weaker top-line performance. However, on a QoQ basis, growth momentum faltered across the board.
- Key sectoral highlights –
  - ➢Banks: NIMs declined for both private and public banks. The banking sector saw an improvement in credit growth while q-o-q deposit growth was weaker. On the other hand, NBFCs post healthy earnings. Retail credit growth is yet to pick up pace. Commercial banking continues to be healthy.
  - ➢Autos: Automobile sector reported mixed results. Realisations were muted sequentially for both two wheelers and passenger vehicles. 2W volume growth was strong for both domestic and exports.
  - ➢Consumer: The sector continued to report weak performance with demand remaining subdued. Volume growth was low. Staples demand remained muted. Expect sequential volume recovery alongside pricing-led growth going forward at the back of GST cuts.
  - ➢Oil & Gas: Strong EBIDTA/PAT growth mainly led by OMCs. Profits were above expectations.
  - ➢Real Estate: Strong presale reported by select property developers. Booking value and launches grow, though at a more moderate pace. Absorption has moderated sharply.
  - ➢Technology: The IT Services companies saw better operating margins, however demand commentary continued to be weak.
  - ➢Metals: This sector benefitted from stronger realisation. Robust growth was largely led by higher LME (London Metal Exchange) prices.
  - ➢Cement: Improved margin expansion and higher volumes in Q2FY26.
  - ➢Healthcare: Earnings were in line with expectations. Overall sales at the domestic aggregate level was stable. With stable pricing, US sales performance saw sequential improvement.

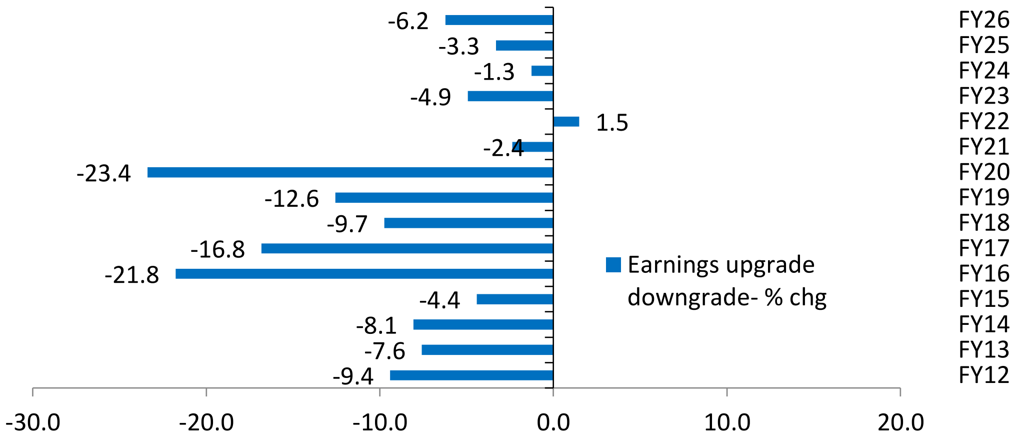
Source: MOSL, SBIFM Research

Earnings revisions continue to rise in November

Earnings Upgrades to downgrades ratio continues going up in November



In FY26 (till November) EPS projection saw a downgrade



- Earnings revisions for FY26 have fallen with Industrials, Materials, Financials seeing downward revisions. IT, Consumer Discretionary & Energy got upward revisions.
- Consensus expects 12.8% EPS growth CAGR for the Nifty over FY25-FY28.

Source: Bloomberg, FactSet, SBIFM Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier,12 month forward estimate number of all BSE 100 constituents as of the current month-end &3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

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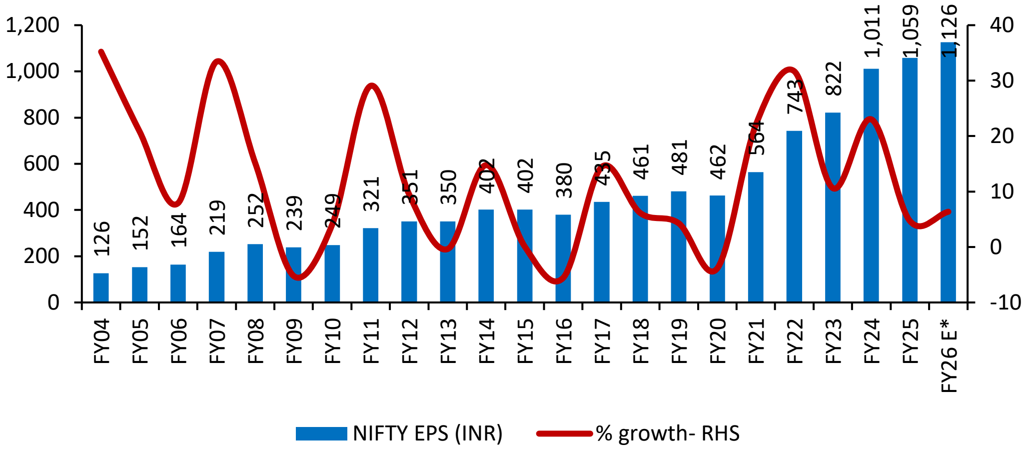
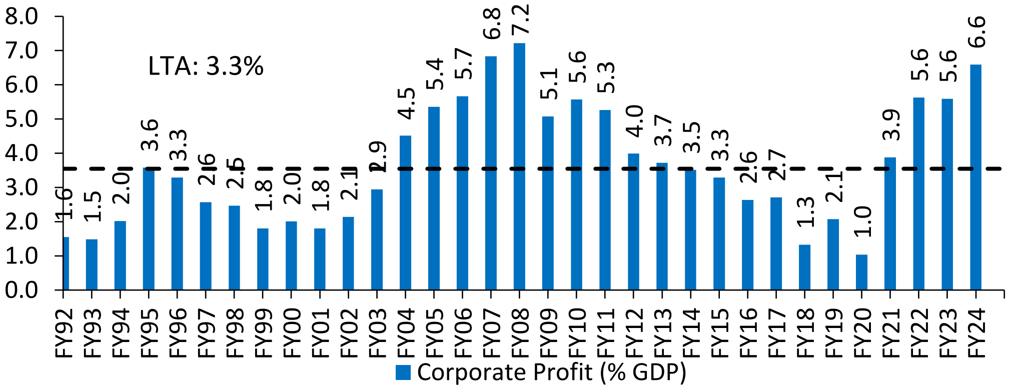
Earnings projections ~9% in FY26

Earnings expected to recover in FY26



Earnings have recovered from ultra-lows of FY17-FY20



FY92-FY24 data is based on a sample of ~30,000 listed unlisted companies in CMIE (includes both financial and non financial companies)

Sectoral breakup of NIFTY earnings outlook

		EPS Change								
	No. of Cos.	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28	FY25-28 (CAGR)
Nifty		20.0%	35.7%	5.9%	29.5%	1.0%	7.7%	16.2%	14.7%	12.8%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	6.1%	49.2%	24.9%	14.5%	28.8%
Industrials	5	22.9%	-30.1%	-0.9%	-0.9%	27.6%	14.1%	22.8%	16.4%	17.7%
Financials	11	13.8%	27.3%	23.1%	53.0%	-4.6%	6.7%	15.3%	16.8%	12.8%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	20.1%	18.2%	8.9%	6.6%	11.1%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	10.8%	17.9%	8.3%	7.4%	11.1%
Consumer Staples	4	-5.0%	-3.9%	5.6%	32.6%	14.1%	9.0%	12.4%	10.8%	10.7%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-9.9%	-19.8%	36.0%	20.6%	9.6%
Energy	3	56.9%	11.4%	8.1%	33.6%	-6.7%	8.6%	9.4%	9.8%	9.3%
Health Care	5	5.9%	51.7%	23.6%	2.5%	24.4%	-9.4%	8.4%	17.3%	4.8%
Communication Services	1		NA*		-6.1%	67.9%	16.1%	42.4%	24.4%	27.2%

- Consensus expects 12.8% EPS growth CAGR for the Nifty over FY25-FY28.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.

Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; *FY25 and FY26 earnings estimates are SBIMF,** EPS change is unadjusted to externalities, : ***data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier,12 month forward estimate number of all BSE 100 constituents as of the current month-end &3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

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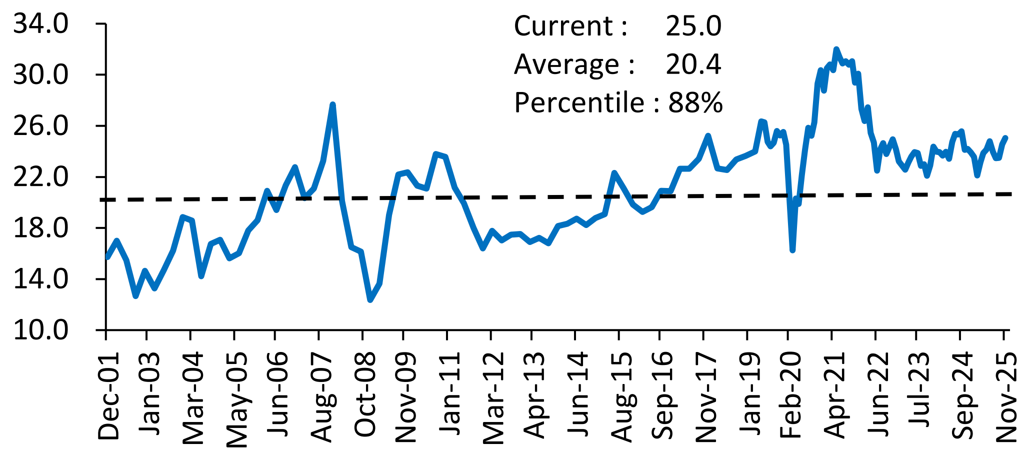
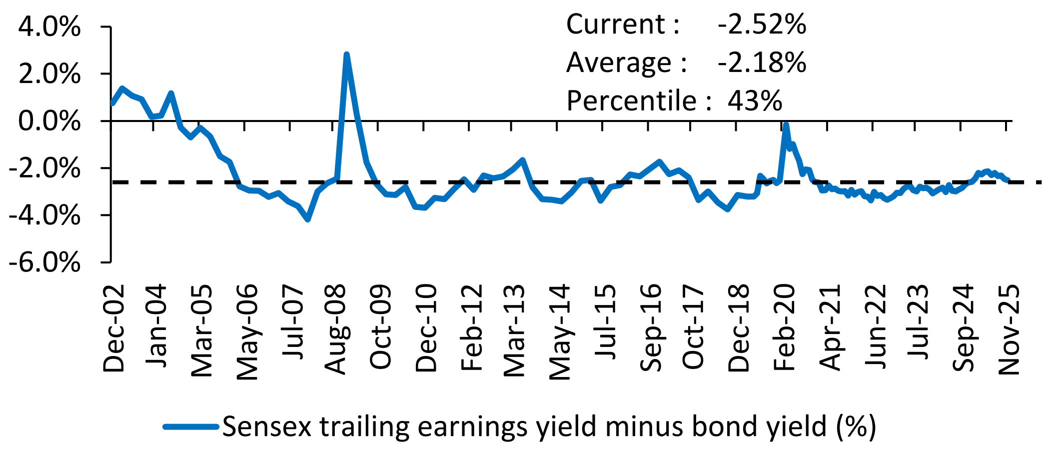
Equity valuations have turned moderately expensive

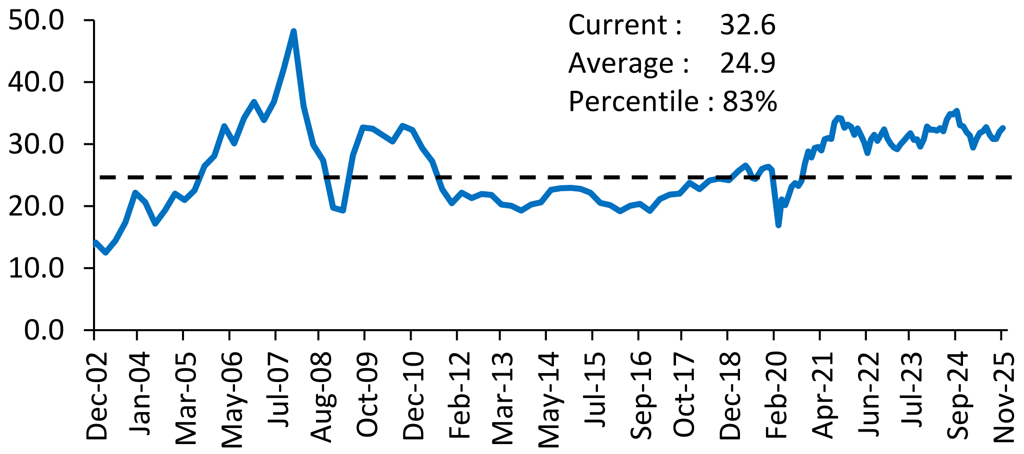
Sensex trailing PE ratio stood at 25.0 in Nov'25 vs. 24.6 in Oct'25



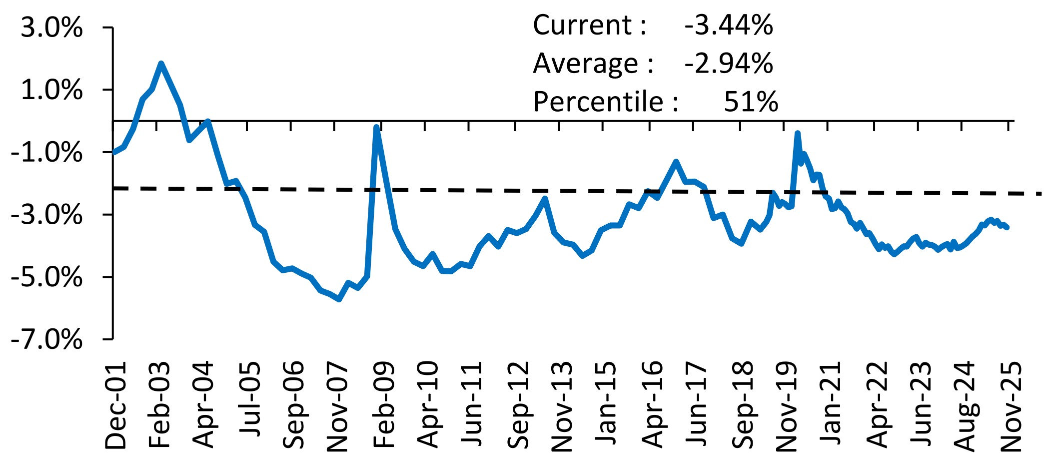
Earnings yield to bond yield spread has corrected



Shiller PE ratio stood at 32.6 in Nov'25 vs. 32.0 in Oct'25



Shiller earnings yield to bond yield spread has corrected



Source: Bloomberg, SBIMF Research

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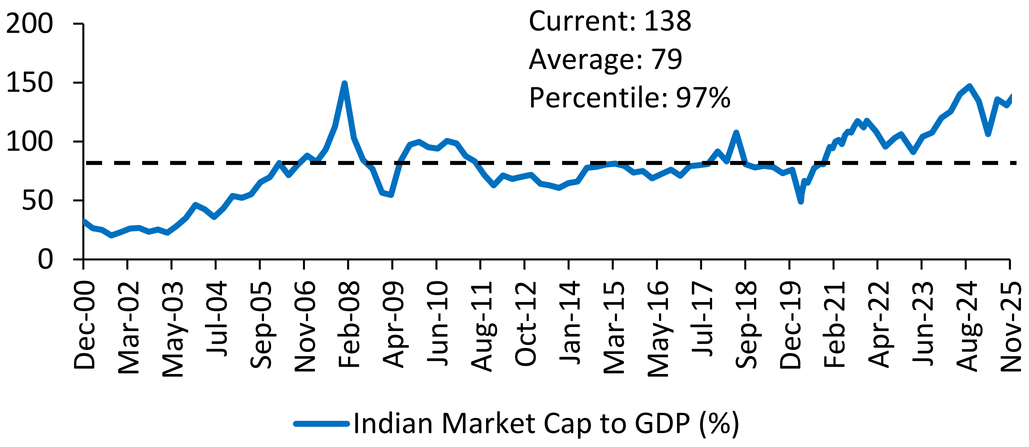
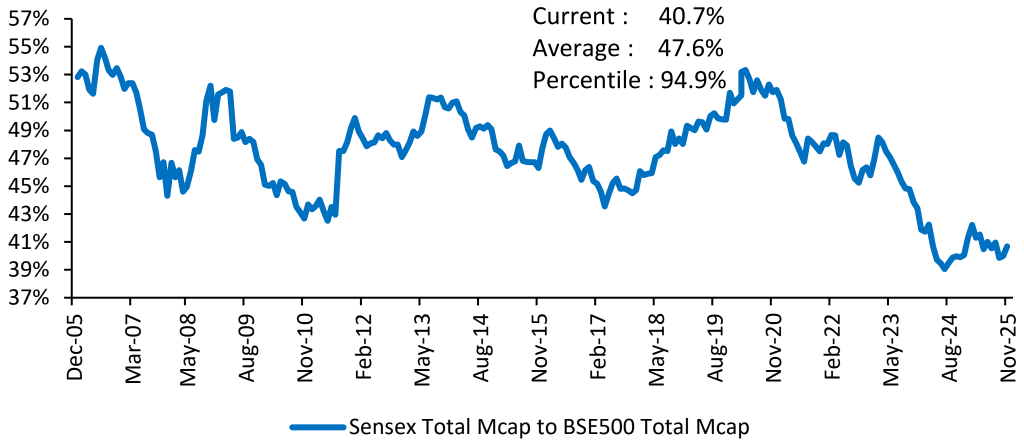
Polarization remains low, remains favorable towards large caps

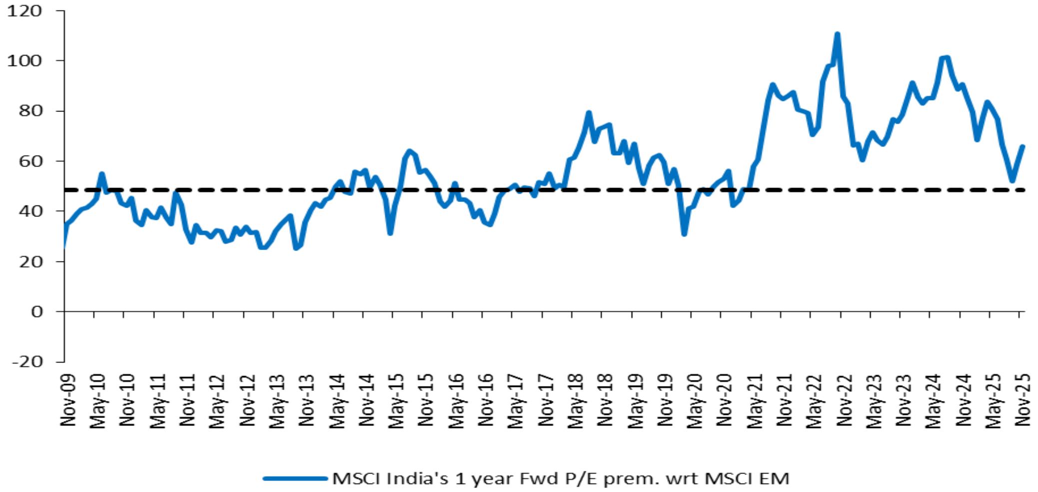
Market capitalization/GDP expensive vs. history at 97th percentile reading



Mid caps and small caps: Market polarization remains favourable towards large caps



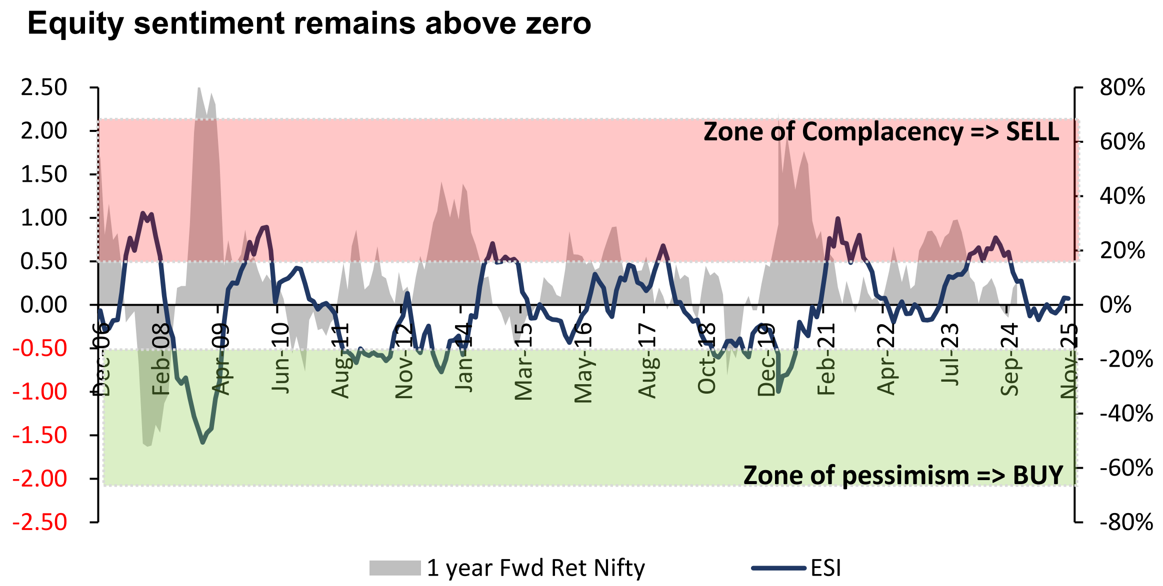
MSCI India's valuation premium relative to EM improves marginally in November

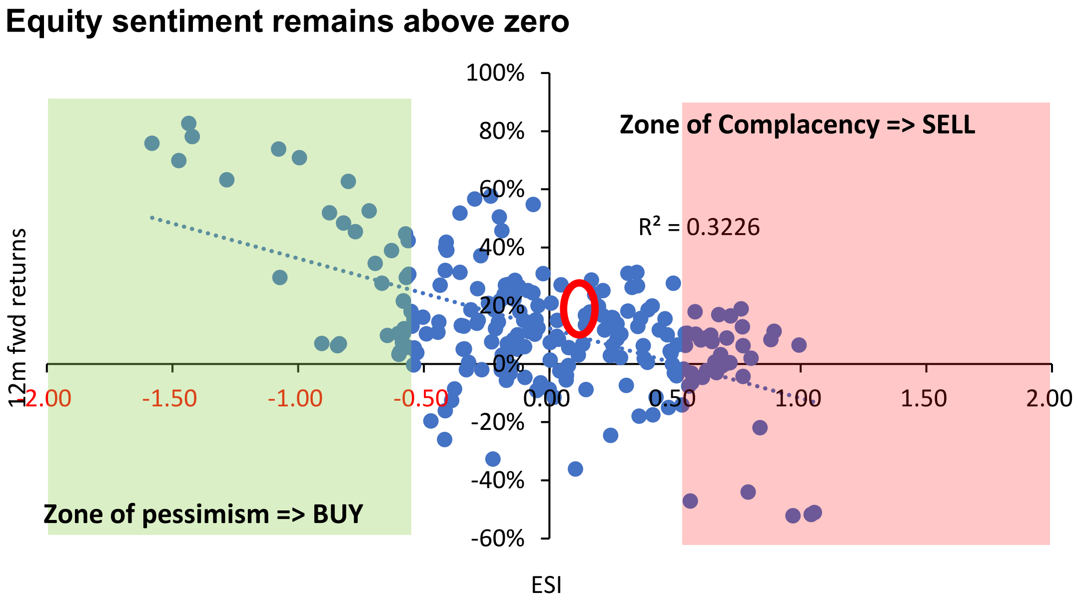


- Market polarization remains low. Broader markets have outperformed the frontline large cap indexes in the previous month.
- The ratio is low, suggesting the risk-reward is more towards large caps now.

Source: Bloomberg; SBIFM Research

Equity market sentiment remains above zero





- The sentiment measure works as a contrarian indicator. The action from the past few months suggests optimism has corrected significantly.

Source: Bloomberg, FactSet, SBIMF Research; ESI = Equity sentiment Index

Equity Outlook: We change our outlook to neutral from an underweight stance in 2024

- Indian equities saw an improvement in November with GST rates rationalisation providing some support though adverse trade tariff outcomes weigh on the markets. The Nifty and the Sensex gained by ~2% each respectively for the month.
- On the corporate front, optimism returned following Q2 FY26 results, with companies projecting a recovery in demand during 2HFY26. This confidence is underpinned by RBI's front-loaded monetary easing, income-tax moderation earlier in the year, and GST rationalization effective October 2025. Yet, ground-level checks during the festive season suggest that consumer demand remains subdued despite tax cuts. Automobiles have been the exception.
- When we look at the growth outlook in the immediate two quarters, two cyclical headwinds—trade uncertainties and the government's fiscal capacity—pose risks to growth. • On the positive side, structural reforms continue to gain traction. For banks, regulatory stance has shifted from risk aversion to growth orientation. Throughout 2025, we've seen tacit relaxations in credit-to-deposit ratio norms, liquidity coverage requirements, and provisioning for unsecured loans. A trade deal could serve as a near-term catalyst to alleviate export pessimism. Hence the worst for growth may be behind us. We expect a gradual, directional improvement going forward.
- Equity markets reflect this mixed backdrop. Large-cap valuations remain neutral, broader market valuations are stretched, leading to narrow breadth. Sentiment has improved marginally, but increased equity supply through primary issuances and secondary sales is capping upside.
- Consensus forecasts suggest benchmark returns of around 15% over the next year, driven by an earnings turnaround and policy support.
- Foreign portfolio flows remain a concern: FPI outflows between April and November FY26 have pushed ownership in NSE-listed firms to a 15-year low of roughly 17%. Retail participation has been volatile, with mutual fund inflows rebounding mid-year but softening again in October. Without sustained market performance, domestic flows risk further moderation.
- The key risk lies in a feedback loop-continued FPI retrenchment and muted returns could dampen retail flows, making earnings acceleration critical for a durable market recovery. Consensus revisions indicate that earnings may be bottoming out, with breadth improving, but execution will be crucial.

Source: Bloomberg, SBIFM Research

FIXED INCOME MARKET

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Global Bond Market Snapshot

US treasury yields moderate m-o-m amidst weakness in labour market data; EM bond yields see a mixed performance

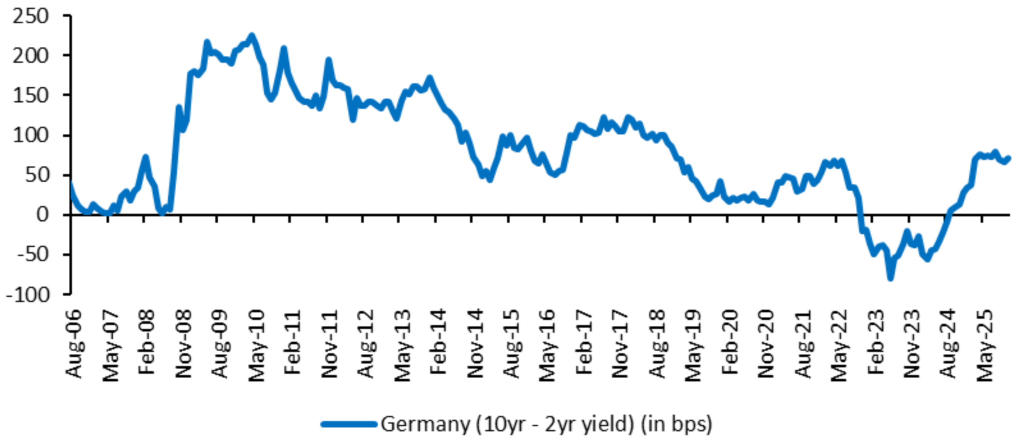
10 Year Gsec Yield (% mth end)	2023 end	2024 end	Aug-25	Sep-25	Oct-25	Nov-25	m-o-m change (in bps)	YTD change (in bps)
Developed market								
US	3.88	4.57	4.23	4.15	4.08	4.00	-8	-57
Germany	2.02	2.37	2.72	2.71	2.63	2.69	5	32
Italy	3.70	3.52	3.59	3.53	3.38	3.41	2	-12
Japan	0.61	1.10	1.60	1.65	1.67	1.81	14	71
Spain	2.99	3.06	3.33	3.26	3.14	3.17	2	11
Switzerland	0.70	0.33	0.31	0.22	0.13	0.18	4	-15
UK	3.54	4.57	4.72	4.70	4.41	4.45	4	-11
Emerging Market								
Brazil	10.37	15.16	13.93	13.72	13.77	13.45	-32	-172
China	2.56	1.68	1.79	1.87	1.80	1.83	4	16
India	7.17	6.76	6.57	6.58	6.47	6.50	3	-29
Indonesia	6.45	6.97	6.34	6.35	6.06	6.30	24	-67
South Korea	3.18	2.87	2.81	2.94	3.06	3.36	30	48
Malaysia	3.73	3.81	3.39	3.46	3.50	3.46	-4	-35
Thailand	2.68	2.25	1.29	1.42	1.70	1.74	3	-52
Turkey	25.06	29.04	31.23	31.39	31.85	31.54	-31	250
Mexico	8.95	10.44	8.98	8.83	8.85	8.91	6	-152
Poland	5.20	5.89	5.53	5.47	5.34	5.17	-17	-73
Colombia	9.96	11.86	11.35	11.34	11.63	12.65	102	79
Hungary	5.86	6.55	7.09	6.80	6.81	7.02	21	47

- 10 Year UST moderated m-o-m in November, but ranges in 4.00-4.60%
- EM bond yields depict mixed performance m-o-m.

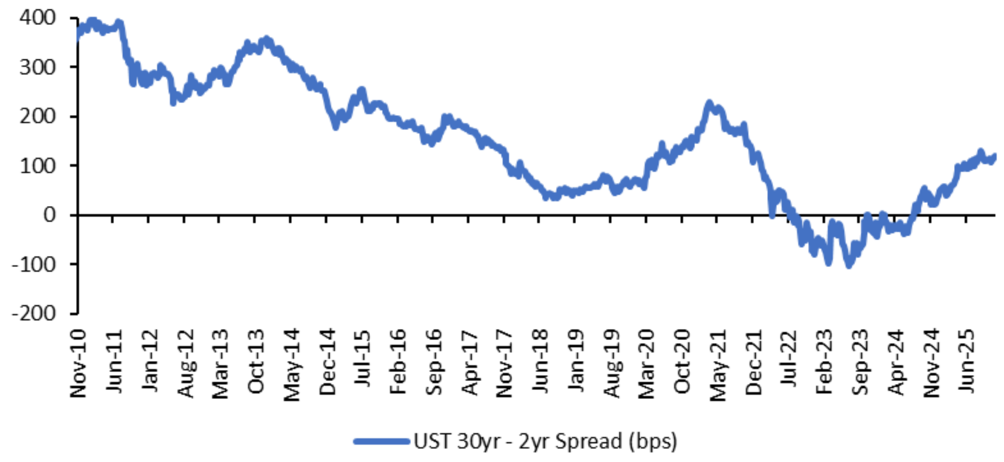
Source: Bloomberg, SBIFM Research

Yield curve steepens across major developed markets

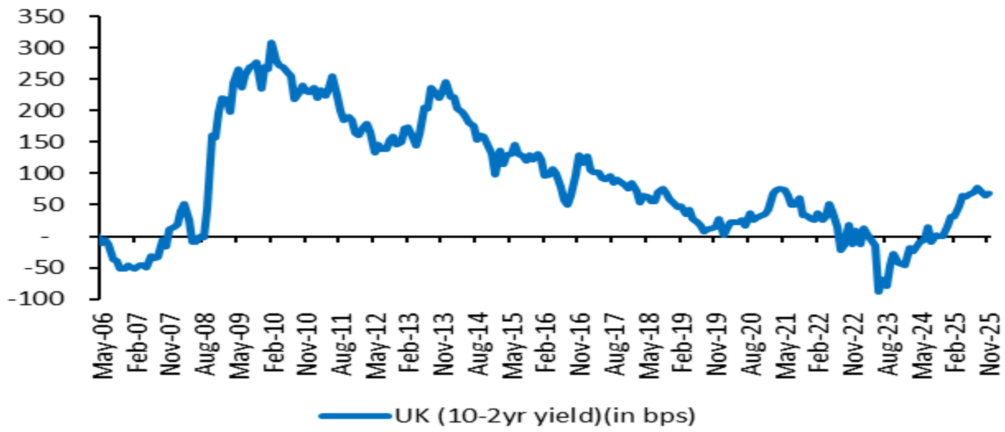
Germany yield curve steepens



US 30yr bond yield hovered close to 4.70% through November



UK 30 vs 2yr yields spread highest in nearly eight years



- The return of Trump to the political spotlight is broadly negative for bonds.
- While U.S. rate cuts may be driven by a more compliant Federal Reserve, such moves are likely to steepen the yield curve over time.
- Any short-term easing in benchmark rates may occur, but it's unlikely to be sustained given the backdrop of elevated inflation, potentially weaker growth, and concerns around the independence of key regulatory institutions.

Source: Bloomberg, SBIFM Research

India Rates Snapshot: Indian rates movement largely dictated by domestic factors

Yields moderate across all asset classes m-o-m

	2023 end	2024 end	Sep-25	Oct-25	Nov-25	m-o-m (in bps)	YTD change (in bps)
Repo rate	6.50	6.50	5.50	5.50	5.50	0	-100
1 Yr T-Bill	7.13	6.69	5.61	5.58	5.53	-5	-115
3M T-Bill	6.93	6.55	5.47	5.46	5.36	-9	-119
3 year GSec	7.07	6.73	5.67	5.60	5.52	-8	-120
5 year GSec	7.09	6.72	5.88	5.78	5.78	0	-94
10 year GSec	7.18	6.79	6.57	6.47	6.50	3	-29
3 Yr Corp Bond*	7.78	7.58	6.87	6.86	6.77	-10	-81
5 Yr Corp Bond*	7.79	7.46	6.92	6.94	6.89	-5	-57
10 Yr Corp Bond*	7.76	7.24	7.29	7.25	7.19	-6	-5
1 Yr IRS	6.64	6.51	5.45	5.47	5.46	-1	-105
5 Yr IRS	6.19	6.20	5.74	5.67	5.75	8	-46
Overnight MIBOR Rate	6.90	7.15	5.74	5.69	5.59	-10	-156
10 year SDL	7.65	7.15	7.26	7.19	7.18	-1	3
INR/USD	83.21	85.61	88.79	88.77	89.46	-0.8^	-4.5^
Crude oil Indian Basket**	77.43	73.34	69.61	65.08	64.31	-1.2^	-12.3^

- Yields across the fixed income asset classes have inched lower during October – November.
- Rupee has been on a depreciation bias, weakening 0.8% in November and 4.5% YTD.
- Crude prices has also stayed soft in 2025.

Source: Bloomberg, PPAC, RBI, CEIC, SBIFM Research; NB: *Corporate bond rate is for AAA rated bonds, **Crude oil price is average $/barrel for the month end , remaining data are % month end, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

India G-Sec yield curve steepens in 2025

Yields fell YTD across short term tenures on liquidity actions by the RBI in 2025 but rise for long term tenure bonds- leads to the steepening of the Indian G-sec curve

Yield (%)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
30-Nov-24	6.47	6.65	6.60	6.66	6.67	6.69	6.68	6.74	6.74	6.79	6.84	6.78	6.86	7.01
31-Dec-24	6.54	6.68	6.68	6.72	6.72	6.72	6.72	6.77	6.76	6.82	6.82	6.79	6.87	7.01
31-Jan-25	6.55	6.63	6.57	6.60	6.63	6.63	6.62	6.70	6.67	6.75	6.70	6.75	6.84	7.02
28-Feb-25	6.47	6.55	6.53	6.57	6.61	6.63	6.59	6.72	6.68	6.80	6.71	6.79	6.92	7.13
31-Mar-25	6.34	6.49	6.44	6.42	6.42	6.44	6.44	6.50	6.48	6.61	6.52	6.58	6.69	6.90
30-Apr-25	5.89	5.92	5.90	6.02	6.00	6.08	6.05	6.15	6.11	6.35	6.16	6.36	6.46	6.78
31-May-25	5.60	5.61	5.60	5.71	5.77	5.88	5.74	6.01	5.88	6.26	5.99	6.29	6.43	6.83
30-Jun-25	5.37	5.50	5.52	5.79	5.69	5.99	5.87	6.23	6.10	6.40	6.25	6.32	6.68	7.05
31-Jul-25	5.39	5.50	5.56	5.71	5.61	5.99	5.87	6.21	6.07	6.43	6.23	6.37	6.67	7.04
31-Aug-25	5.48	5.58	5.59	5.83	5.61	6.28	6.01	6.51	6.34	6.68	6.48	6.57	6.98	7.30
30-Sep-25	5.40	5.51	5.56	5.77	5.67	6.14	5.88	6.42	6.24	6.65	6.41	6.58	6.87	7.20
31-Oct-25	5.44	5.58	5.58	5.69	5.60	6.08	5.78	6.42	6.23	6.60	6.35	6.47	6.89	7.22
30-Nov-25	5.34	5.50	5.52	5.62	5.52	6.08	5.78	6.42	6.18	6.60	6.34	6.50	6.89	7.31
m-o-m change (in bps)	**3 Month**	**6 month**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**6 Year**	**7 Year**	**8 Year**	**9 Year**	**10 Year**	**15 Year**	**30 Year**
30-Nov-24	-4	9	6	-9	-4	-8	-7	-7	-4	-5	1	-7	-1	3
31-Dec-24	7	3	8	6	4	3	4	3	2	3	-2	1	0	0
31-Jan-25	1	-5	-11	-12	-9	-9	-10	-7	-10	-7	-11	-4	-3	2
28-Feb-25	-8	-8	-4	-3	-2	0	-3	2	2	5	1	4	8	11
31-Mar-25	-13	-6	-9	-15	-19	-19	-15	-22	-20	-20	-19	-20	-22	-23
30-Apr-25	-45	-57	-54	-40	-42	-36	-39	-35	-37	-26	-36	-23	-24	-12
31-May-25	-29	-31	-30	-31	-23	-20	-31	-14	-24	-9	-17	-7	-3	5
30-Jun-25	-23	-11	-8	9	-8	12	13	21	22	14	26	4	25	23
31-Jul-25	2	0	4	-9	-8	-0.6	-0.1	-2	-2.8	4	-1.4	5	-1	-1
31-Aug-25	9	8	3	12	0	29	14	31	27	25	25	19	31	25
30-Sep-25	-8	-7	-3	-7	5	-14	-13	-9	-10	-3	-7	1	-10	-10
31-Oct-25	4	7	2	-7	-6	-6	-10	-1	-1	-5	-6	-11	2	3
30-Nov-25	-10	-8	-6	-7	-8	0	0	0	-5	0	-1	3	0	8
Change in YTD (in bps)	**-120**	**-118**	**-116**	**-110**	**-120**	**-64**	**-94**	**-35**	**-58**	**-22**	**-47**	**-29**	**2**	**30**

Source: Bloomberg, SBIFM Research

SBI FUNDS MANAGEMENT LIMITED

Central government finances see soft tax collection while expenditure gets front-loaded

Centre's tax collections muted

Cumulative Apr-Oct FY26	% y-o-y	Budgeted growth based on FY25 actuals	Required in remaining months
Net Tax Revenue	-2.4	13.5	30.9
Gross Tax Revenue	4.0	12.5	22.3
Income Tax	6.9	13.1	24.1
Corporate Tax	5.2	13.0	14.0
Custom	-2.5	5.8	10.3
Excise duties	7.9	5.0	3.2
GST	1.2	11.6	32.2
Total Direct Tax	6.1	13.1	19.3
Total Indirect Tax	1.5	9.4	23.0

Centre's fiscal deficit reached 53% of the full-year budget estimate higher than the typical ~45% historically..

Key Fiscal Indicators - Central Government Finances							
Actual (as % of BE)- (Apr-Oct)	FY20	FY21	FY22	FY23	FY24	FY25	FY26
1 Non-debt Receipts	45	32	65	61	59	54	51
a. Tax Revenue (Net)	41	35	68	61	56	51	45
b. Non-tax Revenue	72	30	85	66	88	73	84
c. Non-Debt Capital Receipts	22	7	10	45	27	24	49
2. Expenditure	59	55	52	54	53	51	52
a. Revenue Account	59	56	54	54	53	54	51
b. Capital Account	59	48	46	55	55	42	55
3. Fiscal Deficit	102	120	36	46	45	47	53
4. Net Market Borrowing	118	226	55	67	76	32	48

..reflects a combination of soft tax collections and front-loaded revenue and capital expenditure

Cumulative growth (b/w Apr-Oct)-%	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Gross fiscal Deficit	11	32	-43	39	6	-7	10
Total expenditure	14	0	10	17	12	3	6
Revenue expenditure	14	1	7	10	7	9	0
Capital expenditure	14	-2	28	61	34	-15	32
Total Receipts	16	-24	81	8	15	8	4
Net Tax revenue	3	-16	83	11	11	0	-2
Non-tax revenue	76	-48	78	-14	49	50	22
Non-debt capital receipts	40	-39	20	81	-36	-18	97
Net market borrowings	33	131	-56	49	11	-56	52

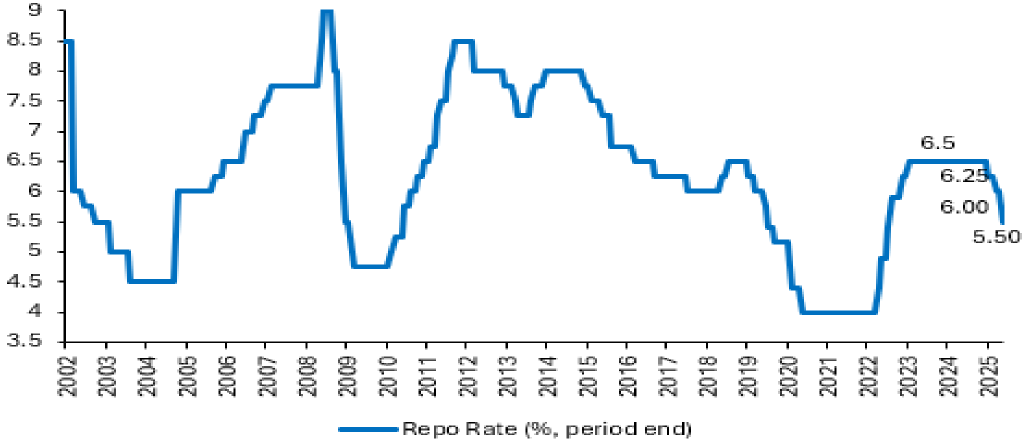
Capital expenditure remains healthy; well-distributed across key sectors including defence, roads, railways, and capex loans to states

Capex by Key Ministries/ Dept (Rs. Bn)	Amount Spent FY26 (Apr-Oct)	BE	Actual Spend (% BE)
Total Capex	6,177	11,211	55
Defence	1,082	1,924	56
State Capex loan	602	1,706	35
Road	1,749	2,722	64
Railways	1,628	2,520	65
Telecom (mainly equity infusion)	179	518	35
Housing and Urban affairs	142	376	38
New Schemes under DEA	13	466	3
Petroleum & Natural Gas	1	66	2
Others	781	912	86

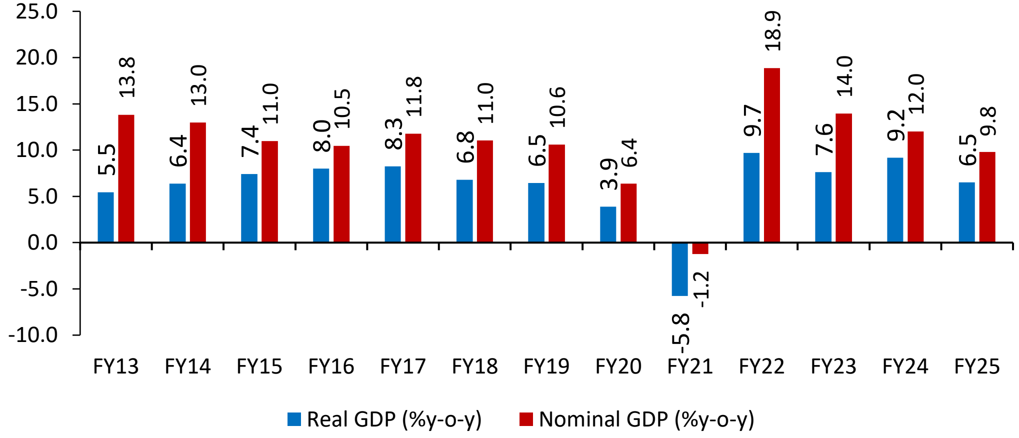
Source: CMIE Economic Outlook, SBIFM Research

RBI keeps repo rate unchanged with neutral stance in October policy

Repo rate cut by 100bps cumulatively since February 2025 policy to 5.50% now



Nominal and real GDP growth

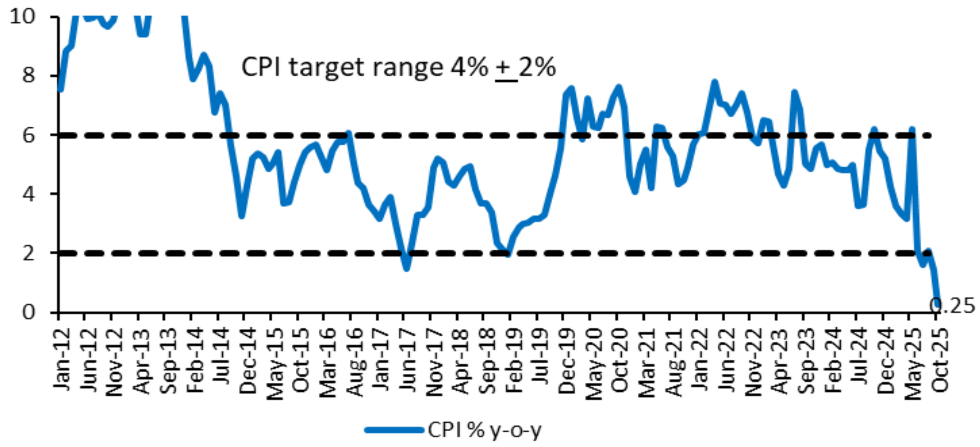


- In the last October'2025 policy, the Monetary Policy Committee kept the repo rate unchanged at 5.50% (cumulative 100 bps cut; SDF at 5.25%, MSF at 5.75%), in line with market expectations. The stance remains neutral.
- Growth projections for FY26 were revised up by 30 bps to 6.8%. The first half of FY26 is likely to reflect a base effect due to lower government spending.
- Retail inflation outlook for FY26 was revised down to 2.6% (from 3.1% in the August policy), citing lower food prices and GST reductions. This creates an enabling environment for growth-supportive measures.
- The policy outcome was broadly as expected and signalled a more dovish tone from the RBI. Recent GST cuts and subdued inflation have opened room for incremental rate cuts.
- The immediate challenge lies not in RBI's stance but in the heavy government bond supply overhang, which is keeping spreads elevated. Early adoption of a neutral stance, coupled with increased SDL supply at the longer end, has likely reversed transmission in the G-sec market — an issue that needs attention.
- RBI and the government have adjusted G-sec issuance to address near-term concerns, but longer-term issues around demand mismatches and SDL duration remain unresolved.
- Heading into the December policy, markets expect at least one 25 bps rate cut. However, given multiple policy efforts to support growth, the scope for further cuts appears limited to an additional 50 bps in this cycle.

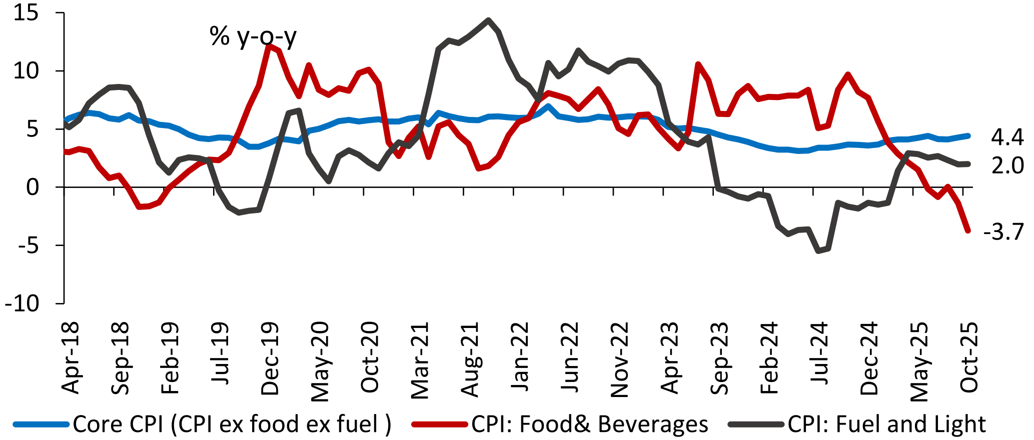
Source: Bloomberg, SBIFM Research

Inflation outlook creates an enabling environment for RBI to focus on growth

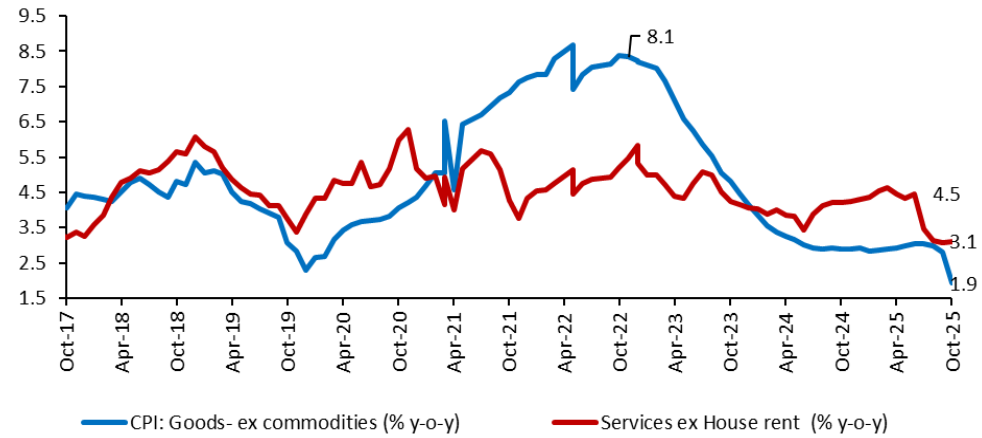
India's headline inflation is at an all time low of 0.25% y-o-y in October 2025



Material softening in food inflation



Goods and services inflation likely to be contained

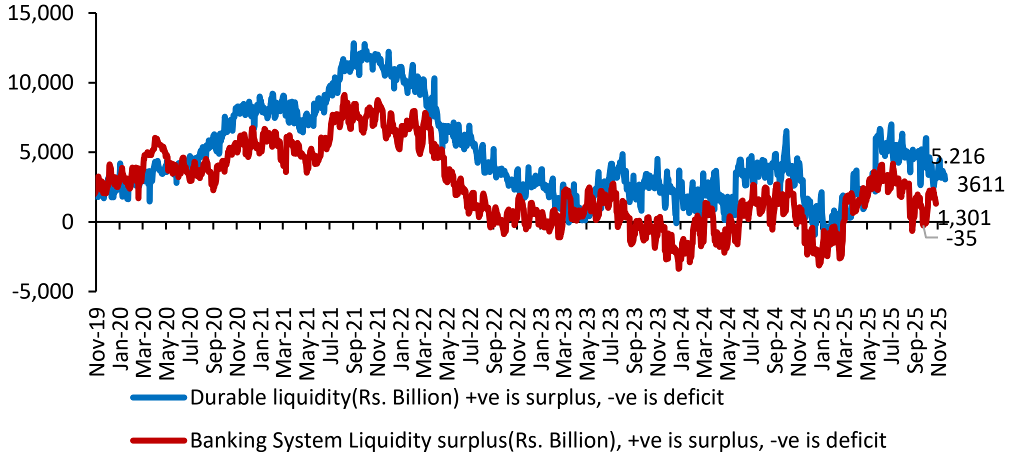


- India's retail inflation outlook creates an enabling environment to take growth supportive measures.
- The Consumer Price Index (CPI) for October registered at 0.25% y-o-y, at a thirteen-year low.
- CPI print through most of FY26 expected to be below 4%.
- This suggests a lack of significant price pressure across most sectors of the economy, indicating that monetary policy does not necessarily need to be restrictive (real rates: Repo rate less CPI inflation has been >1%).

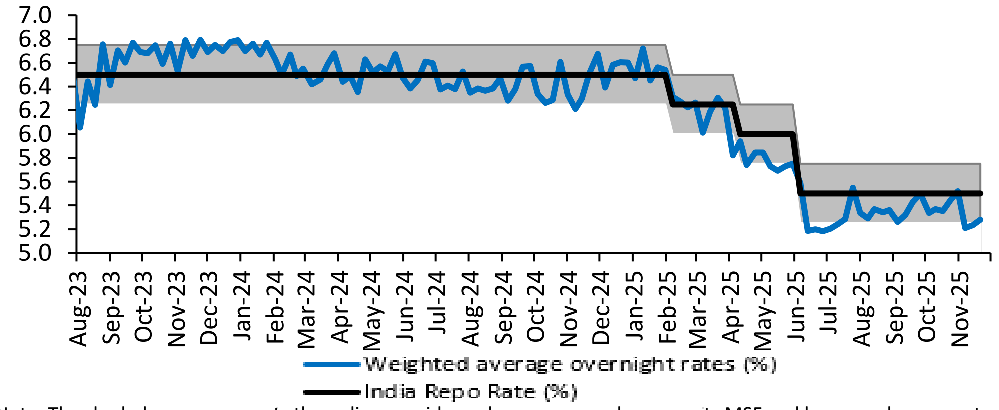
Source: CMIE Economic Outlook, SBIFM Research

Banking system and durable liquidity moderate in October 2025 driven by RBI FX selling

Banking system liquidity goes to ~1-2tn surplus; Durable liquidity moderates too to 3.6tn (vs. 5tn as on Sep'25 end)



Overnight rate anchor near repo rate

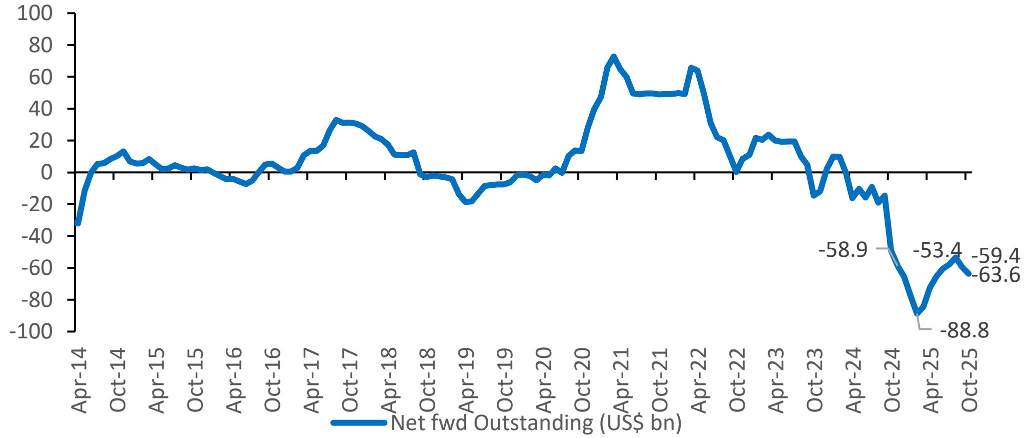


Note: The shaded area represents the policy corrridor- where upper end represents MSF and lower end represent reverse repo rate followed by SDF

RBI takes various measures to inject ~INR 13tn liquidity since December 2024

Liquidity management measures by RBI since Dec-24	INR tn
Repo rate cut by 100bps cumulatively	
Reduction in risk weights to lending towards SME & MFI	
Easing in earlier proposed stringent LCR Norms	
Relaxation of priority sector lending norms	
CRR cut by 150bps (100bps cut in four equal tranches from September 2025, out of which 50bps is done)	3.7 (1.2+2.5)
OMO purchases	5.2
Buy sell swaps	2.2
43/45/49/56 day VRR	2.1
Total	13.2

Massive FX sell with elevated forward book led to moderation in system liquidity offsetting CRR cut related liquidity infusion



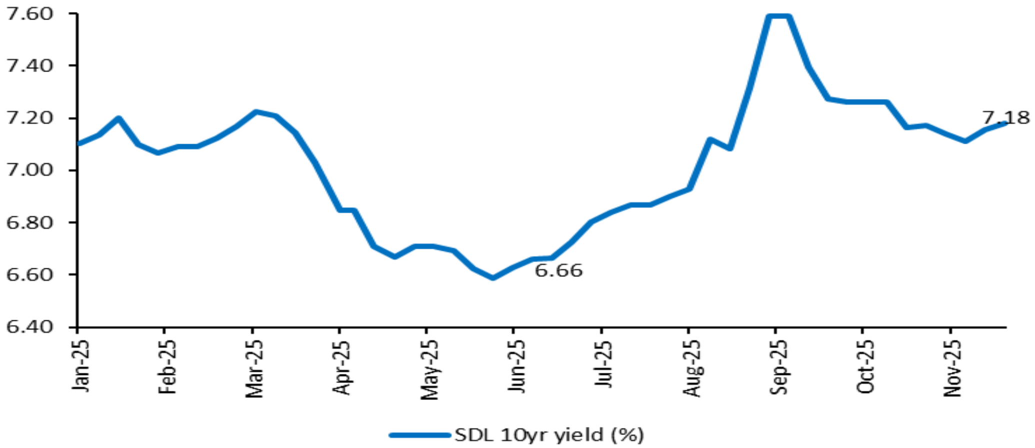
Source: RBI, CEIC, SBIFM Research; NB: Banking system liquidity data as on 24th October 2025 and durable liquidity data as on 17th October 2025

Market rates rise from June 2025 policy review despite India being in an easing cycle

3M CD rate is now at 5.84% (vs. 5.73% post June MPC rate cut)

10yr Gsec yields also inched upwards

Similarly, 10yr SDL yields also rise from June to November

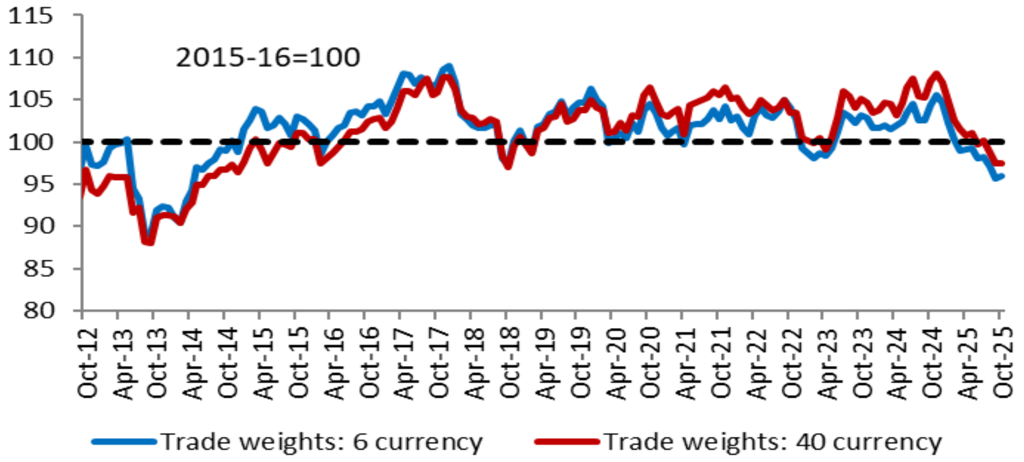


- India 3 month CD yield is ~10bps higher than post the June 2025 rate cut. Similarly 10yr Gsec and SDL yields also trade higher than their post June MPC levels.
- Despite being in a monetary easing environment, market rates such as CD rates and the G-sec curve have moved up by nearly 20 basis points since the June policy review.
- This divergence underscores the influence of liquidity dynamics and supply demand challenges in the government bond space.

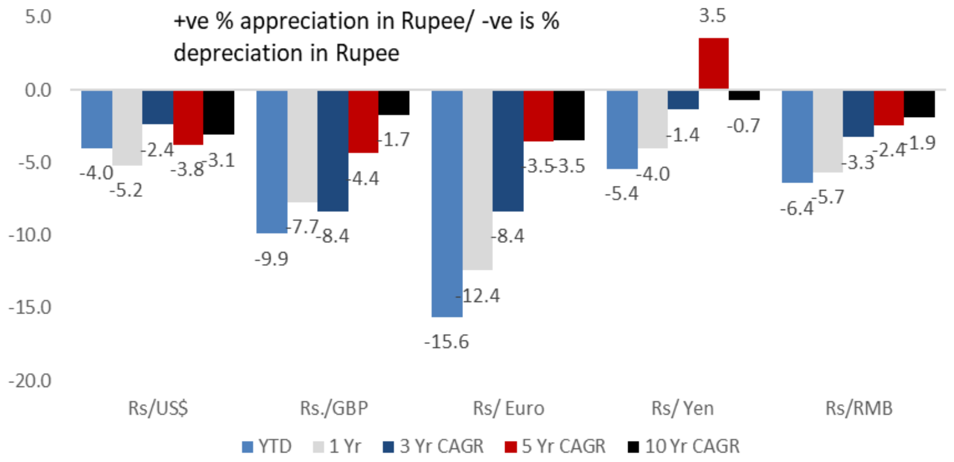
Source: Bloomberg, RBI, SBIFM Research

Indian rupee is marginally undervalued at 88/ US$.

Rupee is marginally undervalued



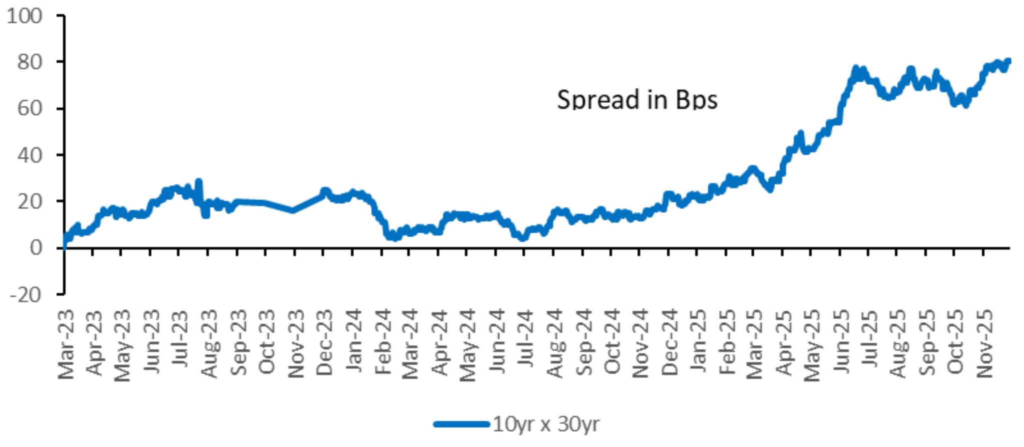
Annual depreciation trends ~4% in last 5 years



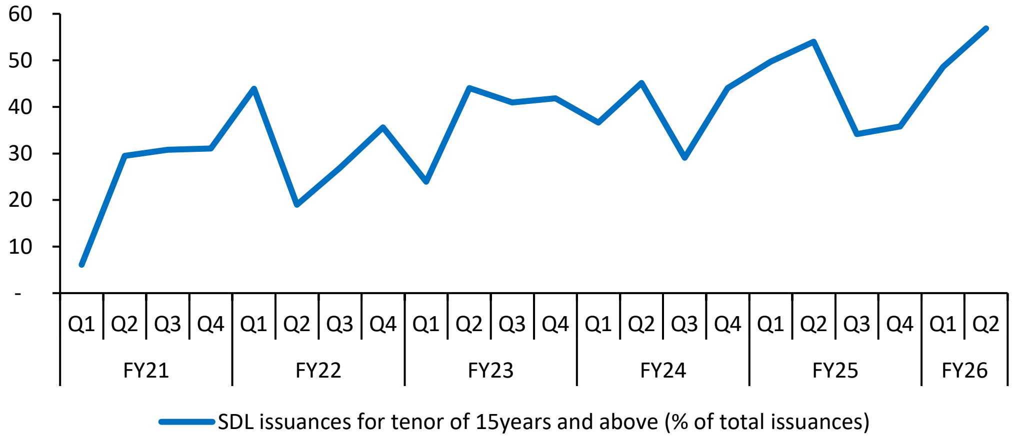
- The Indian Rupee breached the ₹89 mark in November, depreciating ~4.5% year-to-date. Among emerging market currencies, the rupee stands out as a rare underperformer, while most others have strengthened against the dollar. This weakness is largely attributed to foreign investor outflows from equities, driven by concerns over growth and profitability—exacerbated by recent tariff tensions.
- Despite this, the broader outlook for the dollar remains soft, which tempers concerns about further rupee depreciation over the next six months.

While the yield curve has moved down during Oct-Nov, longer end spreads are elevated

Wider spreads in Indian G-Sec space



SDL supply gets skewed in longer end; in Q2 - 60% of supply is in the >15 year segment



Incremental demand in government securities is mainly absorbed by RBI; lack of demand from pension, provident funds and banks

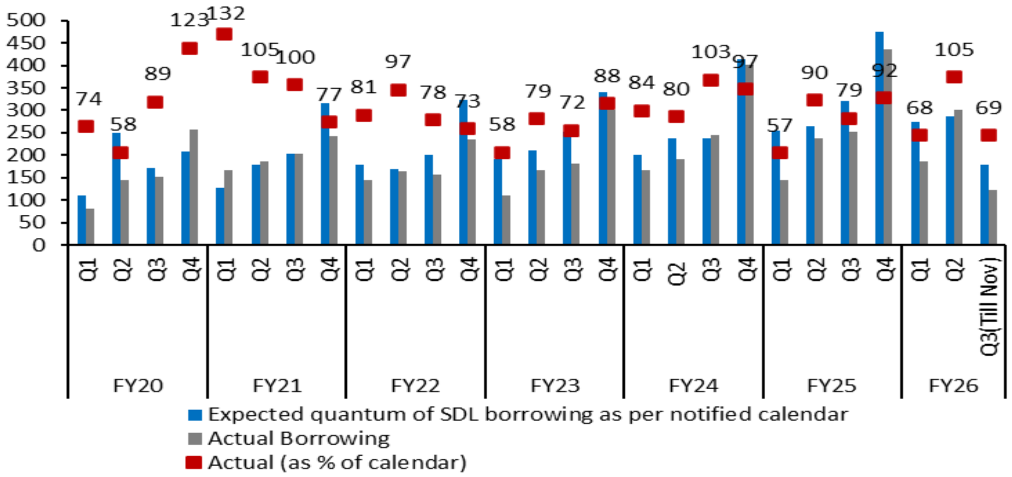
SDL +Gsec (Rs. Billion)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Absolute change (Q1FY26 vs Q1FY25)
Total Demand	2,877	5,067	2,974	5,638	3,364	487
Commercial Banks	736	2,187	1,998	132	232	-504
NonBank PDs	57	118	-159	212	-184	-241
Insurance Companies	725	967	741	358	1,045	320
Mutual Funds	38	347	17	-342	-239	-277
Cooperative Banks	-3	-24	38	-30	27	29
Financial Institutions	40	109	50	86	141	100
Corporates	149	217	-107	197	-294	-442
Foreign Portfolio Investors	37	589	48	437	-332	-370
Provident Funds	546	428	328	1,317	593	47
RBI	-173	-470	-531	2,829	1,966	2,139
Others (incl State government)	317	183	230	150	309	-9
Pension Funds	436	378	331	274	155	-281

- The weakness in bank and insurance demand and a preference for equities coupled with fading away of OMO purchases from June onwards may have contributed to higher spreads in the longer end as it disturbs the demand supply equation.
- SDL issuances have been skewed to longer duration most likely to accommodate for an anticipated weakness in banks' appetite for SLR papers.
- In Q2FY26, - 60% of SDL supply is in the >15 year segment (The historical trend is 40-50% of supply tends to be in the longer end).
- Elevated supply in longer dated SDLs have also contributed to wider spreads in G-sec space.

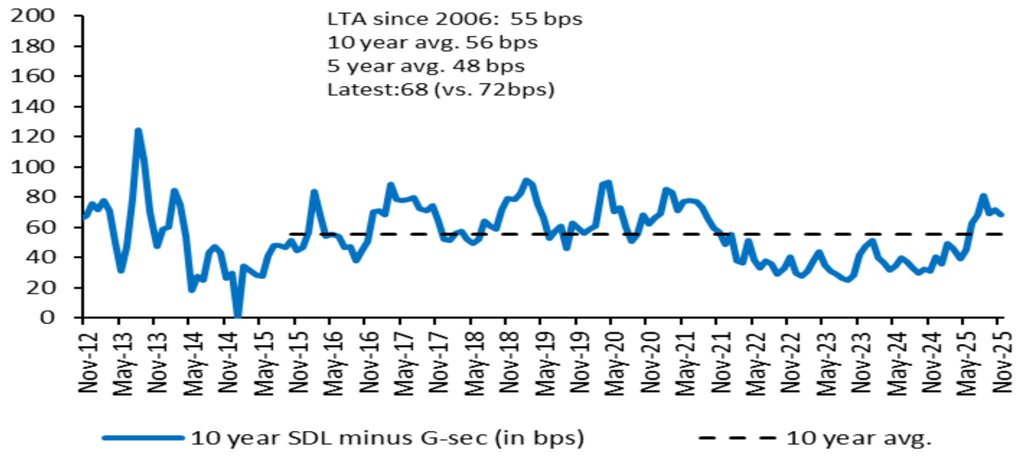
Source: RBI, Bloomberg, SBIFM Research

SDL issuances moderate to 69% of calendar during Oct-Nov vs. 105% of calendar in Q2 FY26

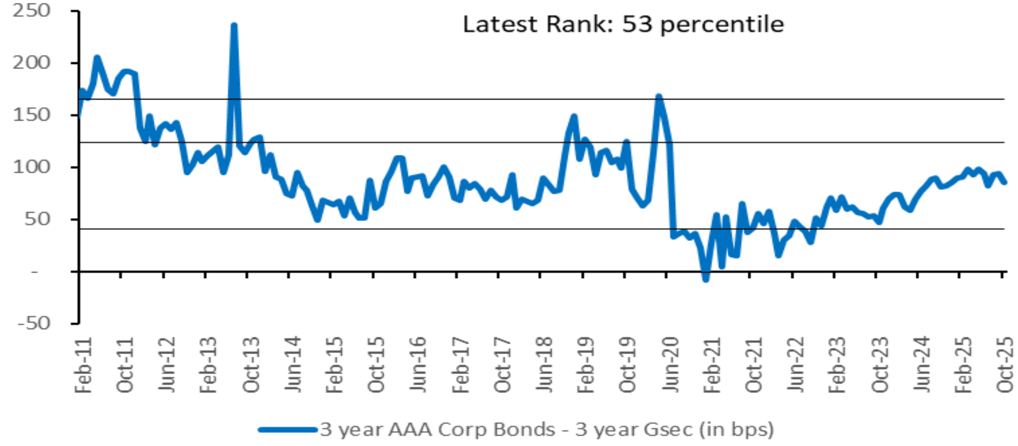
SDL issuances at 84% of their indicated calendar amount FYTD



SDL spreads remain elevated



Corporate bond spreads in line with long term average

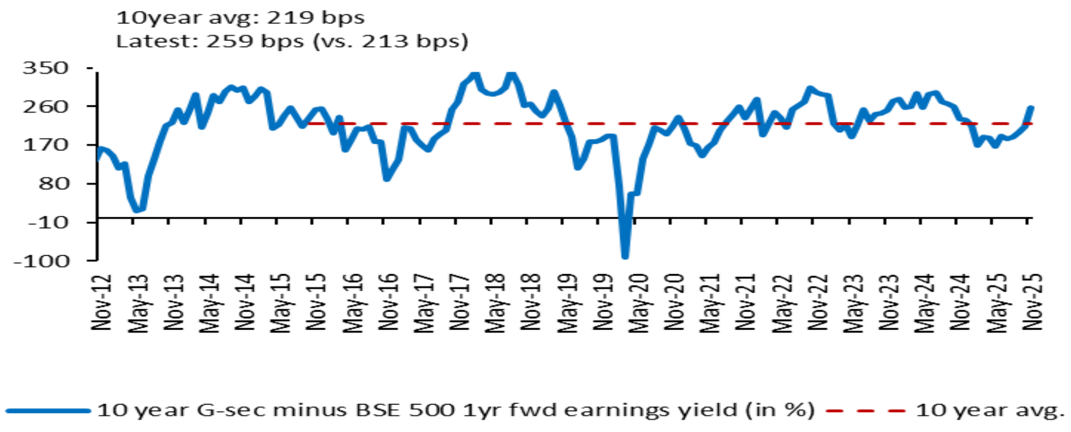


- SDL issuances marginally exceed calendar amount for Q2 FY26, with issuances at Rs.3tn (vs. calendar of ~2.9tn)
- SDL spreads elevated in Q2 with an increase in SDL issuances.
- Corporate bond spreads elevated.

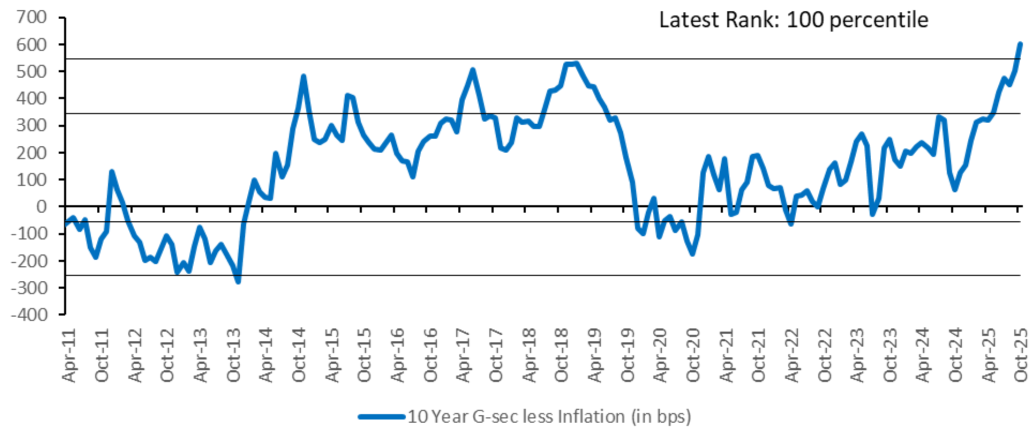
Source: RBI, Bloomberg, CEIC, CAG, SBIFM Research; NB: Q3 data for SDL issuances till October

Indian G-sec valuations: attractive

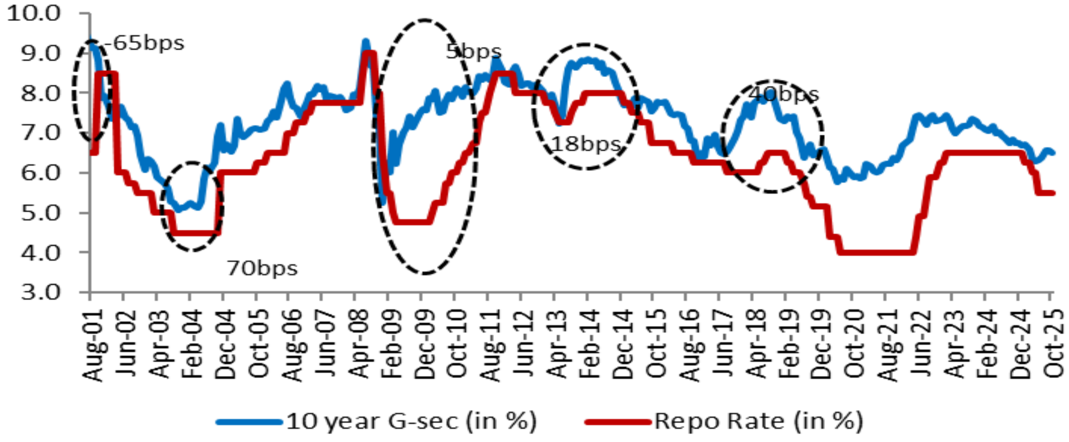
G-sec spread vs. equity turns neutral



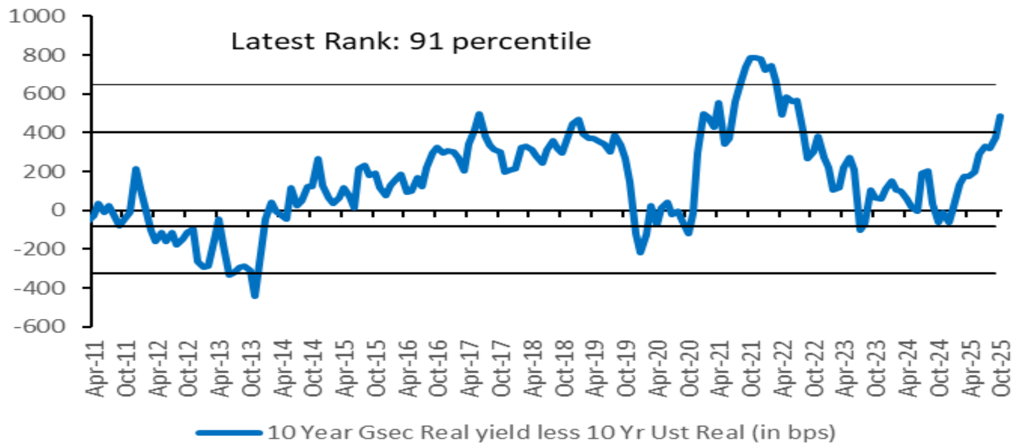
Real rate turns positive



G-sec spread can stay compressed in the period of monetary easing



India vs. US yield adjusted for inflation in line with long term trend



Source: Bloomberg, RBI, SBIFM Research

FIIs interest in Indian bonds sees a marginal rise

FIIs buy India's Debt assets since May 2025

EM FII Debt inflow US$ million	2023	2024	Aug-25	Sep-25	Oct-25	Nov-25
South Korea	60,647	43,139	3,083	7,235	3,019	11,170
South Africa	(17,598)	(6,307)	126	442	(62)	1,033
Thailand	319	(1,092)	(145)	219	618	513
Ukraine	(387)	(548)	(17)	(23)	(47)	8
India	8,445	16,832	1,747	1,218	1,964	5
Indonesia	5,142	3,180	1,050	(2,529)	(1,807)	(341)
Mexico	5,019	2,090	(572)	(1,353)	(2,374)	(560)
Poland	9,054	23,948	729	(666)	-	-
Czech Republic	(2)	14	(0)	4	-	-
Philippines	3,074	3,461	(813)	923	-	-
Bulgaria	1,941	2,462	(86)	(241)	-	-
Malaysia	3,768	274	666	(884)	174	-
Russia	-	-	-	-	-	-
Brazil	(9,996)	(17,387)	(1,674)	(6,480)	(1,932)	-
China	24,758	56,219	(14,308)	(2,943)	-	-

FII flows in EM bonds are muted despite healthy inflation adjusted returns; as risk premium vs. DM bonds is largely erased

Real rates	10 Year Gsec Yield (% mth end, Oct'25)	CPI Inflation Oct'25	Real Rate (%, 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Oct 2025	10 year G-sec yield adjusted for 12m fwd premium (in %)- Oct 2025
Brazil	13.8	4.7	9.1	5.8	7.9
India	6.5	0.3	6.2	2.2	4.3
Colombia	11.6	5.5	6.1	9.6	2.0
Mexico	8.9	3.6	5.3	7.6	1.2
South Africa	8.9	3.6	5.3	6.6	2.3
Phillippines	5.9	1.7	4.2	4.6	1.3
Indonesia	6.1	2.9	3.2	4.9	1.2
Poland	5.3	2.8	2.5	4.1	1.2
Hungary	6.8	4.3	2.5	6.2	0.6
Thailand	1.7	-0.8	2.5	1.5	0.2
Malaysia	3.5	1.3	2.2	2.8	0.7
China	1.8	0.2	1.6	1.5	0.3
South Korea	3.1	2.4	0.7	2.2	0.8
Taiwan	1.2	1.5	-0.2	1.2	0.0
Turkey	31.9	32.9	-1.0	37.7	-5.8

Data sorted by real yield

Source: CEIC, Bloomberg, RBI, SBIFM Research; NB: '-' implies data not available for the respective country

Debt Outlook: Near-term fundamentals dictate favorable outlook

- Indian fixed income market witnessed moderation in yields in November. Segments with a favourable near-term demand-supply balance proved more resilient. High-grade bonds continue to benefit from strong demand and limited supply, particularly from regulatory buying by long-term investors.
- Looking ahead, the forward outlook on growth and inflation, coupled with evolving risk factors, leaves room for further monetary support. The December policy review is expected to be the last rate cut in the current cycle. While debates persist on the efficacy of additional cuts, the prevailing macro context clearly supports maintaining accommodative monetary and liquidity conditions.
- On the currency front, the rupee has been one of the few EM currencies to weaken this year, even as the dollar remains soft. This depreciation comes despite India’s inflation being lower than that of the US and crude prices staying contained-both factors that typically favour a stronger rupee. Trade tensions appear to be the primary driver, and a trade deal is imminent to arrest the negativity in exports, foreign inflows, and currency performance.
- The weakness in exports and dollar capital flows has pushed India’s balance of payments into deficit. Data for August and September indicate that the RBI sold nearly USD 16 billion in the spot market, and our assessment suggests an additional USD 15-20 billion was likely sold during October and November. In rupee terms, this translates into roughly INR 3 trillion of liquidity being absorbed by the RBI through FX interventions. Consequently, durable liquidity in the system-has moderated by INR 2 trillion from its July-August peak, despite INR 1.5 trillion of CRR-related infusion and a relatively muted period of currency leakage. We expect RBI to conduct OMO purchases through FY26 to restore liquidity to the desired level of 1% of NDTL.
- Market direction remains largely governed by demand-supply dynamics and investor preferences. While tweaks in calendar supply and RBI’s OMO support can provide short-term relief, structural demand-supply challenges will ultimately hinge on fiscal dynamics. India’s fiscal consolidation trajectory is encouraging, but weakness in nominal growth is beginning to weigh on tax collections. This creates a demand-supply gap at a time when fiscal tailwinds have started to fade.
- From a risk-reward perspective, spreads on high-grade bonds and select short-tenor credits remain attractive. Given anticipated external volatility and its potential to reset market expectations, duration strategies will likely stay nimble, with a preference for lighter positioning. Short-tenor high-grade bond funds offer higher accrual, wider spreads, and an optimal risk-return profile, presenting opportunities over the coming months and into the next year. Additionally, State Development Loans are expected to see larger net supply in Q4 FY26, offering tactical opportunities for spread trades.

Source: Bloomberg, SBIFM Research

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