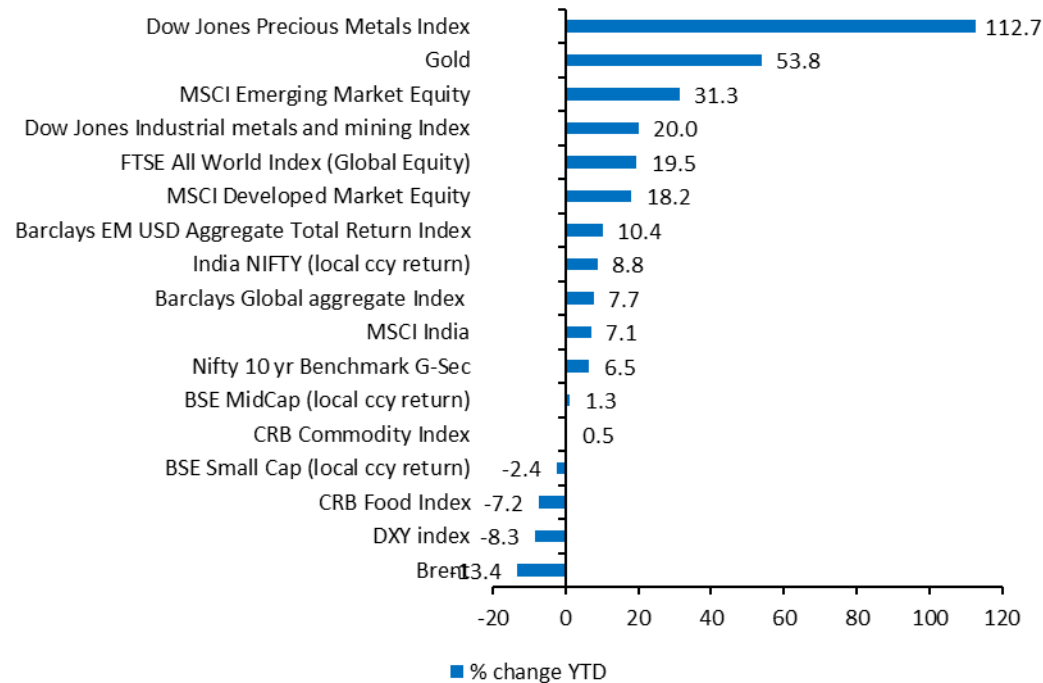


ECONOMY AND MARKETS

November 2025

Financial market performance Year-to-Date: Broad based rally across multiple asset class

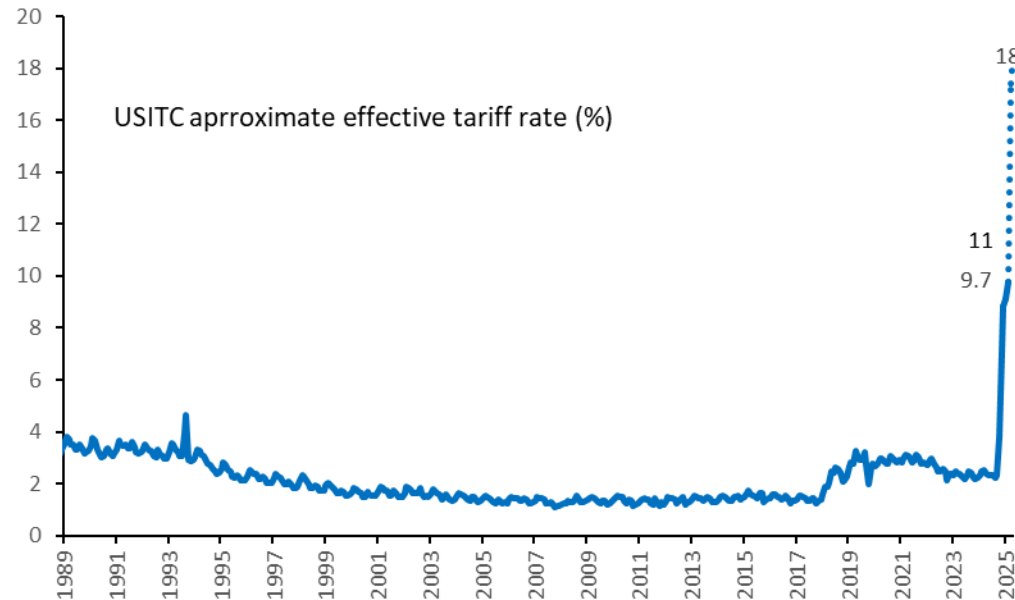
Precious metals is the best performing asset class Year-to-date: EM equity follows



- 2025 have seen a broad-based performance with multiple asset classes spanning across DM and EM equities, EM fixed income, precious and industrial metals deliver healthy returns.
- Year-to-date, Brent, US dollar and global food have been few key asset classes to deliver negative returns.
- In India, Indian equities have made some comeback in October, perhaps aided by a healthy earnings outcome. NIFTY and Sensex rose ~4.5% m-o-m each.
- Year-to-date, both global equities and global fixed income have out-performed India by a wide margin.
- The returns in Indian equities and fixed income at an index levels have been broadly similar thus far.

Tariffs and Their Ripple Effects: Inflation, Investment, and Geopolitics

Effective tariff rate in the US estimated between 11-18%



NB: Data till July. Yale's effective tariffs are at ~18% (vs less than 3% under Biden) whereas current collection indicates tariffs closer to 10-11%

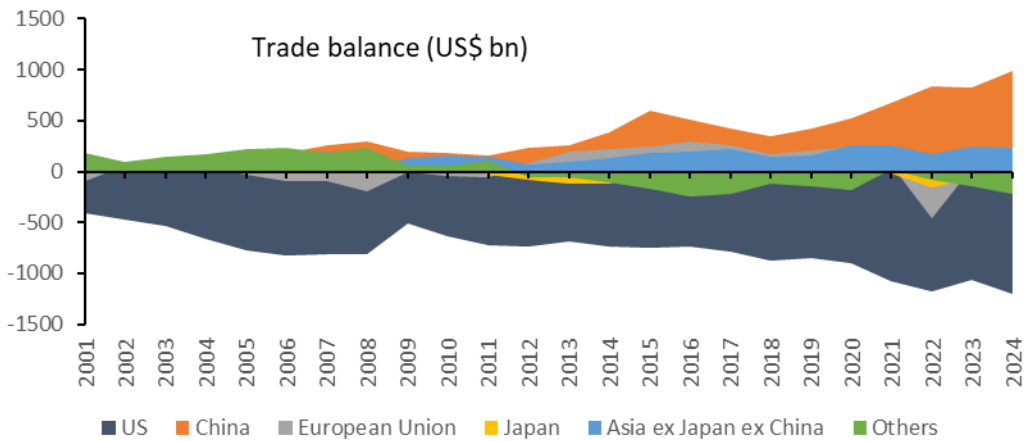
- Seven months have passed since 2nd April –Liberation Day. Harvard Research has come out with a study to conclude that most of the tariff costs have largely been absorbed by US importers and consumers. This is still incrementally growth negative for the US economy.
- The study estimates that the impact of tariffs on US CPI is ~0.7%. In other words, inflation would have been closer to 2.3% (rather than 3%) without tariffs.
- There are two estimates of average effective tariff in the US. Yale lab estimates the cost to be 18% while current collection indicates tariffs closer to 10-11%.
- It seems likely that tariffs might be indeed stabilizing (at least for a while) but US CPI could continue to rise into 2026. In the lead up to mid-terms 2026, Trump might prefer to lower tensions, claim victories and reduce inflationary pressures. Depending on outcomes, disputes could then flare-up again.
- It is too early to judge the impact of tariffs and "trade deals" on investment. But, at this stage, non-AI gross fixed capital formation is stagnating while we view vague commitments on future investments with scepticism (source: Macquarie Research).
- Meanwhile on geopolitical front, US had to retreat on negotiations with Mexico and Canada. China-US relation is edgy, but the outcomes are still inconclusive. US EU relation has damaged meaningfully. Europe is strengthening its relationship outside of US and Mexico. Despite dependence on the US for security, signs of hedging are even emerging from long-standing allies, such as Japan, Korea or Australia. It is likely that trade policies have damaged US's network influence while accelerating global fragmentation.
- To sum, at least temporarily, tariffs are stabilizing at a lower than feared levels. Costs are borne by US importers and consumers while other policies (kickbacks, industry protection, immigration) are eroding key pillars of US exceptionalism. But, these inefficiencies do not fully negate structural strength of many US corporates. However, investors will likely keep hedging USD exposure.
- Near term volatility aside, unless the world addresses the global economic imbalance, these news flow could be the feature of present times. And eventually for US to shrink its CAD, dollar will have to depreciate (more so against China), the country will have to engineer a slowdown in their growth.

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

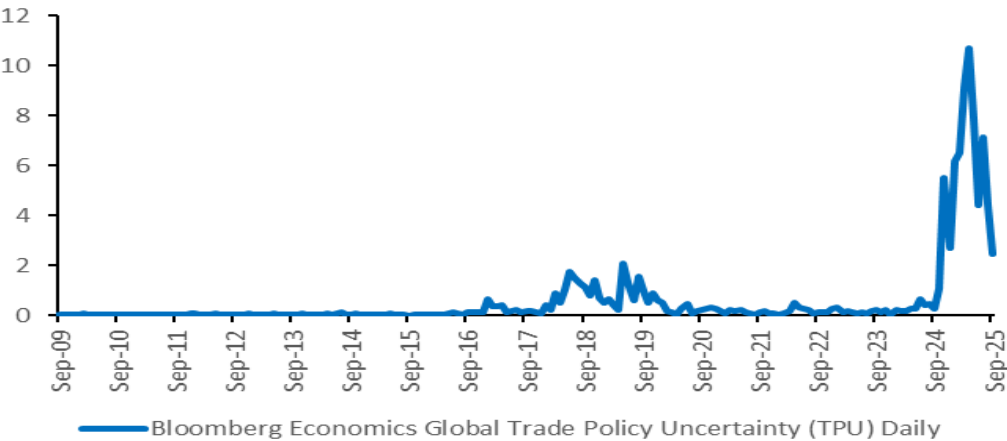
US faces over US\$1 trillion Trade Deficit; China holds similar
quantum surplus



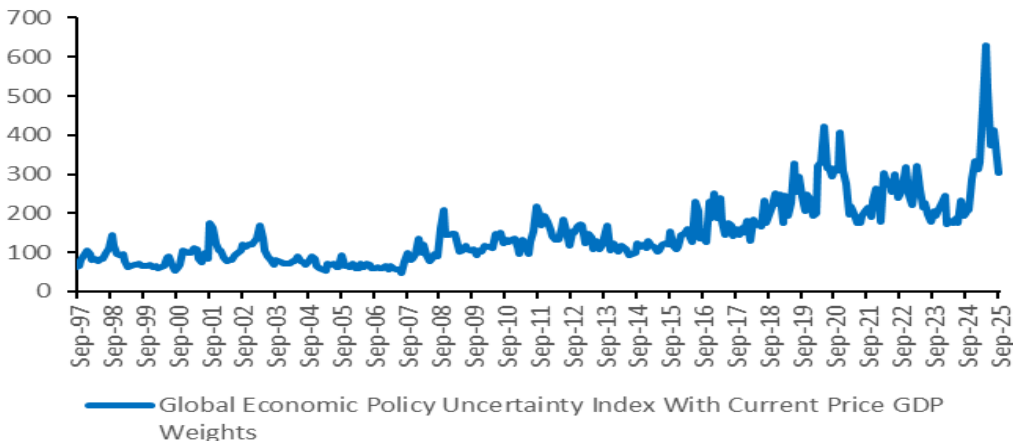
- The tariff issue highlights the deeper economic imbalance between the U.S. and China.
- US runs an annual trade deficit of ~US\$1 trillion and China runs a similar quantum of surplus. Hence, US absorbs most of the worlds' surplus output of goods. This has led to rising levels of US overseas indebtedness. 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 subdued for a prolonged period—unless China or the European Union undertakes substantial fiscal stimulus to boost demand.

Some near-term de-escalation in global uncertainty

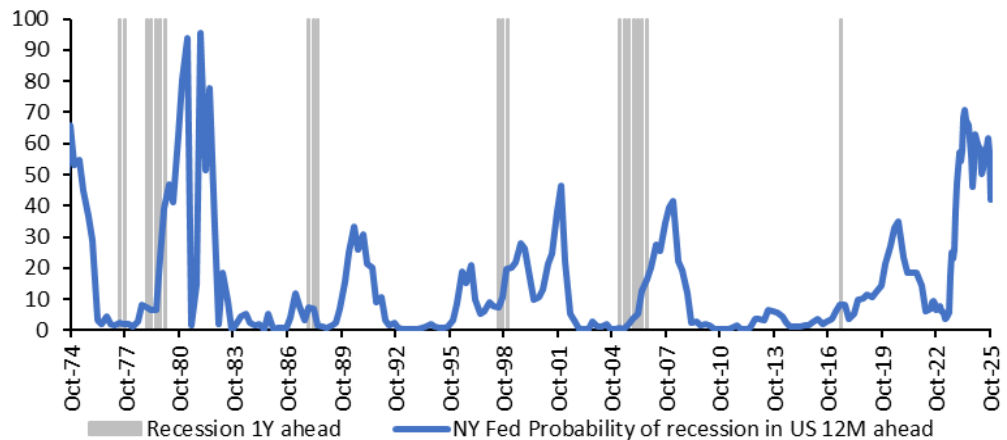
Some reprieve to trade uncertainty from its April peak



Policy uncertainty also cools off to pre-Trump levels



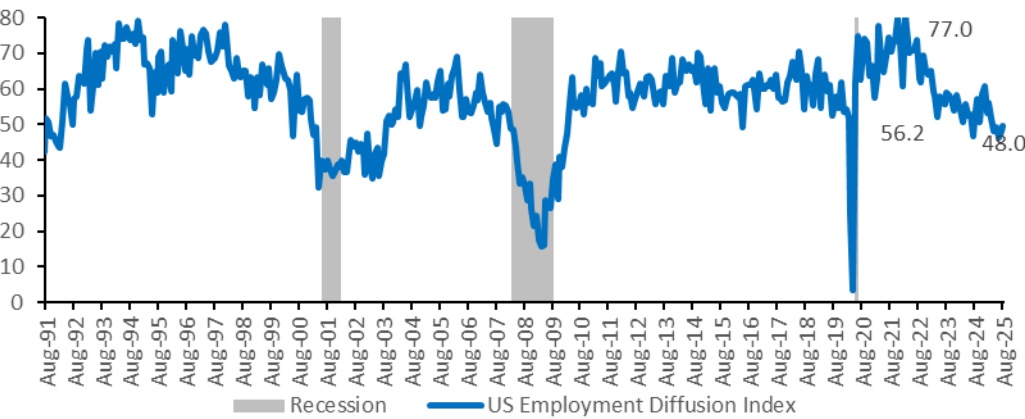
Probability of recession 12M ahead has eased from its peak but stays high



- 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

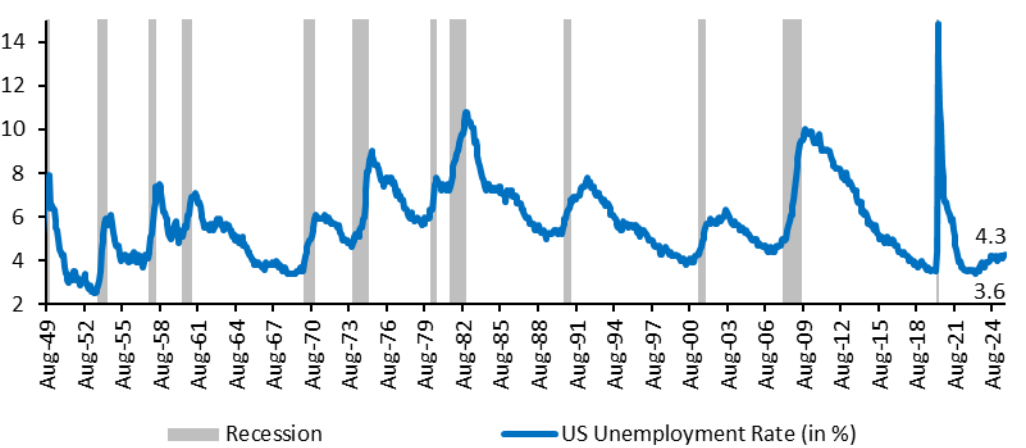
US labour market sees signs of weakness...

Hiring intention see a slowdown

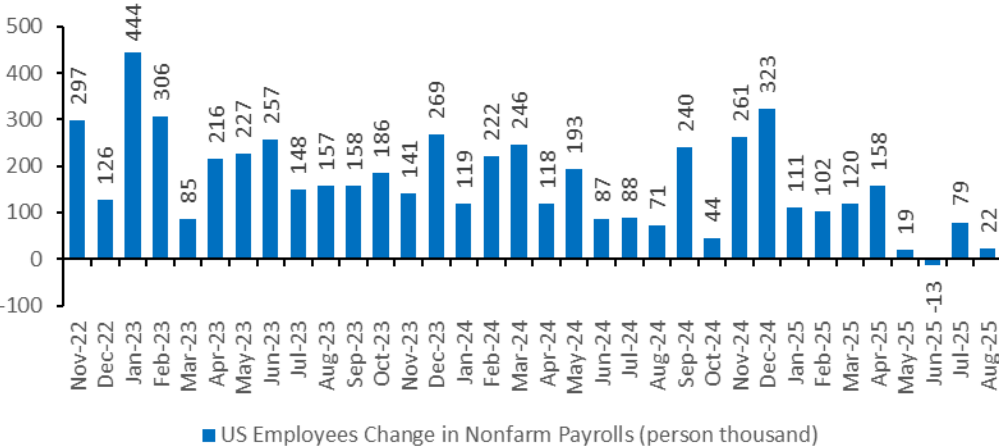


NB: A value below 50 indicates that majority of industries are experiencing job losses

Unemployment rate inches up



Only 22k jobs added in August 2025 in nonfarm payroll

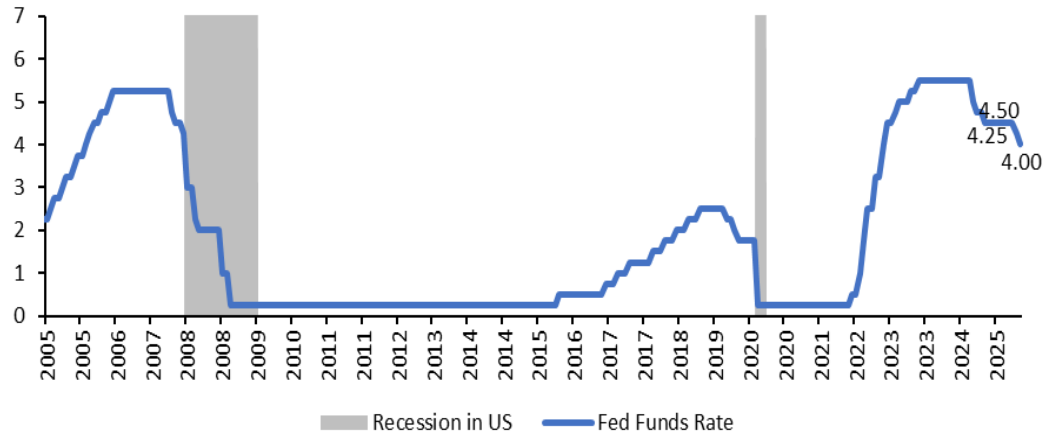


Real average weekly earnings fall close to zero level

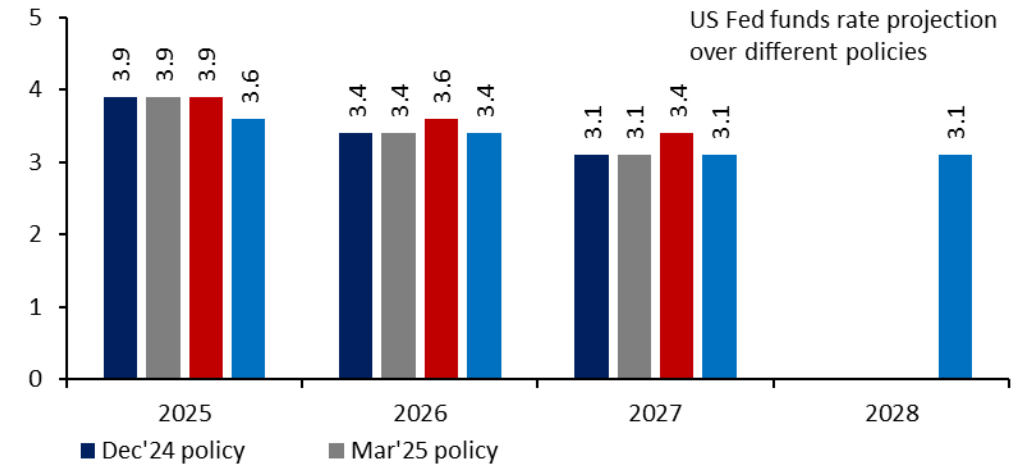


...prompting US Fed to cut interest rates

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.

US Fed actions keep yields stable. Gold prices surge and US equities resilient

US treasury yields broadly contained at ~4-4.20%



US S&P remained resilient amidst government shutdown

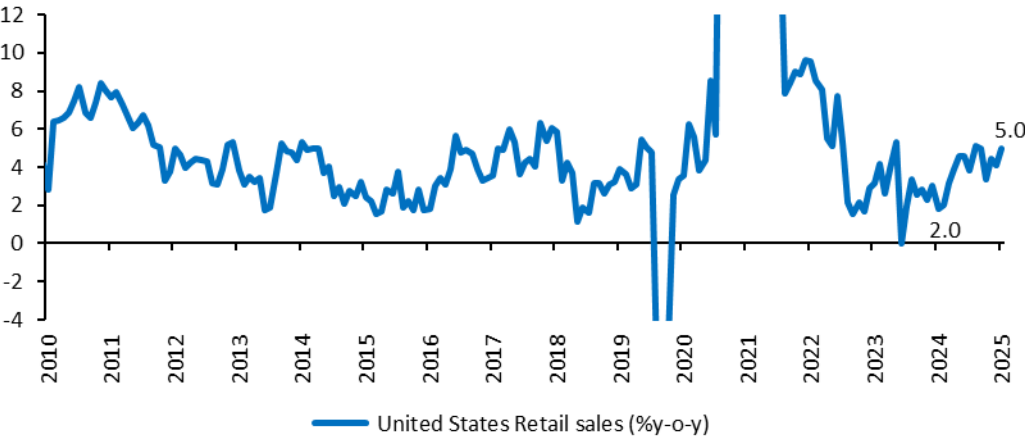


A word on US government shut down:

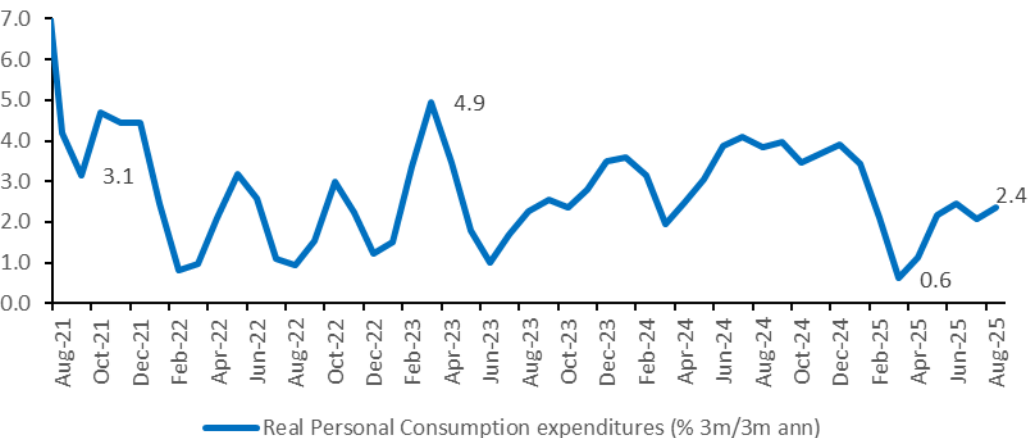
- US government triggered an automatic shutdown on 1st October 2025 (first time in seven years) on failing to meet the deadline to pass the budget.
- Healthcare policy disputes, mainly Democrats demanding restoration of Medicaid cuts and an extension of Affordable Care Act subsidies. Senate failed 13 times to pass a continuing resolution due to lack of bipartisan support.
- This led to many US government services to be temporarily suspended and approximately 1.4 million federal employees to be on unpaid leave.
- So far, US Fed rate cuts has supported the economy and markets, while the shutdown is expected to resolve by mid November. That said, this is one of the longest shutdowns and GDP growth is expected to fall by 0.1-0.2 % pt per week of shutdown. Historically, shutdowns have minimal lasting impact on equity markets and Treasury yields, but uncertainty can weigh on sentiment if prolonged.

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

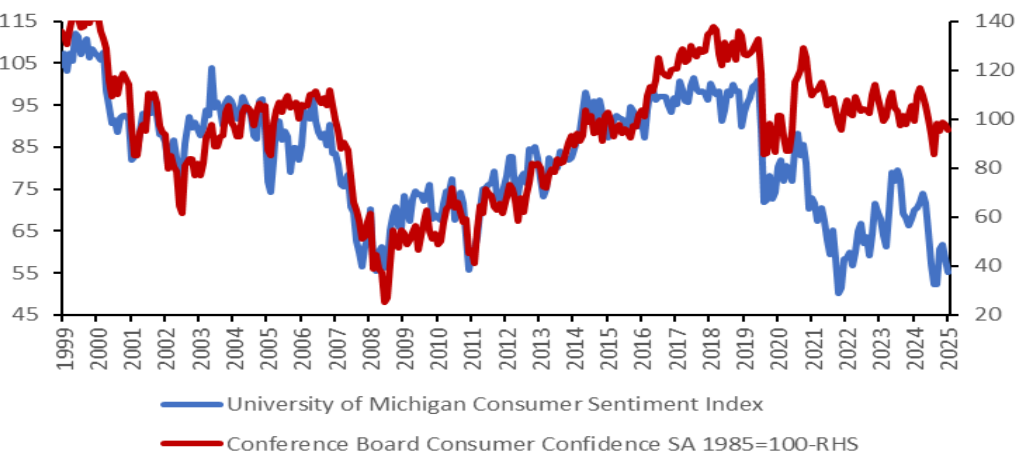
Retail sales stay strong; grows by 5% y-o-y in August 2025



Consumer spending patterns remain stable



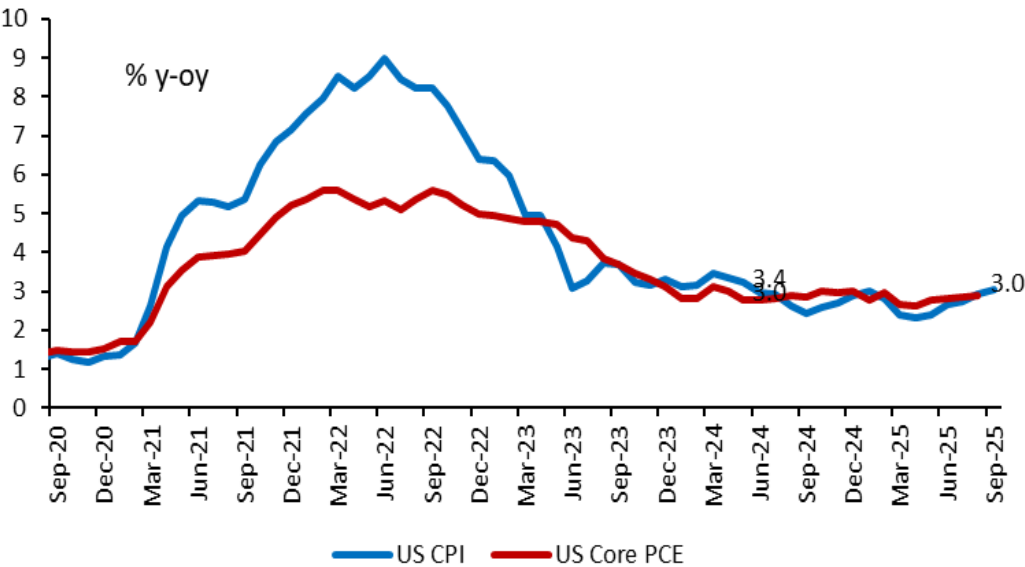
Consumer confidence continues to show positivity



- 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.

US inflation concerns remain; Growth projected to moderate in 2H 2025

US CPI and core PCE is contained for now; could rise on account of tariffs



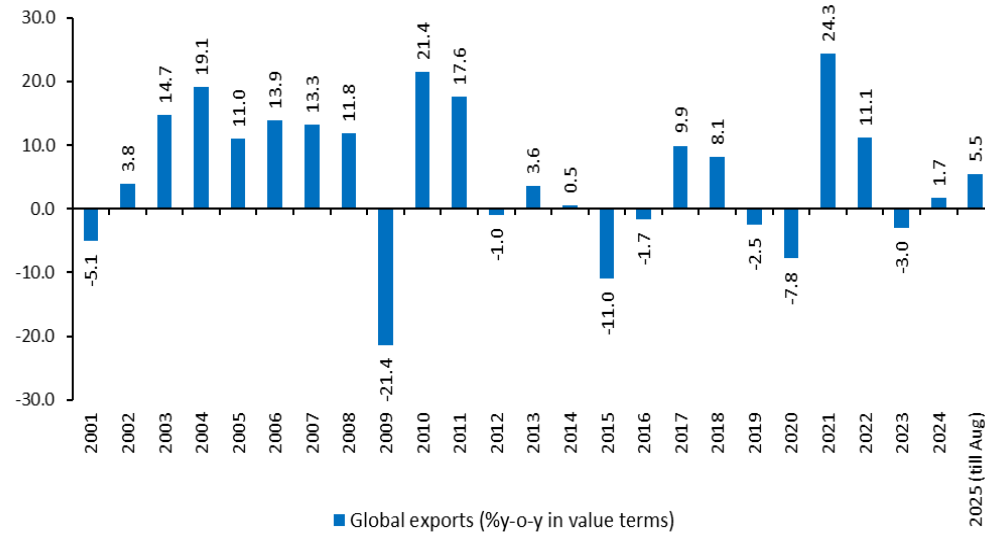
Growth prints supported by front loading in 1H 2025; projected to moderate in 2H

Real GDP forecast (Bloomberg) (%y-o-y)	2025 E				2024	2025 E
	Q1 (Actual)	Q2 (Actual)	Q3	Q4		
US	2.0	2.1	1.9	1.7	2.8	1.9
Eurozone	1.6	1.5	1.2	1.0	0.9	1.3
UK	1.7	1.4	1.4	1.3	1.1	1.4
China	5.4	5.2	4.8	4.3	5.0	4.8
India (SBIFM)	7.4	7.8	6.9	6.5	9.2	6.5
Thailand	3.2	2.8	1.4	1.1	2.5	2.1
Malaysia	4.4	4.4	5.2	4.0	5.1	4.2
Chile	2.5	3.1	1.9	2.0	2.6	2.4
Taiwan	5.5	8.0	4.0	2.5	4.8	5.0
South Korea	0.0	0.6	1.7	1.9	2.0	1.0
Philippines	5.4	5.5	5.4	5.5	5.7	5.5
Brazil	2.9	2.2	1.8	1.8	3.4	2.2
Mexico	0.9	0.1	0.0	1.0	1.5	0.5
Indonesia	4.9	5.1	4.8	4.8	5.0	4.9

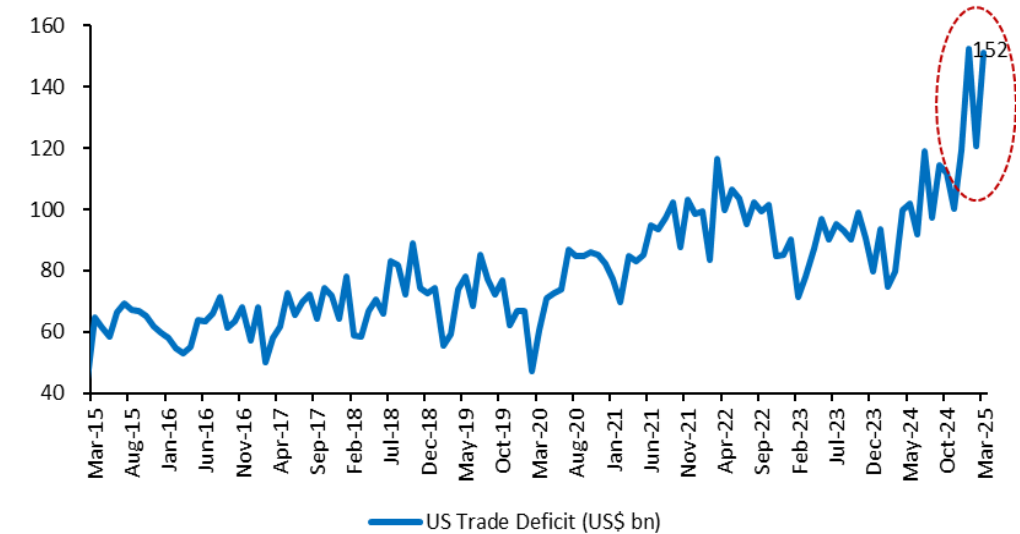
- US inflation level rises marginally to 3.0% y-o-y in September 2025 (vs. 2.9% last month). Pre-emptive inventory buildup has temporarily cushioned the cost impact of new tariffs on consumer goods. Hence inflation readings remain subdued, not yet reflecting the full effect of current trade-related price pressures.
- On the other hand, inflation outside the US is going down owing to better trade deals and China dumping.
- De-globalization, including trade war and highly restrictive immigration policy is a headwinds to growth in the US, but artificial intelligence and the boost it is providing to investment and the stock market, household wealth and spending is a tailwind to growth. How these cross-winds play out is the key how US growth plays out.
- While front-loading supported growth in Q1 and early Q2, the impact of reduced U.S. imports may lead China and other economies to see softer growth in 2H 2025. As a broader narrative, the policy is growth supportive across most economies but global trade dynamics will play a crucial role in shaping overall growth.

While trade shifts create a headwind for growth...

Global exports stay resilient till August, could see a material slowdown in the remaining year



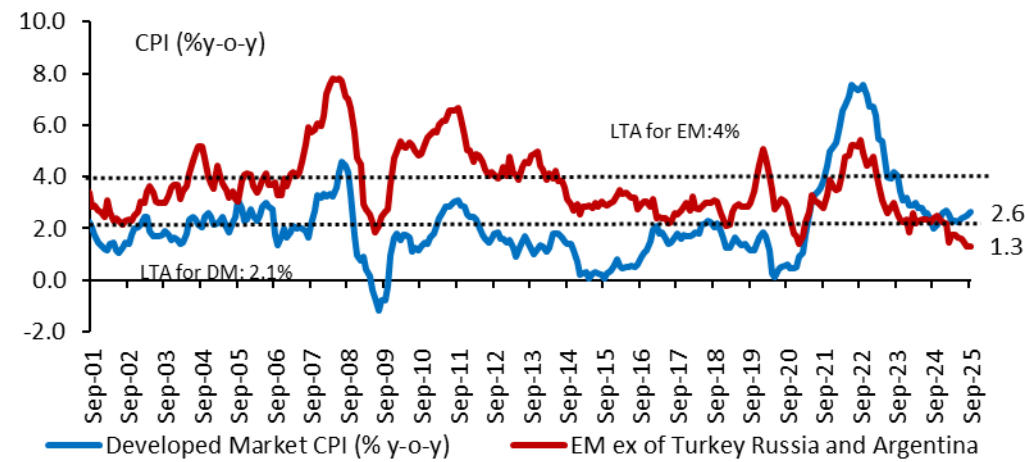
US merchandise trade deficit shot up significantly as firms-built inventory post Trump victory



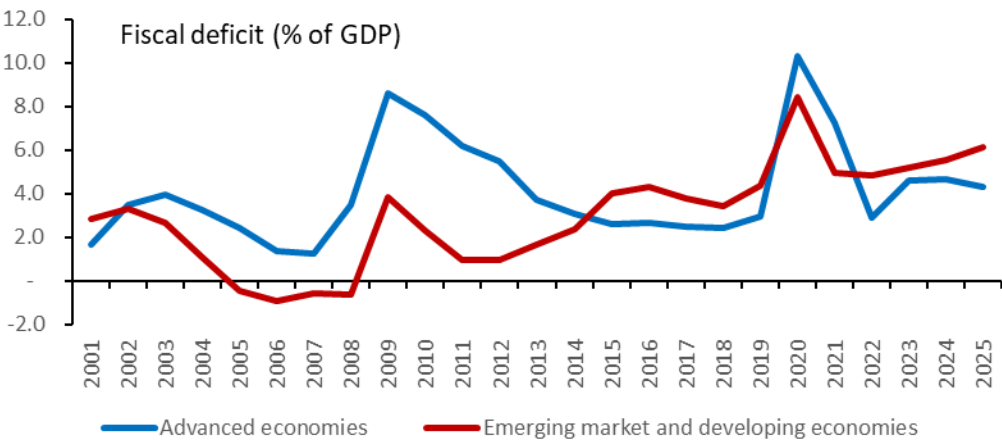
- U.S. goods trade deficit widened sharply as firms front-loaded imports ahead of Trump tariff implementation.
- Exports trend has held up well thus far until August but could be headed into material softness for rest of the year.
- One area of resilience in U.S. import demand has been AI-related IT 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.

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

Inflation levels remain contained



Growth to remain supported by expansionary fiscal and monetary policy



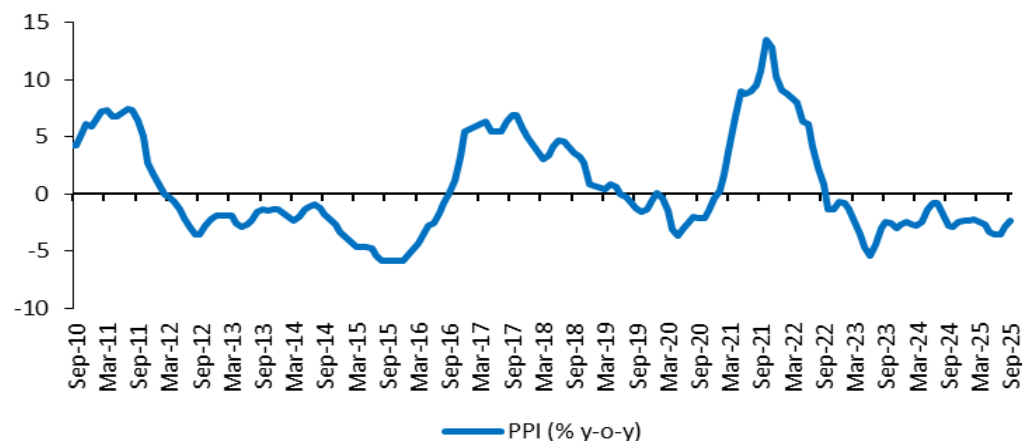
Monetary policy remains accommodative across most developed and emerging market economies

Annual Policy Rate (in %)	2023	2024	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
US	5.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25	4.00
Eurozone	4.50	3.15	2.65	2.40	2.40	2.15	2.15	2.15	2.15	2.15
UK	5.25	4.75	4.50	4.50	4.25	4.25	4.25	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	2.75	2.50	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	6.25	6.00	6.00	5.50	5.50	5.50	5.50	5.50
South Korea	3.50	3.00	2.75	2.75	2.50	2.50	2.50	2.50	2.50	2.50
Indonesia	6.00	6.00	5.75	5.75	5.50	5.50	5.25	5.00	4.75	4.75
Thailand	2.50	2.25	2.00	1.75	1.75	1.75	1.75	1.50	1.50	1.50
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.75	2.75
Philippines	6.50	5.75	5.75	5.50	5.50	5.25	5.25	5.00	5.00	4.75
Russia	16.00	21.00	21.00	21.00	21.00	20.00	18.00	18.00	17.00	16.50
Turkey	42.50	47.50	42.50	46.00	46.00	46.00	43.00	43.00	40.50	39.50
South Africa	8.25	7.75	7.50	7.50	7.25	7.25	7.00	7.00	7.00	7.00
Brazil	11.75	12.25	14.25	14.25	14.75	15.00	15.00	15.00	15.00	15.00
Mexico	11.25	10.00	9.00	9.00	8.50	8.00	8.00	7.75	7.50	7.50
Colombia	13.00	9.50	9.50	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	5.00	4.75	4.75	4.75	4.75

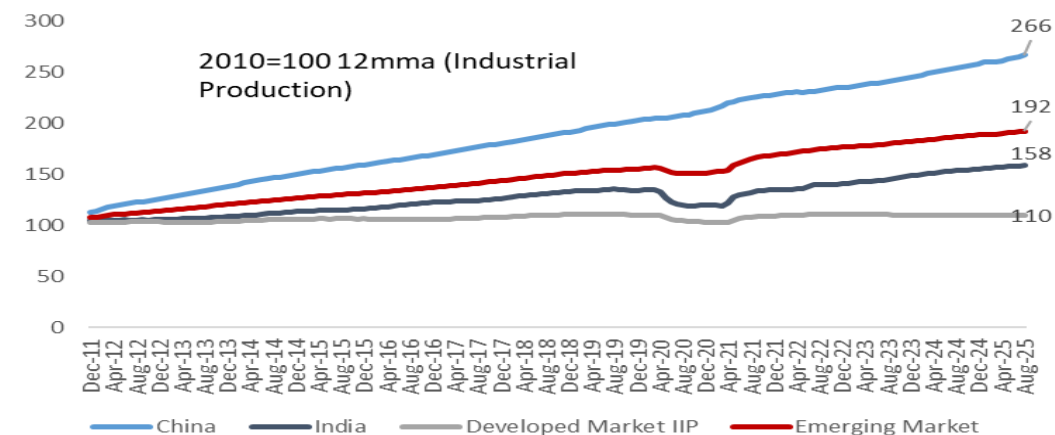
Green denotes rate cut; red denotes rate hike

The World Faces the Fallout of China's Industrial Overcapacity

China exports deflation to rest of the world



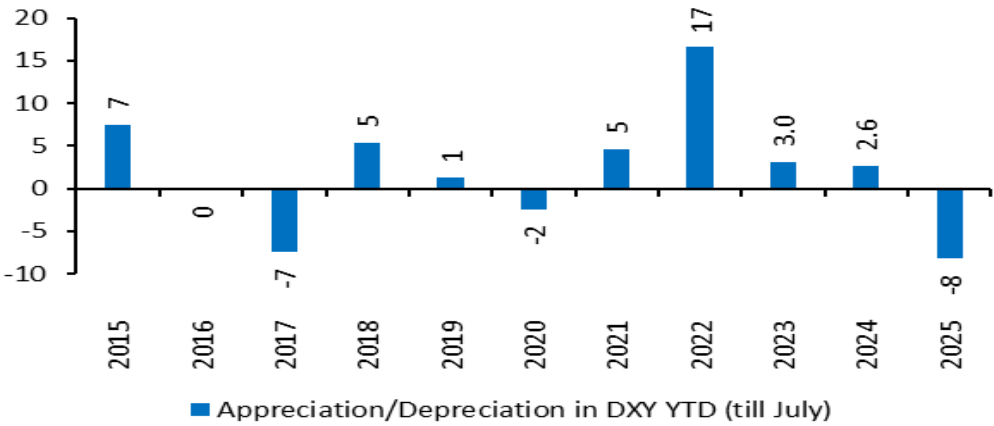
China's manufactured goods production surge the most amongst global economies



- 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.

Dollar is weak, most currencies appreciate year-to- date though Indian Rupee is weak

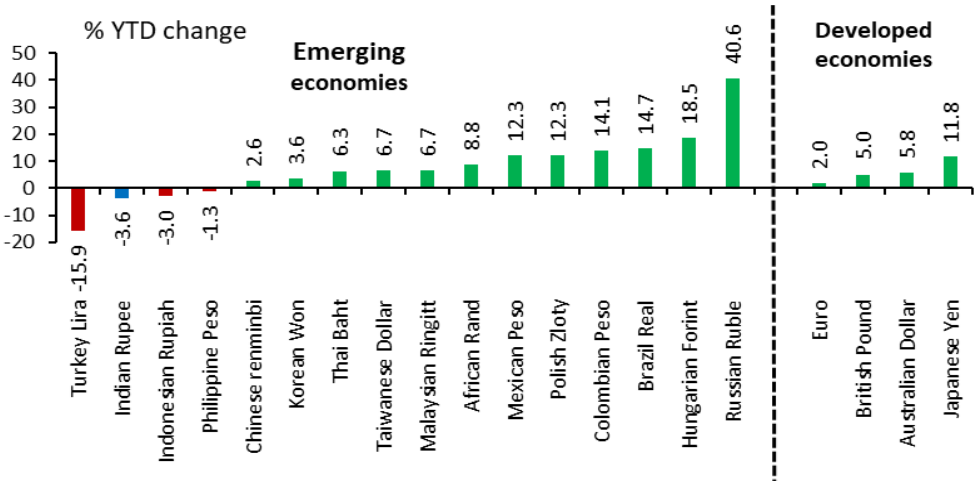
DXY depreciates



DXY is still overvalued; could it fall further?



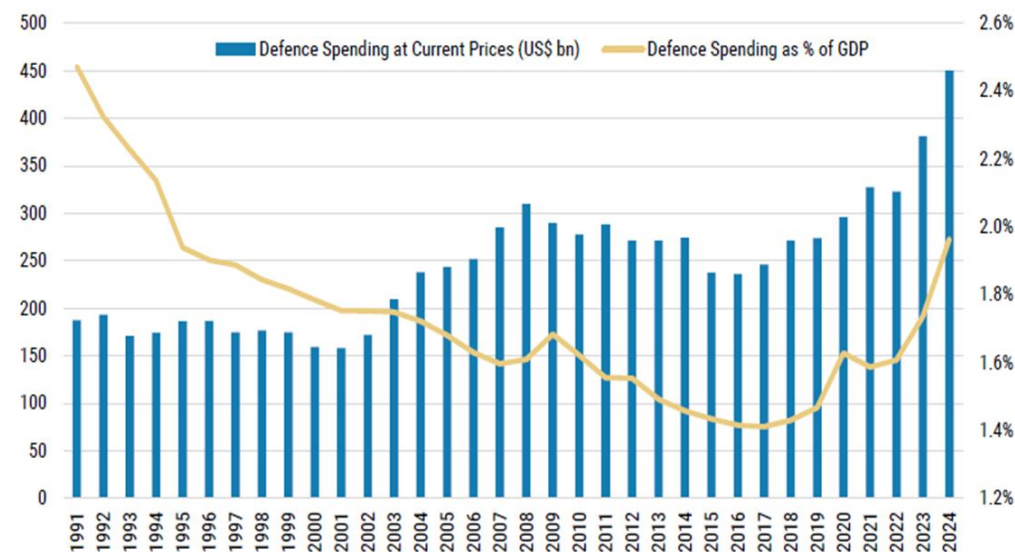
Weakness in DXY YTD drives appreciation across Asian currencies



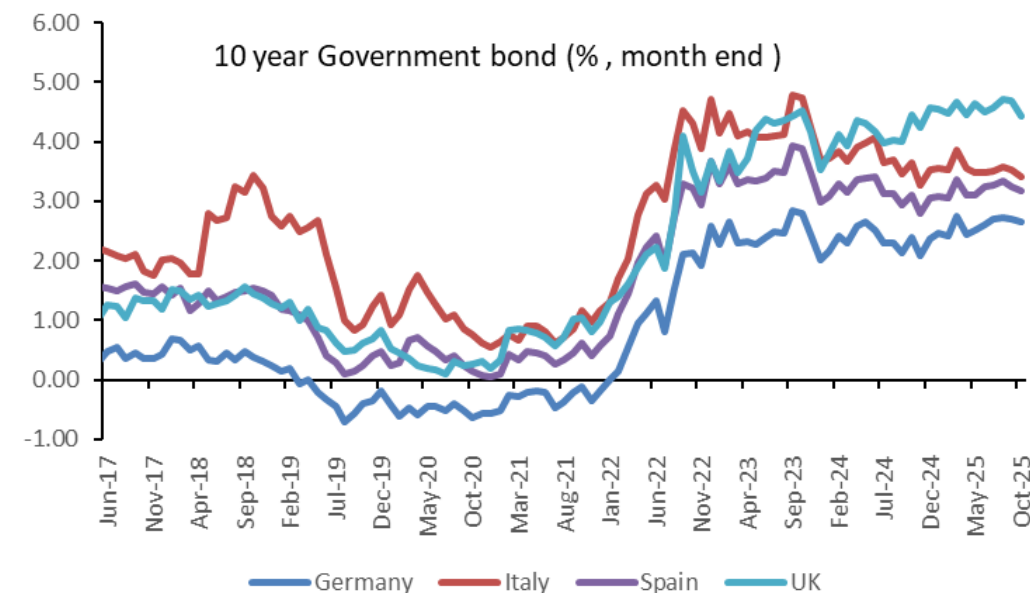
- The adjustment to economic imbalance also warrants a weaker dollar. Despite the recent correction, dollar is significantly overvalued on REER basis. The debate on ebbing US exceptionalism is making investors re-assess their USD exposure. On a bore structural basis, USD could continue to weaken.
- Weaker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

European Defence Spending

European (EU27+UK) defence spending goes to 2% of GDP by 2024 after 30-year decline; targeting to rise to 3.5% of GDP



Yield on European debt has already risen



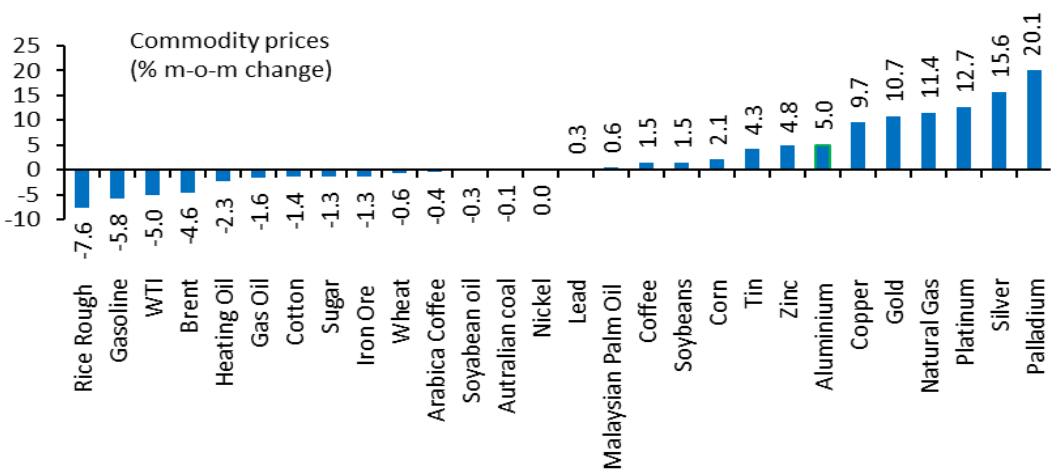
- Europe is ending its long-standing fiscal austerity with Germany leading the path. Market will be keenly watching if a looser fiscal policy can drive domestic growth in a far tougher environment with key partners like China and the US.
- Europe wants to increase its defence spending meaningfully. The nations have committed to take up their defence spending from currently 2% to 5% by 2035 in latest NATO summit.
- The core defence budget is expected to scale to 3.5% of GDP in next 10 years.. World over we see a rise in defence spending. EU commission has also relaxed the fiscal rules for the members. Thus, after US, Europe now seems to be supporting growth via looser fiscal policy. This could also mean higher imports from the bloc.

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

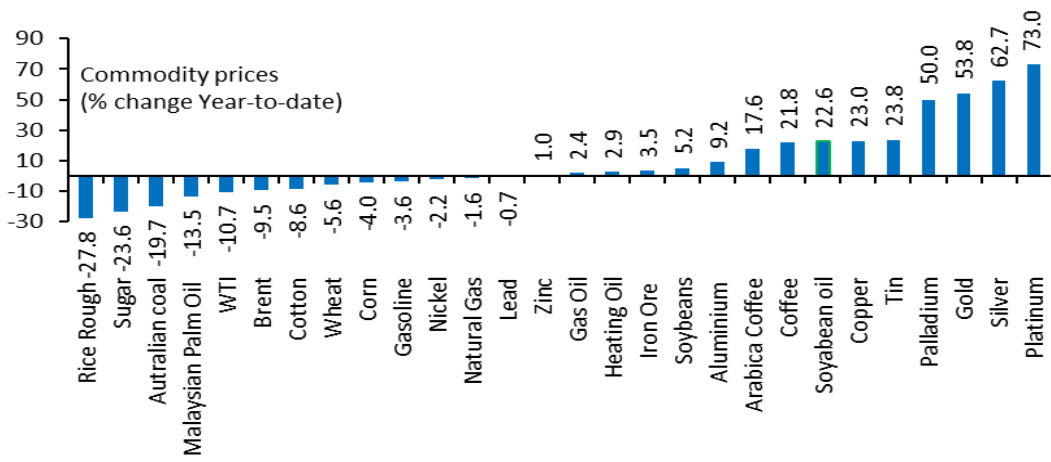
Commodities rose marginally m-o-m in October



Metal prices see an uptick in October m-o-m; majority energy prices moderated compared to last month



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

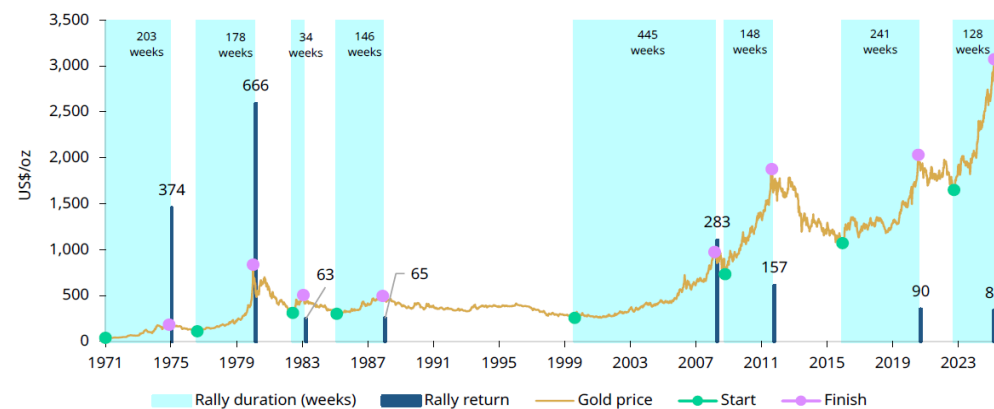


- Commodities prices rose marginally m-o-m in October 2025 on account of metal prices rising.
- Precious metals continue to gain YTD.
- Global fiscal stimulus continuity and easing in trade tensions help commodity prices stay supported even as tariff related growth risks persist.
- Copper prices have swung sharply since July with US president's announcement of a 50% copper tariff. However, the recent clarification that use of copper as raw input material will be exempted led to prices correcting.

Gold Outlook: Strength Amid Geopolitical and Economic Uncertainty

Gold price movements

Gold price, trough-to-peak rally returns and their durations*

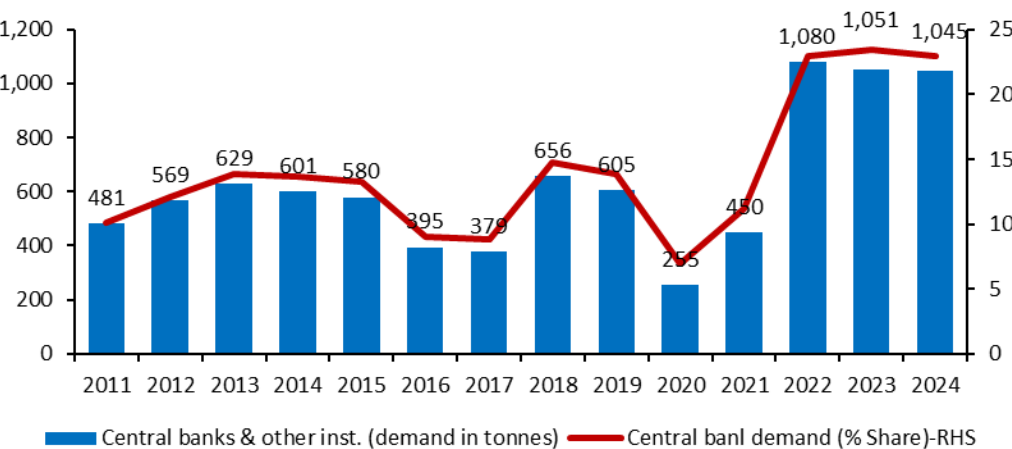


*Data as of 31 March 2025. Peaks and troughs selected using Argrextrema algorithm in Python.
Source: Bloomberg, World Gold Council

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

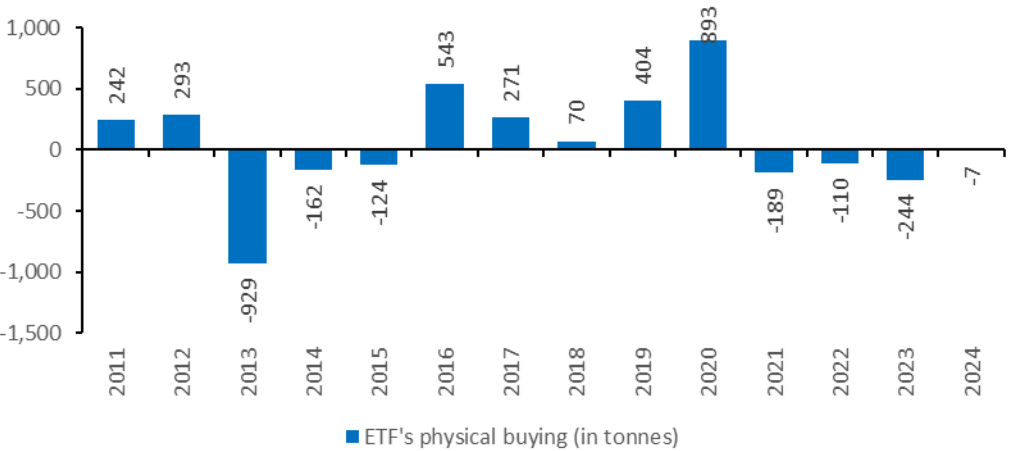


RBI is amongst the top three central bank to buy of gold, and gold now forms nearly 11% of India's official reserves

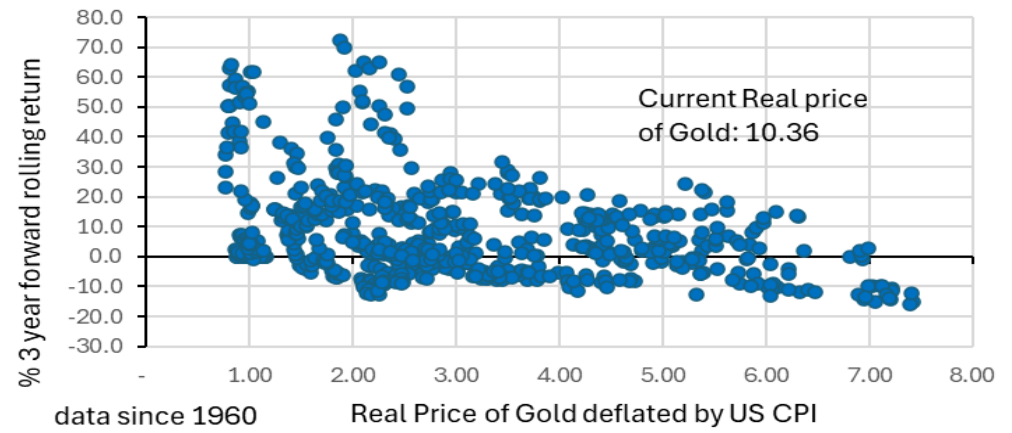
Buying in tonnes	Additional buying by Central banks between 2021-2024	Buying in last decade
China	331	894
Poland	220	126
India	200	119
Singapore	93	-
Japan	81	-
Thailand	81	54
Hungary	79	28
Brazil	62	34
Qatar	54	44
Uzbekistan	50	151
Egypt	47	5
Czech Republic	42	-3
Ghana	22	-
Kyrgyzstan	21	14
Serbia	13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

Gold Outlook: Strength Amid Geopolitical and Economic Uncertainty

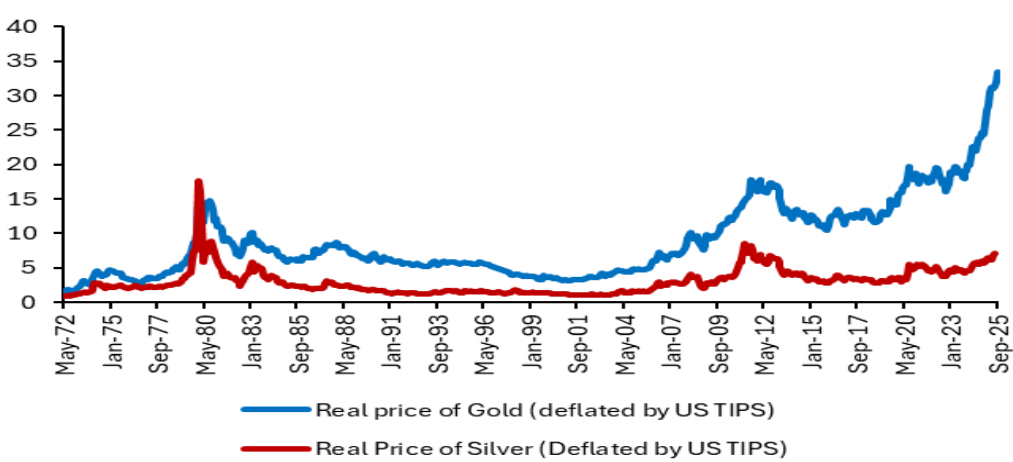
ETF has stayed away from gold in last four years- trends changing in 2025



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



Price of gold in real terms at an all time high



- 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.

INDIA ECONOMIC ACTIVITY

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

Weakness in GST collection, electricity demand, goods and passenger movement, service exports, and inflation; On the other hand, momentum healthy in bank credit, auto sales, two-wheeler sales, and government spend

%y-o-y		Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Overall Macro Indicators	GST collections (Rs. Billion)	6.5	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1
	Bank Credit (Rs. Tn)	13.0	11.5	10.6	11.2	11.4	11.0	11.0	10.3	9.0	9.5	10.0	10.0	10.3
	Petroleum Consumption (000 MT)	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	0.5	-3.9	2.6	7.0
	Eletcricity generation (bn KWh)	0.5	2.0	4.5	6.2	2.4	3.7	7.5	1.8	-4.7	-1.2	3.6	4.2	na
Logistics and Movements of Goods	Air Traffic: Passengers handled (mn passengers)	8.1	9.8	13.2	10.5	13.5	11.2	9.3	10.3	2.2	3.7	-1.0	1.2	na
	Air Traffic: Cargo handled ('000 tonnes)	18.0	14.5	9.7	8.0	7.0	-4.9	3.8	11.5	5.1	0.3	4.2	5.3	na
	National Electronic Toll Collection (mn numbers)	6.5	7.9	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8	16.1	na
	Total E-way bills (mn numbers)	18.5	16.9	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8	22.4	21.0
	HSD Consumption (000 MT)	-1.9	0.1	8.5	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4	1.2	6.6
	Total Port traffic (mn tonnes)	7.8	0.8	-4.8	5.0	7.4	-0.7	6.8	5.8	1.1	3.1	2.8	5.1	na
Consumer	Digital Payments (Value INR tn)	28.8	33.9	19.8	22.1	21.4	13.2	20.0	17.9	17.2	14.1	15.8	10.8	na
	Nauki Job Speak Index (Jul 2008=1000)	-3.8	10.0	2.0	8.7	3.9	4.0	-1.5	8.9	0.3	10.5	6.8	3.4	10.1
	Rural Wage (Rs./ day)	6.2	6.3	6.3	6.0	5.9	6.1	5.9	6.5	6.6	6.6	na	na	na
	Domestic Passenger vehcile sales ('000 units)	-1.4	0.9	4.0	10.0	1.6	1.9	3.6	3.9	-0.8	-7.4	-0.2	-8.8	4.4
	Domestic two wheeler sales ('000 units)	15.8	14.2	-1.1	-8.8	2.1	-9.0	11.4	-16.7	2.2	-3.4	8.7	7.1	6.7
	Urban consumer sentiment index	105.8	104.7	106.0	105.2	106.2	104.3	107.7	108.8	106.8	108.8	110.7	108.7	111.0
	Rural consumer sentiment index	108.6	110.0	112.8	111.0	112.2	112.8	114.1	111.9	115.5	119.3	119.5	125.4	110.8
	IIP: Consumer durables (2011-12=100)	6.3	5.5	14.1	8.3	7.1	3.7	6.9	6.2	-0.9	2.8	7.3	3.5	na
	IIP: Consumer non- durables (2011-12=100)	2.2	2.8	0.4	-7.5	0.1	-2.1	-4.0	-2.7	-1.0	-0.9	0.5	-6.3	na

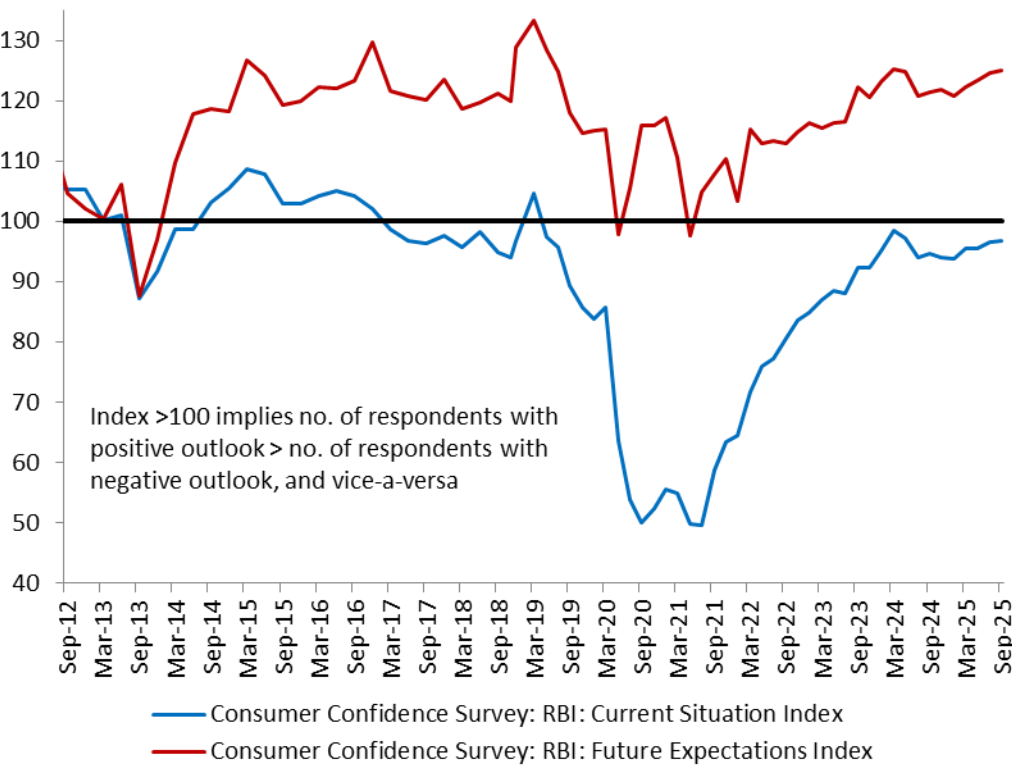
Modest improvement in economic activity improve amidst festivities and GST cut impact (2/2)

Weakness in GST collection, electricity demand, goods and passenger movement, service exports, and inflation; On the other hand, momentum healthy in bank credit, auto sales, two-wheeler sales, and government spend

%y-o-y		Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Business	Manufacturing PMI	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7
	Services PMI	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9
	Coal (mn tonnes)	2.6	7.8	7.5	5.2	4.7	1.6	1.7	3.5	2.7	-6.8	-12.3	11.3	na
	Fertilizers(mn tonnes)	1.9	0.4	2.0	1.7	3.0	10.2	8.8	-4.2	-5.9	-1.2	2.0	4.6	na
	Steel(mn tonnes)	1.8	5.7	10.5	7.3	4.7	6.9	9.3	3.0	7.4	9.7	16.6	14.2	na
	Cement(mn tonnes)	7.6	3.1	13.1	10.3	14.3	10.8	12.2	6.7	9.7	8.2	11.6	6.1	na
	Import of Capital Goods (US\$ mn)	19.3	6.5	11.3	14.1	25.6	6.3	9.9	27.3	26.2	10.1	19.1	1.0	na
Government	Centre Revex ex Interest Payment (Rs. Tn)	7.7	45.0	1.2	-2.5	10.7	-23.2	-2.9	8.4	2.8	9.0	12.2	-37.2	-2.8
	Centre Capital expenditure (Rs. Tn)	-2.4	-8.4	21.3	95.3	51.4	-35.4	68.0	61.0	38.7	43.7	-10.5	113.1	30.9
	State Revex ex interest payment (Rs. Tn)	6.0	47.5	-9.5	14.0	16.5	-0.6	7.4	6.8	7.6	20.1	6.5	3.4	na
	State Capex (Rs. Tn)	-16.8	10.6	-11.6	16.6	-5.5	7.0	42.1	5.0	44.6	31.0	0.3	2.4	na
	Tax collection (Rs. Tn)	11.0	7.2	12.1	7.8	9.2	9.5	5.1	3.2	16.1	-1.6	-4.2	3.8	na
Trade	Exports of Goods (US\$ bn)	-0.3	16.6	-5.3	-1.5	-2.6	-11.1	0.6	8.6	-2.8	-0.1	6.9	1.7	6.0
	Imports of Goods (US\$ bn)	7.8	1.9	16.1	2.3	10.3	-16.3	11.3	19.1	-1.7	-3.4	8.7	-10.1	16.7
	Non oil and non gold imports (US\$ bn)	6.5	4.2	4.2	1.8	18.0	0.4	4.1	17.2	10.4	-0.4	7.7	-0.6	12.8
	Exports of Services (US\$ bn)	14.6	22.7	14.2	16.9	12.0	11.6	18.6	8.8	9.6	12.0	10.3	2.8	-5.4
Prices	CPI (2011-12=100)	5.5	6.2	5.5	5.2	4.3	3.6	3.3	3.2	2.8	2.1	1.6	2.1	1.5
	WPI (2011-12=100)	1.9	2.8	2.2	2.6	2.5	2.4	2.2	0.9	0.4	-0.2	-0.6	0.5	0.1

Consumer sentiments improve – multiple policy effort to support growth

Consumer sentiments improve



States' welfare measures

Personal Income Tax reduction

GST reduction

Monetary easing

Regulatory relaxation in retail lending

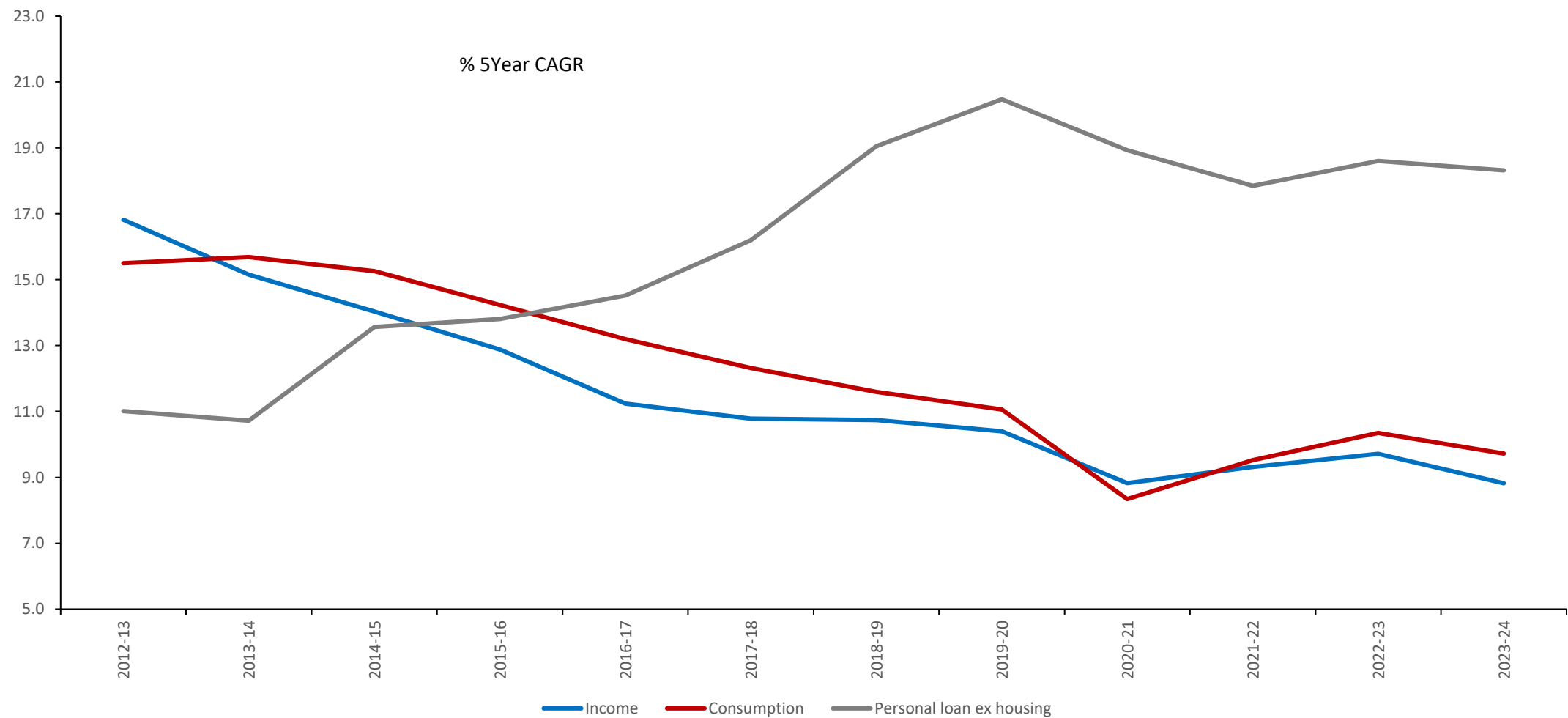
Healthy Agriculture prospects

Reduced inflationary pressures

8th Pay commission the next in line

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

Weak income drags consumption even as debt rises



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

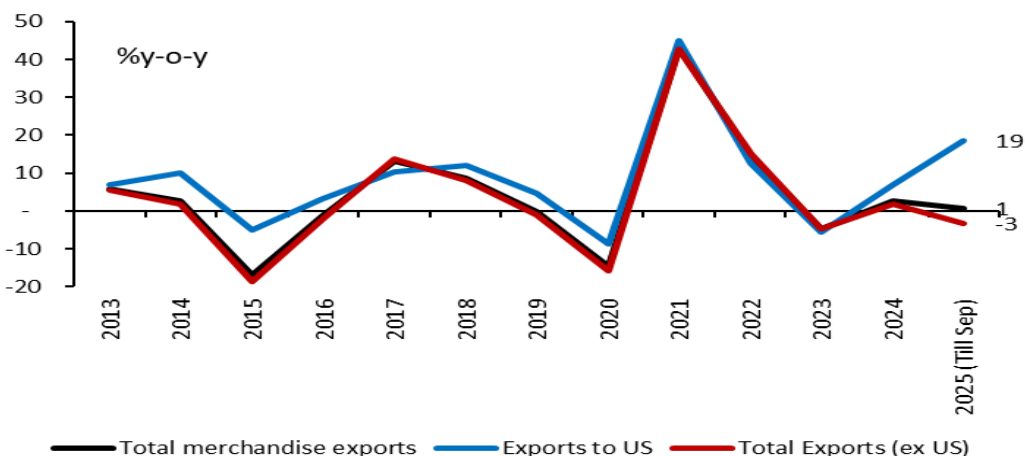
Agriculture and Construction which accounts for 23% of Value addition accounts for 55% of Job creation in India

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.

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



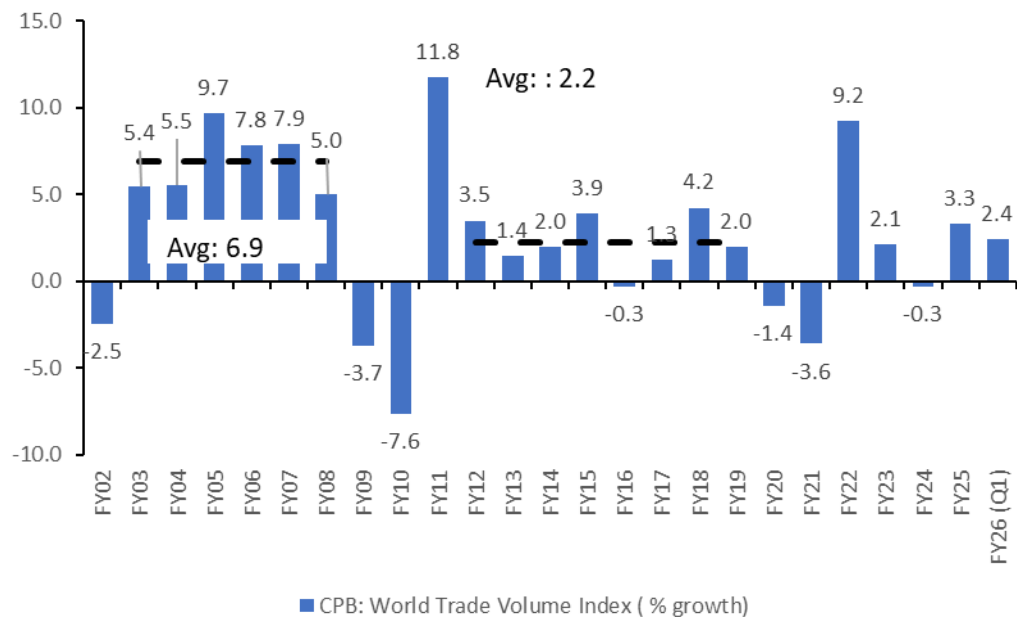
~22% of India's merchandise shipment in 2025 directed towards the US; US share in India's exports moderated in September (15%)



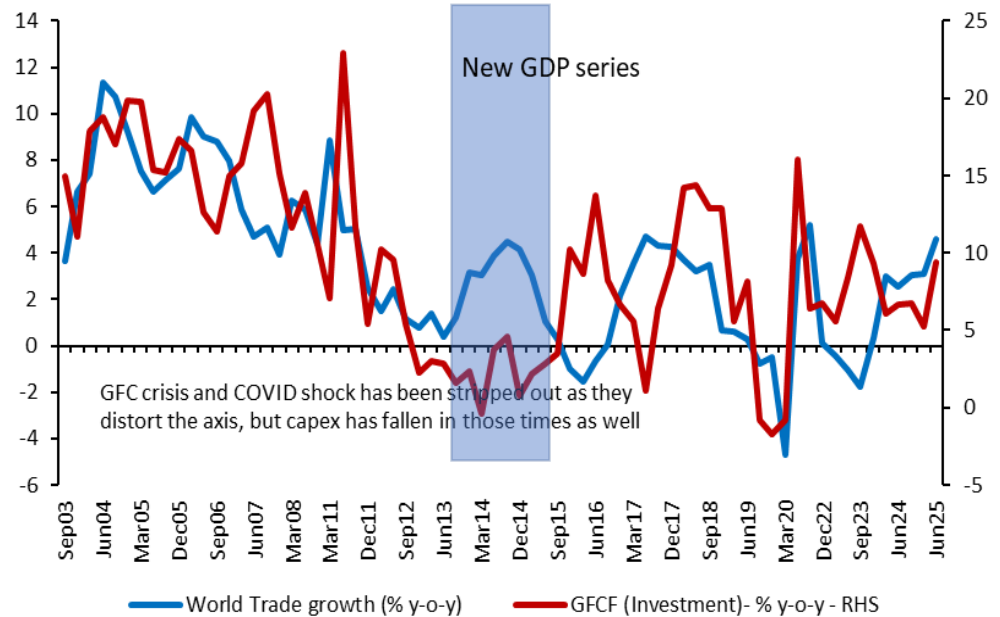
- US President Donald Trump imposed a 25% tariff on Indian goods effective 1st August and an additional 25% tariff effective 27th August, alluding to trade barriers and India's defence and energy ties with Russia.
- The announcement runs contrary to popular belief that India was in a relatively favourable 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 accounts for 22% 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.

Trade outlook shapes India's private capex too

Global goods trade momentum is weak



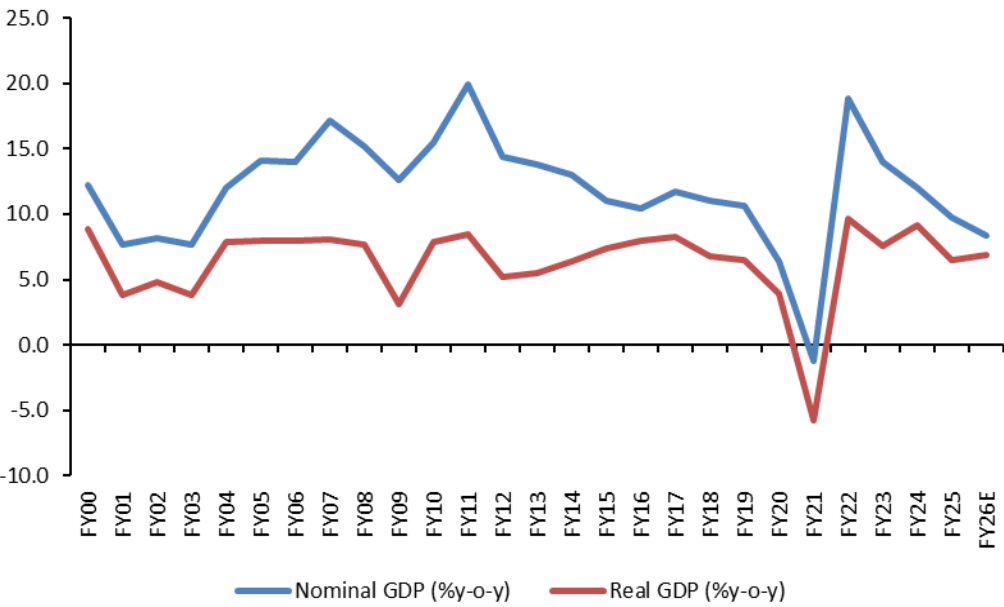
Weak exports adversely affect investment decision in India



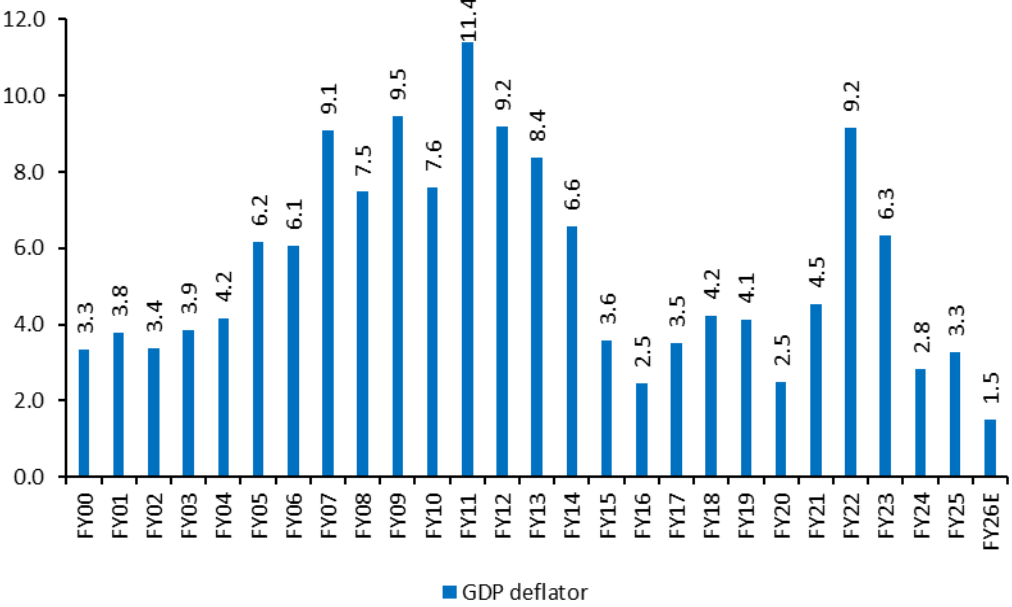
- Effective tariffs rate in the US has risen from 2% in 2024 to 18% now (as per Yale study)
- US accounts for 14% of global goods demand

India's economy on an uneven ground

Deflator issues are overstating the pace of India's growth



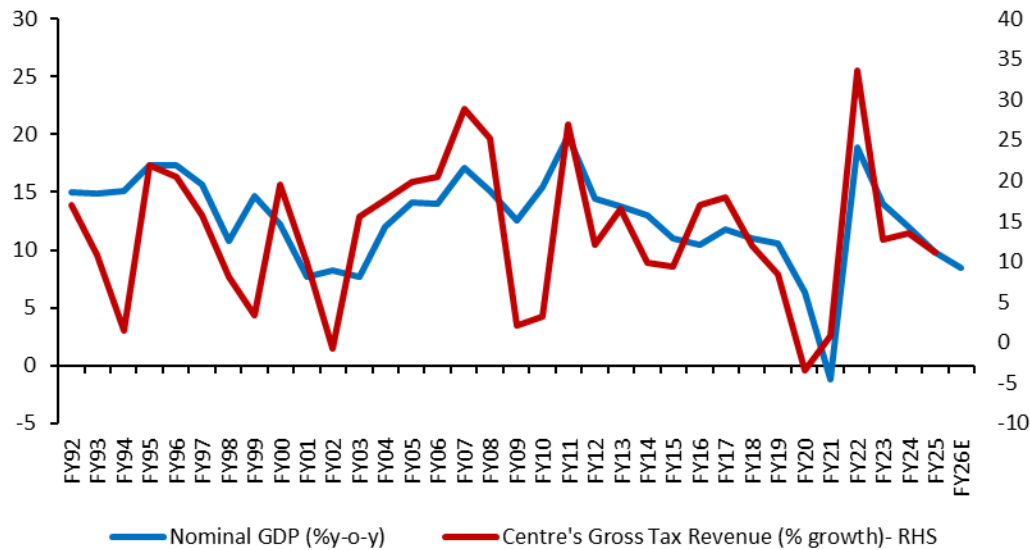
GDP deflator (a proxy for aggregate inflation in economy) at its historical low



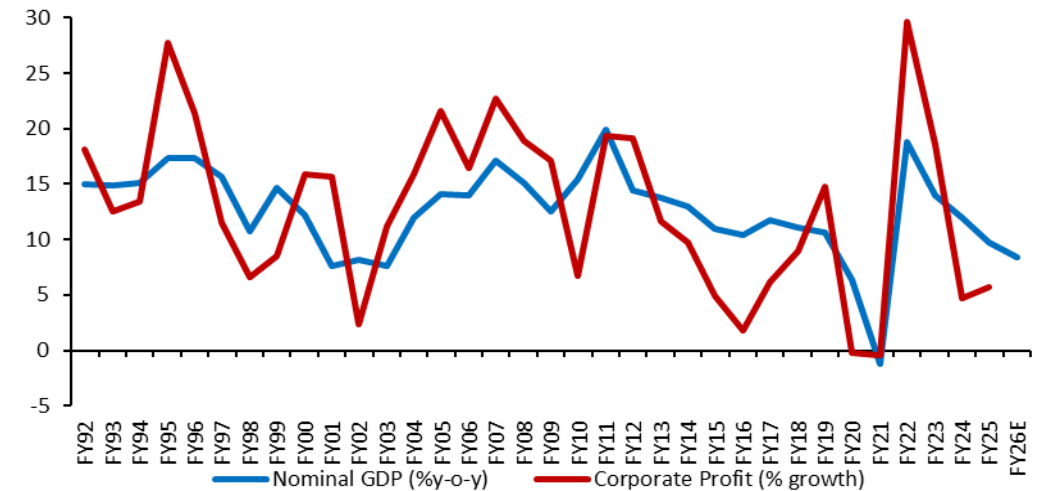
- Nominal growth is at its historical low (barring COVID). Higher nominal growth often signals rising prices, influencing expectations and wage negotiations.
- Weakness in pricing power, policy can be growth supportive

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

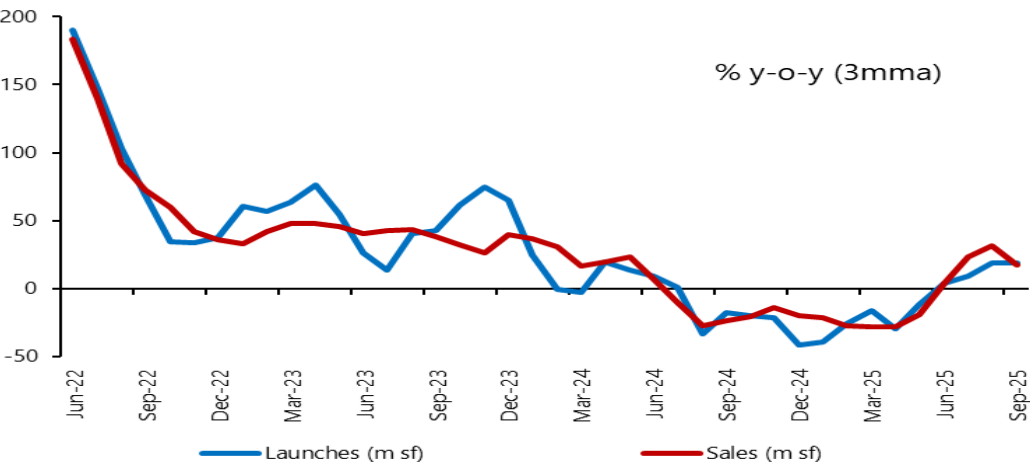


Corporate profit for ~27-28K non financial sector companies

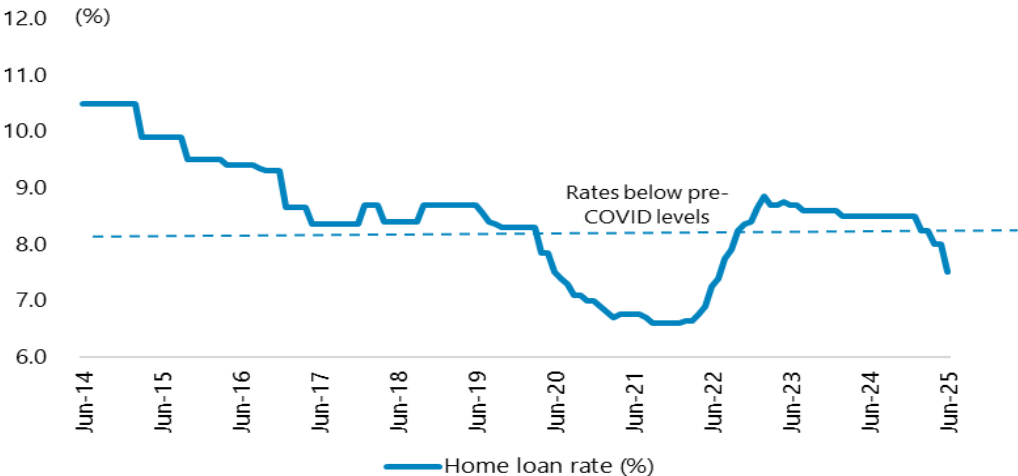
- If inflation is very low, real rates may remain high even with low nominal rates → dampening investment and consumption.
- Nominal wage increases tend to be subdued → affecting household consumption and savings.
- Weak nominal growth can lead to depreciation pressures if foreign investors pull out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

Real estate: Momentum is moderating

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



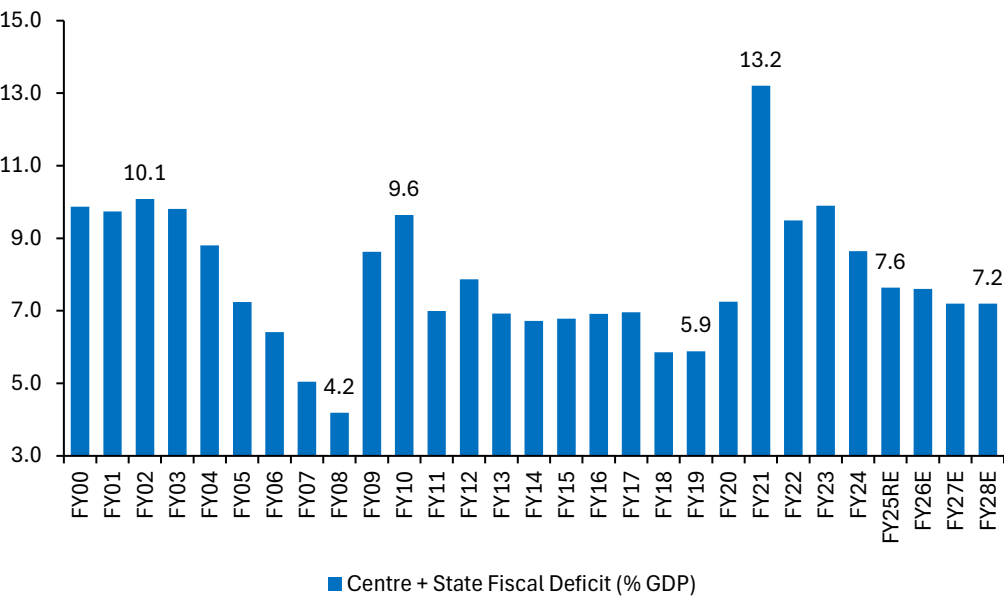
Fall in home loan rates improves affordability, developers still positive on outlook



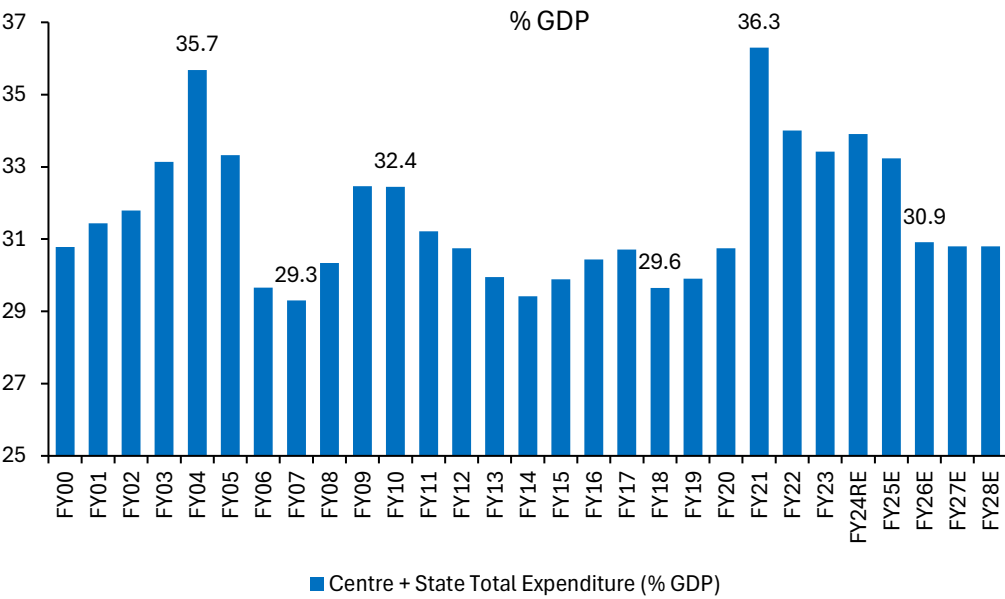
- Real estate sales volumes contracts marginally y-o-y in September quarter. Launches (by value) saw an ~6% decline in the Sep-25 quarter.
- Unsold inventory remains comfortable at 16 months, allowing developers to hike prices. Prices have increased on y-o-y basis in all major cities.
- The underlying 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.

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

Are we at the end of fiscal consolidation?



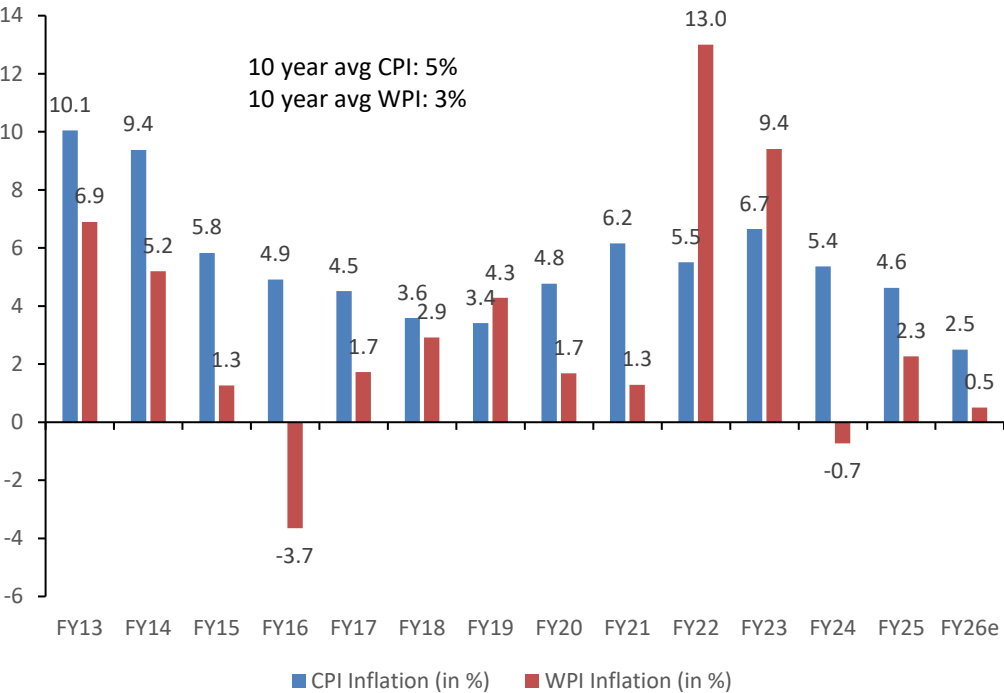
Consolidation implies constrained spending



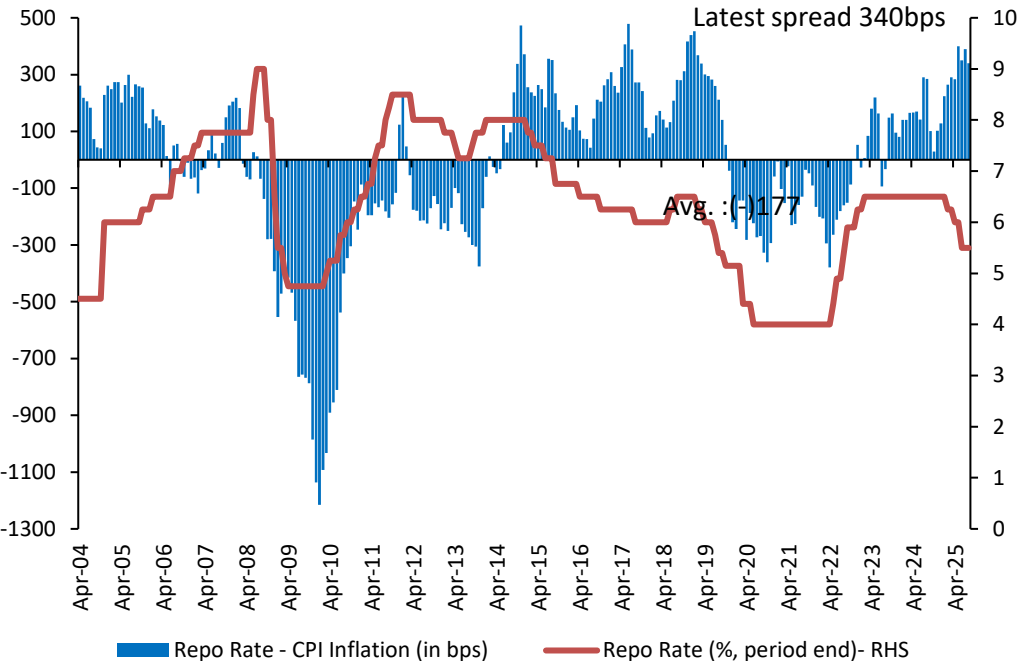
- In India, there is a policy realisation that growth needs support. Multiple policy efforts in progress to support growth.
- Government is still on a path of fiscal consolidation that constraints aggregate public expenditure.
- If growth strains do not subside, we are likely at the end of fiscal consolidation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

Inflation not a problem- monetary policy can ease further. More pro-growth actions needed for India's growth

Inflationary conditions are benign

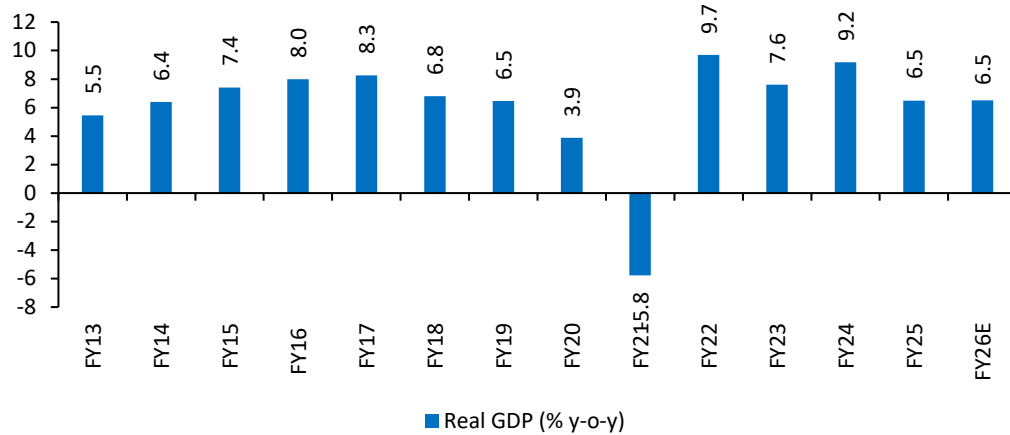


Real rates are significantly higher than trend: Such a condition often gets followed by rate cuts

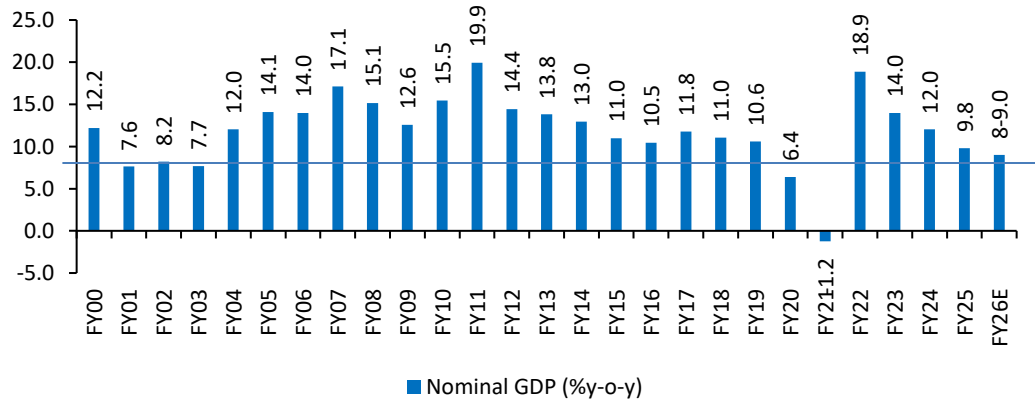


FY26 growth prospects not materially exciting

India's growth around 6.5%



Nominal growth in FY26 could soften significantly

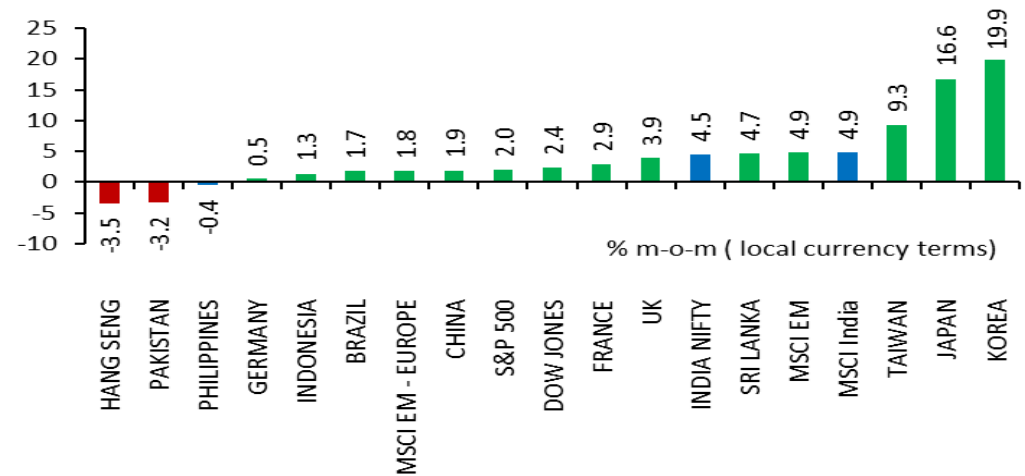


- Q1 FY26 GDP came in at 7.8%, a recovery from 7.4% in Q4 FY25.
- In nominal terms, GDP growth slowed to 8.8%, a three-quarter low, and could weaken further in Q2. High-frequency indicators up to August remain lacklustre, and both WPI and CPI are trending lower, with CPI falling below 2%.
- In FY26, India's real growth is likely to stay around 6.5% with nominal print close to 9%.
- In the coming quarters export momentum could fade, and government spending may appear weaker on a y-o-y basis in H2.
- September could see temporary softness due to weaker export orders and the impact of high tariffs. If GST rate cuts are delayed, consumer purchases may be postponed, further dampening demand. Official data may not fully capture this slowdown.
- Amid the growth shock, we see an important positive aspect emerge. We believe the government may be keen to undertake economic reforms to push growth higher.
- The GST announcement was an important signal of intent (even though its growth impact remains uncertain). On the trade front, fast-tracking trade deals, improving India-China relations, lowering import tariffs on inputs, and easing FDI norms are already in progress. Deregulation (across centre and state governments) could come in focus.
- The domestic growth inflation backdrop also warrants additional monetary support in India though RBI seems to be signalling otherwise for now.

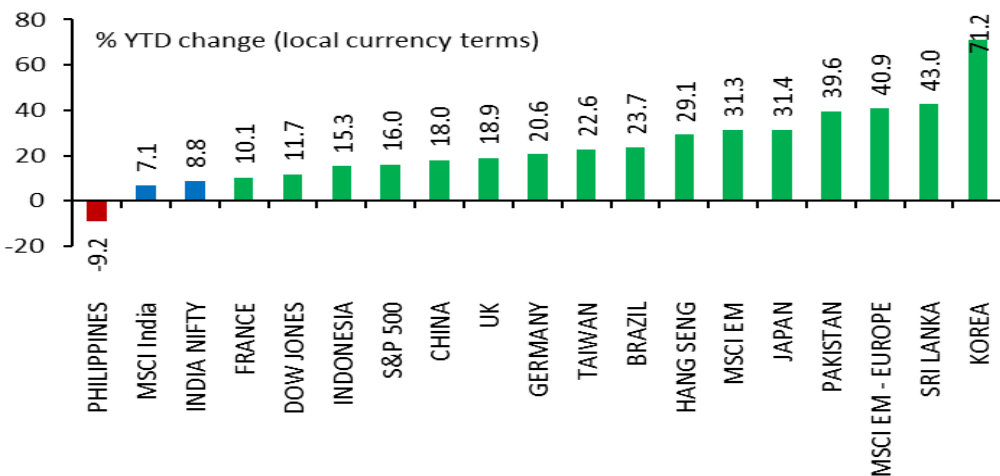
EQUITY MARKET

Global equity market snapshot: October 2025

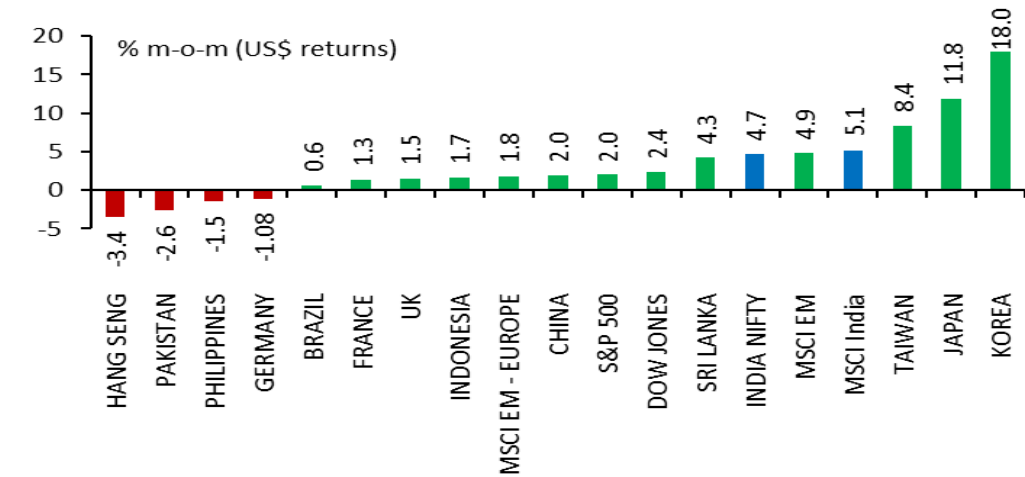
Performance in October 2025 (local currency returns)



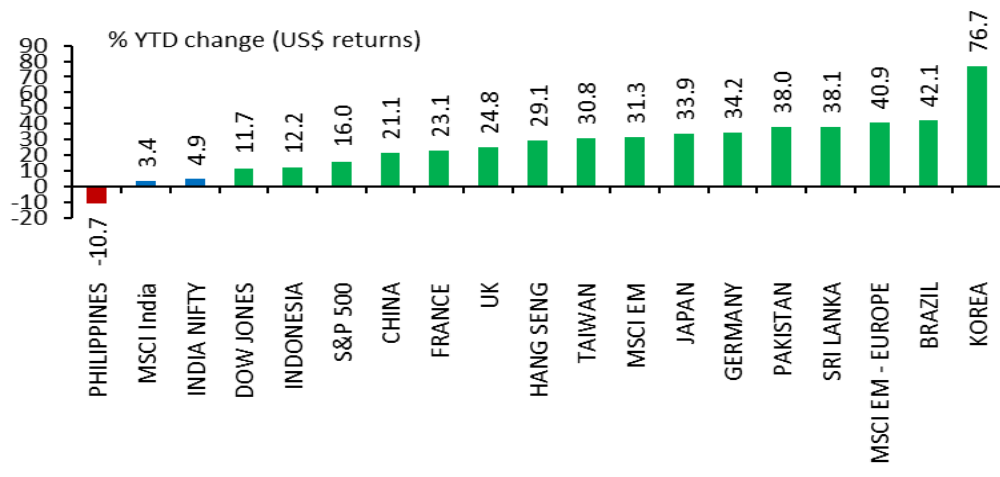
YTD performance (local currency returns)



Performance in October 2025 (US\$ returns)

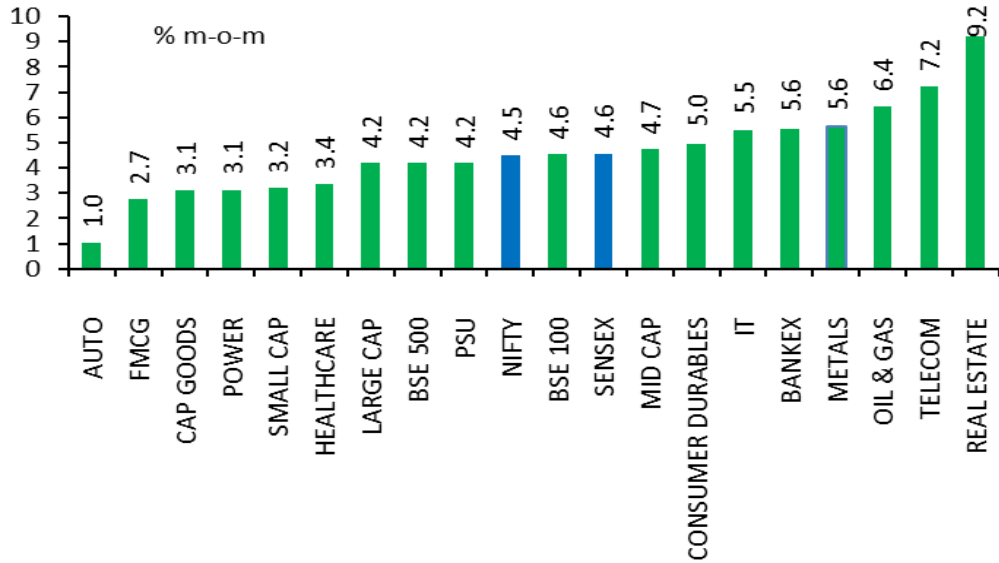


YTD performance (US\$ returns)

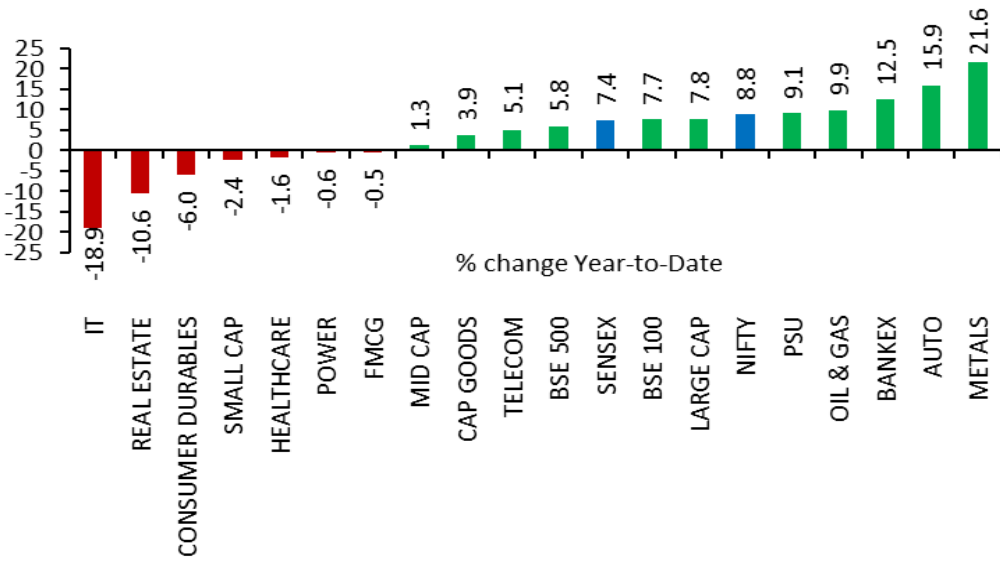


Indian equity market snapshot: October 2025

Indian equity market performance in October 2025 (local currency returns)



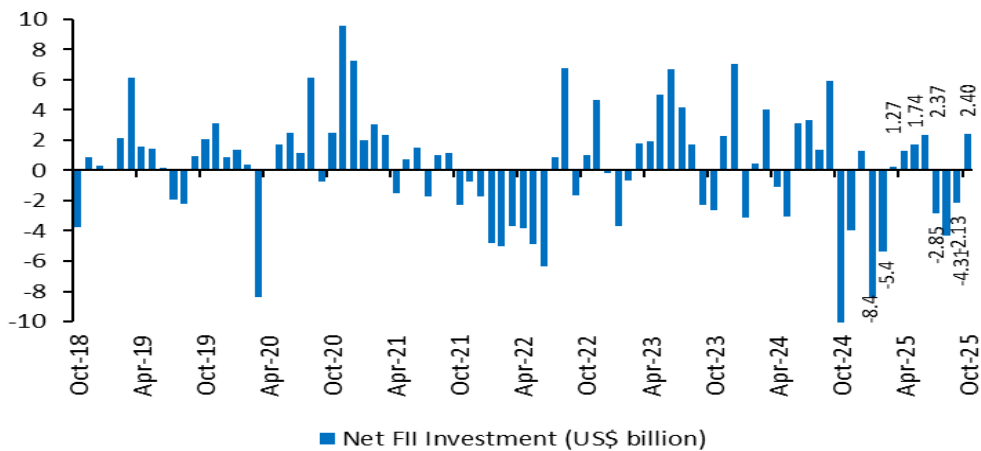
YTD performance (local currency returns)



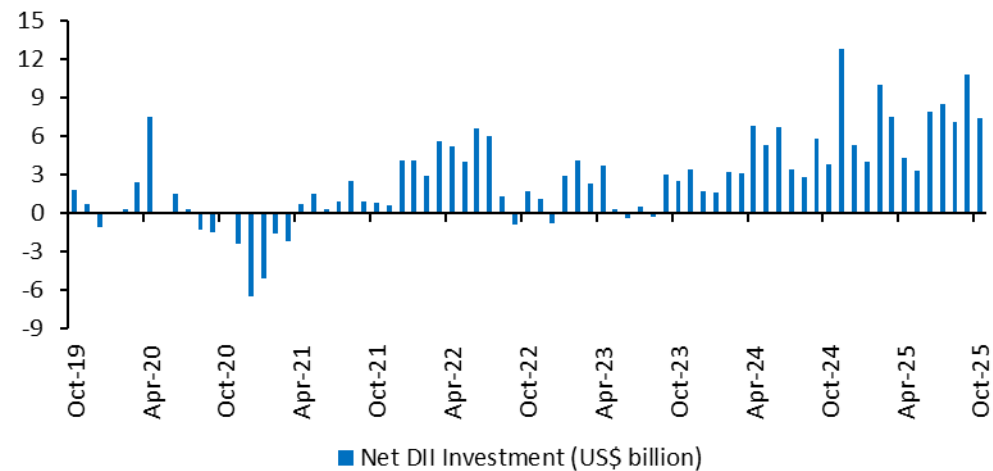
- NIFTY rose this month by 4.5% in October. YTD, NIFTY witnessed a rise of ~9%. Performance down the capitalization curve has been much worse. Small cap has fallen by 2%, while mid cap and large cap gained by 1% and 8% year-to-date respectively.
- All sectors are in green compared to last month led by Real estate, Telecom and Oil & Gas.
- IT, Real estate, and consumer durables delivered the lowest returns YTD.

Liquidity: FII turn net buyers in Indian equity market; pick up in primary issuances

FII purchased US\$2.4bn in October(vs. sale of 2.1bn in Sep'25)



DII are net buyers (purchase of USD ~5.2bn in October (vs. 7.4bn last month)

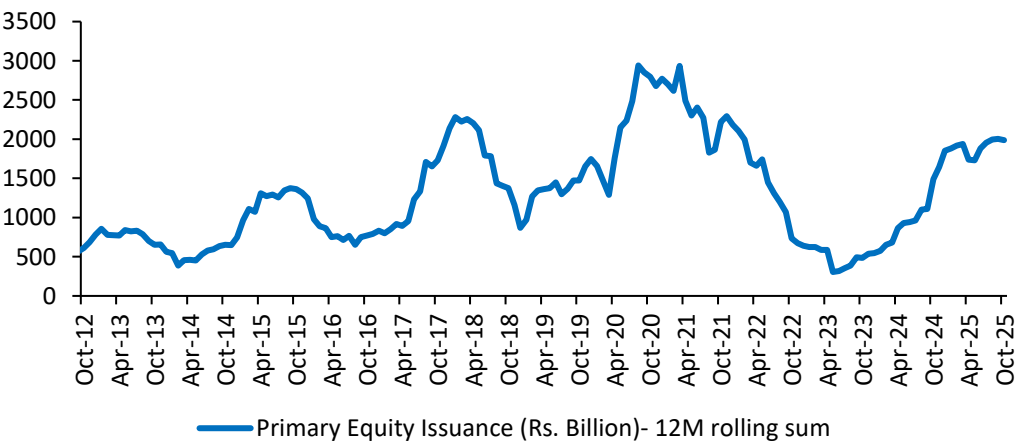


Retail flows into Equity (both Cash and Derivates) surge; Category wise net inflows into Indian equities:

	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	-1,54,519
DII	-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	5,78,687
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	19,246
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	-17.6
DII	-12.8	-4.8	10.4	5.2	14.0	16.0	6.0	-4.8	12.6	35.7	22.0	63.0	66.9
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	2.2

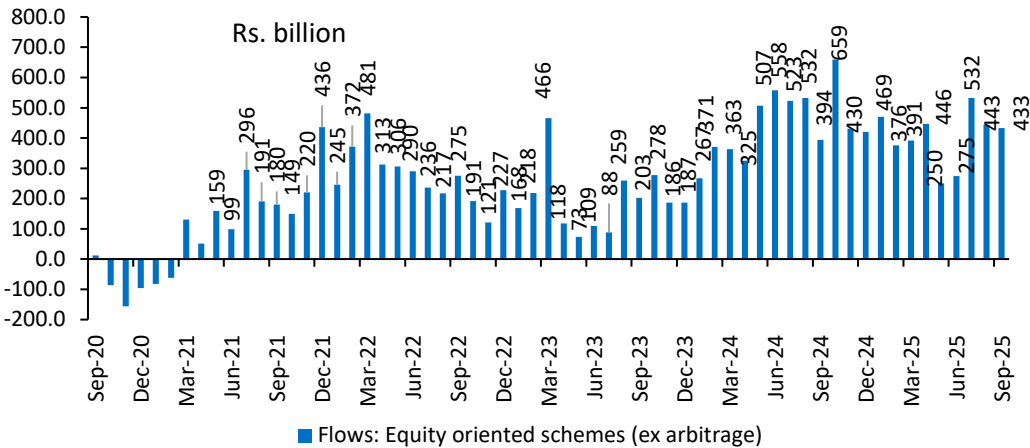
As of Sep 30th, 2025. # Data for individuals include net flows on NSE in the secondary market only. Individuals include individual / proprietorship firms, HUF and NRI.

Primary market supply trending up from last year lows

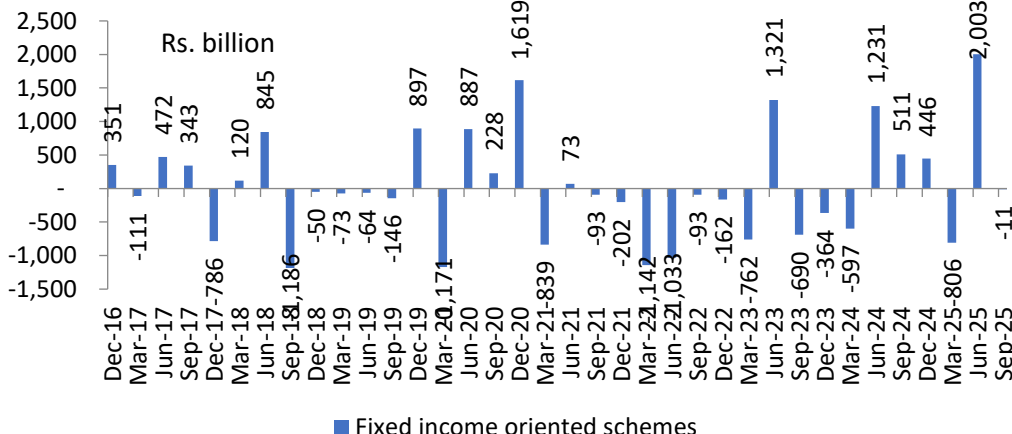


MF flows: SIP inflows improves while non SIP equity inflows moderate m-o-m in September 2025

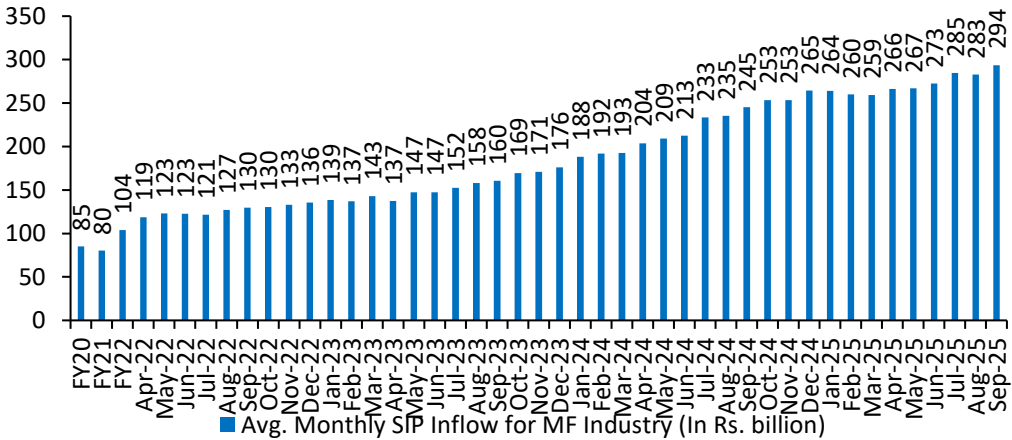
Equity inflows moderate in September 2025 compared to a month ago



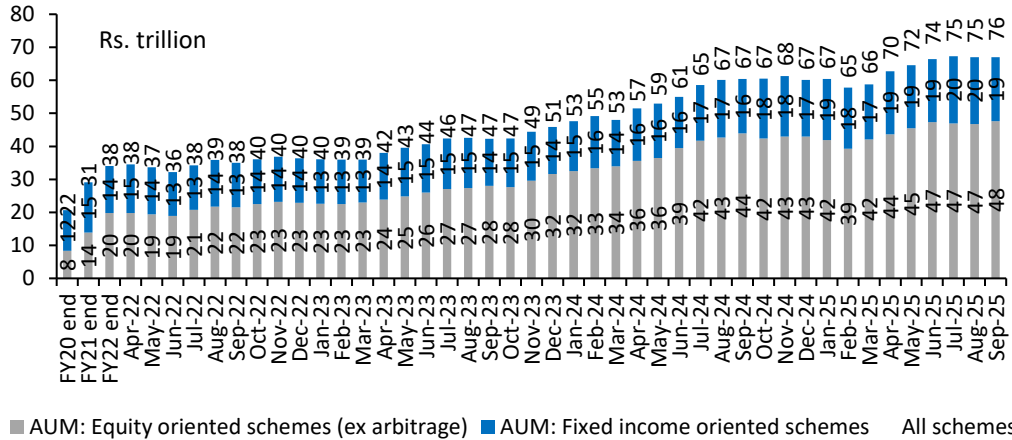
Debt outflow of INR 11bn in Q2FY26 vs. inflow of 2tn in Q1FY26



Monthly SIP inflow improves in September m-o-m



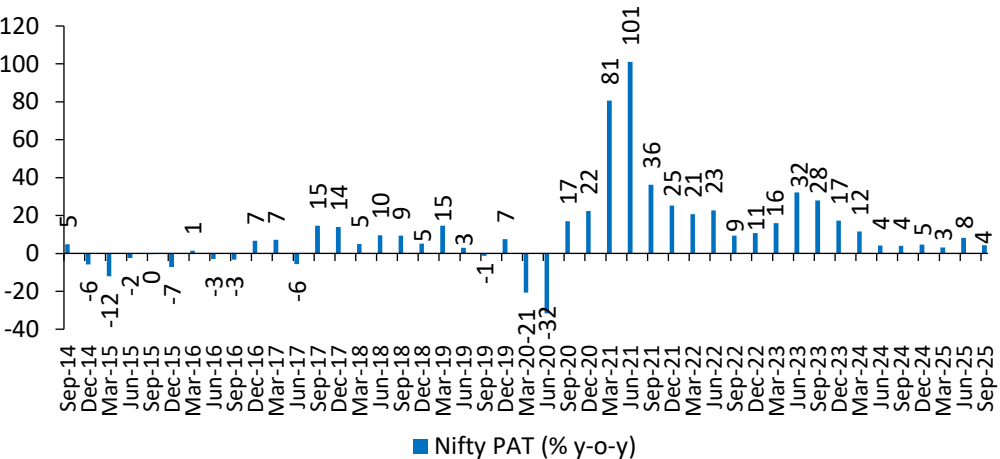
Debt and equity AUM remained flat sequentially



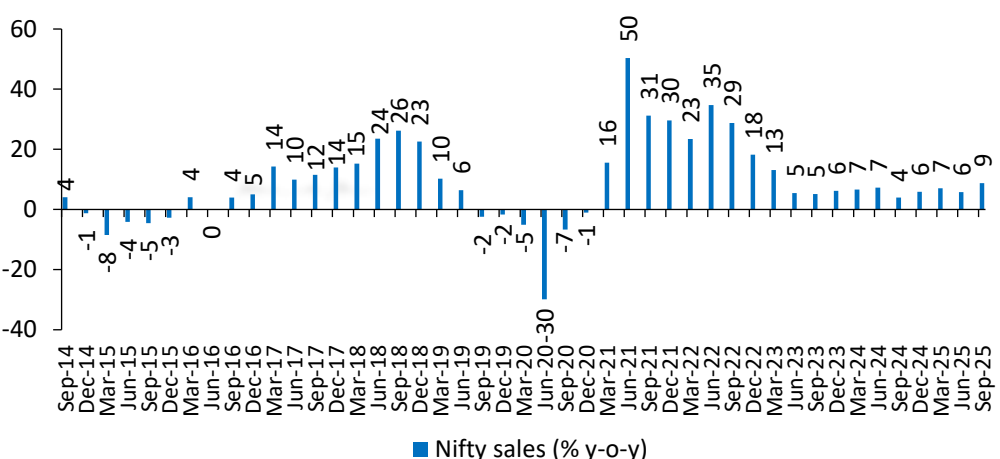
Source: CMIE Economic Outlook, Association of Mutual Funds of India(AMFI), SBIFM Research

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

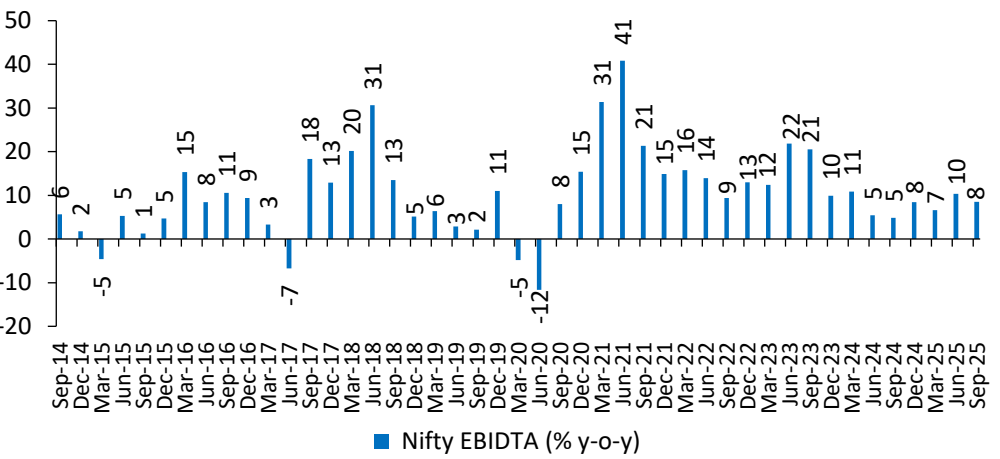
NIFTY PAT growth underwhelms expectations for Oil & Gas, metals and insurance companies



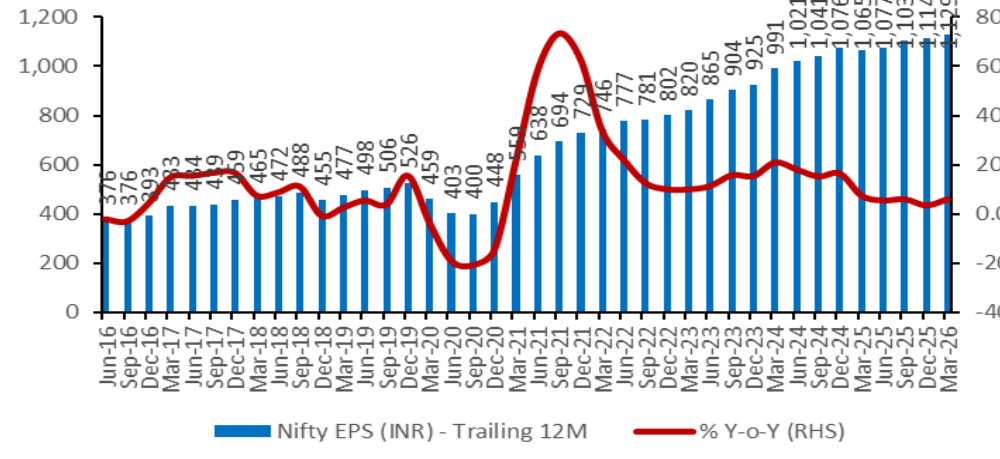
Q2 FY26 NIFTY interim sales growth in line with expectations



EBITDA growth also in line with expectations



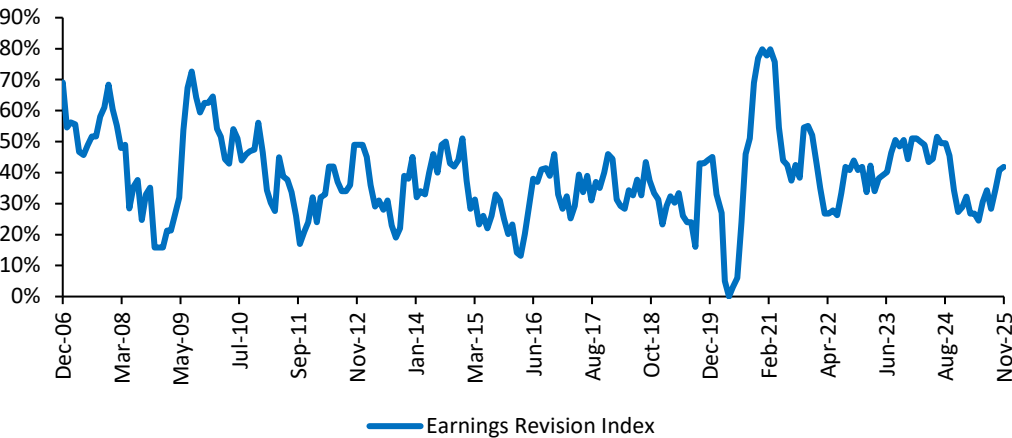
EPS growth moderates



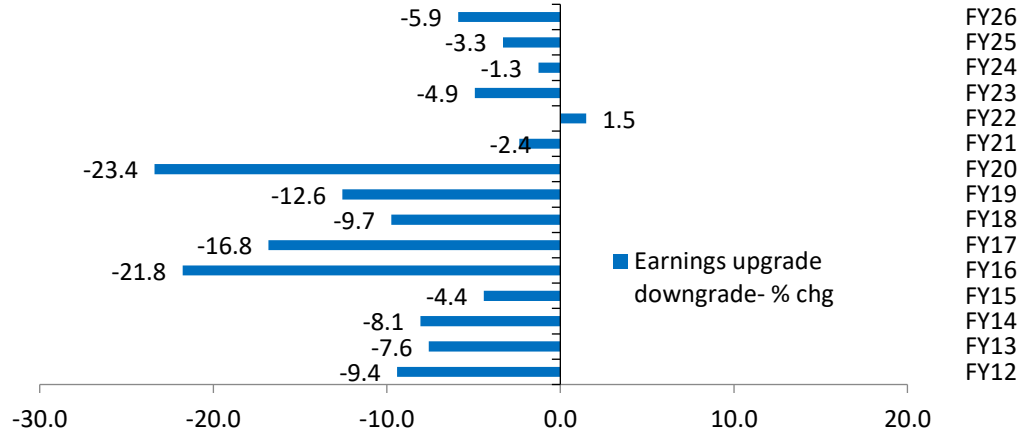
Source: MOSL, SBIFM Research; NB: Results released for 24 NIFTY companies for September 2025 quarter, historical data is for all the NIFTY 50 companies, EPS growth is adjusted for Axis bank losses for FY23

Earnings revisions continue to rise in October

Earnings Upgrades to downgrades ratio continues going up in October



In FY26 (till October) EPS projection saw a downgrade

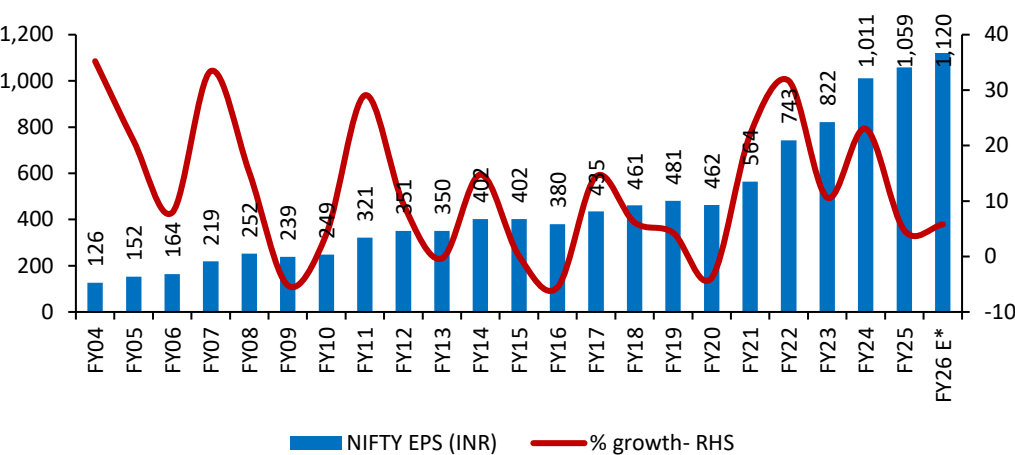


- Earnings revisions for FY26 have fallen with Industrials, Communication Services, Materials, Financials, Consumer Staples seeing downward revisions. Energy & IT got upward revisions.
- Consensus expects 12.5% EPS growth CAGR for the Nifty over FY25-FY28.

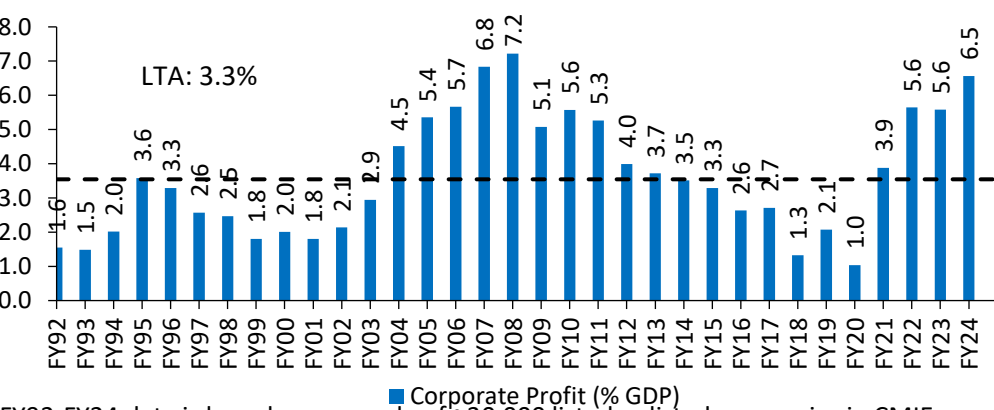
Source: Bloomberg, FactSet, SBIFM Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all BSE 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).

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)

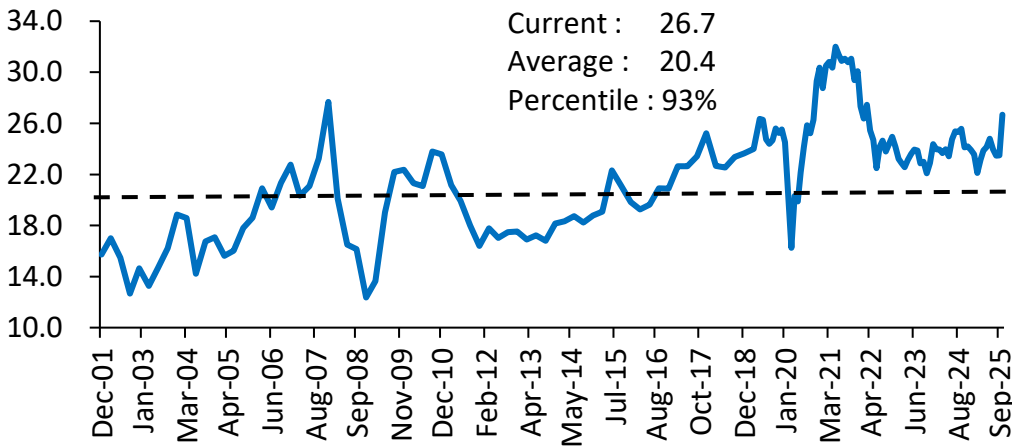
Sectoral breakup of NIFTY earnings outlook

	No. of Cos.	EPS Change								FY25-28 (CAGR)
		FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28	
Nifty		20.0%	35.7%	5.9%	29.5%	1.0%	8.0%	15.2%	14.4%	12.5%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	6.1%	39.1%	24.1%	16.2%	26.1%
Industrials	5	22.9%	-30.1%	-0.9%	-0.9%	27.6%	16.7%	20.6%	17.7%	18.3%
Financials	11	13.8%	27.3%	23.1%	53.0%	-4.6%	6.3%	15.6%	16.3%	12.6%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	10.8%	21.6%	8.6%	7.7%	12.4%
Energy	3	56.9%	11.4%	8.1%	33.6%	-6.7%	12.6%	9.0%	10.2%	10.6%
Consumer Staples	4	-5.0%	-3.9%	5.6%	32.6%	14.1%	5.6%	12.6%	10.3%	9.4%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	20.1%	12.9%	8.4%	4.4%	8.5%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-9.9%	-14.8%	22.2%	17.7%	7.0%
Health Care	5	5.9%	51.7%	23.6%	2.5%	24.4%	-8.7%	8.9%	18.5%	5.6%
Communication Services	1		NA*		-6.1%	67.9%	15.7%	42.2%	23.1%	26.5%

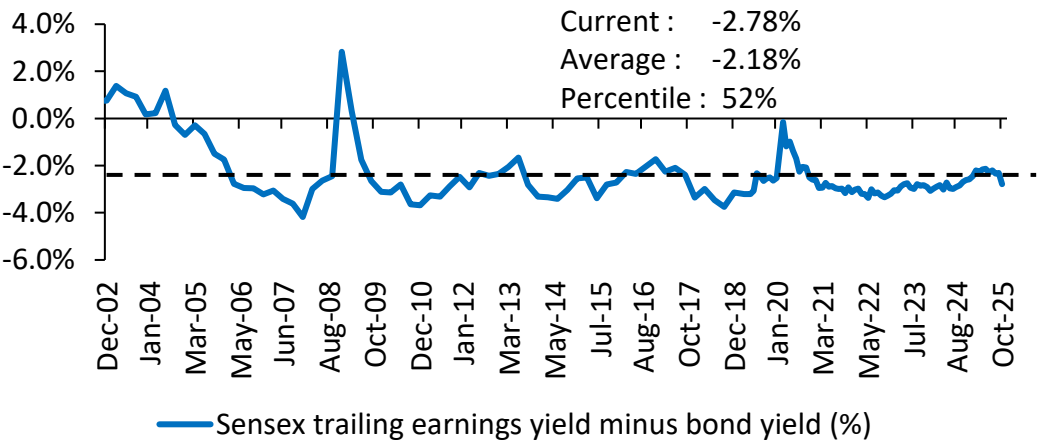
- Consensus expects 12.5% EPS growth CAGR for the Nifty over FY25-FY28.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.

Equity valuations have turned moderately expensive

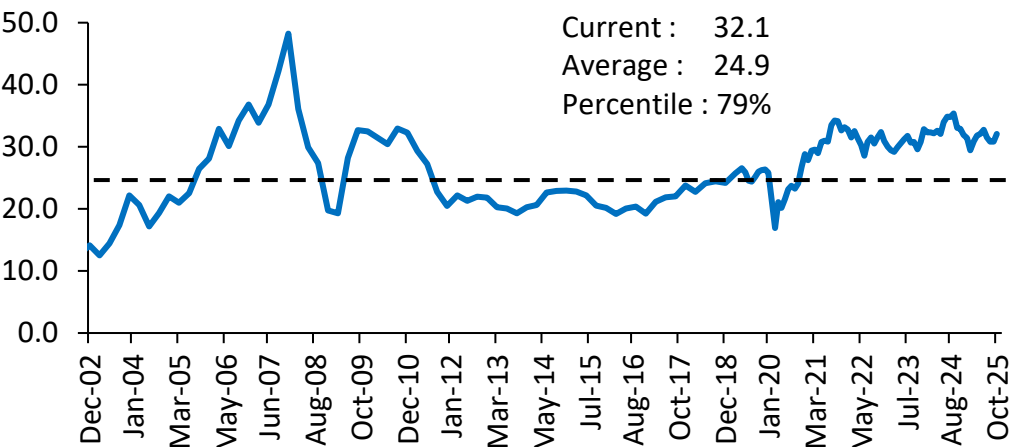
Sensex trailing PE ratio stood at 26.7 in Oct'25 vs. 23.5 in Sep'25



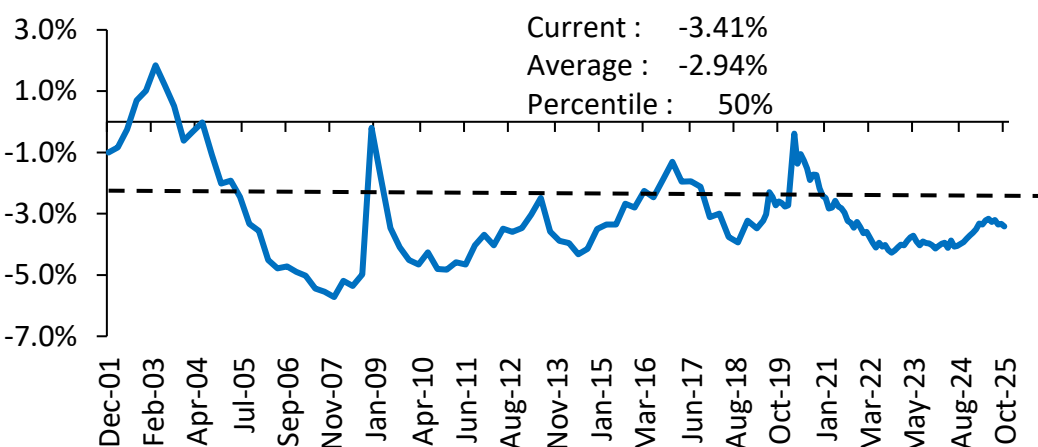
Earnings yield to bond yield spread has corrected



Shiller PE ratio stood at 32.1 in Oct'25 vs. 30.9 in Sep'25



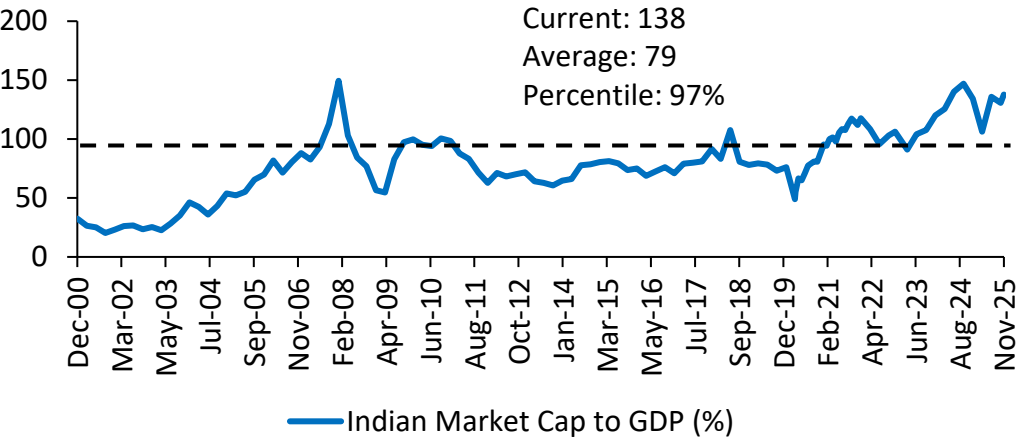
Shiller earnings yield to bond yield spread has corrected



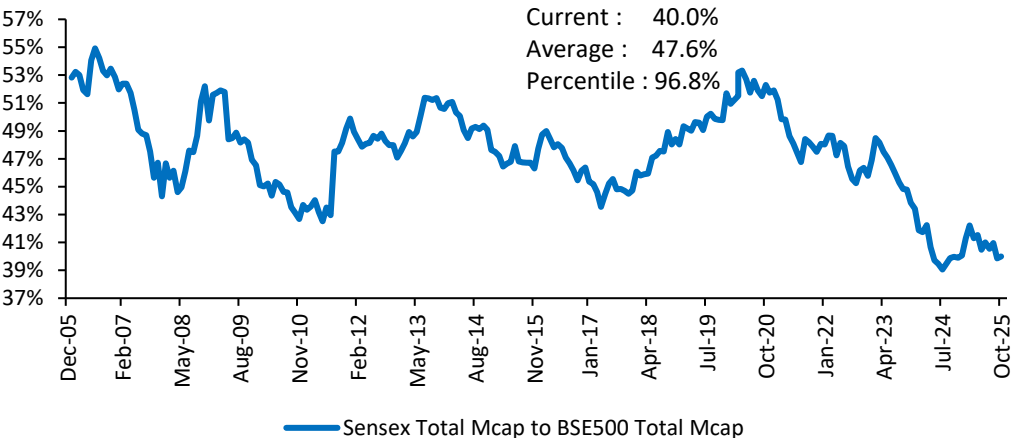
Source: Bloomberg, SBIMF Research

Polarization remains low, remains favorable towards large caps

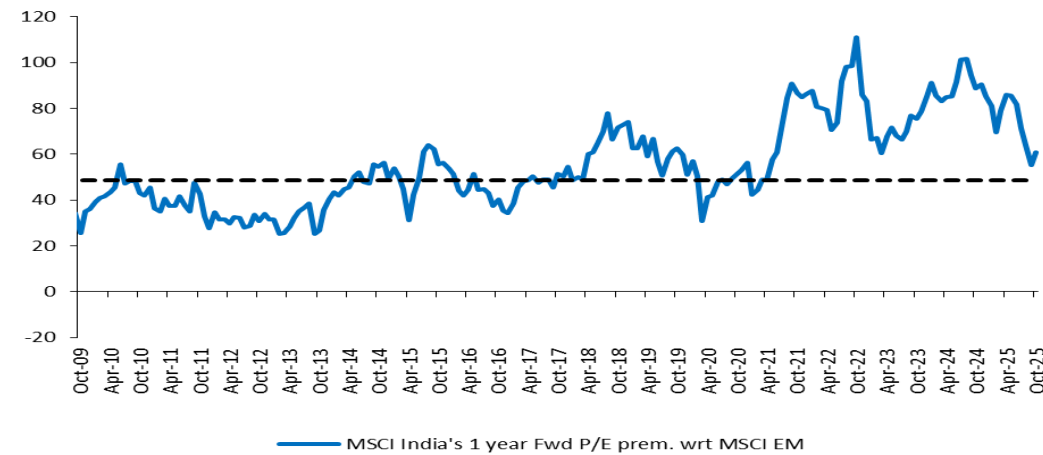
Market capitalization/GDP expensive vs. history at 97th percentile reading



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

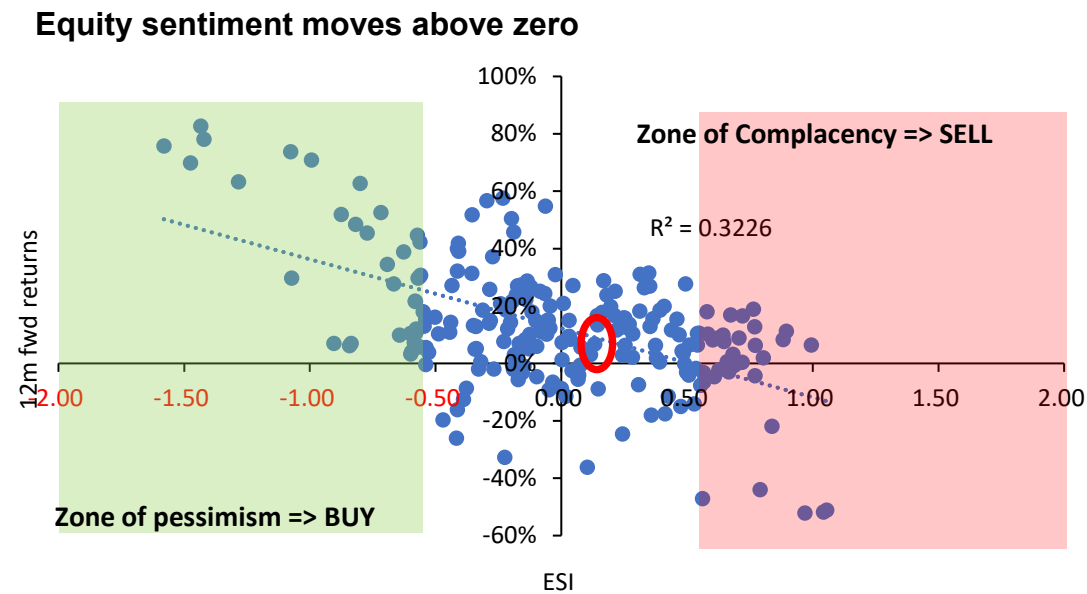
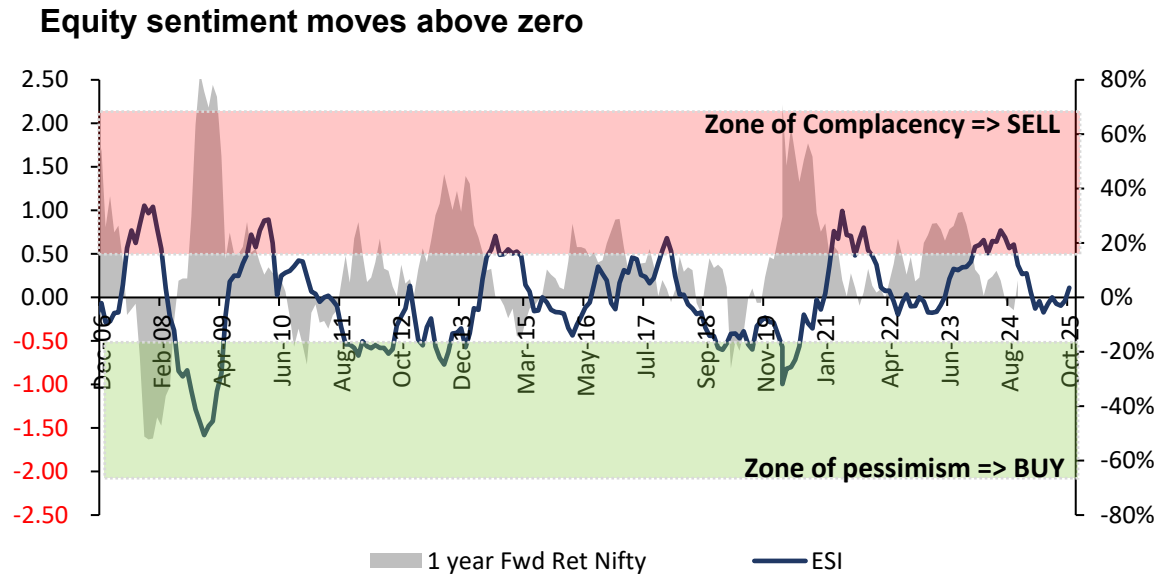


MSCI India's valuation premium relative to EM improves marginally in October



- 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.

Equity market sentiment moves above zero



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

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

- Indian equities saw an improvement in October with GST rates rationalisation providing some support though adverse trade tariff outcomes weigh on the markets.
- The Nifty and the Sensex gained by ~4.5% each respectively for the month. On a 12-month basis, India's underperformance is starker with MSCI India index marginally declining versus close to 26% gain for MSCI EM Index (both dollar returns) thus reversing part of the outperformance of the past few years.
- This has come against the backdrop of continued dollar weakness which has otherwise energized Emerging Market Equities and Commodities and related plays (led by, but not limited to, precious metals) after several years of underperformance.
- On a longer timeline, EM assets as well as commodities may have a lot more to catch up in the context of several years of relative underperformance. From a fund flow perspective, incremental flows may indeed look for alternative destinations as the US exceptionalism fades away.
- In response to the adverse external developments, especially around US tariffs, Indian government has sought to soothe the economic impact by revitalizing consumption, amongst other measures. This should be a big, direct boost to consumption and several other pockets of the economy consequently. This initiative follows earlier steps to stimulate demand, including personal income tax cuts and easing retail lending norms.
- While the government is likely to continue engaging in trade negotiations with the US, it may also pay to increase diversification to other countries given US' share in global trade is likely to continue declining as it addresses its large trade deficit.
- To conclude, the current adversity provides us with opportunity for transformational reform, and the process appears to have begun. Equity view stays neutral supported by neutral valuations (as measured on equity earnings yield to bond yield spread) and neutral sentiment (as measured on our proprietary equity sentiment index).

FIXED INCOME MARKET

Global Bond Market Snapshot

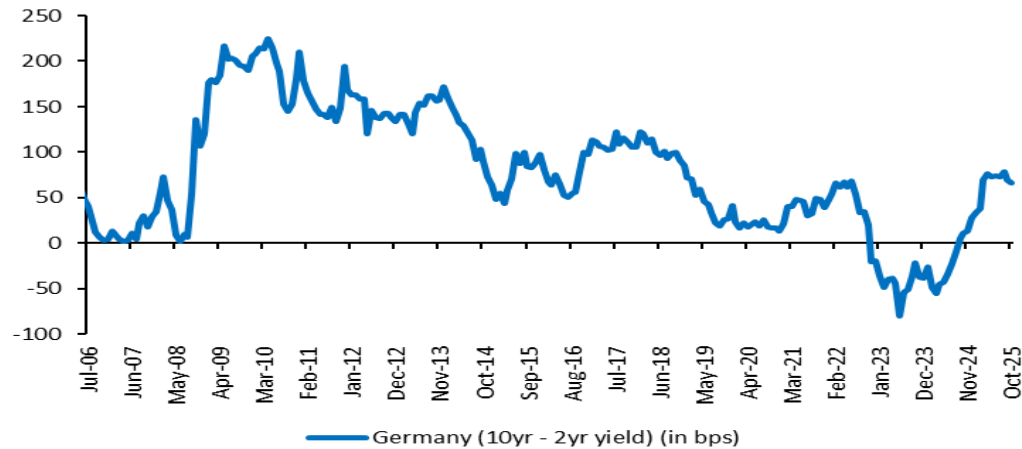
US treasury yields moderate m-o-m amidst weakness in labour market data and rate cut; EM bond yields see a mixed performance

10 Year Gsec Yield (% mth end)	2023 end	2024 end	Jul-25	Aug-25	Sep-25	Oct-25	m-o-m change (in bps)	YTD change (in bps)
Developed market								
US	3.88	4.57	4.37	4.23	4.15	4.10	-5	-47
Germany	2.02	2.37	2.70	2.72	2.71	2.64	-7	28
Italy	3.70	3.52	3.51	3.59	3.53	3.40	-14	-12
Japan	0.61	1.10	1.56	1.60	1.65	1.66	2	56
Spain	2.99	3.06	3.28	3.33	3.26	3.15	-11	9
Switzerland	0.70	0.33	0.36	0.31	0.22	0.16	-7	-17
UK	3.54	4.57	4.57	4.72	4.70	4.42	-27	-14
Emerging Market								
Brazil	10.37	15.16	14.07	13.93	13.72	13.87	15	-129
China	2.56	1.68	1.71	1.79	1.87	1.79	-8	12
India	7.17	6.76	6.37	6.57	6.58	6.47	-11	-29
Indonesia	6.45	6.97	6.55	6.34	6.35	6.05	-30	-92
South Korea	3.18	2.87	2.79	2.81	2.94	3.06	12	18
Malaysia	3.73	3.81	3.37	3.39	3.46	3.50	4	-32
Thailand	2.68	2.25	1.50	1.29	1.42	1.70	28	-55
Turkey	25.06	29.04	31.62	31.23	31.39	31.79	40	275
Mexico	8.95	10.44	9.41	8.98	8.83	8.85	2	-159
Poland	5.20	5.89	5.48	5.53	5.47	5.40	-7	-49
Colombia	9.96	11.86	11.92	11.35	11.34	11.68	34	-18
Hungary	5.86	6.55	7.18	7.09	6.80	6.81	1	26

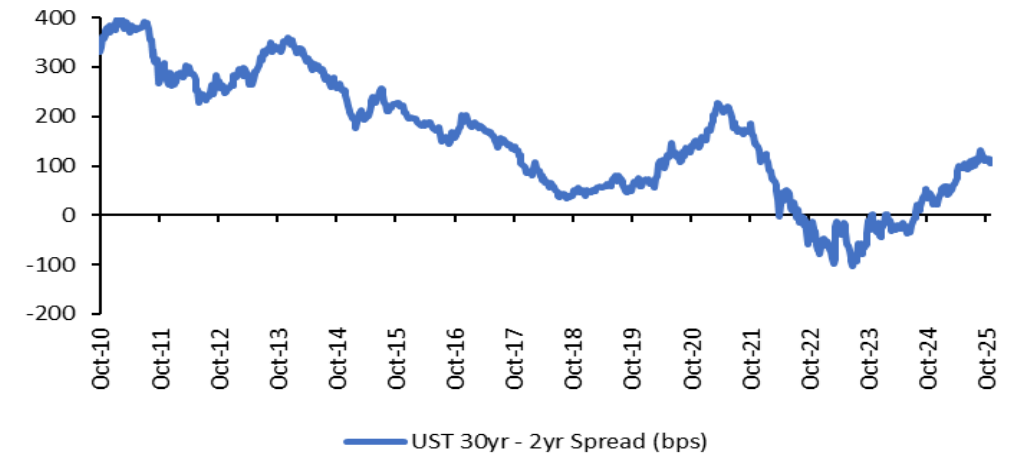
- 10 Year UST moderated m-o-m in October, but ranges in 4.10-4.6%
- EM bond yields depict mixed performance m-o-m.

Yield curve steepens across major developed markets

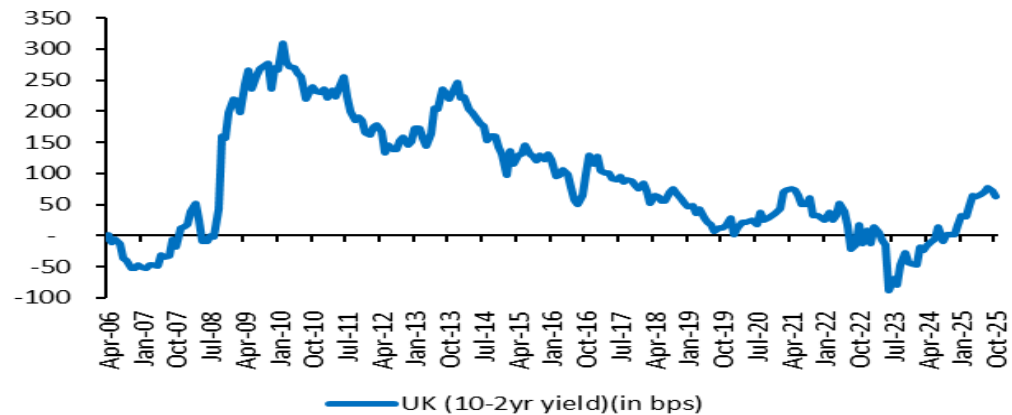
Germany yield curve steepens



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



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.

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

Yields moderate across all asset classes m-o-m

	2023 end	2024 end	Aug-25	Sep-25	Oct-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	5.64	5.61	5.58	-3	-111
3M T-Bill	6.93	6.55	5.51	5.47	5.46	-2	-109
3 year GSec	7.07	6.73	5.62	5.67	5.60	-6	-113
5 year GSec	7.09	6.72	6.02	5.88	5.85	-4	-87
10 year GSec	7.18	6.79	6.60	6.57	6.47	-10	-33
3 Yr Corp Bond*	7.78	7.58	7.02	6.87	6.85	-2	-72
5 Yr Corp Bond*	7.79	7.46	7.09	6.92	6.95	3	-51
10 Yr Corp Bond*	7.76	7.24	7.39	7.29	7.27	-1	3
1 Yr IRS	6.64	6.51	5.52	5.45	5.48	3	-103
5 Yr IRS	6.19	6.20	5.78	5.74	5.69	-5	-51
Overnight MIBOR Rate	6.90	7.15	5.54	5.74	5.69	-5	-146
10 year SDL	7.65	7.15	7.41	7.26	7.19	-7	4
INR/USD	83.21	85.61	88.21	88.79	88.77	-0.02^	-3.7^
Crude oil Indian Basket**	77.43	73.34	69.11	69.61	64.98	-6.7^	-11.4^

- Bond yields moderate across short and long tenure asset classes.
- SDL yields moderated m-o-m.
- Rupee is flat m-o-m in October 2025.
- Oil prices moderated m-o-m by ~7%.

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
31-Oct-24	6.51	6.56	6.54	6.61	6.71	6.77	6.75	6.81	6.78	6.83	6.82	6.85	6.87	6.98
30-Nov-24	6.47	6.65	6.60	6.69	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	6.58	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	6.66	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	6.55	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	6.44	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	6.01	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	5.69	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	5.57	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	5.43	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	5.49	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	5.37	5.67	6.14	5.88	6.42	6.24	6.65	6.41	6.58	6.87	7.20
31-Oct-25	5.45	5.57	5.57	5.10	5.60	6.08	5.85	6.42	6.21	6.60	6.35	6.47	6.89	7.21
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
31-Oct-24	11	8	-1	-4	5	10	8	12	9	10	12	10	8	9
30-Nov-24	-4	9	6	8	-4	-8	-7	-7	-4	-5	1	-7	-1	3
31-Dec-24	7	3	8	-11	4	3	4	3	2	3	-2	1	0	0
31-Jan-25	1	-5	-11	8	-9	-9	-10	-7	-10	-7	-11	-4	-3	2
28-Feb-25	-8	-8	-4	-11	-2	0	-3	2	2	5	1	4	8	11
31-Mar-25	-13	-6	-9	-12	-19	-19	-15	-22	-20	-20	-19	-20	-22	-23
30-Apr-25	-45	-57	-54	-43	-42	-36	-39	-35	-37	-26	-36	-23	-24	-12
31-May-25	-29	-31	-30	-32	-23	-20	-31	-14	-24	-9	-17	-7	-3	5
30-Jun-25	-23	-11	-8	-11	-8	12	13	21	22	14	26	4	25	23
31-Jul-25	2	0	4	-14	-8	-0.6	-0.1	-2	-2.8	4	-1.4	5	-1	-1
31-Aug-25	9	8	3	5	0	29	14	31	27	25	25	19	31	25
30-Sep-25	-8	-7	-3	-11	5	-14	-13	-9	-10	-3	-7	1	-10	-10
31-Oct-25	5	6	1	-28	-6	-6	-3	-1	-3	-5	-6	-11	2	2
Change in YTD (in bps)	-109	-111	-111	-148	-112	-64	-87	-35	-55	-22	-46	-32	2	21

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

Centre's tax collections muted

Cumulative Apr-Sep FY26	% y-o-y	Budgeted growth based on FY25 actuals	Required in remaining months
Net Tax Revenue	-2.8	13.5	30.3
Gross Tax Revenue	2.8	12.5	21.4
Income Tax	4.7	13.1	24.3
Corporate Tax	1.1	13.0	17.2
Custom	-5.2	5.8	10.8
Excise duties	8.1	5.0	3.7
GST	3.2	11.6	25.2
Total Direct Tax	3.1	13.1	21.0
Total Indirect Tax	2.7	9.4	18.6

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

Cumulative growth (b/w Apr-Sep)-%	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Gross fiscal Deficit	10	40	-42	18	13	-32	21
Total expenditure	14	-1	10	12	16	0	9
Revenue expenditure	14	1	6	6	10	4	2
Capital expenditure	15	-12	38	50	43	-15	40
Total Receipts	18	-32	94	10	18	16	6
Net Tax revenue	4	-25	101	10	15	9	-3
Non-tax revenue	92	-56	74	-2	50	51	30
Non-debt capital receipts	16	-29	24	89	-41	-28	138
Net market borrowings	43	132	-57	34	-42	-18	26

Centre’s fiscal deficit reached 37% of the full-year budget estimate significantly higher than the typical 27–33% historically..

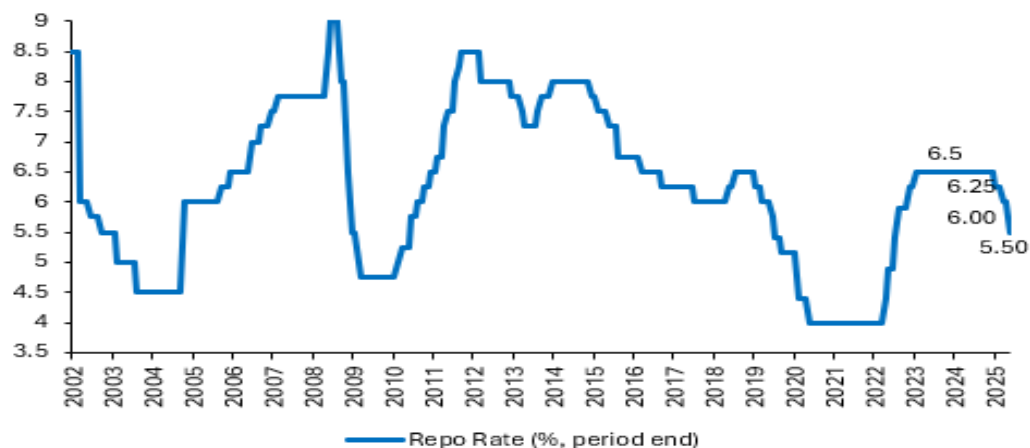
Key Fiscal Indicators - Central Government Finances							
Actual (as % of BE)- (Apr-Sep)	FY20	FY21	FY22	FY23	FY24	FY25	FY26
1 Non-debt Receipts	40	25	56	53	52	51	49
a. Tax Revenue (Net)	37	28	60	52	50	49	43
b. Non-tax Revenue	67	24	66	58	78	65	80
c. Non-Debt Capital Receipts	17	7	10	43	24	19	46
2. Expenditure	53	49	47	46	47	44	45
a. Revenue Account	53	50	48	46	47	46	44
b. Capital Account	55	40	41	46	49	37	52
3. Fiscal Deficit	93	115	35	37	39	29	37
4. Net Market Borrowing	113	218	52	57	33	26	33

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

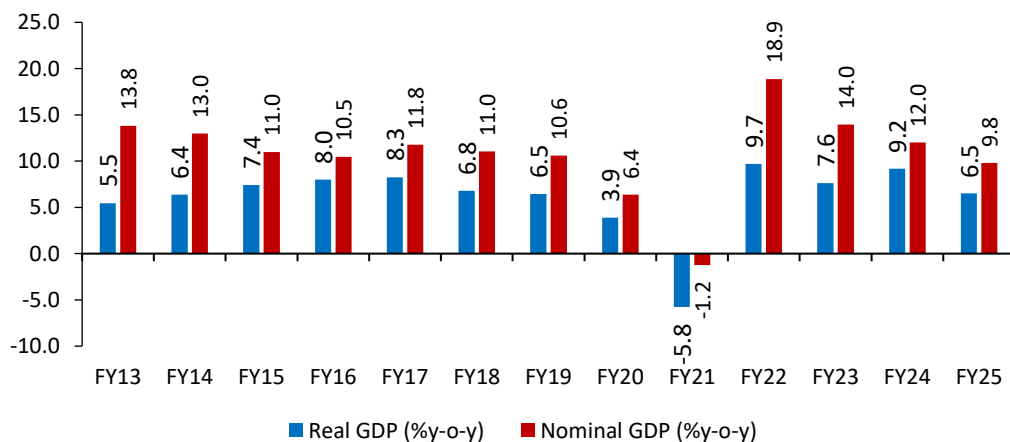
Capex by Key Ministries/ Dept (Rs. Bn)	Amount Spent FY26 (Apr-Sep)	BE	Actual Spend (% BE)
Total Capex	5,807	11,211	52
Defence	965	1,924	50
State Capex loan	571	1,706	33
Road	1,711	2,722	63
Railways	1,433	2,520	57
Telecom (mainly equity infusion)	179	518	35
Housing and Urban affairs	138	376	37
New Schemes under DEA	11	466	2
Petroleum & Natural Gas	1	66	2
Others	798	912	88

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



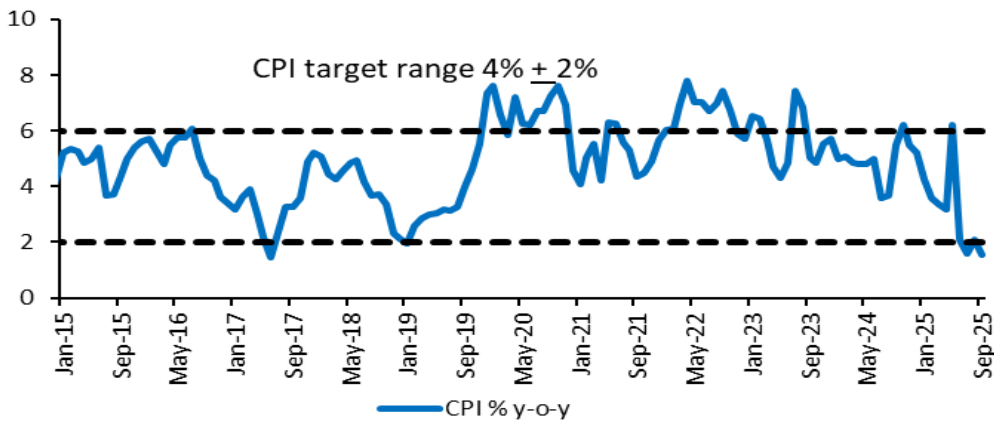
Nominal and real GDP growth



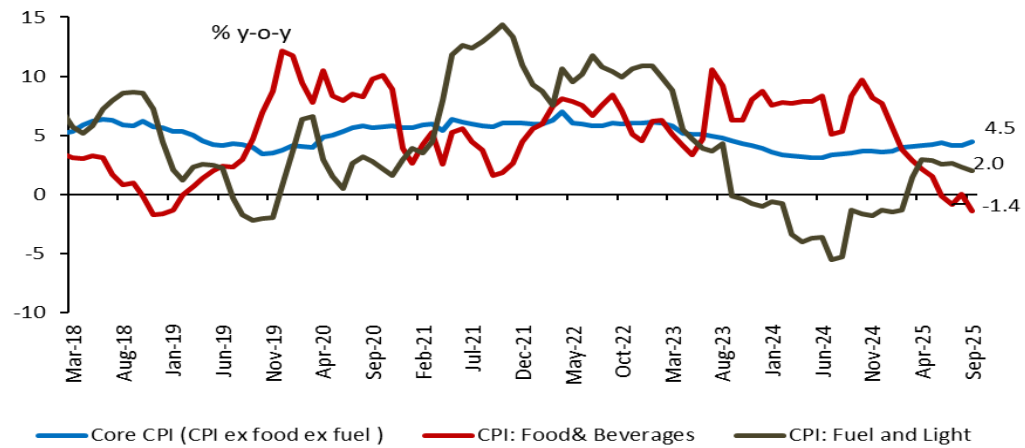
- The Monetary Policy Committee kept the Repo unchanged at 5.50% (cumulative 100bps cut; SDF rate at 5.25%, MSF rate at 5.75%) in line with market expectations. The stance was unchanged at neutral.
- Growth projections for FY26 were revised upward by 30bps to 6.8%. The first half of FY26 will likely reflect a base effect due to lower government spending.
- India's retail inflation outlook was revised downward to 2.6% in FY26 (from 3.1% in August policy) citing lower food prices and the impact of GST reductions. Creates an enabling environment to take growth supportive measures.
- The policy outcome was broadly in line with expectations and conveyed a more dovish tone from the RBI. The recent GST rate cuts and subdued inflation have created room for further incremental rate cuts.
- The immediate challenge lies not in the RBI's stance but in the heavy government bond supply overhang, which is contributing to elevated spreads. The early adoption of a neutral stance, coupled with increased supply of State Development Loans (SDLs), particularly at the longer end, has likely reversed transmission in the G-sec market — an issue that warrants attention.
- The RBI and government have adjusted the G-sec issuance to address near-term concerns. However, it does not resolve longer-term issues related to demand mismatches and SDL duration.
- Overall, today's policy was marginally supportive for the bond market. Technical challenges aside, the prospect of further rate cuts may help ease pressure on spreads.

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

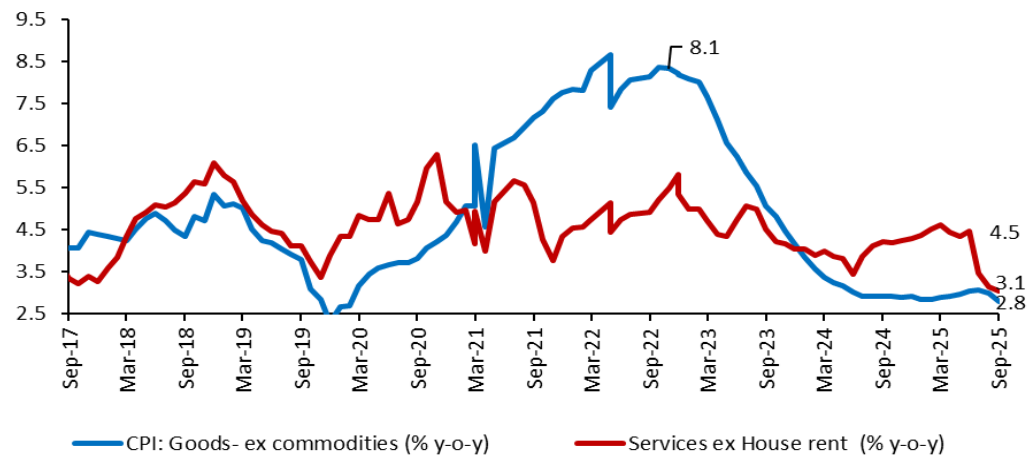
India's headline inflation is benign at 1.5% y-o-y in September 2025



Material softening in food inflation



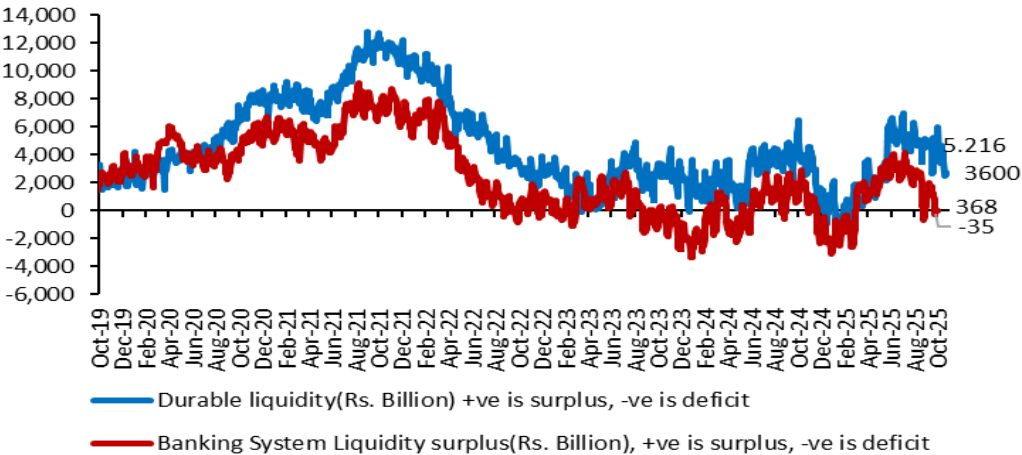
Goods and services inflation likely to be contained



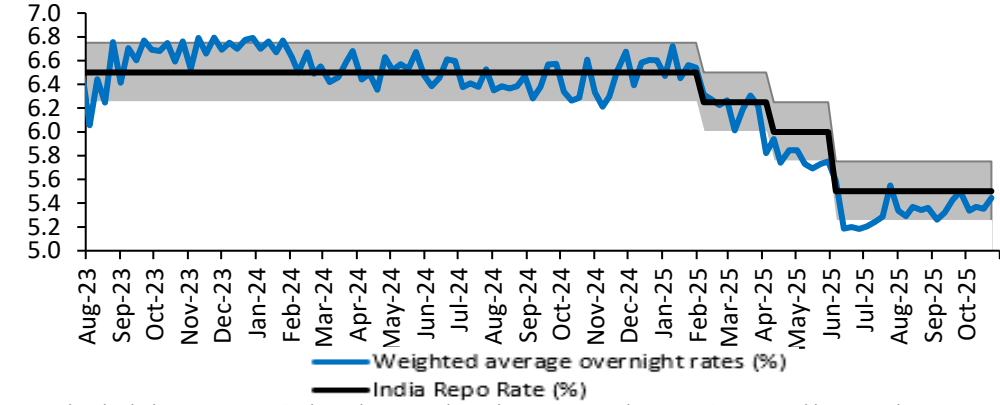
- India's retail inflation outlook creates an enabling environment to take growth supportive measures.
- The Consumer Price Index (CPI) for September registered at 1.5% y-o-y, in line with market expectations.
- CPI print through most of FY26 expected to be below 4%.
- This suggests a lack of significant 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%).

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

Banking system liquidity goes to neutral levels by end October;
Durable liquidity moderates too to 3.6tn (vs. 5tn a month ago)



Overnight rate anchor near repo rate

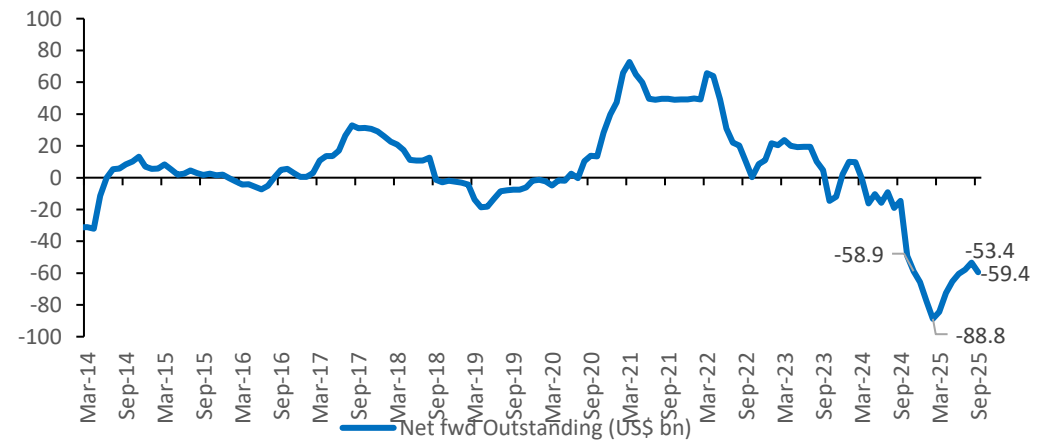


Note: The shaded area represents the policy corridor- where upper end represents MSF and lower end represent reverse repo rate followed by SDF

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

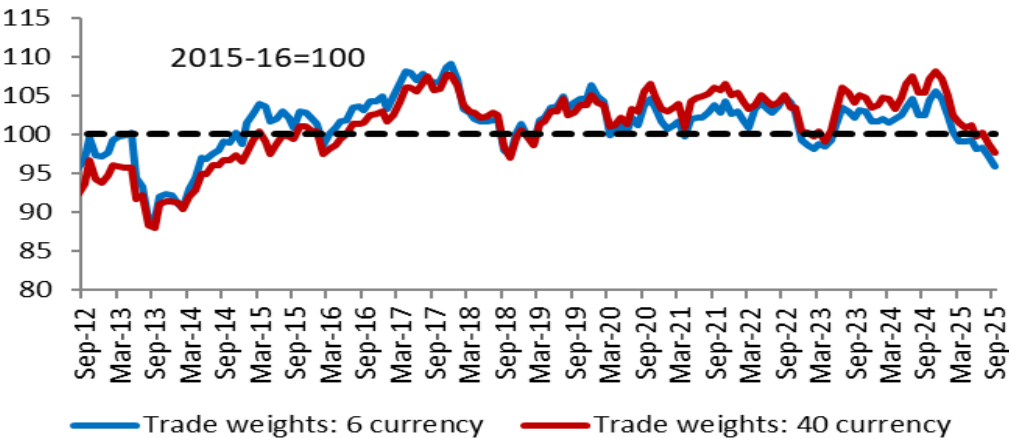
Liquidity management measures by RBI since Dec-24	INR tn
Repo rate cut by 100bps cumulatively	
Reduction in risk weights to lending towards SME & MFI	
Easing in earlier proposed stringent LCR Norms	
Relaxation of priority sector lending norms	
CRR cut by 150bps (100bps cut in four equal tranches from 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

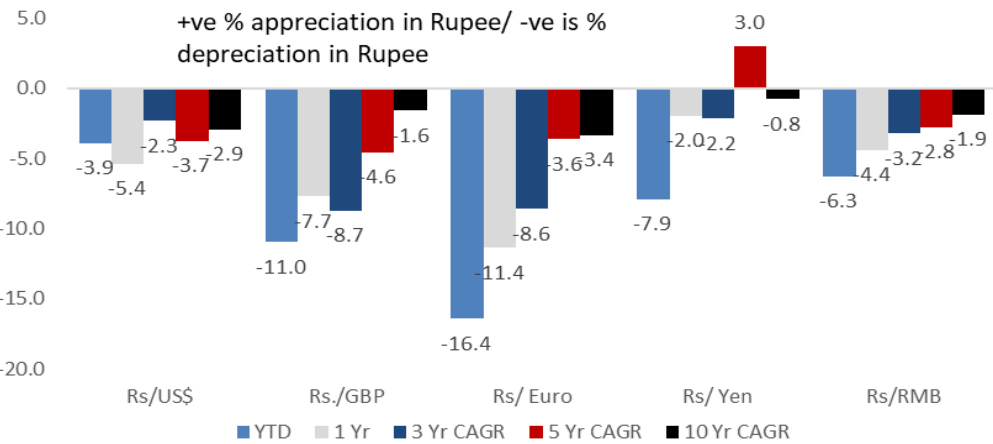


Indian rupee is marginally undervalued at 88/ US\$.

Rupee is marginally undervalued



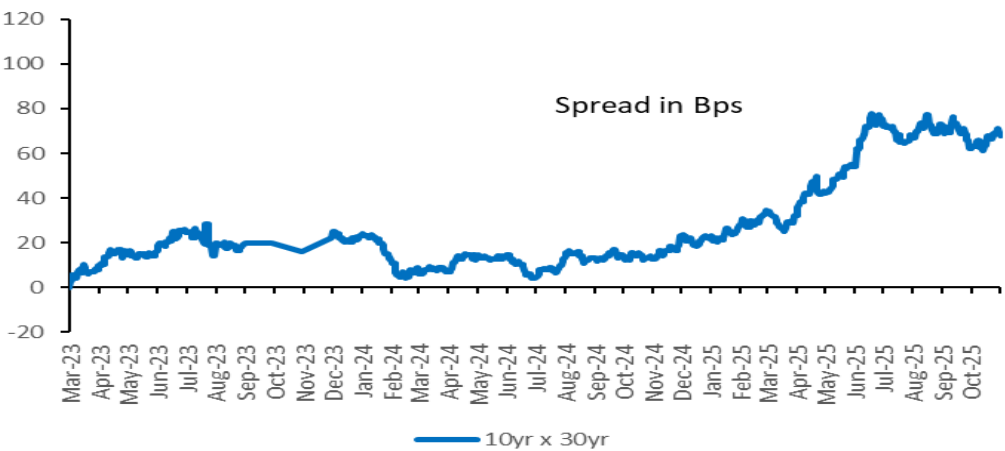
Annual depreciation trends ~3% in last 5 years



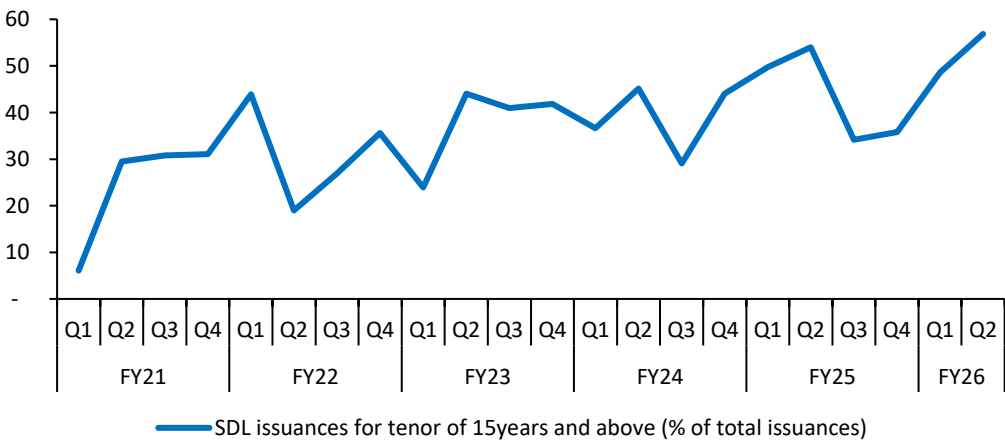
- The Indian Rupee breached the ₹88 mark in August, depreciating 3.9% year-to-date. Among emerging market currencies, the rupee stands out as a rare underperformer, while most others have strengthened against the dollar. This weakness is largely attributed to foreign investor outflows from equities, 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.

Yields rise in longer dated Indian Government bonds

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



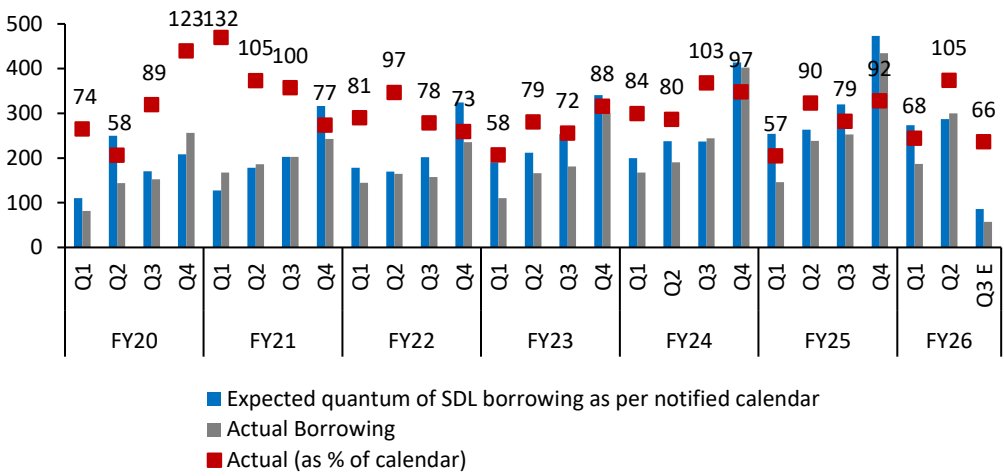
Incremental demand in government securities is mainly absorbed by RBI; lack of demand from pension, provident funds and banks

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

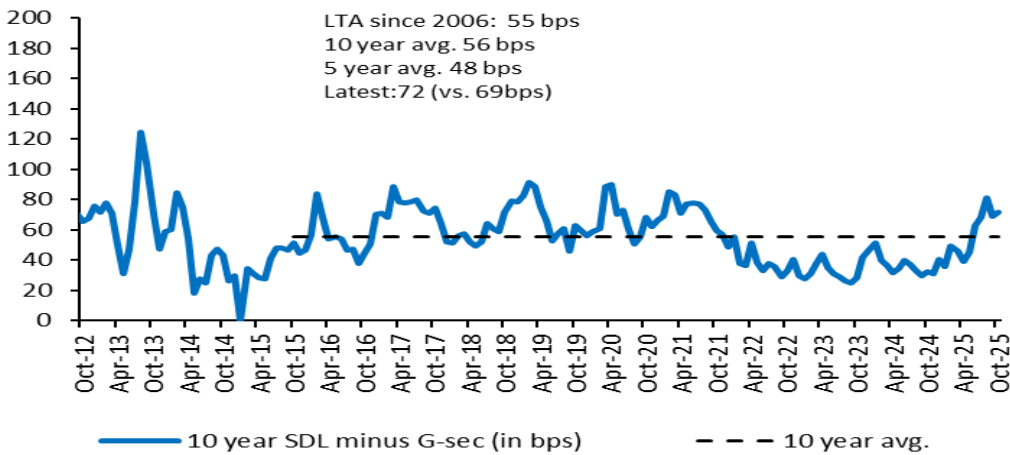
- The weakness in bank and insurance demand and a preference for equities coupled with fading away of OMO purchases from June onwards may have contributed to higher spreads in the longer end as it disturbs the demand supply equation.
- SDL issuances have been skewed to longer duration most likely to 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.

SDL issuances see a significant pick up in Q2FY26; spreads elevated

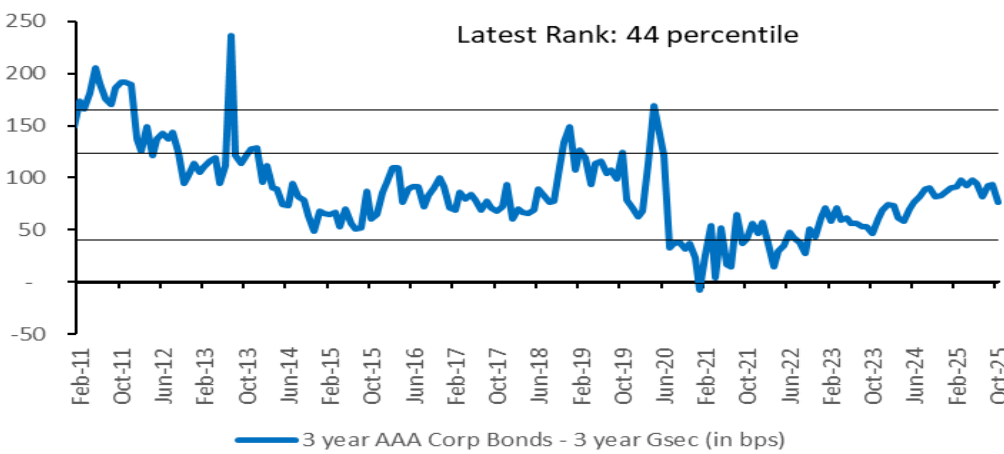
SDL issuances at 84% of their indicated calendar amount FYTD



SDL spreads remain elevated



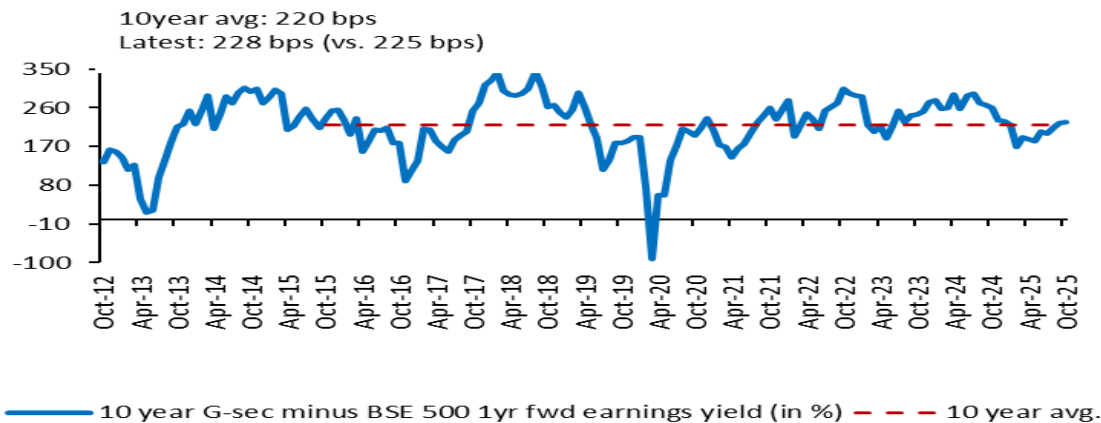
Corporate bond spreads continue to be elevated



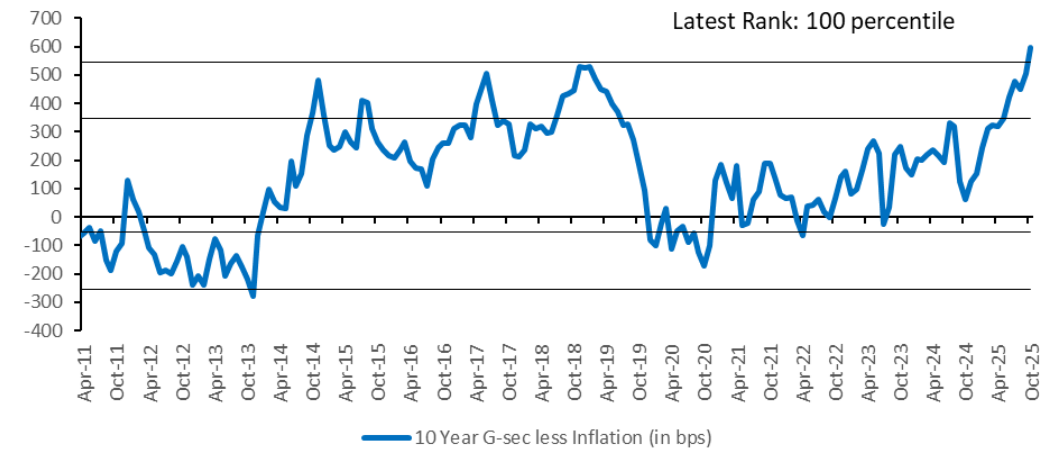
- SDL issuances marginally exceed calendar amount for Q2 FY26, with issuances at Rs.3tn (vs. calendar of ~2.9tn)
- SDL spreads elevated in Q2 with an increase in SDL issuances.
- Corporate bond spreads elevated.

Indian G-sec valuations: neutral to marginally attractive

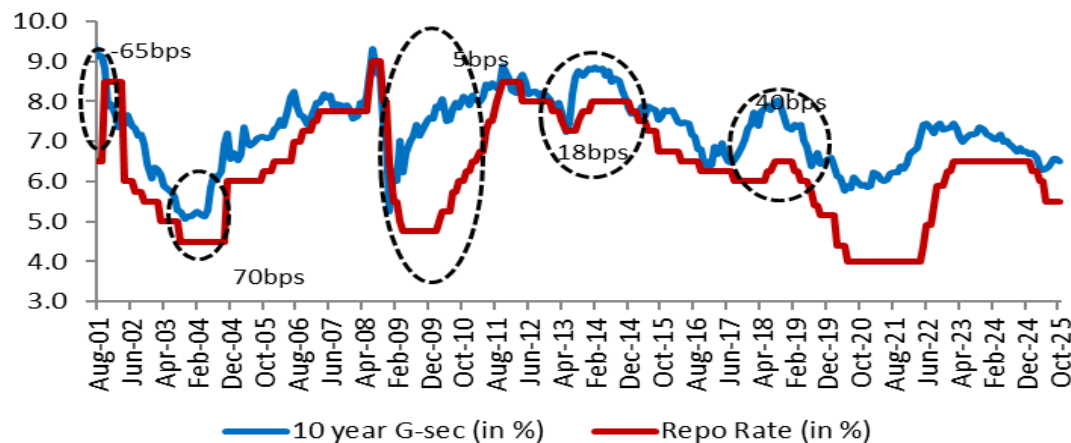
G-sec spread vs. equity turns neutral



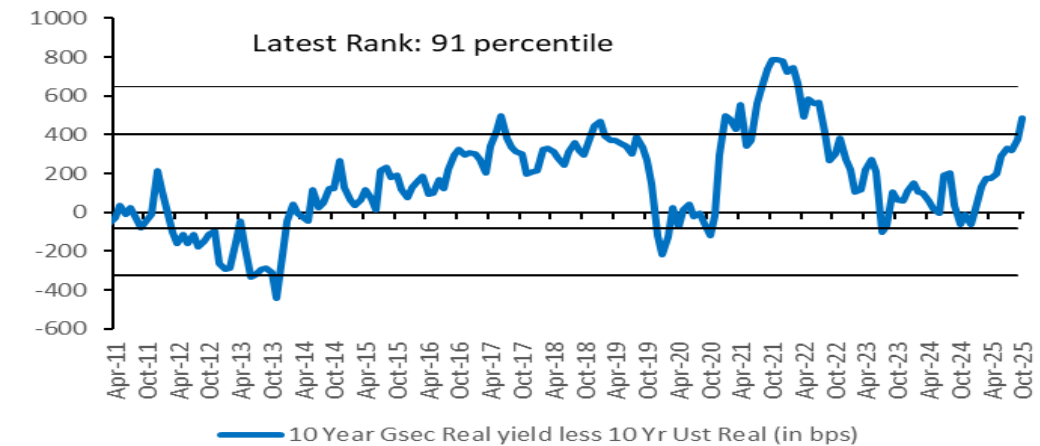
Real rate turns positive



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



FII's interest in Indian bonds sees a marginal rise

FII's buy India's Debt assets since May 2025

EM FII Debt inflow US\$ million	2023	2024	Jul-25	Aug-25	Sep-25	Oct-25
South Korea	60,647	43,139	9,258	3,083	7,236	2,601
India	8,445	16,832	120	1,747	1,218	1,798
Thailand	319	(1,092)	(60)	(145)	219	529
South Africa	(17,598)	(6,307)	(762)	126	442	41
Ukraine	(387)	(548)	(10)	(17)	(23)	(45)
Indonesia	5,142	3,180	1,047	1,050	(2,529)	(1,585)
Mexico	5,019	2,090	(502)	(572)	(1,353)	(1,791)
Poland	9,054	23,948	4,901	729	-	-
Czech Republic	(2)	14	3	(0)	-	-
Philippines	3,073	3,461	1,310	(813)	923	-
Bulgaria	1,941	2,462	2,732	(74)	-	-
Malaysia	3,767	275	(1,238)	666	(884)	-
Russia	-	-	-	-	-	-
Brazil	(9,996)	(17,387)	1,275	(2,833)	-	-
China	24,758	56,219	(38,235)	(13,821)	-	-

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, Sep'25)	CPI Inflation Sep'25	Real Rate (% , 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Sep 2025	10 year G-sec yield adjusted for 12m fwd premium (in %)- Sep 2025
Brazil	13.7	5.2	8.5	5.8	7.9
Colombia	11.3	5.2	6.2	9.3	2.0
South Africa	9.2	3.4	5.8	6.8	2.4
Mexico	8.8	3.8	5.1	7.7	1.1
India	6.6	1.5	5.0	2.3	4.3
Philippines	6.0	1.7	4.3	4.7	1.3
Indonesia	6.4	2.7	3.7	4.9	1.5
Poland	5.5	2.9	2.6	4.4	1.1
Hungary	6.8	4.3	2.5	6.1	0.7
China	1.9	-0.3	2.2	1.5	0.4
Thailand	1.4	-0.7	2.1	1.4	0.0
Malaysia	3.5	1.5	2.0	2.7	0.8
South Korea	2.9	2.1	0.8	2.0	0.9
Taiwan	1.4	1.3	0.1	1.2	0.2
Turkey	31.4	33.3	-1.9	38.0	-6.6

Data sorted by real yield

Debt Outlook: Near-term fundamentals dictate favorable outlook

- The 10-year U.S. Treasury yield has remained near 4%. U.S. rate cuts will likely steepen the yield curve over time. Any short-term easing in benchmark rates are unsustainable given the backdrop of elevated inflation, potentially weaker growth, and concerns around the independence of key regulatory institutions.
- Coming to Indian government bond market, there is a clear demand-supply mismatch. Demand from key institutional investors such as pension funds, banks, insurance companies, the RBI, and FPIs (who were active buyers last year) appears to be weakening.
- In the auction calendar, the RBI and government make short-term adjustments to align with market demand. However, it doesn't resolve the longer-term issues around demand mismatch and SDL duration. Nonetheless, the near-term outlook appears more constructive.
- The RBI continues to maintain a balanced stance, but the short-term demand-supply mismatches remain. Previous rate cuts and liquidity infusions were aimed at improving transmission, especially in loan markets. However, transmission is now reversing, possibly due to market dislocation or waning confidence.
- Tariffs and global trade disruptions continue to weigh on India's growth outlook. Nominal GDP prints are tracking below the RBI's projections, pointing to a softer economic trajectory. .
- Banking system liquidity saw a sharp moderation in October, primarily due to increased FX selling by RBI during the month. When adjusted for the government's cash balances, durable liquidity in the banking system moderated too to hover near 3.5-4tn from 5tn a month ago. Continued FX selling and rise in CIC leakage in Q4 could completely offset liquidity infusion by 100bps CRR cut and could likely lead to RBI OMO purchase in the last quarter.
- Inflation is projected to hover around 3% through FY26.
- Against this backdrop, we are tactically adding duration exposure, anticipating near-term support from policy and market adjustments.

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