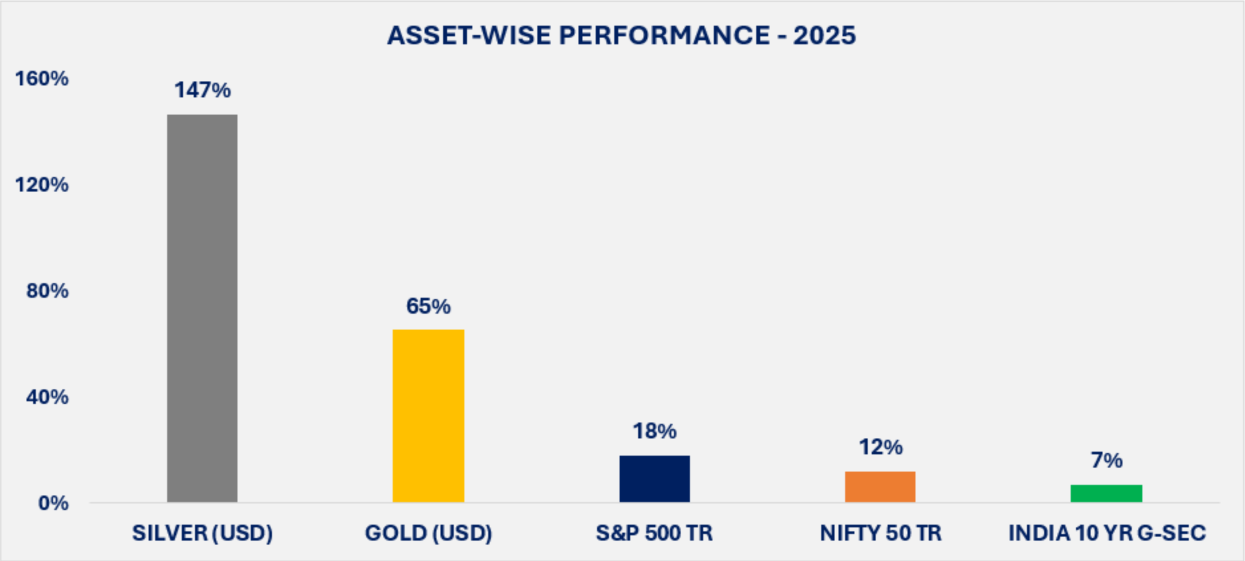
**7th JANUARY 2025**

Indian and US capital markets endured a turbulent 2025 marked by aggressive central bank rate cuts early in the year, President Trump's inauguration-triggered tariffs up to 50% on select imports including from India, dramatic surges in gold and silver as safe-haven assets amid geopolitical tensions, a dollar index (DXY) plunge of over 10% in the first half followed by gradual stabilization, rising US inflation complicating Fed policy decisions, massive FII outflows from India offset by record DII inflows, pronounced yield curve movements with initial steepening then flattening, and rollercoaster equity indices – from early highs, mid-year corrections on tariff fears, to year-end recoveries.




Source: Niftyindices.com & Investing.com (Data as on 31st December 2025)

December 2025 brought year-end rallies in India with Nifty and Sensex gaining amid small/midcap strength, while US indices diverged sharply, the Dow suffering its worst December in years due to industrial drags. Pivotal events included prolonged US-India trade talks yielding partial tariff exemptions for pharma/IT but hikes on autos/steel impacting sentiment, India's strong Q2FY26 GDP growth at 8.2% exceeding estimates and signalling manufacturing resurgence, shifting interest rate expectations toward pauses, and blockbuster earnings from select Indian IT/financials alongside US tech giants.

## EQUITIES:

**INDIA:** Nifty 50 declined slightly in December 2025 by 0.28%; however, the month-end level of 26,129 brings its CY2025 return to +10.5%. On a monthly basis, Metals (+8.5%), Oil & Gas (+1.6%), Auto (+1.5%) and IT (+1.3%) sectors were the top performers this month while Consumer Durables (-3%), Realty (-2.8%), Healthcare (-2.6%) underperformed. In CY2025, Metals (+26.7%), Auto (+24.3%), Financial Services (+17.4%), Banks (+16.3%), Oil & Gas (+13.8%) and Infrastructure (+13.1%) sectors were the top performers this year; conversely, Realty (-18.3%), IT (-13.2%), Consumer Durables (-11.5%), FMCG (-1.7%), Energy (+0.7%), and Healthcare (+1.2%) underperformed.

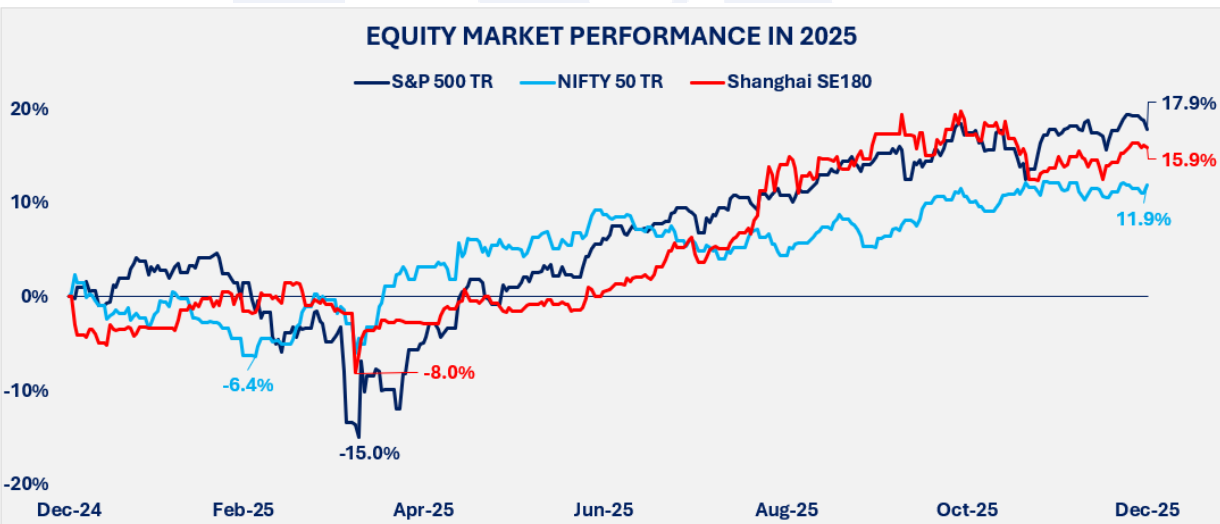
Midcaps and Smallcaps ended December 2025 marginally lower with Midcap 150 and Smallcap 100 declining by 0.53% and 0.64% respectively; while Midcap 150 rose by 5.4% in CY2025, Smallcap 100 fell by 5.6% as they struggled to recover from a bear market earlier this year. FIIs recorded net outflows of ₹23,824 Cr in December 2025 totalling a net outflow of ₹1,65,635 Cr in CY2025 as valuations remain elevated with muted earnings growth. However, DIIs continued to provide support with net inflows of ₹32,629 Cr for the month, resulting in cumulative net inflows of ₹4,95,600 Cr. Exiting FIIs have also further sped up depreciation of the rupee bringing the USD/INR rate to ₹90 by the end of the year – leading to muted returns in dollar terms.

| INDICES | CURRENT | 10 YR MEDIAN | AVERAGE (SI) | COMMENT |
|---|---|---|---|---|
| NIFTY 50 (PE) | 22.8 | 23.4 | 21.0 | FARILY VALUED |
| NIFTY 50 (PB) | 3.6 | 3.7 | 3.6 | UNDERVALUED |
| NIFTY 50 (DIVIDEND YIELD) | 1.3 | 1.3 | 1.4 | OVERVALUED |
| NIFTY MIDCAP 150 (PE) | 33.6 | 33.9 | 31.1 | FARILY VALUED |
| MIDCAP 150 (PB) | 4.5 | 3.5 | 3.0 | OVERVALUED |
| MIDCAP 150 (DIVIDEND YIELD) | 0.8 | 1.0 | 1.2 | OVERVALUED |
| SMALLCAP 100 (PE) | 32.2 | 32.9 | 43.8 | UNDERVALUED |
| SMALLCAP 100 (PB) | 3.8 | 3.5 | 3.0 | OVERVALUED |
| SMALLCAP 100 (DIVIDEND YIELD) | 0.8 | 0.9 | 1.1 | OVERVALUED |
| S&P 500 (PE) | 29.3 | 25.2 | 20.3 | OVERVALUED |

*Data as on 31-December-2025*

As of December 31st, Nifty 50 traded at a PE ratio of 22.8, above its all-time average of 21x but still below its 10-year median of 23.4x; Nifty Midcap 150 traded at a PE of 33.6x, exceeding its all-time average of 31.1x although slightly below its 10-year median of 33.9x.

**U.S.**: US equity markets ended CY2025 on a high note after a volatile year. US President's global trade tariffs sent shockwaves through markets in the spring. However, mid-year saw US market hit record highs fuelled by strong company profits and confidence in AI investments. Nasdaq 100 (-0.73%), S&P 500 (-0.05%) and Dow Jones (+0.73%) exhibited some volatility in December 2025 ending the month at 25,249, 6,845 and 48,063 respectively. S&P 500 and Dow Jones yet again touched all-time highs of 6,932 and 48,731. Enthusiasm among investors about massive AI spending has helped several tech firms outperform the broader S&P 500. The indices exhibited stellar growth in CY2025 – Nasdaq 100 (+20%), S&P 500 (+16%) and Dow Jones (+13%). With this strong performance, valuations remain high with Nasdaq 100 currently trading at 33.6x PE compared to the 10-year average of 26.4x and S&P 500 trades at 29.3x PE compared to 10-year average of 25.2x.




Source: Niftyindices.com & Investing.com (Data as on 31st December 2025)

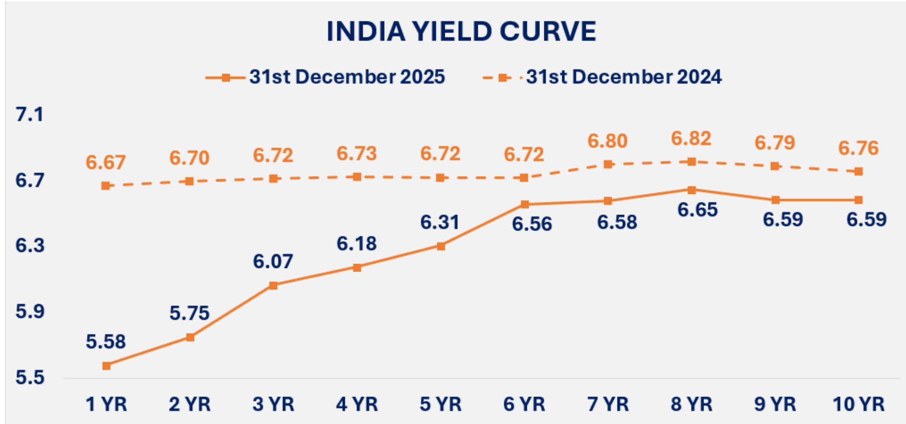
## FIXED INCOME:

| BOND YIELD | CURRENT | 10 YR AVERAGE | AVERAGE (SI) | COMMENT |
|---|---|---|---|---|
| 1 YEAR | 5.58% | 6.00% | 6.60% | OVERVALUED |
| 2 YEAR | 5.75% | 6.22% | 6.80% | OVERVALUED |
| 3 YEAR | 6.07% | 6.41% | 7.00% | OVERVALUED |
| 4 YEAR | 6.18% | 6.59% | 7.10% | OVERVALUED |
| 5 YEAR | 6.31% | 6.67% | 7.20% | OVERVALUED |
| 6 YEAR | 6.56% | 6.83% | 7.40% | OVERVALUED |
| 7 YEAR | 6.58% | 6.91% | 7.40% | OVERVALUED |
| 8 YEAR | 6.65% | 6.98% | 7.50% | OVERVALUED |
| 9 YEAR | 6.59% | 6.97% | 7.50% | OVERVALUED |
| 10 YEAR | 6.59% | 6.87% | 7.40% | OVERVALUED |

*Data as on 31-December-2025*

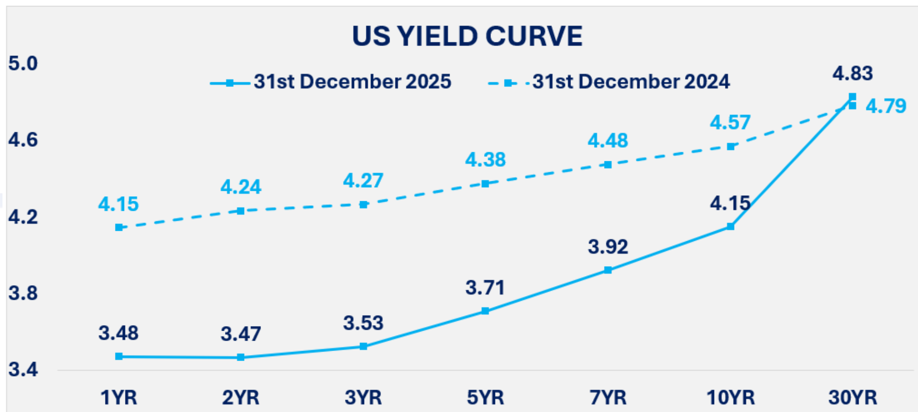
**INDIA:** The Indian bond market saw the yield curve move slightly higher with 10-year yield rising from 6.53% to 6.59% in December 2025. Bond yields climbed in the past month despite RBI's recent rate cut and liquidity injection, as traders grew sceptical over concerns of a rising fiscal deficit, with 62% of FY26 target already met in November 2025. A weakening rupee and sharply higher borrowings by Indian states further increased uncertainty.

In CY2025, Indian bond market saw the yield curve shift downward and steepen with the 10-year yield falling from 6.76% to 6.59% and 1-year yield falling from 6.67% to 5.58%. This came as a result of 4 rate-cuts by RBI in CY2025 totalling 125bps reduction in repo rate.



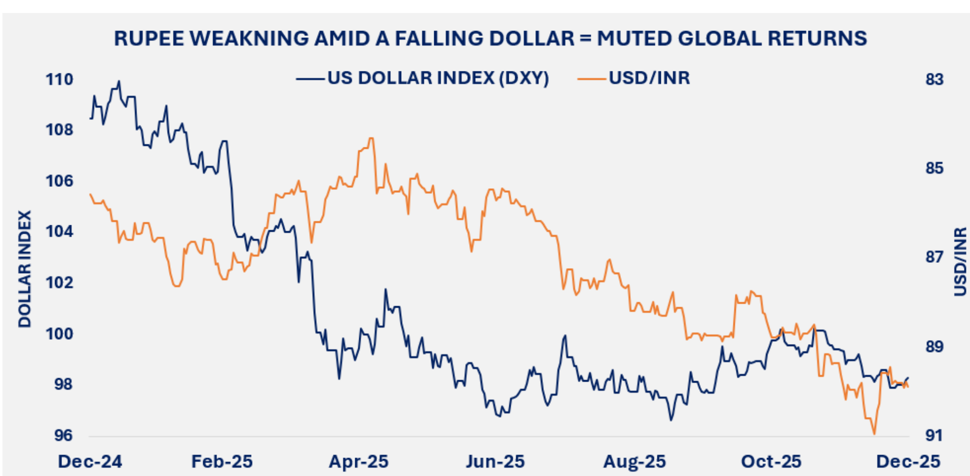

Source: Investing.com

**U.S.:** The US 10-year Treasury yield rose from 4.02% to 4.15%, as expectations of further rate-cuts fell as inflation inched higher in December 2025. The US yield curve steepened in CY2025 as Fed cut rates due to a struggling labour market while balancing economic risks. However, long-term yields such as 30-year rose slightly despite 75bps in rate-cuts in 2025 as the market prices in inflation uncertainty.




Source: Investing.com

**COMMODITIES & CURRENCY:** WTI crude oil prices fell by 1.9% in December 2025 from $58.55 to $57.42 per barrel due to concerns over excess supply and weak demand worldwide; crude oil prices have now declined by 21.6% in CY2025 from $72.5 to $57.42 per barrel. The recent weakness in the INR has been a function of many factors including demand from importers, weak foreign inflows, uncertainty over US – India trade deal and elevated domestic trade deficit; USD/INR reached a record low of ₹90.95 mid-month before recovering and closed the month lower from ₹89.36 to ₹89.87. After a year of interest rate cuts, fiscal worries and erratic U.S. trade policy, the Dollar Index ended December 2025 marginally lower with minor fluctuations, falling 1.13% from 99.44 to 98.32. INR has depreciated 5% against USD in CY2025 due to FII outflows; during that same period the Dollar Index declined by 9.4%; therefore, INR lost to other currencies in the index basket – Swedish Kronor (-26.4%), Swiss Franc (-20.2%), Euro (-19.2%), British Pound (-13%), and, Canadian Dollar (-9%) and Japanese Yen (-5.5%).




Source: Investing.com

Gold rose 3.9% in December 2025 from ₹1,29,820/10g to ₹1,34,890/10g, creating a new all-time high of ₹1,42,420/10g towards the end of the month amid rising geo-political tensions; this brings the yellow metal's CY2025 rise to a record breaking 73% in India. Additionally, global gold prices rose 65% in CY2025 from $2,609/oz to $4,315/oz. Silver rose 29% this month from ₹1,85,000/kg to ₹2,39,000/kg in India, touching an all-time high of ₹2,62,000/kg on December 27th. Due to strong demand in CY2025, silver rose 164% in India from ₹90,500/kg to ₹2,39,000/kg; globally silver rose 147% from $28.9/oz to $71.3/oz.

Source: Investing.com (Data as on 31st December 2025)

**ECONOMIC INDICATORS:** India CPI inflation rose from 0.25% in October 2025 to 0.71% in November 2025. RBI further cut rates by 25bps from 5.50% to 5.25% in December 2025, bring the total rate-cuts in CY2025 to 125bps. Unemployment dropped from 5.2% in October 2025 to 4.7% in November 2025. Net GST collection for December 2025 grew by 2.2% y-o-y over December 2024 at ₹1.45 Lakh Cr compared to 1.3% y-o-y growth achieved in November 2025; gross revenue from domestic transactions saw a 1.2% y-o-y increase.

The Federal Reserve cut rates by 25bps in December 2025 to 3.75%; rate-cuts by Fed have totalled 125bps in CY2025. Unemployment in the US came in at 4.6% in November 2025 – the highest since September 2021 of 4.7%. Inflation in November 2025 came in at 2.7% compared to the previous reported rate of 3% in September 2025. While the labour market seems to be cooling, softer inflation provides some relief for policymakers. However, in its FOMC minutes the Fed stated "Risks around the forecasts for employment and real GDP growth continued to be seen as skewed to the downside, as softening labour market conditions and elevated economic uncertainty raised the risk of a sharper-than-expected weakening in the economy. Risks around the inflation forecast continued to be seen as skewed to the upside". Consequently, markets largely expect the FOMC to stay put over the next few meetings as policymakers weigh incoming data.

**OUTLOOK & STRATEGY:**

2025 was a volatile year as investors grappled with multiple challenges, like the lack of a trade deal with the US, which has imposed the highest tariff – 50% rates on India, a severe downfall in the Indian rupee and a massive selloff by the FIIs amid lofty valuations and a slowdown in earnings. With strong GDP growth in the past few quarters, RBI revised India's GDP growth forecast for FY26 upwards to 7.3% from the earlier estimate of 6.8%. Assuming earnings grow at 8% to 10%, at a current valuation 22.8x, a target of 28,200 – 28,800 seems reasonable, providing an upside of 8% to 10%. Elevated valuations warrant caution and emphasis of tailwinds in opportunistic sectors. Once again, rising geopolitical tensions, currency weakness and uncertainty around a trade deal with US provide a challenging market to navigate for Indian investors. Post RBI's 125bps rate-cuts in 2025, we are at a lower end of the interest rate cycle; investors should maintain allocation to shorter maturities (1-year to 2-year).

Post their strong performance in CY2025, US technology equity valuations have risen amid investor enthusiasm for AI. The top 10 companies represent ~40% of the S&P 500's market capitalization. So far, price appreciation has stemmed from fundamental growth and strong balance sheets; the primary risk lies in earnings disappointment which could challenge the sustainability of returns amid concentration in the market. Easing monetary cycles could present opportunities across asset classes. As momentum for AI and Tech stocks remains strong, earnings growth in this sector is expected at 10% to 12% in 2026; maintaining allocation to Nasdaq over cyclicals will be key. However, at these valuations dollar cost averaging would be prudent to avoid entering heavily at high valuations amid concentrated indices. US treasuries enter 2026 with inflation and policy uncertainty. An allocation to intermediate Treasuries and TIPS (Treasury Inflation Protected Securities) while steering clear of the long end would provide stability amid inflation risks while protecting against price swings due to interest rate risks.

Gold enters 2026 from record highs of around $4,450 per ounce, having surged over 60% in 2025 amid safe-haven demand, central bank purchases exceeding 1,000 tonnes annually, and persistent geopolitical risks including US-India trade frictions and Middle East tensions. With global bullish momentum carrying into 2026, India's bullion market is primed for further strength, especially as INR weakness adds another layer of support. For investors already holding gold, the outlook remains broadly positive, supported by global monetary easing, geopolitical uncertainty, and structural demand. However, after a spectacular 2025 rally, prudence suggests booking partial profits in portfolios over-weighted in gold while maintaining core holdings as a hedge against volatility and inflation. While silver seems attractive post its strong performance, the metal has now reached unprecedented levels. We suggest proceeding with caution and booking profits to avoid sudden corrections amid heightened volatility.