

October 2025

Market Outlook

Year End Rally On The Back Of Earnings
Recovery & Underperformance In The
Last 1 Year



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Outlook Summary

Equity View

Large Cap

Indian equities broadly remained flat in Sept after seeing underperformance in the last few months.

- FIIs continued to sell secondary market holdings while actively participating in IPOs, shifting toward new listings linked to India's growth themes.
- Meanwhile, steady DII inflows helped cushion the market from foreign selling pressure.
- Equity valuations have eased toward historical averages after the recent correction, signaling some cooling in sentiment, and on a relative basis, India now looks fairly valued compared to other emerging markets.
- The near double-digit cut in Nifty-50 Bloomberg consensus EPS for CY26F-27F may bottom out soon, aided by government policy actions.
- FPIs saw net selling to the tune of 2.5% of FPI AUC over the last 12 months. Large FPI selling could be behind us given that FPI equity flow as a % of market cap is at -1 standard deviation from its long period averages. In our view, any resolution of US penal tariff may favor FPI flows into India.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Large Cap	Nifty 50	24,611	Neutral (Since: Jun24 Level: 23,519)

Quick Overview

- We remain watchful about the events unfolding in global markets and their possible impacts on India equities. This could keep markets in a range in the near term.
- We maintain a Neutral stance towards equities and suggest staggered deployment over the next 3 – 4.

Equity View

Mid and Small Cap

Following a strong rally between Apr'23 and Sep'24, mid & small cap outperformance has continued to narrow over the past twelve months.

- In Q1FY26, aggregate earnings of the Nifty Midcap 150 grew 17% YoY, outperforming Nifty Smallcap 250 (6%) which weighed down by continuing weakness and sectoral underperformance.
- Despite the correction, the Nifty Midcap 100 and Nifty Smallcap 100 indices are trading at 26.1x and 24.9x, representing premiums of ~14% and ~50% to their respective averages.
- For those under allocated, consider phased investments into mid and small caps over a 6months period, while maintaining tactical allocation limits—20% for mid caps and 10% for small caps.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Mid and Small Cap	BSE Midcap	44,916	Underweight <i>(Since: Feb-24 Level: 41,531)</i>



Quick Overview

- Moderating earnings and stretched valuations continue to remain key concerns in this space. We suggest booking profits in this segment, given the potential for additional downside

Fixed Income View

With Repo Rate at 5.50% and view on durable liquidity positive, the recent transmission into market interest rates has seen acceleration.

- RBI maintained status quo on rates in Oct-25 and continued to hold on to its policy stance indicating future action, if any would be data dependent.
- While debate around the terminal rate may persist amid shifting views on further easing, the jury is still out on incremental repo rate cuts from here. As external volatility reshapes market expectations, a dynamic and continuously reassessed approach to duration remains essential.
- Given Fed's rate cut, the spread between Fed Funds rate and the Repo rate has increased to 125bps-150bps v/s historical averages of 350bps-400bps.
- The compelling opportunity that duration strategies have offered over the past 18m seems to have significantly played out for now. Incrementally, positioning majority of the fixed income portfolio into duration-driven funds may have marginal value addition in our view.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Fixed Income	G-Sec	10-year G-Sec	6.51%	Positive on 2y-5y maturity funds and high yield strategies
	AAA Corporate	3y AAA	6.75%	
	AA Corporate	3y AA	7.69%	
	A Corporate	3y A	8.87%	



Quick Overview

- The curve has steepened and is expected to steepen further given GOI sticking to its H2FY26 borrowings calendar with ~70% and higher supply coming in bonds with 10yr and longer-term maturities. This, coupled with a tepid demand from traditional bond buyers in this space viz. Insurance and Pension funds, we expect the long-term yields to be in range. Limited supply, outside chance of a rate cut, impending CRR reduction and RBI's active liquidity management could mean the short to medium term yields could come off further (bull steepening).
- We, thus, suggest allocating upto 45% of fixed income portfolio towards accrual-oriented strategies.
- Consequently, allocation to dynamic / long duration strategies would be upto 20% of fixed income portfolio.
- Credit environment continues to remain stable, and credit spreads remain attractive. Thus, balance 35% allocation of fixed income portfolio is suggested towards high yielding assets (bonds /funds).

Other Asset Classes

Global Equities

- Markets are in flux and investors need to contend with this uncertainty. We expect the global economy to soften in the short term.
- Trade relations between the U.S. and China have deteriorated, yet again, leading to market volatility and concerns over global supply chains
- Global market Hedge funds can potentially strengthen portfolio resilience for suitable investors.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Global Equities	US	S&P 500	6,688	Negative
	Europe	MSCI Europe	187	
	China	Shanghai Composite	3,883	

Precious Metal

- Current record-breaking rally in Gold has been driven by record ETF flows, Central Bank buying and a weaker Dollar. The only drag came from some rebalancing and profit-taking. YTD Gold is up 47%.
- Traditionally, a weaker USD , lower U.S. rates and escalating global uncertainties have increased the appeal of gold.
- The likely threat to equities is acute, given lofty valuations, goldilocks earnings projections, high market concentration, extended positioning, and technical red flags. Also, as global concerns about trade tensions seem to have resurfaced, investors might continue to be better off taking positions in gold.
- Gold is generally a good hedge, but there may be concerns about its ability to respond given how stretched it looks. Using dips to accumulate gold is suggested.
- Also securing existing gains by reinvesting them in gold MLDs might look attractive at this point in time.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Precious Metal	Gold	LBMA USD	3,825	Positive
	Silver	LBMA USD	46.2	Positive (since – Jun’24 Level – \$29/Oz)

Other Asset Classes

Commodities – Crude

- Brent crude prices averaged \$68/bbl in Sept, unchanged from Aug.
- Growing global oil supply and the transition away from peak summer seasonal demand will lead to significant growth in global oil inventories, causing crude oil prices to fall in the coming months.
- Basis EIA estimates, oil prices are expected to fall to an average of \$62/bbl in the 4Q25 and \$52/bbl in the 1H26.
- EIA expects inventory builds will average 2.6mn bbl/day in 4Q25 and will remain elevated through 2026, putting significant downward pressure on oil prices.
- The ongoing tensions and negotiations related to the Russia-Ukraine conflict could affect supply, while further sanctions could be enacted against purchasers of Russia's oil

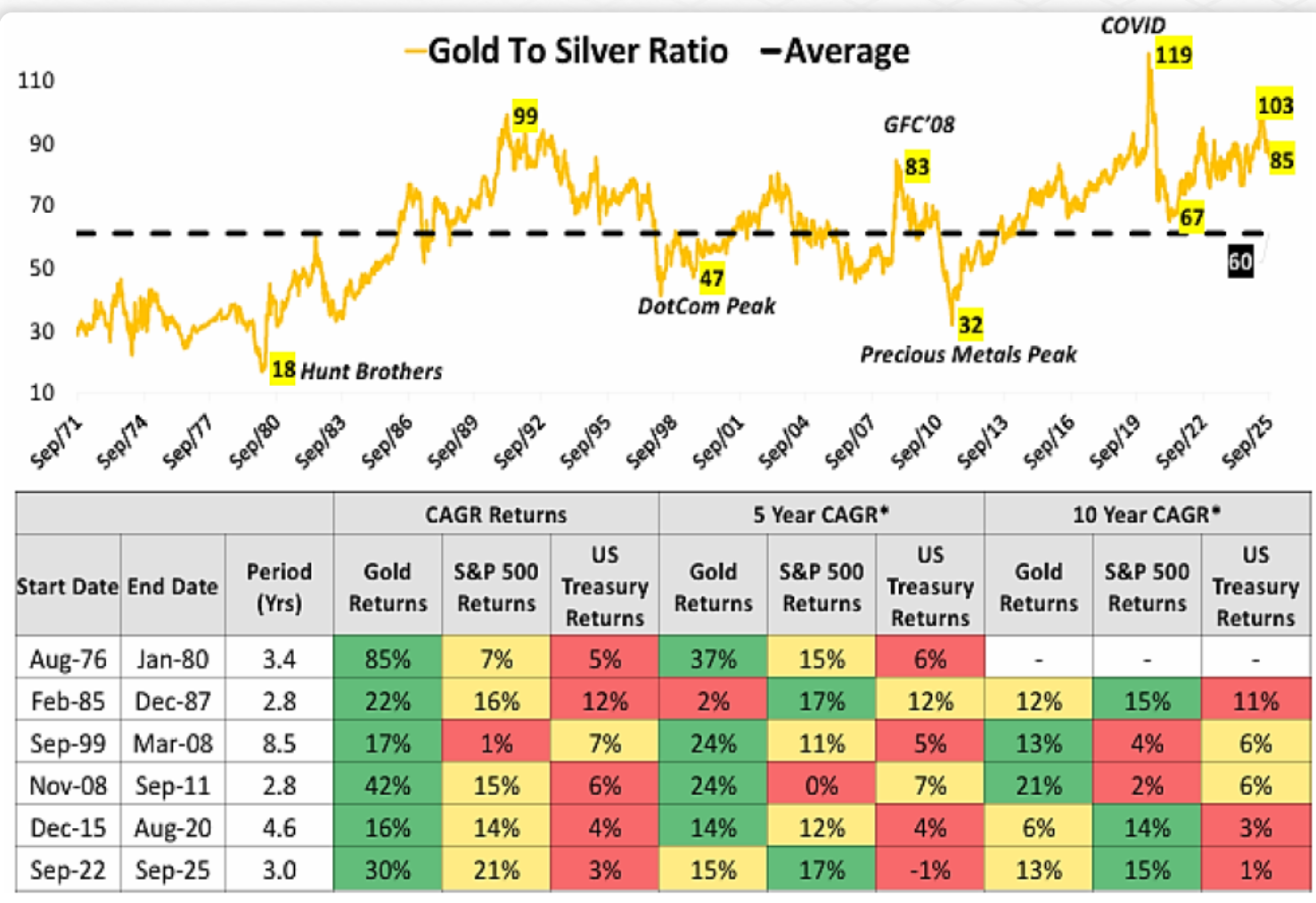
Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Commodities	Crude	Brent Crude (US\$/bbl)	67.0	Negative



How To Approach Gold & Silver- Time to preserve gains

While Silver remains attractive, Gold 10Yr CAGR is approaching equity like returns. A rarity.

- Current bull market in gold is driven by CB buying, weaker USD.
- Difference between US CPI 10yr CAGR and Gold Prices 10yr CAGR that peaked at 6.9% in 2012 is now at 9.5%. Another signal that Gold as a store of value is close to fair price.
- Silver still seems to have room to gain (\$64/bbl). However, technically, \$47/bbl can be a strong resistance and investors could take some profits.
- While the precious metal bull market might have more legs, its expected to pause for an extended period given the rapid gains seen over the past 8m-9m.
- Any meaningful pullback in prices could offer chance to re-enter / add to current positions.



Quick Overview

- Investors can sell / trim into strength of gold price and re-allocate towards capital protected Gold MLD

Precious Metals Surge in September; Indian Equities Lag Global Peers

Gold and Silver outperformed all major indices, Emerging Markets outperformed while Indian markets remained broadly flat.

As of 30th Sept 2025 EM and DM	Current Level	1M	3M	6M	1Y	CY25TD	CY24	CY23	CY22	CY21	CY20	CY19
MSCI Emerging Markets	1,346	7.0%	10.1%	22.2%	15.0%	25.2%	5.1%	7.0%	-16.9%	-4.6%	15.8%	15.4%
MSCI World Index (Developed equities)	4,307	3.1%	7.0%	18.7%	15.7%	16.2%	17.0%	21.8%	-1.9%	20.1%	14.1%	25.2%
Key Equity Indices												
S&P 500	6,688	3.5%	7.8%	19.2%	16.1%	13.7%	23.3%	24.2%	0.1%	26.9%	16.3%	28.9%
MSCI Europe	187	1.5%	3.2%	4.3%	6.5%	9.8%	5.8%	12.7%	-0.6%	22.4%	-5.4%	22.2%
Nikkei	44,933	5.2%	11.0%	26.2%	18.5%	12.6%	19.2%	28.2%	16.2%	4.9%	16.0%	18.2%
Shanghai Composite	3,883	0.6%	12.7%	16.4%	16.4%	15.8%	12.7%	-3.7%	-18.3%	4.8%	13.9%	22.3%
Nifty	24,611	0.8%	-3.6%	4.6%	-4.6%	4.1%	8.8%	20.0%	25.2%	24.1%	14.9%	12.0%
BSE MidCap	44,916	0.6%	-4.1%	8.2%	-9.0%	-3.3%	26.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE SmallCap	52,195	1.4%	-4.6%	11.9%	-8.6%	-5.4%	29.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Other Assets (levels)												
Brent Crude	67.0	68.1	67.6	74.7	71.8	-0.1	0.0	85.9	77.8	51.8	66.0	53.8
Gold	3,825	11.6%	16.4%	22.8%	45.5%	46.6%	25.5%	14.6%	15.1%	-4.3%	24.6%	18.4%
Silver	46.2	19.0%	28.4%	35.6%	48.6%	59.7%	21.5%	-0.6%	3.1%	-12.8%	46.8%	16.7%
Dollar index	97.8	97.8	96.9	104.2	100.8	-0.1	0.1	103.5	95.7	89.9	96.4	96.2
Credit/ yields (%)												
India 10 year G-sec	6.58	6.57	6.32	6.58	6.75	-0.03	-0.06	7.33	6.45	5.87	6.56	7.37
US 10 year G-sec	4.15	4.23	4.23	4.21	3.78	-0.09	0.18	3.87	1.51	0.91	1.92	2.68
Germany 10 year G-sec	2.71	2.72	2.61	2.74	2.12	0.15	0.17	2.57	-0.18	-0.57	-0.19	0.24

Broad-based gains across markets; PSU Banks lead followed by Auto

Equities rebounded modestly in September, with the Nifty, mid and small-cap indices delivering marginal gains.

- Large Caps outperformed mid caps but underperformed small caps in Sept-25, while on CYTD basis Nifty is outperforming the mid & small cap indices by 7.4% and 9.5%, respectively.
- Value and Growth gave similar returns in Sept-25. While, with earnings growth tapering, businesses with better quality of growth continue to see investor interest.
- While most sectors bounced back from the losing streak from last month, PSU Banks, Autos and Oil & Gas delivered the highest returns in Sept-25.
- IT, Media and FMCG were the worst performing sectors in Sept-25.

As of 30th Sept 2025	1M	3M	1Y	CY25TD	CY24	CY23	CY22	CY21	CY20	CY19
Overall Markets										
Nifty	0.8%	-3.6%	-4.6%	4.1%	8.8%	20.0%	25.2%	24.1%	14.9%	12.0%
Nifty Equal weight	1.5%	-1.6%	-5.4%	7.5%	9.7%	29.8%	38.0%	32.6%	17.6%	2.7%
BSE Mid cap	0.6%	-4.1%	-9.0%	-3.3%	26.1%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE Small Cap	1.4%	-4.6%	-8.6%	-5.4%	29.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Styles										
Nifty 200 Quality 30	-0.2%	-3.3%	-12.8%	-2.2%	12.7%	29.9%	21.7%	nm	nm	nm
MSCI India Value	1.2%	-4.6%	-9.5%	0.4%	12.1%	25.9%	24.1%	31.5%	23.7%	9.6%
MSCI India Growth	1.1%	-2.8%	-4.3%	3.8%	16.5%	14.8%	20.0%	22.7%	10.1%	7.3%
Financials										
NSE Financials	1.8%	-4.2%	6.3%	10.7%	9.4%	13.2%	24.0%	14.0%	4.5%	25.6%
Nifty Bank	1.8%	-4.7%	3.1%	7.4%	5.3%	12.3%	36.1%	13.5%	-2.8%	18.4%
Nifty Private Bank	1.6%	-6.3%	-0.1%	6.8%	-0.4%	13.8%	37.9%	4.6%	-2.9%	16.2%
Nifty PSU Banks	11.4%	4.5%	11.4%	15.1%	14.5%	32.3%	125.8%	44.4%	-30.6%	-18.3%
Asset heavy sectors										
BSE Oil and Gas	5.4%	-3.4%	-15.5%	3.2%	13.2%	12.8%	31.5%	24.3%	-4.4%	7.2%
BSE Capital Goods	4.4%	-5.6%	-6.6%	0.8%	21.8%	66.9%	93.5%	53.4%	10.6%	-10.0%
BSE Utilities	5.1%	-1.8%	-21.3%	-1.6%	13.0%	32.6%	62.0%	64.4%	-0.4%	-7.3%
NSE Infrastructure	1.5%	-4.3%	-5.9%	6.4%	15.9%	39.1%	47.5%	35.6%	12.2%	2.5%
Services oriented sectors										
NSE IT	-4.3%	-13.6%	-19.8%	-22.3%	22.0%	24.1%	-8.2%	59.6%	54.9%	8.4%
BSE Telecom	0.5%	-11.5%	-11.2%	-2.0%	25.8%	30.8%	24.9%	43.0%	13.6%	12.9%
NSE Financial services	1.8%	-4.2%	6.3%	10.7%	9.4%	13.2%	24.0%	14.0%	4.5%	25.6%
Others										
NSE Media	-4.3%	-12.1%	-27.8%	-15.1%	-23.9%	19.9%	7.6%	34.6%	-8.6%	-29.7%
NSE Auto	6.3%	11.2%	-1.8%	16.2%	22.6%	47.6%	70.2%	19.0%	11.5%	-10.7%
NSE FMCG	-2.5%	-0.3%	-16.5%	-3.7%	-0.3%	29.0%	51.6%	10.0%	13.5%	-1.3%
NSE Pharma Index	-1.6%	-2.7%	-7.8%	-8.4%	39.1%	33.6%	18.3%	10.1%	60.6%	-9.3%
NSE Real Estate	-0.4%	-12.1%	-21.1%	-17.6%	34.4%	81.3%	61.7%	54.3%	5.1%	28.5%

Global Macro & Markets

Global Macro

Rate-Cut Resume: US Sets the Tone for Global Policy

		Quarterly GDP Jun-25 SA qoq (%)	Inflation Aug-25 yoy (%)	Current Policy Rate Sept-25	10Y bond yield 9-Oct-25
US		0.7%	2.9%	4.00% - 4.25%	4.13%
Europe		0.1%	2.0%	2.00%	2.69%
Japan		0.0%	2.7%	0.50%	1.70%

USA

- Federal Reserve resumed its easing cycle citing the weakening labour market. Fed cut rates by 25bps to 4.00%-4.25% on expected lines with two more quarter-point rate cuts projected in 2025.
- Fed Chair Jerome Powell said "the balance of risks has shifted" toward the employment side of the Fed's mandate, whereas the risks had previously been tilted toward inflation.
- Fed said for further tweaks to the interest rates, the committee will assess incoming data, evolving outlook, and the balance of risks.
- The FOMC economic projections show that the median participant projects US GDP to rise 1.6% in 2025, 1.8% in 2026 and 1.9% in 2027, slightly stronger than projected in June. The Fed underscored that growth of economic activity has moderated, with GDP rising at a pace of around 1.5% in the first half of the year, down from 2.5% last year.

Europe

- The European Central Bank held its key interest rate at 2% at its September meeting, as widely expected, as economic uncertainty persists in the wake of U.S. Donald Trump's aggressive tariff agenda.
- "Inflation is currently at around the 2% medium-term target and the Governing Council's assessment of the inflation outlook is broadly unchanged," the ECB said in a statement.
- Further, ECB President Lagarde noted, "While recent trade agreements have reduced uncertainty, a renewed worsening of trade relations could further dampen exports and drag down investment and consumption."
- The central bank added that it would follow a meeting-by-meeting, data-dependent approach and was not pre-committing to a specific path for interest rates.

Japan

- BOJ held rates steady at 0.50% in September.
- However, the BoJ said it would sell financial assets it had previously acquired to keep rates lower, including exchange-traded funds, thus marking a new phase of its monetary tightening policy.
- "Japan's economic growth is likely to moderate, as trade and other policies in each jurisdiction lead to a slowdown in overseas economies and to a decline in domestic corporate profits," the BoJ said in a statement.

Global Macro

Fed Fund Futures Pricing In 3 to 4 Cuts By March 2026

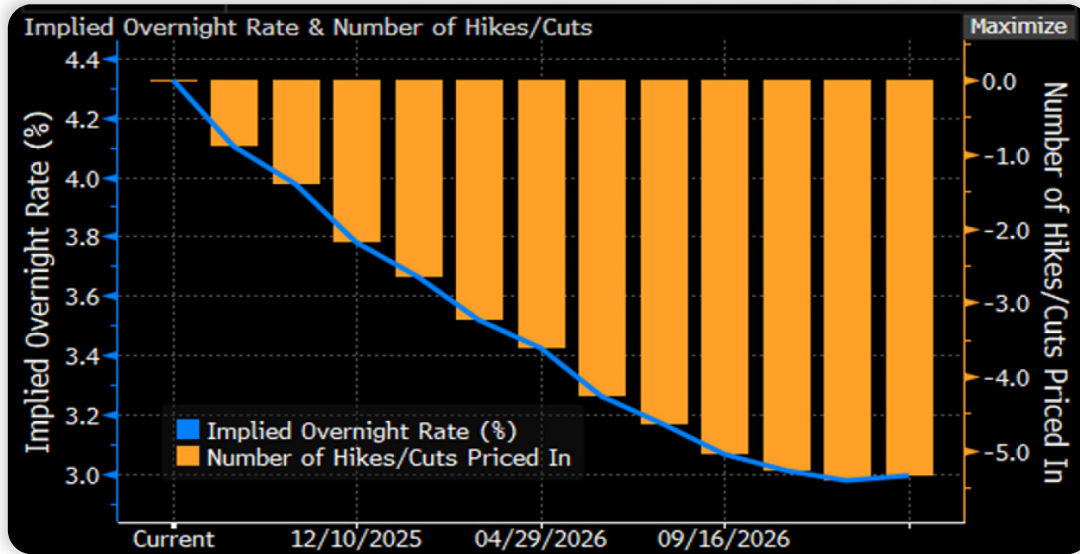


Figure 1.

DXY is down 9.8% YTD – worst performance in a year since 2017!

Exhibit 1: US Dollar Index annual performance

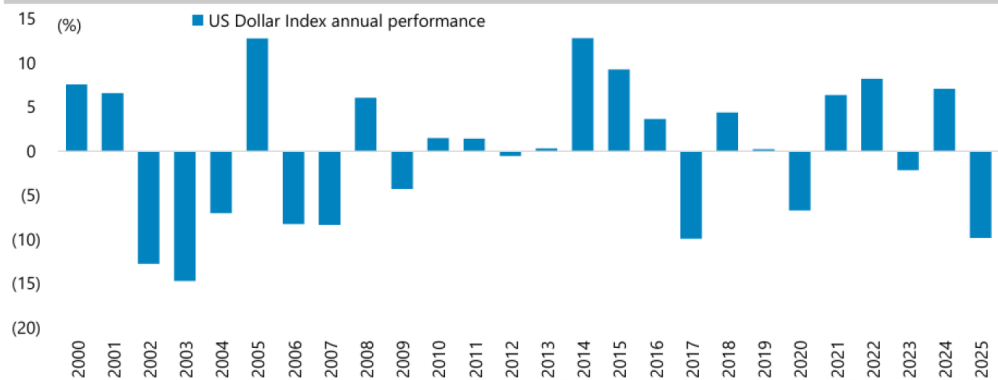


Figure 2.

World now holds more Gold than US Treasury

Gold reserves at market price and foreign official holdings in US Treasuries

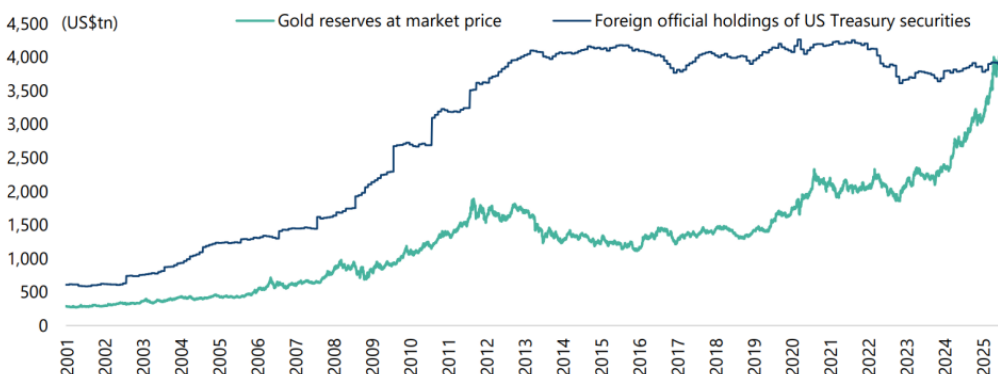


Figure 3.

Indian Macro Outlook

India Market Outlook

GST Relief and Festive Cheer to Drive Consumption in the near-term

GST collections moderate in Sept; Credit growth steady; Core industries output growth up vis-à-vis last month

- ▶ Manufacturing growth moderated in Sept-25, but rising export orders and improved business sentiment signalled resilience, aided by optimism from GST cuts despite ongoing US tariff pressures.
- ▶ GST collections in Sept-25 represent a 9.1% year-on-year growth compared to Rs 1.73trn collected in Sept-24.
- ▶ The festive season is set to fuel record auto sales, as Dhanteras and Diwali spur strong demand across two-wheelers, passenger vehicles, and commercial fleets. Affordable pricing post-GST 2.0, aggressive OEM schemes, and accessible financing are driving the momentum.

	As on	Unit	Latest	Last	One year back
O/s non-food Credit Growth	Aug25	yoy (%)	9.9%	9.9%	13.6%
Consumption					
Auto Volumes					
PV	Sept25	Units Sold	2,99,369	3,23,256	2,82,945
2W	Sept25	Units Sold	12,87,735	13,73,675	12,08,996
Industries					
Power Consumption	Sept25	yoy (%)	3.2%	4.4%	0.0%
Manufacturing PMI	Sept25	X	57.7	59.3	56.5
Core Industries output	Aug25	yoy (%)	6.3%	3.7%	-1.5%
Overall, Economy					
GST Collection	Sept25	Rs Trn	1.89	1.86	1.73

Source: Bloomberg, FADA, Company Data

India Macro Outlook

Indias Q1 GDP Growth At 7.8%, Highest In Five Quarters

- India's economy grew 7.8% year-on-year in real terms in Q1 FY26 (₹47.89 lakh crore), marking an acceleration from last year's pace and beating market expectations. However, this surge was driven by statistical factors and one-offs such as front-loaded government spending and exports to the US due to tariff threat.
- On a nominal basis, GDP eased to three-quarter low of 8.8% (₹86.05 lakh crore), reflecting strong activity despite softer price pressures. The GDP deflator fell sharply to around 1%, one of the lowest in recent years, which mechanically boosted the real growth print (2/3rd of the deflator is based on WPI and rest on CPI). This unusually low deflator highlights that part of the strength in real GDP stems from the inflation adjustment rather than purely higher output.
- Real Private Final Consumption Expenditure (PFCE) has reported 7.0% growth rate during Q1FY26 as compared to the 8.3%, driven primarily by a rebound in rural demand. Government Final Consumption Expenditure (GFCE) registering 9.7% growth rate in nominal terms during Q1FY26.
- Inflation firmed up from July levels due to fading base effects, strong demand and currency weakness, though GST rate reductions should ease pressures ahead, anchoring it around the RBI's 4% comfort zone.

	As of	Unit	Latest	Last	1 year back
Real GDP quarterly	Jun-25	yoy (%)	7.80%	7.40%	6.50%
Real GDP Annual	FY25	yoy (%)	6.50%	9.20%	7.60%
Inflation	Aug-25	yoy (%)	2.07%	1.61%	3.65%
Policy Rate	Oct-25	%	5.50%	5.50%	6.50%
IIP	Aug-25	yoy (%)	4.00%	4.30%	0.00%
INR/USD	Sept-25	X	88.84	88.17	83.76

Source: Bloomberg, MOSPI

Flow, Valuations, Earnings

Flows, Valuations, Earnings

DII Inflows Offset Persistent FII Weakness

- ▶ FIIs extend the selling rally in Sept-25 with outflows at \$2.7bn, taking the CYTD figure to \$17.6bn.
- ▶ DIIs & MFs continued to be net buyers at \$7.4bn and \$5.3bn respectively. In CY25YTD, DIIs have invested ₹66.9bn worth of Indian equities.
- ▶ FIIs turned net buyers in debt markets at \$0.12bn while MFs continued to be net sellers at \$6.3bn.
- ▶ SIP flows continue to come at all time high levels.

Figure 4. - SIP inflows moderate in Aug-25; up 20%yoy

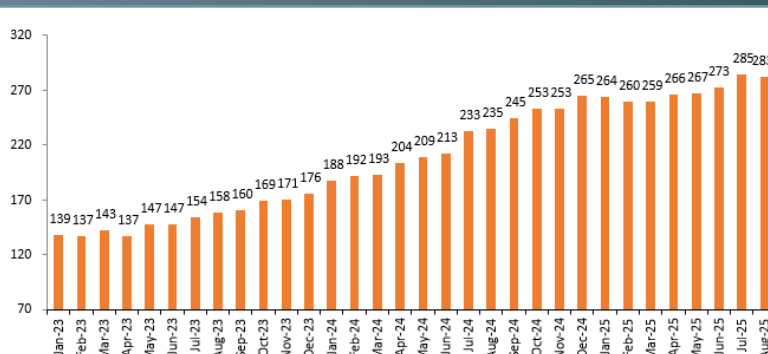


Figure 5. - FIIs continue to be net sellers; DIIs and MFs remain net buyers of Equities

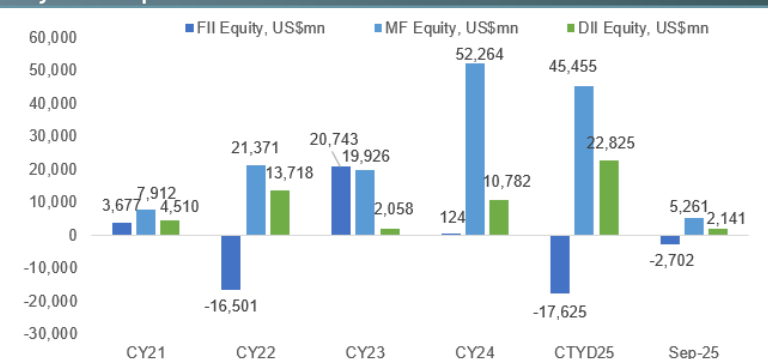
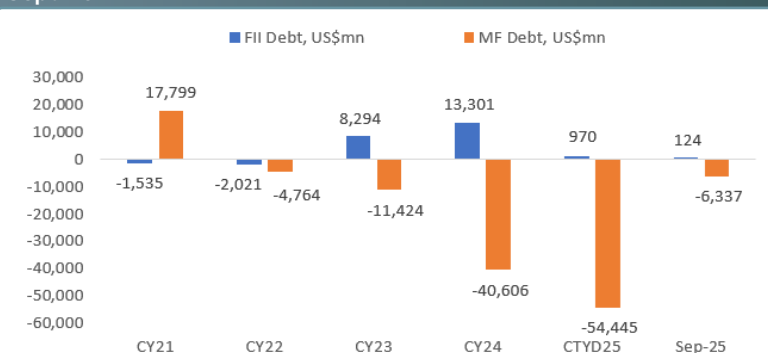


Figure 6. - FIIs turn net buyers while MFs continue to be sellers in Sept-25



Flows, Valuations, Earnings

FPI equity flow (as % of market cap) is at -1 SD

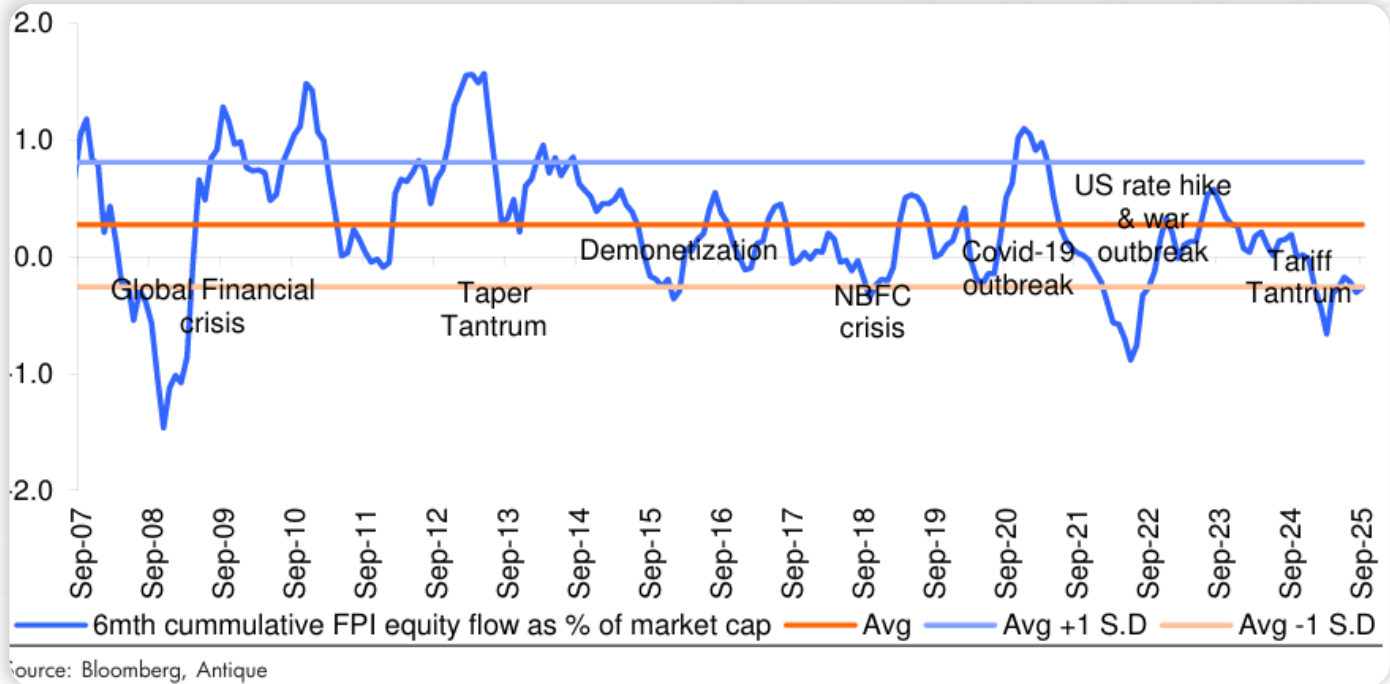


Figure 7.

- ▶ FPIs saw net selling to the tune of 2.5% of FPI Asset Under Custody (AUC) over the last 12 months.
- ▶ Large FPI selling could be behind us given that FPI equity flow as a % of market cap is at -1SD
- ▶ Indian equities are now trading at an average premium valuation relative to EMs and DMs
- ▶ Moreover, any resolution of US penal tariff may favor FPI flows into India as the US accounts for ~40% of FPI AUC

Flows, Valuations, Earnings

Valuations in equities have cooled from their recent peaks

Nifty valuations remain around long period average; US Tariffs impact and earnings trend to determine the course ahead

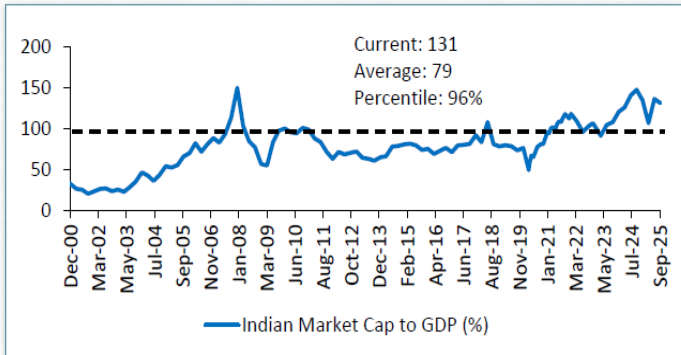


Figure 8. - India's market cap to GDP increases however still down from all time highs

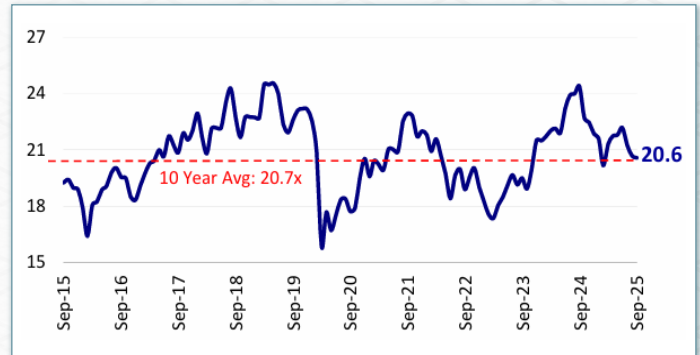


Figure 10. - Nifty valuation continues to hover around averages

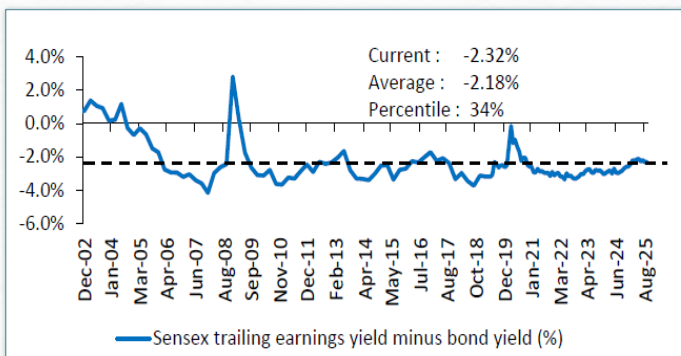


Figure 9. - Earnings yield to bond yield spread closer to average

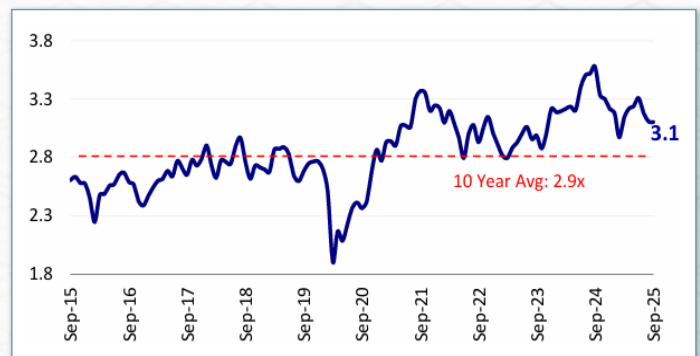


Figure 11. - On P/B basis as well, Nifty trades around LPA

Flows, Valuations, Earnings

Easing earnings cut trajectory should lend support to the market

Exhibit 6: Nifty EPS estimates for FY26/FY27 have seen the steepest cuts in past 6six years, barring the Covid phase

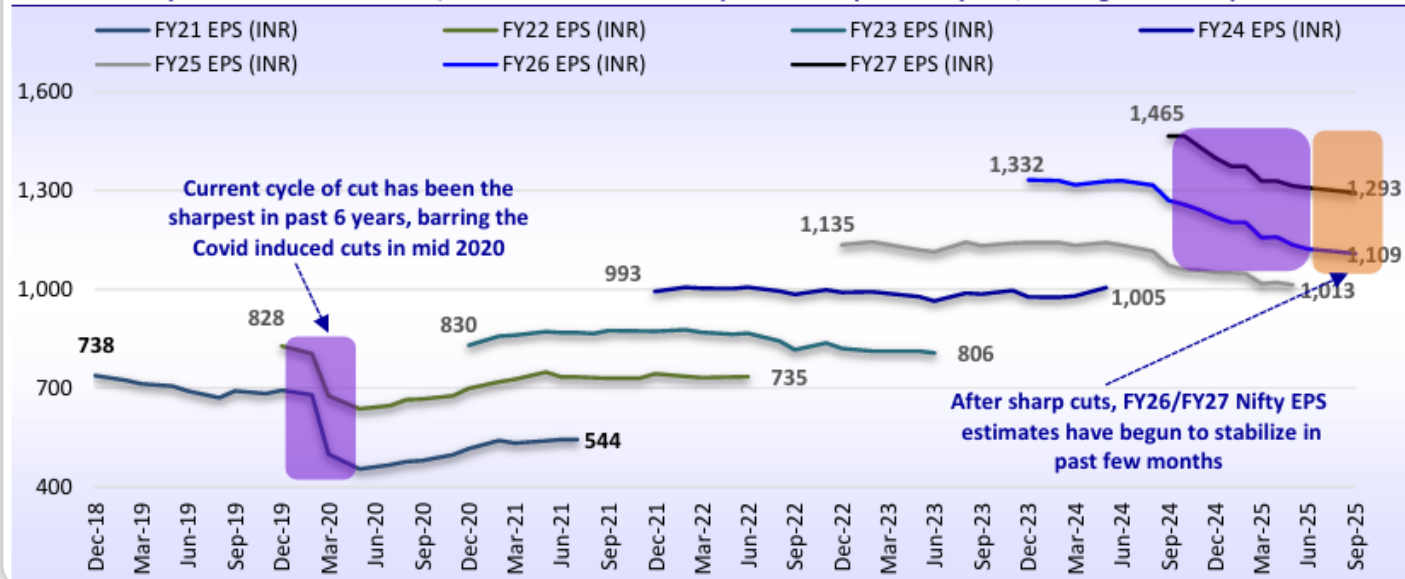


Figure 12.

- Even as the past four quarters have been marked by earnings cuts, the intensity of earnings cuts has actually eased to modest levels and the latest quarterly cuts have been the lowest in the past four quarters, with an improving macro/policy environment likely to support the earnings cycle going forward.

Flows, Valuations, Earnings

Nifty 50 trading close to LPA, Small Cap at significant premium

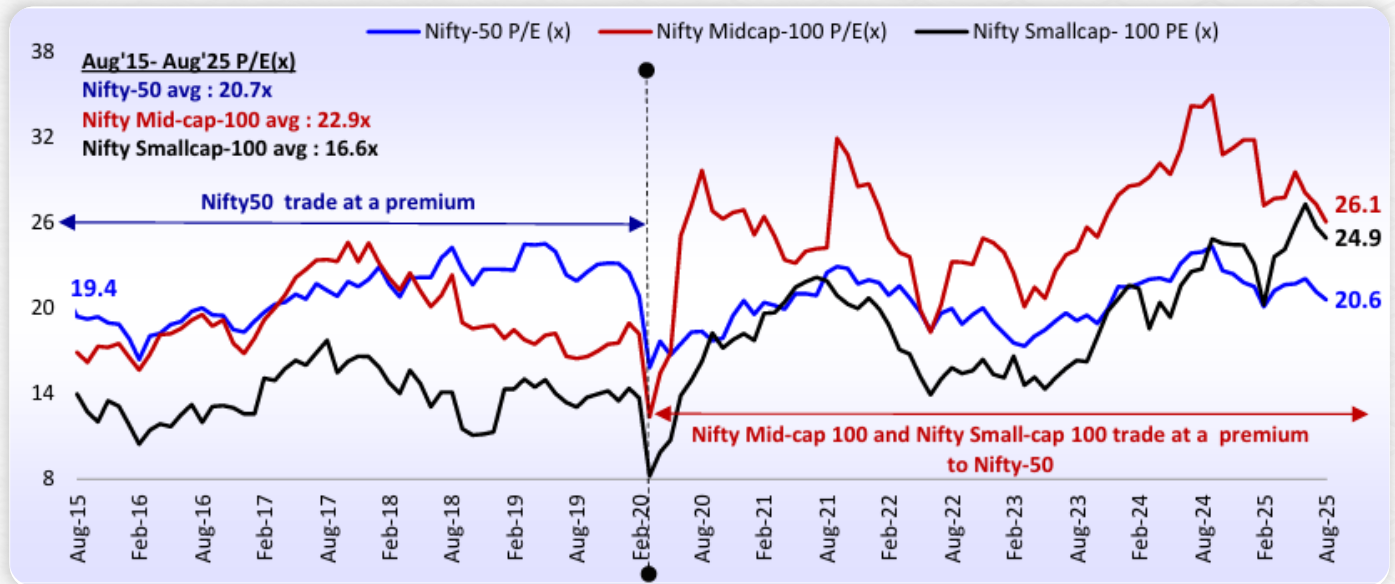


Figure 13.

- A better earnings cycle, decent valuations and base of underperformance could potentially provide for an up-move in medium term led by large caps

Flows, Valuations, Earnings

SMIDs Outperformance Vs Large Caps Is Losing Momentum

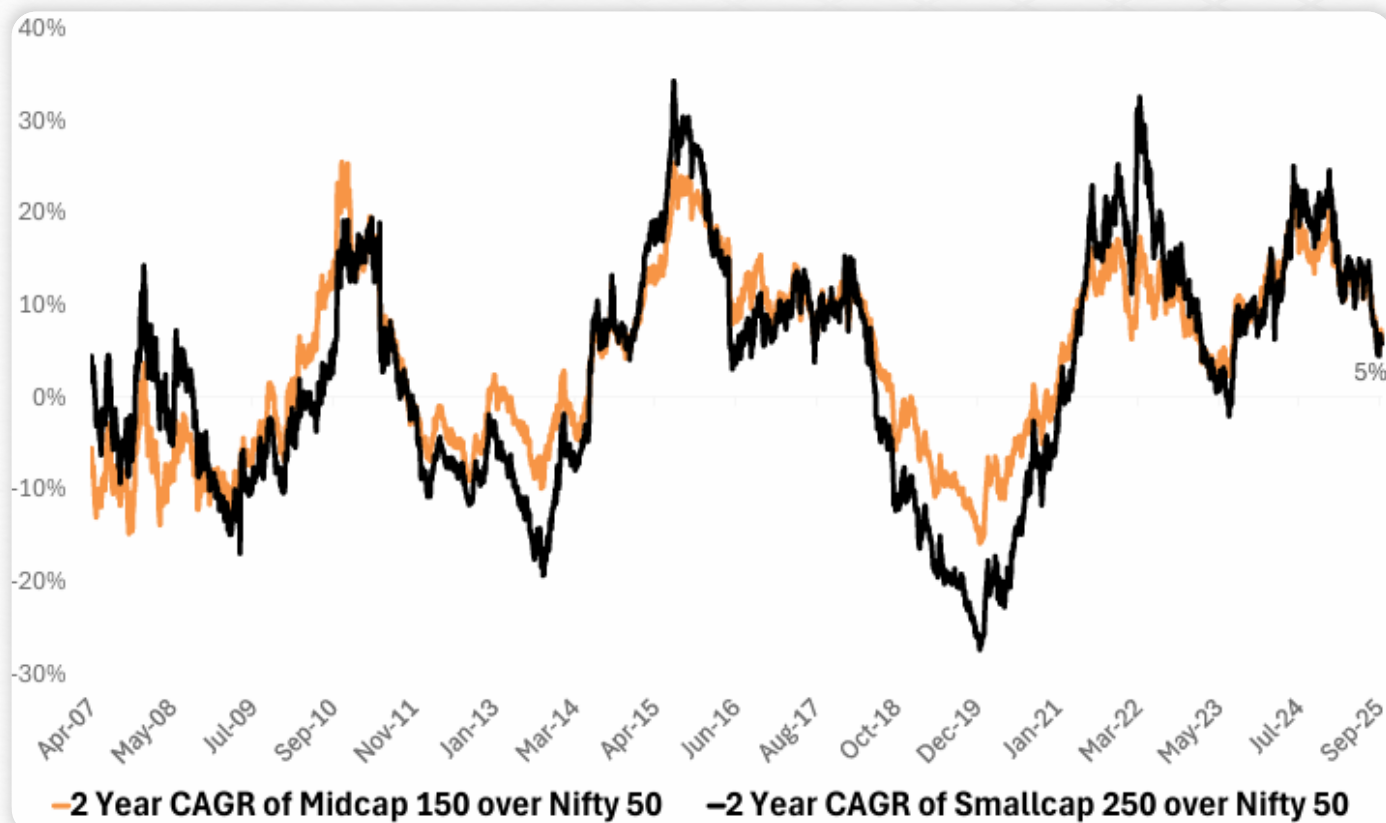


Figure 14.

- In mid-2024, SMIDs (small & mid caps) peaked in their outperformance versus large caps.
- The broader trend and historical data still suggest that large caps are likely to outperform SMIDs unless valuation and price-froth differentials normalize.

Equity Macro Outlook

Equity Outlook & Strategy

Indian equities broadly remained flat in Sept after seeing underperformance in the last few months. Performance down the capitalization curve has been better, with smallcaps up 1.4% and midcaps gaining in line.

- YTD Nifty has seen a rise of 4% while mid & small caps underperforming having fallen 3% & 5% respectively.
- FII continued to sell secondary market holdings while actively participating in IPOs, shifting toward new listings linked to India's growth themes.
- Meanwhile, steady DII inflows helped cushion the market from foreign selling pressure.
- Equity valuations have eased toward historical averages after the recent correction, signaling some cooling in sentiment, and on a relative basis, India now looks fairly valued compared to other emerging markets.
- The government is committed to lifting and stimulating the Indian economy in the face of frosty global headwinds, weak private capex, and sub-optimal consumption. GST reform will be the first big structural reform of the government in the current term.
- Lower inflation and proactive steps of the Government in tandem with RBI's stimulus measures are expected to support economic recovery, could further strengthen consumer sentiment and drive momentum in the consumer discretionary sector in the coming quarters.
- The near double-digit cut in Nifty-50 Bloomberg consensus EPS for CY26F-27F may bottom out soon, aided by government policy actions. The India MSCI P/E valuation premium vs. Asia easing to the 10-year mean level provides comfort.
- FPIs saw net selling to the tune of 2.5% of FPI AUC over the last 12 months. Large FPI selling could be behind us given that FPI equity flow as a % of market cap is at -1 standard deviation from its long period averages. In our view, any resolution of US penal tariff may favor FPI flows into India.

1: Nifty December 2025 target range based on adjusted EPS expectations

	-1SD	10 Year Average	+1SD
Nifty 1-year forward PE	18.6	20.3	22.0
Nifty 50 EPS expectations in FY27		1250	
Nifty range at end of 2025	23,275	25,350	27,438



Key Takeaways

- We remain watchful about the events unfolding in global markets and their possible impacts on India equities. This could keep markets in a range in the near term.
- We maintain a Neutral stance towards equities in view of the above and suggest staggered deployment over the next 3 – 4 months.
- Key market cues are expected from corporate earnings, the trajectory of economic recovery, global monetary policy, and the impact of ever-changing retaliatory tariffs and announcements of bi-lateral trade negotiations.

Equity Outlook & Strategy



Existing equity holdings:

- 1) It's a good time to revisit portfolio allocations across investor portfolios.
- 2) During the past 5yr+ period, midcaps & smallcaps have significantly outperformed largecaps. SMID segment continues to trade at a premium relative to Large Cap stocks, and to its respective long period average valuations (despite recent correction).
- 3) We continue to advocate caution here and hence remain marginally underweight in Mid and Small caps. Basis this view, tactically, we continue to remain overweight Large Caps (70% of equity portfolio) and restrict Mid Caps and Small Caps to 20% and 10% of equity portfolio respectively. Large caps to be allocated over the next 3 months.
- 4) If not already initiated, this continues to be a good time to take profits specially from mid and small cap investments made over past 2 years. Re-invest 30% - 40% of these profits immediately as lumpsum back into equities with a large cap tilt. Balance 60% - 70% to be staggered over the next 3 months / partly on market dips.
- 5) For those under allocated towards the mid and small cap segment, it's prudent to deploy over a 6 months stagger.
- 6) Alternative investment solutions such as MLD ideas can be considered that generally offer principal protection and accelerated participation in market up-move.



Investors sitting on the sidelines with cash in portfolios:

- 1) Prudent to deploy over the next 3 months into large caps and over the 6 months into mid & small caps / buy the declines for greater than 2-year perspective.

Equity Portfolio Allocation

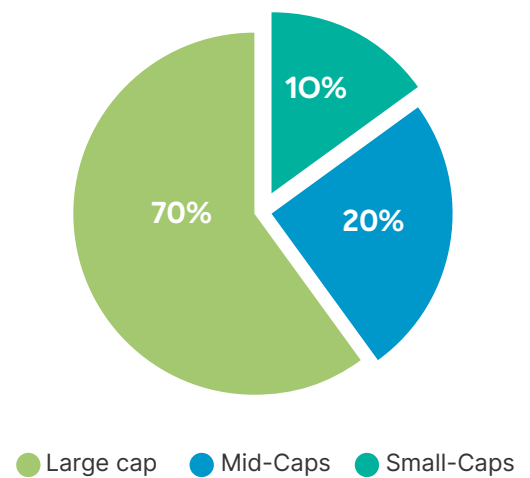


Figure 15.

Category	InCred Outlook
Large Cap	Overweight
Mid and Small Cap	Underweight

Fixed Income Outlook



Fixed Income Outlook

Given planned CRR cuts / front-ended Repo cut, medium term offers value

- G-sec yields have moved up by 30bps since June MPC and trade closer to 6.50%. Shift in policy stance to neutral from being accommodative, multiple Bond auctions at higher cut-off yields expectations of higher CPI in Q1FY27 is weighing on market participants.
- AAA bond yields have seen hardening in the 5yr+ segment
- 3yr Spreads in the AA / A rated segment continue to remain attractive
- Short-term yields have come off amid the ongoing phased CRR reductions and supportive liquidity conditions in the system.

Figure 16. - Issuers with credit rating "A" offers higher credit spreads

3-year tenor	07-Oct-25	Dec-24	Dec-23	Dec-22
G sec	5.90	6.72	7.09	7.04
Credit Spreads (bp)				
AAA over G sec	85	81	56	71
AA over AAA	94	76	67	57
A over AA	118	184	134	191

Figure 17. - Yield curve has steepened significantly over the last 2 months

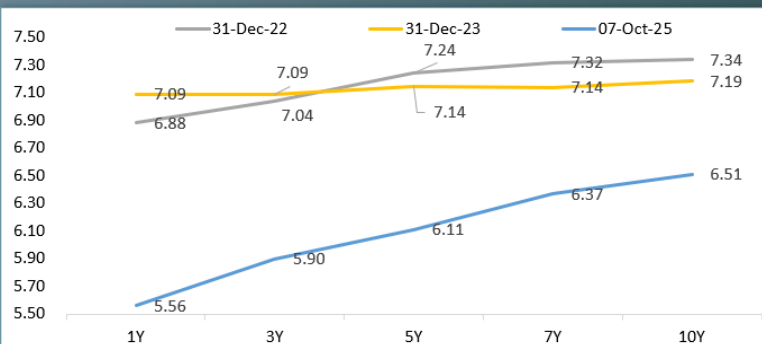
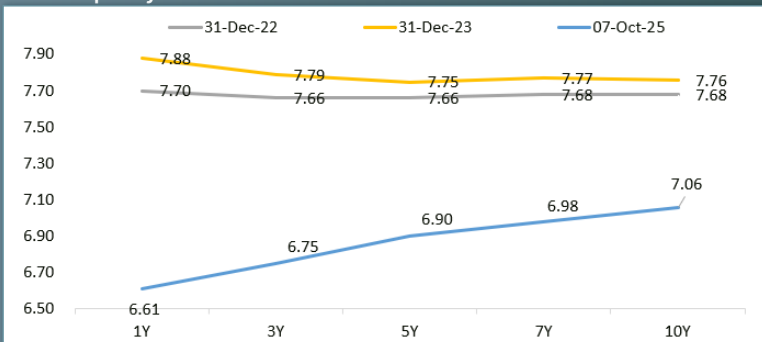


Figure 18. - AAA curve seen bull steepening given the sharp fall in short term liquidity



Fixed Income Outlook

Overnight rates hover around Repo rate; Short term rates off peaks

Figure 19. - Banking system liquidity moderates in September

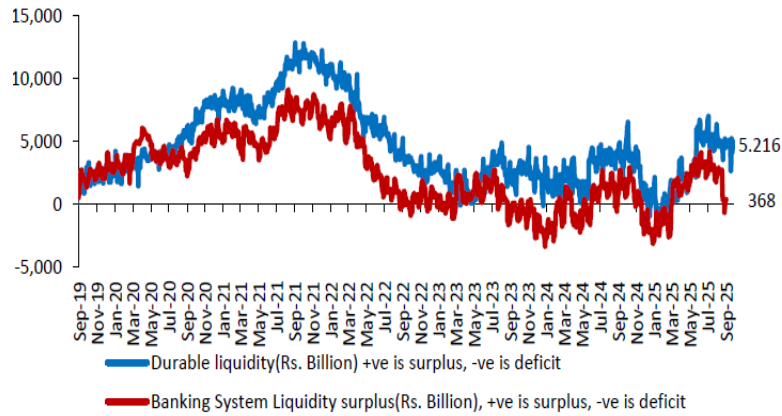
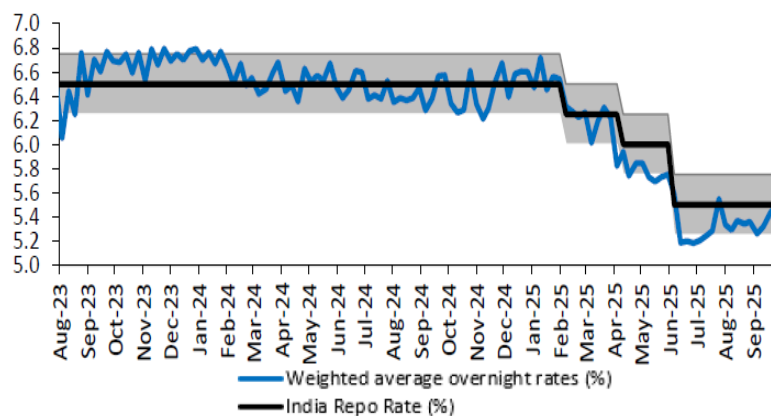


Figure 20. - Overnight rates align close to the Repo rate (shaded area is policy corridor)



- The banking system liquidity moderated in September after being in surplus for the last few months.
- The 100 bps CRR cut, rolled out in four tranches from September to November 2025, will bring the ratio down to 3% and infuse ₹2.5 lakh crore of liquidity by year-end, aiding smoother policy rate transmission.
- Weighted Average Overnight Rates have inched back and are now anchored to the Repo Rate
- Accrual oriented strategies, to our mind, would benefit from the excessive liquidity seen in the banking system as term premia is expected to collapse in this segment of the term structure.

Fixed Income Outlook

Fixed Income: Accrual > Duration

India's FY26 Second Half Borrowing Under Different Maturities

■ Percent

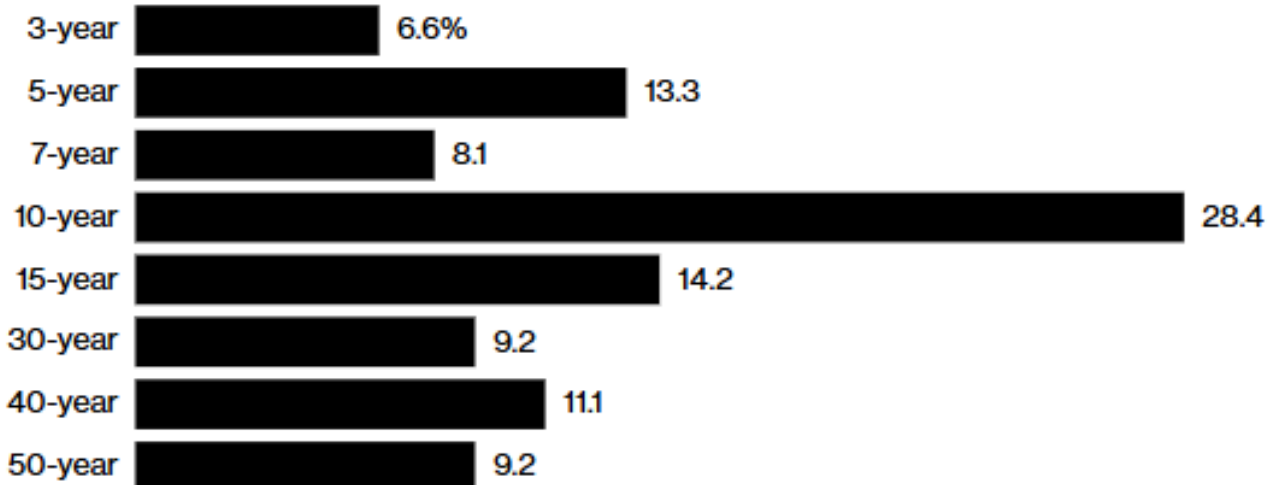


Figure 21.

- ▶ GOI retained the bond-sale target at Rs. 6.77 lakh cr (\$76.3 billion) for the second half of the fiscal year ending March 2026
- ▶ Of that, 29.5% will be in the 30- to 50-year maturity bucket, down from 35% in the first half
- ▶ The government plans to sell 28% of its bonds in maturities of less than 10 years in the fiscal second half, up from 24.8% in the first half. The share of the benchmark 10-year bond will also rise to 28.4%, from 26.2% in April–September
- ▶ Demand from insurers — traditionally among the biggest buyers of sovereign debt — is fading
- ▶ Some of India's largest pension funds are also cutting back purchases after rule changes allowed them to boost equity exposure.

Fixed Income Outlook and Allocation Strategy



Outlook

- RBI maintained status quo on rates in Oct-25 and continued to hold on to its policy stance indicating future action, if any would be data dependent. With Repo Rate at 5.50% and view on durable liquidity positive, the recent transmission into market interest rates has seen acceleration.
- While debate around the terminal rate may persist amid shifting views on further easing, the jury is still out on incremental repo rate cuts from here. As highlighted earlier, as external volatility reshapes market expectations, a dynamic and continuously reassessed approach to duration remains essential.
- Given Fed's rate cut, the spread between Fed Funds rate and the Repo rate has increased to 125bps-150bps v/s historical averages of 350bps-400bps.
- The compelling opportunity that duration strategies have offered over the past 18m seems to have significantly played out for now. Incrementally, positioning majority of the fixed income portfolio into duration-driven funds may have marginal value addition in our view.
- The curve has steepened and is expected to steepen further given GOI sticking to its H2FY26 borrowings calendar with ~70% and higher supply coming in bonds with 10yr and longer-term maturities. This, coupled with a tepid demand from traditional bond buyers in this space viz. Insurance and Pension funds, we expect the long-term yields to be in range. Limited supply, outside chance of a rate cut, impending CRR reduction and RBI's active liquidity management could mean the short to medium term yields could come off further (bull steepening).



Deployment Strategy

- We, thus, suggest allocating upto 45% of fixed income portfolio towards accrual-oriented strategies. Consequently, allocation to dynamic / long duration strategies would be upto 20% of fixed income portfolio.
- Credit environment continues to remain stable, and credit spreads remain attractive. Thus, balance 35% allocation of fixed income portfolio is suggested towards high yielding assets (bonds /funds).

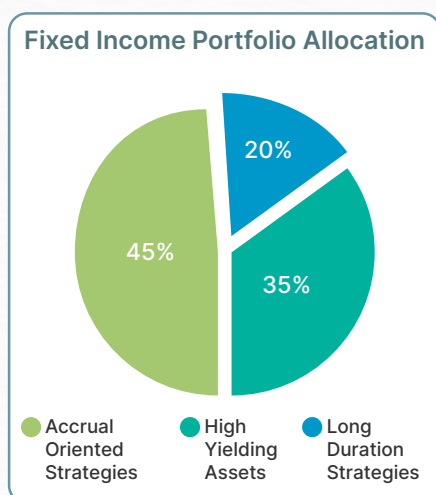


Figure 22.

Category	Outlook
Fixed Income	Positive on overweight strategies focusing on 2yr – 5yr segment of the yield curve

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