Wealth Management Investment Strategy

December 2025 – *Executive Summary*

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GDP and Q2FY26 Earnings Surprise On The Upside

KEY TAKEAWAY

- *GDP growth in Q2FY26 stood at a higher-than-anticipated 8.2% YoY in Q2FY26 (7.8% in Q1), vs IDFC FIRST Bank estimate of 7.3% and Bloomberg consensus of 7.4%.*
- *India's trade deficit jumped to a high of US$41.7bn in Oct'25 (US$32.2bn in Sep'25), led by jump in gold imports (US$14.7bn vs US$9.6bn in Sep).*
- *Top line growth rose to 8.1% YoY for the Nifty 500 despite ongoing geopolitical turmoil and likely deferment of consumption ahead of the GST cuts.*
- *SMIDs have buoyed PAT growth of the Nifty 500 in Q2FY26, delivering ~27% YoY growth vs 12.7% in Q1FY26 and ~10.4% in Q2FY25.*
- *RBI MPC cut the Repo Rate by 25bps to 5.25% and retained stance at 'neutral'. Revised FY26 GDP estimate to 7.3% (6.8% earlier) and inflation estimate lower to 2.0% (2.6% earlier).*

India Macro Update - *Tracking Key Macro Factors*

Brent Crude
Crude oil prices ended ~1.3% lower in November on concerns over ample supply and tepid demand. Additionally, concerns over a likely peace deal between Russia and Ukraine likely adding to supply if sanctions on Russia are eased weighed on crude oil prices.

Currency
The INR declined ~0.8% vs the USD in November (DXY fell by 0.35%) amid a delay in US-India trade deal, continued FPI outflows and widening deficit. Depreciation pressures on the INR in FY26 have been mitigated to some extent by the RBI via intervention in FX markets resulting in a substantial drain in liquidity.

Q2GDP
GDP growth in Q2FY26 stood at a higher-than-anticipated 8.2% YoY in Q2FY26 (7.8% in Q1), vs IDFC FIRST Bank estimate of 7.3% & Bloomberg consensus of 7.4%. Growth was broad-based led by manufacturing (9.1%) & services (9.2%) on the supply side, and by private consumption (7.9%) and investments (7.3%) on the expenditure side.

Manufacturing & Services PMI
The HSBC India Mfg. PMI eased to 56.6 in Nov'25 vs 59.2 in Oct'25 reflecting softer new order inflows and challenging market conditions. The HSBC India Services PMI printed at 59.8 (vs 58.9 in Oct). The faster expansion in the services sector was supported by a stronger growth in new orders.

GST
Gross GST collections in Nov'25 (for activity in October) rose marginally by 0.7% YoY to INR1.70tn, reflecting the impact of recent tax cuts on various items, which led to slower growth.

Corporate Earnings
Top line growth rose to 8.1% YoY for the Nifty 500 despite ongoing geopolitical turmoil and likely deferment of consumption ahead of the GST cuts. PAT growth stood at a healthy ~15.5% YoY vs ~12% in the previous quarter. SMIDs have buoyed PAT growth of the Nifty 500 in Q2FY26, delivering ~27% YoY growth.

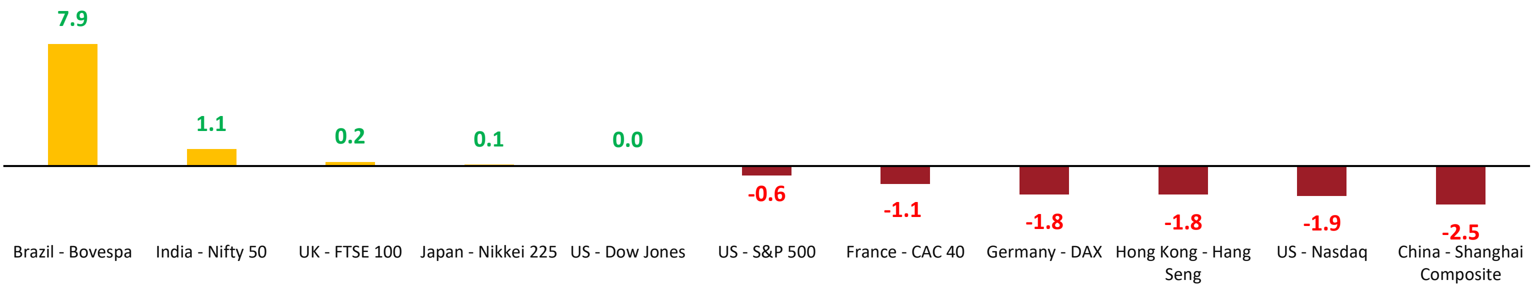
Auto Sales
Retail auto sales witnessed robust growth as sentiment improved following the GST rate cuts announced by the government amid the festive season.

Outlook – *(Source - IDFC FIRST Bank Economics Research, As On 6th December 2025)*

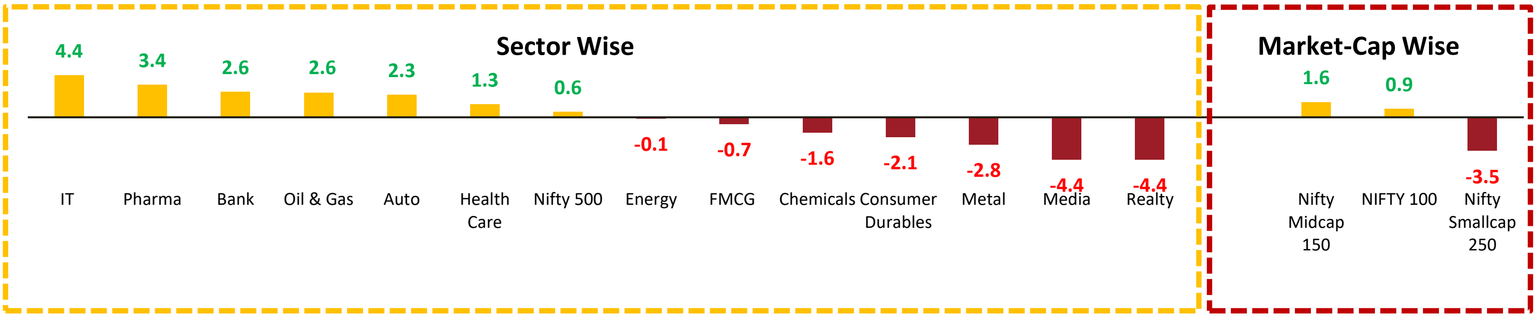
- **Real GDP growth for FY26 is revised up to 7.6% (from 6.8%) incorporating the higher Q2 print and strong growth momentum in Q3 supported by the GST cut.**
- **Headline inflation for FY26 is tracking at 2% and for FY27 at 3.9%. Preliminary estimates for Nov'25 are tracking at 0.6%.**
- **We expect a status quo in the February policy, as forward-looking inflation rises to 4% in H1FY27, in line with RBI estimates.**
- **Currency - In case a trade deal with US is announced we could see the INR gaining over the near-term. However, post that we expect depreciation to continue at a moderate pace.**

Equity Market Update

Global Indices Performance (%) - November 2025



Domestic Indices Performance (%) - November 2025



Performance shown above is based on total returns for respective sectoral indices of the NSE. Data as on 30th November 2025, Source: ACE MF

- **Frontline Indices** – Indian equities ended the month marginally higher amid easing inflation, upbeat earnings, and expectation of a rate cut by the US Fed. Concerns over uncertainty over the trade deal with the US and some profit-booking by investors following the sharp rise in October weighed on sentiment to some extent.
- **IT** – IT sector outperformed in November due to likely value-buying and on strengthening expectations of further rate cuts by the US Fed amid a weakening labour market.
- **Pharma** – Pharma sector did well in November amid steady demand for Indian generics and approvals from US FDA for certain generic drugs.

- **Realty** – The sector underperformed on concerns over rich valuations and over further rate cut by the RBI amid robust growth.

Equity Outlook –

We try to understand equity markets based on following three important pillars:

Valuations

Neutral

- Nifty's 12-month forward PE is at 20.66x vs current PE of 22.79x. Nifty Midcap 150's 12-month forward PE is at 28.39x vs current PE of 33.37x, Nifty Smallcap 250's 12-month forward PE is at 25. 37x vs current PE of 29.24x (As on 1st December 2025).
- **From a Valuation perspective – Large caps look most attractive, followed by small caps & then midcaps**

Earnings

Neutral

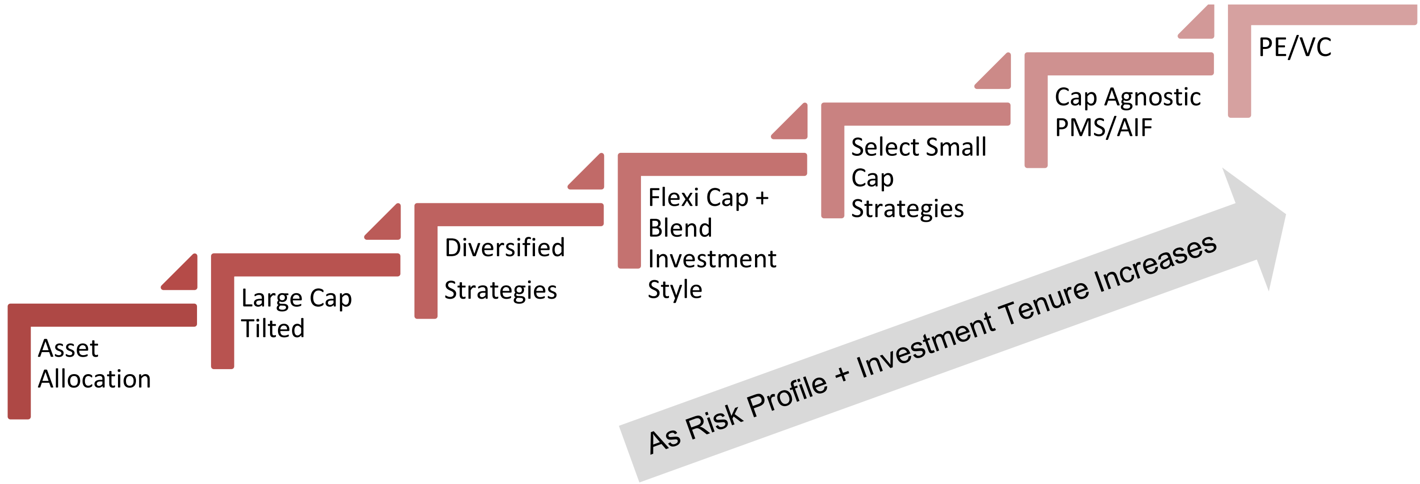
- Despite the near-term challenges and uncertain macro environment, the medium-to-long term growth outlook for India seems intact, which should support earnings growth.
- **Nifty 50 earnings growth^ is expected to clock close to ~8% growth in FY26, and ~14-16% CAGR over FY26-28.**

Volatility

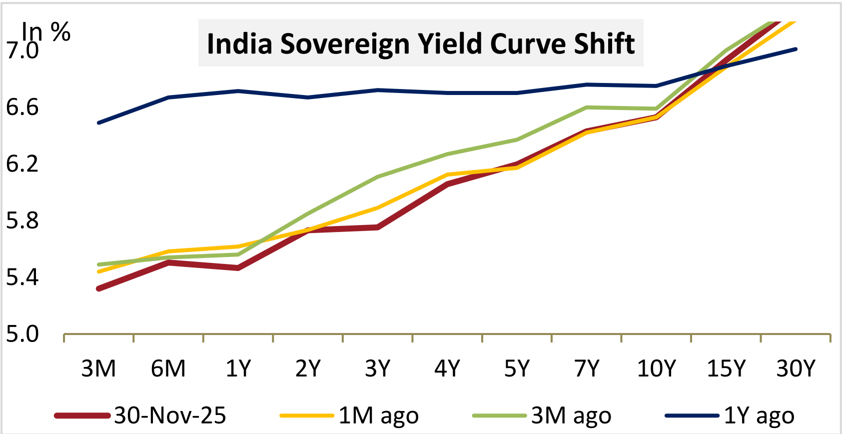
Neutral

- Nifty VIX ended at 11.62 (as on 28th November 2025) vs 12.15 (as on 31st October 2025).
- **Domestic and global macros, geopolitics, crude oil prices and global yields to drive the volatility index going ahead.**

Equity Investment Strategy



Debt Market Update



Global Bond yields (%)	30-Nov25	1M ago	1Y Ago
US 10 – Year	4.02	4.08	4.18
UK 10 – Year	4.44	4.41	4.24
Germany 10 – Year	2.69	2.63	2.09
Japan 10 - Year	1.81	1.66	1.04
India 10 – Year	6.53	6.53	6.75

***Data as on 30th November 2025, Source- Investing.com**

- **Indian 10Y benchmark yield** ended on a flattish note in November. During the month, bond prices faced pressure on uncertainty over further rate cuts by the RBI, tepid demand and strong GDP prints. Declining inflation and likely inclusion in Bloomberg Global Aggregate index lent some support to bond prices.

- **U.S. Treasury yields:** The US 10Y yield fell by ~6bps in November amid growing expectations of a rate cut by the US Fed owing to weakening labour market conditions (uptick in unemployment and continuing jobless claims) and declining consumer confidence.

- **Euro zone:** German 10Y yield rose by ~6bps MoM to 2.69% in November following a higher-than-anticipated borrowing for 2026 and tracking the rise in Japanese treasury yields. UK 10Y yield inched up by ~4bps MoM as uncertainty over the budget for next fiscal year weighed on prices.

- **Japanese 10Y yields** ended higher MoM by ~15 bps on concerns over fiscal expansion following the new Prime Minister who is considered a fiscal dove and amid depreciation pressure on the Yen. Rising hopes of a rate hike by the BoJ also weighed on bond prices.

Debt Outlook –

We try to understand debt markets based on following three important pillars:

Interest Rate

Neutral

- **We expect a status quo in the February policy, as forward-looking inflation rises to 4% in H1FY27, in line with RBI estimates.**
- **10-Yr G-sec yield is expected to range between to 6.35% to 6.55%.** Upward pressure on yields reflects higher supply in H2FY26 (G-sec plus SDLs) and tepid demand.

Liquidity

Neutral

Banking system liquidity has been comfortable during November supported by the phased CRR cut. While core liquidity has been in surplus, it has dipped to a surplus of ~INR3.3tn (as of 22nd November 2025) v/s recent peak of INR6tn (as of 23rd May 2025).

- **Additional durable liquidity infusion needed in Q4FY26 is estimated at INR2tn via OMOs of ~INR1.5tn in Q4FY26 and a US$5bn buy-sell swap.**

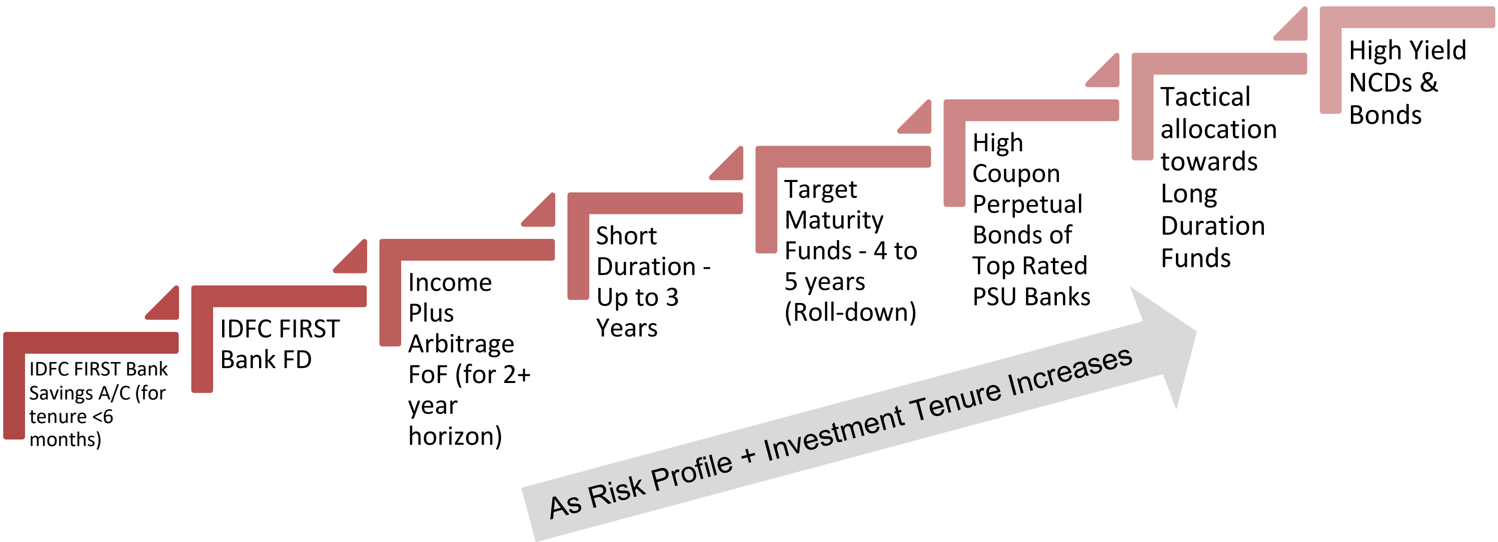
Credit Risk

Neutral

- **Spreads on offer versus additional risk taken are modest –** risk-reward doesn't favour taking credit risk via low rated category as a whole. However, selective buying can be rewarding.
- **Markets are illiquid in low rated segment,** look at company specific opportunity.

****IDFC FIRST Economics Research estimate as on 5th December 2025***

Debt Investment Strategy



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