Wealth Management Investment Strategy

January 2026 – *Executive Summary*

IDFC FIRST Bank

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Recap of 2025

KEY TAKEAWAY

- ***CY25 concluded with yet another year of positive returns for the Indian markets, marking ten consecutive years of positive returns.***
- ***Precious metals such as Gold and Silver outperformed in 2025 buoyed by safe-haven demand amid persistent geo-political tensions, rate cuts by central banks, weakness in DXY and central bank buying. Gold delivered ~64.6% returns (USD terms), while Silver delivered a whopping ~148% return in 2025.***
- ***Central Banks in advanced economies were on a rate cutting spree in 2025 amid headwinds to growth emanating from the tariff war unleashed by US President Trump and inflation trajectory broadly aligning with their respective targets. US Fed cut rates by 75bps, ECB by 100bps while BoJ raised rates by 50bps.***
- ***The DXY weakened sharply in 2025 (-9.4%) amid concerns over US economic growth following the Tariff war unleashed by US President Trump and concerns over debt sustainability.***

India Macro Update - *Tracking Key Macro Factors*

Brent Crude

Crude oil prices ended ~3.0% lower in December. Prices fell during first half of the month on concerns over oversupply as peace talks between Russia and Ukraine progressed.

Currency

Rupee was among the worst performing currencies in 2025 depreciating ~5.0% in 2025. The dollar index (DXY) declined 9.4% amid concerns over US economic growth following the Tariff announcements.

Commodities

Precious metals such as Gold and Silver outperformed in 2025 buoyed by safe-haven demand amid persistent geo-political tensions, rate cuts by central banks, weakness in DXY and central bank buying. Gold delivered ~64.6% returns (USD terms), while Silver delivered a whopping ~148% return in 2025.

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.

Lead Indicators

High frequency indicators show robust momentum in November: A pickup in bank credit, healthy services exports, freight activity (likely aided by GST rate cuts and festive demand), strong steel consumption, and resilient auto sales (especially tractors, and PVs) point to robust activity.

Center's Revenue & Capital Expenditure

India's revenue expenditure has seen flattish growth in 7MFY26. Capex growth has been robust at ~32.4% in the fiscal year (till October).

Auto Sales

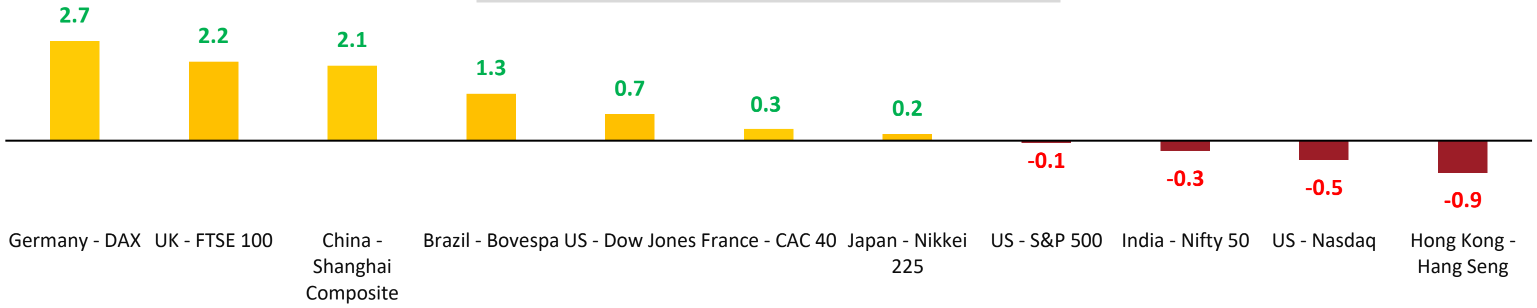
Wholesale domestic PV volumes eased by 10.5% MoM to 412k units in Nov 2025 from the peak seen in Oct 2025 amid strong festive demand. Wholesale tractor volumes rose to record 166k units in Oct 2025 in anticipation of strong festive demand.

Outlook – *(Source - IDFC FIRST Bank Economics Research, As On 31st December 2025)*

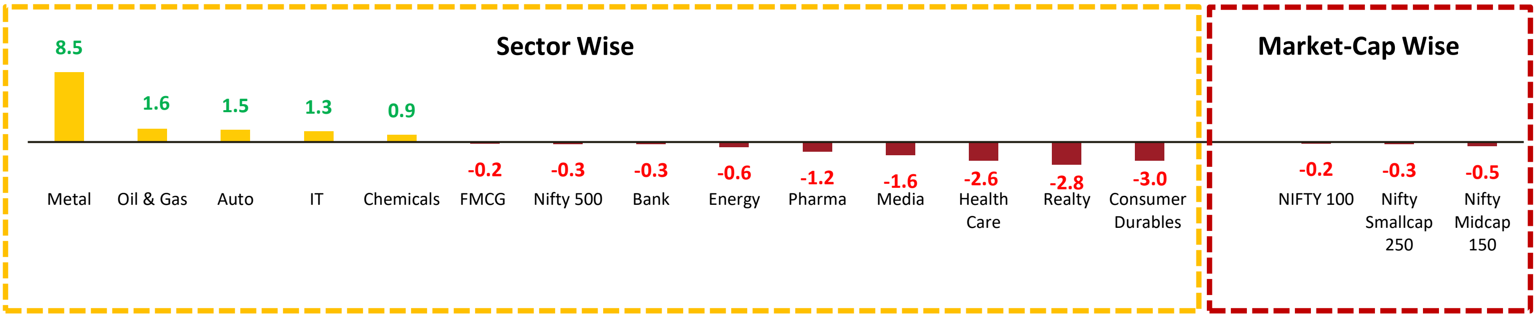
- **FY26 real GDP growth is revised-up to 7.6% (from 6.8% previously) incorporating the higher Q2 print and strong growth momentum in Q3 supported by the GST cut.**
- **Preliminary estimate for December CPI inflation is tracking at 1.7%, reflecting adverse base-effect. FY26 CPI inflation is tracking at 2.0% in line with RBI's estimate. And FY27 inflation is tracking at 4.2%.**
- **We expect RBI to stay on pause in February policy.**
- **Currency - In case a trade deal is announced between India and the US, it will ease the pace of INR depreciation. However, depreciation may persist due to weak capital flows.**

Equity Market Update

Global Indices Performance (%) - December 2025



Domestic Indices Performance (%) - December 2025



Performance shown above is based on total returns for respective sectoral indices of the NSE. Data as on 31st December 2025, Source: ACE MF

- **Frontline Indices** – Indian equities ended December marginally lower amid persistent outflows by FPIs, weakness in the rupee and uncertainty over the much-awaited trade deal with the US. Investors resorted to profit-booking as sentiment remained tepid during the month, albeit the Fed rate cut did provide some support.
- **Metals** – Metal stocks outperformed in December buoyed by expectations of further rate cuts by the Fed in 2026, a softer dollar, tight supply and expectations of stimulus measures in China.
- **IT** – IT stocks have outperformed recently on expectations of further rate cuts by the US Fed amid softer inflation, value-buying and a weaker rupee boosting earnings prospects.

- **Realty** – The sector underperformed on concerns over weak earnings, 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 20.41x vs current PE of 22.76x. Nifty Midcap 150's 12-month forward PE is at 28.03x vs current PE of 33.70x, Nifty Smallcap 250's 12-month forward PE is at 25.11x vs current PE of 29.35x (As on 1st January 2026).
- **From a Valuation perspective – Large caps look most attractive, followed by small caps & then midcaps**

Earnings

Neutral

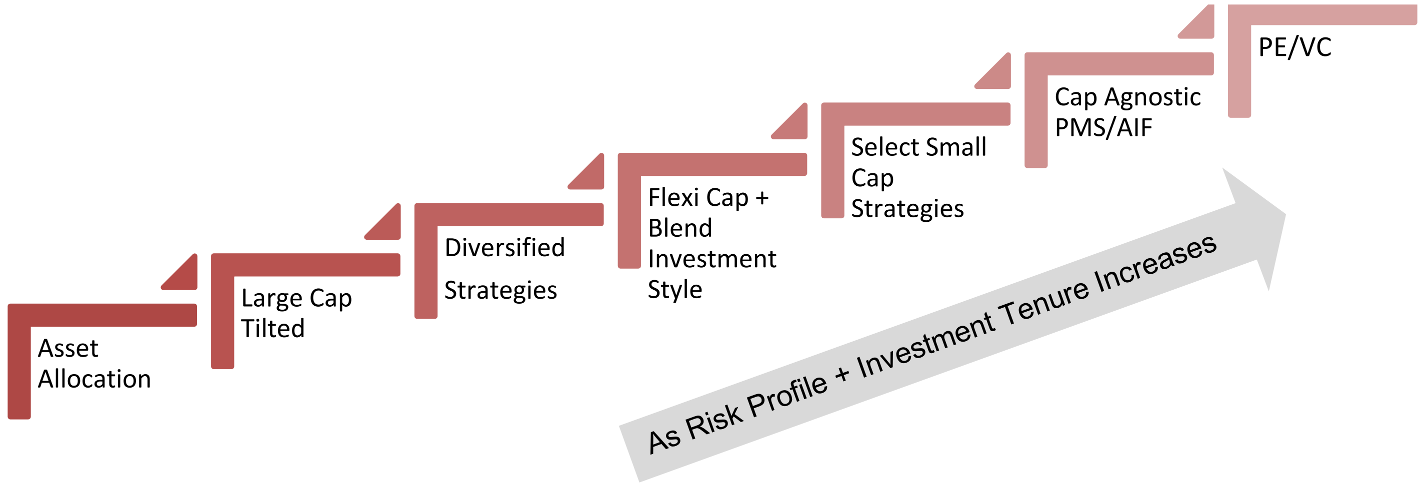
- Despite the near-term challenges and uncertain macro environment, the medium-to-long term growth outlook for India seems intact, which should support earnings growth.
- **Nifty 50 earnings growth^ is expected to clock close to ~7% growth in FY26, and ~12-13% CAGR over FY26-28.**

Volatility

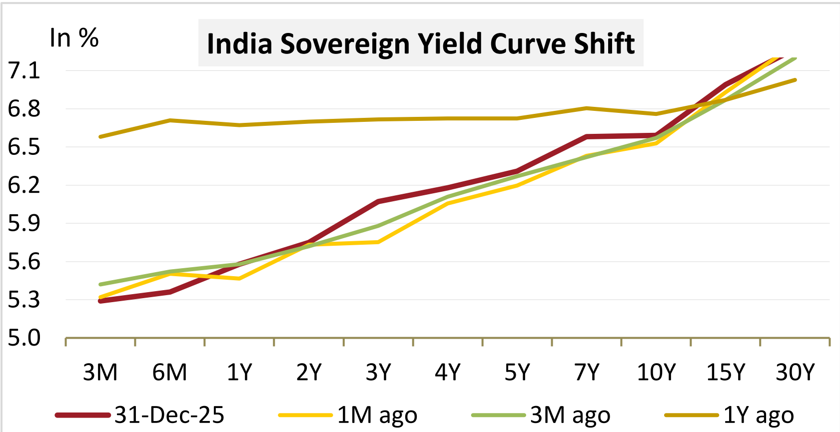
Neutral

- Nifty VIX ended at 9.48 (as on 31st December 2025) vs 11.62 (as on 28th November 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 (%)	31-Dec-25	1M ago	1Y Ago
US 10 – Year	4.15	4.02	4.57
UK 10 – Year	4.47	4.44	4.57
Germany 10 – Year	2.86	2.69	2.36
Japan 10 - Year	2.08	1.81	1.08
India 10 – Year	6.59	6.53	6.76

Data as on 31st December 2025, Source- Investing.com

- **Indian 10Y benchmark yield** ended on up 6bps in December. During the month, bond prices faced pressure on concerns over higher supply particularly from state governments and a slide in the rupee past the 91 mark. Bonds saw some support amid OMO purchase auctions announced by the RBI and a USD10bn swap in January 2026, tepid inflation and prospects of likely inclusion in Bloomberg Global Aggregate.

- **U.S. Treasury yields:** The US 10Y yield rose by ~13 bps on concerns that the easing cycle may be shallower than anticipated amid high inflation despite weaker labour market conditions. US Fed cut rates by 25bps to 3.5 to 3.75% in line with expectations.

- **Euro zone:** German 10Y yield rose by ~17bps MoM to 2.86% in December tracking the rise in Japanese treasury yields and expectations of no further rate cuts gaining traction. The ECB held rates unchanged for the 4th straight fixing with the main refinancing rate at 2.15%. UK 10Y yield inched up by ~3bps MoM. The BoE cut policy rate by 25bps to 3.75% (voted 5:4) amid easing inflation and rising concerns on growth.

- **Japanese 10Y yields** rose by a steep ~27bps MoM amid expectations of a rate hike by the BoJ to tackle persistently high inflation, concerns over expansionary fiscal policy and a weaker Yen. The BoJ raised rates by 25bps to 0.75% in its December fixing.

Debt Outlook –

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

Interest Rate

Neutral

- **A rate cut could materialize if downside risks to growth emerge likely due to persistent tariff pressures or consumption recovery not sustaining beyond the festive season.**
- **10-Yr G-sec yield is expected to range between to 6.50% to 6.70%.** Upward pressure on yields reflects higher supply in Q4FY26 (led by SDLs) and tepid demand.

Liquidity

Neutral

Banking system liquidity turned to deficit following tax payments in mid-December. While core liquidity has been in surplus, tracking at surplus of ~INR4.6tn (as of 26th December 2025)

- **We expect durable liquidity infusion of a further ~INR1tn via OMO purchases during Feb-Mar 2026.**

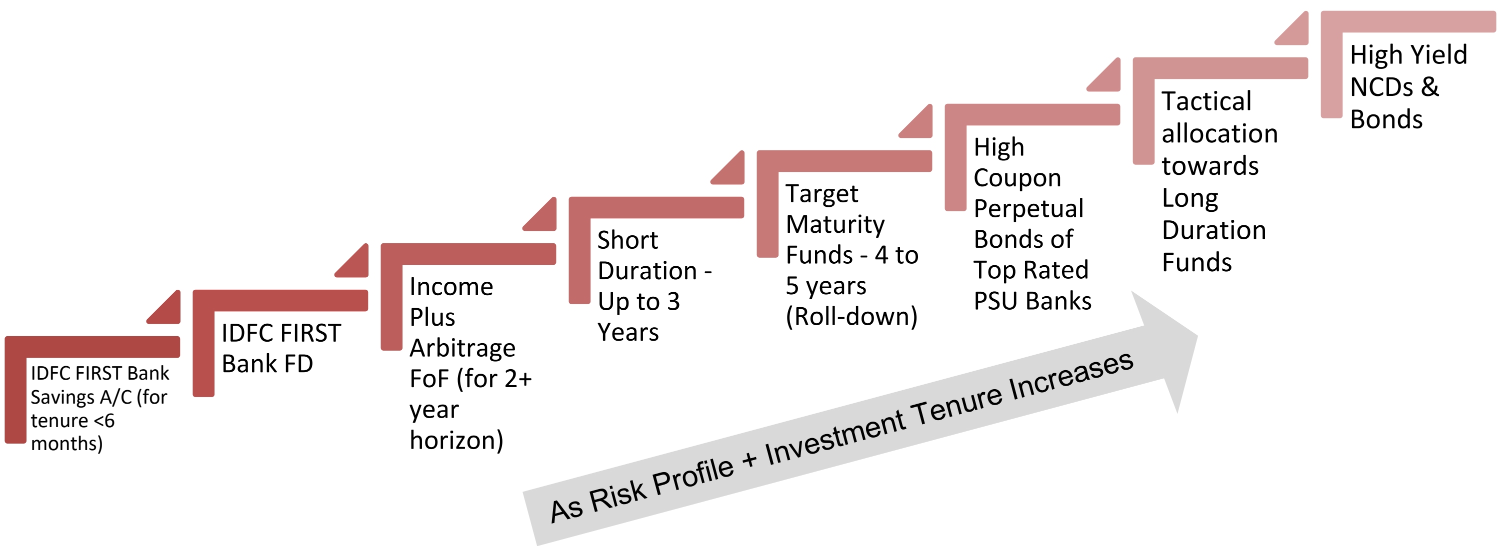
Credit Risk

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 31st December 2025***

Debt Investment Strategy



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