

# Annual Report for Policy Holders – Economic Update

MARCH 2026



*Sar utha ke jiyo!*

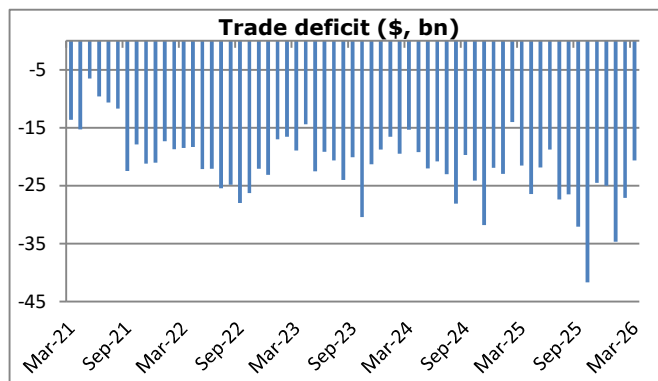
**Economic Update**

Financial year 2025-26, was characterized by elevated volatility, primarily from external factors. However, domestic resilience helped the economy navigate the turbulent year.

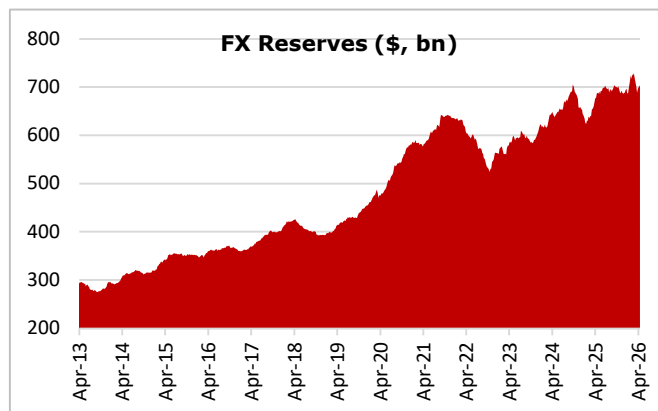
The key source of volatility were the trade tariffs imposed by the US on its trading partners, to gain favourable trading terms. While a number of countries negotiated a quick deal with the US, by acceding to US demands, the negotiations between India and the US stretched over many months, before an interim agreement was reached in early February. During the period of the negotiations, the US had imposed a steep tariff of 50% on Indian exports to the US, effectively closing out India’s largest export destination for almost the full year. During the year, India also concluded trade negotiations with a number of other countries with relatively beneficial terms, notably with the UK and the EU, among others. These agreements will come into effect over the course of the coming year.



Despite the external headwinds, economic growth stayed robust, supported by domestic consumption and Government capex. The Government eased the direct and indirect taxes (GST) during the year, providing a fiscal boost to the economy. RBI, too, eased interest rates through the year, to provide a monetary policy fillip as well. India’s economy is estimated to have grown about 7.6% through year 2025-26.



The trade disruptions during the year, due to the US tariffs, were visible in the trend of India’s merchandise trade deficits. The monthly deficit hit a peak of USD 41.7 bn in October’25, with the full year goods trade deficit rising to about USD 333 bn from USD 283.5 bn in the previous year. The sharp rise in prices of gold also pushed up the value of gold imports, which also contributed to the widening deficit.

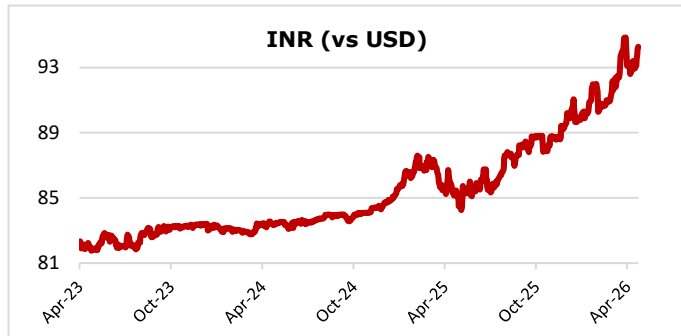
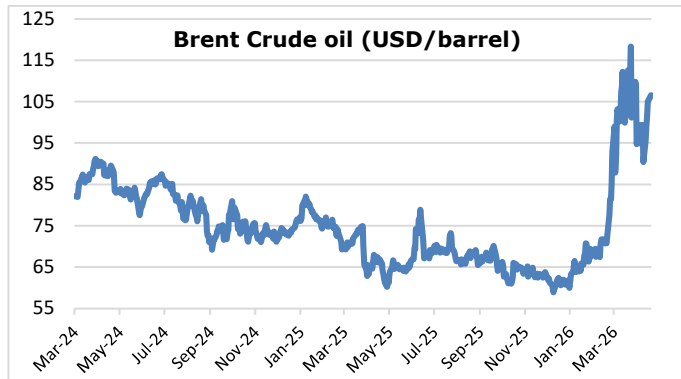
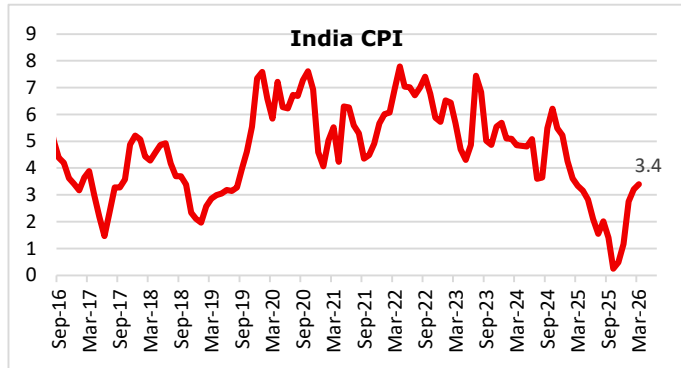


However, despite the deterioration in the merchandise trade deficit, the overall current account deficit stayed contained, as the ‘invisibles’ (services

exports and remittances) were robust. Services surplus was about USD 213 bn, growing from USD 189 bn in the previous year, while remittances are estimated to be about USD 137 bn. India's foreign exchange reserves stayed close to all time highs over the course of the year, around the USD 700 bn levels.

CPI inflation stayed subdued during the year, providing RBI sufficient room to ease interest rates, to support growth, at a time when the economy was facing external headwinds. The CPI growth hit multi-year lows at 0.25% in October 2025. Average full year inflation was at 2.0% versus 4.6% in the previous year.

At the end of February, the US attacked Iran with the objective of halting Iran's efforts at developing nuclear weapons. The war led to a sudden closure of the Strait of Hormuz, causing oil prices to spike higher. While all asset markets were affected due to the sudden breakout of war, the Indian currency saw a significant move. Crude oil forms a significant portion of India's import basket, and the sharp rise in crude oil prices exposed the Rupee to greater pressures. The INR ended the year at 94.83 per USD, weakening about 11% from the 85.46 per USD at the end of the previous year.



## Market Update

### Equity Markets

After a tepid performance in the previous year, equity markets were poised to accelerate in 2025-26, driven by the uptick in domestic consumption and sustained public capex. However, the external developments cast a shadow over market sentiments. The war in the month of March negated all the gains of the previous months. The Large cap Nifty index ended the year about 5% lower than the previous year end, as an 11% fall in March alone dragged returns to negative territory. The Mid-cap segment fared slightly better, as the Mid-Cap index ended about 1.9% higher than the levels at the end of the previous year.

### Portfolio positioning and Risk Management

The equity portfolios were positioned with greater exposure to domestic growth and recovery of domestic consumption. In view of the volatility due to the tariff led uncertainty and changes in global supply chains, the portfolios were focused towards domestic oriented sectors like financials, where the improvement asset quality was sustainable, and auto, auto ancillaries, consumer goods, etc which benefit from the resurgence of consumption. The portfolios remained under-weight in key globally linked sectors like commodities and metals. The portfolio allocations are dynamically managed to account for the changes in outlook for the investee companies and the corresponding changes in valuations within the overall risk management framework.

We follow robust risk management policies in our funds. The portfolio deviations with respect to the respective benchmarks is maintained within defined risk limits. We have defined stock and sector level underweight / overweight positions limits vis-a-vis the benchmark and we actively track such deviations. Deviations are highlighted to portfolio manager and corrective action, if required, is taken in timely manner.

### **Fixed Income Markets**

The fixed income markets saw moderate returns as the softening yields seen in the initial part of the year reversed course, and rose towards the end of the year. While markets cheered the rate cuts by the RBI, as inflation softened far more than expected, an adverse demand-supply for bonds put yields under pressure in the second half of the year. The US-Iran war, in the last month of the year, pushed yields higher on expectations of sharp rise in inflation. The 10-year benchmark GSec yield hardened to 7.03% by the end of the year, from 6.58% at the end of last year.

### **Portfolio Positioning: Duration Strategy and Risk Management**

The bond portfolios were dynamically managed with active duration management through the year. Bond portfolios were maintained at an over-weight duration position through the initial part of the year, over expectations of further rate cuts and a benign inflation scenario. We maintained an under-weight position in credit exposures, as the spreads remained narrow.

During the year, investments were maintained as per our investment policy and all prudential limits and regulatory guidelines were adhered to at all points during the year. Credit risks in the portfolios were also monitored closely. Addition of new credit exposures were made after a thorough analysis and due diligence process. Existing credits were monitored regularly for any developments that could be beneficial or detrimental to the companies' financials.