

MONTHLY UPDATE

DECEMBER 2025

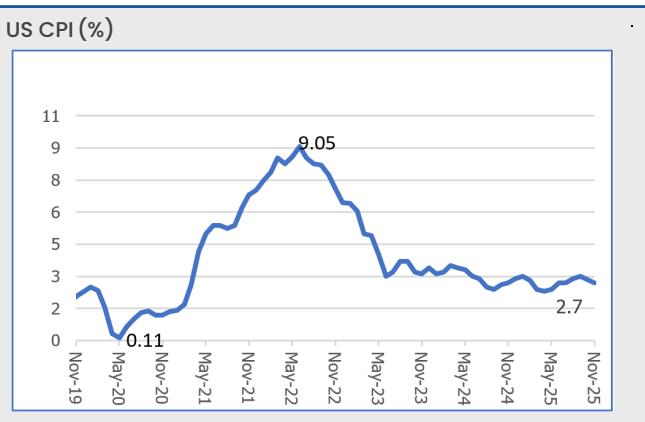


Market Outlook

HDFC Life – Monthly Update (January 2026)

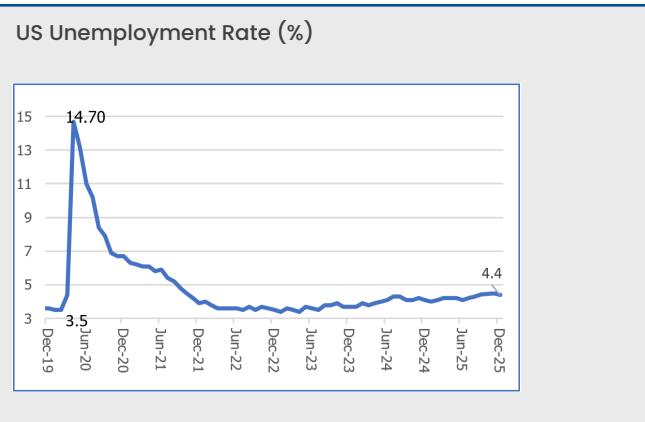
Global Macro Review

US CPI (%)



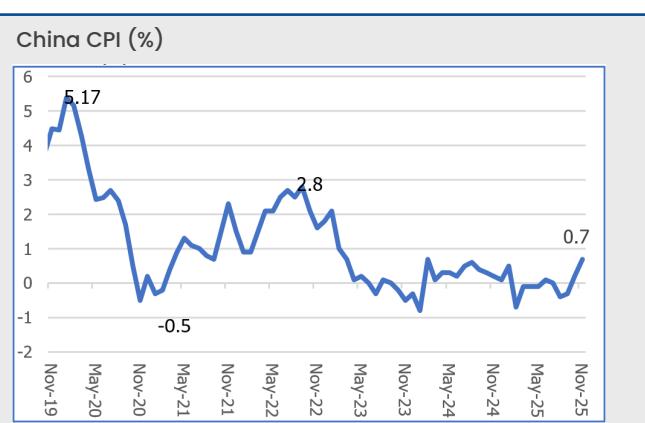
■ The US CPI report, which was delayed by the shutdown, showed inflation rose below expectations in November at 2.7% vs 3.0% expected. On a sequential basis too, inflation rose at a softer pace of 0.2% MoM from September to November. However, concerns about the accuracy of this print remain in place given that there was no data collection in October and that it did not start until mid-November. Hence, it is quite possible that these latest estimates are distorted and possibly exaggerating the disinflation trend.

US Unemployment Rate (%)



■ The US non-farm payrolls for December came weaker at 50k vs 70k expected with private payrolls up just 37k vs 75k expected and the last two months revised down by substantial 76k. Hiring also remains concentrated in healthcare and education which suggest employment continues to remain weak. The unemployment rate came at 4.4% for December vs 4.6% in previous month, due to fall in participation rate, partly due to revised seasonal factor and partly due to distortion due to the government shutdown.

China CPI (%)

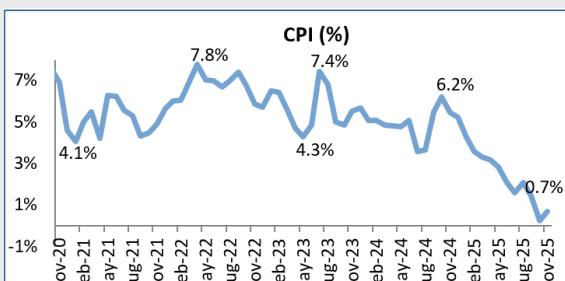


■ China's CPI reading came in line with expectations in November. CPI rose to 0.7% YoY, the highest reading since April'24. Core CPI stalled after 6 months of increase as sequential reading turned negative at -0.1% MoM, the first negative reading since Feb 2025. The high frequency indicators like retail sales, industrial production, fixed asset investments and property sector continue to show signs of weakness. Markets expect policy makers to continue its support through proactive fiscal and loose monetary policy in coming year as well.

India Macro Review

CPI Inflation (%)

CPI Inflation %



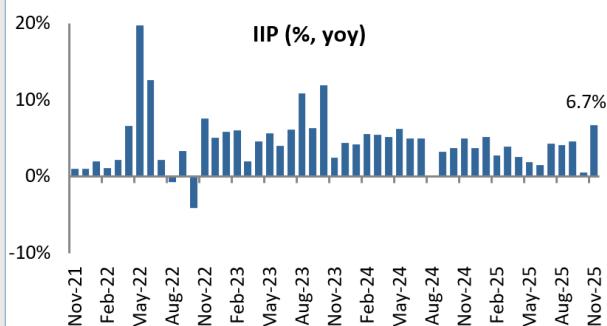
Source: MOSPI

■ Inflation (CPI) for Nov'25 marginally picked up to 0.7% vs. 0.3% in Oct'25 as food CPI, which constitutes 45.9% of the index, deflated to 2.8% in Nov'25 from 3.7% deflation in Oct'25.

■ Core CPI excluding food and fuel which constitutes 54% of CPI remained stable at 4.3% in Nov'25.

Industrial Production Index (IIP)

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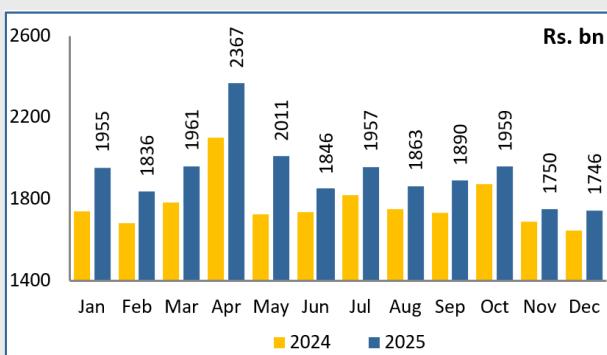


■ Industrial Production (IIP) growth for Nov'25 jumped 6.7% vs. 0.5% in Oct'25 due to sharp surge in Manufacturing output to 8% in Nov'25 vs. 2% growth in Oct'25 and Mining output jump to 5.4% in Nov'25 vs. 1.8% contraction in Oct'25. However, Electricity growth contracted to 1.5% in Nov'25 vs. 6.9% contraction in Oct'25.

■ The increase in the Industrial production index reflects increasing momentum in production activities. However, monthly IIP numbers can be volatile and difficult to draw a trend from the same.

GST Collection (Rs. bn)

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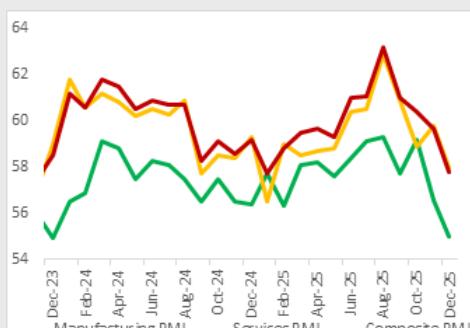
■ GST revenues for the month of Dec'25 came to Rs. 1.7tn showing a 6.1% YoY growth vs. Rs. 1.65tn in Dec'24.

■ Within GST collection, growth was led by IGST at 8.4% yoy, followed by growth in CGST and SGST by 4.4% yoy and 2.1% yoy respectively in Dec'25.

India Macro Review

PMI

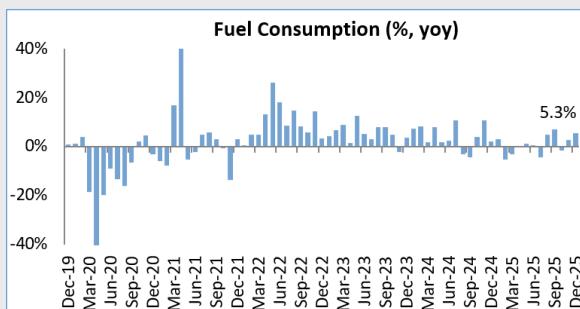
PMI



- PMI (manufacturing) slowed to 55 in Dec'25 vs. 56.6 in Nov'25. PMI (Services) also witnessed marginal slowdown to 58 in Dec'25 from 59.8 in Nov'25.
- Notably, PMI continuing in the expansion zone ($>=50$) indicates the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth (%)

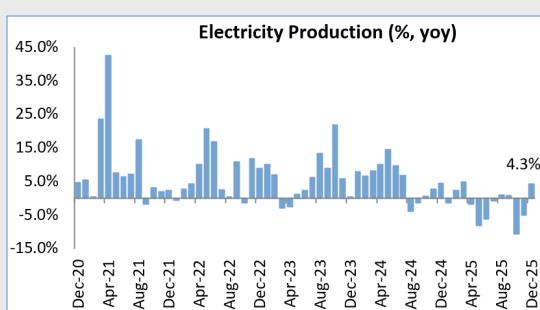
Fuel Consumption (% yoy)



- Fuel consumption grew 5.3% yoy in Dec'25 vs. 2.8% yoy growth in Nov'25. With in fuel category, diesel consumption grew 5% yoy in Dec'25 vs. 4.7% yoy growth in Nov'25. Consumption for Petrol grew 7.1% in Dec'25 vs. 2.6% slowdown in Nov'25.

Electricity Production YoY Growth (%)

Electricity Production (% yoy)

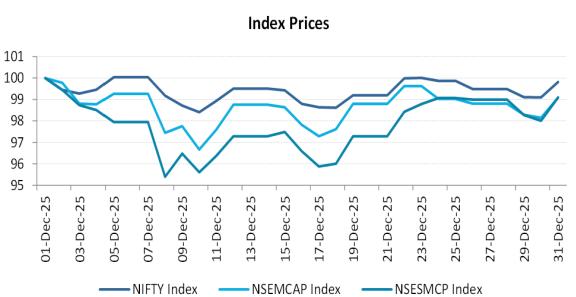


- Electricity production grew 4.3% YoY in Dec'25 vs. 5% YoY contraction in Nov'25.

Equity Outlook and Positioning

Monthly Index performance

Monthly Index performance

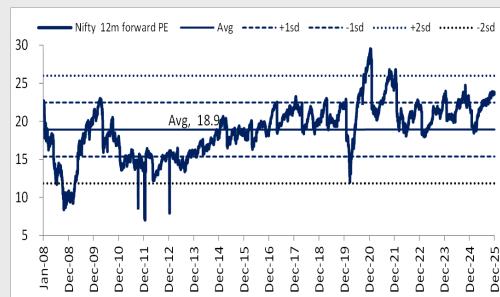


■ Equity markets were negative in Dec'25 with large cap indices outperforming midcaps and smallcap. Nifty 50 closed the month almost flat with a return of -0.2% while CNX Midcap and Small cap Index gave a negative return of 1%.

■ Outperforming sectors were Metals, Oil & Gas, Auto and IT sectors while Capital Goods, Consumer Durables, Realty and Healthcare underperformed.

Nifty Valuation (1 year forward PE)

Nifty Valuation (1 year forward PE)



Source: Bloomberg

■ We believe the policy actions taken during the year, including tax and interest rate cuts, should reflect in better earnings growth for domestic economy-oriented sectors in 2026. Key to 2026 optimism centers around recovery in earnings in Financials, aided by a bottoming out in NIMs and acceleration in credit growth, with steady asset quality trends. Additionally, consumer sector may be looking up aided by policy stimulus through 2025. These are offset by clouded outlook for export-oriented sectors like IT Services and Healthcare. Key near term risk remains uncertainty surrounding India-US trade deal. While the two countries seem close to signing a deal, a prolonged delay could be a risk as it could impact export competitiveness of India vs peers and create problem for some of India's labour-intensive sectors.

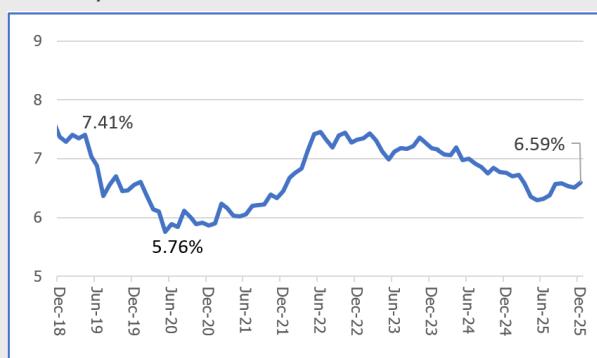
■ India's returns in 2025 have been close to the earnings growth and valuation multiples remain similar to the levels prevailing a year back. India's valuations remain elevated with Nifty trading at 21X FY27e, but we expect earnings growth to pick up in coming quarters. At the current levels, it is difficult to argue for any meaningful multiples re-rating, and expect the market returns to mirror the earnings growth.



Debt Outlook and Positioning

India 10yr Gsec chart

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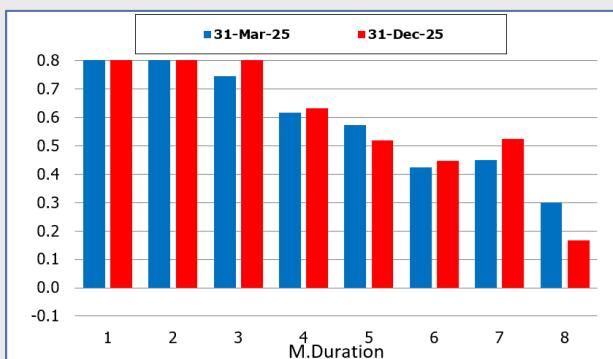


■ The US 10 Yr Treasury bond yield (UST) rose from 4.01% to 4.17% in December, primarily due to stronger than expected macro data, as also the Fed indicating that the further action will be data dependent, led to spike in UST rates.

■ In India, the 10yr bond yield touched intra month high of 6.70% tracking US yields, spike in INR vs USD due to delay in US trade deal and concern over supply of state government securities in Q4. However, with additional OMO announcement towards the end of the month, 10yr yield retraced back and closed at 6.59% for the month.

AAA Curve movement (%)

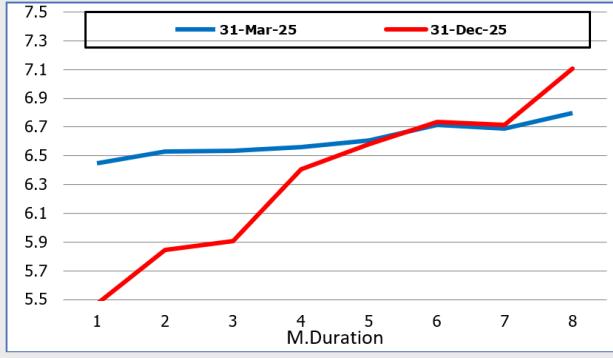
AAA Spreads



■ India CPI for Nov'25 continued to remain low at 0.71% y/y as core inflation eased to 4.3% y/y. April–November 2025 average inflation is tracking 1.8% y/y (Below lower bound of RBI's medium-term target) on food deflation and GST rate cut. YTD core inflation average ~4.25% y/y, while super-super core inflation (core inflation excluding transport and gold) continued to remain benign (YTD FY26: average ~3.1% y/y). Given this back drop, markets expect RBI to remain on hold for foreseeable future with a low probability of further 25bp cut, if growth surprises on the weaker side.

G Sec Curve Movement (%)

G Sec Curve Movement



■ The dovish Dec'25 RBI policy along with large OMO calendar for Dec'25 and Jan'26, and expectations of inclusion in Bloomberg Aggregate Index may keep yields supported in near term. However, the Fiscal deficit and the borrowing program for FY27 in the upcoming budget will remain key event for the market to watch for.



Sar utha ke jyo!

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