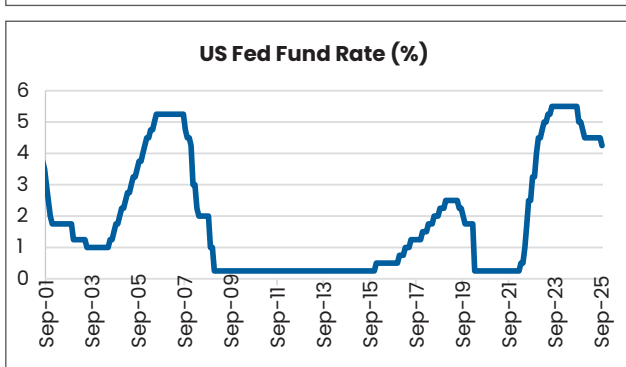
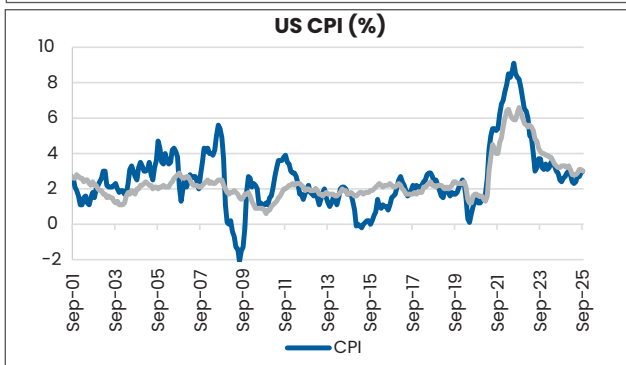
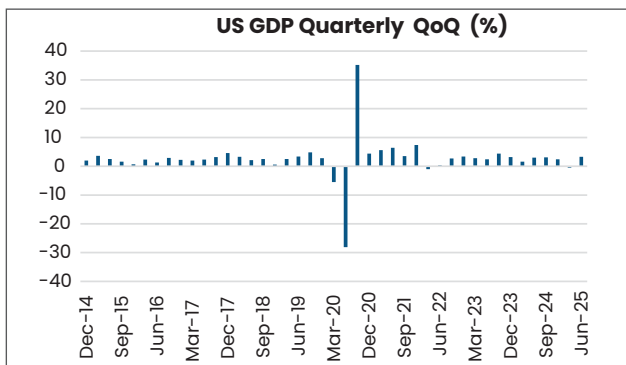




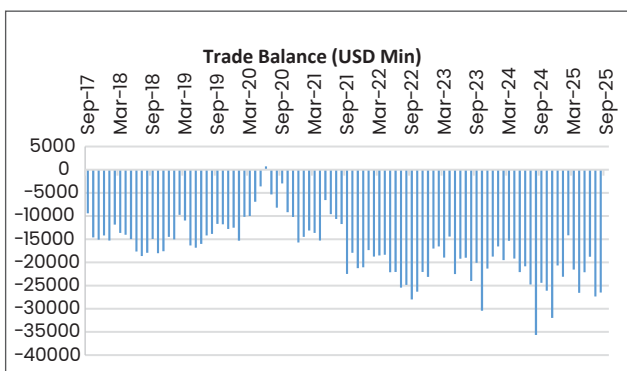
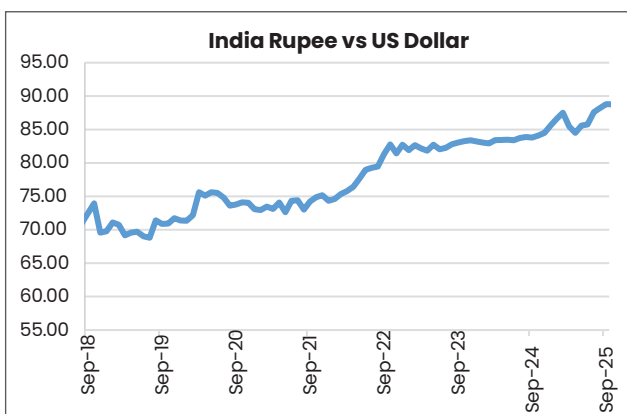
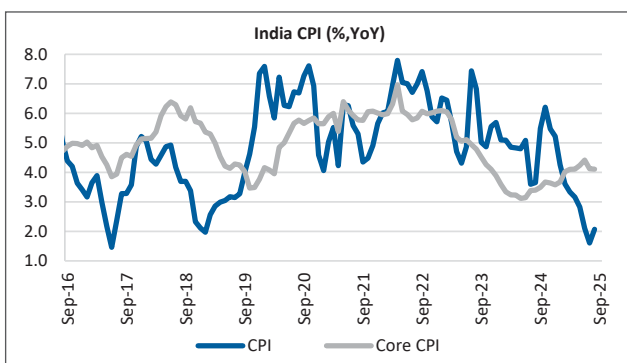
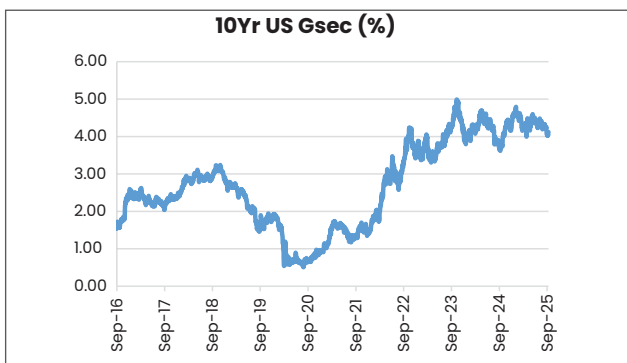
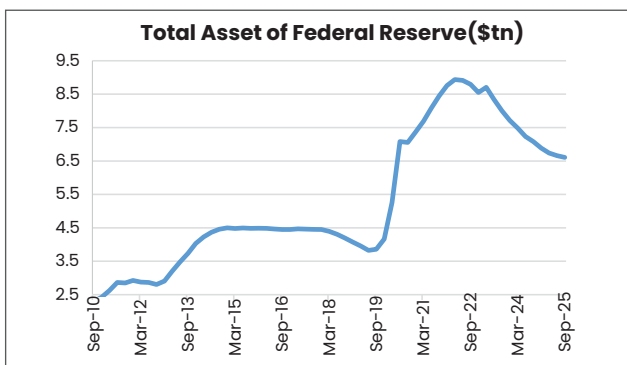
Market Outlook

Mr. Prasun Gajri
CIO & Chief Strategy Officer, HDFC Life



Global Macro Review

- The US economy contracted by 0.6% (QoQ annualized) in the first Qtr. of 2025, largely driven by a temporary surge in imports ahead of anticipated tariff implementations. However growth rebounded sharply in Q2, with GDP expanding by 3.8% driven by a sharp drop in imports. Both data releases were heavily distorted by trade and tariff disruptions. So far, the newly introduced tariffs have not materially affected GDP growth or inflation. The Federal Reserve projects full-year GDP growth of 1.6% in 2025, signaling a slowdown from the 2.8% growth recorded in 2024, but still reflecting resilience in the broader economy in H1.
- US CPI inflation has largely remained in range of 2.3% to 3.00% YoY in H1 despite increase in tariffs. Fed chair Powell described inflation being boosted by tariffs as one-off price increases; however, with weak housing sector and labor market softening, inflation could slow down, implying room for more rate cuts going ahead.
- CPI stood at 3.0% as of Sep-25 with Core CPI at 3.0%. The US Fed expects PCE and Core PCE inflation at 3% by year end.
- The US labor market is showing signs of cooling, with recent data indicating downward revisions to job creation figures. The unemployment rate has risen from 4.0% to 4.3% in H1, led by a decline in labor force participation and slow hiring due to tariff related headwinds.
- Despite inflation persisting above the 2% target and growing risks to the Fed's employment objective, the Federal Reserve has cut interest rates by 25 basis points in Sep-25 and Oct-25, following an extended period of policy stability. The updated dot plot now points to the possibility of one more rate cut before the end of the year, reflecting a shift in focus toward supporting labor market conditions.



- The Fed has continued with quantitative tightening, though actual tightening has lagged the Fed's announced target. Moreover, now that rate cut cycle has resumed, there is increased expectation of resuming expansion of the Fed balance sheet, at the upcoming December policy.
- US yields remained volatile in 1HFY25 on concerns over rising debt and the impact of tariffs on inflation. The US also saw a rating downgrade from Moody's, being the last major agency to downgrade the US. So far with muted tariff related impact on CPI and growing concern on weak labor market, The US 10-year yields softened from a peak of 4.6% to ~4.1%.
- The ECB cut rates by 25bps in June-25 and is expected to keep rates steady as inflation remains close to target. Growth projections have seen some upward revision and currently stand at 1.2% for 2025.
- China's economy expanded at 5.3% in H1 of 2025 largely reflecting upfronting of export orders as factories rushed out shipment's amidst tariff related uncertainty, however H2 growth momentum is expected to weaken due to mounting headwinds related to trade tension and prolonged property downturn.

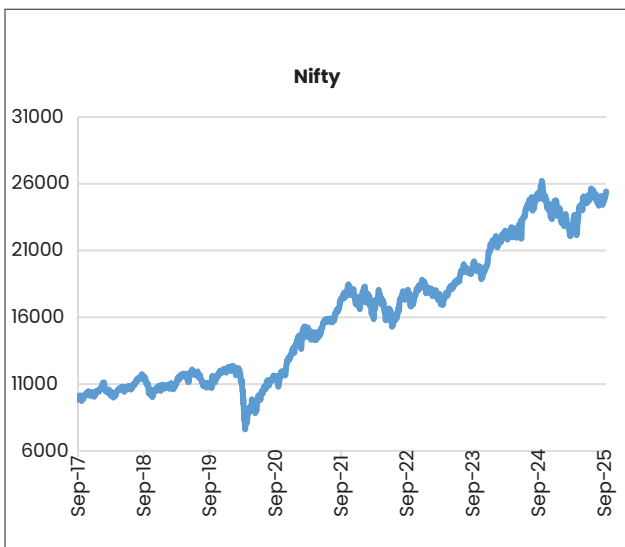
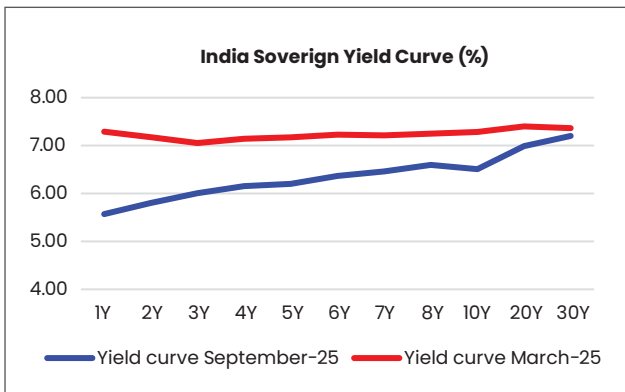
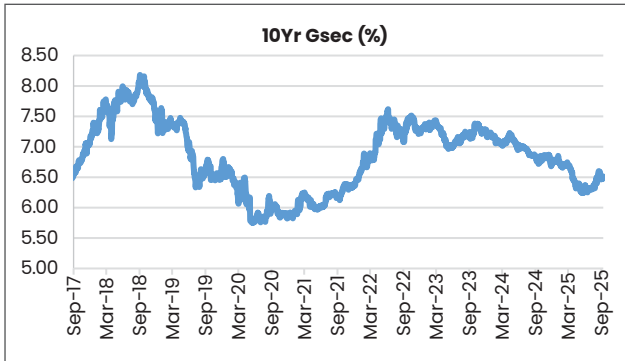
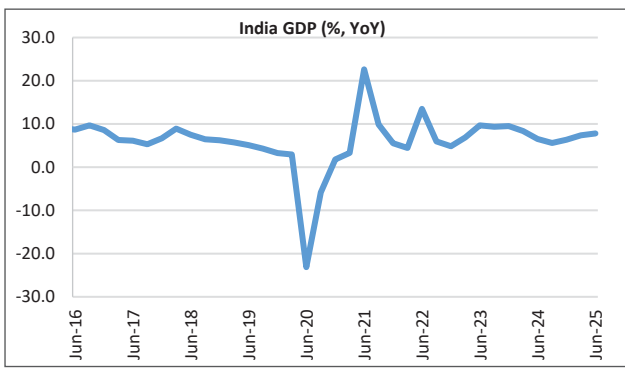
₹ Domestic Macro Review

India CPI:

- CPI inflation remained on a moderating trend from Apr'25 till Sep'25 supported by lower food inflation. CPI inflation slipped to a low of 1.54% in Sep-25 further from 2.1% in Aug-25. Core inflation averaged 4.25% in 1HFY26 vs. 3.78% in 2HFY25 largely on account of higher gold prices. However, Core inflation (ex. gold) remains muted at ~3.2%. Moderating inflation has supported 75bps rate cuts from the RBI in 1HFY26.

INR & India Trade Deficit:

- The INR came under depreciation pressure in 1HFY26 on tariff related news, sustained FPI selling and additional 25% punitive tariff. The earlier expectation of a China plus 1 policy, in which INR was expected to be major beneficiary, got unwound due to imposition of higher tariff than other emerging market peers. Overall the INR depreciated by ~3.9% from 85.47 to 88.79 in 1HFY26.
- The monthly trade deficit averaged US\$25.6bn in 1HFY26 vs. US\$22.9bn in 2HFY25. The monthly services surplus remained flat and stood at US\$15.9bn in 1HFY26 from US\$17.48bn in 2HFY25. The CAD stood at a muted 0.2% of GDP in 1QFY26, suggesting stable macro fundamentals.



India GDP:

- India's GDP growth has remained resilient amid global headwinds. GDP grew 7.4%YoY in 4QFY25 and 6.5% in FY25. Real GDP growth again surprised at 7.8%YoY in 1QFY26 on the back strong growth in the services sector. Nominal GDP growth was however relatively muted at 8.8%YoY indicating that real GDP growth was partially on account of a lower deflator. Government capex has seen some front loading in 1HFY26. Consumption growth is likely to find support from income tax cuts announced in Budget 2025, GST cuts from Sep-2025 and the lagged impact of monetary easing. However, 50% tariffs on Indian exports, by the US, are likely to act as a drag on GDP growth.



Domestic Markets

Bond Market:

- During 1HFY26 India 10yr benchmark bond yield was volatile and traded in the range of 6.13%-6.65% reflecting market response to evolving domestic and global developments. While in Q1, fall in bond yields were driven by large OMO purchases by RBI, 75bp of total rate reductions along with change in stance, Q2 saw rise in yields driven by global uncertainty with regards to tariff issues, geopolitical risk and fluctuations in crude prices. Overall, the curve steepened due to various liquidity measures adopted by RBI along with rate cuts leading to softening of yield at the front end. However due to additional 25% punitive tariff kicking towards end of Q2 along with expectation of higher fiscal fallout from GST rate cut announcement and rising concerns on tax collections, led to sharp rise in yields at the long end of the curve.
- The 10-year AAA spread inched up in 1HFY26 and stood at ~75bps vs~66bps in Mar-25.

Equity Market:

- Indian equity markets were up by a muted 3.9% in 1HFY26 with volatility linked to concerns around tariffs. While earnings growth was subdued, front loaded rate cuts and CRR cut by RBI along with the reduction in GST announced by the government provided support. However, 50% tariffs announced by the US on India and higher fees associated with HIB-visas are key overhangs for the market.
- Broader markets outperformed. While Nifty 50 was up by 3.9% in 1HFY26, Nifty Midcap 100 was up by 7.8%. Among sectors, Auto outperformed and was up by 17.3% in 1HFY26 spurred by the announcement of GST cuts.

- Global growth has remained broadly resilient despite the overhang of protectionist measures and rising tariffs. While some central banks are nearing the end of their monetary easing cycles, others remain in the midst of policy accommodation. In the US, growth momentum has moderated, and the worst inflation fears have not materialized. This evolving macro backdrop has created room for easing, particularly as concerns around the employment mandate have started to outweigh inflation-related risks.
- The US Federal Reserve cut the policy rate by 25 basis points in September 2025, following a prolonged pause. The Fed acknowledged a slowdown in job creation and a slight uptick in the unemployment rate, though it remains historically low. Inflation, while elevated, has been relatively stable. The Fed emphasized that future policy moves will remain data dependent. The updated dot plot now indicates a total of three rate cuts in 2025 (up from two earlier), bringing cumulative easing to 75 basis points. The Fed's projections point to a terminal policy rate of 3.1%, with one cut penciled in for each of 2026 and 2027.
- The Indian economy has demonstrated resilience, supported by strong macroeconomic fundamentals. While real GDP growth remains healthy, nominal GDP growth, credit expansion, tax revenues, and corporate earnings have shown signs of softening. In response, both the Reserve Bank of India (RBI) and the Government of India have stepped in with proactive policy measures. Nonetheless, global headwinds remain a key near-term risk. The 50% tariffs imposed by the US are expected to impact India's GDP growth negatively in FY26, although this may be partially offset by the demand-boosting effects of the GST rate cuts.
- Consumer discretionary plays are likely to benefit from government efforts to boost domestic consumption while policy uncertainty is likely to weigh on global facing sectors. While domestic flows continue to remain strong, India is not immune to global corrections or FPI outflows. Nonetheless, the medium-term outlook for Indian equities remains quite strong and hence long-term investors should use any volatility to their advantage. Large caps continue offer relative valuation comfort.
- The RBI projects CPI inflation at 3.1% in FY26, and there is a high likelihood that inflation may undershoot this forecast. The recent GST rate cuts on everyday goods are likely to have a disinflationary impact, creating further room for monetary easing, however the scope for deeper cuts are limited unless growth falters sharply and given the backdrop of current slowdown in tax collection the risk of fiscal slippage may emerge in later part of the year.



Sar utha ke jiyoo!