Market Outlook

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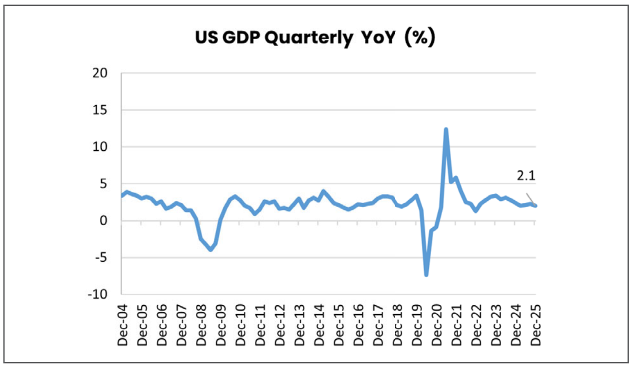
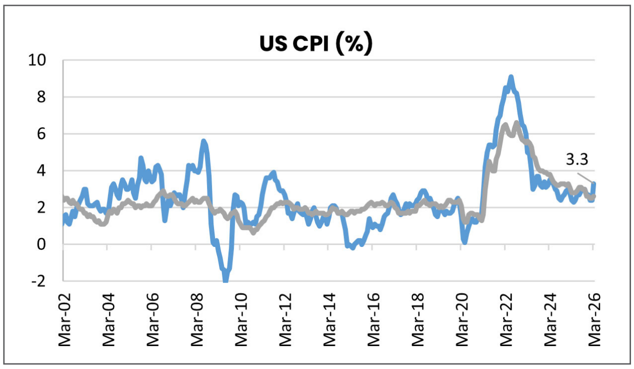
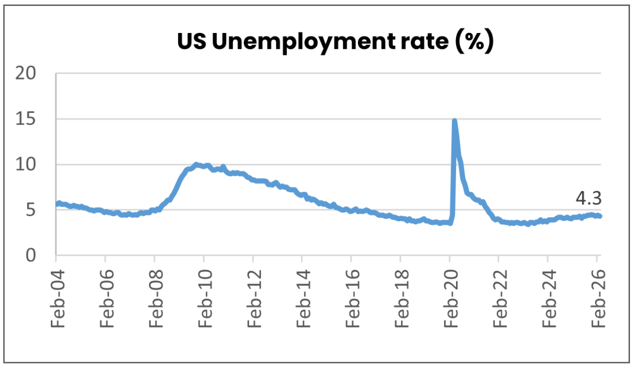
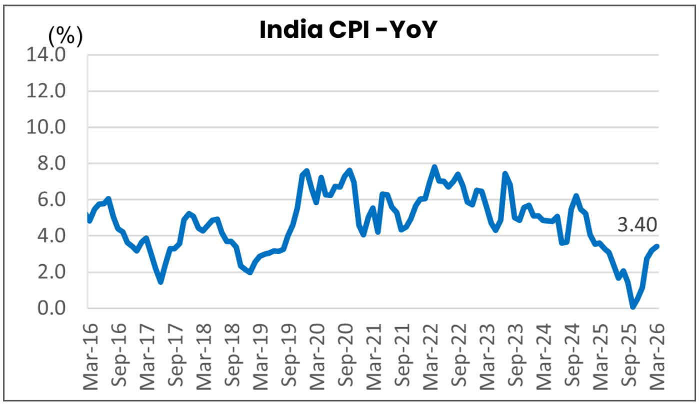
Global Macro Review

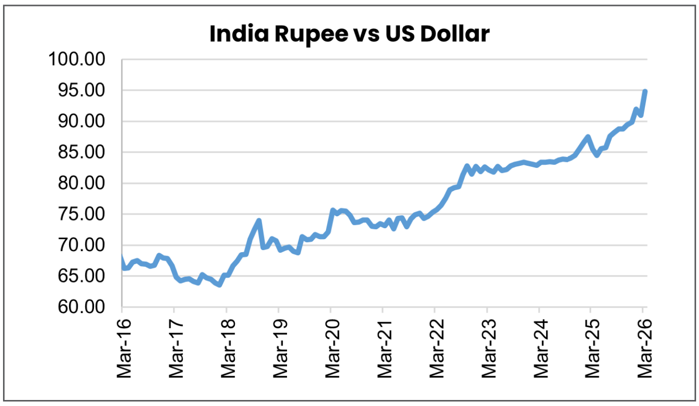
- US Real GDP grew by 0.5% in Q4 of 2025 vs 4.4% in Q3, primarily impacted by the Government shutdown, slowing consumer spending and weaker exports. Overall, the GDP increased by 2.1% in 2025, and so far, tariffs have had limited impact on growth and inflation.
- Inflation in US moderated towards the end of 2025. However, headline CPI inflation rose to 3.3% in March 2026, compared to 3% in September 2025, largely driven by rise in energy prices. However, core CPI showed downward trend, falling to 2.5% from 3% during the same period. The fall was largely due to slowdown in shelter prices and modest tariff related pass-through. However, upside risks have increased due to the rise in energy prices on the back of the conflict in the Middle East.
- The US unemployment rate remained relatively stable at around ~4.3-4.4% during late 2025. However, the recent data of March 2026 showed hiring has improved and the unemployment rate has moved lower, largely due to fall in participation rate. With the uncertainty due to the war, the central bank may wait for more data releases to assess the trend.
- Despite expectations of further interest rate cuts by the Fed, US yields remained elevated in 2HFY25, staying in the 4.0 - 4.45% range, largely due to concerns over rising energy prices keeping inflation higher than the target levels.
- The ECB has held rates steady since Jun-25. The ECB noted that war in the Middle East has made the outlook significantly more uncertain, creating upside risks for inflation and downside risks for economic growth. It will have a material impact on near-term inflation through higher energy prices. Its medium-term implications will depend both on the intensity and duration of the conflict and on the subsequent impact of energy prices on consumer prices

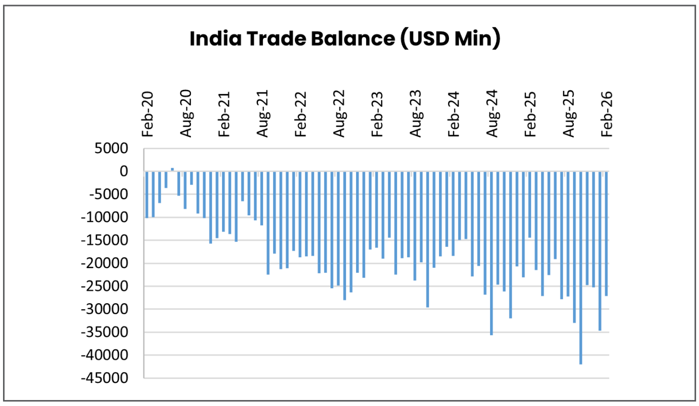


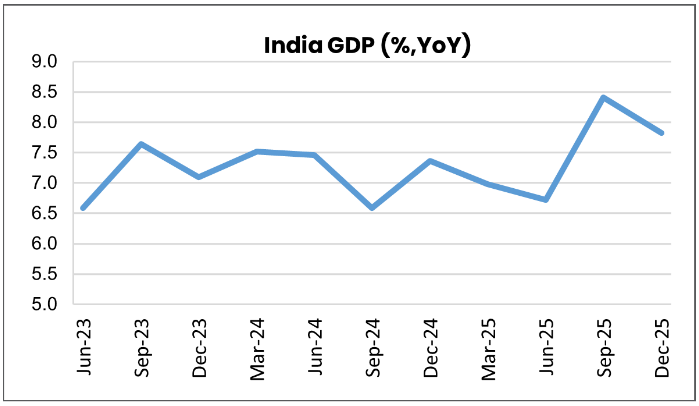












and the economy. Headline inflation is seen to average 2.6% in 2026 (because of higher energy prices), 2.0% in 2027 and 2.1% in 2028. Economic growth is expected to average 0.9% in 2026 (revised downward due to the war and higher commodity prices), 1.3% in 2027 and 1.4% in 2028.

- China's GDP grew 5% YoY in 2025 and has set its GDP growth target for 2026 at 4.5-5% — the lowest target on record going back to early 1990s — as the country grapples with persistent deflationary pressures and trade tensions with the U.S.

₹ Domestic Macro Review

India CPI:

- CPI inflation under the new series averaged ~ 1.85% in 2HFY26 with inflation bottoming out in Q3, and rising to 3.4% in Mar-26. Benign inflation provided RBI room to cut policy interest rates in Dec-25, although the space for further rate cuts has diminished due to inflationary concerns from high energy prices.

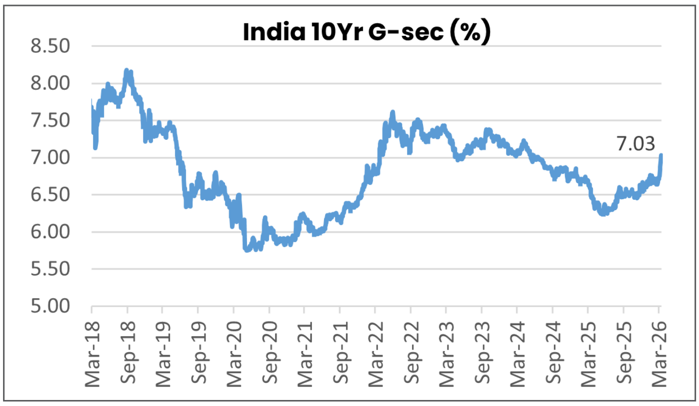
  RBI conducted extensive durable liquidity infusion measures which was largely offset by FX intervention. RBI infused ~Rs.6.8tn through OMO purchases of Govt securities, and Rs.2.3tn through FX swaps in 2HFY26.

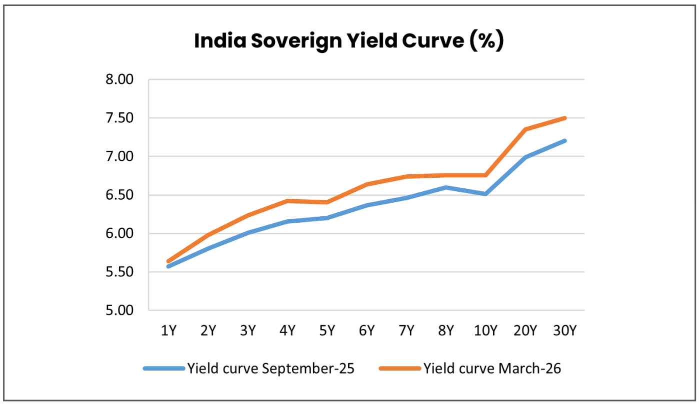
INR & India Trade Deficit:

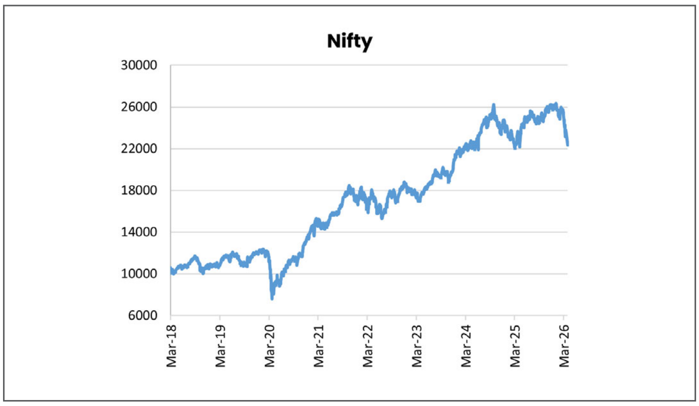
- The INR came under depreciation pressure in 2HFY26 as concerns over the impact of US tariffs and subsequently, the impact of higher oil prices, led to sustained FPI selling. The US-India trade deal and the EU-India FTA provided only temporary relief to the INR, as this was more than offset by concerns over the war in Middle East and rising crude oil prices. The USD-INR averaged 90.8 to the dollar in 2HFY26 vs 86.7 in 1HFY26 depreciating by ~4.7%.
- The monthly trade deficit averaged US$30.8bn in 2HFY26 vs. US$26.1bn in 1HFY26. The widening trade deficit was mainly on account of higher gold imports. The services surplus averaged US$20.4bn in 2HFY26 up from US$16.5bn in 1HFY26. India's CAD remained benign at 0.8% of GDP in 1HFY26

India GDP:

- India's GDP growth remained resilient despite external headwinds, supported by counter cyclical fiscal policy – income tax cut and GST cuts and an accommodative monetary policy. Stable rural sector growth and front loading of government capex also helped in supporting growth. GDP growth is expected to average 7.6% for full year FY26. 3QFY26 GDP growth stood at 7.8% with some moderation expected in 4QFY26.







- In the Budget for FY27, the Government, achieved the FY26 fiscal deficit target at 4.4% and pegged the FY27 fiscal deficit at 4.3% of GDP.

Domestic Markets

Bond Market:

- During 2HFY26, the India 10-year benchmark bond yields remained volatile, trading in a range of 6.58%-6.95%, reflecting market sensitivity to the uncertain macro backdrop and elevated geopolitical risks. In Q3, yields remained largely stable supported by RBI OMO purchases (Rs. 6.38 tn, including secondary market purchase in 2HFY26). However, the yield curve continued to steepen, as persistent liquidity infusion aimed at offsetting forex intervention to support INR, anchored the short end, and concerns emanating from global developments pushed up longer tenor yields. The 10-year benchmark Govt security yield ended the year at 7.03%

- In the Corporate bond market, the 10-year AAA bond yield spread compressed during 2HFY26 to ~60bps vs~75bps in Sep-25 due to limited issuance of bonds in the longer tenors.

Equity Market:

- Indian equity markets saw a sharp rebound in 2HFY26 supported by GST cuts, domestic cyclical recovery and the announcement of the EU-India FTA and US –India trade deal. Global facing sectors like IT came under pressure as India did not figure in the AI-led investment narrative, which under-pinned capital flows. However, the war in the Middle East wiped out all gains of the previous 11 months, with the ~ 11% correction in Nifty 50 in March, dragging the full year returns to ~ (-5%).

Outlook 1HFY27

- Global growth has remained stable, supported by accommodative monetary and fiscal policies. While the tariff related risk has moderated following US Supreme court ruling declaring the tariffs as unlawful, uncertainty persists as the Trump administration has introduced a temporary 10% global tariff valid for 150days.

- The US Federal Reserve has cut policy rates a cumulative 75bps in 2025. The recent flare up in geopolitical tensions and the rise in energy prices, however, remains a risk to global growth and inflation, which will keep most central banks on the sidelines to assess the eventual impact on their respective economies.

- At its March meeting, the US Fed noted that the economy continued to expand at a solid pace while inflation remained somewhat elevated. The Federal Open Market Committee (FOMC) also highlighted that the economic impact of the Middle East crisis remained uncertain. The March 2026 projections reflected an optimistic growth outlook alongside stickier inflation, while the unemployment trajectory was seen to be broadly stable.

- US yields remain elevated, with the 10-year yield hovering around the 4.1-4.40% range in the recent months. With surging energy prices and risks of higher inflation, the scope for a near term rally remains limited. Elevated debt levels and diversification of assets away from US treasuries may act as a floor for yields.

- The Indian economy has so far proved resilient amidst global headwinds. Supported by countercyclical monetary and fiscal policy (GST and income tax cuts), domestic growth is seeing cyclical recovery. Credit growth is picking up while asset quality risks remain largely contained. Corporate earnings also seem to be bottoming out.

- Despite countercyclical fiscal policy, the fiscal deficit remains on track to meet the target of 4.4% of GDP in FY26. However, war in the Middle East and the surge in crude oil prices has substantially increased macro risks for India. This has accentuated FPI selling adding to the pressure on markets and the INR. Domestic bond yields which were stable through most of the year, supported by Open market operations by the RBI, moved up sharply post escalation in crisis in the Middle East.

- Bond yields are likely to stay elevated on increasing concerns around the path of inflation, and the currency. The markets have increasingly factored in the end of RBI's rate cut cycle.

- The government has pegged gross borrowing in 1HFY27 at Rs. 8,200bn or 51% of total borrowing. The 51% proportion of total borrowing in H1FY27, is low by historical standards, and may help in providing near term relief to the bond yields.

- India's equity market fundamentals remain largely intact, although some companies may face margin pressures due to higher energy and input costs and fuel rationing. Nonetheless, the medium-term outlook for Indian equities remains robust and hence long-term investors may use any volatility to their advantage. The recent market correction has lowered the valuation multiples to 18x one-year forward earnings, which provides some downside support.

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