

India Newsletter

December 2025

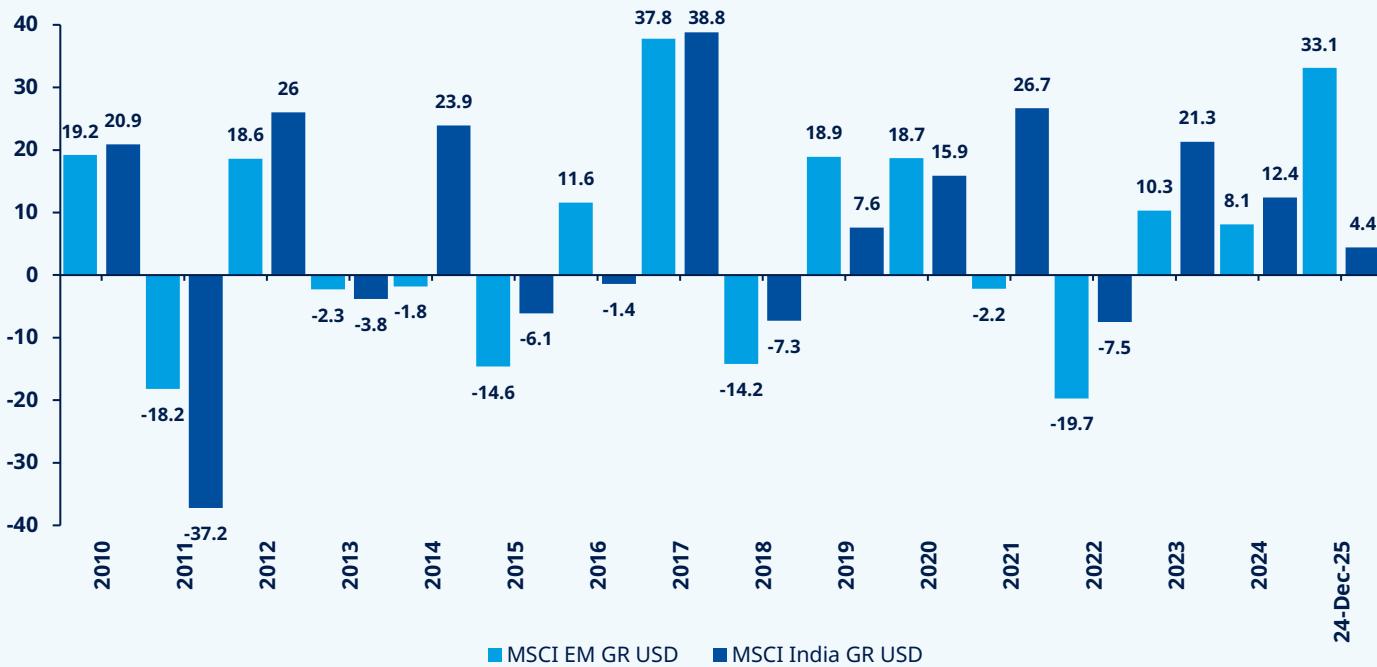
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MARKET OVERVIEW: India market review

Indian equities underperformed broader emerging markets in 2025, even as domestic macro fundamentals strengthened relative to peers. In U.S. dollar terms, the MSCI India Index trailed the MSCI Emerging Markets Index by nearly 30%—the widest gap since 1993. The year was characterised by a “time correction”—flat returns at the index level—and an ~11% drawdown from last year’s peak. In SBI FM views, these conditions collectively helped compress the valuation froth that had built up across segments.

Exhibit: India is underperforming EM in 2025 (MSCI India vs MSCI EM, USD)



Source: Morningstar; SBI Funds Management Ltd, data as of December 2025.

As emphasized SBIFM CIO – Equity, R. Srinivasan, equity markets tend to react more to elevated starting valuations than to isolated macro or geopolitical events. Richly valued markets can correct sharply on modest negative news, while more reasonably priced markets absorb larger shocks. India's valuation premium to emerging markets has now moderated to ~64% (versus ~95% a year ago), slipping below its long-term average and improving the breadth of opportunities in high-quality businesses at more attractive entry points.

India's valuation premium over EM has come down (PE multiples; EPS path FY26-FY27)



Source: Bloomberg; SBI Funds Management Ltd, data as of end November 2025.

Consensus earnings expectations reflect this reset. After ~9% EPS growth in FY26, now ~14% is expected in FY27, even after factoring in ~3% downgrade— suggesting a healthier balance between valuations and earnings risk.

Foreign portfolio flows played a significant role in market performance. Foreign portfolio investors (FPIs) remained cautious amid global trade tensions and tariff headlines, contributing to intermittent selling pressure and currency volatility. The rupee was one of the few emerging market currencies to weaken this year despite India's inflation running below U.S. levels and crude prices remaining contained—factors that would typically support it. In SBI FM views, trade tensions were the dominant driver, reflected in a widening trade deficit and weaker foreign inflows. A potential trade deal, which we believe is nearing completion, could improve sentiment around exports, capital flows, and the currency. In the interim, mild depreciation pressures may persist.

Sector-wise, financials and capital goods delivered firm earnings, while commodity-linked sectors and export-oriented areas such as IT and pharma lagged due to global demand uncertainty. At the same time, domestic demand remained constructive: premiumisation in autos (led by SUV penetration), strengthening residential real estate trends (inventory levels at multi-year lows), and a robust services trade surplus supported outperformance in rate-sensitive and domestic cyclical areas as liquidity conditions eased.

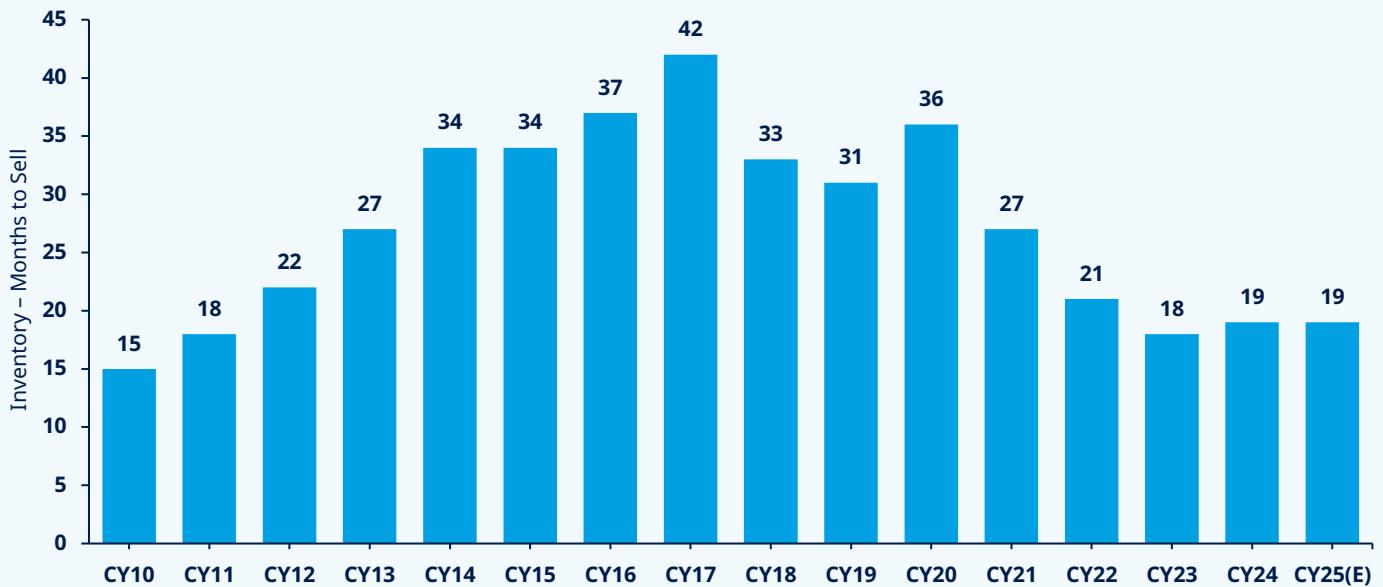
Premiumisation & real estate (SUV share; inventory; affordability)



Note: Premium Cars = SUVs

Source: SIAM; SBI Funds Management Ltd, data as of December 2025. For illustrative purposes only.

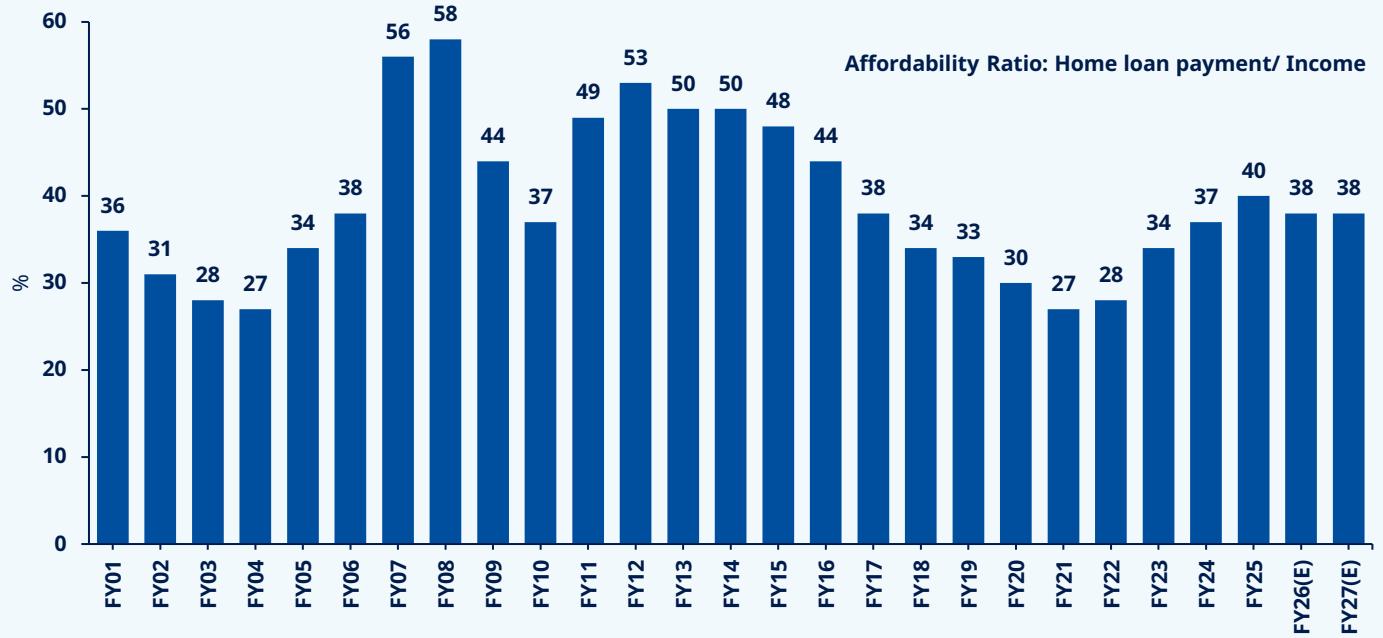
Residential inventory in Top-7 cities (Tr-12 months)



Note: The data is for the Top 7 Cities, trailing 12 months. The reforms since 2017 have triggered significant industry consolidation and ensured much-improved sector discipline.

Source: PropEquity; SBI Funds Management Ltd, data as of November 2025. For illustrative purposes only.

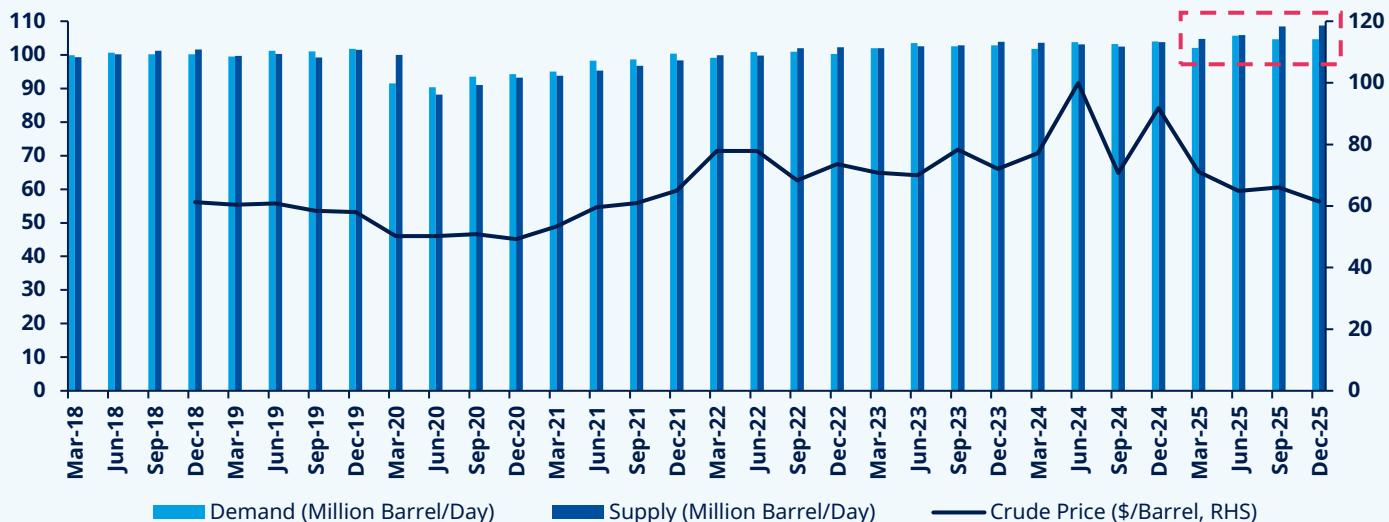
Home affordability (mortgage payment to income) trend



Source: SBI; HDFC Bank; SBI Funds Management Ltd, data as of December 2025. For illustrative purposes only.

Oil, typically a swing factor for India's external account, turned more benign in the latter part of the year as supply concerns surpassed demand expectations. Lower crude prices provided incremental support to the external balance and inflation trajectory. Taken together, these factors, in SBI FM views, create an environment conducive to selective alpha generation even if headline indices remain range-bound.

Crude oil - global demand & supply situation



Note: Brent Crude Prices (CO1)

Source: Bloomberg; SBI Funds Management Ltd, data as of December 2025. For illustrative purposes only.

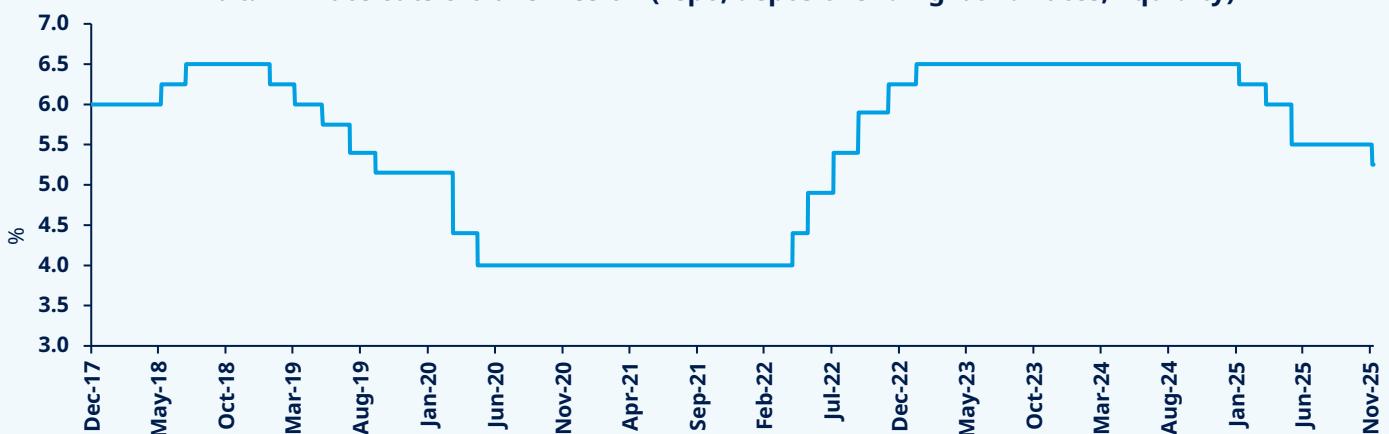
India imports ~90% of its crude requirements, making it vulnerable to rising crude prices. However, the oil market has weakened in recent months on concerns that regional supplies will outstrip demand, adding to signs of a softening of global prices.

India macro review

India's macro backdrop strengthened through 2025, supported by strong real growth, sharp disinflation, and supportive monetary transmission despite persistent global uncertainty. Real GDP growth accelerated to 8.2% in Q2 FY2025-26, the fastest pace in six quarters, driven by resilient private consumption and firm fixed investment. Both services and industrial activity registering broad-based gains.

Inflation trends were decisively benign. Headline CPI fell to multi-year lows (0.24% in November) before ticking up modestly to 0.7%, marking the third consecutive month below the RBI's lower tolerance band, driven primarily by food price deflation. Core (excluding food and fuel) remained subdued, and excluding precious metals, declined to ~2.4% a new trough. Fuel inflation edged higher, but remained contained. With inflation expectations anchored and output gaps negative, the Monetary Policy Committee (MPC) cut the policy repo rate by 25 bps in December to 5.25%, following earlier cuts (Feb/Apr/Jun), while maintaining a neutral stance.

Exhibit: RBI rate cuts & transmission (repo; deposit/lending/bond rates; liquidity)

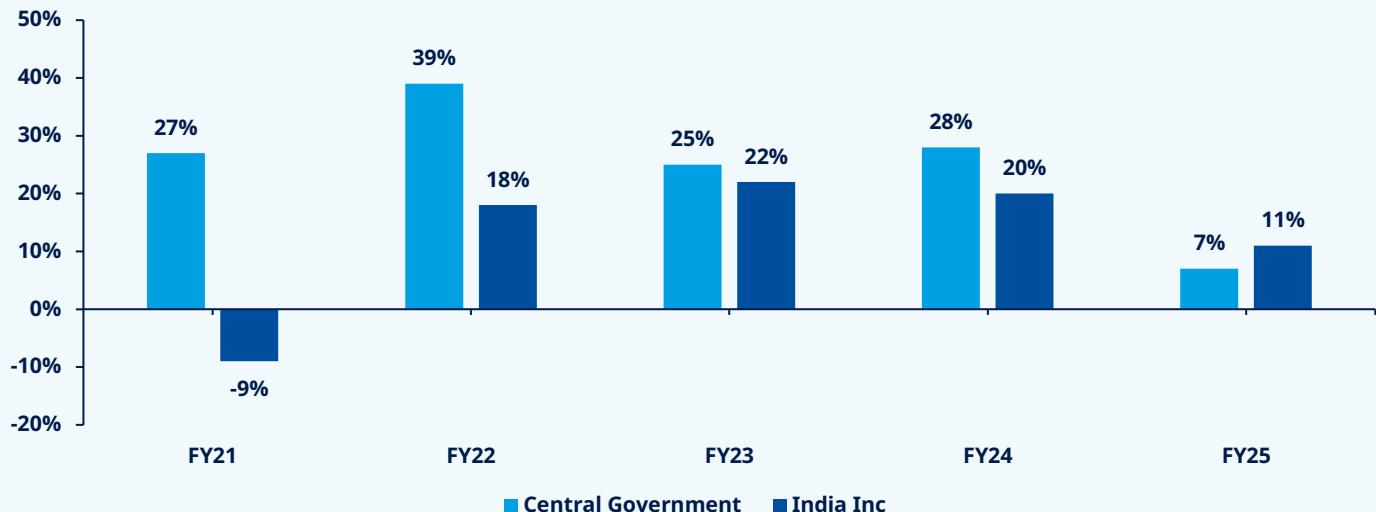


Note: Policy rate refers to the Repo rate.

Source: Reserve Bank of India; Bloomberg; SBI Funds Management Ltd, data as of December 2025. For illustrative purposes only.

Fiscal policy also supported growth. Government ministries front-loaded capex, with FYTD26 expenditure up ~40% year-on-year, achieving ~52% of the budgeted target and tracking near 3.4% of GDP on an annualised basis. This sustained momentum in infrastructure spending contributed to a strong construction ecosystem.

Govt vs corporate capex; front-loading by ministries

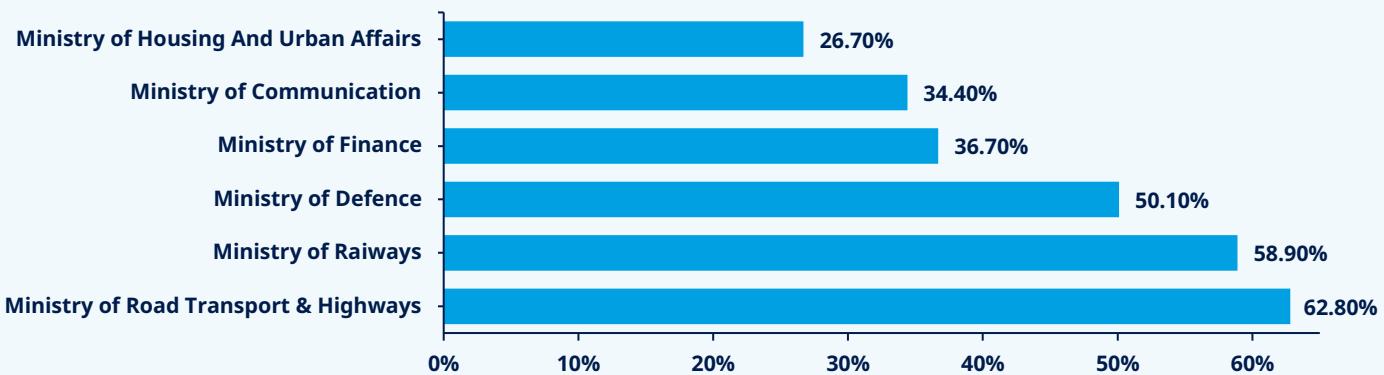


Note: The financial year in India begins in April and ends in March. India Inc. capex growth is based on the top ~ 1000 listed companies and includes Public Sector Undertakings (PSUs) as well.

Source: Union Budget; Bloomberg; Reserve Bank of India; SBI Funds Management Ltd, data as of November 2025. For illustrative purposes only.

Capital spending touched ~52% of the budgeted target in 1HFY26. On a FYTD basis, capital expenditure has grown sharply at 40% YoY in the current fiscal year vs -15.4% last year (impacted by general elections in QE Jun-24, followed up by four state elections in Oct / Nov). As a share of GDP, it is tracking at 3.4% in FYTD26 (vs. 2.6% in FYTD25), on an annualised basis.

Govt. ministries are front-loading capital expenditure



Note: shows capital spending by various ministries of the Government of India in 1HFY26. The financial year in India begins in April and ends in March.

Source: Ministry of Statistics and Programme Implementation (MoSPI), India; Bloomberg; SBI Funds Management Ltd, data as of November 2025. For illustrative purposes only.

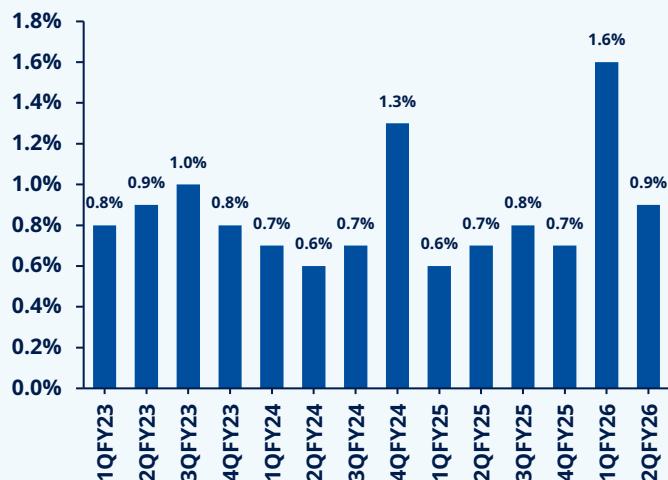
Labour code notifications—modernizing wages, social security, and industrial relations—reinforced policy continuity. Alongside GST rationalisation and improved regulatory predictability, these reforms supported corporate sentiment and private capex intent. Bank credit accelerated across personal loans (+14% YoY) and micro, small and medium enterprises (MSMEs) (+23% YoY), while credit costs remained stable across banks and non-banking financial companies (NBFCs), reflecting healthy balance sheets and disciplined underwriting.

Credit cost across financial sector (%) – stable performance

Public sector banks



Private banks



NBFC



Large & mid private sector banks



Regional banks



Small finance banks

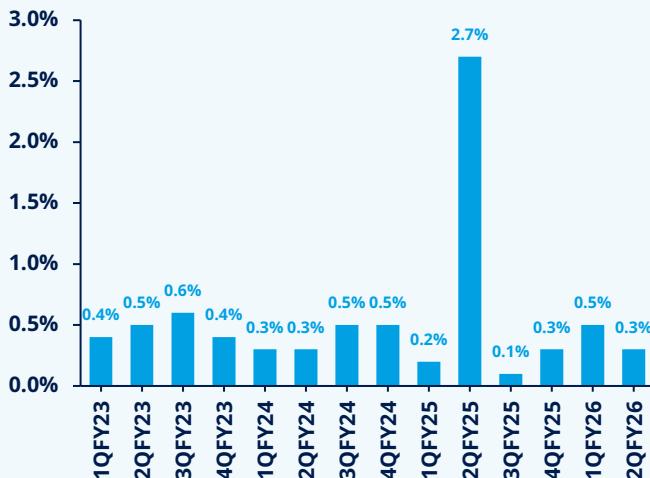


Note: The financial year in India begins in April and ends in March. March Fiscal year-end, 1QFY23-2QFY26, %. NBFC is a non-banking financial corporation.

Source: Reserve Bank of India; Company; Bloomberg; SBI Funds Management Ltd, data as of November 2025. For illustrative purposes only.

Credit cost across NBFC segment (%) – no sign of stress

NBFC- housing finance



NBFC- multi product



NBFC- auto finance



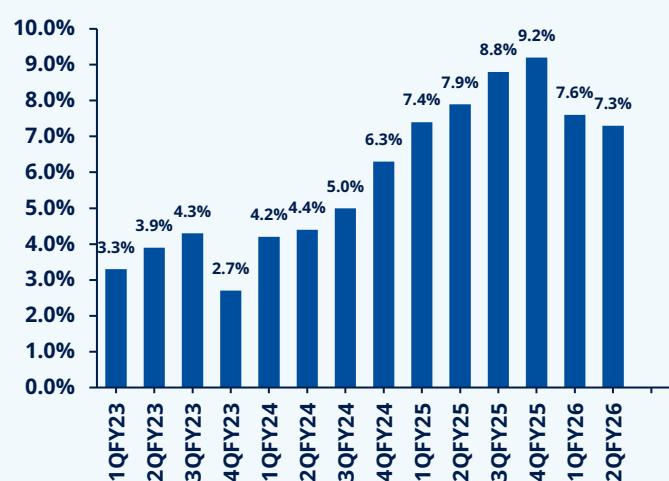
NBFC- gold financiers



NBFC- micro finance



NBFC- new age & others



Note: The financial year in India begins in April and ends in March. March Fiscal year-end, 1QFY23-2QFY26, %. NBFC is a non-banking financial corporation.

Source: Reserve Bank of India; Company; Bloomberg; SBI Funds Management Ltd, data as of November 2025. For illustrative purposes only.

India outlook 2026

External headwinds may introduce near-term volatility, but India's domestic macro fundamentals, policy reforms, and political stability continue to provide a strong foundation for growth. Real GDP is projected at ~7.3% in FY26, supported by accommodative monetary and fiscal conditions, benign inflation, and resilient domestic demand. Recent reforms signal a shift toward greater competitiveness and ease of doing business. These include relaxation of bank lending norms, easing of quality control requirements, labour code reforms, and reductions in personal income tax and GST rates. Several states have accelerated deregulation and improving business environments, amplifying the reform momentum.

For banks, the regulatory stance has shifted from risk aversion to growth orientation, with tacit easing of credit-to-deposit ratio norms, liquidity coverage requirements, and provisioning rules for unsecured loans. In November 2025, four ministries revoked multiple Quality Control Orders (QCOs) covering 114 intermediate products—plastics, chemicals, textiles, and metals—aligning India with global norms standards and reducing operational complexity for MSMEs. In SBI FM views, these steps should strengthen export competitiveness at a time of evolving global trade dynamics.

Labour reforms consolidate 29 outdated laws into four streamlined codes, simplifying compliance, enabling flexible hiring, and broadening social security coverage. Measures such as single registration, decriminalization of minor offences, and provisions for women's night shifts aim to modernize India's labour landscape. While near-term compliance costs may increase, long-term benefits include higher formalization, reduced regulatory burden, and improved competitiveness.

Valuations, having corrected from earlier extremes, offer scope for re-rating as earnings recover. Sector-wise, BFSI, capital goods, autos (notably SUVs and EVs), and select service industries appear well placed as input costs ease and bond yields stabilise. Real assets and housing-linked financials, alongside companies integrated into India's expanding AI and digital ecosystem, offer secular opportunities.

Externally, softer crude prices and a durable services surplus should keep the current account deficit near historical lows, reducing macro vulnerability and supporting currency stability. However, risks such as tariff uncertainties, slower global growth, and geopolitical tensions require ongoing vigilance. Overall, structural reforms and cyclical tailwinds reinforce confidence in India's medium-term growth trajectory, making it one of the most compelling opportunities in the emerging-market universe.

Important information – Marketing Communication

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