

Overview:

For the month ended October 2025, the Nifty 50 index was up by 4.51% over the previous month. The Nifty Midcap 100 index gained 5.83%, while the Nifty Smallcap 100 index rose 4.66%. Midcaps outperformed largecaps. Within sectors, realty, banks, oil & gas, information technology (IT), metals outperformed Nifty 50, while media, auto, consumer durables, pharmaceuticals and healthcare underperformed.

Sr. No.	Index Name	Oct-25
		M-o-M Change
1	NIFTY 50	4.51%
2	NIFTY Midcap 100	5.83%
3	NIFTY Smallcap 100	4.66%
4	NIFTY Auto	1.01%
5	NIFTY Bank	5.75%
6	NIFTY Financial Services	4.29%
7	NIFTY FMCG	2.74%
8	NIFTY IT	6.11%
9	NIFTY Media	-0.30%
10	NIFTY Metal	5.72%
11	NIFTY Pharma	3.36%
12	NIFTY Private Bank	6.00%
13	NIFTY PSU Bank	8.74%
14	NIFTY Realty	9.22%
15	NIFTY Consumer Durables	4.04%
16	NIFTY Oil & Gas	6.29%
17	NIFTY Healthcare Index	3.92%

Source: National Stock Exchange of India

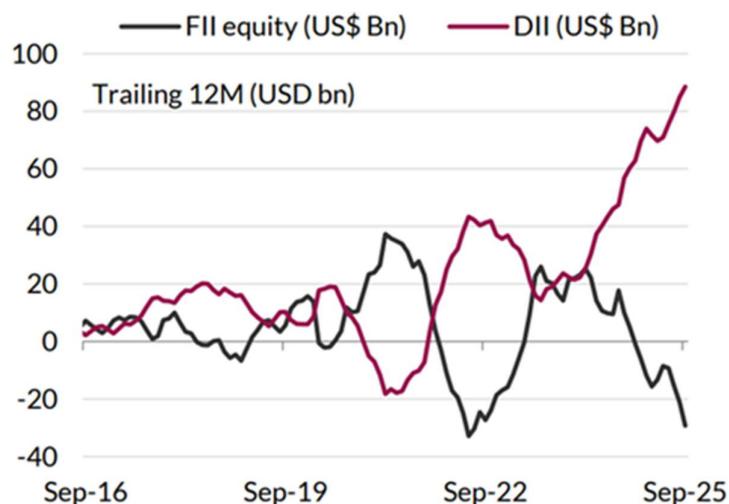
Foreign funds (FIIs /FPIs) were net buyers in October 2025 at USD1.66bn and domestic institutions were net buyers at USD5.96bn. However, foreign funds are net sellers at USD16bn for the calendar year 2025 while domestic funds (DII) are net buyers at USD73bn for the same period. With +USD3.3bn monthly inflows through systematic investment plans by domestic investors and 55 consecutive months of net inflows signify the growing confidence of retail investors towards the Indian economy and markets.

Fig: Fund flows

(USDmn)	Curr	MTD	CYTD
FII - Cash	-288	1,656	-15,969
DII - Cash	796	5,972	72,677
FII - Debt	-86	397	1,367

Source: Axis Capital Research

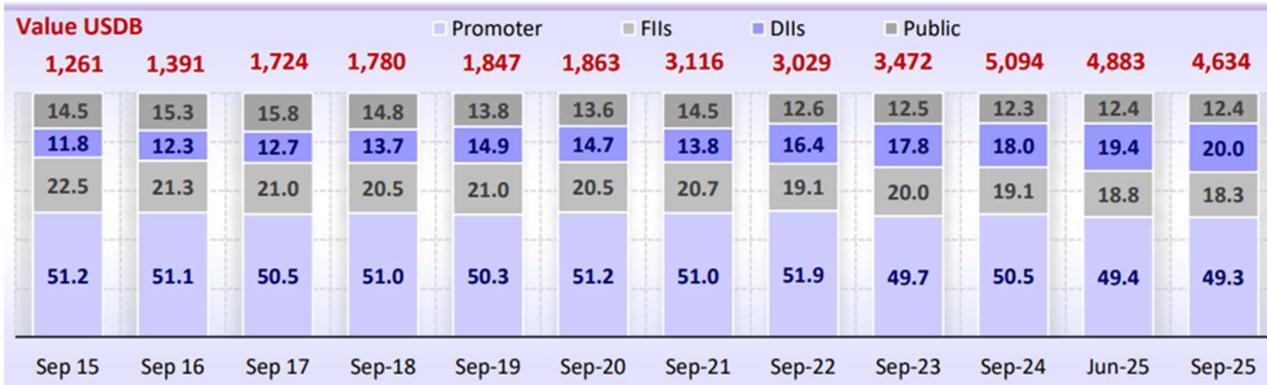
Fig: Twelve months trailing domestic flows at USD89bn



Indian mutual funds' equity assets under management (AUM) rose to Rs.34tn in September 2025, crossing the June 2025 peak to set a new high, led by higher inflows as market performance remained weak. Cash holdings by mutual funds (difference of inflows and investment) were at Rs1.8tn. Cash stands at 5.3% of AUM.

Over the past one-year, domestic funds ownership rose 200bps YoY to an all-time high of 20% in September 2025, while foreign ownership dipped 80bps to an all-time low of 18.3%. Promoter holdings continued to decline materially to an all-time low of 49.3% (-120bp YoY). This sharp dip was driven by a recovery in the primary market over the last two quarters, where high valuations and strong investor appetite continue to provide an attractive opportunity for several promoters to liquidate their stakes. Retail holdings were stable at 12.4%. In the last 10 years, domestic funds' holding of NSE500 index stocks has gone up from 11.8% to 20%, a rise of 820bps. It has gone up from 12.9% to 24.5% or 1160bps for Nifty50 index stocks.

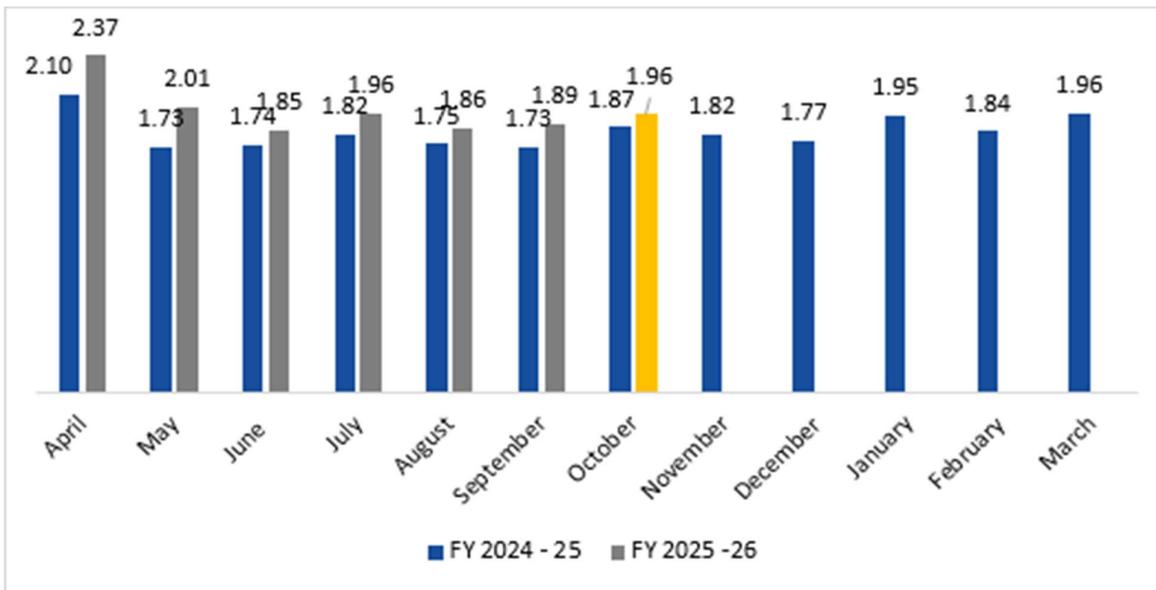
Fig: NSE 500 index holding pattern (%)



Source: Motilal Oswal Securities

On the macroeconomic front, Goods and Services Tax (GST) revenue for October 2025 stood at INR1.96 trillion, up 4.81% YoY. This figure is particularly significant as it was achieved despite the broad “GST 2.0” rate cuts on 375 items that took effect on September 22, 2025. This growth indicates a strong surge in consumption during the festive season, which more than offset the lower tax collected per item.

Fig: GST collections trend (in INR Trillion)

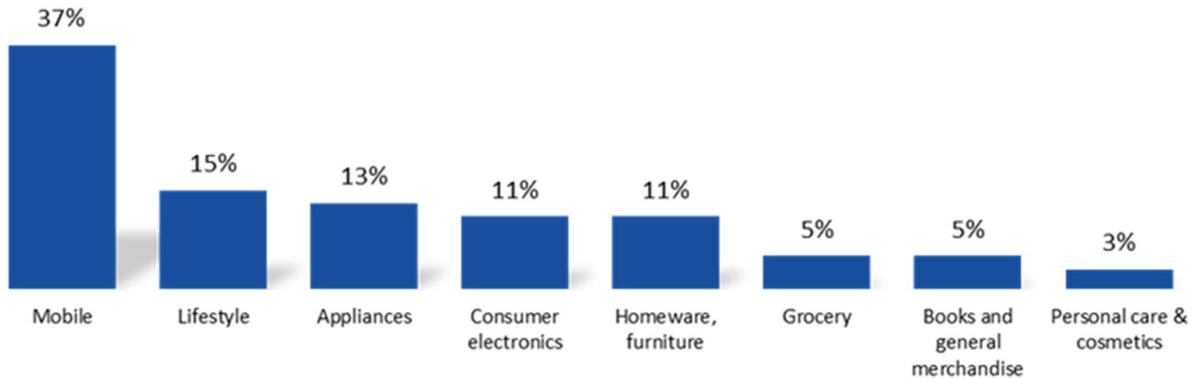


Source: EquiPoise Capital Research, GOI

The steep cuts in GST during the festive period, along with the major festival of Diwali, boosted sales in the auto and consumer durables segments. Auto companies recorded strong double-digit growth of 20%, selling 6,32,212 units, while two-wheeler sales grew by 22%, reaching 29,83,255 units. This surge in consumption was also

reflected in e-commerce sales, where 52% of total sales came from lifestyle products and mobile phones. During this period, over 35mn smartphones were sold across online and physical retail platforms.

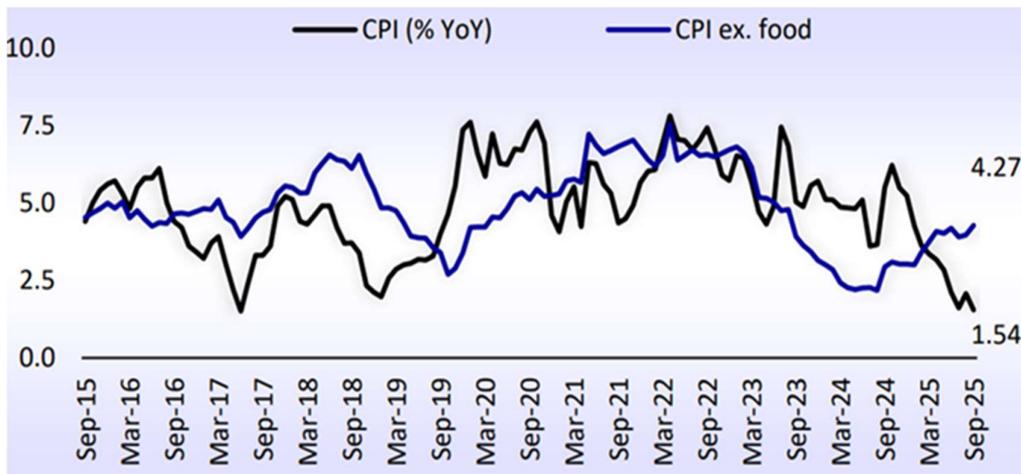
Fig: E-Commerce Sales Contribution in %



Source: FADA Research, Counterpoint Research, industry estimates, Bizom, Datum Intelligence

India’s headline inflation softened to 1.5% in September 2025 (lowest since June 2017) from 2.1% in August 2025. It remained below the 3% mark for the 5th consecutive month. In 2QFY2026, CPI stood at 1.7% YoY, in line with the Reserve Bank of India’s forecast of 1.8%.

Fig: CPI inflation



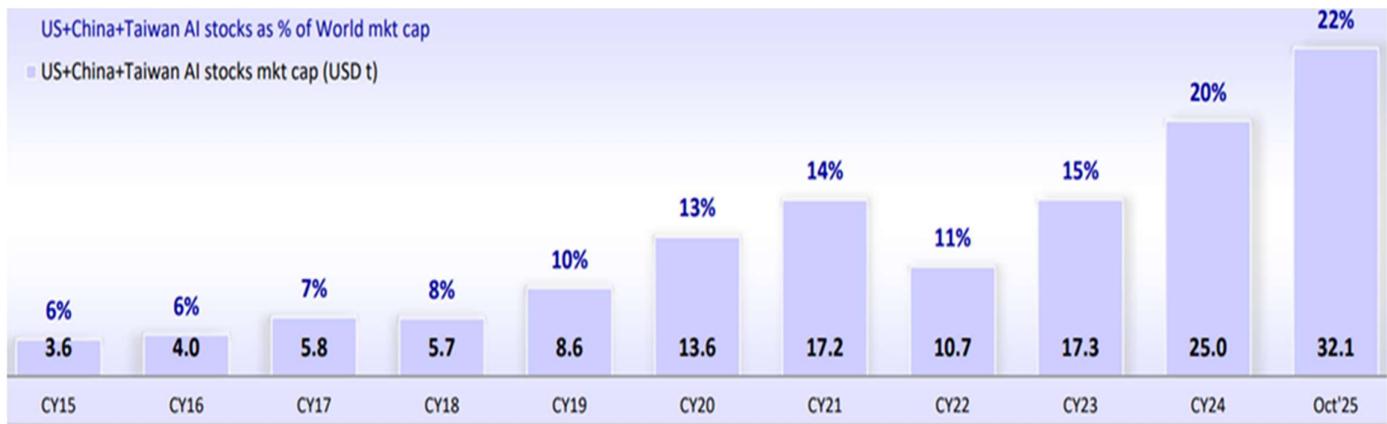
In September 2025, India’s services exports grew 13% YoY, allaying concerns aired by many that US policies were beginning to hurt services. While quarter two growth was 8.6% YoY, vs. 10.1% in 1Q, but the stronger exit momentum bodes well for 3Q. Even in the June 2025 quarter, ‘modern services’ grew 22% YoY. The main challenge was a drop in tourism due to Pakistan terror attack and Indian response, air accident and an early monsoon eroded inbound tourist arrivals in India. Hotel bookings have re-accelerated in September/October. Reviving services exports provide balance-of-payments comfort for the Indian Rupee and also support GDP growth.

Our view:

Indian markets during quarter two FY2026 witnessed an unprecedented confluence of multiple headwinds, such as 1) geopolitical strife, with India forced to engage in kinetic response, 2) a constant flow of disproportionate, punitive, and unfair US tariff measures, and 3) massive foreign fund outflows - USD9.3bn. However, the Indian government’s response to these primarily external developments has been swift, decisive, and oriented towards long-term capacity building. We believe, GST2.0 is one of the biggest reforms in the past decade, and that the government may likely follow this up with further reform measures to improve the business environment and potential economic growth rate.

We tried to understand the likely causes for the relentless selling by foreign funds in India. Domestic investors have cushioned, what would otherwise have been a steep in Indian markets, through their disproportionate buying relative to foreign fund selling. We came to two conclusions, one India’s relative outperformance and two, which is far more serious, AI. Data clearly shows global investors focus on Artificial Intelligence (AI) companies. AI is accelerating globally, with the US, China, and Taiwan emerging as key innovation hubs driving advances in AI software, semiconductors, and computing infrastructure. AI-linked companies witnessed strong growth worldwide, led by firms at the core of the AI supply chain - from hardware and chip manufacturing enablers to cloud and model developers. The contribution of AI-related sectors has risen significantly, now accounting for a major share of market cap gains - roughly ~40% in the US, ~15% in China, and ~44% in Taiwan in recent years, and collectively accounting for ~22% of global market capitalization. India lacks listed plays in AI sector, so far.

Fig: Global share of key AI stocks in total market capitalization (%)



India's medium-term 6%+ GDP growth forecast has stayed intact, driven by demographics and government's pro-growth policies. A fiscal consolidation of >5ppt during past 5 years has brought fiscal deficit to ~4% of GDP; and finally recognized by a sovereign upgrade by S&P this year. Inflation has also declined meaningfully and projected by RBI to average <4% over the next year. Though the INR is near record lows; the external situation is stable with the current account deficit of ~1% in FY2026E and well covered by foreign exchange reserves providing ~11 months of import cover. We believe a temporary trade/tariff driven shock could thus be reasonably well absorbed.

Activity levels in India and correspondingly earnings growth have been through a soft patch, which is now improving. A sharp 7ppt slowdown in bank credit growth has been arrested through monetary easing; and impact of rate cuts should be seen soon. The Government is meanwhile rebalancing the economy with support to spending via income tax and GST cuts worth c.70-80bps of GDP. The rural economy is already looking better post two successive good monsoon seasons, and the latest Government attempts to support consumption (through income tax & GST cut) should help improve predictability of growth.

Under the current circumstances, we believe the India - US trade policy uncertainty is the single-most important headwind for Indian equities. We maintain that India's long term growth story, despite all the global uncertainties, is intact and corrections present an opportunity for long term investors.

Ashish A. Wakankar

Founder and Chief Investment Officer

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November 06, 2025.

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