

## Overview:

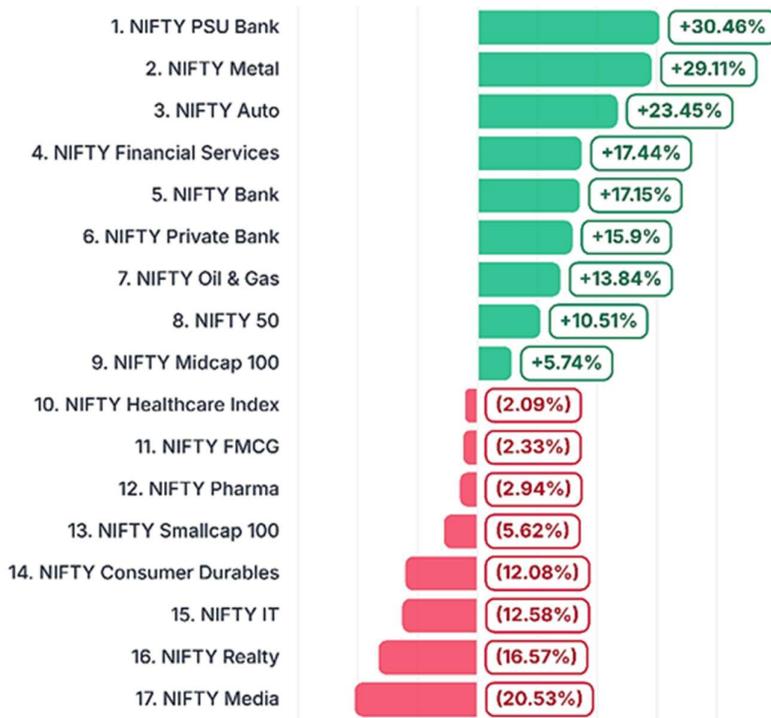
For the month ended December 2025, the Nifty 50 index was down by 0.28% over the previous month. The Nifty Midcap 100 index fell by 0.92%, while the Nifty Smallcap 100 index declined by 0.65%. Largecaps marginally outperformed midcaps and smallcaps during the month. Within sectors, metals, oil & gas, auto, information technology, and government owned (PSU) banks outperformed the Nifty 50, while media, realty, consumer durables, healthcare, pharma, and financial services underperformed the benchmark.

Sr. No.	Index Name	Dec-25
		M-o-M Change
1	NIFTY 50	-0.28%
2	NIFTY Midcap 100	-0.92%
3	NIFTY Smallcap 100	-0.65%
4	NIFTY Auto	1.49%
5	NIFTY Bank	-0.29%
6	NIFTY Financial Services	-0.99%
7	NIFTY FMCG	-0.22%
8	NIFTY IT	1.28%
9	NIFTY Media	-1.60%
10	NIFTY Metal	8.50%
11	NIFTY Pharma	-1.19%
12	NIFTY Private Bank	-0.24%
13	NIFTY PSU Bank	0.22%
14	NIFTY Realty	-2.79%
15	NIFTY Consumer Durables	-2.97%
16	NIFTY Oil & Gas	1.64%
17	NIFTY Healthcare Index	-2.60%

Source: National Stock Exchange of India

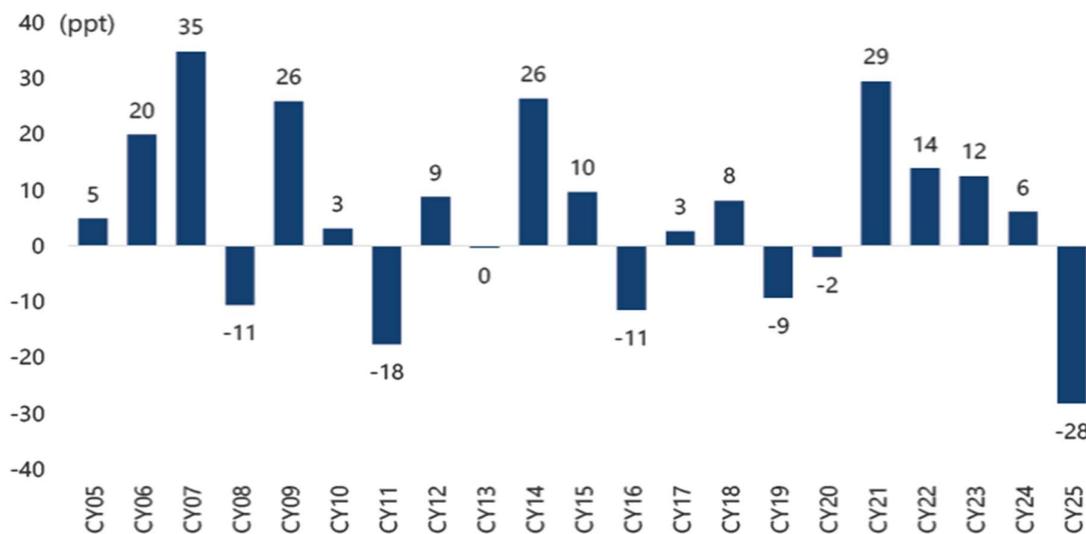
CY2025 (Dec-25 YoY) saw market gains led by a few sectors. Nifty PSU Bank (+30.46%), Nifty Metal (+29.11%), and Nifty Auto (+23.45%) significantly outperforming the broader market. As a result, the Nifty 50 went up by 10.51%, while the Nifty Midcap 100 gained only 5.74% and the Nifty Smallcap 100 declined by 5.62% over the year. The strong performance of PSU banks and autos, both heavily represented in largecap indices, helped largecaps outperform midcaps and smallcaps on a one-year basis. Despite the recent correction in mid and small cap stocks over the past twelve months, their long-term performance remains strong. Over the last five years, midcaps have outpaced largecaps, delivering a 97% higher return, while smallcaps have outperformed largecaps by 55%. India's 28% underperformance against emerging market peers in CY2025 is the highest in any year over the past two decades.

**Fig: Index Performance (Dec-25 YoY)**



Source: National Stock Exchange of India

**Fig: MSCI India yearly performance relative to MSCI EM (USD terms)**



Source: Jefferies

Foreign funds (FIIs /FPIs) were net sellers in December 2025 at USD2.52bn and domestic institutions were net buyers at USD8.85bn. For CY2025, foreign funds have been net sellers at USD18.91bn and domestic institutions were net buyers at USD90.33bn (USD63.10bn in CY2024) taking their combined net inflows to USD71.42bn versus USD63.22bn in CY2024. Despite heavy selling pressure from foreign funds, the market was well supported by strong buying from domestic institutions. This support was driven largely by the continued growth in Systematic Investment Plan (SIP) inflows. Investors invested INR3.04 trillion (USD33.78bn) into mutual fund schemes through SIPs up to November this year, compared with INR2.69 trillion (USD29.89bn) for the entire CY2024, highlighting the growing role of domestic investors in stabilizing the market.

**Fig: Monthly foreign fund flows (In USD bn)**



Source: NSDL

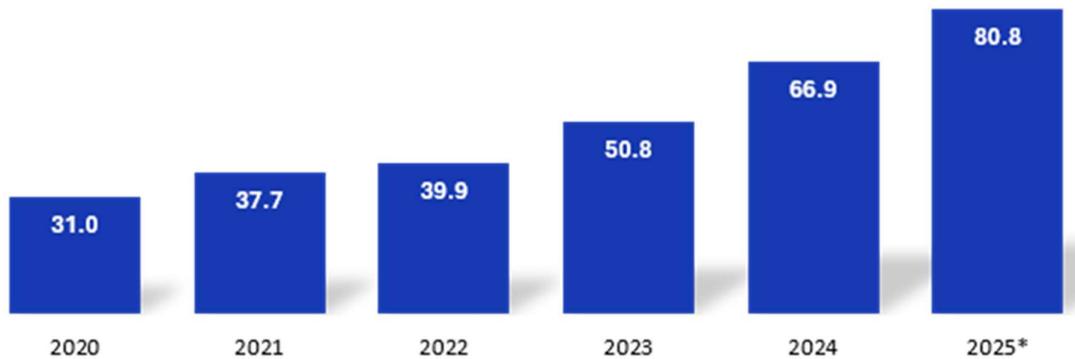
**Fig: Monthly domestic fund flows (In USD bn)**



Source: NSDL

The Indian mutual fund industry delivered another strong year in 2025, with AUM rising over 21% to INR80.8 trillion (USD898bn) by November, marking the third consecutive year of 20%+ growth despite equity market volatility. Unlike previous years, growth was driven mainly by net inflows, which reached INR8.5 trillion (USD94.44bn), exceeding 2024 levels.

**Fig: Mutual fund AUM growth (In INR Trillion)**



Source: AMFI, \* Data as of November, Data across all scheme categories (equity, debt, hybrid, passive and solution-oriented schemes)

CY2025 marked a record-breaking year for India’s IPO market, supported by strong participation from both domestic and foreign fund investors, despite geopolitical challenges and volatility in secondary markets. Although foreign funds were net sellers during the year, they continued to show a clear preference for the primary market, investing USD8.44bn in IPOs. This helped support the launch of 365 IPOs, which together raised INR1.95 trillion (USD21.67bn). Of this, nearly 90% of the funds were raised through 103 mainboard IPOs, which mobilized INR1.75 trillion (USD19.44bn). This made 2025 the best year for IPO issuance since 2000 and marked the second consecutive year of record primary market fund-raising, a rare outcome in India’s market history.

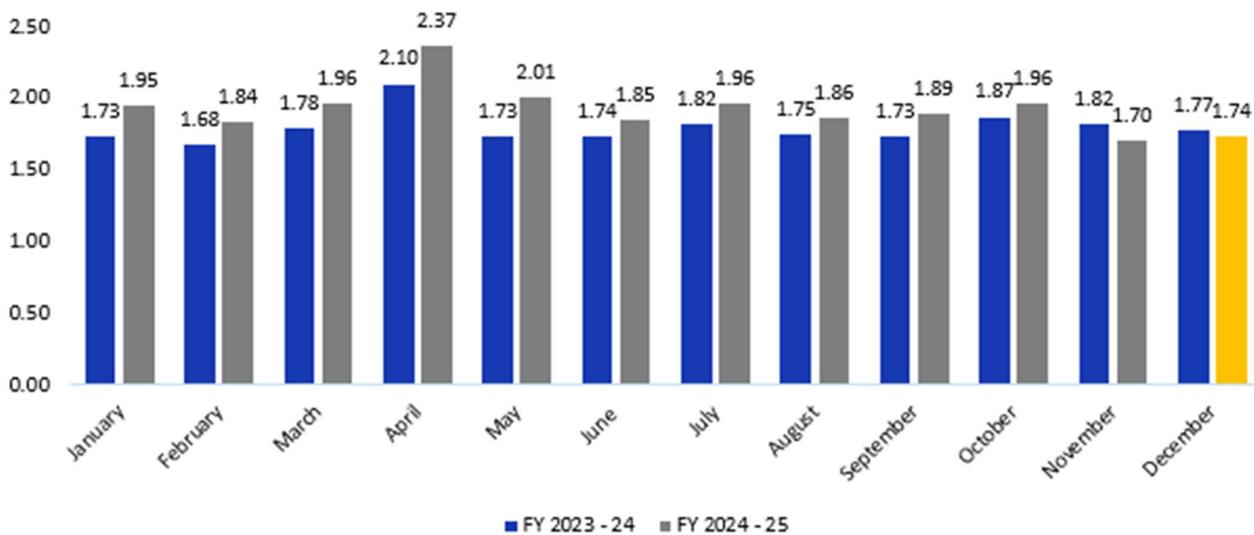
**Fig: India IPO market hits record high in CY2025**

Year	Number of issues	Issue amount (₹ cr)
2020	15	26,612.62
2021	63	1,18,723.17
2022	40	59,301.71
2023	57	49,435.53
2024	91	1,59,783.76
2025	103	175,914

Source: Prime Database

On the macroeconomic front, Goods and Services Tax (GST) revenue for December 2025 stood at INR1.74 trillion, down 1.69% YoY. GST growth has begun to show signs of recovery, with collections rising by 2.35% in the latest month. For CY2025, total GST collections reached INR23.09 trillion, marking a 7% increase compared with INR21.52 trillion collected during the same period in CY2024. This rise is despite the GST rate cuts, often referred to as "GST 2.0," came into effect in India from September 22, 2025. The reforms simplified the previous multi-tier structure into two main tax slabs: 5% and 18%, while introducing a special 40% rate for luxury and sin goods.

**Fig: GST collections trend (in INR Trillion)**



Source: EquiPoise Capital Research, GOI

In CY2025, the most significant geopolitical issue was the US imposing 50% tariffs on Indian exports from August. However, India was able to absorb this shock by actively diversifying its export markets. Exports to the US still increased by about USD6bn in FY26 (Apr–Nov), mainly led by telecom instruments and smartphones, which were exempt from the tariffs. At the same time, exports of gems and jewelry, agricultural products, and textiles to the US declined sharply. These losses were partly offset by higher exports of auto components, garments, glass, and ceramics to alternative markets, particularly the UAE and China, highlighting India’s improving export diversification strategy.

**Fig: India's Export Diversification: US vs Rest of the World (Apr–Nov, FY25–FY26)**

Product group	(Apr–Nov)			
	Exports to US (\$ bn)		Exports to other countries (\$ bn)	
	FY25	FY26	FY25	FY26
Gems & jewellery	6.29	3.53	12.97	15.61
Agricultural & allied products	3.68	3.48	28.44	30.82
Ready-made garments	3.32	3.26	6.53	6.82
Textiles*	3.35	3.00	9.35	9.61
Marine products	1.80	1.70	3.15	4.05
Auto components	1.22	1.14	4.17	4.57
Plastic & related products	0.86	0.74	3.75	3.65
Organic chemicals	0.78	0.71	4.44	4.27
Leather & related products	0.68	0.66	2.40	2.43
Glass, ceramics & cement	0.79	0.64	2.29	2.41

Source: CMIE, Department of commerce

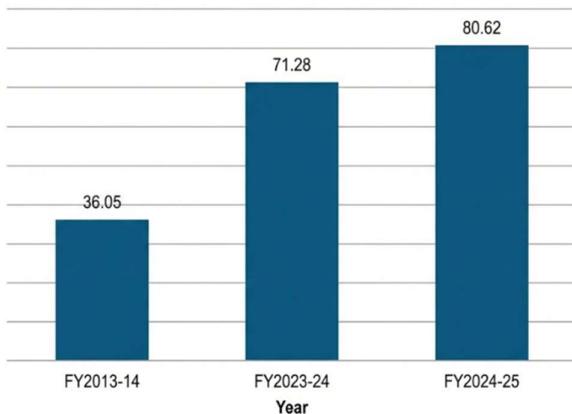
**Fig: Countries with highest rise in export value (%)**

Product group	Country	Percentage (%)
Gems & jewellery	UAE	32
	Hong Kong	23
Agricultural & allied products	China	21
	UAE	19
Ready-made garments	UAE	12
	Germany	8
Textiles*	UAE	26
	Egypt	34
Marine products	Vietnam	100
	China	20
Auto components	UAE	84
	Germany	33
Plastic & related products	Tanzania	51
	Canada	41
Organic chemicals	Brazil	60
	Thailand	73
Leather & related products	Netherlands	17
	Russia	43
Glass, ceramics & cement	UAE	29
	Vietnam	20
Glass, ceramics & cement	UAE	29
	Vietnam	20

Source: CMIE, Department of commerce

Despite geopolitical tensions, pressure from neighboring countries, and market uncertainty, India remained a key destination for foreign capital throughout CY2025. Gross FDI inflows in FY25 stood at around USD81bn, up from USD71.3bn in FY24, reflecting sustained global investor confidence. Cumulative FDI inflows since April 2000 reached about USD1.09 trillion by June 2025, reinforcing India’s position as a long-term investment destination. This confidence was further supported by large long-term commitments from global technology leaders, including Amazon’s ~USD35bn investment plan by 2030, Microsoft’s ~USD17.5bn commitment to cloud and AI infrastructure, and Google’s ~USD15bn allocation toward AI and data centre expansion.

**Fig: Gross FDI flow (USD bn)**



Source: Dpiit.gov.in

CY2025 was a rollercoaster for the Indian market. The market struggled with US tariffs, foreign fund outflows, and earnings stagnation for the first three quarters, before staging a sharp 6% recovery in Q4 to end the year with approximately 10% gains.

Below are the 12 events that shaped the market month-by-month in CY2025.

### CY2025: Market Timeline

Month	Big Event / Theme	Description & Market Impact
January	Trump 2.0 Policy Shift	After the US Presidential inauguration, global markets moved in different directions. India saw early volatility as the “Trump trade” favored US assets. Foreign investors started selling Indian equities as money moved back to the US.

February	Union Budget 2025-26	The Indian government announced income tax relief under the new tax regime and measures to boost employment. This improved sentiment, especially in consumption and consumer stocks, and helped the Nifty find short-term support.
March	Financial Year End & Auto Mixed Bag	As FY25 came to an end, GST collections surged by 7.3% to INR1.76 trillion. Direct tax collections rose 13% reflecting strong economic activity and improved compliance.
April	Q4 Earnings Disappointment	US announces 10% baseline tariff including on India. RBI cuts policy rate by 25 bps to 6%. Luxury housing sales record 28% YoY growth. India's outward FDI rises 20% to USD5.8bn. US tariff risk puts India's MSMEs under pressure.
May	Inflation Volatility & "Sell in May"	India Pak tensions rise. Inflation data from both the US and India. The US Fed maintained a "higher for longer" stance on interest rates, leading the Indian market into a consolidation phase with limited upside.
June	RBI's First Rate Cut (50 bps)	To support slowing growth, the RBI surprised markets by cutting the repo rate by 50 bps.
July	The Tariff Shock	The biggest negative event of the year. US announced a <b>50% tariff on Indian exports</b> (effective Aug 1). This announcement triggered a sharp correction, ending the market's positive streak from the previous months.
August	FII Exodus & Yen Carry Unwind	As tariffs went live on August 1, global sentiment soured. Combined with the global "Yen Carry Trade" unwind, FIIs sold heavily. This month cemented the trend of <b>foreign outflows</b> (reaching record highs for the year).
September	GST Rationalization Overhaul	To revive the flagging economy, the GST Council announced a major <b>overhaul of rates</b> (effective Sept 22), cutting taxes on essentials and aspirational products. This structural reform helped stabilize markets.
October	Festive Season Consumption Revival	Festive season demand data showed early signs of recovery in both rural and urban areas. Domestic institutions absorbed continued foreign selling, helping the market remain stable.

<b>November</b>	<b>Historic IPO Rush</b>	The primary market saw strong activity, with large IPOs witnessing record oversubscriptions. This highlighted the strength of domestic investors and liquidity. CPI inflation fell to record low of 0.25%.
<b>December</b>	<b>Inflation Collapse &amp; Year-End Rally</b>	RBI continued easing of policy rates. The Nifty rallied about 6% in the final quarter, ending CY2025 with a gain of around 10% and crossing the 26,000 mark.

## Our view:

Let us first look at the topmost concern on the minds of many investors – Indian Rupee depreciation versus US Dollar. India's latest GDP growth at 8.2% in quarter two FY2025-26, marks the fastest growth in six quarters and surpassing consensus by a mile. This strong performance, following a 7.8% growth in Q1FY2025-26, signals sustained momentum across sectors, with manufacturing, services, and construction driving expansion. India's current CPI inflation rate for November 2025 is 0.71%, a rise from October 2025's 0.25% (never imagined I would see such low inflation in India). India's seen a secular decline in the cost of capital with 10-year bond yields now around 6.5-6.6 per cent, the lowest ever in non-crisis periods. India's policy rate is 5.25% thereby making real rate at 4.5% (which is among the highest in the world). So, economy is not the factor for INR depreciation versus USD.

India experienced fiscal tightening in FY2025 through a disciplined reduction in the fiscal deficit to 4.8% of GDP, reflecting strong revenue collections and controlled spending amid a glide path toward 4.4% in FY2026. Monetary policy maintained a restrictive stance initially with the repo rate at 5.50% through much of the year before a 25-basis point cut to 5.25% in December 2025, alongside a neutral shift as inflation eased sharply to 0.25% in October 2025. Credit growth slowed markedly to 9-11.3% YoY by mid-to-late 2025 from prior peaks near 17%, driven by household debt strains, deposit slowdowns, and a pivot to bonds, amplifying the combined policy drag. Fiscal tightening is likely to reduce next year, while credit growth having rebounded to about 12 per cent should act as a tailwind.

India was the worst-performing major market in terms of earnings revisions. So, while foreign investors net sold worth nearly USD19bn and domestic funds more than compensated by net buying of USD90bn, which explains why equity indices largely stagnated rather than declined. Generally, 12-month forward earnings can be expected to trend upward due to base effects. However, earnings cuts offset these gains, flattening the earnings curve. With no earnings growth, markets also failed to move meaningfully. This phase now appears to be ending, which could mark a turning point for equities.

While India underperformed most global markets rallied, causing India's weight in global indices to fall. This has led to outflows from passive funds. As mentioned in my last month's note, India is seen by global investors, who are currently chasing AI opportunities world over, as an 'AI absence' market. This added to the outflows prompted by global investors who went underweight India to reallocate to AI beneficiaries such as China, Taiwan, and Korea.

As I said above, the pressure on INR is largely cyclical, flow driven. What we are witnessing currently is foreign fund selling, global risk off (gold, silver, precious metals rally) and a sharp rise in FDI repatriation. India's strong equity markets have enabled strategic investors, multinational companies, private equity, and venture capital funds to exit at attractive valuations through the primary and secondary markets. If one were to look at the recent IPOs, their post-listing gains, the fact that nearly all the IPOs got heavily oversubscribed, or the strategic sales by MNCs we see clear unprecedented demand from domestic investors.

Korean consumer electronics major saw its Indian company IPO getting hugely oversubscribed by 54 times and further listing gains of ~50%. Almost similar story repeated in IPOs of a few others. The private equity funds, venture capital funds and foreign promoters who were flush with funds received due to successful IPOs have repatriated part/full of their phenomenal gains. As a result, annual FDI repatriation has risen from about USD20-25 billion to nearly USD45 billion, increasing short term dependence on net FDI flows.

India became a funding market for some investors and a repatriation market for others during this phase. This has put pressure on the INR, not to forget India is a leading consumer of gold and the sharp unabated rise in gold prices is also a headwind for INR.

The Reserve Bank of India (RBI), we believe, allows INR to find its own level. From a real effective exchange rate (REER) perspective, the currency is already near 10-year lows, which supports manufacturing and export competitiveness (badly affected by 62% US tariff rate imposed on India). Beyond a point, RBI would likely intervene to curb volatility not to defend a specific level particularly when foreign exchange reserves are at comfortable USD685bn.

### **What can change the current market situation?**

We believe, India US bilateral trade agreement and a recovery in earnings growth remain key factors. As per consensus estimates, India's 12-month forward earnings are expected to grow by around 12-14% in FY2026 among the strongest globally which should support index weights. As the giant tide of global flows around AI becomes more balanced and growth momentum becomes clearer, investors who went underweight India may well return. While valuations are already elevated, so large multiple expansions maybe hard to justify. However, India's valuation premium to global markets is at the lower end of its historical range. With an estimated equity demand of about INR7 trillion next year potentially exceeding supply even without foreign funds, makes us constructive on the market. If foreign funds return alongside domestic funds, valuation support could improve further.

While the October trade deficit raised concerns, the November numbers largely offset that. The annual trade deficit works out to around USD350bn. With services exports generating a surplus of roughly USD285bn, the current account deficit (CAD) remains contained at about 1.5% of GDP even with elevated gold imports. There seems no material issue with the balance of payments.

Let us look at another concern – Indian market poor returns in CY2025. The MSCI India Index rose +8% in CY2025, lagging its 20-year CAGR of 11%. After four years of strong relative gains, India trailed the MSCI Emerging Market Index by a wide 28% margin as tech rallies lifted other emerging markets, landing India 20th out of 24 countries

in the EM universe. Large caps held up better, but midcaps and smallcaps struggled—with the NSE 500 Index delivering a median return of -4% for the year.

Among 72 stocks beating the index, 56 exceeded it by over 10ppt—70% with above-median EPS growth. So, earnings delivery stands out as the primary driver. Of 75 stocks underperforming, 54 trailed by more than 10ppt: 72% traded at P/E ratios 10%+ above 10-year averages at year-start, 67% showed 1-year forward EPS growth below the index's 8% average, and 61% faced FY2026 estimate cuts exceeding the MSCI median 6% downgrade. Elevated valuations and softer earnings momentum were the main culprits. Across outperformers and laggards alike, earnings growth emerges as the decisive factor shaping CY2025 returns.

The severe drag from the simultaneous fiscal and monetary tightening in FY2025 is likely behind us. A supportive impulse from monetary easing is now combining with ongoing reform momentum (labour codes, withdrawal of QCOs, EoDB measures). This backdrop underpins an above-consensus FY2027e GDP growth forecast of 7.5% which is over and above the expected GDP growth forecast of +8% in FY2026e. This we believe should prompt upgrades to the market's assumptions about India's trend growth. With policy now aimed at addressing economic slack, growth can run above trend for longer without fuelling inflation.

For equities, this points to an end to earnings downgrades, with 12-month-forward index EPS expected to rise over CY26E through roll-forward effects, after being almost flat through CY2025. P/E multiples should remain supportive, as India's valuation premium to global and emerging markets is below its 10-year averages, domestic equity demand from domestic funds (via steady SIPs and strong insurance flows) may outstrip elevated equity supply, and clearer signs of a growth upturn could slow foreign fund outflows. Against this backdrop, our preference remains tilted toward domestic investment-driven rather than consumption-driven themes.

We maintain that notwithstanding strong economy (India GDP growth of 8.2%), record low inflation, strong foreign exchange reserves, resilient domestic fund flows and an expected earnings upgrade cycle, the Indian markets are facing two strong headwinds - 1) global investors focused on AI theme and 2) highest US tariffs on India. India - US bilateral trade agreement is extremely critical for Indian equity market. While lowering of GST has seen surge in domestic consumption, we believe gradual diversification into other export markets outside US should support exports.

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

**EquiPoise Capital Management Private Limited**

January 05, 2026.

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