India Rewind

January 2026

DSP
ASSET MANAGERS

India Rewind is a monthly update from DSP's Investment Desk.
It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

December capped a resilient yet uneven 2025 for Indian markets. Early in the year, emerging markets outperformed amid mixed global signals, but this divergence proved short-lived. By mid-year, uncertainty stemming from Trump-era tariff threats and shifting timelines around the US–India trade deal weighed on foreign flows, despite strong domestic fundamentals and central bank easing. Over the year, markets navigated these cross-currents, with MSCI India up ~3%. However, it lagged MSCI EM's broader ~31% and MSCI DM's ~19% gains, which were driven largely by AI, Technology, and semiconductor-led rallies that dominated global risk appetite.

On the currency front, the rupee depreciated ~5% YTD, making it one of the weakest major EM currency in 2025 excluding inflation outliers, an outcome uncharacteristic of India's historical EM positioning. While the RBI has reiterated that it does not defend any specific exchange-rate level, it moved to contain disorderly volatility through calibrated intervention. Measures included ~US$33.4bn of open-market bond purchases and ~US$15bn in three-year USD/INR buy-sell swaps, helping inject liquidity, rebuild reserves synthetically, and preserve policy flexibility during periods of seasonal tightness.

Against this backdrop, FPI flows emerged as a defining feature of the year. Cumulative CY2025 FPI net outflows reached ~US$19bn, reflecting pressure from a firm dollar, rise in yields, and prolonged uncertainty around trade negotiations. As global capital gravitated toward AI and technology-heavy markets, conviction toward broader EM allocations weakened, with India also seeing selective de-risking amid extended India–US trade timelines.

Notably, this external caution stood in sharp contrast to India's domestic macro resilience. High-frequency indicators such as expanding PMIs and steady GST collections consistently pointed to stable underlying activity. This strength was reflected in GDP outcomes, with growth sustaining momentum at 8.2% YoY in Q2FY26 and FY26E revised upward to around 7.3%. The expansion was driven by continued capex traction and services-led growth, even as nominal growth moderated in a low-deflator environment. Fitch Ratings revised India's GDP growth forecast for FY2026 to 7.4% from 6.9% projected earlier.

Policy reforms during the year reinforced this macro stability. Income-tax cuts and GST 2.0 rationalisation supported household affordability and facilitated price pass-through, strengthening the disinflationary impulse. Accounting for favourable base effects alongside these reforms, headline CPI eased to below 1% by November, while core inflation moderated to ~4.3%. Complementing this backdrop, liquidity conditions remained comfortable in December, supported by active RBI operations including open-market bond purchases and USD/INR swap auctions, helping preserve money-market stability and reinforce monetary policy transmission.

For the broader market during 2025, earnings through the year pointed to a selective recovery. Over the past two years, domestic liquidity led by steady SIP inflows has provided a consistent buffer, absorbing periods of FPI volatility. As we head into the 3QFY26 earnings season, the key focus areas will be demand sustainability, margin trends, and capex execution, especially in the backdrop of moderating central capex momentum in 2HFY26. External risks also remain fluid — the evolving US–Venezuela tensions and their impact on crude prices, progress on the India–US trade agreement, and rupee moves amid FPI outflows will be important macro swing variables. While policy support, domestic liquidity, and cyclical consumption strength provide a constructive setup for 2026, the market remains sensitive to two downside risks: earnings disappointment and delays or setbacks in trade-deal progress, which could temper sentiment despite otherwise supportive domestic fundamentals.

Info Sources: Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, Elara Capital, UBS, Kotak Securities. Data as of December 2025. MXASJ – MSCI Asia Ex-Japan, FPI – Foreign Portfolio Investor, DII – Domestic Institutional Investor, RBI – Reserve Bank of India, FY – Financial Year, CY – Calendar Year; YoY is Year over Year, YTD – Year to date, EM – Emerging Markets, DM – Developed Markets. ∗Long Term Avg – Average Quarterly YoY Growth over a 13-year period excluding 2 years of Covid. Past performance should not be taken as an indication or guarantee of future performance

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Past Issues:
- India Rewind December 2025
- India Rewind November 2025

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India at a Glance

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	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E
Economic Activity and Employment								
GDP, USD bn	2,701	2,871	2,668	3,176	3,390	3,568	3910	4041
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2771	2840
Real GDP growth, %	6.5	4.0	-6.6	8.7	7.2	8.2	6.5	7.4
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.4	4.8	6.2	5.5	6.7	5.4	4.6	1.9
Repo rate, % (year-end)	6.25	4.4	4.0	4.0	6.50	6.50	6.25	5.25
10-year bond yield, % (year-end)	7.4	6.1	6.2	6.8	7.3	7.1	6.5	6.5
USDINR (year-end)	69.2	75.4	73.5	75.8	82.3	83.0	85.6	92.0
Fiscal Accounts								
General government budget balance, % GDP	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-8.0	-7.6
Balance of Payments								
Trade balance, USD bn	-180	-158	-102	-189	-266	-243.2	-287.2	-318.0
Exports, USD bn	337	320	296	429	456	440.2	441.8	440.3
Imports, USD bn	518	478	398	619	720	683	729	758
Current account balance, USD bn	-57	-25	24	-39	-67	-25	-23	-45
Foreign direct investment (net), USD bn	30.7	43.0	44.0	38.6	35	18	1	15
Total FX reserves, USD bn	413	478	577	607	578	646	668	700
Total external debt, % GDP	20.1	19.5	21.4	19.1	18	18.1	17.1	17.0
Credit ratings								
Moody's	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March; E – Estimates. Data as of December 2025

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