HSBC Mutual Fund

RBI stance remains supportive for growth

December, 2025

HSBC Mutual Fund

Equity Market Update & Outlook:

- In December'25, Large Cap Indian equity indices were largely flattish with BSE Sensex and NSE Nifty down 0.6%/0.3% respectively.
- Broader market was also soft with NSE Midcap Index down 0.5% and BSE Smallcap Index was down 1.0% for the month.
- Metals was the best performing sector for the month. O&G, Autos and IT were also positive and outperformed the Nifty. Banks and FMCG were inline with the Nifty while Power and Healthcare underperformed. Realty and Capital Goods were the worst performing sectors.

Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	133737	-0.6%	10.4%
Nifty 50 TR	39334	-0.3%	11.9%
BSE 200 TR	15268	-0.2%	9.3%
BSE 500 TR	48221	-0.2%	7.6%
NSE Midcap TR	28332	-0.5%	6.0%
BSE Smallcap TR	64180	-1.0%	-6.0%
NSE Large & Midcap 250 TR	21869	-0.4%	8.2%
BSE India Infrastructure Index TR	844	-1.3%	-2.3%
MSCI India USD	1055	-0.5%	3.0%
MSCI India INR	3075	0.0%	8.1%
INR - USD	89.9	0.5%	5.0%
Crude Oil	61	-3.7%	-18.5%

Global Market Update

Global markets delivered a positive return for the month. MSCI World index rose 0.7% in December although with US (S&P 500) was down 0.1%. MSCI Europe rose 3.8% and MSCI Japan rose 0.4%. MSCI EM was up 2.7% despite a 1.5% decline in MSCI China. Crude oil declined 3.7% in December.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	4,430	0.7%	19.5%
Dow Jones	48,063	0.7%	13.0%
S&P 500	6,846	-0.1%	16.4%
MSCI EM	1,404	2.7%	30.6%
MSCI Europe	2,643	3.8%	31.9%
MSCI UK	1,587	3.7%	30.4%
MSCI Japan	4,800	0.4%	22.1%
MSCI China	83	-1.5%	28.0%
MSCI Brazil	1,646	-3.5%	39.9%

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- FIIs again reduced their investment in Indian equities in December, selling stocks worth US$2.6bn while DIIs invested another US$8.9bn. Domestic MFs invested US$3.8bn while insurance inflow was US$5.1bn.
- Softer nominal GDP growth and benign inflation trend allowed RBI to reduce repo rate by another 25 bps in December to 5.25%.
- India CPI in Nov improved to 0.7%yoy in November from a low of 0.3%yoy in October, remaining subdued on the back of continued YoY softness in food prices. Core-core inflation ex. gold (i.e. inflation ex petrol and diesel and gold) was 2.6%yoy in November, down slightly from 2.7%yoy in October.
- Industrial production growth (IIP) rose sharply to 6.7%yoy in Nov from only 0.5%yoy in October. However, this is partly due to shift in festive period with Diwali in October this year.
- Gross GST revenue collection was Rs 1.74 tn in Dec'25, up 6.1%yoy. Growth has been also impacted by the rationalization of GST rates from 22 Sep 2025.

Valuations

Nifty consensus EPS estimate for CY26/27 was largely unchanged in Dec'25 as per Bloomberg. Nifty now trades on 20.4x 1-year forward PE. This is now in-line with its 5-year average and a ~10% premium to its 10-year average.

Macro View

In our view, global macro environment remains challenging with heightened geo-political and economic uncertainties. Reciprocal tariffs announced by the US administration is likely to impact US and global growth outlook. Economists estimate US tariffs could have a 0.4%-0.8% negative impact on India's GDP growth. The GST rate cut announced by the government along with the previously announced income tax rate cuts should significantly help boost private sector consumption and help support private capex in the current times of global uncertainty. Above normal monsoon is also a positive for rural demand. US Fed easing policy rates allows RBI room to further cut policy rates and support domestic growth given the external challenges. However, government tax revenue growth has been weak in the first eight months and is likely to lead to slower spending by the government in H2FY26 to achieve the fiscal deficit target. This would be a drag partially offsetting the gains from GST and income tax rate cut mentioned above. Overall, India's economic growth momentum continues to surprise on the upside with a strong 8.2%yoy GDP growth in Q2FY26.

Outlook

We believe India's growth remains quite resilient despite the global macro-economic challenges. Interest rate and liquidity cycle, decline in crude prices and normal monsoon are all supportive of a pick-up in growth going forward. Although, global trade related uncertainty remains a headwind to private capex in the near term, we expect India's investment cycle to be on a medium-term uptrend supported by government investment in infrastructure and manufacturing, pickup in private investments and a recovery in real estate cycle. We expect higher private investments in renewable energy and related supply chain, localization of higher-end technology components, and India becoming a more meaningful part of global supply chains to support faster growth. Nifty valuations are modestly above 10-year average. We remain constructive on Indian equities supported by the more robust medium term growth outlook.

Key Drivers For Future

On the headwinds, we have

Weak global growth is likely to remain a headwind on demand going forward.

Global policy uncertainty: Risk of tariffs and general policy uncertainty, mercantilist policies of certain countries and geo-political conflicts are likely to be a headwind to private investments.

Other factors / risks: Sharp slowdown in government capex.

We see the following positives for the Indian market:

Recovery in private capex: Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for increase in private capex going forward. Also, continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors. We also expect higher private capex in renewable energy.

Supportive real estate cycle: Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates.

Global commodity prices: Benign global prices of crude oil and fertilizers has been a positive for India from inflation, fiscal deficit and corporate margins perspective in FY24-25.

*Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD return for global indices. (Source: Bloomberg, MOSL & HSBC MF estimates as on Dec 2025 end).

Source: Bloomberg, MOSL & HSBC MF estimates as on 31 December 2025 end or as latest available.

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