MARKET REVIEW

October - 2025

Macroeconomic Update

The US and China last month reached a broad framework under which trade agreement will be discussed. In the interim, US agreed to lower import tariff on China while the latter agreed to ease export restrictions on rare earth minerals and magnets. The Government shutdown in US - which has impacted release of official economic data - has made decision making difficult for policymakers. However, in its latest FOMC review the Fed chair highlighted that alternative jobs data suggests that the labour market is broadly stable. The US manufacturing activity in October contracted at a faster pace as production slipped but Services sector held up well. While manufacturing activity in eurozone was slightly better in October than September, China's manufacturing activity deteriorated as exports orders fell at its sharpest pace in the last six months.

Inflation remained within a narrow range and largely on expected lines across most major economies. The Fed cut its policy rate by 25bps in its October review, but tempered market expectations of a rate cut in December. The Fed has indicated that it will be data dependent in its decision going forward. Both European Central Bank (ECB) and Bank of Japan (BoJ) kept its policy rates on hold along expected lines.

High frequency indicators remained encouraging in Oct: Pace of TW and PV registrations improved especially that of two TWs as GST cuts and festive season boosted demand. Both Manufacturing and Services PMI readings for October suggests robust economic activity with manufacturing PMI surging to nearly 17 years high in October. However, power demand contracted in October and has remained tepid in recent months mainly due unseasonal rains and resultant lower demand for cooling.

Indicators	Units	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Retail registration - Auto@								
2W	YoY, %	2.8	7.8	5.2	-6.1	2.6	7.0	51.6
PV		5.3	0.2	5.7	1.7	3.7	9.2	10.7
MHCV		1.3	-3.2	4.4	0.7	10.7	-1.4	-1.7
LCV		2.4	-3.5	7.0	2.8	8.1	2.1	26.7
Tractors		7.0	2.1	8.4	10.7	29.8	2.5	13.7
Gross GST Collection		12.6	16.4	6.2	7.5	6.5	9.5	4.6
Average E-Way bill generated		23.4	18.9	19.3	25.8	22.4	21.0	8.2
Railway Freight		4.5	2.8	1.4	1.8	5.5	11.8	4.6
Power demand		2.2	-4.9	-1.5	2.1	4.3	3.2	-6.0
Digital Spending (UPI + IMPS)		18.0	19.0	16.5	18.2	16.8	17.4	13.1
Manufacturing PMI^	Index	58.2	57.6	58.4	59.1	59.3	57.7	59.2
Services PMI^		58.7	58.8	60.4	60.5	62.9	60.9	58.9
Unemployment *	%	8.1	8.3	7.7	7.8	6.4	8.6	7.5

Source: www.gstn.org.in, www.icegate.gov.in, CMIE, PIB, RBI, www.vaahan.parivahan.gov.in, www.posoco.in

^Number >50 reflects expansions and number <50 reflects contraction compared to previous month. @ - figures are preliminary data and are subject to revision.

* based on CMIE survey

Going forward, urban demand is likely to get a boost from income tax cut, GST tax cut and easing monetary conditions while rural demand too is likely to remain steady on back of strong rabi output and above normal monsoon. However, global trade uncertainties higher US tariff on Indian imports and unseasonal rains are likely to hurt growth in the near term.

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Macroeconomic Update (contd...)

Tax collections under pressure: Gross tax revenue growth in the first six months of this fiscal has been sluggish driven by poor growth in both direct tax and indirect tax collections. The Government has given relief to consumers by cutting both personal and GST tax rates which will impact tax revenue collections this year. Total expenditure growth in first 6 months of this fiscal has been decent driven by front loaded capital expenditure even though revenue expenditure growth has been muted. Consequently, fiscal deficit has widened to 37% of BE in the first 6 months compared to 29% of BE during the same period last year. However, risk of fiscal slippage in FY26 remains low as the Government can use a mix of lower expenditure and higher revenue from other sources (like higher than budgeted RBI dividend) to keep fiscal deficit close to budgeted.

INR bn	6MFY25	6MFY26	YoY growth
Gross tax revenue	18,138	18,654	2.8
Direct Tax Collections	10,260	10,576	3.1
Indirect Tax collections	7,577	7,791	2.8
Less: Share of states & others	5,487	6,360	15.9
Net Tax collections	12,652	12,294	-2.8
Non-tax revenues	3,572	4,661	30.5
Total revenue receipts	16,224	16,954	4.5
Total Capital receipts	146	348	138.1
Total Receipts	**16,370**	**17,302**	**5.7**
Total Revenue Expenditure	16,965	17,226	1.5
Total Capital Expenditure	4,150	5,807	40.0
Total Expenditure	**21,115**	**23,033**	**9.1**
Fiscal Deficit	4,745	5,731	20.8
Fiscal deficit (as % of BE)	28.2%	36.5%	
Fiscal deficit (% of GDP)	1.4%	1.6%	

Source: CMIE

Trade deficit widened in Sep: Merchandise trade deficit widened significantly in Sep'25 compared to the previous month led mainly by higher precious metal imports (gold and silver). The trade deficit is likely to face headwinds due to higher tariff imposition. However, healthy growth in services exports is likely to keep current account within manageable range.

Amount in USD billion	Aug-25	Sep-25	Change
Trade Deficit / (Surplus)	**26.5**	**32.2**	**5.7**
Net Oil Imports	8.8	9.1	0.3
Net Gold Imports*	5.0	9.9	4.9
NONG net imports^	12.7	13.2	0.5

Source: CMIE, Ministry of Commerce; *Net Gold includes gold, silver and pearls precious & semiprecious stones adjusted for gems and jewellery exports.
^NONG refers to Non-Oil Non-Gold (as defined above) imports/exports

Retail inflation remains benign: India's CPI inflation in September was recorded at 1.5% YoY compared to 2.1% YoY in August as Food & Beverages inflation contracted in September compared to being flat in August. Core-Core (which excludes food, fuel, petrol, diesel, gold, silver and housing) however rose by 40bps due to rise in discretionary goods prices.

CPI inflation is likely to remain below 4% in the coming months due to favourable outlook on food inflation and favourable base effect.

YoY, %	Aug-25	Sep-25	Change in %
CPI	2.1	1.5	0.6
Food & beverages	0.0	-1.4	1.4
Fuel and Light	2.3	2.2	-0.1
Housing	3.1	4.0	0.9
Transportation & Communication	1.9	1.8	-0.1
Core-Core CPI@	5.1	5.5	0.4

Source: CMIE; @-CPI excluding food, fuel, petrol, diesel, gold, silver and housing

Commodity prices: Oil prices settled lower as geo-political tensions eased in middle east and OPEC+ agreed on modest output hike. China's tightening of supply led to rally in the prices of the industrial metals, but lackluster economic data globally led to steel prices cooling down.

	Market price (USD)*	Oct'25 (%)^	FY26TD (%)&
Brent Crude (per barrel)	65.1	-2.9	-12.9
Gold (per ounce)	4,003	3.7	28.2
Steel (per tonne)	470	-1.0	1.1
Zinc (per tonne)	3,141	4.1	10.8
Copper (per tonne)	10,902	5.8	12.7
Aluminium (per tonne)	2,879	7.5	14.3
Lead (per tonne)	2,000	2.2	-0.1

Source: Bloomberg; *Market prices as on Oct 31, 2025. ^Y-o-Y change.
& - Change in FY26YTD

Macroeconomic Update (contd...)

Summary and Conclusion:

Global trade tensions subsided last month as US and China reached an agreement where US agreed to lower tariffs on Chinese imports while China agreed to lift restrictions on rare earth minerals exports. However, trade related uncertainties still remain high especially for countries like India which has been subjected to one of the highest tariff rates in the world by the US. Growth in US is being held up by AI related investments. The paucity of fresh economic data in the wake of US Government shutdown has made it difficult to track developments. The Fed chair in its press conference post FOMC meeting highlighted that the labour market has remained broadly stable and that inflation is likely to rise as tariff pass through takes place but is likely to be a one time increase rather than generalised spillover. Domestic demand in China remains subdued and deflationary forces have gathered steam. Growth in Eurozone has been better than expectations but remains below par.

India's growth momentum is exhibiting signs of resilience as evident from recent high frequency indicators. GST rate cuts and festive demand has led to higher discretionary consumption. However, as India faces one of the highest tariffs by US on its exports, growth is likely to take a hit in the second half of this fiscal. The Government has realised this and has embarked on major reform overhaul for the country starting with lowering of GST rates to boost consumption. Going forward urban consumption is likely to remain healthy due to income tax relief and GST rate cuts announced by the Government and monetary easing by the RBI. Rural consumption too is likely to remain steady on the back of above normal monsoon, falling inflation and higher real rural wage growth. India's external sector also remains comfortable on the back of low current account deficit and adequate forex reserves. Rise in geopolitical tensions and tariff related uncertainty are key near-term risks.

Looking ahead, the medium-term outlook for India's economy seems optimistic, in our view. This optimism is driven by bi-lateral trade deals with various countries, Governments renewed efforts for structural reforms, enhanced infrastructure investments, and the likely boost to private consumption.

Equity Market Update

The month of October saw broad based rally for Indian equity markets. While NIFTY 50 / BSE Sensex Index ended the month with 4.5% and 4.6% gain respectively, small and mid-cap indices witnessed higher gains. All sectors ended the month with gain with Oil and Gas, Metal and Banks outperforming while Autos and FMCG underperforming. Robust festive demand and easing global trade tensions were factors working in favour of markets in the month of October.

Almost all global equity markets witnessed a rally in October except Hong Kong markets. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	Oct-25	FY26TD^
BSE Oil & Gas	6.4	14.0
BSE Metal	5.6	14.0
BSE Bankex	5.6	9.1
BSE Information & Technology	5.5	-3.1
BSE Healthcare	3.4	7.5
BSE Power	3.1	5.1
BSE Capital Goods	3.1	12.2
BSE Fast Moving Consumer Goods	2.7	6.2
BSE Auto	1.0	25.5
NIFTY Midcap 100	5.8	**15.8**
NIFTY Smallcap 100	4.7	**14.2**
BSE Sensex	4.6	**8.4**
NSE Nifty 50 Index	4.5	**9.4**

% Change	Oct-25	FY26TD^	CY25TD^
KOSPI	19.9	65.6	71.2
Nikkei 225	16.6	47.2	31.4
NASDAQ Composite	4.7	37.1	22.9
MSCI Emerging Markets	4.1	27.3	30.3
FTSE 100	3.9	13.2	18.9
CAC 40	2.9	4.2	10.0
S&P 500	2.3	21.9	16.3
Shanghai Composite	1.9	18.6	18.0
DAX	0.3	8.1	20.3
Hang Seng	-3.5	12.1	29.1

Source: Bloomberg; ^Returns in FY26TD and CY25TD

FIIs bought net equities worth USD 1.2 billion in October 2025 (September 2025: Net sold USD 2.1 billion) and have cumulatively sold equity worth USD 2.7billion in 7MFY26 (7MFY25: Net sold USD 0.8 billion).

DIIs bought net equity worth USD 6.0 billion in October 2025 (September 2025: USD 7.4 billion) and have cumulatively bought USD 51 billion in 7MFY26 (7MFY25: USD 40.5 billion). Net flows into Mutual funds were ~INR 36,653 crore in September 2025 (August 2025: ~INR 38,607 crore & September 2024: ~INR 39,479 crore) cumulatively amounted to ~INR 202,077 crore in 6MFY26 (6MFY25: ~INR 227,214 crore).

Outlook

As on October 31, 2025, NIFTY 50 Index was trading at ~20.7x price to earnings multiple. Further, Market cap-to-GDP stood ~120% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield* has narrowed recently [*Earnings yield = 1/ (one year forward P/E)*].

Chart 1

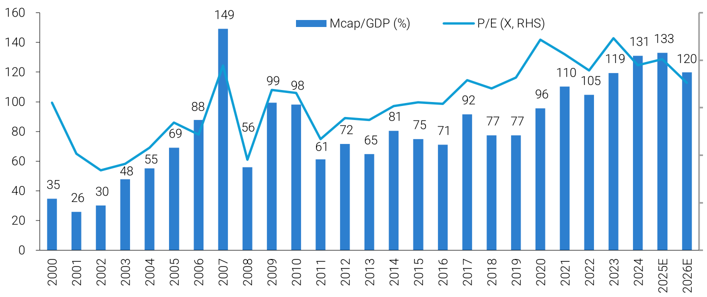
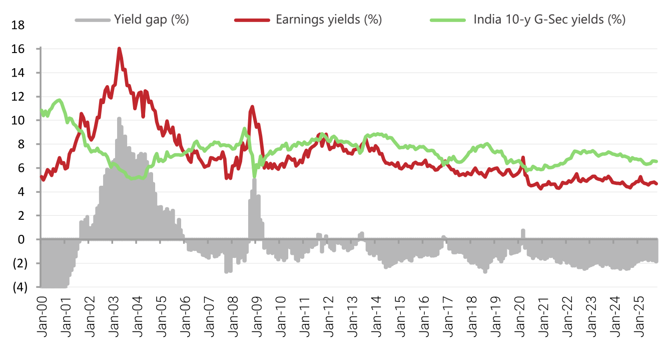


Chart 2



Source: Kotak Institutional Equities; For 2025 and 2026, the market cap as on October 31, 2025 is taken and divided by GDP estimates for CY25/CY26

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Equity Market Update (contd...)

As of October 31st, 2025, the valuations of all sectors except Tech and Private Banks are trading at a premium to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	31-Oct-25	**LTA**	**Discount / Premium^**
Cement	42.7	30.6	39.3
Utilities	15.3	11.4	34.3
Industrials	34.7	27.1	28.0
PSU banks @	1.3	1.1	20.6
Metals	12.2	10.1	20.3
Pharma	28.6	24.3	17.7
Energy	14.9	12.7	17.7
Automobiles	23.3	21.5	8.6
Consumer Discretionary	58.3	55.1	5.7
FMCG	38.0	36.7	3.5
Tech	20.7	21.1	-2.0
Pvt Banks @	2.3	2.8	-16.8

Source: Kotak Institutional Equities. Stocks are part of Kotak Institutional Equities universe.
LTA – 10 Years average. Cells in green are sectors which are trading at premium. All figures are calculated based on 12 months forward estimates.
^to Long term (LT) average, @-Price to Book value

Given the global uncertainties and aggregate valuation being higher than historical average, the importance of stock selection increases even more.

Over medium to long term, we remain optimistic on Indian equities considering strong macroeconomic fundamentals, attractive domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies like income tax and GST relief to consumers. However, near-term risks include higher tariff imposition by US on India and cyclical moderation in corporate earnings.

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Debt Market Update

The Yield on 10-year benchmark Gsec and 10-year AAA corporate Bonds fell by 5 bps and 8ps respectively during the month. As a result, the spread between AAA 10-year corporate bonds and 10-year G-sec compressed by 3bps. Key events / news which influenced yields during the month are RBI's monetary policy review, US-China trade truce and Fed administering second rate cut while tempering expectation of a Dec cut. The table below gives a summary view of the movement of key rates and liquidity:

	Sep-25	Oct-25	Change (in bps)
MIBOR Overnight Rate (%)	5.74	5.69	-0.05
3M Gsec yield (%)	5.47	5.46	-0.01
10Yr Benchmark G-Sec Yield^ (%)	6.58	6.53	-0.05
AAA 10Year Corporate Bond Yields#, & (%)	7.20	7.12	-0.08
AAA 10Y Corporate bond spread against 10Y benchmark@ (bps)	62	59	-3
Average net liquidity absorbed/infused by RBI* (INR billion)	1,473	855	

Source: Bloomberg, ^-bi-annual yield; #-annualised yield; & - Average yield of NABARD paper provided by independent valuation agencies has been taken. @ - Spreads calculated by subtracting non-annualised Gsec yields from annualised corporate bond yields.
*Average net daily liquidity infused / absorbed through Liquidity Adjustment Facility, exports refinance, marginal standing facility and term repos/reverse repos. Source: Bloomberg, RBI

Average net liquidity surplus was at INR ~855bn at the end of October compared to a surplus of INR ~1.5trn in September due to tax related outflows and RBI intervention in the forex market.

In the debt market, FPIs ended the month with net buying of USD 2 billion in October 2025 (September 2025 net buy: USD 1.2 billion).

Outlook

In its latest monetary policy review, the RBI decided to keep the policy repo rate and stance unchanged which was on expected lines. However, RBI has indicated that further policy space has opened up to support growth considering benign inflation outlook. This was a departure from recent resolution that the monetary policy had limited space to support growth. This clearly indicates RBI would be open to cut rates further to support growth especially amid tariff and trade related uncertainties. This was also indicated in its projections for inflation and growth. While the inflation forecast was lowered across, GDP growth projections were increased only to adjust for higher-than-expected Q1FY26 growth rate. GDP growth rate from Q3FY26 to Q1FY27 was lowered by 10-20bps.

In our view, RBI is likely to lower rates further as trade and tariff related uncertainties drag growth down and outlook for inflation is favourable due to cut in GST rates and favourable food inflation outlook.

Therefore, in our view, medium term outlook on Indian fixed income market remains favourable, considering:

- Headline CPI inflation is likely to significantly undershoot RBI target of 4% in FY26. Thereafter too the rise due to unfavourable base is likely to be contained.
- RBI likely to keep liquidity in surplus through measures such as OMOs which will help in better transmission to lower rates
- External sector could remain comfortable in view of steady growth in services exports, healthy remittances and adequate foreign exchange reserves
- Government sticking to path of fiscal consolidation and reiterating to bring down its debt to GDP could bode well for supply of Gsec over the medium term
- Higher tariff on India likely to dampen growth

Key risks to the favourable outlook:

- Weather related uncertainty leads to rise in food prices
- Flare up in geo-political tensions leading to higher crude oil prices

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Debt Market Update (contd...)

Overall, in our view, yields are likely to remain rangebound with a downward bias. Falling inflation, front loading of policy rate cuts and indication by RBI that further space has opened to support growth is positive from yields perspective. Furthermore, lower than expected SDL borrowings in Q3, Central Government's reduction of supply for long dated securities in H2 and transmission of past rate cuts also bodes well for yields. There is a likelihood that RBI will have to conduct OMOs towards the end of this fiscal to maintain adequate liquidity which is also positive from yields perspective. Thus, in view of comfortable liquidity and attractive corporate bonds spreads (over Gsec), one may consider investment in medium duration (schemes with duration of upto 5 years) categories especially corporate bonds focussed funds, in line with individual risk appetite. Further, as long bond spreads over 10 year G-secs remain elevated and given that Government has cut supply at the longer end in its 2HFY26 borrowing program, investors with a relatively longer investment horizon could continue with their allocation to longer duration funds in line with individual risk appetite.

Source for various data points: Bloomberg, NSDL, CMIE, RBI, Kotak Institutional Research, World Bank, Daily valuation provided by ICRA/CRISIL

Glossary

AE	Advanced Economies
BoE	Bank of England
BoJ	Bank of Japan
BoP	Balance of Payment
bps	Basis points
BE	Budget Estimates
CAGR	Compound Annual Growth Rate
CMIE	Centre for Monitoring Indian Economy
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CV	Commercial Vehicle
DIIs	Domestic Institutional Investors
EA	Euro Area
ECB	European Central Bank
FOMC	Federal Open Market Committee
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GFCE	Government Final Consumption Expenditure
GST	Goods and Services Tax
GVA	Gross Value Added
IMD	India Meteorological Department
INR	Indian Rupee
IMF	International Monetary Fund
IMPS	Immediate Payment System
JGB	Japanese Government Bonds
LCV	Light Commercial Vehicle
Mbpd	Million Barrels Per Day

MHCV	Medium and Heavy Commercial Vehicle
MIBOR	Mumbai Interbank Offered Rate
M-o-M	Month on Month
MPC	Monetary Policy Committee
MSP	Minimum Support Prices
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NFP	Non-Farm Payroll
NONG	Non-Oil Non-Gold
NSO	National Statistical Orgnization
OMO	Open Market Operation
PIB	Press Information Bureau
PLI	Production Linked Incentive
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PSU	Public Sector Undertaking
PV	Passenger Vehicle
RBI	Reserve bank of India
RE	Revised Estimates
RRR	Reserve Ratio Requirement (for banks in China)
SLR	Statutory Liquidity Ratio
UPI	United Payments Interface
US	United States of America
USD	United States Dollar
UST	US Treasuries
YoY	Year on Year