

Monthly Communication

January 2026

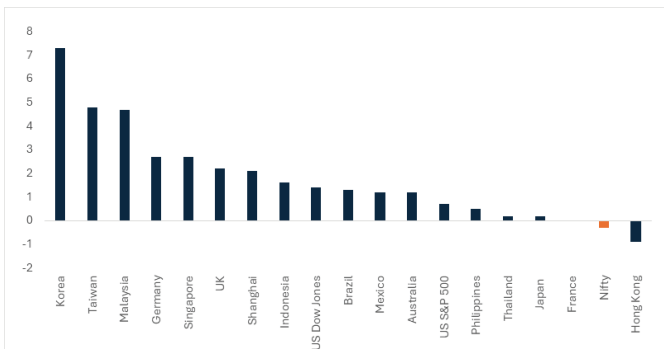
Market update

Equity Market Performance

As the year draws to a close, Indian equity market in December ended with modest losses. Nifty slipped 0.3%, while the Mid-cap indices and small-cap indices declined by 0.9% and 0.6% respectively. Metals led the rally with an 8% surge, while Oil & Gas (+1.8%) and Auto (+1.3%) followed as notable gainers. Conversely, Capital Goods, Consumer Durables, and Realty slipped around 3% each, emerging as the key laggards. Most global markets ended on a positive note, with South Korea leading the rally (+7%), followed by Taiwan and Malaysia (both up around 5%).

In contrast, France remained flat (0.0%) while Hong Kong slipped (-0.9%). Sensex and Nifty closing marginally lower amid thin year-end trading and persistent foreign fund outflows. FIIs sold equities worth about \$ 2.63 billion during the month, while DIIs continued to provide strong support investing \$ 8.8 billion during the same period.

Global and regional indices 1 Month performance (%)



Source: Bloomberg, Kotak Institutional Equities (Data as on 31st December 2025 in local currency)

Macro Update

The rupee remained volatile, breaching the 90 mark mid-month and touching an all time low above ₹91 before RBI interventions helped it recover to around ₹89.8 by month-end. RBI cut the repo rate by 25 bps to 5.25% and maintained a neutral stance, while Fitch upgraded India's FY2026 GDP growth forecast to 7.4%. Globally, the U.S. Fed reduced rates for the third time this year, and the Bank of Japan raised its benchmark rate to the highest level since 1995. Commodities saw strength in metals and gold, while crude oil remained subdued.

Overview of Core Economic Indicators

November Headline CPI inflation inched up to 0.71% from 0.25% in October, there is an increase of 46 bps. WPI inflation for the month of November declined to -0.32% YoY. Negative rate of inflation in November 2025 is primarily due to decrease in prices of food articles, mineral oils, crude petroleum & natural gas, manufacture of basic metals and electricity etc. Driven by 8.0% growth in manufacturing sector, Index

of Industrial Production (IIP) recorded a 6.7 % YoY growth in November 2025. The growth is led by Manufacture of basic metals and fabricated metal products, pharmaceuticals and motor vehicles.

Taxation Trends & Monetary Dynamics

Gross GST collections rose from ₹1.70 trillion in November 2025 to ₹1.74 trillion in December 2025, marking a sequential increase of about 2.3%, though the YoY growth rate eased slightly from 8.9% to 8.6%. In contrast, net GST collections declined from ₹1.52 trillion in November to ₹1.45 trillion in December, a 4.6% drop month-on-month, with YoY growth moderating from 7.3% to 6.8%. The widening gap between gross and net collections suggests higher refunds or input tax credit adjustments in December.

The Indian rupee's depreciation to around ₹90 per US dollar reflects multiple pressures, including a widening trade deficit, elevated crude oil prices, and persistent foreign portfolio outflows. Global monetary easing and geopolitical uncertainties have amplified volatility, while domestic inflation and slowing capital inflows added to the weakness. This depreciation impacts the economy by increasing import costs, particularly for energy and raw materials, which can fuel inflation and strain the current account.

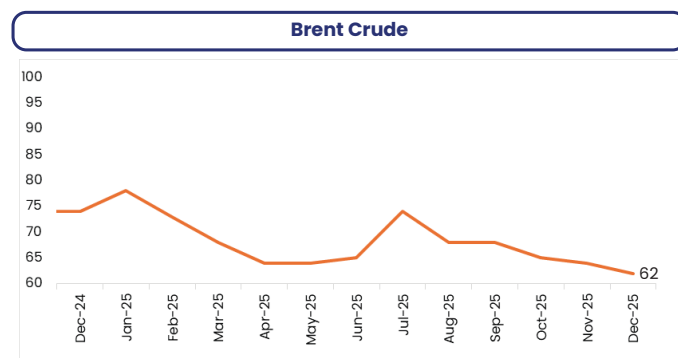
On the positive side, exporters may benefit from improved competitiveness. To manage the situation, the RBI has deployed measures such as dollar-rupee swap auctions, liquidity injections through open market operations, and maintaining adequate forex reserves to curb excessive volatility. These steps aim to stabilize the currency without compromising growth momentum, highlighting the delicate balance between external stability and domestic economic resilience.

Decade	Avg. Yearly Depreciation against the USD
1990 - 2000	~ 9%
2000 - 2010	~ 0%
2010 - 2020	~ 5%
2020 - 2025	~ 4%

Source: Bloomberg, FBIL Reference rate, RBI Handbook of Statistics, *31/03/1990 till 31/12/2000, Calculated using Compound Annual Growth Rate (CAGR)

External Trade Trends & Financial Indicators:

External trade indicators showed positive momentum, with exports rising 5.43% YoY during April–November 2025 and imports increasing at the same pace, narrowing the trade deficit sharply to \$6.64 billion from \$17.05 billion a year earlier. This improvement signals stronger global demand for Indian goods and enhanced competitiveness. Meanwhile, Brent crude prices eased to \$62 per barrel in December, down from \$64 per barrel in November, providing some relief on the import cost front.



Source: Bloomberg, Kotak Institutional Equities

Market Outlook

India remains one of the most resilient large economies as we enter 2026, with GDP growth expected to sustain in the 6.5–7% range. Domestic drivers are strong—government-led capex, tax and GST cuts, lower interest rates, and a good monsoon have boosted consumption, with autos leading the recovery. RBI's pro-growth stance and liquidity infusion, along with 125 bps rate cuts, have further supported demand since late 2025. Corporate earnings are set for meaningful improvement, aided by operating leverage and easing cost pressures.

However, the recovery will be selective rather than broad-based. Valuations remain elevated in pockets, making disciplined stock selection critical. Large caps offer relative stability, while mid and small caps may see modest performance compared to previous years. IPO activity could revive selectively, but governance and cash-flow visibility will matter more than growth narratives.

Overall, 2026 will reward fundamentals-driven investing—companies with strong balance sheets, visible earnings growth, and sensible valuations. While India's long-term equity story remains intact, success will depend on prudent portfolio construction and valuation sensitivity amid global uncertainties.