



MACRO OUTLOOK 2026

An accelerated rate cut cycle in US will open further space for policy easing by RBI.

The timing and the communication of the policy tightening by the Bank of Japan will be key monitorable in 2026.

Pressure on meeting the fiscal deficit target will lead to curtailment in capex

Macro Outlook 2026

Keep an eye on divergent monetary policies

In 2026, we believe that divergent monetary policies by the Bank of Japan and the US Fed could disrupt global financial markets through unwinding of the carry trade. The deep negative real rates in Japan allows the central bank to hike rates further, but communication would be crucial here. The US Fed's policy easing cycle can steepen depending on the approach of the new chairman; we believe an accelerated rate cut cycle would weaken the US dollar and cushion EM currencies along with commodities. On the domestic front, we expect continuation of the fiscal consolidation but at a slower pace. Fiscal pressures are likely to be absorbed through lower capex, but allocation below 3% of GDP will impinge on growth. RBI will continue to prioritise growth but the upward inflation trajectory will restrict policy space for easing. The dent in the external balance due to the delayed trade deal with the US warrants geographical diversification. We expect INR to trade in the range of 92.3 to 92.8/USD in 2026.

- **Outlook shaped by BoJ / Fed's Policies:** If the global macroeconomic landscape was shaped by US policies in 2025, then monetary policies in Japan and the US will be key monitorables in 2026. Low real yields in Japan would allow the BoJ to hike further; however, more than the quantum of rate hikes (25-50bps base case), the timing and the messaging function of the central bank will decide the extent of disruption in the global markets through unwinding of the carry trade. Japan increased its holding in US treasuries along with European nations at the cost of EM countries like China, India, etc. This validates our view that the incremental unwinding of the carry trade will be gradual. An anticipated accelerated rate cut cycle in the US (50-75bps base case) by the shadow chairman will exert downward pressure on the US dollar and cushion the EM currencies; a weaker dollar will also support commodities. Moreover, the Trump administration will likely turn more populist in the run-up to the mid-term elections in Nov'26, adding to the debt burden.
- **Fiscal to be rescued by the base year revision :** On the domestic front, we expect the government to continue on the fiscal consolidation path but at a slower pace. Capex intensity has been strong during Apr-Nov'25. However, we believe that capex will be the casualty when tax collection weakens. The extent to which the government tries to accommodate consumption-boosting measures vs. capex will be a key monitorable, as capex allocation below 3% of GDP will impinge on growth. The fiscal deficit (FD) target will be lowered in the range of 4-4.2% of GDP in FY27. Deflation-led lower nominal GDP will exert pressure in meeting the 4.4% fiscal deficit target in FY26. Revision of base year in 2015 statistically improved GDP growth by 134bps; although a base revision does not guarantee an improvement, the 150-200bps improvement in GDP would aid in meeting the FD target for FY26.
- **Private capex lags; inflation picks up pace:** We believe that the massive capex push by the central government has peaked; however, allocation below 3% of GDP will impinge on growth. Although the improved twin balance sheet situation is conducive for a revival in private capex, the significantly lower (<75%) capacity utilisation levels vs. the previous capex cycle hints at an inadequate demand environment. The year-long deflationary trend has likely bottomed out globally, including in India; the upward trajectory from hereon will be aided by the base effect. However, our assessment of the relationship between gold prices and global inflation hints at an inflationary environment in the upcoming year. In India, we expect CPI inflation to revert to 4% by the end of 3QFY27. The recent prediction by the weather agency of the evolving El Nino conditions could prove to be inflationary; however, the SOI index (Ex 31) is comfortably placed in La Nina territory currently.
- **Gradual depreciation in INR:** INR was one of the weakest currencies in 2025 (4.7%). The unanticipated delay in finalisation of the trade deal with the US damped sentiment and reflected in consistent selling pressure (USD 11.9bn) by FIIs throughout the year. We believe that the key trigger for the INR to stabilise with an appreciating bias will be the trade deal with the US, in absence of which any deterioration in the trade balance will trigger bouts of weakness in the currency. The comfortably placed INR on REER basis does not call for a steep correction from hereon. However, improvement in fundamentals will be key to attract FII flows sustainably; markets are trading at 21.5x one year forward, which is reasonable. As a base case, we expect the INR to depreciate to 92.3-92.8/USD, with bouts of appreciating bias during 2026.



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Key Highlights

- The timing and the communication of the policy tightening by the Bank of Japan will be a key monitorable in 2026
- An accelerated rate cut cycle in the US will open further space for policy easing by RBI
- Government to continue on its fiscal consolidation path but at a slower pace
- Pressure on meeting the fiscal deficit target will lead to curtailment in capex
- INR expected to depreciate to 92.3-92.8/USD in 2026

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

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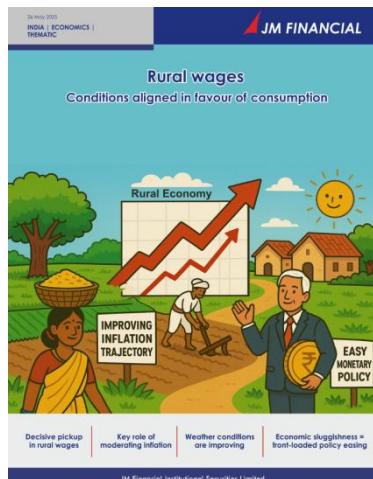
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Focus Charts

Exhibit 1. Money supply expanded across global economy in 2025

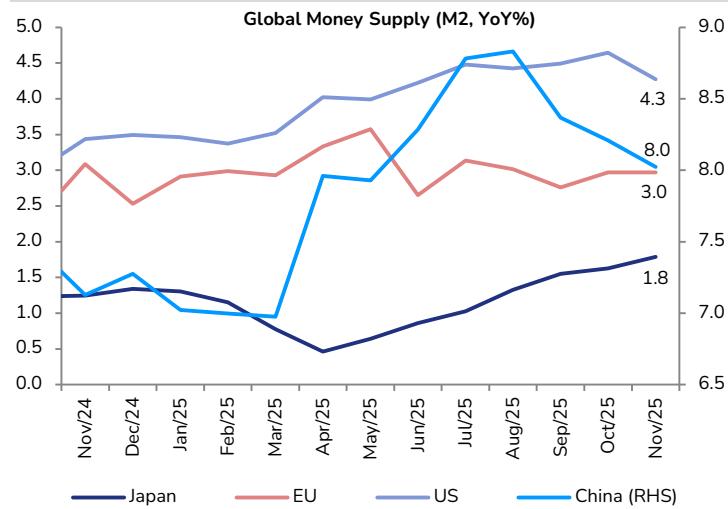


Exhibit 2. Nominal GDP improved 134bps with base revision in FY14

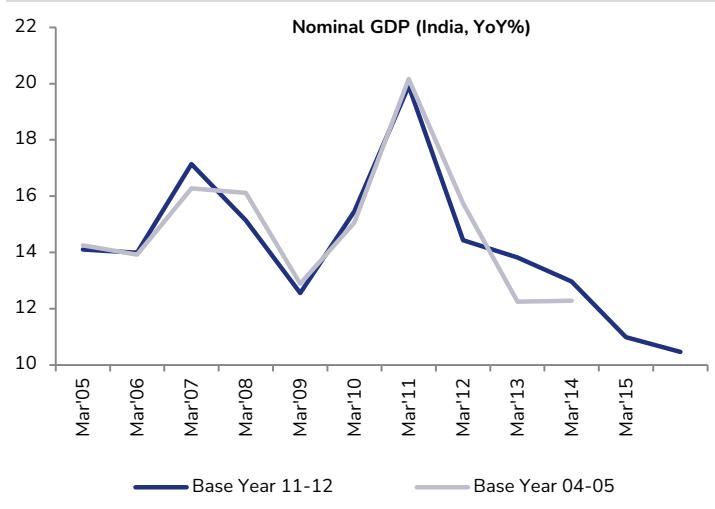


Exhibit 3. Corporate capex yet to pick up decisively

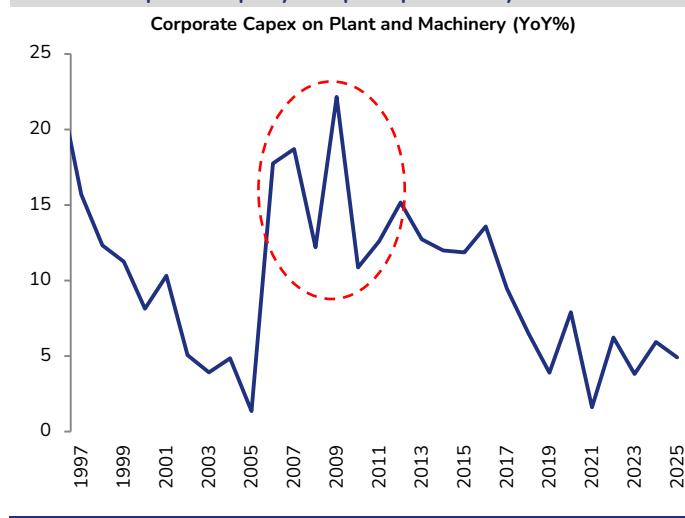


Exhibit 4. Real policy rates in Japan will allow BoJ to hike further

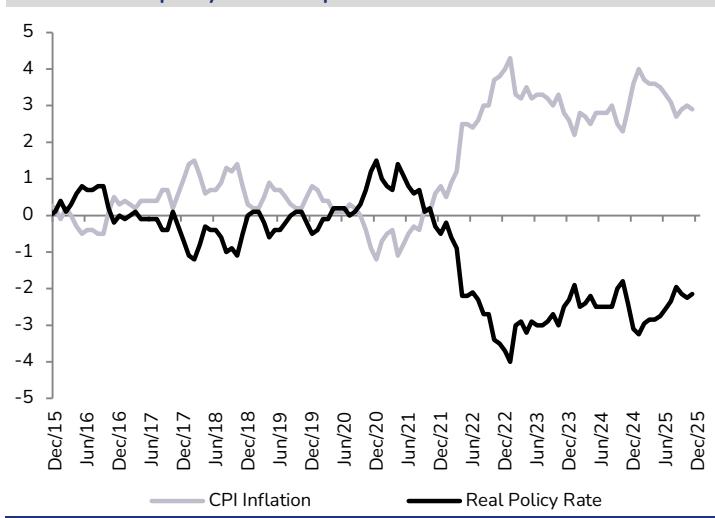
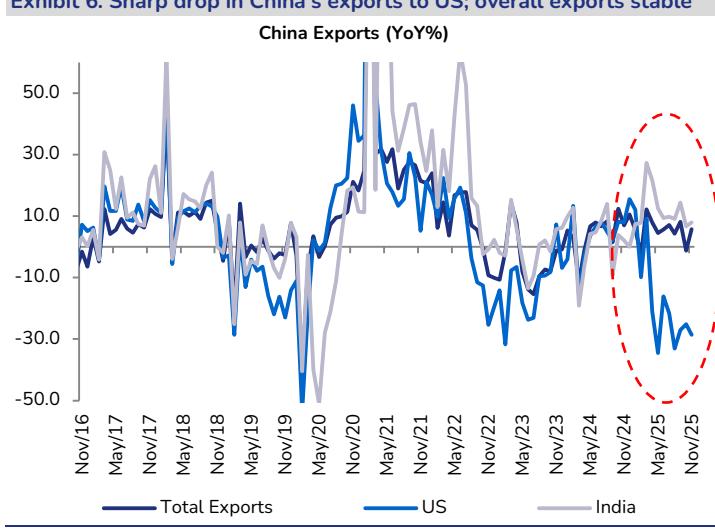


Exhibit 5. Asia ex-China and Japan reduced their UST holdings



Exhibit 6. Sharp drop in China's exports to US; overall exports stable



Normalisation of global money supply amidst heightened uncertainty/volatility

Global central banks ensured ample money supply (M2) in the system till now/in 2025, which reflected in liquidity expansion by the US (4%), China (8%), European Union (3%) and Japan (2%). Comparatively, the growth in money supply in India was robust at 12% YoY. This was accompanied by policy easing across major central banks (except Bank of Japan), as inflationary pressures moderated and expectations were anchored. Liquidity also boosted growth amidst the negative impact of elevated US tariffs and geopolitical tensions. **In 2026, we expect normalisation in global liquidity and trade activity;** however, we anticipate some macro events that could heighten uncertainty and add volatility in the global markets.

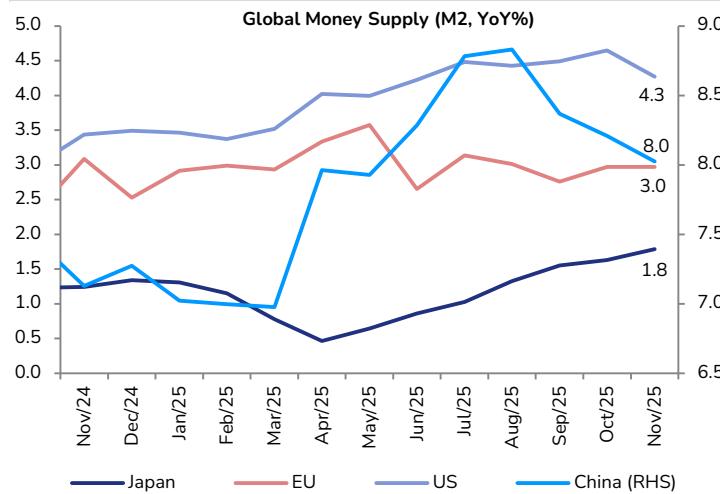
While the transition towards a multipolar world is ongoing, countries will have to navigate **trade barriers** through a series of bilateral trade agreements. Any major incremental announcement around trade restrictions amongst US and China will add to the uncertainty.

Secondly, the **mid-term election** in the US in Nov'26 will bring about policy changes in the US. We anticipate a populist tilt by the Trump administration in the run-up to the mid-term election. Already, talks are going on the proposal for "tariff dividend checks" worth USD 2,000. Although this will aid the depleted savings rate and lift weak consumer sentiment, it will also add to the already high debt burden. Moreover, although the Fed would maintain its credibility despite the change at the helm, **an accelerated rate cut cycle cannot be ruled out.**

Another major risk factor from the monetary angle can erupt from Japan. The rate hike cycle by the Bank of Japan (BoJ) could propel the **unwinding of the yen carry trade**, hardening yields across DM and emerging markets. However, based on our assessment in our [global yields note](#), we [expect a gradual unwinding of the carry trade](#).

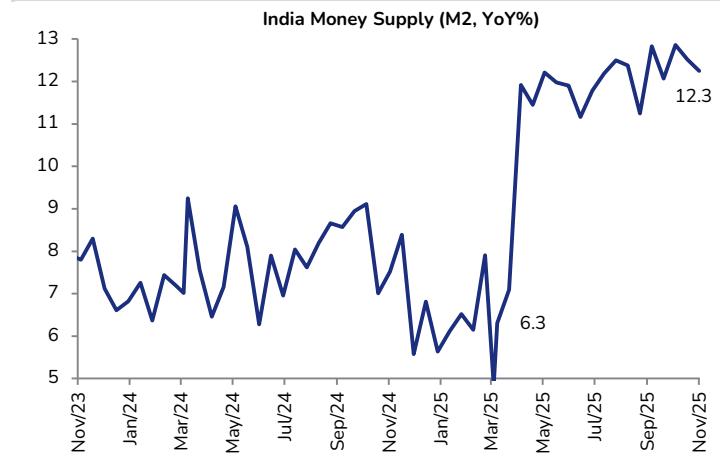
Uncertainties in the global markets would keep risk-off sentiment or demand for safe haven alive in 2026. Now, what is considered as a safe haven has been covered in a study in RBI's Dec'25 bulletin. The findings show that **crude oil** is most sensitive to geopolitical shocks, consistent with its exposure to supply disruptions and regional conflicts. In contrast, **gold** remains the most stable, reaffirming its traditional role as a safe haven asset. **Silver** lies in between; more volatile than gold due to industrial demand exposure, but less sensitive than oil. **US Treasury securities** exhibit a steady rise in volatility with increasing geopolitical risk, reflecting their role as a flight-to-safety asset during global stress and confirming the heterogenous volatility response across assets.

Exhibit 7. Money supply expanded across global economy in 2025



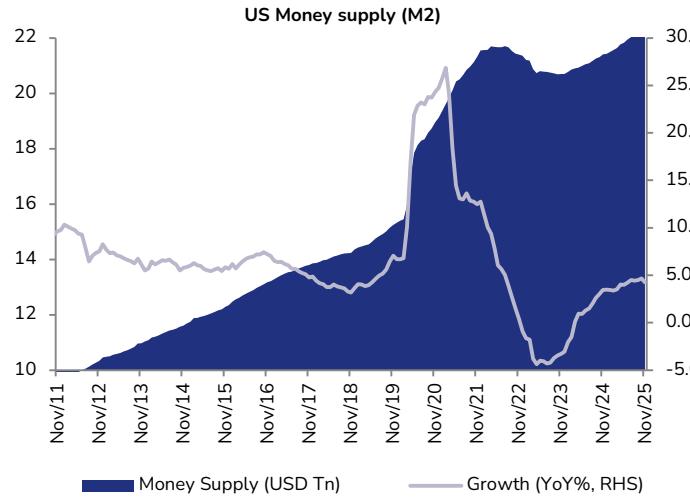
Source: CEIC, JM Financial

Exhibit 8. Sharp increase in domestic money supply in 2025



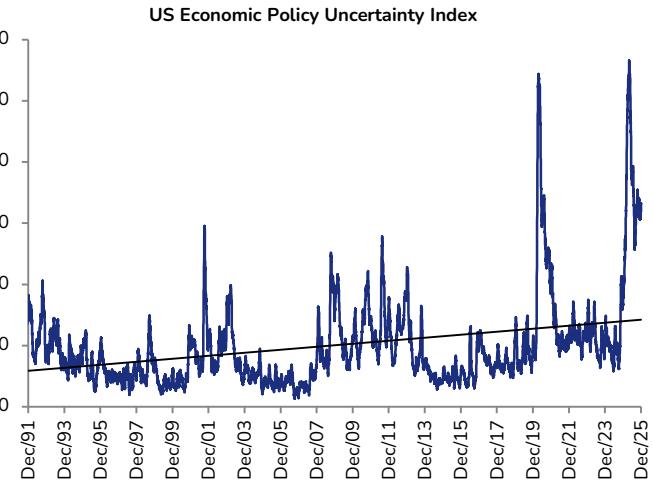
Source: CMIE, JM Financial

Exhibit 9. US Money Supply (M2) on an uptrend since 2023



Source: Fred, JM Financial

Exhibit 10. Policy uncertainty in US still prevails



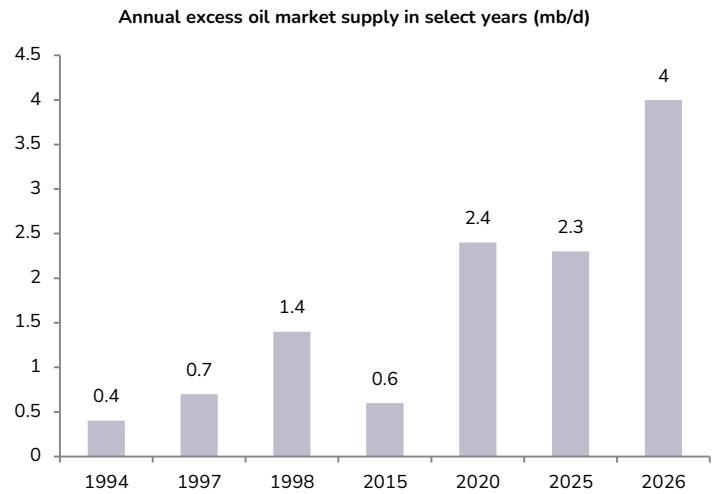
Source: Fred, JM Financial

Exhibit 11. Deficit in silver in last 5 years



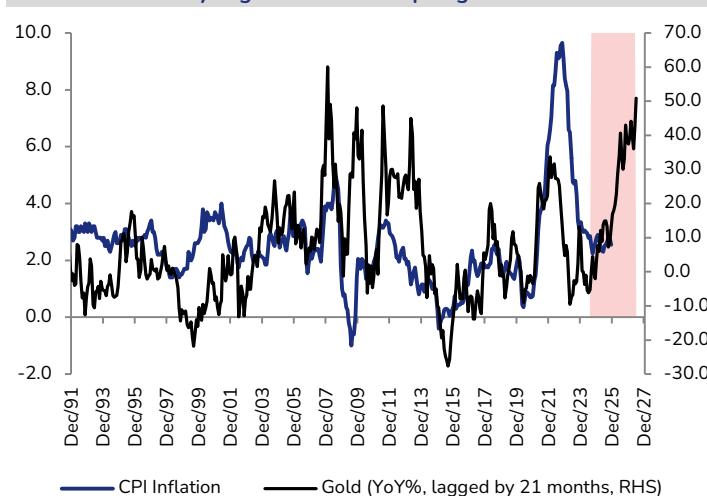
Source: Silver institute, JM Financial

Exhibit 12. Unlike other commodities, oil expected to remain in surplus



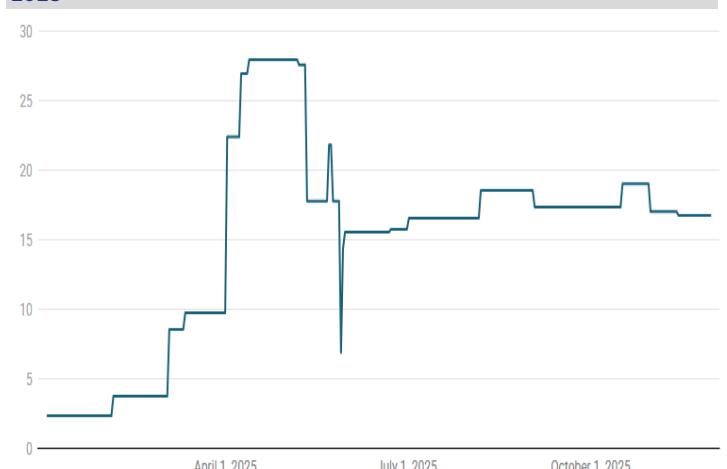
Source: IEA forecasts, JM Financial

Exhibit 13. The rally in gold hints at an upsurge in inflation



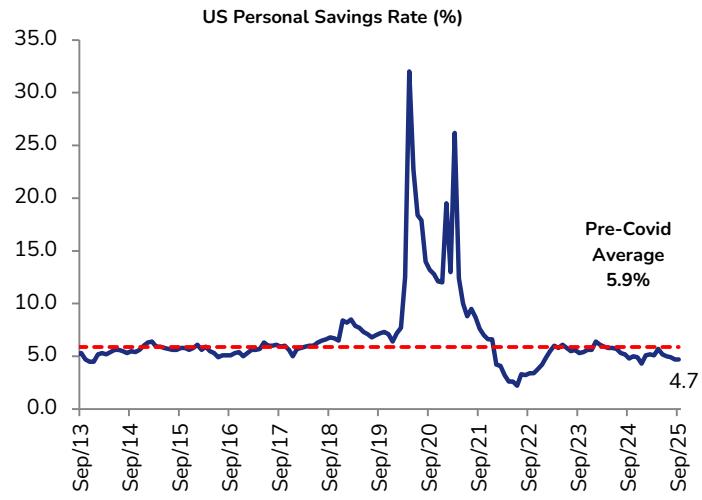
Source: Bloomberg, JM Financial

Exhibit 14. Effective tariffs in US increased to ~17% vs. 2.4% before 2025



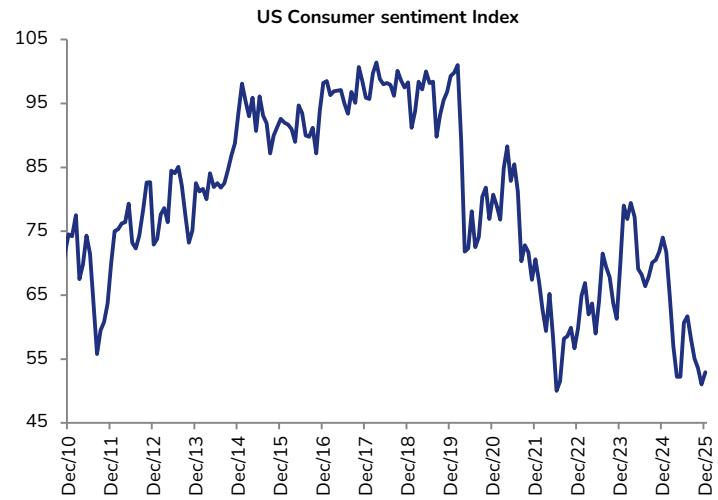
Source: Budget lab, JM Financial

Exhibit 15. US savings rate moderates below pre-Covid levels



Source: Fred, JM Financial

Exhibit 16. US consumer sentiment at its lowest



Source: University of Michigan, JM Financial

Fiscal position: base revision to the rescue?

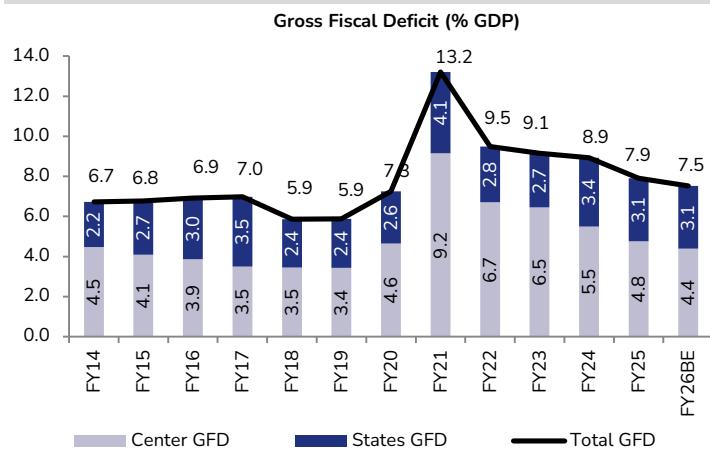
Government's fiscal consolidation is expected to continue in FY27 as well, but at a slower pace. The fiscal deficit target may be set at 4-4.2%. Key monitorables include whether the government shifts its focus from capital spending to consumption, and signs of curtailment in capex spending to accommodate measures to boost consumption in the domestic economy. We believe that moderation in capex lower than 3% of GDP would impact growth.

On the revenue side, announcements on income tax cuts and GST rate rationalisation will reduce tax collections, till increased volume and widening of tax base reflect in the collection sustainably. As per the latest fiscal data (Apr-Nov'25), the central government's revenue receipts formed ~56% of budgeted estimates (BE) for FY26; however, the underlying data indicates that there is a **noticeable slowdown in revenue from tax collections**. Net tax revenue (INR 13.93trln) forms ~49% of FY26BE vs. 56% last year while non-tax revenue (INR 5.19trln) collection has been strong, forming 88.6% of FY26BE in the first 8 months vs. 78% last year. Weaker tax collection reflected in the relatively stretched fiscal deficit position of INR 9.77trln, which forms 62.3% of FY26BE – higher vs. 52.5% last year. Excise duty collection (INR 1.91trln) has been resilient with 9.1% growth during this period.

On the positive side, capex intensity has been strong at INR 6.58trln which is 58.7% of FY26BE vs. just 46.2% last year. However, on the flip side, higher capex in absence of growth in revenue exerts pressure on meeting the fiscal deficit target of 4.4% of GDP. As a base case, we expect GDP growth at 7.2% in FY26 and in the range of 7-7.5% in FY27.

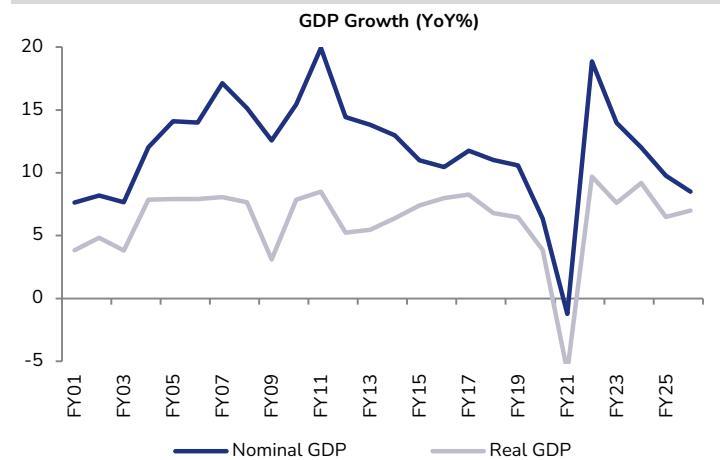
The deflationary trend in the domestic economy led to a moderation in the nominal GDP growth, which is expected to be 8-8.5% in FY26. The budgeted estimates for meeting the fiscal deficit target of 4.4% of GDP had factored in a growth rate of 10.1% in FY26. Hence, a 150-200bps uptick in nominal GDP growth would be required in the new base to meet the fiscal deficit target of 4.4% of GDP in FY26. However, base revision does not guarantee higher growth; a downward revision is also theoretically possible.

Exhibit 17. Fiscal consolidation expected to continue

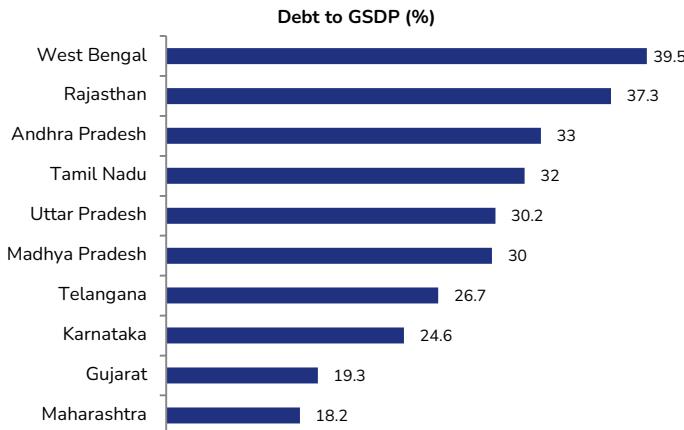


Source: CMIE, JM Financial

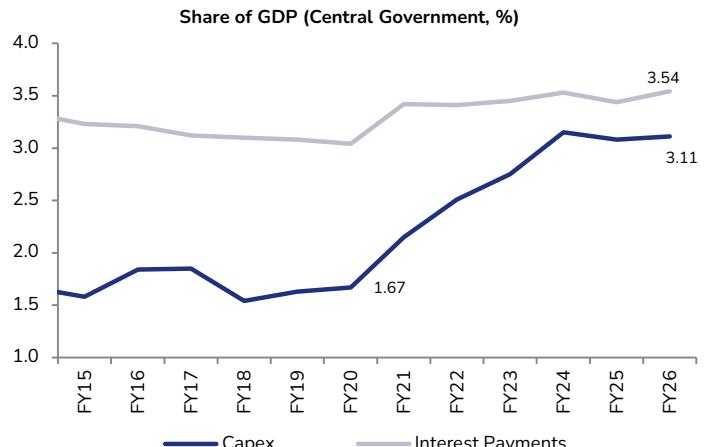
Exhibit 18. Gap between nominal and real GDP narrowed in FY26



Source: CMIE, JM Financial

Exhibit 19. WB, RJ and AP have the highest Debt to GDP ratio

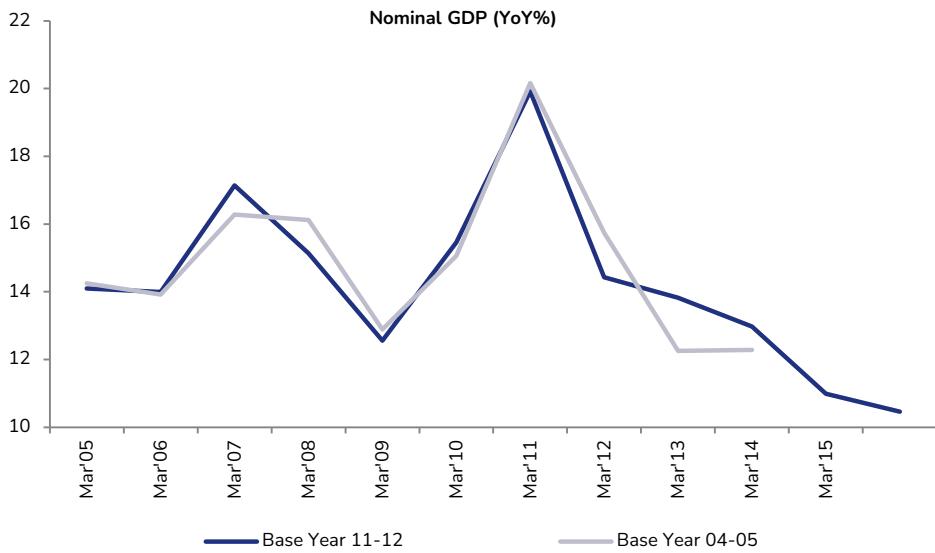
Source: State budgets, JM Financial

Exhibit 20. Share of interest payments higher vs. capex

Source: India Budget, JM Financial

Moreover, the lower nominal GDP growth (~8.5%) due to the deflationary pressure in the economy in 2025, adds further pressure on meeting the fiscal deficit (FD) target. However, the government is confident of meeting the 4.4% FD to GDP target in FY26. The change in the base year for nominal GDP to 2022-23 may also have implications on the FD target.

The impact on the GDP growth was significant last time when the base year was changed from 2004-05 to 2011-12. GDP growth for FY14 improved 134bps to 6.39% YoY as per the new base. This will have implications on the government's fiscal deficit target; GDP per capita will be higher. However, base revision is necessary to reflect the accurate growth picture considering the current economic conditions. The domestic economy has undergone structural shifts in the last decade, which needs to be captured to accurately measure the growth/progress till now.

Exhibit 21. Nominal GDP improved 134bps with base revision in FY14

Source: CMIE, JM Financial

Capex – environment conducive; will private capex revive?

The current macro-economic environment is conducive for a pickup in private capex. The massive capex push by the central government in the post-Covid period from INR 3.35trln in FY20 to INR 11.2trln in FY26 seems to have peaked in the near term. Corporate financials and bank balance sheets have substantially improved in the last decade (Ex 24-25). Domestic economy and market forces are concerned with global uncertainties and their impact on domestic demand, hence, private capex is picking up selectively. This is the reason why private capex has been lagging despite sustained budget allocation towards capex, exceeding 2.5% of GDP in the last 5 years. Moreover, capacity utilisation of manufacturing companies has been hovering below the 75% mark with a downward trend. Capacity utilisation had decisively breached the 80% mark during the previous capex cycle (2008-10, Ex 28). As per CMIE database of 5000+ companies, growth in capex on plant and machinery is yet to pick up decisively.

The RBI has been growth supportive throughout 2025, which has reflected in its policy action while delivering 125bps rate cuts and infusing ample liquidity through OMOs and VRERs worth INR 7trln, 100bps CRR cuts (INR 2.5trln) and currency swaps (USD 5bn announced). Although the transmission of policy easing in the system has been notable, it is observed that the public sector banks have been lagging its private sector peers in transmitting the impact of rate cuts in their lending rates. While foreign banks have 104bps, transmission in case of the private sector banks is at 70bps and it is even lower in case of the public sector banks (65bps). It is seen that public sector banks are in a better position to cater to the borrowing needs of corporates for large capital spending, and the lower rate transmission *prima facie* seems to be a major hindrance.

Over the years it has been observed that the efficiency in capex has improved significantly in India. The Incremental Capital Output Ratio (ICOR) has been on a downtrend, indicating that the capital requirements for every additional unit of output has gone down.

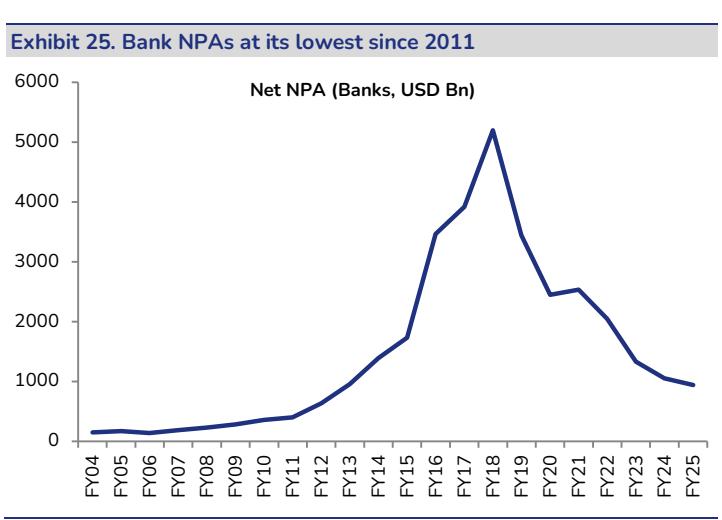
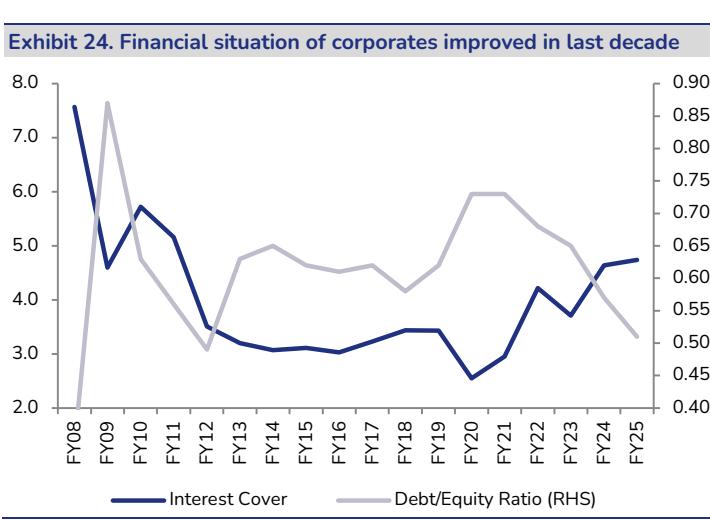
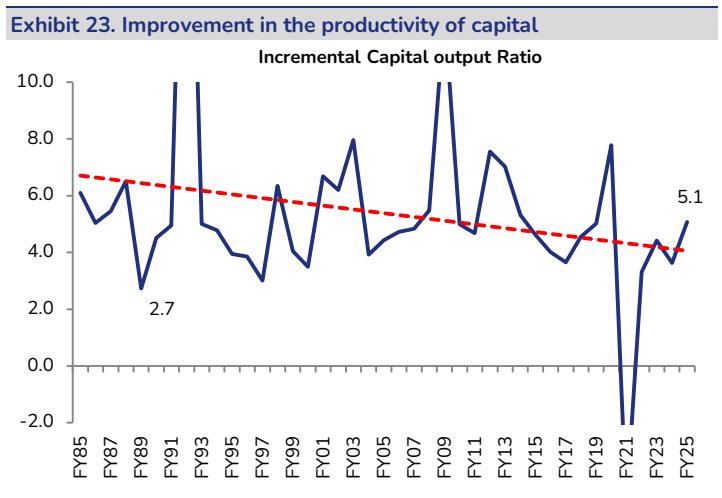
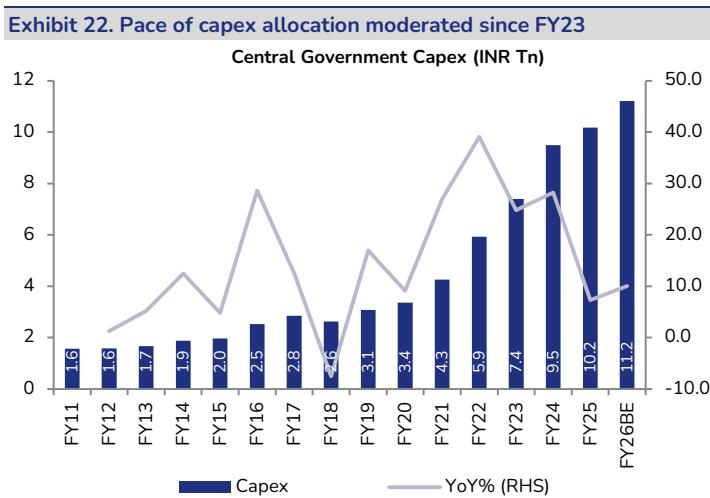
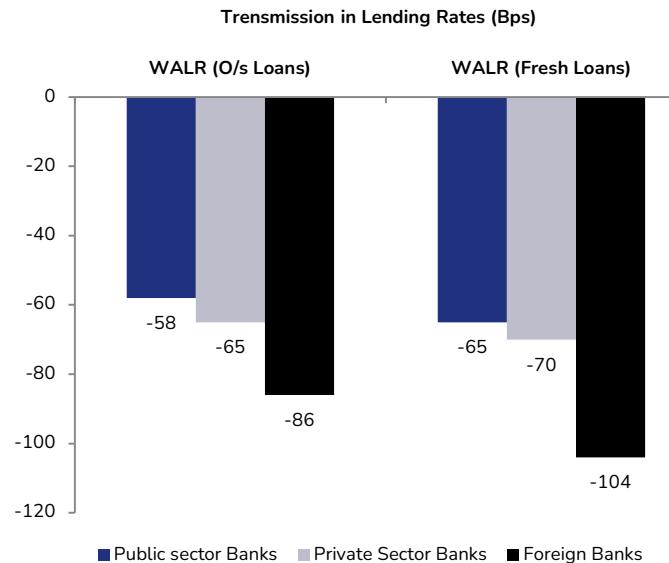
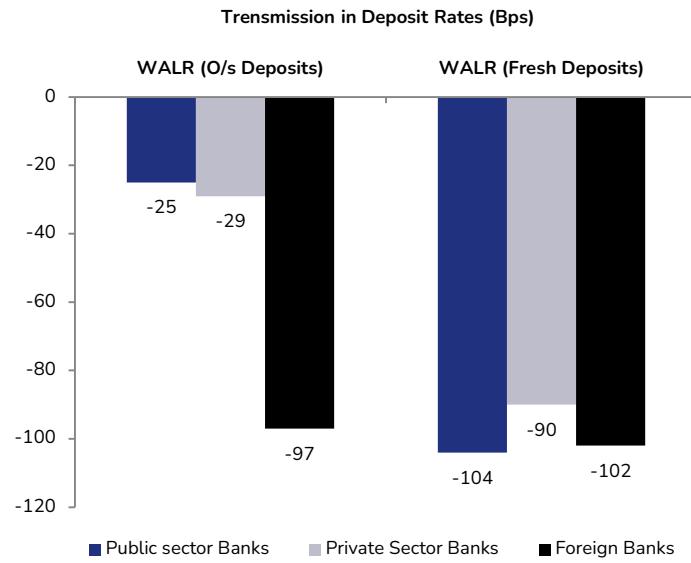


Exhibit 26. Transmission in lending rates has been evident...



Source: CMIE, JM Financial

Exhibit 27. ...steeper in case of deposit rates



Source: CMIE, JM Financial

Exhibit 28. Capacity utilisation yet to reach the peak seen in 2010

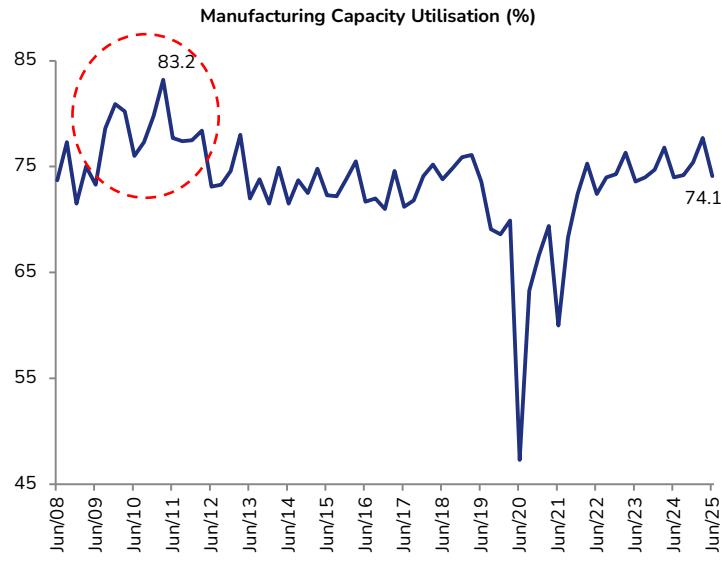
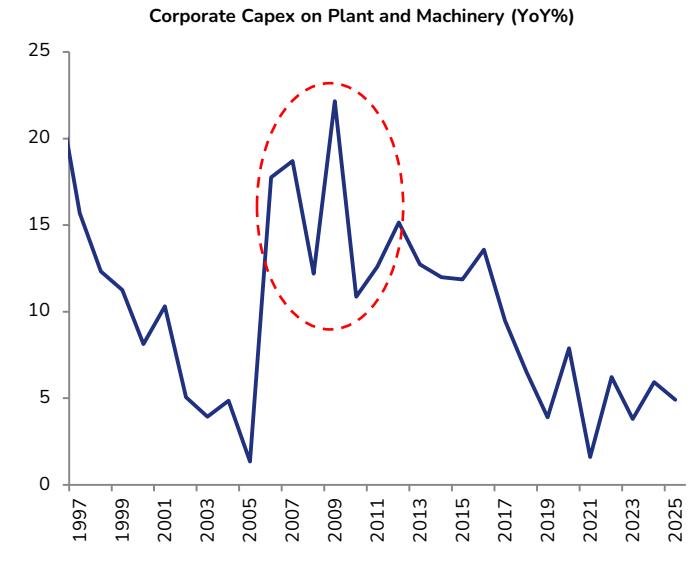


Exhibit 29. Corporate capex yet to pick up decisively



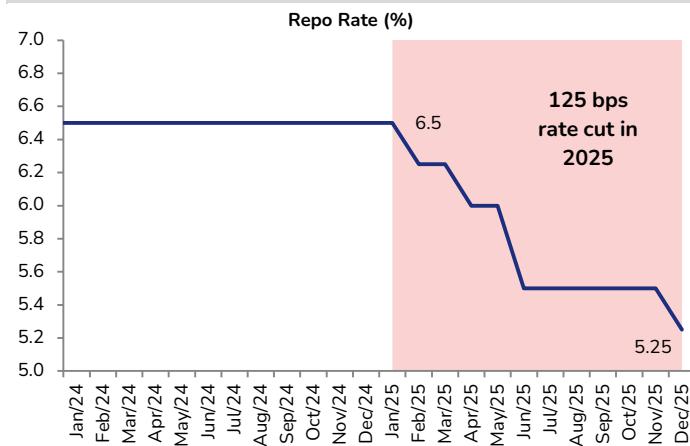
Inflation – upward trajectory aided by base effect

The moderation in the inflationary pressures in the global economy in 2025 is a result of the rate hikes executed by major central banks in 2023 and the restrictive monetary policies in 2024. Although the risk of tariff-induced spike in inflation cannot be ruled out in 2026, CPI inflation in the US is hovering slightly above the Fed's 2% target while the Fed is nearing its rate cut cycle. In the domestic economy we expect inflationary pressures to pick up pace in 2026; the base effect will play a key role in this up tick. **We expect CPI inflation to reach 4% by the end of 3QFY27**, while in CY26 it would average in the range of 3.5-3.8%. The restrictive monetary policy measures adopted by the RBI in 2024 culminated in a deflationary trend in the domestic economy in 2025. Although the deflationary pressures aided consumption and income growth in real terms, sustained deflation impacts nominal GDP, tax collections and business growth as well.

Unlike headline inflation, core inflation remained elevated above the 4% mark mainly on the back of the rally in the precious metals like gold and silver. Gold has a weightage of 1.08% in the CPI basket, which is significant considering the 70%+ rally in gold prices. With this combination the inflationary pressures in gold contributes ~42% to core inflation. We expect core inflation to moderate in 2026, with the weakening momentum in gold prices.

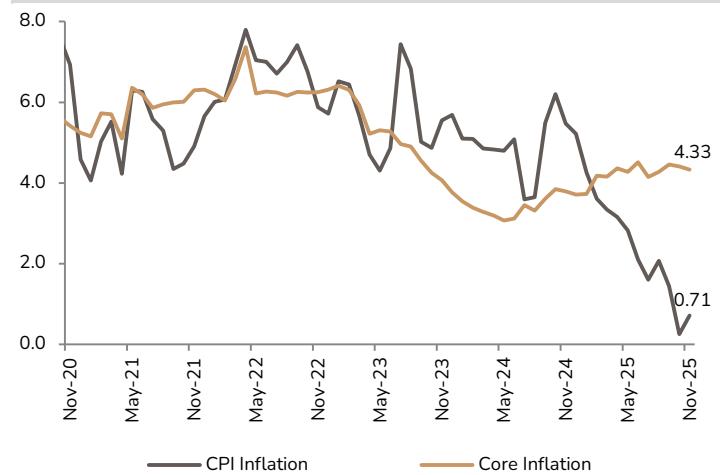
From the demand perspective, a low reading in core inflation indicates a muted demand environment, especially if it sustains for a longer period. Policy makers should evaluate whether core inflation is actually reflecting a sluggish demand environment or is it due to statistical reasons, especially when the GDP growth has been stronger than expected.

Exhibit 30. RBI delivered 125bps rate cuts in 2025



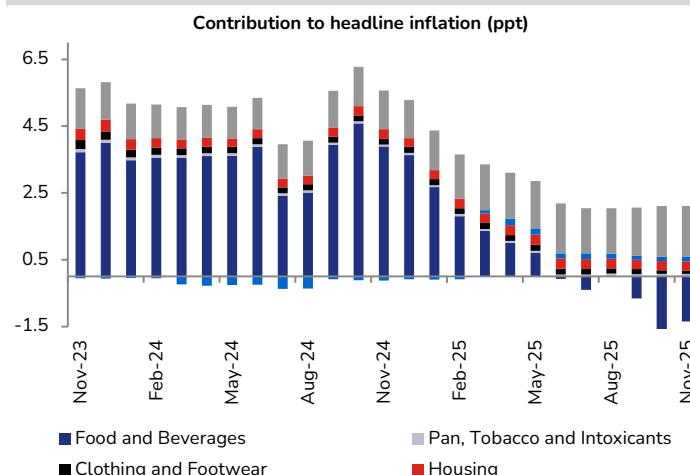
Source: RBI, JM Financial

Exhibit 31. Steep moderation in headline inflation; core elevated



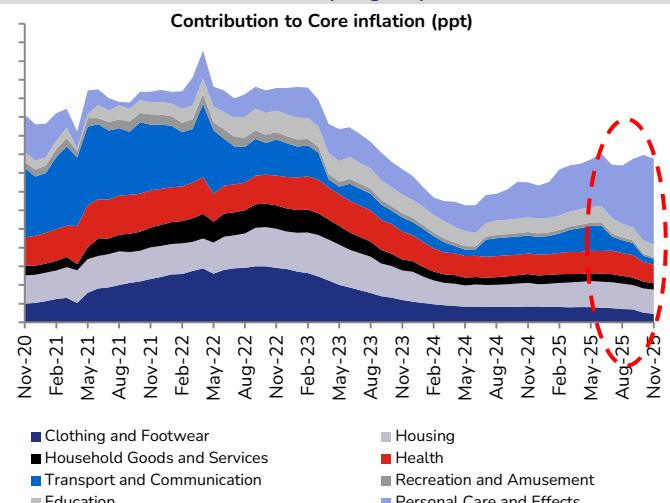
Source: MOSPI, JM Financial

Exhibit 32. Deflationary forces in food category dragged headline inflation



Source: MOSPI, JM Financial

Exhibit 33. Core elevated due to rally in gold prices



Source: MOSPI, JM Financial

Exhibit 34. Deflationary forces dragged GST collection

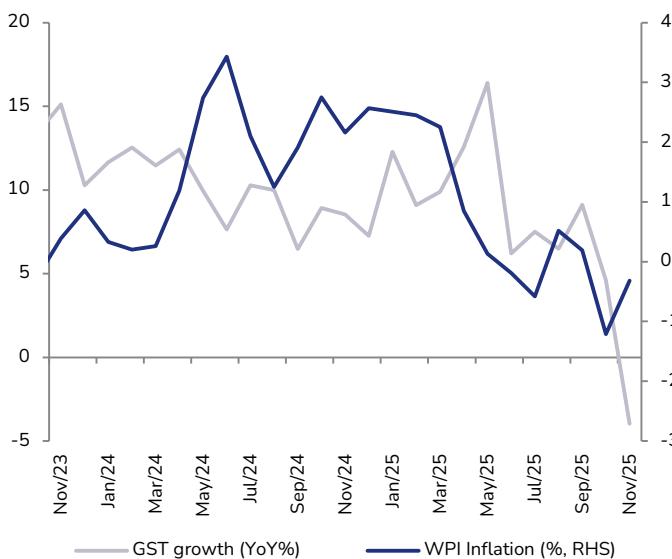
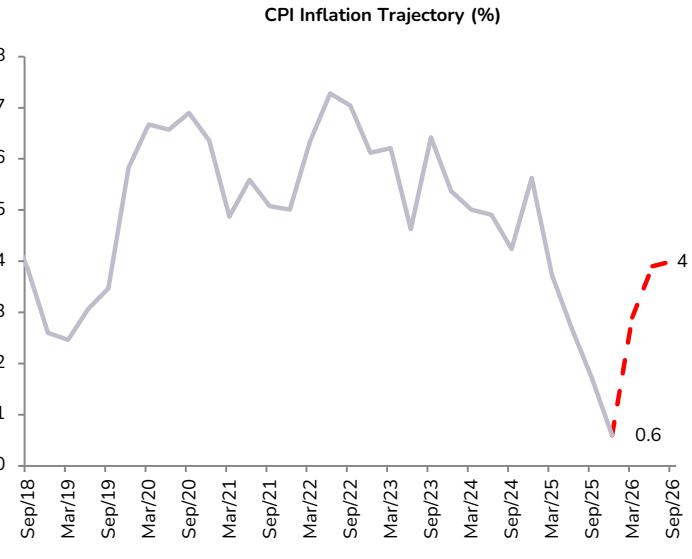


Exhibit 35. Inflationary pressures expected to pick up in 2026



Weather agency Skymet's prediction of a subpar monsoon in 2026 is due to evolving El Nino conditions tilting towards below-normal rainfall. El Nino conditions impact agriculture activity and are inflationary in nature. If such a scenario plays out then it would further fuel the inflationary pressures in the domestic economy. However, the SOI index is reflecting the possibility of "La Nina" as of Dec'25, which would exert downward pressure on inflation.

On global inflation, our assessment of the relationship of gold prices with global inflation indicates that the rally in [gold is anticipating a surge in inflationary prices](#) in the upcoming years (Ex 36). Such a scenario would call for a reversal in policy actions by the central banks – mainly the Fed, as the rate cut expectations would unwind in favour of a stricter monetary policy that would eventually harden yields.

Exhibit 36. Rally in gold hints at an uptick in global inflation

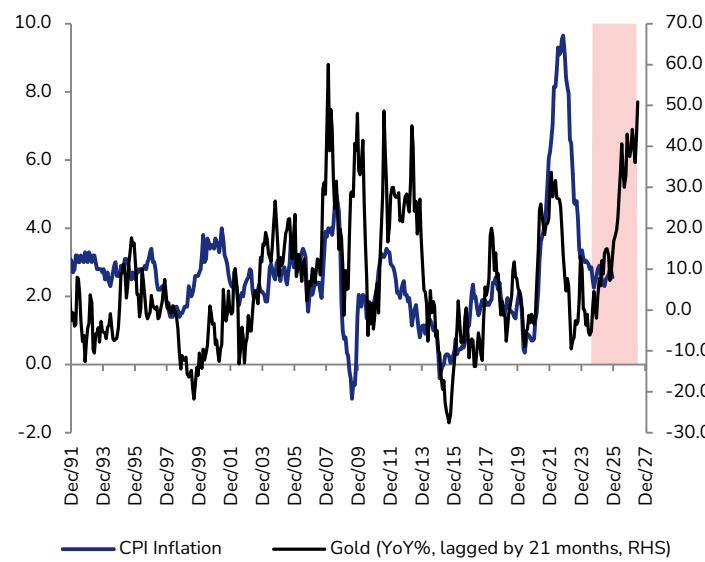
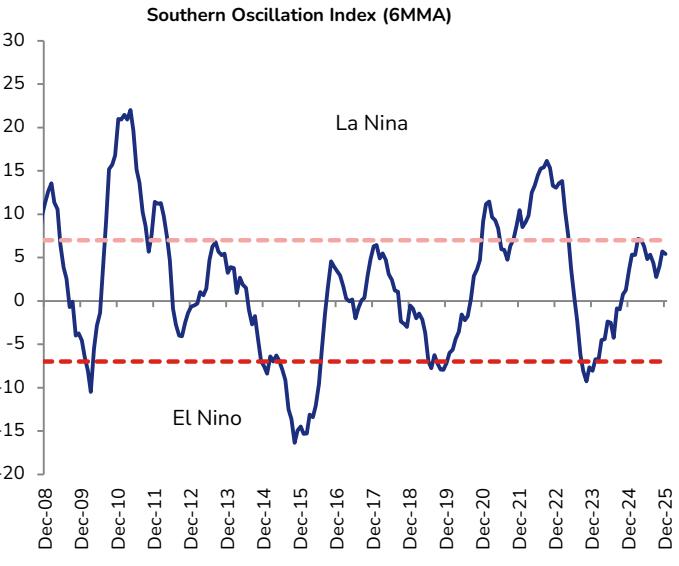


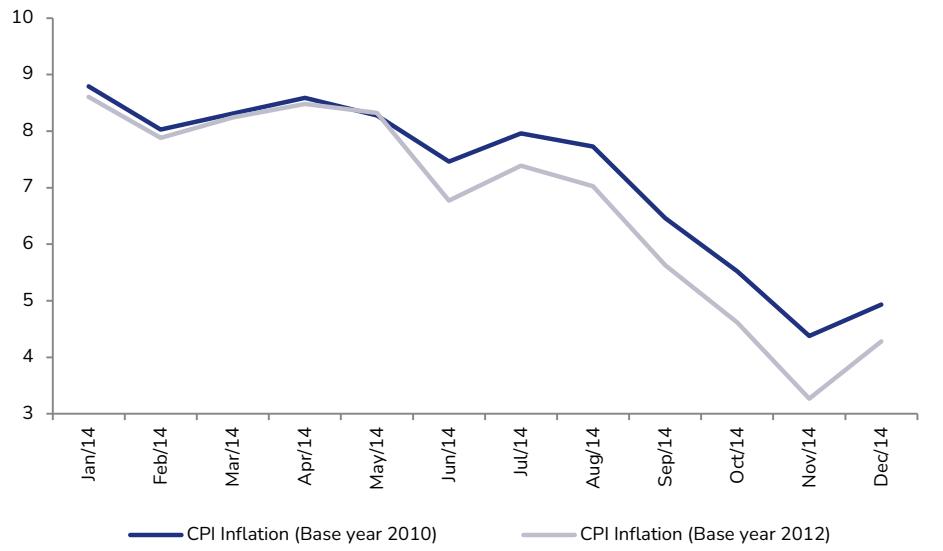
Exhibit 37. The SOI index reflects the possibility of La Nina



The Ministry of Statistics and Programme Implementation (MOSPI) will revise the base year of Consumer Price Index (CPI) inflation to 2024 vs. 2012 currently. Considering that the consumption pattern will be based on the Household consumption Expenditure Survey (HCES) 2023-24, the share of food in the CPI basket is expected to fall vs. 45.9% currently. A lower weightage of food will reduce the volatility in CPI inflation reading, aiding policy makers, central banks and market participants in their decisions. The weightage of other categories like rent, consumer durables and fuel is expected to increase.

Last time, when the base year for CPI inflation was revised from 2010 to 2012, it was observed that the inflation was lower by 50bps on average in year 2014 (Ex 38). Although a base revision does not guarantee a lower inflation print, a lower CPI would open up policy space for easing as well.

Exhibit 38. Inflation reading as per the new base (2012) lower vs. old base (2010)



Source: CMIE, JM Financial

INR expected to slide to 92.8/USD; US trade deal key monitorable

The steep depreciation of 4.7% in 2025 placed the INR on the list of one of the weakest currencies. This was a result of FII selling to the tune of USD 11.9bn; moreover, negative sentiment around the delay in signing the US-India trade deal also dragged the currency. It is pertinent to note that net FII outflows in equity was steeper at USD 18.9bn but was cushioned by net inflows of USD 6.9bn in the debt segment. The importance of the trade deal with the US can be understood from the fact that India's trade balance is in surplus with US and the highest tariffs (50%) negatively impacts industries like textiles, jewellery, etc., which are dependent majorly on the US.

FII selling pressure and the resultant depreciation in INR accentuated when India's trade deficit deteriorated to USD 41.7bn in Oct'25 vs. normalised levels of USD 25bn-28bn/month. It was partly due to high gold imports (USD 15bn); however, markets sensed the negative impact of elevated tariffs. Later, when the trade deficit narrowed to USD 24.5bn in Nov'25, the INR appreciated 0.9% vs. the USD. RBI's forex interventions are relatively shallow vs. in 2024, allowing a wider movement in the rupee.

The extent of the depreciation pressure on the INR can be realised from the fact that it coincided with a weak US dollar throughout 2025. Going forward, we believe that, with the announcement of the new Fed chairman, markets will sense the intentions of the shadow chairman and accordingly re-price the rate cut expectations, which, we believe, would be in favour of an accelerated policy easing. The US dollar will face the pressure of steeper rate cuts, eventually cushioning the EM currencies, including INR.

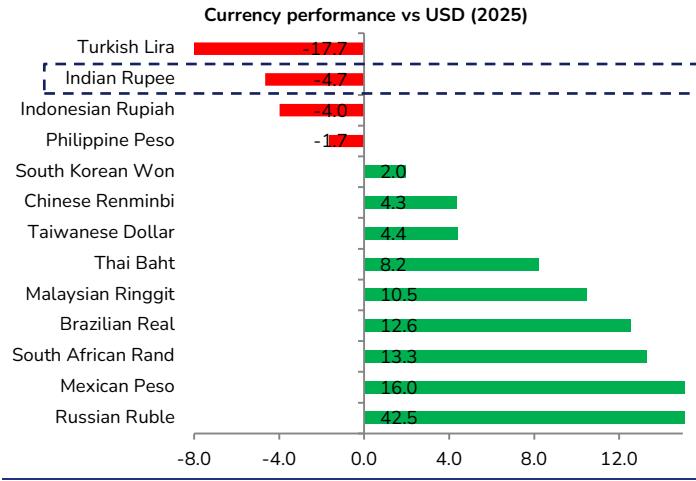
In the upcoming year, the **finalisation of the US-India trade deal will be the key trigger for the INR to stabilise with an appreciating bias**. But the currency markets would keep a close eye on the monthly trade balance; any steep deterioration will exert pressure on the INR.

On the positive side, India's ample forex reserves of USD 697bn with an import cover of 11 months provides comfort. Subdued crude price has aided the external balance of oil importing countries like India in 2025 considering oil imports forms close to ~1/4th of total imports. Moreover, the INR looks comfortably placed on Real Effective Exchange Rate (REER) basis, improving its competitiveness against its trading partners.

In the last two decades, the INR weakened 3% on average in a fiscal year, while at a shorter interval of 5 years, the performance differs, reflecting spillover effects. We believe that the appreciating bias witnessed in the last 15 days of Dec'15 will continue in 4Q of FY26 with bouts of depreciation in case the trade balance deteriorates in the upcoming months. Although the finalisation of the trade deal with US will be sentimentally positive, improvement in fundamentals will be key to attract sustainable flows and cushion the INR. From the current levels of 90/USD, as a base case **we expect the INR to depreciate to 92.3-92.8/USD with bouts of appreciation during 2026**.

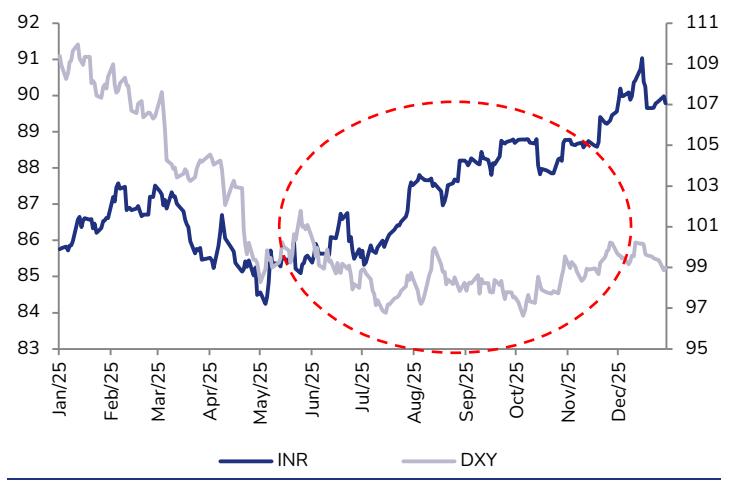
We expect India's current account deficit to be in the range of 1.2-1.4% of GDP in FY26 and, depending on the extent of normalisation in the global trade environment, we see an improvement in India's external balance closer to 1% of GDP in CY26.

Exhibit 39. Steepest depreciation in INR vs. Asian peers



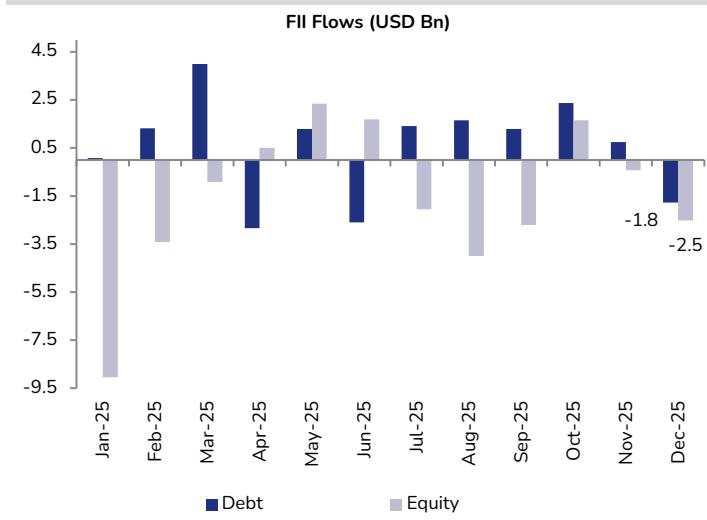
Source: Bloomberg, JM Financial

Exhibit 40. INR depreciated despite weak US dollar



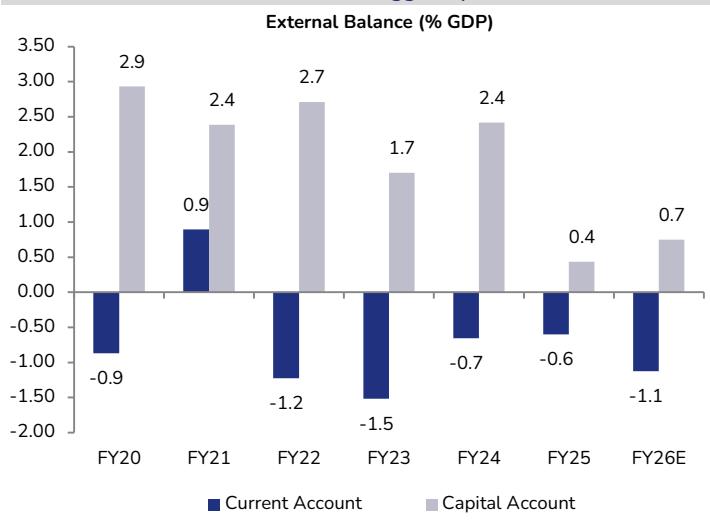
Source: Bloomberg, JM Financial

Exhibit 41. FII outflows accentuated in 2025



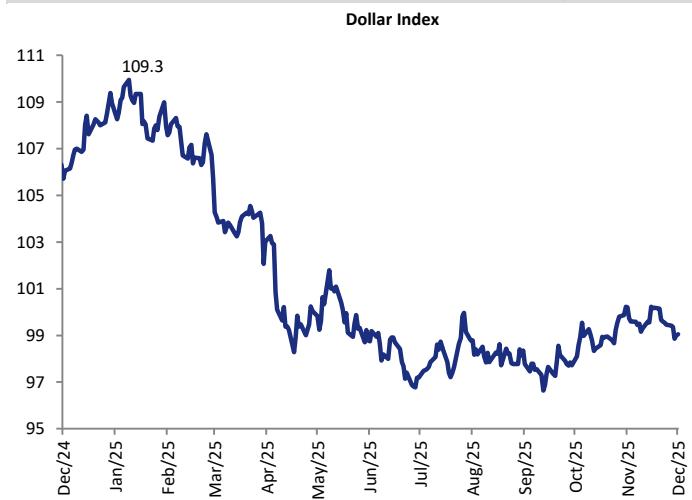
Source: CMIE, JM Financial

Exhibit 42. India's external balance dragged by the current account



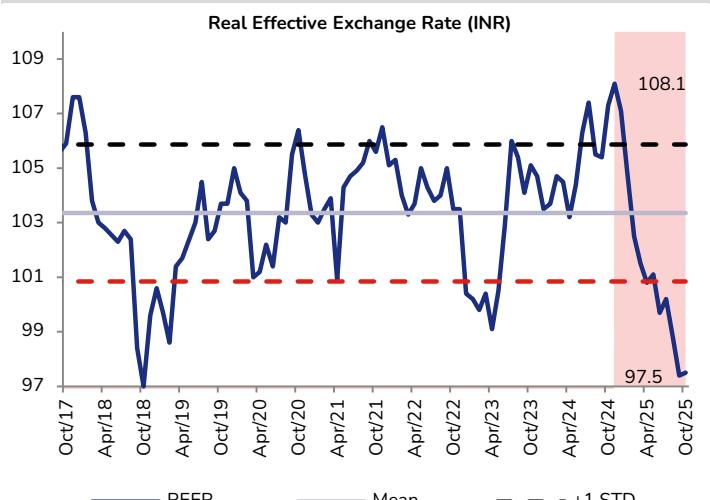
Source: CMIE, JM Financial

Exhibit 43. Dollar Index peaked when Trump took charge in Jan'25



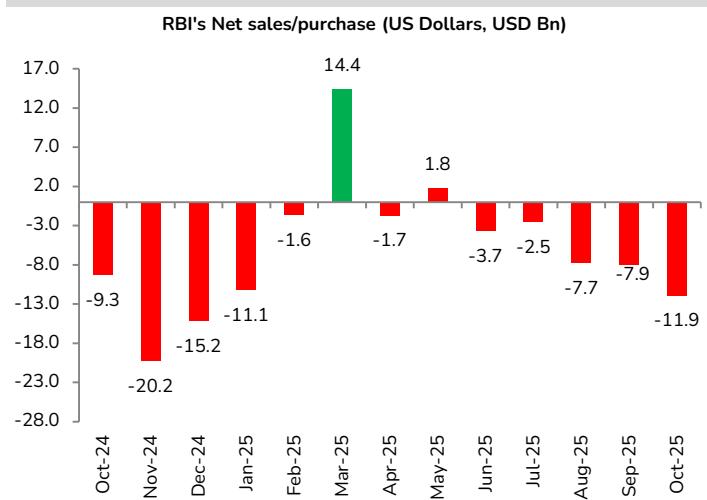
Source: Bloomberg, JM Financial

Exhibit 44. INR reasonably valued on REER basis



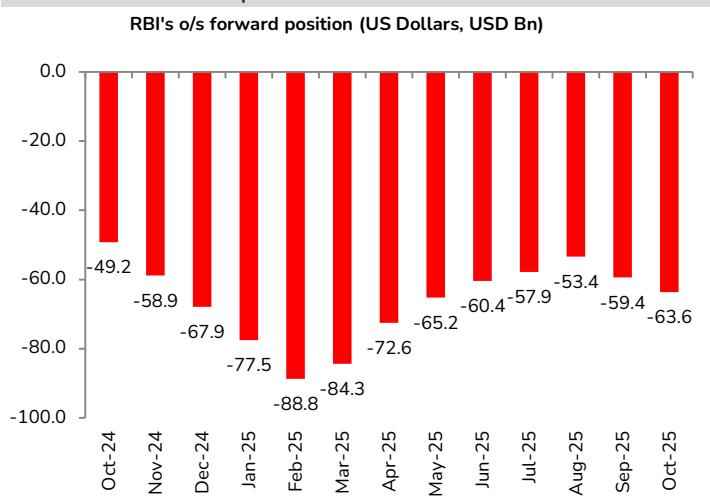
Source: CMIE, JM Financial

Exhibit 45. RBI net short on the US dollar...



Source: RBI, JM Financial

Exhibit 46. ...with short positions in the forward markets as well



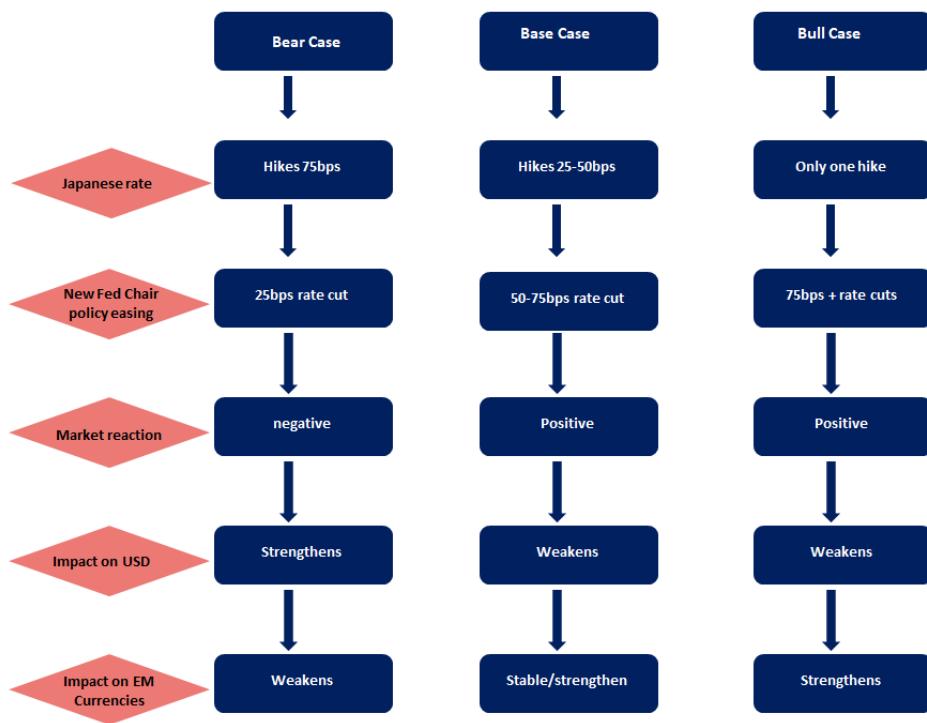
Source: RBI, JM Financial

Global Monetary Policy: Divergence across central banks

Global central banks are responding to their respective domestic macro-economic forces – which differ from each other, hence, the policy responses seem divergent *prima facie*. The **Fed** is approaching the end of the policy easing cycle – however, the cycle could elongate depending on the approach of the new Fed chairman. The rate cut cycle has ended in Europe as the **ECB** has already signalled that it will keep its policy rate steady in the near term. **RBI**'s policy easing cycle will depend on the extent to which the central bank prioritises growth over inflation; moreover, any downward surprises on inflation would keep the policy space open for easing in the near term. Japan's macro challenges differ from others; **Bank of Japan (BoJ)** is expected to continue the rate hike cycle to control inflationary pressures (3%) in the economy, which is far exceeding the 2% target, and negative real rates allows it to hike further.

Given below are the Bear, Base and Bull case scenarios that could play out in 2026 based on the policy decisions by the Bank of Japan and The Fed.

Exhibit 47. Scenarios likely to play out in 2026



Source: JM Financial

Fed – Change of guard to accelerate policy easing

The Fed delivered 75bps rate cuts in 2025 amidst dissent within the FOMC and sharp criticism by President Donald Trump for steeper rate cuts. In the last 1 year the labour market has deteriorated while inflation has hovered above the 2% target. The unemployment rate inched up decisively above the long period average to 4.6% from the lows of 4% at the start of 2025. However, Fed Chairman Jerome Powell indicated that the labour market was not fuelling inflation and the rising unemployment rate is due to the shrinking labour force. The absence of signs of the elevated tariffs in the inflation print indicates that either the supply chains have altered towards suppliers with lower incidence of tariffs by the US or the full pass-through is still in the pipeline.

Jerome Powell's term as the Fed chairman will come to an end in May'26; however, Trump is expected to announce the new Fed chairman in early Jan'26. Powell maintained Fed's credibility even amidst heavy criticism from the Trump administration; the new chairman is anticipated to be the one who will favour lower policy rates. Markets are factoring in two rate cuts in 2026, starting from Apr'26.

We believe that the markets are waiting for the announcement of the new Fed chairman, post which there will be clarity in the Fed's approach in delivering its policy decision. It is highly likely that the markets shift focus on the new Fed chairman from January, while giving less relevance to the outgoing chairman. The messaging function of the Fed will be carried out by the new chairman – the shadow Fed Chair. This would mean that the credibility of the Fed would be compromised if the new chairman comes with an assignment of maintaining loose monetary policy regardless of the macro economic situation.

As a base case we believe that the Fed would deliver 50-75bps rate cuts in 2026. We believe that the accelerated rate cuts would be a function of the extent to which the new Fed chairman is aligned with the Trump administration rather than the inflation and labour market dynamics. Easy monetary policy would be negative for the US dollar, which would eventually cushion EM currencies in 2026.

Exhibit 48. Inflationary pressures marginally above Fed's target...

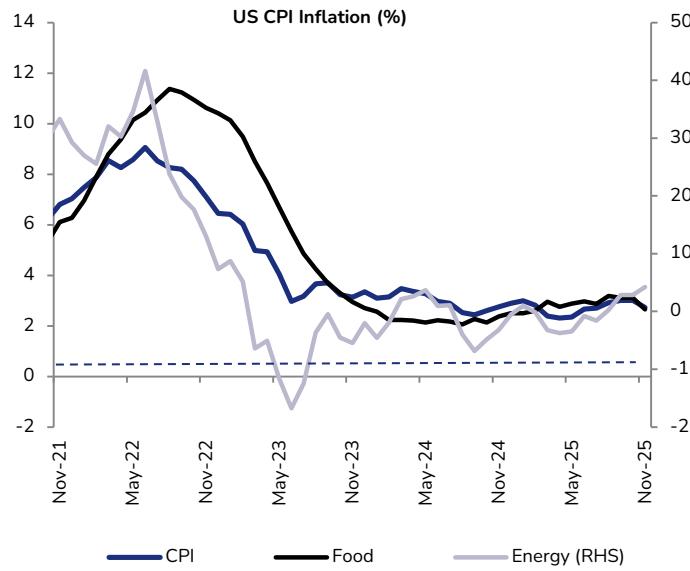
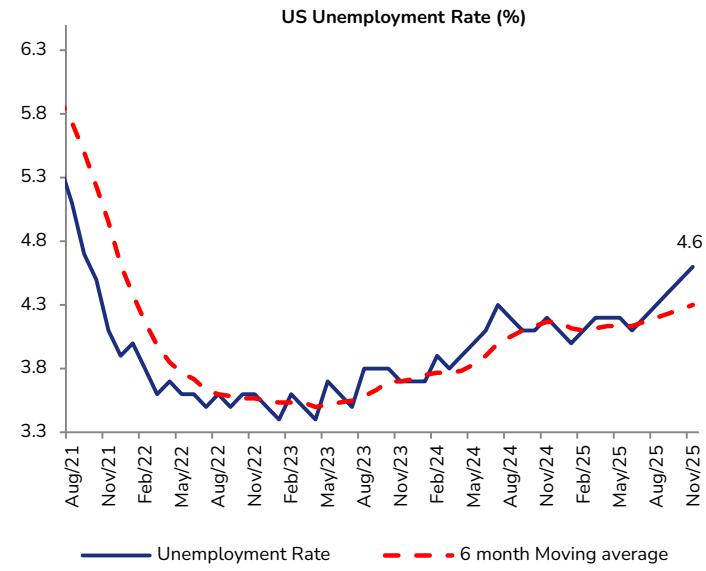


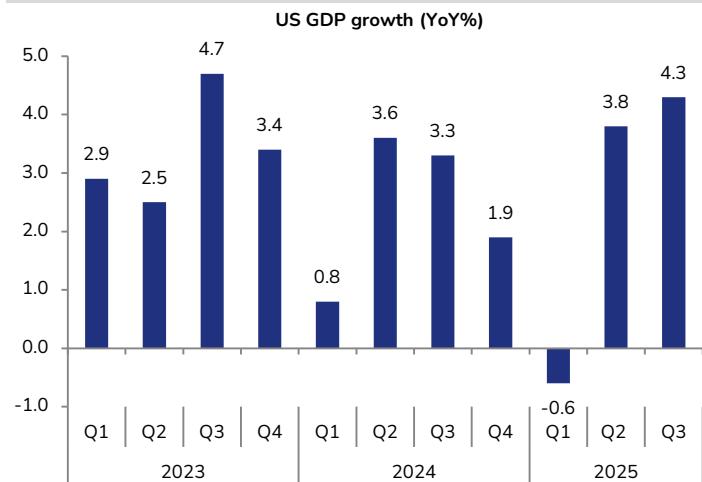
Exhibit 49. ...while the labour market shows signs of deterioration



Source: US BLS, JM Financial

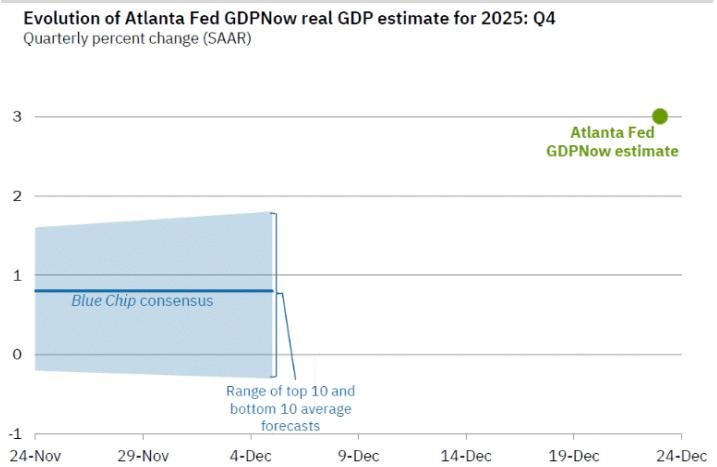
Source: US, BLS, JM Financial

Exhibit 50. GDP growth in US has been robust in 2025



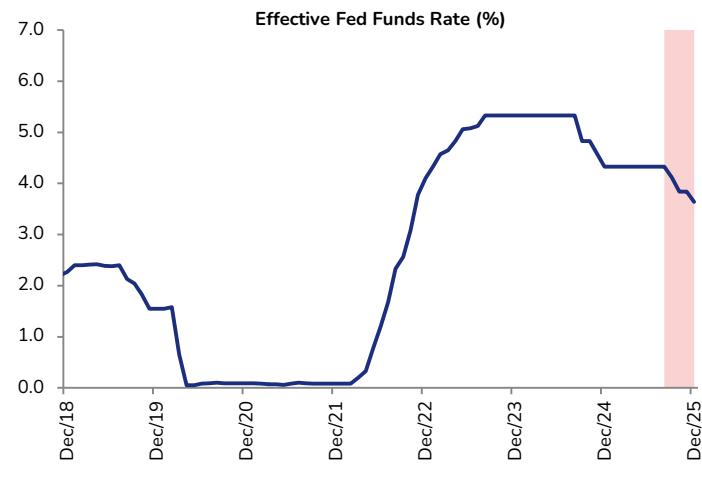
Source: BEA, JM Financial

Exhibit 51. US GDP expected to grow at 3% in 4QCY25



Source: Fed Atlanta, JM Financial

Exhibit 52. Fed eased 75 bps in 2025



Source: Fed, JM Financial

Exhibit 53. Fed expects labour market to improve in 2026

| | 2025 | 2026 | 2027 | 2028 | Long run |
|--------------------|------|------|------|------|----------|
| Fed Funds Rate | 3.6 | 3.4 | 3.1 | 3.1 | 3.0 |
| September estimate | 3.6 | 3.4 | 3.1 | 3.1 | 3 |
| GDP Growth | 1.7 | 2.3 | 2.0 | 1.9 | 1.8 |
| September estimate | 1.6 | 1.8 | 1.9 | 1.8 | 1.8 |
| Unemployment Rate | 4.5 | 4.4 | 4.2 | 4.2 | 4.2 |
| September estimate | 4.5 | 4.4 | 4.3 | 4.2 | 4.2 |
| PCE Inflation | 2.9 | 2.4 | 2.1 | 2.0 | 2.0 |
| September estimate | 3 | 2.6 | 2.1 | 2 | 2 |
| Core PCE Inflation | 3.0 | 2.5 | 2.1 | 2.0 | |
| September estimate | 3.1 | 2.6 | 2.1 | 2.0 | |

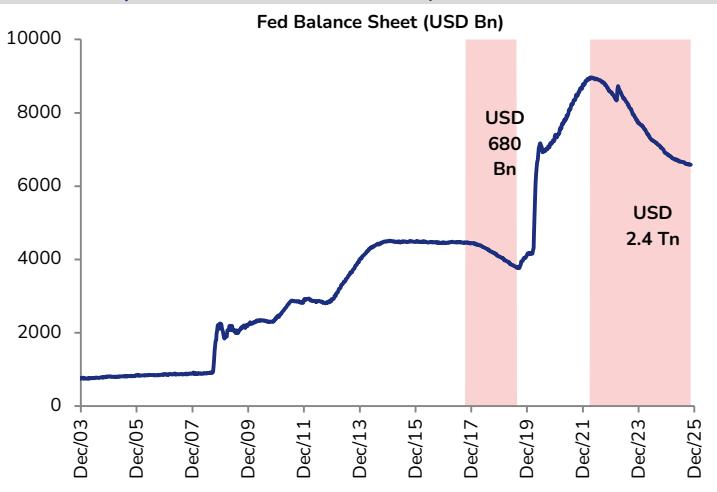
Source: Fed, JM Financial | December 2025

Exhibit 54. Markets are factoring in three rate cuts in 2026

| FOMC Meet | 275-300 | 300-325 | 325-350 | 350-375 | 375-400 |
|-----------|---------|---------|---------|---------|---------|
| Jan'26 | 0.0% | 0.0% | 19.4% | 80.6% | 0.0% |
| Mar'26 | 0.0% | 7.6% | 43.4% | 49.0% | 0.0% |
| Apr'26 | 1.7% | 15.8% | 44.7% | 37.8% | 0.0% |
| Jun'26 | 9.6% | 32.0% | 40.8% | 16.6% | 0.0% |
| Jul'26 | 16.5% | 34.7% | 33.3% | 11.5% | 0.0% |
| Sep'26 | 23.0% | 34.2% | 25.6% | 7.4% | 0.0% |
| Oct'26 | 24.7% | 32.9% | 22.8% | 6.3% | 0.0% |
| Dec'26 | 26.0% | 31.3% | 20.1% | 5.2% | 0.0% |

Source: CME, JM Financial

Exhibit 55. QT to the tune of USD 2.4trln by Fed ended in Dec'25



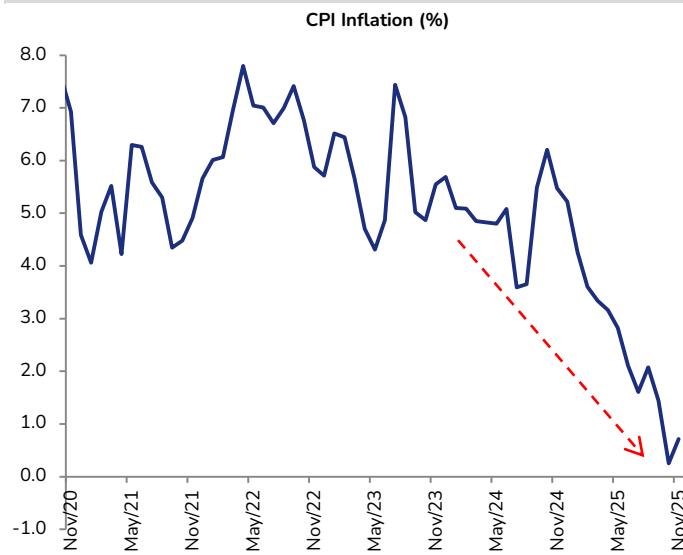
Source: Fred, JM Financial | QT ; Quantitative Tightening

RBI – Prioritise growth over inflation

The RBI has been growth supportive throughout 2025, which reflected in the 125bps rate cuts delivered in 2025; however, the policy easing cycle is closer to conclusion. The recent hardening in yields despite the 25bps rate cut and liquidity infusion measures (OMOs and currency swaps) in Dec'25 indicates that the bond market has already factored in an end to rate cuts in this cycle. The "neutral" policy stance along with the benign inflation leaves space open for policy easing; however, the rising inflation trajectory indicates that the window for policy easing will narrow, going forward. As per the minutes of the MPC meeting in Dec'25, most of the members believe that the economy is unlikely to overheat in the absence of demand pressures. On the currency front, the RBI has made it clear that forex interventions will be directed towards reducing excess volatility without targeting any specific level on the INR. Moreover, the RBI will ensure that liquidity is sufficient (~1% of NDTL); hence, the active liquidity management approach will be seen in 2026 as well.

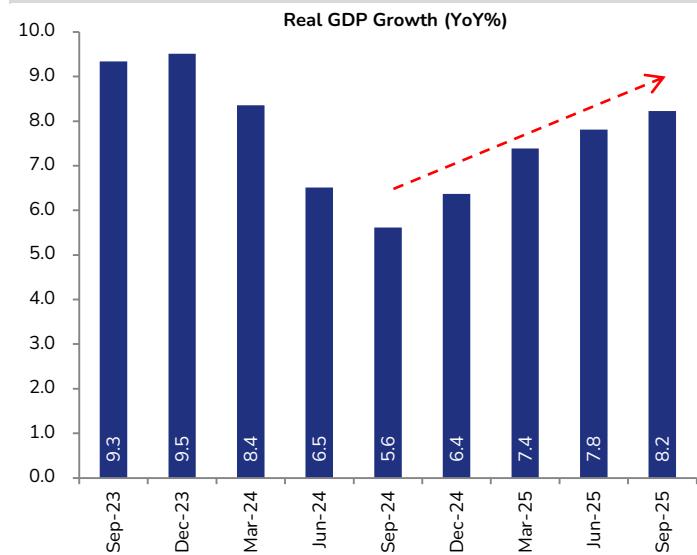
On the policy front, we believe that the RBI will be pragmatic and continue to prioritise growth over inflation in 2026 as well; Although we believe that incremental rate cuts by RBI will be restricted to one, any significant downward pressure on growth will be responded with the combination of policy easing and liquidity infusion measures. However, an accelerated rate cut cycle in the US will open up further space for policy easing by the RBI.

Exhibit 56. Deflationary pressures in 2025



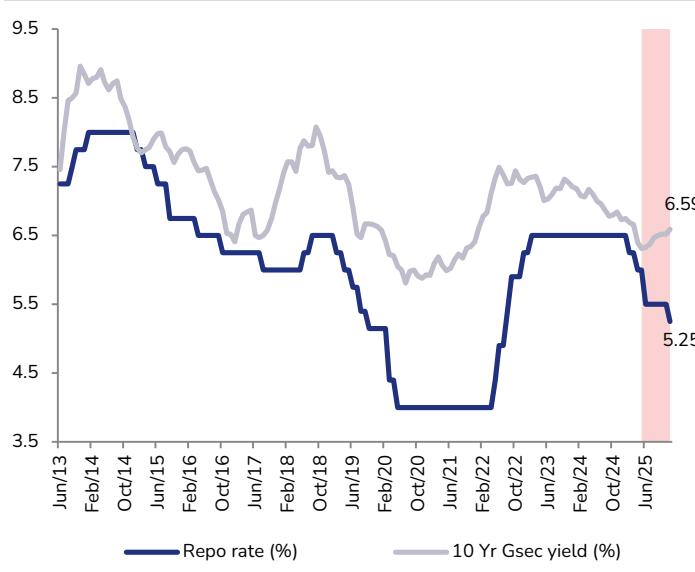
Source: MOSPI, JM Financial

Exhibit 57. GDP growth picked up pace in 2025



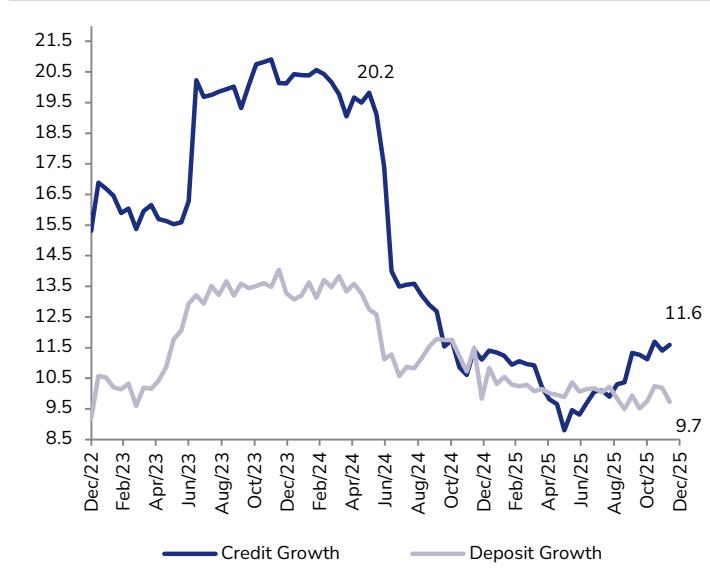
Source: MOSPI, JM Financial

Exhibit 58. Steep rate cuts failed to convince the bond market



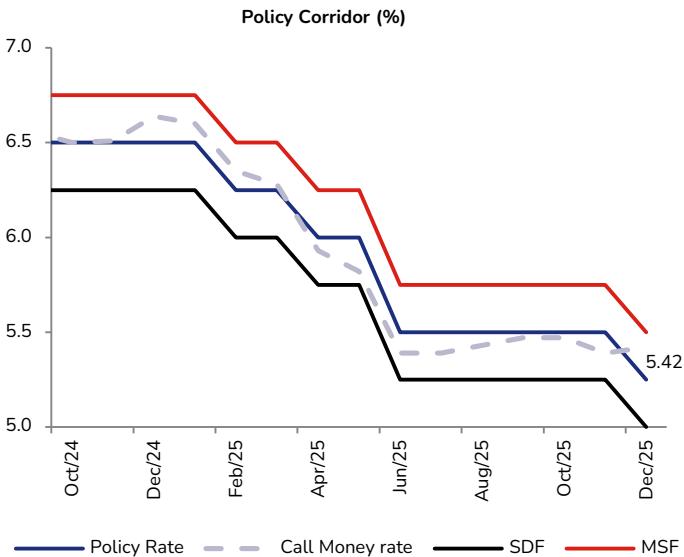
Source: CEIC, JM Financial

Exhibit 59. Credit growth outpaced deposit growth in 2025



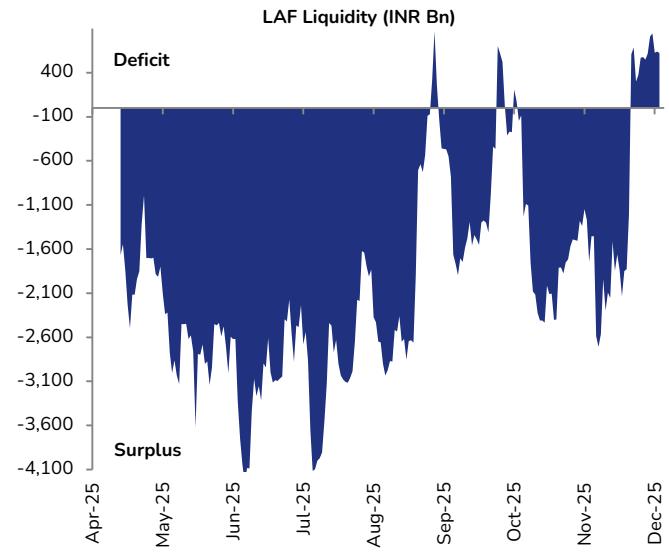
Source: CMIE, JM Financial

Exhibit 60. RBI maintained the call rate within the policy corridor



Source: CMIE, JM Financial

Exhibit 61. Liquidity turned deficit in Dec'25



Source: CMIE, JM Financial

Yields harden: BoJ holds the key; unwinding of carry to be gradual

Concerns around the ballooning debt situation, rate hike cycle in Japan and the near conclusion of the policy easing cycle among major central banks have led to hardening in bond yields globally, except in the US where the markets are factoring in further policy easing. **Yields in the US softened ~40bps to 4.16% in 2025 while yields in other major DM economies, China and India hardened.**

BoJ's rate hike cycle is expected to extend till 2027 with two rate hikes in 2026. The deep negative real rates in Japan will allow the central bank to tighten policy rates further; however, it is not the quantum (hikes) that matters here, but the timing and the messaging function of the central bank that can disrupt the global financial markets if not handled well. A steep rate hike could trigger an unwinding of the yen carry trade, hardening yields globally. However, the negative real rates in Japan currently makes it less lucrative to bring back capital in Japan at a large scale, which explains the marginal strengthening in JPY in 2025.

Moreover, Japan, being the largest holder of US treasuries, has increased its holdings by USD 100bn to USD 1.2trln (as of Oct'25), indicating that the **unwinding of the carry trade will be gradual**. This is in line with our assessment in the thematic note on global yields in Aug'25. A granular assessment of recent data indicates that the pace of selling in US treasuries by EM countries like China, Brazil, India, Mexico, and Indonesia have intensified while European economies led by the UK and France have increased their holding in US treasuries.

Carry trades generally thrive in calm markets, hence, increased global economic uncertainty, sharp rise in market volatility or mis-communication by the Bank of Japan can accelerate the unwinding of the yen carry trade and harden yields globally.

Exhibit 62. Hardening phase in global yields...



Exhibit 63. ...domestic yields hardened after Jun'25

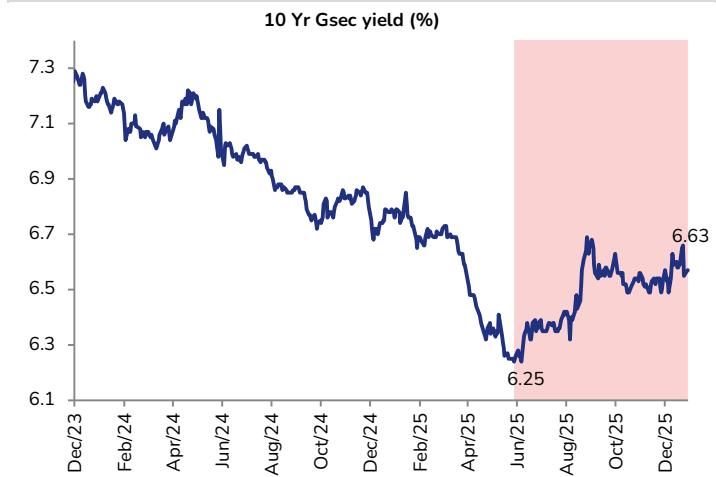


Exhibit 64. Bank of Japan's rate hike cycle

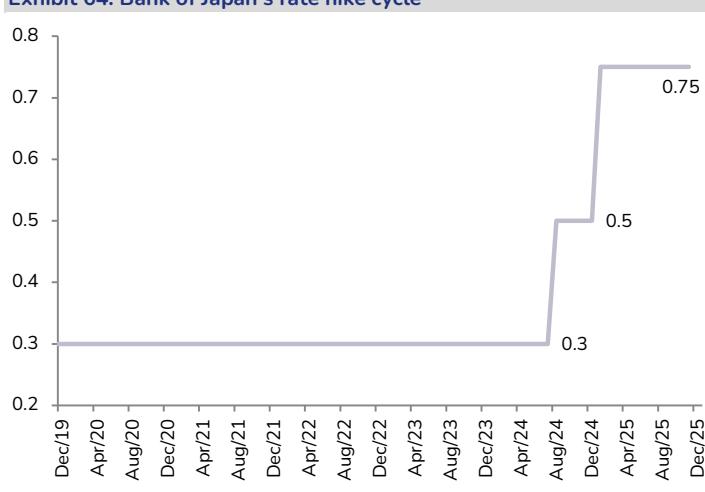


Exhibit 65. Real policy rates in Japan significantly low

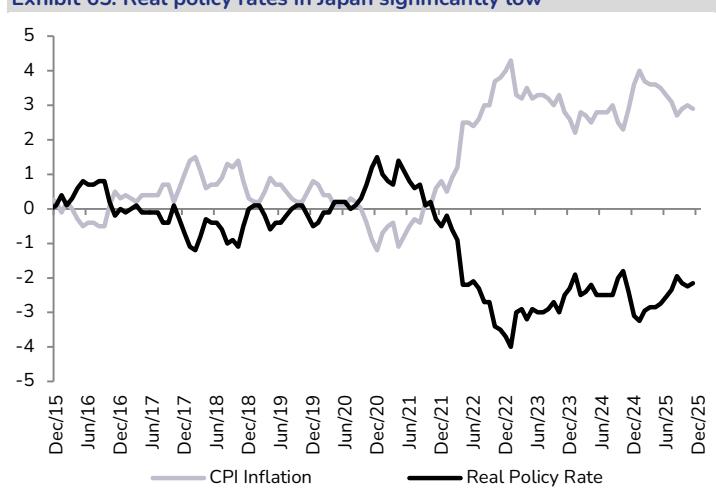


Exhibit 66. Asia ex-China and Japan reduced their UST holdings

Source: CEIC, JM Financial

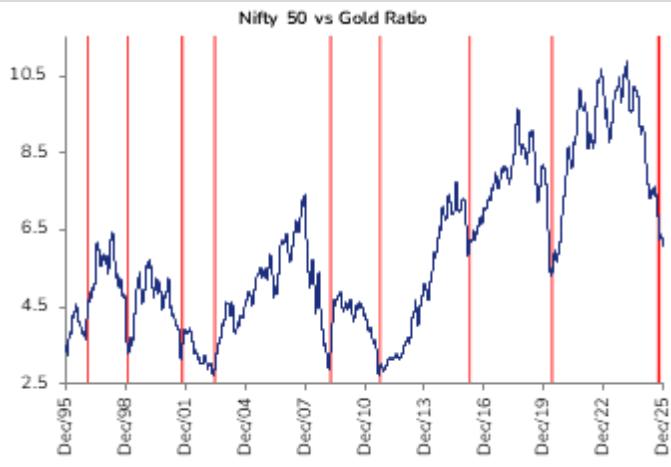
Exhibit 67. Yen appreciation was marginal at 0.5% in 2025

Source: Bloomberg, JM Financial

Global uncertainty to fuel appetite for safe haven assets like Gold

The assessment of the relationship between Nifty and gold prices in our thematic note on the gold rally in Oct'25 revealed that Nifty tends to give positive returns post the bottoming out of the Nifty-gold ratio. This ratio bottomed out in Oct-end; in line with past trends, the Nifty turned positive in a month. We expect this relationship to hold true for the upcoming year as well.

We continue to believe that the appetite for safe haven assets like gold will continue till global uncertainty remains elevated. The policies in the US (trade, employment etc.) continue to add uncertainty on the global scale and Ex 10 shows that although policy-related uncertainty in the US has moderated from its peak it remains elevated.

Exhibit 68. Nifty Gold Ratio bottomed out in Oct'25

Source: CEIC, JM Financial

Exhibit 69. Nifty expected to give positive returns in 2026

| | Nifty Returns (%) | | | |
|----------------|-------------------|-------------|-------------|-------------|
| | 1 month | 3 months | 6 months | 12 months |
| Oct-96 | -2.9 | -12.4 | 13.0 | 19.2 |
| Jan-97 | 3.5 | 3.3 | 26.9 | 13.0 |
| Sep-01 | -13.6 | -6.0 | 8.4 | -6.3 |
| May-03 | 11.8 | 33.2 | 54.5 | 59.8 |
| Mar-09 | 22.2 | 62.6 | 75.1 | 86.3 |
| Sep-11 | 2.4 | -4.2 | 6.9 | 6.9 |
| Mar-16 | 0.8 | 9.6 | 17.7 | 18.9 |
| Apr-20 | -2.1 | 17.7 | 27.0 | 57.4 |
| Oct-25 | 0.6 | | | |
| Average | 2.8 | 13.0 | 28.7 | 31.9 |

Source: CEIC, JM Financial

Navigating the multipolar supply chains: Geographical diversification will be key

The tariff announcement by the US at the start of 2025 disrupted the global supply chains; **US tariffs currently average 17.4% vs. 2.5% earlier**. What was seen as the start of a trade war between US and China rippled across global supply chains as countries favoured bilateral trade agreements. Amidst the tariff announcement by the US and the retaliation by a handful of countries, India continued to negotiate for a balanced deal while facing the highest tariffs at 50%.

Our assessment of the trade data for US and China reveals that there has been a significant decrease in bilateral trade (Ex 70-73). However, **overall trade activity has been stable, indicating geographical diversification by both the countries; else, it may be reflecting transhipments from China to avoid US tariffs**.

An assessment of India's trade activity reveals that the **share of India's exports have increased in US, UAE, UK and Brazil post the tariff announcement while the share of China has marginally decreased**. The share of US and China has increased in India's imports while the share of Russia and UAE has declined (Ex 75-76).

India has recently finalised bilateral trade agreements with UK, Oman, and New Zealand. The focus of these trade deals is on providing free access to a majority of India's exports while also providing concessions to goods imported from these regions, with a commitment to increase bilateral trade activity over the years. Other than goods, access to India's skilled labour force is also taken care of in areas across IT services, tourism, construction, etc. Negotiations are ongoing with more than five major trading partners including European Union, the US, Chile, Peru, Canada, Israel, etc. The bilateral trade deal with the EU is expected to be finalised before 26th Jan'26, providing access to a large market that includes 27 countries, while the trade deal with US seem to be getting pushed back with every passing month.

Exhibit 70. Sharp drop in China's exports to US; overall exports stable...



Exhibit 71. ...similar is the case with imports, indicating active diversification



Exhibit 72. US exports to China declined; higher exports to India

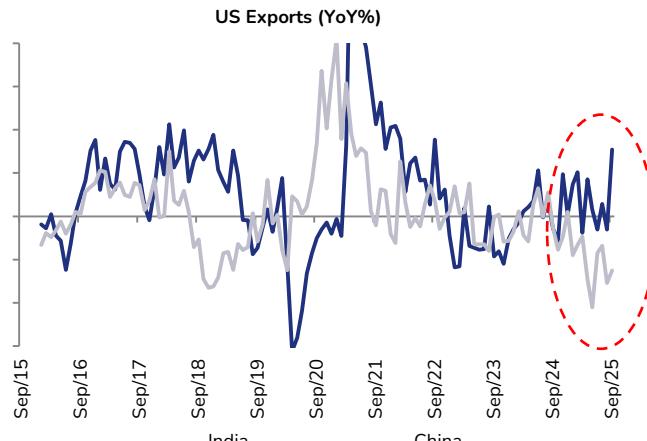


Exhibit 73. Sharp moderation in imports from China

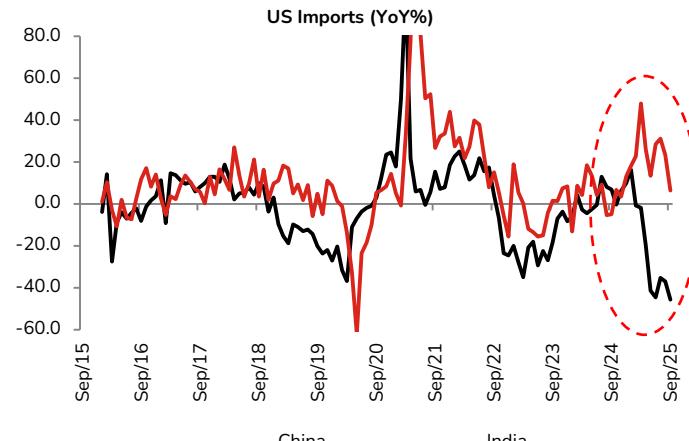


Exhibit 74. Effective tariff rates in US at 17.4% vs. 2.5% in 2024

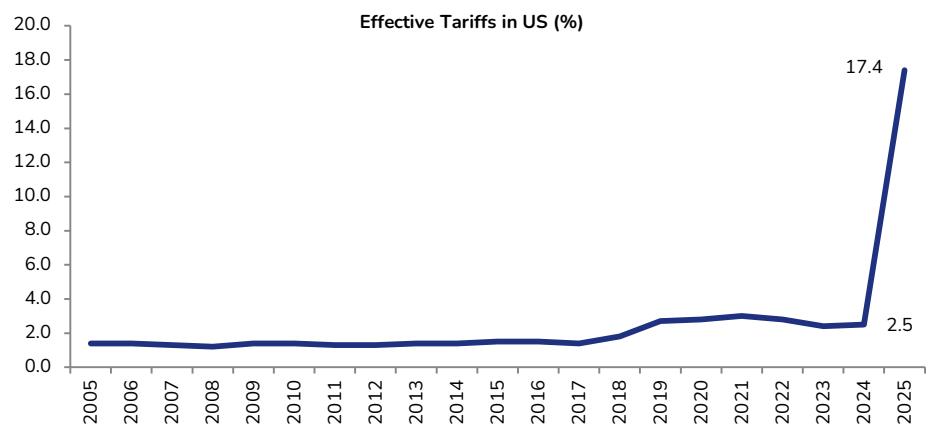
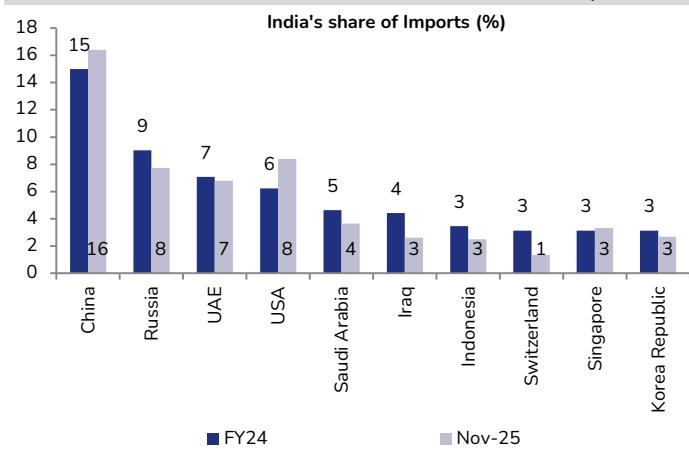


Exhibit 75. Noticeable gain in share of exports to US, UAE and UK



Exhibit 76. China and US increased their share in India's imports



We believe that the recent bilateral trade agreements are a step in the right direction with balanced terms of trade. Although geographical diversification would be key to cushion the impact of loss of the US markets, other factors like improvement in export competitiveness, strengthening of supply chains and even mobility of skilled labour has been taken care of in these deals. Here's how it will aid India's trade activity:

Improves export competitiveness and market access: Near-total tariff elimination in partner markets (UK ~99%, Oman ~98%, New Zealand 100%) immediately lowers landed costs for Indian goods, making them more competitive against global peers. This is particularly impactful for labour-intensive and MSME-dominated sectors such as textiles, leather, gems and jewellery, engineering goods, pharmaceuticals and auto components, where even small tariff cuts translate into large volume gains and better price realisation.

Deepens services trade, mobility and investment flows: The newer FTAs go beyond goods by opening markets for IT, professional, engineering and other services, backed by regulatory cooperation and mutual recognition of standards. Improved mobility provisions for skilled professionals and clearer investment frameworks encourage long-term capital inflows, technology transfer and integration of Indian firms into global value chains, strengthening India's role as both a manufacturing and services hub.

Strengthens supply chains and India's strategic trade positioning: Through diversified trade partnerships across Europe, the Gulf and the Indo-Pacific, these FTAs reduce concentration risks and enhance supply-chain resilience amid global fragmentation. At the same time, phased and selective tariff concessions protect sensitive domestic sectors, aligning external openness with internal growth priorities. Collectively, the agreements reinforce India's credibility as a reliable trade partner while supporting domestic employment, scale and productivity growth.

Exhibit 77. Recently finalised trade agreements by India

| Agreement | Market access for Indian exports | India's tariff concessions | Services & mobility | Investment / strategic impact |
|-----------------------------------|---|--|---|---|
| India-UK CETA (Jul'25) | UK eliminates tariffs on ~99% of Indian export lines; duty-free access for textiles, apparel, gems & jewellery, marine products, leather, footwear, engineering goods, pharma, auto parts | India to reduce tariffs on ~80–90% of UK tariff lines on a phased basis (including whisky, automobiles) | Enhanced access for IT, engineering, professional services; mutual recognition of standards; simplified customs | Expands bilateral trade, boosts services exports (especially IT/software), supports MSMEs |
| India-Oman CEPA (Dec'25) | Oman grants zero-duty access on ~98% of tariff lines, covering ~99.4% of India's exports by value; immediate elimination on ~98% of products | India liberalises ~77.8% of tariff lines (covering ~94.8% of imports from Oman); sensitive sectors excluded | Improved access in professional services; better mobility terms for Indian workers (higher quotas, longer stays) | Strengthens Gulf trade ties, diversifies export markets, improves supply-chain resilience |
| India-New Zealand FTA (Dec'25) | New Zealand offers 100% zero-duty access for Indian exports | India reduces tariffs on ~70% of tariff lines, phased over 3–10 years; sensitive items (dairy, sugar, some agri products, metals) excluded | Liberal access across multiple services (IT, professional, tourism, construction, audio-visual); scope for skilled mobility | Aims to double bilateral trade in 5 years; NZ commits ~\$20 bn investment over 15 years |

Source: PIB, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Grievance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: instcompliance@jmfl.com

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

| New Rating System: Definition of ratings | |
|---|---|
| Rating | Meaning |
| BUY | Expected return >= 15% over the next twelve months. |
| ADD | Expected return >= 5% and < 15% over the next twelve months. |
| REDUCE | Expected return >= -10% and < 5% over the next twelve months. |
| SELL | Expected return < -10% over the next twelve months. |

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

| Previous Rating System: Definition of ratings | |
|--|---|
| Rating | Meaning |
| BUY | Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields. |
| HOLD | Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months. |
| SELL | Price expected to move downwards by more than 10% from the current market price over the next twelve months. |

* REITs refers to Real Estate Investment Trusts.

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