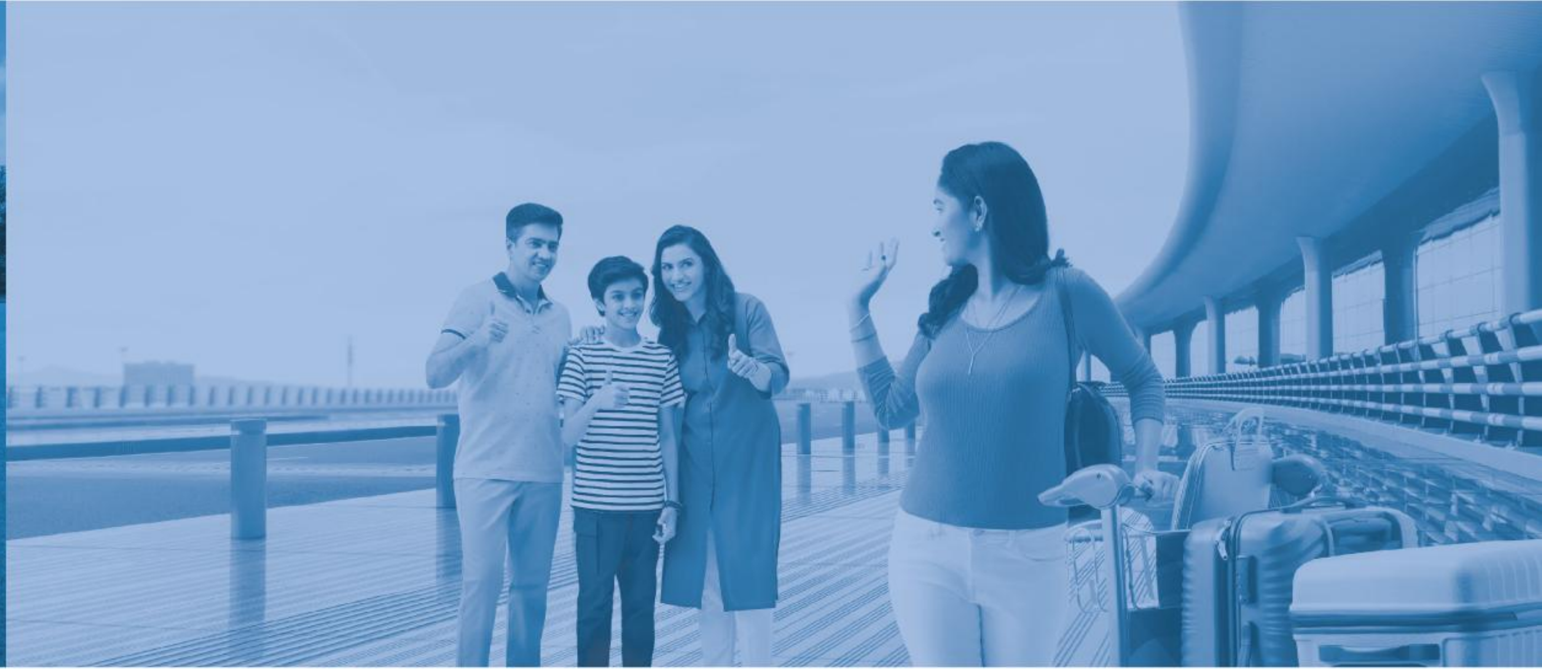

BALIC – Market Insights

October 2025

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Key Themes Covered

GST Rate Rationalization

Global & Domestic Macro Update

Valuations

Flows

Fund Performance

Market Outlook & View

GST Rate Rationalization

India to remain the fastest growing economy (1/2)

- **Growth Impetus –** The GST Council announced a broad rationalization of rates, effective 22nd September, moving most mass consumption items to lower slabs of 5% and 18%. This simplified structure is expected to boost consumption demand, **potentially providing a 30–100 bps boost to India's GDP growth.**

- **Inflation Moderation** – Lower GST on essentials, coupled with the abolition of compensation cess (except on tobacco until end-CY2025), may help headline inflation undershoot RBI's 3.1% forecast, creating room for a supportive rate environment.

- **Corporate Earnings Tailwind –** Reduced GST rates are likely to enhance disposable incomes, benefiting FMCG, autos, consumer durables, and retail, with earnings momentum expected to strengthen from Q3 FY26 onwards.

- **Fiscal Efficiency –** While the government estimates a revenue impact of Rs. 480 bn (based on FY2024 consumption base), simplification should reduce classification disputes, correct inverted duty structures, and widen the effective tax base.

- **Market Sentiment Booster –** GST 2.0 is viewed as a landmark structural reform, reinforcing India's long-term consumption-driven growth story and lifting investor confidence in equity markets.

India to remain the fastest growing economy (2/2)

- **Nil-rated goods:** Essentials such as UHT milk, paneer, Indian breads, and certain school stationery have been moved from 5–12% to 0% GST, making them completely tax-free.
- **5% slab:** Over 300 items have shifted from 12–28% to 5%, including processed food, dairy products, medicines, Agri-machinery, fertilisers, renewable energy items, textiles, medical equipment, and household goods. Even drones now attract 5% GST, down from 18–28%.
- **18% slab:** About 30 items moved down from 28% to 18%, covering smaller vehicles, two-wheelers, and consumer appliances like air-conditioners and TVs. Some categories, however, face higher taxes—apparel above ₹2,500, paper products, and coal, which now move up to 18%.
- **40% special slab:** Luxury and sin goods, including tobacco, high-end cars, yachts, and caffeinated beverages, are now taxed at 40%. Although this appears steep, the removal of the compensation cess (except on tobacco) means the effective increase is moderate. The cess will continue only until pending loans and interest are fully repaid—likely by end-October 2025.
- **Higher-taxed services:** Civil works, vehicle rentals, hydrocarbon drilling, and premium air travel now attract 18% GST, up from 12%. Admission to sports events and gambling rises to 40%. Goods transport now offers two options—18% with ITC or 5% without ITC.
- **Lower-taxed services:** Life and health insurance are GST-exempt, though insurers cannot claim ITC. Budget hotel stays and beauty/well-being services move to 5% without ITC from 12% with ITC. Services related to leather, bricks, umbrellas, and waste disposal have also been reduced to 5%.

Global & Domestic Marco Update

India to remain the fastest growing economy

Overview of the World Economic Outlook Projections YoY

		Projections	
	2024	2025	2026
World Output	**3.3**	**3.2**	**3.1**
Advanced Economies	**1.8**	**1.6**	**1.6**
United States	2.8	2.0	2.1
Euro Area	0.9	1.2	1.1
Germany	-0.5	0.2	0.9
France	1.1	0.7	0.9
Italy	0.7	0.5	0.8
Spain	3.5	2.9	2.0
Japan	0.1	1.1	0.6
United Kingdom	1.1	1.3	1.3
Canada	1.6	1.2	1.5
Other Advanced Economies[2]	2.3	1.8	2.0
Emerging Market and Developing Economies	**4.3**	**4.2**	**4.0**
Emerging and Developing Asia	5.3	5.2	4.7
China	5.0	4.8	4.2
India[3]	6.5	6.6	6.2
Emerging and Developing Europe	3.5	1.8	2.2
Russia	4.3	0.6	1.0
Latin America and the Caribbean	2.4	2.4	2.3
Brazil	3.4	2.4	1.9
Mexico	1.4	1.0	1.5
Middle East and Central Asia	2.6	3.5	3.8
Saudi Arabia	2.0	4.0	4.0
Sub-Saharan Africa	4.1	4.1	4.4
Nigeria[4]	4.1	3.9	4.2
South Africa	0.5	1.1	1.2
Memorandum			
World Growth Based on Market Exchange Rates	2.8	2.6	2.6
European Union	1.1	1.4	1.4
ASEAN-5[5]	4.6	4.2	4.1
Middle East and North Africa	2.1	3.3	3.7
Emerging Market and Middle-Income Economies	4.3	4.1	3.9
Low-Income Developing Countries	4.2	4.4	5.0

For India fiscal year being considered. 2025 = FY26 , 2026= FY27

Source: IMF, World Economic Outlook, Oct 2025

- Global GDP growth is projected to 3.2% in 2025 and 3.1% in 2026.
- The U.S. GDP growth is projected at 1.6% in both CY25 & CY26.
- China's economic growth is expected to remain within the 4.2–4.8% range in CY25 & CY26.
- **India is projected to have the highest growth among major global economies, with GDP expanding by 6.6% during FY26 & 6.2% in FY27.**

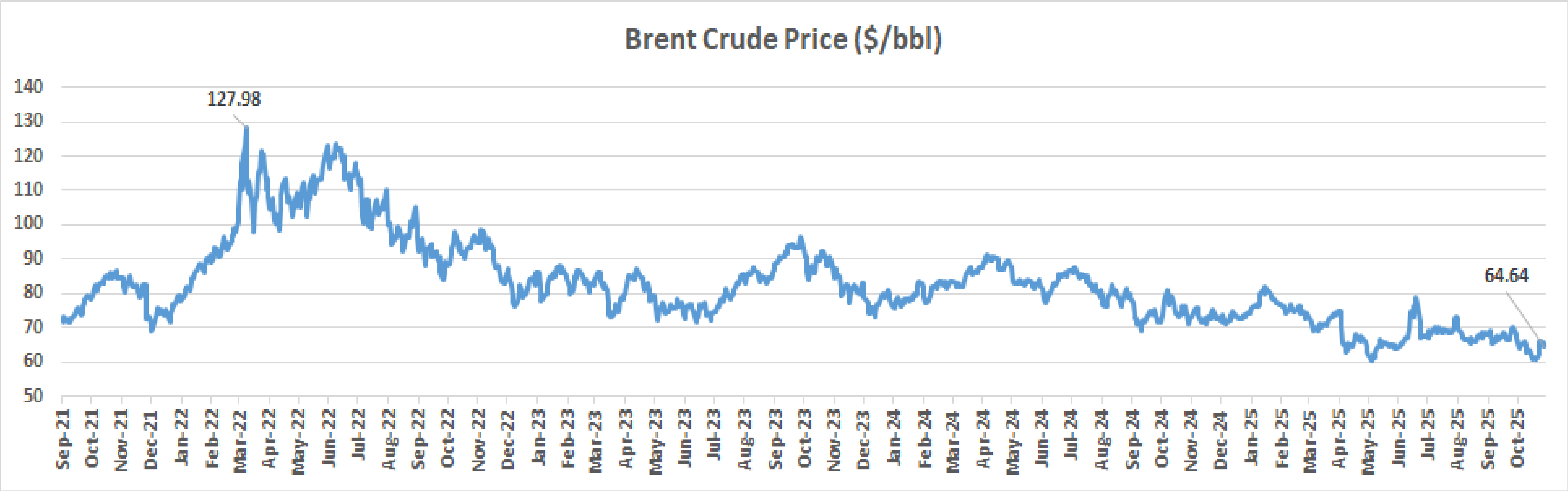
Indian Equity Market Outperforms

Performance as on 30th Sep 2025									
Index Name	Country / Region	6M	1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	15 Yrs.
Nifty 50	**India**	**4.6%**	**-4.6%**	**11.9%**	**12.9%**	**16.9%**	**12.3%**	**12.0%**	**9.8%**
TSEC TAIEX	Taiwan	19.5%	16.2%	25.6%	24.3%	15.6%	12.9%	12.2%	7.9%
S&P 500	United States	19.8%	16.1%	24.8%	23.1%	14.7%	12.6%	13.3%	12.5%
Nikkei 225 Average	Japan	21.0%	18.5%	18.7%	20.1%	14.1%	9.3%	10.0%	11.0%
MSCI World	World	18.5%	23.6%	24.5%	25.4%	13.3%	10.0%	9.5%	9.4%
CAC 40	France	-0.3%	15.7%	22.8%	21.9%	12.7%	10.2%	10.5%	9.0%
FSE DAX TR	Germany	6.3%	19.9%	15.6%	11.2%	11.8%	4.0%	4.4%	2.2%
BOVESPA TR	Brazil	10.9%	7.1%	7.8%	4.6%	10.6%	4.4%	6.7%	5.7%
S&P/ASX 200	Australia	10.9%	3.4%	5.2%	11.1%	10.4%	5.3%	5.9%	5.2%
KOSPI	South Korea	33.9%	13.5%	10.8%	10.7%	9.8%	3.2%	4.4%	3.5%
JSX Composite	Indonesia	23.8%	10.9%	12.0%	9.9%	9.1%	9.1%	12.5%	5.1%
FTSE 100	United Kingdom	8.0%	12.2%	10.7%	10.4%	9.0%	3.0%	4.3%	3.9%
FTSE SET All Share	Thailand	8.4%	7.0%	12.0%	11.0%	8.8%	5.2%	5.8%	4.5%
Shanghai Composite	China	15.9%	32.1%	17.8%	16.7%	8.0%	5.6%	5.7%	4.1%
FTSE/SGX STI	Singapore	8.3%	15.0%	18.8%	15.4%	4.5%	3.6%	5.4%	1.5%
MSCI AC Asia Ex Japan	Asia Ex Japan	20.7%	15.2%	20.5%	16.3%	4.3%	4.3%	6.2%	3.4%
MSCI EM	Emerging Markets	20.1%	16.4%	11.7%	8.7%	3.8%	4.7%	2.4%	2.6%
FTSE Bursa Malaysia KLCI	Malaysia	6.5%	27.1%	22.7%	15.9%	2.7%	-0.5%	2.6%	1.2%
Hang Seng	Hong Kong	14.6%	-2.2%	6.4%	4.9%	1.4%	-1.5%	-0.1%	0.6%

Source : Bloomberg. Returns are in local currency of index, and returns greater than 1 year are CAGR Date Sorted on the basis of 5 Yrs. return in descending order

- Over the long-term Indian equity market has been among the top performing major markets, globally.
- **While India’s long-term returns remain strong, the Nifty 50 has delivered the weakest 1-year performance (-4.6%) among peers, highlighting near-term challenges.**
- Over 5, 7, 10, and 15-year basis, the Indian equity market has consistently delivered double-digit returns, ranking among the top 5 global equity markets.

Crude Oil Prices Remained Subdued



Source: Bloomberg

- Continued uncertainty in global trade and expectations of slower growth have led to a moderation in crude oil prices.
- However, Brent crude prices remain volatile due to geopolitical conflicts.
- Sustained lower crude oil prices provide an impetus to the disinflation trend as ~85 -90% of India's crude consumption occurs through imports.

Global Inflation Eases, Stays Firm in the U.S.

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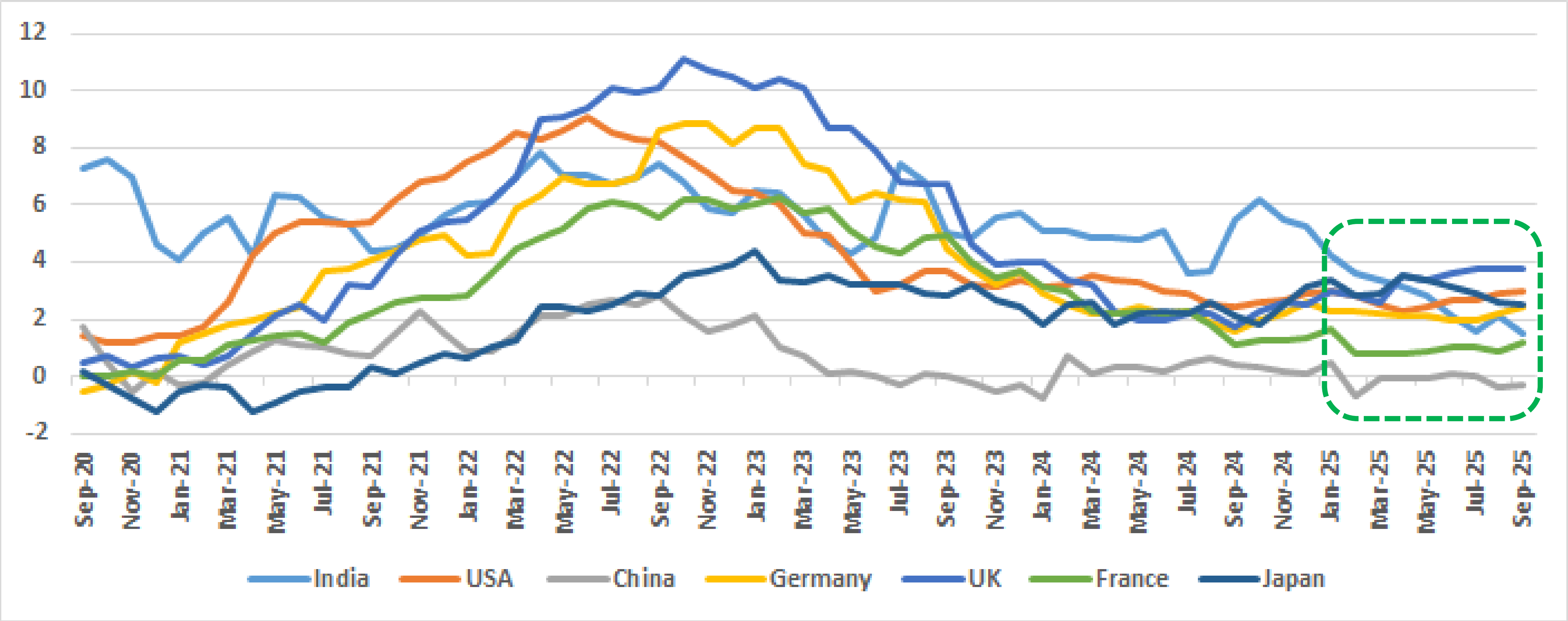
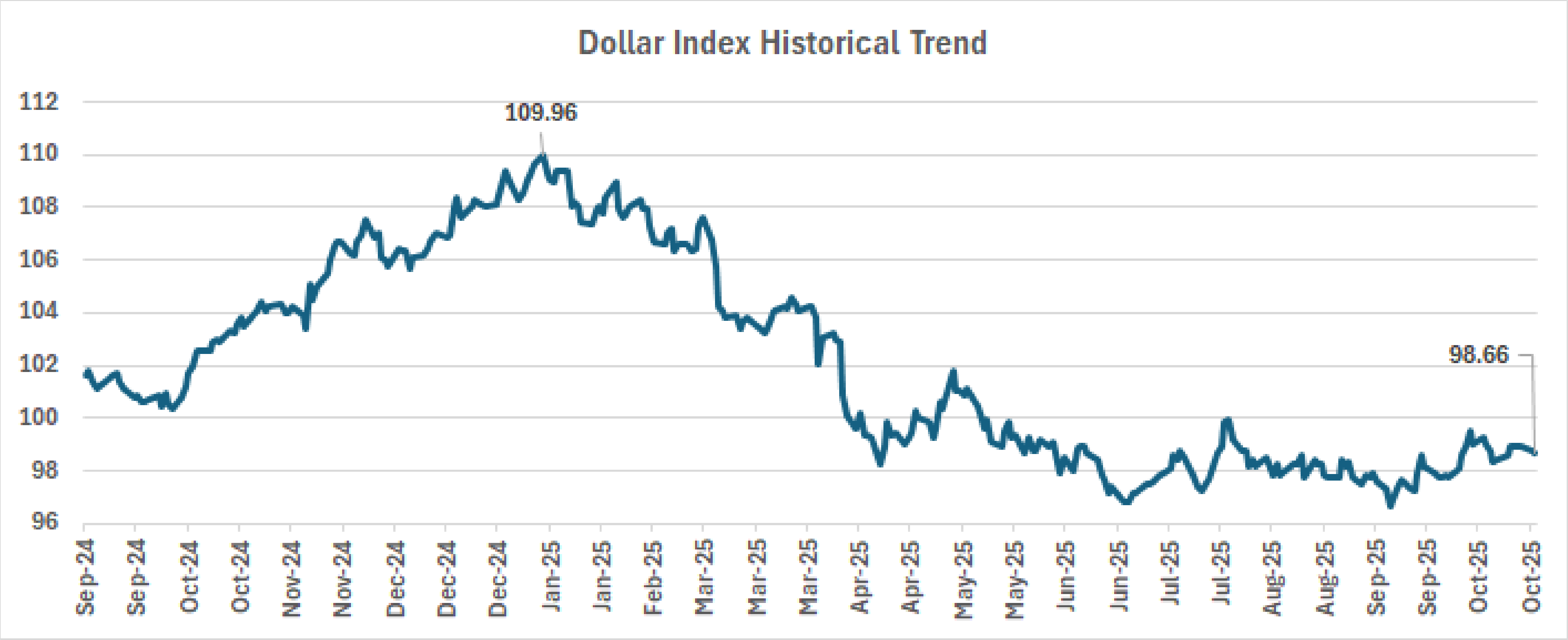
CPI (Inflation, YoY %)



Source: Bloomberg

- Global headline inflation is expected to continue easing, aided by cooling commodity prices, softer demand, and normalized supply chains.
- However, divergences persist—U.S. inflation remains above target due to sticky wages, labour shortages, and residual tariff pass-throughs.
- The IMF warns that such persistence could complicate monetary policy, especially where central banks have limited policy space left.

U.S. Dollar Continues To Remain Weak

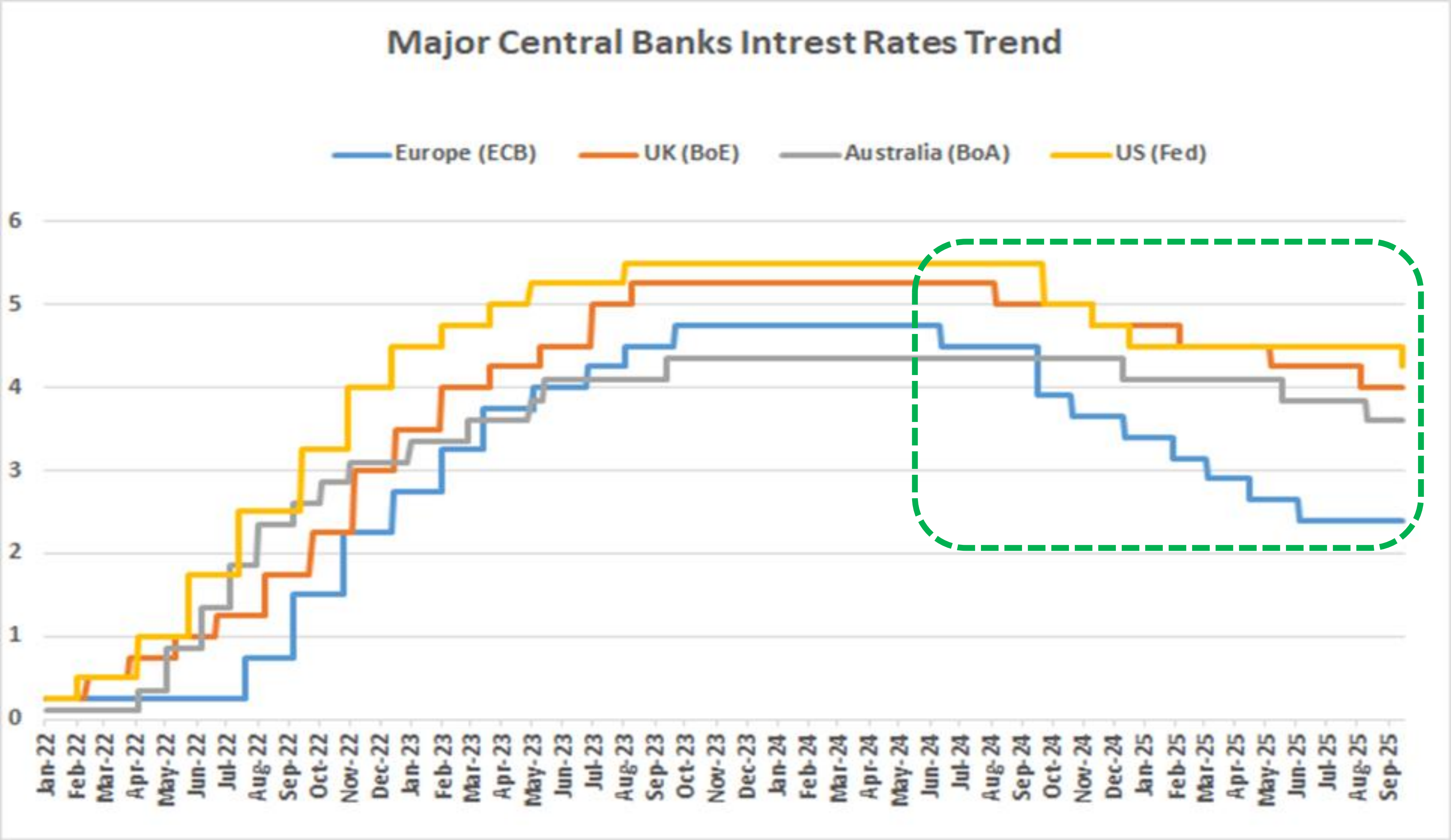


Source: Bloomberg, US Department of Treasury, CEIC

- The U.S. Dollar Index has steadily declined from around 110 in Jan 2025 to 98.6 as on 28 Oct 2025 (11% down from its peak), reflecting sustained weakness

*** The Dollar Index (DXY) is a weighted measure of the U.S. dollar's value relative to a basket of major foreign currencies, reflecting its overall strength or weakness.**

Central Banks Adopt Wait-and-Watch Approach on Rates

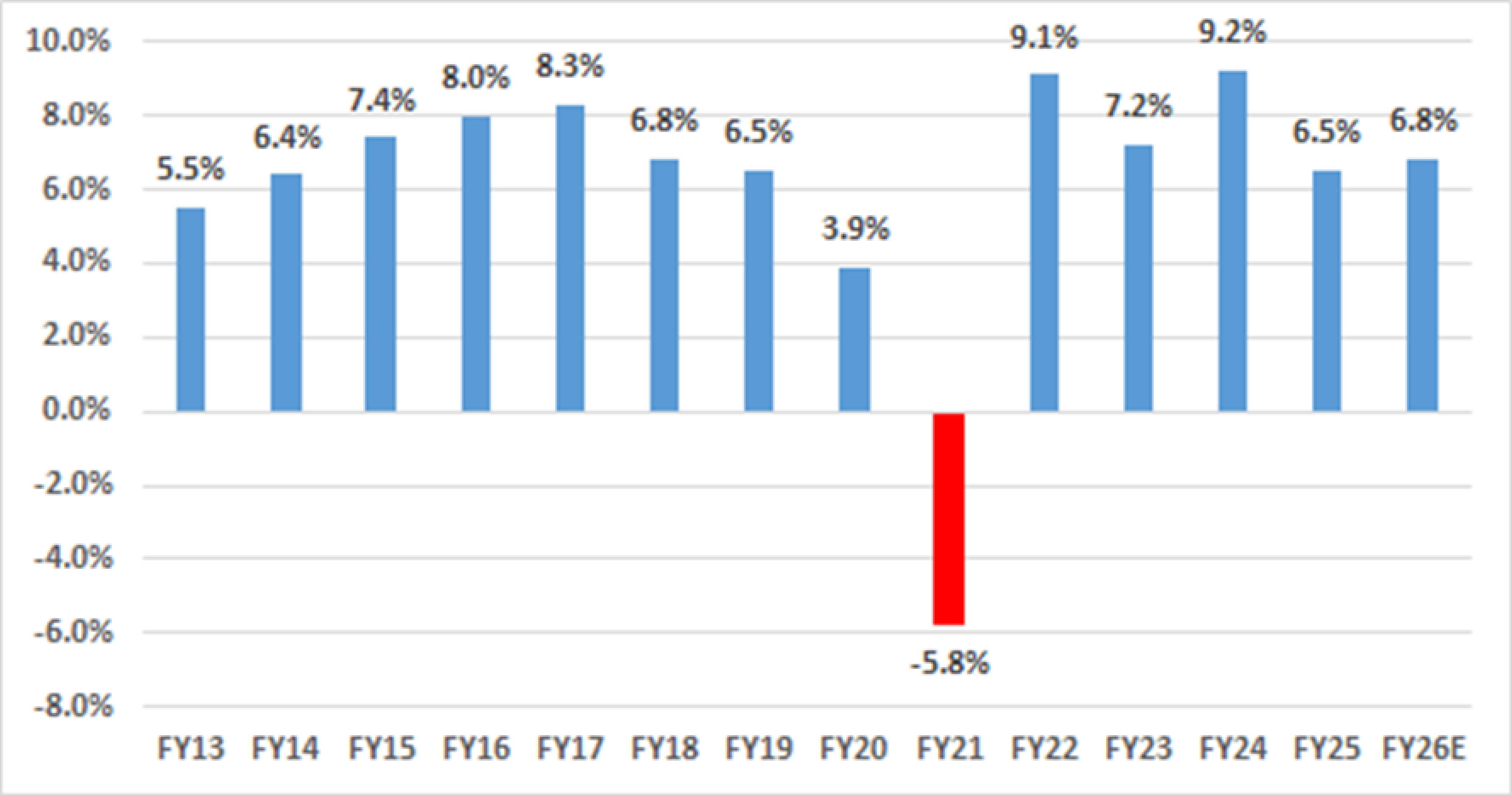


Source: Bloomberg

- Central banks globally are signalling caution, awaiting clearer signs of economic slowdown or disinflation before further rate action.

RBI Raises India's GDP Growth Forecast to 6.8% vs 6.6% Earlier

India Fiscal Year-Wise GDP Growth (% YoY)



Source: RBI

- India's economy posted strong momentum in Q1 FY2025-26, with GDP growth at 7.8% and GVA at 7.6%.
- The RBI projects FY2025-26 growth at 6.8% vs 6.6% earlier, with risks evenly balanced.
- Although, the RBI flagged external trade headwinds from weak external demand, ongoing tariff disputes, and global geopolitical tensions pose downside risks.

India's Inflation: Continue To Ease in Sep'25

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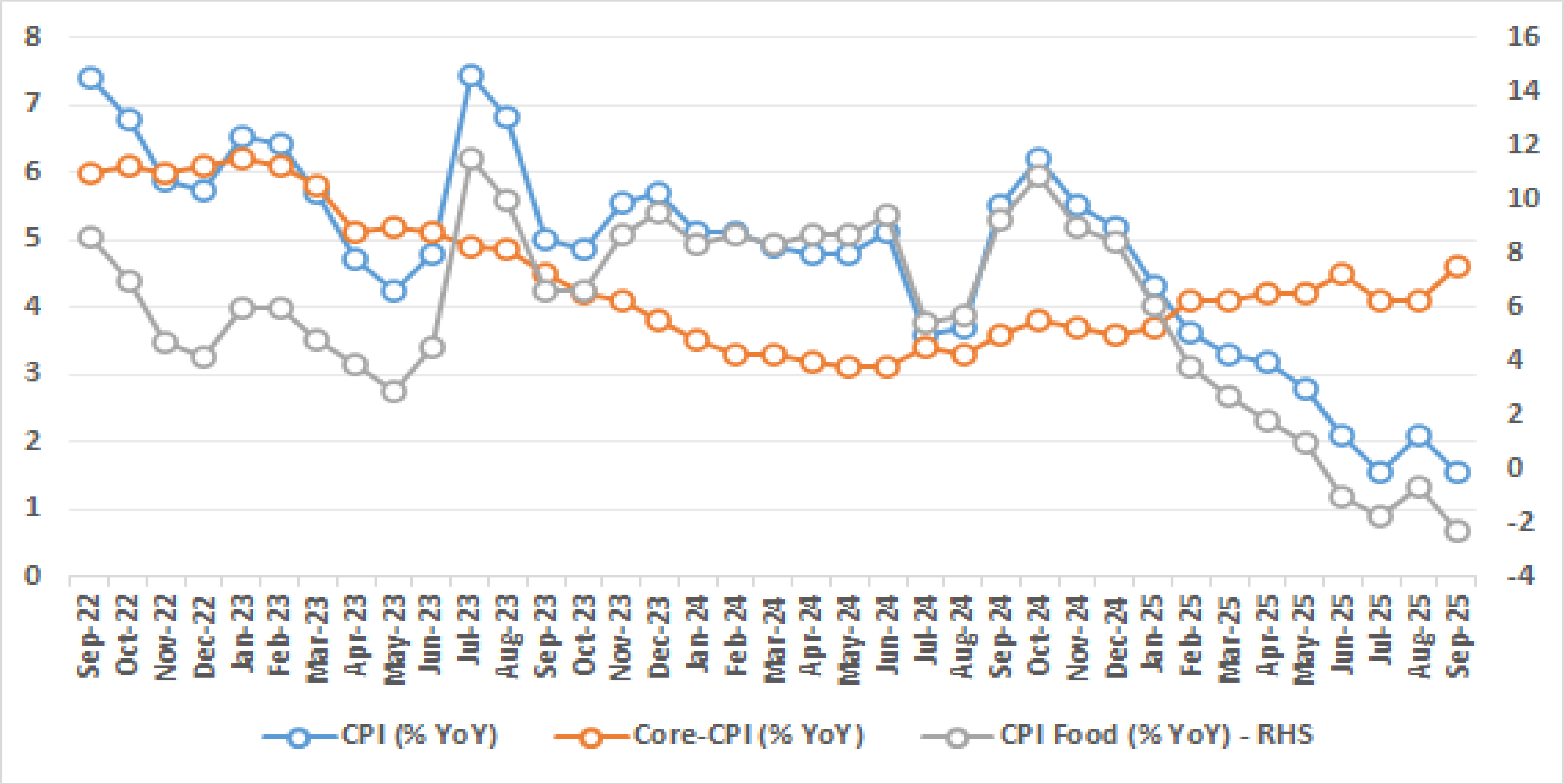

Source: Bloomberg, MOSPI

- India's CPI inflation eased to 1.5% YoY in Sep'25, marking the 11th consecutive month of disinflation, providing comfort for monetary policy.
- Food inflation stayed negative for the fourth month at –2.3%, aided by a favourable base and broad moderation across categories. Vegetables saw the sharpest deflation since Feb'25, while oils & fats, fruits, pulses, and cereals also softened due to improved global supplies.
- Core CPI (ex-food and fuel) rose to 4.5% YoY, though core excluding gold, pan, and tobacco remained lower at 3.1%, as volatile gold prices (up 36.3% YoY) added temporary stickiness.

10 Year G-Sec Remained Range Bound

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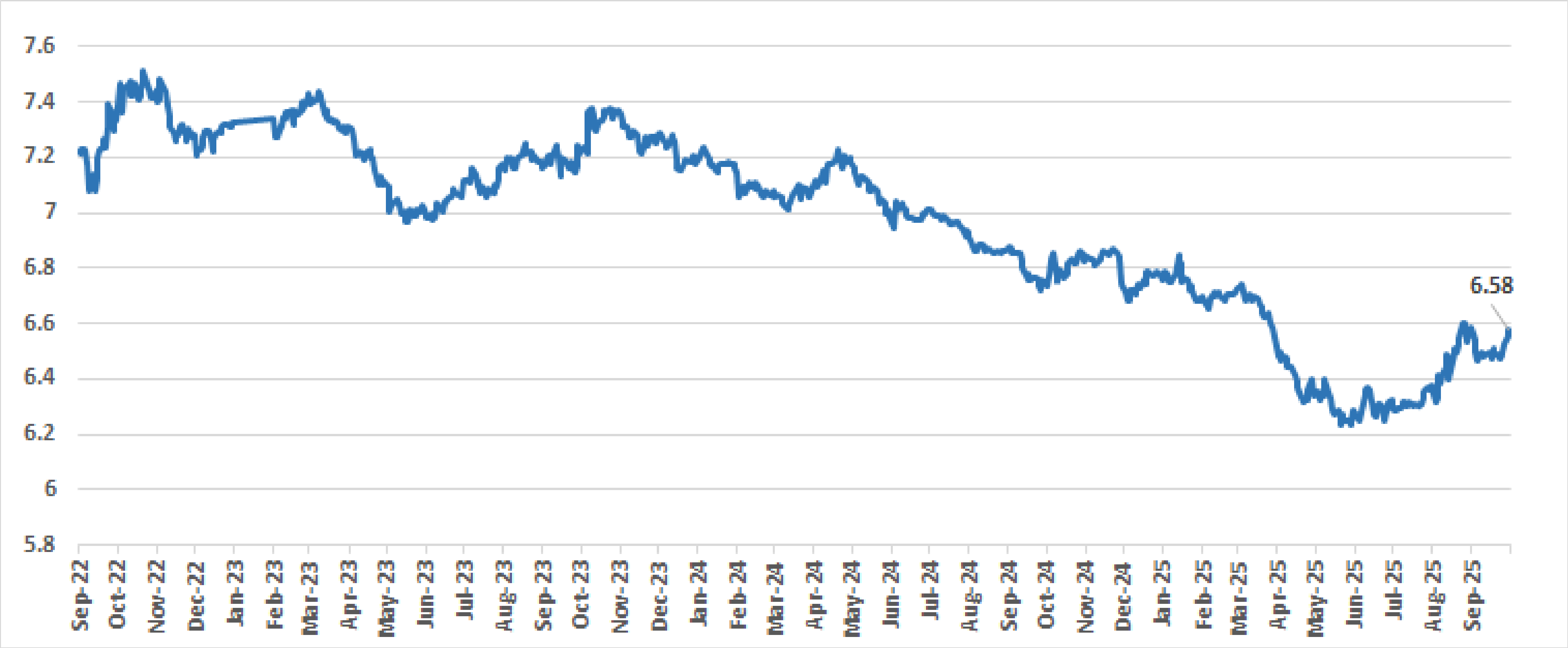
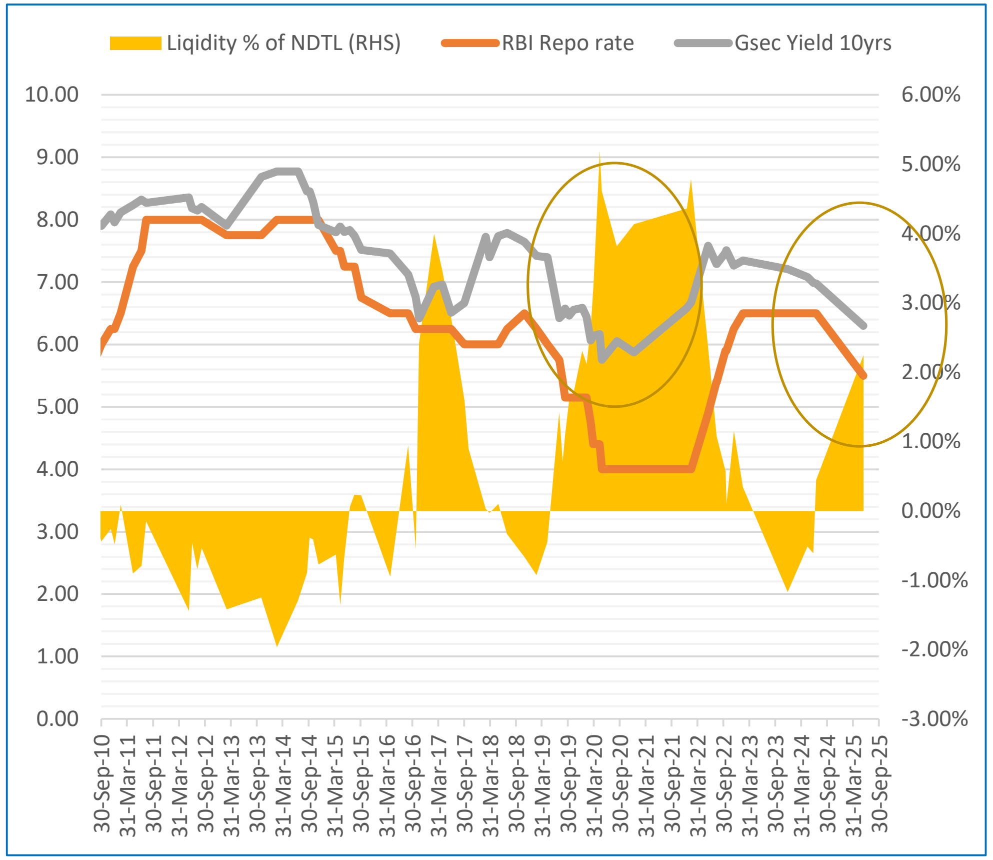
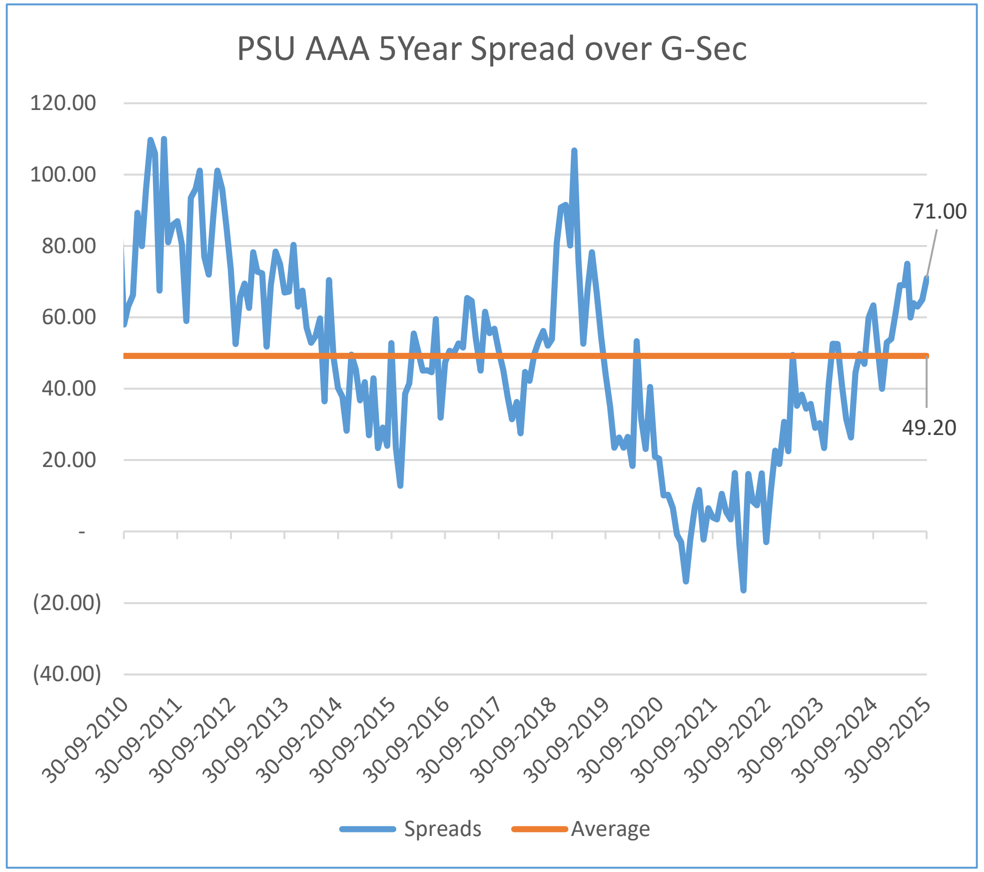


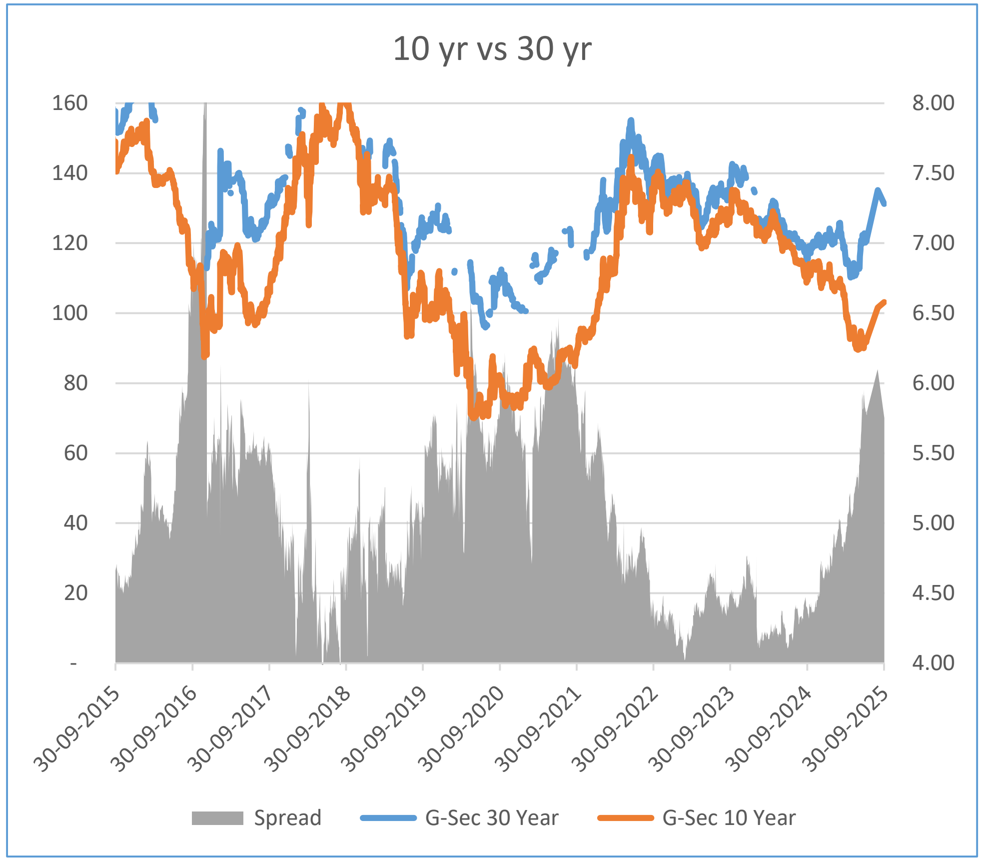
Source: Bloomberg

- India's 10Y yield flat at 6.58% and traded in the range of 6.23–6.60% for the 6 months ended on Sep'25 (FYTD-26). The overall curve has steepened on account of rate cuts and thus spread between the 10Y vs longer end has widened.
- The longer end has also underperformed on account of unfavourable demand/supply mismatch and hence, overall longer end has hardened by 26 bps.
- The spread between 3M and 30Y has widened to 175 bps from 40 bps in Mar'25, given the long-end part of the curve has steepened.

Banking System Liquidity

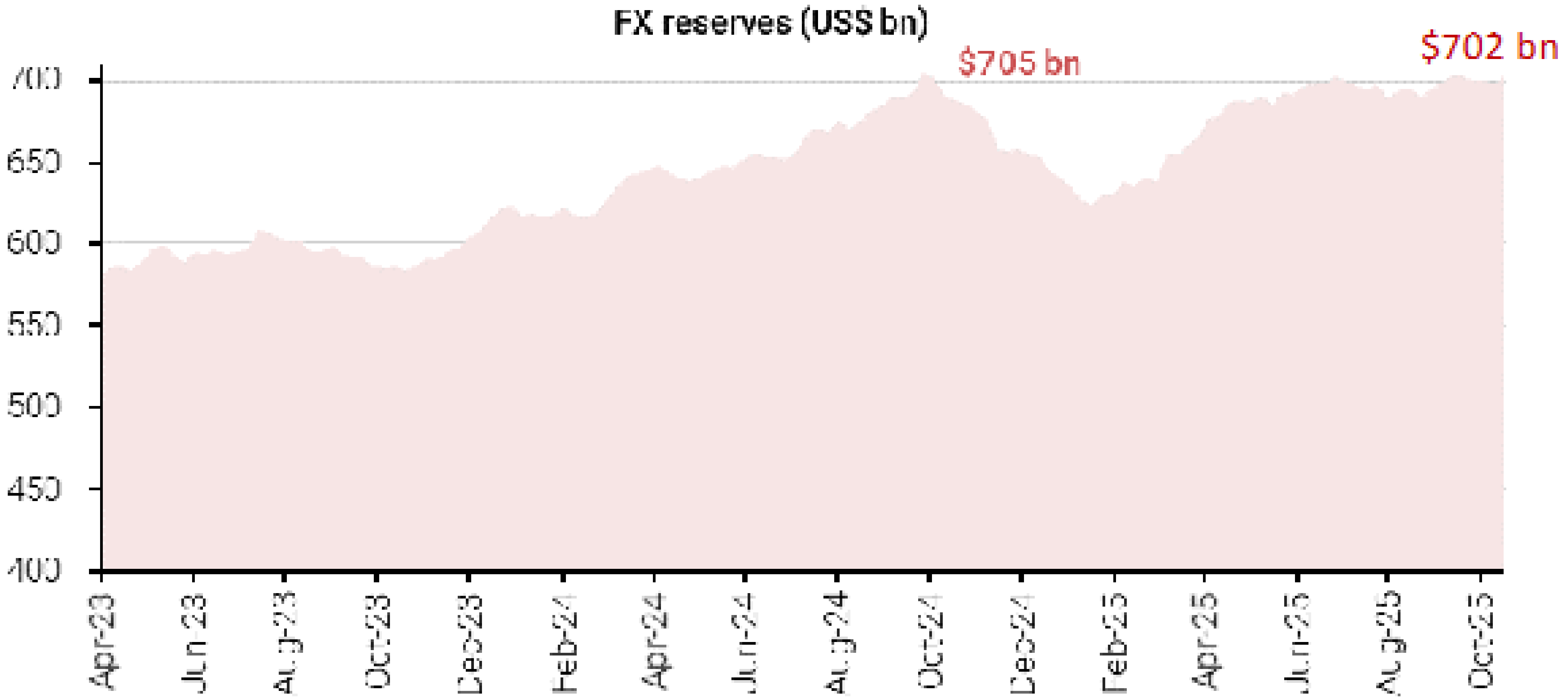






- Banking system liquidity is in surplus to the tune of 0.50% of NDTL and expected to be positive ~ 1.5% of NTDL by year end (i.e around Rs 5 trn positive in FY 26) which will be higher than the long-term average.
- Corporate Bonds spreads are at elevated levels at around 71bps higher than its long-term average of 49bps
- Long end G-sec spreads (10 years vs 30 year) is trading at 70bps above the historical average of last 10 years of 48bps

Forex Reserve Level Remains High

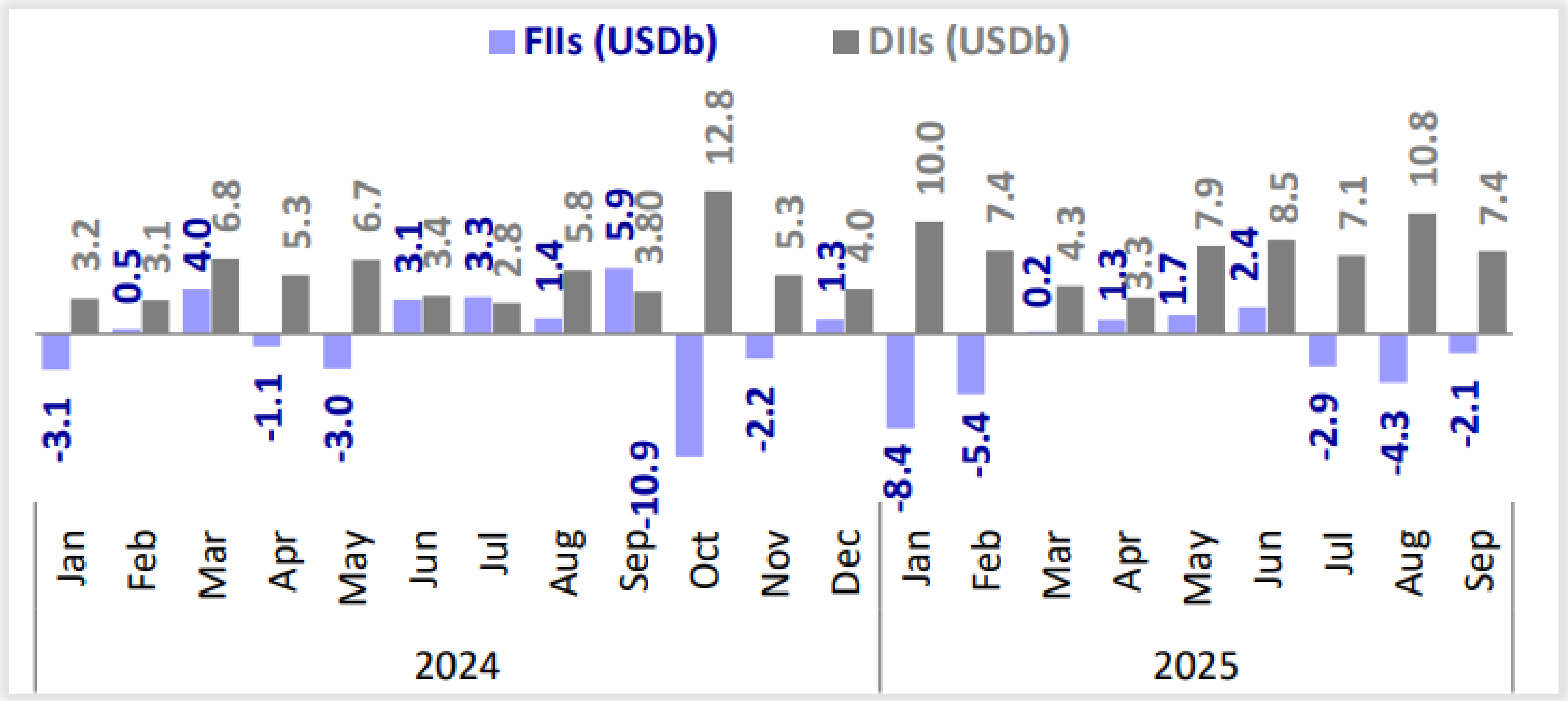


Source: Kotak Institutional Research, RBI, Bloomberg

- India's forex reserve level remains high and comfortable (~12 months of import cover); it stands at $702 billion, close to its peak of ~$705 billion.

Flows

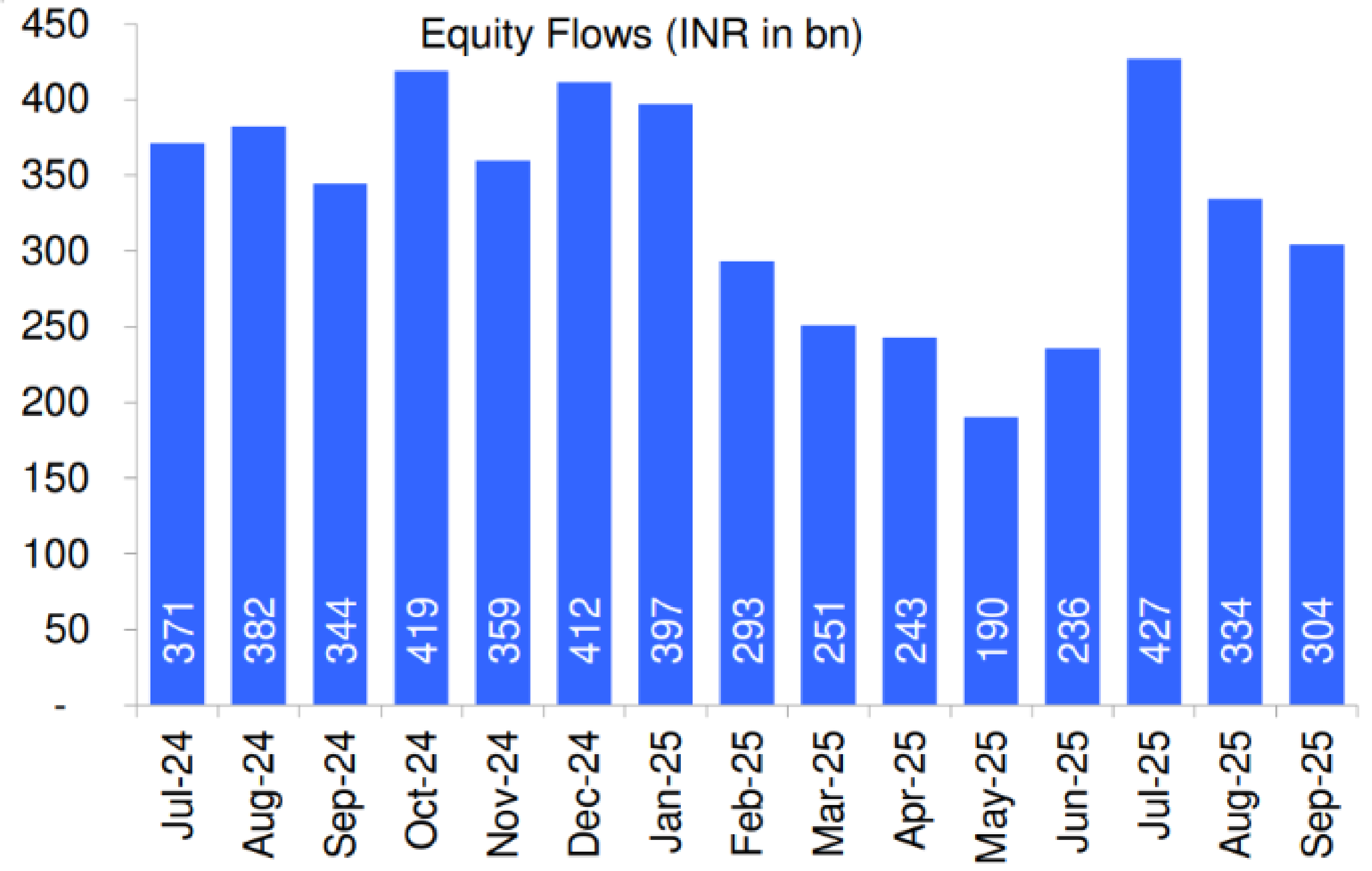
FPI Flows Have Turned Positive In FY26, DII Flows Remains Robust



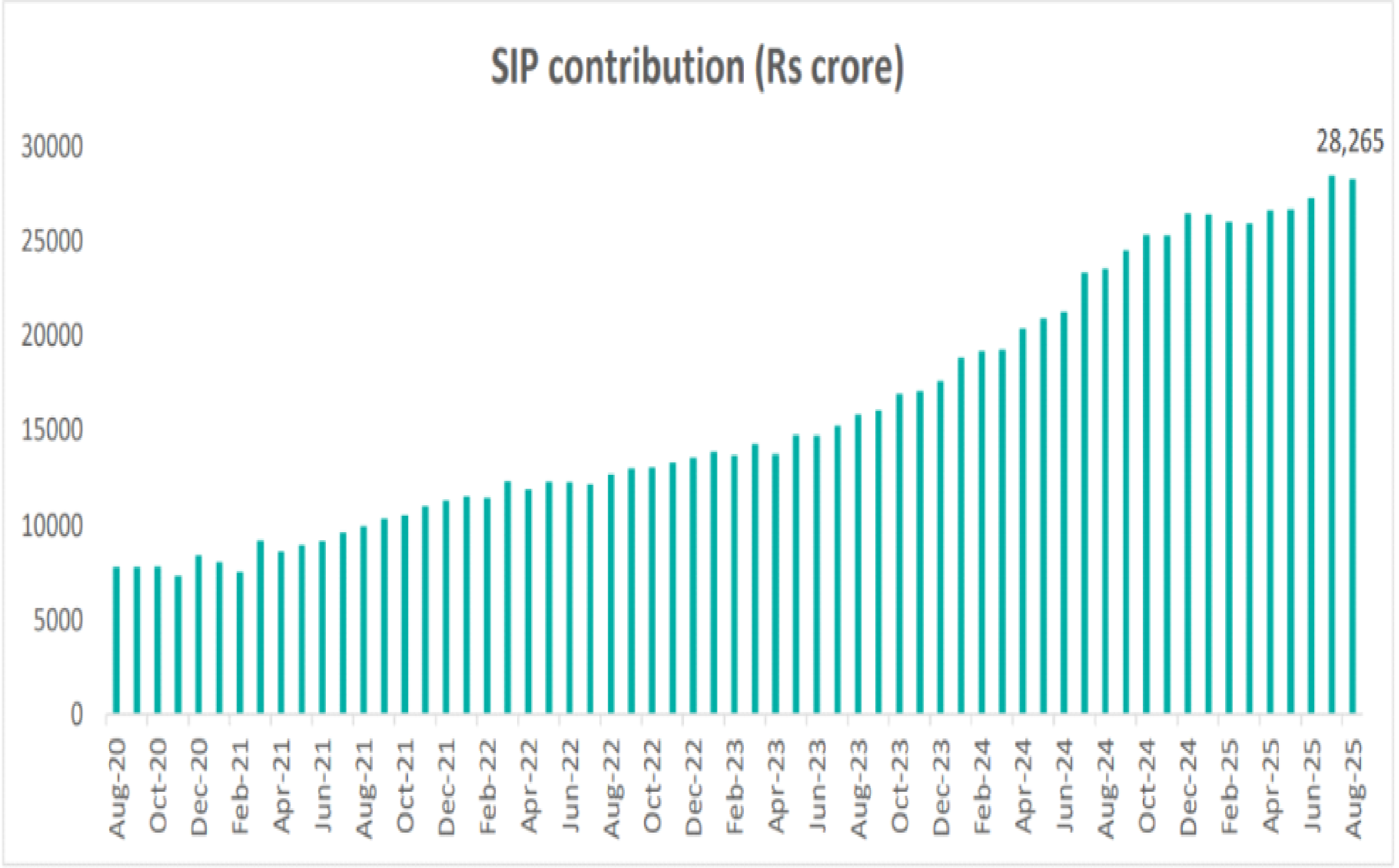
Source: Motilal Oswal Research, NSDL, Bloomberg

- In Sep’25, FIIs recorded the third consecutive month of outflows at USD2.1b. FII equity outflows were the highest ever, reaching USD17.5b in CY25YTD vs. outflows of USD0.8b in CY24.
- DII inflows continue to remain strong at USD7.4b in Sep’25. DII equity inflows were at a record high of USD66.7b in CY25YTD vs. USD62.9b in CY24.

MF Flows – Steady Equity Flows, Record SIPs



Source: AMFI Crisil Intelligence, Antique Research

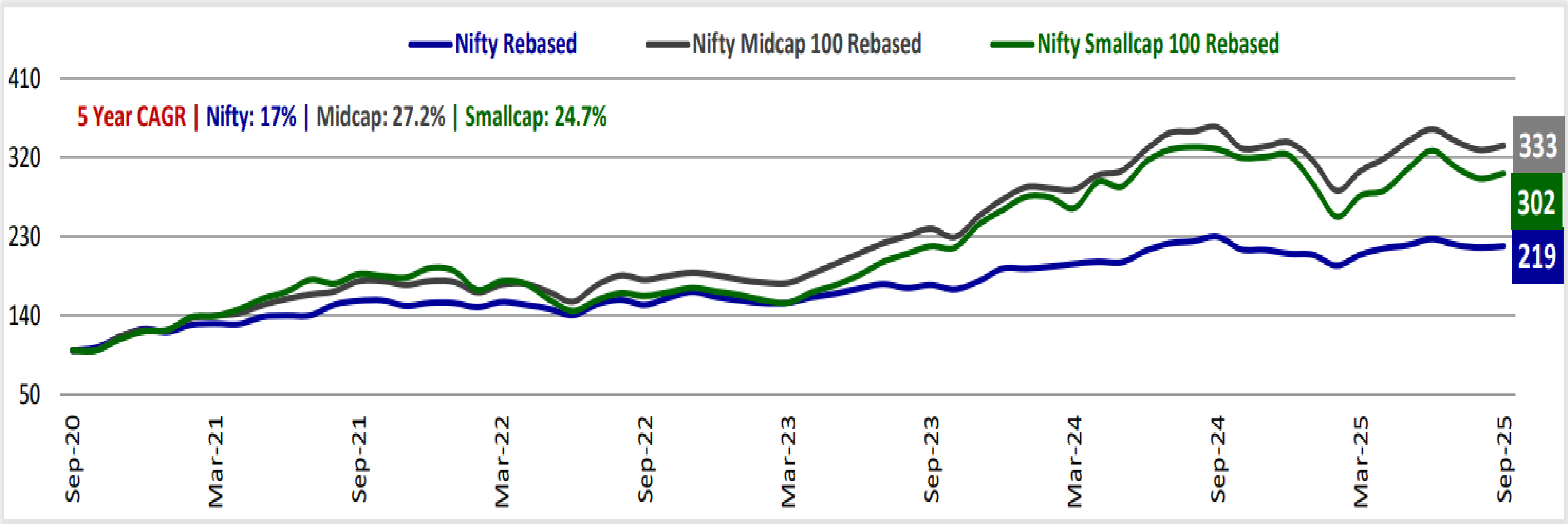


Source: AMFI Crisil Intelligence

- The Indian mutual fund industry's AUM rose 0.6% MoM (+12.7% YoY) to INR 75.61 trn in Sep'25.
- Net flows turned negative at -INR 431.5 bn (vs. +INR 524.4 bn in Aug-25) owing to INR 1.02 trn debt outflows, though equity and hybrid flows remained resilient.
- SIP contributions touched a record INR 293.6 bn (+3.9% MoM / +19.8% YoY), underscoring strong retail participation despite market volatility.

Valuations

Mid & Small Caps Significantly Outperformed Large Cap

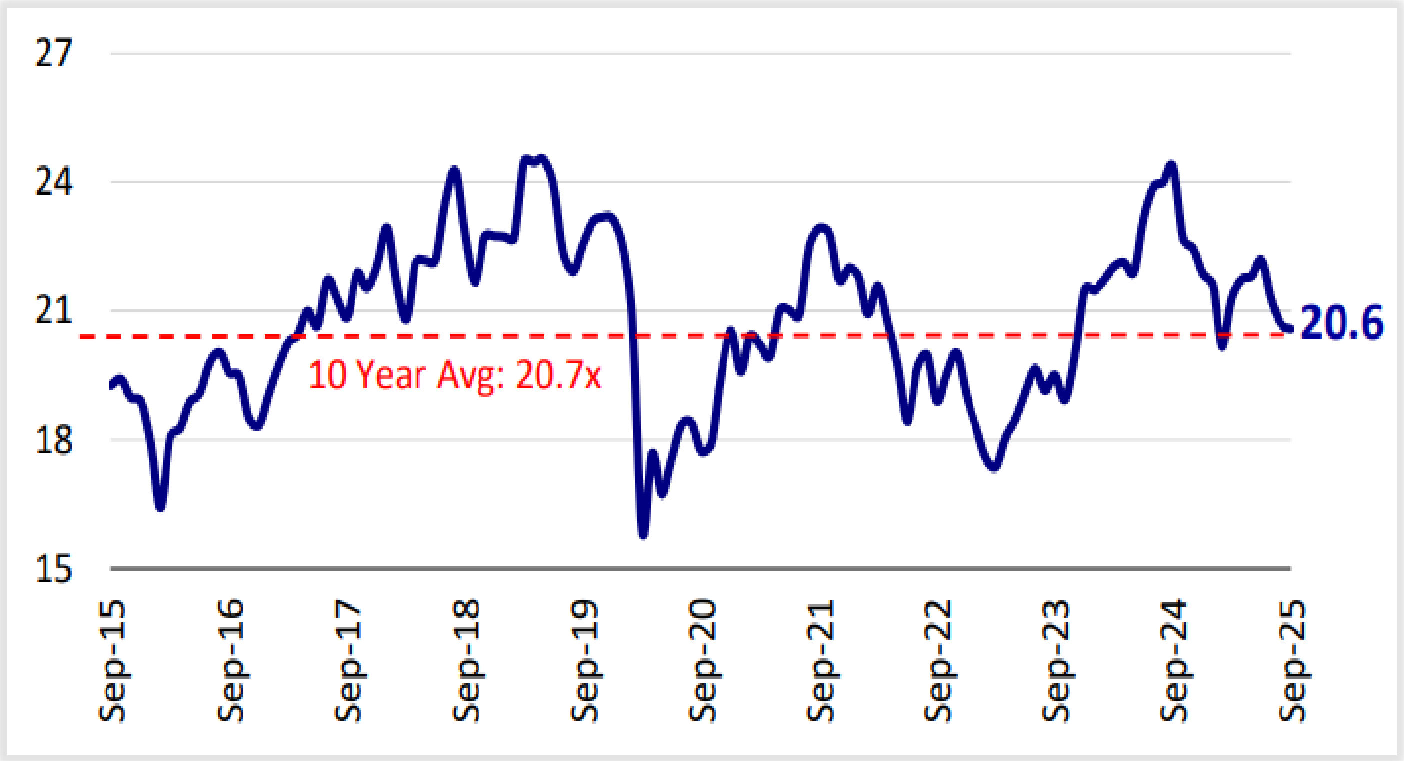


Source: Motilal Oswal Research, NSE, Bloomberg

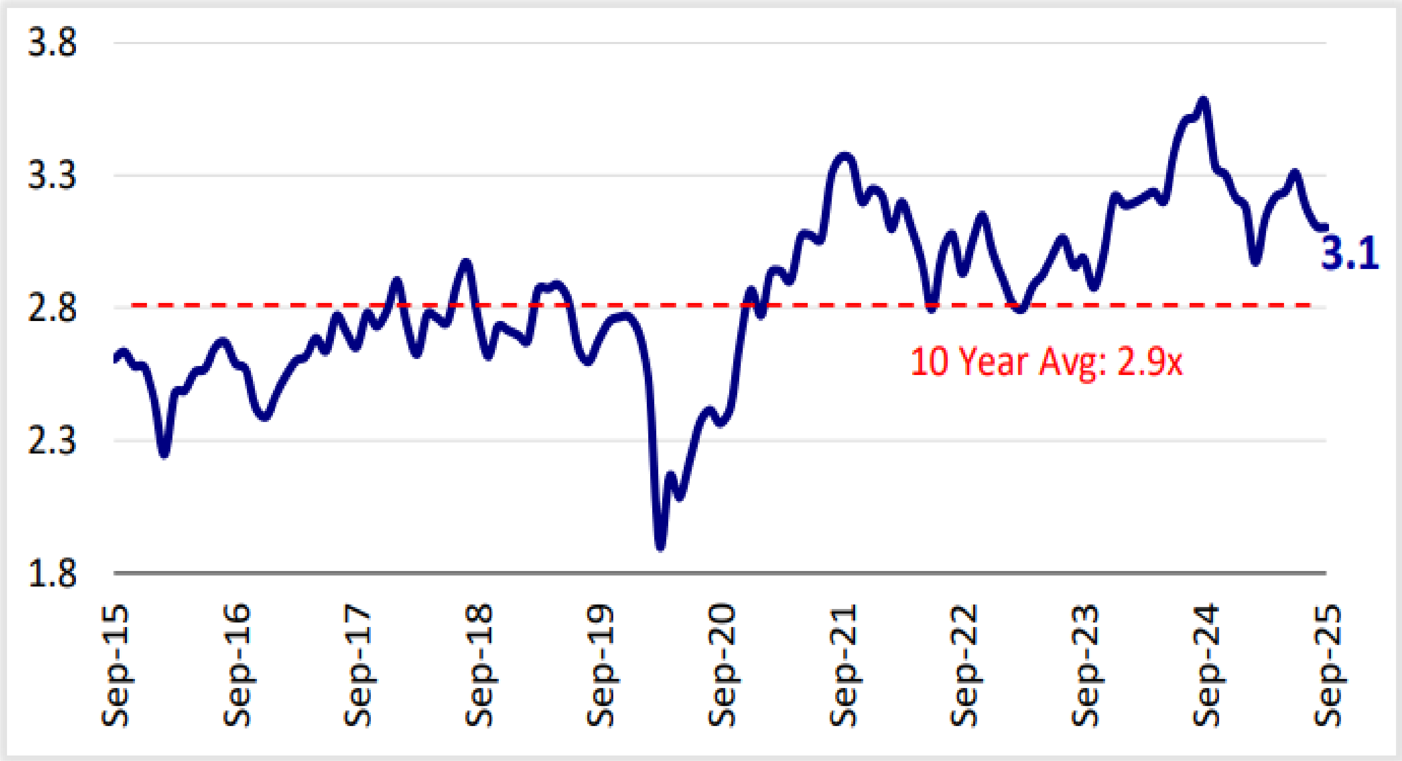
- Mid & Small Cap Indices continue to outperform Nifty 50 by a significant margin in last 5 years. During this period, Mid & Small Caps are up 27.2% & ~25%, respectively, compared to a 17% return for Nifty50.
- Mid & Small Cap (on a Historical P/E basis) are still trading at relatively high valuations, with further room for correction.

Valuations Stay Higher Amid Market Rally

12-month forward Nifty P/E ratio (x)



12-month forward Nifty P/B ratio (x)

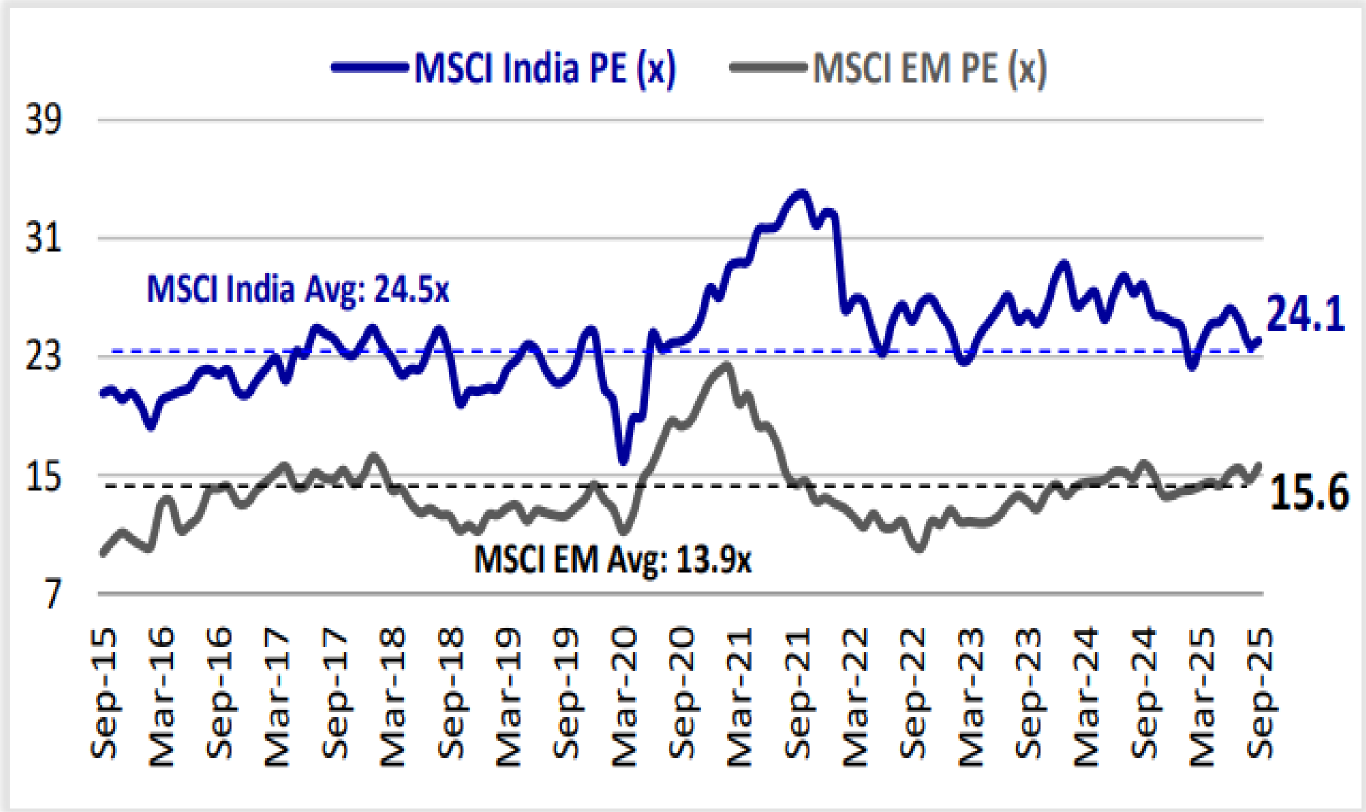


Source: Motilal Oswal Research, Bloomberg, NSE

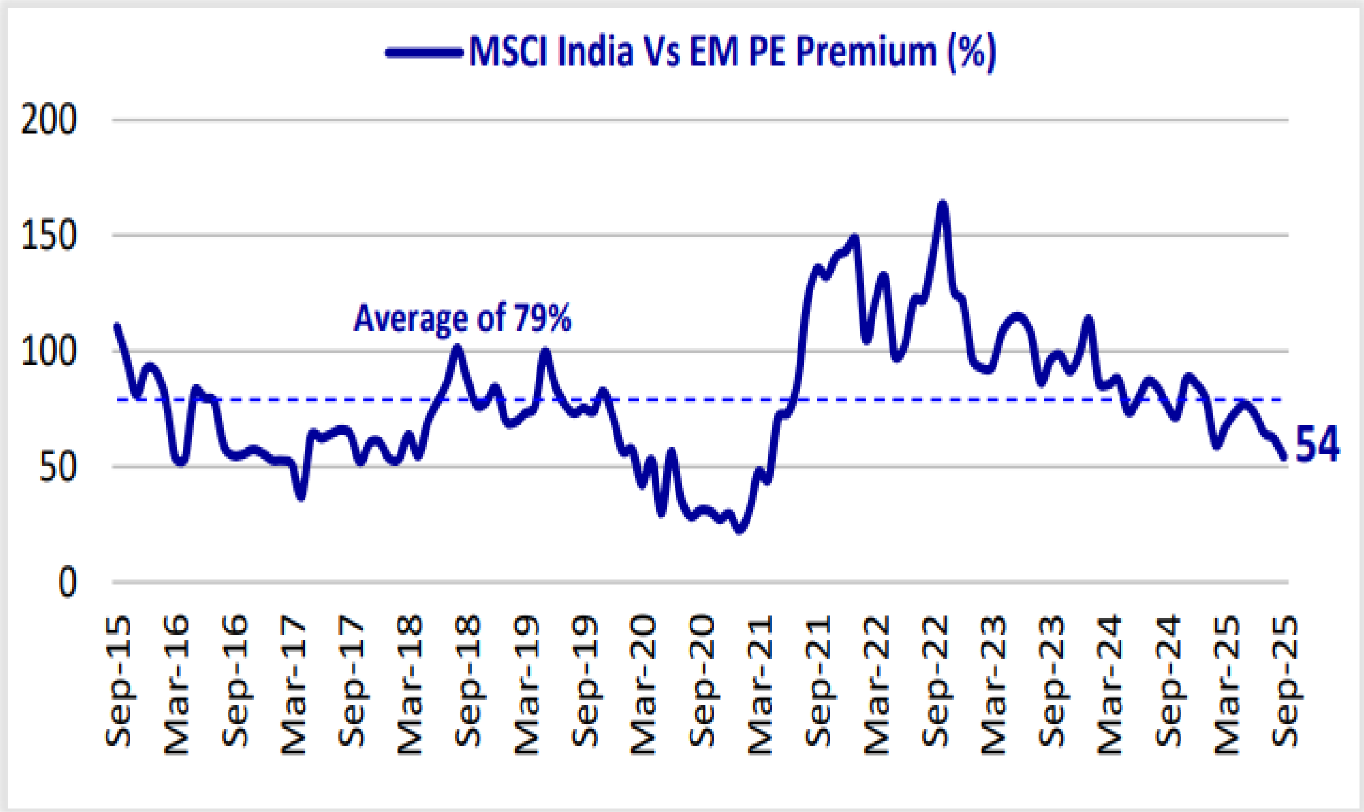
- The Nifty is trading at a 12-month forward P/E ratio of 20.6x, near its LPA of 20.7x. In contrast, its P/B of 3.1x represents a 9% premium to its historical average of 2.9x.
- The 12-month trailing P/E for the Nifty, at 23.2x, is also near its LPA of 22.9x (at a 1% premium). At 3.4x, the 12-month trailing P/B ratio for the Nifty is above its historical average of 3.1x (at a 9% premium).

MSCI India Trades at a Premium to MSCI EM

Trailing P/E ratio for MSCI India vs. MSCI EM (x)



In P/E terms, MSCI India trades at a premium to MSCI EM (%)



Source: Motilal Oswal Research, Bloomberg

- During the last 12 months in USD terms, the MSCI India Index (-12%) underperformed the MSCI EM Index (+15%). Over the last 10 years, the MSCI India Index notably outperformed the MSCI EM Index by 46%.
- In P/E terms, the MSCI India Index is trading at a 54% premium to the MSCI EM Index, below its historical average premium of 79%.

Markets have been choppy in recent months

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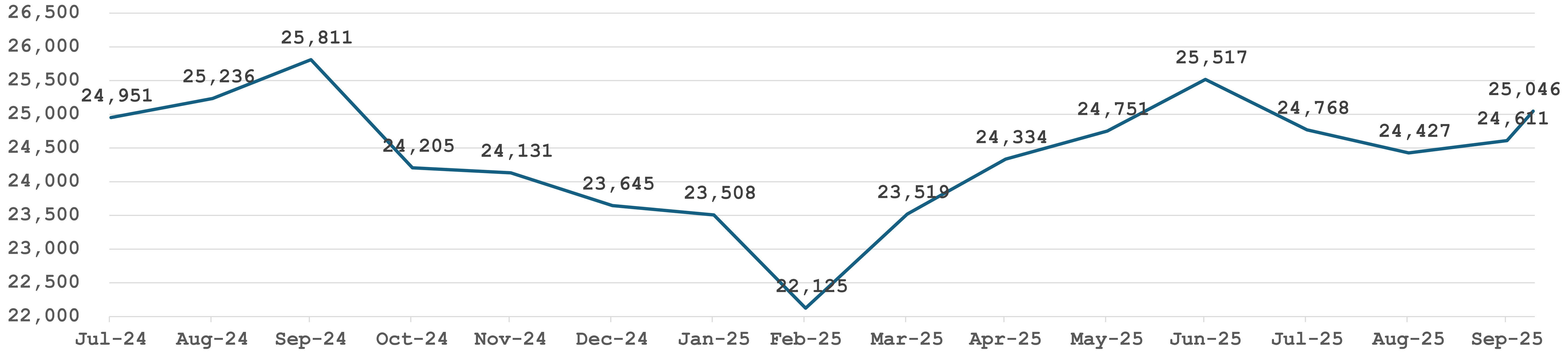
Nifty50 – Monthly movement



Source: Bloomberg

- **Markets have been choppy in recent months largely trading in a narrow band.**
- **US tariff induced uncertainty has kept the market on an edge.**
- **Such markets are best suited for short-term trading oriented investors.**
- **We believe this phase is near its end with earnings revival on the anvil, reasonable valuations and strong flows.**

Market Outlook & View

Equity Market Outlook (1/2)

- Equity markets corrected during the September quarter with the Nifty50 down 3.6% while Midcap and Smallcap indices were down ~5% and 8%, respectively.
- In terms of sectors, IT (-13.6%) and Real Estate (-12.1%) were the key underperformers while Autos (+11.2%), Metals (+5.3%) and PSU Banks (+4.5%) outperformed.

Global macro

- Globally, despite the uncertainty caused by the US tariff action, asset prices have had a strong run in recent months with Equities (US and most other prominent equity markets), Gold, Silver and Cryptocurrencies all trading near multi-year highs.
- Indian equities have been one of the worst performing asset class in the past 12-months, with MSCI India lagging MSCI Emerging markets by ~29% during this time.
- Economic data from the US continues to be strong with fairly benign inflation (2.9%) and unemployment rates (4.3%) and surprisingly strong GDP growth (3.8%).
- After a nine month pause, the US Fed reduced policy rates by 25bps in its September Monetary policy meeting with the forward-looking dot-plot indicating another 50bps cut in 2025.

Domestic macro

- India’s macro situation continues to improve with stronger than expected GDP growth and multi-year low headline inflation.
- India’s real GDP grew by 7.8% in Q1FY26 which was better than the consensus estimates. Growth was broad-based with most sub-segments registering an improvement in real growth. However, with inflation running at multi-year lows the nominal growth was sub-10% at 8.8%.
- Headline CPI inflation for the month of Sep stood at 1.54% which is the lowest in around eight years. Last three CPI readings have now averaged 1.74% which is below RBI’s inflation target range.

Equity Market Outlook (2/2)

- Despite the benign CPI inflation, RBI chose to hold off from cutting Repo rates further as it waits to see the full impact of higher US tariffs on the Indian economy. RBI's latest monetary policy focused on Banking sector measures aimed at easing credit flow to corporates and MSMEs.
- Current account deficit narrowed to 0.2% of the GDP in Q1FY26 compared to 0.9% in the same quarter last year. Latest FX reserves stand at $700bn vs $676bn in March.
- The GST rate cuts announced during the Independence Day speech by the Prime Minister are now into effect and we are already witnessing initial signs of a demand pickup in segments like Automobiles. A broader recovery in consumption is expected to play out over the next few months driven by the combined impact of fiscal and monetary measures announced in the last few months.

Indian markets

- Equity markets have been rangebound in the last few months as supportive fiscal and monetary policies and strong domestic flows have been offset by uncertainty arising from higher US tariffs.
- The expected recovery in corporate earnings may be delayed by a quarter due to the disruption caused by the GST cuts in Q2. However, the conviction of a strong earnings recovery playing out in FY27 has only been bolstered by the recent GST cuts.
- Strong DII flows continue to be the key factor supporting the markets by absorbing FPI selling and primary market supply. However, a prolonged phase of sideways market will test retail investors' conviction and any slowdown in retail flows would be detrimental for equity markets' performance.
- Nifty50 is currently trading at ~20x one-year forward earnings which is slightly higher than the historical average.
- We believe markets may continue to trade at somewhat elevated multiples in the near term, in anticipation of an earnings recovery and supported by retail and institutional flows.
- Hence, our outlook for equities is moderately positive at this juncture with a preference for large caps. Another round of risk-off driven by global uncertainties and exuberant activity in the primary markets are the key risks to our view.

Fixed Income Market Outlook

- **Domestic Inflation: Subdue**- RBI revised downward inflation projection by 50bps to 2.60% for FY26 on account of GST rationalization and subdued food inflation.
- **Monsoon:** Monsoon run rate has been very positive with long-term average above 8%
- **Banking system Liquidity:** Durable Surplus in the system is to the tune of ~ Rs 2 trn on account of various positive measures by RBI.
- **RBI MPC-**
  - RBI has frontloaded rate cuts, total Repo rate cut of 100 bps since Jan 25 and kept the commentary dovish
  - With subdued inflation and risk from global tariff on domestic growth, policy space is opened up for RBI.
  - RBI projects 6.8% GDP for FY26, growth slowdown can open more space for rate cut in Dec 2025 policy.
  - RBI focused more on ease of doing business and encouraging banks to lend more to push growth.
- **Rates outlook :** We expect 10-year G-Sec in the range of 6.35% to 6.65% with shorter end doing well
- **Positions:** We continue to prefer 3-year to 5-year corporate bond segment and Long G-Sec.
- **Key risks :** Growth slowdown, Inflation push and geopolitical uncertainties.

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Thank you