

India Market Pulse: 15th December 2025

The Goldilocks Setup: Why India's Macro Balance Is Turning Investable Again

Season's Greetings & Happy Holidays

As we approach the close of the year, we extend our warmest wishes to you and your family for a joyful festive season. Thank you for your continued trust and partnership. We hope the year ahead brings clarity, opportunity, and strong long-term returns.

Outlook into 2026

2025 will be remembered as a year of sharp contrast for Indian markets. On the surface, India continued to post enviable growth rates in a slowing global economy. Yet beneath that resilience, global capital voted decisively with its feet.

From Darling to Dumped: The Great FPI Exit

Foreign portfolio investors recorded **their largest-ever equity sell-off**, withdrawing **\$18.4 billion** in 2025. Selling was relentless across **8 of 12 months** with January alone seeing **₹78,027 crore** of outflows.

This capitulation left its mark:

- **FPI ownership in NSE-listed companies fell to 16.9%**, the lowest in over 15 years
- **Nifty 50 FPI ownership dropped to a 13-year low of 24.1%**
- **MSCI India returned just 2.5% in dollar terms**, versus **27.7% for MSCI EM**, its worst relative performance since 1993.

India had not suddenly become a weak economy. It had become a **funding source**.

Why Global Capital Walked Away

The exit was driven by a rare confluence of global and domestic factors:

- A **rotation into Asia's AI beneficiaries**, particularly China and South Korea
- **Earnings downgrades**, with revenue growth of the top 3,000 companies slipping to a **7-quarter low of 3.4%**
- **Restrictive real interest rates**, even as inflation collapsed
- A sharply weaker **rupee**, which crossed 90/USD, amplifying dollar-based losses
- **US tariff uncertainty**, weighing on export-oriented sectors

In short, India was priced for perfection and perfection faltered.

The Shock Absorber: Domestic Capital Steps In

Yet unlike past cycles, the market did not break. Domestic investors emerged as the system's anchor:

- **₹4.7 lakh crore** invested by mutual funds, insurers and pension funds
- Domestic institutional inflows **exceeded FPIs for the fourth straight quarter**
- **Household ownership rose to 18.75%**, the highest in 22 years

This structural shift from foreign-led to domestically-supported markets has quietly altered India's market resilience.

Enter Goldilocks: Inflation Collapses, Growth Holds

As valuations corrected and sentiment soured, India's macro backdrop did something rare - it improved. India entered a **Goldilocks phase**:

- **Headline CPI stayed below 1% for two consecutive months**
- November inflation printed at **0.7% YoY**, driven by falling food prices
- **Core inflation remained above 4%**, signalling underlying demand was intact

With inflation forecasts slashed, the **RBI cut rates by 25 bps in December** and clearly signalled further easing, while committing to ample liquidity to ensure transmission.

Few economies today enjoy this luxury: **room to stimulate without risking credibility**.

Strong Balance Sheets, Cautious Behaviour

Corporate India is financially stronger than at any point in the last decade:

- **Interest cover ratio at 5.97x**, a six-year high
- Broad-based improvement across over **3,300 companies**
- Bank balance sheets remain stable, with contained NPAs

And yet, private capex remains measured. This suggests the binding constraint is not the cost of capital, but **confidence in sustained demand**. Rate cuts can help but conviction will follow consumption recovery.

Goldilocks Extends To The Current Account With Volatility

The same macro balance is visible externally.

The **goods trade deficit narrowed sharply to USD 24.5 billion**, a four-month low, driven by a steep correction in **gold and silver imports** after October's spike. Imports fell 18% MoM, while benign crude prices eased oil import pressure.

Encouragingly, **exports surprised on the upside**, rising 11% MoM and 19% YoY, despite high US tariffs. Over **8MFY26**, exports are up ~3% YoY, with resilience led by electronics, pharmaceuticals and engineering goods.

Geographically, exports to the **US recovered sequentially**, while shipments to Europe and Asia including Spain, China, Vietnam and Hong Kong accelerated, pointing to growing diversification.

Most importantly, the **services surplus continues to anchor the external balance**. At **USD 134 billion (+15% YoY)** for 8MFY26, it comfortably offsets merchandise volatility.

Bottom line: The **FY26 current account deficit remains contained at ~1.4% of GDP**, easily financeable in a services-led, low-inflation economy.

The Soft Patch & What Could Change

Growth has softened at the margin:

- Industrial production slowed to **0.4% YoY in Oct'25**
- Consumption remains uneven, especially in consumer durables
- Government-led infrastructure spending continues to outperform

Externally, the path ahead hinges on:

- The **US Fed's rate trajectory**, where markets expect more easing than the Fed projects
- The **India-US trade deal**, increasingly seen as imminent
- Persistently low commodity prices, which remain a macro tailwind

From Underperformance to Optionality

India today sits in a rare position:

- Inflation is benign
- Balance sheets are clean
- Domestic liquidity is strong
- Valuations have normalised
- Global investors are materially underweight

The bears remain unconvinced. But the **Goldilocks setup is firmly in place**. If earnings recover and external uncertainties ease, **India's prolonged underperformance may itself become the fuel for the next re-rating**.

