

Global Outlook

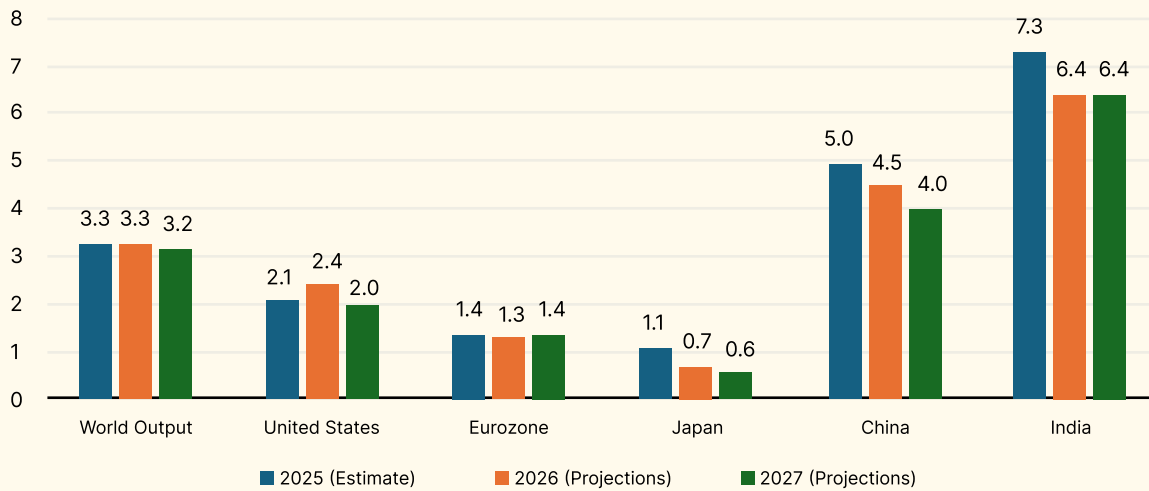
January 2026





Global Update

Real GDP Growth projections - World Economic Outlook, January 2026, IMF



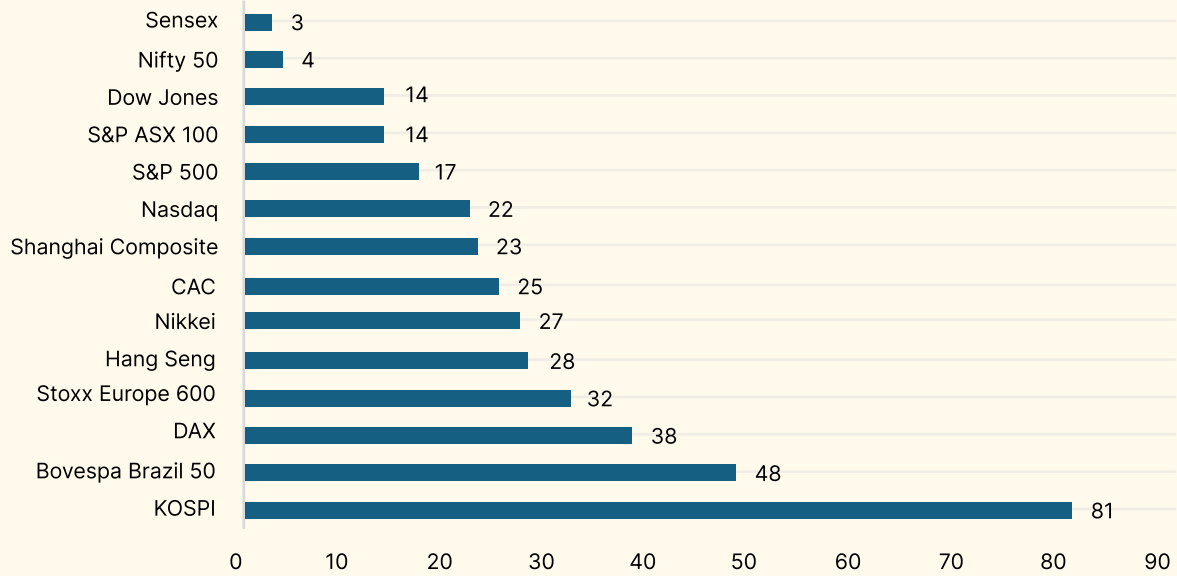
Source: World Economic Outlook, January 2026 - Global Economy: Steady amid Divergent Forces

- In the January 2026 World Economic Outlook, the IMF revised growth upward for most major economies.
- The upward revision reflects expectations of stronger private consumption, front-loaded trade, and resilient economic growth.
- Geopolitical developments, trade policies and global uncertainty influenced central banks, which acted to safeguard domestic economies amid ongoing headwinds.

| Central Bank Policy Rates | | |
|---------------------------|-----------------|---|
| Country | Rate | Central Bank Rate (%) (As on 31st December 2025) |
| Argentina | Overnight Repo | 29.00 |
| Australia | Cash Rate | 3.60 |
| Brazil | Target Rate | 15.00 |
| Canada | Overnight Rate | 2.25 |
| China | Loan Prime Rate | 3.00 |
| Eurozone | Deposit Rate | 2.00 |
| Hong Kong | Base Rate | 4.00 |
| India | Repo Rate | 5.25 |
| Indonesia | Repo Rate | 4.75 |
| Japan | Policy Rate Bal | 0.75 |
| Malaysia | Policy Rate | 2.75 |
| Mexico | Overnight Rate | 7.00 |
| New Zealand | Cash Rate | 2.25 |
| Norway | Deposit Rate | 4.00 |
| Poland | Repo Rate | 4.00 |
| Russia | Key Policy Rate | 16.00 |
| Saudi Arabia | Repo Rate | 4.50 |
| South Africa | Repo Rate | 6.75 |
| South Korea | Repo Rate | 2.50 |
| Switzerland | Target Rate | 0.00 |
| Taiwan | Discount Rate | 2.00 |
| UK | Bank Rate | 3.75 |
| US | Fed Funds Rate | 3.5-3.75 |

Source: Trading Economics

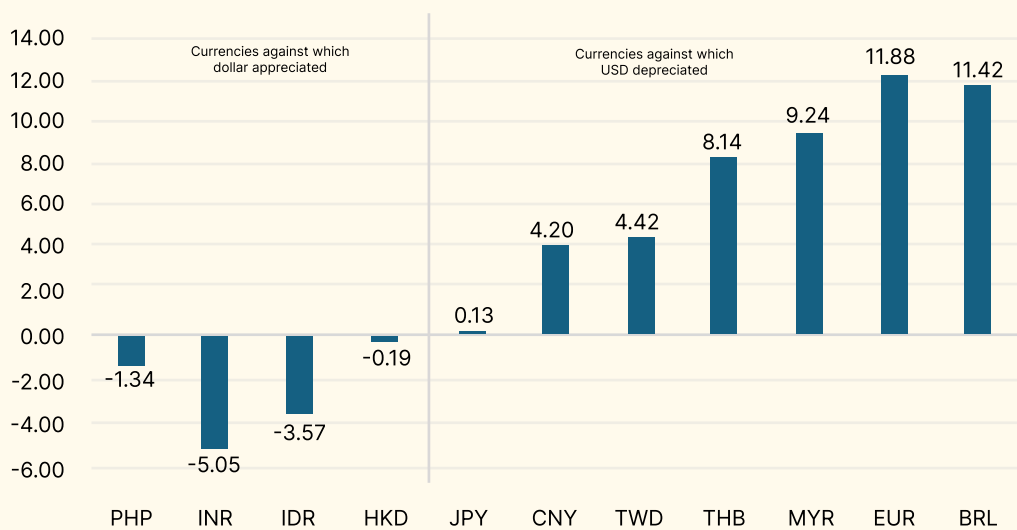
Major Global Indices Returns (\$) - CY 2025(%)



Source: SBI Securities, Economic Times

- Despite heightened geopolitical uncertainty, global equities delivered strong returns in CY 2025, supported by resilient corporate earnings, sustained investment in technology and AI, and productivity gains.
- Positive sentiment around AI- and tech-led growth outweighed the initial market impact of tariffs introduced in April 2025.
- Over the course of the year, the United States negotiated trade agreements with several key trading partners, helping offset the earlier sentiment shock and stabilise equity markets.

YTD Performance of Major Currencies Against the USD (CY 2025)



Source: Investing.com

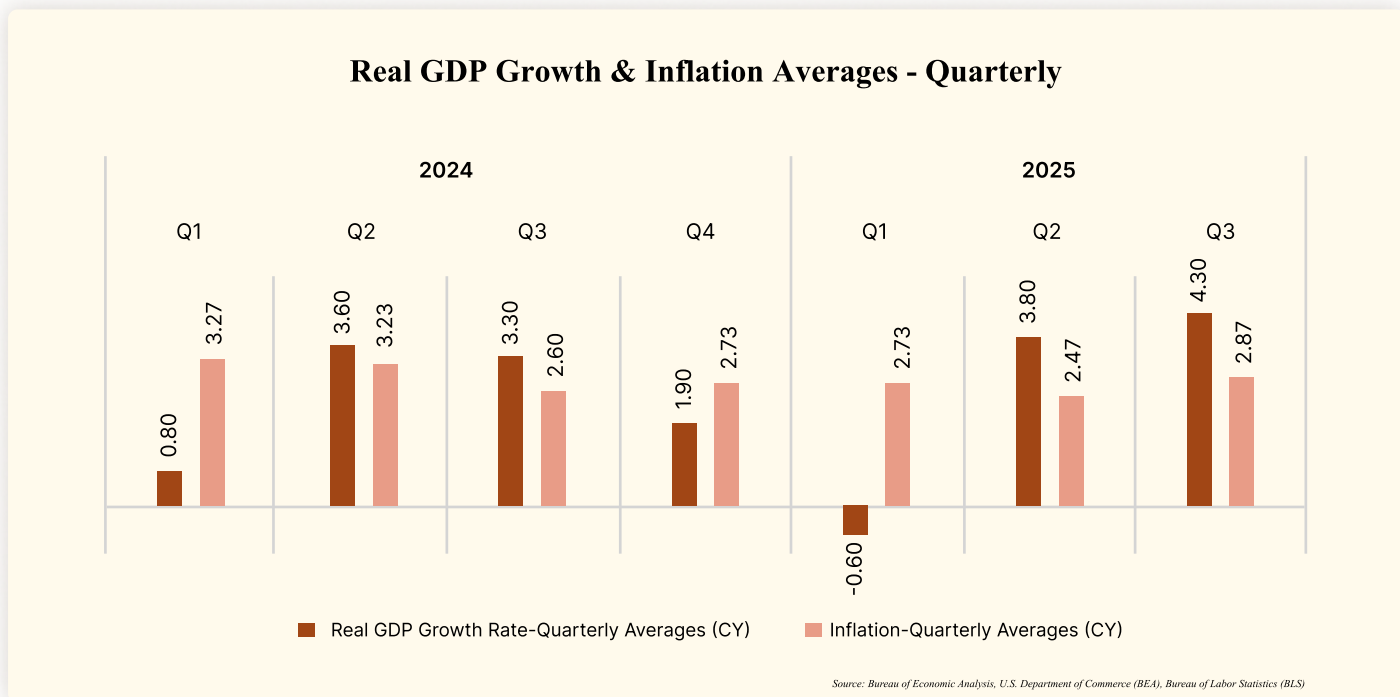
The US dollar strengthened against most emerging market currencies in CY 2025. Among Asian currencies, the INR saw the sharpest depreciation (around 5%), driven by FII outflows, ongoing US-India trade negotiations, and a widening trade deficit, creating a reinforcing feedback loop of currency pressure



UNITED STATES OF AMERICA

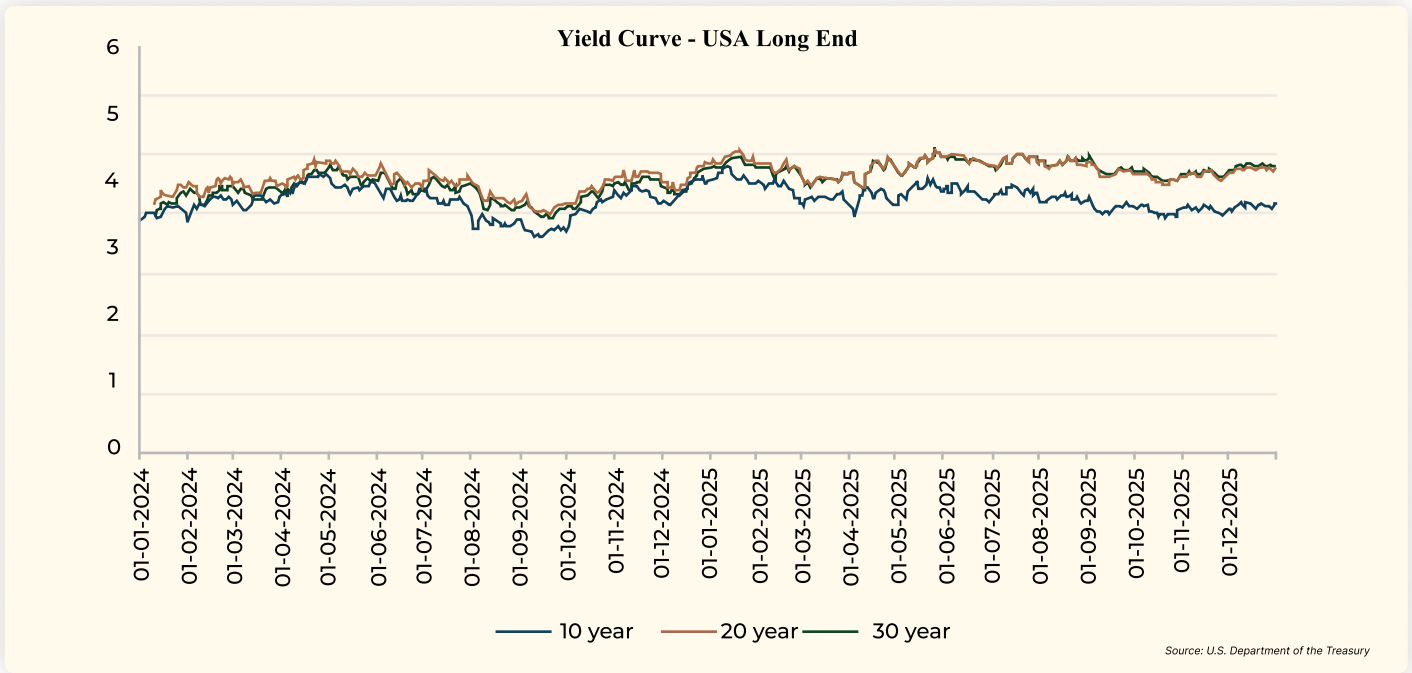


Macro Economy

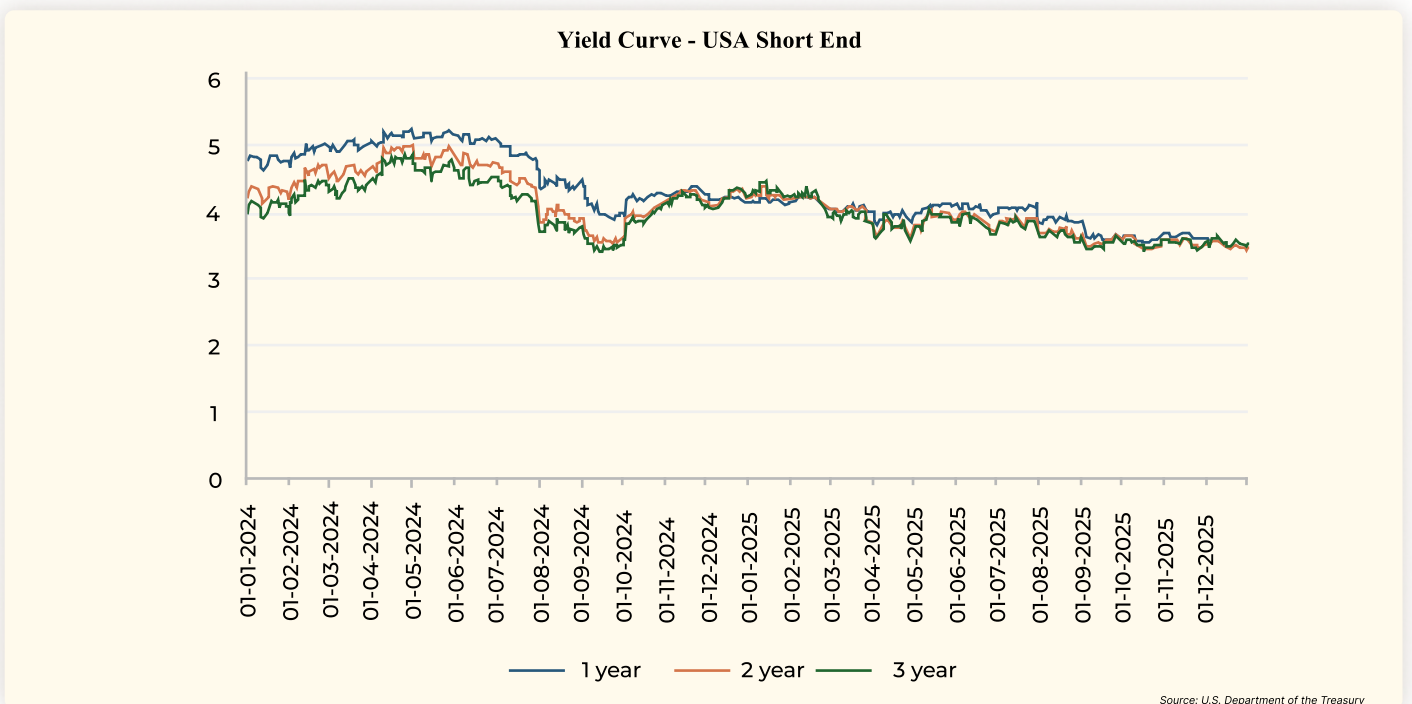


- U.S. growth proved resilient in 2025. After a Q1 contraction driven by import front-loading ahead of tariffs, growth rebounded sharply, with Q2 and Q3 expanding by 3.8% and 4.3% (2nd estimate) respectively, led by AI and tech-led investments and strong consumer spending.
- Inflation remained above the Fed’s 2% target through CY 2025, driven by housing and services costs, tariff rate pass-throughs, and supply disruptions, with a disproportionate impact on lower-income households due to higher exposure to essential spending categories.



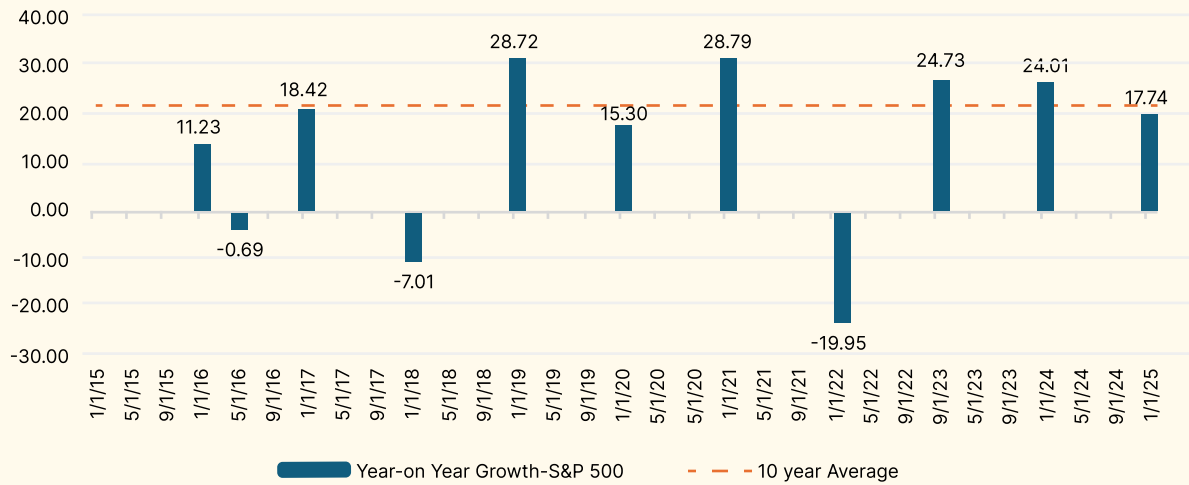


- Strong GDP growth and persistent inflation kept policy rates restrictive through CY 2025, anchoring front-end yields, though cooling labour markets in H2 led to volatility as rate cuts were priced in.
- Long-end yields remained elevated amid heavy Treasury issuance and large fiscal deficits, with US debt at ~\$38 trillion (~119% of GDP), keeping term premia high.
- Rising Japanese government bond yields narrowed US–Japan yields differentials, raising the risk of flow reversals and adding pressure on long-term yields.
- Expectations of a more dovish Fed path were tempered by shutdown-related data distortions, political uncertainty, and internal FOMC divisions, keeping long-end yields structurally supported





S&P 500 - YoY Change (CY)



Source: Investing.com

- The S&P 500 moved through pronounced policy-led volatility, with April tariff escalations driving corrections and subsequent progress on trade negotiations supporting relief rallies.
- Technology and particularly AI-linked earnings, remained the primary support for index performance despite softer macro momentum elsewhere. Barclays estimates that AI-related stocks have contributed roughly 75–80% of the S&P 500’s rally since 2022–23, reinforcing the sector’s outsized role in driving returns.
- AI has increasingly functioned as a standalone sentiment variable alongside monetary and trade policy, though intermittent pullbacks suggest rising market discomfort around valuation stretch and the timing of tangible returns.
- Leadership within U.S. equities has narrowed, with performance concentrated in a few AI-intensive Magnificent Seven names such as Nvidia and Alphabet. At the same time, investor behaviour points to a shift away from blanket AI exposure towards greater emphasis on profitability, execution and earnings delivery.

| Company/ Index | 2025 YTD Returns |
|-----------------------------|------------------|
| Alphabet | 65.8% |
| Nvidia | 40.9% |
| Tesla | 20.2% |
| Microsoft | 15.5% |
| Meta | 13.6% |
| Apple | 8.8% |
| Amazon | 5.8% |
| S&P 500 (market cap weight) | 17.5% |
| Magnificent Seven Average | 27.5% |

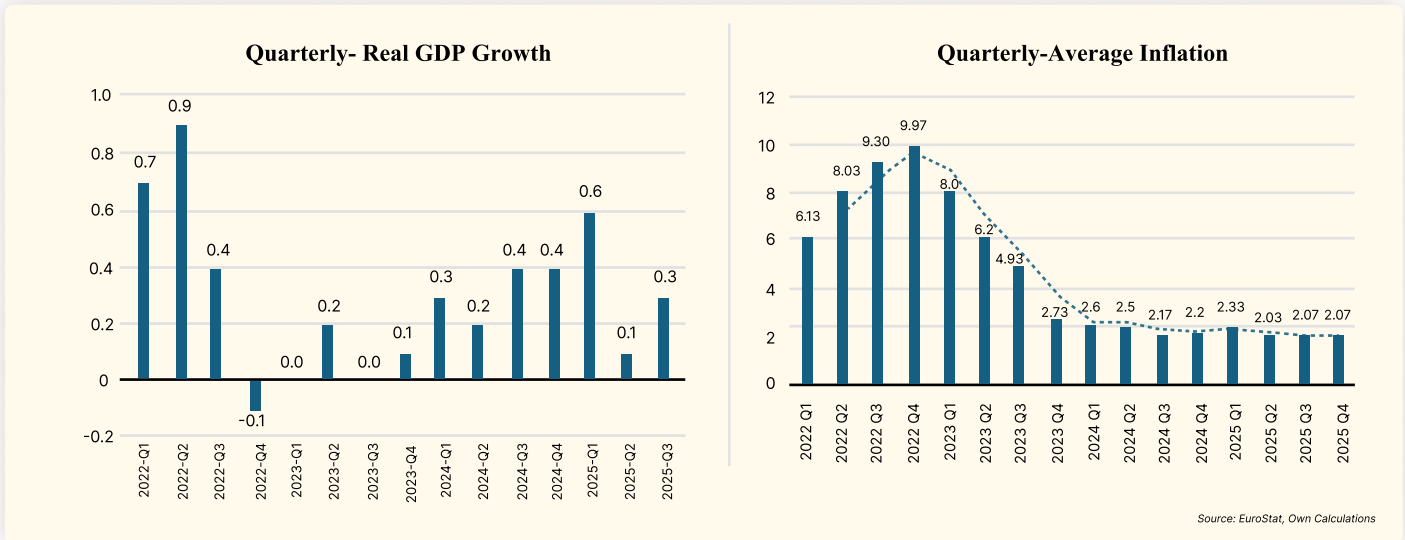
Source: Trading View



EURO AREA

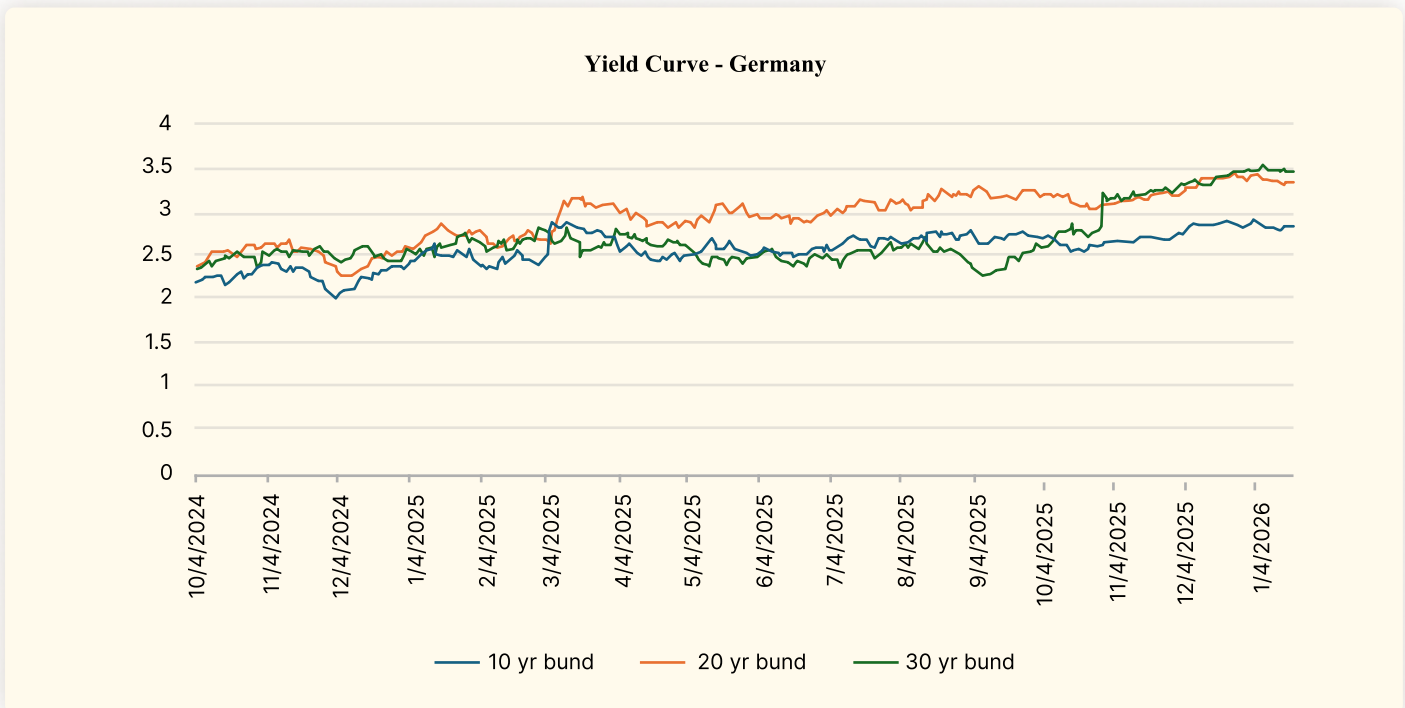


Macro Economy



- Eurozone real GDP growth remained strong supported by domestic demand, particularly consumption, and some fiscal stimulus, including Germany’s renewed emphasis on public investment. Trade tensions and weaker external demand, partly from U.S. tariffs and global geopolitical uncertainties, also weighed on investment and export performance.
- After sharp declines from peak levels in 2022–2023, headline inflation in the euro area hovered around 2.1% in 2025, aligning closely with the ECB’s medium-term objective of 2%. With the US tariffs in place, the recent geopolitical tensions around Greenland and the consistent competition from the Chinese industries, there is some upward pressure expected in the near term.

Bond Market

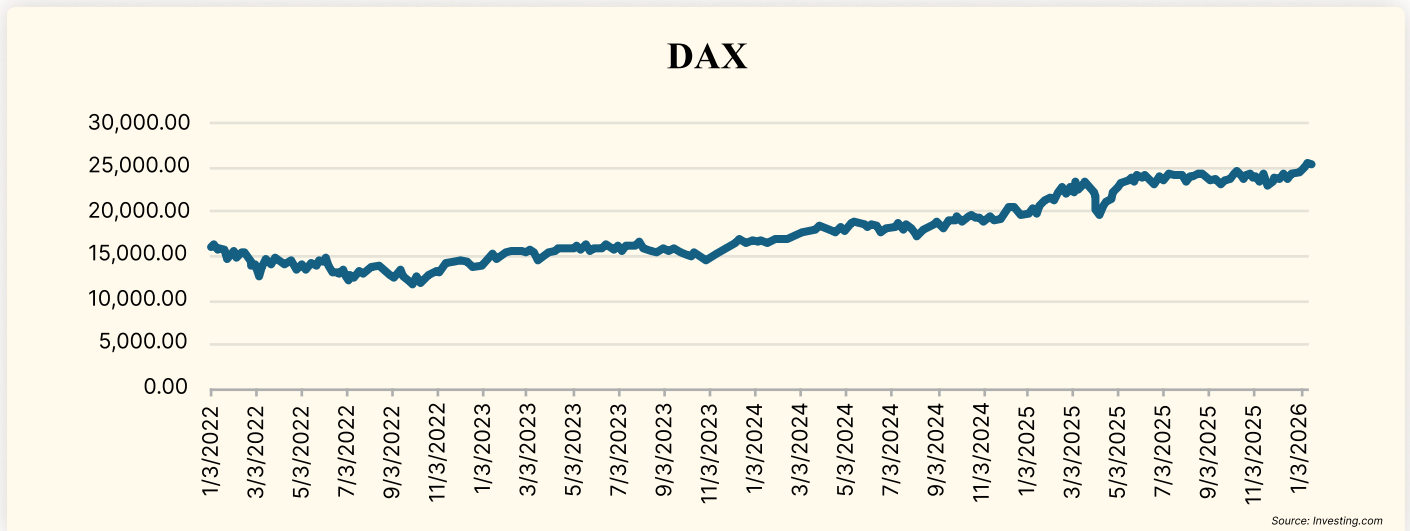


- Sovereign bond issuance rose sharply in 2025 and is expected to remain elevated as public debt levels gradually increase across the Euro Area, keeping long term yields elevated. Supply growth is likely to be concentrated in core markets such as Germany and France, even as France faces fiscal strain and rating-related pressures.



- Divergence in fiscal capacity across member states is becoming more pronounced, with Germany positioned to implement expansionary measures while weaker growth and political uncertainty in France constrain efforts to stabilise public finances.
- With inflation broadly aligned with target, the central bank has indicated comfort with the current policy stance, suggesting that any policy easing would be data-dependent and triggered only by a meaningful deterioration in economic conditions.

Equity Market



- European equity markets benefited from fiscal expansion and structural policy shifts, which lifted growth and earnings expectations through 2025. This macro tailwind translated into broad-based equity strength, with most leading sectors posting positive YTD returns and the DAX index gaining ~22.3% in CY 2025.
- The aerospace and defence sector delivered strong returns, supported by higher European defence spending amid reduced U.S. military involvement in Ukraine, increasing the need for Europe-led defence assistance. Eurozone banks are now well capitalised and profitable.
- In contrast, the industrial sector remains range-bound, with PMI readings hovering around the 50 threshold and industrial activity stuck in a tight band. Rising U.S. tariff risks, geopolitical tensions around Greenland, and intensifying Chinese competition continue to weigh on the sector's growth outlook.

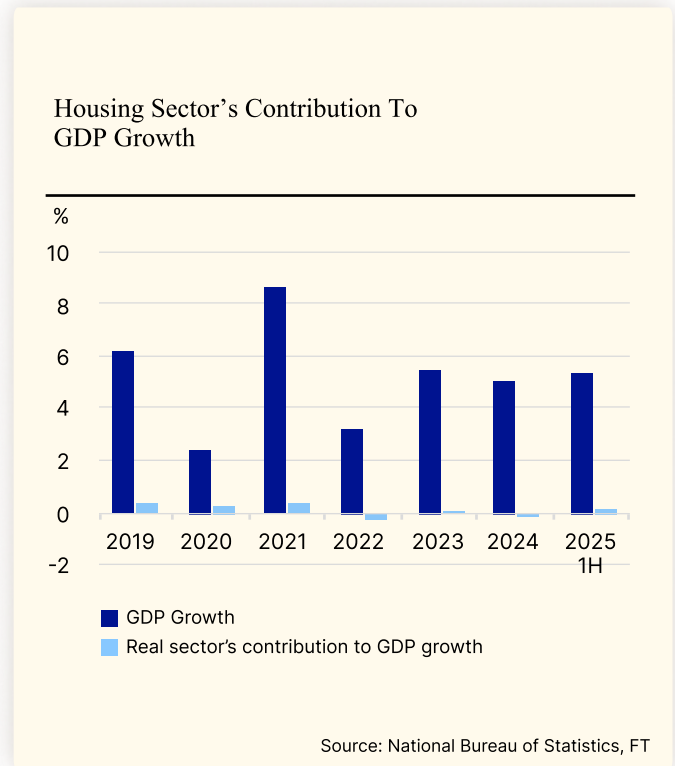
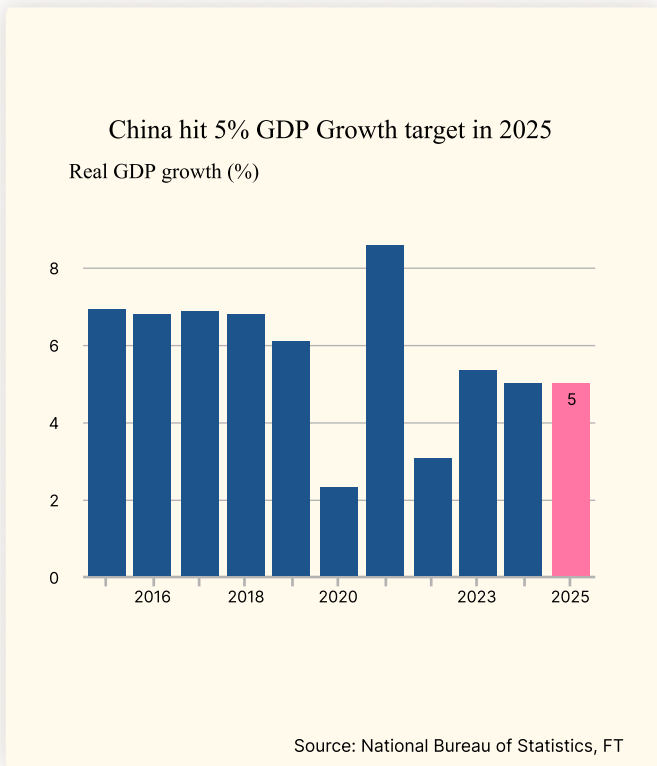




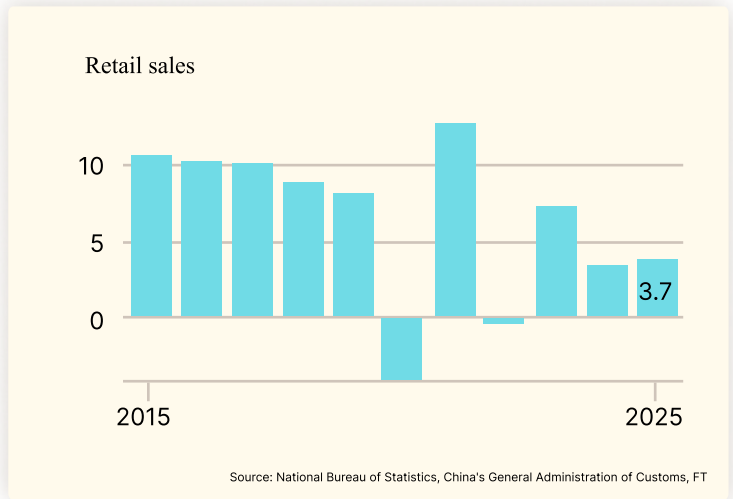
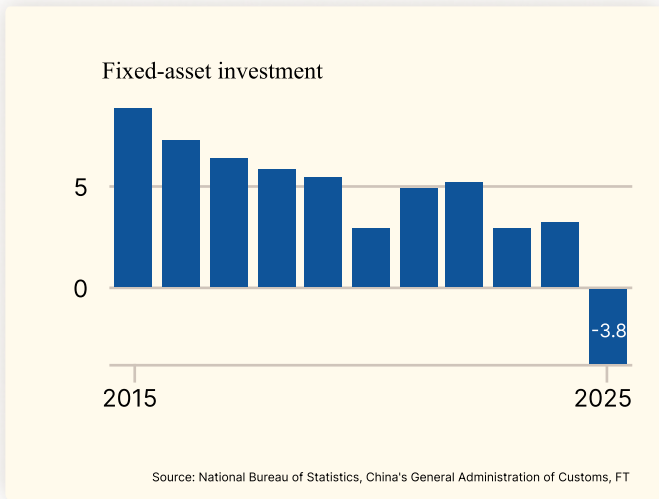
CHINA



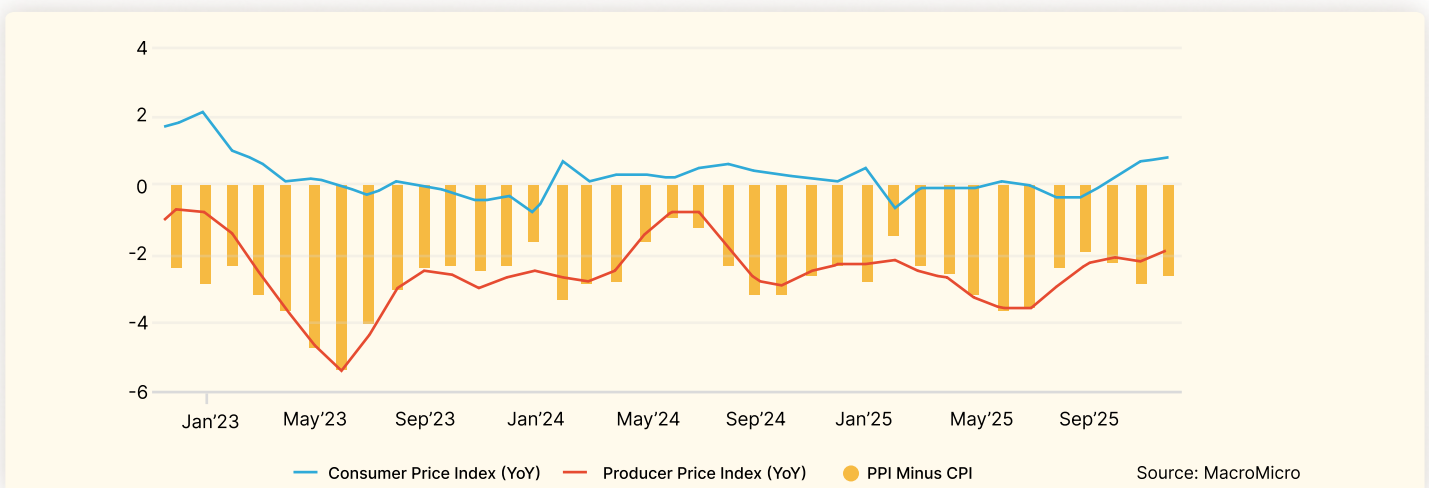
Macro Economy



- China's economy grew by 5% (Real GDP) in 2025, broadly in line with the government's stated objective, despite ongoing trade pressures arising from higher US tariffs.
- This growth was mainly supported by strong exports, which helped offset weak conditions in the domestic economy.
- While the overall growth number appears stable, the underlying demand picture remains uneven, with household spending and private-sector activity still subdued.
- China's economy is increasingly called to have two-speed growth, where export-led sectors are holding up better than consumption and property.
- Gross capital formation contributed only 15% to GDP growth in 2025, the lowest share since 1997.
- The housing sector's contribution stayed close to zero for a long time including in 2025 highlighting its prolonged weakness.
- Exports, on other hand, accounted for around 33% of overall growth, the highest contribution in nearly three decades, while consumption contributed 52%, up from about 45% in the previous year, though demand remains fragile.
- Manufacturing investment has become more cautious, as policymakers implement an "anti-involution" approach to limit excessive competition and overcapacity.
- The property sector remained under pressure, with real estate investment declining 17% compared with 2024, extending a prolonged downturn.



- Investment activity declined during the year, with fixed-asset investment falling 3.8%, marking the first annual drop in the series since the early 1990s.
- Consumer spending momentum softened further. Retail sales increased by 3.7% for the full year and 0.9% year-on-year in December, slowing from 1.3% in November, the weakest pace recorded since 2022.
- On the external side, China posted a record trade surplus of \$1.19 trillion in 2025, driven by a 5.5% rise in exports. Overall exports in December increased 6.6% year-on-year, up from 5.9% in November, while imports rose 5.7%, indicating improving trade activity.
- Exports to the U.S. declined sharply, with shipments falling 20% in 2025, but Chinese manufacturers offset this by expanding sales to other global markets.
- Strong global demand, supported by increased AI-related investment, helped sustain export momentum outside the U.S. along with producer-price deflation, making Chinese goods more competitive internationally.
- Exports to Southeast Asia rose 13%, while shipments to the European Union increased 8.4%, Latin America grew 7.4%, and Africa surged 26%, highlighting broad-based geographic diversification.



- Inflation in China remained very low in 2025, with the CPI up only 0.8% year-on-year in December and the overall CPI roughly flat for the year, showing weak price pressures with deflation at bay at the end of the year.
- This year also marks the beginning of China's next five-year plan (2026-2030), and economists expect Beijing and local governments to push for a strong early growth momentum through targeted stimulus measures.



Bond Market

- Broadly, both curves steepened over the year, but financial bond yields remained consistently higher than sovereign yields, reflecting credit and liquidity premium.
- The upward trend in the government bond yields can be explained through supply-demand dynamics. Supply side reasons majorly include:
 - Increased sovereign bond issuance, especially ultra-long tenors, to fund infrastructure, local government refinancing, and strategic investment priorities.
 - Also, markets priced in reduced deflation risk, even though inflation remained low in absolute terms.
- On the demand side, a selloff was seen in favor of the equities. Additionally, the government's imposition of VAT on bond interest income in August triggered further selling.

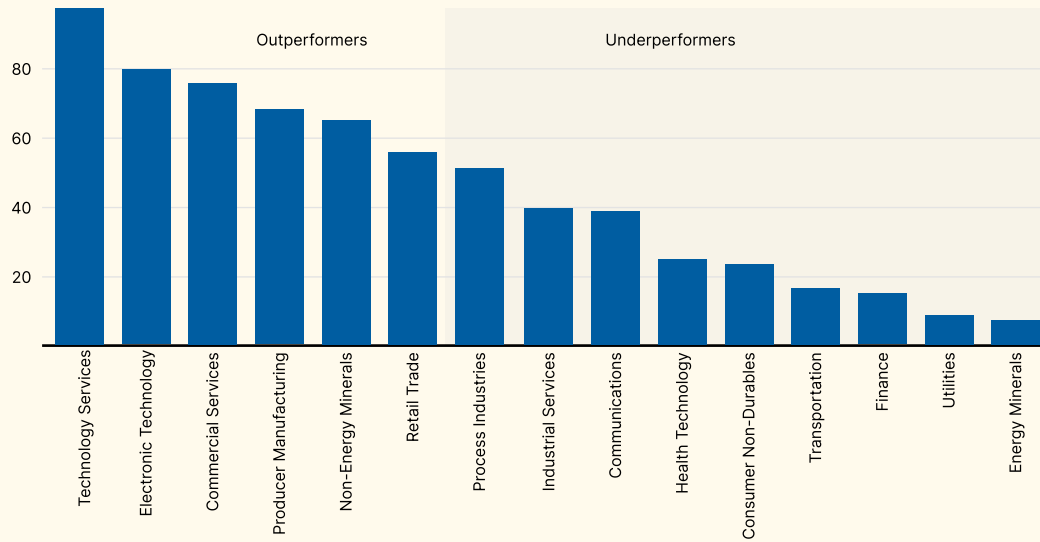
Equity market



- In 2025, Mainland China's stock markets saw strong gains: the Shanghai Composite rose 18% (its best performance since 2019), the Shenzhen Composite gained 29%, and the tech-focused ChiNext surged 50%.
- Investor confidence was supported by China's advances in AI, efforts toward technological self-reliance, and resilience in global trade, which offset concerns about weak domestic demand and deflation.
- Sentiment improved further after a trade truce in October following a high-level meeting between Presidents Trump and Xi.
- Chinese tech stocks particularly outperformed, boosted by breakthroughs like the "DeepSeek" AI model in January, and Beijing's focus on tech self-sufficiency in its 2026–2030 five-year plan.
- Liquidity in China remains elevated, with an estimated USD 7 trillion in excess household savings since the end of Covid-related restrictions. Central bank has also been injecting liquidity throughout 2025, and policymakers are promoting long-term capital in A-shares; for instance, insurers are being encouraged to invest 30% of new premiums into equities.



Total returns of Chinese sectors over past year

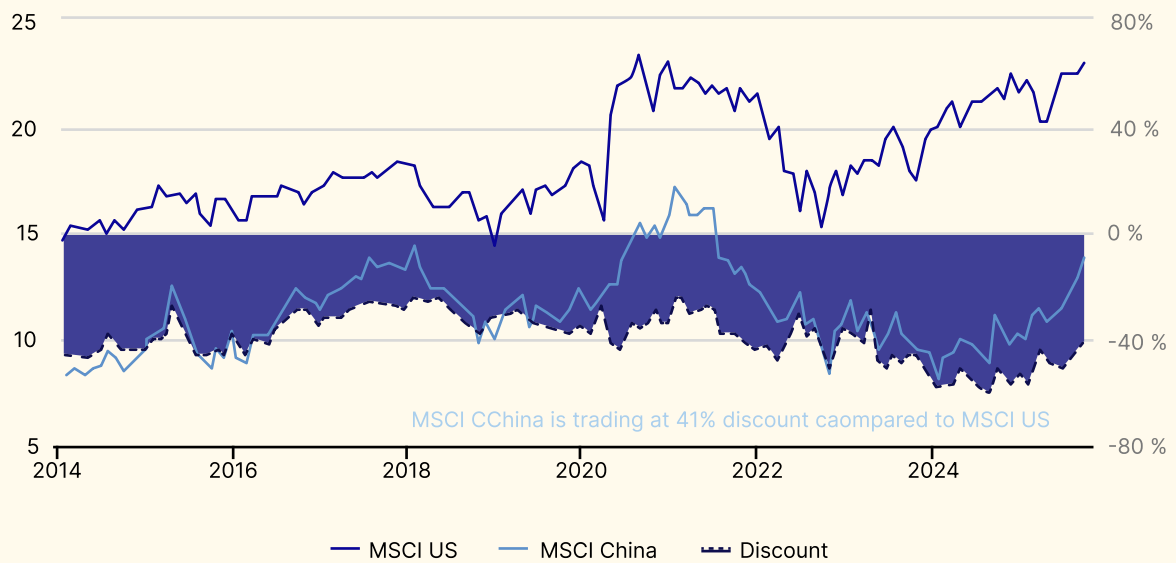


FactSet. The returns are for the respective FactSet Market Index; September 2024-September 2025

Source: FactSet

- MSCI China has consistently traded at a significant discount to MSCI US, currently around 41% lower.
- While US valuations have steadily increased, especially post-2020, China's forward P/E has remained relatively muted, reflecting cheaper relative valuations. The wide discount indicates that, despite global and domestic growth prospects.

Forward P/E of MSCI China vs MSCI US



Source: Factset, Invesco, data as of September 2025.

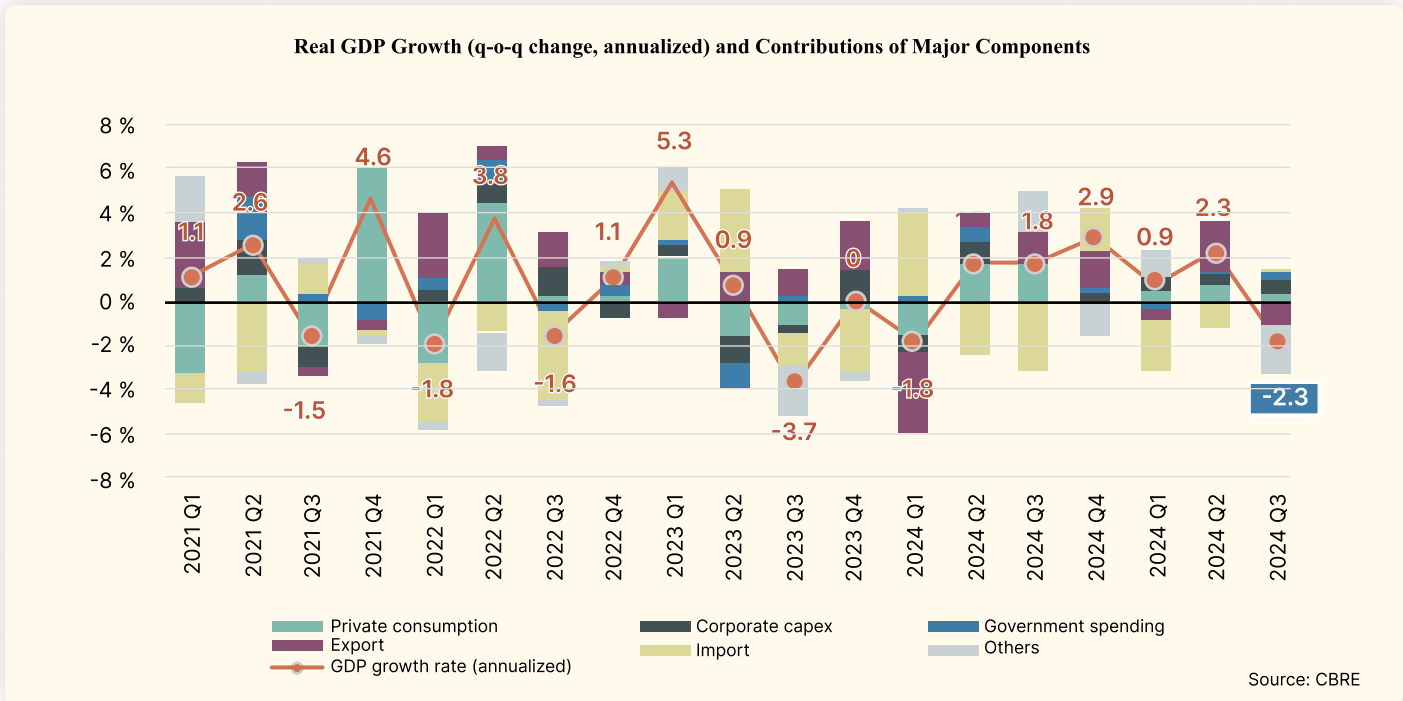


JAPAN



Macro Economy:

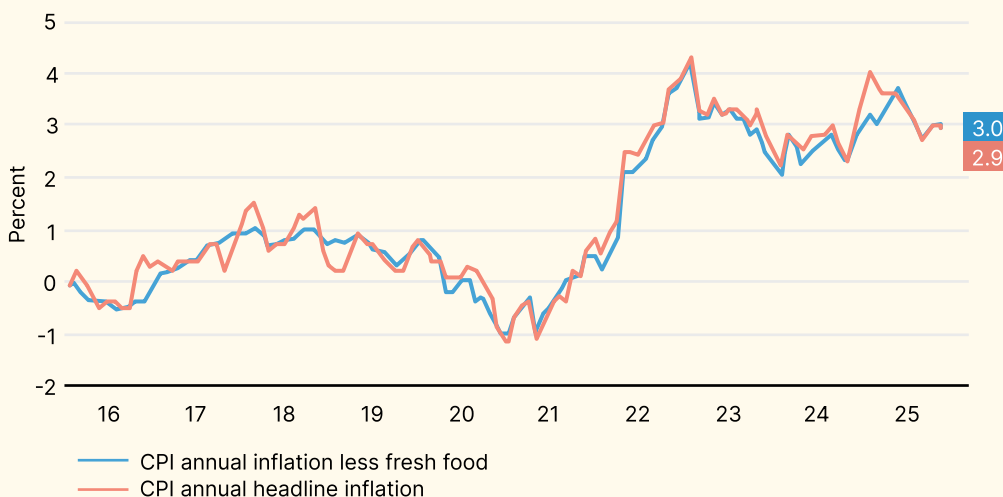
- Q3 FY2025 GDP contracted -2.3% QoQ, reflecting a sharp drop in residential investment after front-loaded demand ahead of regulatory changes, and softer exports. Both drags are largely cyclical, with residential investment likely to rebound:



- Exports moderated after strong Q2 gains, reflecting a payback effect and slower global demand, particularly from China, though high-value manufacturing remains resilient.
- Yen weakness accelerated, hitting ¥160/\$, an 18-month low. This supports exporters but raises import-driven inflation and household cost pressures, increasing sensitivity to BOJ and FX interventions.
- Inflation has stayed above 3%, surpassing the BOJ’s 2% target, signaling a durable shift from deflation and supporting cautious monetary tightening.

Japan inflation rates

Headline vs core

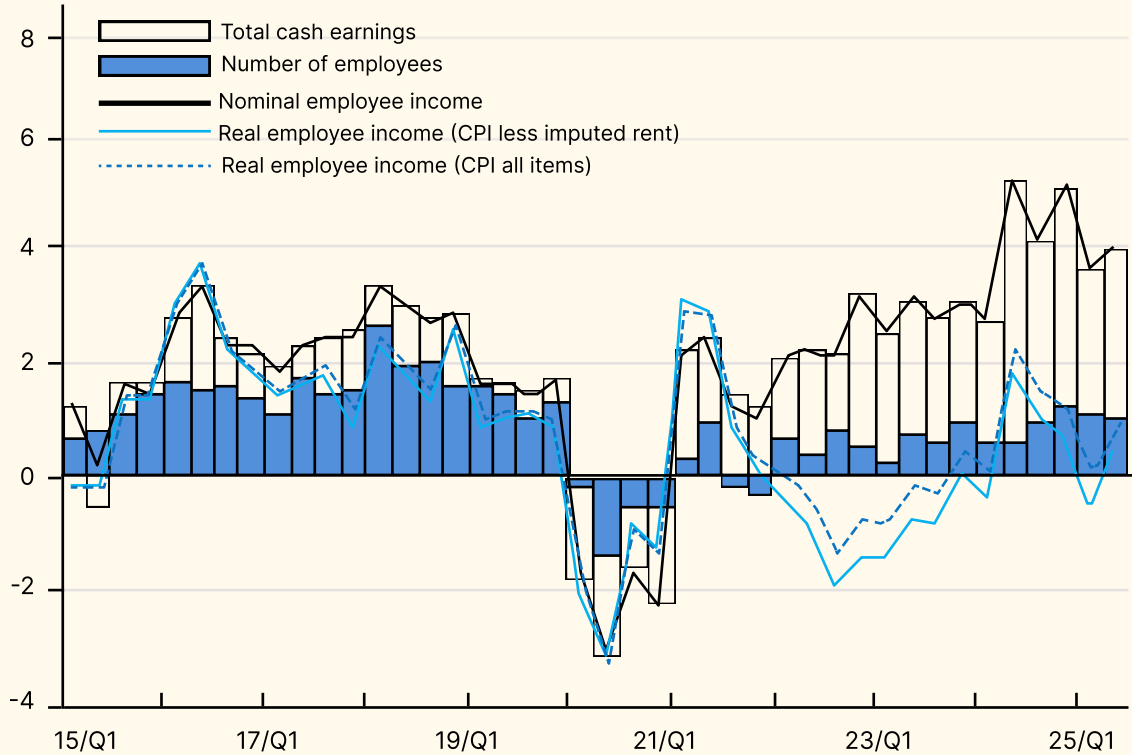




- Wage growth has strengthened, driven by labor shortages and Shunto negotiations, but real wages remain under pressure as inflation outpaces nominal gains, limiting household consumption recovery.

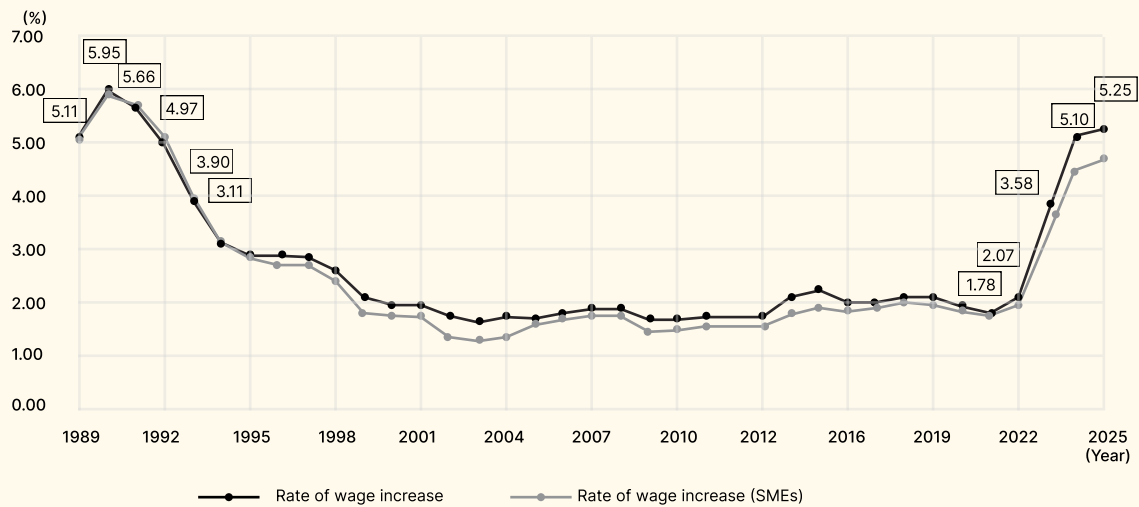
Employee Income

y/y % chg.



Source: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications
Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February

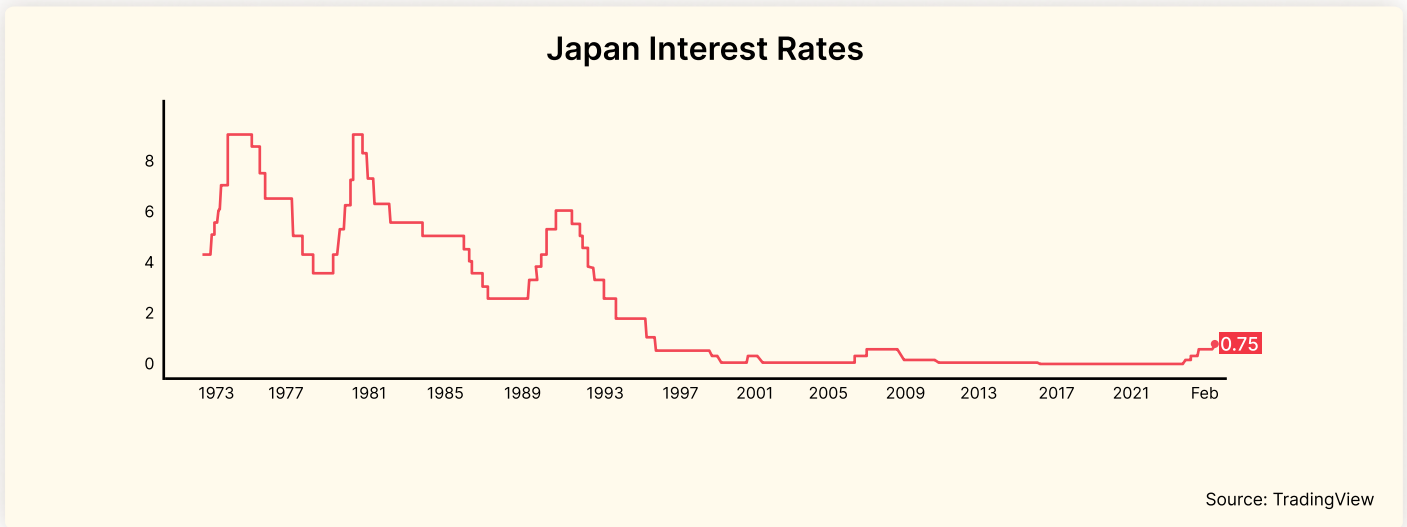
Japanese Wage Rate Chart



Source: JTUC-Rengo, "Results of 2025 Spring Wage Negotiation Final Responses."

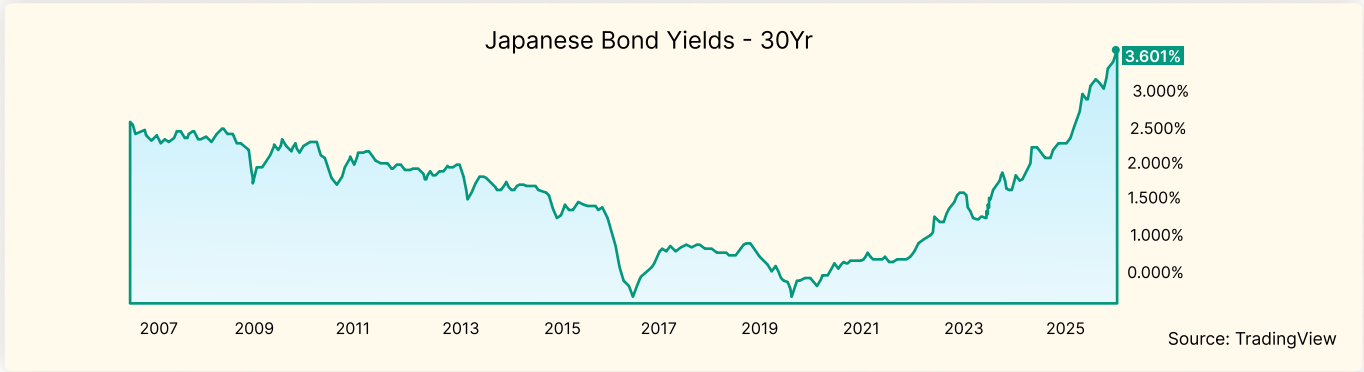
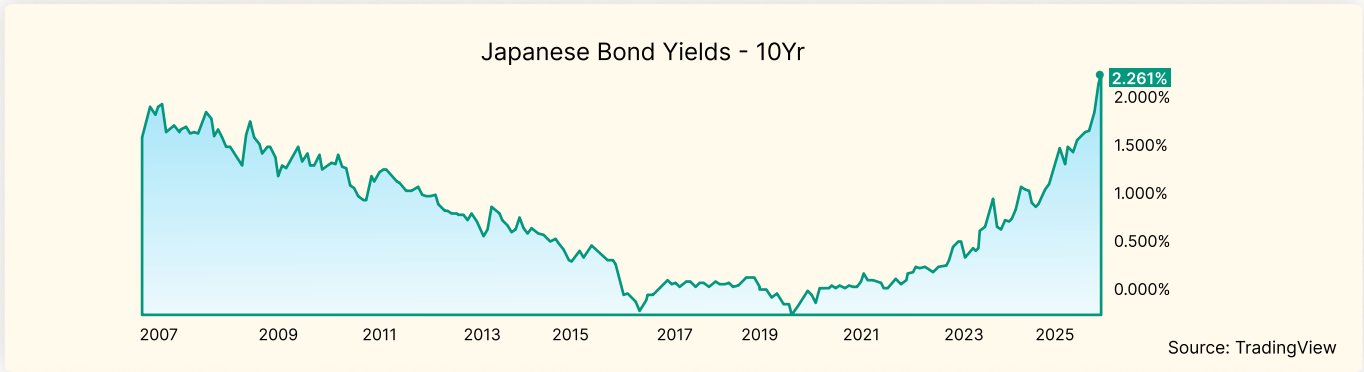


- BOJ begun policy normalization, raising the policy rate to 0.75%, the highest in ~30 years. This marks a structural shift from decades of near-zero rates, though the tightening cycle remains gradual to protect growth.

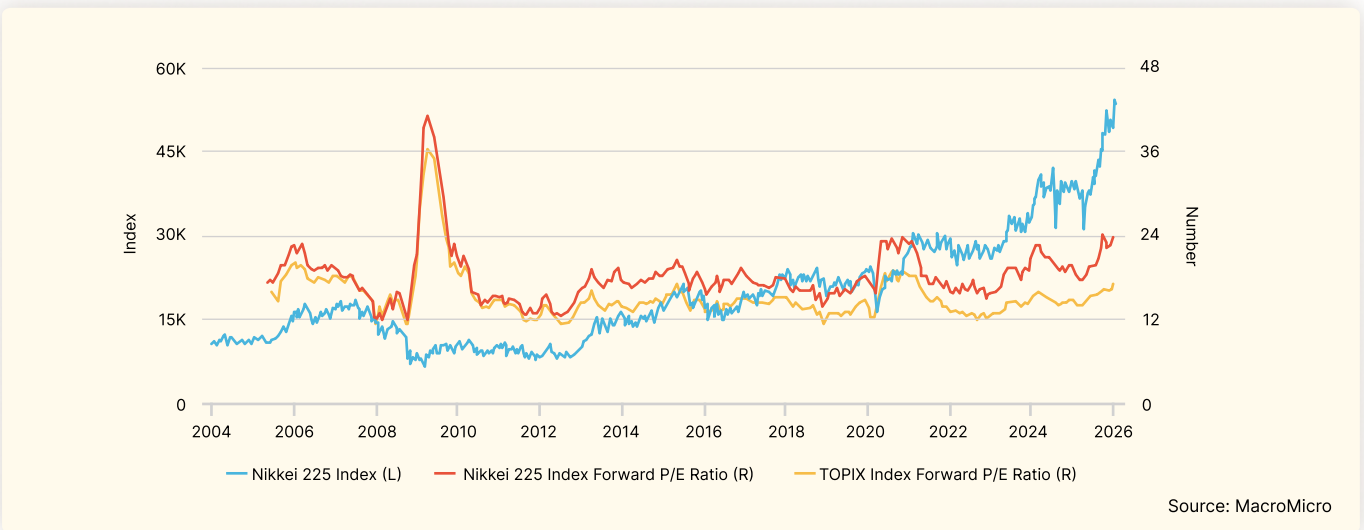


Bond Market:

- In 2025, Japan's bond market yields hovered around multi-year highs, a sharp change from the near-zero levels that prevailed for most of the past decade.
- The starting point was inflation, which remained above the Bank of Japan's 2% target for a sustained period, supported not just by imported costs but also by domestic demand. This persistence reduced the justification for maintaining ultra-loose monetary policy.
- At the same time, wage growth strengthened meaningfully, with annual Shunto negotiations delivering pay hikes of above 5% in 2024 and 2025, the strongest in decades.
- With inflation and wages reinforcing each other, markets increasingly expected the Bank of Japan to continue normalizing policy, following its exit from negative rates.
- These expectations were translated into action, as the BoJ reduced the pace of its government bond purchases. It also increased the benchmark interest rate to 0.75%, highest in almost 30 years.
- As central bank support faded, investors focused more on fundamentals, and Japan's improving growth outlook, helped by better corporate profits, capex recovery, and strong inbound tourism, strengthened expectations of higher interest rates.
- Meanwhile, higher fiscal spending and refinancing needs increased government bond issuance. Markets also fear that upcoming election pledges for tax cuts, especially on consumption taxes, could worsen Japan's already strained finances and require more government borrowing.
- Together these factors have pushed Japanese bond yields decisively higher.



Equity Market:



- Japanese equities delivered steady gains in early 2025, with the Nikkei 225 delivering nearly 28% return in 2025 and the TOPIX about 25%.
- Corporate governance reforms have lifted capital efficiency and shareholder returns, attracting renewed foreign investor interest. Japan is also experiencing a genuine reflationary phase, with growth, wages, and prices rising in tandem, supporting earnings durability.
- Japanese technology stocks continue to gain from AI optimism, supported by the country's critical role in global semiconductor and advanced manufacturing supply chains. Additionally, valuation concerns around U.S. AI leaders have prompted global diversification, benefiting Japan, where equities appear more reasonably priced.
- Investor sentiment improved further after the late-October leadership change, as markets began pricing in a more expansionary fiscal approach under Prime Minister Sanae Takaichi.
- Expectations of higher fiscal spending, tax support, and strategic investment, especially in defense, artificial intelligence, and semiconductors, have strengthened the equity outlook.

Outlook

Global GDP growth is seen as modest but positive (~3.0–3.3%), with advanced economies slower than emerging markets.

Monetary policy is transitioning from peak tightening to a lower-for-longer phase; this supports risk assets but keeps fixed income yields higher than historical norms. Geopolitical and trade tensions (e.g., U.S.–Europe policy friction, U.S.–China tariff dynamics) are key risk factors that could intermittently unsettle markets.

US

- U.S. equities are projected to deliver solid returns in 2026, especially within technology and AI-linked sectors. Major U.S. indices like the S&P 500 are forecasted/expected to benefit from above-trend earnings growth with historically high valuations.
- The yield environment is expected to stay elevated but declining gradually, as central banks pivot from tightening that supports longer duration bonds. However, geopolitical risks can spike volatility in Treasuries and the USD.

Europe

- European equities are expected to perform positively but typically lag U.S. returns unless valuations rerate or growth surprises.
- The sovereign bonds may offer higher carry than U.S. equivalents on a hedged basis but returns depend on ECB policy action and inflation dynamics. Europe looks constructive on a relative value and diversification basis with select equities.

China

- Chinese equities could outperform if policy supports confidence and targeted sectors (e.g., tech & manufacturing).
- It remains a selective opportunity, particularly for active strategies focusing on high-quality growth sectors versus broad market exposure.

Japan

- Equity outlook is constructive, supported by corporate reforms (sometimes dubbed “Abenomics”), fiscal spending, and improved governance. It can be attractive diversifiers due to these reforms and historically lower valuations.
- After decades of near-zero rates, Japanese yields are low but rising slowly, creating a unique yield curve dynamic.

Persistent geopolitical risks argue for diversification across markets and sectors.

Equity: Allocation in selective U.S. companies in tech/AI with growth visibility and better valuations.

Overweight Japan (structural reform beneficiaries) & selective Europe. Aggressive investors can look at China on the active style of management with sector specific approach.

Fixed Income: Higher yields entering 2026 enhance income potential, a rare positive for bond investors vs. the low-yield era of prior years. Increase long duration tactically, add high-quality credit and emerging market bonds for yield.



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