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Monthly Update – December 2025

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Highlights-

- India, the RBI has just delivered a 25 bps repo rate cut to 5.25%, its first cut since June.
- US, markets are pricing a very high probability (around 85–90%) of a 25 bps cut at the December 9–10 FOMC meeting.
- Across Asia, equities are mixed but broadly supported by expectations of easier global liquidity and strong performance in tech-heavy markets like Taiwan and Korea.

Inflation has cooled meaningfully in most large economies, while growth has slowed but not collapsed. This combination – lower inflation + still-decent growth – is what is giving markets confidence that rate cuts can start without an immediate recession scare.

India market overview-

RBI described the economy as in a "goldilocks" phase – strong growth, low inflation. GDP growth for the year has been revised up to ~7.3%, while the CPI inflation forecast for FY26 has been cut sharply to about 2%, reflecting a broad easing in both headline and core inflation.

RBI has signaled it is comfortable with external stability despite the rupee being weak this year, backed by large FX reserves (~$680bn+).

Indian equity market expects global funds (FPI) starts buying after a long cycle of sell-off, also if Fed cuts interest rate, India could benefit, especially given optimism about FY26 earnings and reforms.

In a nutshell, the macro backdrop is as friendly as it has been in years – strong growth, low inflation, and the first rate cut in the new easing cycle. That supports a constructive view on financials, housing/real estate, autos, and quality consumption/infrastructure plays, while keeping an eye on valuations and global risk sentiment.

Global overview-

The Fed is balancing inflation which is still around ~3% and core PCE (Personal consumer expenditure) close to 2.8–3%, against signs of a cooling labour market (soft private payroll data, weaker job growth).

Key assumptions over and after rate decision-

How many cuts does the Fed signal for 2026?

Does the Fed emphasize data dependence and keep the door open for pauses if inflation flares up again?

US markets are priced for a friendly Fed – a clean 25 bps cut plus a calm message. Any sign that the Fed is less dovish than expected (for example, signaling fewer cuts in 2026) could trigger volatility or a short-term pullback, especially in rate-sensitive and high-valuation segments.

Asian Market view-

The MSCI AC Asia Pacific index has edged higher in recent sessions and has delivered strong 1-year returns, helped by Taiwan, Korea and parts of ASEAN.

China is going through a stress in the property sector and tight control over negative narratives. Regulators have been cracking down on “doom-mongering” about housing online, removing tens of thousands of posts.

Asia is a mixed but important part of the story – a beneficiary of global liquidity, yet still dealing with local issues like Japan’s policy turn and China’s property adjustment.

For investors and readers, December is less about chasing the last leg of the rally and more about positioning for 2026 – a year likely defined by lower rates, shifting sector leadership, and renewed focus on earnings quality and balance sheets.

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