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Monthly Market Outlook

January 2026

Equity & Debt Insights

Equity Market Outlook

Look back at the month (December 2025)

- Indian markets ended December 2025 on a soft note. The Nifty 50 index slipped 0.28%, while Nifty Midcap 150 and Nifty Smallcap 250 indices fell 0.53% and 0.29%, respectively. Investor sentiment stayed cautious amid global uncertainties and domestic macro signals.
- Headline CPI (Consumer Price Index) inflation edged up to 0.71% in November 2025, whereas WPI (Wholesale Price Index) inflation remained subdued at -0.32%.
- The INR (Indian Rupee) weakened against the USD (US Dollar), pressured by strong dollar demand, limited foreign inflows, trade deficit concerns, and uncertainty over the India-US trade agreement.
- Domestic institutional investors (DIIs) continued to provide strong support, with DIIs pumping in ₹79,619 crore in December 2025. In contrast, FIIs remained net sellers, offloading ₹22,611 crore during the month.

January 2026 Outlook

- Robust agricultural prospects, GST rationalisation benefits, moderate inflation, and supportive monetary conditions are expected to sustain economic momentum. Ongoing reforms will may further enhance growth potential.
- Services exports should remain resilient, while merchandise exports may face headwinds. External uncertainties pose downside risks, but successful trade and investment negotiations could unlock upside opportunities.
- Venezuela's contribution to global oil production is minimal; however, its share of global oil reserves is substantial, making it a potential area of interest for the US. However, US–Venezuela tensions present no immediate risk for India.
- First advance estimates indicate higher kharif output and strong rabi sowing, aided by favorable rainfall and high reservoir levels. Improved crop prospects should bolster rural growth and help ease inflation.

Economic Market Outlook

Look back at the month (December 2025)

- The MPC (Monetary Policy Committee) unanimously cut the repo rate by 25 bps to 5.25% (SDF (Standing Deposit Facility) at 5.00%, MSF (Marginal Standing Facility) at 5.50%), driven by benign inflation. One member suggested shifting stance to accommodative from neutral amid concerns regarding slowing growth, however RBI's forward guidance remained marginally dovish.
- The FOMC (Federal Open Market Committee) also cut policy rates by 25 bps, in line with market expectations with most members favoring the cut. Additionally, the FOMC announced a Quantitative Easing-lite programme earlier than expected, surprising the markets.
- The domestic G-sec yields were volatile, with 10-year yields spiking to 6.73% primarily on account of higher-than-expected SDL auction supply before falling to 6.53% after RBI infused ₹2.9 trillion liquidity via OMOs and USD 10 billion forex swap. The US 10-year Treasury yield remained range-bound at 4.10–4.20% during the month

January 2026 Outlook

- Liquidity conditions are expected to remain in surplus through January, supported by RBI's ongoing OMO purchases and FX swap operations.
- The next MPC meeting is scheduled after the Union Budget, with RBI likely to maintain a data-dependent stance while prioritizing growth.
- FOMC minutes indicate members favor further rate cuts while acknowledging upside inflation risks; future actions will remain data-dependent, focusing on labor market and price dynamics.

Source: Bloomberg, Ministry of Statistics and Programme Implementation (MOSPI), Reserve Bank of India (RBI), LIC MF Internal Research.

Release Date: 14th January 2026

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