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Cumulative YTD flows by asset class (Table1)

Asset class	Week (%AUM)	YTD ($bn)	YTD (%AUM)
Equities	+0.3	+73.3	+0.3
ETFs	+0.5	+84.1	+0.5
LO (Long-only)	-0.1	-11.1	-0.1
Bonds	+0.3	+34.5	+0.4
Commodities	+0.4	+7.5	+0.7
Money market	-0.6	+86.4	+0.8

**week ended 01/14/2026 Source: EPFR Global, Bofa Global Research*

US equity inflows still dominating YTD (Table 2)

Category	Wk % AUM	YTD ($bn)
Total Equities	0.3%	73.3
Long-only funds	-0.1%	-11.1
Equity ETFs	0.5%	84.1
Total EM	0.6%	19.5
Brazil	1.5%	0.0
India	-0.3%	-0.3
China	0.9%	8.8
Total DM	0.2%	53.9
US	0.2%	17.6
Europe	0.1%	4.7
Japan	0.0%	-0.2
International	0.2%	30.8

Total Equities = Total EM + Total DM

Source: EPFR Global, Bofa Global Research

Market-Implied Path (Fed-Funds Futures snapshot) (Table 3)

Meeting	Implied Rate	Cumulative Change
28 Jan 2026	3.62%	-01 bp
18 Mar 2026	3.58%	-06 bp
29 Apr 2026	3.54 %	–10 bp
28 Oct 2026	3.21 %	–42 bp
09 Dec 2026	3.16%	-47 bp

Next meeting probabilities: **No change 95 %, 25 bps cut 5 %**

*Tariffs are back and the U.S. and EU are now sparring over Greenland. **Global markets jolted as Trump tied Greenland ambitions to fresh tariff threats**, reviving a trade-war playbook investors thought had cooled. With Davos underway, the timing maximises headline risk and markets reacted in classic de-risking mode: equity futures lower, Treasuries bid, and the yen and Swiss franc catching safe-haven flows while US dollar was weaker.*

*Europe (Denmark, Sweden, France, Germany, the Netherlands and Finland, Britain and Norway) is the main pressure point. The tariff path being floated is steep 10% from Feb 1, rising to 25% by June and EU leaders are moving into emergency talks. **The outcome looks binary: either rhetoric cools and markets fade the move ("TACO trade"), or Europe counters via delayed deal ratification and retaliation**. Greenland is only one flashpoint. Trump has also floated intervention in Iran, and renewed threats toward Fed Chair Jerome Powell have reignited fears around institutional credibility and central-bank independence keeping risk premia elevated across rates and FX.*

Meanwhile incoming U.S. data reinforced a soft-landing narrative: the economy is cooling in an orderly fashion, not slipping into a sharp slowdown. December CPI was broadly in line, with headline inflation at 2.7% y/y and core at 2.6% y/y down meaningfully from 2.9% and 3.2% a year earlier. Consumer demand remained resilient, housing showed tentative stabilisation as mortgage rates eased modestly, and labour indicators continued to signal gradual cooling, with jobless claims still low.

*Against this backdrop, **Fed communication stayed cautious** and increasingly nuanced. While some officials flagged that the labour market could weaken quickly keeping the door open to further easing if conditions deteriorate there remains clear internal disagreement on the pace of cuts. That discontent is visible in the latest dot plot, which implies only one cut in 2026 versus market pricing nearly two rate cuts. This gap between policymakers' guidance and market expectations has added uncertainty to the front end and kept rates volatility elevated.*

*US treasury yields reflected these cross-currents choppy but broadly range-bound with front-end yields supported by data resilience and the long end constrained by fiscal supply, term premia, and institutional risk. In FX, the dollar traded in a headline-driven manner, weakening at times on perceived political interference risks before rebounding on firm labour data and shifting views on policy credibility. **If the tariff war escalates, we may see further weakness in the U.S. dollar**. Geopolitics added another layer, with renewed Middle East tensions supporting oil earlier in the week and sustaining safe-haven demand for gold and silver reinforcing inflation-hedge dynamics even as core trends improved.*

Global flows (table 1,2) point to a measured risk-on tone, but with investors staying in liquidity-first mode. Equity inflows continue to build primarily via ETFs, while long-only funds are still seeing net outflows. Bonds remain steadily supported, consistent with ongoing carry/income demand. Money-market balances are still elevated, though recent weekly outflows hint that some cash is being redeployed into risk assets. Regionally, flows are still DM-led, with the U.S. continuing to dominate year-to-date, while EM flows are positive but uneven reinforcing that risk appetite is improving, not broad-based.

*Looking ahead, geopolitical developments between the EU and the U.S. will be closely watched. Attention also remains on the nomination of the next Fed Chair, while focus turns to U.S. PCE inflation, where November readings are expected near 2.8% y/y for both headline and core, with monthly gains around 0.2% m/m. In Asia, attention also shifts to Japan, where the upcoming BoJ meeting coincides with political uncertainty around a potential snap election. The BoJ is expected to hold rates, but any shift in tone on future tightening could influence an already weak yen. **Overall, last week underscored that while macro conditions are stabilising, political risk, central-bank credibility, and geopolitics remain the dominant drivers of market volatility**.*

Institutional Risk Rises, Risk Assets Stay Calm

Markets are stabilising on the macro, but a renewed U.S.-EU tariff fight and rising institutional/geopolitical risk are keeping risk premia high and driving headline-led volatility across rates, FX, and risk assets

Last week was dominated by a sharp escalation in the Trump Administration's long-running clash with the Powell-led Fed. The Department of Justice served Chair Jerome Powell with a grand-jury subpoena over Fed HQ renovation costs, prompting a defiant video response in which Powell framed the probe as a political effort to undermine independent rate-setting. What stood out was how little markets cared. U.S. equities printed fresh record highs, volatility in both Treasuries and the dollar stayed unusually subdued despite the institutional noise.

Central bank commentary also clustered around two messages: a strong defence of central bank independence and among Fed officials little urgency to cut rates. That tone effectively pushed out near-term easing expectations, leaving implied probabilities for action at upcoming FOMC meetings close to negligible.

By week-end, focus shifted to succession risk. Prediction markets (including Polymarket) moved sharply toward Kevin Warsh after signs President Trump may keep Kevin Hassett at the U.S. National Economic Council.

US Rates and Dollar: Credibility, Not Data, Setting the Tone

The dollar and broader markets swung sharply, driven by shifting expectations around the next Fed Chair and renewed tariff threats from Trump

U.S. Treasury yields remained volatile but ultimately finished the week little changed in direction, underscoring a market caught between resilient macro data and rising political uncertainty. By the end of the week, the benchmark 10-year Treasury yield closed at 4.22% up 3bps, while the 2-year yield closed the week 3.59%, up 6bps, reflecting expectations that near-term policy easing is limited. The 30-year yield however modestly slipped to 4.83%, down 3bps, highlighting continued caution at the long end amid fiscal supply concerns and term-premium uncertainty. Notably, yields saw a sharp uptick on Friday, with the 10-year jumping intraday, after President Trump's comments praising economic adviser Kevin Hassett were interpreted as reducing the likelihood of a more overtly dovish or less-credible Fed leadership outcome, briefly lifting term premia.

In FX markets, the US dollar traded in a headline-driven fashion, weakening earlier in the week on renewed concerns over central-bank independence before rebounding into the close as labour-market resilience and political credibility considerations came back into focus. The DXY index ended the week around the 99.37 (+0.24%), leaving the dollar firmer on the week but without establishing a decisive trend, consistent with a market still searching for direction amid competing macro and political signals.

Rupee slides as the Trilemma bites: Dollar strength, FPI outflows & yield headwinds

The Indian rupee remained volatile and depreciated last week by ***~0.78%***, reflecting the classic constraints of the *Impossible Trinity* as India navigates open capital flows and monetary policy independence in an environment dominated by a strong US dollar and elevated global yields. Persistent FPI outflows, combined with firm US Treasury yields, tilted capital allocation in favour of dollar assets, limiting the rupee's ability to stabilise despite supportive domestic fundamentals. Sentiment was further weighed down by the delay in India's government bond inclusion in the Bloomberg global bond index, which dampened expectations of passive debt inflows and pressured domestic bond markets alongside the currency.

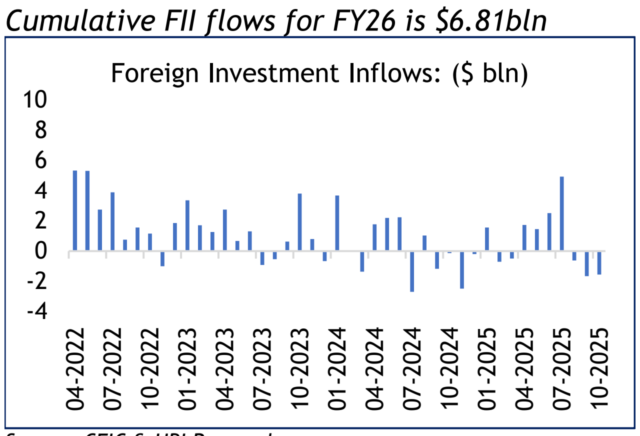
Rupee slips ~0.78% amid Impossible Trinity pressures, FPI outflows, strong US yields, delayed bond index inclusion, and US–India trade uncertainty

The India–US yield differential, while still positive, has proven insufficient to attract sustained portfolio inflows as global investors prioritise safety and liquidity over carry. Rising US yields and resilient US macro data reinforced dollar strength, while domestic bond yields remained range-bound, resulting in an unfavourable risk-adjusted return profile for emerging market currencies, including the INR. Uncertainty surrounding the timing of a US–India trade agreement added to external risk premia, further discouraging foreign participation in both debt and currency markets.

From a macro perspective, the rupee's movement underscores the trade-off inherent in the trilemma: with relatively free capital mobility and an independent policy framework, the exchange rate has acted as the primary adjustment variable in response to external shocks. FPI behaviour remains the key transmission channel, with equity and debt outflows translating directly into spot and forward market pressure.

Overall, the near-term bias for the INR remains data-dependent and externally driven, with global yield dynamics, portfolio flows, and evolving trade-policy signals continuing to outweigh domestic fundamentals in determining currency direction. (Last Friday's close: ₹90.1600/$) [O: ₹90.2300/$, H: ₹90.8825/$, L: ₹89.9000/$ & C: ₹90.8650/$]. (Refer report: FX weekly: Geopolitical Risk Lifts Oil While Policy Uncertainty Caps Directional Conviction).

Cumulative FII flows for FY26 is $6.81bln



Source: CEIC & UBI Research

India - US Trade Talks:

India and the US are close to finalising a bilateral trade deal, but no deadline has been set as negotiations and sectoral issues remain active. FPIs net sellers in equities with $1.31 bln outflows CY26.

Date	Event	Details
Dec-10	Advancing work on the first phase of the BTA	Deputy USTR Rick Switzer and supported by chief negotiator Brendan Lynch visiting India. US Under Secretary of State Allison Hooker is also in India this week to deepen strategic ties.
Dec-11	Diplomatic engagement	PM Modi held his third call with US President Trump, reviewing bilateral relations (including trade). Chief Economic Adviser predicts deal; Most issues resolved; surprised if not signed by March; parallel discussions on tariff framework and comprehensive pact.
Dec-12	Negotiation feedback	A senior US negotiator **praised India's "best-ever" market-access offer**, though sticking points remain (agriculture, dairy).
Dec-15	Following six rounds of bilateral trade talks	India and the United States are on the brink of finalising an initial framework agreement, Commerce Secretary Rajesh Agrawal said.
Jan-5	President Trump claims PM Modi acted to 'make me happy,' praises him as 'a good man'	The President also linked India's cooperation on Russian oil to potential trade consequences, warning, "We could raise tariffs on India if they don't help on Russian Oil issue."
Jan-9	US claims deal stalled due to leadership-level gap	India's much-anticipated trade deal with the US stalled after PM Modi did not personally call President Trump to finalize the agreement, U.S. Commerce Secretary Howard Lutnick said — a characterization New Delhi has denied.
Jan-12	US Ambassador Sergio Gor, stresses strong Modi-Trump rapport	U.S. Ambassador Sergio Gor said President Trump and PM Modi are "real friends" as India-U.S. prepare for key trade talks starting January 13, highlighting strong personal ties amid ongoing negotiations.
Jan-15	Remain engaged on proposed deal; Commerce Secretary says "Can't put deadline"	Close to finalizing a BTA, but it will be announced only when both sides are prepared to do so, Commerce Secretary Rajesh Agrawal said, underlying that negotiations remain active and ongoing.

FPIs pulled $2.5bln CY26 so far, with $1.19bln out of equities and $231mln from debt last week.

Foreign Portfolio Investors (FPIs) have pulled out ***$2.50bln (CY26)*** from Indian equity markets as of 16th Jan'26. Even though, we saw the trend reversed in Oct'25 with positive inflows but turned negative again in Nov'25 & Dec'25 and continues in Jan'26. FPIs aggressively sold ***in equities ~$1191mln*** vis-à-vis ***outflows of ~$466mln*** on a WoW basis. Debt markets also turned outflows to the tune of ~***$231mln vis-a-vis ~$219mln inflows*** a week ago. FAR flows, at ***$717mln (CY26)***, including a ~$280mln inflow so far last week.

Merchandise trade deficit widened as expected to $25.04bln in Dec'25 from $24.53bln in Nov'25. That said, the data stayed below the market's expectations of $27bln but in line with our estimate of $25.10bln. In terms of sectoral drivers of trade dynamics, oil deficit remained elevated with a marginal correction with the latest number at $10.00bln compared to $10.18bln the previous month, gold deficit stayed flat at $4.34bln vis-a-vis $4.30bln in Dec'25. More importantly, non-oil non-gold deficit widened by $0.65bln MoM to $10.70bln from $10.05bln on the back of impact of normalization in volatile sub-segments like Machinery and Electronics. Services trade surplus jumped to $18.12bln in Dec'25 from $17.39bln (revised down from $17.90bln) in Nov'25, versus an average $16.86bln in Apr-Dec'25 (same period last year: $15.05bln). That said, it remains broadly stable to provide a buffer for C/A dynamics.

FX reserves rose $0.39bln to $687.19bln, led by a $1.57 bln gold gain, despite a $1.12 bln FCA drop.

FX reserves rise by $0.39bln to ***$687.19bln*** for the week ending 09th Jan'26 (*covering ~11 months of imports*), driven mainly by a ***$1.57bln*** jump in **Gold** despite ***$1.12bln*** fall in **FCA** to $550.87bln. This rise puts FX reserves $17.67bln short of the all-time peak of $704.86bln reached on 27th Sep'24. As per liquidity calculations, the FX drag in liquidity to possibly curb the FX volatility (excluding valuation effects) has been ~$0.4bln in the week ended 09th Jan'26.

Brent crude rose ~2% WoW, supported by short-covering and geopolitical risks, but remains range-bound amid oversupply and moderate demand.

Brent crude oil prices remained volatile this week, ending slightly higher amid short-covering ahead of the US holiday weekend and ongoing geopolitical tensions across Venezuela & Iran that lifted risk premiums. US macro and resilient demand indicators helped reinforce near-term bullish sentiment, while persistent oversupply and moderate global demand capped upside. Looking ahead, Brent remains range-bound in the near term; direction will hinge on US crude inventory reports, OPEC+ signals, global economic data, and any geopolitical developments, with support around $60/bbl and resistance near recent highs. On a WoW basis, prices gained by ***~2%***, and they reflect a sharp decline of ***~21% YoY***.

DXY up ~0.24% WoW, near multi-week highs, driven by strong U.S. data and safe-haven flows; next week hinges on inflation, jobs, and Fed cues.

Dollar Index (DXY) remained firm this week, supported by resilient U.S. economic data, including strong labor market indicators and positive manufacturing signals, which tempered expectations for near-term rate cuts. Safe-haven demand amid geopolitical uncertainties, including hints of yen intervention, further underpinned the dollar, even as a brief dip occurred following news of a probe into the Fed Chair. Next week's trajectory will be driven by U.S. inflation and jobs data, Fed commentary, and broader risk sentiment, with strong prints likely to boost the dollar, while softer than expected figures could temper gains. Overall, DXY remains near multi-week highs, with its near-term direction highly data-dependent. On a WoW basis, surge by ***~0.24%***, and they still reflect a ***YoY decline of ~9%***.

Outlook (INR - ₹ view):

Rupee likely range-bound next week, pressured by strong U.S. yields and FPI outflows, with direction tied to global risk sentiment and trade developments

Rupee is expected to remain sensitive to global factors this week as markets digest the implications of recently released data. Strong U.S. economic prints, including robust inflation and retail numbers, have kept Treasury yields elevated, sustaining the dollar's strength and limiting sustained INR gains. On the domestic front, recent CPI, industrial production, and trade data reinforce moderate growth and stable inflation, supporting underlying fundamentals but offering limited offset to external pressures.

Foreign Investment Inflows		
		(US $ Million)
Item	**2024-25**	**2025-26**
FDI	959	6198^
FPI	3564	-6682*
Total flows	4523	-484

^data till Oct'25; *data till 17th Jan 2026; Source: RBI, NSDL, UBI research

FPIs flows remain a key driver; continuing equity and debt outflows are likely to weigh on the rupee, while any reversal or increased inflows could provide temporary support. The India–U.S. yield differential continues to influence portfolio allocations, favoring dollar assets in the current risk-adjusted environment. Overall, the near-term INR bias is cautious to mildly soft, with movement largely dictated by global yield dynamics, portfolio flows, and evolving risk sentiment, keeping the currency in a range-bound mode unless significant external shocks emerge.

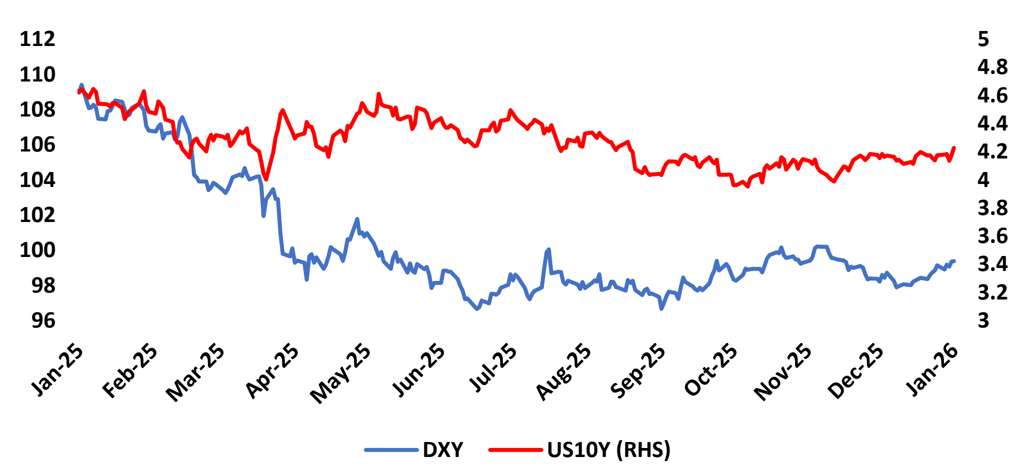
If 9-10% depreciation as seen historically is reported in 3 years cycle; then we may be near the peak in the USD/INR pair unless sentiment overshoots

From a technical standpoint, the rupee is expected to trade in a range of ₹90.50–₹91.30/$ this week. A turnaround in domestic equity inflows or tangible progress in India–US trade talks could push the INR toward ₹90.20/$, with ₹90.50/$ serving as a key interim support. Should a formal India-US Bilateral Trade Agreement (BTA) be finalized, the rupee's appreciation potential could extend further. On the downside, delays or setbacks in resolving US-India tariff issues may encounter strong resistance near ₹91.10/$, and a breach above this level could drive toward fresh all-time highs of ₹91.30/$. Overall, geopolitical developments and trade negotiations will remain the primary drivers of market sentiment.

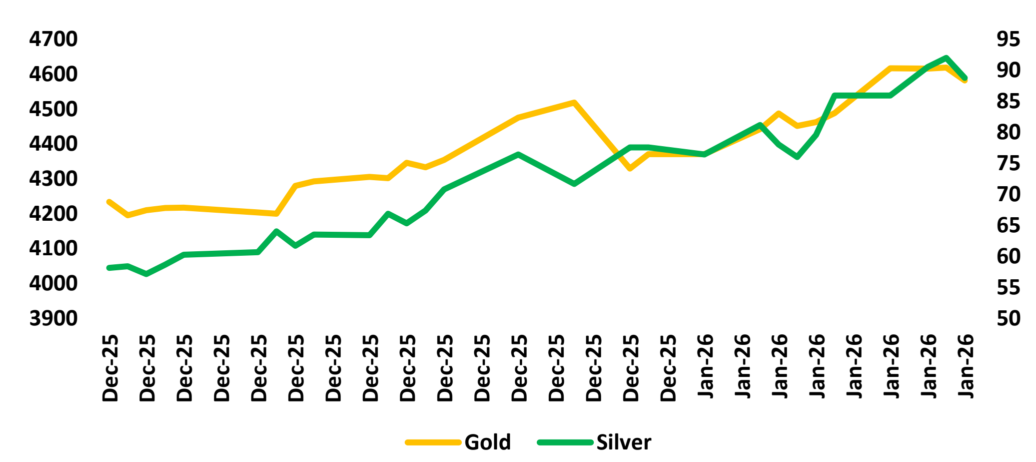
Year	INR level	USD/INR Annual Move	3 Year Total	3 Year Avg.
Mar-10	44.90			
Mar-11	44.59	-0.70%		
Mar-12	50.87	12.35%		
Mar-13	54.28	6.28%		
Mar-14	59.91	9.40%	28.02%	9.34%
Mar-15	62.50	4.14%		
Mar-16	66.25	5.67%		
Mar-17	64.85	-2.17%	7.64%	2.55%
Mar-18	65.17	0.50%		
Mar-19	69.15	5.76%		
Mar-20	75.66	8.60%	14.86%	4.95%
Mar-21	73.11	-3.49%		
Mar-22	75.79	3.54%		
Mar-23	82.17	7.76%	7.81%	2.60%
Mar-24	83.40	1.48%		
Mar-25	85.48	2.43%		
19-Jan-26	90.91	5.98%	9.89%	3.30%

We have consistently noted that the rupee's recent weakness reflects overshooting due to negative sentiment rather than fundamentals. Based on the Real Effective Exchange Rate (REER), the currency appears undervalued by ~2.5%. Our analysis indicates that over a three-year horizon, the rupee typically adjusts via an average annual depreciation of 3–4%, aligned with India–US inflation and interest rate differentials. Given that the rupee had already weakened by ~5% last calendar year and cumulatively ~9% in last 3 years (since March 2023), we do not expect significant or runaway depreciation pressures in the currency.

The US dollar traded in a headline-driven fashion ended the week around the 99.37 (+0.24%) (Fig 1)

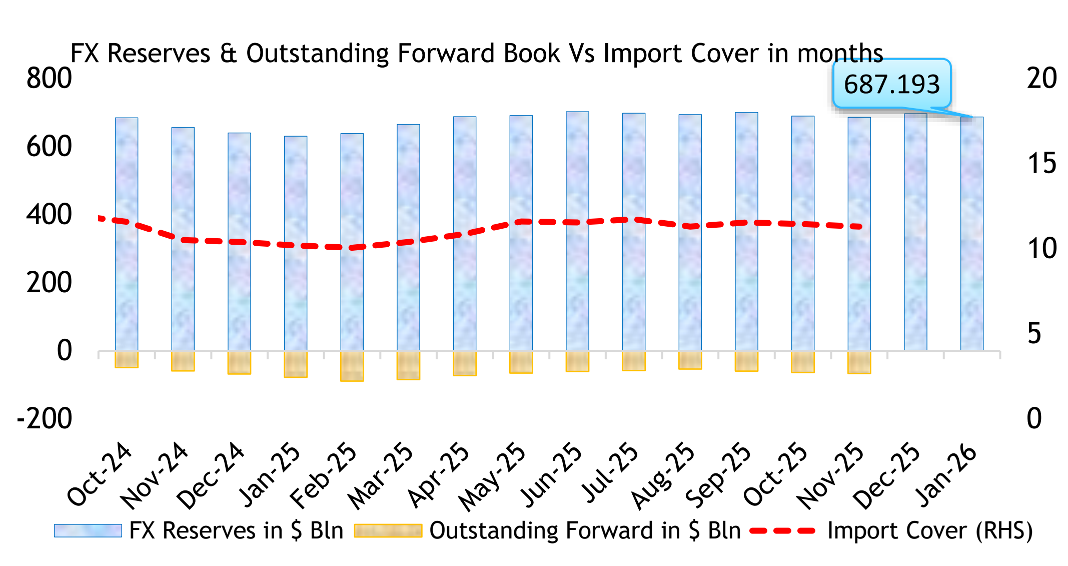


Renewed geopolitical tensions and sustained safe-haven demand for gold and silver kept prices higher (Fig 2)



Source: LSEG, UBI research

FX reserves rise amid jump in Gold assets despite a drop in FCA (Fig 3)

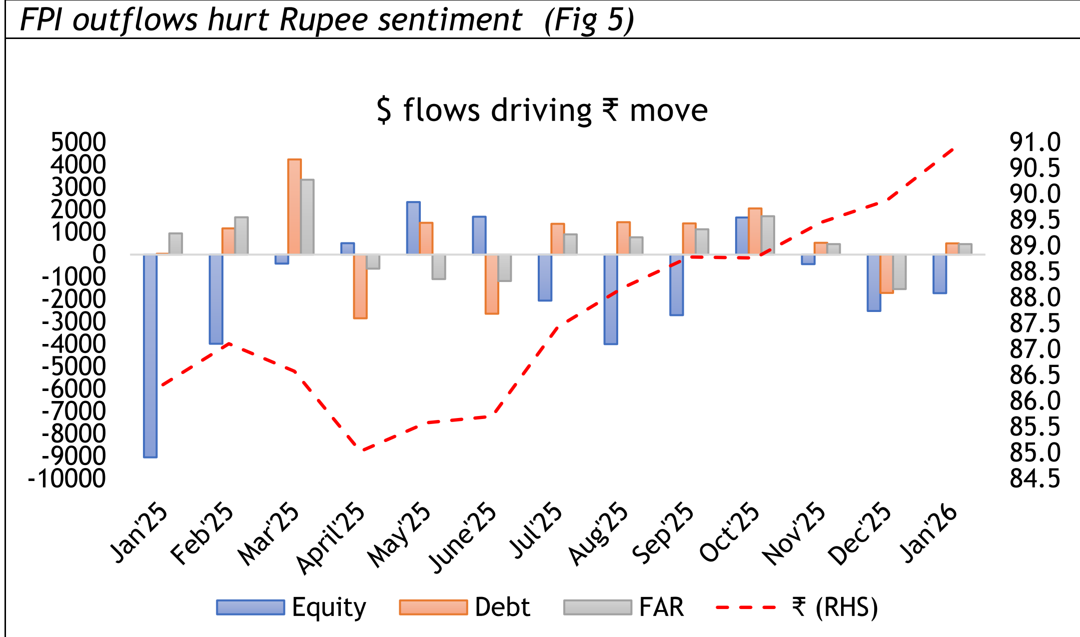


FDI inflows (Fig 4)

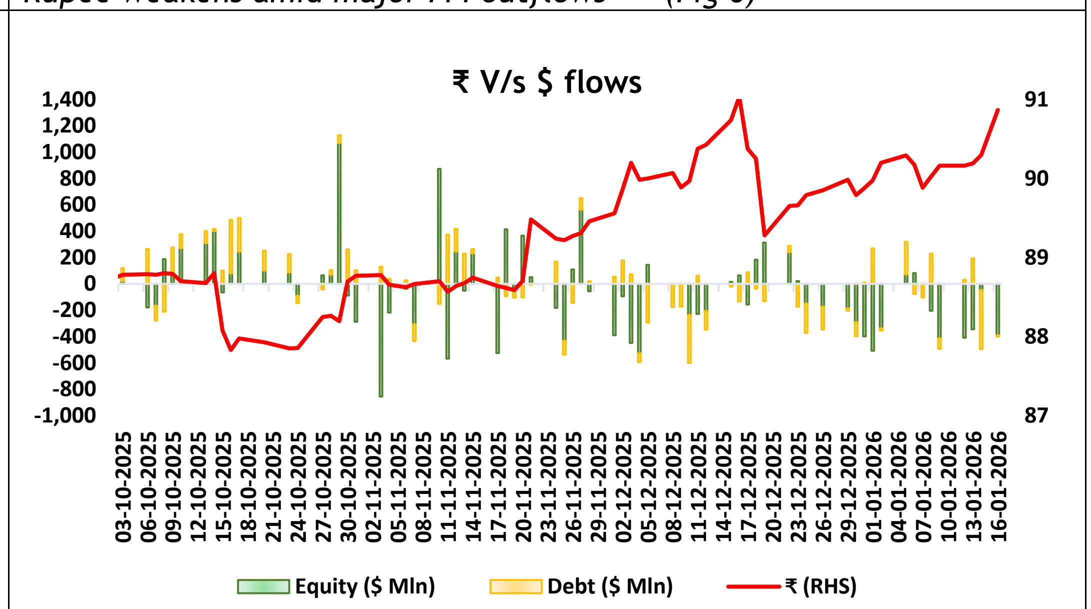
Financial Year (April–March)	Equity Reinvested Earnings	Other Capital	Total FDI Inflow	Equity Capital of Unincorporated Bodies	FDI Inflow (Total)	% Growth over Previous Year
2018-19	44366	689	13672	3274	62001	+02%
2019-20	49977	1757	14175	8482	74391	+20%
2020-21	59636	1452	16935	3950	81973	+10%
2021-22	58773	910	19347	5805	84835	+03%
2022-23	46034	1566	19105	4650	71355	-16%
2023-24	44423	1394	19768	5694	71279	-01%
2024-25	50018	975	22759	6863	80615	+13%
2025-26 (till Sep'25)	35180	1023	11311	2849	50362	

Source: DPIIT, Bloomberg, LSEG Workspace & UBI Research

FPI outflows hurt Rupee sentiment (Fig 5)



Rupee weakens amid major FPI outflows (Fig 6)



Source: Bloomberg, LSEG Workspace & UBI Research

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