

EBONY RESEARCH — MONTHLY MARKET UPDATE
AUGUST 2025

You make most of your money in a bear market, you just don't realize it at the time.

Shelby Culloom Davis.

Global Overview

Global growth is projected at 3% for 2025 and 3.1% in 2026. The forecast for 2025 is 0.2% higher than that in the reference forecast of the April 2025 World Economic Outlook (WEO) and 0.1% higher for 2026. This reflects stronger-than-expected front-loading in anticipation of higher tariffs, lower average effective US tariff rates than announced in April, an improvement in financial conditions, including due to a weaker US dollar, and fiscal expansion in some major jurisdictions.

Table 1: Global GDP Projection (July - World Economic Outlook Update from IMF)

	Year over Year					
	2023	2024	Projections		Difference from April 2025 WEO Projections 1/	
			2025	2026	2025	2026
World Output	3.5	3.3	3.0	3.1	0.2	0.1
Advanced Economies	1.8	1.8	1.5	1.6	0.1	0.1
United States	2.9	2.8	1.9	2.0	0.1	0.3
Euro Area	0.5	0.9	1.0	1.2	0.2	0.0
Japan	1.4	0.2	0.7	0.5	0.1	-0.1
United Kingdom	0.4	1.1	1.2	1.4	0.1	0.0
Canada	1.5	1.6	1.6	1.9	0.2	0.3
Other Advanced Economies 3/	1.9	2.2	1.6	2.1	-0.2	0.1
Emerging Market and Developing Economies	4.7	4.3	4.1	4.0	0.4	0.1
Emerging and Developing Asia	6.1	5.3	5.1	4.7	0.6	0.1
China	5.4	5.0	4.8	4.2	0.8	0.2
India 4/	9.2	6.5	6.4	6.4	0.2	0.1
Emerging and Developing Europe	3.6	3.5	1.8	2.2	-0.3	0.1
Latin America and the Caribbean	2.4	2.4	2.2	2.4	0.2	0.0
Middle East and Central Asia	2.4	2.4	3.4	3.5	0.4	0.0

Source: IMF

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during May 23–June 20, 2025. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. "..." indicates that data are not available or not applicable. WEO = *World Economic Outlook*.

1/ Difference based on rounded figures for the current and April 2025 WEO forecasts. Countries for which forecasts have been updated relative to April 2025 WEO forecasts account for approximately 90 % of world GDP measured at purchasing-power-parity weights.

2/ For World Output (Emerging Market and Developing Economies), the quarterly estimates and projections account for approximately 90 % (80 %) of annual world (emerging market and developing economies) output at purchasing-power-parity weights.

3/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

4/ For India, data and projections are presented on a fiscal year (FY) basis, with FY 2023/24 (starting in April 2023) shown in the 2023 column. India's growth projections are 6.7 % for 2025 and 6.4 % for 2026 based on calendar year.

5/ Indonesia, Malaysia, Philippines, Singapore, Thailand. ASEAN = Association of Southeast Asian Nations.

6/ Simple average of growth rates for export and import volumes (goods and services).

7/ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average assumed price of oil in US dollars a barrel, based on futures markets (as of June 26, 2025), is \$68.18 for 2025 and \$64.33 for 2026.

8/ Excludes Venezuela.

9/ The assumed inflation rate for the euro area is 2.0 % for 2025 and 1.8 % for 2026, that for Japan is 3.3 % for 2025 and 2.1 % for 2026, and that for the United States is 2.8 % for 2025 and 2.5 % for 2026.

Pros and Cons of the Growth estimates

Risks to the Global outlook are tilted to the downside. Why?

- A rebound in effective tariff rates could lead to weaker growth. Elevated uncertainty could start weighing more heavily on activity, also as deadlines for additional tariffs expire without progress on substantial, permanent agreements.
- Geopolitical tensions could disrupt global supply chains and push commodity prices up.
- Larger fiscal deficits or increased risk aversion could raise long-term interest rates and tighten global financial conditions.
- On the upside, Global growth could be lifted if trade negotiations lead to a predictable framework and to a decline in tariffs.

In August, the global macroeconomic environment was largely shaped by trade tariff announcements and the continuing uncertainties on US import tariffs rates relating to some major economies and sectors. While the EU, South Korea and Japan have entered into trade deals with the US, steeper tariffs were levied on Brazil, Canada, India and Switzerland in August. In its July 2025 update of the World Economic Outlook (WEO), the IMF revised its global GDP growth forecasts for 2025 and 2026 upwards vis-à-vis its April projections. Growth forecasts were increased for advanced economies (AEs) by 0.1% led by the US, the UK, and the Euro area, while growth of emerging market and developing economies (EMDEs) was revised upwards by 0.4%, driven by stronger projections for China and India. Considering the lingering uncertainties on US trade policy stance, the balance of risks to global growth outlook was perceived to be tilted to the downside.

Global uncertainty remained elevated in August on account of US tariff related uncertainty and geopolitical tensions. The economic and trade policy uncertainty indices in the US have retreated from their all-time high levels in April, but the pace of decline has moderated somewhat. Despite some temporary pick-up in AEs in end July, financial market volatility eased in August reflecting improved market sentiment.

Table 2: Global Purchasing Managers' Index

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
PMI composite	52.5	52.9	51.9	52.3	52.4	52.6	51.8	51.5	52.1	50.8	51.2	51.7	52.4
PMI manufacturing	49.7	49.6	48.7	49.4	50.1	49.6	50.1	50.6	50.3	49.8	49.5	50.4	49.7
PMI services	53.3	53.9	52.9	53.1	53.1	53.8	52.2	51.5	52.7	50.8	52.0	51.8	53.4
PMI export orders	49.7	49.0	48.5	48.9	49.3	48.7	49.6	49.7	50.1	47.5	48.0	49.1	48.5
PMI export orders: manufacturing	49.4	48.4	47.5	48.3	48.6	48.2	49.4	49.6	50.1	47.3	48.0	49.2	48.2
PMI export orders: services	50.6	50.8	51.6	50.7	51.3	50.3	50.2	50.2	50.1	48.2	47.9	48.7	49.3

<<<<<< Contraction
<<<<<< Contraction
Expansion >>>>>>

Notes:

1. The Purchasing Managers' Index (PMI), a diffusion index, captures the change in each variable compared to the prior month, noting whether each has risen/improved, fallen/deteriorated or remained unchanged. A PMI value >50 denotes expansion, <50 denotes contraction and =50 denotes 'no change'.
2. Heat map is applied to data from April 2023 to May 2025. The map is colour coded - red denotes the lowest value, yellow denotes 50 (or the no change value), and green indicates the highest value in each of the PMI series.

Source: S&P Global.

Chart 1: Global Uncertainty indicators

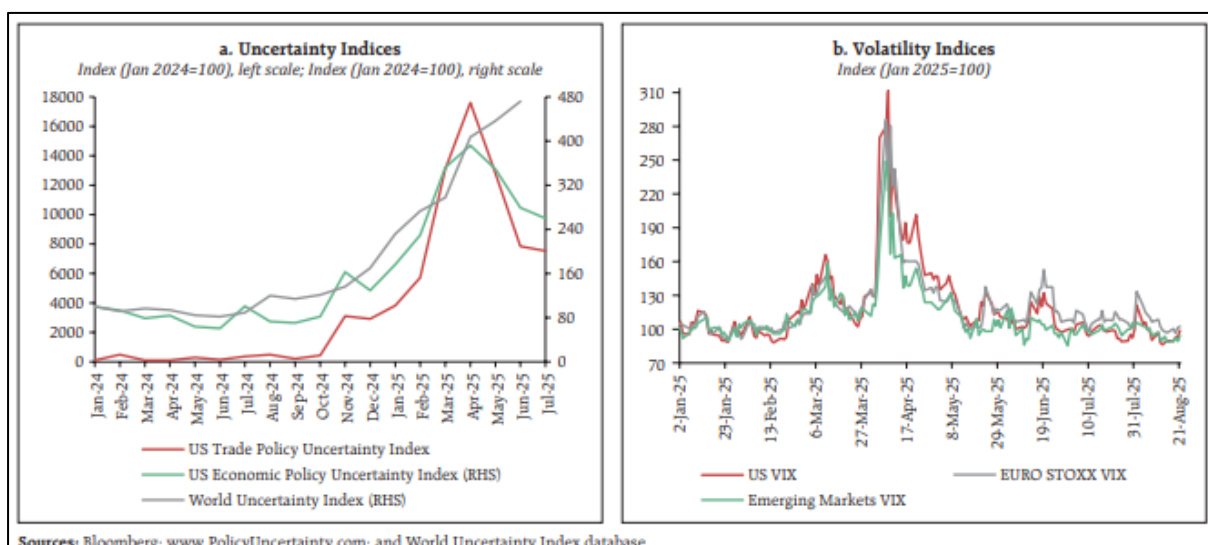
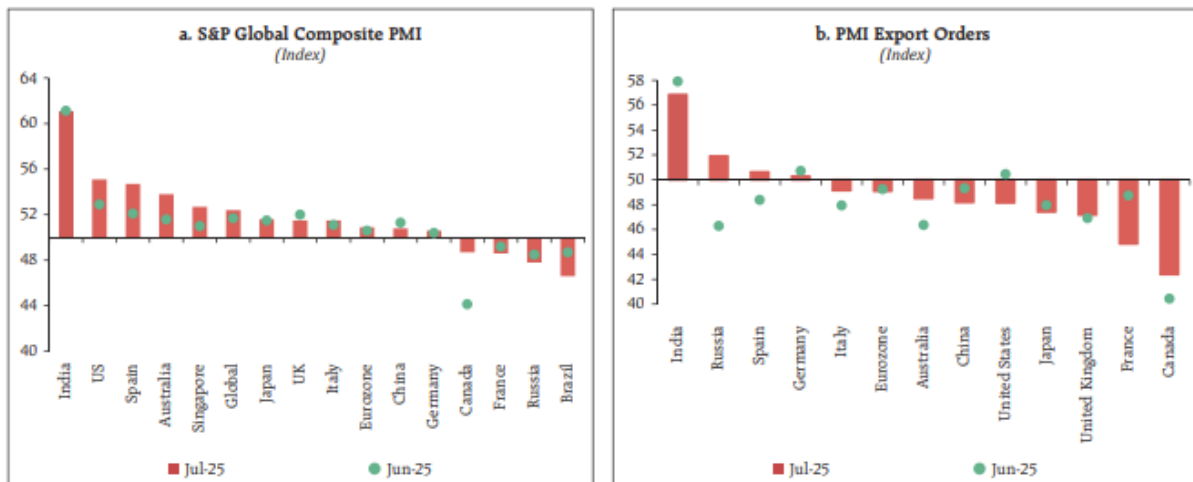
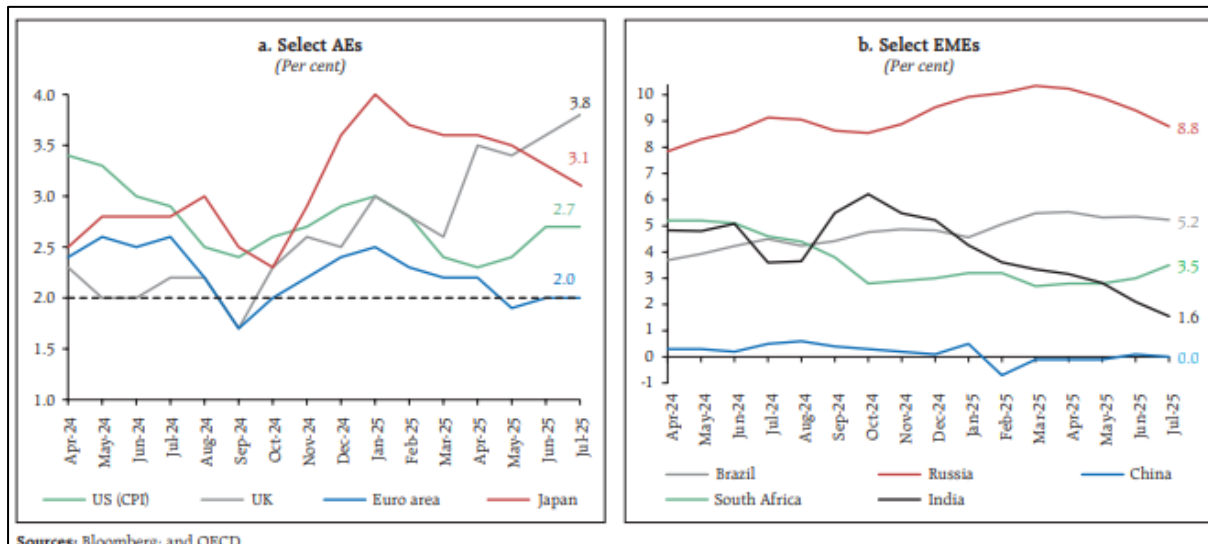


Chart 2: Purchasing Managers' Index: Comparison across Jurisdictions



Note: A level of 50 indicates no change in activity, while a reading above 50 signals expansion and below 50 suggests contraction.
Source: S&P Global.

Chart 3: Global Inflation Scenario



Sources: Bloomberg, and OECD.

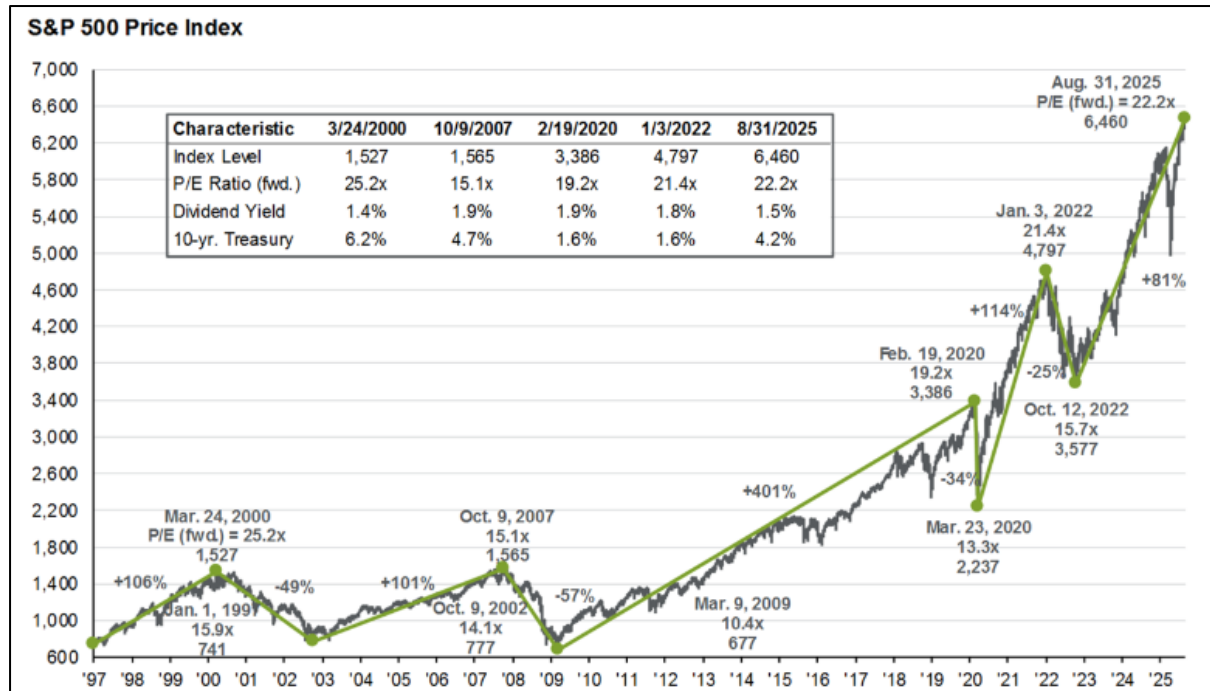
CPI inflation in the US and Euro area remained stable in July. CPI inflation in the US remained steady at 2.7% in July, though core inflation reached a six-month high of 3.1%. In the Euro area, headline inflation held steady at 2% marking the second consecutive month that inflation has aligned with the European Central Bank's official target. Inflation in the UK rose to its highest level since January 2024, while Japan's inflation dropped to an eight-month low. Among major EMDEs, inflation softened in Brazil although remaining above target. Deflationary pressure persists in China while Russia continued to grapple with inflation well above the target. South Africa's annual inflation inched up in July, marking the second consecutive monthly increase.

Inflation is projected to remain above the 2% target through 2026 in the United States, whereas in the euro area inflationary dynamics are expected to be more subdued, in part on account of currency appreciation and one-off fiscal measures. Although headline inflation in China is projected to remain broadly unchanged from the forecast in April because domestic energy prices have been lower than forecast then, core inflation is revised upward slightly to 0.5% in 2025 and to 0.8% in 2026. These revisions reflect recent higher-than-expected readings and the reduced tariffs.

U.S. Markets

U.S. Equities

Chart 4: S&P 500 Index Valuation relative to last 30 years



Source: JP Morgan

Chart 5: Global Heat Map

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD	Aug '25
Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.3%	Japan TOPIX 28.3%	US S&P 500 25.0%	MSCI EM 19.6%	Japan TOPIX 4.5%
MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -2.5%	US S&P 500 26.3%	Japan TOPIX 20.5%	MSCI Asia ex-Japan 19.3%	US S&P 500 2.0%
US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -12.2%	MSCI Europe ex-UK 17.3%	MSCI Asia ex-Japan 12.5%	UK FTSE All-Share 14.5%	MSCI EM 1.5%
UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -18.1%	MSCI EM 10.3%	UK FTSE All-Share 9.5%	Japan TOPIX 12.0%	MSCI Asia ex-Japan 1.3%
MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -19.4%	UK FTSE All-Share 7.9%	MSCI Europe ex-UK 8.1%	MSCI Europe ex-UK 11.4%	MSCI Europe ex-UK 1.2%
MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -19.7%	MSCI Asia ex-Japan 6.3%	MSCI EM 8.1%	US S&P 500 10.8%	UK FTSE All-Share 0.9%

Source: FTSE, LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in U.S. dollars

U.S. equity markets have largely rebounded, erasing losses from the April 2 tariff fallout and reaching new heights. Other global equity markets have also rallied, swayed by tariff-related announcements and releases of macroeconomic data that turned out to be better than expected. Notably, *the US dollar* has depreciated further, defying expectations that tariffs and larger fiscal deficits would cause the currency to appreciate. Implied paths for policy rates have flattened for advanced economies, while continued dollar weakness has provided some monetary policy space for emerging market and developing economies. Yield curves have steepened in the context of fiscal concerns, although the steepening thus far is not unusual by historical standards despite very high debt and deficit levels in many countries.

The S&P 500 closed out August near an all-time high, defying a narrative that, just weeks ago, may have appeared less favorable. Coming into the month, many investors were bracing for seasonal weakness, the onset of new tariffs, elevated valuations, and even political noise surrounding the Fed's independence. Yet, markets pressed higher.

The S&P 500 index held up well, gaining 2.0% over August. This was despite intra-month wobbles caused by downward revisions to prior non-farm payroll numbers, as well as the release of a report from the Massachusetts Institute of Technology (MIT) that suggested artificial intelligence (AI) pilot programmes were not boosting corporate revenue growth. Gains were supported by positive second quarter earnings: with most firms now having reported, around three-quarters of the S&P 500 index beat (muted) forecasts, by the largest amount since 2021. Alongside positive earnings, the Purchasing Managers' Index (PMI) business survey for August was optimistic, especially for the manufacturing sector

What is driving the rally?

US economic growth remains firm, supported by expectations that the Fed is going to give rate cuts. These tailwinds may have helped markets look past the noise. As we head into September and October, we'll likely hear echoes of the same concerns, including seasonality, policy risks, and valuations. But we see little evidence that the cycle is ending. Macro data and market signals continue to suggest otherwise.

However, last month's rally extended equity valuations even further. Investors seem to be pricing in a goldilocks scenario where growth accelerates, driven by fiscal stimulus and an AI-induced productivity boom, and inflation remains at moderate levels. But at a price-to-earnings multiple of 20x for global equities, compared to the long-term average of 16x, there is little room for disappointment. Well-diversified portfolios are therefore essential to protect against both the risk that inflation resurges and pushes bond yields much higher, and the risk that the economy falls into recession.

What September holds for Equity Investors?

Stocks are lower to kick off the month of September, which has historically been a weak month for equities. The 'September Effect' refers to the tendency for stock markets to post weaker returns compared to other months. Dating back to 1928, the S&P 500 has experienced an average decline of about 1.2% in September, making it the worst-performing month of the year on average according to RBC Wealth Management. The CME reported this underperformance has occurred roughly 55% of the time over nearly a century, highlighting a consistent pattern that investors often dread.

Interestingly, according to Investopedia, stocks have actually risen in September slightly more often than they've fallen over the past century (51% vs. 49%), but the magnitude of the declines tends to outweigh the gains, pulling the average return into negative territory. Despite this, the S&P 500 (SPX) has averaged a 4.2% drop over the last five years and fell more than 2% on average over the last ten. While historically stocks are weak in September, last year is a perfect example that it's not set in stone, as the S&P 500 rose over 2% last year.

With stocks near record highs and elevated valuation levels, tariff concerns, and geopolitical risks present, the set-up this year may be for additional volatility.

U.S. Bonds – Fed on wait and see mode, however the labor data paints a different narrative.

Potential change in the Fed's policy stance

Powell's signal that a rate cut in September is increasingly likely marked a potential shift in the Fed's policy stance. After a period of relatively restrictive monetary policy, it now sees the balance of risks, particularly signs of a softening labor market, as warranting a more accommodative approach.

While [inflation](#) remains a concern, some policymakers appear willing to look past recent tariff-driven price pressures, viewing them as transitory rather than indicative of a broader inflationary trend. This perspective is echoed in the [bond](#) market, where inflation breakeven across the 1, 3, and 5-year horizons have remained well-anchored.

In effect, the Fed is aligning with market expectations for easing, a development we view as constructive for risk assets. In this environment, we would be reluctant to fight the Fed.

But the US administration is continuing to fight the Fed. This time it called on Fed Governor Lisa Cook to resign, and Powell to fire her — which he doesn't have the power to do — over an allegation of mortgage fraud. Cook struck back saying she'll not be pressured into resigning from her position. This is another clear signal that the US administration is seeking to reshape the Fed and push policy rates lower.

Ironically, the minutes from the July Federal Open Market Committee (FOMC) meeting, released last week, were relatively hawkish and suggested most members thought inflation was a bigger problem than growth. Those minutes of course reflected data before the recent labor market data were revised lower. On August 1st, the non-farm payroll report showed that the number of jobs added to the US economy in July was fewer than expected: 73,000 vs. 104,000. But it was the revision to the May and June numbers that was the bigger surprise (June fell from 147,000 to just 14,000) and those numbers suggest a greater slowdown in the labor market than many expected. **The huge back-month revisions now undermine the Fed's key stance that the labour market has been solid and that a pre-emptive rate cut was not needed.** The latest release of Jobs data has sparked concerns about the state of the economy. The outlook immediately changed with the July jobs report miss and massive downward revisions to the previous two months. The expectations of a rate cut in September went from 40% after the FOMC meeting to over 80% immediately after the Jobs report on Friday. Fed Chair Powell mentioned that the jobs market will be closely watched for any downside exposure and that came to fruition post the Jobs report.

The story for coming months will be which of the two opposing forces dominates: e.g. will labour market data deteriorate enough to cement the September rate cut and a deeper easing cycle? Or will the pick-up in tariff-driven inflation force the Fed to continue favouring modestly restrictive policy? The size of backward revisions in the labor data suggests the momentum will be with the former.

We cut down on our view of 2-3 rate cuts to only 2 in 2025.

Table 3: Yield of U.S. treasuries as of 31st August 2025

Duration	Yield %
1-Year	3.83
5-Year	3.68
10-Year	4.23
30-Year	4.92

Source: StatLane Research

Chart 6: Fed Funds rate

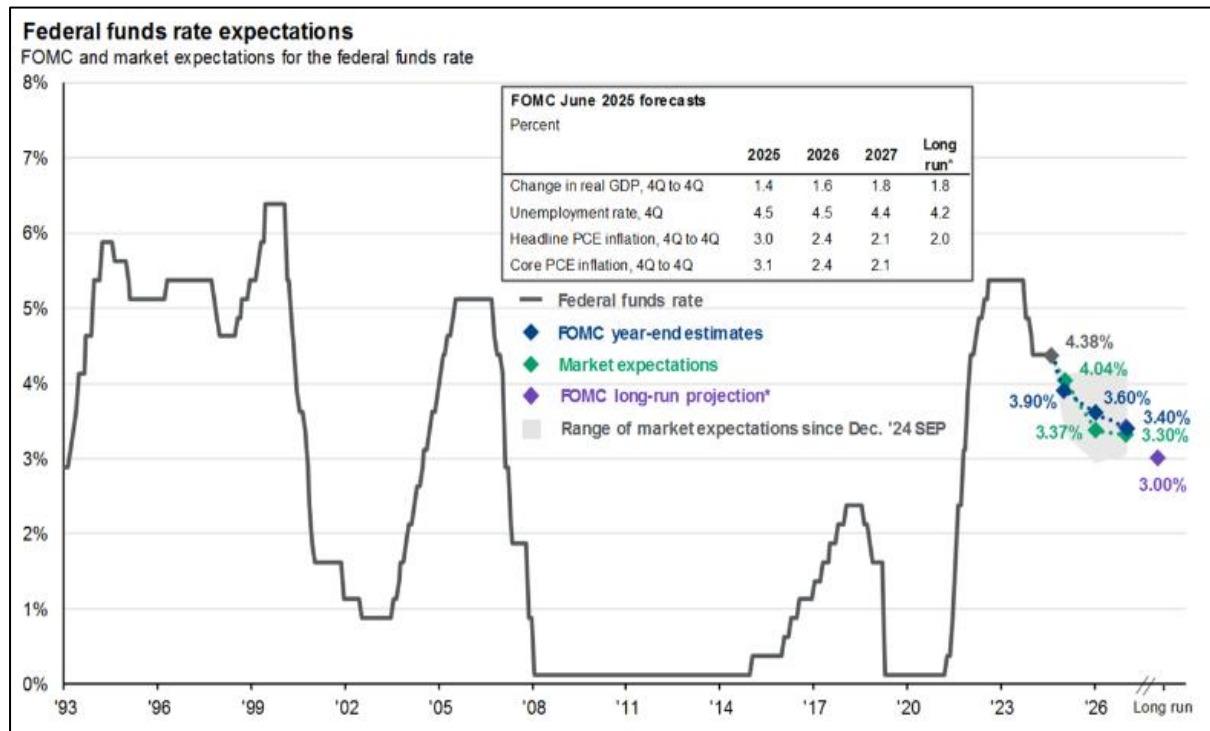
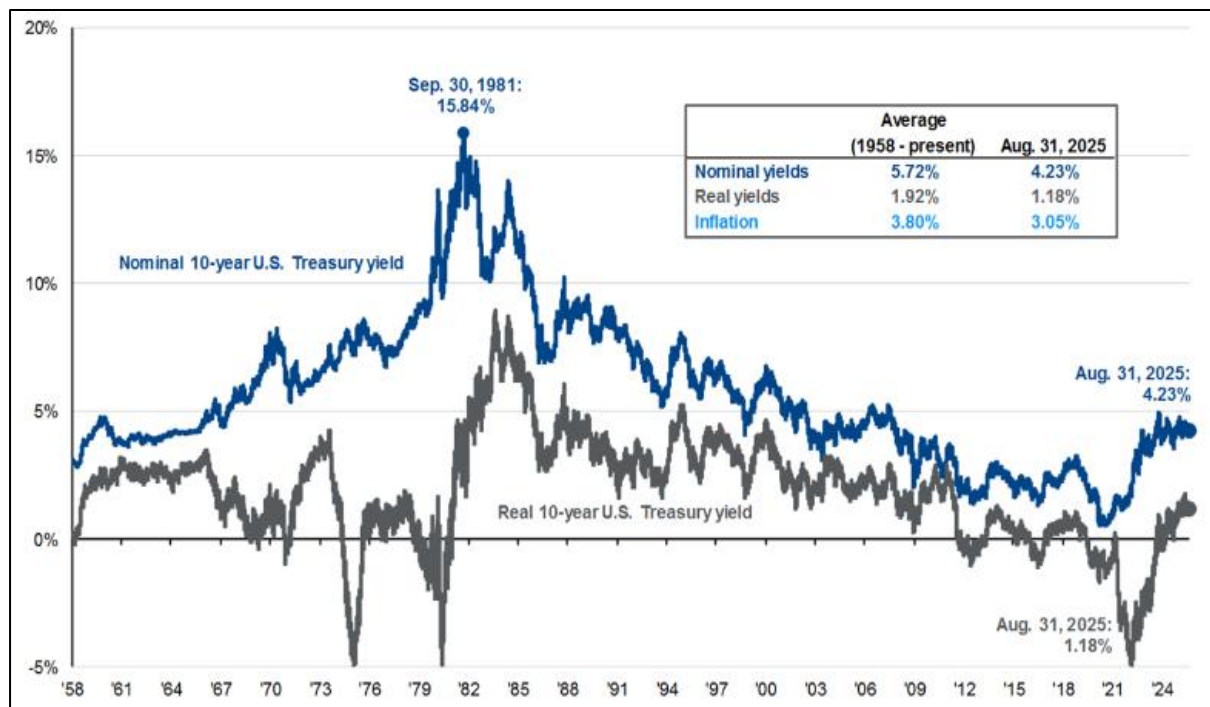


Chart 7: U.S. Real Yields



Source: J.P.M Guide to markets

India

GDP Q1 Estimate - April-June FY2026

Key Highlights:

- Real GDP has been estimated to grow by 7.8% in Q1 of FY 2025-26, as against a growth of 6.5% recorded in Q1 of FY 2024-25. Nominal GDP has registered a growth of 8.8% in Q1 of FY 2025-26.
 - ✓ Real GDP or GDP at Constant Prices (2011-12) in Q1 of FY 2025-26 is estimated at ₹47.89 lakh crore, against ₹44.42 lakh crore in Q1 of FY 2024-25, registering a growth rate of 7.8%. Nominal GDP or GDP at Current Prices in Q1 of FY 2025-26 is estimated at ₹86.05 lakh crore, against ₹79.08 lakh crore in Q1 of FY 2024-25, showing a growth rate of 8.8%.
 - ✓ Real GVA in Q1 of FY 2025-26 is estimated at ₹44.64 lakh crore, against ₹41.47 lakh crore in Q1 of FY 2024-25, registering a growth rate of 7.6%. Nominal GVA in Q1 of FY 2025-26 is estimated at ₹78.25 lakh crore, against ₹71.95 lakh crore in Q1 of FY 2024-25, showing a growth rate of 8.8%.
- The Agriculture and Allied sector has reported a Real GVA growth of 3.7%, significantly higher than the 1.5% growth witnessed in the corresponding quarter of the previous financial year.
- Within the secondary sector, robust performance was observed in Manufacturing (7.7%) and Construction (7.6%), both recording growth rates above 7.5% at constant prices during the quarter.
- In contrast, Mining & Quarrying (-3.1%) and Electricity, Gas, Water Supply and Other Utility Services (0.5%) posted subdued growth in real terms in Q1 of FY 2025-26.
- The Tertiary sector has registered a substantial growth of 9.3% at constant prices in Q1 of FY 2025-26, compared with 6.8% growth in the same quarter of FY 2024-25.
- Government Final Consumption Expenditure (GFCE) has shown a notable recovery, recording 9.7% growth in nominal terms during Q1 of FY 2025-26, against 4.0% growth in Q1 of FY 2024-25.
- Real Private Final Consumption Expenditure (PFCE) has grown by 7.0% in Q1 of FY 2025-26, as compared to 8.3% growth in the corresponding quarter of the previous year.
- Gross Fixed Capital Formation (GFCF) has posted a growth of 7.8% at constant prices, higher than the 6.7% growth recorded in Q1 of FY 2024-25.

[Primary Sector: Agriculture, Livestock, Forestry & Fishing and Mining & Quarrying]

Secondary Sector: Manufacturing, Electricity, Gas, Water supply & Other Utility Services and Construction

Tertiary Sector: Trade, Hotels, Transport, Communication and Services related to Broadcasting, Financial, Real Estate & Professional Services and Public Administration, Defence & Other Services]

Chart 8-9: Quarterly GDP and GVA Estimates along with Y-o-Y Growth Rates from Q1FY23 to Q1FY26 (Constant Prices, 2011-12)

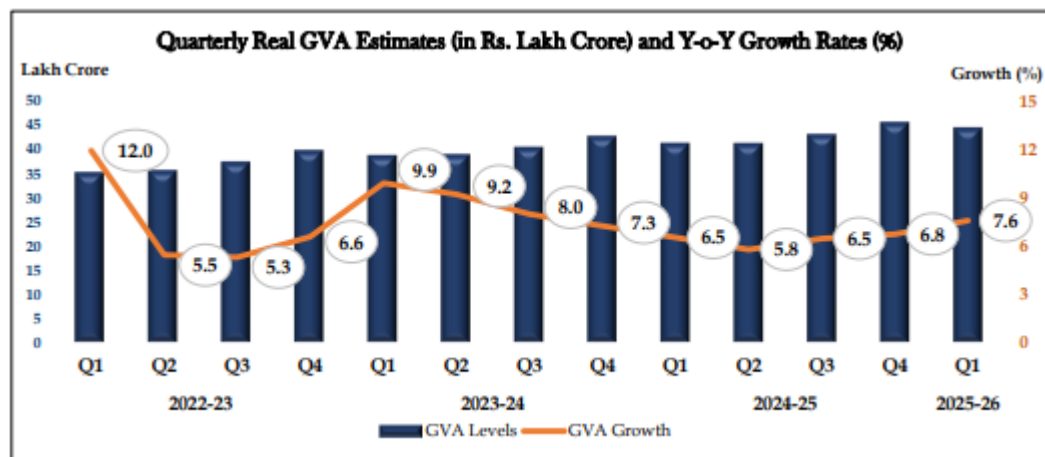
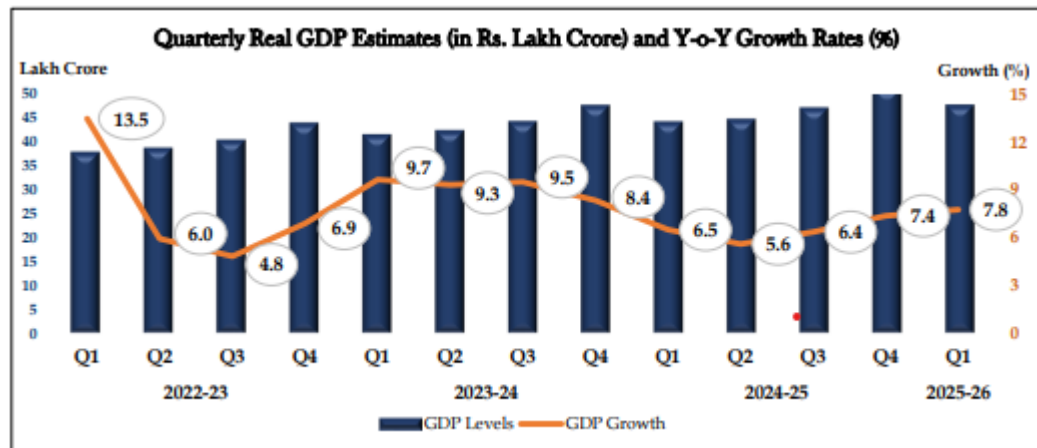


Chart 10: Sectoral growth trends

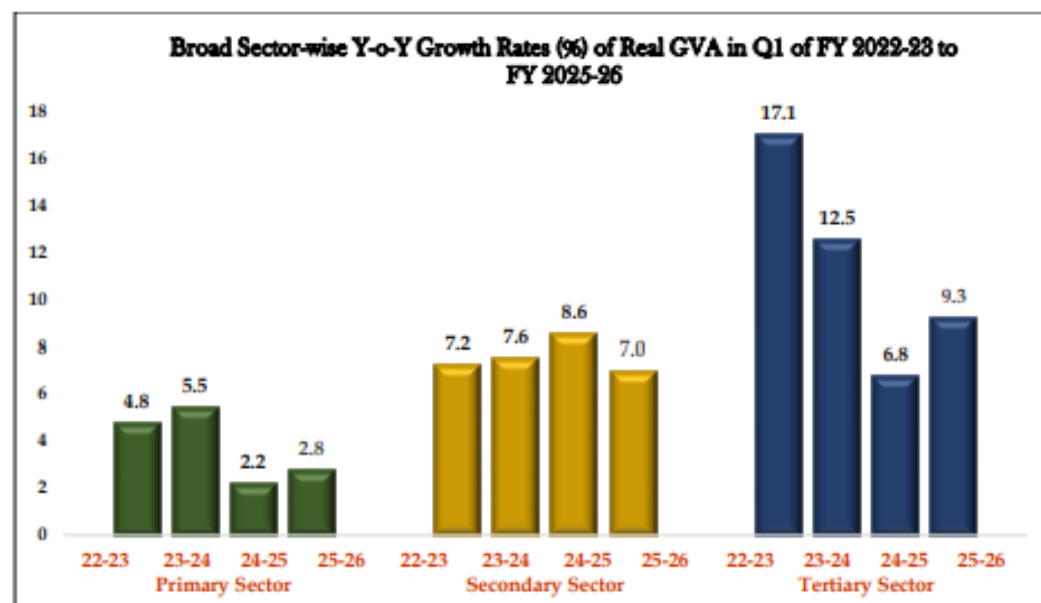


Chart 11-12: Sectoral Composition of Nominal GVA in Q1 of FY2025-26

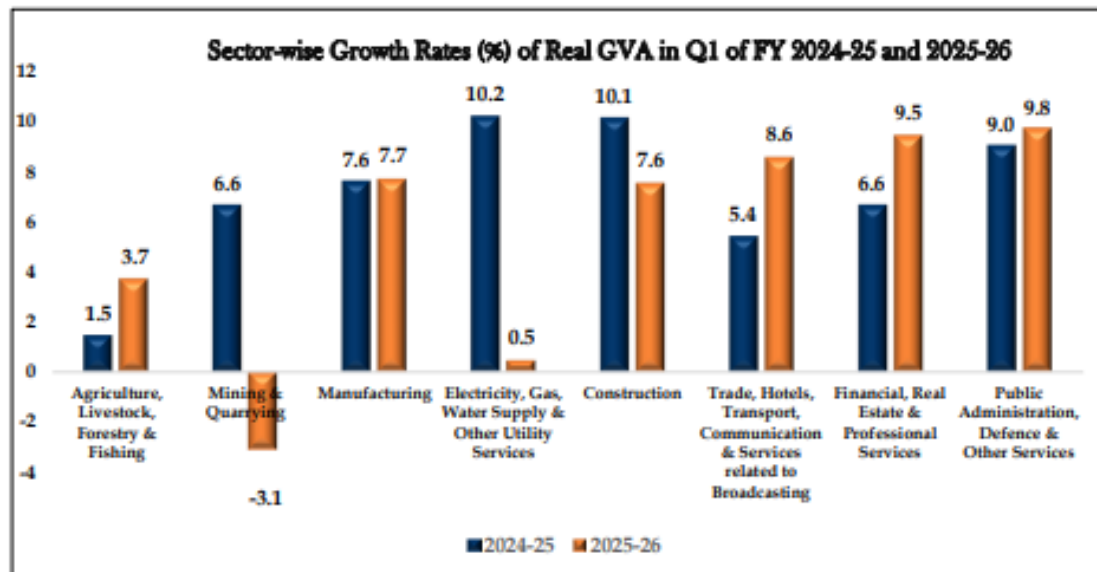
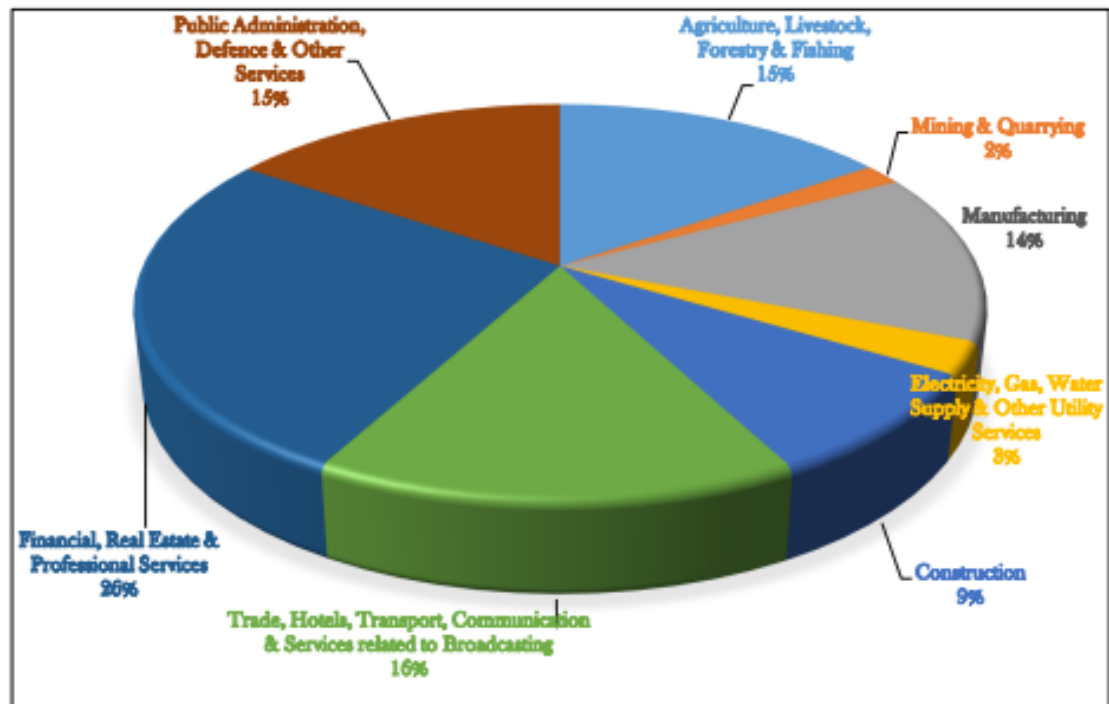


Table 4 & 5: GDP and GVA at Constant and Current Prices

<i>Quarterly Estimates of GVA at Basic Prices for Q1 (April-June) 2025-26 (at 2011-12 Prices)</i>				
Sector / Sub-Sector	Q1 FY25 ₹ Cr	Q1 FY26 ₹ Cr	Growth FY25 (%)	Growth FY26 (%)
Primary Sector	638066	655701	2.2	2.8
• Agriculture, Livestock, Forestry & Fishing	547919	568374	1.5	3.7
• Mining & Quarrying	90146	87327	5.6	-3.1
Secondary Sector	1182833	1265896	8.6	7
• Manufacturing	705992	760996	9.2	7.7
• Electricity, Gas, Water & Utilities	105981	106470	10.2	0.5
• Construction	370054	398012	7.1	7.6
Tertiary Sector	2268172	2465648	6.8	9.3
• Trade, Hotels, Transport, Communication	899172	974358	5.4	8.6
• Financial, Real Estate & Prof. Services	1125793	1232476	6.7	9
• Public Admin., Defence & Other Services	511468	561431	9	9.8
GVA at Basic Prices	4147331	4463343	6.4	7.6
Net Taxes	294333	324789	6	10.3
GDP	4441664	4788623	6.5	7.8

<i>Quarterly Estimates of GVA at Basic Prices for Q1 (April-June) 2025-26 (at Current Prices)</i>				
Sector / Sub-Sector	Q1 FY25 ₹ Cr	Q1 FY26 ₹ Cr	Growth FY25 (%)	Growth FY26 (%)
Primary Sector	1311637	1335450	8	1.8
• Agriculture, Livestock, Forestry & Fishing	1162510	1199073	7.5	3.2
• Mining & Quarrying	149127	136377	10.6	-8.6
Secondary Sector	1823129	1973591	9.2	8.2
• Manufacturing	998413	1092746	9.1	9.5
• Electricity, Gas, Water & Utilities	197497	199647	2.6	1.1
• Construction	627220	680198	11.2	8.5
Tertiary Sector	3230796	3451627	6.9	6.8
• Trade, Hotels, Transport, Communication	1122648	1227932	7.7	9.4
• Financial, Real Estate & Prof. Services	1864812	2020735	9.7	8.4
• Public Admin., Defence & Other Services	1031336	1207950	9.6	17.1
GVA at Basic Prices	7134562	7824677	9.3	9.7
Net Taxes	7103312	7808157	11.4	9.9
GDP	7907874	8662835	9.7	8.8

Table 6 & 7 Quarterly Estimates of Expenditure Components of GDP for Q1 (April-June) 2025-26 (at 2011-12 Prices)

Component	Q1 FY25 (₹ Cr)	Q1 FY26 (₹ Cr)	Growth FY25 (%)	Growth FY26 (%)
Private Final Consumption Expenditure (PFCE)	2537917	2716723	8.3	7
Government Final Consumption Expenditure (GFCE)	418344	449511	0.3	7.4
Gross Fixed Capital Formation (GFCF)	1535297	1655346	6.7	7.8
Changes in Stocks (CIS)	76390	80897	7.9	5.9
Valuables	21397	16160	-2.3	-25.1
Exports	916189	1015147	8.3	10.9
Imports	1012687	1106358	-1.6	10.3
Discrepancies	33384	111081	2.1	-2.3
GDP	4441664	4788623	6.5	7.8

Quarterly Estimates of Expenditure Components of GDP for Q1 (April-June) 2025-26 (at Current Prices)

Component	Q1 FY25 (₹ Cr)	Q1 FY26 (₹ Cr)	Growth FY25 (%)	Growth FY26 (%)
Private Final Consumption Expenditure (PFCE)	4751288	5168657	13.1%	8.8%
Government Final Consumption Expenditure (GFCE)	792682	869748	4.0%	9.7%
Gross Fixed Capital Formation (GFCF)	2419810	2619479	8.3%	8.3%
Changes in Stocks (CIS)	118239	124346	10.3%	5.2%
Valuables	37371	31511	-13.2%	-15.7%
Exports	1625012	1755950	6.9%	8.1%
Imports	1849838	1975529	11.0%	6.8%
Discrepancies	234010	249764	-24.9%	6.7%
GDP	7907874	8662835	9.7%	9.5%

Table 8: Growth indicators across various parameters

YOY Growth Rates % in various indicators	Q1 FY25	Q1 FY26
1. Production of Wheat	3.4	2.9
2. Production of Coal	10.8	-0.3
3. Production of Crude Oil	-0.7	-1.9
4. Production of Cement	0.4	8
5. Consumption of Steel	15.3	7.9
6. Total Telephone Subscribers	2.7	1.1
7. Sales of Commercial Vehicles	3.7	-0.6
8. Sales of Private Vehicles	17	-5.4
9. Cargo Handled at Major Sea Ports	4	5.6
10. Cargo Handled at Airports	13.9	5.4
11. Passengers Handled at Airports	7.1	5.6
12. Railways – Net Tonne Kilometres	4.5	0.7
13. Railways – Passenger Kilometres	8.3	3
14. Aggregate Bank Deposits	10.7	10.3
15. Aggregate Bank Credits	13.9	10.4
16. Revenue Expenditure less Interest Payment & Subsidies (Centre)	-1.5	9.8
17. Export of Goods & Services	9.2	8.1
18. Import of Goods & Services	9.7	5.9
19. CPI General Index	4.9	2.7
20. IIP – Mining	7.9	-3
21. IIP – Manufacturing	4.3	3.3
22. IIP – Electricity	10.8	-1.5
23. IIP – Capital Goods	3	9.8
24. WPI – Food Articles	9.7	-1.6
25. WPI – Minerals	5.2	1.1
26. WPI – Manufactured Products	0.8	2.2
27. WPI – All Commodities	2.4	0.3

Two important events took place in August 2025 that re-ignites India Story

Event 1: Goods and Services Tax Reforms

The government is preparing to overhaul the GST framework over next couple of months, moving towards a simplified two-tier rate structure of 5% and 18%. This would replace the existing four-slab system, along with the effective 40% tax rate on luxury and sin goods. In this transition, nearly 90% of products currently in the 28% slab are expected to move to 18%, while most items in the 12% bracket would shift to the 5% rate. Rationalizing the GST structure is expected to boost consumption, particularly at a time when the overall tax incidence in India has been rising. This coupled with the income tax re-jig leading to lower tax for the middle class in the Feb 2025 Union Budget and RBI's front loading of rate cuts augurs well for the much-awaited recovery in Consumption sector.

The impact on overall demand, however, will depend on how the government manages the resulting revenue shortfall. To maintain fiscal discipline, the Centre may need to cut spending elsewhere, either in capital expenditure or in social and rural sector programs. This could limit the potential demand boost. Nevertheless, lower tax rates are expected to support consumption across sectors such as FMCG, consumer durables, automobiles, cement, and even insurance.

On an annualized basis, the proposed GST rationalization could result in a revenue loss equivalent to about 0.4% of GDP, with states likely to bear half of it. If expenditure levels remain unchanged, the Centre's net fiscal slippage in FY26 is likely to be in the range of 0.2–0.25% of GDP. Some of this could be offset by higher dividends and proceeds from PSU divestments (IDBI and small stake sale in LIC). At the same time, consumer inflation may ease if companies pass on the benefits of lower GST rates to customers.

Currently, the bulk of GST collections, about 70% comes from the 18% slab, whereas the 28%, 12%, and 5% categories contribute around 14%, 5%, and 7% respectively. Based on broad estimates, the proposed restructuring could reduce government revenue by more than ₹1.2 trn annually, translating to over 0.4% of GDP. If the new structure is introduced in October 2025, the fiscal impact for FY26 would amount to roughly 0.2% of GDP for the general government. Assuming losses are evenly split between the Centre and the states, the Centre's share would be about 0.1% of GDP, which could place additional strain on bond yields.

This comes at a time when gross tax revenue (GTR) growth is already falling short of expectations. For Q1FY26, GTR growth is tracking around 5% compared with the budget estimate of 13%, making the assumed tax buoyancy of 1.1x appear difficult to achieve. While some relief may come from higher non-tax revenues - such as stronger RBI and PSU dividends and potential stake sales in IDBI/LI, the Centre may still face fiscal slippage of about 0.2% of GDP if expenditure levels are not curtailed.

Overall, this reform appears timely, coming at a stage when the domestic economy is losing momentum and trade tariff uncertainties are clouding the outlook. In the near term, the shift is likely to drive a significant sectoral rotation away from capex-led themes toward consumption-driven growth. The primary beneficiaries will be consumer discretionary segments such as automobiles, textiles, jewellery, travel and tourism, housing, and insurance. In addition, second-order gains are expected for banks and NBFCs, which could benefit from an acceleration in credit growth. On the fixed income side, bonds yields may react negatively given the likely slippage in revenue and unlikely scenario with large divestments despite further cool-off effect on inflation due to lower GST. However, we believe RBI is likely to cut rates further by 25-50 bps over next 12 months as the global economic slowdown takes the centre stage. Any abrupt curve steepening should be used as an opportunity to build duration.

Event 2: S&P Upgrades INDIA'S Sovereign Rating TO BBB (STABLE)

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In August 2025, S&P Global Ratings upgraded India's long-term sovereign credit rating to BBB from BBB- with a stable outlook. The rating was raised across all time horizons. It also upgraded India's transfer and convertibility assessment to A-, which measures the risk of government restrictions on converting currency or sending funds abroad. Earlier, in May 2024, S&P had revised India's outlook to positive on the back of strong growth and better quality of government spending. The latest upgrade is based on three key factors: credible fiscal consolidation, a strong external position, and well-anchored inflation expectations.

India Country rank across Rating Agencies

	S&P	Moody's	Fitch
India's sovereign rating	BBB	Baa3	BBB-

Source: Bloomberg, StatLane Research

India Country rank vis-à-vis other Ems

Select Ems	S&P country rating
India	BBB
Brazil	BB
China	A+
Indonesia	BBB
Korea	AA
Malaysia	A-
Mexico	BBB
Philippines	BBB+
South Africa	BB-
Thailand	BBB+

Further, S&P forecasts India's real GDP growth at 6.5% this year which is on the more pragmatic side when compared to other forecasts. Notably, S&P notes that US tariffs will have overall marginal impact and will not derail India's long-term growth prospects. This is because, sectoral exemptions on pharmaceuticals and consumer electronics, the exposure of Indian exports subjected to tariffs is lower at 1.2% of GDP. The current account deficit is expected in the range 1.0-1.4% for 2025-2028. CPI is expected in the range 4-4.5% till 2028.

Economic backdrop

Table 9: High Frequency indicator – Industry Growth

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
IIP headline	5.0	0.0	3.2	3.7	5.0	3.7	5.2	2.7	3.9	2.6	1.9	1.5	
IIP manufacturing	4.7	1.2	4.0	4.4	5.5	3.7	5.8	2.8	4.0	3.1	3.2	3.9	
IIP capital goods	11.7	0.0	3.5	2.9	8.9	10.5	10.2	8.2	3.6	14.0	13.3	3.5	
PMI manufacturing	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1
PMI export orders	57.2	54.4	52.9	53.6	54.6	54.7	58.6	56.3	54.9	57.6	56.9	60.6	57.3
PMI manufacturing: future output	64.1	62.1	61.6	62.1	65.5	62.5	65.1	64.9	64.4	64.6	63.1	62.2	57.6
Index of eight core industries	6.3	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	4.5	1.0	1.2	2.2	2.0
Electricity generation: conventional	6.8	-3.8	-1.3	0.5	2.7	4.5	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.9
Electricity generation: renewable	14.2	-3.7	12.5	14.9	19.0	17.9	31.9	12.2	25.2	28.0	18.2	28.7	
Automobile production	16.8	4.4	10.1	10.0	8.0	1.3	9.4	2.3	6.5	-1.7	5.2	1.2	10.7
Passenger vehicle production	1.2	0.7	-3.4	-4.0	6.5	9.2	3.7	4.5	11.2	10.8	5.4	-1.8	0.1
Tractor production	8.1	-1.0	2.7	0.4	24.7	20.9	23.7	-7.8	18.5	20.5	9.1	9.8	11.5
Two-wheelers production	21.1	4.9	12.9	13.3	8.8	-0.6	10.3	1.6	5.6	-4.1	4.7	1.4	12.3
Three-wheelers production	6.0	9.0	3.9	-6.7	-5.5	7.6	16.2	6.5	6.0	4.1	16.9	8.6	24.0
Crude steel production	6.8	2.6	0.3	4.2	4.5	8.3	7.4	6.0	8.5	9.3	11.0	12.6	14.0
Finished steel production	6.9	2.7	0.7	4.0	2.8	5.3	6.7	6.7	10.0	6.6	7.0	10.9	13.8
Import of capital goods	11.6	12.3	10.9	7.0	4.7	6.1	15.5	-0.5	8.6	21.5	14.3	2.6	12.2

<< Contraction ————— Expansion >>

Notes: 1. The y-o-y growth (in %) has been calculated for all indicators (except for PMI). 2. The heat map translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series. 3. Heat map is applied on data from April 2023 till May 2025 other than for IIP, and Electricity Generation: Renewable, where the data is till April 2025. 4. All PMI values are reported in index form. A PMI value >50 denote expansion; <50 denote contraction; and =50 denote 'no change'. In the PMI heat maps, red denotes the lowest value, yellow denotes 50 (or the no change value), and green denotes the highest value in each of the PMI series.

Sources: Ministry of Statistics and Programme Implementation (MoSPI); S&P Global; Central Electricity Authority (CEA), Ministry of Power; Society of Indian Automobile Manufacturers (SIAM); Tractor and Mechanisation Association; Office of Economic Adviser, Gol; Joint Plant Committee; Directorate General of Commercial Intelligence & Statistics; and Ministry of Commerce and Industry.

Table 10: High Frequency indicator – Economic activity

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
GST e-way bills	19.2	12.9	18.5	16.9	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8
GST revenue	10.3	10.0	6.5	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5
Toll collection	9.4	6.8	6.5	7.9	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8
Electricity demand	4.0	-5.0	-0.8	-0.4	3.7	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.0
Petroleum consumption	10.7	-3.1	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	1.4	-4.0
Of which Petrol	10.5	8.6	3.0	8.7	9.6	11.1	6.7	5.0	5.7	5.0	9.2	6.8	5.9
Diesel	4.5	-2.5	-1.9	0.1	8.5	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4
Aviation turbine fuel	9.6	8.1	10.4	9.4	8.5	8.7	9.4	4.2	5.7	3.9	4.3	3.3	-2.3
Digital payments- volume	36.7	34.9	36.3	40.3	30.1	33.1	33.0	26.7	30.8	30.0	29.2	28.3	29.0
Digital payments- value	22.1	16.7	21.5	27.5	9.5	19.6	18.6	9.5	17.3	18.4	12.6	17.4	16.9

<< Contraction ————— Expansion >>

Notes: 1. The y-o-y growth (in%) has been calculated for all indicators. 2. The heatmap is applied on data from April 2023 till July 2025. 3. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series. For digital payments data, zero growth is taken as the lower bound. Sources: Goods and Services Tax Network (GSTN); RBI; Central Electricity Authority (CEA); and Ministry of Petroleum and Natural Gas, Gol

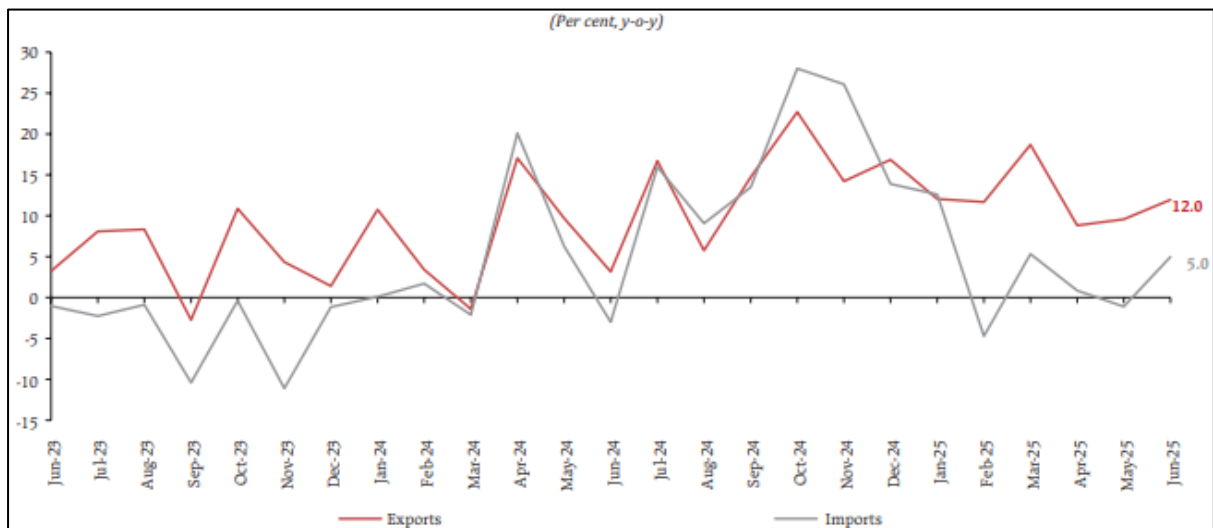
Table 11: High Frequency indicator – Urban and Rural Demand growth rate

		Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Urban demand	Domestic air passenger traffic	7.6	6.7	7.4	9.6	13.8	10.8	14.1	12.1	9.9	9.7	2.6	3.7	-2.1
	Retail passenger vehicle sales	14.0	-4.5	-18.8	32.4	-13.7	-2.0	15.5	-10.3	6.3	1.6	-3.1	2.5	-0.8
Rural demand	Retail tractor sales	-12.0	-11.4	14.7	3.1	29.9	25.8	5.2	-14.5	-5.7	7.6	2.8	8.7	11.0
	MGNREGA work demand	-19.5	-16.0	-13.4	-7.6	3.9	8.2	14.4	2.8	2.2	-6.5	4.4	4.4	-12.3
	Retail two-wheeler sales	17.7	6.3	-8.5	36.3	15.8	-17.6	4.2	-6.3	-1.8	2.3	7.3	4.7	-6.5

<< Contraction ----- Expansion >>

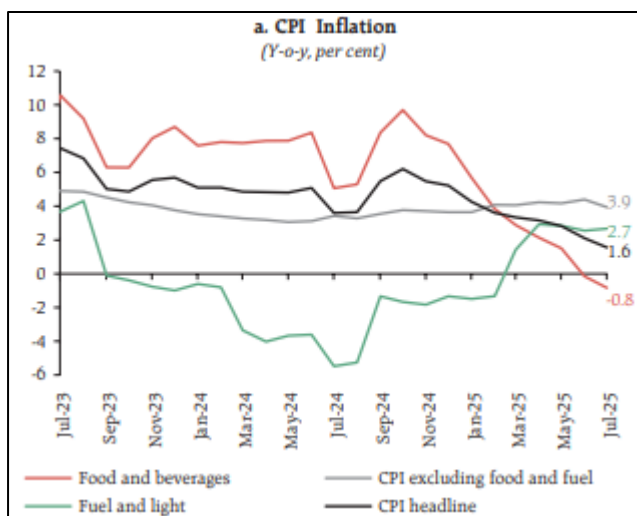
Notes: 1. The y-o-y growth (in%) has been calculated for all indicators. 2. The heatmap is applied on data from April 2023 till July 2025. 3. The heatmap translates the data range for each indicator into a colour gradient scheme with red denoting the lowest values and green corresponding to the highest values of the respective data series. 4. The data on domestic air passenger traffic for July 2025 growth rate is calculated by aggregating daily data. Sources: Airports Authority of India; Federation of Automobile Dealers Associations (FADA); and Ministry of Rural Development, GoI

Chart 13: Import, Export growth



Source: RBI monthly bulletin

Chart 14: Inflation



Source: National Statistical Office, RBI

Monetary Policy Statement, August 4 to 6, 2025

After assessing the current and evolving macroeconomic situation, the MPC voted to maintain the policy repo rate at 5.5%. Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) remains unchanged at 5.25% and the marginal standing facility (MSF) rate and the Bank Rate at 5.75%. This decision is in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 % within a band of +/- 2%, while supporting growth.

Rationale

- MPC noted that the inflation outlook in the near term has become more benign than anticipated earlier, and the average CPI inflation this year is expected to remain significantly below the target.
- Growth has held up well with some pick-up expected in the coming festive season and is evolving in line with our assessment of 6.5% for 2025-26.
- The current macroeconomic conditions, outlook and uncertainties call for continuation of the policy repo rate of 5.5% and wait for further transmission of the front-loaded rate cuts to the credit markets and the broader economy. Accordingly, the MPC unanimously voted to keep the repo rate unchanged.

Growth and Inflation Outlook

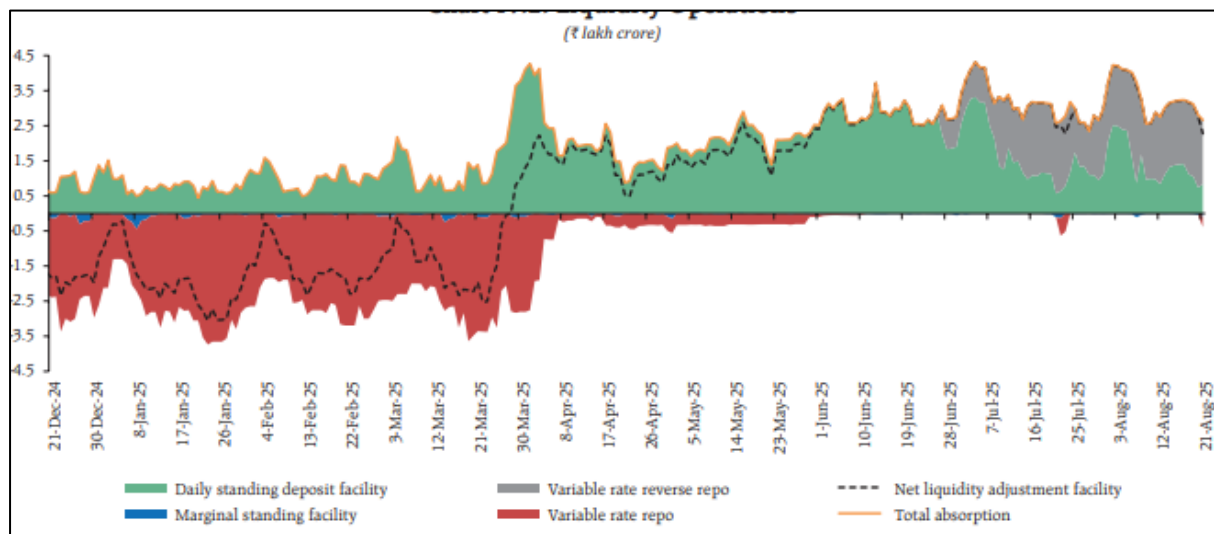
Domestic growth remains resilient and Private consumption, aided by rural demand, and fixed investment, supported by buoyant government capex, continue to boost economic activity. On the supply side, a steady south-west monsoon is supporting kharif sowing, replenishing reservoir levels and boosting agriculture activity. Moreover, services sector and construction activity remain robust. However, growth in industrial sector remained subdued and uneven across segments.

As for the growth outlook, the above normal southwest monsoon, lower inflation, rising capacity utilization and congenial financial conditions continue to support domestic economic activity. The supportive monetary, regulatory and fiscal policies including robust government capital expenditure should also boost demand. The services sector is expected to remain buoyant, with sustained growth in construction and trade in the coming months. Prospects of external demand, however, remain uncertain amidst ongoing tariff announcements and trade negotiations. **Taking all these factors into account, projection for real GDP growth for 2025-26 has been retained at 6.5%.**

Coming to inflation, CPI headline inflation declined for the eighth consecutive month to a 77-month low of 2.1 % (y-o-y) in June 2025. This was driven primarily by a sharp decline in food inflation led by improved agricultural activity and various supply side measures. Food inflation recorded its first negative print since February 2019 at (-) 0.2% in June. High-frequency price indicators signal a continuation of the lower price momentum in food prices this year to July as well. Core inflation, which remained within a narrow range of 4.1-4.2% during February-May, increased to 4.4% in June, driven partly by a continued increase in gold prices.

The inflation outlook for 2025-26 has become more benign than expected in June. Large favourable base effects combined with steady progress of the southwest monsoon, healthy kharif sowing, adequate reservoir levels and comfortable buffer stocks of foodgrains have contributed to this moderation. CPI inflation, however, is likely to edge up above 4 % by Q4:2025-26 and beyond, as unfavourable base effects, and demand side factors from policy actions come into play. Barring any major negative shock to input prices, core inflation is likely to remain moderately above 4 % during the year. Weather-related shocks pose risks to inflation outlook. Considering all these factors, CPI inflation for 2025-26 is now projected at 3.1%.

Chart 15: Liquidity Operations



Source: RBI Bulletin

Foreign exchange reserves As on August 1, 2025, India's foreign exchange reserves stood at US\$ 688.9 billion, sufficient to cover more than 11 months of merchandise imports

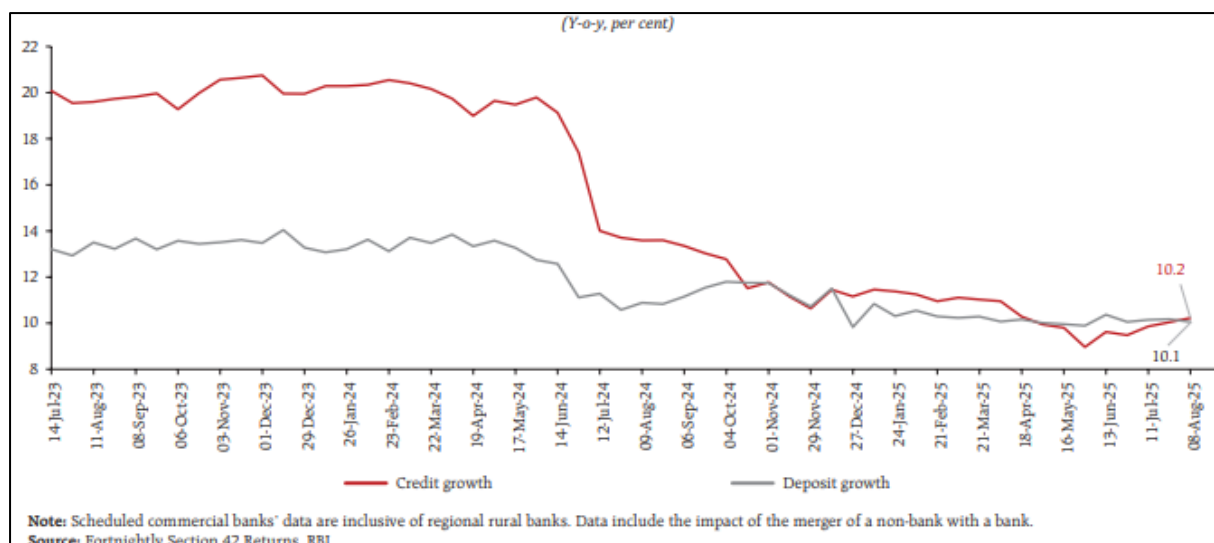
India's external debt to GDP ratio increased to 19.1% at end-March 2025 from 18.5% at end-March 2024. The net International Investment position to GDP ratio improved to (-) 8.7% from (-) 10.1% during the same period.

Trends of Scheduled Commercial Banks

For Scheduled Commercial Banks, the outstanding credit and deposit on a y-o-y basis increased by 9.9% and 10.5 %, respectively, between June-24 and June-25. The system-level Capital to Risk Weighted Assets Ratio (CRAR) of 17.44% in June 2025 was well above the regulatory minimum level. Ratio of non-performing loans improved further (GNPA ratio at 2.24% in June 2025 vis-à-vis 2.67% in June 2024, NNPA Ratio at 0.53% in June 2025 vis-à-vis 0.60% in June 2024). Liquidity buffers were robust, with an LCR of 132.80 % as of end June 2025.

The annualised return on assets (RoA) and return on equity (RoE) stood at 1.34% and 12.7%, respectively, in June 2025. Net Interest Margin was 3.24% for June 2025 (3.54% in June 2024).

Chart 16: Credit and Deposit growth of SCBs



Source: RBI

India Equities: Q1 Earnings disappoint once again, valuation looks stretched

Moving over to the earnings season, Q1FY26 earnings have been disappointing largely with few positive outcomes. The good news is that the EPS downgrades for FY26 are slowing down with the intensity of earnings cuts moderating compared to the previous quarters. EPS growth for Nifty-50 is projected to go up around to 10-12% in FY26 (vs. hardly any growth in FY25) aided by a likely improvement in the macro environment owing to the stimulative fiscal and monetary measures.

GST Reforms Cleared

Following Prime Minister Narendra Modi's Independence Day announcement on major GST Reforms, the GST Council has approved the new framework, largely in its proposed form. The main highlight is the shift from the current four-rate structure (5%/12%/18%/28%, with cess on some items) to a more streamlined two-rate system of 5% and 18%. In addition, a 40% rate will apply to select sin and luxury goods. Beyond rates, structural measures have been built in to improve ease of business and ease of living by simplifying and expediting processes. The new framework takes effect on September 22, 2025, aiming to pass benefits to consumers ahead of the festive season.

Big push to Consumption

This is the first significant reform of the government's current term and is expected to revive consumer sentiment. The measures will provide a strong lift to demand, support economic growth, and encourage capacity expansion, furthering India's push for self-reliance in an uncertain global environment.

Fiscal impact manageable

The Finance Ministry estimates a net revenue loss of about INR 480 billion, a level that is considered sustainable. With the government's track record of fiscal prudence and generally conservative estimates, confidence in this projection is high. Even if the eventual shortfall is greater, the government has multiple levers to offset the impact and safeguard fiscal balances.

Fixing structural challenges

The council has also resolved long-standing issues like inverted duty structures in sectors such as textiles and fertilizers. Additionally, the process for input tax credit has been simplified, which will ease the release of blocked credits. This is especially helpful for MSMEs, reducing cash flow constraints and improving overall ease of doing business.

Sectoral beneficiaries

The reforms are expected to benefit a wide range of industries. Direct gainers include Automobiles, Consumer Durables (air-conditioners, TVs, washing machines), FMCG (packaged food, beverages, home and personal care), Cement, Hotels (rooms below INR 7,500), Insurance (retail health and life), Retail (footwear and apparel priced below INR 2,500, electronics), Renewables (solar cells), and Oil & Gas (through CNG vehicles). Indirect beneficiaries are likely to be Banks and NBFCs, Logistics firms, Quick Commerce platforms, and EMS companies due to stronger demand and volumes.

Overall Perspective:

These GST Reforms represent far more than a tax adjustment—they are positioned as a growth initiative. By simplifying the system and easing compliance, the government seeks to strengthen consumer confidence and accelerate economic momentum. With more reforms expected in the future, this step is likely to energize growth while providing resilience against global headwinds. For markets, GST Reforms mark the first major structural measure of the government's new term and could trigger a positive cycle for Indian equities, which have been underperforming over the past year.

Over the last 12 months, the Indian equity market has largely traded within a range, once short-term fluctuations are set aside. The Nifty 50 was around 22,400 in May 2024, rose to about 26,300 by September, declined to nearly 22,000 in March 2025, and has since recovered to the 25,000 mark. The recent rally from March onward has been driven more by price expansion than earnings growth, resulting in elevated P/E multiples across large, mid, and small-cap segments— and also relative to developed and other emerging markets. While current valuations suggest a need for caution, India's strong macroeconomic fundamentals continue to make it an increasingly compelling destination for global investors.

While India is primarily a domestically driven economy, it is not immune to major geopolitical conflicts. While we feel that a trade deal will be eventually negotiated, persisting trade/tariff noises and policy uncertainty are likely to keep volatility intact. In such an environment, we believe accumulation in structurally sound themes and businesses — particularly those benefiting from localization, supply-chain resilience, and secular demand trends — will be critical. Investors who can see through the volatility and stay focused on the macro narrative will be best positioned to benefit when clarity returns.

Further our Constructive view on equities is on account of four key factors.

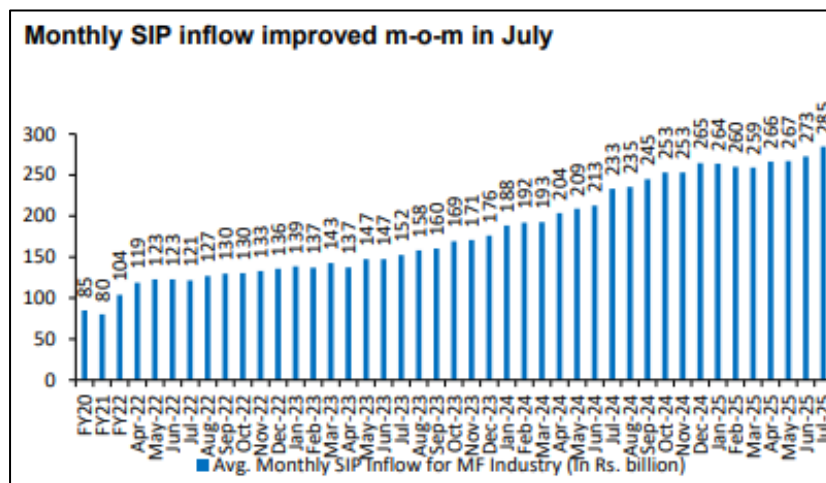
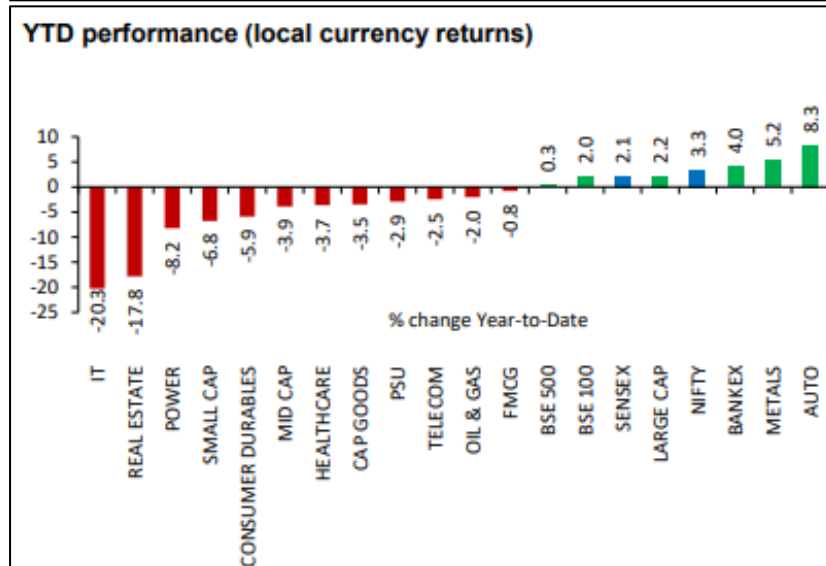
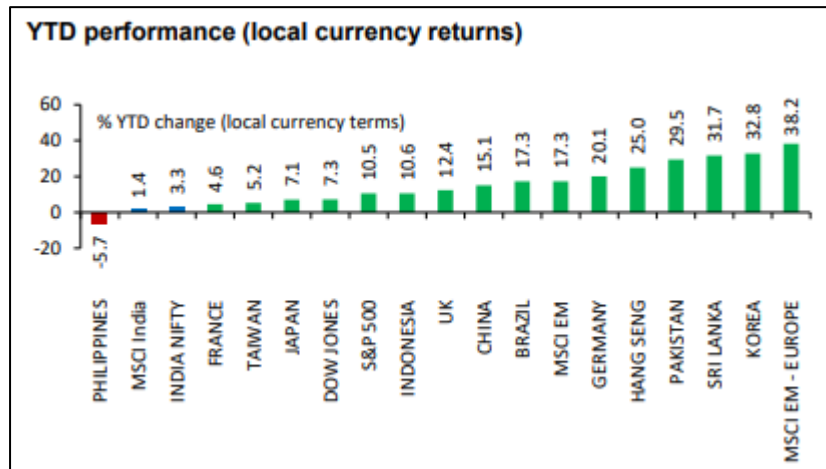
- GST Reforms paves the way for higher growth
- **Consensus earnings estimates remain robust**, with FY26 and FY27 earnings likely to be around 12% + CAGR which should be supportive for markets.
- The Union budget paved the way for lower fiscal deficit, tax relief and maintaining the momentum around capex
- RBI is now fully leaning towards supporting growth as inflation remains anchored and likely to do more to support growth.
- **WTI crude oil has declined significantly from USD 78 per barrel to USD 66 per barrel since last May.**

What can investors do to navigate this phase of extreme uncertainty?

1. **Look Beyond Near-Term Volatility**
We advise investors to *buy on dips* and refrain from frequent trading. The landscape is clouded by numerous moving parts—external tariffs, lack of earnings recovery domestically, and a persistent tug of war between global uncertainty and India's resilient macro backdrop.
2. **Buy the Dips**
Should markets correct more than 5% from current levels, we see an attractive buying opportunity. Valuations would then drop below long-term averages (LTA)
3. **Large and Midcaps to be the preferred area of accumulation**
4. **Wait to add export-Oriented Sectors**
Export oriented sectors are not just facing the tariff tantrums but also an eventual global slowdown in the coming quarters unless trade agreements go through and the Fed starts to cut rates. If these sectors face a sharp correction (more than 10%) from here on then look to accumulate the sectors as there are quite a number of high-quality companies that can turnaround over next few years from the current slowdown.

Trends in Indian Equity Market

Charts 17-18-19: Global and Domestic markets performance, domestic sectors performance and domestic SIP flows



Source: AMFI, NSE India, SBI MF, BSE

Chart 20: Nifty EPS trend

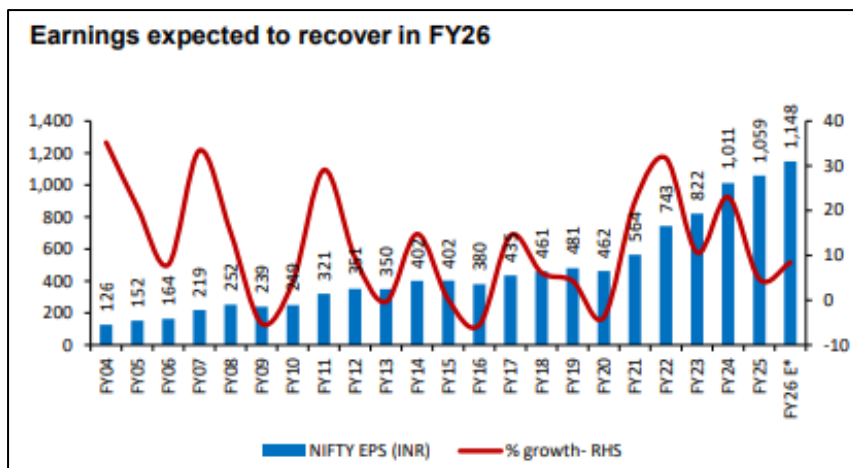


Chart 21: Nifty Q1 FY26 Sales

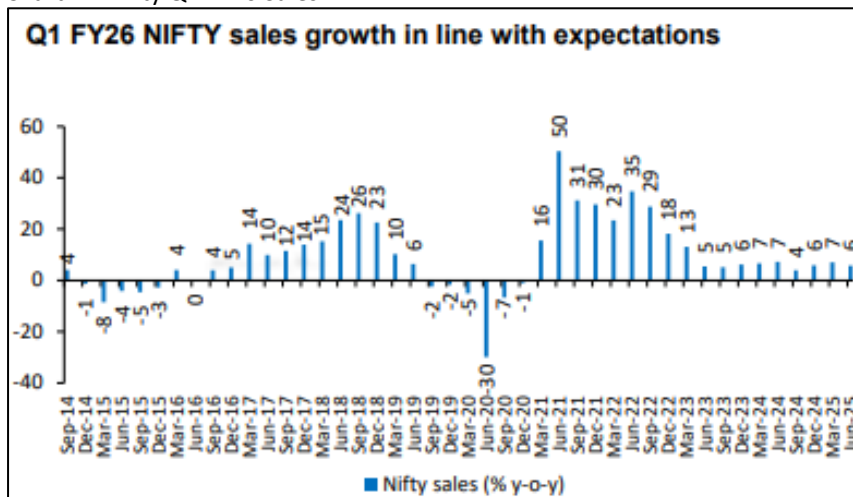
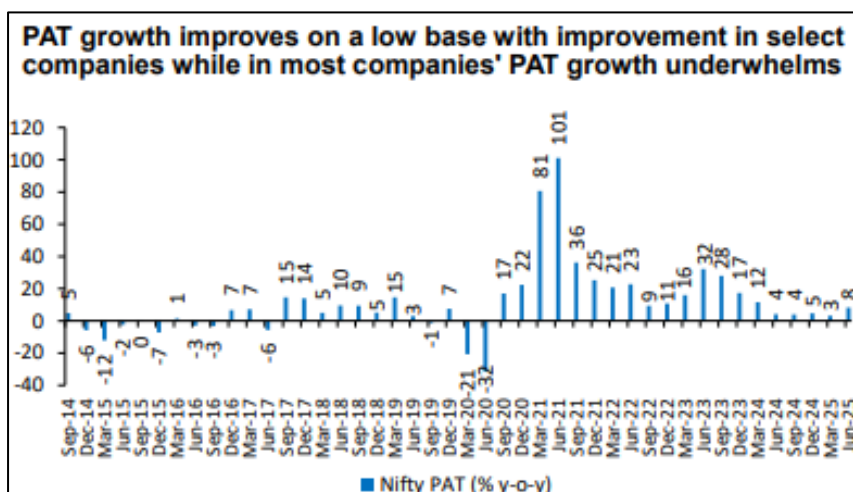


Chart 22: Nifty Q1 FY26 PAT



Source: MOSL, SBIFM Research; NB: Results released for 31 NIFTY companies for June 2025 quarter, historical data is for all the NIFTY 50 companies, EPS growth is adjusted for Axis bank losses for FY23

Chart 23: FIL trends

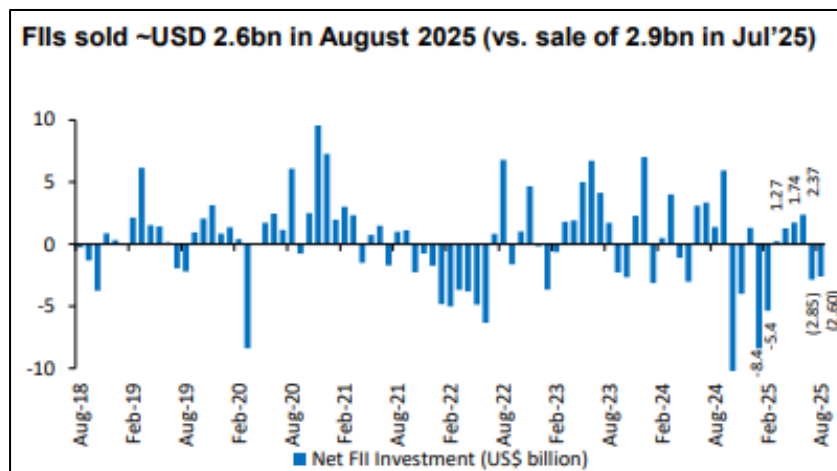


Chart 24: DII trends

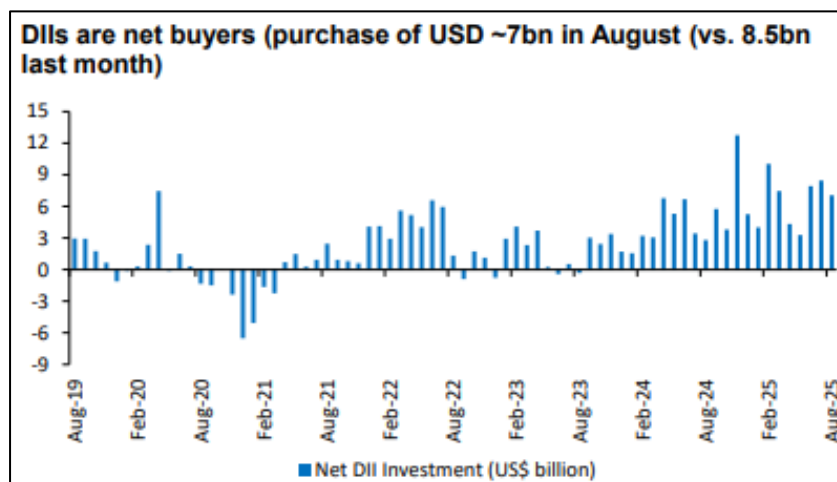
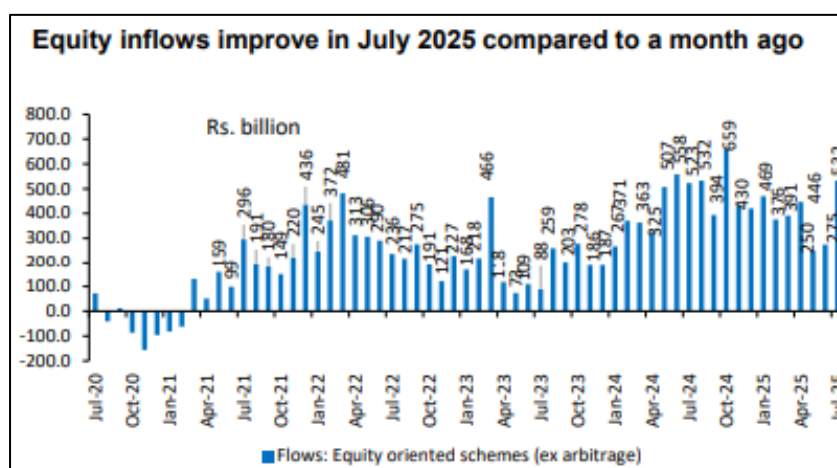


Chart 25: Domestic Equity MF flows



Source of charts on this page: Bloomberg, SBIMF, AMFI

India Bonds: Larger part of interest rate reduction is behind us

The MPC in August 2025 kept the repo rate at 5.5%, with the SDF at 5.25% and MSF/Bank Rate at 5.75%. The stance aims to keep CPI inflation near 4% while supporting growth. Inflation is running lower than expected, and GDP growth for FY2025-26 is retained at 6.5%, with a festive-season boost likely.

CPI inflation fell to 2.1% in June 2025, a 77-month low, as food prices declined and agriculture improved. Food inflation turned negative for the first time since 2019. Core inflation edged up to 4.4% on higher gold prices, but the overall outlook is favorable with base effects, good monsoons, and ample foodgrain stocks.

Indian bond markets, especially at the short to medium end of the curve up to 4–5-year maturities, had witnessed a sharp rally (except for last couple of months). This move has been driven by a combination of cooling inflation, front loading of rate cuts by RBI, and the infusion of liquidity into the financial system. The interplay of these factors has created a supportive backdrop for bonds, though the market now finds itself in a situation where positives and challenges are almost evenly balanced.

On the positive side, the RBI still has ample room to maneuver with further rate cuts if conditions require, providing a strong cushion for the market. Consumer price inflation is projected to remain comfortably below the 4% mark for the remainder of the year, which further strengthens the case for an accommodative stance. Importantly, despite a minor rise in the fiscal deficit on account of GST reforms, there is likely to be no change to the government's borrowing calendar, not adding to supply-side pressures on the bond market. Adding to this supportive environment, the U.S. Federal Reserve is expected to resume rate cuts as global economic uncertainty deepens, which could ease external pressures and improve sentiment toward Indian fixed income.

On the other hand, there are equally significant challenges that cannot be ignored. The government's tax revenues are likely to come under strain, with direct tax collections already running below projections and targets for income tax growth looking difficult to achieve based on year-to-date data. The recent GST reforms, while positive for consumption and economic efficiency in the long term, are expected to result in lower near-term GST collections, further weighing on the fiscal position. In addition, the income tax reductions announced in the Union Budget of February 2024 will constrain the government's ability to shore up revenues. Finally, while the reforms are likely to spur higher consumption demand, this very increase could over time translate into renewed inflationary pressures, partly offsetting the current disinflationary benefits.

Looking ahead, the bond market will likely remain in a tug-of-war between these supportive and challenging forces. In the near term, the short end of the curve should continue to benefit from the RBI's accommodative stance, subdued inflation, and a stable borrowing calendar, making it relatively attractive for investors seeking carry and lower duration risk. However, as the year progresses, fiscal slippages from weaker tax collections and the possibility of consumption-driven inflation may limit the extent of further easing and could introduce volatility. The medium-to-long end of the curve may face greater uncertainty due to these risks, while the short end remains better anchored. Investors may therefore find opportunities in maintaining exposure at the front end of the curve, while keeping a cautious watch on evolving fiscal dynamics and inflation trends.

Given the environment, we now prefer short dated bonds and funds with modified duration of less than 3 years. We prefer over weight allocation to AAA, AA+ rated bonds over high-risk credits.

Post the Monetary policy outcome (Aug 2025), it is important for investors to expect lower fixed income returns going ahead as yields have rallied a lot over the last 1 year and large part of the rate cut cycle is behind us. We re-iterate to reduce duration of the bond portfolio and consider adding hybrid products offered by mutual funds over pure fixed income play to take advantage of tax benefits offered by such products. Investors are advised to consider their risk profile and appetite before considering such hybrid products.

Table 12: Yield movement

	2023 end	2024 end	Jun-25	Jul-25	Aug-25	m-o-m (in bps)	YTD change (in bps)
Repo rate	6.50	6.50	5.50	5.50	5.50	0	-100
1 Yr T-Bill	7.13	6.69	5.57	5.57	5.64	7	-105
3M T-Bill	6.93	6.55	5.41	5.40	5.51	11	-104
3 year GSec	7.07	6.73	5.69	5.61	5.62	1	-110
5 year GSec	7.09	6.72	5.90	5.87	6.02	15	-70
10 year GSec	7.18	6.79	6.32	6.38	6.60	22	-20
3 Yr Corp Bond*	7.78	7.58	6.81	6.69	7.00	31	-58
5 Yr Corp Bond*	7.79	7.46	6.85	6.81	7.08	27	-38
10 Yr Corp Bond*	7.76	7.24	7.11	7.19	7.35	16	11
1 Yr IRS	6.64	6.51	5.54	5.51	5.50	-1	-101
5 Yr IRS	6.19	6.20	5.71	5.72	5.78	6	-43
Overnight MIBOR Rate	6.90	7.15	5.52	5.54	5.54	0	-161
10 year SDL	7.65	7.15	6.95	7.06	7.41	35	26
INR/USD	83.21	85.61	85.77	87.60	88.21	-0.7^	-3.0^
Crude oil Indian Basket**	77.43	73.34	69.77	70.95	69.07	-2.6^	-5.8^

Source: SBI MF

Market Data

Table 13: India Index Performance (%) 31 Aug 25	1M	1Y	3Y
Nifty 50	-1.2	-2.0	12.5
Nifty Next 50	-1.8	-11.8	15.4
Nifty 200	-1.6	-4.0	13.8
Nifty 500	-1.8	-4.4	14.7
Nifty Midcap 150	-2.8	-4.8	21.2
Nifty Smallcap 250	-3.6	-8.6	21.9
Nifty Microcap 250	-3.8	-8.0	29.7
Theme/Sector			
Nifty Auto	5.9	-3.7	24.6
Nifty Bank	-3.9	5.3	11.7
Nifty CPSE	-3.3	-15.2	33.5
Nifty Defence	-4.6	7.6	57.4
Nifty FMCG	0.7	-9.2	10.5
Nifty Infrastructure	-2.0	-5.1	20.9
Nifty IT	-0.3	-15.9	9.6
Nifty Manufacturing	0.3	-5.5	20.1
Nifty Metals	-1.2	-1.8	16.2
Nifty Oil and Gas	-4.0	-18.9	9.7
Nifty Pharma	-4.2	-5.4	20.6

Source: NSE India, StatLane Research, Index = Total Return Index, Performance over 1 year is Compounded Annualised

Table 14: India Smart Beta Index Performance (%) 31 Aug 25	1M	1Y	3Y
Nifty Alpha 50	-5.9	-18.0	18.7
NIFTY Alpha Low-Volatility 30	-1.0	-13.0	16.6
Nifty Low Volatility 50	0.1	-2.3	16.6
Nifty100 Low Volatility 30	1.5	-0.8	16.4
Nifty200 Momentum 30	-1.8	-19.5	16.0
NIFTY200 Quality 30	1.1	-9.0	13.0
NIFTY200 Value 30	-2.8	-11.5	30.3

Source: NSE India, StatLane Research, Index = Total Return Index, Performance over 1 year is Compounded Annualised

Table 15: India Valuation Metric	P/E 31 Aug 25
Nifty 50	21.46
Nifty Next 50	20.34
Nifty 500	23.49
Nifty Midcap 150	32.1
Nifty Smallcap 250	31.51
Nifty Microcap 250	23.39
Nifty Auto	25.62
Nifty CPSE	12.92
Nifty FMCG	42.08
Nifty India Defence	51.44
Nifty India Manufacturing	27.18
Nifty Infrastructure	21.32
Nifty IT	25.41
Nifty Oil & Gas	11.44
Nifty Pharma	31.63
Nifty Private Bank	17.48
Nifty PSU Bank	6.96
Nifty Metal	17.52
Nifty Realty	41.75

Source: NSE India, StatLane Research

Table 16: India Smart Beta Valuation Metric	P/E 31 Aug 25
Nifty Alpha 50	42.22
NIFTY Alpha Low-Volatility 30	32.44
Nifty Low Volatility 50	33.24
Nifty100 Low Volatility 30	30.98
Nifty200 Momentum 30	37.70
NIFTY200 Quality 30	27.99
NIFTY200 Value 30	8.89

Source: NSE India, StatLane Research

Table 17: Global Index Performance (%) 31 Aug 25	1M	QTD	YTD
S&P 500	2.0	4.3	10.8
Dow Jones Industrial Average	3.2	3.3	7.0
S&P Developed Ex US BMI	4.5	3.7	24.8
S&P Europe 350	3.5	1.5	25.6
S&P Asia 50	0.6	5.0	24.5
S&P EM BMI	2.7	4.3	16.2

Note 1: Source: S&P Dow Jones Indices LLC and/or its affiliates. 2 Index performance based on total return (USD)

Table 18: Global Smart Beta Index Perf (%) 31 Aug 25	1M	QTD	YTD
S&P 500 Momentum	0.6	3.5	23.2
S&P 500 Equal Weight	2.7	3.7	8.7
S&P 500 Growth	0.8	4.3	13.5
S&P 500 Value	3.4	4.4	7.8
S&P 500 Low Volatility	1.5	1.3	6.5

Note 1: Source: S&P Dow Jones Indices LLC and/or its affiliates. 2 Index performance based on total return (USD)

Table 19: India Fixed Income Yield %	31 Aug 25	Month back
Repo	5.50	5.50
1 Year CD	6.35	6.22
10 Year GOI	6.67	6.45
5 Year PSU	7.06	6.75
1 Year NBFC	6.69	6.51
3 Year NBFC	7.18	7.01
US 10 Year Treasury	4.22	4.38

Source: StatLane Research

Table 20: India Fixed Income Indices	Index Return %			
As of 31 August 2025	Yield (%)	MD (Yrs)	1M	1Y
Nifty 5Y SDL Index	6.92	4.25	-0.73	7.59
Nifty 10Y SDL Index	7.39	7.06	-3.21	3.85
NIFTY 10 yr Benchmark G-Sec	6.70	7.21	-0.98	7.99
NIFTY Corporate Bond Index	7.22	2.37	0.14	8.11
NIFTY Banking and PSU Debt Index	6.78	2.61	0.16	8.26
NIFTY Low Duration Debt Index	6.52	0.60	0.44	7.81
NIFTY Short Duration Debt Index	6.70	1.79	0.22	8.16
NIFTY Credit Risk Bond Index	8.78	1.94	0.36	8.28
NIFTY Long Duration Debt Index	7.22	8.08	-1.83	4.64
NIFTY Short Duration G-Sec Index	6.05	2.22	0.06	8.11
NIFTY Long Duration G-Sec Index	7.28	10.75	-2.83	3.28

Source: NSE India, StatLane Research, MD=Macaulay Duration

Table 21: Commodities	31 August 25	31 July 2025
Oil (Brent \$)	67.20	69.94
Gold (\$)	3408	3295

Source: StatLane Research

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