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at a glance

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EQUITY MARKET OVERVIEW

AUGUST 12, 2025 TO SEPTEMBER 12, 2025

Domestic Equity Market Update

Indian equity indices, i.e., BSE Sensex and Nifty 50, ended the period on a positive note to the tune of 2.1% and 2.6% MoM, respectively. Broader market indices such as BSE Midcap delivered a positive return of 3.1% MoM and BSE Smallcap delivered a positive return of 3.4% MoM.

On the BSE sectoral front, indices ended mostly on a positive note. Auto, Metal and Consumer Durables were the biggest gainers. In August 2025, Foreign Portfolio Investors (FPIs) were net sellers in equities to the tune of ₹378 bn.

Domestic equity markets ended the week on a positive note following robust macroeconomic data. India's economy expanded by 7.8% YoY in Q1 FY26, marking the strongest growth in five quarters. Additionally, the Services PMI surged to 62.9 in August 2025, driven by a sharp rise in new orders. Optimism around GST rate cuts, easing trade frictions with the US, expectations of a US Federal Reserve (Fed) rate cut following a softer-than-expected US jobs data, progress in peace talks in Europe, and the S&P rating upgrade also supported the equity market rally.

Domestic Macroeconomic Updates

- As per estimates released by Ministry of Statistics and Programme Implementation (MoSPI), India's Gross Domestic Product (GDP) grew 7.8% YoY in Q1 FY26, hitting a five-quarter high. During Q1 FY25, GDP growth stood at 6.5% YoY.
- According to ICRA, the Indian economy is expected to grow at 6.7% YoY in Q1 FY26, higher than 6.5% YoY growth registered in Q1 FY25.
- Fitch Ratings affirmed India's rating at "BBB-" with a stable outlook on the back of robust growth and solid external finances.
- According to Moody's, the decline in India's effective Goods and Services Tax (GST) rates is expected to boost private consumption, but the resulting loss of tax revenue could limit progress in fiscal consolidation and debt reduction. They said that the revenue forgone is likely to exceed government estimates.
- As per government data, Goods and Services Tax (GST) collection in August 2025 rose 6.5% YoY to over ₹1.86 trillion.
- The 56th Goods and Services Tax (GST) Council meeting, chaired by Finance Minister Nirmala Sitharaman, has announced that GST rates will be reduced to 5% and 18%. Most of the items useful for common man have been moved to 5% slab.
- As per Goods and Services Tax Network (GSTN) data, the generation of e-way bills rose 22.5% YoY to 129.13 mn in August 2025, marking the second-highest monthly tally on record. This follows July 2025's all-time high of 131.91 mn.
- According to National Statistics Office (NSO) data, growth in Industrial Production rose to a four-month high of 3.5% YoY in July 2025 from 1.5% YoY in June 2025.
- Flash survey results from S&P Global showed that the HSBC flash composite output index rose to 65.2 in August 2025 from 61.1 in July 2025. India's private sector activity expanded at the fastest pace on record amid sharp growth in new orders.
- As per quick estimates released by the Ministry of Commerce and Industry, India's merchandise trade deficit widened to an eight-month high of USD 27.35 bn as imports picked up 8.6% YoY.
- As per data released by the Ministry of Commerce and Industry, output growth in India's eight core infrastructure industries fell to a two-month low of 2% YoY in July 2025.

Global Market Updates

US equities (S&P 500, Dow Jones Industrial Average) ended the period on a positive note as the decline in July 2025 job openings, signalling a softening labor market, and a positive reaction to a separate Labor Department report on consumer price inflation for August 2025 boosted investor expectations of an interest rate cut by the Federal Reserve. Markets are now looking ahead to the Federal Reserve's monetary policy announcement scheduled for September 17, 2025.

European equities ended the period on a mixed note, supported by gains in defense and healthcare after a US court ruled many tariffs as illegal. However, broader gains were capped, weighed down by geopolitical concerns stemming from escalating clashes in Gaza and Ukraine, as well as political uncertainty in France.

Brent crude price rose from USD 66.12 per barrel to USD 66.99 per barrel due to escalating supply concerns from the Russia-Ukraine war, emerging Middle East tensions and the US President's signal of potential new sanctions on Russia. A fall in US crude oil inventories and investors awaiting the progress of the peace talks in Europe also helped the price uptick.

Fund Managers' Corner

As per Fund Managers, interest rate movements, global slowdown concerns, corporate earnings trajectory, volatility in the US bond yields, Trump Administration's tariff policies and Foreign Portfolio Investors' (FPIs') outflows could continue to pose risks to Indian equities in the near to medium term. Nevertheless, strong domestic macros and high-frequency indicators, tax relief in the budget, the GST slab rationalisation, steady government-led capex traction, anticipation of improvement in private capex, positive management commentaries on future prospects, revival of rural economy, and positive Domestic Institutional Investors' (DII) flows may provide reasons for the markets to trend higher.

Sectoral rotation is emerging as a current market trend as no single sector seems to have taken the leadership and, as markets are getting narrower, better stock pickers would be able to generate alpha as per Fund Managers. Looking at the current scenario globally, which is indicating uncertainty and volatility, Fund Managers would be looking at tilting their portfolios towards domestic-centric companies and avoiding certain export-oriented names.

Though valuations remain elevated compared to past averages, the Fund Managers' ability to identify better bottom-up ideas and adjust their portfolios periodically could be drivers of relative outperformance vs their peers, irrespective of their investing style. Given that return volatility continues in the market, actively managed equity funds assume importance in an investor's portfolio.

Domestic Indices	Close	12-Aug-25	Absolute Change	% Change
BSE Sensex	81905	80236	1669	2.1
Nifty 50	25114	24487	627	2.6
Nifty Next 50	68194	66224	1970	3.0
Nifty 500	23190	22569	622	2.8
BSE 200	11390	11096	294	2.6
BSE 100	26315	25660	655	2.6
Nifty Midcap 100	58227	56325	1902	3.4
Nifty Smallcap 100	17990	17498	492	2.8
BSE Bankex	61446	61308	138	0.2
BSE IT	35474	34036	1438	4.2
BSE Auto	59962	53321	6641	12.5
BSE FMCG Sector	20786	20264	523	2.6
BSE Oil&Gas	26234	26342	-108	-0.4
BSE Healthcare	44923	43825	1098	2.5
BSE Cap Goods	69692	66461	3231	4.9
BSE Metal	32782	30745	2037	6.6
BSE Power	6690	6644	46	0.7
BSE Cons Durable	61655	58461	3194	5.5
BSE Infra.	582	583	-1	-0.2
BSE Realty	6869	6866	3	0.0

Overseas Indices	Close	12-Aug-25	Absolute Change	% Change
S&P 500	6584	6446	139	2.1
Dow Jones Ind Avg	45834	44459	1376	3.1
Dax (Germany)	23698	24025	-327	-1.4
FTSE (UK)	9283	9148	136	1.5
Hang Seng	26388	24970	1418	5.7
Nikkei	44768	42718	2050	4.8
Shanghai Composite	3871	3666	205	5.6

Source: Bloomberg

Note: Closing prices of all the above indices are as on September 12, 2025

Outlook & Investment Strategy

Going forward, the Indian equity market is likely to be driven by developments around the India-US trade deal, movement in the US Dollar index, improvement in consumption demand post the proposed GST slab rationalisation, FPI/DII flows, and strong liquidity support by the RBI. The US President Donald Trump has imposed about 50% tariff on India, including a 25% penalty citing India's purchase of Russian oil which has led to volatility in sectors exposed to the US. There is still an expectation of a better trade deal that can come about in due course. The proposed GST rate rationalisation may support sectors that could be adversely impacted due to tariffs and act as a tailwind to the overall domestic consumption going ahead. The Fed Chair's remarks at the Jackson Hole Symposium hinted at the possibility of a softening in their stance which could improve liquidity in the US markets, bring the US Dollar index down, which, in turn, could direct flows towards Emerging Markets. Overall, the Q1 FY26 GDP print of 7.8% YoY, surpassed expectations on the back of low inflation, strong central and state capex along with signs of pickup in private consumption which could sustain going forward due to a lower base and contained inflation, while a lot will also depend on how US tariffs play out along with the impact of GST rate rationalisation.

With a low base, any pickup in consumption demand due to GST rationalisation, or further meaningful support provided by the RBI could help drive superior earning performance which is likely to also ensure better equity market performance.

With rich valuations, incoming US tariff related weakness and continued weakness in urban demand, the Indian equity markets seem to be in consolidation mode post the recent up-move. The supply from FPIs and the Primary markets on the back of rich valuations seem to be weighing down on the market performance. The Government on its part has rationalised GST rates to improve domestic consumption. Market participants also expect further policy rate cuts by the RBI to keep growth buoyant. If further support comes about, or if tariffs get re-negotiated, or we get favourable tariffs with EU (negotiations ongoing) the markets are likely to take that positively. Currently, the markets are getting narrower and opportunities seem to be available in the set of stocks which have been able to deliver incrementally better revenue/earnings growth. Also, with no specific sector showing broad-based and continued momentum, Fund Managers who are able to be fairly nimble and identify growth ideas could generate alpha vs. their peers.

In terms of deployment strategy, we are cautiously optimistic to maintain our investment deployment strategy of 50% Lumpsum and 50% staggered over the next 5-6 months, as Indian macros still remain amongst the best in the world and any near-term volatility could be used by investors to add to their exposures. Fund managers who can pick out companies with superior growth prospects are likely to outperform vs pure value pickers in the medium-term.

On allocations in Equity Mutual Fund perspective, investors could look at investing across Largecaps, Flexicap, Large and Midcap, Hybrid equity, Business cycle funds and using STP as an instrument to invest in Smallcap/Midcap/Multicap funds; in line with their risk profile and product suitability from a 2-3 years' time horizon.

Highlights

Domestic G-Sec yields remained flat during the above-mentioned period, wherein yield on the 10-year benchmark, the 6.33% G-Sec 2035 bond, were unchanged at 6.49%. In case of AAA-rated corporate bonds, yields up to the 1-year segment rose up to 18 bps, whereas yields above 1-year segment (3.5-year) fell up to 13 bps.

Movement in G-Sec yields

Indian G-sec yields initially rose after the Indian Prime Minister announced sweeping changes to the Goods and Services Tax (GST) regime, reigniting fiscal concerns and heightening fears of increased debt supply. They rose further as the sentiment was dented after strong economic growth data. However, yields went down after the government projected a lower than initially expected net revenue loss from the recent Goods and Services Tax (GST) rationalization, easing fiscal concerns. Yields declined further driven by optimism of potential reduction in longer dated debt supply in H2 FY26.

Liquidity Conditions - Domestic banking system liquidity, as measured by the Reserve Bank of India's (RBI's) net Liquidity Adjustment Facility (LAF), deteriorated marginally, to stand at a daily average surplus of around ₹2.58 trillion during the above-mentioned period as compared to the daily average surplus of around ₹2.98 trillion during the period of July 14, 2025 to August 12, 2025.

Macro Data released during the period

India's Consumer Price Index (CPI) based inflation for August 2025 inched up to 2.07% YoY from the revised estimate of 1.61% YoY in July 2025, marginally below market expectations of 2.10% YoY. Core CPI inflation decelerated marginally to 4.11% YoY in August 2025 as against 4.12% YoY in the previous month. The 56th GST Council meeting announced that the number of GST slabs will be reduced to two, i.e. 5% and 18%. The two-rate GST structure will kick in from September 22, 2025. India's Gross Domestic Product (GDP) growth registered during for April-July of FY26 expanded to 7.0% YoY from 6.9% YoY in the April-July of FY25. India's Current Account (CA) surplus of USD 13.5 bn (1.3% of GDP) upgraded India's long-term sovereign credit rating to 'A+' by Moody's.

Global Updates

The US Consumer Price Index (CPI) rose 0.2% YoY in August 2025, slightly above economists' estimates. Core CPI also in line with estimates. The European Central Bank (ECB) kept its policy rate at 4.0% and its growth projection for 2025 at 1.0%. The refinancing rate rose marginally as the Harmonized Index of Consumer Prices (HICP) rose 0.2% YoY in July 2025. Core HICP rose 1.5% YoY in Q2 FY25 following a 1.4% YoY increase in Q1 FY25. The US (UPR) unchanged at 3.0%. Similar

Outlook

The liquidity condition, as measured by the Reserve Bank of India's (RBI's) Variable Rate Reverse Repo (VRRP), remained unchanged at 2.5% in its 6th August 2025 MPC meeting while continuing with their neutral stance. The repo rate inched up to 2.07% YoY in August 2025, slightly above market expectations of 2.10% YoY in July 2025. The 7.0% YoY in Q1 FY26, which was projected to determine the need for GST rationalization is expected to ease. In the interim, the projection of a lower supply of longer dated securities in the H2 FY26 borrowing calendar has been viewed positively by market participants. In the US, Fed Chair Jerome Powell gave subtle hints towards rate cuts in his Jackson Hole Speech. Going forward, developments around a Bilateral Trade Agreement with the US along with Fed's policy decisions and forward commentary on future policy easing are expected to remain key driving factors for market sentiments and capital flows.

Fund Managers' Outlook

Most Fund Managers (FMs) believe that RBI may stay on wait-and-watch mode, monitoring the growth-inflation dynamics, but there is high probability of one more rate cut before the year ends, especially if growth concerns emerge due to higher-than-expected tariff induced setbacks. Otherwise, there will be a long pause. Most FMs believe that though the recently announced GST rationalization and lower than budgeted tax revenue on the back of lower nominal GDP has led to some fiscal slippage concerns, it is largely within manageable levels. They expect inflation to remain benign, where some FMs also highlighted it may undershoot RBI's projection of 3.1% for FY26. However, challenges remain in achieving the Central bank's projected growth number unless we find some middle ground to higher-than-expected US tariff which has been imposed, due to second order impact from the affected labor sensitive sectors. Majority of the FMs feel that the recent sell off at the longer end of yield curve and resultant high term spreads has created a tactical opportunity at the longer end. Bond prices will also get support if the H2 FY26 borrowing calendar shows reduced borrowing of longer tenor bonds as is expected by the market participants. Carry through corporate bonds remains a good strategy from a risk-reward perspective due to lucrative YTM and possibility of corporate yields going down further in the 1-5 years tenor basis easing liquidity. Additionally, the Income plus Arbitrage category continues to find the favor of FMs for the greater than 2 years tenure.

Fixed Income Mutual Fund Investment Strategy

Despite the recent contraction, the current G-Sec term spreads at the longer end still remain attractive tactically for Dynamic bond funds and Gilt funds which have positioned their portfolio to take advantage of the same. The spread at the shorter end of the Corporate Bond yield curve continues to remain at lucrative levels against G-secs. Liquidity is expected to remain comfortable, and the curve may steepen further. Thus, a case continues to exist for investment into corporate bond funds that are at the 1-4 year segment of the curve. Hence, investors can look at Corporate Bond Funds for a horizon of 15 months and above. For a horizon of 24 months and above, investors may consider Income Plus Arbitrage FoF or consider Dynamic Bond Funds and Gilt Funds for tactical opportunity. For a horizon of 3 months and above, investors can consider Arbitrage Funds and Money Market Funds. Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds. Investors can also look at Multi-asset Allocation Funds for a horizon of 36 months and above. Investors should invest in line with their risk profile and product suitability.

Indicative Quotes

December'25 (3-month) - T-Bill	5.49%
March'26 (6-month) - T-Bill*	5.62%

* Based on the cut-off at the last auction

HDFC Bank FD Interest Rate (p.a.). Applicable from 25th June 2025

Period	Interest Rate (p.a.)
7 Days - 14 Days	2.75%
15 Days - 29 Days	2.75%
30 Days - 45 Days	3.25%
46 Days - 60 Days	4.25%
61 Days - 89 Days	4.25%
90 Days < = 6 Months	4.25%
6 Months 1 Day < = 9 Months	5.50%
9 Months 1 Days to < 1 Year	5.75%
1 Year to < 15 Months	6.25%
15 Months to < 18 Months	6.35%
18 Months to < 21 Months	6.60%
21 Months - 2 Years	6.45%
2 Years - 2 Years 6 Months	6.45%
2 Years 6 Months - 3 Years	6.45%
3 Years - 3 Years 6 Months	6.45%
3 Years 6 Months - 4 Years	6.40%
4 Years - 4 Years 6 Months	6.40%
4 Years 6 Months - 5 Years	6.40%
5 Years - 5 Years 6 Months	6.15%

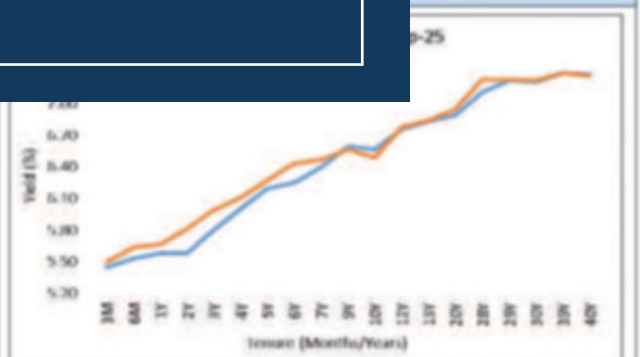
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High - 5.35%
Low - 4.80%

6 Months ago	1 Year ago
6.56%	6.70%
6.60%	6.72%
6.68%	6.81%
7.50%	7.50%

Source - Coganis, RBI

Yield Curve



Note: 1Y represents 364-Days T-Bill's auction cut-off yields

Source: Coganis, RBI

The G-Sec term spread between the 1-year and 10-year G-Secs narrowed to ~82 bps on 12 September, as against ~98 bps on 12 August. Also, the G-Sec term spread between the 1-year and 5-year G-Secs narrowed to ~60 bps on 12 September, as against ~61 bps on 12 August.