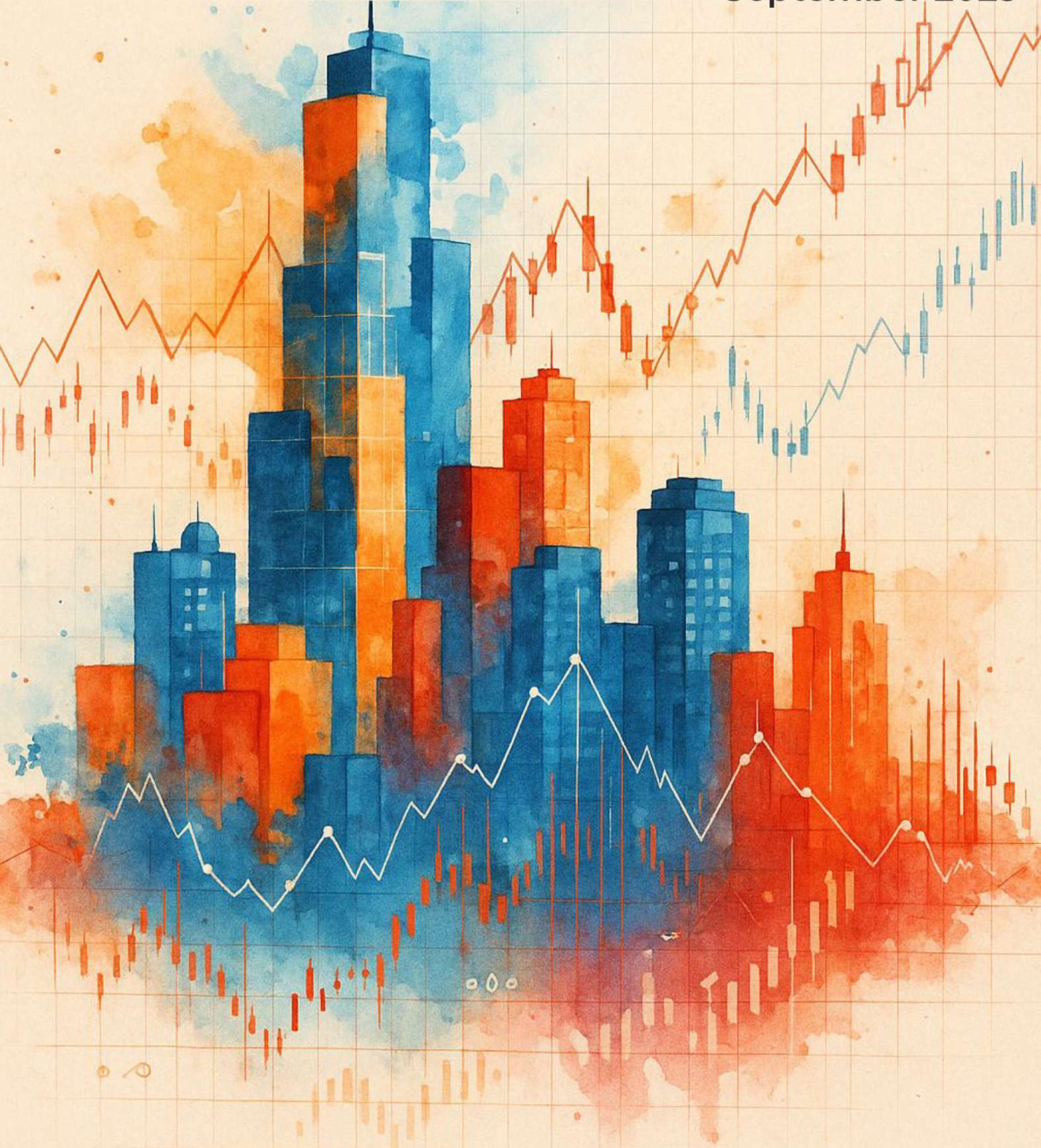
Centricity
Together Forward

Market Outlook

September 2025



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CEO's desk

We are pleased to share this month's edition of our Market Outlook, highlighting the key economic and market trends shaping the landscape. Global dynamics, policy shifts, and ongoing geopolitical uncertainties continue to influence sentiment across asset classes. In this setting, our focus remains on providing clear and balanced insights, with a long-term perspective to help navigate through the noise.

Indian equity markets have held up well, but the rally remains narrow with much of the momentum concentrated in a few segments. Valuations in certain pockets are elevated, making selectivity more important. We continue to lean on a bottom-up approach, with a strong preference for quality businesses that demonstrate consistent and sustainable growth.

Bond markets reflect a balance of domestic and external dynamics. Softer inflation and recent policy adjustments have influenced movements at the shorter end, while the longer end has been more sensitive to fiscal borrowing requirements, currency pressures, and global investor flows. International factors, including central bank actions and cross-border capital trends, remain important in shaping sentiment and yield dynamics across the curve.

The economy has maintained a solid pace, with services, construction, and investment continuing to support activity. At the same time, easing inflation has shaped the nominal growth trajectory, while developments such as trade measures, currency movements, and shifts in consumption patterns add complexity to the outlook. Global conditions remain an important backdrop, with policy changes and external demand trends influencing the near-term environment.

As always, we are closely tracking developments across economies and markets. With conditions shifting on multiple fronts, staying informed and adaptable will be essential in the months ahead.

Manu Awasthy

Manu Awasthy

CEO & Founder
Centricity

Pulse check

India's Sovereign Rating Upgrade: What S&P's Move Means for the Economy ?

Global rating agencies had held India's sovereign grade steady for years, noting its strong growth but also concerns around deficits and reforms. However, **in August 2025, S&P Global upgraded India's rating from BBB- to BBB, its first such move since 2007.**

It means: India is viewed as a somewhat safer investment than before, but the BBB rating still signals vulnerability to economic conditions.

Moody's, on the hand, continues to rate India at Baa3 and Fitch, too, has upheld its sovereign rating at BBB-.

To get a better understanding of this, let's dig into the fundamentals first.

What Are Sovereign Ratings And What Do They Mean?

A sovereign credit rating is like a report card on a country's ability to repay its debt. The most widely followed global rating agencies, S&P, Moody's, and Fitch, assess factors such as economic strength, government finances, and political stability to assign these ratings.

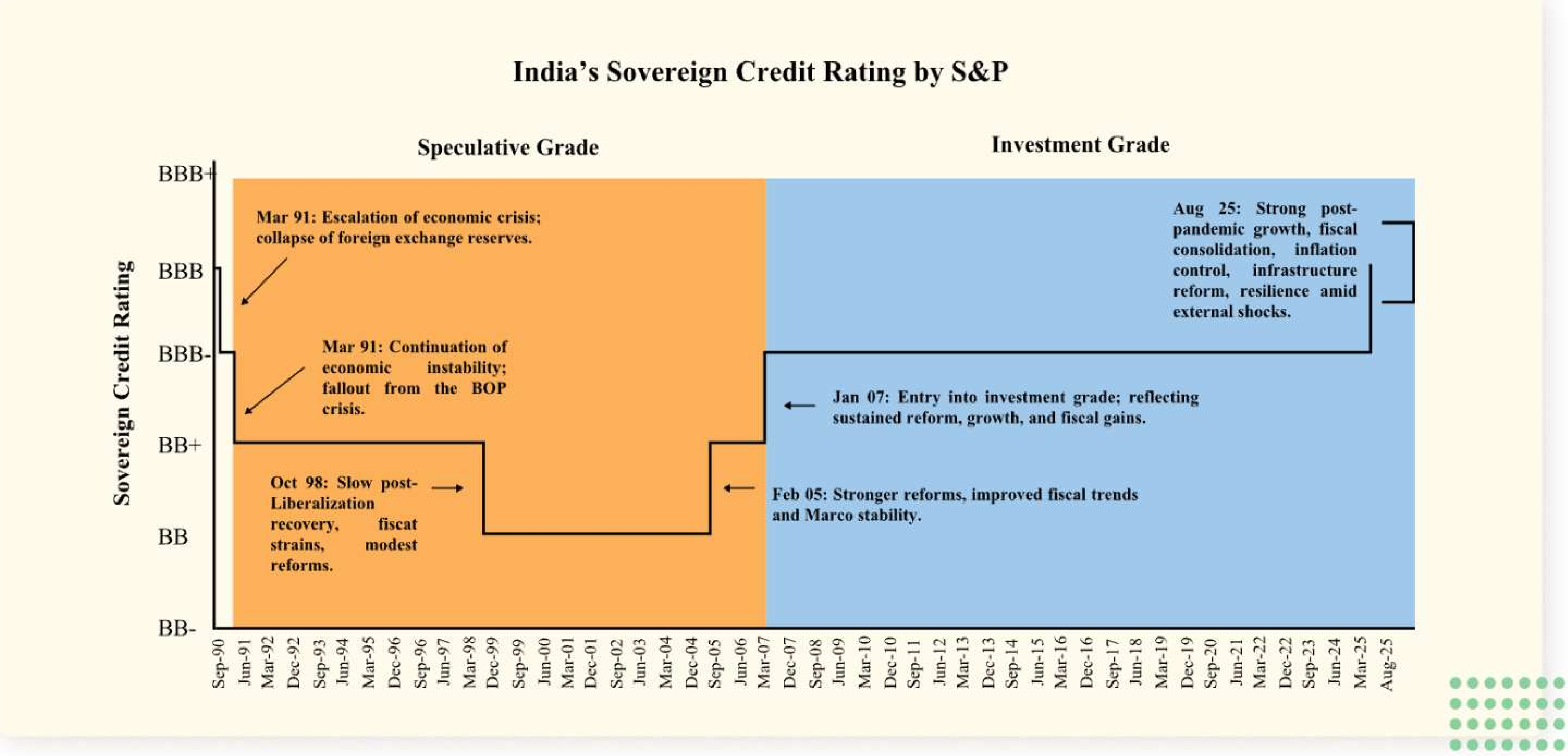
Below is the rating scale used by the three agencies, along with what each grade represents:

	S&P and Fitch	Moody's	Meaning
Investment-Grade: *These indicate a low risk of default and strong capacity to meet financial commitments.*	**AAA**	Aaa	Extremely strong ability to repay, safest possible.
	AA+, AA, AA–	Aa1, Aa2, Aa3	High quality but subject to very low credit risk
	A+, A, A–	A1, A2, A3	Strong ability, but a bit more exposed to downturns.
	BBB+, BBB, BBB–	Baa1, Baa2, Baa3	Adequate ability to pay, but vulnerable to economic stress.
Non-Investment-Grade/Speculative Grade: *These signal higher risk of default, weaker capacity to meet commitments.*	**BB+, BB, BB–**	Ba1, Ba2, Ba3	Some risk; not investment grade.
	B+, B, B–	B1, B2, B3	Riskier, vulnerable to downturns.
	CCC+, CCC, CCC–	Caa1, Caa2, Caa3	Very risky, dependent on favorable conditions.
	CC, C	Ca, C	Extremely high risk, near default.

Currently, only nine countries hold the highest sovereign credit rating from all three major agencies: Australia, Denmark, Germany, Luxembourg, the Netherlands, Switzerland, Norway, Sweden, and Singapore.

How has India's Rating Journey with S&P been like?

The graph below shows how India's sovereign credit rating by S&P has moved from speculative grade in the 1990s and early 2000s to investment grade since 2007. The upgrades and downgrades align with key economic events such as the 1991 balance-of-payments crisis, post-reform fiscal improvements in the mid-2000s, and the 2025 upgrade driven by strong growth and fiscal consolidation.



Source: S&P Global, Economic Survey 2020-21 Vol-1, Ch-3

So why did S&P now decide to upgrade India to BBB from BBB–?

As per the S&P report, following are the reasons cited:

- **Fiscal Discipline:** Deficits are narrowing (Centre ~4.4% of GDP in FY26, states ~2.7%) with debt rising more slowly, showing stronger fiscal control.
- **Growth & Investment:** Economy is able to sustain 6–7% growth backed by quality public spending and infrastructure investment.
- **Monetary & External Stability:** Inflation within RBI's 2–6% band and low current account deficits, economy shows signs of resilient external position.

What Does the Upgrade Mean for India's Economy?

These credit ratings serve as an important benchmark for a country's creditworthiness, guiding investors and lenders on the level of risk involved. They directly impact a nation's borrowing costs, access to global capital, and overall investor confidence in the economy.

S&P's upgrade signals greater confidence in India's economic and fiscal position, enhancing access to global capital and reducing borrowing costs. It is expected to ease overseas funding for major financial institutions and draw fresh foreign inflows into debt markets, especially in infrastructure and financial services.

Economic Outlook

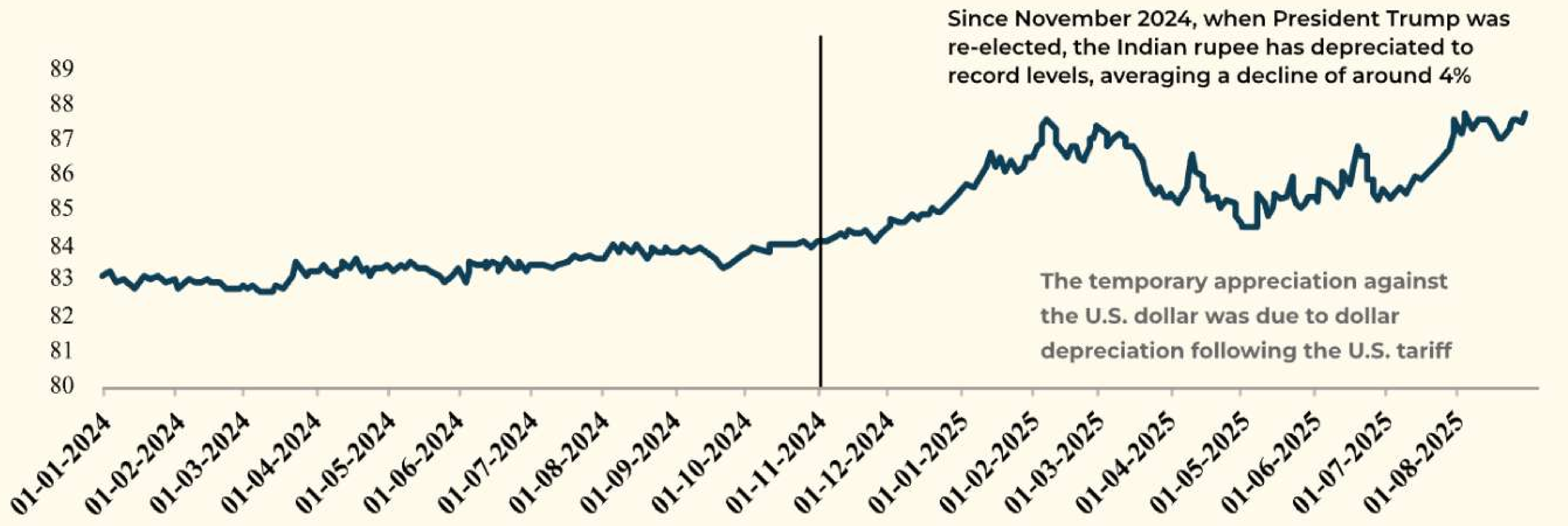
Indian Economy Overview

1. India's GDP grew **7.8% in Q1 FY26,** up from **6.5% in FY25.** The pickup was led by strong services and government spending.
2. **Core Inflation cooled to 1.5% in July 2025,** aided by a high base and softening food prices.
3. For the period April-July 2025, **the fiscal deficit was ₹4.68 lakh crore,** or **29.9%** of the annual target, while the comparable period in **FY25 saw a deficit of 17.2%** of the annual target.
4. Current account deficit eased to **0.2% of GDP** for Q1 FY26
5. India's forex reserves rose to **USD 690.72 billion as on 29th Aug,** after brief volatility in mid-FY due to capital outflows.
6. The rupee remained broadly stable, averaging around **₹87.5/USD.**
7. Net direct tax collections stood at **₹6.638 lakh crore as on 11 Aug 2025, registering 3.95% contraction** over the same period last year
8. Total Net GST Revenue stood at **₹1.66 lakh crore in August, marking an 8.8% annual increase**

Domestic Macro Indicators

FY	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	Current
Real GDP Growth (%)	8.0	8.3	6.8	6.5	3.9	-5.8	9.7	7.6	9.2	6.5	7.8
Average CPI Inflation (YoY%)	4.9	4.5	3.5	3.4	4.7	6.1	5.5	6.6	5.6	4.6	1.5
Forex Reserves (USD billion)	356	370	424	413	490	579	606	579	648	676	690.72
Currency (USD-INR)	66	64	66	70	75	74	77	82	83	86	88.2
Net Direct Tax Collections	7.4	8.5	10.0	11.3	10.5	9.4	14.1	16.1	15.8	22.2	6.638
Current Account (%GDP)	-1.1	-0.6	-1.9	-2.4	0.1	-0.2	-1.5	-2.2	0.7	-1.1	0.2
Fiscal Deficit (%GDP)	3.9	3.5	3.5	3.4	4.6	9.3	6.7	6.4	5.6	4.8	0.8

The **Indian rupee has depreciated by over 4% since November 2024,** making it one of the weakest currency among its peers, with the Chinese yuan depreciating 0.32%, the Vietnamese dong by 4.17%, and the Sri Lankan rupee by 3.15%. Depreciation pressures are likely to intensify as Trump's 50% tariff burden weighs on exports, while **foreign portfolio investors (FPIs) have net sold over ₹2 trillion since late 2024.** Research houses estimate that the tariff shock alone could reduce U.S. dollar-denominated Indian exports by $20 billion and widen the current account deficit by 0.5%, reinforcing expectations of further rupee weakness. While a softer Indian rupee offers some relief to exporters, it also raises import costs, partially offsetting the benefit. *We expect the Indian rupee to remain under pressure in the near term, with risks skewed towards further depreciation if capital outflows persist.*



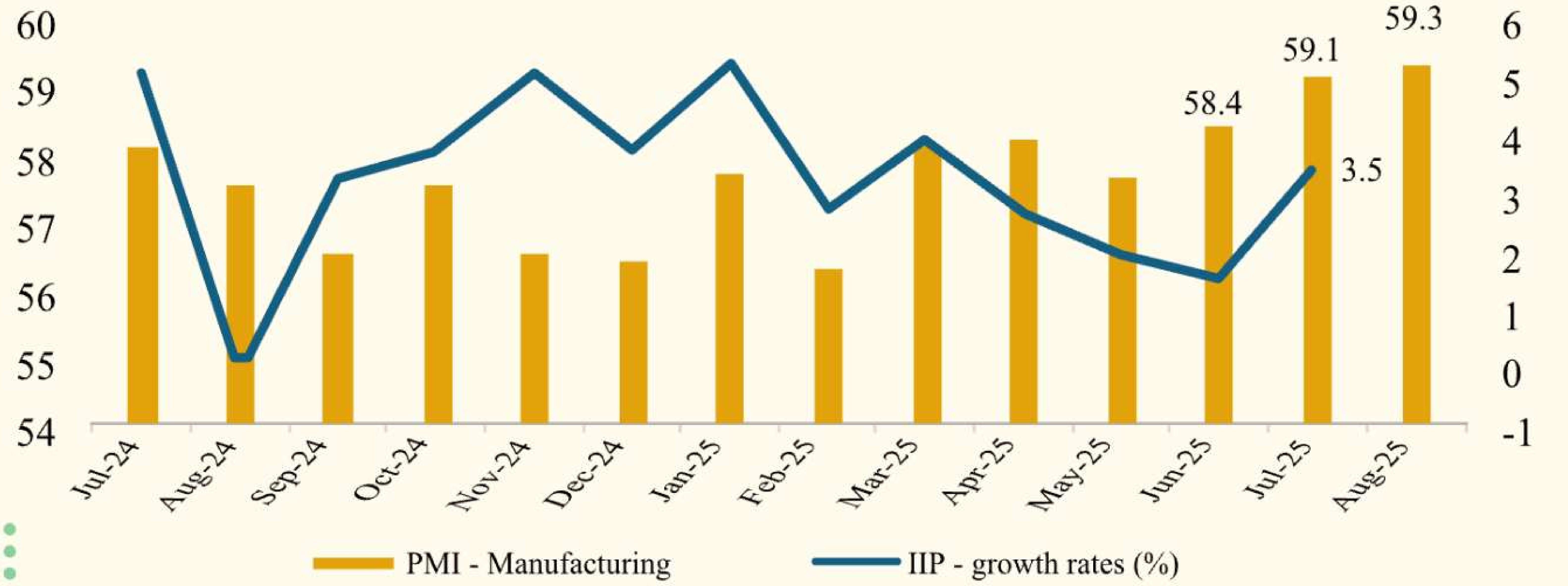
Source: Mint, Investing.com

India's current account deficit (CAD) narrowed to **$ 2.4 billion (0.2% of GDP) in Q1 FY26,** sharply lower than $ 8.6 billion (0.9% of GDP) a year ago, but reversing from the surplus of US$ 13.5 billion (1.3% of GDP) in Q4 FY25. While services and remittances provided resilience, underlying risks are mounting. **The merchandise trade deficit widened to $ 68.5 billion,** underscoring pressure on goods exports, a risk that may intensify as U.S. tariffs erode demand for labour-intensive sectors like textiles, gems, and leather, with front-loaded shipments offering only temporary relief. At the same time, **primary income outflows rose to $ 12.8 billion from $ 10.9 billion, reflecting larger dividend and interest payments to foreign investors.** On the financing side, **moderating FDI inflows of $ 5.7 billion from $ 6.2 billion and lower NRI deposits (US$ 3.6 billion vs. US$ 4.0 billion in Q1 2024- 2025)** reduce stable capital buffers. *Together, these factors suggest India's CAD could re-widen, with the rupee facing renewed depreciation pressures amid tariffs and softer trade momentum.*

Year	Current Account (Lakh Cr)	Merchandise Balance (Lakh Cr)	NRI Deposits (Lakh Cr)
2024-25 Q4	1.17	-5.15	0.25
2024-25 Q3	-0.96	-6.7	0.27
2024-25 Q2	-1.41	-7.09	0.52
2024-25 Q1	-0.72	-5.32	0.34
2023-24 Q4	0.38	-4.32	0.45
2023-24 Q3	-0.87	-5.97	0.33
2023-24 Q2	-0.93	-5.34	0.27
2023-24 Q1	-0.74	-4.66	0.18

Source: DBIE, RBI

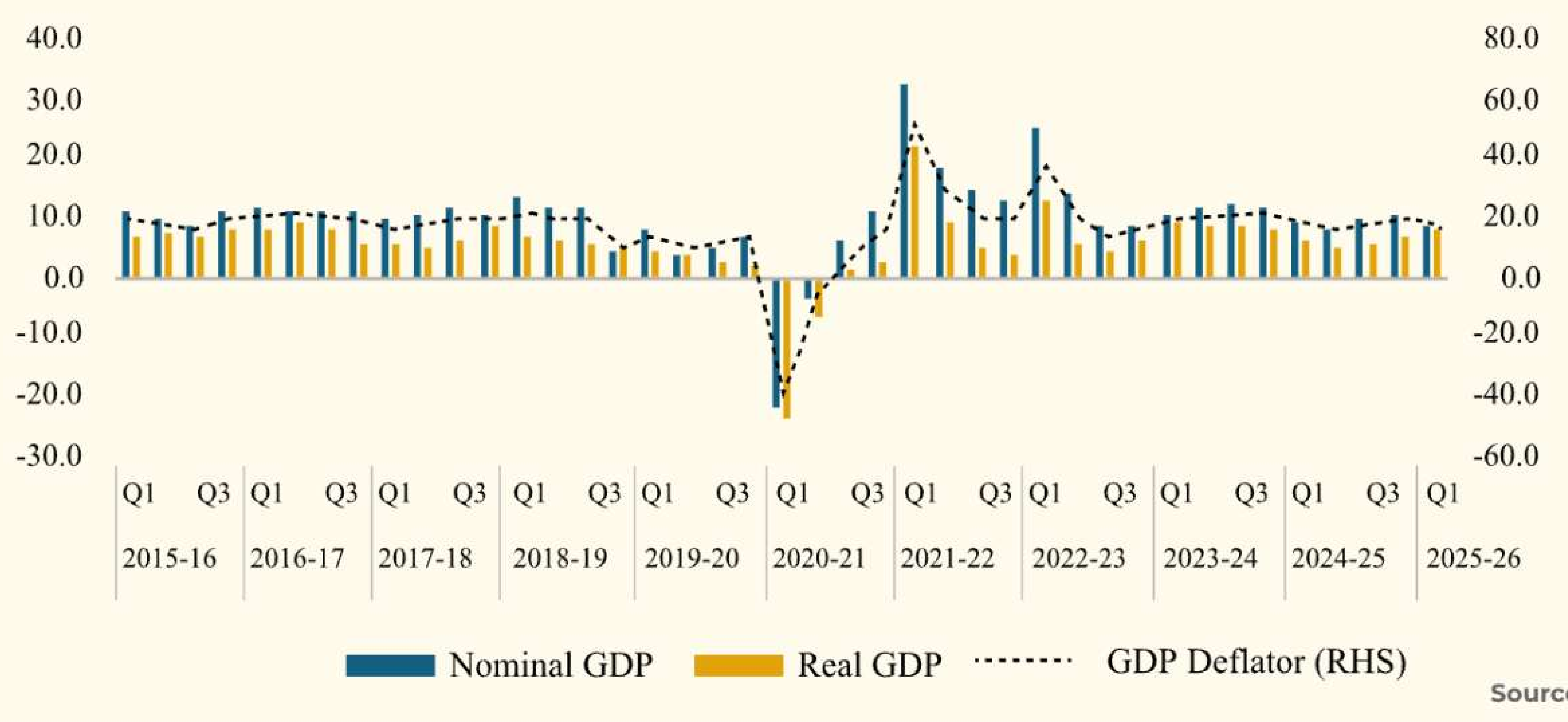
India's industrial and manufacturing momentum is sending a nuanced signal. **The HSBC India Manufacturing PMI climbed to 59.3 in August, its fastest pace in 17 years,** reflecting buoyant domestic demand. **The IIP growth quickened to 3.5% in July from 1.5% in June, with a notable 7.7% jump in consumer durables output, likely supported by pre-festive stocking.** However, the performance of mining and electricity remained weak despite easing rain-related disruptions. U.S. tariffs have softened export orders, but strong domestic demand continues to offset the drag on overall new orders. *On the consumption side, GST rationalization and monetary easing may lift urban demand, though some discretionary spending could be delayed until lower tax rates take effect.*



Source: MoSPI

India's GDP growth surprised on the upside at 7.8% in Q1 FY26, led by stronger manufacturing, construction, services, and a rebound in government spending. Beneath the strong headline, however, **nominal GDP rose only 8.8%, down from 10.8% in the previous quarter and barely above the real figure.** The gap comes from inflation, **real GDP is calculated as nominal GDP minus inflation, and with the deflator dropping to just 0.9%, the adjustment is tiny.** This makes real growth appear larger, even though actual incomes and spending in rupee terms are not rising as quickly.

The concern is that nominal GDP is what drives tax revenues, corporate earnings, and debt dynamics and its slowdown points to more fragile fundamentals than the headline real growth suggests. External risks, including the U.S. tariff shock and the rupee's slide past 88, could weigh further on exports and imported inflation. Domestically, consumers are also delaying purchases in anticipation of GST rate cuts, adding another layer of pressure on demand.



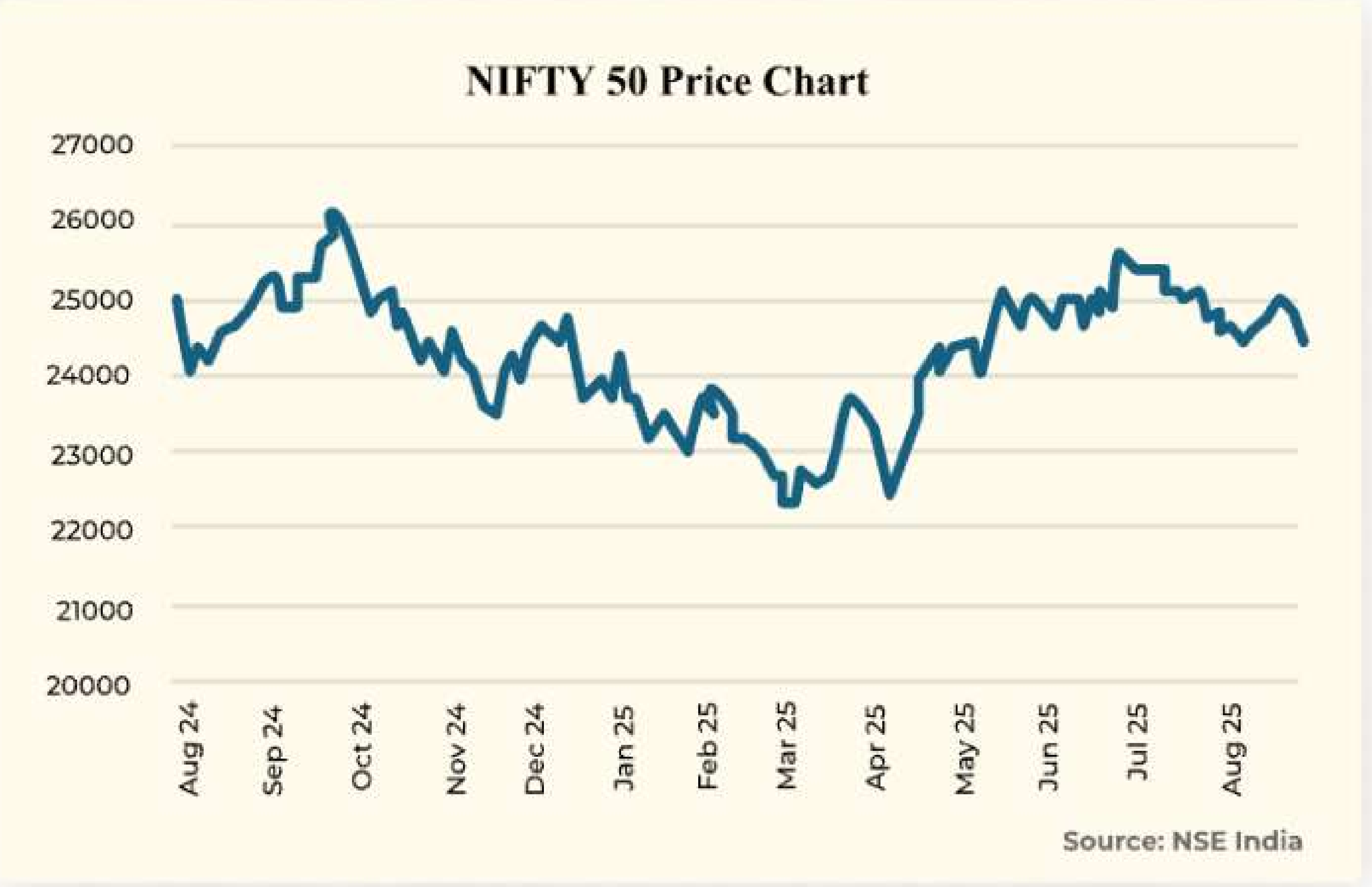
Source: MoSPI

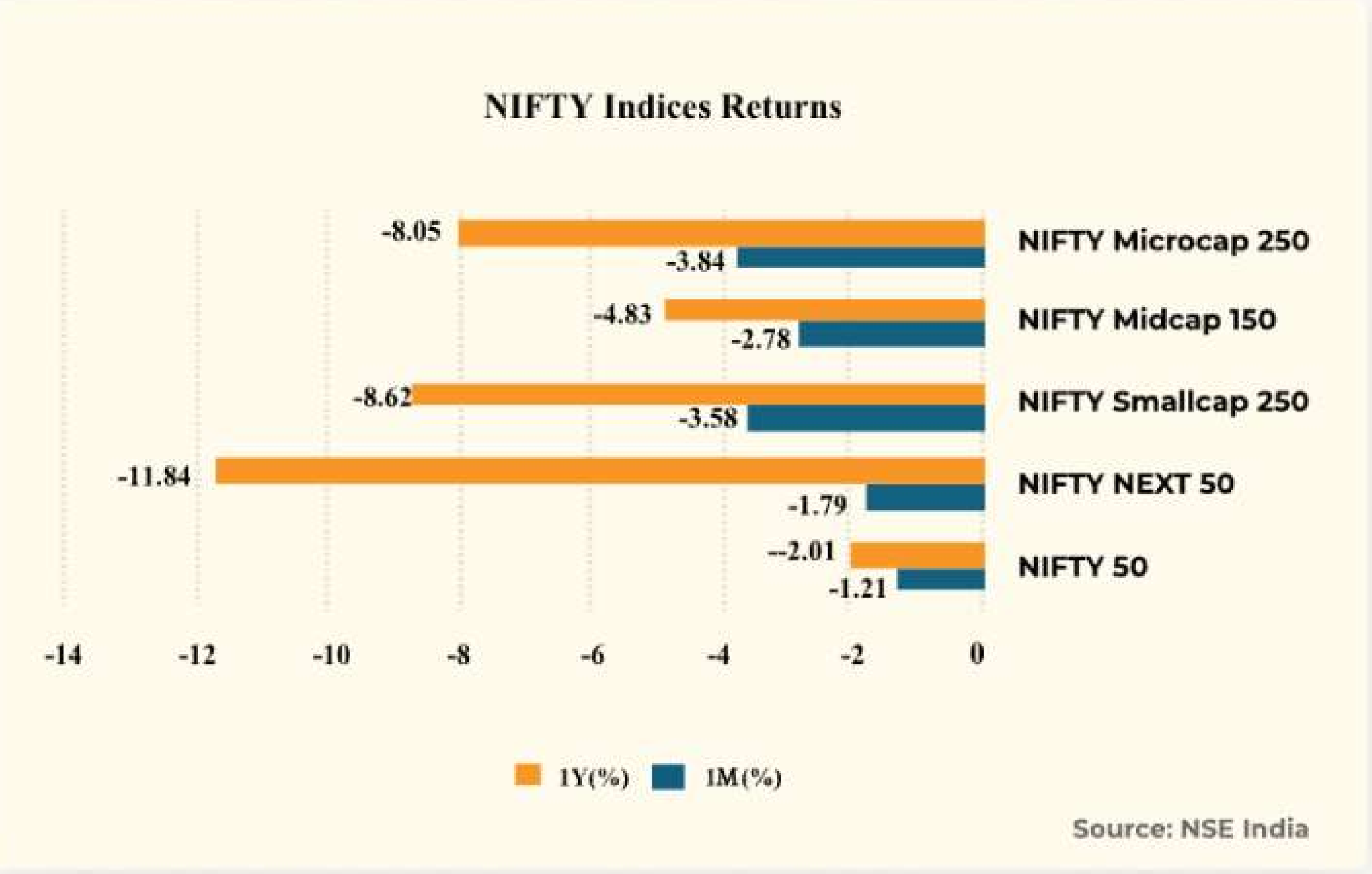
India's GST mop-up for August slowed to 6.5% year-on-year at ₹1.86 trillion, reflecting tariff uncertainty and seasonal demand softness. Importantly, August also saw refunds moderate sharply from last year, which helped net collections grow at a healthier 10.7%. **The monthly average this year remains close to ₹2 trillion, underlining the tax's resilience.** The coming GST slab rationalisation might promote this stability. Lower GST on consumer goods, autos, FMCG, and durables reduces household tax burdens, boosting disposable income. *The GST rationalisation may momentarily dent revenues with the reduction in slabs, but it is expected to strengthen the growth-inflation mix and align fiscal policy with broader consumption revival.*

Category	Aug-24	Aug-25	%Growth
Gross Domestic Revenue	1,24,986	1,36,962	9.60
Net Domestic Revenue	1,10,977	1,25,948	13.5
Total Refund	24,170	19,359	-19.9
Total Net GST Revenue	1,50,791	1,66,956	10.7

Equity Outlook

Monthly Recap :- August





	Returns (%)		
NIFTY Sectoral Indices	**1M**	**3M**	**1Y**
Auto	5.86	7.86	-3.74
FMCG	0.75	1.98	-9.17
Media	-0.72	5.60	-22.82
Financial Services	-3.85	-2.84	9.24
Metal	-1.21	0.07	-1.81
Pharma	-4.20	2.16	-5.42
Consumer Durables	0.88	3.56	-6.27
Oil & Gas	-3.99	-4.85	-18.94
Realty	-4.49	-8.04	-17.08
Energy	-3.84	-5.80	-22.08
Infrastructure	-2.01	-0.6	-5.07
India Defence	-4.58	-14.56	7.60
India Consumption	2.90	6.47	0.87
Commodities	-1.72	0.38	-8.71
Housing	-1.78	0.30	-4.29
Bank	-3.91	-3.15	5.32
IT	-0.34	-5.24	-15.93

Source: NSE India

August Weakness — Second Straight Monthly Decline

The Nifty lost about 1.4% in August 2025, extending its slide for a second consecutive month. This two-month downturn marked the index's weakest spell since early 2023. **Mid- and small-cap indices also ended August lower, slipping by about 2–3% during the month.**

Market sentiment stayed cautious, unsettled by the stretched impact of fresh U.S. trade tariffs, sustained foreign investor outflows, and broad-based selling across sectors. **Selling pressure intensified around the third week of August, when news of fresh tariff levies emerged,** erasing earlier gains and pushing the index into negative territory for the month.

The **1-year returns** across Nifty indices have been weak, with the deepest losses seen in the **Nifty Next 50 (-11.8%) and Nifty Smallcap 250 (-8.6%),** while **Nifty Microcap 250 (-8.0%) and Nifty Midcap 150 (-4.8%)** also posted declines.

Sectoral Divergence — Exports Struggle, Consumption Holds

Performance across sectors was uneven, shaped largely by tariff exposure and domestic demand trends:

- **Export-Linked Sectors Under Pressure:** Companies in textiles, chemicals, and allied manufacturing came under renewed selling as higher U.S. duties threatened competitiveness. IT and pharma stocks, already under strain from muted Q1 earnings, saw limited recovery.

- **Heavyweights Weigh on Index:** Large caps in financials and energy dragged the benchmark, amplifying the downtrend. Reliance Industries and key private banks were among the notable laggards.

- **FMCG as the Outlier:** Consumer-facing companies bucked the weakness. FMCG names gained modestly on expectations of GST rate relief and steady domestic demand, providing some balance to otherwise broad-based losses.

- **Market Positioning:** Amid the 50% U.S. tariff overhang, relentless FII cash selling, and historic 92% short positions in derivatives, markets failed to cheer GST reforms and RBI's liquidity boost. Indian equities now remain in wait-and-watch mode until there is clarity on the impact of heightened tariffs or progress on a trade deal.

Valuation of Indian Equity Markets

The **Nifty 50** ended August 2025 with a trailing P/E of **21.46x,** below both its **10-year average of 23.5x** and marginally under its **long-term median near 21.9x.** in contrast, the **Nifty Next 50 stands at 20.3x,** comfortably below its 10-year average of 27.4x, suggesting relative undervaluation. The **Nifty 500, at 23.5x,** also trades below its 10-year historical level of 26.7x, reflecting valuation cooling at the broader market level.

Meanwhile, **mid- and small-cap indices remain stretched as Nifty Midcap 100 is at 30.4x,** nearly matching its 10-year average of 30.6x and **Nifty Smallcap 100 is at 31.5x,** only slightly below its historical mean of 33x. These indices, while slightly below their long-term averages, are still trading at **significantly higher multiples than large caps.** This premium looks stretched given that profit growth is not broad-based.

While these ratios are slightly below long-term averages, valuations still look stretched as earnings growth has slowed sharply versus last year's strong gains, leaving current multiples elevated. For investors taking a bottom-up approach, selective opportunities are beginning to emerge even within the small- and mid-cap space.

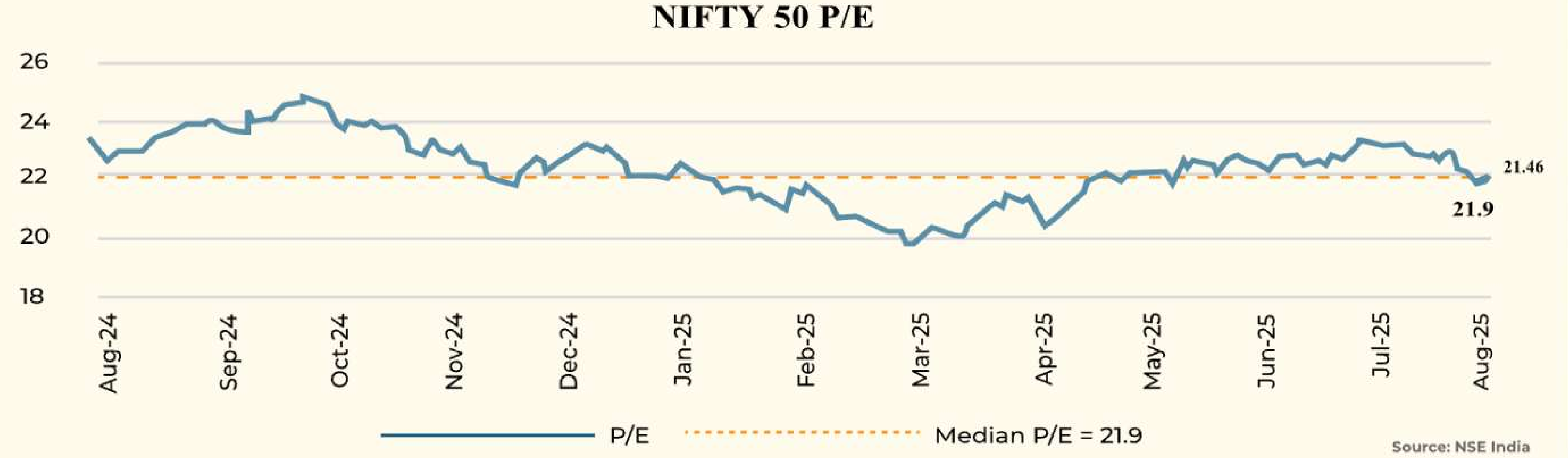
	TTM P/E (As on 29th Aug' 25)	Apr'15-Mar'25 (10 Yr Historical Average)
Nifty 50	21.46	23.49
Nifty Next 50	20.34	27.43
Nifty Smallcap 50	31.51	33.04
Nifty Midcap 100	30.37	30.57
Nifty 500	23.49	26.69

Source: NSE India

Market Breadth Narrows Mid-Month, Finds Some Relief by Month-End

Despite resilient macro indicators, earnings momentum in August remained selective. Positive surprises emerged in autos, consumer stocks, and capital markets, while IT, pharma, and defensive segments struggled under external pressures.

- **Autos and metals delivered modest strength,** with auto stocks rising ~1.1% and metals up ~1.6%, supported by resilient demand and softer global dollar trends.
- **Defense and pharma saw temporary gains mid-month**, aided by contracts and policy support, though these faded as the month progressed.
- **IT and pharma lagged**, with sector indices slipping around 0.9% and 0.7% respectively, as global tariff concerns and lacklustre results dampened sentiment.



Source: NSE India

Earnings So Far – Our View

PAT Growth YoY (%) in Q1 FY26	
NIFTY 500	10%
NIFTY 100	8%
NIFTY MidCap 150	17%
NIFTY SmallCap 250	6%

Source: ICICI Prudential Market Outlook Sep'25

In Q1FY26, sector performance was led by **cement,** which posted a sharp 46% earnings rebound on strong demand and pricing, and is expected to see further tailwinds as the monsoon ends and recent GST cuts aid consumption. **Oil & gas** also delivered strong results, with OMCs driving 32% PAT growth, while **capital goods** maintained double-digit profit gains on robust order execution. In contrast, **banks** reported a muted quarter with margin pressure, though credit flow is set to improve and margin compression is largely accounted for until further rate cuts, while **NBFCs** continued to support overall BFSI earnings.

Markets are also factoring in the early benefits of recent RBI easing cues and global rate repricing. Brokers expect a modest tailwind to margins and credit costs for banks and NBFCs into H2, supporting stabilization in earnings, though the full impact will be staggered across lenders. Additionally, potential recovery in consumption demand across autos and consumer durables could boost retail loan disbursals, providing further support to NBFCs.

Additionally, the recent GST revisions on hotels, insurance, packaged foods, autos, durables, and other discretionary categories will begin to show up from September. In the near term (Q2FY26), companies may see **volume pressure as consumers postpone discretionary purchases.** However, this deferred demand would **spill into Q3,** helping to partly lift results as postponed consumption returns leading to **volume increase and margin expansion** in sectors like hospitality, insurance, autos and consumer durables facing higher slabs.

Overall, H2 is expected to be much better specially as the positives of higher capex spends by the government, income tax cuts, rate cuts as well as GST cuts and liquidity infusion all trickle down to the eco system in H2.

Institutional Activities

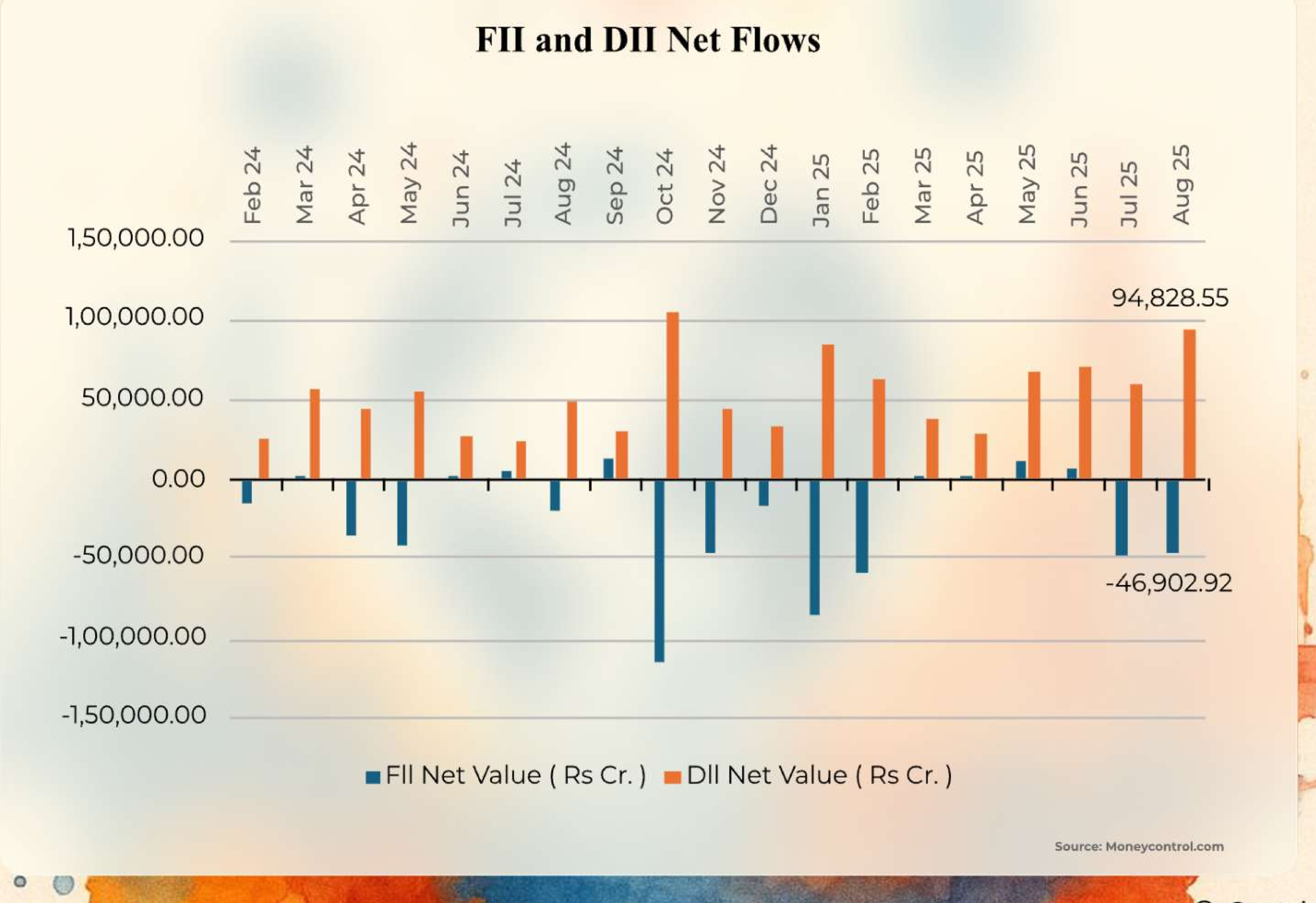
Heavy FII Withdrawals Continue

- **Heavy FII Outflows Persist**: In August 2025, FIIs pulled out ~₹46,900 crore from equities, nearly matching July's exodus and marking one of the steepest consecutive outflows.
- **Drivers of Selling:** Withdrawals were triggered by U.S. tariff-led trade tensions, stretched valuations, currency weakness, and rising U.S. bond yields, leading to reduced positions in large financials, energy, and export-oriented stocks.

DIIs Offset FII Selling Pressure

- **Strong Inflows:** DIIs pumped in ₹94,829 crore in August, the second-highest monthly tally of FY26 and the 25th straight month of buying.
- **Selective Accumulation:** Supported by SIP flows and steady allocations, they added to autos, consumption, and private banks, showing conviction in India's long-term growth.

With respect to the market,
While heavy FII selling pressured benchmarks and extended the market's losing streak, **resilient domestic participation helped cushion the downside**, underscoring the structural shift in India's market where local savings and retail flows are increasingly offsetting foreign volatility.



Global Markets

Global equity markets delivered mixed returns in August, with clear divergences across regions.

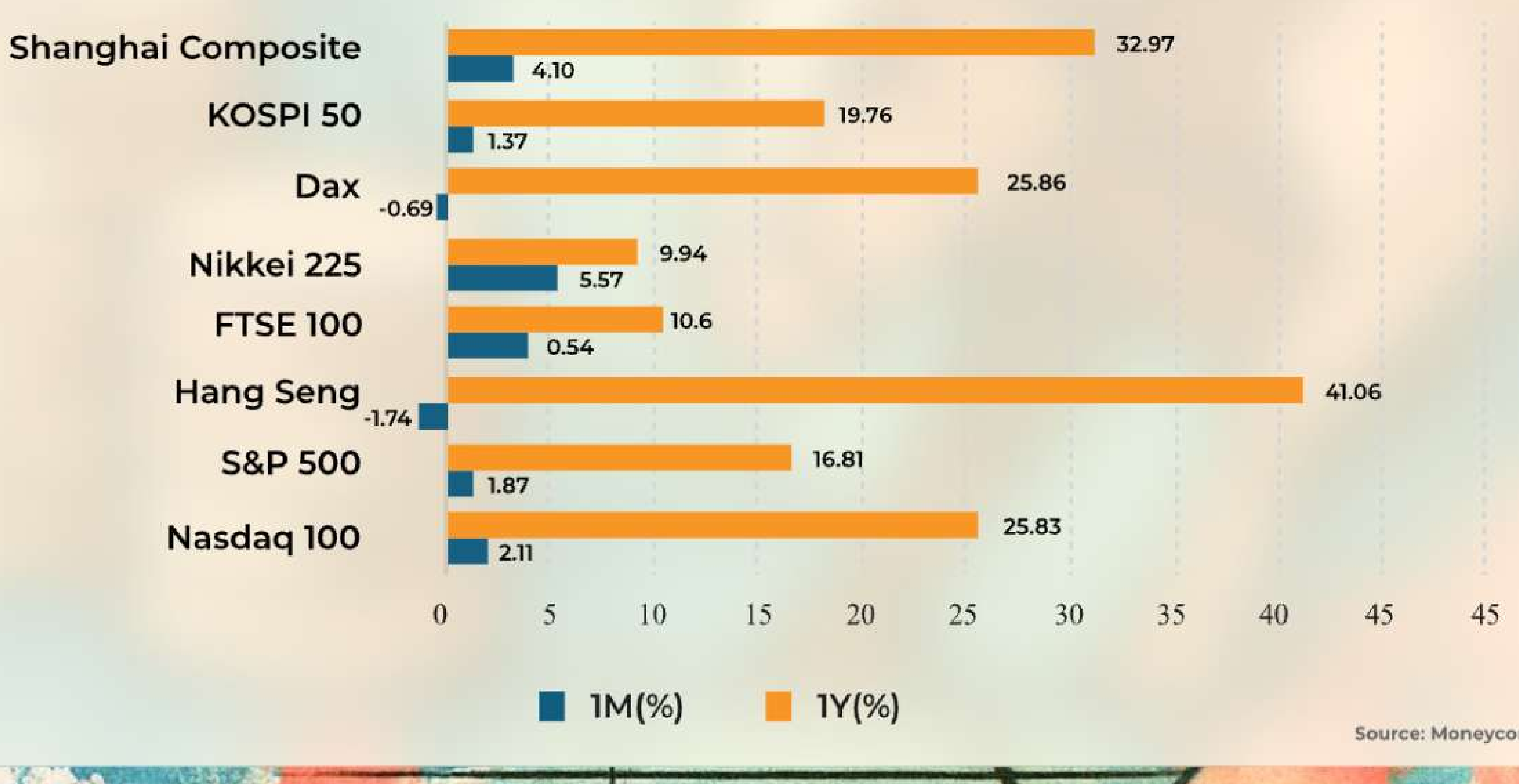
Asian markets showed mixed performance in August. The **Hang Seng Index (+41.06% YoY)** remained the standout performer globally, though it slipped **1.74% in August** as profit-taking set in after a sharp rally. Policy easing in China and renewed momentum in technology remain the key longer-term drivers. The **Shanghai Composite (+32.97% YoY, +4.10% in August)** also delivered strong returns, supported by expectations of further monetary support and a pick-up in domestic activity.

In contrast, the **Nikkei 225 (+9.94% YoY, +5.57% in August)** staged one of the stronger monthly rebounds, helped by yen weakness and a pick-up in exporters. The **KOSPI 50 (+19.76% YoY, +1.37% in August)** posted more modest gains, reflecting steady optimism around semiconductor exports and supportive monetary conditions.

In Europe, **Germany's DAX (+25.86% YoY)** held its ground despite edging down **0.69% in August,** as industrial recovery and resilient exports continued to provide support.

U.S. benchmarks posted modest but steady advances, but the broader backdrop was more complex. **S&P 500 gained 1.87% in August (+16.81% YoY), while Nasdaq 100 rose 2.11% (+25.83% YoY),** both supported by broad sectoral strength and tech-led momentum. Cooling inflation and signs of labour market softening allowed the Fed to signal a **dovish tilt with a potential rate cut in September, adding to market support.**

Global Indices Return



Source: Moneycontrol.com

Equity In-House View

Domestic Outlook

Indian equity markets remain caught between global headwinds and domestic tailwinds. **Persistent FII outflows have been driven by elevated Indian market valuations versus global peers, steep US tariffs of up to 50% putting India at a disadvantage compared to China, Taiwan, and Bangladesh, weak global macros, and a weakening rupee against the dollar.** These factors have pressured sentiment, especially in labour-intensive sectors like textiles. Meanwhile, **domestic factors remain supportive: falling crude prices aided by Russian discounts, GST normalization boosting consumption, income-tax relief measures, and RBI's liquidity push alongside rate cuts, all driving strong DII inflows** and partially offsetting global pressures.

Centricity maintains that **valuations remain elevated amid persistent external uncertainties.** For Indian equities, **investors should start with a focus on large caps,** which offer decent growth, **followed by select mid-caps with favorable allocation** given their higher growth potential, though caution on valuations is warranted as they remain elevated. S**mall cap opportunities are limited to a few sectors** that provide strong growth visibility and fair valuations. **Investors need to remain cautious yet optimistic, focusing on bottom up opportunities in this market**, while maintaining a disciplined asset allocation and adopting a staggered approach for any fresh lump sum allocations

Global Outlook

Global equities remain resilient despite heightened uncertainty from geopolitical risks, shifting trade dynamics, and divergent country outlooks. **Strong investor flows reflect the search for relative value, with capital moving toward markets and sectors offering attractive valuations.** While U.S. indices trade at rich multiples (S&P 500 >30x, Nasdaq >35x), markets like China, Korea, and Japan are valued at 13–15x despite strong technological and industrial bases, underscoring how allocators weigh growth potential against a margin of safety.

At the same time, structural risks remain. Europe is weighed down by persistent geopolitical tensions, while China's attractive multiples are clouded by real-estate stress and the need for further policy support, even as areas like technology and electric vehicles show promise. The U.S. continues to deliver strong earnings momentum but carries heightened risks linked to debt financing, tariffs, and global trade restructuring. India, too, commands higher valuations, requiring a staggered approach to allocation. **A disciplined strategy of diversification, staggered investments, and prudent allocation remains key—strong performance shouldn't mask underlying risks.**

Debt Outlook

Global Debt Outlook

USA

10Y yield:
Yields decreased from 4.36 (as on 31 July) to 4.23 (as on 31 Aug)

Inflation:
Inflation remained at 2.7%

Fed stance:
Cautious, balancing between inflation uptick and weak job market data

China

10Y yield:
1.76, decreased from 1.785 in the previous month

Inflation:
Inflation numbers remain flat at 0 %

PBOC stance:
Accomodative

Japan

10Y yield:
1.603, increased from 1.553 in previous month

Inflation:
3.1%, decreased from 3.3 in June

BOJ stance:
Paused hikes, cautiously adjusting bond purchases.

Eurozone (Germany)

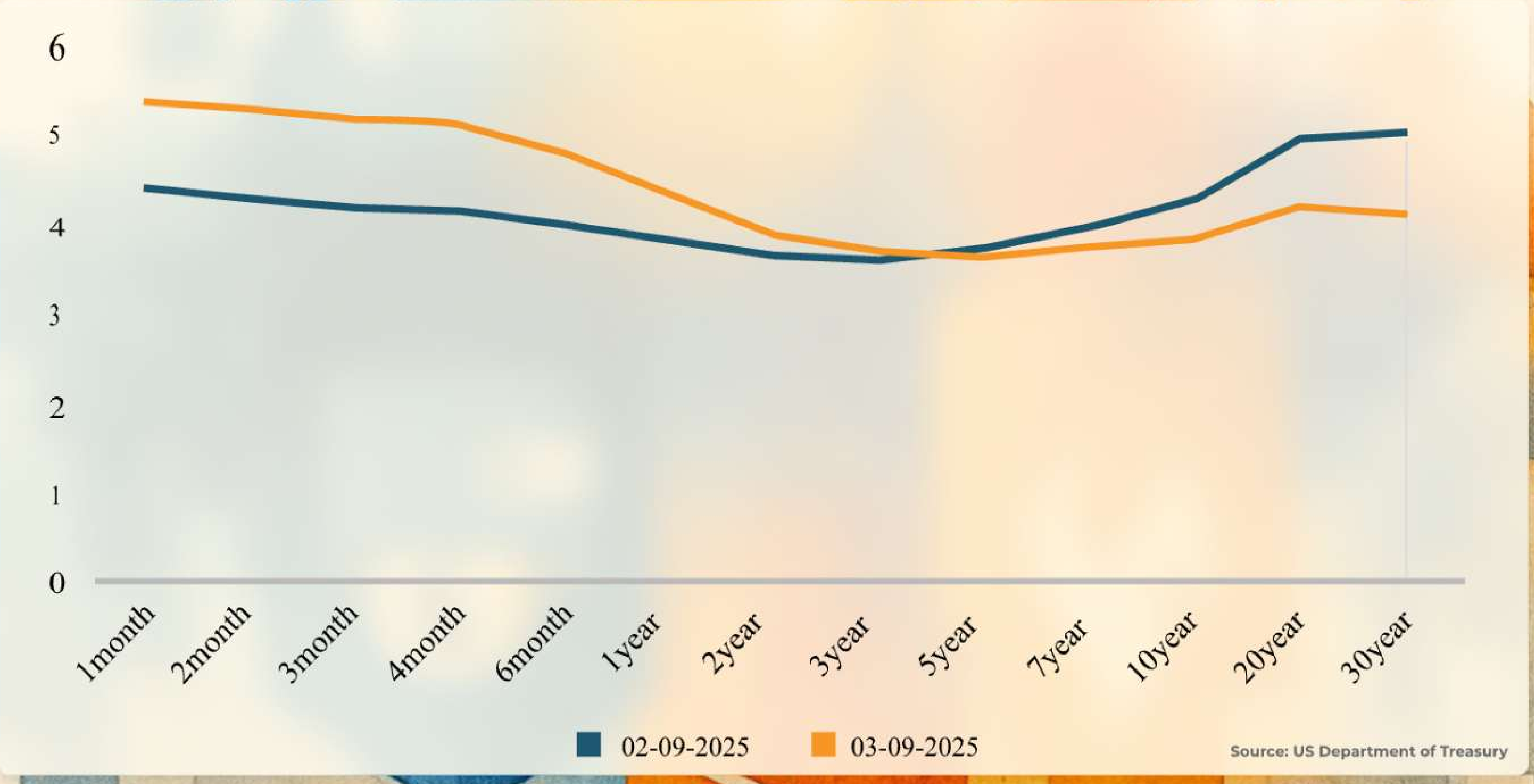
10Y yield:
2.722, increased from 2.69 in previous month

Inflation:
2%, stable at long term target

ECB stance:
Paused rate cuts, decisions to be based on further data dependent changes

Short-term yields

Short-term Treasury yields are broadly in line with where they stood a year ago, with the **2-year hovering in the 3.6–3.7% range** in both September 2024 and September 2025. After sliding to lower levels in July, the 2-year has since rebounded back toward that band as markets recalibrated Fed policy expectations. The **Q2 GDP second estimate of 3.3%** pointed to firmer underlying growth momentum, while the **July PPI's 0.9% surge** and still-elevated consumer inflation showed that tariff-related price pressures are beginning to filter through. **At the same time, with only 73,000 jobs created in July and prior months revised downward, the labour market is losing momentum, reinforcing concerns after the unemployment rate edged up to 4.2%.** Together, these dynamics have scaled back the likelihood of a September rate cut, keeping the short end steady and preventing a deeper drift lower.

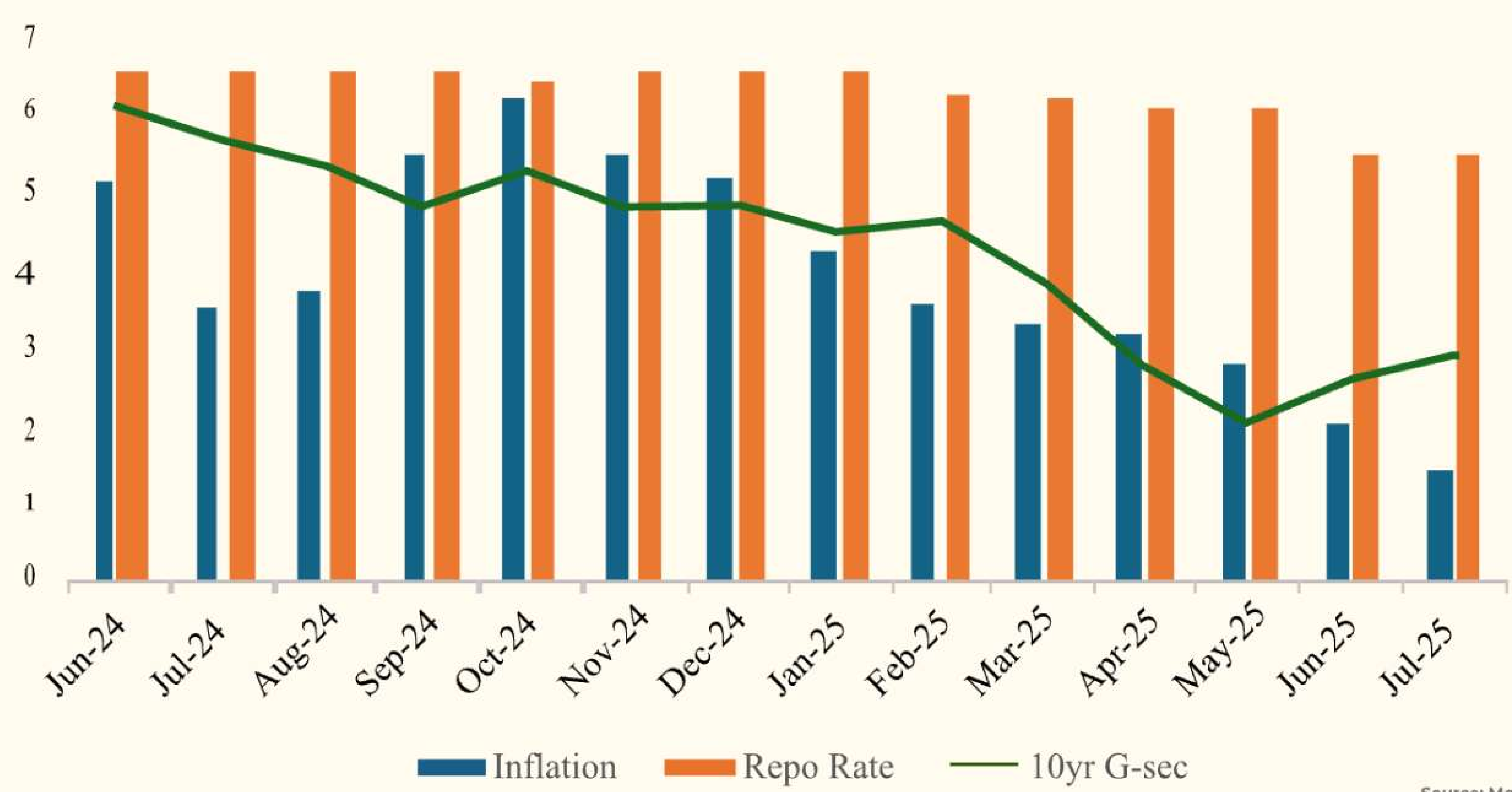


Long-term yields

Long-term Treasury yields are trading above their levels a year ago, with the 10-year near 4.23% versus around 4.1% last September, and the 30-year close to 4.9% compared with about 4.3% a year earlier. The sharp jump in producer prices highlighted that tariff-related cost pressures are starting to bleed through, keeping inflation expectations sticky. At the same time, geopolitical uncertainty and trade risks have added to the risk premium investors demand to hold longer maturities. **The upward revision of Q2 GDP to 3.3% reinforced that the economy retains momentum, reducing flows into Treasuries that might otherwise have capped yields.** Adding to this firmness, central banks have been diversifying reserves away from U.S. debt, with **global gold holdings ($3.6tn) now surpassing Treasuries ($3.8tn) for the first time since 1996, according to WGC/ECB data.**

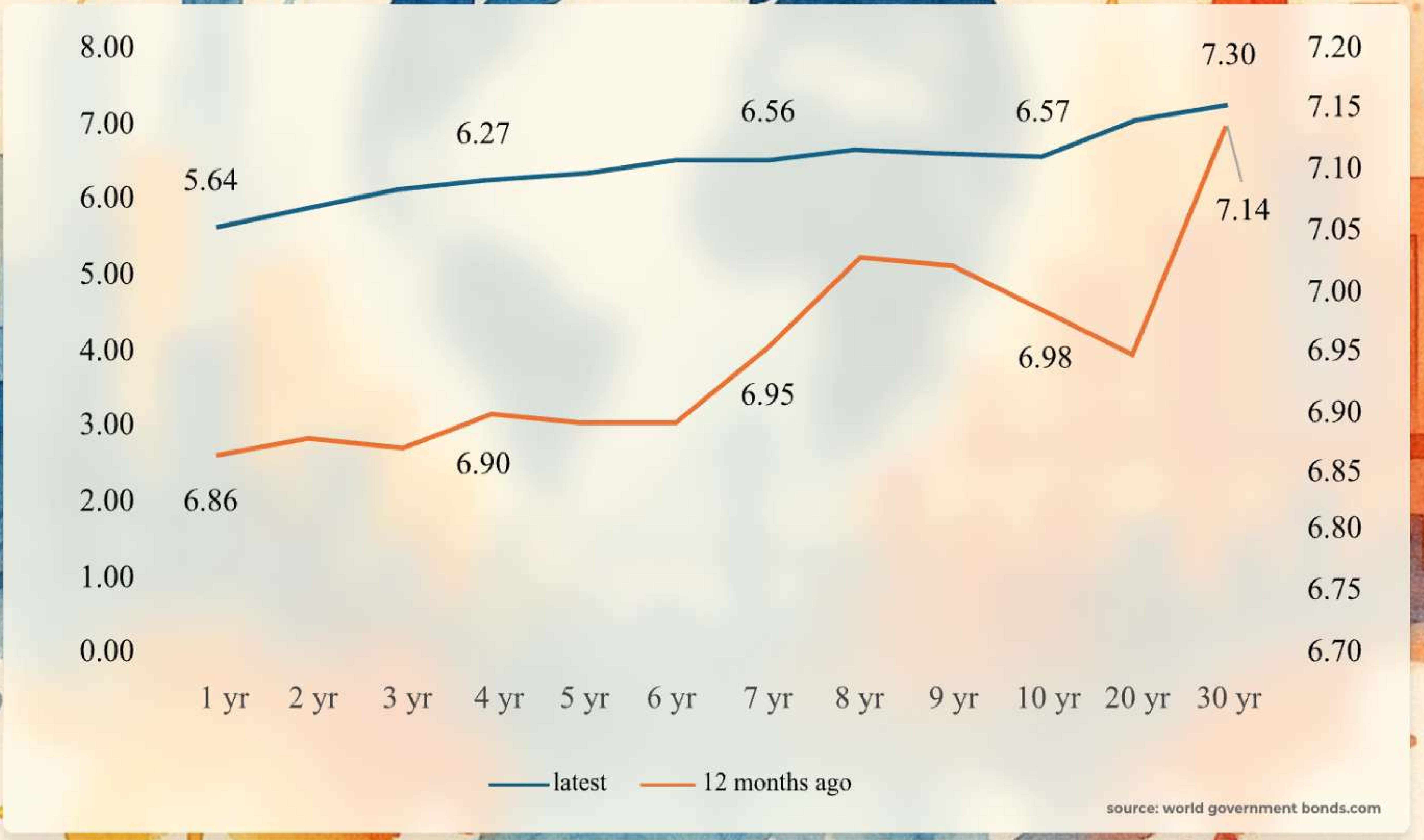
Indian Debt Outlook

Over the past year, **India's 10-year G-Sec yield has eased from around 6.86% in August 2024 to about 6.59% in August 2025**, broadly tracking the sharp disinflation trend. **Retail inflation, which stood above 5% last June, plunged to a six-year low of 1.5% by July 2025**, with food prices even slipping into contraction. This steep decline opened policy space, prompting **the RBI to cut the repo rate to 5.50% by mid-2025.**



Source: MoSPI, Investing.com

Even so, the drop in long yields has been modest, roughly 25–30 bps over the year, underscoring the balance of forces at play. On one side, **softer inflation and ample liquidity are keeping yields anchored; on the other, the rupee's slide past 88 per dollar, tariff-related cost pressures, and lingering uncertainty around global growth have prevented a sharper fall**. Notably, while the 10-year yield has inched lower, the 20-year and 30-year bonds have hardened by around 10–15 bps over the same period, reflecting investor caution over currency weakness and broader uncertainty. As a result, the long end of the curve remains sticky, with the overall bond market still pricing in a layer of caution despite the sharp disinflation backdrop.



Short term yields

Indian bond yields have eased meaningfully at the shorter end, though the pace of decline has moderated compared to earlier in the year. The sustained fall in inflation to multi-year lows and the RBI's **100 bps of cumulative rate cuts in 2025** have underpinned the downward shift. However, the **Q1 FY26 GDP print of 7.8%** surprised to the upside, tempering expectations of further near-term easing. At the same time, the announcement of **new tariff measures** has complicated the inflation outlook, with markets wary that cost-push pressures could re-emerge with the fading base effects. Against this backdrop, the front end remains lower than a year ago but has steadied recently as markets reassess the scope for additional policy accommodation.

Long-term yields

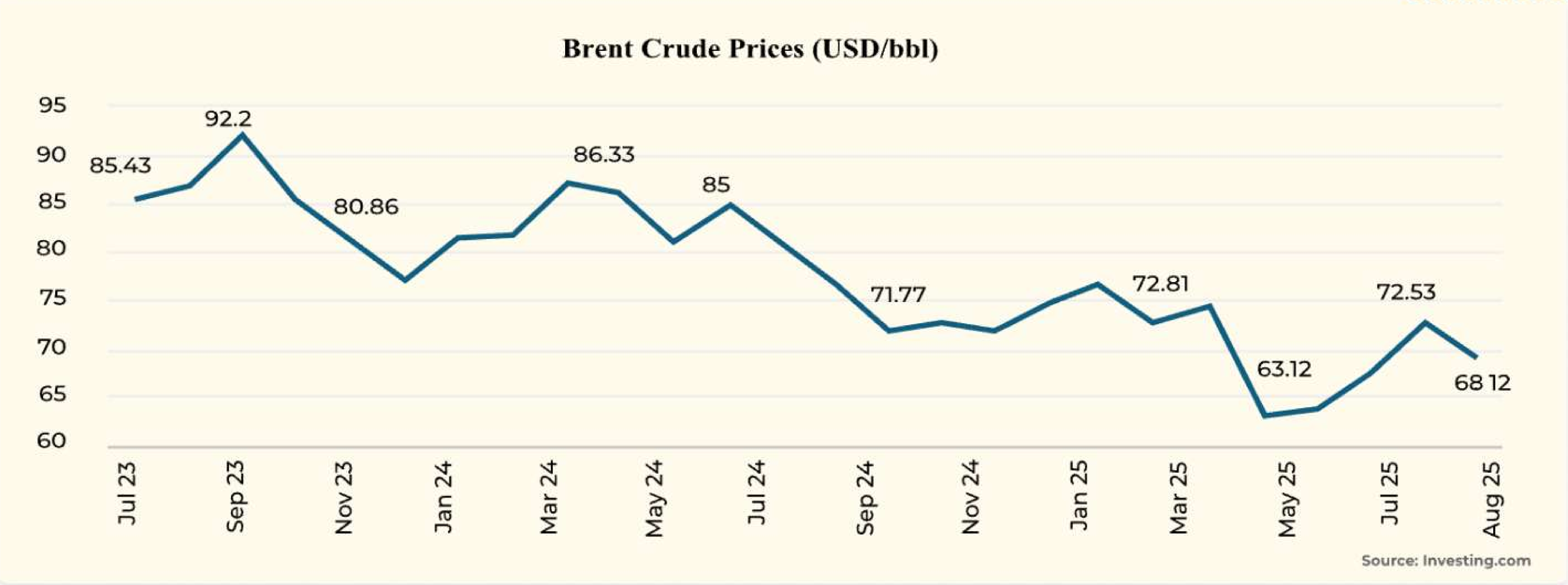
At the long end, yields remain sticky, with the 10-year benchmark hovering near 6.55–6.60% despite the sharp disinflation backdrop. A key factor has been the rupee's depreciation past 88 per dollar, which has raised concerns about imported inflation and potential portfolio outflows. The resilience of long-dated yields in the face of collapsing CPI underscores that investors are cautious: while acknowledging short-term disinflation, they are also pricing in risks that inflation could pick back up. As a result, the curve is modestly steeper than a year ago, with short-term yields easing meaningfully while long-term bonds have remained firm

Debt In-house View

Recent GST reforms are likely to improve consumer sentiment and support activity. However, the gradual fading of base effects means inflation could edge higher in the coming months, tempering the room for aggressive easing. At the long end, pressures from the rupee's weakness and the government's large borrowing program are keeping yields sticky. Taken together, these factors point to adjustments in the shorter end relative to more stable long maturities.

U.S. short-term yields have steadied after their July drop, as stronger Q2 GDP and a sharp rise in producer prices scaled back expectations of imminent Fed easing. Long-end U.S. Treasuries remain elevated amid heavy issuance and persistent inflation risks. In Europe, the ECB has paused after its initial rate cuts, with sticky services inflation anchoring yields. A strategy that emphasizes opportunities in the short to medium end, while exercising caution on long-dated exposures, remains prudent in navigating the current global environment.

Commodity Outlook



In August, **Brent crude continued to decline from July's levels, as the market faced increasingly abundant supply** and **slowing demand,** especially in the U.S. OPEC+ decisively rolled back its production cuts, injecting ~547,000 barrels per day into the market beginning in September, signalling a shift from defending prices to capturing market share. The **IEA (International Energy Agency) warned of a surplus of up to 2.5 million bpd by late 2025 against the demand that is set to rise by only about 700,000 barrels per day in 2025,** the slowest pace of growth since 2009 outside the Covid slump. **These shifts in demand and supply dynamics increase the risk of prices slipping below current mid-$60 levels and testing the low-$60s to high-$50s range by year-end.**

Gold's spot price ended the month around $3,429/oz with futures trading slightly higher above $3,500/oz, while silver came close to $40/oz, its strongest level in nearly 14 years. Inflation in the U.S. and Europe remained persistent, reinforcing demand for traditional hedges. At the same time, monetary authorities intensified their gold purchases with global central banks buying 244 tonnes in Q1 and 166 tonnes in Q2 2025, thereby providing strong demand support.

Silver benefited further from its dual role, with ETF holdings climbing to 800 million ounces in August, the longest accumulation streak since 2020. Robust industrial demand from electronics and clean energy sectors added to this momentum. Adding to the bullish backdrop, the U.S. 30-year bond yield briefly topped 5% and 10-year yields hovered near 4.2% on fiscal and policy concerns. A tailwind for gold, reduced Treasuries' safe-haven appeal, reinforces demand for gold and silver as alternative hedges.

Commodity In-house View

Crude Oil

Crude oil remains under pressure from oversupply and weak global demand, keeping Brent prices anchored in the $68–72/bbl range. The downside risk remains if demand slows further with global manufacturing weakness due to US-led tariff challenges. On the other hand, if India and China, together the world's top importers, reduce purchases of discounted Russian crude under external pressure, demand for OPEC+ oil could rise, creating room for prices to increase.

Silver

Silver's outlook appears robust in both the short and medium term, underpinned by surging industrial and clean-energy usage. In the first half of 2025, China's solar cell and wafer exports surged; cells and wafers now account for over **40% of China's solar-product exports,** with India alone driving 52% of the growth. This reflects booming solar manufacturing demand, a key source of industrial silver consumption.

Additionally, the U.S. has decided to classify silver as a critical mineral, which could also potentially unlock policy support and investment. Still, some caution is warranted as markets remain sensitive to shifts in global demand and investor flows.

Gold

Gold continues to hold firm as a safe-haven asset with support from sustained central bank purchases and investor hedging against U.S. fiscal strains, political uncertainty, and broader geopolitical risks. **While elevated U.S. yields and episodes of improved bond market confidence can weigh on this sentiment, the overall backdrop suggests gold will remain well-supported.** The trajectory will hinge on evolving fiscal conditions, shifting trade dynamics, and monetary policy expectations.

Investing Ideas

Products

Considering the current market landscape marked by global volatility and emerging domestic resilience, we are curating a carefully balanced set of investment ideas across asset classes. While India's macroeconomic fundamentals remain strong with easing inflation, supportive monetary policy, and a rebound in manufacturing and capex, supportive fiscal measures, including GST rate normalization and recent income tax cuts, are bolstering consumption and corporate earnings. In the long term, these steps strengthen domestic demand and provide an added cushion against global headwinds. At the same time, global challenges like the tariff war and equity market corrections call for a more thoughtful and diversified approach. The following strategies have been selected to help investors navigate near-term volatility while positioning portfolios for long-term growth. They reflect opportunities in business cycles, selective equity exposure across market caps, performing debt and special credit opportunities all with an emphasis on risk-adjusted returns and portfolio resilience in uncertain times.

Category	Sub-Category	Product	Rationale	Suitable Tenure	Expected Return Range (Net of Expenses)
Equity	Mutual Fund	Motilal Business Cycle Fund	Motilal Oswal Business Cycle Fund, managed by Niket Shah with a strong mid-cap track record, offers flexibility to move across market caps.	>3 years	14-17%
	PMS- Multi Cap	Buoyant Capital-Opportunities Strategy	Since inception, the fund has delivered a 22% IRR across market cycles, supported by its investment approach of balancing core and satellite portfolios. By actively shifting between defensive and aggressive positions based on market phases, it is well-positioned for today's dynamic environment.	>3 years	15-17%

Category	Sub Category	Product	Rationale	Suitable Tenure	Expected Return Range (Net of Expenses)
Equity	PMS- Multi Cap	Negen Capital- Special Situation & Technology Fund	With a 5-year TWRR of ~45%, the fund leverages rare value-unlocking opportunities like demergers, promoter changes, and delistings to capture alpha. Its focus on special situations and technology themes allows investors to access high-quality businesses at compelling valuations making it a powerful contrarian play in today's market.	>3 years	17-19%
	PMS- Mid & Small Cap	Carnelian Shift Strategy PMS	A concentrated portfolio of ~25 high-conviction ideas, pruned rigorously to retain only the best performers. It has delivered strong returns, with a 3-year CAGR of 33.6% and since-inception CAGR of 37.6%, far ahead of the BSE 500 TRI. The fund is led by founder Vikas Khemani, a veteran with 27+ years in capital markets and a proven track record in building market-leading businesses.	>3 years	17-19%
	PMS- Mid & Small Cap	Abakkus Emerging Cap Approach	With over three decades of experience, Sunil Singhania brings deep market insight and a proven ability to generate long-term alpha in the mid and small cap space. His strong vintage and consistent performance across cycles make the fund well-equipped to navigate current market complexities.	>3 years	17-19%

Category	Sub Category	Product	Rationale	Suitable Tenure	Expected Return Range (Net of Expenses)
Equity	AIF	ASK Absolute Return Fund	The fund can be a suitable option for investors looking to park funds for 12+ months, with an expected post-tax return of 7–8% and lower volatility (3.02%) compared to the Nifty (13.46%)	>1 year	11-12%
Debt	AIF	Mosaic Multiyield Fund Series I	Targeting a 14-16% gross IRR, the fund builds a granular, fully secured credit portfolio across 25–35 profitable and bankable firms. With multi-manager, multi-strategy diversification and a strong risk framework, it offers high-yielding, collateral-backed exposure in performing credit, without venturing into distressed or venture-style debt.	~5 years	13-14%
	AIF	Neo Special Credit Opportunities Fund II	Targeting a 22–24% IRR, the fund lends to cash-flow generating businesses in special situations — from one-time settlements to growth capital — backed by hard assets and robust collateral. With a strong track record of exits and downside protection, it offers an attractive risk-adjusted yield in India's expanding private credit landscape.	6.5 years	17-18%

DISCLAIMER

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