Wealth Management Investment Strategy

September 2025 – *Executive Summary*

IDFC FIRST Bank
ALWAYS YOU FIRST

Indian equities underperform as 50% Tariffs Take Effect

KEY TAKEAWAY

- ***India faces highest tariff of 50% among EM peers, 20% more duty than China.***
- ***Domestic equities underperformed global peers which rose on optimism around corporate earnings and likely rate cuts by the US Fed.***
- ***The Centre announced reduction in GST rates aiming to boost consumption.***
- ***Q1FY26 Real GDP growth surprised on the upside at 7.8%YoY aided by a slowdown in GDP deflator.***
- ***Corporate earnings were lack-lustre in Q1FY26, with top-line growth for Nifty 500 softening to 5.8% YoY and PAT growth falling to ~10.9%. Consensus estimate for FY26 EPS growth for Nifty 50 is now ~10-11%.***
- ***US Fed Chair signalled likelihood of rate cuts, following the recent weak labour market readings.***
- ***Yield curve steepened further in August, following a hawkish pause by the RBI and on fiscal concerns.***

India Macro Update - *Tracking Key Macro Factors*

Brent Crude

Crude oil fell 7.1% MoM on announcement of higher supply by the OPEC+ starting September and amid weakening US demand.

Currency

The INR depreciated ~0.7% MoM in August vs the USD despite weakness in the DXY (-2.2% MoM), weighed by concerns over impact of Trump's tariff announcements and continued FPI outflows (~USD2.5bn).

Bank Credit & Deposit Growth

Bank deposits rose 10.1% YoY, while credit growth rose by 10.2% in the fortnight ending 08th August 2025. Credit growth is expected to pick up following declining interest rates and an expected boost to consumption from tax cuts (GST, personal income taxes).

Manufacturing PMI

The HSBC India Manufacturing PMI rose to an over 17 year high of 59.3 in August from 59.1 in July led by new orders & output.

Services PMI

The HSBC India Services PMI rose to a 15 year high of 62.5 (from 60.5 in July) led by an increase in export orders.

GST

Gross GST collection for August 2025 rose 6.5% YoY to INR1.86tn. Net GST revenue rose by a sharp 10.7% YoY to INR1.67tn.

Auto Sales

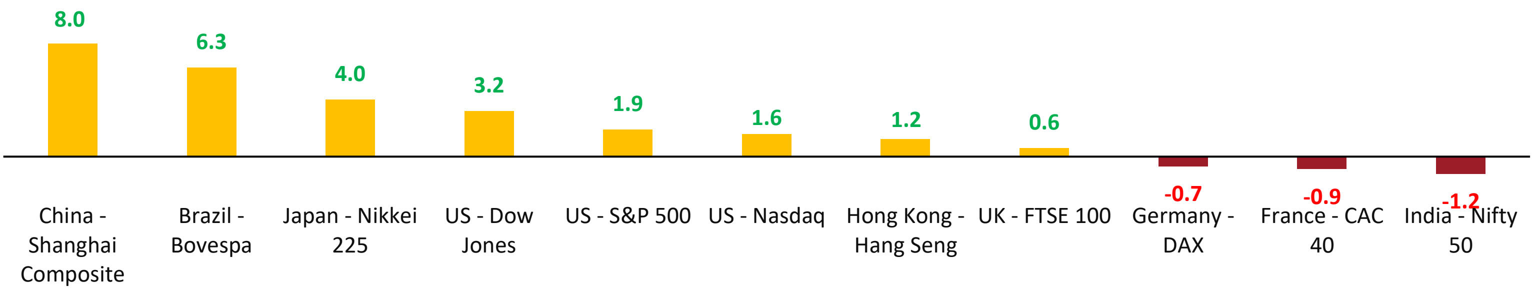
Auto sales in July declined due to high base effect and excessive rainfall denting footfalls. Both 2W and PV sales were tepid. Tractor segment delivered robust performance amid robust agriculture prospects.

Outlook – *(Source - IDFC FIRST Bank Economics Research, As On 29th August 2025)*

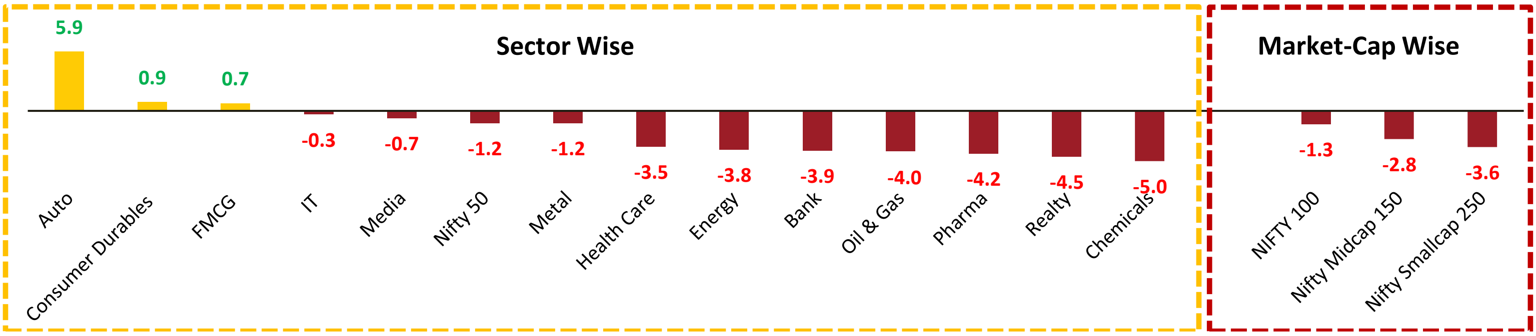
- **FY26 GDP growth is now revised upwards to 6.6%, from previous estimate of 6.3%.**
- **We expect FY26 CPI inflation at 2.7% and FY27 inflation at 4.0%.**
- **We expect another rate cut (25bps) by the RBI in Q3FY26.**
- **USDINR is expected to remain between 88.00 to 89.00 as long as 50% tariff persists.**

Equity Market Update

Global Indices Performance (%) - August 2025



Domestic Indices Performance (%) - August 2025



Performance shown above is based on total returns for respective sectoral indices of the NSE. Data as on 29th August 2025, Source: ACE MF

- **Frontline Indices** – Indian equities fell for the second straight month, amid concerns over adverse impact of the 50% tariff levied by US President Trump on India's exports to the US and lack-lustre corporate earnings. Announcement of GST rate reduction did provide some support to sentiment during the month.
- **Auto** – The sector has seen a change in sentiment in recent months, on expectations of improved demand on the back of personal income tax cuts, and the recent announcement of reduction in GST rates. The sector has been reeling from tepid demand – both urban (PV sales) as well as rural (2W sales).
- **Consumer Durables** – The sector too outperformed amid expectations from improved demand following the proposed GST rate cuts.

- **Chemicals** – The sector underperformed in August likely owing to disruptions to its US exports following the adverse tariff imposition.

Outlook –

We try to understand equity markets based on following three important pillars:

Valuations

Neutral

- Nifty's 12-month forward PE is at 19.85x vs current PE of 21.46x. Nifty Midcap 150's 12-month forward PE is at 27.31x vs current PE of 32.10x, Nifty Smallcap 250's 12-month forward PE is at 24.91x vs current PE of 31.51x (As on 29th August 2025).
- **From a Valuation perspective – Large caps look most attractive, followed by small caps & then midcaps**

Earnings

Neutral

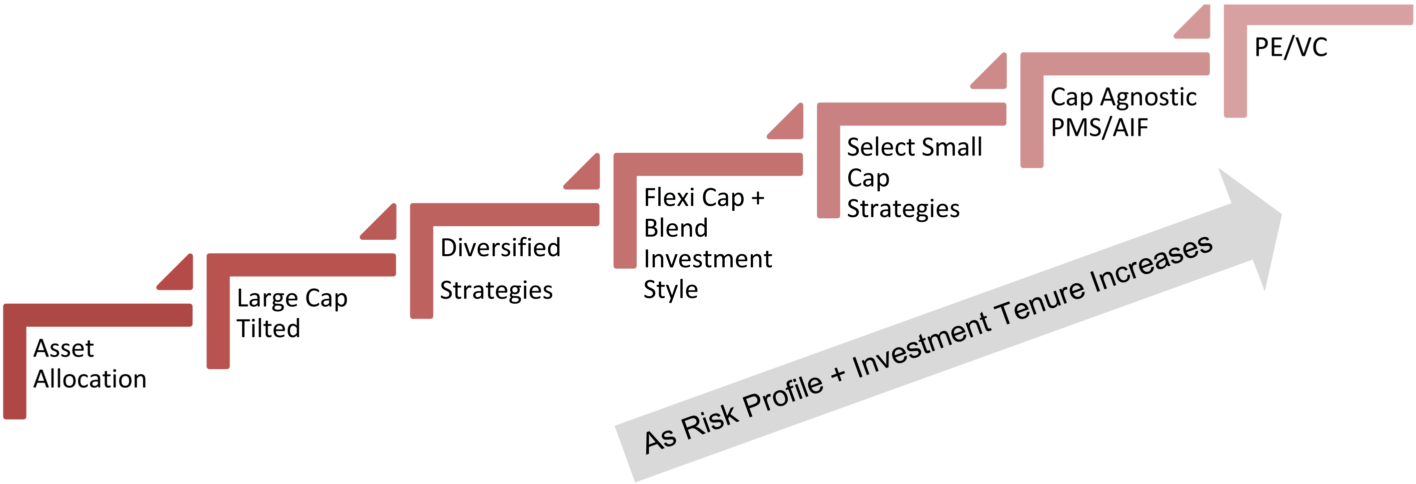
- Despite the near-term challenges and uncertain macro environment, the medium-to-long term growth outlook for India seems intact. Materials, Industrials and Communication Services are expected to clock superior earnings performance over FY26 and FY27^.
- **Nifty 50 earnings growth is expected to clock around 10-11% growth in FY26.**

Volatility

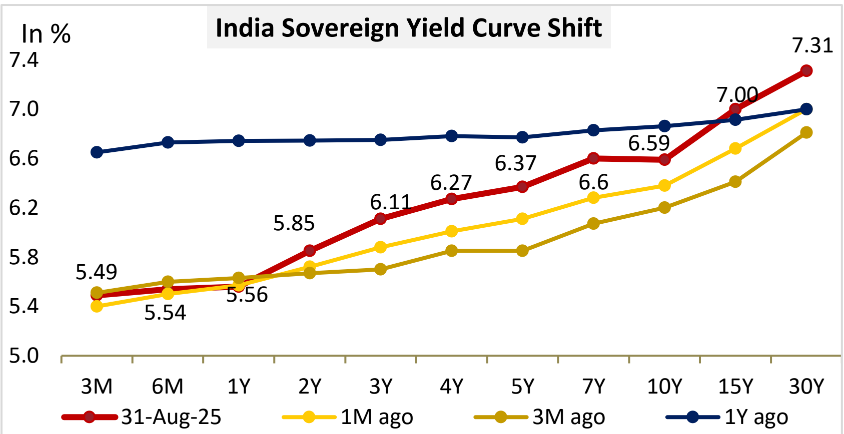
Neutral

- Nifty VIX ended at 11.75 (As on 29th August 2025) as against 11.54 (as on 31st July 2025).
- **Domestic and global macros, geopolitics, crude oil prices and global yields to drive the volatility index going ahead.**

Equity Investment Strategy



Debt Market Update



Global Bond yields (%)	29-Aug-25	1M ago	1Y Ago
US 10 – Year	4.23	4.37	3.90
UK 10 – Year	4.72	4.57	4.02
Germany 10 – Year	2.72	2.69	2.30
Japan 10 - Year	1.60	1.55	0.89
India 10 – Year	6.57	6.38	6.86

Data as on 29th August 2025, Source- Investing.com

- **Indian yield curve** steepened further in August as a hawkish pause by the RBI dampened hopes for further rate cuts. The announcement on GST rate reduction raised concerns over additional borrowing by the government leading to a rise in medium to longer tenor yields (3Y and beyond).

- **U.S. Treasury yields:** US 10Y treasury yields cooled by ~13bps MoM in August. Early in the month, yields fell following weak labour market data but subsequently rose following higher-than-anticipated producer price inflation. Near the close of the month, the Fed chair alluding to a possible rate cut in September at the Jackson meeting lent some support.

- **Euro zone:** Bond yields in Germany inched up by ~3bps to 2.72% MoM in August amid concerns over a rise in inflation. The BoE cut rates by 25 bps to 4.0% (4 of 9 policy makers opted for a status quo) and signalled further cuts would be gradual. UK 10Y yields rose by ~ 14bps MoM as hopes for further rate cuts in 2025 weakened.

- **Japanese** 10Y yields rose ~6bps MoM to 1.62% on concerns over potentially higher inflation stemming from a prolonged pause on rate hikes by the BoJ amid the uncertainty around the impact of tariff war. The BoJ kept short-term policy rate steady at 0.5% for the fifth straight meeting in July, amid growing expectations of rate hikes to tackle sticky inflation.

Outlook –

We try to understand debt markets based on following three important pillars:

Interest Rate

Neutral

- **We expect another 25bps cut in October / December deriving space from CPI inflation expected to undershoot RBI's estimate, and due to presence of negative output gap** as indicated by tepid core inflation.
- **10-Yr G-sec yield is expected to range between to 6.35% to 6.65%. Upward pressure on yields due to rising supply** in H2FY26 (G-sec plus SDLs) and weakness in demand. **The neutral stance has removed market expectation of any further rate cuts.**

Liquidity

Neutral

- RBI has infused durable liquidity through various measures such as CRR cut, OMOs and Forex Swaps. This has resulted in **core liquidity turning large positive**, from being in deficit in January 2025. Core liquidity stood at a surplus of ~INR4.85tn as of 22nd August 2025.
- **The phased CRR cut (Sep-Nov'25) will infuse ~INR 2.5tn liquidity which would significantly reduce the need for OMO purchases in the remainder of FY26.**

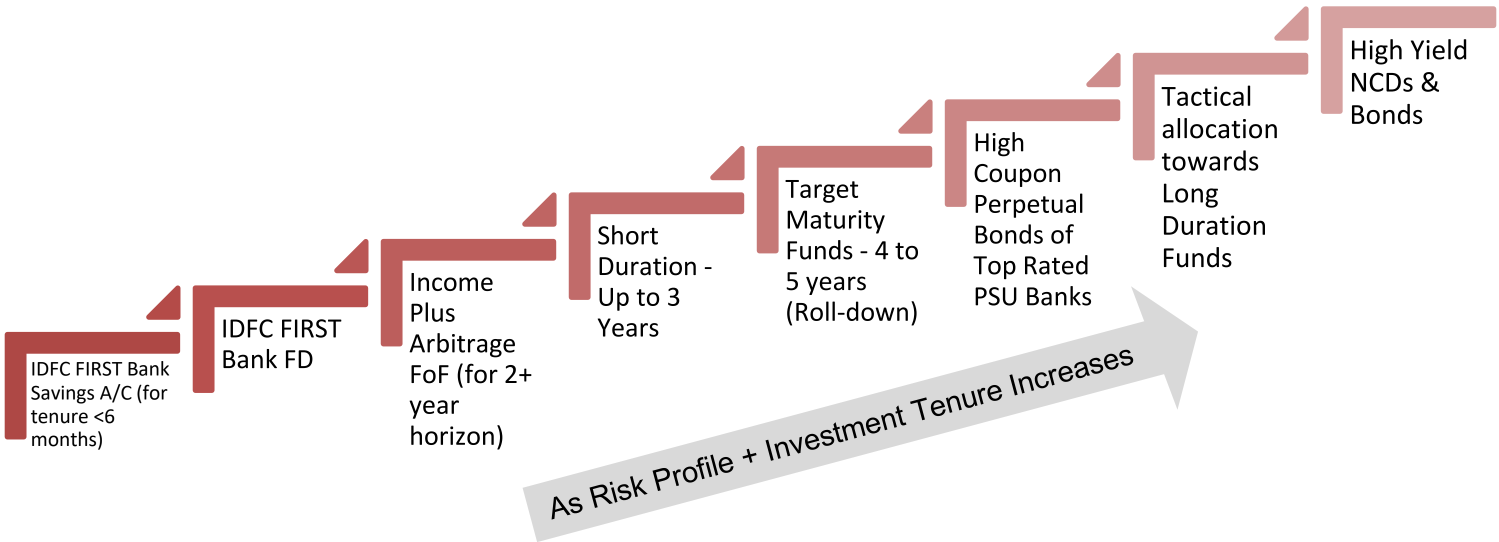
Credit Risk

Neutral

- **Spreads on offer versus additional risk taken are modest –** risk-reward doesn't favour taking credit risk via low rated category as a whole. However, selective buying can be rewarding.
- **Markets are illiquid in low rated segment,** look at company specific opportunity.

****IDFC FIRST Economics Research estimate as on 29th August 2025***

Debt Investment Strategy



Disclaimer

This document has been prepared by IDFC FIRST Bank Limited based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. The contents of this report are solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments or any other product. Nothing in the report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the investor's circumstances. While due care has been taken in preparing this document, IDFC FIRST Bank and its affiliates accept no liabilities for any loss or damage of any kind arising out of any inaccurate, delayed or incomplete information nor for any actions taken in reliance thereon. The securities/funds discussed, and opinions expressed in this mail may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives & financial position. Please be informed that past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Unless expressly stated, performance of products is not guaranteed by IDFC FIRST Bank or its affiliates. The information provided may not be taken in substitution for the exercise of independent judgement by any investor.

This document is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction, where such distribution, publication, availability, or use would be contrary to law, regulation or which would subject IDFC FIRST Bank and affiliates to any registration or licensing requirement within such jurisdiction.

Please note that Mutual Fund Investments are subject to market risks, please read the Statement of Additional Information & Scheme Information Document carefully before investing for full understanding and detail. IDFC FIRST Bank Limited shall receive brokerage for Mutual fund transactions through AMC’s as permitted under the extant regulations. For the applicable brokerage rates for each transaction, please visit idfcbank.com or contact your IDFC FIRST Bank representative.

The information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied, or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of IDFC FIRST Bank Limited. IDFC FIRST Bank limited accepts no liability nor responsibility whatsoever with respect to the use of the information provided hereinabove.

The customers acknowledge that none of the Information has been subject to verification and neither IDFC FIRST Bank nor any of its representatives accepts responsibility for or makes any representation, expressed or implied, or gives any warranty with respect to the accuracy or completeness of the Information. The Customers shall be responsible for making their own decision on the Information and acknowledge that it shall not have any right of action against IDFC FIRST Bank or any of its Representatives in relation to the accuracy, reasonableness, or completeness of any of the Information. Accordingly, IDFC FIRST Bank and any of its Representatives will not be liable for any direct, indirect, or consequential loss or damage suffered by any person as a result of any reliance on any statement contained in or omitted from the Information.