

Market Review

July - 2025

Macroeconomic Update

The month of July saw heightened activity related to trade negotiations with US. While the US signed trade deals with EU, Japan and Indonesia, it slapped reciprocal tariff on several other countries including India. While headline Q2 GDP growth in US was strong, growth was driven by import normalisation while domestic demand growth was muted. Moreover, latest labour data suggests that non-farm job creation was much below expectations with previous two months' data also revised downwards, suggesting weakness in the economy. While Q2 GDP in China was better than expected, the economy continued to face trade related headwinds reflected in weak manufacturing PMI numbers which remained in contraction mode in July. Eurozone showed signs of improvement as new orders stopped falling for the first time in 3 years and business confidence reached its highest level since June 2022. Manufacturing PMI for the region was recorded at 3 years high, though still in contraction zone.

Inflation moved within a narrow range and largely on expected lines across most major economies. Recent inflation prints in the US showed signs of tariff impact as imported goods inflation edged higher. Fed kept rates unchanged in its July meet and has signalled that it will be data dependent. ECB also kept rates unchanged and has signalled a pause hereafter.

High frequency indicators point towards moderating demand: Pace of vehicle registrations except of tractors moderated in July suggesting weak demand momentum. GST collections growth too appears to be in slow lane growing by an average of ~7% in the past two months. However, power demand was back in positive territory after contracting for two consecutive months and both manufacturing and services PMI readings were healthy.

Indicators	Units	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Retail registration - Auto®								
2W	YoY, %	4.7	-5.8	-1.1	2.8	7.8	5.1	-6.6
PV		18.6	-7.7	9.1	5.2	0.0	5.3	-1.4
MHCV		4.6	-8.7	-0.7	1.3	-3.2	4.4	0.5
LCV		12.2	-7.2	1.6	2.3	-3.5	6.8	2.3
Tractors		3.9	-16.1	-6.9	7.0	2.1	8.3	10.6
Gross GST Collection		12.3	9.1	9.9	12.6	16.4	6.2	7.5
Average E-Way bill generated		23.1	14.7	20.2	23.4	18.9	19.3	25.8
Railway Freight		4.4%	-0.4%	3.2%	4.5%	2.8%	1.4%	1.8%
Power demand		2.7	-0.8	6.7	2.2	-4.9	-1.5	2.1
Digital Spending (UPI + IMPS)		22.7	15.2	20.4	18.0	19.0	16.5	18.2
Manufacturing PMI^		57.7	56.3	58.1	58.2	57.6	58.4	59.1
Services PMI^	Index	56.5	59	58.5	58.7	58.8	60.4	61.1
Unemployment *	%	7.9	8.4	7.7	7.7	6.7	7.5	6.8

Source: www.gstn.org.in, www.icegate.gov.in, CMIE, PIB, RBI, www.vaahan.parivahan.gov.in, www.posoco.in

^Number >50 reflects expansions and number <50 reflects contraction compared to previous month. @ - figures are preliminary data and are subject to revision.

* based on CMIE survey

Going forward, urban demand is likely to get a boost from income tax relief and easing monetary conditions while rural demand too is likely to remain steady on back of strong rabi output and prospects of above normal monsoon. However, global trade uncertainties may dampen sentiment and could weigh on India's growth prospects.

Macroeconomic Update (contd...)

Government spending picks up while tax growth moderates: Gross tax revenue growth in the first three months of this fiscal has been sluggish driven by contraction in direct tax collections even though indirect tax growth has been decent. Non-tax revenue growth remained buoyant on the back of higher than budgeted RBI dividend transfer. Total expenditure growth in first three months was up 26% driven by healthy growth in both capex and revex. As a result, fiscal deficit at the end of June was 18% of budget estimates compared to 8% during the same period last year.

INR bn	3MFY25	3MFY26	YoY growth (%)
Gross tax revenue	8,308	8,690	4.6
Direct Tax Collections	4,621	4,586	-0.8
Indirect Tax collections	3,552	3,962	11.5
Less: Share of states & others	2,812	3,287	16.9
Net Tax collections	5,496	5,403	-1.7
Non-tax revenues	2,800	3,731	33.2
Total revenue receipts	8,297	9,134	10.1
Total Capital receipts	45	280	519.9
Total Receipts	8,342	9,414	12.9
Total Revenue Expenditure	7,889	9,470	20.0
Total Capital Expenditure	1,811	2,751	52.0
Total Expenditure	9,699	12,221	26.0
Fiscal Deficit	1,357	2,807	106.9
Fiscal deficit (as % of BE)	8.1%	17.9%	
Fiscal deficit (% of GDP)	0.4%	0.8%	

Source: CMIE

Trade deficit narrowed in June: Merchandise trade deficit fell in Jun'25 compared to the previous month led by decline in non-oil, non-gold (NONG) imports.

Amount in USD billion	May-25	Jun-25	Change
Trade Deficit / (Surplus)	21.9	18.8	-3.1
Net Oil Imports	9.1	9.2	0.1
Net Gold Imports*	2.3	1.8	-0.5
NONG net imports^	10.5	7.8	-2.7

Source: CMIE, Ministry of Commerce; *Net Gold includes gold, silver and pearls precious & semiprecious stones adjusted for gems and jewellery exports. ^NONG refers to Non-Oil Non-Gold (as defined above) imports/exports

The trade deficit is likely to remain range-bound going forward. Further, healthy growth in services exports is likely to keep current account within manageable range. However, trade disruptions due to tariff related issues can have adverse effect on India's trade dynamics going forward.

Retail inflation in Jun at 6 years low: India's CPI inflation in June was recorded at its lowest level since Jan'19 driven by further moderation in food prices and favourable base. Core-Core (which excludes food, fuel, petrol, diesel, gold, silver and housing) however inched up by 30bps driven higher services prices.

CPI inflation is likely to remain below 4% in the coming months due to favourable outlook on food inflation and favourable base effect.

Commodity prices: Oil prices increased during the month following US-EU trade deal and concerns around Russian supply. Steel prices rallied in response to Chinese leadership decision to deal with oversupply and deflation.

YoY, %	May-25	Jun-25	Change in %
CPI	2.8	2.1	-0.7
Food & beverages	1.5	-0.2	-1.7
Fuel and Light	2.8	2.6	-0.2
Housing	3.2	3.2	-
Transportation & Communication	3.8	3.9	0.1
Core-Core CPI®	3.6	3.9	0.3

Source: CMIE; @-CPI excluding food, fuel, petrol, diesel, gold, silver and housing

	Market price (USD)*	Jul'25 (%)^	FY26TD (%)&
Brent Crude (per barrel)	72.5	7.3	-3.0
Gold (per ounce)	3,290	-0.4	5.3
Steel (per tonne)	485	8.5	4.3
Zinc (per tonne)	2,754	0.5	-2.9
Copper (per tonne)	9,606	-4.3	-0.7
Aluminium (per tonne)	2,562	-1.3	1.8
Lead (per tonne)	1,940	-4.2	-3.1

Source: Bloomberg; *Market prices as on July 31, 2025. ^Y-o-Y change. & - Change in FY26YTD

Macroeconomic Update (contd...)

Summary and Conclusion:

Global growth prospects today face unprecedented uncertainty due to US' tariff policy and risk of geopolitical flare up. US growth is exhibiting early signs of slowdown with softness in labour market now visible in data. This is likely to deteriorate going forward as effects of tariffs and uncertainty weigh on prospects. Domestic demand in China remains subdued and deflationary forces have gathered steam. The global growth prospects hinges on the outcome of US trade policy and in this regard outcome on trade negotiations with different countries remain a key monitorable going forward.

India's growth momentum too is showing signs of a slowdown. Merchandise exports likely to be hit in the wake of higher tariff imposition than other countries. However, going forward urban consumption is likely to get a boost due to income tax relief announced by the Government and monetary easing by the RBI. Rural consumption too is likely to remain steady on the back of prospects of above normal monsoon, falling inflation and higher real rural wage growth. India's external sector also remains comfortable on the back of low current account deficit and adequate forex reserves. Rise in geopolitical tensions and a tariff related uncertainty are key near-term risks.

Looking ahead, the medium-term outlook for India's economy seems optimistic, in our view. This optimism is driven by bi-lateral trade deal with various countries, enhanced infrastructure investments, the potential of pick-up in private sector capex, and the likely boost to private consumption.

Equity Market Update

The month of July 2025 saw broad based decline for Indian equity markets. While NIFTY 50 / BSE Sensex Index ended the month with 2.9% decline, small and mid-cap indices witnessed a sharper fall. All sectors ended the month with decline except healthcare. India failing to secure a trade deal with US and slowing domestic growth weighed on sentiments.

On the contrary, all major global equity markets witnessed rally in July. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	July-25	FY26TD [^]
BSE Healthcare	2.5	9.5
BSE Information Technology	-8.7	-3.6
BSE Oil & Gas	-3.8	6.6
BSE Metal	-2.6	0.2
BSE Auto	-1.1	10.9
BSE Power	-3.5	1.7
BSE Capital Goods	-5.7	8.8
BSE Bankex	-3.2	4.3
BSE Fast Moving Consumer Goods	1.6	5.8
NIFTY Smallcap 100	-5.8	11.6
NIFTY Midcap 100	-3.9	11.1
NSE Nifty 50 Index	-2.9	5.3
BSE Sensex	-2.9	4.9

% Change	July-25	FY26TD [^]	CY25TD [^]
KOSPI	5.7	30.8	35.3
Nikkei 225	1.4	15.3	2.9
NASDAQ Composite	3.7	22.1	9.4
MSCI Emerging Markets	1.7	12.9	15.6
S&P 500	2.2	13.0	7.8
Hang Seng	2.9	7.2	23.5
Shanghai Composite	3.7	7.1	6.6
FTSE 100	4.2	6.4	11.7
DAX	0.7	8.6	20.9
CAC 40	1.4	-0.2	5.3

Source: Bloomberg; [^]Returns in FY26TD and CY25TD

FII sold net equities worth USD 2.9 billion in July 2025 (June 2025: Net bought USD 2.4 billion) and have cumulatively bought equity worth USD 2.5 billion in 4MFY26 (4MFY25 net bought: USD 2.3 billion).

DII bought net equity worth USD 7.1 billion in July 2025 (June 2025: USD 8.5 billion) and have cumulatively bought USD 26.8 billion in 4MFY26 (4MFY25: USD 18.2 billion). Net flows into Mutual funds were ~INR 28,170 crore in June 2025 (May 2025: ~INR 22,051 crore & June 2024: ~INR 43,619 crore) cumulatively amounted to ~INR 75,964 crore in 3MFY26 (3MFY25: ~INR 103,950 crore).

Outlook

As on July 31, 2025, NIFTY 50 Index was trading at ~20x price to earnings multiple. Further, Market cap-to-GDP stood ~117% (based on CY25 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield* has narrowed recently [*Earnings yield = 1/(one year forward P/E)].

Chart 1

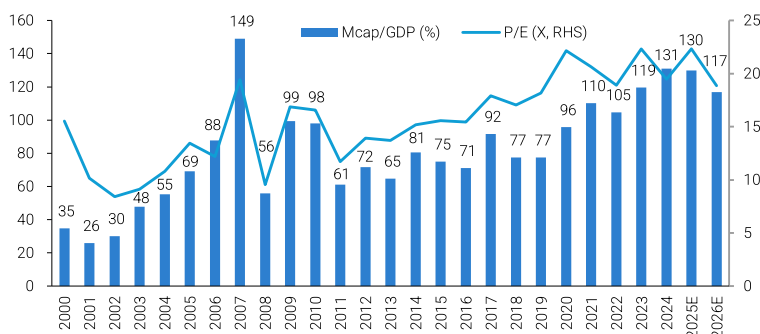
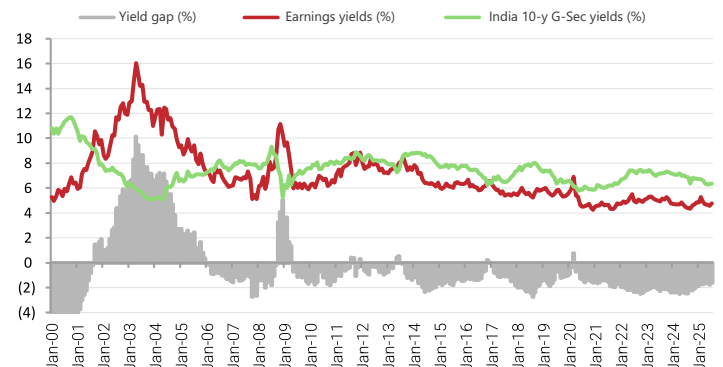


Chart 2



Source: Kotak Institutional Equities; For 2025 and 2026, the market cap as on July 31, 2025 is taken and divided by GDP estimates for CY25/CY26

Equity Market Update (contd...)

As of July 31st, 2025, the valuations of all sectors except private banks and automobiles are trading at a premium to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	31-Jul-25	LTA	Discount / Premium [^]
Cement	44.5	30.1	47.6
Utilities	15.4	11.3	36.3
Industrials	33.6	26.9	24.9
Pharma	29.3	24.3	20.6
Energy	14.8	12.6	17.6
Metals	11.1	10.1	9.9
PSU banks [@]	1.2	1.1	6.8
FMCG	38.1	36.0	5.8
Consumer Discretionary	56.5	54.8	3.2
Tech	21.1	21.0	0.2
Automobiles	20.1	20.1	-0.1
Pvt Banks [@]	2.4	2.5	-3.8

Source: Kotak Institutional Equities. Stocks are part of Kotak Institutional Equities universe.

LTA – 10 Years average. Cells in green are sectors which are trading at premium. All figures are calculated based on 12 months forward estimates.

[^]to Long term (LT) average, [@]-Price to Book value..

Given the global uncertainties and aggregate valuation being higher than historical average, the importance of stock selection increases even more.

Over medium to long term, we remain optimistic on Indian equities considering strong macroeconomic fundamentals, attractive domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies. However, near-term risks include global trade tariff uncertainties, cyclical moderation in corporate earnings, and slowdown in growth momentum etc.

Debt Market Update

10-year benchmark Gsec yield after touching intra month low of 6.29% ended the month ~5bps higher in July at 6.37%. On the other hand, yield on 10 year AAA corporate bonds fell by ~3bps thereby leading to compression of spread between 10Y AAA bonds and 10Y G-sec yield by ~8bps. Key events / news which influenced yields during the month are RBI's decision to conduct Variable Rate Reverse Repo (VRRR) operations and US announcing that India will face a higher tariff rate of 25%. The table below gives a summary view of the movement of key rates and liquidity:

	Jun-25	Jul-25	Change (in bps)
MIBOR Overnight Rate (%)	5.52	5.54	0.02
3M Gsec yield (%)	5.41	5.40	-0.01
10Yr Benchmark G-Sec Yield [^] (%)	6.32	6.37	0.05
AAA 10Year Corporate Bond Yields ^{*, &} (%)	7.03	7.00	-0.03
AAA 10Y Corporate bond spread against 10Y benchmark [@] (bps)	71	63	-8
Average net liquidity absorbed/infused by RBI* (INR billion)	2,738	3,043	

Source: Bloomberg, ^-bi-annual yield; #-annualised yield; & - Average yield of NABARD paper provided by independent valuation agencies has been taken. @ - Spreads calculated by subtracting non-annualised Gsec yields from annualised corporate bond yields.

*Average net daily liquidity infused / absorbed through Liquidity Adjustment Facility, exports refinance, marginal standing facility and term repos/reverse repos. Source: Bloomberg, RBI

Average net liquidity surplus increased to INR ~3trn at the end of July compared to a surplus of INR ~2.7trn in May as measures taken by the RBI continued to show effect. RBI also had to conduct 7-day VRRR auctions to mop up extra liquidity.

In the debt market, FPIs ended the month with net buying of USD 120 million in July 2025 (June 2025 net buy: USD 60 million).

RBI in its latest policy review kept the policy rate and stance unchanged. While it lowered average CPI inflation forecast for FY26 by 60bps to 3.1%, it has forecasted 4.4% and 4.9% CPI inflation for Q4FY26 and Q1FY27 which is above RBI's target of 4%.

The RBI has also come out with its internal working group report to review the liquidity management framework and has invited comments on the same by stakeholders and public by August 29, 2025. The report largely tries to maintain the status quo with very few changes suggested. Key recommendations from the report include:

- RBI should continue with overnight Weighted Average Call Money Rate (WACR) as operating target. The RBI should also track collateralised rates (like TREPs etc.) too for better alignment.
- RBI should retain symmetric corridor (repo in middle with SDF 25bps below and MSF 25bps above repo rate). Width of the corridor should also be retained.
- RBI should replace 14-day VRR/VRRR with 7-day operations for transient liquidity
- At least one day advance notice for planned operations
- RBI to continue with variable rate auctions for better price discovery
- No changes for durable liquidity tools
- No MSF access to standalone primary dealers should continue
- RBI should continue with 90% daily CRR requirement

Debt Market Update (contd...)

Outlook

RBI action to ease liquidity conditions through a host of measures (OMO purchases, currency swaps, VRRs, CRR cut) since December 2024 and higher than expected dividend transfer to Government is likely to keep liquidity in ample surplus in the coming months. The Government too stuck to its fiscal consolidation path which is also positive from the debt market perspective.

As highlighted by RBI, CPI inflation is likely to remain below RBI's mid-point target of 4% in FY26 but rise to 4.9% by Q1FY27. In our view, in case the incoming data surprises on the downside due to global trade uncertainties, RBI could lower policy rate further as the neutral stance provides RBI with flexibility to move in either direction.

In our view, medium term outlook on Indian fixed income market remains favourable, considering:

- Headline CPI inflation is likely to undershoot RBI target of 4% in FY26. Thereafter too the rise due to unfavourable base is likely to be contained.
- Liquidity is likely to be in ample surplus given RBI's past actions and CRR cut effective later during the year
- External sector could remain comfortable in view of steady growth in services exports, decline in oil prices and adequate foreign exchange reserves.
- Government sticking to path of fiscal consolidation and reiterating to bring down its debt to GDP bodes well for supply of Gsec over the medium term
- Higher tariff on India likely to dampen growth to the extent of 20-40bps based on most estimates

Key risks to the favourable outlook:

- Below normal monsoon posing risk to food prices

Overall, in our view, yields are likely to remain rangebound with a downward bias. Falling inflation and front loading of policy rate cuts is positive from yields perspective. Thus, in view of significant liquidity provision, convergence of short-term rates and attractive corporate bonds spreads (over Gsec), one may consider investment in medium duration (schemes with duration of upto 5 years) categories especially corporate bonds focussed funds in line with individual risk appetite. Further, as long bond spreads have widened over 10 year G-secs, investors with a relatively longer investment horizon could continue with their allocation to longer duration funds in line with individual risk appetite.

Glossary

AE	Advanced Economies
BoE	Bank of England
BoJ	Bank of Japan
BoP	Balance of Payment
bps	Basis points
CAGR	Compound Annual Growth Rate
CMIE	Centre for Monitoring Indian Economy
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CV	Commercial Vehicle
DII	Domestic Institutional Investors
EA	Euro Area
ECB	European Central Bank
FOMC	Federal Open Market Committee
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GFCE	Government Final Consumption Expenditure
GST	Goods and Services Tax
GVA	Gross Value Added
IMD	India Meteorological Department
INR	Indian Rupee
IMF	International Monetary Fund
IMPS	Immediate Payment System
JGB	Japanese Government Bonds
LCV	Light Commercial Vehicle
Mbpd	Million Barrels Per Day
MHCV	Medium and Heavy Commercial Vehicle

MIBOR	Mumbai Interbank Offered Rate
M-o-M	Month on Month
MPC	Monetary Policy Committee
MSF	Marginal Standing Facility
MSP	Minimum Support Prices
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NFP	Non-Farm Payroll
NONG	Non-Oil Non-Gold
NSO	National Statistical Organization
OMO	Open Market Operation
PIB	Press Information Bureau
PLI	Production Linked Incentive
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PSU	Public Sector Undertaking
PV	Passenger Vehicle
RBI	Reserve bank of India
RE	Revised Estimates
RRR	Reserve Ratio Requirement (for banks in China)
SDF	Standing Deposit Facility
SLR	Statutory Liquidity Ratio
UPI	United Payments Interface
US	United States of America
USD	United States Dollar
UST	US Treasuries
YoY	Year on Year

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