

MARKET REVIEW

September - 2025

Macroeconomic Update

September was the month when the full impact of 50% tariff on Indian exports to US took effect. The US continues to expand the scope of its tariff regime to cover additional sectors raising uncertainty on the global trade front. While US Q2 GDP growth was further revised upwards, internals suggest fading domestic demand momentum. Moreover, the labour data continues to suggest weakness in the economy. Manufacturing PMI in China remained in contraction mode for sixth consecutive month driven by fall in export orders. While Eurozone manufacturing PMI slipped back to contraction in September, services PMI was recorded at an eighth month high.

Inflation remained within a narrow range and largely on expected lines across most major economies. However, the impact of tariff pass through was visible in US inflation data. The Fed cut rates by 25bps in September citing weakness in labour data and has suggested that it will remain data dependent going forward. The median dot plot however, suggests two more rate cuts in this calendar year.

High frequency indicators remained encouraging in Sep: Pace of TW and PV registrations improved in Sep and GST collections growth too was recorded at a 4-month high. Although both manufacturing and services PMI moderated in Sep compared to Aug, they still indicate robust business activity. However, power demand moderated in Sep and has remained tepid in recent months.

Indicators	Units	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Retail registration - Auto®								
2W	YoY, %	-1.1	2.8	7.8	5.2	-6.1	2.6	6.4
PV		9.1	5.3	0.2	5.7	1.7	3.7	4.8
MHCV		-0.7	1.3	-3.2	4.4	0.7	10.7	-1.8
LCV		1.6	2.4	-3.5	7.0	2.8	8.1	1.6
Tractors		-6.9	7.0	2.1	8.4	10.7	29.8	2.4
Gross GST Collection		9.9	12.6	16.4	6.2	7.5	6.5	9.5
Average E-Way bill generated		20.2	23.4	18.9	19.3	25.8	22.4	NA
Railway Freight		3.2	4.5	2.8	1.4	1.8	5.5	10.9
Power demand		6.7	2.2	-4.9	-1.5	2.1	4.3	3.2
Digital Spending (UPI + IMPS)		20.4	18.0	19.0	16.5	18.2	16.8	17.4
Manufacturing PMI^		58.1	58.2	57.6	58.4	59.1	59.3	57.7
Services PMI^	Index	58.5	58.7	58.8	60.4	60.5	62.9	60.9
Unemployment *	%	8.8	8.1	8.3	7.7	7.8	6.4	8.6

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 and proposed GST tax relief and easing monetary conditions while rural demand too is likely to remain steady on back of strong rabi output and above normal monsoon. However, global trade uncertainties and higher US tariff on Indian imports are likely to hurt growth in the near term.

Macroeconomic Update (contd...)

Tax collections under pressure: Gross tax revenue growth in the first five months of this fiscal has been sluggish driven by poor growth in both direct tax and indirect tax collections. Total expenditure growth in first 5 months of this fiscal has been strong as Government front loaded capital expenditure. Consequently, fiscal deficit has widened to 38% of BE in the first 5 months compared to 26% of BE during the same period last year.

INR bn	5MFY25	5MFY26	YoY growth
Gross tax revenue	13,327	13,440	0.8
Direct Tax Collections	6,769	6,703	-1.0
Indirect Tax collections	6,309	6,493	2.9
Less: Share of states & others	4,589	5,336	16.3
Net Tax collections	8,738	8,104	-7.3
Non-tax revenues	3,345	4,403	31.7
Total revenue receipts	12,083	12,507	3.5
Total Capital receipts	89	320	260.6
Total Receipts	12,172	12,827	5.4
Total Revenue Expenditure	13,514	14,493	7.2
Total Capital Expenditure	3,010	4,316	43.4
Total Expenditure	16,524	18,809	13.8
Fiscal Deficit	4,352	5,982	37.5
Fiscal deficit (as % of BE)	25.8%	38.1%	
Fiscal deficit (% of GDP)	1.3%	1.6%	

Source: CMIE

Trade deficit moderated in Aug: Merchandise trade deficit moderated slightly in Aug'25 compared to the previous month led mainly by reduction in net oil imports even as net gold and non-oil non-gold (NONG) imports were higher.

The trade deficit is likely to face headwinds due to higher tariff imposition. However, healthy growth in services exports is likely to keep current account within manageable range.

Retail inflation remains benign: India's CPI inflation in August was recorded at 2.1% YoY compared to 1.6% YoY in July as Food & Beverages inflation remained flat in August compared to contraction in July. Core-Core (which excludes food, fuel, petrol, diesel, gold, silver and housing) however rose by 20bps.

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 settled lower as OPEC+ announced another oil output increase for November. China's tightening of zinc and copper supply led to rally in the prices of the industrial metals, but lackluster economic data globally led to steel prices cooling down.

	Market price (USD)*	Sep'25 (%)^	FY26TD (%)&
Brent Crude (per barrel)	67.0	-1.6	-10.3
Gold (per ounce)	3,589	11.9	23.5
Steel (per tonne)	475	-1.6	2.2
Zinc (per tonne)	3,016	6.8	6.3
Copper (per tonne)	10,300	5.0	6.5
Aluminium (per tonne)	2,679	2.3	6.4
Lead (per tonne)	1,957	0.7	-2.2

Source: Bloomberg; *Market prices as on Sep 30, 2025. ^Y-o-Y change.
 & - Change in FY26YTD

Amount in USD billion	Jul-25	Aug-25	Change
Trade Deficit / (Surplus)	27.4	26.5	-0.9
Net Oil Imports	11.2	8.8	-2.5
Net Gold Imports*	3.8	5.0	1.2
NONG net imports^	12.3	12.7	0.4

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

YoY, %	Jul-25	Aug-25	Change in %
CPI	1.6	2.1	0.5
Food & beverages	-0.8	0.0	0.9
Fuel and Light	2.7	2.4	-0.2
Housing	3.2	3.1	-0.1
Transportation & Communication	2.1	1.9	-0.2
Core-Core CPI®	4.9	5.1	0.2

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

Macroeconomic Update (contd...)

Summary and Conclusion:

Global growth prospects today face unprecedented uncertainty due to US' trade and tariff policy. 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. Global growth prospects will depend on how imposition of higher tariffs by US plays out in the medium term.

India's growth momentum is exhibiting signs of resilience as evident from strong Q1 GDP data and recent high frequency indicators. However, as India faces one of the highest tariffs by US on its exports, growth is likely to take a hit in the second half of this fiscal. The Government has realised this and has embarked on major reform overhaul for the country starting with lowering of GST rates to boost consumption. Going forward urban consumption is likely to get a boost due to income tax relief and GST rate cuts announced by the Government and monetary easing by the RBI. Rural consumption too is likely to remain steady on the back 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 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 deals with various countries, Governments renewed efforts for structural reforms, enhanced infrastructure investments, and the likely boost to private consumption.

Equity Market Update

Indian markets ended marginally higher in September 2025. While NIFTY 50 / BSE Sensex Index ended the month with 0.8% and 0.6% gain respectively, small and mid-cap indices witnessed slightly higher gains. All sectors ended the month with gain except Healthcare, FMCG and Tech which ended the month with a decline. India being subject to one of the highest tariffs in the world and US raising of H-1B visa fees weighed on market sentiments during the month.

Almost all global equity markets witnessed a rally in September except for German markets. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	Sep-25	FY26TD ^Δ
BSE Metal	9.4	7.9
BSE Auto	5.9	24.2
BSE Oil & Gas	5.4	7.1
BSE Power	5.0	1.9
BSE Capital Goods	4.4	8.9
BSE Bankex	2.5	3.3
BSE Healthcare	-1.3	4.0
BSE Fast Moving Consumer Goods	-2.4	3.4
BSE Information Technology	-3.6	-8.1
NIFTY Smallcap 100	1.9	9.1
NIFTY Midcap 100	1.4	9.4
NSE Nifty 50 Index	0.8	4.6
BSE Sensex	0.6	3.7

Source: Bloomberg; ^ΔReturns in FY26TD and CY25TD

% Change	Sep-25	FY26TD ^Δ	CY25TD ^Δ
KOSPI	7.5	38.0	42.7
Hang Seng	7.1	16.2	33.9
MSCI Emerging Markets	7.0	22.2	25.2
NASDAQ Composite	5.6	31.0	17.3
Nikkei 225	5.2	26.2	12.6
S&P 500	3.5	19.2	13.7
CAC 40	2.5	1.4	7.0
FTSE 100	1.8	8.9	14.4
Shanghai Composite	0.6	16.4	15.8
DAX	-0.1	7.7	19.9

FIIs sold net equities worth USD 2.1 billion in September 2025 (August 2025: Net sold USD 4.3 billion) and have cumulatively sold equity worth USD 4.0 billion in 6MFY26 (6MFY25: Net bought USD 9.7 billion).

DII's bought net equity worth USD 7.4 billion in September 2025 (August 2025: USD 10.8 billion) and have cumulatively bought USD 45.0 billion in 6MFY26 (6MFY25: USD 27.8 billion). Net flows into Mutual funds were ~INR 38,607 crore in August 2025 (July 2025: ~INR 50,853 crore & August 2024: ~INR 42,819 crore) cumulatively amounted to ~INR 165,424 crore in 5MFY26 (5MFY25: ~INR 187,735 crore).

Outlook

As on September 30, 2025, NIFTY 50 Index was trading at ~20x price to earnings multiple. Further, Market cap-to-GDP stood ~115% (based on CY26 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

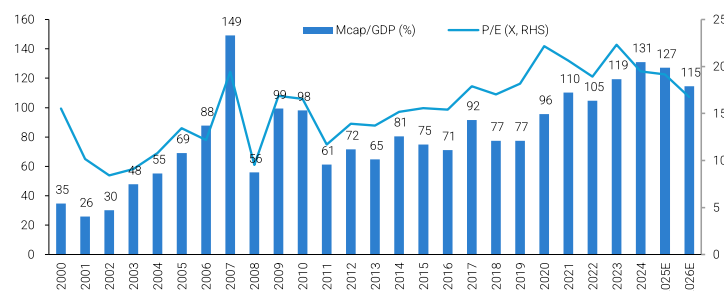
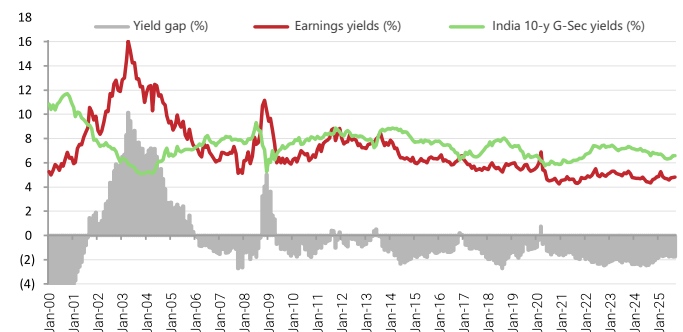


Chart 2



Source: Kotak Institutional Equities; For 2025 and 2026, the market cap as on September 30, 2025 is taken and divided by GDP estimates for CY25/CY26

Equity Market Update (contd...)

As of September 30th, 2025, the valuations of all sectors except Tech and Private Banks are trading at a premium to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	30-Sep-25	LTA	Discount / Premium^
Cement	41.4	30.5	36.1
Utilities	15.3	11.4	34.8
Industrials	33.2	27.0	22.9
Metals	11.6	10.1	14.7
Pharma	27.5	24.3	13.1
PSU banks [@]	1.2	1.1	13.1
Energy	14.2	12.7	12.4
Automobiles	22.0	20.5	7.2
FMCG	37.5	36.8	1.8
Consumer Discretionary	55.2	55.0	0.4
Tech	19.9	21.1	-5.7
Pvt Banks [@]	2.3	2.8	-20.6

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 like income tax and GST relief to consumers. However, near-term risks include higher tariff imposition by US on India and cyclical moderation in corporate earnings.

Debt Market Update

The Yield on 10-year benchmark Gsec and 10-year AAA corporate Bonds remained largely unchanged during the month. Key events / news which influenced yields during the month are GST rate cuts coming into effect and US announcing sharp rise in H-1B visa fees expected to hurt India's remittances and services exports. The table below gives a summary view of the movement of key rates and liquidity:

	Aug-25	Sep-25	Change (in bps)
MIBOR Overnight Rate (%)	5.54	5.74	0.20
3M Gsec yield (%)	5.51	5.47	-0.04
10Yr Benchmark G-Sec Yield [^] (%)	6.57	6.58	0.01
AAA 10Year Corporate Bond Yields ^{*,&} (%)	7.19	7.2	0.01
AAA 10Y Corporate bond spread against 10Y benchmark [@] (bps)	61	61	-
Average net liquidity absorbed/infused by RBI* (INR billion)	2,837	1,473	

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 was at INR ~1.5trn at the end of September compared to a surplus of INR ~2.8trn in August due to tax related outflows.

In the debt market, FPIs ended the month with net buying of USD 1.1 billion in September 2025 (August 2025 net buy: USD 1.7 billion).

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 stuck to its fiscal consolidation path which is also positive from the debt market perspective.

In its latest monetary policy review, the RBI decided to keep the policy repo rate and stance unchanged which was on expected lines. However, RBI has indicated that further policy space has opened up to support growth considering benign inflation outlook. This was a departure from recent resolution that *the monetary policy had limited space to support growth*. This clearly indicates RBI would be open to cut rates further to support growth especially amid tariff and trade related uncertainties. This was also indicated in its projections for inflation and growth. While the inflation forecast was lowered across, GDP growth projections were increased only to adjust for higher-than-expected Q1FY26 growth rate. GDP growth rate from Q3FY26 to Q1FY27 was lowered by 10-20bps.

In our view, RBI is likely to lower rates further as trade and tariff related uncertainties drag growth down and outlook for inflation is favourable due to cut in GST rates and favourable food inflation outlook.

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

- Headline CPI inflation is likely to significantly 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 in the coming few months given RBI's past actions and CRR cut which will aid in better transmission of rates
- External sector could remain comfortable in view of steady growth in services exports, healthy remittances and adequate foreign exchange reserves
- Government sticking to path of fiscal consolidation and reiterating to bring down its debt to GDP could bode 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:

- Weather related uncertainty leads to rise in food prices
- Flare up in geo-political tensions leading to higher crude oil prices

Debt Market Update (contd...)

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. Furthermore, lower than expected SDL borrowings in Q3 and Central Government's reduction of supply for long dated securities in H2 also bodes well for yields. Thus, in view of comfortable liquidity 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 over 10 year G-secs remain elevated and given that Government has cut supply at the longer end in its 2HFY26 borrowing program, 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
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)
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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