



Tariff Talks Weigh on Domestic Equities In July

- *US struck trade deals with Europe, Japan and UK among other nations with tariff rates negotiated at lower rates than initially announced. However, India-US trade deal still stuck in limbo. Trump has announced a 25% Tariff on India, and a further 25% penalty for trade with Russia.*
- *Indian equities witnessed some profit-booking in July on concerns over the delay in US-India trade deal and lack lustre corporate performance in ongoing earnings season (Q1FY26).*
- *Top line growth softened to 7.1% YoY (sample of 205 companies of the Nifty 500 constituents) owing to softening growth momentum. PAT growth picked up to ~11.6% aided likely by cost efficiencies.*
- *RBI maintained delivered a hawkish pause and indicated concerns over forward inflation setting the bar for further rate cuts very high.*

**KEY
TAKEAWAY**

India Macro Update - Tracking Key Macro Factors



Brent Crude

Crude oil prices surged ~8% MoM amid optimism over demand and Trump's announcement of sanctions on Russian imports.



Currency

The INR depreciated by 2.1% MoM in July vs the USD amid strength in the dollar index (3.2% MoM) following progress in trade deals, status quo by US Fed and penalty announced on India for Russian crude oil imports.



Bank Credit & Deposit Growth

Bank deposits rose 10.1% YoY, while credit growth remained soft at 9.8% in the fortnight ending July 11, 2025. Credit growth is expected to be subdued amid weak consumption demand and subdued private capex.



Manufacturing PMI

The HSBC India Manufacturing PMI came at a 16-month high of 59.1 in July (58.4 in June) led by new orders and output.



Services PMI

The HSBC India Services PMI stood at a 11-month high of 60.5 (60.4 in June) led by a pick-up in new export orders.



GST

Gross GST collection for July 2025 stood at INR1.96tn, a 7.5% YoY increase & 6% MoM increase. Net collections only inched up by 1.7% to INR1.69tn.



Auto Sales

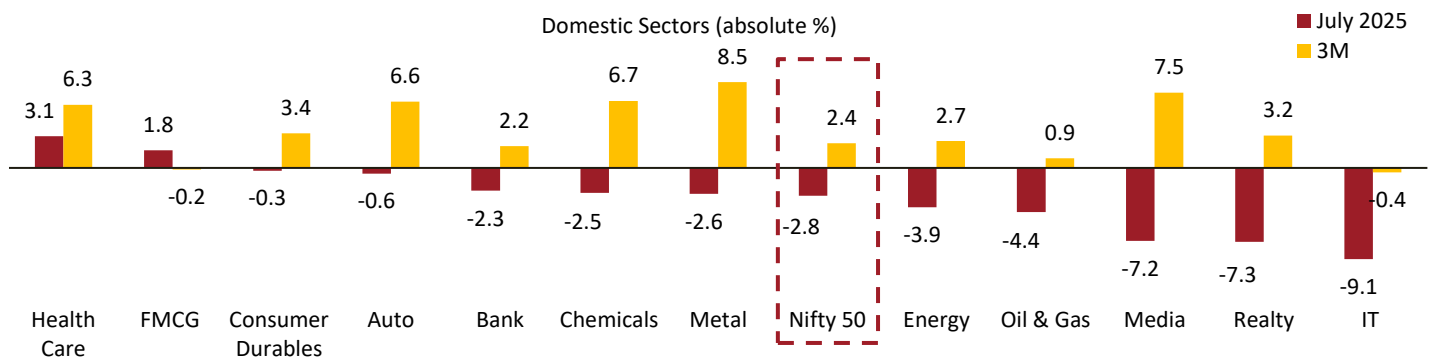
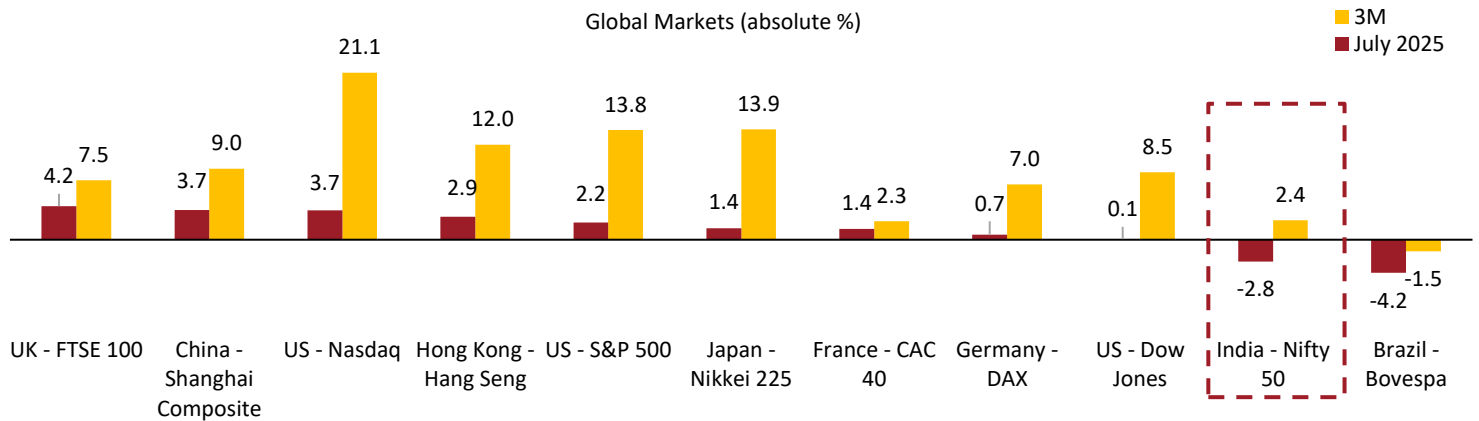
Auto sales in June reported healthy growth, with Tractor sales up ~8.7% YoY, while CV sales up by ~6.6%. 2W retails dipped 12.48% MoM registering a 4.7% YoY rise. PV sales stood at a dismal 2.5% YoY, with inventory still elevated at 55 days.

Outlook — (Source - IDFC FIRST Bank Economics Research, As On 06th August 2025)

- **FY26 GDP growth estimated at 6.3% YoY (RBI estimate at 6.5%), with downside risks if higher tariffs persist.**
- **CPI inflation in FY26 is seen tracking at 2.7%, undershooting the 3.1% estimate of RBI.**
- **We expect another 25bps cut in October amid CPI inflation likely undershooting RBI's estimate, and negative output gap**
- **USDINR is expected to trade between 87.00 to 89.00 over the next two months**
- **Valuations are now lower than 10Y average. Nifty 50 earnings growth is expected to clock around 11% to 12% in FY26.**



Equity Market Update



Performance shown above is based on total returns for respective sectoral indices of the NSE. Data as on 31st July 2025, Source: ACE MF



- **FMCG** – This defensive sector outperformed in July on the back of better-than-anticipated volume growth in Q1FY26. Over the past few quarters, the FMCG sector had been grappling with slowing volume growth as demand has been sluggish, particularly in urban areas.



- **Frontline Indices** – Indian equities witnessed some profit-booking, with the small-cap segment underperforming the large-cap and mid-cap segments.
- **IT** – The sector witnessed headwinds as clients in key markets (US and Europe) have delayed spending decisions amid uncertainty around the tariff landscape. IT has underperformed most other sectors in the YTD period on concerns over US growth following tariff impositions by President Trump.
- **Realty** – Realty sector underperformed following tepid results by underlying stocks, and as tepid earnings by IT firms (including layoff announcement by TCS) weighed on sentiment.



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

Valuations

Neutral

- Nifty's 12-month forward PE is at 20.39x vs current PE of 21.93x, Nifty Midcap 150's 12-month forward PE is at 28.12x vs current PE of 33.80x, Nifty Small cap 250's 12-month forward PE is at 25.94x vs current PE of 32.55x (As on 31st July 2025).
- **From a Valuation perspective – Large caps look most attractive, followed by small caps & then midcaps**

Earnings

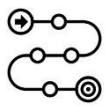
Neutral

- Despite the near-term challenges, the medium-to-long term growth outlook for India seems intact, which should support earnings growth. 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 11-12% growth in FY26**

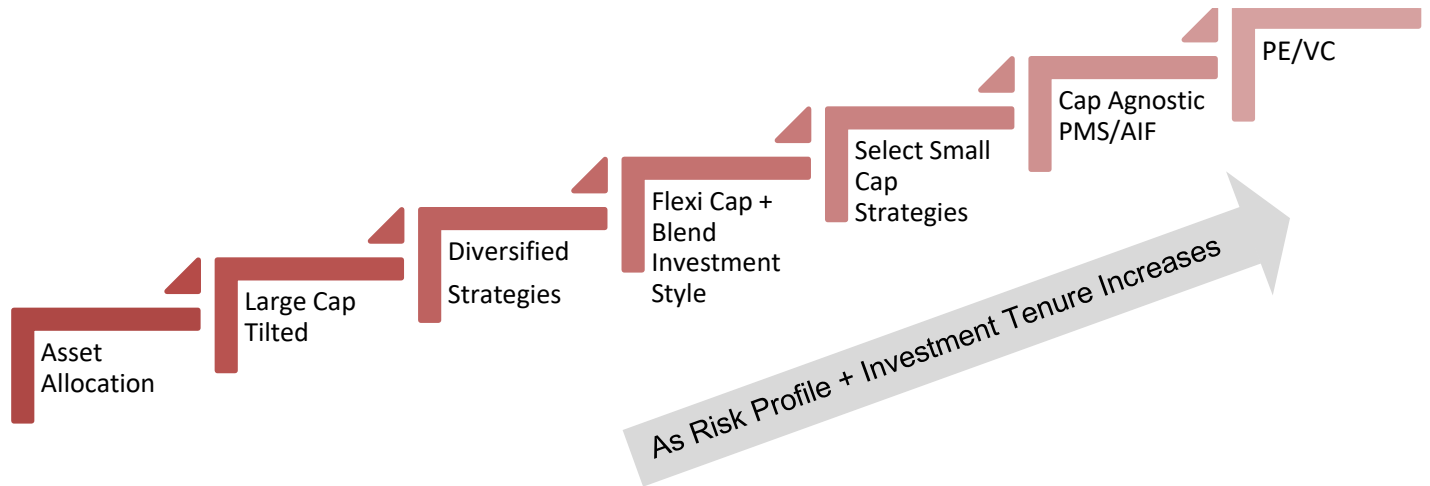
Volatility

Neutral

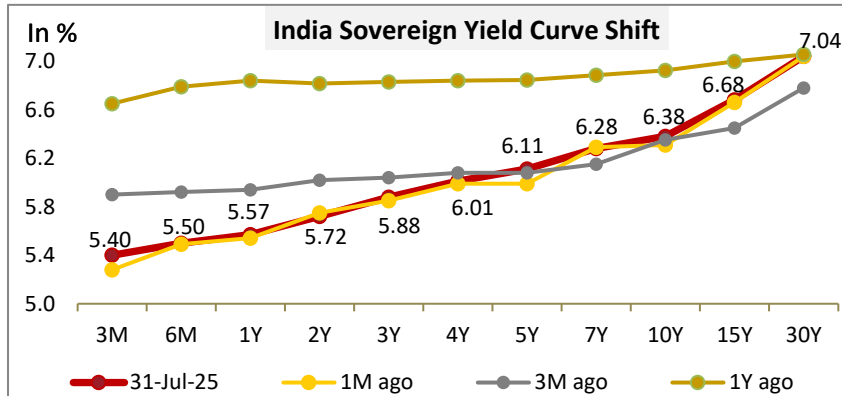
- Nifty VIX ended at 11.54 (as on 31st July 2025) as against 12.79 (as on 30th June 2025).
- **Domestic and global macros, geopolitics, crude oil prices and global yields to drive the volatility index going ahead.**



Equity Investment Strategy



Debt Market Update



*Data as on 31st July 2025, Source- Investing.com

Global Bond yields (%)	31-Jul-25	30-Jun-25	1Y Ago
US 10 – Year	4.35	4.23	4.03
UK 10 – Year	4.57	4.48	3.97
Germany 10 – Year	2.69	2.60	2.30
Japan 10 – Year	1.55	1.43	1.05
India 10 – Year	6.38	6.32	6.92

- **Indian treasury** yields inched up in July tracking the rise in US Treasury yields, and following hawkish comments by the RBI Governor dampening hopes for a rate cut in the August policy notwithstanding the sharp drop in headline inflation (2.1% in Jun) vs target of 4%. Higher crude oil prices also weighed on bond prices.
- **U.S. Treasury yields:** US Treasury yields rose by ~9 bps MoM, tracking an uptick in CPI inflation and robust labour markets which pushed back expectations of rate cuts in 2025. The US Fed held rates unchanged at 4.25-4.50% citing still elevated inflation and solid labour markets.
- **Eurozone:** Bond yields in Germany rose in July tracking the rise in US Treasury yields and on expectation that the ECB may be done with rate cuts in the current cycle. UK Treasuries also tracked rising US yields and on concerns over the BoE trimming the pace of its balance sheet reduction. The ECB held rates steady at 2.15% amid comfort over inflation and due to uncertainty over impact of the tariff negotiations.
- **Japanese** treasury yields rose ~12bps to 1.55% in July, on concerns that the replacement for outgoing Prime Minister may support government spending and tax cuts which would be fiscally imprudent. The BoJ kept short-term policy rate steady at 0.5% and revised up its inflation forecasts, rekindling hopes of rate hikes later in the year.



Outlook –

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

Interest Rate

Neutral

- We **expect another 25bps cut in October** 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.
- Demand for G-secs to be supported by banks and demand from long-only investors (Insurance, pensions and PFs).
- **10-Yr G-sec yield is expected to range between to 6.15 to 6.35% over the near term.**

Liquidity

Neutral

- RBI has infused durable liquidity through 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 ~INR5.4tn as of 11th July 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.**
- System liquidity is expected to touch ~INR5tn+ by November / December.

Credit Risk

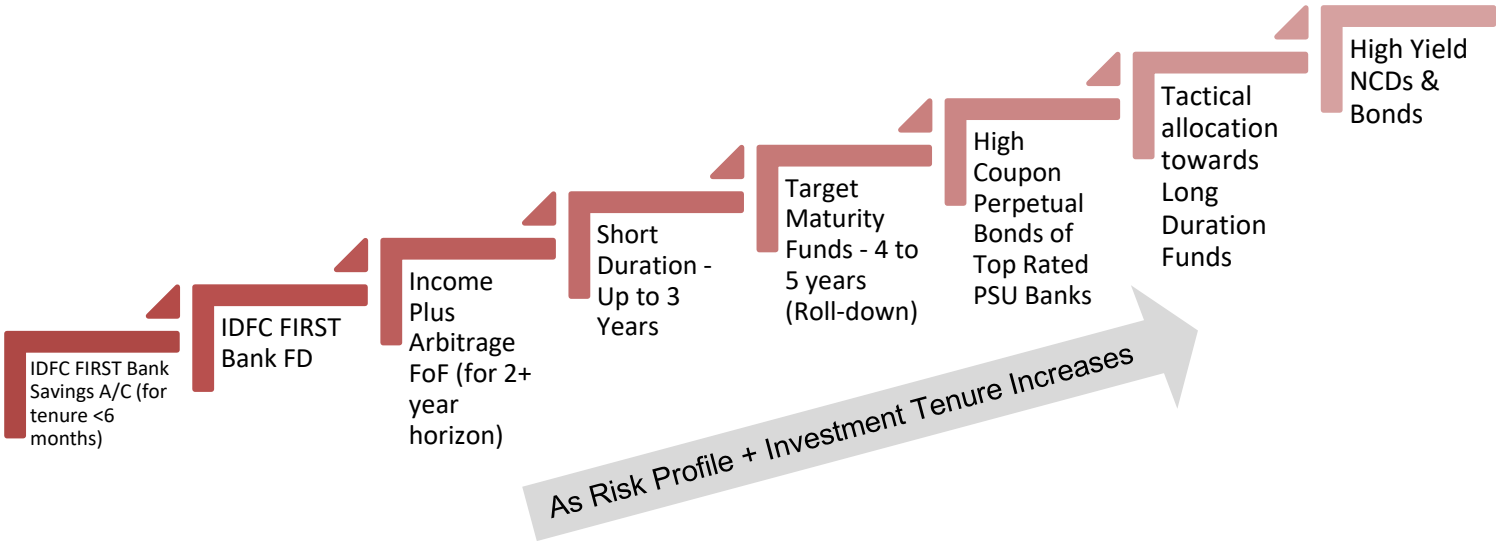
Neutral

- **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 06th August 2025



Debt Investment Strategy



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