



Domestic Equities Underperform Global Equities Weighed By Tariffs

- Domestic equities underperformed in September weighed down by adverse sentiment following imposition of tariffs on pharma and a sharp hike in the H-1B visa fee.
- The Nifty 50 managed to end in the green, ~0.8% MoM and underperformed US equities (3.5%) and other global counterparts.
- RBI delivered a dovish pause on rates and indicated further space to ease policy rates contingent on growth being weaker amid the ongoing tariff related tensions. It's revised its growth estimate for FY26 upwards to 6.8% and inflation estimate downwards to 2.6%.
- Leading economic indicators point to some softening of momentum in domestic activity. However, fiscal measures in the form of tax cuts and lower interest rates are expected to boost consumption going ahead.
- Valuations are now lower than the trailing 10-year average basis trailing and forward PE indicators, and

KEY
TAKEAWAY



India Macro Update - Tracking Key Macro Factors



Brent Crude

Crude oil prices inched lower (-0.8% MoM) on demand concerns amid ongoing uncertainty over the tariff scenario and on expectations of higher supply by the OPEC+.



Currency

The INR has depreciated by ~0.6% in September, while the dollar index (DXY) was flat MoM. The rupee has been the worst performer amid major economies over the past 3 months dented by US tariffs, persistent FPI outflows and more recently the H-1B visa fees levied by the US.



Bank Credit & Deposit Growth

Bank deposits rose 9.8% YoY, while credit growth rose by 10.3% in the fortnight ending 19th September 2025. Credit growth is expected to pick up amid declining interest rates and an expected boost to consumption from tax cuts (GST, personal income tax cuts).



Manufacturing PMI

The HSBC India Manufacturing PMI printed at 57.7 in Sep vs 59.3 in Aug. amid a slowdown in new orders & output.



Services PMI

The HSBC India Services PMI came in at 60.9 in September compared to 62.9 in August amid a modest slowdown in new orders & output growth.



GST

Gross GST collections rose 9.1% YoY in September 2025 to INR1.89tn, while net collections rose 5.0% to INR1.6tn. These reflect activity in August and likely include impact of deferred purchases ahead of the September 22 GST cuts.



Auto Sales

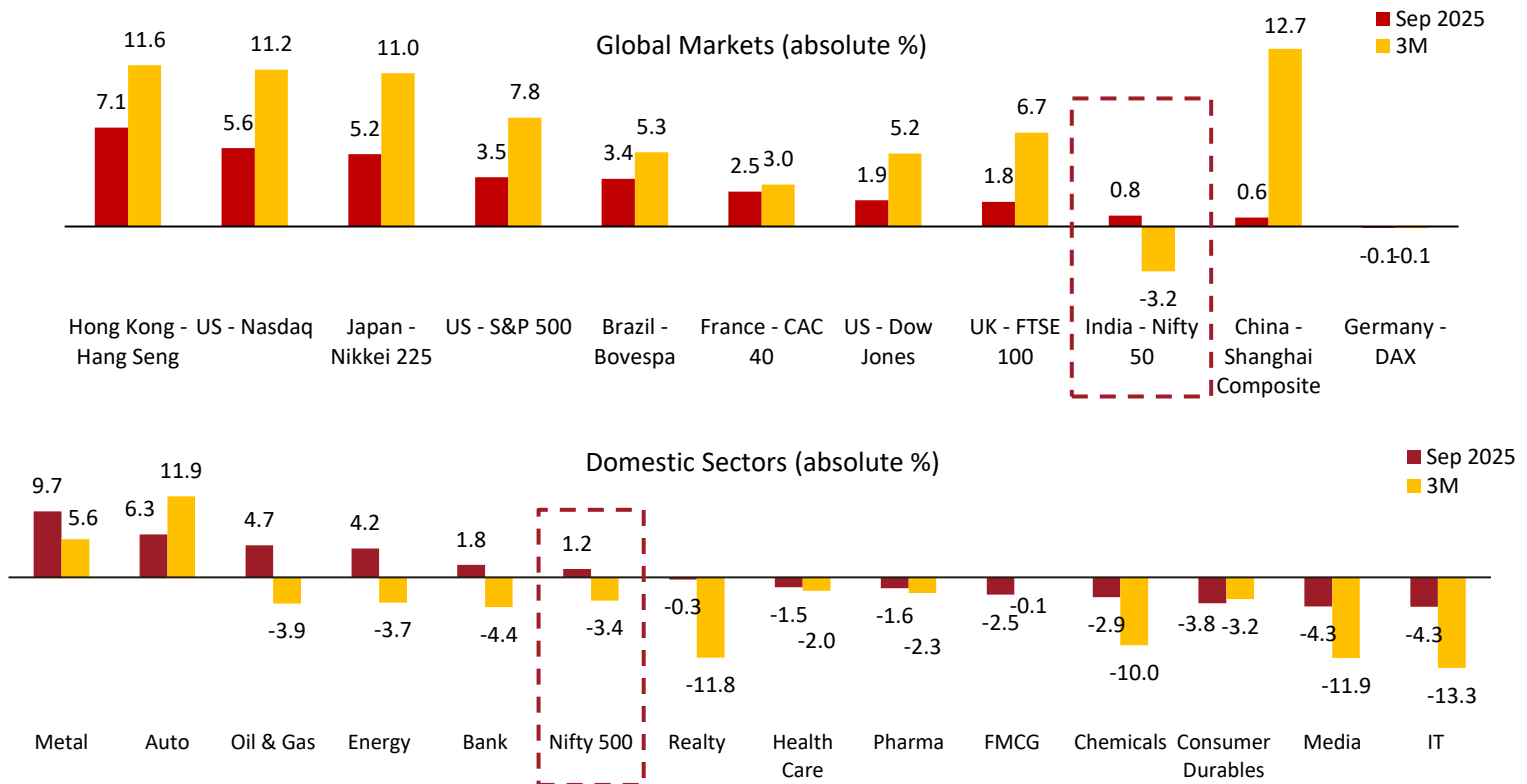
Auto sales growth in August stood at a modest 2.8% YoY. While festive enquiries were high, bookings slowed as the expected GST cuts likely led customers to defer purchases. Tractors saw exceptional growth amid robust agriculture prospects amid sound monsoons.

Outlook – (Source – IDFC FIRST Bank Economics Research, As On 08th October 2025)

- RBI revised its FY26 GDP growth estimate upwards to 6.8% YoY, with downside risks if higher tariffs persist.
- CPI inflation in FY26 is seen tracking at 2.4%, undershooting the 2.6% estimate of RBI.
- Further rate cuts shall be contingent on any downside risks to growth.
- USD-INR pair to trade between 87.25 to 88.0 by March 2026. If the 50% tariffs persist, pace of depreciation will be faster
- Valuations are now lower than the trailing 10Y average. Nifty 50 earnings growth is expected to clock around 10% in FY26.



Equity Market Update



Performance shown above is based on total returns for respective sectoral indices of the NSE. Data as on 30th September 2025, Source: ACE MF



- FMCG** – Metal stocks rallied on likely improvement in demand, weaker dollar amid rate cuts by the US Fed, China's plans to curb steel output, and import duties on steel to avoid dumping from China.
- Auto** – The sector continued to witness tailwinds in the backdrop of an expected boost from personal income tax cuts, and a reduction in GST rates. The sector has been reeling from tepid demand – both urban (PV sales) as well as rural (2W sales).



- IT** – The sector underperformed amid uncertainty over the US economic growth and an increase in H-1B visa fee by US President Trump.



Outlook –

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

Valuations

Neutral

- Nifty's 12-month forward PE is at 19.88x vs current PE of 21.76x. Nifty Midcap 150's 12-month forward PE is at 26.87x vs current PE of 32.84x, Nifty Small cap 250's 12-month forward PE is at 25.16x vs current PE of 29.96x (As on 30th September 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^A is expected to clock around 10% growth in FY26**

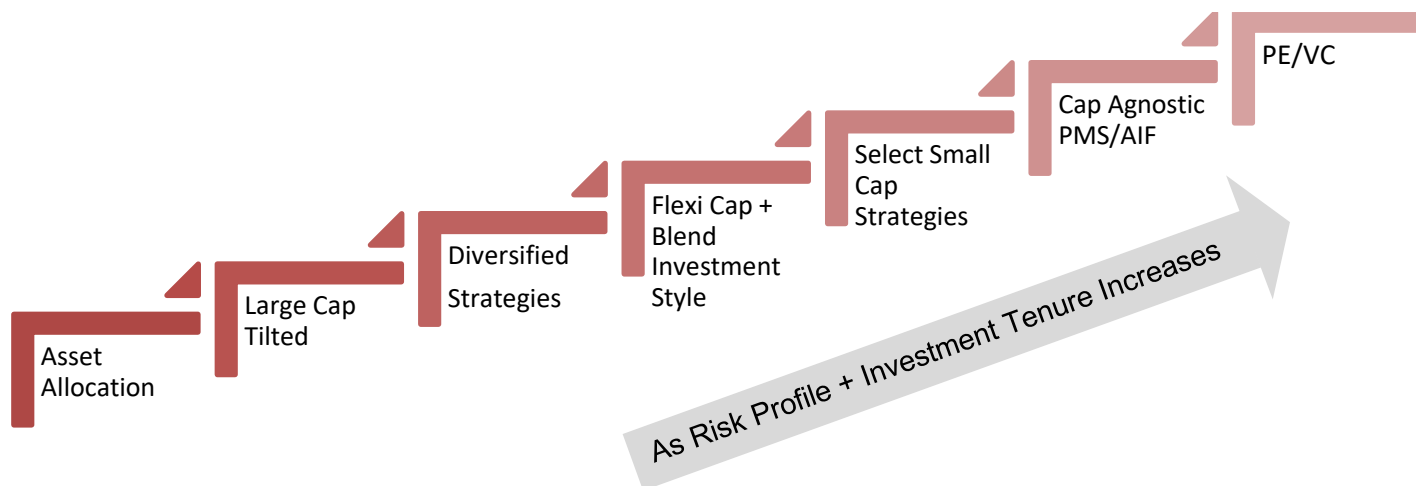
Volatility

Neutral

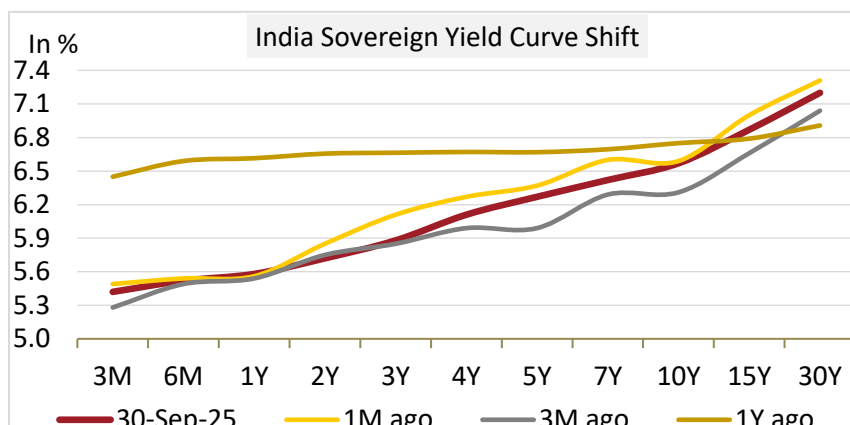
- Nifty VIX ended at 11.07 (as on 30th September 2025) vs 11.75 (As on 29th August 2025).

- 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 30th September 2025, Source- Investing.com

Global Bond yields (%)	30-Sep-25	1M ago	1Y Ago
US 10 – Year	4.15	4.23	3.78
UK 10 – Year	4.70	4.72	4.00
Germany 10 – Year	2.71	2.72	2.12
Japan 10 - Year	1.64	1.60	0.85
India 10 – Year	6.57	6.59	6.75

- **Indian yield curve** shifted somewhat lower with the borrowing calendar for H2 easing pressure at the longer end of the curve. Rate cuts by the US Fed and lower-than-anticipated fiscal impact of GST rate cuts further supported sentiment.
- **U.S. Treasury yields:** US 10Y yield fell in early September following the release of the non-farm payroll data which raised expectations of rate cuts by the US Fed. Later, the Fed expressing concerns over upside risks to inflation and likelihood of a US government shutdown led to some profit-booking.
- **Eurozone:** 10Y yield in Germany was broadly unchanged MoM in September, while that in the UK softened by ~2bps. The ECB left rates unchanged at 2.15% (main refinancing rate) in its September fixing, with inflation closer to its 2% target and given its upbeat outlook on growth. The BoE maintained a status quo with the policy rate at 4.0% (7-2 vote) recognizing upside risks to inflation despite subdued economic growth.
- **Japanese** 10Y yield rose ~4bps MoM to 1.64% on concerns over higher inflation stemming from a prolonged pause on rate hikes by the BoJ owing to uncertainty around the impact of tariff war. The BoJ kept short-term policy rate steady at 0.5% with a 7-2 vote, with two members voting for rate hikes citing upside risks to inflation.



Outlook –

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

Interest Rate

Neutral

- **We believe space for further rate cuts is limited. Going ahead, rate cuts shall materialize only if downside risks to growth emerge.** If domestic consumption remains tepid despite the festival season, 50% tariffs persist and/or services come under tariff net, we could see further rate cut by RBI.
- **10-Yr G-sec yield is expected to range between to 6.35% to 6.65%. Upward pressure on yields reflects higher supply in H2FY26 (G-sec plus SDLs) and tepid demand.**

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 ~INR4.6tn as of 26th September 2025.
- **The phased CRR cut (Sep-Nov'25) will further enhance liquidity. Ample core liquidity surplus would lower the need for OMO purchases over the near term. Space for durable liquidity infusion only opens-up in Q4FY26, if the liquidity drain from RBI FX intervention persists in remainder of FY26.**

Credit Risk

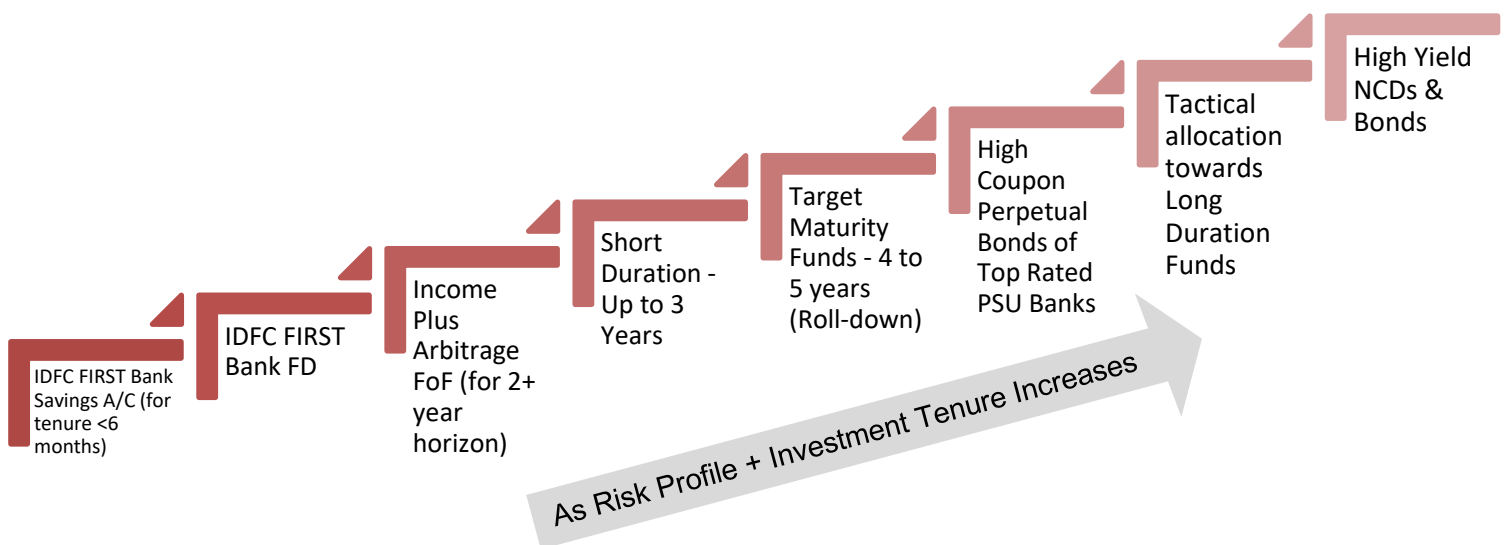
Neutral

- **Spreads on offer versus additional risk taken are modest** – risk-reward does not favour taking credit risk via low rated category. 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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