

3rd SEPTEMBER 2025

August 2025 unfolded as a tale of two markets. In India, markets weakened with the Nifty 50 slipping 1.4% to 24,426 – its second straight monthly loss – as looming U.S. tariffs overshadowed optimism. Meanwhile, resilient earnings and dovish Fed expectations propelled U.S. indices upward to create all-time highs, marking the fourth consecutive month of gains amid growing hopes of a September rate cut.

Bond markets diverged too: India's 10Y yield ticked higher despite a ratings upgrade due to tariff concerns as well as fiscal concerns regarding GST 2.0, while U.S. 10Y yields tumbled on easing inflation and cut expectations. Additional tariffs by the US of 25% came into effect on 27th August 2025 bringing the total tariff on Indian imports to 50%.

India's GDP grew by 7.8% in Q1FY26 compared to 6.5% achieved in the same period last year and 7.4% achieved in Q4FY25. RBI announced its decision to keep rates unchanged, maintaining the neutral stance amid the continued downtrend of inflation. The U.S. Federal Reserve is expected to issue a rate cut this September after maintaining its rates for nine months. Gold achieved an all-time high of ₹1,04,950/10g at the end of the month due to increased trade uncertainty and strong festive demand.

EQUITIES:

INDIA: Nifty 50 declined by 1.4% in August 2025, closing at 24,426, with Auto (+5.5%), Energy (+0.9%) and FMCG (+0.6%) sectors ending positive while Infrastructure (-4.5%), Realty (-4.21%) and Oil and Gas (-4.2%) declined the most. As on 31st August 2025, all Nifty 50 companies have reported earnings – 32 of them exhibiting positive profit growth, 4 neutral and 14 negative. Since 30th June 2025, Nifty EPS has risen by 2.46% from ₹1,111 to ₹1,138.

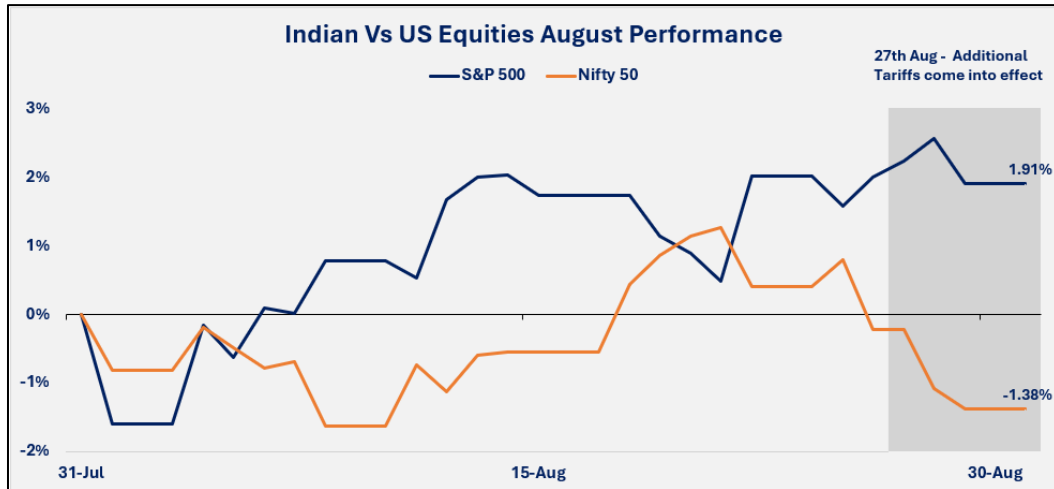
FII's turned net sellers for the month as trade concerns returned with the India and US failing to reach a trade deal and the commencement of additional 25% tariff on Indian imports (bringing total tariffs to 50%), ending the month with a net outflow of ₹37,823 Cr. DII's continued to provide strong support, recording net inflows of ₹60,534 Cr (as on 31st August 2025) for the month, helping stabilize the markets despite foreign selling pressures.

| INDICES | CURRENT | 10 YR MEDIAN | AVERAGE (SI) | COMMENT |
|-------------------------------|---------|--------------|--------------|---------------|
| NIFTY 50 (PE) | 21.5 | 23.4 | 21.0 | FAIRLY VALUED |
| NIFTY 50 (PB) | 3.3 | 3.6 | 3.6 | UNDERVALUED |
| NIFTY 50 (DIVIDEND YIELD) | 1.4 | 1.3 | 1.4 | OVERVALUED |
| NIFTY MIDCAP 150 (PE) | 32.1 | 33.7 | 31.1 | FAIRLY VALUED |
| MIDCAP 150 (PB) | 4.5 | 3.3 | 3.0 | OVERVALUED |
| MIDCAP 150 (DIVIDEND YIELD) | 0.9 | 1.0 | 1.2 | OVERVALUED |
| SMALLCAP 100 (PE) | 30.8 | 33.2 | 44.0 | UNDERVALUED |
| SMALLCAP 100 (PB) | 3.8 | 2.1 | 3.0 | OVERVALUED |
| SMALLCAP 100 (DIVIDEND YIELD) | 0.8 | 0.9 | 1.1 | OVERVALUED |
| S&P 500 (PE) | 30.0 | 25.0 | 20.4 | OVERVALUED |

Data as on 31-August-2025

As of August 31st, Nifty 50 was trading at 21.5x, above its all-time average of 21x but below its 10-year median of 23.4x; Nifty Midcap 150 traded at a PE of 32.1x is above its all-time average of 31.1x but below its 10-year median of 33.7x.

U.S.: U.S. equities maintained their upward momentum through August, with the S&P 500, Nasdaq 100 and Dow Jones hitting record highs. This performance is attributable to strong earnings performance by AI companies – specifically NVIDIA, which is now approximately 8% of the S&P 500. Major indices S&P 500 (+1.9%) and Nasdaq 100 (+0.85%) achieved all-time highs of 23,849 and 6,501 respectively with Dow Jones (+3.2%) also achieving an all-time high of 45,636. With U.S. markets continuing their upward streak in August 2025, valuations remain stretched – Nasdaq 100 trades at 33.8x PE compared to the 10-year average of 24.8x and S&P 500 trades at 30x PE compared to 10-year average of 25.02x.



Source: Investing.com & NSE

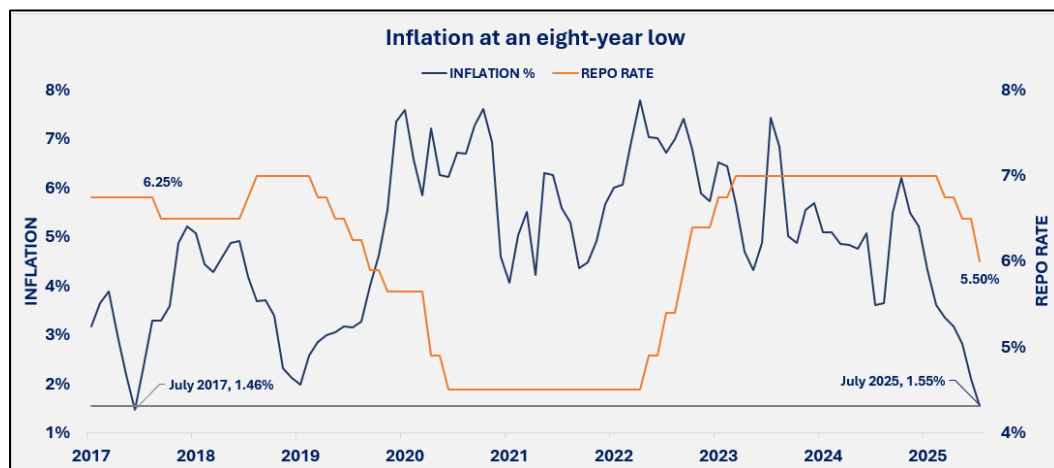
FIXED INCOME:

| BOND YIELD | CURRENT | 10 YR AVERAGE | AVERAGE (\$) | COMMENT |
|------------|---------|---------------|--------------|------------|
| 1 YEAR | 5.64% | 6.06% | 6.60% | OVERVALUED |
| 2 YEAR | 5.86% | 6.28% | 6.80% | OVERVALUED |
| 3 YEAR | 6.02% | 6.47% | 7.00% | OVERVALUED |
| 4 YEAR | 6.23% | 6.64% | 7.20% | OVERVALUED |
| 5 YEAR | 6.32% | 6.72% | 7.20% | OVERVALUED |
| 6 YEAR | 6.44% | 6.88% | 7.40% | OVERVALUED |
| 7 YEAR | 6.50% | 6.96% | 7.40% | OVERVALUED |
| 8 YEAR | 6.64% | 7.02% | 7.50% | OVERVALUED |
| 9 YEAR | 6.61% | 7.01% | 7.50% | OVERVALUED |
| 10 YEAR | 6.55% | 6.91% | 7.40% | OVERVALUED |

Data as on 31-August-2025

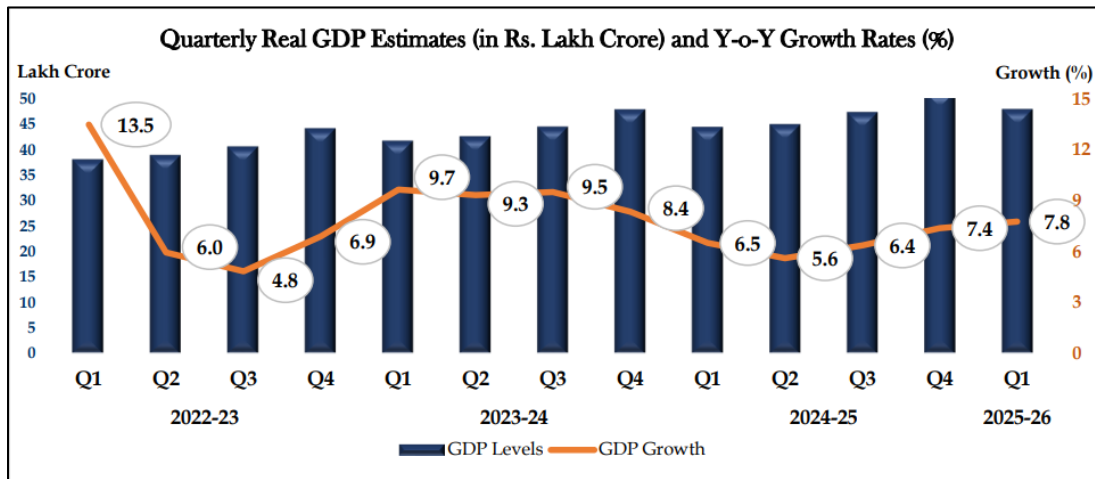
U.S.: U.S. Treasury yields declined, as markets anticipate a rate-cut in September after. Fed Chair Jerome Powell noted that while the labor market remains in good shape and the economy has shown “resilience,” with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting the Fed’s policy stance. The 10-year U.S. Treasury yield reduced from 4.36% to 4.24%.

COMMODITIES & CURRENCY: Oil prices were slightly volatile in August constrained by tariff shock headlines and global growth worries with WTI Crude dropping 7.65% from \$69.26 to \$63.96 per barrel. The Indian Rupee weakened against the US Dollar amid trade concerns post additional tariffs coming into effect – a total of 50% on Indian imports, closing at an all-time low of ₹88.1, down from the previous month at ₹87.5. The Dollar Index declined by 2.2% from 99.9 to 97.7. Gold rose 4.9% from ₹1,00,030/10g to an all-time high of ₹1,04,950/10g amid persistent trade uncertainties.



Source: PIB & RBI

ECONOMIC INDICATORS: RBI announced its decision to keep the policy repo rate unchanged at 5.50%. The central bank also maintained its 'neutral' stance, providing flexibility to respond to evolving domestic and global economic conditions. India headline CPI fell for the ninth month in a row from 2.1% in June to an eight-year low of 1.55% in July. India's unemployment rate fell from 5.6% to 5.2% in July 2025. Net GST collection y-o-y growth rose to 10.7% in August 2025 at ₹1.67 Lakh Cr compared to 1.7% y-o-y growth achieved in July; gross revenue from domestic transactions saw a 9.6% y-o-y increase to ₹1.36 Lakh Cr. Indian economy has maintained resilient growth, with real GDP increasing by 7.8% in Q1FY26 compared to 6.5% achieved in Q1FY25. However, fiscal deficit touched 29.9% of the full-year target (4.4% of GDP), sharply higher than 17.2% in the same period last year.



Source: MOSPI

US inflation remained at 2.7% in July – same level as June 2025. The U.S. Bureau of Economic Analysis announced that Q1FY26 GDP increased by an annual rate of 3.3%. Fed Chair Jerome Powell signaled a rate cut but noted high level of uncertainty that is making the job difficult for monetary policymakers. Noting that the economy is still resilient, the Fed remains cautious as tariffs are causing risks that inflation could rise again.

OUTLOOK & STRATEGY:

The near-term outlook for Indian equities remains cautious after two consecutive months of declines, with Nifty 50 down 4.3% since 30th June. Tariff uncertainties, a record-weak rupee, and continued FII outflows have pressured valuations. At 21.5x, Nifty 50 PE is slightly higher than historical averages. However, strong GDP growth and earnings growth increasing relative to previous quarters suggest Indian markets are fairly valued. Over a medium-term horizon, valuations may correct to more attractive levels, offering opportunities in mid-caps.

For U.S. equities, with the S&P 500 at 30x PE after rising 15% FYTD and the magnificent 7 being around 38% of the index, we believe U.S. market presents high valuations and concentration risks. As uncertainties loom around interest rates, economic growth and global trade, we recommend maintaining a defensive tilt.

Gold has quietly strengthened through August, supported by a softer dollar, strong festive demand and renewed risk aversion linked to tariffs and global growth concerns. We maintain our recommendation to retain strategic allocation as a hedge against policy uncertainty and currency volatility and avoid being overweight given gold's sensitivity to sudden dollar rebounds or profit-taking.

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