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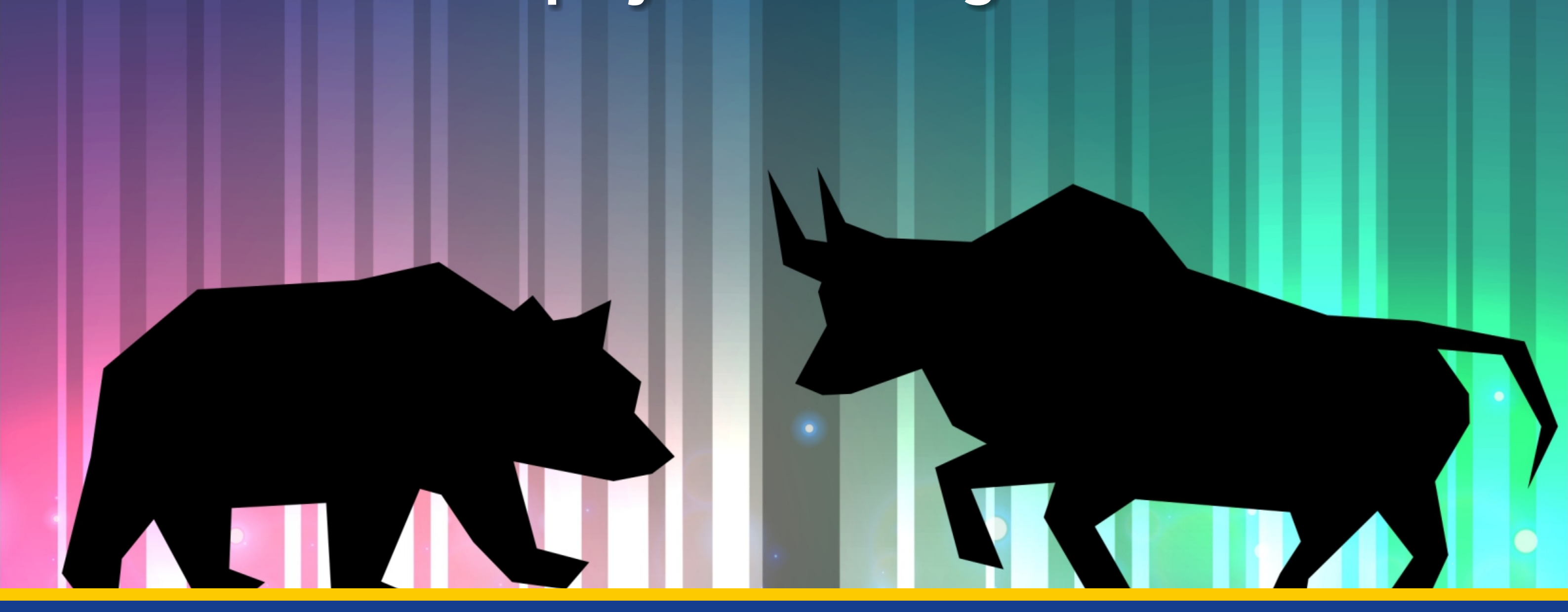
Monthly Market Outlook

August 2025
Equity & Debt Insights



Equity Market Outlook

Look back at the month (July 2025)

- The Nifty 50 declined 2.9% in July, while the BSE Mid-cap and Small-cap indices fell 2.3% each. Sentiment remained cautious amid uncertainty around the India–US trade deal and a mixed Q1 earnings season for FY26.
- India and the UK signed a Comprehensive Economic and Trade Agreement granting unprecedented duty-free access for 99% of India's exports to the UK. This covers nearly the entire trade basket and is expected to open new opportunities for labour-intensive industries.
- The IMF (International Monetary Fund) revised India's FY26 GDP growth forecast upward to 6.4% from 6.2%, citing a more benign external environment and easing inflation pressure.
- Domestic institutional investors were net buyers in July, investing Rs. 60,939 crore. Foreign institutional investors recorded net outflows of Rs. 17,741 crore (approx. USD 2.1 billion).

August 2025 Outlook

- The Monetary Policy Committee (MPC) reaffirmed its FY26 GDP growth estimate at 6.5%, reflecting confidence in domestic economic fundamentals despite emerging global headwinds.
- The growth outlook remains positive, supported by above-normal monsoon forecasts, a recovery in rural consumption, moderating inflation, improved financial conditions, and continued fiscal and monetary policy support.
- The U.S. announced an additional 25% tariff on Indian exports, raising the cumulative tariff burden to 50%, following stalled trade negotiations—particularly around access to India's agriculture and dairy sectors.
- Consequently, Moody's reduced India's FY26 GDP growth by approximately 0.3 percentage points, revising its forecast from 6.3% to 6.0%.
- They also cautioned that the significant tariff disparity between India and other APAC economies may erode India's competitive positioning in attracting global investment, with potential implications for both growth and inflation dynamics.

Economic Market Outlook

Look back at the month (July 2025)

- The RBI (Reserve Bank of India) reiterated its emphasis on a 6–12-month outlook for growth and inflation, rather than reacting to short-term data.
- CPI (Consumer Price Index) Inflation for June 2025 fell to 2.10%, a seven-year low, driven by lower food prices. Core inflation rose due to precious metals, while rural inflation declined and urban inflation remained stable. Surplus rainfall supported the positive inflation outlook.
- U.S. CPI inflation rose 0.3% MoM, driven by food and energy, while core inflation came in below forecasts for the fifth straight month. The Federal Reserve held rates steady at 4.25%–4.50%, with two members favouring a cut.
- The U.S. announced a 25% tariff on Indian exports and a penalty linked to energy imports from Russia, though India's economy remains resilient, supported by strong domestic demand.
- The Indian 10-year government bond yields hovered between 6.35%–6.39%, while the U.S. 10-year yields rose from 4.19% to a high of 4.49% in mid-July 2025, ending the month near 4.40%.

August 2025 Outlook

- The RBI delivered a status quo policy by keeping policy rates on hold. The stance is kept at neutral. The central bank is likely to maintain its focus on medium-term inflation and growth, with a potential 25 basis cut expected by the end of 2025.
- The Inflation outlook may remain favourable, supported by healthy crop output, a timely monsoon, and stable commodity prices. However, core inflation may remain elevated due to elevated prices of precious metals like gold and silver.
- Developments in global trade policies will be closely monitored as trade prospects remain clouded by global uncertainties, including the recent U.S. trade agreements, and the trade agreements with Japan, the EU, and the UK.

Source: Bloomberg, Ministry of Statistics and Programme Implementation (MOSPI), Reserve Bank of India (RBI), LIC MF Internal Research.

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