

Additional tariffs weigh on outlook despite GST rate cut

August, 2025



Equity Market Update & Outlook:

- ◆ Indian equity indices saw a further modest correction in August 2025 with BSE Sensex and NSE Nifty down 1.5%/1.2%, respectively.
- ◆ Broader market also continued to correct with NSE Midcap index down 2.8% and BSE Smallcap index losing 3.6% for the month.
- ◆ Auto was the best performing sector as the biggest beneficiary of the GST rate cuts announced by the government. FMCG was flat for the month while all other sectors delivered negative returns for the month. IT was in-line with the Nifty while Banks, Healthcare and Capital Goods all underperformed the Nifty. Oil & Gas, Power and Real Estate were the worst performing sectors.



Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	125013	-1.5%	3.2%
Nifty 50 TR	36709	-1.2%	4.4%
BSE 200 TR	14257	-1.6%	2.1%
BSE 500 TR	45354	-1.7%	1.2%
NSE Midcap TR	26356	-2.8%	-1.4%
BSE Smallcap TR	63963	-3.6%	-6.3%
NSE Large & Midcap 250 TR	20400	-2.0%	0.9%
BSE India Infrastructure Index TR	810	-4.5%	-6.2%
MSCI India USD	1003	-2.4%	-2.0%
MSCI India INR	2871	-1.7%	0.9%
INR - USD	88.2	0.7%	3.0%
Crude Oil	68	-6.1%	-8.7%

Global Market Update

Global markets continued to do well. MSCI World index rose 2.5% in August led by US (S&P 500) rising 1.9%. MSCI Europe rose 3.2% and MSCI Japan rose 6.9%. MSCI EM also rose 1.2% supported by a 4.9% rise in MSCI China. Crude oil declined 6.1% in August.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	4,178	2.5%	12.7%
Dow Jones	45,545	3.2%	7.1%
S&P 500	6,460	1.9%	9.8%
MSCI EM	1,258	1.2%	17.0%
MSCI Europe	2,449	3.2%	22.3%
MSCI UK	1,475	3.0%	21.2%
MSCI Japan	4,581	6.9%	16.5%
MSCI China	82	4.9%	26.6%
MSCI Brazil	1,499	9.2%	27.4%



- ◆ FII's remained heavy sellers in August as additional US tariffs announced on India continued to weigh on the sentiment. FIIs sold US\$4.3 bn in Indian equities, although this was more than offset by DII's investing US\$10.8 bn. Domestic MFs invested US\$8.1 bn while insurance inflow was US\$2.8 bn.
- ◆ India's real GDP growth for Q1FY26 surprised everyone positively at 7.8% (YoY) vs 7.4% (YoY) growth in Q4FY25. This was supported by stronger growth in services while manufacturing growth also remained robust.
- ◆ On the Independence Day, the Prime Minister announced plans to significantly rationalize GST rates and reduce the number of slabs from 4 to 2.
- ◆ RBI left key interest rates unchanged during its policy meeting in August and maintained a neutral policy stance, signaling caution amid global trade headwinds.
- ◆ S&P Global upgraded India's sovereign rating from BBB- to BBB while maintaining a stable outlook.
- ◆ CPI slowed to a more than 8 year low of 1.6% in July from an already very low 2.1% (YoY) in June due to continued softness in food prices. Core-core inflation (i.e. core inflation ex petrol and diesel) also moderated to 4.1% (YoY) in July from 4.6% (YoY).
- ◆ Industrial production growth (IIP) improved to 3.5% (YoY) in July from a weak 1.5% (YoY) in June.
- ◆ Gross GST revenue collection was Rs 1.86 tn in August 2025, up only 6.5% (YoY).
- ◆ Other key developments during the month – On August 4, 2025, US government announced plans to impose an additional 25% import tariff on Indian goods from August 27, 2025 citing purchase of Russian crude oil, taking the overall tariff on Indian goods to 50% outside of exempted or specific categories.

Valuations

Nifty consensus EPS estimate for CY25/26 saw a +1%/-1% change respectively during August as per Bloomberg. Nifty now trades on 19.8x 1-year forward PE. This is now in-line with its 5-year average and a ~10% premium to its 10-year average. Valuations in midcap and small cap space have also seen correction in the last 2 months.

Macro View

In our view, global macro environment remains challenging with heightened geo-political and economic uncertainties. Reciprocal tariffs announced by the US administration is likely to impact US and global growth outlook. Economists estimate US tariffs could have a 0.4%-0.8% negative impact on India's GDP growth. The GST rate cut announced by the government along with the previously announced income tax rate cuts should significantly help boost private sector consumption and help boost private capex in the current times of global uncertainty. Forecast of an above normal monsoon is also a positive for rural demand. US Fed announcing plans to ease policy rates in the coming months, allows RBI to further cut policy rates and support domestic growth given the external challenges.

Outlook

We believe growth cycle in India may be bottoming out. Interest rate and liquidity cycle, decline in crude prices and normal monsoon are all supportive of a pick-up in growth going forward. Although, global trade related uncertainty remains a headwind to private capex in the near term, we expect India's investment cycle to be on a medium-term uptrend supported by government investment in infrastructure and manufacturing, pickup in private investments and a recovery in real estate cycle. We expect higher private investments in renewable energy and related supply chain, localization of higher-end technology components, and India becoming a more meaningful part of global supply chains to support faster growth. Nifty valuations are modestly above 10-year average. We remain constructive on Indian equities supported by the more robust medium term growth outlook.



Key Drivers For Future

On the headwinds, we have

- **Weak global growth** is likely to remain a headwind on demand going forward.
- **Global policy uncertainty:** Risk of tariffs and general policy uncertainty, mercantilist policies of certain countries and geo-political conflicts are likely to be a headwind to private investments.
- **Other factors / risks:** Sharp slowdown in government capex.

We see the following positives for the Indian market:

- **Recovery in private capex:** Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for increase in private capex going forward. Also, continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors. We also expect higher private capex in renewable energy.
- **Supportive real estate cycle:** Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. Demand trends in top metro cities remain strong and inventory levels have declined.
- **Global commodity prices:** Benign global prices of crude oil and fertilizers has been a positive for India from inflation, fiscal deficit and corporate margins perspective in FY24-25.

***Note:** Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD returns for global indices. Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

Source: Bloomberg, MOSL & HSBC MF estimates as on Aug 2025 end or as latest available.

Disclaimer: This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities, commodities, currencies or other investments referred to herein; or ii) an offer to sell or a solicitation or an offer for purchase of any of the funds of HSBC Mutual Fund; or iii) an investment research or investment advice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. In no event shall HSBC Mutual Fund/HSBC Asset management (India) Private Limited and / or its affiliates or any of their directors, trustees, officers and employees be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of information / opinion herein. This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

Investors are requested to note that as per SEBI (Mutual Funds) Regulations, 1996 and guidelines issued thereunder, HSBC AMC, its employees and/or empaneled distributors/agents are forbidden from guaranteeing/promising/assuring/predicting any returns or future performances of the schemes of HSBC Mutual Fund. Hence please do not rely upon any such statements/commitments. If you come across any such practices, please register a complaint via email at investor.line@mutualfunds.hsbc.co.in.

The above information is for illustrative purposes only. The sector(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments.

Document intended for distribution in Indian jurisdiction only and not for outside India or to NRIs. HSBC MF will not be liable for any breach if accessed by anyone outside India. For more details, click [here](#) / refer website.

© Copyright. HSBC Asset Management (India) Private Limited 2025, ALL RIGHTS RESERVED.

HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra. GST - 27AABCH0007N1ZS | Website: www.assetmanagement.hsbc.co.in