GST cut boosts demand outlook

September, 2025

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- Indian equity indices saw a modest recovery in September 2025 with BSE Sensex and NSE Nifty up 0.6%/0.8%, respectively.
- Broader market also saw an improvement with NSE Midcap Index up 1.4% and BSE Smallcap Index gaining 1.6% for the month.
- Metals was the best performing sector for the month. Autos, Oil & Gas, Power, Capital Goods and Banks also outperformed the Nifty. IT was the worst performing sector as news on potential increase in H1-B visa fees further soured the sentiment. Real Estate, Healthcare and FMCG also delivered negative returns.

Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	125752	0.6%	3.8%
Nifty 50 TR	36993	0.8%	5.2%
BSE 200 TR	14429	1.2%	3.3%
BSE 500 TR	45915	1.2%	2.5%
NSE Midcap TR	26732	1.4%	0.0%
BSE Smallcap TR	64961	1.6%	-4.9%
NSE Large & Midcap 250 TR	20666	1.3%	2.2%
BSE India Infrastructure Index TR	848	4.6%	-1.9%
MSCI India USD	1008	0.5%	-1.6%
MSCI India INR	2903	1.1%	2.1%
INR - USD	88.8	0.7%	3.7%
Crude Oil	67	-1.6%	-10.2%

Global Market Update

Global markets continued to do well. MSCI World index rose 3.1% in September led by US (S&P 500) rising 3.5%. MSCI Europe rose 1.9% and MSCI Japan rose 1.6%. MSCI EM rose 7% supported by a whopping 9.5% jump in MSCI China. Crude oil declined 1.6% in September.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	4,307	3.1%	16.2%
Dow Jones	46,398	1.9%	9.1%
S&P 500	6,688	3.5%	13.7%
MSCI EM	1,346	7.0%	25.2%
MSCI Europe	2,497	1.9%	24.6%
MSCI UK	1,493	1.2%	22.6%
MSCI Japan	4,656	1.6%	18.4%
MSCI China	89	9.5%	38.7%
MSCI Brazil	1,577	5.2%	34.1%

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- FIIs remained sellers in September as no trade deal with the US continued to weigh on the sentiment. FIIs sold US$2.1bn in Indian equities, although this was more than offset by DII's investing US$7.4 bn. Domestic MFs invested US$5.1 bn while insurance inflow was US$2.3 bn.
- RBI raised its FY26 GDP growth forecast to 6.8% (YoY) from 6.5% (YoY) previously.
- RBI left key interest rates unchanged and maintained a neutral policy stance during its policy meeting on Oct 1, 2025. However, RBI did announce regulatory changes to support credit growth.
- India CPI in August improved to 2.1%yoy from a more than 8 year low of 1.6% (YoY) in July but remained subdued on the back of continued YoY softness in food prices. Core-core inflation (i.e. core inflation ex petrol and diesel) also increased modestly to 4.3% (YoY) in Aug from 4.2%yoy in July.
- Industrial production growth (IIP) stood at 4% (YoY) in August down slightly from 4.3% (YoY) in July.
- Gross GST revenue collection was Rs 1.89 tn in September 2025, up 9.1% (YoY).

Valuations

Nifty consensus EPS estimate for CY25/26 saw a -1%/-1% change respectively during September as per Bloomberg. Nifty now trades on 19.9x 1-year forward PE. This is now in-line with its 5-year average and a ~10% premium to its 10-year average.

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.

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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 September 2025 end or as latest available.

HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.

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