Market Commentary – September 2025

Dear Patron,

Welcome to this month's edition of our market commentary, where we reflect on key economic and market developments—both globally and within India.

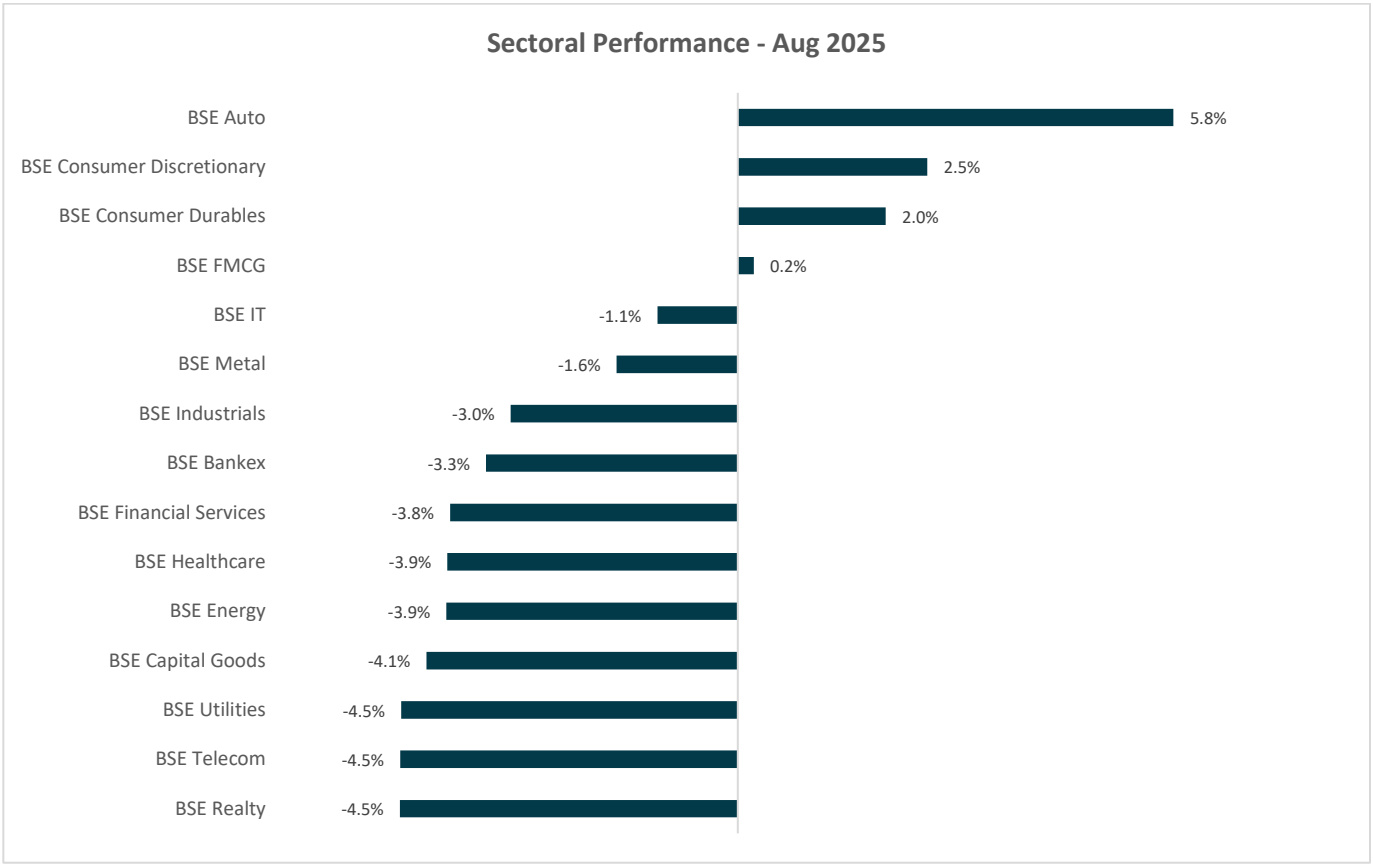
In August 2025, trade tensions and geopolitical risks continued to keep investors across the world on tenterhooks.

Let's look at how August month was packed with contrasting signals for Indian and global equities:

- The US imposed a 50% tariff on Indian goods, reigniting trade tensions. This exerted pressure on export-heavy sectors and weighed on short-term market sentiments.
- India's Q1FY26 GDP growth surprised positively, posting 7.8% year-on-year growth.
- CPI (retail) inflation declined to a multi-year low of 1.55%, aided by a favourable base and easing fuel prices.
- Rural recovery gained momentum, supported by a normal monsoon and healthy kharif sowing, giving a boost to the consumption outlook.
- High-frequency indicators such as composite PMI (65.2), GST collections, and e-way bills stayed resilient.
- Indian equities consolidated modestly in August 2025 amid global volatility, with Auto and FMCG sectors being the only sectors to post gains.
- Domestic Institutional Investors (DIIs) infused ~USD 9.5 billion into the Indian markets, absorbing FII outflows of ~USD 2.6 billion, underscoring the strong domestic participation.

Index performance

Benchmark Indices	Aug-25	Correction from CY25 Peak till date	CY25 YTD
BSE 500	(1.9)	(4.8)	0.3
BSE100	(1.6)	(4.8)	2.0
BSE Midcap 150	(2.1)	(5.0)	(2.7)
BSE Smallcap 250	(3.7)	(8.2)	(6.6)



Source: Bloomberg

So, let's unpack the global and domestic developments that defined August one-by-one.

Global Market Update

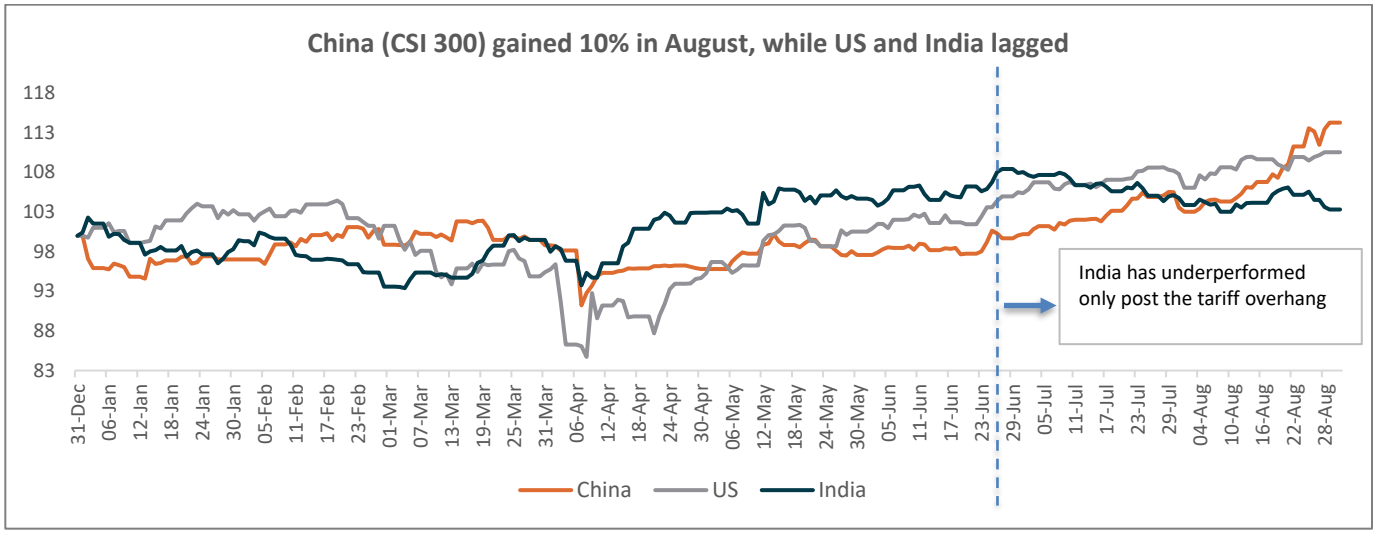
August saw a sharp divergence in equity performance across regions. China's CSI 300 rallied ~10%, driven by property sector support, easing in local credit conditions, and a broader pro-growth policy pivot. In contrast, India underperformed due to near-term pressure from rising trade tension, especially after the US announced a 50% tariff on select Indian exports, dampening market momentum. Meanwhile, the US 10-year Treasury yields eased 14 basis points to 4.23%, reflecting safe-haven demand and rising expectations of a Fed rate cut in September 2025.

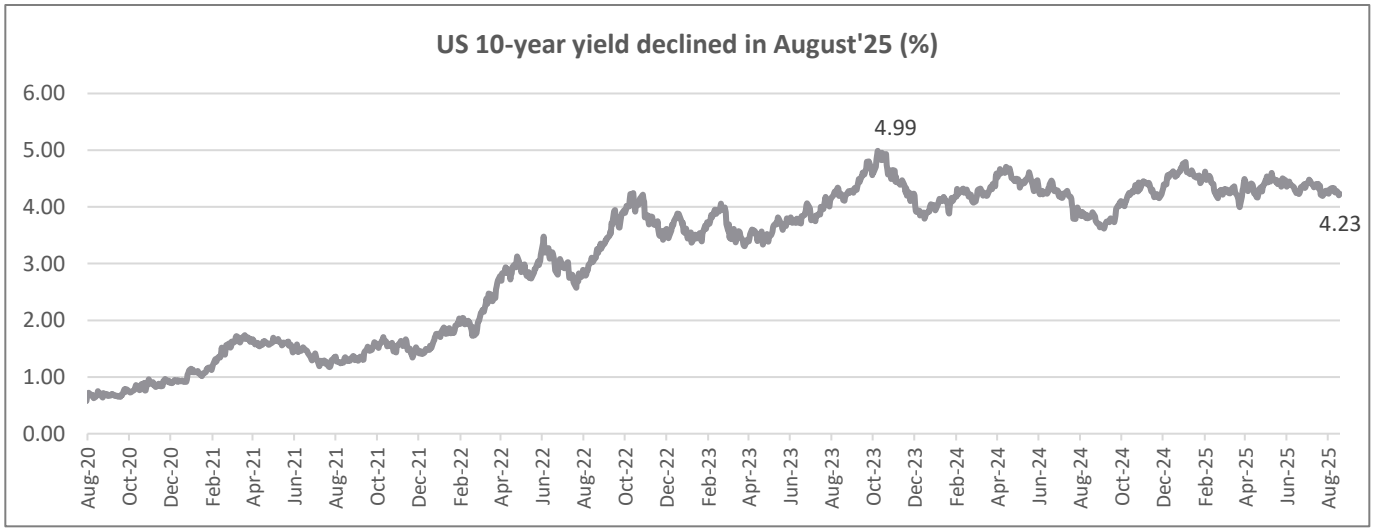
Macro signals across developed markets remained mixed.

- The US Q2 annualised GDP was revised up to 3.3%, aided by healthy household spending, services growth and fall in imports.
- Eurozone's composite PMI rose to 51.1 – a 15-month high, while inflation eased to 2.2%, reinforcing the ECB's decision to pause rate cuts.
- Japan's composite PMI rose to 51.9, driven by growth in service sector, though manufacturing continued to lag.

Global investors are becoming more selective amid rising trade frictions, persistent geopolitical risks, and divergent

monetary policy paths. US equities gained ~1.5% in August 2025. European markets also advanced, with the Stoxx Europe 50 up ~1%.





Source: Bloomberg, Elara Securities Research

US Tariff Shock: Pressure on labour-intensive sectors

On August 27, 2025, the US imposed an additional 25% tariff on a wide range of Indian goods, effectively raising duties to 50% on several key export categories, adding near-term pressure to India's trade outlook. As of FY25, India's exports to the US stood at USD 87 billion (total GDP exposure to US exports is ~2.2% of GDP), out of which ~USD 60 billion would attract 50% tariffs. Nearly 30% of India's exports – mainly pharmaceuticals, semiconductors, electronics and petroleum products – have been exempted from the reciprocal tariff.

Labour-intensive sectors such as textiles, gems and jewellery, leather, shrimps, meat and processed foods are likely to be the most impacted. The timing of the move - amid weak global trade sentiment - adds pressure on MSME-led clusters, which are highly dependent on employment.

Exporters have front-loaded shipments during the 90-day window, but there have been cancellations from major U.S. buyers. Near-term risks include revenue loss and potential job cuts, especially if alternate avenues aren't explored. Meanwhile, India is actively pursuing FTA negotiations with the EU, UK, and others to diversify its export base.

Our view is that the government may need to consider interim relief measures, such as faster GST refunds, subsidised export credit, and targeted incentives to support vulnerable sectors. Drawing from the COVID-era policy playbook, a calibrated support package could help cushion near-term disruption and sustain India's export competitiveness.

At ASK, we had anticipated this risk and proactively realigned portfolios away from vulnerable export-oriented sectors like textiles, chemicals, global-oriented pharma, auto and machinery. Instead, we are overweight in resilient, domestic-growth sectors such as financials, healthcare, capital goods, and real estate. This strategic positioning reflects our FOCUS philosophy—integrating macro foresight and market cycles to build portfolios that navigate volatility, not react to it. With India's domestic growth trajectory intact and a 6.4% GDP forecast for FY26, ASK portfolios remain well-positioned to harness long-term opportunities.

India's goods export to the US and effective tariff rates

Product Group	FY25 Exports to the US (USD Billion)	Tariff (%)
Textile and Apparel	10.9	50%
Diamonds, Gold & Jewellery	10.0	50%
Machinery & Appliances	6.7	50%
Agriculture, Meat and Processed Foods	6.0	50%
Steel, Aluminium, Copper	4.7	50%
Handicrafts & Carpets	2.8	50%
Organic chemicals	2.7	50%
Shrimps	2.4	50%
Leather & Footwear	1.2	50%
Furniture, bedding, mattresses	1.1	50%
Auto components (Marine, Agriculture, heavy trucks etc)	3.1	50%
Others	7.8	50%
Sub-total	**59.4**	**50%**
Auto components (to cars and Light Trucks)	3.5	25%

30% of goods exports to US (Pharma, semiconductors, electronics, petroleum products)	**27.6**	**Exempt from tariffs offering some cushion**

GST 2.0 – A bold move

India's 2025 Goods & Services Tax (GST) revamp is a bold consumption-driven stimulus – akin to the 2019 corporate tax cut. Effective from 22 September 2025 onwards, the shift to a simplified two-tier structure of 5% and 18% is expected to streamline the tax regime.

The GST overhaul implies a revenue loss of about ₹650 billion (0.18% of GDP) in FY26E. The total FY26 shortfall, including GST, could reach ₹2.5 trillion. However, it remains manageable for Centre and States. The GST shortfall could be offset through higher excise, increased RBI dividends, lower capex (capital expenditure), and reduced revex (revenue expenditure). The effective GST rate is expected to decline by ~1 pp (percentage point) to 10%, costing ₹1.2–1.8 trillion (0.4–0.5% of GDP), alongside an April 2025 income tax cut (~0.25–0.30% of GDP).

CPI inflation could ease by 30-40 bps as lower rates on staples, healthcare, education, FMCG, and durables cut CPI by 50-60 bps. But this could be partly offset by higher coal, transport, and luxury vehicle rates, which may add 20-30 bps. Softer CPI could provide the RBI room for a repo cut in 2HFY26E, especially with food and beverage items moving to the 5% slab. Discretionary spending, which remained subdued in FY25, is likely to rebound. GST cuts could trigger earnings upgrades in consumer and financial sectors. Formalisation is expected to accelerate, narrowing gaps with unorganised players.

The recent GST reform, along with slew of measures taken in last few quarters, is a broader signal of the government's pro-growth stance. By simplifying tax rates and processes, this reform is expected to boost competitiveness, affordability, and consumption sentiment. As signalled by the government, more reforms—land, labour, judiciary, faster approvals—are expected to follow GST 2.0, aimed at unlocking long-term growth. Alongside policy changes, focus could be on ease of living, decriminalising minor offences, and removing daily frictions that hurt business efficiency. For investors, this signals a more supportive environment for formalisation, productivity, and sustainable growth.

GST 2.0 Impact on overweight sector and portfolio companies

Category name	Current GST rate (%)	New GST rate (%)	Implication on the Sector / Portfolio companies
Two-Wheelers (Less than 350CC)	28%	18%	The two-wheeler segment has faced pricing headwinds in recent quarters due to regulatory interventions. The upcoming ABS (anti-lock braking system) norms may offer modest relief for models under 125cc, while vehicles in the 125cc–350cc range stand to benefit more meaningfully, given the improved affordability and broader consumer appeal. On the lending front, credit growth has moderated in recent quarters, and this policy shift should help revive momentum, particularly in the mass and premium commuter segments.
Passenger Vehicles (SUVs)	28%+ upto 22% Cess	40%	The effective tax rate on large SUVs, previously at 45–50% (including 28% GST and cess), is set to reduce to 40%. This development is expected to be positive for all PV OEMs, particularly benefiting Mahindra and Mahindra's large SUV portfolio.
Tractors	12%	5%	The outlook remains positive for the sector, while inverted duty structure for pure tractor OEMs remains with components attracting 18% GST.
Auto Components	28%	18%	Domestic focused companies are expected to benefit from higher volume growth as well as gaining share from unorganised players in after-market segment.
Cement	28%	18%	While cement demand is price-inelastic, we believe the GST cut places the industry in a stronger position to improve net realizations and EBITDA per tonne in near to medium term. Sensitivity of the industry profit from a price action is high (1% pricing can impact industry profits by ~4-5%)
Consumer appliances (ACs, etc)	28%	18%	Reduced tax slab is likely to support demand for durables as well as boost credit growth for lenders.

Select life-saving drugs (primarily for treatment of oncology & genetic disorders;	5% or 12%	Nil	Lower cost for patients will lead to better penetration and hence the outlook is positive for domestic-focused pharma companies & hospitals.
All pharma drugs and medicines	12%	5%	
Medical consumables & select devices	12%	5%	The reduction in tax slabs is expected to lower costs for hospitals. Better penetration of health insurance is likely to lead formalisation in the sector.
Individual health insurance	18% with ITC	Nil	
Food & Beverages	5%→Nil; 18%→5%; 28%→40% (aerated drink)		Positive for FMCG staples and negative for aerated drink

Q1FY26 Earnings: Signs of recovery, focus shifts towards H2

Q1FY26 results are in and while we are seeing early signs of recovery, the breadth remains narrow. Nifty500 posted aggregate PAT growth of ~11% YoY on ~6% revenue growth which was broadly in line with consensus expectations. But here's the catch - cyclicals like Metals, Cement, Energy, Infrastructure, Materials, and Financials (ex-Banks) did most of the heavy lifting. Meanwhile, Banks, Auto, IT, and Staples were on the back foot, making this narrow led recovery with limited visibility for a broader re-rating at this stage.

What stood out was the resilience of large caps. Despite narrow leadership, they delivered around 10-11% profit growth, supported by stronger balance sheets and better earnings visibility. Mid-caps showed around 15%-16% profit growth and healthy margin expansion, however, remain vulnerable to volatility. Small caps saw a 1.5% decline in profits, with flat sales growth - reinforcing our cautious stance on the segment.

At ASK, our house view is firmly aligned with large caps. We believe this is where the earnings durability, macro resilience, and valuation comfort lie - especially in a market where India's valuation premium is under scrutiny.

With FY26E Nifty EPS revised to ₹1,165 and FY27E at ₹1,335, we expect a 13% CAGR between FY25 to FY27E — driven primarily by large-cap leaders. As we look ahead to H2FY26, we remain constructive. Policy tailwinds, improving consumption sentiment, and easing inflation could support earnings momentum. But the key message is this: stay invested. Volatility may persist, but with the right positioning—especially in quality large caps—we believe portfolios are well-placed to harness long-term opportunities.

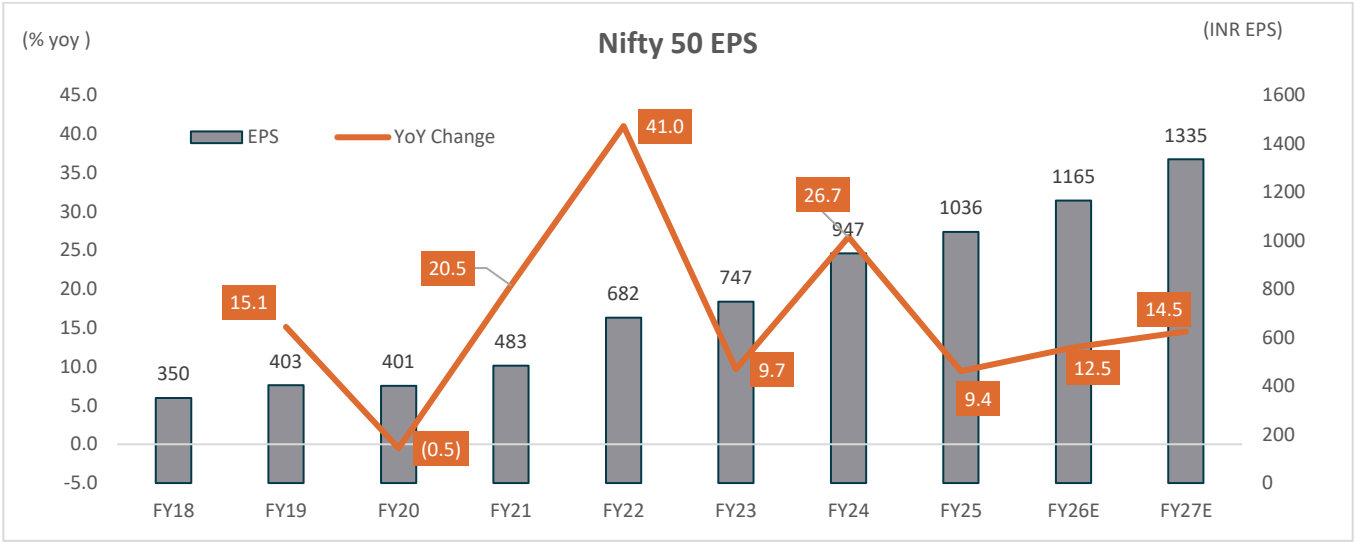
India's equity markets continue to trade at a premium to global peers, and that's drawing attention. The Nifty50 is valued at 19.4x forward earnings, compared to 12.6x for MSCI EM. Naturally, the question arises—can this premium hold?

Our view: Yes, but it must be earned through delivery.

India's USD EPS growth was just 4% YoY in June 2025, placing us in the lower half among global peers. Over CY24–26, the projected USD EPS CAGR is 9%, below China (18%) and MSCI EM (14%). So, while valuations are rich, they reflect expectations of stronger earnings, policy stability, and domestic growth resilience.

Looking ahead to H2FY26, we see multiple tailwinds: strong GDP growth, rate cut transmission, income-tax relief, post-monsoon rural recovery, public capex, and GST rationalisation and anticipate further policy reforms to sustain growth momentum. While global headwinds persist, domestic levers are aligning. A sustained uptrend hinges on these macro drivers translating into visible earnings delivery and upward estimate revisions – the key catalysts for re-rating and incremental flows.

Our message is clear: stay invested, stay focused on quality. In a market where expectations are high, large caps offer the visibility and delivery needed to support valuations and attract incremental flows.



Source: Bloomberg, Elara Securities Research

Country	Index	EPS (in USD) Growth (% YoY) June 2025 Quarter	EPS CAGR (USD) 2024 -2026	Fwd P/E 2FY	Average
South Korea	KOSPI Index	45%	28%	9.7	9.7
United States (Nasdaq)	CCMP Index	24%	31%	26.6	23.2
Taiwan	TWSE Index	20%	24%	13.7	14.7
Thailand	SET Index	16%	18%	12.9	14.5
United States (S&P 500)	SPX Index	13%	16%	21.4	17.7
MSCI EM	**MXEF Index**	**11%**	**14%**	**12.6**	**11.5**

Brazil	IBOV Index	10%	10%	7.8	10.0
World (MSCI World)	MXWD Index	7%	13%	18.4	15.7
Hong Kong	HSI Index	6%	8%	10.5	10.2
Japan	TPX Index	5%	8%	15.7	14.0
India	**NIFTY Index**	**4%**	**9%**	**19.4**	**17.1**
Germany	DAX Index	2%	23%	15.1	12.6
China	**SHCOMP Index**	**2%**	**18%**	**12.9**	**11.4**
Malaysia	FBMKLCI Index	1%	6%	13.7	14.7
United Kingdom	UKX Index	1%	11%	12.7	12.5
France	CAC Index	-2%	8%	14.5	13.3
Indonesia	JCI Index	-3%	32%	10.7	14.4

Source: Bloomberg, Elara Securities Research

Domestic Macro Update

India's economy is off to a strong start in FY26, with Q1 GDP growth at 7.8% YoY, comfortably beating expectations (6.7%) and improving from 6.5% in Q1FY25. This momentum reflects a favourable base, robust public capex, and a broad-based recovery across services and agriculture.

On the supply side, real gross value added (GVA) grew 7.6% YoY, led by a stellar 9.3% growth in services. Early signs for Q2FY25 are encouraging — business activity, GST collections, e-way bills, and rural demand are holding up well, especially compared to the election-disrupted Q2FY25. For FY26, a combined push from income tax and GST rate cuts, alongside the Reserve Bank of India's (RBI) rate easing, is expected to support consumption, particularly in urban discretionary segment.

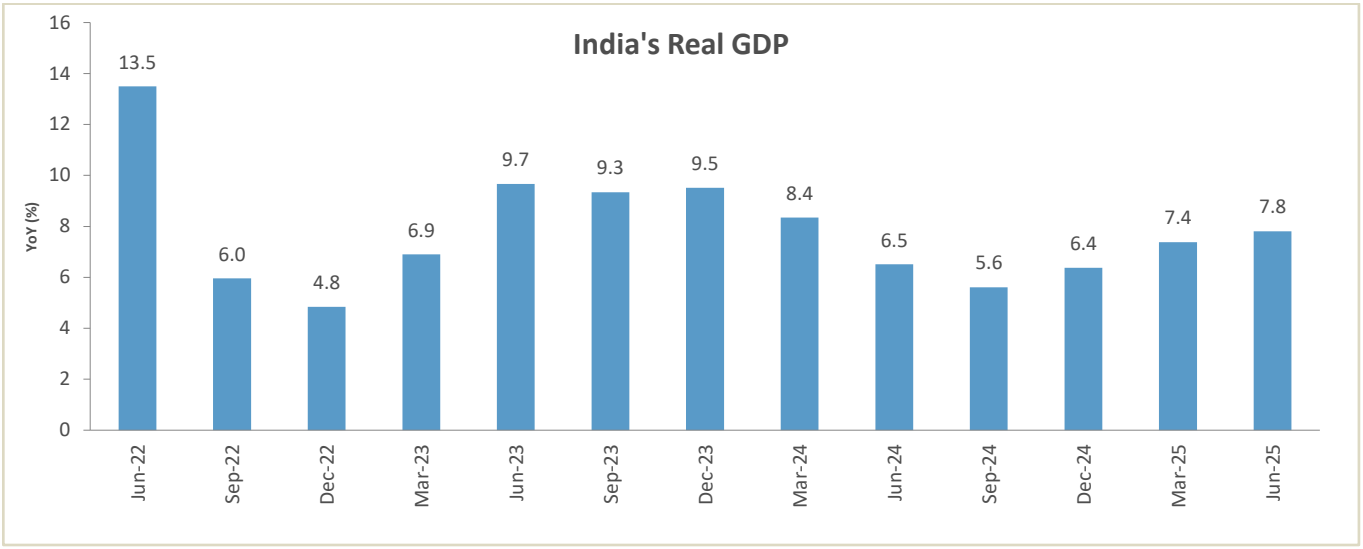
While economic activity continues to gain momentum, inflation is easing.

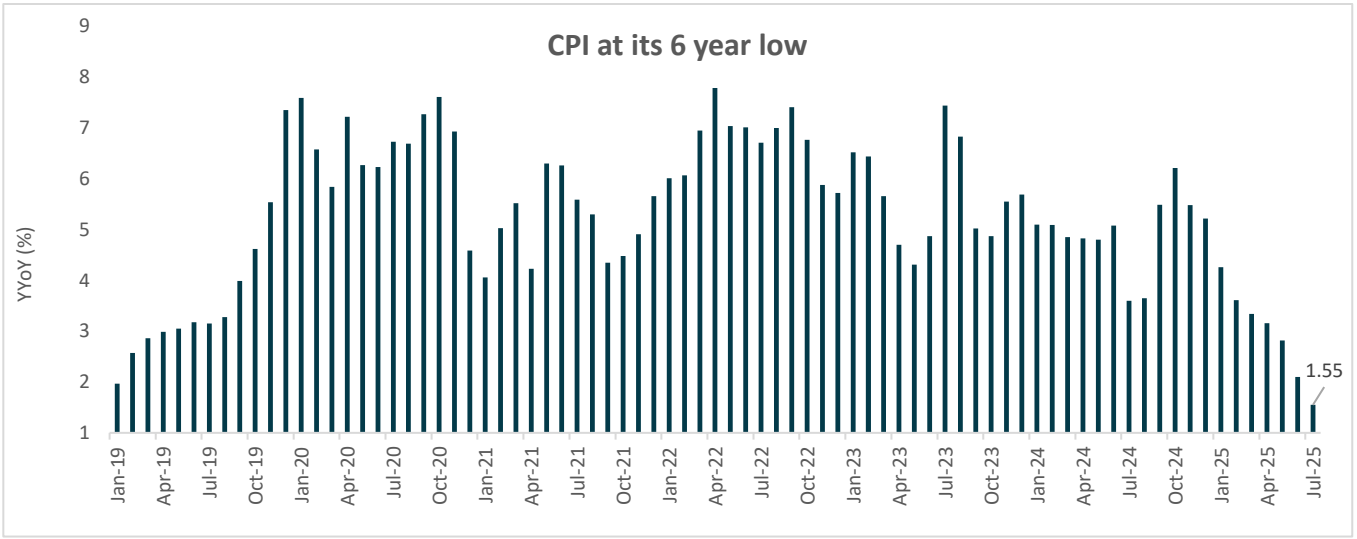
India's headline CPI hit an eight-year low of 1.55% YoY in July 2025. Primarily, a favorable base effect aided moderation, supported by a sequential softening in fuel inflation. Core inflation also (excludes volatile components like food and energy) moderated to 4.1% YoY from 4.4% in June 25.

A normal monsoon, evenly distributed rainfall, and ~4 percent growth in Kharif sowing have supported rural sentiment and improved near-term crop prospects. Healthy reservoir levels also enhance visibility for the upcoming Rabi season. Combined with favourable base effects, we believe these factors are likely to keep food inflation well anchored through FY26.

India's high-frequency indicators continue to signal resilience. The Composite PMI rose to 65.2 in August, marking a two-decade high and far outpacing global peers. While the US and Eurozone PMIs recovered modestly to 55.4 and 51.0 respectively, China and Japan remain below 50, indicating continued contraction. GST collections and power

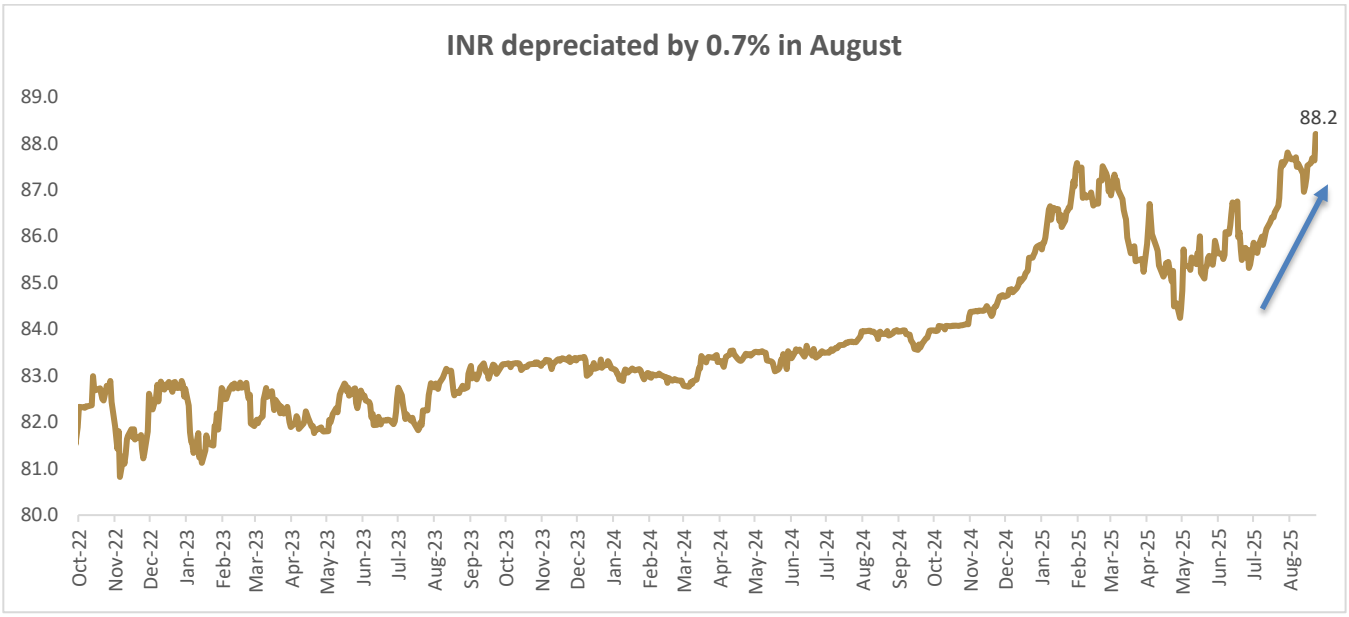
demand remain stable. Against this backdrop, with expectation of consumption demand revival, India's macro positioning looks constructive going into H2FY26.





Source: Bloomberg, Elara Securities Research

Currency Movement: While India's growth and inflation dynamics remain supportive, the rupee saw a modest depreciation of 0.7% in August, moving from 86.8 to 87.6 per USD. This came amid renewed US tariffs and a realignment in export flows, which added some pressure on the external front. That said, the current account deficit (CAD) is projected to widen slightly to ~1.0% to 1.2% of the GDP, up from 0.6% in FY25 – still well within manageable levels. Importantly, India's FX reserves remain robust at ~USD 695 billion, providing a strong buffer. Easing crude prices, resilient services exports and remittances offer additional support. The RBI has managed volatility through timely interventions, though not defending any specific level – a sign of confidence in the underlying fundamentals. Going forward we expect the INR to remain range-bound in Q3FY26. While external risks persist, strong reserves, easing crude, and a credible policy framework limit tail risks. Unless there is a fresh escalation in global trade tensions, we can expect currency movement to remain orderly.



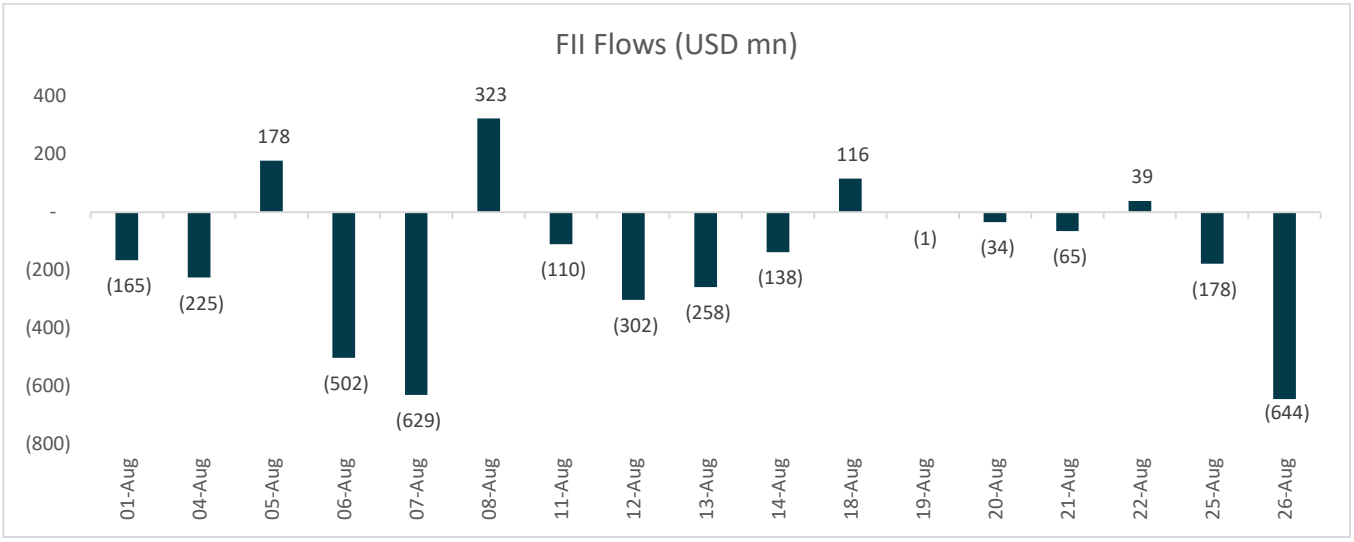
Source: Bloomberg, Elara Securities Research

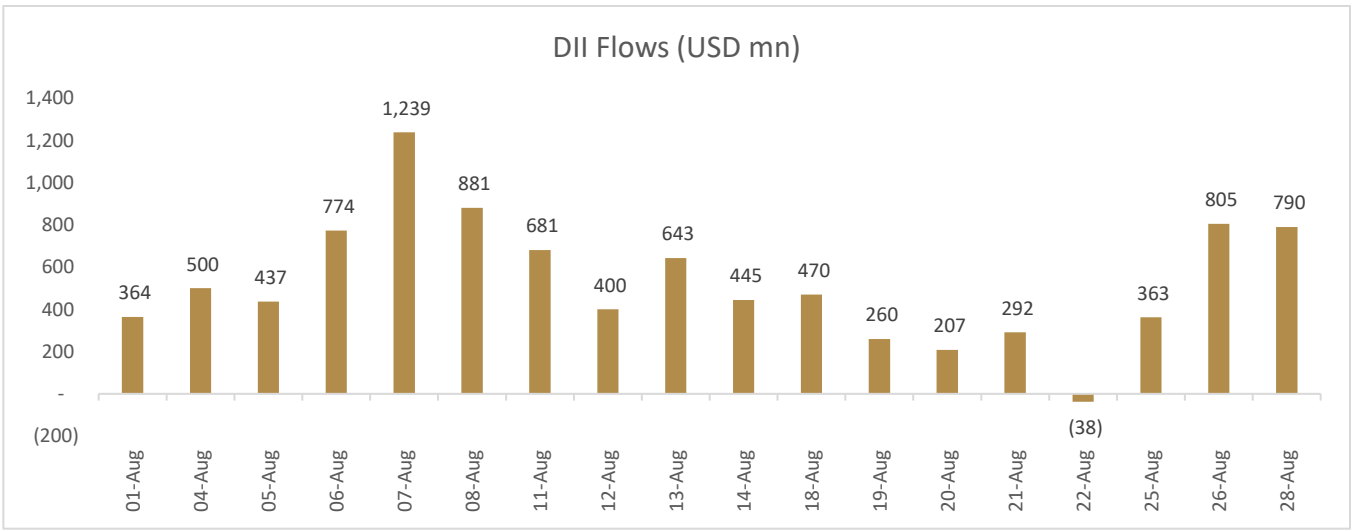
DIIs Anchor Markets as FIIs Stay Guarded

Despite global uncertainties, India's equity markets have shown remarkable resilience. In August 2025, Foreign Institutional Investors (FIIs) were net sellers, offloading USD 2.6 billion worth of Indian equities. This brings CY25 year-to-date FII outflows to USD 12.8 billion — a significant figure by any measure.

Yet, the Nifty50 is up ~3% YTD, underscoring the strength of domestic participation. Domestic Institutional Investors (DIIs) stepped in aggressively, buying USD 9.5 billion on a net basis in August 2025 alone. This reflects near-peak DII ownership and consistent domestic inflows via SIPs, EPFO, and insurance, which continue to absorb foreign selling. Monthly SIP contributions have consistently stayed above ₹200 billion.

In short, while FIIs remain cautious amid global realignments, India's domestic investor base is proving to be a stabilising force, reinforcing the case for conviction-led investing in quality businesses.





Source: Bloomberg, Elara Securities Research

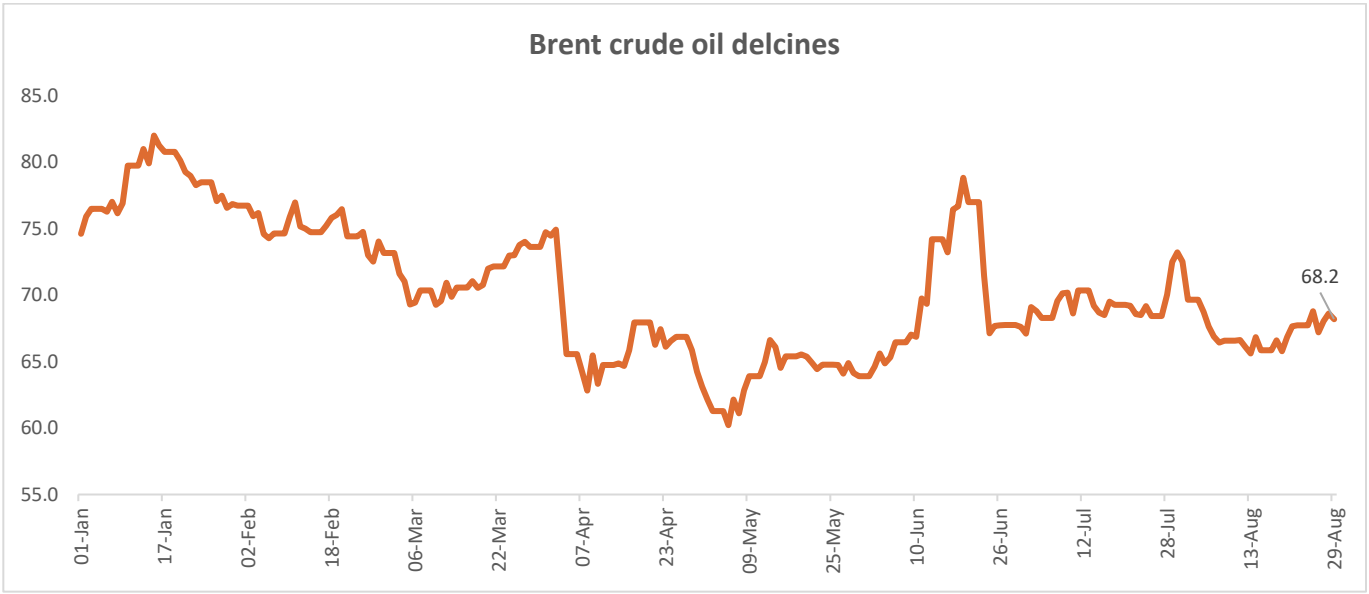
Commodities Review

Oil outlook

Brent crude oil declined from ~USD 73 at the end of July to USD 67–68 per barrel in August. This reflects post-summer demand moderation in the US, softer global freight activity, and a steady OPEC+ supply setup. A brief price rise due to a drop of 2.4-million-barrel in the US inventory was short-lived, as seasonal demand softened.

For India, lower crude prices ease the import bill and reinforce the disinflation narrative into H2FY26, offering relief on two front – inflation and current account balances.

Going forward, oil is likely to remain range-bound in the mid-60s to low-70s. While upside risks stem from fresh supply shocks, downside persists if OPEC+ loosens cuts or global growth underperforms. Consensus now points to a largely sideways profile for the remainder of FY26.

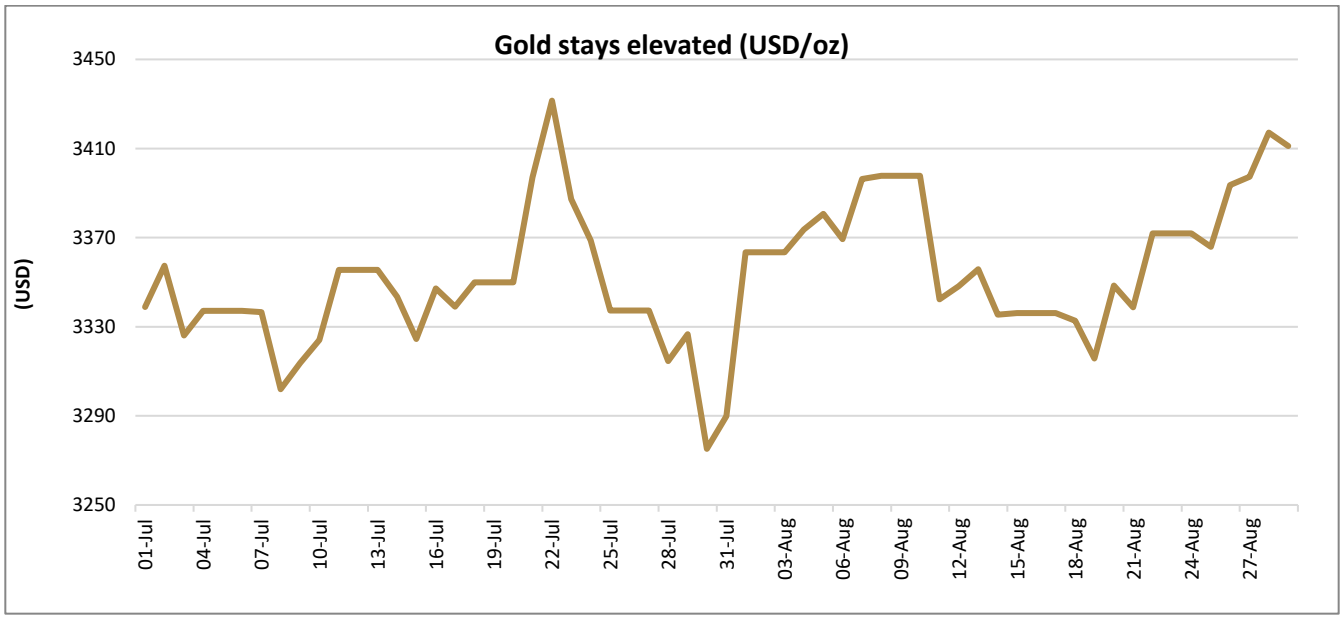


Source: Bloomberg, Elara Securities Research

Gold traded near USD 3,300–3,400 per ounce through August, supported by safe-haven flows amid global trade tensions and heightened policy uncertainty. A softening US dollar and a higher probability of a September Fed rate cut act as tailwinds.

Central banks continued to anchor demand. According to the World Gold Council's 2025 survey, 43 percent of central banks plan to increase their gold reserves over the next 12 months, citing diversification, crisis performance, and de-dollarization. This structural demand adds durability to gold's appeal.

With inflation uncertainty still elevated and real yield expectations moderating, gold's relative appeal remains strong. Unless real rates rise meaningfully or geopolitical tensions ease sharply, the price trend is likely to stay firm.



Source: Bloomberg, Elara Securities Research

Navigating Through Uncertain Times

Even as global macro conditions show signs of stabilising, we're not out of the woods yet. Policy pivots, trade tensions, and geopolitical risks continue to simmer in the background. That's why we're seeing gold and even digital assets gain traction as investors look for safety.

But zooming out, the long-term case for Indian equities remains intact — and strong.With macro stability, falling rates, and improving consumption drivers, India enters H2CY25 with positive momentum. This is a phase to stay invested – particularly in companies aligned with domestic demand and structural tailwinds – aligned with ASK's house view.

Despite foreign outflows, markets have held up — thanks to resilient domestic flows, stable currency, softening crude, and easing inflation. These are the kind of conditions that reward conviction-led, bottom-up investing.

Portfolio Positioning

At ASK, our portfolios have unwavering focus on domestically-oriented and fundamentally strong businesses – the kind that offer clear visibility across growth, profitability, and policy tailwinds. We are focused on sectors that are likely to benefit from the current macro setup - lower interest rates, steady rural demand, and infrastructure-led multiplier effects.

- **Financials: Selective Preference Within Banks and NBFCs**

We remain selectively positive on large private banks, which continue to trade at a discount to their 5-year average valuations despite stable asset quality and earnings growth. The RBI's 50 bps repo cut and 100 bps CRR reduction

have eased funding costs and supported system liquidity. This strengthens the outlook for credit growth across retail and MSME segments.

At the margin, smaller private sector banks may also benefit in this kind of environment, though allocation remains biased toward lenders with strong liability franchises and underwriting discipline. We are also constructive on select PSU banks, which offer valuation comfort, high dividend yields, and improving profitability metrics.

NBFCs, particularly in housing and SME lending, are well-positioned to gain from the easing rate cycle, as lower cost of funds improves spreads and incremental demand.

- **Domestic Pharma Over Export-Focused Peers**

We favour **domestic-focused pharmaceutical companies**, given the continued pricing pressures in the U.S. generics market and recent rupee stability. Domestic players benefit from expanding healthcare penetration and consistent volume-led growth. During the phases of uncertainty defensive positioning should provide the much-needed cushion to the portfolio.

- **Energy and Oil Marketing**

Softening crude prices and stable currency dynamics have improved the operating outlook for OMCs and gas distribution companies. These names stand to gain from improved marketing margins and working capital release, while also offering attractive dividend profiles.

- **Insurance and Real Estate**

Private insurers continue to gain market share, driven by rising health and motor coverage demand. Formalisation, digital adoption, and regulatory reforms add to structural tailwinds. We also like real estate which continues to gain on the sustained demand at the premium end, and also the end buyers benefit from the much-needed rate cuts.

- **Autos and Consumption**

We are positive on two-wheelers and select PV OEMs, where rural uptick and input cost relief support recovery. Within consumption, we prefer value-focused discretionary segments—including affordable fashion, retail, and select durables—over staples, which face valuation constraints and slowing volume growth.

- **Cautious Stance on Export-Oriented Sectors**

We remain cautious on IT, export-oriented pharma companies, and auto exporters, given soft global demand, weak discretionary spend, and limited visibility on large deal flows. INR stability offers some relief, but earnings risk remains skewed to the downside in the near term.

Themes We Like

- China+1 and global supply diversification
- Growth revival – Rural recovery and affordable consumption
- Rate Sensitive Plays – NBFC, PSU Banks, Select Private Banks, Real Estate
- Make-in-India, Digital Infrastructure, and public capex
- Defence Export and Select Manufacturing opportunities
- Transition in the Energy sector

Thank you for your continued trust and support. We look forward to connecting with you again in our next monthly update.

Warm Regards,

George Heber Joseph

CIO & CEO, ASK Investment Managers

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As per SEBI circular SEBI/HO/IMD/IMD-PoD-2/P/ CIR/2022/172 dated December 16, 2022, the comparison of the relative performance of the investment approach with other portfolio managers is available at: https://www.apmiindia.org/apmi/IACompare.htm?action=iacomaprepage'