



GST CUTS & TARIFFS IN FOCUS

MARKETS PAUSE, POLICY SHIFTS AHEAD : GST CUTS & TARIFFS IN FOCUS

August saw key policy signals with GST reforms announced as a Diwali gift to boost consumption, even as US tariffs on Indian exports added pressure. India's GDP surged 7.8% in Q1 FY26, inflation cooled to multi-year lows at 1.6%, and GST collections touched ₹1.86 trillion. Equity markets lagged (Nifty -1.4%, Midcap -2.9%, Smallcap -4.1%) despite record SIP inflows of ₹28,464 Cr, while global indices hit fresh highs.

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MOMENT OF THE MONTH

- **GST Reform:** Prime Minister Narendra Modi on Independence Day, announced GST reforms as [READ MORE](#)
- **Modi-Xi Summit:** On August 31, PM Narendra Modi met China President Xi Jinping at the [READ MORE](#)
- **US Tariff:** On August 27, 2025, Trump administration imposed additional 25% tariff on Indian exports, linking it to [READ MORE](#)
- US GDP for Q2 was revised to 3.3%, up from an initial estimate of 3%. This revision is led by [READ MORE](#)

Source: Bloomberg/RBI

WHO MOVED MARKETS

FPIs Continued to be sellers in August to the tune of nearly 4 bn\$. The FPI long short ratio remains at historical low.

Source: Bloomberg

WHAT NEXT?

ECONOMY CHECK

- India's GDP grew by 7.8% in Q1FY26, significantly higher than expectations, led by big jump in the services sector.
- Credit Rating Upgrade: S&P upgraded India's sovereign rating to BBB, citing fiscal consolidation and growth resilience
- GST collection for August came in at INR 1.86 trillion, 6.5% growth over last year.
- IIP growth in July increased to 3.5% vis a vis June at 1.5%.
- India's CPI fell to 1.6% in August, marking a new multi-year low, driven by continued cooling in food prices and subdued core inflation
- The INR weakened slightly, reflecting trade tensions and capital outflows, though RBI intervention helped stabilize volatility.
- India's fiscal deficit widened to Rs 4,684 bn for Apr-Jul FY26, ~30% of the budget FY26. Increase in deficit was driven by lower net tax receipts, increase in capex (to support growth) and higher interest payments. Non-tax revenues grew by 34% (led by RBI dividend), net tax revenue (post devolution to states) declined 7.5%.

Source: Internal Research

MARKETS

- Indian markets remained weak in August 2025, Nifty was down 1.4%, Midcap index down 2.9% and Smallcap index down 4.1%. The Q1 results have been muted on lower expectations.
- Global markets remain firm for the month with many global indices ending in the green and US Indices making new highs.
- Among the Nifty sectoral indices, Nifty Auto, FMCG, IT outperformed while Realty, Pharma, BFSI underperformed Nifty.
- Domestic Flows: Active equity funds saw record inflows of ₹42,702 Crore of which 30,416 crores came via NFOs. Gross SIP flows in July 2025 scaled a record of ₹28,464 Crore.

Source: Bloomberg Data as of August 2025



SUMMARIZING OUR THOUGHTS

- We believe that a large part of the downward trend in domestic rates have already happened. Any large rate downward movement may be a result of an exogenous shock or the domestic economy moving to an extremely slow growth.
- While the Trump Administration tariff has created uncertainties around the market direction, usually such uncertainties may lead to softening of US rates as market participants seek the safety-first approach. However, with higher US fiscal deficit and the impact of tariffs makes bond investors in US cautious.
- We have reduced duration across our duration-oriented funds and will gradually shift to have a larger mix of corporate bonds and longer dated gilts while adjusting for an overall lower duration.
- We would be wary of inflation, predominately the commodities basket to potentially move up possibly the wholesale inflation numbers and possibly feeding into core inflation.

Source: Internal Research

SIP

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SIP = Systematic Investment Plan

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