

NAVIGATING MOMENTUM & UNCERTAINTY

'Navigating Momentum and Uncertainty - Steady Steps in a Shifting World'

- October saw India's economy holding firm amid global disruptions. The GST rate rationalization spurred festive consumption, with strong Navratri sales across autos and durables. Inflation cooled further, industrial output improved, and GST collections surged, reinforcing domestic momentum. The RBI maintained its neutral stance, signalling confidence in macro stability.
- Globally, rising US tariffs and visa fee hikes raised concerns for Indian IT and pharma, while China's slowdown and Eurozone inflation added to uncertainty. Equity markets were volatile—initial gains faded, and sectoral performance diverged. Despite underperformance versus emerging peers, India may be poised for a rebound, especially with a potential US trade deal on the horizon.
- Strategically, large caps may offer better value amid FPI selling, while hybrid funds may suit conservative investors. With global volatility rising, agility in asset allocation might be key.

Source: Internal Research

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- 2-tier GST rates:** Following up on Indian Prime Minister, Mr. Narendra Modi's Independence Day promise, the GST council agreed to rationalize the GST rates into primary goods at 5% and mass consumption items at 18%. Also, the sin goods or luxury goods got retained at 40% tax slab absorbing the cess and other charges at this rate. This came as a big booster for consumption and initial data points on Navratri sales indicate strong double-digit growth across categories like automobiles, durables, etc.
- US Tariff:** In addition to the tariff noise, USA President Mr. Trump has launched a fresh offensive on the H-1B visa program by dramatically increasing the application fee to \$100,000, intensifying challenges for companies seeking skilled foreign talent. This could have implications for all IT companies hiring H1B employees in the onsite locations. It could also impact the students going every year to the US for higher education as procuring a job could get difficult.
- US GDP for Q2 was further revised up to 3.8%, up from an initial estimate of 3%. This revision was led by stronger consumer spending and lower imports.

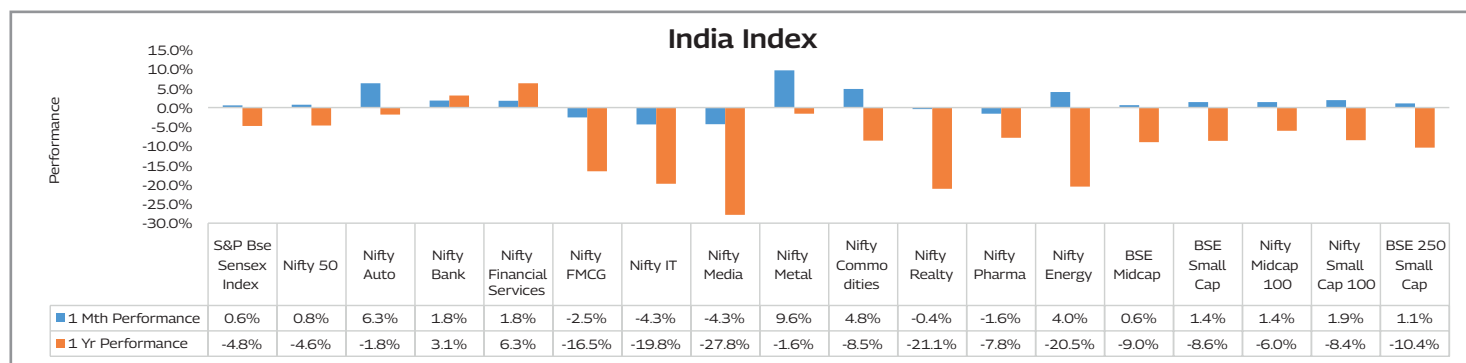
Source: Bloomberg

WHO MOVED MARKETS

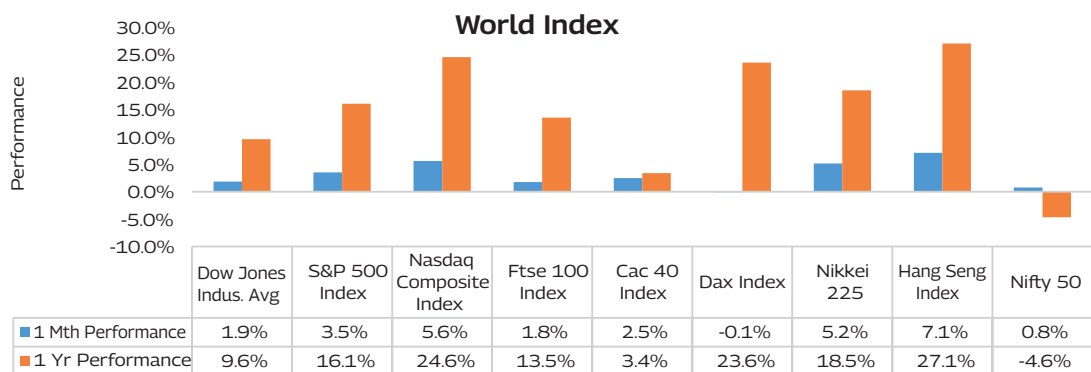
- FPIs Continued to be sellers in September to the tune of nearly 2 bn\$. The FPI long short ratio remains at historical low.

Source: Bloomberg

MOVERS & SHAKERS



Source: Bloomberg; Data as on September 30, 2025; Performance - Absolute returns. Past performance may or may not be sustained in future.



Source: Bloomberg; Data as on September 30, 2025; Performance - Absolute returns. **Past performance may or may not be sustained in future.**

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - MONTH ON MONTH

Indices	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Nifty 50	2.0	-2.8	5.5	7.9	0.0	1.2	1.6	1.2	-0.3	6.6	3.9	1.1	2.3	-6.2	-0.3	-2.0	-0.6	-5.9	6.3	3.5	1.7	3.1	-2.9	-1.4	0.8
Nifty Midcap 100	3.6	-4.1	10.4	7.6	5.2	-0.5	-0.5	5.8	1.6	7.8	5.8	0.5	1.5	-6.7	0.5	1.4	-6.1	-10.8	7.8	4.7	6.1	4.0	-3.9	-2.9	1.4
Nifty Small Cap 100	4.1	-0.8	12.0	6.9	5.8	-0.3	-4.4	11.4	-1.9	9.7	4.5	0.9	-0.7	-3.0	0.3	0.6	-9.9	-13.1	9.5	2.2	8.7	6.7	-5.8	-4.1	1.9

Note - Pink highlighted cells represent highest returns amongst the 3 indices provided above; Yellow highlighted cells represent lowest returns amongst the 3 indices for the respective month end periods. Performance - Absolute returns. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. **Past performance may or may not be sustained in future.**

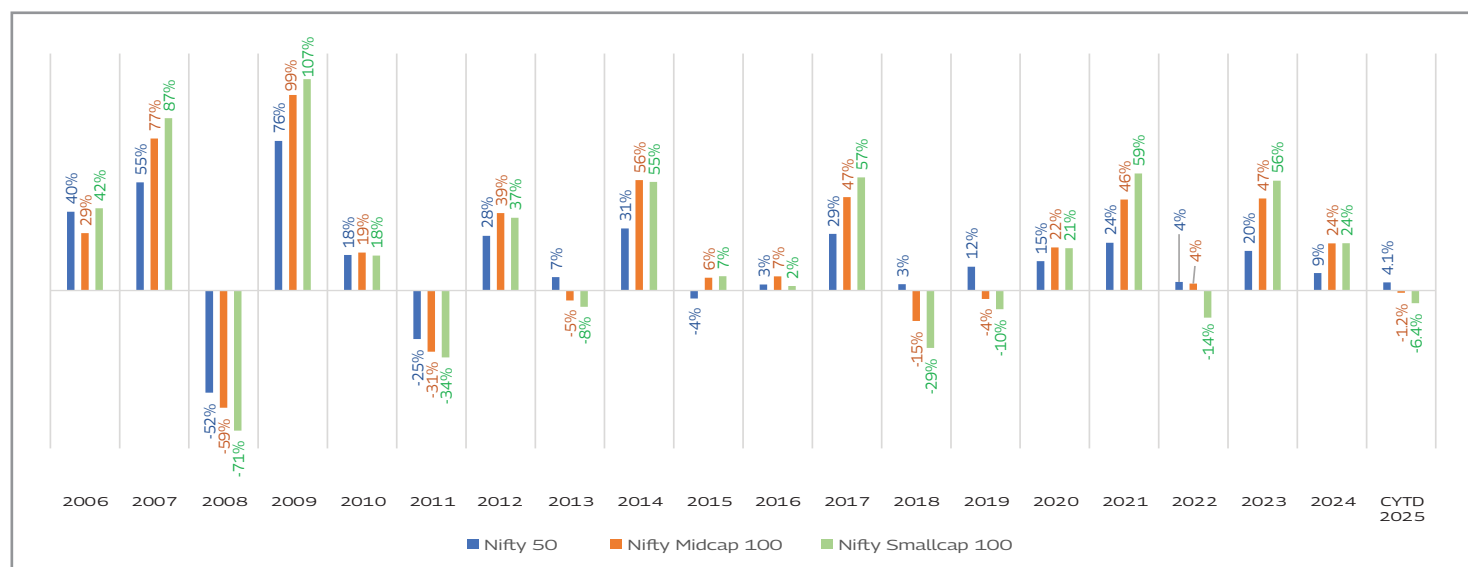
Source: Bloomberg Data as of September 2025

Indices	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Nifty Auto	3.3	-1.7	10.3	6.1	3.3	6.2	4.9	5.0	4.2	7.6	5.9	-1.9	3.3	-13.0	-0.6	-2.3	0.1	-10.4	3.9	4.8	4.6	2.3	-0.9	5.5	6.3
Nifty Bank	1.4	-3.9	3.8	8.6	-4.8	0.3	2.2	4.8	-0.8	6.9	-1.5	-0.4	3.2	-2.8	1.1	-2.3	-2.5	-2.5	6.7	6.8	1.2	2.8	-2.4	-4.1	1.8
Nifty Financial Services	1.1	-3.1	4.4	7.1	-4.6	-0.4	2.8	4.1	-0.6	7.8	0.0	1.0	3.6	-2.4	0.5	-2.1	-1.2	-0.8	8.9	4.1	1.5	2.5	-1.9	-4.1	1.8
Nifty FMCG	1.0	-0.7	3.4	7.5	-3.4	-1.9	-0.1	0.5	-0.2	4.9	9.4	1.6	3.9	-9.7	-2.1	-2.0	-0.2	-10.6	5.7	5.3	-2.1	-0.7	1.7	0.6	-2.5
Nifty IT	2.0	-3.8	6.5	9.0	3.2	3.0	-7.5	-4.9	-2.5	11.6	13.0	4.7	-2.0	-3.7	6.8	0.4	-1.6	-12.5	-1.2	-3.0	4.3	4.4	-9.4	-0.3	-4.3
Nifty Metal	2.7	-5.7	8.8	13.7	-0.1	-0.6	4.2	11.1	6.0	0.9	-2.4	-1.9	8.4	-8.5	-3.1	-4.3	-2.9	-2.1	10.6	-5.6	7.1	3.7	-2.6	-1.4	9.6
Nifty Realty	3.1	4.8	18.3	9.7	9.3	6.3	-1.1	8.1	4.7	8.4	-1.0	-3.7	4.3	-9.0	2.1	3.2	-12.4	-13.4	6.7	4.1	7.2	3.9	-7.5	-4.6	-0.4
Nifty Pharma	2.2	-4.8	10.6	3.7	6.6	5.9	0.0	-0.1	-0.9	5.0	10.4	6.6	0.3	-2.3	-2.2	5.3	-8.4	-7.6	6.7	3.0	-1.5	2.8	3.3	-4.2	-1.6
Nifty Energy	6.2	-2.0	9.4	14.2	9.8	5.7	0.5	3.4	-0.3	3.8	5.5	-0.7	0.6	-10.7	-4.6	-6.1	-3.7	-11.4	11.8	2.0	4.8	1.9	-4.0	-4.2	4.0

Note - Cells highlighted in pink colour represents top 2 performers and the yellow highlighted cells represent bottom 2 performers amongst the indices covered above for the respective months. Returns have been calculated on Absolute basis for respective month end periods beginning September 2023 until September 2025. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. **Past performance may or may not be sustained in future.**

Source: Bloomberg. Data during the period of September 2023 to September 2025.

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT



Source:- MFI, 30th September 2025 | Data period: January 1, 2006, till September 2025. Returns are absolute returns (1 year) calculated as of the last business day of every calendar year end. Past performance may or may not be sustained in future.

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BOND AND MONEY MARKET

The data shown below is a matrix detailing movement in some key markets (domestic and global) and key events.

Parameters	30-Sep-25	29-Aug-25	30-Sep-24
RBI Repo Rate %	6.50	5.50	6.50
5Y AAA PSU %	7.00	7.00	7.37
1 year CD %	6.35	6.41	7.56
10Y Gsec %	6.58	6.57	6.75
CPI (%)	2.07	1.55	3.65
IIP (Year-on-year) %	4.0	3.47	4.80
US 10Y %	4.15	4.23	3.78
Dollar Rupee	88.84	88.21	83.80

Source: Bloomberg; Data as on September 30, 2025

THE FIXED INCOME GLANCE

- The October 2025 MPC meeting of the Reserve Bank of India (RBI) reaffirmed its neutral stance, keeping the repo rate unchanged at 5.5%. This marks the second consecutive pause, reflecting the central bank's confidence in India's macro stability amid rising global volatility. The RBI revised its FY26 GDP growth forecast upward to 6.8%, citing resilient domestic demand and robust investment activity.
- Bond markets responded with mild bullishness. The 10-year gilt yield softened slightly to 6.48%, supported by dovish commentary and benign inflation data. However, through the month of September the benchmark 10 year was bound and moved in the 6.50-6.60 zone. Short-term yields declined marginally throughout the month. Liquidity remains ample, aided by targeted CRR adjustments and strong banking system flows.

Inflation & Macro Trends:

India's Consumer Price Index (CPI) inflation for September 2025 came in at 2.07%, continuing its downward trend. Food and fuel prices remained subdued, and core inflation showed no signs of upward pressure. The RBI now expects FY26 inflation to average 2.6%, down from 3.1%.

However, global developments are increasingly shaping India's macro outlook:

- US Tariffs Escalate: USA President Mr. Trump's administration imposed sweeping tariffs effective October 1, including:
 - 100% on branded pharmaceuticals
 - 25% on heavy trucks
 - 50% on kitchen cabinets and vanities
 - 30% on upholstered furniture

These measures have disrupted global supply chains, increased inflationary pressures in the US, and triggered retaliatory responses from trade partners. India's pharma exports, especially generics, remain relatively insulated, but branded generics may face margin pressure.

- China's Economy Slows: China's Q3 GDP growth moderated to 5.0%, with deflationary pressures and a weak property sector weighing on momentum.
- Eurozone Inflation Rises: Eurozone CPI rose to 2.2% in September, slightly above the ECB's target. Core inflation held steady at 2.3%, driven by services and food prices.
- US Federal Reserve Cuts Rates: The Fed lowered its benchmark rate by 25 bps to 4.00-4.25% in September, citing slowing growth and rising unemployment.

Bond Market Pulse - September 2025:

The Indian debt market saw divergent trends in September:

- Short-term yields declined on easing inflation and liquidity support.
- Long-end gilts remained cautious, pricing in global risks and fiscal uncertainties.
- Corporate bond issuance remained robust, with strong demand for AAA-rated papers and infrastructure bonds.

Source: RBI

WHAT NEXT?



Economy Check

India Economy

- GST collection for September came in at INR 1.89 trillion, 9% growth over last year. Net GST collections grew by 5% yoy.
- Index of Industrial Production (IIP) growth in August increased to 4% vis a vis July at 3.5%. Mining grew by 6%, manufacturing grew by 3.8%, Electricity by 4%. Consumer non-durables and Pharma saw a sharp contraction.
- India's CPI is stable at 1.6% in September, driven by continued cooling in food prices and subdued core inflation.
- The INR continues to marginally weaken due to US tariff uncertainty and the incremental H1B visa fee hikes. RBI intervention helps stabilize volatility.
- India's fiscal deficit widened to Rs 5.98tn for Apr-Aug FY26, ~38% 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 33% (led by RBI dividend), net tax revenue (post devolution to states) declined 7.5%.

Source: Internal Research

Markets

- Indian markets were volatile in September 2025. Nifty rallied nearly 3.5% intramonth but gave up all the gains to end up 0.8%. Similarly, Midcap index was up 1.4% and Small cap index was up 1.9%. Navratri sales was strong, and hope is of a bumper Diwali. We await Q2 results and management commentary on demand for future direction of market. GST transition could impact Q2 results as hit on inventory would need to be borne by companies.
- Global markets continue to make new highs with Nasdaq and SPX up 5.6% and 3.5% respectively for the month. Hangseng was up 7% for the month. India's underperformance versus Emerging market indices seem to get wider and we would like to believe that a reversal is possible.
- Among the Nifty sectoral indices, Nifty Metals, Autos & Energy outperformed while IT, Media, FMCG underperformed Nifty.
- Domestic Flows: Active equity funds flows dipped 25% MoM to ₹33,400 Crore of which NFOs was only ₹2200Crore. Gross SIP flows in August 2025 declined marginally MoM to ₹28,300 Crore. (Based on the data published by AMFI India for August 2025.)

Source: Bloomberg Data as of September 2025

Outlook

- Globally, geo-politics with USA President Mr. Trump announcing new policies/tariffs across different sectors has become the most feared event. September marks the announcement for a material hike on H1B fees for immigrant workers, a potential 100% tariff on branded pharmaceuticals and possibly a tariff on chips imported into USA. Pharmaceutical tariffs seem to have been paused yesterday but the escalating fears could have implications for country and sector returns going forward.
- US trade deal team visited India in September and Commerce Ministry has communicated that we could sign a deal within two months with the US. This we believe could be a key short-term trigger for the equity markets and also help us get a clear view on exports going forward.
- On the domestic front, post GST cut on 22nd September we have companies reporting strong sales for auto, durables and the Ecommerce sales giving confidence to a domestic consumption recovery for the festive season and going forward.
- Q2 result season will be keenly watched for commentary on growth and margins going forward. Government continues to be growth supportive, and capex spend in the first 5 months have been very strong.
- India has significantly underperformed compared to other Emerging Markets. and we believe that a reversal may be inevitable. Uncertainty on equity outlook in the short term is at its peak but generally, we believe it is the best time to buy Equities for the longer term.
- We believe asset allocation remains key for investors in their journey of wealth creation. The allocation is applicable to both equity as an asset class as well as choice of market capitalization within equities. From investors perspective, we continue to believe as an aggregate large cap offers better value and margin of safety as compared to micro caps, small caps & mid-caps. The risk to large caps remains in further selling by FPI's as they primarily own large caps.
- Investors with near-term objectives or low risk appetite may opt to prefer Equity Hybrid Funds or asset allocation funds. Investors with a longer-term horizon may continue to remain invested with fresh equity allocation towards large caps.

Source: Internal Research

SUMMARISING OUR THOUGHTS



- The RBI's October policy reflects a balanced, India-first approach, navigating global headwinds while supporting domestic resilience. With inflation well below target and growth momentum intact, the central bank is likely to maintain its pause, while remaining data-dependent. While the RBI governor has hinted at rates should be lower bound, we believe that prices for hard commodities may rise in the future adding complexities to the low inflation outlook.
- However, the global backdrop is increasingly complex:
 - US tariffs are reshaping global trade flows and adding inflationary pressures.
 - China's slowdown and deflationary risks could spill over into emerging markets.
 - The Fed's rate cuts and the ongoing US government shutdown are creating uncertainty in global financial markets.
 - The Eurozone's inflation uptick may delay easing, impacting global liquidity.
- Against this backdrop, our portfolio strategy remains cautiously constructive:
 - Maintain a low duration stance
 - Continue to diversify into high-quality corporate bonds
 - Opportunistically add longer-dated gilts if yields rise
- We remain vigilant on:
 - Commodity price volatility
 - Currency movements
 - Global trade dynamics
- These factors could influence inflation and rate expectations in the coming quarters. The RBI's steady hand and India's macro resilience offer a stable foundation, but nimbleness in strategy will be key as global uncertainties evolve.

Source: Internal Research

From the CIO Desk...



Mr. Krishna Sanghavi
CIO - Equity



Mr. Rahul Pal
CIO - Fixed Income

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