

Market Outlook

August 2025



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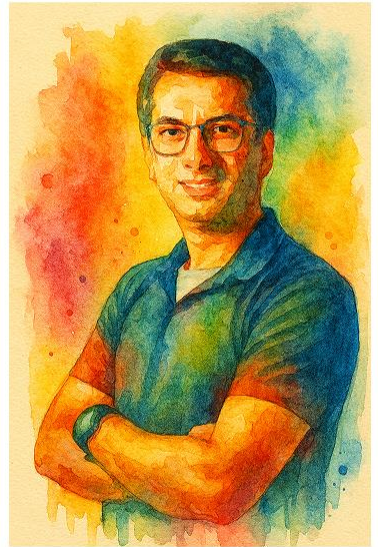
We're pleased to present this month's edition of our Market Outlook, offering a focused view on key trends, asset class movements, and what they may mean for portfolios in the period ahead. Markets continue to evolve amid shifting global dynamics, policy changes, and persistent geopolitical noise. In this environment, our goal is to cut through the clutter with a perspective that is long-term and balanced.

Equity markets have held up well, but the rally remains narrow with much of the momentum concentrated in a few segments. Valuations in certain pockets are elevated, making selectivity more important. We continue to lean on a bottom-up approach, with a strong preference for quality businesses that demonstrate consistent and sustainable growth.

Fixed income markets are being shaped by rate expectations and global liquidity shifts. In India, the short end appears favorable amid stable policy, while the long end faces headwinds from inflation and borrowing supply.

The broader macro environment is stable, but not without headwinds. Slowing global trade, rising protectionism, and shifting monetary cycles are reshaping capital flows and risk sentiment. For India, the focus remains on sustaining domestic demand, managing inflation expectations, and staying resilient to global spillovers.

As always, we continue to monitor developments across markets and economies closely. With conditions evolving on multiple fronts, staying informed and adaptable remains key to navigating the months ahead.



Manu Awasthy

Manu Awasthy
CEO & Founder
Centricity

Trump Tariff Timeline

President Trump called tariffs, “the most beautiful word in the dictionary”.

Feb 4: 10% tariff on China takes effect.
(announced Feb 1)

Mar 4: 25% tariff on Mexico and Canada begins ; China adds 10% on US Agri goods.

Apr 2: Broad tariff structure announced; 10% base tariff on all imports, China 34%, EU 20%, India 27%, Japan 24%

Apr 5: US baseline 10% tariff takes effect.

Apr 9: Trump pauses country-specific tariffs for 90 days (reverts to 10%)

May 14: US-China deal: US tariffs on China drop to 30%, China’s tariffs on US goods drop to 10%.

Jul 2: US-Vietnam deal: 20% tariff on Vietnam, 40% on rerouted goods; Vietnam drops tariffs on US goods.

Jul 7: Trump extends pause on country-specific tariffs to Aug 1; sends letters to 14 countries.

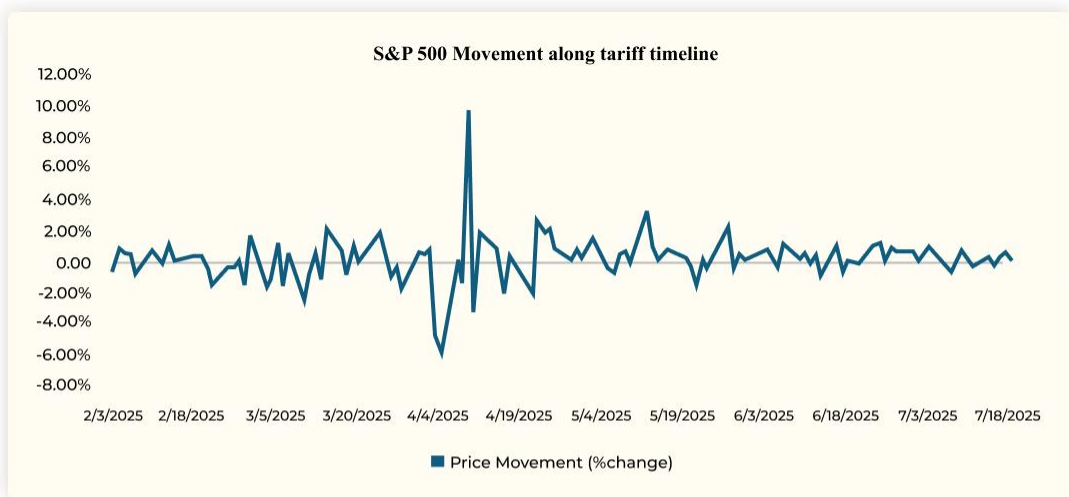
Jul 23: US-Japan deal finalized: 15% tariff confirmed on Japanese goods incl. autos

Jul 27: US-EU deal finalized: 15% tariff on EU goods agreed, down from proposed 50%.

Jul 31: US imposed 25% tariffs and an additional penalty on India

Where things stand

1. Canada and Mexico (USMCA-compliant): still exempt from 25% tariffs.
2. Canada's 25% tariff on US goods (incl. peanut butter) stays.
3. US baseline import tariff: 10% remains in effect.
4. Pause on higher, country-specific US tariffs extended till Aug 1, 2025.
5. US tariff on China: 30%.
6. China's tariff on US goods: 10%.
7. From Aug 1, 2025 (unless deals struck):
 - Bangladesh 35%
 - Brazil 50%
 - Indonesia 32%
 - South Africa 30%
 - South Korea 25%
 - Thailand 36%
8. 50% tariffs applied on India effective August 07, 2025





Economic Outlook

Indian Economy Overview

1. GDP growth moderated to **6.5% in FY25**, after a strong **9.2% in FY24**. **Q4 FY 24 recorded 7.4% growth**, driven primarily by strong services and resilient rural consumption.
2. **Core Inflation cooled to 2.1% in June 2025**, aided by a high base and softening food prices, staying within RBI's 2–6% target band although on the lower end.
3. India's fiscal deficit for April–June stood at **₹2.8 lakh crore, or 17.9% of the full-year target of ₹15.69 lakh crore**.
4. Current account deficit eased to **0.6% of GDP**, with a surplus in Q4 led by robust services exports and inward remittances.
5. India's forex reserves rose to **USD 698.19 billion as on 1st Aug**, after brief volatility in mid-FY due to capital outflows.
6. The rupee remained broadly stable, averaging around ₹86.5/USD.
7. Net direct tax collections stood at **₹5.62 lakh crore as on 10 July 2025**, registering a **1.34% contraction** over the same period last year
8. Gross GST collections stood at ₹1.96 lakh crore in July, marking a **7.5% increase**.

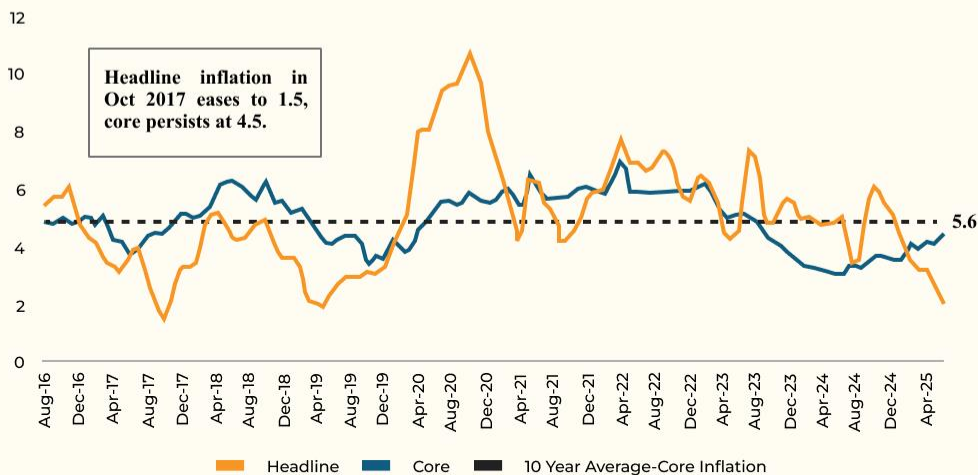


Domestic Macro Indicators

FY	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	Current
GDP Growth (%)	8.0	8.3	6.8	6.5	3.9	-5.8	9.7	7.6	9.2	6.5	6.5
Average CPI Inflation (YoY%)	4.9	4.5	3.5	3.4	4.7	6.1	5.5	6.6	5.6	4.6	2.1
Forex Reserves (USD billion)	356	370	424	413	490	579	606	579	648	676	698
Currency (USD-INR)	66	64	66	70	75	74	77	82	83	86	87.7
Net Direct Tax Collections (INR billion)	7.4	8.5	10.0	11.3	10.5	9.4	14.1	16.1	15.8	22.2	5.6
Current Account (%GDP)	-1.1	-0.6	-1.9	-2.4	0.1	-0.2	-1.5	-2.2	0.7	-1.1	0.6
Fiscal Deficit (%GDP)	3.9	3.5	3.5	3.4	4.6	9.3	6.7	6.4	5.6	4.8	0.8

Headline-Core Divergence

When headline inflation diverges meaningfully from core, it tends to realign over time, a pattern India has seen before, notably in 2015–16 and again in 2017–18. In mid-2017, headline CPI dropped to 1.5% while core inflation held steady around 4.5–5%. As food prices normalized and base effects faded, headline inflation rebounded, converging with core by mid-2018. This trend highlights that headline prints in the 2-3% range are rarely durable without a broader easing in core components. A similar reversion appears likely in the coming months, with headline inflation expected to drift back toward 4% as food pressures ease and base effects fade.



Robust GST Inflows Masked by Spike in Refunds

GST collections reflect a mixed trend, with **net domestic revenue contracting marginally by 0.2%**, hinting at softer tax compliance and moderation in momentum. A key factor weighing on net revenue is the sharp month-on-month surge in **GST refunds, which stood at 66.8%**. While this has impacted headline figures, it also **reflects a maturing tax ecosystem, driven by higher upfront payments and improved transparency**. Overall collections continued to rise on the back of robust receipts from both domestic transactions and imports, pointing to sustained economic activity, in the backdrop of a slowed growth.

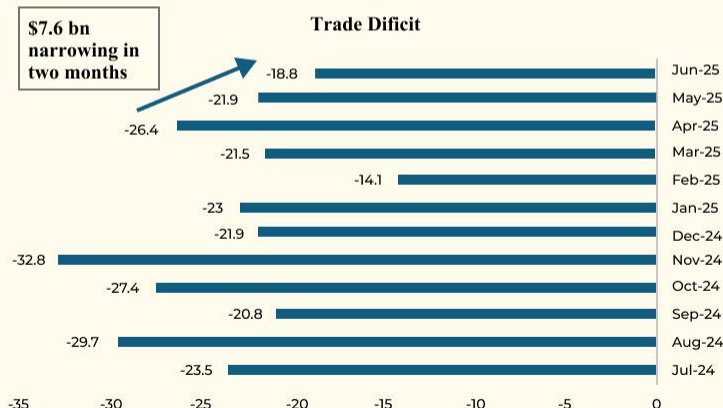


July 2025 GST Collections

Category	Amount (Rupee Crores)	Monthly Change (%)
Total Gross GST Revenue	1,95,735	7.5
Total Refunds	27,147	66.8
Total Net GST revenue	1,68,588	1.7

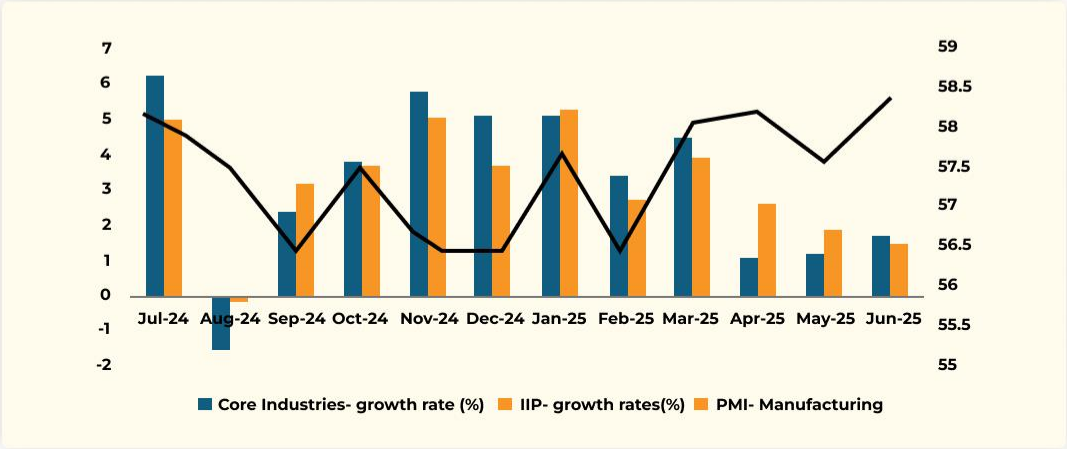
Narrowing Trade Deficit

India's merchandise trade deficit narrowed over Q1 FY26 from **\$26.4 bn in April** to **\$18.8 bn in June**, a **\$7.6 bn improvement driven largely by import compression**. While exports declined 9.7% (year on year) in June, the sharper **11.7% fall in imports, especially of crude and gold**, led to this monthly deficit. Exports are holding firm in key segments like electronics, pharmaceuticals, and engineering goods, even amid global volatility. However, the **outlook warrants caution as recently imposed U.S. tariffs on select Indian goods could pose headwinds to export growth in the coming months**.



Industrial Activity Expands, Outlook Turns Cautious

The manufacturing PMI rose to a **16-month high**, driven by increases in new orders and output, with sales expanding at the fastest pace in five years. However, **business confidence dropped** to a three-year low, and firms are hiring additional staff at lowest since November 2024, indicating hesitation about sustained demand. Industrial production (IIP) recorded a **growth rate of 1.5 % year-on-year**, supported by **manufacturing gains (3.9%)**, though mining and electricity sectors posted declines. Meanwhile, core industries growth edged up slightly to 1.7% from 1.2% in the previous month, but this is well below the 5% growth seen a year ago, with five of eight sectors contracting. **Overall, while current indicators signal expansion, particularly in manufacturing, forward-looking sentiment suggests a more cautious economic environment ahead.**



Rate Cut Cycle Paused

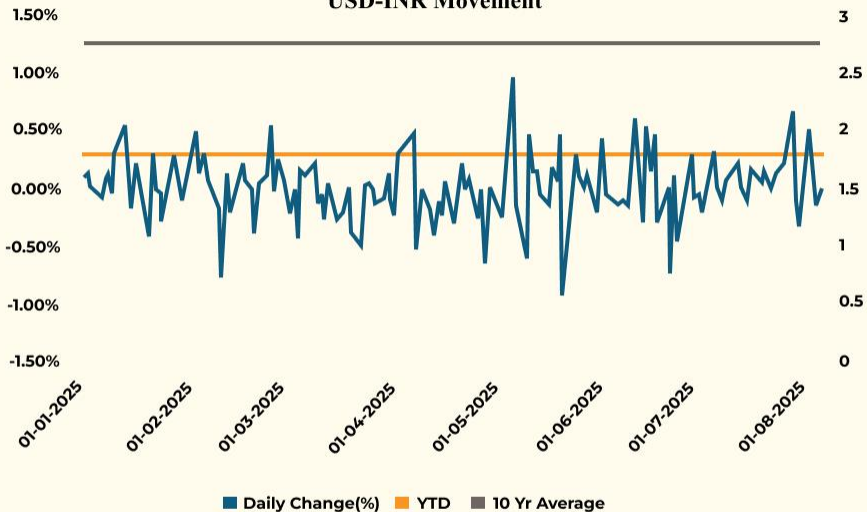
The MPC opted to maintain the **policy repo rate at 5.5%**, citing a **more benign near-term inflation outlook and the need to allow past actions to transmit fully**. Food inflation turned negative in June, pulling headline CPI inflation well below the 4% target for now. Rate cuts were already front-loaded earlier in the year, and liquidity turned ample by June. **The upcoming CRR reduction, set to infuse around ₹2.5 lakh crore starting September, will further ease financial conditions.** While markets anticipated rate cuts to spur credit ahead of the festive period, the MPC remained cautious. The combined effect of tariff passthrough and excess liquidity may re-stoke inflation risks. **With monetary policy working through lags and global policy paths still diverging, holding rates steady was seen as a prudent pause.**

Key Rates			
Policy tools	Current Policy Review	Last Policy Review	Changes
Repo Rate	5.50%	5.50%	Unchanged
MSF	5.75%	5.75%	Unchanged
SDF	5.25%	5.25%	Unchanged
Bank rate	5.75%	5.75%	Unchanged
CRR	3.00%	3.00%	Unchanged
SLR	18.00%	18.00%	Unchanged

INR Weakness Amid Fed Uncertainty and FPI Outflows

The Indian rupee has faced depreciation pressures in recent months, slipping past ₹87.2/USD as of August 7, 2025, from ₹85.64 at the start of the year marking a YTD depreciation of 1.8%. This weakness has persisted despite periods of global dollar softness, largely due to ongoing foreign portfolio outflows. On a longer horizon, the rupee has depreciated from ₹66.40/USD in August 2015 to ₹87.24/USD in August 2025, reflecting an average annual depreciation of approximately 2.75% over the past decade. Looking ahead, rupee performance will depend significantly on the U.S. Federal Reserve's policy path. A delay in Fed's rate cuts could keep the dollar supported and weigh further on the rupee. On the other hand, if the Fed pivots to easing it could open the door for a more stable or modestly stronger rupee.

USD-INR Movement





Global Outlook: Policy Steady as Growth Moderates

Central banks across major economies are **holding rates steady** as they navigate a balance between persistent inflation and signs of slowing growth.

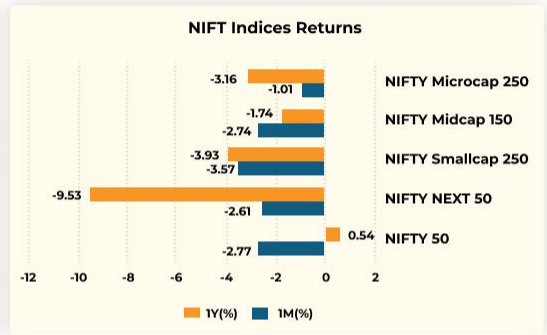
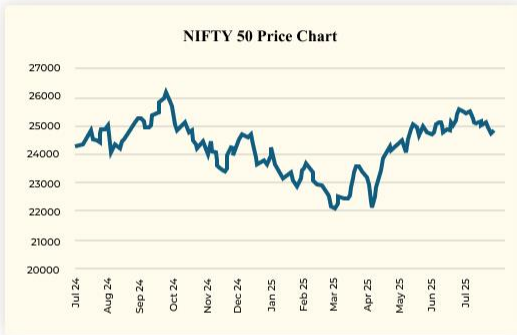
- In the **United States**, the Federal Reserve kept the benchmark federal funds rate unchanged at **4.25%–4.5%** for the fifth consecutive meeting. While the economy **showed signs of moderation** in the first half, **labour markets show mixed signals and inflation, though easing, is still elevated**, requiring a **cautious wait-and-watch approach**.
- In the **Euro Area**, the European Central Bank also **left all key policy rates unchanged** (deposit: 2%, refinancing: 2.15%, lending: 2.4%) as inflation aligned with the 2% target. **Robust Q1 growth, driven by front-loaded exports, and signs of a manufacturing rebound offer cautious optimism, further supported by the recent EU–U.S. trade framework.**
- Meanwhile, the **Bank of Japan maintained its short-term policy rate at 0.5%**, but revised its inflation forecast **upward to 2.7%**, above its 2% target, amid rising food costs and global trade risks. However, a new trade agreement with the U.S. has **reduced external uncertainty and may aid medium-term price stability.**

While monetary policy remains on pause globally, the underlying tone across central banks reflects growing caution amid geopolitical risks.



Equity Outlook

Monthly Recap :- July



NIFTY Sectoral Indices	Returns (%)		
	1M	3M	1Y
Auto	-0.57	6.60	-10.59
FMCG	1.76	-0.16	-8.34
Media	-7.25	7.49	-23.81
Financial Services	-1.83	2.72	14.95
Metal	-2.57	8.51	-2.25
Pharma	3.63	5.03	5.45
Consumer Durables	-0.27	3.42	-3.43
Oil & Gas	-4.37	0.95	-14.04
Realty	-7.34	3.20	-16.34
Energy	-3.19	2.66	-19.18
Infrastructure	-3.44	3.59	-3.62
India Defence	-12.32	9.11	2.47
India Consumption	4.16	10.85	7.38
Commodities	-2.01	2.95	-8.48
Housing	-1.15	3.79	-4.46
Bank	-2.26	2.17	9.42
IT	-9.07	-0.43	-11.63

Market Weakness — Most Significant July Drop Since 2019

July 2025 brought the Nifty's four-month winning streak to a halt with the index slipping 2.77% for the month. A mix of muted Q1 earnings, particularly from global-facing sectors, and the U.S. administration's surprise announcement of a 25% tariff on Indian exports rattled investor confidence and dampened risk appetite.

Broader markets fared no better. Mid-cap and small-cap indices, which had significantly outperformed large-caps in recent months, saw more pronounced declines, losing between 2–3%. Notably, **selling intensified in the final trading week as tariff headlines emerged**, sparking fears of export headwinds for manufacturing and IT firms. Nifty Next 50 also tumbled 9.53% YoY, marking one of its steepest monthly losses in recent times.



Sectors: A Game of Highs and Lows

July was anything but uniform. Some sectors held their ground, a few surprised on the upside, and others had a rough month:

- **IT and Defence stocks were among the worst performers in late July** post their disappointing earnings result. Lack of visibility in global growth coupled with disruption concerns dragged down the IT names while high valuations and slower than expected growth dragged down the defence names by approximately 12%.
- **Banks and finance stocks**, especially Bajaj Finance, dragged the index, while **BFSI overall suffered amid earnings concerns**. Reality as well as Media sector saw sharp cuts.
- Despite negative breadth, some names like SBI Life and Trident, posted gains—SBI Life rose ~2.5%, Trident +4.7%.
- In the small-cap space, a select few stocks (per-say healthcare and digital logistics) rallied up to 50% following strong June-quarter results, though the **broadier small-cap segment remained subdued**.
- **Sector performance in Oil & Gas and Energy remains subdued** as global refining margins shrink, while geopolitical tensions have triggered strategic restructuring among Indian refiners, prompting a shift in focus toward domestic markets.

V

aluation of Indian Equity Markets

Index-Level Valuations Elevated, Earnings Struggle to Keep Pace

The Nifty 50 closed July with a **TTM P/E of 21.9x**, nearing its **10-year average of 24.65x** and **just below the 10 year median of 23.3x**. However, **earnings performance across key sectors has been underwhelming**, particularly in IT and FMCG, while the banking sector also reported muted results, reflecting early margin pressures from the recent rate cuts. In this backdrop, with limited support from earnings revisions, **the scope for further valuation expansion appears limited**.

Mid and small-cap indices continue to trade at elevated valuations, with P/E ratios of 32x and 31.7x respectively, levels that are either at or slightly above their 10-year historical averages. **The Nifty Mid-cap 100 (32x vs 10Y avg of 30.6x) and Nifty Smallcap 100 (31.7x vs avg of 33x) remain richly priced**, as profit growth is now concentrated in a narrower set of sectors, primarily infrastructure, auto ancillaries, hospitality, healthcare, financial services and smaller IT companies.

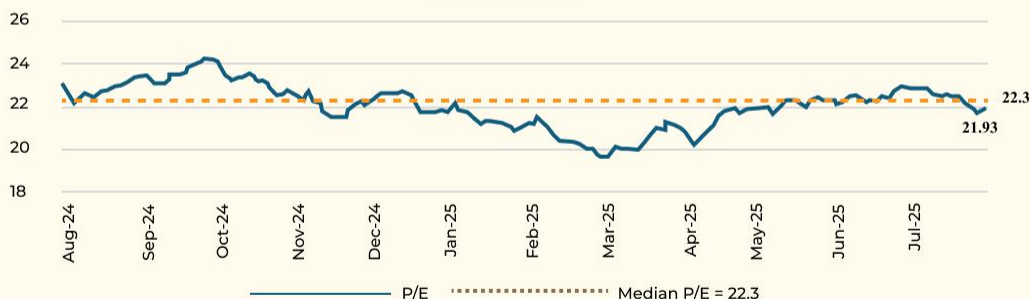
	TTM P/E	Apr'15-Mar'25 (10 Yr Historical Average)
Nifty 50	21.90	23.49
Nifty Next 50	21.50	27.43
Nifty Smallcap 50	31.70	33.04
Nifty Midcap 100	32.00	30.04
Nifty 500	24.30	26.69

Market Breadth: Momentum Narrows Despite Sectoral Tailwinds

While macro indicators like PMI and GST collections remain resilient, earnings breadth is narrowed.

- **Auto and pharma stocks delivered strong quarterly numbers**, underpinned by margin improvement and robust domestic demand.
- In contrast, **IT earnings disappointed**, and global overhang in the form of the 25% U.S. tariff threat further spooked investor confidence in export-linked segments.

NIFTY 50 P/E



Earnings So Far – Our View

Around 170 Nifty 500 companies have reported Q1FY26 earnings so far. **Revenue growth is 6–7%, while PAT growth is 13% ex-financials, moderating to 7% including financials. Mid-caps continue to outperform with >15–17% topline and profit growth, while large caps are growing in line with GDP at 6–7%. Small caps broadly track Nifty 500 trends but including financials (MFIs, SFBs, NBFCs) PAT has declined 6–7%.**

The slowdown is real but appears somewhat overstated. Earnings downgrades are likely nearing a bottom and could **stabilize** by Q2, especially with the recent rate cuts expected to offer some tailwind. **Market leadership is becoming narrower, with mid-cap IT, capital goods, power, and PSU banks leading the way.** Select NBFCs, and niche sectors like hospitality, hospitals, cement, telecom, specialty chemicals, and cable manufacturers are also seeing strong performance. On the other hand, **large IT companies and most major private banks have posted mixed results, while microfinance players continue to lag.**



Brokerage Views

- **Motilal Oswal:** Highlights that mid-caps are delivering three consecutive quarters of earnings outperformance, with Q1 FY26 mid-cap earnings up 12% YoY vs 7% for large caps and a 9% decline for small caps. Strength came from technology, capital goods, PSU banks, healthcare, cement, metals, and utilities, while private banks, NBFCs, autos, and oil & gas dragged smallcap earnings. Despite mid-cap resilience, Motilal cut Nifty FY26 EPS by 1.1% and FY27 by 0.8% on earnings downgrades in Reliance, HDFC Bank, Axis Bank, Power Grid, and Kotak Bank.
- **Jefferies:** Reports a downgrade-heavy quarter, with 50% of companies under coverage seeing cuts vs 40% upgrades; the beat ratio was steady at 44%. FY26 MSCI India EPS was cut 1.7%, now implying 8% growth. Banks drove the bulk of downgrades, while IT was mixed. Consumer staples saw sequential volume recovery but reported weak EBITDA due to high input costs.

Institutional Activities

FII Selling Intensifies Amid Tariff Shock and Global Headwinds

In July 2025, FIIs turned aggressive net sellers, pulling out ₹47,666 crore, marking one of the highest monthly outflows this fiscal. The selling was largely driven by the U.S. government’s announcement of 25% tariffs on Indian exports and earnings risk for export-facing sectors. Additionally, a rise in U.S. bond yields and continued strength in the dollar against rupee led global investors to reduce exposure, triggering broad-based outflows from Indian equities.

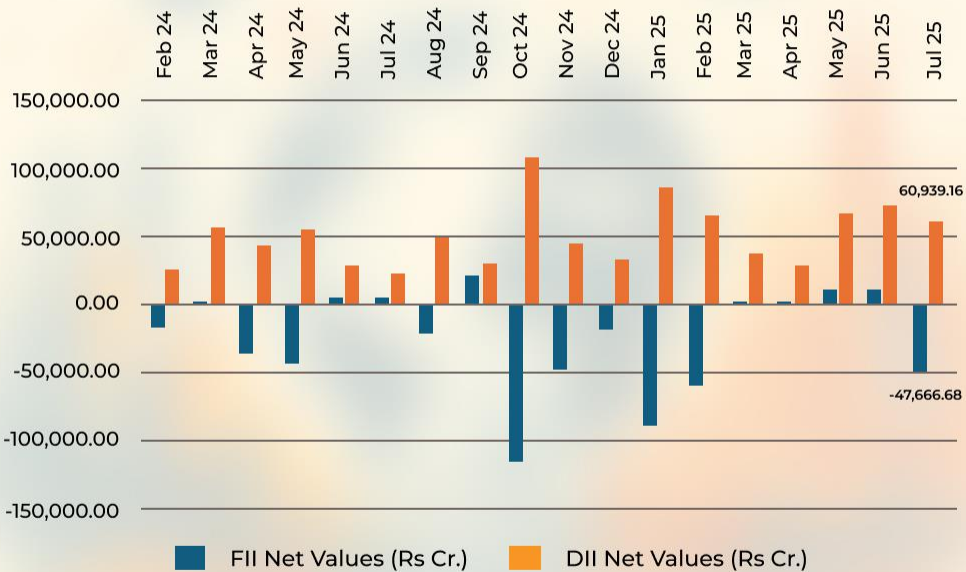
Record FII Short Positions Reflect Deep Caution

Another noteworthy development is that FIIs have built over 90% short positions in index futures, marking their most bearish stance since the pre-COVID period and reflecting heightened caution toward Indian equities.

DII Inflows Hit FY26 High, Cushioning Market Weakness

In contrast, DIIs emerged as a strong counterforce, recording net inflows of ₹60,939 crore, the highest monthly DII buying in FY26 so far. The support was driven by steady SIP inflows and active buying from mutual funds and insurers. Many domestic investors viewed the correction as an opportunity to accumulate quality names in private banks, autos, and consumption. While FII risk-off behavior pressured indices, resilient domestic participation helped cushion the impact and limit deeper downside.

FII and DII Net Flows



Global Markets

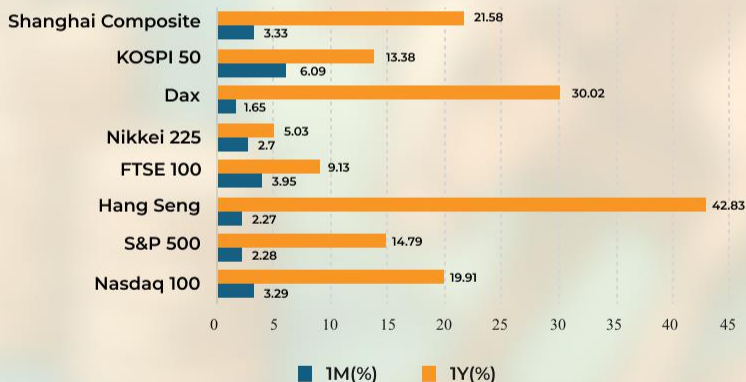
Global equity markets delivered mixed performances over the past year, with sharp divergence between developed and emerging markets and across regions.

The **Hang Seng Index** (+42.8% YoY) and **DAX** (+30.0% YoY) were the strongest performers, driven by sector-specific and macro tailwinds. Hang Seng surged 2.27% in July on the back of **China's policy easing**, renewed support for real estate and tech, and attractive valuations after a prolonged downturn.

Germany's DAX, on the other hand, benefited from industrial recovery, improving business sentiment, and resilience in exports despite broader eurozone weakness. The **FTSE 100** (+3.95% MoM) posted steady returns, helped by energy and commodity-linked gains.

In contrast, **U.S. indices like the S&P 500** (+17.5% YoY) and **Nasdaq 100** (+19.9% YoY) posted more modest gains compared to 2023. July saw strong performance from U.S. equities, with the **S&P 500 rising 2.28%** and the **Nasdaq 100 by 3.29%**, supported by cooling inflation data and resilient job market prints.

Asian markets presented a more uneven picture. While the **KOSPI 50** (+6.09% MoM) reflected optimism around chip exports and easing rates, **Shanghai Composite** (+3.33% MoM) saw gains on expectations of further monetary support. However, the **Nikkei 225** (+2.7% MoM) underperformed despite the weak yen, weighed down by muted domestic consumption and export sensitivity to global demand. **India's Nifty 50, on the other hand, fell 2.77% in July**, as persistent FII outflows, muted earnings in key sectors and uncertainty around global trade developments weighed on investor sentiment.



Equity In-House View

Domestic Outlook

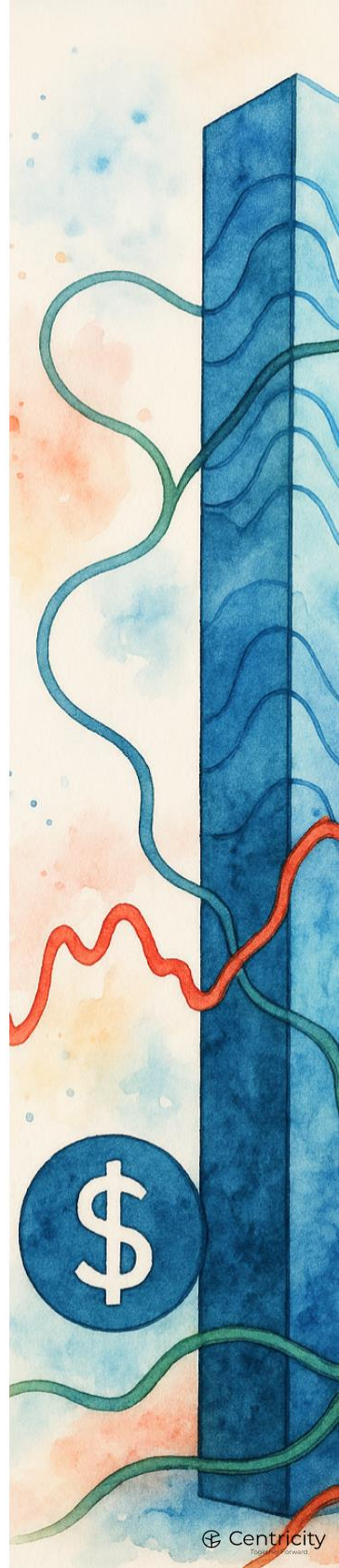
Interest rate cuts in India are expected to yield benefits in the second half of the year, aided by a healthy monsoon and festive season. However, demand sentiment remains weak, as seen in softening inflation. A key overhang is the US imposing a 50% tariff on Indian goods, with further penalties threatened over Russian oil imports. While the direct economic impact is limited, India's \$87 billion exports to the US make up just 2–2.5% of GDP, the friction has kept markets cautious, prompting FII outflows on growth concerns.

Centricity maintains that **valuations remain elevated amid persistent external uncertainties.** For Indian equities, **investors should start with a focus on large caps**, which offer decent growth, **followed by select mid-caps with favorable allocation** given their higher growth potential, though caution on valuations is warranted as they remain elevated. **Small-cap opportunities are limited to a few sectors** that provide strong growth visibility and fair valuations. **Investors need to remain cautious yet optimistic, focusing on bottom-up opportunities in this market**, while maintaining a disciplined asset allocation and adopting a staggered approach for any fresh lump-sum allocations

Global Outlook

In our global outlook, **we maintain that while U.S. companies, particularly the Nasdaq, continue to deliver exceptional earnings growth of over 20% for three consecutive quarters, valuations remain elevated.** In Q1, the S&P 500 reported 12.7% earnings growth, while Nasdaq posted 22%. However, as U.S. policy shifts unfold, refinancing debt will become increasingly challenging, and any impact of new tariffs on the U.S. economy could influence consumption patterns.

Europe continues to grapple with geopolitical tensions, while China offers attractive valuations but remains constrained by unresolved real-estate stress. China's domestic economy will require further policy support, even as it continues to perform reasonably well in certain sectors like technology and electric vehicles. Overall, the U.S. offers the strongest earnings momentum but carries the highest uncertainty, while China presents cheap valuations with selective opportunities but also domestic risks. **A staggered and diversified global allocation mainly to US & China remains the most prudent approach.**





Global Debt Outlook

USA

10Y yield:

4.360, increased from 4.241

Inflation:

Inflation increased to 2.7%,
from 2.4%

Fed stance:

Cautious, balancing between
inflation uptick and weak job
market data

China

10Y yield:

1.78, increased from 1.640 in
the previous month

Inflation:

inflation numbers turned
positive in June to 0.1%

PBOC stance:

Accommodative

Japan

10Y yield:

1.553, increased from 1.429 in
previous month

Inflation:

3.3%, decreased from 3.5 in
May

BOJ stance:

Paused hikes, cautiously
adjusting bond purchases.

Eurozone (Germany)

10Y yield:

2.677, increased from 2.59
in previous month

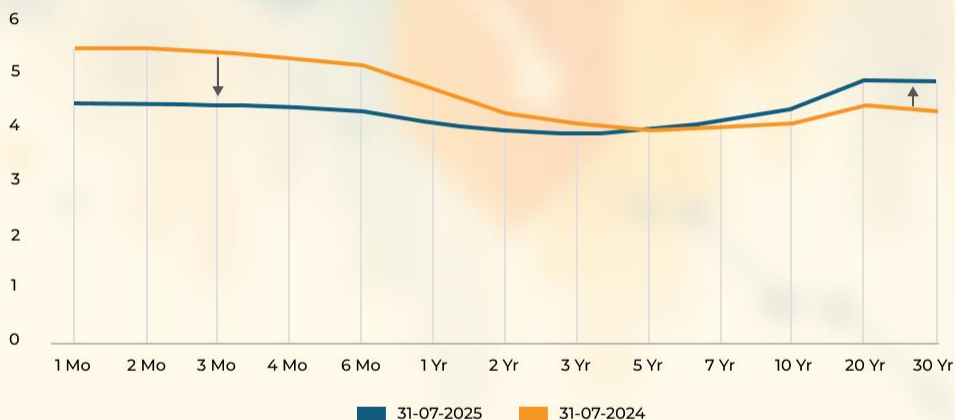
Inflation:

2%, stable at long term target

ECB stance:

Paused rate cuts, decisions to be
based on further data dependent
changes

Fed Yield Curve: Comparison of Yield Curve as on 31st July 2025 with Yield Curve as on 31st July 2024



Short-term yields

Short-term yields declined in the last week of July, with the 2-year bond yields falling 24 bps, reaching multi-month lows. The key driver was a **disappointing jobs report** which, while showing modest headline job additions, masked deeper weakness which was marked by **sharp downward revisions to previous months' job creation and a notable rise in the unemployment rate**. These developments reinforced expectations that the economy is slowing more than previously thought, strengthening the case for rate cuts ahead. While the **Fed kept rates unchanged in its July meeting**, policymakers maintained a cautious stance, noting uncertainty around how new tariffs might influence inflation. However, **markets continue to price in rate cuts ahead possibly as soon as September prompting a drop in short-end yields.**

Long term yields

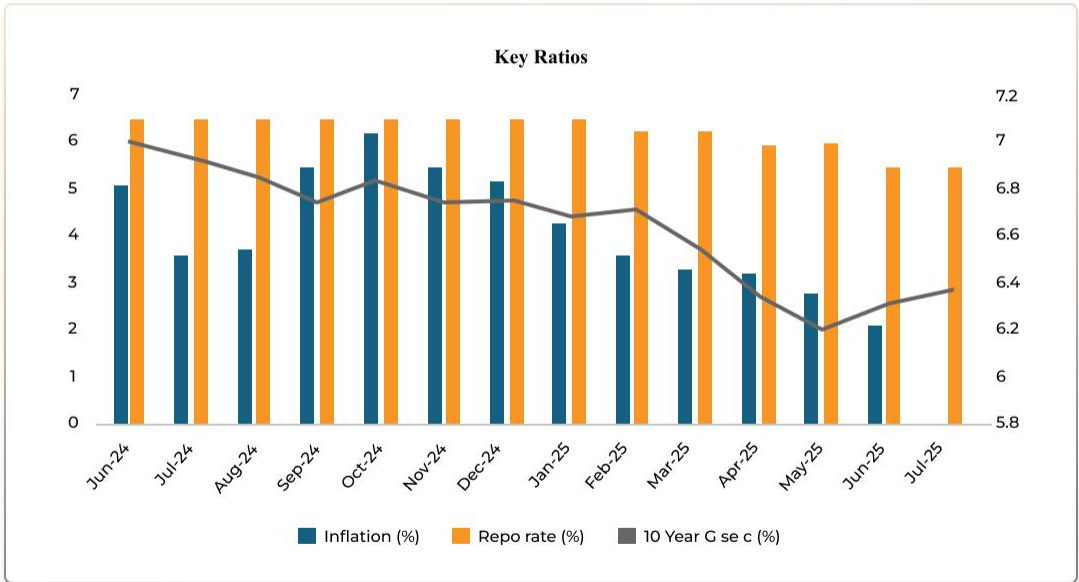
Long-term yields remain elevated relative to early 2024, though they have edged lower recently. The recent softening came in response to weaker labour market data. This prompted markets to reassess long-term growth expectations, leading to a modest decline in 10- and 30-year yields. However, **the downside was limited by renewed uncertainty around tariffs.** Proposed trade measures can lead to inflation risks and potential for higher input costs and disrupted supply chains. At the same time, **structural pressures such as large fiscal deficits, global cost drivers, and heavy T-bill issuance projected for H2 2025 reportedly nearing \$1 trillion continue to reinforce the term premium investors demand on longer-dated bonds.** Together, these forces have kept long-end rates from falling more sharply, as markets weigh slower growth against persistent inflation and fiscal risks.



Indian Debt Outlook

Over the past year, key rates have adjusted according to the macroeconomic conditions. **Benchmark 10-year G-sec yields eased steadily from 6.9% in July 2024 to range of 6.2-6.3 in June 2025, closely mirroring the disinflation trend.** CPI inflation, which stood at 5.08% in June 2024, more than halved to 2.1% in June 2025. This marked decline in inflation set the stage for a pivot in monetary policy.

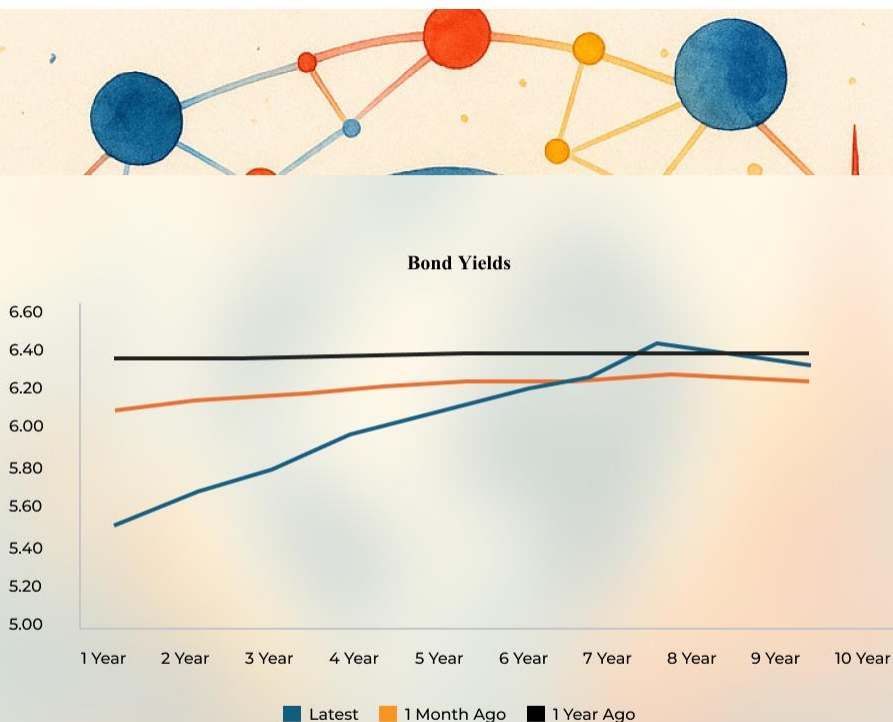
With inflation staying below target from January 2025 onward, policy space opened up, and the RBI responded with a measured easing cycle. The repo rate was reduced to 5.5% by June 2025. Even as inflation started to stabilize in recent months, **the 10-year yield has remained higher than a year ago, reflecting both improved inflation expectations and abundant liquidity conditions.**





Bond yields in India have declined sharply over the past month, particularly at the shorter end of the curve. This movement reflects a combination of factors, including a sustained drop in inflation, successive policy rate cuts by the RBI, and growing global uncertainty. **Since early this year, the RBI has eased rates significantly in response to a softening inflation environment and concerns around slowing growth. These shifts have been increasingly priced in by markets, resulting in a steepening yield curve, with the most pronounced declines in short-term yields.**

Investor sentiment has also been shaped by global developments. **Declining confidence in U.S. sovereign debt has prompted global investors to rebalance towards emerging market assets.** This has supported demand for Indian government bonds, particularly at the shorter end, reinforcing the downward pressure on yields. Simultaneously, softer U.S. Treasury yields and heightened global risk aversion have created additional room for Indian yields to drift lower. **The resilience in long-term yields, despite the sharp drop in shorter maturities, suggests that markets are not fully pricing in a sustained disinflation trend.** This may reflect expectations that inflation could show an uptick over the coming months



Debt In-house View

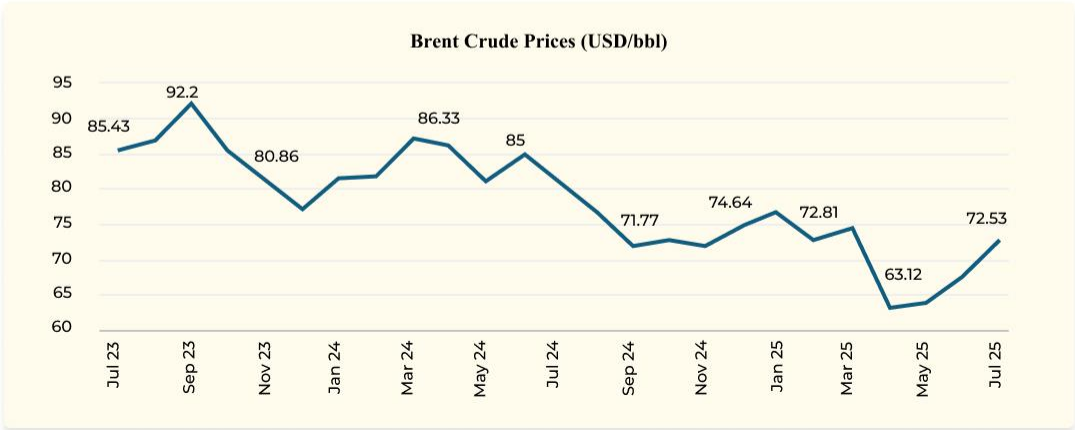
The Indian bond yield curve is expected to retain a modest upward slope in the near term, with short-end yields likely anchored by the Reserve Bank of India's steady policy rate and supportive liquidity following the recent 100 bps CRR cut. Although monetary policy remains neutral, the impact from previous easing is still transmitting, and improved liquidity could push short-dated yields lower, especially in the 2–5-year segment. In contrast, the long end of the curve remains sticky due to persistent inflation expectations and the government's large FY26 borrowing program, both acting as headwinds to a sustained rally.

Globally, softening U.S. labor data and a rising unemployment rate have reinforced expectations of near-term Fed rate cuts, causing short-term U.S. Treasury yields to decline; however, long yields remain elevated amid fiscal concerns, heavy supply of T-bills, and inflation uncertainty. In the eurozone, after early rate cuts this year, the ECB has paused further action, citing subdued but sticky services inflation, which has kept European yields steady. These international dynamics are exerting a mixed influence on Indian markets, especially in terms of foreign investor flows and risk sentiment.

Looking ahead, the short and medium end of the yield curve appear favorable, particularly as domestic inflation seems well-contained, but uncertainty lingers around potential global shocks in the form of tariff war. Maintaining flexibility at the short end while limiting exposure in the long end of the yield curve remains prudent as the ample liquidity in the economy and high inflation expectations will keep yields sticky and elevated.

Commodity Outlook

Brent crude prices climbed to \$72.53 per barrel in July 2025, recovering from a sharp drop seen in May. This rebound was mainly **driven by supply cuts by OPEC+**, especially from key producers like Saudi Arabia and Russia, **who extended their voluntary output curbs to support prices**. On the demand side, **a pickup in global travel and slightly stronger fuel consumption** from countries like China also helped stabilize sentiment, though overall demand growth remains patchy.



Gold and silver prices continued their steady climb in July 2025, with gold nearing **\$3,500/oz** and silver **crossing \$37/oz**. The gains were supported by renewed global risk aversion, following weak economic data from major economies and geopolitical tensions in Eastern Europe and the Middle East. **Investors also turned to precious metals as a hedge**, with expectations of the U.S. Federal Reserve delaying rate cuts amid sticky core inflation.

While real yields remained elevated, **central bank buying, particularly from China and other EMs, continued to lend support to gold**, according to World Gold Council estimates. Silver outperformed gold on a relative basis, buoyed by industrial demand from the electronics and clean energy sectors, along with broader tailwinds from rising bullion investment.



Commodity In-house View

Macro Stability Meets Geopolitical Friction

The commodity complex remained mixed in July 2025, shaped by a blend of global monetary signals, supply-side adjustments, and rising geopolitical risk. However, **one key overhang was the escalating trade tension between the U.S. and India, which may increasingly influence commodity dynamics going forward.**

The emerging friction between Washington and New Delhi, particularly around India's continued imports of discounted Russian crude, has added an element of future uncertainty. **If tariff measures extend to energy-related trade or lead to retaliatory restrictions, it could distort global crude flows, increase insurance and shipping costs, and weigh on India's fiscal margin, potentially pushing up domestic fuel inflation.** That said, India might not curb Russian crude imports in the near term, given their continued importance for energy security and cost stability.

Meanwhile, precious metals like gold and silver extended their strong run. Gold hovered near \$3,500/oz in July, as investors sought safety. India, one of the world's largest consumers of gold, could see higher landed prices if U.S. dollar strength persists or if bilateral tensions weaken the rupee further. At the same time, central bank's gold buying, particularly by emerging markets, continues to lend structural support.

Going forward, **the outlook for commodities hinges on how geopolitical friction evolves.** If the U.S.–India tariff dispute broadens or if secondary sanctions touch upon India's oil trade, markets could see new volatility in crude pricing. Conversely, easing tensions or multilateral resolutions could cap the risk premium. In this backdrop, **precious metals are likely to remain supported, while crude and industrial metals may stay range-bound, reacting to global demand signals and policy moves.**



Investing Ideas



Products

Considering the current market landscape marked by global volatility and emerging domestic resilience, we are curating a carefully balanced set of investment ideas across asset classes. While India's macroeconomic fundamentals remain strong with easing inflation, supportive monetary policy, and a rebound in manufacturing and capex, global headwinds like the tariff war and equity market corrections call for a more thoughtful and diversified approach. The following strategies have been selected to help investors navigate near-term volatility while positioning portfolios for long-term growth. They reflect opportunities in business cycles, selective equity exposure across market caps, high-quality debt and special credit opportunities all with an emphasis on risk-adjusted returns and portfolio resilience in uncertain times.

Category	Sub-Category	Product	Rationale	Suitable Tenure	Expected Return Range (Net of Expenses)
Equity	Mutual Fund	Motilal Business Cycle Fund	Motilal Oswal Business Cycle Fund, managed by Niket Shah with a strong mid-cap track record, offers flexibility to move across market caps.	>3 years	14-17%
	PMS- Multi Cap	Buoyant Capital-Opportunities Strategy	Since inception, the fund has delivered a 22% IRR across market cycles, supported by its investment approach of balancing core and satellite portfolios. By actively shifting between defensive and aggressive positions based on market phases, it is well-positioned for today's dynamic environment.	>3 years	15-17%

Category	Sub Category	Product	Rationale	Suitable Tenure	Expected Return Range (Net of Expenses)
Equity	PMS- Multi Cap	Negen Capital-Special Situation & Technology Fund	With a 5-year TWRR of ~45%, the fund leverages rare value-unlocking opportunities like demergers, promoter changes, and delistings to capture alpha. Its focus on special situations and technology themes allows investors to access high-quality businesses at compelling valuations making it a powerful contrarian play in today's market.	>3 years	17-19%
	PMS- Mid & Small Cap	Carnelian Shift Strategy PMS	A concentrated portfolio of ~25 high-conviction ideas, pruned rigorously to retain only the best performers. It has delivered strong returns, with a 3-year CAGR of 33.6% and since-inception CAGR of 37.6%, far ahead of the BSE 500 TRI. The fund is led by founder Vikas Khemani, a veteran with 27+ years in capital markets and a proven track record in building market-leading businesses.	>3 years	17-19%
	PMS- Mid & Small Cap	Abakkus Emerging Cap Approach	With over three decades of experience, Sunil Singhanian brings deep market insight and a proven ability to generate long-term alpha in the mid and small cap space. His strong vintage and consistent performance across cycles make the fund well-equipped to navigate current market complexities.	>3 years	17-19%

Category	Sub Category	Product	Rationale	Suitable Tenure	Expected Return Range (Net of Expenses)
Equity	AIF	ASK Absolute Return Fund	The fund can be a suitable option for investors looking to park funds for 12+ months, with an expected post-tax return of 7–8% and lower volatility (3.02%) compared to the Nifty (13.46%)	>1 year	11-12%
Debt	AIF	Neo Treasury Plus Fund	Delivering ~12–13% gross returns with minimal credit and liquidity risk, the fund combines fixed income, corporate events, and hedged option spreads to offer a low-volatility treasury solution that outperforms traditional arbitrage and fixed deposit products, ideal for short-term deployment.	9-12 months	11-12%
	AIF	Mosaic Multiyield Fund Series I	Targeting a 14-16% gross IRR, the fund builds a granular, fully secured credit portfolio across 25–35 profitable and bankable firms. With multi-manager, multi-strategy diversification and a strong risk framework, it offers high-yielding, collateral-backed exposure in performing credit, without venturing into distressed or venture-style debt.	~5 years	13-14%

Category	Sub Category	Product	Rationale	Suitable Tenure	Expected Return Range (Net of Expenses)
Debt	AIF	Neo Special Credit Opportunities Fund II	Targeting a 22–24% IRR, the fund lends to cash-flow generating businesses in special situations — from one-time settlements to growth capital — backed by hard assets and robust collateral. With a strong track record of exits and downside protection, it offers an attractive risk-adjusted yield in India's expanding private credit landscape.	6.5 years	17-18%





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