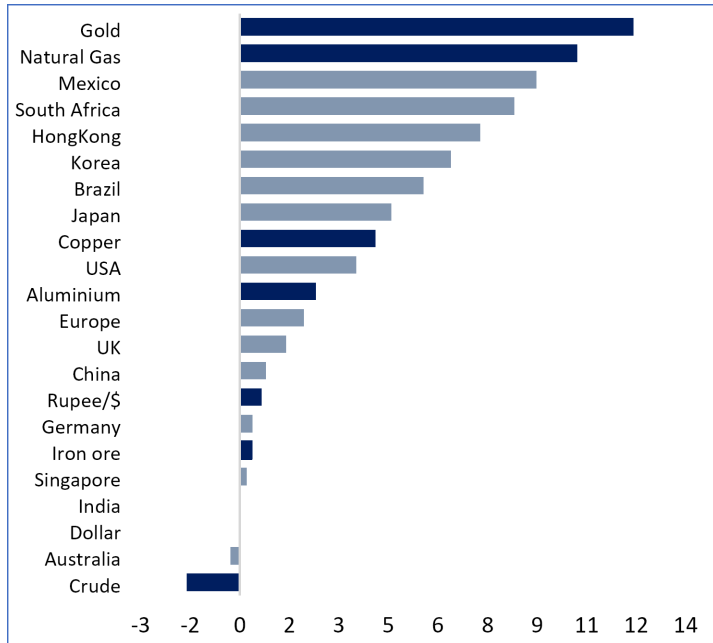


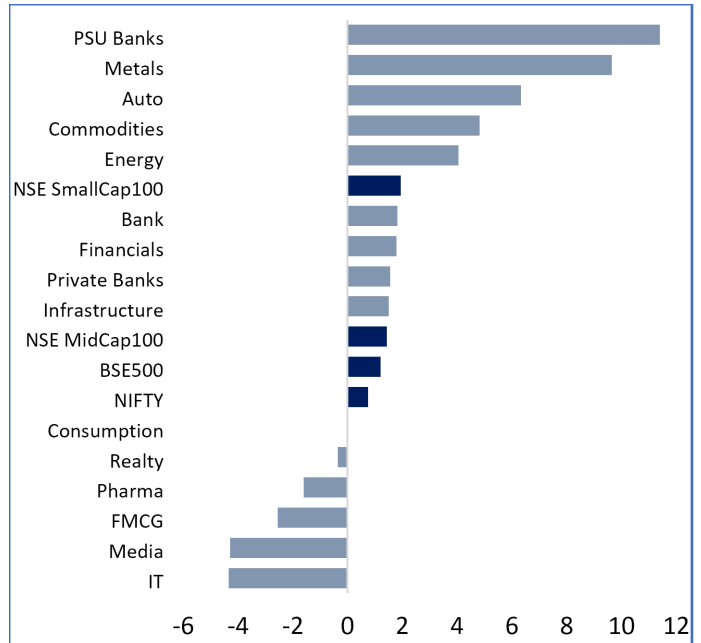
Gold, Natural gas, S.Korea topped returns in Sep. (% m/m, in USD)



Gold prices soared during the month, largely on the back of a dovish US Fed and projections of a series of rate cuts into the quarters ahead. Natural gas prices on the other hand moved higher on easing output and lower than expected storage builds. South Korean equities rose on a boost to its chip sectors on AI related developments.

After a muted Jackson Hole meeting, markets had all their eyes on labour market data that was seen much weaker than expectations. Apart from lower monthly non-farm payroll numbers, the job additions data series were revised sharply lower for the 12M ending Mar'26. This was the largest downward revision since 2000, halving the average monthly pace of job additions to 70k, from 147k. The Fed policy that followed witnessed an appreciable dovish shift, delivering a 25bps rate cut. The Fed policy also projected 50bps more of cuts in 2025 and up to 100bps of cuts in 2026. In addition to calling it a "risk management cut", the Fed Chair mentioned that the Fed was willing to accept more inflation risk to prevent deeper labour market cracks. Markets got just what they were looking for. While the month was largely dominated by market reaction to the Fed, end-September witnessed tariff narratives around pharmaceuticals and tariff proposals mulled on chips. The month ended with a US shutdown that continued well into the first week of October, with no deal in sight. This posed a peculiar problem for markets as the US shutdown led to all US economic data releases to be suspended. This meant US non-farm payroll data had not been released in early October, with the Fed's monetary policy set for 9th Oct'25. Early October saw markets are now pricing in a 92% probability of a 25bps Fed rate cut on the 9th and an 86% probability of another 25bps rate cut in Dec'25.

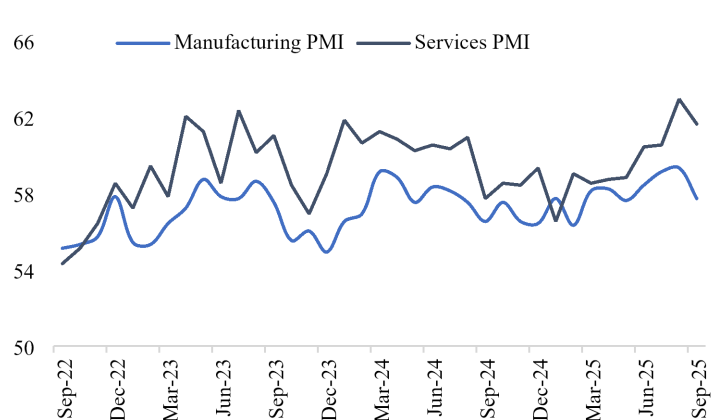
PSU Banks, Metals and Auto top O/P in September (% m/m)



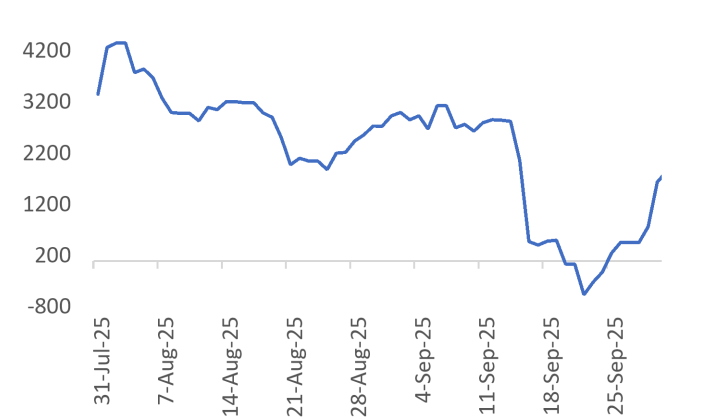
NIFTY grew marginally by 0.8% in rupee terms for the month of September. PSU Banks, Metals and Auto were the key outperformers, while IT, Media and FMCG were the top drags. On cap curves, Small caps topped, followed by Mid caps, the broad BSE500 index and finally the NIFTY, in that order of performance. FII remained net sellers with \$(2.1)bn of outflows, while debt investment remained in the positive, at \$1.2bn, marginally below August's inflow.

August started with a key reform around GST rate rationalisation. The Centre announced details of the simplified 2-slab structure: 5% merit and 18% standard, alongside a 40% on demerit goods. This was implemented from 22nd Sep'25, except for the pan masala, cigarettes, gutka, etc.. GST is fully exempt on life and health insurance policies, making it more affordable. Lifesaving drugs, medicines and medical devices/supplies' rates were slashed to 0-5%, lower rates for agriculture, fertilizers, MSMEs, textiles, renewables, transport, labour-intensive industries and household consumer items. Cuts were also seen for small cars and renewable energy devices. The cost of the reform is expected to be largely manageable for the Centre, but is expected to exert some pressure on State finances due to the ending of Compensation cess this fiscal. The month also witnessed a brief scare with US steeply increasing the visa fees for H-1B work visas. However, US announced finer details that greatly reduced the market concerns, as the new fees were applicable only to new applications for the next cycle in 2026 and only as a one-time fee. Macro data continued to reflect resilience, with better than expected current account deficit numbers and short frequency indicators continuing to hold-up, amidst uncertainties.

Manufacturing and Services PMI numbers moderate in September

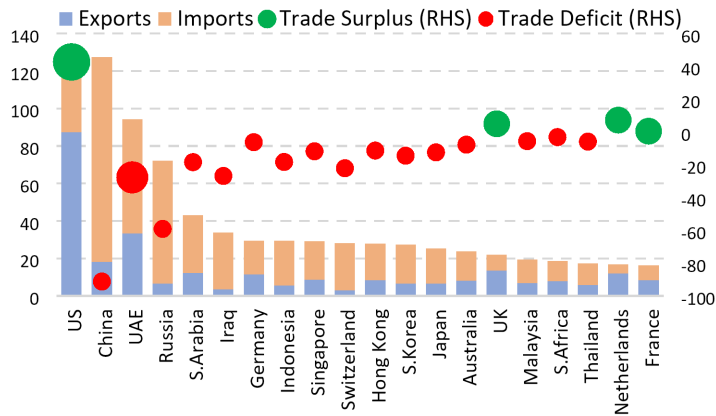


Excess dom. liquidity contracted sharply during Sep. (Rs.Bn)



India Composite PMI numbers saw moderation in September. However, the PMI numbers remain elevated, being the second-highest in over two years. Manufacturing PMIs saw new order expansion moderate to a 4M low, but demand remained robust. Job creation eased to a 1Y low, and input costs registered an increase. Business confidence however strengthened to a 7M high with the GST reform. Services PMIs, despite moderation, remained close to its August peak.

India's trade balances with top 20 countries (USD Bn., 2024 data)



Amidst the US-India trade and tariff tensions, a peculiar question was heard in market narratives.

Can India shift its US exports to China and Russia? Before one gets to answer that question, we need to examine country rankings based on total trade (exports + imports), where US ranks first, followed by China. US and China are like chalk-and-cheese. Trade with the US gives India the largest trade surplus, while that with China, gives India the largest trade deficit. After India's \$40bn+ trade surplus with the US, Netherlands (\$7bn) and the UK (\$5bn) come next in order of India's trade surplus magnitude. Given the increasing risks around India's exports to the US, a logical question that follows is if India can shift its exports from the US to other countries. The answer to that question is much more complicated than perceived, and lies in myriad variables, including politics, strategy, cost competitiveness, scale etc... However, one can attempt to answer this question based on what other countries import from the world and also what the US imports from China.

Can India step-up and export more goods to China and Russia? Of the \$3.3tr of US imports from the world, <3% of imports come from India. China's imports from India stand at 0.7% of its total imports, much lower than the US. And Russia's imports from India stand at 2.1% of Russia's total imports from the world.

Outlook from Equity Desk

Growth remains the key differentiating factor for India within emerging markets. With significant fiscal and monetary stimuli being rolled out in the form of direct and indirect taxation changes, interest rate-cuts and easing monetary conditions, seeds for improved growth and earnings cycle are being sown. The policy pivot is unambiguously leaning towards growth and the consequent impact on demand stimulation should partly help mitigate impact of US tariffs on the economy. Over the medium-term these measures should aid in catalysing private capex as confidence on domestic growth improves. Corporate leverage remains at multi-year lows providing sufficient headroom to access growth capital to invest behind growth opportunities or add further capabilities to drive value addition.

Domestic banking liquidity witnessed a sharp drop during the month, seen largely to be due to GST payments. However, this eased into the end of the month and is expected to improve further into the weeks ahead, as the RBI's CRR cuts come into effect. Note here that RBI announced CRR cuts of 100bps, with 25bps starting early Sep'25, followed by equal instalments in early Oct'25, early Nov'25 and late Nov'25 respectively.

Can India export more to the countries? China's world imports are largely electrical imports (high-tech), followed by energy, soyabean, and automobiles. These are all areas where India currently does not offer much in value & more importantly, scale. Russia's world imports are different. They focus on importing manufacturing/defence machinery, branded automobiles, electrical machinery and pharmaceuticals. Where there probably is little scope, but fairly limited. Would there be any opportunity for India to export to the US, given the tensions between the US and China? This is nothing but China+1. And one must note that the US' imports from China are skewed towards telecom/manufacturing/construction equip. and consumer/apparel where there appears some scope; but provided tariffs ease. Remember currently at 50% tariffs, India is much less competitive than its Asian peers; when compared to the first round of tariffs in April this year. In short, India's export composition of energy, relatively lower-end autos, pharma and smartphones, do not match much with Chinese and Russian imports. Political probabilities apart, it seems reasonable to deduce that deeper US-India trade relations would be a more realistic outcome than China-Russia trade relations.

Market Outlook

Valuations

Equity markets remained range-bound and muted in September, with no appreciable change in valuations either across cap curves. India's 1Y forward price-to-equity valuations for Mid and Small caps, that had begun converging directionally towards NIFTY valuations appear to have seen a pause during the month. Valuations remain well above their long-term averages (LTAs) for all cap curves. We reiterate the need to for short-term investors in adopting a balanced asset allocation approach in their portfolios. Long-term portfolios on the other hand, can make use of equity market volatilities into the months ahead.

Headline India equity valuation premiums over emerging markets have corrected closer to pre-pandemic averages. With equity markets having time-corrected, we expect focus to center around the incremental pace of change in earnings than just narratives. Earnings expectations have moderated over the last one year viz., in domestic-oriented sectors, with reasonable triggers for upgrades to set in certain pockets as we walk into the year ahead – a welcome sign, after a patch of limited surprises. Adding a layer of improved monsoons and favourable rural economic backdrop, we remain optimistic of an improved earnings cycle ahead.