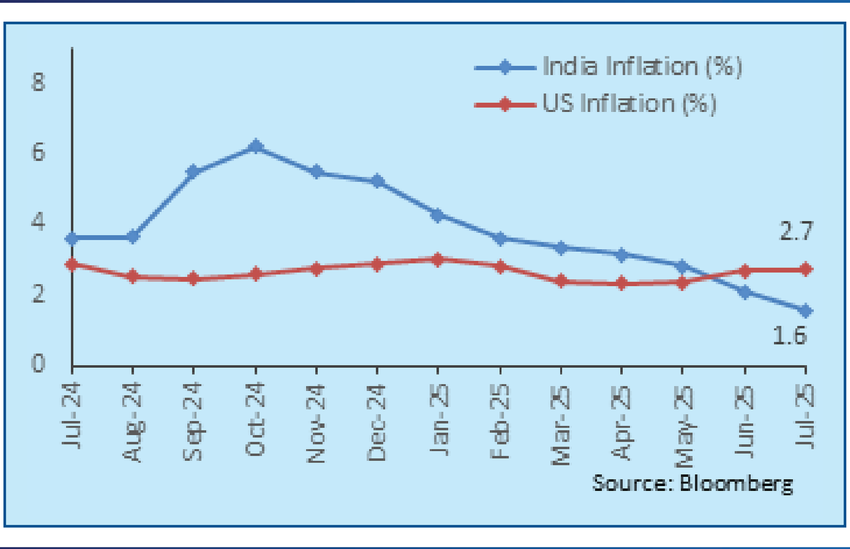
Market Outlook

HDFC Pension – Monthly update (August 2025)

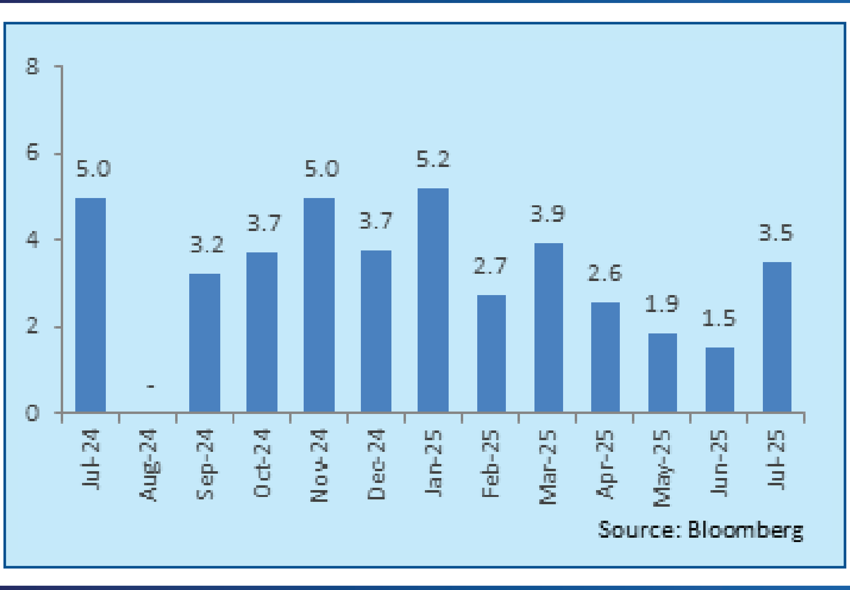
Economic Overview

Inflation %



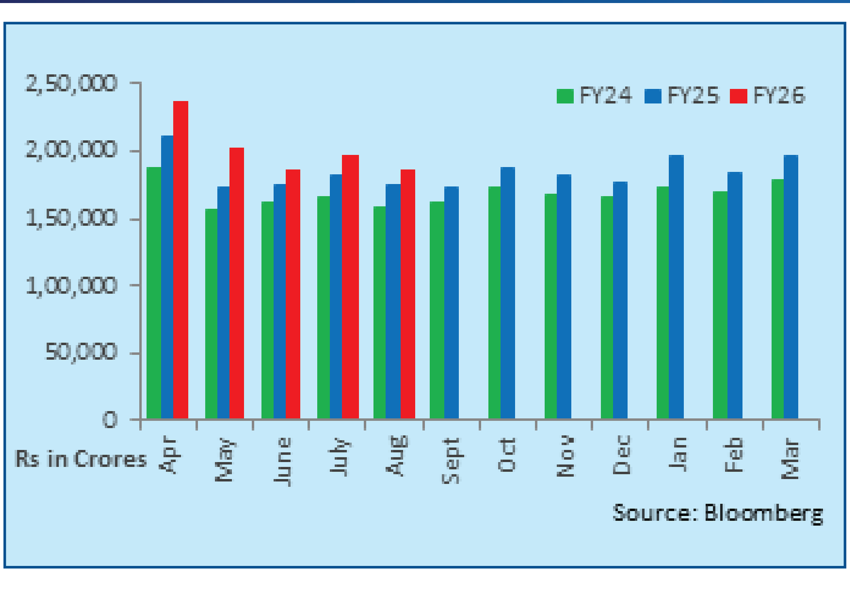
- Inflation (CPI) softened further in July 2025 to 1.6%, an 8-year low, on account of favorable base effect & contraction in food prices on YoY basis.
- Core inflation (i.e. excluding Food and Fuel inflation) also eased to 4.2% from 4.4% June 2025.
- Globally, US inflation rose marginally to 2.7% in July 2025, however, came 10 basis lower than market expectation of 2.8%.

Index of Industrial Production (IIP)



- Index of Industrial Production (IIP) print for July 2025 came at 3.5%, significantly higher than both 1.5% in June 2025 & the market expectation of 2.2%.
- While growth in manufacturing (5.4% vs 3.7% in June 2025), and electricity segments (0.6% vs contraction of 1.2%) improved, the mining segment witnessed further by 7.2% in July 2025 vs 8.7% decline in June 2025, leading to a broad-based moderation in the overall index growth.
- Out of 21 manufacturing sub-segments, 11 sub-segments witnessed an increase in YoY growth.

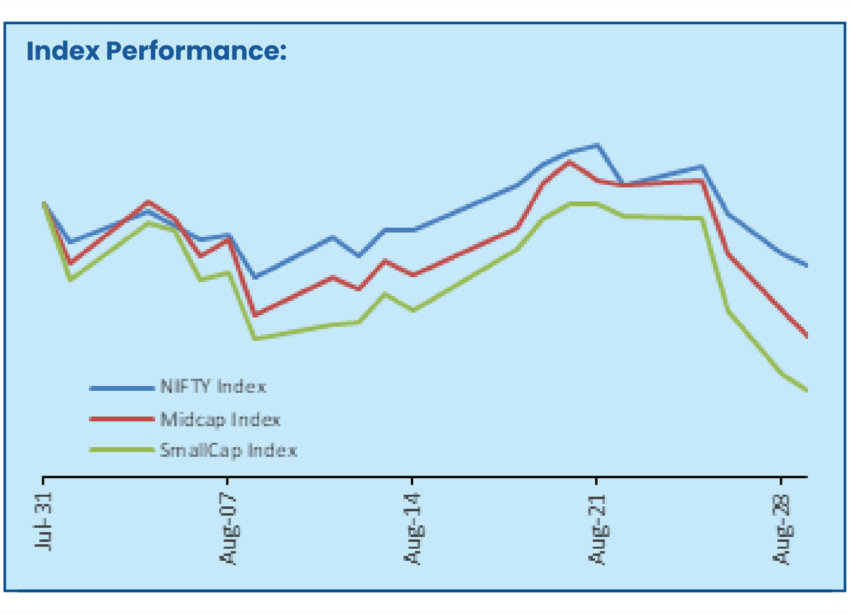
GST Collection



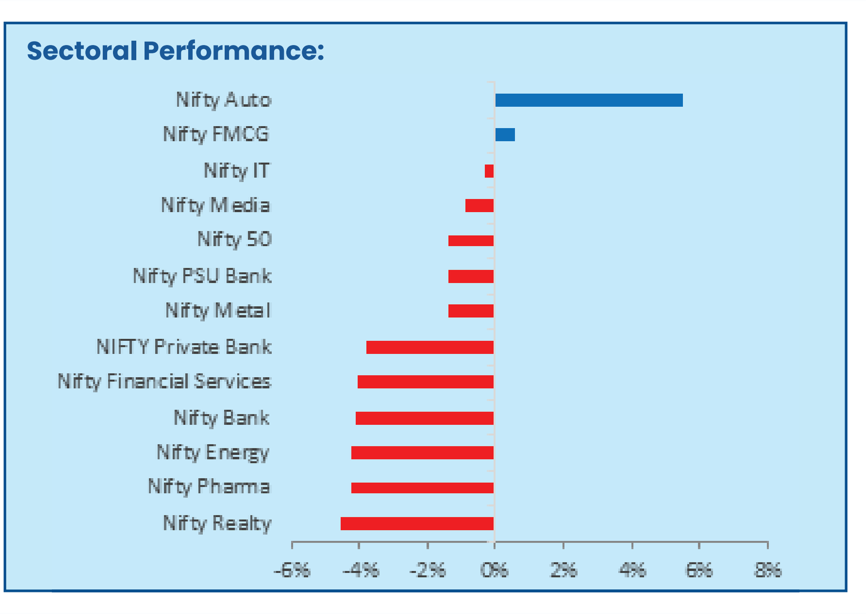
- Gross GST Collection for the month of Aug 2025 was at Rs.1.86 Lac crores, registering -5% MoM & +6% YoY growth.
- Higher GST collections continue to imply strong underlying strength in domestic economy.

Market Review – August 2025

Index Performance:

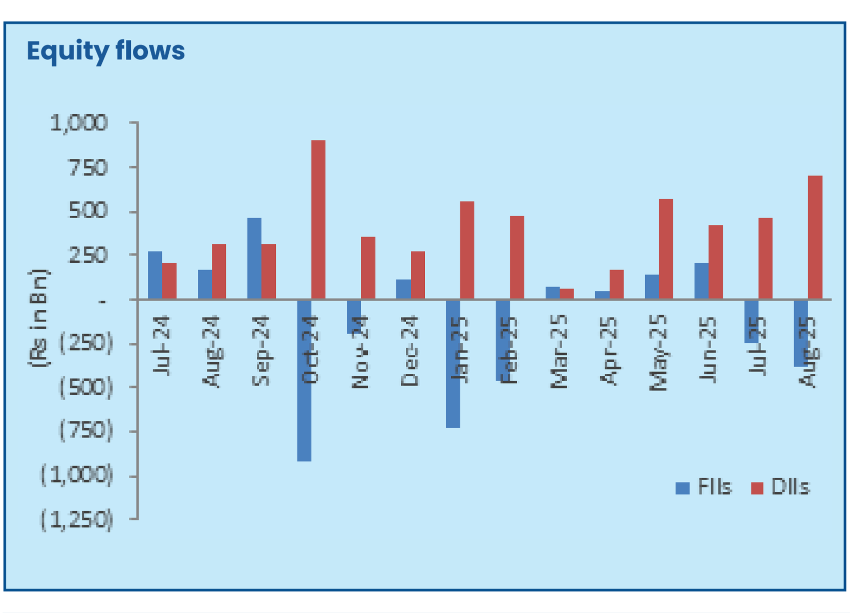


Sectoral Performance:



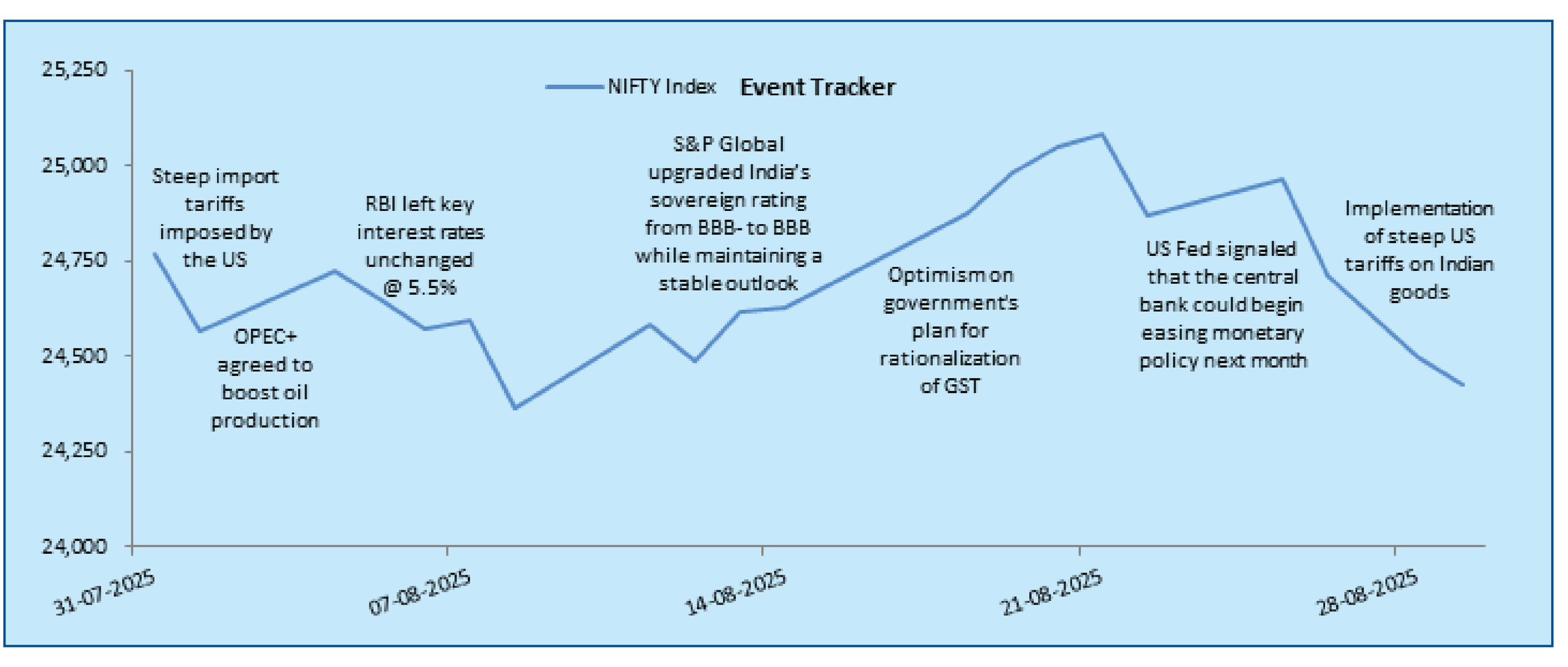
Equity flows

Equity flows



Commodity tracker

Commodity	1M	3M	6M	1Y
Gold	4.8%	4.8%	20.6%	37.7%
Silver	8.2%	20.4%	27.5%	37.6%
Crude	-6.1%	6.6%	-6.9%	-13.6%
Zinc	2.6%	8.8%	2.3%	-0.8%
Copper	2.7%	2.9%	5.2%	7.7%
Nickel	3.5%	1.4%	-0.1%	-7.8%
Lead	1.1%	0.8%	-0.9%	-3.5%
Aluminum	2.2%	7.4%	-0.1%	8.0%
Tin	7.6%	16.0%	13.0%	8.3%



Nifty index declined ~1.4% in August 2025, ending second consecutive months on negative note. Market sentiment remained cautious amid implementation of additional 25% US tariff (over & above initial 25%) & rising global trade tensions. Broader market largely underperforming large caps, with mid cap and small cap indices were down ~2.9% and ~4.1%, respectively.

Market move during the month was largely influenced by:

- The US added an extra 25% duty in addition to the 25% tariffs imposed earlier this month, mentioning India's refusal to stop buying Russian crude and defense products
- OPEC+ announced a significant output hike starting September 2025
- S&P Global upgraded India's sovereign rating from BBB- to BBB while maintaining a stable outlook,
- The RBI kept interest rates unchanged and maintained a neutral policy stance, signaling caution amid global trade headwinds
- GST Rationalizations - The government announced plans to rationalize the various GST rates and
- The Federal Reserve Chair signaled that the central bank could begin easing monetary policy next month.
- FPI inflow - FPIs turned into net sellers for second consecutive month, they net sold ~Rs.350bn during the month of August 2025. During the month, sectorally major outflows inflows were seen in Financials, IT, Oil & Gas, Power & Consumer durables. On flip side major inflows were seen in Telecom, Construction materials, Services, Capital goods & Autos (Source: NSDL). Domestic institutions remained buyers & have bought stocks worth ~Rs705bn during the month.

Most Global markets gave average ~2.4% positive returns, while India (Nifty) worst performer declining 1.4%, Philippines (-1.6%) & South Korea (-1.8%). On flip side China (+10.3%), Malaysia (+10%), Brazil (+6.3%) were best performing markets during the month August 2025.

Nifty Valuation & Equity Outlook

With Nifty declining ~1.4% during the month with Nifty underling earning remaining subdued, the Nifty valuations as on 29th August 2025 moderated further to ~19.8x 12m forward earning, which is slightly above 5 year average.

Going ahead, we expect market returns to be driven by earnings growth rather than any immediate re-rating in market multiples. Also with external linkages, the near-term trajectory of the markets is expected to be influenced by ongoing geopolitical tensions & tariff uncertainties and its impact on global inflation & growth expectations.

Key growth drivers include a cyclical economic recovery boosting capacity utilization, the early arrival of the monsoon with expectations of above-average rainfall supporting agricultural output and the rural economy, and lower interest rates providing further momentum to earnings growth. However, domestic headwinds, particularly in export-oriented sectors, could act as constraints.

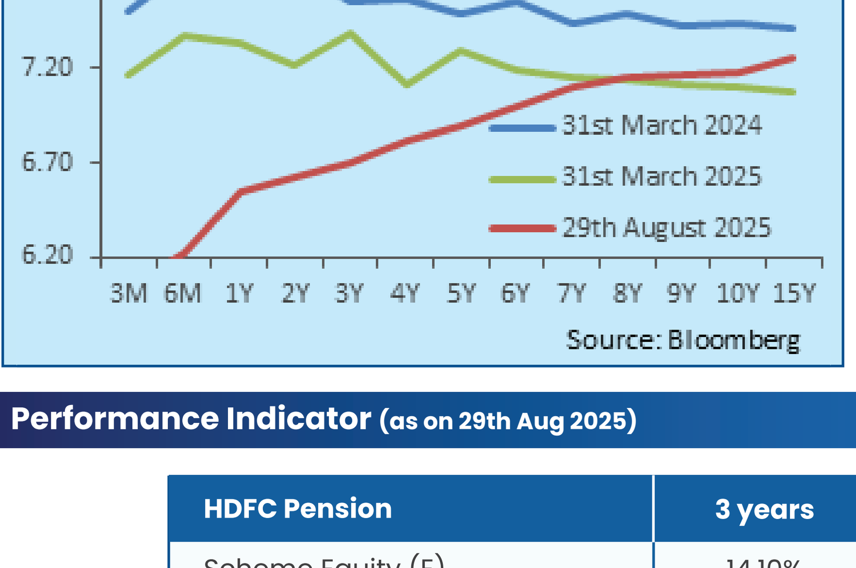
From a long-term perspective, the outlook for Indian equities remains positive, and we continue to invest in stocks with a focus on stocks offering reasonable valuations and stronger growth prospects.

Debt outlook and positioning

Global Macros

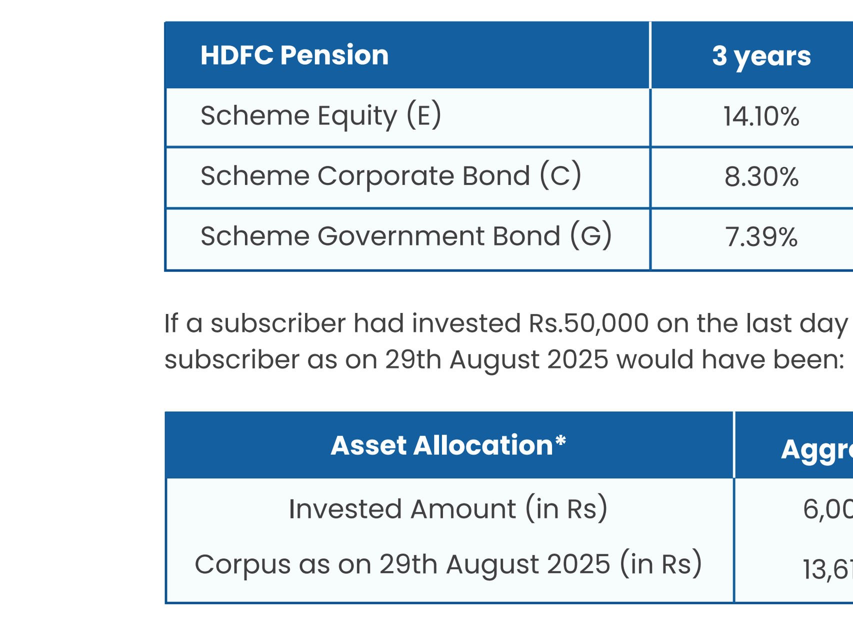
Fixed-income markets experienced a pronounced sell-off, with long-term government bond yields rising sharply across key economies: US 10-year yields traded in the 4.15%–4.35% range, reflecting fiscal concerns, resilient growth, and sticky inflation. After several cuts, the ECB seems close to concluding its easing—possibly one final 25 bp cut remains, taking the deposit rate toward 1.75%. UK long term gilt yields remain elevated, pressured by fiscal uncertainty, political risk, and persistent inflation above 4%. Japanese 20–30-year yields hit 17-year highs—10-year yields reached 1.62% as BOJ reduced bond purchases and local demand weakened. U.S. inflation held steady at 2.7% year-over-year, remaining unchanged from the previous month. U.S. nonfarm payrolls increased by around 75,000 jobs, a modest rise from July's sluggish 73,000 gain. Concurrently, the unemployment rate is anticipated to climb to 4.3%, compared to 4.2% a month earlier, reflecting cooling labor market conditions. Headline CPI in India cooled sharply to 1.55% year-over-year, down from 2.10% in June, marking the lowest level since June 2017 and falling below the RBI target range for the first time since early 2019. RBI absorbed excess liquidity via VRRR auctions to keep the Weighted Average Call Rate (WACR) its operative target closely aligned with the policy repo rate. At its August 2025 meeting, the RBI's MPC maintained the repo rate at 5.50% and held a neutral stance, opting for a "wait-and-watch" approach to allow earlier rate cuts to fully permeate the economy amid continued global trade uncertainties especially U.S. tariffs and evolving inflation trends. The tone was clear that this pause is temporary, with analysts and minutes alike signaling the possibility of another 25-basis point rate cut is likely between October and March 2026, contingent on a slowdown in growth. S&P Global Ratings upgraded India's long-term sovereign credit rating from BBB- to BBB, marking the first such upgrade in 18 years, and maintained a Stable outlook. The Indian government has proposed a major GST overhaul, aiming to simplify the current four-tier system into two primary slabs 5% for essentials and 18% for most standard goods while increasing tax on luxury and sin goods to 40%. The situation remains fluid, with ongoing U.S.-India trade discussions. The US 10 Year closed at 4.23% as on 29th August 2025 vs 4.37% on 31st July 2025. The DXY decreased to 97.77 on Aug 29, 2025 vs 99.98 on July 31,2025 due to political uncertainty, expectations of a Federal Reserve rate cut, and mixed U.S. economic data.

Debt Outlook



Scheme G:

The US 10 Year closed at 4.23% as on 29th August 2025 vs 4.37% on 31st July 2025. 10y Gsec moved from 6.37% on 31st July to 6.59% on 29th August 2025. Gsec yield curve spread for 10X30 widened to ~75 bps on 29th August 2025. Yields climbed significantly amid fiscal concerns, neutral RBI outlook, and reduced institutional demand. The yield curve steepened driven by GST-related fiscal concerns, supply-demand imbalances, and heightened market volatility. A 25bps rate cut is likely between October and March 2026, contingent on a slowdown in growth, as inflation is expected to remain under control through the year. We expect long bonds to outperform on a total return basis.



Scheme C:

Yields across the curve increased by 15-20 bps with 10y+ AAA PSU underperforming the curve. 5 Year NABARD traded at 7.08%, 10 Year NABARD at 7.25% and 15 Year at 7.28%. Corporate bond yields steepen further with surplus liquidity. Corporate bond yields increased gradually through August, largely mirroring movements in g-sec yields. We expect 3y-5y AA and AA+ bonds to outperform, while 7y-15y AAA PSU bonds may underperform. We will look to deploy tactically to achieve optimum risk reward on the portfolio to take advantage of both capital gains and accruals. We will continue to look to add new names to diversify the portfolio.

Performance Indicator (as on 29th Aug 2025)

HDFC Pension	3 years	5 years	7 years	SI
Scheme Equity (E)	14.10%	18.76%	12.83%	14.75%
Scheme Corporate Bond (C)	8.30%	7.32%	8.85%	9.28%
Scheme Government Bond (G)	7.39%	6.03%	8.60%	8.73%

If a subscriber had invested Rs.50,000 on the last day of each year since March 2014, the corpus of the subscriber as on 29th August 2025 would have been:

Asset Allocation*	Aggressive	Moderate	Conservative
Invested Amount (in Rs)	6,00,000	6,00,000	6,00,000
Corpus as on 29th August 2025 (in Rs)	13,61,586	12,41,132	11,18,615

* Note: Asset Allocation

1. Aggressive: E-75%; C- 10%; G-15%
2. Moderate: E-50%; C- 30%; G-20%
3. Conservative: E-25%; C- 45%; G-30%

Thus, over long term, investment with higher equity proportions tends to give better returns and helps to accumulate bigger retirement corpus for the subscribers.

HDFC PENSION

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