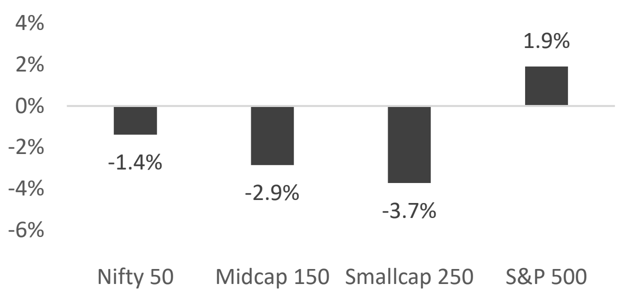
east green

GST High Cut Short by Tariff Fears

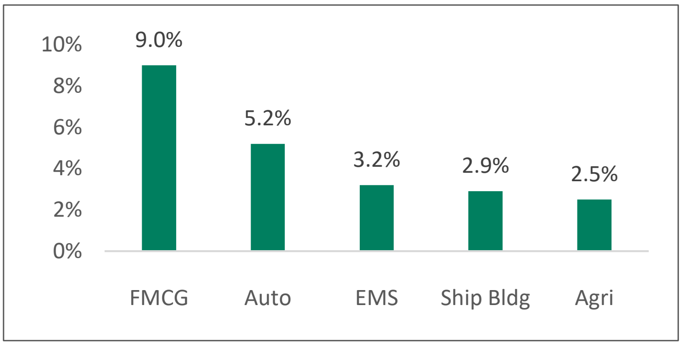
Aug'25

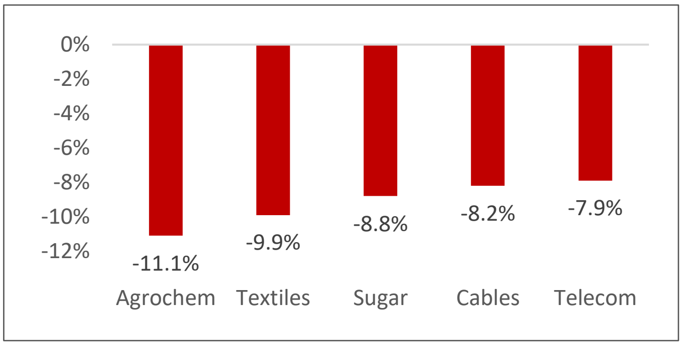
GST cuts and Trump tariffs loomed large on the Indian markets this month. GST rationalisation hopes sparked optimism in consumption led businesses, with auto and FMCG stocks rallying and lifting indices into the green. However, the gains were short lived as tariff concerns resurfaced. Also, what is good news for certain sectors can be not so good for others. GST cuts imply a higher fiscal deficit – this led to rise in Indian bond yields impacting banks and NBFCs negatively. One good news trickled towards the month end; GDP growth for Q1 at 7.8% was above estimates and could be a sign of green shoots in the economy.



- Second straight month of declines for Indian indices; three-month trend now negative
- Nifty 50 down 3.2% over the past 12 months
- Nifty 50's valuation continues to be ~23x on trailing P/E, slightly above its 10-year median
- India 10yr bond yield climbed from 6.3% to 6.6%
- Gold and silver extended their rally, reflecting global macro uncertainty

Sectoral trends this month: Leaders and Laggards

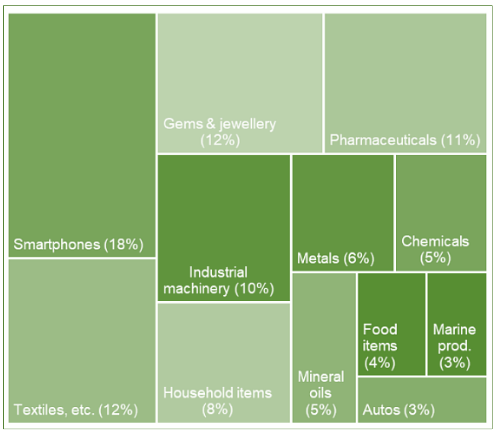




Charts depict the monthly average return for a stock in respective sectors

- ➢ Automobiles and FMCG stocks benefited from anticipation of GST cuts
- ➢ Retail, apparel, and consumer discretionary are expected to benefit too, though investor enthusiasm has so far been limited to a few names
- ➢ Agrochemicals underperformed, with returns falling short of elevated expectations in many cases
- ➢ Stocks in segments such as textiles, with major exposure to the US, predictably took a hit this month
- ➢ Rising bond yields impacted bank and NBFC stocks negatively

Chart of the month



India's exports to the US by sector (% of total)

US announced a 25% penalty on top of the 25% base tariff on Indian imports, effectively bringing the total tariff to 50%

- Macro impact: With ~2.2% of India's GDP tied to goods exports to the US; these tariffs, if continued, could shave off 0.6–0.8 %points from GDP growth
- Most exposed sectors: Gems & jewelry, textiles, and industrial machinery
- Exempt sectors: Semiconductors & electronics, pharmaceuticals, lumber, energy, and bullion
- Services safe (for now): IT and other service exports remain untouched