MONTHLY UPDATE

JULY 2025

24 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

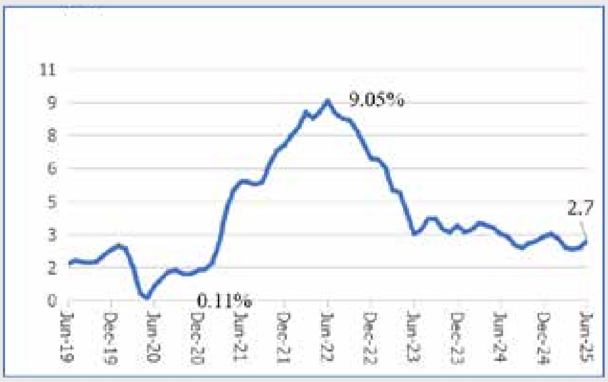
Market Outlook

HDFC Life – Monthly Update (August 2025)

Global Macro Review

US CPI (%)

US CPI (%)



- US CPI inflation printed in line with expectations in June, increasing by 0.3% MoM and by 2.7% YoY, reflecting a firmer sequential trend in food, energy and core goods. Overall, the release showed only a modest pass-through from tariffs that limited the scale of upside in inflation. The release will likely continue to give space for the FOMC to maintain status quo. If the pass through of tariffs is modest, market expects that the FOMC will be able to cut rates in September.

US Unemployment Rate (%)

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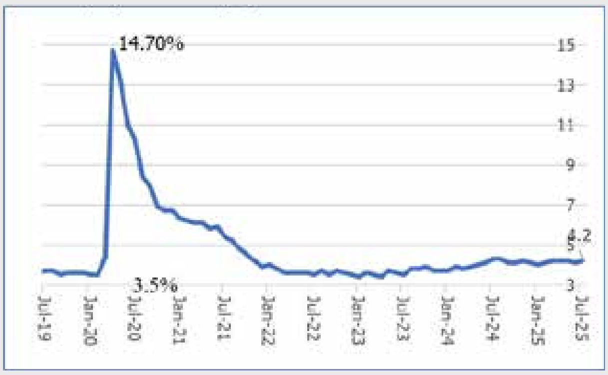

- US non-farm payroll printed at 73K in July that was below expectations of 105K with significant downward revision made to May (-125K) and June (-133K) readings, resulting in cumulative adjustment of 258K. The unemployment rate also inched higher to 4.2% in July. The slowdown in hiring was broad-based and visible across cyclical sectors. For the FOMC, the release raises the odds of a rate cut of 25bps in September given the weakness in the labour market and very modest increase in inflation so far.

China CPI (%)

China CPI (%)

- China's consumer prices came at 0.1% positive YoY, for June, after four month of negative readings. The upside partly reflects base effect. However, Chinese growth momentum showed further signs of cooling that was visible in slowing exports, weakening industrial production and continued softness in investment spending.

India Macro Review

CPI Inflation %

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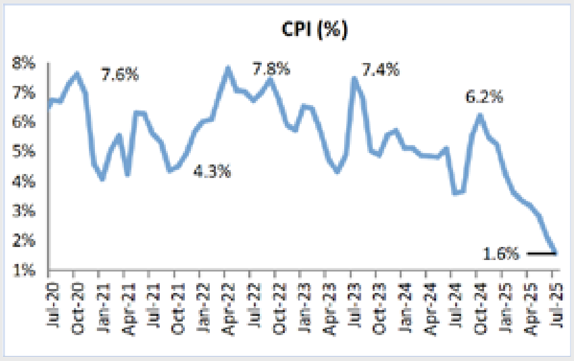

Source: MOSPI

- Inflation (CPI) for Jul'25 decreased to 1.6% vs. 2.1% in Jun'25 as food CPI, which constitutes 45.9% of the index, contracted 0.8% in Jul'25 from 0.2% contraction in Jun'25.
- Core CPI exlcuding food and fuel which constitutes 54% of CPI stood at 4.3% in Jul'25.

Industrial Production Index (IIP)

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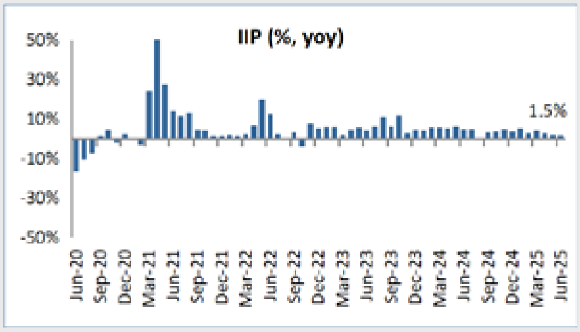

- Industrial Production (IIP) growth for Jun'25 further decelerated 1.5% vs. 1.9% in May'25 due to contraction in Electricity output by 2.6% in Jun'25 vs. 4.7% contraction in May'25. Mining output also contracted by 8.7% in Jun'25. However Manufacturing output accelerated to 3.9% in Jun'25 vs. 3.2% in May'25.

GST Collection (Rs. bn)

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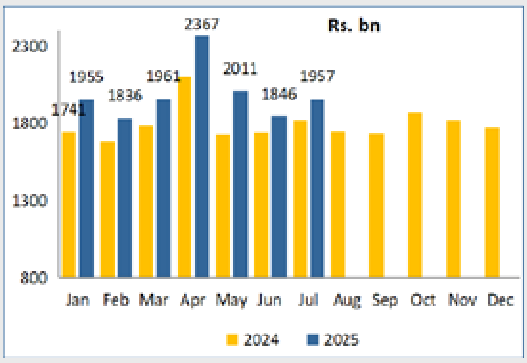
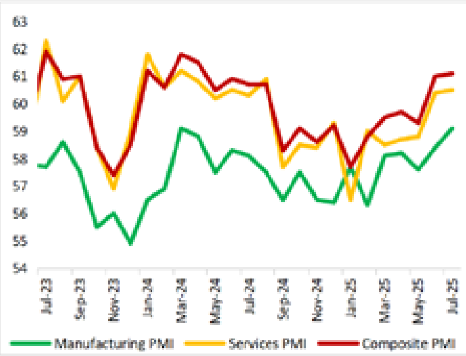


- GST revenues for the month of Jul'25 came to Rs. 2tn showing a 7.5% YoY increase vs. Rs. 1.8tn in Jul'24.

India Macro Review

PMI

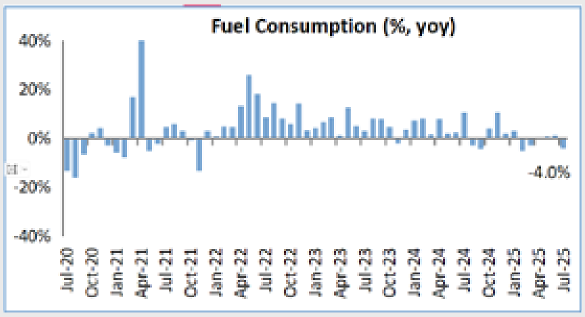
PMI



- PMI (manufacturing) marginally increased to 59.1 in Jul'25 vs. 58.4 in Jun'25. Similarly, PMI (Services) remained constant at 60.5 in Jul'25 from 60.4 in Jun'25.
- Notably, PMI continuing in the expansion zone (>=50) indicate the continued strength in orders pipeline and production, despite a slowdown seen in exports.

Fuel consumption YoY Growth %

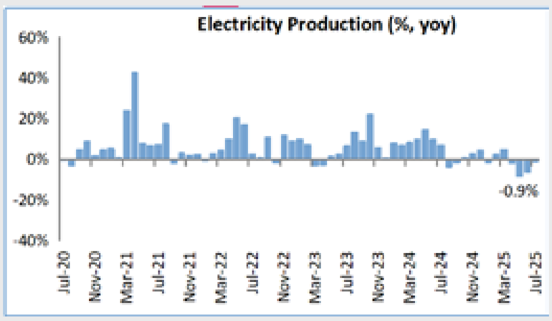
Fuel Consumption (%, yoy)



- Fuel consumption contracted 4% yoy in Jul'25 vs. 1.4% yoy growth in Jun'25. With in fuel category, diesel consumpton grew 2.4% yoy in Jul'25 vs. 1.5% yoy in Jun'25. Consumption for Petrol moderated further to 5.9% in Jul'25 vs. 6.8%yoy in Jun'25.

Electricity Production YoY Growth %

Electricity Production (%, yoy)



- Electricity production contracted 0.9% YoY in Jul'25 vs. 6.4% YoY contraction in Jun'25.

Equity Outlook and Positioning

Monthly Index performance

Monthly Index performance

- Equity markets were mostly negative in Jul'25 with large cap indices outperforming midcaps and smallcaps. Nifty 50 closed the month down 3% while CNX Midcap Index gave a negative return of 4% and Small Cap at 6%.

- There was a correction across most sectors with IT correcting by 8.7%, Real estate by 7.3%, Capital goods by 5.7%, Oil & gas by 3.8%, Power by 3.5% and Banking by 3.2%. Healthcare and FMCG were the only two sectors that gave positive returns, posting gains of 2.5% and 1.6%, respectively

Nifty Valuation (1 year forward PE)

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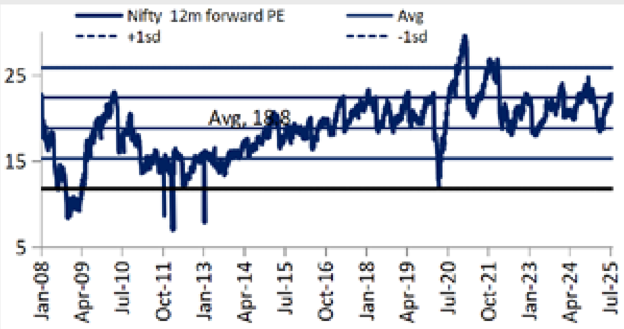


Source: Bloomberg

- Q1FY26 result season continues to be weak for most sectors. Most Consumer Discretionary sectors including Retail, Durables and QSR continue to see weak demand trends and deceleration in SSSG while Building material companies have also seen subdued volume growth despite the upswing in real estate cycle.

  Consumer Staples have shown mixed performance with some companies seeing some uptick in the rural demand while others, especially the ones that have higher exposure to summer related categories, posting weak results. The base has caught up for the Auto sector and accordingly, the monthly volume growth trends have started deteriorating across most segments with the exception of tractors. Financials were a mixed bag with large banks performing well but mid-sized and smaller banks witnessing an uptick in slippages because of issues in unsecured, credit card and MFI portfolios. IT companies are seeing delays in execution as clients have been extending execution timelines.

- Indian markets trade at valuations of 22.0x FY26E and 19.0x FY27E P/E, which is higher than long term averages. Short-term challenges make us cautious in the short term despite having a positive view from a medium to long-term horizon.

Debt Outlook and Positioning

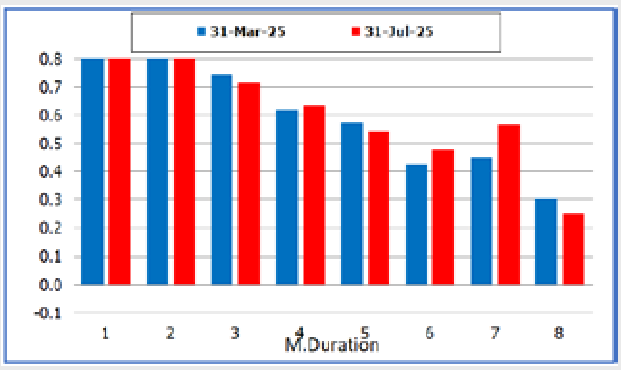
India 10yr Gsec chart

India 10yr Gsec chart

- The US Treasury yields moved higher, in July, as strong US macro data in terms of higher retail sales, lower than expected jobless claims and CPI internal showing signs of tariff related impact led to unwinding rate cut expectation in upcoming FOMC policy. The US 10yr closed at 4.37% vs 4.23% in June.

AAA Curve movement

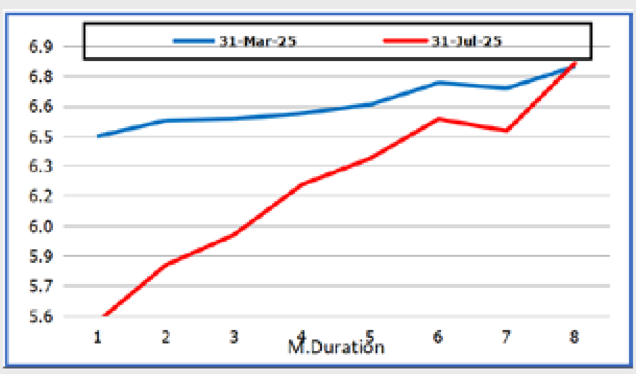
AAA Spreads



- In India, the 10yr bond yield moved in a narrow range (6.30%-6.33%) for most part of month due to lower-than-expected CPI and muted oil prices. However by the end of the month, it rose due to delayed US tariff deal, weakening INR and hawkish MPC outcome. India 10yr closed 6bp higher at 6.37% vs 6.31% at the end of June.
- The MPC, in its recent policy review, unanimously kept the policy rate and stance unchanged at 5.5%. The MPC revised FY26 CPI forecast sharply lower to 3.1% (3.7% earlier) driven by lower food prices in near-term. Medium-term inflation, however, was seen above 4% with Q4FY26 at 4.4% and Q1FY27 at 4.9%. Growth outlook was kept unchanged at 6.5% despite some of the indicators showing signs of slowdown. Given the RBIs outlook for growth, the bar for further rate cuts remain high unless growth slows down sharply.

G Sec Curve Movement

G Sec Curve Movement



- July 2025 saw major global central banks (US Federal Reserve, ECB, Bank of Japan) keeping the policy rates unchanged. Going forward, the central banks (CBs) are likely to prefer gradual rate cuts due to uncertainties over tariff related impact and geo-political events. RBI, too, is likely to remain cautious for future policy actions, tracking the evolving trends in inflation, growth and external sector.

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