MONTHLY UPDATE
JULY 2026

25 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Market Outlook

HDFC Life – Monthly Update (August 2026)

Global Macro Review

US CPI (%)

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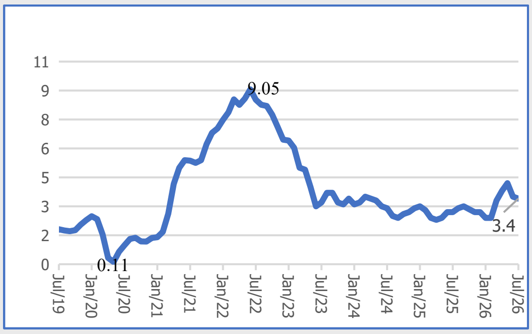
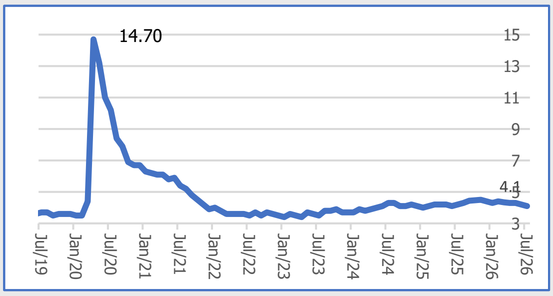


- US CPI for July came in line with expectations, printing 3.4% YoY as energy and gasoline prices declined for the second month. Core CPI also slowed in line with expectations, both on annual and sequential basis by rising 2.5% YoY and 0.2% MoM respectively showing that the underlying inflation is benign. However, the ongoing geopolitical uncertainty and negotiations on reopening the Strait of Hormuz continue to remain an upside risk to inflation.

US Fed Fund Rate (%)

US Unemployment Rate (%)



- The US non-farm payrolls declined unexpectedly in July printing at -23K vs 85K expected, driven by job shedding across sectors with downward revisions of -103K for the previous two months for May (+66K) and June (-37K) respectively, that resulted in the 3-month average at 20K. The unemployment rate was below expectations at 4.1% in July from 4.2% in June, while the participation rate inched lower from 61.5% to 61.4%. Overall, the release showed weakness in the labour market in July, with significant downward revisions to the previous months, which may keep the Fed on a prolonged pause.

China CPI (%)

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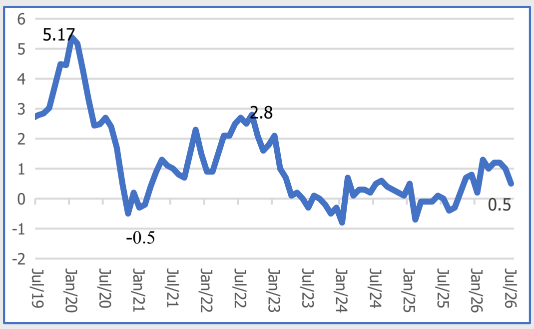
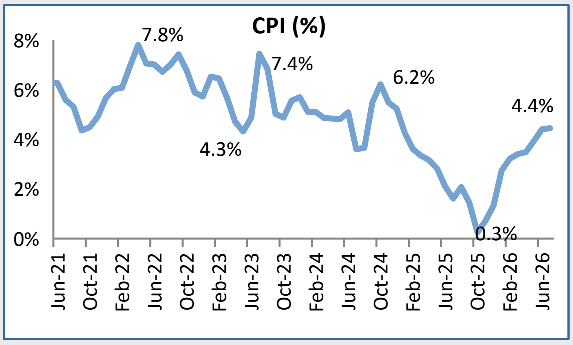


- Deflation risk could be on rise again in China post the energy shock as both CPI and PPI missed expecations in Jul. CPI moderated to 0.5%YoY vs 1.00% in the previous month. The sequential reading stayed negative at -0.1%MoM. Softer services CPI and construction related PPI signals downside risk to consumption and investment.

India Macro Review

CPI Inflation (%)

CPI I Inflation %



Source: MOSPI

- Inflation (CPI) for Jul'26 remained largely steady at 4.45% vs. 4.38% in Jun'26, as food CPI edged up marginally to 5.2% in Jul'26 from 5.1% in Jun'26.

Industrial Production Index (IIP)

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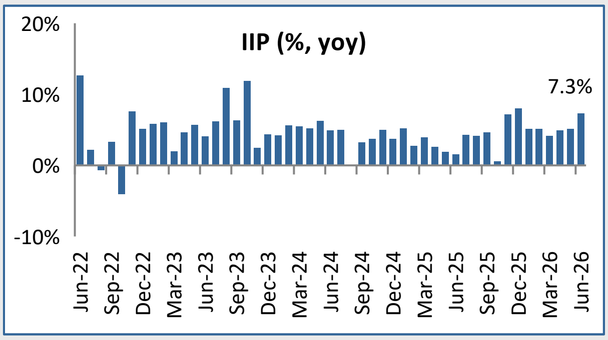

- Industrial Production (IIP) growth for Jun'26 picked up sharply to 7.3% yoy vs. 5.0% yoy in May'26, led by broad-based strength across Manufacturing, Electricity and Mining. Manufacturing output rose 7.8% in Jun'26 vs. 5.2% in May'26, while Electricity & Gas output rose 10.6% in Jun'26 vs. 10.3% in May'26. Mining growth turned positive at 1.0% in June'26 (vs. -1.4% in May'26), ending a run of five straight months of contraction.

GST Collection (Rs. bn)

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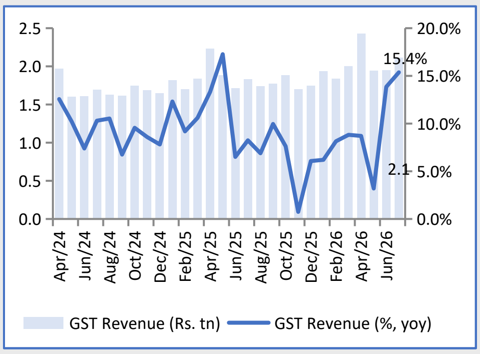
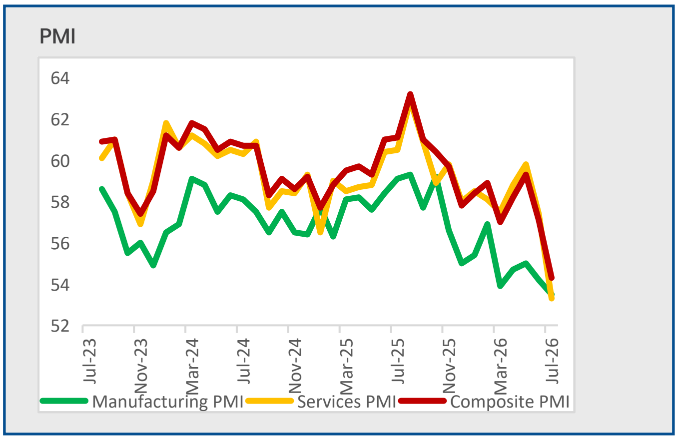


- GST revenues for the month of Jul'26 added up to Rs. 2.1tn, a 15.4% YoY growth vs. Rs. 1.83tn in Jul'25 – the second-highest monthly collection on record after Apr'26.
- Within GST collection, growth was again led by IGST, which rose 19.3% yoy on the back of a sharp pick-up in import-related collections, while CGST and SGST grew 12.3% yoy and 8.7% yoy respectively in Jul'26.
- Net GST revenue (after refunds) rose 15.8% yoy to Rs. 1.8tn in Jul'26 vs. Rs. 1.6tn in Jul'25, even as refunds grew 13.1% yoy to Rs. 0.30tn.

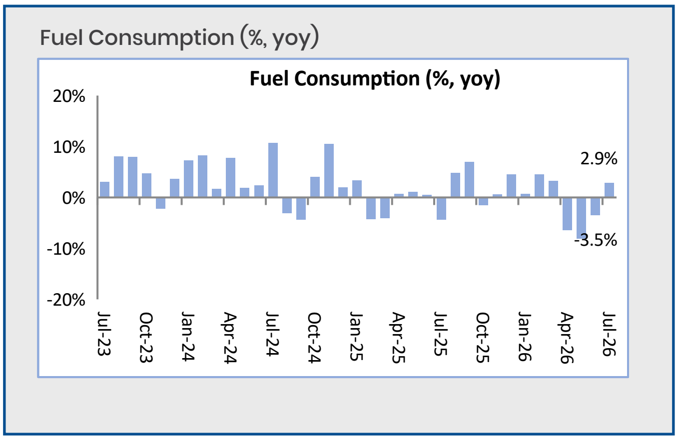
India Macro Review

PMI



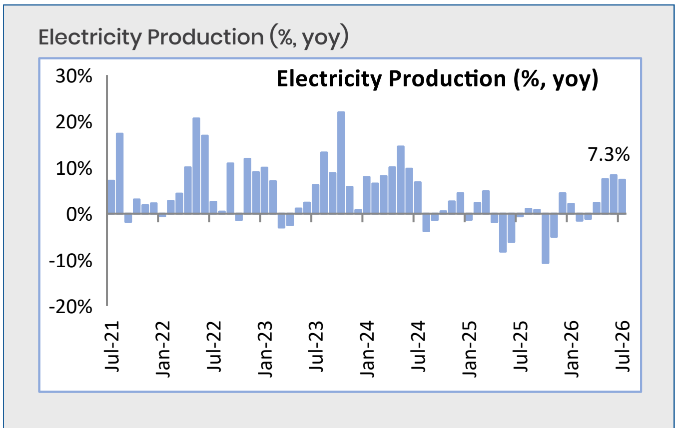
- Manufacturing PMI eased to 53.5 in Jul'26 vs. 54.2 in Jun'26, while Services PMI slowed more sharply to 53.3 in Jul'26 from 57.4 in Jun'26; Composite PMI moderated to 54.3 from 57.1 over the same period.
- Notably, PMI continuing in the expansion zone (>=50) indicates the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth (%)



- Fuel consumption growth turned positive at 2.9% yoy in Jul'26, reversing a 3.5% yoy contraction in Jun'26. Within fuel category, petrol consumption growth picked up to 9.2% yoy in Jul'26 vs. 7.5% yoy in Jun'26, while diesel consumption growth rose 10.0% in Jul'26 vs. 6.2% in Jun'26.

Electricity Production YoY Growth (%)

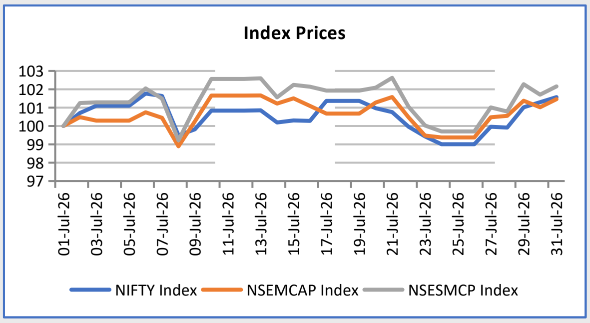


- Electricity production growth moderated slightly to 7.3% YoY in Jul'26 from an 8.3% YoY pick-up in Jun'26, though it continued to track above its 3-month moving average.

Equity Outlook and Positioning

Monthly Index performance

Monthly Index performance



- Equity markets consolidated in July after recovering most of the losses of March in the preceding months. Largecap BSE100 index gained 2.46% for the month while the CNX Midcap Index moved up by 1.81%, lagging its larger cap peer.
- Outperforming sectors included IT (14.7%), Consumer durable (9.3%), Real estate (8.6%), Auto (8.0%) and Healthcare (3.0%). Metals (1.8%), Oil & gas (1.7%) and FMCG (0.7%) underperformed but delivered positive returns. However, Capital goods (-5.4%), Power (-5.3%) and Banks (-0.2%) delivered negative returns for the month.

Nifty Valuation (1 year forward PE)

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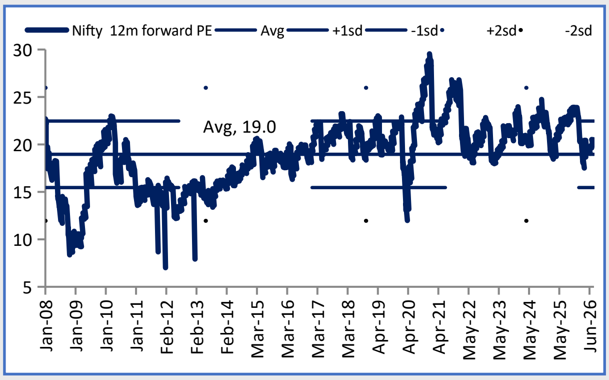

- FIIs have been large sellers in Indian equities over last several quarters, having sold to the tune of USD27.8bn in YTDCY26, surpassing their selling of USD18.8bn in CY25. July, however, saw a departure from this trend with a net buying by FIIs of USD1.2bn. DIIs, on the other hand, have continued with their buying trend, buying equities worth USD3.6bn in July. For YTDCY26, net buying by DIIs stands at USD54.0bn. While domestic investors have been consistent buyers, the pace of inflows remains a key monitorable, given that markets have given subdued returns for nearly two years.
- Given India's relative underperforming vis-à-vis other emerging markets, even the relative premium of India has come down. However, valuations on the midcap and smallcap side are still expensive. Mid and smallcaps were anyway trading at a premium to largecaps and this premium has gone up further due to the recent rally. As a result, we continue to prefer largecaps to midcaps, especially during the current phase of volatility.

Debt Outlook and Positioning

India 10yr Gsec chart

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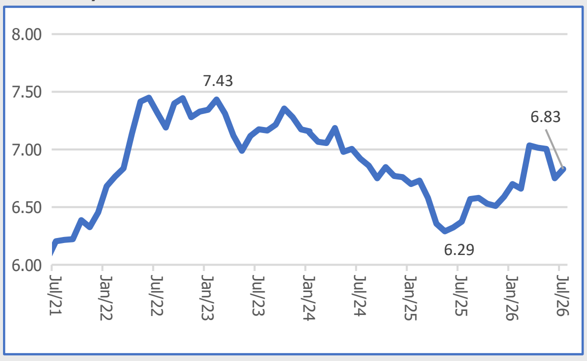
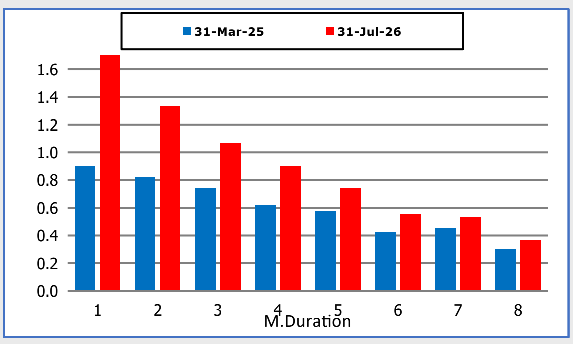


- The US 10 Yr Treasury bond yield (UST) remained volatile in July 2026, trading from the low of 4.44% at the start of the month to closing at 4.75%, on inflation outlook and rate hike expectations, mainly due to re-escalation in West Asia crisis.

AAA Curve movement (%)

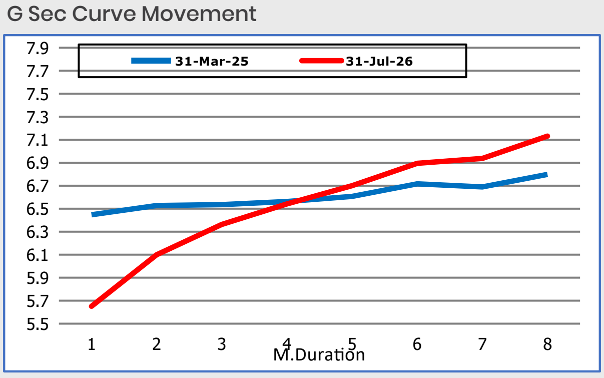
AAA Spreads



- In the recently concluded MPC meet, RBI continued to pause on rates, and continued the neutral stance. RBI's projections indicated improved macro-outlook with FY27 inflation revised downward and growth revised upward. The RBI expects inflationary pressure to be mainly driven by food and fuel and does not see it broad based. On liquidity, it expects a temporary rise due to FCNR flows and is likely to manage it thorough short-term liquidity absorption measures.
- In India, the 10-yr G-sec yield after rallying in Jun'26, the G-sec yield was range-bound in first fortnight and picked up a bit in second half of the month. This was due rise in geo-political risk (Iran-US war), rise in crude prices and pressure on INR. 10 yr G-sec yields closed at 6.83% vs 6.75% for the month.

G Sec Curve Movement (%)

G Sec Curve Movement



- Geo-political environment continues to remain volatile and remains the major driver of volatility in the financial markets. However for the Indian market the macro-outlook has improved since Jun'26. Hi-frequency indicators indicate robust growth in first quarter of FY'27. Reduce Monsoon deficit, improved sowing, better reservoir levels and buoyant food stock levels at Jul'26 end augur well with potential of growth and inflation outlook. Going forward, Oil, INR and geo-political risk will continue to be closely tracked, along with global policy-makers decision-making. At current levels, Bond markets expect 2-3 rate hikes in the current cycle, though the timing may likely depend on the evolving geopolitical dynamics.

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