Narnolia®

INVESTMENT PERSPECTIVE

SEPTEMBER 2025

Following a steep decline in July, the Indian market saw a continued downward to sideways trend in August. The Nifty 50 dropped by 1.2%, while the Nifty 100, representing large-cap stocks, fell by 1.3%. The decline was more pronounced in smaller companies, with the Nifty Midcap 150 and Nifty Smallcap 250 indexes falling by 2.8% and 3.5%, respectively.

In mid-August, an announcement by Prime Minister Modi regarding the simplification of Goods and Services Tax (GST) slabs led to a revival in consumption-focused sectors. The Nifty Auto index was the top performer, soaring by 5.86% after the news. Other sectors also benefited, with Nifty FMCG and Nifty Consumer Durables indexes rising by 0.75% and 0.88%. Conversely, export- heavy sectors were the worst hit. The Nifty Chemical index plummeted by 4.95% and the Nifty Pharma index dropped by 4.2%.

During ongoing tariff negotiations, India is performing a delicate geopolitical balancing act. It is navigating its relationships with major powers like the U.S. and China while simultaneously seeking strategic autonomy through a policy of multi-alignment. As part of this effort, Prime Minister Narendra Modi recently undertook a four-day visit to Japan and China for the Shanghai Cooperation Organisation (SCO) summit.

New GST reforms are set to take effect on September 22nd, signalling a domestic focus for the government in response to a slowdown in exports. These fiscal measures, which follow a direct tax exemption of 1 trillion, are designed to stimulate domestic consumption. This is further supported by the Reserve Bank of India's decision to lower the repo rate by 50 basis points to 5.5% in June 2025. While the Indian market is anticipated to maintain a sideways trend until early next year, the encouraging domestic economic environment suggests a balanced risk-reward profile for investors.

We anticipate the next market downturn to be driven by global factors, as many of the world's leading stock market indices are currently trading at significantly high valuations. A review of the top 20 global indices reveals a widespread trend of elevated price-to-earnings (P/E) ratios. In several major economies, current valuations are at or near their highest levels in during the last five years. This suggests that global equity markets are priced at a premium, reflecting high investor expectations, and that a correction is more likely to be triggered by international, rather than domestic, events.

In contrast to high market valuations, global GDP growth over the last decade has been the weakest since 1965. The global economy's growth momentum has progressively decelerated from a strong compound annual growth rate (CAGR) of 4.36% between 1966 and 1975 to just 2.73% from 2016 to 2025. This long-term trend of weakening economic expansion makes the current high market valuations a significant concern.

Shailendra Kumar
Chief Investment Officer
Narnolia Financial Advisors Ltd