Wealth Management Investment Strategy

July 2025 – *Executive Summary*

IDFC FIRST Bank
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Equity Markets Rose Amid Progress in Trade Negotiations

KEY TAKEAWAY

- ***US markets rose in June by ~5% as optimism around tariff negotiations and possible interest rate cuts in the wake of stable inflation buoyed sentiment.***
- ***Indian equities rose on growth in the backdrop of rate cuts, declining inflation trajectory, recovery in monsoon, and easing crude oil prices following the interim spike due to the Israel-Iran war.***
- ***Crude oil prices surged ~24% intra-month in June amidst the Israel-Iran fiasco.***
- ***RBI surprised markets with a 50-bps repo rate cut by a 5:1 vote. It also announced a CRR cut of 100 bps to be implemented in a staggered manner from September to November. The policy stance was changed to 'Neutral'.***

India Macro Update - *Tracking Key Macro Factors*

Brent Crude

Crude oil prices surged ~24% intra-month in June amidst the Israel-Iran fiasco, touching ~USD 80 per barrel. However, prices since eased ~14% as tensions eased.

Currency

The INR ended June broadly flattish (-0.2%) MoM vs the USD despite weakness in the dollar index (-2.1% MoM), amid likely intervention by the RBI given a large forward book (~USD 73bn as of Apr'25). Rupee had briefly sunk to ~86.7 level on 23rd June amid Middle East tensions.

Bank Credit & Deposit Growth

Bank deposits rose 10.4% YoY, while credit growth softened to 9.6% in the fortnight ending June 13, 2025. Credit growth is expected to be subdued amid a high base in the preceding two years.

Manufacturing PMI

The HSBC India Manufacturing PMI firmed up to a 14-month high of 58.4 in June (57.6 in May).

Services PMI

The HSBC India Services PMI stood at a 10-month high of 60.4, up from 58.8 in May.

GST

GST collection for May 2025 stood at a four-month low of INR1.85tn, registering a subdued 6.2% YoY rise vs the year ago month. On a sequential basis, collections have declined indicating moderation in economic activities.

Auto Sales

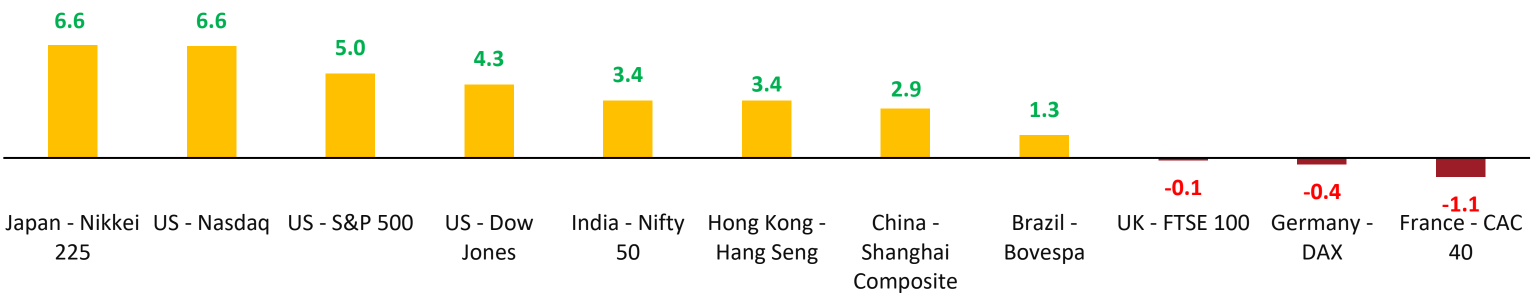
Auto sales in May continued to indicate tepid demand, with PV sales declining ~3% YoY, while 2W sales rose 2.3%. Inventories inched up marginally to 52 days for the PV segment. CV sales decline amid tight liquidity and adverse sentiment.

Outlook – *(Source - IDFC FIRST Bank Economics Research, As On 30th June 2025)*

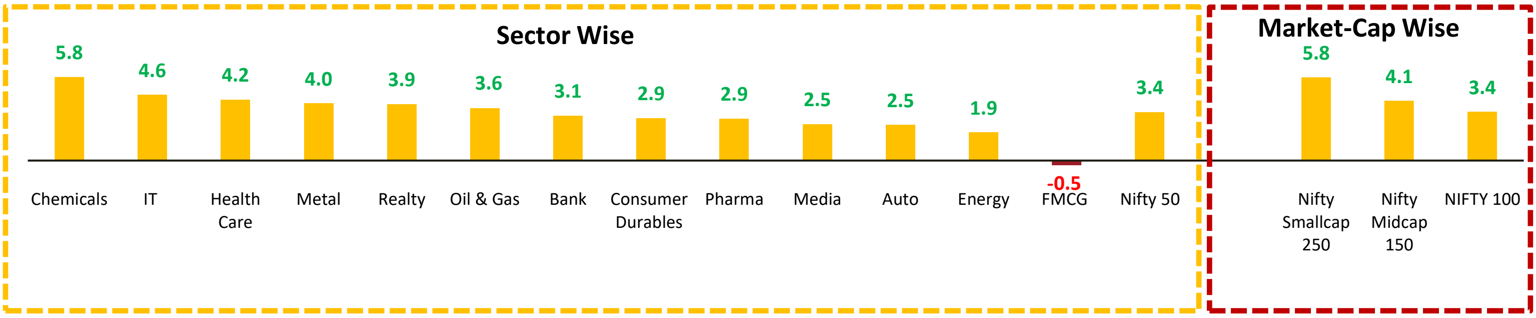
- **FY26 GDP growth estimated at 6.3% YoY**
- **CPI inflation in FY26 is averaging at 3.0%, with broad-based slowdown in food inflation pressures**
- **We expect a pause in August and October policies. Another 25bps cut may be possible in December, only if inflation or growth deviates from RBI estimates**
- **USDINR is expected to reach 86.5 to 87.0 by March 2026**

Equity Market Update

Global Indices Performance (%) - June 2025



Domestic Indices Performance (%) - June 2025



Performance shown above is based on total returns for respective sectoral indices of the NSE. Data as on 30th June 2025, Source: ACE MF

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- **Frontline Indices** – Indian equities ended higher, with the small-cap and mid-cap segments outperforming the large-cap segment.
- **IT** – The sector witnessed a respite rally on easing concerns over US economic growth amid progressing bi-lateral trade negotiations and positive US economic data. IT has underperformed most other sectors in the YTD period on concerns over US growth following tariff impositions by President Trump.
- **Metals** – Metals sector did well in June as sentiment turned positive on progress in US-China trade talks and optimism over improving prospects for global growth which would boost demand for metals.

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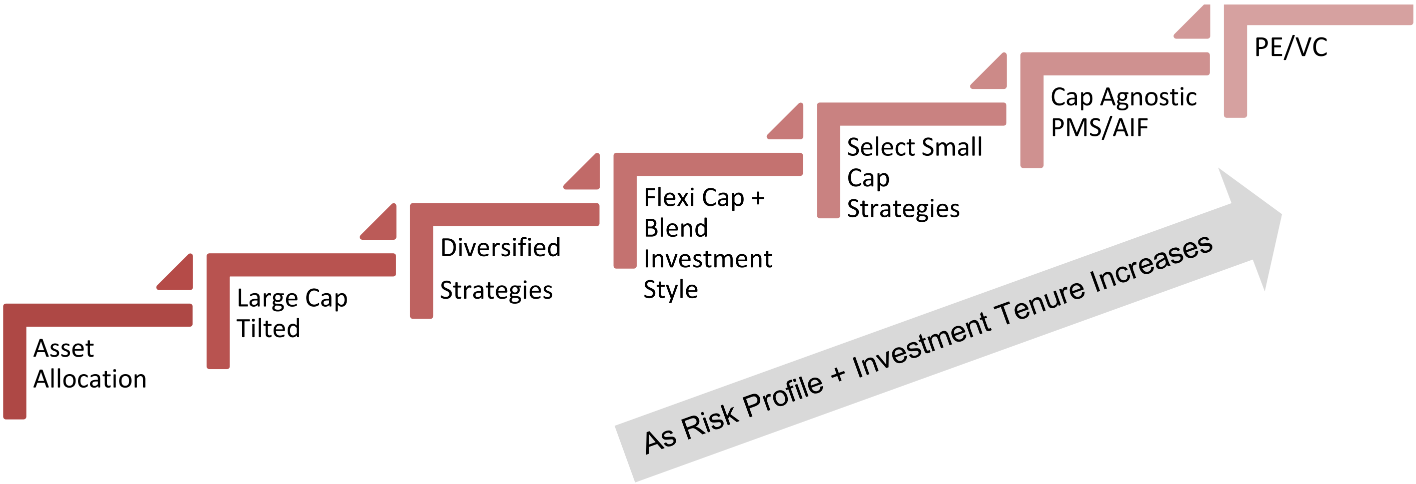
- **FMCG** – Sector underperformed in June as risk aversion declined amid optimism over economic growth. The FMCG sector is grappling with slowing volume growth as demand has been sluggish, particularly in urban areas.

Outlook –

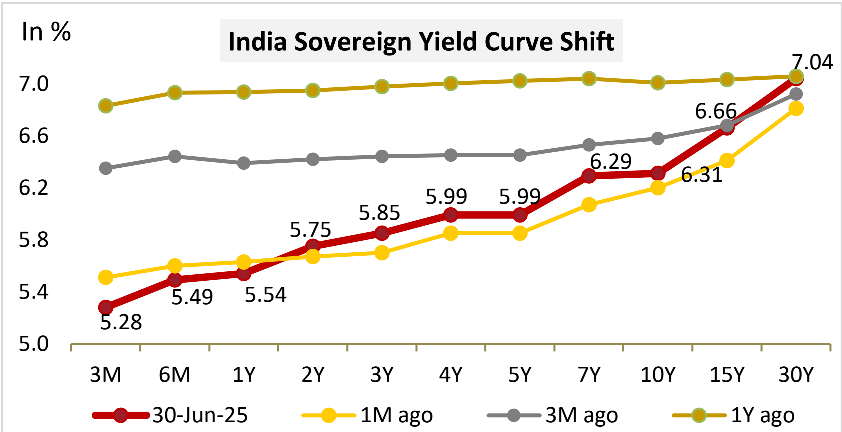
We try to understand equity markets based on following three important pillars:

Valuations **Neutral**	Nifty's 12-month forward PE is at 21.7x vs current PE of 24.5x, Nifty Midcap 150's 12-month forward PE is at 29.08x vs current PE of 35.27x, Nifty Smallcap 250's 12-month forward PE is at 26.78x vs current PE of 33.87x (As on 30th June 2025) **From a Valuation perspective – Large caps look most attractive, followed by small caps & then midcaps**
Earnings **Neutral**	Despite the near-term challenges, the medium-to-long term growth outlook for India seems intact, which should support earnings growth. Materials, Industrials and Communication Services are expected to clock superior earnings performance over FY26 and FY27 **Nifty 50 earnings growth^ is expected to clock around 11-12% growth in FY26**
Volatility **Neutral**	Nifty VIX ended at 12.79 (as on 30th June 2025) as against 16.08 (as on 30th May 2025). **Domestic and global macros, geopolitics, crude oil prices and global yields to drive the volatility index going ahead**

Equity Investment Strategy



Debt Market Update



Global Bond yields (%)	30-Jun-25	30-May-25	1Y Ago
US 10 – Year	4.23	4.40	4.40
UK 10 – Year	4.48	4.65	4.17
Germany 10 – Year	2.60	2.50	2.50
Japan 10 - Year	1.44	1.49	1.05
India 10 – Year	6.32	6.29	7.01

Data as on 30th June 2025, Source- Investing.com

- **Indian treasury** yields ticked up in June following the RBI's stance change to 'neutral' signalling a likely end to the rate cut cycle, and the CRR cut lowering need for OMOs going ahead. Yield curve steepened as longer tenor yields spiked.

- **U.S. Treasury yields:** US Treasuries declined by ~17 bps MoM in June, on optimism around rate cuts with inflation stable around the target and signs of a weaker US economy (consumer spending, confidence, home price rise).

- **Euro zone:** Bond yields in Germany ticked higher following its cabinet passing a draft budget for 2025 and framework for 2026 that includes sizeable investments to stimulate growth. Bond yields in the UK softened by ~17bps MoM in June, tracking the decline in US Treasury yields and on expectations of rate cuts by the BoE following weakening economy and labour markets.

- **Japanese** treasury yields fell by ~5bps MoM to 1.44%, with the BoJ extending its pause on rate hikes, maintaining the policy rate at 0.5%. The BoJ also announced halving of its bond purchases in the face of ongoing uncertainty.

Outlook –

We try to understand debt markets based on following three important pillars:

Interest Rate

Neutral

- Demand for G-secs to be supported by banks and robust demand from long-only investors (Insurance, pensions and PFs).
- Following RBI's surprise 50bps cut, **we expect a pause in August and October policies.** The change in stance to 'Neutral' indicates a high bar for future rate cuts. **Another 25bps cut may be possible in December**, only if inflation or growth deviates from RBI estimates.
- **10-Yr G-sec yield is expected to range between to 6.15 to 6.35% over the near term.**

Liquidity

Neutral

- Since December 2024, RBI has infused durable liquidity through a various measures such as CRR cut, OMOs and Forex Swaps. This has resulted in **core liquidity turning large positive,** from being in deficit in January 2025. Core liquidity stood at ~INR5.6tn as of 13th June 2025.
- Pace of govt. spending amid RBI's dividend of ~INR2.69tn and buy-backs of G-secs would support systemic liquidity. **The CRR cut significantly reduces the need for OMO purchases the remainder of FY26.**

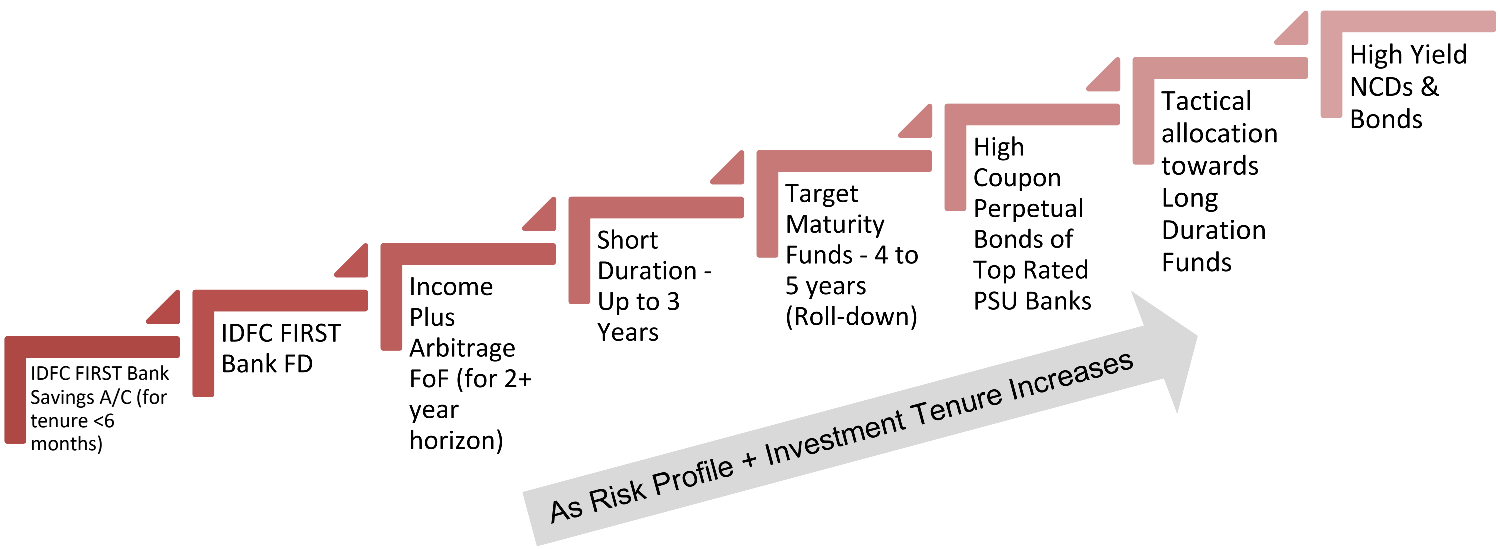
Credit Risk

Neutral

- **Spreads on offer versus additional risk taken are modest –** risk-reward doesn't favour taking credit risk via low rated category as a whole. However, selective buying can be rewarding.
- **Markets are illiquid in low rated segment,** look at company specific opportunity.

****IDFC FIRST Economics Research estimate as on 30th June 2025***

Debt Investment Strategy



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