



GDP Growth Exceeds Expectations, Prints At 7.4% YoY in Q4FY25

- GDP growth printed at 7.4% YoY in Q4FY25 vs IDFC First Bank Estimate of 7.0%, led by recovery in net exports and investments. For full fiscal year FY25, GDP growth stood at 6.5%.
- FY26 GDP growth estimate is retained at 6.3%. High frequency indicators suggest improvement in rural consumption, while urban consumption has been subdued. Pvt. Sector capex too has been lacklustre amid uncertain demand (global and domestic) in the wake of ongoing geopolitical tensions.



Q4FY25 Earnings: Top-line Still Weak, PAT Growth Softened

- For Nifty 50, top line growth stood at 7.7% YoY in FY25 (7.1% in Q4) & PAT growth at 9.0% (4.3% in Q4).
- Nifty 50 earnings growth is expected to clock around 11-12% in FY26.



India Macro Update - Tracking Key Macro Factors



Brent Crude

Crude oil prices fell 0.5% MoM in May, prices continued their downward trajectory amid expectations of tepid demand in the backdrop of slowing global demand and higher supply by the OPEC+.



Currency

The INR depreciated by ~1.2% MoM in May vs the USD, amid likely intervention by the RBI given its large forward book (~USD 84bn as of March 2025).



Bank Credit & Deposit Growth

Bank deposits grew 10.0% YoY, while credit growth stood at 9.8% in the fortnight ending May 16, 2025.



Manufacturing PMI

The HSBC India Manufacturing PMI softened to 57.6 in May 2025 from 58.2 in April.



Services PMI

The HSBC India Services PMI increased to 61.2 in May 2025, up from 58.7 in the previous month.



GST

GST collection for May 2025 stood at INR 2.01 tn, registering a 16.4% increase over the INR 1.72 tn collected in May 2024.



Auto Sales

Auto sales in April continued to indicate subdued consumer demand, with PV sales rising just 1.6% YoY, while 2W sales gained 2.3%. Inventories remained elevated (50-day) for the PV segment.

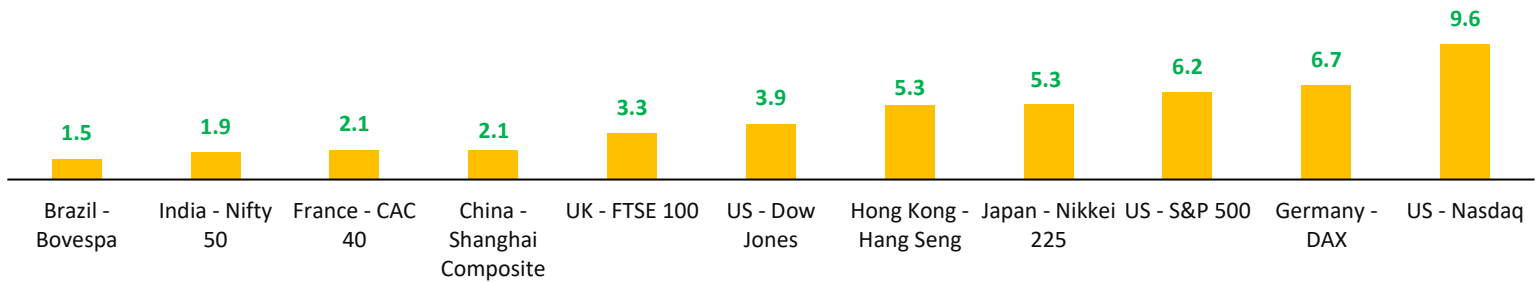
Outlook – (Source - IDFC FIRST Bank Economics Research, As On 6th June 2025)

- FY26 GDP growth estimated at 6.3% YoY
- CPI inflation in FY26 is averaging between 3.0% to 3.5%, with broad-based slowdown in food inflation pressures
- We expect a pause in Aug & Oct policies, 25bps cut may be possible in Dec, if inflation or growth deviates from RBI estimates
- USD/INR is expected to range between 86.0 to 86.5 by Dec'25

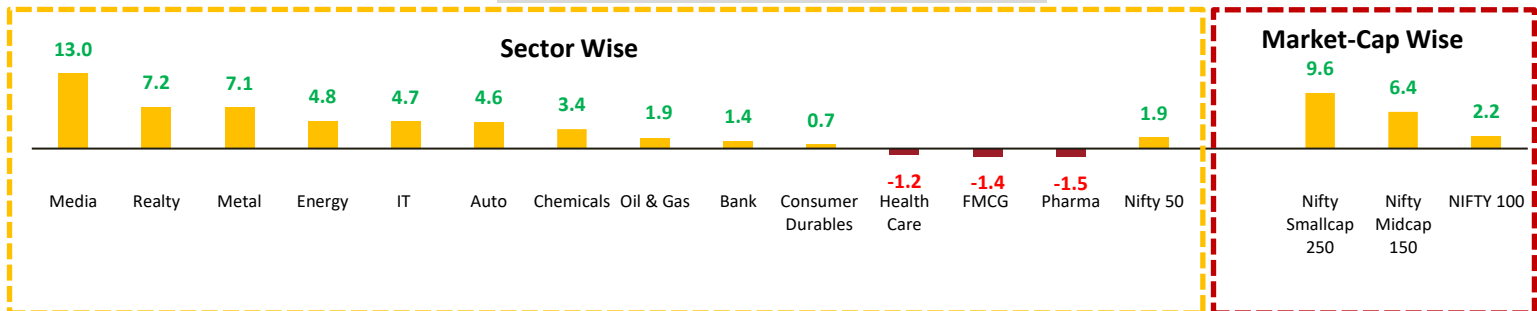


Equity Market Update

Global Indices Performance (%) - May 2025



Domestic Indices Performance (%) - May 2025



Above chart presents Total Returns of the indices. Sectoral indices are NSE sectoral indices. Data as on 30th May 2025, Source: ACE MF MMFmMF



- **Frontline Indices** – Indian equities rose in May with the small-cap and mid-cap segments outperforming the large-cap segment. Equities rose owing to a de-escalation in US-China trade tensions, optimistic monsoon forecast, and lower inflation raising confidence over further rate cuts.
- **Realty** – Borrowing costs are expected to decline amid rate cuts by the RBI which is positive for the sector. Stellar Q4 performance by an index heavy-weight has aided the performance of the index.
- **Metals** – Sector did well in May owing to a recovery in sentiment following a 90-day pause on tariffs between the US and China. A 12% import duty imposed by the Centre to safeguard the interest of domestic steel players also helped performance.



- **FMCG** – sector underperformed in May as investors rotated towards cyclicals amid a risk-on environment. The 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 20.52x vs current PE of 22.32x, Nifty Midcap 150's 12-month forward PE is at 30.10x vs current PE of 34.26x, Nifty Smallcap 250's 12-month forward PE is at 25.51x vs current PE of 32.19x (As on 30th May 2025)
- **From a Valuation perspective – Large cap is most attractive, followed by small cap & then midcap**

Earnings

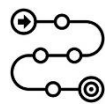
Neutral

- 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**

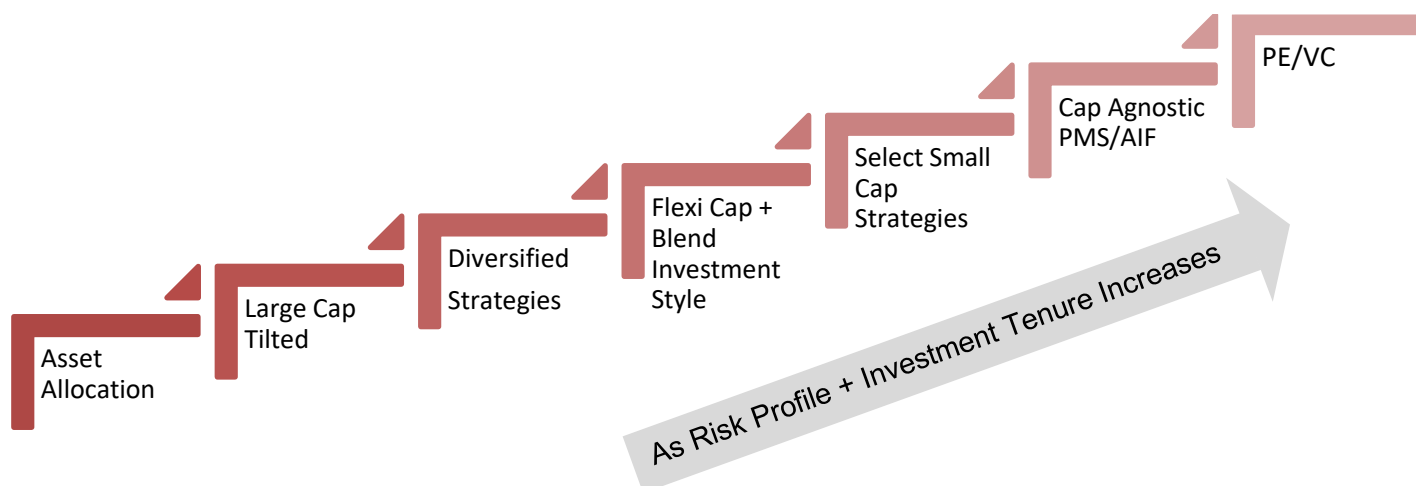
Volatility

Neutral

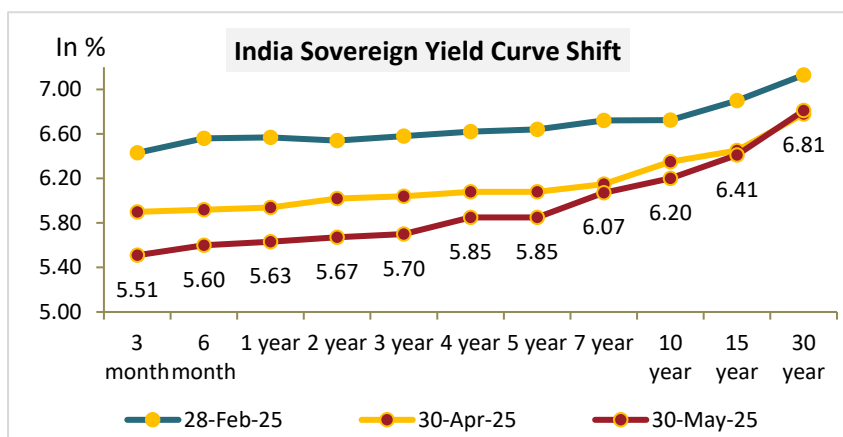
- Nifty VIX ended at 16.08 (as on 30th May 2025) as against 18.22 (as on 30th April 2025)
- **Domestic and global macros, geopolitics, crude oil prices and global yields to drive the volatility index going ahead**



Equity Investment Strategy



Debt Market Update



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

Global Bond yields (%)	30-May-25	30-Apr-25	1Y Ago
US 10 – Year	4.40	4.18	4.50
UK 10 – Year	4.64	4.44	4.32
Germany 10 – Year	2.51	2.44	2.65
Japan 10 - Year	1.50	1.32	1.08
India 10 – Year	6.20	6.35	6.99

- Indian treasury** yields declined in May by ~15 bps MoM, supported by continued OMO auctions by the RBI, and a decline in inflation (3.16% YoY - lowest in seven years) raising expectations of further rate cuts by the RBI.
- U.S. Treasury yields:** US Treasuries rose by ~22 bps in May, amid concerns over fiscal deficit in the backdrop of a proposed tax cut bill, a pause by US Fed and a rating downgrade by Moody's.
- Euro zone:** Bond yields in Germany rose ~7bps MoM in May, having risen to 2.69% by mid-May and subsequently declining as investors rushed to the safety of German Bunds on rising concerns over the safe-haven status of US Treasuries and also supported by declining inflation. UK bond yields rose tracking the up move in US Treasury yields, and hawkish commentary by the BoE after a 25bps cut in early May.
- Japanese** treasury yields rose by ~18bps MoM to 1.50%, amid concerns over rate hikes by the BoJ to tackle high inflation and scaling back of bond purchases by the BoJ.



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 INR6tn as of 23rd May 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

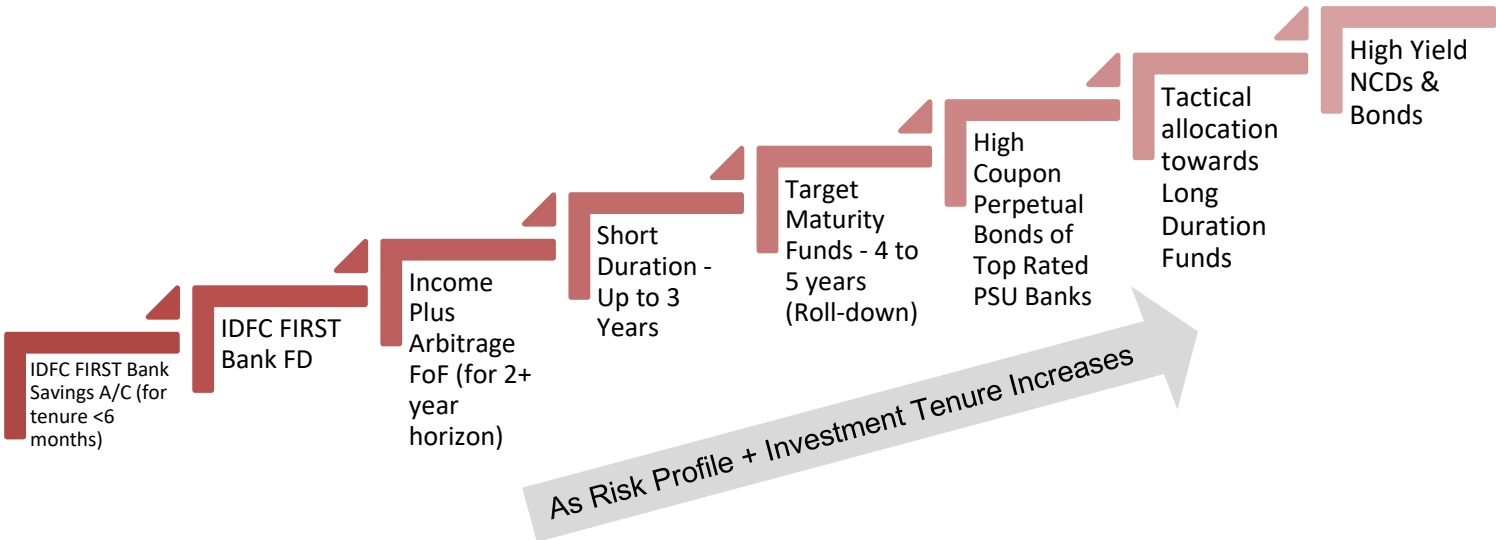
Neutral

- **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 6th June 2025*



Debt Investment Strategy



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