Wealth Management Investment Strategy

April 2025 – *Executive Summary*

IDFC FIRST Bank

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Trumps Retaliatory Tariffs Unveiled

KEY TAKEAWAY

10% baseline tariff on all imports into the US w.e.f. 05th April 2025

No additional tariffs on Canada and Mexico apart from the 25% tariff levied w.e.f. 04th March 2025

25% Tariff on car imports into the US with immediate effect

Custom reciprocal tariffs w.e.f. 09th April 2025

- **34% Tariffs levied on US imports from China, over & above the 20% levied earlier**
- **20% Tariffs on European Union, 46% on Vietnam, 37% on Thailand**
- **27% Tariff levied on US imports from India, expected impact is -0.5% of Real GDP growth**

India Macro Update - *Tracking Key Macro Factors*

Brent Crude

Brent Crude rose 2.17% MoM in March 2025. Prices rose on fresh US sanctions on Iran & output plan from the OPEC+ producer group which raised expectations of tighter supply. Additionally, risk of escalating trade war supported crude.

Currency

The INR appreciated ~2.3% MoM in March vs the USD amid weakening of the DXY and narrowing of the trade deficit. FPI flows turned favourable in March supporting the INR (outflows in equities declined to USD 0.4bn vs 4.0bn in Feb, while inflows in debt rose sharply to USD 4.3bn vs 1.2bn in Feb).

Bank Credit & Deposit Growth

Bank deposit grew 10.2% YoY, while credit growth inched up to 11.1% in the fortnight ending March 07, 2025. The slower deposit growth would weigh on rate cut transmission as banks would be reluctant to cut deposit rates if liquidity is tight.

Manufacturing PMI

The HSBC India Manufacturing PMI accelerated to 57.6 in March 2025 from 56.3 in the previous month.

Services PMI

The HSBC India Services PMI fell to 57.7 in March 2025 from 59.0 in February.

GST

GST collection grew 9.9% YoY to Rs 1.96Tn in March. On a sequential basis, collections rose 6.5% MoM from 1.84Tn in February.

Auto Sales

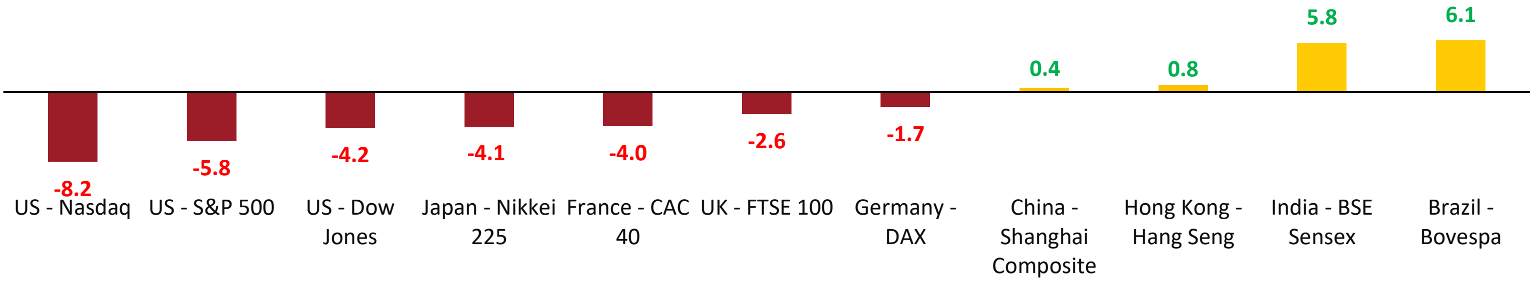
FY25 sales grew by 6.46%; PV grew by 4.87%, 2W ended the year at +7.71%, CV came in nearly flat at -0.17%. A key highlight was the strong performance in rural areas. 2W in rural markets grew by 8.39% vs. 6.77% in urban areas. 3W in rural regions rose by 8.70%, significantly outpacing 0.28% growth in cities.

Outlook – *(Source - IDFC FIRST Bank Economics Research, As On 31st March 2025)*

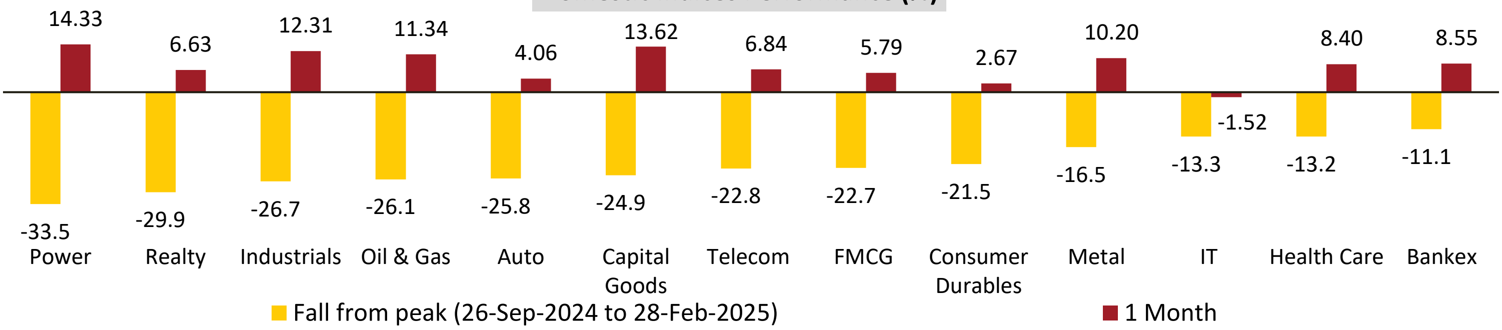
- **FY25 GDP growth estimated at 6.3% YoY**
- **CPI inflation averaging below 4% in FY26 assuming normal monsoon**
- **We expect 25bps cut each in April and in June**
- **We expect USDINR to rise to 88.0 by December 2025**

Equity Market Update

Global Indices Performance (%) - March 2025



Domestic Indices Performance (%)



Above chart presents Total Returns of the indices. Sectoral indices are S&P BSE sectoral indices. Data as on 31st March 2025, Source: ACE MF

- **Banks** – The sector had cushioned downside given valuation comfort despite slowing credit growth and tighter liquidity. In March, banks continued to gain further buoyed by easing liquidity conditions and indications of recovering growth.
- **IT –** The sector witnessed a correction of more than 20% since their December peak amid concerns over a slowdown in the US (~50-60% of industry revenue) in the wake of the ongoing Tariff war. The IT pack fell 4% (02nd April) following Trump's announcement of retaliatory tariffs.
- **Power –** The sector outperformed all other sectors in March on likely value buying, having faced the steepest correction during the downturn in the preceding 6 months.
- **Metals –** The sector registered robust performance in March, amid optimism around higher demand owing to improved growth prospects in China following announcement of stimulus measures earlier in the month.

Outlook –

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

Valuations

Neutral

- Nifty's 12-month forward PE is at 18.90x vs current PE of 21.20x, Nifty Midcap 150's 12-month forward PE is at 28.08x vs current PE of 33.86x, Nifty Smallcap 250's 12-month forward PE is at 23.28x vs current PE of 29.57x (As on 2nd April 2025)
- **From a Valuation perspective – Large cap is most attractive, followed by small cap & then midcap**

Earnings

Neutral

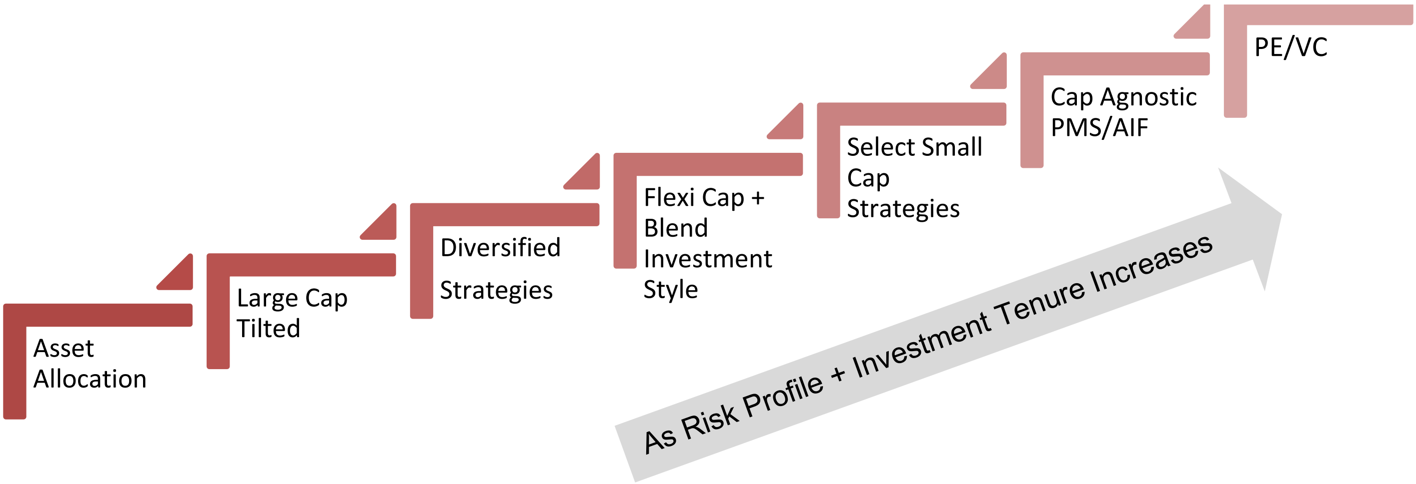
- Consumption, BFSI, IT, Industrials, Healthcare, and Real Estate, are likely to be the key earning drivers
- **Earnings growth for Nifty 50 is expected to be ~13-14% for FY26, with downside risks amid ongoing geopolitical situation**

Volatility

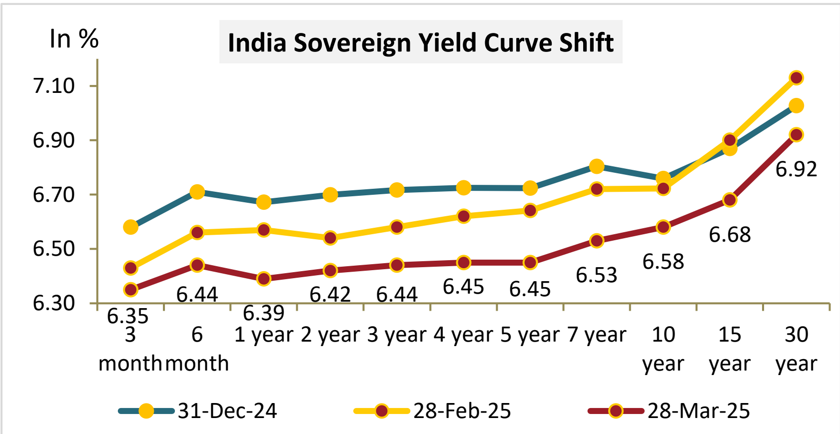
Neutral

- Nifty VIX ended at 12.72 (as on 28th March 2025) as against 13.91 (as on 28th February 2025)
- **Domestic and global macroeconomic data, geopolitics, crude oil prices and global yields to drive the volatility index going ahead**

Equity Investment Strategy



Debt Market Update



Global Bond yields (%)	31-Mar-25	28-Feb-25	1Y Ago
US 10 – Year	4.21	4.20	4.21
UK 10 – Year	4.68	4.48	3.94
Germany 10 – Year	2.73	2.39	2.29
Japan 10 - Year	1.47	1.36	0.73
India 10 – Year	6.58	6.72	7.05

Data as on 31st March 2025, Source- Investing.com

- **U.S. Treasury yields:** US Treasury yields ended March on a flattish note MoM. During the month, bonds prices were weighed down amid indications from the US Fed (status quo on rates in March) that it would be patient in cutting rates in the wake of potential price pressures from tariffs. Bonds saw some support amid safe-haven demand ahead of the tariff announcements on 02nd April.

- **Euro zone:** Bond yields in Germany jumped by 34bps following its fiscal expansion plans to boost infrastructure and defence spending. UK bond yields rose in March on concerns over higher borrowings and a status quo by the BoE which remained cautious given underlying inflationary pressures.

- **Japanese** treasury yields rose to near 16-year highs in March, with the 10-year crossing the 1.5% mark on expectations of further rate hikes by the BoJ amid firm inflationary pressures. The BoJ held rates steady in its March fixing as it awaited clarity on the impact from the US Tariff announcements.

- **Indian treasury** yields declined by 14 bps MoM in March on optimism over rate cuts amid declining inflation, borrowing programme for H1FY26 being in line with expectations and tracking a decline in US Treasury yields. Liquidity infusion by RBI via OMOs & FPI inflows too supported bond prices.

Outlook –

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

Interest Rate

Neutral

- **10-Yr G-sec yield is expected to ease to 6.4% in FY26**
- Demand for g-secs supported by banks and strong demand long-only investors (Insurance, pensions and PFs). RBI OMO purchase estimated at INR1tn
- **We expect 25bps cut in repo rate in the April policy, and another 25 bps in June depending on growth momentum and inflation**

Liquidity

Neutral

- Since December 2024, RBI has infused over INR6.2tn of durable liquidity. This has resulted in **core liquidity turning large positive,** from being in deficit in January 2025
- **RBI has announced OMO purchase auctions for an aggregate INR0.8tn to be conducted in 4 equal tranches in April**
- RBI's dividend (estimated at ~INR2.6tn) to the centre in Q1FY26 would further improve durable liquidity. **RBI would ensure surplus liquidity over the near term to ensure transmission of policy rate cuts in the banking system**

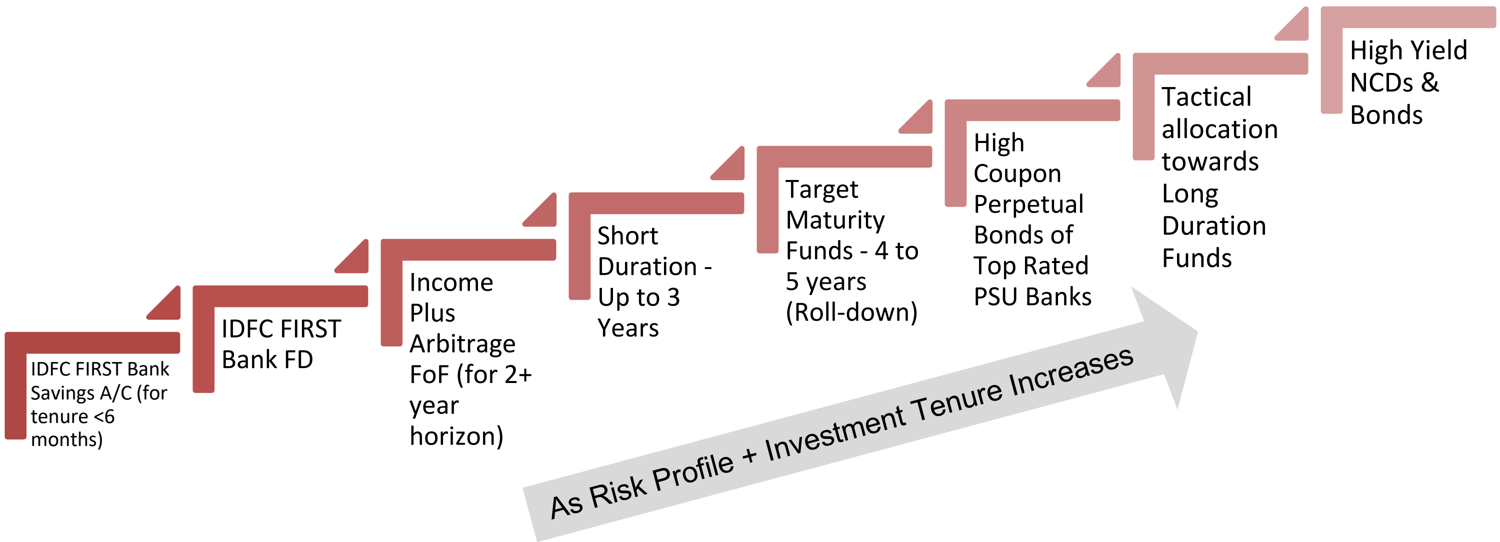
Credit Risk

Neutral

- **Spreads on offer versus additional risk taken are modest –** risk-reward doesn't favour taking credit risk via low rated category. 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 31st March 2025***

Debt Investment Strategy



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