EBONY RESEARCH – MONTHLY MARKET UPDATE
MAY 2025

In Investing business it's easy to confuse luck with brains

Jim Simons

Global Overview

Global growth continues to face headwinds, with persistent trade frictions, heightened policy uncertainty, and weak consumer sentiment weighing on the outlook. Though the tariff pause has provided a temporary let off, the global outlook remains fragile. In its April 2025 World Economic Outlook, the International Monetary Fund (IMF) trimmed global growth forecasts for 2025 and 2026 from its January projections citing escalating trade tensions and policy uncertainty. Growth in emerging markets is also projected to decelerate with emerging and developing Asia significantly impacted by the tariffs.

Going ahead, if a more protectionist trade environment emerges, it is likely to lead to a sharp contraction in trade volumes. In this inherently fluid situation, major corporates have also started withholding profit guidance for the year.

Further the progress on inflation seems mixed. While headline inflation in advanced economies (AEs) has moved closer to targets, core inflation has been slower to fall, particularly on account of persistent services inflation. Inflation in emerging market economies (EMEs) displayed a mixed but generally easing trend.

Global commodity markets are beginning to enter a new phase. Multiple risks – arising from trade and geo-politics, fall in demand and weather-related supply shocks – could potentially trigger in a period of significant volatility in commodity prices5. Energy and industrial metal prices have been trending lower, with crude oil prices forecasted to decline during 2025 and 2026.

In the April 2025 World Economic Outlook, the IMF revised downwards its global GDP growth forecast for 2025 by 50 bps to 2.8% and for 2026 by 30 bps to 3.0%, from its January 2025 projections. Growth in advanced economies (AEs) is now expected at 1.4% in 2025 (down 50 bps), with the US growth revised sharply downwards to 1.8% (90bps cut). Emerging market economies are projected to grow at 3.7 %, down from the earlier forecast of 4.2%

Global headline inflation is expected to decline at a slower pace that than what was expected in January, reaching 4.3% in 2025 and 3.6% in 2026, with notable upward revisions for advanced economies and slight downward revisions for emerging market and developing economies in 2025.

Table 1: Global GDP Projection

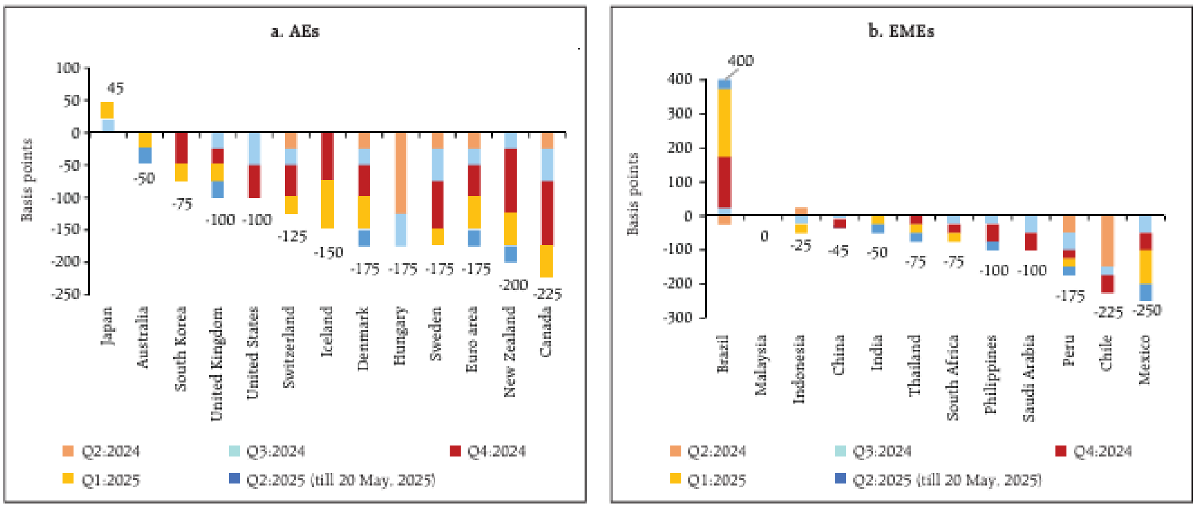
Projection for	2025		2026	
Month of Projection	April 2025	January 2025	April 2025	January 2025
World	**2.8**	**3.3**	**3.0**	**3.3**
Advanced Economies	**1.4**	**1.9**	**1.5**	**1.8**
US	1.8	2.7	1.7	2.1
UK	1.1	1.6	1.4	1.5
Euro area	0.8	1.0	1.2	1.4
Japan	0.6	1.1	0.6	0.8
Emerging Market and Developing Economies	**3.7**	**4.2**	**3.9**	**4.3**
Russia	1.5	1.4	0.9	1.2
Emerging and Developing Asia	4.5	5.1	4.6	5.1
India*	6.2	6.5	6.3	6.5
China	4.0	4.6	4.0	4.5
Latin America and the Caribbean	2.0	2.5	2.4	2.7
Mexico	-0.3	1.4	1.4	2.0
Brazil	2.0	2.2	2.0	2.2
Middle East and North Africa	2.6	3.5	3.4	3.9
Sub-Saharan Africa	3.8	4.2	4.2	4.2
South Africa	1.0	1.5	1.3	1.6

Note: *: India's data is on a fiscal year basis, while for all other countries it is for calendar years.
Source: IMF

Source: IMF, RBI Monthly bulletin

Chart 1: Global Central Banks Monetary Policy Update

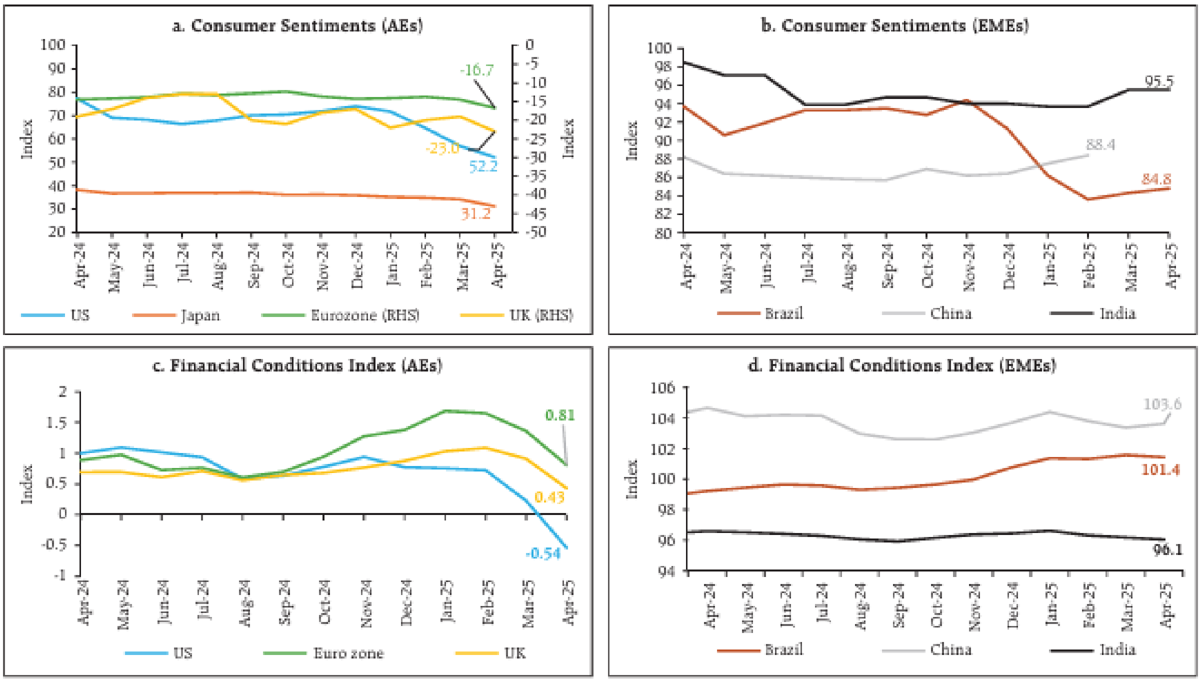
Monetary policy divergence continues across the globe. U.S. maintains status quo while ECB reduced benchmark rate.



Source: Bloomberg.

Chart 2: Consumer Sentiment and Financial Conditions

Consumer sentiments worsened in AEs with an across-the-board decline in April 2025 while EMEs showed greater resilience, with India and Brazil registering slight improvement in consumer sentiments. Financial conditions continued to tighten further across major AEs and EMEs, except India



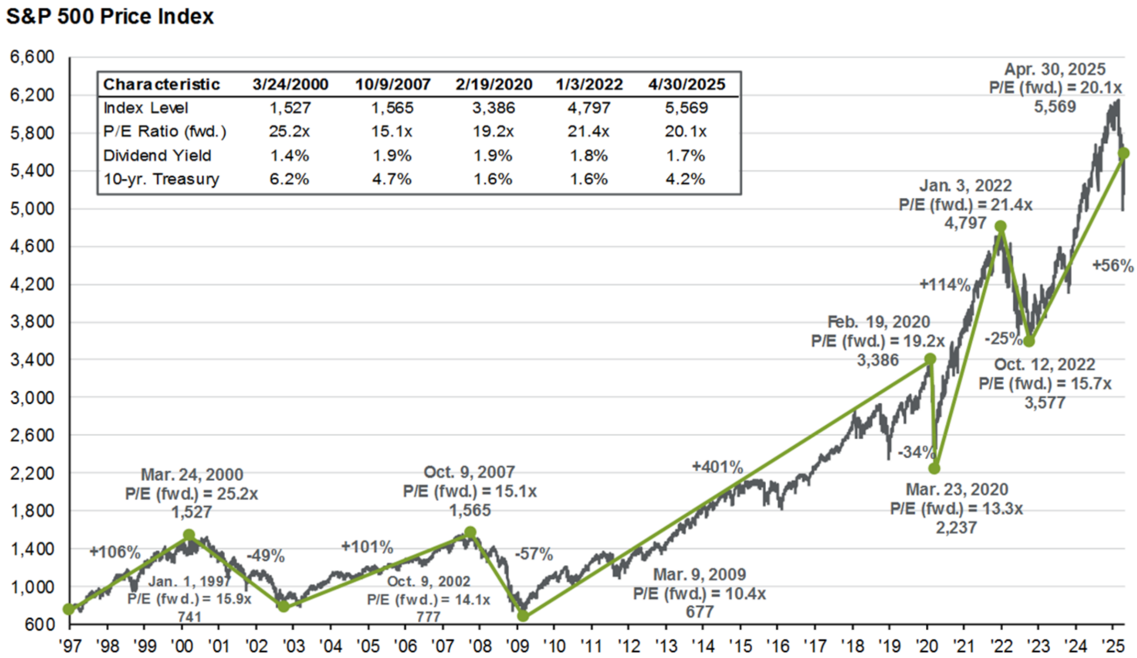
Notes: 1. Japan: A score above 50 indicates consumer optimism, below 50 shows lack of consumer confidence and 50 indicates neutrality.
2. Euro zone and UK: -100 indicate extreme lack of confidence, 0 denotes neutrality while 100 indicates extreme confidence.
3. India and US: Higher the index value, higher is the consumer confidence.
4. For financial condition index (pertaining to EMEs constructed by Goldman Sachs), a reading below 100 is accommodative and vice versa. As for the AEs, the index constructed by Bloomberg is a z-score where a positive value indicates accommodative/easy financial conditions and vice versa.

Source: Bloomberg.

U.S. Markets

U.S. Equities

Chart 3: S&P 500 Index Valuation relative to last 30 years



Source: JP Morgan

Chart 4: Global Heat Map

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 YTD	2025 MTD
Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.3%	Japan TOPIX 28.3%	US S&P 500 25.0%	MSCI Europe ex-UK 11.2%	US S&P 500 6.3%
MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -2.5%	US S&P 500 26.3%	Japan TOPIX 20.5%	MSCI EM 8.9%	MSCI Asia ex-Japan 5.3%
US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -12.2%	MSCI Europe ex-UK 17.3%	MSCI Asia ex-Japan 12.5%	UK FTSE All-Share 8.6%	Japan TOPIX 5.1%
UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -18.1%	MSCI EM 10.3%	UK FTSE All-Share 9.5%	MSCI Asia ex-Japan 8.1%	MSCI Europe ex-UK 4.9%
MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -19.4%	UK FTSE All-Share 7.9%	MSCI Europe ex-UK 8.1%	Japan TOPIX 1.8%	MSCI EM 4.3%
MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -19.7%	MSCI Asia ex-Japan 6.3%	MSCI EM 8.1%	US S&P 500 1.1%	UK FTSE All-Share 4.1%

Source: FTSE, LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars

“The Symbolic Rating downgrade. The ratings agency Moody’s cut America's pristine sovereign credit rating by one notch in May, the last of major ratings agencies to downgrade the country, citing concerns about the nation's growing $36 trillion debt pile. The agency downgraded the U.S. rating by a notch to "Aa1" from "Aaa", citing rising debt and interest, and reflecting increased concern about rising debt in big economies. The “AAA” club has been shrinking for years. With the loss of the last remaining AAA rating for the U.S., the group of countries that are the highest ranked by the three biggest agencies is 11, down from more than 15 before the 2007-08 financial crisis. The United States still carries the second-highest rating of AA. Moody's was the last of the big three agencies, after S&P Global and Fitch, to lower its U.S. rating, the only time it has done so since 1949. **S&P was the first agency to cut, in 2011, for the first time since granting the U.S. its triple-A rating in 1941. Fitch followed in 2023.**

While the rating downgrade was a reminder of the national debt pile, the U.S. economy is navigating a pivotal moment—caught between persistent inflationary pressures, a shifting global trade landscape, and cautious optimism about future growth. As policymakers, businesses, and consumers adapt to this evolving environment, the choices made today could shape the economic trajectory for years to come. **The long-standing “U.S. exceptionalism” premium—built on strong consumer demand, a dynamic labor market, and supportive fiscal policy—is being reassessed**. As other economies begin to close the growth gap, the U.S. dollar is facing renewed scrutiny. Treasury bond yields are also rising, driven by a surge in the term premium amid uncertainty over inflation and fiscal sustainability.

Moving to equities, S&P 500 led global equity markets in May, advancing 6.3% amid a broad-based rally. The information technology sector outperformed. The Q1 2025 earnings season showed us that U.S. companies started the year in a position of strength. The strong market performance was underpinned by a robust first quarter earnings season. With 97% of S&P 500 companies reporting, the blended y-o-y earnings growth rate was 12.4%. This marks the second consecutive quarter of double-digit earnings growth for the index. Nevertheless, earnings for the “Magnificent 7” grew around twice as much as those of the S&P 500, as big tech shook off any doubts that began to emerge after the Chinese “DeepSeek” artificial intelligence (AI) model demonstrated impressive performance in January. If the Mag 7 were a major drag on the broader S&P on the way down earlier this year, they're proving to be a major boon on the way back up. Further, most world indices have recovered the bulk of the losses triggered by the April 2 "Liberation Day" sell-off. Since then, the Roundhill Magnificent 7 exchange-traded fund has gained 11%, far outpacing the 4.5% rise in the S&P 500. By contrast, the equal-weight S&P, which strips out the oversized influence of the megacaps, is barely up 1%. **However, the big take away is that Q1 earnings were recorded before the tariff uncertainty shook markets in April.**

Over the next few quarters, we suspect that the economy and corporate earnings will be distorted by several factors. First, the reported GDP for Q1 2025 was negative 0.3%. Yet, the negative print was due to a significant amount of purchasing of foreign goods prior to the implementation of the tariffs. Excluding the impact of these purchases, the real underlying fundamental rate of economic growth would have been positive. Q2 GDP is poised to be skewed to the upside as this effect is reversed. **The Atlanta Fed GDP Now estimate for Q2 GDP is 4.6%.**

At this point, it’s nearly impossible to determine when trade negotiations will be completed and what the terms of those negotiations will be. While the worst of the tariffs have been paused, we suspect it won’t be until those deadlines approach that new agreements may be finalized. Until then, as news emerges regarding the progress and substance of trade negotiations, these headlines could have an outsize positive or negative impact on markets. **Given this uncertainty and to add up overvalued/overweighted U.S. in global portfolios, there is a strong case to diversify in to more stable developed markets and selectively in to emerging markets like India for global investors.**

While U.S. equities have often traded at relatively high valuations historically, those periods generally lacked the kind of tariff-driven uncertainty we're seeing now. In times of heightened uncertainty, such as the current environment marked by geopolitical tensions and trade policy disruptions, valuation becomes more critical. Investors may be less willing to tolerate stretched multiples when visibility around earnings, supply chains, and macroeconomic stability diminishes. This "exceptional" uncertainty could prompt a sharper re-pricing of risk, making markets less forgiving of high valuations than in more stable periods.

U.S. Bonds – Vulnerable to foreign ownership and tariff led inflation

Table 2: Foreign ownership of U.S. Treasuries

Holdings at end of time period	USD Bn	USD Bn
Country	2025-02	2024-02
Japan	1126	1148
China, Mainland	784	775
United Kingdom	750	712
Cayman Islands	418	310
Luxembourg	413	356
Canada	406	365
Belgium	395	320
France	354	271
Ireland	339	341
Taiwan	295	258
Switzerland	291	281
Hong Kong	274	217

Source: U.S treasury department

Nothing has changed with regards U.S over the last month except that bond yields have moved up and the rating downgrade by Moody's has taken place. We have maintained the same extract as last month and view regards U.S. bonds.

It is uncertain today to assess the implications of tariffs for US debt. The market's focus on the implications of tariffs for US borrowing has shifted in recent weeks from an emphasis on how much money tariffs could raise in revenue to concerns about the prospect of a downturn, which could lead to higher government borrowing due to lower tax receipts and increased spending needs. Concerns about the path of the US economy. Growing trade tensions complicate the case for owning treasuries as a hedge against volatility, given the possibility that tariffs could drive down growth while boosting inflation.

The other big vulnerability for U.S. in the midst of the current tariff war is its relatively high level of debt and foreign ownership of it. Just last year, the US's cost to service its debt climbed so high that it exceeded its entire defence budget for the first time. Other countries know the high level of US debt is a serious vulnerability; if rates rise, it causes the US to spend significantly more servicing its debt.

Few countries are using the high ownership of U.S. treasuries as a negotiating tool in this tariff war and this has resulted in greater buying of gold, which seems to have become the preferred "safe haven". Gold was the big beneficiary of April's uncertainty, marking a new all-time high at USD 3500 on 22 April.

Given the economic fallout stemming from ongoing uncertainty and the back-and-forth surrounding tariffs, we expect the Federal Reserve to intervene at some point. U.S. Treasury markets have already started to price in this dovish shift, with yields across the curve moving lower in recent weeks. The 10-year yield has fallen notably, reflecting both lower growth and inflation expectations. This dynamic may persist, especially if the Fed signals a more accommodative stance in upcoming meetings.

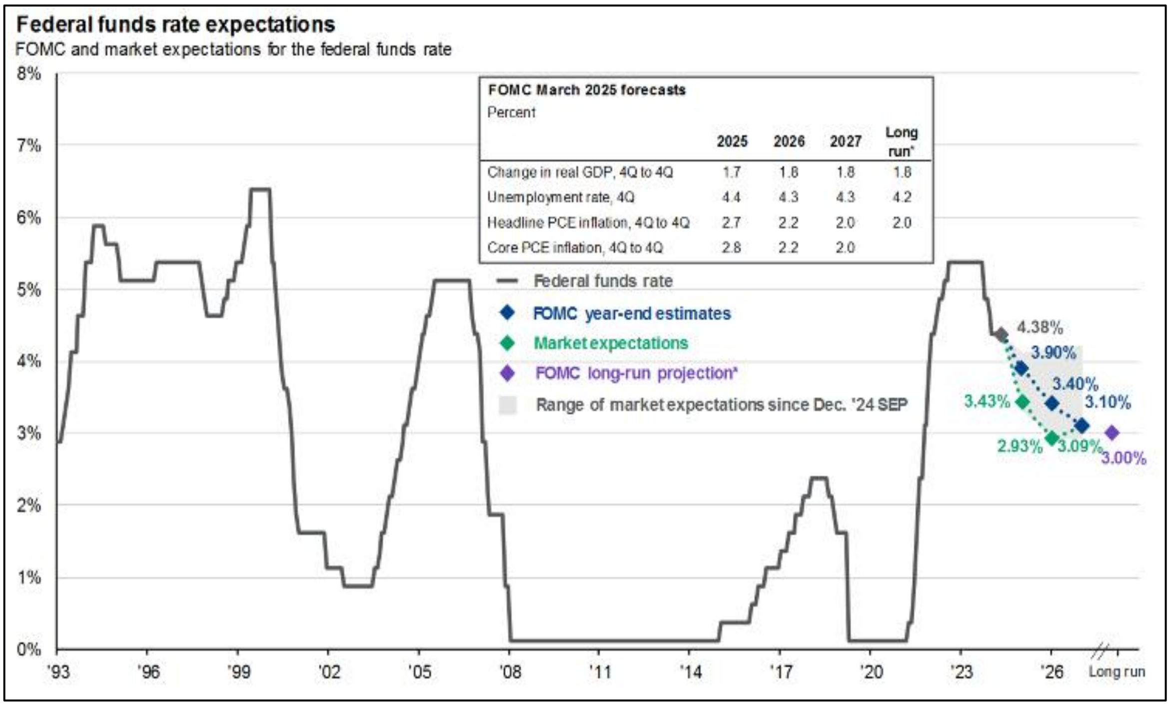
For the remainder of the year, we are pencilling in 2–3 rate cuts as policymakers may have to cushion the economy from downside risks and softening global demand. We maintain a constructive view on U.S. duration in the near term, particularly in the belly and long end of the curve, as a hedge against continued macro volatility.

Table 3: Yield of U.S. treasuries as of 30 May 2025

Duration	Rate
1-Year	4.11%
5-Year	3.96%
10-Year	4.41%
30-Year	4.92%

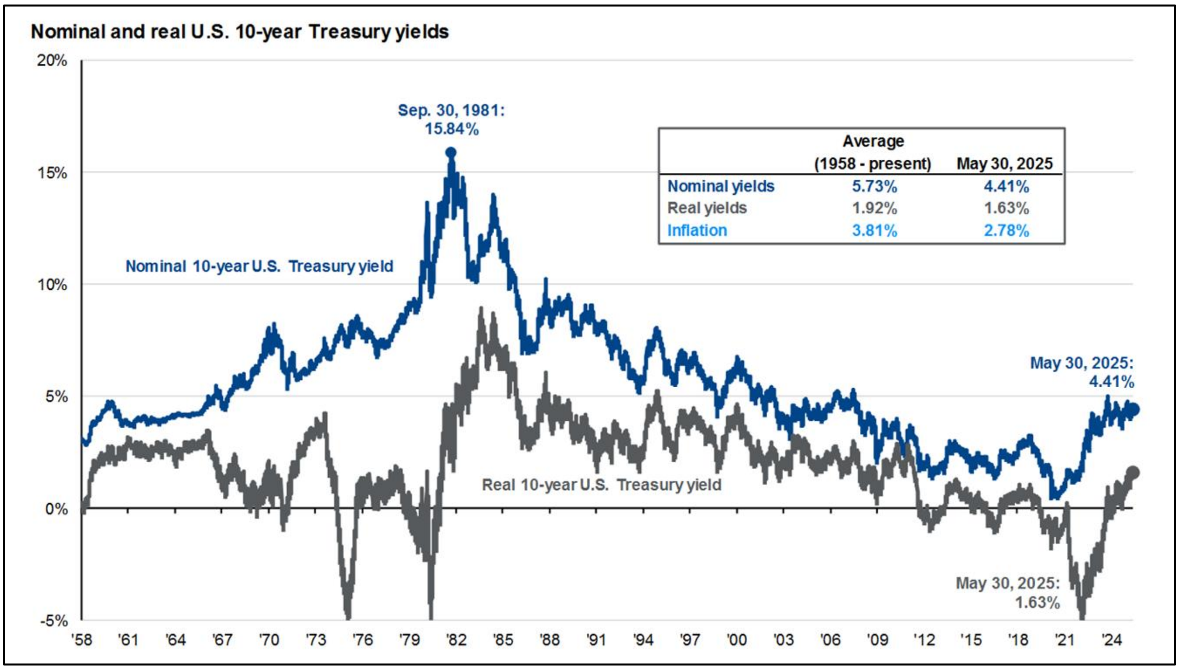
Source: StatLane Research

Chart 5: Fed Funds rate



Source: J.P.M Guide to markets

Chart 6: U.S. Real Yields



Source: J.P.M Guide to markets

India

Monetary Policy Statement, June 4 to 6, 2025

The Monetary Policy Committee (MPC) after assessing the current and evolving macroeconomic situation, the MPC voted to reduce the policy repo rate by 50 bps to 5.5% with immediate effect. Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) shall stand adjusted to 5.25% and the marginal standing facility (MSF) rate and the Bank Rate to 5.75%. This decision is in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth.

The MPC noted that economic activity continues to maintain the momentum in 2025-26, supported by private consumption and traction in fixed capital formation. The sustained rural economic activity bodes well for rural demand, while continued expansion in services sector is expected to support the revival in urban demand. Investment activity is expected to improve in light of higher capacity utilization, improving balance sheets of financial and non-financial corporates, and government's capital expenditure push. Taking all these factors into account, real GDP growth for 2025-26 is projected at 6.5%.

CPI headline inflation continued its declining trajectory in March and April, with headline CPI inflation moderating to a nearly six-year low of 3.2% (y-o-y) in April 2025. This was led mainly by decline in food inflation. The outlook for inflation points towards benign prices across major constituents. The record wheat production and higher production of key pulses in the Rabi crop season should ensure adequate supply of key food items. Going forward, the likely above normal monsoon along with its early onset augurs well for Kharif crop prospects as well. CPI inflation for the financial year 2025-26 is now projected at 3.7%.

The MPC further stated that a total amount of ₹9.5 lakh crore of durable liquidity was injected into the banking system since January. As a result, after remaining in deficit since mid-December, liquidity conditions transitioned to surplus at the end of March. This is also evident from the tepid response to daily VRR auctions and high SDF balances – the average daily balance during April-May amounted to ₹2.0 lakh crore. To further provide durable liquidity, it has been decided to reduce the cash reserve ratio (CRR) by 100 basis points (bps) to 3% of net demand and time liabilities (NDTL) in a staggered manner during the course of the year. This reduction will be carried out in four equal tranches of 25bps each with effect from the fortnights beginning September 6, October 4, November 1 and November 29, 2025. The cut in CRR would release primary liquidity of about ₹2.5 lakh crore to the banking system by December 2025. Besides providing durable liquidity, it will reduce the cost of funding of the banks, thereby helping in monetary policy transmission to the credit market.

Economic backdrop

In this phase of global uncertainty, the Indian economy presents a picture of strength, stability, and opportunity. First, strength comes from the strong balance sheets of the five major sectors - corporates, banks, households, government, and the external sector. Second, there is stability on all three fronts – price, financial, and political – providing policy and economic certainty in this dynamically evolving global economic order. Third, the Indian economy offers immense opportunities to investors through 3Ds – demography, digitalisation and domestic demand. This 5x3x3 matrix of fundamentals provides the necessary core strength to cushion the Indian economy against global spillovers and propel it to grow at a faster pace.

During 2025-26 so far, domestic economic activity has exhibited resilience. Agriculture sector remains strong. With a very good harvest in both the kharif as well as rabi cropping seasons, the supply of major food crops is comfortable. The reservoir levels remain healthy. Industrial activity is gaining gradually, even though the pace of recovery is uneven. Services sector is expected to maintain momentum. PMI services stood strong at 58.8 in May 2025, indicating robust expansion in activity. On the demand side, private consumption, the mainstay of aggregate demand, remains healthy, with a gradual rise in discretionary spending. Rural demand remains steady, while urban demand is improving. Investment activity is reviving as reflected by high-frequency indicators.

Going forward, the outlook for agriculture sector and rural demand is expected to receive further impetus by the expected above normal southwest monsoon rainfall. On the other hand, sustained buoyancy in services activity should nurture revival in urban consumption. The healthy balance sheets of banks and corporates; government's continued thrust on capex; elevated capacity utilisation; improving business optimism and easing of financial conditions should help further revive investment activity. Trade policy uncertainty however continues to weigh on merchandise exports prospects, while conclusion of free trade agreement (FTA) with the United Kingdom and progress with other countries should provide a fillip to trade in goods and services. Spillovers emanating from protracted geopolitical tensions, and global trade and weather-related uncertainties pose downside risks to growth. Taking all these factors into consideration, real GDP growth for 2025-26 is projected at 6.5%

Among the high frequency indicators of industrial economic activity, data for April indicates that supply chain pressures remain below the historical average levels in April. Growth in port traffic, although moderating from March, remained strong and above its post-COVID average in April 2025. After registering a double-digit growth in Q4 FY25, construction sector indicators-steel consumption and cement production- witnessed a moderation in April 2025. However, available high frequency indicators for the services sector reflect resilience in economic activity in April.

Gross GST collections (centre plus states) stood at ₹2.4 lakh crore in April 2025 – the highest monthly collection since the inception of GST in 2017 – registering a robust growth of 12.6% y-o-y.

Table 4: High Frequency indicators

(y-o-y, per cent)

Sector	Indicator	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Urban demand	Passenger Vehicles Sales	1.2	4.3	4.9	-2.0	-1.6	-0.4	1.1	4.4	11.4	3.5	3.7	3.7	5.5
Rural demand	Two-Wheeler Sales	30.8	10.1	21.3	12.5	9.3	15.8	14.2	-1.1	-8.8	2.1	-9.0	11.4	-16.7
	Three-Wheeler Sales	16.1	14.4	12.3	5.1	8.0	6.7	-0.7	-1.3	3.5	8.6	4.7	10.5	-0.7
	Tractor Sales	-3.0	0.0	3.6	1.6	-5.8	3.7	22.4	-1.3	14.0	11.4	35.9	25.4	7.7
Trade, hotels, transport, communication	Commercial Vehicles Sales	3.5			-11.0			1.3			1.6			
	Port Cargo Traffic	1.3	3.8	6.8	5.9	6.7	5.8	-3.4	-4.9	3.4	6.2	6.8	13.8	7.0
	Domestic Air Cargo Traffic	0.3	10.3	10.3	8.8	0.6	14.0	8.9	0.3	4.3	6.9	-2.5	4.9	
	International Air Cargo Traffic	16.2	19.2	19.6	24.4	20.7	20.5	18.4	16.1	10.5	7.1	-6.3	3.3	
	Domestic Air Passenger Traffic *	3.8	5.9	6.9	7.6	6.7	7.4	9.6	13.8	10.8	14.1	12.1	9.9	10.5
	International Air Passenger Traffic *	16.8	19.6	11.3	8.8	11.1	11.2	10.3	10.7	9.0	11.1	7.7	4.7	11.8
	GST E-way Bills (Total)	14.5	17.0	16.3	19.2	12.9	18.5	16.9	16.3	17.6	23.1	14.7	20.2	23.4
	GST E-way Bills (Intra State)	17.3	18.9	16.4	19.0	13.1	19.0	18.3	5.4	17.9	23.3	14.9	20.3	22.9
	GST E-way Bills (Inter State)	9.6	13.6	16.3	19.6	12.5	17.7	14.4	44.1	17.1	22.8	14.4	20.1	24.2
	Hotel occupancy	-1.4	-2.6	-3.1	3.6	0.7	2.1	-5.3	11.1	-0.2	1.2	0.6	1.9	
	Average revenue per room	4.8	1.8	2.8	7.6	5.2	3.5	4.8	10.7	8.9	8.7	14.0	11.2	
	Tourist Arrivals	7.7	0.3	9.0	-1.3	-4.2	0.4	-1.4	-0.1	-6.6	-0.2	-8.6		
Construction	Steel Consumption	12.1	13.5	19.5	14.4	10.0	11.8	8.9	9.5	5.2	10.9	10.9	13.6	4.6
	Cement Production	0.2	-0.6	1.8	5.1	-2.5	7.6	3.1	13.1	10.3	14.3	10.8	12.2	6.7
PMI Index#	Services	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7

<<Contraction-- Expansion>>

Note: **#:** Data in levels. ***:** April 2025 data are based on the monthly average of daily figures. The Heat-map is constructed for each indicator for the period July-2021 till date.

Sources: SIAM; Ministry of Railways; Tractor and Mechanisation Association; Indian Ports Association; Office of Economic Adviser; GSTN; Airports Authority of India; HVS Anarock; Ministry of Tourism; Joint Plant Committee; and IHS Markit.

India's merchandise exports expanded for the second consecutive month, growing by 9.0% (y-o-y) to USD 38.5bn in April 2025. Merchandise imports at USD 64.9bn expanded by 19.1% (y-o-y) in April 2025. India's merchandise trade deficit increased to USD 26.4bn in April 2025 from USD 19.2bn a year ago.

CPI headline inflation declined by a cumulative 45 basis points during March-April 2025, from 3.6% in February 2025 to a low of 3.2% in April 2025 – the lowest reading since July 2019. As vegetable prices continued to record a strong seasonal correction, food inflation dropped to a 42-month low of 2.1% in April from 3.8% in February 2025. CPI excluding food and fuel inflation also edged up to 4.2% y-o-y in April 2025.

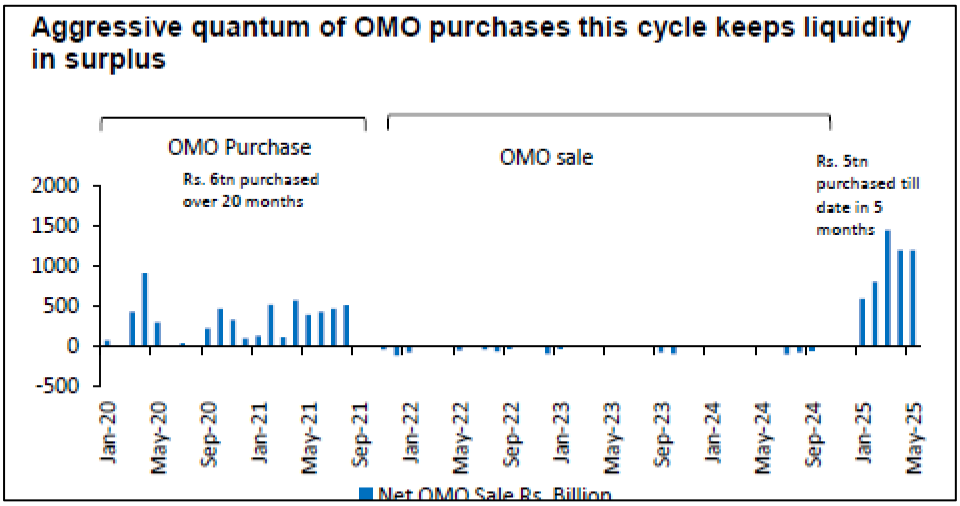
Systemic liquidity

A total amount of ₹9.5 lakh crore of durable liquidity was injected into the banking system since January. As a result, after remaining in deficit since mid-December, liquidity conditions transitioned to surplus at the end of March. This is also evident from the tepid response to daily VRR auctions and high SDF balances – the average daily balance during April-May amounted to ₹2.0 lakh crore.

Reflecting the improvement in liquidity conditions, the weighted average call rate (WACR) – the operating target of monetary policy – traded at the lower end of the LAF corridor since the last policy. The comfortable liquidity surplus in the banking system has further reinforced transmission of policy repo rate cuts to short term rates. However, we are yet to see a perceptible transmission in the credit market segment, though we must keep in mind that it happens with some lag.

The Reserve Bank of India (RBI) has announced a calibrated reduction in the Cash Reserve Ratio (CRR) by 100 basis points to 3% of Net Demand and Time Liabilities (NDTL), aimed at enhancing system-wide liquidity on a durable basis. The cut will be implemented in four equal tranches of 25 bps each, effective from the fortnights beginning September 6, October 4, November 1, and November 29, 2025. This move is expected to infuse approximately ₹2.5 lakh crore of primary liquidity into the banking system by the end of December 2025. Beyond easing structural liquidity pressures, the step is likely to reduce banks' cost of funds, thereby supporting improved monetary policy transmission into credit markets. The RBI has also reaffirmed its intent to remain vigilant and proactive in responding to evolving liquidity and financial conditions

Chart 7: Open Market Operations by RBI



Source: SBIMF

Foreign exchange reserves as on 4th April, 2025, India's foreign exchange reserves stood at USD 691.5bn, providing an import cover of about 11 months. Overall, India's external sector remains resilient as key indicators stay robust.

Trends in Credit and Deposit growth

Scheduled commercial banks (SCB) credit growth moderated to 10.9% as on May 2, 2025 (15.9% a year ago) due to weaker momentum effect and unfavourable base effect. SCBs' deposit growth (excluding the impact of the merger) decelerated from 10.6% as on March 21, 2025 to 10.3% as on May 2, 2025, with the base and momentum effect offsetting each other. SCBs' incremental credit-deposit ratio declined during the previous two months to 82.3% as on May 2, 2025, with deposit accretion outpacing that of credit during this period.

India Equities

Over the last 12 months, the Indian equity market has largely traded within a range, once short-term fluctuations are set aside. The Nifty 50 was around 22,400 in May 2024, rose to about 26,300 by September, declined to nearly 22,000 in March 2025, and has since recovered to the 25,000 mark. The recent rally from March onward has been driven more by price expansion than earnings growth, resulting in elevated P/E multiples across large, mid, and small-cap segments— and also relative to developed and other emerging markets. While current valuations suggest a need for caution, India's strong macroeconomic fundamentals continue to make it an increasingly compelling destination for global investors.

In this phase of global uncertainty, the Indian economy presents a picture of strength, stability, and opportunity. First, strength comes from the strong balance sheets of the five major sectors - corporates, banks, households, government, and the external sector. Second, there is stability on all three fronts – price, financial, and political – providing policy and economic certainty in this dynamically evolving global economic order. Third, the Indian economy offers immense opportunities to investors through 3Ds – demography, digitalisation and domestic demand. This 5x3x3 matrix of fundamentals provides the necessary core strength to cushion the Indian economy against global spillovers and propel it to grow at a faster pace.

India is among the few large global economies projected to see 6%-6.5% real GDP growth over the next few years, driven by many factors, from manufacturing and infrastructure buildouts to tax reforms to growing middle class. Indian economy just had started to recover with 2 big pivots – Positives emerging out of the Union Budget (Tax reliefs and lower fiscal glide path) & RBI focus shifting from inflation to growth through regular liquidity infusion and rate cuts. In February, India's fiscal budget focused on boosting consumption while maintaining key policy targets such as fiscal consolidation and capex growth. The government also set the stage for next-generation reforms in infrastructure and technologies, such as artificial intelligence and broadband connectivity.

While India is primarily a domestically driven economy, it is not immune to major geopolitical conflicts. Prolonged geopolitical tensions could impact commodity prices and disrupt trade. However strong external balances and lower export base coupled with geopolitical neutrality may provide India with a strong economic moat in the current scenario.

In such an environment, we believe accumulation in structurally sound themes and businesses — particularly those benefiting from localization, supply-chain resilience, and secular demand trends — will be critical. Investors who can see through the volatility and stay focused on the macro narrative will be best positioned to benefit when clarity returns.

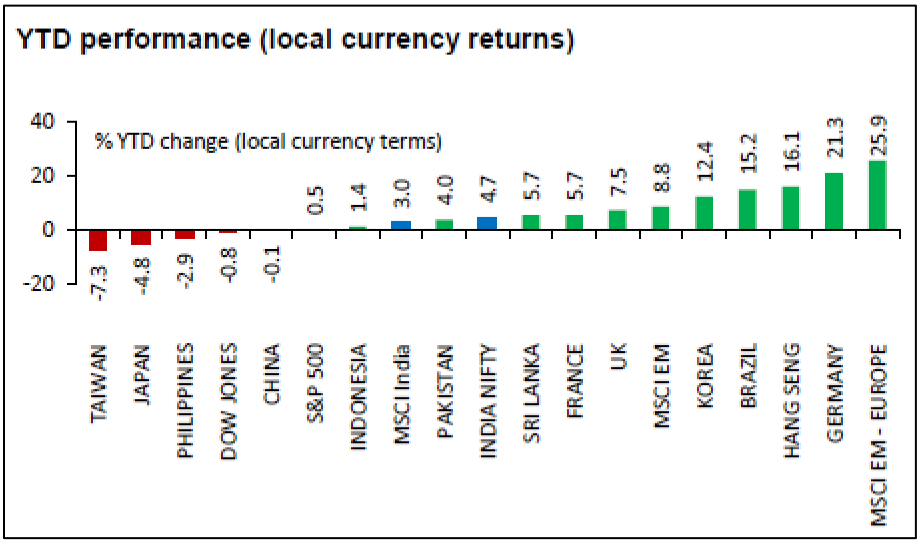
Further our Constructive view on equities is on account of four key factors.

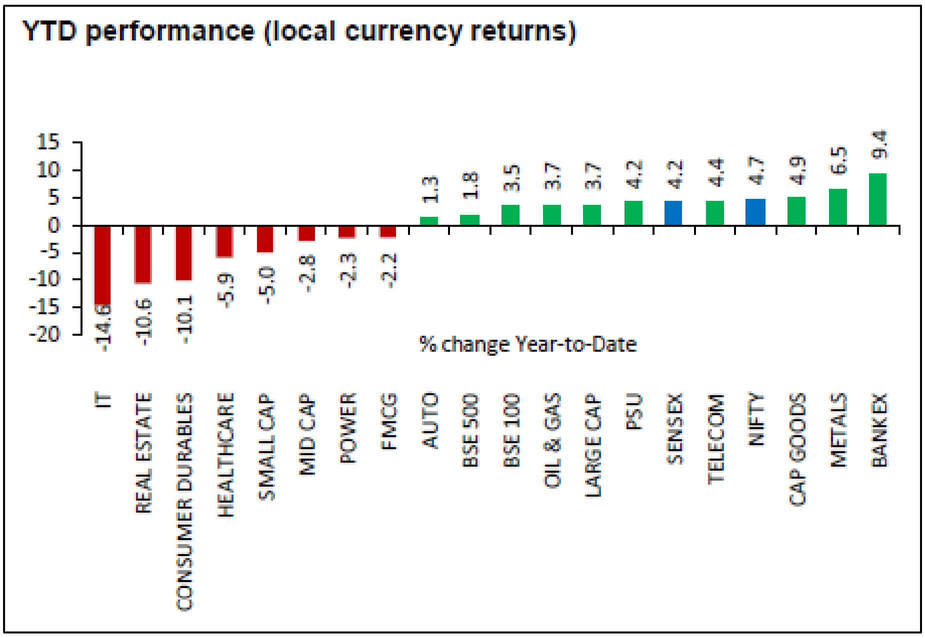
- **Consensus earnings estimates remain robust**, with FY26 and FY27 earnings likely to be around 12% + CAGR which should be supportive for markets.
- Recently announced Union budget paved the way for lower fiscal deficit, tax relief and maintaining the momentum around capex
- RBI’s pivot. RBI is now fully leaning towards supporting growth as inflation remains anchored
- **WTI crude oil has declined significantly from USD 78 per barrel to USD 66 per barrel since last May.** As oil is one of India's major import commodities, this sharp fall in prices can substantially reduce the country's import bill. A lower import bill helps narrow the trade deficit, thereby improving the overall current account balance. This can also ease pressure on the Indian rupee and contribute positively to inflation control and fiscal stability.

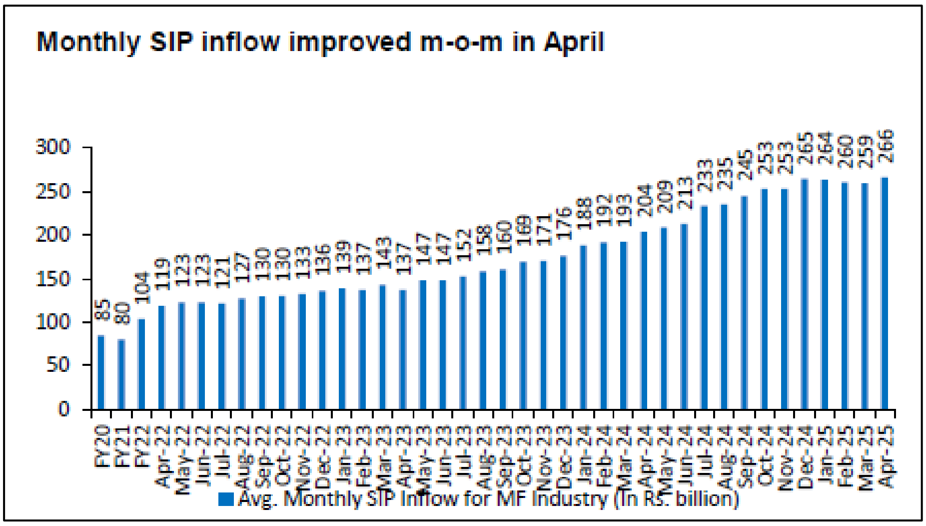
At StatLane, we've been consistently highlighting in our monthly reports since October that 2025 is shaping up to be a year driven by *Macros and Phase of Accumulation*. The early signs are now becoming clearer — this is not a market for short-term plays but one that rewards patience, positioning, and understanding of the broader economic shifts. We prefer accumulation in the large and midcaps space and remain selective in the small cap space. During this accumulation phase, investors may focus on stocks across sectors, with an emphasis on those driven by domestic demand. However, we believe that a prolonged correction in externally dependent sectors may present attractive opportunities, particularly in the IT, Pharma and chemicals sectors.

Trends in Indian Equity Market

Charts 8-9-10: Global and Domestic markets, domestic sectors performance and domestic SIP flows







Source: AMFI, NSE India, SBI MF, BSE

Chart 11: Nifty EPS trend

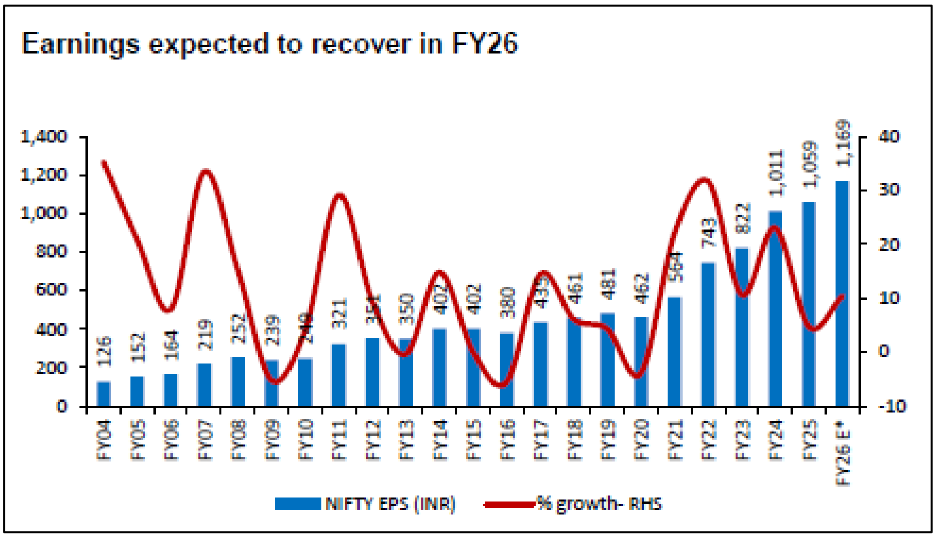


Chart 12: Nifty Q4 FY25 Sales

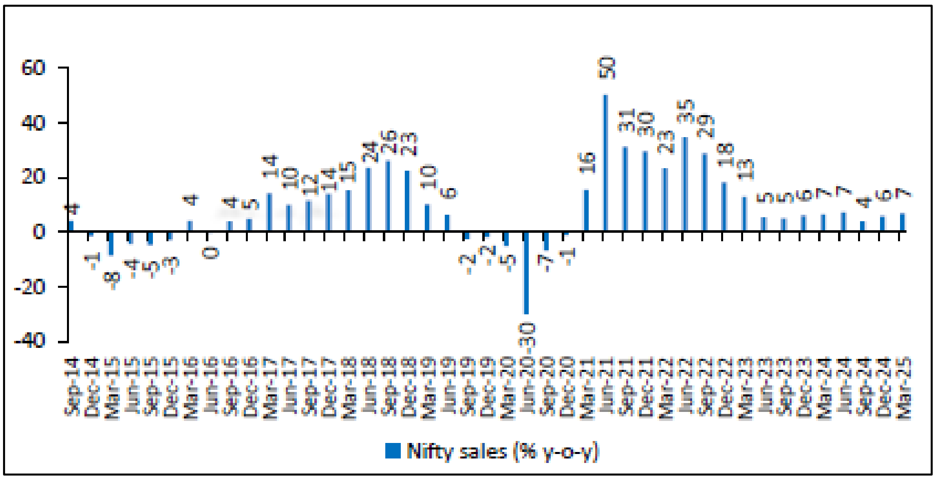
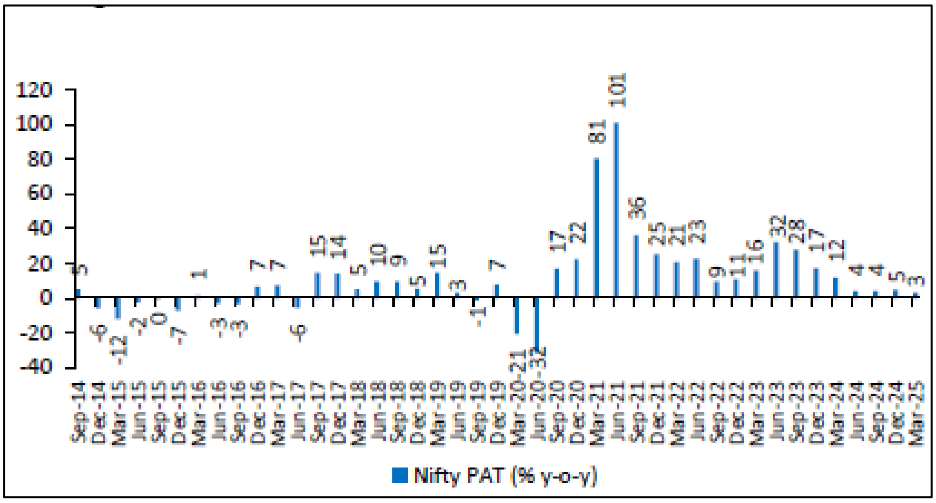


Chart 13: Nifty Q4 FY25 PAT



Source of charts on this page: MOSL, SBIFM Research; NB: Results released for 50 NIFTY companies for March 2025 quarter, historical data is for all the NIFTY 50 companies, EPS growth is adjusted for Axis bank losses for FY23

Chart 14: FII trends

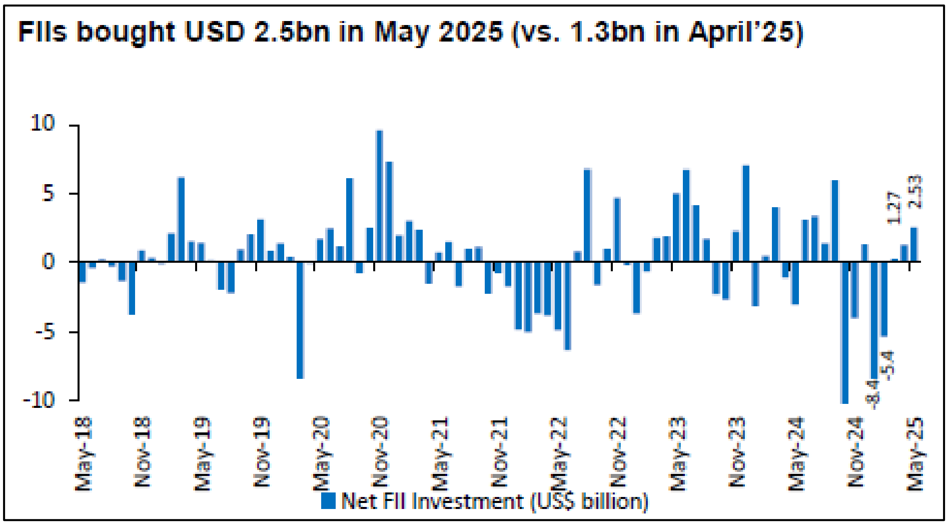


Chart 15: DII trends

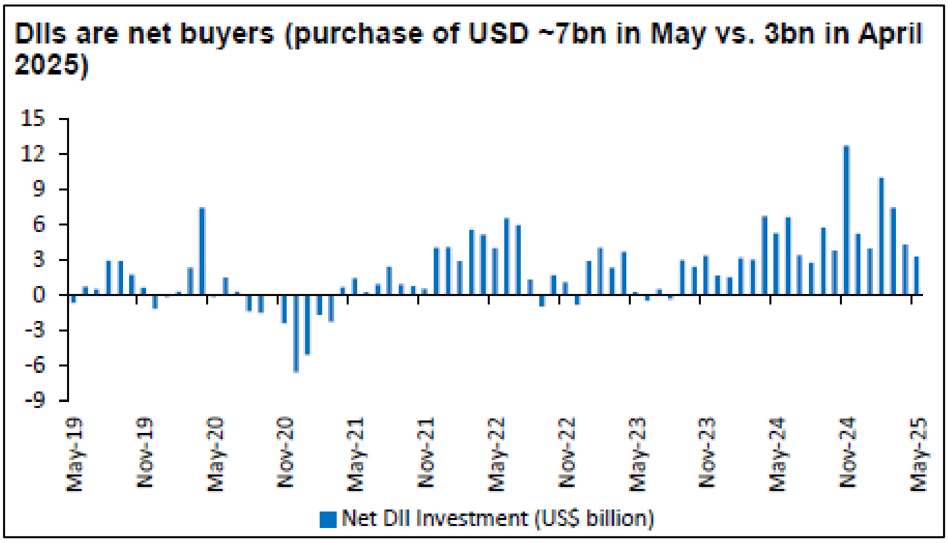
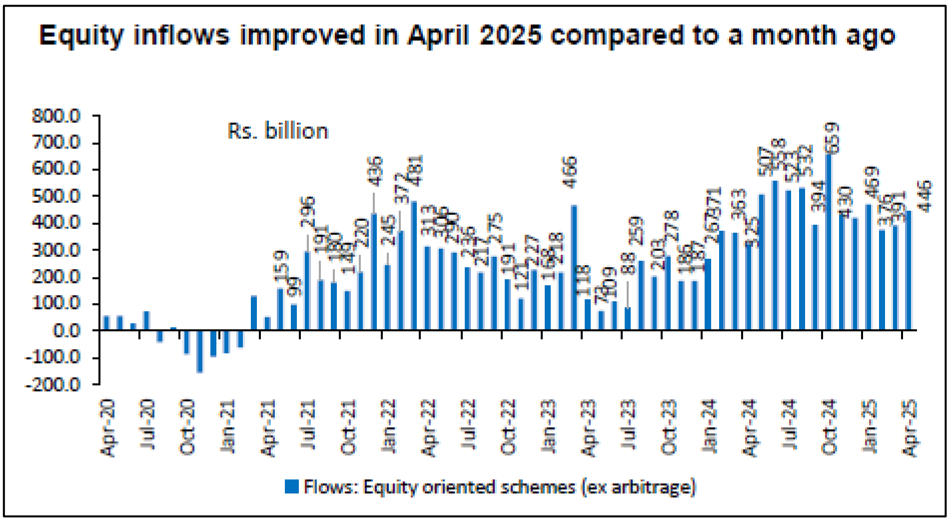


Chart 16: Domestic Equity MF flows



Source of charts on this page: Bloomberg, SBIMF, AMFI

India Bonds: Bonds have rallied well in May as well

The Monetary Policy Committee (MPC) meet that took place in June 2025 has reduced the policy repo rate by 50 bps to 5.5%after assessing the current and evolving macroeconomic situation. Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) shall stand adjusted to 5.25% and the marginal standing facility (MSF) rate and the Bank Rate to 5.75%. This decision is in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth.

The MPC noted that economic activity continues to maintain the momentum in 2025-26, supported by private consumption and traction in fixed capital formation. The sustained rural economic activity bodes well for rural demand, while continued expansion in services sector is expected to support the revival in urban demand. Investment activity is expected to improve in light of higher capacity utilization, improving balance sheets of financial and non-financial corporates, and government's capital expenditure push. Taking all these factors into account, real GDP growth for 2025-26 is projected at 6.5%.

CPI headline inflation continued its declining trajectory in March and April, with headline CPI inflation moderating to a nearly six-year low of 3.2% (y-o-y) in April 2025. This was led mainly by decline in food inflation. The outlook for inflation points towards benign prices across major constituents. The record wheat production and higher production of key pulses in the Rabi crop season should ensure adequate supply of key food items. Going forward, the likely above normal monsoon along with its early onset augurs well for Kharif crop prospects as well. CPI inflation for the financial year 2025-26 is now projected at 3.7%.

Inline, with our assessment over many months, bonds have delivered strong returns over last 1 year in the backdrop of increased equity market volatility. Lesser correlation between bonds and equities are pivotal for investor portfolios. **Given the rally, we now prefer short dated bonds and funds with modified duration of less than 3 years. We prefer over weight allocation to AAA, AA+ rated bonds over high-risk credits**.

Post the Monetary policy outcome (June 2025), it is important for investors to expect lower fixed income returns going ahead as yields have rallied a lot over the last 1 year and large part of the rate cut cycle is behind us. We re-iterate to reduce duration of the bond portfolio and consider adding hybrid products offered by mutual funds over pure fixed income play to take advantage of tax benefits offered by such products. Investors are advised to consider their risk profile and appetite before considering such hybrid products.

Table 5: Yield movement

	2023 end	2024 end	Mar-25	Apr-25	May-25	m-o-m (in bps)	YTD change (in bps)
Repo rate	6.50	6.50	6.25	6.00	6.00	0	-50
1 Yr T-Bill	7.13	6.69	6.47	5.91	5.63	-29	-106
3M T-Bill	6.93	6.55	6.52	5.90	5.62	-28	-93
3 year GSec	7.07	6.73	6.39	5.98	5.77	-21	-96
5 year GSec	7.09	6.72	6.44	6.05	5.72	-33	-100
10 year GSec	7.18	6.79	6.58	6.36	6.26	-9	-53
3 Yr Corp Bond*	7.78	7.58	7.42	6.97	6.71	-26	-86
5 Yr Corp Bond*	7.79	7.46	7.34	6.96	6.79	-17	-67
10 Yr Corp Bond*	7.76	7.24	7.20	7.08	6.99	-10	-25
1 Yr IRS	6.64	6.51	6.04	5.66	5.55	-11	-96
5 Yr IRS	6.19	6.20	5.90	5.63	5.63	0	-58
Overnight MIBOR Rate	6.90	7.15	7.20	6.00	5.86	-14	-129
10 year SDL	7.65	7.15	7.04	6.75	6.74	-1	-41
INR/USD	83.21	85.61	85.47	84.49	85.58	-1.3^	0^
Crude oil Indian Basket**	77.43	73.34	72.30	67.73	64.05	-5.4^	-12.7^

Source: SBIMF

Market Data

Table 6: India Index Performance (%) 31 May 25	1M	1Y	3Y
Nifty 50	1.9	11.0	15.6
Nifty Next 50	3.5	-0.4	20.5
Nifty 200	2.8	9.3	17.6
Nifty 500	3.6	9.0	18.4
Nifty Midcap 150	6.4	10.0	26.6
Nifty Smallcap 250	9.6	8.4	25.6
Nifty Microcap 250	12.1	14.2	34.9
Theme/Sector			
Nifty Auto	4.6	0.4	27.3
Nifty Bank	1.4	14.4	17.1
Nifty CPSE	3.0	0.2	38.2
Nifty Defence	21.9	31.6	78.9
Nifty FMCG	-1.4	4.8	14.6
Nifty Infrastructure	2.1	4.3	23.6
Nifty IT	4.7	17.5	10.2
Nifty Manufacturing	4.8	4.1	23.6
Nifty Metals	7.1	-4.8	21.2
Nifty Oil and Gas	1.9	-1.0	14.4
Nifty Pharma	-1.5	14.8	20.3

Source: NSE India, StatLane Research, Index = Total Return Index, Performance over 1 year is Compounded Annualised

Table 7: India Smart Beta Index Performance (%) 31 May 25	1M	1Y	3Y
Nifty Alpha 50	7.4	-3.0	20.1
NIFTY Alpha Low-Volatility 30	0.9	0.8	19.9
Nifty Low Volatility 50	0.4	12.9	18.7
Nifty100 Low Volatility 30	1.0	11.2	17.1
Nifty200 Momentum 30	4.3	-9.8	20.4
NIFTY200 Quality 30	3.9	7.3	16.0
NIFTYY200 Value 30	2.6	0.7	35.6

Source: NSE India, StatLane Research, Index = Total Return Index, Performance over 1 year is Compounded Annualised

Table 8: India Valuation Metric	P/E 31 May 25
Nifty 50	22.3
Nifty Next 50	21.8
Nifty 500	24.6
Nifty Midcap 150	34.3
Nifty Smallcap 250	32.1
Nifty Microcap 250	23.6
Nifty Auto	24.3
Nifty CPSE	13.7
Nifty FMCG	43.7
Nifty India Defence	61.2
Nifty India Manufacturing	29.3
Nifty Infrastructure	23.4
Nifty IT	27.9
Nifty Oil & Gas	13.7
Nifty Pharma	30.7
Nifty Private Bank	17.6
Nifty PSU Bank	7.1
Nifty Realty	46.6

Table 9: India Smart Beta Valuation Metric	P/E 31 May 25
Nifty Alpha 50	40.8
NIFTY Alpha Low-Volatility 30	33.3
Nifty Low Volatility 50	33.9
Nifty100 Low Volatility 30	30.9
Nifty200 Momentum 30	39.1
NIFTY200 Quality 30	29.6
NIFTY200 Value 30	9.6

Source: NSE India, StatLane Research

Table 10: Global Index Performance (%) 31 May 25	1M	YTD	1Y
S&P 500	6.3	1.0	13.5
Dow Jones Industrial Average	3.9	-0.6	9.3
S&P Developed Ex US BMI	5.0	16.5	13.9
S&P Europe 350	4.8	21.0	14.2
S&P Asia 50	7.2	10.3	23.7
S&P EM BMI	5.4	7.3	14.4

Note 1: Source: S&P Dow Jones Indices LLC and/or its affiliates. 2 Index performance based on total return (USD)

Table 11: Global Smart Beta Index Perf (%) 31 May 25	1M	YTD	1Y
S&P 500 Momentum	11.4	11.3	30.5
S&P 500 Equal Weight	4.3	1.3	8.5
S&P 500 Growth	9.4	2.4	20.6
S&P 500 Value	3.0	-0.4	5.0
S&P 500 Low Volatility	1.1	5.9	15.1

Note 1: Source: S&P Dow Jones Indices LLC and/or its affiliates. 2 Index performance based on total return (USD)

Table 12: India Fixed Income Yield %	31 May 25	Month back
Repo	6.00	6.00
1 Year CD	6.43	6.73
10 Year GOI	6.27	6.35
5 Year PSU	6.74	6.91
1 Year NBFC	6.86	7.02
3 Year NBFC	6.90	7.12
US 10 Year Treasury	4.42	4.17

Source: StatLane Research

Table 13: India Fixed Income Indices			Index Return %	
As of 31 May 25	Yield (%)	MD (Yrs)	1M	1Y
Nifty 5Y SDL Index	6.36	4.34	1.55	12.07
Nifty 10Y SDL Index	6.74	7.13	1.05	12.54
NIFTY 10 yr Benchmark G-Sec	6.31	7.50	1.26	11.98
NIFTY Corporate Bond Index	6.96	2.50	1.13	9.27
NIFTY Banking and PSU Debt Index	6.68	2.66	1.11	9.52
NIFTY Low Duration Debt Index	6.66	0.58	0.69	8.04
NIFTY Short Duration Debt Index	6.59	1.87	1.02	9.01
NIFTY Credit Risk Bond Index	8.38	1.92	0.90	9.41
NIFTY Long Duration Debt Index	6.86	9.19	0.75	10.89
NIFTY Short Duration G-Sec Index	5.80	2.06	1.13	9.71
NIFTY Long Duration G-Sec Index	6.86	12.49	0.10	12.00

Source: NSE India, StatLane Research, MD=Macaulay Duration

Table 14: Commodities	31 May 25	30 Apr 24
Oil (Brent)	63.95	63.59
Gold	3293	3305

Source: StatLane Research

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