

2nd JUNE 2025

The month of May brought a mix of volatility and recovery across global markets, with significant geopolitical and macroeconomic developments shaping investor sentiment. While volatility spiked early in the month, particularly in Indian equities, both domestic and global markets regained composure by month-end as macroeconomic data and policy actions offered a degree of support.

Indian markets faced significant volatility in the first half of May, triggered by renewed tensions with Pakistan following cross-border strikes, causing a sharp sell-off. However, as situation stabilized in the latter half of May, Indian equity markets rebounded. The rally was driven by anticipation of a further RBI rate cut following favourable inflation data and improving domestic sentiment. India GDP grew by 7.4% in Q4FY25. The Indian rupee weakened against dollar, closing the month at ₹85.53 while gold prices traded in narrow ranges and ended the month flat.

In the U.S., market, sentiment remained cautious amid a mix of policy and credit concerns. President Trump proposed new tariffs—25% on Apple iPhones not made in the U.S. and 50% on EU imports—though implementation was pushed to July. Inflation moderated to 2.3% year-on-year in April, down from 2.4% in March, easing immediate pressure on the Federal Reserve. Bond market came under severe stress following Moody's downgrade of the U.S. credit rating, citing rising fiscal deficits and unsustainable debt trajectory.

EQUITIES:

INDIA: Nifty 50 rose 1.7% in May, closing at 24,751, fuelled by strong performance in Realty (+7.2%), Metals (+7.1%) and Energy (+5.3%) sectors; contrarily, FMCG (-2.1%) and Healthcare (-1.2%) performed poorly due to margin pressures and trade tensions. Nifty 50 earnings per share rose to INR 1,108 in Q4FY25 – up 0.8% from the previous quarter and 5.4% in from FY24. On a sectoral basis, Banks (+16.4%), Financial services (+13.1%) and IT (+12.3%) results were strong while Oil & Gas (-32%) and Auto (-7%) sector results were poor year on year.

Overall corporate earnings were a mixed bag with Financials reporting strong profit growth and stable asset quality, while consumer-facing sectors witnessed margin pressures due to weak rural demand. FIIs were cautious amid heightened geopolitical tensions, however, as market sentiment improved and volatility subsided, FIIs resumed buying and ended the month with net inflow of ₹14,683 Cr. DIIs remained consistent net buyers throughout the month, providing crucial support during market volatility. DIIs ended the month with a net inflow of ₹56,302 Cr. Their steady inflows reflected strong retail participation and confidence in India's long-term growth outlook.

INDICES	CURRENT	10 YR MEDIAN	AVERAGE (SI)	COMMENT
NIFTY 50 (PE)	22.3	23.5	21.0	FAIRLY VALUED
NIFTY 50 (PB)	3.6	3.6	3.6	UNDERVALUED
NIFTY 50 (DIVIDEND YIELD)	1.3	1.3	1.4	OVERVALUED
NIFTY MIDCAP 150 (PE)	34.3	33.3	31.0	OVERVALUED
MIDCAP 150 (PB)	5.2	3.3	3.0	OVERVALUED
MIDCAP 150 (DIVIDEND YIELD)	0.8	1.0	1.2	OVERVALUED
SMALLCAP 100 (PE)	31.7	33.8	44.1	UNDERVALUED
SMALLCAP 100 (PB)	4.3	3.3	3.0	OVERVALUED
SMALLCAP 100 (DIVIDEND YIELD)	0.7	1.0	1.1	OVERVALUED
S&P 500 (PE)	28.4	24.0	25.7	OVERVALUED

Data as on 31-May-2025

As of May 31st, Nifty 50 trades at 22.32x, above its all-time average of 21x but below its 10-year median of 23.5x; Nifty Midcap 150 current PE of 34.26x is above its all-time average of 31x and above its 10-year median of 33.1x.

U.S.: U.S. equity markets ended higher in May 2025, supported by easing inflation data, resilient corporate earnings, and continued investor optimism around AI. Nasdaq 100 and S&P 500 rose an impressive 9% and 6.2% respectively while Dow Jones rose 3.9% for the month. Despite mid-month volatility triggered by Moody's downgrade of the U.S. sovereign credit rating, markets recovered as investors looked past fiscal concerns and focused on strong performance from mega-cap tech names. Post their recovery in May 2025, valuations remain stretched – Nasdaq 100 currently trades at 38x PE compared to the 10-year average of 24x and S&P 500 trades at 28x PE compared to 10-year average of 24.8x.

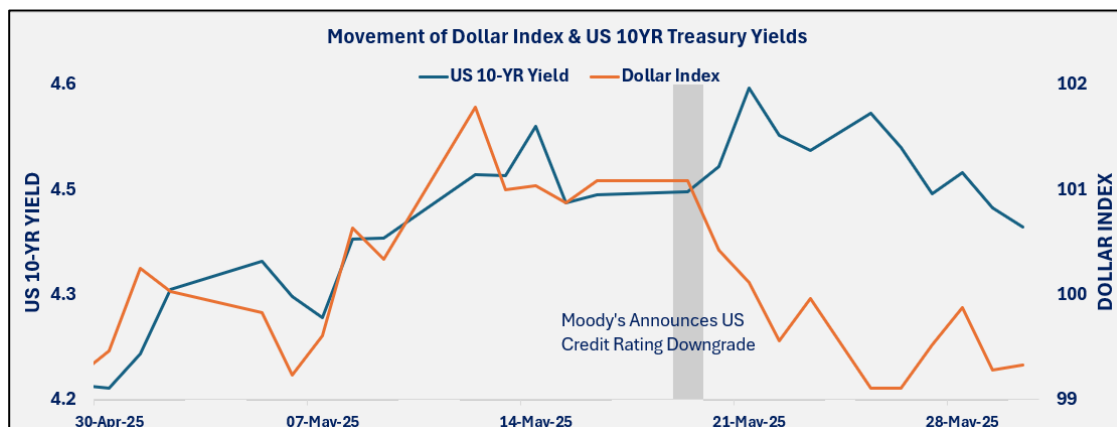
FIXED INCOME:

BOND YIELD	CURRENT	10 YR AVERAGE	AVERAGE (SI)	COMMENT
1 YEAR	5.60%	6.11%	6.60%	OVERVALUED
2 YEAR	5.71%	6.33%	6.80%	OVERVALUED
3 YEAR	5.73%	6.52%	7.00%	OVERVALUED
4 YEAR	5.83%	6.69%	7.20%	OVERVALUED
5 YEAR	5.84%	6.77%	7.30%	OVERVALUED
6 YEAR	5.99%	6.92%	7.40%	OVERVALUED
7 YEAR	6.04%	7.00%	7.50%	OVERVALUED
8 YEAR	6.23%	7.06%	7.50%	OVERVALUED
9 YEAR	6.25%	7.05%	7.50%	OVERVALUED
10 YEAR	6.21%	6.95%	7.40%	OVERVALUED

Data as on 31-May-2025

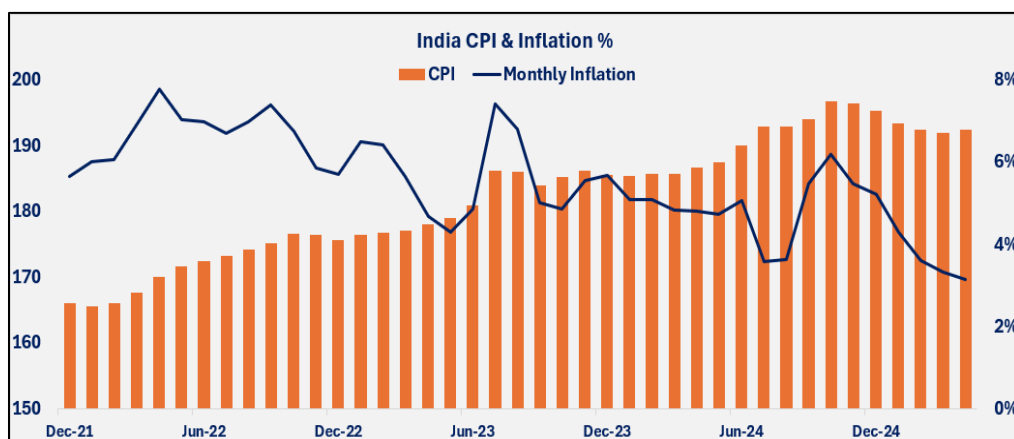
INDIA: India bond yield curve shifted downward with 10-year yield dropping to 6.21% from 6.35%. Falling inflation and fiscal comfort due to the RBI dividend of ₹2.69 Cr (up 27% from FY24) allowed yields to stay range-bound, with hopes of an eventual dovish tilt from the central bank following slowing GDP growth.

U.S.: U.S. fixed income saw heightened volatility. Long-term Treasury yields spiked sharply following weak demand at government bond auctions and Moody's downgrade of the U.S. sovereign credit rating, citing rising fiscal deficits in recent years and a deteriorating debt outlook. US deficit was approximately 6.15% of GDP in 2024 and has averaged around 8.8% of GDP since COVID struck – significantly above the historical deficit average of 2.57% of GDP. The 10-year U.S. Treasury yield rose to 4.4% from 4.16% while the 30-year Treasury yield crossed 5% - levels last seen in 2007.



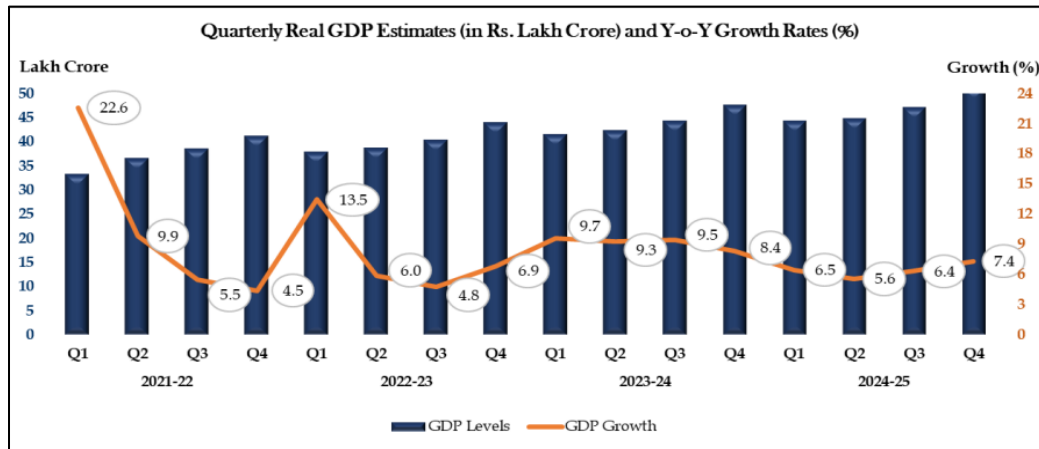
Source: Investing.com

COMMODITIES & CURRENCY: Oil prices declined slightly with Brent Cude closing the month at \$62.78 from \$63.12 per barrel from amid increased OPEC+ production and signs of slowing global demand. The Indian Rupee traded in a narrow range against the US Dollar, closing at approximately ₹85.53. The Dollar Index exhibited weakness post-Moody's downgrade dropping from 101.8 to 99.11 before stabilizing at 99.33. Gold was relatively calm for the month, started at ₹97,910/10g and closing the month at ₹97,310/10g, returning -0.5%.



Source: RBI

ECONOMIC INDICATORS: India's economic growth in Q4FY25 beat estimates after accelerating to 7.4%, however, FY25 GDP grew at 6.5% - lowest in the last 4 years, slowing down sharply from the 9.2% growth in FY24. India's fiscal deficit for FY25 stood at ₹15.77 lakh crore, or 4.8% of GDP, meeting the revised estimate set by the Union Budget. India headline CPI fell for the sixth month in a row to 3.16% - lowest since 2019 & slightly below 3.34% seen in April. India unemployment rate fell to 5.1% in April 2025, reflecting a recovering labour market. Net GST collection for May 2025 grew by 20.4% over May 2024 at ₹ 1.73 Lakh Cr; gross revenue from domestic transactions saw a 13.7 per cent increase.



Source: MOSPI

The Federal Reserve held its key interest rate unchanged in a range between 4.25%-4.5%, where it has been since December 2024. The post-meeting statement noted “Uncertainty about the economic outlook has increased further” and “the risks of higher unemployment and higher inflation have risen”. US inflation fell to 2.3% in April from 2.4% in March.

OUTLOOK & STRATEGY:

As we look ahead to June 2025, markets are expected to remain sensitive to macro data, central bank commentary, and geopolitical signals. Key focus areas include the RBI's June monetary policy stance, the benefits of the India-UK Free Trade Agreement, and U.S. fiscal policy signals post-rating downgrade.

Our focus remains on accumulating high-quality assets within the undervalued to fairly valued range. Large-cap equities are currently trading around fair value, and we maintain our recommendation of strategic additions, particularly for portfolios that are underweight in equity.

U.S. equities may face a more cautious environment in the near term as markets digest the implications of Moody's credit rating downgrade and elevated Treasury yields. While strong earnings from large-cap tech and easing inflation have supported recent gains, policy uncertainty—particularly around trade and fiscal direction—could contribute to intermittent volatility. We maintain a selective and balanced approach, favoring high-quality large-cap names with strong cash flows and earnings stability.

Gold has seen a strong rally in recent months, driven by geopolitical tensions and safe-haven demand, and may now enter a phase of consolidation. Our position is unchanged, which is maintaining current positions in gold rather than increasing exposure at this stage, due to the potential for near-term volatility—which may offer opportunities to add.

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