

Market Review

June - 2025

Macroeconomic Update

The month of June saw geo-political tensions flare up as conflict between Israel and Iran escalated, drawing in US as well. However, a ceasefire was reached after 12 days without disrupting the crucial trade routes which was a relief. In US, retail sales fell more than expected led by decline in auto sales as rush to beat tariff related price hike subsided and consumer confidence deteriorated as well. On the positive front, the labour markets in the US remain solid with decent wage growth and declining unemployment rate. Eurozone's manufacturing PMI in June was recorded at its highest level since August 2022 though it still remains in contraction zone. China's manufacturing PMI returned to expansion zone, but new export orders continue to contract due to tariff related uncertainty.

Inflation moved within a narrow range and largely on expected lines across most major economies. The Fed kept policy rates unchanged in its meeting in June and projected that growth could be lower while inflation higher due to tariffs. As inflation returned to target, the ECB cut interest rate by 25bps but signalled a pause thereafter. Bank of England, on the other hand kept the interest rate unchanged but signalled possibility of a cut in near future.

Q4FY25 Current Account recorded a surplus: India's Current Account recorded a surplus of 1.3% of GDP in Q4FY25 led by higher invisibles surplus driven by non-software services and higher remittances. On an annual basis, the Current Account Deficit (CAD) was recorded at 0.6% of GDP. This was second year in a row when CAD was under 1% of GDP. On the other hand, India's capital account in Q4FY25 recorded a deficit for second quarter in a row led by lower net FDI and higher portfolio outflows from equities. On an annual basis, capital account surplus at 0.4% of GDP was at a multiyear low.

India's external situation (USD billion)	Q4FY24	Q4FY25	Change	FY24	FY25	Change
Trade surplus/(deficit)	-52.0	-59.5	-7.5	-244.9	-287.2	-42.3
Net Oil Imports	26.5	30.2	3.7	94.6	122.4	27.9
Net Gold Imports	10.6	7.1	-3.5	42.1	53.5	11.4
NONG net imports	14.3	21.4	7.1	104.5	106.9	2.4
Invisibles surplus/(deficit)	56.6	72.9	16.3	218.8	263.8	45.0
Current Account Deficit (CAD)	4.6	13.5	8.9	-26.1	-23.4	2.7
As % of GDP	0.5%	1.3%	0.8%	-0.7%	-0.6%	-0.1%
Capital Account surplus/(deficit)	25.5	-5.6	-31.1	89.4	16.8	-72.6
FDI	2.3	0.4	-1.9	10.2	1.0	-9.2
FPI	11.4	-5.9	-17.3	44.1	3.6	-40.5
Loans	3.9	5.5	1.7	6.5	29.2	22.7
Banking capital	6.9	-9.0	-15.9	40.5	-9.8	-50.3
Others	1.1	3.4	2.3	-11.9	-7.1	4.8
BoP overall balance	30.8	8.8	-22.0	63.7	-5.0	-68.7

Source:- CMIE

Indian economic activity mixed in June: While the pace of 2W registrations moderated in June, that of PVs and CVs picked up. The uptick in economic activities was also visible in the in the PMI readings. While manufacturing PMI hit 14 month high in June on higher export orders, services PMI was recorded at 10 months high led by international sales. However, power demand remains in contraction mode and GST collections moderated compared to last month.

Macroeconomic Update (contd...)

Indicators	Units	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Retail registration - Auto®								
2W	YoY, %	-17.3	4.7	-5.8	-1.1	2.8	7.7	4.7
PV		0.2	18.6	-7.7	9.0	5.1	-0.4	2.1
MHCV		-4.2	4.6	-8.7	-0.6	1.3	-3.2	4.1
LCV		-6.4	12.2	-7.2	1.6	2.3	-3.7	6.3
Tractors		25.0	3.9	-16.1	-6.9	6.9	2.1	8.3
Gross GST Collection		7.3	12.3	9.1	9.9	12.6	16.4	6.2
Average E-Way bill generated		17.6	23.1	14.7	20.2	23.4	18.9	19.3
Power demand		5.9	2.7	-0.8	6.7	2.2	-4.9	-1.5
Digital Spending (UPI + IMPS)		22.3	22.7	15.2	20.4	18.0	19.0	16.5
Manufacturing PMI^		56.4	57.7	56.3	58.1	58.2	57.6	58.4
Services PMI^	Index	59.3	56.5	59	58.5	58.7	58.8	60.4
Unemployment *	%	7.8	7.9	8.4	7.7	7.7	6.7	7.5

Source: www.gstn.org.in, www.icegate.gov.in, CMIE, PIB, RBI, www.vaahan.parivahan.gov.in, www.posoco.in

^Number >50 reflects expansions and number <50 reflects contraction compared to previous month. @ - figures are preliminary data and are subject to revision.

* based on CMIE survey

Going forward, urban demand is likely to get a boost from income tax relief and easing monetary conditions while rural demand too is likely to remain steady on back of strong rabi output and prospects of above normal monsoon. However, global trade uncertainties may dampen sentiment and could weigh on India's growth.

Government finance in comfortable position aided by RBI dividend: Gross tax revenue has grown at a healthy pace in the first two months led by indirect tax collections even as direct tax collection growth has been sluggish. The Government has maintained pace of capex growth since March well into this financial year. Despite higher expenditure, higher than budgeted RBI dividend helped contain fiscal deficit in the first two months.

INR bn	2MFY25	2MFY26	YoY growth
Gross tax revenue	4,596	5,152	12.1%
Direct Tax Collections	2,256	2,368	5.0%
Indirect Tax collections	2,340	2,785	19.0%
Less: Share of states & others	1,398	1,635	17.0%
Net Tax collections	3,190	3,509	10.0%
Non-tax revenues	2,517	3,569	41.8%
Total revenue receipts	5,708	7,077	24.0%
Total Capital receipts	21	252	1108.6%
Total Receipts	5,728	7,330	28.0%
Total Revenue Expenditure	4,798	5,248	9.4%
Total Capital Expenditure	1,436	2,214	54.1%
Total Expenditure	6,235	7,461	19.7%
Fiscal Deficit	506	132	-74.0%
Fiscal deficit (% of GDP)	-0.2%	0.0%	

Source: CMIE

Trade deficit narrowed in May: Merchandise trade deficit fell in May'25 compared to the previous month led by decline in net oil imports. The non-oil non-gold (NONG) imports were largely stable compared to the previous month.

Amount in USD billion	Apr-25	May-25	Change
Trade Deficit / (Surplus)	26.4	21.9	-4.5
Net Oil Imports	13.3	9.1	-4.2
Net Gold Imports*	2.4	2.3	-0.1
NONG net imports^	10.7	10.5	-0.2

Source: CMIE, Ministry of Commerce; *Net Gold includes gold, silver and pearls precious & semiprecious stones adjusted for gems and jewellery exports. ^NONG refers to Non-Oil Non-Gold (as defined above) imports/exports

The trade deficit is likely to remain range-bound going forward. Further, healthy growth in services exports is likely to keep current account within manageable range. Trade deal negotiations with US will remain a key monitorable in the coming months.

Macroeconomic Update (contd...)

Retail inflation moderates further in May, likely to remain benign: India's CPI inflation in May was recorded at its lowest level since Mar'19 driven by further moderation in food prices. Core-Core (which excludes food, fuel, petrol, diesel, gold, silver and housing) also declined by 20bps to 3.6% suggesting benign momentum in core prices.

CPI inflation is likely to remain below 4% in the coming months due to favourable outlook on food inflation and favourable base effect.

Commodity prices: Flare up in geopolitical tensions in the middle east during the month led to rise in crude oil and other commodity prices in fear of disruption of trade routes. The prices cooled off subsequently as the conflict ended. Prices of industrial metals like copper and aluminium rose during the month.

YoY, %	Apr-25	May-25	Change in %
CPI	3.2	2.8	-0.4
Food & beverages	2.1	1.5	-0.6
Fuel and Light	2.9	2.8	-0.1
Housing	3.1	3.2	0.1
Transportation & Communication	3.7	3.8	0.2
Core-Core CPI [®]	3.8	3.6	-0.2

Source: CMIE; @-CPI excluding food, fuel, petrol, diesel, gold, silver and housing

	Market price (USD)*	June'25 (%) [^]	FY26TD (%) ^{&}
Brent Crude (per barrel)	67.6	5.8	-9.5
Gold (per ounce)	3,303	0.4	5.7
Steel (per tonne)	447	-0.1	-3.7
Zinc (per tonne)	2,741	5.6	-3.3
Copper (per tonne)	10,040	4.3	3.8
Aluminium (per tonne)	2,597	6.5	3.1
Lead (per tonne)	2,025	5.1	1.1

Source: Bloomberg; *Market prices as on May 31, 2025. [^]Y-o-Y change.
& - Change in FY26YTD

Summary and Conclusion:

Global growth prospects today face unprecedented uncertainty due to US' tariff policy and risk of geopolitical flare up. US growth is exhibiting early signs of cooling off but is still resilient especially its labour market. However, this is likely to deteriorate going forward as effects of tariffs and uncertainty weigh on prospects. Domestic demand in China remains subdued and deflationary forces have gathered steam. The global growth prospects hinges on the outcome of US trade policy and in this regard trade negotiations with different countries remain a key monitorable going forward.

India's growth momentum is exhibiting resilience. The high frequency indicators for June suggests that the growth momentum from last year has sustained in this fiscal as well. Going forward even if growth in FY26 is expected to remain at similar levels as compared to FY25, it will still be better than most global peers. Urban consumption is likely to get a boost going forward due to income tax relief announced by the Government and monetary easing by the RBI. Rural consumption too is likely to remain steady on the back of bumper rabi harvest, prospects of above normal monsoon, falling inflation and higher real rural wage growth. India's external sector also remains comfortable on the back of low current account deficit (due to better-than-expected services export) and adequate forex reserves. Rise in geopolitical tensions and a tariff related uncertainty are key near-term risks.

Looking ahead, the medium-term outlook for India's economy seems optimistic, in our view. This optimism is driven by opportunities arising from shift in the global supply chain, bi-lateral trade deal with various countries, enhanced infrastructure investments, the potential of resurgence in private sector capex, and the likely boost to private consumption.

Equity Market Update

June 2025 saw broad based rally for Indian equity markets. While NIFTY 50 / BSE Sensex Index ended the month with 3.1% and 2.6% gain respectively, small and mid-cap indices witnessed a sharper rise. All sectors ended the month with gain except FMCG. End of hostilities in the middle east and subsequent FPI buying helped fuel the rally in June.

All major global equity markets witnessed rally in June except the markets in UK, Germany and France which ended the month with marginal decline. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	June-25	FY26TD [^]
BSE Healthcare	3.9	6.9
BSE Information Technology	3.3	5.5
BSE Oil & Gas	3.1	10.9
BSE Metal	3.0	2.8
BSE Auto	2.2	12.1
BSE Power	2.0	5.3
BSE Capital Goods	1.7	15.3
BSE Bankex	1.6	7.8
BSE Fast Moving Consumer Goods	-0.3	4.1
NIFTY Smallcap 100	6.7	18.5
NIFTY Midcap 100	4.0	15.6
NSE Nifty 50 Index	3.1	8.5
BSE Sensex	2.6	8.0

% Change	June-25	FY26TD [^]	CY25TD [^]
KOSPI	13.9	23.8	28.0
Nikkei 225	6.6	13.7	1.5
NASDAQ Composite	6.6	17.7	5.5
MSCI Emerging Markets	5.7	11.0	13.7
S&P 500	5.0	10.6	5.5
Hang Seng	3.4	4.1	20.0
Shanghai Composite	2.9	3.3	2.8
FTSE 100	-0.1	2.1	7.2
DAX	-0.4	7.9	20.1
CAC 40	-1.1	-1.6	3.9

Source: Bloomberg; [^]Returns in FY26TD and CY25TD

FII's bought net equities worth USD 2.4 billion in June 2025 (May 2025: USD 1.7 billion) and have cumulatively bought equity worth USD 5.4 billion in 3MFY26 (3MFY25: Net sold USD 1.0 billion).

DII's bought net equity worth USD 8.5 billion in June 2025 (May 2025: USD 7.9 billion) and have cumulatively bought USD 19.7 billion in 3MFY26 (3MFY25: USD 15.4 billion). Net flows into Mutual funds were ~INR 22,051 crore in May 2025 (April 2025: ~INR 25,744 crore & May 2024: ~INR 37,837 crore).

Outlook

As on June 30, 2025, NIFTY 50 Index was trading at ~21x price to earnings multiple. Further, Market cap-to-GDP stood ~117% (based on CY25 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield* has widened recently [*Earnings yield = 1/(one year forward P/E)].

Chart 1

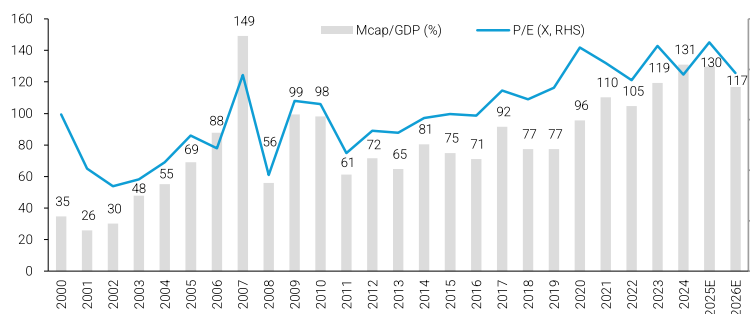
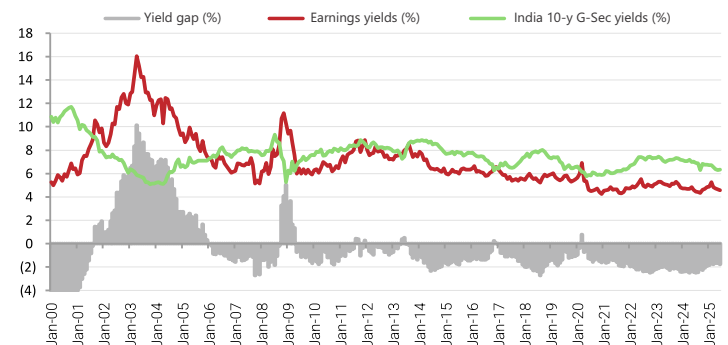


Chart 2



Source: Kotak Institutional Equities; For 2025 and 2026, the market cap as on June 30, 2025 is taken and divided by GDP estimates for CY25 and CY26

Equity Market Update (contd...)

After the recent rally, the valuations of all sectors except private banks are trading at a premium to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	30-Jun-25	LTA	Discount / Premium [^]
Cement	45.0	30.0	50.2
Utilities	15.8	11.3	39.6
Industrials	34.8	26.2	29.7
Energy	16.1	12.6	27.9
Pharma	28.5	24.2	17.7
PSU banks [@]	1.2	1.1	12.8
Metals	11.5	10.1	13.4
Tech	23.4	21.0	11.6
Consumer Discretionary	59.4	54.6	8.6
FMCG	37.4	36.0	3.9
Automobiles	20.3	20.1	1.2
Pvt Banks [@]	2.47	2.54	-2.7

Source: Kotak Institutional Equities. Stocks are part of Kotak Institutional Equities universe.

LTA – 10 Years average. Cells in green are sectors which are trading at premium. All figures are calculated based on 12 months forward estimates.

[^]to Long term (LT) average, [@]-Price to Book value.

Given the global uncertainties and aggregate valuation being higher than historical average, the importance of stock selection increases even more.

Over medium to long term, we remain optimistic on Indian equities considering strong macroeconomic fundamentals, attractive domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies. However, near-term risks include global trade tariff uncertainties, cyclical moderation in corporate earnings, and slowdown in government's reforms momentum etc.

Debt Market Update

10 year benchmark Gsec yield rose ~3bps in June to 6.32% and touched intra month high of 6.36% despite RBI reducing policy repo rate by 50bps against market expectation of 25bps. The yields on the longer end rose even as those on shorter end fell. The RBI's decision to change the monetary policy stance from 'accommodative' to 'neutral' within a gap of one policy might have taken market by surprise and signalled an end to the easing cycle which led to the hardening of yields on the longer end. Key events / news which influenced yields during the month are RBI's monetary policy review, RBI's decision to conduct Variable Rate Reverse Repo (VRRR) operation for a notified amount of Rs1trillion and 12-day conflict in the middle east involving Israel, Iran and US.

The 10-year corporate bond yields rose by 19bps compared to last month. The corporate bond yields spreads over Gsec also hardened mainly because of RBI's policy decision as described above. The table below gives a summary view of the movement of key rates and liquidity:

	May-25	Jun-25	Change (in bps)
MIBOR Overnight Rate (%)	5.86	5.52	-0.34
3M Gsec yield (%)	5.62	5.41	-0.21
10Yr Benchmark G-Sec Yield [^] (%)	6.29	6.32	0.03
AAA 10Year Corporate Bond Yields ^{*, &} (%)	6.84	7.03	0.19
AAA 10Y Corporate bond spread against 10Y benchmark [@] (bps)	55	71	16
Average net liquidity absorbed/infused by RBI* (INR billion)	1,711	2,740	

Source: Bloomberg, [^]-bi-annual yield; [#]-annualised yield; [&] - Average yield of NABARD paper provided by independent valuation agencies has been taken. [@] - Spreads calculated by subtracting non-annualised Gsec yields from annualised corporate bond yields.

*Average net daily liquidity infused / absorbed through Liquidity Adjustment Facility, exports refinance, marginal standing facility and term repos/reverse repos. Source: Bloomberg, RBI

Average net liquidity surplus increased to INR ~2.7trn at the end of June compared to a surplus of INR ~1.7trn in May as measures taken by the RBI continued to show effect. However, towards the end of the month RBI conducted 7 day VRRR auction to the tune of Rs1trn to mop up extra liquidity.

In the debt market, FPIs ended the month with net buying of USD 60 million in June 2025 (May 2025 net buy: USD 223 million).

Outlook

RBI action to ease liquidity conditions through a host of measures (OMO purchases, currency swaps, VRRs, CRR cut) since December 2024 and higher than expected dividend transfer to Government is likely to keep liquidity in ample surplus in the coming months. The Government too stuck to its fiscal consolidation path which is also positive from the debt market perspective. The RBI highlighted in its June policy review that the inflation is not only likely to be '*durably aligned*' (as noted in the April policy) but is '*likely to undershoot the target at the margin*' (as noted in June Policy) and has projected that CPI inflation of 3.7% for FY26.

In our view, medium term outlook on Indian fixed income market remains favourable, considering:

- Headline CPI inflation is likely to undershoot RBI target of 4% in FY26. Also, bank credit and overall growth momentum remains subdued.
- Liquidity is likely to be in ample surplus given RBI's past actions and CRR cut later this year
- External sector could remain comfortable in view of steady growth in services exports, decline in oil prices and adequate foreign exchange reserves.
- Government sticking to path of fiscal consolidation and reiterating to bring down its debt to GDP bodes well for supply of Gsec over the medium term
- Uncertainty around tariffs dampens growth sentiments

Key risks to the favourable outlook:

- Below normal monsoon posing risk to food prices
- Flare up in geo-political tensions leading to rise in crude oil prices

Overall, in our view, yields are likely to remain rangebound with a downward bias. In line with our positive outlook on Gsec yield, we expect the corporate bond yields to fall and spreads to compress over the medium term. Falling inflation and front loading of policy rate cuts is positive from yields perspective. Thus, in view of significant liquidity provision, and better corporate bonds spreads (over G-Sec), one may consider investment in medium duration (schemes with duration of up to 5 years) categories especially corporate bonds focussed funds in line with individual risk appetite. Further, as long bond spreads have widened over 10 year G-secs, investors with a relatively longer investment horizon could continue with their allocation to longer duration funds in line with individual risk appetite.

Source for various data points: Bloomberg, NSDL, CMIE, RBI, Kotak Institutional Research, World Bank, Daily valuation provided by ICRA/CRISIL

Glossary

AE	Advanced Economies
BoE	Bank of England
BoJ	Bank of Japan
BoP	Balance of Payment
bps	Basis points
CAGR	Compound Annual Growth Rate
CMIE	Centre for Monitoring Indian Economy
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CV	Commercial Vehicle
DIIs	Domestic Institutional Investors
EA	Euro Area
ECB	European Central Bank
FOMC	Federal Open Market Committee
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GFCE	Government Final Consumption Expenditure
GST	Goods and Services Tax
GVA	Gross Value Added
IMD	India Meteorological Department
INR	Indian Rupee
IMF	International Monetary Fund
IMPS	Immediate Payment System
JGB	Japanese Government Bonds
LCV	Light Commercial Vehicle
Mbpd	Million Barrels Per Day

MHCV	Medium and Heavy Commercial Vehicle
MIBOR	Mumbai Interbank Offered Rate
M-o-M	Month on Month
MPC	Monetary Policy Committee
MSP	Minimum Support Prices
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NFP	Non-Farm Payroll
NONG	Non-Oil Non-Gold
NSO	National Statistical Organization
OMO	Open Market Operation
PIB	Press Information Bureau
PLI	Production Linked Incentive
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PSU	Public Sector Undertaking
PV	Passenger Vehicle
RBI	Reserve bank of India
RE	Revised Estimates
RRR	Reserve Ratio Requirement (for banks in China)
SLR	Statutory Liquidity Ratio
UPI	United Payments Interface
US	United States of America
USD	United States Dollar
UST	US Treasuries
YoY	Year on Year

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