Market Review

May - 2025

Macroeconomic Update

The month of May started on a positive note for the global economy as US signed a trade deal with UK and agreed with China to temporarily (90 days) lower tariffs against each other. The US has indicated that more trade pacts with other countries could be signed soon, which is encouraging. US economy witnessed divergence in real vs survey data where tariff related uncertainty has dampened sentiments, but economy is holding up well as reflected in a strong labour market and decent retail sales. While Eurozone's manufacturing PMI was recorded at 33 month high in May, it remains in contraction. Similarly, tariff related uncertainty weighed on China's economy too, where manufacturing PMI remained in contraction for second month in a row.

Inflation moved within a narrow range and largely on expected lines across most major economies. While recent inflation print in the US were benign, inflation expectations have gone up due to tariff-related uncertainty. The US Fed, after keeping the rates unchanged, has indicated that the impact of tariffs could be inflationary, and risk to the dual mandate has increased significantly. China continues to face deflationary pressure as both consumer and producer prices are in contraction zone. The Euro strengthened against the USD as investors became increasingly wary of US fiscal and trade policies.

Q4FY25 GDP surpassed expectations: India's GDP growth was recorded at 7.4% YoY in Q4FY25 which was above consensus expectation of ~6.8%. The growth was driven mainly by acceleration in investment demand which in turn was driven by a surge in public capex in the final quarter of the fiscal. The net exports of goods and services (exports minus imports) too contributed to higher GDP as exports growth was positive, but imports contracted during the quarter. However, both private and Government consumption decelerated compared to previous quarter. The Gross Value Added (GVA) growth of 6.8% in Q4 too was above expectations and was driven mainly by construction activities although Agriculture, Forestry and Fishing growth too remained robust. The wide gap between GVA and GDP growth was due to lower subsidy payout in Q4 as GDP = GVA + (Indirect taxes minus Subsidies).

YoY change %	Q3FY25	Q4FY25	YoY change (%)	Q3FY25	Q4FY25
GDP	6.4	7.4	**GVA**	6.5	6.8
Private Consumption	8.1	6.0	Agriculture, Forestry and Fishing	6.6	5.4
Government Consumption	9.3	-1.8	Industry	4.8	6.5
Gross Capital formation	4.9	7.8	Manufacturing	3.6	4.8
Gross Fixed Capital Formation	5.2	9.4	Construction	7.9	10.8
			Services	7.4	7.3
Exports	10.8	3.9	Trade, Hotels, Transport, etc.	6.7	6.0
Imports	-2.1	-12.7	PADO	8.9	8.7

Source:- MoSPI, Note- PADO: Public Administration and Defence

Indian economic activity remained mixed in May: The PV and CV retail registrations contracted in May, but TW registrations recorded growth after two months of contractions. While manufacturing PMI moderated in May, GST collections growth surged to 16% YoY and GST collections surpassed INR 2 trillion for second consecutive month.

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Macroeconomic Update (contd...)

Indicators	Units	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Retail registration - Auto@								
2W	YoY, %	16.3	-17.3	4.7	-5.9	-1.1	2.7	7.3
PV		-11.4	0.1	18.5	-7.8	8.8	4.5	-3.8
MHCV		-8.8	-4.6	4.4	-9.0	-0.9	1.1	-3.6
LCV		-1.0	-6.4	12.2	-7.3	1.5	2.2	-4.1
Tractors		28.9	25.0	3.9	-16.1	-6.9	6.9	2.1
Gross GST Collection		8.5	7.3	12.3	9.1	9.9	12.6	16.4
Average E-Way bill generated		16.3	17.6	23.1	14.7	20.2	23.4	18.9
Power demand		4.0	5.9	2.7	-0.8	6.7	2.2	-4.9
Digital Spending (UPI + IMPS)		19.3	22.3	22.7	15.2	20.4	18.0	19.0
Manufacturing PMI^		56.5	56.4	57.7	56.3	58.1	58.2	57.6
Services PMI^	Index	58.4	59.3	56.5	59	58.5	58.7	58.8
Unemployment *	%	8.0	7.8	7.9	8.4	7.7	7.7	6.7

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: The Government was able to contain the FY25 fiscal deficit to 4.8% of GDP as per the revised estimates. The capital expenditure in FY25 exceeded revised estimates while revenue expenditure was curbed to stick to the fiscal deficit target suggesting Government's priority to improve the quality of expenditure. The Government has maintained capex momentum in FY26YTD as well. Capex registered a growth of 61% YoY in April (March 2025: 68%). Higher than budgeted dividend by RBI is likely to keep Government finances in comfortable position in FY26.

FY ending, in Rs bn	FY24	FY25	YoY growth	Apr-24	Apr-25	YoY growth
Gross tax revenue	34,648	37,952	9.5	2,550	2,715	6.5
Direct Tax Collections	19,220	21,697	12.9	1,351	1,311	-3.0
Indirect Tax collections	15,005	15,647	4.3	1,159	1,360	17.4
Less: Share of states & others	11,295	12,869	13.9	700	818	16.9
Net Tax collections	23,265	24,989	7.4	1,850	1,897	2.5
Non-tax revenues	4,019	5,375	33.8	273	672	146.1
Total revenue receipts	27,284	30,364	11.3	2,123	2,568	21.0
Total Capital receipts	605	418	-30.8	10	225	2057.4
Total Receipts	**27,889**	**30,782**	**10.4**	**2,133**	**2,793**	**30.9**
Total Revenue Expenditure	34,940	36,035	3.1	3,242	3,058	-5.7
Total Capital Expenditure	9,485	10,520	10.9	992	1,598	61.0
Total Expenditure	**44,425**	**46,555**	**4.8**	**4,235**	**4,656**	**10.0**
Fiscal Deficit	16,537	15,773	-4.6	2,101	1,863	-11.3
Fiscal deficit (% of BE)	95.3%	100.5%		12.5%	11.9%	
Fiscal deficit (% of GDP)	5.5%	4.8%		0.6%	0.5%	

Source: CMIE. Note: YoY: Year on year growth

Trade deficit rises in April: Merchandise trade deficit rose in Apr'25 compared to the previous month as overall imports remained elevated while exports declined marginally. The imports were led by higher non-oil non-gold (NONG) imports driven by chemicals, electronics and machinery goods.

Amount in USD billion	Mar-24	Apr-25	Change
Trade Deficit / (Surplus)	**21.5**	**26.4**	**4.9**
Net Oil Imports	14.1	13.3	-0.8
Net Gold Imports*	3.8	2.4	-1.4
NONG net imports^	3.6	10.7	7.1

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.

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Macroeconomic Update (contd...)

Retail inflation moderates further in April, likely to remain benign: India's CPI inflation in April was recorded at its lowest level since Jul'19 driven by driven by further moderation in food prices. Core inflation has inched up slightly due to rise in services price but remains within manageable levels.

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: The Organisation of Petroleum Exporting Countries (OPEC) announced two hikes in oil production, which would be undertaken in June & July 2025. Even with increased supply, Brent Crude prices rose slightly in May as global trade tensions eased after the US finalized trade agreements with both China and the UK (oil prices are down 14% in FY26YTD). Steel prices continue to decline and was recorded at its lowest level since June'16.

YoY, %	Mar-25	Apr-25	Change in %
CPI	3.3	3.2	-0.1
Food & beverages	2.9	2.1	-0.8
Fuel and Light	1.4	2.9	1.5
Housing	3.0	3.0	0.0
Transportation & Communication	3.4	3.7	0.3
Core-Core CPI@	3.5	3.8	0.3

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

	Market price (USD)*	May'25 (%)^	FY26TD (%)&
Brent Crude (per barrel)	64	1.2	-14.5
Gold (per ounce)	3,289	0.0	5.3
Steel (per tonne)	452	-0.7	-2.9
Zinc (per tonne)	2,597	1.5	-8.4
Copper (per tonne)	9,623	4.6	-0.5
Aluminium (per tonne)	2,438	2.8	-3.2
Lead (per tonne)	1,926	-1.1	-3.8

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. US growth is exhibiting early signs of cooling off and 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. It is encouraging that US is open to signing trade deals with different countries which will remove the air of uncertainty which is currently faced by businesses and consumers.

India's growth momentum is exhibiting resilience. The GDP data for Q4FY25 suggests that underlying growth momentum remains robust. High frequency indicators such as GST collections suggest that the growth momentum has sustained in FY26 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

May 2025 saw broad based rally for Indian equity markets. While NIFTY 50 / BSE Sensex Index ended the month with 1.7% and 1.5% gain respectively, small and mid-cap indices witnessed a sharper rise. Capital Goods, Metal, IT and Autos were the key outperforming sectors while FMCG, Banks and healthcare underperformed. Easing of trade tensions between US and China (temporary lowering of tariffs) and subsequent FII buying influenced market sentiments in April.

All major global equity markets witnessed rally in May as trade tensions showed signs of easing. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	May-25	FY26TD^
BSE Capital Goods	13.2	13.3
BSE Metal	5.9	-0.2
BSE Information Technology	5.3	2.1
BSE Auto	4.7	9.7
BSE Power	2.4	3.3
BSE Oil & Gas	2.0	7.5
BSE Healthcare	0.9	2.9
BSE Bankex	0.9	6.1
BSE Fast Moving Consumer Goods	-0.7	4.4
NIFTY Midcap 100	6.1	**11.1**
BSE Sensex	1.5	**5.2**
NSE Nifty 50 Index	1.7	**5.2**
NIFTY Smallcap 100	8.7	**11.1**

% Change	May-25	FY26TD^
NASDAQ Composite	9.6	10.5
DAX	6.7	8.3
S&P 500	6.2	5.3
KOSPI	5.5	8.7
Nikkei 225	5.3	6.6
Hang Seng	5.3	0.7
MSCI Emerging Markets	4.0	5.1
FTSE 100	3.3	2.2
Shanghai Composite	2.1	0.4
CAC 40	2.1	-0.5

Source: Bloomberg; ^Returns in FY26TD

FPIs net bought equities worth USD 1.7 billion in May 2025 (April 2025: net buy USD 1.3 billion) and have cumulatively bought equity worth USD 3 billion in 2MFY26 (2MFY25: Net sold of USD 4.1 billion).

DIIs bought net equity worth USD 7.9 billion in May 2025 (April 2025: USD 3.3 billion) and have cumulatively bought USD 11.2 billion in 2MFY26 (2MFY25: USD 12 billion). Net Mutual funds flows were ~INR 25,744 crore in April 2025 (March 2025: ~INR 26,227 crores & April 2024: ~INR 22,494).

Outlook

As on May 30, 2025, NIFTY 50 Index was trading at ~21.5x FY26E price to earnings multiple. Further, Market cap-to-GDP stood ~126% (based on CY25 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield* has reduced recently [*Earnings yield = 1/ (one year forward P/E)*].

Chart 1

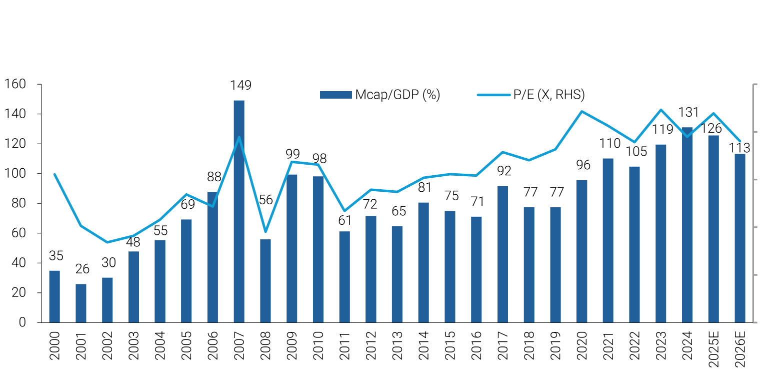
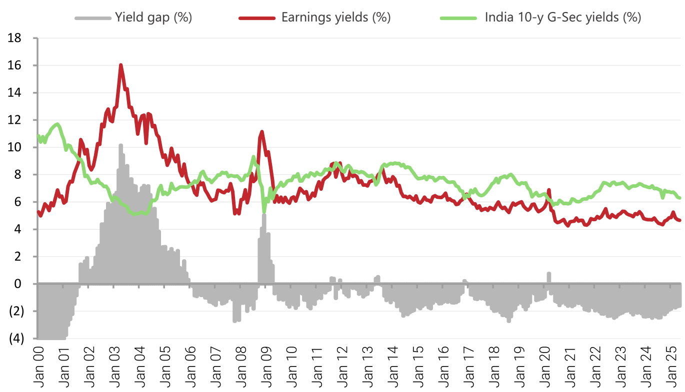


Chart 2



Source: Kotak Institutional Equities; For 2024 and 2025, the market cap as on May 30, 2025 is taken and divided by GDP estimates for CY25 and CY26

Equity Market Update (contd...)

After the recent rally, the valuations of many sectors are now at a premium to historical averages. Valuations for Automobiles and private banks are at a small discount to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	30-May-25	LTA	Discount / Premium^
Cement	42.9	29.8	44.2
Utilities	15.8	11.3	40.1
Industrials	34.8	26.9	29.7
Energy	15.6	12.5	24.9
Pharma	28.1	24.2	15.8
PSU banks @	1.2	1.1	13.2
Metals	11.4	10.1	12.8
Tech	23.1	21.0	10.0
Consumer Discretionary	59.0	54.5	8.1
FMCG	37.9	35.9	5.7
Automobiles	19.99	20.03	-0.2
Pvt Banks @	2.45	2.54	-3.4

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.

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Debt Market Update

10 year benchmark Gsec yield fell ~7bps in May to 6.29% and touched intra month low of 6.24%. The curve has steepened driven by surplus liquidity. Key events / news which influenced yields during the month are India-Pakistan conflict, higher than budgeted RBI dividend transfer to the Government, higher than expected GDP growth in Q4FY25 and OMO purchases by the RBI.

The 10-year corporate bond spreads over Gsec fell by 6bps compared to last month. The corporate bond yields spreads over Gsec have come down recently as liquidity conditions have improved significantly due to RBI's measures. In line with our positive outlook on Gsec yield, we expect the corporate bond yields to fall and spreads to compress further over the medium term. The table below gives a summary view of the movement of key rates and liquidity:

	Apr-25	May-25	Change (in bps)
MIBOR Overnight Rate (%)	6.00	5.86	-0.14
3M Gsec yield (%)	5.90	5.62	-0.28
10Yr Benchmark G-Sec Yield^ (%)	6.36	6.29	-0.07
AAA 10Year Corporate Bond Yields#,& (%)	6.97	6.84	-0.13
AAA 10Y Corporate bond spread against 10Y benchmark@ (bps)	61	55	-6
Average net liquidity absorbed/infused by RBI* (INR billion)	1,398	1,676	

^-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 ~1.7trn at the end of May compared to a surplus of INR ~1.4trn in April as measures taken by the RBI continued to show effect. Over and above ~INR3.6trn of OMO purchases since December 2024, the RBI conducted another INR1.25trn of OMO purchases in May. This along with other measures (currency swaps, VRRs etc) and higher than expected RBI dividend transfer should keep liquidity in ample surplus.

In the debt market, FPIs ended the month with net buying of USD 223 million in May 2025 (April 2025 net sell: USD 3 billion).

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 Government met the fiscal deficit target of 4.8% of GDP for FY25 despite higher capex). The RBI highlighted in its latest 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'* 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, domestic growth and Core CPI 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

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

Overall, in our view, yields are likely to remain rangebound with a downward bias. 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 upto 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.

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 Orgnization
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