

MARKET REVIEW

June 2026

Macroeconomic Update

Jun'26 marked a significant breakthrough in the West Asia conflict, with the US and Iran signing a 14-point memorandum that brought a temporary pause to hostilities and effectively reopened the Strait of Hormuz. As commodity prices, particularly crude oil, declined, US consumer sentiment improved. Growth in US continue to hold up well driven by strong AI/tech related investment demand and even though non-farm payroll was lower than expected in June, the labour markets remain resilient with unemployment rate declining marginally. In Europe, the business activity returned to expansionary territory as easing commodity prices helped reduce input cost pressures. China witnessed another strong month of exports driven by AI hardware even as domestic demand and property investments continue to remain subdued.

US CPI inflation hit 4.2%YoY in May'26 (highest since April-23), driven mainly by a spike in energy costs due to West Asia conflict. Core CPI too remained elevated at 2.8% YoY. In Jun'26 meeting Fed remained on hold although with a hawkish pivot as 9 of 18 officials expect at least one rate hike by end of 2026, a reversal from March's projections, which had shown a median forecast of one rate cut for 2026. ECB and BoJ both hiked policy rate by 25bps in June as inflation rose on the back of higher energy prices.

Economic activity in India remained resilient in June 2026: The high frequency indicators for June suggest that economic activity continue to hold up well. Vehicle registrations and power demand recorded another month of strong growth, along with sharp pick-up in GST collections and e-way bill generation. Manufacturing and services PMI moderated in June compared to May but remain firmly in expansion zone.

Indicators	Units	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Retail registration - Auto [®]									
2W	YoY, %	-2.5	10.8	20.8	25.5	28.6	13.6	8.3	21.1
PV		22.1	28.9	9.5	29.1	27.5	14.0	27.4	27.8
MHCV		21.5	27.9	14.4	35.3	20.0	11.4	5.3	10.4
LCV		21.6	26.0	6.5	32.3	20.6	19.7	16.3	26.1
Tractors		55.7	15.2	22.7	37.0	12.7	24.6	15.6	25.4
Gross GST collection*		0.7	6.1	6.2	8.1	8.8	8.7	3.2	13.9
Average E-Way bill generated		27.6	23.5	15.8	18.8	12.9	11.8	10.9	14.5
Power demand		-0.8	6.1	3.9	4.9	0.7	4.4	11.0	10.9
Digital Spending (UPI + IMPS)		19.7	18.2	18.7	20.6	17.4	19.5	16.8	18.5
Railway Freight Tonnage		4.2	3.2	2.9	3.2	1.1	-2.8	0.6	2.9
Manufacturing PMI [^]	Index	56.6	55.0	55.4	56.9	53.9	54.7	55.0	54.2
Services PMI [^]	Index	59.8	58.0	58.5	58.1	57.5	58.8	59.8	57.4
Unemployment **	%	6.5	6.9	6.9	6.7	6.6	6.7	6.9	6.6

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

*GST collections for the month is for economic activity in the previous month. [^]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, growth is likely to remain steady which is likely to be supported by continued momentum. Ceasefire between US and Iran and resultant restoration of supply chains bode well from growth perspective. The prospects of lower-than-expected south-west monsoon, however, is likely to adversely affect agriculture production and rural demand this year.

Macroeconomic Update (contd...)

Government expenditure growth on a strong footing: Total Government expenditure has grown by 18.1% YoY in 2MFY27 driven by both revex and capex. Tax collections growth, however, remain muted dragged down by GST collections growth (as GST rates were reduced in September 2025) even as direct tax collection growth has been decent. A combination of higher expenditure and lower tax collections growth has meant that fiscal deficit has expanded compared to the same period last year. Fall in fertilizer and crude oil prices bode well from fiscal deficit perspective and any minor shortfall in revenue can be met through economic stabilisation fund and/or expenditure rationalisation.

FY ending, in billion (Rs)	2MFY26	2MFY27	YoY growth
Gross tax revenue	5,152	5,246	1.8
Direct Tax Collections	2,368	2,616	10.5
Indirect Tax collections	2,696	2,493	-7.5
Less: share of states & others	1,644	1,764	7.3
Net Tax collections	3,509	3,481	-0.8
Non-tax revenues	3,569	3,509	-1.7
Total Revenue receipts	7,077	6,990	-1.2
Total Capital receipts	252	197	-22.0
Total Receipts	7,330	7,187	-2.0
Total Revenue Expenditure	5,248	6,300	20.1
Total Capital Expenditure	2,214	2,510	13.4
Total Expenditure	7,461	8,810	18.1
Fiscal Deficit	132	1,624	1133.4
Fiscal deficit (% of BE)	0.8%	9.6%	
Fiscal deficit (% of GDP)	0.0%	0.4%	

Source: CMIE Note: YoY: Year on year growth

CPI inflation inched up in May 2026: CPI inflation rose in May but remained contained and was below market expectations. The rise in inflation was driven by food and transport segment. While inflation in transport segment was driven by higher retail prices of petrol and diesel, food inflation rose primarily due to rise in vegetable prices. Core inflation excluding precious metals also rose by 40bps due to rise in various goods and services but remains benign.

Going forward, inflation is likely to inch up in FY27 on adverse base effect, and a prospect of a below normal monsoon but is likely to be within the RBI's tolerance band. The geo-political situation and monsoon progress remains a key monitorable from an inflation perspective.

Trade deficit remained unchanged in May 2026: Trade deficit remained steady in May as increase in net oil imports was offset by a fall in net gold and net non-oil, non-gold imports. Going forward, upward pressure on trade deficit is likely to ease as ceasefire between US and Iran is likely to result in lower crude and other commodity prices. Moreover, healthy growth in services exports will help keep CAD within manageable levels.

Commodity fall in June 2026: Crude oil prices declined significantly in Jun-26 following ceasefire between US and Iran and opening of Strait of Hormuz. The easing of geo-political tensions also led to fall in most commodity prices during the month.

YoY, %	Apr-26	May-26	Change in %
CPI	3.5	3.9	0.4
Food & beverages	4.0	4.5	0.5
Electricity, gas and other fuels	0.7	0.8	0.1
House rent	2.0	1.4	-0.6
Transportation	0.0	1.8	1.8
Core-Core CPI [®]	2.1	2.5	0.4

Source: CMIE; @-CPI excluding Food, Fuel & light, Food services, Petrol, Diesel, Gold and Silver

Amount in USD billion	Apr-25	May-26	Change
Trade Deficit / (Surplus)	28.2	28.2	0.0
Net Oil Imports	8.9	14.3	5.4
Net Gold Imports	5.1	2.1	-3.0
NONG net imports	14.2	11.9	-2.4

Source: CMIE. NONG refers to Non-Oil Non-Gold

	Market price (USD)*	Jun-26 (%)^	FY27TD (%) [§]
Brent Crude (per barrel)	73	-20.8	-38.4
Gold (per ounce)	4,008	-11.7	-14.1
Steel (per tonne)	489	-2.9	2.0
Zinc (per tonne)	3,574	1.6	11.0
Copper (per tonne)	13,341	-2.0	9.7
Aluminium (per tonne)	3,070	-18.5	-12.8
Lead (per tonne)	1,845	-8.5	-1.9

Source: Bloomberg; *Market prices as on June 30, 2026, ^MoM change,

[§] Change in FY27TD

Macroeconomic Update (contd...)

Summary and Conclusion:

The breakthrough in West-Asia conflict is a huge positive for global supply chains, which were disrupted by the blockade of Strait of Hormuz. The resultant fall in crude oil and other commodity prices bode well for both growth and inflation dynamics for the global economy. Growth in the US so far has held up well on the back of AI/tech related capex and higher Government spending. Recent data also point towards resilient labour markets conditions in US. Growth in China is following a two-speed path where domestic consumption, investments and property markets are in a slow lane, but exports and manufacturing are holding up well.

Contrary to expectations, growth in India held up remarkably well despite disruptions caused by West Asia crisis. High frequency indicators have steadily improved over the last few months with rural demand continuing to hold up well and urban demand too showing signs of uptick. Inflation remains well anchored and though it's expected to rise from here on due to adverse base effects and deficient monsoon, it's unlikely to increase significantly. RBI has projected an average inflation of 5.1% in FY27.

Looking ahead, the medium-term outlook for the Indian economy seems optimistic, in our view. This optimism is driven by steps taken by RBI and Government, opportunities arising from shift in the global supply chain, momentum of private consumption sustaining due to income tax relief and lower borrowing cost. However, resumption of hostilities between US and Iran and significantly below normal monsoon remain key risks to growth this year.

Debt Market Update

Fixed income markets rallied across the curve in June as the news of ceasefire between US and Iran led to significant fall in crude oil and other commodity prices. Fixed income markets also took comfort from measures announced by RBI to attract capital flows in its June meeting. As a result, yields on 10-year G-sec ended the month with decline of 25bps while that on 10Y AAA corporate bonds witnessed a sharper fall resulting in spread between the two compressing by 22bps. Key events which influenced yields during the month were ceasefire announcement by US and Iran, RBI's steps to attract capital flows in its June meeting and Federal Open market Committee (FOMC) decision to hold rates while sounding more hawkish. The table below gives a summary view of the movement of key rates and liquidity:

	May-26	June-26	Change (in bps)
MIBOR Overnight Rate (%)	5.52	5.50	-0.02
3M Gsec yield (%)	5.56	5.25	-0.31
10Yr Benchmark G-Sec Yield [^] (%)	7.00	6.75	-0.25
AAA 10Year Corporate Bond Yields ^{#, &} (%)	7.83	7.36	-0.47
AAA 10Y Corporate bond spread against 10Y benchmark [@] (bps)	83	61	-22
Average net liquidity absorbed/infused by RBI* (INR billion)	1,636	785	

[^]-bi-annual yield; [#]-annualised yield; & - Average yield of 10-year 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 declined to ~785 billion in June compared to surplus of ~INR1.6 trillion in May driven by advance tax and GST related outflows along with forex intervention by RBI and rise in currency in circulation.

In the debt market, FPIs ended the month with net buying of USD 5.6 billion in June 2026 (May 2026 net buy: USD 466 million). This was primarily driven by steps announced by RBI and Government to attract capital flows in June which include.

- Expanding the universe for Government securities to include all new issuances of 15, 30 and 40 years maturity under the Fully Accessible Route (FAR). Additionally, FPI limits on short-term investments under the general route have been removed.
- Withdrawing capital gains and withholding tax on returns from investments in G-secs
- Increasing limits for investment by NRIs and OCIs in equity market without SEBI registration and extending it to all individual Persons Resident Outside India (PROIs) at par with NRIs and OCIs
- Allowing concessional forex swap till 30th September 2026 to incentivize External Commercial Borrowings by Public Sector Undertakings.
- Providing full hedging cost till 30th September 2026 for raising fresh 3–5-year FCNR (B) deposits by Authorized Dealers/Banks

Outlook

Fixed income market outlook

Indian fixed markets rallied across the curve as policy measures announced by the RBI to attract capital flows in its June meeting and ceasefire between US and Iran lifted sentiments. The debt markets also witnessed strong buying from FPIs during the month as RBI's steps to attract capital flows is likely to address multiple concerns in one go – improve capital flows, stabilise currency, shore up forex reserves, improve system liquidity, moderate credit to deposit ratio for banks, and result in money market and corporate bond yields drifting lower. The ceasefire between US and Iran is likely to reduce pressure on India's CAD.

Going forward, while the geo-political uncertainty persists, we believe outlook on Indian fixed income market has improved considerably as:

- Fall in oil prices on the back of opening of Strait of Hormuz bode well from inflation, CAD and BoP perspective
- Measures to attract capital flows should help ease pressure on INR, improve liquidity and moderate credit to deposit ratio of banks.
- Inflation is likely to remain within the tolerance band despite adverse base effect and prospect of below normal monsoon which reduces risk of significant rise in policy rates.
- Liquidity is likely to be in surplus in the coming months in view of likely increased foreign flows due to steps taken by the RBI.
- Supply and demand dynamics for SLR is favourably placed in view of likely revival of demand from Banks (due to lower SLR holding) and Pension funds. Moreover, there is potential of OMOs purchases in H2FY27 depending upon how RBI intervenes in forex markets on receipt of capital flows under measures announced last month.
- Risk of fiscal slippage has diminished due to significant fall in crude oil and fertilizer prices

Debt Market Update (contd...)

Key risks to the favourable outlook:

- Any flare up in hostilities in West Asia leading to disruption of supply chain and rise in crude oil prices
- El Nino conditions in FY27 leading to large deficiency in southwest monsoon and uptick in food and overall inflation

Looking ahead, despite global uncertainty, in our view, the medium to term outlook for Indian fixed income remains optimistic. Steps taken to attract foreign capital flows, ample systemic liquidity and balanced supply demand dynamics for government securities provide meaningful support. With inflation expected to remain within RBI's tolerance band, the likelihood of rate hikes appears limited. In view of the elevated spread of money market instruments and corporate bond over Gsec / repo rate, one may consider investment in short to medium duration (schemes with duration of up to 5 years) categories, especially corporate bonds focused funds. Further, in view of the steep sovereign curve and given the inclusion of all new issuances of 15, 30 and 40 years maturity under the Fully Accessible Route (FAR), one may consider investment in schemes with longer duration from a medium-term perspective, in line with individual risk appetite. Key risks to monitor include any flare up in conflict or adverse food price movement due to weak monsoon.

Equity Market Update

The month of June 2026 witnessed broad based rally for Indian equity markets as US and Iran announced temporary pause to hostilities which effectively opened the Strait of Hormuz. While Nifty 50 Index/Sensex Index rallied by 1.4%/2.3% respectively, small caps ended with gain of 4%. While Banks, healthcare and Autos outperformed during the month, Power, Metal and IT underperformed.

Most global equity markets ended the month with decline except for markets of Japan, France and China, which registered gain. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	Jun-26	FY27TD
BSE Bankex	6.4	14.9
BSE Healthcare	5.3	18.0
BSE Auto	1.0	11.4
BSE Capital Goods	0.7	26.7
BSE Fast Moving Consumer Goods	-0.4	8.4
BSE Oil & Gas	-2.7	1.8
BSE Power	-3.4	21.3
BSE Metal	-8.1	9.2
BSE Information Technology	-8.7	-7.9
NIFTY Smallcap 100	4.0	24.1
BSE Sensex	2.3	6.3
NSE Nifty 50 Index	1.4	6.9
NIFTY Midcap 100	0.1	17.4

% Change [^]	Jun-26	FY27TD
Nikkei 225	3.4	34.1
CAC 40	0.4	6.3
Shanghai Composite	0.3	6.9
FTSE 100	-0.8	3.4
S&P 500	-1.1	14.9
MSCI Emerging Markets	-1.7	23.3
DAX	-2.6	9.0
NASDAQ Composite	-2.8	21.4
KOSPI	-2.9	64.2
Hang Seng	-9.2	-7.7

Source: Bloomberg. ^Returns in USD

FII sold net equities worth USD 3.1 billion in June 2026 (May 2026 net sold: USD 4.9 billion) and have cumulatively sold equity worth USD 13.2billion in 3MFY27 (3MFY26: Net bought USD 5.4 billion).

DII bought net equity worth USD 9.0 billion in June 2026 (May 2026 net bought: USD 8.7 billion) and have cumulatively bought USD 23.1 billion in 3MFY27 (3MFY26: USD 19.7 billion). Net flows into Mutual funds were ~INR 25,825 crore in May 2026 (April 2026: ~INR 43,352 crore & May 2025: ~INR 22,051 crore) cumulatively amounted to ~INR 69,177 crore in 2MFY27 (2MFY26: ~INR 47,795 crore).

Outlook

As on June 30, 2026, NIFTY 50 Index was trading at ~18.25x one year forward price to earnings multiple. Further, Market cap-to-GDP stood ~138% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield has narrowed recently [$Earnings\ yield = 1 / (one\ year\ forward\ P/E)$].

Chart 1

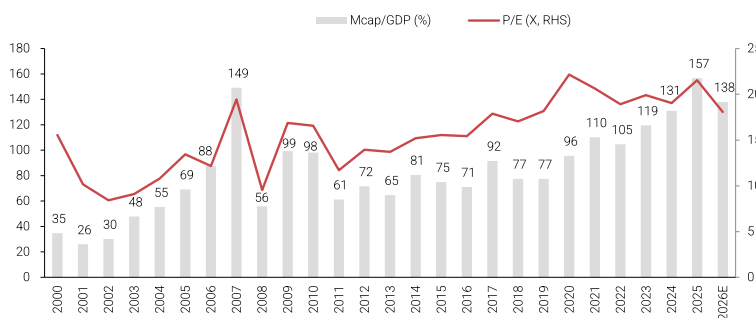
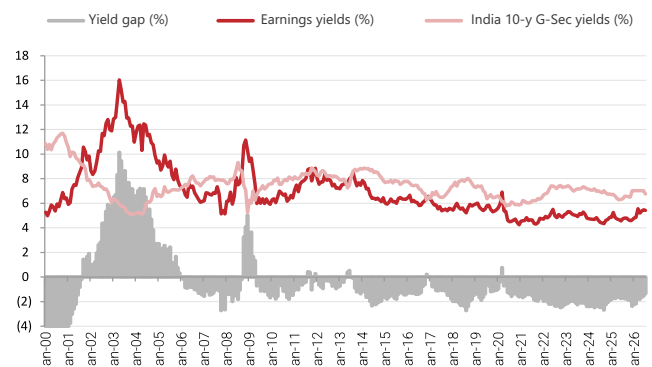


Chart 2



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

Equity Market Update (contd...)

As of June 30, 2026, the valuations of all sectors except FMCG, Private Banks and Tech are trading at a premium to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	30-Jun-26	LTA	Discount / Premium [^]
Industrials	38.9	27.8	40.1
Utilities	15.1	11.7	28.8
Cement	38.2	31.8	20.2
Pharma	29.5	24.6	20.0
PSU banks [@]	1.3	1.1	13.5
Metals	11.9	10.7	10.3
Energy	13.6	13.0	4.6
Consumer Discretionary	65.2	62.4	4.5
Automobiles	21.7	20.9	4.0
FMCG	33.5	36.7	-8.5
Pvt Banks [@]	2.0	2.5	-21.0
Tech	13.5	21.2	-36.3

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 key trade deals, attractive domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies like income tax and GST relief to consumers. However, near-term risks include risk of flare up in geo-political tensions and cyclical moderation in corporate earnings.

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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