Monthly Equity Market Insight

July 2025

EQUITY UPDATE

- Indian equity markets gained for 4th month in a row with Nifty 50 gaining 3.1% in June 2025.
- Nifty Midcap 150 & Nifty Small Cap 250 closed higher at 4.1% and 5.7% respectively during the month. In terms of sectors, Telecom gained the most (6.1%) followed by Infra (4.9%), IT (4.4%) and Healthcare (4.1%). All the sector indices closed positive except - FMCG which ended 0.7% lower respectively.
- Global markets were mixed with South Korea gaining 13.9% followed by Japan (6.6%), US (S&P 500) (5.0%) and Taiwan (4.3%). While Indonesia (-3.5%) and Europe (-1.2%) closed lower.

Global Macros

- **Tariff outcomes remain uncertain**: Even as the 90-days tariff pause deadline ends on 8th July, the final tariff rates for trading partners of US still remain uncertain. Whether the existing deadline will be extended or we will see higher tariffs imposed by US on its key trading partners as announced initially is to be seen. We will have to watch out for Bilateral trade agreements between US and other countries. Any non-tariff measures can add fuel to the fire. Further, it would be important to watch out for sector specific implications. Global growth outlook remains bleak amid ongoing tariff related uncertainty and geopolitical disturbances. In the global context, India remains relatively resilient given its lower share of merchandise exports to US and could be a beneficiary relative to other trading partners of US.
- **US Fed** kept the policy rate unchanged at its June FOMC meeting amid continued and heightened tariff led uncertainty. US Fed has been more concerned on the inflation front than economic growth which may prolong the pause on rate easing going ahead
- **Bond yield**: The US 10-year bond yield eased to 4.23% on June 30 vs 4.40% on May 30 amid rising geopolitical flareups and uncertainty over global economic growth leading to risk-off sentiment. Though, the inflation outlook remains uncertain and concerns over rising US debt persist.
- **Crude (Brent) spot prices** trended higher from $62.1 on May 30 to $66.7 on June 30. Crude oil prices have risen off late on the back of rise in geopolitical tensions.

Domestic Macros

- **Current Account Deficit (CAD)** for FY25 stood at 0.6% of GDP vs 0.7% of GDP in FY24 driven by robust services and remittances. Notably, Q4FY25 Current account balance registered a surplus of 1.3% of GDP vs a deficit of 1.1% of GDP in Q3FY25. FY26 CAD is expected to be ~1% of GDP supported by healthy services growth and weaker commodity (oil) prices.
- **Index of Industrial Production (IIP):** IIP for May continued to grow at a slower pace at 1.2% vs 2.6% (revised downwards from 2.7%) in April (YoY). Manufacturing (+2.6% YoY) expanded while Electricity generation (-5.8% YoY) and Mining activity (-0.1% YoY) contracted. Based on Use based classification, Consumer durables (-0.7%) and consumer non-durables segment both contracted (-2.4%) YoY.
- **June GST collection** stood at Rs 1.85 trillion growing by 6.2% YoY vs Rs 2.01 trillion (+16.4% YoY growth) in May 2025. Notably, GST collections have doubled over the past 5 years from Rs 11.37 trillion in FY21 to Rs 22.08 trillion in FY25.
- **Credit growth** for fortnight ending June 13, 2025 slowed to 9.6% YoY vs 9.8% in fortnight ending May 16, 2025. Deposit growth saw some improvement growing at 10.4% vs 10.0% during the same period. RBI relaxed project finance norms, primarily by reducing provisioning requirements for banks and NBFCs lending to infrastructure and real estate projects. Various regulatory measures like - policy rate cuts, liquidity easing, normalization/easing of regulatory norms on the lending side should help revive weak credit growth.
- **Inflation (CPI) stays below 4% for fourth straight month**: CPI continued to trend lower and came in at it's lowest level since Feb 2019 at 2.8% in May 2025 vs 3.2% in April 2025 on account of continued decline in food prices as well as a favourable base effect. Headline inflation has been on a downtrend over the past 7 months driven by falling food prices. Food inflation came at 1.0% - its lowest since October 2021, mainly on account of fall in prices of fruits, pulses, cereals and spices. Core inflation was broadly unchanged at 4.2% in May 2025.
- **Government Capex** rose 39% YoY in May 2025 and 3% YoY ex-defence. YTD capex is up 54% YoY vs budget estimate (BE) of 7% yoy during FY26.
- **Currency:** INR closed at Rs 85.7/US$ on June 30 depreciating marginally from Rs 85.6/US$ on May 30 as fading geopolitical tensions in the Middle east contained the depreciation pressure post the mid-month low.
- **Monsoons off to a good start**: India's monsoon covered the entire country by June-end, nine days earlier than is typical, bringing forward planting of summer-sown crops. Further, IMD has forecast above normal rains for the month of July.

Regulatory, policy & market developments

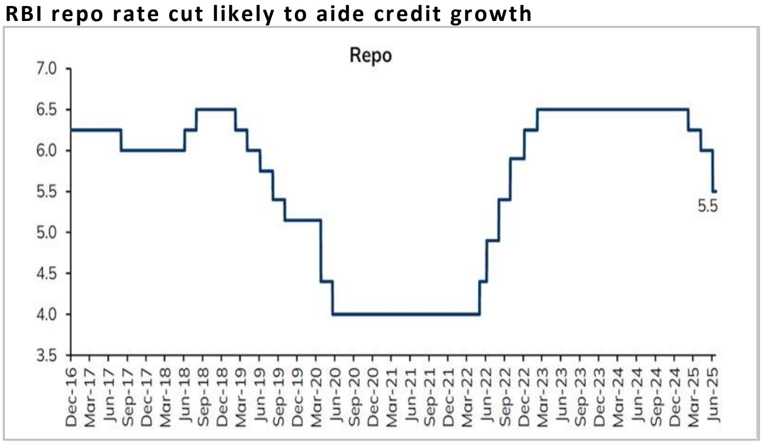
- **Supportive Monetary Policy**: The RBI front-loaded a 50bps rate cut to 5.5% (cumulative cuts to 100bps since Feb'25), leveraging the inflation breather. This was accompanied by a shift in policy stance from 'accommodative' to 'neutral', signalling limited room for future rate cuts. The MPC also surprised with a 100bps cut in the Cash Reserve Ratio (CRR) in four equal tranches between September and November 2025, resulting in injection of durable liquidity worth Rs 2.5 lakh crore. RBI also retained India's GDP forecast for FY2025-26 at 6.5% amid economic uncertainty.
- **Equity trading trends:** FPIs were net buyers in Indian equities for third straight month with net buying of US$2.0 bn in June 2025 vs US$1.2 bn in May 2025. DIIs continued to be the major support for markets and were net buyers to the tune of US$8.5 bn in May vs US$7.8 bn in May.

Outlook

- **Corporate earnings in India should see a cyclical recovery in 2HFY26**
- India's macroeconomic fundamentals remain strong, although growth has seen a cyclical slowdown in FY25 (7% sales growth for Nifty 50 companies). This was driven by lower government capex and inflation impacting consumption.
  - The union budget not only aimed to stimulate consumption by providing relief to the middle class, it provided scope for RBI to cut rate, thereby reviving growth.
  - Government capex will be front loaded during FY26 (The Centre spent Rs. 4tn on capex in Mar'25 and Apr'25 alone which is 65% YoY, nearly 40% of FY25's full-year spend)
  - Rural economy is also expected to see a pickup led by a healthy Rabi season along with a positive outlook for monsoon. Even Urban consumption could see a recovery led by multi-year low inflation (~3%), income tax cut and interest rate cut.
  - As a result, corporate earnings should bottom out over the next 1-2 quarters.
- **India expected to be relatively resilient in current global uncertainty**
  - Tariff situation continues to be unpredictable and till a definitive agreement will reach it will continue to lead to global volatility and impacting growth.
  - **India better placed:** India appears to be better-placed versus competition given (1) relatively low tariff rates versus major competing economies and (2) significantly lesser dependency on exports versus competition (3) Services Exports not impacted so far (4) Stable & Robust Macros (5) Supportive Monetary Policy.
- **India's long-term story intact:** While near term concerns have risen and could weigh on investor sentiments, medium to long term India story remains intact driven by the following:
  - **India's macros remain robust** (Fiscal consolidation, Strong Balance Sheets, Recovery in Consumption etc) amidst slowing global growth.
  - **India's long-term growth prospects steady**, projected at 6.5% real GDP growth and 10-11% nominal GDP growth.
  - **Strong Balance Sheets:** The strength of bank (NPAs below 1%) and corporate balance sheets is notable. India Inc.'s profits are growing strong, but they are also generating large amounts of free cashflows – in sharp contrast to 2003-2008, where free cashflows were in deficit. Household debt levels are also reasonable compared to global standards. India's aggregate debt to GDP is lower than in 2010, while it has risen globally.
- **Key things to watch** Key things to watch out are (a) Tariffs post 8th July when 90-days pause ends (b) Rate trajectory by major central banks, (c) Oil price trend, (d) Geopolitical tensions, (e) Revival in consumption and (f) Progress of monsoon
- **Valuation and view:** The Nifty 50 Index's valuation is trading at ~18.5x FY27E P/E. Earnings growth is expected to be around ~12% over the next 2 years led by BFSI, Metals, Telecom and Discretionary consumption segments. Valuations at an aggregate level seem reasonable barring few pockets which are still trading at elevated valuations. Mean reversion is expected in these segments
- Broad based strategies like – Flexi Cap Funds, Multi Cap Funds and Large Cap may be preferred in the current market environment. One may also look at investing in Consumer and BFSI thematic Funds as they offer better risk-reward at the current juncture. Conservative investors may consider investing in Hybrid Funds to navigate through the market volatility and may look at different hybrid categories to achieve their desired asset allocation.

Chart of the month:

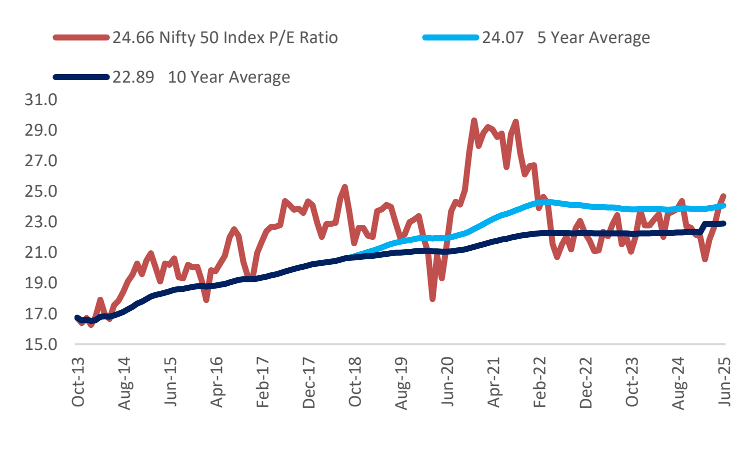
RBI repo rate cut likely to aide credit growth



Source: CEIC, I-Sec research

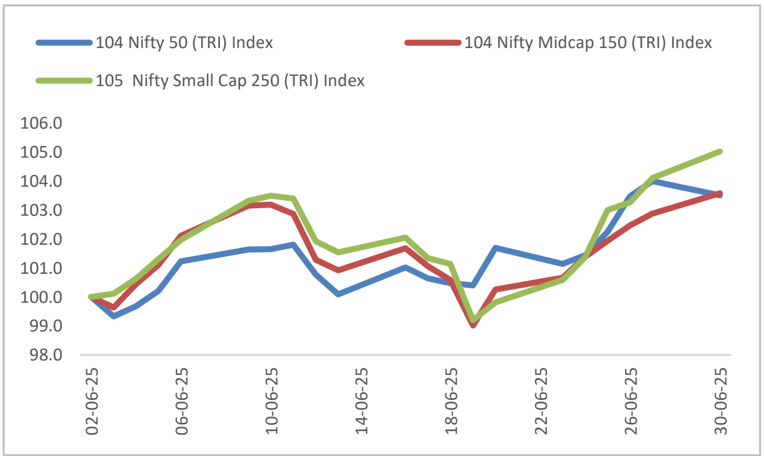
Add disclaimer - The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s); Categorisation of the schemes is as per clause 2.6 of SEBI Master Circular dated June 27, 2024; CPI – Consumer Price index, DIIs Domestic Institutional investors, FPI: Foreign Portfolio Investors

Nifty 50 Index Valuation Chart



Source: NSE Values as on 30th June 2025

Index Movement Last Month



Source: NSE Values as on 30th June 2025

Performance of Global and Regional Indices

Name	Performance (%)			
	1m	3m	6m	1Yr
Global and regional indices				
Brazil (Bovespa)	1.3%	6.6%	15.4%	12.1%
Shanghai (SHCOMP)	2.5%	1.3%	0.0%	13.7%
Germany (DAX)	-0.4%	7.9%	20.1%	31.1%
Hong Kong - HSI	3.4%	4.1%	20.0%	35.9%
Japan (Nikkei)	6.6%	13.7%	1.5%	2.3%
Korea (Kospi)	13.9%	23.8%	28.0%	9.8%
UK (FTSE)	-0.1%	2.1%	7.2%	7.3%
US (Dow Jones)	4.3%	5.0%	3.6%	12.7%

Source: Bloomberg; Data as on 30th June 2025

Performance of Major Indian Indices

Major Indian Indices	May-25	Jun-25	Performance %			
			1m	3m	6m	1yr
BSE SENSEX - TRI	124627.1	130584.4	3.0	8.6	7.8	7.0
NIFTY 50 - TRI	36972.5	38217.3	3.4	9.0	8.7	7.5
Nifty Midcap 150 - TRI	26763.0	27872.9	4.1	15.2	4.4	6.1

Source: MFI360; Data as on 30th June 2025

Performance of Indian Sector Indices

Name	Performance (%)			
	1m	3m	6m	1Yr
NSE Sector Indices				
NIFTY AUTO - TRI	2.5	12.3	5.1	-4.6
NIFTY BANK - TRI	3.1	11.7	13.0	10.3
NIFTY ENERGY - TRI	1.9	9.0	5.7	-11.2
NIFTY FMCG - TRI	-0.5	3.4	-1.6	-1.4
Nifty Infrastructure - TRI	5.1	11.4	12.1	3.9
NIFTY IT - TRI	4.6	6.4	-10.2	10.0
NIFTY MEDIA - TRI	2.5	18.9	-3.3	-11.4
NIFTY METAL - TRI	4.0	5.1	11.0	-1.9
NIFTY PHARMA - TRI	2.9	4.4	-4.8	12.5
NIFTY REALTY - TRI	3.9	15.9	-6.5	-10.5

Source: AceMF; Data as on 30th June 2025

High Frequency Indicators

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	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	May-25
Industry																								
PMI manufacturing	57.8	57.7	58.6	57.5	55.5	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1	58.1	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6
Credit growth (industry)	8.1	5.7	6.6	7.1	5.9	6.6	8.6	7.3	9.3	8.5	7.4	9.4	8.1	10.1	9.7	8.9	7.9	8.0	7.2	8.0	7.1	7.8	6.6	
Petroleum products consumption (industrials	6.9	(1.3)	13.7	12.2	(2.9)	(2.0)	10.2	13.7	11.1	(4.0)	15.5	(0.7)	3.9	21.6	(10.8)	(13.4)	7.2	16.0	(8.7)	(1.3)	(16.4)	(14.7)	(10.6)	(6.6)
Bitumen consumption	9.5	50.6	58.5	37.5	26.6	(19.6)	10.9	10.5	0.9	(1.0)	(4.8)	8.8	3.7	(20.5)	(42.9)	(16.6)	(14.6)	13.5	3.8	1.4	(5.6)	(6.2)	(4.7)	(14.5)
Diesel consumption	3.1	3.8	5.2	3.8	9.3	(3.0)	2.6	8.1	8.2	1.7	7.8	1.9	2.7	4.5	(2.5)	(1.9)	0.1	8.5	5.9	4.2	(1.3)	0.9	4.3	2.2
Core infrastructure	8.3	8.5	12.5	9.2	12.7	7.9	4.9	4.1	7.1	6.0	6.7	6.3	5.1	6.1	(1.6)	2.4	3.7	5.8	5.1	5.1	3.4	4.5	1.0	0.7
IIP mining	7.6	10.7	12.3	11.5	13.1	7.0	5.2	5.9	8.1	1.3	6.8	6.6	10.3	3.8	(4.3)	0.2	0.9	1.9	2.7	4.4	1.6	1.2	(0.2)	
IIP manufacturing	3.1	5.0	9.3	4.9	10.2	1.2	4.5	3.6	4.9	5.8	3.9	5.0	2.6	4.4	1.1	3.9	4.4	5.5	3.7	5.8	2.8	4.0	3.4	
IIP electricity	4.2	8.0	15.3	9.9	20.4	5.8	1.2	5.6	7.5	8.6	10.2	13.7	8.6	7.9	(3.7)	0.5	2.0	4.4	6.2	2.4	3.6	7.5	1.1	
IIP coal	9.8	14.9	17.9	16.0	18.4	10.9	10.7	10.2	11.6	8.7	7.5	10.2	14.7	6.8	(8.1)	2.6	7.8	7.5	5.3	4.6	1.7	1.6	3.5	2.8
Railways freight traffic	(7.6)	(3.5)	2.2	4.2	8.5	4.3	6.4	6.4	10.1	NA	1.4	3.7	10.1	4.5	0.0	NA	1.5	1.4	1.7	0.0	(3.0)	3.0	3.6	
Steel production	13.8	14.6	16.6	14.6	14.1	18.5	12.9	6.4	13.5	7.2	5.7	6.2	1.0	10.0	3.9	1.6	4.1	4.0	3.3	7.6	7.5	8.6	5.1	8.3
Services																								
PMI services	58.5	62.3	60.1	61.0	58.4	56.9	59.0	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.3	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8
Credit growth (services)	26.7	23.6	24.8	25.0	23.6	25.4	22.9	24.9	23.6	23.5	21.7	23.2	17.4	14.0	13.9	13.7	12.7	13.0	11.7	12.5	12.0	12.4	10.5	
Airport passenger traffic	18.8	24.7	22.8	18.4	10.8	9.0	8.3	4.6	4.8	3.7	2.4	4.4	5.8	7.3	5.7	6.4	8.1	11.9	8.2	11.3	11.0	8.8	8.4	1.9
Airport cargo	1.9	5.0	15.3	4.8	11.5	14.0	11.5	10.3	13.9	2.9	0.0	7.6	7.2	5.2	2.3	9.6	11.4	(4.5)	5.4	6.1	(7.7)	4.0	11.6	
Foreign tourist arrivals	24.0	13.6	22.6	17.5	19.8	16.8	7.8	10.4	15.8	8.0	7.7	0.3	9.0	(1.3)	(4.2)	0.4	(1.4)	(0.1)	(6.6)	(0.2)	(8.6)			
Demand																								
Credit growth (personal loans)	20.9	31.2	30.8	30.3	29.7	30.1	28.5	28.8	28.3	27.5	27.1	28.7	25.6	15.0	13.9	13.4	12.9	13.3	12.0	11.8	11.7	11.6	11.9	
Center's expenditure (net of interest payment	22.0	121.6	7.1	(1.5)	(22.2)	(17.1)	9.3	(22.2)	25.5	(10.1)	15.2	(21.1)	(29.3)	(2.6)	25.2	4.1	31.0	5.2	30.4	19.3	(26.3)	16.9	26.1	
Fuel consumption (retail)	3.4	3.7	4.3	4.9	7.2	0.5	(0.9)	5.7	7.4	4.8	5.6	2.6	2.1	7.1	2.3	0.2	3.8	8.4	6.9	5.0	0.1	2.6	4.8	5.3
Passenger vehicle sales	2.0	19.2	27.7	17.7	33.9	21.0	21.7	31.9	27.0	26.0	1.3	4.0	3.1	(2.5)	(1.8)	(1.4)	0.9	4.0	10.0	1.6	1.9	3.6	3.9	(0.8)
Two wheeler sales	1.7	(7.2)	0.6	0.8	20.2	31.3	16.0	26.2	34.6	15.3	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)	2.2
Non-oil imports	(10.7)	(8.9)	2.0	(11.6)	13.8	(2.7)	3.4	2.4	17.8	(6.6)	6.9	(0.2)	0.5	4.6	15.9	5.8	(6.0)	19.7	6.3	19.9	(11.3)	9.4	16.3	10.0

Notes:
(a) Petroleum products consumption comprise naphtha, NGL, LDO, furnace oil, LSHS, etc.
(b) Fuel consumption comprise LPG, kerosene, gasoline and diesel.

Source: CEIC, Kotak Institutional Equities

The above chart shows a heat map for various indicators from June 2023 to June 2025 where greener cells signify positive movement, and negative as it moves to red.

Source: Bloomberg. All the above data is as on 30th June 2025 unless stated otherwise. Past Performance may or may not be sustained in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund.

Past Performance May or May not sustain in future