ECONOMY AND MARKETS

June 2025

SBI FUNDS MANAGEMENT LIMITED

The Tariff Dilemma

Steep new tariffs on Canada, Mexico and China announced Feb 2,2025

Donald Trump to hit US steel and aluminium imports with 25% tariffs February 10, 2025

Trump agrees to pause tariffs on Canada and Mexico after they pledge to boost border enforcement February 4,2025

Donald Trump backs down on 50% steel and aluminium tariffs on Canada March 31, 2025

Donald Trump to impose 25% tariff on car imports March 26, 2025

Trump announces 90-day pause on tariffs April 9, 2025

Trump announces the US will impose tariffs ranging from 10 to 50 per cent on 185 countries April 2, 2025

US and UK seal first deal of Donald Trump's trade war May 9, 2025

Trump says 145% tariffs on China are here to stay for now May 8,2025

US trade court says Donald Trump's global tariffs are illegal May 28, 2025

US and China strike breakthrough trade deal after two days of intense Geneva negotiations May 12, 2025

Trump's tariffs to remain in effect after appeals court grants stay May 30,2025

US-China trade talks 'stalled', says Scott Bessent May 30, 2025

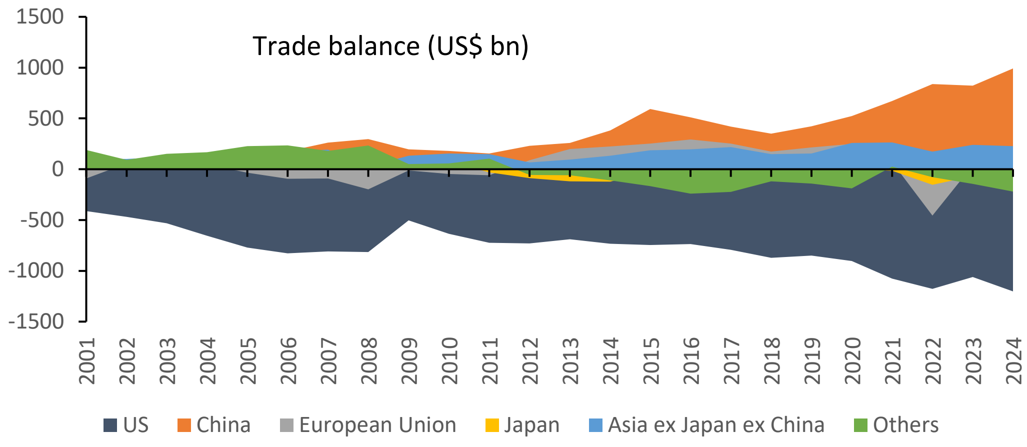
Source: Financial Times, Economic Times, Reuters, Hindu, SBIFM Research

Trade war on the rise: Root cause of the problem is economic imbalance

Key reason for imbalance: China's overinvestment coupled with weak consumer spending

	US	China	India
Investment (% GDP)	22	42	33
Household Consumption (% GDP)	68	40	62
Goods Trade Balance (US$ billion)	-1,202	992	-275
Current Account Balance (% GDP)	-3.2	1.4	-1.1
Savings (% GDP)	18	43	33
External Debt (US$ trillion)	27.6	2.4	0.7

US faces over US$1 trillion Trade Deficit; China holds similar quantum surplus

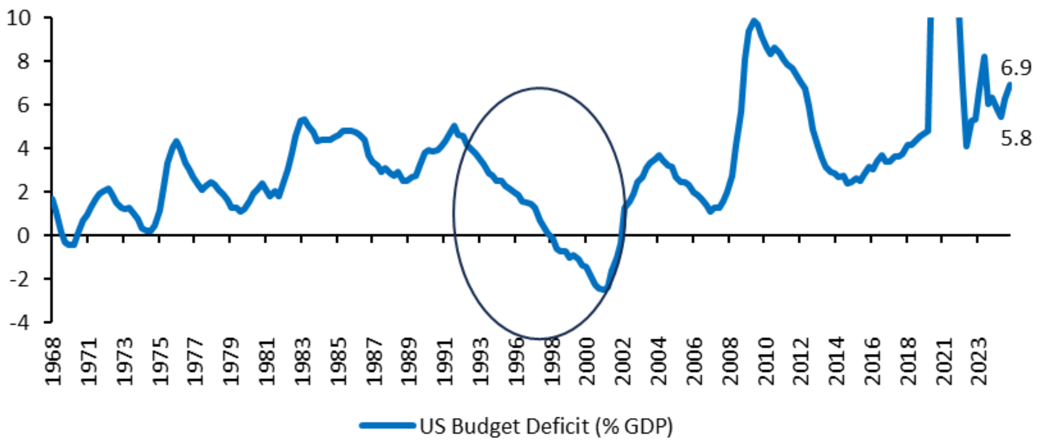


- On 2nd April 2025, U.S. President Donald Trump announced to raise the import tariffs for 90 key nations to reduce its trade deficit, reshore production, negotiate deals with other nations and raise revenue via tariff which could be deployed to reduce deficit or provide domestic tax reduction.
- Coming to May, this month began with most of the tariff announcements being averted for 90 days and ended with US court of international trade terming Trump's tariffs as illegal. Though, a temporary 150-day stay allows tariffs to remain in place for now, their future remains uncertain.
- At its core, the tariff issue highlights the deeper economic imbalance between the U.S. and China. China invests more than it spends while US consumption runs far higher than its investment.
- The administration could still deploy other legal measures to enforce tariffs, though any increase in tariffs is expected to be gradual through 2025.
- US runs an annual trade deficit of ~US$1 trillion and China runs a similar quantum of surplus. Hence, US absorbs most of the worlds' surplus output of goods. This has led to rising levels of US overseas indebtedness. US administration wants to address this imbalance.
- The level of indebtedness in the US economy is rising to levels, which is perhaps getting difficult to sustain. US also wants to reduce its over-reliance on China for the manufactured goods.
- Trump administration has initiated a fundamental debate- which is here to stay. There is a likely changing global order in the offing. China pursues measure to reduce dependence on the US- including reforms in cross border payment systems and commodity exchanges.

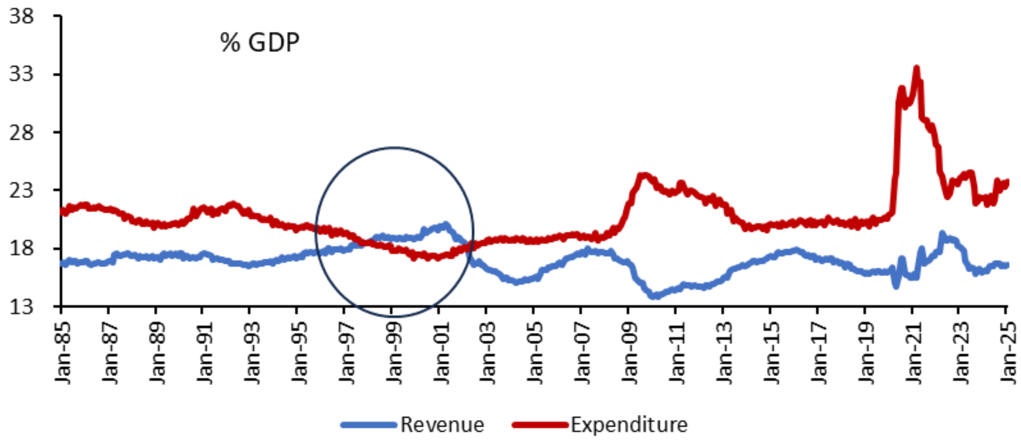
Source: IMF, CEIC, SBIFM Research; NB: Figures as of 2024 end

Poor success of DOGE; US may not see fiscal consolidation

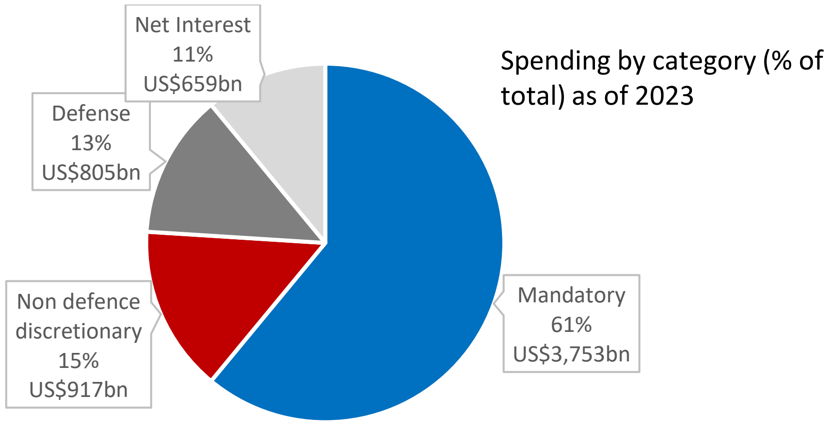
US had managed to achieve material deficit reduction during 1993-2000



The deficit reduction in late 90s was accompanied with tax buoyancy alongside expenditure reduction



US discretionary spending is low to start with limited the space to rationalize

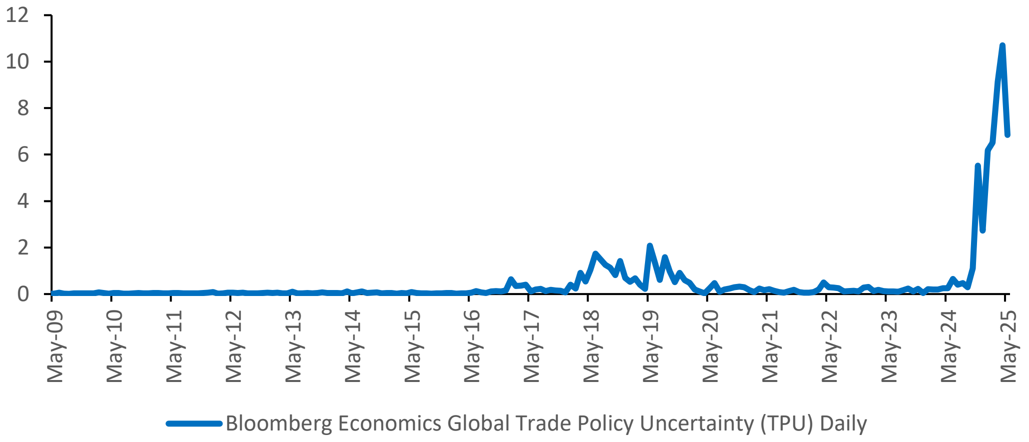


- No sign of any dramatic fiscal tightening in the US. Elon Musk steps down from DOGE.
- The roll back of reciprocal tariff means the tariff revenue wouldn't be as much as hoped for.
- Further, if there is growth slowdown, it could lead to fall in revenue from elsewhere.
- Second, DOGE success is dimming. They have scaled down their ambition of spending cuts from US$ 2 trillion to US$ 1 trillion to now just US$ 150 billion for 2026.
- Finally, there are plans by Republicans elsewhere which could lead to higher fiscal deficit over next 10 years (estimated by ~US$ 6 trillion).
- Hence treasury supply could be large.

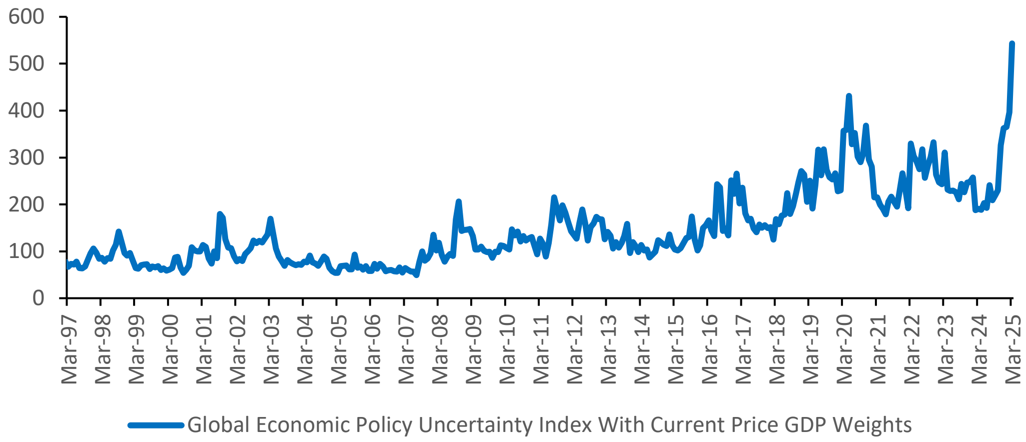
Source: Bloomberg, SBIFM Research

Global uncertainty Index surged

Uncertainty index is on the rise



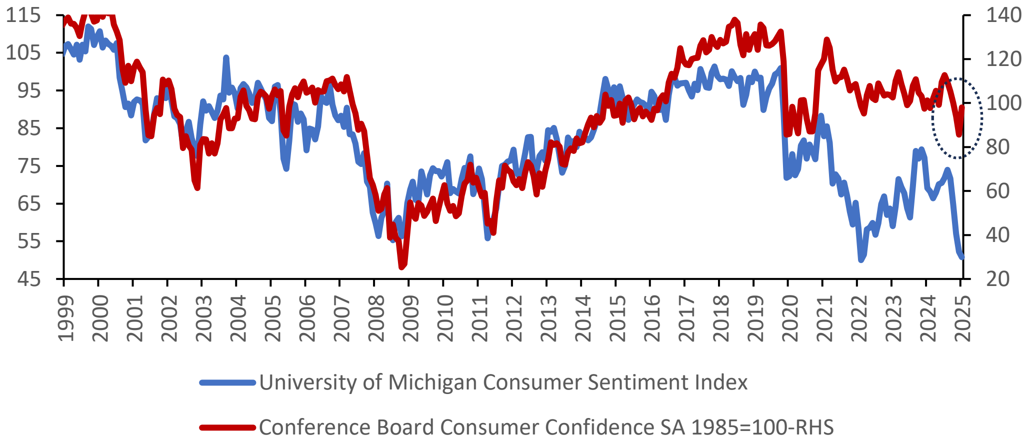
Global policy uncertainty rises; businesses hesitate to take significant investment decisions



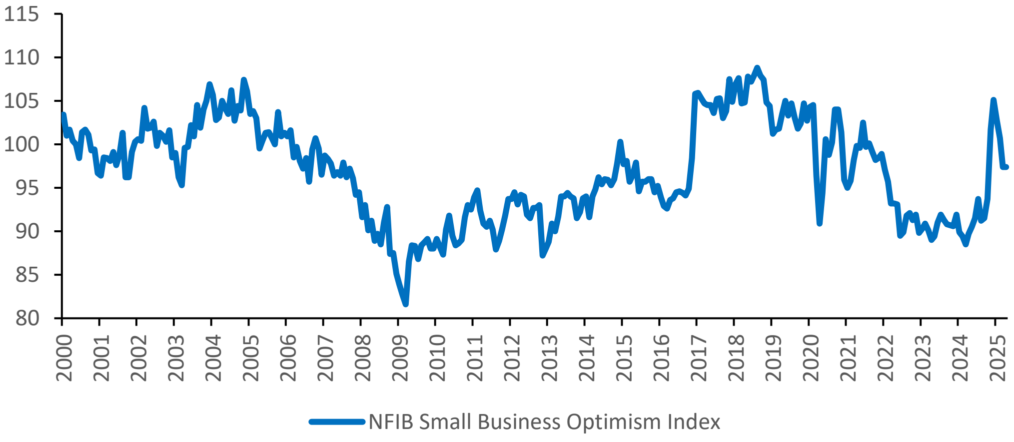
- The uncertainty index has surged recently. Despite some recent moderation, it is still elevated compared to past decade.
- Businesses are hesitating to take significant investment decision.
- Major events like Trump's first round of the trade war, Brexit, the COVID-19 pandemic, the Russia-Ukraine conflict, and ongoing tensions in the Middle East have all contributed to this climate of uncertainty.

US economic growth faces mixed signals

Consumer sentiment improves in May, higher that market expectations with de-escalation of tariffs



Small business optimism has moderated from Nov-Dec highs



Labour market data is holding up

US labour data	Dec-23	Apr-24	Jul-24	Oct-24	Apr-25
Unemployment Rate (in %)	3.8	3.9	4.2	4.1	4.2
Labour force participation rate (in %)	62.5	62.7	62.7	62.5	62.6
Employment Rate (in %)	60.1	60.2	60.0	60.0	60.0
Average Hourly Earnings (% y-o-y)	4.1	4.0	3.6	4.1	3.8
Unit Labour Cost (% y-o-y)	2.0	3.3	2.3	1.6	1.4
Real avg. weekly earnings (% y-o-y)	0.7	0.0	0.4	1.5	1.1
Part time workers (in mn)	28.2	28.2	27.0	28.1	29.1
Full time workers (in mn)	133.1	133.8	133.6	133.5	135.4
Employment Diffusion Index	58	56	47	51	55
NFIB Small Business Hiring Plans Index	16	12	15	15	13
Job Openings (in mn)	8.6	7.6	7.5	7.6	7.2
Job Openings / Unemployed	1.4	1.2	1.1	1.1	1.0
Indeed Job openings Index	140.6	134.1	122.5	117.7	109.7
Job quits rate	2.1	2.2	2.1	2.0	2.1
Initial Jobless claims Sa	198	209	248	218	241
Change in Non-Farm Payroll (in '000)	269	118	88	44	177

Source: Bloomberg, SBIFM Research

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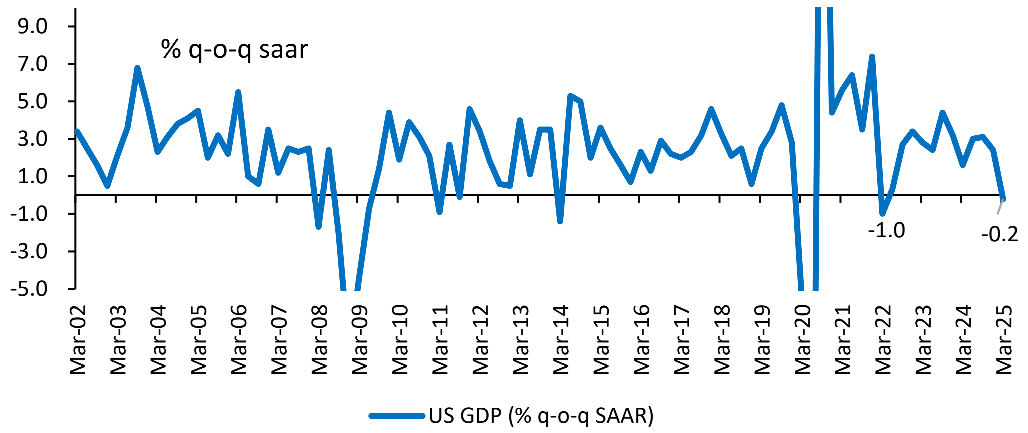
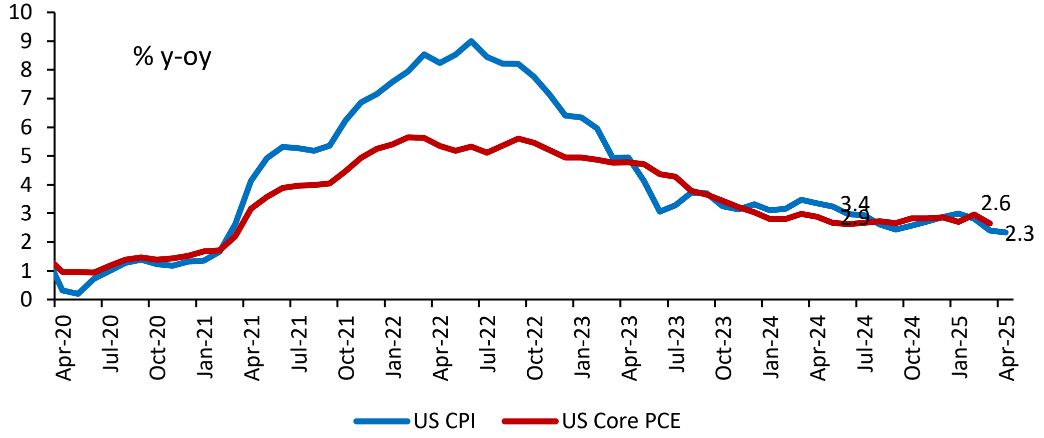
US: Slow growth, sticky inflation and patient Fed

US real GDP decreased by (-)0.2% q-o-q in Q1 2025 vs. an increase of 2.4% in the previous quarter



US core CPI inflation continues to be sticky at 2.6%; persistently above Fed's target

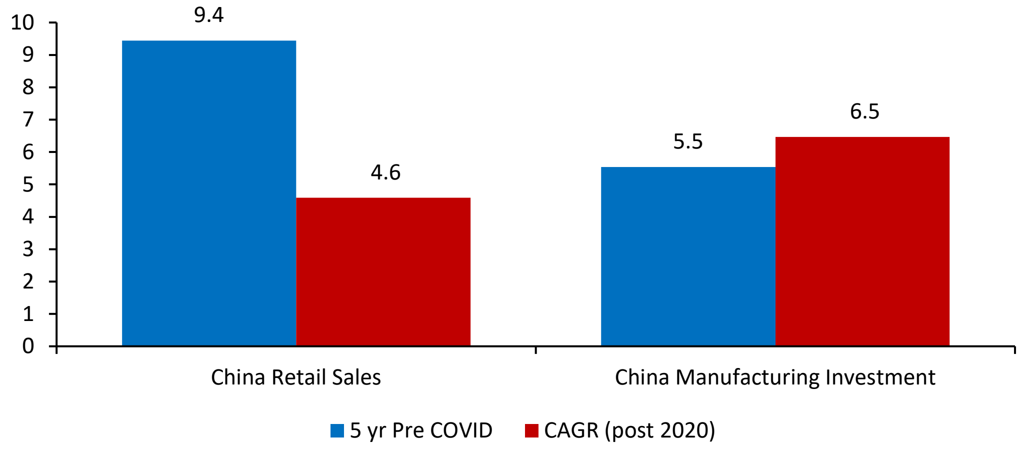


- US real GDP growth decreased by (-)0.2% q-o-q in Q1 2025 (vs. 2.4% in the previous quarter) due to higher imports and a fall in government spending.
- US inflation continues to be sticky. Despite some moderation in headline CPI, core CPI continues to stay well above Fed's 2% target.
- Even as recent inflation and inflation expectations stay contained, US Fed thinks it prudent to wait out on the inflationary impact of the recent spate of policy changes in the US.
- Hence, in all likelihood, the central bank in the US is likely to be patient on monetary cycle and ascertain the inflation trajectory in the economy.

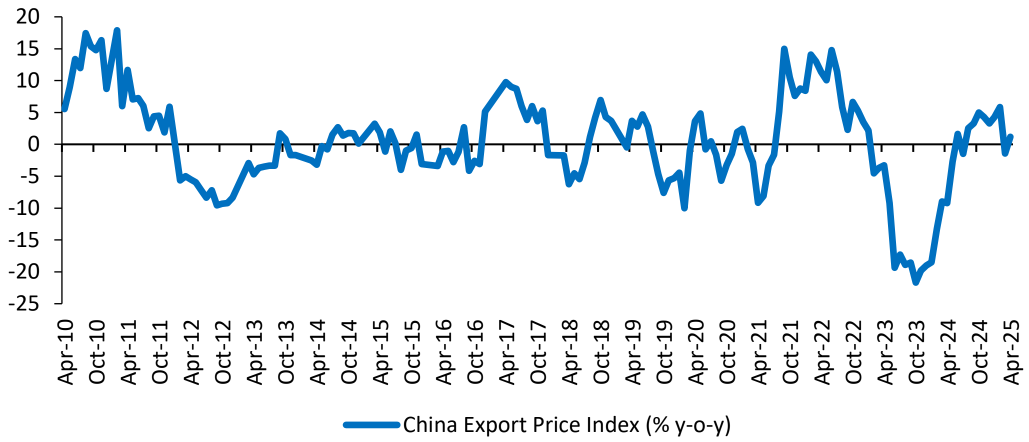
Source: Bloomberg, SBIFM Research; NB: US core PCE data as of March 2025

China is facing a problem of likely export deflation- could complicate their foreign relations

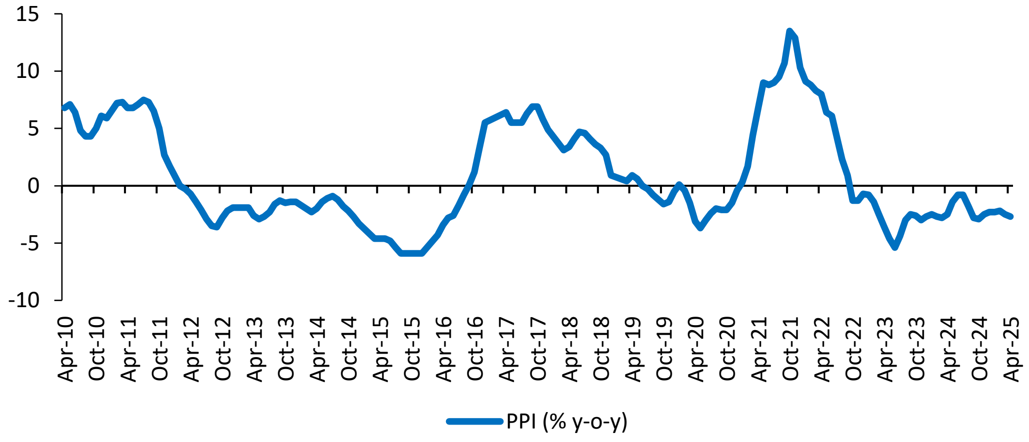
China's household demand for goods are much lower than their investment in the manufacturing sector



China's export price index shows near zero inflation. Could it go to deflation?



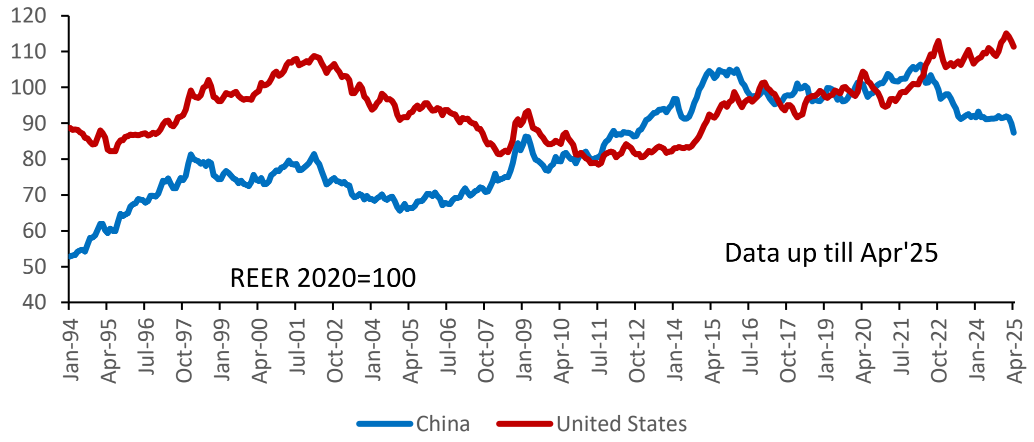
China's producer price is in a deflation since late 2022



- China is facing a problem of likely export deflation which could complicate foreign relations for China.
- Increased Chinese exports to rest of the world, may trigger safeguard import duties from other nations, thereby hurting the remainder of the exports.
- **China +1 will get catalysed owing to this move.**
- Other economies are gaining competitiveness against China. A lot of businesses are now moving out of China. Wages for China is rising faster than other countries. China is losing competitiveness in low-end labour-intensive manufacturing.
- Higher tariffs will further add on to loss in competitiveness. Hence, diversification of business outside of China will continue.

Treatment of currency: Will China agree to revalue their currency?

Chinese currency is undervalued while US is overvalued, Will it reverse?

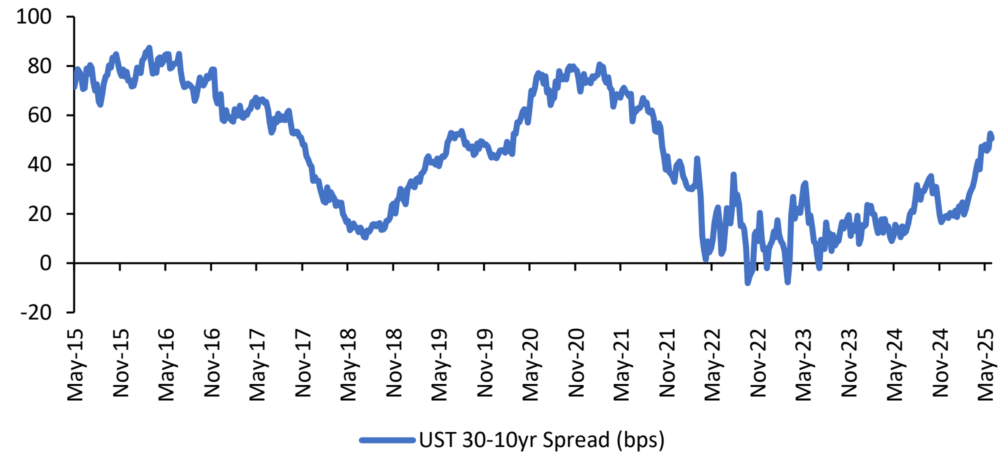


- The biggest difference in Plaza Accord and this time around is that when Japan agreed to appreciate Yen back in 1987, Japanese domestic economy was strong.
- This time the Chinese economy is domestically weak. Hence, it remains to be seen if China would eventually agree to adjust their currency higher.
- On the other hand, China might not use currency as a war tool wither.
- Excessive devaluation could lead to tariff threats from rest of the world. It will burn bridges with other trading partners.

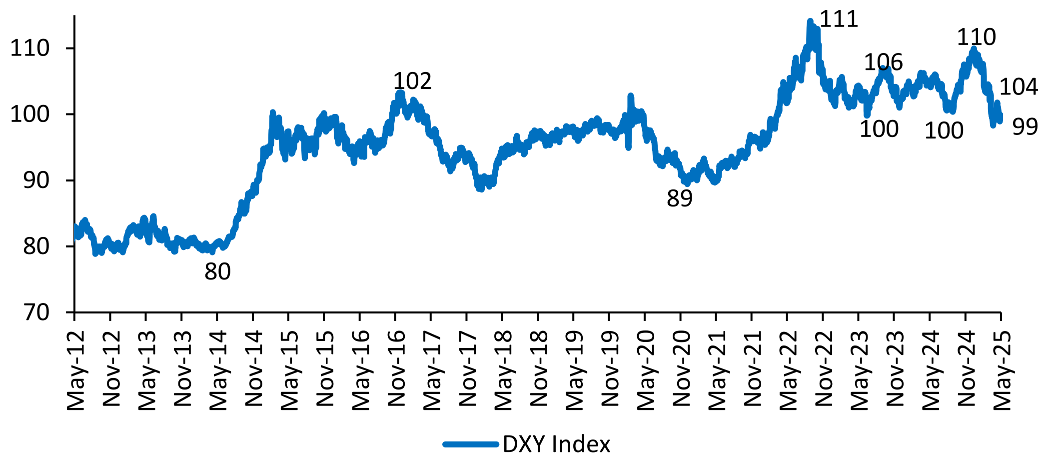
Source: BIS, SBIFM Research

US long term bond yields rise with increasing uncertainty; DXY weakens

US 30yr versus 10yr spread steepens



US dollar has weakened

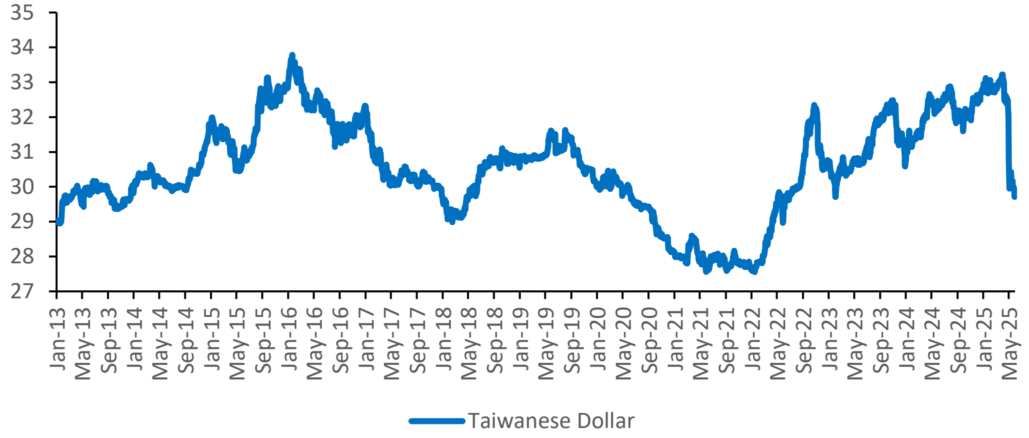


- Developed market bond yields, especially in the 30-year segment, have risen. The 10-year U.S. Treasury yield is consistently above 4%.
- The U.S. yield curve, particularly the 30-year versus 10-year spread, has steepened but remains below long-term trends.
- Given rising global bond issuance, U.S. debt sustainability concerns, and an increasing uncertainty premium on U.S. assets, long-term yields could rise further.
- Trump’s strategy to use tariffs and withholding taxes to fund domestic tax cuts implies a desire to have foreigners bear part of the U.S. debt burden. This may prompt foreign investors to diversify away from U.S. Treasuries, increasing political and tax-related uncertainty and weighing on dollar strength.
- The dollar's decline likely reflects ongoing uncertainty, making it challenging to underweight U.S. equities, but investors are clearly exploring better value elsewhere.

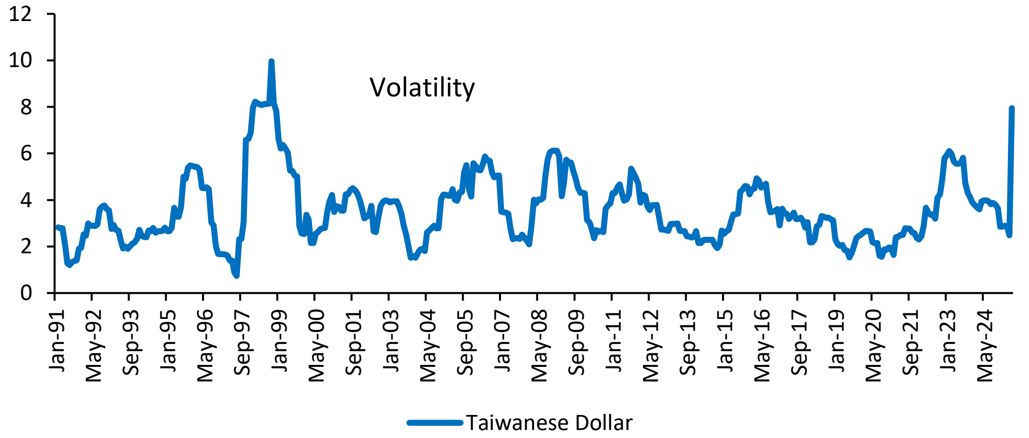
Source: Bloomberg, SBIFM Research

Dollar was supposed to appreciate what happened?

Taiwanese dollar appreciated by ~10% from March end to May 2025



Similar volatility seen during 1997 Asian crisis

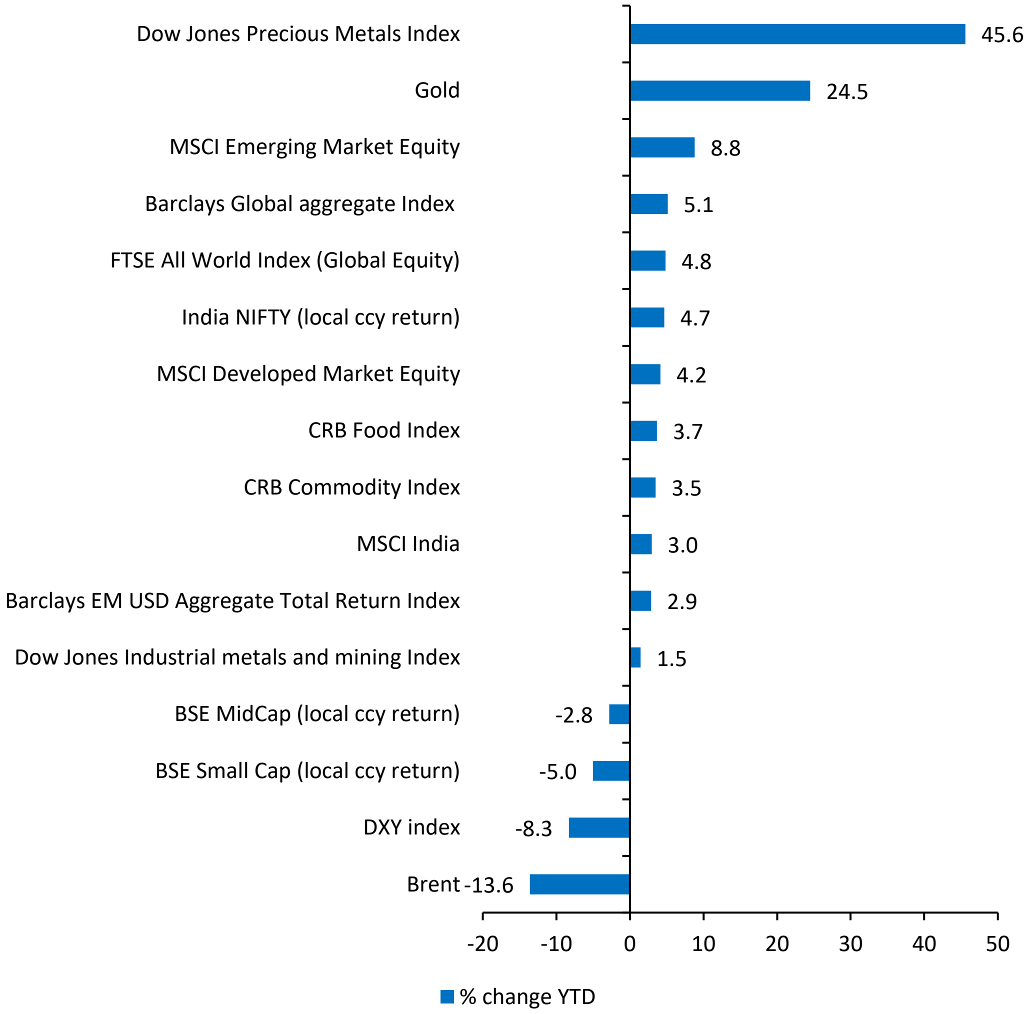


Dollar has undone the appreciation of 2024. EM currencies have seen significant appreciation Year-to-date

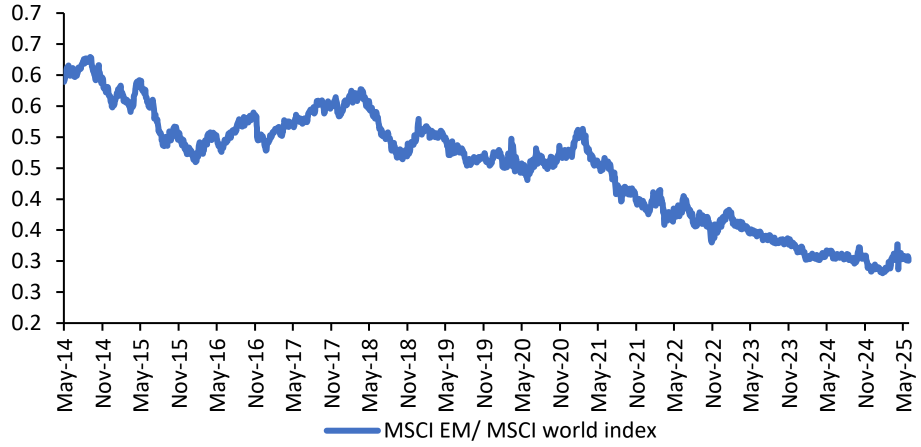
	% m-o-m change	% Change since March'25	% change in 3M (since Feb'25)	% YTD	% change in 2024
Turkey Lira	-1.9	-3.3	-7.1	-9.9	-16.5
Indonesian Rupiah	1.7	1.5	1.6	-1.2	-4.5
Indian Rupee	-1.3	-0.1	2.3	0.0	-2.8
Chinese renminbi	1.1	0.9	1.2	1.4	-2.7
Philippine Peso	0.2	2.7	4.0	4.0	-4.5
Thai Baht	1.8	3.5	4.4	4.7	-0.3
Malaysian Ringitt	1.4	4.2	4.8	5.1	2.7
African Rand	4.1	2.6	4.6	5.5	-2.6
Colombian Peso	2.5	1.5	0.8	6.9	-12.0
Korean Won	3.3	6.9	5.8	7.2	-12.7
Mexican Peso	1.7	6.1	6.5	8.0	-18.5
Brazil Real	0.1	0.7	3.8	8.9	-21.4
Taiwanese Dollar	7.0	11.1	10.1	9.8	-6.7
Polish Zloty	0.7	3.2	7.7	10.1	-4.7
Hungarian Forint	0.3	4.5	8.9	11.6	-12.6
Russian Rouble	4.1	5.5	13.5	44.1	-21.2
Australian Dollar	0.3	2.8	3.4	3.7	-9.2
British Pound	1.1	4.3	7.2	7.7	-1.7
Japanese Yen	-0.6	4.2	4.7	9.3	-10.3
Euro	0.0	4.8	9.2	9.4	-6.2
DXY Index	0.1	-4.4	-7.5	-8.2	7.1

How to think of asset classes amidst all this?

Precious metals continues to be the best performing asset class YTD



EM assets have risen but will they continue to rise if global growth weakens?



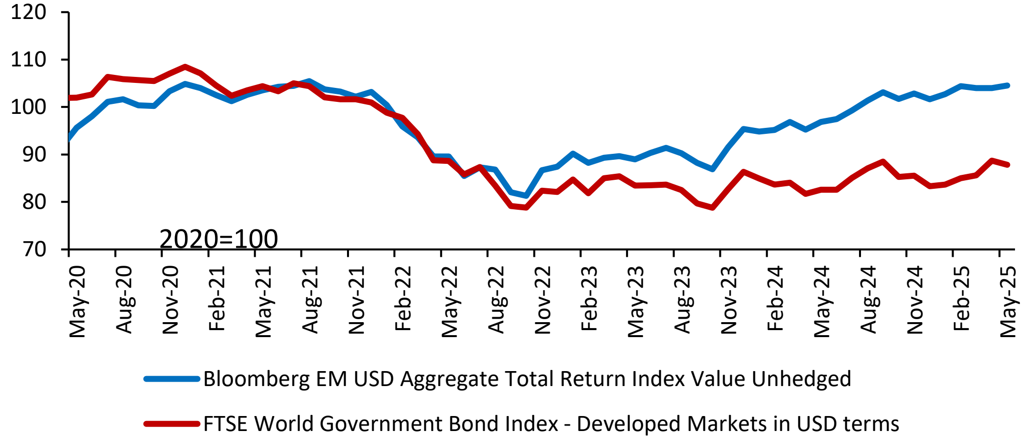
Market pushes its expectation of rate cuts in the US to 2H 2025

%	Latest policy rate (%)	3M forward market policy rate E	6M forward market policy rate E	1 yr forward market policy rate E
Developed market economies				
US	4.50	4.30	4.02	3.56
United Kingdom	4.25	4.12	3.92	3.66
Eurozone	2.40	1.90	1.75	1.65
Australia	3.85	3.44	3.12	2.97
Canada	2.75	2.54	2.36	2.33
Emerging market economies				
India	6.00	5.62	5.52	5.36
South Korea	2.50	2.40	2.19	2.13
Thailand	1.75	1.57	1.41	1.25
Philippines	5.50	4.48	4.34	3.96
Mexico	14.75	14.87	14.83	13.82
Colombia	8.50	8.00	7.52	7.29
Chile	9.50	9.25	8.80	8.22

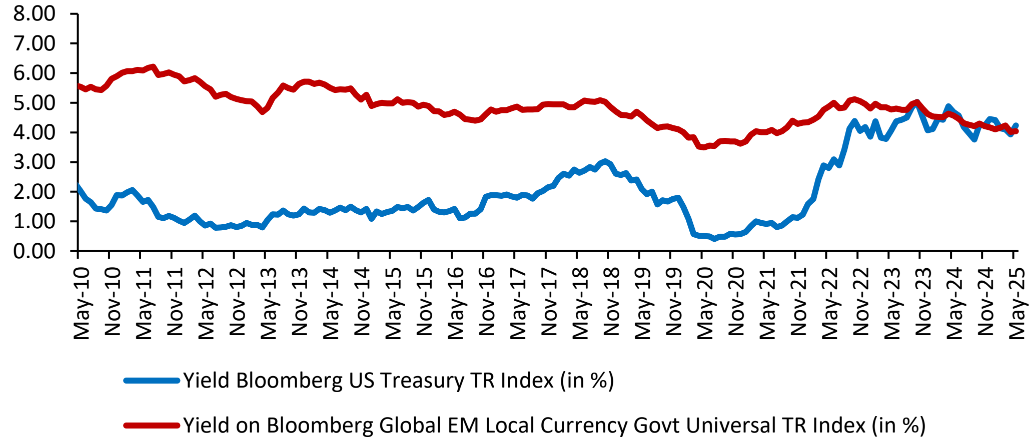
Source: Bloomberg, SBIFM Research

Emerging market bonds continue to out-perform the developed market

Post the US election outcome, returns on developed market bonds have seen a sharper deterioration vs. EM bonds



Risk premia on EM bonds wiped out: yet selective EM economies still look attractive and investible



Source: Bloomberg, SBIFM Research

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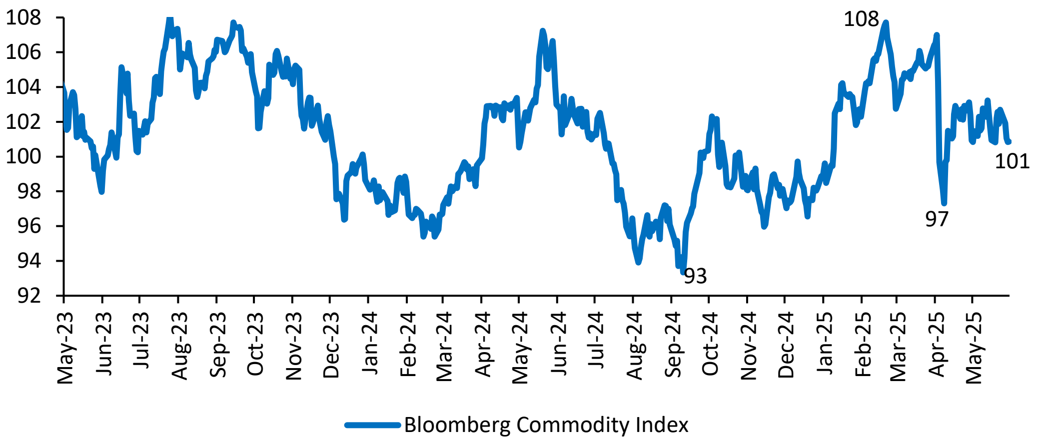
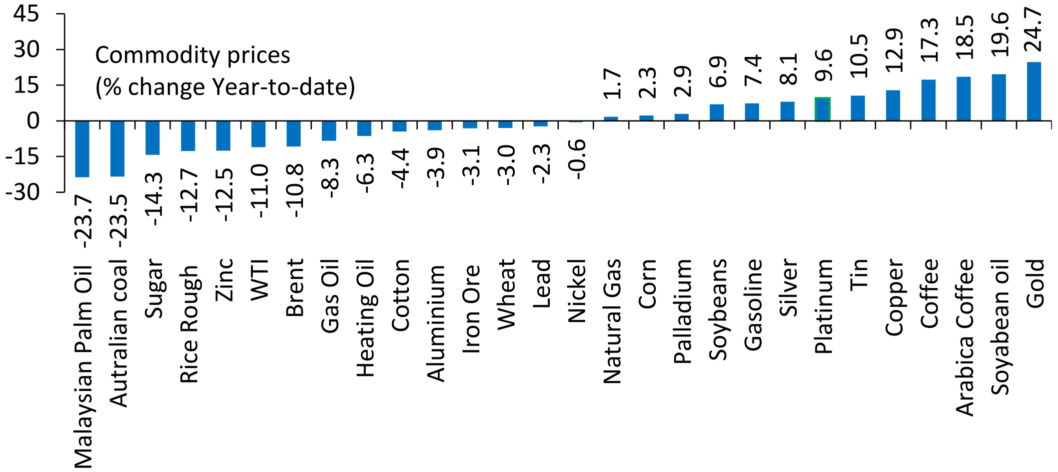
Commodity prices stable despite growth uncertainty; Precious metals have gained

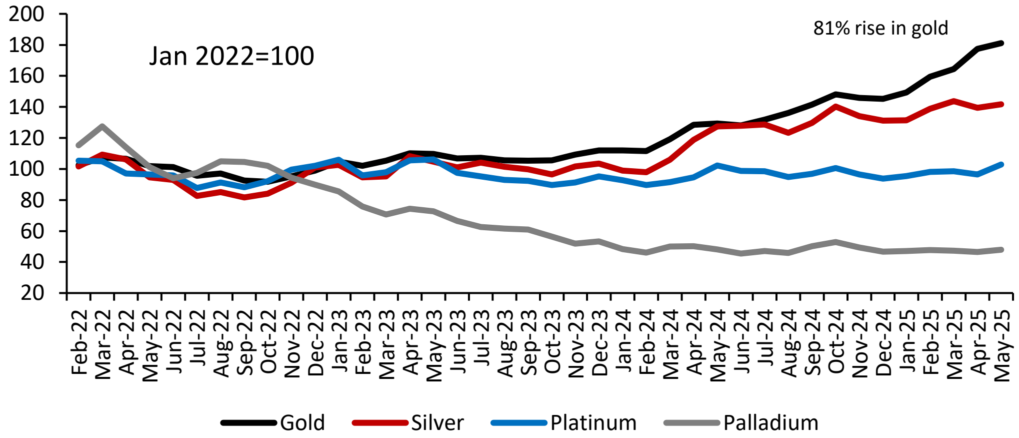
Commodities flat m-o-m in May 2025- on the watchlist



Multiple commodities see moderation in 2025 year-to-date; metal prices continue to be high



Precious metals – mainly gold and silver see a sharp rise since Russia Ukraine war



- Commodities remain flat m-o-m in May 2025. Precious metals continue to gain.
- Global fiscal stimulus continuity and easing in trade tensions help commodity prices stay supported. Though, tariff threats have only been lowered, not vanished yet.

Source: Bloomberg, SBIFM Research

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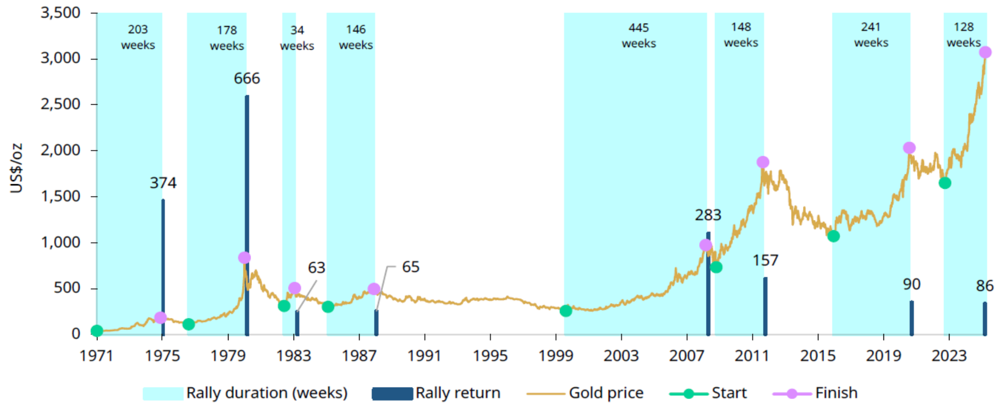
Gold Outlook: Strength Amid Geopolitical and Economic Uncertainty

Gold price movements

Gold price, trough-to-peak rally returns and their durations*

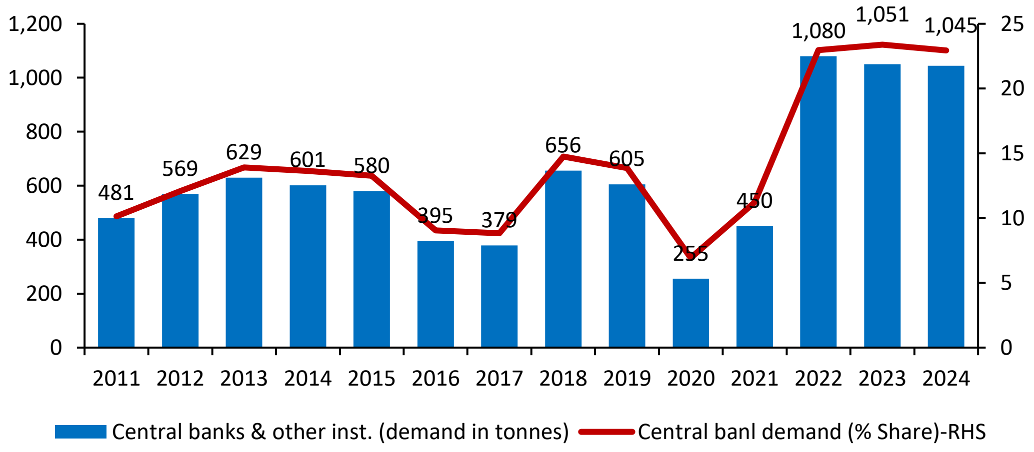


*Data as of 31 March 2025. Peaks and troughs selected using Argrelextrema algorithm in Python.
Source: Bloomberg, World Gold Council

Gold demand supply dynamics

	2019	2020	2021	2022	2023	2024
Total supply	**4,886.9**	**4,740.5**	**4,703.2**	**4,755.7**	**4,945.9**	**4,974.5**
Demand						
Jewellery fabrication	2,152	1,324	2,231	2,195	2,191	2,004
Technology	332.7	309.0	337.2	314.8	305.2	326.1
Investment	1,274.7	1,794.9	991.5	1,112.5	945.5	1,179.5
Total bar and coin	871	902	1,180	1,222	1,190	1,186
ETFs & similar products	404	893	-189	-110	-244	-7
Central banks & other inst.	605.4	254.9	450.1	1,080.0	1,050.8	1,044.6
Gold demand	**4,364.5**	**3,682.6**	**4,009.6**	**4,702.6**	**4,492.5**	**4,553.7**
OTC and other	522.3	1,057.9	693.6	53.1	453.4	420.7
Total demand	**4,886.9**	**4,740.5**	**4,703.2**	**4,755.7**	**4,945.9**	**4,974.5**

Central bank has been the biggest buyer since 2022



RBI is amongst the top three central bank to buy of gold, and gold now forms nearly 11% of India's official reserves

Buying in tonnes	Additional buying by Central banks between 2021-2024	Buying in last decade
China	331	894
Poland	220	126
India	200	119
Singapore	93	-
Japan	81	-
Thailand	81	54
Hungary	79	28
Brazil	62	34
Qatar	54	44
Uzbekistan	50	151
Egypt	47	5
Czech Republic	42	-3
Ghana	22	-
Kyrgyzstan	21	14
Serbia	13	23
Jordan	10	49
Total for key economies	1,409	1,538

Source: WGC, Bloomberg, SBIFM Research

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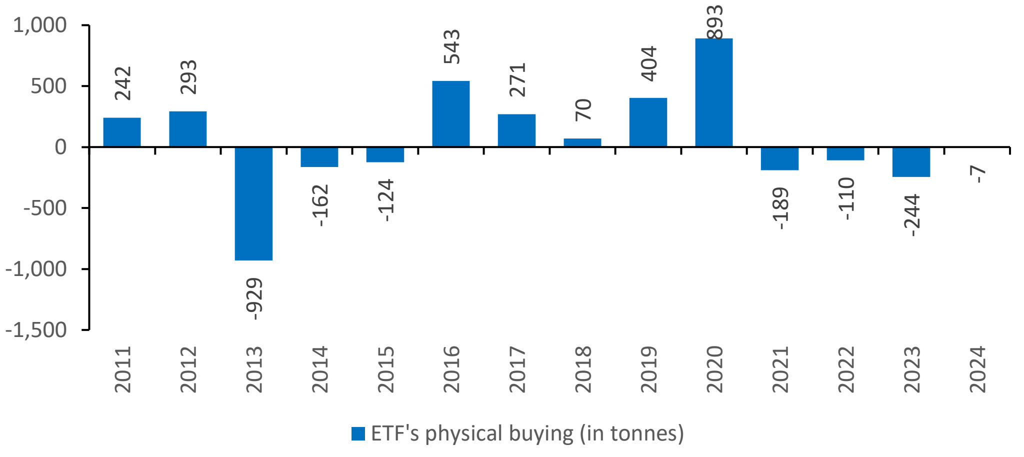
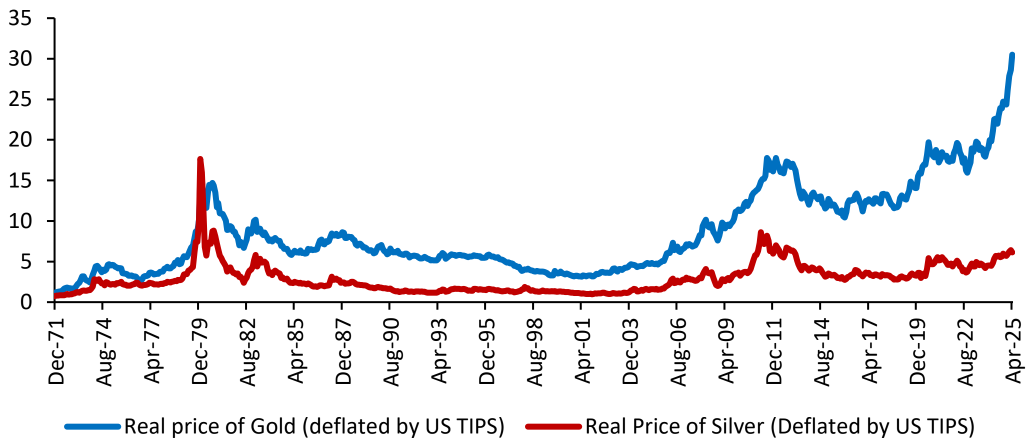
Gold Outlook: Strength Amid Geopolitical and Economic Uncertainty

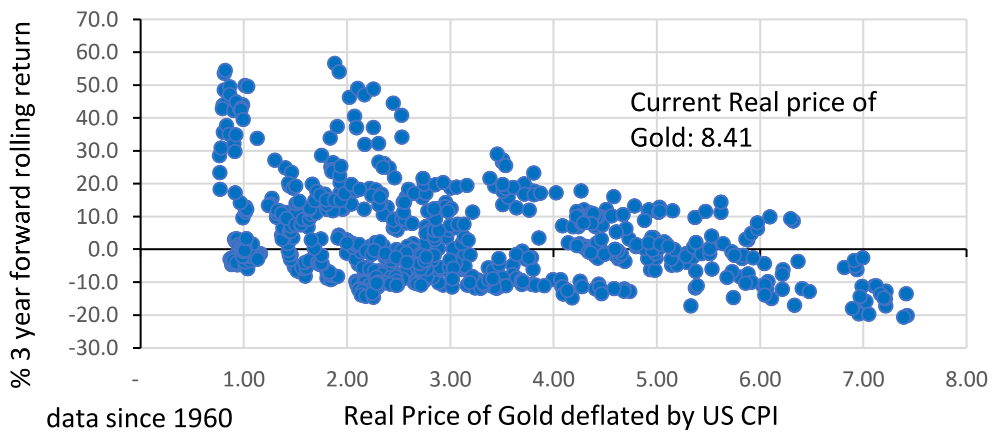
ETF has stayed away from gold in last four years- trends changing in 2025



Price of gold in real terms at an all time high



Gold valuations high compared to past trends; Yet we continue to prefer the asset as a portfolio diversifier



- Gold prices have surged since March 2025, driven largely by a weakening US dollar and escalating geopolitical uncertainty fuelled by new tariff measures.
- Several underlying factors continue to offer solid support for gold. These include: 1) rising concerns for stagflation 2) shifting dynamic in traditional safe-haven assets 3) current tariff disputes may act as a further catalyst, encouraging investors to reduce reliance on US Treasuries in favor of alternative stores of value like gold.
- After a period of inactivity following the market volatility of 2022, US gold ETF investors are beginning to return.
- Fading US exceptionalism and declining comfort in Treasuries enhance gold's attractiveness, valuations are increasingly stretched.
- As a result, it is prudent to maintain gold as a core holding within diversified portfolios. However, investors should also be prepared for a potential pause or consolidation in gold's rally over the near term.

Source: WGC, Bloomberg, SBIFM Research

INDIA ECONOMIC ACTIVITY

Q4 FY25 real GDP growth improved to 7.4% vs. 6.4% in Q3

Q4 FY25 real GDP growth at 7.4% surprised on the upside on account of capex and agriculture

	% Share in GDP (5Yr avg)	% y-o-y							% y-o-y				
		FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Real GDP	**100**	**6.5**	**3.9**	**-5.8**	**9.7**	**7.6**	**9.2**	**6.5**	**8.4**	**6.5**	**5.6**	**6.4**	**7.4**
Private consumption	**57**	**7.1**	**5.2**	**-5.3**	**11.7**	**7.5**	**5.6**	**7.2**	**6.2**	**8.3**	**6.4**	**8.1**	**6.0**
Govt. consumption spending	**10**	**6.7**	**3.9**	**-0.8**	**0.0**	**4.3**	**8.1**	**2.3**	**6.6**	**-0.3**	**4.3**	**9.3**	**-1.8**
Gross Capital formation	**36**	**11.0**	**-2.6**	**-7.4**	**21.1**	**7.6**	**10.5**	**6.7**	**9.1**	**6.2**	**7.7**	**4.9**	**7.8**
GFCF	33.0	11.2	1.1	-7.1	17.5	8.4	8.8	7.1	6.0	6.7	6.7	5.2	9.4
Change in stocks	1.2	27.3	-58.7	-76.4	525.4	24.3	53.4	4.5	52.0	7.5	2.1	3.5	4.8
Valuables	1.6	-9.7	-14.2	29.9	32.5	-16.9	14.4	0.6	63.1	-23.1	25.8	-0.5	-29.8
Exports	**22**	**11.9**	**-3.4**	**-7.0**	**29.6**	**10.3**	**2.2**	**6.3**	**7.7**	**8.3**	**3.0**	**10.8**	**3.9**
Imports	**23**	**8.8**	**-0.8**	**-12.6**	**22.1**	**8.9**	**13.8**	**-3.7**	**11.4**	**-1.6**	**1.0**	**-2.1**	**-12.7**

- Q4 FY25 real GDP came in at 7.4% y-o-y (vs. 6.4% in Q3), surpassing RBI's and market expectation of 7.2% and 6.8% respectively. This growth was primarily driven by a sharp rebound in fixed asset investments and sustained momentum in agricultural activity, even as aggregate private consumption remained underwhelming.
- For the full fiscal year, FY25 GDP expanded by 6.5%, slightly below the RBI's annual projection of 6.6%.
- Household spending (PFCE) weakened to 6% y-o-y in Q4 FY25, a deceleration from 8.1% in Q3. This was also notable in corporate earnings and is a likely a reflection of sharp clampdown on household loans. However, on an annual basis, private consumption grew by 7.2% in FY25 (vs. 5.6% in FY24). Private consumption appears to stay relatively tepid in Q1 FY26, could see a pick-up in 2HFY26 with eased regulatory and monetary conditions, inflation moderation, income tax cut, agri sentiments and construction activity.
- Government expenditure contracted by 1.8% y-o-y in Q4 FY25, contributing to a modest 2.3% growth on annual basis. Gross Fixed Capital Formation (GFCF) surged by 9.4% y-o-y in Q4 FY25, significantly higher than the average 6.2% growth seen in the first three quarters. This is likely due to backloaded government capex.
- India's external trade performance remained resilient despite global uncertainties. Although export growth moderated in Q4, overall exports of goods and services in FY25 grew by 6.3%, while imports contracted by 3.7%, contributing positively to the net trade balance.
- In FY25, Nominal growth expanded by 9.8%, implying a deflator of 3.8%.

Source: CMIE Economic Outlook, SBIFM Research; NB: Change in Stock turned from negative to positive in FY22

High frequency indicators do not point towards any material improvement in April 2025 (1/2)

%y-o-y		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
Overall Macro Indicators	GST collections (Rs. Billion)	12	10	8	10	10	6	9	9	7	12	9	10	13
	Bank Credit (Rs. Tn)	19	20	17	14	14	13	12	12	11	11	11	11	na
	Petroleum Consumption (000 MT)	8	2	2	11	-3	-4	4	11	2	3	-5	-3	-0.2
	Eletcricity generation (bn KWh)	10	14	9	8	-4	1	2	4	6	2	3	7	na
Logistics and Movements of Goods	Air Traffic: Passengers handled (mn passengers)	6	8	8	8	8	8	10	13	10	13	11	9	na
	Air Traffic: Cargo handled ('000 tonnes)	10	16	16	18	12	18	15	10	8	7	-5	4	na
	National Electronic Toll Collection (mn numbers)	8	4	37	9	7	7	8	12	10	15	19	12	na
	Total E-way bills (mn numbers)	14	17	16	19	13	19	17	16	18	23	15	20	23
	HSD Consumption (000 MT)	1	2	1	4	-3	-2	0	9	6	4	-1	1	4
	Total Port traffic (mn tonnes)	0	3	11	4	2	8	1	-5	5	7	-1	7	na
Consumer	Digital Payments (Value INR tn)	36	35	34	35	30	29	34	20	22	21	13	20	na
	Nauki Job Speak Index (Jul 2008=1000)	-3	-2	-8	12	-3	-4	10	2	9	4	4	-1	9
	Rural Wage (Rs./ day)	5.9	5.6	5.0	4.7	5.8	6.2	6.3	6.3	6.0	5.9	6.1	na	na
	Domestic Passenger vehcile sales ('000 units)	1	4	3	-2	-2	-1	1	4	10	2	2	4	4
	Domestic two-wheeler sales ('000 units)	31	10	21	12	9	16	14	-1	-9	2	-9	11	-17
	Urban consumer sentiment index	7	8	11	14	12	11	6	7	4	5	4	7	11
	Rural consumer sentiment index	24	24	16	16	15	4	4	5	2	5	4	6	-5
	IIP: Consumer durables (2011-12=100)	11	13	9	8	5	6	6	14	8	7	4	7	na
	IIP: Consumer non- durables (2011-12=100)	-2	3	-1	-4	-4	2	3	0	-7	0	-2	-5	na

Source: CMIE Economic Outlook, CEIC, SBIFM Research; NB: Red denotes a deterioration in y-o-y growth rate compared to the prior month while green denotes an acceleration in growth rate. Bank credit data adjusted for HDFC merger, Digital payments include credit card, debit card, wallet and UPI payments

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High frequency indicators do not point towards any material improvement in April 2025 (2/2)

%y-o-y		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
Business	Manufacturing PMI	3	-2	1	1	-2	-2	4	1	3	2	-1	-2	-1
	Services PMI	-2	-2	3	-3	1	-5	0	3	1	-9	-3	-4	-3
	Coal (mn tonnes)	8	10	15	7	-8	3	8	7	5	5	2	2	na
	Fertilizers(mn tonnes)	-1	-2	2	5	3	2	0	2	2	3	10	9	na
	Steel(mn tonnes)	10	9	6	7	4	2	6	4	7	5	7	7	na
	Cement(mn tonnes)	0	-1	2	5	-3	8	3	13	10	15	11	12	na
	Import of Capital Goods (US$ mn)	-3	-1	14	3	9	19	7	11	14	26	17	10	na
Government	Centre Revex ex Interest Payment (Rs. Tn)	10	-6	-7	-21	44	8	45	1	-3	11	-23	-3	8
	Centre Capital expenditure (Rs. Tn)	26	-50	-66	108	-30	-2	-8	21	95	51	-35	68	61
	State Revex ex interest payment (Rs. Tn)	11	18	3	28	0	8	47	-9	17	16	1	7	na
	State Capex (Rs. Tn)	-7	-10	-28	13	23	-19	23	-8	28	-1	14	42	na
Trade	Exports of Goods (US$ bn)	2	13	2	-2	-10	0	17	-5	-1	-3	-11	1	9
	Imports of Goods (US$ bn)	11	7	5	6	0	-1	-1	16	2	10	-16	11	19
	Non oil and non gold imports (US$ bn)	2	1	7	6	2	5	2	4	1	18	0	4	17
	Exports of Services (US$ bn)	17	10	3	17	6	15	22	14	17	12	12	19	17
Prices	CPI (2011-12=100)	4.8	4.8	5.1	3.6	3.7	5.5	6.2	5.5	5.2	4.3	3.6	3.3	3.2
	WPI (2011-12=100)	4.8	4.8	5.1	3.6	3.7	5.5	6.2	5.5	5.2	4.3	3.6	3.3	3.2

Source: CMIE Economic Outlook, CEIC, SBIFM Research; NB: Red denotes a deterioration in y-o-y growth rate compared to the prior month while green denotes an acceleration in growth rate

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Energy demand weak, bank credit still modest, but GST collection improves

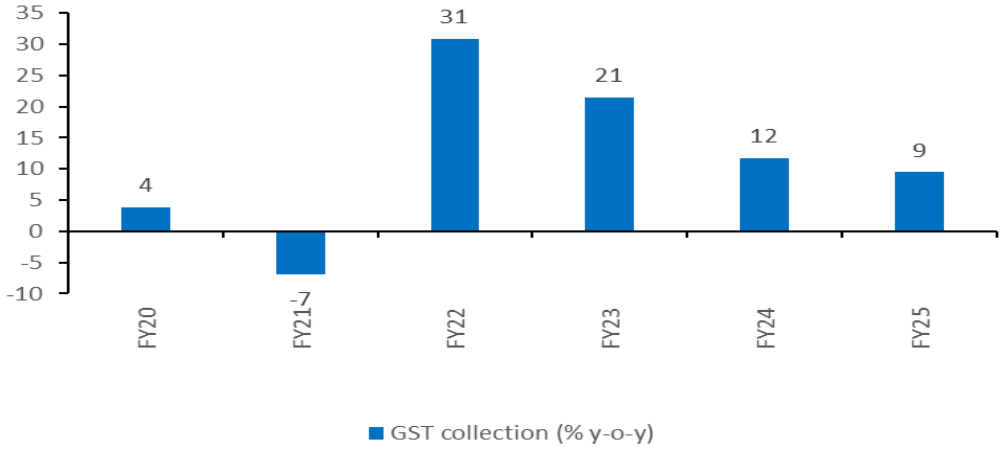
Energy consumption tepid in April; Petroleum consumption, points, specifically to weakness in Industrial fuel demand

% y-o-y	% Share	FY23	FY24	FY25	Apr-25
Consumption of petroleum products					
All Petroleum Products	100.0	10.6	5.0	2.6	-0.2
Auto fuel	58.0	14.0	5.3	4.1	4.6
Industrial Fuel	29.0	10.7	4.9	-1.5	-12.5
Household fuel	13.0	-2.5	4.0	5.4	6.1
Electricity generation					
Total generation	100	8.9	7.1	5.2	NA
Conventional	87	7.6	6.5	4.1	-1.9
Thermal	76	8.2	10.0	2.8	-3.7
Hydro	8	6.9	-17.3	10.8	18.3
Nuclear	3	-2.7	4.5	18.2	8.6
Renewable energy sources	13	19.1	10.9	12.6	NA

Bank credit is languishing at 10% y-o-y

% growth	FY20	FY21	FY22	FY23	FY24	FY25	FY26 (till date)
RBI's balance sheet	23.5	14.7	10.2	1.3	11.4	6.7	11.0
Reserve money	9.4	15.2	12.3	11.9	6.7	3.3	5.4
Money supply (M3)	8.9	12.2	8.8	9.0	11.1	9.2	9.5
Bank credit	6.1	5.6	8.6	15.0	15.7	11.4	10.0
Bank Deposit	7.9	11.4	8.9	9.6	13.5	10.3	10.0
Bank NDTL	7.3	10.5	8.6	10.9	15.1	10.7	10.0
Banks' SLR Investment	6.1	18.2	6.0	15.7	14.6	12.0	7.9

GST collection should have improved meaningfully if government capex pick-up were to translate to better economic activity



- Bank credit growth is languishing at 10%. If we compare FY23's 15% credit growth to FY25 11% credit growth, 5% pt decline has come largely on account of decline in personal loans and NBFC loan.
- GST collections were healthy in April at Rs. 2.4 trillion (vs. 2.1 trillion in Apr'24; and 1.96 trillion in Mar'25) and grew at a robust 12.6% y-o-y. However, April is typically a month of a good y-o-y growth and doesn't truly act as a good indicator for remainder year patterns.

Source: RBI, CMIE Economic Outlook, CEIC, SBIFM Research; NB: RBI balance sheet and reserve money data as on 16th May, M3 and bank data as on 2nd May for FY26

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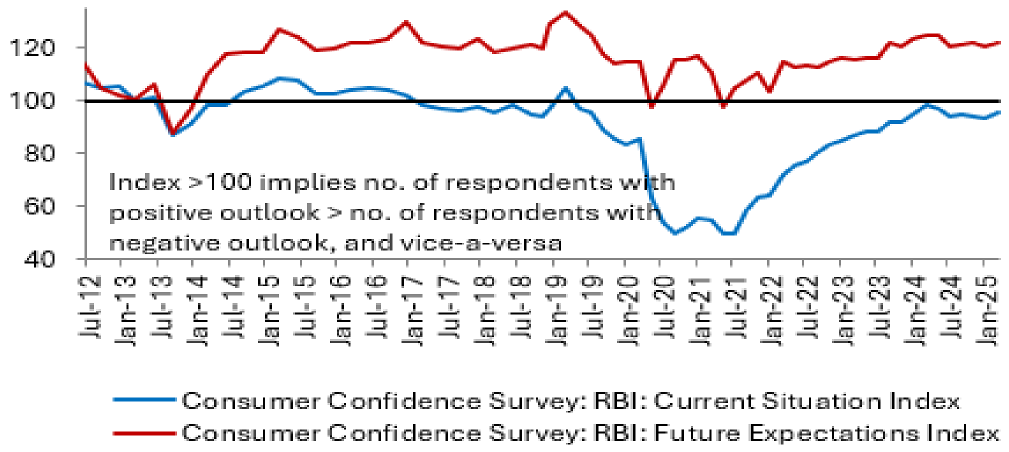
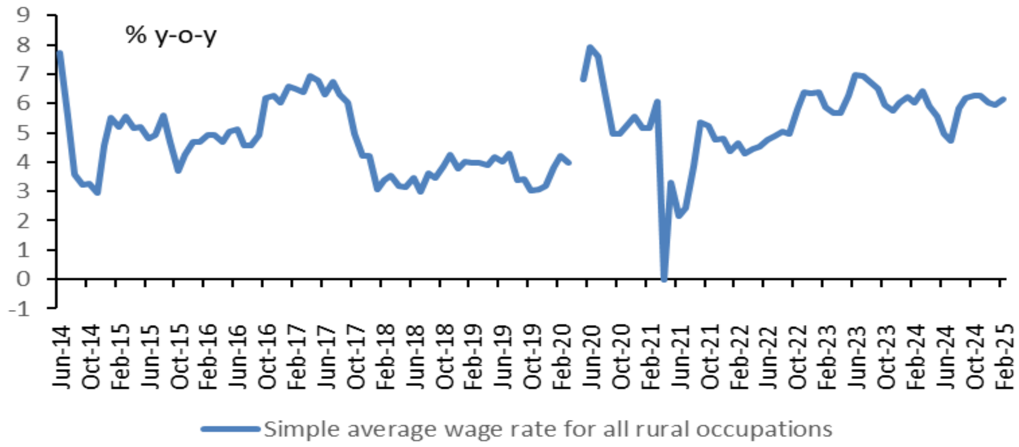
Consumption : No material positivity yet

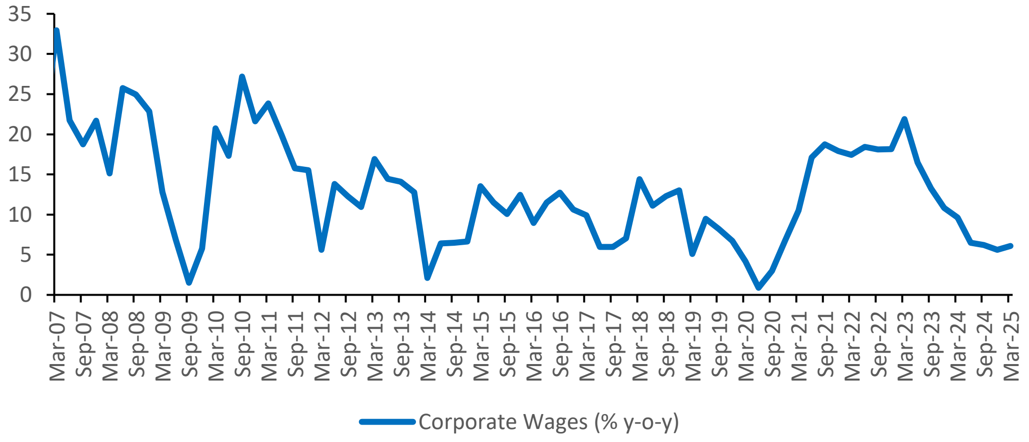
RBI consumer confidence index has stabilized at a level, a tad below net optimism



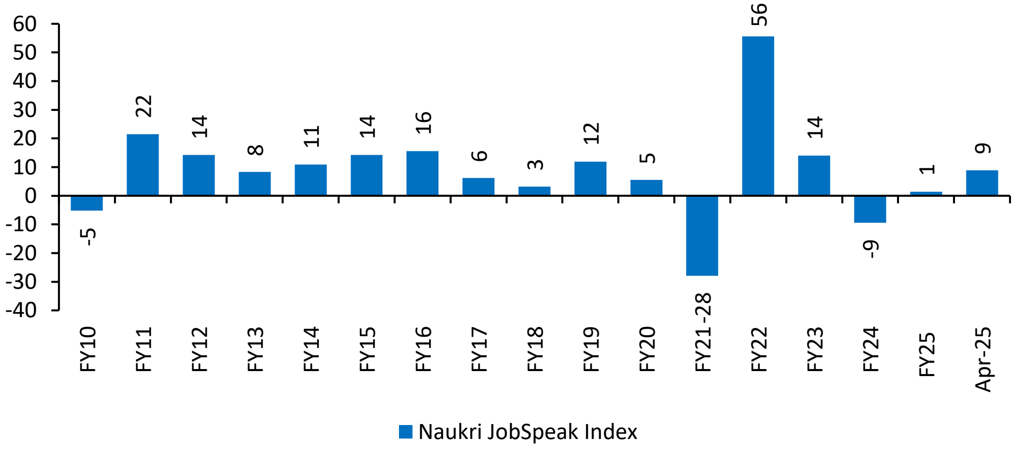
Rural wages have been perennially sluggish at 5-6% growth; moderation in inflation levels helps rural income prospects



Income data has deteriorated for Urban India; corporate sector wages growth has seen a significant moderation

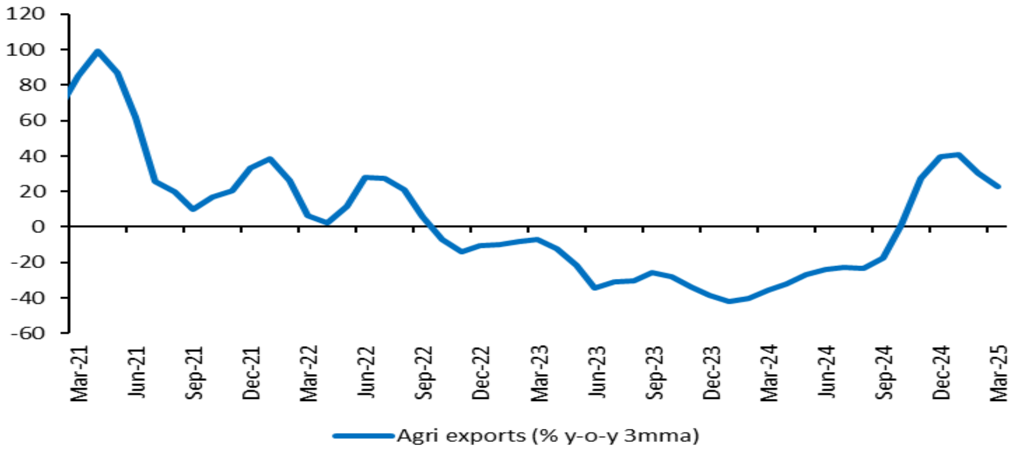


Hiring activities as gauged from Naukri Job speak has been flat in FY25 after a 9% decline in FY24; high volatility in m-o-m prints

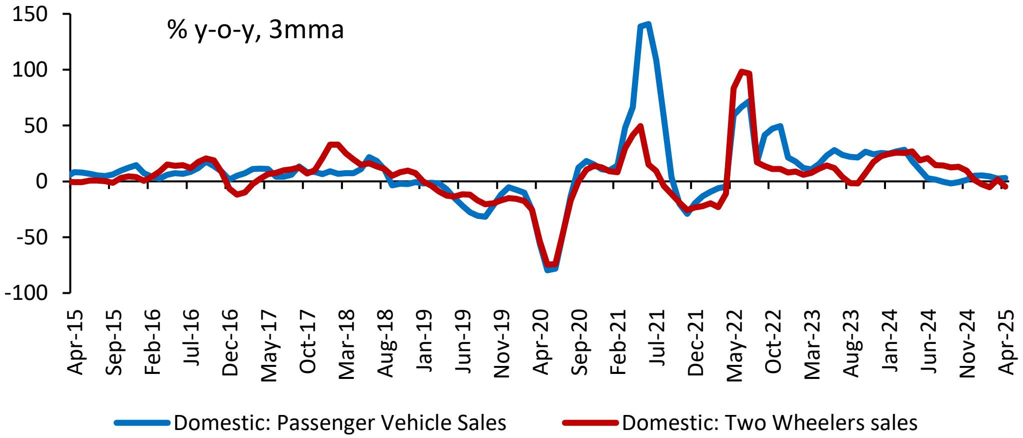


Agricultural prospects are looking healthy

Agriculture exports is growing at 23% y-o-y on a 3mma basis (in volume terms)



The positive momentum in domestic auto sales appears to have been arrested since Sep'24



The second advance estimate pegged rabi foodgrain production at a record high of 164.5mn tonnes in 2024-25 (6% growth vs 2nd AE in 2024)

Second Advance Estimate of Rabi Crop Production (MnTonnes)			
Crops	2023-24	2024-25	% change
Foodgrain	155	165	6.0
Rice	12	16	27.5
Wheat	112	115	3.0
Coarse cereals	14	17	20.8
Pulses, of which	16	16	-2.8
Gram	12	12	-5.1
Oilseeds, of which	14	14	2.2
Rapeseed & mustard	13	13	1.4
Groundnut	1	1	19.3

- Easing credit supply to households, a likely improved agri income, some positive effects from personal income tax reduction, resumption of real estate and infra construction activity translating into better construction jobs, and a contained inflationary pressures are expected to lead to a modest revival in consumption demand.
- Amongst all the factors, credit growth will be the strongest support.

Source: CMIE Economic Outlook, CEIC, SBIFM Research

Consumption demand gets a policy support; but meaningful demand pick-up may be months away

RBI has taken liquidity enhancing measures; aimed to help in reviving credit growth

Liquidity management measures by RBI since Dec-24	INR tn
Repo rate cut by 50bps cumulatively Reduction in risk weights to lending towards SME & MFI Easing in earlier proposed stringent LCR Norms Relaxation of priority sector lending norms	
CRR cut by 50bps	1.2
OMO purchases	5.2
Buy sell swaps	2.2
45/49/56 day VRR	2.1
Total	10.7

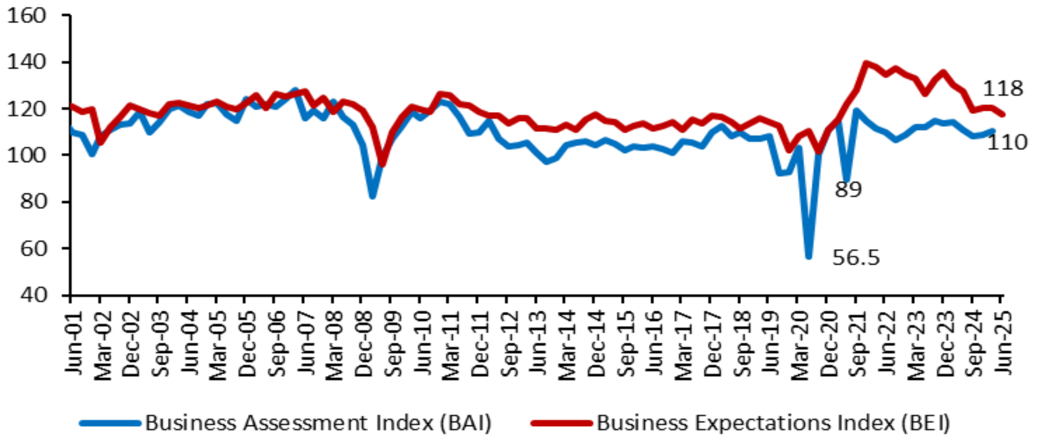
Union budget 2025 attempted to reduce tax burden on middle class to support consumption demand

Income	Tax on Slabs and rates		Benefit of	Rebate benefit	Total Benefit	Tax after rebate Benefit
	Present	Proposed	Rate /Slab	Full upto Rs 12 lacs		
8 lac	30,000	20,000	10,000	20,000	30,000	0
9 lac	40,000	30,000	10,000	30,000	40,000	0
10 lac	50,000	40,000	10,000	40,000	50,000	0
11 lac	65,000	50,000	15,000	50,000	65,000	0
12 lac	80,000	60,000	20,000	60,000	80,000	0
16 lac	1,70,000	1,20,000	50,000	0	50,000	1,20,000
20 lac	2,90,000	2,00,000	90,000	0	90,000	2,00,000
24 lac	4,10,000	3,00,000	1,10,000	0	1,10,000	3,00,000
50 lac	11,90,000	10,80,000	1,10,000	0	1,10,000	10,80,000

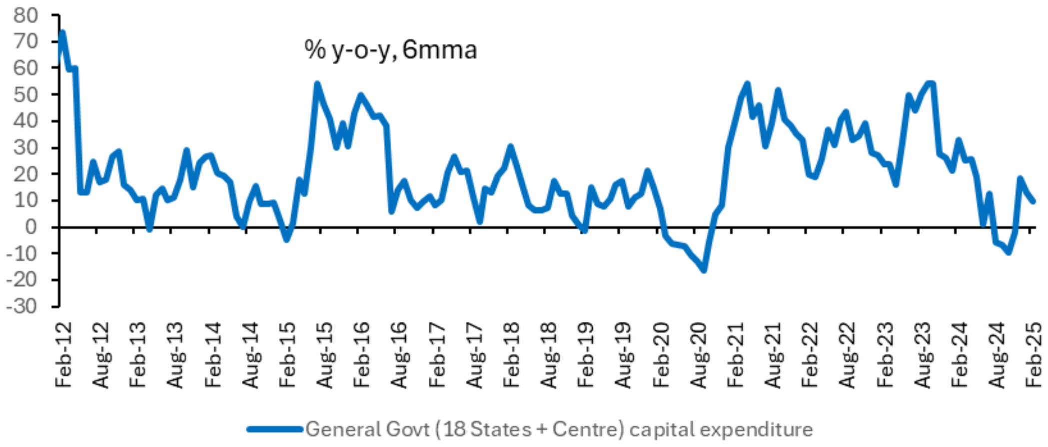
- One common argument for a better Indian economic growth in FY26 is placed around monetary easing (both rates, liquidity and regulatory) and that should help in revival of credit led growth.
- In this perspective, it is important to understand, which sectors contributed to a moderated credit in last few quarters. Stripping out the HDFC merger, Bank credit moderated by 5% pt in FY25 from 15-16% to 11% and 85% of this moderation has come on account of fall in personal loan and credit to NBFC, which again may be leading to a weak consumer loan.
- All forms of personal loans- housing, credit card, vehicles and other unsecured loans have seen a decline (gold loan is the only category to see a phenomenal jump).
- Now one has to assess if easing credit environment could lead to revival in consumer loans. As of now it appears that personal loans will be slow to revive.

Business: Mixed signals by high frequency indicators

Business sentiments have moderated for Q4 FY25



Moderate catch up on government capex



Strong growth in steel and cement consumption

% y-o-y	Core Industry Index	Coal (bn tonnes)	Crude oil(mn tonnes)	Natural gas(bn cubic metres)	Refinery products(mn tonnes)	Fertilizers(mn tonnes)	Steel(mn tonnes)	Cement(mn tonnes)
FY15	4.9	8.1	-0.9	-5.3	0.2	1.3	5.1	5.9
FY16	3.0	4.8	-1.4	-4.7	4.9	7.0	-1.3	4.6
FY17	4.8	3.2	-2.5	-1.0	4.9	0.2	10.7	-1.2
FY18	4.3	2.6	-0.9	2.9	4.6	0.0	5.6	6.3
FY19	4.4	7.4	-4.1	0.8	3.1	0.3	5.1	13.3
FY20	0.4	-0.3	-5.9	-5.6	0.2	2.7	3.4	-0.9
FY21	-6.4	-1.9	-5.2	-8.2	-11.2	1.5	-9.0	-11.4
FY22	10.4	8.5	-2.6	19.2	8.9	0.7	17.3	20.2
FY23	7.8	14.8	-1.7	1.6	4.8	11.3	9.3	8.7
FY24	7.6	11.8	0.6	6.1	3.6	3.7	12.6	8.8
FY25	4.4	5.1	-2.2	-1.2	2.8	2.9	6.2	6.3

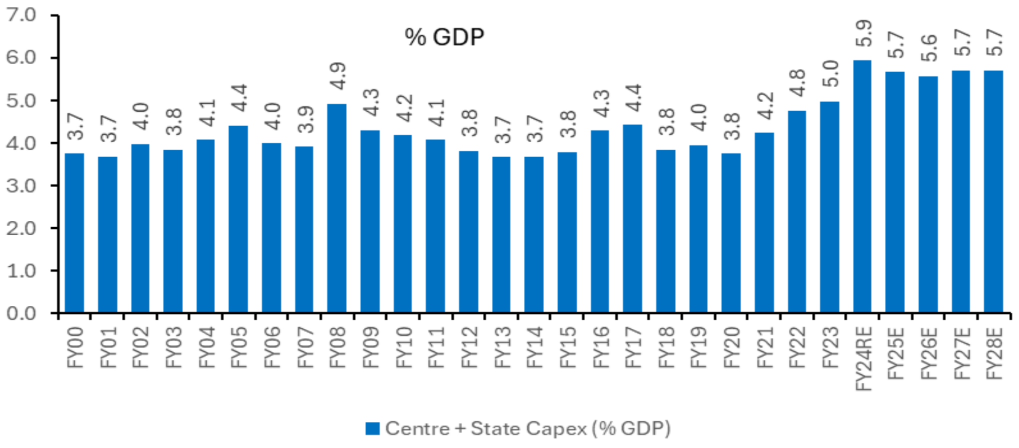
Public sector had provided the key capex thrust post COVID; capex momentum could see moderation as government thrust slows

% y-o-y	Total GFCF	General government	Households including NPISH	Public Sector	Private Sector
FY13	10.9	11.5	5.7	6.5	19.5
FY14	5.7	16.9	-3.3	11.6	12.0
FY15	6.7	11.4	6.9	7.5	4.7
FY16	5.5	12.6	-13.8	22.9	18.9
FY17	9.6	14.6	22.1	-6.5	3.5
FY18	11.0	7.5	21.8	8.1	2.9
FY19	15.6	8.7	18.9	25.3	11.5
FY20	2.7	6.1	-2.1	-9.8	11.6
FY21	-5.2	8.7	-5.3	-8.6	-8.6
FY22	28.7	14.0	38.7	26.0	24.4
FY23	20.3	9.4	22.2	17.0	22.8
FY24	9.2	26.4	6.2	34.9	0.3

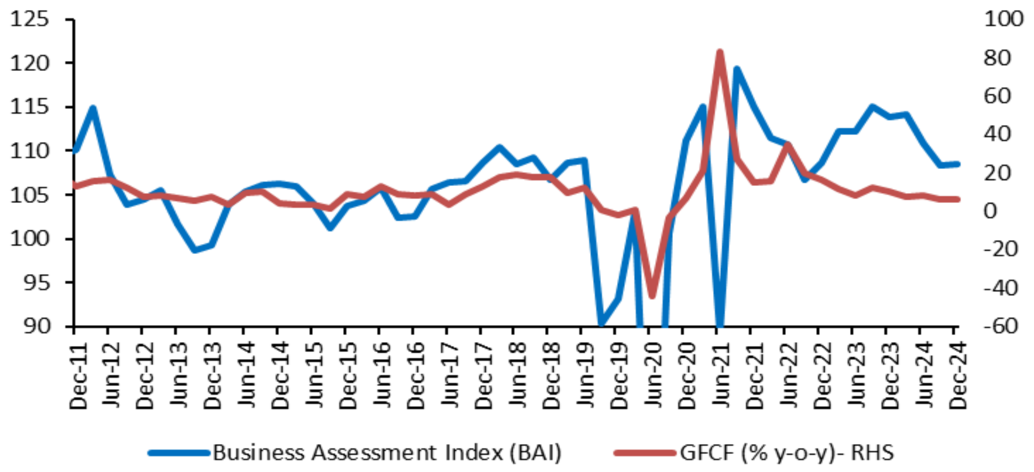
Source: RBI, CMIE Economic Outlook, SBIFM Research

Government infrastructure thrust plateaus

Government infrastructure thrust is plateauing



Moderation in Business sentiments are followed by a moderation in capex activity

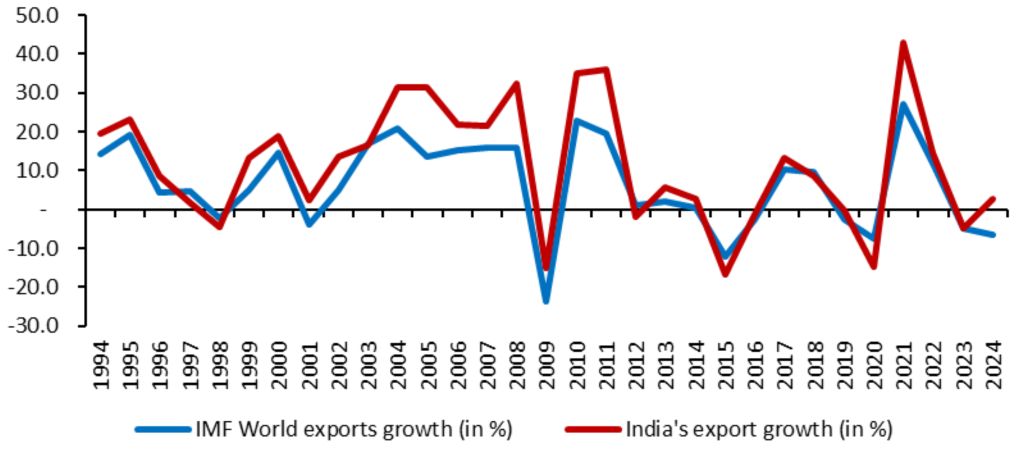


- There are mixed signals on the business side. Movement of goods both for domestic and external consumption, stands weak. On the other hand, order inflow is improving on account of government rushing to meet the capex targets. Coal Output is improving. Cement production is improving. Steel demand is doing strong as gauged by imports, production and domestic consumption owing to pick-up in infrastructure activity.
- Hence as of now it appears that demand on the business side of things stand stronger than consumption side. We see a recovery in both production of capital goods and import of capital goods.
- Significant moderation in business sentiment till Dec'24- though still on the net expansionary zone.
- There are reasons to be bearish on capex and business side. Business sentiment deterioration is often accompanied with reduced capex activity. Government infra thrust is plateauing.
- This is coupled with threats of global growth moderation owing to tariff policies. Even if tariffs weren't to materialize in a meaningful way, the threat and uncertainty of it would dent the global business cycle.

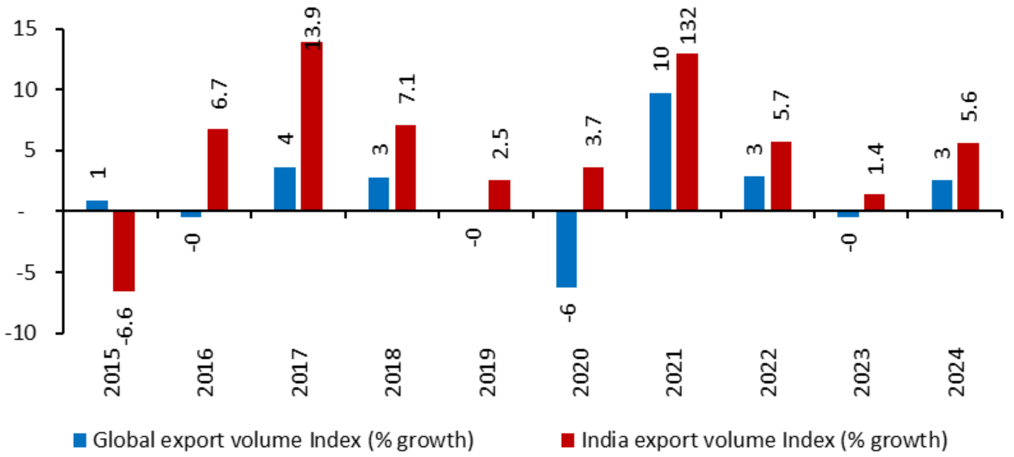
Source: RBI, CMIE Economic Outlook, SBIFM Research

External demand: Weak, though India gains market share

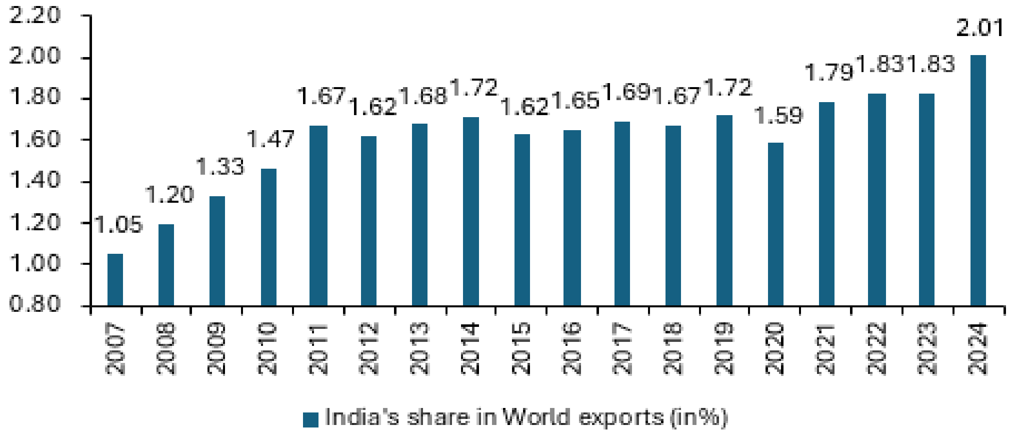
Even as global exports growth declined (in value terms), India's exports growth improved; India exports grew 3% in value terms



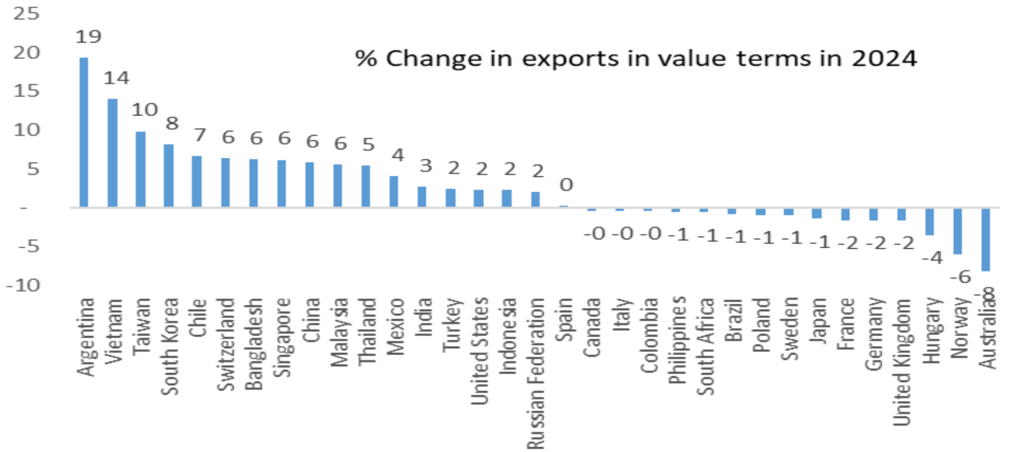
Global exports declined in 2024 in value terms but rose in volume terms



India's market share gain continued

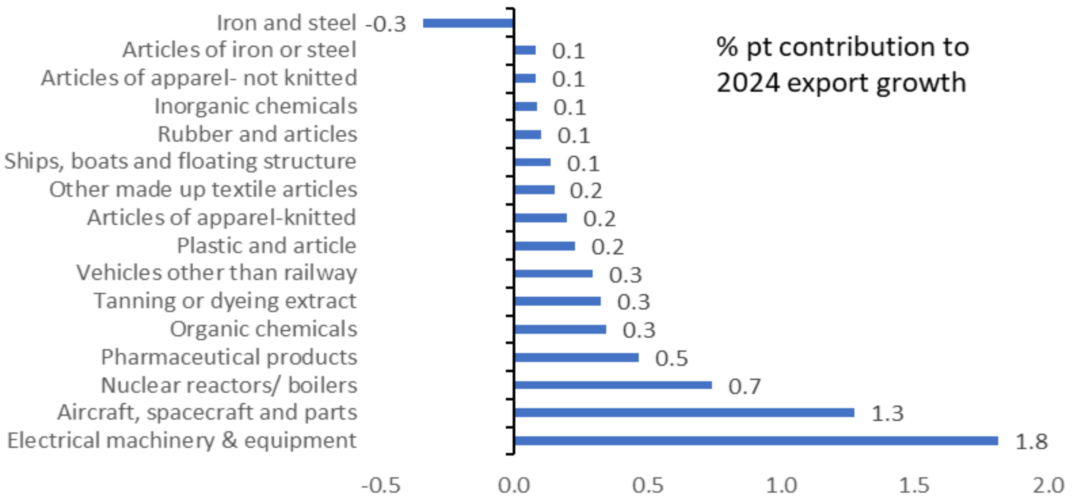


India's performance on global exports in the middle of the pack

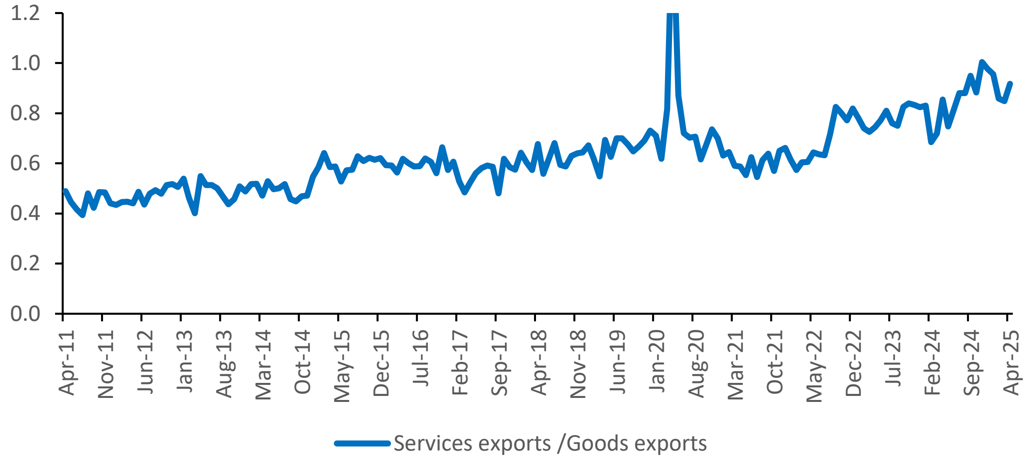


External demand: faces headwinds from global growth risks and tariffs policy

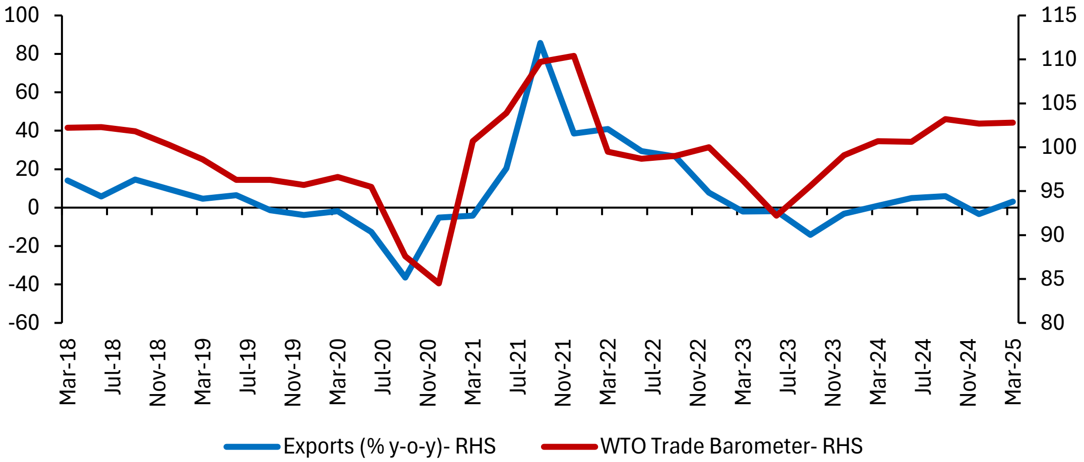
Sectors that are making inroads for India



The services exports almost equals the merchandise exports out of India



External demand outlook has not dented yet



- Merchandise exports growth out of India is weak. Exports of services is the bright spot and it is helping to keep the trade contribution to growth in a positive territory. Comfortingly, thus far, it is out of purview from global tariff radar and continues to grow rapidly for India.
- Global goods trade appeared to remain steady in Q4 2024 and likely to continue growing in beginning 2025 as the WTO Goods Trade Barometer ticked up.
- However, increased trade policy uncertainty and the prospect of new tariffs could weigh on trade in the medium term.
- Trade analysts expect global exports growth (in volume terms) to moderate from 2.9% in 2024 to 1.3% while global growth to moderate from 2.7% to 2.5%.
- In the absence of a more nuanced information, we continue to pencil net services receipts to continue its expansion. Hence contribution from net trade activities to overall growth can continue to be marginally positive in FY26.

Source: CMIE Economic outlook, Bloomberg, SBIFM Research

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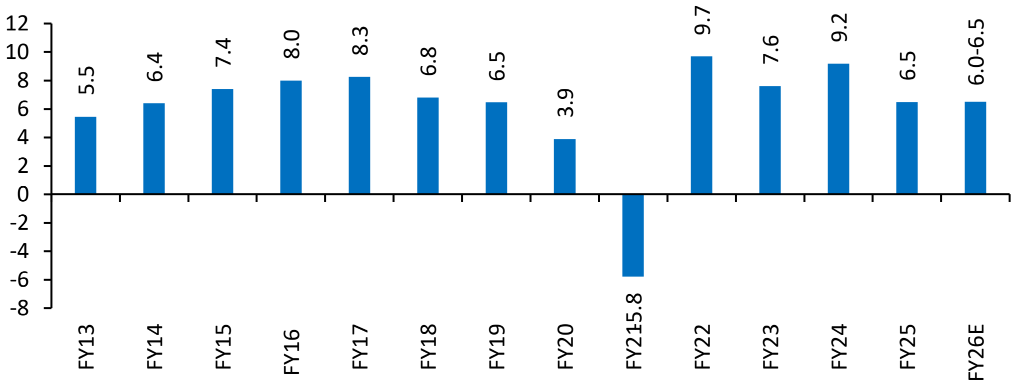
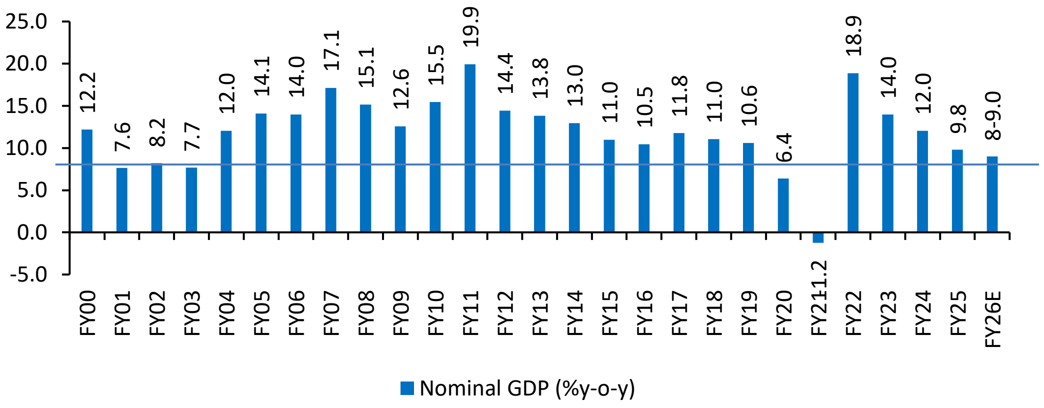
FY26 growth prospects not materially exciting

India's growth around 6.5%



Nominal growth in FY26 could soften significantly



- Q4 FY25 GDP came in at 7.4%, a recovery from 6.4% in Q3 putting FY25 real GDP at 6.5% y-o-y.
- In FY26, India's real growth is likely to stay around 6-6.5%. While the healthy agri prospects, government's desire to ensure better realization of capex targets and easing monetary conditions should help support demand, we are worried about lack of robustness in household income, moderating private sector capex and real estate activities.
- While the tariff troubles have been averted for know, global policy uncertainty is a risk to India's growth too.
- More than real growth, we are worried about Nominal growth which could dip below 9% owing to risk of export deflation and subdued commodity prices.

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EQUITY MARKET

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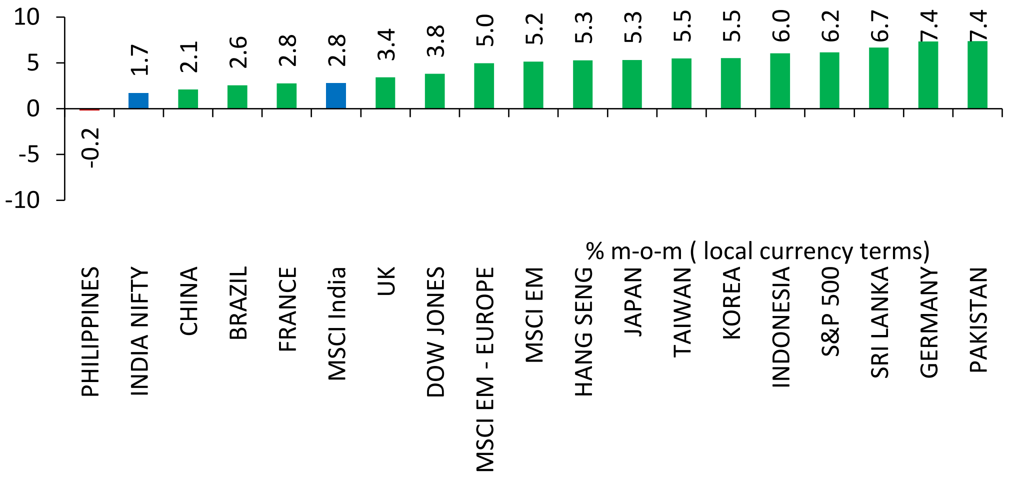
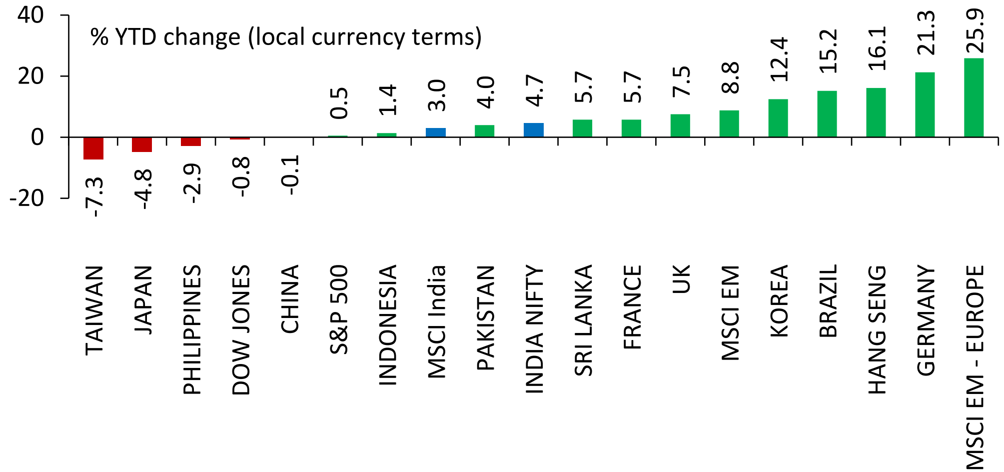
Global equity market snapshot: May 2025

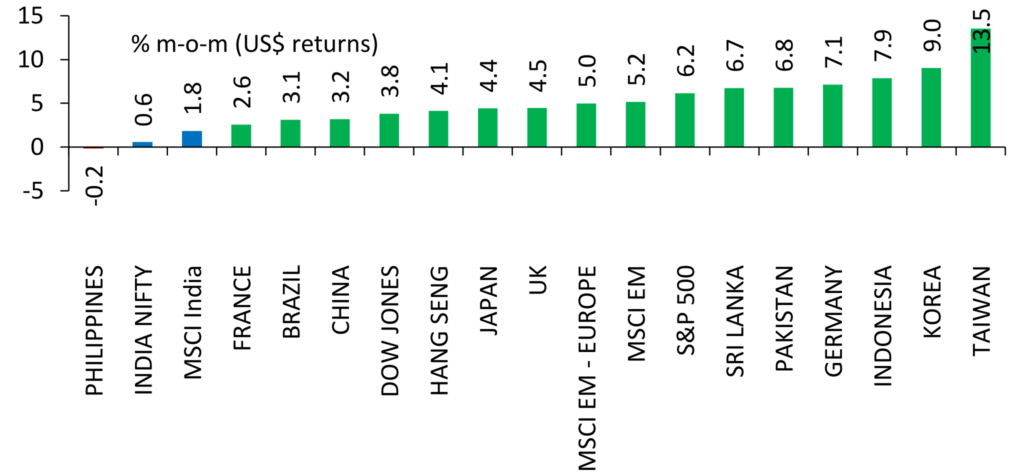
Performance in May 2025 (local currency returns)



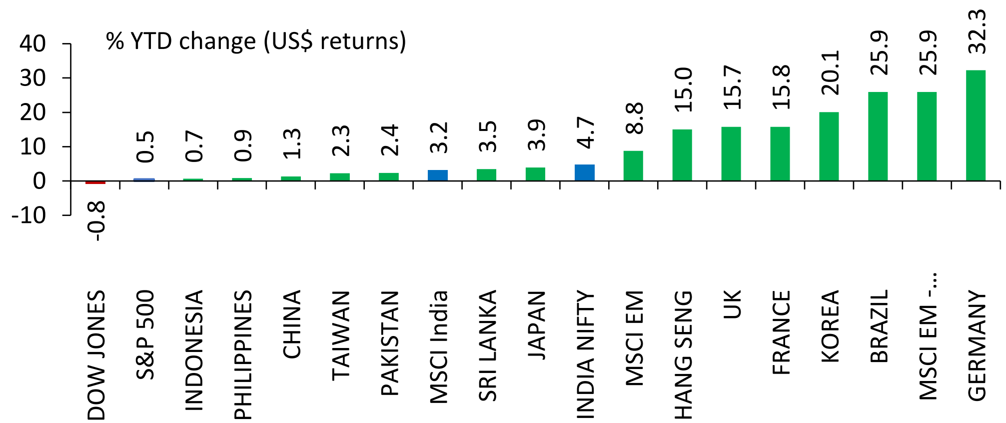
YTD performance (local currency returns)



Performance in May 2025 (US$ returns)



YTD performance (US$ returns)



Source: Bloomberg, SBIFM Research

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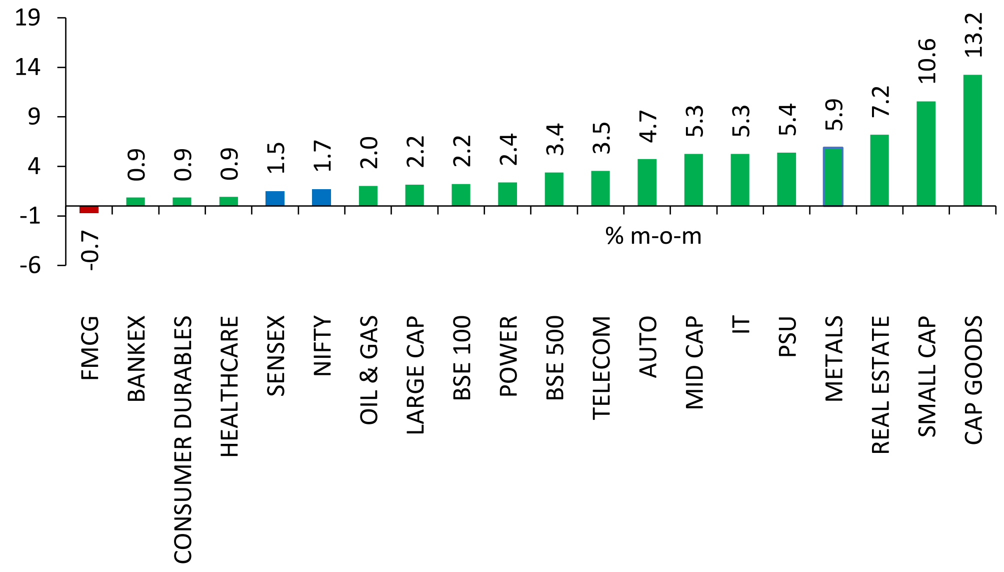
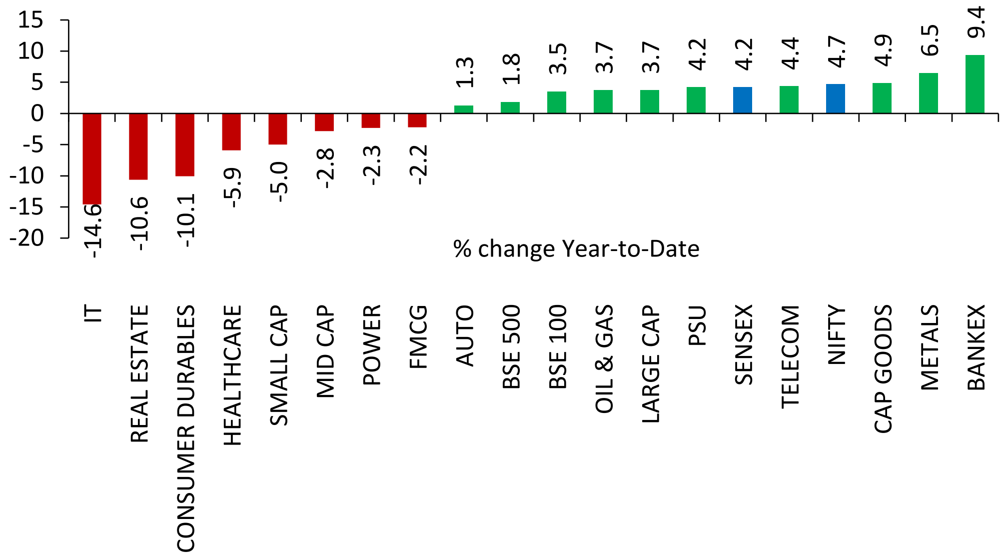
Indian equity market snapshot: May 2025

Indian equity market performance in May 2025 (local currency returns



YTD performance (local currency returns)

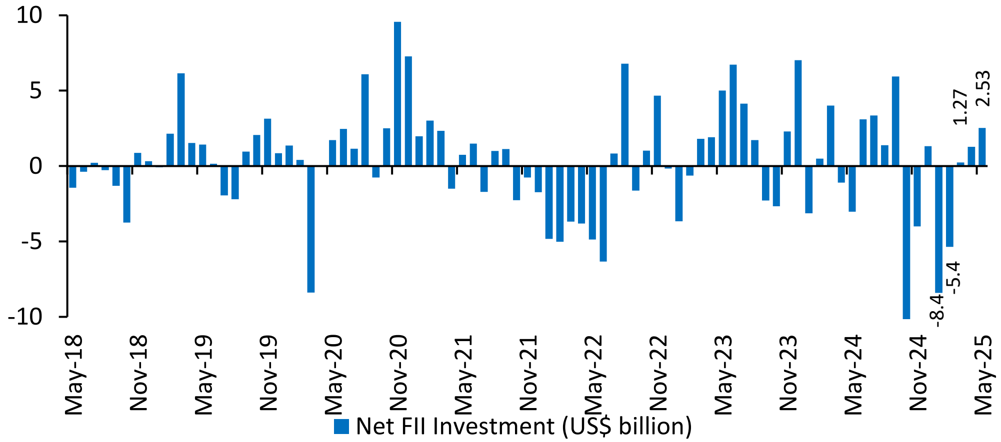


- NIFTY saw an improvement during the month, rising ~2% in May. YTD also, NIFTY witnessed a rise of ~5%. However, performance down the capitalization curve has been much worse. Mid cap and Small cap has fallen 3% and 5% year-to-date respectively.
- Most sectors are in green compared to last month except FMCG.
- Capital goods, Real estate and metals delivered the highest positive returns m-o-m.

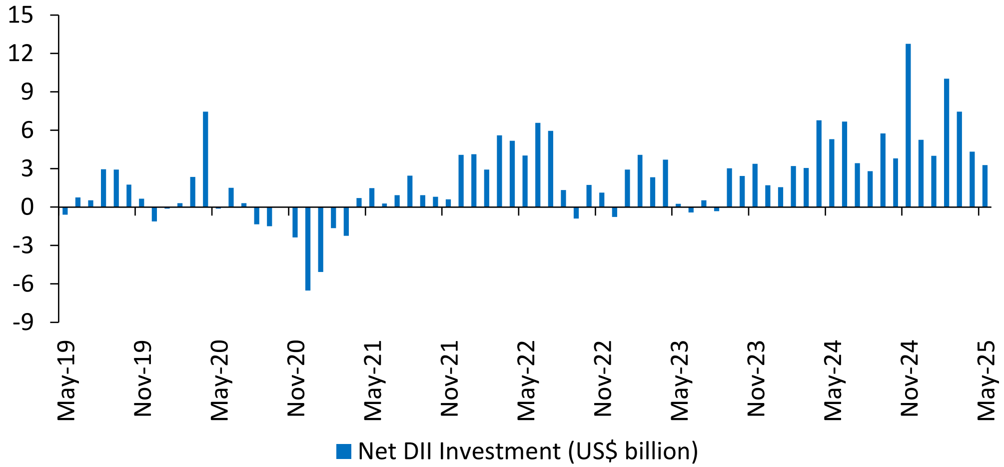
Source: Bloomberg, SBIFM Research

Liquidity: FIIs turn net buyer at the margin in Indian equity market

FIIs bought USD 2.5bn in May 2025 (vs. 1.3bn in April'25)



DIIs are net buyers (purchase of USD ~7bn in May vs. 3bn in April 2025)



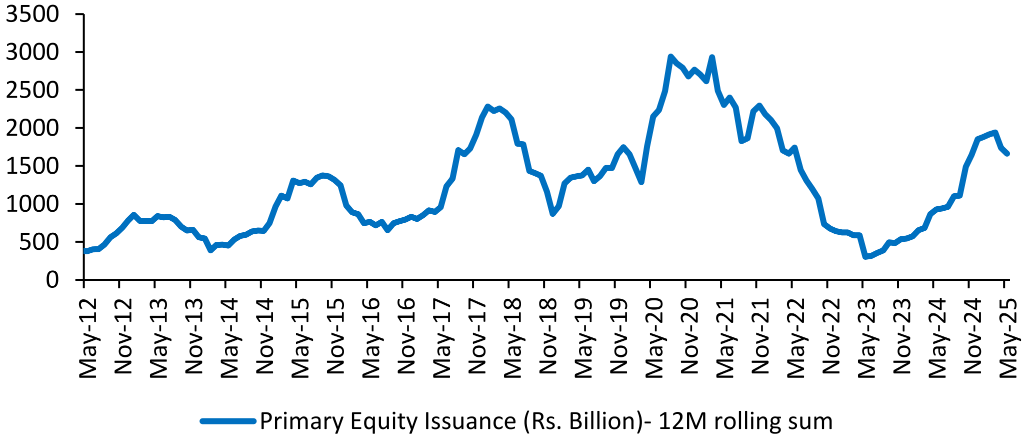
Retail flows into Equity (both Cash and Derivates) surge; Category wise net inflows into Indian equities:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025*
In Rs cr													
FIIs	1,13,136	97,069	17,946	20,493	49,234	-34,252	1,01,111	1,70,260	24,004	-1,21,439	1,71,107	427	-1,12,601
DIIs	-73,052	-28,557	67,587	35,363	90,738	1,09,662	42,257	-35,663	94,846	2,75,726	1,81,482	5,27,438	1,51,445
Individuals#	-22,000	-30,100	-8,243	-26,382	-37,988	-8,523	-25,280	52,897	1,42,755	88,376	5,243	1,65,810	27,265
In US$bn													
FIIs	20.1	16.1	3.2	3.2	7.5	-4.6	14.4	23.0	3.8	-16.5	20.7	0.1	-13.0
DIIs	-12.8	-4.8	10.4	5.2	14.0	16.0	6.0	-4.8	12.6	35.7	22.0	63.0	17.5
Individuals#	-3.8	-4.9	-1.3	-3.9	-5.8	-1.4	-3.6	7.1	19.3	11.7	0.6	19.8	3.15

* As of February 28th, 2025.

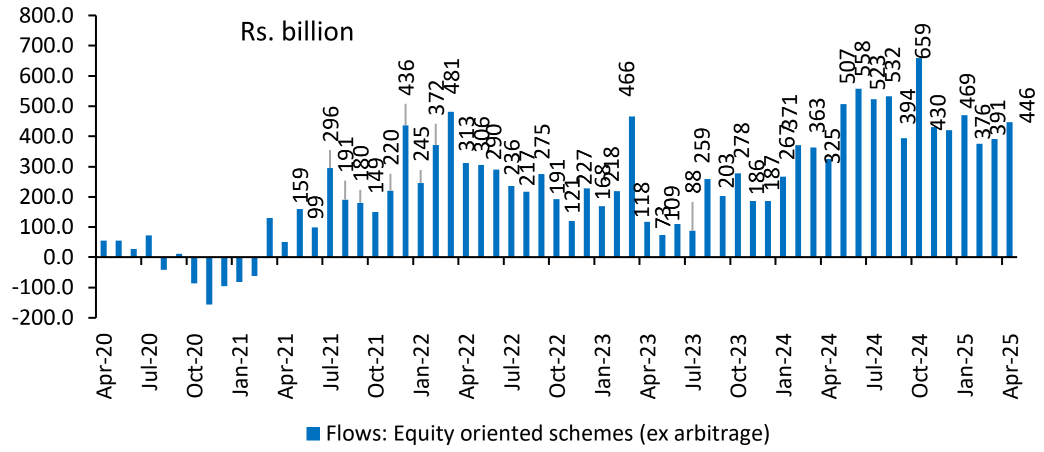
Data pertaining to individuals include net flows on the NSE in the secondary market only. Individuals include individual /proprietorship firms, HUF and NRI.

Primary market supply trending up from last year lows

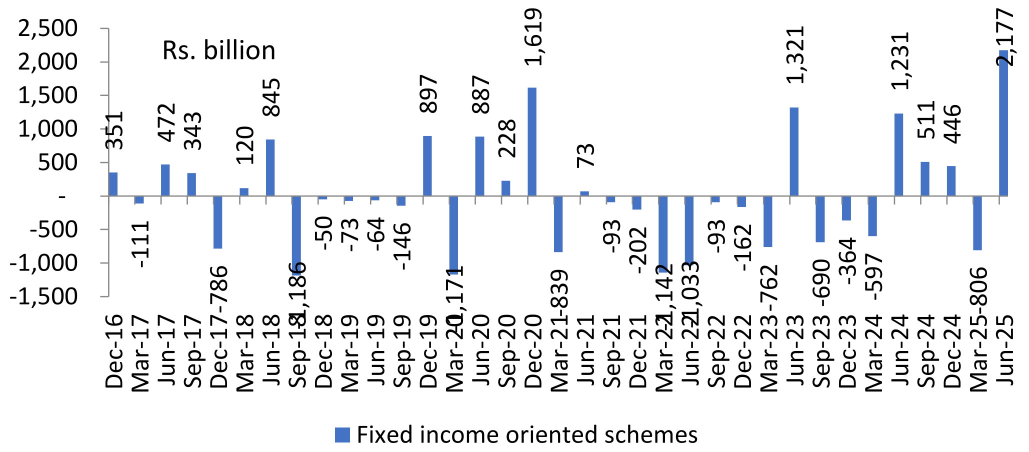


MF flows: SIP equity inflows improve m-o-m; Sharp rise in debt inflow in April 2025

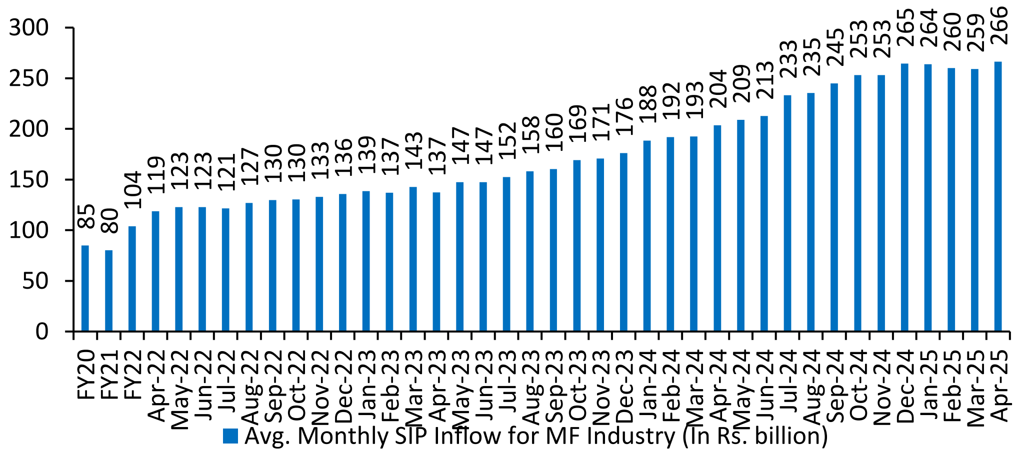
Equity inflows improved in April 2025 compared to a month ago



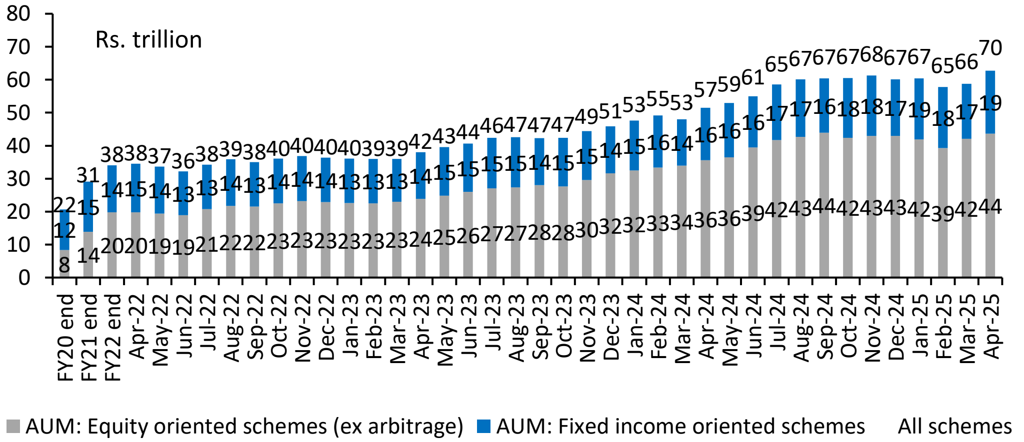
Debt inflow of INR 2.2tn in Q1FY26 (till April) vs. outflow of 0.8tn in Q4FY25



Monthly SIP inflow improved m-o-m in April



Equity and debt AUM improved m-o-m



Source: CMIE Economic Outlook, Association of Mutual Funds of India(AMFI), SBIFM Research; NB: Debt inflow data till April 2025

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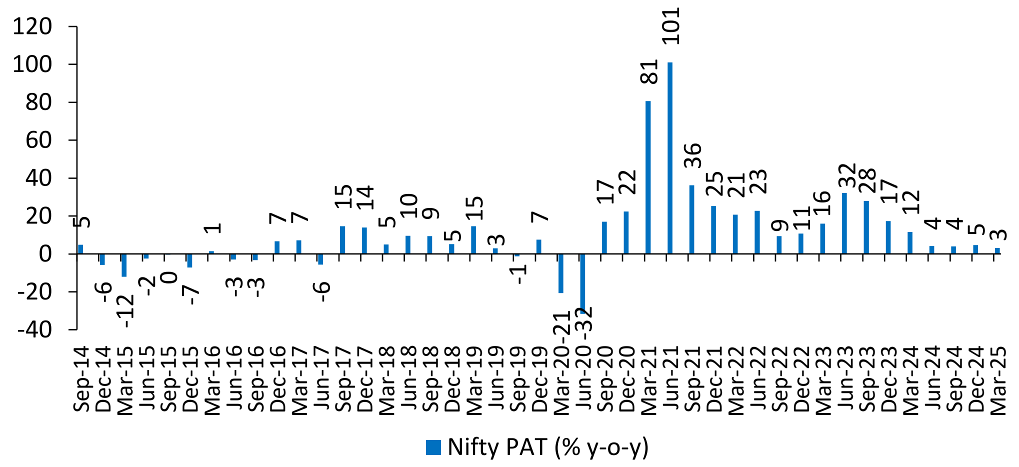
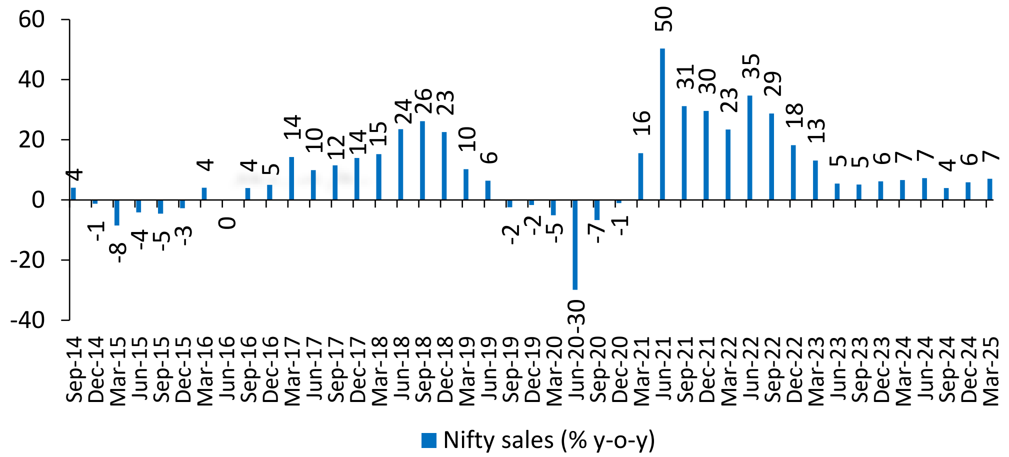
Q4 FY25 earnings: Weak PAT growth; Topline has been weak for 8 consecutive quarters

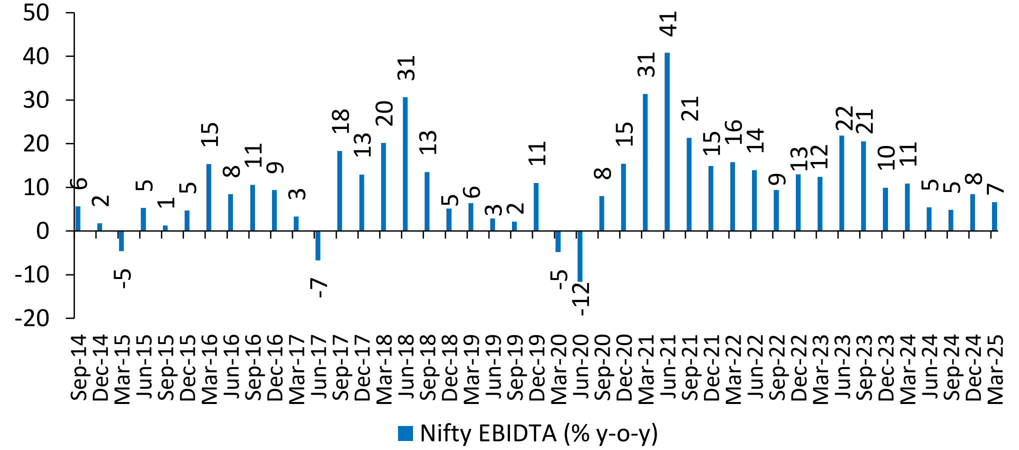
PAT growth moderates in Q4FY25



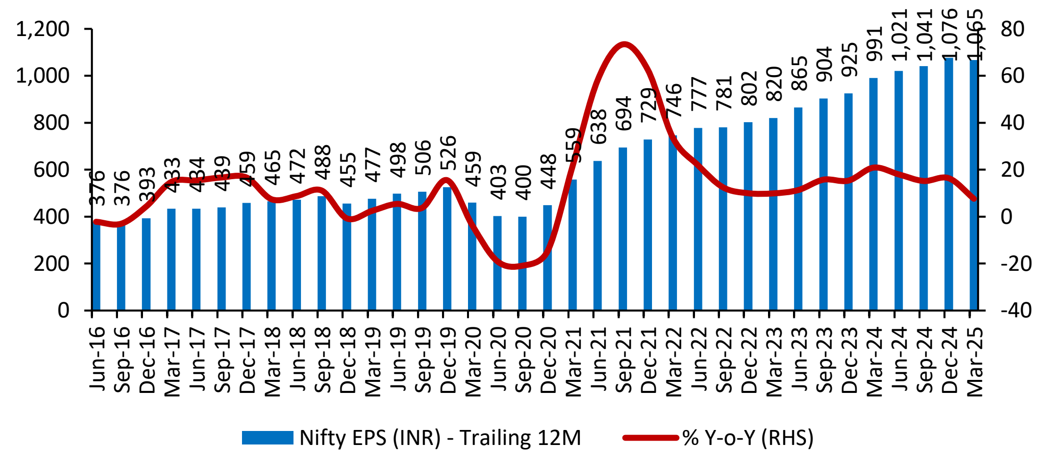
Q4 FY25 NIFTY sales growth in line with expectations



EBITDA growth also in line with expectations



EPS growth moderates



Source: MOSL, SBIFM Research; NB**: Results released for 50 NIFTY companies for March 2025 quarter, historical data is for all the NIFTY 50 companies**, EPS growth is adjusted for Axis bank losses for FY23

SBI FUNDS MANAGEMENT LIMITED

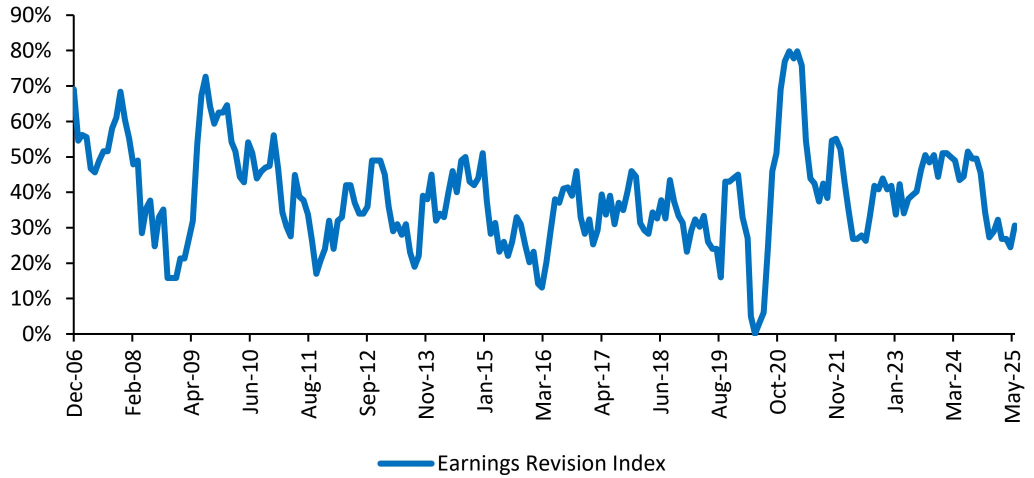
Q4 FY25 earnings' review: Weak results

- The Q4FY25 corporate earnings scorecard was modest (single digit profit growth), but largely in line with expectations which has helped to arrest incremental earnings downgrades in May.
- NIFTY PAT growth has been the weakest for small-cap companies. Even as metals, healthcare, capital goods, PSU banks, and chemicals have recorded a healthy profit growth, weakness in private banks results coupled with a drag from Oil & Gas (ex OMCs) put pressure on profitability. Nifty PAT growth ex Financials is 7% y-o-y for Q4FY25.
- Earnings growth is expected around 10.5% in FY26. Revival in India's economic growth and hence topline is critical for the expectations to be met.
- Key sectoral highlights –
  - ➢Banks: The banking sector reported another soft quarter amid moderation in margins. NIMs improved sequentially for private banks while it continued to moderate for public banks. The competition for deposits continued to remain intensive for banks, and the CASA mix continued to deteriorate.
  - ➢Autos: Auto ancillary companies post higher growth than auto OEM companies. Management commentary on FY26 demand was uncertain, with signs of moderation across segments, while the commentary appeared more optimistic about rural demand outpacing urban demand.
  - ➢Consumer: The sector continued to report weak performance with demand remaining subdued. Volume growth was low.
  - ➢Oil & Gas: Revenues were broadly flat y-o-y. Profits were above expectations.
  - ➢Technology: The IT Services companies revenue moderated q-o-q. Macro uncertainty challenges weighs on IT demand.
  - ➢Metals: Ferrous companies posted robust growth led by resumption in construction activity, softening imports and a low base effect.
  - ➢Healthcare: The sector stood out once again with earnings coming above expectations. Overall performance at the aggregate level was driven by a sustained contribution from niche products in the US generics segment, a demand tailwind in chronic therapies, and elevated inventory levels of raw materials, which helped keep their prices in check.

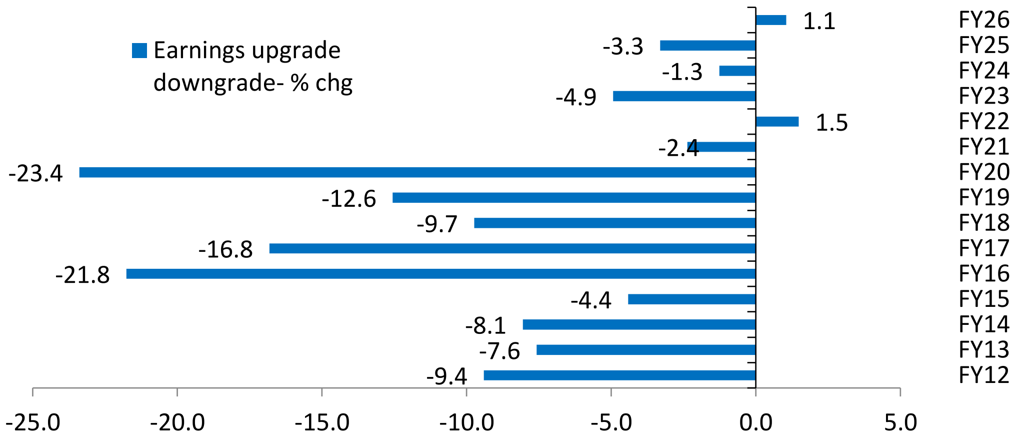
Source: MOSL, SBIFM Research

Earnings upward revisions goes up in May

Earnings Upgrades to downgrades ratio goes up in May



In FY26 (till May) EPS projection saw a marginal upgrade

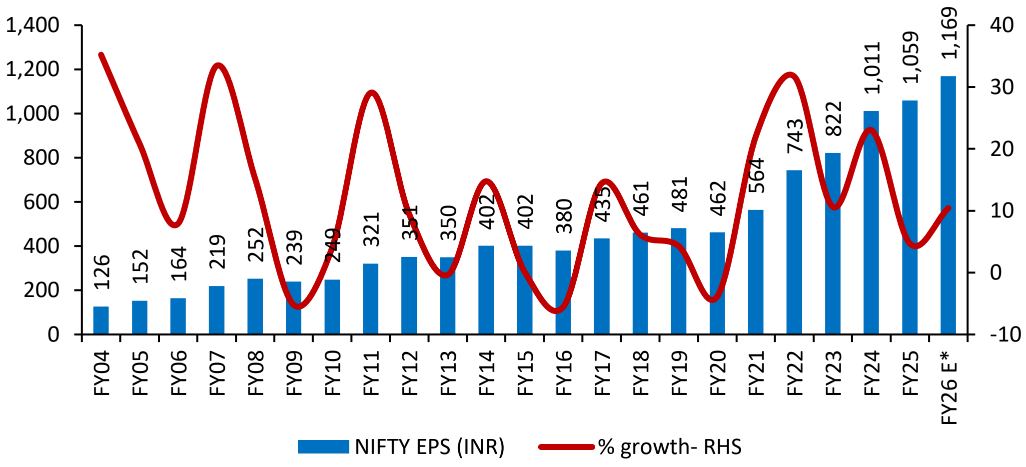


- Earnings revisions for FY26 have fallen with IT, Consumer Discretionary, Materials, Energy & Financials seeing downward revisions. Industrials got upward revisions.
- Consensus expects 9.0% EPS growth CAGR for the Nifty over FY24-FY27.

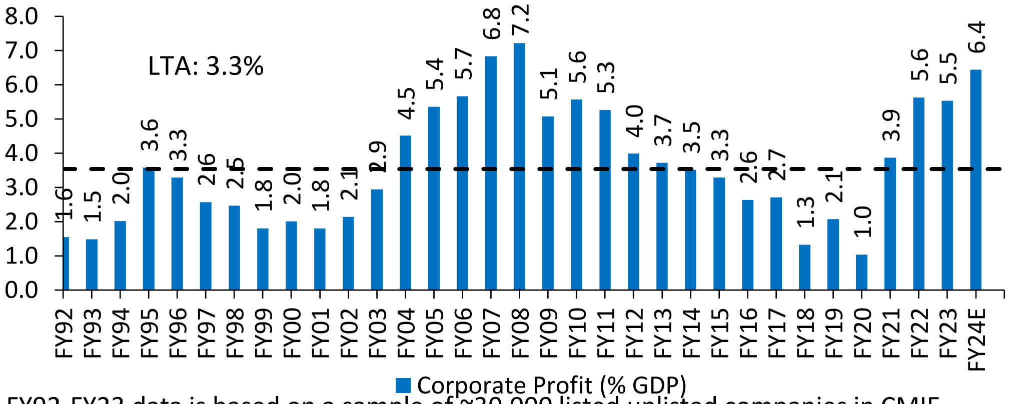
Source: Bloomberg, FactSet, SBIFM Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier,12 month forward estimate number of all BSE 100 constituents as of the current month-end &3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

Earnings projections at 11.6% in FY26

Earnings expected to recover in FY26



Earnings have recovered from ultra-lows of FY17-FY20



FY92-FY23 data is based on a sample of ~30,000 listed unlisted companies in CMIE (includes both financial and non financial companies)

Sectoral breakup of NIFTY earnings outlook

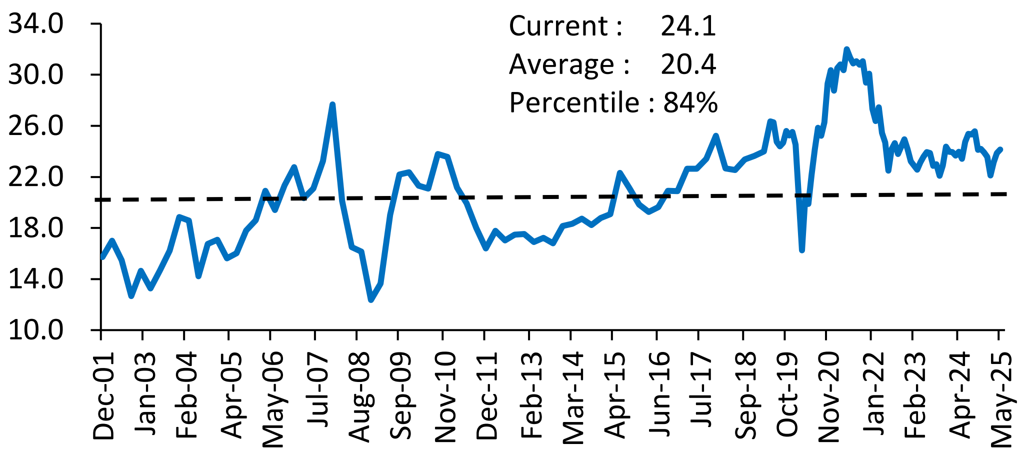
		EPS Change							
	No. of Cos.	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY24-27 (CAGR)
Nifty		20.0%	35.7%	5.9%	29.5%	1.0%	11.6%	14.9%	9.0%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	6.1%	59.2%	21.8%	27.2%
Industrials	4	22.9%	-30.1%	-0.9%	-0.9%	27.6%	17.0%	20.0%	21.4%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	20.1%	8.5%	8.0%	12.1%
Consumer Staples	5	-5.0%	-3.9%	5.6%	32.6%	14.1%	6.7%	11.1%	10.6%
Health Care	4	5.9%	51.7%	23.6%	2.5%	24.4%	4.6%	3.7%	10.5%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	10.8%	6.8%	9.7%	9.1%
Energy	11	56.9%	11.4%	8.1%	33.6%	-6.7%	12.2%	10.8%	5.1%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-9.9%	8.7%	17.3%	4.7%
Financials	11	13.8%	27.3%	23.1%	53.0%	-4.6%	8.7%	-12.8%	-3.3%
Communication Services	1		NA*		-6.1%	67.9%	28.9%	38.1%	44.1%

- Consensus expects 9.0% EPS growth CAGR for the Nifty over FY24-FY27.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.

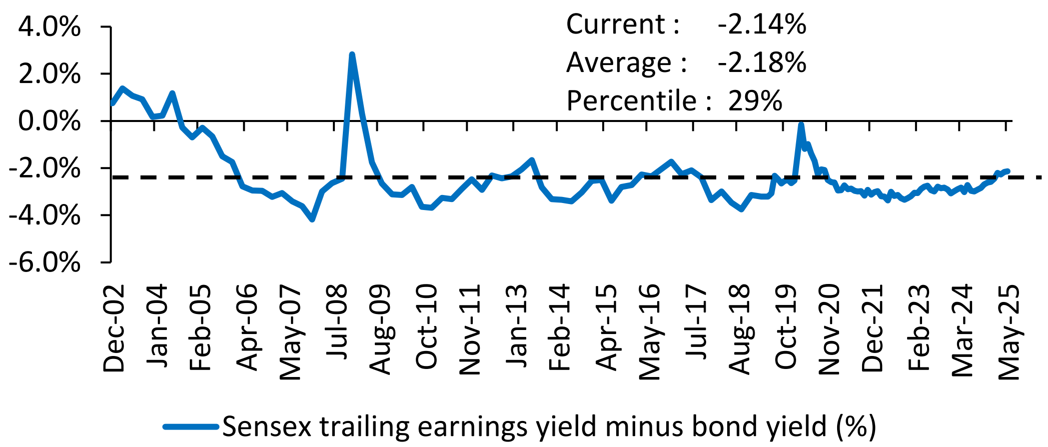
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; *FY25 and FY26 earnings estimates are SBIMF,** EPS change is unadjusted to externalities, : ***data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier,12 month forward estimate number of all BSE 100 constituents as of the current month-end &3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

Equity valuations remain expensive

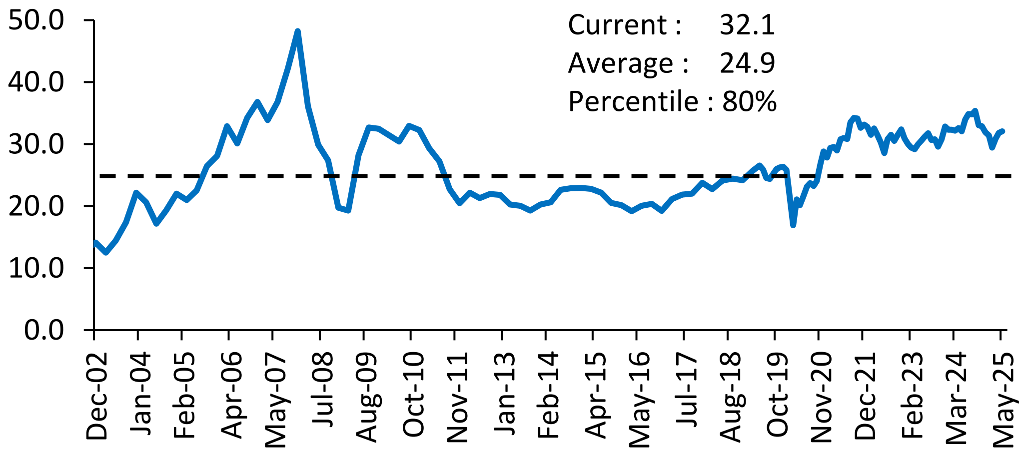
Sensex trailing PE ratio stood at 24.1 in May'25 vs. 23.9 in Apr'25



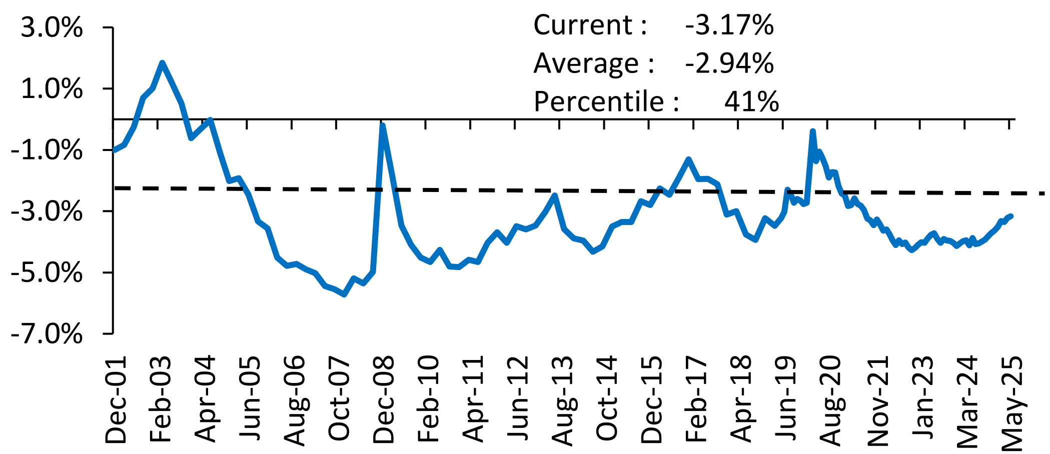
Earnings yield to bond yield spread has corrected



Shiller PE ratio stood at 32.1 in May'25 vs. 31,8 in Apr'25



Shiller earnings yield to bond yield spread moderately expensive



Source: Bloomberg, SBIMF Research

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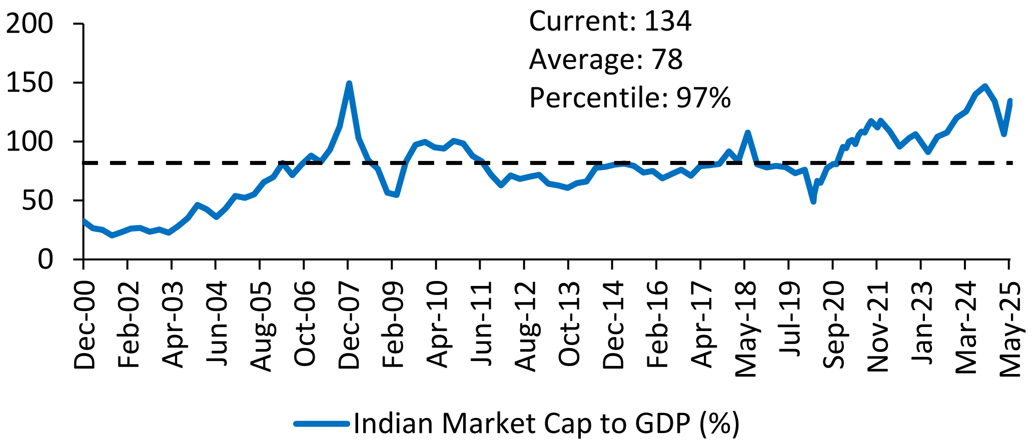
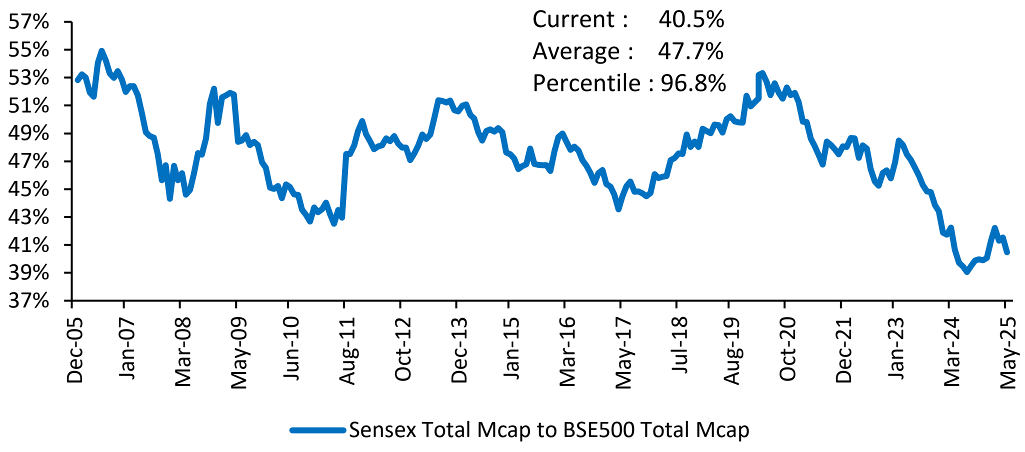
Polarization remains low, reversed in May towards small caps

Market capitalization/GDP expensive vs. history at 97th percentile reading



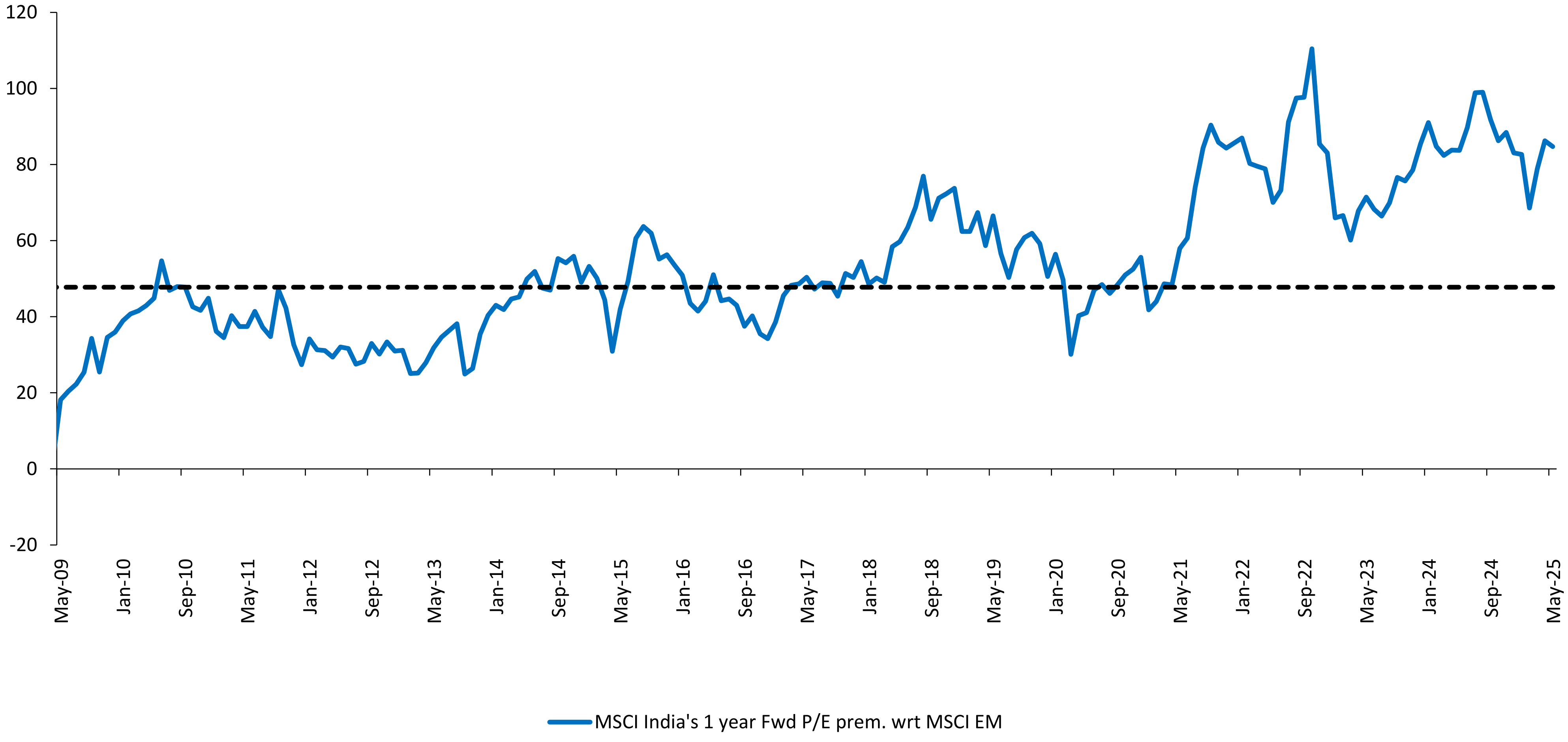
Mid caps and small caps: Market polarization reversed in May towards small caps



- Market polarization reversed in May back towards small caps & remains low with broader markets outperforming the frontline large cap indexes this month.
- The ratio is low, suggesting the risk-reward is more towards large caps now.

MSCI India's valuation premium relative to EM moderates marginally in May

India's P/E premium to world has moderated from its peak in Oct'22; global multiples remain vulnerable to higher rates, weaker growth and potentially rising Equity risk premium



Source: Bloomberg, SBIFM Research

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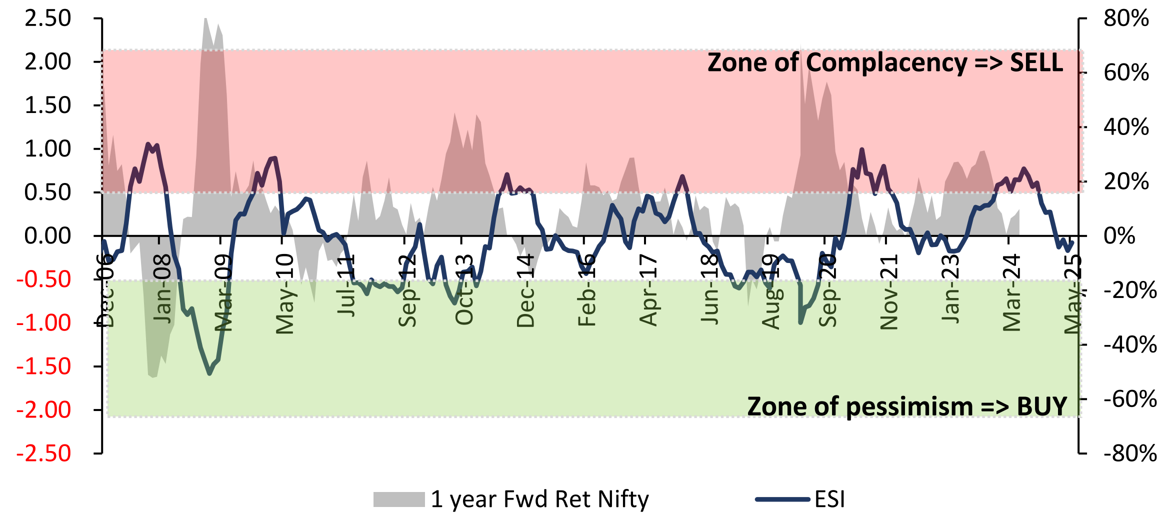
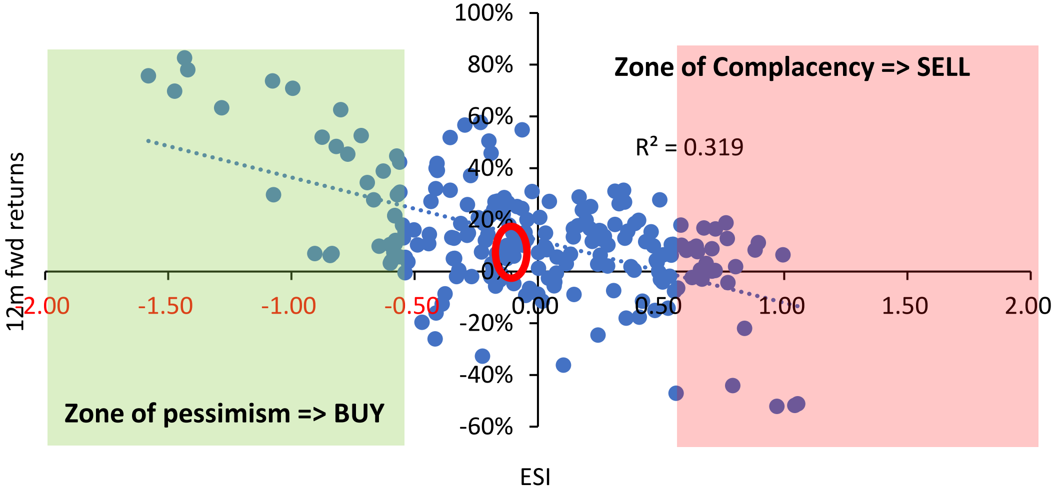
Equity market sentiment remains below zero

Equity sentiment remains below zero



Equity sentiment index remains below zero



- The sentiment measure works as a contrarian indicator. The action from the past few months suggests optimism has corrected significantly.

Source: Bloomberg, FactSet, SBIMF Research; ESI = Equity sentiment Index

SBI FUNDS MANAGEMENT LIMITED

Equity Outlook: We change our outlook to neutral from an underweight stance in 2024

- Indian equities gained despite tariff uncertainties. NIFTY 50 and SENSEX increased 1.7% and 1.5% m-o-m respectively. FPIs turned net buyers even as overall market breadth weakened. Outward-facing sectors underperformed, reflecting global trade concerns.
- The Q4FY25 corporate earnings scorecard was modest (single digit profit growth), but largely in line with expectations which has helped to arrest incremental earnings downgrades in May. PAT growth has been the weakest for small-cap companies. Even as metals, healthcare, capital goods, PSU banks, and chemicals have recorded a healthy profit growth, weakness in private banks results coupled with a drag from Oil & Gas (ex OMCs) put pressure on profitability. Earnings growth is expected around 10.5% in FY26. Revival in India's economic growth and hence topline is critical for the expectations to be met.
- Q4 FY25 real GDP came in at 7.4% y-o-y (vs. 6.4% in Q3), surpassing RBI's and market expectation of 7.2% and 6.8% respectively. This growth was primarily driven by a sharp rebound in fixed asset investments and sustained momentum in agricultural activity, even as aggregate private consumption remained underwhelming. We expect India's growth to be flat at 6-6.5% in FY26. While the tariff troubles have been averted for know, global policy uncertainty is a risk to India's growth.
- In the context of the Indian equity market, Valuations have become more reasonable after the recent decline in Indian 10-year bond yields and a de-rating in price-to-earnings multiples. Our preferred measure—the earnings yield to bond yield spread—now suggests modest valuations compared to last year's highs.
- Market sentiment, as captured by our proprietary Equity Sentiment Index, remains cautious, with fear prevailing over greed— a stark contrast to last year's exuberance. From a contrarian viewpoint, this shift to neutral from underweight equities represents a healthier market outlook and better long-term entry points for investors, though we are not yet ready to recommend overweight positions.
- In our view, quality and long-term fundamentals will start getting rewarded versus narrative based and to some extent speculative price action of the past year.
- From a longer-term standpoint, however, the Indian equity story continues to be underpinned by earnings upcycle, short term slowdown notwithstanding. India's corporate profits as a proportion of GDP have reverted higher over the past four years. A healthy corporate and banks balance sheet should be tailwinds to continue supporting a constructive earnings growth outlook over the mid-long term.
- The current turbulence should bring the focus back on fundamentals. We remain of the view that increasingly the market will become more discerning and move back towards companies which have strong business models, long-term earnings growth visibility and sustainable cashflows.

Source: Bloomberg, SBIFM Research

FIXED INCOME MARKET

SBI FUNDS MANAGEMENT LIMITED

Global Bond Market Snapshot

Uncertainty surrounding Trump's policies led to sharp rise in US yields; Other developed market bond yields rise too with global uncertainty growing; EM bonds see an improvement vs. US treasury

10 Year Gsec Yield (% mth end)	2023 end	2024 end	Feb-25	Mar-25	Apr-25	May-25	m-o-m change (in bps)	YTD change (in bps)
Developed market								
US	3.88	4.57	4.21	4.21	4.16	4.42	26	-15
Germany	2.02	2.37	2.41	2.74	2.44	2.53	8	16
Italy	3.70	3.52	3.54	3.87	3.56	3.51	-6	-2
Japan	0.61	1.10	1.38	1.49	1.32	1.50	18	40
Spain	2.99	3.06	3.05	3.37	3.11	3.12	1	6
Switzerland	0.70	0.33	0.46	0.58	0.30	0.28	-2	-4
UK	3.54	4.57	4.48	4.68	4.44	4.66	22	9
Emerging Market								
Brazil	10.37	15.16	15.26	15.08	14.07	13.97	-10	-120
China	2.56	1.68	1.78	1.82	1.63	1.70	7	3
India	7.17	6.76	6.73	6.58	6.36	6.25	-11	-51
Indonesia	6.45	6.97	6.90	6.99	6.86	6.83	-3	-14
South Korea	3.18	2.87	2.70	2.77	2.57	2.76	19	-11
Malaysia	3.73	3.81	3.79	3.77	3.66	3.53	-13	-28
Thailand	5.40	6.82	6.82	6.15	6.18	6.27	8	-56
Turkey	2.68	2.25	2.15	2.05	1.88	1.81	-6	-44
Mexico	25.06	29.04	27.62	33.58	34.97	33.10	-187	406
Poland	8.95	10.44	9.51	9.36	9.35	9.33	-2	-111
Colombia	5.20	5.89	5.76	5.73	5.21	5.37	16	-52
Hungary	11.39	10.33	10.55	10.63	10.59	10.16	-43	-17

- 10 Year UST rises sharply in May, but ranges in 4.15-4.7%
- EM bond yields moderate m-o-m.

Source: Bloomberg, SBIFM Research

India Rates Snapshot: Indian rates movement largely dictated by domestic factors

Yields movement rally across asset class

	2023 end	2024 end	Mar-25	Apr-25	May-25	m-o-m (in bps)	YTD change (in bps)
Repo rate	6.50	6.50	6.25	6.00	6.00	0	-50
1 Yr T-Bill	7.13	6.69	6.47	5.91	5.63	-29	-106
3M T-Bill	6.93	6.55	6.52	5.90	5.62	-28	-93
3 year GSec	7.07	6.73	6.39	5.98	5.77	-21	-96
5 year GSec	7.09	6.72	6.44	6.05	5.72	-33	-100
10 year GSec	7.18	6.79	6.58	6.36	6.26	-9	-53
3 Yr Corp Bond*	7.78	7.58	7.42	6.97	6.71	-26	-86
5 Yr Corp Bond*	7.79	7.46	7.34	6.96	6.79	-17	-67
10 Yr Corp Bond*	7.76	7.24	7.20	7.08	6.99	-10	-25
1 Yr IRS	6.64	6.51	6.04	5.66	5.55	-11	-96
5 Yr IRS	6.19	6.20	5.90	5.63	5.63	0	-58
Overnight MIBOR Rate	6.90	7.15	7.20	6.00	5.86	-14	-129
10 year SDL	7.65	7.15	7.04	6.75	6.74	-1	-41
INR/USD	83.21	85.61	85.47	84.49	85.58	-1.3^	0^
Crude oil Indian Basket**	77.43	73.34	72.30	67.73	64.05	-5.4^	-12.7^

- Bond yields rallied across the asset class and tenor
- Within the G-sec space, shorter and longer end rallied.
- SDL yields moderated marginally m-o-m.
- Corporate bonds see rising spreads on account of increased issuances.
- Rupee depreciates by 1.3% m-o-m in May 2025.
- Oil prices have been contained.

Source: Bloomberg, PPAC, RBI, CEIC, SBIFM Research; NB: *Corporate bond rate is for AAA rated bonds, **Crude oil price is average $/barrel for the month end , remaining data are % month end, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

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Bull steepening of India G-Sec yield curve

Yields fell across all tenures on liquidity actions by the RBI- leads to the steepening of the Indian G-sec curve

Yield (%)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
31-May-24	6.89	7.00	7.02	7.02	7.03	7.05	7.05	7.06	7.06	7.07	7.07	6.98	7.03	7.13
30-Jun-24	6.79	6.89	6.93	6.98	6.96	7.01	7.01	7.05	7.02	7.07	7.04	7.01	7.03	7.05
31-Jul-24	6.65	6.77	6.79	6.86	6.82	6.84	6.84	6.90	6.90	6.95	6.92	6.93	7.00	7.06
31-Aug-24	6.66	6.71	6.72	6.75	6.75	6.79	6.79	6.83	6.83	6.88	6.85	6.86	6.91	7.00
30-Sep-24	6.40	6.48	6.55	6.65	6.66	6.67	6.67	6.69	6.69	6.73	6.70	6.75	6.79	6.89
31-Oct-24	6.51	6.56	6.54	6.61	6.71	6.77	6.75	6.81	6.78	6.83	6.82	6.85	6.87	6.98
30-Nov-24	6.47	6.65	6.60	6.69	6.67	6.69	6.68	6.74	6.74	6.79	6.84	6.78	6.86	7.01
31-Dec-24	6.54	6.68	6.68	6.58	6.72	6.72	6.72	6.77	6.76	6.82	6.82	6.79	6.87	7.01
31-Jan-25	6.55	6.63	6.57	6.66	6.63	6.63	6.62	6.70	6.67	6.75	6.70	6.75	6.84	7.02
28-Feb-25	6.47	6.55	6.53	6.55	6.61	6.63	6.59	6.72	6.68	6.80	6.71	6.79	6.92	7.13
31-Mar-25	6.34	6.49	6.44	6.44	6.42	6.44	6.44	6.50	6.48	6.61	6.52	6.58	6.69	6.90
30-Apr-25	5.89	5.92	5.90	6.01	6.00	6.08	6.05	6.15	6.11	6.35	6.16	6.36	6.46	6.78
31-May-25	5.60	5.61	5.60	5.71	5.77	5.84	5.72	5.98	5.91	6.23	6.02	6.26	6.41	6.81
m-o-m change (in bps)	**3 Month**	**6 month**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**6 Year**	**7 Year**	**8 Year**	**9 Year**	**10 Year**	**15 Year**	**30 Year**
31-May-24	-9	-1	-4	-6	-10	-15	-15	-16	-16	-15	-14	-17	-18	-16
30-Jun-24	-10	-11	-9	-4	-7	-4	-4	-1	-4	0	-3	3	0	-8
31-Jul-24	-14	-12	-14	-12	-13	-16	-17	-15	-12	-12	-12	-8	-3	1
31-Aug-24	1	-6	-7	-11	-7	-6	-5	-7	-7	-6	-7	-6	-9	-6
30-Sep-24	-26	-23	-17	-11	-10	-11	-12	-14	-14	-15	-14	-11	-12	-11
31-Oct-24	11	8	-1	-4	5	10	8	12	9	10	12	10	8	9
30-Nov-24	-4	9	6	8	-4	-8	-7	-7	-4	-5	1	-7	-1	3
31-Dec-24	7	3	8	-11	4	3	4	3	2	3	-2	1	0	0
31-Jan-25	1	-5	-11	8	-9	-9	-10	-7	-10	-7	-11	-4	-3	2
28-Feb-25	-8	-8	-4	-11	-2	0	-3	2	2	5	1	4	8	11
31-Mar-25	-13	-6	-9	-12	-19	-19	-15	-22	-20	-20	-19	-20	-22	-23
30-Apr-25	-45	-57	-54	-43	-42	-36	-39	-35	-37	-26	-36	-23	-24	-12
31-May-25	-29	-31	-30	-29	-23	-24	-33	-17	-21	-12	-14	-9	-5	3
Change in YTD (in bps)	**-94**	**-107**	**-108**	**-87**	**-95**	**-88**	**-100**	**-79**	**-86**	**-59**	**-80**	**-53**	**-46**	**-20**

Source: Bloomberg, SBIFM Research

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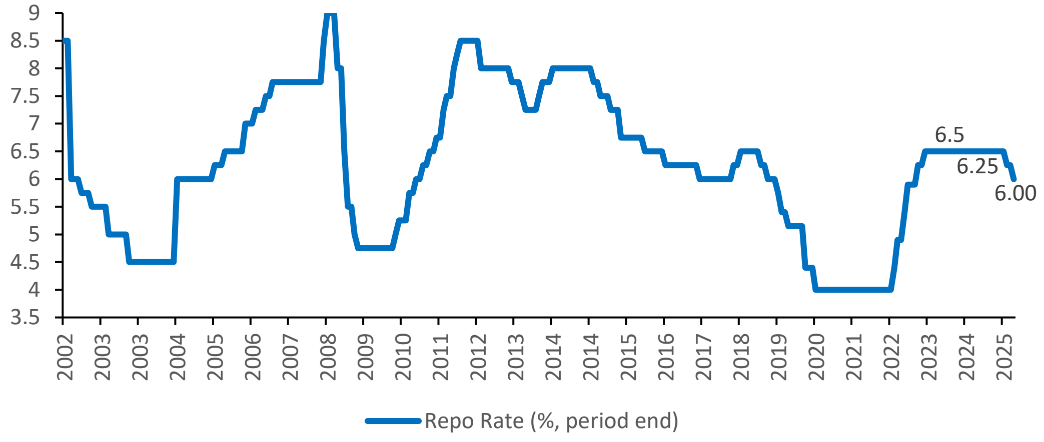
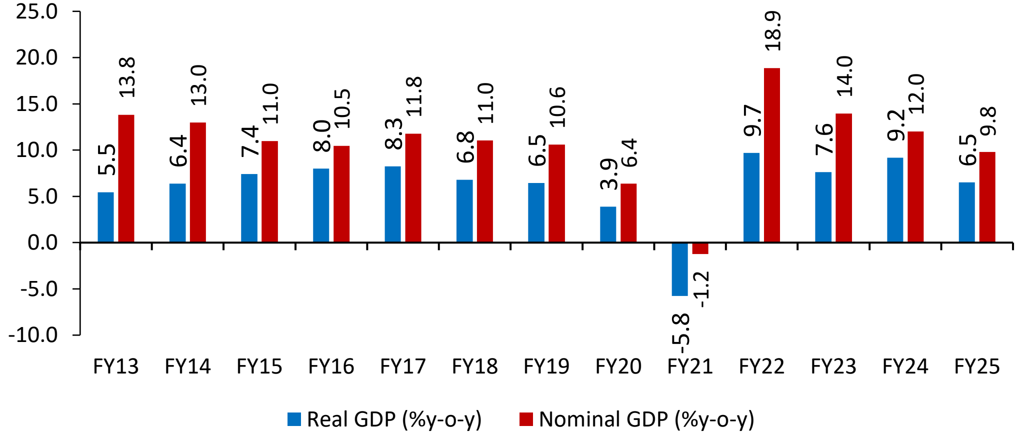
RBI supports India's growth amidst global risk: 25bps Repo rate cut with accommodative stance

Repo rate cut by 50bps cumulatively in February and April 2025 policy to 6.00% now



Nominal and real GDP growth



- The Monetary Policy Committee cut the Repo rate by another 25bps to 6.00% (SDF rate at 5.75%, MSF rate at 6.25%) in line with street expectation. The stance was changed to accommodative from neutral.
- Growth projections for FY26 were revised downward, from 6.7% in February policy statement to 6.5% now. The first half of FY26 will likely reflect a base effect due to lower government spending. As a result, growth will likely play a more prominent role in shaping monetary policy decisions for 2025.
- India's retail inflation outlook creates an enabling environment to take growth supportive measures.
- Beyond the monetary policy committee, the RBI has also been gradually easing capital and other regulatory requirements. Liquidity infusion has been substantial, with the RBI injecting ~INR 11 trillion into the system.
- The RBI will need to continue its liquidity support, though it may adopt a more calibrated approach moving forward, with the impending dividend transfer in May. That said, it seems the worst of the liquidity crunch may be behind us, and conditions should improve from here.
- Additionally, regulatory relaxation will help improve the supply of credit. However, any positive effects on credit, and consequently on the economy, may take a few quarters to materialize.
- The current dynamics of growth and inflation in India could provide the MPC with the opportunity to implement further rate cuts. We anticipate the possibility of another 50 bps cut through 2025.
- Given that the CPI inflation is expected to remain below 4% for most months of FY26, this would still result in a real rate of 1.5% or higher.

Source: Bloomberg, SBIFM Research

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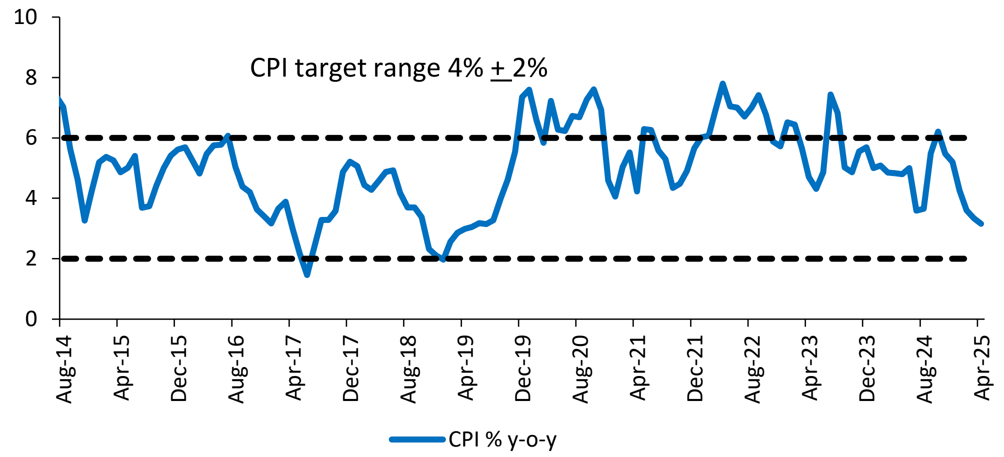
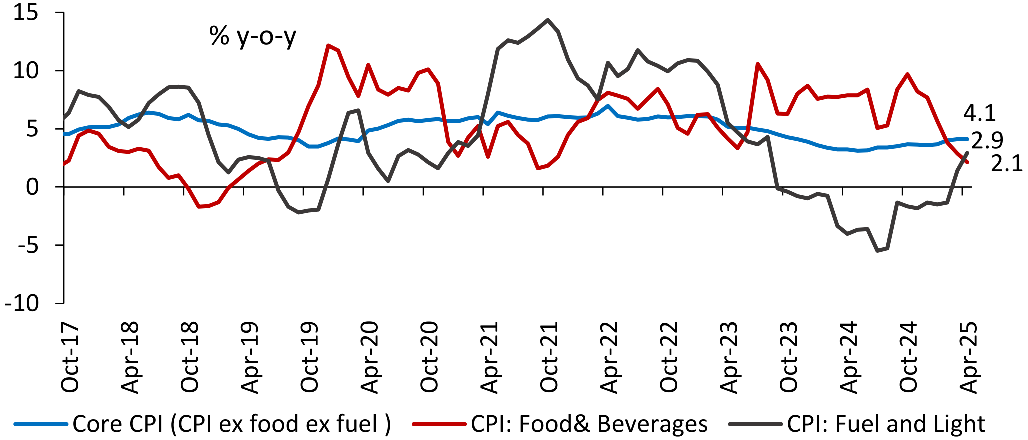
Inflation outlook creates an enabling environment for RBI to focus on growth

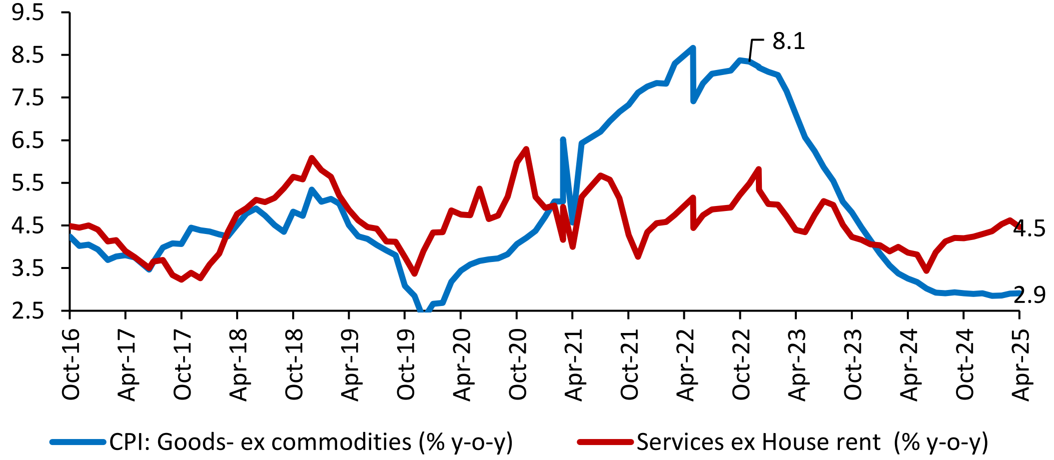
India's headline inflation moderated significantly to 3.3% y-o-y in March (vs. 3.6% last month)



Material softening in food inflation



Goods and services inflation likely to be contained



- India's retail inflation outlook creates an enabling environment to take growth supportive measures.
- While vegetables drive disinflation, gold prices and edible oil is adding to the inflation. Vegetables prices, on an average, has fallen to the levels seen two years ago.
- The Consumer Price Index (CPI) for March registered at 3.2% y-o-y, in line with market expectations.
- CPI print through most of FY26 expected to be below 4%.
- This suggests a lack of significant price pressure across most sectors of the economy, indicating that monetary policy does not necessarily need to be restrictive (real rates: Repo rate less CPI inflation has been >1%).

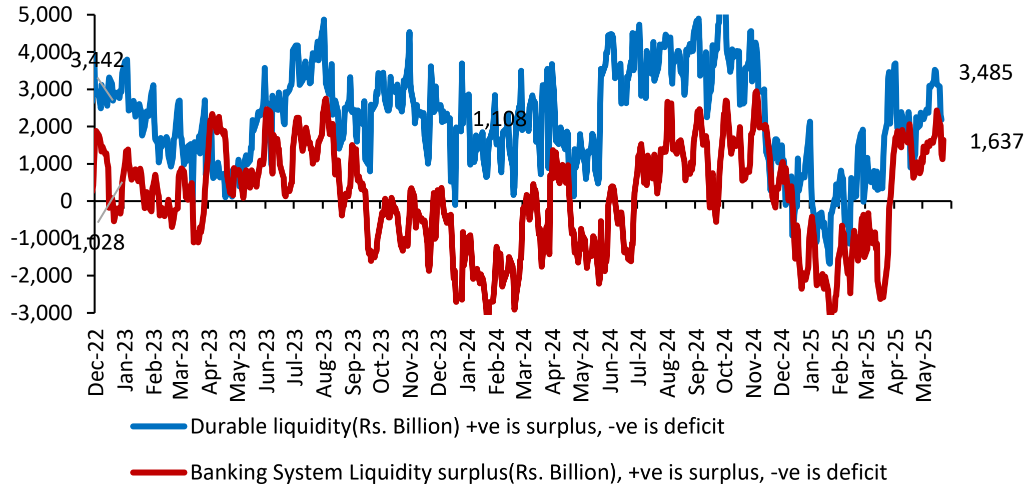
Source: CMIE Economic Outlook, SBIFM Research

RBI takes large measures to support liquidity; system liquidity in surplus throughout April and May

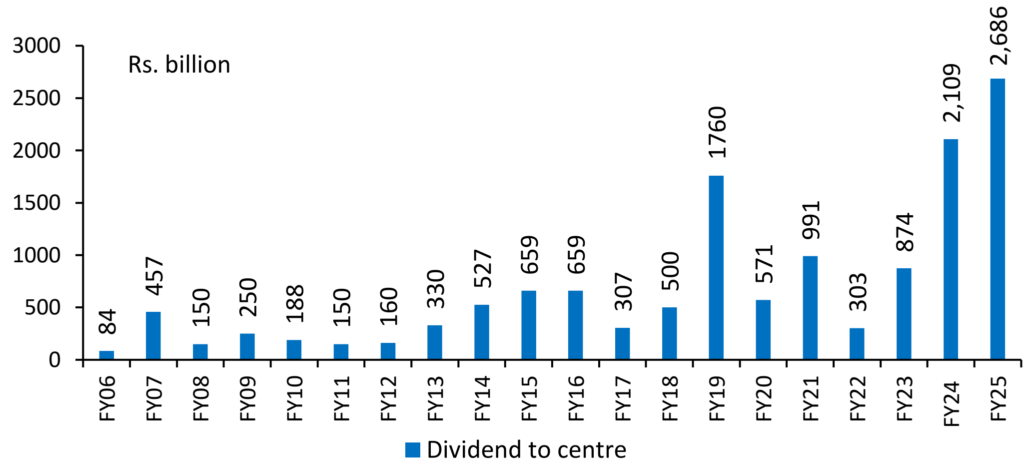
RBI takes various measures to inject ~INR 11tn liquidity since December 2024

Liquidity management measures by RBI since Dec-24	INR tn
Repo rate cut by 50bps cumulatively Reduction in risk weights to lending towards SME & MFI Easing in stringent LCR Norms Relaxation of priority sector lending norms	
CRR cut by 50bps	1.2
OMO purchases	5.2
Buy sell swaps	2.2
43/45/49/56 day VRR	2.1
Total	10.7

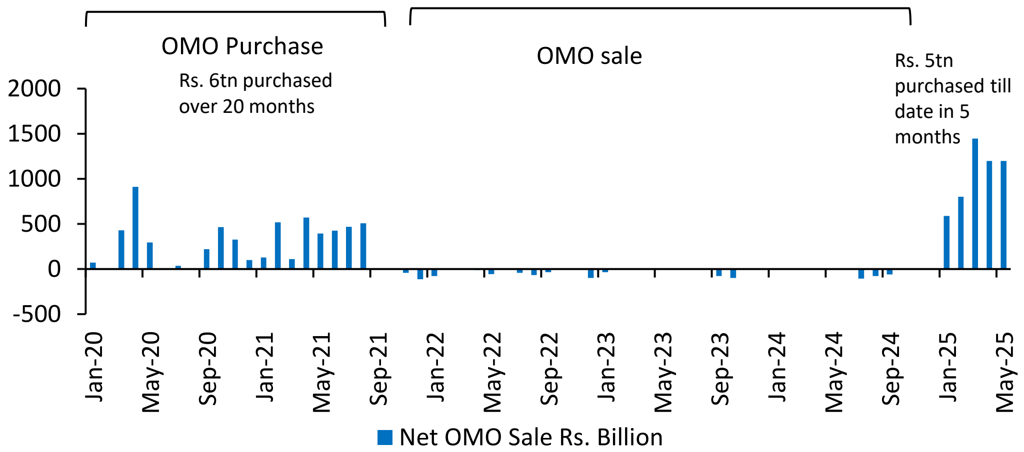
Banking system liquidity remained in over ~1tn surplus through most of April and May



RBI transferred record INR 2.7tn dividend to the government (exceeding budgeted estimates)



Aggressive quantum of OMO purchases this cycle keeps liquidity in surplus



Source: RBI, CEIC, SBIFM Research; NB: Banking system liquidity data as on 23rd Apr'25 and durable liquidity data as on 18th Apr'25

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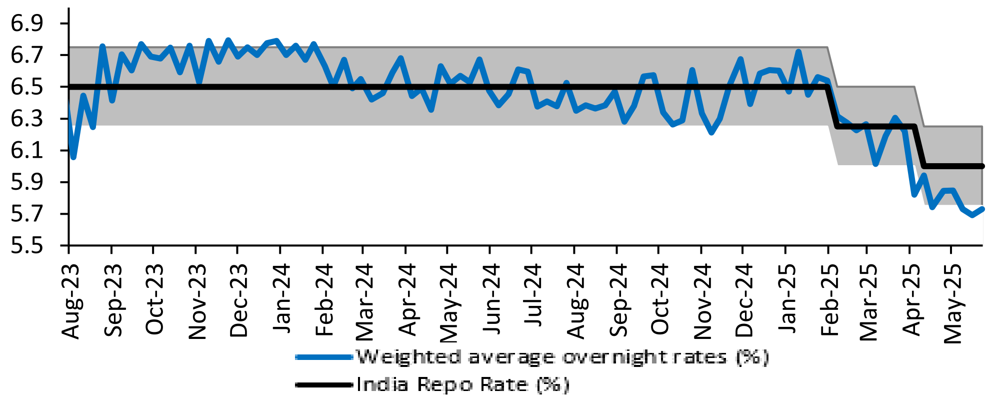
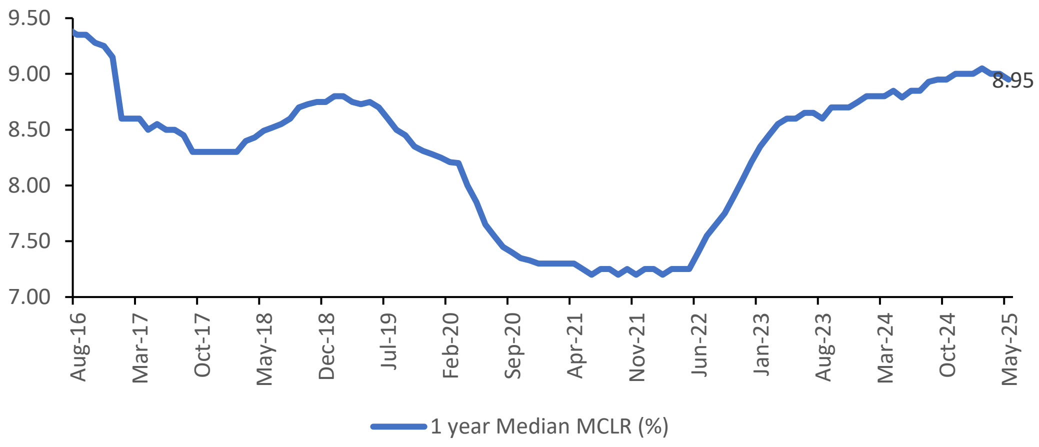
Easing in liquidity tightness aids in slight moderation in cost of borrowing for banks

Multiple liquidity measures taken by RBI keep overnight rates anchored around SDF rate

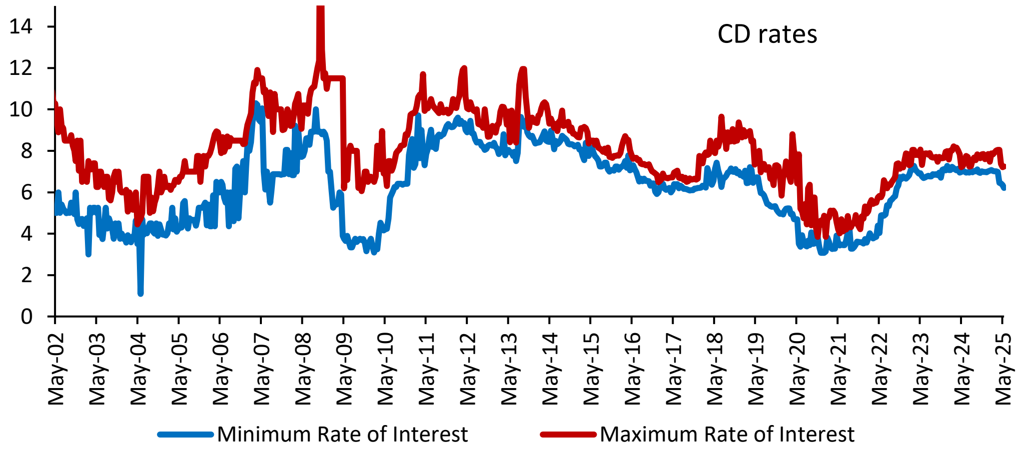


Note: The shaded area represents the policy corrridor- where upper end represents MSF and lower end represent reverse repo rate followed by SDF

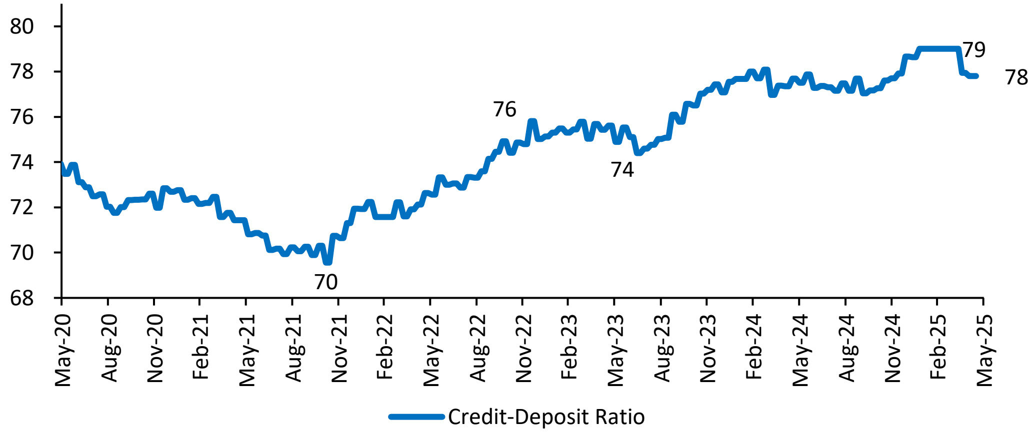
..Yet, cost of borrowing for bank continues to be elevated; MCLR rates moderate at the margin to 8.95% in May (vs. 9% in April)



Certificate of deposit (CD) rates range moderates



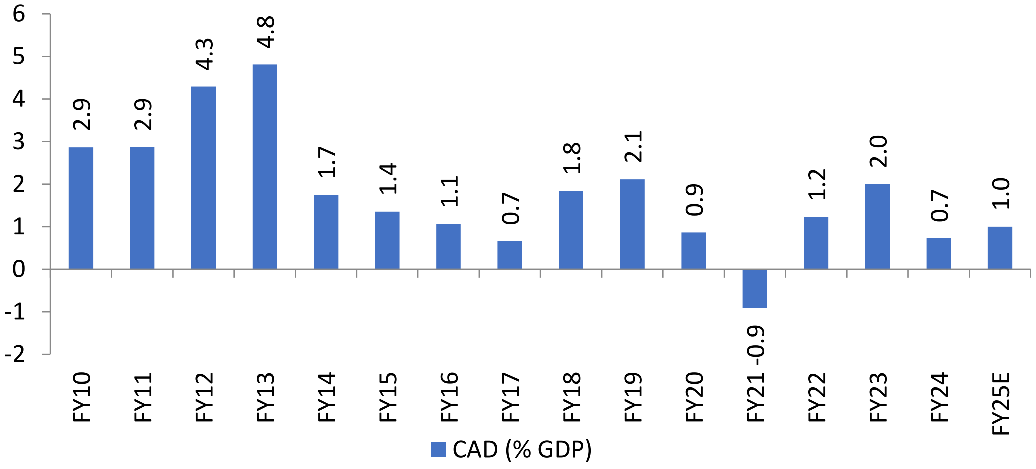
Credit-deposit ratio eases by ~120bps m-o-m in May 2025



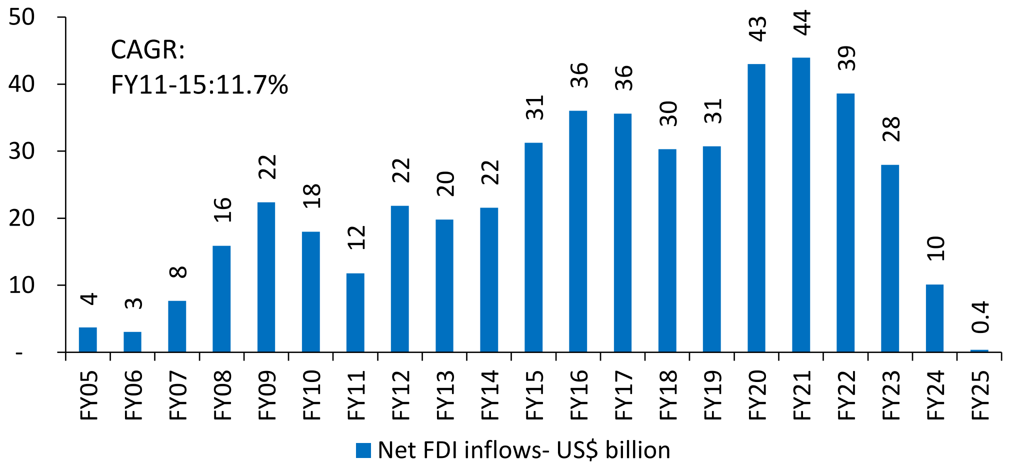
Source: Bloomberg, RBI, CEIC, SBIFM Research; NB: Overnight rates as on 23rd April 2025

India’s external account comfortable

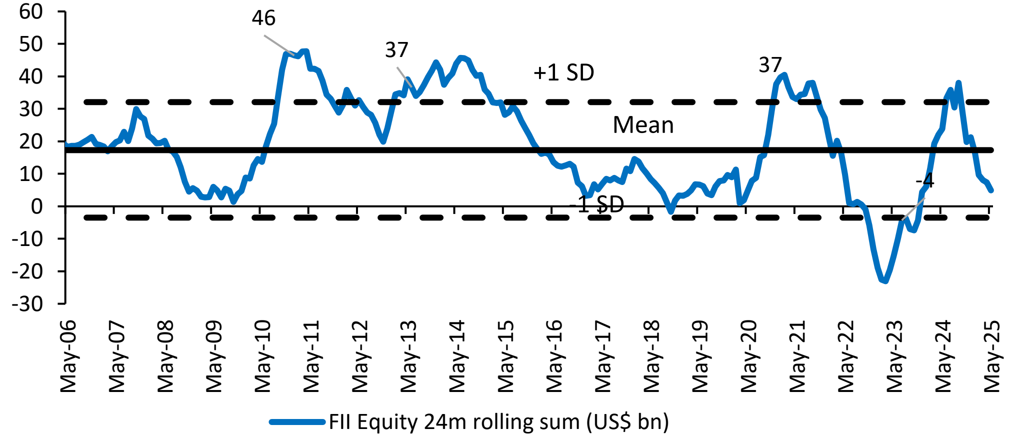
Current account balance stabilised under 1% of GDP aided by soft soft oil prices and rising services exports



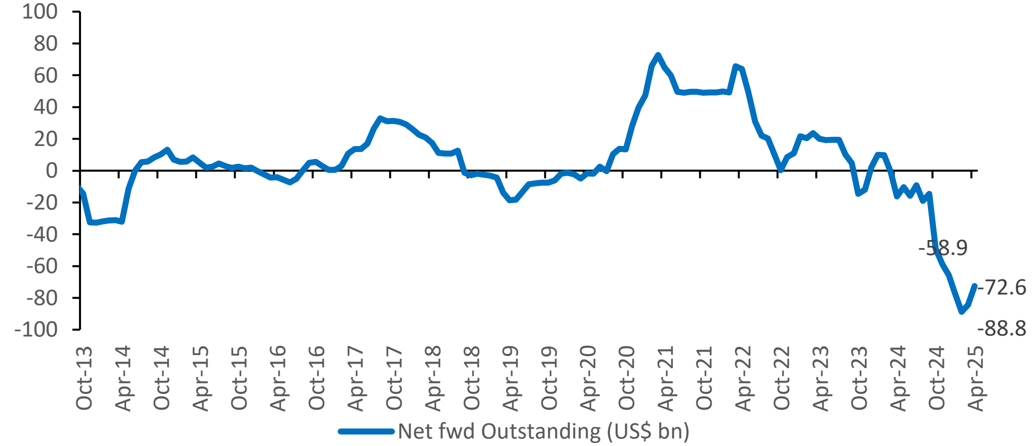
Net FDI flows are muted, magnifying the importance of other capital flows to fund CAD



FII outflow is ebbing; could see some revival in FY26



Elevated forward book keeps us cautious of rupee even as peak pessimism on rupee has likely passed



Source: Bloomberg, SBIFM Research; NB: FDI data till November 2024

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India's net Foreign Direct Investment (FDI) inflows drop close to nil in FY25

India records net FDI inflow of US$0.4bn in FY25

USD billion	Net FDI inflows (A-B)	Direct investment to India (A= 1-2)	Gross inflows (1)	Repatriation (2)	Direct Investment by India (B= 1-2)	Gross inflows (1)	Repatriation (2)
FY12	22	33	47	14	11	14	2
FY13	20	27	34	7	7	13	5
FY14	22	31	36	5	9	17	8
FY15	31	35	45	10	4	11	7
FY16	36	45	56	11	9	13	4
FY17	36	42	60	18	7	17	11
FY18	30	39	61	22	9	13	3
FY19	31	43	62	19	13	15	3
FY20	43	56	74	18	13	16	3
FY21	44	55	82	27	11	15	4
FY22	39	56	85	29	18	21	3
FY23	28	42	71	29	14	18	4
FY24	10	27	71	44	17	20	4
FY25	0.4	28	79	51	29	32	4

- India has experienced a net FDI inflow of US$ 0.4 billion, lowest in 14 years, driven by a sharp rise in repatriation and a doubling of outbound investments, even as gross inflows remain healthy.
- This repatriation primarily reflects profit-taking on past investments made by foreign private equity and venture capital funds.
- Expectation of net FDI inflow of ~US$ 35-40 billion in India to support its external account dynamics has been challenged over the past two years.
- Over the last decade, India's annual current account deficit has averaged around US$ 30 billion. This implies that India requires a similar amount of capital inflows to finance its import needs.
- FDI is typically regarded as relatively stable and "sticky." A decline in FDI inflows increases India's reliance on foreign institutional investments (FIIs), which are often volatile and unpredictable.
- Other key sources of external funding include external loans—which become less attractive when US interest rates are high—and banking capital, which is also highly variable.
- **The deterioration in FDI inflows is therefore a concern from the perspective of external account fundamentals.**

Source: CMIE Economic Outlook, SBIFM Research

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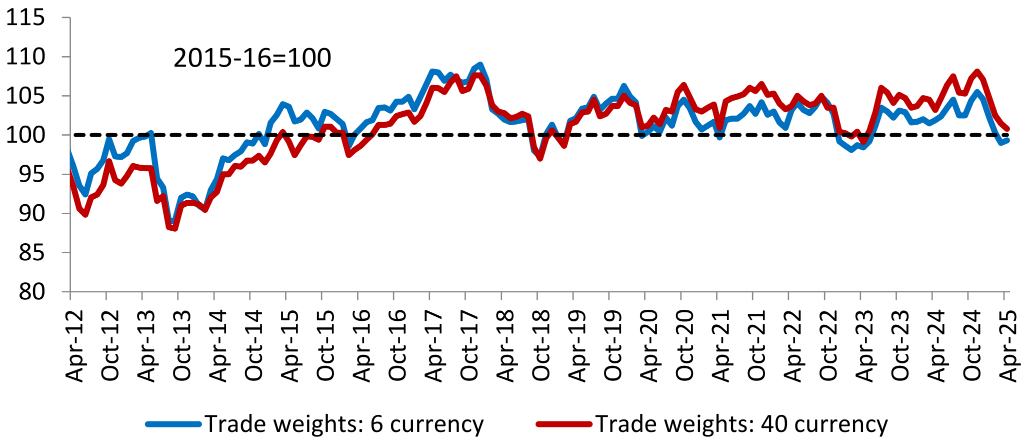
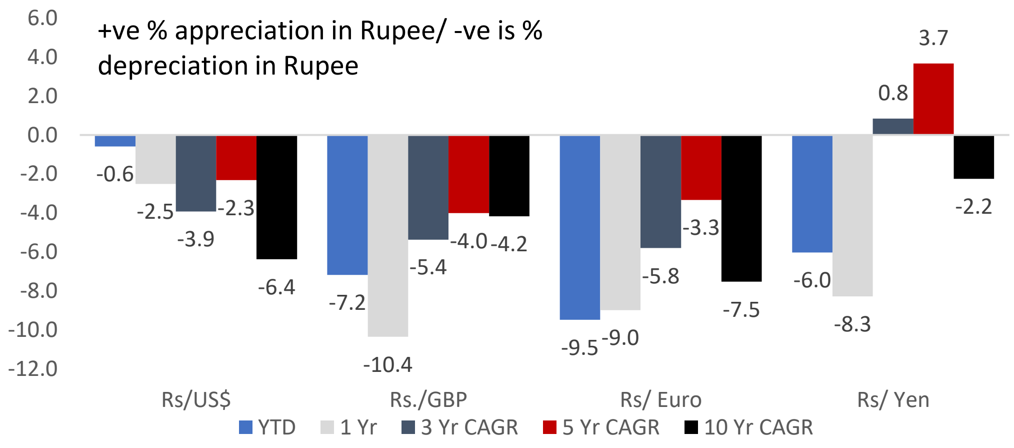
INR fairly valued

Rupee is fairly valued

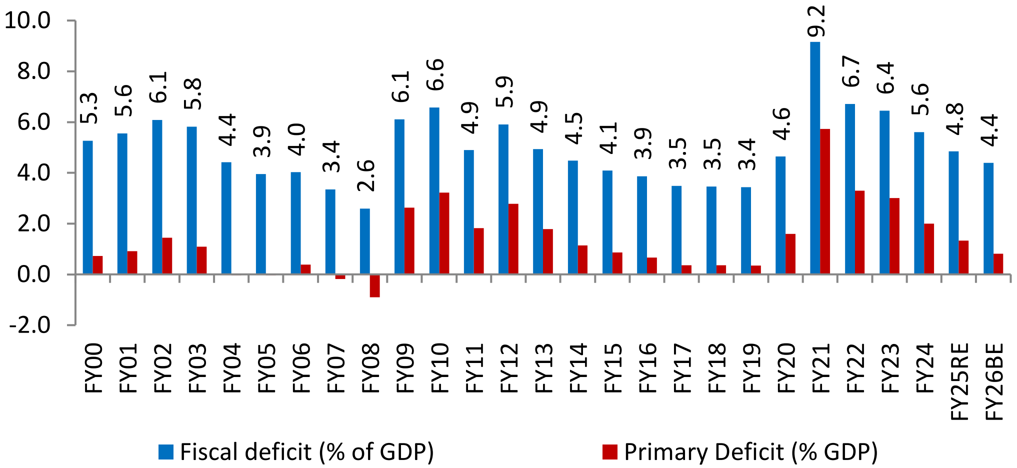


Annual depreciation trends ~3% in last 5 years

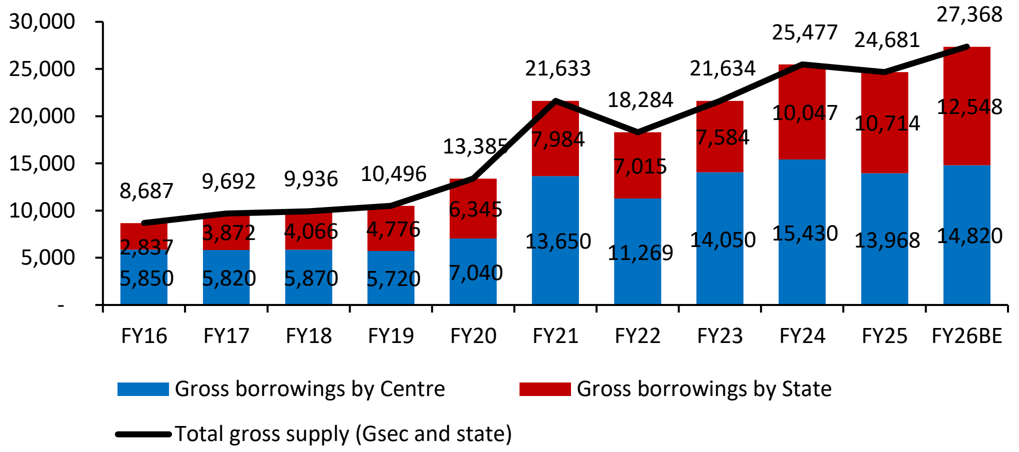


Union budget continues with fiscal consolidation; government bond supply manageable

Central fiscal deficit budgeted to consolidate by 40bps in FY26



Gross supply of government securities to likely increase by INR2-2.5tn in FY26

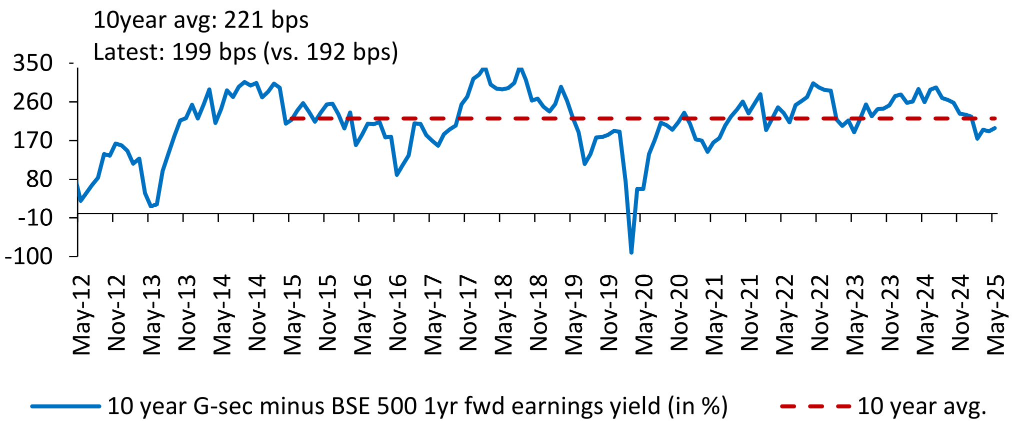


- Union budget 2025 continues with fiscal consolidation. Growth support is targeted to middle class and rests on the hope of better realization of capex target in FY26.
- With this government deficit (state + centre deficit adjust from centre to states capex loan) is likely to roll down to 7% by FY26 end.
- S&P's commentary on these prospects during their next rating review will be interesting to watch.
- For FY25, gross supply of long dated government securities totalled to INR 24.7 trillion i.e. 1 trillion lower than FY24. In all likelihood, gross supply is likely to increase by INR 2-2.5 trillion in FY26. At the margin, the favourable demand supply dynamics for government bond is abating but not completely out.

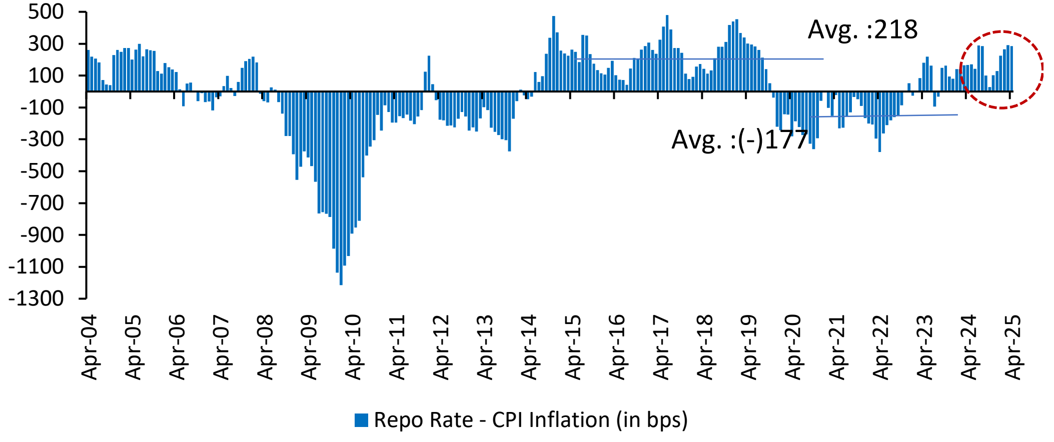
Source: CMIE Economic Outlook, State budgets, SBIFM Research

Indian G-sec valuations look marginally expensive

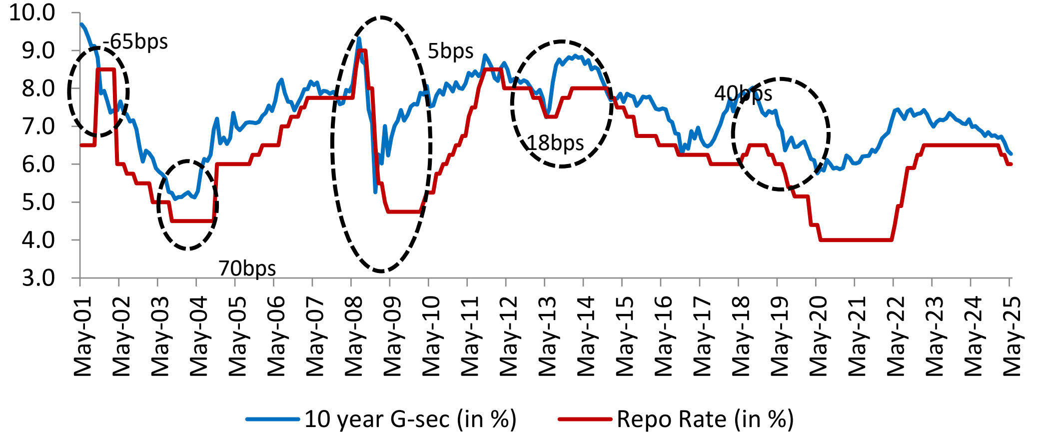
G-sec spread vs. equity turns neutral



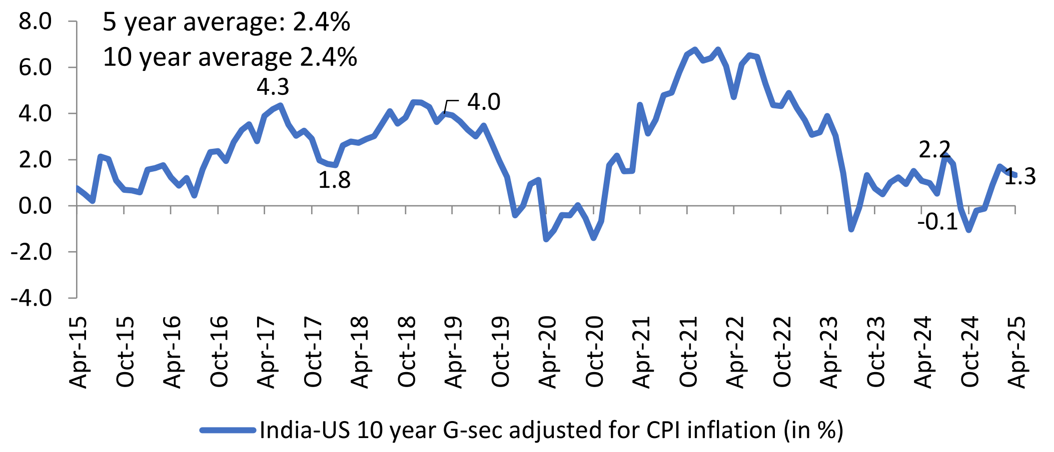
Real rate turns positive



G-sec spread can stay compressed in the period of monetary easing



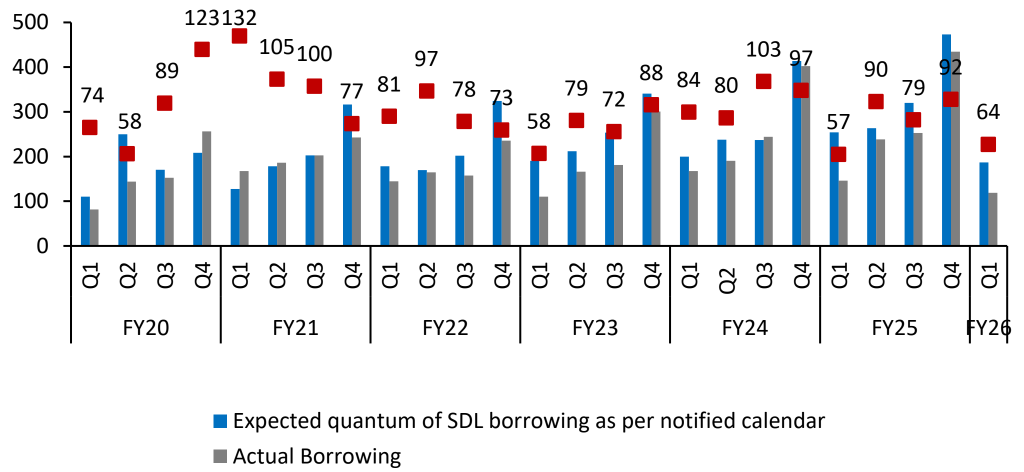
India-US Real interest rate spread at 1.3%pt – lower than its 5yr and 10yr average



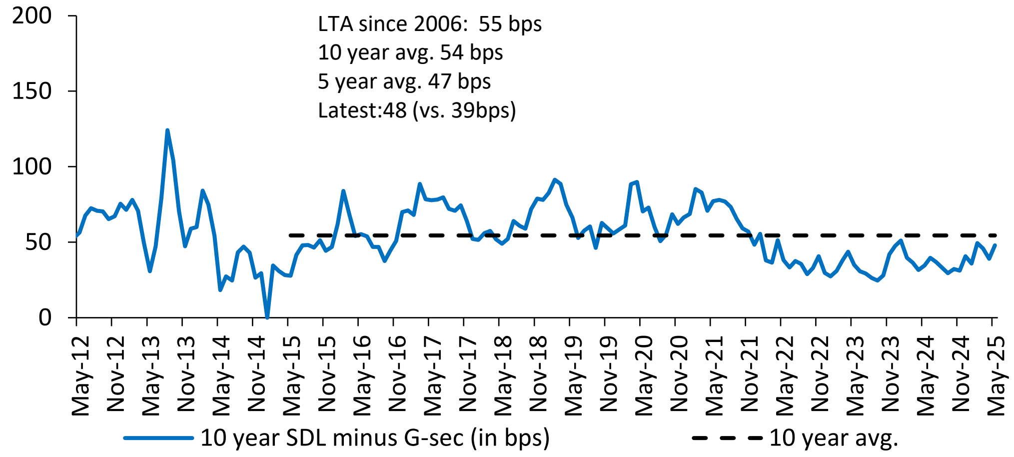
Source: Bloomberg, RBI, SBIFM Research

SDL issuances underwhelm their indicated calendar amount in Q1FY26

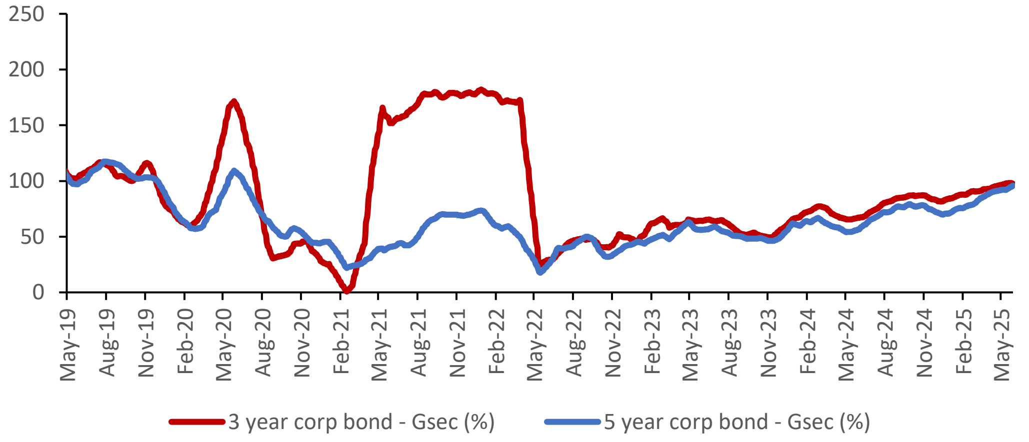
SDL issuances at 64% of their indicated calendar amount in Q1



SDL spreads stay range bound



Corporate bond spreads continue to be elevated



- SDL calendar released for Q1 FY26 for INR2.7tn (higher than INR2.5tn calendar and 1.5tn actual borrowing in Q1FY25).
- SDL spreads widen in May m-o-m compared to a month ago.
- Corporate bond spreads elevated.

Source: RBI, Bloomberg, CEIC, CAG, SBIFM Research; NB: Q4 data for SDL issuances as of 18th February

FIIs interest in Indian bonds sees a decline

FIIs sell India's Debt assets in April and May 2025

EM FII Debt inflow US$ million	2023	2024	Mar-25	Apr-25	May-25
South Korea	60,647	43,139	8,186	3,591	12,452
Indonesia	5,142	3,180	111	387	1,499
South Africa	(17,598)	(6,307)	(2,002)	(1,755)	446
Thailand	319	(1,092)	618	1,683	194
Ukraine	(387)	(548)	30	(33)	4
India	8,445	16,832	3,687	(3,030)	(1,970)
Mexico	5,019	2,090	838	(1,329)	(3,268)
Poland	9,093	23,961	2,550	-	-
Czech Republic	(1,535)	13,546	(2,020)	-	-
Philippines	3,073	3,461	(1,901)	(1,922)	-
Bulgaria	1,940	2,394	(237)	-	-
Malaysia	3,767	275	379	2,061	-
Russia	-	-	-	-	-
Brazil	(9,996)	(18,634)	393	-	-
China	24,760	56,344	21,490	-	-

FII flows in EM bonds are muted despite healthy inflation adjusted returns; as risk premium vs. DM bonds is largely erased

Real rates	10 Year Gsec Yield (% mth end, Apr'25)	CPI Inflation Apr'25	Real Rate (%, 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Apr 2025	10 year G-sec yield adjusted for 12m fwd premium (in %)- Apr 2025
Brazil	14.1	5.5	8.5	6.2	7.9
South Africa	10.6	2.8	7.8	7.0	3.6
Colombia	12.3	5.2	7.2	9.1	3.2
Mexico	9.4	3.9	5.4	8.5	0.9
Indonesia	6.9	2.0	4.9	5.7	1.1
Phillippines	6.2	1.4	4.8	4.5	1.7
India	6.4	3.2	3.2	2.3	4.1
Hungary	6.8	4.2	2.6	5.8	1.0
Malaysia	3.7	1.4	2.3	2.5	1.2
Thailand	1.9	-0.2	2.1	1.4	0.5
China	1.6	-0.1	1.7	1.4	0.3
Poland	5.2	4.3	0.9	4.5	0.7
South Korea	2.6	2.1	0.5	1.7	0.9
Taiwan	1.5	2.0	-0.5	1.0	-0.5
Turkey	35.0	37.9	-2.9	50.4	-15.5

Data sorted by real yield

Source: CEIC, Bloomberg, RBI, SBIFM Research; NB: '-' implies data not available for the respective country

Debt Outlook: Near-term fundamentals dictate favorable outlook

- Developed market bond yields (especially in the 30-year segment), have risen. The 10-year U.S. Treasury yield has remained above 4%.
- The diminishing likelihood of fiscal consolidation in the US—combined with rising global bond supply, weakening demand for US Treasuries as a safe haven, an increasing uncertainty premium on U.S. assets and emerging stagflation risks—makes the outlook for US Treasuries less favourable. Long term yields could rise further.
- The delay in tariff implementation has eased recession fears at the margin, but the U.S. economy continues to grapple with slowing growth, sticky inflation, and a patient Federal Reserve.
- DXY has fallen to six months low. There is a counter thought that US would become less competitive. Investors were overweight US assets are selling, leading to dollar weakness. Rupee stays sideways since March 2025. Oil prices moderated sharply m-o-m.
- EM bond yields have moderated this month.
- The banking system liquidity surplus stands near Rs. 2 trillion (~0.8% of Net Demand and Time Liabilities, NDTL), while durable liquidity reached Rs. 6 trillion (2.5% of NDTL) by 23rd May on account of dividend transfers. This will likely flow into the Liquidity Adjustment Facility surplus as government spending occurs.
- FY26 is shaping up as a year of easy liquidity and accommodative monetary policy in India, paralleling other emerging markets and showing some decoupling from U.S. trends. So far, a 50-bps rate cut has been delivered, with the base case calling for another 50 bps later, after which rate decisions will be more cautious.
- Improved liquidity has steepened the yield curve as short-term rates have dropped significantly, with overnight borrowing rates near the lower corridor limit.
- Inflation is projected to hover around 3% through FY26.
- We remain constructive on interest rates. Indian government bonds could rally another 50 basis points, but spreads favour accrual strategies over outright duration plays.

Source: Bloomberg, SBIFM Research

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