Tariffs, Turbulence & Turning Points: Navigating May's Market Crosswinds

April 2025 brought intense volatility as President Trump's aggressive tariff wave jolted global markets, triggering retaliatory measures and sharp equity declines. Geopolitical risks escalated with renewed tensions at the India-Pakistan border, compounding investor anxiety already heightened by a terrorist attack in Kashmir. Amid this global unease, India saw a sharp drop in CPI and an RBI rate cut, providing some macroeconomic relief. Despite the turmoil, Indian equities staged a rebound, with FPIs turning net buyers and Nifty gaining 3.5%. Sentiment remains cautiously optimistic, with markets balancing global trade uncertainty against resilient domestic fundamentals.

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- **Tariff Tantrums:** On April 2nd 2025, President Trump announced sweeping tariffs, declaring it as US Liberation Day. Tariffs were imposed on every country, ranging from 10% to 50%, based on the trade deficit with that country. The scale and rate of these tariffs caused a shock in global markets with a 12-15% fall in equities.
- Some countries notably China, Canada, EU announced their own retaliatory tariffs on imports from USA. On April 9th, USA announced a 90-day window for every country (except China) for negotiating trade deals and deferred tariff implementation for the period.
- China & USA have escalated tariffs to over 100%, where trade becomes just unviable. In a way, tariffs can be seen as a terms of trade fight between USA being the largest consumer in the world and China being largest producer in the world, with both players believing they have an upper edge. It's tough to estimate the endgame here as high stakes game is played between top 2 economies in the world.
- India faced a 26% tariff on all its exports except pharmaceuticals. This rate seemed quite high as the tariff barriers on USA imports was much less.
- Global uncertainty has been at its peak with the US Dollar Index falling from a high of ~104 to a low of ~98 and gold rallied from 3100$ to 3500$ clearly indicating a risk-off environment in global markets.
- The US GDP for the first quarter shrank by 0.3% Quarter-on-Quarter, compared to a forecast of 0.2% growth. Economists have attributed this contraction to significant import as part of inventory stocking in anticipation of tariffs, following President Trump's Liberation Day announcement
- While global markets were roiled with uncertainty, RBI became accommodative. The Monetrary Policy Committee unanimously announced a 25 bps rate cut in its April 2025 policy announcement taking the repo rate to 6%. Also, RBI continues to announce Open Market Operations to ensure there is surplus liquidity in the market. This has led to a sharp rally in government and corporate bonds reducing the cost of funds in the system.
- RBI has projected a GDP growth of 6.5% and Consumer Price Inflation (CPI) of 4% for FY26.
- INR has had a volatile month with an intermonth high of 86.86 but ending the month nearly flattish at around 85.
- India CPI fell sharply to come at 3.34% for month of March 2025 as against 3.79% in February 2025.
- India's top tourist destination, Kashmir, was attacked by terrorists, leading to the death of 28 civilians primarily tourists. This attack has heightened the risk of geopolitical conflict leading investors to adopt a wait-and- watch approach in the equity markets.

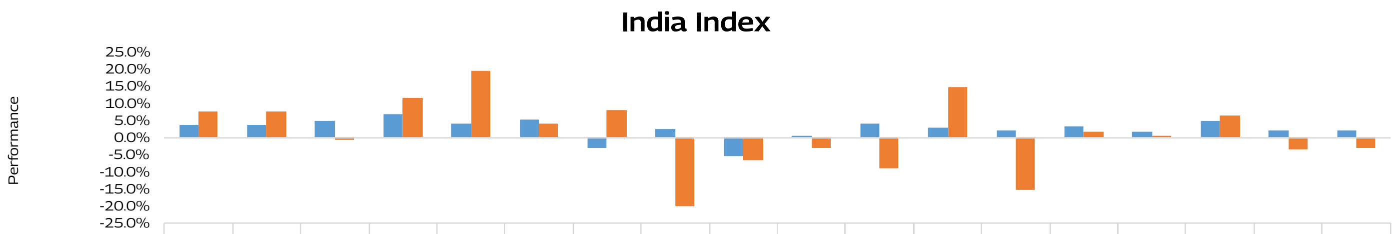
Source: Bloomberg/RBI

WHO MOVED MARKETS

- FPIs turned into buyers from mid-April, following 6months of continuous selling. India has seen a total inflow of approx.1.2bn$ for the month of April.

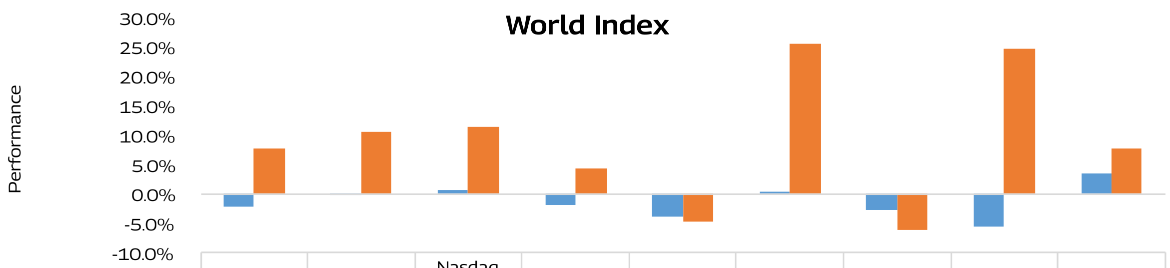
Source: Bloomberg

MOVERS & SHAKERS



	S&P Bse Sensex Index	Nifty 50	Nifty Auto	Nifty Bank	Nifty Financial Services	Nifty FMCG	Nifty IT	Nifty Media	Nifty Metal	Nifty Commo dities	Nifty Realty	Nifty Pharma	Nifty Energy	BSE Midcap	BSE Small Cap	Nifty Midcap 100	Nifty Small Cap 100	BSE 250 Small Cap
1 Mth Performance	3.7%	3.5%	4.8%	6.8%	4.1%	5.3%	-3.0%	2.6%	-5.6%	0.6%	4.1%	3.0%	2.0%	3.3%	1.6%	4.7%	2.2%	2.1%
1 Yr Performance	7.7%	7.7%	-0.8%	11.5%	19.6%	4.1%	7.8%	-20.0%	-6.5%	-3.2%	-9.0%	14.8%	-15.2%	1.8%	0.2%	6.4%	-3.3%	-3.1%

Source: Bloomberg; Data as on April 30, 2025; Performance - Absolute returns. ***Past performance may or may not be sustained in future.***



	Dow Jones Indus. Avg	S&P 500 Index	Nasdaq Composite Index	Ftse 100 Index	Cac 40 Index	Dax Index	Nikkei 225	Hang Seng Index	Nifty 50
1 Mth Performance	-2.2%	-0.2%	0.7%	-1.9%	-4.1%	0.2%	-2.9%	-5.6%	3.5%
1 Yr Performance	7.5%	10.6%	11.4%	4.3%	-4.9%	25.5%	-6.1%	24.5%	7.7%

Source: Bloomberg; Data as on April 30, 2025; Performance - Absolute returns. ***Past performance may or may not be sustained in future***

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - MONTH ON MONTH

Indices	Mar-23	Apr-23	May-23	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
Nifty 50	0.3	4.1	2.6	3.5	2.9	-2.5	2.0	-2.8	5.5	7.9	0.0	1.2	1.6	1.2	-0.3	6.6	3.9	1.1	2.3	-6.2	-0.3	-2.0	-0.6	-5.9	6.3	3.5
Nifty Midcap 100	-0.3	5.9	6.2	5.9	5.5	3.7	3.6	-4.1	10.4	7.6	5.2	-0.5	-0.5	5.8	1.6	7.8	5.8	0.5	1.5	-6.7	0.5	1.4	-6.1	-10.8	7.8	4.7
Nifty Small Cap 100	-1.8	7.5	5.1	6.6	8.0	4.6	4.1	-0.8	12.0	6.9	5.8	-0.3	-4.4	11.4	-1.9	9.7	4.5	0.9	-0.7	-3.0	0.3	0.6	-9.9	-13.1	9.5	2.2

Note - Yellow highlighted cells represent highest returns amongst the 3 indices provided above; orange highlighted cells represent lowest returns amongst the 3 indices for the respective month end periods. Performance - Absolute returns. Performance - Absolute returns. ***Past performance may or may not be sustained in future.***

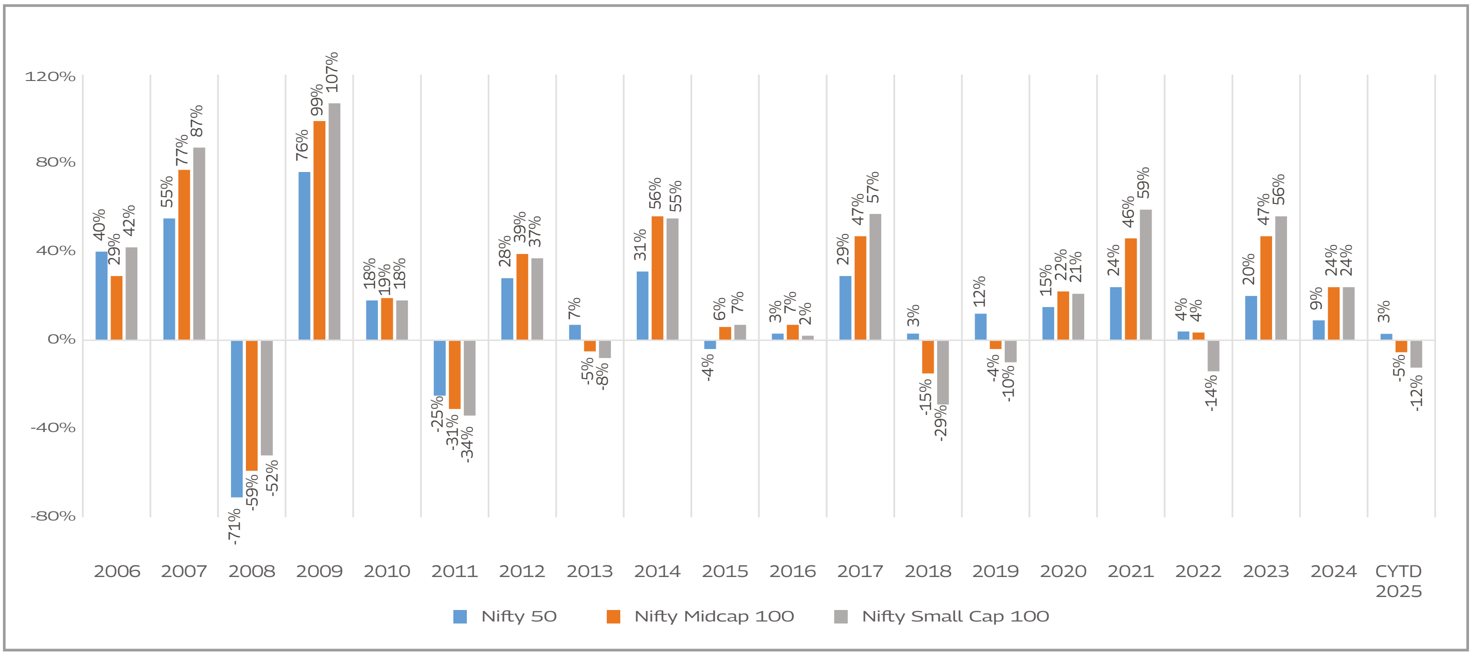
Source: Bloomberg; Data as on April 30, 2025

Indices	Mar-23	Apr-23	May-23	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
Nifty Auto	-3.8	7.7	7.7	6.7	3.7	-0.2	3.3	-1.7	10.3	6.1	3.3	6.2	4.9	5.0	4.2	7.6	5.9	-1.9	3.3	-13.0	-0.6	-2.3	0.1	-10.4	3.9	4.8
Nifty Bank	0.8	6.5	2.1	1.4	2.0	-3.6	1.4	-3.9	3.8	8.6	-4.8	0.3	2.2	4.8	-0.8	6.9	-1.5	-0.4	3.2	-2.8	1.1	-2.3	-2.5	-2.5	6.7	6.8
Nifty Financial Services	0.4	6.1	1.5	3.1	1.4	-3.7	1.1	-3.1	4.4	7.1	-4.6	-0.4	2.8	4.1	-0.6	7.8	0.0	1.0	3.6	-2.4	0.5	-2.1	-1.2	-0.8	8.9	4.1
Nifty FMCG	2.1	4.2	6.8	2.3	0.8	-2.9	1.0	-0.7	3.4	7.5	-3.4	-1.9	-0.1	0.5	-0.2	4.9	9.4	1.6	3.9	-9.7	-2.1	-2.0	-0.2	-10.6	5.7	5.3
Nifty IT	-3.3	-3.5	5.8	0.8	1.2	4.1	2.0	-3.8	6.5	9.0	3.2	3.0	-7.5	-4.9	-2.5	11.6	13.0	4.7	-2.0	-3.7	6.8	0.4	-1.6	-12.5	-1.2	-3.0
Nifty Metal	4.3	5.5	1.6	5.4	8.8	-1.5	2.7	-5.7	8.8	13.7	-0.1	-0.6	4.2	11.1	6.0	0.9	-2.4	-1.9	8.4	-8.5	-3.1	-4.3	-2.9	-2.1	10.6	-5.6
Nifty Realty	-1.5	14.9	7.6	8.6	9.0	-1.5	3.1	4.8	18.3	9.7	9.3	6.3	-1.1	8.1	4.7	8.4	-1.0	-3.7	4.3	-9.0	2.1	3.2	-12.4	-13.4	6.7	4.1
Nifty Pharma	2.3	5.0	0.5	8.6	8.9	0.7	2.2	-4.8	10.6	3.7	6.6	5.9	0.0	-0.1	-0.9	5.0	10.4	6.6	0.3	-2.3	-2.2	5.3	-8.4	-7.6	6.7	3.0
Nifty Energy	5.2	4.0	0.6	3.4	8.7	-4.2	6.2	-2.0	9.4	14.2	9.8	5.7	0.5	3.4	-0.3	3.8	5.5	-0.7	0.6	-10.7	-4.6	-6.1	-3.7	-11.4	11.8	2.0

Note - Cells highlighted in yellow color represents top 2 performers and the orange highlighted cells represent bottom 2 performers amongst the indices covered above for the respective months.

Source: Bloomberg. Returns have been calculated on Absolute basis for respective month end periods beginning March 2023 until April 2025. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Company Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. ***Past performance may or may not be sustained in future.***

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT



Source: ICRA. Data period: January 1, 2006, till April 30, 2025. Returns are absolute returns (1 year) calculated as of the last business day of every calendar year end. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. ***Past performance may or may not be sustained in future.***

FIXED INCOME OUTLOOK

BOND AND MONEY MARKET

Shown below is a matrix detailing movement in some key markets (domestic and global) and key events:

Parameters	30-Apr-2025	28-Mar-2025	30-Apr-2024
RBI Repo Rate %	6.00	6.25	6.50
5Y AAA PSU %	6.92	7.20	7.74
1 year CD %	6.79	7.25	7.54
10Y Gsec %	6.36	6.58	7.19
CPI (%)	3.34	3.61	4.85
IIP (Year-on-year) %	2.9	5.01	5.67
US 10Y %	4.16	4.21	4.68
Dollar Rupee	84.50	85.46	83.44

Source: Bloomberg; Data as on April 30, 2025

THE FIXED INCOME GLANCE

A month full of uncertainties across the domestic and global fixed income markets; due to Trump tariffs among other things like OPEC+ oil output decision etc. affecting various asset classes.

For the domestic fixed income markets, the RBI cut rates by 25 bps in April which led to a sharp drop in rates with the benchmark 10-year rates dropping by 12 basis points (bps) to close at 6.36%. The money market rates to eased through the month as RBI's liquidity measures flowed into the system with 1 year Certificate of Deposit (CD) levels dropping by around 25 bps.

Source: Bloomberg

WHAT NEXT?

Economy Check

- India's Core sector (eight key infrastructure industries) rose 3.8% in March 2025 following an upwardly revised 3.4% reported in February 2025 and materially lower than the 6.3% reported in March 24. The growth in March was led by the electricity sector (6.2 per cent), followed by steel (7.1 per cent), and cement (11.6 per cent). However, output decelerated in coal (1.6 per cent), refinery products (0.2 per cent), fertilisers (8.8 per cent), crude oil (-1.9 per cent) and natural gas (-12.7 per cent). Overall, for FY25, growth in the output of core industries stood at 4.4%.
- India's Goods and Services Tax (GST) collections reached a record high of Rs 2.37 lakh crore in April 2025, marking a 12.6% surge. This follows a consistent upward trend, with collections rising by 9.9% in March 2025 and 9.1% in February 2025. The government had projected an 11% increase in GST revenue for the year, estimating collections at Rs 11.78 lakh crore.
- GST Collections for April came at Rs 2.37 trillion, a growth of 12.6% Year-on-year showing a continuous upward trend post 9.9% in March and 9.1% in February. Cumulative GST collection for FY2025 is up by 11%.

Source: Ministry of Finance/Bloomberg

Markets

- Indian markets have been volatile post the rally in March 2025. Nifty had a sharp drawdown post the 'Liberation Day' tariff announcements and rallied ~9-10% post the lows. Net for the month, Nifty rallied 3.5% with Midcap and Smallcap indices rallying 4.7% and 2.2% respectively.
- Global markets have been volatile as well with US markets ending flat for the month. However, fears of global slowdown have resulted in European & Chinese markets ending in the red.
- Among the Nifty sectoral indices, Nifty Bank and Nifty FMCG outperformed while IT & Metal underperformed Nifty.
- Domestic Investors: Gross flows for March'25, in core equity schemes increased by 3.9% m-o-m (+7.2% year-on-year) to Rs 565bn; however, net flows in these schemes declined 14.4% m-o-m (+10.8% year-on-year) to Rs 251bn owing to larger redemptions, particularly in large-cap and sectoral/thematic categories. Monthly gross Systematic Information Plan (SIP) remains steady. Small & midcap fund flows too remain firm.

Source: Bloomberg

Outlook

Indian markets are reflecting global market sentiment on tariffs. The announcements on 2nd April & 9th April led to a sharp fall and sharp rise respectively. Market volatility is understandable as tariffs if implemented may create a probability that the world economy may go into recessionary mode. US Federal Reserve's monetary policy action remains uncertain amidst the lack of clarity on tariffs. Also, the US debt levels, and interest expense outgo continue to remain high, and no easy solution is visible to the US twin deficit macro trade and fiscal deficit problem.

On the positive side, trade deals with each country may create a window for India as well as many other countries to emerge as a preferred supplier to USA, the largest consumer in world. India has potential to emerge as long-term beneficiary of this trade war, attracting FDI as well as domestic investors to set manufacturing base for supply to USA. Apple for instance has announced plans to shift to India the entire production for USA as China manufacturing turns unviable due to tariffs. The key challenge remains any re-think by USA, either under current President or in future. So, while the opportunities for India to accelerate execution on "China+1" remains, so does uncertainty. Another outcome to be monitored is the tariff concessions India may concede to USA as part of trade deals. Similarly with trade deals with UK & EU on cards, existing tariff protection to a few industries/companies may undergo a change impacting profitability of domestic industry. The silver lining remains improving long term cost structure for Indian economy and competitiveness for Indian industries.

For now, the positive sentiments are back for Indian equity markets. FIIs have also turned positive after months of continuous selling providing a downside support to valuations.

We are in the midst of Q4FY25 results and the performances across sectors are quite divergent. Most IT companies have missed estimates and issued warnings about US Tech spending in the forthcoming quarters. However, banks have reported strong growth with healthy Net Interest Margins and lower provisions, signifying health of the Indian financial sector. Nifty profit growth for the quarter so far looks healthy at 5-6% but FY2026 estimates are seeing downgrades. FY26 estimates have been revised down to show 10-12% profit growth, but considering the volatility ahead, this needs to be monitored.

Markets have rebounded well from the March lows, and the valuations in some segments of the market are reasonable. However, with global volatility and uncertainty, we continue to prefer large caps with selective exposure to Smallcaps.

We believe asset allocation may remain a key feature for investors in their journey of wealth creation. The allocation is applicable to both equity as an asset class as well as choice of market capitalization within equities. From investors perspective, we believe as an aggregate large cap offers better value and margin of safety as compared to micro caps, small caps & mid-caps. The risk to large caps remains in further selling by FPI's as they primarily own large caps.

Investors with near-term objectives or low risk appetite can opt to prefer Equity Hybrid Funds or asset allocation funds. Investors with a longer-term horizon can continue to remain invested with fresh equity allocation towards large caps.

Source: Bloomberg/Internal Research

SUMMARISING OUR THOUGHTS

- The MPC of RBI meets in June,2025 and looks set for another rate cut of 25 bps. With growth slowing down in the future and comfortable inflation levels, MPC may focus on growth.
- Trump tariff has created uncertainties around the market direction. Such uncertainties may lead to further softening of US rates as market participants seek the safety-first approach.
- Our portfolio strategy has changed across our duration-oriented funds as we have moved down the yield curve with the yield curve steepening but continue a neutral approach vis a vis the peer set (but higher duration versus index) and a Bias towards Gilts which is gradually shifting towards credits.
- The curve has steepened meaningfully with the 10-30-year G-sec spread widening to 44 bps.
- We also believe that, as credit spreads have increased and now merit a gradual look into the portfolio.

From the CIO Desk...

Mr. Krishna Sanghavi
CIO - Equity

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