

FROM VOLATILITY

TO >>

VISIBILITY



As uncertainty eases, the focus shifts back to earnings, valuations and long-term wealth creation.

June marked a shift from uncertainty towards stability. Easing geopolitical tensions, supportive policy measures from the RBI and Government of India, and resilient domestic participation helped markets look beyond near-term disruptions. While inflation, monsoon developments and global interest rate trends remain key monitorables, India's economic fundamentals continue to remain constructive. We believe the coming months could see markets increasingly differentiate between valuation and earnings quality, creating opportunities for disciplined investors. In this environment, large caps appear relatively well-positioned from a risk-reward perspective, while fixed income continues to benefit from an improving liquidity backdrop and supportive policy measures. A balanced asset allocation approach focused on diversification rather than prediction remains the cornerstone of long-term wealth creation.

Outlook Ahead: As geopolitical risks recede and capital flows respond to recent reforms, the focus is likely to shift back to earnings growth, liquidity conditions and the trajectory of global AI-led investments. While near term volatility cannot be ruled out, we remain cautiously optimistic and constructive on the medium-term outlook for Indian markets.

Source: Internal Research

EQUITY MARKET OUTLOOK



MOMENT OF THE MONTH:

■ US Fed kept the Federal Funds rate unchanged

The U.S. Federal Reserve held the benchmark federal funds rate unchanged at the 3.50% to 3.75% target range. The pause reflects a cautious, data-dependent approach by new Fed Chair Kevin Warsh. Projections were revised higher, with the central bank prioritizing bringing inflation back to the 2% target. Forward guidance was notably omitted from the latest statement, shifting focus entirely to incoming data.

■ RBI kept repo rate unchanged at 5.25% and policy stance was unanimously maintained at "neutral".

RBI remained on a pause in the June policy which was on expected lines. The tone was cautious as the MPC revised CPI inflation estimate higher by 50 bps to 5.1% and GDP growth lower to 6.6%. The RBI Governor cited the impact from (1) the West Asia crisis and (2) El-Nino led monsoon risks for the deterioration in forecasts.

■ Indian Government and RBI has announced a series of reforms to attract long-term foreign capital and help in stabilizing the value of INR:

- Government announced to exempt FPIs' holdings of G-secs from capital gains tax as well as the withholding tax of 20% on interest income, w.e.f. 1 April 2026. In order to enhance their participation, the government also expanded

the list of securities under the full accessible route by including all new issuances of 15, 30 and 40-year tenors and removed some other restrictions while retaining the investment limit of 6% of outstanding central G-secs and 2% for state G-secs. With tax removal, there is a higher chance of inclusion in global bond indices, which could bring in a sizable amount of USD capital inflows.

- The RBI has introduced a special window between 8th Jun'26 to 30th Sep'26 wherein banks can raise Foreign Currency Non-Resident (Bank) Deposit. FCNR(B) deposits for a tenor of 3-5 years and swap the money into INR while the RBI bears the entire hedging cost. Additionally, these deposits will be exempted from CRR and SLR requirements, making the scheme fairly attractive for banks. We expect a surge in FCNR deposits over the coming months. The RBI also introduced a concessional USD/INR swap facility for ECBs and OFCBs, wherein banks can hedge the eligible foreign currency borrowings up to 31st Dec'26 with the RBI at a flat concessional cost of 1.5% p.a. This shall aid in bank deposit mobilization, easing liquidity, improving forex reserves, reduce BOP deficit thereby reducing the pressure on INR depreciation.
- **Monsoon Activity:** Monsoon rains have picked up, but the deficit was as high as 40% in June 2026, with risks of strengthening EL-Nino. The IMD also expects monthly rainfall below normal (<94%) and maximum temperatures to remain above normal across most parts the country in July 2026. Kharif sowing was very weak in June, posing risk to agriculture GVA (Gross Value Add), though healthy buffer stocks provide some cushion in terms of inflation. At the same time, improved irrigation levels and decent (not great) water reservoir levels offer a near-term cushion for rural activity.

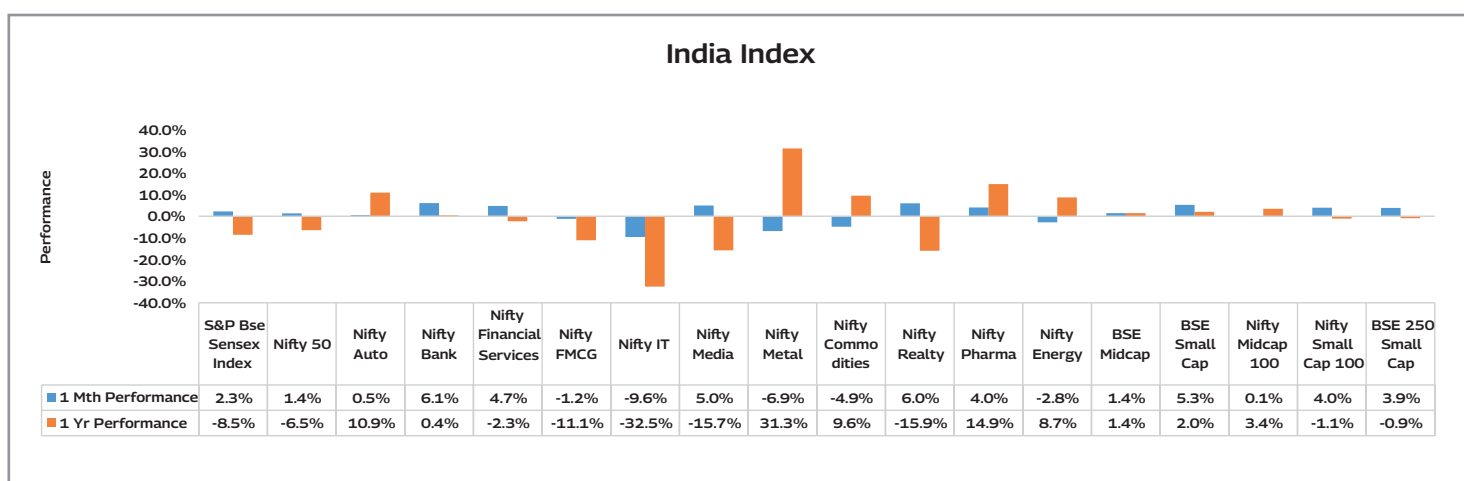
Source: Bloomberg

WHO MOVED MARKETS

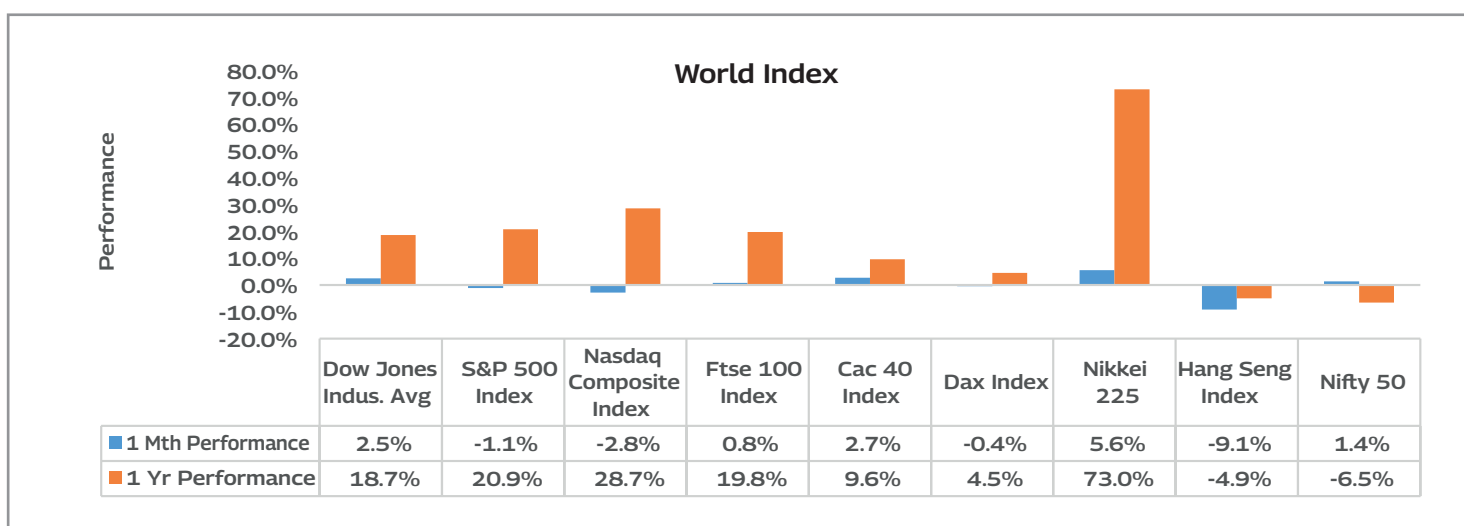
- FPIs selling pressure in cash equities abated a bit (\$3bn net sales in the month of June v/s USD 5 bn in previous month). DII's continue to be buyers with approx. \$ 8 bn of net purchase (similar to last month)

Source: Bloomberg

MOVERS & SHAKERS



Source: Bloomberg; Data as of June 2026; **Performance - Absolute returns. Past performance may or may not be sustained in future.**



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PERFORMANCE SNAPSHOT OF SECTORAL INDICES - MONTH ON MONTH

Indices	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Nifty 50	3.1	-2.9	-1.4	0.8	4.5	1.9	-0.3	-3.1	-0.6	-11.3	7.5	-1.9	1.4
Nifty Midcap 100	4.0	-3.9	-2.9	1.4	5.8	2.0	-0.9	-3.4	1.2	-10.9	13.6	3.2	0.1
Nifty Small Cap 100	6.7	-5.8	-4.1	1.9	4.7	-3.0	-0.6	-4.7	0.3	-10.2	18.4	0.7	4.0

Note - Green 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. Returns have been calculated on Absolute basis for respective month end periods beginning June 2025 until June 2026. 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.**

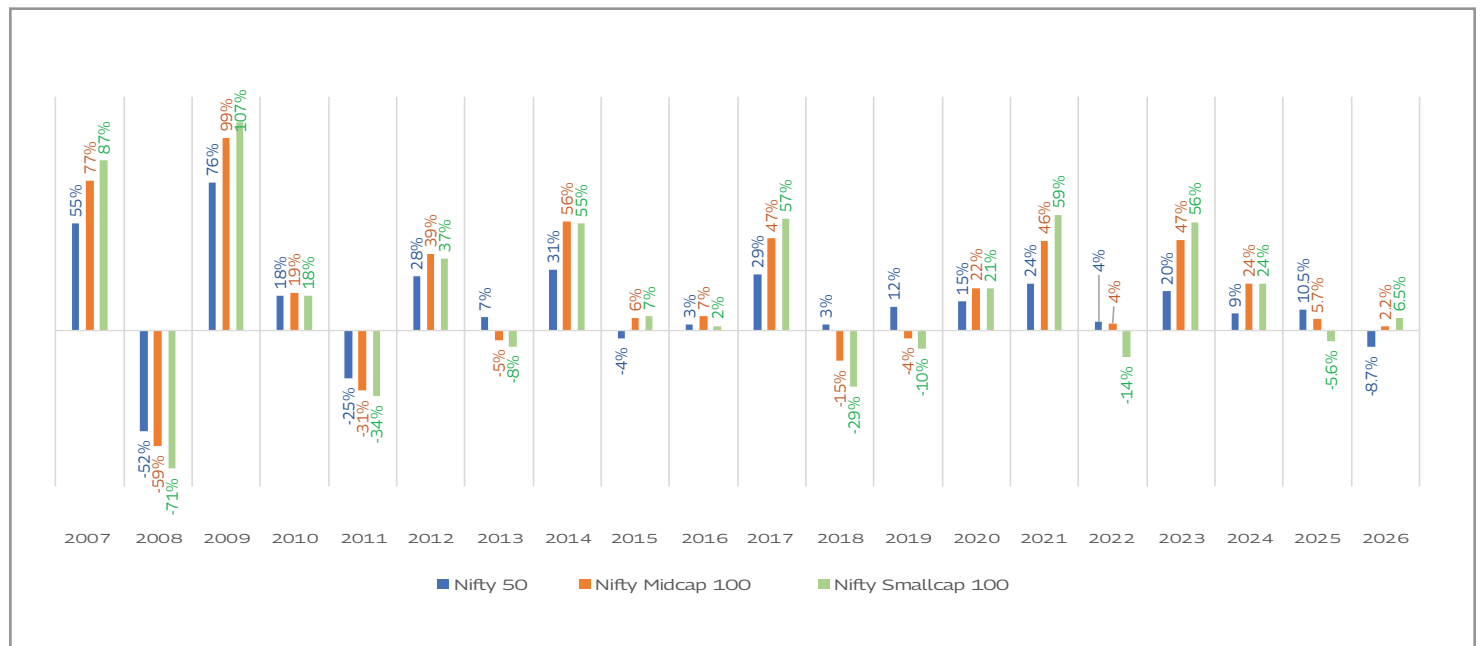
Source: Bloomberg Data as of June 2026
Data during the period of June 2025 to June 2026.

Indices	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Nifty Auto	2.3	-0.9	5.5	6.3	1.0	3.6	1.5	-5.1	5.3	-15.6	9.0	1.6	0.5
Nifty Bank	2.8	-2.4	-4.1	1.8	5.7	3.4	-0.3	0.0	1.5	-16.9	9.1	-1.1	6.1
Nifty Financial Services	2.5	-1.9	-4.1	1.8	4.3	2.8	-1.0	-1.0	2.0	-15.6	9.1	-1.2	4.7
Nifty FMCG	-0.7	1.7	0.6	-2.5	2.7	-1.1	-0.2	-7.7	-0.1	-11.0	12.2	-3.3	-1.2
Nifty IT	4.4	-9.4	-0.3	-4.3	6.1	4.7	1.3	0.4	-19.5	-5.0	1.0	-0.9	-9.6
Nifty Metal	3.7	-2.6	-1.4	9.6	5.7	-3.0	8.5	5.9	3.5	-9.0	15.2	4.7	-6.9
Nifty Realty	3.9	-7.5	-4.6	-0.4	9.2	-4.7	-2.8	-10.8	-0.3	-16.6	21.9	-1.4	6.0
Nifty Pharma	2.8	3.3	-4.2	-1.6	3.4	3.7	-1.2	-4.4	5.7	-3.1	4.7	4.6	4.0
Nifty Energy	1.9	-4.0	-4.2	4.0	3.6	-2.0	-0.6	-0.5	5.4	-5.9	17.0	0.3	-2.8

Note - Cells highlighted in green colour represents top 2 performers and the orange highlighted cells represent bottom 2 performers amongst the indices covered above for the respective months. Returns have been calculated on Absolute basis for respective month end periods beginning June 2025 until June 2026. 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.**

Data during the period of June 2025 to June 2026.

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT



Source: - MFI, 30th June 2026 YOY- Dec

Data period: January 1, 2007, till June 2026. Returns are absolute returns (1 year) calculated as of the last business day of every calendar year end. Past performance may or may not be sustained in future.

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BOND AND MONEY MARKET

Parameters	30-Jun-26	31-May-26	30-Jun-25
RBI Repo Rate %	5.25	5.25	5.50
5Y AAA PSU %	7.22	7.86	6.88
1 year CD %	6.98	7.83	6.33
10Y Gsec %	6.75	7.00	6.32
CPI (%)	3.93	3.48	2.31
IIP (YoY) %	5.10	4.90	3.00
US 10Y %	4.47	4.44	4.23
Dollar Rupee	94.67	95.00	85.75

Source: Bloomberg; Data as on June 30, 2026

THE FIXED INCOME GLANCE

- The headlines moved beyond the rate setting exercise in June by the MPC , while it chose to keep rates unchanged, what drove market sentiments was a series of measures announced by the RBI and the Central Government. The RBI announced, inter alia , concessional forex swaps for ECBs by PSUs and hedging support for fresh FCNR(B) deposits (3-5 years) have been introduced till 30th September 2026 and the government further supported the RBI's efforts through granting a full exemption on capital gains and interest income for FPIs investing in government securities.
- Coupled with a truce agreement between Iran and US, and a resultant fall in crude oil prices . the domestic bond markets rallied significantly. The benchmark 10 year gilt rallied by 25 basis points (bps) , the 5 year AAA credits around 60 bps and money market rates dropped by around 80 bps. Also the FPIs turned big buyers in gilts and bought close to USD 2 billion .
- The INR too rallied closing around 94.67 from 95.
- Domestic inflation inched up to 3.93 % with food inflation printing at 4.78 % The MPC however sounded cautious on inflation projecting FY 27 inflation at 5.10 % with Q3 inflation peaking in Q3.

Source: RBI

WHAT NEXT?



Economy Check

India Economy

- India's fiscal deficit increased to Rs 1,624bn for Apr-May FY27, or about 9.6% of the government's full year target for FY27 (0.8% of target same period year ago) driven by increase in capex and revenue expenditure, and slight decline in tax revenue from previous year.
- As per the latest fortnightly data (15th Jun'26), domestic credit growth remains strong at 17.7% YoY (similar to that in 31st May'26), while deposit growth moderated to 12% YoY (12.2% YoY on 31st May'26)

- Auto Sales volumes for the month of June (both wholesales and retails) were strong with growth being 20%+ yoy in most segments.
- Headline CPI inflation picked up to a 16-month high of 3.9% YoY in May 2026 (v/s 3.5% in previous month) The acceleration was driven by 17-month high food inflation, fuel price hikes (up 3%) and precious metals (up 78%). Core inflation inched up to a six-month high of 3.7% YoY in May 2026; however, it was still a very subdued rate of 2% YoY excluding precious metals.

Source: Internal Research

Markets

- Global markets ended on a mixed note. Japan (+6%), the Philippines (+5%) and Taiwan (+3%) gained the most, whereas Hong Kong (-9%), Indonesia (-8%) and the US SPX (-2%) lost the most.
- Nifty ended June on a decent note, gaining 1.4% amid easing geopolitical tensions, resulting in dated Brent prices declining to US\$71.5/bbl from US\$93.4/bbl a month ago. The Mid-cap Index ended largely flat, whereas the small-cap index gained 5%. Among sectoral indices, IT index dragged the most (-10%), followed by Metals (-7%), Energy (-3%) and FMCG (-1%) indices. Banks (+6%), realty (+6%) and Pharma (+4%) emerged as top gainers.
- Domestic Flows: Active equity funds flows saw a drop MoM to ₹23000 Crore in May, with most categories seeing a drop. Mutual fund gross SIP inflows stood at ₹30,954 crore in May, remaining comfortably above the ₹30,000-crore mark for the third consecutive month despite broader market volatility.

Source: Bloomberg Data as of June 2026

Outlook

- Geopolitical situation in West-Asia has eased following the MOU between US-Iran. Current US-Iran War dynamics suggest incentives on both sides to manage escalation, implying peak uncertainty is likely behind. Trend/Pace of global AI investment cycle will be a key monitorable. (So far, not showing any major slowdown). FII ownership in Indian equities is at decadal low (~15%). FII's may remain circumspect on India, unless global AI trade takes a breather and/or India's expected earnings growth delta v/s other EM's (Emerging Markets) becomes positive. But the pace of their selling may ebb if INR stabilizes. Although, Domestic equity flows have moderated a bit, but still remain resilient.
- India's overall macroeconomic backdrop remains healthy and if the BOP (Balance of Payments) situation improves, it will ease the pressures on INR. India earnings growth trajectory is gradually improving is likely to further strengthen over the medium term. India's valuations are in fair value zone v/s own history. India - policy measures aimed at attracting foreign capital, dollar index, strengthening domestic manufacturing capabilities and extent of the weak monsoons (El-Nino year) will be key monitorables from here on. We are cautiously optimistic right now and are remain constructive.
- From investors perspective, large cap offers better value and margin of safety as compared to mid and small caps. If pace of FII selling slows down, it can give a leg up to large caps (which have been under selling pressure so far). Though at an aggregate level, valuations for mid and small cap are relatively on the higher side, but are also supported by strong earnings delivery and better EPS growth momentum.
- We believe asset allocation remains key for investors in their journey of wealth creation despite the uncertainties. The allocation is applicable to both equity as an asset class as well as choice of market capitalization within equities.
- Investors with near-term objectives or low risk appetite can opt to prefer Equity Hybrid Funds or multi asset allocation funds. Investors with a longer-term horizon can continue to remain invested with fresh equity allocation towards large caps.

Source: Internal Research



- While we had started building significant duration before the rally in interest rates , we believe that markets might take a breather
 - The Credit spreads , despite a sharp decrease, may still look attractive at these levels and our portfolios have a bias towards quality credits
 - Our bias towards long end papers (30 years) in our Dynamic bond fund.
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- We intend to move towards a neutral bias on interest rates across our portfolios
 - We are watching carefully Three factors to change our view on the direction of rates
 - The US rate trajectory (potential of it to go up remains a high probability event)
 - The Dollar Index and Commodity linkage
 - The FCNR (B) and the External Commercial Borrowing ECB mobilization

Source: Internal Research

From the CIO Desk...



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CIO – Fixed Income

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