Balancing Progress with Prudence

In a month marked by geopolitical developments and global trade recalibrations, markets found balance through resilient domestic fundamentals. India posted a Q4 GDP surprise at 7.4%, inflation cooled to a six-year low, and global tariff tensions saw partial relief. Despite volatile global cues, steady FPI inflows and positive earnings supported a market rebound. While small- and mid-caps led gains, caution remains as valuations stretch. Investors are encouraged to anchor portfolios with a disciplined asset allocation.

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- On 7 May 2025, India carried out a brief operation in response to the Pahalgam incident. The situation saw limited cross-border tensions, but a ceasefire was agreed upon following key developments on 10 May.
- On May 12, 2025, the US and China announced a trade truce by slashing reciprocal tariffs. The tariff on Chinese goods will be 30% for 90 days until the final terms of the trade deal are agreed upon.
- As global risk from the tariff war stabilised, so did the Dollar Index at the 99-100 level and Gold at $ 3,200-$3,300. The US 10-year bond yield was relatively more volatile, as concerns about inflation and economic growth kept it on edge. The INR is relatively stable between 85 and 86.
- India's GDP rate for Q4 surprised positively, coming in at 7.4% vs. an estimate of 6.7%. FY25 GDP growth came in line with RBI projections at 6.5%. The boost in Q4 was led by construction-led industrial activity, at 10.8%, reflecting a year-end push in government capital expenditures and steady service growth. From the expenditure side, GDP growth increased due to a pickup in gross fixed capital formation (GFCF), at 9.4%, likely on account of the government meeting its capital expenditure targets in infrastructure. However, private consumption growth slowed to 6%, and government consumption declined by 1.8%
- India's Consumer Price Inflation eases to a six-year low of 3.16% in April 2025, driven by cooling food prices. Core inflation steady at 4%

Source: Bloomberg/RBI

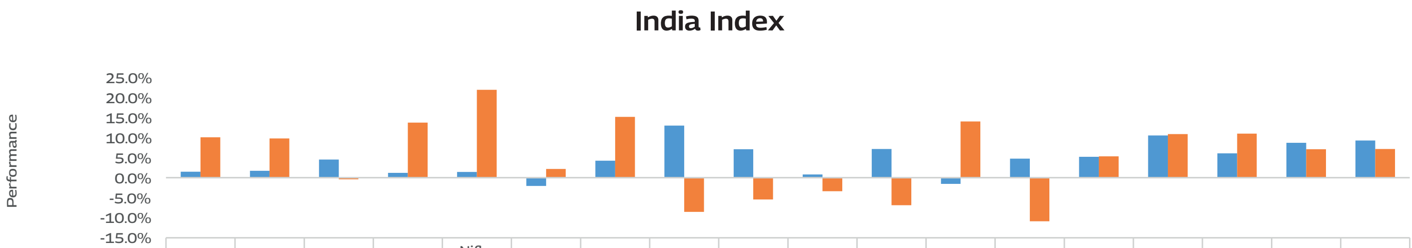
WHO MOVED MARKETS - FLOWS!

- Foreign Portfolio Investors continued to be buyers in May after a strong April. India has seen a total inflow of approx. $1.5 billion for May.

  From a flow perspective, Indian markets appear to be evenly matched between robust demand from domestic investors being matched by supply from fresh issuances (IPOs & QIPs) as well as promoter stake sale (OFS). The trump card for market direction lies with FPI action. The net sell by FPIs in Q1CY25 was ~Rs.1375bn which led to a sharp fall of 4.6% in NSE500, while net buying in April & May was under Rs. ~240bn led to a rise of 6.8% in NSE500.

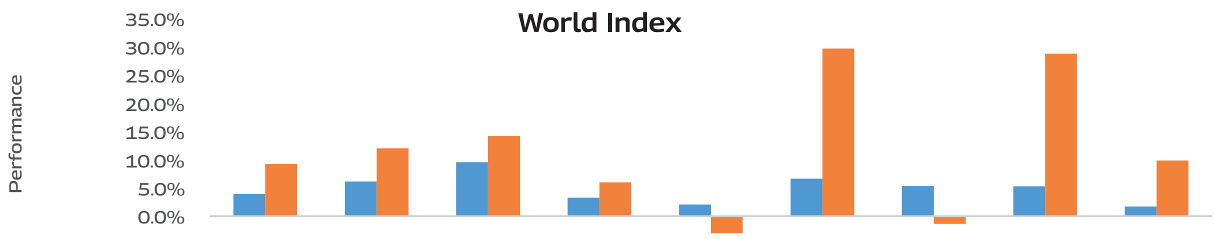
Source: Bloomberg

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	1.5%	1.7%	4.6%	1.2%	1.5%	-2.1%	4.3%	13.0%	7.1%	0.8%	7.2%	-1.5%	4.8%	5.3%	10.6%	6.1%	8.7%	9.3%
1 Yr Performance	10.1%	9.9%	-0.4%	13.8%	22.0%	2.2%	15.2%	-8.5%	-5.5%	-3.4%	-6.9%	14.1%	-10.9%	5.3%	10.9%	11.1%	7.1%	7.2%

Source: Bloomberg; Data as on May 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	3.9%	6.2%	9.6%	3.3%	2.1%	6.7%	5.3%	5.3%	1.7%
1 Yr Performance	9.3%	12.0%	14.2%	6.0%	-3.0%	29.7%	-1.4%	28.8%	9.9%

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

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - MONTH ON MONTH

Indices	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	May-25
Nifty 50	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	1.7	6.3	3.5	1.7
Nifty Midcap 100	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	6.1	7.8	4.7	6.1
Nifty Small Cap 100	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	8.7	9.5	2.2	8.7

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. Past performance may or may not be sustained in future. 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.***

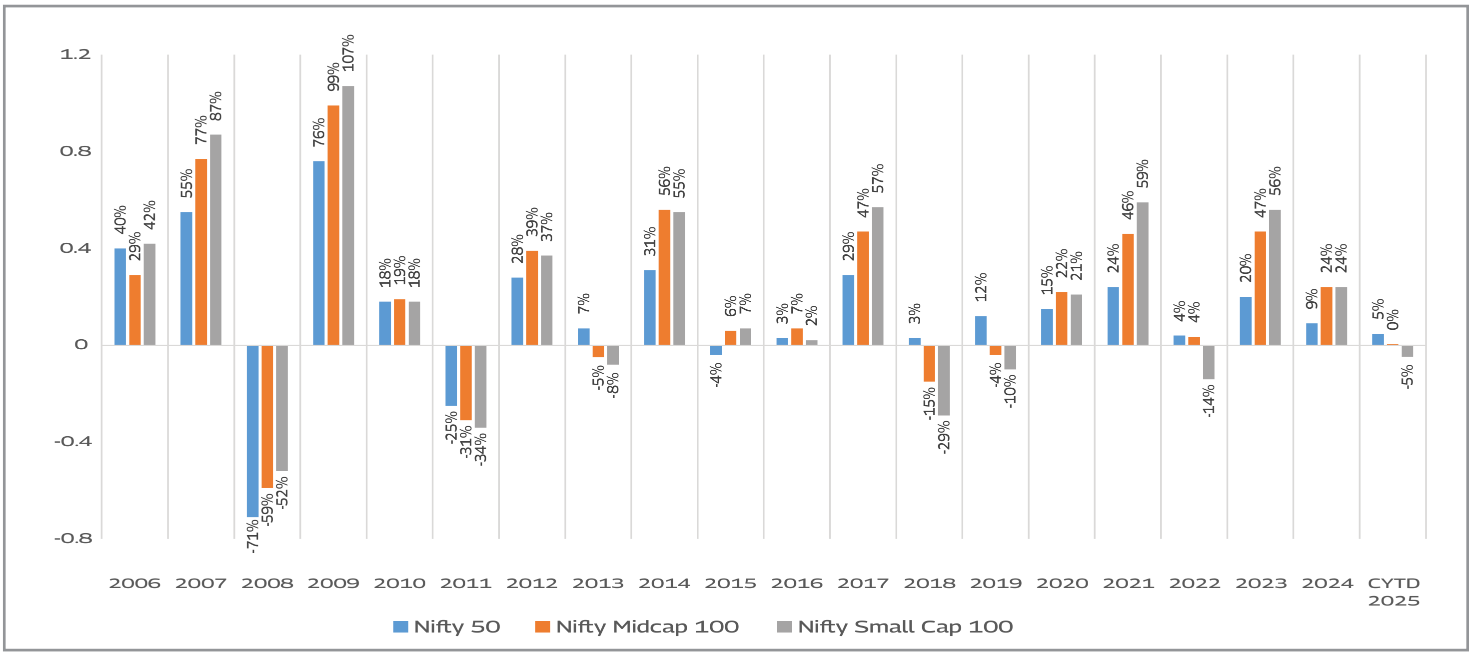
Source: Bloomberg; Data as on 30 May, 2025

Indices	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	May-25
Nifty Auto	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	4.6	3.9	4.8	4.6
Nifty Bank	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	1.2	6.7	6.8	1.2
Nifty Financial Services	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	1.5	8.9	4.1	1.5
Nifty FMCG	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	-2.1	5.7	5.3	-2.1
Nifty IT	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	4.3	-1.2	-3.0	4.3
Nifty Metal	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	7.1	10.6	-5.6	7.1
Nifty Realty	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	7.2	6.7	4.1	7.2
Nifty Pharma	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	-1.5	6.7	3.0	1.5
Nifty Energy	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	4.8	11.8	2.0	4.8

Note - Cells highlighted in yellow colour 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 May 2023 until May 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 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 May 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-May-2025	30-Apr-2025	31-May-2024
RBI Repo Rate %	6.00	6.00	6.50
5Y AAA PSU %	6.65	6.92	7.66
1 year CD %	6.55	6.79	7.62
10Y Gsec %	6.29	6.36	6.98
CPI (%)	3.16	3.34	4.83
IIP (Year-on-year) %	2.7	2.9	4.94
US 10Y %	4.40	4.16	4.59
Dollar Rupee	85.58	84.50	83.47

Source: Bloomberg; Data as on May 30, 2025

THE FIXED INCOME GLANCE

- The pleasant tidings for the domestic fixed-income markets continued, with low, stable inflation and adequate liquidity in the system ensuring positive returns in the domestic bond markets.
- For the domestic fixed-income markets, it was largely a sharp drop in rates, with the benchmark 10-year rate dropping by around 1 basis point (bps) to close at 6.23%. The money market rates remained eased throughout the month as RBI's liquidity measures flowed into the system, with 1-year Certificate of Deposit (CD) levels dropping by around 24 bps to close at 6.55%. The adequate systemic liquidity also led to a steepening of the term structure of the yield curve.
- India's CPI inflation for April 2025 eased to 3.15%, the lowest since July 2019, with food inflation declining to 1.78%. A significant portion of the decline in food inflation was attributed to a decrease in the prices of vegetables and pulses.
- The RBI also announced a dividend of Rs 2.69 lakh crore, which was above the budgeted amount but below the street expectations of Rs 3 lakh crore.
- The US 10-year Treasury remained unchanged by around 25 bps to close at 4.40%. The tax cuts announced, along with the widening fiscal deficit, led to the hardening of US yields.
- The Rupee had one of its worst-performing months, depreciating by around 1.25% against the US dollar and almost depreciating against a basket of major currencies.

Source: Bloomberg

WHAT NEXT?

Economy Check

- India's core sector (eight key infrastructure industries) rose a minuscule 0.8% in April 2025 against a 4.6% increase reported in March 2025. The growth in April was led by the cement sector (6.7%), followed by coal (3.5%), steel (3%) and electricity (1%). However, output declined in crude (2.8%), refinery products (4.5%) and fertilisers (4%).
- India's GST collections reached a record high of Rs 2.01 lakh Crore in May 2025 versus a 2.37 lakh crore in April, marking a 16.4% increase over last year. The year-on-year growth was driven by a 25.2 per cent increase in GST collected from imports and a 13.7 per cent rise from domestic transactions.

Source: Ministry of Finance/Bloomberg

Markets

- The interesting aspect was that net institutional buying (both DII and FPI as net buyers on the day) was approximately Rs. 27.5 billion. A move of nearly 4% in markets, driven by small net institutional buying, conveys the extent of leveraged participation in markets and remains a red flag for leveraged liquidity that may create sharp swings on either side.
- Global markets also remained resilient during the month, with the S&P up 6% and the Nasdaq up 9.6%. Even European & Chinese markets ended higher between 2-5%.
- Among the Nifty sectoral indices, Nifty Metal and Nifty Realty outperformed while FMCG & Pharma underperformed Nifty.
- Domestic Investors: Net flows for April'25, in core equity schemes declined to a one year low of Rs 245bn possibly due to some redemptions post the sharp rally from lows. Monthly gross SIP remains steady. Midcap inflows softened to Rs 33bn, and small-cap funds remained strong at Rs 40bn, slightly below March's Rs 41bn

Source: Bloomberg

Outlook

- On the global tariff front, China & US announced a rollback of impractical reciprocal tariffs with a 90-day window for further negotiations. This led to a significant relief rally in global markets, and we saw a ripple effect in India as well.
- The Nifty Defence index rallied above 20% on expectations of an increase in Indian government spending, as well as potential growth in export orders, following the demonstration of Indian military forces' capability in defence products.
- The recently completed Q4FY25 results proved to be better than expected, with the Nifty posting a 3% YoY PAT growth. The midcap indices fared relatively better reporting 29% growth while small caps posted a 7.4% growth. Midcaps benefitted from a very low base of 1% growth in Q4FY24. Net NSE500 earnings growth for Q4FY25 came in at 7.4% growth. For FY25, Nifty posted an eps growth of 1%YoY for FY25 with NSE500 earnings growth of 7% and Midcap & Smallcap indices posting an eps growth of 22% and 18% respectively. Despite strong Q4 we may continue to see earnings cuts across segments as tariff fears weigh on economy.
- Markets have rebounded well from the March lows, and valuations in some segments of the market are back in the expensive zone. We continue to prefer large caps, with selective exposure to mid- and small caps. The flows still remain driven towards small and mid-caps.
- Asset allocation remains crucial for investors on their journey to wealth creation. The allocation applies to both equity as an asset class and the choice of market capitalisation within equities. From an investor's perspective, we believe that, as a group, large caps may offer better value, and a margin of safety compared to microcaps, small caps, and mid-caps. The risk to large caps remains due to further selling by FPIs, as they primarily own large caps.
- Investors with near-term objectives or a low-risk appetite may opt for Equity Hybrid Funds or asset allocation funds. Investors with a longer-term horizon may continue to remain invested, aiming to allocate fresh equity towards large caps.

Source: Internal Research

SUMMARISING OUR THOUGHTS

- The Monetary Policy Committee (MPC) held on 6th June 2025 had bold outcome and was unexpected on multiple fronts. The RBI delivered a major policy move, surprising markets with a 50bps repo rate cut, a 100bps CRR cut, and a shift in policy stance from 'accommodative' to 'neutral'.
- This proactive stance clearly signals a pivot from stimulus withdrawal to enabling broad-based economic growth- essentially handing over the baton to banks, households, and private enterprises to drive the next phase.
- The RBI has frontloaded its policy toolkit with a strong pro-growth signal, despite limited monetary headroom. The focus now seems to shift to transmission and execution—by lenders, consumers, and corporates. With liquidity tailwinds and a supportive macro environment, India's economy appears well-placed to step onto a higher growth orbit.
- While the Trump tariff has created uncertainties around the market direction; usually such uncertainties might lead to softening of US rates as market participants seek the safety-first approach. However, with higher US fiscal deficit, it may make bond investors in US cautious.
- Our portfolio strategy has remained unchanged across our duration-oriented funds as we continue a neutral approach vis a vis the peer set (but higher duration versus index) and a Bias towards Gilts which will gradually shifting towards credits.
- We also believe that as credit spreads remain healthy, corporate bonds merit a gradual look into the portfolio.

Source: RBI Monetary Policy Committee/Internal Research

From the CIO Desk...

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