

VOLATILITY PERSISTS AMID GLOBAL AND DOMESTIC DEVELOPMENTS LONG-TERM TRENDS REMAIN IN FOCUS

May was a month of heightened volatility and shifting macro signals, as geopolitical tensions, rising crude prices, and FPI outflows weighed on sentiment even as domestic fundamentals remained resilient. While large caps saw pressure, mid and small caps continued to outperform, supported by strong earnings momentum. The RBI maintained a measured pause with a neutral stance, alongside proactive steps to attract global capital, reinforcing long-term stability. With global uncertainties persisting, disciplined asset allocation, staying invested with the suitable diversification and focusing on quality-oriented investments becomes key to navigating the evolving market landscape.

Source: Internal Research

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- **PM Modi Flags Global War Impact, Calls for Restraint and Self-Reliance:**

Mr. Modi in his speech to the nation highlighted the severe economic and energy risks for India, urging citizens to reduce fuel consumption, avoid non-essential foreign travel and gold purchases, and revive Covid-era practices like work-from-home—emphasising collective responsibility to conserve foreign exchange and cushion the economy from global disruptions. Government also announced an increase in basic **customs duty on gold and silver** imports to 10% from 5% earlier. Meanwhile, retail prices of **petrol and diesel prices** have been increased by Rs7.5/litre as of May 2026 end.

- **IMD forecasts for El Nino**

IMD retained its forecast for a below-average monsoon rainfall in 2026, with the warning that the El Nino weather pattern is likely to develop during June and July.

■ **FY26 ends with strong earnings beat this quarter**

Q4FY26 results have been inline to marginal beat versus estimates. Nifty earnings growth at ~4.5% and large cap at 7.7% looks muted. However, Mid and small cap indices showing very strong growth of ~39% and 21% resp. For FY27, we are seeing Nifty EPS growth estimates ~ 14%-15% EPS growth and it has seen a 1-2% cut. Mid and small cap earnings growth expectations is 16% and 23% respectively.

■ **West Asia Conflict - Mr. Donald Trump's Policy Stance**

West Asia ceasefire flip-flop has kept crude volatile through the month. President Trump outlines strict truce conditions and rejects initial proposals, prolonging geopolitical volatility and keeping energy markets on edge. Even the global bond yields are higher increasing the pressure from inflation.

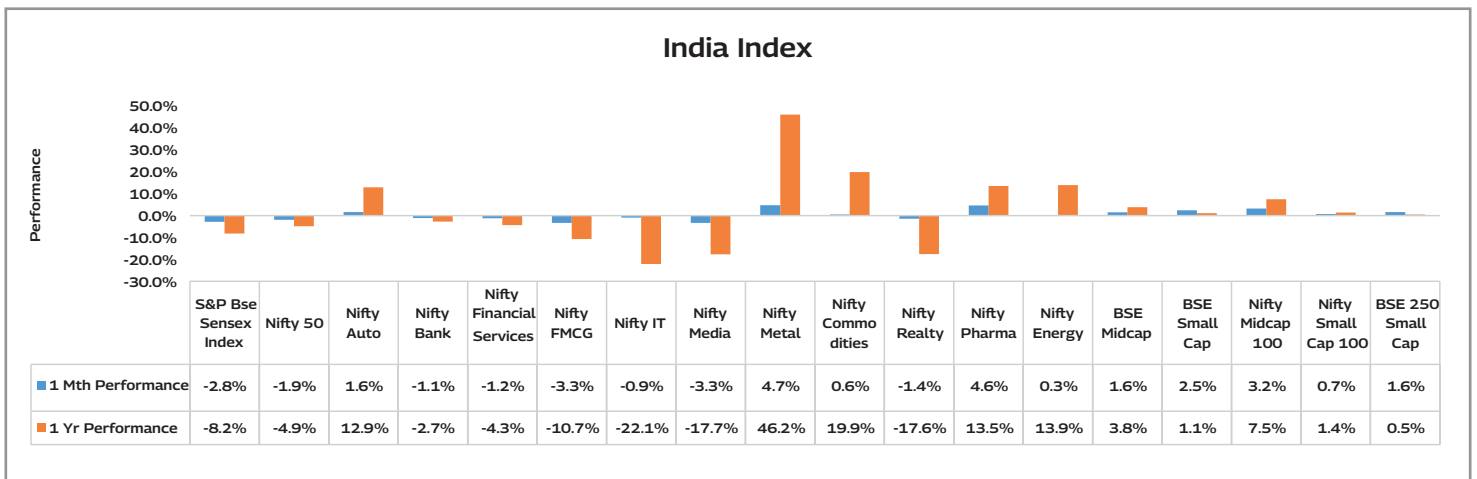
Source: Bloomberg

WHO MOVED MARKETS

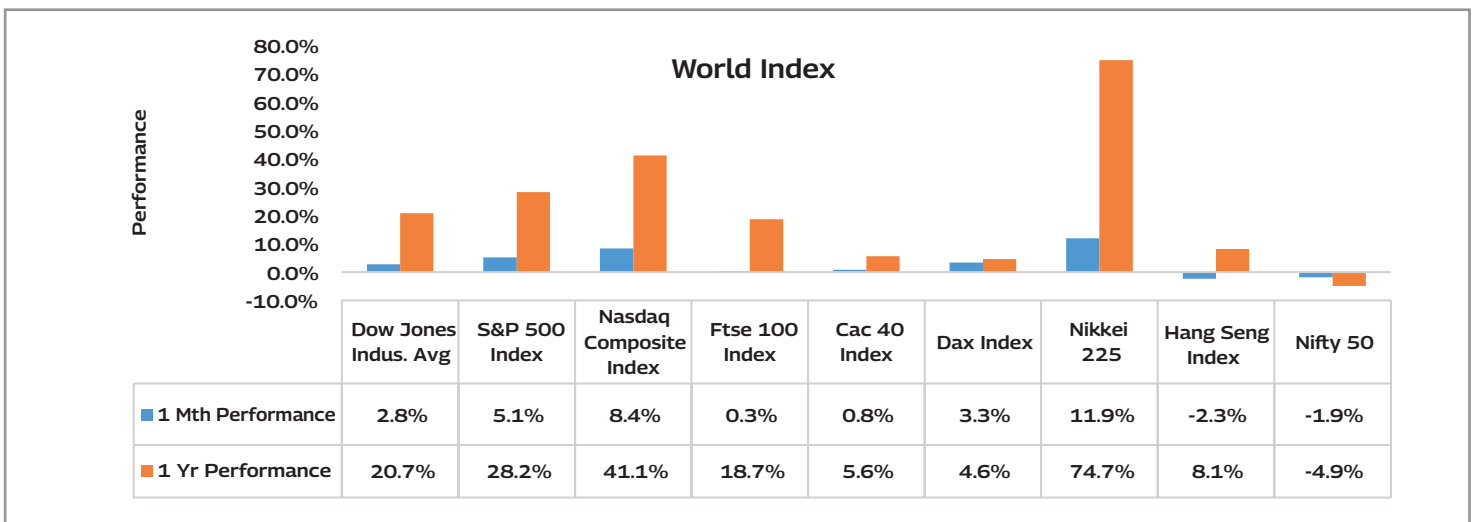
- FPIs sold approx. \$5bn in the month of May despite the continuous sell down since March. MSCI (Morgan Stanley Capital International) rebalancing at end of the month also led to a big dent in the flows.

Source: Bloomberg

MOVERS & SHAKERS



Source: Bloomberg; Data as of May 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	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Nifty 50	3.5	1.7	3.1	-2.9	-1.4	0.8	4.5	1.9	-0.3	-3.1	-0.6	-11.3	7.5	-1.9
Nifty Midcap 100	4.7	6.1	4.0	-3.9	-2.9	1.4	5.8	2.0	-0.9	-3.4	1.2	-10.9	13.6	3.2
Nifty Small Cap 100	2.2	8.7	6.7	-5.8	-4.1	1.9	4.7	-3.0	-0.6	-4.7	0.3	-10.2	18.4	0.7

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 May 2025 until May 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.**

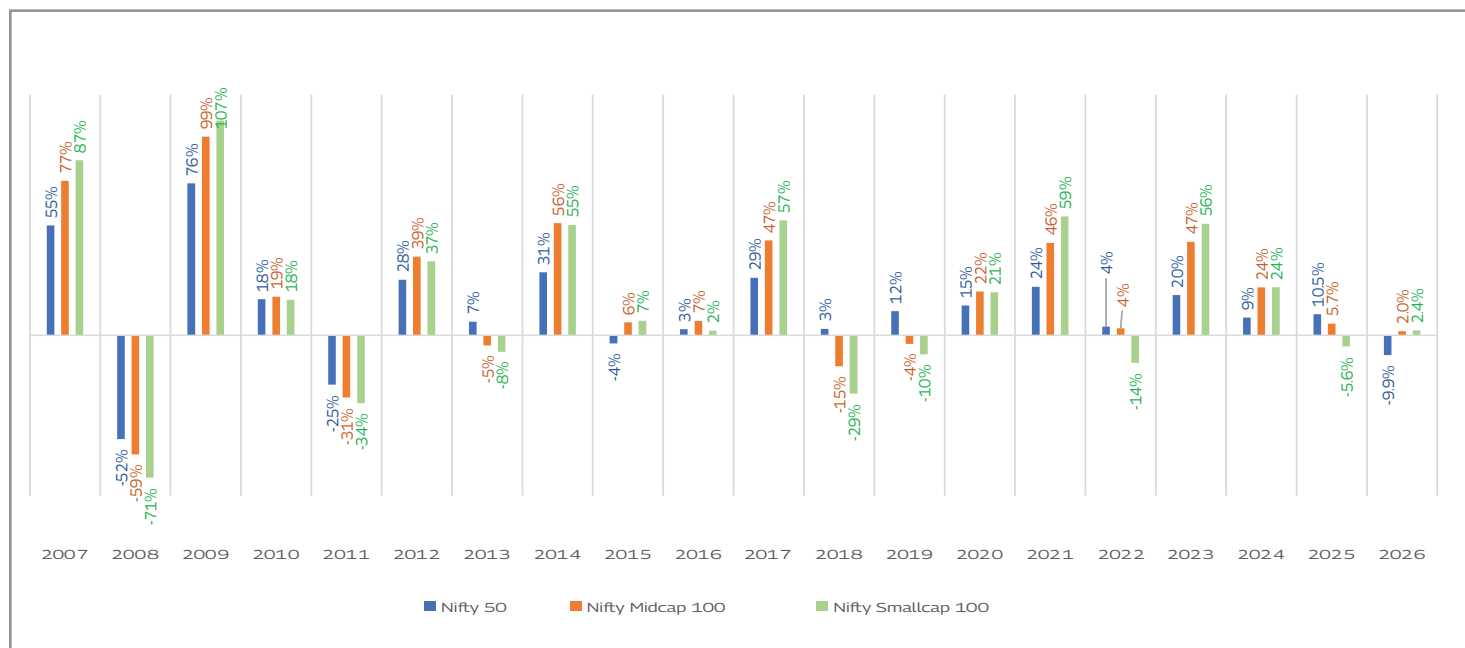
Source: Bloomberg Data as of May 2026
Data during the period of May 2025 to May 2026.

Indices	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Nifty Auto	4.8	4.6	2.3	-0.9	5.5	6.3	1.0	3.6	1.5	-5.1	5.3	-15.6	9.0	1.6
Nifty Bank	6.8	1.2	2.8	-2.4	-4.1	1.8	5.7	3.4	-0.3	0.0	1.5	-16.9	9.1	-1.1
Nifty Financial Services	4.1	1.5	2.5	-1.9	-4.1	1.8	4.3	2.8	-1.0	-1.0	2.0	-15.6	9.1	-1.2
Nifty FMCG	5.3	-2.1	-0.7	1.7	0.6	-2.5	2.7	-1.1	-0.2	-7.7	-0.1	-11.0	12.2	-3.3
Nifty IT	-3.0	4.3	4.4	-9.4	-0.3	-4.3	6.1	4.7	1.3	0.4	-19.5	-5.0	1.0	-0.9
Nifty Metal	-5.6	7.1	3.7	-2.6	-1.4	9.6	5.7	-3.0	8.5	5.9	3.5	-9.0	15.2	4.7
Nifty Realty	4.1	7.2	3.9	-7.5	-4.6	-0.4	9.2	-4.7	-2.8	-10.8	-0.3	-16.6	21.9	-1.4
Nifty Pharma	3.0	-1.5	2.8	3.3	-4.2	-1.6	3.4	3.7	-1.2	-4.4	5.7	-3.1	4.7	4.6
Nifty Energy	2.0	4.8	1.9	-4.0	-4.2	4.0	3.6	-2.0	-0.6	-0.5	5.4	-5.9	17.0	0.3

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 May 2025 until May 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 May 2025 to May 2026

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT



Source: - MFI, 31st May 2026 YOY- Dec

Data period: January 1, 2007, till May 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	31-May-26	30-Apr-26	31-May-25
RBI Repo Rate %	5.25	5.25	6.00
5Y AAA PSU %	7.86	7.74	6.90
1 year CD %	7.83	7.27	6.55
10Y Gsec %	7.00	7.02	6.29
CPI (%)	3.48	3.48	3.03
IIP (YoY) %	4.10	4.10	1.90
US 10Y %	4.44	4.37	4.40
Dollar Rupee	95.00	94.92	85.58

Source: Bloomberg; Data as on May 31, 2026

THE FIXED INCOME GLANCE

- A persistent high crude environment, elevated commodity prices, rising US interest rates, and a weaker rupee contributed to a challenging environment for fixed income India markets in April 2026, largely driven by imported inflation concerns, currency pressures, and reduced monetary policy flexibility. While the 10-year benchmark yield remained broadly stable at around 7%, some pressure was observed at the shorter end of the yield curve. The 5-year AAA corporate bond yields increased by approximately 15–20 basis points (bps), with credit spreads widening to around 90 bps. Money market rates also moved higher, with 1-year Certificate of Deposit (CD) rates issued by banks increasing by approximately 50–60 bps during the month.
- On the macro front, India's CPI inflation (new 2024 base series) for April 2026 printed at 3.48%, with food inflation at 4.20%.
- The Indian rupee against USD came under immense pressure during the month and almost weakened to 97 before appreciating back to close around 95; broadly unchanged from the April close.
- The Monetary Policy Committee (MPC) in a unanimous decision chose to hold rates unchanged, keeping the repo rate at 5.25%, Standing Deposit Facility (SDF) at 5.00% and Marginal Standing Facility (MSF) / Bank Rate at 5.00%.
- In our opinion, by retaining a neutral stance, the RBI has kept its options open, signalling that future actions will depend on how inflation and growth evolve.
- Further, the policy represents a measured pause rather than a decisive shift—the RBI is waiting for more clarity on global shocks, inflation trends, and domestic conditions before taking its next step.

Source: RBI

Special Update: RBI in Action - Monetary Policy Committee Takes Steps to Attract Foreign Capital**RBI announced the following measures aimed at boosting capital flows:**

1. Expansion of the Fully Accessible Route (FAR) to longer-tenor G-secs (15Y, 30Y, 40Y) and removal of FPI investment restrictions.
2. Non-Resident Indian (NRI), Overseas Citizen of India (OCI), and Person Resident Outside India (PROI) participation in equities has been liberalised.
3. On the external front, 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.
4. Restoring export realisation proceeds to nine months.

This may lead to potential inclusion in the Bloomberg EM Bond Index, resulting in capital inflows.

Additionally, the Government of India via Income-tax (Amendment) Ordinance, 2026, grants a full exemption on capital gains and interest income for FPIs and Bureau of Indian Standards (BIS) investing in government securities (including SDLs). This effectively removes earlier tax hurdles such as the 12.5% long-term capital gains tax and 20% interest withholding—making Indian G-secs significantly more attractive on a post-tax basis and enhancing their appeal to global investors

Category	Key Points	Impact
MPC Decision	Repo unchanged at 5.25%; neutral stance	Signals pause; data-dependent policy
Outlook	FY27 (projected) GDP at 6.6% vs 7.6% in FY26; FY27 (projected) CPI at 5.1%; peak 5.9% in Q3FY27	Moderation due to global commodity cost pressures coupled with rising risks from oil, supply shocks, monsoon
RBI Measures	FAR expansion; FPI limit removal; ECB/FCNR support	Boosts foreign inflows; deepens bond markets
Gov Measures	Tax exemption on G-sec income for FPIs/BIS	Improves post-tax returns; attracts stable capital
Market Impact	INR, G-secs, credit markets	INR stabilisation; long-end bond demand; better external funding for PSUs

WHAT NEXT?



Economy Check

India Economy

■ GST collections for May

India's gross GST collections moderated to ₹1.94 lakh crore in May 2026, rising barely 3.2% YoY, leading to sharp moderation for the month. Growth was driven by **19% YoY increase in import-related GST**, while **domestic GST revenues declined 2.6%**; after refunds of ₹27,281 crore, net GST collections stood at **~₹1.6 lakh crore, up 3.3% YoY**.

- Index of Industrial Production (IIP) grew by 4.9% yoy in April 2026 vs 4.1% in March 2026 marking an improvement MoM. Mining contracted 5.1% YoY, Manufacturing output rose 6.2% YoY, while electricity and gas supply grew 4.9% growth. Capital goods grew 16% Yoy, Infrastructure & construction goods grew 7% and consumer durables grew 4.3%.
- **CPI rose 3.48% YoY in April similar to March levels**. Food inflation increased to 4.2%, while housing inflation stayed at 2.1%. Inflation in gold, silver stayed elevated. However, thing to be noted is WPI came at 8.3% which is symbolic of the high cost of inflation of goods and will eventually flow into CPI as price hikes are taken.

Source: Internal Research

Markets

- Volatility just doesn't seem to end. After, resounding victory celebration in West Bengal elections, Nifty rebounded to a high but eventually gave up the gains to end 1000 points lower for the month. Nifty was down ~2%, Midcap index was up 3% and Small cap index was flat.
- Global markets continue to be very strong despite the ceasefire flip-flop as global Data Centre and AI theme continues to gain strength. US indices up 3% - 8% while the European markets were flat. South Korea, Taiwan and Nikkei all made new highs as they were up by 28%, 15% and 12% respectively as semicon theme continues to do well. Hangseng is underperforming Asian markets as its down 2%.
- Among the sectoral indices, Metals and Power were the best performing while FMCG and Media became the worst performing for the month.
- Domestic Flows: Active equity funds flows saw a decline from March to ₹38,400 Crore. Gross SIP flows slowed marginally in April 2026 at ₹31,100 Crores. Mid & Small-Cap inflows were strong at ₹6500Cr and ₹6800Cr respectively.

Source: Bloomberg Data as of May 2026

Outlook

- Mr. Trump's announcements on ceasefire for West-Asia war keep markets on edge and lead to volatility in crude prices. Supply of crude is yet patchy and the risk of escalation at any time keeps the geopolitical uncertainty high. PM Modi's plea to citizens to control their energy use and forex spends led to a risk-off in markets on the fear that a Covid-like situation is possible.
- Government's duty on gold and silver, increase in prices of petrol, diesel, urging corporates to work from home all are measures in the right direction. There is also a belief that the finance ministry could announce measures to boost FII capital inflows to stabilize the INR.
- FY26 earnings growth have ended well for mid and small cap indices and FY27 earnings growth is estimated to be strong for Nifty, Mid and small cap indices as well. However, with the surging commodity costs and logistics issues H1FY27 results may be impacted and we could build a stronger H2FY27.
- We believe asset allocation remains key for investors in their journey of wealth despite the uncertainties. The allocation is applicable to both equity as an asset class as well as choice of market capitalization within equities. From investors perspective, we continue to believe as an aggregate, large cap offers better value and less volatility as compared to micro caps & small caps & mid-caps. In our view, 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 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

SUMMARISING OUR THOUGHTS



- We believe that Credit spreads looks attractive at these levels and our portfolios have a bias towards quality credits
- We also think that we are approaching a point of time where we start building duration to our portfolios
- We have a bias towards long end papers (30 years) in our Dynamic bond fund
- We intend to move towards a neutral bias on interest rates across our portfolios

Source: Internal Research

From the CIO Desk...



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CIO - Equity



Mr. Rahul Pal
CIO - Fixed Income

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SEBI Registered Name: Mahindra Manulife Mutual Fund

SEBI Registration Number: MF/069/16/01