

RBI front loads cut to give the economy a push

June, 2025



- ◆ Indian equity indices continued to rise at a strong pace in June 2025 in-line with global markets, with BSE Sensex and NSE Nifty gaining 3.0% / 3.4%, respectively.
- ◆ Broader markets continued their strong upward trend with NSE Midcap index gaining 4.1% and BSE Smallcap index gaining a 4.4% for the month.
- ◆ IT was the best performing sector followed by Healthcare and Realty. Oil & Gas and Metals performed in-line with the Nifty. Auto, Power, Capital Goods and Banks were also positive but underperformed the Nifty. FMCG delivered small negative returns in June.



Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	130584	3.0%	7.8%
Nifty 50 TR	38217	3.4%	8.7%
BSE 200 TR	14907	3.5%	6.8%
BSE 500 TR	47447	3.7%	5.9%
NSE Midcap TR	27873	4.1%	4.3%
BSE Smallcap TR	67817	4.4%	-0.7%
NSE Large & Midcap 250 TR	21413	3.8%	5.9%
BSE India Infrastructure Index TR	882	2.9%	2.1%
MSCI India USD	1084	3.2%	5.9%
MSCI India INR	3016	3.4%	6.0%
INR - USD	85.8	0.2%	0.2%
Crude Oil	68	5.8%	-9.4%

Global Market Update

MSCI World index also saw a strong rally of 4.2% in June. This was led by US (S&P 500) rising 5.0% while MSCI Europe rose 2.0% and MSCI Japan rose 1.6%. MSCI EM also rose 5.7% supported by a 3.1% rise in MSCI China. Crude oil also rose 5.8% in June but is still down 9% for the year.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	4,026	4.2%	8.6%
Dow Jones	44,095	4.3%	3.6%
S&P 500	6,205	5.0%	5.5%
MSCI EM	1,223	5.7%	13.7%
MSCI Europe	2,417	2.0%	20.7%
MSCI UK	1,421	1.2%	16.7%
MSCI Japan	4,345	1.6%	10.5%
MSCI China	74	3.1%	15.5%
MSCI Brazil	1,476	7.2%	25.5%



- ◆ Both domestic and FII flows were supportive in June. FIIs invested US\$2.4 bn into Indian equities while DIIs invested US\$8.5 bn. Domestic MFs invested US\$5.0 bn while insurance inflow was US\$3.5 bn.
- ◆ RBI reduced the repo rate by a larger-than-expected 50 bps to 5.50% and shifted its monetary policy stance to neutral. It also announced plan to reduce CRR by 100 bps to 3.0%, in four tranches of 25 bps each between September and November this year.
- ◆ RBI maintained its GDP growth expectation for FY26 at 6.5% (YoY).
- ◆ CPI slowed to an extremely low level of 2.8% (YoY) in May from an already soft 3.2% (YoY) in April due to continued softness in food price inflation. Core-core inflation (i.e. core inflation ex petrol and diesel) at 4.3% (YoY) in May remained similar to 4.4% in April.
- ◆ Industrial production growth (IIP) slowed to 1.2% (YoY) in May from 2.7% (YoY) in April.
- ◆ Gross GST revenue collection was Rs 1.85 tn in June 2025, up only 6.2% (YoY).

Valuations

Nifty consensus EPS estimate for CY25/26 saw a cut of 2% during Jun. This along with the market recovery, Nifty now trades on 20.8x 1-year forward PE. This is now 7% above with its 5-year average and a ~15% premium to its 10-year average. Valuations in Midcap and Smallcap space have also recovered following the sharp rally over the last few months.

Macro View

In our view, global macro environment remains challenging with heightened geo-political and economic uncertainties. Announcement of reciprocal tariffs by the US administration could significantly impact US and global growth outlook, if the tariffs stay in place. For India, GDP growth has further accelerated to 7.4% (YoY) in Q4FY25. We believe government has tried to partly address the slowdown in private consumption through the income tax rate cuts in the Union Budget. While government capex is moderating, private capex may take time to recover given global uncertainties. RBI is now trying to aggressively ease policy rates and boost liquidity. With USD weakening and decline in crude prices the room for easing has increased further. Forecast of an above normal monsoon is also a positive for rural demand.

Outlook

We believe growth cycle in India may be bottoming out. Interest rate and liquidity cycle, decline in crude prices and normal monsoon are all supportive of a pick-up in growth going forward. Although, global trade related uncertainty remains a headwind to private capex in the near term, we expect India's investment cycle to be on a medium-term uptrend supported by government investment in infrastructure and manufacturing, pickup in private investments and a recovery in real estate cycle. We expect higher private investments in renewable energy and related supply chain, localization of higher-end technology components, and India becoming a more meaningful part of global supply chains to support faster growth. Post the recent rally, Nifty valuations are now at a premium to its 5/10-year average. We remain constructive on Indian equities supported by the more robust medium term growth outlook.



Key Drivers For Future

On the headwinds, we have

Weak global growth is likely to remain a headwind on demand going forward.

Global policy uncertainty: Risk of tariffs and general policy uncertainty, mercantilist policies of certain countries and geo-political conflicts are likely to be a headwind to private investments.

Other factors / risks: Sharp slowdown in government capex.

We see the following positives for the Indian market:

Recovery in private capex: Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for increase in private capex going forward. Also, continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors. We also expect higher private capex in renewable energy.

Supportive real estate cycle: Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. Demand trends in top metro cities remain strong and inventory levels have declined.

Global commodity prices: Benign global prices of crude oil and fertilizers has been a positive for India from inflation, fiscal deficit and corporate margins perspective in FY24-25.

Note: Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD return for global indices. Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

Source: Bloomberg, MOSL & HSBC MF estimates as on June 2025 end or as latest available.

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