GDP growth delivers a positive surprise

May, 2025

- Indian equity indices continued to rise steadily in May 2025 supported by strong domestic and foreign inflow with BSE Sensex and NSE Nifty gaining 1.7%/1.9%, respectively.
- Broader markets saw a sharp jump with NSE Midcap Index gaining 6.0% and BSE Smallcap Index gaining a whopping 10.6% for the month.
- Capital Goods was the best performing sector followed by Realty, Metals, IT and Autos. Power and Oil & Gas performed in-line with the Nifty index. Healthcare and Banks were also positive but underperformed the Nifty. FMCG delivered small negative returns in May.

Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	1,26,804	1.7%	4.7%
Nifty 50 TR	36,973	1.9%	5.2%
BSE 200 TR	14,408	2.7%	3.2%
BSE 500 TR	45,762	3.5%	2.1%
NSE Midcap TR	26,763	6.4%	0.1%
BSE Smallcap TR	64,968	10.6%	-4.9%
NSE Large & Midcap 250 TR	20,637	4.3%	2.1%
BSE India Infrastructure Index TR	857	5.0%	-0.8%
MSCI India USD	1,051	1.1%	2.6%
MSCI India INR	2,916	2.4%	2.6%
INR - USD	85.6	1.3%	0.0%
Crude Oil	64	1.2%	-14.4%

Global Market Update

MSCI World index also saw a strong rally of 5.7% in May as market shrugged off worries related US tariffs. This was led by US (S&P 500) rising 6.2% while MSCI Europe rose 3.8% and MSCI Japan rose 4.0%. MSCI EM also rose 4.0% supported by a 2.4% rise in MSCI China. Crude oil remained subdued, up only 1.2% after its sharp 15% decline in April.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	3,863	5.7%	4.2%
Dow Jones	42,270	3.9%	-0.6%
S&P 500	5,912	6.2%	0.5%
MSCI EM	1,157	4.0%	7.6%
MSCI Europe	2,371	3.8%	18.4%
MSCI UK	1,403	3.8%	15.3%
MSCI Japan	4,276	4.0%	8.8%
MSCI China	72	2.4%	12.0%
MSCI Brazil	1,377	-0.2%	17.1%

- Both domestic and FII flows were supportive in May. FIIs invested US$1.7 bn into Indian equities while DIIs invested US$7.9 bn. Domestic MFs invested US$5.8 bn while insurance inflow was US$2.2 bn.
- India's GDP growth accelerated to 7.4% (YoY) in Q4 FY25 from 6.4% in Q3 FY25, well above expectations. The stronger than expected growth was led by higher fixed investment growth and a large contribution from net exports.
- April CPI remained soft at 3.2% (YoY) similar to 3.3% (YoY) in March due to continued softness in food price inflation. Core-core inflation (i.e. core inflation ex petrol and diesel) at 4.4% (YoY) in April remained similar to 4.3% in March.
- Industrial production growth (IIP) stood at 2.7% (YoY) in April down from 3.9% (YoY) in March.
- Gross GST revenue collection was Rs 2.01 tn in May 2025, up a strong 16.4% (YoY).

Valuations

Nifty consensus EPS estimate for CY26 saw a small downward revision of 1% during May. This along with the market recovery, Nifty now trades on 20.4x 1-year forward PE. This is now in-line with its 5-year average and a ~10% premium to its 10-year average. Valuations in Midcap and Smallcap space have also recovered following the sharp rally in May.

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 ease policy rates and liquidity conditions rapidly. With USD weakening and decline in crude prices the room for easing has increased further. Most economists now expect another 50 bps of rate cut from the RBI during the calendar year. 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 correction, Nifty valuations are now in-line with 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 May 2025 end or as latest available.

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