

# MONTHLY UPDATE

## MAY 2025



# Market Outlook

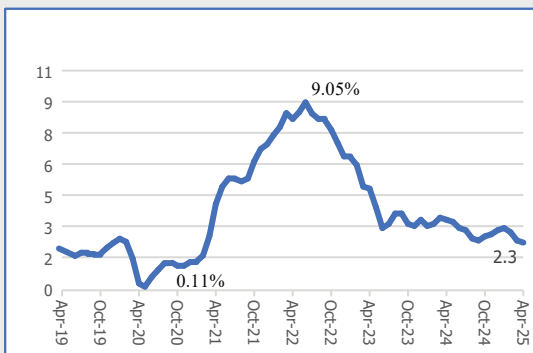
## HDFC Life – Monthly Update ( June 2025 )



### Global Macro Review

#### US CPI (%)

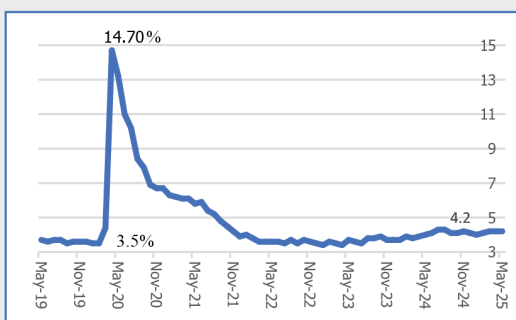
US CPI (%)



■ US CPI inflation eased to 2.3% YoY in April down from 2.4% YoY in previous month, showing that a broad disinflation trend is progressing at a modest pace. The downside surprise came from softer energy prices and lower than expected core goods inflation. The pass-through of tariffs into core goods was quite limited, though the rise going forward can not be ruled out.

#### US Unemployment Rate (%)

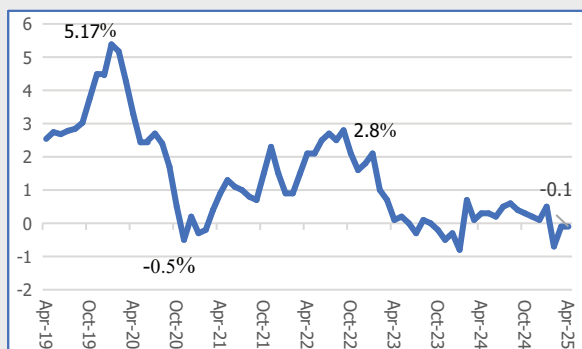
US Unemployment Rate (%)



■ US Non Farm payrolls printed at 139K in May, marginally above expectations of 126K, although it was lower than the 149K average witnessed over the last twelve months. Significant downward revisions were made to the March (-65K) and April (-30K) payrolls readings respectively that would suggest that a gradual deterioration in hiring is taking place. Private sector hiring was not broad-based as cyclical sectors saw a sharp fall. The unemployment rate remained steady at 4.2% in May, whereas the participation rate declined on a sequential basis to 62.4% showing that the supply of labour is softening. Though there are signs of weakness in hiring that is visible and could continue going forward, the full-effects of tariffs to the real economy remains to be seen.

#### China CPI (%)

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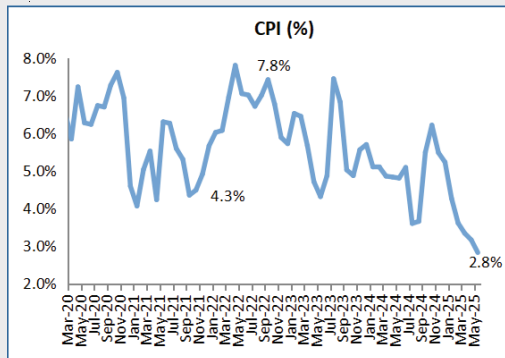


■ China's consumer prices continue to remain in deflationary zone as high frequency indicators showed that growth moderated, reflecting negative impulse from trade war. The higher relative US tariff structure on the Chinese economy will continue to work as a headwind, although uncertainty about the final structure remains in place.

## India Macro Review

### CPI Inflation %

CPI Inflation %

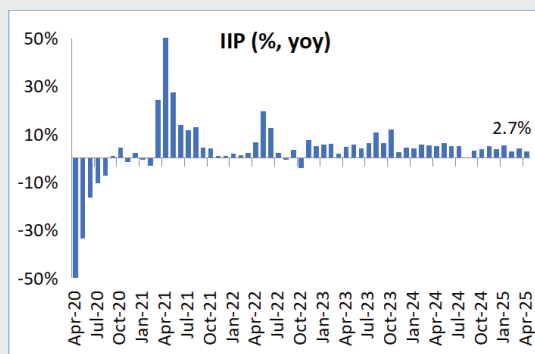


Source: MOSPI

- Inflation (CPI) for May'25 decreased to 2.8% vs. 3.2% in Apr'25 as food items inflation, which constitute 45.9% of the index, moderated to 1.5% in May'25 from 2.1% in Apr'25.
- Core CPI excluding food and fuel which constitutes 54% of CPI stood at 4.2% in May'25.

### Industrial Production Index (IIP)

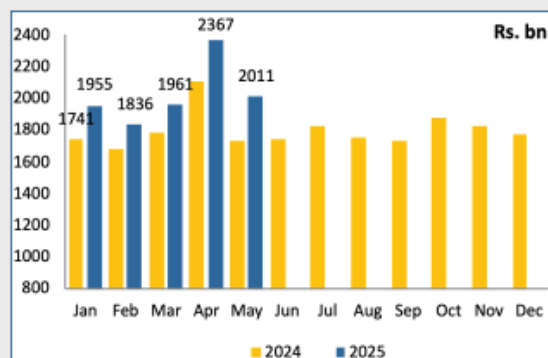
Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Apr'25 decelerated to 2.7% growth vs. 3.9% growth in Mar'25 as Manufacturing output slowed to 3.4% in Apr'25 vs. 4.0% in Mar'25. Electricity output fell from 7.5% in Mar'25 to 1.1% in Apr'25 and Mining output contracted by 0.2% in Apr'25.
- While the increase in the Industrial production index reflects the slowing momentum in production activities, monthly IIP numbers can be volatile and difficult to draw a trend from the same.

### GST Collection (Rs. bn)

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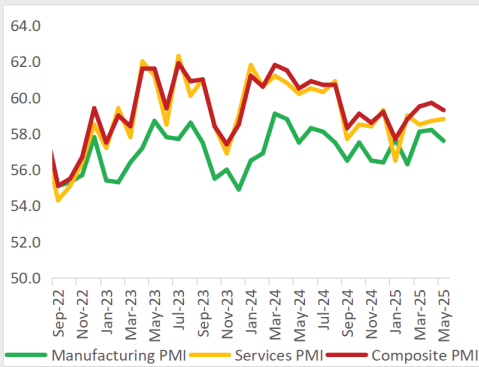


- GST revenues for the month of May'25 came to Rs. 2tn showing a 16.4% YoY increase vs. Rs. 1.7tn in May'24.

## India Macro Review

### PMI

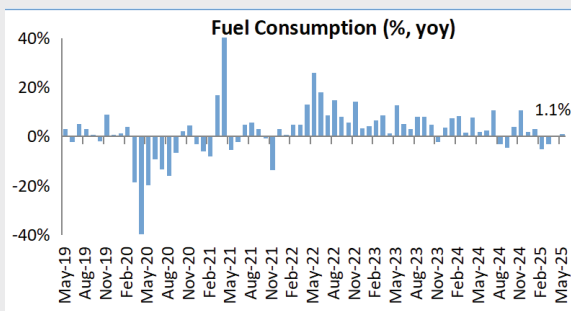
PMI



- PMI (manufacturing) decreased to 57.6 in May'25 vs. 58.2 in Apr'25. PMI (Services) inched up to 58.8 in May'25 from 58.7 in Apr'25. Notably, PMIs continuing in the expansion zone ( $\geq 50$ ) indicate the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

### Fuel consumption YoY Growth %

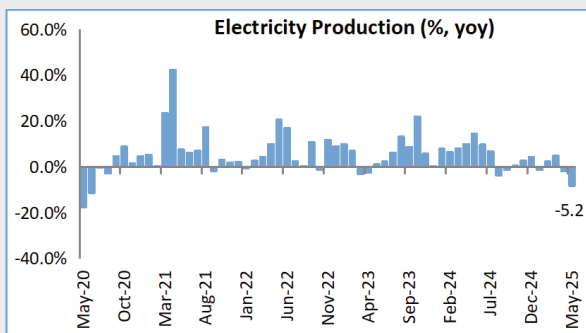
Fuel Consumption (% yoy)



- Fuel consumption was grew 1.1% yoy in May'25 vs. 0.0% yoy in Apr'25. Within fuel category, diesel consumption was marginaly up 2.2% yoy in May'25. However, Consumption for Petrol increased by 9.2% in May'25.

### Electricity Production YoY Growth %

Electricity Production (% yoy)

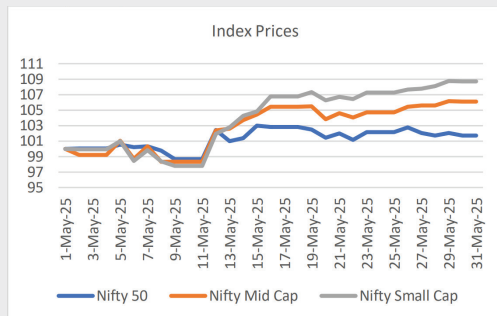


- Electricity production contracted by 5.2% YoY in May'25 vs. 1.8% YoY fall in Apr'25.
- Erratic rainfall across the country has led to the dip in electricity demand.

## Equity Outlook and Positioning

### Monthly Index performance

Monthly Index performance

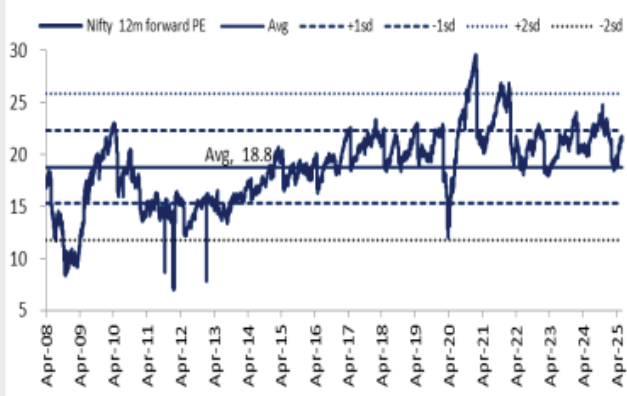


■ Equity markets were positive in May'25 with small cap indices outperforming midcaps and largecaps. Nifty 50 closed the month with a return of 2% while CNX Midcap Index gave a return of 6% and Small Cap at 9%..

■ Apart from FMCG, Banking, Consumer Durables and Healthcare sectors all the other major sectoral indices outperformed the Nifty 50.

### Nifty Valuation (1 year forward PE)

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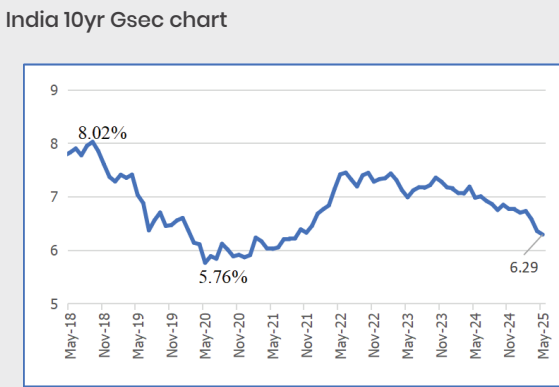
Source: Bloomberg

■ In the near term Indian markets seem to be stuck between (1) stiff valuations, domestic growth issues and global macroeconomic headwinds and (2) the hopes of a recovery in the economy and earnings. The near-term outlook for the equity markets looks uncertain and volatile. US tariffs negotiations with various trade partners are not yet settled and there is regular newsflow resulting in heightened volatility. This, along with recurring and ongoing geopolitical issues may have a resultant impact on flows and markets.

■ India is expected to be a net beneficiary in the medium to long term. India's exports to the US are a small percentage of India's GDP, and therefore, tariffs on India are expected to be relatively lower. The US wants a weaker Dollar versus the RMB and the Euro. This should drive flows towards emerging markets and India should stand out relatively. Earnings have been soft because of tight fiscal and monetary conditions in the past. However, both the RBI and the government have taken steps to address that. Indian markets trade at valuations of 19x FY27E P/E, which is higher than long term averages. Short-term challenges along with relatively higher valuations make us cautious in the short term despite having a positive view from a medium to long-term point of view.

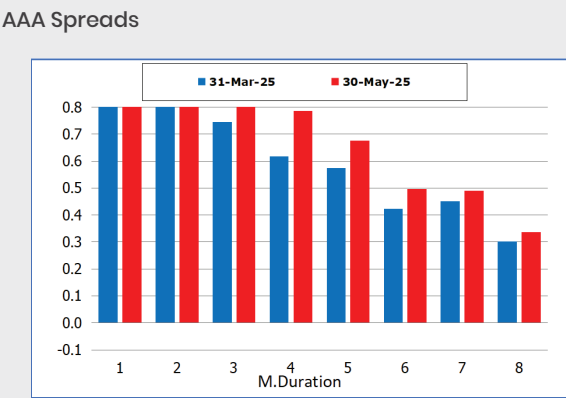
Debt Outlook and Positioning

India 10yr Gsec chart



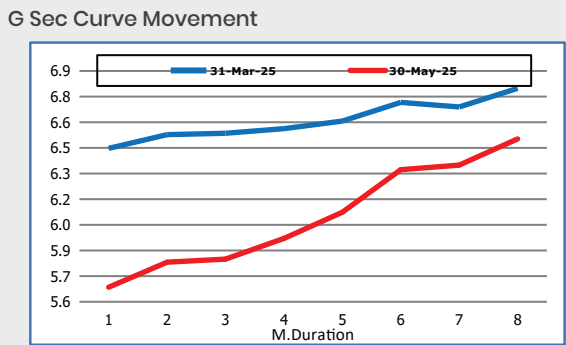
- The US Treasury yields moved up during the month on sharp rise in US fiscal deficit concerns. US 10 Yr Treasury bond yield moved in the range of 4.17%-4.58% and closed the month higher at 4.41% vs 4.16% in April.
- The FOMC in its recent policy, maintained status quo on rates, as expected. The current market expectations for rate cuts continues to remain at 50bp cut for the remainder part of the year. However, risk from Trump administration’s uncertain trade policy may continue to influence bond yields over medium term.

AAA Curve movement



- In India, the 10yr bond yield eased during the month on lower-than-expected Apr’25 inflation print and improving inflation outlook, declining crude prices, depreciating dollar and RBI’s aggressive OMOs. The 10-year G-sec yields moved in the range of 6.24%-6.35% rising as the war with Pakistan broke out and easing after the ceasefire was announced, finally closing at 6.29% vs 6.36% in April.
- RBI in its recent policy surprised the market with a jumbo rate cut of 50bps along with CRR cut of 100bps starting from September in 4 tranches. However, the MPC changed policy stance to ‘neutral’.

G Sec Curve Movement



- The front loading of rate cuts and change of stance to neutral implies that given the current growth inflation dynamics, the 100bps of rate cut in this cycle so far should support the RBI projection of growth at 6.5% for FY26 and any major deviation in terms of growth shock may open up space for further reduction in rates.



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