MONTHLY UPDATE
MAY 2026

25 YEARS Protecting India with Pride

HDFC Life

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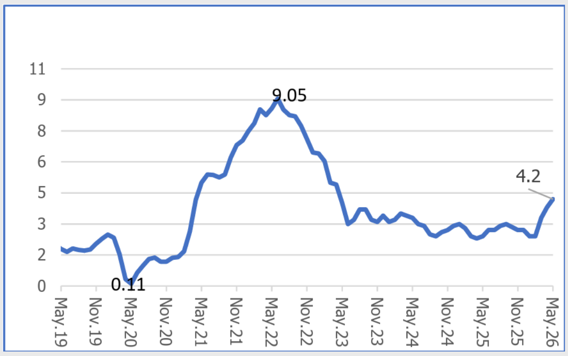
Market Outlook

HDFC Life – Monthly Update (June 2026)

Global Macro Review

US CPI (%)

US CPI (%)



- US CPI for May came in at at 4.2% YoY driven higher by elevated energy prices. On a sequential basis, prices rose by 0.5% MoM, though core inflation rose less than expected at 0.2% MoM. Overall the release shows lower passthrough than expected, which should give comfort to FOMC to retain neutral position in the upcoming policy.

US Fed Fund Rate (%)

US Unemployment Rate (%)

- The NFP employment rose above expectations in May adding 172K jobs vs. 88K expected, led primarily by private sector payrolls and local government hiring. The unemployment rate printed in line with expectations at 4.3% in May, explained by steady supply of labour participation rate remained unchanged at 61.8%. However, average hourly earnings rose to 0.3% MoM from 0.2% MoM in the previous month that resulted in 3.4% YoY rate. Overall, the release showed that the labour market remained resilient in May, even as concerns about the outlook, in terms of labour demand, remain. For the FOMC, the release confirms the case for a status quo in June.

China CPI (%)

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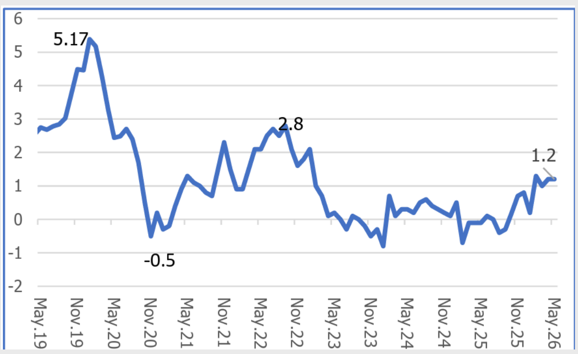

- China's CPI was steady at 1.2% YoY as high prices of fuel (+21% YoY) offset falling food (mainly pork) and rent. Core inflation fell 10bps. PPI (+3.9% YoY) rose again in May, driven by petroleum/natural gas and metals, though factory-gate prices for consumer goods are still falling and overall demand conditons remain muted. Markets expect continued support by the authorites to stablise growth in FY27.

India Macro Review

CPI Inflation (%)

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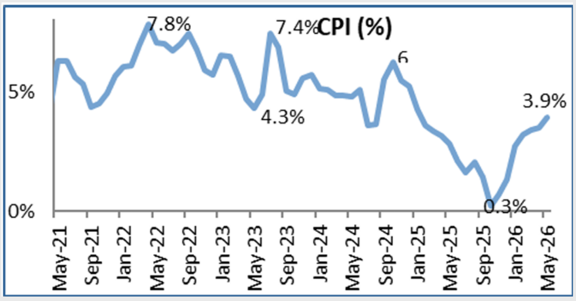

Source: MOSPI

- Inflation (CPI) for May'26 showed pick up to 3.9% vs. 3.5% in Apr'26 as food CPI stood at 4.8% in May'26 from 4.2% inflation in Apr'26.
- WPI inflation increased further to 9.68% in May'26 vs. 8.26% in Apr'26 - led by Fuel and Power (30.3%) and Manufactured products (7.48%)

Industrial Production Index (IIP)

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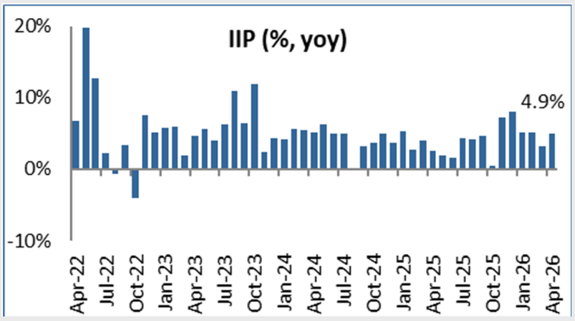

- Industrial Production (IIP) growth for Apr'26 picked up to 4.9% yoy vs. 3.2% yoy in May'26, due to pick up in in growth of Manufacturing output to 6.2% in Apr'26 vs. 3.9% in Mar'26 and Electricity and Gas output to 4.9% in Apr'26 vs. 4.4% growth in Mar'26. However, Mining growth contracted to -5.1% in Apr'26 vs. 2.5% fall in Mar'26.
- The increase in the Industrial production index reflects increasing momentum in production activities. However, monthly IIP numbers can be volatile and difficult to draw a trend from the same.

GST Collection (Rs. bn)

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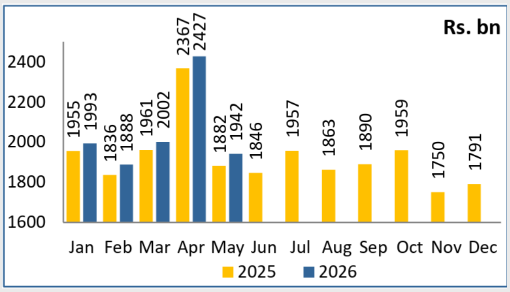
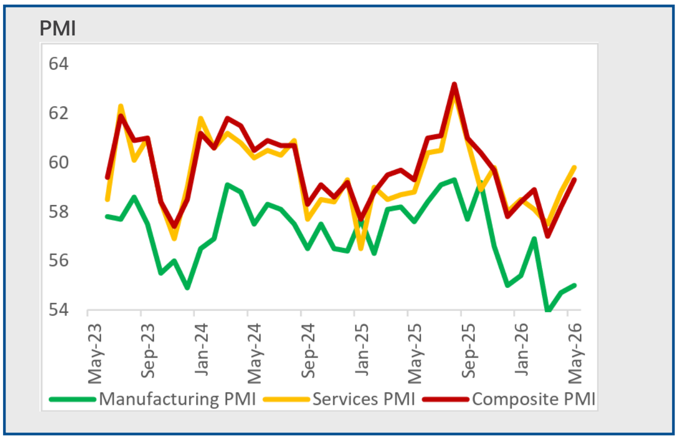


- GST revenues for the month of May'26 came to Rs. 1.94tn growing 3.2% YoY vs. Rs. 1.88tn in May'25.
- Within GST collection, growth was led by CGST at 5.5% yoy, followed by growth in SGST and IGST by 2.8% yoy and 2.6% yoy respectively in May'26.

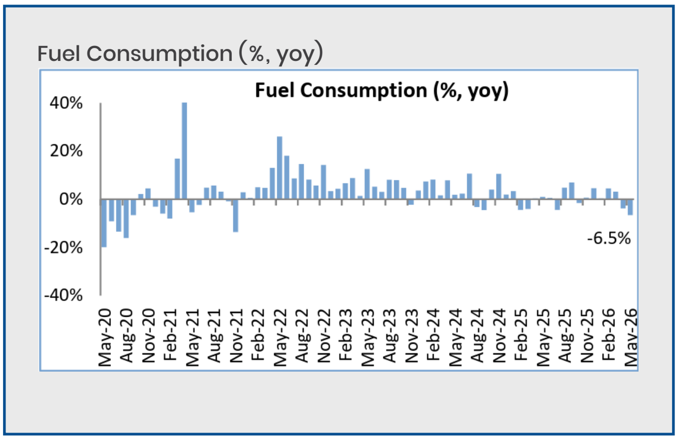
India Macro Review

PMI



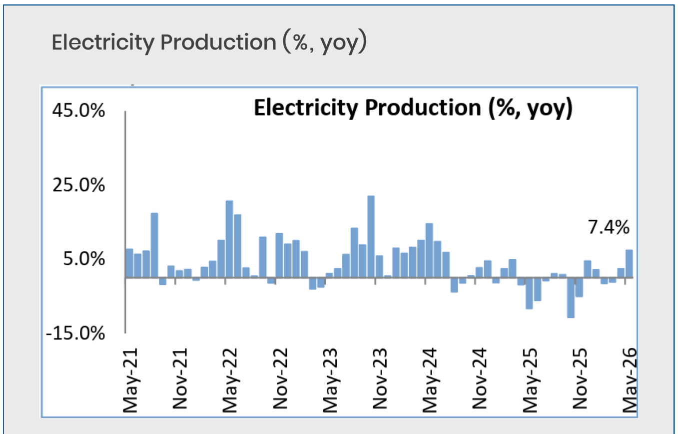
- PMI (manufacturing) picked up to 55 in May'26 vs. 54.7 in Apr'26. PMI (Services) also witnessed a pick-up to 59.8 in May'26 from 58.8 in Apr'26.
- Notably, PMI continuing in the expansion zone (>=50) indicates the continued strength in orders pipeline and production, despite a slowdown seen in exports.

Fuel consumption YoY Growth (%)



- Fuel consumption witnessed major contraction to 6.5% yoy in May'26 vs. 3.8% yoy fall in Apr'26. Within fuel category, petrol consumption growth slowed down to 3.4% yoy in May'26 vs. 6.8% yoy in Apr'26. Consumption growth for diesel however, witnessed a growth to 1.6% in May'26 vs.0.9% slowdown in Apr'26.

Electricity Production YoY Growth (%)

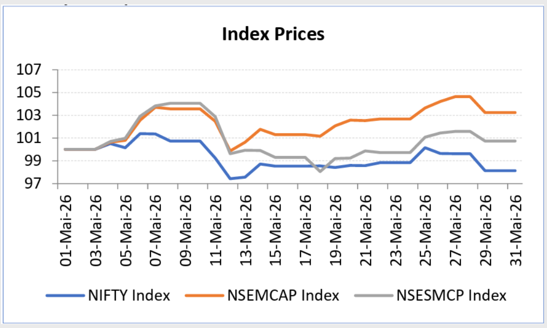


- Electricity production surged to 7.4% YoY in May'26 vs. 2.3% YoY pick-up in Apr'26.

Equity Outlook and Positioning

Monthly Index performance

Monthly Index performance



- After a strong start in April, broader market were largely flat in May. During the month, Nifty fell by 1.9%, BSE100 index declined 1.31% while the Midcaps had a strong outperformance over Largecaps with CNX Midcap Index moving up by 3.24%.
- Sectoral performance was mixed, with Healthcare sector (4.9%), Capital goods sector (4.7%) and Metals sector (3.7%) gaining the most while Oil & gas sector (3.4%) and FMCG (3.3%) declined the most. MSCI India index was down 0.6% during the month.

Nifty Valuation (1 year forward PE)

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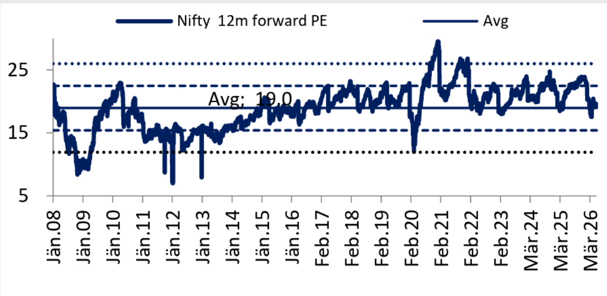

- The 4QFY26 earnings fared better than expectations; however, forward earnings revisions continue to exhibit weakness. The Nifty50 registered a modest 5% EPS growth in FY26 (following a 16%+ CAGR during FY20-25). Key factors driving recovery were improved credit growth, tax cuts, higher commodity prices and weaker exchange rate. However, the outlook still remains uncertain as the impact of west Asia crisis will weigh on profitability in FY27 with impact likely to be seen in 1HFY27 numbers. Also, the earnings expectations remains elevated with consensus forecasting high teens profit growth in FY27.
- Following India's sharp underperformance in FY26 and record FII outflows, a favorable base has been set for Indian equities. Also, measures by RBI to support INR are positive not just for the currency but also for the equity markets. While valuations at closer to 16x FY28 P/E (based on consensus expectations) have become more reasonable due to time correction, we remain watchful of the developments in the short term.

Debt Outlook and Positioning

India 10yr Gsec chart

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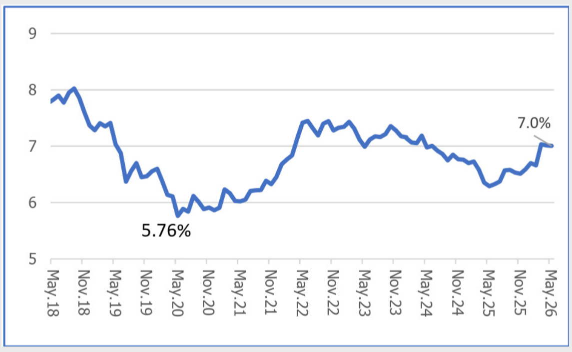
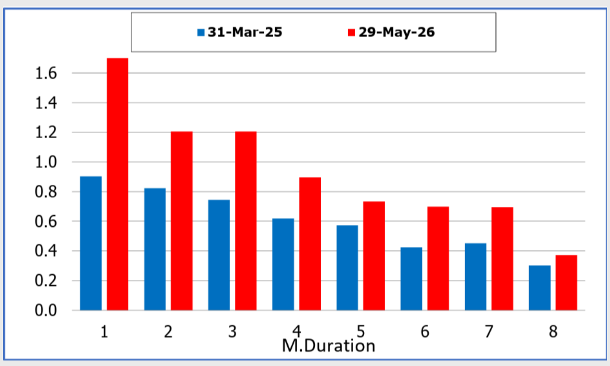


- The US 10 Yr Treasury bond yield (UST) rose further in May due to continued uncertainty from the Iran war, fiscal- inflation concerns and expectations of rate hikes. The UST 10 yr closed at 4.44% vs 4.37% in May.

AAA Curve movement (%)

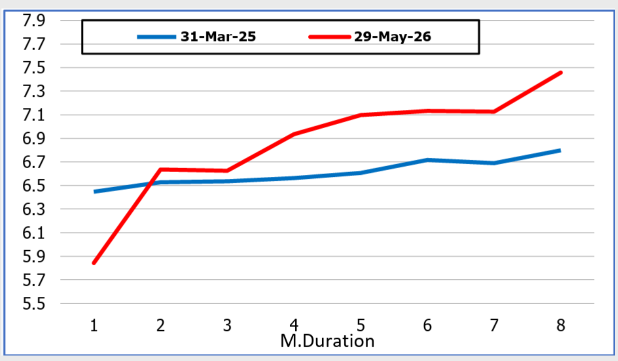
AAA Spreads



- In the June 26 policy, RBI kept the policy rates and stance unchanged, though inflation projection was revised upward to 5.1% vs 4.6% YoY for FY27 due to war uncertainty and El Nino concerns. RBI also revised its growth projection lower to 6.6% vs 6.9% YoY for FY27 largely due to higher crude prices and supply issues dampening activity. RBI in its policy also announced a slew of measure to attract foreign capital flows to alleviate pressure on INR. These measures should help to add some meaningful capital flows in the months ahead providing cap to INR depreciation and improving domestic liquidity.
- In India, the 10 yr G-sec yield traded within a narrow range during the month, driven by headlines around geopolitical tensions, crude prices, INR movements and FPI flows. Despite the rise in US Yields and oil prices, the 10 yr G-sec yield ended the month largely unchanged around 7.02%, supported by expectations of a favorable outcome from the RBI policy. withdrawing its support.

G Sec Curve Movement (%)

G Sec Curve Movement



- Despite the government's intervention to keep fuel prices stable and not passing the entire burden on the consumer, the direct and indirect impact of the elevated energy prices on inflation, are likely to be visible in the coming months. With expectation of a super El-Nino and a delayed monsoon, inflationary pressures will continue to keep the MPC vigilant. Apart from inflation, the Government's fiscal deficit is also likely to see some strain. Both these factors are expected to keep domestic bond yields from falling sharply due to the recent measures taken by RBI to support the INR.

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