

HDFC Bank – Research Presentation

May 2026

Risk profile-based asset allocation

Asset Class	Overall View	Asset Allocation		
		Aggressive	Moderate	Conservative
Equity Funds	▲	75%	55%	25%
Debt Funds	◆	20%	40%	70%
Gold	◆	5%	5%	5%

Note:	Optimistic	▲
	Cautiously Optimistic	◆
	Cautious	▼

Category-wise view

MF Categories	View	
	May-26	Apr-26
Equity Oriented Funds		
Largecap Funds	▲	▲
Large Cap Index Funds	▲	▲
Multicap Funds	▲	▲
Flexicap / ELSS Funds	▲	▲
Large and Mid Cap Funds	▲	▲
Mid cap	◆	◆
Small cap	◆	◆
Value / Contra / Dividend Yield Funds	▲	▲
Focused Funds	◆	◆
Aggressive Hybrid Funds / Dynamic Asset Allocation / Balanced Advantage Funds	▲	▲
Equity Savings Funds	▲	▲
Business Cycle	▲	▲
Sector/Thematic Funds	◆	◆
Multi Asset Allocation Funds	▲	▲

MF Categories	View	
	May-26	Apr-26
Debt Oriented Funds		
Short Duration Funds/Medium Duration Funds	▲	▲
Banking & PSU Funds	▲	▲
Corporate Bond Funds	▲	▲
Target Maturity Index Funds	◆	◆
Medium to Long / Long Duration Funds	◆	◆
Dynamic Bond Funds	◆	◆
Gilt Funds	◆	◆
Ultra Short Duration/Low Duration/Money Market Funds	▲	▲
Arbitrage Funds	▲	▼
Liquid/Overnight Funds	◆	◆
Conservative Hybrid Funds	▲	▲
Credit Risk Funds	◆	◆
Income Plus Arbitrage FoF	▲	▲

Research Presentation – Content

■ Equity MF Outlook and Strategy – May 2026

- Global: Higher energy prices have led to downgrades in global growth projections
- Iran War Update
- US: Economy holding up, markets bounced back after initial news of ceasefire
- Europe: Post-oil shock, rates likely to rise
- China: Growth holds up on the back of tailwinds from exports
- Commodities: Remains a mixed bag, sustained oil shock can have a negative effect on global growth
- Emerging Markets: Remained stable due to weak Dollar index... South Korea and Taiwan rallied due to strong growth in AI-play driven companies
- Easing crude prices and hopes of a ceasefire led to improved market sentiments, though overall FPI selling continues to remain a cause of concern
- Sectoral performance and FPI flows in April 2026
- India Macros: Showing initial signs of slippage
- Urban Economy: Continues to remain strong
- Rural Economy: Demand remains resilient, El Nino emerging as a key risk
- Earnings Q4 FY26 Snapshot
- India : Although multiples have risen, markets are still not expensive
- Sustained Retail participation through Mutual Funds continues to support the market amidst relentless FPI selling
- Market Roundup – April 2026
- Key concerns for Indian equities
- Annexure...
- Sectoral outlook by fund managers – Part 1
- Sectoral outlook by fund managers – Part 2
- Sectoral Movement
- Sectoral valuations have improved vs. their long term averages
- Current 1-year forward P/E multiples of countries vs. their long-term trailing average P/E seems reasonable
- AMC Sectoral Holdings

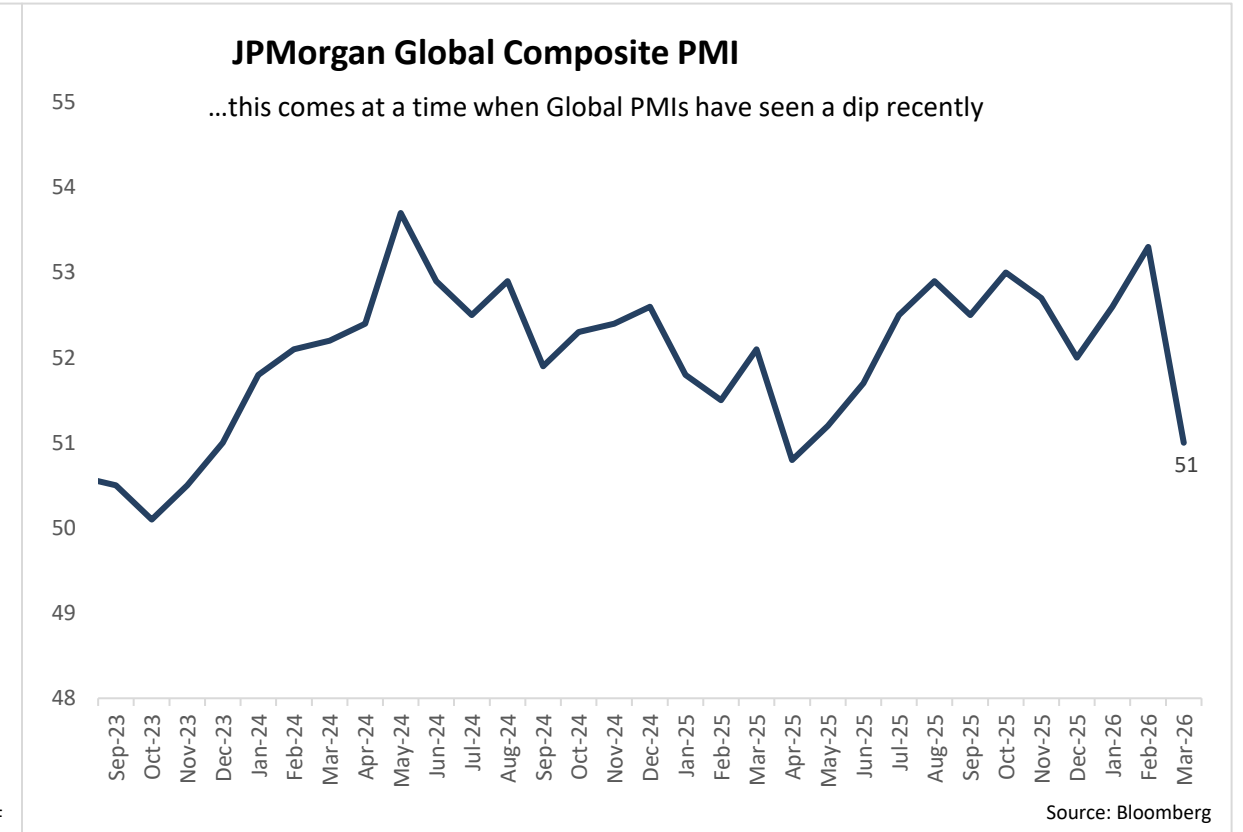
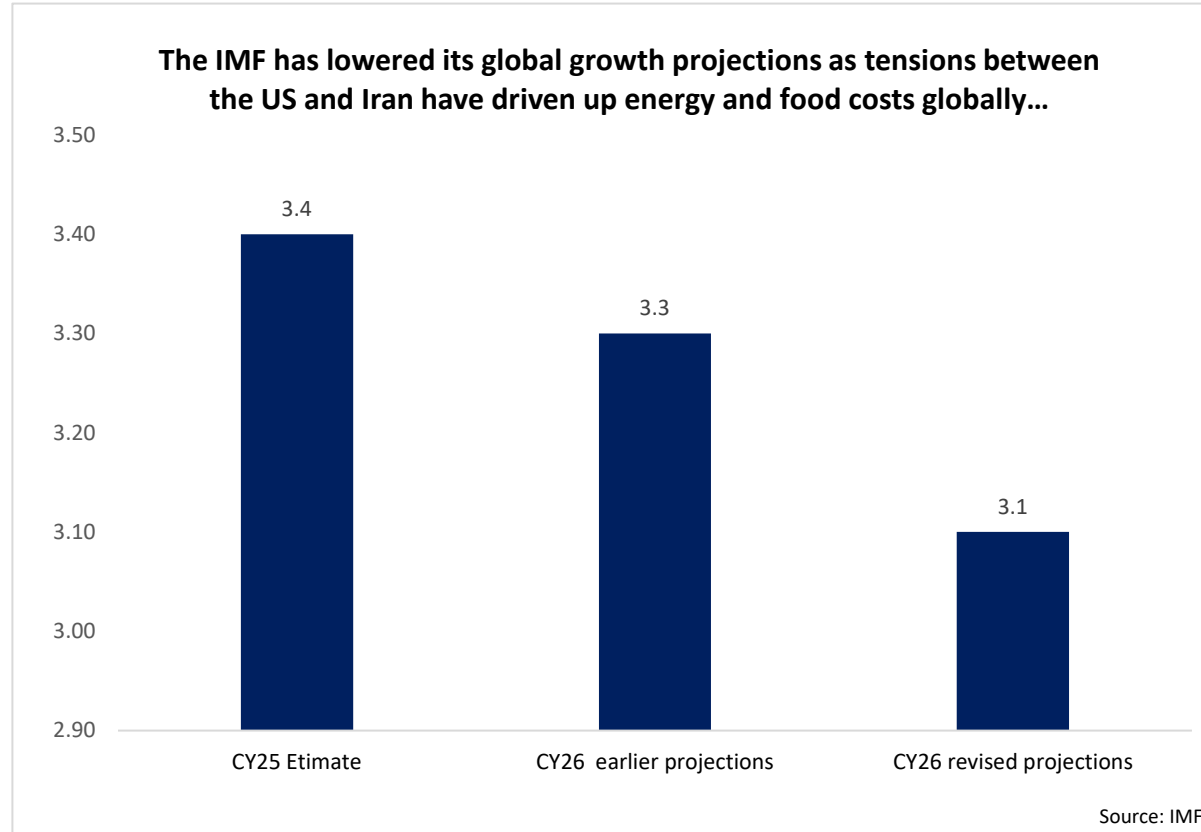
■ Fixed Income Outlook and Strategy – May 2026

- US: Dual blockade of the Strait of Hormuz and diplomatic fragility has led to increased volatility which is reflecting in energy prices and inflation... Fed may look through the initial impact and continue to monitor the West Asia conflict
- EU: The fallout from the energy shock is increasingly weighing down on EU growth prospects while simultaneously adding upward pressure on inflation... Economists now expect a rate hike in June
- Market participants expect shallower rate cuts by the Fed during CY26 amidst upwardly revised inflation forecasts... The ECB continues to remain data dependant as they face one of the most decisive moments
- Higher inflation due to energy shocks and infrastructure damage may have ensured that globally the rate cut cycle is behind us... Expectations are getting built for rate hikes
- Global Commodities – A tenuous ceasefire and a continuous blockade of the Strait of Hormuz led to massive volatility in commodity prices
- Though liquidity conditions saw a reversal from tightness to significant surplus, Credit-Deposit growth mismatch kept pressure on CD/CP yields... RBI held rates steady while committing to proactive management of system liquidity
- Geopolitical disruptions created multiple weak points for the external sector, but the same showed relative resilience during the month
- Despite accelerating food prices and global energy price shocks, headline inflation remained contained within RBI's 4% YoY target... However, probable effect of El-Nino and elevated energy prices can push prices up further and faster
- Geopolitical volatility and FPI outflows pushed up G-sec yields, which was later offset by the ceasefire announcement and RBI's policy outcome
- Strong system liquidity post the Financial Year-end brought down the very short end of the corporate bond curve... Spreads in the 3-5-year part of corporate bond curve and longer end of the SDL curve are still attractive
- Disclaimer

Equity MF Outlook and Strategy – May 2026

- Despite strong growth in the US and some key emerging markets, along with improvements seen in Eurozone, the recent rise in energy prices and the supply chain disruptions due to the blockade of the strait of Hormuz has led to downgrades in global growth projections and an upgrade in global inflation expectations. The recent thaw in the hostilities have led global equity markets to rally. Global PMI, though in the expansionary zone, has seen a recent dip on back of global uncertainty.
- US has seen growth conditions rebound, after the shutdown-related impact on Q4 CY25 GDP growth, led by AI and semiconductor capex which has led to markets touching new highs. The rising Federal Reserve balance sheet also gives additional support to growth, and despite the near-term spike in inflation, policy rate cuts cannot be ruled out with the new Fed Chair coming in. A key risk for the US remains its elevated Debt/GDP ratio.
- Eurozone has seen an uptick in inflation, driven by a sharp rise in energy costs, which might drive the ECB to hike policy rates. EU's vulnerability to energy-market disruptions, following the closure of the Strait of Hormuz, is adding upward pressure to core sovereign bond yields. The growth impulse under these circumstances remains a key monitorable.
- China's CY25 growth remained solid, and Q1 CY26 growth numbers were better than expected. Exports remain resilient despite external pressures, but domestic demand continues to lag, weighed down by weak household confidence and a still-correcting Real Estate sector with declining home prices. With inflation projected at ~0.6-0.8% YoY in CY26, policy space remains ample for government to support demand, despite the upside risk due to elevated crude prices.
- Commodity markets were mixed in April. Crude oil surged after Iran's effective blockade of the Strait of Hormuz disrupted nearly 20% of global oil supply and then came off post some signs of thaw in the war. Gold is consolidating, falling from its all-time high of USD 5,603 to near USD 4,600 by end April, as rising US yields drive flows into Treasuries. Industrial metals saw sharp swings during the month, with nickel touching ~22-month high due to supply restrictions, copper prices remaining largely rangebound and aluminium prices settling flat post its rally as US tariff risk was offset by softer global growth expectations.
- Emerging Market (EM) equities outperformed as EM growth is outpacing Developed Markets (DMs) and their valuations remain comparatively attractive. Markets such as South Korea and Taiwan delivered standout returns during April as money chased high-bandwidth memory plays and the AI-driven semiconductor cycle, supported by strong AI led tech demand. However, several Asian EMs remain heavily exposed to imported energy, leaving them vulnerable to supply shocks. The blockade of the Strait of Hormuz, through which ~20 mn barrels of crude flows per day, representing roughly 1/5th of global petroleum liquids consumption, has tightened energy markets and raised import costs across the region, including India.
- India's macros remain mixed.** Given a sharp spike in crude prices and supply-side tightness, Moody's has recently downgraded India's FY27 GDP growth forecast. However, despite the ongoing Iran crisis, Indian PMIs continue to remain strong. Consumer sentiment too remains steady, as reflected by strong GST collections. Credit growth also continues to remain strong, indicating a positive undercurrent in the economy. **INR continues to remain vulnerable due to high dependence on crude oil imports, raising risks to the Current Account balance, FPI flows, and the possibility of incremental growth downgrades.**
- Urban demand is holding up well** with key indicators suggesting strong traction. Passenger Vehicle sales growth remains steady, and net services exports too have seen strong momentum despite concerns around AI-driven job losses and cutbacks. Future implementation of the 8th Pay Commission, continued benefits of lower GST rates and higher disposable income due to controlled inflation could drive urban consumption over the medium-to-long term. Domestic consumer confidence has been reasonably robust as well. Credit demand in the economy has also seen a marked improvement, suggesting a strong growth impulse.
- Rural economy** remains a strong pillar of growth for the economy. With improving affordability due to lower inflation and GST cuts, this segment is likely to keep driving consumption growth. With strong Rabi sowing, above-average reservoir levels, alongside an uptick in 2-wheeler and tractor sales momentum, the rural economy is likely to deliver robust growth. Declining demand in MGNREGA also hints at improved job creation in the rural sector. However, IMD's forecast of a below-average monsoon on the back of El-Nino development could be a near-term risk to the rural economy.
- On the expected earnings side,** Q4 FY26 numbers are not expected to be impacted by the supply-side disruptions induced by the West Asia war due to positive inventory effect and as the impact of elevated crude prices will only be marginally captured in these numbers. However, the management commentary will remain a key monitorable and Q1 FY27 would capture the full impact of the supply-side induced inflation and may see earnings downgrade. The early indication for the Q4FY26 results suggests stable and in line set of numbers for most companies. IT sector guidance has been weak and a cause of concern. While Fund Managers were expecting Nifty-50 earnings to grow by ~14-15% in FY27 earlier, most are now expecting downgrades as the input costs are expected to hurt margins as the price of crude oil and its derivatives have risen.
- Despite the recent rally in the equity markets, most of the broad Indian indices are trading at a discount to their past averages. The selling pressure from FPIs sustained in the month of April driven by weakening INR and expectations of impact on the Indian economy from the rising energy prices.
- The US-Iran conflict has emerged as the near-term risk to markets which can drive oil prices higher and be a sentiment-negative event. As signs have emerged of containment of the conflict, energy prices are showing signs of cooling off. The OPEC too has announced production hikes, which could ease oil prices once the Hormuz traffic normalises. Thus, investors could use the market volatility due to this event as an investing opportunity.**
- Fund Managers who can be fairly nimble and identify growth ideas, could generate alpha vs their peers. While FPIs have been big sellers in the Indian markets, India's relative underperformance vs its peers in the recent months and depreciated Rupee are likely to gradually make the Indian markets attractive for them. The FPIs' holdings in Indian markets have also fallen to recent lows which implies that they may not be willing sellers for long.
- Investment deployment strategy could remain 60% lumpsum and rest 40% to be staggered over the next 3-4 months. Mutual Fund investors can look to focus on categories like Flexicap, Multicap, Large and Midcap, Value and Hybrid funds while using STPs as an instrument to invest in Midcap and Smallcap funds. Aggressive investors may also look at Business Cycle Funds for allocation. All allocations should be done in line with the risk profile and product suitability of the investor.**

Global: Higher energy prices have led to downgrades in global growth projections



Iran War Update

Feb 28, 2026

The conflict began with massive joint strikes on Iranian leadership and infrastructure by US and Israel. Iran retaliated by striking assets across the Gulf and disrupting maritime traffic.

March, 2026

Escalation continued with strikes on economic bases, including steelworks, and expanded the conflict into neighbouring regions.

April, 2026

Markets rallied on the back of ceasefire news. However, peace talks in Islamabad collapsed, leading to a US naval blockade of Iranian ports. The fragile ceasefire was later extended following requests from Pakistan, though tensions remained high.

May, 2026

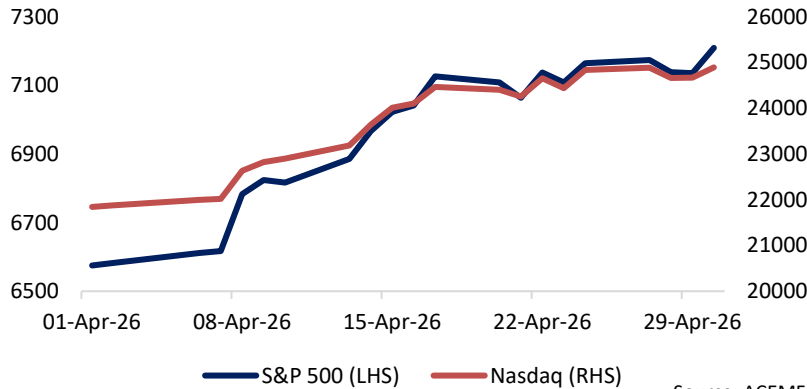
As of May 3, President Trump has reportedly rejected a 14-point peace proposal from Iran as "unacceptable". The IRGC has warned that Iranian forces remain prepared, while the US has announced plans to escort ships through the blocked strait.

Current Status

- **Naval Blockade:** A US blockade in the Strait of Hormuz remains a primary point of contention.
- **Diplomacy:** While both sides have engaged in intermittent talks, a permanent resolution is not yet in sight, with Iran calling for non-aggression guarantees and the lifting of the blockade.

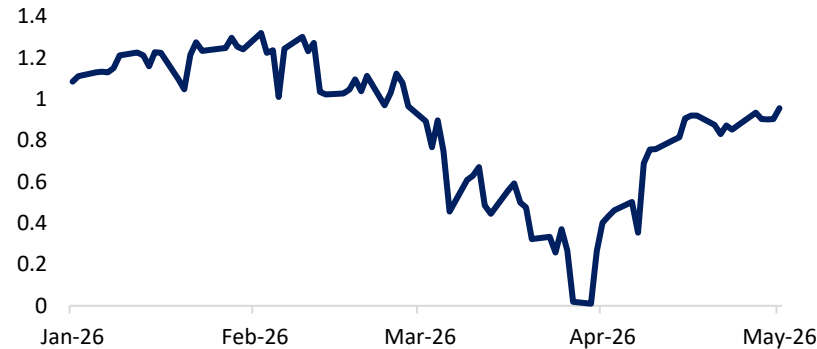
US: Economy holding up, markets bounced back after initial news of ceasefire

US markets rallied on the back of ceasefire news



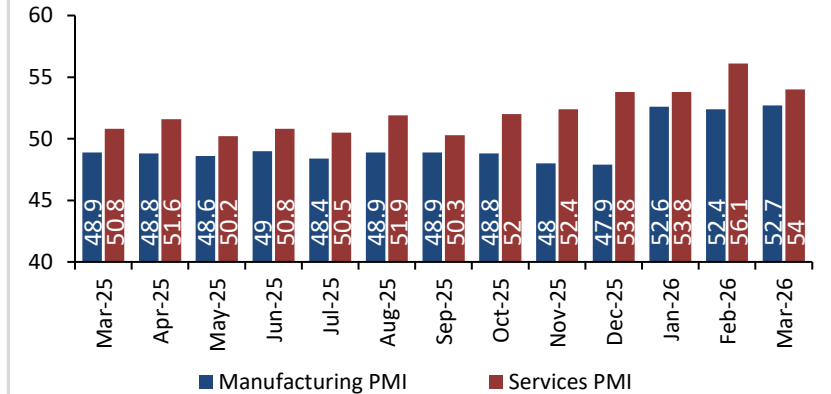
Bloomberg US Financial Conditions Index

Conditions improving



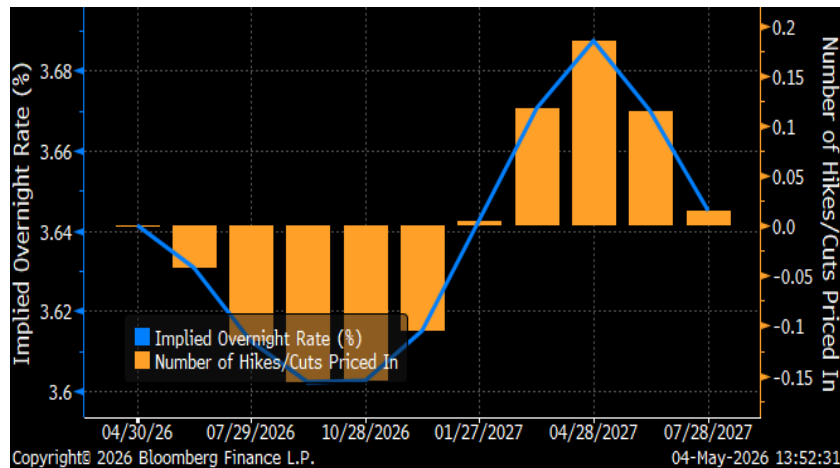
US Manufacturing & Services PMI

PMI continues to remain strong



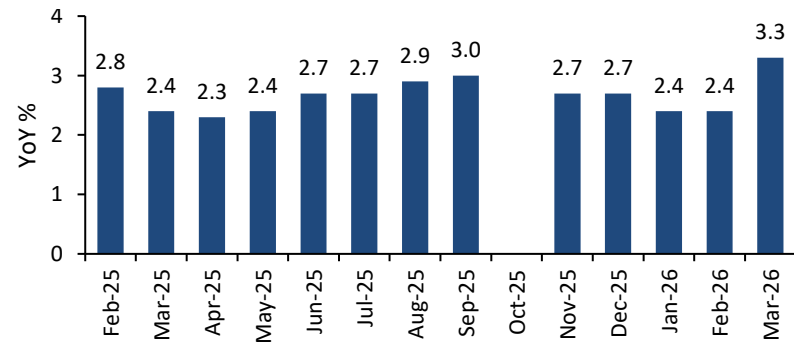
Expectations of rate cut not ruled out

Source: Bloomberg



US CPI

Fed might look through near term spike in inflation



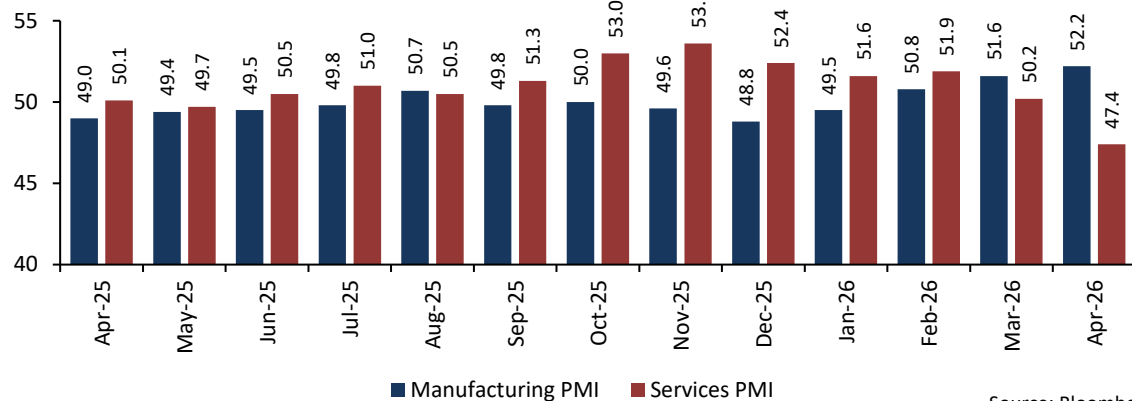
- **Federal Reserve governor Chris Waller** said the surge in oil prices tied to the Iran war and lingering effects from US tariffs could “lead to a more lasting increase in inflation,” potentially forcing the central bank to eschew further interest-rate cuts.
- Waller’s more cautious stance suggests it **won’t be easy** for Kevin Warsh, President Trump’s nominee to be the next chair of the Fed, **to rally support for a rate cut** once he is confirmed later this year.

Source: Media Reports

Europe: Post-oil shock, rates likely to rise

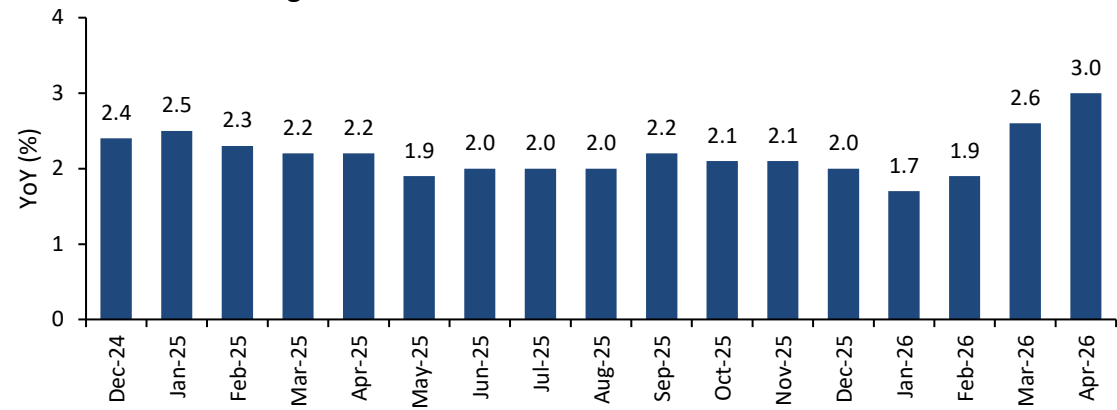
S&P Global Eurozone PMI

Manufacturing remains strong, while services weaken



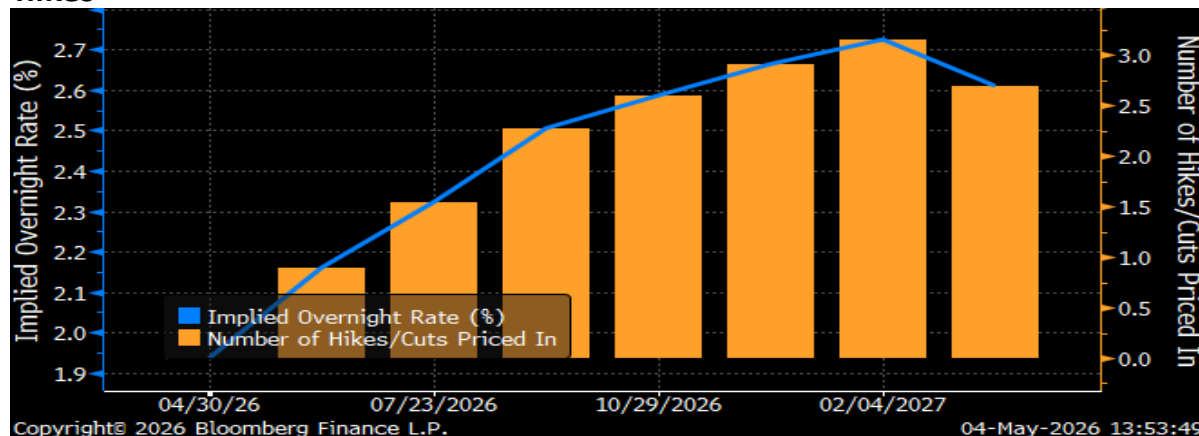
Eurozone CPI

Inflation rising...



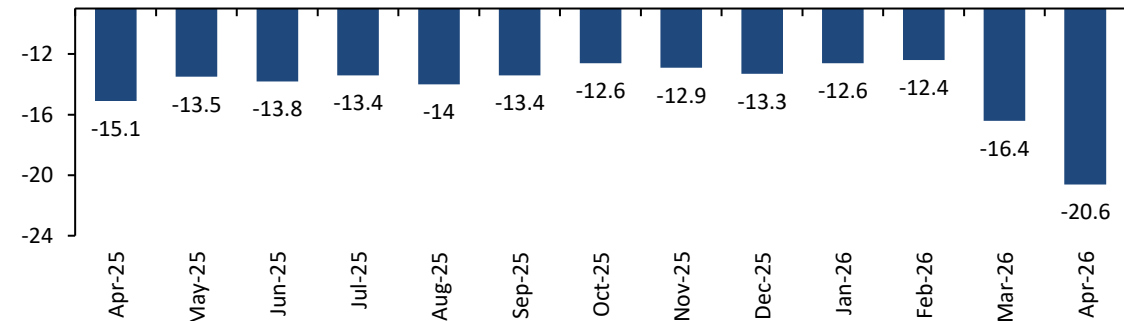
...Rate cut cycle seems to be behind us as markets start to price in rate hikes

Source: Bloomberg



Eurozone Consumer Confidence Indicator

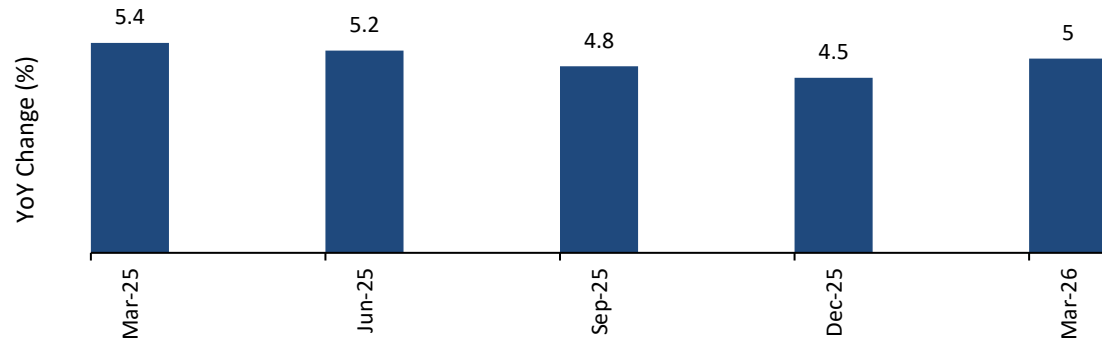
In the negative territory, suggesting weakness in consumer sentiments



China: Growth holds up on the back of tailwinds from exports

China Quarterly GDP growth

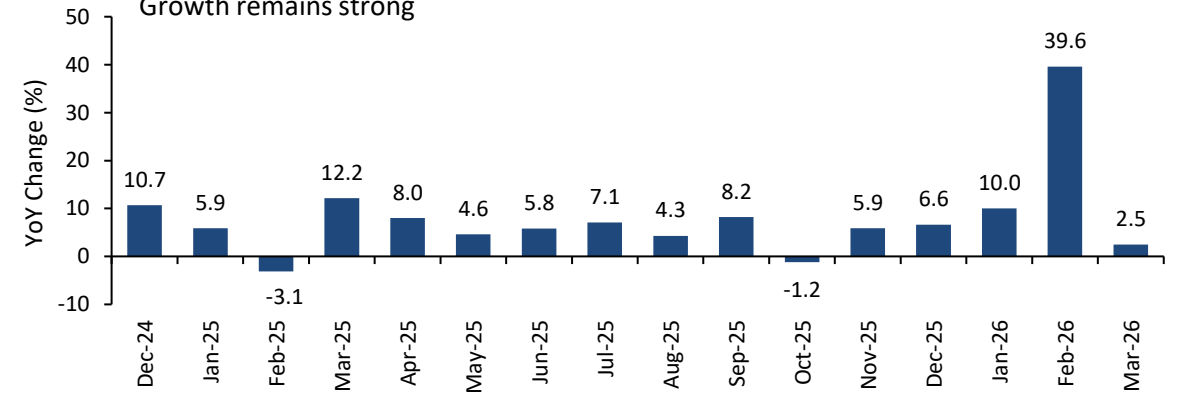
GDP growth holding up



Source: Bloomberg

China's Export Growth (In USD Terms)

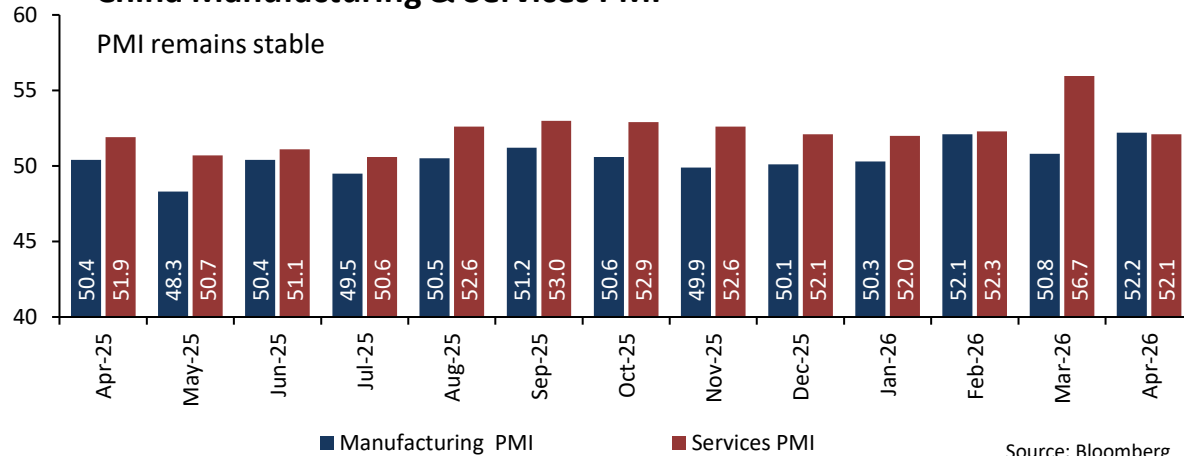
Growth remains strong



Source: Bloomberg

China Manufacturing & Services PMI

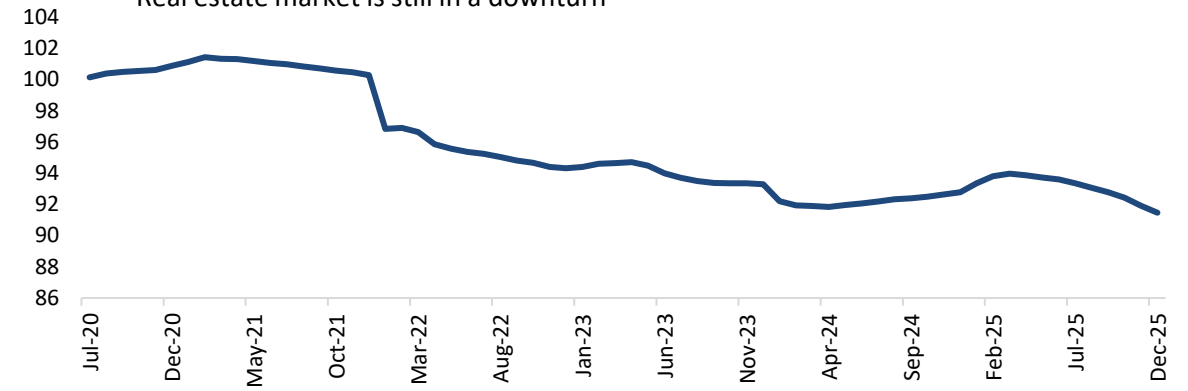
PMI remains stable



Source: Bloomberg

China Real Estate Climate Indicator

Real estate market is still in a downturn

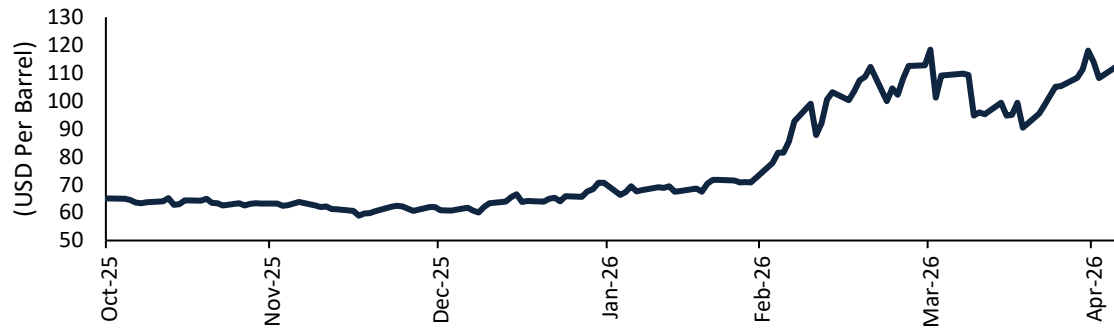


Source: Bloomberg

Commodities: Remains a mixed bag, sustained oil shock can have a negative effect on global growth

Brent Crude

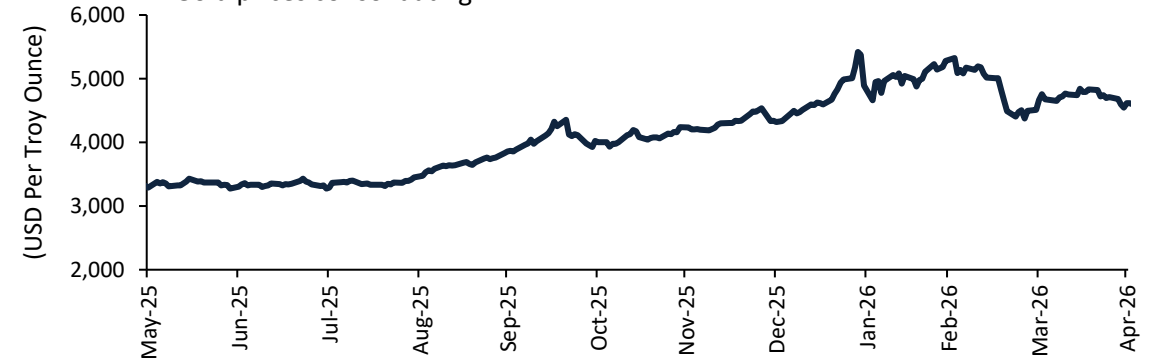
Remains volatile on back of West Asia conflict



Source: Bloomberg

Gold Price

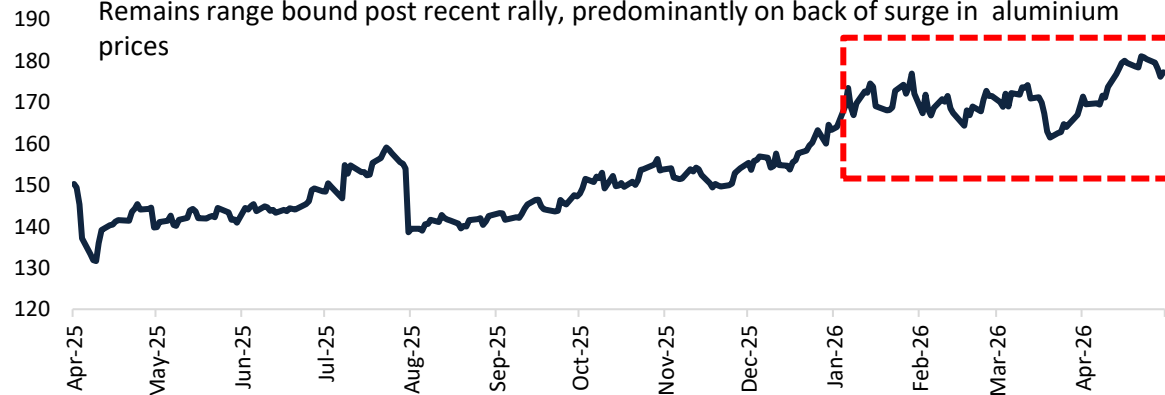
Gold prices consolidating



Source: Bloomberg

Bloomberg Industrial Metals Index

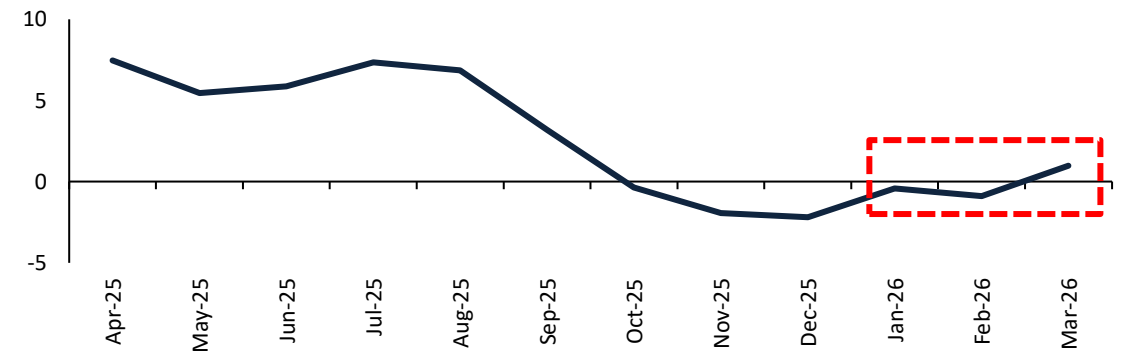
Remains range bound post recent rally, predominantly on back of surge in aluminium prices



Source: Bloomberg

UN Food and Agriculture World Food Price Index

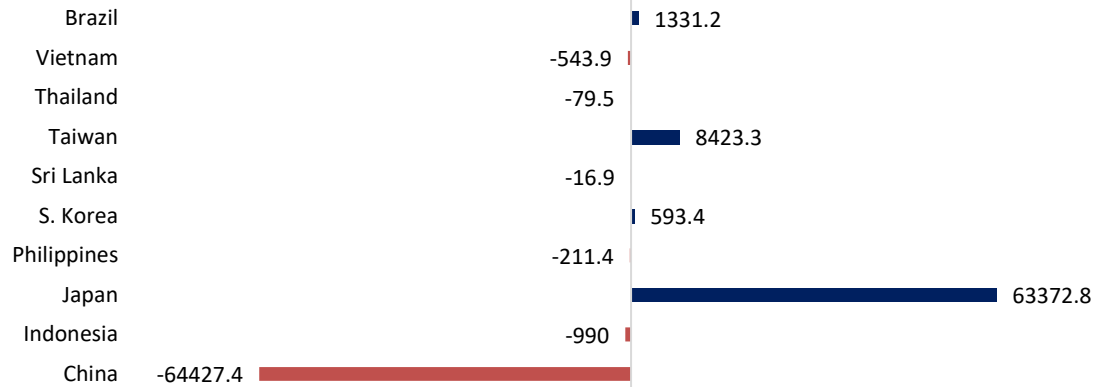
Remains stable



Source: Bloomberg

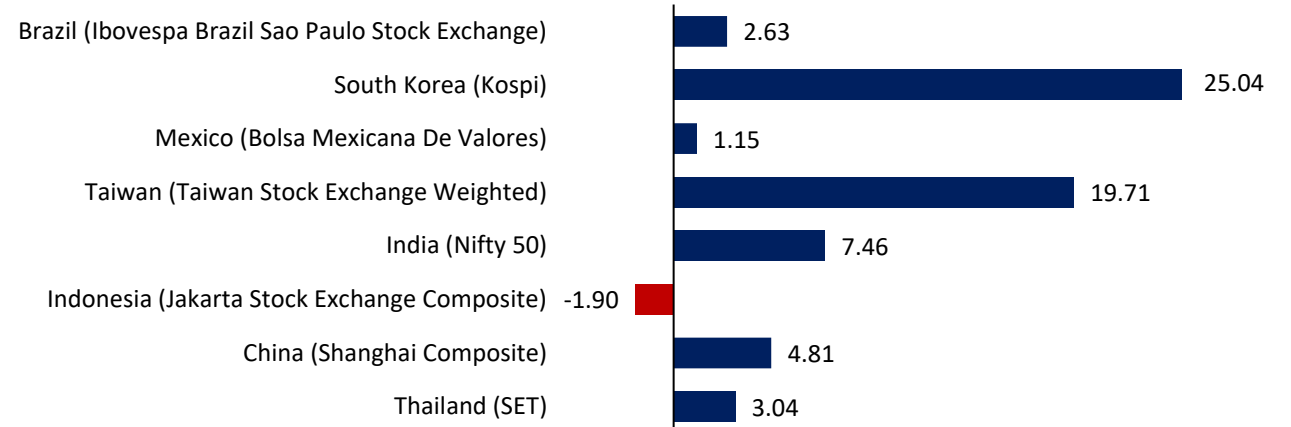
Emerging Markets: Remained stable due to weak Dollar index... South Korea and Taiwan rallied due to strong growth in AI-play driven companies

Net Flows in Emerging Markets remained mixed during April 2026
(USD Mn)



Source: Bloomberg

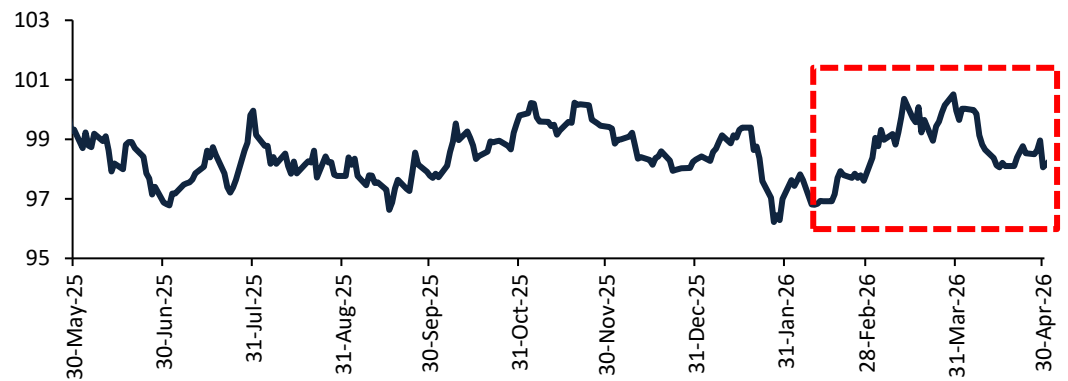
Emerging Markets - Absolute Returns of major equity indices in April 2026 (%)



Source: Bloomberg

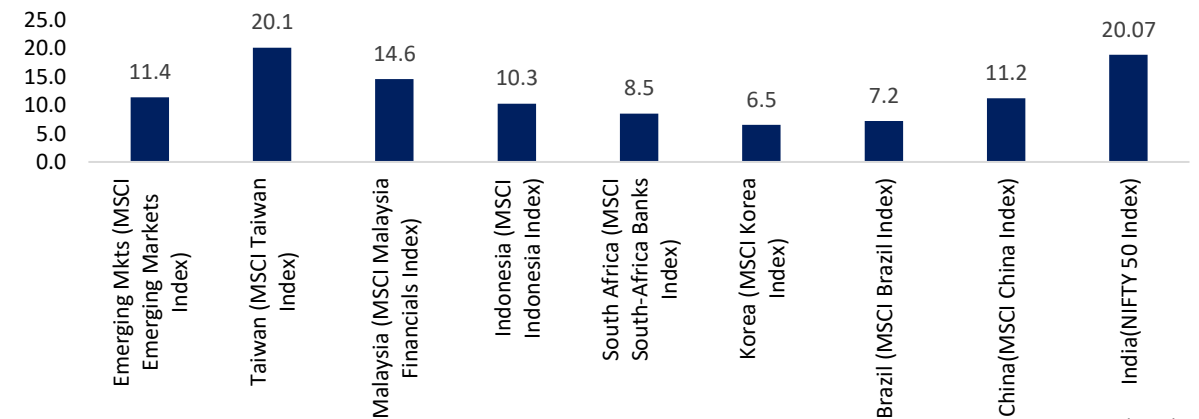
US Dollar Index

Easing Dollar Index led to better performance from Emerging Markets



Source: Bloomberg

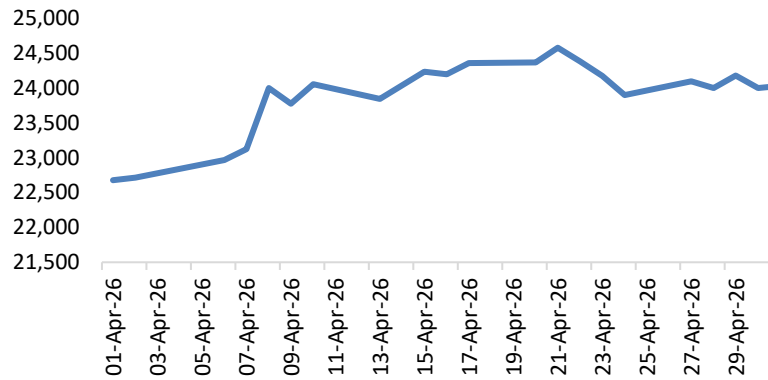
12M Expected Fwd PE of Various Economies



Source: Bloomberg

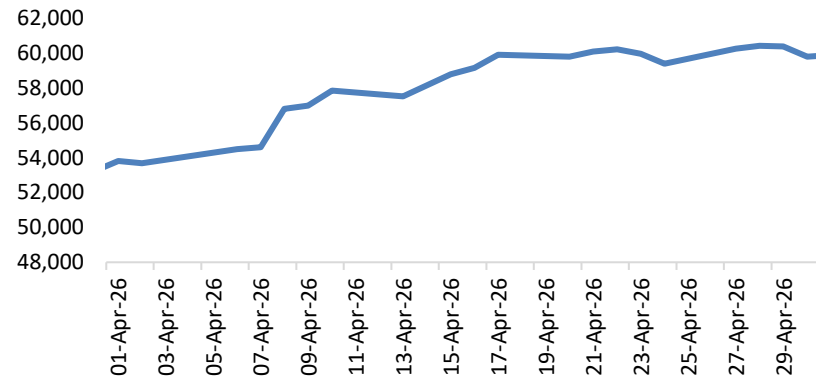
Easing crude prices and hopes of a ceasefire led to improved market sentiments, though overall FPI selling continues to remain a cause of concern

Nifty 50 price movement



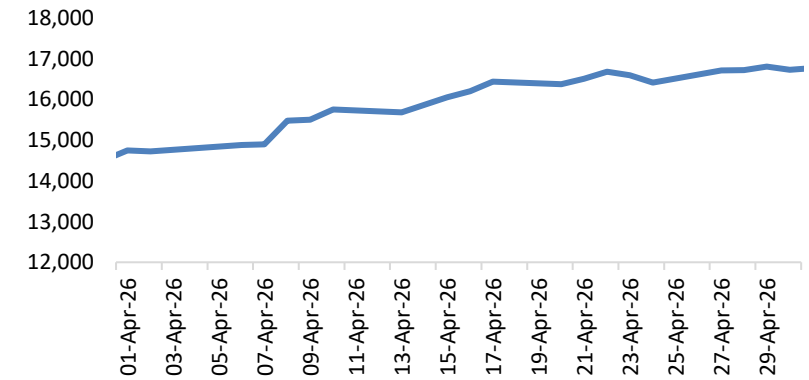
Source: Bloomberg

Nifty Midcap100 price movement



Source: Bloomberg

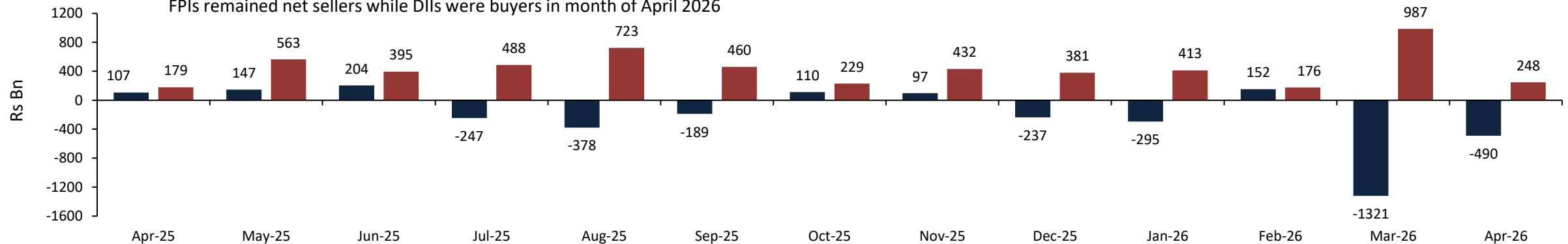
NiftySmallcap 250 price movement



Source: Bloomberg

Net Flows In Equities (Stock Exchange and Primary market & others)

FPIs remained net sellers while DIIs were buyers in month of April 2026



*For 2026, FPI and DII data is up to 30th April respectively.

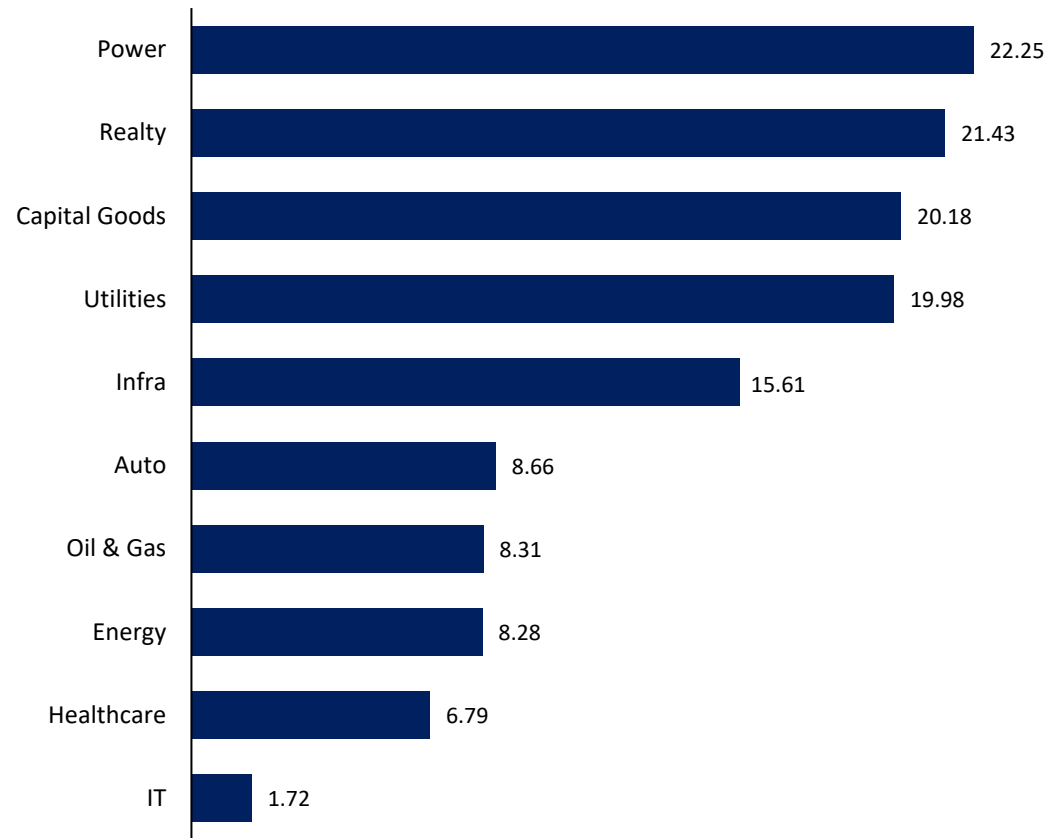
**Net Flows In Equities is the sum total of flows in Stock Exchange and Primary market & others

■ FPIs ■ DIIs

Source: SEBI, CDSL

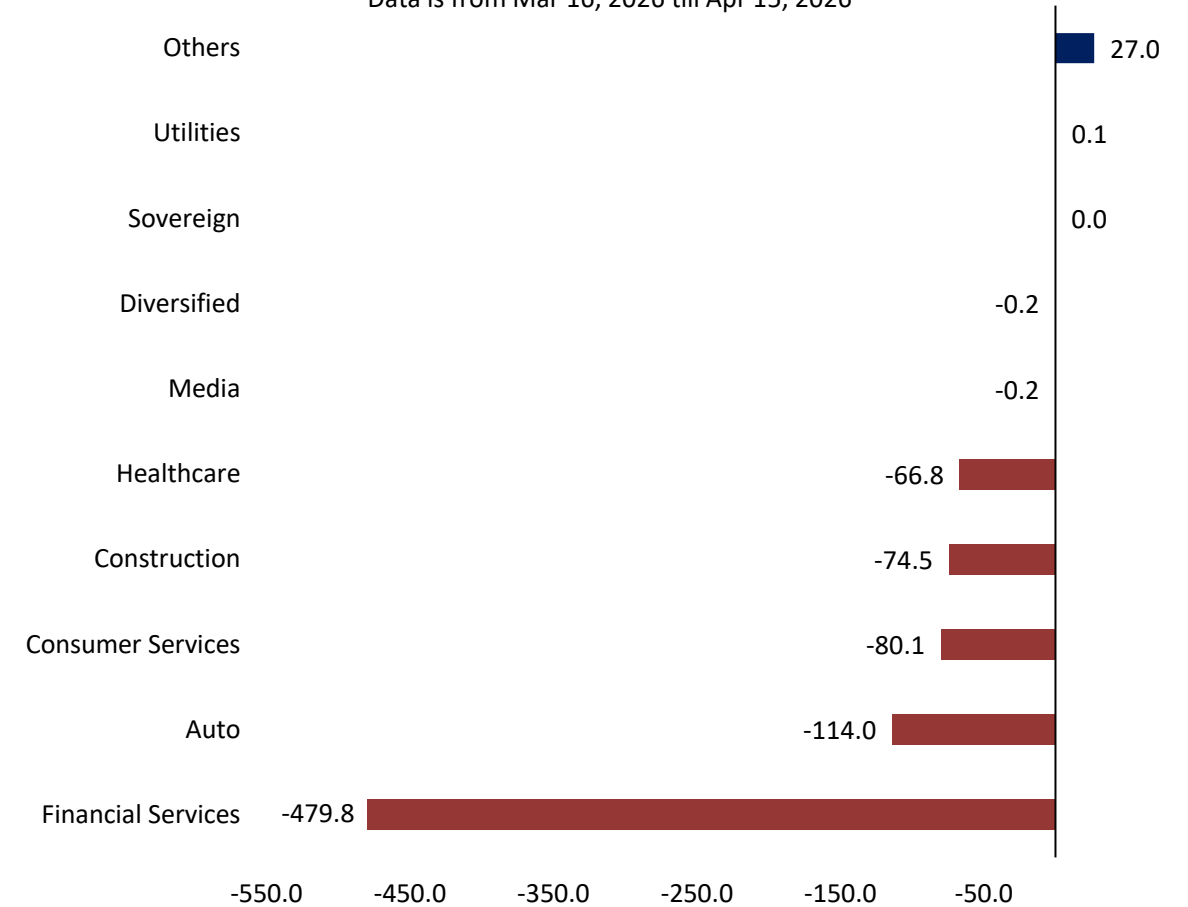
Sectoral performance and FPI flows in April 2026

S&P BSE Sectors - Absolute Return In April 2026 (%)
(Only the top and bottom 5 names shown)



Source: Ace MF

Sectoral FPI flows - Top 5 and Bottom 5 (Rs in Bn)
Data is from Mar 16, 2026 till Apr 15, 2026

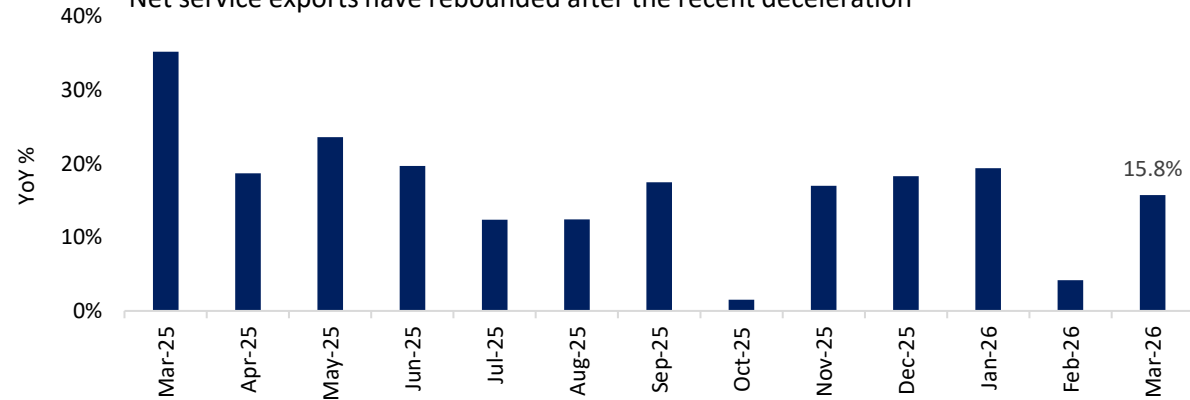


Source: NSDL

India Macros: Showing initial signs of slippage

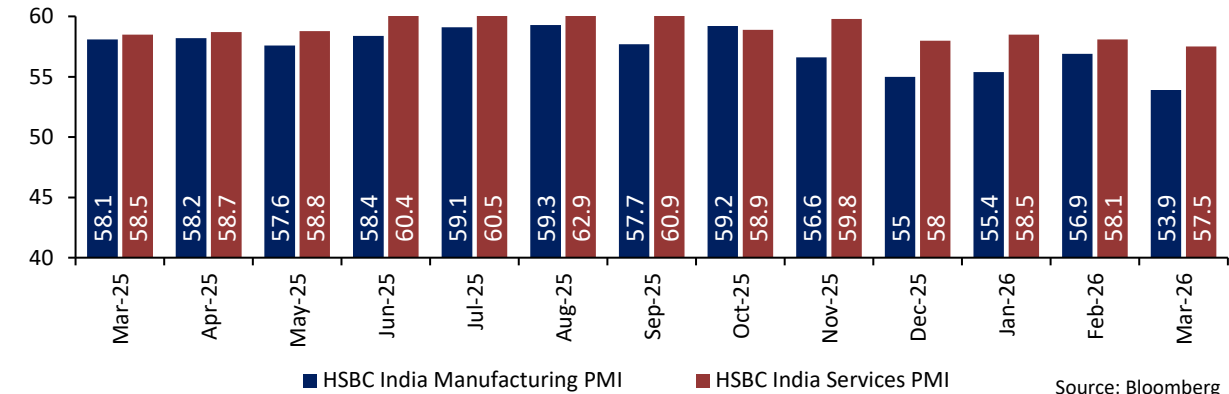
India Net Service Exports

Net service exports have rebounded after the recent deceleration



Source: Bloomberg

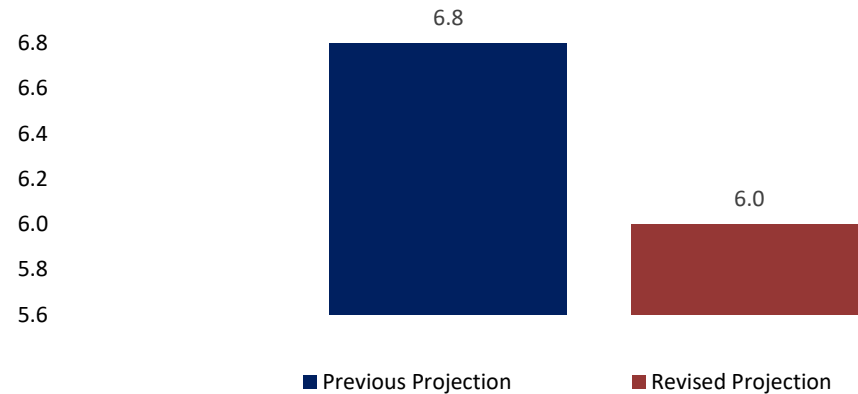
PMI continues to hold up but can slip if demand weakens due to Iran war impact



Source: Bloomberg

Moody's downgraded India's FY27 Growth Projection

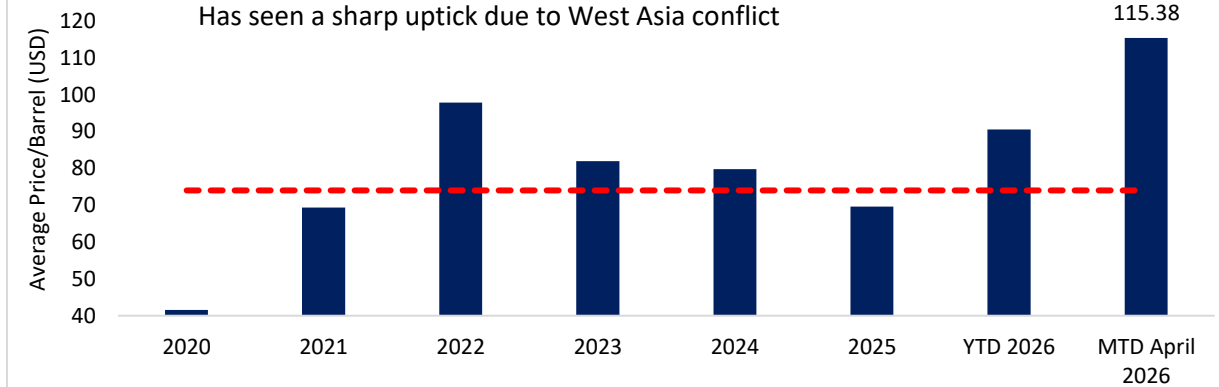
The ongoing conflict in West Asia can moderate growth momentum



Source: Moody's

India Crude Basket

Has seen a sharp uptick due to West Asia conflict

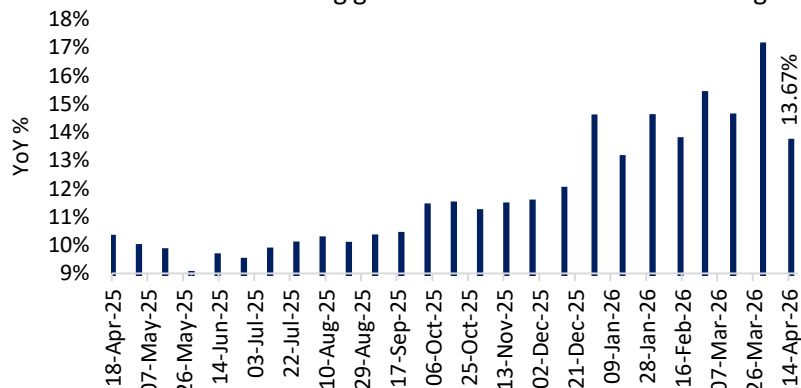


Source: Cogencis

Urban Economy: Continues to remain strong

Total Commercial Credit Growth

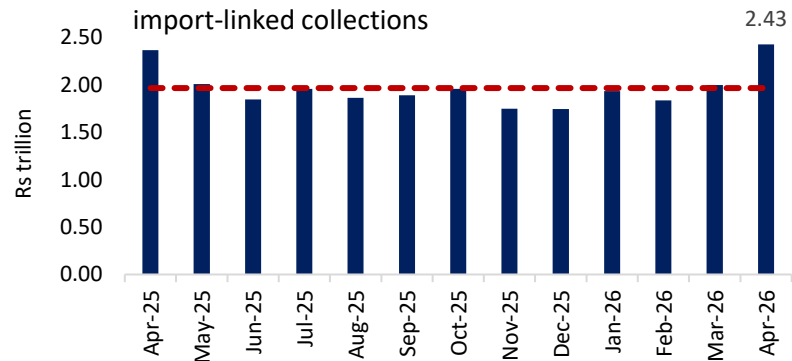
Commercial lending growth continues to remain strong



Source: Bloomberg

GST Collections

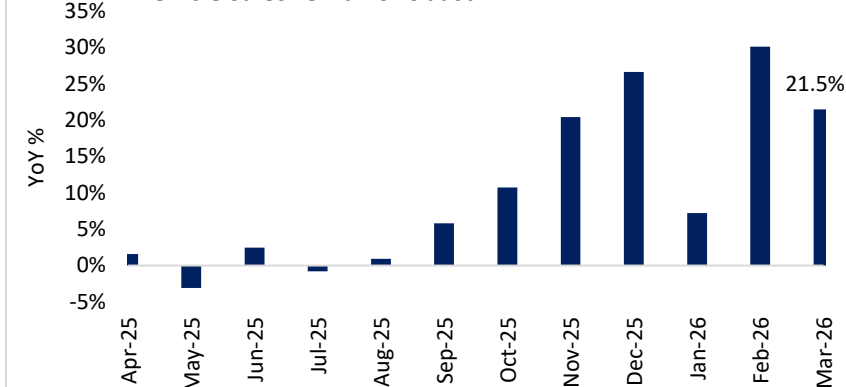
At record highs, driven primarily by a surge in import-linked collections



Source: Cogencis

Passenger Vehicle Registrations

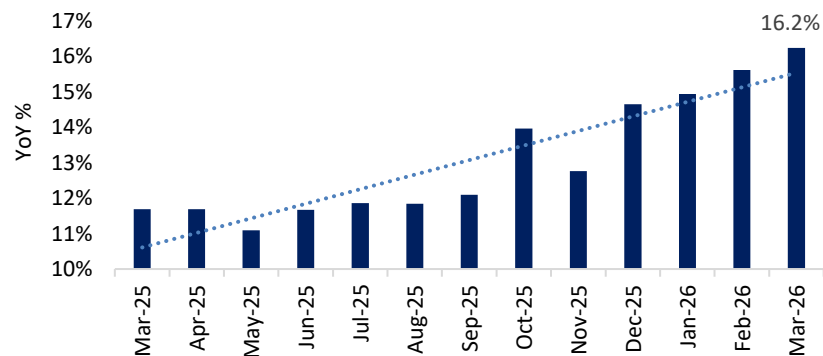
Vehicle sales remains robust



Source: Bloomberg

Banking Sector Personal Loan Growth

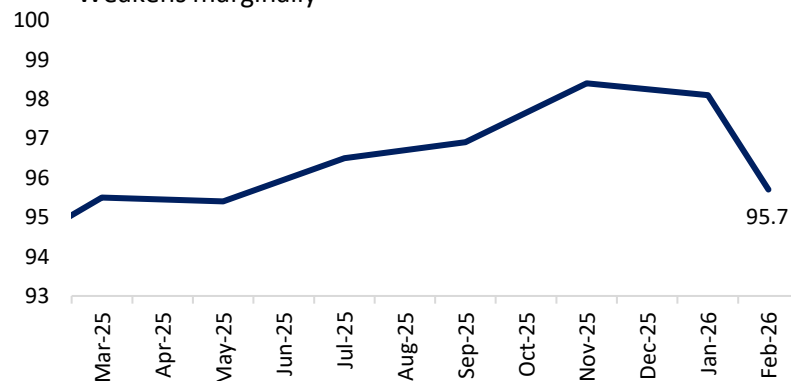
Personal loan growth remains strong



Source: Bloomberg

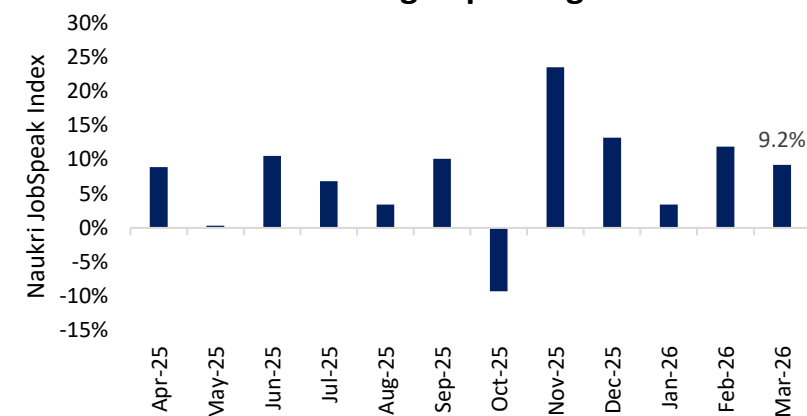
Consumer Confidence Index

Weakens marginally



Source: Bloomberg

White collar hiring improving



Source: RBI

Rural Economy: Demand remains resilient, El Nino emerging as a key risk

Total 133 Reservoirs - % Of Current Live Storage

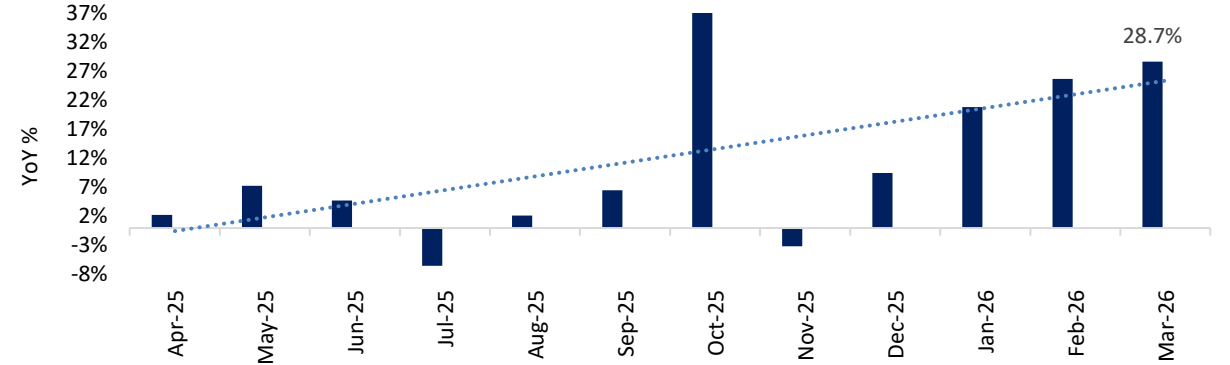
Reservoir levels are higher than the same period last year, which can cushion the impact of El Nino



Source: Cogencis

Two-Wheeler Sales

Two-wheeler sales growth remains strong



Source: Bloomberg

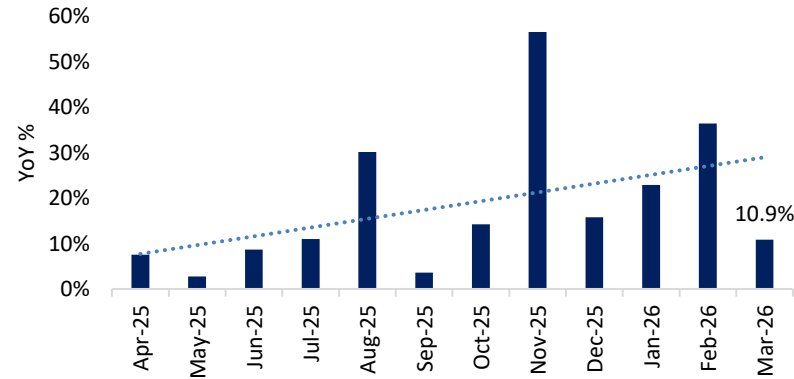
Agricultural Production was better than the previous year

Crop	2024-25		2025-26	Variation in 2025-26 (Per cent)	
	SAE	Final Estimates	SAE	Over SAE 2024-25	Over Final 2024-25
1. Foodgrains	3309	3386	3487	5.4	3.0
Kharif	1664	1695	1741	4.7	2.8
Rabi	1645	1692	1745	6.1	3.2
a. Rice	1364	1389	1406	3.1	1.3
b. Wheat	1154	1179	1202	4.1	1.9
c. Pulses	230	230	239	3.7	3.9
2. Oilseeds	417	417	410	-1.6	-1.6
3. Sugarcane	4351	4546	5002	15.0	10.0
4. Cotton #	294	297	291	-1.1	-2.1
5. Jute & Mesta ##	86	88	83	-3.3	-5.2

Source: RBI

India Tractor Sales

Tractor sales data remains steady



Source: Bloomberg

El Nino Conditions Likely

- "El Nino conditions are likely to continue during the monsoon season," predicts the IMD.
- "Currently weak La Nina-like conditions are transitioning to neutral conditions. But after June it's very likely that El Nino will develop," Mrutyunjay Mohapatra, director-general of the India Meteorological Department, said.

Source: IMD

Earnings Q4 FY26 Snapshot

Sector	Net Sales - YoY Growth (%)			EBITDA - YoY Growth (%)			PAT - YoY Growth (%)		
	Q4 FY26	Q3 FY26	Q4 FY25	Q4 FY26	Q3 FY26	Q4 FY25	Q4 FY26	Q3 FY26	Q4 FY25
Automobile and Auto Components	27.48	26.99	6.12	32.05	11.80	-12.89	-1.60	6.84	1.60
Capital Goods	8.80	11.84	14.38	25.93	4.29	-12.75	37.98	5.24	-23.14
Chemicals	10.92	6.21	9.25	19.60	12.56	28.06	39.67	24.84	35.31
Construction Materials	11.24	17.68	9.34	19.19	31.61	7.05	-0.55	-10.98	7.87
Consumer Durables	4.03	11.77	16.77	13.00	30.06	10.44	48.89	6.52	6.74
Consumer Services	57.96	50.49	26.32	57.06	19.29	0.44	11.23	14.58	-25.55
Fast Moving Consumer Goods	14.97	10.01	16.02	12.45	-1.37	6.04	23.34	-15.08	2.00
Financial Services	7.16	7.63	9.87	10.43	9.87	6.28	14.91	4.99	3.86
Healthcare	8.71	9.82	9.14	3.30	1.73	19.87	-9.18	-15.53	52.16
Information Technology	11.55	8.31	6.02	14.31	8.09	6.18	12.49	-7.95	1.63
Media Entertainment & Publication	9.70	-60.36	-76.80	90.58	67.99	94.59	-1.79	99.62	85.13
Metals & Mining	27.50	15.31	-20.13	28.44	19.21	8.50	5.71	110.05	73.32
Oil Gas & Consumable Fuels	13.01	9.45	7.53	3.36	2.51	-0.88	0.21	3.70	4.96
Power	5.63	-0.69	15.04	-0.51	-7.09	15.27	50.52	-25.25	6.54
Realty	26.03	19.66	-1.66	23.27	13.73	9.06	16.95	12.68	20.15
Services	26.50	21.86	23.08	15.28	19.08	24.68	9.43	20.83	50.05
Telecommunication	4.65	-4.83	8.79	5.08	-49.02	-5.70	26.31	-53.95	-2.57
Textiles	3.15	-0.65	-35.14	40.88	44.04	-36.40	-158.55	20.28	65.51
Grand Total	12.53	10.34	6.98	12.32	5.67	4.38	11.71	5.14	6.60
Ex-Financials	15.65	11.95	5.37	12.74	4.66	3.96	9.07	5.27	8.98

Data as on May 04, 2026 and pertains to 148 companies within the Nifty 500 universe

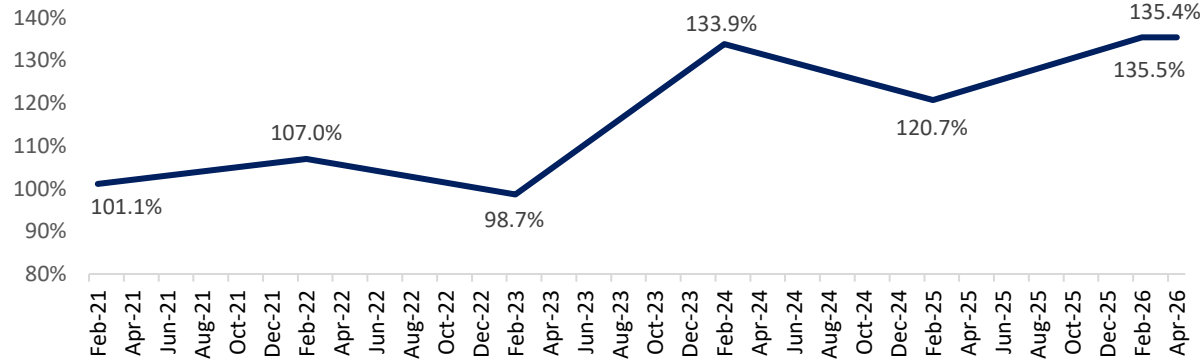
Source: Capitaline, HDFC Bank Research

- Q4 FY26 earnings remain stable and have been broadly immune to the West Asia conflict induced supply side disruptions as existing inventory has acted as a cushion.
- Most of the companies reported 'in-line' set of results
- Impact of Iran war may be captured in Q1 FY27 numbers.
- While IT numbers have remained mixed, guidance has been cautious as companies grapple with impact of AI on business.

India : Although multiples have risen, markets are still not expensive

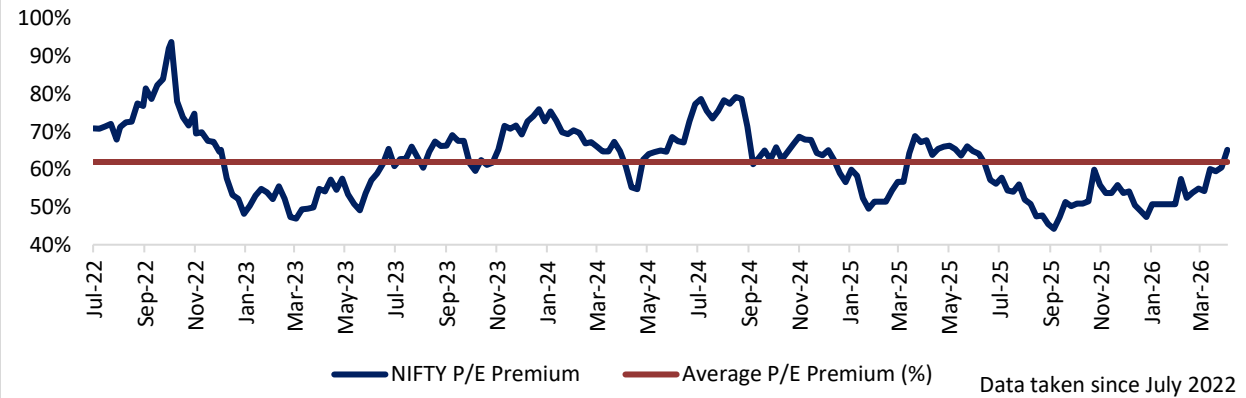
India's Market cap to GDP

Remains at elevated levels



Source: Bloomberg

P/E Premium : Nifty 50 vs MSCI Emerging Market Index in line with last 4-year average



Despite bounce back in the market, valuations are not expensive, investors still fearful as VIX (fear index) still high. Given sustained earnings delivery in Mid and Small caps, Fund Managers see select opportunities.

Source: Bloomberg

Index	P/E FY27 (Est.)	P/E FY28 (Est.)	EPS FY27 (Est.)	EPS FY28 (Est.)	PEG FY28 (Est.)
Nifty 50	20.07	17.05	1202	1415	0.965
Nifty Midcap 100	29.52	24.20	2040	2489	1.099
Nifty Smallcap 100	24.31	19.42	745	932	0.773

Data as on 04th May 2026

VIX Index

Still elevated, suggesting there is still fear in the market

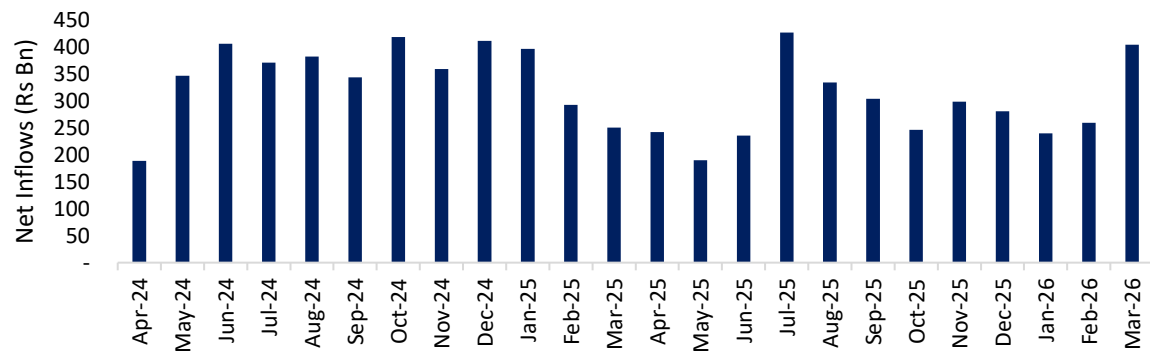


Source: Bloomberg

Sustained Retail participation through Mutual Funds continues to support the market amidst relentless FPI selling

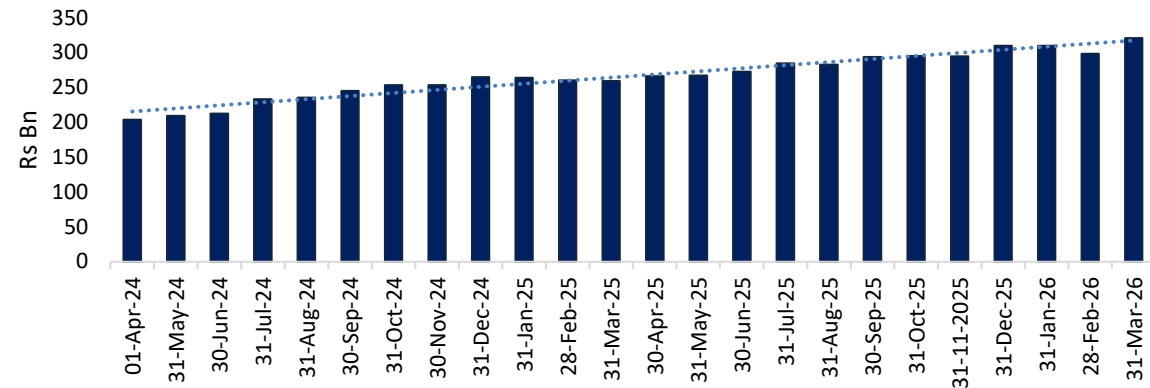
Pure Equity Funds Flows

Mutual Funds continue to support the market performance on the back of strong flows



Source: AMFI

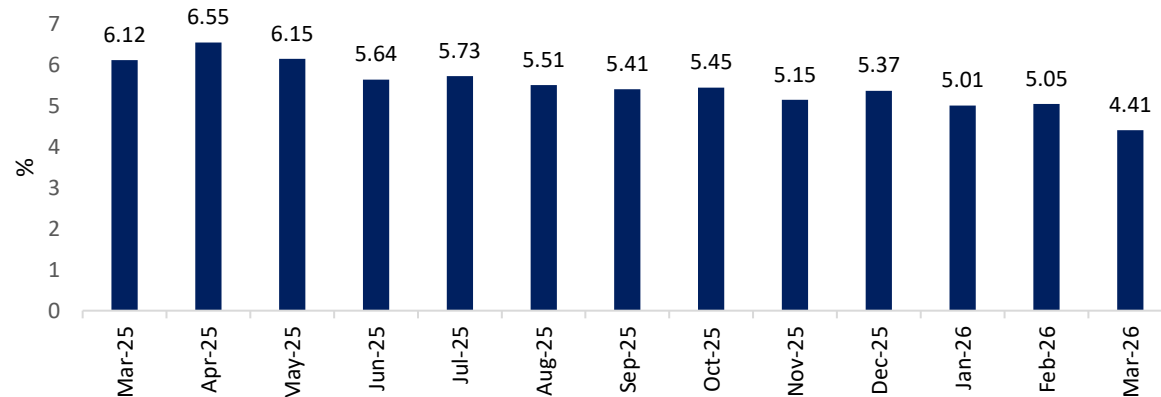
Monthly SIP contribution remains healthy



Source: AMFI

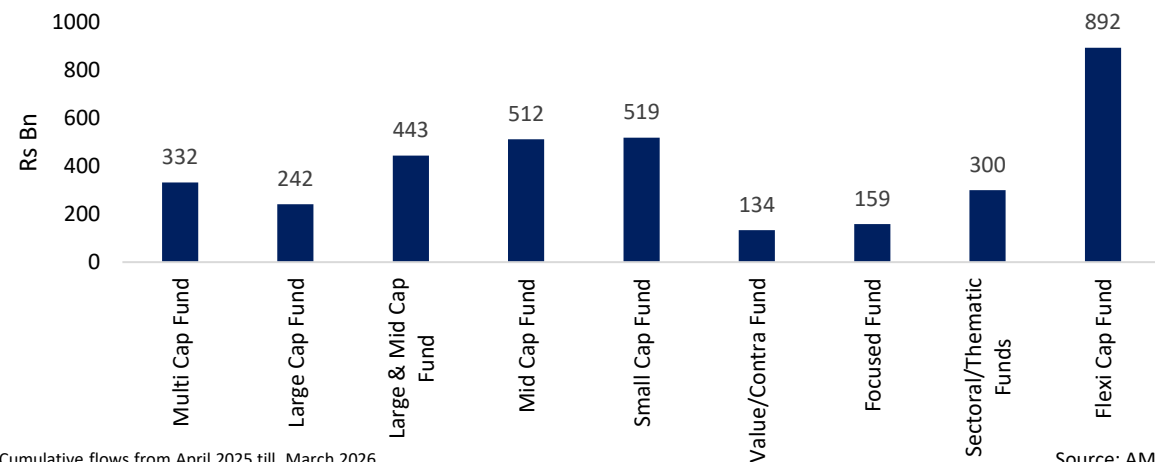
Mutual Funds Aggregate Cash Value

As Mutual Funds become more confident on Earnings, cash levels are coming down



Source: ACE MF

Category-wise Net Flows



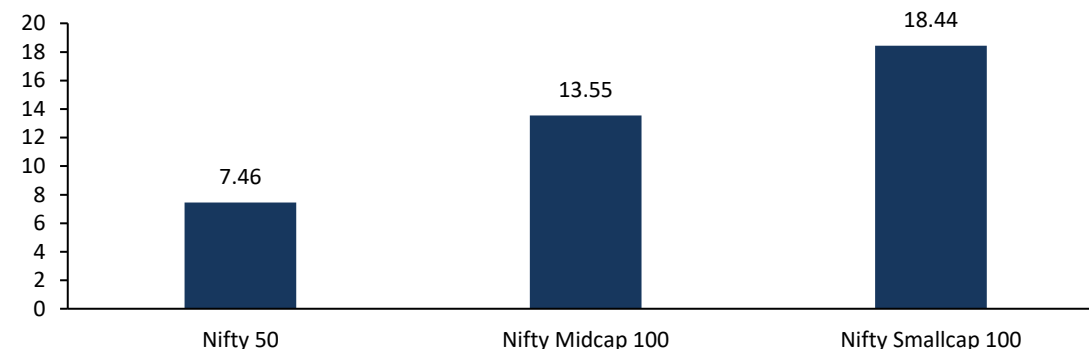
Cumulative flows from April 2025 till March 2026

Source: AMFI

Market Roundup – April 2026

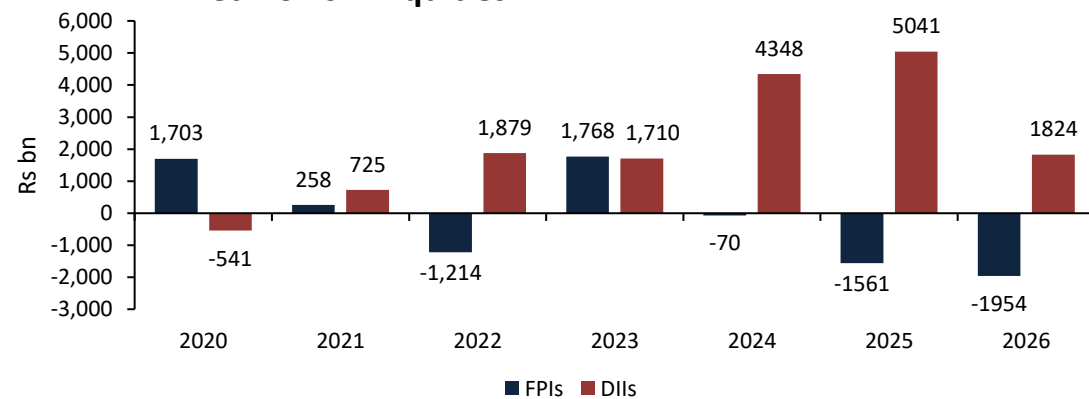
- Indian equities ended the month on a positive note. Large cap-oriented BSE Sensex ended higher by 6.9% (MoM) and Nifty 50 ended higher by 7.5% (MoM). While the BSE Midcap index ended higher by 13.8% (MoM) and BSE Small cap index ended higher by 19.6% (MoM).
- In terms of BSE sectoral indices, the sectors ended on a positive note. Power, Realty, Capital Goods, Infrastructure and Metals were the outperformers during the month..
- During the month, FPIs were net sellers in equities to the tune of Rs 490 bn. (Data as on 30th April).
- Domestic equity markets ended the month on a positive note with reports suggested that Iran had proposed reopening the Strait of Hormuz and easing the conflict. Intermittent fall in oil prices and renewed West Asia peace negotiations in mid of the month also supported market sentiment. However, investor sentiment remained cautious as stalled US – Iran negotiations and reports of renewed tensions resurfaced.

Absolute Return In April 2026 (%)



Source: Bloomberg

Net Flows In Equities



*For 2026, FPI and DII data is up to 30th April respectively.

Source: SEBI, CDSL

**Net Flows In Equities is the sum total of flows in Stock Exchange and Primary market & others

Key concerns for Indian equities

- Low growth in consumer demand if AI adoption leads to white-collar job losses.
- West Asia conflict engulfing more parties from both sides.
- The impact of Dollar Index and US Bond Yields on FPI flows into Emerging Markets.
- Tariff policy adopted by the Trump Administration after the Supreme Court verdict, retaliatory tariffs from other nations.
- Gradual decline of the WTO as an institution and countries doing more bilateral trade deals.

Annexure...

Sectoral outlook by fund managers – Part 1

Sector	Particulars
BFSI	View – Neutral to Positive - Large cap, private sector banks are being preferred, especially as the economy is at an inflection point on the inflation front. Some exposure to large PSU banks and select exposure to midcap banks also being look at. The retail segment is not showing meaningful stress. - In an inflationary environment, there is little scope for rate cuts which bodes well for Banking (vs. NBFCs). System liquidity has improved. - Corporate credit demand is showing improvement. Valuations are low, NIMs have bottomed and stocks have underperformed. - Capital markets plays are experiencing regulatory overhangs and may see valuation correction, but SIP flows continue unabated, which is a positive.
IT	View – Negative to Neutral - The growth expectations from large cap names remain muted but they are emerging as a value play and funds are now looking to cut underweights. - A narrative of AI-led disruption has set in and the multiples can come off further. Demand acceleration due to AI may come with a lag. - There is uncertainty around terminal growth rates which is leading to a contraction in multiples. - Some Fund Managers are looking to take exposure to the names due to improved valuations and better cash flow yields. The strategy still remains to buy on dips and no aggressive stance is being seen.
Healthcare	View – Neutral - Domestic demand is holding up and is expected to grow at low double-digits. GLP-1 is a new category and is expected to contribute to growth. - Some Fund Managers favour export-centric players who may benefit from the weakness in INR vs. the USD. - Hospitals- Larger franchises preferred. Players are experiencing temporary headwinds due to tussle with Health Insurance companies. The CGHS (Central Government Health Scheme) rates were revised upwards in November 2025 which have not been priced in yet. Valuations are the only risk. - CDMO- Players with capable managements who have a long-term perspective for the company are preferred.
Auto & Auto Ancillaries	View – Neutral to Positive - GST cuts have helped volume growth but the recent uptick in commodity and fuel prices may act as a headwind for margins, as this space is both, interest-rate and fuel-rate sensitive, and players who can pass on the Raw Material inflation to customers are preferred. Players with a better launch pipeline are preferred. - Demand across the board, for PVs, 2-wheelers and CVs, is seeing strong momentum. Fund Managers are gradually adding at the margin. - The <u>Auto Ancillary</u> players are in a position to pass on the inflated raw material costs better than Auto OEMs as the industry has consolidated. Exports demand remains strong.

Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & Real Estate	View – Neutral - The upper end of the housing segment is likely to see gradual stagnations. Companies with strong land-banks and a mix of commercial and residential verticals yielding stable, recurring rental incomes are being preferred. - The Government's focus is on infrastructure and investment cycle and has seen strong spending recently. Recent correction in this segment seems to be giving buying opportunities in few stocks. - Fund Managers prefer investing in this space through proxy sectors such as Cement players, where pricing power has increased post consolidation.
Consumption	View – Consumer Services – Neutral to Positive, Consumer Durables and FMCG- Neutral to Positive - Staples – Volume growth has seen selective improvement but penetration levels remain high and companies are not willing to let go of their cyclically high margins. If the war-related uncertainties are prolonged, this is one of the few pockets with pricing power. However, the Fund Managers are also worried about the impact of potential el-Nino. - Consumer Durables – El-Nino could be a positive factor for AC players but it is difficult to predict the impact of monsoons. The impact on demand of passing on elevated raw material prices will need to be monitored. - Retail and Consumer Tech: Retail valuations have seen correction, focus is on Value Apparel Retailers whose earnings delivery is coming through. QSR- Players at scale are facing difficulties to manage LPG shortages. Jewellery- Till Q2 FY27, the players enjoy a very low base as precious metals prices rallied post that. Consumer Tech- The industry's growth rate remains healthy but competitive intensity remains a concern. Availability of the rider who makes the last mile delivery remains a key metric for these players to manage as user-experience remains meaningfully dependent in their hands. Long-term positives - Higher disposable income due to tax cuts. - Premiumization across categories. - Implementation of GST cuts and upcoming 8th Pay Commission.
Capital Goods, Industrials, Utilities	View –Neutral to Positive - The Government spending growth has sharpened to fewer sectors. - Prior to the war, the focus was on Energy Transition. This is now shifting to Energy Security. - Power T&D- valuations are very high but can continue to deliver ~20-30% earnings growth for the next 2-3 years as order books remain strong. Defence- Players with capability may get export opportunities in friendly countries as they are more competitive than their US and European counterparts. Data Centres- There are no direct plays in the listed space and ancillary plays like Wires and Cables (~6-7% constituents) and DC gensets (~4-5% constituents) are indirect plays. EMS- The assembly story in India has played out in the last 6-7 years and is done now. Now, players need to do backward integration.
Metals	View – Positive Metals remain a tactical play. AI-led capex in the US, safeguard duties and China anti-involution to support.

Sectoral Movement

Absolute Monthly Return By Sector (%)

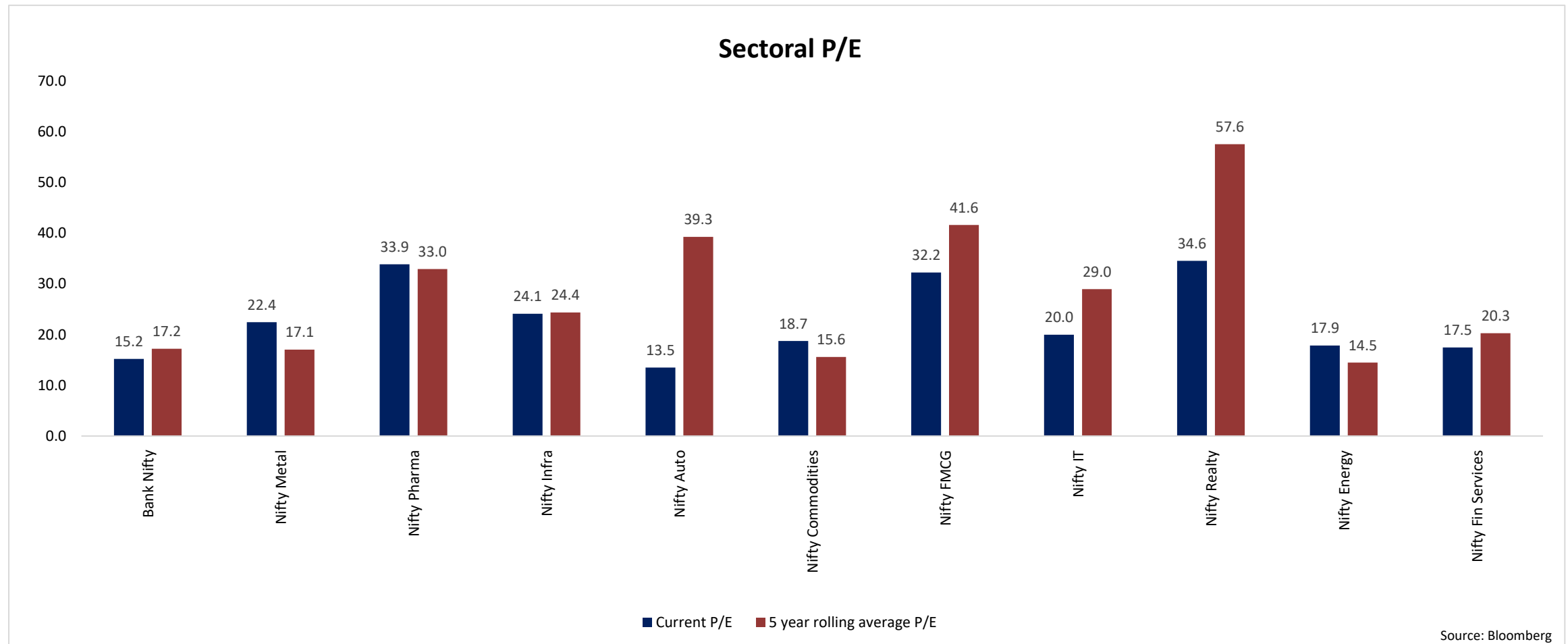
Index	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26
BSE 500	3.16	3.39	3.43	-2.87	-1.93	1.21	4.20	0.86	-0.25	-3.36	0.38	-11.40	10.36
Auto	4.73	4.73	2.24	-1.11	5.78	5.89	1.04	3.14	1.31	-5.20	4.95	-15.46	8.66
Bankex	5.17	0.85	1.62	-3.24	-3.34	2.48	5.56	3.10	-0.28	0.46	1.60	-16.96	9.06
Basic Material	-0.62	4.22	5.43	-1.38	-2.36	2.45	2.63	-3.41	4.06	1.38	1.08	-10.59	14.37
Capital Goods	0.09	13.24	1.75	-5.66	-4.13	4.39	3.10	-1.70	-3.03	-0.66	5.68	-8.82	20.18
Consumer Discretionary	3.98	4.32	3.49	-1.47	2.52	0.96	1.91	-0.18	-1.42	-6.86	2.34	-12.98	12.03
Consumer Durables	5.65	0.86	3.17	-0.52	1.96	-4.85	4.97	2.16	-3.01	-7.79	6.98	-11.11	12.32
Energy	5.02	1.95	3.09	-4.70	-3.87	4.22	5.82	-0.42	1.75	-2.54	2.99	-9.61	8.28
FMCG	5.17	-0.71	-0.33	1.61	0.21	-2.44	2.75	-1.22	-0.31	-7.90	0.01	-10.49	12.62
Finance	4.61	3.08	3.43	-2.66	-3.82	2.34	4.78	2.30	-0.64	-1.79	0.88	-15.60	9.47
Healthcare	1.91	0.93	3.88	2.51	-3.86	-1.25	3.38	0.80	-2.41	-5.60	6.22	-4.87	6.79
IT	-2.97	5.26	3.33	-8.69	-1.07	-3.64	5.51	3.69	1.18	-0.33	-18.74	-6.15	1.72
Infra	0.70	5.03	2.72	-3.81	-4.75	4.44	3.21	-2.78	-1.27	-2.10	4.46	-9.73	15.61
Metal	-5.76	5.89	3.04	-2.56	-1.61	9.43	5.64	-2.89	7.91	5.52	4.07	-8.93	14.61
Oil & Gas	5.40	2.03	3.10	-3.84	-4.69	5.36	6.43	-1.51	1.78	-2.07	5.27	-13.64	8.31
Power	0.90	2.37	1.95	-3.45	-4.56	5.04	3.14	-4.51	-1.66	-1.70	8.99	-4.23	22.25
Realty	3.99	7.21	3.84	-7.33	-4.48	-0.36	9.20	-4.69	-2.96	-10.34	-0.58	-16.83	21.43
Telecom	8.73	3.55	6.10	-7.79	-4.48	0.48	7.22	2.40	1.87	-4.73	0.02	-9.04	13.63
Utilities	1.02	-0.85	2.95	-2.20	-4.47	5.11	3.18	-5.57	-0.96	-2.42	7.41	-3.40	19.98

The abovementioned sectoral indices pertain to the BSE universe

Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research

Sectoral valuations have improved vs. their long term averages



Current 1-year forward P/E multiples of countries vs. their long-term trailing average P/E seems reasonable

Country	Index	Curent year Expected EPS	Current 1 year forward P/E	5 year avg trailing	Current year Expected Book Value	Exp P/B	TTM ROE
USA	S&P 500	332.19	21.76	24	1476.74	4.9	18.86
Europe	Stoxx 600	40.38	15.16	15.2	275.82	2.2	12.28
UK	FTSE 100	791.78	13.09	13.4	4777.55	2.2	12.70
Germany	DAX	1536.19	15.84	15.3	12847.91	1.9	10.09
France	CAC	537.59	15.08	14.7	4144.85	2.0	10.50
Japan	NIKKEI 225	2544.59	23.39	23.3	22160.60	2.7	11.29
Australia	ASX 200	499.55	17.41	14.6	4313.18	2.0	10.97
Singapore	STI Index	319.77	15.46	14.6	3105.12	1.6	9.69
Hongkong	Hengseng	2239.93	11.66	11.1	20692.04	1.3	9.89
India	Nifty 50	1202.06	20.07	23.5	8670.88	2.8	15.52
China	Shanghai Composite	286.30	14.36	15.1	2895.23	1.4	-13.65
Brazil	BOVESPA	20193.48	9.28	8.9	131532.80	1.4	12.71
Korea	Kospi	819.92	8.46	15.2	3634.56	1.9	8.07
Mexico	IPC	5161.48	13.15	15.2	29099.63	2.3	15.10
Philippines	PCOMP	664.25	8.95	15	5294.90	1.1	11.36
Turkey	XU100	3068.67	4.71	10.1	23817.30	0.6	8.06
Thailand	SET	98.55	15.16	18.3	1028.55	1.5	8.46
Vietnam	VN30	174.57	11.56	13.3	1132.52	1.8	17.02
Indonesia	JCI	631.92	11.03	19.6	96890.35	0.1	12.43

Data as on 4th May 2026

Source: Bloomberg

AMC Sectoral Holdings

	Auto & Auto Ancillaries	Banks & Finance	Capital Goods	Commodities	FMCG	Consumer Durables and Consumer Services	Housing & Construction	IT	Media	Oil & Gas, Energy	Other Equities	Pharma	Telecom	Textiles	Transport & Shipping, Logistics & Services
Nifty 500	7.36%	32.31%	6.21%	8.21%	5.88%	6.03%	4.02%	6.75%	0.12%	11.01%	0.10%	6.48%	3.39%	0.23%	1.86%
360 ONE MF	7.12%	32.42%	14.84%	4.23%	1.47%	11.01%	4.69%	4.60%	0.00%	2.82%	0.00%	3.57%	9.69%	0.00%	0.01%
Abakus MF	3.51%	32.11%	14.79%	7.07%	3.70%	5.27%	5.00%	2.66%	0.00%	9.00%	0.00%	7.64%	2.46%	0.00%	0.00%
Aditya Birla SL MF	8.97%	31.31%	5.80%	7.03%	5.80%	8.67%	3.36%	8.47%	0.00%	6.67%	0.41%	6.54%	2.82%	0.48%	1.67%
Axis MF	9.02%	26.93%	10.64%	7.39%	2.67%	8.48%	3.63%	4.51%	0.00%	4.50%	1.38%	9.29%	3.10%	0.31%	1.47%
Bajaj Finserv MF	8.93%	27.36%	7.96%	7.97%	4.19%	12.37%	3.35%	1.93%	0.28%	4.40%	0.89%	13.23%	2.98%	1.64%	0.30%
Bandhan MF	4.51%	30.65%	6.12%	6.90%	4.92%	7.20%	5.25%	4.70%	0.11%	7.09%	1.38%	8.33%	2.28%	1.04%	3.03%
Bank of India MF	5.99%	19.65%	11.33%	7.81%	5.80%	6.30%	2.74%	2.57%	0.45%	6.75%	0.20%	8.04%	2.48%	1.15%	2.16%
Baroda BNP Paribas MF	9.49%	24.64%	8.79%	8.17%	5.14%	7.93%	2.93%	5.67%	0.00%	8.68%	0.25%	9.89%	2.51%	0.00%	1.13%
Canara Robeco MF	8.43%	27.37%	9.70%	5.19%	6.16%	13.19%	3.27%	5.46%	0.08%	5.07%	0.84%	7.51%	2.65%	0.29%	1.89%
Capitalmind MF	10.19%	31.20%	8.67%	8.09%	0.00%	2.35%	0.00%	0.00%	0.00%	6.67%	0.00%	2.70%	2.75%	0.00%	1.49%
DSP MF	9.51%	29.72%	8.15%	7.43%	3.36%	6.32%	3.21%	5.61%	0.00%	6.49%	0.19%	10.65%	2.83%	0.86%	0.56%
Edelweiss MF	8.76%	30.63%	11.04%	9.15%	4.48%	7.39%	3.02%	4.98%	0.00%	4.87%	0.31%	8.56%	2.62%	0.74%	0.85%
Franklin Templeton MF	5.57%	27.47%	9.66%	6.22%	3.87%	10.06%	4.11%	7.02%	0.00%	8.11%	0.19%	7.45%	3.21%	0.53%	2.04%
Groww MF	11.07%	33.70%	12.39%	6.97%	0.62%	2.24%	4.26%	2.32%	0.00%	1.65%	0.00%	5.08%	1.66%	0.06%	1.56%
HDFC MF	11.26%	31.67%	6.33%	5.13%	3.58%	6.88%	2.42%	5.49%	0.26%	4.51%	0.11%	10.25%	2.76%	0.47%	3.23%
Helios MF	5.78%	35.84%	12.10%	0.91%	2.45%	9.71%	5.43%	0.60%	0.35%	9.16%	0.00%	6.56%	2.03%	1.66%	5.59%
HSBC MF	5.46%	29.90%	17.73%	6.06%	4.77%	9.02%	4.56%	3.74%	0.00%	4.42%	0.42%	5.35%	1.71%	1.98%	1.74%
ICICI Pru MF	8.96%	25.39%	6.08%	6.78%	4.50%	7.29%	5.06%	7.91%	0.21%	9.21%	0.99%	7.21%	2.60%	0.62%	2.39%
Invesco MF	5.55%	31.52%	9.53%	3.09%	1.03%	14.07%	5.87%	5.22%	0.00%	2.09%	0.53%	13.69%	1.16%	0.00%	4.79%
ITI MF	7.39%	30.64%	13.10%	8.90%	3.69%	6.76%	3.88%	5.88%	0.00%	4.44%	0.96%	10.80%	2.05%	0.77%	0.97%
JM Financial MF	8.33%	30.06%	9.88%	7.69%	4.97%	7.56%	3.27%	5.19%	0.09%	4.98%	0.00%	8.56%	2.82%	1.79%	2.63%
Kotak Mahindra MF	8.68%	26.55%	10.12%	11.67%	2.93%	8.29%	4.31%	6.10%	0.44%	5.70%	0.07%	8.37%	3.36%	0.17%	1.24%
LIC MF	10.09%	22.87%	18.42%	6.22%	6.45%	6.22%	3.59%	4.11%	0.16%	3.37%	0.27%	7.22%	2.43%	0.74%	2.47%
Mahindra Manulife MF	7.78%	27.58%	9.47%	8.51%	3.97%	6.32%	2.37%	5.31%	0.15%	6.57%	0.33%	10.26%	4.25%	1.11%	0.93%
Mirae Asset MF	7.93%	31.10%	3.95%	6.30%	4.52%	10.75%	4.30%	6.16%	0.00%	5.95%	0.18%	10.32%	3.65%	0.05%	3.60%
Motilal Oswal MF	5.28%	30.79%	16.91%	2.13%	0.81%	15.62%	2.79%	8.80%	0.00%	0.98%	3.95%	3.12%	4.75%	0.20%	0.56%
Navi MF	8.45%	36.05%	11.00%	3.92%	5.10%	4.31%	2.77%	5.50%	0.09%	4.80%	0.00%	7.08%	2.39%	0.39%	2.21%
Nippon India MF	7.13%	27.36%	11.87%	4.81%	6.11%	12.15%	2.71%	3.93%	0.28%	7.65%	0.57%	10.26%	0.92%	0.68%	1.73%
NJ MF	16.49%	25.51%	0.19%	4.39%	17.20%	3.48%	0.00%	11.38%	0.00%	3.42%	0.00%	11.05%	0.00%	2.39%	4.02%
Old Bridge MF	10.66%	17.17%	0.00%	16.75%	4.87%	1.30%	3.41%	0.00%	0.00%	0.00%	2.43%	13.10%	4.05%	0.00%	12.37%
PGIM India MF	8.40%	25.87%	10.48%	9.04%	3.98%	11.90%	2.95%	5.10%	0.00%	3.86%	0.00%	10.98%	2.71%	0.13%	1.63%
PPFAS MF	7.29%	26.38%	0.03%	0.02%	6.29%	1.90%	0.01%	11.43%	0.00%	12.15%	0.00%	4.19%	3.01%	0.00%	4.30%
Quant MF	6.26%	23.90%	3.36%	8.49%	4.42%	2.82%	7.25%	1.62%	1.51%	15.76%	-0.84%	11.28%	1.87%	1.75%	0.53%
Quantum MF	10.62%	39.10%	1.82%	3.91%	0.94%	5.34%	0.95%	13.56%	0.19%	3.78%	0.57%	5.16%	2.46%	0.00%	4.78%
Samco MF	12.69%	38.29%	16.53%	11.68%	2.74%	2.64%	0.93%	5.54%	0.00%	2.51%	1.32%	5.49%	0.56%	0.02%	1.19%
SBI MF	8.12%	27.32%	6.55%	7.84%	4.77%	8.15%	3.02%	4.56%	0.08%	9.92%	1.26%	6.15%	2.51%	1.09%	1.70%
Shriram MF	11.06%	35.73%	3.41%	2.53%	2.04%	4.05%	1.79%	8.70%	0.25%	8.80%	0.00%	9.97%	4.51%	0.00%	5.60%
Sundaram MF	7.09%	29.06%	8.85%	5.43%	5.33%	9.97%	3.70%	5.73%	0.18%	6.59%	0.34%	7.61%	3.95%	0.11%	2.57%
Tata MF	5.42%	24.28%	7.52%	8.60%	4.91%	6.46%	3.34%	12.59%	0.23%	6.85%	0.89%	6.56%	3.09%	0.51%	2.91%
Taurus MF	8.64%	19.50%	6.42%	7.58%	8.89%	4.11%	1.27%	8.43%	0.20%	12.78%	0.00%	11.16%	4.50%	0.85%	0.93%
The Wealth Company MF	12.29%	36.23%	10.21%	5.32%	0.69%	4.40%	6.49%	6.20%	0.00%	5.90%	0.00%	2.77%	2.76%	0.00%	0.18%
Trust MF	9.92%	28.58%	16.67%	7.08%	1.58%	6.51%	2.56%	3.42%	0.00%	2.52%	0.00%	9.09%	1.21%	2.29%	2.62%
Unifi MF	7.04%	32.24%	4.16%	7.29%	2.57%	0.95%	4.14%	6.93%	0.00%	6.82%	1.12%	10.73%	5.36%	1.98%	4.14%
Union MF	9.50%	29.73%	13.40%	8.14%	3.52%	8.11%	3.88%	5.07%	0.23%	3.71%	0.00%	8.04%	2.49%	0.58%	0.99%
UTI MF	10.71%	26.43%	6.47%	5.10%	3.82%	13.80%	2.87%	8.09%	0.24%	4.89%	0.47%	9.07%	2.83%	0.35%	1.81%
WhiteOak Capital MF	6.12%	31.16%	9.35%	5.07%	3.87%	8.87%	2.08%	6.23%	0.01%	3.47%	1.73%	11.78%	3.36%	0.03%	1.59%

Data as on 31st March, 2026

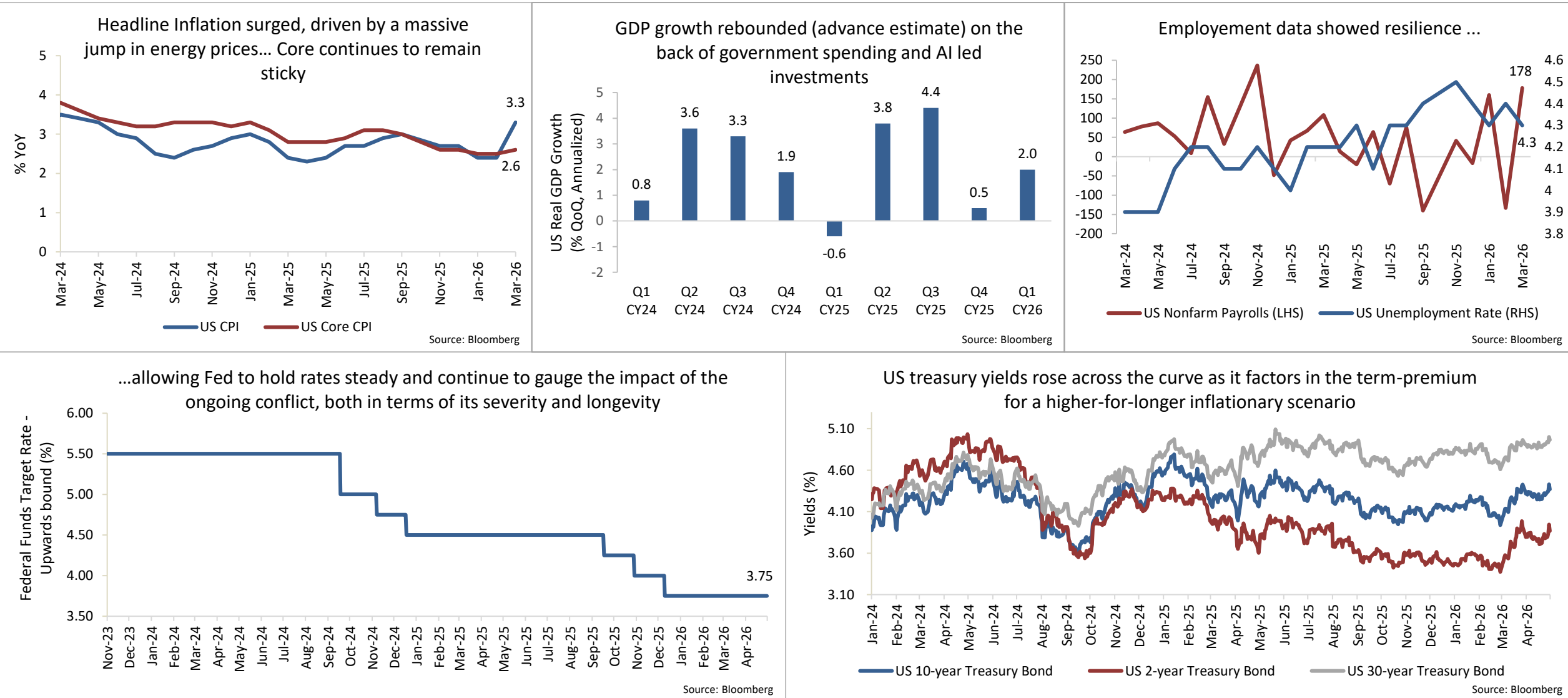
Source : ICRA Analytics Limited

Fixed Income Market

Fixed Income Outlook and Strategy – May 2026

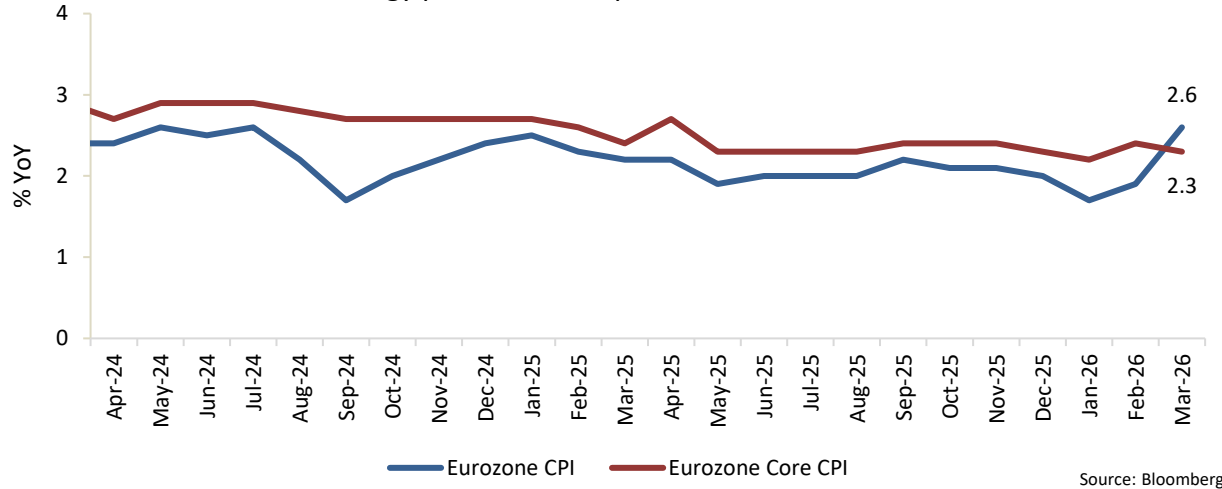
- Despite the initial positive impact of RBI's forex intervention, the rupee continued to slide due to the stop-start nature of the West Asia conflict. The currency may remain under pressure if the conflict does not reach a swift resolution.
- Inflation remained contained within the RBI's comfort zone, despite accelerating further due to cost pressures from food and global energy markets. Going forward, potential El Niño effects and imported inflation on the back of elevated energy prices pose upside risks.
- External sector was adversely affected due to high prices of energy imports. Faster resolution to the geopolitical conflict remains a key for revival of the same. The RBI's large Dollar short positions continue to remain a point of concern.
- The significant and adverse shift in growth-inflation dynamics since the start of the West Asia conflict, mainly due to heightened volatility and elevated energy prices leading to imported inflation, has made the Central Bank's policy decision making trickier and more nuanced. Although market participants and the OIS curve are factoring in rate hikes, the RBI is expected to remain growth supportive. However, they may have reached interim terminal policy rates and we may be in for a long pause.
- Commodity prices saw significant volatility, especially as crude prices saw a significant up-move on the back of uncertainty and dual blockade of Strait of Hormuz. Metal prices also surged on the back of high energy prices which increase processing costs. Market participants believe that even if the conflict sees immediate de-escalation, prices may continue to move around the upper band of the range.
- In the US, inflation saw a sharp uptick, but higher GDP growth and resilient employment data allowed the Fed to keep policy rates unchanged and assess the impact of the conflict. The market continues pricing in fewer rate cuts in CY26. Fed's future policy actions will hinge on the impact of war on energy markets and inflation. Initial policy signals from Fed Chair-nominee, Kevin Warsh, will be another critical factor to watch, especially if he looks through the initial impact of energy prices as transient or one-time.
- Europe has been hit by energy shocks. A sharp rise in inflation along with muted growth expectations has forced the ECB to remain on pause and be data-dependent. Market participants have started factoring in a rate hike in June 2026.
- During the month, we saw major Central Banks maintaining a status quo on policy rates amidst elevated uncertainties due to the Middle East conflict. Going forward, if uncertainties persist, keeping energy prices elevated and thus putting upside pressure on inflation, Central banks across the world may consider raising policy rates earlier than was envisaged.
- The geopolitical conflict, which has put strain on government finances, along with FPI outflows led to elevated G-sec yields. Though the longer end saw marginal cooling off, given India's high dependence on energy imports, yields are expected to remain elevated till clarity emerges on the war, and crude prices soften.
- Sufficient system liquidity pushed down the yields for very short end corporate bonds during the month of April. The current positioning continues to provide good accrual opportunities at the 3-5-year segment of the corporate bond curve and the longer end of the SDL curve.
- Thus, at this juncture, with lucrative yields, a case continues to exist for investment into Corporate Bonds that are at the 3-5-year segment of the curve. Hence, investors can look at Corporate Bond Funds and Short Duration Debt Funds for a horizon of 15 months and above.
- For a horizon of 24 months and above, investors may consider Income Plus Arbitrage FoFs or consider Dynamic Bond Funds for tactical opportunity.
- As yields in the less than 1-year segment remain high for corporates, for a horizon of 3 months and above, investors can consider Arbitrage Funds and Low Duration Funds.
- Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds.
- Investors should invest in line with their risk profile and product suitability.

US: Dual blockade of the Strait of Hormuz and diplomatic fragility has led to increased volatility which is reflecting in energy prices and inflation... Fed may look through the initial impact and continue to monitor the West Asia conflict

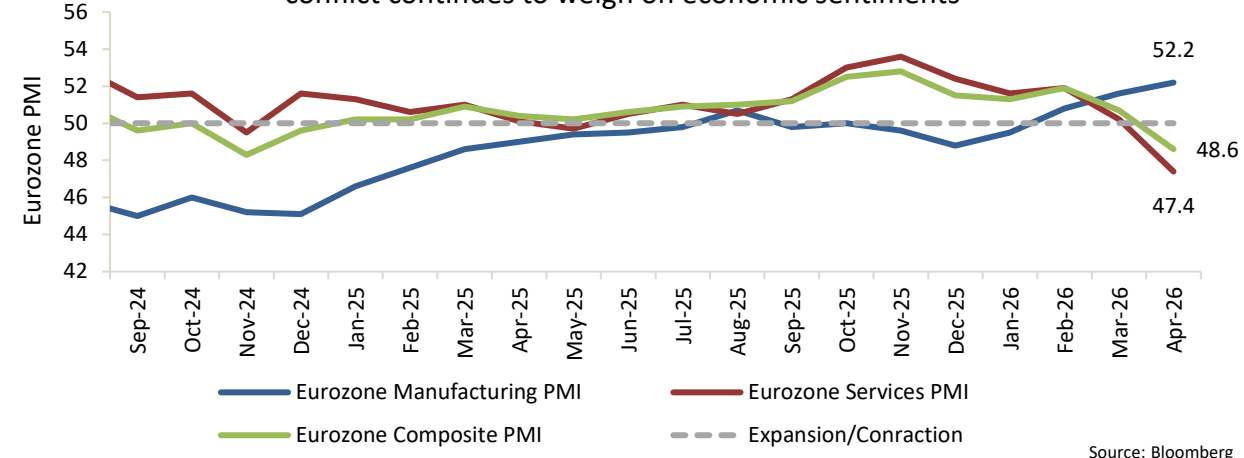


EU: The fallout from the energy shock is increasingly weighing down on EU growth prospects while simultaneously adding upward pressure on inflation... Economists now expect a rate hike in June

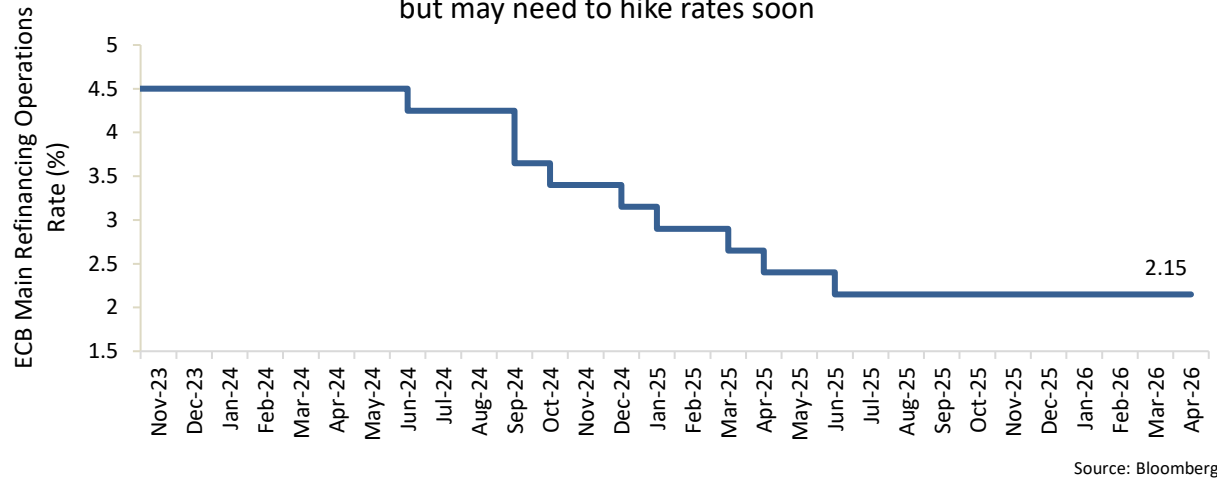
Pressure from energy prices led to rapid acceleration in headline inflation



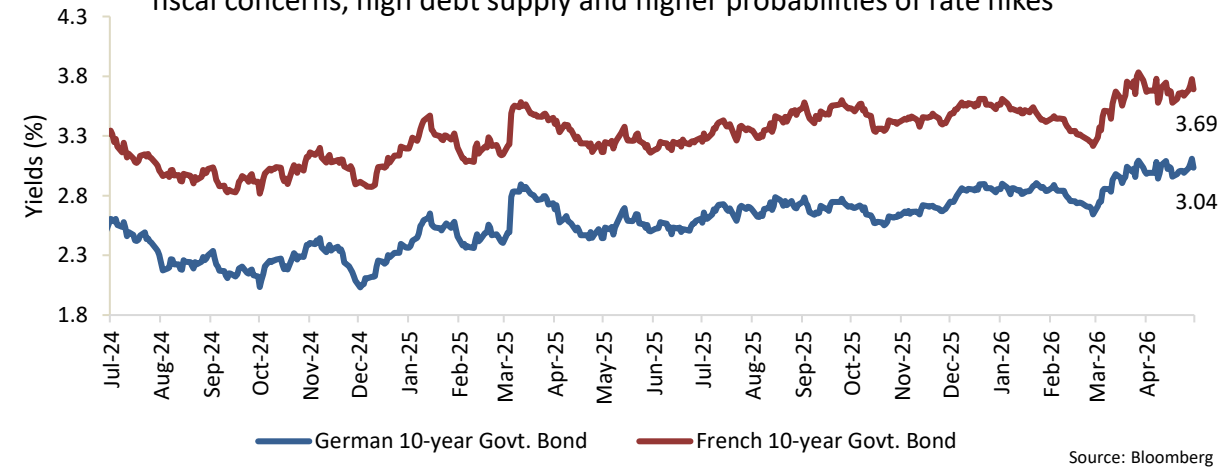
Composite PMI contracted, pulled down by Services PMI as the geopolitical conflict continues to weigh on economic sentiments



ECB continues to remain data-dependent amidst the Middle East conflict, but may need to hike rates soon

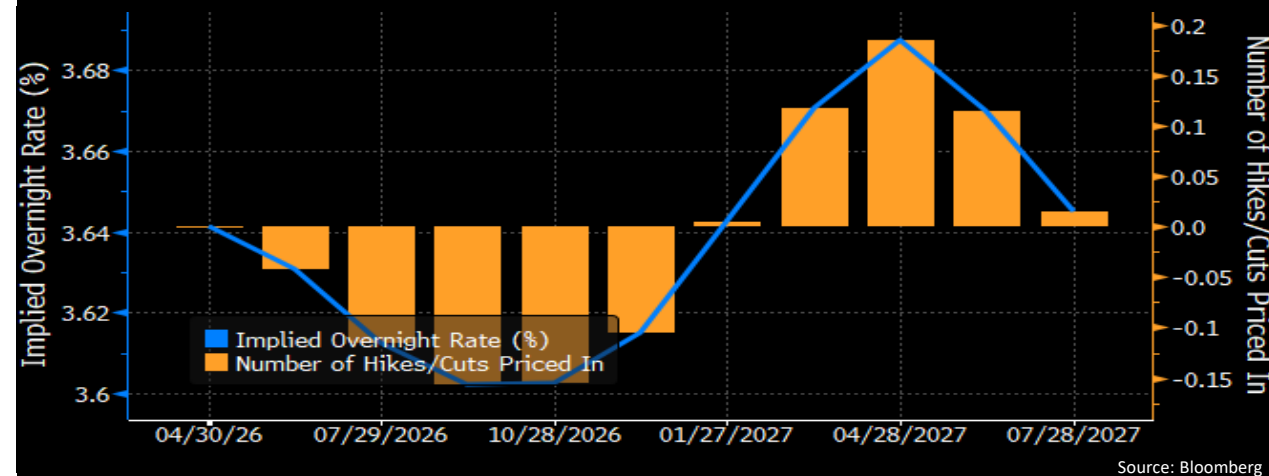


High energy inflation kept yields elevated in both Germany & France due to fiscal concerns, high debt supply and higher probabilities of rate hikes



Market participants expect shallower rate cuts by the Fed during CY26 amidst upwardly revised inflation forecasts... The ECB continues to remain data dependant as they face one of the most decisive moments

As the US attorney closes the probe on Jerome Powell, it increases the probability of Kevin Warsh's appointment who sounded hawkish in his confirmation interview

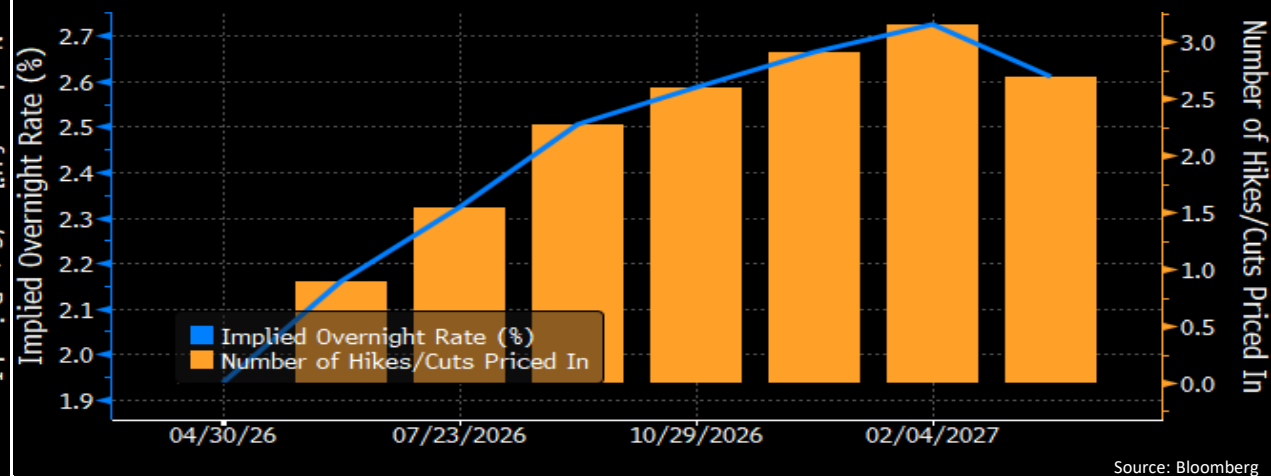


"...The president never asked me to predetermine, commit, fix, decide on any interest rate decision in any of our discussions, nor would I ever agree to do so ..."

- **Fed Chair Nominee Kevin Warsh**

Senate Banking, Housing, and Urban Affairs Committee confirmation hearing in Washington, DC

ECB highlights challenges of setting Monetary policy during times of conflict but remains committed to maintaining price stability with sharpened understanding from crisis

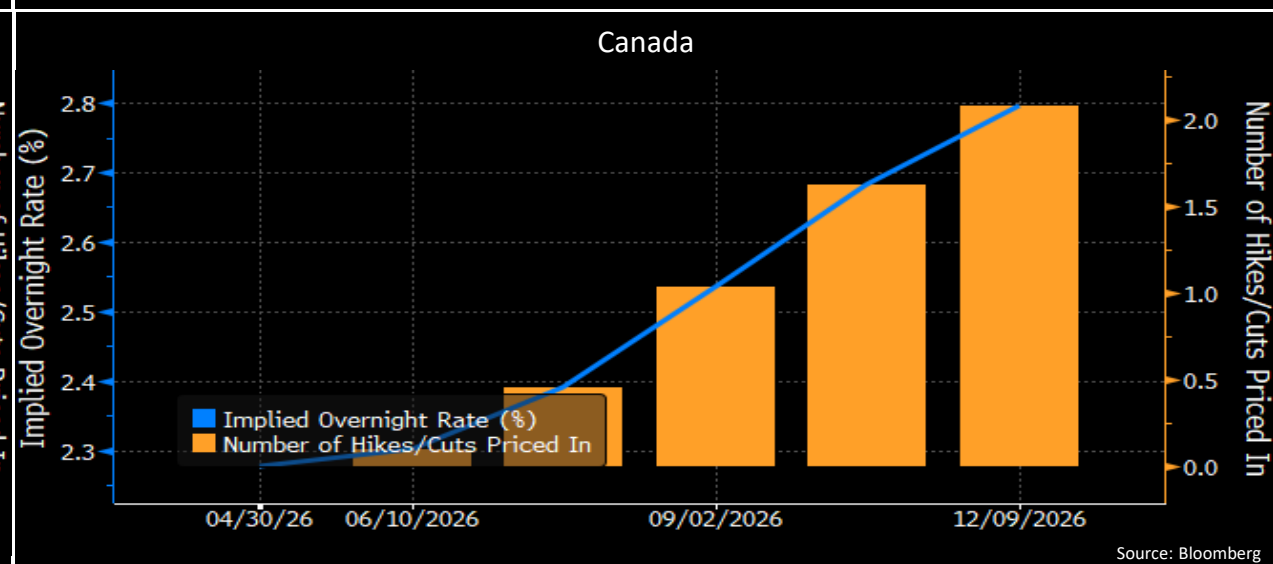
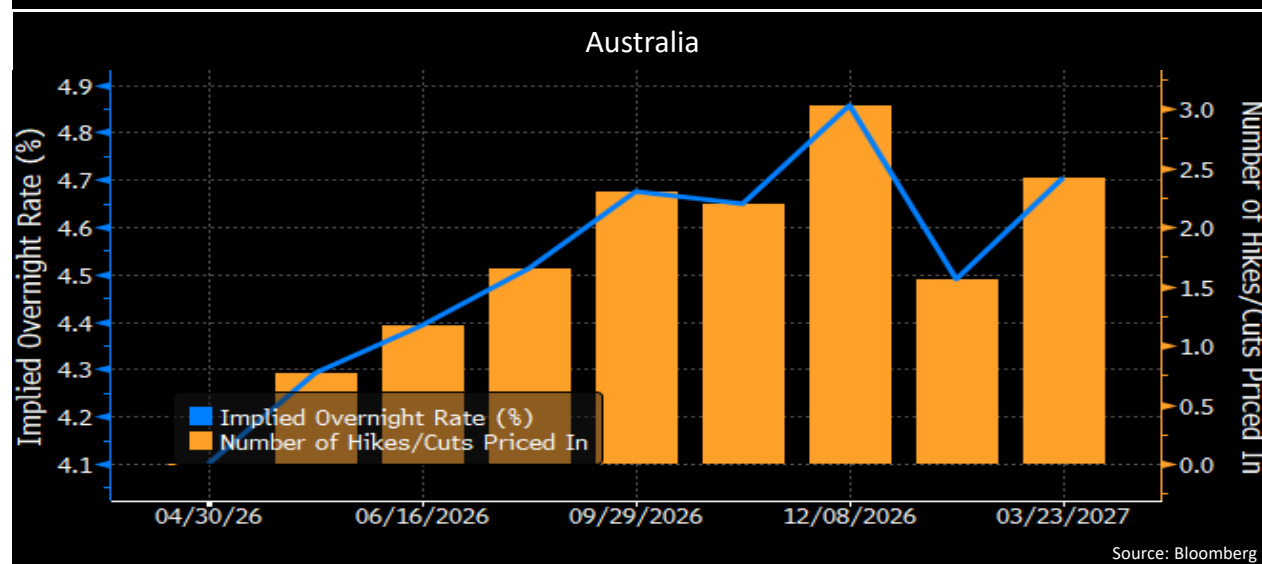
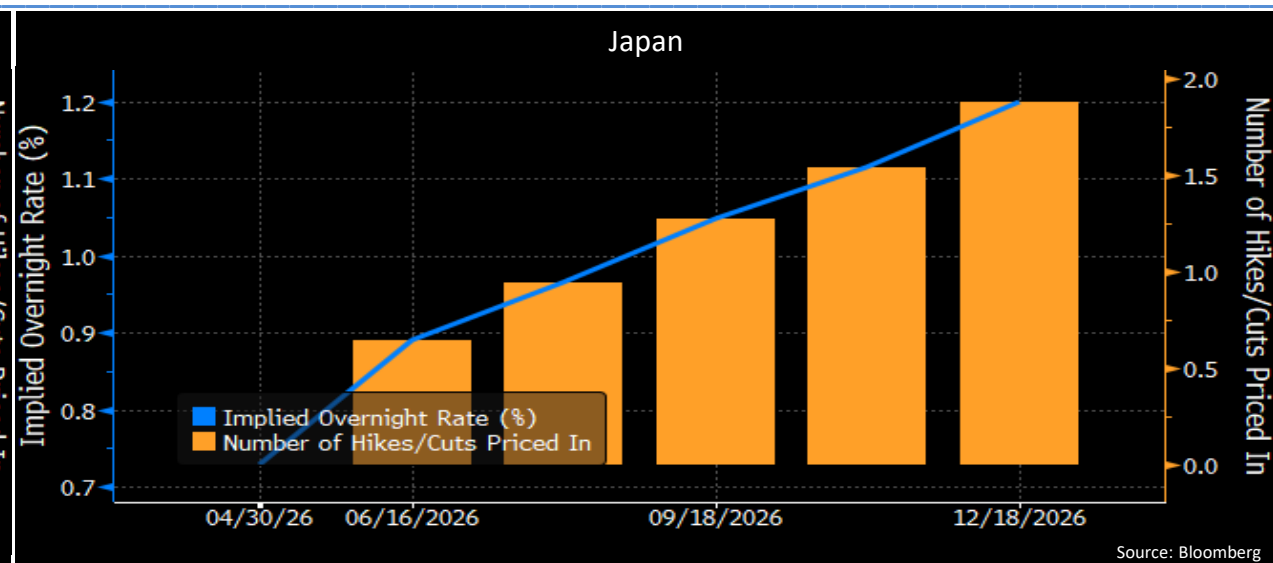
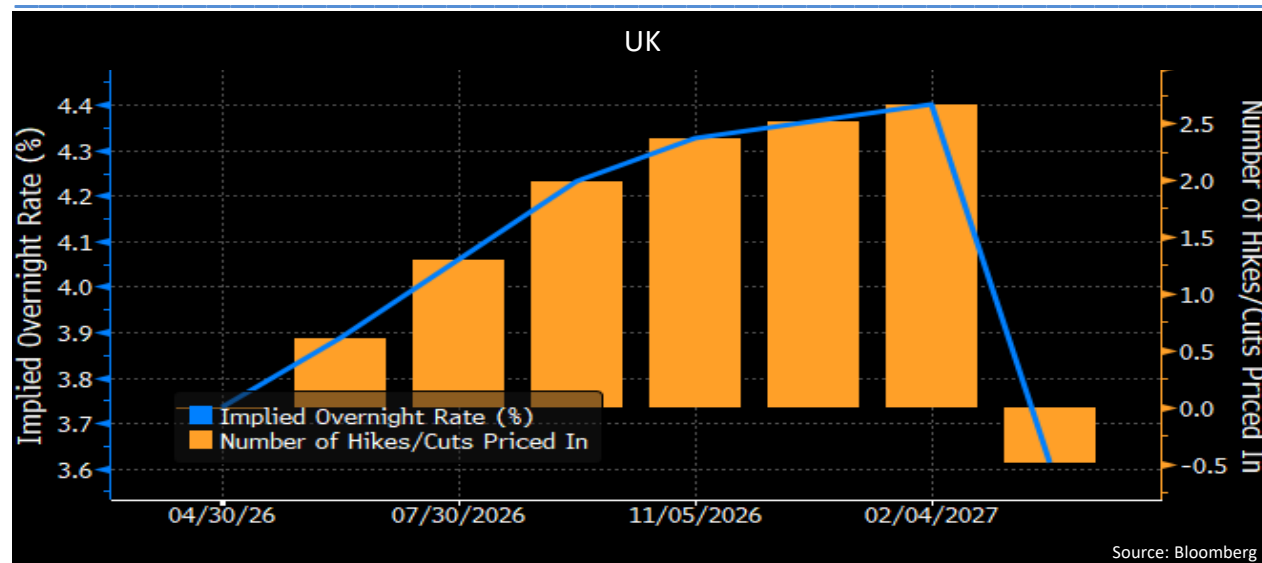


"The economic picture remains deeply uncertain. The stop-start nature of the conflict – war, ceasefire, peace talks, their collapse, a naval blockade, its lifting, its reinstatement – makes it exceptionally hard to gauge the duration and depth of the consequences...But what is clear is that there is no easy path back to where we were before this conflict erupted...Every day the conflict continues, the wider the gap between energy supply and demand and the longer the normalisation. And the longer the disruption, the further the spread of its effects – not only through higher energy costs, but through the loss of critical inputs."

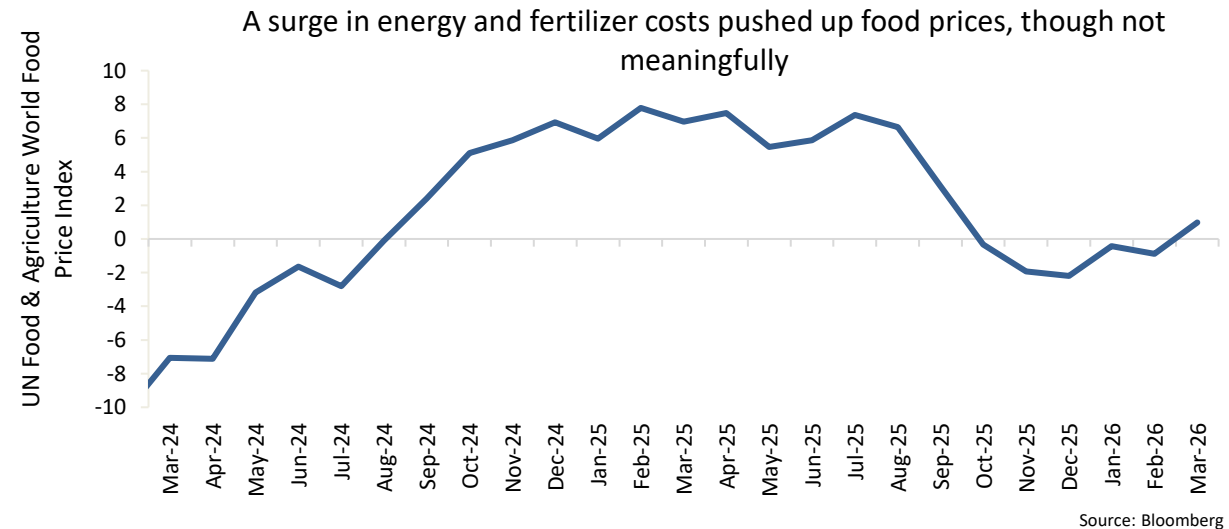
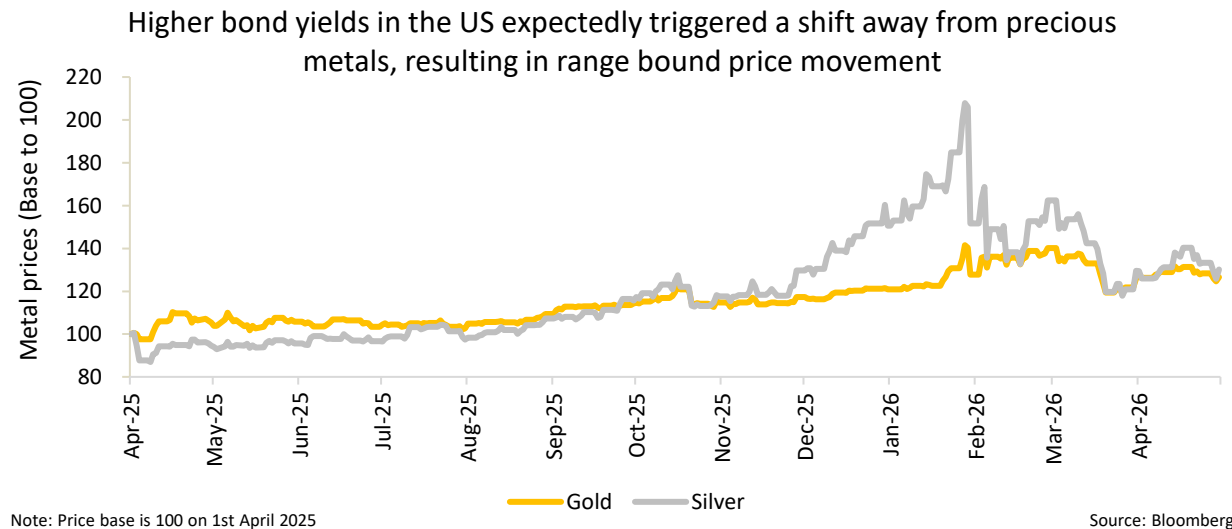
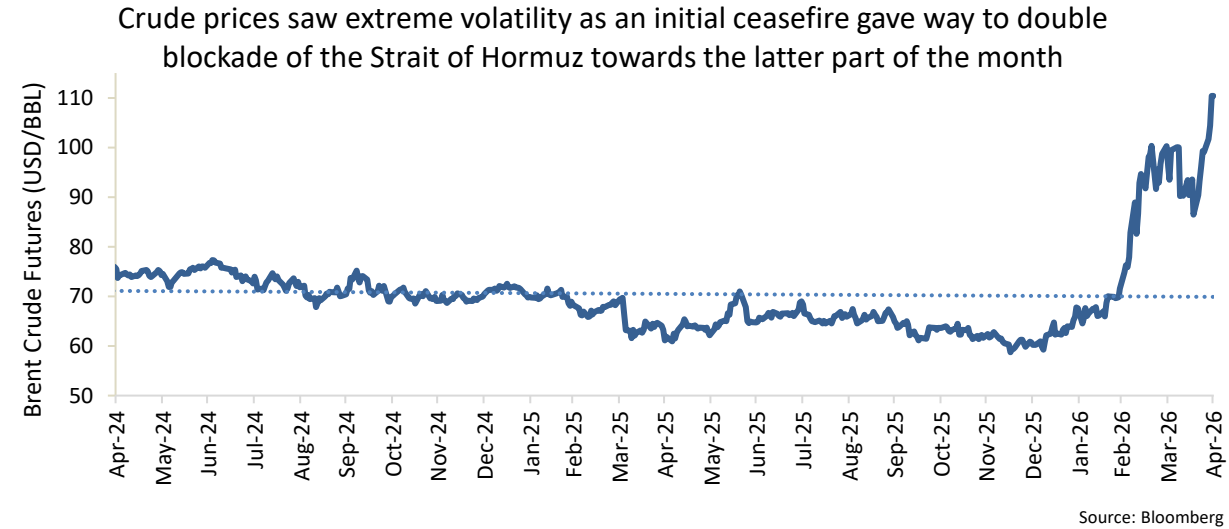
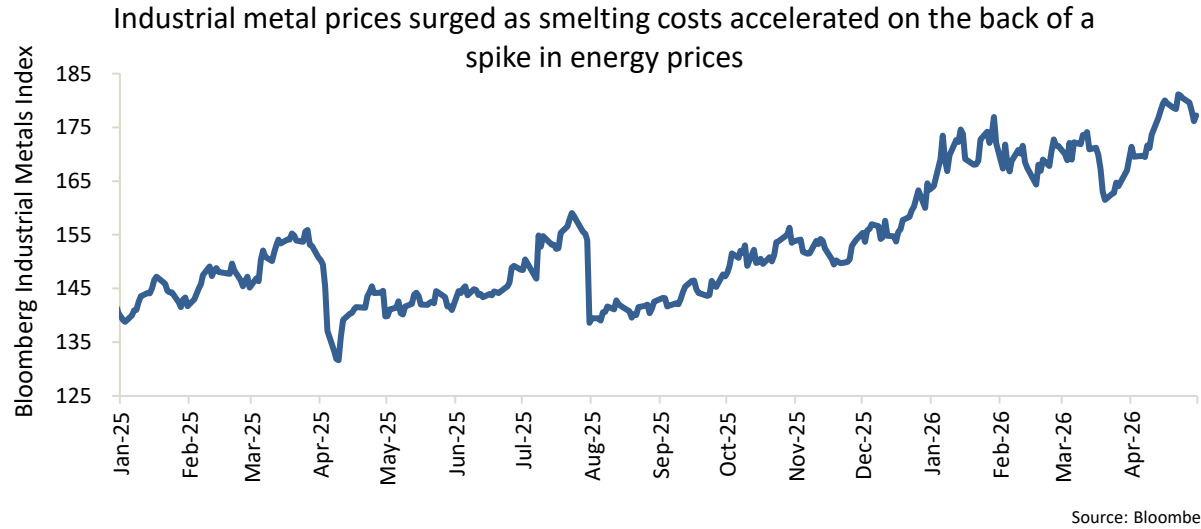
- **Christine Lagarde, President of the ECB**

At the annual reception of the Association of German Banks on the occasion of their 75th anniversary

Higher inflation due to energy shocks and infrastructure damage may have ensured that globally the rate cut cycle is behind us... Expectations are getting built for rate hikes

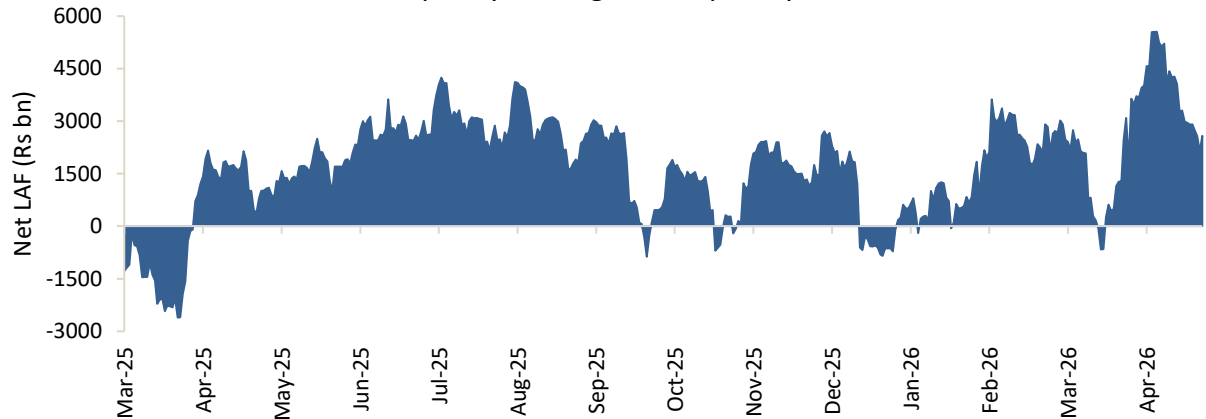


Global Commodities – A tenuous ceasefire and a continuous blockade of the Strait of Hormuz led to massive volatility in commodity prices

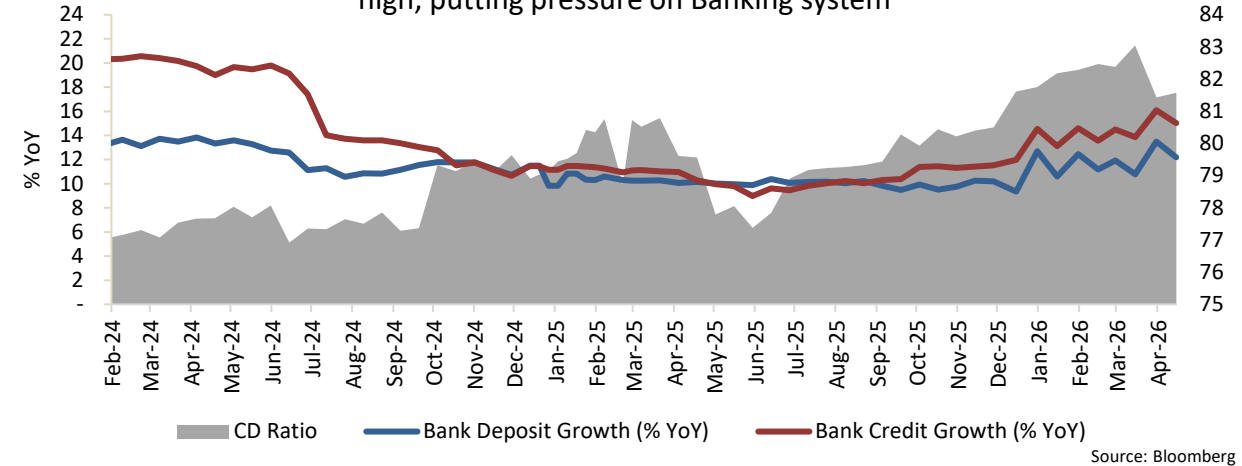


Though liquidity conditions saw a reversal from tightness to significant surplus, Credit-Deposit growth mismatch kept pressure on CD/CP yields... RBI held rates steady while committing to proactive management of system liquidity

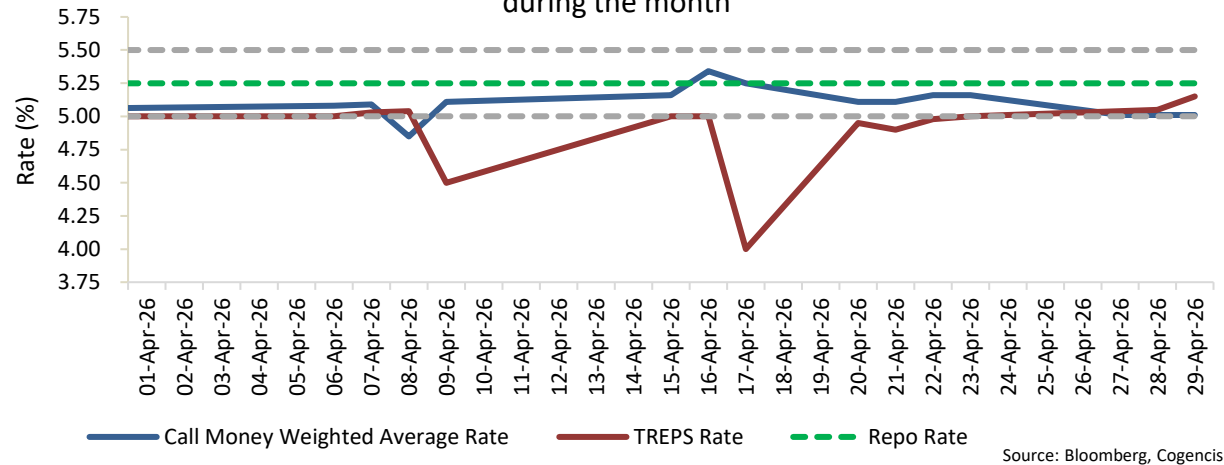
As government spending picked up and year end pressure faded system liquidity saw significant pick up...



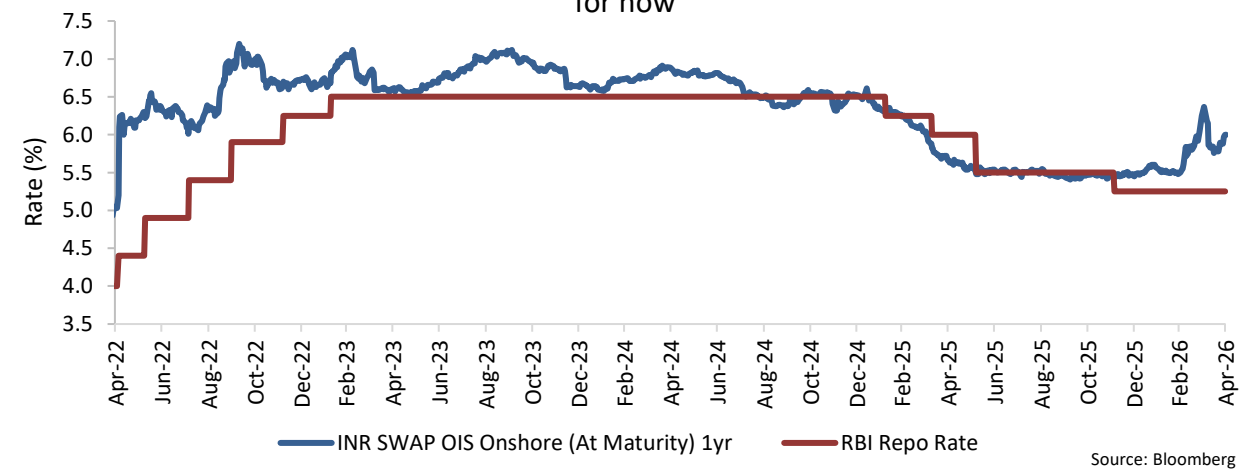
... but Deposit growth lagging Credit growth kept the Credit-Deposit ratio high, putting pressure on Banking system



Adequate system liquidity kept both Call money and TREPS rates lower during the month

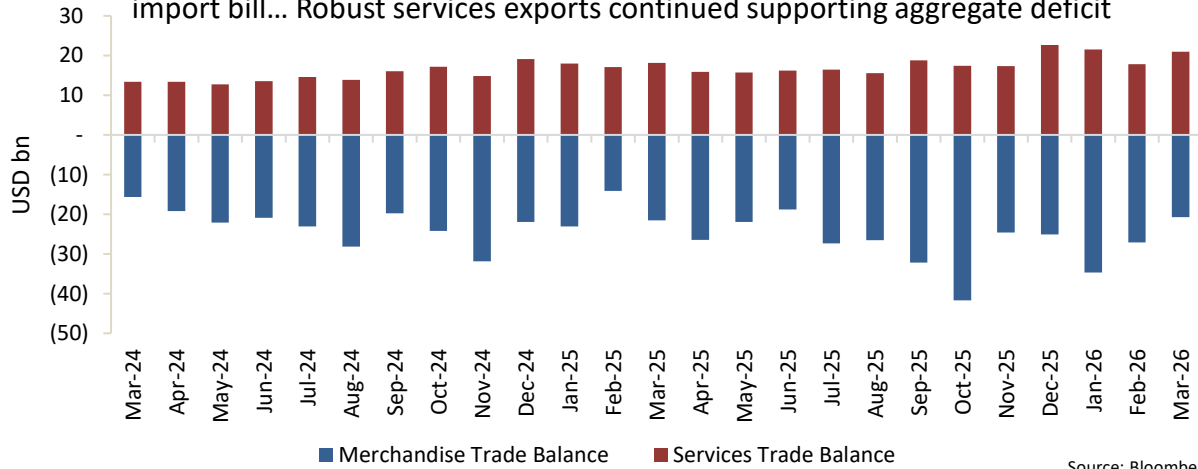


Even as the OIS market factors in rate hikes, the RBI continues to hold rates for now

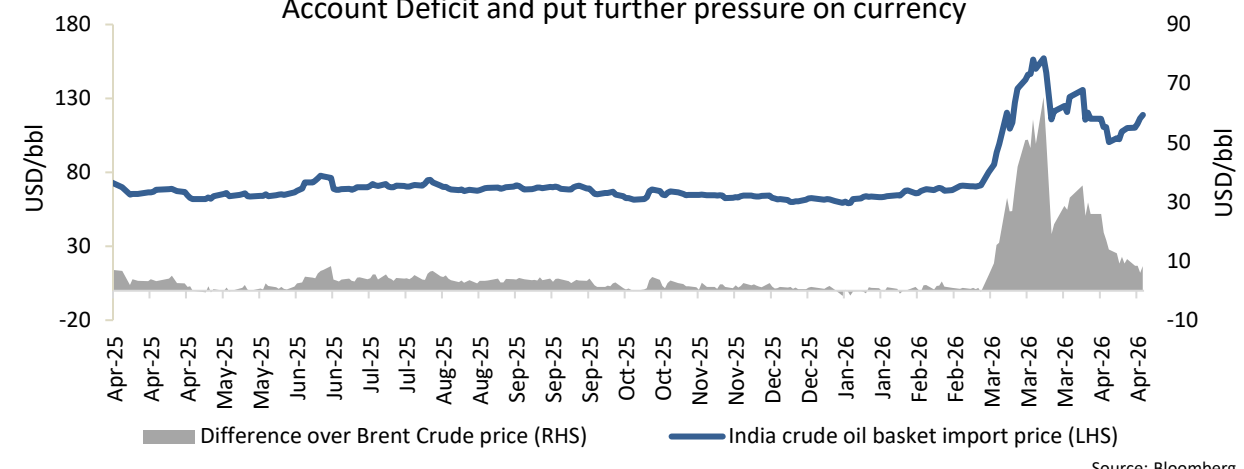


Geopolitical disruptions created multiple weak points for the external sector, but the same showed relative resilience during the month

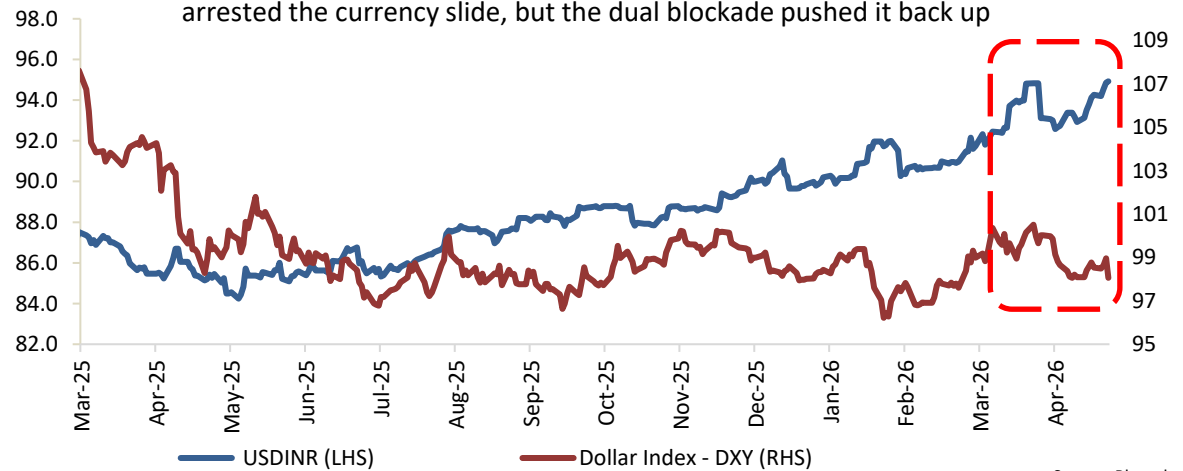
Trade deficit narrowed on the back of a supply disruption led fall in the import bill... Robust services exports continued supporting aggregate deficit



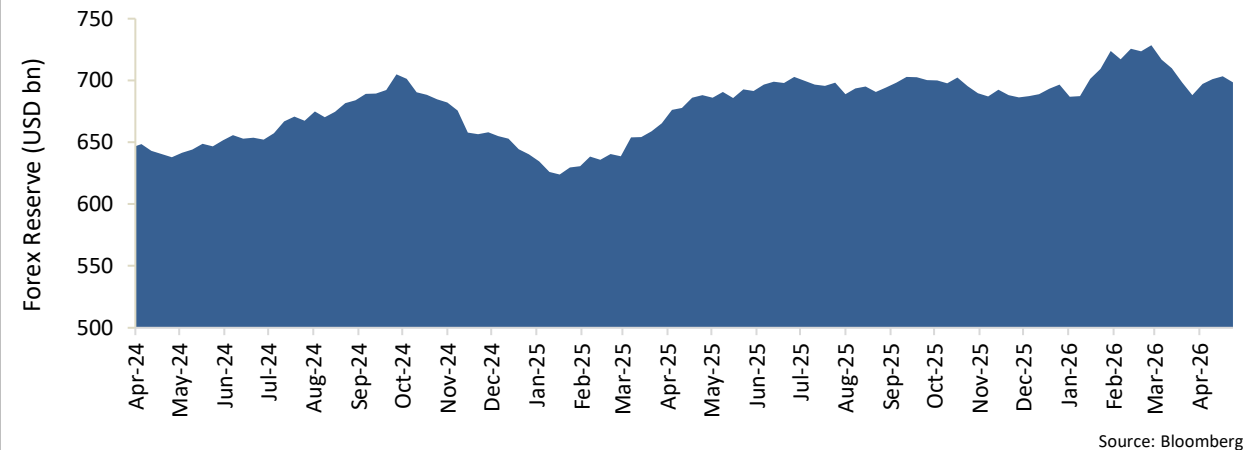
Higher prices of India's crude basket can lead to a spike in the Current Account Deficit and put further pressure on currency



During the month of April, the interim ceasefire and measures by the RBI had arrested the currency slide, but the dual blockade pushed it back up

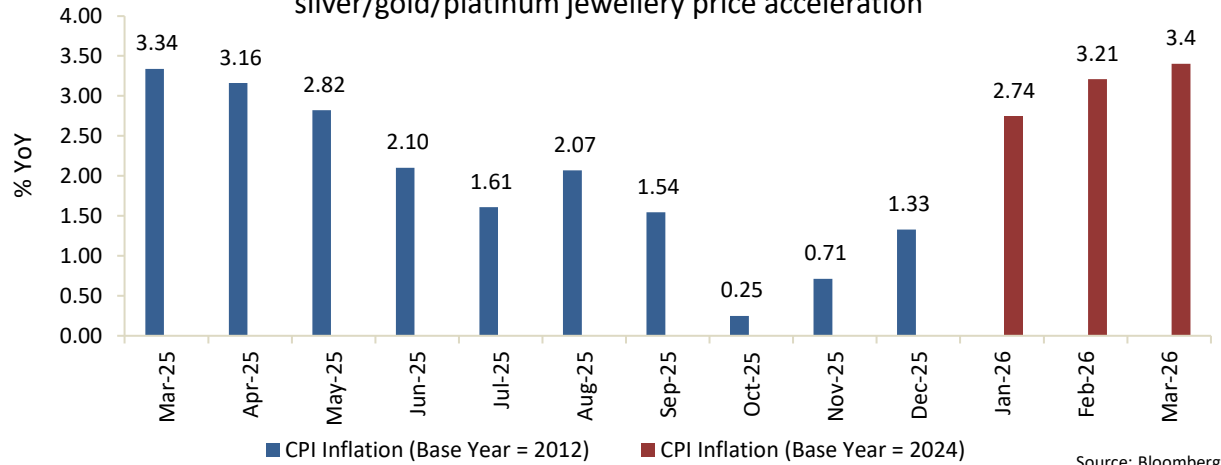


RBI's net short dollar position expanded to USD 104 bn (March end) and is emerging as a key concern despite Forex Reserves remaining robust

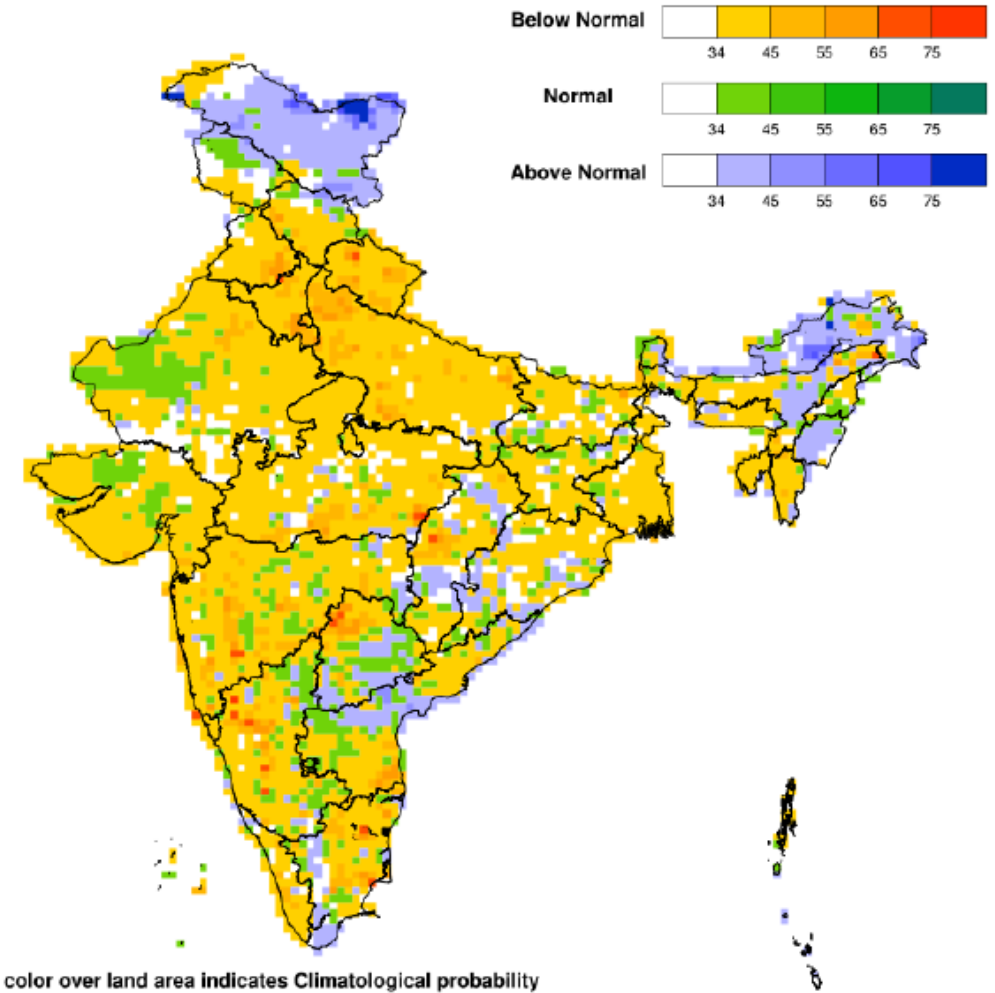


Despite accelerating food prices and global energy price shocks, headline inflation remained contained within RBI's 4% YoY target... However, probable effect of El-Niño and elevated energy prices can push prices up further and faster

Headline inflation continued its upward trajectory on the back of Food and silver/gold/platinum jewellery price acceleration

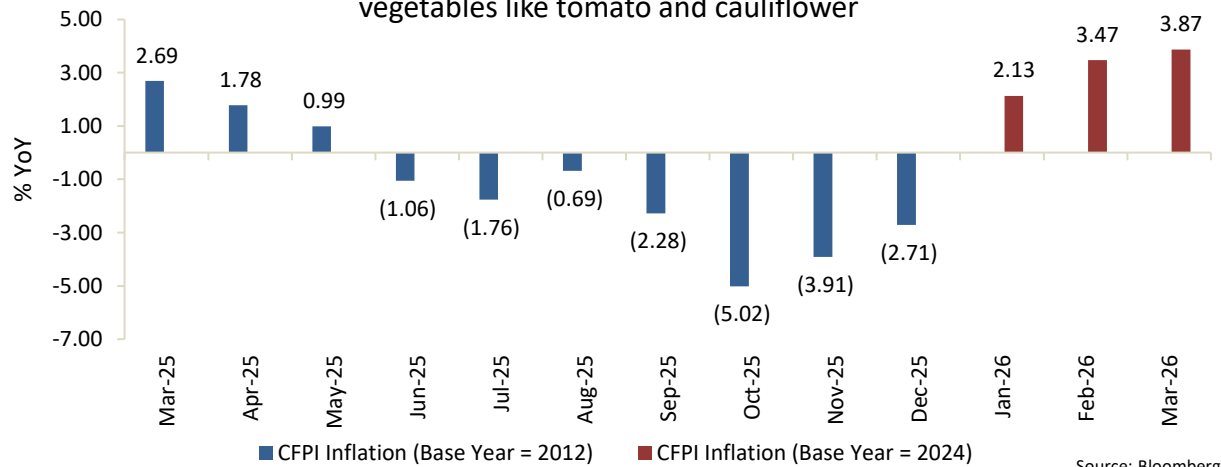


A 'below normal' monsoon season may put pressure on food prices



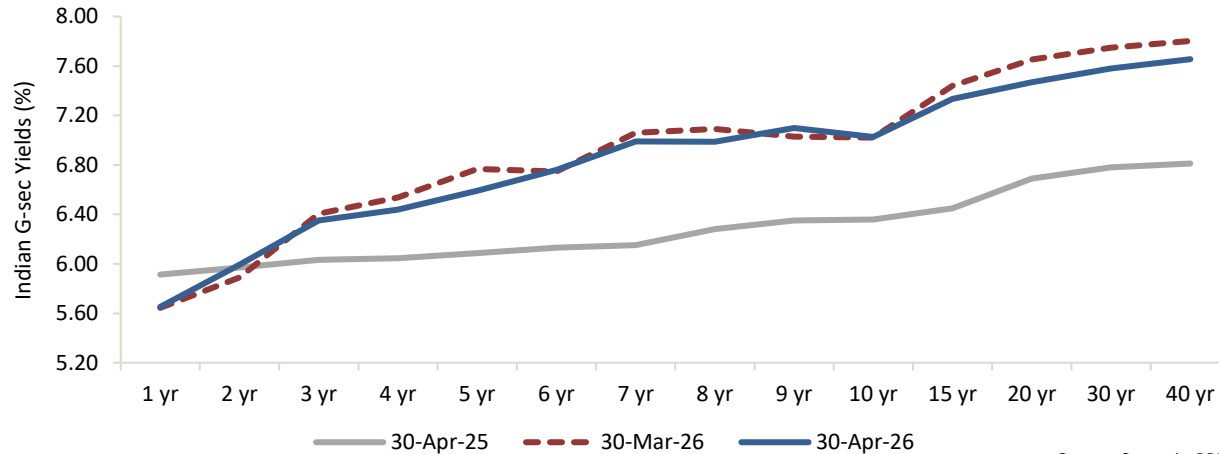
Source: IMD

Food inflation saw further acceleration, driven by a spike in prices of some vegetables like tomato and cauliflower

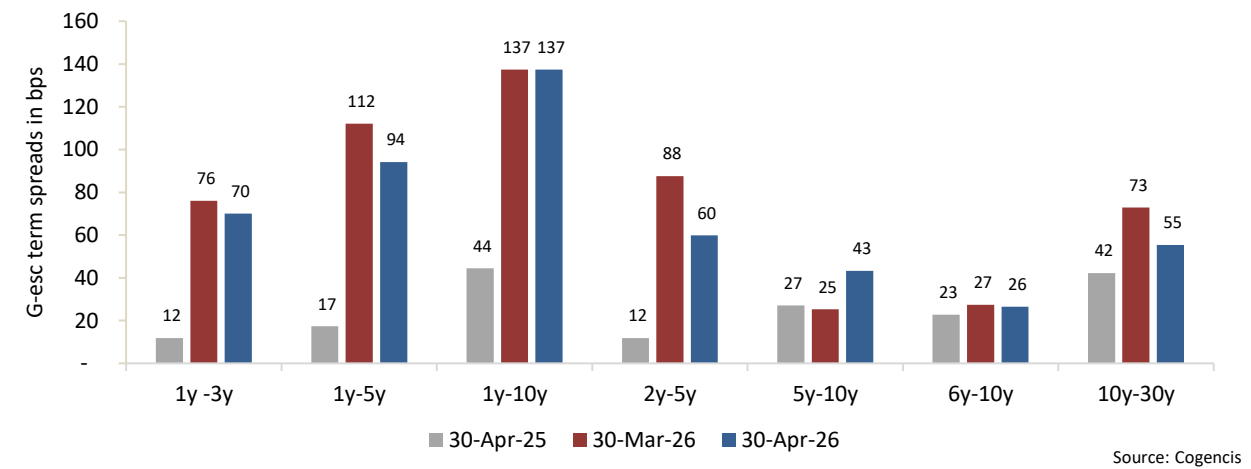


Geopolitical volatility and FPI outflows pushed up G-sec yields, which was later offset by the ceasefire announcement and RBI's policy outcome

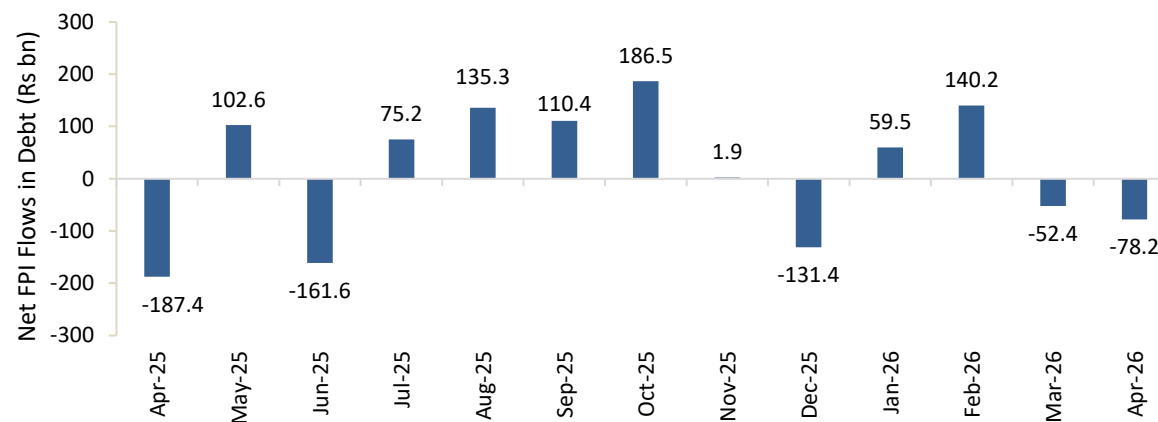
Longer end of yield curve saw marginal cooling during the month



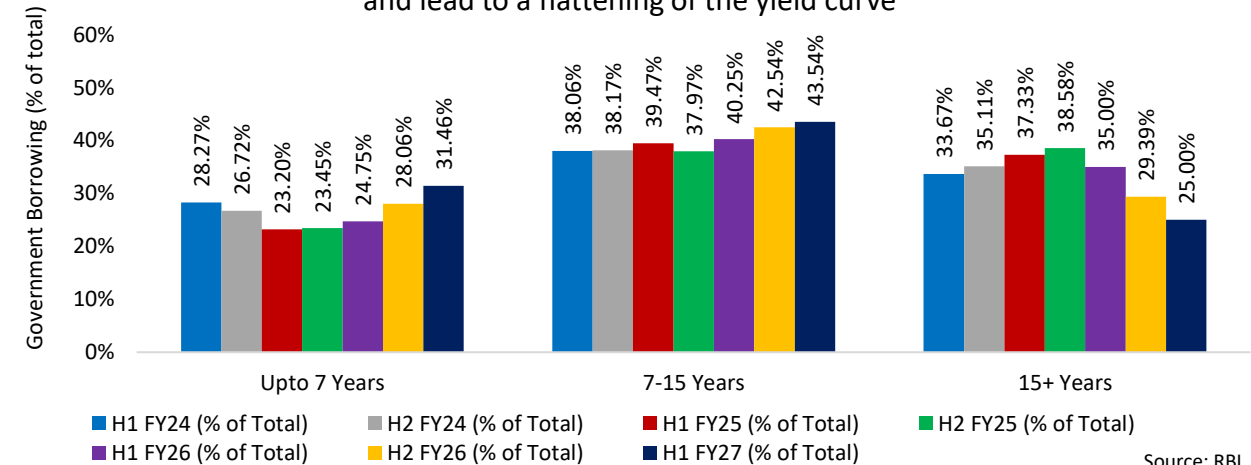
Term spreads continue to remain elevated



Debt FPI flows have remained negative for a second consecutive month

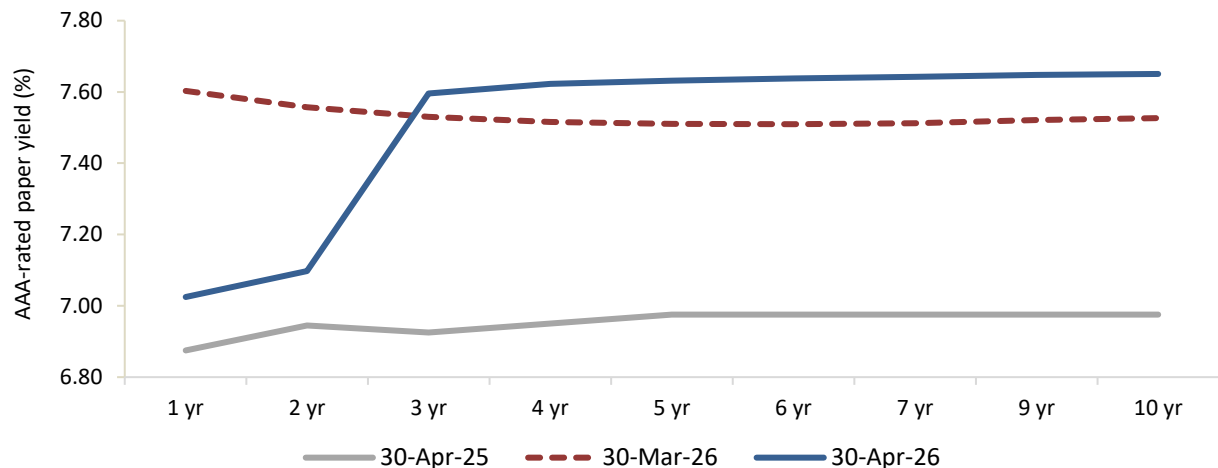


The lower supply at the ultra-long end can weigh down on long-term yields and lead to a flattening of the yield curve



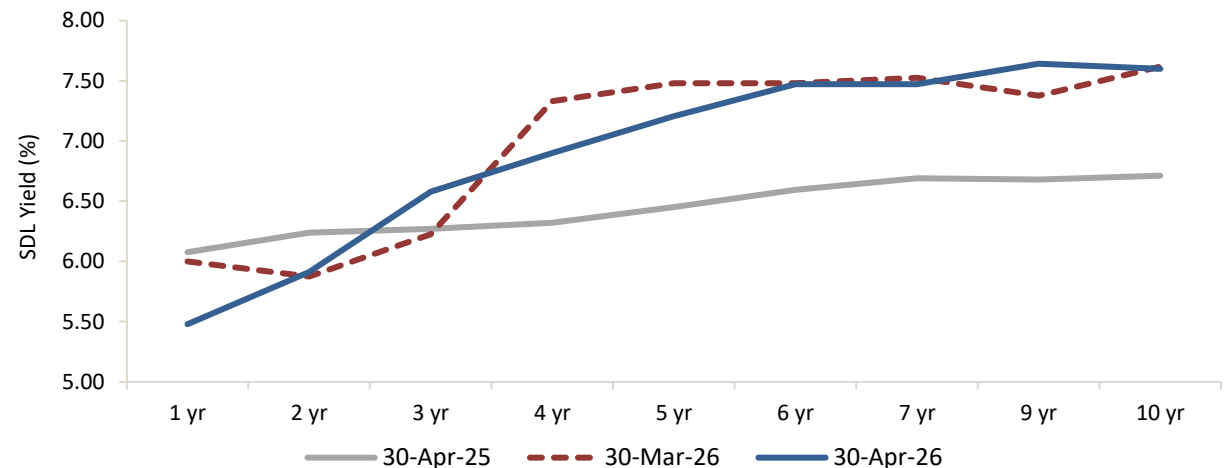
Strong system liquidity post the Financial Year-end brought down the very short end of the corporate bond curve... Spreads in the 3-5-year part of corporate bond curve and longer end of the SDL curve are still attractive

Corporate Debt yield curve is becoming flat at the medium to long end



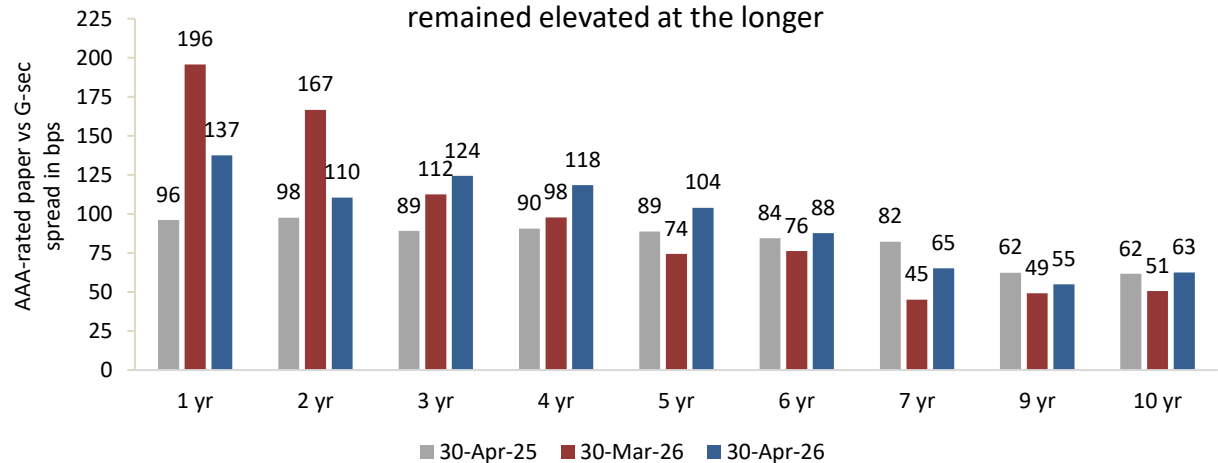
Source: Cogencis

SDL Yield Curve steepened



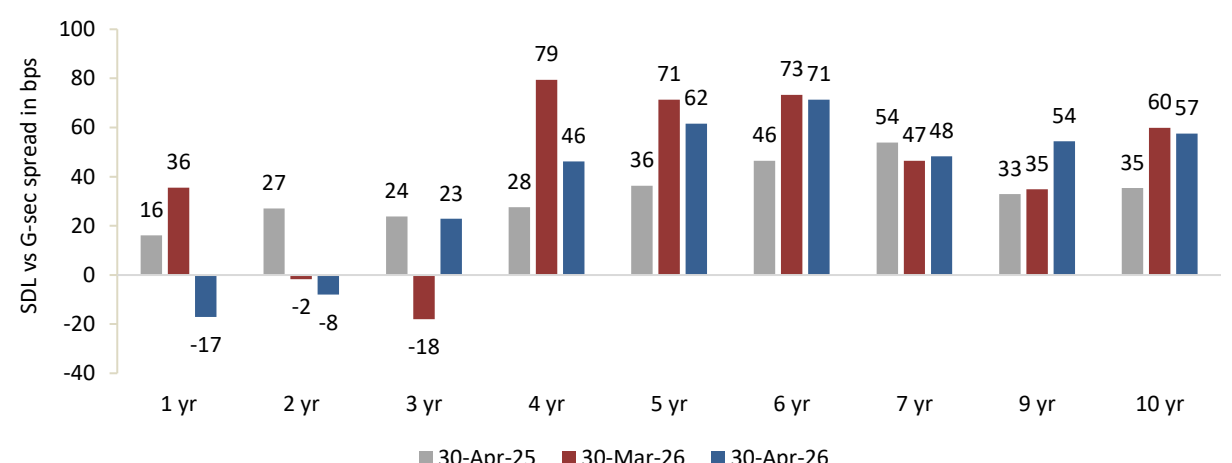
Source: Cogencis

Corporate Bond spreads fell at the shorter end due to ample liquidity, but remained elevated at the longer



Source: Cogencis

SDL spreads were mixed



Source: Cogencis

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