



AI Play Fueled Global Equity Rally, US-Iran Still Away From A Deal

- *Global equities saw sharp rally driven by technology. The strong up move follows huge investments in capex announced by hyperscalers. In the US, Capex announcement by hyperscalers is estimated at ~\$0.8tn in 2026 and ~1.1tn in 2027, funded by steep borrowings by the Magnificent 7.*
- *RBI held rates unchanged in the Jun'26 policy opting to wait for greater clarity, while raising its inflation estimate & lowering growth estimate.*
- *While India has low oil inventory, it is partly insulated on crude with ~70% imports now being sourced from outside Strait of Hormuz amid increased imports from Russia. However, gas remains a key risk with ~90% LPG imports dependent on Hormuz and amid supply disruptions from Qatar.*
- *Top-line growth for the Nifty 50 picked up to 13% YoY in Q4FY26 in line with expectations. Topline growth was supported by improving demand on the back of fiscal and monetary measures.*

KEY TAKEAWAY



India Macro Update - Tracking Key Macro Factors



Brent Crude

Brent crude remained volatile in May rising to ~\$108/bbl intramonth (July'26 futures) and subsequently falling to ~\$87/bbl by the end of the month (fall of ~15% MoM) on easing Iran tensions and improving supply outlook.



Currency

INR ended on a flattish note MoM vs USD in May (-0.1% vs DXY's rise of ~0.5%), having briefly inched closer to the 97-mark intramonth amid an escalation in crude oil prices and continued FPI selling.



Commodities

Crude oil fell on signs of easing US-Iran tensions, and likely consequent improvement in supply. Gold and silver rose following a hike in import duties to curb imports.



Manufacturing & Services PMI

India's HSBC Manufacturing PMI rose to a three-month high of 55.0 in May 2026 (54.7 in April), and was revised higher from the flash estimate of 54.3. The HSBC India Services PMI was revised higher to 59.8 in May vs the preliminary estimate of 58.9 and 58.8 in April.



GST Collections

Gross GST collection growth remained muted at 3.2% YoY (₹1.94 tn gross), amid a high base effect (one-time payment of about ₹ 10,000 Cr. by a telecom operator for spectrum allocation). Excluding this, collections grew ~9% (gross) / ~10% (net) indicating underlying strength.



Inflation

CPI inflation edged up to 3.5% in April, driven by a pickup in inflation in food & beverages and precious metals. Food inflation rose amid a waning favourable base effect, & emerging seasonal price pressures. Core-core inflation (core ex. precious metals) remained below 2% indicating presence of negative output gap.



Rainfall

Indian Meteorological Department has predicted rainfall at 90% of long period average (LPA), lower than the 92% estimated in April.

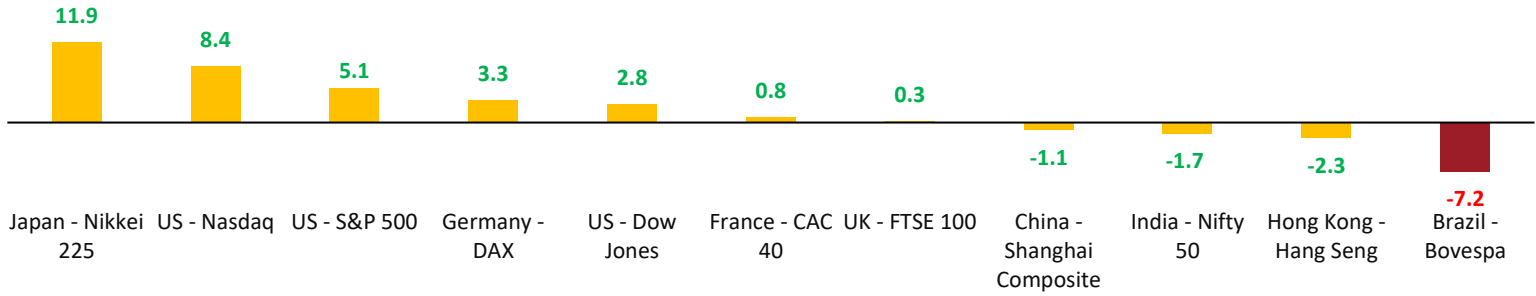
Outlook (Source - IDFC FIRST Bank Economics Research, As On 29th May 2026)

- **FY27 Real GDP growth estimate is revised down** to 6.8% (RBI est. of 6.6%) from 7.0% in April, **with the West Asia crisis extending into the third month.**
- **FY27 CPI inflation is expected to average 4.9%** (RBI est. of 5.1%), **which incorporates the rise in fuel prices as well as second-round impacts.**
- **RBI is expected to remain on pause** and look through the first-round impact on inflation.
- **Current FX reserves are adequate**, but an extended crisis would pressure FX reserve adequacy.

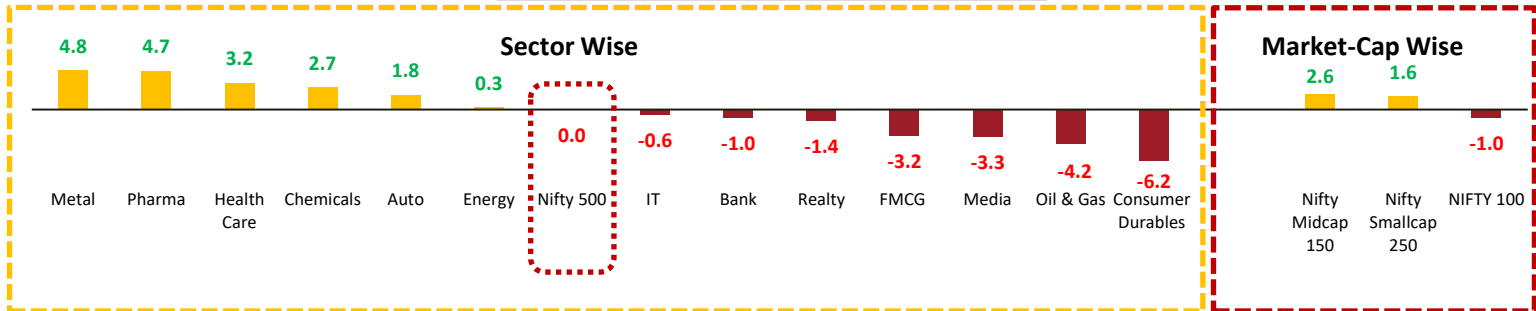


Equity Market Update

Global Indices Performance (%) - May 2026



Domestic Indices Performance (%) - May 2026



Performance shown above is based on total returns for respective sectoral indices of the NSE in INR terms. Data as on 29th May 2026, Source: ACE



- **Frontline Indices** – Indian equities ended May on a tepid note, on uncertainty over much-awaited US-Iran deal, & persistent outflows by FPIs. During the month, a decline in crude oil prices & robust earnings of mid and small-cap segments supported sentiment. Broader markets outperformed with the mid-cap & small-cap segments ending the month in green, while the large-cap segment ended lower vs the previous month's close.
- **Metals** – Metals sector outperformed supported by global tailwinds, supply concerns, rising infrastructure spending and import duty hikes.
- **Pharma** – Pharma sector did well as investors turned defensive amid uncertainty over West Asia tensions, and given a weaker INR providing export tailwinds. Domestic pharma companies derive a major portion of revenue from US exports, which provides cushion amid a weakening currency.



- **Consumer Durables** – The sector underperformed amid concerns over rising input costs amid elevated crude oil prices and a weaker INR. Also, expectations of an adverse impact on demand amid an expected pick-up in inflation weighed on the sector.

Equity Outlook –

We try to understand equity markets based on following three important pillars:



Valuations
Positive

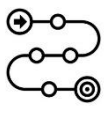
- Nifty's 12-month forward PE is at 18.14x vs current PE of 20.27x. Nifty Midcap 150's 12-month forward PE is at 27.56x vs current PE of 28.92x, Nifty Smallcap 250's 12-month forward PE is at 25.52x vs current PE of 33.67x (As on 29th May 2025).
- **From a Valuation perspective – Large caps look most attractive** (Nifty 50 1Y forward at a discount of ~13% to LT avg.), followed by small caps & then midcaps.

Earnings
Neutral

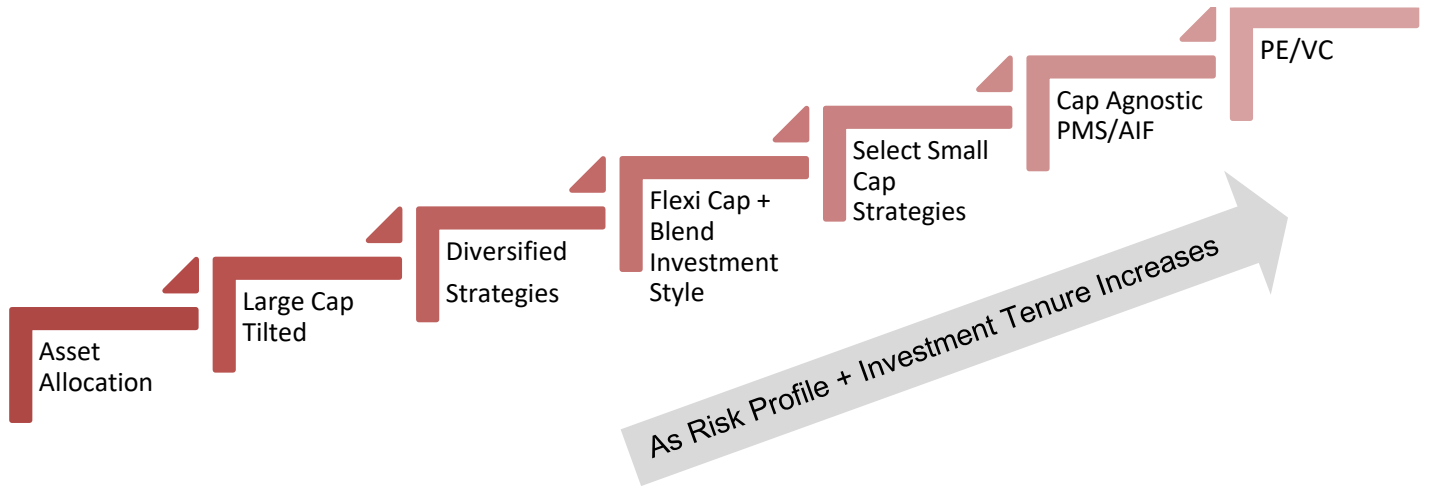
- Despite the near-term challenges and uncertain macro environment, the medium-to-long term growth outlook for India seems intact, which should support earnings growth.
- **Nifty 50 earnings growth^ estimated at ~15-16% CAGR in FY27 with downside risks** amid an adverse impact from the ongoing West Asia Crisis.

Volatility
Neutral

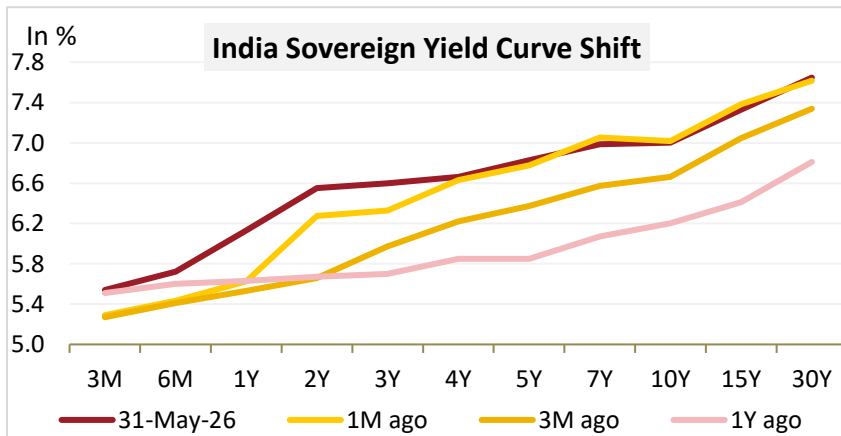
- Nifty VIX ended sharply lower at 16.18 (as on 29-May-26) vs 18.46 (as on 30-Apr-26).
- **Domestic and global macros, geopolitics, crude oil prices and global yields to drive the volatility index going ahead.**



Equity Investment Strategy



Debt Market Update



*Data as on 29th May 2026, Source- Investing.com

Global Bond yields (%)	29-May-26	1M ago	1Y Ago
US 10 – Year	4.45	4.39	4.40
UK 10 – Year	4.81	5.01	4.64
Germany 10 – Year	2.93	3.07	2.51
Japan 10 - Year	2.66	2.52	1.50
India 10 – Year	7.00	7.02	6.29

- **Indian 10Y yield** ended May on a flattish note. The yield curve witnessed pressure at the shorter end amid moderating liquidity conditions. Bond yields were weighed down on concerns over possible rate hikes by the RBI to support the rupee and found some support amid a sharp decline in crude oil prices.
- **U.S. 10Y yield** rose ~6 bps MoM in May on concerns over inflation and likely higher interest rates amid uncertainty over a resolution to the US-Iran conflict, and heavy corporate bond supply to fund AI and cloud expansion. Yields touched a high of ~4.7% in May after declining post a sharp fall in crude prices.
- **Euro zone:** German 10Y yield fell ~14bps in May tracking a fall in crude oil prices in late May and on declining inflation and weakness in the economy. UK yields too declined on easing inflation and weakening economic momentum.
- **Japanese 10Y yield** rose by ~14bps MoM in May amid expectations of rate hikes by the BoJ to tackle rising inflation and on concerns over fiscal expansion under PM Sanae Takaichi's administration.



Debt Outlook –

We try to understand debt markets based on the following three important pillars:

Interest Rate
Neutral

- **Headline CPI inflation is not expected to breach 6% threshold** of the RBI. We believe **RBI would remain on a pause**, as monetary policy is ill suited to address supply-side issues.
- **G-sec yields to remain elevated** due to fiscal slippage risks and adverse demand-supply dynamics. **10-Yr G-sec yield is expected to range between 6.85% to 7.15% next few months**. A key support to G-secs would be from OMO purchases by RBI (announced + on-screen) in H2FY27

Liquidity
Neutral

- Banking system liquidity moderated in May (avg. of INR1.6tn) vs April (avg. of INR3.8tn) amid currency leakage and likely FX intervention by RBI. **Core liquidity surplus is seen** at ~INR4.9tn (1.8% of NDTL) by end May supported by the INR2.87tn dividend by RBI to the Centre.
- Persistently high credit-deposit ratio has kept pressure on money market rates. **Durable liquidity infusion via OMOs is estimated at ~INR7tn in FY27** which would prevent core liquidity from falling below 1% of NDTL by Mar'27.

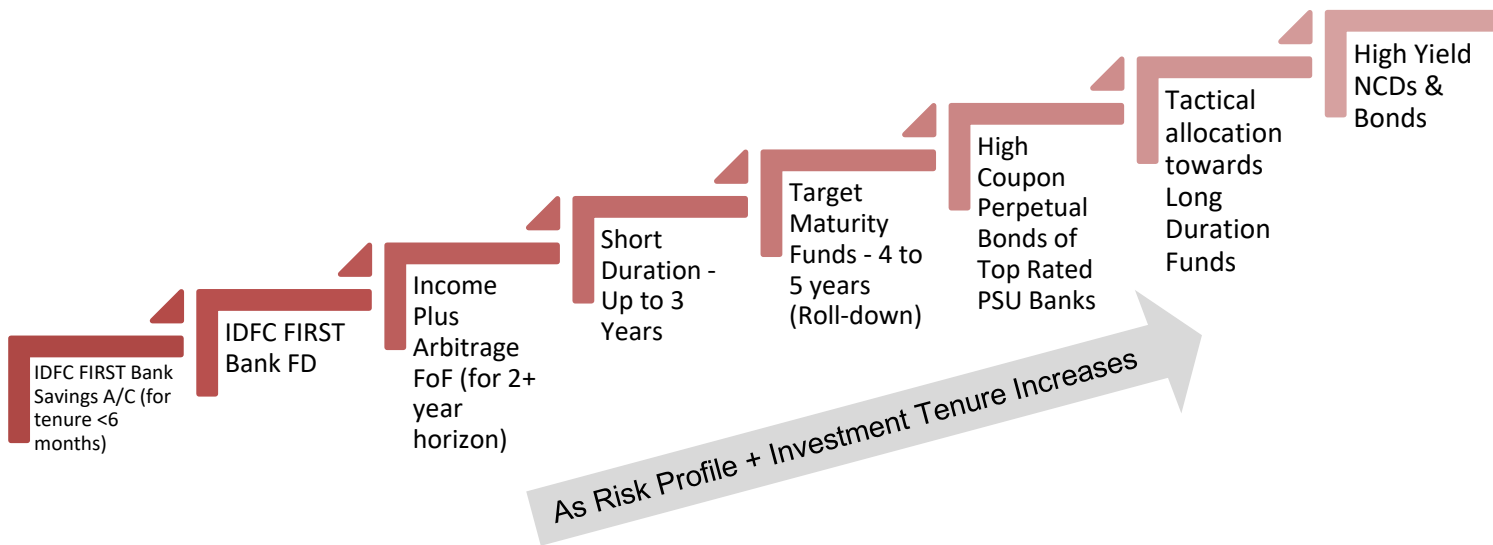
Credit Risk
Neutral

- **Spreads on offer versus additional risk taken are modest** – risk-reward doesn't favour taking credit risk via low rated category as a whole. However, selective buying can be rewarding.
- **Markets are illiquid in low rated segment**, look at company specific opportunity.

(Source - IDFC FIRST Bank Economics Research, As On 29th May 2026)



Debt Investment Strategy



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