

Monthly Market Outlook

Beyond the Noise: Market Pulse – May 2025

Equity & Debt Insights



Equity Market Outlook



Look Back at the month (April 2025)

- Global equity markets witnessed renewed volatility due to the U.S. announcement of reciprocal tariffs, leading to sharp movements in global commodities, the DXY index (U.S. Dollar Index), and bond yields.
- Indian markets stood out with resilience amid global uncertainty, supported by reasonable valuations, macro stability, rupee appreciation, and dip in domestic bond yields which helped cushion investor sentiment.

May 2025 Outlook

- Market volatility is likely to persist in the near term as tariff-related developments and geopolitical uncertainties continue to play out, Global cues such as movements in the DXY Index (U.S. Dollar Index) U.S. bond yields, and tariff related developments remain key monitors.
- The ongoing earnings season is critical, and initial results have been encouraging. If major downgrades are avoided and tariff-driven volatility eases, valuations could support a more optimistic market outlook in the coming quarters.
- Over the medium term, improved valuation comfort, a supportive interest rate environment, and foreign inflow potential due to rupee stability may create a constructive equity backdrop.
- For investors with a long-term horizon, diversified categories like Multicap Funds or Flexicap Funds may remain attractive. First-time or conservative investors may consider Hybrid Funds for smoother equity participation.



Economic Market Outlook



Look back at the month (April 2025)

- Headline CPI (Consumer Price Index) inflation eased to 3.34% in March 2025 (Feb: 3.61%), marking a 67-month low, driven by a broad-based decline in food prices for the fifth consecutive month. Core inflation came in at 4.18% in April 2025 .
- The Reserve Bank of India's (RBI) continued durable liquidity infusion through OMOs (Open Market Operations) totalling ₹1.2 trillion. While peak liquidity neared ₹2 trillion during the month April 2025, month-end tax outflows exerted some pressure on overnight rates.
- Escalation in tariff tensions had a temporary impact on domestic bond markets, though the three-month pause on additional tariff implementation improved sentiment.
- Despite a rise in U.S. treasury yields, the Dollar Index weakened, helping the rupee close the month strongly at Rs.84.50.
- The 10-year benchmark bond yield declined to a low of 6.32%. Money market yields saw a 40 bps rally, with 1-year (March) CDs trading in the 6.60–6.70% range.

May 2025 Outlook

- Systematic liquidity is expected to remain positive, further supported by RBI's planned ₹1.25 trillion in OMO purchases for May 2025, improving the demand-supply dynamic in government bonds.
- MPC (Monetary Policy Committee) minutes from April 2025 reflected a stronger emphasis on growth recovery, and an additional 25 basis point rate cut is anticipated in June.
- Escalations related to the Kashmir issue remain an event risk and may keep market sentiment cautious.
- The 10-year benchmark bond is likely to trade in a narrow 6.25%–6.45% range, with the yield curve expected to steepen.
- Indian Government Bonds could offer capital appreciation opportunities for investors willing to navigate short-term volatility, while Low-Duration Funds or Banking & PSU Funds may appeal to conservative investors.

Source: Bloomberg, Ministry of Statistics and Programme Implementation (MOSPI), Reserve Bank of India (RBI), LIC MF Internal Research.

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