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Monthly Market Outlook

Calm amid Cues – July 2025
Equity & Debt Insights

Equity Market Outlook

Look Back at the month (June 2025)

- The Nifty 50 Index rose by 3.1%, while the BSE Midcap and BSE Smallcap indices gained 3.8% and 4.3% respectively.
- Market sentiment received a boost from several favourable developments, including the Reserve Bank of India's 50 basis point rate cut, a moderation in inflation, and a ceasefire agreement between Iran and Israel, though volatile crude oil prices dampened market sentiments.
- The US Fed kept its policy rate steady at 4.25–4.5%, aligning with market expectations. This pause in monetary easing highlights the US Fed's cautious approach, driven by prevailing economic uncertainty and ongoing tariff-related risks.
- S&P Global Ratings has upgraded its forecast for India's GDP growth in FY26 to 6.5% from 6.3%, citing expectations of a normal monsoon, income-tax relief measures, lower crude oil prices, and monetary easing.

July 2025 Outlook

- The global economy is navigating through uncertainty, with dual challenges of trade policy volatility and escalating geopolitical tensions. The imposition of US tariffs is casting a long shadow over global trade prospects.
- At the heart of these discussions lies the proposed US tariffs on China, which could significantly reshape global trade flows. For many nations, maintaining their export competitiveness will depend heavily on how their tariff differentials with China evolve.
- The forecast of an above-normal monsoon in July 2025 may further support a positive outlook for the agriculture sector, as well as on inflation front.
- Despite heightened global uncertainty, a range of high-frequency indicators suggest that India's economic activity may remain robust and resilient.

Economic Market Outlook

Look back at the month (June 2025)

- The June 2025 MPC (Monetary Policy Committee) meeting surprised the markets with a 50 bps cut in Repo Rate, however the change of stance from "Accommodative" to "Neutral" turned out to be a dampener. Additionally, to support the slowing economy, the RBI cut CRR (Cash Reserve Ratio) rate to 3% from 4% (effective September 2025).
- The Reserve Bank of India (RBI) conducted Variable Reverse Repo Rate (VRRR) auction worth INR 1 trillion in line with the stance to ensure overnight rates remain anchored in the (Standing Deposit Facility) SDF-REPO range.
- The rising tensions in the Middle East led to a rise in the crude oil prices above USD 80 per barrel, creating volatility in Indian Rupee and Bond Yields.
- The US Federal Reserve maintained its policy pause during the June 2025 meeting. The updated dot plot projections may indicate the likelihood of two rate cuts in calendar year 2025.

July 2025 Outlook

- In absence of any domestic or global cues, the bond markets are expected to trade within a rangebound zone. The 10 Year G-sec Bond yield is anticipated to hover in the range of 6.25%-6.35% for the month of July 2025.
- The VRRR announcements resulted in a slight spike in the short-term rates, however with the primary objective being the transmission of the recent rate cuts, the RBI is likely to maintain a positive system liquidity of atleast 1% of NDTL (Net Demand and Time Liabilities).
- Market sentiments may remain passive with preference to 2-3 year corporate bonds.
- While the rate cut cycle is expected to be on pause for now, if inflation stays low and growth weakens there is a possibility of a shallow cycle to begin in H2FY26.
- Strategically, investors may look at taking exposure to investment portfolios focused towards the shorter end of the yield curve, while remaining selectively constructive on duration play (within the trading range).

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

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