

Market Overview:

While U.S. economy remains resilient, growth is gradually moderating, Europe continues to face weak demand. Geopolitical tensions, trade uncertainties & fiscal concerns remain key risks to growth & inflation. While U.S. markets benefit from ongoing AI capex theme, strong profitability, elevated valuations may limit further upside. European growth remains subdued, and opportunities in Asia are likely to remain selective. Going forward, earnings growth is expected to be the primary driver of returns, with market volatility influenced by evolving central bank policy expectations. Indian equities have been choppy because of deteriorating macro economic backdrop while healthy earnings growth, and strong domestic investor participation is lending support. Despite short-term volatility from global developments, foreign outflows, and commodity prices, the medium- to long-term outlook remains positive given India's strong fundamentals and supportive growth trajectory.

Bond yields remain attractive globally with elevated yield levels across the key markets, offering investors opportunities to lock in higher levels. RBI's June 2026 policy review reflects a more challenging macro environment. FY27 inflation has been revised up to 5.1% from 4.6%, driven by higher crude oil prices and weather-related risks, while the GDP growth forecast has been lowered to 6.6% from 6.9% due to global uncertainties and domestic risks.

RBI is expected to continue proactive liquidity management, with the possibility of up to ~50 bps of rate hikes in FY27 as per our expectation. At the same time, we expect that the recent capital inflow measures; including Expansion of FAR Securities Universe & Capital Gains Tax Exemption (RBI has expanded the Fully Accessible Route universe to include the current on-the-run 15-year, 30-year, and 40-year IGBs), liberalized investment limits, support for FCNR(B) deposits, and ECBs by PSUs etc could attract USD 50–75 billion, these measures could provide support to INR & also improve INR liquidity, reducing need for further OMOs.

Key Macro Indicators

Industrial/Manufacturing

Industrial/Manufacturing (% YoY)	Jan-Mar25	Apr-Jun25	Jul-Sep25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26	Apr'26
PMI Manufacturing (abs)	57.4	58.1	58.9	59.2	56.6	55.0	55.4	56.9	53.9	54.7
Diesel Consumption	1.3	2.6	3.3	-0.3	4.8	5.2	3.3	4.3	8.0	0.9
IIP Manufacturing	4.2	3.3	5.1	2.0	8.5	8.4	5.3	5.9	3.9	6.2
Steel Production	7.9	8.2	13.7	7.6	11.2	10.2	11.9	10.2	7.0	6.4
Eight Core Industry	4.3	1.5	4.5	-0.1	2.1	4.7	4.7	2.8	1.2	1.7
Wholesale Price Index (WPI)	2.4	0.3	0.04	-1.0	-0.1	1.0	1.7	2.3	3.9	8.3

Our Observations:

India's wholesale inflation rose to 8.3% in April, driven by higher energy prices due to West Asia war related pressure. The surge in crude price has led to increase in retail fuel prices in May'26.

Index of Eight Core Industries recorded a 1.7% y-o-y rise amid global energy market disruptions compared to last month's 1.2%. Data released showed that the recovery was largely driven by stronger output in cement, steel and electricity generation, while sectors linked to fuel and energy production continued to remain under pressure.

Source: Bloomberg, KIE Research, KMAMC Internal Data as on 31st May 2026, Details as per latest data available publicly.

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PMI Manufacturing is a survey-based indicator of business sentiment/future activity, IIP manufacturing measures actual volume-based production output.

Services

Services (% YoY)	Jan-Mar25	Apr-Jun25	Jul-Sep25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26	April'26
PMI Services (abs)	58.0	59.3	61.4	58.9	59.8	58.0	58.5	58.1	57.2	58.8
Credit Growth (services)	13.4	10.1	12.5	13.6	12.2	15.7	15.8	16.4	19.0	18.8
Airport Passenger Traffic	10.8	4.4	-2.4	2.7	6.9	-4.2	3.7	-0.4	-1.2	-3.5
FASTag (toll collection, Rs Bn)	66.7	68.9	65.9	66.9	70.5	73.9	72.3	69.2	71.9	70.2
GST Collection (Rs. Trillion)	1.9	2.1	1.9	2.0	1.7	1.8	1.9	1.8	2.0	2.4

Our Observations:

Services demand appears resilient, with stronger credit growth and higher GST collections indicating continued traction in consumption & business activity. However, Airport Passenger Traffic continued to remain under stress.

Consumption

Consumption/ Demand (% YoY)	Jan-Mar25	Apr-Jun25	Jul-Sep25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26	April'26
Fuel Consumption (retail)	2.6	4.9	4.8	2.8	4.6	6.7	4.5	5.9	4.1	-0.2
Passenger vehicle sales	2.4	-1.4	-1.5	17.2	18.7	26.8	12.6	10.6	16.0	25.4
Two wheeler sales	1.5	-6.0	7.5	2.1	21.2	39.4	26.2	35.2	19.3	28.4
Non-oil imports	7.5	8.9	7.2	34.1	1.8	11.6	25.7	29.9	6.5	19.3
Consumer Price Inflation (CPI)*	3.7	2.7	1.7	0.3	0.7	1.3	2.8	3.2	3.4	3.5
Core CPI (ex food and fuel)*	3.9	4.3	4.2	4.4	4.3	4.6	3.4	3.4	3.7	3.7

*Data sorted for inflation numbers are from high to low, with high being risk to the economy

Our Observations:

Consumption indicators suggest demand is still holding up, but the pace looks more uneven now, with autos showing resilience while broader activity indicators are showing some softness.

External

External/Others	May'25	Jun'25	Jul'25	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26	Apr'26	May'26
FX Reserves (USD Bn)	691.5	702.8	698.2	694.2	700.2	689.7	686.2	696.6	723.8	728.5	688.1	698.5	681.3
Brent Oil (\$/per barrel)	63.9	67.6	72.5	68.1	67.0	65.1	63.2	60.9	70.7	72.5	118.4	114.0	92.10
Gold Spot (USD/t.oz)	3289	3303	3290	3448	3859	4003	4239	4319	4894	5279	4668	4618	4540
REER 40 currency	101.0	99.9	100.1	98.7	97.3	97.1	97.3	95.2	94.8	94.1	92.7	91.0	
Merchandise Trade Balance (USD Bn)	-21.9	-18.8	-27.4	-26.5	-32.2	-41.7	-24.5	-25.0	-34.7	-27.1	-20.7	-28.4	

Our Observations:

Brent crude oil prices have eased from last month's highs and are currently trading around \$95 per barrel, although they remain elevated compared to pre war levels. Meanwhile, India's foreign exchange reserves has declined in last few weeks but it continues to stay at a comfortable levels, providing a buffer against external shocks.

Recent measures by RBI/Govt. is likely to support India's forex reserve.

Source: Bloomberg, KIE Research, KAMAC Internal I Data as on 31st May 2026, Details as per latest data available publicly. The sectors mentioned do not constitute any kind of recommendation and are for information purpose only. Kotak Mahindra Mutual Fund may or may not hold position in the mentioned sector(s). Kotak Mahindra Asset Management Company Limited (KAMAC) is not guaranteeing or promising any returns/futuristic returns.

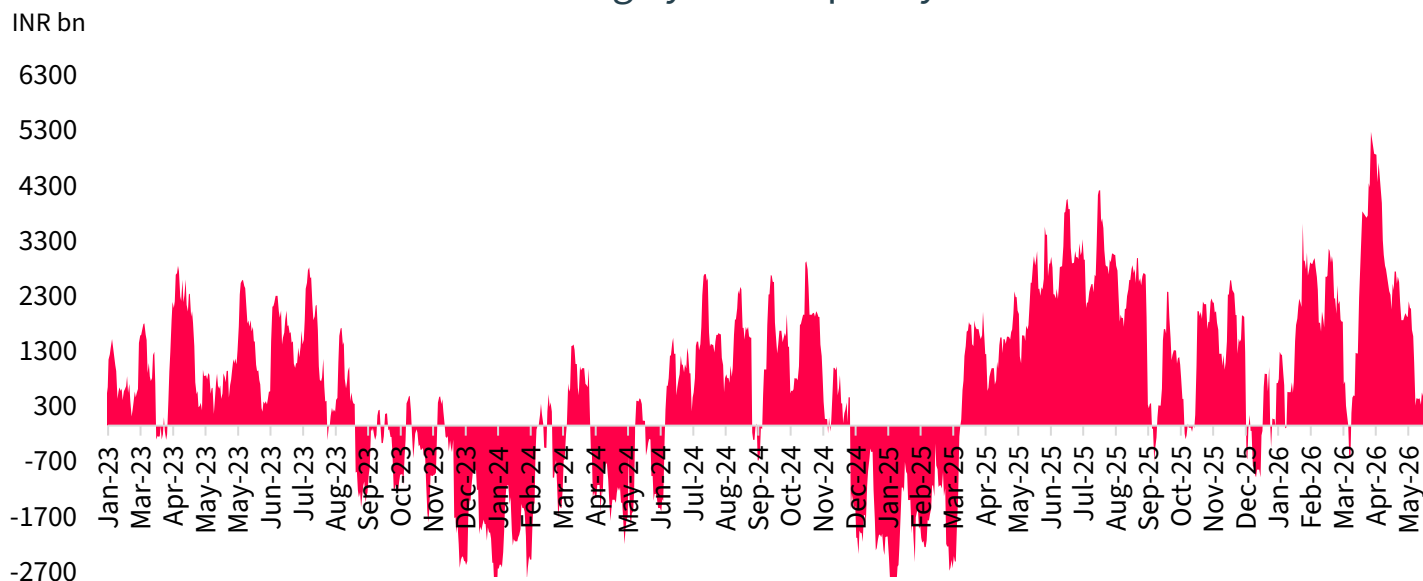
Money Supply

Monetary	Jan-Mar'25	Apr-Jun'25	July-Sept'25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26	Apr'26	May'26
M3 (% ,yoy)	9.6	9.6	9.9	10.6	10.2	12.4	12.3	12.8	15.6	13.0	12.6
M3/M0 (% ,yoy)	5.7	5.7	5.8	6.0	6.1	6.2	6.1	6.1	6.1	6.0	6.2
Credit to Deposit Ratio (%)	80.8	79.1	79.6	80.2	80.5	81.8	82.3	82.4	81.4	82.0	82.5

Our Observations:

Liquidity conditions remain supportive, with M3 growth remaining comfortable into early-2026, indicating steady money supply expansion.

Banking System Liquidity



Our Observations:

RBI has been actively managing liquidity to keep the overnight rate close to the repo rate.

Fiscal

Fiscal (Rs. Trillion)	FY2026BE	FY2026RE	FY2026 Actual	FY2027BE	Apr'26	FYTD Apr'26 as % of Budget (BE)
Total Receipts	35.0	34.1	33.9	36.5	2.1	6%
Revenue Expenditure	39.4	38.7	38.4	41.3	3.9	9%
Capital Expenditure	11.2	11.0	10.7	12.2	1.9	16%
Total Expenditure	50.7	49.6	49.1	53.5	5.7	11%
Fiscal Deficit	15.7	15.6	15.2	17.0	3.6	21%

Our Observations:

India's fiscal deficit for the financial year ended March 31, 2026, stood at 4.4% of GDP, in line with the government's revised estimate, despite shortfall in receipts by reducing expenditure by 0.2% of GDP.

Meanwhile, government accounts for April'26 indicated that the fiscal deficit for the first month of FY27 reached 21.4% of the full-year budgeted target, primary on a/c of higher fertilizer & food subsidy.

Source: Bloomberg, RBI Website, KIE Research, KMAMC Internal I Data as on 31st May 2026, Details as per latest data available publicly.

Budget data as per latest document available of 1st February 2026

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Indian Debt Market Indicators

Broad Indices	29-May-26	Month Ago	3 Month Ago	6 Months Ago	Year Ago
T-Repo	5.36%	5.07%	4.93%	5.41%	5.71%
3 Month CP	7.30%	6.50%	7.10%	6.00%	6.25%
1 Year CP	7.90%	7.40%	7.20%	6.45%	6.60%
3 Month CD	7.25%	6.42%	7.03%	5.90%	6.15%
1 Year CD	7.80%	7.30%	7.11%	6.37%	6.50%
3 Year AAA Corporate Bond	7.83%	7.58%	7.09%	6.70%	6.58%
5 Year AAA Corporate Bond	7.81%	7.65%	7.28%	6.92%	6.69%
10 Year SDL	7.71%	7.63%	7.40%	7.12%	6.62%
10 Year G-Sec	7.01%	7.02%	6.66%	6.55%	6.22%
U.S. 10 Year Treasury	4.45%	4.39%	4.06%	3.96%	4.40%
Japan 10 Year Treasury	2.66%	2.52%	2.14%	1.89%	1.49%
Indian Rupee (USD/INR)	95.2	94.9	91.5	90.2	85.7
Dollar Index	98.85	97.92	97.57	99.41	99.25

Broader Markets	Jun'25	Jul'25	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26	Apr'26	May'26
FPI Flows Net Debt (INR cr)	-22,527	11,812	12,662	12,253	18,224	4,674	-15,399	6,013	18,791	-8,469	-10,826	2,757

Source: Bloomberg, KIE Research, KMAMC Internal, CDSL, Refinitiv

Indian Equity Market Indicators

Broader Markets	Jun'25	Jul'25	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26	Apr'26	May'26
Nifty 50 Index (month end)	25,517	24,768	24,427	24,611	25,722	26,203	26,130	25,321	25,179	22,331	23,998	23,548
BSE Sensex Index (month end)	83,606	81,186	79,810	80,268	83,939	85,707	85,221	82,270	81,287	71,948	76,914	74,776
FPI Flows Net Equity (INR cr)	14,590	-17,741	-34,993	-23,885	14,610	-3,765	-22,611	-35,962	22,615	-11,775	-60,847	-32,963

Our Observations:

Foreign investors allocation has been towards other emerging markets which are beneficiaries of AI investment and commodities upcycle.

Source: Bloomberg, CDSL I Data as on 31st May 2026, Details as per latest data available publicly.

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