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India Investment Strategy
1 July 2025

H2 2025
India Market Outlook

Stay bullish and selective

We stay Overweight equities in our Foundation allocations. Easing financial conditions, improving macro fundamentals and revival in corporate earnings amid a weak USD outlook are supportive of risk assets outperformance.

We expect bond yields to decline modestly over a 12-month horizon. Frontloaded policy easing and improving banking system liquidity are offset by unattractive yield premiums. We see steepening of domestic bond yield curve and are OW medium-maturity bonds and high-quality (AAA) corporate bonds.

Global policy uncertainty, escalating geopolitical tensions and slowing global growth are key risks. Gold and multi-assets strategies are key diversifiers that can help mitigate temporary volatility.

Important disclosures can be found in the Disclosures Appendix.

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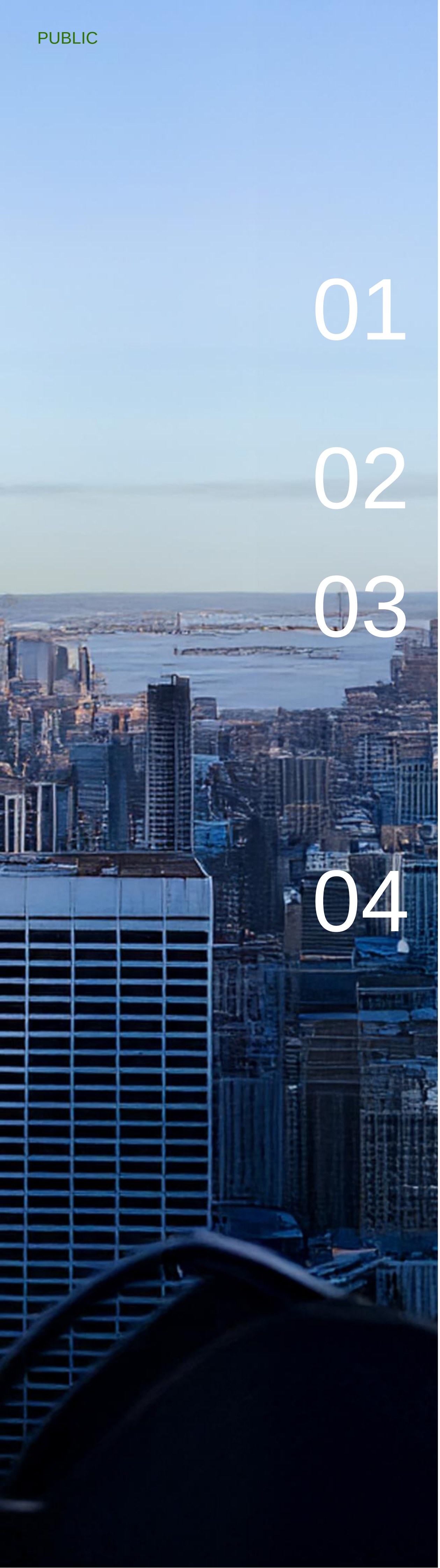

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- India High-quality (AAA) corporate bonds

Stay bullish and selective

- **We stay Overweight equities in our Foundation allocations**. Easing financial conditions, improving macro fundamentals and revival in corporate earnings amid a weak USD outlook are supportive of risk assets outperformance.
- **We expect bond yields to decline modestly over a 12-month horizon.** Frontloaded policy easing and improving banking system liquidity are offset by unattractive yield premiums. We see steepening of domestic bond yield curve and are OW medium-maturity bonds and high-quality (AAA) corporate bonds.
- **Global policy uncertainty, escalating geopolitical tensions and slowing global growth are key risks.** Gold and multi-assets strategies are key diversifiers that can help mitigate temporary volatility.

Improving macro fundamentals but selective in risk taking

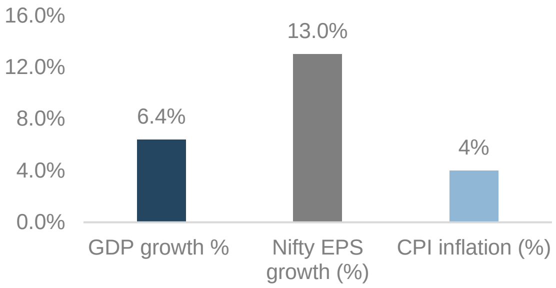
H1 2025 has been a textbook lesson in investing through volatility. Overall, asset class performance suggests a favourable risk environment with Indian equities, bonds and gold delivering 9%, 5% and 26% returns (local currency) respectively. However, this masks the volatile journey with January and February seeing losses, followed by strong double-digit rebound in equities from April's low.

We find 3 key lessons for investors from H1 2025: 1) **Market timing is difficult and costly** – The sharp rebound in equities in Q2 has meant lower returns for investors selling in panic or sitting on the sidelines. 2) **A diversified allocation can help tide through volatility** – Bonds gained on aggressive easing of monetary policy and liquidity conditions, while gold rallied on safe-haven demand. 3) **Geopolitical conflicts tend to have a short-term impact** – Markets have moved higher despite rising geopolitical tensions, indicating its short-term impact, like past instances.

We believe both, economic and earnings growth is likely to revive in H2 2025. Easing financial conditions and the fiscal boost via income tax cuts is likely to lift consumption supporting domestic demand and corporate earnings performance. **In our view, though the worst for Indian assets maybe behind us, investors need to be selective in risk taking.** We discuss 5 key questions that can help investors position for H2 2025.

Fig. 1 **India's growth and earnings estimates remain strong and ahead of peers**

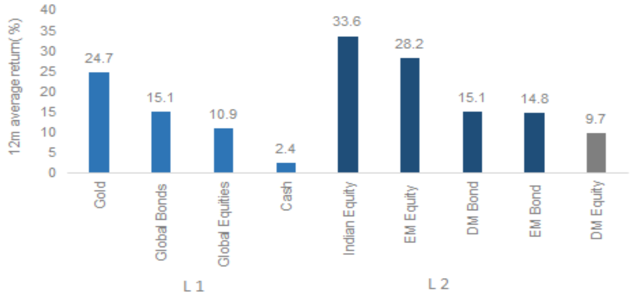
FY2025-27 growth estimates for GDP, CPI and Nifty EPS



Source: Bloomberg, Standard Chartered

Fig. 2 **Weak USD environments generate positive returns for financial markets and risky assets**

Historical* 12m returns when USD index (DXY) falls >10%



Source: Bloomberg, Standard Chartered; *Jan 1999 to date

#1 What are the key macro trends for 2025?

Since the start of 2025, domestic growth outlook has remained steady despite rising global growth concerns. GDP growth averaged 6.9% in H2 FY2025 compared to 6.1% growth in H1, supported by a pick-up in government capex, strong agriculture sector growth and improving rural demand. We expect India's growth to remain strong and stay ahead of peers, aided by the following drivers:

Supportive fiscal and monetary policy: The income tax cut (0.3% of GDP) and continued investment focus in the Union budget for FY2026 was complemented by the RBI's frontloaded monetary stimulus and liquidity easing measures. Together, this is likely to support the ensuing recovery in domestic demand with 1) a pick-up in consumption on higher discretionary savings and 2) improved credit off-take on easing financial conditions amid faster transmission of lower rates. Additionally, benign inflationary pressures on rural recovery, favourable monsoon, and capped commodity prices, are supportive of a growth recovery.

External risks live, impact likely to be contained: We see two key risks to the positive macro view – 1) early July brings the end of Trump's 90-day tariff 'pause', 2) Middle East and Ukraine-Russia conflicts continue to simmer. We expect these risks to result in temporary volatility. As per media reports, India appears to be in advanced stages of trade negotiation with the US. However, in absence of an outright deal, we expect extensions, but not without rhetoric. We see any spike in oil prices on geopolitical events to be temporary, and expect oil prices to be capped, primarily on excess global supply.

#2 What are the implications of a weaker USD?

We expect the USD to weaken over 6-12 months. Much attention in H1 2025 has been focused on the structural risk of 'de-dollarisation' of the global economy. Nevertheless, we expect the USD to remain under pressure in H2 2025 on short-term cyclical factors. The key drivers for USD weakness are the USD's still-elevated valuation and the potential for narrowing rate differentials as the Fed cuts rates amid uncertain US trade policy. However, in the near-term (1-3 month) excessive short positioning may limit weakness. ***Though, the USD INR pair is likely to benefit from USD weakness, the INR is expected to trade with a bearish bias against other key cross-currency pairs - EUR, JPY, and GBP- the key beneficiaries of a weaker USD.*** Narrowing India-US bond yield and policy rate differentials, and an uncertain global trade environment is likely to cap any significant upside on the INR.

#3 Why are we still bullish on equities?

The strong macro backdrop amid easing fiscal and monetary policy supports our preference for equities and ***we stay OW equities in foundation allocations*** on:

(i) **Weaker USD supporting equities outperformance:** History shows that periods of USD weakness are (i) positive for overall global equity market returns and (ii) result in outperformance of emerging market equities, including India over US and developed market equities *(see fig 2)*.

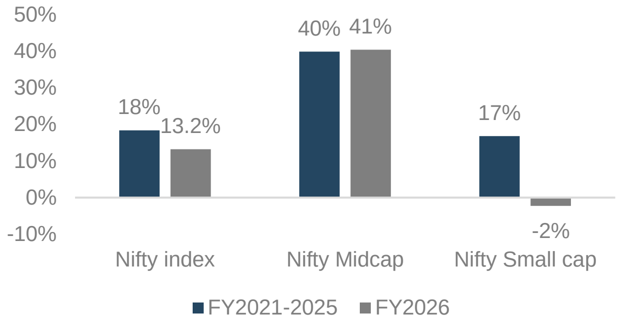
(ii) **Earnings improving at the margin.** After a lacklustre earnings performance in FY 2025 (Nifty EPS grew ~1% y/y vs ~21% growth over FY2020-24), we expect earnings to recover amid the favourable macro backdrop. In our view, consensus estimates of ~13% Nifty EPS growth over FY 2025-27 appear reasonable on a likely recovery in demand, lower borrowing costs and capped commodity prices.

(iii) **Equities attractive relative to other asset classes:** The Nifty index trades at a 12-month forward P/E ratio of 21x compared to its 10-yr average of 18.3x. However, the yield-gap ratio (10-year IGB yield – Earnings yield) currently at ~1.4%, is close to its long-term average, favouring equities over bonds over a 12-month horizon. That said, we expect forward equity returns to be modest compared to the past, driven primarily by earnings delivery as absolute equity valuations remain stretched.

In our sector strategy, ***we favour domestic focused sectors and like a barbell approach:*** OW cyclicals via (i) **Financials**, given better than market risk-reward on both, earnings, and valuations, and (ii) **Consumer Discretionary**, given our view of a pick-up in domestic demand. We add a defensive overlay, with an OW on **Healthcare**, given the sectors' resilient earnings performance and lower sensitivity to growth risks.

Fig. 3 **Midcap earnings have outpaced large caps in the post pandemic recovery cycle**

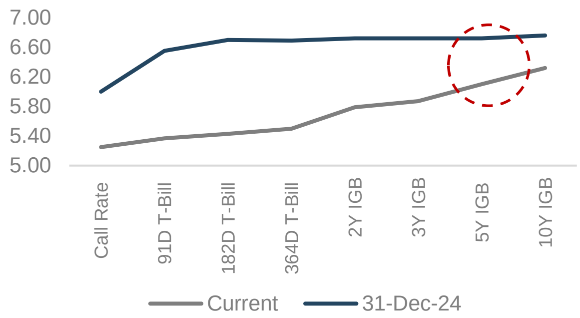
EPS growth estimates % y/y



Source: Bloomberg, Standard Chartered

Fig. 4 **Shorter maturity yields have come off sharply, medium maturity bonds offer the best risk reward**

Domestic government bond yields (%) across maturities



Source: Bloomberg, Standard Chartered; *Jan 1999 to date

#4 Is it the time to rotate to broader markets?

Since we published our *Outlook 2025*, the preference for large-cap equities over small-and-mid-cap equities has contributed positively to our TAA outperformance. Despite muted earnings delivery, large-cap equities experienced lower drawdowns in Q1 given a greater margin of safety and recovered faster in Q2 as sentiments improved. ***We close our preference for large-cap equities and prefer a diversified equity allocation as the risk-reward turns more balanced***. Broader market continues to trade at elevated valuation over large-caps equities. Historically, monetary policy easing and improving domestic growth has been supportive of broader markets outperformance, especially in the early phase.

Within broader markets, we are OW mid-cap equities on strong earnings and reasonable valuations. Over the period FY2021-2025, the Nifty Midcap index earnings has grown 40% CAGR, outperforming Nifty Small-cap (~17%) and Nifty index (~18%). Further, the Nifty Midcap index is trading at a 31% premium to large-caps on 12-month forward P/E vs 5-year average premium of 34%, thus justifying its superior 41% EPS growth estimate for FY 2026, compared to the Small-cap index (~-2%) and Nifty index (13%).

#5 Can domestic bond yields decline further?

Domestic bonds yields have declined since the start of the year as easing inflation has led to larger-than-expected policy rate cuts and aggressive liquidity easing measures by the RBI. The above coupled with the government sticking to the path of fiscal consolidation, has driven a steepening of the government bond yield curve, with cash and short-maturity bond yields falling sharper (80-115bps), while medium-and long-maturity bond yields dropping 45-60bps. However, bond yields have edged higher lately, on the RBI's monetary policy stance change to "Neutral", raising the bar for additional policy easing in H2 2025.

We stay Neutral on Bonds and expect it to outperform cash over a 12-month horizon, with yield (carry) to be the driver of returns. We expect the 10-year IGB yield to trade in the range of 6.00%-6.25% over 6-12 months.

Within Bonds, we are OW Medium-maturity bonds (4-7-year bond maturity) as these bonds offer the best trade-off between attractive yields and potential price gains, while avoiding exposure to government bond-supply pressures or fiscal deficit risks that are inherent in long-maturity bonds.

We maintain our preference for high-quality (AAA-rated) corporate bonds. The 3-year AAA corporate bond offer attractive absolute yields, with current spread of 93bps at a cycle-high vs. 72bps 10-year average spread over government bonds. Historically, corporate bond spread compression outpaces government bonds over 6-12 month of the monetary policy easing cycle, making them attractive, both, from an absolute and relative standpoint.

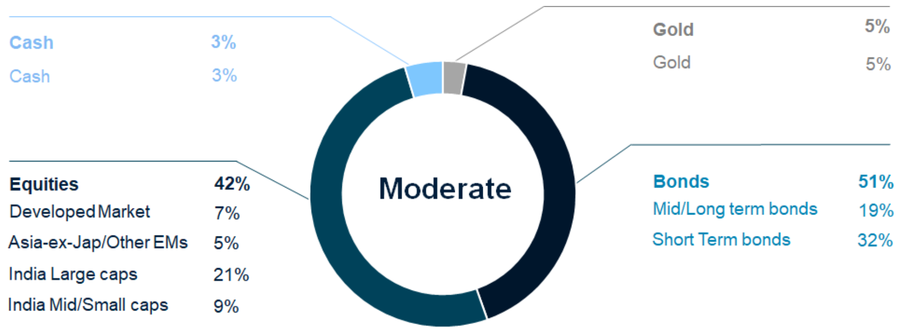
Gold and multi-asset strategies key to navigate intermittent volatility

We see gold as a core allocation. With key risks looming in July – including the expiration of the US's 90-day tariff pause and the clearance of Trump's fiscal bill – gold remains a vital hedge against market volatility. It also acts as a key portfolio diversifier, if both equities and bonds don't do well. However, barring extreme outcomes, further upside on gold may be limited in the near-term, given the sharp rally in H1 2025. Central bank demand is expected to result in another leg higher in prices after a period of consolidation.

Multi-asset strategies with dynamically managed exposures across major asset classes (i.e., equity, debt, and commodities) can help improve portfolio diversification and boost risk-adjusted returns. We also see market neutral and long-short alternatives strategies as key to diversification – equity strategies offer exposure to our bullish equities view and the ability to benefit from likely stock/sector dispersion, while market-neutral strategies offer uncorrelated returns from the market, improving portfolio diversification.

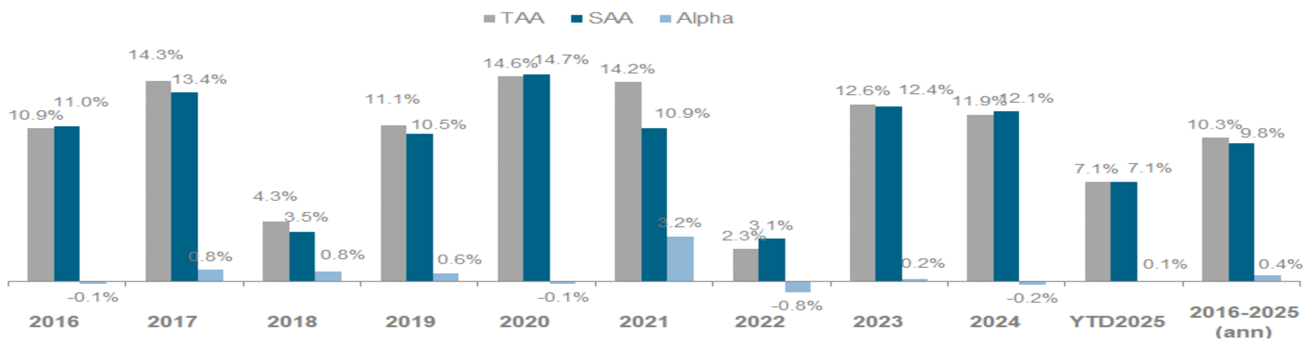
Foundation asset allocation models

Fig. 5 **Foundation asset allocation for a balanced risk profile**



Our India-focused TAA* outperformed SAA in H1 2025

Annual performance of our Tactical Asset Allocation* (TAA) relative to the Strategic Asset Allocation* (SAA) baseline model



Source: Crisil, NSE, Bloomberg, Standard Chartered. *SAA is our India-focused moderate strategic asset allocation. The SAA is made up of 5% INR cash, 55% INR bonds, 35% equities and 5% INR Gold. TAA is our India-focused moderate tactical asset allocation which tilts the SAA allocation according to the Standard Chartered Bank's India Investment Committee's views. **SAA and TAA performance is measured from the publication of our Outlook 2023 report on 19 December 2024 to 20 June 2025.

Our tactical asset allocation views (12m) INR

Summary	View	Detail
INR Cash	▼	**+ Safety || - Lower starting yields, Risk of missing higher yields elsewhere**
Bonds	◆	
Short-term bonds	◆	**+ Low sensitivity to rising rates || - Low starting yield (carry)**
Mid- to long- term bonds	◆	**+ High absolute yields, improving demand outlook on India's inclusion to global bond index || - steepening yield curve, sensitive to rising yields**
Equities	▲	
DM Equities	◆	**+ Earnings growth, AI uptrend || - Valuations, US trade policy uncertainty**
Asia ex-Japan/ Other EM	▲	**+ Earnings, India growth, China policy support || - China growth concerns, US trade policy**
India – Large cap	◆	**+ Growth and earnings recovery, resilient domestic inflows, low foreign investor positioning || - weaker exports amid slow global growth, stretched valuations**
India – Mid/Small Cap	◆	**+ Improving liquidity, better macro fundamentals, strong earnings growth || - stretched relative valuations, lower margin of saftey**
INR Gold	◆	**+ Portfolio hedge, central bank demand, falling real yields || - Resilient USD**

Source: Standard Chartered India Investment Committee. || **Green:** upgrade from prior view | **Red:** downgrade from prior view

Legend: ▲ Overweight | ▼ Underweight | ◆ Neutral

Macro overview – at a glance

Key themes

We expect India's economic growth to recover and stay ahead of its major peers in H2 2025. Frontloaded monetary policy stimulus, favorable monsoon prospects and a likely recovery in domestic demand driven by the sizeable income tax-cut (~0.3% of GDP) in FY2025 Union Budget is likely to off-set the impact from US trade tariffs and slowing global growth. India's medium-term outlook remains robust on continuity of past policy measures including (i) higher public capex spend, (ii) structural reforms and (iii) incentives to boost manufacturing and infrastructure. In our view, CPI inflation could remain anchored to the RBI's medium-term target of 4% on lower crude oil prices and modest food article price pressures amid better sowing and likely government policy interventions to manage supply side concerns, if they arise.

In our assessment, easing liquidity conditions including monetary policy support is likely to be a key driver of growth in 2025. The RBI's frontloaded policy easing in the current cycle to support domestic growth amid a challenging global policy environment, raises the bar for additional rate cuts in H2 2025. Lower policy rates coupled with liquidity boosting measures is likely to help in faster and orderly transmission of lower interest rates.

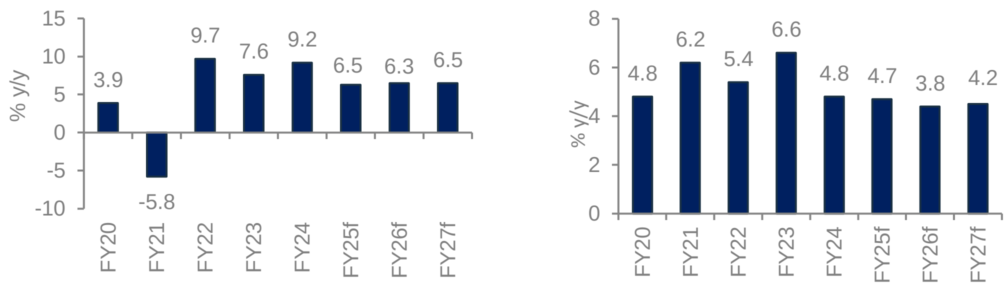
Key risks to our macro-outlook are: 1) Uneven rainfall distribution, 2) Trump's policies and global trade disruption, 3) Escalating geo-political tensions.

Key chart

For FY2026, India's GDP is expected to grow at 6.3% and CPI is expected to average 3.8%.

Fig. 6 **India's growth-inflation dynamics stronger than peers**

GDP Growth (Y/Y) and CPI Inflation (Year average) – Bloomberg consensus estimate*



Source: Bloomberg, Standard Chartered

Macro views at a glance

Factors	View	Comments
Economic growth	◓	**Economic activity remained resilient in H1 2025.** Manufacturing PMI and Services averaged 57.7and 58.7 in respectively H1 2025 compared to 57.5 and 60 respectively in CY 2025. India's FY2025 GDP growth moderated to 6.5% compared to 9.2% in FY2024.
Inflation	◓	**India's consumer price inflation averaged 3.4% YTD2025 compared to 5% in CY 2025.** The moderation was driven largely by easing food article prices, primarily vegetables, cereals, and pulses.
Fiscal deficit	◓	**The government stayed on its path of fiscal consolidation while supporting growth.** FY 2026 fiscal deficit is estimated at 4.4% of GDP, while deficit for FY 2025 was revised lower to 4.8% of GDP. GST collections have averaged INR 2trn YTD2025 compared to average of INR 1.8trn in CY2024.
External	◓	**India's trade deficit averaged USD21.4bn so far in CY2025, lower than an average of USD 21.8bn in CY 2025.** India's current account deficit narrowed to USD 23.3bn or 0.6% of GDP in FY2025 compared to USD 26bn or 0.7% in FY2024, primarily due to higher net invisibles receipts. Overall, there was a depletion of USD 5bn in India's foreign exchange reserves (on a BoP basis).
Monetary Policy	◑	**The RBI cut policy repo rates by large-than-expected 50bps to 5.50% and changed its policy stance to neutral in its June 2025 policy meeting.** Further, it lowered the Cash Reserve Ratio (CRR) by 100bps to 3%, to be implemented between 6 September to 1 November 2025. The RBI retained its GDP growth forecast for FY 2026 at 6.50% y/y. Average Inflation for FY 2026 was projected 30 bps lower at 3.7% y/y.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Bonds – at a glance

Key themes

We are neutral on bonds as attractive absolute yields are counterbalanced by below-average yield premiums. Improving bond demand-supply balance given lower government net-borrowing, robust tax collections and India bonds' inclusion in the global bond indices are tailwinds for bonds. Domestic bond yield curve is likely to steepen further as lower policy rates and surplus banking system liquidity drives short-maturity bond yields lower. We prefer corporate bonds (i.e., bonds that offer a yield premium over government bonds), especially high-quality (AAA) corporates, given cyclically high credit spreads.

In our view, RBI's decision to frontload policy rate cuts and switch policy stance to Neutral, raises the bar for future rate cuts. We expect the 10-year IGB yield to trade in the range of 6.00%-6.25% over the next 6-12 months. In our assessment, high quality (AAA) corporate bonds offer a better risk-reward given attractive spreads and improving corporate fundamentals. In addition, India's real bond yields is among the highest in Emerging Markets.

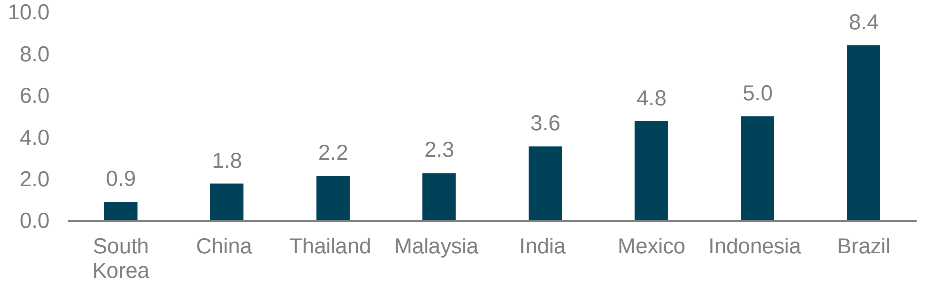
However, two factors for bonds remain unfavorable: 1) High fiscal deficit over the medium-term, 2) A populist tilt in government policy focus could drive inflation higher.

Key chart

India's real bond yield is higher than most Emerging Market peers.

Fig. 7 **India's real bond yield is higher than most Emerging Market peers**

10-year government bond yields (%)



Source: Bloomberg, Standard Chartered.

Bond views at a glance

Factors	Views	Comments
Real Yields	◑	**India's inflation-adjusted yield is higher than most Emerging Market peers**. The 10-year IGB real yield at 3.6% in line with the average real yield of 3.6% for other major EMs.
Supply dynamics	◑	**Government bond supply is lower in H1 FY2026**. The government pegged its gross borrowing for H1 FY2026 at ~INR 8trn or 54% of the budgeted INR 14.8trn for FY2026 (vs 58% in H1 FY2025).
Monetary policy	◑	**Market expects no further rate cuts by the RBI in the near-term**. 1-year Overnight Indexed Swap (OIS) spread suggests market participants expects the RBI to keep rates unchanged over the next 12 months.
Liquidity	◑	**The RBI's focus remains on providing need-based liquidity support.** The RBI has stepped by liquidity by frontloading policy rate cuts and through measures such as FX buy-sell swap, OMOs and Variable Rate Repo. The banking system liquidity has improved to a surplus of INR 3.3trn after hitting a deficit of INR 3trn in January. RBI support through OMOs and other liquidity measures will be key for bond yields in H2 2025.
Demand dynamics	◑	**Foreign investors remain buyers in 2025**. Despite net outflows in April 2025, foreign investor inflows remain positive YTD 2025 and is likely to stay robust given India's bond inclusion in global indices. RBI OMOs and demand from domestic institutional investors (banks, insurers, and mutual funds) will be key.
Yield premiums	◓	**Yield premiums trade below-average**. The spread between 10-year IGB yield and repo rate is at 81bps vs. 10yr avg. of 118bps. High-quality (AAA) are attractive, with the yield spread between 3Y AAA rated bond and 3Y G-sec at 93bps, higher than the 10yr avg. of 72bps.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Equity - at a glance

Key themes

We stay Overweight equities and expect it to outperform other traditional assets. A likely recovery in domestic growth and earnings, easing financial conditions, better relative valuations to bonds amid low foreign investor positioning and robust domestic investor flows are key drivers supporting are positive view on equities. We expect volatility to stay elevated in H2 2025 as investors asses the economic and earnings impact of US reciprocal trade tariffs. Within equities, we close our preference for large-cap equities and prefer a diversified equity allocation as the risk-reward turns more balanced.

In our view, Indian equities is likely to be supported by the below positive drivers: 1) GDP growth and earnings outlook remains robust and is likely to outpace its major peers. 2) Stable inflows from domestic investors driven by inflows into systematic investment plans and 3) The likely resumption of foreign investor inflows amid superior macro fundamentals and low foreign investor positioning towards Indian equities.

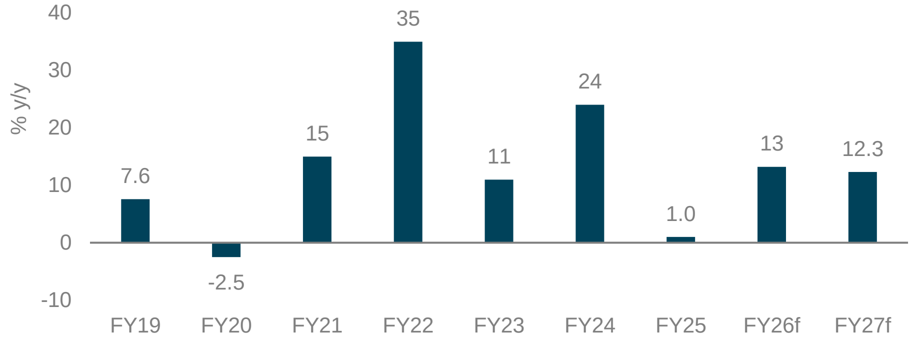
Risks to our positive equity view are: 1) Growth slowdown and probable downgrades of earnings expectations, 2) Elevated equity valuations, both absolute and relative to peers, 3) Foreign investor selling amid slowing domestic investor flows

Key chart

Bloomberg Consensus expectation is for Nifty earnings to rise by 13% over FY2025-2027.

Fig. 8 **Earnings expectations robust for Indian equites despite recent downgrades**

EPS growth estimates for Nifty 50 Index



Source: Bloomberg, Standard Chartered

Equity views at a glance

Factors	Views	Comments
Economic environment	◑	**Growth-inflation dynamics remain supportive of equities**. Consumption boosting fiscal policy, improving real income, and broadening growth momentum is likely to support corporate profitability. The RBI's frontloaded policy easing is a tailwind for equities. Tariffs is a key risk in the near-term.
Earnings growth	◑	**Earnings growth expectations are robust.** Bloomberg consensus earnings growth expectations for the Nifty Index for FY 2026 and FY2027 stands at 13% and 12.2% respectively. EPS estimates for large-cap equities (Nifty index) has seen modest downward revisions compared to broader markets.
Valuations	◓	**Valuations are stretched**. Nifty 12-month forward P/E at 20.9x is below its peak of 22x, and above its long-term average of 18.3x. Price-to-book value ratio (P/B) at 3.5x and Market cap to GDP ratio at ~138%, are above long-term averages. Mid-cap equities 12-month forward P/E trades at 33% premium to large-cap equities, in line with the 5-year average premium of 34%.
Flows	◓	**Foreign investors remain net sellers in 2025.** YTD 2025, foreign investors have sold about USD 8.5bn worth of equities compared to USD 0.8bn outflows in CY 2024. **Domestic institutional investors remain strong buyers in 2025**. YTD 2025, domestic institutional investor have bought USD 41.5bn worth of equities compared to USD 62.9bn inflows in CY 2024.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Equity sector views

Prefer a barbell-sector strategy

We retain our preference for domestic cyclicals given our view of cyclical growth recovery and favourable earnings growth outlook. We like a barbell approach: *(i) OW cyclicals via Financials and Consumer Discretionary, and (ii) a defensive overlay, with an OW on Healthcare.*

Consumer Discretionary – Overweight

We are overweight Consumer Discretionary sector. The sector has lagged its cyclical peers over the last few quarters on earnings misses and stretched valuations. We expect the sector to benefit from an improvement in aggregate demand given the 0.3% of GDP income tax cuts in the Union Budget FY2025 and easing financial conditions. The sector's earnings estimate has witnessed positive revisions over the past month while valuation premium to market has come down from September peak (12-month forward P/E of 30x compared to Sep'25 peak of 34x).

Financials – Overweight

Financials remains an overweight. The sectors' strong linkage to domestic growth makes it attractive in a period of recovering growth and declining interest rates. The RBI's unwinding of several macroprudential restrictions, faster transmission of lower rates and ensuing domestic growth recovery is likely to boost overall credit off-take off-setting margin compressions. Further, healthy asset quality, lower credit costs given improved contingent buffers, is likely to contain slippages and provisioning requirements. Muted earnings expectations of 8% and 11% for FY26 and FY27, is likely to see upgrades amid numerous tailwinds for the sector. The sector is trading at a 12-month forward P/E of 17.8x, a significant discount to broad market valuation of 23x for MSCI India.

Healthcare – Overweight

Healthcare is an overweight sector. We prefer the sector for its diverse revenue source (pharmaceuticals, diagnostics and hospitals), defensive nature and as a hedge against an uncertain global backdrop and our overweight on domestic cyclicals. Though the pharma sector remains vulnerable to US tariffs uncertainty, given India's large market share ~40% of US generics, we believe the sector is well positioned to pass through the cost surge with limited volume impact. The earnings outlook for the sector has stabilized and trades at lower valuation compared to peak levels (12-month forward P/E of 32x compared to 2020 peak of 36x).

Fig. 9 **Our sector views**

India
Consumer Discretionary
Healthcare
Financials
Materials
Industrials
Consumer Staples
Information Technology
Energy
Utilities

Source: Standard Chartered

Legends: Overweight | Neutral | Underweight

▲ Upgrade from last quarter | ▼ Downgrade from last quarter

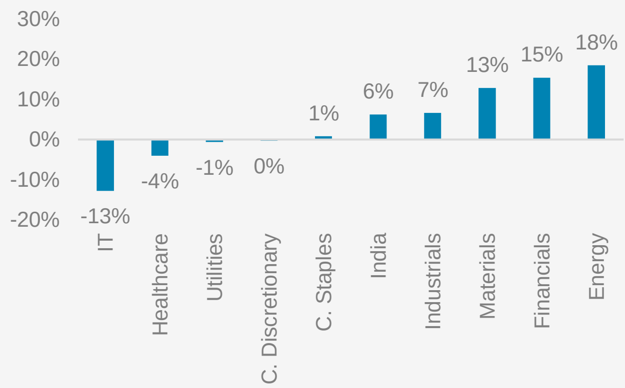
Fig. 10 **Sector valuations and earnings growth**

	12-mth Fwd P/E (x)		EPS Growth (Y/Y)	
MSCI Sector	Current	15yr avg.	FY25f	FY26f
India	22.9	17.8	9%	14%
Cons. Discretionary	30.0	18.7	6%	23%
Cons. Staples	47.2	36.2	2%	22%
Energy	16.1	13.0	3%	9%
Financials	17.8	16.0	8%	11%
Healthcare	31.7	23.1	12%	8%
Industrials	34.7	23.0	21%	21%
IT	24.1	20.0	14%	9%
Materials	21.7	14.6	35%	29%
Utilities	18.4	12.5	12%	9%

Source: Bloomberg, Standard Chartered

Fig. 11 **Cyclical sectors outperform in H1 2025**

YTD 2025 sectoral performance (%)



Source: MSCI, Bloomberg, Standard Chartered. 2025 YTD period from 31 December 2024 to 30 June 2025

Equity – at a glance

Our view

We remain Overweight global equities amid resilient fundamentals. The de-escalation of trade tensions continues and earnings growth is healthy, while inflation has remained under control so far, despite tariffs.

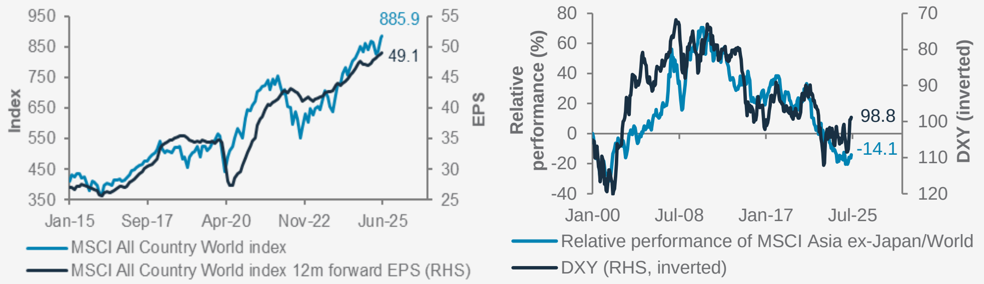
We upgrade Asia ex-Japan equities to an Overweight allocation. A **weaker USD** leads to more inflows into Emerging Markets (EMs). Valuations are appealing. **We expect China and Korea equities to outperform within Asia ex-Japan**. Korean equities have cheap valuations and good growth. The catalyst will come from **fiscal expansion** and **market reforms from the new administration**, which can narrow the Korean discount to other EMs. Chinese equities' risk premium is subsiding – Beijing playing its **'rare-earth' card** helped contain the trade war from escalating. **India is a core holding. It is structurally attractive.** Fiscal stimulus is a strong tailwind, although valuation is expensive.

We downgrade US equities to a core holding. Earnings is strong, but the '**de-dollarisation**' narrative warrants a scaling back of excessive long positions. **Europe ex-UK is a core holding**. Rising fiscal spending is offset by tariff concerns.

Key chart

Fig. 12 **Global equities continue to ride on strong fundamentals, including robust earnings, while equity flows and weak USD should propel Asia ex-Japan higher**

Performance and 12m forward EPS of global equities (LHS); Relative performance of Asia ex-Japan vs. global equities and USD index (RHS)



Source: FactSet, Bloomberg, Standard Chartered

*Table below: Prefer China offshore over onshore; **Green** = Upgrade; **Red** = Downgrade

Preference order

	The bullish case	The bearish case
Asia ex-Japan equities ▽ ◇ ▲	+ Strong FX cuts input costs, lifting earnings + Attractive valuations; Low positioning + China's fiscal and monetary stimulus	– Structural issues eg, deflation in China – The threat of tariffs – Chip restrictions
Within AxJ	China* ▲ South Korea ▲	India ◆ Taiwan ◆ ASEAN ▼
US equities ▽ ◆ △	+ Tailwind from a soft-landing scenario + Deregulation and tax cuts + Technology sector propelling performance	– Fears of resurgent inflation – Elevated policy uncertainties – Expensive valuations
Europe ex-UK equities ▽ ◆ △	+ Fiscal stimulus + Recovery in economic sentiment + Attractive valuations	– US tariff threat – Cyclical and structural headwinds – Earnings revisions deteriorating
Japan equities ▽ ◆ △	+ Further improvement in foreign interest + Corporate governance reforms + Secular reflation	– Political, global trade uncertainty – Rebound in JPY to hurt company earnings – EM competing for fund flow
UK equities ▼ ◇ △	+ Relatively less affected by Trump 2.0 + High dividend yield; cheap valuations + Relatively defensive sectors	– Challenging economic and earnings outlook – Restrictive monetary policies – Low exposure to growth sectors

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Core

FX and commodities – at a glance

Key themes

We expect the INR to trade with a bearish bias against other key cross-currency pairs - EUR, JPY, and GBP- the key beneficiaries of a weaker USD. Recovering economic growth, attractive real yields, stable balance of payments outlook, softer commodity prices and robust FX-reserves are key factors supportive of the INR. However, narrowing India-US bond yield and policy rate differentials, and an uncertain global trade environment is likely to cap any significant upside on the INR. We see the USD/INR pair trending closer to 88 over a 12-month horizon.

Cyclical factors should result in a weaker USD over the next 6-12 months. Since April, much attention has been focused on the structural risk of 'de-dollarisation' of the global economy. **Nevertheless, we expect the USD to remain under pressure from shorter-term cyclical factors over H2.** Key drivers include the USD's still-elevated valuation, the potential for narrowing rate differentials as the Fed cuts rates and uncertain US trade policy. Excessive short positioning may limit weakness over the next 1-3 months, but this is unlikely to be a constraint over a longer 6-12-month horizon.

Gold has limited near-term upside if Middle East tensions stay contained but remains a key strategic hedge. Gold is hovering near record highs amid geopolitical tensions, and with positioning now also more Neutral, there is room for renewed inflows. Moreover, with key risks looming in July – including the expiration of the US's 90-day tariff pause and the anticipated passing of Trump's fiscal bill – gold remains a vital hedge against the building narrative of 'de-dollarisation' and market volatility. Still, barring extreme outcomes, further upside may be limited in the near-term, given the sharp rally seen already this year. We retain gold as a core allocation and see gold as having transitioned to a higher price regime above USD 3,000 for the rest of 2025. We raise our 3-month price expectation to USD 3,400, but leave our 12-month expectation unchanged at USD 3,500.

Oversupply remains the dominating theme in oil markets. A standalone demand-supply outlook continues to argue for an oversupplied oil market, which is behind our USD 65/bbl forecast for WTI over 6-12 months. Geopolitics is a clear upside risk – while the extent of excess supply and OPEC+ spare capacity can help offset this, near-term spikes in prices cannot be ruled out. We expect West Texas Intermediate (WTI) oil prices to trade in a range around USD 65/bbl over the next 3-12 months. Geopolitical risks may result in temporary spikes in oil prices.

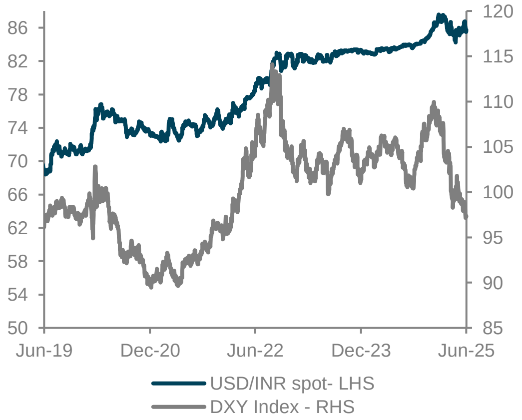
Key chart

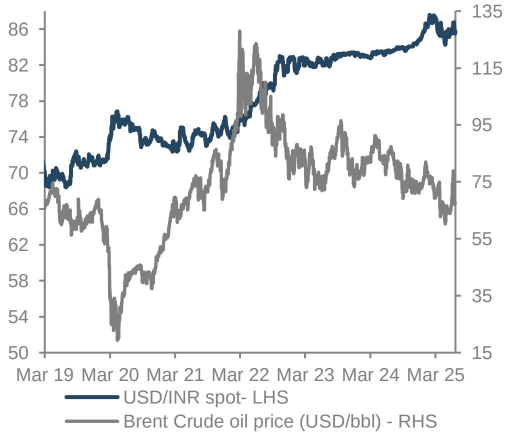
Narrowing India-US bond yield and policy rate differentials, and an uncertain global trade environment is likely to cap any significant upside on the INR.

Fig. 13 **Strong macro fundamentals and a modestly weaker USD is supportive of the INR**

LHS chart: USD/INR Spot -LHS and DXY Index – RHS

RHS chart: USD/INR Spot -LHS and Brent Crude oil price (USD/bbl) – RHS





Source: Bloomberg, Standard Chartered

Foundation: Asset allocation summary

Summary	**View vs. SAA**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**	**Very Aggressive**
Cash	▼	16.5	2.9	2.8	2.7	0.0
Fixed Income	◆	57.9	50.8	35.5	21.4	12.5
Equity	▲	20.4	41.7	57.2	71.7	83.3
Commodities	◆	5.3	4.6	4.4	4.3	4.2

Level 1	**Level 2**	**Level 3**						
Cash & Cash Equivalents			▼	16.5	2.9	2.8	2.7	0.0
Fixed Income	Short-term Bonds		◆	41.6	31.8	24.5	14.3	8.2
	Mid/Long-term Bonds		◆	16.3	19.0	11.0	7.1	4.3
Equity	DM Equity		◆	3.8	6.7	9.6	12.4	14.6
	Asia Ex-Japan / Other EM Equity		▲	2.8	4.8	7.0	9.0	10.6
	Indian Equities	Large-cap equities	◆	9.7	21.1	28.5	35.3	40.7
	◆	Mid/small-cap equities	◆	4.1	9.1	12.2	15.1	17.4
Commodities (INR Gold)			◆	5.3	4.6	4.4	4.3	4.2
				100	**100**	**100**	**100**	**100**

▼ Underweight ◆ Neutral ▲ Overweight

Source: Bloomberg, Standard Chartered

All INR converted exposure. For illustrative purposes only. Please refer to the disclosure appendix at the end of the document

Performance of our calls

	Open calls	Open date	Close date	Absolute	Relative
Equities	Indian equities to outperform all other asset classes	19-Dec-24			✗
Equity Sectors	India Financials Sector to outperform Indian Equities	19-Dec-24			✓
	India Consumer Discretionary sector to outperform Indian Equities	12-Mar-24			✓
	India Healthcare to outperform Indian Equities	7-May-24			✗
Opportunistic	Indian High-quality (AAA) corporate bonds	19-Dec-24		✓	

	Closed calls	Open date	Close date	Absolute	Relative
	India Industrials Sector to outperform Indian Equities	19-Dec-24	12-Mar-25		✗
	India Technology Sector to outperform Indian Equities	19-Dec-24	7-May-25		✗
	India Small cap equities	19-Dec-24	7-May-25		✗
	Indian Long-Term Bonds	19-Dec-24	10-June-25		✓
	Indian mid-and long- maturity bonds to outperform short-maturity bonds	19-Dec-24	10-June-25		✓
	Indian large-cap equities to outperform mid-cap and small-cap equities	19-Dec-24	30-June-25		✓

Source: Bloomberg, Standard Chartered. Performance measured from 19 December 2024 (release date of our 2025 Outlook) to 30 June 2025 or when the view was closed.

Legend: ✓– Correct call; ✗ – Missed call; n/a – Not Applicable.

Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.

Market performance summary*

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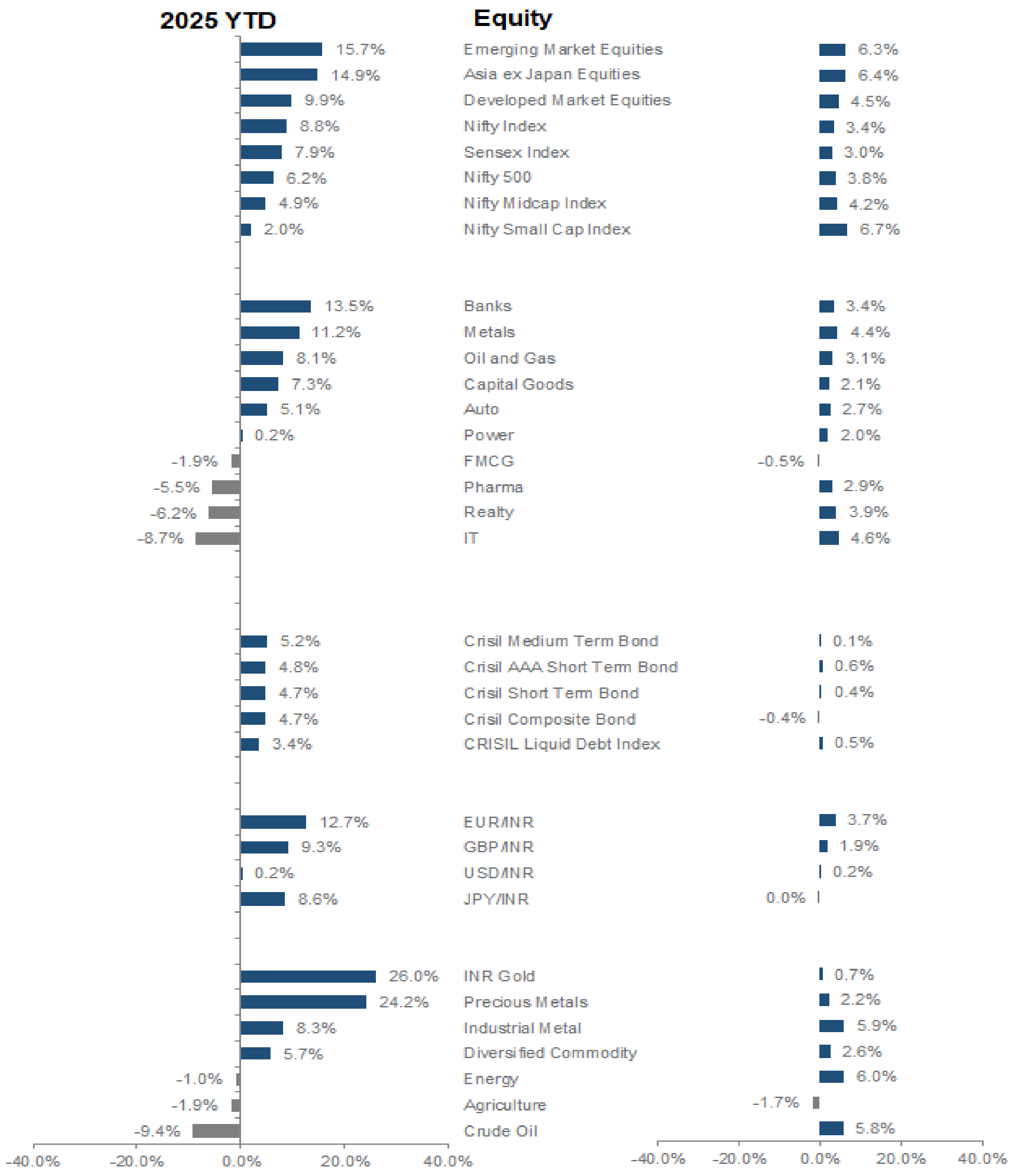

Source: MSCI, NSE, S&P BSE, Crisil, Bloomberg, Standard Chartered
*2025 YTD period from 31 December 2024 to 30 June 2025. 1-month period from 30 May 2025 to 30 June 2025.

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