THE MONTH GONE BY

An insightful roundup of relevant stories in the recent month backed by interesting data points

From 1991 to 2001, Japan experienced a prolonged period of economic stagnation known as 'The Lost Decade.' During this phase, **the Japanese economy wrestled with both a credit crunch and a liquidity trap,** which challenged the growth environment. **Consequently, from 1991 to 2003, Japan's Gross Domestic Product growth limped at an annual rate of 1.14%,** lagging significantly behind other industrialized nations (Data source: National Bureau of Economic Research).

Saddled with high levels of debt and a rising cost of borrowing, consumer spending plummeted and indebted entities struggled to service their obligations.

What were the key learnings?

Rising debt burden could depress economic activity, making the vicious cycle difficult to break.

Early intervention to re-capitalize insolvent banks and address bad debts could have helped mitigate the depth of the crisis.

Balanced economic policies facilitate sustainable growth, helping a country navigate economic crisis better.

The current global economic outlook remains clouded amidst uncertainties around U.S. trade policies and weak consumer sentiment. Sending shockwaves across the global market, **Moody's Ratings downgraded the U.S. credit rating, citing the country's growing debt level.**

While we ponder about the course ahead, it is important to connect the dots with key market events of May 2025.

Moody's downgraded the U.S. sovereign credit rating

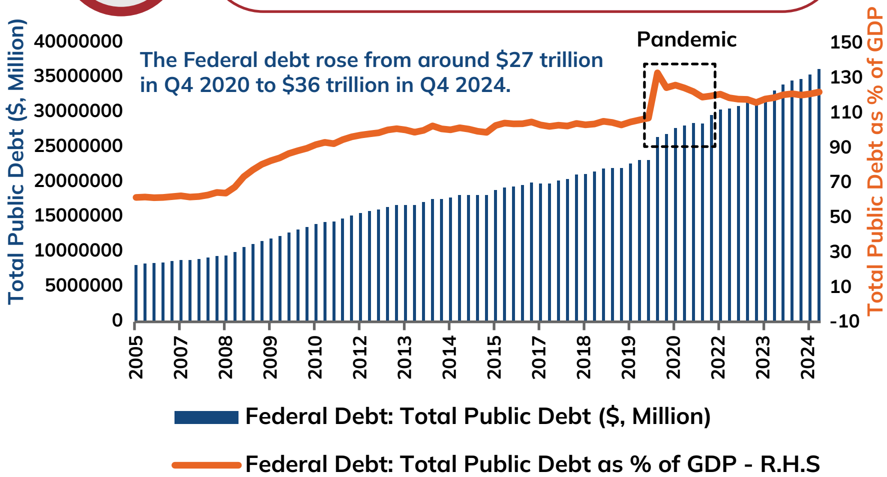
On May 16, 2025, Moody's Ratings downgraded the long-term issuer and senior unsecured ratings of the U.S. to 'Aa1' from 'Aaa' and changed the outlook to stable from negative. Why did the U.S. lose its pristine Aaa rating?

The huge debt pile of $36.22 trillion: The U.S. government debt and interest payment ratios have increased for more than a decade, rising significantly higher than similarly rated sovereigns.

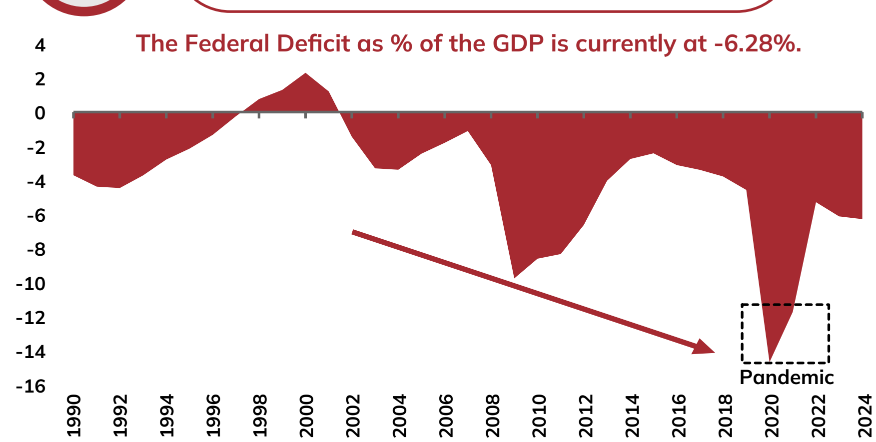
The fiscal math has deteriorated considerably: Fiscal deficit widened especially during crisis periods, such as the 2008 Great Recession and the Covid-19 pandemic – the government spent heavily to support the economy while tax revenues dropped due to a dwindling job market.

Persistent fiscal deficits could drive the debt burden higher: The rating agency expects the federal deficit to reach nearly 9% of the GDP by 2035, up from 6.4% in 2024, driven mainly by increased interest payments on debt, rising entitlement spending and relatively low revenue generation. Consequently, the federal debt burden could rise to about 134% of the GDP by 2035.

FEDERAL DEBT: TOTAL PUBLIC DEBT ($, MILLION)



FEDERAL SURPLUS/DEFICIT AS % OF GROSS DOMESTIC PRODUCT



Source: Federal Reserve Bank of St. Louis, U.S. Office of Management and Budget via FRED. Data as on Q4 2024. Q: Quarter. U.S.: United States. R.H.S: Right-hand side. Pandemic refers to the Covid-19 outbreak. GDP: Gross Domestic Product.

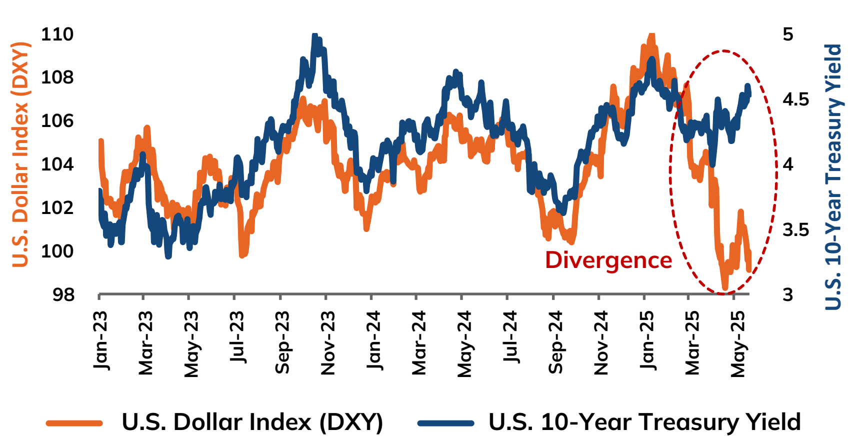
The U.S. has now lost its AAA rating by all major ratings agencies, following downgrades by Fitch in 2023 and Standard & Poor's in 2011.

The impact of the U.S. credit downgrade on the bond market

When the credit rating of a country is lowered, the cost of borrowing could increase over a period of time as creditors demand for a higher interest rate to be compensated for greater credit risk. Amid concerns around ballooning U.S. government debt levels, the U.S. 30-year Treasury bond yield surged to around 5.10% on May 21, 2025, its highest level since November 2023. The U.S. 10-year Treasury yield also spiked to around 4.50% at a time when the economy is already grappling with uncertainties around U.S. trade tariffs, which may stoke inflation.

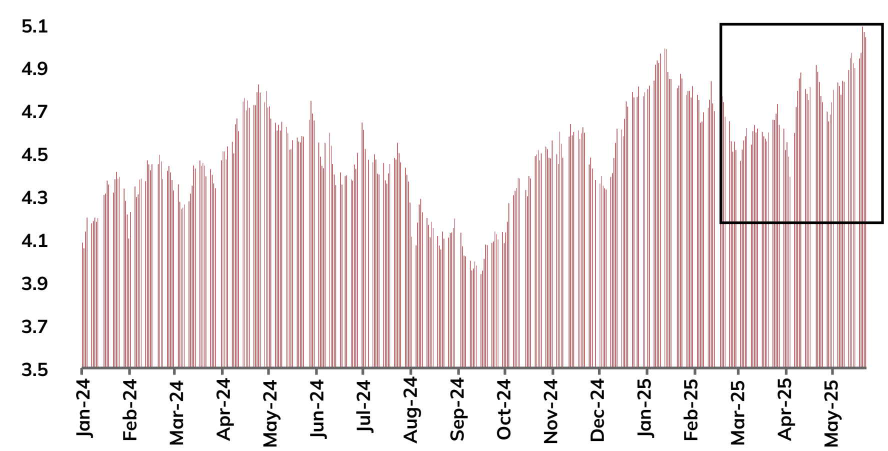
Higher borrowing costs for the U.S. government could trickle down to consumers in the form of higher interest rates on a broad range of correlated loans, including personal loans, mortgages and credit cards.

U.S. 10-YEAR TREASURY YIELD (%) AND U.S. DOLLAR INDEX



Source: Reuters. Data as on May 23, 2025. U.S.: United States.

U.S. 30-YEAR TREASURY YIELD (%)



Source: Reuters. Data as on May 23, 2025.

In addition to the sovereign credit rating downgrade, market sentiment was rattled by the U.S. president's tax and spending bill, which is awaiting approval from the Senate. If implemented, the tax cuts and increased defense spending could further strain the country's debt position.

The U.S. Federal Reserve holds the benchmark interest rate steady

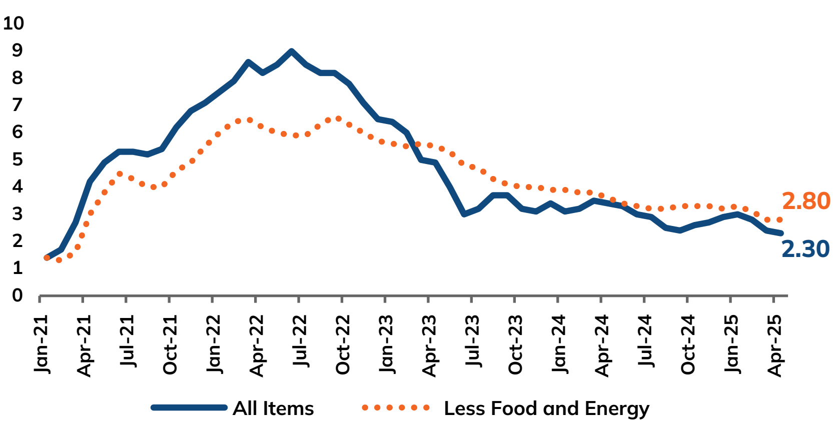
ICICI PRUDENTIAL MUTUAL FUND

In May 2025, the U.S. Federal Reserve kept the key interest rate unchanged at 4.25%-4.50%, citing risks of rising inflation and higher unemployment amid a challenging economic scenario.

Boiling inflation risks: The U.S. Consumer Price Index stood at 2.3% year-on-year in April 2025, which is still above the 2% long-term target. Though the U.S. and China took a major step towards de-escalating their trade war, a 10% blanket duty on most imports remains in place coupled with sectoral tariffs. If large tariffs sustain, it could drive inflation upwards and hamper economic growth.

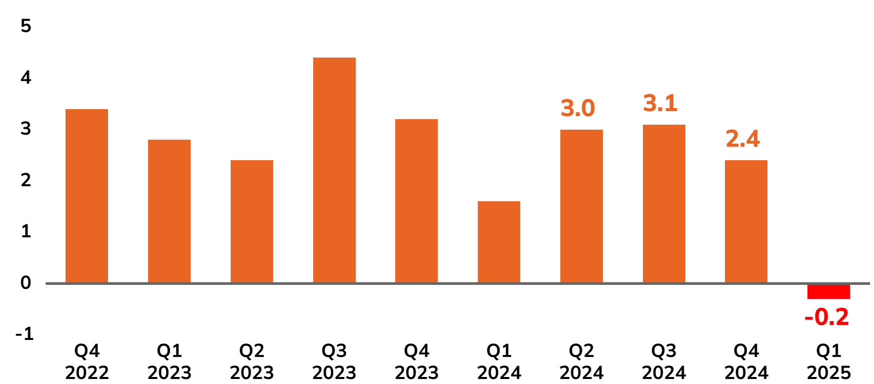
Increasing economic uncertainties: The U.S. Real Gross Domestic Product (GDP) decreased at an annual rate of 0.2% in Q1 2025, reflecting a decrease in government spending, dampened consumer sentiment and a surge in imports.

U.S. CONSUMER PRICE INDEX (%)



Source: U.S. Bureau of Labor Statistics, Year-on-year % change.
U.S.: United States.

U.S. REAL GROSS DOMESTIC PRODUCT (%)



Source: U.S. Bureau of Economic Analysis. Q1 2025 data is the second estimate. Percent change from preceding quarter.

The U.S. job market displays resilience: In April 2025, the U.S. unemployment rate stood at a healthy 4.2%. Employment continues to trend up in healthcare, transportation, financial activities and social assistance.

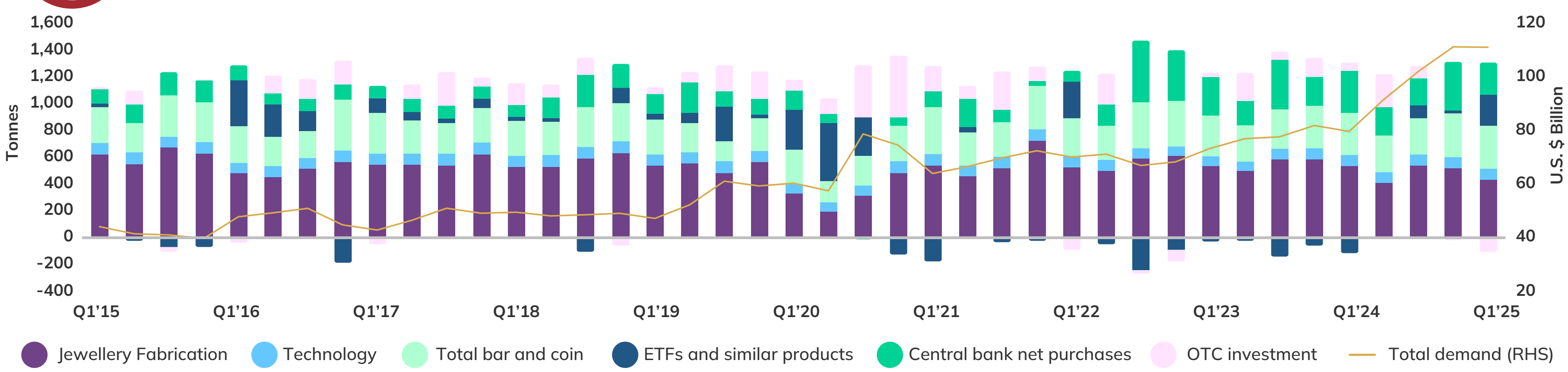
The U.S. Federal Reserve would now adapt a 'wait-and-see' approach, where it could evaluate macroeconomic indicators before adjusting the policy rate.

The Shine of Precious Metals

ICICI PRUDENTIAL MUTUAL FUND

Gold prices surged to around $3,293/ounce on May 30, 2025 as heightened concerns over the fiscal sustainability of the U.S. reignited demand for the yellow metal. In addition to the greenback losing ground, flaring geopolitical tensions in the Middle East, central banks buying gold amid global economic uncertainties and strong inflows into global gold-backed Exchange-Traded Funds (ETFs) propelled gold prices.

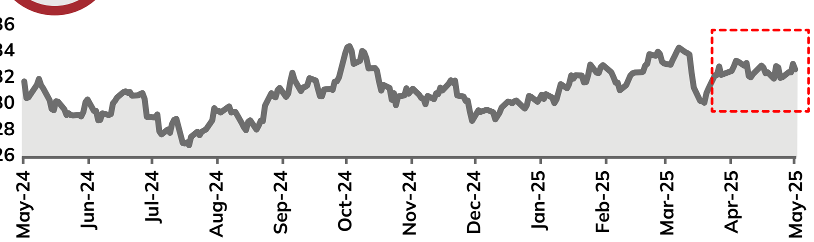
QUARTERLY GOLD DEMAND BY SECTOR, TONNES AND VALUE ($, BILLION)



Source: ICE Benchmark Administration, Metals Focus, World Gold Council, Data as on March 31, 2025. OTC: Over-the-counter. R.H.S: Right-hand side. ETF: Exchange Traded Funds. U.S.: United States. Q1: Quarter 1.

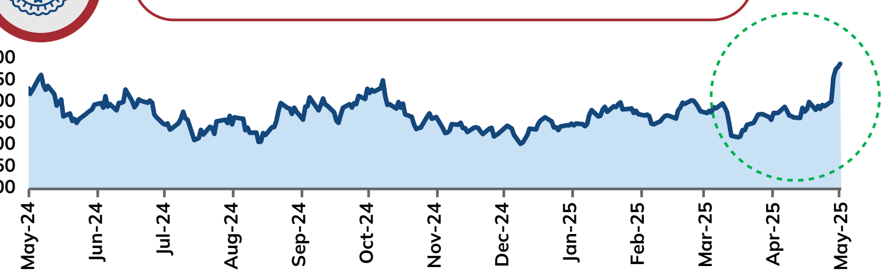
Silver is also considered an important precious metal for its store of value and extensive usage in the industrial landscape, such as semiconductors, automotive electronics and solar panels. Silver prices traded around $33/ounce on May 30, 2025.

SILVER LBMA PRICE ($/OUNCE)



The global demand for Platinum gained traction, recording a 10% year-on-year increase to 2,274 koz in Q1 2025. Platinum prices are regaining momentum, underpinned by a sharp rise in exchange-held platinum stocks, the growing appetite for platinum jewellery and a widening location premium.

PLATINUM LBMA PRICE ($/OUNCE)



Source: LBMA: London Bullion Market Association. World Platinum Investment Council Q1 2025, Metals Focus. Data as on May 23, 2025. Koz: Thousand ounces.

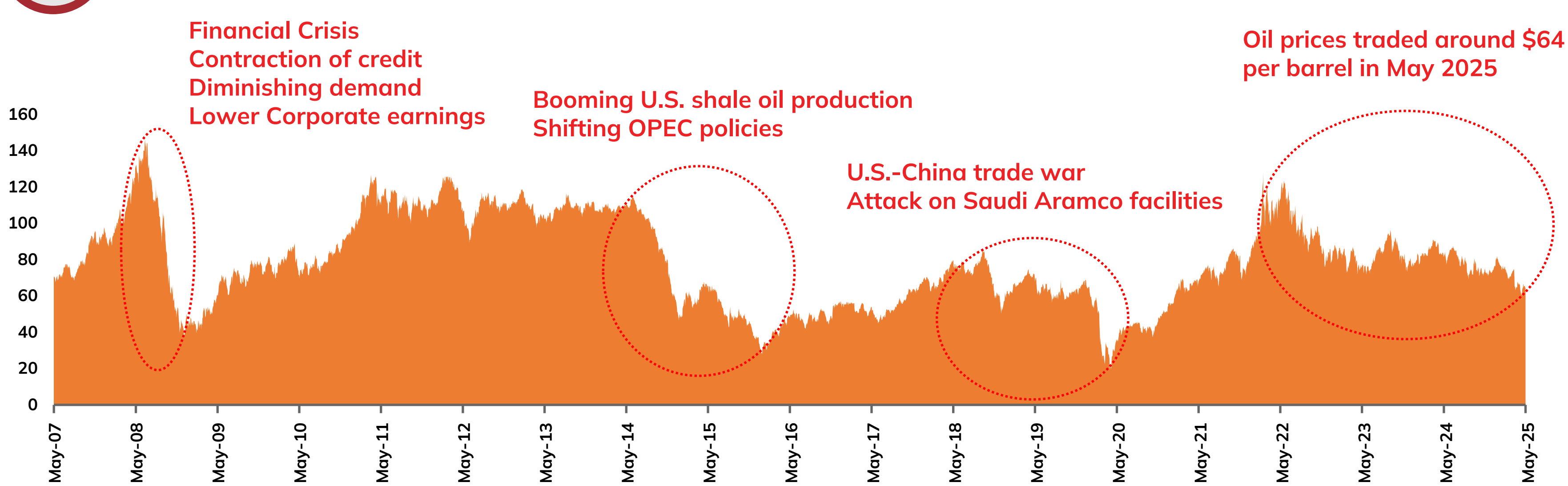
The strategic decision of the OPEC cartel to increase oil supply

Brent crude oil prices continued the downward trajectory, testing $64/barrel in May 2025.

OPEC+ agreed to accelerate oil production hikes for a second consecutive month, raising output in June 2025 by 411,000 barrels per day. **Additionally, Moody's downgrade of the U.S. sovereign credit rating soured risk appetite,** exerting pressure on oil prices.

China, a key driver of global oil demand, witnessed slower retail sales of 5.1% in April 2025, indicating weaker domestic consumption. Chinese refiners continue to scale back their crude oil imports amid weaker industrial activity and a shift towards electric vehicles.

BRENT CRUDE OIL PRICE ($/BARREL)



Source: Reuters, OPEC: Organization of the Petroleum Exporting Countries. U.S.: United States. UK: United Kingdom. Data as on May 23, 2025.

Amidst the disarray of geopolitical tensions in the Middle East and a fragile oil demand outlook, here is the silver lining: In May 2025, the U.S. and China announced a 90-day pause in their trade war. The U.S. is also engaging in discussions with other trading partners, such as the UK and India to finalize trade deals. India increased its crude oil imports from the U.S. in April 2025, making the U.S. its fourth-largest supplier after Russia, Iraq and Saudi Arabia.

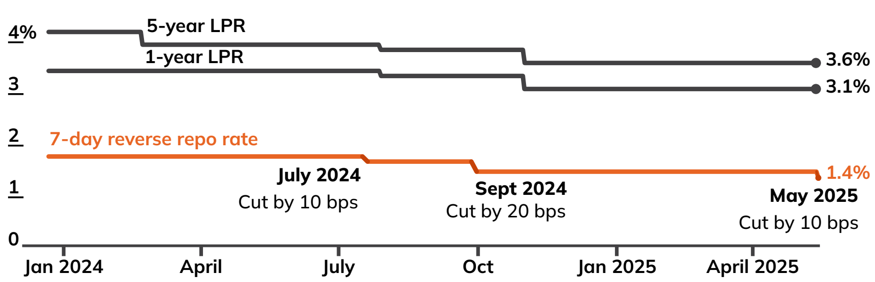
China announced a raft of stimulus measures to support consumption

After a prolonged cat-and-mouse game of aggressive trade tariffs, the U.S. and China agreed on a 90-day pause on reciprocal tariffs. While the U.S. would reduce the 145% tariffs on most Chinese imports to 30% in May 2025, China would lower its tariffs on U.S. goods to 10%.

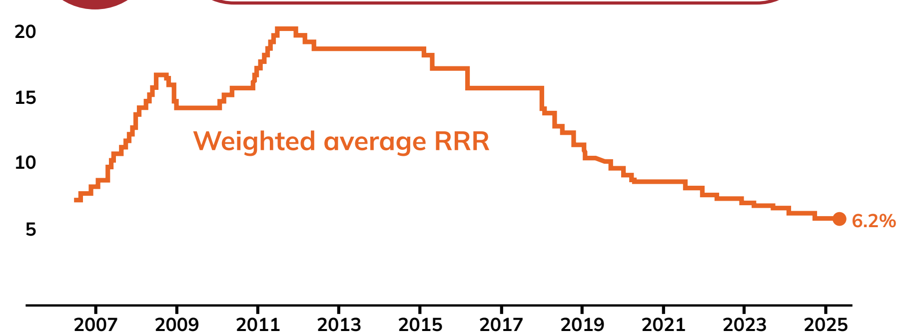
In May 2025, the People's Bank of China announced measures to increase liquidity:

- **Reduced the seven-day reverse repo rate by** 10 basis points to 1.4% and **lowered the reserve requirement ratio** by 50 basis points, unleashing additional liquidity of 1 trillion yuan into the market.
- **Interest rates on five-year loans for first time home buyers would be reduced** to 2.6%. Additionally, **the reserve requirement for auto financing companies would be gradually lowered** to zero from 5%.
- **Plan to set up a 500 billion yuan re-lending facility to support service consumption, elderly care.**

CHINA'S LOAN PRIME RATE (%)



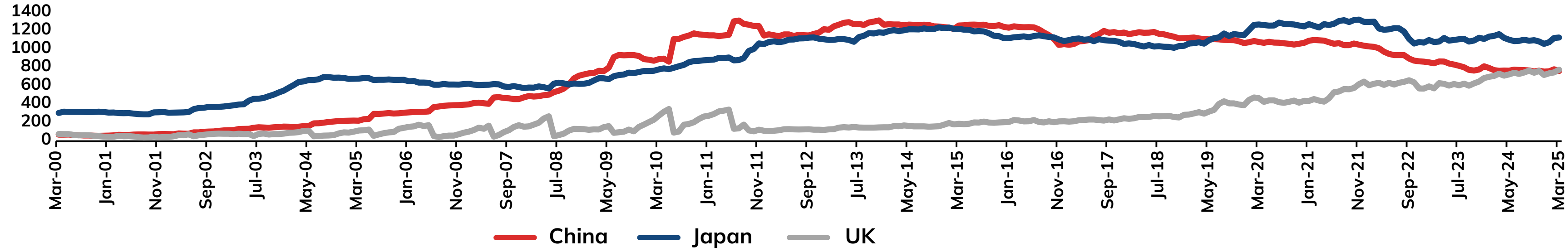
CHINA'S WEIGHTED AVERAGE RESERVE REQUIREMENT RATIO (%)



Source: Reuters, People's Bank of China. Data as on May 07, 2025. Bps: basis points. LPR: Loan prime rate. RRR: Reserve Requirement ratio.

FOREIGN HOLDINGS OF U.S. TREASURIES ($, BILLION)

In March 2025, China's holdings of U.S. Treasuries fell to $765 billion and holdings of the United Kingdom rose to $779 billion, making it the second-largest foreign holder after Japan.



Source: CEIC, U.S. Department of the Treasury. U.S.: United States. UK: United Kingdom

The Historic India-UK Free Trade Agreement

ICICI PRUDENTIAL MUTUAL FUND

India and the United Kingdom have signed a Free Trade Agreement (FTA), that opens doors to vast business opportunities, targeting to double the bilateral trade of about $60 billion by 2030.

01

INDIAN IMPORTS

Indian tariffs on UK products will be slashed, locking in reductions on 90% of the tariff lines.

02

INDIAN EXPORTS

India will gain from tariff elimination on about 99% of the tariff lines, covering almost the entire trade value with the UK.

03

BENEFICIAL FOR INDIA

Provides opportunities for labour intensive sectors, such as textiles, marine products, leather, footwear, sports goods and toys, gems and jewellery. Also, would benefit sectors, such as engineering goods, auto parts and organic chemicals.

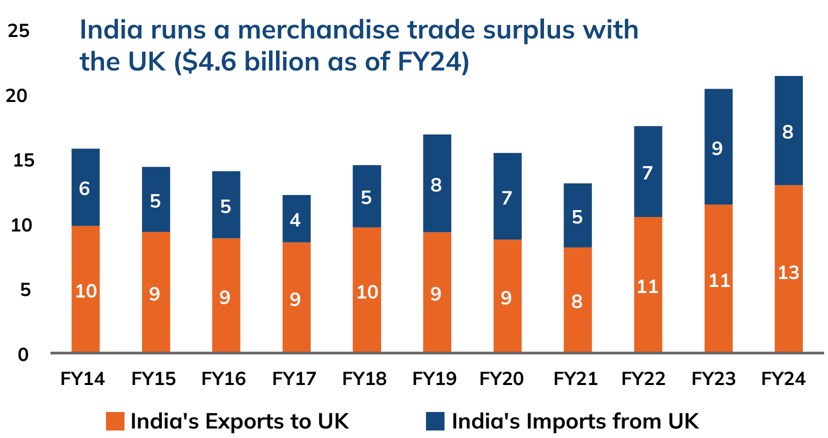
04

BENEFICIAL FOR UK

Tariffs on select alcoholic beverages will be halved to 75% from 150%.

Automotive tariffs will be reduced from over 100% to 10% under a quota.

INDIA'S MERCHANDISE TRADE WITH THE UK ($, BILLION)



India's Top 5 Merchandise Exports to the UK (FY24)	Share
Electrical machinery & equipment	14%
Nuclear reactors, boilers, parts	12%
Mineral fuels and oils	10%
Apparels & clothing accessories	10%
Pharma products	5%

India's Top 5 Merchandise Imports from the UK (FY24)	Share
Pearls, precious stones & metals	28%
Nuclear reactors, boilers, parts	13%
Iron & steel	9%
Electrical machinery & equipment	6%
Essential oils & cosmetics	5%

Source: CMIE. CareEdge Ratings. Ministry of Commerce & Industry. UK: United Kingdom. Import/Export categories are as per HS2 Code. The sector(s) /stock(s) mentioned in this presentation do not constitute any recommendation of the same and ICICI Prudential Mutual Fund may or may not have any future position in these sector(s)/stock(s). The portfolio of the scheme is subject to changes within the provisions of the Scheme Information Document of the Scheme.

Foreign inflows make a strong comeback to the Indian equity market

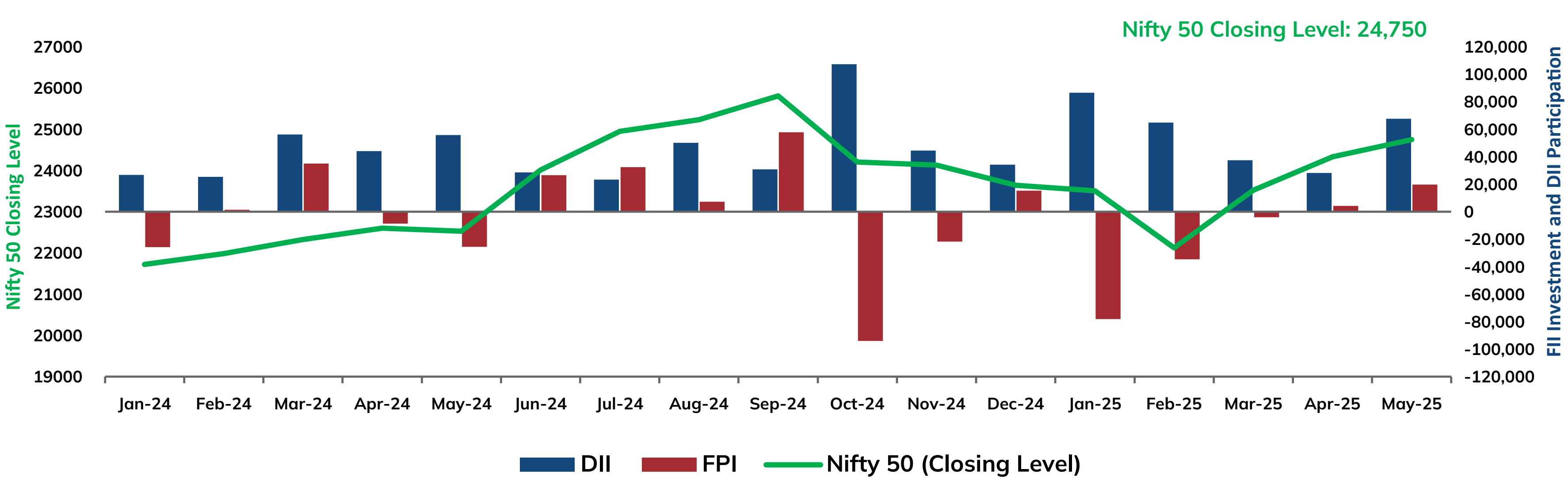
ICICI PRUDENTIAL MUTUAL FUND

Foreign investment flows into India have been erratic due to weak domestic corporate earnings in recent quarters, slowing urban consumption and concerns around the impact of U.S. trade policies.

After months of turning away, the tide seems to have turned – Foreign Portfolio Investors bought Indian equities worth ₹24,083 crore between April 2025 and May 2025.

Why are foreign investors considering the Indian market? At a time when many advanced economies are facing economic headwinds, India continues to offer **relative stability and strong growth. The catalysts involve benign headline inflation, liquidity measures directed by the Reserve Bank of India (RBI), sustained momentum of the service sector and receding tensions on the Indian border.** Another tailwind is **the pact between the U.S. and India,** which would provide access to new markets.

MONTHLY FPI NET INVESTMENTS IN INDIAN EQUITIES AND DII PARTICIPATION (₹, CRORE) AND NIFTY 50 CLOSING LEVEL



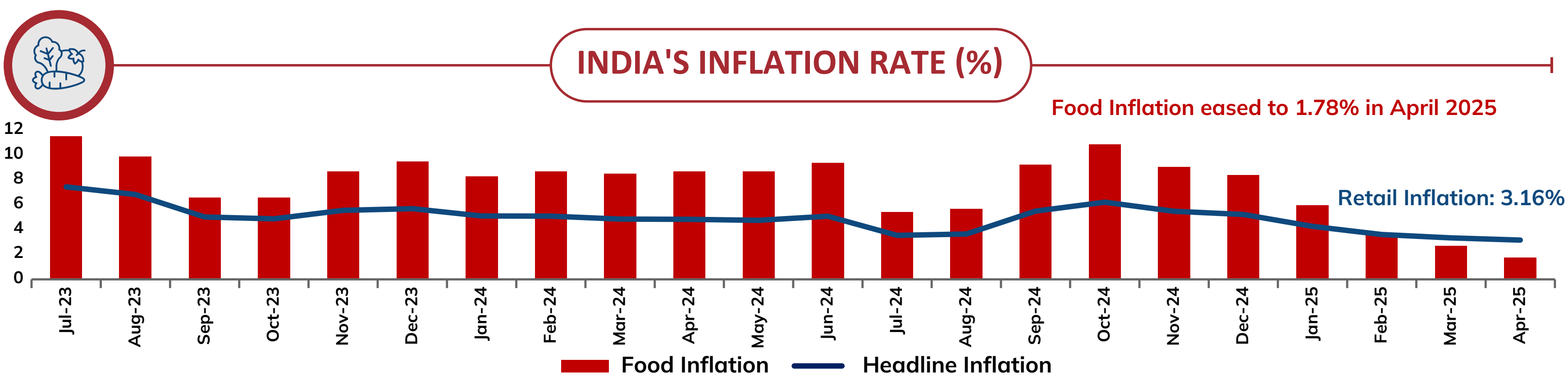
Source: National Securities Depository Limited (NSDL). NSE. U.S.: United States. FPI: Foreign Portfolio Investment. DII: Domestic Institutional Investment. Past performance may or may not sustain in future. Data as on May 30, 2025.

India's Retail Inflation eases to a six-year low in April 2025

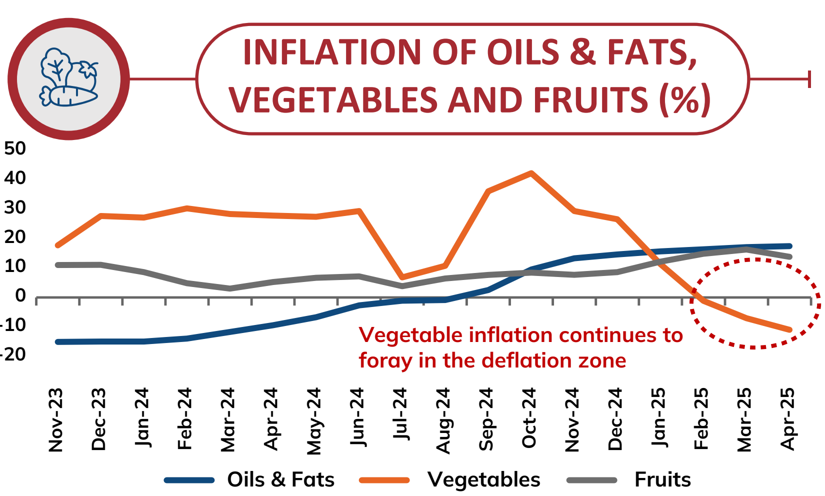
ICICI PRUDENTIAL MUTUAL FUND

India's retail inflation, measured by Consumer Price Index (CPI), steadily cooled to 3.16% in April 2025 from 3.34% in March 2025, primarily driven by sustained easing in food prices.

Food inflation eased to 1.78% year-on-year in April 2025 from 2.69% in March 2025. The encouraging prospects for agricultural production, comfortable reservoir levels and arrival of fresh Rabi harvests augur well for food inflation, which would support consumption. **However, core inflation, which excludes food and fuel, edged up to 4.2% year-on-year in April 2025, impacted by elevated gold prices.**



Vegetable inflation further dropped to -10.98% in April 2025 from -7.04% in March 2025. While deflation in vegetables, pulses, spices and meat aided the moderation of food inflation, uptick was observed in prices of milk products, oils & fats, sugar and confectionary. Fuel and light inflation increased to 2.9% in April 2025, reflecting the hike in liquefied petroleum gas prices by ₹50 per cylinder from April 08, 2025.



Group	Weightage	Apr-25 (YoY)	Mar-25 (YoY)
Food and beverages	45.86%	2.1%	2.9%
Pan, tobacco and intoxicants	2.38%	2.1%	2.5%
Clothing and footwear	6.53%	2.7%	2.6%
Housing	10.07%	3.0%	3.0%
Fuel and light	6.84%	2.9%	1.5%
Miscellaneous	28.32%	5.0%	5.0%

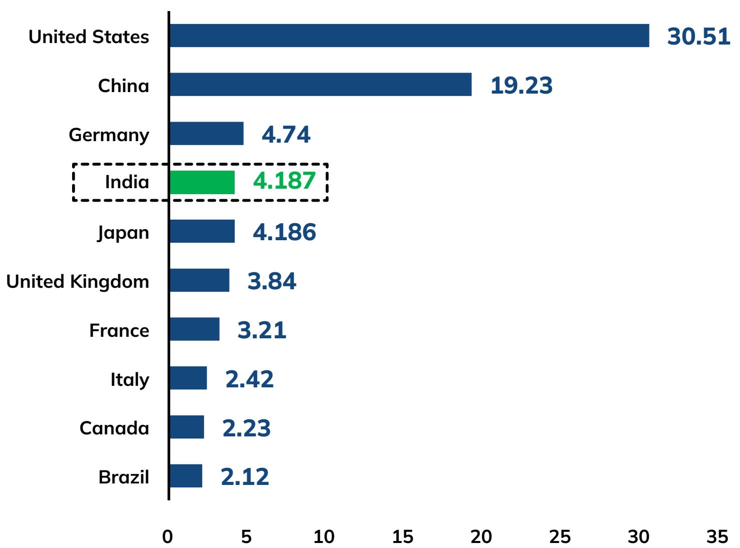
Source: Centre for Monitoring Indian Economy (CMIE). Data as on April 2025. YoY: Year-on-Year

India overtakes Japan to become the world's 4th Largest Economy in the world

ICICI PRUDENTIAL MUTUAL FUND

NITI Aayog CEO stated that India has surpassed Japan to become the world's 4th largest economy. **According to the International Monetary Fund, India's Gross Domestic Product has more than doubled from around $2.1 trillion in 2015 to $4.19 trillion in 2025, based on current prices.**

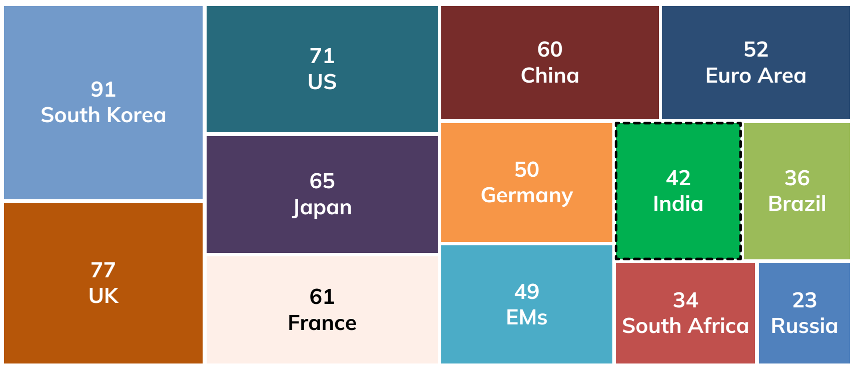
GROSS DOMESTIC PRODUCT (GDP) (U.S. $, TRILLION)



Source: World Economic Outlook of International Monetary Fund, April 2025. U.S.: United States.

INDIA'S HOUSEHOLD (% OF GDP)

Household Debt is one of the lowest amongst other countries, which is a big positive for India.



Source: Avendus Spark Research. EM: Emerging Markets, US: United States, UK: United Kingdom, GDP: Gross Domestic Product.

Which factors have contributed positively to India's growth narrative?

India's manufacturing sector is gaining momentum, supported by the Production Linked Incentive (PLI) scheme and Make in India, that focus on import substitution and employment generation.

The gross non-performing assets of scheduled commercial banks dropped to a 12-year low of 2.6% in September 2024, driven by falling slippages and steady credit demand.

Over the years, the government has invested heavily in construction of highways, railways, airports, renewable energy grids and sea ports, which are crucial for economic development.

Enhancements in digitization has facilitated efficient payment systems and quicker credit delivery.

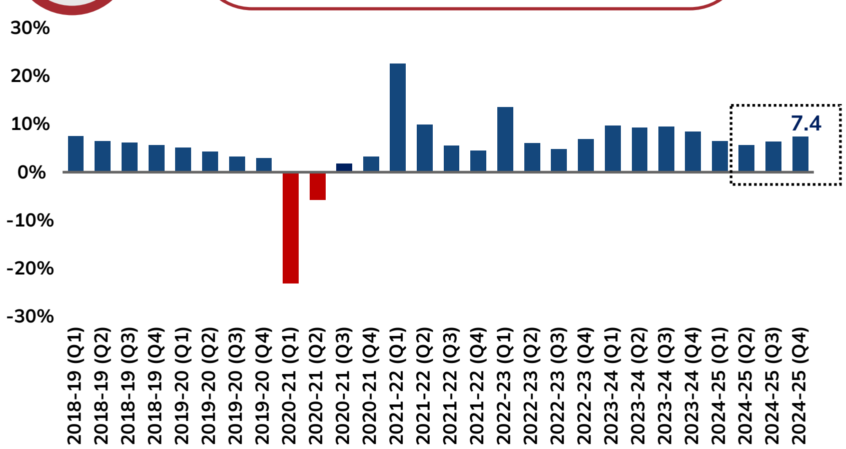
India's Gross Domestic Product accelerates in the last quarter of 2024-25

ICICI PRUDENTIAL MUTUAL FUND

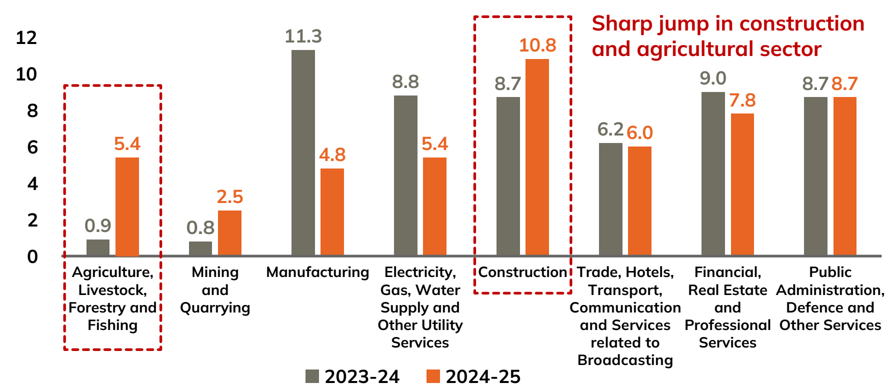
Indian economy expanded by 7.4% in the fourth quarter of FY 2024-25, up from the 6.4% growth recorded in the previous quarter. However, growth for the full 2024-25 year has been pegged at 6.5%.

The growth in the last quarter of 2024-25 was driven by strong farm activity, significant uptick in the construction sector and improved rural demand. On the other hand, the manufacturing sector growth and new investments by private companies remained weak.

REAL GDP GROWTH RATE OF INDIA (%)

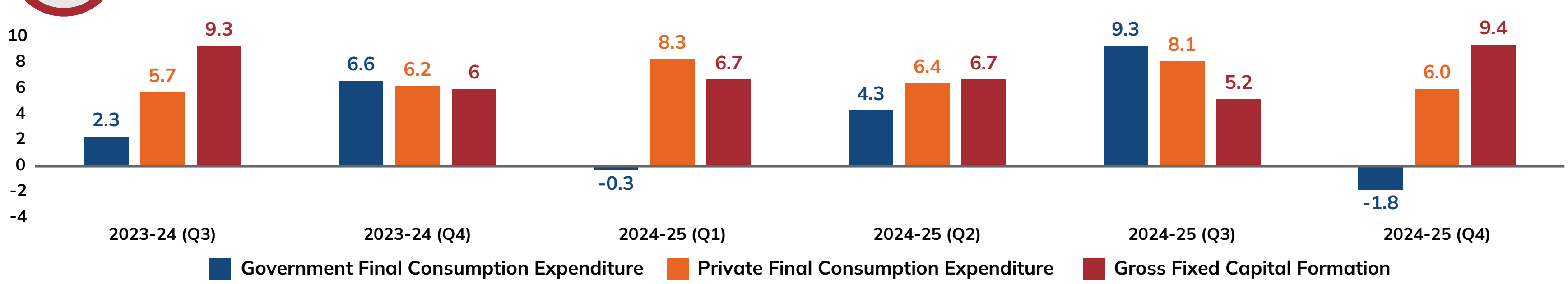


SECTOR-WISE GROWTH RATES (%) OF REAL GVA IN Q4 OF FY 2023-24 AND 2024-25



Though private consumption was lower, various tailwinds in the form of income tax cuts announced in the Union Budget 2025-26, lower food inflation and liquidity measures directed by the RBI to stimulate demand could support overall domestic consumption growth.

CONSUMPTION EXPENDITURE AND INVESTMENT (% CHANGE, YEAR-ON-YEAR)



Source: Ministry of Statistics and Programme Implementation, Q1: Quarter 1, Q2: Quarter 2, Q3: Quarter 3, Q4: Quarter 4. GDP: Gross Domestic Product. GVA: Gross Value Added.

RBI to pay record dividend of ₹2.69 lakh crore to the government for FY 2024-25

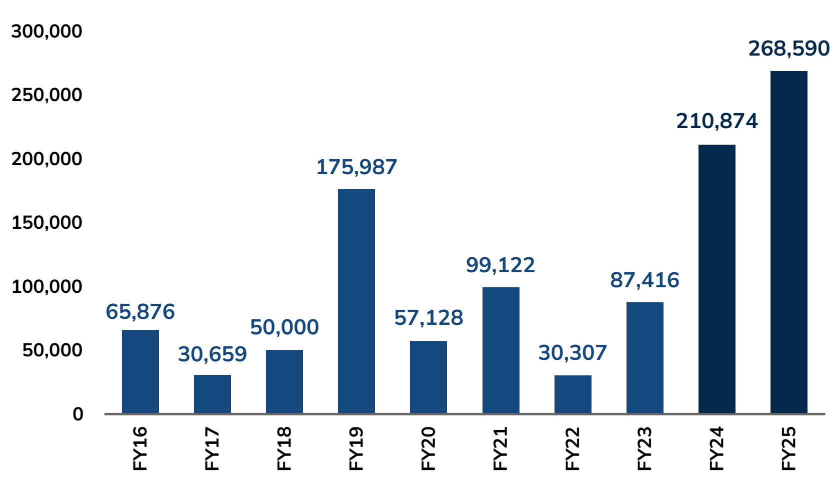
ICICI PRUDENTIAL MUTUAL FUND

The Reserve Bank of India (RBI) will transfer a dividend of ₹2.69 lakh crore to the central government for FY 2024-25, a 27.49% increase from the ₹2.10 lakh crore transferred in FY 2023-24. According to the RBI Annual Report for FY 2024-25, **the sharp rise in net income was driven by gains from foreign exchange transactions and an interest in income from foreign securities.**

The dividend payout could help the government meet its 4.4% fiscal deficit target for the current financial year and also boost liquidity in the banking system.

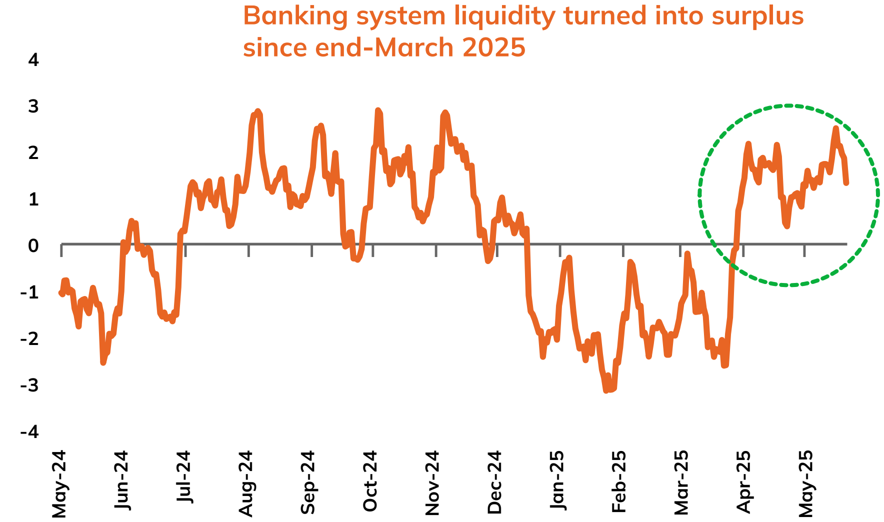
The RBI has actively strived to manage liquidity conditions in the banking system. Between January 2025 and May 22, 2025, the RBI injected liquidity into the system to the tune of ₹9.5 lakh crore through Open Market Operations, long-term Variable Rate Repo auctions and forex swaps (Source: CareEdge Ratings Report).

RBI SURPLUS TRANSFER TO GOVERNMENT (₹, CRORE)



Source: Reserve Bank of India (RBI). FY: Financial Year.

BANKING SYSTEM LIQUIDITY (₹ LAKH CRORE)



Sources: RBI, CEIC. CareEdge Ratings Research Report. Data as on May 21, 2025. Negative values denote liquidity deficit.

The Balance Sheet of the Reserve Bank of India gets stronger

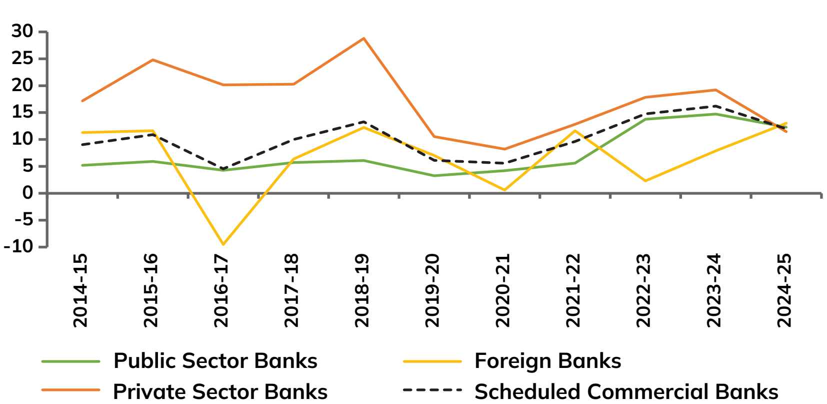
ICICI PRUDENTIAL MUTUAL FUND

RBI's balance sheet expands: RBI's balance sheet expanded by 8.2% to ₹76.25 lakh crore in FY 2024-25. Increase on assets side was due to rise in gold, domestic investments and foreign investments by 52.09%, 14.32% and 1.70%, respectively. **On the liabilities side, expansion** was due to an increase in notes issued, revaluation accounts and other liabilities.

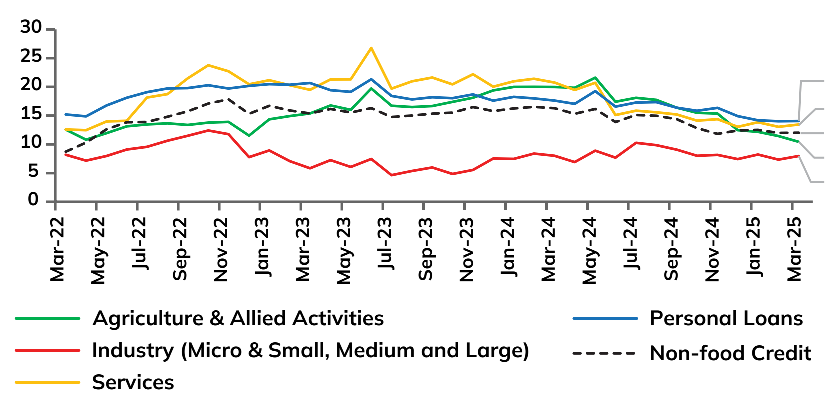
Increase in total Gold holdings: The RBI increased its total gold holdings to 879.58 metric tonnes as of March 31, 2025, compared to 822.10 tonnes recorded a year earlier.

Bank Credit Growth: In FY 2024-25, the credit growth of Scheduled Commercial Banks (SCBs) stood at 12%, driven primarily by the retail, services and agriculture sectors.

CREDIT GROWTH OF SCBs (%)



NON-FOOD CREDIT GROWTH (%, YEAR-ON-YEAR)



Total digital payments surge: Total Digital Payments grew by nearly 35% in volume during FY 2024-25, reflecting increased adoption of cashless transactions.

Scope of e-rupee-Retail and e-rupee-Wholesale pilots: The RBI aims to expand the scope of both e-rupee-Retail and e-rupee-Wholesale pilots by introducing new features and use cases. The central bank also plans to **improve the technological aspects of the account aggregator framework to boost transparency and facilitate customer convenience.**

Foreign Direct Investment (FDI) Flows dropped significantly: During 2024-25, Net FDI flows were at $0.4 billion, significantly below $10.1 billion a year ago, owing to higher repatriation/disinvestment and net outward FDI.

Source: RBI Annual Report 2024-25. RBI: Reserve Bank of India

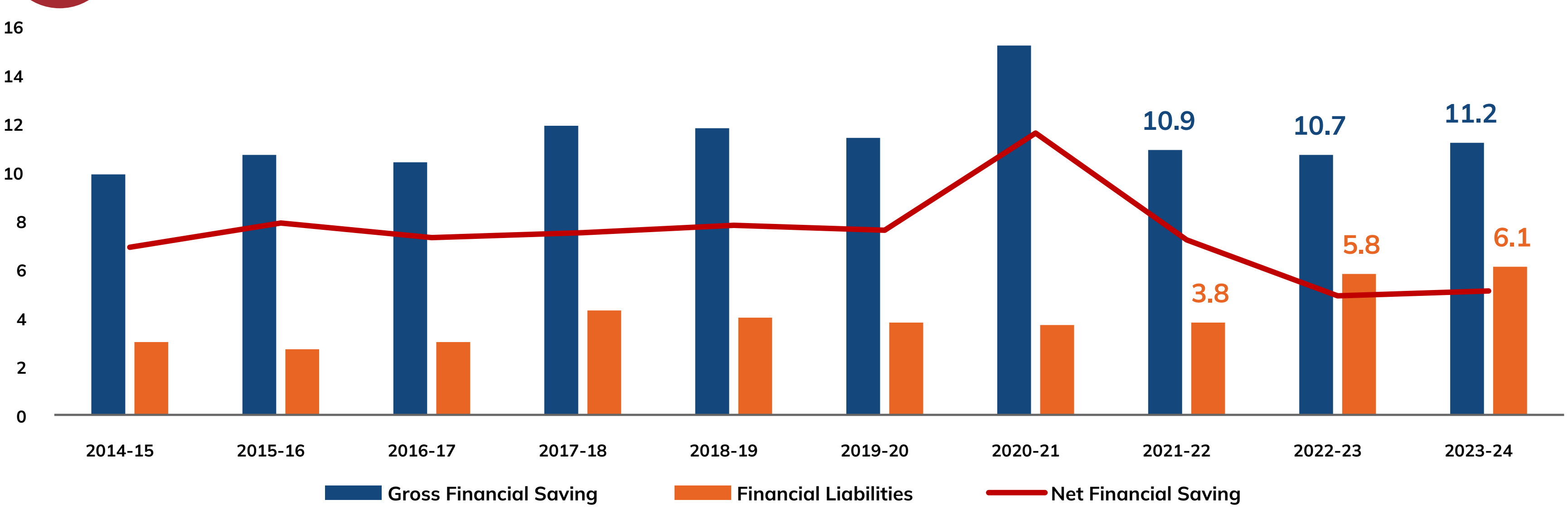
Net Financial Savings of India's Household Sector Rebounds

ICICI PRUDENTIAL MUTUAL FUND

After declining to a multi-year low, India's net household financial savings recovered marginally to 5.1% of the Gross National Disposable Income (GNDI) in FY 2023-24, up from 4.9% recorded in FY 2022-23. The rise in net household savings was supported by **an increase in gross financial saving of households, which stood at 11.2% of GNDI in FY 2023-24, up from 10.7% in the previous year.**

However, financial liabilities continue to rise, indicating the growing reliance of households on borrowings for various needs, ranging from housing, consumer goods, etc. **As a share of GNDI, household financial liabilities rose to 6.1% in FY 2023-24, up from 5.8% in the preceding year.**

FINANCIAL SAVING OF HOUSEHOLD SECTOR (%)



Source: NSO, RBI Annual Report 2024-25, GNDI: Gross National Disposable Income. RBI: Reserve Bank of India.

The RBI Annual Report 2024-25 also highlighted that the gross domestic saving held steady at 30.3% of the GNDI in FY 2023-24, largely due to a reduction in general government's dissaving. Additionally, the saving-investment gap narrowed, reflecting a reduced drawdown by the general government, weaker investment demand from households and non-financial corporations, coupled with a moderation in savings by financial corporations.

The downward trajectory of Indian Bond Yields

ICICI PRUDENTIAL MUTUAL FUND

While the U.S. and other advanced economies witnessed a rise in yields amidst concerns around U.S. trade policies, the Indian 10-Year G-sec yield softened considerably:

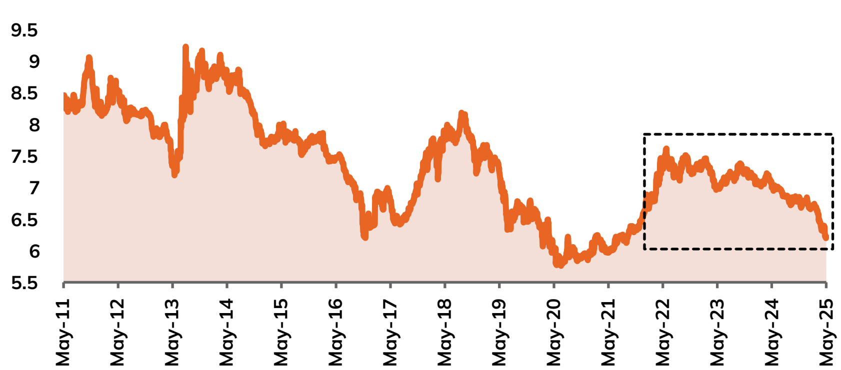
The Reserve Bank of India (RBI) directed liquidity measures: In April 2025, the Reserve Bank of India reduced the repo rate to 6% and delivered a series of liquidity measures, such as Open market operations and Term Repo Auctions. In addition, the central bank plans to pay a dividend of ₹2.69 lakh crore to the central government for FY 2024-25, which could further boost liquidity in the system.

Inflation has eased, providing solace to households: India's retail inflation steadily cooled to 3.16% in April 2025, primarily driven by moderating food prices.

Increased visibility of Indian bonds: Inclusion of Indian government bonds in JP Morgan's Government Bond Index-Emerging Markets since June 2024 has sparked significant interest among foreign investors. Further, India's inclusion in the FTSE Russel's Emerging Markets Government Bond Index by September 2025 would increase visibility of Indian bonds.

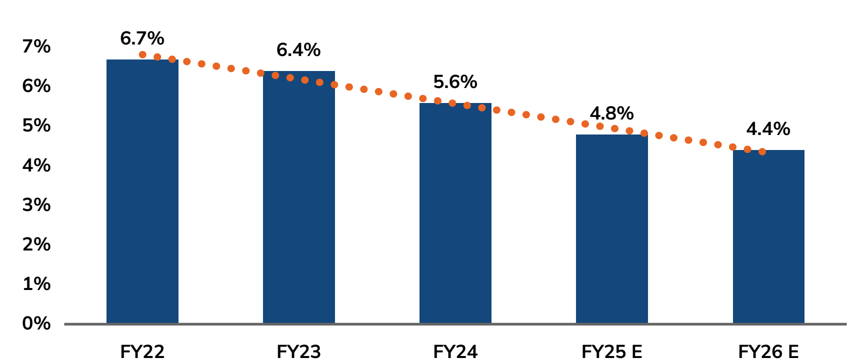
Fiscal consolidation path of the Government: Lower fiscal deficit coupled with lower net borrowings have kept a lid on yields. The Union Budget FY 2025-26 mentioned net market borrowings from dated securities of around ₹11.54 lakh crore and fiscal deficit estimated to be 4.4% of the Gross Domestic Product.

INDIA 10-YEAR G-SEC YIELD (%)



Source: Reuters. G-sec: Government Securities. Data as on May 23, 2025. RBI: Reserve Bank of India.

FISCAL DEFICIT (% OF GDP)



Source: Union Budget 2025-26 (www.indiabudget.gov.in), E: Estimate. GDP: Gross Domestic Product. FY: Financial Year.

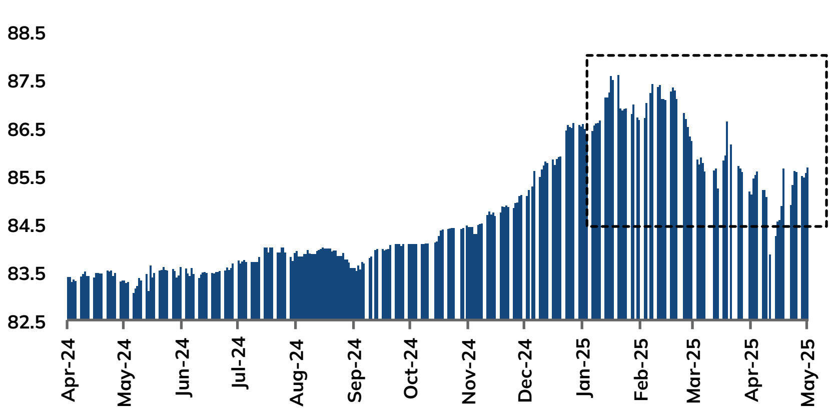
The India Rupee is stable despite the market turbulence

The Indian Rupee strengthened to around 85.55 levels in May 2025, supported by foreign portfolio inflows in Indian equities and adequate foreign exchange buffers. The easing of retail inflation, liquidity-enhancing measures by the RBI and improving health of banks would support credit growth. **Further, crude oil prices have cooled,** which is positive for India as the country relies heavily on imports for its oil requirements.

India's foreign exchange reserves rose to $692.72 billion as on May 23, 2025. A healthy level of foreign exchange reserves acts as a buffer against global financial turbulence, which could be directed to defend the rupee in times of volatility.

USD/INR

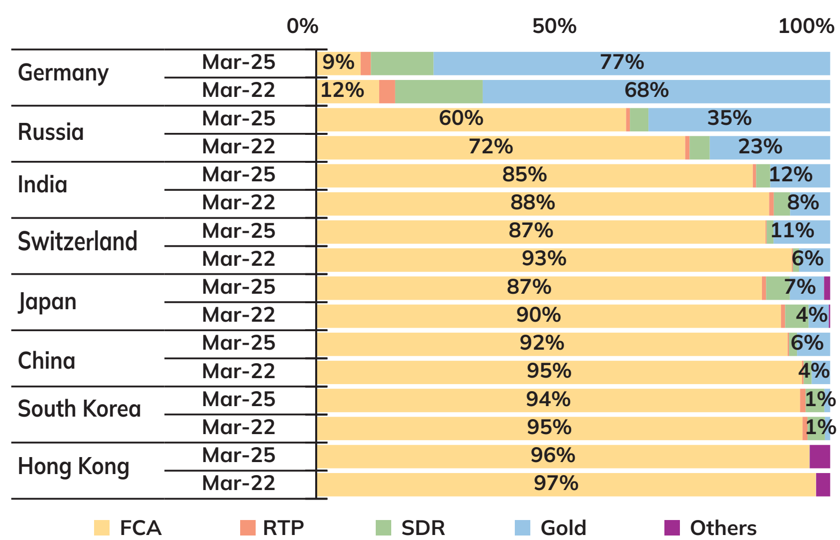
The Indian Rupee strengthened from 87.50 levels in February 2025 to around 85.55 levels in May 2025.



Source: Reuters. Data as on May 22, 2025. RBI: Reserve Bank of India.

CHANGE IN COMPOSITION OF FOREIGN EXCHANGE RESERVES (%)

Over the past three years, the share of gold (in value terms) in total foreign exchange reserves of central banks holding large reserves has increased.



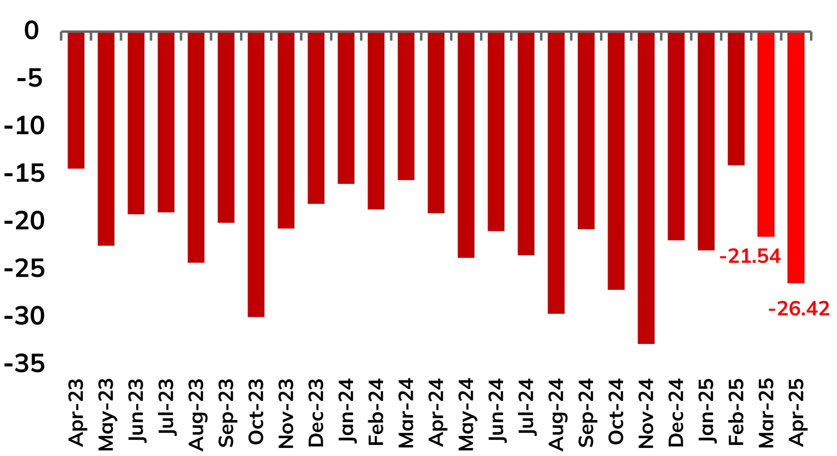
Source: Reserve Bank of India Bulletin, May 2025. FCA: Foreign Currency Assets, SDR: Special Drawing Rights, RTP: Reserve Tranche Position in the IMF.

India's Merchandise Trade Deficit widens to its highest print since November 2024

India's merchandise trade deficit widened sharply to $26.42 billion in April 2025 from $21.54 billion in March 2025, owing to a rise in imports. India's merchandise imports increased 19.12% year-on-year to $64.91 billion in April 2025, primarily due to a surge in shipments of crude and petroleum products.

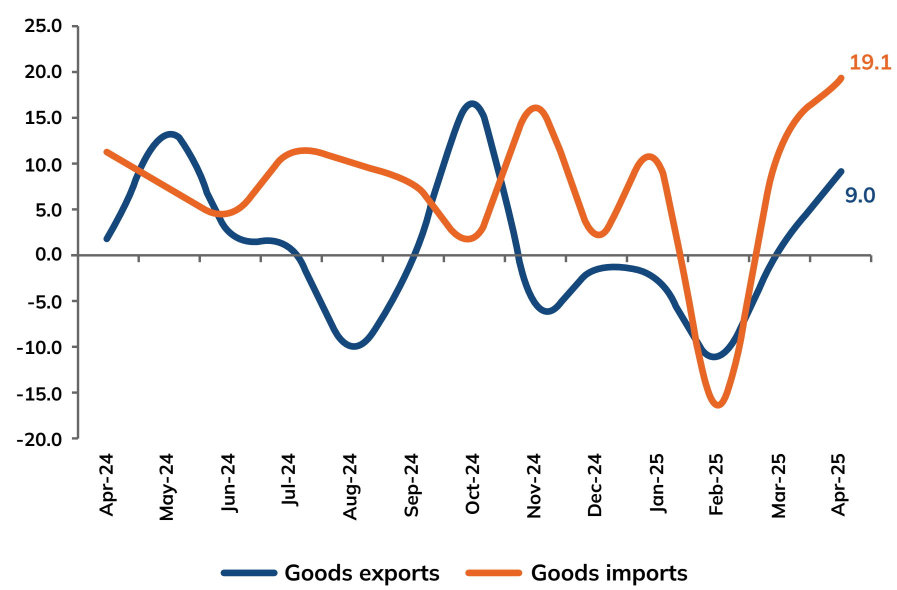
India's merchandise exports also rose 9% year-on-year to $38.49 billion in April 2025. Key contributors of exports were Engineering Goods, Petroleum Products, Electronic Goods, Gems & Jewellery, Drugs & Pharmaceuticals and Chemicals. **India's exports to the U.S. reached $8.4 billion in April 2025, registering a 27.3% year-on-year rise. India is in the process of deepening collaboration with the U.S. across several industries** ranging from energy, pharmaceuticals, semiconductors, defense and artificial intelligence, which would further brighten export prospects.

INDIA'S MERCHANDISE TRADE BALANCE ($, BILLION)



MERCHANDISE EXPORTS AND IMPORTS (% YEAR-ON-YEAR)

Imports continue to grow faster than exports in April 2025



Source: Ministry of Commerce and Industry, CEIC, CRISIL

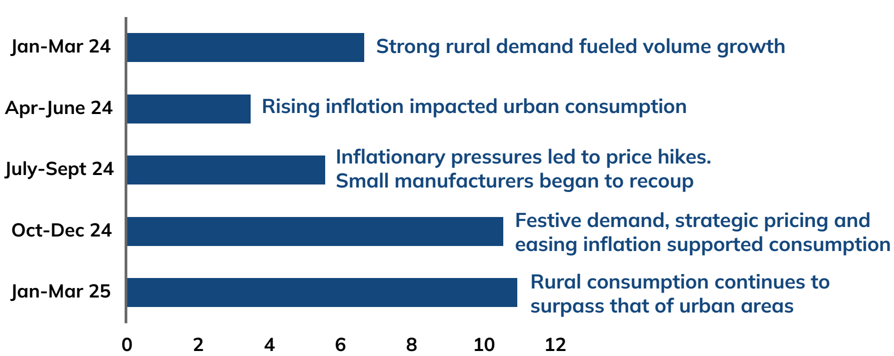
Rural India's consumer demand continues to surpass urban counterparts

ICICI PRUDENTIAL MUTUAL FUND

In the March 2025 quarter, India's Fast Moving Consumer Goods (FMCG) industry clocked a 11% year-on-year value growth, driven by rural consumption. Though rural consumption growth slowed to 8.4% in the March 2025 quarter compared to 9.2% in the December 2024 quarter, it still outpaced that of urban areas for the fifth consecutive quarter.

Urban consumption growth moderated to 2.6% in the March 2025 quarter, compared to 4.2% in the preceding quarter owing to slower wage growth and challenges posed by a higher cost of living. **FMCG companies observed that e-commerce is increasingly contributing to revenues, owing to increasing online shopper penetration and greater basket sizes.**

FMCG SECTOR GROWTH - VALUE TERMS (%)



Rural Sales Volume Growth (%)

9.2% Dec 2024 Quarter

8.4% Mar 2025 Quarter

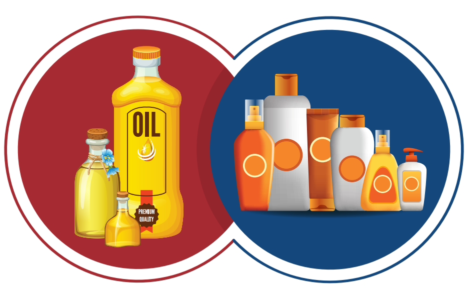
Urban Sales Volume Growth (%)

4.2% Dec 2024 Quarter

2.6% Mar 2025 Quarter

Urban consumption is likely to pick up in the upcoming quarters, underpinned by easing inflation levels and revised tax slabs.

Food consumption growth slowed to 4.9% in the March 2025 quarter from 6% in the December 2024 quarter as volumes in staple categories like edible oils and palm oil decreased with an uptick in prices.



Home and personal care categories witnessed a consumption growth of 5.7% in the March 2025 quarter, supported by higher demand from rural areas.

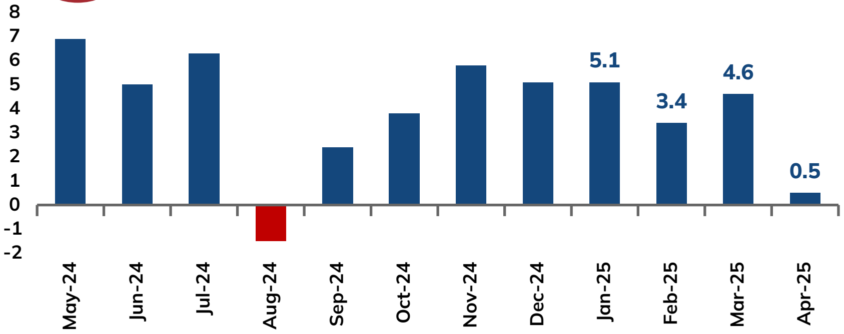
Source: NielsenIQ. The sector(s) /stock(s) mentioned in this presentation do not constitute any recommendation of the same and ICICI Prudential Mutual Fund may or may not have any future position in these sector(s)/stock(s). The portfolio of the scheme is subject to changes within the provisions of the Scheme Information Document of the Scheme.

India's Core Sector growth slows sharply to its lowest print since August 2024

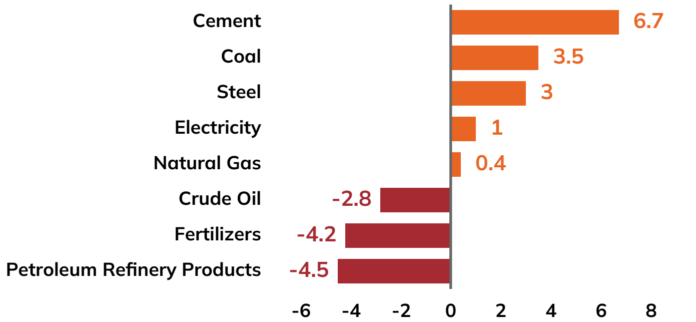
India's core sector output, a key indicator of India's infrastructure sector, weakened substantially to 0.5% year-on-year in April 2025, down from a revised 4.6% expansion in March 2025 due to deceleration in key industries, such as petroleum refinery products, fertilizers and crude oil.

The cement and steel sector benefited from a recovery in government spending on infrastructure. On the other hand, growth of **crude oil and natural gas contracted amid escalating geopolitical tensions.**

INDEX OF EIGHT CORE INDUSTRIES (%)



SECTOR OUTPUT GROWTH IN APRIL 2025 (%)

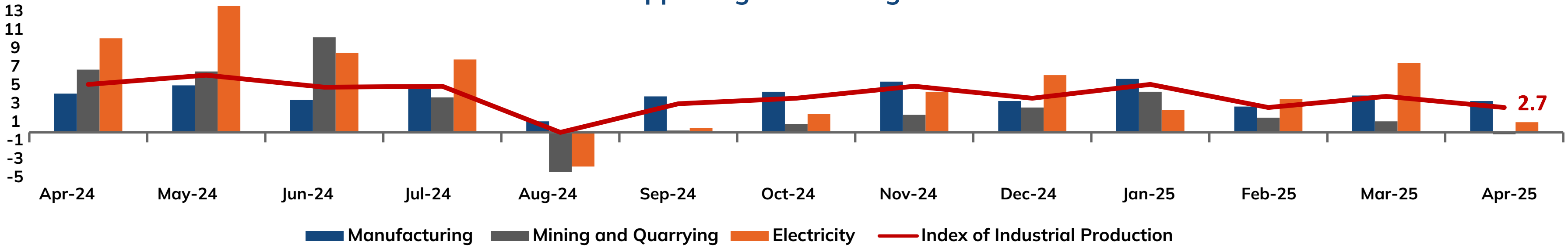


Source: Ministry of Commerce and Industry. The eight core sectors are: Coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity. April 2025 print is provisional. Year-on-year growth.

In April 2025, India's Industrial Production (IIP) slowed to 2.7% from the revised 3.9% in March 2025.

INDEX OF INDUSTRIAL PRODUCTION - MANUFACTURING, MINING AND QUARRYING, ELECTRICITY (YEAR-ON-YEAR %)

The manufacturing sector witnessed a relatively steady growth of 3.4%, supporting overall IIP growth.



Source: Ministry of Statistics and Programme Implementation (MOSPI), CareEdge Ratings. IIP: Index of Industrial Production.

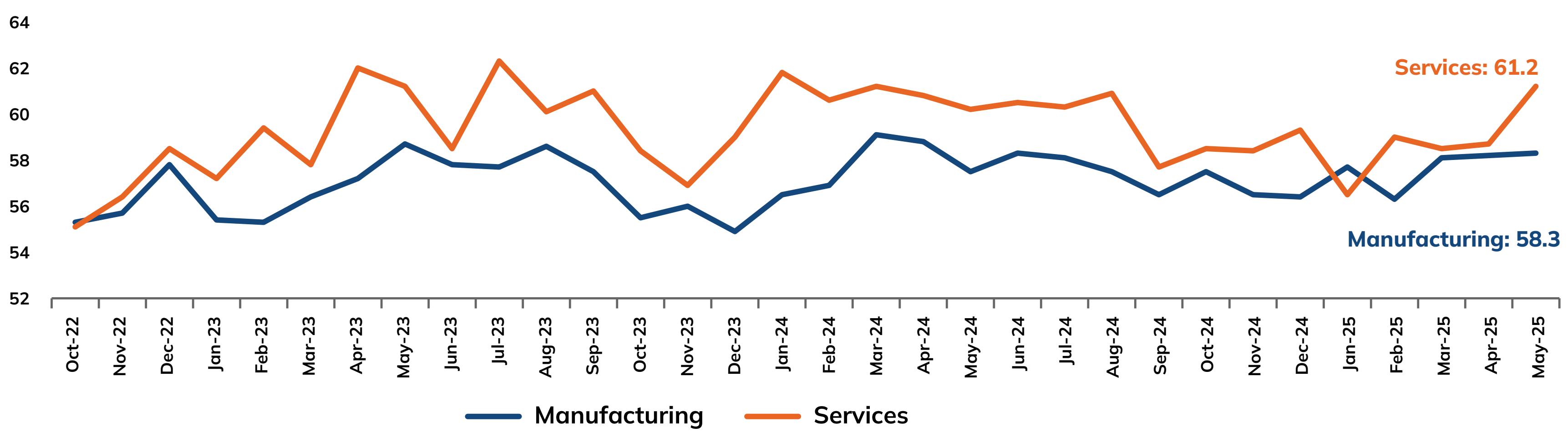
India's private sector growth rises, driven by acceleration in the service sector

India's private sector gained momentum led by a sharp acceleration in services activity. The HSBC Flash India Services PMI Business Activity Index surged to 61.2 in May 2025 from 58.7 in the preceding month, supported by **new business from both domestic and international markets.**

While the services sector posted its fastest output rise in 14 months, the manufacturing sector registered a slight slowdown in growth.

- **There has been a firm pick-up in the employment, especially in the service sector,** suggesting healthy job creation.
- **Order books were supported by strengthening international demand for Indian goods and services.** The private sector registered the fastest rate of increase in exports in a year.

INDIA'S PURCHASING MANAGERS' INDEX (PMI)



Source: S&P Global. The HSBC Flash India PMI® is compiled by S&P Global from responses to questionnaires sent to survey panels of around 400 manufacturers and 400 service providers. The panels are each stratified by detailed sector and company workforce size, based on contributions to GDP. The services sector is defined by S&P Global as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. GDP: Gross Domestic Product.

On the flipside, the rate of input cost inflation increased and prices charged for Indian goods and services rose at a quicker rate in May 2025.

Other Key Developments

The historic trade agreement between the U.S. and UK: In May 2025, the U.S. and U.K. revealed a trade framework that aims to significantly expand U.S. market access in the UK, creating a $5 billion opportunity for new exports for U.S. farmers, ranchers and producers. Under the trade deal, the UK will reduce non-tariff barriers on a range of U.S. goods, including ethanol fuel, machinery and chemicals. However, the 10% baseline tariff that had been implemented by the U.S. would broadly remain in place. The pact also seeks to create a new trading union for steel and aluminium (Source: White House report. U.S.: United States, UK: United Kingdom).

India and New Zealand commence Free Trade Agreement negotiations to improve supply chain integration: The total merchandise trade between India and New Zealand reached $1.3 billion in FY 2024-25, registering a strong growth of 48.6% over the previous financial year. The trade negotiations aim to strengthen economic ties, elevate investment potential and unlock new trade opportunities for businesses (Source: Ministry of Commerce & Industry).

Japanese bond yields spike: In May 2025, the yield on the 30-year Japanese bond rose to around 3.17% after a gloomy debt auction ignited fears of a lack of demand. Growing concerns over the effects of the Bank of Japan’s decision to taper of its bond purchases, Japan’s mounting gross national debt and economic risks posed by the U.S. trade tariffs fanned the flames of dampening investor sentiment.

The Bank of England reduced the interest rate in May 2025: The Bank of England cut its key interest rate by 0.25 percentage points to 4.25% in May 2025, citing concerns emanating from an increase in U.S. trade tariff and the impact on British economic growth.

The RBI has relaxed norms for FPI investment in corporate debt: Since 2022, the growth in India’s debt market has benefited from India’s inclusion in JP Morgan’s Government Bond Index followed by inclusion in Bloomberg Emerging Market Local Currency Government Index and FTSE Russell in its Emerging Market Government Bond. However, investment in corporate bonds has witnessed lesser traction. FPI investment in corporate bonds is subject to various conditions, such as short-term investment limits and concentration limits. In May 2025, the Reserve Bank of India (RBI) scrapped the ‘short-term investment limit’ and ‘concentration limit’ for investments by foreign portfolio investors in corporate debt securities with an aim provide greater ease of investments. This move could increase the flow of foreign capital into the country. (Source: Ernst & Young LLP report. FPI: Foreign Portfolio Investment).

Other Key Developments

Growth of the Indian Mutual Fund Industry: The Assets Under Management (AUM) of the Indian Mutual Fund Industry has grown from ₹10.83 lakh crore as on March 31, 2015 to ₹69.50 lakh crore as on April 30, 2025, about a 6-fold increase in a span of 10 years (Source: Association of Mutual Funds in India). Systematic Investment Plan contributions for April 2025 came in at ₹26,632 crore, indicating the inclination of investors towards disciplined investing.

India's unemployment trend: India's unemployment rate for individuals aged 15 years and above rate stood at 5.1% in April 2025. The Labour Force Participation Rate (LFPR) in April 2025 was recorded at 55.6% nationwide. Rural India reported a stronger engagement in the labour force, with an LFPR of 58.0%, compared to 50.7% in urban regions (Source: Ministry of Statistics and Programme Implementation).

India's Wholesale Price Index (WPI) fell sharply: India's wholesale price index based inflation fell sharply to 0.85% in April 2025 from 2.05% in March 2025. The decline in inflation was primarily due to a decline in prices of primary articles, which comprise food items such as vegetables and cereals, as well as non-food articles such as crude petroleum and natural gas (Source: Ministry of Commerce and Industry).

India's diesel consumption is on the rise: During April 2025, India's consumption of petroleum products, such as diesel, petrol and Liquefied Petroleum Gas (LPG) recorded a significant increase. A rise in fuel consumption was driven by increased industrial, mining and commercial activity. India's diesel consumption rose to 8.239 million tonnes in April 2025, which is the second highest on record. India's consumption of petrol rose by around 5% year-on-year to 3.435 million tonnes in April 2025.

India's GST Collection: India's Gross Goods and Services Tax (GST) rose 16.4% year-on-year to ₹2.01 lakh crore in May 2025. Collection during the month is primarily driven by import-related GST. Growth in GST from imports stood at around 25%, higher than the 14% increase from domestic transactions. (Source: Ministry of Finance).

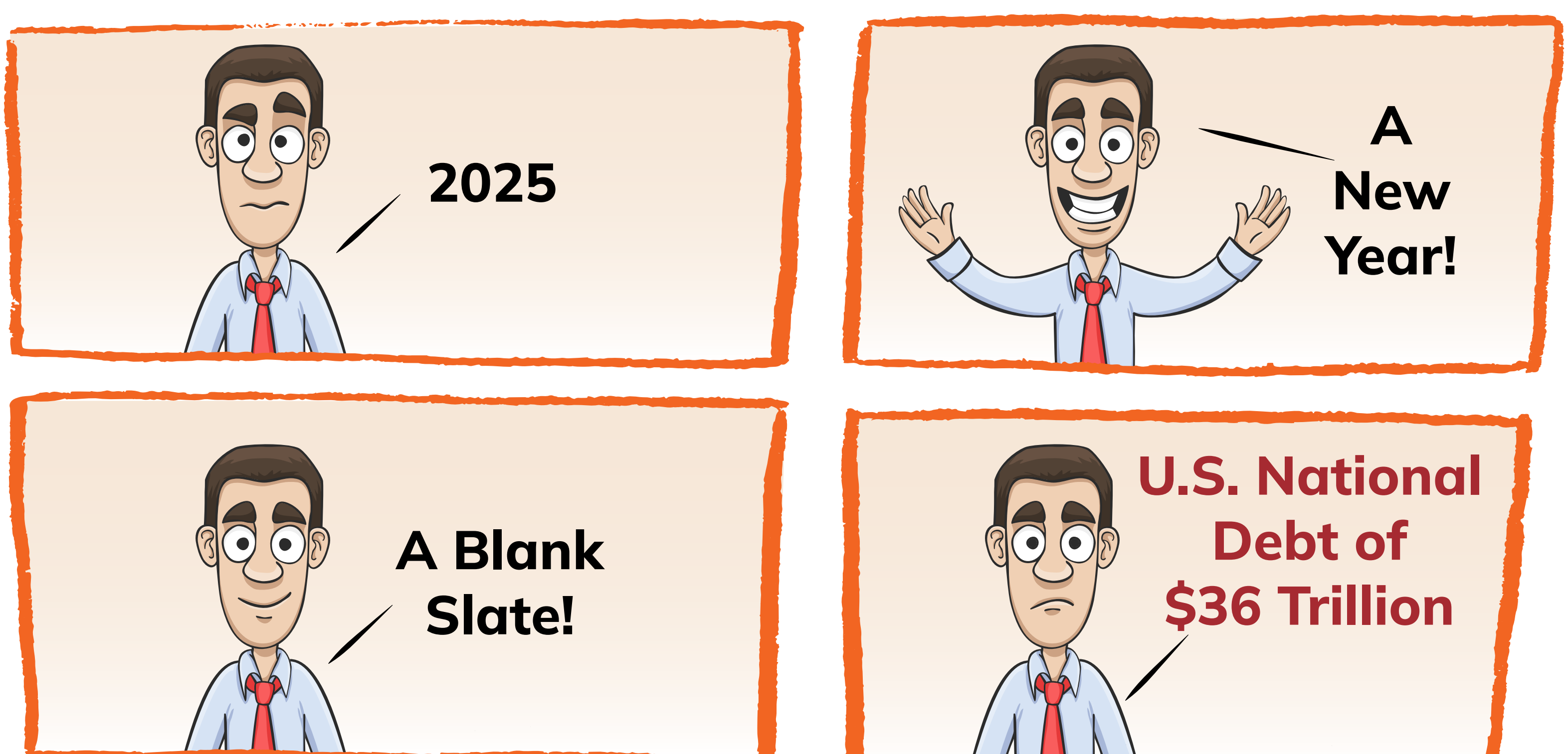
And it is a wrap for the month

Global growth outlook is fragile as economies combat persistent trade frictions and weak consumer sentiment. Many central banks are either maintaining status quo or resorting to measured easing of policy rates to cushion the impact of trade disruptions on growth.

The Moody's Ratings downgraded the U.S. credit rating, citing the country's growing debt levels. However, the Moody's reaffirmed the country's exceptional credit strengths, such as the size, resilience, dynamism and the role of the U.S. Dollar as a global reserve currency.

India could navigate the global headwinds, supported by improving macroeconomic fundamentals and a congenial business environment. Inflation pressure has eased, falling crude oil prices could reduce the strain on India's import bill, the RBI directed measures to infuse liquidity into the system and India's service sector has rebounded. India's trade agreement with the United Kingdom and bilateral talks with the United States would further open doors to opportunities across sectors.

PICTURE OF THE MONTH



The pictures used in this document are for illustration purpose only.

Disclaimer

ICICI PRUDENTIAL MUTUAL FUND

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

In the preparation of the material contained in this document, the AMC has used information that is publicly available, including information developed in-house. Some of the material(s) used in the document may have been obtained from members/persons other than the AMC and/or its affiliates and which may have been made available to the AMC and/or to its affiliates. Information gathered and material used in this document is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. We have included statements / opinions / recommendations in this document, which contain words, or phrases such as "will", "expect", "should", "believe" and similar expressions or variations of such expressions, that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc. ICICI Prudential Asset Management Company Limited (including its affiliates), the Mutual Fund, The Trust and any of its officers, directors, personnel and employees, shall not liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner. Further, the information contained herein should not be construed as forecast or promise. The recipient alone shall be fully responsible/are liable for any decision taken on this material.