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“Diversification is a safety factor that is essential because we should be humble enough to admit we can be wrong.” - John Templeton

June 2, 2025

Dear Investor,

As we progress through May 2025, the financial landscape continues to reflect the complexities of our interconnected world. Recent geopolitical tensions, and evolving U.S. trade policies, have contributed to market volatility. These events underscore the importance of understanding historical patterns and the lessons they offer. History has shown that markets are resilient. Past geopolitical events and economic uncertainties have led to short-term market fluctuations, but over time, markets have recovered and grown. This pattern reinforces the value of a long-term investment approach, emphasizing patience, resilience and strategic planning.

In times of uncertainty, diversification remains a cornerstone of prudent investing. By spreading investments across various asset classes and geographies, investors can balance risk and potential returns. This strategy not only mitigates the impact of disruptions but also positions portfolios to capitalize on growth opportunities worldwide.

India Equity Market Outlook

The global economic landscape continues to remain fraught with challenges and uncertainties. Trade policy uncertainty, particularly due to tariff hikes, is anticipated to adversely affect global trade and growth at both macro and micro levels, as companies delay capital expenditures in search of more clarity. Global GDP growth is expected to slow down due to increased trade barriers, heightened geopolitical and policy uncertainty. The market is likely to consolidate rather than continue with a momentum-driven, one-way trend, given the lack of clarity on the global front. Despite the impact of trade tensions on the growth outlook, India's relative growth remains higher supported by strong economic fundamentals.

On the currency front, the rupee's Real Effective Exchange Rate (REER) has corrected significantly, and India's proposed trade deal with the US should set it apart in the ongoing trade upheaval. Sluggish oil prices are beneficial for current account deficit (CAD), and corporate balance sheets are strong. The financial sector's earnings have been in line with expectations while overall, earnings growth for FY25 has been tepid. The weak market performance in FY25 has largely bridged the gap between earnings growth and equity returns, particularly in large caps. So large-cap valuations are relatively attractive, while mid and small-cap segments remain above their long-term averages. Overall, we have a cautious outlook on both global and domestic markets. Despite this, we continue to highlight the importance of equities as a long-term asset class. Considering the current global uncertainties, a diversified approach is advisable, and hybrid funds may offer optimal risk adjusted returns during such uncertain times. This phase requires discipline and patience.

To help investors navigate these uncertain times, **Ajay Argal, Senior Vice President and Portfolio Manager, Emerging Market Equity, India at Franklin Templeton**, shared his insights on India's economy and equity markets in a recent interview with CNBC TV18. Quick takeaways:

- Recently, global uncertainties due to US Tariffs led to rise in volatility in domestic equity market.



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- Earnings expected to be muted and reported earnings are in line with expectations.
- FY26 earnings growth revised downwards to 12-13% from 15% earlier.
- India's attractiveness continues as India's GDP growth rate exceeds global peers.
- Markets to be in a consolidation phase and not in a secular momentum driven growth.
- Positive on the financial services sector and underweight on IT due to its dependence on US markets.

India Fixed Income Outlook:

The International Monetary Fund (IMF) has revised its global growth forecasts downward due to tariff tensions and weakening global manufacturing activity. However, the IMF projects India to be the fastest-growing major economy in 2025. According to NITI Aayog announcement India has become the world's fourth largest economy. With strong fundamentals and policy stability, India is well-positioned to navigate global headwinds and drive global growth.

Inflation is rising in advanced economies like the US, while emerging markets remain stable, helped by China's deflation and easing geopolitical risks. Commodity prices and global yields have softened, with gold being an exception; oil prices may decline further due to weak Chinese demand.

Amid trade tensions and easing inflation, global central banks are treading cautiously—most are pausing or modestly cutting rates to support growth. While Advanced Economies like the Eurozone and UK have trimmed rates, Emerging Market Economies show mixed moves, with some easing and others holding steady or even hiking.

India's CPI inflation has been benign at around 3.16% (lowest since 2019) easing the job of RBI to ease rates further and release liquidity into the system. RBI's recent policy rate cut of 25 basis points and a shift to an accommodative stance have been well-received by the market, leading to improved performance of duration funds. The money market curve has steepened due to ample liquidity, and the G-sec curve has continued to shift downwards on softer yields.

Since March 2025, we have increased duration across our various fixed income portfolios, supported by high liquidity and expected rate cuts. The current portfolio positioning is further strengthened by RBI's INR 2.69 lakh crore surplus transfer to the Government as dividend for FY 2024-25, which is expected to boost core liquidity and support the yield curve.

Global Outlook

History suggests that fear often creates opportunities for long-term investors willing to accept near-term volatility in exchange for future price appreciation. With valuations now more attractive and sentiment deeply negative, this may be one of those moments. Globally, equity markets have experienced mixed performances. While some regions face headwinds due to geopolitical tensions and trade uncertainties, others find opportunities in emerging sectors and technological advancements.



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April 29 marked the 100th day of the US President's second term. Stephen Dover, Head of Franklin Templeton Institute, takes stock of President's first 100 days in office and what investors should focus on next. [Click here to read his article.](#)

Amid uncertainties surrounding US trade policies and its potential impact on the US economy, the US Fed kept policy rates unchanged during the policy meeting in May. In her recent blog in the 'On My Mind' series, **Sonal Desai, CIO, Global Fixed Income, Franklin Templeton**, shared her insights about the Fed's recent policy decision and factors impacting the future policy direction. [Click here to read what is on her mind.](#)

The year 2025 has so far brought significant volatility to AI technology stocks. In a recent interview, Stephen Dover explores the current state of and compelling long-term potential in AI technology. The conversation delves into the factors shaping the sector and uncover opportunities in this dynamic market. [Click here to read the interview excerpts.](#) I recently also read a fascinating book – "The Coming Wave" by Mustafa Suleyman. I would recommend reading it to better understand AI and its potential far-reaching impact on our lives.

Looking Ahead

While the current landscape presents challenges, it also offers opportunities for those prepared to adapt and stay the course. By embracing diversification and maintaining a long-term investment horizon, we can navigate the complexities of today's world with confidence.

We remain committed to providing you with global and local insights and diverse investment opportunities. My team is here to support you with solutions that align with your goals.

As always, you can directly write to me at avisatwalekar@franklintempleton.com with any feedback and questions. I value your questions, and feedback and look forward to the opportunity of providing investment solutions. Your continued trust has been the foundation of our journey in India, and I am thankful for your continuous support.

Sincerely,

Avinash Satwalekar
President, Franklin Templeton Asset Management (India) Pvt. Ltd.

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