RBI Monetary Policy Meeting: A Boost for Equity Markets

Recent RBI Monetary Policy Meeting on June 6, 2025, delivered four significant positive outcomes.

These developments are poised to provide a substantial uplift to the Indian equity markets and foster broader economic growth.

Significant Rate Cut: Fueling Economic Activity

Repo Rate Reduction

The RBI surprised markets by aggressively cutting the repo rate by 50 basis points, bringing it down to 5.5% from 6.5% at the start of 2025.

Boost to Borrowing & Economy

This significant cut makes borrowing cheaper for businesses and individuals, stimulating lending, manufacturing and overall economic activity.

CRR Cut: Unleashing Banking Liquidity

1

100bps CRR Cut

RBI cut the Cash Reserve Ratio by 100 basis points.

2

Liquidity Injection

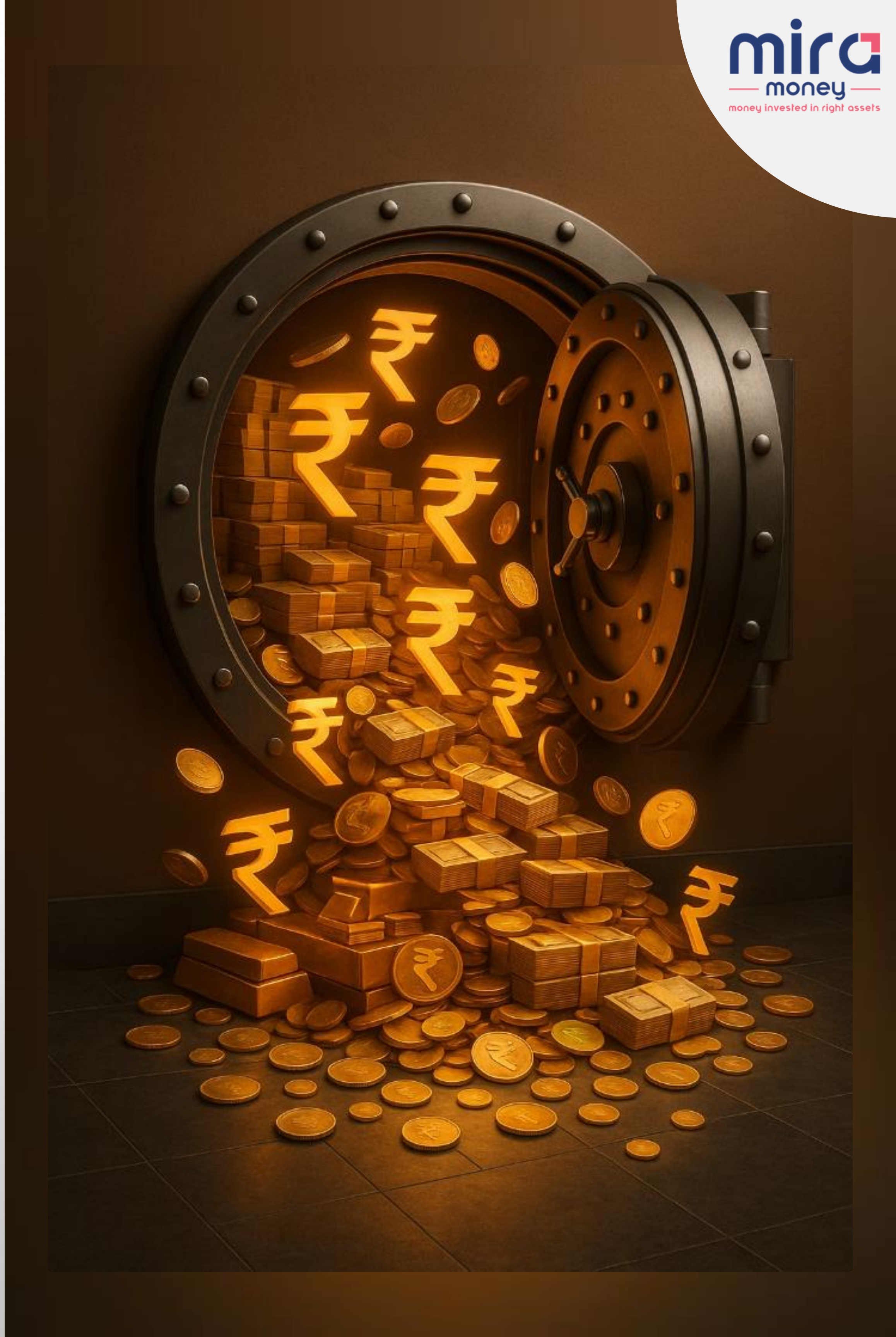
This action will release ₹2.5 lakh crore of primary liquidity through the banking system in four tranches.

3

Boost for Banks

It enables banks to significantly increase their lending capacity, fostering credit growth.

Despite these positive policy changes, the RBI maintained the **GDP growth forecast for FY26 at 6.5%**, indicating a stable and optimistic outlook for India's economy.



Cooling Inflation: Bolstering Consumption

Lowered Inflation Forecast

RBI revised the FY26 inflation estimate downwards to 3.7% from 4%.

Consumption Revival

This reduction is a major catalyst for the consumption economy, which has been lagging for a couple of years.

mira money
money invested in right assets

Strengthening Demand & Exports

Urban Demand Surge

Urban demand is now clearly improving, complementing steady rural demand.

Investment Revival

Investment activities are picking up momentum, indicating economic confidence.

Export Growth

Merchandise exports showed robust growth in April, and services exports maintain strong trajectory.

We foresee 2 major outcomes...

Reduced Debt Funds / FDs Appeal

Rate cuts decrease fixed income returns.

This lowers incentive for debt funds & Fixed deposits.

Boost to Equity Markets

Economic growth and cheaper credit will fuel equity gains.

Corporate expansion will drive market confidence.

Why No Debt Funds / Fixed deposits ?

Declining Yields

RBI's rate cuts lower fixed deposit and debt fund returns. Yields now range from 5.5% to 6.5%.

Tax Erosion

High tax slab rates significantly reduce post-tax earnings.
At 30% tax on 6%, yields only 4.2%

Do not renew your FDs

FD rates will go down.

Why invest more in Equities ?

- Are we at Fair Value ?
  - Nifty 50 is trading 0.5% below it's fair value.
  - This makes Nifty 50 inexpensive and provides a room to grow based on GDP growth & corporate profitability.
  - Mid cap & Small cap are still trading 10-20% above it's long-term average valuation multiple. However, lower appeal of fixed income asset can make the valuation look cheaper.

- What do Equity markets like ?
  - Predictable fiscal stability trajectory & a relatively low-interest rate regime.
  - Excess liquidity with banks & thereby in the overall economy
  - GDP estimates staying intact at 6.5% despite global uncertainties.

End of Interest rate cut	Nifty 50 1yr performance %	PE
01-10-2003	22.9	15.7
01-06-2009	9.7	20.6
03-05-2013	12.7	17.9
02-08-2017	11.5	25.6
22-05-2020	68.1	21.0

- Nifty is fairly valued & earnings are expected to grow by 12% in FY2026.
  - Even if markets stay fairly valued at the end of FY26, you can expect a return of around 12% at 12.5% taxation.

- Even if equity markets give you 5% in a year, one will beat FDs.

- So, would you rather ?
  - Earn 6% and pay 35% taxes in Debt OR
  - Earn 12% and pay 12.5% taxes in Equity