CPI vs NIFTY 2025

Mid – Year Analytical Report

Overview

This report provides a comprehensive analysis of the relationship between **India's** Consumer Price Index **(CPI) Year-Over-Year (YOY%)** inflation rate and **NIFTY** index returns for **the first half of 2025 (January to June).** By examining key economic indicators, market sentiment, and influencing trends, we aim to uncover actionable insights for investors, analysts, and policymakers.

Key Highlight

📈 **News Sentiment Score:**

Maximum: **0.88 (Positive)**

Average: 0.27 (Neutral)

Minimum: -0.30 (Negative)

Interpretation: Market sentiment was predominantly neutral to positive, despite a negative trend in NIFTY returns.

📉 CPI Trend:

The **CPI YOY%** declined steadily from **4.26%** in January to **2.10%** in **June 2025**, signaling decreasing inflationary pressure.

📉 NIFTY Returns:

NIFTY index returns deteriorated significantly, dropping from around **-10%** in January to below **-25%** in June, reflecting bearish market sentiment despite easing inflation.

CPI YOY% vs NIFTY Returns Over Time

A contrasting trend is observed:

- As **CPI YOY%** declines, indicating cooling inflation, **NIFTY returns** also drop.
- Typically, falling inflation supports bullish trends, but in this case, the NIFTY exhibited a consistent downward trend, suggesting external factors or lagging market response.

Notable Inference:

While inflation eased, it did not translate to improved equity performance. This anomaly may suggest:

- Anticipation of further economic slowdown
- Global macroeconomic uncertainty
- Poor corporate earnings or liquidity crunch

Monthly Breakdown: CPI YOY% & NIFTY Trend

Month	CPI YOY% (2025)	NIFTY Trend	Sentiment Score
January	4.26%	Down	0.88
February	3.61%	Strong Down	0.65
March	3.34%	Mild Down	0.45
April	3.16%	Down	0.21
May	2.82%	Strong Down	0.10
June	2.10%	Strong Down	-0.30

Despite the inflation drop, NIFTY continued a bearish trajectory. The correlation weakens as we move toward mid-year.

Influencer Analysis

Key Finding:

- When the **CPI YOY% increases by 0.01**, the **likelihood of NIFTY trend being *Flat*** increases by **27.87x**.

Interpretation: A slight uptick in CPI reduces the probability of a continued downward trend, potentially signaling market stabilization or investor perception of economic growth.

Visual Analysis & Trend Insights

a. CPI vs NIFTY Returns (Line Chart)

- CPI showed a smooth declining trend.
- NIFTY returns followed a steep negative slope, especially from April to June.

b. Monthly Bar Chart (CPI 2024 vs 2025)

- CPI values for 2025 are consistently below 2024 values, emphasizing lower inflation across the board.
- However, investor confidence remains shaken, possibly due to:
    - Anticipation of economic contraction
    - Policy uncertainty
    - External geopolitical or market disruptions

Implications & Recommendations

For Investors:

- **Reassess defensive strategies:** With CPI cooling but markets falling, traditional hedges might underperform. Focus on quality stocks and sectors resilient to economic slowdown (e.g., FMCG, Pharma).
- **Track earnings season:** Poor corporate performance may be driving bearish sentiment despite macro improvement.

For Policymakers:

- **Stimulus needed?** Despite inflation control, markets reflect pessimism. Consider proactive fiscal/monetary interventions.
- **Communication is key:** Enhance transparency about economic goals to rebuild market confidence.

For Analysts:

- Investigate underlying drivers behind the divergence.
- Track real GDP forecasts, unemployment, and liquidity flows to better understand market behavior.

Conclusion

The first half of 2025 presented a rare scenario where **cooling inflation did not translate into stock market optimism.** Instead, the NIFTY faced persistent pressure, hinting at deeper concerns about economic growth or investor sentiment. While a falling CPI typically signals room for equity market expansion, the current data urges caution.

Understanding this divergence is essential for making informed decisions going into the latter half of 2025.

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