



Market Outlook

As on August 1, 2026 | Volume 73

1. The Peace Agreement That Did Not Hold

Kindly refer to our Market Outlook for July 2026. We had written that the United States had found a graceful exit, that oil would not remain a long-term problem, that the Nifty would trade between 22,800 and 25,500, and **that markets would improve gradually from there.**

For the first eight sessions of the month that reading held up well. Brent slipped to around \$71, the Nifty closed at 24,430 on July 7 which was its best level since April, foreign investors came back as buyers after four months of uninterrupted selling.

On July 9 the US President declared the ceasefire over. The Sensex lost 1,677 points in that single session, the worst day since March, finally the Houthis declaring a naval blockade against Saudi shipping in the Bab el-Mandeb.

Brent had travelled from \$71 to nearly \$93 in first three weeks finally closing around \$87. Crossings through Hormuz are running at 13 to 18 a day against roughly a hundred before the war. So, volatility is now inevitable and one needs to take it in the stride. **In the long term - market rewards growth and nothing else.** Till the time Mr. Trump is there, we will be in volatility and uncertainties.

But, as we stand at the fag end of July, the tensions in the West Asia seem to have receded significantly, and the situation is on the trajectory of improvement, and **signs for growth are visible.**

2. Macro-Economic Situation

The following indicators define where the Indian economy stands as we enter August -

Inflation

CPI inflation rose to 4.38% in June from 3.93% in May, breaching the RBI's 4% target for the first time under the new series and marking an eighteen-month high. WPI hit a series high of 9.87%. Fuel and power inflation actually eased to 27.41% from 30.33% even as the June crude correction took place, and the WPI food index to 6.14%, both eighteen-month highs. Central bank is well aware of the supply side inflation which is feeding into the food and primary articles, but we do not feel oil prices would be rising too much from current levels, and hence would not add more to the inflation.

External Account and the Rupee

Reserves have begun to rebuild. From the record \$728.49 billion in the last week of February 2026, the kitty had fallen to \$666.93 billion by June 26, a drawdown of over \$61 billion spent largely on defending the currency. Three consecutive weekly gains through July have taken it back to \$676.24 billion as on July 17. What matters more is where the money is coming from - the capital account rather than the current one. FPIs put ₹55,518 crore into debt in June, more than they withdrew from equities in the same month. Expected FCNR(B) deposit with leverage will help the BOP situation in India.

June's trade deficit widened to a five-month high of \$30.43 billion. Imports rose 31% to \$70.84 billion, with crude up 40% to \$19.33 billion and electronics up 59% to \$13.36 billion. Exports held up better than expected at \$40.41 billion, up 16%, and the services surplus of \$15.11 billion continues to absorb a large part of the merchandise gap. For the first quarter as a whole, the crude import bill was \$49.8 billion, higher by 61% over the same quarter last year even though volumes were lower.

The rupee crossed 96, on July 15 within touching distance of its record close of 96.83 and settled at 95.40 late in the month. It remains the worst performing major Asian currency.

Growth

The IMF has cut its FY27 projection to 6.4%, alongside an inflation forecast at 4.7%. The RBI stays its FY27 projections at 6.6%. ICRA places the June quarter at 6.4-6.6% against 7.8% in the March quarter. Services PMI at 57.4 was a seventeen-month low. Set against this, core sector output grew 5% in June, with cement and electricity both at 9.8%. Several structural indicators are turning decisively positive for India. **IIP has touched a two-year high at 7.4%**, bank credit growth is at its two-year high, corporate earnings have returned to 15%+ growth, and corporate balance sheets are the strongest in over two decades with the NSE 500 Debt-to-Equity ratio at a 25-year low. India's external position has also strengthened through robust FCNR(B) inflows, improved energy security, and the near completion of key FTAs.

Bank Credit

Credit growth touched 18.6% in June last week, a two-year high, against deposit growth of roughly 13%. The Governor has confirmed it is broad-based - agriculture 15%, industry 17%, housing 11% and MSME 24-25%. Commercial paper issuance of ₹5.37 trillion in the first quarter was the highest in eighteen quarters. Companies borrowing simultaneously from banks and the money market is a sign of genuine demand rather than funding arbitrage. **Distribution of credit growth is well diversified and encouraging.** For the first time credit growth has surpassed deposit growth.

Government Finances

Net **direct tax collections** rose 16.4% to ₹6.51 trillion, with corporate tax up 22%, which tells you corporate profitability has held up better than the headlines suggest. **GST collections** of ₹1.62 trillion in June **grew** 11.2%, but the split matters - customs-linked GST rose 42.2% while domestic GST managed only 2.6%. Headline indirect tax strength is currently an import-price effect, not a

consumption effect. The April-May fiscal deficit at 9.6% of the year's estimate was flattered by the record ₹2.87 trillion RBI dividend, while capital expenditure still grew 13.4%.

Monsoon

July has recovered a substantial part of the lost rains in June, and most importantly many states have recovered more than the last years average rainfall. The season's cumulative shortfall stood at 15% below the long period average as on July 25, against roughly 24% in the first week of the month (recovering 9%). Central India, which carries about a third of the kharif area, ran 10% above normal in the third week and northwest India 5% above. August will decide the rabi crop position. But the drought scenario that looked live at the end of June has receded materially, and with it the second-round food inflation risk that was the principal threat to the RBI's hand.

FPI and FDI Flows

Foreign investors bought roughly ~₹15 thousand crore of equities up to 13th July before the crude spike sent them back to selling ~₹9 thousand crore over four sessions till 27th July. The calendar year outflow remains around ₹2.6 trillion. Net FDI in April-May was \$6.5 billion against \$2.47 billion a year earlier. The reallocation we said would be required for foreign money to return is now visible - Korea saw \$30.5 billion of outflows in June, its steepest in twenty-five years, and Taiwan \$18.4 billion, with SK Hynix falling 15% in a session. **Capital is leaving a crowded artificial intelligence trade** and looking for growth that is cheaper and better supported by an order book. **India is one of the diversified markets with growth.**

3. Indian Equity Market

The Nifty closed at 24,383 on July 31 and the Sensex at 78,094, leaving the index at a trailing multiple of roughly 20 times. NIFTY50 has spent 100 sessions below the 200DMA, which is the longest it has been in a decade. Further, first half of the calendar year was the worst since 2020, with the Nifty down 8.7% and the Sensex 10.3% in rupee terms - but 14.2% in dollars, which is the number a foreign investor actually sees and the single best explanation for why they have stayed away.

Beneath the index the picture is entirely different. The Nifty Midcap 50 is up ~20% and the Smallcap 50 up ~27% so far this financial year, and both touched lifetime highs in July. Domestic flows have done this with monthly SIP contributions of ~₹31,000 crore.

The June quarter results are a mixed bag till now. Across ~505 companies, sales grew ~20.1% and PAT ~5.5%. Banks contributed a little over half the sample's profit.

The stress point is banking margins. HDFC Bank reported a net interest margin of 3.2%, arguably its lowest ever, Axis Bank 3.46% and Kotak Mahindra 4.53% which is a nineteen-quarter low. ICICI Bank held at 4.28% and was rewarded for it. Both Axis and HDFC Bank fell more than 5% on results day.

We do not expect earnings to collapse. The macro data says growth is intact and the June quarter has so far borne that out. The Nifty has spent more than two years inside a 22,500 to 26,500 band, and through all of it the market has paid for growth and not for valuations - we see little reason for

a value screen to start working now. For the index itself to move, IT and banking have to participate. Together they are 38% of the Nifty, and no amount of strength beneath the index can substitute for that. The sell-off in Korea and Taiwan helps that case - money leaving a crowded artificial intelligence trade has to find growth somewhere.

FPIs now own roughly 15% of the Indian market capitalisation, and **domestic flows have comfortably absorbed everything they have sold this year**. The selling from FPIs is not uniform. The sellers are largely passive investors - India's weight in the emerging market indices has fallen as other markets have risen, and index funds have mechanically followed. Actively managed foreign funds have broadly held their positions, and have added to them at opportune times, for e.g. SBI Funds Management issue.

With Indian equities trading at historically attractive valuations relative to emerging markets and FII ownership at multi-year lows, any improvement in global sentiment could trigger a meaningful re-rating of the Indian equity markets.

4. Gold & Silver

Gold reached about ₹1.45 lakh per ten grams. Silver trading currently around ₹2.35 lakh a kilogram. Heavy gold selling by governments in Russia, Turkey, and elsewhere kept gold prices down during the worst of the conflict. But now, gold is back to behaving like a true hedge against uncertainty.

For an Indian investor the binding constraint is the 18.45% import duty, which takes a meaningful bite out of every move in the international price and remains a real negative at this stage. But further rally in gold and silver is not ruled out.

5. Fixed Income

The ten-year government bond has traded in a narrow band around 6.85% through the month, rising seven basis points on the day the ceasefire collapsed and settling back since. That is a long way from the 7.15% high of earlier in the year, and the market has clearly concluded that the rate hikes it once feared are not coming.

With CPI above the target and WPI at a series high, it will be important to see the RBI stance. With growth decelerating to the mid-sixes and the inflation entirely supply-driven, a hike would not achieve its objective according to us. RBI Governor was also vocal about supporting growth rather than targeting inflation. It is worthwhile to note that the Fed Chairman, in his recent interview has listed 3 strong reasons for not hiking their interest rates which would stabilise the global markets.

6. India - Challenges Ahead

Over the last ten years the Indian market has compounded at ~13% (NIFTY50, BSE500) on average GDP growth of about 6%. The American market (NASDAQ100) has done ~22%, on a GDP growth of about 3%. Set the currency aside for a moment - even before depreciation, an investor here has been

paid less for taking more risk. That gap, far more than any single quarter of flows, is why foreign capital has been reluctant.

The explanation lies in what the two markets are made of. Theirs is led by manufacturing and technology, where the product is owned, the margin is structural, and revenue scales without a matching increase in cost. Ours is led by services - banking, IT services, hospitals, hotels - where the margin is earned on delivery rather than on intellectual property, and where growth requires more people, more branches, more beds. A services-led index will always find it hard to match the return on capital of one led by product and platform.

This is beginning to change. Electronics exports reached \$47.96 billion in FY26, 24% higher than the year before, and are now the country's third-largest export category. The government's shift of emphasis from assembly towards components, semiconductors and value addition is the right direction of travel, even if on current numbers we are still assembling more than we are manufacturing. For a long-term investor this is the single development most worth tracking, because it is the one that would lift the country's return on capital rather than merely its rate of growth.

Conclusion

Indian equities have consolidated for long enough. The index has held a narrow 23,000 to 24,500 band for several months now, and ranges of that duration usually resolve upward before the reasons are obvious - the market tends to move first and the explanation arrives later.

Oil is the swing factor and it is currently at a risk premium, which makes it difficult to forecast. We are clearly seeing deescalation and Trump is also not interested in the war, which eventually would bring the oil prices down and for the trade to normalise.

Q1FY27 results also indicate underlying growth is intact. Macro indicators, as seen earlier are also in tact. The monsoon has pulled back from a difficult June and the food inflation tail risk has receded. Corporate earnings have grown through a quarter that contained a war, a currency shock and a failed start to the rains. Credit growth is at a two-year high and broad-based. And domestic flows have not blinked ~₹31,000 crore arrives through SIPs every month regardless of the headlines. The Indian stock market has seen a good time and price correction and is poised for growth. The India VIX (volatility index) has dropped from 14.7 to 12.2 over the last 3 weeks showcasing reduction in volatility.

Fundamentals are sound and valuations are reasonable for the growth on offer. We would keep the emphasis firmly on growth - bottom-up selection, and managers willing to pay for quality rather than valuations. Since most mutual funds track index allocations closely, we continue to prefer AIF structures for the large and mid-cap portion and dedicated mid-cap funds for mid-cap exposure.

Again looking at geopolitical tensions, we suggest 3-4 months STP route for any fresh fund investment into equities. Focus will be on Indian Pharma, IT, Financialisation, Auto ancillaries and power distribution sectors in general.

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