



Market Outlook

As on July 1, 2026 | Volume 72

1. A Way Out of the Strait

Kindly refer to our Market Outlook for June 2026. We had said three key things:

- US will find a graceful exit and the war will end.
- Oil will not be a long-term problem as prices will not go up for long.
- Indian equities to trade between 22,800 to 25,500.
- We will see gradual improvement in markets.

As we write this in July, each of these has broadly played out. The US–Iran MoU was signed on June 17, with a 60-day negotiation window now underway. Brent crude, which had touched \$123/bbl at its peak, has corrected sharply to the \$72–75/bbl range - almost at pre-war levels, as the Strait of Hormuz partially reopened and supply rerouted through Venezuela, the UAE, and Russia filled the gap. There is, critically, no shortage of oil, gas, or fuel in the system. The physical oil market was in modest surplus even before the conflict began, and that surplus has reasserted itself rapidly once shipping lanes reopened.

2. Macro-Economic Situation

The following key macroeconomic indicators define the current state of the Indian economy -

GST Collections

GST collections for May 2026 stood at ₹1.94 lakh crore, a growth of 3.2% YoY driven primarily by a sharp 19.1% surge in import-linked GST revenue. April 2026 had set a record at ₹2.43 lakh crore. For the first two months of FY27 combined (April–May), gross GST collections increased 6.2% YoY to ₹4.37 lakh crore. Full-year FY26 GST collections stood at ₹22.27 lakh crore, up 8.3% from FY25. Collections have now remained above ₹1.75–1.80 lakh crore for an extended period, signalling a structurally resilient consumption and compliance base.

IIP - Index of Industrial Production

India's IIP grew 5.1% YoY in May 2026 (up from 4.9% in April), the second-highest reading since December 2025 under the new base-year series. Manufacturing, which accounts for ~76% of IIP, grew 5.5% moderating slightly from April's 6.1%. Capital Goods continued to signal positive investment in capacity expansion. The lone laggard was Mining & Quarrying, which contracted 1.6%, a smaller

decline than April's 5.1%, suggesting the sector's weakness is easing. Overall, industrial momentum remains intact even as the West Asia shock works through the system.

Q4 FY26 - Corporate Earnings

India Inc delivered strong FY26 results. Q4 FY26 aggregate PAT growth stood at 15.1% YoY (first double-digit revenue growth in 12 quarters, across 916 reporting companies). Full-year FY26: Sales grew +12.5%, Adjusted PAT grew +17%, and PAT margins reached a 5-year high of 11.3%. The Nifty 50's share of India Inc earnings fell to 47.1% - the lowest in 21 quarters - confirming that earnings momentum is broad-based and increasingly driven by the mid and small-cap universe.

Bank Credit Growth

Bank credit growth has accelerated to 17.65% YoY in the latest available data, with deposit growth at 12.21% YoY. The credit-deposit ratio remains elevated, signalling strong lending momentum. Q4 FY26 demand was broad-based across retail, MSME, and corporate segments.

EV scrapping policy

Delhi's new EV Policy 2.0, approved on June 29 with effect from July 1, 2026, targets 95% of all new vehicle registrations being electric by 2027, backed by a ₹15,000 crore push including dedicated scrappage incentives for two-wheelers. This is a clear signal that India's dependence on imported oil is now being addressed structurally, not just cyclically. This policy is fast-tracking the shift away from fossil-fuel dependence.

National Investment and Infrastructure Fund (NIIF) Capital Infusion

The Union Cabinet approved an additional ₹30,000 crore investment in NIIF, taking the government's total commitment to ₹60,000 crore. This fresh infusion is expected to be invested into transportation, renewables, digital infrastructure, and electric mobility which is a clear positive for India's manufacturing and infrastructure projects and growth.

Power Demand

India's peak power demand touched a record 270.8 GW in May 2026, comfortably crossing the 250 GW mark and confirming that consumption and economic activity remain firmly on track despite the external shocks of the year. This is one of the clearest real-time indicators that India's growth engine is intact.

Direct Tax (Income Tax) Collections

FY26 net direct tax collections stood at ₹23.40 lakh crore, a growth of 5.12% YoY. Personal income tax remained the primary driver. The FY27 direct tax target is ₹26.97 lakh crore (implying ~15% growth), which government officials acknowledge is now difficult to achieve given slower nominal GDP momentum in Q1 FY27.

Inflation Data

CPI inflation rose to 3.93% in May 2026 (food inflation: 4.78%), up from 3.48% in April. This is the highest reading since January 2025. WPI inflation stood at 9.68% in May 2026, driven by crude petroleum. The RBI has revised its FY27 CPI projection upward to 5.1% (from 4.6% earlier). The twin

risk of oil-driven WPI and monsoon-driven food CPI makes the inflation path a two-front challenge for the central bank.

Capex Situation

Private investment has grown at only ~9% CAGR over 2019–26, well below what India needs for sustained 7%+ growth. The government has been doing the heavy lifting: public capex delivered 28.2% growth in the first 8 months of FY26, achieving ~59% of the annual target. Government capex in infrastructure, roads, railways, and defence has been the key driver. Business Standard covered an article on June 28, 2026 on India's capex situation. For India to sustain 7%+ potential growth, private investment must recover meaningfully; current estimates suggest private capex growth needs to accelerate to 12–15% to complement public capex - a target that remains unmet.

GDP - Revised Estimates

Q4 FY26 GDP grew at 7.8% YoY, with investment growth at 10.8% in the quarter. Full-year FY26 GDP is revised to 7.7%. For FY27, the World Bank has raised its forecast to 6.6% (FY27) and 7.2% (FY28), while the RBI has lowered its FY27 GDP projection to 6.6% (from 6.9% earlier) to account for the West Asia conflict's drag on growth via higher oil, tighter financial conditions, and slower export momentum.

RBI Interest Rate Stance

The RBI held the repo rate unchanged at 5.25% in its June 5, 2026 Monetary Policy Committee meeting, keeping the stance neutral. The RBI had previously cut rates by 125 bps during 2025 when CPI averaged a benign 2.1% in FY26. The June hold acknowledges the inflation risks from West Asia and the monsoon, while the RBI signalled it is comfortable with the current inflation and growth trajectory. We got completely wrong on repo expectations earlier and market consensus had priced in further hikes which have not materialised. The 10-year G-Sec yield crashed from a high of 7.15% to ~6.80% as the market repriced this correctly.

BOP Situation

India's BOP is under stress but stabilising. FY26 current account showed a surprising Q4 surplus of \$7.1 billion (0.7% of GDP), cushioned by services exports and Gulf remittances. However, FY27 CAD is expected to widen to above 2% of GDP, implying a BoP deficit of approximately \$50–60 billion. The RBI's June 5 package FCNR(B) swap window, FPI tax exemption on G-Secs, PSU ECB concessional swaps is designed to attract \$30 to 50 billion in inflows to partially bridge this gap. Forex reserves stand at ~\$683 billion (approximately 11 months of import cover), following \$53 billion in net RBI intervention in FY26.

FPI Activity

FPIs remained net sellers almost throughout 2026. Total FPI equity outflows in 2026 up to mid-June 2026 stood at ₹2.87 lakh crore (~\$24 billion), surpassing the entire CY2025 outflow of ₹1.66 lakh crore. Selling was concentrated in BFSI and large caps (~70% of total outflows). Drivers: rupee depreciation, India's valuation premium vs. peers, and the AI-driven reallocation into Taiwan, South Korea, and Japan. However, post the US–Iran MoU and oil correction, FPI selling has moderated and

FPIs are occasionally seen as buyers. In the 10 trading sessions following the June 5 RBI package, FPIs purchased \$2.2+ billion in Indian bonds.

FDI Situation

Gross FDI inflows rose sharply to US\$94.5 billion in FY26 (from US\$80.6 billion in FY25). Net FDI improved to US\$7.7 billion in FY26 (from US\$1.0 billion in FY25), signalling that long-term investors remain committed to India's structural story. However, high FDI repatriation — particularly from PE/VC exits via IPOs — has compressed net inflows. India needs to be more attractive on AI infrastructure, manufacturing, and currency stability to sustain and grow this pipeline.

Rupee vs Dollar

The rupee touched a record low of 96.83 per dollar during the conflict, and was down 6.1% YTD. Post the US–Iran MoU and the RBI's FCNR(B) package, the rupee has recovered to ~94.2–94.4 per dollar which is a six-week high. Currency stability remains critical, as the depreciation is not helping attract large FDI and FPI inflows.

Government Disinvestment

With food and fertiliser subsidies exceeding budgeted estimates and fiscal pressures increasing, the Government has stepped up its PSU disinvestment programme to generate non-tax revenue while retaining management control.

US-India Trade Tariffs

India and the United States continue to negotiate the first phase of a Bilateral Trade Agreement (BTA), following ministerial-level discussions held on 23–24 June 2026. The two countries are aiming to conclude an interim agreement before the US tariff deadline of 24 July 2026.

3. Indian Equity Market

Nifty closed at 24,056 on June 27, 2026, indicating a trailing PE of 20x and a Price-to-Book of approximately 3.17 times. Performance-wise, the one-year return stands at –3.94%, the 5-year average return has come down to 8.68%, and the 10-year CAGR stands at approximately 11.50%.

The hardening of oil prices and higher interest rates, coupled with high inflation, are likely to keep next year's growth under check. After 3 years of good monsoon, we are now facing the El Niño effect.

The second aspect is the composition of the Nifty, which is led by Financials, Banks, IT, Oil & Gas and Automobiles. Their approximate weightages in the index are as follows:

Sector	Weightage (%)
Financial Services (Banks, NBFCs, Insurance)	25.00
Information Technology	13.00
Oil, Gas & Fuel	10.50

Automobiles	6.50
FMCG	6.00

If you look at the growth prospects for all these major sectors, we do not expect any big run-up in the Nifty. In the last 6 months, Nifty is down 7.63% in absolute terms. But the Nifty Midcap 100 has returned approximately 22% in the last 6 months. So midcap companies have outperformed significantly over large caps. The Nifty Smallcap 250 (up ~22% in FY27 YTD) and the Nifty Microcap 250 (up ~27%) are the standout performers of the current recovery. Domestic SIP-driven equity MF flows have been the primary buyer throughout the stress period.

The market is favouring growth stocks and select themes at this stage. We have seen Capital Goods, Financial services, Power, Defence, Exports and Automobile sectors doing well. In most of these industries, asset utilisation or Asset Turnover ratio is closest to its peak.

We feel the BSE 500 is the real indicator of what is exactly happening in these top 500 companies. The picture is not bad, but again it is expensive if growth collapses.

Mostly it is a bottom-up story as a few companies are growing in spite of headwinds.

We should always see the PEG ratio rather than PE alone to arrive at the right conclusion while choosing a stock. We feel if the monsoon is fine, then one should be gradually buying into Indian equities.

4. India - Challenges Ahead

Oil Price Impact

India has been successful in finding alternatives for its oil and gas needs - quickly from other sources. But this supply diversification might impact the overall cost.

Employment

AI is a big disrupter and is expected to take away lots of jobs from various sectors. Given India's demographics, we will need more jobs. Focus on manufacturing, services and IT is therefore a must.

Investments

Private investment has grown at only 9% CAGR over 2017–26. Business Standard covered an article on June 28, 2026 about the capex situation in India. Tomorrow's growth depends upon today's investment. India will need significant private investment - domestic or FDI, to support a 7%+ potential growth rate.

Monsoon

India's dependence on agriculture has gone down significantly. However, a deficient monsoon can hurt rural consumption and food inflation, which is a negative for growth in general. IMD forecasts 2026 monsoon at 90% of LPA — the weakest projection since 2015. As of June 18, India had a 41% rainfall deficit. El Niño probability for June–September: 92%.

Energy Self-Sufficiency

Power demand is hitting new highs every day. India's dependence on oil, gas and petro products is very negative for any economy. India should focus on alternatives or ensure sufficient domestic oil and gas through new discoveries.

FDI & FPI Attraction

We have to be more attractive in drawing investment through FDI. We lost a chance by not building an AI culture and development ecosystem. If we keep importing more than we export, it is a big problem, as the consumption of imported items is difficult to stop once wealth grows in the country. China survived due to its export-led economy.

Currency Stability

To attract any investment, you have to have a stable currency. Rupee depreciation is not helping in attracting large FDI and FPI flows.

Sub-Optimal Growth

We have been disappointing for the last couple of years by delivering only ~8% CAGR in corporate earnings. This has led to mild market correction and has not created wealth for anyone in the last 2–3 years. The government is doing its bit to prop up growth, but most of it is being negated by a few external events. These are the most critical factors which need to be addressed.

External Debt

India's external debt rose to \$762.8 billion at end of March 2026, up \$26.3 billion over the year, taking the external debt to GDP ratio to 20.8% (from 19.8%). The headline increase, however, understates the real build-up: dollar appreciation against the rupee and other major currencies provided a \$24.6 billion valuation cushion. Stripping this out, the underlying rise in external debt was actually \$51.0 billion nearly double the reported figure.

5. Investing Outside of India

There have been talks about diversifying investments into other global markets. Theoretically this is a great idea, as India is just 2–3% of global markets which means we are ignoring 97% of investment opportunities.

The way to participate in this game comes with practical difficulties. There are three ways you can do it which are known to most of you:

- a. LRS (Liberalised Remittance Scheme):** The LRS limit allows investment via any broking platform. Per family member, you can invest up to USD 2,50,000 per year, which can be used to buy stocks, ETFs, Mutual Funds, etc. outside of India.
- b. GIFT City Option:** Use outbound funds investing Indian money into global markets. There are only a handful of funds available for investors. The current focus is on getting inbound investments through GIFT City. Government may not push outbound flows much under the current external account situation.

c. Local Funds Investing in Offshore Markets: either thematic or diversified:

- **ETF:** Has a limit of USD 1 billion on an overall basis.
- **FoF (Fund of Funds):** A more popular structure with an overall cap of USD 7 billion. Currently, both the ETF and FoF limits are exhausted, so very limited options are available.

Constraints:

- One cannot invest too much in funds given all the above limitations.
- Limited understanding of global markets is a reality for most investors.
- Facing currency and country risk cannot be ignored.
- For a very large investor, this opportunity is limited given these constraints.

6. Gold & Silver

Gold imports dropped drastically by 70% to 25–30 tonnes per month. The PM's appeal and the import duty (including GST) of 18.45% made imports drop sharply. Both Gold and Silver corrected from the top significantly.

Gold returns stand at approximately 24% for 3 years, 13.5% for 5 years, and 13.66% for 10-year CAGR. Silver, on the other hand, erased all the gains made in this calendar year. On an overall basis, Silver has given returns of about 52.80% per annum over the last 5 years.

Gold & Silver have lost its correlation with the USD, inflation and fear factor.

It is honestly difficult to predict returns in India specifically for Gold & Silver, given government intervention and the fact that these are imported commodities.

7. Indian Equity Market Valuation

FPIs sold over ₹2.25 lakh crore in 2026 until May 26. Approximately 70% of these outflows were in the BFSI sector and large caps predominantly. By mid-June 2026, total FPI equity outflows for the year had risen further to ₹2.87 lakh crore, already surpassing the entire CY2025 outflow.

With the recent announcements by the Finance Ministry on FPI debt taxation, the stoppage of the war, oil coming down to USD 72.85 (Brent, almost pre-war level), things have changed. This is coupled with profit booking in Korea, Taiwan and China which has raised India's relative attractiveness. FPIs have lowered their selling intensity and are occasionally seen as buyers.

Barring Q1 FY27 results and monsoon worries, there is a genuine chance that India can do well on an overall basis for 2026–27. Valuations are attractive on a historical and PEG basis. The Indian market has seen a time correction of over 2.50 years and is now poised for an upmove.

Local support through SIPs is huge, with ₹31,000 crore coming in every month. This will keep the market going, a factor missed by many during the volatile phase. Though we remain upbeat on the midcap & small cap segment, it is going to be a grind back to the previous top.

8. Fixed Income

The repo rate path has evolved differently from our earlier expectations. Now, looking at the steps taken by the RBI and the demand for credit, we do not feel there are going to be 2 more rate hikes. The market has not yet fully discounted this, and the 10-year G-Sec yield has corrected from its high of 7.15% to ~6.80% depicting a meaningful rally in bond prices. Government bond yields eased meaningfully in the medium term maturities too, during June with the 5-year G-Sec yield declining by around 10 bps.

The RBI kept the repo rate unchanged at 5.25% in the June 5, 2026 policy meeting and said it is comfortable with inflation and growth. The stance remains neutral. The next MPC meeting is scheduled for August 5–6, 2026. Market participants are now watching incoming CPI, WPI, and monsoon data ahead of this meeting for signals on whether the RBI will hike or hold.

Conclusion

Staying invested is a good idea currently. Use STP (Systematic Transfer Plan) for the next 3 months to avoid accidents. Mid-cap and large-cap are looking good to park your money.

AIF strategies have performed as expected. It is easy to find US-based company parallels, and even FPIs will come back as India remains one of the strongest long-term stories to have in a global portfolio.

Key watch factors through July to September 2026: IMD monsoon trajectory, July kharif sowing progress, Q1 FY27 earnings (July–August), US–Iran final peace deal timeline, and FPI bond and equity inflow data post the FCNR(B) package. These will determine whether the Nifty breaks toward 25,500 or consolidates in the 23,500–25,000 range.

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