



Market Outlook

As on October 1, 2026 | Volume 75

We had hoped for some kind of truce between the US and Iran last month. It wasn't to be. The US 10-Year Treasury yield crossed 5% for the first time since 2023, and oil moved past \$100 a barrel, and both remain there as we write this. The Strait of Hormuz has become the fault line, with every oil-producing country in the region now drawn into a proxy conflict that shows no sign of easing. The US has its own problems, an election on the horizon among them, and they did not stand by Saudi Arabia, a long-time partner, came under attack last week. Iran, for its part, appears intent on teaching the Trump administration a lesson, and keeping oil elevated works in its favour, since higher oil keeps US inflation uncomfortable right through the American mid-term elections.

1. Impact Of Oil And The US 10-Year Going To 5%

Oil is a big part of this story for India, given we import 85% of our requirement. Oil price is equally important because passing the increase on to the end consumer is a real challenge. Oil prices staying elevated for an extended period therefore has a large bearing on the Indian economy.

Supply and logistics issues, with Saudi Arabia unable to run its capacity at full extent, mean we are now buying oil from 40 different countries, at a cost of \$116 a barrel. If this situation persists for a few more months, the consequences for India would be genuinely negative.

Inflation is rising globally, and most major central banks, the Fed, the ECB and the Bank of Japan among them, have already raised rates. Last month, the RBI Governor indicated that a rate cut was off the table, while signalling that a rate hike later this year was becoming more likely. With inflationary pressures remaining elevated, that possibility has now moved closer to being the market's base expectation. The RBI's MPC meets on October 5 - 6, and we expect it to deliver a hike of around 25 basis points. From a market perspective, these developments remain a significant headwind. The combination of higher oil prices, renewed inflationary pressure, weaker consumption and potentially higher interest rates could weigh on both consumption and capital expenditure, making it difficult for the Nifty to reclaim its previous high of 26,500 in the near term. Sectoral valuations may also remain muted, limiting the scope for a broad-based re-rating and, consequently, for substantial incremental flows into equities. In the absence of meaningful support from earnings and FPI flows, a sustained move to new highs would be difficult. The importance of FPI and FDI flows is particularly relevant for India, given its structural dependence on external capital to fund investment. This becomes more challenging with **US Treasury yields at around 5.15% for the 10-year**

and 5.45% for the 30-year, making US assets increasingly attractive relative to emerging markets. **US 30-year mortgage rates have also moved to levels broadly comparable with India**, something that has historically not been the case. Higher yields increase borrowing and leverage costs for American households and businesses, which could in turn weigh on economic activity and contribute to a broader slowdown in the coming quarters.

2. Indian Growth And The Current Account

Zoom out to the US, and the picture isn't comfortable either. The 30-year US mortgage rate is now costlier than India's own, and rising rates in housing will be felt globally, including here. A shrinking global economy is a real possibility, one that would mean job losses, lower consumption and weaker corporate profitability. A US 10-Year yield above 5% also pulls at FII flows into emerging markets: a 5% dollar yield on sovereign paper is a genuinely attractive, low-risk option, and US investors may simply choose to stay home rather than take on emerging market risk.

India's own growth story is intact. Moody's has upgraded its FY27 growth forecast to 7%, up from 6% earlier, and the broader data supports that optimism: GST collections are now averaging close to ₹2 lakh crore a month with no sign of weakening, and the recent September advance-tax instalment showed robust growth of 15%, with corporate tax contributing more strongly this time around, a reversal from earlier instalments when personal tax growth had been the better performer. The fiscal deficit itself has not gone up yet, despite the year's revenue pressures.

India's macro scorecard, September 2026

Metric	Reading
Real GDP growth (last quarter, YoY)	7.80%
GDP per capita	USD 2,813
Gross Fixed Capital Formation	8.20%
PMI, Manufacturing	52.80
PMI, Services	54.50
PMI, Composite	57.60
GST collection (August 2026, YoY)	+14.50%
Direct tax collection (Apr-July, YoY)	+26.80%
Unemployment rate (July 2026)	5.10%
Fiscal deficit target	4.30% of GDP

Source: Internal compilation from government data, September 2026.

The current account is the one area that still needs careful watching. The Q1 FY27 current account deficit came in at \$4.2 billion, or 0.5% of GDP, and we expect the full-year deficit at around \$25.2 billion, or 0.6% of GDP. India's cumulative trade deficit for the April-July period widened to \$118.60 billion, against \$96.66 billion over the same months last year.

We have tidied over our balance of payments situation this year largely through the FCNR(B) deposit window, but that is not a long-term solution. India needs to be self-reliant on oil, and equally disciplined on the other side of the ledger: saving on forex spent on defence imports, and protecting remittance and travel-related outflows. We would also watch services exports closely. If that engine comes under pressure, keeping merchandise exports on track becomes even more important for the currency and the current account.

3. Inflation Bites, RBI Clears The Ground For A Hike

Inflation touched 4.8% in August, driven mainly by food, transport, and the higher cost of crude working its way through supply chains. That is a sharp move, and it strengthens the case for the RBI to act at its upcoming review.

The FCNR(B) deposit window has been a double-edged sword on this front. Record inflows of \$127 billion under the scheme flooded the banking system with rupee liquidity, pushing the total liquidity went to about ₹11 trillion. The RBI has been sterilising roughly ₹7 lakh crore of this excess through bond sales, and it is working: short-term rates such as CDs have already eased from 7.2% to 6.30% as this liquidity gets absorbed.

One more swing factor for food inflation and consumption in the months ahead: this year's monsoon, now in its withdrawal phase, has left a meaningful shortfall in several regions, and the government will need to address this before it starts showing up more broadly in prices and rural demand and this is likely to put pressure on government finances.

We feel the RBI will keep space for one more hike, factoring in what other central banks are doing globally. With visibility on inflation still limited even as growth stays healthy, we expect one hike in the coming policy review, likely in the 25 basis point range.

4. Equities: FPIs Sell, Domestic Money Holds The Line

India VIX stood at 13.49 as of September 30 (up by 34% in calendar year 2026), a reasonably calm reading given the backdrop. The Nifty itself was far less calm, falling from around 24,500 to 23,000 this past month, driven almost entirely by oil and global uncertainty. Crude oil moves have been sharp, and the concern is that this West Asia crisis runs longer than markets currently expect.

FPIs, who had been turning buyers, were pushed back into selling mode by the Fed's rate hike, with the Fed itself leaving the door open to one more move later this year if inflation doesn't cooperate. FPIs have sold a net ₹2.37 lakh crore so far in the 2026 calendar year. August broke that pattern with a rare net inflow of ₹29,631 crore, but selling resumed in September, with roughly ₹18,000 crore sold in the month through the 25th.

Domestic mutual funds, sitting on AUM of ₹87.08 lakh crore, cushioned the drop. Monthly SIP inflows now stand at ₹32,217 crore, which works out to more than ₹1,000 crore of fresh money coming into the market every single day, and roughly 70% of that, directly and indirectly, is mandated for mid and

smallcap strategies. Largecap funds, however, saw a net exit of 3.9% in August, and even DII's net inflow for the month, at ₹29,329 crore, came in smaller than the SIP number alone, a sign that net redemptions are happening elsewhere even as fresh SIP money keeps coming in.

Where the new money is going: category-wise share of flows

Category	Share of flows
Smallcap	27.20%
Midcap	23.80%
Flexicap	17.20%
Large & Mid	13.20%
Multicap	12.70%

Source: Industry flow data, August 2026.

We have seen good Q1 earnings, and Q2 numbers start arriving in the next few days, with no shortage of scepticism going in. Automobiles, Real Estate and Pharma should do well; Critical Engineering, Ports, Defence, Exports and Services should also post good numbers.

The Indian market trades at 19 times trailing earnings, which looks fair once set against potential growth. The broader market if judged on PEG basis may not look attractive, and there is a chance of the growth collapsing in the future. We are trading at historically low valuations on some measures, but this is best understood sector by sector rather than as a blanket statement. Mid and smallcap indices are making new highs as investors reward the growth, order books and execution these companies are delivering, even as the Nifty itself has been flat to negative on a point-to-point basis over the last three years.

Three-year returns look different once you look past the index

Index	Absolute return	Annualised
Smallcap	56%	18% p.a.
Midcap	52%	17% p.a.
Nifty 50	15%	5% p.a.

Source: Internal compilation, September 2026.

The broader lesson: chasing the index alone has meant a genuinely weak two-year stretch, given how far the Nifty has pulled back from its highs. Sector-wise, the last year tells a similarly selective story: Metals are up 40%, Pharma up 16%, and PSU Banks up 24%. The current mix of war, oil and supply pressures isn't giving investors enough confidence to broaden participation, and rising rates work against equities more generally. We aren't seeing a broad-based rally; the upside remains confined.

NSE's listing came at a difficult moment. Bringing an issue of that size to market while broader sentiment was subdued made a strong opening run a tall order, and the stock has traded accordingly since. At 43 times earnings, against BSE's 52.30 times, the valuation looks expensive next to global peers on the face of it. Against India's growth runway and the scope for market cap expansion and

financialisation of savings over the coming years, NSE is a name worth keeping on the radar for long-term investors.

5. What Five Years Of Returns Really Tell Us

Indian markets have genuinely tested investor patience over the last two to three years, through a series of events that followed President Trump's return to power, many of them difficult to have predicted in advance, including a US rate-hiking cycle at a time the world was hoping for lower rates. Over five years, the Nifty's return works out to 32.30%, about what a bank fixed deposit would have delivered, and less than what a senior citizen savings scheme, at 7%, would have earned. It is worth remembering that the Nifty had touched 26,500 back in September 2024 before pulling back, which is part of why the two-year return specifically has looked so weak. Looked at stock by stock, 57% of stocks failed to beat FD returns over this period, but 24%, around 605 stocks, doubled, and 9%, around 289 stocks, tripled. Even well-known names have not been spared: TCS is down 39% over five years, ITC down 38%, HDFC Bank down 12%, and Reliance Industries down 2%. The broader point holds globally as well, with interest rates remaining elevated and several economies facing a challenging growth environment, even as some European markets remain closer to their previous peaks than India.

This reinforces the importance of stock and fund selection over simply owning the index. Over the last five years, a DIY approach focused purely on passive investing or choosing investments solely on the basis of the cost of active funds has not necessarily delivered the desired outcomes, particularly for investors deploying larger amounts of capital. The right choice of funds and stocks, appropriate asset allocation and identifying the right opportunities can help generate alpha, which is where professional expertise can add value. **In some cases, investors who have prioritised safety and invested predominantly in bank deposits have ended up earning returns lower than what the equity markets could have offered over the same period.**

The investment landscape is also becoming increasingly complex, particularly because India accounts for only around 3% of global markets, making international diversification increasingly relevant for larger families and institutional pools of capital. **We are also seeing greater allocations towards private equity and other unlisted investments, and this trend is likely to gain further traction as the next generation becomes more involved in investment decisions. There is nothing inherently wrong or excessively risky about such investments when VC and PE opportunities are properly evaluated, appropriately sized and undertaken with a long-term investment horizon.**

6. Fixed Income

The Indian 10-year G-sec yield is at 7.10% as we head into the RBI's meeting in the first week of October, with the market already factoring in a 25 basis point hike. G-sec yields have risen sharply and are unlikely to decline in a hurry, particularly as major central banks globally have raised rates and India is likely to follow suit. The recent rise in oil prices, driven primarily by supply disruptions

around the Strait of Hormuz, has added to inflationary concerns, although we believe this is unlikely to be a long-lasting phenomenon. Against this backdrop, the RBI has continued to protect the rupee around the 96 level, while yields across the 5 to 10-year segment of the government bond curve have moved up sharply over the last 15 days. Consequently, the commentary accompanying the RBI's policy decision will be important, potentially carrying greater significance for the bond market than the 25 basis point move itself.

Global 10-year yields, September 2026

Market	10-Year Yield
India	7.10%
United States	5.10%
Germany	3.50%
Japan	1.20%

Source: Internal compilation, September 2026.

Inflation is pushing yields higher across the globe, and the Indian 10-year needs to be watched carefully as a result. If it were to move to 7.50%, we would see that as an excellent entry point into long-duration funds, though we doubt it gets there, since so much depends on how long oil stays at these elevated levels. US 10 year crossed 5.15% and 30 years 5.50%, it is blue sky situation and any sporadic movements in yields in short terms is not ruled out. It will be interesting to see how US manages this as their spending and housing economy is very sensitive to interest rates.

With visibility on inflation still limited even as growth holds up, we expect one hike in the coming policy. Credit growth remains healthy and system liquidity is comfortable, but the long end of the curve needs careful watching. On balance, today's risk-reward favours long-duration securities and funds, subject to your own tax considerations.

7. Gold And Silver: Bullish On Both, For Different Reasons

Gold's climb through August, when it crossed ₹1.50 lakh per 10 grams for the first time, has held even as international gold, having peaked near \$5,600 an ounce in January, corrected by roughly 22% before steadying, and we stay constructive at current levels. **Gold usually moves opposite the dollar: it is priced in dollars globally, and higher US yields raise the cost of holding an asset that pays no interest, so a hiking Fed and a 5%-plus US 10-Year should both be working against it. They haven't been, because that old relationship has weakened.** Central banks are buying at a near-record pace regardless of the dollar, China has added to its reserves for 20 straight months and Poland is building toward a 700-tonne target, and that structural bid persists precisely because this hiking cycle is being forced by an oil shock and an unresolved West Asia conflict rather than genuine economic strength. Investors are reading that as fragility, not resolve, and gold's case as a portfolio anchor stays intact as a result.

Silver's case is different, but no less compelling. This will be the sixth straight year of a global supply deficit, forecast at 67 million ounces for 2026, and the shape of that gap has changed. Solar demand, once silver's biggest growth driver, is actually declining as panel makers thrift and substitute away from it, but data centres, electrification infrastructure and automotive use are picking up the slack, while physical investment demand, coins, bars and ETPs, is running roughly 20% higher on the back of silver's own price performance and the same macro uncertainty driving gold. That combination, a structural deficit now reinforced by investor demand rather than resting on one industrial use case, alongside its usual role as a cheaper, more volatile cousin to gold, is why we remain equally constructive on silver for clients building out the defensive portion of a portfolio.

Our View On The Market

Lot of people said about change in global order. It is evident that USA is clearly aware about its debt and value of dollar globally in order to keep value of dollar intact it is trying to get control of oil which eventually is bought in dollars and that will give US time to deal with its piling debt. With mid term elections around US can take any steps to keep its supremacy intact. Geopolitically it is going to be very challenging. Someone looking at indices and broader market, it would be a painful sight. We need to change our investing strategy after 2 years of the previous high in September 2024, market is not able to move up due to a few underperforming sectors having decent weight in the index.

Having said that, a selective, bottom-up approach, focused on picking quality companies with genuine growth, should continue to work even in this environment. Earnings season is starting and will be worth watching closely.

We suggest to use October and November for investing into market gradually if you are looking at mutual funds. In addition, we recommend adopting a contra strategy with a long-term investment horizon.

Non-index strategies, including our own Pranitya India Opportunities Fund, a Category III AIF, select PMS strategies, and a sector-driven approach more generally, are where we would look to generate returns in this environment rather than through passive, index-hugging exposure. On a more constructive note, India's trade negotiations with Australia, New Zealand, Canada, the UK and the US are all progressing well, and should support the growth story over the coming years.

A Word On SEBI's New PRIM Route

SEBI's board cleared a new framework, called PRIM, Portfolio Managers Route for Investing in Mutual Fund units. It lets a SEBI-registered portfolio manager build and actively rebalance a portfolio made up of mutual fund plans, index funds, ETFs and the newer Specialised Investment Funds, for an entry cheque of Rs 25 lakh, well below the Rs 50 lakh a conventional PMS mandate. For an investor sitting on a handful of mutual funds picked up over the years with no one actively managing the mix, this effectively brings professional portfolio construction within reach at a much lower entry point than PMS has traditionally allowed.

“A ship stays afloat because of the water around it, however rough that water gets. It rarely sinks from the water outside; it sinks when that water finds its way in.”

A portfolio works much the same way. It is seldom the turbulence around us that does the real damage, it is what is allowed to seep into how the portfolio itself is built and managed.

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