

# Equity Market Update & Outlook

## Trade deals brighten outlook

January, 2026



- ◆ Indian equity indices saw a sharp cut in January'26, with BSE Sensex and NSE Nifty down 3.4%/3.0% respectively.
- ◆ Broader market was also very weak with NSE Midcap Index down 3.5% and BSE Smallcap Index down 6.3% for the month.
- ◆ Metals was the best performing sector for the month. Banks also ended positive, while IT, Capital Goods, Power and O&G were negative but outperformed the Nifty. Autos, Healthcare and FMCG saw sharp cuts and underperformed the Nifty. Realty was the worst performing sector.

Domestic Indices	Last Close	1 Month (Change)	CYTD 26 (Change)
BSE Sensex TR	1,29,138	-3.4%	-3.4%
Nifty 50 TR	38,139	-3.0%	-3.0%
BSE 200 TR	14,798	-3.1%	-3.1%
BSE 500 TR	46,611	-3.3%	-3.3%
NSE Midcap TR	27,340	-3.5%	-3.5%
BSE Smallcap TR	60,155	-6.3%	-6.3%
NSE Large & Midcap 250 TR	21,169	-3.2%	-3.2%
BSE India Infrastructure Index TR	826	-2.1%	-2.1%
MSCI India USD	1,000	-5.1%	-5.1%
MSCI India INR	2,985	-2.9%	-2.9%
INR - USD	92.0	2.4%	2.4%
Crude Oil	71	16.2%	16.2%

## Global Market Update

Global markets delivered a positive return for the month. MSCI World index rose 2.2% in Jan with US (S&P 500) up 1.4%. MSCI Europe rose 4.4% and MSCI Japan rose 6.6%. MSCI EM was up 8.8% as MSCI China gained 4.7%. Crude oil rose sharply by 16.2% in January.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 26 (Change)
MSCI World	4,528	2.2%	2.2%
Dow Jones	48,892	1.7%	1.7%
S&P 500	6,939	1.4%	1.4%
MSCI EM	1,528	8.8%	8.8%
MSCI Europe	2,759	4.4%	4.4%
MSCI UK	1,668	5.1%	5.1%
MSCI Japan	5,116	6.6%	6.6%
MSCI China	86	4.7%	4.7%
MSCI Brazil	1,920	16.6%	16.6%



- ◆ FIIs reduced their investment in Indian equities in January, selling stocks worth US\$3.3bn while DIIs invested another US\$7.6bn. Domestic MFs invested US\$4.8bn while insurance inflow was US\$2.8bn.
- ◆ In the Union Budget 2026 government maintained a prudent fiscal stance with a fiscal deficit target of 4.3% for FY27. The government capex (adjusted) is expected to grow 10% yoy with focus on Defence, Power and higher support to states for capex.
- ◆ India CPI in Dec improved to 1.3% yoy in from 0.7% yoy in November, remaining subdued on the back of continued YoY softness in food prices. Core-core inflation ex. gold (i.e. inflation ex petrol and diesel and gold) was 2.7%yoy in December, up slightly from 2.6%yoy in November.
- ◆ Industrial production growth (IIP) rose sharply to 7.8% yoy from 7.2% yoy in Nov. This is partly driven by the strong demand momentum post the GST rate cuts in late September.
- ◆ Gross GST revenue collection was Rs 1.93 tn in Jan'26, up 6.2% yoy. Growth has also been impacted by the rationalization of GST rates from 22nd Sep 2025.
- ◆ Other important events – India and EU announced concluding negotiations on signing of a free trade agreement. US President also announced potential trade deal with India which would reduce tariffs on India from 50% currently to 18%.

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## Valuations

Nifty consensus EPS estimate for CY26/27 declined 2%/1% respectively in Jan'26 as per Bloomberg. Nifty now trades on 20x 1-year forward PE. This is now in-line with its 5-year average and a ~10% premium to its 10-year average.

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## Macro View

In our view, announcement of potential trade deals with EU and US should now help support private capex with reduction in global macro-economic uncertainty. The GST rate cut announced by the government along with the previously announced income tax rate cuts should significantly help boost private sector consumption and support private capex. However, government tax revenue growth has been weak in the first eight months and is likely to lead to slower spending by the government in H2FY26 to achieve the fiscal deficit target. This would partially offset the gains from GST and income tax rate cut mentioned above. Overall, India's economic growth momentum continues to surprise on the upside with a strong 8.2% yoy GDP growth in Q2FY26.

## Outlook

We believe India's growth remains quite resilient despite the global macro-economic challenges. Interest rate and liquidity cycle, decline in crude prices and normal monsoon are all supportive of a pick-up in growth going forward. We expect India's investment cycle to be on a medium-term uptrend supported by government investment in infrastructure and manufacturing, pickup in private investments and a recovery in real estate cycle. We expect higher private investments in renewable energy and related supply chain, localization of higher-end technology components, and India becoming a more meaningful part of global supply chains to support faster growth. Nifty valuations are modestly above 10-year average. We remain constructive on Indian equities supported by the more robust medium term growth outlook.

## Key Drivers For Future

On the headwinds, we have

**Weak global growth** is likely to remain a headwind on demand going forward.

**Global policy uncertainty:** Risk of tariffs, general policy uncertainty, mercantilist policies of certain countries and geo-political conflicts.

**Other factors / risks:** Sharp slowdown in government capex.

We see the following positives for the Indian market:

**Recovery in private capex:** Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for increase in private capex going forward. Also, continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors. We also expect higher private capex in renewable energy.

**Trade deals:** Potential trade deals with EU and US would be a tailwind for Indian manufacturing over the medium term and should be a tailwind for private sector investments.

**Global commodity prices:** Benign global prices of crude oil and fertilizers have been a positive for India from inflation, fiscal deficit and corporate margins perspective in FY24-25.

\* Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD return for global indices. (Source: Bloomberg, MOSL & HSBC MF estimates as on Jan 2026 end).

**Source:** Bloomberg, MOSL & HSBC MF estimates as on 31 January 2026 end or as latest available.

**Note:** Views provided above are based on information available in public domain at this moment and subject to change. Investors should not consider the same as investment advice

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