HSBC Mutual Fund

# Equity Market Review

## October market recovery masks market divergence

October, 2026



**SEBI Registered Name/Number-**HSBC Mutual Fund & MF/046/02/5

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- **Indian equities:** Nifty-50 rose 2.0% in October and ended at 23,053, but market breadth remained weak. Nifty Midcap 150 and Nifty Smallcap 250 declined 3.7% and 5.8%, respectively, indicating a sharp divergence between large caps and the broader market.
- **Key market drivers:** Better-than-expected IT results and rotation into large-cap technology supported the headline index. This was partly offset by elevated crude oil prices, higher domestic and global bond yields, continued foreign selling, strong primary-market supply and a sharp unwinding of leveraged retail positions in smaller companies.
- **Sector performance:** IT was the clear outperformer, with Nifty IT Index up 17.7%, while Healthcare rose 2.6%. Most other sector indices declined; Capital Goods, Metals and Consumer Durables fell 7.2%, 6.8% and 4.9%, respectively.

| Domestic Indices | Last Close | 1 Month (Change) | CYTD 2026 (Change) |
|---|---|---|---|
| BSE Sensex TR | 1,17,939 | 2.8% | -11.8% |
| Nifty 50 TR | 35,043 | 2.0% | -10.9% |
| Nifty 100 | 23,972 | 1.0% | -10.2% |
| NSE Midcap 150 TR | 26,924 | -3.7% | -5.0% |
| NSE Large & Midcap 250 TR | 20,319 | -1.3% | -7.1% |
| NSE Smallcap 250 TR | 21,425 | -5.8% | 1.0% |
| NSE 500 TR | 35,239 | -0.8% | -7.5% |
| NSE Infrastructure | 8,799 | 0.7% | -8.5% |
| NSE Consumption | 11,091 | 0.2% | -9.8% |
| MSCI India Net TR USD | 1,103 | 1.2% | -13.9% |
| MSCI India INR | 2,773 | 0.3% | -9.8% |
| INR - USD | 95.0 | -0.9% | 5.7% |
| Crude Oil | 117.6 | 13.6% | 93.3% |

## Global Market Update

Risk appetite weakened late in October amid concerns over the sustainability of AI-linked capital expenditure, elevated energy prices and tighter financial conditions. EM (-8.1%) significantly underperformed S&P 500 (-0.9%) and MSCI World (-0.8%). Korea and Taiwan saw large sell-offs by FIIs (-$15 bn and -$32 bn respectively). Besides AI, another major event in EM was the surprising victory of the incumbent in Brazil's presidential elections, prompting a sharp negative market reaction. G3 central banks (Fed, ECB, BOJ) held rates in October but with a likely hawkish path ahead.

| International Indices (in USD) | Last Close | 1 Month (Change) | CYTD 2026 (Change) |
|---|---|---|---|
| MSCI World | 4,862 | -0.8% | 9.8% |
| Dow Jones | 51,770 | 1.7% | 7.7% |
| S&P 500 | 7,580 | -0.9% | 10.7% |
| MSCI EM | 1,567 | -8.1% | 11.6% |
| MSCI Europe | 2,752 | 0.3% | 4.1% |
| MSCI UK | 1,709 | 2.2% | 7.7% |
| MSCI Japan | 5,551 | -4.2% | 15.6% |
| MSCI China | 66 | -7.2% | -19.6% |
| MSCI Korea | 1,252 | -15.6% | 65.0% |
| MSCI Brazil | 1,672 | -12.1% | 1.6% |



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## FII/DII flows

Foreign investors remained net sellers. FPI secondary-market selling of $4.0 bn, partly offset by $1.4 bn of primary-market inflows, while DIIs purchased $6.5 bn. Primary issuance remained heavy, with 13 IPOs raising about $4.7 bn during the month.

## Currency, rates and commodities

INR appreciated 0.9% MoM to 94.96/US$, although it remained weaker year-on-year. India's 10-year government bond yield ended October at 7.39%, up 20bps MoM. Brent remained elevated and ended the month near $119/bbl, keeping inflation, margins and the external balance in focus.

## Inflation

September CPI inflation rose to 5.5% YoY from 4.8% in August. Core-core inflation (core excluding petrol/diesel and precious metals) rose to 3.2% from 2.9%, while food prices remained the principal near-term risk given the sub-par monsoon and strong El Nino conditions.

## Industrial activity

IIP growth moderated to 6.7% YoY in September from 8.0% in August, but underlying manufacturing momentum remained robust.

## Growth backdrop

RBI raised its FY27 GDP growth forecast to around 7.0-7.1%. Credit momentum remained strong, with non-food bank credit growth at 19.1% YoY in September.

## Monetary policy

RBI raised the repo rate by 25 bps to 5.5% and changed its stance from neutral to calibrated tightening. The October MPC minutes kept future decisions data-dependent, but elevated crude prices and broadening inflation pressures increase the probability of more rate increase.

## Valuations

Nifty-50 valuations trade at 16.9x 12 months blended forward P/E and is trading 1SD below its 10-year average. Midcap valuations have also corrected sharply from highs and now trading at 21.5x P/E, closer to 1SD below its long-term average.

## Macro view

India's domestic growth and industrial momentum remain resilient, supported by credit growth, infrastructure spending and an improving earnings cycle. Key macro risks are elevated crude oil prices, a longer domestic rate-hiking cycle, food inflation linked to weather conditions and renewed global risk aversion.

## Outlook

We remain constructive on Indian equities over the medium term but expect near-term returns to be earnings-led and selective. We prefer companies with visible and predictable earnings, strong balance sheets and pricing power, and would remain cautious on highly leveraged or illiquid names. Corporate earnings recovery continues with strong 2QFY27 earnings growth and more earnings beat than misses over consensus estimates. Nifty valuations are now trading 1SD below 10-year averages.



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## Key Drivers For Future

We see the following positives for the Indian market:

**Corporate earnings recovery:** The first half of 2QFY27 earnings season has been strong. Nifty earnings for the quarter are up 22% YoY for the companies reported till October end. There are many companies with earnings beats, with banks supported by loan growth and improving asset quality.

**Recovery in private capex:** Strong capital-goods and infrastructure output, healthy credit growth, government infrastructure programmes and continued investment in manufacturing and renewable energy support the medium-term capex cycle.

**Strong domestic liquidity support:** DII purchases of $6.5 bn during October continued to cushion the market against foreign selling. Steady domestic mutual-fund and SIP flows remain an important structural source of demand for Indian equities.

**Attractive large-cap valuations:** The large-cap correction during CY26YTD and continued earnings growth have improved the valuation backdrop for large-caps. Indian large-caps are trading below its 10-year forward P/E average, improving the risk-reward for quality large caps.

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On the headwinds, we have

**Higher rates and yields:** RBI tightening, elevated Indian bond yields and restrictive global financial conditions remain headwinds to valuation multiples and rate-sensitive sectors.

**Elevated crude oil prices:** The markets are anticipating renewed US military operations in the Middle East following the US mid-term elections. This could remain an overhang for energy prices and could create pressure on inflation, current account, corporate margins and household purchasing power.

**Below-normal monsoon and El Nino:** The below-normal monsoon and exceptionally strong El Nino remain important risks to food inflation, rural demand and policy flexibility. The agricultural effects can persist for four to five quarters beyond the El Nino peak.

**Other factors / risks:** Persistent FPI selling, heavy primary issuance, further deleveraging in crowded small- and mid-cap positions, weaker global technology sentiment, and a slowdown in government or private capex.

*Returns mentioned in the report are Total Return or TR variants of the respective domestic indices. USD returns are used for global indices.

**Source:** Bloomberg, Kotak Institutional Equities, J.P. Morgan and HSBC MF estimates as of October 31, 2026.

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