

Some recovery but pressure points remain

May, 2026



- ◆ May 2026 was a mixed month for Indian equity markets. While major indices BSE Sensex and NSE Nifty were down 2.6%/1.7%, respectively, broader markets were stronger with NSE Midcap index up 2.6% and BSE Smallcap index up 2.5% for the month.
- ◆ Healthcare and Capital Goods were the best performing sectors in May, followed by Metals and Power. Autos also delivered positive returns while Realty, IT and Banks delivered slightly negative returns. FMCG and Oil & Gas were the worst performing sectors.

Domestic Indices	Last Close	1 Month (Change)	CYTD 26 (Change)
BSE Sensex TR	1,17,657	-2.6%	-12.0%
Nifty 50 TR	35,553	-1.7%	-9.6%
BSE 200 TR	14,306	-0.5%	-6.3%
BSE 500 TR	45,727	-0.2%	-5.2%
NSE Midcap TR	28,767	2.6%	1.5%
BSE Smallcap TR	66,079	2.5%	3.0%
NSE Large & Midcap 250 TR	21,210	0.8%	-3.0%
BSE India Infrastructure Index TR	888	-1.8%	5.3%
MSCI India USD	934	-0.7%	-11.4%
MSCI India INR	2,879	-0.6%	-6.4%
INR - USD	95.0	0.1%	5.7%
Crude Oil	92	-19.3%	51.3%

Global Market Update

Global markets continued to recover as crude oil declined 19% MoM. MSCI World Index rose 4.4% in May with the US (S&P 500) up 5.1%. MSCI Europe rose 2.0% and MSCI Japan up 4.9%. MSCI EM was up another 9.5%, led by Korea and Taiwan.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 26 (Change)
MSCI World	4,865	4.4%	9.8%
Dow Jones	51,032	2.8%	6.2%
S&P 500	7,580	5.1%	10.7%
MSCI EM	1,752	9.5%	24.8%
MSCI Europe	2,776	2.0%	5.0%
MSCI UK	1,669	-0.7%	5.1%
MSCI Japan	5,528	4.9%	15.2%
MSCI China	75	-3.4%	-9.0%
MSCI Brazil	1,838	-9.2%	11.7%



- ◆ FII sold a further US\$4.9 bn in May taking the total selling to US\$24 bn in last 3 months. This however continues to offset by DIIs. Domestic MFs invested US\$4.9 bn while Insurance invested US\$3.8 bn in May.
- ◆ India CPI (Consumer Price Index) in April rose modestly to 3.5% (YoY) from 3.4% (YoY) in March. Core-Core inflation (i.e. inflation ex petrol and diesel ex precious metals) also rose to 2.2% (YoY) from 2.1% (YoY) in March.
- ◆ Industrial production growth (IIP) rose to 4.9% in April from 4.1% in March.
- ◆ Gross GST revenue collection was Rs 1.94 tn in May'26, up only 3.2% (YoY). Growth has also been impacted by the rationalization of GST rates from 22nd Sep 2025.
- ◆ RBI now projects real GDP growth of 6.6% for FY27.

Valuations

Nifty consensus EPS estimate for CY26/27 were downgraded by 0%/2% respectively in May 2026 as per Bloomberg. Accordingly, Nifty now trades at 18.2x 1-year forward PE. This is now at a 7% discount to its 5-year average and in-line with its 10-year average.

Macro View

The Middle East conflict is exerting macro-economic pressure on India. Higher crude and fertilizer prices and weaker rupee will be headwinds to FY27 growth if things are not resolved quickly. While government is absorbing most of the impact, this will impinge on government's ability in the near term to boost infra spending. However, we still see India's growth remaining robust despite these challenges. We believe interest rate cuts by the RBI, the GST rate cut, and income tax rate cut announced by the Union government should support consumption and private sector capex. We believe consumers will be able to absorb a sharp increase in pump prices as prices have remained unchanged for the last 4 years. However, risk of a below normal monsoon with negative consequences for food production and leading to higher food inflation is also another stress in the near term.

Outlook

We believe India's growth remains quite resilient despite the global macro-economic challenges. We expect India's investment cycle to be on a medium-term uptrend supported by government investment in infrastructure, support to manufacturing and pickup in private investments. Announcements of potential trade deals with EU and US should help support private capex driven by improved medium term tariff certainty and export competitiveness. Nifty valuations are trading at 10-year average. We remain constructive on Indian equities on a longer-term basis however near-term outlook remains more uncertain due to geo-political conflicts.

Key Drivers For Future

On the headwinds, we have

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 2024 and 2025. However, these trends have now reversed due to geopolitical conflict and will be a headwind for India in 2026.

Weak global growth is likely to remain a headwind on demand going forward. This is driven by risk of tariffs, general policy uncertainty, mercantilist policies of certain countries and geo-political conflicts.

Below normal monsoon: Leading to higher food inflation and negative impact on consumption and govt. budget.

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 encourage private sector investments.

Note: Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD returns for global indices. Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

Source: BBloomberg, MOSL & HSBC MF estimates as on May 30, 2026 end or as latest available.

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