Indian market outperforms amid corporate earnings recovery

July, 2026

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- Indian equities ended July 2026 month with modest gains of 2.2% after a volatile month marked by sharp swings in crude oil prices, US-Iran geopolitical tensions and 1QFY27 corporate results.
- The broader market was also in-line with Midcap Index up 1.8% and Smallcap Index - up 2.5% for the month.
- IT, Real Estate and Automobiles were the best performing sectors in July. Healthcare also outperformed Nifty, while Metals, FMCG, Infrastructure, Banks, Telecom underperformed Nifty. Utilities, Energy and Industrials were the worst performing sectors.

Domestic Indices	Last Close	1 Month (Change)	CYTD 2026 (Change)
BSE Sensex TR	1,23,477	2.3%	-7.7%
Nifty 50 TR	37,001	2.4%	-5.9%
Nifty 100	25,486	2.3%	-4.5%
NSE Midcap 150 TR	29,552	1.7%	4.3%
NSE Large & Midcap 250 TR	21,923	2.1%	0.2%
NSE Smallcap 250 TR	22,862	1.3%	7.8%
NSE 500 TR	37,692	2.2%	-1.1%
NSE Infrastructure	9,409	0.2%	-2.2%
NSE Consumption	12,082	4.9%	-1.7%
MSCI India Net TR USD	1,175	1.7%	-8.3%
MSCI India INR	2,971	2.3%	-3.4%
INR - USD	95.4	0.8%	6.1%
Crude Oil	90.1	23.6%	48.1%

Global Market Update

The unwinding of the AI/ Tech trade resulted in significant correction of markets such as Korea (-17.9%) and to lesser extent Taiwan (-5.3%). MSCI World Index was up 0.5% and US (S&P 500) was flattish at -0.1%. MSCI Europe rose 0.9%, while MSCI Japan was down -1%. MSCI China did well and posted 8.6% returns for the month.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 2026 (Change)
MSCI World	4,848	0.5%	9.4%
Dow Jones	52,485	0.3%	9.2%
S&P 500	7,490	-0.1%	9.4%
MSCI EM	1,666	-3.3%	18.6%
MSCI Europe	2,842	1.5%	7.5%
MSCI UK	1,740	5.2%	9.7%
MSCI Japan	5,563	1.0%	15.9%
MSCI China	75	8.6%	-8.7%
MSCI Korea	1,368	-17.1%	80.3%
MSCI Brazil	1,888	6.3%	14.7%

- India saw $2.5 bn FII inflows in July 2026 taking the total selling to US$26.5 bn in 2026YTD. DII flows continued to remain positive, with $3.7 bn inflows supported by steady SIP and insurance flows. Equity supply picked up in July driven mostly by IPO (~$3 bn) and QIP deals (~$2.5 bn).
- India CPI (consumer price index) rose to 4.4% (YoY) in June from 3.9% (YoY) in May. Core-Core inflation (i.e. inflation ex petrol and diesel ex precious metals) also rose to 2.5% (YoY) from 2.3% (YoY) in May.
- Industrial production growth (IIP) rose strongly to 7.3% (YoY) in June from 5.0% (YoY) in May. This was one of the highest numbers in the past 24 months.

- Gross GST revenue collection was Rs 2.11 tn in July 2026, up 15.4% (YoY). The strong growth was despite rationalization of GST rates from 22nd September 2025.
- RBI maintained the Repo rate at 5.25% (unchanged) in its latest policy.
- For India as a whole, cumulative rainfall was 40% below long-period average at the end of June 2026 but has now recovered to 12% below average at the end of July 2026. However, given the IMD's outlook of a below-normal monsoon for August, we remain watchful.

Valuations

Nifty consensus EPS estimate for CY26/27 were largely unchanged in July 2026 as per Bloomberg. Accordingly, Nifty now trades at 18.3x 1-year forward PE. This is now at a 6% discount to its 5-year average and 2% discount with its 10-year average.

Macro View

The re-escalation of conflict in the Middle East effectively ended the ceasefire agreed upon in June, and the disruption was compounded by a blockade in the Red Sea. The flare-up pushed up Brent by nearly 40% before cooling towards month-end amid reports of a deal between US and Iran. With stable fiscal deficit for 1QFY27, we believe government should be able to boost infra spending in H2FY27 although full year may be flattish given the impact of the conflict on government finances. Interest rate cuts by RBI, the GST rate cut, and income tax rate cut announced by the Union government in FY26 should support consumption in FY27. However, risk of a below normal monsoon with negative consequences for food production and higher food inflation remains.

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 exports. Corporate earnings recovery continues with strong 1QFY27 earnings growth till date and more earnings beat than misses over consensus estimates. Nifty valuations are now in-line with 10-year average. We remain constructive on Indian equities on a longer-term basis. Near-term outlook is now also improving assuming no re-escalation of 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:

Corporate earnings recovery: Corporate earnings have seen consistent downgrades from 2HFY25 driven by slowing government capex, liquidity tightening and consumption slowdown in key sectors. This was one of the key reasons for FII outflows over the past couple of years. With RBI's regulatory easing, government measures on taxation (GST/ income tax) and lower tariffs by US, we see earnings growth recovering well.

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

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