HSBC Mutual Fund

Geopolitical conflict drives a sharp cut

March, 2026

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- Indian equity indices saw a massive cut in March'26 with sharp spike in crude price due to the middle east conflict. This led to heavy FII selling in Indian equities in March.
- BSE Sensex and NSE Nifty were down 11.5%/11.3%, respectively. Broader market also ended with similar cuts with NSE Midcap Index down 11.1% and BSE Smallcap Index down 10.9% for the month.
- Power was the best performing sector for the month although still in the negative. Healthcare, IT, Capital Goods, Metals and FMCG outperformed the Nifty. Banks were the worst performing sector followed by Real Estate, Autos and Oil & Gas all of which underperformed the Nifty.

Domestic Indices	Last Close	1 Month (Change)	CYTD 26 (Change)
BSE Sensex TR	1,12,989	-11.5%	-15.5%
Nifty 50 TR	33,655	-11.3%	-14.4%
BSE 200 TR	13,148	-11.6%	-13.9%
BSE 500 TR	41,497	-11.4%	-13.9%
NSE Midcap TR	24,753	-11.1%	-12.6%
BSE Smallcap TR	53,879	-10.9%	-16.1%
NSE Large & Midcap 250 TR	18,940	-11.3%	-13.4%
BSE India Infrastructure Index TR	782	-9.7%	-7.3%
MSCI India USD	862	-15.0%	-18.3%
MSCI India INR	2,652	-11.3%	-13.8%
INR - USD	94.8	4.2%	5.5%
Crude Oil	118	63.3%	94.5%

Global Market Update

Global markets also saw a sharp cut as crude rose 63% MoM in March. MSCI World index dropped 6.6% in Feb with the US (S&P 500) was down 5.1%. MSCI Europe declined 10.3% and MSCI Japan dropped 13.1%. MSCI EM was down 13.3% with MSCI China was down 7.7%.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 26 (Change)
MSCI World	4,258	-6.6%	-3.9%
Dow Jones	46,342	-5.4%	-3.6%
S&P 500	6,529	-5.1%	-4.6%
MSCI EM	1,397	-13.3%	-0.5%
MSCI Europe	2,554	-10.3%	-3.4%
MSCI UK	1,602	-8.3%	1.0%
MSCI Japan	4,827	-13.1%	0.6%
MSCI China	75	-7.7%	-9.0%
MSCI Brazil	1,953	-2.0%	18.6%

- FIIs sold an unprecedented US$14.2 bn in Indian equities in March which was completely offset by DII purchases of US$15.4 bn. Domestic MFs invested US$9.7 bn while Insurance invested US$5.7 bn.
- India CPI (consumer price index) in Feb rose to 3.2% from 2.7% YoY in January. Core-Core inflation (i.e. inflation ex petrol and diesel ex precious metals) was unchanged at 2.1% YoY in February.
- Industrial production growth (IIP) improved to 5.2% YoY in February from 5.1% YoY in January.
- Gross GST revenue collection was Rs 2 tn in Mar'26, up 8.8% YoY. Growth has also been impacted by the rationalization of GST rates from 22nd Sep 2025.
- Other key events – On 27th March, Indian government announced a Rs 10 per litre reduction in central excise duty on petrol and diesel. While Pump prices will remain unchanged, the measure is aimed at supporting Government-owned Oil Marketing Companies (OMCs) that are currently absorbing losses as retail prices have not kept pace with higher crude prices. The announced cut will result in an estimated Rs 1.75 trillion (about 0.5% of GDP) revenue loss for the government over a year.

Valuations

Nifty consensus EPS estimate for CY26/27 were largely unchanged in Mar'26 as per Bloomberg. However, given the sharp correction, Nifty now trades on 17x 1-year forward PE. This is now at a 13% discount to its 5-year average and a ~6% discount to its 10-year average.

Macro View

While the markets remain hopeful of a quick resolution, the Middle East conflict is starting to exert significant macro-economic pressure on India. Sharp increase in crude price and weaker rupee will be headwinds for FY27 growth if things are not resolved quickly. While government is absorbing part 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.

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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 now below 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 FY24-25. However, a sustained sharp increase in these commodities would be a headwind for India.

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 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 March 31, 2026 end or as latest available.

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