HSBC Mutual Fund

Equity Market Review

When the going gets Tough, the Tough get going

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

August 2026

- Indian equities posted muted returns in August 2026 as rising crude prices and surging geopolitical tensions weighed on sentiments. Further, hawkish comments by Fed Chair at Jackson Hole and liquidity absorption from heavy fundraising and promoter selling also weighed on Indian markets.
- Large caps fell by 1.0% underperforming mid/ small caps by 2.8% and 3.6%, respectively.
- Metals, Capital Goods and Telecom were the best performing sectors in August. Banks, IT, Healthcare and Auto also delivered positive returns. FMCG, Utilities, Infrastructure and Energy were the worst performing sectors.

Domestic Indices	Last Close	1 Month (Change)	CYTD 2026 (Change)
BSE Sensex TR	1,21,825	-1.3%	-8.9%
Nifty 50 TR	36,579	-1.1%	-7.0%
Nifty 100	25,235	-1.0%	-5.4%
NSE Midcap 150 TR	30,081	1.8%	6.2%
NSE Large & Midcap 250 TR	22,023	0.5%	0.7%
NSE Smallcap 250 TR	23,461	2.6%	10.6%
NSE 500 TR	37,712	0.1%	-1.0%
NSE Infrastructure	9,179	-2.4%	-4.5%
NSE Consumption	11,803	-2.3%	-4.0%
MSCI India Net TR USD	1,171	-0.3%	-8.6%
MSCI India INR	2,951	-0.7%	-4.0%
INR - USD	95.2	-0.2%	5.9%
Crude Oil	90.5	0.4%	48.7%

Global Market Update

MSCI World, S&P 500 and MSCI EM recovered 2.5%, 2.6% and 3.2%, respectively in August, following July's AI/ Tech trade unwinding slump. The AI theme reignited with big players posting strong earnings and positive outlook. Global markets are now increasingly focused on bond yields as global bond yields (like in Japan) soared to decadal highs.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 2026 (Change)
MSCI World	4,968	2.5%	12.1%
Dow Jones	53,186	1.3%	10.7%
S&P 500	7,686	2.6%	12.3%
MSCI EM	1,719	3.2%	22.4%
MSCI Europe	2,877	1.2%	8.9%
MSCI UK	1,741	0.1%	9.7%
MSCI Japan	5,748	3.3%	19.7%
MSCI China	75	-0.4%	-9.1%
MSCI Korea	1,448	5.8%	90.8%
MSCI Brazil	1,847	-2.2%	12.2%

- India saw $2.4 bn FII inflows in August 2026 taking the total selling to US$24.1 bn in 2026YTD. This is the second consecutive month of positive FII flows (after July 2026 with $2.5 bn flows). DII flows continued to remain strong with $6.1 bn inflows supported by steady SIP book. Equity supply picked up in August driven by promoter blocks (Rs 426 bn), IPO (Rs 217 bn) and OFS (Rs 314 bn).
- India's forex reserves came in at $729 bn, a record high, led by FCNR (B) deposit scheme. INR appreciated by 0.2% in August, with a one year depreciation now at 7.3%.
- India CPI (consumer price index) remained unchanged at 4.4% (YoY) in July (4.4% in June). Core-Core inflation (i.e. inflation ex petrol and diesel ex precious metals) marginally inched up to 2.6% (YoY) from 2.5% (YoY) in June.
- Industrial production growth (IIP) in July was at 6.7% compared to 8.8% (YoY) in June.
- Gross GST revenue collection was Rs 2 tn in August 2026, up 14.8% (YoY). The strong growth was despite rationalization of GST rates from 22nd Sep 2025.
- RBI maintained the Repo rate at 5.25% (unchanged) in its latest policy.
- For India as a whole, cumulative rainfall 14% below long-period average at the end of August 2026. However, spatial distribution remains uneven with ~46% of districts classified as deficient or largely deficient.

Valuations

Nifty consensus EPS estimate for CY26/27 were largely unchanged in August 2026 as per Bloomberg. Accordingly, Nifty now trades at 18.1x 1-year forward PE. This is now at a 7% discount to its 5-year average and 4% discount with its 10-year average.

Macro View

2Q GDP growth came in strong at 7.8% (YoY). The strong growth is the result of: (i) Cyclical recovery that has taken place from 2H25, (ii) strength of several high-frequency indicators (auto, earnings, credit) and (iii) strong rebound in exports, backed by sharp depreciation of the currency, lower tariffs and various ongoing BTA/ FTA with countries. With stable fiscal deficit, government capex and infra spending should remain strong. 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 and more earnings beat than misses over consensus estimates. Nifty valuations are now trading below 10-year average. We remain constructive on Indian equities on a longer-term basis. Amid global uncertainty, corporate earnings growth is likely to be the driver of market returns in the near-term.

Key Drivers For Future

On the headwinds, we have

Rising global yields are likely to remain a headwind going forward. With growth remaining broadly resilient in India, rate hikes will depend on US rate hike cycle and if inflationary pressures remain persistent domestically.

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 2026-27.

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 had 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, Axis Capital & HSBC MF estimates as on August 2026 end or as latest available.