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# MARKET REVIEW

July 2026

## Macroeconomic Update

Jul'26 saw renewed escalation of conflict in West Asia, disrupting energy supply chains which led to higher crude oil prices. US GDP growth slowed to 1.5% in Q2CY26 from 2.1% in Q1CY26. While higher imports weighed on headline growth, underlying domestic demand remained resilient, supported by strong consumption and investment activity. Moreover, labour markets in US continue to show resilience with stable unemployment rate. The Eurozone recorded its strongest expansion in manufacturing PMI in recent months; however, the improvement was largely driven by the clearance of existing order backlogs rather than a meaningful pickup in fresh demand. Meanwhile, China's manufacturing sector slipped back into contraction territory as weakening demand continued to weigh on activity.

US CPI inflation moderated in Jun'26 with fall in both headline and core inflation. The FOMC kept its policy rate unchanged at 3.5%-3.75%, in its July 2026 meeting with three dissenters voting for 25 bp of rate hike. Other major central banks like ECB, BoJ and BoE also kept policy rates unchanged in their July 2026 meeting.

**Economic activity in India remained resilient in July 2026:** The high frequency indicators for July suggest that economic activity continue to hold up well. Vehicle registrations and power demand recorded another month of strong growth, along with pick-up in GST collections. Manufacturing and services PMI moderated in July 2026 compared to June 2026 but remain in expansion zone.

| Indicators | Units | Dec-25 | Jan-26 | Feb-26 | Mar-26 | Apr-26 | May-26 | Jun-26 | Jul-26 |
|---|---|---|---|---|---|---|---|---|---|
| Retail registration - Auto@ | | | | | | | | | |
| 2W | YoY, % | 10.8 | 20.9 | 25.5 | 28.6 | 13.7 | 8.4 | 22.0 | 23.0 |
| PV | | 20.7 | 9.0 | 29.0 | 27.9 | 13.6 | 28.1 | 33.2 | 16.1 |
| MHCV | | 27.9 | 14.4 | 35.6 | 20.2 | 11.4 | 5.6 | 15.5 | 15.2 |
| LCV | | 26.1 | 6.5 | 32.3 | 20.6 | 19.7 | 16.4 | 30.6 | 17.3 |
| Tractors | | 10.8 | 20.9 | 25.5 | 28.6 | 13.7 | 8.4 | 22.0 | 23.0 |
| Gross GST collection (ex of cess) * | | 6.1 | 6.2 | 8.1 | 8.8 | 8.7 | 3.2 | 13.9 | 15.4 |
| Average E-Way bill generated | | 23.5 | 15.8 | 18.8 | 12.9 | 11.8 | 10.9 | 14.5 | N.A. |
| Power demand | | 6.1 | 3.9 | 4.9 | 0.7 | 4.4 | 11.0 | 10.9 | 11.1 |
| Digital Spending (UPI + IMPS) | | 18.2 | 18.7 | 20.6 | 17.4 | 19.5 | 16.8 | 18.5 | 17.8 |
| Railway Freight Tonnage | | 3.2 | 2.9 | 3.2 | 1.1 | -2.8 | 0.6 | 2.9 | 9.1 |
| Manufacturing PMI^ | Index | 55.0 | 55.4 | 56.9 | 53.9 | 54.7 | 55.0 | 54.2 | 53.5 |
| Services PMI^ | Index | 58.0 | 58.5 | 58.1 | 57.5 | 58.8 | 59.8 | 57.4 | 53.3 |
| Unemployment ** | % | 6.9 | 6.9 | 6.7 | 6.6 | 6.7 | 6.9 | 6.6 | 6.2 |

Source: www.gstn.org.in, www.icegate.gov.in, CMIE, PIB, RBI, www.vaahan.parivahan.gov.in, www.posoco.in
*GST collections for the month is for economic activity in the previous month. ^Number >50 reflects expansions and number <50 reflects contraction compared to previous month. @ - figures are preliminary data and are subject to revision. ** based on CMIE survey

Going forward, growth is likely to remain steady on the back of sustained demand momentum. A likely deal between US & Iran and resultant restoration of supply chains will also be positive from growth perspective. However, prospects of lower-than-expected south-west monsoon, and flare up in geo-political tensions remain key risks for growth this year.

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# Macroeconomic Update (contd...)

**Government expenditure growth on a strong footing:** Total Government expenditure has grown by 11% YoY in 3MFY27 driven by robust capex growth. On tax collections front, while direct tax collections have been strong led by corporate taxes, indirect tax collections have contracted due to reduction in GST and excise duty rates. Fiscal deficit (as % of budgeted) during the first 3 months of this fiscal has been similar to same period last year. Fall in fertilizer and crude oil prices bode well from fiscal deficit perspective and any minor shortfall in tax revenue can be met through economic stabilisation fund and/or expenditure rationalisation. There is also a likelihood of disinvestment receipts exceeding budget estimates, which could be used to cover any shortfall in tax revenue.

| FY ending, in billion (Rs) | 3MFY26 | 3MFY27 | YoY growth |
|---|---|---|---|
| Gross tax revenue | 8,690 | 9,009 | 3.7 |
| Direct Tax Collections | 4,586 | 5,122 | 11.7 |
| Indirect Tax collections | 3,962 | 3,664 | -7.5 |
| Less: Share of states & others | 3,287 | 2,643 | -19.6 |
| Net Tax collections | 5,403 | 6,366 | 17.8 |
| Non-tax revenues | 3,731 | 3,777 | 1.2 |
| Total Revenue receipts | 9,134 | 10,142 | 11.0 |
| Total Capital receipts | 280 | 350 | 24.9 |
| **Total Receipts** | **9,414** | **10,492** | **11.5** |
| Total Revenue Expenditure | 9,470 | 10,168 | 7.4 |
| Total Capital Expenditure | 2,751 | 3,403 | 23.7 |
| **Total Expenditure** | **12,221** | **13,571** | **11.0** |
| | | | |
| Fiscal Deficit | 2,807 | 3,078 | 9.7 |
| Fiscal deficit (% of BE) | 17.9% | 18.2% | |
| Fiscal deficit (% of GDP) | 0.8% | 0.8% | |

Source: CMIE Note: YoY: Year on year growth

**CPI inflation picked up in June 2026:** CPI inflation rose in June on the back of rise in food and fuel prices. However, core inflation (ex-food and fuel) was steady at 3.9%. Core inflation excluding precious metals rose by 10bps to 2.2% due to rise in various goods and services prices but remains subdued.

Going forward, inflation is likely to inch up in FY27 on adverse base effect, and a prospect of a below normal monsoon but is likely to be within the RBI's tolerance band. The geo-political situation and monsoon progress remains key monitorable from an inflation perspective.

| YoY, | May-26 (%) | Jun-26 (%) | Change in % |
|---|---|---|---|
| CPI | 3.9 | 4.4 | 0.5 |
| Food & beverages | 4.5 | 5.1 | 0.6 |
| Electricity, gas and other fuels | 0.8 | 1.8 | 1.0 |
| House rent | 2.0 | 2.0 | 0.0 |
| Transportation | 1.8 | 4.3 | 2.6 |
| Core-Core CPI@ | 2.1 | 2.2 | 0.1 |

Source: CMIE; @-CPI excluding Food, Fuel & light, Food services, Petrol, Diesel, Gold and Silver

**Trade deficit inches up in June 2026:** Trade deficit rose in June 2026 due to rise in Non-Oil Non-Gold (NONG) imports even as net gold imports fell and net oil imports rose only marginally during the month. Higher NONG imports in turn were driven by significant jump in electronics imports. Notably, merchandise exports have registered a growth of 16.1% YoY in Q1FY27 compared to growth of 1.4% YoY during same period last year. Going forward, upward pressure on trade deficit is likely to ease on back of healthy merchandise exports growth and a likely truce between US and Iran and resultant fall in crude and other commodity prices. Moreover, healthy growth in services exports will help keep CAD within manageable levels.

| Amount in USD billion | May-26 | Jun-26 | Change |
|---|---|---|---|
| Trade Deficit / (Surplus) | 28.2 | 30.4 | 2.2 |
| Net Oil Imports | 14.3 | 14.5 | 0.2 |
| Net Gold Imports | 2.1 | 0.9 | -1.3 |
| NONG net imports | 11.9 | 15.1 | 3.3 |

Source: CMIE. NONG refers to Non-Oil Non-Gold

**Commodity prices increased in Jul 2026:** As tensions in West Asia escalated following a brief period of relative calm, crude oil prices surged to USD 90/bbl. Industrial metals exhibited mixed trends, with steel prices declining, while zinc, copper, and aluminum prices registering gains.

| | Market price (USD)* | Jul-26 (%)^ | FY27TD (%)& |
|---|---|---|---|
| Brent Crude (per barrel) | 90 | 23.6 | -23.9 |
| Gold (per ounce) | 4,046 | 1.0 | -13.3 |
| Steel (per tonne) | 483 | -1.4 | 0.6 |
| Zinc (per tonne) | 3,709 | 3.8 | 15.2 |
| Copper (per tonne) | 13,834 | 3.7 | 13.8 |
| Aluminium (per tonne) | 3,217 | 4.8 | -8.6 |
| Lead (per tonne) | 1,852 | 0.4 | -1.6 |

Source: Bloomberg; *Market prices as on June 30, 2026, ^MoM change, & Change in FY27TD

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# Macroeconomic Update (contd...)

**Summary and Conclusion:**

The month of July 2026 saw resumption in hostilities between US and Iran testing the fragile truce and sending crude prices higher as traffic through Strait of Hormuz was disrupted. However, both sides have indicated that a deal could be reached which has resulted in crude prices falling from their peak. Growth in the US so far has held up well on the back of AI/tech related capex and higher consumer spending. Recent data also point towards resilient labour markets conditions in US. Growth in China is following a two-speed path where domestic consumption, investments and property markets are in a slow lane, but exports and manufacturing are holding up well.

Contrary to expectations, growth in India held up remarkably well despite disruptions caused by West Asia crisis. High frequency indicators have steadily improved over the last few months with rural demand continuing to hold up well and urban demand too showing signs of uptick. Inflation remains well anchored and though it's expected to rise from here on due to adverse base effects and deficient monsoon, it's unlikely to increase significantly. RBI has projected an average inflation of 5% in FY27 with risks evenly balanced.

Looking ahead, the medium-term outlook for the Indian economy seems optimistic, in our view. This optimism is driven by steps taken by RBI and Government, opportunities arising from shift in the global supply chain, momentum of private consumption sustaining due to income tax relief and lower borrowing cost and improving corporate profitability. However, flare up in geo-political tensions and significantly below normal monsoon remain key risks to growth this year.

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# Debt Market Update

Re-escalation of conflict between US and Iran and resultant disruption to energy supply chains kept fixed markets under pressure during the month of July 2026. Yields on both 10-year G-sec and 10-year AAA corporate bonds rose by ~9bps during the month keeping spread between the two unchanged at 61bps. Key events which influenced yields during the month were resumption of hostilities between US and Iran, robust flows under RBI's Fx swap measures, deferment of decision to include Indian bonds in Global Aggregate Bond Index by Bloomberg and Federal Open market Committee (FOMC) decision to hold rates while sounding slightly hawkish. The table below gives a summary view of the movement of key rates and liquidity:

| | Jun-26 | Jul-26 | Change (in bps) |
|---|---|---|---|
| MIBOR Overnight Rate (%) | 5.50 | 5.41 | -0.09 |
| 3M Gsec yield (%) | 5.25 | 5.34 | 0.09 |
| 10Yr Benchmark G-Sec Yield^ (%) | 6.75 | 6.84 | 0.09 |
| AAA 10Year Corporate Bond Yields#, & (%) | 7.36 | 7.45 | 0.09 |
| AAA 10Y Corporate bond spread against 10Y benchmark@ (bps) | 61 | 61 | - |
| Average net liquidity absorbed/infused by RBI* (INR billion) | 785 | 1,074 | |

^-bi-annual yield; #-annualised yield; & - Average yield of 10-year NABARD paper provided by independent valuation agencies has been taken. @ - Spreads calculated by subtracting non-annualised Gsec yields from annualised corporate bond yields.
*Average net daily liquidity infused / absorbed through Liquidity Adjustment Facility, exports refinance, marginal standing facility and term repos/reverse repos.
Source: Bloomberg, RBI

Average net liquidity surplus rose to ~1 trillion in July compared to surplus of ~INR 785 billion in June driven by (1) month end Government spending, (2) G-sec buy backs, and (3) Fx inflows due to measures announced by RBI.

In the debt market, FPIs ended the month with net buying of USD 3.1 billion in July 2026 (June 2026 net buy: USD 5.6 billion). The flows in the past two months were primarily driven by steps announced by RBI and Government to attract capital flows in June 2026.

**Outlook**

**Fixed income market outlook**

The RBI kept policy rates unchanged in its latest policy which was on expected lines. The fixed income markets had rallied before the policy announcement on the back of the constructive news on a potential deal between US and Iran and resultant fall in crude oil prices and easing of US treasury yields.

Going into the policy, the response to recent measures by the Government and the RBI to attract capital flow has been quite encouraging. Since the measures were announced in June, inflows under the Foreign Currency Non-Resident (Banks) FCNR(B) deposit scheme have been significantly stronger than expected, and FPI participation has turned positive, led primarily by the debt segment. With two months still left for the FCNR(B) scheme, we remain optimistic that inflows will likely exceed market expectations. While the non-inclusion of G-secs in the Bloomberg indices was a temporary setback, the prospects for inclusion remain strong.

Going forward, while the geo-political uncertainty persists, we believe outlook on Indian fixed income market is positive as:

- Inflation is likely to remain within the tolerance band despite adverse base effects and prospect of below normal monsoon which reduces risk of rise in policy rates. Moreover, as highlighted in the policy there is no evidence of inflation getting generalized beyond food and fuel.
- Measures to attract capital flows should help ease pressure on INR, improve liquidity and moderate credit to deposit ratio of banks
- Fall in oil prices also bode well from inflation, CAD and BoP perspective
- Liquidity is likely to be in surplus in the coming months in view of likely increased foreign flows due to steps taken by the RBI
- Supply and demand dynamics for SLR is favourably placed in view of likely revival of demand from Banks (due to lower SLR holding) and Pension funds
- Risk of fiscal slippage has diminished due to fall in crude oil and fertilizer prices

# Debt Market Update (contd...)

**Key risks to the favourable outlook:**

- Elongation of conflict in West Asia leading to disruption of supply chain and significant and sustained rise in crude oil prices
- El Nino conditions in FY27 leading to large deficiency in southwest monsoon and uptick in food and overall inflation

Overall, the combination of stable growth–inflation dynamics, a strengthening external sector, and a positive outlook for foreign flows and liquidity - bodes well for fixed income markets from a medium to long-term perspective. Given current corporate bond yields and expectations of supportive liquidity conditions, we anticipate a softening of yields over time. Additionally, with the G-sec yield curve remaining steep, the long end appears well positioned, one can consider increasing allocations to long-duration debt funds in line with individual risk appetite.

# Equity Market Update

The month of July 2026 witnessed broad based rally for Indian equity markets with FIIs turning net buyers of Indian equities after four months. While Nifty 50 Index/Sensex Index rallied by 2.2%/2.1% respectively, small caps and midcaps ended with gain of 2.5% and 1.8%. While IT, Autos and healthcare outperformed during the month, Cap goods, Power, and Banks underperformed.

Global equity market performance was mixed during the month. Below are detailed tables outlining the performance of key domestic and global indices:

| % Change in Indices | Jul-26 | FY27TD |
|---|---|---|
| BSE Information Technology | 14.7 | 5.6 |
| BSE Auto | 8.0 | 20.2 |
| BSE Healthcare | 3.0 | 21.6 |
| BSE Metal | 1.8 | 11.2 |
| BSE Oil & Gas | 1.7 | 3.6 |
| BSE Fast Moving Consumer Goods | 0.7 | 9.2 |
| BSE Bankex | -0.2 | 14.8 |
| BSE Power | -5.3 | 14.9 |
| BSE Capital Goods | -5.4 | 19.9 |
| | | |
| **NIFTY Smallcap 100** | 2.5 | 27.2 |
| **BSE Nifty 50 Index** | 2.2 | 9.2 |
| **NSE Sensex** | 2.1 | 8.5 |
| **NIFTY Midcap 100** | 1.8 | 19.5 |

| % Change^ | Jul-26 | FY27TD |
|---|---|---|
| Hang Seng | 13.1 | 4.4 |
| FTSE 100 | 5.2 | 8.8 |
| DAX | 3.5 | 12.8 |
| CAC 40 | 2.2 | 8.6 |
| S&P 500 | -0.1 | 14.7 |
| NASDAQ Composite | -3.2 | 17.5 |
| MSCI Emerging Markets | -3.3 | 19.2 |
| Shanghai Composite | -5.9 | 0.6 |
| Nikkei 225 | -6.2 | 25.7 |
| KOSPI | -16.2 | 37.6 |

Source: Bloomberg. ^Returns in USD

FIIs bought net equities worth USD 2.4 billion in July 2026 (June 2026: Net sold USD 3.1 billion) and have cumulatively sold equity worth USD 10.8billion in 4MFY27 (4MFY26: Net bought USD 2.5 billion).

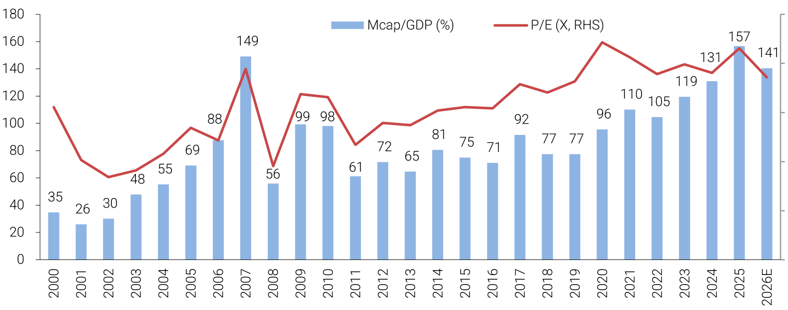
DIIs bought net equity worth USD 3.7 billion in July 2026 (June 2026: USD 9 billion) and have cumulatively bought USD 26.8 billion in 4MFY27 (4MFY26: USD 26.8 billion). Net flows into Mutual funds were ~INR 33,230 crore in June 2026 (May 2026: ~INR 25,825 crore & June 2025: ~INR 28,170 crore) cumulatively amounted to ~INR 102,407 crore in 3MFY27 (3MFY26: ~INR 75,964 crore).

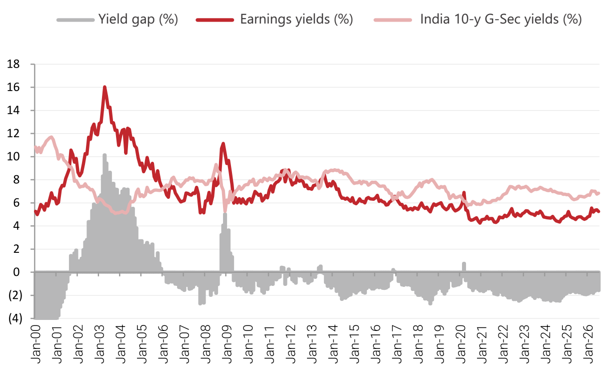
## Outlook

As on July 31, 2026, NIFTY 50 Index was trading at ~18.59x one year forward price to earnings multiple. Further, Market cap-to-GDP stood ~141% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield has widened recently [*Earnings yield = 1/ (one year forward P/E)*].

Chart 1

Chart 2




Source: Kotak Institutional Equities; Market cap is as of July 31, 2026

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# Equity Market Update (contd...)

As of July 31, 2026, the valuations of all sectors except FMCG, Private Banks and Tech are trading at a premium to historical average (refer to the table below for details):

| | 12 months forward Price To Earnings | | |
|---|---|---|---|
| | **31-Jul-26** | **LTA** | **Discount / Premium^** |
| Industrials | 36.2 | 27.8 | 30.2 |
| Pharma | 31.0 | 24.7 | 25.7 |
| Utilities | 14.6 | 11.8 | 23.8 |
| Cement | 39.1 | 31.9 | 22.4 |
| PSU banks @ | 1.2 | 1.1 | 11.0 |
| Automobiles | 22.9 | 21.0 | 9.4 |
| Consumer Discretionary | 68.3 | 63.3 | 7.8 |
| Energy | 13.7 | 13.0 | 5.4 |
| Metals | 11.6 | 11.3 | 2.9 |
| FMCG | 33.4 | 36.7 | -8.9 |
| Pvt Banks @ | 1.9 | 2.5 | -23.6 |
| Tech | 15.7 | 21.2 | -25.7 |

Source: Kotak Institutional Equities. Stocks are part of Kotak Institutional Equities universe.
LTA – 10 Years average. Cells in green are sectors which are trading at premium. All figures are calculated based on 12 months forward estimates.
^to Long term (LT) average, @-Price to Book value

Given the global uncertainties and aggregate valuation being higher than historical average, the importance of stock selection increases even more.

Over medium to long term, we remain optimistic on Indian equities considering key trade deals, attractive domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies like income tax and GST relief to consumers. However, near-term risks include risk of flare up in geo-political tensions and cyclical moderation in corporate earnings.

## Glossary

| | |
|---|---|
| AE | Advanced Economies |
| BoE | Bank of England |
| BoJ | Bank of Japan |
| BoP | Balance of Payment |
| bps | Basis points |
| CAGR | Compound Annual Growth Rate |
| CMIE | Centre for Monitoring Indian Economy |
| CPI | Consumer Price Index |
| CRR | Cash Reserve Ratio |
| CV | Commercial Vehicle |
| DIIs | Domestic Institutional Investors |
| EA | Euro Area |
| ECB | European Central Bank |
| FOMC | Federal Open Market Committee |
| FPI | Foreign Portfolio Investment |
| GDP | Gross Domestic Product |
| GFCE | Government Final Consumption Expenditure |
| GST | Goods and Services Tax |
| GVA | Gross Value Added |
| IMD | India Meteorological Department |
| INR | Indian Rupee |
| IMF | International Monetary Fund |
| IMPS | Immediate Payment System |
| JGB | Japanese Government Bonds |
| LCV | Light Commercial Vehicle |
| Mbpd | Million Barrels Per Day |

| | |
|---|---|
| MHCV | Medium and Heavy Commercial Vehicle |
| MIBOR | Mumbai Interbank Offered Rate |
| M-o-M | Month on Month |
| MPC | Monetary Policy Committee |
| MSP | Minimum Support Prices |
| NABARD | National Bank for Agriculture and Rural Development |
| NBFC | Non-Banking Financial Company |
| NFP | Non-Farm Payroll |
| NONG | Non-Oil Non-Gold |
| NSO | National Statistical Orgnization |
| OMO | Open Market Operation |
| PIB | Press Information Bureau |
| PLI | Production Linked Incentive |
| PMI | Purchasing Managers' Index |
| PPI | Producer Price Index |
| PSU | Public Sector Undertaking |
| PV | Passenger Vehicle |
| RBI | Reserve bank of India |
| RE | Revised Estimates |
| RRR | Reserve Ratio Requirement (for banks in China) |
| SLR | Statutory Liquidity Ratio |
| UPI | United Payments Interface |
| US | United States of America |
| USD | United States Dollar |
| UST | US Treasuries |
| YoY | Year on Year |