MARKET REVIEW

August 2026

Macroeconomic Update

The geo-political deadlock in West Asia persisted through the month of August 2026 resulting in rise in crude oil and other commodity prices and stoking concerns of higher inflation going forward. This coupled with elevated public debt led to significant rise in long end bond yields across the AEs. Moreover, global weather and international agencies raised concerns over EL Nino, officially upgrading the ongoing climate pattern to a 'Super El Niño'. US Labour markets continue to remain stable with 1.05 job openings for every unemployed person. This along with buoyant asset market and AI driven capex are supporting growth momentum in the US. While Eurozone manufacturing PMI was recorded at 51 months high in August, a significant divide persists among member states, with countries like Italy, Spain, and Poland experiencing a continued slowdown. Chinese manufacturing PMI, despite some improvement, remains in contraction territory, while its services slump continues due to tepid domestic demand. However, its exports remained robust.

With US inflation running above the 2% target, Federal Reserve Governor Kevin Warsh's hawkish speech at the annual Jackson Hole Symposium has brought forward the timeline of rate hike by the US Fed. Further, other major central banks remained in wait and watch mode too with Bank of Japan expected to raise rates as inflation remained resilient in the near term.

India Q1FY27 GDP growth was higher than expectations: India's GDP growth was recorded at 7.8% YoY in Q1FY27 (Q4FY26: 8.6%) which was above consensus expectations and higher than RBI's forecast of 7%. The growth remained resilient despite West Asia crisis. The growth in Q1 was driven by robust investment demand on the expenditure side while on the supply side it was driven by manufacturing and services sector. Within services sector, Trade, Hotel, Transport etc. slowed down in Q1FY27 compared to Q4FY26 possibly due to impact of West Asia crisis.

Notably, nominal GDP grew at a modest rate of 10.3% YoY despite high CPI (3.9%) and WPI (9.3%). This was because the new GDP series uses a double deflation method where inputs and output prices are deflated using different price indices unlike in the old series where input and output was deflated using a single price index. Therefore, as in this quarter input prices rose faster than the output prices, the overall deflator got suppressed.

YoY change (%)	Q4FY26	Q1FY27	YoY change (%)	Q4FY26	Q1FY27
GDP	8.6	7.8	**GVA**	8.7	8.2
Private Consumption	7.5	7.1	Agriculture, Forestry and Fishing	3.9	3.6
Government Consumption	7.7	4.3	Industry	7.1	7.7
Gross Capital formation	11.3	10.1	Manufacturing	7.9	9.2
Gross Fixed Capital formation	10.5	11.9	Construction	8.7	7.7
			Services	11.5	10.0
Exports	3.9	12.0	Trade, Hotels, Transport, etc.	12.9	8.5
Imports	0.8	-1.1	PADO	8.0	7.5

Source- Ministry of Statistics and Program Implementation (MoSPI). PADO refers to Public Administration, Defence & Other Services

Economic activity continues to hold up well: The high frequency indicators for August suggest that economic activity continue to hold up well. Vehicle registrations (except tractors) and power demand recorded another month of strong growth, along with strong GST collections and pick up in Services PMI. While Manufacturing PMI, which has been trending lower, moderated further in August but remained in expansion zone.

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Macroeconomic Update (contd...)

Indicators	Units	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Retail registration - Auto@									
2W	YoY, %	20.9	25.5	28.6	13.7	8.4	22.0	29.0	19.6
PV		9.0	29.0	27.9	13.6	28.1	33.2	22.5	15.4
MHCV		14.4	35.6	20.2	11.4	5.6	15.5	22.1	12.7
LCV		6.5	32.3	20.6	19.7	16.4	30.6	28.3	17.7
Tractors		20.9	25.5	28.6	13.7	8.4	22.0	31.9	0.9
Gross GST collection (ex of cess) *		6.2	8.1	8.8	8.7	3.2	13.9	15.4	14.8
Average E-Way bill generated		15.8	18.8	12.9	11.8	10.9	14.5	6.0	NA
Power demand		3.9	4.9	0.7	4.4	11.0	10.9	11.1	12.4
Digital Spending (UPI + IMPS)		18.7	20.6	17.4	19.5	16.8	18.5	17.8	19.6
Railway Freight Tonnage		2.9	3.2	1.1	-2.8	0.6	2.9	9.1	5.2
Manufacturing PMI^	Index	55.4	56.9	53.9	54.7	55.0	54.2	53.5	52.8
Services PMI^	Index	58.5	58.1	57.5	58.8	59.8	57.4	53.3	54.1
Unemployment **	%	6.9	6.7	6.6	6.7	6.9	6.6	6.0	6.1

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. However, prospects of lower-than-expected south-west monsoon, and continued geo-political tensions remain key risks for growth this year.

Government expenditure growth on a strong footing: Fiscal deficit (as % of budgeted) during the first 4 months of this fiscal has been ~27% compared to ~30% during the same period last year. On tax collections front, while direct tax collections have been strong led by both corporate and income taxes, indirect tax collections have contracted due to reduction in GST and excise duty rates. Lower transfer to state governments has aided in keeping the deficit lower than last year. Total Government expenditure has grown by 12.7% YoY in 4MFY27 driven by robust capex growth which is up 30% YoY.

Robust direct tax collections, significant fall in fertilizer prices from their peak and economic stabilization fund reduces risk of fiscal slippage this year. 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)	4MFY26	4MFY27	YoY growth
Gross tax revenue	10,929	12,180	11.4
Direct Tax Collections	5,539	6,816	23.1
Indirect Tax collections	5,194	5,052	-2.7
Less: Share of states & others	4,311	3,735	-13.4
Net Tax collections	6,618	8,446	27.6
Non-tax revenues	4,036	4,230	4.8
Total Revenue receipts	10,654	12,676	19.0
Total Capital receipts	298	391	31.4
Total Receipts	**10,952**	**13,067**	**19.3**
Total Revenue Expenditure	12,167	13,112	7.8
Total Capital Expenditure	3,469	4,506	29.9
Total Expenditure	**15,636**	**17,619**	**12.7**
Fiscal Deficit	4,684	4,551	-2.8
Fiscal deficit (% of BE)	29.9%	26.8%	
Fiscal deficit (% of GDP)	1.4%	1.2%	

Source: CMIE Note: YoY: Year on year growth

CPI inflation in July remained broadly similar to June: CPI inflation was recorded at ~4.4% in June, broadly similar to the level seen in June 2026. Core-Core inflation (core inflation ex of precious metals) rose 10bps to 2.3% 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,	Jun-26 (%)	Jul-26 (%)	Change in %
CPI	4.4	4.4	0.0
Food & beverages	5.1	5.2	0.1
Electricity, gas and other fuels	1.7	2.0	0.3
House rent	2.0	2.1	0.1
Transportation	4.3	4.4	0.1
Core-Core CPI@	2.2	2.3	0.1

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

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Macroeconomic Update (contd...)

Current Account Deficit (CAD) remained benign in Q1FY27: Despite West Asia crisis, India's CAD remained low at 0.5% of GDP driven by services surplus and higher remittances flows even as goods trade deficit widened. Balance of Payments (BoP) deficit however widened compared to both Q4FY26 and Q1FY26 due to capital outflows. Going forward, CAD is likely to widen in FY27 compared to FY26 but is likely to remain manageable. Moreover, India's capital account will get a boost from higher-than-expected dollar flows under RBI's concessional swap window. This is likely to result in BoP remains in large surplus in FY27.

Trade deficit increased in Jul 2026: Trade deficit rose marginally in July 2026 due to rise in Gold and Non-Oil Non-Gold (NONG) imports even as net oil imports decreased during the month. Higher NONG imports in turn were driven by significant jump in electronics and machinery imports. Notably, merchandise exports have registered a growth of 17% YoY in 4MFY27 compared to growth of 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. However, given the elevated oil prices and rising transportation cost, net oil imports can weigh on trade deficit. However, healthy growth in services exports will help keep CAD within manageable levels.

Commodity prices increased in Aug 2026: As tensions in West Asia persisted in August, crude oil prices remained elevated at USD ~90/bbl. Prices of both industrial and precious metals also increased during the month.

India's external situation (USD billion)	Q4FY26	Q1FY27	Change
Trade surplus/(deficit)	83.4	86.1	2.7
Net oil Imports	26	37	11
Net gold Imports	25	8	-18
NONG net imports	32	41	9
Invisibles surplus/(deficit)	89.9	81.8	-8.0
Current Account Deficit (CAD)	**6.5**	**-4.2**	**-10.7**
As % of GDP	*0.6%*	*-0.5%*	
Capital Account surplus/(deficit)	**-0.1**	**-5.5**	**-5.4**
FDI	4.5	6.1	1.6
FPI	-13.6	-9.6	4.0
Loans	1.3	5.0	3.7
Banking capital	5.4	2.8	-2.6
Others	2.2	-9.8	-12.0
BoP overall balance	**7.2**	**-8.1**	**-15.3**

Source: CMIE. RBI

Amount in USD billion	Jun-26	Jul-26	Change
Trade Deficit / (Surplus)	30.4	32.0	1.5
Net Oil Imports	14.5	11.4	-3.1
Net Gold Imports	0.9	3.8	2.9
NONG net imports	15.1	16.8	1.7

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

	Market price (USD)*	Aug-26 (%)^	FY27TD (%)&
Brent Crude (per barrel)	90	0.4	-23.5
Gold (per ounce)	4,437	9.7	-4.9
Steel (per tonne)	5.3	4.1	4.8
Zinc (per tonne)	4,084	10.1	26.8
Copper (per tonne)	14,535	5.1	19.5
Aluminium (per tonne)	3,234	0.5	-8.1
Lead (per tonne)	1,880	1.5	-0.1

Source: Bloomberg; *Market prices as on August 31, 2026, ^MoM change, & Change in FY27TD

Summary and Conclusion:

Growth in the US so far has held up well on the back of AI/tech related capex, strong Government spending, resilient labour markets and buoyant household wealth. 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. The geo-political tensions in West Asia continued through the month of August and risk of it getting prolonged remains high. This is likely to adversely impact global growth and push inflation higher.

Contrary to expectations, growth in India held up remarkably well despite disruptions caused by West Asia crisis as reflected in latest GDP data for Q1FY27. High frequency indicators also continue to hold up well with resilient rural demand and urban demand showing signs of uptick. Inflation remains well anchored and though it's expected to rise from here due to adverse base effect and deficient monsoon. RBI has projected an average inflation of 5% in FY27 with risks evenly balanced. With buoyant FCNR (B) flows, external sector is likely to remain well supported.

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 tax relief and lower borrowing cost and improving corporate profitability. However, elongation of geo-political conflicts and significantly below normal monsoon remain key risks to growth this year.

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Debt Market Update

The 10-year G-sec yields fell during the first half of the month following dovish RBI monetary policy and robust capital inflows under RBI's concessional swap window. However, with hawkish RBI MPC minutes and preponement of closure of the concessional swap window to 31st Aug 2026 instead of the original timeline of 30th September 2026 resulted in Gsec selling off. Persistent geo-political tension keeping crude prices elevated also pushed yields higher in second half of the month. Consequently, 10-year G-sec yield ended the month with ~11bps higher over the last month closing. Yield on 10-year AAA corporate bonds registered much sharper increase of ~28bps resulting in spread between 10-year G-sec and 10-year AAA widening by ~17bps.

Other key events which influenced yields during the month were: (1) robust dollar flows under RBI's concessional swap window, (2) rise in long end bond yields across the developed world and, (3) a relatively hawkish speech by Fed chair Kevin Warsh during the Jackson Hole meeting. The table below gives a summary view of the movement of key rates and liquidity:

	Jul-26	Aug-26	Change (in bps)
MIBOR Overnight Rate (%)	5.41	5.24	-0.17
3M Gsec yield (%)	5.34	5.26	-0.08
10Yr Benchmark G-Sec Yield^ (%)	6.84	6.95	0.11
AAA 10Year Corporate Bond Yields#, & (%)	7.45	7.73	0.28
AAA 10Y Corporate bond spread against 10Y benchmark@ (bps)	61	78	17
Average net liquidity absorbed/infused by RBI* (INR billion)	1,074	3,654	

^-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 INR ~3.6 trillion in August from ~INR 1 trillion in July driven mainly by robust Fx inflows under the measures announced by RBI. According to the RBI data, banks have mobilised USD 127 billion under the FCNR (B) scheme as of Aug 31, 2026, which is significantly higher than market expectations. Moreover, mobilisation under OFCB and ECBs stand at USD 5.3 billion and USD 3.9 billion respectively taking the total mobilisation under RBI's concessional swap window to USD 136 billion.
In the debt market, FPIs ended the month with net selling of USD 282 million in August 2026 (July 2026 net buy: USD 3.1 billion).

Outlook

Fixed income market outlook
Over the past month, Indian fixed income markets have witnessed a meaningful sell-off driven by strengthening of market expectations of RBI rate hikes following the MPC's minutes hawkish tone. Post the minutes, market started factoring in policy rate normalisation to start sooner than expected especially given inflation is expected to firm up from Q3FY27 owing to adverse base effects, strong growth pushing core inflation higher, emerging input-price pressures, and the risk of food inflation amid El Niño-linked crop disruptions. This was further exacerbated by challenging global conditions in view of increased probability of further tightening by the US Federal Reserve and the Bank of Japan and rise in global sovereign yields. Elevated geopolitical risks are likely to keep crude and other commodity prices high, potentially widening India's trade deficit and exerting some pressure on the currency.

On the other hand, there are a few elements which provided some restraint on yields. Moreover, higher-than-budgeted divestment receipts and strong direct tax collections have reduced risk of fiscal slippage. Large FCNR(B) inflows have eased concerns regarding India's balance of payments position and supported INR stability. Furthermore, the presence of substantial surplus liquidity is helping anchor the short- to mid-segment of the curve.

A significant part of the recent negative developments and impact of aforesaid factors appears already priced into current yield levels. The market has already corrected meaningfully from earlier lows, and prevailing yields—especially at the longer end—reflect much of the uncertainty. Thus, despite the dominance of upward pressures, we remain cautiously optimistic and do not expect any significant sell off from hereon and expect yield to move within a range from hereon. Our constructive bias is tempered by key risks: notably, crude oil prices remaining elevated for an extended period, or an unexpectedly aggressive tightening cycle by the US Federal Reserve, either of which could alter the trajectory for domestic yields.

From an investment standpoint, the substantial liquidity influx driven by FCNR(B) flows is likely to support selective segments, particularly corporate bonds. Investors may consider allocating to high-quality corporate bonds focussed funds with the duration of 2- to 4-year segment from a medium-term perspective. Additionally, given the elevated absolute yield levels on longer-duration G-secs, a calibrated increase in exposure to long-duration funds may be considered too, aligned with individual risk profiles from a medium- to long-term horizon.

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Equity Market Update

The month of August 2026 witnessed divergent trends for Indian equity markets. While Nifty 50/Sensex declined by 1.2%/1.5% respectively, small caps and midcaps ended with gain of 3.1% and 2.1% respectively. While Cap goods, Metals and Healthcare outperformed during the month, Oil and Gas, Power and FMCG underperformed.

Except for Hong Kong and French markets, global equity markets witnessed broad based rally during the month. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	Aug-26	FY27TD
BSE Capital Goods	2.9	23.4
BSE Metal	2.4	13.9
BSE Healthcare	1.5	23.4
BSE Auto	0.8	21.2
BSE Information Technology	0.7	6.4
BSE Bankex	0.4	15.2
BSE Oil & Gas	-2.1	1.5
BSE Power	-3.3	11.1
BSE Fast Moving Consumer Goods	-4.1	4.7
NIFTY Smallcap 100	3.1	31.1
NIFTY Midcap 100	2.1	22.0
BSE Nifty 50 Index	-1.2	7.8
NSE Sensex	-1.5	7.0

% Change^	Aug-26	FY27TD
KOSPI	8.8	49.6
Shanghai Composite	4.5	5.1
NASDAQ Composite	3.9	22.1
DAX	3.3	16.5
MSCI Emerging Markets	3.2	23.1
Nikkei 225	2.8	29.3
S&P 500	2.6	17.7
FTSE 100	0.1	8.9
Hang Seng	-1.2	3.2
CAC 40	-1.2	7.3

Source: Bloomberg. ^Returns in USD

FIIs bought net equities worth USD 2.4 billion in Aug 2026 (July 2026: Net bought USD 2.4 billion) and have cumulatively sold equity worth USD 8.4billion in 5MFY27 (5MFY26: Net sold USD 1.8 billion).

DIIs bought net equity worth USD 6.1 billion in Aug 2026 (July 2026: USD 3.7billion) and have cumulatively bought USD 32.9 billion in 5MFY27 (5MFY26: USD 37.6 billion). Net flows into Mutual funds were ~INR 27,690 crore in July 2026 (June 2026: ~INR 33,230 crore & July 2025: ~INR 50,853 crore) cumulatively amounted to ~INR 130,097 crore in 4MFY27 (4MFY26: ~INR 126,817 crore).

Outlook

As on July 31, 2026, NIFTY 50 Index was trading at ~18.08x one year forward price to earnings multiple. Further, Market cap-to-GDP stood ~142% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield has narrowed recently   [**Earnings yield = 1/ (one year forward P/E)*].

Chart 1

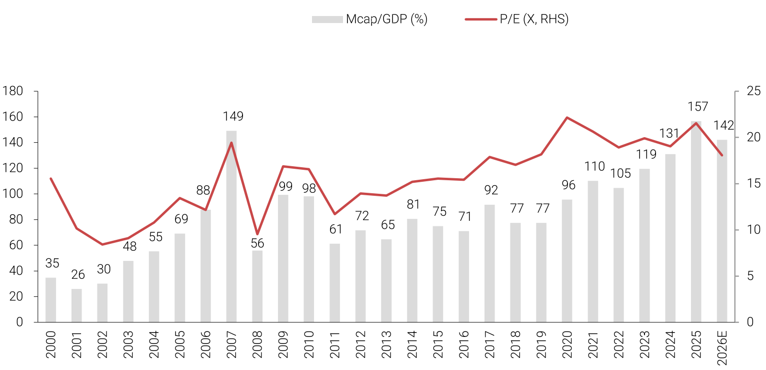
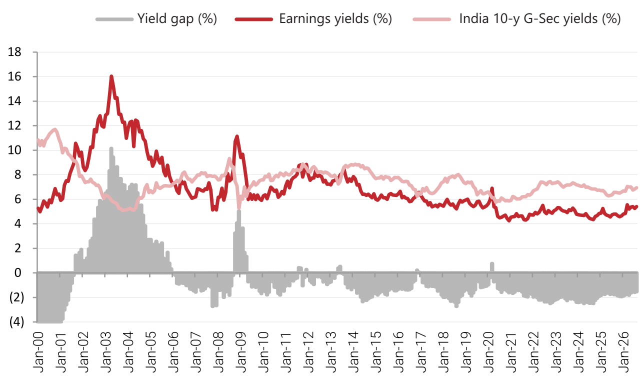


Chart 2



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

Equity Market Update (contd...)

As of August 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-Aug-26	**LTA**	**Discount / Premium^**
Industrials	36.0	27.9	28.9
Pharma	31.3	24.7	26.5
Cement	37.4	32.0	16.6
Utilities	13.6	11.8	15.1
PSU banks @	1.3	1.1	13.4
Automobiles	22.9	21.0	9.1
Consumer Discretionary	70.3	66.8	5.2
Metals	11.6	11.2	3.2
Energy	13.3	13.0	2.2
FMCG	31.8	36.7	-13.4
Pvt Banks @	1.9	2.5	-25.2
Tech	15.5	21.1	-26.6

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 fiscal and monetary policies. 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

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