

MARKET REVIEW

September 2026

Macroeconomic Update

The West Asia conflict entered its seventh month in September 2026 with no end in sight, pushing up crude oil prices and stoking fear of higher inflation. The bond yields rose further across the developed world with US 10-year G-sec yield crossing 5.3% during the month, its highest level since 2002. The repricing of US Fed rate outlook and strong growth led by AI is also pulling yields higher. El Nino conditions also strengthened further, raising concern on global food production along with disruption in fertilizer and other inputs. Growth in US continues to hold up well though September 2026 payrolls were lower than expected and unemployment rate inched up marginally. The Eurozone manufacturing PMI rose to its highest level since May 2022, led by German demand for capital goods linked to AI and defence. China's manufacturing PMI moved back into expansion for the first time since June 2026, driven by industrial exports, but weak domestic demand continue to affect the confidence and outlook of businesses and households.

Major central banks – Fed, BoJ and ECB raised policy rates by 25bps in line with expectation in September 2026 as inflation continue to remain above target. Markets expect central banks to raise rates further as inflation remains elevated in the face of elevated crude oil, commodities and food prices.

Economic activity continues to hold up well: The high frequency indicators for September 2026 suggest that economic activity continue to hold up well. Vehicle registrations and power demand recorded another month of strong growth, along with strong GST collections and pick up in Manufacturing and Services PMI. CMIE unemployment rate fell to 4% which is near to all-time low. This was mainly because of fall in labour force participation which fell more than 100bps in September 2026 rather than a significant improvement in employment conditions.

Indicators	Units	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
Retail registration - Auto®									
2W	YoY, %	25.5	28.6	13.7	8.5	22.2	29.1	20.5	32.9
PV		29.2	27.6	14.2	28.0	33.2	22.8	19.9	31.8
MHCV		35.5	20.2	11.4	5.6	15.5	22.2	16.6	42.3
LCV		32.4	20.7	19.8	16.5	30.8	28.4	21.1	39.1
Tractors		37.0	12.7	24.6	15.6	30.2	31.9	3.4	13.9
Gross GST collection (ex of cess) *		8.1	8.8	8.7	3.2	13.9	15.4	14.8	14.7
Average E-Way bill generated		18.8	12.9	11.8	10.9	14.5	6.0	7.7	7.2
Power demand		4.9	0.7	4.4	11.0	10.9	11.1	12.4	11.2
Digital Spending (UPI + IMPS)		20.6	17.4	19.5	16.8	18.5	17.8	19.6	18.0
Railway Freight Tonnage		3.2	1.1	-2.8	0.6	2.9	9.1	5.2	5.4
Manufacturing PMI^	Index	56.9	53.9	54.7	55.0	54.2	53.5	52.8	55.1
Services PMI^	Index	58.1	57.5	58.8	59.8	57.4	53.3	54.1	55.2
Unemployment **	%	6.7	6.6	6.7	6.9	6.6	6.0	6.1	4.0

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, El Nino conditions and its impact on food production, and continued geo-political tensions remain key risks for growth this year.

Macroeconomic Update (contd...)

Government has maintained capex growth: Total Government expenditure has grown by 10.5% YoY in 5MFY27 driven by capex growth which is up 18% YoY. 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. Fiscal deficit (as % of budgeted) during the first 5 months of this fiscal has been ~42% compared to ~38% during the same period last year. Robust direct tax collections, and economic stabilisation fund reduces risk of fiscal slippage this year. There is also a likelihood of disinvestment/asset monetisation receipts exceeding budget estimates, which could be used to cover any shortfall in tax revenue.

FY ending, in billion (Rs)	5MFY26	5MFY27	YoY growth (%)
Gross tax revenue	13,440	14,319	6.5
Direct Tax Collections	6,703	7,600	13.4
Indirect Tax collections	6,493	6,322	-2.6
Less: Share of states & others	5,336	5,940	11.3
Net Tax collections	8,104	8,379	3.4
Non-tax revenues	4,403	4,545	3.2
Total Revenue receipts	12,507	12,925	3.3
Total Capital receipts	320	752	135.3
Total Receipts	12,827	13,677	6.6
Total Revenue Expenditure	14,493	15,680	8.2
Total Capital Expenditure	4,316	5,099	18.2
Total Expenditure	18,809	20,780	10.5
Fiscal Deficit	5,982	7,102	18.7
Fiscal deficit (% of BE)	38.1%	41.9%	
Fiscal deficit (% of GDP)	1.7%	1.9%	

Source: CMIE Note: YoY: Year on year growth

CPI inflation rose further in Aug: CPI inflation was recorded at 4.8% in Aug 2026, driven mainly by uptick in food and fuel inflation. Core-Core inflation (core inflation ex of precious metals) also rose 20bps to 2.5% but remains subdued.

Going forward, inflation is likely to inch up in FY27 on adverse base effect, higher oil prices and below normal rainfall but is likely to be within the RBI's tolerance band. The geo-political situation, El-Nino conditions and pass through of input price inflation remain key monitorable from an inflation perspective.

Trade deficit narrowed in Aug 2026: Trade deficit narrowed significantly in Aug 2026 due to exports rising much faster than imports. Merchandise exports have registered a growth of 19% YoY in 5MFY27 compared to growth of 2% YoY during same period last year. Exports are mainly drive by Engineering and electronic goods. Going forward, trade deficit is likely to remain contained on back of healthy merchandise exports growth. Moreover, healthy growth in services exports will help keep CAD within manageable levels.

Crude rebounded in Sept 2026: Brent crude rose ~14% MoM to ~USD103/bbl in September as attacks on Saudi energy facilities revived supply fears. Gold and industrial metals on the other hand saw moderation as markets are pricing in a global rate hike cycle which could potentially affect global demand.

YoY,	July-26 (%)	Aug-26 (%)	Change in %
CPI	4.4	4.8	0.4
Food & beverages	5.2	5.7	0.5
Electricity, gas and other fuels	2.0	3.1	1.1
House rent	2.1	2.3	0.2
Transportation	4.4	4.6	0.2
Core-Core CPI [®]	2.3	2.5	0.2

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

Amount in USD billion	July-26	Aug-26	Change
Trade Deficit / (Surplus)	32.0	26.9	-5.1
Net Oil Imports	11.4	9.9	-1.5
Net Gold Imports	3.8	2.4	-1.3
NONG net imports	16.8	14.5	-2.3

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

	Market price (USD)*	Sep-26 (%) [^]	FY27TD (%) [^]
Brent Crude (per barrel)	103	14.4	-12.5
Gold (per ounce)	4,157	-6.3	-10.9
Steel (per tonne)	492	-2.1	2.6
Zinc (per tonne)	3,915	-4.1	21.6
Copper (per tonne)	14,487	-0.3	19.1
Aluminium (per tonne)	3,159	-2.3	-10.3
Lead (per tonne)	1,856	-1.3	-1.3

Source: Bloomberg; *Market prices as on September 30, 2026, [^]MoM change,

[^] Change in FY27TD

Macroeconomic Update (contd...)

Summary and Conclusion:

The geo-political tensions in West Asia continued through the month of September with no end in sight. An elongation of the conflict is likely to have material implications for the global economy, driving up inflation and pushing down growth. On the other hand, rising bond yields across the developed world poses significant risks for emerging market economies like India. 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.

Contrary to expectations, growth in India held up remarkably well despite disruptions caused by West Asia crisis. High frequency indicators continue to hold up well with resilient rural demand and urban demand too showing signs of uptick. Inflation remains well anchored and though it's expected to rise from here due to adverse base effects, higher oil prices and deficient monsoon, it's unlikely to increase significantly. RBI has projected an average inflation of 5.2% 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 tax relief and improving corporate profitability. However, elongation of geo-political conflicts and El Nino conditions persisting through next year remain key risks to growth this year.

Debt Market Update

The 10-year G-sec yields rose consistently throughout the month ending ~24bps higher following global cues of hardening bond yields across the developed world, markets pricing in rate hikes and OMO sales of Government of India securities by the RBI. The yields also rose as conflict in West Asia persisted, pushing up crude oil prices by ~14% during the month and raising concern on inflation. Yield on 10-year AAA corporate bonds registered lower increase of ~20bps resulting in spread between 10-year G-sec and 10-year AAA compressing by ~4bps.

Other key events which influenced yields during the month were: (1) major central banks like Fed, BoJ and ECB raising policy rates by 25bps each, (2) strong growth data across geographies including India and, (3) El Nino conditions gaining further momentum and likely to persist through the middle of next year. The table below gives a summary view of the movement of key rates and liquidity:

	Aug-26	Sep-26	Change (in bps)
MIBOR Overnight Rate (%)	5.24	5.28	0.04
3M Gsec yield (%)	5.26	5.52	0.26
10Yr Benchmark G-Sec Yield [^] (%)	6.95	7.19	0.24
AAA 10Year Corporate Bond Yields ^{#, &} (%)	7.73	7.93	0.20
AAA 10Y Corporate bond spread against 10Y benchmark [@] (bps)	78	74	-4
Average net liquidity absorbed/infused by RBI* (INR billion)	3,654	7,766	Missing bps

[^]-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 ~7.8 trillion in September 2026 compared to surplus of ~INR 3.6 trillion in August 2026 driven mainly by robust Fx inflows under the measures announced by RBI.

In the debt market, FPIs ended the month with net selling of USD 1.7 billion in September 2026 (Aug 2026 net sell: USD 282 million).

Outlook

Fixed income market outlook

Since the August 2026 policy, the Indian 10-year benchmark yield has already risen by approximately 50 bps, effectively pricing in a significant portion of RBI's tightening as well as higher US yields. In its latest policy review RBI raised the policy rate by 25bps and changed the stance from neutral to calibrated tightening. MPC's decision was held in the backdrop of challenging global environment, volatile crude prices, elevated global yields, strong domestic growth momentum and rising inflation risks globally. While the change in monetary policy stance was perceived as hawkish, we believe stance change reflects the direction of the policy rate and not necessarily the magnitude. Hence, in our view, it was done to retain policy flexibility to react to evolving global / geopolitical events and not necessarily implies an aggressive rate hike cycle.

Apart from the above, there are several factors which should help contain the upward pressure on the yields from hereon. Risk of fiscal slippage remains low, despite global uncertainties due to robust direct tax and expectation of disinvestment receipts exceeding budget estimates. Further, Balance of Payments (BoP) remains well positioned due to manageable current account deficit (CAD) and large inflows under FCNR (B) deposits which should support INR stability.

With the spread between the 1-year OIS and the 10-year G sec now near the long-term average of ~100 bps, a substantial amount of negative information is already reflected in valuations. Accordingly, we do not expect sustained sell-off from the current levels and remain constructive from a medium to long term perspective. Our view is subject to two key risks: crude oil prices remaining elevated for an extended period and US sovereign yields rising further from current levels.

In view of the above and given 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. Further, given the elevated absolute yield levels at the longer end of the G-sec curve, one may also consider a staggered increase in exposure to long-duration funds in line with individual risk appetite.

Equity Market Update

The month of September 2026 witnessed broad based correction for Indian equity markets. While Nifty 50/Sensex fell by 6.1%/5.8% respectively, small caps and midcaps indices declined by 3.4% and 7.6%. While Healthcare, Power and Metals outperformed during the month, Cap goods, Autos and IT underperformed.

Except for Japanese, US tech and Korean markets, global equity markets witnessed broad based correction during the month. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	Sep-26	FY27TD
BSE Capital Goods	-2.9	19.8
BSE Metal	-3.2	7.6
BSE Healthcare	-3.4	10.1
BSE Auto	-3.7	0.8
BSE Information Technology	-4.0	-2.6
BSE Bankex	-5.3	9.1
BSE Oil & Gas	-6.5	15.4
BSE Power	-8.8	10.5
BSE Fast Moving Consumer Goods	-10.1	-4.3
NIFTY Smallcap 100	-3.4	26.6
NIFTY Midcap 100	-7.6	12.7
NSE Nifty 50 Index	-6.1	1.3
BSE Sensex	-5.8	0.7

% Change [^]	Sep-26	FY27TD
Nikkei 225	2.2	32.1
NASDAQ Composite	1.9	24.4
KOSPI	1.1	51.3
S&P 500	-0.5	17.2
MSCI Emerging Markets	-0.8	22.0
Shanghai Composite	-3.4	1.5
Hang Seng	-3.8	-0.8
FTSE 100	-4.0	4.6
DAX	-6.3	9.2
CAC 40	-6.7	0.1

Source: Bloomberg. [^]Returns in USD

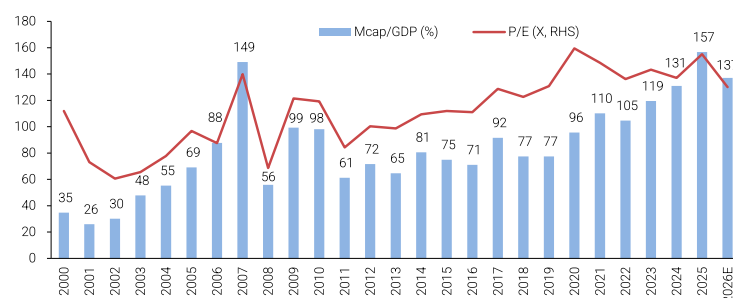
FII sold net equities worth USD 4.2 billion in Sep 2026 (Aug 2026: Net bought USD 2.4 billion) and have cumulatively sold equity worth USD 12.5 billion in 6MFY27 (6MFY26: Net sold USD 4 billion).

DII bought net equity worth USD 8 billion in Sep 2026 (Aug 2026: USD 6.1 billion) and have cumulatively bought USD 40.9 billion in 6MFY27 (6MFY26: USD 45 billion). Net flows into Mutual funds were ~INR 33,082 crore in Aug 2026 (July 2026: ~INR 27,690 crore & Aug 2025: ~INR 38,607 crore) cumulatively amounted to ~INR 163,180 crore in 5MFY27 (5MFY26: ~INR 165,424 crore).

Outlook

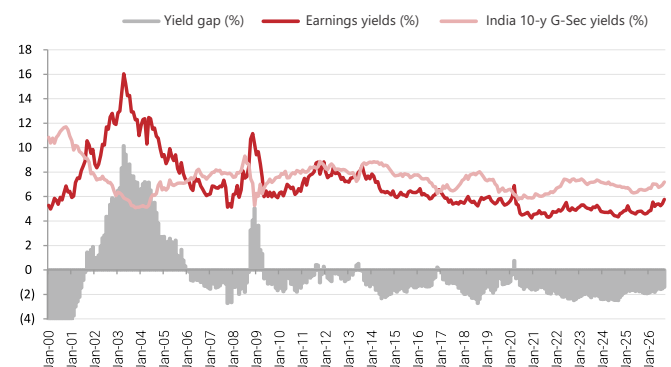
As on September 30, 2026, NIFTY 50 Index was trading at ~17x one year forward price to earnings multiple. Further, Market cap-to-GDP stood ~137% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield has narrowed recently [$\text{Earnings yield} = 1/(\text{one year forward P/E})$].

Chart 1



Source: Kotak Institutional Equities; Market cap is as of Sep 30, 2026

Chart 2



Equity Market Update (contd...)

As of September 30, 2026, the valuations of 7 out of 12 sectors are trading at a discount to 10-year historical average (refer to the table below for details)::

	12 months forward Price To Earnings		
	30-Sep-26	LTA\$	Discount / Premium^
Pharma	29.8	24.8	20.3
Industrials	32.9	27.9	17.9
Utilities	13.4	11.8	14.0
Cement	34.6	32.1	7.7
PSU banks ®	1.2	1.1	3.7
Metals	11.1	11.2	-1.1
Automobiles	20.3	21.0	-3.6
Energy	12.5	13.0	-4.2
Consumer Discretionary	63.9	67.0	-4.6
FMCG	30.1	36.7	-17.9
Pvt Banks ®	1.8	2.5	-29.0
Tech	13.7	21.1	-35.0

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, 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. However, near-term risks include elongation of geo-political conflicts 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
DII	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 Organization
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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