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India Market Outlook

August 2026

Improving macro and micro mosaic

Investment strategy and key themes

12m Foundation Overweights:

- Equities
- Large-cap Equities

Sector Overweights:

- Financials, Consumer Discretionary

Opportunistic Ideas – Bonds:

- Corporate Bonds

Improving macro and micro mosaic

Moderating foreign portfolio investment (FPI) outflows, better-than-expected Q1 FY27 earnings, a positive turn in the balance of payments (BoP), oil prices below their recent peaks and benign core inflation should further aid India's economic growth and confidence, driving the equity market narrative. High absolute and real bond yields are expected to offer attractive accrual income.

We remain Overweight Equities. Rising nominal GDP growth should support revenue growth and potentially earnings growth through operating leverage. We expect low double-digit earnings growth to kick in in FY27. Within Equities, we are Overweight Large-caps due to attractive valuations, anticipated capital inflows in case of a reversal of the AI trend, under-ownership of Large-cap equities by foreign institutional investors (FIIs) and an attractive Indian rupee (INR) valuation.

Stocks with revenue linked to AI account for roughly 30% of the Emerging Market (EM) universe by weight, including c.80% of Taiwan's benchmark equity index and 50% of South Korea's, while the corresponding share for India is negligible. Thus, foreign portfolio investors (FPIs) have been net buyers of those EM equities and net sellers in India. However, once the AI-led trend fades, India's more diversified earnings profile is likely to be of interest to investors reassessing concentrated EM exposure. India's real effective exchange rate (REER) has fallen below 90 in May 2026 – a level usually seen only during major stress episodes. This is the most competitive the currency has been outside of two major structural crises: India's 2013 twin deficit crisis and the 2008 Global Financial Crisis.

We are Underweight Small- and Mid-caps, but **Small-caps** remain a **Core holding** on account of rising earnings and healthy performance.

Bonds offer attractive accrual income due to elevated bond yields. Short-maturity Bonds have moved from Overweight to Core. Long-end bonds continue to be a Core holding, with High-quality Corporate Bonds continuing to be our Opportunistic idea in the fixed-income space. Bond yields are elevated, tied to oil prices higher than pre-Middle East conflict levels. We expect the short-end yields to come down, with incremental Foreign Currency Non-Resident (FCNR) deposits aiding bank funding stresses and adding liquidity.

As per the latest data released by the RBI, c.USD 40bn of flows have been garnered via the FCNR (B) and external commercial borrowing (ECB) schemes. Long-end yields would remain anchored or fall slightly on account of contained inflation concerns, demand for an expanded universe of Fully Accessible Route (FAR) securities and the government borrowing maturity profile shifting to lower maturities.

Broader overseas deposits and funding flows are expected to stay in line with expectations, but the pace of FPI debt flows could moderate going forward due to tax-related considerations for Singapore-based NRIs – where withholding tax applies to interest paid on loans sourced from Indian banks – and Bloomberg's decision to defer the inclusion of Indian government bonds in its Global Aggregate Index. We expect corporate bond spreads to compress.

We reduce Gold to a Core holding. While prices have shown signs of stability in recent weeks, higher bond yields are setting a higher bar to beat. We remain positive on gold prices in absolute terms – now expecting USD 4,600/oz over the next 12 months – and thus see current levels as attractive to accumulate in under-allocated portfolios. However, we expect the pace of the price rebound to be relatively shallow, given elevated US bond yields.

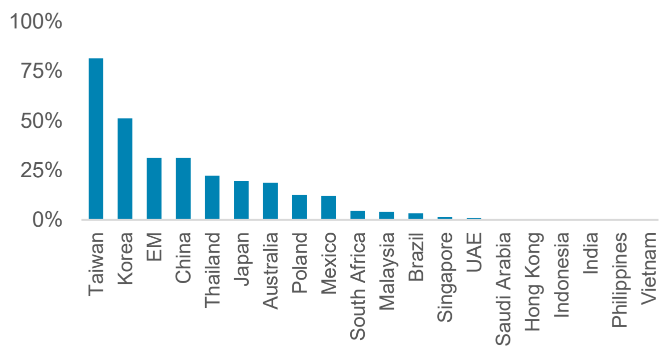
Fig. 1 **With REER falling below 90, INR valuation has turned attractive**

India Real Effective Exchange Rate

Source: Bloomberg, Standard Chartered

Fig. 2 **India offers diversification as AI exposure dominates key EM peers**

AI Beneficiary Stocks as a % of MSCI Indices



Source: HDFC MF, Standard Chartered

Perspectives on key client questions

With the improving macro backdrop, how are India's growth and Q1 FY27 earnings stacking up?

Our View: *With the RBI raising its GDP projection to 6.7% and lowering its consumer price index (CPI) inflation forecast to 5%, India is expected to be on track to deliver double-digit nominal GDP growth in FY27. Nominal GDP growth is real GDP growth plus inflation. Real GDP growth measures the actual quantity of production, while nominal GDP growth measures the production in current price terms. A higher nominal GDP indicates higher prices and thus elevated revenues. Tied to a nominal GDP growth rate of 12-13% y/y, we expect low-double-digit earnings growth to commence in in FY27 for the Nifty 50, with the earnings upgrade cycle paving the way for earnings compounding to begin.*

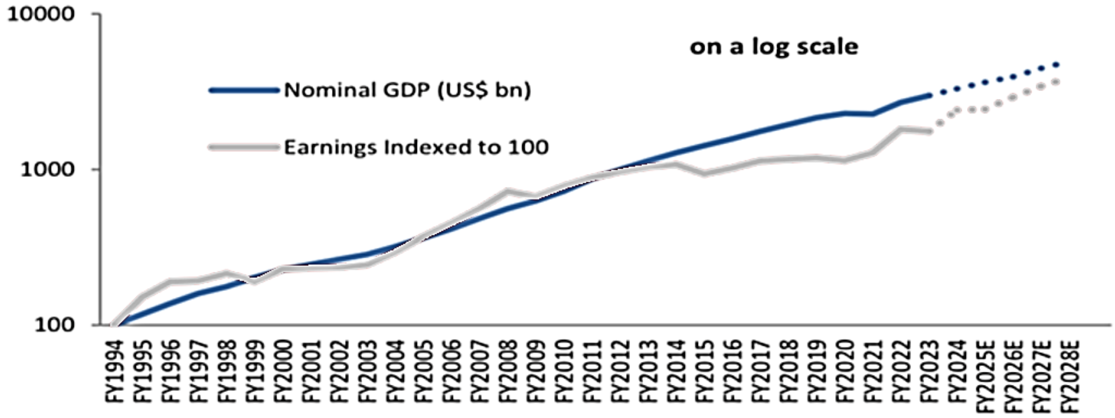
As consumption recovers aided by structural reforms and policy anchors, it would show up in moderate inflation, with capacity utilisation likely to head higher as well. Moreover, there would be strategic push towards capacity creation, enabled by healthy corporate and bank balance sheets. This is the phase where growth will be accompanied by manageable inflation. If policy support and recent consumption trends hold, inflation and therefore nominal growth would improve. Rising nominal GDP growth should support revenue growth and potentially earnings growth through operating leverage.

Absolute returns over the medium term would be supported by both a moderate acceleration in earnings growth and a marginal improvement in valuation multiples. The focus would shift towards breadth of earnings. Our 12-month Nifty 50 target stands at 26,200 – 8% higher from July 2026-end levels.

Q1 FY27 earnings are expected to be better than estimates, with an improved upgrade-to-downgrade ratio. Most sectors – Banking, Financial Services & Insurance (BFSI), Telecom, Oil & Gas, Utilities, Metals & Mining, Materials, Consumer Discretionary and Autos – are expected to report positive revenue growth in Q1 FY27 on account of healthy credit expansion, stable asset quality, resilient consumption, higher telecom average revenue per user, improved metal price realisations and cement volume growth. Q1 FY27 y/y profit-after-tax (PAT) growth is expected to be led by BFSI, Telecom, Oil & Gas, Utilities, Materials and Consumer Discretionary. Meanwhile, Autos, Industrials, Metals, Oil Marketing Companies, Healthcare and Staples are expected to post muted-to-negative y/y PAT growth.

Fig. 3 **Corporate earnings have re-aligned with nominal GDP, with further catch-up potential**

Earnings vs Nominal GDP



Source: Morgan Stanley Research, Standard Chartered

Within Equities, we continue to be **Overweight the Financial Services and Consumer Discretionary sectors**. Our financial Services Overweight view is anchored by improving credit growth, stable-to-better net interest margins aided by FCNR deposit raises, with margins holding up even as the rate cycle evolves and attractive valuations relative to history. Our Consumer Discretionary Overweight is backed by a genuine demand recovery story. Recent income-tax cuts and GST reductions are expected to lift retail spending, with key beneficiaries of rising discretionary wallets being Airlines, Beauty, Retail, Quick-service Restaurants, E-commerce, Hotels and Diagnostics. Autos are expected to remain supported by India's low vehicle penetration, rising incomes and improving infrastructure. Investment-led and cyclical sectors such as Industrials, Materials, Utilities and Information Technology (IT) are our Core holdings. On the defensive front, Healthcare is our Core holding, while we are Underweight the Consumer Staples and Energy sectors.

Consumption recovery, driven by supportive pro-growth measures such as income tax and GST relief to consumers, continued investment activity, healthy manufacturing activity, rebounding merchandise exports and continued momentum in service exports, is expected to contribute to FY27 GDP growth. The high-frequency indicators for June suggest that economic activity continues to hold up well. Investment rate as a % of GDP is expected to accelerate, led by structural reforms and policy anchors. Energy security would be at the forefront of India's capex cycle, followed by indigenisation across Defence, Power Equipment, Semiconductors and Shipbuilding.

India is also emerging as a more favourable destination globally for hyperscale data centres. Global supply-chain diversification and geopolitical realignment is positioning India as an increasingly attractive destination for foreign investment and manufacturing. Merchandise exports surged 18% y/y in May 2026 to an all-time high of USD 45.2bn, led by Engineering, Electronics and Petroleum Products. Proposed trade agreements with the EU, the US and the UK are expected to boost India's exports once implemented. earnings momentum is expected to remain intact.

Is the equity FII selling that dominated H1 2026 reversing? What are the probable factors driving the shift?

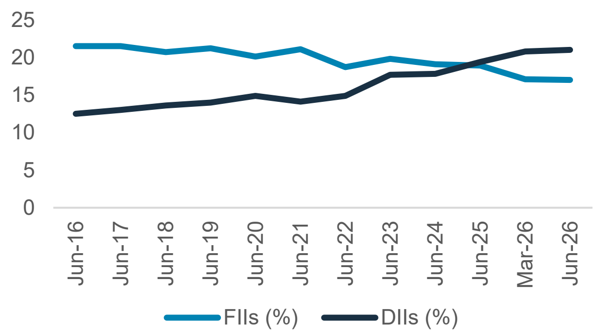
Our View: *The under-ownership of India equities by FIIs and the undervaluation of the INR at present make India attractive for long-term investors. As INR depreciation stabilises and geopolitical risks subside; there could be a mean reversion in FII flows into India.*

FPIs have been net sellers of India equities over the past few years. Equity FII outflows of USD 60bn since October 2024 have been the key driver of volatility in the India markets, reflecting a cautious global stance towards India. However, domestic institutional investor (DII) inflows have more than offset FPI outflows, providing strong support to India equities. India outperformed EMs on a USD basis for over 10 years, ending June 2025. Over the last one year, India has underperformed EMs, as EM returns became concentrated in markets that are beneficiaries of the AI theme, mainly South Korea and Taiwan. Some of the factors turning favourable to India from an equity FII flows perspective include:

Has not been an all-sweep outflows scenario: Up to May 2026 year to date (YTD), outflows largely happened from Financials, IT, FMCG, Consumer Services and Healthcare, while Capital Goods and Metals saw inflows. In June 2026, flows action got swapped, with outflows happening from Capital Goods and Metals, while Financials and Consumer Services saw some buying. Utilities has seen alternating outflows and inflows in the current calendar year. FII selling eased significantly, with flows turning net positive in the second half of June 2026 and in July 2026. FPI Investments seem to be getting broad-based, even as overall holdings drop due to a sell-off in concentrated holdings in a few mega caps. There has been an expansion in the number of stocks, where FPIs have invested more than 1%. Further, the relative impact of FPI flows on market cap has declined. Despite large FPI outflows, they form a lower share of market cap as compared to earlier cycles.

Fig. 4 **Rising DII ownership has cushioned foreign selling in India**

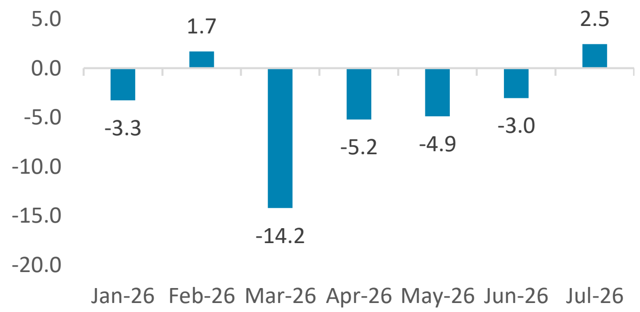
Institutional Ownership Nifty 500 (%)



Source: MOFSL, Standard Chartered

Fig. 5 **FIIs turned net buyers of Indian equities in July after four months of outflows**

Flows in USD bn.



Source: Bloomberg, Standard Chartered

India most diversified among EMs with low FII ownership: Sharp outperformance of South Korea and Taiwan, led by the AI and Semiconductor rally, has pushed the weight of both above India in the MSCI EM Index, even as profit share has trended up. Stocks with revenue linked to AI account for roughly 30% of the EM universe by weight, including c.80% of Taiwan's index and 50% of Korea's. The corresponding share for India is negligible. India has negligible direct revenue exposure to the AI theme vis-à-vis other EM peers. India's market remains the most diversified across sectors among EMs, with more than 5% exposure across nine sectors as compared to 2-3 sectors in the case of most other EMs.

Interestingly, foreign investors have already started reducing positions in South Korea and Taiwan. YTD, they have sold a net USD 100bn of South Korea equities and USD 30bn of Taiwan equities, attributed largely to rebalancing and profit-taking in concentrated winners rather than a change of view on those markets. The foreign flows have seen rotation to proxy AI plays such as Japan, which has seen net inflows of USD 50bn. However, once the AI-led trend fades, India's more diversified earnings profile is likely to be of interest to investors reassessing concentrated EM exposure.

EM correlation with US equities has risen above that of Developed Markets (DMs), driven by the recent concentration of AI names in the EM Index. A tilt within EMs away from South Korea and Taiwan towards India, could improve diversification vs. the US.

Attractive INR valuation with a stable outlook: India's REER has fallen below 90, a level usually seen only during major stress episodes. REER for India is a trade-weighted average of the INR's exchange rate against a basket of its major trading partners' currencies, adjusted for inflation, giving a true picture of price competitiveness. Moreover, India's inflation gap with the US has narrowed sharply, weakening the long-term case for faster INR depreciation. With India's BoP turning into surplus post two years of deficit, largely due to capital inflows from the RBI's recent measures, the better risk-reward is no longer in betting against the INR.

Are bond yields in India expected to come down?

Our view: *The yield downtrend may continue for the next few months, aided by the benefits from the RBI's capital inflow measures. Our investment stance favours carry strategies of short-to-medium duration (up to five years).*

Factors such as inflation-growth dynamics and liquidity are constructive for bonds, while bond demand-supply dynamics need to improve for effective transmission of rates, though the demand-supply balance in debt markets is expected to be better in the near term, aided by the RBI's recent capital inflow measures.

Fig. 6 India's Diversified Sector Profile Stands Out Amid AI-Heavy EM Peers

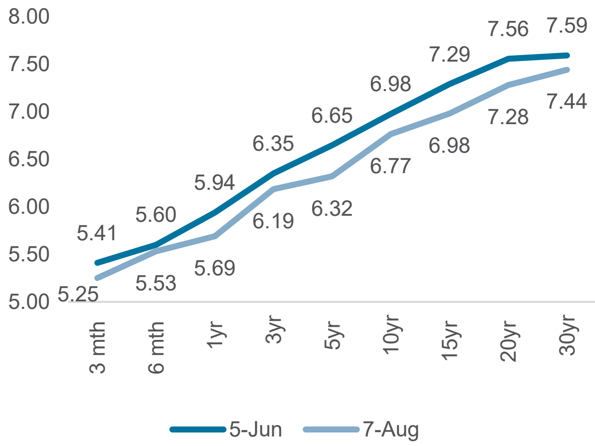
Sector-wise weights of MSCI Indices (%)

Sector	India	Taiwan	Korea
Financials	29	7	8
Information Technology	8	88	61
Industrials	11	2	1
Consumer Disc.	12	0	15
Energy	9	0	1
Materials	8	0	1
Consumer Staples	6	0	5
HealthCare	6	1	1
Utilities	4	0	2
Comm. Services	5	1	3
Real Estate	1	1	2

Source: HDFC MF, Standard Chartered

Fig. 7 Yield curve shifted lower following the RBI's capital inflow measures; further declines expected

India Yield Curve (%)



Source: Bloomberg, Standard Chartered

Inflation-growth dynamics: The RBI's August 2026 MPC meeting kept the repo rate unchanged and maintained its stance as Neutral with a dovish tilt. FY27 growth estimate has been revised higher by 10bps noting robust domestic demand conditions and strong exports. FY27 consumer inflation estimate has been revised lower by 10bps as the rise in headline inflation was driven mainly by food and fuel categories, while core inflation remained broadly steady. The bar for an RBI rate hike is high, and RBI is likely to wait and watch while assessing the monsoon and crude data. The case for tightening would become stronger in case of an intense geopolitical shock, with second-order effects of inflation becoming visible, food inflation spilling into broader core and services inflation and wage inflation rising. Globally, the Fed's future rate trajectory is seen as data-dependent too, with mixed job data and softer crude reducing the odds of a Fed hike vs. market expectations.

Liquidity: Going into the policy, the response to RBI's recent capital inflow measures has been quite encouraging with c.USD 40bn of flows been garnered via the FCNR (B) and the offshore borrowing schemes and c.USD 8bn of Debt FPI inflows in the last 2 months. While the non-inclusion of G-secs in the Bloomberg indices is a temporary setback, the prospects for inclusion remain strong. Banking liquidity has swung sharply higher in recent months and is expected to stay in a surplus zone going forward.

Bond demand-supply dynamics: The RBI stayed dovish for most of FY26, but forward guidance turned hawkish as the stance shifted from accommodative to neutral in June 2025. This impeded the transmission of lower rates as bond yields rose sharply across the curve, with the curve flattening by March 2026. In addition, the core domestic demand for fixed-income assets remained weak, as banks favoured loans over G-secs and bonds, statutory liquidity ratio (SLR) demand (for G-secs) was already saturated, and pension demand fell due to benchmark changes. The Middle East conflict and the EM AI trade then accelerated FPI debt and equity outflows.

Some of the recent capital inflow measures would have a short-term stabilising impact and improve demand-supply gaps across all segments. Bank surpluses can get channelled towards bonds and liquid fund buying, bringing down yields and tightening spreads over T-bills. SLR demand by banks due to lower SLR holdings and a revival in pension fund demand would also add to the demand side of bonds.

Weak demand for bonds has been the reason for policy rate transmission not playing out so far as desired. Narrowing of Bank Credit to Deposit ratio and strong structural demand for bonds is critical for constructive Fixed Income scenario. This is as the transient benefits from recent RBI measures fade out and with the monetary cycle turns at some point in the future.

Improved liquidity is expected to moderate credit to deposit ratio of banks with short end yields drifting lower in the near term. Given the steepness of the yield curve, a tactical allocation towards long-end of the yield curve is supported by stronger debt FPI inflows, moderating inflation expectations and government borrowing shifting to lower maturities, though the long end space is expected to be volatile tied to volatile oil prices.

Fig. 8 **RBI's recent capital inflow measures have attracted USD 40.8bn of inflows through July**

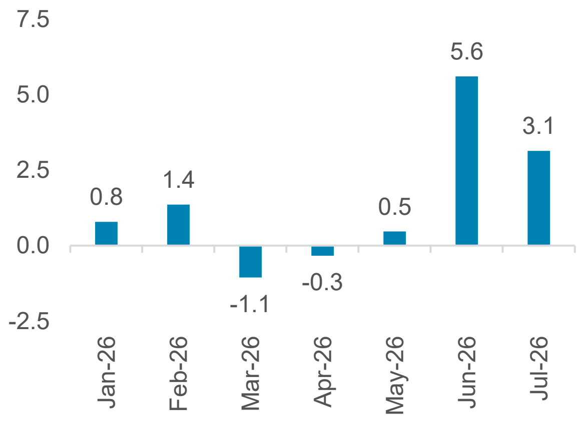
FCNR(B), ECBs and OFCBs mobilized under the RBI's swap facility

USD Bn	31-Jul-26	17-Jul-26
FCNR (B)	36.7	17.4
OFCB	2.6	2
ECB	1.5	1.4
Total	40.8	20.8

Source: RBI, Standard Chartered

Fig. 9 **FIIs have been net buyers of Indian debt since May 2026, with flows increasing to c.8.7 USD bn. in the last two months**

Flows in USD bn.



Source: Bloomberg, Standard Chartered

Macro overview – at a glance

Key Themes

India's economy closed FY26 on a strong footing, with the RBI projecting real GDP growth of 6.7% and CPI inflation of around 5.0% in FY27. This keeps India on track to deliver double-digit nominal GDP growth of 12-13%, while the current account deficit is expected to remain manageable at 1-1.5% of GDP. An improving BoP outlook and stronger capital inflows should support stability, while the Middle East conflict remains the key external risk to growth, inflation and oil prices.

In our view, lower oil prices and RBI measures – including FCNR deposit support and ECB, OFCB incentives aimed at attracting foreign capital – have strengthened India's external position and improved its BoP outlook. These initiatives have already attracted around USD 40.8bn of inflows and could drive cumulative inflows to USD 90-100bn by December-end, supporting a steadier INR and ample domestic liquidity. On the domestic side, as consumption recovers and capacity utilisation improves, healthy corporate sector balance sheets should support the next phase of investment and capacity creation. A weaker-than-expected monsoon remains the key domestic risk to monitor, given its implications for food inflation and rural demand. Overall, India's macro-outlook remains constructive, supported by resilient domestic fundamentals, proactive policy measures and improving external balances.

Key risks to our macro outlook include: 1) Prolonged tensions between the US and Iran; 2) delayed growth recovery and 3) a residual inflation from earlier oil spikes and El Niño.

Key chart

For FY27, India's GDP is expected to grow at 6.6%, and the CPI is expected to average 5.0%.

Fig 10. **India's growth-inflation dynamics are stronger than peers'**

GDP growth (Y/Y) and CPI inflation (year average) – Bloomberg consensus estimate

Source: Bloomberg, Standard Chartered

Macro views – at a glance

Factors	View	Comments
Economic growth	Balanced	**Growth signals diverged in July 2026.** India's Manufacturing Purchasing Managers' Index (PMI) moderated to 53.5 in July from 54.2 in June, hovering near a five-year low amid weaker demand, while the Services PMI slid sharply to 53.3 from 57.4, a 53-month low. In contrast, the June Index of Industrial Production (IIP) accelerated to 7.3%, from 5.0% in May, led by manufacturing growth of 7.8% and electricity/gas growth of 10.6%.
Inflation	Balanced	**India's CPI inflation rose to 4.38% in June 2026 from 3.93% in May, marking the first print above the RBI's 4% target under the new CPI series.** Core inflation increased to 4.20% from 3.83%, driven by gold and silver jewellery prices, while food inflation rose to 5.32% from 4.78%.
Fiscal deficit	Somewhat supportive	**The Indian government remains committed to fiscal consolidation while supporting growth through robust capex.** The FY27 fiscal deficit is forecast at 4.3% of the GDP. Direct tax collections and capex rose 11.7% y/y and 24% y/y, respectively, in Q1 FY27.
External	Somewhat supportive	**India's merchandise trade deficit widened to USD 30.43bn in June 2026 from USD 28.21bn in May, as imports jumped 31% (crude oil, electronics and gold) against 15.5% export growth.** Q1 FY27 overall (goods and services) exports hit a record USD 232.73bn, up 11.4% y/y.
Monetary policy	Balanced	**The RBI kept its policy repo rate unchanged at 5.25% and retained its neutral stance in its August 2026 MPC meeting**. The central bank raised its FY27 GDP growth forecast to 6.7% (from 6.6%), citing resilient manufacturing, discretionary consumption, continued domestic spending, rebounding merchandise exports and continued momentum in services exports and lowered its inflation forecast to 5.0% (from 5.1%), citing benign core inflation and price pressures bring driven primarily by fuel and food rather than broad-based demand.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: Not supportive; Somewhat supportive; Balanced; Supportive; Very supportive

Bonds – at a glance

Key Themes

We remain Neutral on Bonds, as elevated yields continue to offer attractive carry. Yields eased in June on the back of improving liquidity conditions, RBI measures aimed at boosting capital inflows and a better near-term demand-supply balance in debt markets, but some of this move was reversed in July following renewed geopolitical tensions and higher crude oil prices. Foreign investor demand has strengthened, with debt inflows of c.USD 5.6bn in June and USD 3.1bn through July, helping offset these pressures. The RBI is widely expected to remain on hold in the near term, while improving liquidity conditions and stronger demand for Indian debt should help keep yields broadly anchored.

We have moved Short-maturity Bonds from Overweight to a Core holding. While short-end carry remains attractive, stronger debt FPI inflows, moderating inflation expectations and government borrowing shifting towards shorter maturities have made the fixed-income opportunity set more balanced. High-quality (AAA) Corporate Bonds continue to offer an attractive risk-reward profile, supported by favourable spreads and stable credit conditions. In our view, the RBI is likely to remain on hold, focusing on liquidity management and external stability. Resilient growth and fuel/food-driven rather than broad-based inflation gives the RBI room to wait and watch. We expect the India 10-year government bond yield to trade within a 6.50-7.25% range over the next 6-12 months, with potential for gradual moderation if liquidity remains abundant, foreign inflows stay supportive and inflation remains contained.

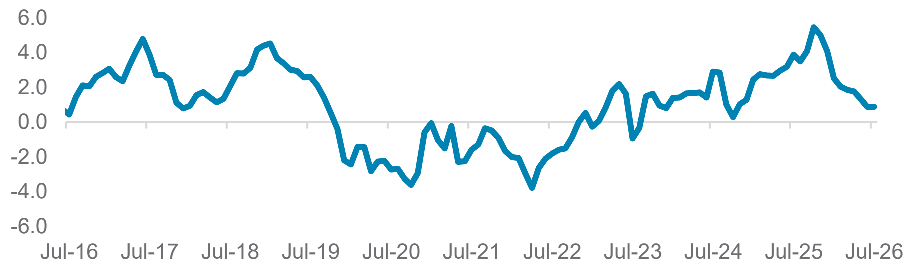
Key risks include: 1) Inflation re-accelerating due to renewed commodity price pressures; 2) stronger-than-expected policy tightening either globally or domestically; and 3) a deterioration in global risk sentiment resulting in weaker foreign capital flows.

Key chart

Real yields remain positive, but attractiveness has normalised closer to historical averages.

Fig 11. **India's real yield attractiveness has moderated towards historical average**

India 10-year Gsec-Inflation



Source: Bloomberg, Standard Chartered

Bond views – at a glance

Factors	Views	Comments
Real yields	◓	**Real yield attractiveness has moderated to near-historical averages, with the India 10-year government bond real yield at c.2.4%.** India's real yield differential relative to EM peers is now more balanced, though it remains favourable vs. most Asian peers.
Supply dynamics	◑	**Government bond supply was comparatively lighter in H1 FY27, with gross borrowing of c.INR 8.2trn, or 50% of FY27's gross borrowing (vs. 54% in H1 FY26).** However, overall FY27 gross borrowing remains elevated at INR 16.09trn, up c.9.0% y/y.
Monetary policy	◓	**Markets expect the RBI to remain on hold, with medium-term expectations still hawkish but less so than before.** The RBI held rates at 5.25% in August 2026, maintaining a wait-and-watch stance.The one-year OIS spread has eased to 0.52bps from c.70bps previously.
Liquidity	◓	**The RBI's focus is shifting towards maintaining a liquidity surplus.** FCNR (B), Overseas Foreign Currency Borrowing (OFCB) and ECB balances have already risen to c.USD 40.8bn as of July-end and are expected to grow further, supporting liquidity conditions and the INR. While FPI debt inflows may moderate from current levels, but prospect Gsecs inclusion in Bloomberg indices remains strong.
Demand dynamics	◓	Foreign investors have turned net buyers of Indian government bonds since May 2026, with inflows reaching USD 5.6bn in June and staying at USD 3.1bn in July, supported by withholding tax relief and expanded FAR eligibility.
Yield premiums	◓	**Yield premiums remain above average**. The spread between the 10-year IGB yield and the repo rate is at 151bps vs. the 10-year average of 121bps. High-quality (AAA) bonds are attractive, with the yield spread between three-year AAA-rated bonds and the three-year G-sec at 105bps, above its five-year average of 74bps.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Equity – at a glance

Key Themes

We remain Overweight Equities. While renewed tensions in the Middle East and higher crude oil prices may weigh on sentiment in the near term, the broader backdrop remains supportive, underpinned by stronger capital inflows, resilient domestic growth and more reasonable valuations. FIIs have also turned net buyers in July, with month-to-date (MTD) inflows of c.USD 2.5bn. Q1 FY27 earnings are expected to benefit from healthy double-digit sales growth and strong operating profit momentum, although profit growth is likely to remain in the low double digits as elevated crude oil and commodity costs continue to weigh on margins. Looking ahead, nominal GDP growth of 12-13% should support a gradual recovery in earnings momentum and a renewed earnings upgrade cycle, although the pace of improvement will depend on how quickly cost pressures ease.

Equity valuations remain broadly supportive, with Large-caps offering a more attractive balance between earnings expectations and valuations, while Small- and Mid-caps continue to trade at elevated premiums. Flow dynamics are improving, with strong domestic inflows offsetting foreign outflows and the return of FII buying in July signalling a recovery in sentiment. Any positive developments on the India-US trade front could provide an additional tailwind. We remain **Overweight Large caps**, given their superior margin of safety and greater resilience to supply chain disruptions, elevated input costs and lingering geopolitical uncertainty.

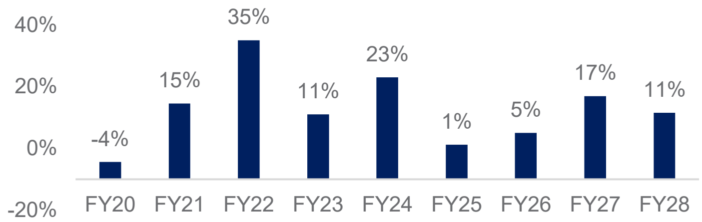
Key risks to our positive equity view include: 1) Further escalation in the Middle East conflict sustaining or worsening the recent rise in crude prices, adding to earnings downgrade risk; 2) elevated absolute equity valuations, particularly in Small- and Mid-caps; and 3) continued momentum in global AI earnings weighing on FII inflows into Indian equities.

Key chart

Bloomberg consensus expectation is for Nifty earnings to rise by 14% in FY26-28.

Fig 12. **Earnings cycle to recover in the next two years**

Earnings per share (EPS) growth estimates for Nifty 50 Index



Source: Bloomberg, Standard Chartered

Equity views – at a glance

Factors	Views	Comments
Economic environment	◓	**Growth and inflation concerns have moderated since June, after remaining elevated in H1 2026.** Oil prices coming off their recent peaks, improving capital inflows and a strengthening BoP outlook should help ease macro pressures. Combined with double-digit nominal GDP growth, this should provide a more favourable backdrop for revenue growth and support a gradual acceleration in earnings momentum.
Earnings growth	◑	**Earnings growth expectations are stable.** Bloomberg consensus expects earnings growth for the Nifty Index to be 15% for FY26-28 vs. 3% for FY24-26. Earnings estimates for Large-cap Equities (Nifty Index) have seen modest downward revisions compared with broader markets.
Valuations	◑	**Equity valuations are in the buy zone.** The Nifty 12-month forward price-to-earnings ratio (P/E) of 18.6x is in line with its 10-year average. The price-to-book ratio (P/B) of 3.0x is below its 10-year average of 3.2x. Mid-/Small-cap Equities' 12-month forward P/E trade at a 50%/27% premium to Large-cap Equities respectively – higher than their 10-year average premiums of 27%/-8%.
Flows	◓	**Foreign investors turned net buyers of Indian equities in July 2026, recording inflows of c.USD 2.5bn after four consecutive months of outflows.** DIIs remained supportive, although inflows moderated to c.USD 3.7bn in July 2026, the lowest level since May 2025.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Foundation: Asset allocation summary

Summary	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cash	▼	23.6	3.0	2.6	2.3	2.1
Fixed Income	◆	55.0	55.0	40.0	25.0	10.0
Equity	▲	16.4	37.0	52.4	67.7	82.9
Commodities	◆	5.0	5.0	5.0	5.0	5.0

Level 1	Level 2	Level 3	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cash & Cash Equivalents			▼	23.6	3.0	2.6	2.3	2.1
Fixed Income	Short-term Bonds		◆	40.0	35.0	28.0	17.0	6.7
	Mid-/Long-term Bonds		◆	15.0	20.0	12.0	8.0	3.3
Equity	DM Equity		◆	3.0	6.0	9.0	12.0	15.0
	AxJ/Other EM Equity		▲	2.6	4.6	6.7	8.7	10.8
	Indian Equities ▲	Large-cap Equities	▲	8.4	20.0	27.2	34.4	42.5
		Mid-/Small-cap Equities	▼	2.4	6.4	9.5	12.5	14.6
Commodities (INR Gold)			◆	5.0	5.0	5.0	5.0	5.0
				100	**100**	**100**	**100**	**100**

Source: Bloomberg, Standard Chartered

All INR converted exposure. For illustrative purposes only. Please refer to the disclosure appendix at the end of the document

Performance of our key calls

	Open calls	Open date	Close date	Absolute	Relative
Equities	Indian equities and gold to outperform all other asset-classes	11-Mar-26	7-Aug-26		×
	Indian Large-cap Equities to outperform Mid- and Small-cap Equities	19-Dec-25			×
Bonds	Indian Short-maturity bonds to outperform Medium- and Long-maturity bonds	19-Dec-25	7-Aug-26		√
Equity Sectors	Indian Financials sector to outperform Indian Equities	19-Dec-25			×
	Indian Consumer Discretionary sector to outperform Indian Equities	13-Apr-26			√
Opportunistic Ideas	Indian High-quality (AAA) Corporate Bonds	19-Dec-25		×	

	Closed Calls	Open date	Close date	Absolute	Relative
Equities	Indian equities (Nifty Index) to outperform all other asset-classes	19-Dec-25	11-Mar-26		×
	India Midcaps to outperform Indian Small cap equities	19-Dec-25	13-Apr-26		×
Equity Sectors	Indian Healthcare sector to outperform Indian Equities	19-Dec-25	7-Jul-26		√
	Indian Consumer Staples sector to outperform Indian Equities	19-Dec-25	7-Jul-26		√

Source: Bloomberg, Standard Chartered. Performance measured from 19 December 2025 (release date of our 2025 Outlook)/ date the view was opened to 6 August 2026/ date the view was closed

Legend: ✓– Correct call; ✗ – Missed call; n/a – Not Applicable.

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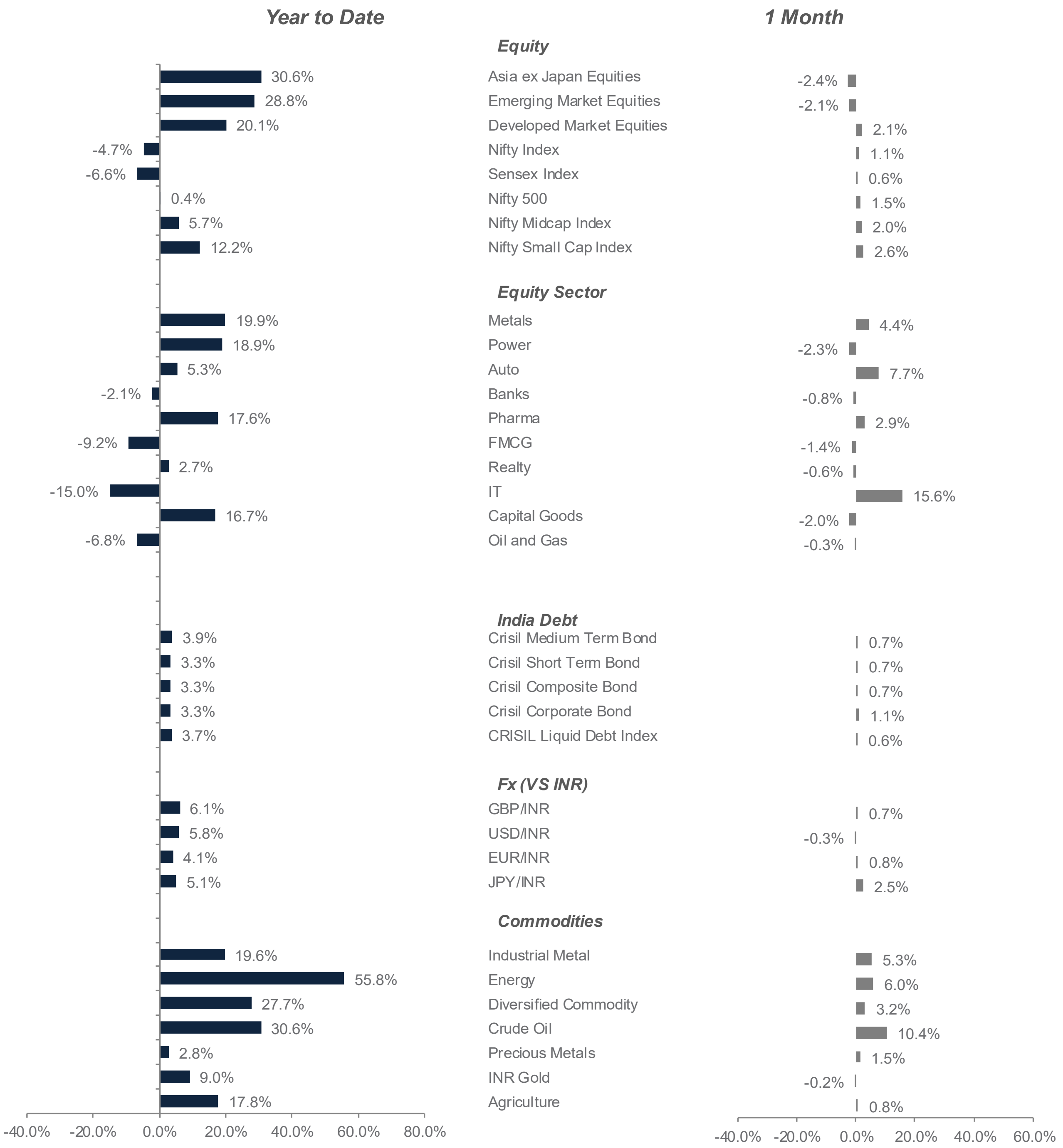
Market performance summary*



Source: MSCI, NSE, S&P BSE, Crisil, Bloomberg, Standard Chartered
*YTD period from 31 December 2025 to 5 August 2026. 1-month period from 6 July 2026 to 5 August 2026.

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