

# EQUITY OUTLOOK



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## **Global Backdrop: Recovery Amid Persistent Geopolitical Overhang**

Global markets staged a sharp recovery in April following the dislocation seen in March, supported by expectations of contained geopolitical escalation and resilient economic momentum. Risk assets rebounded strongly across regions, led by Asia and the US, indicating that markets continue to discount a non-disruptive resolution to the ongoing West Asia tensions. However, crude oil remains the central macro variable. Prices sustaining above USD 100/bbl reflect continued supply-side concerns, with limited visibility on de-escalation timelines. While global growth expectations remain intact for now, elevated energy prices pose upside risks to inflation and could delay monetary easing cycles, particularly in the US.

## **India Macro: External Pressures Persist Despite Market Recovery**

Indian equities recovered meaningfully from March lows, with markets rising ~7% MoM in April. However, India continues to underperform global peers on a CY26YTD basis, reflecting persistent macro headwinds.

The key overhang remains the combination of elevated crude prices, sustained FII outflows, and INR depreciation. The currency weakened further to ~94.9/USD, marking one of the sharpest annual depreciations in over a decade, driven by external imbalances and a strong USD environment.

Despite these pressures, domestic fundamentals remain relatively resilient. Policy measures, stable earnings delivery, and strong domestic liquidity flows continue to provide a buffer against external shocks.

## **Market Structure: Liquidity Cushion vs External Risk-Off**

Market behaviour continues to reflect a transition phase. While domestic institutional flows remain robust, foreign flows have turned decisively negative, creating a divergence in liquidity drivers. DIIs have sustained strong inflows, while FIIs continue to exit amid global uncertainty and relative underperformance.

This dynamic reinforces a shift away from liquidity-driven market expansion toward a more selective, earnings-led environment. Volatility is likely to remain elevated, with macro variables exerting a stronger influence on near-term market direction.

## **Valuation: Reset Creates More Balanced Risk-Reward**

Valuations have moderated following the recent correction, bringing the Nifty closer to historical averages. The index is currently trading at a discount to its long-period average, reducing the risk of further sharp de-rating in the absence of extreme macro shocks.

However, dispersion remains elevated. Mid and small caps continue to trade at a premium to historical levels, indicating limited room for multiple expansion and higher sensitivity to earnings disappointments.

## **Earnings: Stable So Far, But Risks Building**

4QFY26 earnings have been broadly in line with expectations, indicating that corporate performance has not yet been materially impacted by external shocks.

That said, the risk of earnings downgrades is increasing. Sustained crude prices, currency weakness, and input cost pressures could begin to compress margins, particularly for oil-sensitive sectors. The current earnings trajectory assumes stability in macro conditions, which remains uncertain

## **Sectoral Trends: Broad-Based Recovery with Divergence**

April saw a broad-based rebound across market caps, with small caps outperforming sharply. Sectorally, defence, real estate, and capital goods led the recovery, reflecting continued interest in domestic structural themes.

Banks, healthcare, and technology lagged on a relative basis, indicating selective participation in the recovery.

- **Cyclicals and Industrials:** Structural capex themes remain intact, particularly in defence and manufacturing. Near-term valuations and margin peaks limit broad rerating.
- **Consumption:** Divergence persists. Discretionary segments remain supported by premiumization trends, while staples face margin pressure from commodity inflation.
- **Financials:** Fundamentals remain stable, supported by asset quality and credit growth, though near-term performance remains linked to liquidity flows.
- **Technology:** Continues to face uncertainty from global demand and AI-led disruption narratives, though valuations have improved post correction.
- **Defensives:** Pharma and select utilities provide relative stability but lack broad-based upside triggers.

### **Macro Risks: Crude, Currency, and External Balances**

Sustained crude prices above USD 100/bbl represent the most significant macro risk for India. Elevated oil prices impact multiple channels including inflation, current account deficit, fiscal balance, and corporate profitability.

Currency depreciation further amplifies these risks by increasing imported inflation and tightening financial conditions.

### **Conclusion: Near-Term Uncertainty, Medium-Term Stability**

Markets have stabilized after the March correction, but the underlying drivers of volatility remain unresolved. Geopolitical tensions, elevated crude prices, and currency weakness continue to shape the near-term outlook. Despite these headwinds, structural growth drivers for India remain intact. Earnings growth expectations, while at risk of moderation, continue to indicate a double-digit trajectory over the medium term. The market is firmly in a transition phase, where returns will increasingly be driven by earnings delivery, balance sheet strength, and sector-specific fundamentals rather than liquidity-led expansion.

*Source: ABSL AMC Research*

**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

# DEBT OUTLOOK



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The disruption to the Strait of Hormuz remains the most critical monitorable for Indian markets, given the country's heavy dependence on imports for both fuel and fertilizers. So far, India has been able to secure adequate supplies, with minimal shortages and no need for rationing. However, elevated global prices are exerting pressure on the external account, as reflected in the sustained depreciation bias in the Rupee.

India's annual import bill increases by approximately US\$1.75 billion for every US\$1 per barrel rise in crude oil prices. The landed price of crude has risen sharply from an average of around US\$70 in 2025 to approximately US\$114 during March–April 2026. If current price levels persist through the remainder of the fiscal year, this could translate into an additional import burden of roughly US\$80 billion. Consequently, both the trajectory of crude prices and the duration of the crisis remain key variables for the Indian economy.

On the policy front, the government has kept fertilizer prices unchanged, effectively absorbing the entire cost increase within the fiscal framework. In the fuel segment, the response has been a combination of indirect measures—such as reductions in fuel taxes, partial absorption of losses by oil marketing companies, and a relatively moderate pass-through to retail prices, including recent hikes in petrol, diesel, and CNG announced on 14 May. Additionally, import duties on gold have been raised to help contain the import bill. There are also indications from media reports that the government is considering further measures to attract higher foreign capital inflows into domestic capital markets.

India's CPI inflation for April edged up marginally to 3.5% YoY (from 3.4% in March), remaining below consensus expectations of around 4%. The uptick was largely driven by a low base effect in food prices, with food and beverages inflation rising to approximately 4–4.2% YoY, led by higher prices of vegetables, edible oils, and protein items. Despite this, underlying inflation remains well anchored, with core CPI stable at 3.4%, indicating limited broad-based price pressures.

Notably, the energy shock emanating from West Asia has yet to pass through meaningfully to retail inflation, as fuel prices have largely been held steady. Looking ahead, there are upside risks stemming from recent fuel price adjustments in May, as well as the potential pass-through of higher input costs due to the Hormuz disruption. Even so, the continued moderation in core inflation suggests that underlying pressures remain contained. We do not expect inflation to breach the RBI's tolerance band unless crude prices spike significantly beyond current levels.

The RBI has remained active in the foreign exchange market, helping to curb volatility and mitigate depreciation pressures. As highlighted earlier, India's external buffers remain strong, supported by adequate forex reserves and a manageable current account deficit. The INR also appears significantly undervalued in real effective exchange rate terms, and we would expect stabilization—and potentially some appreciation—once the Hormuz-related risks subside.

On the external front, recent developments suggest improving momentum in India–US relations, with potential announcements anticipated in the near term. Another positive catalyst could be the expected decision in June regarding India's inclusion in the Bloomberg Barclays Global Bond Index

*Source: ABSL AMC Research*

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