



PL Capital
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WEALTH
MANAGEMENT

Market Outlook

Key Trends & Actionable Insights

September 2026

El Niño Risk, Festive Season & Rate Crossroads

Navigating Monsoon Deficit,
Festive Season Recovery &
Potential Rate Hike Ahead

March Outlook

MACRO

7.8%

Q1 FY27 GDP

MoSPI · Aug 31, 2026

4.45%

CPI Jul 2026

Food 5.52% · MoSPI Aug 12

5.25%

Repo Rate

RBI Aug MPC · 4th hold

₹1.99L Cr

GST Aug 2026

Gross · +14.8% YoY

Macroeconomic Environment

• Growth:

India's Q1 FY27 GDP came in at 7.8% (MoSPI, Aug 31, 2026) — the strongest quarterly print of FY27 so far — driven by robust Investment (+11.9% GFCF) and strong industrial output (Industry +8.6%, Manufacturing +9.2%, Services +10.0%; PIB, Aug 31). The RBI projects FY27 GDP at 6.7% (Q2: 7.0, Q3: 6.5, Q4: 6.8). Non-food bank credit growth accelerated to 19.1% YoY as of July 31, 2026 (RBI fortnightly data, released Aug 31) — capacity utilisation at 75.2% in Q4FY26 (RBI OBICUS) remains above the 74% long-run average, pointing to imminent fresh capacity addition.

• Inflation:

July CPI stands at 4.45% (food and beverages: 5.52%; MoSPI, Aug 12, 2026). Core CPI (excl. food and fuel) held steady at 3.9%. WPI Jul came in at 9.78% (DPIIT). The RBI has revised its FY27 CPI projection to 5.0% — with Q3 expected to peak at 5.9%, which PL Research believes is at risk of being breached given El Niño dynamics. Core inflation is projected to align higher by year-end. Brent crude averaged \$90–93/bbl in August, closing at ~\$93/bbl (Aug 31) — each \$10/bbl rise adds ~30bps to headline CPI.

• FCNR & Liquidity:

The RBI re-introduced FCNR deposits to stabilise the rupee (down 13% in the 12 months to June 2026) and rebuild reserves. The special window closed August 31 with total mobilisation reaching approximately USD 100bn (ICICI Prudential AMC, Sep 2, 2026) — FCNR(B) deposits alone rose from USD 17.4bn to USD 65.4bn in five weeks. This added 2.5–3% of system deposits in liquidity, easing G-Sec yields and stabilising the rupee. Forex reserves recovered from USD 667bn to USD 717bn (~10.7 months import cover). GST collections: ₹1,99,853 crore gross in August 2026 (+14.8% YoY; GoI, Sep 1, 2026), approaching the ₹2 lakh crore milestone.

• FPI & DII Flows:

FPIs were net buyers of ~USD 3bn in Indian equities in August 2026 (second consecutive month of net buying; NSDL / ICICI Prudential AMC, Aug 28). DIIs continued to provide strong liquidity support, purchasing equities worth ~USD 6bn during the month. The combination of sustained domestic buying and returning FPI confidence provides a meaningful market cushion.

• El Niño & Monsoon Risk:

Cumulative monsoon deficit stands at 13% as of August 26 (IMD) with 16–17 meteorological sub-divisions in deficient territory. Kharif sowing is 2% below normal — rice and oilseeds worst hit. Skymet: 70% probability of full-season drought with a 15% deficit. PL Research warns that a strengthening El Niño could trigger a global agricultural commodity spike — Sugar, Palm Oil, Coffee, Cocoa, Soybean — putting RBI's own Q3 CPI peak estimate of 5.9% at risk of overshoot. PL India Strategy explicitly flags 25–50bps rate hike probability in 3Q/4Q FY27, contingent on crude and monsoon trajectory.

Domestic Market Outlook

DOMESTIC MARKET

24,208

Nifty 50

Aug 26 · PL India Strategy

-1.4%

Nifty 50 · 1Y

ACE MF TRI · Aug 31, 2026

+13.4%

Midcap 150 · 1Y

ACE MF TRI · Aug 31, 2026

+17.0%

Midcap 150 · 5Y CAGR

ACE MF TRI · Aug 31, 2026

Momentum returns selectively: FPIs back as buyers for the second consecutive month, Midcap outperformance intact, Q1FY27 earnings broadly ahead of expectations — though elevated crude and El Niño keep the environment cautious.

Q1 FY27 Earnings

PL Coverage Universe posted sales/EBITDA/PAT growth of 21.1%/1.7%/3.7% YoY. Ex-Oil & Gas, PAT grew 17% — the strongest since Q4FY24 — with a beat of 2.6% versus PL estimates. The Nifty 500 universe (ex-OMC) grew earnings +23% YoY (Motilal Oswal Research, cited in ICICI Prudential AMC, Sep 2026). The broad-based beat was the standout — Banks, Metals, Telecom and Healthcare all delivered positive surprises. However, PL Research cautions that companies carry 45–60 days of imported raw material stock purchased at elevated prices, and 2Q/3Q margins remain at risk. GFCF rose 11.9% in Q1FY27, corroborating the capex upcycle.

Market Valuation & PL Nifty Targets

At 24,208 (Aug 26), Nifty trades at 17.3x one-year forward EPS (FY27E: ₹1,349) — an 11.7% discount to the 15-year average PE of 19.6x and a 14.8% discount to the 10-year average of 20.3x. PL Research FY28E EPS: ₹1,537 (+14.0% YoY), 2.5% below Bloomberg consensus (₹1,576). 12-month base case Nifty target: 27,123 (17.6x × FY28E EPS), implying ~12% upside. India's EM valuation premium to EM at a 10-year low (Morningstar Q3 2026) — a structurally attractive entry point for long-term allocators.

PL Model Portfolio — Sector Positioning

PL Model Portfolio: +30.0% vs Nifty since November 2018 inception. OW: Banks (FCNR liquidity boost, EBLR tailwind; OW M&M, Eicher, cut Maruti), Capital Goods/Defence (L&T, BEL, HAL, ABB), Diversified Financials (Bajaj Finance, Shriram Finance), Metals (buying opportunity), Healthcare (adding Aster DM Quality Care, UW Sun Pharma), Telecom (Bharti Airtel), Ports (Adani Port). UW: IT Services (AI disruption uncertainty; reducing Infosys, TCS), Auto (growth moderation), Consumer (+200bps cut), Oil & Gas (Equalweight Reliance, Nestle).

15-yr avg PE
19.6x

Nifty at 11.7% disc.

10-yr avg PE
20.3x

Nifty at 14.8% disc.

Base target
27,123

17.6x × FY28E EPS

Bull / Bear
30,137 / 24,971

19.6x bull · 20% disc. bear

Equity Market — Overview and Strategy

EQUITY MARKET

India's market performance showed mid and small-cap resilience while large-cap remained under pressure. FPIs net buyers for two consecutive months. Stock-picking theme intact — sector rotation toward Banks, Cap Goods, Metals, Telecom and away from IT, Consumer, Auto.

Index	1M	3M	6M	YTD	1Y	2Y CAGR	3Y CAGR	5Y CAGR	Source
NIFTY 50	-1.2%	+2.3%	-4.4%	-7.8%	-1.4%	-2.3%	+7.7%	+7.0%	ACE
Midcap 150	+1.7%	+4.3%	+7.7%	+5.7%	+13.4%	+3.6%	+17.0%	+17.0%	ACE
BSE 250 SC	+2.4%	+6.7%	+14.7%	+8.4%	+9.2%	-0.8%	+13.5%	+14.8%	ACE
Nifty 500	0.0%	+3.5%	+1.2%	-1.8%	+4.4%	-0.6%	+11.5%	+10.0%	ACE
Nifty Bank	+1.3%	+7.0%	-4.1%	-2.6%	+8.1%	+6.3%	+9.7%	+9.8%	ACE
BSE 200	-0.8%	+2.7%	-1.4%	-4.0%	+2.6%	-1.5%	+10.3%	+8.9%	ACE
Nifty Next 50	+0.3%	+4.2%	+6.5%	+7.2%	+13.1%	-0.8%	+19.3%	+13.0%	MS
Nifty IT	+1.6%	+7.7%	+2.9%	-16.4%	-9.3%	-12.3%	+2.1%	-0.1%	MS

Short Term — 0 to 6 Months (Selective / Staggered)

Markets remain cautiously constructive. FPIs were net buyers for two consecutive months — ₹20,200 Cr in July and ~USD 3bn in August (NSDL / ICICI Prudential AMC, Aug 28, 2026) — alongside DII buying of ~USD 6bn in August, providing a solid domestic liquidity cushion. Nifty trades at 17.3x FY27E PE, an 11.7% discount to the 15-year average, which limits meaningful downside. However, Brent crude at ~\$93/bbl (Aug 31) and the El Niño-driven monsoon deficit create near-term overhang on Q2/Q3 margins and rural demand. The PL Model Portfolio remains overweight on quality banks, capital goods and defence, while cutting IT, consumer and auto. A staggered, stock-picking approach in quality large-cap and diversified constructs is preferred over passive index exposure at this juncture. Preferred categories: Quality Large Cap · Large & Mid Cap · Flexi-cap.

Medium Term — 6 to 24 Months (Constructive / Build)

The medium-term opportunity is characterised by three structural tailwinds converging. First, non-food bank credit growth accelerated to 19.1% YoY (Jul 31, RBI), supported by FCNR-driven liquidity of ~USD 100bn — providing growth capital to the economy. Second, the capital expenditure cycle is robust: GFCF grew 11.9% in Q1FY27, with PL overweight on capital goods (Defence, Power, Renewables, Data Centres, Semiconductors). Third, mid and small-cap earnings are growing faster than large-cap — Midcap 150 has delivered +17.0% 5Y CAGR versus Nifty 50 at +7.0% (ACE MF TRI), a 10 percentage point annual alpha gap. PL base target of 27,123 implies ~12% upside. Build core exposure in large private banks (BFSI FY27E EPS +20.2%; PL OW), capital goods and consumer durables. Preferred categories: Large Cap · Large & Mid Cap · Quality Small Cap · Flexi-cap / Multi Cap.

Long Term — 24 Months+ (Overweight India)

The structural India investment case is increasingly validated by earnings. India's EM valuation premium is at a 10-year low (Morningstar Q3 2026). Structural drivers — demographics, financial deepening, defence indigenisation, domestic capex, and Make in India — remain firmly intact. Newer high-growth spaces (EVs, defence, renewables, capital markets, digital) continue to emerge outside large-cap indices, providing the alpha opportunity that PL flags. PL Model Portfolio has outperformed Nifty by 30% since inception (Nov 2018). Preferred categories: Mid Cap · Small Cap · Infra & Defence Thematic · Flexi-cap.

Fixed Income Outlook — Sep 2026

RBI POLICY

Repo Rate: 5.25% · SDF: 5.00% · MSF / Bank Rate: 5.50% · Stance: Neutral · Cumulative easing since Feb 2025: 125bps

Policy Backdrop & Strategy

The August 2026 MPC was bond-positive: the RBI upgraded its FY27 GDP forecast to 6.7% and lowered its CPI projection to 5.0%, maintaining a neutral stance for the fourth consecutive meeting. The FCNR window closed August 31 with total mobilisation reaching approximately USD 100bn (ICICI Prudential AMC, Sep 2, 2026), adding 2.5–3% systemic liquidity and anchoring the front end of the yield curve. Bloomberg EM bond index inclusion drives structural FPI demand for FAR G-Secs (15Y, 30Y, 40Y), providing a durable demand floor. However, PL India Strategy explicitly flags a material probability of a 25–50bps RBI rate hike in 3Q or 4Q FY27, contingent on El Niño-driven food inflation and crude prices. This makes outright duration positioning premature. The dominant strategy remains Accrual Over Duration.

Short End 3M–3Y · Overweight Accrual

Systemic liquidity surplus from FCNR (~2.5–3% of system deposits) anchors the front end. Certificates of Deposit (CDs) are offering ~7.0–7.5% and Commercial Papers (CPs) ~7.3–7.8% — providing attractive high-accrual with minimal duration risk. With no near-term rate cut expected — and a meaningful probability of a rate hike in H2 FY27 per PL Strategy — the short end is the most efficient expression of fixed income exposure. Morningstar India: Liquid / Overnight funds (6.8–7.0% effective yield), Ultra Short Duration (3–6M Macaulay), Low Duration (6–12M Macaulay), Money Market. Best risk-adjusted segment for parking and near-term deployment.

Belly 5Y–8Y · Tactical / Overweight

The 10-year G-Sec yield settled at ~6.72% post-August MPC. PL Research's fair value range for the 10-year is 6.75–6.90%, with a tactical add recommendation on any yield spike above 6.95%. Bloomberg EM bond inclusion continues to drive structural FPI demand for FAR G-Secs — the belly (5Y–8Y) represents the tactically attractive zone: carry above 6.75% with potential capital gains if crude stabilises. Morningstar India: Short Duration funds (1–3Y Macaulay), Banking & PSU Debt (AAA/Sovereign only), Corporate Bond funds (AA+ and above; fair value 7.0–7.2%).

Long End 10Y+ · Neutral / Selective

PL India Strategy explicitly flags 25–50bps rate hike risk in H2 FY27 — making outright long-duration positioning premature at current levels. However, Bloomberg EM bond inclusion provides a structural FPI bid for FAR 15Y, 30Y, and 40Y G-Secs, creating a durable demand floor for long-end paper. The appropriate vehicle for long-duration exposure is Dynamic Bond funds (active duration management through the rate cycle) rather than fixed Gilt or Constant Maturity products. Add only on 10-year yield spikes above 6.95%. Morningstar India: Gilt funds, Dynamic Bond funds, Medium to Long Duration (3–5 year horizon).

Fund Category Positioning Guide

RECOMMENDED CATEGORIES

The current market environment — mid and small-cap earnings outperformance, elevated but stabilising crude, returning FPI flows, a supportive domestic liquidity backdrop, and India's EM valuation at a 10-year low — calls for an alpha-oriented, actively managed fund positioning strategy. Pure index or large-cap passive approaches carry the drag of IT and FMCG underperformance. The opportunity lies in constructs that participate in the earnings-growth leaders of this cycle: BFSI, Capital Goods, Metals, Telecom, and Defence.

Equity Fund Categories

Category	Stance	Rationale
Flexi Cap / Multi Cap	OW	Best expression of PL stock-picking theme. Dynamic allocation across caps — tilt toward Banks, Cap Goods, Metals (PL OW). Midcap 150 +13.4% 1Y vs Nifty -1.4% (ACE MF TRI) confirms multi-cap alpha.
Large & Mid Cap	OW	Mandatory 35% large, 35% mid-cap. Blends PL OW large-cap sectors (BFSI, Telecom) with mid-cap growth. Nifty Next 50 +13.1% 1Y validates large-adjacent mid-cap opportunity (Morningstar ETF).
Mid Cap	OW	Invests ≥65% in mid-cap stocks. Midcap 150: +13.4% 1Y, +17.0% 5Y CAGR (ACE MF TRI). PL OW Capital Goods, Metals, Healthcare, Telecom — predominantly mid-cap names.
Banking & Financial Services	OW	Aligned to PL's OW on BFSI (FY27E EPS +20.2%). FCNR liquidity boost, EBLR linkage, Bloomberg EM inclusion. Adding weight on Diversified Financials — Bajaj Finance, Shriram Finance.
Infrastructure / Defence Thematic	OW	Aligns with PL's Cap Goods OW (FY27E EPS +10.1%). Defence indigenisation, Power T&D, Data Centres, Renewables — structural drivers. PL OW L&T, BEL, HAL, ABB.
Large Cap	N	Nifty -1.4% 1Y (ACE MF TRI). Select quality active large-cap over passive — IT and FMCG drag. Morningstar Category Index: BSE 100.
IT / Technology Sectoral	UW	Nifty IT -9.3% 1Y, -12.3% 2Y CAGR (Morningstar ETF). PL UW — AI disruption to margins, slow revenue growth. Retain only large-cap IT as quality defensive.

Debt Fund Categories

Category	Stance	Rationale
Overnight / Liquid / Money Market	OW	Capital safety, daily liquidity. 6.8–7.0% effective yield. Ultra Short Duration (3–6M Macaulay). Record inflows globally to ultrashort bond funds (Q2 2026). Best for near-term parking.
Low Duration / Short Duration	OW	CDs at 7.0–7.5%, CPs at 7.3–7.8%. FCNR anchors front-end liquidity. Best risk-adjusted segment in debt. Low Duration (6–12M Macaulay); Short Duration (1–3Y Macaulay).
Banking & PSU Debt	OW	AAA/Sovereign credit only. FCNR eases G-Sec yields. Bloomberg EM inclusion drives FPI demand. Morningstar India: banking sector and PSU bonds with high credit quality.
Corporate Bond / Medium Duration	N	Selective AA+ and above. Fair value 7.0–7.2%. Hold for October MPC before adding duration. Morningstar India: minimum 80% in AA+ rated instruments.
Gilt / Long Duration	N	Rate hike risk (PL: 25–50bps H2 FY27) makes outright long duration premature. Add only on 10Y spikes above 6.95%. Bloomberg EM inclusion provides structural FPI bid for FAR G-Secs.

Key Risks, Opportunities & Calendar

RISKS & OPPORTUNITIES

Risk Assessment — Source: PL India Strategy, Aug 26, 2026

HIGH

El Niño and Kharif Season Failure — cumulative monsoon deficit 13% as of August 26 (IMD), 16–17 meteorological sub-divisions deficient. Skymet: 70% drought probability. A strengthening El Niño is expected to drive a global agricultural commodity spike — Sugar, Palm Oil, Coffee, Cocoa, Soybean — putting the RBI's own Q3 CPI peak estimate of 5.9% at risk of overshoot. Farm income and rural demand at material risk in H2 FY27 (PL India Strategy).

HIGH

Probability of a Policy Rate Hike (25–50bps) — PL India Strategy explicitly flags the risk of a 25–50bps RBI rate hike in 3Q or 4Q FY27, contingent on crude oil prices and monsoon outcomes. ECB, Bank of Japan, and South Korea's central bank have all raised rates in 2026. US Federal Reserve's October FOMC carries approximately 65% hike probability per CME FedWatch. The FCNR scheme has delayed but not eliminated this risk.

MEDIUM

Nifty EPS Downgrade Risk into 2Q–3Q FY27 — companies carry 45–60 days of imported raw material inventory purchased at elevated prices; the margin impact will show up in 2Q and 3Q earnings. Nifty 50 downgrade count rose from 24 to 25. PL's FY27 Nifty EPS of ₹1,349 is 0.9% below Bloomberg consensus (₹1,362), reflecting explicit conservatism (PL India Strategy).

MEDIUM

Crude Oil Volatility and West Asia Risk — Brent averaged \$90–93/bbl in August, closing at ~\$93/bbl (Aug 31). The US-Iran interim peace deal introduced a 60-day deadline now approaching. A resumption of hostilities would reignite a supply shock — every \$10/bbl rise adds ~30bps to CPI and ~USD 12bn to the current account deficit annually.

POSITIVE

Festive Season Recovery + FCNR Stabilisation — August–November festive cycle sets up positive demand for Automobiles, Consumer Durables, Jewellery, and Real Estate. GST gross: ₹1,99,853 crore (+14.8% YoY; Gol Sep 1, 2026). FCNR closed Aug 31 — USD 717bn forex reserves, rupee stable 3 months, FPIs net buyers 2 months running (~USD 3bn Aug; NSDL). India's EM valuation at 10-year low (Morningstar) — improving relative attractiveness for global allocators.

SEPTEMBER – OCTOBER CALENDAR · S&P Global (PMI) · MoSPI (CPI/WPI) · US Federal Reserve · RBI official calendar

Sep 3 Mfg PMI Final	Sep 5 Svc PMI Final	Sep 12 CPI Aug (India)	Sep 16 WPI Aug (India)	Sep 17–18 US FOMC Meeting	Oct 5–7 RBI MPC Decision
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Data Sources

PRIMARY DATA SOURCES

This document has been prepared from three sources: (1) PL India Strategy report, Amnish Aggarwal, PL Research Institutional Equities, dated August 26, 2026; (2) ACE MF Total Return Index (TRI) data as of August 31, 2026 (all indices except Nifty Next 50 and Nifty IT); and (3) Morningstar Direct live data API, accessed September 2, 2026 (Nifty Next 50 ETF F00000VIPU and Nifty IT ETF F000016KPL only). Additional data points from ICICI Prudential AMC Market Outlook (Anand Shah, Sep 2, 2026) and Motilal Oswal AMC market commentary — these are attributed inline.

DATA VINTAGE AND EXCLUSIONS

All macro and market data represents the position as of August 31, 2026. Bank credit growth updated to RBI fortnightly data as of July 31, 2026 (19.1% YoY non-food bank credit, released August 31, 2026). PMI August final prints excluded (scheduled September 3–5, 2026 — only final July PMI figures of 53.5 Manufacturing and 53.3 Services are cited). GST August 2026 data (₹1,99,853 crore gross, +14.8% YoY) from provisional Government of India data released September 1, 2026. No equity stock performance data, individual stock prices, or direct equity stock recommendations appear in this document; all equity views are expressed at the sector, index, and mutual fund category level only.

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For more information or to arrange a meeting to discuss your wealth management strategy, please email us at **wealthconnect@plindia.com**, or contact your **PL Wealth Manager**.

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