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Bharat | Markets

August

Yet another month has passed, and we now stand on the threshold of the 80th year of India's independence, as well as eight decades of growth shaped on our own terms as a nation. While the current and preceding calendar years have been marked by significant geopolitical uncertainty and instability, the resilience demonstrated by the Indian economy remains commendable.

India rose from quiet chains to build a bold and modern day,
Where freedom lights the human heart and paves a golden way.
From ancient soil to soaring trade, her steady vision grows,
A giant waking to the sun, where wealth and wisdom flow.
-Anonymous

Economic data for the first four months of FY27 reflects resilience despite emerging pressures from fresh geopolitical escalations. The Index of Industrial Production (IIP) recorded an average YoY growth of 5.7% during Q1FY27, while the Index of Services Production (ISP) grew by an average of 15.3% YoY during the first two months of the quarter. However, the sharp rise in global commodity prices, driven by the ongoing conflict in West Asia, has begun to ripple through the domestic economy, pushing India's Consumer Price Index (CPI) inflation above the RBI's 4% target level in June 2026 (at 4.38%).

Elevated crude oil prices have also widened India's merchandise trade deficit, which rose to a five-month high of $30.43 billion in June 2026 and overall trade deficit (merchandise + services) at $15.32 billion, an 8-month high. This was primarily driven by a 26.8% YoY increase in total imports, significantly outpacing the 9.5% YoY growth in total exports during the month. For Q1FY27, the cumulative trade deficit nearly doubled to US$33.6 billion, with exports growing 11.6% YoY compared with a 17.3% YoY increase in imports.

Another key concern at the beginning of the previous quarter was the prospect of a weak monsoon due to the anticipated impact of El Niño. Encouragingly, this risk has eased considerably, with the rainfall deficit narrowing to around 14% as of end-July 2026. With monsoon activity now largely on track, at least one major source of potential food-price inflation and broader price pressures appears to have become less of a concern.

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In its July Monthly Economic Review, the Ministry of Finance highlighted that India's domestic demand is expected to remain resilient despite global disruptions, although commodity price volatility continues to pose a key risk. This assessment is broadly reflected in the Q1FY27 earnings reported so far, which indicate steady top-line growth across sectors, albeit accompanied by persistent margin pressures arising from elevated input costs and geopolitical uncertainties.

Management commentaries across industries have also pointed to sustained business momentum through July. Many companies have accelerated inventory build-up to effectively cater to robust consumer demand while mitigating potential risks from further increases in commodity prices and possible supply chain disruptions. These risks could intensify should the conflict in West Asia escalate further or take a prolonged period to reach a resolution.

Sectors which have delivered better than expected results so far, driven by healthy domestic demand, high volume and robust credit growth are – Banking and Financial Services, select IT & ITES, capital goods and infrastructure.

Banking and Financial Services: Maintained stable asset quality alongside healthy loan and credit growth (running close to 17-20%). Major NBFCs and private lenders posted strong profit expansions, benefiting from improved operating leverage and solid retail/SME disbursements.

Capital Goods and Infrastructure: Benefited from continuous government capital expenditure and high-value domestic execution backlogs. Engineering and power majors reported steady YoY revenue and net profit upticks, giving high confidence in forward-looking earnings.

Midcap IT and Tech Services: While large cap IT lagged with flat sequential growth, select midcap technology and digital infrastructure companies posted robust sequential revenue jumps driven by strong deal wins and data centre projects.

Select performances in the spaces such as airlines, fragrances and flavours, and recycling also reported a healthy quarter portraying their ability to manoeuvre the disruptions caused by the ongoing west Asia war. We remain positively expectant about the remaining upcoming results and the market sentiment that would build effectively.

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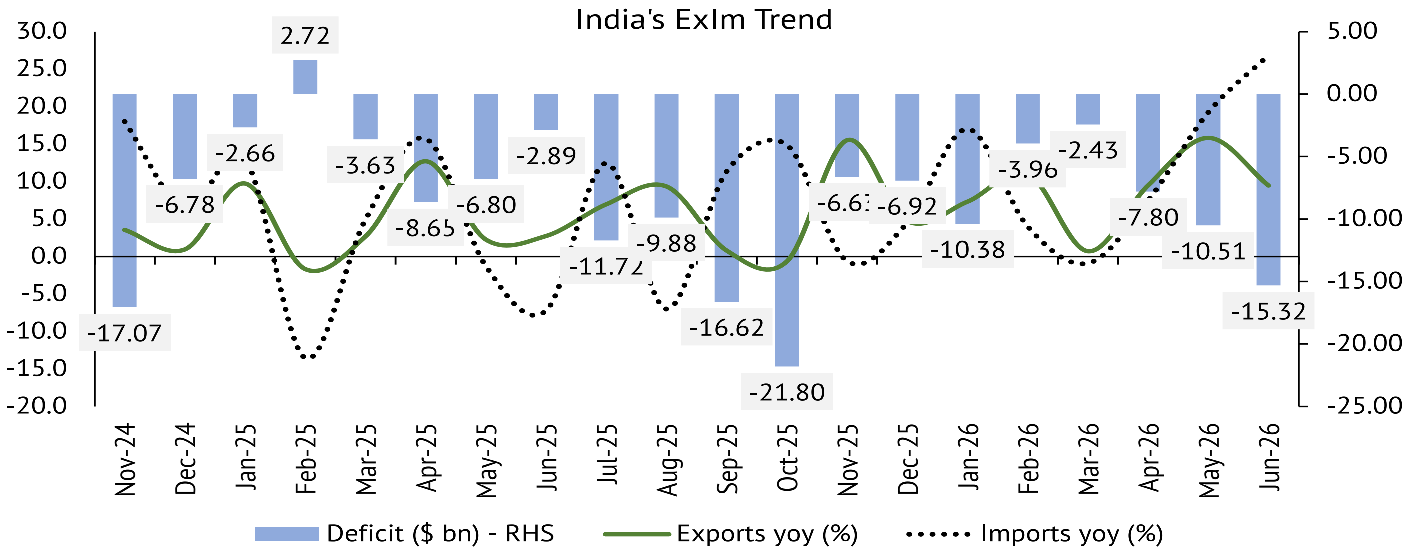
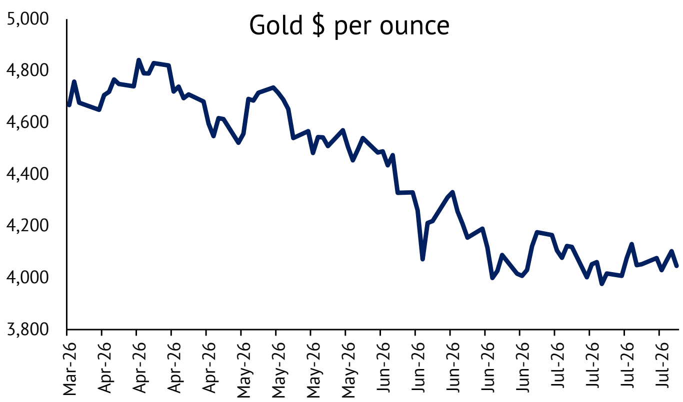
Economic Notables

Exhibit 1: India's Export-Import growth and Trade Deficit



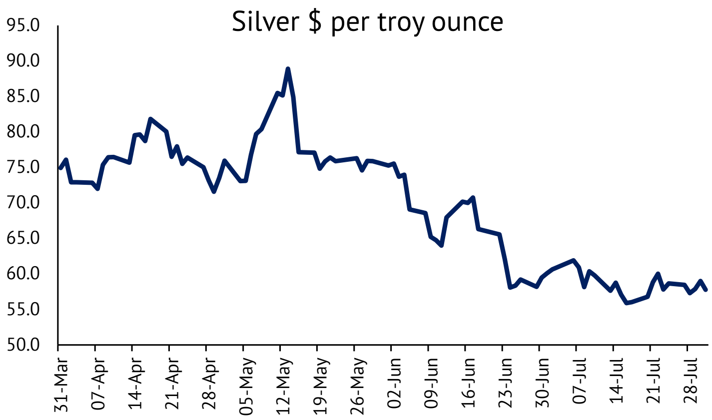
Source: Bloomberg

Exhibit 2: Gold price down 13.32%



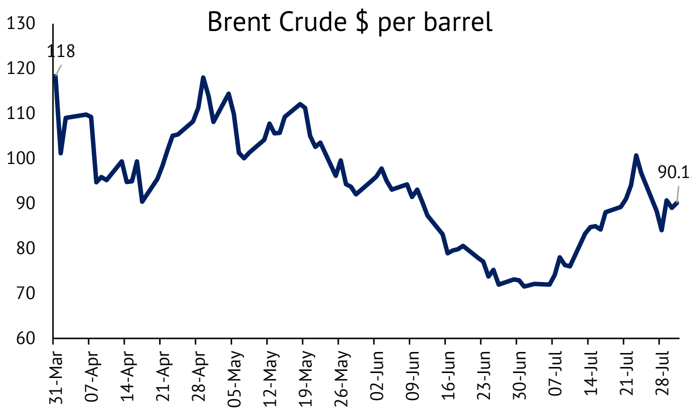
Source: Bloomberg

Exhibit 3: Silver corrected by 22.87%



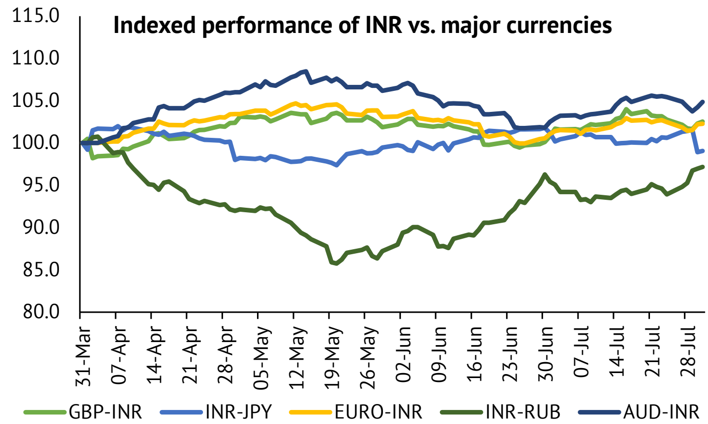
Source: Bloomberg

Exhibit 4: Brent continued rose again with fresh escalation in the US-Iran war



Source: Bloomberg

Exhibit 5: INR performance remained largely mixed



Source: Bloomberg

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Market Check

Exhibit 6: Most sectoral indices started off FY27 with healthy returns despite global instability

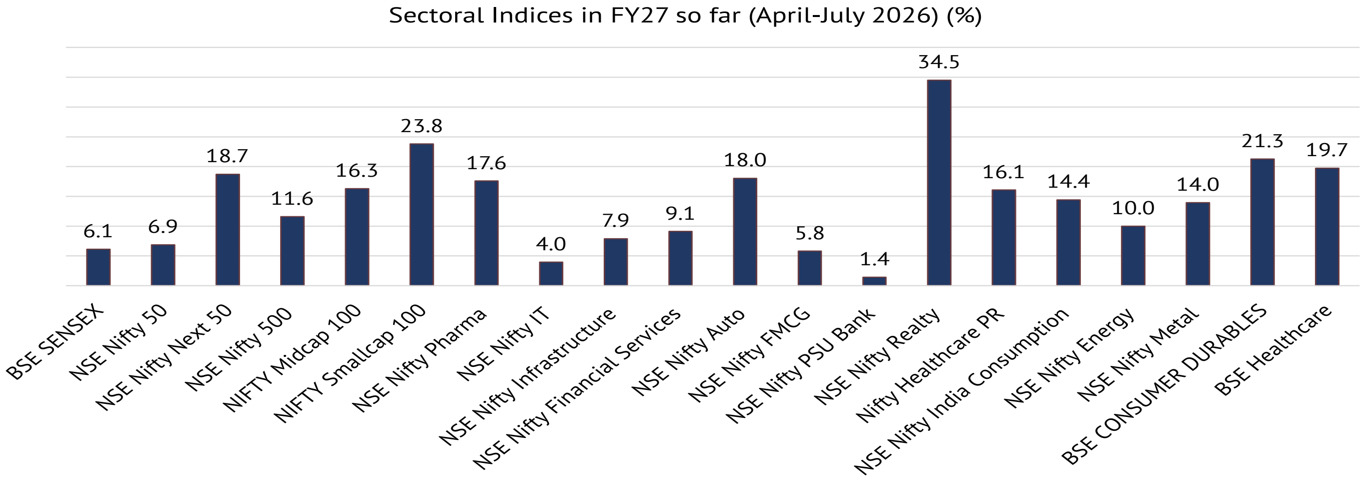


Exhibit 7: While the Nifty 50 valuations dropped below their 10 year weekly average P/E...

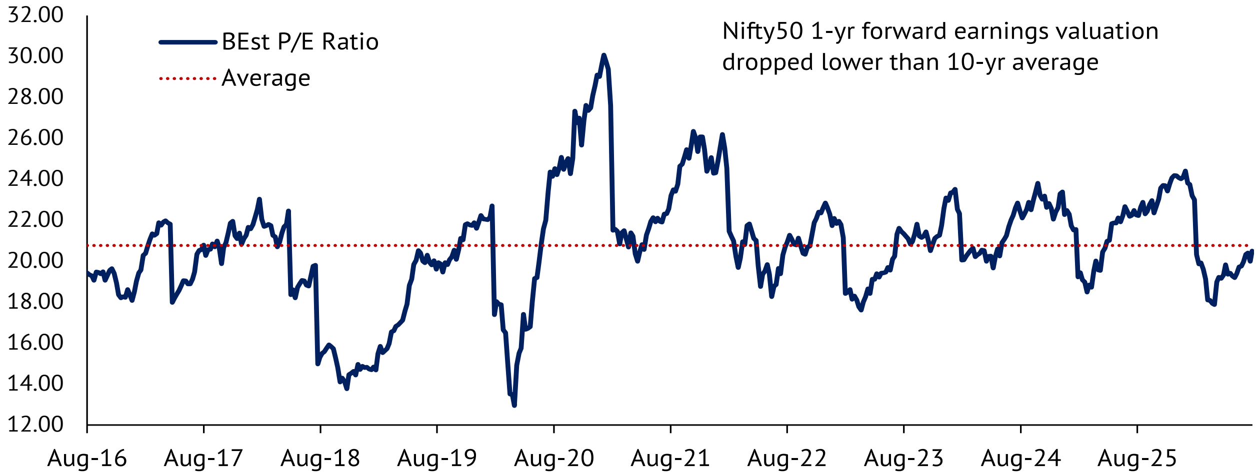
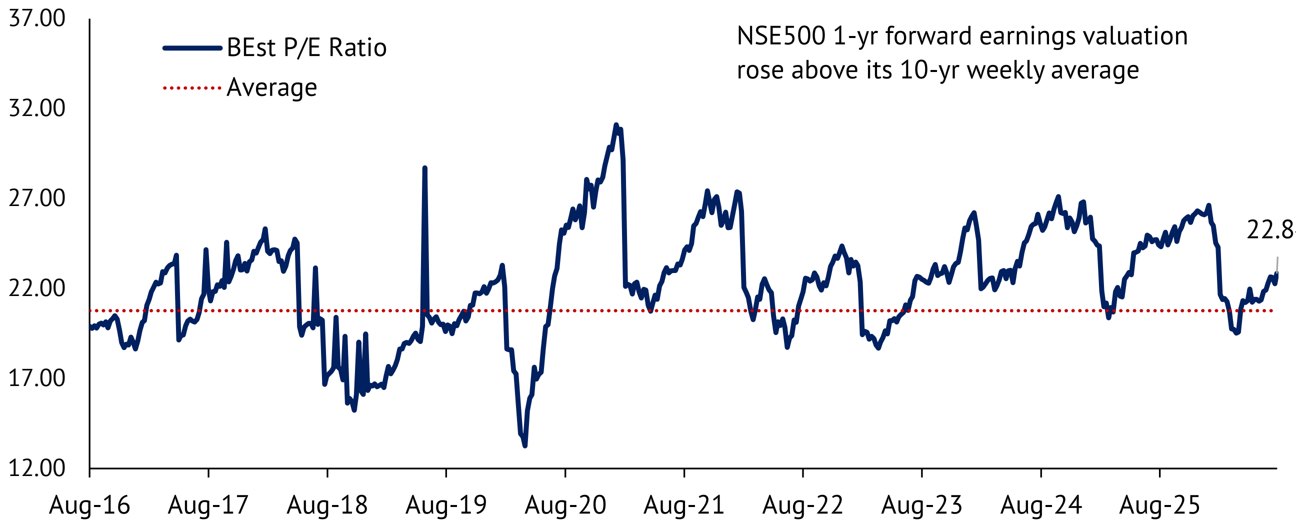


Exhibit 8: ...that for NSE 500 rose above 10-yr weekly average with robust stock price movement in mid-caps



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