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# Market Outlook

Key Trends & Actionable Insights

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*May 2026*

*Navigating Volatility, Positioning for Growth*

# May Outlook (1/5)

## Market Outlook: Navigating Volatility, Positioning for Growth

- Indian equities entered May 2026 after staging a strong recovery in April, although the market environment continues to reflect selective risk-taking rather than broad-based optimism. The Nifty 50 gained 7.5% during April, while MSCI India rose 9.1% in US dollar terms, supported by resilient domestic macros, easing geopolitical concerns after the temporary US-Iran ceasefire, and a stable start to the Q4FY26 earnings season.
- Despite the rebound, foreign institutional investors remained persistent sellers amid rising US bond yields, elevated crude prices and a stronger US dollar. Domestic institutional and retail participation continued to absorb supply, reinforcing the structural shift underway in Indian markets where domestic liquidity has become the primary stabilizing force. Investor positioning data indicates that FPI ownership in Indian equities has declined meaningfully, while domestic mutual fund participation continues to scale new highs.
- Sector leadership during the month remained concentrated in domestic cyclical themes. Realty, capital goods, power, industrials and utilities outperformed sharply, benefiting from expectations of continued infrastructure spending, manufacturing momentum and domestic capex expansion. In contrast, IT continued to lag due to weaker global demand visibility, pricing pressure and subdued discretionary technology spending.
- At a broader level, the current market recovery appears more liquidity and positioning driven rather than being supported by a significant improvement in the global growth

Indicators (MoM %)	Jan-26	Feb-26	Mar-26
Naukri job speak index	(12.1)	22.6	(11.6)
Motor vehicle sales	21.5	(3.3)	5.6
Tractor sales	26.7	(10.9)	30.8
Petrol consumption	(1.7)	(4.0)	12.2
Diesel consumption	(5.7)	(4.1)	13.9
Cement production	1.6	(4.2)	9.3
Steel production	4.2	(8.3)	4.7
Major port traffic	1.5	(9.6)	12.8
Export growth	(4.7)	0.3	6.3
Import growth	10.5	(10.6)	(6.5)
Non-oil, non-gold imports	(0.4)	(5.4)	2.4
E-way bills generated	(1.1)	(3.1)	6.0
Bank non-food credit growth	0.8	1.4	3.0
Deposit growth	0.1	1.2	4.1

Source – Nirmal Bang – India Macro Meter

# May Outlook (2/5)

## Macro Environment

- India closed FY26 on relatively strong footing, although FY27 begins with a more complex macroeconomic setup. The revised GDP series indicates that India's growth remained healthy through FY26, supported by stable domestic consumption, government-led capex and resilient services activity. Industrial activity moderated marginally during the final quarter but remained in expansion territory, while high-frequency indicators such as GST collections, vehicle sales, credit growth and e-way bill generation continue to signal underlying economic resilience.
- Manufacturing and services PMIs also remain comfortably above neutral levels, reflecting continued strength in domestic demand conditions. However, the pace of momentum has moderated compared to earlier quarters, suggesting that the economy may be transitioning from a phase of sharp cyclical recovery toward more normalized growth.
- The key challenge for FY27 lies in balancing growth resilience against rising external pressures. Elevated crude oil prices following the West Asia conflict have increased risks around inflation, currency stability and the current account deficit. India's dependence on Middle East energy imports and remittances remains significant, making developments around the Strait of Hormuz and regional supply disruptions important macro monitorable.
- Global growth expectations have also softened. IMF projections indicate moderation in global growth for 2026 amid persistent geopolitical uncertainty and elevated energy prices, while developed market central banks have turned more cautious as inflation risks re-emerge. Higher crude prices are gradually feeding into global inflation expectations, reducing the scope for aggressive monetary easing globally.
- On the domestic front, inflation remains within the RBI's comfort range, although risks are gradually rising due to crude oil, commodity prices and monsoon uncertainty. The new CPI series structurally lowers volatility by reducing food weightage and increasing the representation of core consumption categories, but imported inflation risks remain elevated if energy prices sustain at higher levels.
- The RBI is therefore expected to maintain a cautious policy stance. While liquidity conditions

Manufacturing PMIs												
	Mar-26	Feb-26	Jan-26	Dec-25	Nov-25	Oct-25	Sep-25	Aug-25	Jul-25	Jun-25	May-25	Apr-25
US	52.3	51.6	52.4	51.8	52.2	52.5	52.0	53.0	49.8	52.9	52.0	50.2
Eurozone	51.6	50.8	49.5	48.8	49.6	50.0	49.8	50.7	49.8	49.5	49.4	49.0
Japan	51.6	53.0	51.5	50.0	48.7	48.2	48.5	49.7	49.0	50.1	49.4	48.7
UK	51.0	51.7	51.8	50.6	50.2	49.7	48.2	47.0	48.0	47.7	46.4	45.4
China	50.8	52.1	50.3	50.1	49.9	50.6	51.2	50.5	49.5	50.4	48.3	50.4
India	53.9	56.9	55.4	55.0	56.6	59.2	57.7	59.3	59.1	58.4	57.6	58.2
Brazil	49.0	47.3	47.0	47.6	46.8	48.2	46.5	47.7	48.2	48.3	49.4	50.3
Indonesia	50.1	53.8	52.6	51.2	53.3	51.2	50.4	51.5	49.2	46.9	47.4	46.7
Mexico	48.9	47.1	46.3	46.1	47.3	49.5	49.6	50.2	49.1	46.3	46.7	44.8

Services PMIs												
	Mar-26	Feb-26	Jan-26	Dec-25	Nov-25	Oct-25	Sep-25	Aug-25	Jul-25	Jun-25	May-25	Apr-25
US	49.8	51.7	52.7	52.5	54.1	54.6	54.2	54.5	55.7	52.9	53.7	50.8
Eurozone	50.2	51.9	51.6	52.4	53.6	53.0	51.3	50.5	51.0	50.5	49.7	50.1
Japan	53.4	53.8	53.7	51.6	53.2	53.1	53.3	53.1	53.6	51.7	51.0	52.4
UK	50.5	53.9	54.0	51.4	51.3	52.3	50.8	54.2	51.8	52.8	50.9	49.0
China	52.1	56.7	52.3	52.0	52.1	52.6	52.9	53.0	52.6	50.6	51.1	50.7
India	57.5	58.1	58.5	58.0	59.8	58.9	60.9	62.9	60.5	60.4	58.8	58.7
Brazil	50.1	53.1	51.3	53.7	50.1	47.7	46.3	49.3	48.3	49.3	49.6	48.9

Weak      Average      Strong

Source: Bloomberg. PMI: Purchasing Managers' Index

# May Outlook (3/5)

## Market Valuation & Positioning

- Valuation comfort across Indian equities has moderated meaningfully following the strong market recovery seen over the past year. While headline valuations have corrected from earlier extremes, pockets of the broader market — particularly speculative small and mid-cap segments — continue to trade at elevated levels relative to earnings visibility.
- Market leadership is increasingly shifting toward quality large caps, where earnings visibility, balance sheet strength and institutional ownership remain stronger. Positioning data also indicates that both foreign and domestic institutional investors are rotating selectively within large-cap segments rather than aggressively expanding risk across the broader market.
- The current environment therefore favors disciplined allocation over aggressive momentum participation. Markets remain investable, but return expectations may normalize relative to the outsized gains witnessed during the 2021–2024 cycle. Earnings growth in FY27 is expected to recover gradually, though at a more moderate pace.



Past performance may or may not be sustained in future.

Source: Bloomberg, Invesco Asset Management (India) Research, Bloomberg PE: Price to Earning- 1 Year forward PE. Data as on 22 April 2025.

# May Outlook (4/5)

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## *Sectoral Outlook*

### **Financials & Banks**

Banks and financials continue to benefit from healthy credit growth, improving corporate asset quality and strong lending momentum across MSME, vehicle finance and NBFC segments. Large private sector banks remain better positioned due to stronger balance sheets and stable liability franchises, although rising deposit costs may limit margin expansion.

### **NBFCs**

NBFCs are witnessing strong AUM growth driven by vehicle finance, consumer lending and infrastructure-linked financing demand. Auto financiers and housing finance companies are expected to benefit from improving economic activity and replacement demand, while MSME-related stress remains a monitorable factor.

### **Capital Goods, Infrastructure & Defence**

Capital goods, infrastructure and defence continue to benefit from strong government capex, robust order inflows and rising investments across power transmission, smart infrastructure, railways, renewables, semiconductors and data centers. Defence manufacturing is also supported by increasing indigenization and domestic procurement initiatives.

### **Power & Utilities**

Power and utilities remain supported by rising electricity demand, transmission expansion, renewable energy investments and infrastructure-led industrial activity. Growth visibility continues to improve across transmission, distribution and energy-transition related segments.

### **Telecom**

Telecom continues to benefit from rising data consumption, industry consolidation and improving tariff structures. Higher average revenue per user (ARPU) and growing digital consumption trends are supporting sector profitability and cash flow visibility.

### **Healthcare & Pharmaceuticals**

Healthcare and pharmaceuticals continue to witness stable demand trends driven by rising healthcare consumption, hospital occupancy and domestic pharmaceutical demand. Hospitals are benefiting from strong occupancy and pricing trends, while select pharma companies continue to maintain healthy earnings visibility.

### **Metals**

Metals are benefiting from stronger steel prices, cost optimization initiatives and improving industrial activity. Earnings visibility remains linked to commodity prices, global growth trends and infrastructure-related demand recovery.

### **Consumption & FMCG**

Consumption trends have shown gradual improvement supported by GST rationalization, stable rural demand and improving channel movement. Staples and food categories continue to witness relatively steady demand, while inflation and higher crude-linked input costs remain important monitorable for margins and discretionary spending.

## May Outlook (5/5)

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### **Consumer Durables**

Consumer durables are witnessing improving demand trends supported by summer-led categories, premiumization and rising adoption of energy-efficient products. Improved urban demand and better channel offtake are supporting recovery across key categories.

### **Automobiles**

The automobile sector continues to benefit from replacement demand, rural recovery and cyclical improvement across passenger vehicles, two-wheelers and commercial vehicles. SUVs remain preferred within passenger vehicles, while commercial vehicle demand has improved due to infrastructure and replacement-led activity.

### **Hotels & Hospitality**

The hospitality sector continues to witness healthy occupancy, room rates and RevPAR growth supported by weddings, corporate travel, MICE activity and domestic tourism demand. Organized hotel operators continue to benefit from sustained travel and event-related activity.

### **Information Technology**

IT services continue to face pressure from weaker global demand visibility, cautious enterprise technology spending and uncertainty surrounding AI-led disruption and margin sustainability. Large-cap companies remain relatively stable, although overall sector growth visibility remains moderate.

### **Cement**

Cement demand continues to be supported by infrastructure activity and construction spending, although rising input costs, freight expenses and energy prices remain important factors influencing profitability and margins.

### **Oil & Gas**

Oil and gas remains highly sensitive to geopolitical developments, crude oil volatility and changes in refining margins. Elevated energy prices and supply-chain disruptions continue to influence sector earnings and operational outlook.

### **Chemicals**

Chemicals continue to face pressure from weak global demand conditions, pricing challenges and higher input costs linked to energy volatility and supply-chain disruptions. Recovery remains dependent on improvement in external demand conditions.

# Equity Market – Overview and Strategy

While periodic volatility is likely to remain elevated due to geopolitical and global macro uncertainties, India continues to remain structurally well positioned relative to most emerging and developed markets over the long run.

As of 30th April 2026	1M	3M	6M	YTD	1Y	3Y	2Y	5Y	2021	2022	2023	2024	2025
BSE 200	9.35	-2.94	-5.35	-5.95	1.35	12.9	3.49	12	27.59	4.18	22.76	13.4	8.03
BSE 250 Small Cap	17.97	6.42	-4.22	-0.09	8.08	19.18	2.35	17.32	57.67	-2.04	45.75	24.17	-5.88
NIFTY 50	7.46	-5.23	-7.27	-8.16	-1.38	9.9	3.03	10.4	24.12	4.33	20.03	8.8	10.51
NIFTY 500	10.5	-1.72	-4.86	-4.98	2.97	14.19	3.94	12.9	30.19	3.02	25.76	15.16	6.69
NIFTY BANK	9.13	-7.96	-5.46	-7.92	-0.41	8.24	5.39	10.84	13.49	21.15	12.34	5.32	17.15
Nifty Midcap 150	13.22	2.37	-0.7	-1.24	10.7	22.51	7.91	19.22	46.81	2.96	43.68	23.8	5.37

Source: ACE MF, Data as of 30<sup>th</sup> April 2026

### Short Term View (0 – 6 months)

The near-term environment is expected to remain volatile and event-driven. Crude oil prices, monsoon progression, inflation trends, geopolitical developments and global risk sentiment are likely to remain key market drivers. In this backdrop, allocation preference should remain tilted toward quality large-cap and flexi-cap strategies, balanced advantage funds and banking-oriented exposure. Investors may prefer balanced and quality-focused PMS strategies rather than highly cyclical or momentum-driven positioning.

### Medium Term View (6 – 24 months)

The medium-term outlook for India remains constructive, supported by structural domestic growth drivers including infrastructure spending, manufacturing expansion, digitization and financialization of savings. As external volatility stabilizes, earnings recovery is likely to broaden across domestic cyclicals, infrastructure-linked sectors and manufacturing beneficiaries. Over this horizon, allocation can gradually expand toward large & mid-cap strategies, manufacturing and infrastructure themes, along with selective cyclical exposure focused on industrials, power and financials.

### Long Term View (24 – 60 months)

India’s long-term structural growth story remains intact, supported by favorable demographics, rising consumption, manufacturing relevance, digital adoption and increasing participation of domestic investors in financial assets. Over the long term, wealth creation is likely to remain driven by disciplined asset allocation, SIP-led investing and ownership of quality businesses with scalable franchises and strong capital efficiency.

Accordingly, long-term portfolios should continue to favor - Flexi-cap and diversified equity strategies, Core large-cap and index allocations, Quality-focused PMS strategies, Strategic gold allocation for diversification and portfolio resilience.

# Fixed-Income Outlook — May 2026

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The outlook for the Fixed Income and Debt Market is characterized by a neutral policy stance from the RBI and a focus on supportive financial conditions to foster a cleaner consumption recovery.

## *Monetary Policy and Interest Rates*

- **RBI Status Quo:** The Reserve Bank of India maintained the status quo in its April 2026 policy update, keeping the repo rate unchanged at **5.25%**.
- **Policy Stance:** The RBI has reiterated its **neutral stance**, focusing on balancing growth risks against inflationary pressures.
- **Yield Curve Management:** For the broader economic cycle to pick up, the RBI may need to keep financial conditions supportive and ensure that lower rates are transmitted effectively across the entire yield curve.

## *Market Dynamics and Yields*

- **Bond Yields:** As of April 2026, the India 10-year bond yield was noted at **6.9%**.
- **FPI and Currency Impact:** High US bond yields and an appreciating dollar led to heavy FPI outflows (~USD 4.4bn in April 2026), which contributed to the Indian Rupee breaching the **94 mark** against the USD.

## *Outlook and Strategic Drivers*

- **Demand Visibility:** The primary constraint for the next investment cycle is no longer balance sheet stress but "demand visibility". A sustained improvement in Private Final Consumption Expenditure (PFCE) is seen as the key signal for the next leg of the cycle.
- **Supportive Environment:** Sustainable economic activity is historically linked to a combination of benign interest rates and strong capital expenditure.
- **Inflationary Risks:** Global inflation projections have been revised upwards due to elevated energy prices following supply shocks in the Middle East (specifically the closure of the Strait of Hormuz). This global volatility remains a key factor to watch for debt market stability

# Fixed-Income Outlook — May 2026

The fixed income landscape underwent a significant transition in April 2026. While the previous month was defined by a "Bull-Steepening Twist," April saw a broader relief rally across the curve following a de-escalation of West Asia tensions and a sharp retreat in crude oil prices. The **RBI's April MPC meeting** reinforced stability by maintaining the repo rate at **5.25%** with a **"neutral"** stance, signaling a "lower for longer" approach despite recent global volatility.

## Yield Curve Dynamics

- Short-End (3M-3Y) - Sustained Softening:** The short end continued its downward trajectory as systemic liquidity transitioned toward an ample surplus. The RBI's assurance of maintaining sufficient liquidity to support growth, combined with the cooling of immediate inflation fears, has kept front-end rates well-anchored.
- Anchored Belly (5Y-10Y) - Range-Bound Stability:** The 10Y benchmark yield, which briefly spiked toward 7.10% in March, settled back around **7.00%** by the end of April. Stability was supported by the announcement of a ceasefire in West Asia and New Delhi's steady debt issuance plan, which helped absorb supply without significant yield hardening.
- Long-End (10Y+) - Relief Flattening:** The "steepening" seen last month has partially reversed. As Brent crude plunged from its March peak of \$110 back toward more manageable levels, the long-term term premium compressed. The "weight of global supply concerns" has lightened, although the Rupee remains sensitive, hovering near the **92.50-93.00** range.

Segment	View	Strategy	Rationale
Short (1-3Y)	Overweight	Capital preservation & high accrual	Ample liquidity and a steady 5.25% repo rate make short-term instruments (CDs/CPs) highly attractive for risk-adjusted returns.
Mid (5-8Y)	Tactical / Overweight	Core allocation & duration building	With the MPC signaling that real rates remain high, this segment offers a sweet spot for capturing yields before the expected pivot later in FY26.
Long (10Y+)	Overweight (Duration Play)	Increasing duration on upticks	Benign core inflation (averaging ~2.1%) and the potential for rate cuts in H2 FY26 make the long end a strong candidate for capital gains.

# Fixed-Income Outlook — May 2026

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## *Strategy Summary*

The transition from "cautious" to "constructive" is the theme for April. With the **March CPI print coming in at a benign 3.4%** and core inflation remaining low, the macro-fundamentals support a shift toward building duration.

- **Tactical Shift:** Move from "Selective Overweight" to a more active **Duration Positioning** in the long end. The "twist" has normalized, and the current yield levels provide a favorable entry point for locking in long-term returns.
- **Risk Management:** While global volatility has subsided, remain watchful of the **Rupee's trajectory** and potential **El Niño impacts** on food inflation later in the year. Stick to high-credit-quality (AAA/Sovereign) portfolios to navigate any residual global economic uncertainty.

**Key Monitoring Factor:** The implementation of revised **Liquidity Coverage Ratio (LCR)** norms in April 2026 may cause minor short-term volatility in banking system liquidity, but the overall outlook remains supportive for fixed-income investors.

# Commodities – Overview & Outlook

## *Market Setup: The Strategic Pivot*

Gold has moved away from being a simple currency hedge and is now trading as a **primary strategic reserve asset**.

- **Resilience:** Despite a firm U.S. Dollar (hovering near 92.50-93.00 levels), gold has refused to undergo a deep correction. This suggests a decoupling from traditional FX correlations, driven by consistent central bank accumulation and sovereign diversification.
- **Price Behavior:** April saw a shift from a clean trend to a "broad range" environment. Support has solidified at the **\$4,600 (₹1.50 Lakh)** mark, with resistance capped by elevated U.S. Treasury yields.
- **Silver Dynamics:** Silver remains the "high-beta" sibling, exhibiting extreme volatility. While industrial deficits are supportive, the lack of sustained investment inflows (ETFs) means silver continues to trade in wide, unstable ranges compared to gold's steady floor.

## *Geopolitical & Macro Backdrop*

The focus has intensified on the Middle East, specifically the **Strait of Hormuz** and Iran-related supply risks.

- **Safe-Haven Evolution:** While geopolitical shocks still cause price spikes, the market is "pricing in" tension more quickly. These are now viewed as **short-duration spikes** rather than one-way rallies.
- **The "Sticky" Macro:** Global inflation remains stubborn, delaying the aggressive rate-cut cycle once expected for early 2026. With the **Fed holding rates near 3.5%–3.75%**, the opportunity cost of holding non-yielding bullion remains a headwind for a clean breakout.

## *Segmented Outlook*

### **Gold: Constructive Consolidation**

**Bias:** Sideways-to-positive.

- **The Path Forward:** A sustained move toward the **\$5,000–\$5,500/oz** range requires a "triple-softening": lower real yields, a weaker Dollar, and a cooldown in energy-driven inflation.
- **Supportive Pillars:** Institutional demand remains the "structural floor." Pullbacks are increasingly met with "buy-the-dip" behavior from long-term allocators rather than liquidation.

### **Silver: Tactical & Episodic**

**Bias:** Neutral-Tactical.

- **The Path Forward:** Despite a confirmed **physical deficit** in the silver market, the metal lacks "trend confirmation." It remains a tactical play for those who can stomach 5-10% intraday swings.
- **Required Signal:** We need to see a stabilization in futures positioning and a return of retail investment flows before silver can break its current range and target the **\$75–\$80/oz** zone.

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5. World Bank
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7. State Bank of India
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9. Federal Reserve (US Treasury Custody Holdings data)
10. US EIA (Energy Information Administration)
11. LSEG (London Stock Exchange Group)

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