HDFC Bank – Research Presentation

August 2026

Risk profile-based asset allocation

Asset Class	Overall View	Asset Allocation		
		Aggressive	Moderate	Conservative
Equity Funds	▲	75%	55%	25%
Debt Funds	◆	20%	40%	70%
Gold	◆	5%	5%	5%

Note:	
	Optimistic ▲
	Cautiously Optimistic ◆
	Cautious ▼

Category-wise view

MF Categories	View	
	Aug-26	Jul-26
Equity Oriented Funds		
Largecap Funds	▲	▲
Large Cap Index Funds	▲	▲
Multicap Funds	▲	▲
Flexicap / ELSS Funds	▲	▲
Large and Mid Cap Funds	▲	▲
Mid cap	◆	◆
Small cap	◆	◆
Value / Contra / Dividend Yield Funds	◆	◆
Focused Funds	◆	◆
Aggressive Hybrid Funds / Dynamic Asset Allocation / Balanced Advantage Funds	▲	▲
Equity Savings Funds	▲	▲
Business Cycle	▲	▲
Sector/Thematic Funds	◆	◆
Multi Asset Allocation Funds	▲	▲

MF Categories	View	
	Aug-26	Jul-26
Debt Oriented Funds		
Short Duration Funds/Medium Duration Funds	▲	▲
Banking & PSU Funds	▲	▲
Corporate Bond Funds	▲	▲
Target Maturity Index Funds	◆	◆
Medium to Long / Long Duration Funds	◆	◆
Dynamic Bond Funds	◆	◆
Gilt Funds	◆	◆
Ultra Short Duration/Low Duration/Money Market Funds	▲	▲
Arbitrage Funds	▲	▲
Liquid/Overnight Funds	◆	◆
Conservative Hybrid Funds	▲	▲
Credit Risk Funds	◆	◆
Income Plus Arbitrage FoF	▲	▲

Research Presentation – Content

- **Equity MF Outlook and Strategy – August 2026**
- US: Economy resilient… Fluctuating war status may impact inflation… To drive action by Fed in future
- Europe: Growth prospects moderate… Capex remains key driver
- China: Economy divided… Exports were strong while consumption remains weak
- Commodities: Inched up as tensions flared again… Food inflation remains a key monitorable
- Emerging Markets: Outflows seen in Korea and Taiwan as concerns around funding for US hyper-scalers impact EM suppliers
- July turns out to be a positive month for markets driven by FPI and DII flows, though ongoing West Asia conflict keeps it on edge
- Sectoral performance and FPI flows in July 2026
- India Macros: Growth remains strong but external risk remains a concern
- Urban Economy: Remains strong
- Rural Economy: While monsoon remains weak, aggregate deficit has come off
- Q1 FY27 Earnings Snapshot
- India: Valuations remain fair… With macro condition improving, earnings momentum may drive further upside
- Sustained Retail participation through Mutual Funds continues to support the market amidst sustained FPI selling
- Market Roundup – July 2026
- Key concerns for Indian equities
- Annexure…
- Sectoral outlook by fund managers – Part 1
- Sectoral outlook by fund managers – Part 2
- Sectoral Movement
- Sectoral valuations have improved vs. their long-term averages
- Current 1-year forward P/E multiples of countries vs. their 5-year average 1-year forward P/E
- AMC Sectoral Holdings

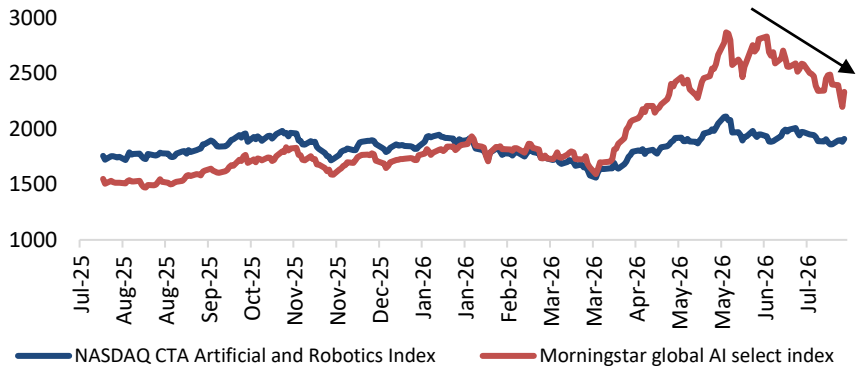
- **Fixed Income Outlook and Strategy – August 2026**
- US: Despite interim relief, re-escalation of the West Asia conflict has led to renewed uncertainty around energy prices and inflation… Fed continues to remain data dependent
- EU: As inflation eased, the ECB held rates and decided to wait for data driven clarity before taking further policy actions
- Fed maintained and ECB adopted a hawkish pause
- Amidst interim relief from moderating inflation on the back off the fall in Crude prices, major Central Banks adopted a wait and watch approach to monetary policy, but may continue to remain Hawkish
- Global Commodities: Prices moved up on the back of a surge in select metal and crude prices
- System liquidity came under pressure, pushing up money market yields… FCNR(B) led inflows likely supported liquidity towards the end of the month
- INR found support from capital flows led by FCNR(B), though the trade deficit rose
- CPI inflation moved above 4% YoY … Deficient monsoon is emerging as a key risk alongside re-escalation of the West Asia conflict which may have impact on inflation going forward
- Despite volatility in crude prices, G-sec yields remained relatively stable
- Tight liquidity conditions led to significant inversion of the corporate bond yield curve, whereas continuous heavy supply by states means SDL yields may structurally remain higher
- Disclaimer

Equity MF Outlook and Strategy – August 2026

- The interim MoU between the US and Iran was terminated and tensions have flared up which pushed up the yields across the curve in the US. Resilient PMI numbers, elevated inflation and strong non-farm payroll data has turned the Fed hawkish which has lent support to DXY. The latest FOMC meeting held rates steady but hawkish commentary raised expectations of a rate hike in December. AI driven stocks saw a correction as concerns around elevated fund raising by these players weighed on sentiments. A key risk for the US remains its elevated Debt/GDP ratio and the policy framework pursued by the new Fed Chair would be the key monitorable.
- Eurozone continues to show mixed picture. While the ECB held rates, inflation continues to remain above the 2% band, driven by a sharp rise in energy costs. The Manufacturing PMI remains stable on the back of capex-led strength and the Services PMI also saw an uptick. The Consumer Confidence, though weak, has improved over the last few months. Eurostat's preliminary Q2 GDP growth estimates surprised on the upside. However, the European Commission has downwardly revised its GDP growth forecasts for CY26 and CY27, raising stagflationary concerns.
- China's economy continues to show divided landscape with a strong trade balance, driven by exports resilience driving the appreciation in Yuan. Nevertheless, retail sales remain weak as domestic demand lags, weighed down by weak household confidence and a still-correcting Real Estate sector with declining home prices. However, with inflation conditions expected to remain benign, policy space remains ample for government to support demand.
- Commodity prices rebounded in July. Crude prices rose sharply during the month as the interim deal to end the West Asia war collapsed and blockades and attacks on vessels picked up. Gold and Silver prices remained largely rangebound with a declining bias as the global central banks are turning hawkish. Industrial metal prices rose in July due to supply-side disruptions. Rising food prices, in a El Nino year, remains a key monitorable.
- Most Emerging Markets (EMs) saw outflows as the DXY maintained its strength on the back of a hawkish Fed, and a rise in risk premiums due to tensions flaring up in West Asia. AI-driven markets like Taiwan and South Korea and saw sharp correction as concerns an AI infrastructure funding costs arose in the US; while commodity-driven markets delivered neutral to positive monthly returns as commodity prices rose in July.
- **India's macro economic condition have continued to improve.** The Q4 FY26 GDP growth @7.8% YoY was better than expected, despite the West Asia conflict breaking out. Industrial strength was highlighted by a strong rebound in IIP growth. PMI growth moderated but remained in the expansionary zone. GST collection remains strong and Direct tax collection also remained robust, strengthening the centre's ability to absorb temporary shocks. E-way bill generation also saw an uptick, indicating rapid formalization in the economy, reducing leakages. With RBI offering to absorb the currency hedging costs on FCNR(B) deposits and temporarily removing the interest rate cap during the window ending September 2026, Fund Managers are expecting inflows to the tune of ~USD 60-80 bn, which could boost system liquidity while also further easing pressure on INR.
- **Urban demand continues to remain strong** with key indicators suggesting strong traction**.** Passenger Vehicle sales growth remains strong. Urban unemployment remains elevated but has slightly come off. Future implementation of the 8th Pay Commission, continued benefits of lower GST rates and higher disposable income due to controlled inflation could drive urban consumption over the medium-to-long term. Credit demand in the economy, too, continues to remain strong, suggesting a strong growth impulse.
- **Weak monsoons add to the downside risk on Rural India's growth**. Crop acreage, while trailing last year, has shown signs of improvement as late July witnessed near-normal weekly rainfall which marginally narrowed the cumulative deficit. Unemployment has picked up marginally in the last 2 months. Although, there is no visible impact on rural consumption yet as tractor sales and 2-wheeler demand continue to remain robust. With temperatures expected to soar and a high probability of El Nino conditions, which leads to below-average rainfall, inflationary impulses could pick up in the rural economy which could weigh down on purchasing power and thereby demand. However, increased payouts under the VB-G RAM-G scheme, and states increasing minimum wages could help cushion some inflationary pressure and support purchasing power.
- **Q1 FY27 results are showing strong topline growth, across market cap segments, suggesting sustained demand momentum but some energy-intensive pockets have seen margin erosion**. Cost of production likely rose due to elevated retail petrol/diesel prices and higher cost of raw materials, impacting margins but players are gradually passing on the higher input prices. IT sector guidance has been weak and a has been a cause of concern. Fund Managers expect Nifty-50 earnings to grow by ~10-12% YoY in FY27, and margin pressures are expected to come off from H2 FY27 onwards as prices of crude and its derivatives normalise. The earnings delivery in the Midcap and Smallcap space, barring the Oil & Gas space, which got impacted due to a flare-up in crude prices due to the West Asia conflict, were superior to their Largecap counterparts.
- The Valuations of Indian equity markets remain fair, with the Largecap indices trading below long term averages, and Smallcap indices' earnings growth potential supporting the premium multiples. Midcaps remain the expensive of the three. With expectations of improved liquidity conditions post the FCNR-B collections, there could be a case for further re-rating in companies that can show improved incremental growth potential.
- Fund Managers who can be fairly nimble and identify growth ideas, could generate alpha vs their peers. Market seems to be turning towards companies who can show consistent growth and is also willing to pay higher valuation for such stocks. FPIs have turned net buyers after remaining sellers for 4 consecutive months in Indian equities. India's relative underperformance vs its peers in recent months and depreciated Rupee likely made the Indian markets attractive for them as they moved out of AI-driven markets.
- **Investment deployment strategy could remain 60% lumpsum and rest 40% to be staggered over the next 3-4 months. Mutual Fund investors can look to focus on categories like Largecap, Flexicap, Multicap, Large and Midcap and Hybrid funds while using STPs as an instrument to invest in Midcap and Smallcap funds. Aggressive investors may also look at Business Cycle Funds for allocation. All allocations should be done in line with the risk profile and product suitability of the investor**.

US: Economy resilient… Fluctuating war status may impact inflation… To drive action by Fed in future

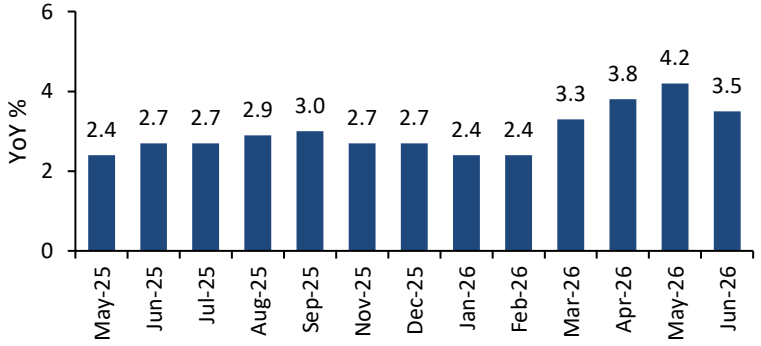
AI related stocks getting weak, viability concerns emerge as players raise debt



Source: Bloomberg

US CPI

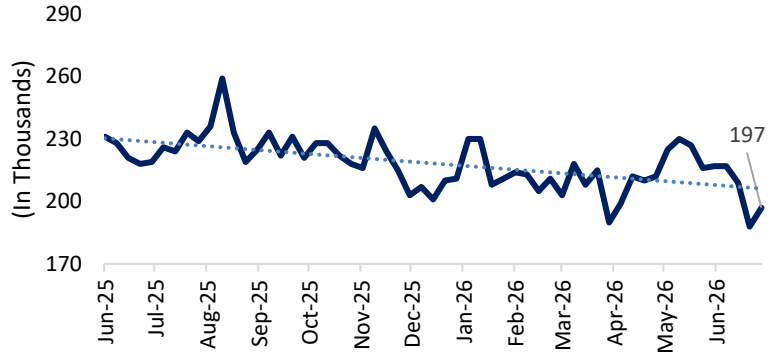
US inflation sticky, remains a key monitorable



Source: Bloomberg

US Initial Jobless Claims

Have come down, indicating resilience in the economy



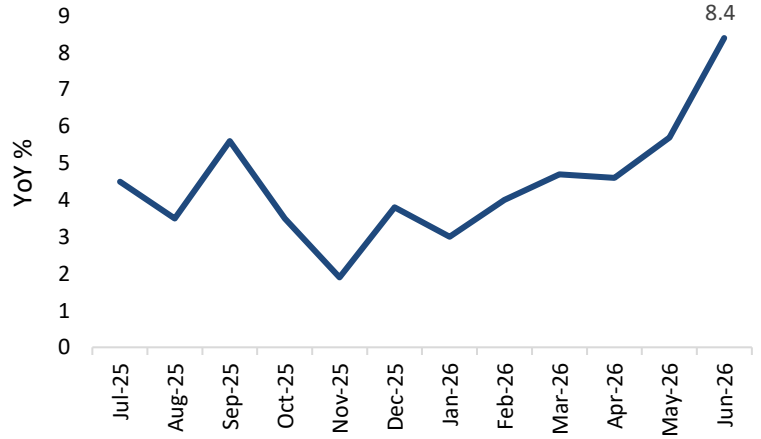
Source: Bloomberg

US Fed maintains a hawkish pause

- Fed Chair Kevin Warsh emphasized a firm dedication to price stability and downplayed forward guidance, arguing that markets should react directly to incoming data rather than look to the Fed for signals.
- If inflation continues to remain sticky, the Fed may be forced to act.

Source: Media articles

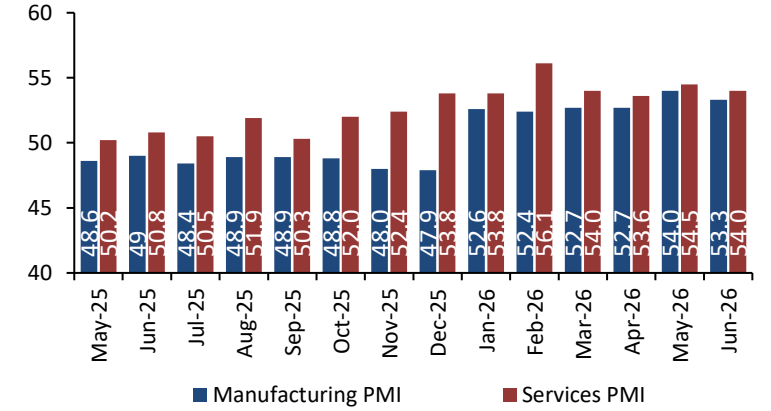
Total US Retail Sales remain robust



Source: Bloomberg

US Manufacturing & Services PMI

Manufacturing & Services PMI continues remain robust



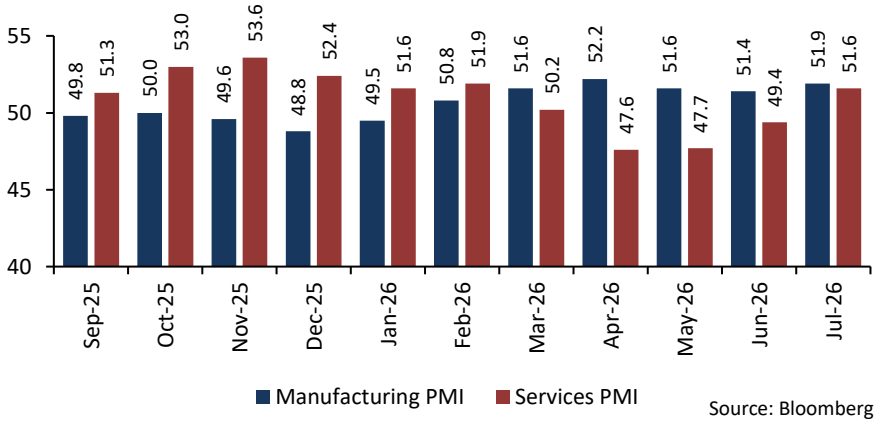
Source: Bloomberg

Classification - Restricted

Europe: Growth prospects moderate… Capex remains key driver

Eurozone PMI

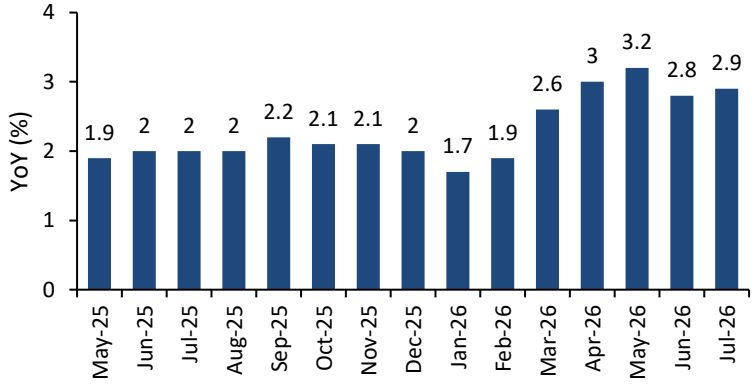
Capex, driven by defence spending, supported Manufacturing PMI, while Services PMI is recovering



Source: Bloomberg

Eurozone CPI

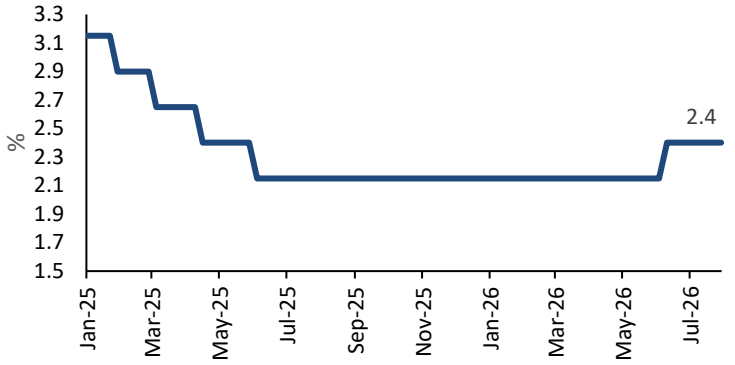
Inflation inching down…



Source: Bloomberg

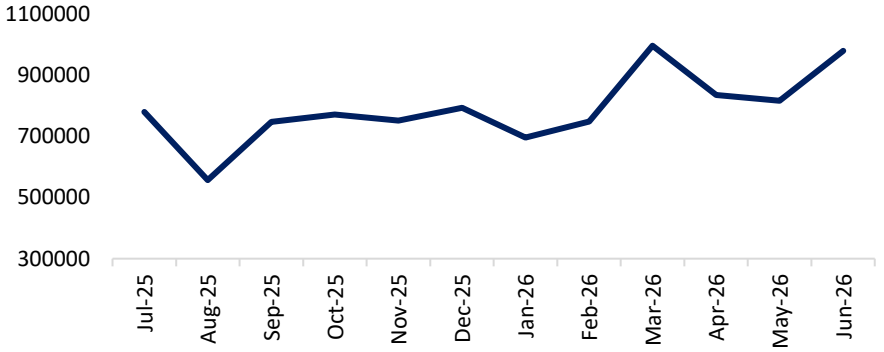
ECB rate cut

… Leading the ECB to pause rates… Further moves would be data dependent



Source: Bloomberg

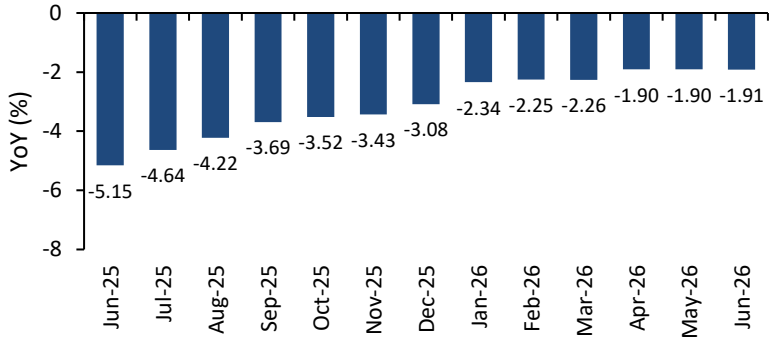
Eurozone New Passenger Car Registrations remain strong



Source: Bloomberg

Eurozone Leading Economic Index

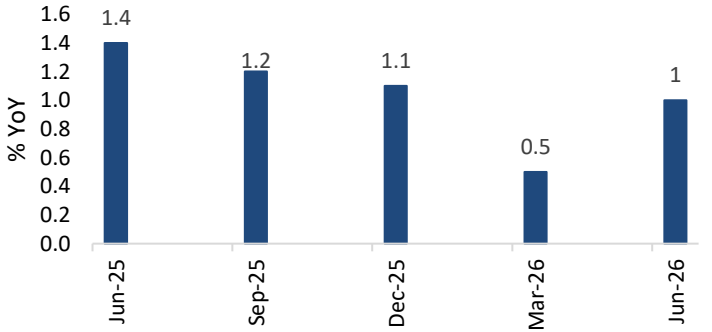
Growth headwinds persist



Source: Bloomberg

Eurozone GDP

Growth inched up, though ECB expects growth to remain moderate

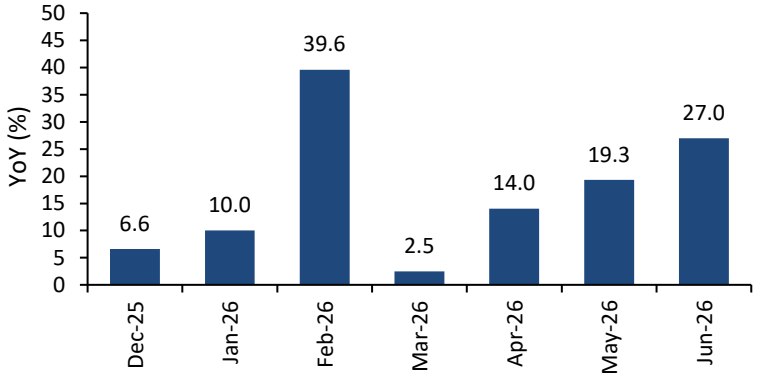


Source: Bloomberg

China: Economy divided… Exports were strong while consumption remains weak

China's Export Growth

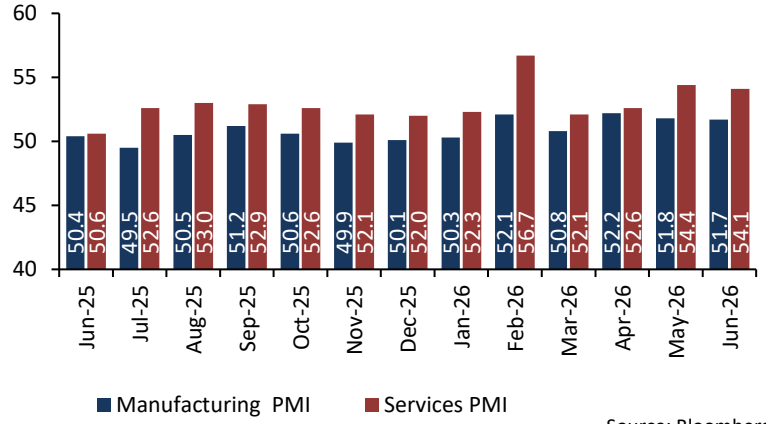
Remains strong



Source: Bloomberg

China Manufacturing & Services PMI

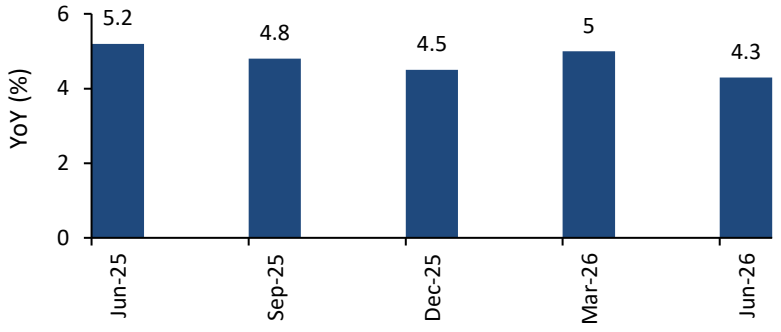
Remains in the expansionary zone



Source: Bloomberg

China Quarterly GDP growth

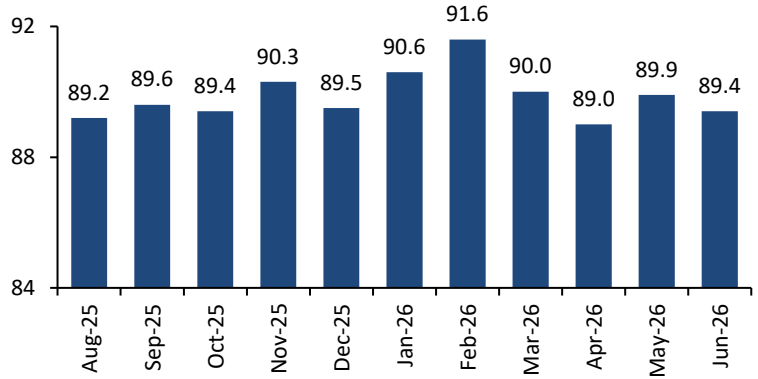
Supply side strength, AI, exports driving growth rather than household demand



Source: Bloomberg

China Consumer Confidence Index

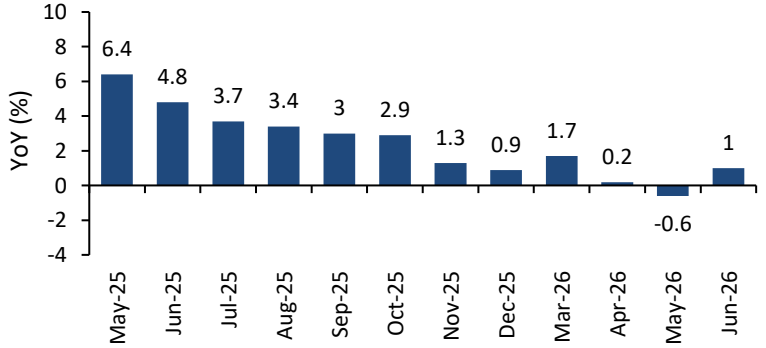
Continues to remain weak



Source: Bloomberg

China Retail Sales

Retail sales remain weak, suggesting weakening consumption



Source: Bloomberg

China Real Estate Climate Indicator

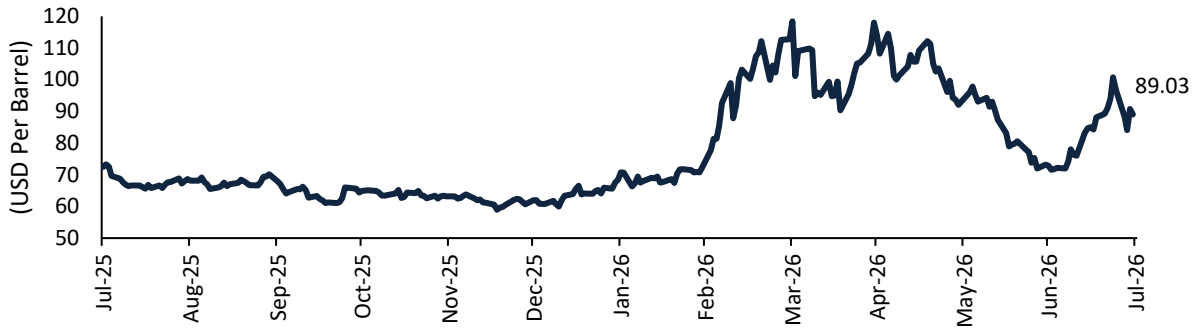
Property sector continues to decline

Source: Bloomberg

Commodities: Inched up as tensions flared again… Food inflation remains a key monitorable

Brent Crude

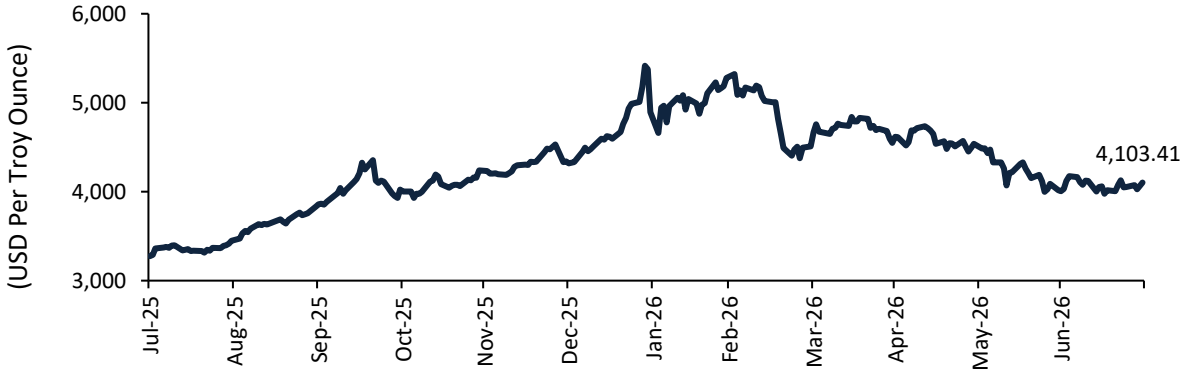
Spiked during the month as interim peace deal was terminated



Source: Bloomberg

Gold Price

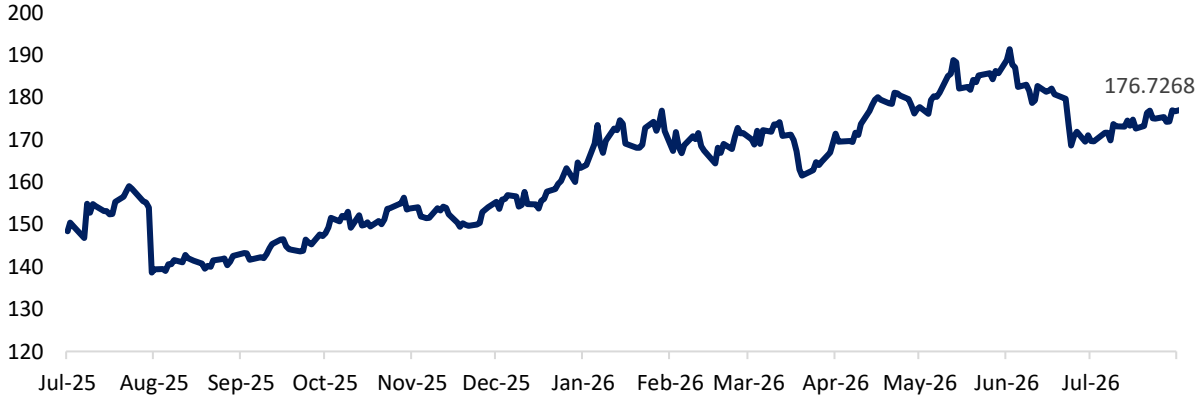
Remains rangebound as central banks turn hawkish



Source: Bloomberg

Bloomberg Industrial Metals Index

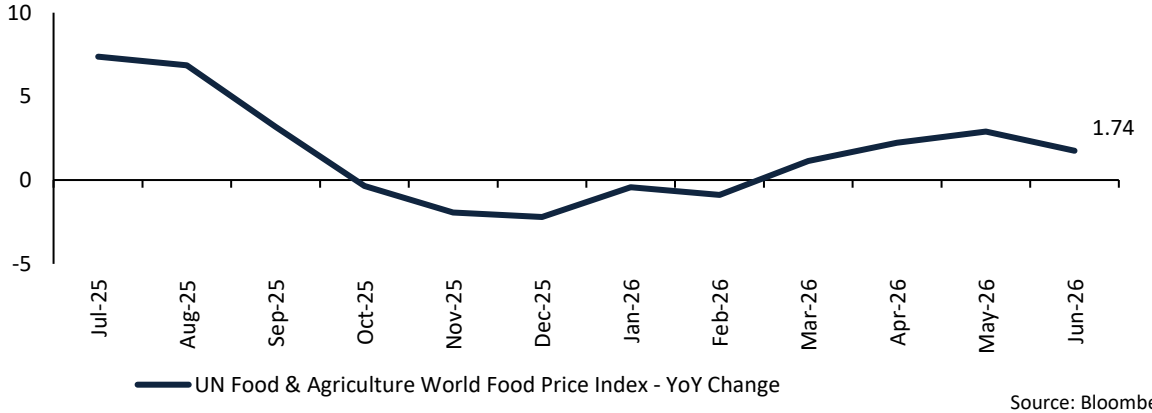
Remains volatile



Source: Bloomberg

Food Inflation

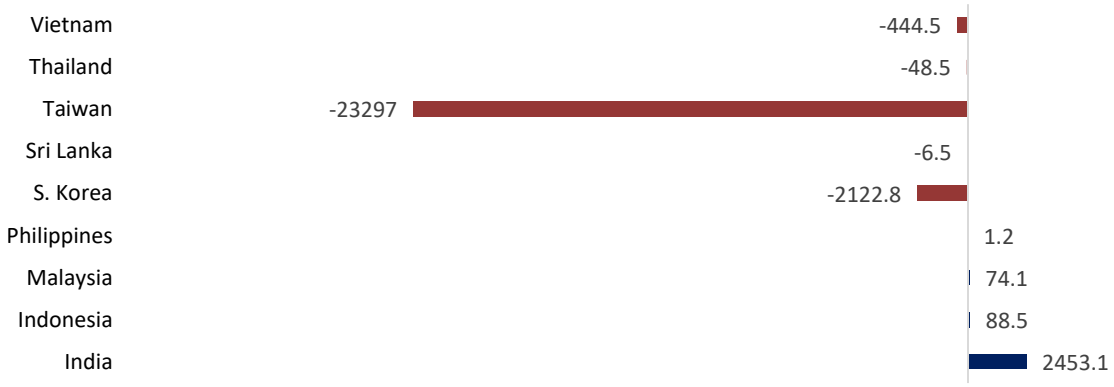
Remains low, though impact of El Nino remains a key monitorable



Source: Bloomberg

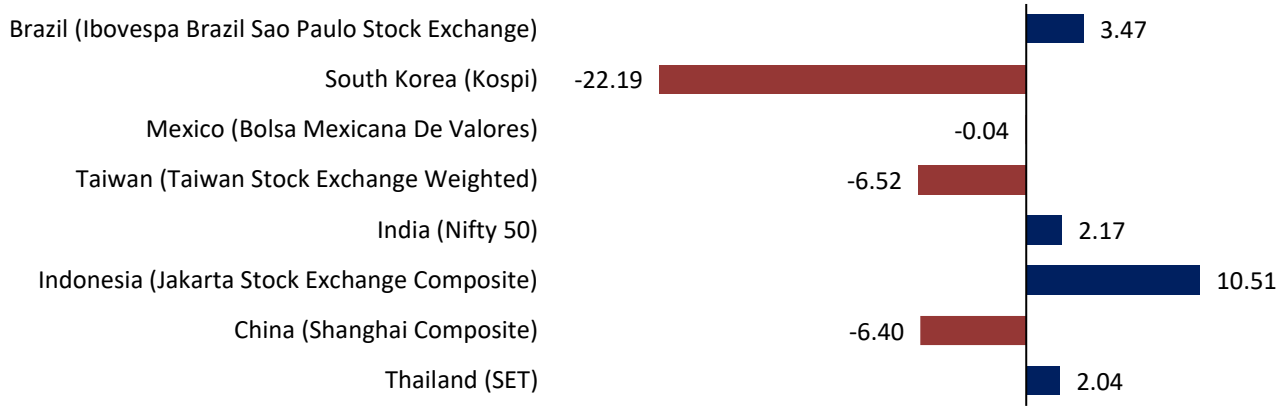
Emerging Markets: Outflows seen in Korea and Taiwan as concerns around funding for US hyper-scalers impact EM suppliers

AI plays in Emerging markets seeing outflows in month of July
(USD Mn)



Source: Bloomberg

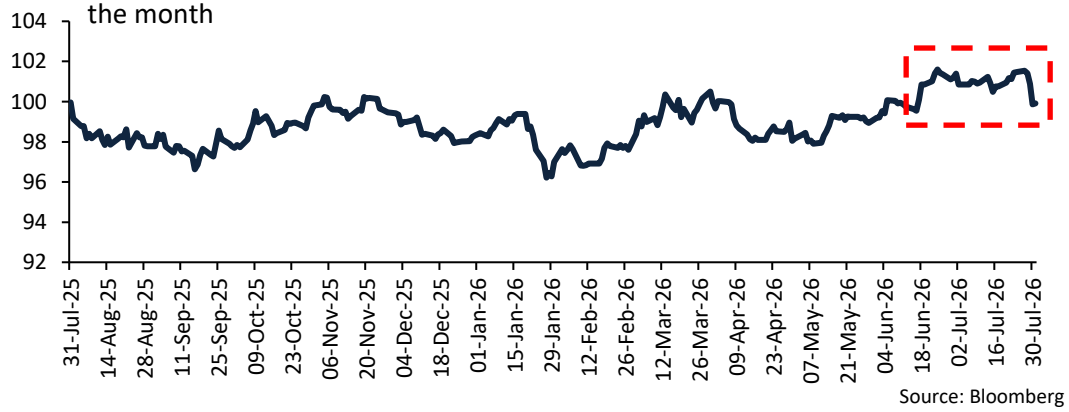
Emerging Markets - Absolute Returns of major equity indices in July 2026 (%)



Source: Bloomberg

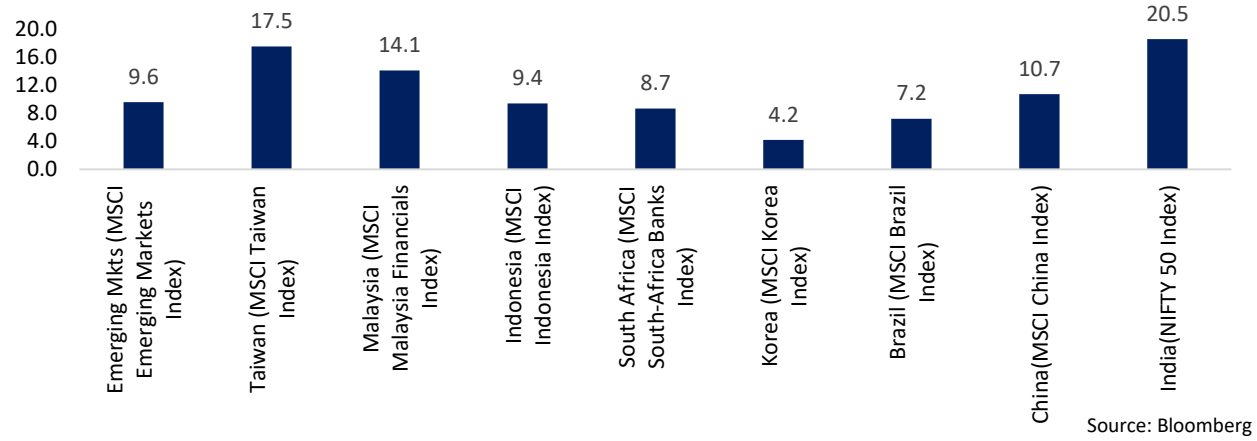
US Dollar Index

DXY continued to remain high and dropped sharply towards the fag end of the month



Source: Bloomberg

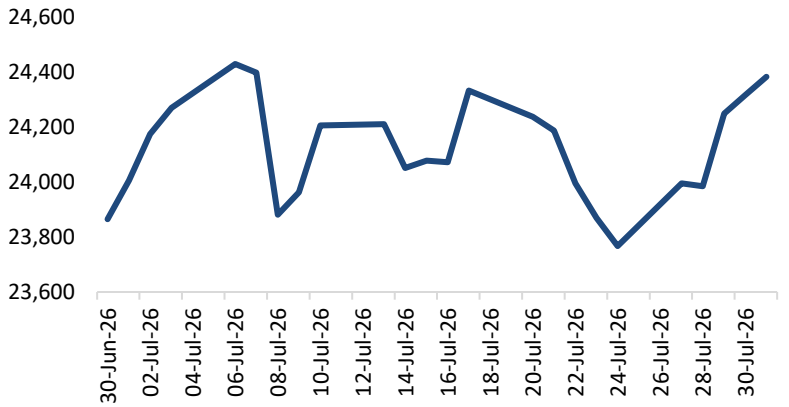
12M Expected Fwd P/E of Various Economies



Source: Bloomberg

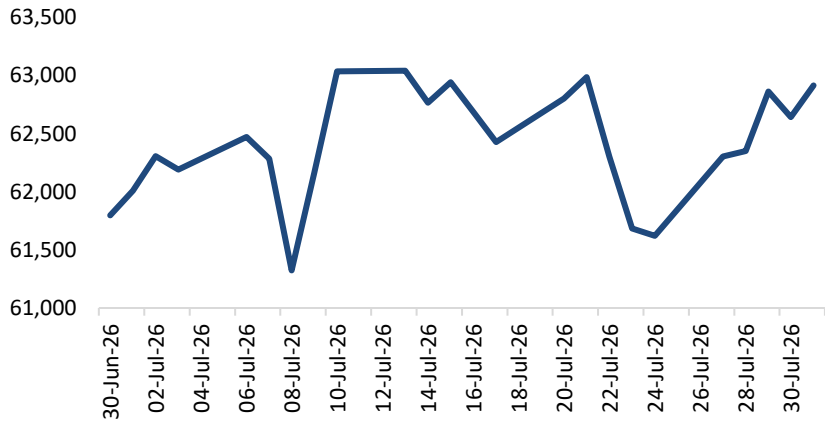
July turns out to be a positive month for markets driven by FPI and DII flows, though ongoing West Asia conflict keeps it on edge

Nifty 50 price movement



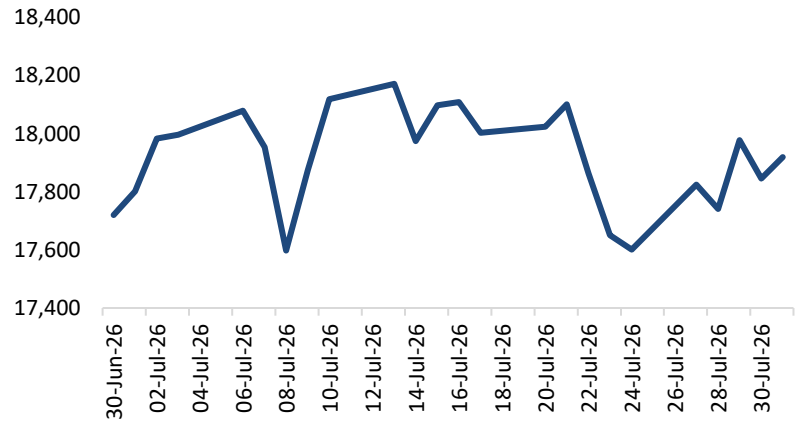
Source: Bloomberg

Nifty Midcap100 price movement



Source: Bloomberg

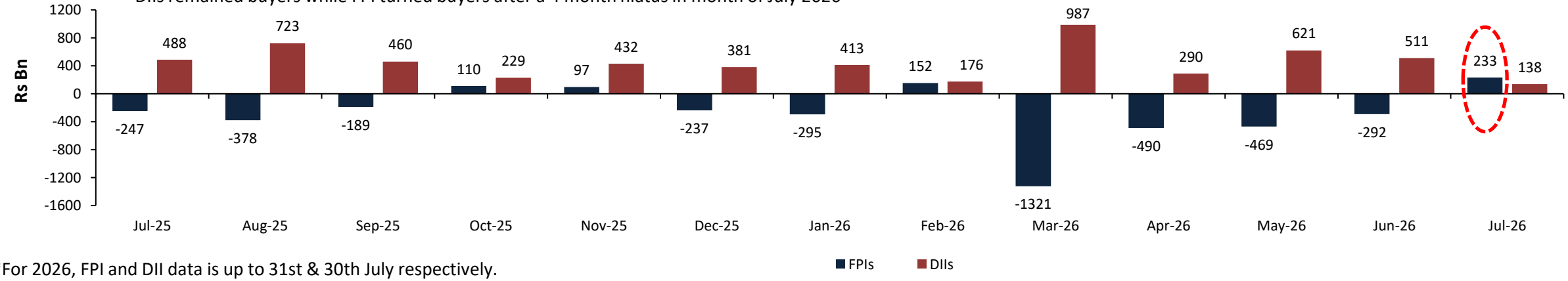
Nifty Smallcap 250 price movement



Source: Bloomberg

Net Flows In Equities (Stock Exchange and Primary market & others)

DIIs remained buyers while FPI turned buyers after a 4 month hiatus in month of July 2026



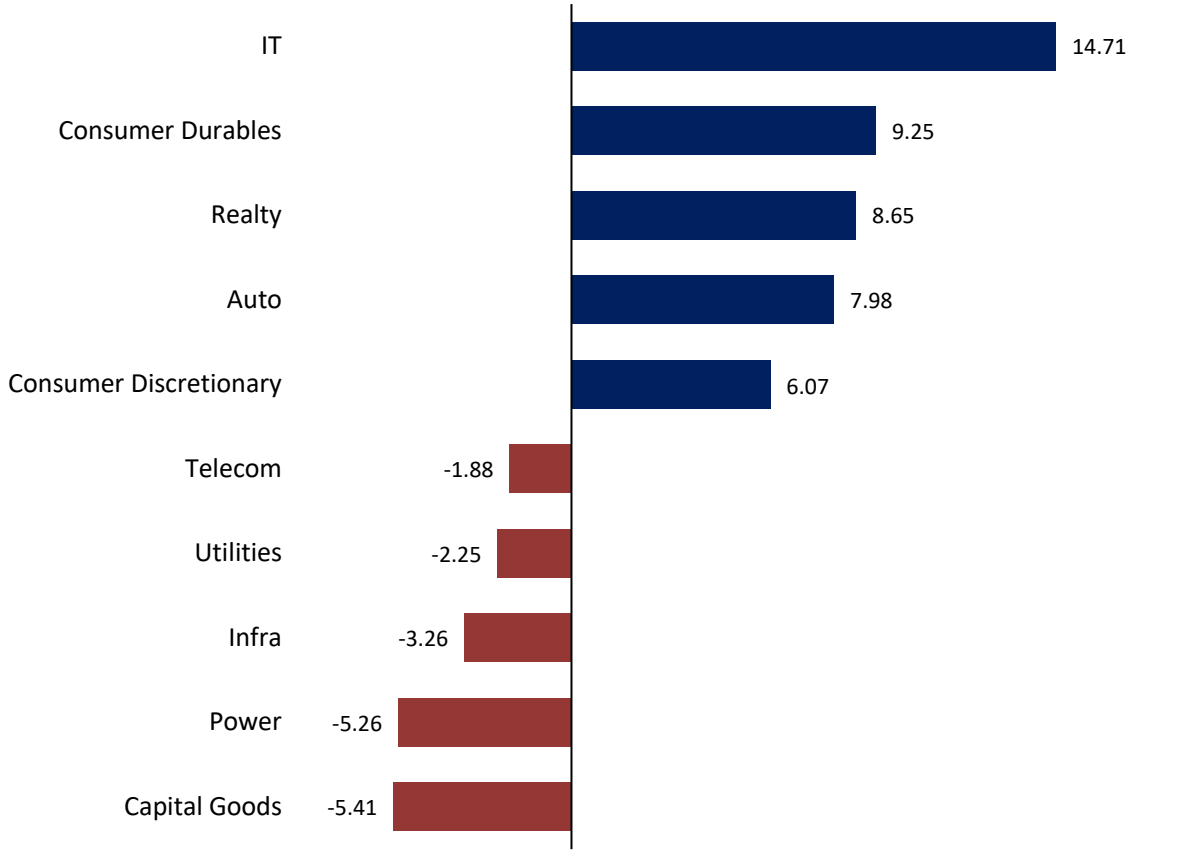
*For 2026, FPI and DII data is up to 31st & 30th July respectively.

**Net Flows In Equities is the sum total of flows in Stock Exchange and Primary market & others

Source: SEBI, CDSL

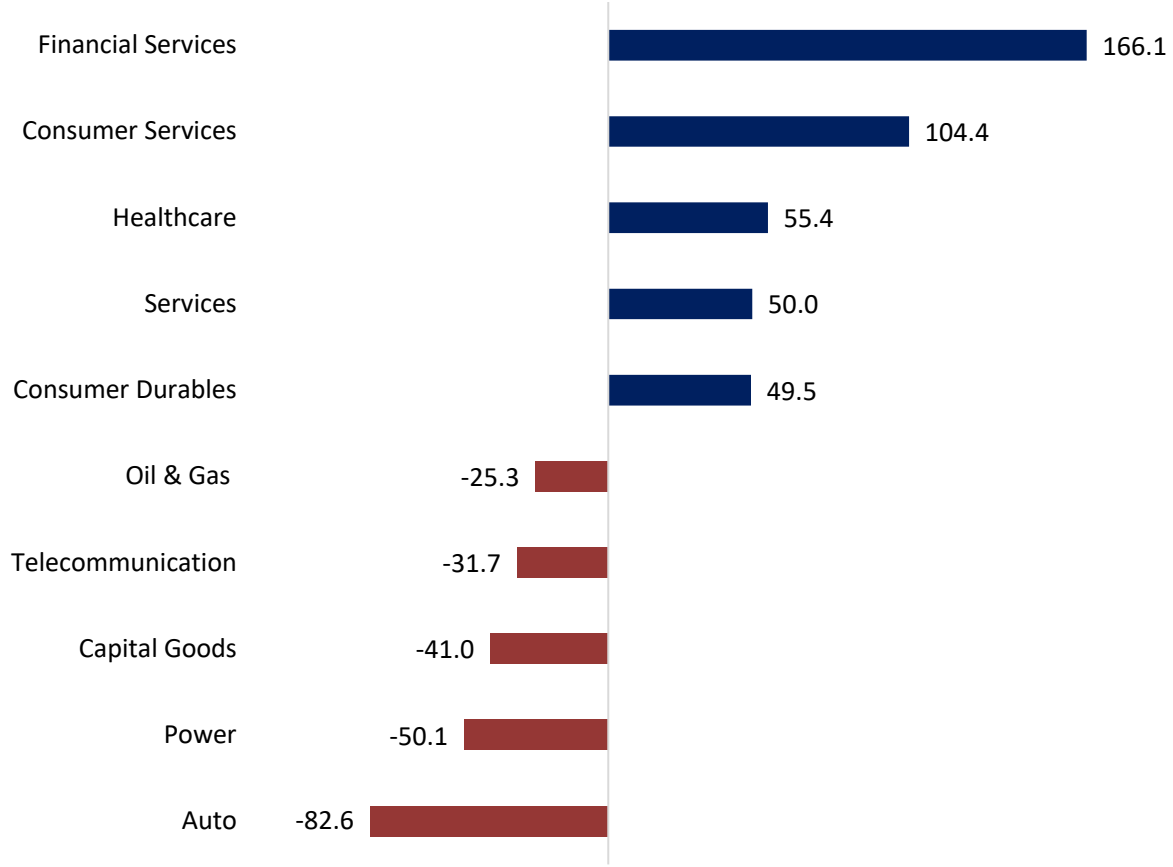
Sectoral performance and FPI flows in July 2026

S&P BSE Sectors - Absolute Return In July 2026
(Only the top and bottom 5 names shown)



Source: Ace MF

Sectoral FPI flows - Top 5 and Bottom 5 (Rs in Bn)
Data is from June 16, 2026 till July 15, 2026



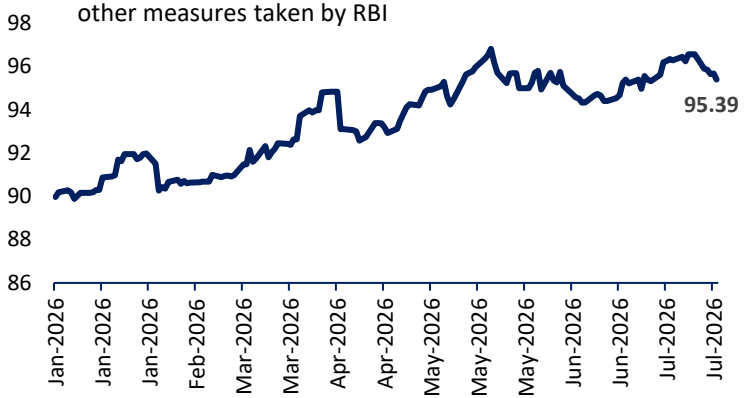
Source: NSDL

Classification - Restricted

India Macros: Growth remains strong but external risk remains a concern

USD / INR

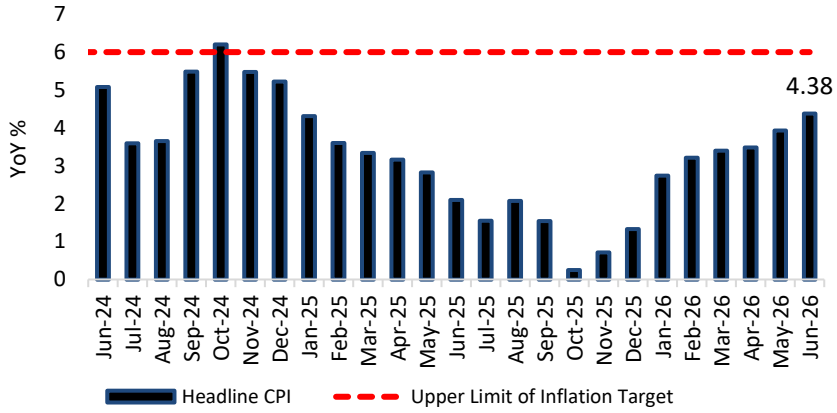
USD/INR supported by improved inflows via FCNR(B) and other measures taken by RBI



Source: Bloomberg

India Headline CPI Inflation

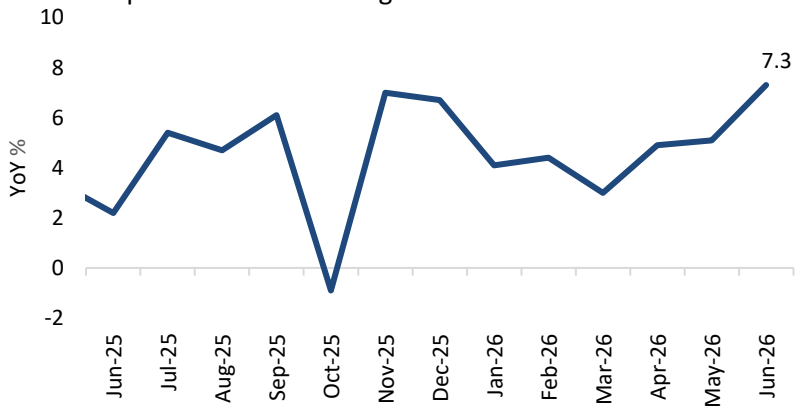
Headline CPI inflation remains comfortable



Source: Ministry of Statistics and Program Implementation

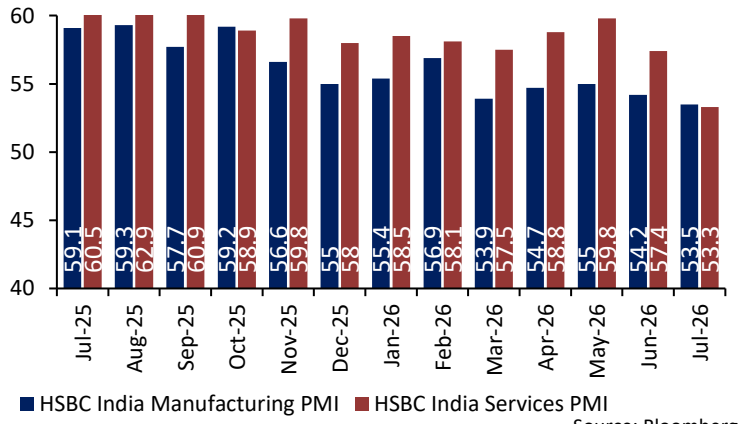
Index of Industrial Production

Expansion is seen in IIP growth



Source: Bloomberg

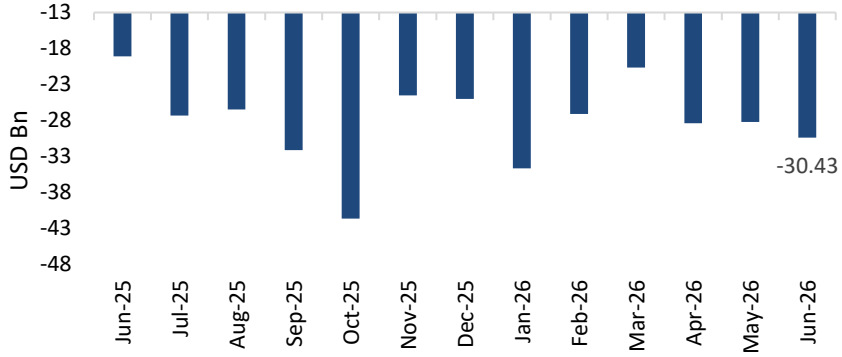
PMI continues to hold up



Source: Bloomberg

India Merchandise Trade Balance

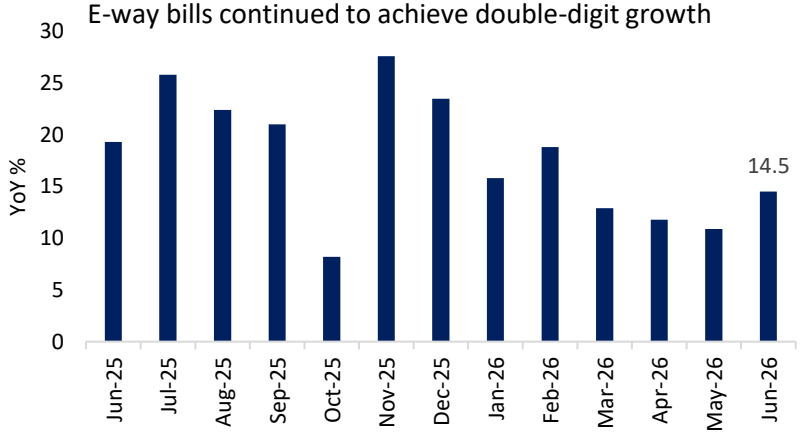
Trade balance impacted on back of elevated crude prices



Source: Bloomberg

E Way Bills

E-way bills continued to achieve double-digit growth

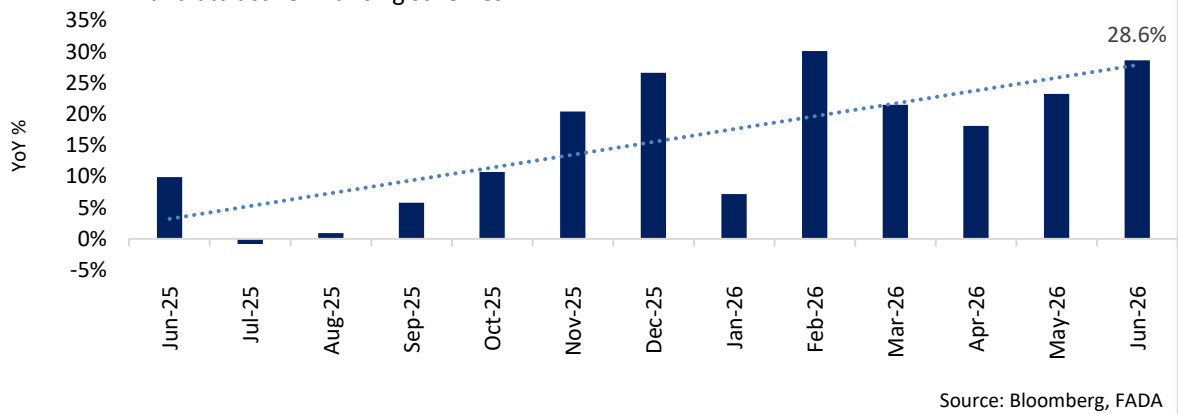


Source: RBI

Urban Economy: Remains strong

Passenger Vehicle Registrations

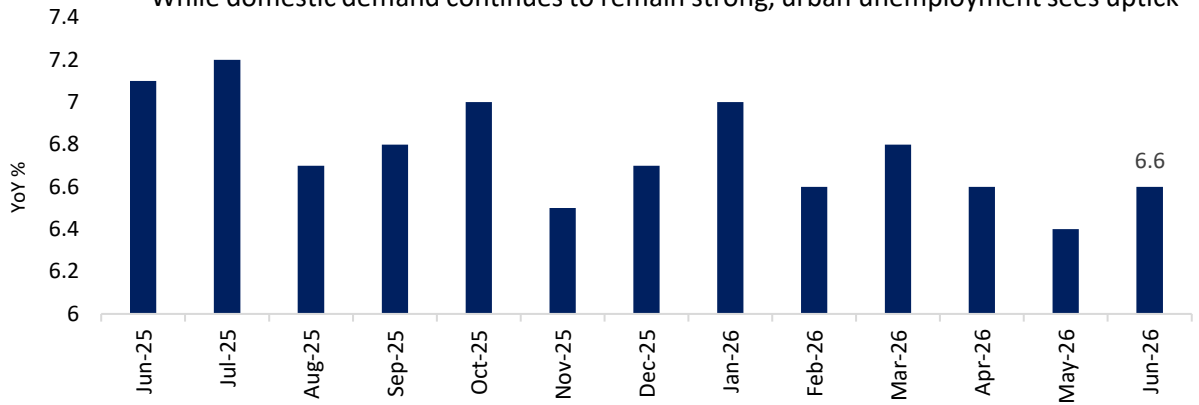
Passenger vehicle sales benefited from sustained demand for SUVs, new model launches, and attractive financing schemes



Source: Bloomberg, FADA

Urban Unemployment

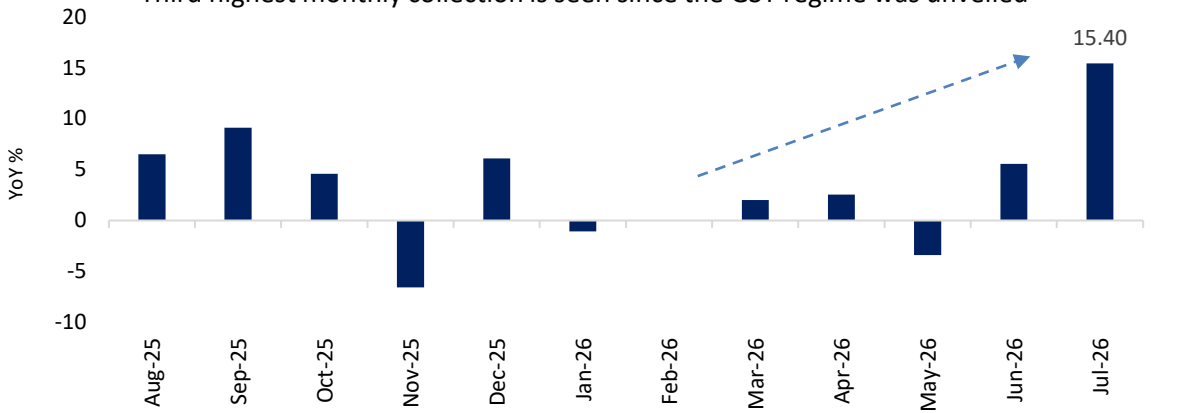
While domestic demand continues to remain strong, urban unemployment sees uptick



Source: RBI

GST Revenue

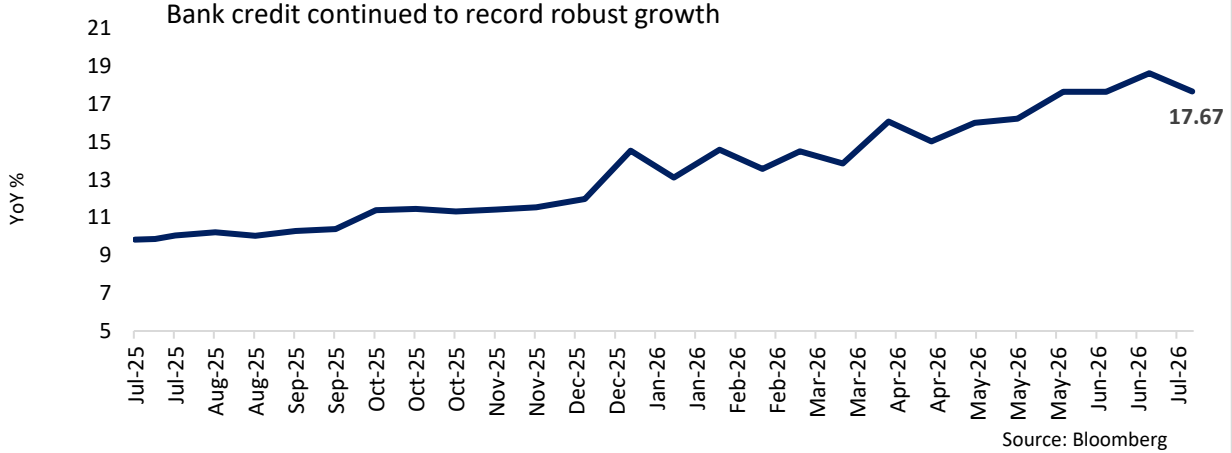
Third highest monthly collection is seen since the GST regime was unveiled



Source: RBI

Bank Credit Growth

Bank credit continued to record robust growth



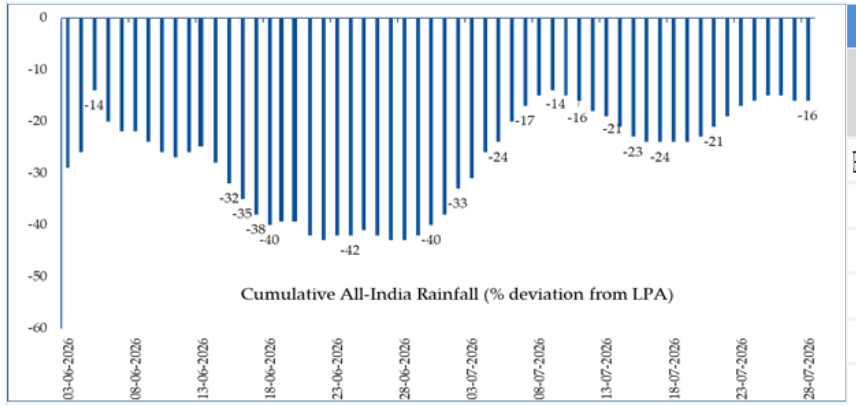
Source: Bloomberg

Classification - Restricted

Rural Economy: While monsoon remains weak, aggregate deficit has come off

Weak Monsoon

Cumulative rainfall deficit moderates to 16% of LPA as of 28th July'26



Source: IMD, HDFC Bank Treasury Research Desk

Rainfall improved in central and northwest India this week; South and East & Northeast remain deficient

	Cumulative Rainfall (% of LPA)					
	As of 24th June	As of 30th June	As of 9th July	As of 14th July	As of 21st July	As of 28th July
East & North East	-41%	-40%	-38%	-35%	-32%	-30%
North West	-22%	-31%	-9%	-16%	-18%	-10%
Central	-59%	-50%	3%	-11%	-13%	-3%
South	-28%	-27%	-15%	-24%	-26%	-28%
All-India	-42%	-40%	-14%	-21%	-21%	-16%

Source: IMD, HDFC Bank Treasury Research Desk Note: shades of green reflect normal rainfall while red and amber shows below normal rain

Progress in Kharif Sowing

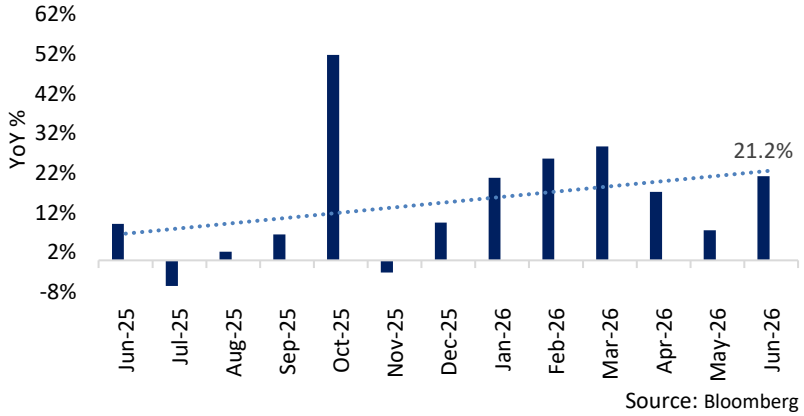
Kharif sowing has improved this week, however, still remains below last year's level

Crops	Sown Area, % y-o-y						
	12th June	19th June	25th June	5th July	10th July	17th July	28th July
Total	-3.9	1.7	-22.7	-20.8	-16.0	-6.0	-4.7
Rice	28.4	52.8	-25.2	-13.1	-8.6	-0.8	-2.6
Coarse Cereals	10.4	26.6	-11.7	-16.3	-22.5	-11.2	-11.9
Maize	-12.0	6.6	-15.6	-5.9	-19.5	-5.0	-9.7
Pulses	-43.2	12.8	-30.5	-21.8	-23.3	-15.1	-7.5
Tur	-57.1	1.3	-57.9	-41.2	-30.3	-17.8	-11.6
Oil Seeds	-0.8	-10.7	-53.3	-39.3	-21.0	-5.5	-2.1
Sugarcane	-0.4	1.2	1.2	1.5	1.5	1.5	1.5
Jute	1.5	2.1	2.0	1.9	1.9	2.1	2.1
Cotton	-27.7	-24.9	-34.6	-23.0	-15.3	-6.0	-3.9

Source: UPAG, HDFC Bank Treasury Research Desk

Two Wheeler Sales

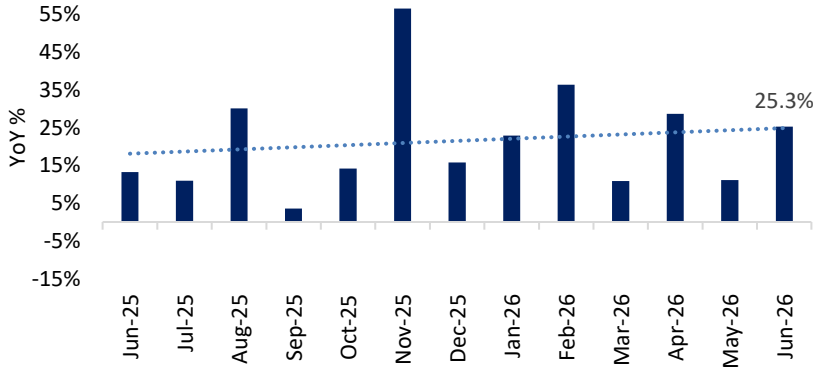
Two wheeler sales recorded robust growth



Source: Bloomberg

India Tractor Sales

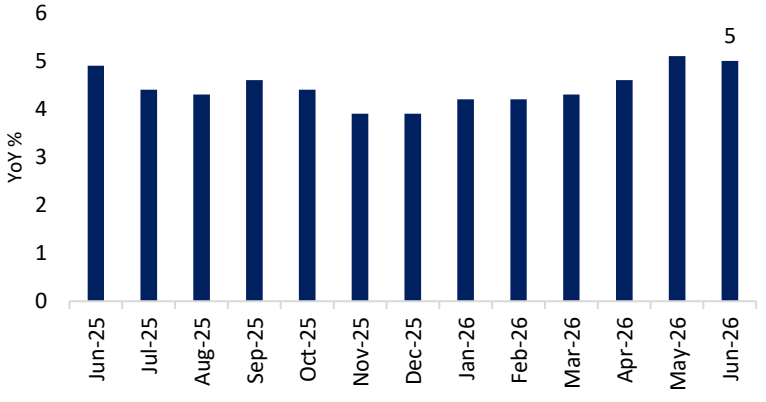
Tractor sales accelerated with the commencement of kharif sowing activities



Source: Bloomberg

Rural Unemployment Rate

Rural Unemployment remains stable, stays key



Source: RBI

Q1 FY27 Earnings Snapshot

Nifty 100

Sector	Net Sales - YoY Growth (%)			EBITDA - YoY Growth (%)			PAT - YoY Growth (%)		
	Q1 FY27	Q4 FY26	Q1 FY26	Q1 FY27	Q4 FY26	Q1 FY26	Q1 FY27	Q4 FY26	Q1 FY26
Automobile and Auto Components	30.59	26.05	13.31	19.01	18.05	3.25	17.98	23.91	10.40
Capital Goods	18.97	14.46	10.45	14.12	13.90	-7.67	12.31	12.96	-6.64
Chemicals	21.27	14.08	10.54	29.88	37.29	15.92	30.29	36.64	18.71
Construction	6.69	11.25	15.53	1.80	4.85	15.59	15.20	3.00	25.74
Construction Materials	9.60	10.99	14.30	-0.39	2.21	65.60	-2.84	22.34	52.86
Consumer Durables	17.89	10.79	-0.21	40.82	30.09	-9.68	39.60	69.16	-5.88
Consumer Services	61.71	63.17	28.96	35.97	44.18	-6.28	20.24	28.84	-11.39
Fast Moving Consumer Goods	3.89	6.72	8.70	-6.14	10.66	-0.73	-4.30	13.77	2.93
Financial Services	9.00	5.14	10.37	26.71	20.26	23.36	18.87	10.19	4.60
Healthcare	10.20	6.24	9.29	-14.37	-28.89	11.74	-8.14	-24.82	-3.63
Information Technology	14.04	11.24	4.19	15.45	13.70	3.08	9.64	12.03	5.52
Metals & Mining	25.81	19.42	-14.74	59.58	50.93	-11.30	56.44	172.18	-10.41
Oil Gas & Consumable Fuels	29.97	10.12	3.32	-28.99	14.60	15.60	-39.62	13.42	45.52
Power	14.44	-1.12	0.97	31.60	-3.87	-6.95	49.33	130.88	-5.15
Realty	1.11	-11.21	47.51	57.70	-20.13	40.60	59.02	-2.50	29.69
Services	19.52	8.28	11.67	-25.72	-67.71	-2.64	-37.82	-87.33	-5.98
Grand Total	20.20	10.83	5.10	7.33	11.93	7.04	3.98	22.01	11.11
Ex-Financials	23.67	12.60	3.56	4.24	10.79	4.83	-4.11	29.09	14.99

Data as on 04th August 2026 and pertains to 77 companies within the Nifty 100 universe

Source: Capitaline, HDFC Bank Research

Note: Oil & Gas and Services sector on back of geopolitical issue has pulled the overall PAT lower for the large cap companies

Nifty Midcap 150

Sector	Net Sales - YoY Growth (%)			EBITDA - YoY Growth (%)			PAT - YoY Growth (%)		
	Q1 FY27	Q4 FY26	Q1 FY26	Q1 FY27	Q4 FY26	Q1 FY26	Q1 FY27	Q4 FY26	Q1 FY26
Automobile and Auto Components	21.01	13.05	9.35	26.37	14.62	2.59	24.53	7.90	-0.68
Capital Goods	30.50	33.18	15.16	59.80	46.71	21.12	51.32	34.19	25.27
Chemicals	16.44	16.52	16.27	11.86	5.10	50.62	40.84	-8.83	2,099.39
Construction Materials	5.00	10.82	12.45	-31.04	-15.95	43.17	-43.94	-37.85	58.75
Consumer Durables	20.64	2.25	47.67	-12.24	-8.29	18.70	60.55	4.01	14.68
Consumer Services	28.70	34.09	36.74	49.88	40.03	-144.06	59.13	55.56	-129.39
Fast Moving Consumer Goods	14.78	16.22	17.77	21.77	28.40	-5.53	14.22	34.36	3.12
Financial Services	11.46	10.42	9.45	19.12	-7.97	16.17	32.96	41.39	2.36
Healthcare	22.22	13.47	12.18	36.43	28.98	19.18	68.83	45.52	-10.76
Information Technology	28.02	17.75	16.74	54.09	27.32	7.96	39.36	27.91	13.36
Metals & Mining	7.24	5.32	10.07	66.11	12.88	44.66	76.02	12.38	90.59
Power	8.09	23.59	9.62	7.28	70.45	20.21	-14.28	-38.58	0.21
Realty	18.68	80.77	-4.64	14.01	95.16	-19.89	-5.65	77.01	-4.22
Services	6.72	6.01	8.50	13.23	13.36	8.67	-2.87	-14.98	16.51
Telecommunication	7.11	6.84	8.03	-2.59	-0.41	-8.39	-4.66	-18.80	-13.91
Grand Total	15.20	14.91	13.01	25.91	16.52	13.21	31.34	24.80	7.65
Ex-Financials	17.57	17.72	15.37	28.89	25.58	11.96	29.77	13.57	13.35

Data as on 04th August 2026 and pertains to 90 companies within the Nifty 150 Midcap universe

Source: Capitaline, HDFC Bank Research

Note: We have excluded the Oil & Gas sector due to a one-off outlier result, stemming from geopolitical issues.

Nifty Smallcap 100

Sector	Net Sales - YoY Growth (%)			EBITDA - YoY Growth (%)			PAT - YoY Growth (%)		
	Q1 FY27	Q4 FY26	Q1 FY26	Q1 FY27	Q4 FY26	Q1 FY26	Q1 FY27	Q4 FY26	Q1 FY26
Automobile and Auto Components	26.75	23.31	17.95	64.02	76.91	5.26	144.38	2.96	47.00
Capital Goods	21.19	13.64	16.69	28.54	28.86	53.67	151.15	-23.12	34.50
Chemicals	10.01	8.70	5.79	25.91	-7.73	3.58	9.46	-346.84	22.94
Consumer Services	16.47	18.50	11.05	30.98	10.70	-32.60	606.61	20.11	-89.21
Financial Services	17.97	17.05	10.14	56.99	30.17	-0.44	36.99	37.17	-6.05
Healthcare	30.13	21.11	7.23	12.53	-3.23	-9.65	-10.65	-27.48	13.38
Information Technology	33.26	25.78	13.73	34.32	23.49	31.97	25.48	25.85	48.64
Metals & Mining	5.85	1.90	36.15	5.71	-10.32	68.46	6.71	4.52	55.02
Services	36.00	25.53	19.14	122.38	54.64	-23.41	138.97	3.97	-28.33
Grand Total	23.03	18.87	12.86	47.26	23.52	4.39	43.93	-2.23	1.17
Ex-Financials	26.10	19.94	14.57	40.43	20.22	8.07	54.62	-45.55	14.73

Data as on 04th August 2026 and pertains to 47 companies within the Nifty 100 Small cap universe

Source: Capitaline, HDFC Bank Research

Note: We have excluded the oil and Gas sector due to one-off outlier result, stemming from geopolitical issues

- Top line growth across market caps is better than expected, as per the Fund Managers.
- Mid and Small caps have delivered superior earnings growth, thereby doing justice to their higher valuations.
- Earnings growth in large caps was impacted due to crude sensitive names on back of West Asia war.

India: Valuations remain fair… With macro condition improving, earnings momentum may drive further upside

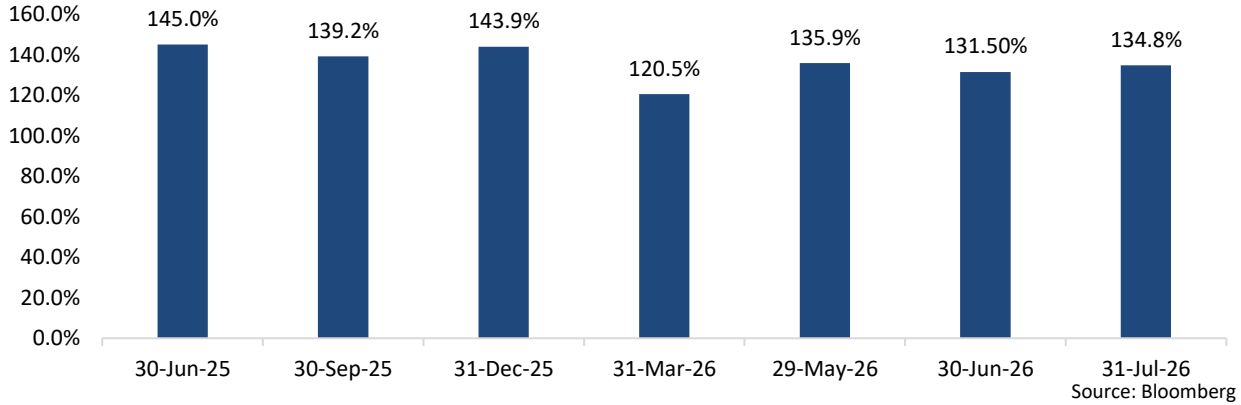
Valuations are reasonable for large caps; adjusted for earnings growth small caps also looks reasonable while Midcap valuations are higher of three.

Source: Bloomberg

Index	P/E FY27 (Est.)	P/E FY28 (Est.)	EPS FY27 (Est.)	EPS FY28 (Est.)	PEG FY28 (Est.)
Nifty 50	20.50	17.45	1188	1396	0.997
Nifty Midcap 100	31.16	25.75	2019	2443	1.225
Nifty Smallcap 100	26.29	21.16	737	916	0.873

Market Cap to GDP remains elevated

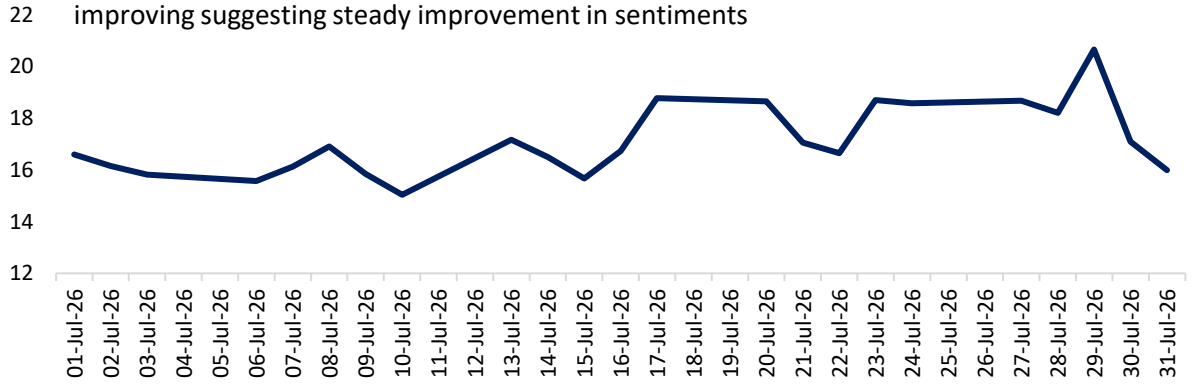
Remains at elevated levels



Source: Bloomberg

VIX level

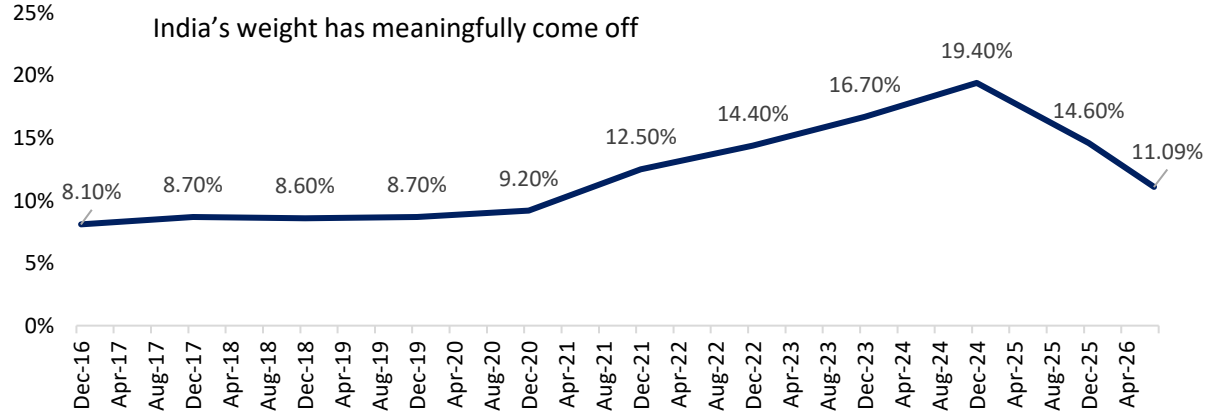
Despite the fluctuating situation of the West Asia crisis, India VIX (gauge of fear) seem to be improving suggesting steady improvement in sentiments



Source: Bloomberg

India's weight in MSCI EM Index

India's weight has meaningfully come off



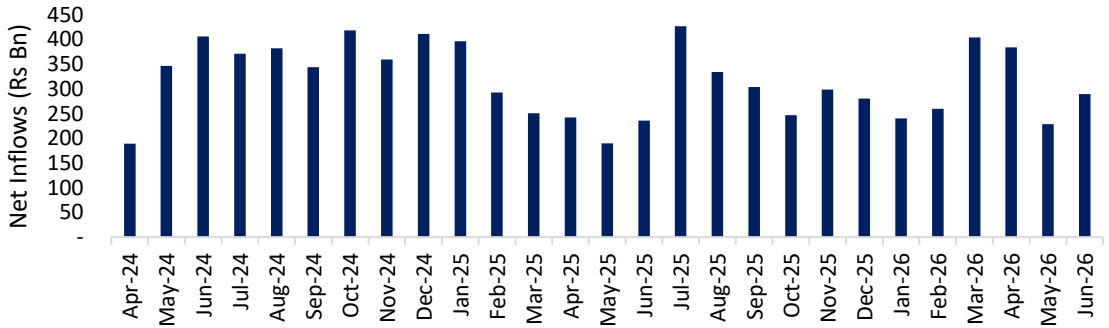
Source: DSP AMC

Data as on 31st July 2026

Sustained Retail participation through Mutual Funds continues to support the market amidst sustained FPI selling

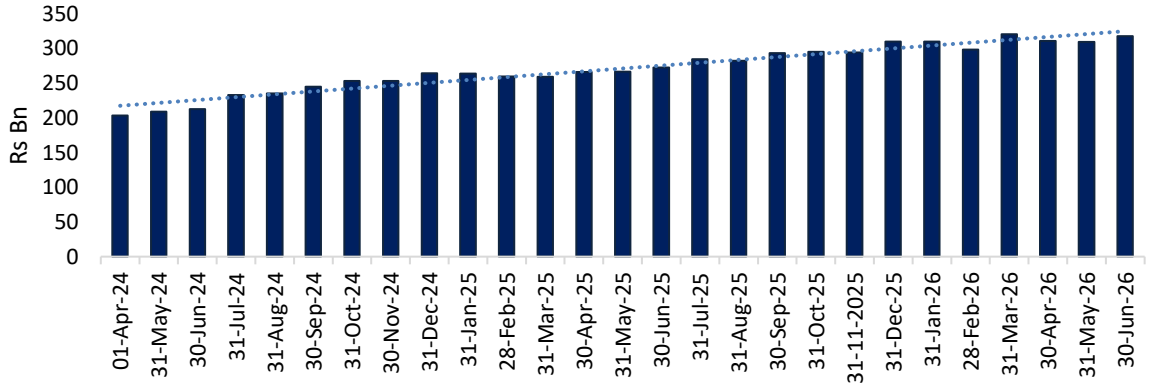
Pure Equity Funds Flows

Strong Mutual Fund inflows continue to support the market performance



Source: AMFI

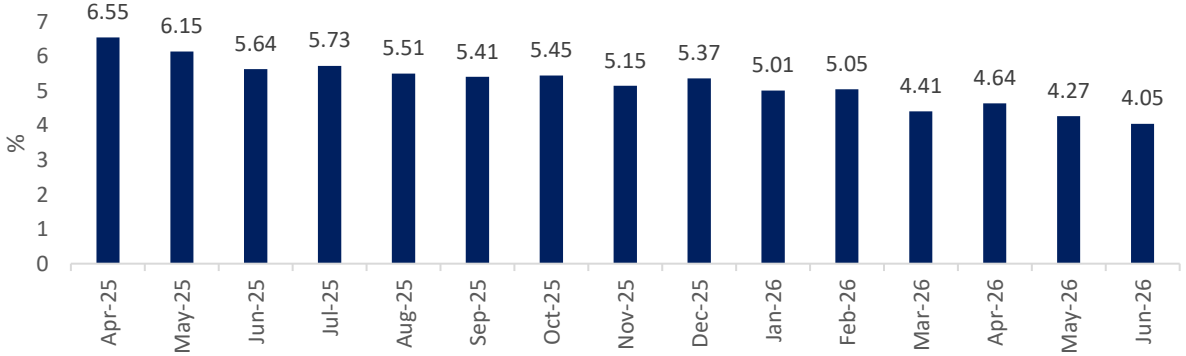
Monthly SIP contribution remains healthy



Source: AMFI

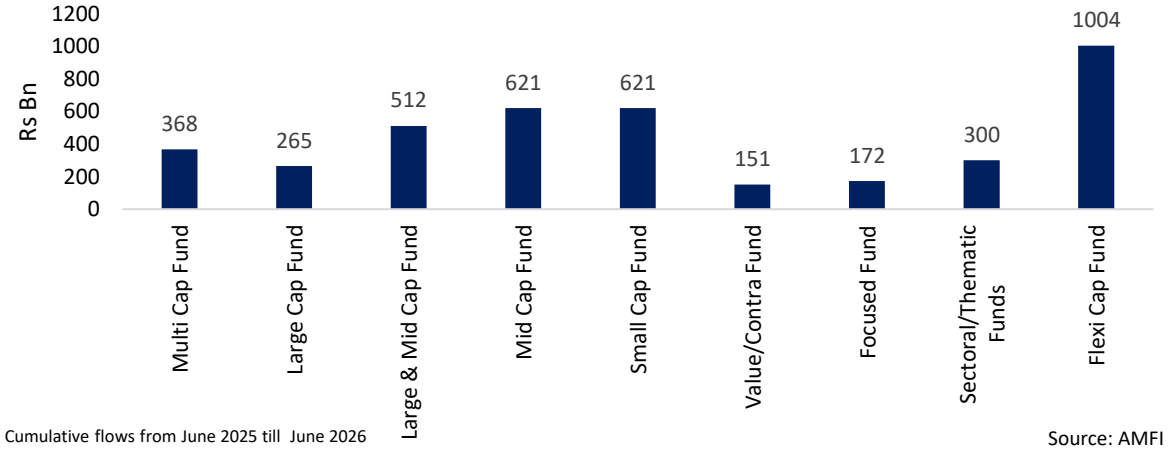
Mutual Funds Aggregate Cash Value

Mutual funds aggregate cash value has come to its lowest level in last 1 year



Source: ACE MF

Category-wise Net Flows



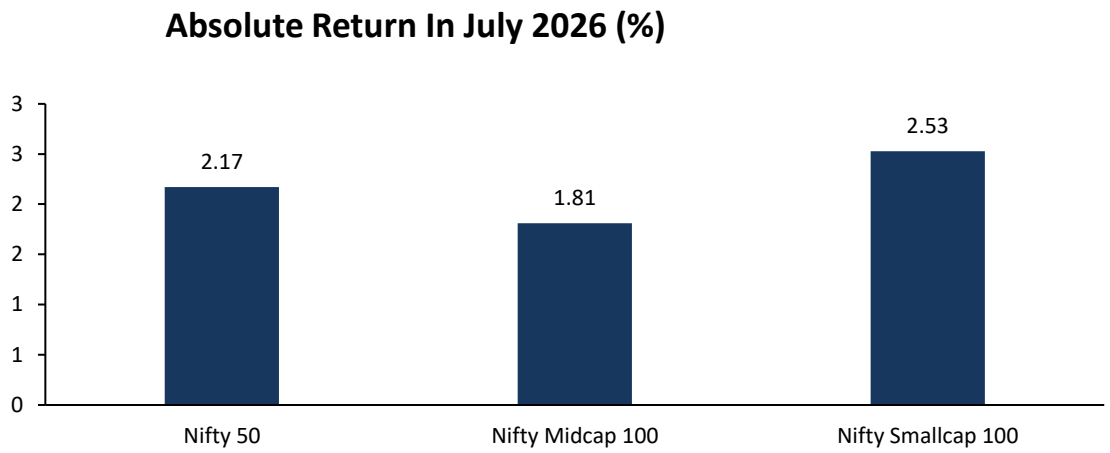
Cumulative flows from June 2025 till June 2026

Source: AMFI

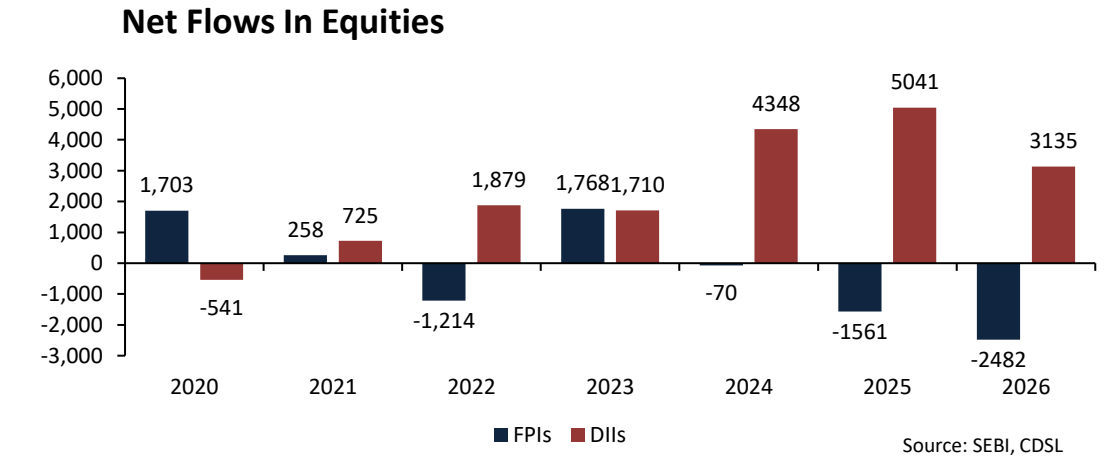
Classification - Restricted

Market Roundup – July 2026

- Indian equities ended the month on a positive note. Large cap-oriented BSE Sensex ended higher by 2.1% (MoM) and Nifty 50 ended higher by 2.2% (MoM). While the BSE Midcap index ended higher by 2.1%(MoM) and BSE Small cap index ended higher by 0.5% (MoM).
- In terms of BSE sectoral indices, the sectors ended on a mixed note. IT, Consumer Durable and Realty were the outperformers during the month.
- During the month, FPIs were net buyers in equities to the tune of Rs 223 bn. (Data as on 31st July).
- Domestic equity markets ended the month on a positive note supported by strong Q1 FY27 earnings from heavyweight companies, renewed foreign institutional investor inflows, positive global cues and a firmer rupee. Gains were further supported by a decline in crude oil prices in the month end, which provided some relief by easing concerns over inflationary pressures and rising input costs.



Source: Bloomberg



Source: SEBI, CDSL

*For 2026, FPI and DII data is up to 31st & 30th July respectively.
**Net Flows In Equities is the sum total of flows in Stock Exchange and Primary market & others

Classification - Restricted

Key concerns for Indian equities

- Any fresh rise in hostility between US and Iran.
- Weak Monsoons on back of EL Nino.
- Higher slippage on the Fiscal Side.
- Tighter global liquidity conditions
- Tariff policy adopted by the Trump Administration with India in its trade deal

Annexure…

Sectoral outlook by fund managers – Part 1

Sector	Particulars
BFSI	**View –Positive** • Large cap, private sector banks are being preferred due to attractive ROEs and P/B multiples. Fund Managers are cutting underweights as FCNR(B) flows could act as a growth impetus. Some Fund Managers expect Midcap banks to deliver stronger growth than their larger counterparts. • In an inflationary environment, there is little scope for rate cuts which bodes well for NIMs. RBI is taking measures to improve system liquidity. • The credit growth in the system is improving, which can act as a multiplier to deposit growth, but with a lag. The current deposit growth continues to lag credit growth. • NBFCs and Banks could benefit as FCNR deposits could help lower cost of funding. CD yields are already cooling from peaks. • Exchanges are the preferred play in the Capital Markets segment but valuations are expensive and a key risk is that proprietary trading volumes could come off as RBI has imposed stricter norms for Loans against Securities.
IT	**View – Negative to Neutral** • The growth expectations from Largecap names remain muted but they are emerging as a value play and funds are now looking to cut underweights. • The terminal value of players is now coming under question, given the topline deflation due to the AI overhang, and demand for higher efficiency-related discounts from clients could be detrimental for topline growth. Demand acceleration due to AI may be key upside risk. • Some Fund Managers have taken exposure to the names due to improved valuations and better cash flow yields. The strategy still remains to buy on dips and no aggressive stance is being seen. Some are preferring Product companies over Services companies.
Healthcare	**View – Neutral to Positive** • Domestic demand is holding up and is expected to grow at low double-digits. GLP-1 is a new category and is expected to contribute to growth. Rising WPI also allows players to take price hikes which could be margin accretive. • Some Fund Managers favour CDMO players who may benefit from the weakness in INR vs. the USD. Developments around US tariff policy, especially for generics, remains a key monitorable. • Hospitals: Players that are expanding into new geographies are being preferred. There is shortage of beds in big cities. These are structural ~15% EBITDA growth businesses as per some fund managers. They breakeven at ~55-60% utilisation rates, so efficiency is rewarded as free cashflows are needed to expand. • Diagnostics: The competitive intensity has come off and the industry has consolidated. Players have re-rated and going ahead, earnings delivery is expected to pick up.
Auto & Auto Ancillaries	**View – Neutral to Positive** • 4-wheelers: Despite macro challenges and elevated fuel prices, demand continues to remain robust. Fund Managers remain watchful of the margins trajectory as higher Raw Material prices need to be passed on. Players face a high base post September 2026 and volume growth numbers could moderate thereafter. • 2-wheeler: The segment's performance remains strong but monsoons will remain a key monitorable. The EV space seems to be picking up post the recent rise in fuel prices, aided by model launches. Policy support for electric buses and 2-wheelers could also aid adoption. • Auto Ancillaries: Players who are expanding capabilities, both organically and through strategic acquisitions, are being preferred.

Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & Real Estate	**View – Neutral** • Low returns in Equity Markets may impact the demand in the luxury-related segment as per Fund Managers. Companies with strong land-banks and a mix of commercial and residential verticals yielding stable, recurring rental incomes are being preferred. Some are looking at Real Estate as a beta play. Players who are not buying land banks at elevated prices are being preferred. • Government's focus on infrastructure and investment cycle may be constrained due to higher subsidy burden but easing fiscal pressure, as crude prices come off, could be a positive. • Fund Managers are looking to play this space with Largecaps and companies with lower Working capital cycle. Paints could be a counter-cyclical play and volume growth remains a key monitorable.
Consumption	**View – Consumer Services – Neutral to Positive, Consumer Durables and FMCG- Neutral to Positive** • Staples: Volume growth has seen selective improvement but penetration levels remain high and companies are not willing to let go of their cyclically high margins. Players in the food & beverage segment are being preferred. • Consumer Durables: El-Nino could be a positive factor for AC players and easing commodity prices and improving LPG availability could ease margin pressure. The impact on demand of passing on elevated raw material prices will need to be monitored. • Retail and Consumer Tech: In an inflationary environment, the SSG growth for Retail players may improve as they enjoy full pass-through and operating leverage plays out but they are citing higher competition from the Quick Commerce space. Bottom-up Value Apparel Retailers, who are expanding to newer geographies are also being preferred. During times of inflation, smaller players may see their working capital requirements rise and the share might shift from the unorganised space to the organised space. QSR: This space is being looked at as a contra play. Jewellery: H2 FY27 onwards, the growth rates could optically look low and numbers might look weak due to base effect. Consumer Tech: The TAM is large but making money here will largely depend on the competitive landscape as established E-Commerce players look to venture into the Quick Commerce segment as the line between the two blurs. Some players are raising capital to sustain growth momentum which may weigh down on near-term margins. **Long-term positives** • Higher disposable income due to tax cuts. • Premiumization across categories, Implementation of GST cuts and upcoming 8th Pay Commission.
Capital Goods, Industrials, Utilities	**View – Neutral** • The Government spending growth has sharpened to fewer sectors but fiscal stress due to higher subsidy burden could act as a headwind. • Prior to the war, the focus was on Energy Transition which is now shifting to Energy Security. Steps are being taken to reduce import dependence. • Power T&D: The data centre capacity going from ~1 GW to ~10 GW is an opportunity and rising demand from manufacturing sector is also likely to keep power demand strong. • There are tailwinds from global power shortages and partly, from the AI story. **Valuations in the Power Capital Goods segment remains single biggest source of risk. Some Fund Managers have trimmed exposure in the recent rally as multiples captured high expectations.** • Data Centres: There are no direct plays in the listed space and ancillary plays like Transformers, Wires and Cables and DC gensets are indirect plays. EMS: The assembly story in India has played out in the last 6-7 years and is done now. Now, players need to do backward integration.
Metals	**View – Positive** • Metals remain a tactical play. AI-led capex in the US, safeguard duties and China anti-involution to support.

Sectoral Movement

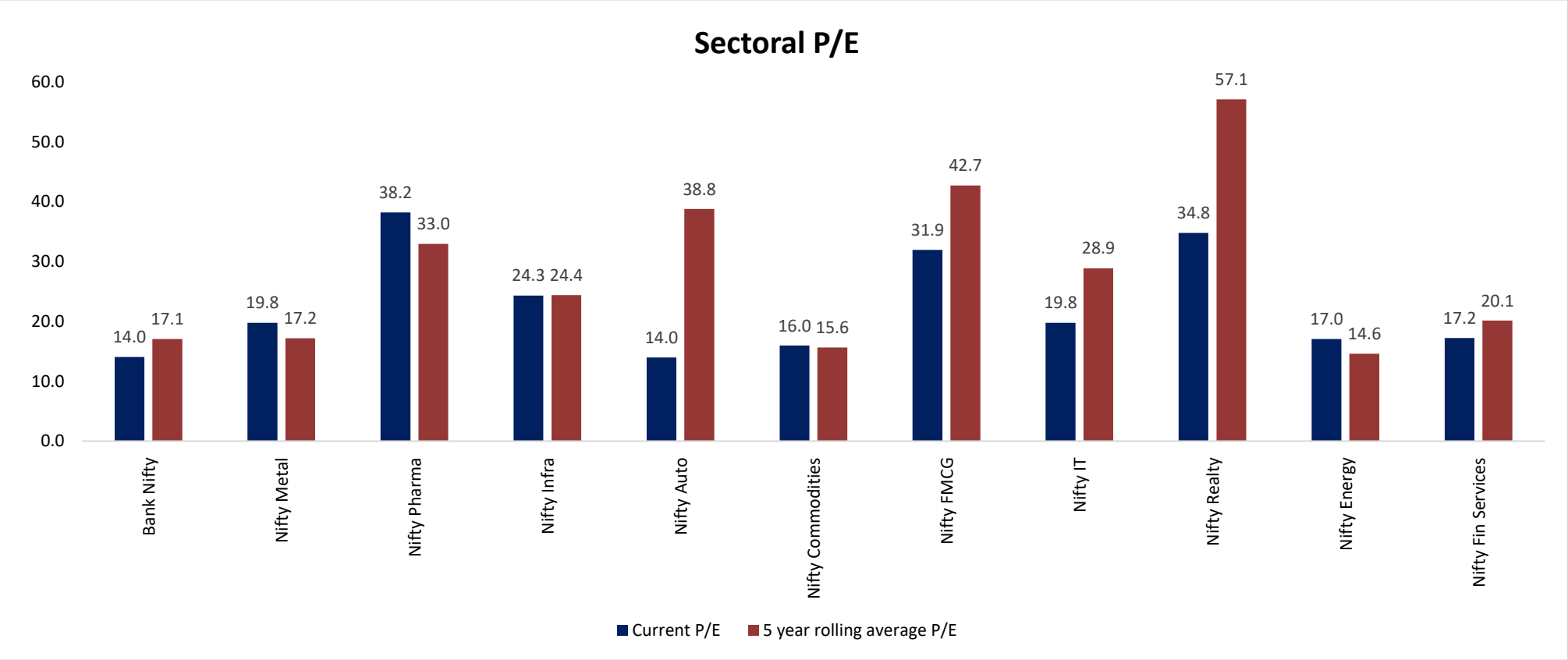
Index	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
BSE 500	**-2.87**	**-1.93**	**1.21**	**4.20**	**0.86**	**-0.25**	**-3.36**	**0.38**	**-11.40**	**10.36**	**-0.28**	**1.53**	**2.02**
Auto	-1.11	5.78	5.89	1.04	3.14	1.31	-5.20	4.95	-15.46	8.66	1.42	1.04	7.98
Bankex	-3.24	-3.34	2.48	5.56	3.10	-0.28	0.46	1.60	-16.96	9.06	-0.93	6.38	-0.15
Basic Material	-1.38	-2.36	2.45	2.63	-3.41	4.06	1.38	1.08	-10.59	14.37	2.79	-3.43	2.26
Capital Goods	-5.66	-4.13	4.39	3.10	-1.70	-3.03	-0.66	5.68	-8.82	20.18	4.67	0.74	-5.41
Consumer Discretionary	-1.47	2.52	0.96	1.91	-0.18	-1.42	-6.86	2.34	-12.98	12.03	0.27	3.92	6.07
Consumer Durables	-0.52	1.96	-4.85	4.97	2.16	-3.01	-7.79	6.98	-11.11	12.32	-2.39	3.37	9.25
Energy	-4.70	-3.87	4.22	5.82	-0.42	1.75	-2.54	2.99	-9.61	8.28	-4.34	-2.07	0.99
FMCG	1.61	0.21	-2.44	2.75	-1.22	-0.31	-7.90	0.01	-10.49	12.62	-3.31	-0.43	0.72
Finance	-2.66	-3.82	2.34	4.78	2.30	-0.64	-1.79	0.88	-15.60	9.47	-1.35	5.63	0.23
Healthcare	2.51	-3.86	-1.25	3.38	0.80	-2.41	-5.60	6.22	-4.87	6.79	4.91	5.34	3.03
IT	-8.69	-1.07	-3.64	5.51	3.69	1.18	-0.33	-18.74	-6.15	1.72	-0.85	-8.69	14.71
Infra	-3.81	-4.75	4.44	3.21	-2.78	-1.27	-2.10	4.46	-9.73	15.61	-1.87	-0.12	-3.26
Metal	-2.56	-1.61	9.43	5.64	-2.89	7.91	5.52	4.07	-8.93	14.61	3.72	-8.15	1.83
Oil & Gas	-3.84	-4.69	5.36	6.43	-1.51	1.78	-2.07	5.27	-13.64	8.31	-3.40	-2.66	1.75
Power	-3.45	-4.56	5.04	3.14	-4.51	-1.66	-1.70	8.99	-4.23	22.25	2.78	-3.44	-5.26
Realty	-7.33	-4.48	-0.36	9.20	-4.69	-2.96	-10.34	-0.58	-16.83	21.43	-0.20	5.86	8.65
Telecom	-7.79	-4.48	0.48	7.22	2.40	1.87	-4.73	0.02	-9.04	13.63	15.80	2.23	-1.88
Utilities	-2.20	-4.47	5.11	3.18	-5.57	-0.96	-2.42	7.41	-3.40	19.98	-0.92	-4.13	-2.25

The abovementioned sectoral indices pertain to the BSE universe

Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research

Sectoral valuations have improved vs. their long-term averages



Classification - Restricted

Current 1-year forward P/E multiples of countries vs. their 5-year average 1-year forward P/E

Country	Index	Curent 1-year fwd. EPS	Current 1-year fwd. P/E	5 year avg- 1-year fwd. P/E	Current year Expected Book Value	Exp 1-year fwd. P/B	TTM ROE
USA	S&P 500	350.86	21.20	21.58	1484	5.0	19.96
USA	Nasdaq	912.39	27.53	31.63	3839	6.5	19.52
Europe	Stoxx 600	41.00	15.85	14.43	279	2.3	12.61
UK	FTSE 100	801.22	13.60	12.05	4664	2.3	13.23
Germany	DAX	1535.91	16.68	13.94	13051	2.0	10.26
France	CAC	551.96	15.37	14.10	4288	2.0	10.15
Japan	NIKKEI 225	2945.14	21.87	20.62	23165	2.8	11.96
Australia	ASX 200	491.08	18.28	17.13	4249	2.1	11.61
Singapore	STI Index	326.15	17.26	12.76	3114	1.8	9.99
Hongkong	Hengseng	2211.85	11.67	10.61	20745	1.2	9.81
India	Nifty 50	1188.28	20.50	21.47	8669	2.8	14.95
China	Shanghai Composite	279.71	13.71	12.64	2857	1.3	7.97
Brazil	BOVESPA	20255.29	8.75	8.16	128889	1.4	13.32
Korea	Kospi	990.39	6.68	11.63	3944	1.7	10.49
Mexico	IPC	5038.97	13.35	13.05	30044	2.2	15.38
Philippines	PCOMP	634.86	9.93	13.11	5160	1.2	11.64
Turkey	XU100	2863.11	4.64	4.94	75403	0.2	8.19
Thailand	SET	103.13	15.73	15.51	1020	1.6	8.56
Vietnam	VN30	174.70	10.78	10.91	1061	1.8	16.81
Indonesia	JCI	598.46	10.39	14.78	4436	1.4	11.80

Data as on 31st July, 2026

Source: Bloomberg

AMC Sectoral Holdings

	Auto & Auto Ancillaries	Banks & Finance	Capital Goods	Commodities	FMCG	Consumer Durables and Consumer Services	Housing & Construction	IT	Media	Oil & Gas, Energy	Other Equities	Pharma	Telecom	Textiles	Transport & Shipping , Logistics & Services
Nifty 500	7.15%	31.58%	7.43%	7.91%	5.53%	6.58%	4.00%	5.65%	0.13%	10.74%	0.09%	7.19%	3.69%	0.27%	2.07%
360 ONE MF	4.43%	30.56%	17.28%	4.37%	4.58%	12.80%	0.35%	2.75%	0.00%	3.22%	0.00%	5.93%	9.32%	0.00%	0.62%
Abakkus MF	6.58%	29.43%	14.22%	6.87%	2.22%	8.70%	3.33%	3.41%	0.33%	4.84%	0.30%	8.69%	2.02%	0.45%	0.94%
Aditya Birla SL MF	8.63%	30.22%	6.83%	7.22%	5.70%	9.31%	3.16%	7.16%	0.00%	6.77%	0.08%	7.36%	2.35%	0.59%	2.18%
Axis MF	9.63%	26.45%	11.65%	7.59%	3.34%	9.23%	3.55%	3.03%	0.00%	3.28%	2.14%	10.35%	2.70%	0.71%	2.06%
Bajaj Finserv MF	10.57%	25.03%	11.71%	6.03%	3.65%	12.24%	2.75%	0.95%	0.52%	4.99%	0.14%	12.04%	1.27%	4.63%	1.00%
Bandhan MF	4.25%	31.59%	6.50%	5.95%	5.08%	8.29%	6.04%	4.63%	0.32%	6.30%	0.65%	8.40%	2.55%	1.17%	2.81%
Bank of India MF	6.83%	22.09%	14.30%	7.94%	5.41%	9.19%	3.13%	1.03%	0.45%	5.70%	0.00%	10.81%	2.75%	1.68%	2.58%
Baroda BNP Paribas MF	8.69%	25.87%	11.03%	7.98%	4.71%	6.72%	2.97%	5.46%	0.00%	9.13%	0.28%	10.48%	2.23%	0.00%	1.32%
Canara Robeco MF	7.56%	29.63%	8.45%	5.18%	5.46%	14.44%	3.58%	4.75%	0.05%	4.35%	0.25%	7.61%	2.91%	0.33%	2.05%
Capitalmind MF	5.72%	16.13%	17.99%	19.25%	5.26%	0.00%	0.00%	0.00%	0.00%	3.28%	0.00%	22.27%	0.00%	0.00%	2.99%
DSP MF	9.09%	29.81%	8.38%	7.25%	3.06%	6.40%	3.35%	4.16%	0.00%	6.48%	0.54%	10.39%	3.01%	0.75%	0.57%
Edelweiss MF	8.42%	28.34%	13.63%	8.28%	4.36%	7.54%	3.54%	4.61%	0.00%	4.42%	0.04%	10.19%	2.23%	0.87%	0.76%
Franklin Templeton MF	5.53%	27.51%	12.14%	5.95%	3.14%	9.71%	4.09%	5.80%	0.00%	7.47%	0.20%	7.10%	3.12%	0.62%	2.79%
Groww MF	14.70%	39.19%	13.30%	6.84%	0.59%	2.28%	3.46%	2.97%	0.00%	0.63%	0.00%	6.42%	2.23%	0.00%	1.53%
HDFC MF	10.64%	29.79%	6.77%	4.67%	3.63%	7.78%	2.80%	4.66%	0.20%	4.68%	0.06%	11.66%	2.79%	0.57%	3.82%
Helios MF	4.67%	32.34%	11.16%	3.15%	3.38%	13.04%	5.79%	0.68%	0.71%	5.98%	0.00%	6.78%	1.75%	2.88%	6.63%
HSBC MF	5.73%	29.13%	19.81%	5.24%	5.30%	8.72%	4.16%	2.35%	0.00%	4.27%	0.07%	8.02%	1.09%	2.90%	1.28%
ICICI Pru MF	9.47%	27.70%	6.49%	7.98%	4.62%	7.59%	4.51%	6.63%	0.10%	7.57%	0.05%	6.98%	2.77%	0.61%	2.54%
Invesco MF	5.14%	28.26%	11.55%	3.70%	1.05%	14.26%	7.68%	4.20%	0.00%	2.23%	0.00%	13.82%	1.18%	0.00%	5.63%
ITI MF	7.89%	27.62%	14.93%	7.79%	4.20%	7.14%	3.59%	2.84%	0.00%	4.25%	0.94%	12.24%	1.69%	1.24%	1.52%
JM Financial MF	10.08%	31.11%	12.21%	4.99%	3.87%	8.56%	2.98%	4.13%	0.07%	3.83%	0.03%	7.97%	2.22%	2.87%	3.51%
Kotak Mahindra MF	8.05%	28.18%	9.06%	10.81%	2.94%	9.17%	4.19%	4.79%	0.38%	5.25%	0.09%	10.13%	3.25%	0.20%	1.41%
LIC MF	11.03%	23.37%	16.68%	6.74%	5.20%	7.78%	3.98%	2.92%	0.27%	1.97%	0.15%	7.95%	2.90%	0.39%	4.30%
Mahindra Manulife MF	8.02%	27.12%	12.08%	8.94%	3.71%	6.43%	2.92%	4.70%	0.35%	5.27%	0.25%	10.73%	2.90%	1.61%	2.25%
Mirae Asset MF	8.14%	32.06%	4.24%	6.18%	3.32%	11.00%	3.87%	4.05%	0.00%	7.17%	0.21%	10.95%	4.24%	0.07%	3.38%
Motilal Oswal MF	7.71%	29.31%	21.70%	2.53%	0.81%	14.91%	1.57%	6.82%	0.00%	0.66%	0.44%	5.68%	3.07%	0.26%	2.09%
Navi MF	9.43%	34.44%	13.57%	3.18%	3.78%	4.17%	4.42%	3.98%	0.00%	2.48%	0.00%	8.30%	1.74%	0.48%	2.80%
Nippon India MF	7.01%	27.42%	11.92%	4.15%	5.96%	13.34%	2.76%	3.40%	0.27%	6.74%	0.42%	10.99%	1.01%	0.81%	1.74%
NJ MF	12.70%	17.47%	2.02%	3.63%	17.11%	5.61%	0.00%	6.55%	0.00%	3.48%	0.00%	25.75%	0.00%	3.00%	1.68%
Old Bridge MF	15.54%	16.11%	2.52%	11.14%	6.40%	2.67%	5.11%	0.00%	0.00%	0.17%	0.80%	14.16%	5.59%	0.11%	12.76%
PGIM India MF	7.65%	25.21%	11.67%	8.24%	4.20%	10.59%	3.08%	4.39%	0.00%	3.68%	0.00%	12.07%	2.61%	0.17%	2.00%
PPFAS MF	6.48%	27.35%	0.04%	0.04%	7.59%	2.12%	0.02%	12.78%	0.00%	13.04%	0.04%	4.53%	2.99%	0.00%	4.82%
Quant MF	4.88%	17.39%	6.06%	8.42%	2.88%	3.86%	6.70%	3.06%	1.07%	13.67%	0.14%	11.16%	7.05%	2.23%	1.11%
Quantum MF	10.93%	37.68%	2.07%	3.24%	1.17%	6.24%	2.14%	11.91%	0.38%	3.64%	0.94%	6.08%	2.46%	0.00%	4.60%
Samco MF	7.09%	24.93%	25.08%	10.38%	5.30%	2.08%	1.09%	0.15%	0.79%	5.30%	0.12%	10.61%	3.15%	0.14%	1.37%
SBI MF	7.67%	27.30%	7.13%	8.57%	4.21%	8.34%	3.19%	4.16%	0.04%	10.31%	0.99%	7.97%	2.39%	1.37%	2.52%
Shriram MF	7.62%	32.89%	4.65%	2.02%	2.52%	8.44%	2.00%	7.36%	0.30%	8.40%	0.00%	11.49%	3.40%	0.00%	5.72%
Sundaram MF	6.40%	29.86%	11.81%	4.93%	4.51%	10.06%	3.69%	6.72%	0.22%	4.94%	0.13%	6.51%	2.96%	0.17%	3.72%
Tata MF	5.62%	23.83%	8.72%	8.32%	5.05%	8.05%	3.37%	9.90%	0.23%	7.19%	0.97%	7.02%	3.51%	0.61%	3.14%
Taurus MF	7.43%	15.53%	8.83%	7.24%	7.67%	8.16%	1.20%	12.44%	0.00%	12.08%	0.00%	11.38%	3.32%	1.07%	0.84%
The Wealth Company MF	13.54%	25.63%	13.30%	5.65%	3.24%	7.87%	3.61%	3.87%	0.00%	1.86%	0.34%	11.50%	1.34%	0.00%	1.37%
Trust MF	9.34%	24.81%	15.10%	5.14%	4.64%	10.18%	2.73%	4.36%	0.00%	2.82%	0.00%	10.06%	0.84%	2.06%	3.54%
Unifi MF	6.27%	37.16%	5.26%	4.12%	0.00%	1.07%	3.52%	4.14%	0.00%	7.22%	0.70%	14.77%	4.73%	2.32%	6.67%
Union MF	9.94%	26.60%	16.42%	7.10%	4.23%	6.85%	3.79%	3.86%	0.19%	3.87%	0.00%	10.25%	1.68%	0.88%	2.08%
UTI MF	10.21%	26.43%	6.61%	4.68%	3.28%	13.83%	3.12%	7.13%	0.25%	5.00%	0.47%	10.38%	3.18%	0.21%	2.08%
WhiteOak Capital MF	5.44%	30.53%	9.25%	4.95%	4.22%	9.69%	2.56%	5.48%	0.08%	3.48%	1.62%	13.55%	3.89%	0.03%	1.43%

Data as on 30th June, 2026

Source : ICRA Analytics Limited

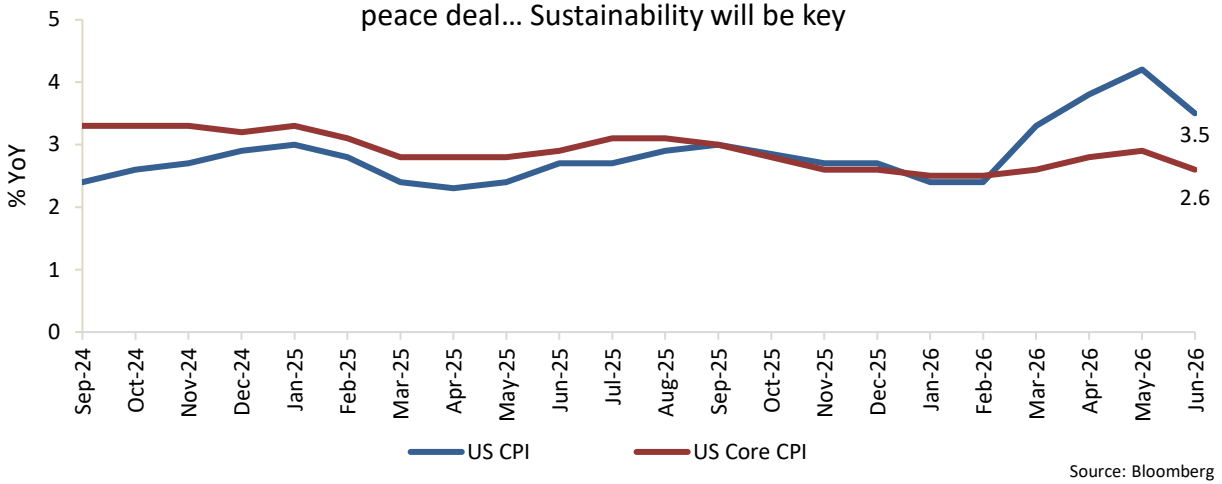
Fixed Income Market

Fixed Income Outlook and Strategy – August 2026

- The Rupee recovered based on robust FCNR(B) flows and a falling Dollar index. Going forward, if the geopolitical uncertainties continue, further flows till September 2026 are expected to support the Rupee.
- Inflation saw further uptick, moving above RBI's 4% YoY target, but the Q1 FY26 average came in below RBI's estimate. Going forward, the impact of El Niño conditions and offsetting effects of the Indian Ocean Dipole on the resultant monsoon output will have a consequential bearing on inflation.
- India's Trade deficit widened due to higher oil prices. Though the size of the forward short book is coming down, it is still large on an aggregate basis and remains a concern. Going forward, developments around the conflict and the resultant oil prices will remain key.
- Despite the risks to inflation, the RBI MPC maintained the status quo in its August 2026 policy meeting. While the market has been factoring in the possibility of rate hikes, the MPC is expected to remain watchful of the developments around the geopolitical conflict and its impact on inflation.
- Commodity prices hardened, largely on the back of a surge in crude prices after the latest ceasefire violation. Industrial metal prices went up due to structural demand and supply side constraints, while precious metals corrected with increasing rate hike expectations. Commodity prices are likely to remain volatile till the West Asia conflict gets resolved.
- In the US, inflation eased after the interim peace deal and the employment data was robust. The Fed maintained a hawkish pause in its latest FOMC meeting, continuing with its data-dependent approach to policy decisions. However, the markets are pricing in rate hikes in the near future, which was reflected in the treasury yields moving up across the curve.
- In the EU, the interim fall in energy prices eased inflation pressures. The ECB paused but their commentary remained hawkish. Going forward, the ECB may hike policy rates but will seek clarity from incoming data.
- With moderating inflation and uncertainty around the geopolitical conflict, major global central banks decided to take a wait and watch approach. For most of them, the next policy action is likely to be a rate hike.
- Indian G-sec yields remained stable, supported by robust FPI flows. However, the deferral of India's inclusion in Bloomberg's Global Aggregate Bond Index may dampen sentiments. Henceforth, yields may continue to find support from FCNR(B) led liquidity in the system.
- The corporate bond yield curve inverted as yields rose sharply at the shorter end due to tight liquidity conditions, while persistent supply from states kept SDL yields under pressure. These elevated levels continue to provide good accrual opportunities at the 3-5-year segment of the corporate bond curve and across the SDL curve. Any positive reversal of the current geopolitical situation can bring in capital gains.
- Thus, at this juncture, with lucrative yields, a case continues to exist for investment into Corporate Bonds that are at the 3-5-year segment of the curve. Hence, investors can look at Corporate Bond Funds and Short Duration Debt Funds for a horizon of 15 months and above.
- For a horizon of 24 months and above, investors may consider Income Plus Arbitrage FoFs .
- As yields in the less than 1-year segment remain high for corporates, for a horizon of 3 months and above, investors can consider Arbitrage Funds and Low Duration Funds.
- Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds.
- Investors should invest in line with their risk profile and product suitability.

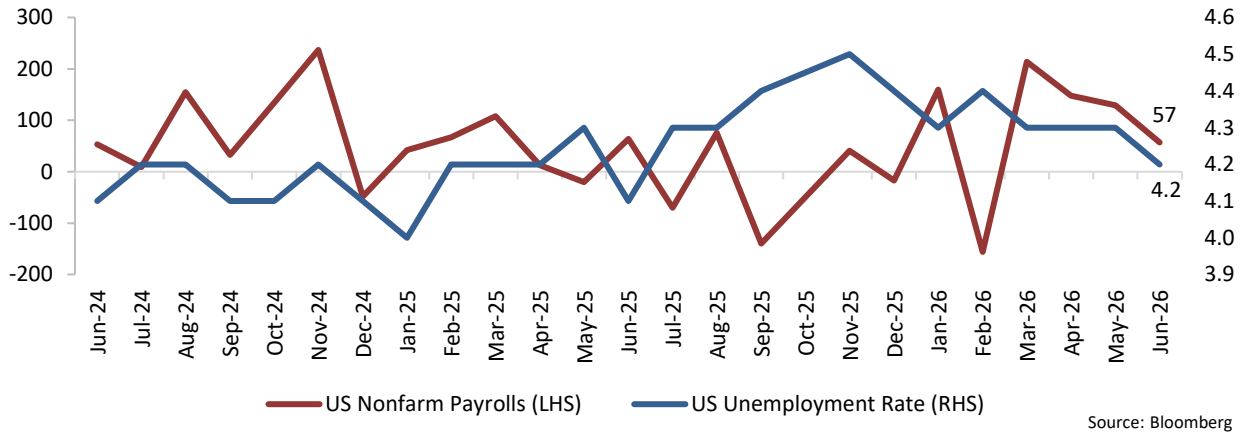
US: Despite interim relief, re-escalation of the West Asia conflict has led to renewed uncertainty around energy prices and inflation… Fed continues to remain data dependent

Energy led inflationary pressure alleviated as prices eased due to the interim peace deal… Sustainability will be key



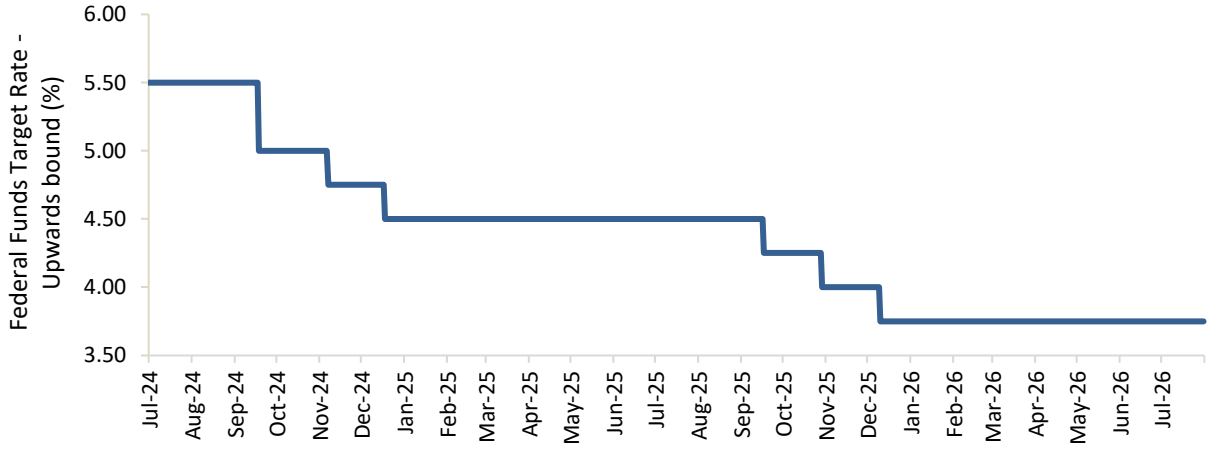
Source: Bloomberg

Employment data remained balanced as unemployment rate fell but jobs gain was softer than expected



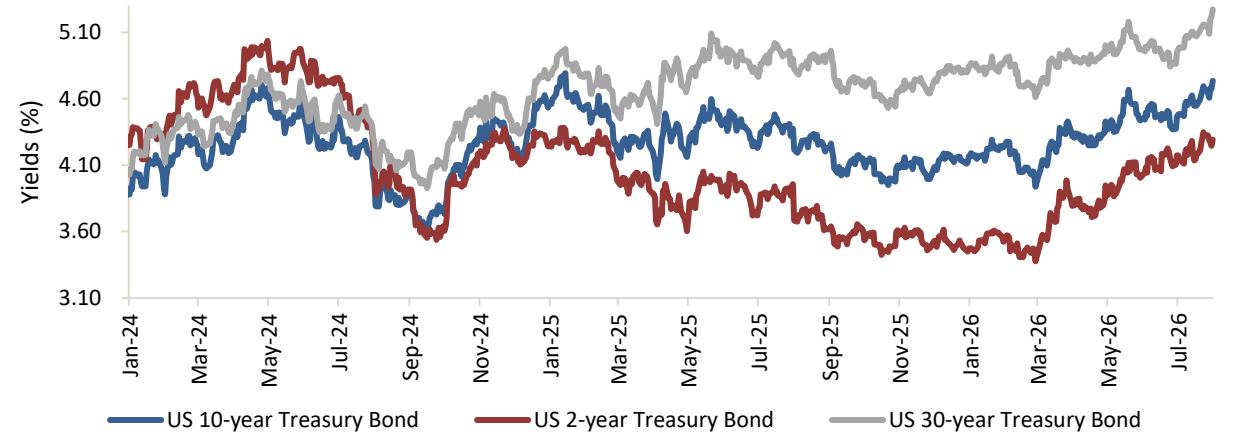
Source: Bloomberg

While Fed continues to remain on pause mode…



Source: Bloomberg

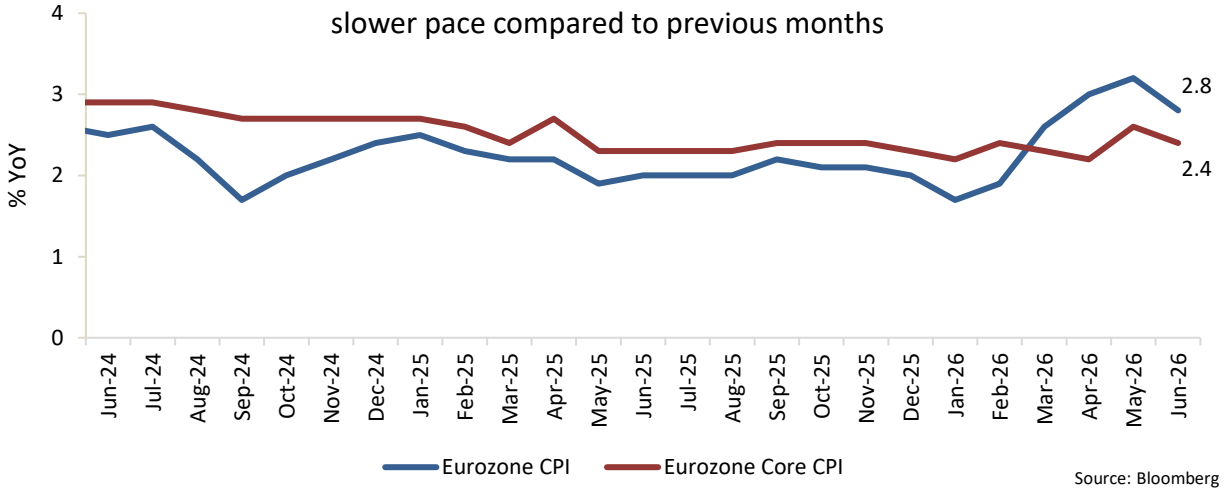
… treasury yields surged across the curve



Source: Bloomberg

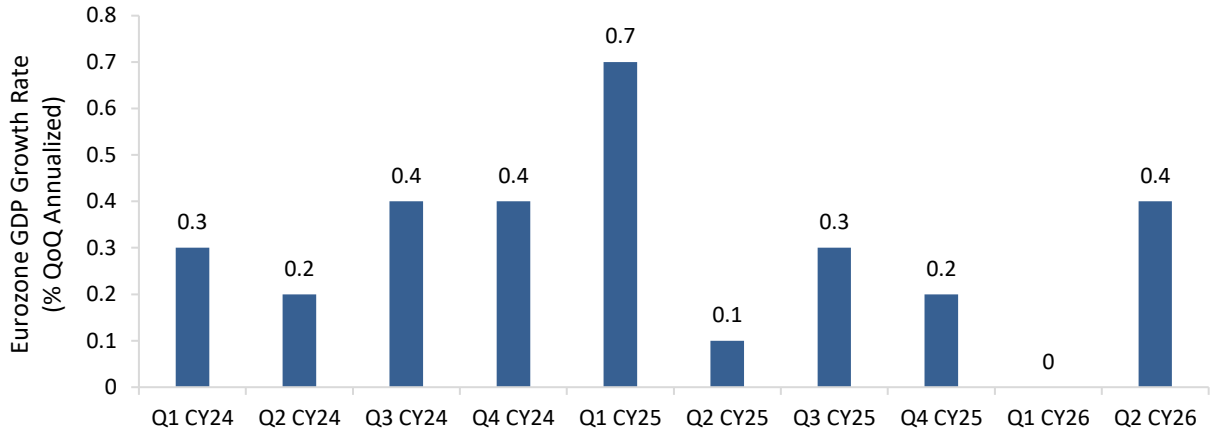
EU: As inflation eased, the ECB held rates and decided to wait for data driven clarity before taking further policy actions

Inflation took a breather as prices of energy, food and services rose at a slower pace compared to previous months



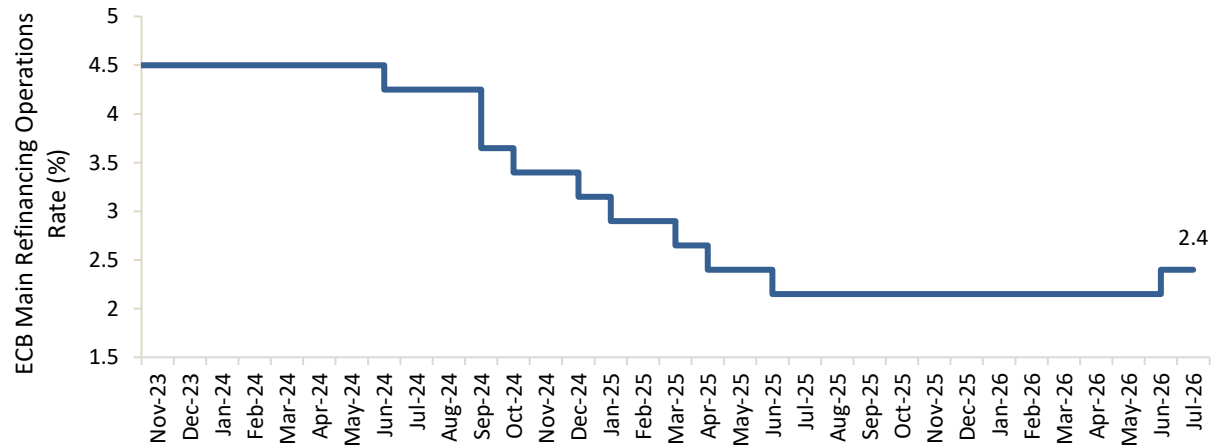
Source: Bloomberg

GDP growth showed resilience



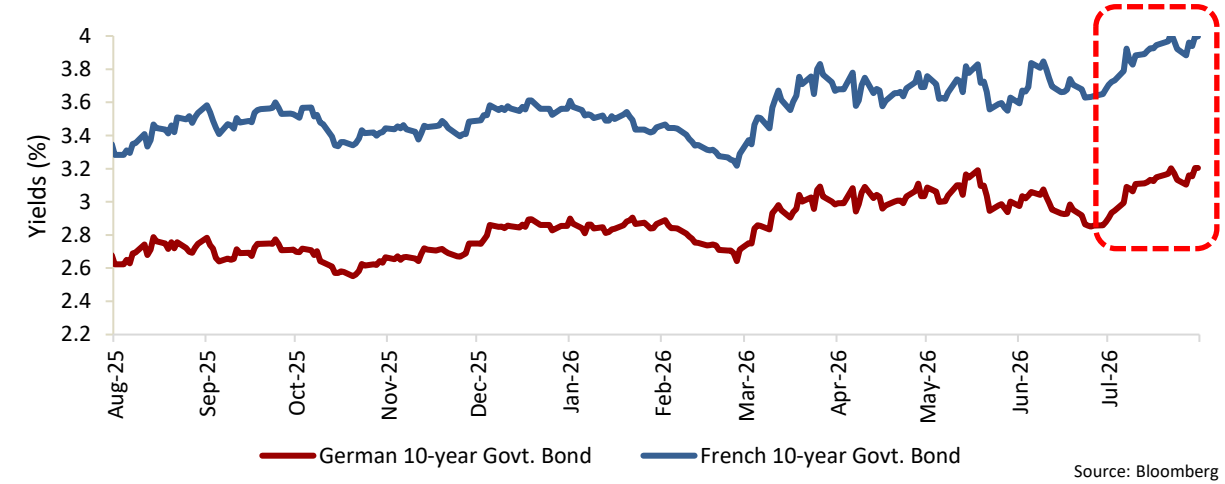
Source: Bloomberg

ECB held rates, but members expect policy rates to rise going forward…



Source: Bloomberg

Government bond yields shot up as they priced in further rate hikes

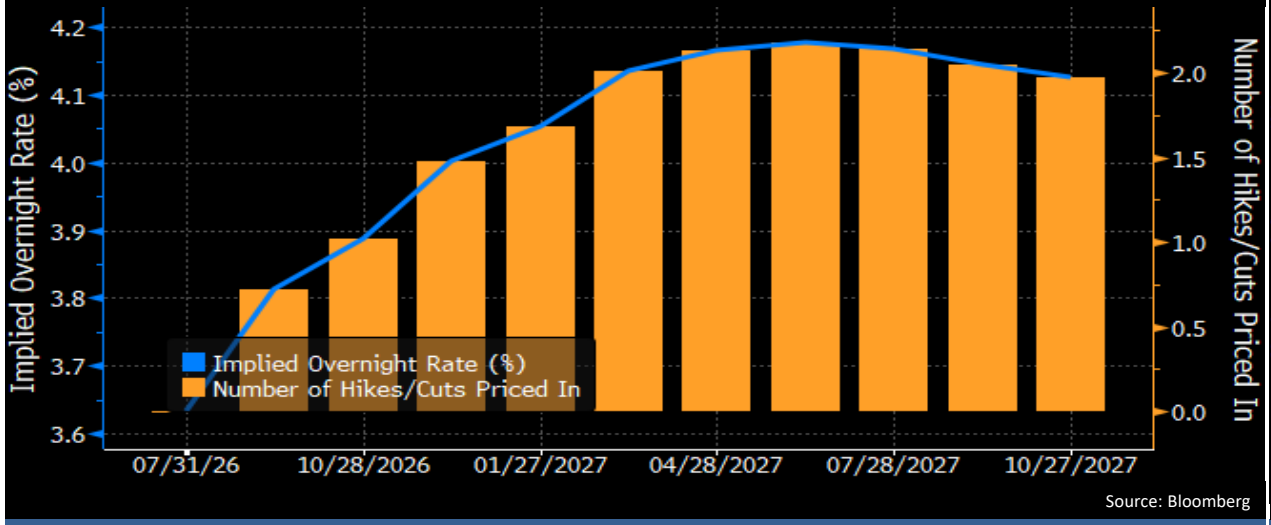


Source: Bloomberg

Classification - Restricted

Fed maintained and ECB adopted a hawkish pause

Market participants expect policy rates to go up



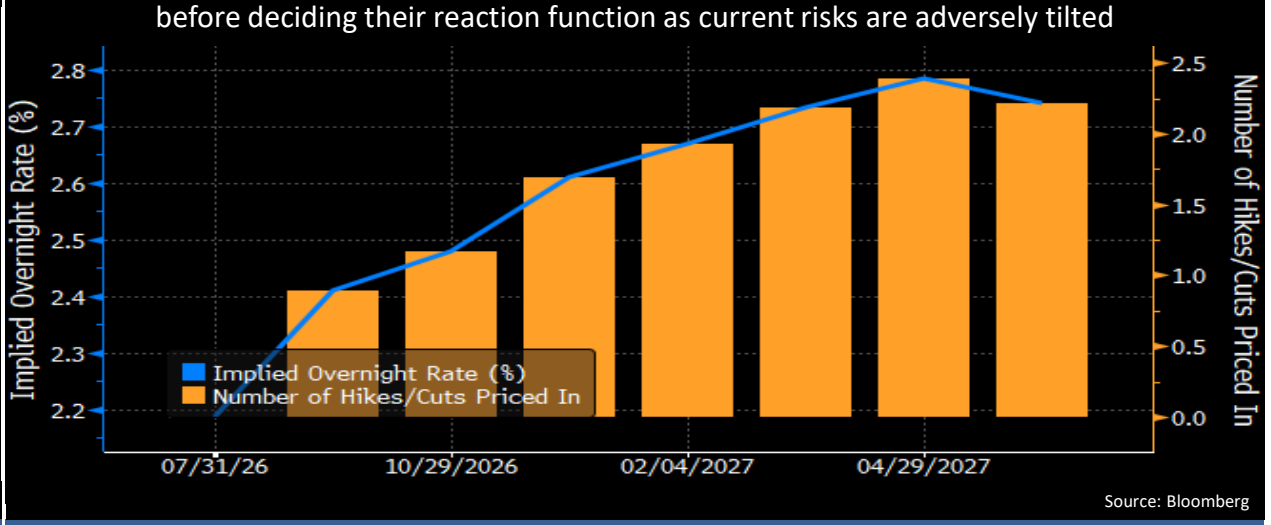
Source: Bloomberg

"… Two economic developments are worth highlighting. The first is a very notable change since our last meeting 42 days ago: Nominal and real yields are materially higher across the Treasury curve. In fact, some of the increases in market interest rates between FOMC meetings are among the most significant in the last two decades, ranking around the top decile or so.

But if the committee didn't change its policy rate, what happened? In the intermeeting period, market attention centered on real data and real economic developments. Prices reacted in real time to incoming information, and the reduction in forward guidance may have been a factor. Market participants are learning to play the ball, not the referee. And market prices will continue to respond in the direction and magnitude they see fit."

- **Kevin Warsh at Post FOMC Press conference**
July 29, 2026

ECB wants to measure intensity, duration and the propagation of the conflict led shocks before deciding their reaction function as current risks are adversely tilted



Source: Bloomberg

"Consider that, before our next September meeting, we will be receiving two monthly indicators for inflation. We will be receiving the GDP for the second quarter. We will be receiving two consumer expectations indices. We will be receiving one CPE (Compensation per Employee) number. We'll be receiving two PMI numbers…. that's just to give you an indication of the volume of data that we will have and the scope of indications that we want to absorb in order to apply our reaction function."

- **Christine Lagarde, President of the ECB,**
Boris Vujčić, Vice-President of the ECB
23 July 2026

Amidst interim relief from moderating inflation on the back off the fall in Crude prices, major Central Banks adopted a wait and watch approach to monetary policy, but may continue to remain Hawkish

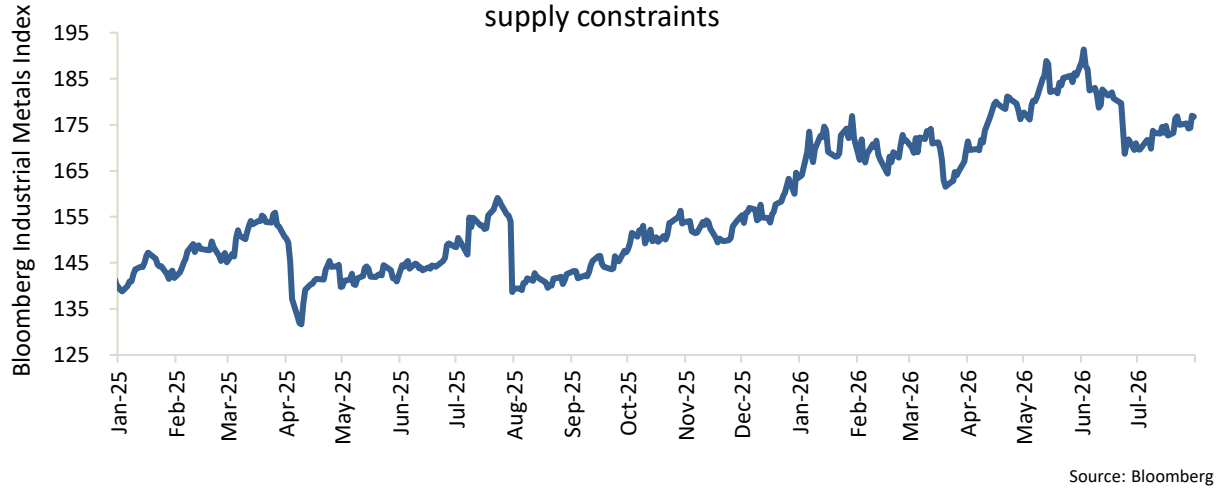
There were no Policy actions across major Central Banks except for New Zealand which started hiking rates

Source: Bloomberg

Classification - Restricted

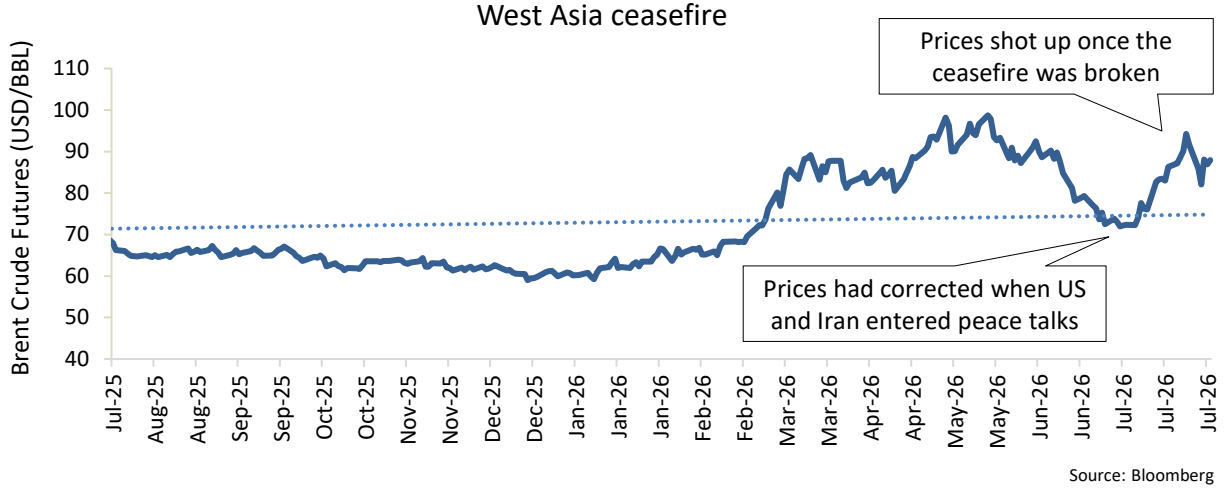
Global Commodities: Prices moved up on the back of a surge in select metal and crude prices

Prices of industrial metals rose due to sustained structural demand and supply constraints



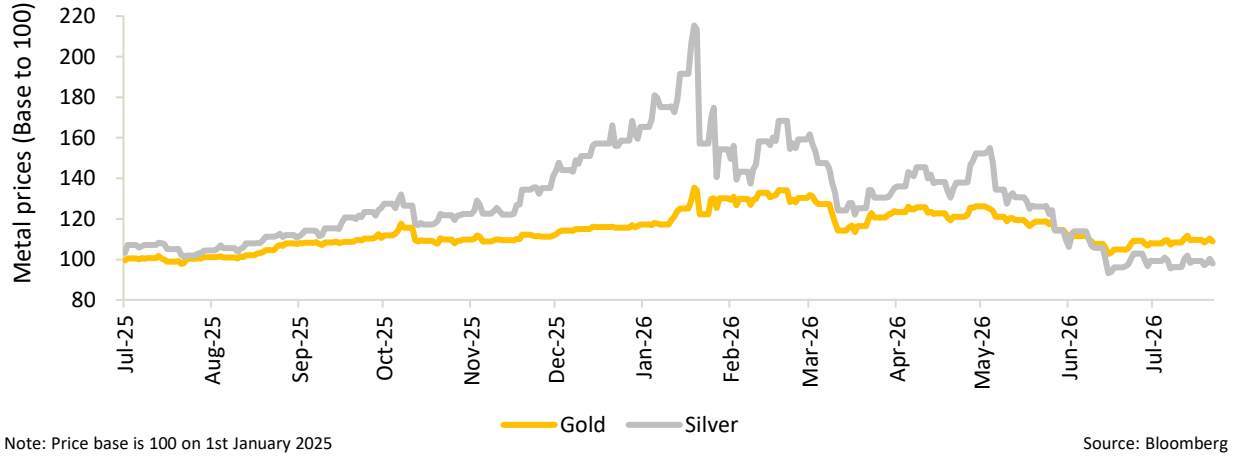
Source: Bloomberg

Crude prices continued fluctuating with the changing scenario around the West Asia ceasefire



Source: Bloomberg

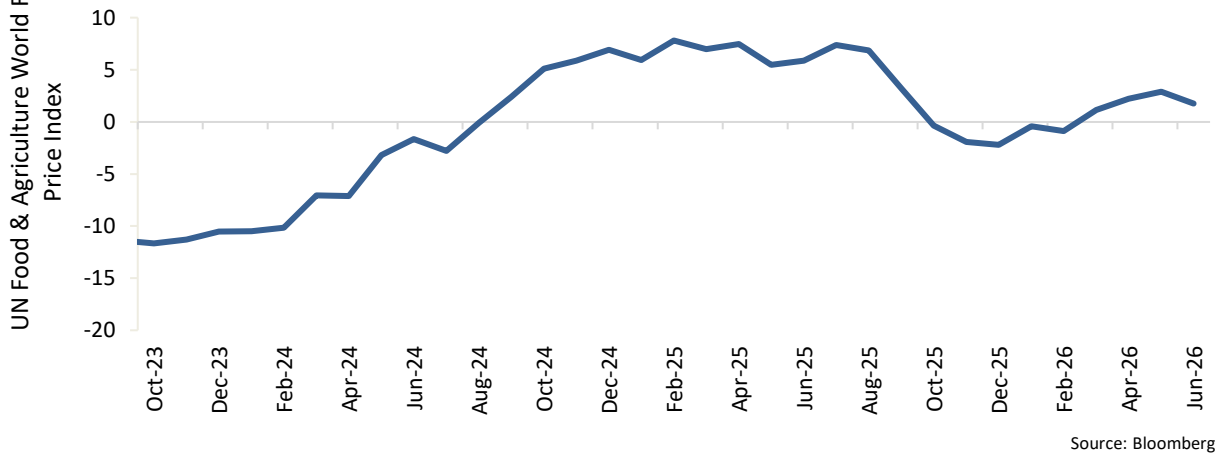
Precious metal prices came under pressure due to a hawkish rate outlook by major central banks



Note: Price base is 100 on 1st January 2025

Source: Bloomberg

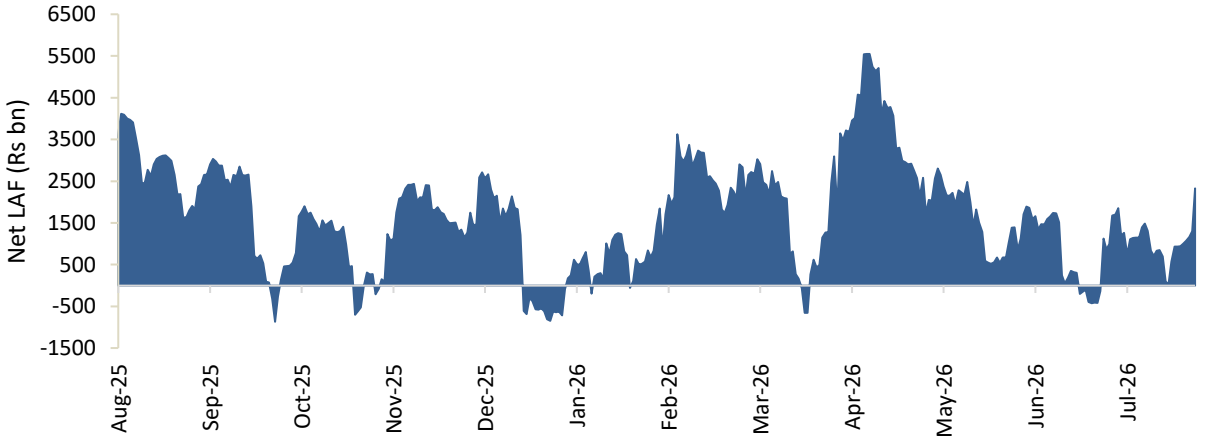
Global food prices remained well contained… Prices may remain under check due to strong buffers… El Nino effects need to be monitored



Source: Bloomberg

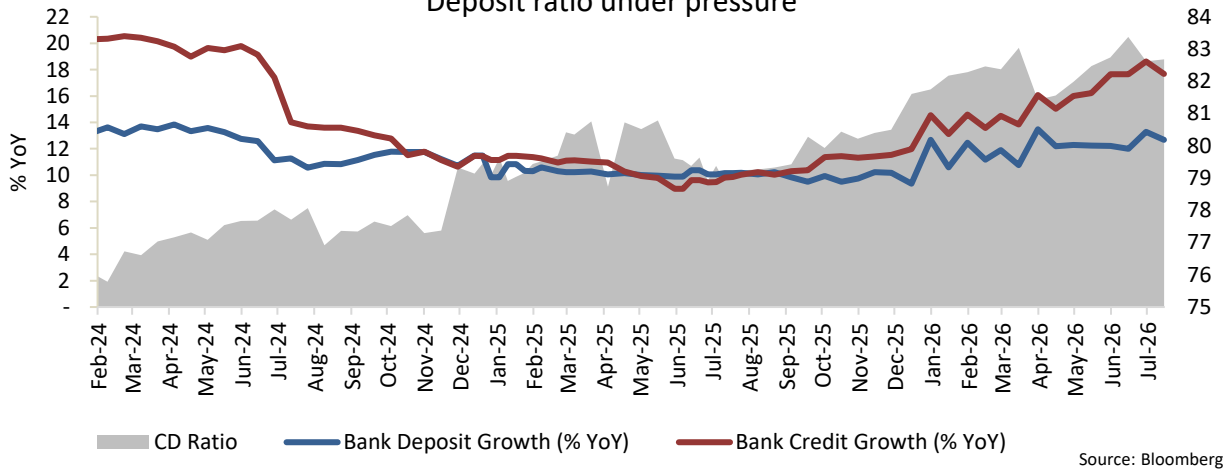
System liquidity came under pressure, pushing up money market yields… FCNR(B) led inflows likely supported liquidity towards the end of the month

System liquidity remained tight during the month



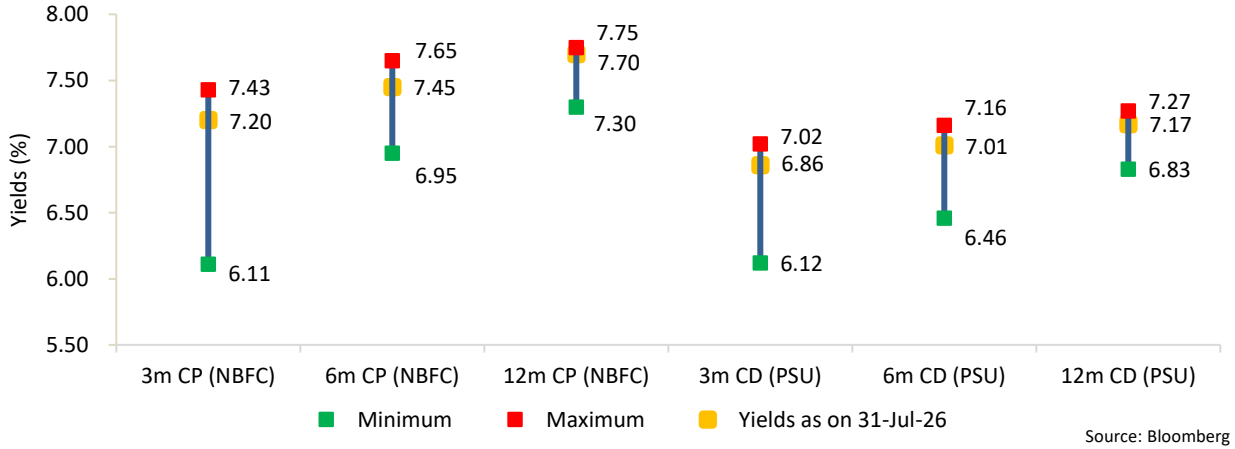
Source: Bloomberg

Credit demand continued outstripping deposit growth, keeping the Credit to Deposit ratio under pressure



Source: Bloomberg

Currency weakened and system liquidity tightened pushing CD/CP yields higher



Source: Bloomberg

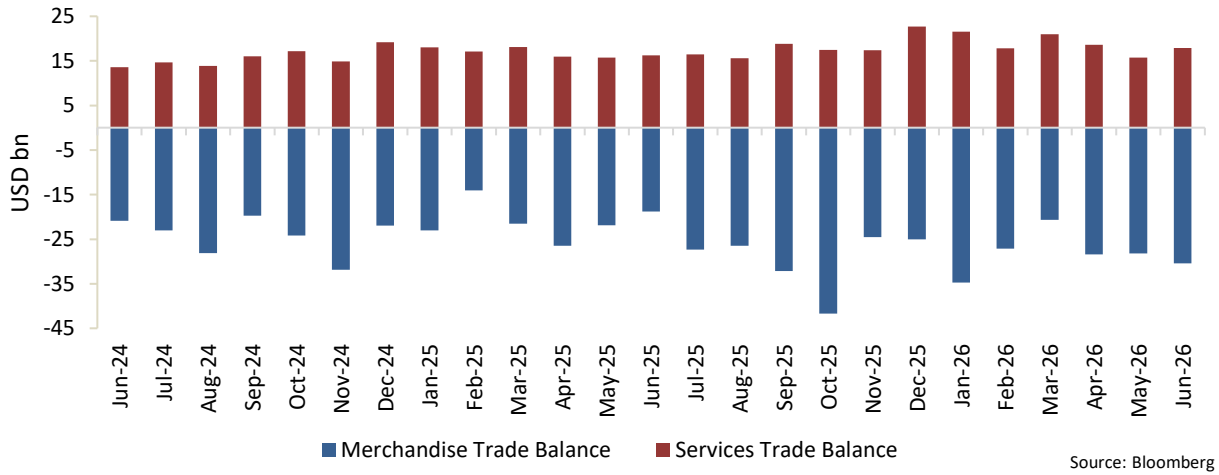
FCNR(B) collections remain strong at ~USD 36.7 bn upto July 31, 2026

Type	Amount (USD bn)
FCNR(B) Deposits	36.72
OFCBs (Overseas Foreign Currency Borrowings)	2.57
ECBs (External Commercial Borrowings)	1.52
Total	**40.82**

Source: RBI

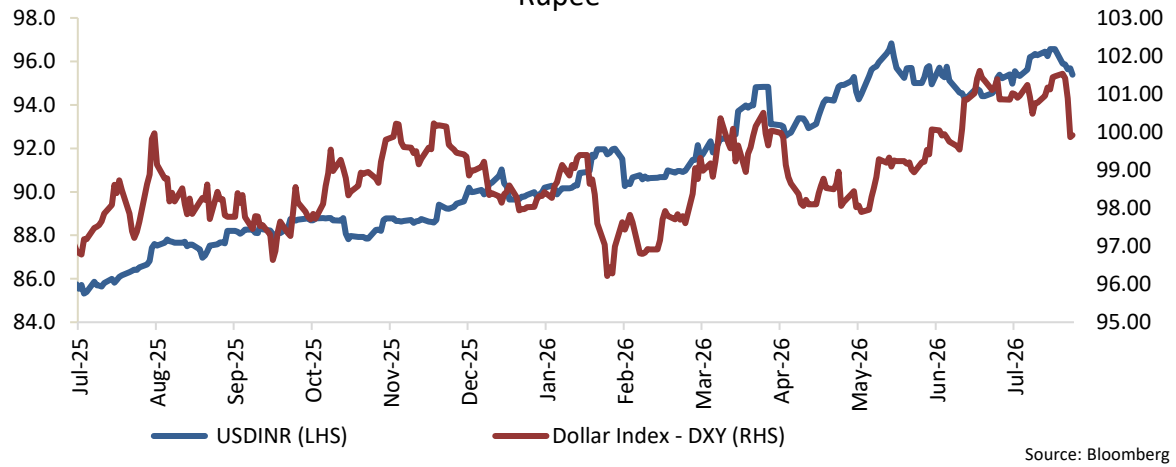
INR found support from capital flows led by FCNR(B), though the trade deficit rose

Merchandise Trade Deficit continued to widen, driven by higher oil prices



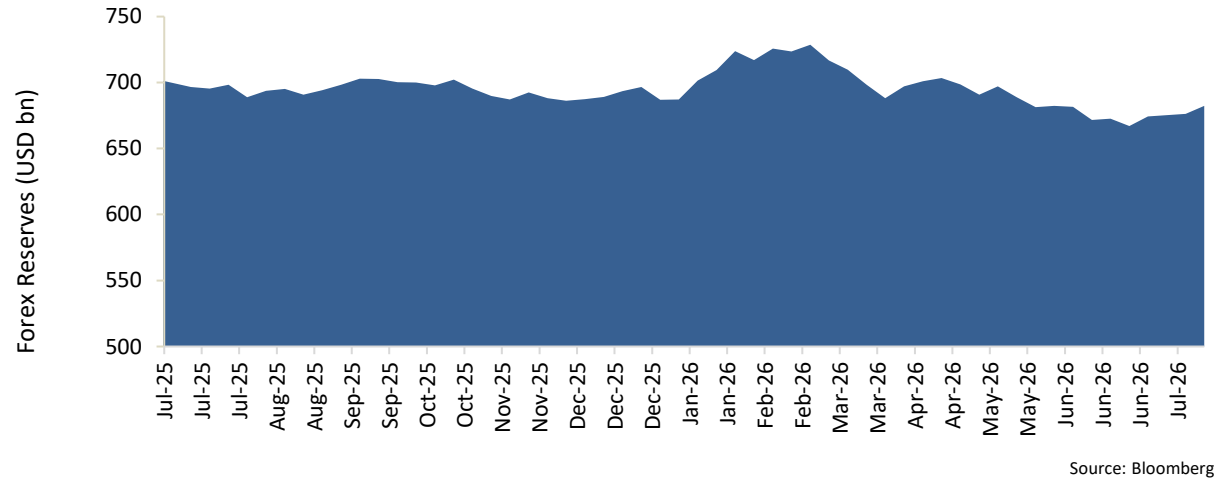
Source: Bloomberg

Weakening Dollar index and steady capital flows provided support to the Rupee



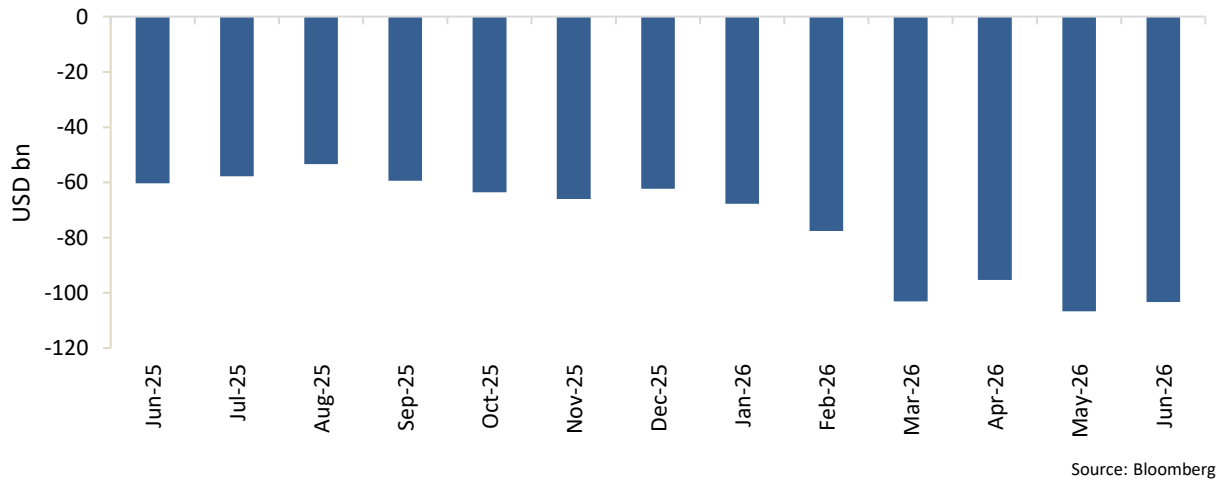
Source: Bloomberg

Forex reserves started seeing positive effects of FCNR(B) flows…



Source: Bloomberg

… but the forward short book continues to remain a cause for concern

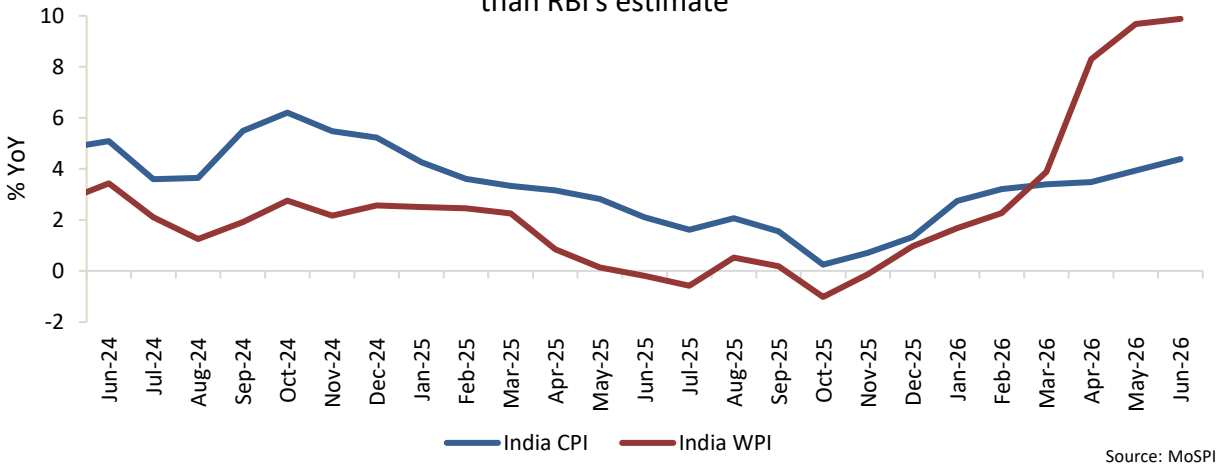


Source: Bloomberg

Classification - Restricted

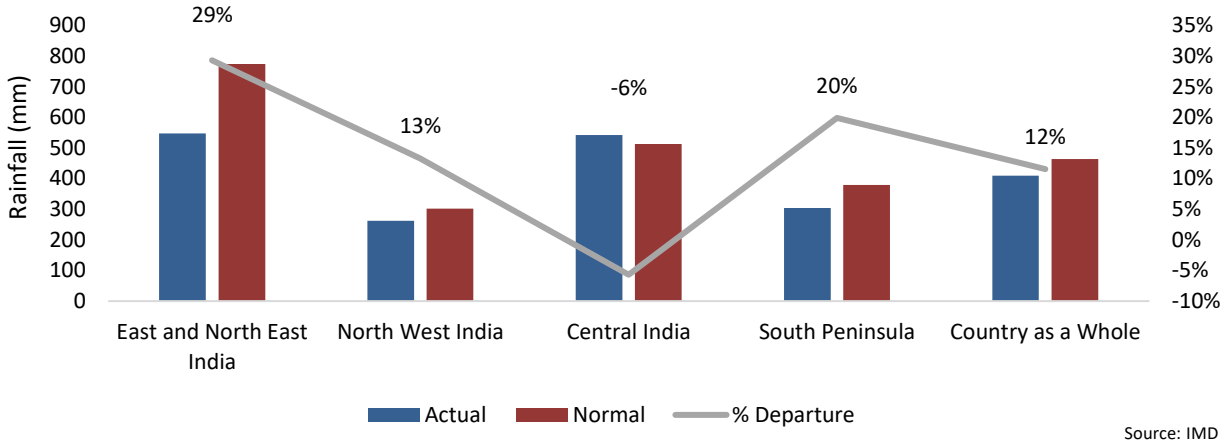
CPI inflation moved above 4% YoY … Deficient monsoon is emerging as a key risk alongside re-escalation of the West Asia conflict which may have impact on inflation going forward

CPI inflation went up further, but the first quarter average came in lower than RBI's estimate



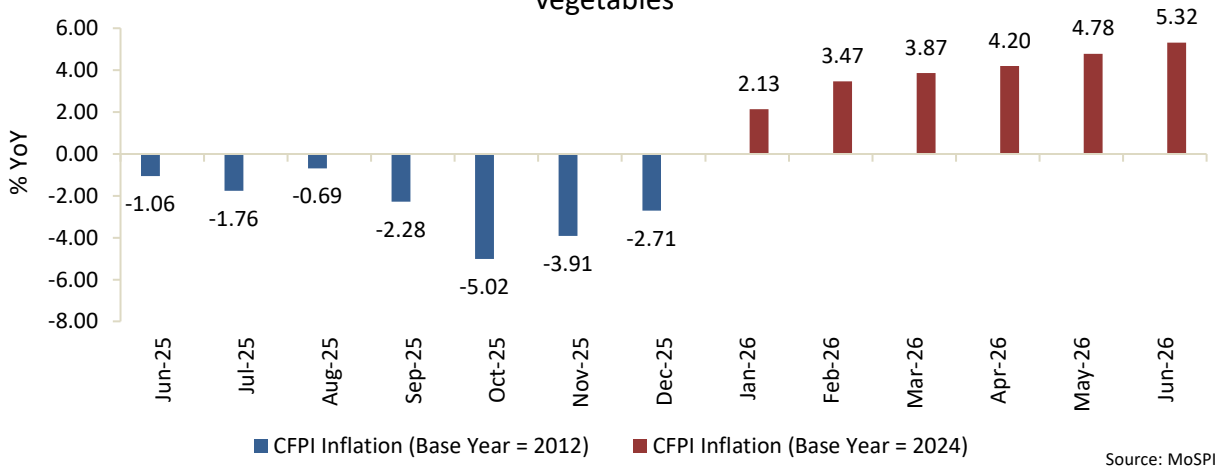
Source: MoSPI

Monsoon saw revival in July after a very weak start in June, but still remains substantially deficient



Source: IMD

Food inflation continued surging, driven by an acceleration in prices of some vegetables



Source: MoSPI

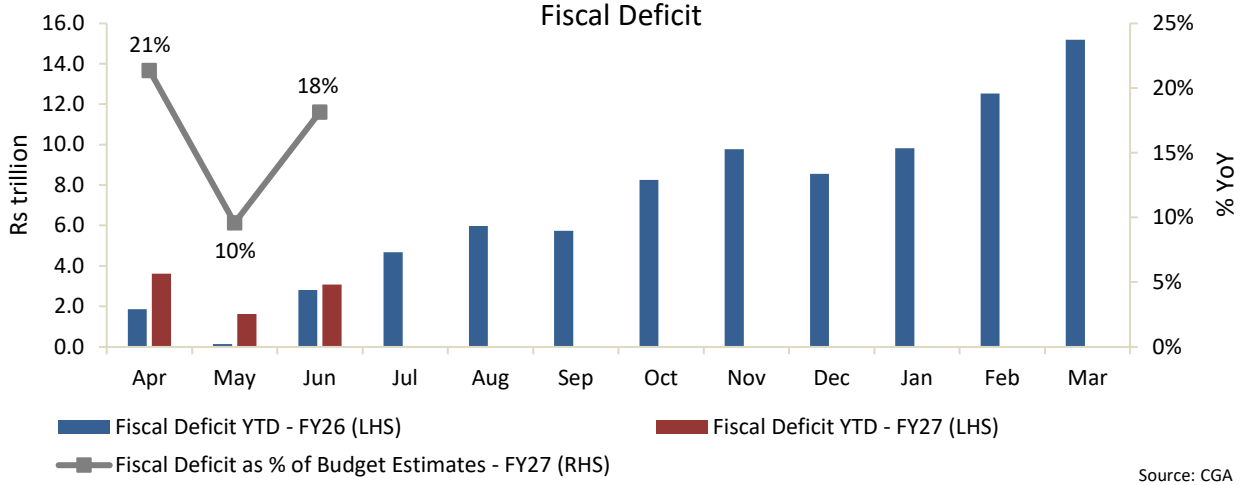
Kharif sowing improved with improving rainfall, but still remains below last year's level

Crops	Sown Area, % y-o-y						
	12th June	19th June	25th June	5th July	10th July	17th July	28th July
Total	-3.9	1.7	**-22.7**	**-20.8**	**-16.0**	-6.0	-4.7
Rice	28.4	52.8	**-25.2**	**-13.1**	**-8.6**	-0.8	-2.6
Coarse Cereals	10.4	26.6	**-11.7**	**-16.3**	**-22.5**	-11.2	-11.9
Maize	-12.0	6.6	**-15.6**	**-5.9**	**-19.5**	-5.0	-9.7
Pulses	-43.2	12.8	**-30.5**	**-21.8**	**-23.3**	-15.1	-7.5
Tur	-57.1	1.3	**-57.9**	**-41.2**	**-30.3**	-17.8	-11.6
Oil Seeds	-0.8	-10.7	**-53.3**	**-39.3**	**-21.0**	-5.5	-2.1
Sugarcane	-0.4	1.2	1.2	1.5	1.5	1.5	1.5
Jute	1.5	2.1	2.0	1.9	1.9	2.1	2.1
Cotton	-27.7	-24.9	**-34.6**	**-23.0**	**-15.3**	-6.0	-3.9

Source: UPAG, HDFC Bank Treasury Research Desk

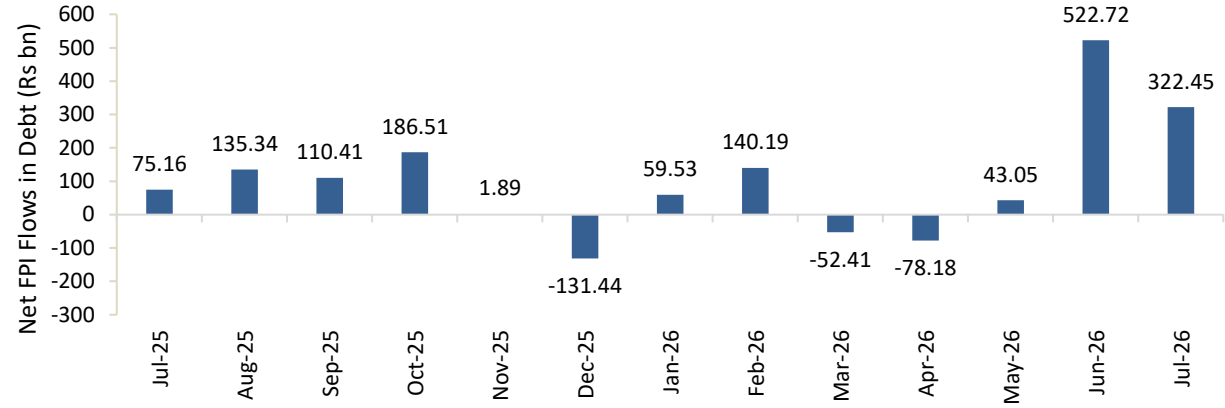
Despite volatility in crude prices, G-sec yields remained relatively stable

Increase in capital outlay to support long term growth led to widening of Fiscal Deficit



Source: CGA

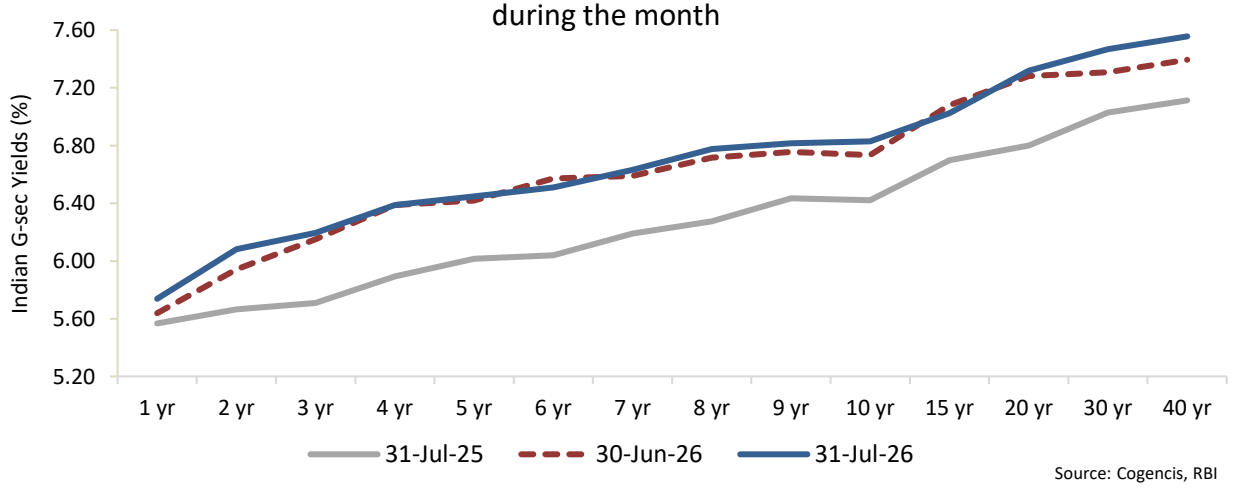
FPIs continued showing robust buying interest since the spate of measures announced by the RBI and tax incentive provided by the government



Note: Debt FPI includes flows to/from - Debt General Limit and FAR

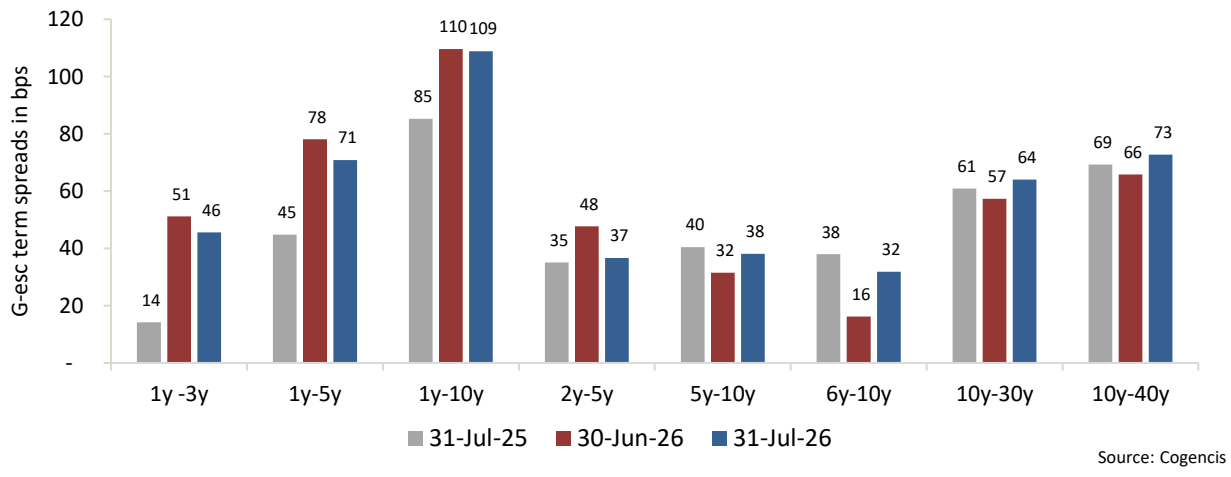
Source: NSDL

G-sec yields went up marginally at the longer end once FAR flows tapered during the month



Source: Cogencis, RBI

G-sec Term Spreads remained mixed

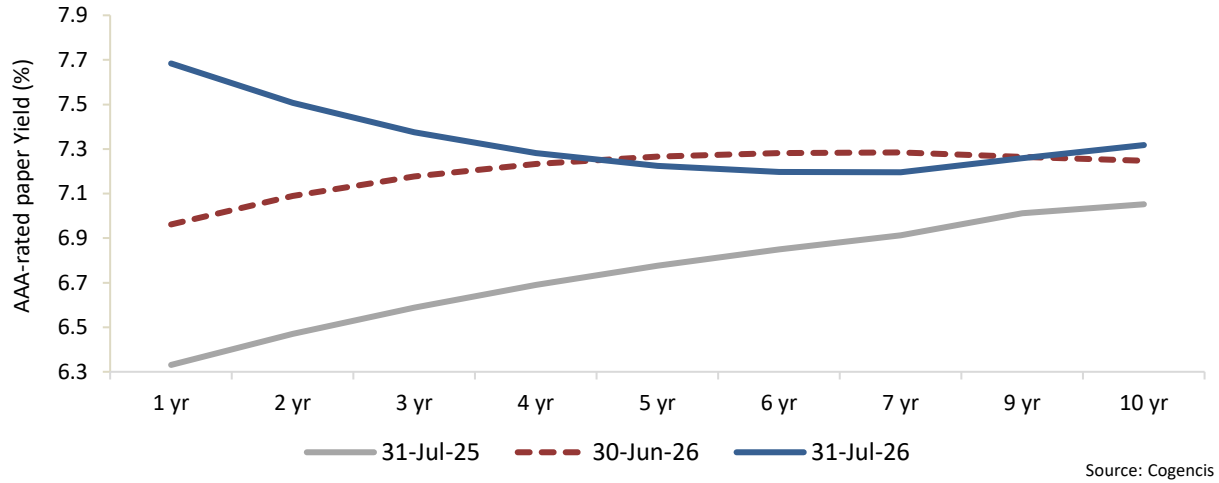


Source: Cogencis

Classification - Restricted

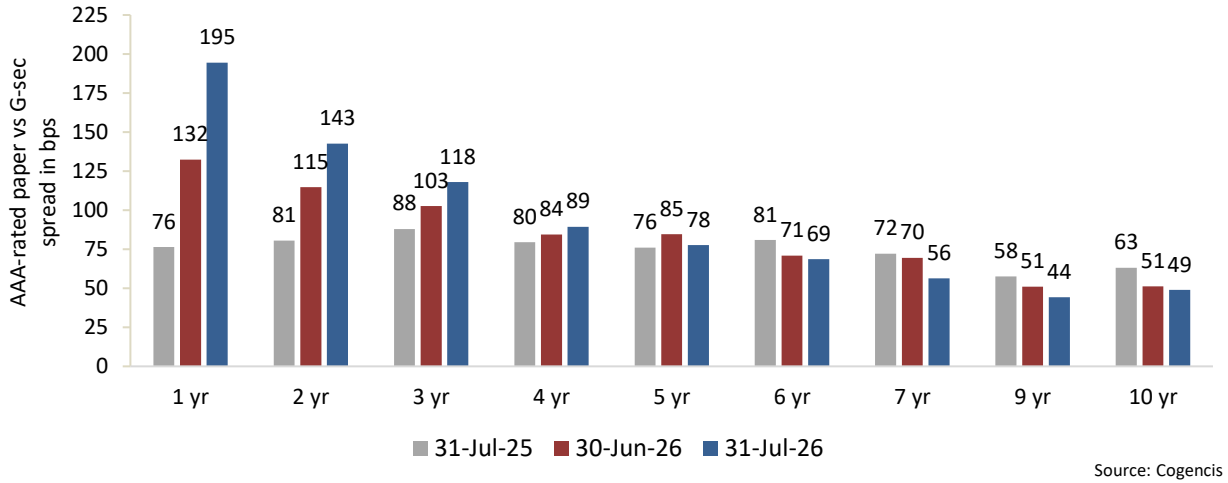
Tight liquidity conditions led to significant inversion of the corporate bond yield curve, whereas continuous heavy supply by states means SDL yields may structurally remain higher

The corporate bond curve inverted (likely to be temporary)…



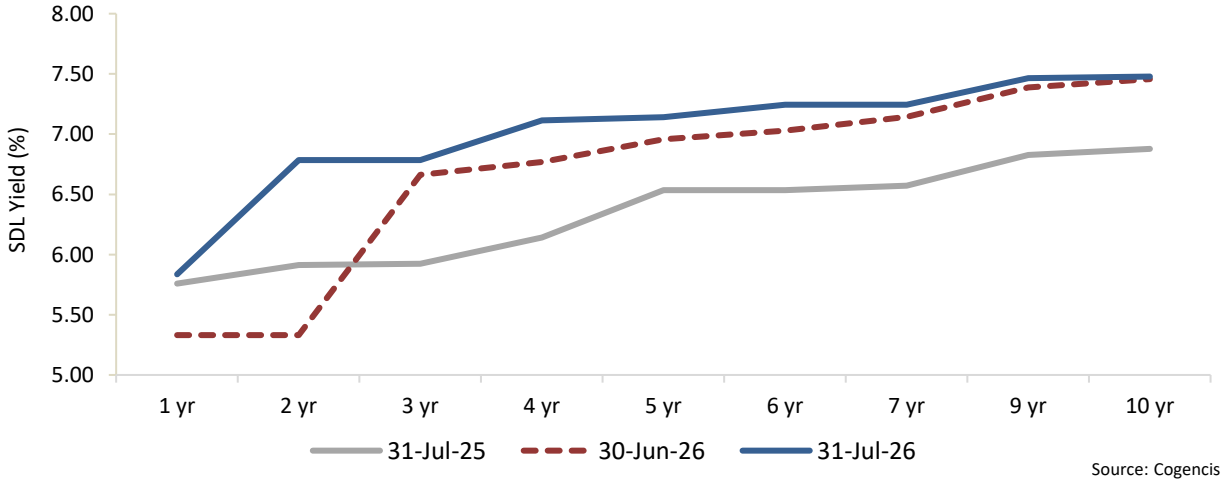
Source: Cogencis

… leading to shorter end spreads moving up



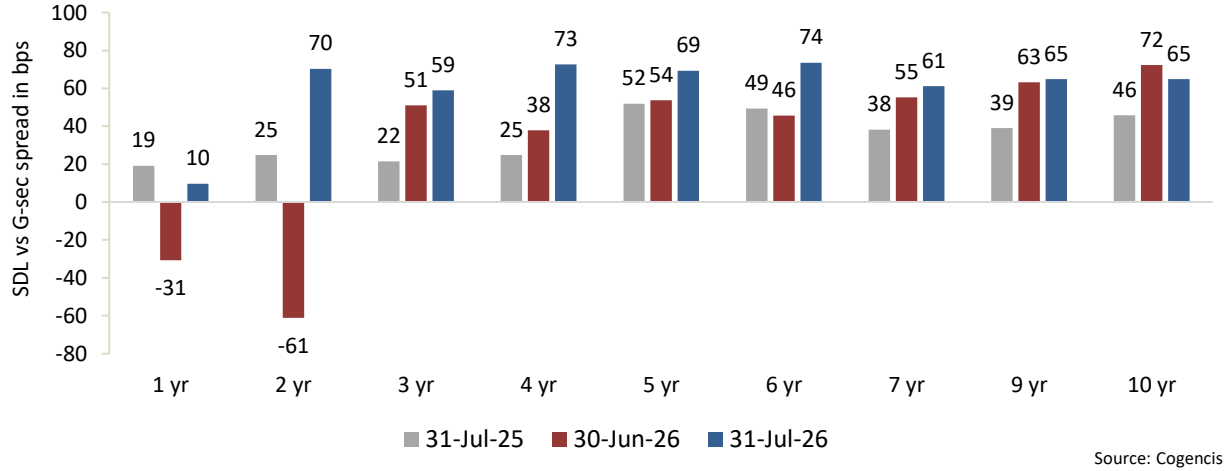
Source: Cogencis

The SDL yields continue to remain elevated



Source: Cogencis

SDL spreads rose compared to last month as supply persisted



Source: Cogencis

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