

# ECONOMY AND MARKETS

April 2026

# Middle east conflict triggers a direct shock to global energy flows

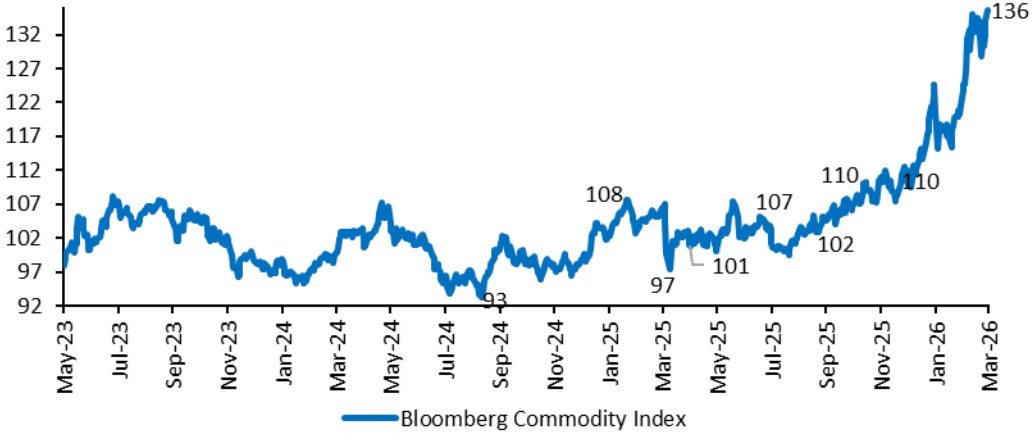
Middle East conflict began on 28<sup>th</sup> February 2026



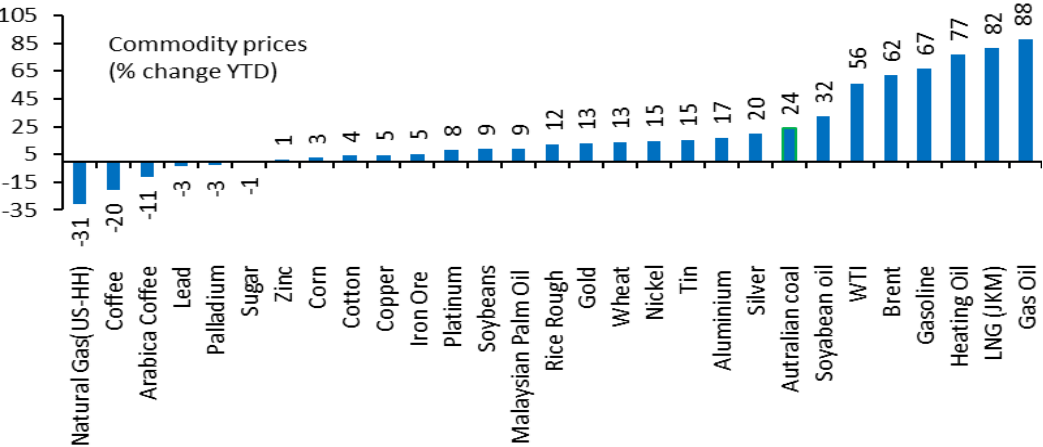
- On February 28, 2026, hostilities erupted in West Asia, rapidly escalating across multiple Gulf Cooperation Council (GCC) countries.
- In response, Iran unilaterally halted most sea traffic through the Strait of Hormuz (SoH)—a critical artery in global oil and gas transportation—effectively freezing maritime energy flows.
- Several oil and gas facilities across the GCC have sustained physical damage, disrupting production and export capacity across multiple producers.
- This crisis is structurally different from prior Middle East conflicts: not because of its novelty, but because it directly impairs the physical chokepoint at the heart of global energy supply chains.
- The Strait of Hormuz handles ~20 million barrels per day of crude and gas, accounting for roughly 20% of global petroleum consumption. Unlike Russia-related disruptions—which could be partially offset via rerouting and shadow fleets—the Gulf lacks any credible alternative corridor.
- LNG markets are even more vulnerable, with minimal buffer inventories. Damage to gas infrastructure in Iran and Qatar further delays supply normalization and amplifies downside risks.
- Freight rates and insurance premia have already spiked, signalling immediate and sustained repricing of geopolitical and supply-chain risk.

# Energy supply shock drives a sharp surge in commodity prices

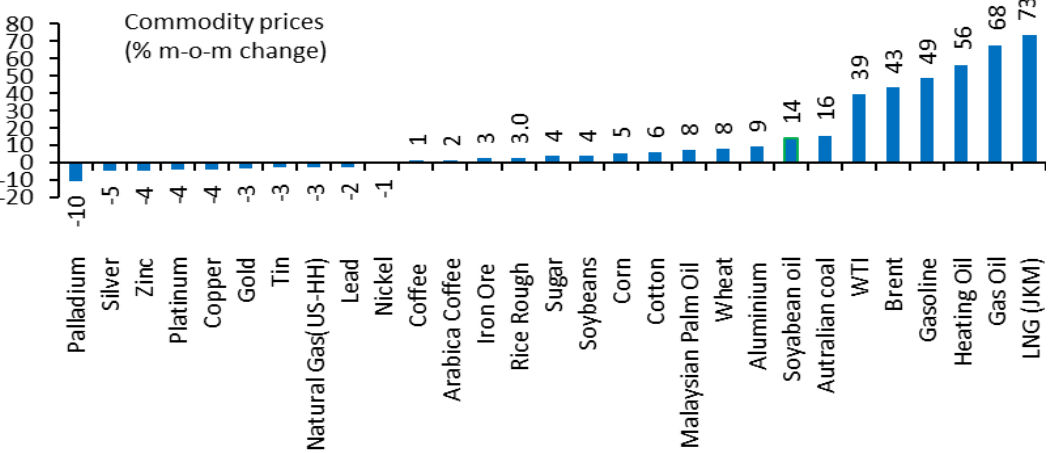
Commodities rise in 2026; YTD Bloomberg commodity index has risen by 24%



Year-to-date, energy and related commodities have risen sharply



Energy commodities drive higher commodity prices m-o-m; Metals see some moderation from Feb 2026 highs



- Energy markets have already experienced sharp moves this year. Brent and WTI crude prices have risen 55-60% year-to-date.
- The increase in key refined fuels has been even steeper. LNG prices are up 82% YTD, heating oil 77%, diesel 88%, and petrol 67%. Even coal—often seen as an alternative energy source—has risen 24% YTD.
- Together, these trends indicate broad-based upward pressure across the energy complex, with clear implications for input costs and inflation dynamics.
- In contrast, most agricultural commodities and precious metals—particularly gold—have remained relatively contained.

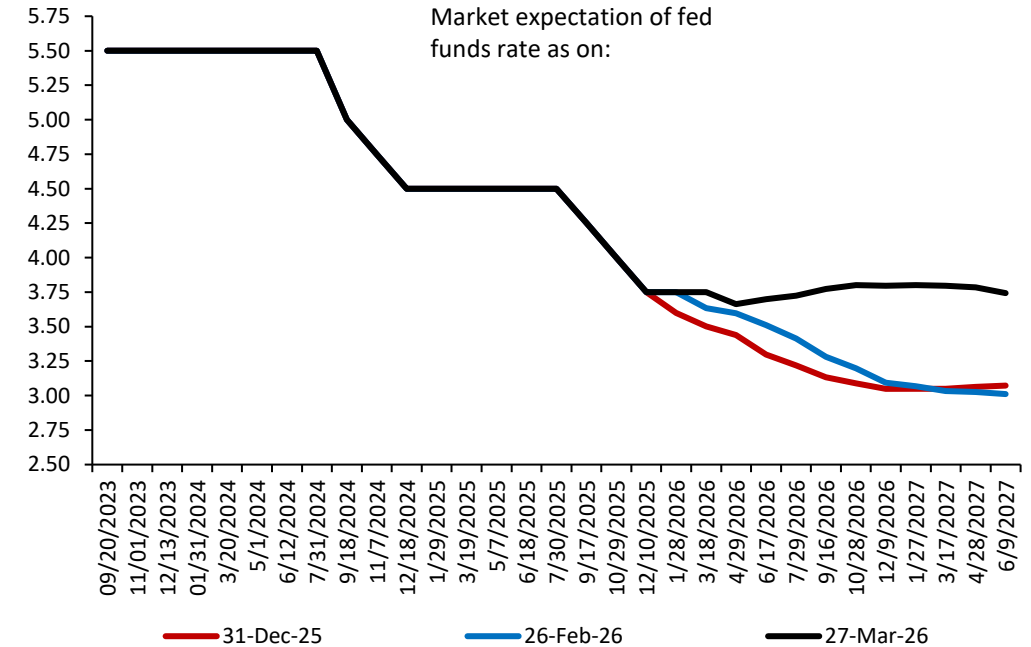
Source: Bloomberg, SBIFM Research

# Energy inflation resets global interest rate expectations

Market expects majority of the economies to hike interest rates in next six months

Central bank policy rate (period end %)	2025	Market interest policy rate expectation (%)	
		6 months ahead	12 months ahead
US	3.75	3.78	3.87
Eurozone	2.15	2.67	2.91
UK	3.75	4.43	4.58
Japan	0.75	1.09	1.45
Canada	2.25	2.69	3.03
India	5.25	5.62	5.98
Australia	3.60	4.64	4.82
South Korea	2.50	2.91	3.65
Taiwan	2.00	2.12	2.41
Thailand	1.25	1.20	1.59
Malaysia	2.75	2.77	2.82
Philippines	4.50	4.90	5.50
New Zealand	2.25	2.68	3.35
Brazil	15.00	14.34	14.08
Mexico	7.00	6.81	7.56
Chile	4.50	4.71	4.93

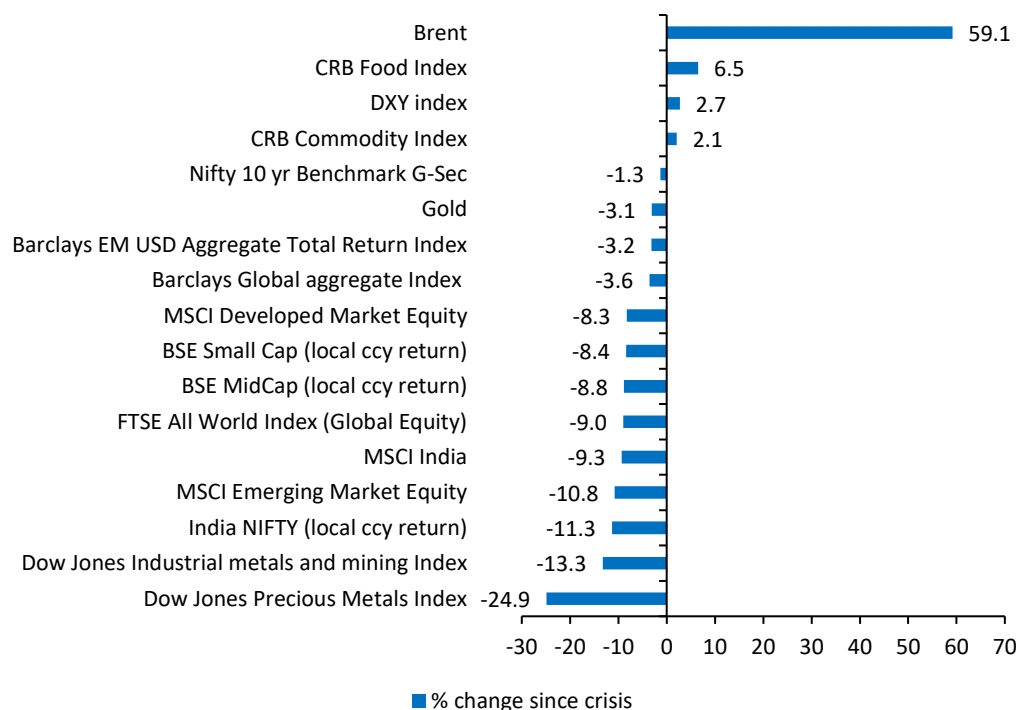
US Fed rate cuts gets eliminated in 2026 (now no rate cut is priced in for 2026 vs. first rate cut in July 2026 previously)



- Energy price rise has clear implication for costs and inflation. This has shifted global monetary expectations. Hopes of policy easing have faded, and some markets are tentatively pricing rate hikes.
- The US Federal Reserve is now expected to remain on hold until June 2027, versus expectations of 75 bps of cuts earlier.
- Market expects most economies to hike interest rates in next six months.

# Global Financial Markets: Traditional hedges break down

## Traditional hedges-bonds and gold- are failing simultaneously



## Bonds struggle as higher oil prices generate an inflationary impulse

10 Year Gsec Yield (% mth end)	Feb-26	Mar-26	m-o-m change (in bps)
<b>Developed market</b>			
US	3.94	4.39	46
Germany	2.64	3.09	45
Italy	3.27	4.04	77
Japan	2.12	2.37	25
Spain	3.06	3.62	56
Switzerland	0.21	0.43	22
UK	4.23	4.97	74
<b>Emerging Market</b>			
Brazil	13.55	14.28	73
China	1.81	1.81	0
India	6.66	7.04	38
Indonesia	6.41	6.83	42
South Korea	3.45	3.93	48
Malaysia	3.50	3.64	15
Philippines	5.90	7.02	113
Taiwan	1.42	1.57	16
Thailand	1.71	2.22	51
Turkey	30.12	34.49	437
Mexico	8.67	9.29	62
Poland	4.93	5.91	98
South Africa	8.13	9.43	130

- Traditional hedges—bonds and gold—are failing simultaneously. Bonds are pressured by the inflationary impact of higher oil prices. Gold is declining despite geopolitical stress, likely due to extreme retail speculative positioning.
- In this environment, the only reliable hedge that emerged was the US dollar, which appreciated as global investors flocked toward safety.
- This breakdown in usual diversification channels is complicating portfolio risk-management strategies.

# Oil price history shows how demand, supply and inventories interact

Period / Episode	Price Movement (Rise/Fall)	Magnitude / Direction	Why Price Rose / Fell	Start Date	Duration (in months)	Brent price 6 mths prior to the start of Oil Shock / Collapse	Peak/bottom price during the Oil Shock/ Collapse
1973–74 Oil Crisis	Sharp Rise	WTI rose from US\$4.31 to US\$10.11 (Sep 1973–Jan 1974)	• Global demand boom (1972–73) raised demand for crude • Arab producers cut output (repudiation of Tehran/Tripoli agreement) • Dollar depreciation + rising US inflation eroded real price received by producers	Oct-73	6	3	12
1979–80 Oil Crisis	Large and delayed Rise	WTI rose from < US\$15 (Sep 1978) to ~US\$40 (Apr 1980)	• Strong global economic growth raised flow demand • Inventory demand increase from fears of future shortages after Iranian Revolution	Sep-78	12	14	34
Iran–Iraq War (1980–81)	Small Rise	WTI rose from US\$36 to US\$38 (Sep 1980–Jan 1981)	• Actual physical disruption in Iran & Iraq	Sep-80	12	28	38
1986 Oil Price Collapse	Sharp Fall	Major sudden crash in prices	• Rising non-OPEC production (Mexico, Norway, UK) • Inventory liquidation • Global recession due to Volcker monetary tightening, lower oil demand • Saudi Arabia abandoned production restraint • Low inventory demand after OPEC lost credibility	Nov-85	6-9	28	10
1990 Gulf War	Short-lived Spike then Fall	Spike in mid-1990; sharp fall in 1991	• Actual disruption in Kuwait + Iraq • Strong precautionary inventory demand expecting attack on Saudi Arabia	Aug-90	5	22	40
1997–98 Asian Financial Crisis	Large Fall	WTI fell to US\$11 by Dec 1998 (from ~US\$25 two years earlier)	• Collapsing global demand from crises in Asia, Russia, Brazil, Argentina	Jul-97	18	26	11
2003 Iraq War + Venezuela Strikes	Very Mild / Brief Rise	Only ~US\$6 increase (from US\$31 to US\$37)	• Supply losses in Iraq and Venezuela largely offset by other producers	Jan-03	4	27	37
2003–08 Great Oil Price Surge	Massive Rise	WTI rose from US\$28 to US\$134 (2003–08)	• Strong global demand, especially from emerging Asia/China • Low supply elasticity	Jun-03	60	27	140
2008 Global Financial Crisis	Sharp Fall	From US\$134 (Jun 2008) to US\$39 (Feb 2009)	• Global industrial collapse → huge drop in oil demand	Sep-08	6-8	102	42
2009–2014 Recovery & Stability	Rise then Stable High Prices	Stabilized near US\$100	• Demand recovery & geopolitical tensions (Libya 2011 added \$3–\$13, Iran tensions \$0–\$9)	Jan-09	60	140	114
2014–15 Oil Price Collapse	Sharp Fall	Brent fell from US\$112 to US\$47	• Predictable decline from slowing global activity (~\$11) • Predictable supply growth (US shale, Russia, Canada) (~\$16) • Unexpected inventory & demand shocks (~\$22)	Jun-14	18	93	34
2020 Collapse During COVID-19	Sharp fall	Brent plunged from US\$ 52 to US\$ 19 briefly	• Demand weakness led Oil price collapse. As lockdowns opened and vaccines were rolled out, price recovered	Mar-20	2	55	19
2022 Russia–Ukraine War	Short-lived Spike then Fall	Brent climbed above US\$ 105 per bbl but moderated to US\$ 80 , 5 months later	• Fears of sanction on Russia, but few months later Russian crude found way to market at discounted rates restoring supply	24-Feb-22	4-5	74	115

# Strait of Hormuz closure represents a rare and concentrated supply shock

- The history of global oil prices since the early 1970s shows a pattern of sharp rises, dramatic collapses, and intermittent periods of stability, each shaped by a combination of demand forces, supply disruptions, and shifting expectations.
- Across these decades, the most consistent theme is that demand dynamics, particularly those linked to the global business cycle, explain the majority of major oil-price movements.
- Supply shocks matter, but their impact depends heavily on available spare capacity and expectations around future scarcity. Inventory demand—driven by precautionary motives—often serves as the link between geopolitical tensions and price spikes. Conversely, prices do not rise when supply losses are offset elsewhere or when global demand is weak.
- Unlike past geopolitical episodes where supply losses were compensated by other producers (for example, the 1979 Iranian shortfall or the 2003 Iraq war), the current closure of the Strait of Hormuz (SoH) represents a direct and concentrated halt to physical flows.
- This makes the SoH disruption a much purer supply shock than the 1973 and 1979 episodes, where demand and expectations played the dominant role. Inventory demand rises sharply when market participants anticipate future shortages, and this expectation magnifies upward pressure on prices. The International Energy Agency (IEA) preparing a record 400-million-barrel release to soften the impact is evidence that precautionary pressures are intensifying.
- In earlier episodes, such as 2003/2011, other producers were able to quickly offset supply losses—that is not feasible today in a short period. Thus, if the SoH closure persists, prices will continue rising until recessionary demand compression takes hold.
- Given the rising likelihood of more frequent geopolitical disruptions, even when the SoH is eventually made commercially viable again, countries are expected to rebuild inventories aggressively and more nations may consider building or expanding strategic reserves. These factors could keep crude prices elevated for an extended period unless meaningful new supply comes onstream quickly.

# India's heavy energy import dependence amplifies vulnerability

## India imports 89% of its crude oil requirement and half of its LNG requirement

2024-25	mn metric tonnes			% of domestic demand met via:	
	Production	Net Imports	Domestic demand (Production + Net Import)	Production	Imports
<b>Crude Oil</b>	<b>29</b>	<b>243</b>	<b>272</b>	<b>11</b>	<b>89</b>
Major Products:					
LPG	13	20	33	39	61
Naphtha	18	-16	2	770	-670
MS (Petrol)	48	-4	44	110	-10
ATF (Aviation Turbine Fuel)	18	-9	9	193	-93
SKO (Kerosene)	1	-0	1	101	-1
HSD (High Speed Diesel)	118	-28	90	131	-31
LDO (Light Diesel Oil)	1	-	1	100	-
Lubes	1	3	4	31	69
FO & LSHS (Furnace Oil)	11	5	16	67	33
Bitumen	5	3	8	65	35
Petcoke	15	12	27	55	45
Others	35	-1	33	104	-4
<b>Total product</b>	<b>284</b>	<b>-14</b>	<b>270</b>	<b>105</b>	<b>-5</b>
<b>Total Crude + Product</b>	<b>312</b>	<b>229</b>	<b>542</b>	<b>58</b>	<b>42</b>
<b>LNG (Million Standard Cubic Meter)</b>	<b>35,594</b>	<b>35,720</b>	<b>71,314</b>	<b>50</b>	<b>50</b>

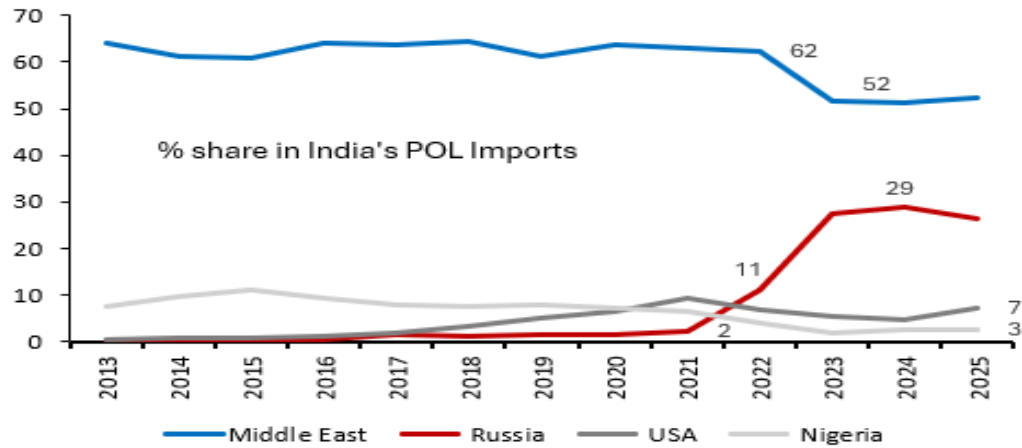
For India, the consequences of this disruption are particularly significant. India imports 89% of its crude oil requirements, and the Gulf region remains its most important supplier.

India faces five major channels of exposure:

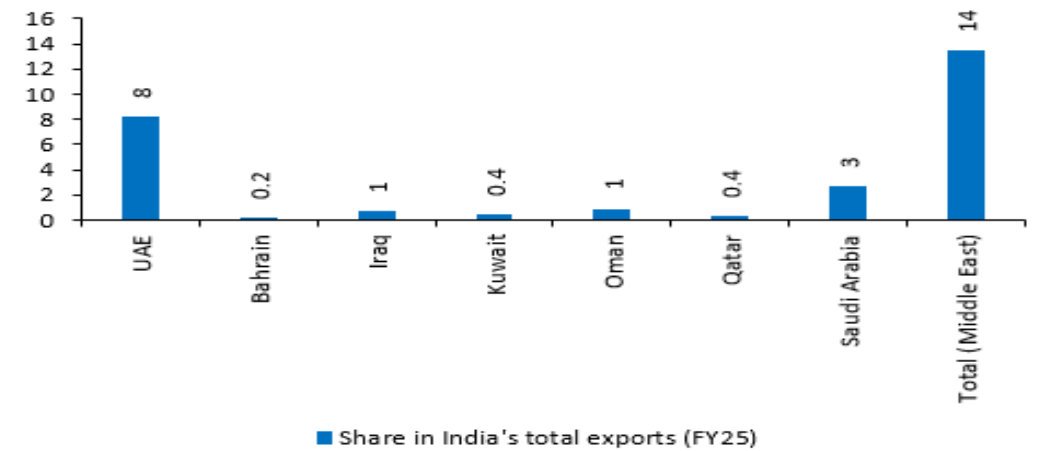
- 1) The higher cost of oil and commodity imports immediately inflates the import bill.
- 2) Physical shortages of energy supply expose the industrial and services sectors to operational disruptions, thereby impacting India's economic output.
- 3) Fertilizer prices surge when gas supply becomes tight, pushing up subsidy requirements for the government. Overall fiscal position deteriorates.
- 4) India's exports to the Middle East, which account for around 14% of its outbound trade, face logistical delays and reduced demand.
- 5) Remittances from the region—almost 40% of India's total—are expected to slow as economic activity in the Gulf faces disruptions.

# India's trade and fertilizer links deepen exposure to the middle east

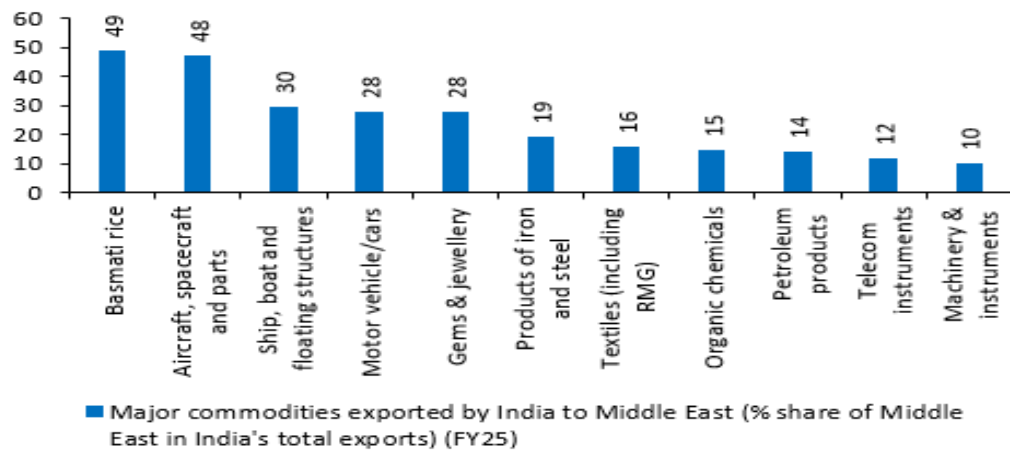
The Middle East is responsible for over 50% of India's crude and related products imports



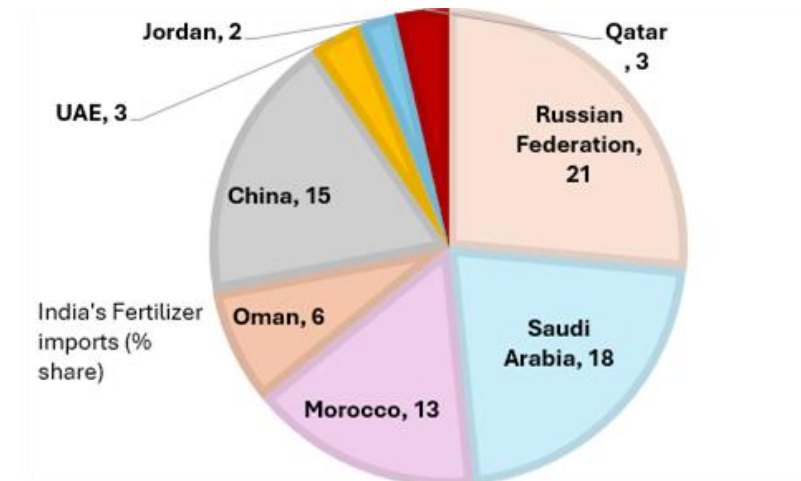
Middle East accounts for 14% of India's total exports



Large portion of India's exports of rice, aircrafts, gems and jewellery, motor vehicles goes to the Middle East



34% of India's total fertiliser imports come from the Middle East

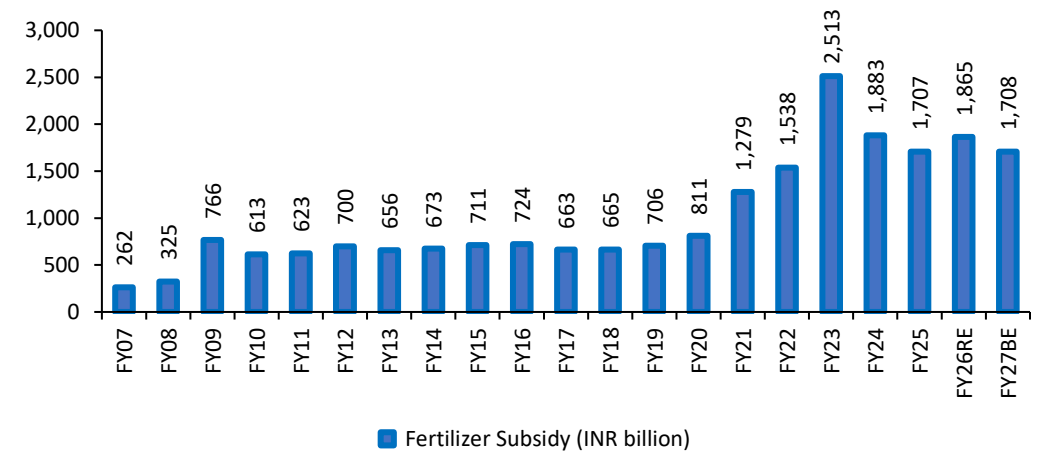


# India is a net commodity importer

India remains the world's second-largest fertilizer importer and will continue to depend heavily on external supplies

2023-24 (mn metric tonnes)	Urea	DAP	MOP	NPKs	Total
Consumption (Prod + Import)	38.5	9.9	2.9	12.4	63.6
Production	31.4	4.3	0.0	10.2	45.9
Imports	7.0	5.6	2.9	2.2	17.7
<b>% of consumption met via:</b>					
Production	82	44	0	82	72
Imports	18	56	100	18	28

Rising gas costs and fertilizer inflation could push the subsidy requirement upward



There are multiple channels through which rising energy prices could affect India's central government finances:

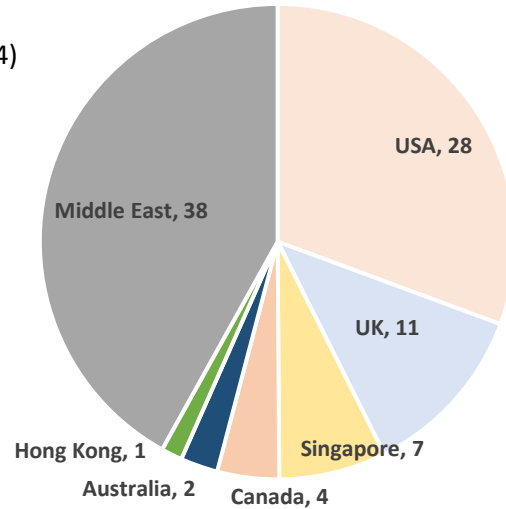
- 1) Fertilizer Subsidy Pressures: India remains dependent on fertilizer imports, with rising global prices and gas shortages threatening higher subsidy outlays.
- 2) Fuel Price Management and Excise Duty Risks: Government holds retail prices steady, relying mainly on OMC loss absorption, limited excise cuts, and windfall taxes.
- 3) LPG: OMCs may still need to absorb costs despite the 5% price hike in March, potentially requiring government support for under-recoveries.

**Policy Response: Rationing and Flexibility:** Government has rationed the energy availability to industries while trying to cushion the impact on households. Within industries too, the priority sectors are being identified. Furthermore, government has also reduced excise duty on petrol and diesel by Rs. 10/litre implying an annual revenue hit of Rs. 1.7 trillion. To offset this, windfall taxes on diesel and ATF exports. RBI is trying to stem rupee volatility by limiting banks' net rupee open positions in onshore deliverables. Overall, the effort is being made to ration the supply, limit the price shocks to households and stabilize the financial market to the best extent possible.

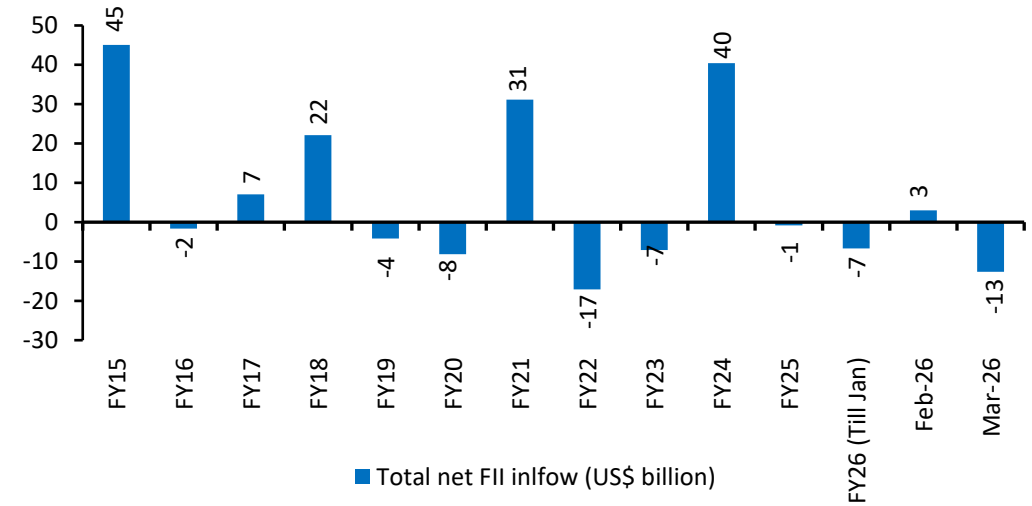
# Higher oil prices tighten India's balance of payments

Remittance inflows are also likely to be affected, as about 38% of total inward remittances originate from the Middle East

Country wise share in India's Inward Remittances (2023-24)



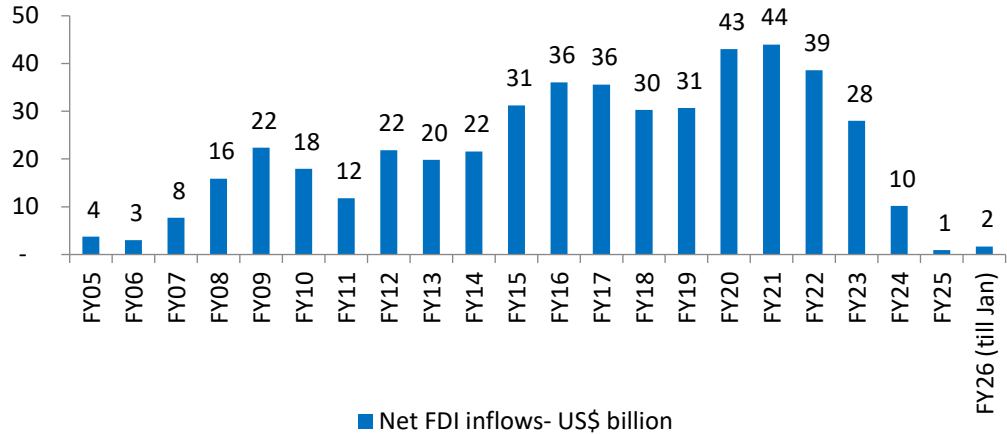
The nascent improvement in FPI flows following the US-India trade deal has reversed, with US\$8 billion in net outflows as of 16 March 2026



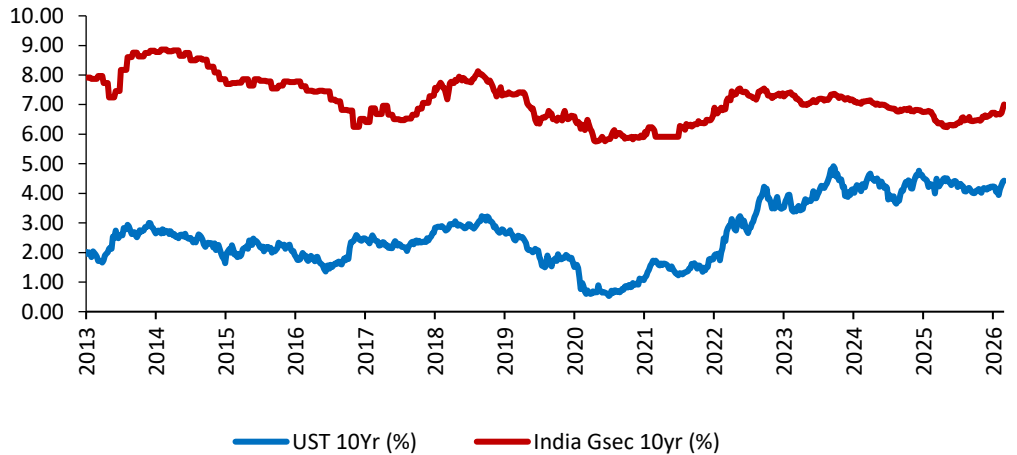
- For every 10\$ increase in the price of crude, India's current account deficit widens by approximately 15bn \$ annually.
- Remittances may slow meaningfully as economic activity in the Gulf softens.
- Under the assumption that crude prices remain elevated for three months before settling, the CAD could widen to 2% of GDP in FY27.
- Foreign portfolio outflows have already restarted, reversing the gains made after the US India trade deal earlier in the year.

# BoP could record a deficit for the third consecutive year in FY27; Rupee on a weaker footing

India's balance-of-payments position has weakened materially due to near-zero net FDI inflows



Interest rate differential narrows resulting in muted ECB flows and slower NRI deposit growth



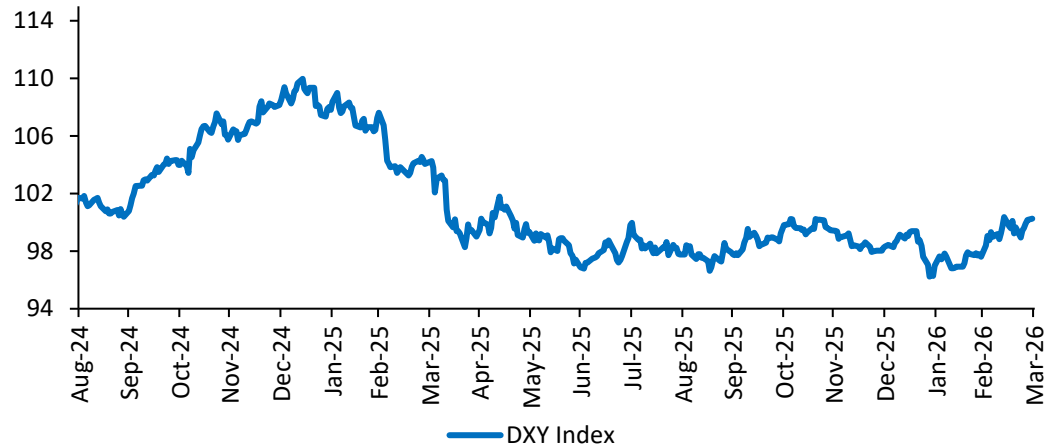
- Structurally, India's balance of payments has deteriorated due to negligible net FDI inflows.
- Dollar borrowing remains unattractive for corporates, and despite structural improvements in the current account, the capital account deficit (negative for the first time since FY74) is weighing on the rupee.
- Spot FX reserves stand at US\$ 698 bn (as of 20 March 2026), but forward liabilities of US\$ 68 bn by the end of January 2026 and an estimated additional US\$ 20–25 bn by March reduce effective reserves meaningfully.
- Consequently, the rupee remains vulnerable to global shocks.

Source: Bloomberg, CMIE Economic Outlook, SBIFM Research

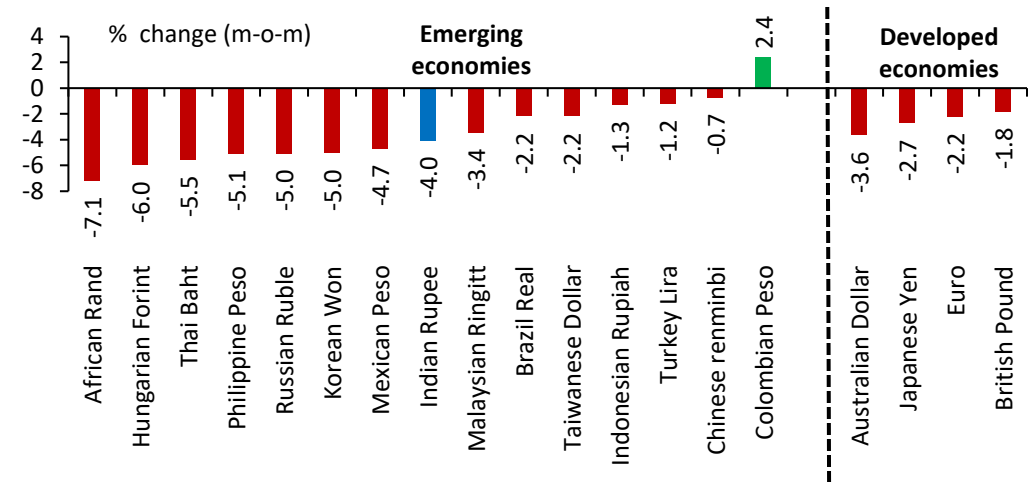


# Dollar strength drives broad currency depreciation

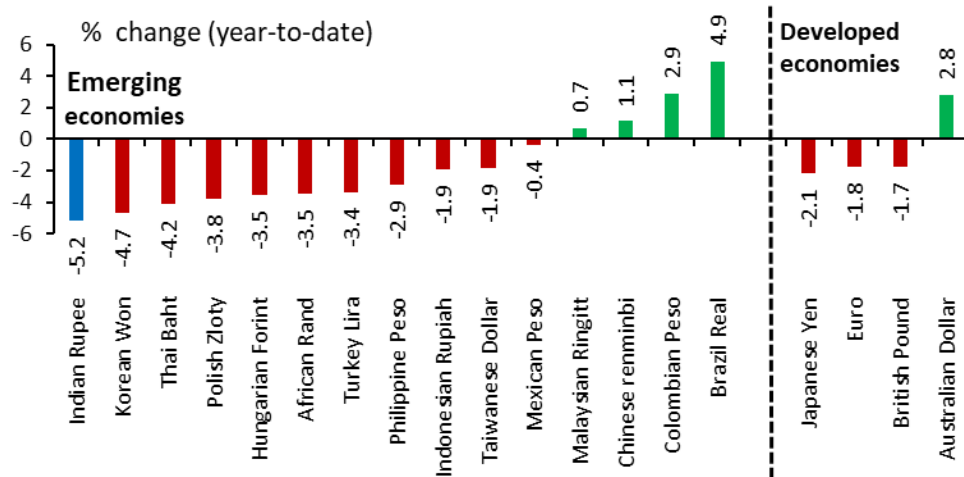
DXY strengthens by 3% m-o-m in March 2026 to ~100



Majority of developed and emerging market currencies depreciate



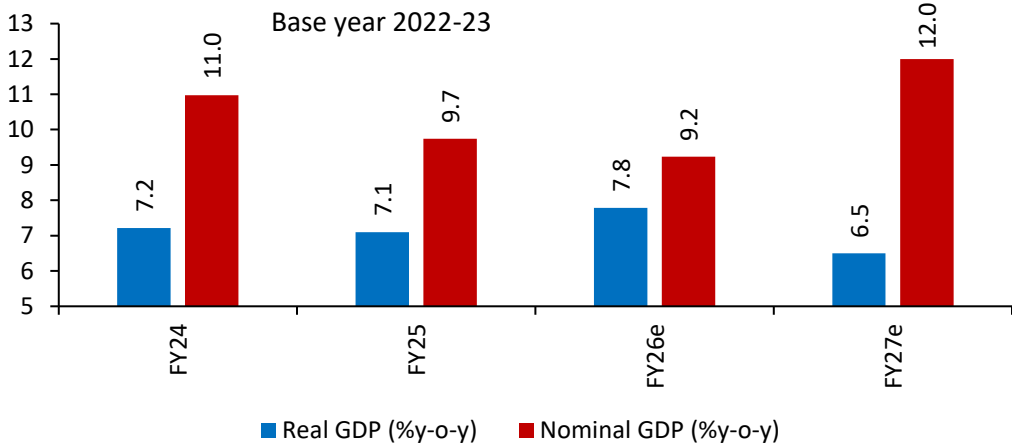
Indian rupee is the worst performer Year-to-Date



- USD has risen by 3% m-o-m in March 2026.
- This has led to depreciation amongst most emerging and developed market currencies in March 2026 on a m-o-m basis. INR sees a sharp depreciation.
- Even year-to-date, Indian rupee continues to be an underperformer compared to other emerging market currencies.

# Growth outlook: Slowdown as supply constraints dominate

**Real growth could moderate in FY27 while nominal growth could likely improve driven by higher WPI inflation**

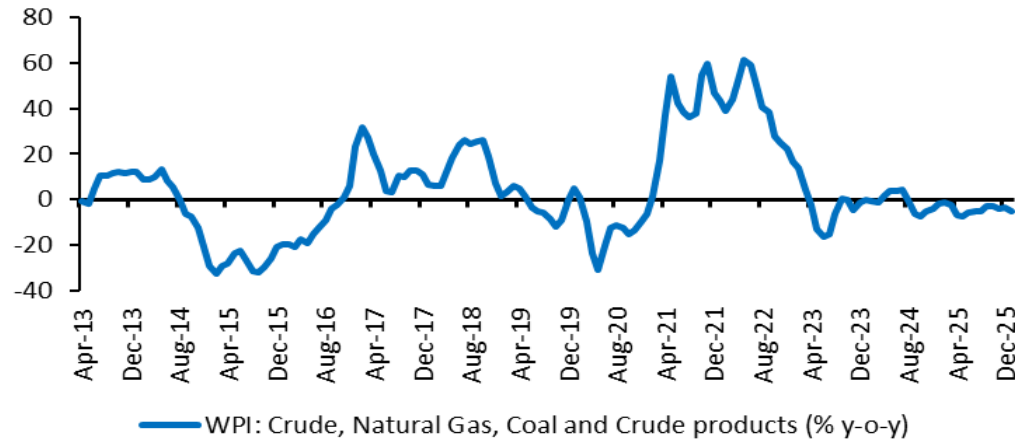


- We expect real GDP growth to moderate from an estimated 7.8% y-o-y in FY26 to 6.5% in FY27, while nominal GDP is likely to rise from roughly 9% in FY26 to 12–13% in FY27, driven by higher WPI inflation.
- The slowdown will not be solely due to higher prices but also due to supply constraints.
- Industrial output could weaken, especially in energy dependent sectors.
- Retail and hospitality businesses are already feeling the strain of LPG shortages, and supply side bottlenecks may affect both services and manufacturing.
- While agriculture appears relatively stable for the moment, weather risks could still pose challenges in the Kharif season..
- Higher inflation in selected household goods and services could also suppress demand.
- Export flows to Middle Eastern nations may be disrupted, though this could be partially offset by stronger exports to other regions
- That said, elevated inflation implies that even if volume growth slows, nominal spending and nominal output may still show an increase.

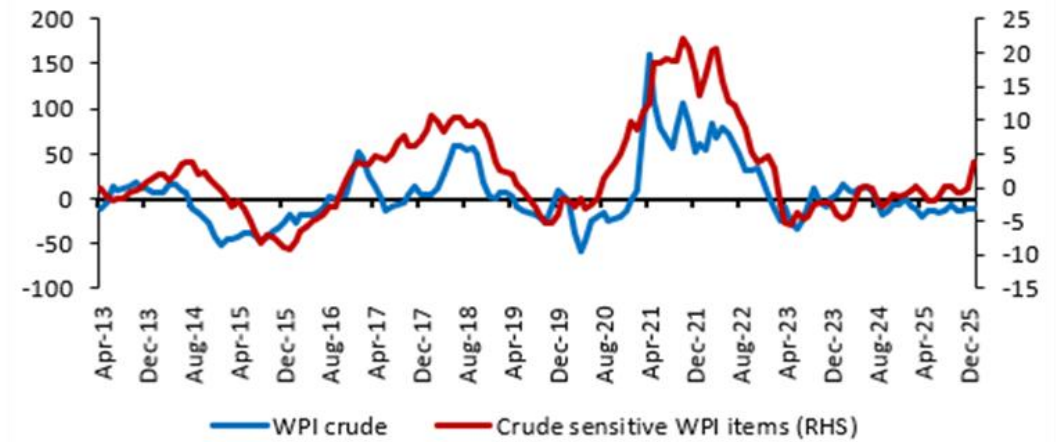
Source: CMIE Economic Outlook, SBIFM Research

# Surge in energy costs to sharply lift wholesale inflation; WPI could potentially touch 8-10%

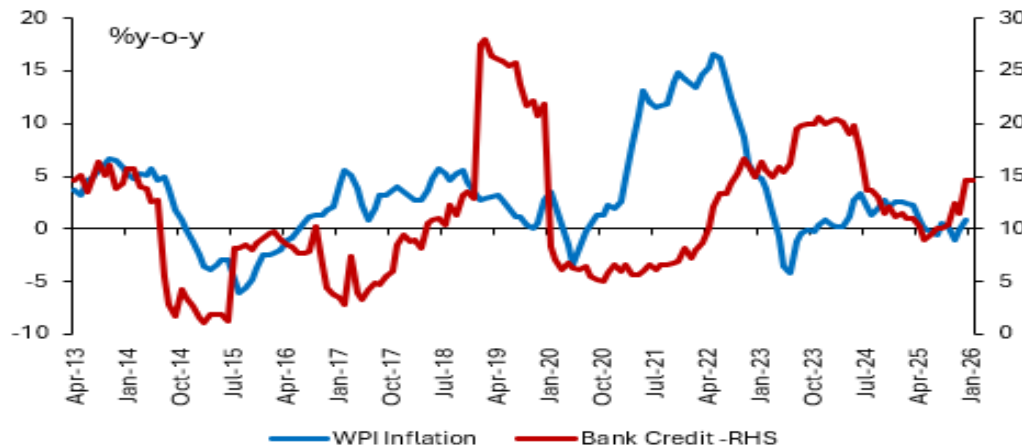
WPI Energy (ex electricity) could rise to 30% y-o-y vs. -5% currently



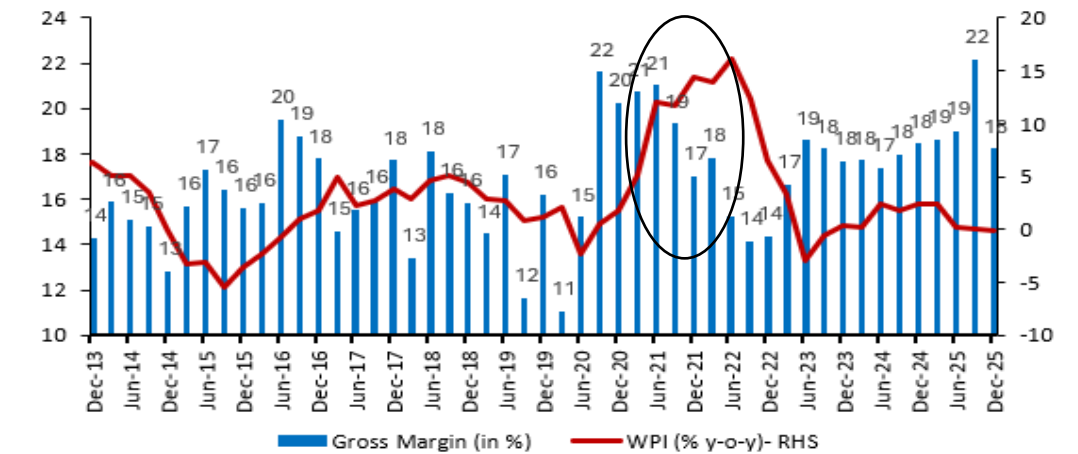
Energy and the energy sensitive items have 28% weight in WPI basket; crude sensitive items could start depicting 10% inflation



Higher WPI inflation would drive bank credit growth; though upward pressure on cost of funds affects interest-rate dynamics



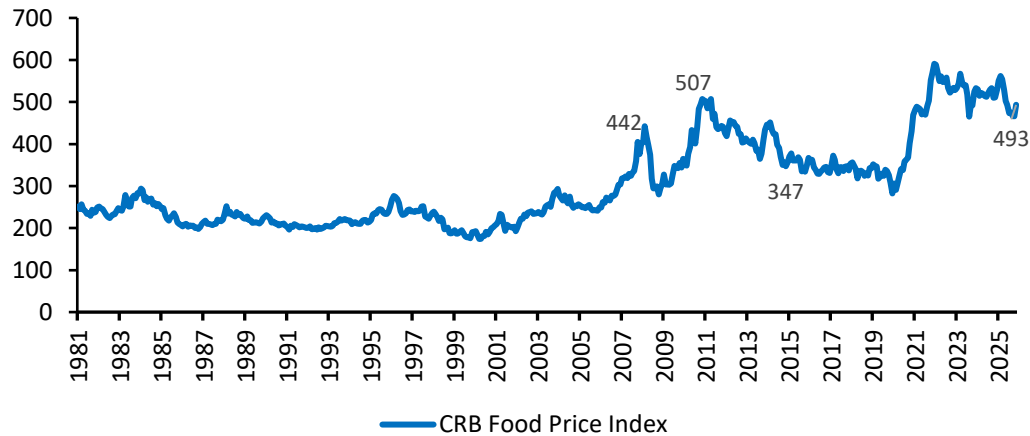
Gross margins moderate in the event of input cost led WPI inflation



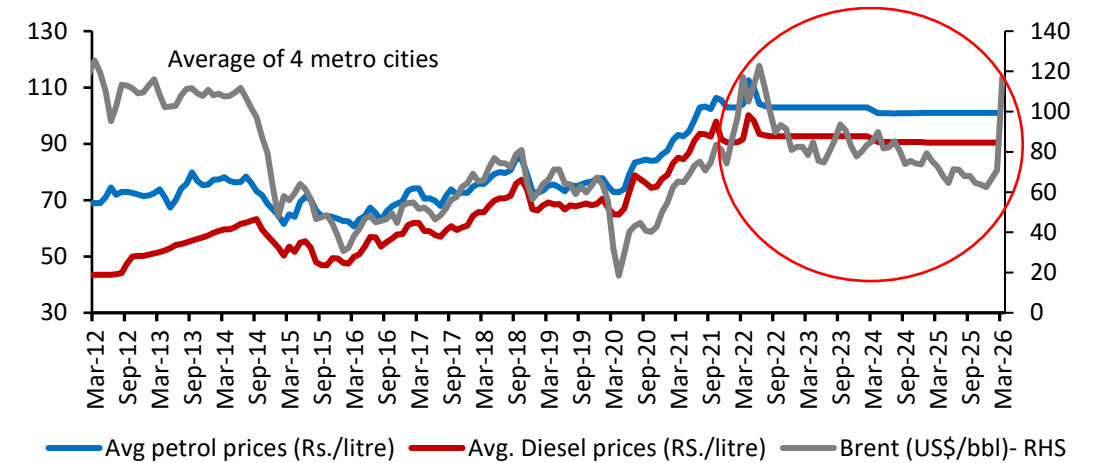
Source: CMIE Economic Outlook, SBIFM Research; NB: Crude sensitive items include base metals, cement, fertilizers, multiple products in chemicals, soap, detergents and select textile related products; Data is for 3000 companies captured in CMIE Nonfinancial corporates that release quarterly results

# Consumer inflation impact relatively moderate as government and industry absorb cost pressures

## Global food price Index largely contained



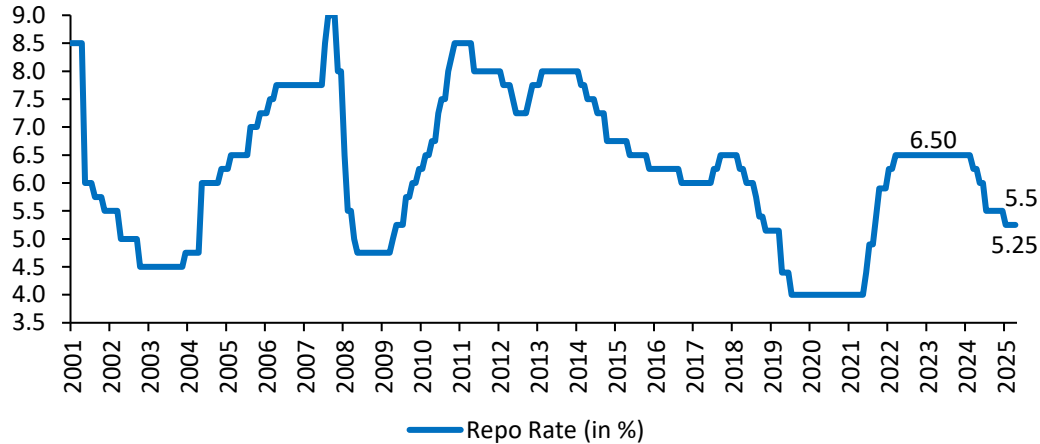
## Petrol and diesel prices have stayed largely unchanged in India since May 2022 despite crude price volatility



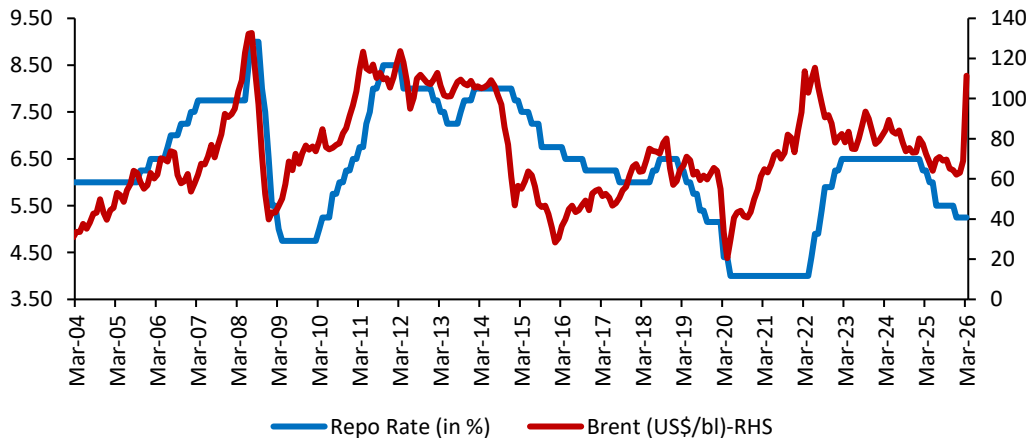
- The impact on consumer inflation is more nuanced.
- Globally, food prices are still stable despite rising energy prices, though sustained increases in transportation costs could eventually push them higher—especially in a year with a heightened El Niño risk. Climate models show La Niña weakening, with the probability of El Niño rising through mid 2026.
- Retail fuel prices have been capped for now. Higher crude prices should have only a modest pass-through, as oil marketing companies—and, if needed, the government—are likely to absorb much of the burden.
- Food inflation poses a larger risk due to an unfavourable base and potential weather disruptions during the Kharif season. We expect food inflation to jump from ~0% in FY26 to 7% in FY27.
- Core inflation is likely to drift higher as firms gradually pass through elevated input costs.
- **Taking all these factors together, we expect CPI inflation to average around 5% in FY27, with certain months potentially registering readings closer to 6%.**

# Monetary policy expectations change: A pause in April but rate hikes possible in FY27

Repo rate cut by 125bps cumulatively since February 2025 policy to 5.25% now



Brent crude price and interest rate



- The Monetary Policy Committee kept the repo rate unchanged at 5.25% at its latest meeting in February 2026. The stance remains at neutral.
- The CPI trajectory shows a gradual upward movement. Even after the release of the new CPI series, which included changes in sub-sectoral weights and composition, the broader directional trend remains one of gradual firming. Inflation appears likely to inch up further over the coming quarters. As a result, the case for further monetary easing in 2026 appears weak, and a status quo on policy rates seems more probable.
- We continue to think that liquidity tools and actions will remain a centre stage of RBI's monetary policy in 2026.
- Current oil prices are 50% above RBI's assumption of US\$70/bbl. Despite this, we continue to see a high bar for monetary tightening.
- Growth risks appear underpriced, and the policy mix is likely to tilt decisively towards fiscal rather than monetary measures in a stagflationary environment.
- In our baseline, we continue to expect RBI to keep rates on a pause, particularly given the downside risks to growth and manufacturing activity.

# Liquidity management becomes critical as external pressures rise, expect continued OMO in FY27

## Additional requirement for OMOs to keep durable liquidity at current levels

Data in Rs. trillion	FY27E
CIC Leakage	2.5-3
Incremental CRR requirement	1.3
Fx intervention (+ve is purchase, -ve is sales)	-3.5
RBI dividend transfer	2.8
Net Impact on liquidity (-1-2+3+4)	-4.75
Net OMO purchase required to maintain current level of liquidity	4.75

- An elevated Balance of Payments (BoP) deficit in FY27 could strengthen the case for RBI conducting OMO purchases to keep liquidity at current surplus levels.
- We estimate FY27 currency in circulation (CIC) leakage of Rs.2.5–3 trillion, which drains liquidity from the system. Additionally, the organic increase in CRR requirements absorbs roughly Rs.1.3 trillion annually.
- Together, these factors could withdraw around Rs.4 trillion of liquidity.
- On the offsetting side, the RBI's budgeted dividend of Rs.2.8 trillion would inject liquidity back into the system.
- However, assuming a Rs.3.5 trillion BoP deficit, we still see a potential requirement for Rs.4.5-5 trillion of additional OMO purchases by RBI to maintain liquidity near current levels.

# Energy shock reshapes sectoral earnings and profitability

- Energy: Oil marketing firms will be materially impacted through losses on higher crude oil purchases, MTM losses on energy price volatility, higher shipping & insurance costs. There will be an balance sheet impact as well through a need for higher working capital requirement as well as losses to be funded. Oil producers will benefit through potential higher oil prices, but likely to be constrained by the government imposing windfall taxes. Refining and Petrochemical players will see varied degrees of impact (both positive and negative) depending on product slate, sourcing capabilities and
- Financials: Limited direct impact. There can be higher demand for working capital (drive higher short term credit growth), especially from oil intensive sectors on higher prices, and in general as there can be a increase in inventory holdings to counter potential supply constraints. Risks can emanate from corporate stress in sectors where production is constrained or demand is restricted.
- Real Estate: There can be material delays to production schedules and/or some cost inflation due to shortages of key building material products such as tiles/ceramic products (both relay on gas in the production process), paints (higher prices) etc.
- Chemicals and Fertilizers: negative impact through shortages of feedstock, positive impact from higher end product prices. The dynamic of volume shortages, cost inflation and higher pricing will determine ability to retain profitability.
- Consumer: Packaged foods and Beverages: Indirect impact through potential constrain for packaging materials (lower plastic production / higher prices for plastics). Potential for higher input costs on Agri commodities in case of shortages of fertilizers.
- Apparel & Footwear: Potential for cost inflation / supply constraints for synthetic fibre/yarn.
- Travel & Tourism: Airline travel to be impacted through higher fuel costs.

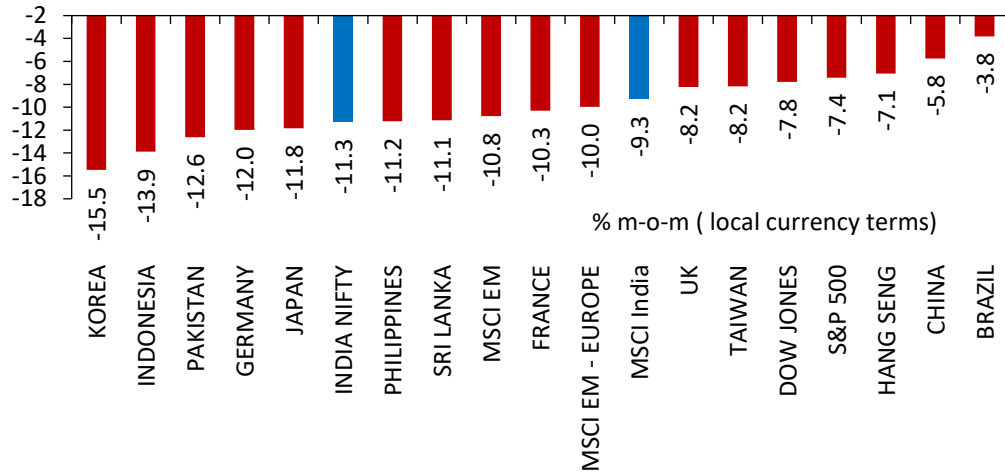
# Energy shock reshapes sectoral earnings and profitability

- Hotels & Restaurants: Higher costs on constrained fuel supplies, constrained demand on higher costs / lower tourism.
- Automotive: Cost inflation on components and parts, potential shift in demand towards alternative fuel vehicles (towards EV? Away from CNG vehicles?). Higher retail fuels costs can potentially dampen demand.
- Telecom: No impact except minor energy cost inflation.
- Technology: No impact except minor energy cost inflation.
- Textiles: material impact to artificial / synthetic fibre / yarn through constrained supplies and higher prices.
- Power: No impact except minor energy cost inflation.
- Pharmaceuticals: Limited impact. Potential impact from higher energy costs, shortage/higher costs of packaging and drug delivery material (plastics, glass, capsules etc). Given nature of end use will get passed on through price hikes.
- Industrials & Construction: Limited impacted, potential for higher export demand going forward through re-construction efforts. Higher raw material input costs will likely get passed on. Defence expenditure is likely to see an increase which will drive demand, both domestic and exports.
- Metals and Mining: Positive impact on back of higher commodity costs leading to profit expansion. Higher global demand from re-construction efforts and re-building of defence infrastructure.

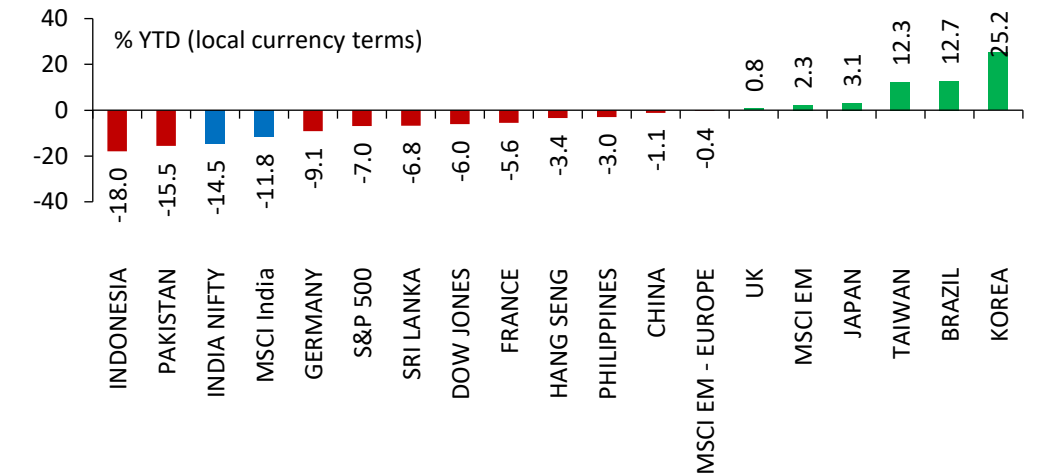
# EQUITY MARKET

# Equity markets correct sharply amid rising macro uncertainty

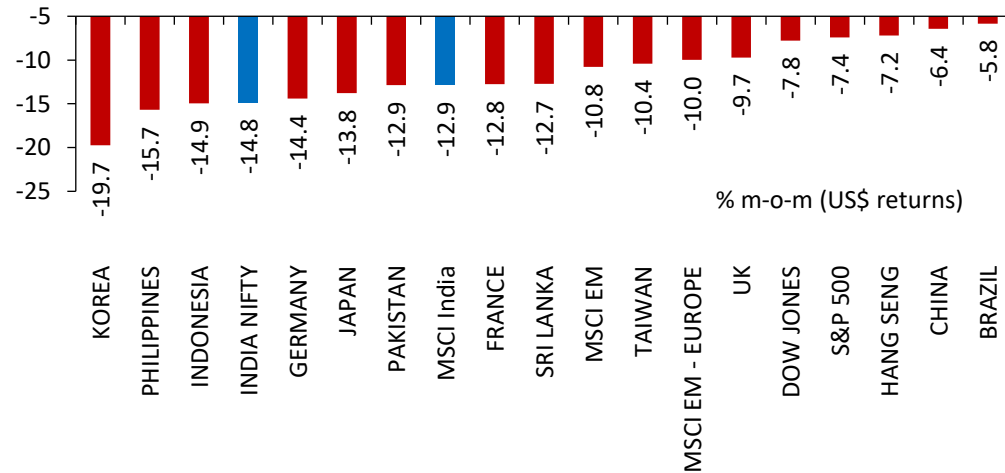
## Performance in March 2026 (local currency returns)



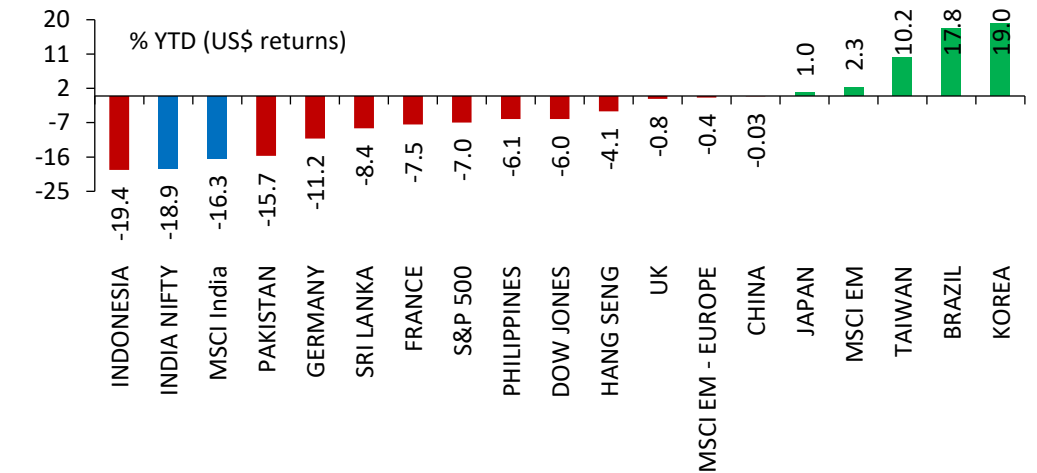
## YTD performance (local currency returns)



## Performance in March 2026 (US\$ returns)

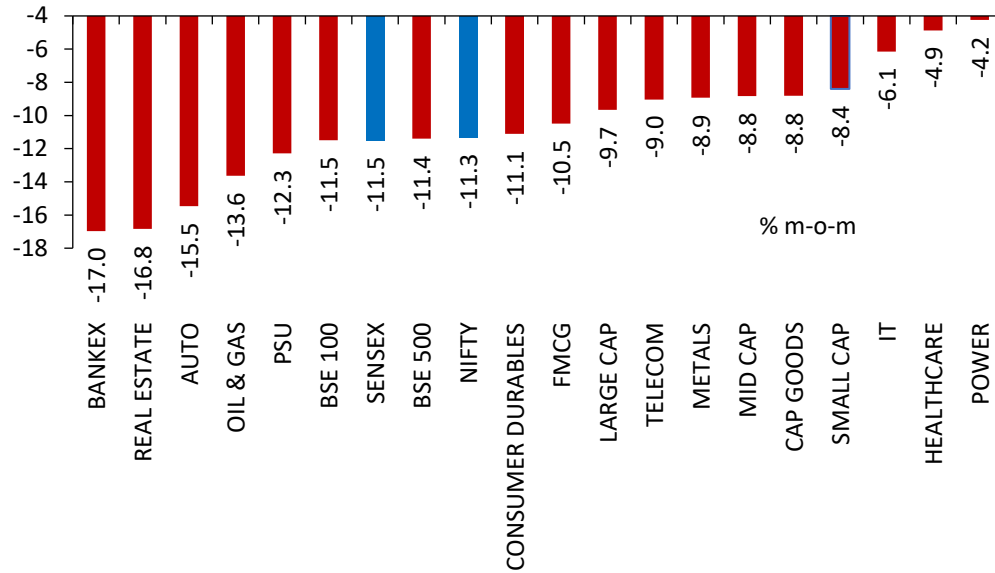


## YTD performance (US\$ returns)

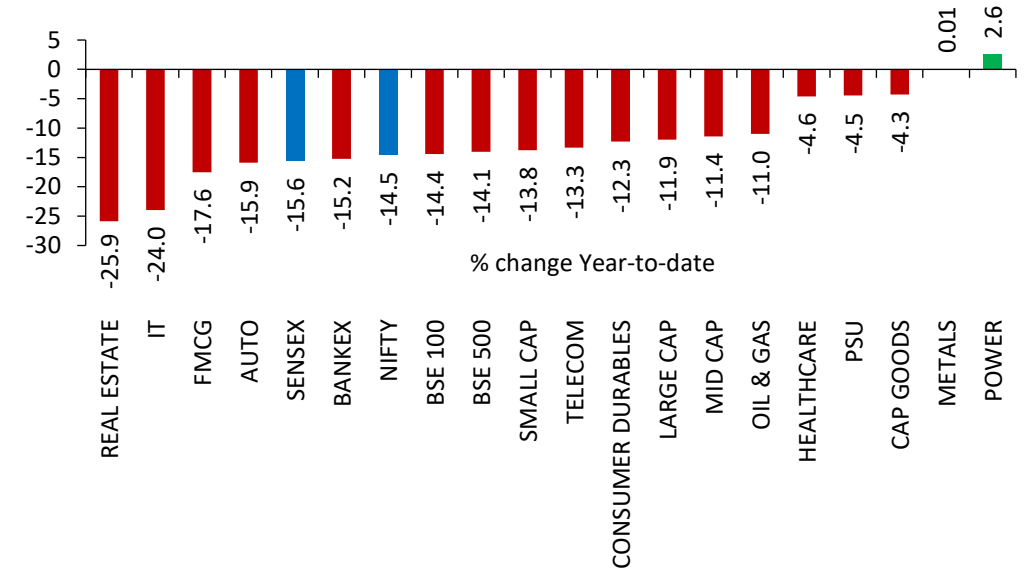


# Indian equity market snapshot: March 2026

Indian equity market performance in March 2026 (local currency returns)



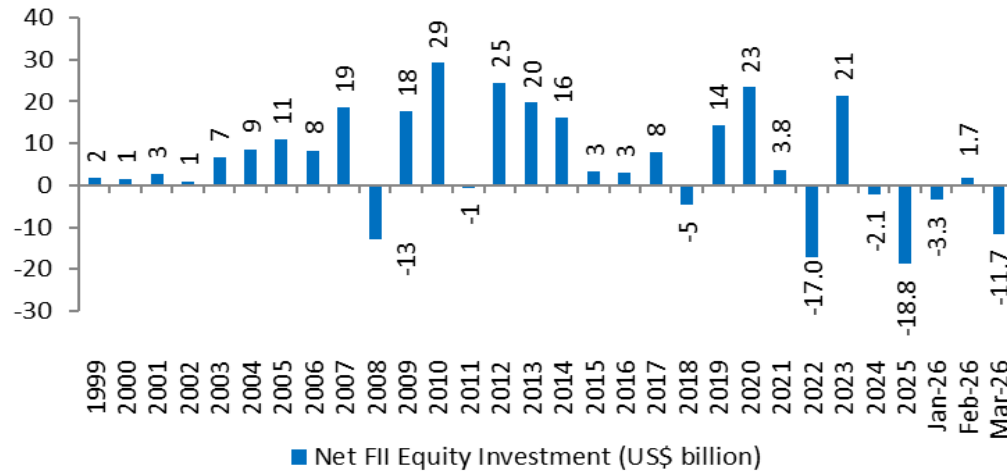
YTD performance (local currency returns)



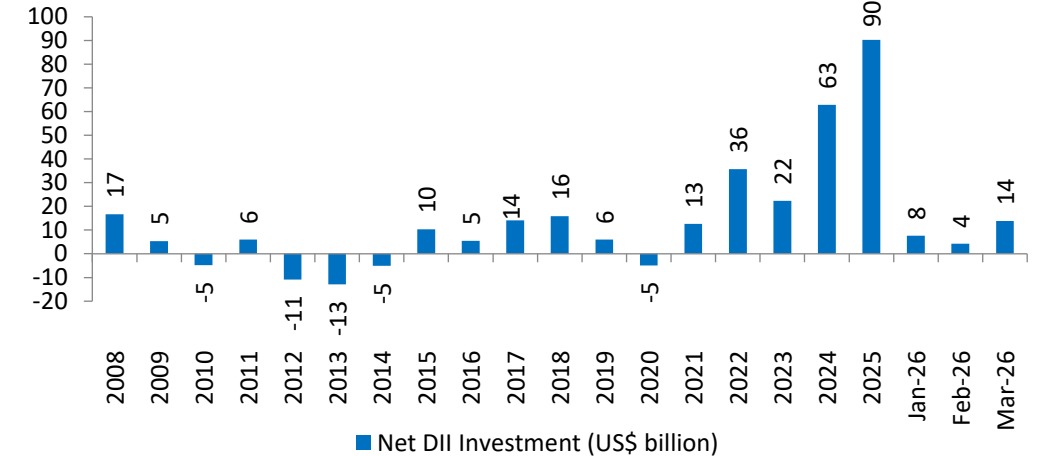
- NIFTY fell sharply this month by 11% in March 2026. YTD, NIFTY has fallen by ~15%. Performance down the capitalization curve has been much worse. Small cap has fallen by 14%, while mid cap fell by 11% and large cap fell by 12% year-to-date respectively.
- All sectors have given negative returns on a m-o-m basis. Bankex, Real Estate and Auto sectors witness the sharpest fall in March 2026.
- IT, Real estate, and FMCG delivered the lowest returns YTD.

# Liquidity: FIIs turn net sellers in March 2026 after nascent signs of recovery in February

## FIIs see outflows in March



## DIIIs support to Indian equity market

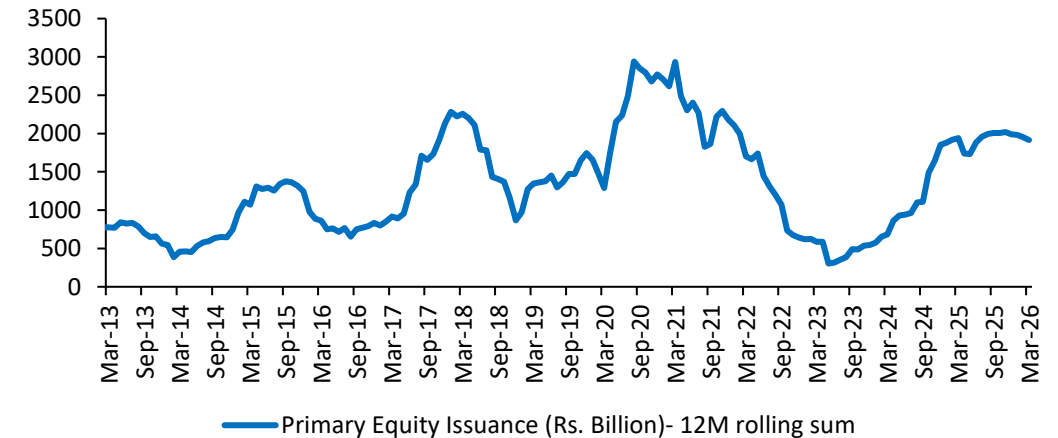


## Retail participation sees a turnaround in 2026

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026*
<b>In Rs crore</b>													
FPIs	97,056	17,806	20,566	51,253	-33,013	1,01,121	1,70,260	25,750	-1,21,439	1,71,107	427	-1,66,284	-13,347
DIIIs	-28,557	67,587	35,363	90,738	1,09,662	42,257	-35,663	94,846	2,75,726	1,81,482	5,27,438	7,88,184	1,07,644
Individuals#	-30,149	-8,243	-26,382	-37,988	-8,523	-25,280	52,897	1,42,755	88,376	5,243	1,65,810	-5,717	9,279
<b>In US\$ bn</b>													
FPIs	16.1	3.2	3.2	7.8	-4.4	14.4	23.0	3.8	-16.5	20.7	0.1	-18.9	-1.5
DIIIs	-4.8	10.4	5.2	14.0	16.0	6.0	-4.8	12.6	35.7	22.0	63.0	90.4	11.9
Individuals#	-4.9	-1.3	-3.9	-5.8	-1.4	-3.6	7.1	19.3	11.7	0.6	19.8	-0.6	1.0

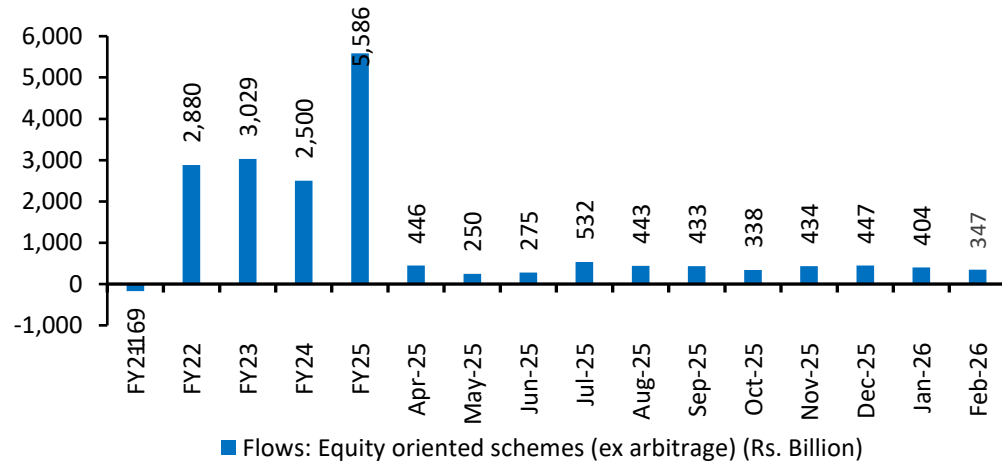
\* As of Feb 28<sup>th</sup>, 2026. # Data for individuals include net flows on NSE in the secondary market only. Individuals include individual / proprietorship firms, HUF and NRI.

## Primary market supply increased in 2025 when FII and retail participation was weak

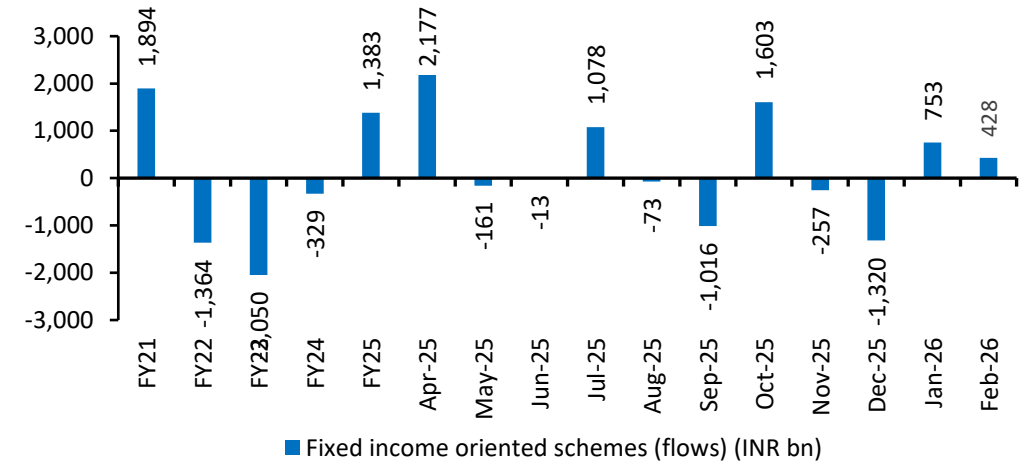


# MF flows: SIP flows moderates m-o-m in February 2026

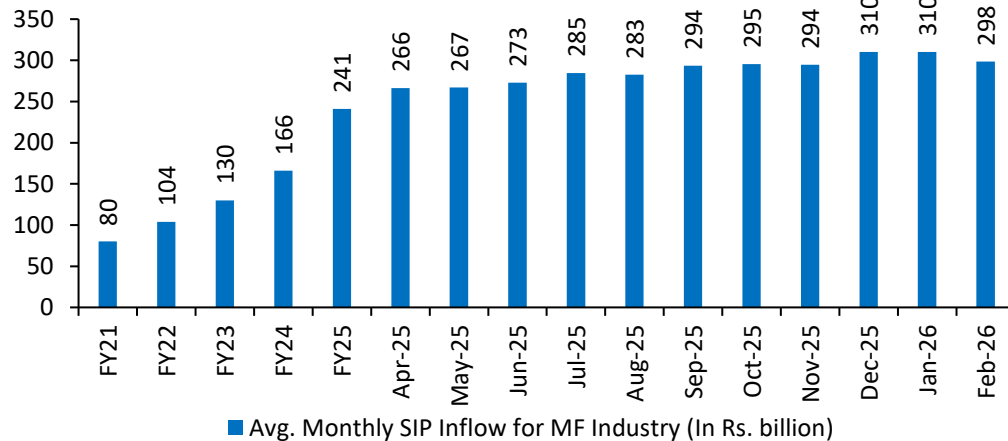
Equity inflows moderate in February 2026 compared to a month ago



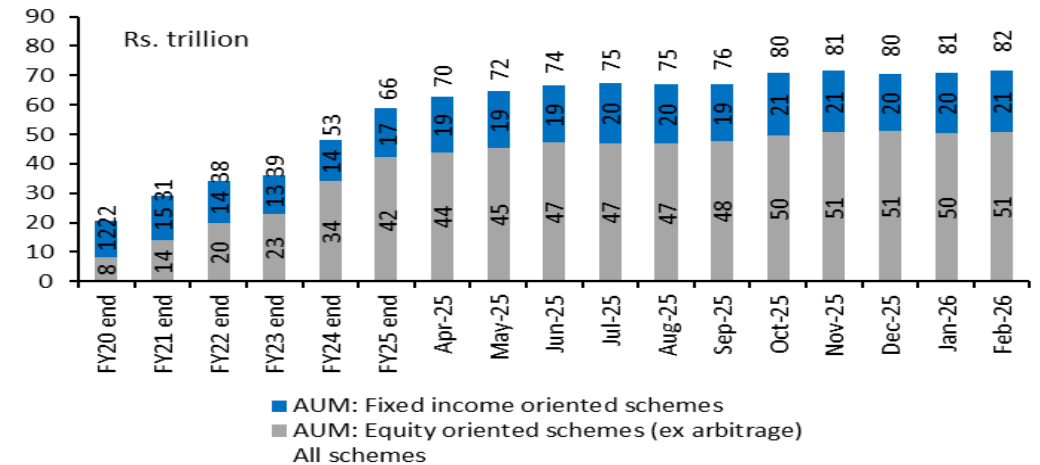
Debt inflow of INR 428bn in Feb'26 (vs. INR 26bn inflow in Q3FY26 and outflow of INR 11bn in Q2FY26)



Monthly SIP inflow moderate m-o-m in February

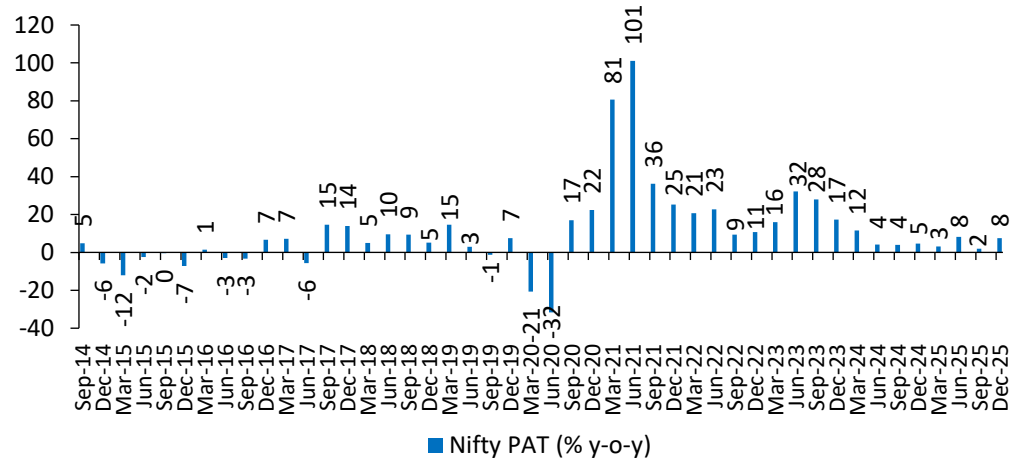


Equity and debt AUM improve marginally m-o-m

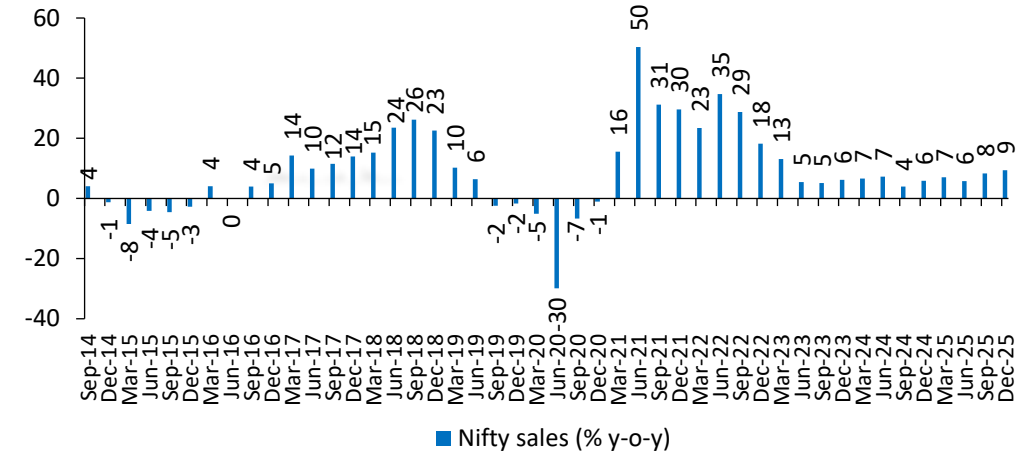


# Q3 FY26 earnings: Weak PAT growth; Topline in line with expectations

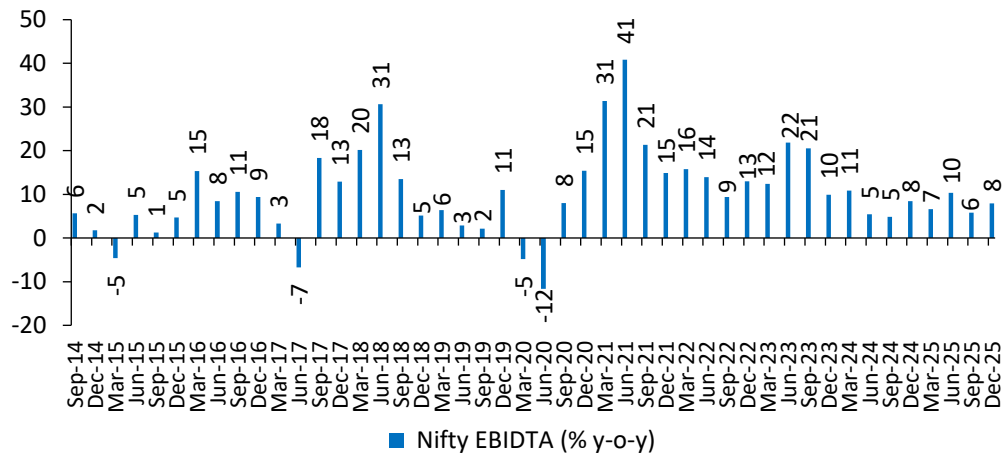
## NIFTY PAT growth continues to be weak



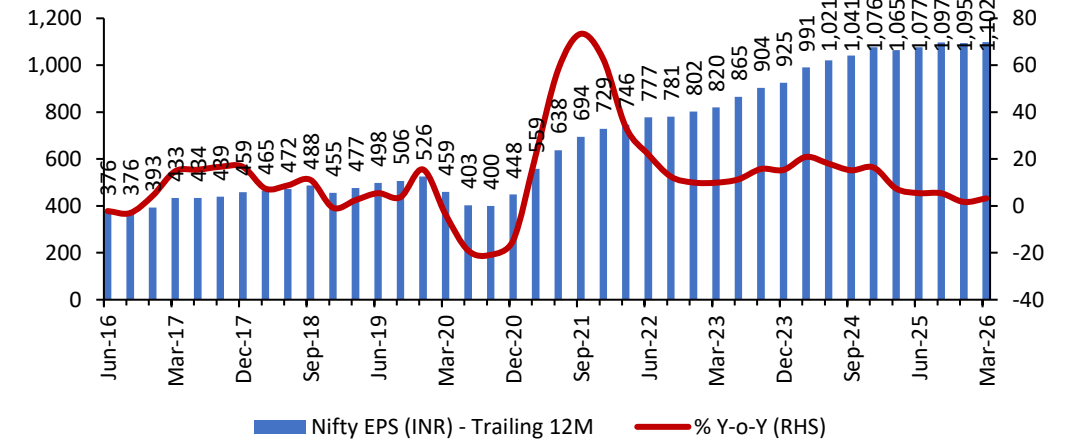
## Q3 FY26 NIFTY interim sales growth in line with expectations



## EBITDA growth also in line with expectations



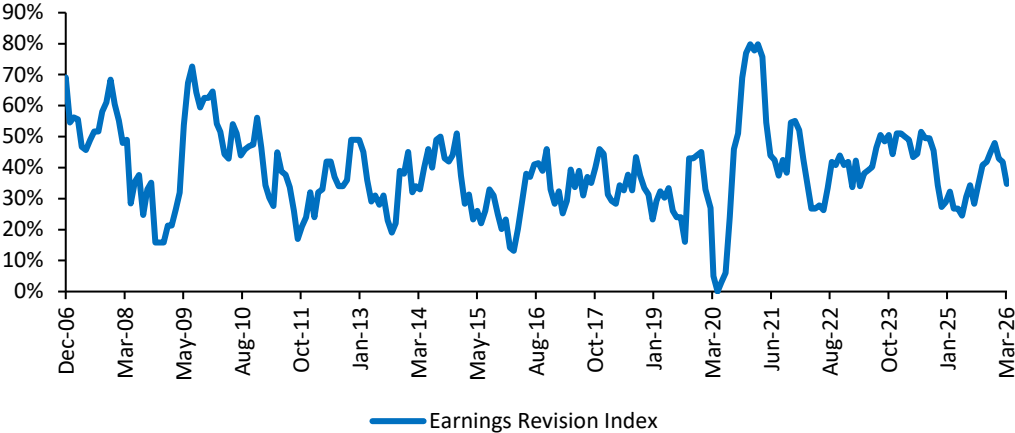
## EPS growth moderates



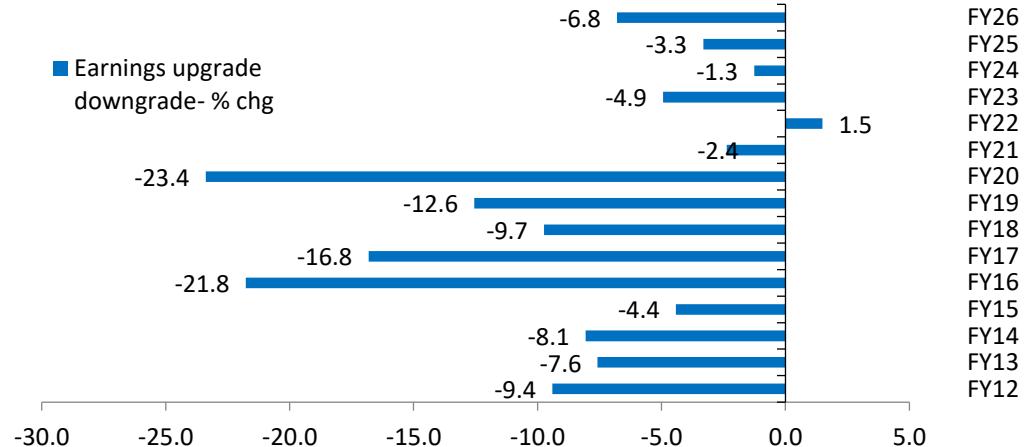
Source: MOSL, SBIFM Research; NB: Results released for 50 NIFTY companies for December 2025 quarter, historical data is for all the NIFTY 50 companies, EPS growth is adjusted for Axis bank losses for FY23

# Earnings revisions fell in March

Earnings Upgrades to downgrades ratio significantly fell in March



In FY26, EPS projection sees a downgrade

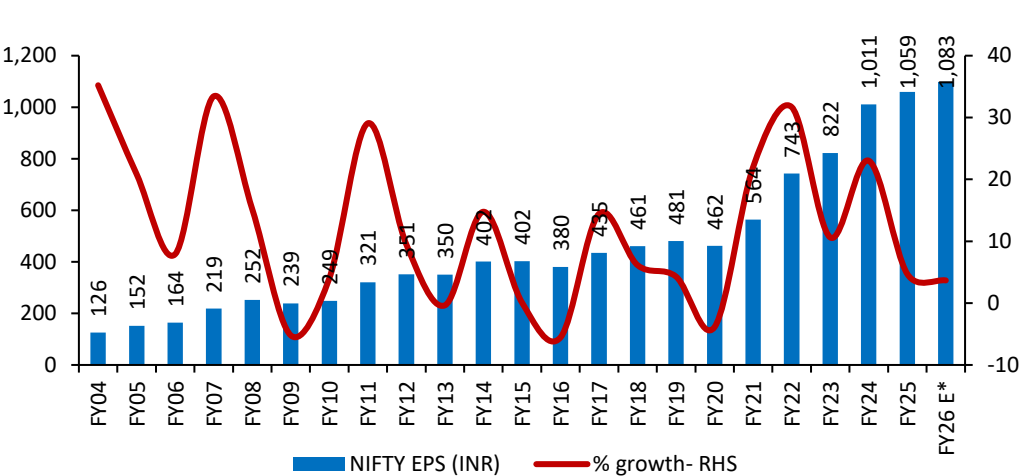


- Earnings revisions for FY26 have fallen with Industrials, Consumer Discretionary, Healthcare, Materials, Telecom, Financials, Consumer Staples, Utilities, Real Estate, Energy seeing downward revisions. IT got upward revisions.
- Consensus expects 12.7% EPS growth CAGR for the Nifty over FY25-FY28.

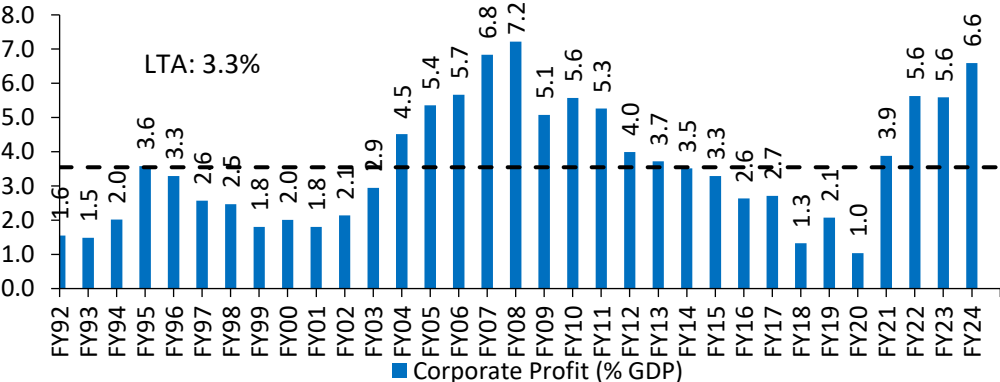
Source: Bloomberg, FactSet, SBIFM Research; NB: \*data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all BSE 100 constituents as of the current month-end & 3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

# Earnings projections ~9% in FY26: FY27 projections could see downgrades

## Earnings expected to recover in FY26



## Earnings have recovered from ultra-lows of FY17-FY20



FY92-FY24 data is based on a sample of ~30,000 listed unlisted companies in CMIE (includes both financial and non financial companies)

## Sectoral breakup of NIFTY earnings outlook

	No. of Cos.	EPS Change								FY25-28 (CAGR)
		FY21-0-21	FY22-22	FY23-23	FY24-24	FY25-25	FY26-26	FY27-27	FY28-28	
Nifty		20.0%	35.7%	5.9%	29.5%	1.0%	5.9%	17.1%	15.3%	12.7%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	6.1%	30.5%	31.1%	16.5%	25.9%
Industrials	5	22.9%	-30.1%	-0.9%	-0.9%	27.6%	7.7%	24.1%	18.6%	16.6%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	10.8%	27.5%	10.3%	7.3%	14.7%
Financials	11	13.8%	27.3%	23.1%	53.0%	-4.6%	8.9%	16.0%	17.0%	13.9%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-9.9%	-24.1%	42.1%	23.1%	9.9%
Consumer Staples	4	-5.0%	-3.9%	5.6%	32.6%	14.1%	16.1%	2.3%	10.0%	9.3%
Energy	3	56.9%	11.4%	8.1%	33.6%	-6.7%	2.6%	10.1%	9.2%	7.2%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	20.1%	-7.2%	8.8%	8.0%	2.9%
Health Care	5	5.9%	51.7%	23.6%	2.5%	24.4%	-19.0%	7.7%	19.7%	1.5%
Communication Services	1		NA*		-6.1%	67.9%	10.6%	43.9%	26.8%	26.4%

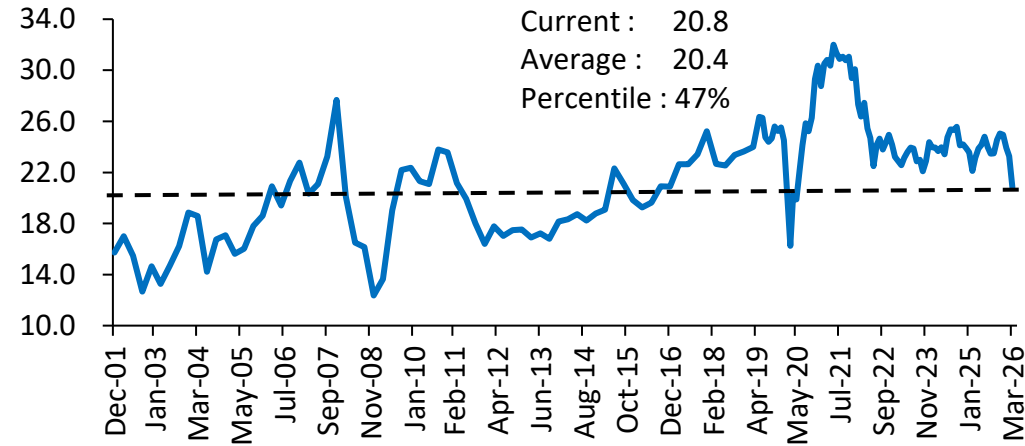
- Consensus expects 12.7% EPS growth CAGR for the Nifty over FY25-FY28.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.



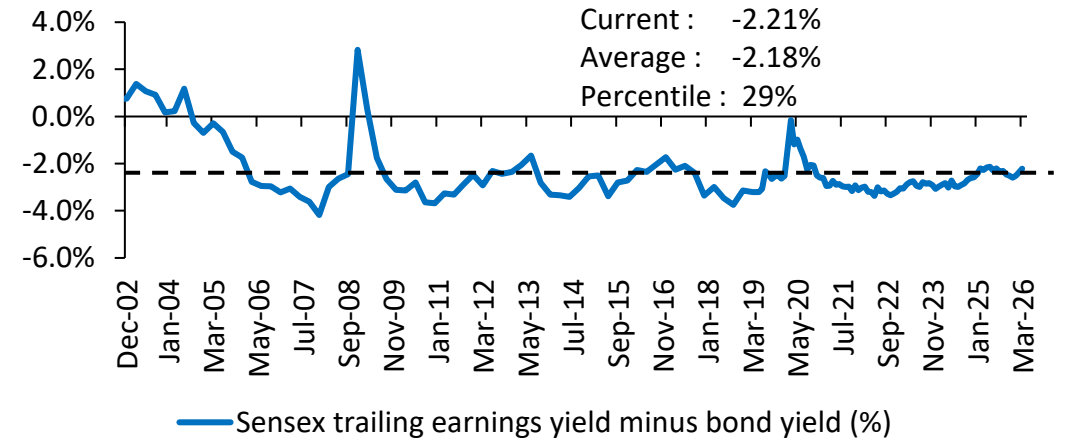
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; \*FY25 and FY26 earnings estimates are SBIMF. \*\* EPS change is unadjusted to externalities, : \*\*\*data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all BSE 100 constituents as of the current month-end & 3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history (1 month, 2 month & 3 months back with 1 month having the highest weight).

# Equity valuations corrected both on absolute & yield spread terms

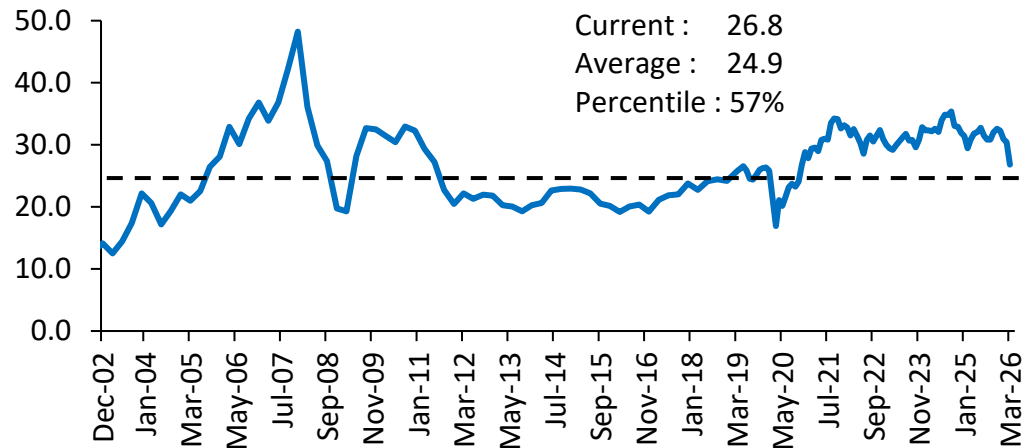
**Sensex trailing PE ratio stood at 20.8 in Mar'26 vs. 23.3 in Feb'26**



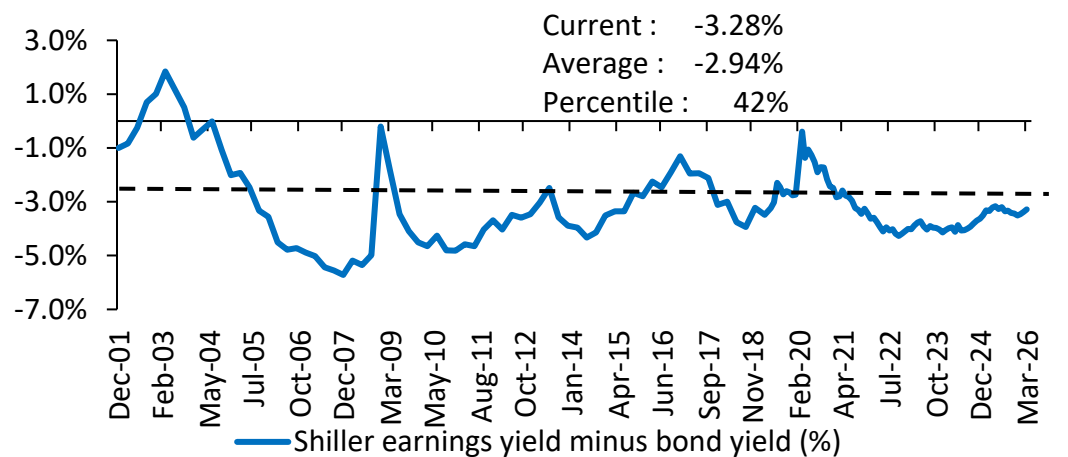
**Earnings yield to bond yield spread has corrected**



**Shiller PE ratio stood at 26.8 in Mar'26 vs. 30.4 in Feb'26**

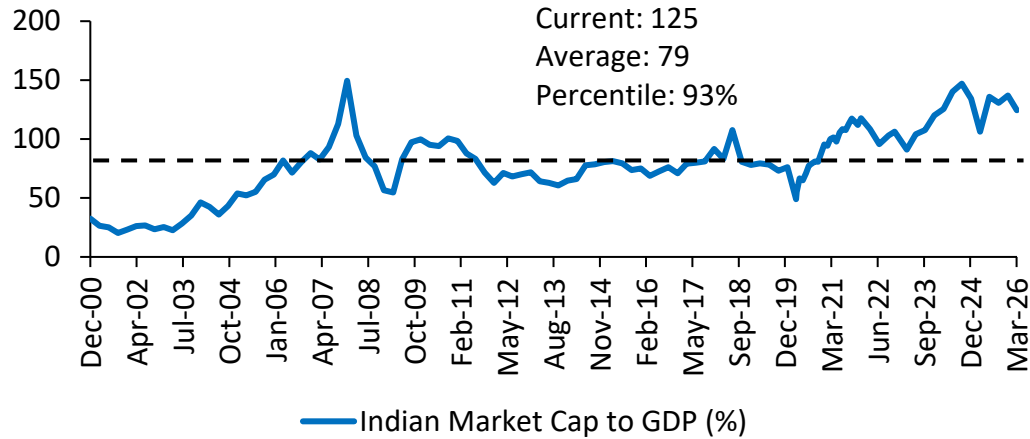


**Shiller earnings yield to bond yield spread has corrected**

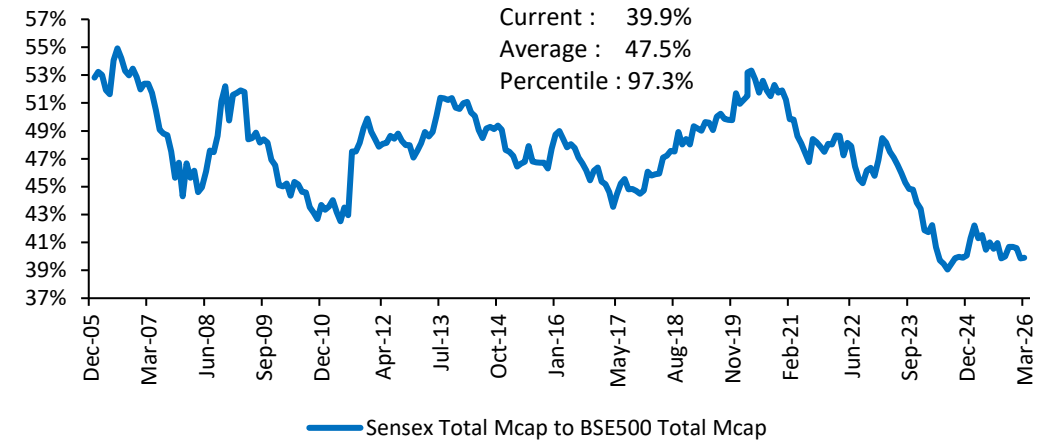


# Polarization remains low, remains favorable towards large caps

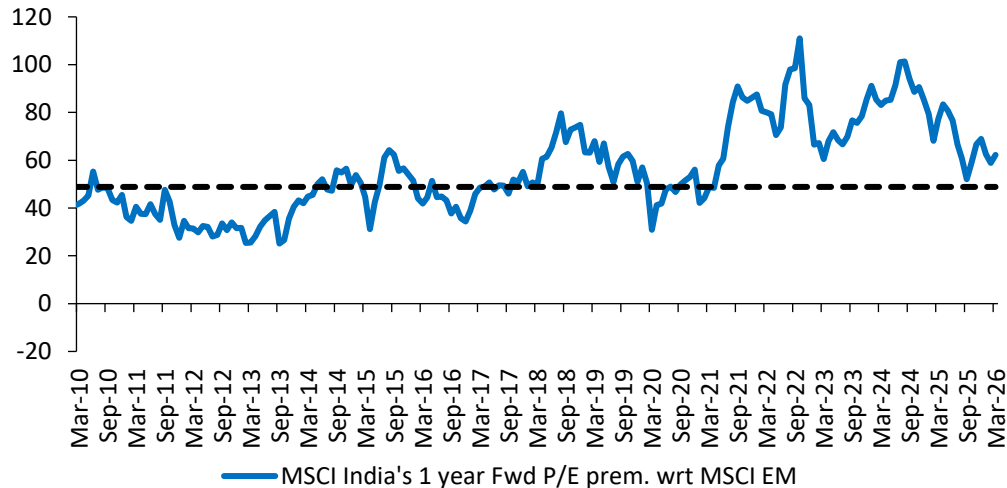
Market capitalization/GDP expensive vs. history at 93<sup>rd</sup> percentile reading



Mid caps and small caps: Market polarization remains favourable towards large caps



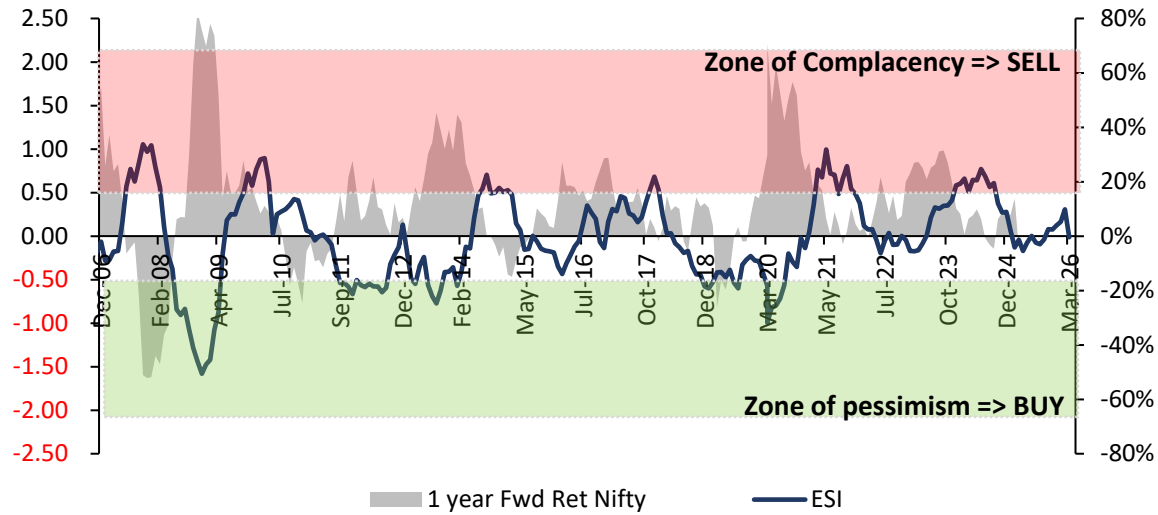
Premium relative to EM has corrected near long term average



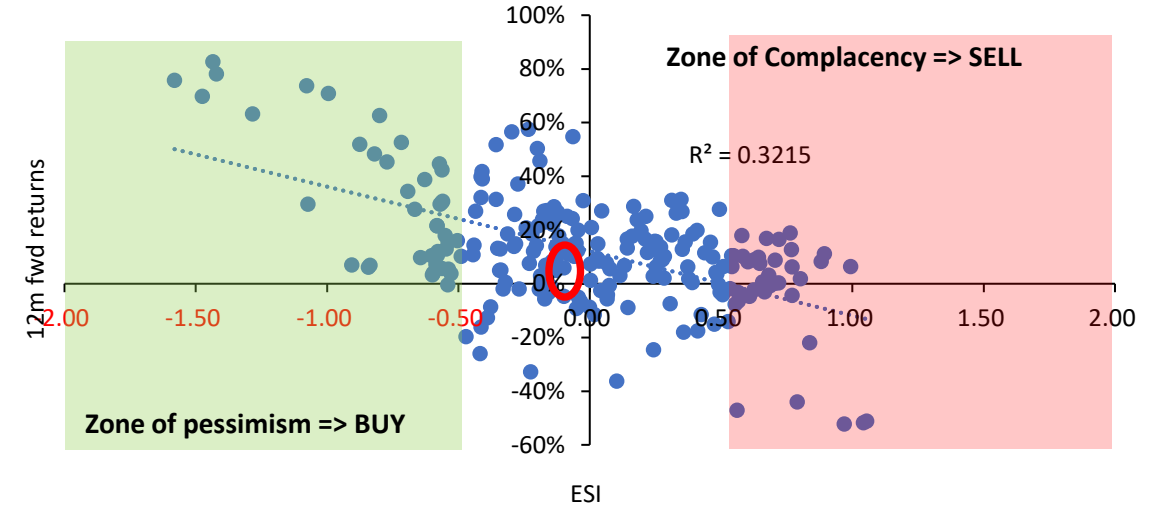
- Market polarization remains low. Broader markets have outperformed the frontline large cap indexes in the previous month.
- The ratio is low, suggesting the risk-reward is more towards large caps now.

# Equity market sentiment fell significantly

Equity sentiment falls below zero



Equity sentiment fell significantly & goes below zero



- The sentiment measure works as a contrarian indicator. The action from the past month suggests optimism has corrected significantly.

# Equity Outlook: Focus on large caps, bottom-up stock selection, and sectors resilient to margin pressure

- Indian equities saw a sharp correction in March 2026 with both Nifty and Sensex falling by 11% and 11.5% month-on-month respectively.
- Equity markets face valuation pressures.
- Historically, spikes in crude oil beyond 100\$/bbl weigh significantly on India's external sector and corporate profitability. However, temporary crude spikes often create buying opportunities, as seen during the Russia Ukraine conflict in 2022.
- Mid cap and small cap indices tend to correct more sharply than large caps during periods of energy driven stress, which can set the stage for attractive entry points once clarity emerges.
- Foreign portfolio outflows have already restarted, reversing the gains made after the US India trade deal earlier in the year. India still underperforms other EM nations in terms of the quantum of FPI flows.
- Across corporate India, the impact varies widely across sectors. Oil producers may temporarily benefit from higher prices, although profits may be tempered by windfall taxes. Oil marketing firms, on the other hand, face heavy under recoveries. Travel and tourism, airlines, hotels, restaurants, chemicals, fertilizers, and synthetic textiles are likely to experience material stress due to higher energy costs or supply shortages. Technology, telecom, pharmaceuticals, and power are relatively insulated, although they may see mild cost pressures. Metals and mining stand to benefit from higher global commodity prices.
- The 2026 Middle East conflict is not just another geopolitical flashpoint. It has effectively hit the world's most vulnerable energy chokepoint. For global markets, this means a) genuine supply shock b) unpredictable commodity markets and c) Broken hedging dynamics and d) A re assessment of geopolitical risk pricing.
- For India, the implications are even deeper—touching energy security, fiscal stability, inflation, growth, corporate earnings, and currency resilience.
- It's a moment that calls for agility, diversification, and prudent risk taking.

# FIXED INCOME MARKET

# Global Bond Market Snapshot: Global bond yields rise in March 2026

Rising oil prices stoked inflation fears and pushed yields higher across both developed and emerging economies

10 Year Gsec Yield (% mth end)	2024 end	2025 end	Jan-26	Feb-26	Mar-26	m-o-m change (in bps)	FY change (in bps)
<b>Developed market</b>							
US	4.57	4.17	4.24	3.94	4.39	46	23
Germany	2.37	2.86	2.84	2.64	3.09	45	64
Italy	3.52	3.55	3.46	3.27	4.04	77	48
Japan	1.10	2.07	2.25	2.12	2.37	25	106
Spain	3.06	3.29	3.21	3.06	3.62	56	51
Switzerland	0.33	0.32	0.23	0.21	0.43	22	13
UK	4.57	4.48	4.52	4.23	4.97	74	53
<b>Emerging Market</b>							
Brazil	15.16	13.74	13.59	13.55	14.28	73	21
China	1.68	1.86	1.81	1.81	1.81	0	18
India	6.76	6.59	6.70	6.66	7.04	38	68
Indonesia	6.97	6.05	6.32	6.41	6.83	42	-2
South Korea	2.87	3.39	3.61	3.45	3.93	48	136
Malaysia	3.81	3.51	3.50	3.50	3.64	15	-1
Philippines	6.82	6.00	5.95	5.90	7.02	113	84
Taiwan	1.61	1.35	1.42	1.42	1.57	16	6
Thailand	2.25	1.64	2.00	1.71	2.22	51	34
Turkey	29.04	28.96	29.50	30.12	34.49	437	-48
Mexico	10.44	9.12	8.88	8.67	9.29	62	-7
Poland	5.89	5.17	5.09	4.93	5.91	98	70
South Africa	10.33	8.20	8.05	8.13	9.43	130	-116
Colombia	11.86	12.62	12.39	13.41	12.85	-56	50
Hungary	6.55	6.79	6.53	6.40	7.33	93	54

# Rates in India sees an upward movement too

Interest rates in India have been rising across segment in 2026; This rise is especially visible in money market rates, shorter tenor government securities (G-sec) yields, and corporate bond yields

Rates (%)		2024 end	2025-end	Jan-26	Feb-26	Mar-26	m-o-m (in bps)	YTD change (in bps)
Overnight	Repo rate	6.50	5.25	5.25	5.25	5.25	-	-
	TREPS	6.75	5.25	4.67	4.93	5.44	51	19
	Overnight MIBOR Rate	7.15	5.67	5.53	5.17	6.98	181	131
Money Market	1 Yr T-Bill	6.69	5.54	5.74	5.59	5.65	6	11
	3M T-Bill	6.55	5.26	5.50	5.30	5.33	3	7
	3M CD Yield	7.28	5.88	7.18	6.86	7.55	69	168
	12M CD Yield	7.60	6.56	6.98	6.78	7.30	52	75
	3M CP Yield	7.37	6.22	6.62	6.69	7.37	68	115
	12M CP Yield	7.78	6.83	7.17	7.02	7.55	54	72
Government bonds	3 year GSec	6.72	6.07	6.02	5.85	6.52	67	45
	5 year GSec	6.72	6.31	6.41	6.28	6.75	47	44
	10 year GSec	6.79	6.59	6.70	6.66	7.04	38	45
	30 year Gsec	7.01	7.27	7.36	7.34	7.74	41	47
	10 year SDL	7.15	7.30	7.49	7.44	7.69	25	39
	30 year SDL	7.14	7.56	7.57	7.64	7.94	30	38
AAA Corporate	3Yr AAA Corp bond	7.58	7.00	7.19	7.13	7.53	40	53
	5Yr AAA Corp bond	7.46	7.10	7.22	7.23	7.62	39	52
	10Yr AAA Corp bond	7.24	7.30	7.40	7.42	7.69	27	39
Swaps	1 Yr IRS	6.51	5.45	5.56	5.48	6.25	77	80
	2 Yr IRS	6.27	5.55	5.70	5.63	6.44	85	89
	5 Yr IRS	6.20	5.92	6.16	5.99	6.75	76	83
Others	INR/USD	85.61	89.88	91.99	90.98	94.83	-4.2 <sup>^</sup>	-5.5 <sup>^</sup>
	Crude oil Indian Basket**	73.34	62.20	63.08	69.01	112.39	62.9	80.7

- Yield curve has steepened across fixed income assets.
- Rupee depreciated by over 4% m-o-m.
- Oil prices rose materially to US\$112/bbl (vs. 69 last month).

Source: Bloomberg, PPAC, RBI, CEIC, SBIMF Research; NB: \*Corporate bond rate is for AAA rated bonds, \*\*Crude oil price is average \$/barrel for the month and INR, remaining data are % month end, <sup>^</sup>INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

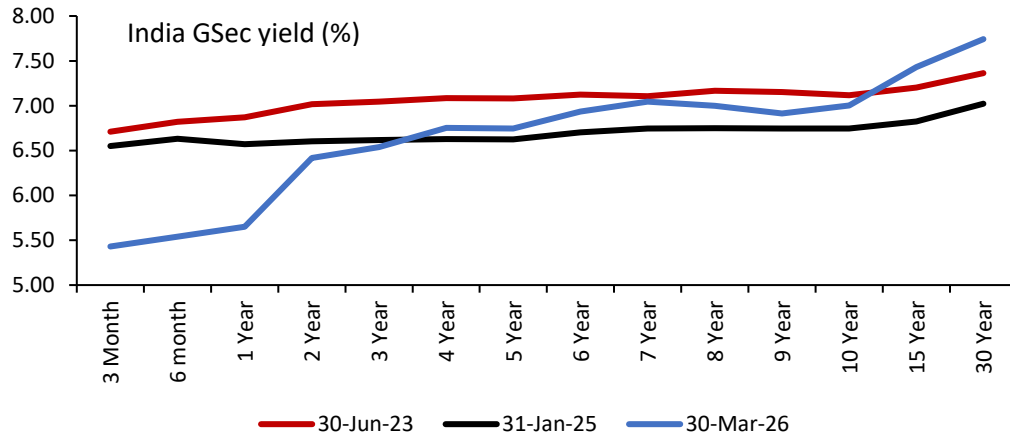
# G-sec yields rise sharply in March 2026, with acute pressure in the 2–4 year bucket

G-Sec yields rallied during Jan-May 2025, but worsened there since post the June 2025 policy (impact of a tight demand supply and weaker rupee)

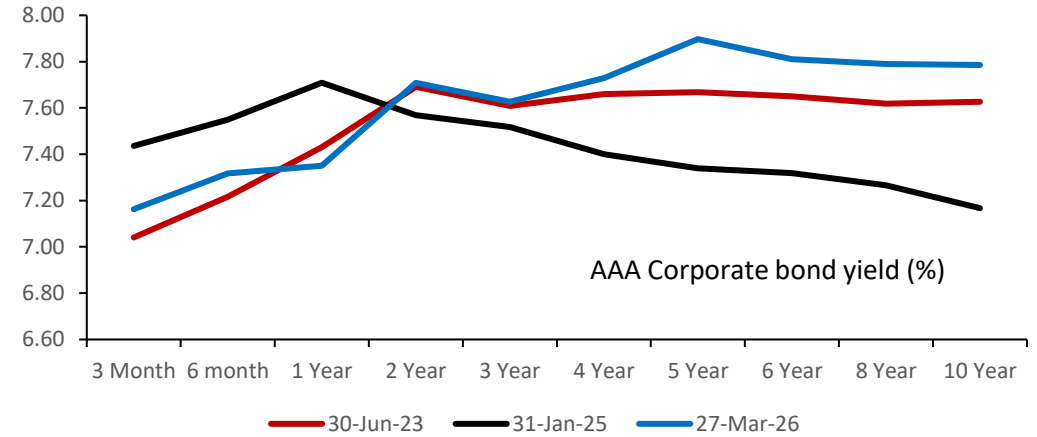
Yield (%)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
31-Mar-25	6.34	6.49	6.44	6.42	6.44	6.44	6.45	6.50	6.49	6.61	6.62	6.58	6.69	6.90
30-Apr-25	5.89	5.92	5.90	6.02	6.05	6.08	6.09	6.15	6.16	6.35	6.37	6.36	6.45	6.78
31-May-25	5.60	5.61	5.60	5.71	5.74	5.88	5.88	6.01	6.06	6.26	6.31	6.29	6.42	6.83
30-Jun-25	5.37	5.50	5.52	5.79	5.87	5.99	6.10	6.23	6.33	6.40	6.39	6.32	6.67	7.05
31-Jul-25	5.39	5.50	5.56	5.71	5.87	5.99	6.07	6.21	6.30	6.43	6.42	6.37	6.70	7.04
31-Aug-25	5.48	5.58	5.59	5.83	6.09	6.28	6.29	6.51	6.55	6.68	6.66	6.57	6.98	7.30
30-Sep-25	5.40	5.51	5.56	5.77	5.93	6.14	6.20	6.42	6.45	6.65	6.64	6.58	6.88	7.20
31-Oct-25	5.44	5.58	5.58	5.80	6.02	6.12	6.18	6.44	6.43	6.59	6.58	6.47	6.89	7.22
30-Nov-25	5.34	5.50	5.51	5.78	5.94	6.13	6.23	6.48	6.47	6.56	6.59	6.51	6.94	7.31
31-Dec-25	5.27	5.37	5.52	5.76	6.07	6.32	6.31	6.52	6.63	6.65	6.64	6.59	6.99	7.27
31-Jan-26	5.42	5.63	5.71	5.82	6.02	6.25	6.41	6.61	6.72	6.74	6.73	6.70	7.09	7.36
27-Feb-26	5.24	5.41	5.51	5.62	5.85	6.23	6.28	6.53	6.62	6.65	6.62	6.66	7.04	7.34
30-Mar-26	5.38	5.53	5.64	6.37	6.52	6.77	6.75	6.93	7.09	7.00	6.92	7.04	7.45	7.74
m-o-m change (in bps)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
30-Apr-25	-45	-57	-54	-40	-39	-36	-37	-35	-33	-26	-25	-23	-24	-12
31-May-25	-29	-31	-30	-31	-31	-20	-21	-14	-10	-9	-6	-7	-3	5
30-Jun-25	-23	-11	-8	9	13	12	22	21	27	14	8	4	25	23
31-Jul-25	2	0	4	-9	0	-0.6	-2.8	-2	-3.4	4	3.0	5	2	-1
31-Aug-25	9	8	3	12	22	29	22	31	25	25	24	19	28	25
30-Sep-25	-8	-7	-3	-6	-16	-14	-9	-9	-10	-3	-1	1	-10	-10
31-Oct-25	4	7	2	3	8	-2	-2	2	-3	-6	-6	-11	2	3
30-Nov-25	-10	-8	-7	-2	-7	1	5	3	4	-2	1	4	4	9
31-Dec-25	-7	-13	1	-3	13	19	8	4	16	9	6	8	5	-4
31-Jan-26	15	26	19	6	-5	-7	11	9	9	9	9	11	10	9
27-Feb-26	-18	-22	-20	-20	-17	-2	-14	-8	-10	-8	-11	-4	-5	-2
30-Mar-26	14	12	13	74	67	55	47	40	47	35	29	38	41	41
Change in FY (in bps)	-96	-96	-80	-5	9	33	29	43	60	39	30	45	76	84

# Simultaneous expansion of private and government credit creates tight demand-supply dynamic

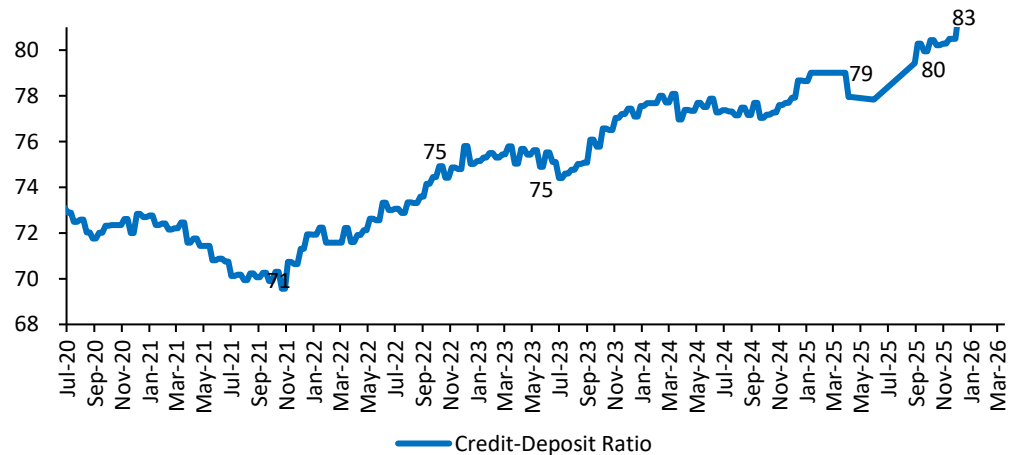
Visible steepening in G-sec yield curve in the last year



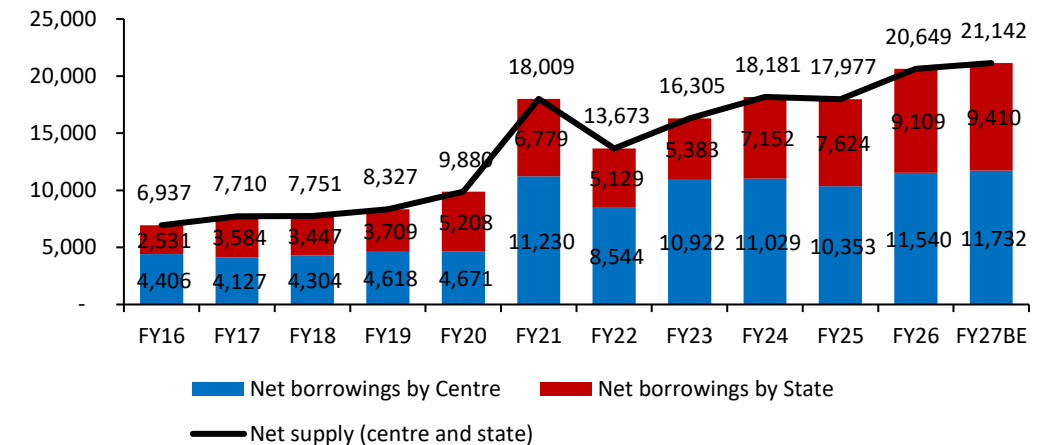
Similarly corporate bond yield curve steepens with rising private sector credit



Bank credit growth has been outpacing deposit growth, pushing up the system-wide credit-deposit (CD) ratio to elevated levels

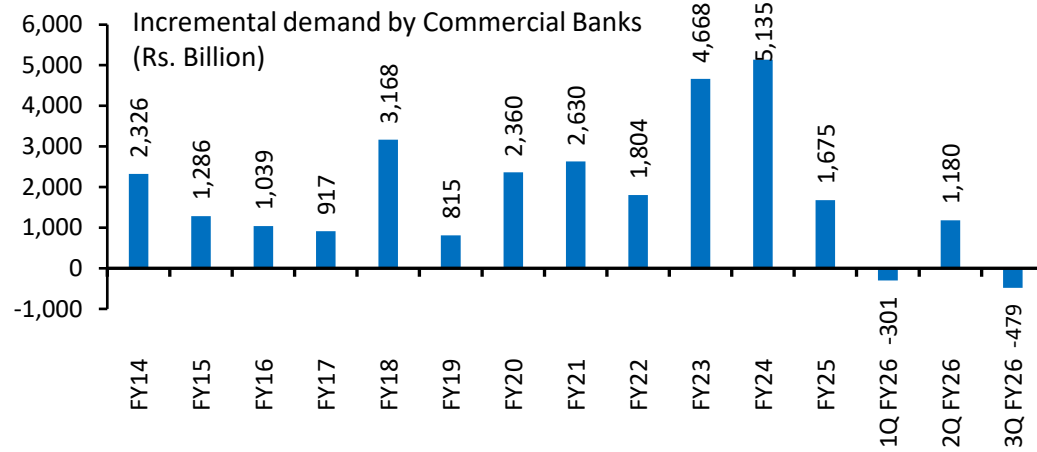


Rise in Government borrowing; Overall net government (Centre + State) issuances rise by ~15% y-o-y in FY26

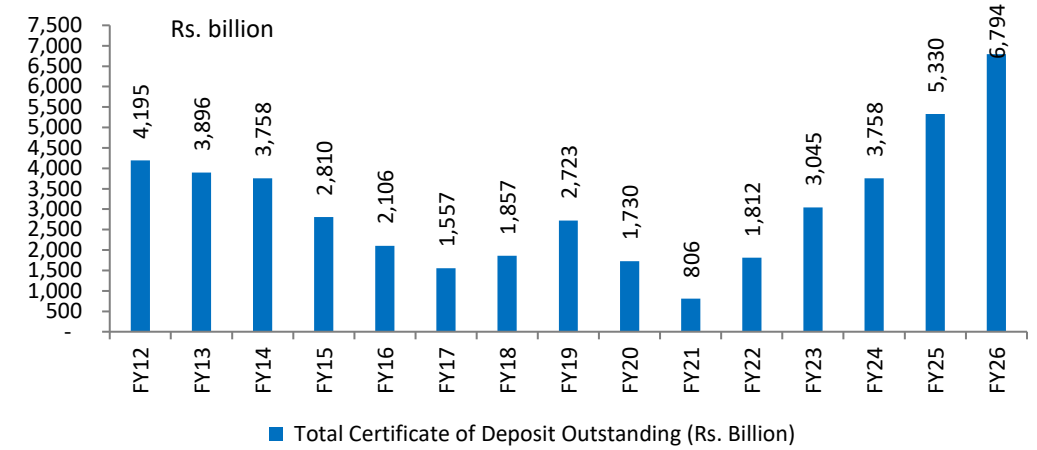


# Increased CD issuances drive up CD spreads

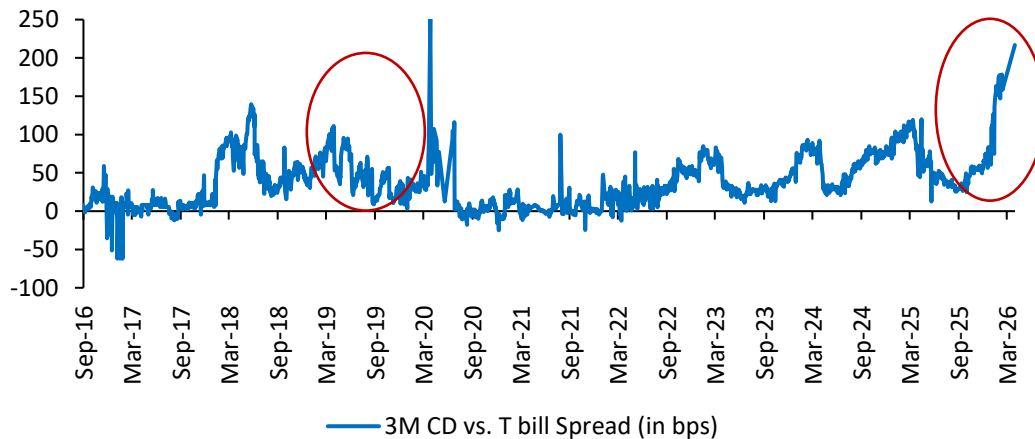
## Banks participation in SLR securities decline as incremental funds are directed towards loan growth



## Certificate of Deposits (CD) issuances rise



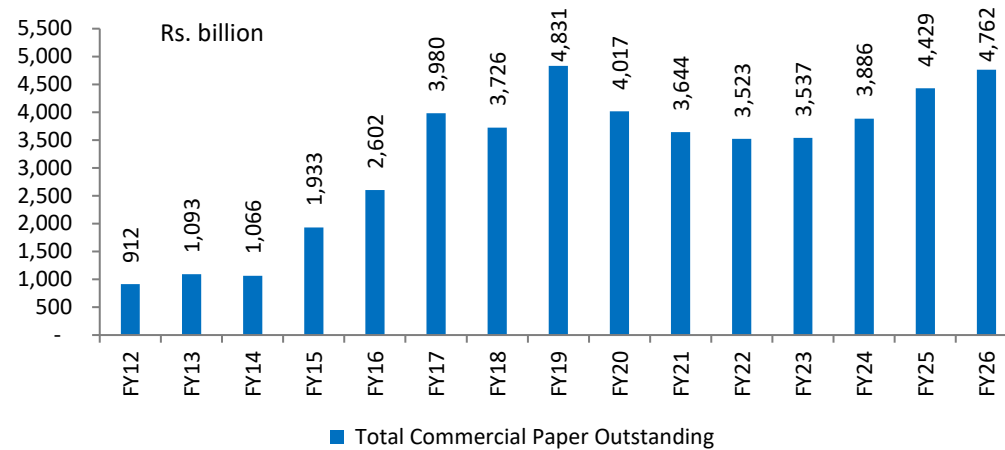
## 3-month CD spreads have widened to ~215bps against T-bill by end March 2026



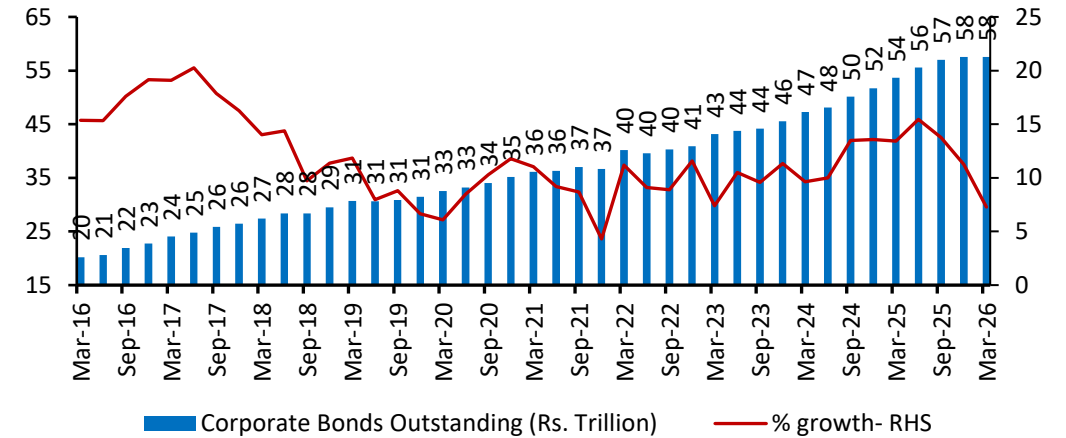
- When CD ratios rise, banks have limited incremental balance sheet flexibility. This results in reduced banks' participation in SLR securities as incremental funds are directed toward loan growth rather than investments in government securities.
- Banks are forced to mobilize funds more aggressively through certificate of deposit (CD) issuances and bulk deposits.
- The increased reliance on bulk deposits has had second-order effects.
- Bulk deposits pull liquidity away from liquid mutual fund schemes, which are traditionally among the largest buyers of short-term securities. As flows into liquid funds reduce, demand for short-term instruments weakens, amplifying upward pressure on yields.
- CD spreads, in fact, have widened sharply and are currently even higher than levels seen during the IL&FS crisis period.
- This indicates tight liquidity conditions and elevated funding stress in the short-term market.

# CPs and Corporate bond issuances are tepid due to attractive bank loan rates vs. market rates

## Commercial Papers (CP) issuances are muted



## Corporate bond issuances moderate; Outstanding credit disbursed via Corporate Bond (NCDs) moderated from 15.5% y-o-y growth to 11.3%



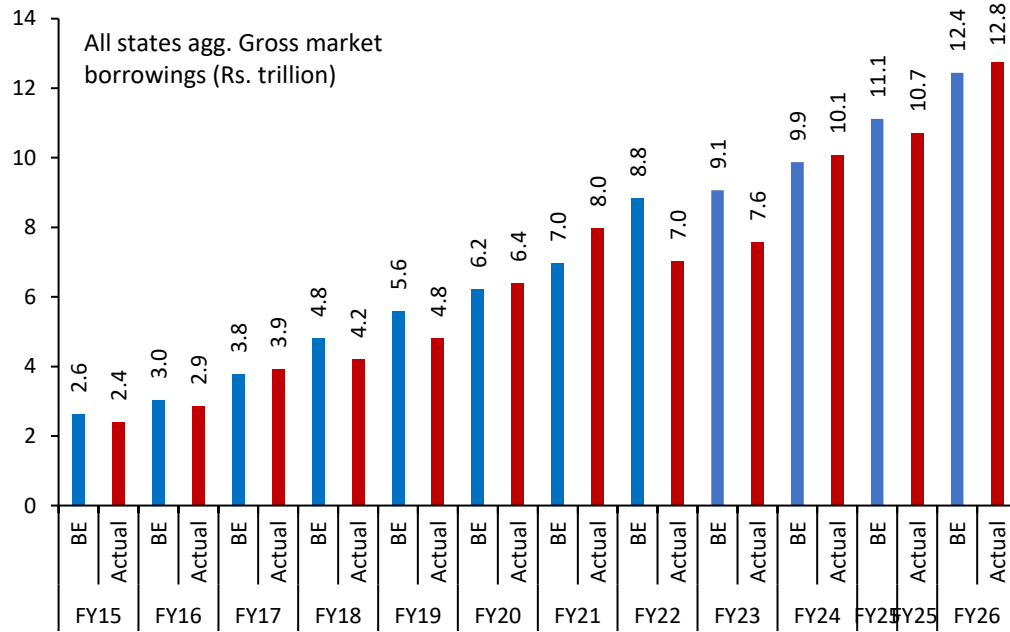
## The aggregate total credit disbursed via the combined channels of Bank, NCDs and CPs- pick-up is more modest from 11% to 13.6%

% y-o-y	Bank Credit	Corporate Debt	CP	Bank Credit+Corp Bonds+CPs
Jun-24	17.4	10.0	-2.5	15.2
Sep-24	13.0	13.5	-3.6	12.8
Dec-24	11.2	13.6	19.7	11.8
Mar-25	11.0	13.4	14.0	11.6
Jun-25	9.5	15.5	18.4	11.0
Sep-25	10.4	13.7	22.8	11.3
Dec-25	14.5	11.3	3.5	13.6

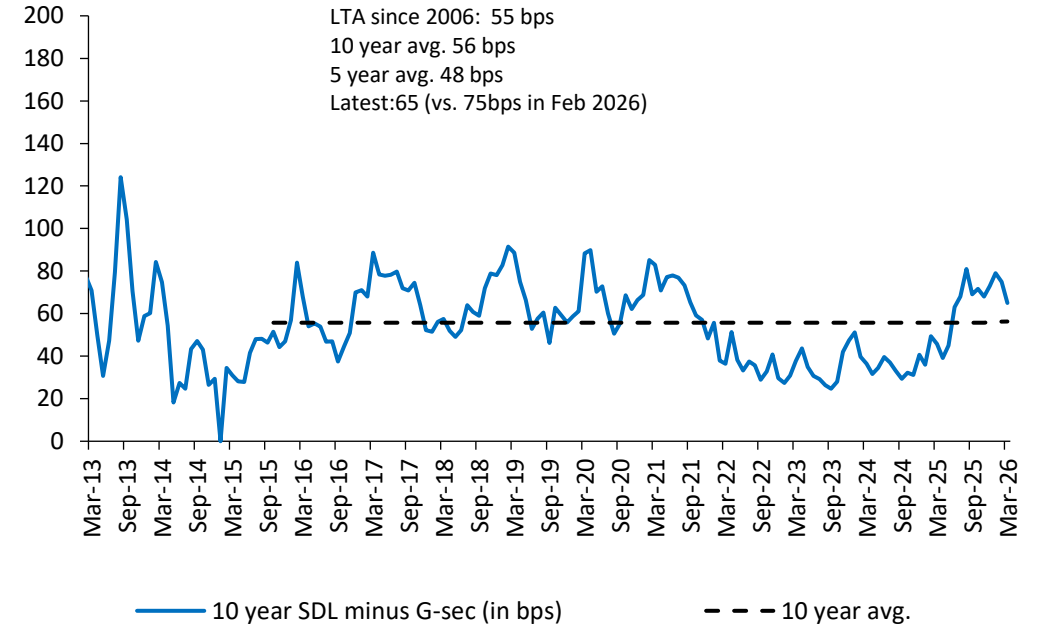
- In contrast, CP and corporate bond issuances have been tepid as banks loan rate are more attractive than the market rates.
- Consequently, while Bank credit jumped from 9.5% y-o-y during Jun'2025 to 14.5% by Dec'2025, Outstanding credit disbursed via Corporate Bond (NCDs) moderated from 15.5% growth to 11.3%.
- Short-term credit disbursed via Commercial papers moderated from 18.4% growth to 3.5%.
- Resultantly, if we aggregate total credit disbursed via the combined channels of Bank, NCDs and CPs, we find that credit growth pick-up is more modest from 11% to 13.6%.

# SDL supply rises; FY26 SDL gross issuances exceed budgeted estimate

SDL issuances elevated; FY26 Gross SDL issuances are 19% higher on a y-o-y basis



Yet, SDL spreads contained



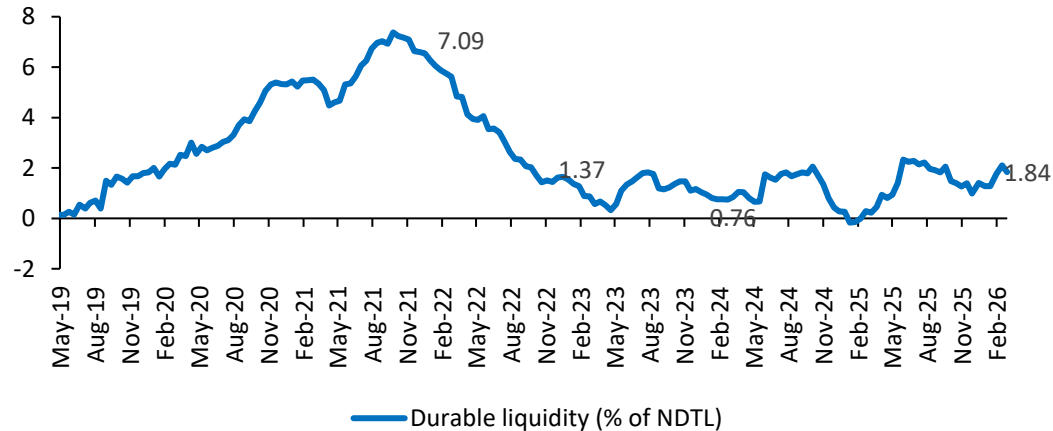
- Interestingly, while SDL supply has also risen significantly, spreads on these instruments have remained relatively contained because markets had already anticipated the supply increase.

# Banking system liquidity is tight due to FX outflows despite massive liquidity infusion

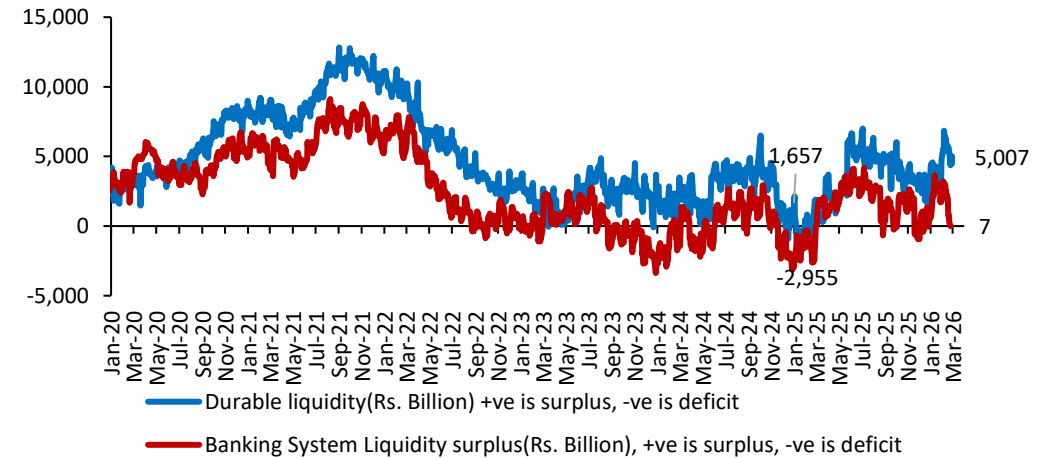
## RBI provided massive liquidity support since December 2024

Liquidity management measures by RBI since Dec-24 (INR tn)	Announced
Repo rate cut by 125bps cumulatively	
Reduction in risk weights to lending towards SME & MFI	
Easing in earlier proposed stringent LCR Norms	
Relaxation of priority sector lending norms	
CRR cut by 150bps (50bps in Dec'24 & 100bps from Sep-Nov'25)	3.7
OMO purchases	11.6
Buy sell swaps	4.4
<b>Total</b>	<b>19.7</b>

## Even as a % of NDTL, durable liquidity remained low during this period



## Durable liquidity remains low despite RBI liquidity measures due to increased intervention in FX market and CIC leakage

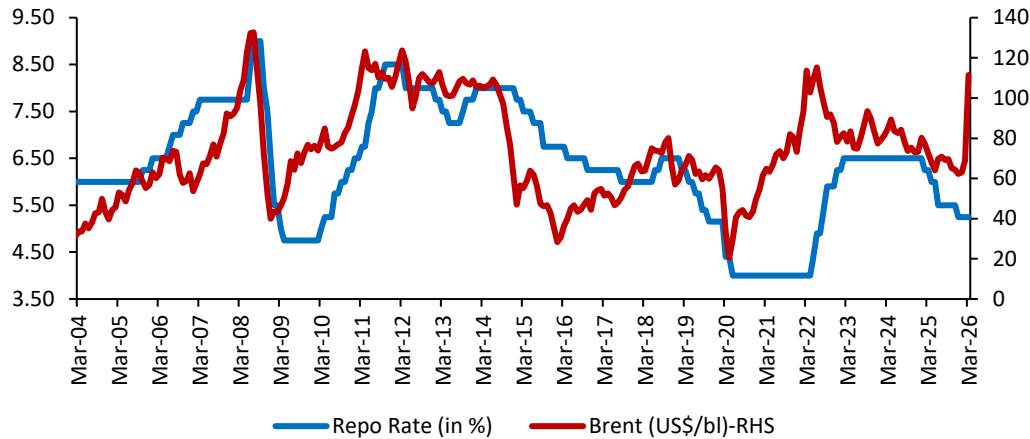


- Between Dec 2024 till March 2026, RBI has provided massive liquidity support through CRR reduction, OMO and FX swaps.
- However, much of this injected liquidity has already been absorbed by system requirements such as Currency leakage and dollar capital outflow.
- Thus, when measured as a percentage of NDTL, banking system liquidity remains modest.
- Looking ahead, elevated currency in circulation (CIC) expansion, during March and April are likely to create additional liquidity tightness. Although some of these pressures ease in May with RBI dividend, liquidity support from the RBI may still be required for the next couple of months.

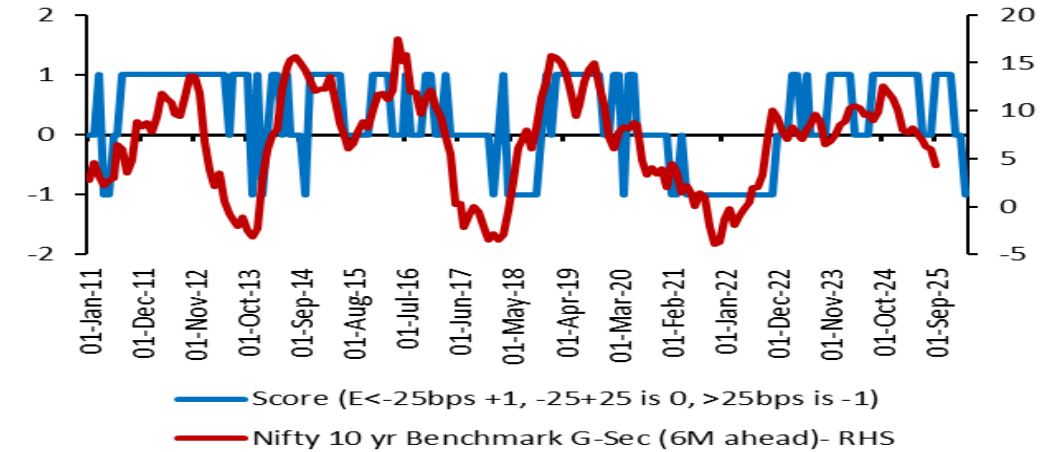
Source: RBI, SBIFM Research; NB: banking system liquidity data as on 30th January 2026 and durable liquidity data as on 31st January 2026; \* This measures what could have been FX sell had there been no buy sell Swaps

# Indian G-sec: Fundamentals, sentiments and valuation weakens

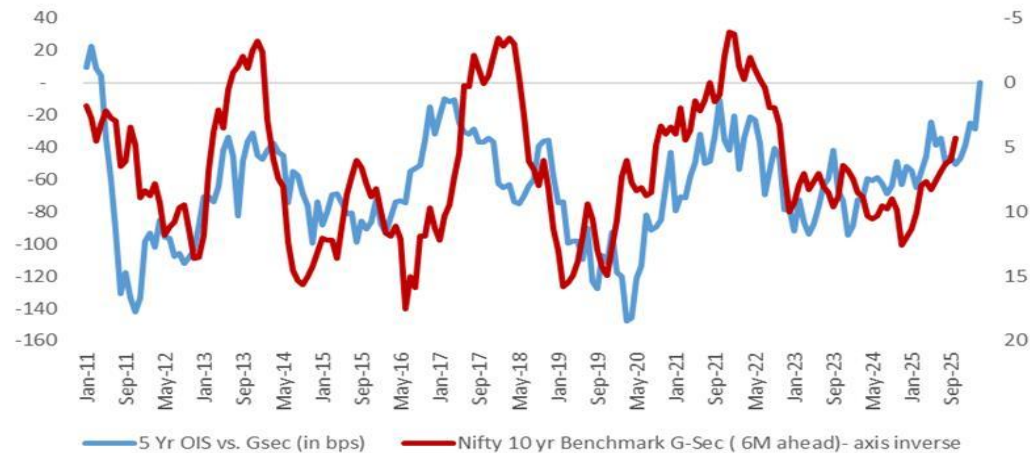
Historically energy price spikes are associated with rate hikes



Fixed Income fundamental deteriorates: Rate hikes expected by market



Sentiment weakens: as reflected in OIS



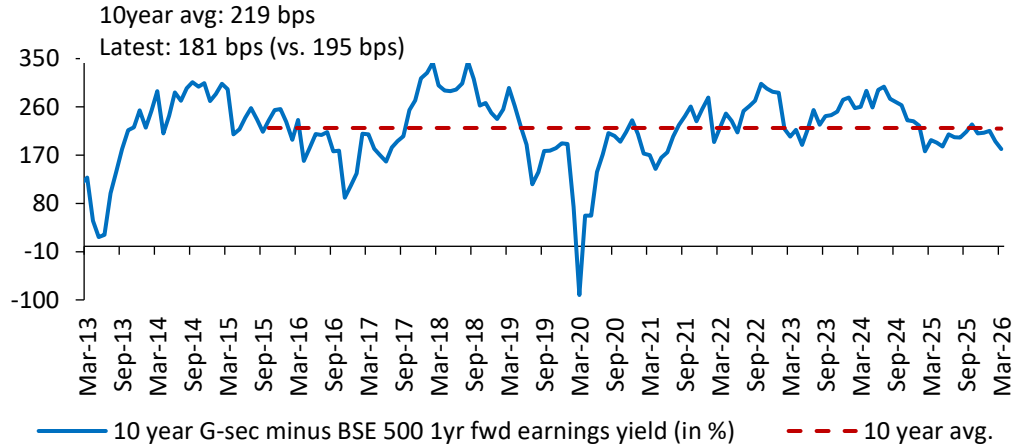
Valuation swings to unattractive as inflation bottoms out in India



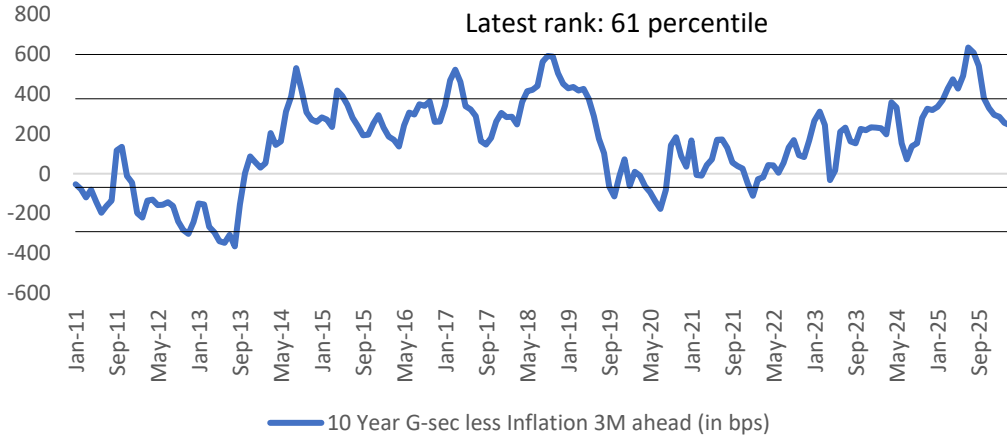
Source: Bloomberg, CMIE Economic Outlook, PPAC, SBIFM Research; NB: In the second graph, Score 0 represents expectation of neutral policy, score 1 of monetary easing and score -1 of rate hikes

# Indian G-sec valuations: neutral to marginally unattractive

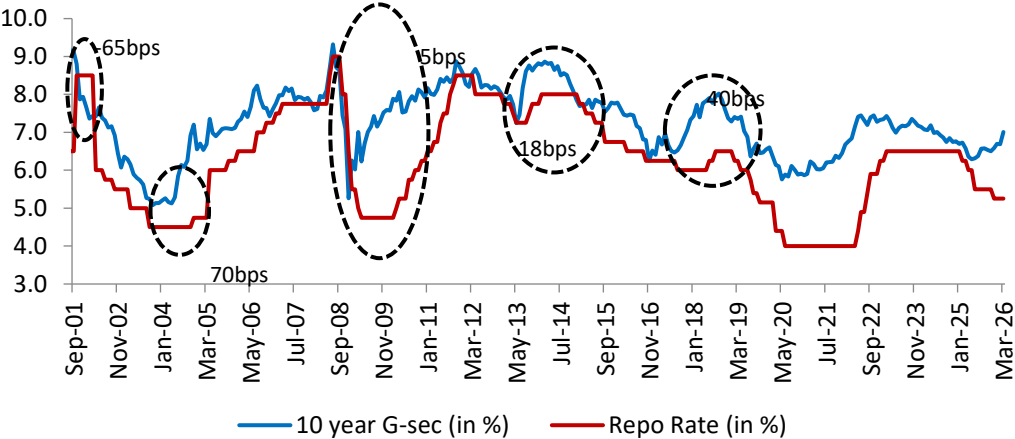
## G-sec spread vs. equity turns neutral



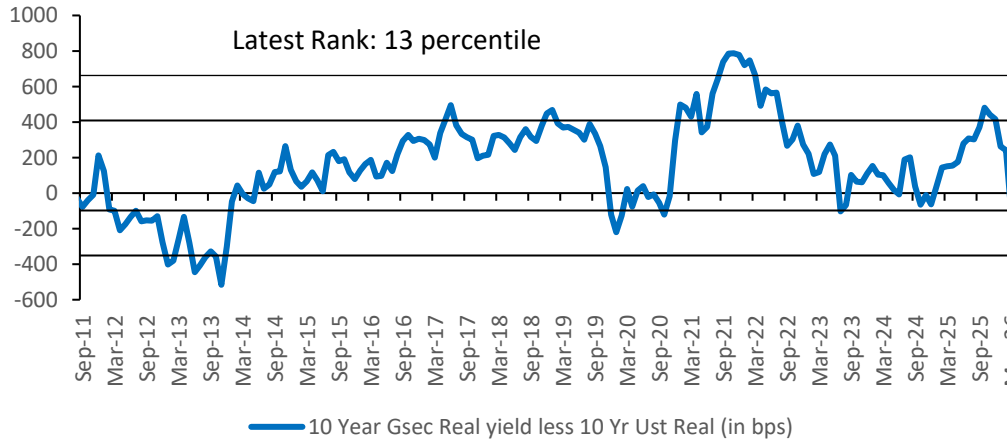
## Real rate turns positive



## G-sec spread can stay compressed in the period of monetary easing



## India vs. US yield adjusted for inflation in line with long term trend



Source: Bloomberg, RBI, SBIFM Research

# FII turn net sellers of Indian government bonds in March 2026

## India witnessed Debt outflows in March 2026

EM FII Debt inflow US\$ million	2024	2025	Jan-26	Feb-26	Mar-26
South Korea	43,139	87,632	4,906	8,129	4,139
Thailand	(1,092)	2,346	1,429	352	(829)
India	16,832	7,472	787	1,354	(912)
Indonesia	2,258	189	9	(202)	(1,565)
Mexico	2,090	(5,147)	1,731	2,124	(2,185)
South Africa	(6,307)	(5,269)	506	(125)	(4,429)
Poland	23,948	23,737	6,059	-	-
Bulgaria	2,462	5,534	(335)	-	-
Malaysia	274	4,899	970	136	-
Brazil	(17,387)	(3,453)	(6,651)	(6,732)	-
Philippines	3,461	2,397	-	2,973	-
Czech Republic	14	9	(4)	-	-
Russia	-	-	-	-	-
Ukraine	(548)	(122)	-	-	-
China	57,660	(81,349)	(8,969)	-	-

## FII flows in EM bonds are muted despite healthy inflation adjusted returns; as risk premium vs. DM bonds is largely erased

Real rates	10 Year Gsec Yield (% mth end, Mar'26)	CPI Inflation Feb'26	Real Rate (% 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Feb 2026	10 year G-sec yield adjusted for 12m fwd premium (in %)- Feb 2026
Brazil	14.0	3.8	10.2	5.5	8.0
Russia	16.0	5.9	10.1	0.0	16.0
Colombia	13.0	5.3	7.7	13.3	0.1
South Africa	9.1	3.0	6.1	6.3	1.9
Hungary	7.1	1.4	5.7	5.5	0.9
Mexico	9.4	4.0	5.4	6.9	1.8
Philippines	6.8	2.4	4.4	4.7	1.2
Poland	5.7	2.1	3.6	3.5	1.4
India	6.7	3.2	3.5	2.7	4.0
Thailand	2.0	-0.9	2.9	1.4	0.3
Malaysia	3.6	1.4	2.2	3.1	0.4
Indonesia	6.8	4.8	2.1	4.8	1.6
South Korea	3.6	2.0	1.6	2.4	1.0
Turkey	32.9	31.5	1.4	36.1	-6.0
China	1.8	1.3	0.5	1.4	0.4
Taiwan	1.4	1.8	-0.3	1.4	0.0

# Debt Outlook: Cautious

- Interest rates in India have risen across segments—money markets, G secs, and corporate bonds—with a notable steepening of the yield curve. This is driven by the simultaneous expansion of private sector credit and government borrowing, creating a tight demand–supply backdrop for fixed income.
- Banking system dynamics are central to this. Elevated Credit–Deposit ratios have limited SLR purchases and pushed banks toward higher CD issuance. Reliance on bulk deposits has added second order pressures, elevating yields. CD spreads have widened sharply and now exceed levels seen during the IL&FS period, reflecting tight liquidity and elevated short term funding stress.
- In contrast, CP and corporate bond issuances have been tepid as banks loan rate are more attractive than the market rates.
- From an external sector perspective, balance of payments (BOP) dynamics become adverse. For every US\$10/bbl increase in the price of crude, India’s current account deficit widens by approximately US\$15bn annually. Foreign portfolio outflows have already restarted, reversing the gains made after the US India trade deal earlier in the year. Rupee faces depreciation pressure.
- Turning to inflation, WPI is set to rise sharply, potentially touching 8-10%, primarily due to rising input and energy costs. The impact on consumer inflation is more nuanced. Retail fuel prices have been capped for now. However, food inflation could rise significantly due to unfavourable base and prospects of El-Nino. Core inflation is likely to drift higher as firms gradually pass through elevated input costs.
- We expect the RBI to remain on hold in April and maintain a neutral stance, while highlighting both growth and inflation uncertainties. The current starting point offers some buffer. With the repo rate at 5.25% and CPI inflation at 3.75% (Feb 2026), real rates are a positive 1.50%. If elevated global energy prices persist beyond a quarter or if global food inflation spikes sharply, the probability of an early rate hike by the RBI increases. At this stage, we expect about 50 bps of rate hikes in FY27.
- That said, a BoP deficit will suck out the rupee liquidity and will necessitate continued OMO purchases even in FY27.
- Though OMOs provide support to government bonds, rising risks of fiscal slippage, elevated inflation, a weaker rupee, simultaneous rise in both private and government credit and deteriorating G-sec valuations all argue for an upward bias in the term structure of rates in FY27, even if the policy rate hikes remain moderate.

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