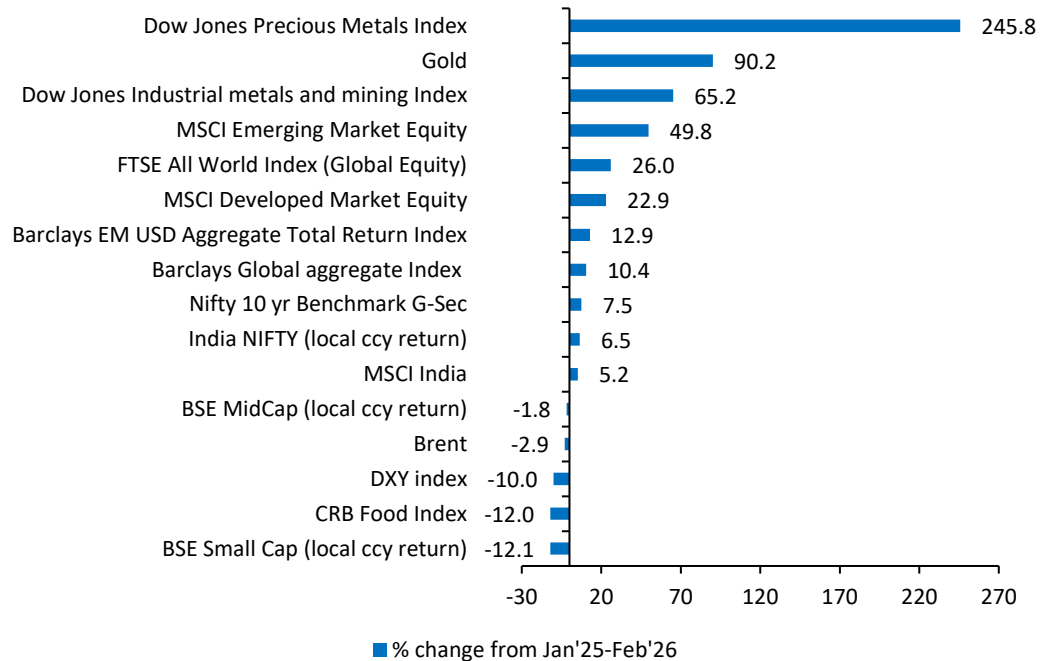


# ECONOMY AND MARKETS

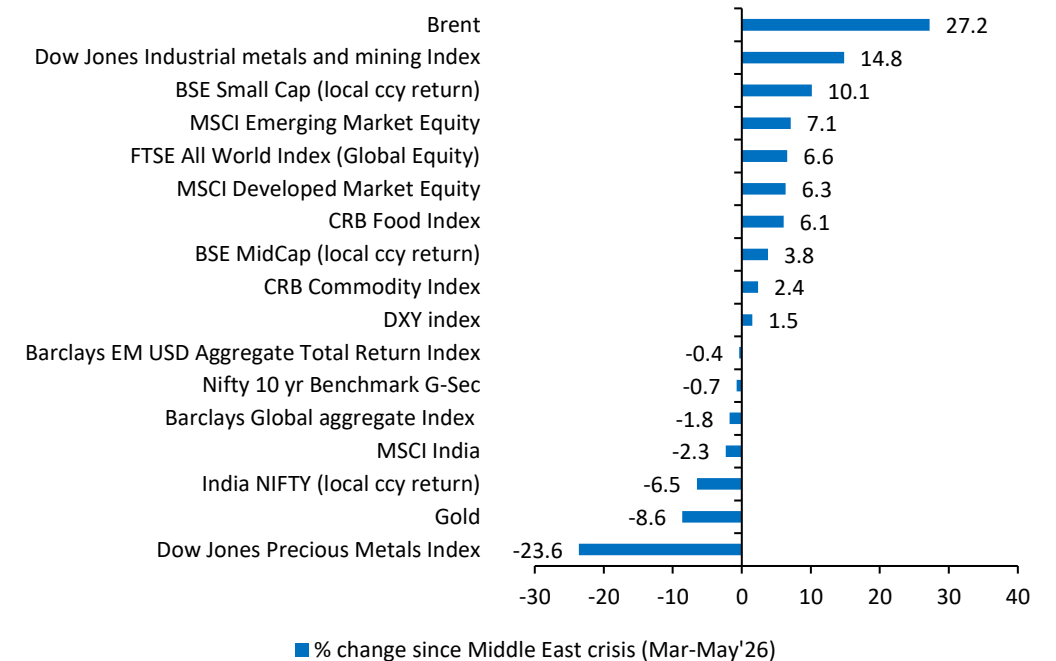
June 2026

# From tariffs to Iran war: Geopolitics drives a sharp cross-asset rotation

## Tariff uncertainty dominated 2025: Precious Metals Led Returns



## Geopolitical risk (Middle East war) dominated March-April 2026: Energy led the rally



- 2024 saw rally in gold followed by broader precious metals in 2025. Now broader commodities and industrial metals are entering focus.
- Structurally, underinvestment in energy and commodities over the last decade creates support for this trend over the medium term.

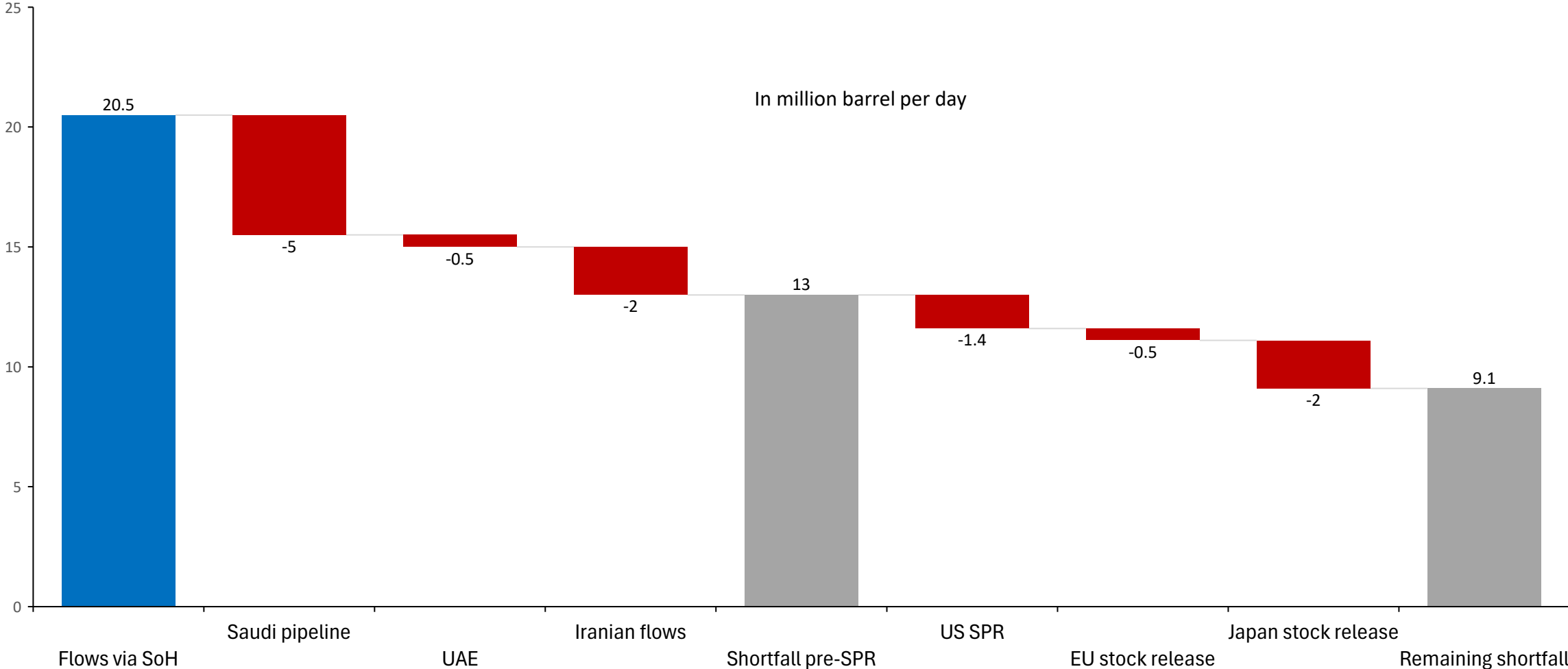
# War related oil shocks last less than a year

## History shows war-led spikes fade faster than expected

Period / Episode	Price Movement	Why Price Rose	Start Date of Brent price rise	Duration of elevated crude (in mths)	Brent price 6 mths prior to the start of Oil Shock (in US\$/bbl)	Peak price during the Oil Shock (US\$/bbl)
1973–74 Oil Crisis	Sharp Rise	<ul style="list-style-type: none"> <li>Global demand boom (1972–73) raised demand for crude</li> <li>Arab producers cut output (repudiation of Tehran/Tripoli agreement)</li> <li>Dollar depreciation + rising US inflation eroded real price received by producers</li> </ul>	Oct-73	6	3	12
1979–80 Oil Crisis	Large and delayed Rise	<ul style="list-style-type: none"> <li>Strong global economic growth raised flow demand</li> <li>Inventory demand increase from fears of future shortages after Iranian Revolution</li> </ul>	Sep-78	12	14	34
Iran–Iraq War (1980–81)	Small Rise	<ul style="list-style-type: none"> <li>Actual physical disruption in Iran &amp; Iraq</li> </ul>	Sep-80	12	28	38
1990 Gulf War	Short-lived Spike then Fall	<ul style="list-style-type: none"> <li>Actual disruption in Kuwait + Iraq</li> <li>Strong precautionary inventory demand expecting attack on Saudi Arabia</li> </ul>	Aug-90	5	22	40
2003 Iraq War + Venezuela Strikes	Very Mild / Brief Rise	<ul style="list-style-type: none"> <li>Supply losses in Iraq and Venezuela largely offset by other producers</li> </ul>	Jan-03	4	27	37
2003–08 Great Oil Price Surge	Massive Rise	<ul style="list-style-type: none"> <li>Strong global demand, especially from emerging Asia/China</li> <li>Low supply elasticity</li> </ul>	Jun-03	60	27	140
2022 Russia–Ukraine War	Short-lived Spike then Fall	<ul style="list-style-type: none"> <li>Fears of sanction on Russia, but few months later Russian crude found way to market at discounted rates restoring supply</li> </ul>	Feb-22	8-9	74	115

# Scale of current disruption comparable to historic oil shocks despite larger market size

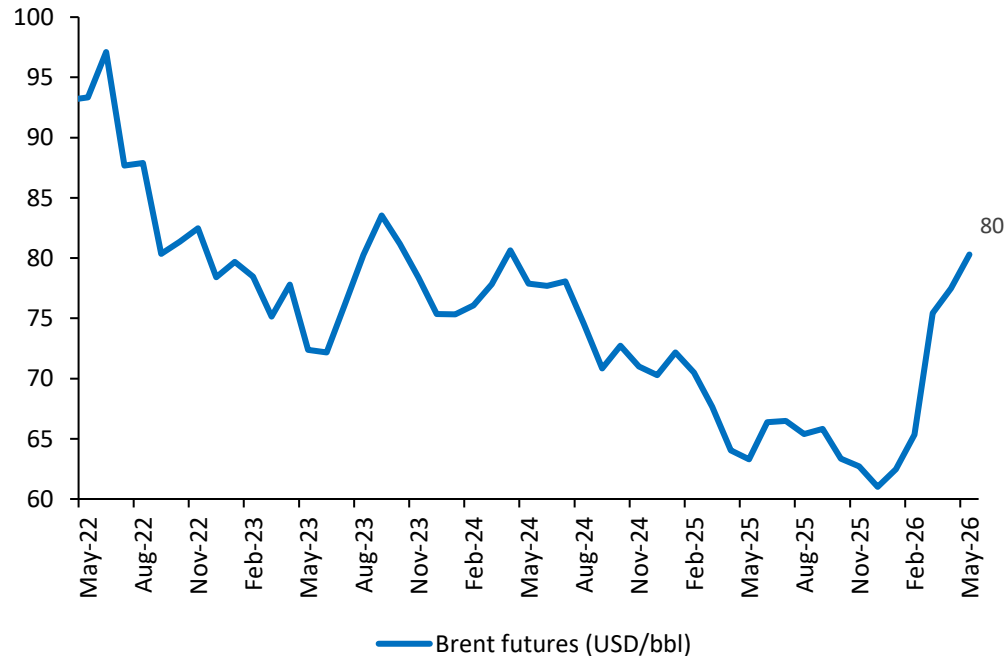
Global crude oil demand was 57 mbpd during the 1973 shock and 63 mbpd during the 1979 shock, with supply disruptions of 4–5 mbpd (~7–8% of demand). Today, even after alternative routes and substitutes, disruptions are ~9 mbpd—~9% of daily demand (104 mbpd).



Source: UBS, SBIFM Research

# Where does Brent go from here?

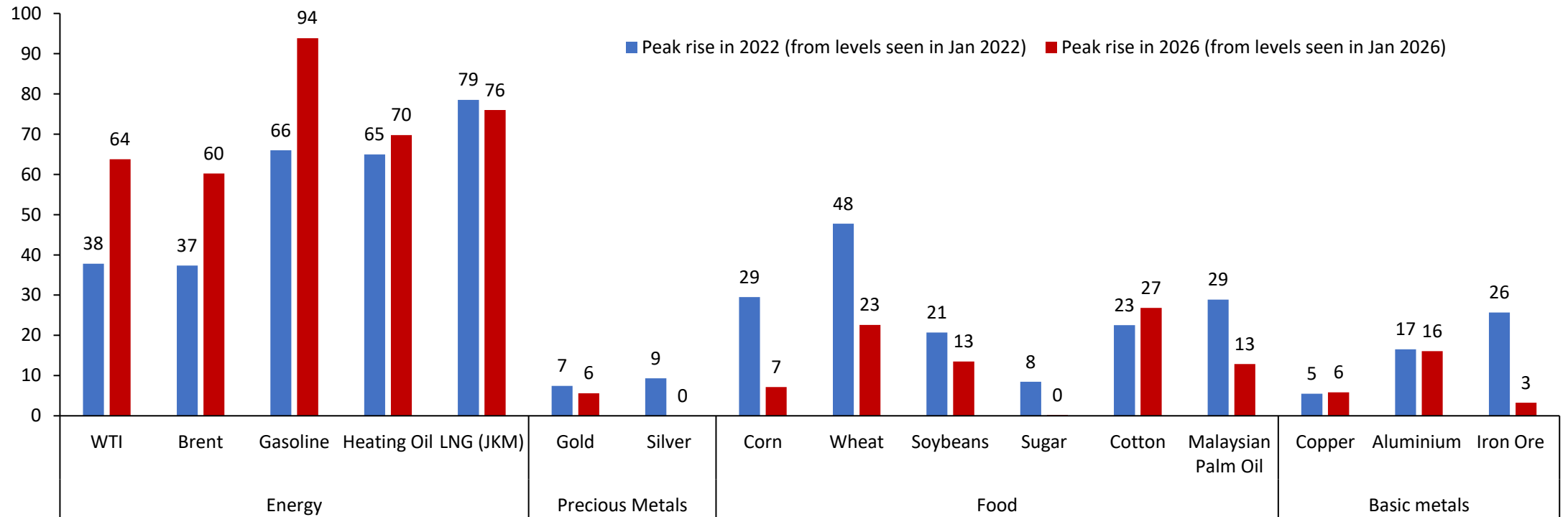
## Markets bet on normalization despite ongoing disruption



- Markets are pricing Brent at US\$80/bbl over the next year, supporting equity resilience.
- This is notable given one of the sharpest recent physical supply disruptions.
- Expectation of normalisation in supply routes limits risk premium.
- China's high crude inventories provide a demand-side buffer.
- Headline risks around infrastructure damage have lost credibility.
- Unlike past shocks, the US is now a net energy exporter.
- Strategic reserves, inventories and floating storage cushion supply shocks.
- Future entails commodity stockpiling
- Meaningful upside in Brent likely needs much worse negative surprises.
- Conflict resolution → relief in Brent; prolonged conflict → demand destruction caps prices

# Commodity Price Spikes: Then versus Now

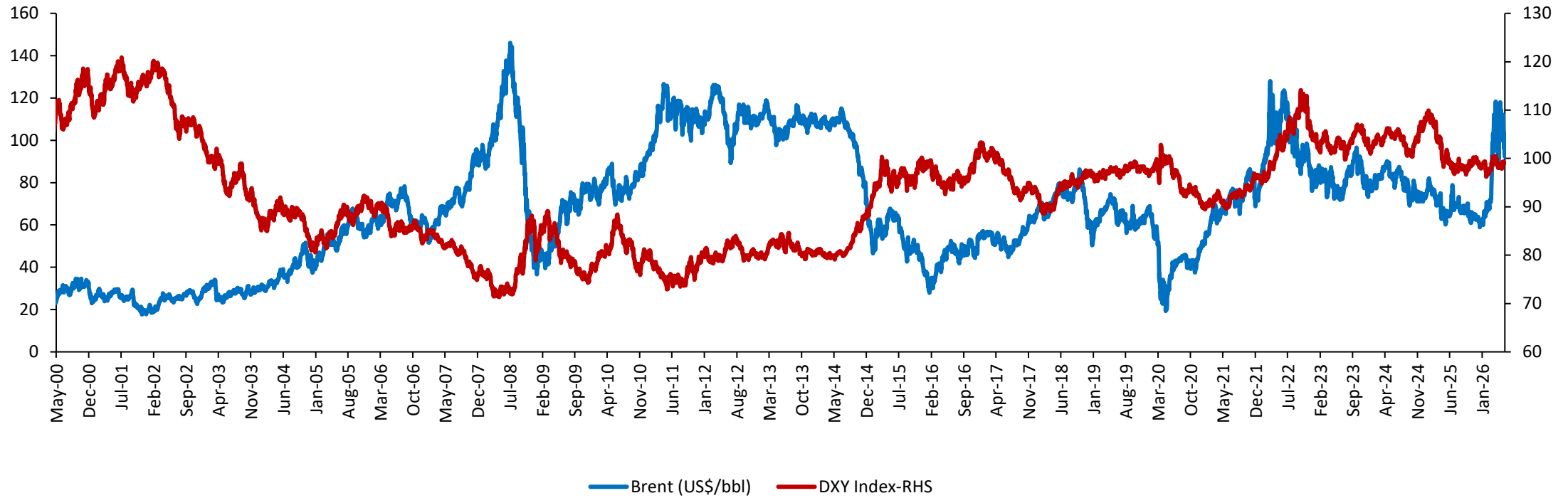
## Energy surges dominate while broad commodities stay contained



- In the current cycle, energy prices have spiked more sharply than in 2022, whereas most non-energy commodities experienced much larger rises during the 2022 shock.
- In 2022, commodity prices peaked around June and fell back below pre-crisis levels by December, indicating a sharp but short-lived shock.
- In the current episode, most commodities (barring LNG) are still near their cycle peaks, suggesting the shock is ongoing rather than already unwinding.

# A shift in the Dollar–Brent relationship post-COVID

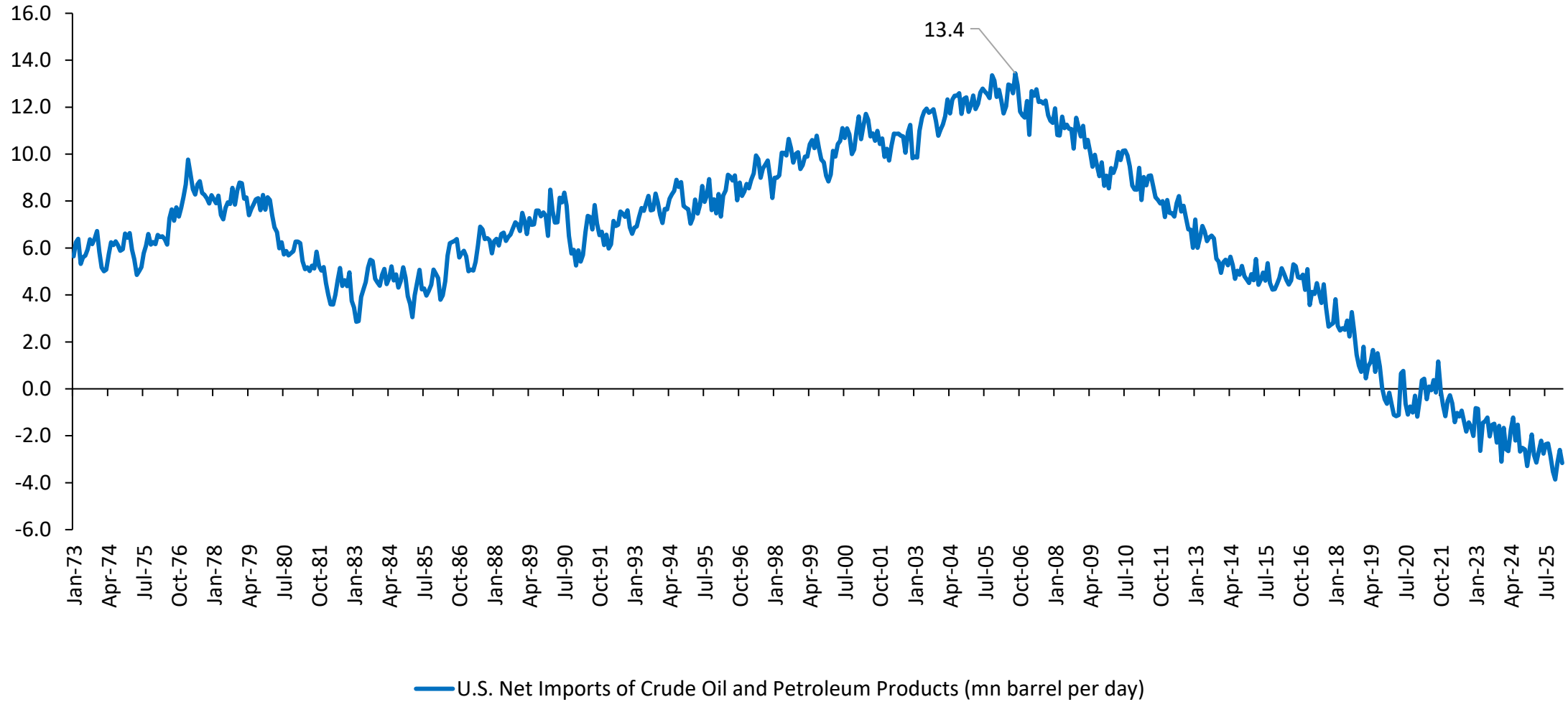
The traditional inverse link has reversed in the post-pandemic period



- Prior to COVID, oil prices and the US dollar often moved inversely.
- Today, they move in tandem because the US is a net energy exporter.
- Higher energy prices support US revenues and inflation concerns impact Federal Reserve expectations.

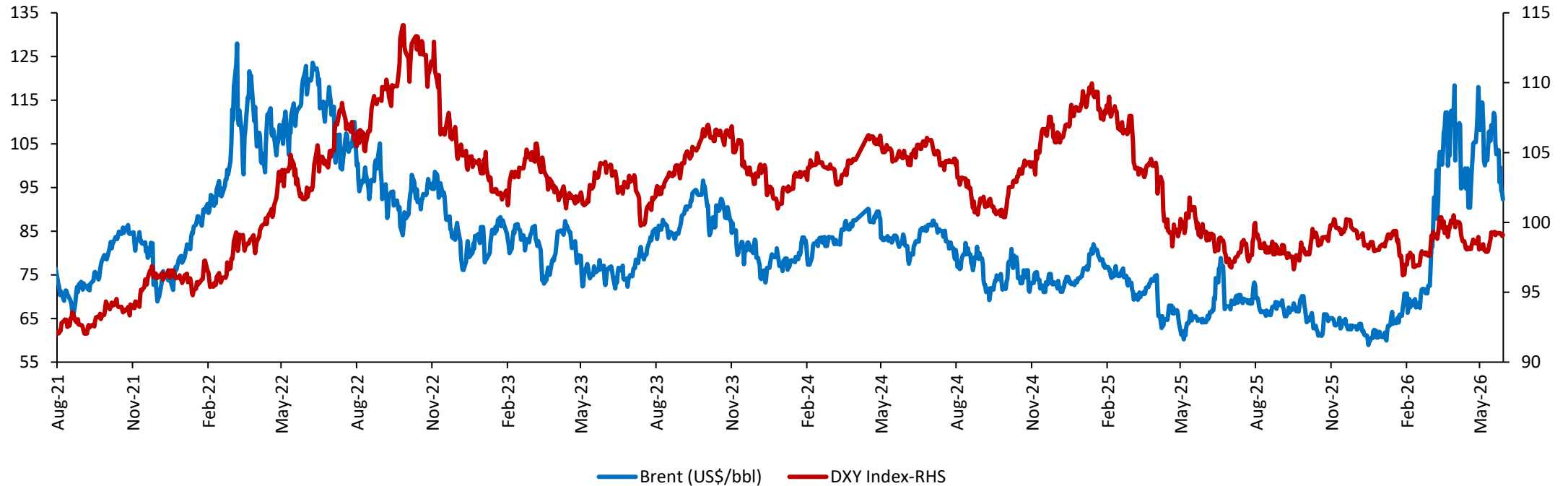
# US changes the equation: From importer to exporter, altering dollar oil dynamics

US turned a net energy exporter post COVID



# What next for Dollar?

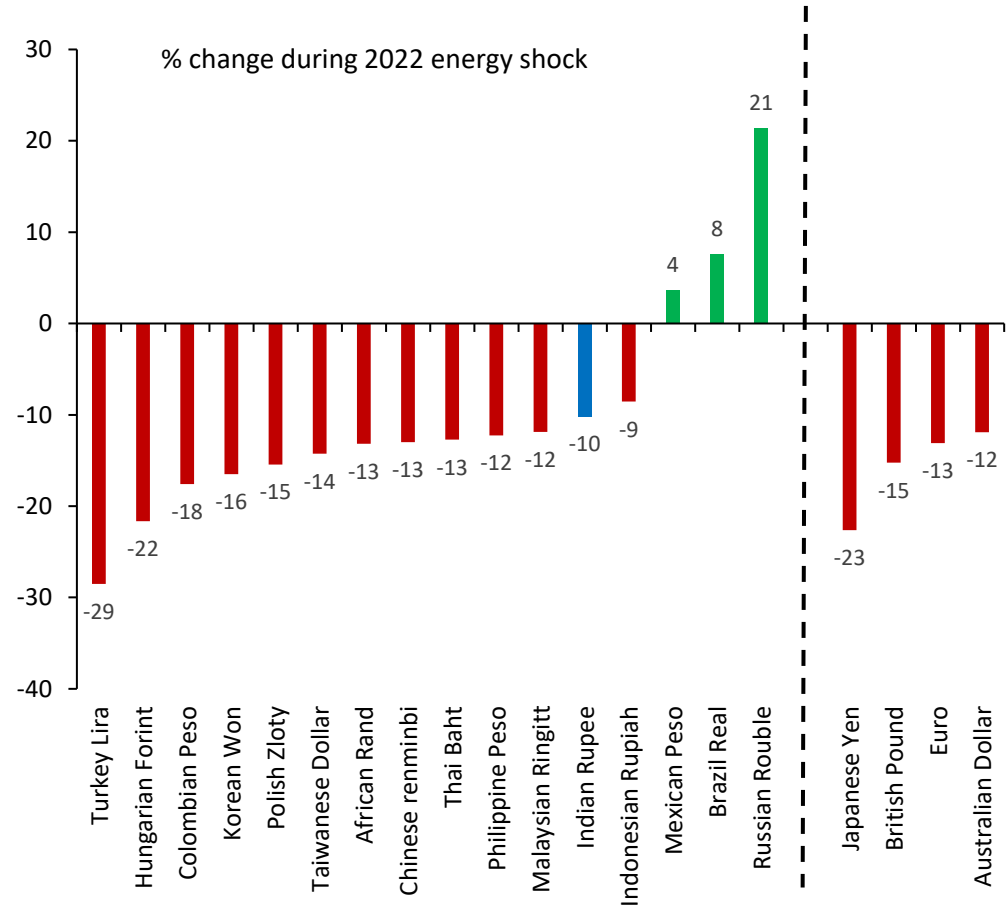
## Currency moves remain muted despite elevated crude



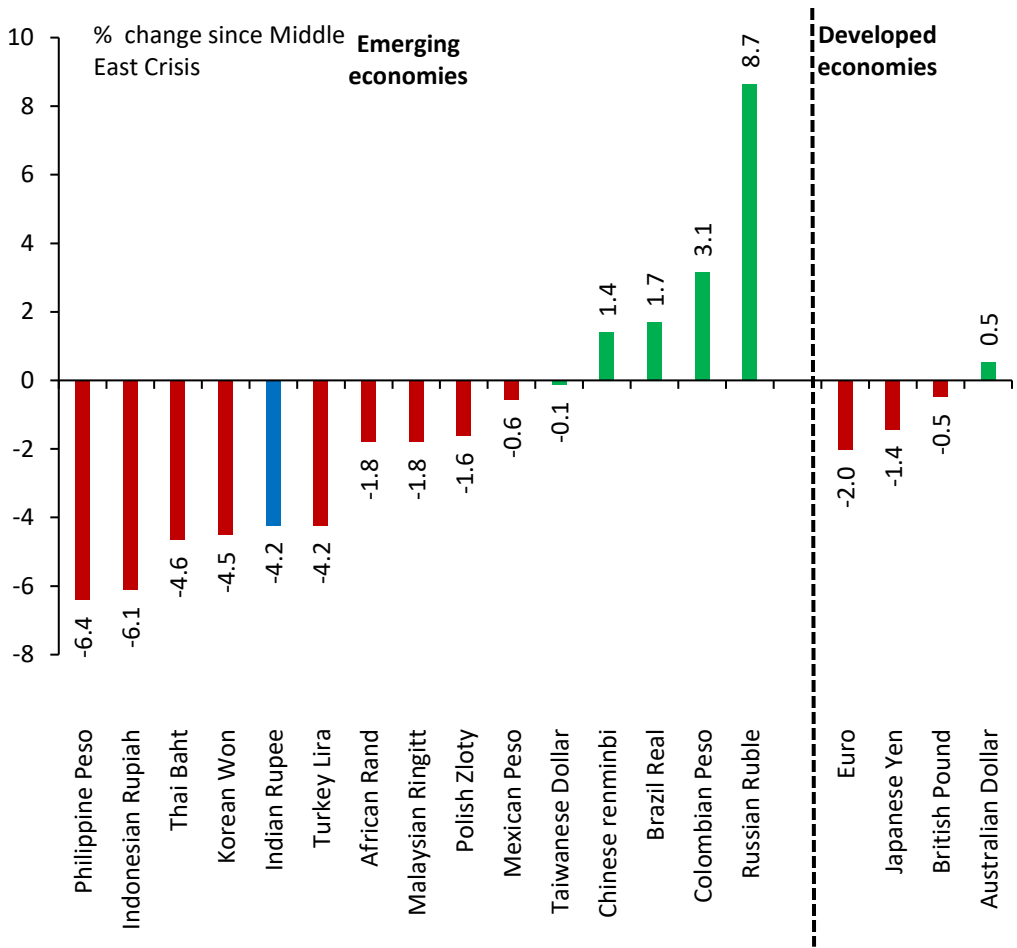
- In contrast to 2022, despite high oil prices and AI-driven US equity strength, the dollar has not strengthened dramatically.
- The DXY index has recorded only a modest increase of approximately 2%.
- This suggests that the global economy is, at the margin, gradually diversifying away from heavy reliance on the US dollar.
- While this does not imply an imminent collapse of the dollar, it does point to the emergence of a longer-term structural shift

# Dollar strength drives broad currency depreciation- India a relative under-performer

DXY rallied 16% in 2022 vs. 1% now



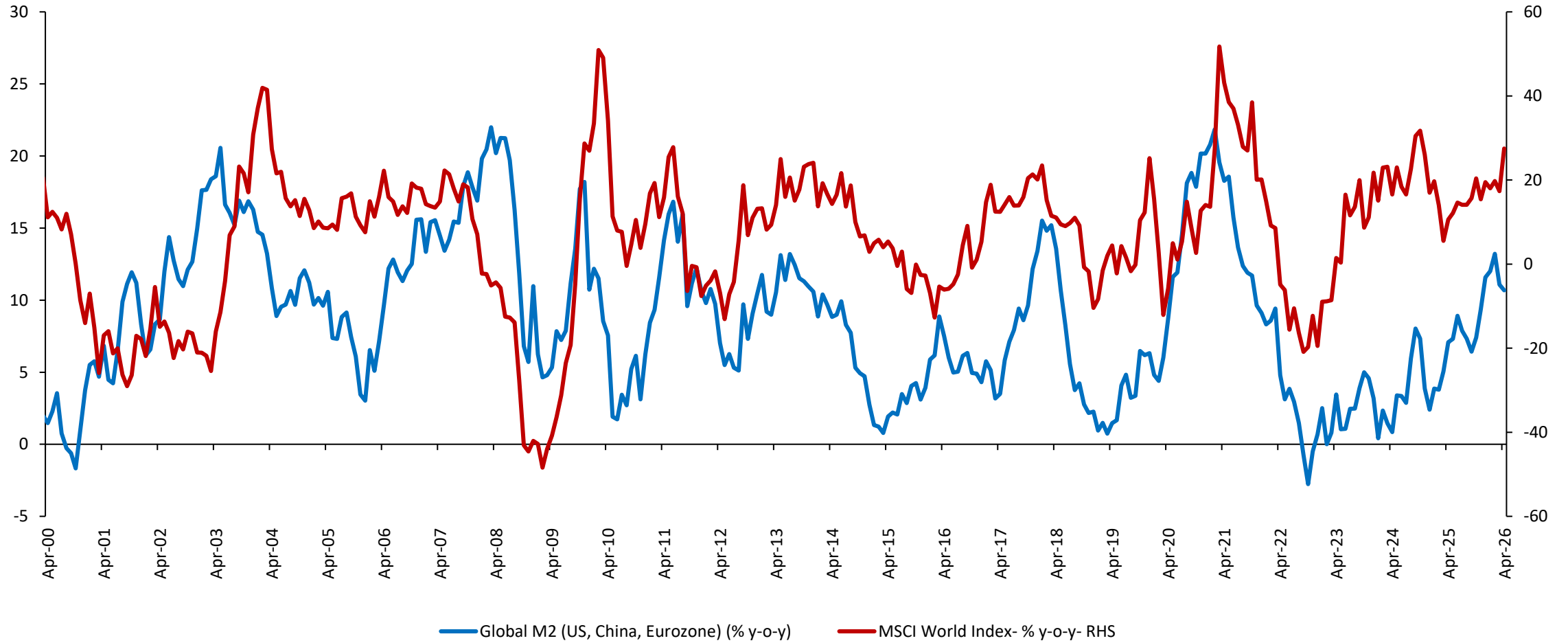
Majority of emerging market currencies depreciate; developed market have mixed outcome



Source: Bloomberg, SBIFM Research

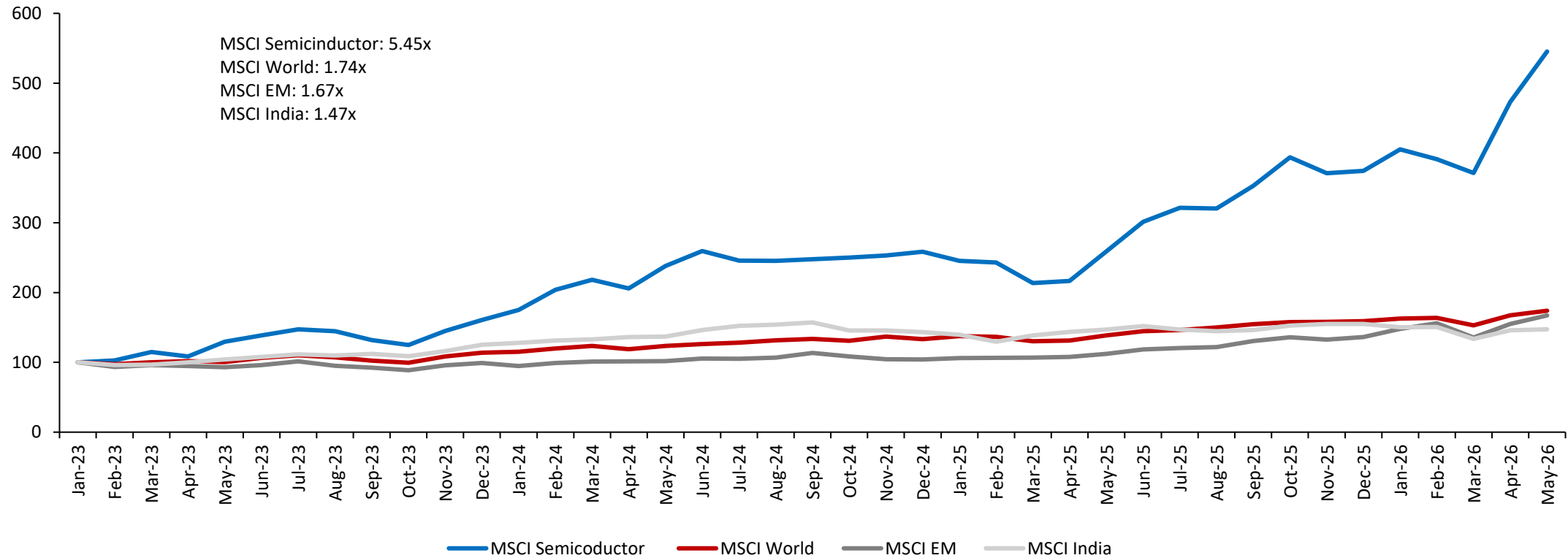
# Liquidity Cycles Matter for Global Equities

Shifts in global money supply growth are closely reflected in equity returns



# AI driven rally

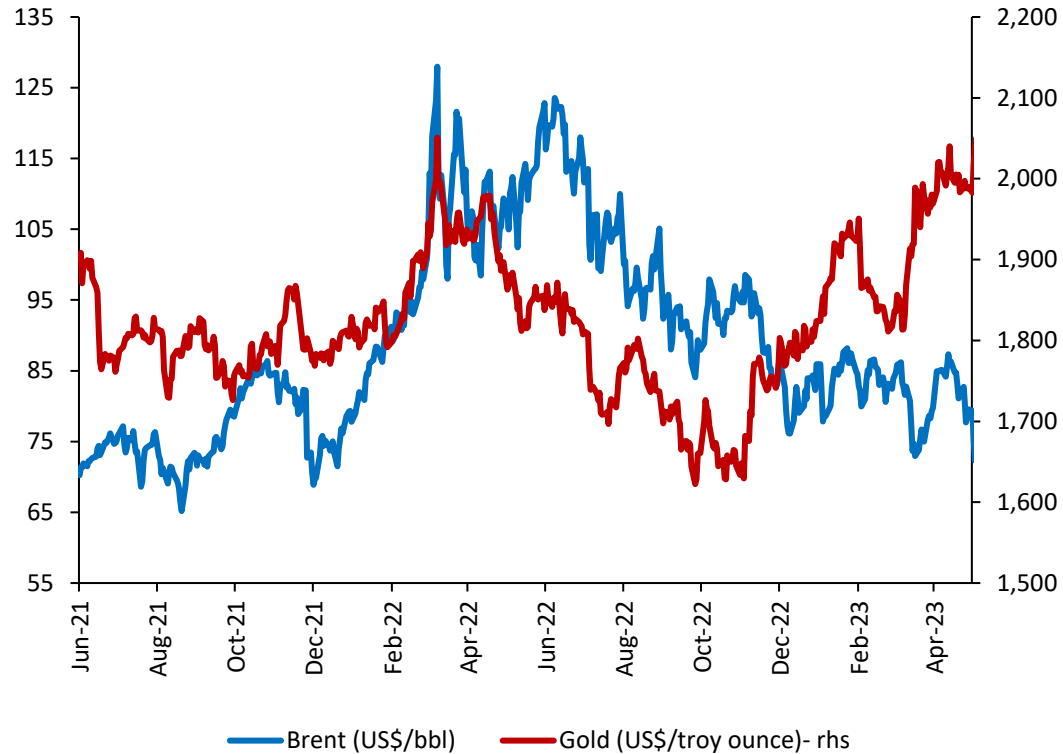
## Semiconductor stocks have dwarfed rest of the equity market returns



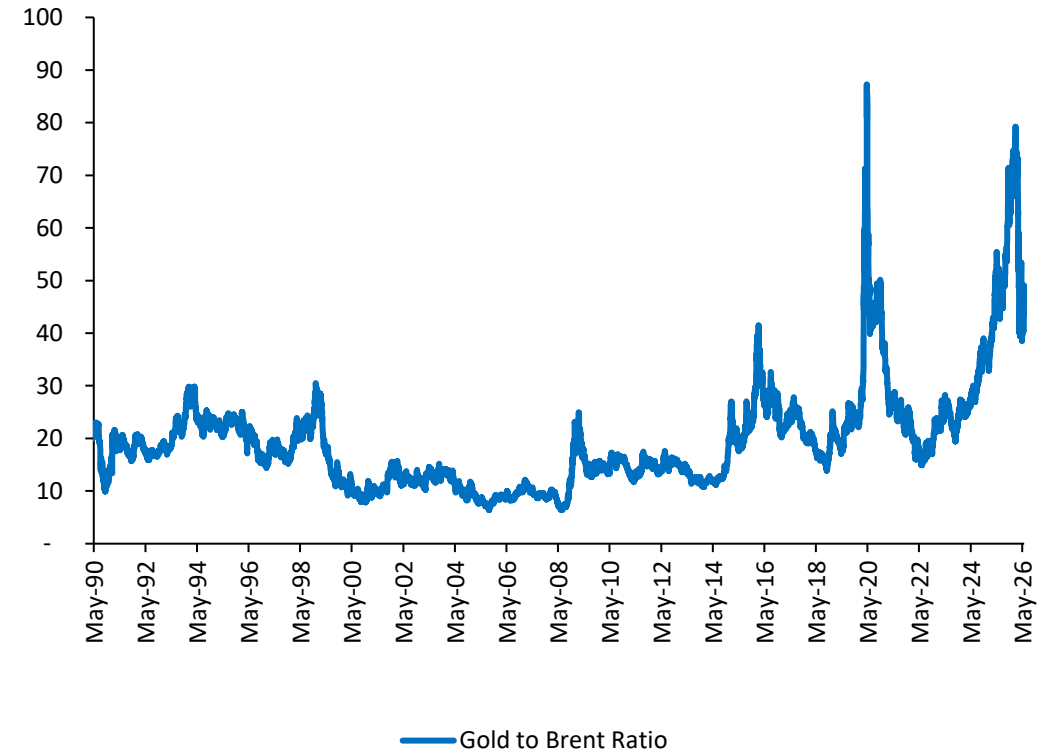
- Global markets are increasingly dominated by the AI and semiconductor theme. US technology, Taiwan, Korea, Japan, have all benefited enormously.
- India, however, does not yet have a deep semiconductor ecosystem, which is one reason foreign investors became relatively cautious on India over the last couple of years.

# Gold shines, but stretched: Strong momentum meets near-term overbought conditions

## Parallel moves in Gold and Brent during 2022 energy shock

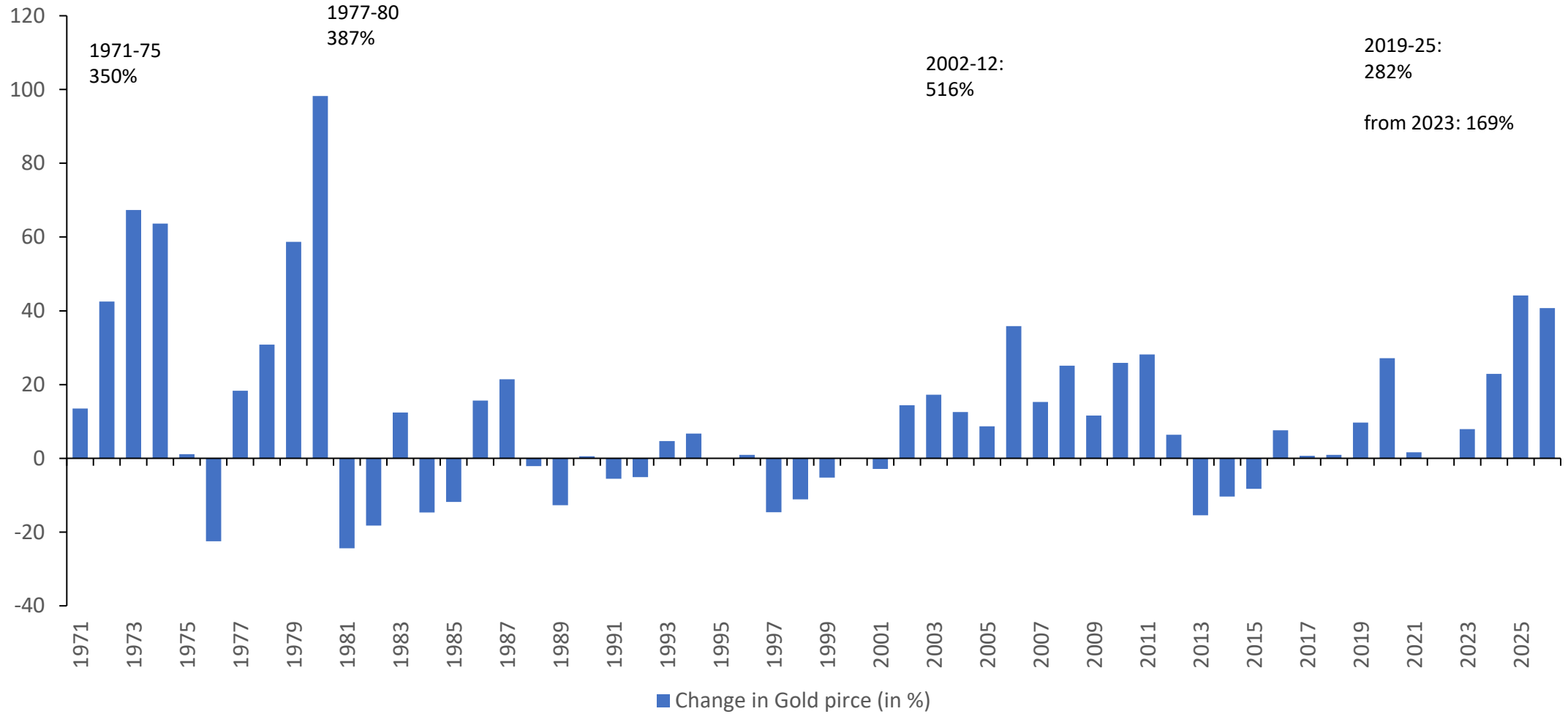


## Gold has seen a sharp rise ahead of this energy shock



# Gold has long term cycles

Long-term patterns continue to shape its trajectory

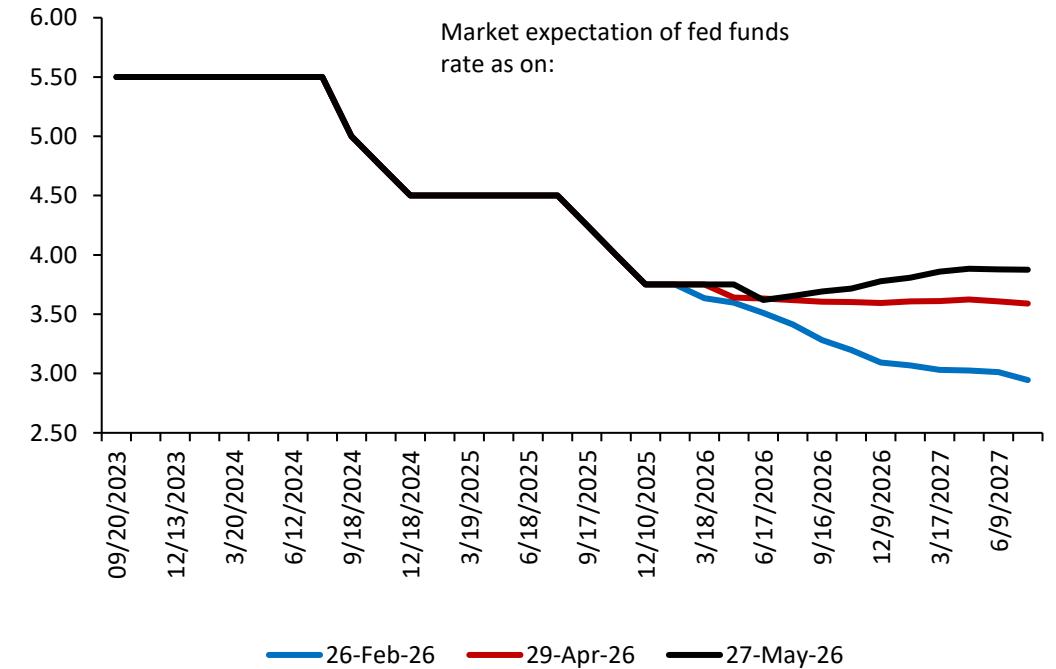


# Energy shock hits policy: resets to global interest rate expectations

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

Central bank policy rate (period end %)	2025	May' 26	Market interest policy rate expectation (%)	
			6 months ahead	12 months ahead
US	3.75	3.75	3.84	3.99
Eurozone	2.15	2.15	2.51	2.61
UK	3.75	3.75	4.07	4.20
Japan	0.75	0.75	1.13	1.39
Canada	2.25	2.25	2.49	2.76
India	5.25	5.25	5.77	6.15
Australia	3.60	4.35	4.55	4.53
South Korea	2.50	2.50	3.01	3.62
Taiwan	2.00	2.00	2.13	2.34
Thailand	1.25	1.00	1.12	1.38
Malaysia	2.75	2.75	2.77	2.87
Philippines	4.50	4.50	5.37	7.00
New Zealand	2.25	2.25	2.87	3.49
Brazil	15.00	14.50	14.03	13.86
Mexico	7.00	6.50	6.76	7.36
Chile	4.50	4.50	4.60	4.80

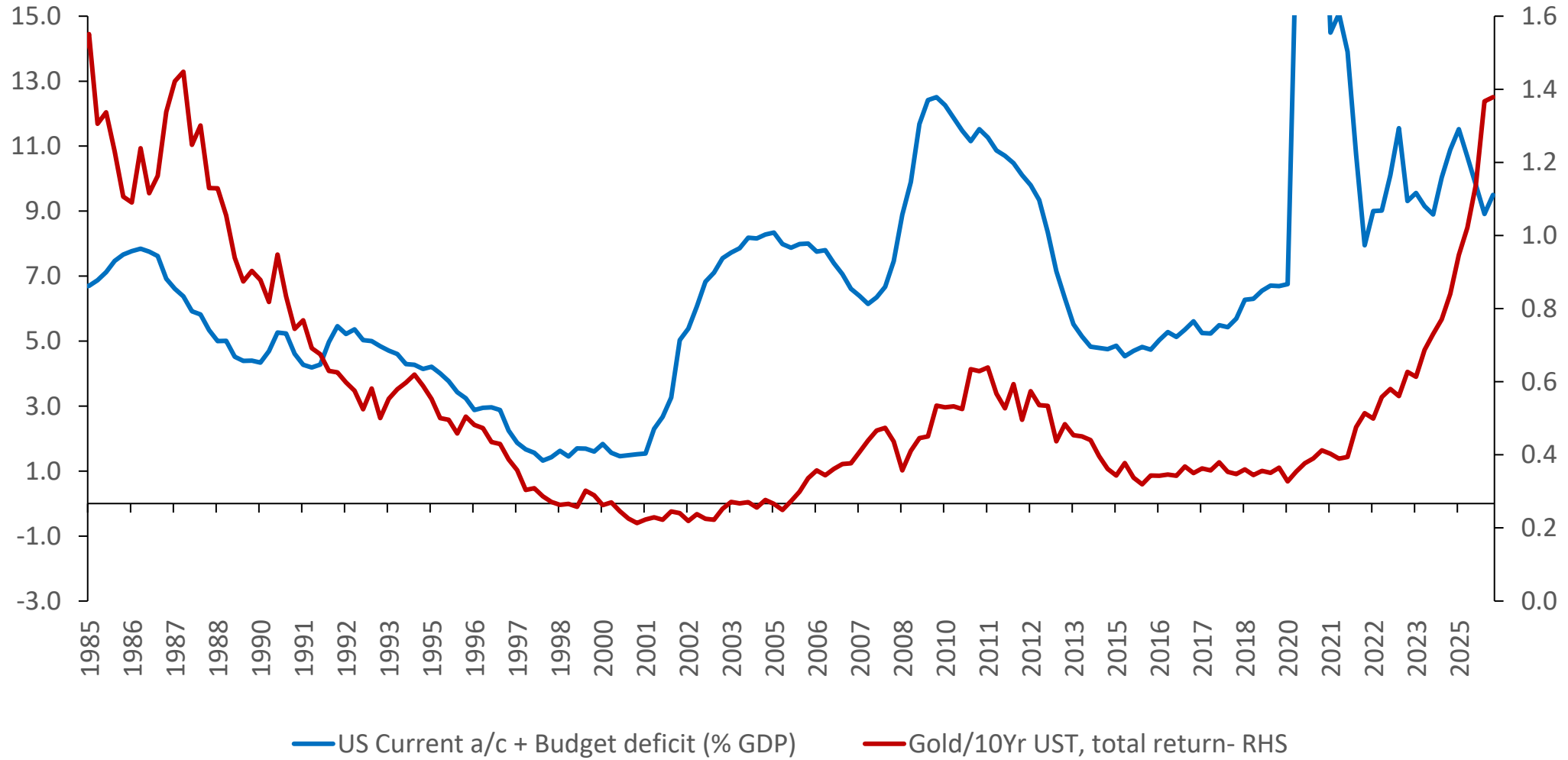
US Fed rate cuts gets eliminated in 2026 (now no rate cut is priced in for 2026 vs. first rate cut in July 2026 previously)



- 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.

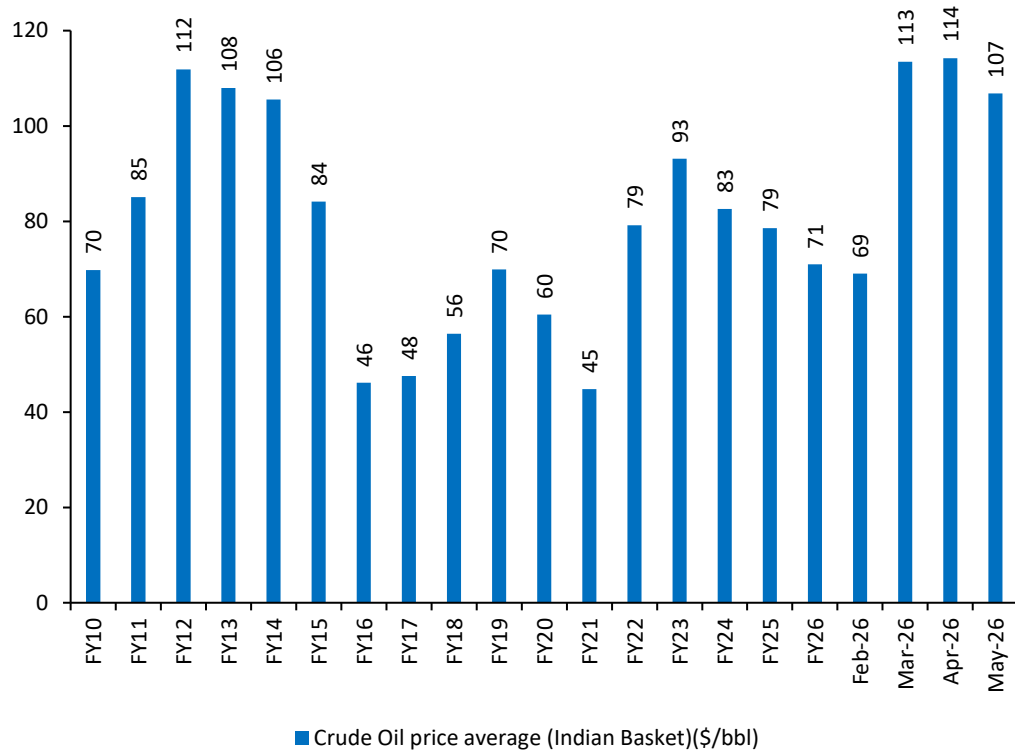
# Bonds lose appeal

Treasury glut is hurting its price against gold

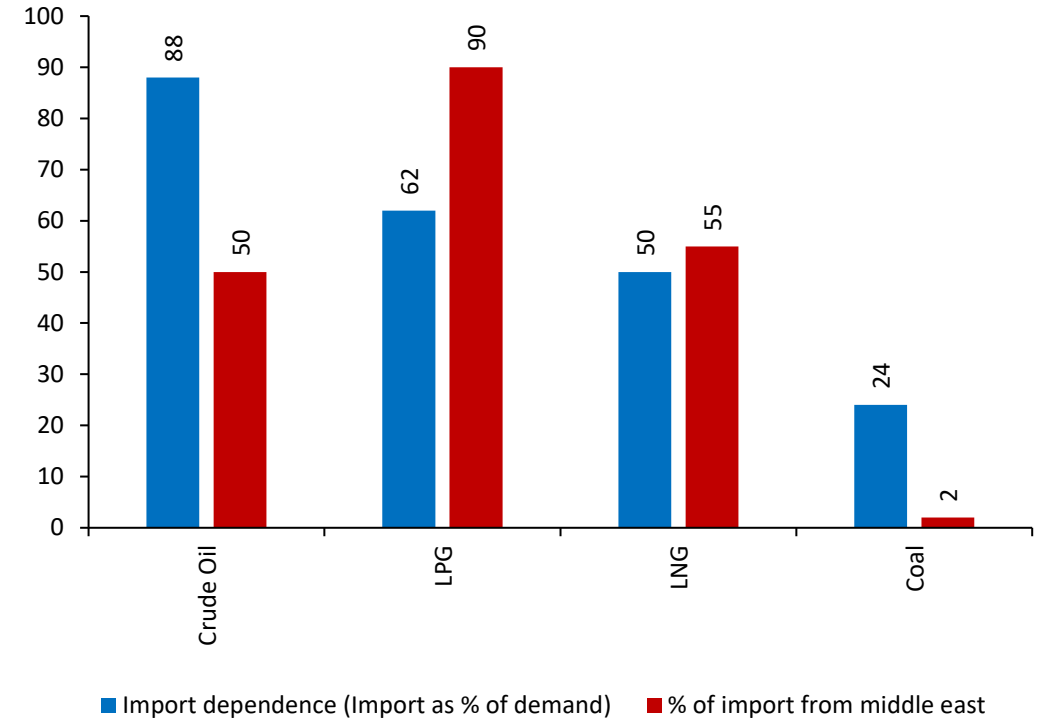


# India's energy vulnerability

## The key source of economic shock is price and supply disruption



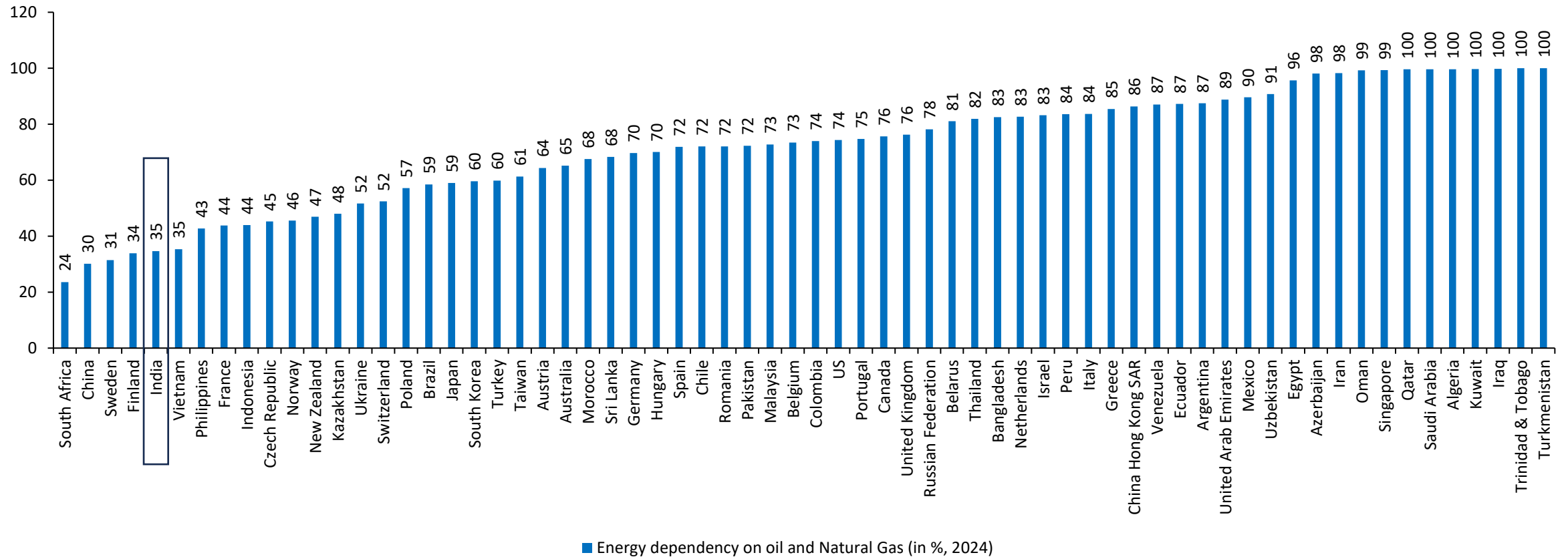
## High import dependence exposes the economy to shocks



- India faces a clear energy challenge. It imports nearly 90% of crude oil, large amounts of LNG and LPG.
- Higher energy costs hurt corporate profitability.

# How dependent are economies on oil and natural gas?

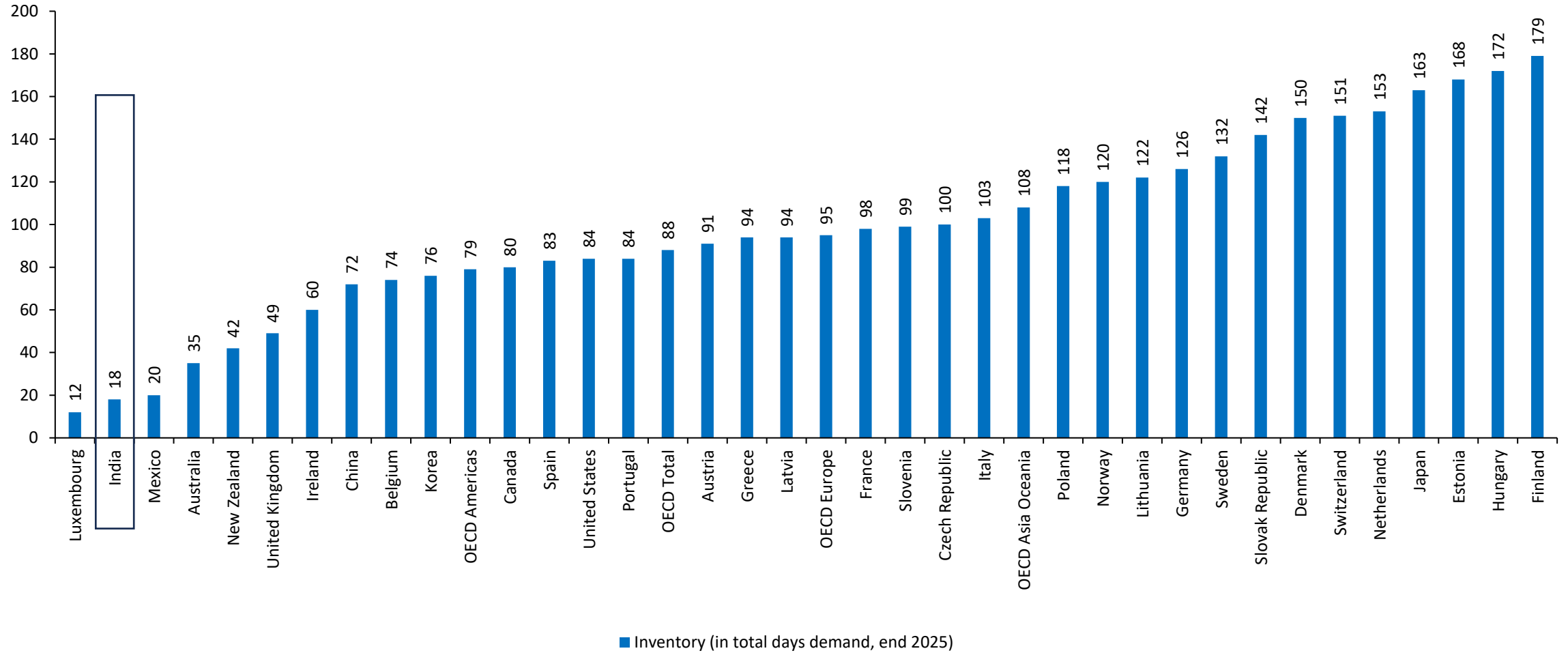
India's dependence is low- coming to its rescue



- A key positive for India is its relatively lower reliance on oil and natural gas, with these sources accounting for about 35% of total energy needs, compared to 60–80% for most other Asian and European economies as well as the US.
- But India's relative disadvantage had been that it did not build strategic reserves unlike China, US, Europe and Japan.

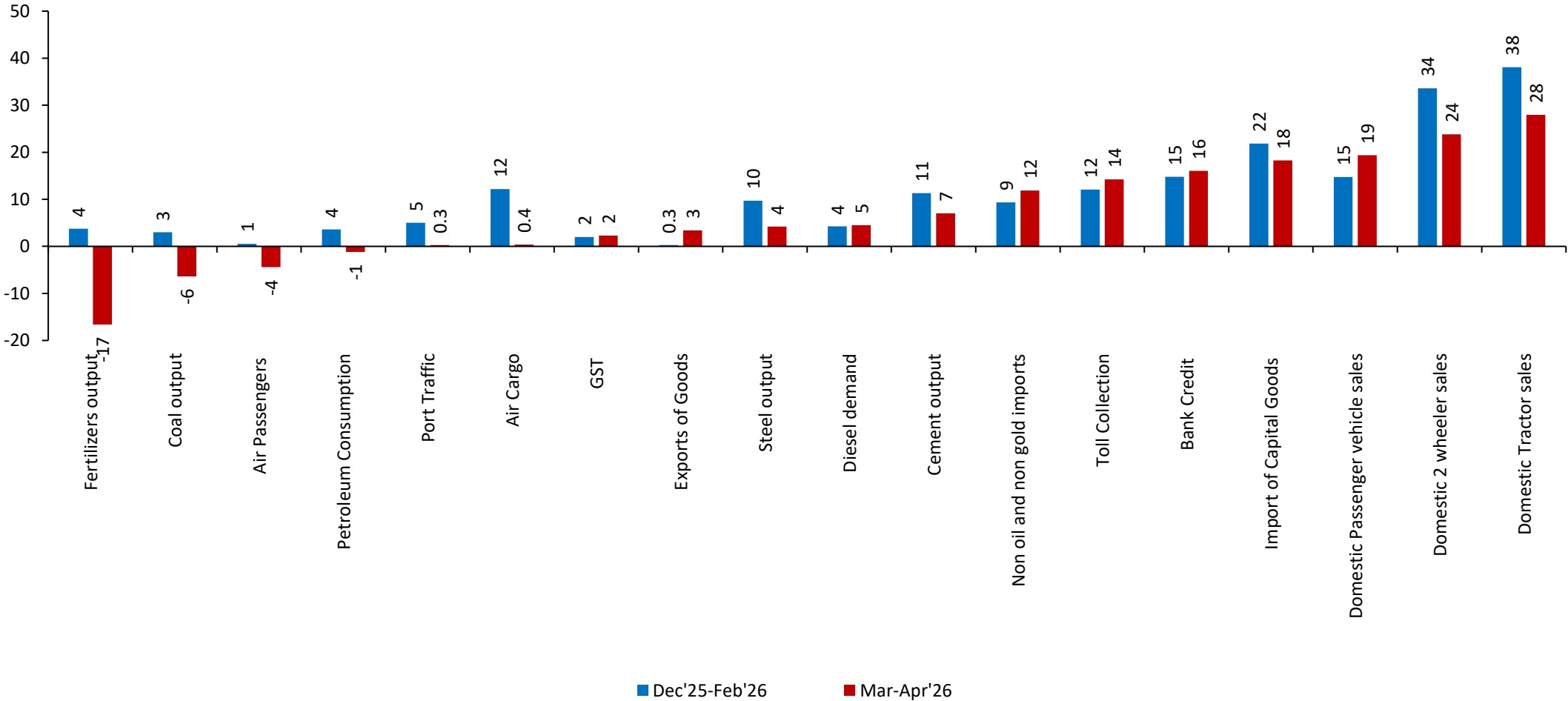
# Limited buffers

India's low reserves at the onset of the war created a vulnerability position



# Shock, not collapse: Growth impact is visible, but demand resilience remains

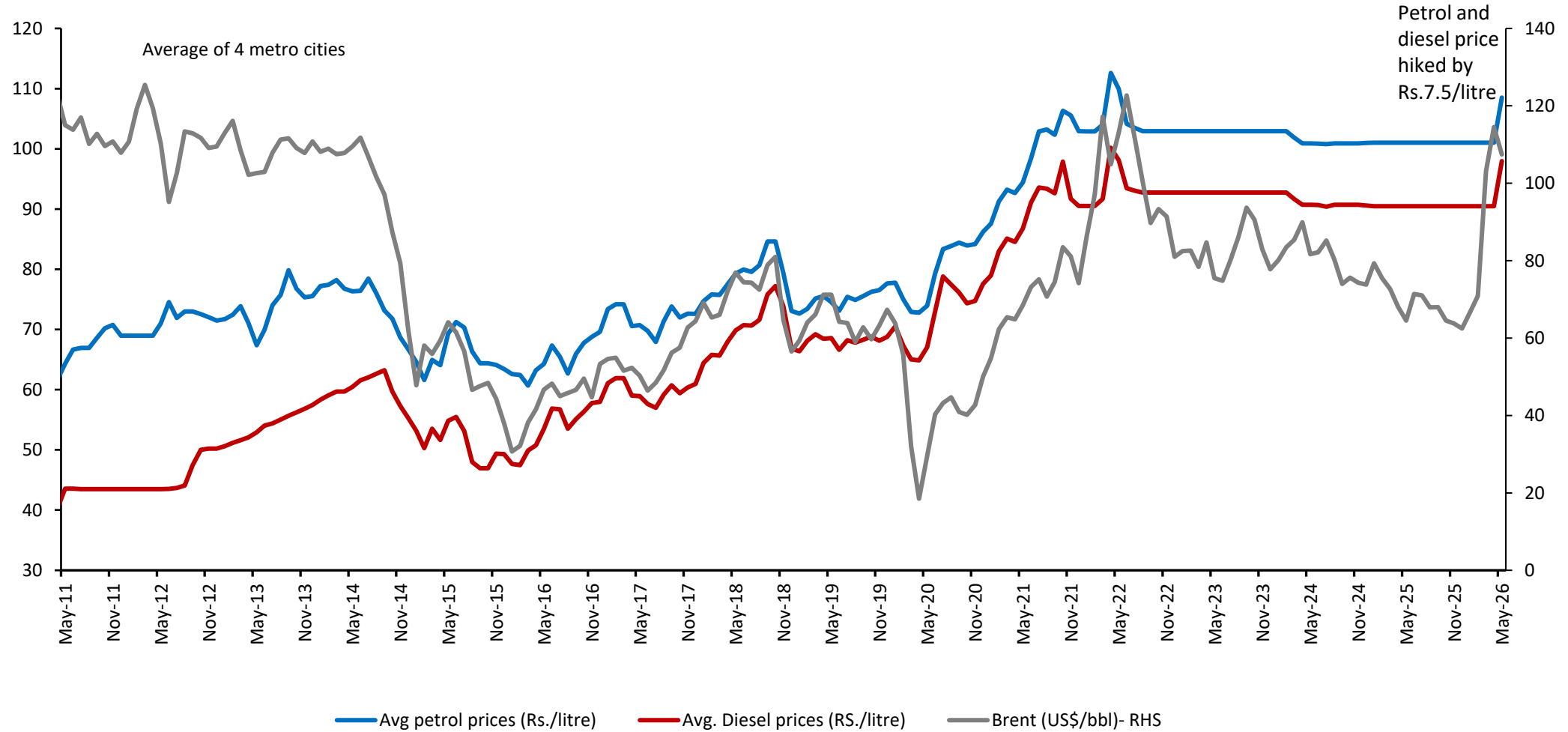
Energy intensive sectors, air traffic and exports impact, broader domestic demand intact until March/April 2026. We expect India's real GDP growth to moderate to 6.5% in FY27 vs. est 7.6% in FY26. Nominal Growth could rise to 12% vs. est. 8.6% in FY26



Source: CMIE Economic Outlook, CEIC, SBIFM Research; NB: Data for air cargo, air passenger and toll collection is as on March 2026

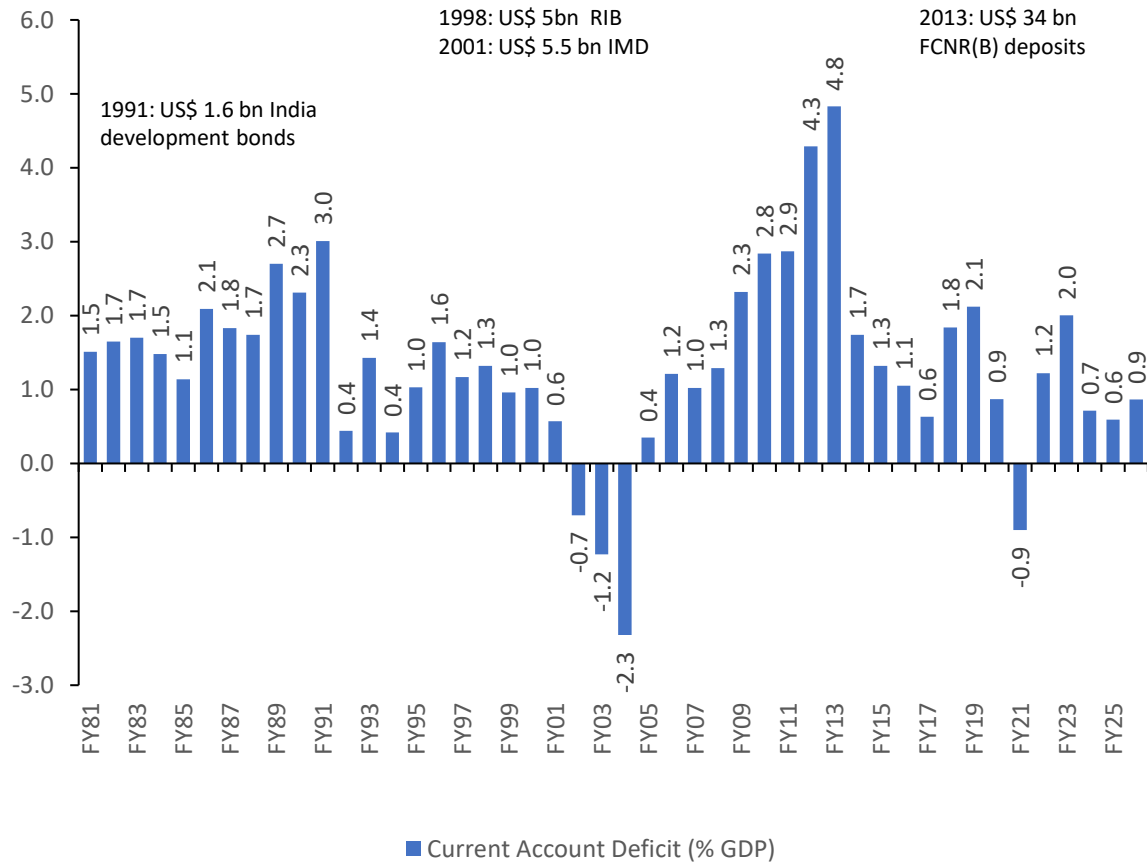
# Passthrough of energy shock to retail inflation in May 2026

Petrol and diesel price hike was inevitable; Prices hiked by Rs.7.5/litre in May 2026, more could be in the offing. CPI inflation could rise to 5.5% in FY27 vs. 2.1% in FY26.

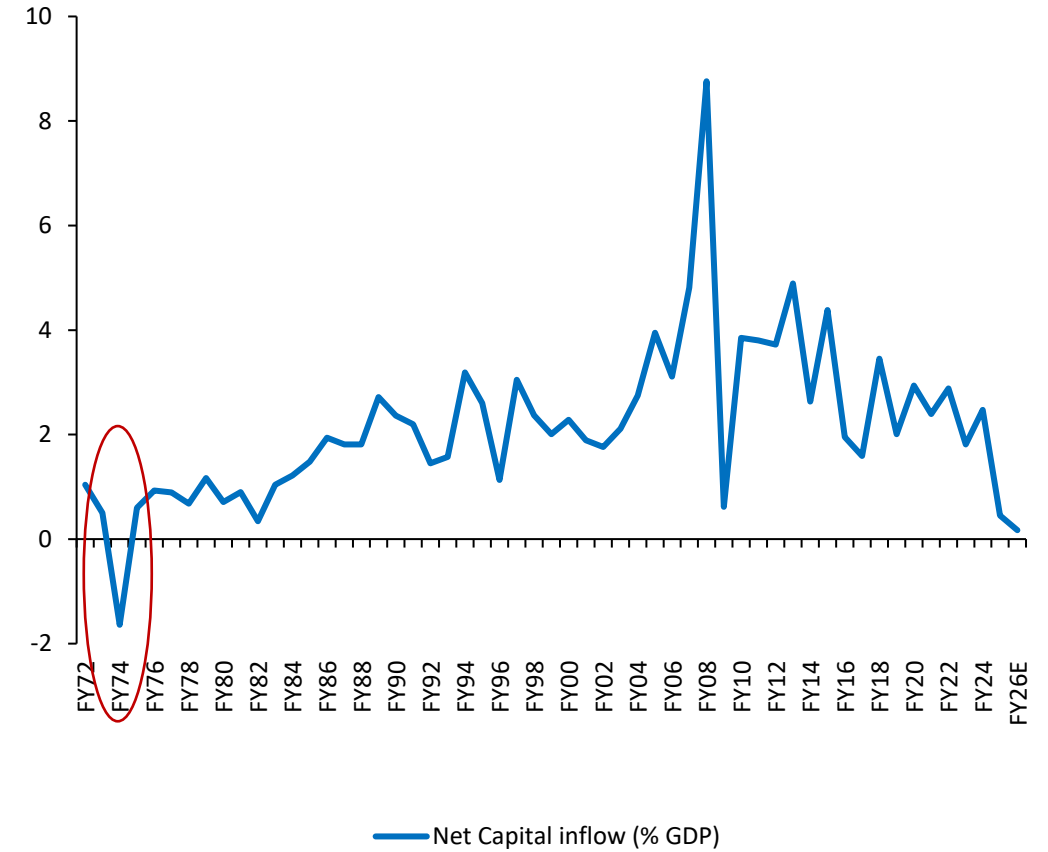


# India's external account is under stress

## Current account deficit is contained

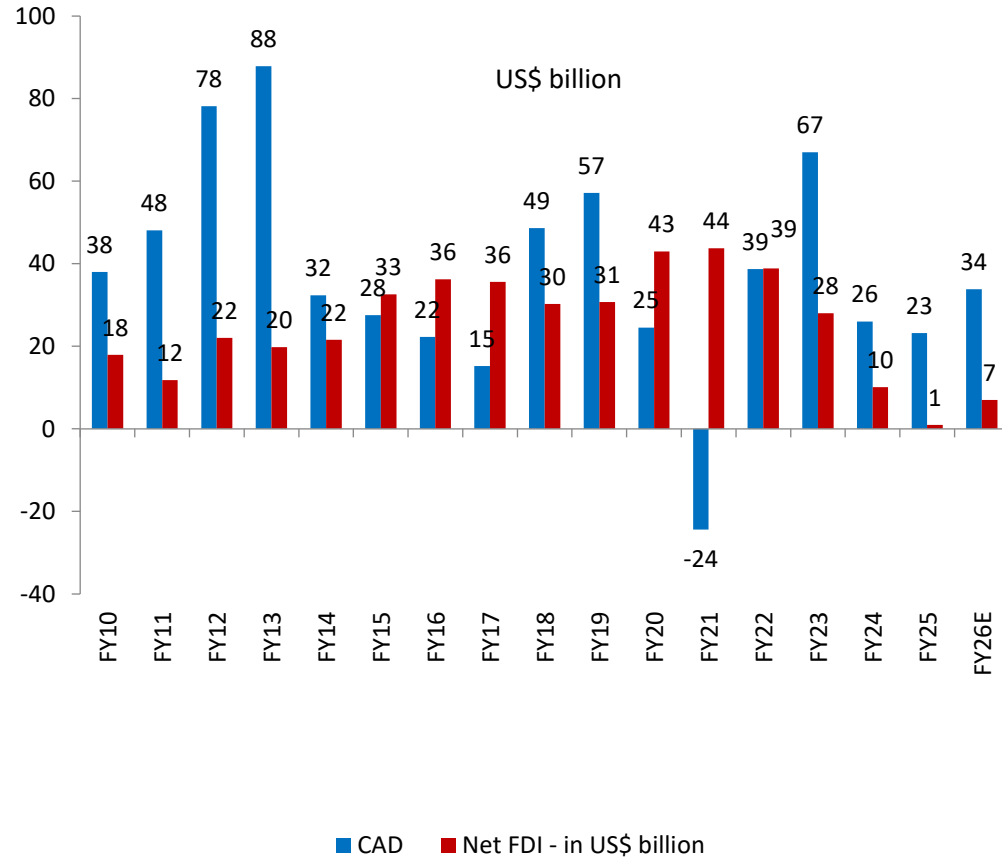


## Net capital inflows at record low



# India's external account is under stress

FY15-FY22 : period when net FDI inflow surpassed the current account deficit

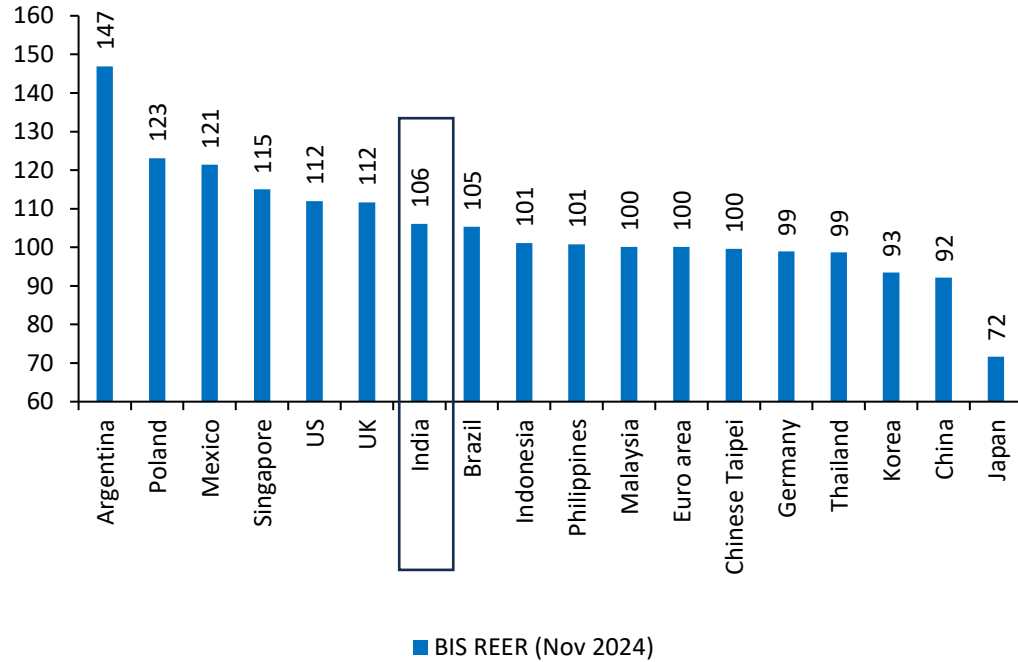


## History of BoP troubles in India

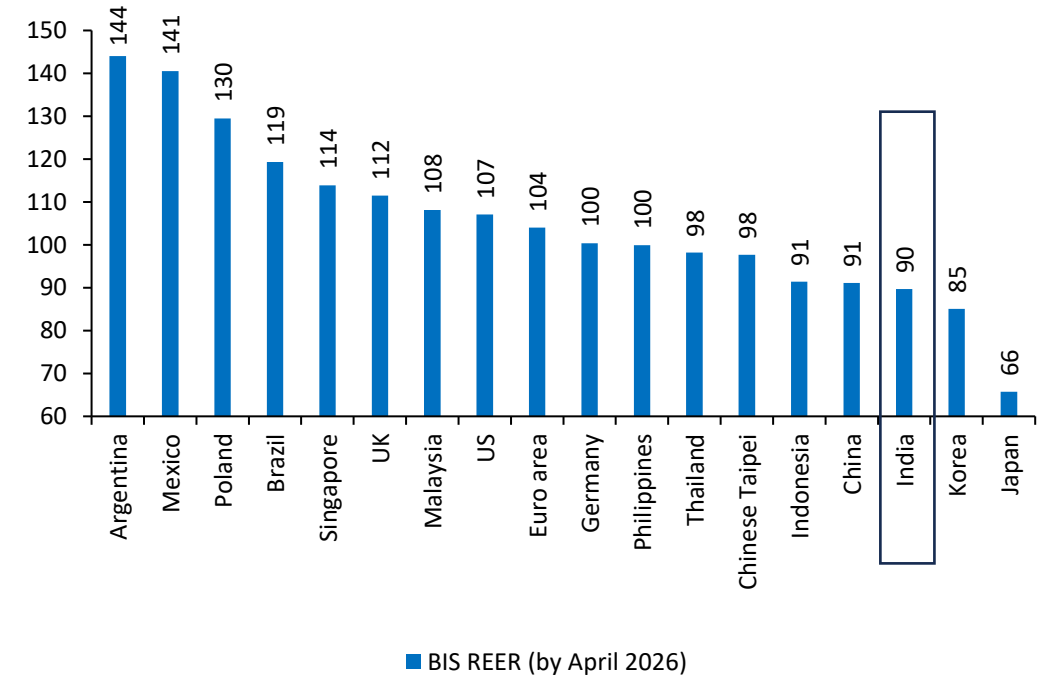
Events	Reason for the crisis	FX Reserves (US\$ bn)	Goods Import Cover	CAD (% of GDP)	Net capital inflow (% GDP)	BoP (% GDP)	Rupee
1991 BoP Crisis: India Development Bonds	Legacy issue of India's Licence Raj; Bonds raised US\$ 1.6 bn	~US\$ 4bn	15 days- 2 months	3% of GDP	2.2	0.8	30% depreciation FY89-91; 50% FY91-94
1998 Resurgent India Bonds	US impose sanctions on India due to 2nd round of Pokhran Nuclear test; US\$ 5bn raised via these NRI bonds	~US\$ 30bn	7-8 months	1.3% of GDP	2.37	1.1	15% depreciation FY98-FY99
2001 India Millennial Bonds	Depreciating Rupee due to change in FX policy, and Asian financial crisis impact; US\$ 5.5 bn of bonds	~US\$ 42bn	7-8 months	0.6% of GDP	1.89	1.3	9% depreciation FY01-FY02
2013 FCNR(B) Bonds	Taper Tantrum and India's High CAD; US\$ 34bn raised through the scheme	~US\$ 290 bn	7 months	4.8% of GDP	2.63	0.8	22% depreciation FY13-FY14
2026	2025 saw fall out in India US trade deal; 2026 Iran war	~US\$ 690bn	10-11 months	1% of GDP	0.17	-0.7	13% depreciation since 2025 till May 2026

# Why did India's external situation weaken?

India was one of the most overvalued currency during 2022-2024...

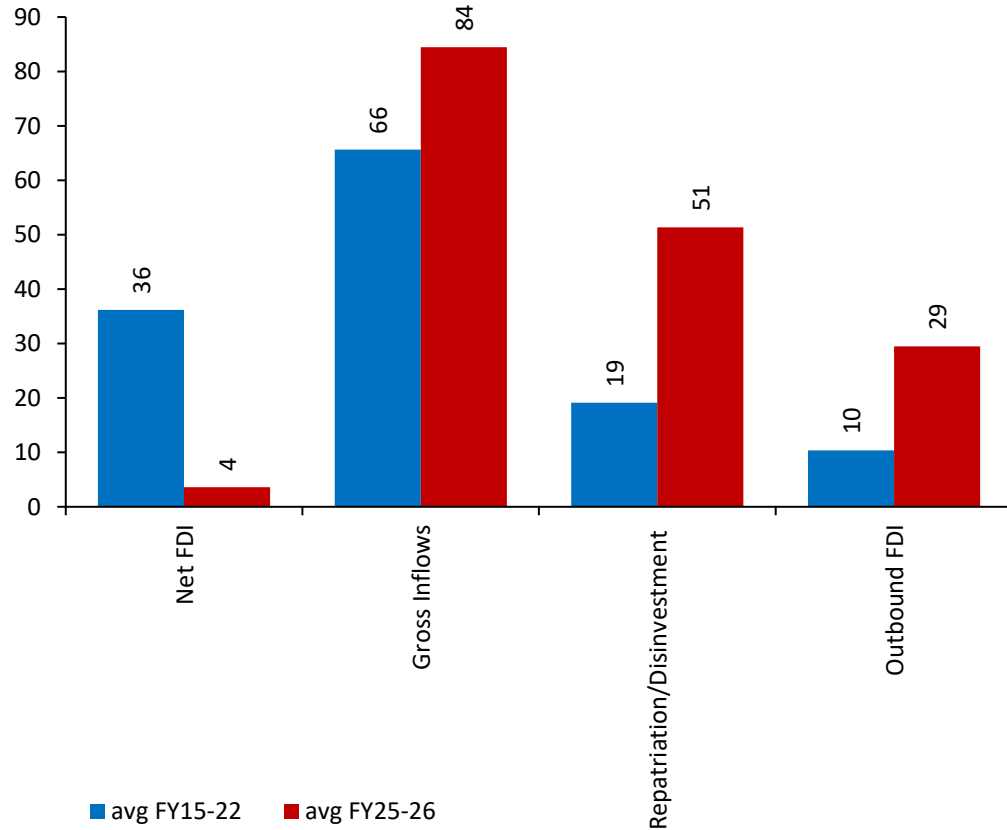


...Now its relatively cheap. India shouldn't be in a hurry to restore to fair value but further weakness should be stemmed



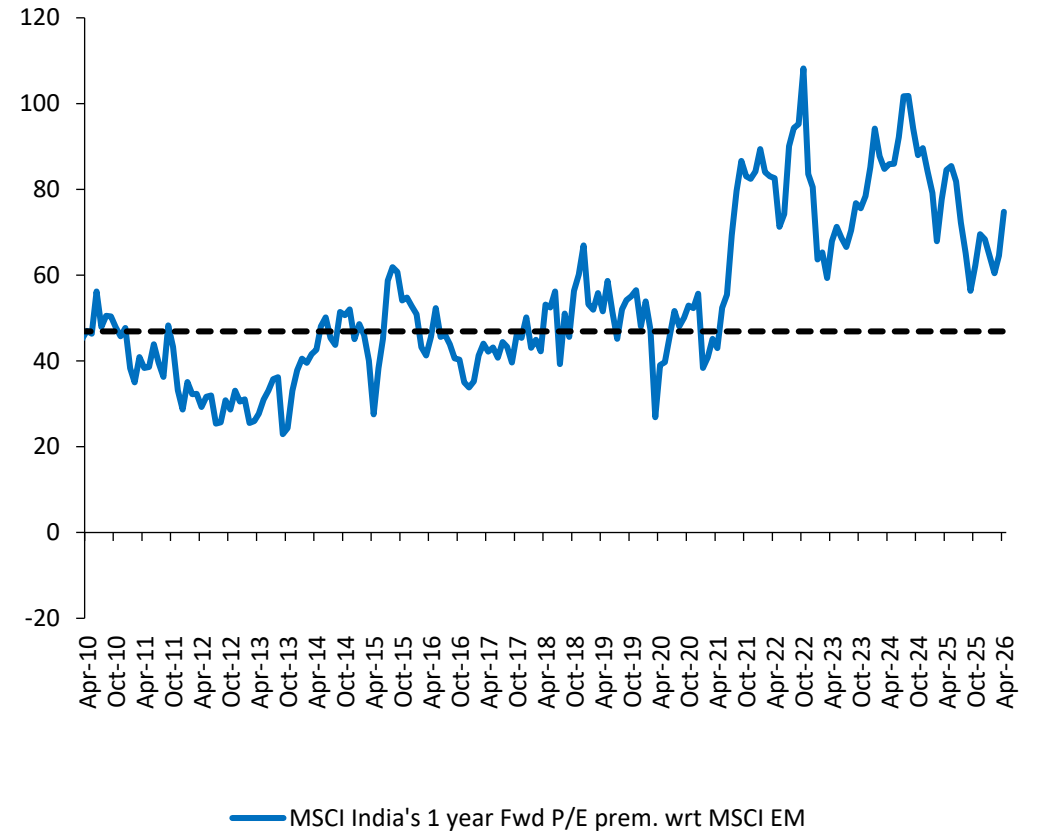
# Rupee depreciation was inevitable and probably even desirable

**Weak net FDI due to increased repatriation of past investment and outbound FDI**



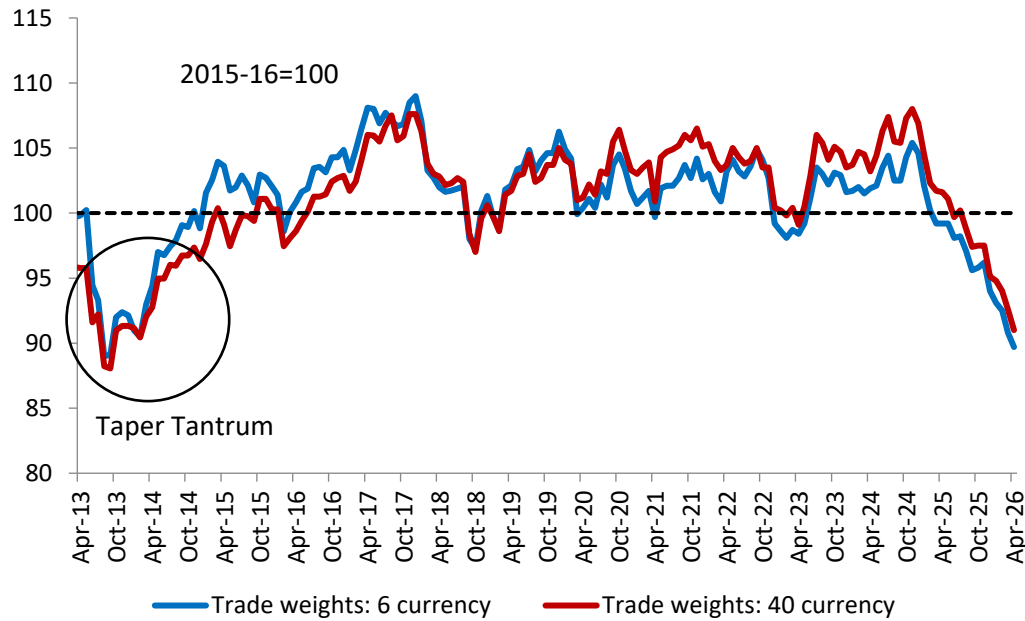
Net FDI inflow = Gross inflows – Repatriation/ Disinvestment – Outbound FDI

**Overvalued Rupee provided a lucrative exit to foreign investors**

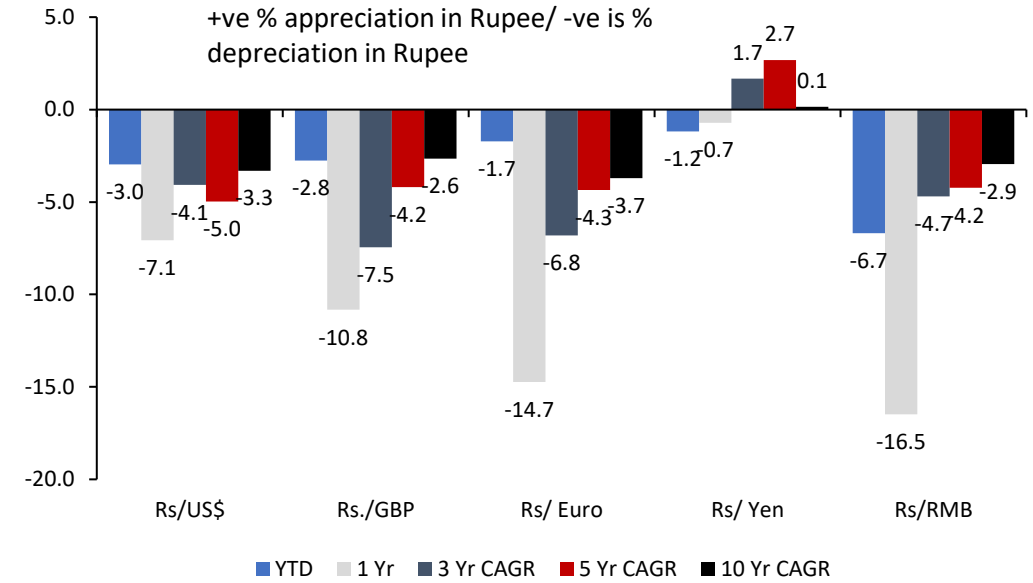


# Rupee is on a weaker footing

Rupee REER is at 89.7 thus ~10% below its fair value



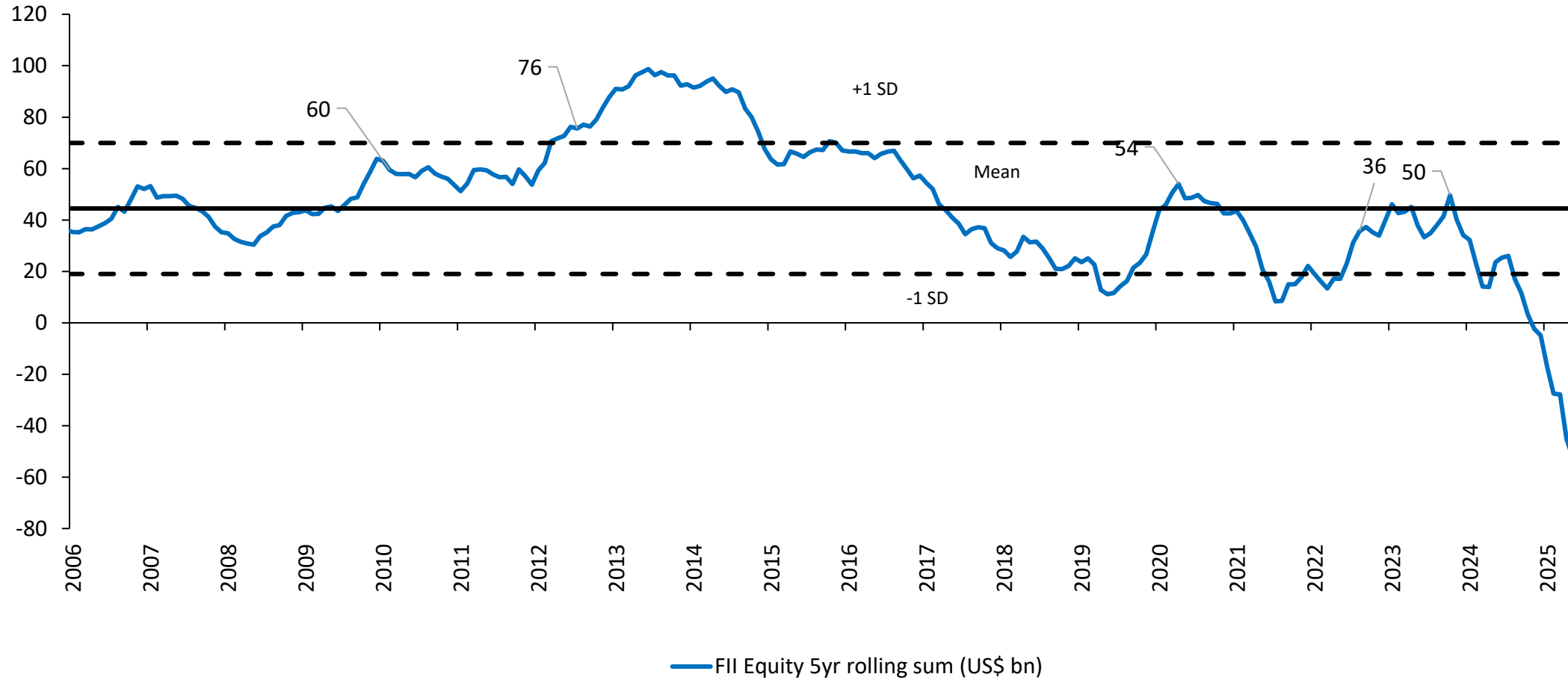
In last one year, rupee has depreciated by 7% against dollar, 15% against Euro, 16.5% against RMB, 11% against GBP



- Global currency cycles often see prolonged phases of under- and over-valuation, and the Indian rupee appears to be entering a period of sustained weakness.
- With RBI carrying an estimated US\$105 bn in forward dollar liabilities alongside mounting external account pressures, downside risks to the rupee remain elevated.
- While a temporary retracement is possible if commodity price pressures ease, we continue to expect a depreciation bias in the rupee over the near term.

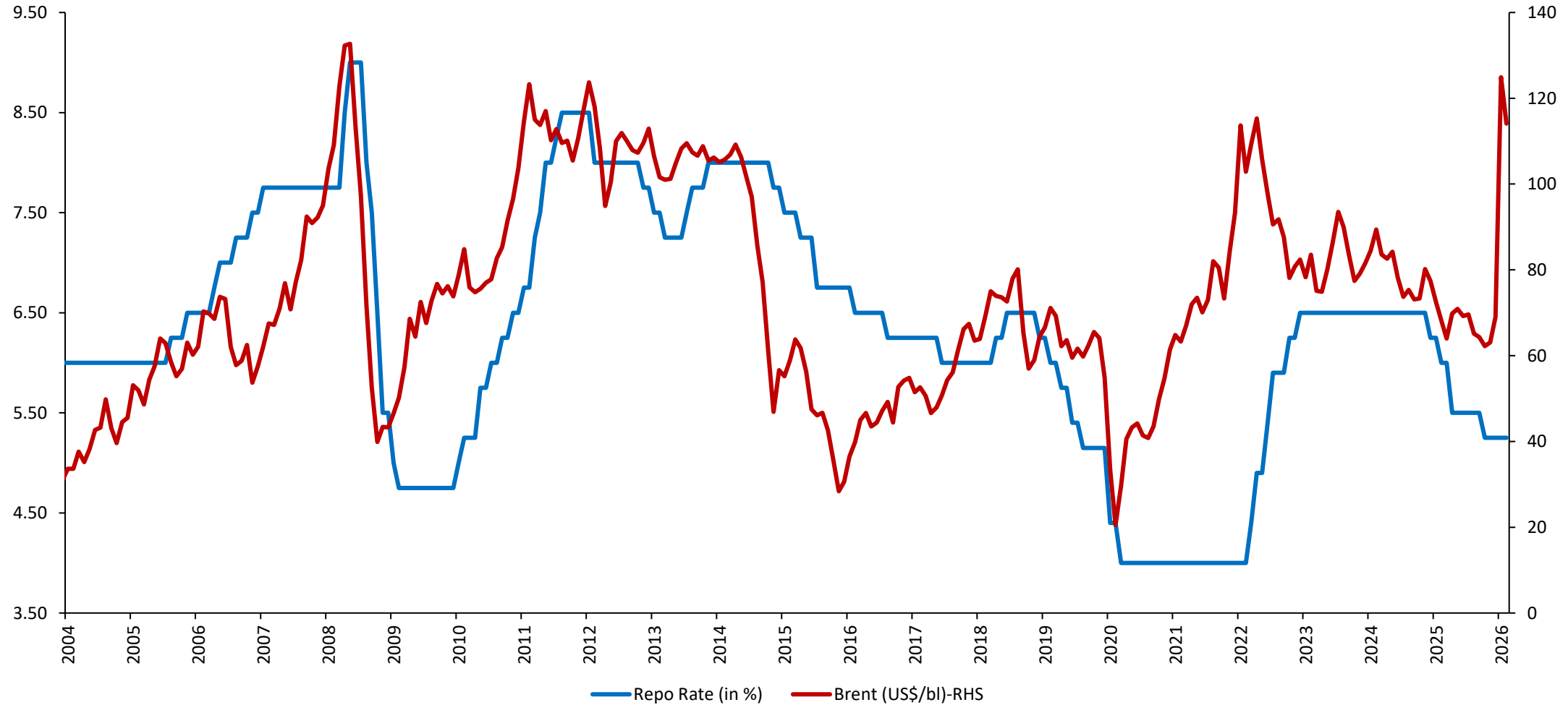
# FII flows could return to India?

Lack of AI and over-valuation had driven FIIs out of India



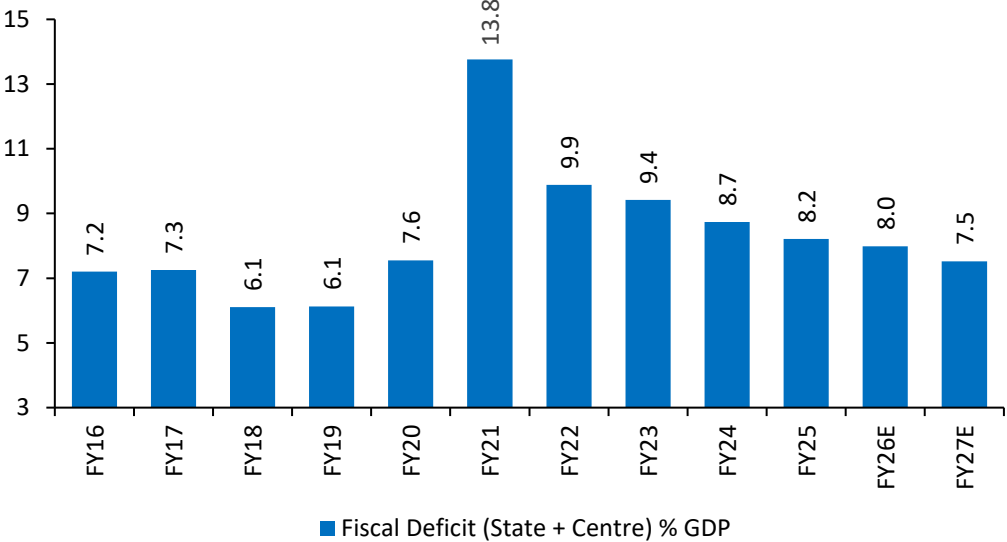
# Oil shock and rates hikes in India have always gone hand in hand

If the energy shock persists, India could see a Repo rate hike in 2H FY27. We expect a status quo in June policy and assign a nontrivial probability of a hike as early as August too.

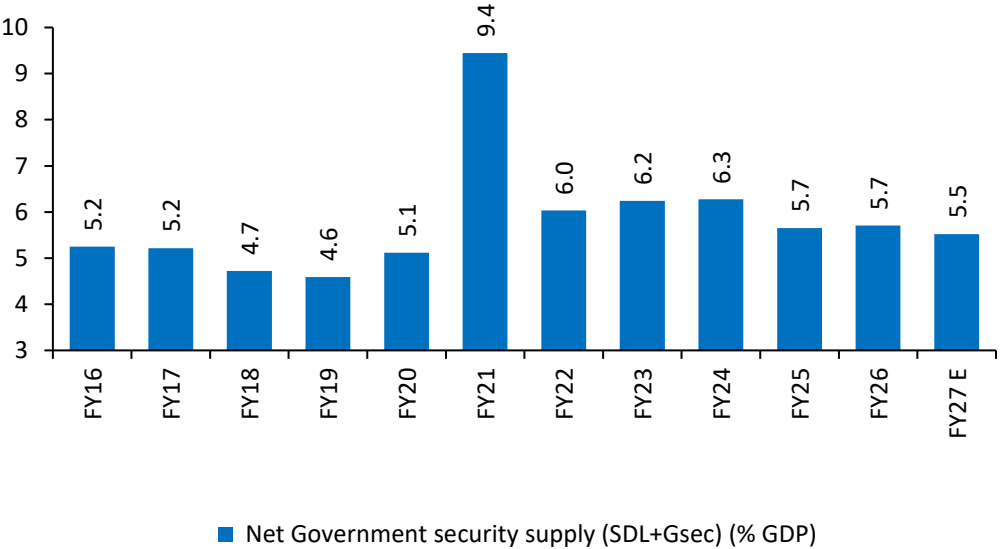


# Government borrowing from market sources is expanding despite fiscal consolidation

### Government on a fiscal consolidation path since FY21...



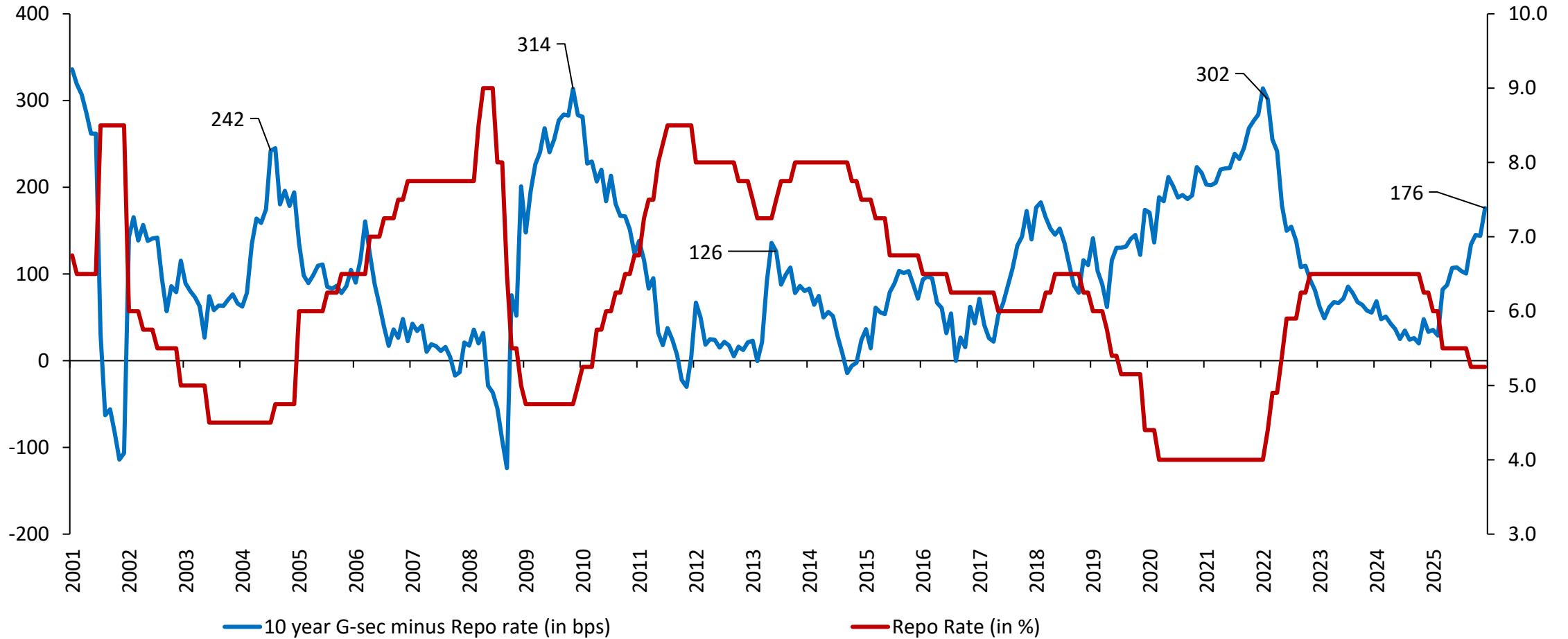
### ...Yet, net govt borrowing from market via dated securities remain elevated



Source: RBI, CMIE Economic Outlook, SBIFM Research

# Cost of funds could stay elevated in India

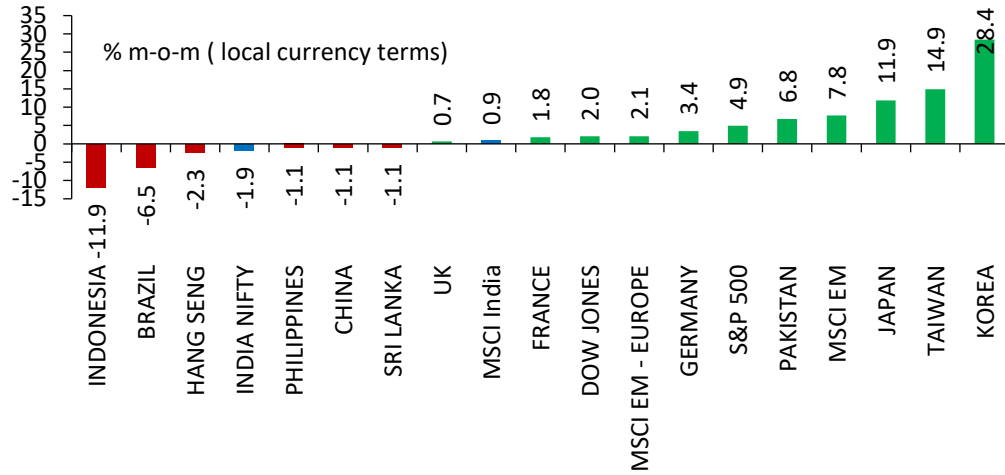
G-sec spreads could widen further before the actual rate hike steps in



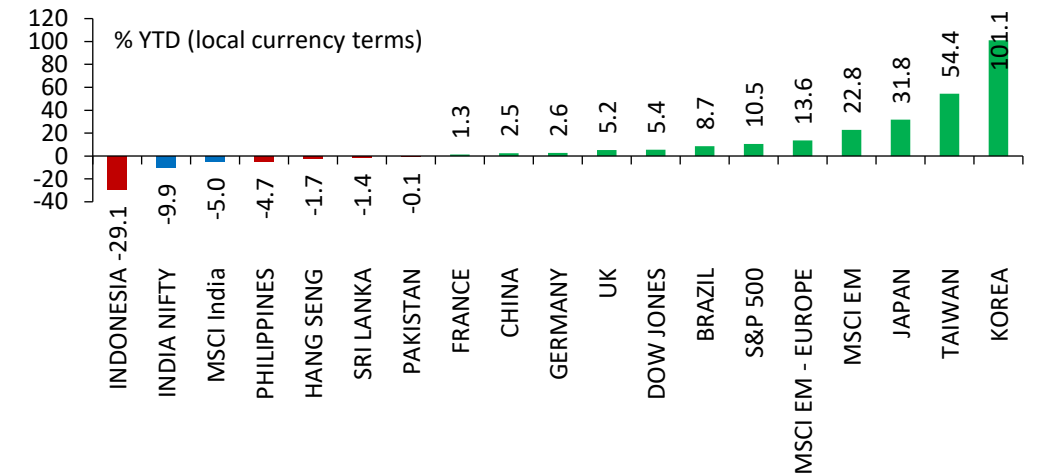
# EQUITY MARKET

# Equity markets face headwinds from Geopolitical uncertainty

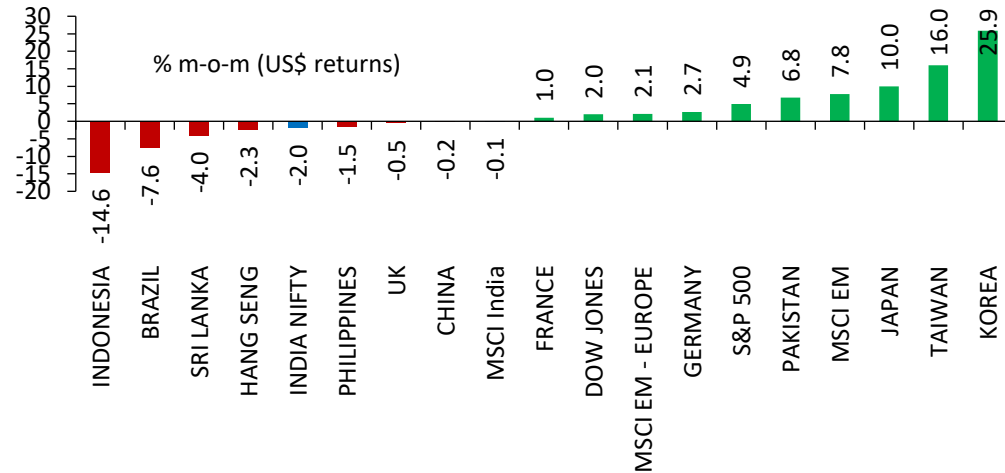
Performance in May 2026 (local currency returns)



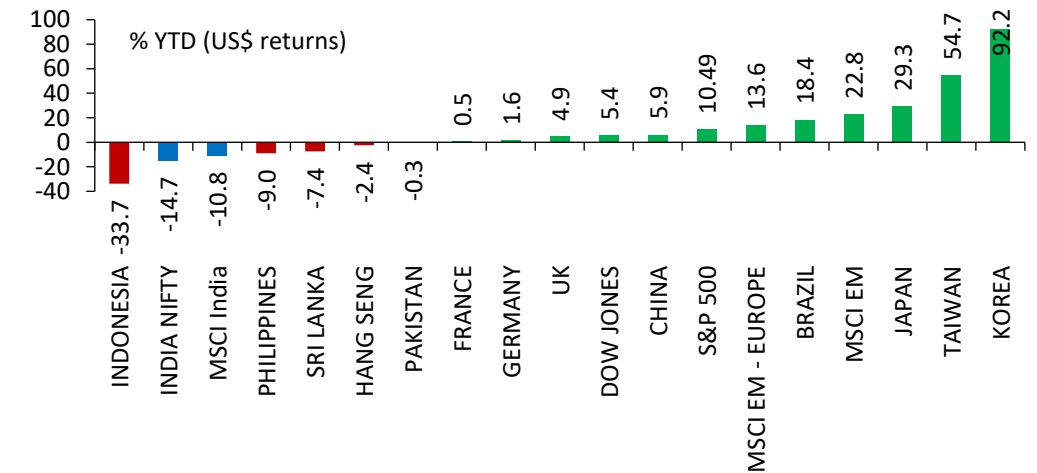
YTD performance (local currency returns)



Performance in May 2026 (US\$ returns)



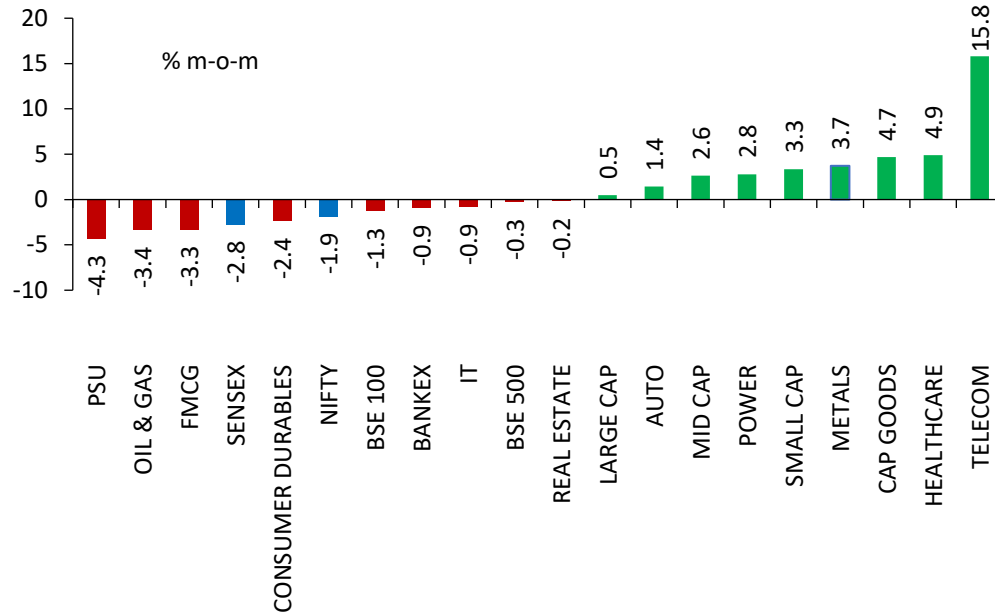
YTD performance (US\$ returns)



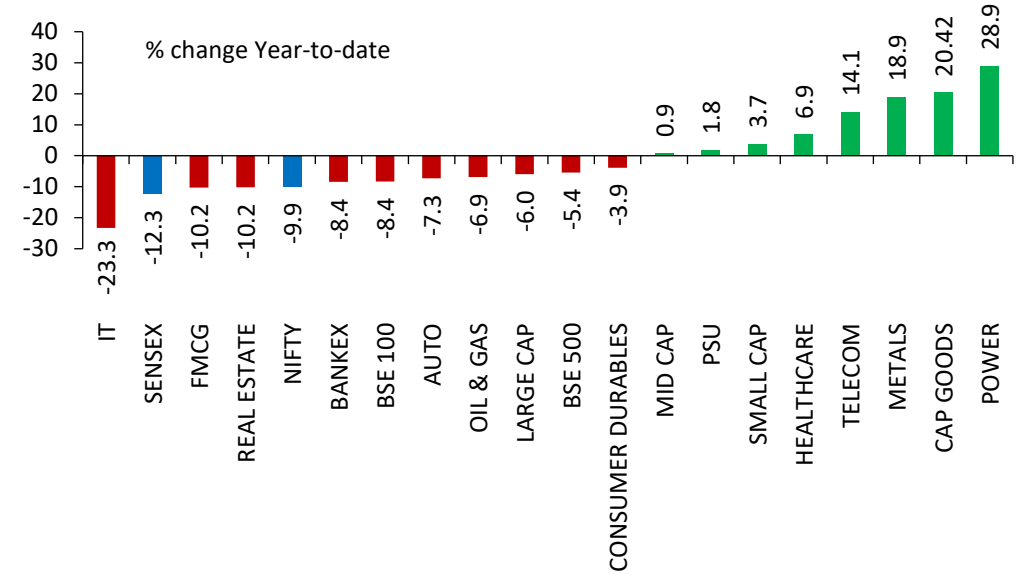
Source: Bloomberg, SBIFM Research

# Indian equity market snapshot: May 2026

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



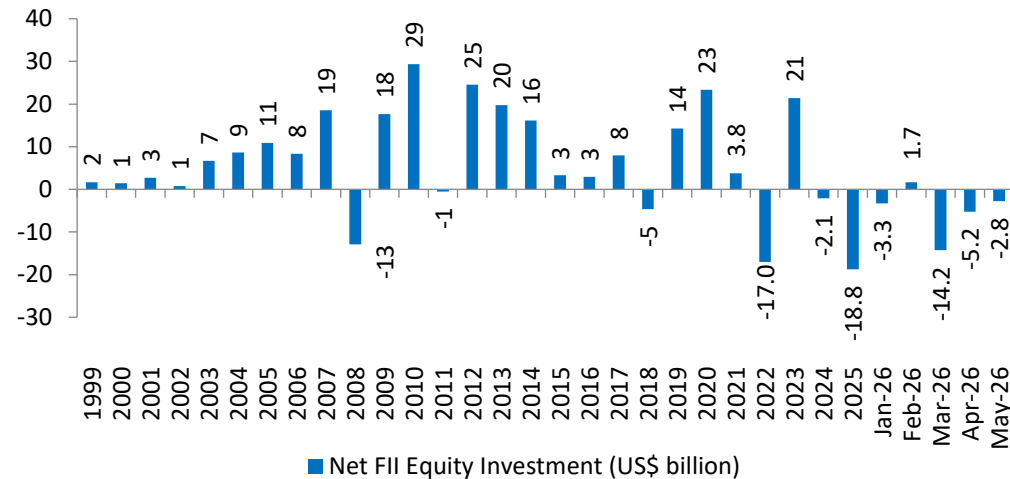
YTD performance (local currency returns)



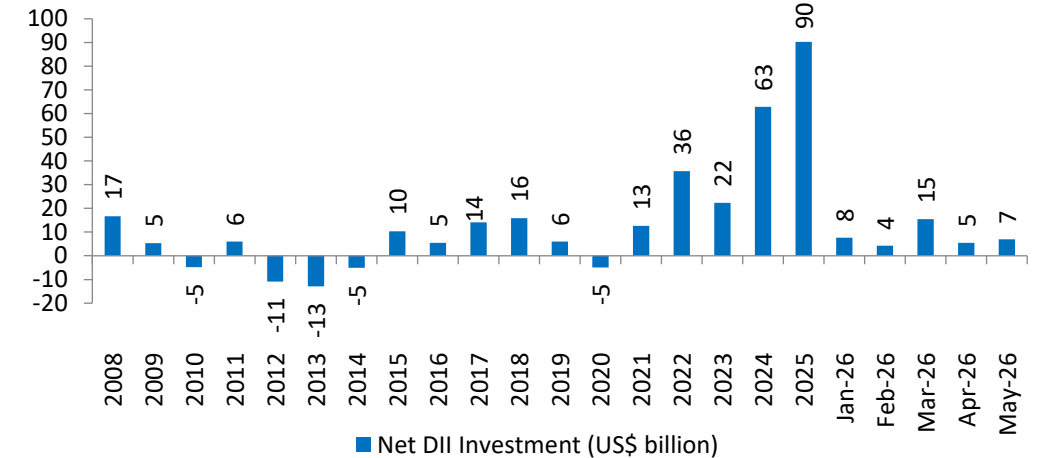
- NIFTY fell this month by 2% in May 2026. YTD, NIFTY has fallen by ~10%. Performance down the capitalization curve is looking slightly better. Small cap has risen by 4%, while mid cap rose by 1% and large cap fell by 6% year-to-date respectively.
- On a m-o-m basis, TeleCom, Healthcare and Cap goods sectors witness the sharpest rise in May 2026 while PSU, Oil & Gas and FMCG saw the sharpest decline m-o-m.
- IT, Real estate, and FMCG delivered the lowest returns YTD.

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

## FIIs see outflows since March 2026



## DII's support to Indian equity market

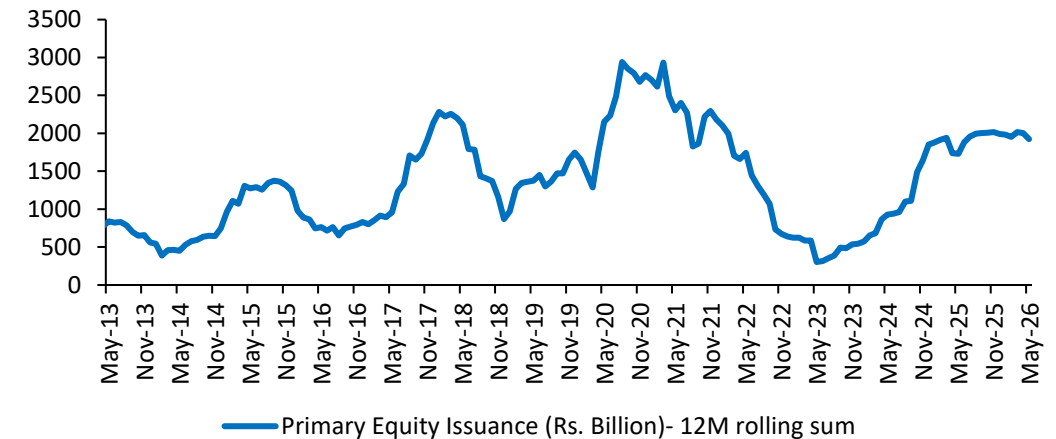


## Retail participation sees a turnaround in 2026

	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	-1,91,969
DII's	-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	3,01,688
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	32,545
<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	-20.7
DII's	-4.8	10.4	5.2	14.0	16.0	6.0	-4.8	12.6	35.7	22.0	63.0	90.4	32.7
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	3.5

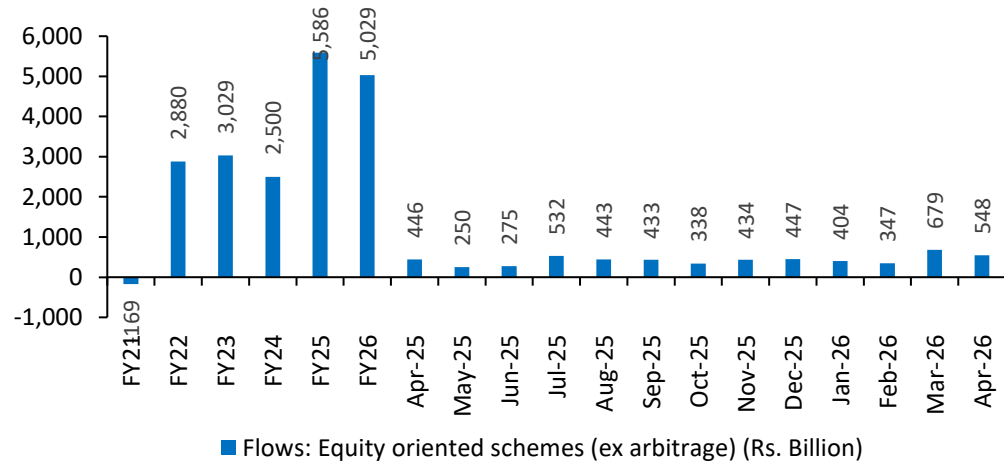
\* As of April 30<sup>th</sup>, 2026. # Data for individuals include net flows on NSE in the secondary market only. Individuals include individual / proprietorship firms, HUF and NRI.

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

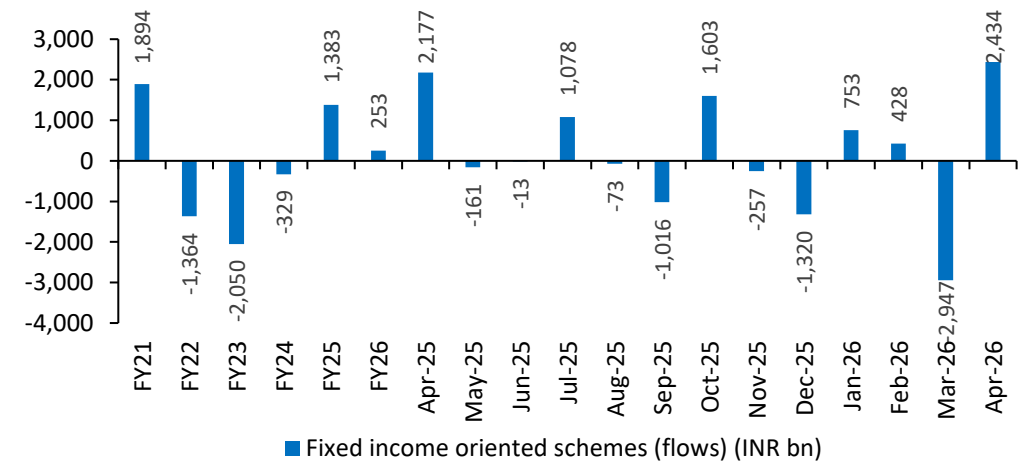


# MF flows: Sharp Debt inflow in April 2026

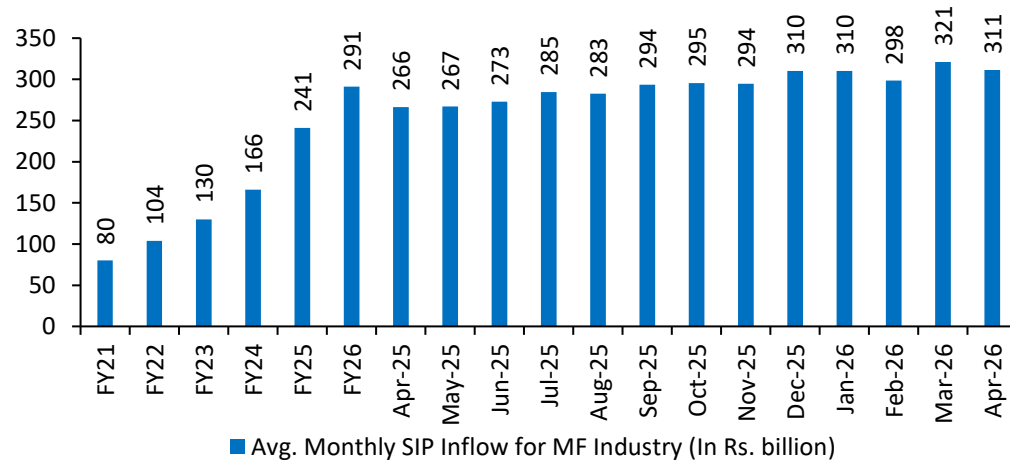
## Equity inflows moderate in April 2026 compared to a month ago



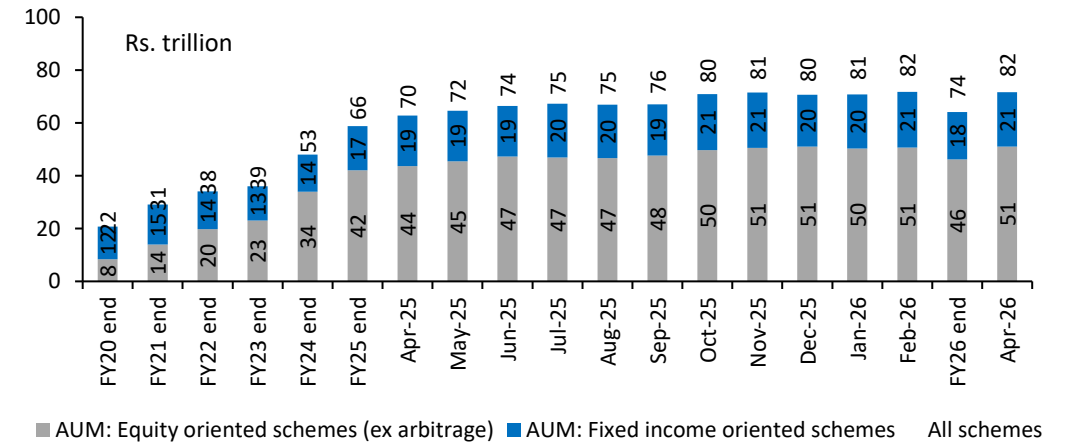
## Debt inflow of Rs.2.4tn in April'26 (vs. 3tn outflow in Mar'26)



## Monthly SIP inflow moderate m-o-m in April

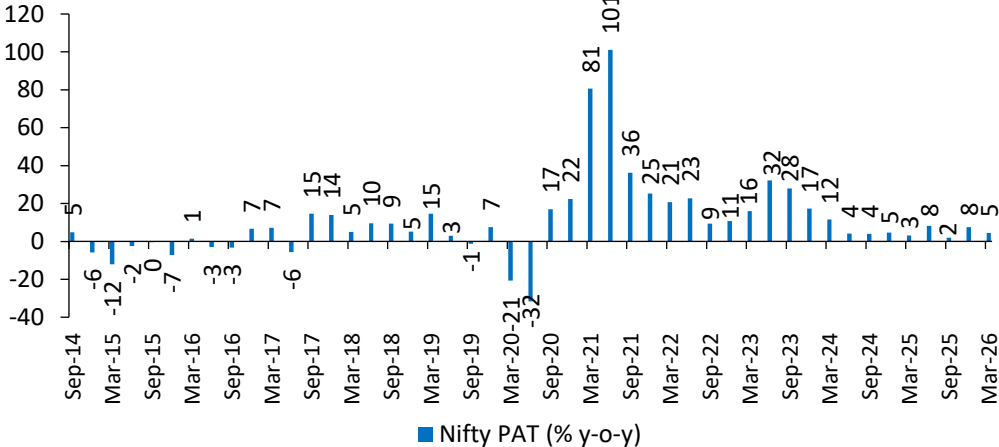


## Equity and debt AUM improve m-o-m

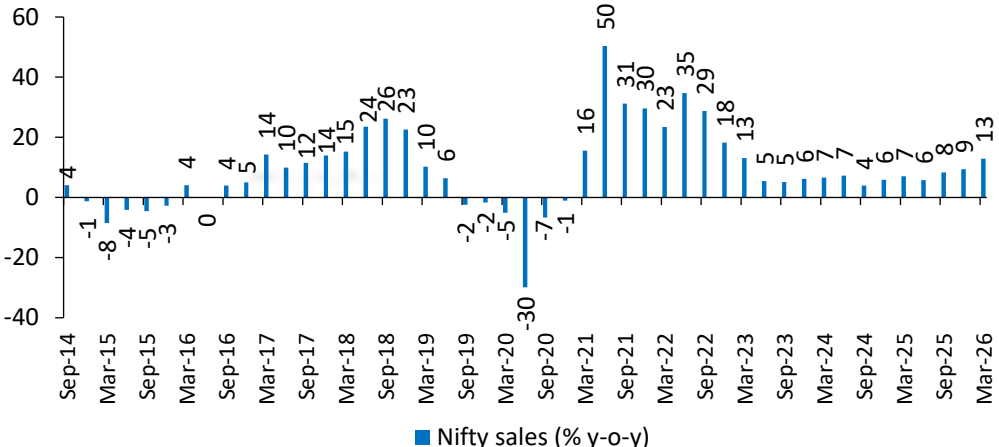


# Q4 FY26 earnings: Weak PAT growth; Topline in line with expectations

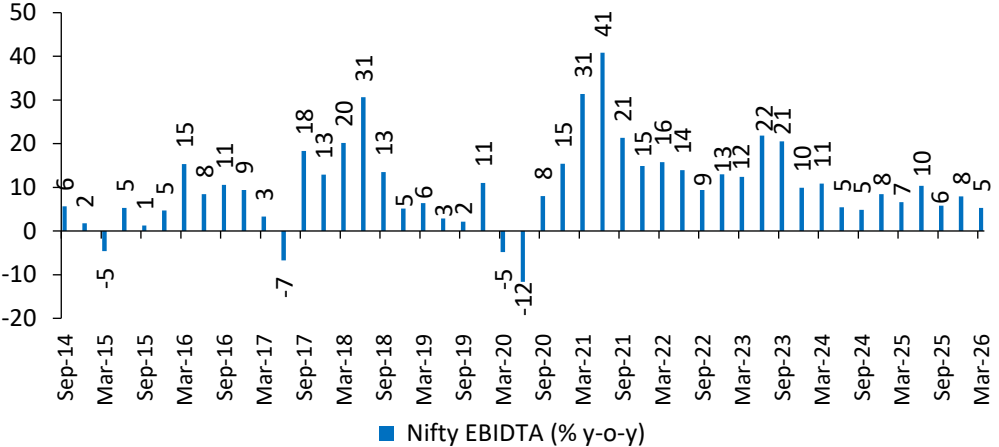
**NIFTY PAT growth continues to be weak**



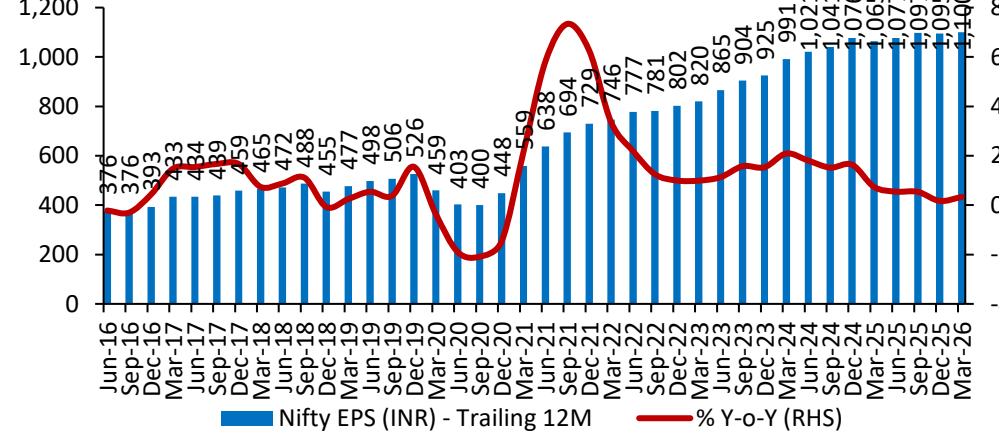
**Q4 FY26 NIFTY interim sales growth in line with expectations**



**EBITDA growth also in line with expectations**



**EPS growth moderates**



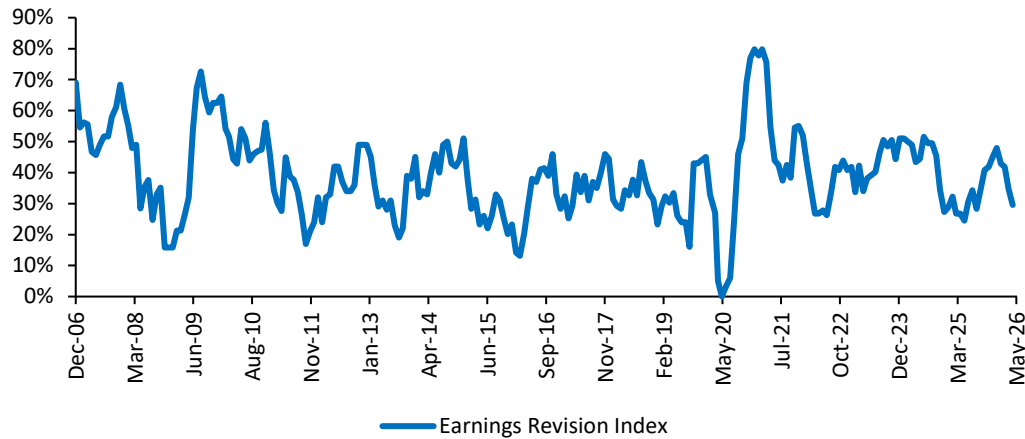
Source: MOSL, SBIFM Research; NB: Results released for 50 NIFTY companies for March 2026 quarter, historical data is for all the NIFTY 50 companies, EPS growth is adjusted for Axis bank losses for FY23

## Q4 FY26 earnings' review: Broad based recovery

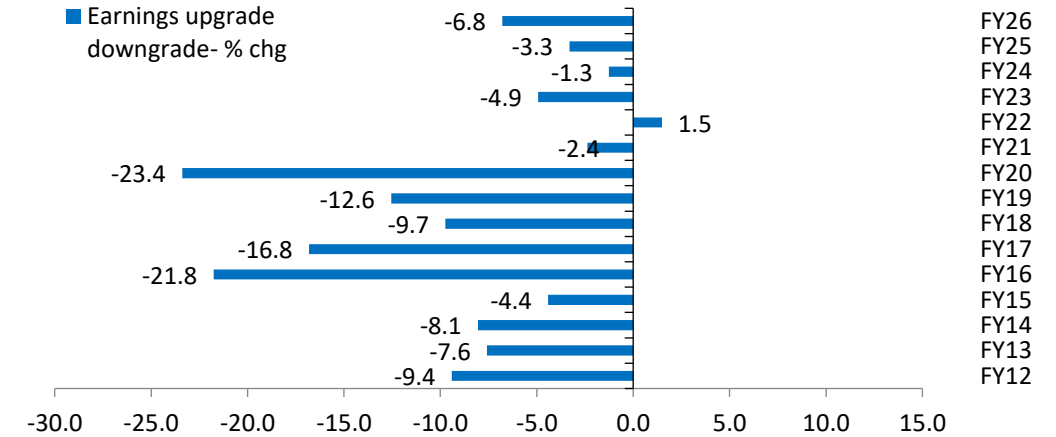
- NIFTY PAT growth was 5% y-o-y in Q4FY26 (vs. 8% in the previous quarter). Even as Auto, Metals and OMCs have recorded a healthy profit growth, weakness in Chemicals, Healthcare, Consumer durables, put some pressure on profitability.
- FY26 NIFTY earnings growth expected ~8%. Revival in India's economic growth and hence topline is critical for the expectations to be met.
- Key sectoral highlights –
  - Banks: NIMs stabilised for both private and public banks this quarter. The banking sector saw an improvement in credit growth sequentially while deposit growth lagged. Asset quality remained comfortable with GNPA ratios declining across most banks.
  - Autos: Automobile volumes surged. 2W volume growth was strong for both domestic and exports. Passenger vehicles sale were also robust. Though margins were impacted by raw material inflation and supply chain disruptions.
  - Consumer: Broad base recovery in consumer demand continues which is visible in numbers of several consumer companies. Q4FY26 saw stable to decent margin expansion led by lower value inventory at hand. RM prices are increasing across the board for which companies have taken price hike.
  - Oil & Gas: OMCs were the biggest contributors to earnings in Q4FY26. Strong EBIDTA/PAT growth mainly led by OMCs. Profits were above expectations.
  - Technology: The IT Services companies saw improved margins. The profitability expansion was aided by favourable currency movement. Going ahead, pricing pressures in a muted demand environment could further weigh on profitability.
  - Metals: This sector benefitted from global rally in metal prices and margin improvement.
  - Cement: Continued volume growth in Q4FY26 on a high base. Supported by housing demand, price recovery though input cost pressures linked to the West Asia conflict began weighing on them. Headwinds to FY27 profitability due to rising fuel and logistics costs, could be partly offset from rise in cement prices.
  - Healthcare: Healthcare & Pharma earnings were above expectations. Pharma companies saw healthy domestic growth along with better-than-expected print on US, Europe & RoW exports aided by currency tailwind. Healthcare services players delivered improvement in performance.

# Earnings revisions fell in May

## Earnings Upgrades to downgrades ratio continued to fall in May



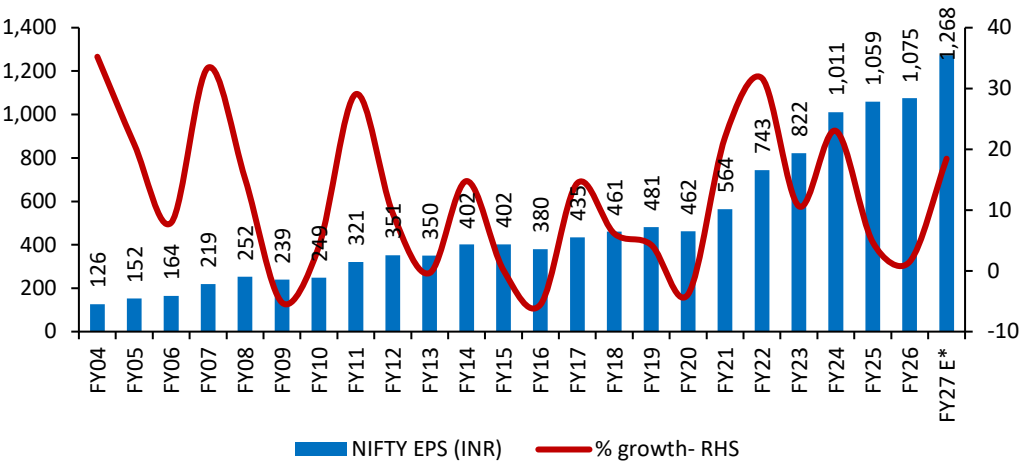
## In FY26, EPS projection sees a downgrade



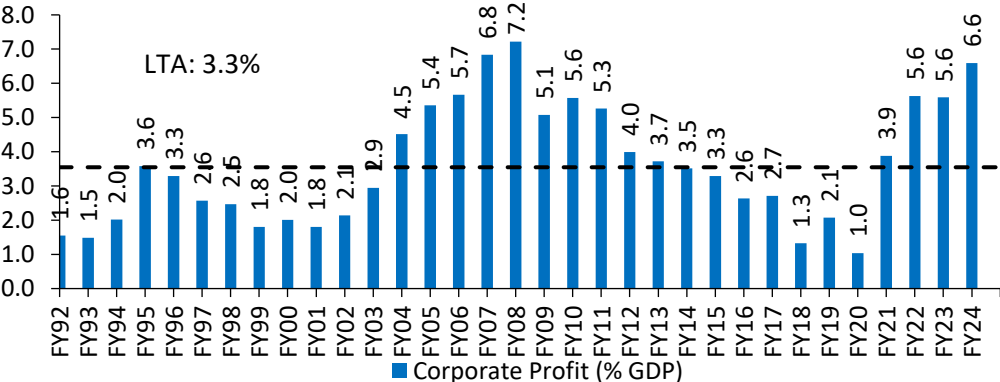
- Earnings revisions for FY26 have fallen with Consumer Discretionary, Materials, Energy, Industrials, Telecom, Financials, Real Estate, Consumer Staples, Healthcare seeing downward revisions. IT got upward revisions.
- Consensus expects 12.3% EPS growth CAGR for the Nifty over FY25-FY28.

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

## Earnings expected to recover in FY27



## 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)
		FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28	
Nifty		20.0%	35.7%	5.9%	29.5%	1.0%	4.7%	17.6%	15.0%	12.3%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	6.1%	-2.9%	72.8%	10.7%	22.9%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	10.8%	45.3%	9.3%	6.3%	19.1%
Financials	11	13.8%	27.3%	23.1%	53.0%	-4.6%	11.9%	13.1%	16.8%	13.9%
Industrials	5	22.9%	-30.1%	-0.9%	-0.9%	27.6%	-7.6%	21.1%	21.5%	10.8%
Energy	3	56.9%	11.4%	8.1%	33.6%	-6.7%	7.1%	11.4%	7.7%	8.7%
Consumer Staples	4	-5.0%	-3.9%	5.6%	32.6%	14.1%	16.4%	-1.1%	10.9%	8.5%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-9.9%	-31.5%	48.2%	23.3%	7.8%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	20.1%	-3.8%	4.6%	8.7%	3.0%
Health Care	5	5.9%	51.7%	23.6%	2.5%	24.4%	-23.7%	10.0%	22.6%	1.0%
Communication Services	1		NA*		-6.1%	67.9%	9.5%	45.7%	30.8%	27.8%

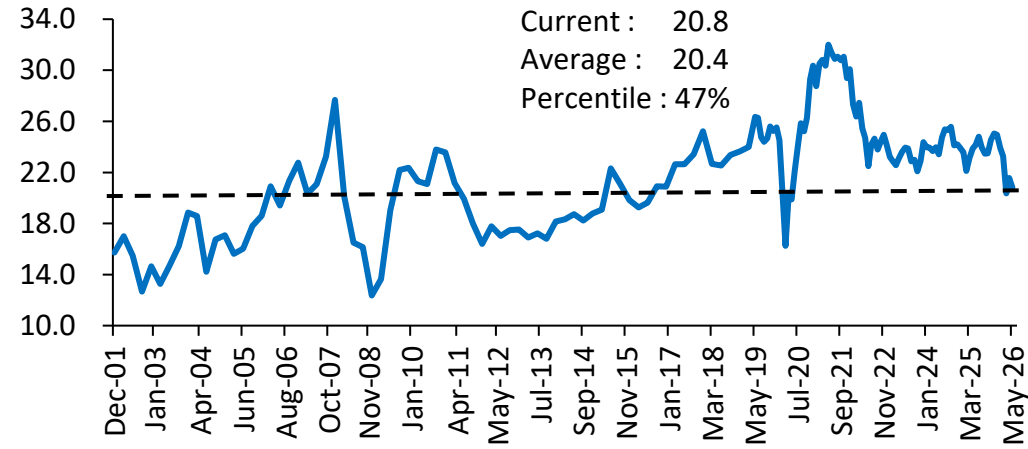
- Consensus expects 12.3% EPS growth CAGR for the Nifty over FY25-FY28.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.



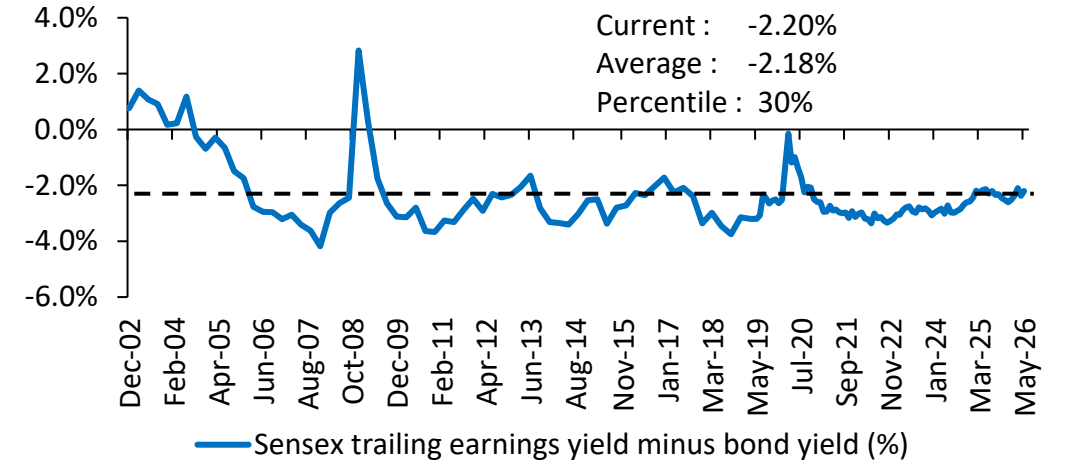
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; \*FY25 and FY26 earnings estimates are SBIMF. \*\* EPS change is unadjusted to externalities. \*\*\*data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision 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

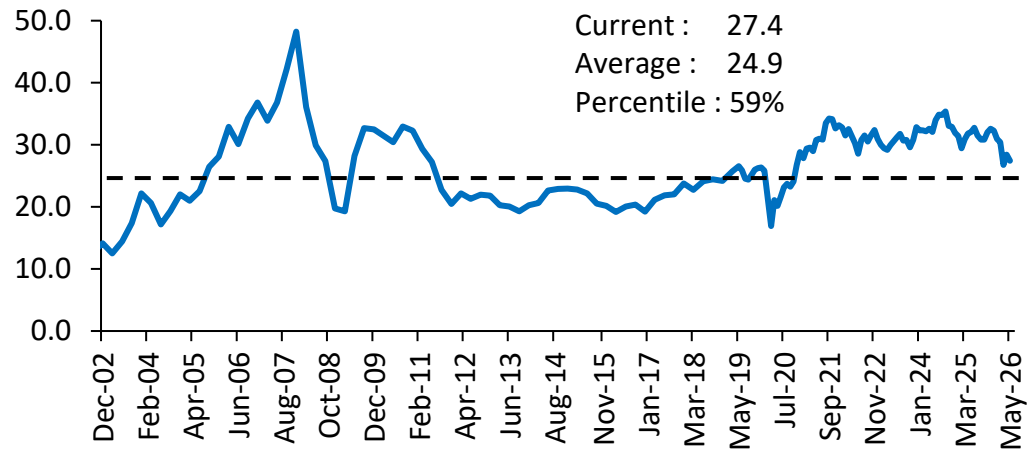
**Sensex trailing PE ratio stood at 20.8 in May'26 vs. 21.6 in Apr'26**



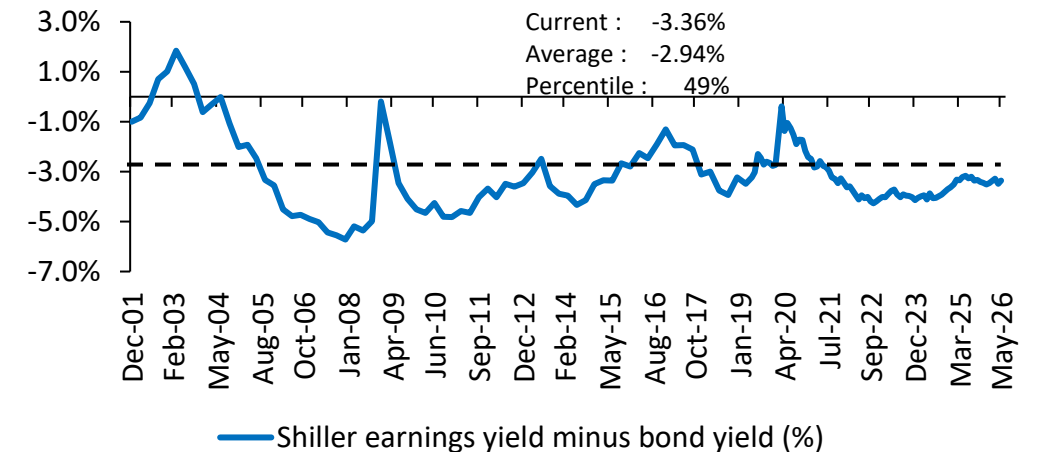
**Earnings yield to bond yield spread has corrected**



**Shiller PE ratio stood at 27.4 in May'26 vs. 28.4 in Apr'26**

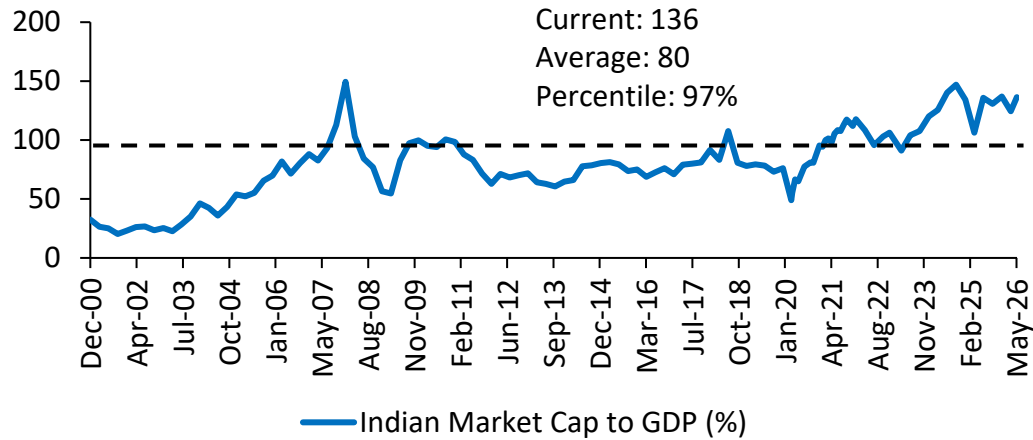


**Shiller earnings yield to bond yield spread has corrected**

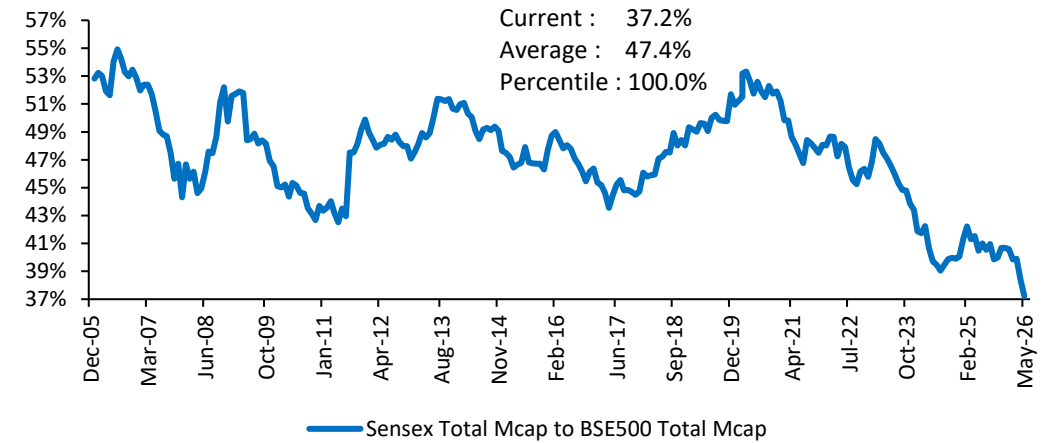


# Polarization remains low, remains favorable towards large caps

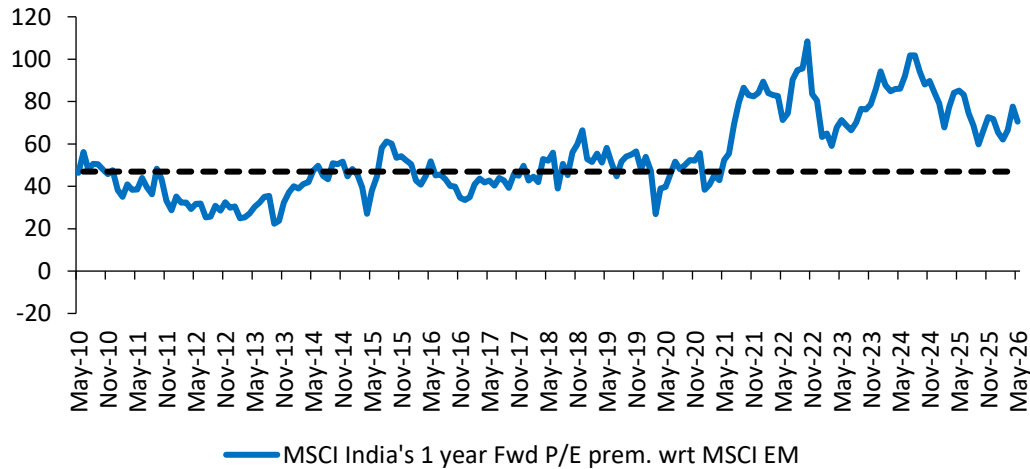
Market capitalization/GDP expensive vs. history at 97<sup>th</sup> percentile reading



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



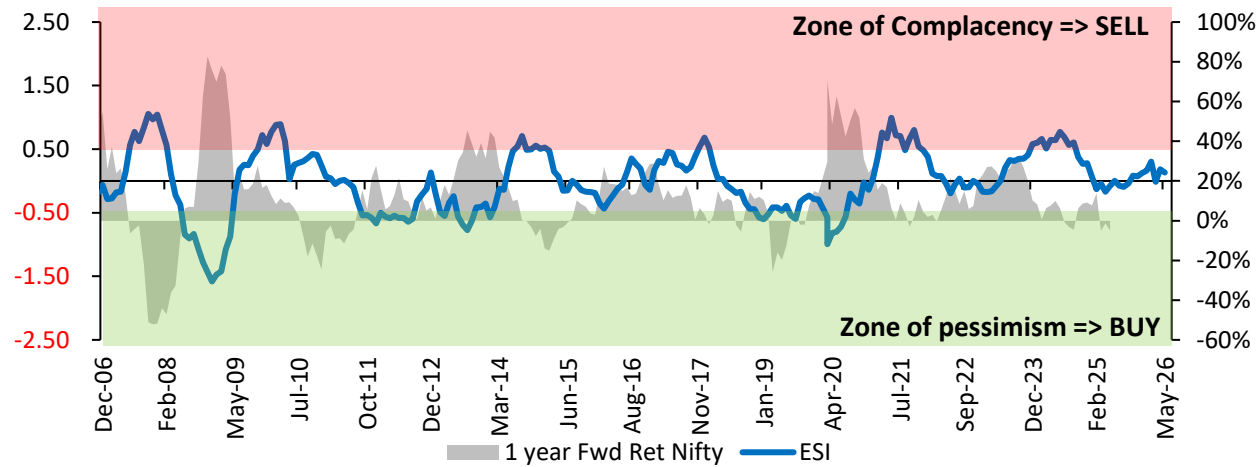
Premium relative to EM has corrected near long term average



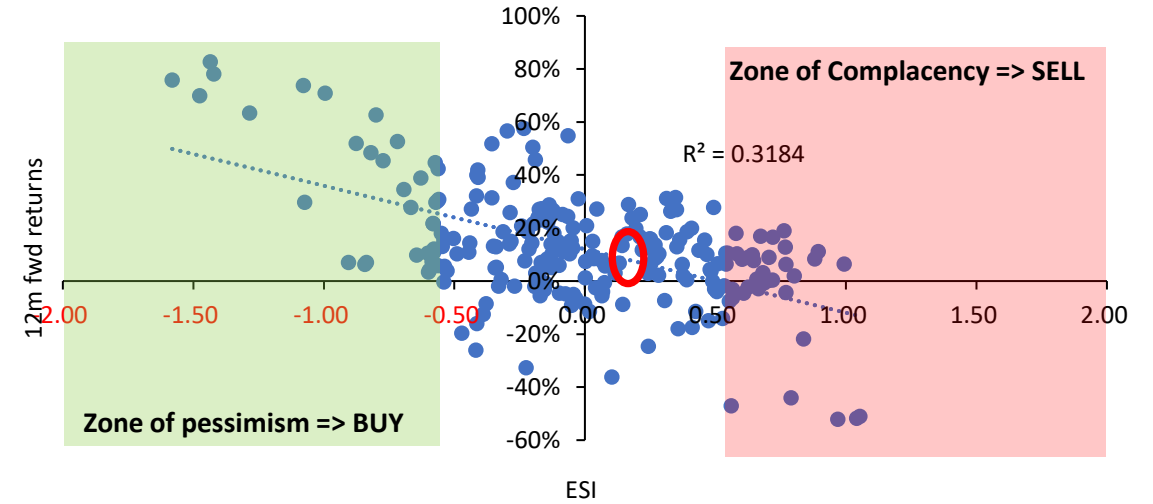
- Market polarization remains low. Broader markets have outperformed the frontline large cap indexes in the previous month.
- The ratio is low, suggesting the risk-reward is more towards large caps now.

# Equity market sentiment remains above zero

## Equity sentiment remains above zero



## Equity sentiment remains above zero



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

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

- Ongoing Middle East tension persists as stalemate on a durable peace agreement continues. Very recently, de-escalation hopes are rising with improved tanker movement, but a full normalization remains uncertain signalling a supply shock and shifted the global narrative from reflation to stagflation.
- March saw FPI outflows of over US\$14 bn. FPIs stayed sellers even in April and May with further cumulative outflows of US\$8 bn.
- The Nifty too remains ~10% down YTD, and with capitulation and subsequent normalization both behind, appears to be consolidating now pending clarity on the duration of the energy shock. The longer the current crisis sustains, the higher the risk is to macro and earnings.
- WPI has risen from 3.9% to 8.3% y-o-y. Real GDP growth is expected to moderate from ~7.8% y o y in FY26 to ~6.5% in FY27, even as nominal GDP could accelerate to 12%, driven by higher inflation. The slowdown reflects supply side constraints as much as price pressures, with energy shortages emerging as a key drag on activity.
- Q4 FY26 numbers show topline and EBITDA performance has been in line with expectations. However, forward-looking earnings estimates have been revised lower with downgrades significantly outpacing upgrades reflecting the impact of the ongoing crisis.
- The macro and earnings uncertainty, however, have made valuations reasonable. On a relative basis, the sharp underperformance to emerging market peers has led to valuation premium reverting to historical averages versus extremely elevated premium in late 2024.
- In line with moderating valuations, sentiment as measured through our proprietary Equity Sentiment Index is off its euphoric extremes of 2024. It has bounced from March lows but remains in neutral territory.
- Asset allocation framework continues to signal a 60:40 equity-fixed income tilt (vs. a 50:50 benchmark), with early teens return expectations from large cap equities.
- The near term could stay choppy as the energy shock works through earnings, the rupee, and policy.
- On market internals, our frameworks continue to favour large caps. Polarization is at historical lows, large caps remain attractive versus broader markets and energy-driven margin pressure may hurt smaller companies more.
- Sectorally too, defensive sectors now look attractively placed relative to cyclical sectors. Valuations favour the former and their earnings should be more immune to macro shocks. We also lean towards companies with pricing power and strong balance sheets in the current environment.
- In summary, this is a market that should reward patience and discipline over adventurism. Crude spikes above US\$100/bbl have historically created some of the best buying windows for Indian equities (2008, 2022) but only for investors who were willing to look past 6–9 months of noise.

# FIXED INCOME MARKET

# Global Bond Market Snapshot: Global bond yields move higher following the Middle East war

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	Mar-26	Apr-26	May-26	m-o-m change (in bps)	YTD change (in bps)
<b>Developed market</b>							
US	4.57	4.17	4.32	4.37	4.45	8	28
Germany	2.37	2.86	3.00	3.04	2.96	-8	10
Italy	3.52	3.55	3.91	3.86	3.66	-20	11
Japan	1.10	2.07	2.35	2.53	2.67	14	60
Spain	3.06	3.29	3.51	3.50	3.36	-14	7
Switzerland	0.33	0.32	0.37	0.40	0.41	0	9
UK	4.57	4.48	4.92	5.01	4.80	-21	33
<b>Emerging Market</b>							
Brazil	15.16	13.74	14.01	13.96	14.21	25	48
China	1.68	1.86	1.82	1.75	1.72	-3	-14
India	6.76	6.59	7.04	7.02	7.01	-1	42
Indonesia	6.97	6.05	6.83	6.83	6.70	-12	65
South Korea	2.87	3.39	3.88	3.92	4.15	23	76
Malaysia	3.81	3.51	3.64	3.56	3.59	3	9
Philippines	6.82	6.00	6.98	6.94	7.49	54	149
Taiwan	1.61	1.35	1.50	1.51	1.64	13	29
Thailand	2.25	1.64	2.23	2.18	2.33	15	69
Turkey	29.04	28.96	33.54	33.89	35.65	176	669
Mexico	10.44	9.12	9.30	9.22	9.18	-4	7
Poland	5.89	5.17	5.88	5.75	5.64	-11	47
South Africa	10.33	8.20	9.32	8.94	8.56	-38	36
Colombia	11.86	12.62	12.83	13.13	13.32	19	70
Hungary	6.55	6.79	7.17	6.03	5.42	-61	-137

# 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	Mar-26	Apr-26	May-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	5.44	5.30	5.20	-10	-5
	Overnight MIBOR Rate	7.15	5.67	6.98	5.34	5.52	18	-15
Money Market	1 Yr T-Bill	6.69	5.54	5.65	5.65	6.03	38	49
	3M T-Bill	6.55	5.26	5.33	5.26	5.56	30	30
	3M CD Yield	7.28	5.88	7.65	6.40	7.20	80	133
	12M CD Yield	7.60	6.56	7.30	7.15	7.83#	68	128
Government bonds	3 year GSec	6.72	6.07	6.52	6.44	6.56	12	48
	5 year GSec	6.72	6.31	6.75	6.74	6.82	8	52
	10 year GSec	6.79	6.59	7.04	7.02	7.01	-0.9	42
	30 year Gsec	7.01	7.27	7.74	7.57	7.64	6	37
	10 year SDL	7.15	7.30	7.69	7.64	7.78	14	48
	30 year SDL	7.14	7.56	7.94	7.80	7.90	10	34
AAA Corporate	3Yr AAA Corp bond	7.52	6.95	7.47	7.62	7.84	22	89
	5Yr AAA Corp bond	7.38	7.06	7.57	7.65	7.85	20	79
	10Yr AAA Corp bond	7.15	7.11	7.65	7.51	7.82	31	71
Swaps	1 Yr IRS	6.51	5.45	6.25	6.00	6.09	9	64
	2 Yr IRS	6.27	5.55	6.44	6.24	6.29	5	74
	5 Yr IRS	6.20	5.92	6.75	6.61	6.61	-	69
Others	INR/USD	85.61	89.88	94.81	94.92	95.00	-0.1^	-5.7^
	Crude oil Indian Basket**	73.34	62.20	113.49	114.48	106.83	-6.7	71.8

Source: Bloomberg, PPAC, RBI, CEIC, SBIMF Research; NB: \*\*Crude oil price is average \$/barrel for the month and INR, remaining data are % month end, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation, #12M CD yield for is unavailable, data is for Mar'27 CD

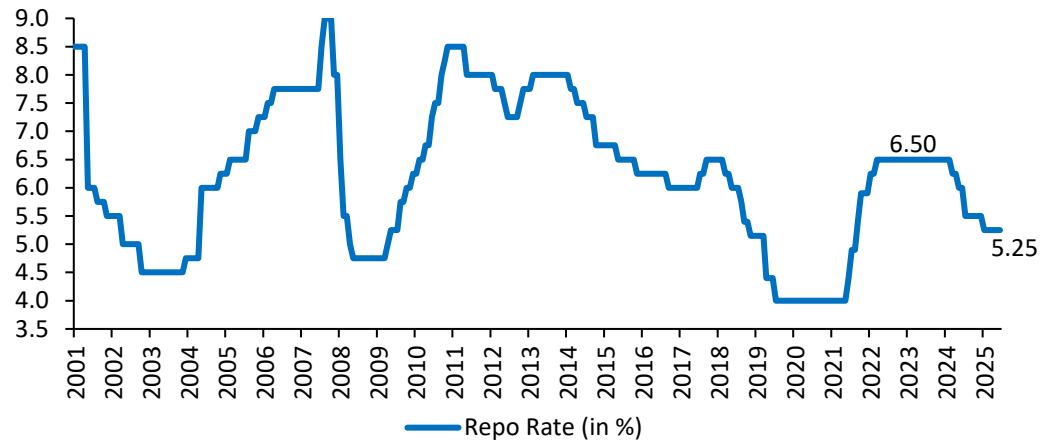
# G-Sec Yields worsen in May 2026

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-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
30-Apr-26	5.28	5.46	5.66	6.21	6.44	6.59	6.74	7.01	6.98	7.03	6.90	7.02	7.32	7.57
31-May-26	5.53	5.70	5.96	6.30	6.56	6.65	6.83	6.98	7.02	7.01	6.88	7.01	7.33	7.64
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
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
30-Apr-26	-10	-7	2	-15	-8	-19	0	7	-11	3	-2	-2.0	-13	-17
31-May-26	25	24	30	9	12	6	8	-3	3	-2	-2	-0.9	1	6
Change YTD (in bps)	26	33	44	55	48	33	52	46	39	36	23	42	34	37

# RBI monetary policy: From patience to potential tightening

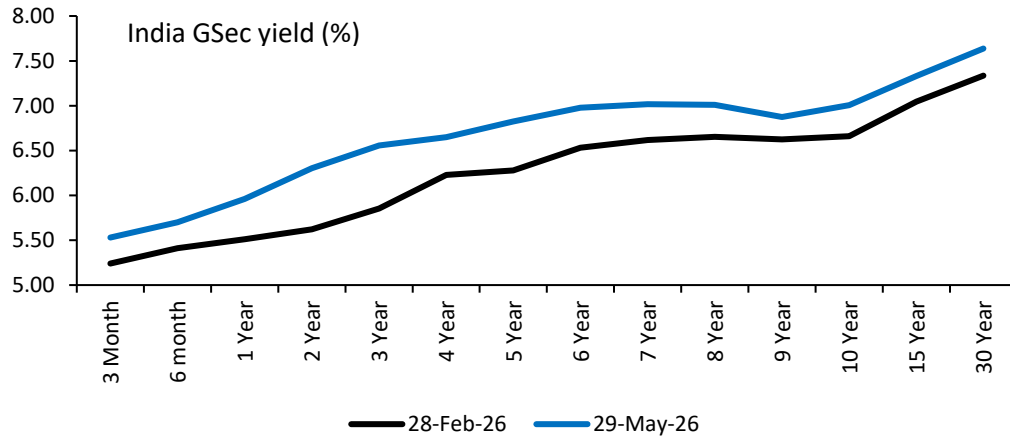
Repo rate cut by 125bps cumulatively since February 2025 policy to 5.25% now



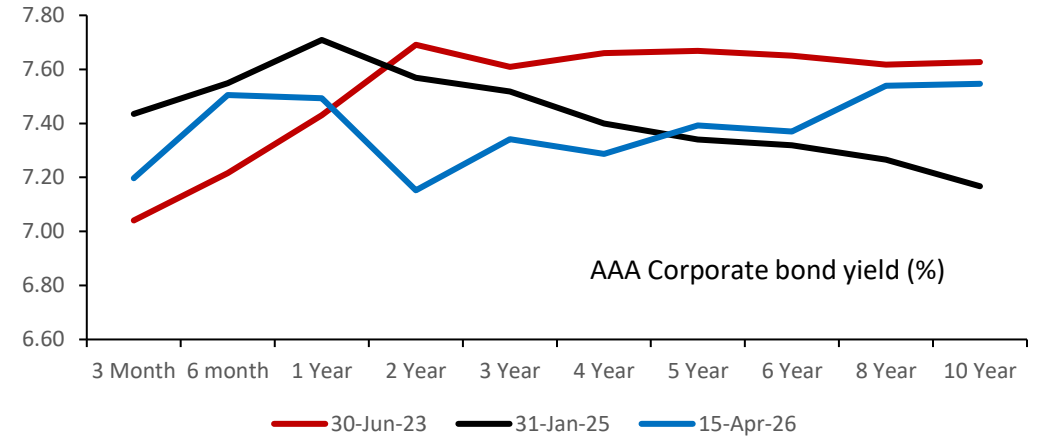
- The Monetary Policy Committee kept the repo rate unchanged at 5.25% at its latest meeting in April 2026. The stance remains at neutral.
- While the policy decision itself was on expected lines, the underlying macro narrative has clearly shifted from guarded confidence to heightened vigilance as global risks intensified.
- Global supply shocks alter the growth inflation dynamics.
- CPI inflation remains benign for now, but WPI above 8% indicates rising cost pressures and likely pass-through to retail prices.
- Energy prices are feeding into inflation, with retail fuel prices up ~Rs. 7.5/litre despite excise duty cuts.
- CPI inflation could rise sharply in FY27, from 2.1% y-o-y in FY26 to ~5.5% y-o-y.
- RBI faces a more complex policy challenge. While there may be some room to wait in the near term, the window for remaining on hold is narrowing.
- A rate hike as early as August cannot be ruled out, with October increasingly emerging as a more likely inflection point.
- A cumulative tightening of ~50 basis points in FY27 is plausible, although the eventual magnitude will depend on the persistence of the supply shock.

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

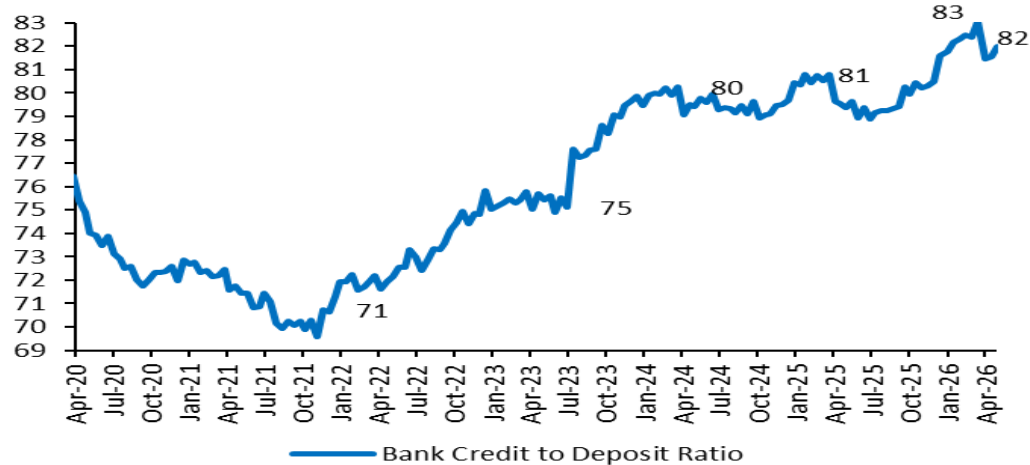
Visible steepening in G-sec yield curve since the Iran War



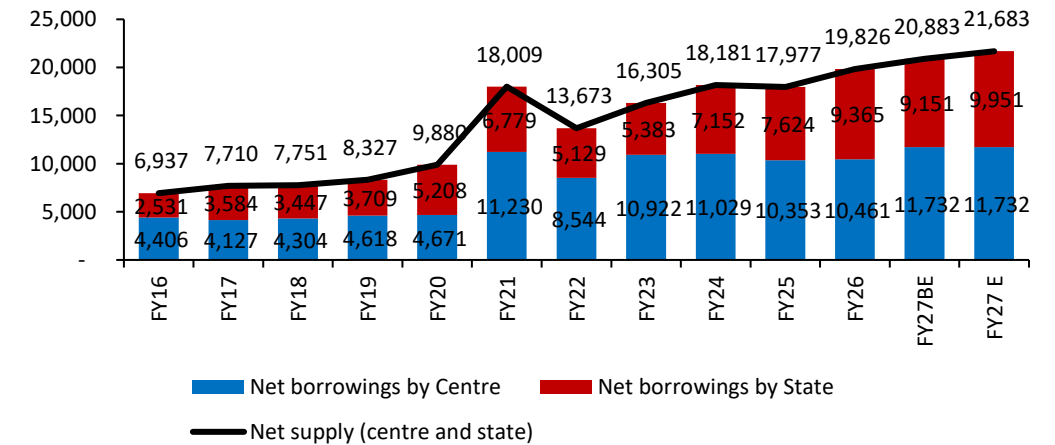
Similarly corporate bond yield curve steepens with rising private sector credit



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

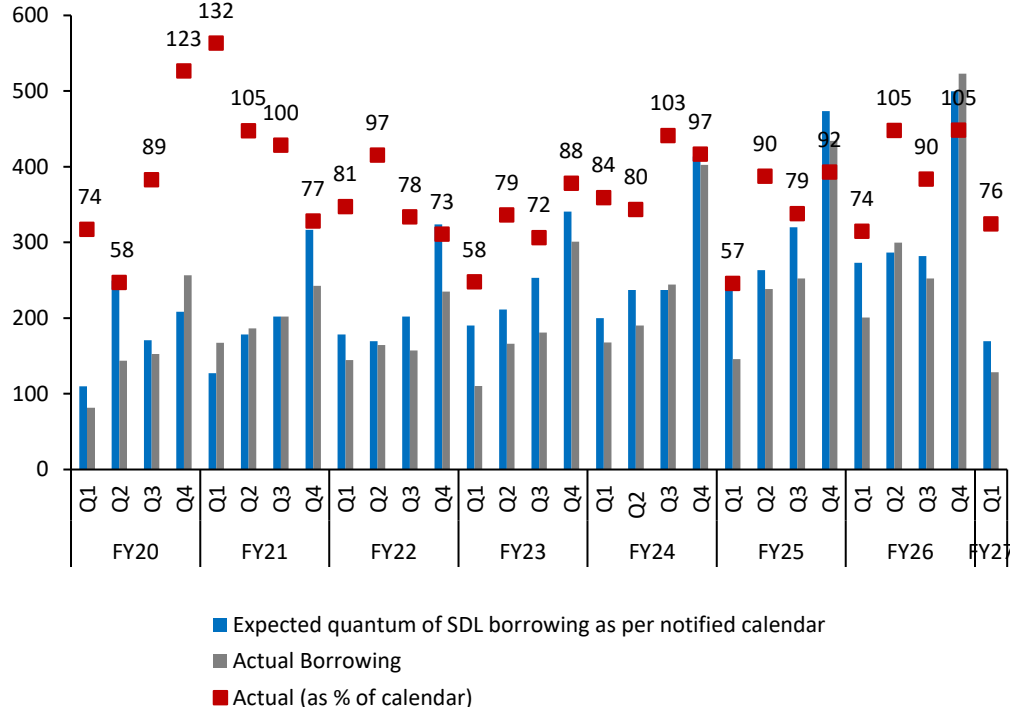


Rise in Government borrowing; Overall net government (Centre + State) issuances to rise by ~10% y-o-y in FY27

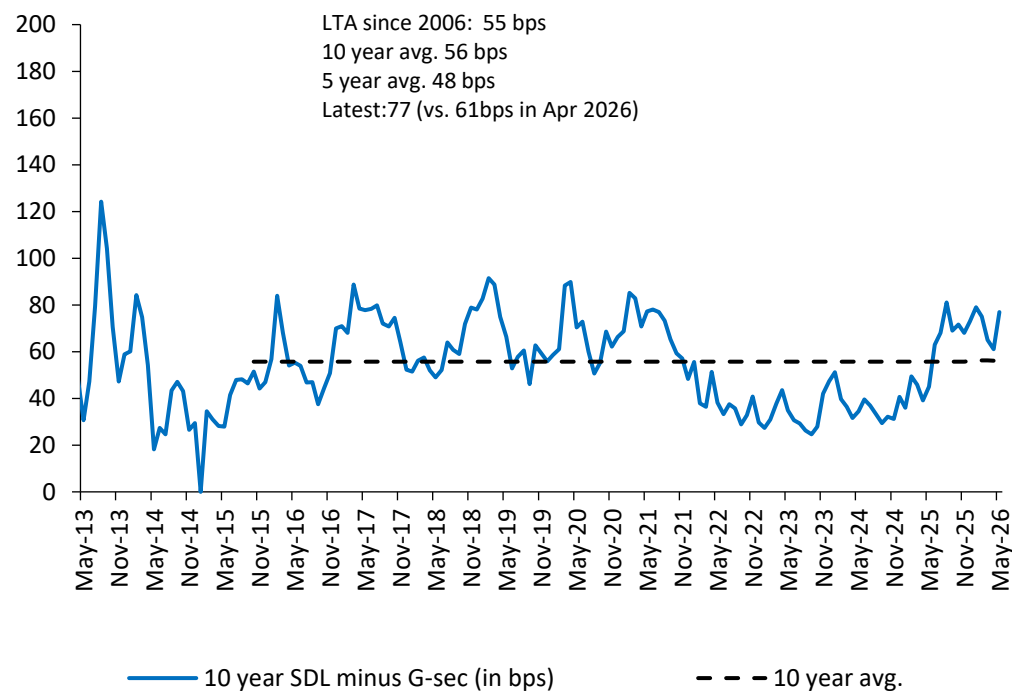


# Q1 FY27 gross SDL issuances at 76% of calendar till date

Q1 FY27 gross SDL issuances at 76% of calendar till date



SDL spreads moderate but above long term average

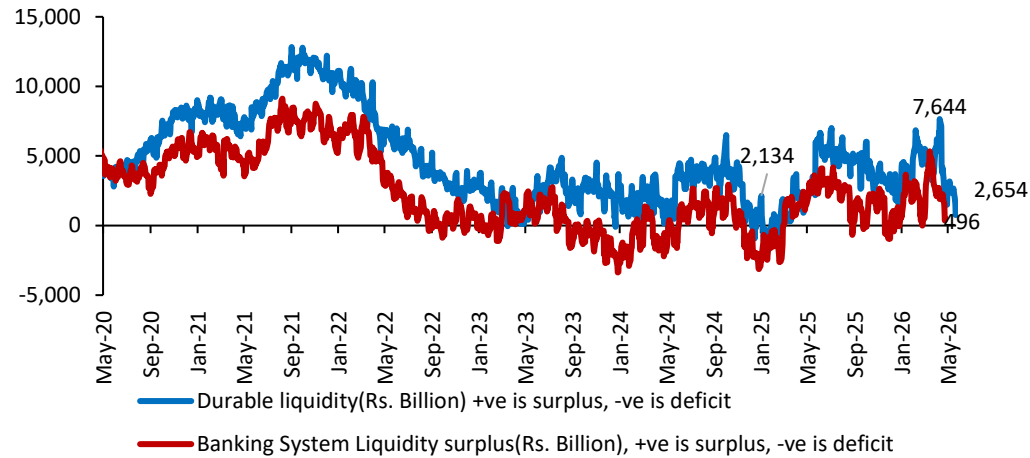


- Interestingly, while SDL supply has also risen significantly, spreads on these instruments have remained relatively contained because markets had already anticipated the supply increase.

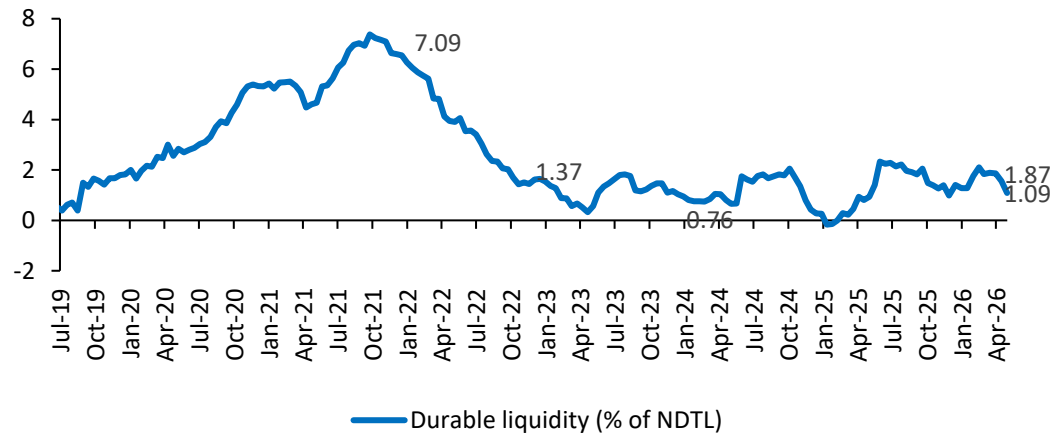
Source: RBI, Bloomberg, SBIFM Research; NB: SDL issuances till 21<sup>st</sup> April 2026

# RBI dividend to improve durable liquidity to Rs.5 trillion levels; FX outflows remain a big dampener

**Durable liquidity moderated due to increased FX sell and CIC leakage; to improve with RBI dividend transfer in May end**



**Even as a % of NDTL, durable liquidity remained low during this period; we could see it go back to near 2% of NDTL in May end**



**Durable liquidity remained low despite RBI liquidity measures**

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	4.9
<b>Total</b>	<b>20.2</b>

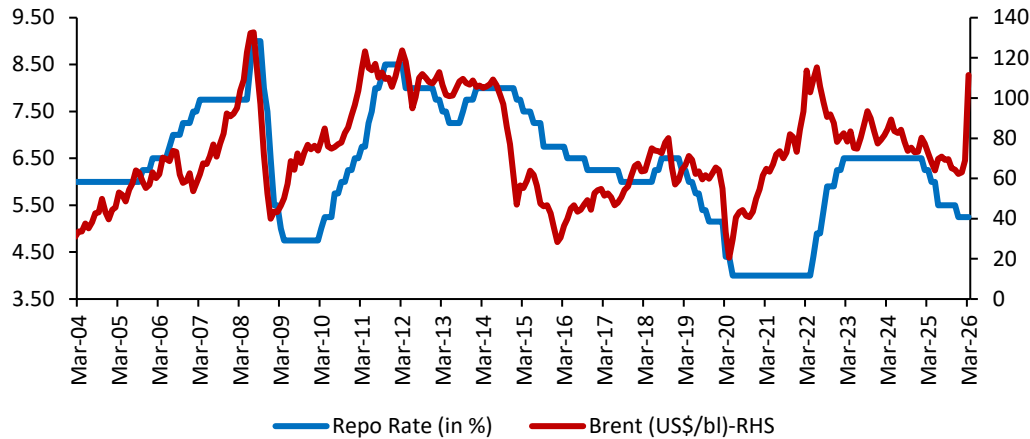
**Liquidity management becomes critical as external pressures rise, expect continued OMO in FY27**

Data in Rs. trillion	FY27E
CIC Leakage	3.0
Incremental CRR requirement	1.3
Fx intervention (+ve is purchase, -ve is sales)	-4.5
RBI dividend transfer	2.9
Net Impact on liquidity (-1-2+3+4)	-5.9
Net OMO purchase required to maintain current level of liquidity	5.9

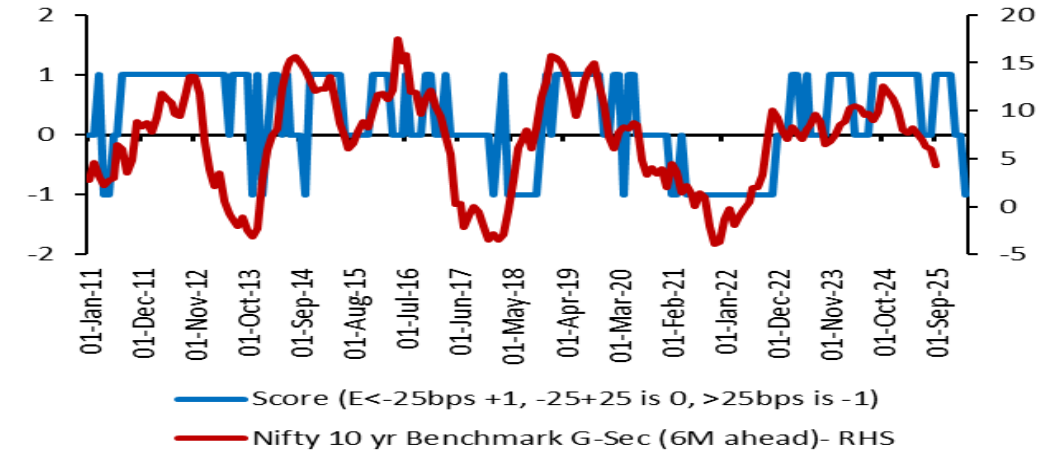
Source: RBI, SBIFM Research; NB: banking system liquidity data as on 22<sup>nd</sup> May 2026 and durable liquidity data as on 15<sup>th</sup> May 2026

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

Historically energy price spikes are associated with rate hikes



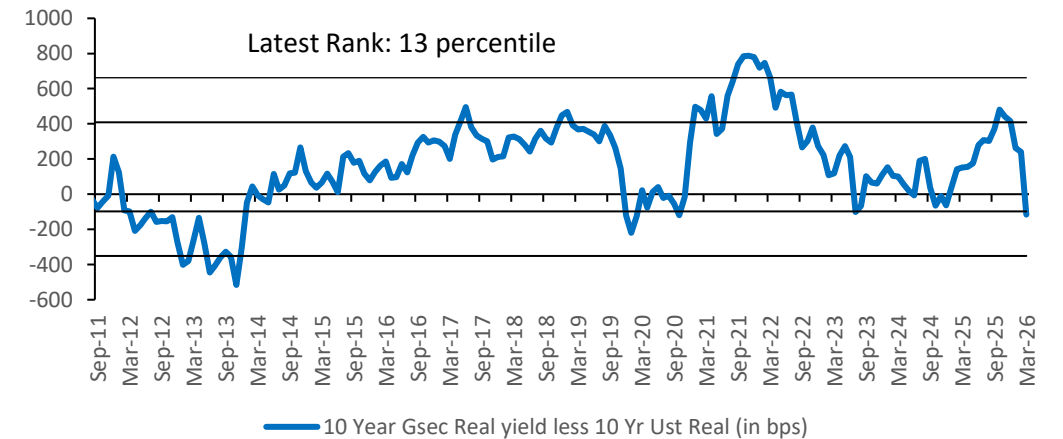
Fixed Income fundamental deteriorates: Rate hikes expected by market



Sentiment weakens as reflected in OIS



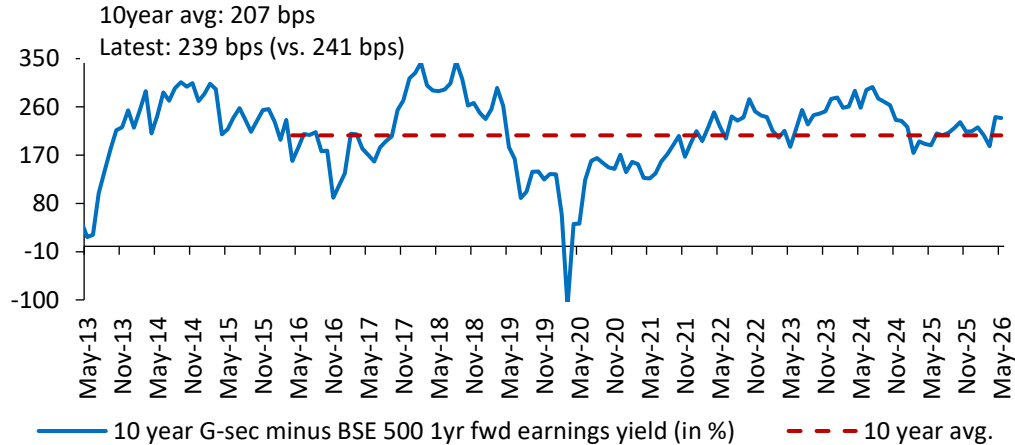
Valuation swings to unattractive as inflation bottoms out in India



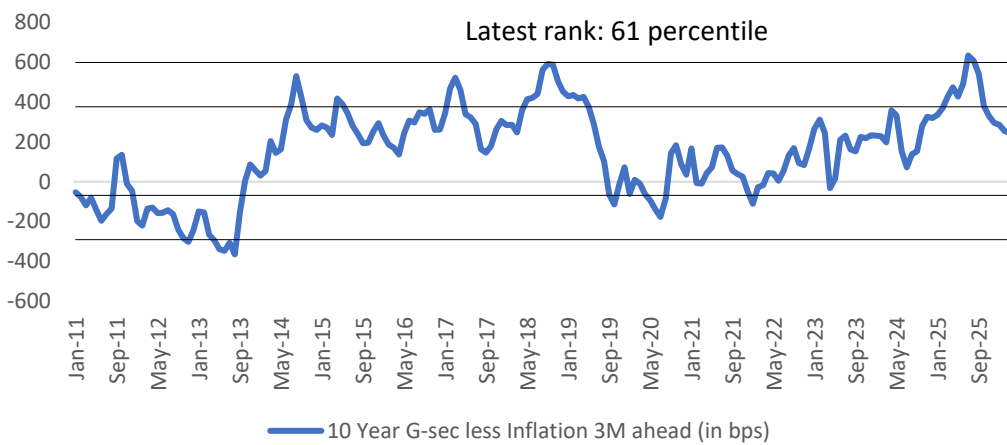
Source: Bloomberg, CMIE Economic Outlook, PPAC, SBIFM Research; NB: In the second graph, Score 0 represents expectation of neutral policy, score 1 of monetary easing and score -1 of rate hikes

# Indian G-sec valuations: neutral to marginally unattractive

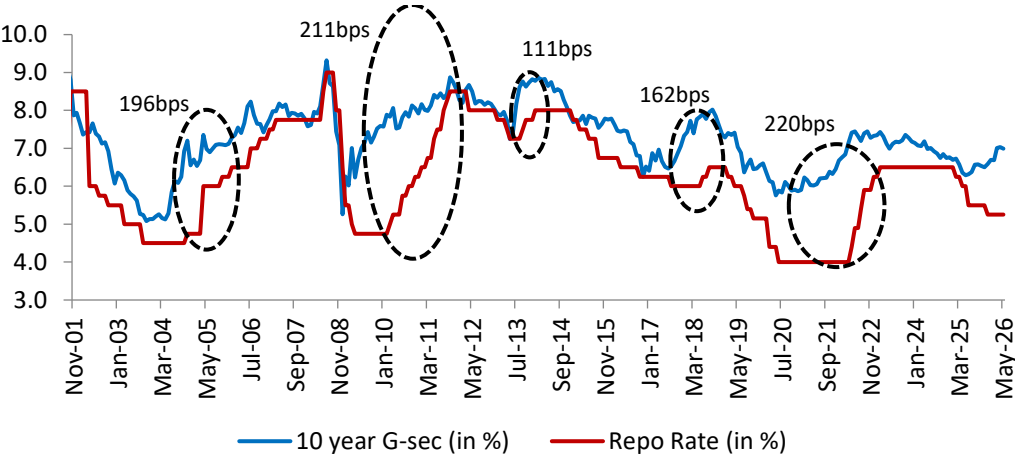
**G-sec spread vs. equity turns neutral**



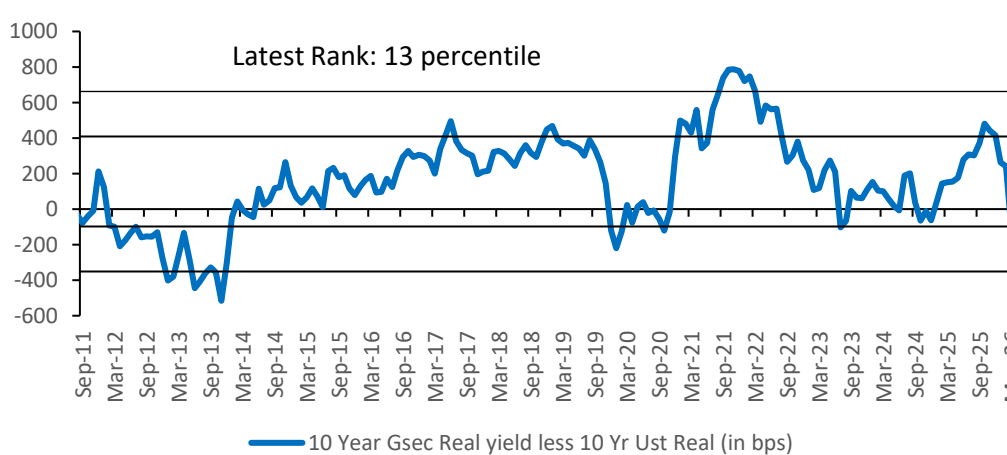
**Real rate attractiveness moderates**



**G-sec spread widens in the period of monetary tightening**



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



Source: Bloomberg, RBI, SBIFM Research

# FII turn net buyers of Indian government bonds at the margin in May 2026

## India witnessed marginal debt inflows in May 2026

EM FII Debt inflow US\$ million	2024	2025	Mar-26	Apr-26	May-26
South Korea	43,139	87,632	4,007	5,304	6,892
South Africa	(6,307)	(5,269)	(4,558)	13	718
Thailand	(1,092)	2,346	(1,033)	225	571
India	16,832	7,472	(1,050)	(336)	267
Indonesia	2,258	189	(1,290)	777	(101)
Mexico	2,090	(5,147)	(1,206)	179	(260)
Poland	23,948	24,300	(2,169)	-	-
Bulgaria	2,462	5,534	(287)	-	-
Malaysia	274	4,899	1,279	177	-
Brazil	(17,387)	(3,453)	2,666	(4,554)	-
Philippines	3,461	2,397	1,379	-	-
Czech Republic	14	9	(2)	-	-
Russia	-	-	-	-	-
Ukraine	(548)	(122)	-	-	-
China	57,660	(81,349)	(18,864)	-	-

## 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, Apr'26)	CPI Inflation Apr'26	Real Rate (% 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Apr 2026	10 year G-sec yield adjusted for 12m fwd premium (in %)- Apr 2026
Brazil	14.0	4.4	9.6	5.4	8.6
Colombia	13.1	5.7	7.4	13.0	0.1
South Africa	8.9	4.0	4.9	7.2	1.8
Mexico	9.2	4.5	4.8	7.1	2.1
Hungary	6.0	2.1	3.9	5.9	0.2
India	7.0	3.5	3.5	3.4	3.6
Poland	5.8	3.2	2.6	4.3	1.4
Malaysia	3.6	1.9	1.7	3.0	0.6
Turkey	33.9	32.4	1.5	43.1	-9.3
South Korea	3.9	2.6	1.3	2.8	1.1
China	1.8	1.2	0.6	1.2	0.5
Indonesia	6.8	6.8	0.1	5.9	1.0
Taiwan	1.5	1.7	-0.2	1.6	-0.1
Philippines	6.9	7.2	-0.3	5.6	1.4
Thailand	2.2	2.9	-0.7	2.1	0.1

# Debt Outlook: Cautious

- Globally, inflation risks remain elevated, government borrowing remains high. And the current environment has led to complete pricing out of any Fed rate cuts and rate hike expectations elsewhere in the world. That makes long-duration bonds vulnerable.
- However, shorter-duration fixed income still looks attractive because yields remain elevated.
- Interest rates in India have moved higher across money markets, G secs, and corporate bonds, with a clear steepening of the yield curve amid simultaneous expansion in private credit and government borrowing, creating a tight demand–supply backdrop for fixed income.
- Tight banking system dynamics are a key driver: elevated credit deposit ratios have constrained SLR demand, pushed banks toward higher CD issuance, and increased reliance on bulk deposits, adding upward pressure on yields.
- In contrast, CP and corporate bond issuances have been tepid as banks loan rate are more attractive than the market rates.
- In India, the biggest challenge is on account of external account. Weaknesses in dollar capital inflow have caused rupee to weaken to 6% YTD and 13% in last 15 months. Rupee could stay weak unless we see a conflict resolution or come out with some drastic measures to get in dollar capital inflow. We wouldn't rule out rupee at 98/US\$ in 2026.
- Inflation pressures are building: WPI could rise to 8–10% on higher input and energy costs, while CPI risks stem from potential food inflation due to an unfavourable base and El Niño, alongside gradual core inflation pass through.
- A BoP deficit will suck out the rupee liquidity and will necessitate continued OMO purchases even in FY27.
- Fiscal dynamics are becoming increasingly important. The government has committed to absorbing large parts of the cost shock that could lead to fiscal slippage (fuel subsidies, LPG support, fertilizer subsidies, shipping assistance, and credit guarantees).
- We are cautious on Fixed income. At a time when inflation is rising, rate hikes are in the card, private credit is expanding, government borrowing needs are still elevated and there is a shortage of foreign capital inflow in India, duration is not the best strategy to adopt.
- For fixed income investors, returns are therefore likely to come more from carry than from capital gains.

# Disclaimer

This presentation is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. These views alone are not sufficient and should not be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All opinions and estimates included here constitute our view as of this date and are subject to change without notice. Neither SBI Funds Management Limited, nor any person connected with it, accepts any liability arising from the use of this information. The recipient of this material should rely on their investigations and take their own professional advice.

**Mutual Funds investments are subject to market risks, read all scheme related documents carefully.**

**Asset Management Company:** SBI Funds Management Limited (A joint venture with SBI and AMUNDI). **Trustee Company:** SBI Mutual Fund **Trustee Company** Private Limited.

# Contact Details

## SBI Funds Management Limited

(A joint venture between SBI and AMUNDI)

Corporate Office:

9th Floor, Crescenzo,

C-38 & 39, G Block,

Bandra Kurla Complex,

Bandra (East), Mumbai - 400 051

Tel: +91 22 6179 3000

Fax: +91 22 6742 5687/88/89/90/91

Website: [www.sbimf.com](http://www.sbimf.com)



Call: 1800 425 5425



SMS: "SBIMF" to 7065611100



Email: [customer.delight@sbimf.com](mailto:customer.delight@sbimf.com)



Visit us @ [www.facebook.com/SBIMF](http://www.facebook.com/SBIMF)



Visit us @ [www.youtube.com/user/sbimutualfund](http://www.youtube.com/user/sbimutualfund)