Overview:

For the month ended June 2026, the Nifty 50 index was up by 1.35% over the previous month. Nifty Smallcap 100 index was up 3.99%. Smallcaps outperformed largecaps and midcaps during the month. Within sectors, banks, realty, media, healthcare, financial services, consumer durables, and healthcare outperformed the benchmark Nifty 50 index, while auto, consumer goods, technology services, metals, and oil & gas underperformed the benchmark.

Sr No.	Index Name	Jun-26 M-o-M Change
1	NIFTY 50	1.35%
2	NIFTY Midcap 100	0.12%
3	NIFTY Smallcap 100	3.99%
4	NIFTY Auto	0.54%
5	NIFTY Bank	6.09%
6	NIFTY Financial Services	4.74%
7	NIFTY FMCG	-1.19%
8	NIFTY IT	-9.56%
9	NIFTY Media	4.98%
10	NIFTY Metal	-6.86%
11	NIFTY Pharma	4.03%
12	NIFTY Private Bank	6.09%
13	NIFTY PSU Bank	4.13%
14	NIFTY Realty	6.01%
15	NIFTY Consumer Durables	4.29%
16	NIFTY Oil & Gas	-1.52%
17	NIFTY Healthcare Index	4.85%

Source: National Stock Exchange of India

Foreign funds (FIIs /FPIs) were net sellers in June 2026 at USD5.16bn and domestic institutions were net buyers at USD9bn. Domestic investors continued to absorb the foreign supply, supported by sustained retail investor inflows.

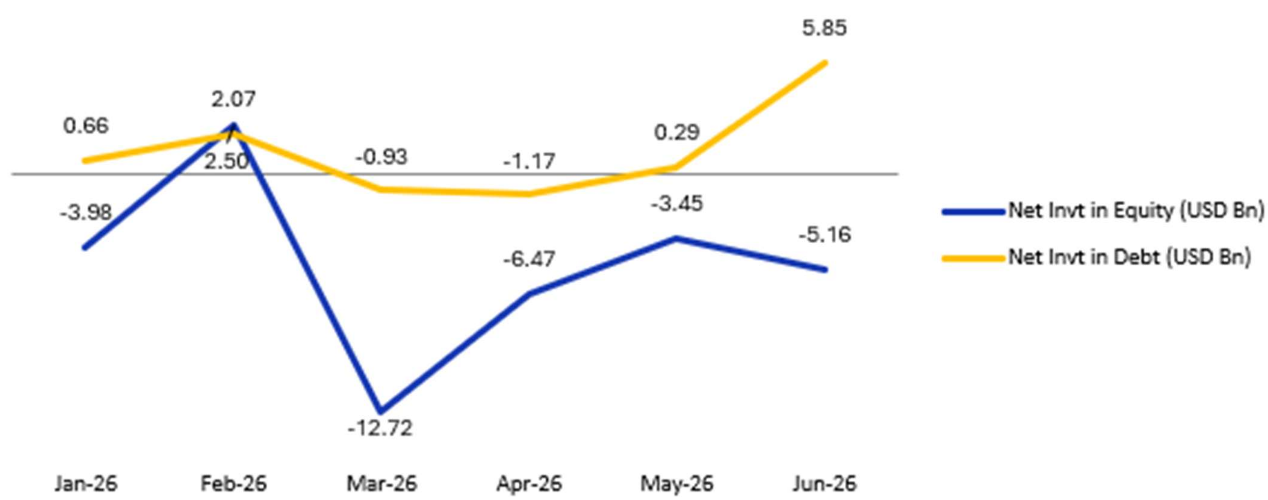
Fig: Fund flows

(USD mn)	1D	30D	CYTD
DII - Cash	723	9,023	50,421
FII - Cash	224	(5,157)	(29,285)
FII - Debt	257	3,235	2,857

Source: Axis Capital, NSDL

While foreign investors sold equities, India continued to attract foreign capital through the debt market. In June 2026, foreign inflows into the debt market remained significantly higher than equity outflows. This is a positive sign for the Indian economy, as robust foreign participation in debt market reflects confidence in India's macro stability.

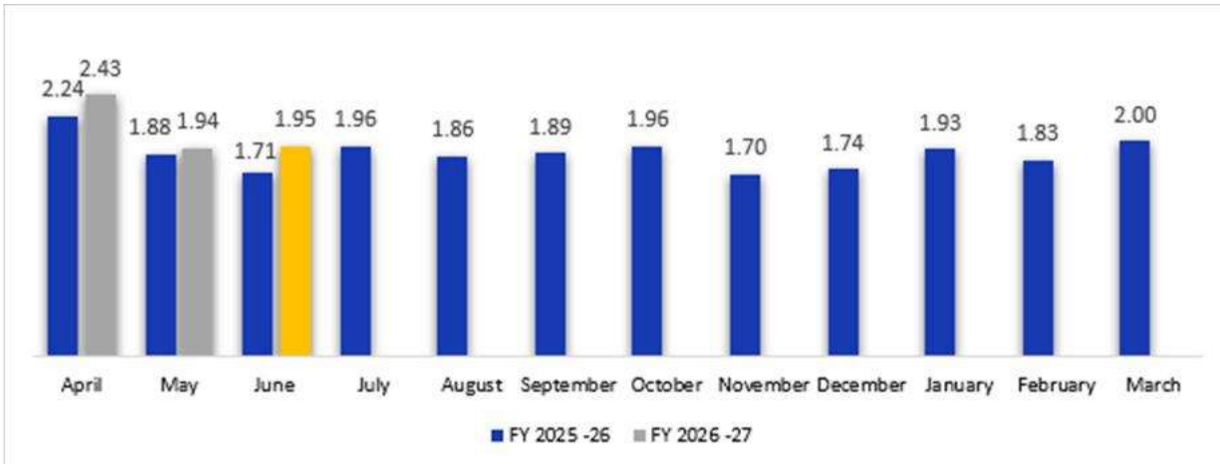
Fig: Net Foreign Fund Flows in CY2026: Equity vs. Debt (USD Bn)



Source: NSDL

On the macroeconomic front, Goods and Services Tax (GST) revenue for June 2026 stood at INR1.95 trillion, up 13.90% YoY. The GST regime has completed 9 years, marking a significant milestone in India's indirect tax reforms. GST collections have increased by nearly 90% compared to the pre-GST period.

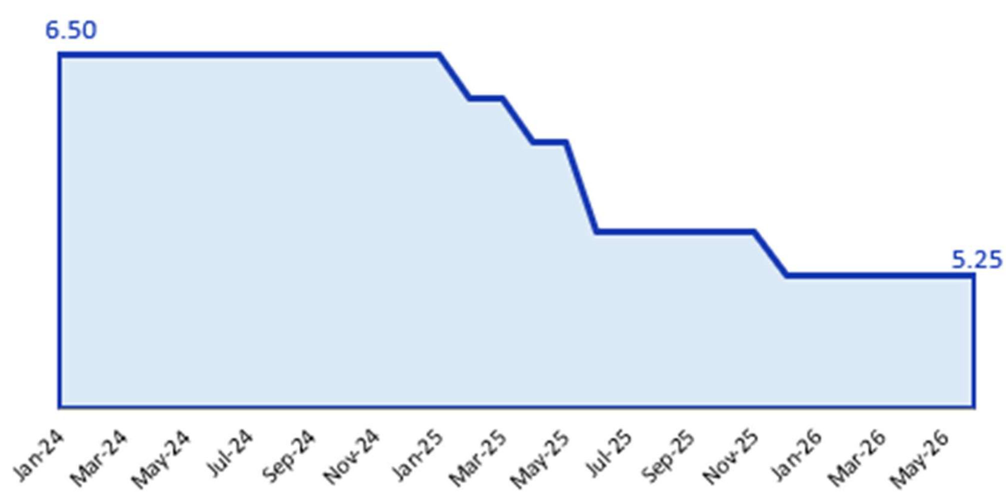
Fig: GST Collections Trend (in INR trillion)



Source: EquiPoise Capital Research, GoI

The Reserve Bank of India's (RBI) monetary policy committee (MPC) maintained the status quo on interest rates, keeping the repo rate unchanged at 5.25%, and since December 2025. RBI revised its FY2027 real GDP growth forecast down to 6.6% (from 6.9% in April) and raised its inflation projection to 5.1% (from 4.6%). The revisions were driven primarily by higher commodity prices from the West Asia conflict and the risk of below-normal rainfall.

Fig: Policy Repo Rate (%)



Source: GOI, India Data Hub

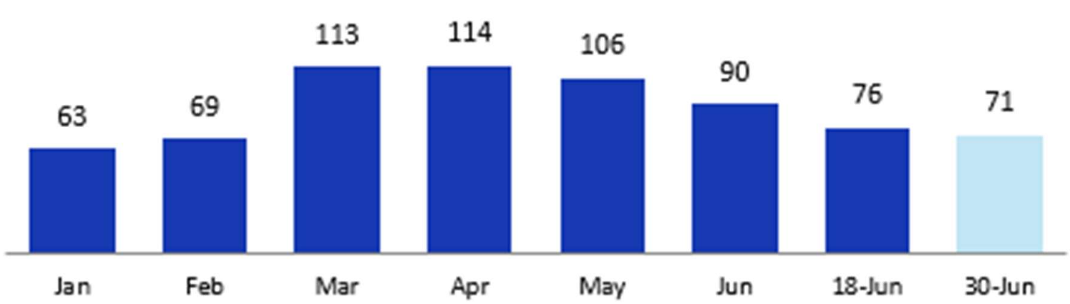
CPI inflation rose to 3.93% YoY in May 2026, up from 3.48% in April — the fifth consecutive monthly increase and the highest reading in the new CPI series (base year 2024) introduced in January 2026. Food inflation remained the key driver of headline inflation, while non-food inflation remained relatively stable. Going forward, the key risk for the remainder of FY27 will be the progress of the monsoon and the possibility of El Niño conditions, which could impact agricultural output, keep food inflation elevated, weigh on corporate earnings, and moderate overall economic growth.

Fig: CPI Inflation (YoY%)

Source: Ministry of Statistics and Programme Implementation (MOSPI)

The government's decision to reduce the windfall levy on diesel and aviation turbine fuel (ATF) exports while raising the duty on petrol exports reflects improving conditions in the global crude market following the mid-June ceasefire and the normalization of shipping through the Strait of Hormuz. India, through traders, has started exporting refined petroleum products mainly gasoline. The Indian crude basket has fallen back to around USD 71/bbl from a conflict peak near USD 115/bbl, and now sits only modestly above its pre-conflict level of roughly USD 60–65/bbl. If conditions remain stable, softer crude should support lower inflation, stable domestic fuel prices, reduced input costs, and stronger growth.

Fig: Crude Oil Price (Indian Basket, USD/bbl)



Source: India Data Hub

Japanese PM Takaichi Sanae visited India for annual summit level talks with Indian PM Modi. India Japan Joint Declaration on Economic Security Cooperation focuses on resilient supply chains, semiconductors, critical minerals, advanced manufacturing, strategic technologies etc. A separate India Japan AI Cooperation Statement was signed where the two governments agreed to deepen cooperation in AI applications, manufacturing automation, healthcare, mobility and digital innovation. Geo-politics too figured in the discussion with focus on Indo-Pacific stability, maritime security, China-related regional developments, Middle East stability getting discussed.

Indian PM Modi assured the visiting Japanese business delegation, accompanying PM Takaichi, that his office would soon organise a Japan Business Week in New Delhi where senior officials from Prime Minister's Office would engage directly with Japanese corporate leaders to understand their concerns and facilitate greater investments. Japan has made commitment of ~USD12.5 billion in fresh investments in India and 129 Memoranda of Understanding (MoUs) were announced by companies and institutions from both countries. In a news report which came this week Japan's Fukuoka prefecture has sought Haryana state's cooperation to train and supply around 50,000 skilled workers over the next five years. This angle on labour supply to Japan could be a win-win for both the countries. India has one of the younger age population and Japan is the except opposite. This kind of deal could open significant overseas employment opportunities for India's youth and provide Japan with the workforce it needs.

Our view:

Indian economy and market have faced headwinds since April 2025 in the form of US tariffs, US-Iran war and the ongoing rush for investments into AI by global investors. Despite these challenges, economic indicators such as strong GDP growth, expanding manufacturing and services activity, record vehicle sales, healthy GST collections and exports indicate the resilience of the Indian economy, which is braving global uncertainties. India's GDP grew by 7.7% in financial year 2025-26, reaffirming its position as the world's fastest-growing major economy. Strong performance in manufacturing, services, consumption and investment accelerated real GDP to 7.8% in the last quarter of the financial year.

It seems unprecedented when one looks at global markets and single-minded focus (of global investors) on the most powerful investment theme - AI. The markets today seem to be ignoring all other drivers of earnings and returns. Relative returns of the world's major equity markets over the past year can be explained by how much exposure they have to AI. Markets with a large exposure to the AI ecosystem and involved in developing AI hardware and services have massively outperformed, while those without, like India, have lagged.

Gainers are US and China due to development of foundational models viz LLMs, Taiwan and South Korea being chip manufacturing majors; Japan and Israel on a wide array of AI skills; Mexico, Thailand and Vietnam being exporters of servers, circuits, and other Al-related electronic hardware; Malaysia and Singapore being sizeable bases for data centers and lastly Netherlands the sole European country in the list of AI gainers thanks to its position as a major supplier of advanced chip making machines (each machine is so intricate, developed after years of intense R&D and expensive that other nations have simply not ventured into this area).

India has borne the brunt lacking "AI plays" and relying heavily on the industries most exposed to disruption, including IT services. AI plays constitute more than 40% of the market cap and have accounted for more than 80% of the returns this year in US. In Japan too, the return and concentration profile is similar and is even more stark in Taiwan and South Korea.

Notwithstanding the 'AI action', India's net services surplus grew 15% in FY26 to USD217bn - a new high of 5.5% of GDP. Growth was 17% YoY in April 2026. Despite weakness in 'traditional' services (especially trade, travel and transport, with the post-pandemic recovery in inbound tourism lagging that seen globally), growth in 'modern services', particularly IT and business services, has remained strong. Together they may well have accounted for 0.8pp of FY2026 GDP growth. While headwinds from US policy (visas), and the structural overhang of AI may persist, we believe global services exports to continue contributing to growth, together with providing comfort on the balance-of-payments. Global Capability Centers (GCCs) are growing faster than IT Services firms.

FY2027 fiscal risks appear manageable with the reopening of the Strait of Hormuz and oil markets normalizing. Capex growth remains strong led by railways. While geopolitical risks have eased, El Niño has emerged as the next key risk for the Indian economy. The progress of the monsoon and the intensity of El Niño will remain key factors to monitor as there are signs of improving precipitation across the country.

We maintain that returns from Indian market will be stock specific and our portfolio has reflected our bottom-up approach. We are focused on infrastructure, telecom, textiles, engineering, shipping, pharmaceuticals, and capital goods sectors. We maintain significant underweight in information technology services, metals, energy, and real estate. We remain steadfast on our conviction picks in the portfolio. We remain optimistic on India's investment and domestic consumption led growth in the long term.

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