

OVERVIEW

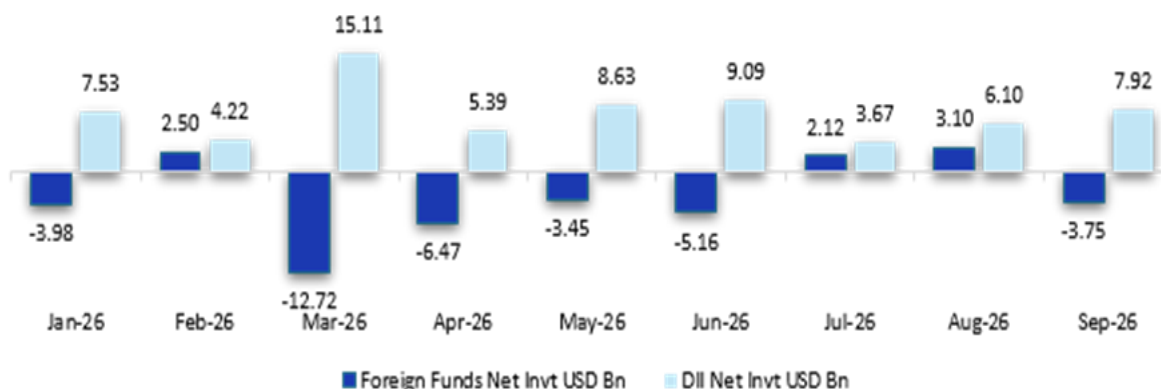
For the month ended September 2026, the Nifty 50 index was down by 6% over the previous month. Nifty Smallcap 100 index was down 3.44%, while Nifty Midcap 100 index was down 7.6%. Smallcaps outperformed largecaps and midcaps during the month. Within sectors, banks, consumer goods, media, metal, pharma, private bank, oil & gas and healthcare outperformed the benchmark Nifty 50 index, while technology services, consumer durables, automobiles and realty underperformed the benchmark.

Sr. No.	Index Name	Sep-26
		M-o-M Change
1	NIFTY 50	-6.06%
2	NIFTY Midcap 100	-7.62%
3	NIFTY Smallcap 100	-3.44%
4	NIFTY Auto	-8.83%
5	NIFTY Bank	-5.85%
6	NIFTY Financial Services	-6.25%
7	NIFTY FMCG	-3.30%
8	NIFTY IT	-11.18%
9	NIFTY Media	1.66%
10	NIFTY Metal	-3.28%
11	NIFTY Pharma	-2.75%
12	NIFTY Private Bank	-4.68%
13	NIFTY PSU Bank	-6.89%
14	NIFTY Realty	-6.28%
15	NIFTY Consumer Durables	-9.41%
16	NIFTY Oil & Gas	-4.41%
17	NIFTY Healthcare Index	-4.74%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net sellers in September 2026 at ~USD3.75bn and domestic institutions were net buyers at ~USD7.92bn. After being consecutive buyers for the last two months, foreign funds turned net sellers following the US Federal Reserve's rate hike. For CYTD2026, foreign funds were net sellers at ~USD27.81bn, while domestic institutions were net buyers at ~USD67.65bn, supported by sustained retail flows, with monthly SIP contributions crossing INR32,000 cr. (~USD3.32bn).

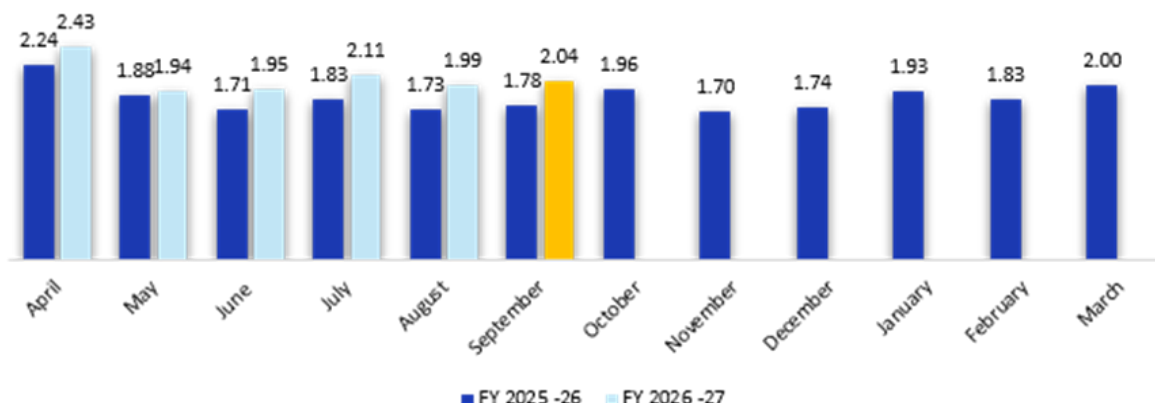
Fig: Fund Flows



Source: NSDL

On the macroeconomic front, Goods and Services Tax (GST) revenue for September 2026 stood at INR2.04 trillion, up 14.7% YoY. On a cumulative basis, the government's gross GST collections during April-September 2026-27 (FY27) stood at INR12.46 trillion, compared with INR11.17 trillion during the same period last year, registering a growth of 11.57%.

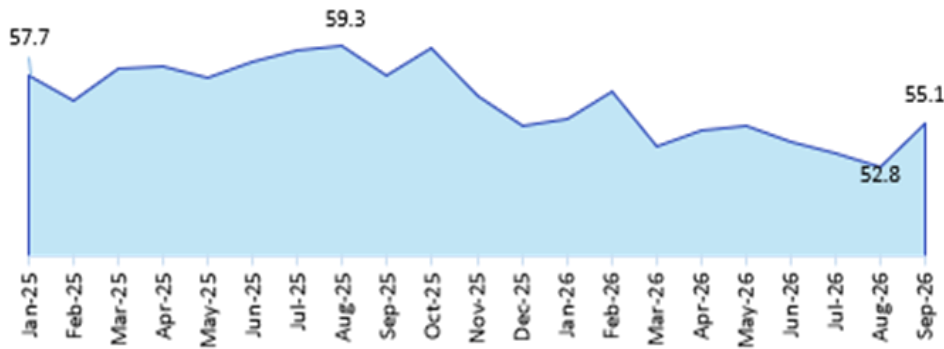
Fig: GST Collections Trend (in INR trillion)



Source: EquiPoiSe Capital Research, GOI

India's manufacturing sector rebounded sharply in September, with the HSBC India Manufacturing PMI rising to 55.1 from 52.8 in August 2026, marking the strongest expansion in seven months. The recovery was driven by stronger domestic demand and export orders, while higher input costs remained a key concern. Overall, the September PMI indicates a broad-based recovery in manufacturing activity, supported by stronger demand, exports and production.

Fig: India Manufacturing PMI

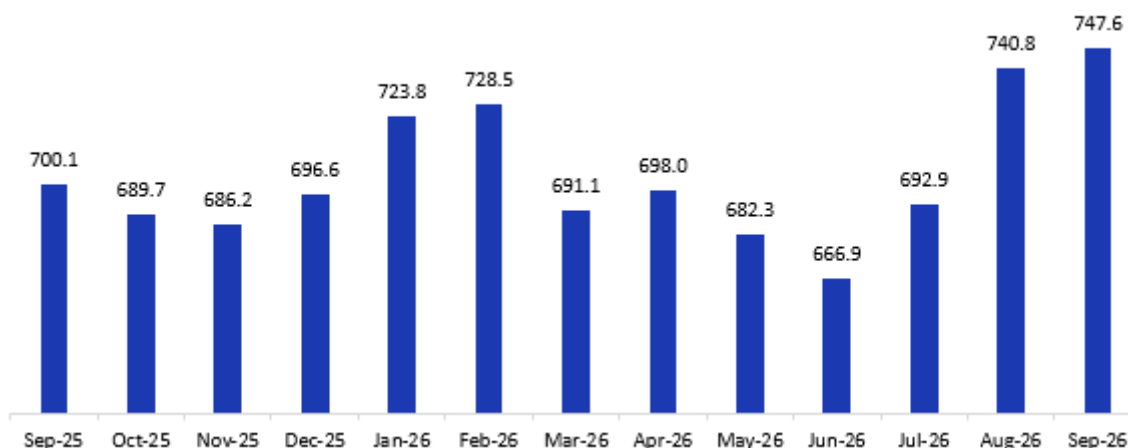


Source: S&P Global

Global agencies have raised India's FY2027 GDP growth outlook to around 7%, supported by strong Q1FY27 growth, resilient domestic consumption, investment and manufacturing activity. OECD has the highest forecast at 7.1%, followed by S&P, Moody's and ADB at 7.0% and Fitch at 6.9%. The Finance Ministry expects GDP growth of 7.3% in Q2FY27, following a robust 7.8% expansion in Q1FY27.

India's foreign exchange reserves reached a record USD785.7bn in early September 2026, driven largely by inflows under the RBI's FCNR(B) swap window, before declining by around USD38.2bn, largely reflecting RBI intervention to support the rupee amid higher crude oil prices and external pressures. Despite the recent decline, reserves remain around 7% higher YoY, indicating a strong external liquidity buffer.

Fig: India's Forex Reserves (USD Bn.)

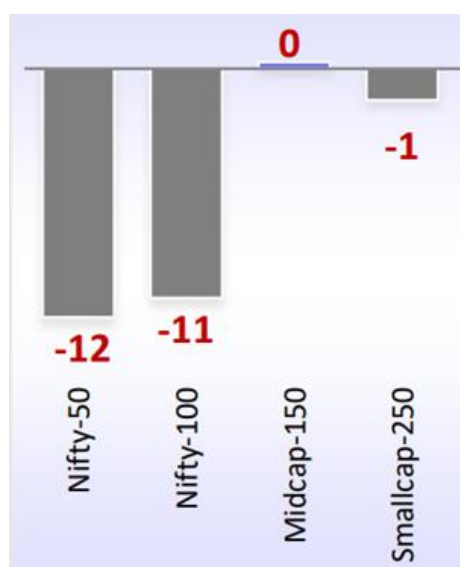


Source: RBI

OUR VIEW

Last two years have been 'unexciting' as far as Indian equity markets returns are concerned. September 2024 to September 2026, BSE 500 TRI index is down 3.93%, Nifty 50 is down 12%, whereas the midcap index is flat. This needs to be seen from the perspective of various headwinds the economy has faced including exceptional US tariff on India, US Iran war, global investors chasing AI plays, global yields spiking up, foreign funds selling, multinational corporations cashing out on the rich valuations of their Indian subsidiaries, and to add to it barrage of initial public offering (IPOs) led by private equity funds taking advantage of exuberant domestic inflows (April to September 2026 have seen nearly USD10bn raised through IPOs).

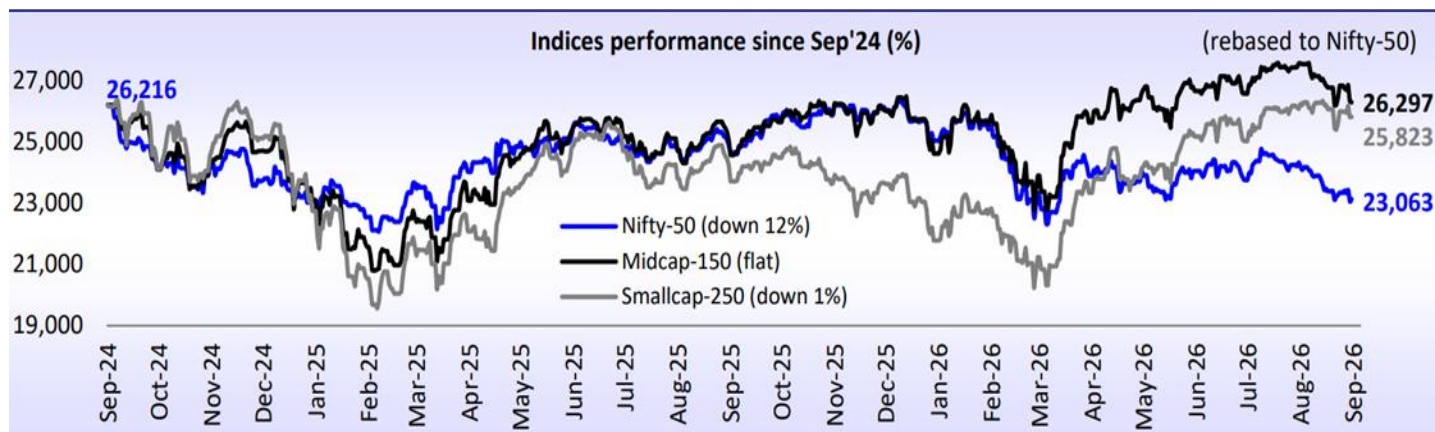
Fig: Index returns September 2024 to September 2026



Source: Motilal Oswal Research

Thus, September 2024 remains an all-time high the Indian equity market has scaled so far which has led to an unbearably long consolidation phase the Indian equity market has undergone. While the market remained range-bound and traded below its peak levels, there was significant divergence in sector and stock performance. Ongoing market consolidation, alongside continued earnings recovery from FY2025 lows, has led to a sustained cooldown in valuations from the highs seen in 2024. Notably, large and mid-caps saw the steepest valuation corrections from their highs.

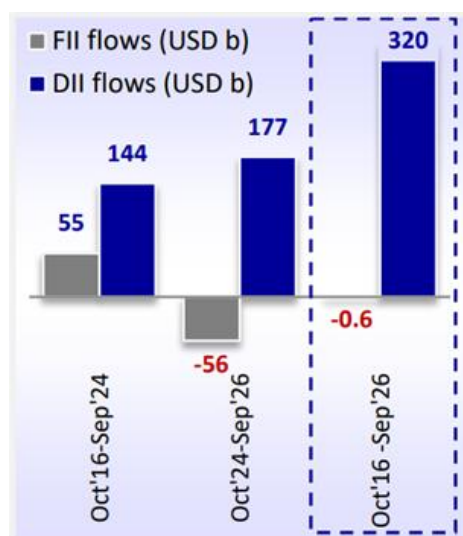
Fig: Unexciting returns over last two years



Source: Motilal Oswal Research

In the last 21 months (January 1, 2025, to September 30, 2026), foreign funds selling has been around USD47bn whereas domestic funds have been net buyers at USD156bn. Foreign funds in the last ten years have net sold USD0.6bn i.e. there is no net foreign portfolio investment into India in a decade. Strong domestic retail participation, supported by steadily rising monthly contributions (+INR300b per month), provided a cushion against the relentless foreign fund selling. Worth mentioning here to give a perspective that Indian households have bought more gold (which is 98% imported) in the last 15 years alone than foreign investors have invested in Indian equity market since 1992. It is a myth that India is dependent on foreign savings to fund its growth. Reality is that India's financial literacy, asset allocation and risk acceptance needs to change. Am hopeful looking at the investment pattern of India's youth.

Fig: Domestic fund flows dominate through last 10 years



Source: Motilal Oswal Research

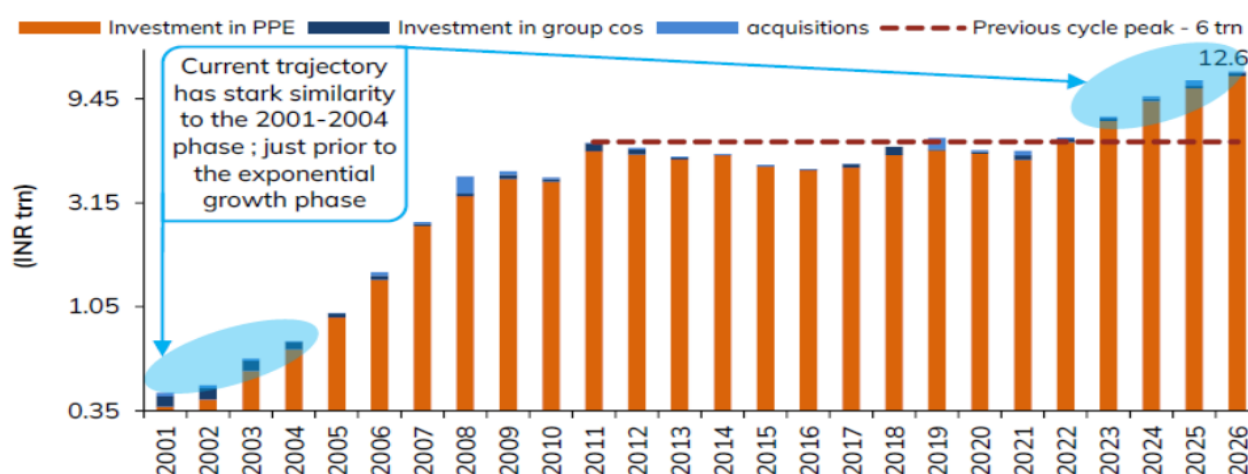
Despite the multiple headwinds, India's equity market has shown remarkable strength on the back of the ground reality. We saw GDP growth was reported at 7.8% last month. High frequency indicators for Q2FY2027 also suggest robust nominal aggregate growth, thereby improving the prospects for FY2027. Cyclical factors such as corporate capex, financial leverage, corporate profits, discretionary consumption, credit growth and NPAs remain conducive. Despite ongoing geopolitical headwinds, energy price volatility and bouts of global macro uncertainty, India's economy and corporates have demonstrated resilience during the extreme volatility seen in the past two years. Indian companies' net debt to equity is at all-time low. Similarly, Indian banks are in a very healthy state with record low NPAs. The 7.8% GDP growth in quarter one FY2027, robust GST collections, healthy credit growth, strong auto volumes, rising digital payments (read as transparency and supportive of reported economy) and the steady recovery in corporate earnings from the FY2025 lows indicate underlying economic strength. For well over a decade, including during Covid, government of India has remained steadfast on capital expenditure, infrastructure and investment led growth.

Fig: High frequency data indicates robust growth

Consumption Indicator	Dec'25	Jan'26	Feb'26	Mar'26	Apr'26	May'26	Jun'26	Jul'26	Aug'26	Sep'26
Personal Loan growth	14.4%	15.3%	15.2%	16.2%	16.0%	15.4%	15.8%	16.2%	16.9%	NA
4W growth	26.8%	8.0%	7.3%	21.1%	24.6%	25.3%	26.9%	31.2%	33.2%	NA
2W growth	39.4%	26.2%	35.2%	19.3%	28.4%	14.9%	18.7%	22.7%	10.9%	NA
IIP - Primary Goods.	4.4%	3.1%	1.8%	2.2%	0.8%	2.7%	5.4%	4.2%	NA	NA
IIP Consumer Goods Durables	12.4%	7.2%	7.1%	5.3%	5.6%	8.0%	10.3%	12.0%	NA	NA
IIP Consumer Goods Non Durables	8.5%	-2.3%	-0.5%	1.1%	0.2%	-0.4%	5.6%	-0.8%	NA	NA
Petrol Consumption	7.1%	6.1%	6.1%	7.6%	6.8%	3.4%	7.4%	9.2%	8.2%	NA
S&P Global India Services PMI	58.00	58.50	58.10	57.20	58.80	59.80	57.40	53.30	54.10	58.10
CPI	1.33%	2.73%	3.21%	3.40%	3.48%	3.94%	4.38%	4.5%	4.8%	NA
Passenger - all airports	-2.8%	3.9%	0.5%	-4.4%	-5.4%	4.5%	-1.8%	-4.7%	-5.6%	NA
GST Collections (Rs bn)	1,791	1,993	1,888	2,002	2,428	1,942	1,948	2,112	1,999	2,035
E-way bills (no. in lakhs)	1,384	1,368	1,326	1,406	1,334	1,361	1,368	1,398	1,391	NA
Consumer confidence index	NA	98.07	NA	95.70	NA	90.65	NA	88.30	NA	NA

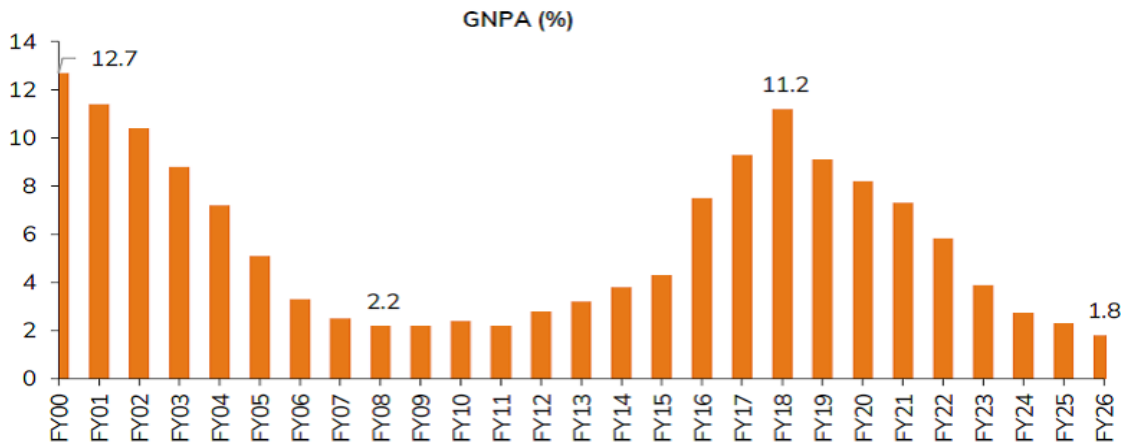
Source: ICICI Securities

Fig: Corporate capex (listed space)



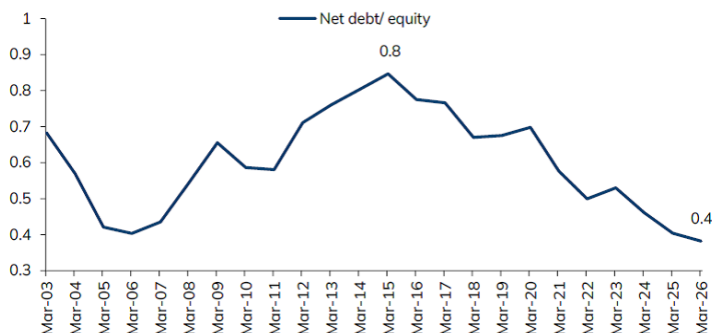
Source: ICICI Securities

Fig: NPA cycle continues to drop to a cyclical low



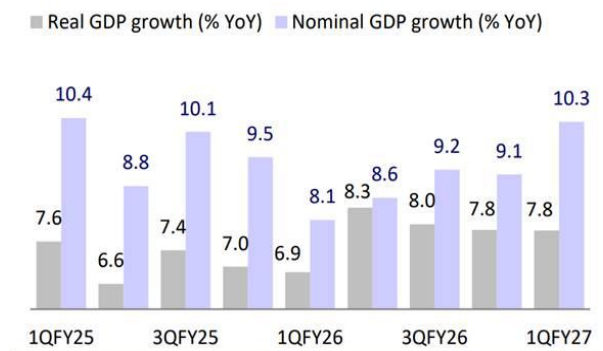
Source: ICICI Securities

Fig: Net debt / equity (x) for corporate India at bottom



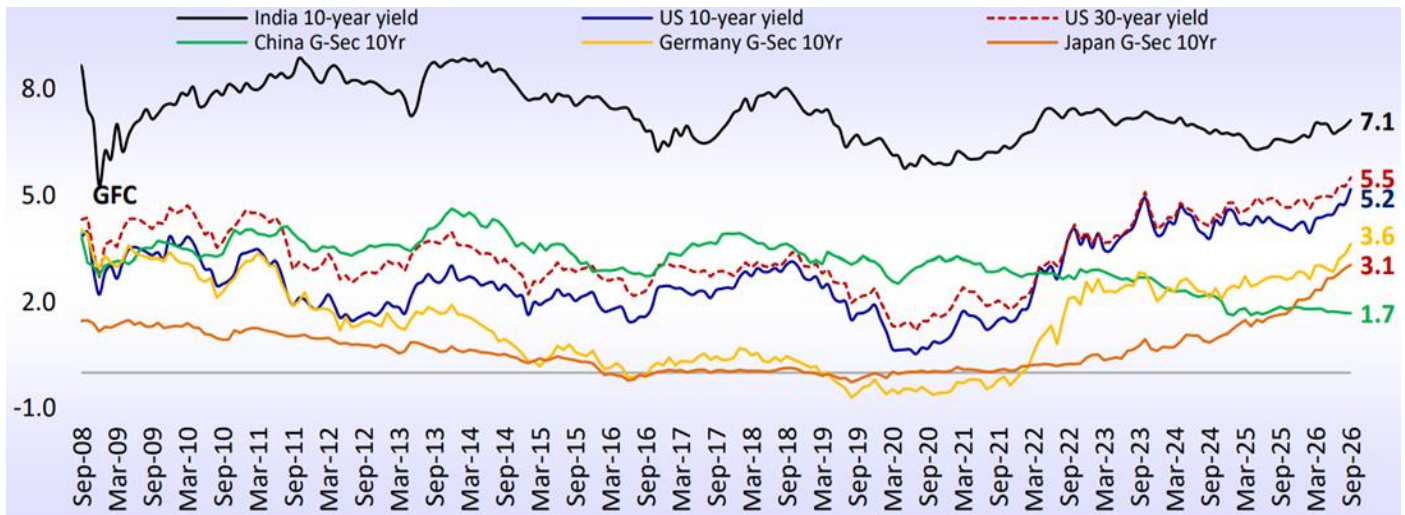
Source: Motilal Oswal Research

Fig: India GDP growth at 7.8% for Q1FY2027



The surge in global 10-year bond yields and the re-emergence of a rate-hike cycle are key concerns for global equities and India. The US Fed has raised rates by 25bp to 3.75-4.00%, its first hike in three years, while the Bank of Japan has raised rates twice to 1.25% and the ECB by 25bp to 2.25%. India too is expected to start raising rates from October 2026. While this may tighten liquidity conditions, the rate-hike cycle is likely to be benign, as broad-based inflationary pressure has yet to emerge.

Fig: Global bond yields surge



Source: Motilal Oswal Research

With valuations now significantly below their peaks, earnings growth remaining healthy, and macro environment staying strong, we believe risk-reward has likely enhanced further for Indian equities. If asked to identify one factor which is key to revival of Indian equities, then it would be OIL. We remain optimistic on India's investment and domestic consumption led growth in the long term.

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Founder and Chief Investment Officer

EquiPoise Capital Management Private Limited

October 07, 2026.

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