

ECONOMY AND MARKETS

May 2026



Investment Team

Middle east conflict triggers a direct shock to global energy supply

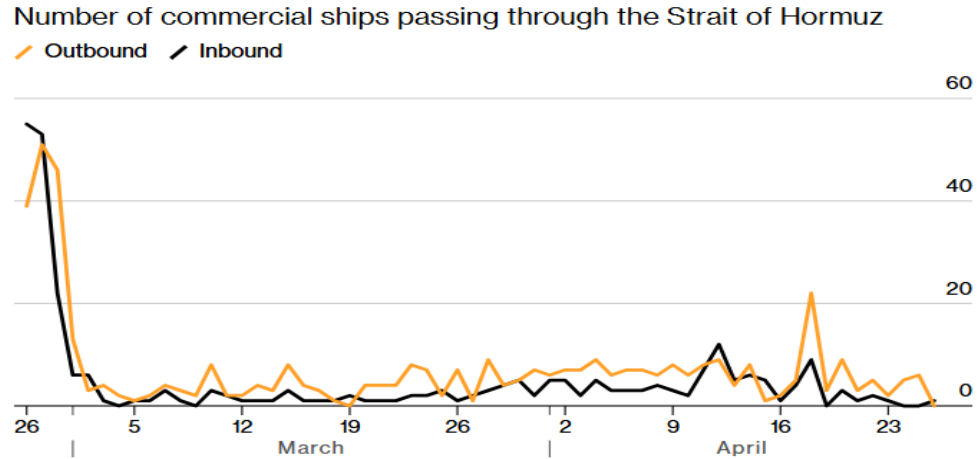
Strait of Hormuz: Critical energy chokepoint under stress



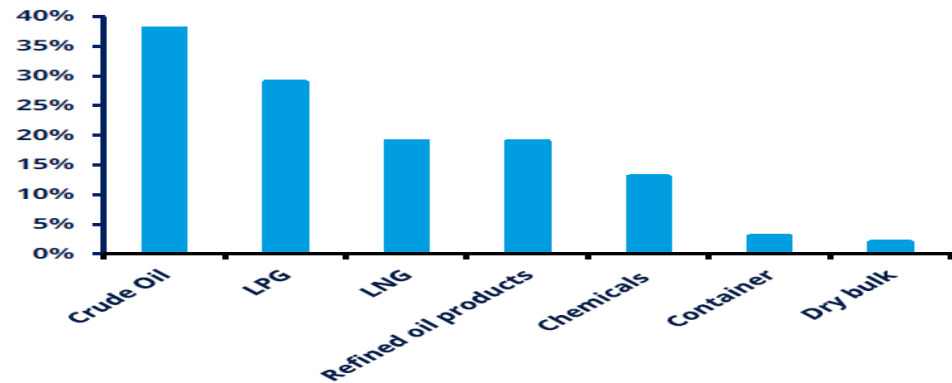
- Hostilities erupted across West Asia on February 28, 2026, rapidly escalating into a multi-country GCC conflict.
- Iran's move to halt most traffic through the Strait of Hormuz—the world's most critical oil and gas chokepoint—has effectively frozen maritime energy flows.
- Physical damage to oil and gas facilities across the GCC has disrupted production and exports across multiple producers simultaneously.
- Unlike past Middle East crises, this shock directly impairs a non-substitutable artery at the core of global energy supply chains.
- The Strait of Hormuz carries ~20 mbpd—~20% of global petroleum supply—with no credible alternative corridor.
- LNG markets are under acute stress as thin inventories, infrastructure damage, and surging freight and insurance costs force rapid repricing of supply risk.

Eight weeks of disruption and counting: Strait of Hormuz remains shut

Strait of Hormuz effectively shut: Pass through of commercial ships nearly zero vs. 100 earlier



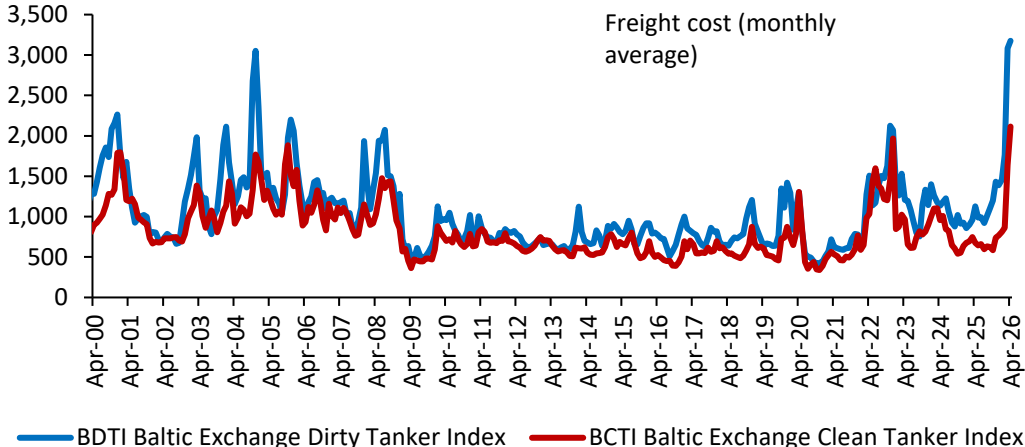
Share of global trade passing through Strait of Hormuz before the military escalation



Source: Amundi Investment Institute, UN Trade and Development (UNCTAD), based on data provided by Clarksons Research 2026.



Global supply chains are under stress; Freight costs rise sharply

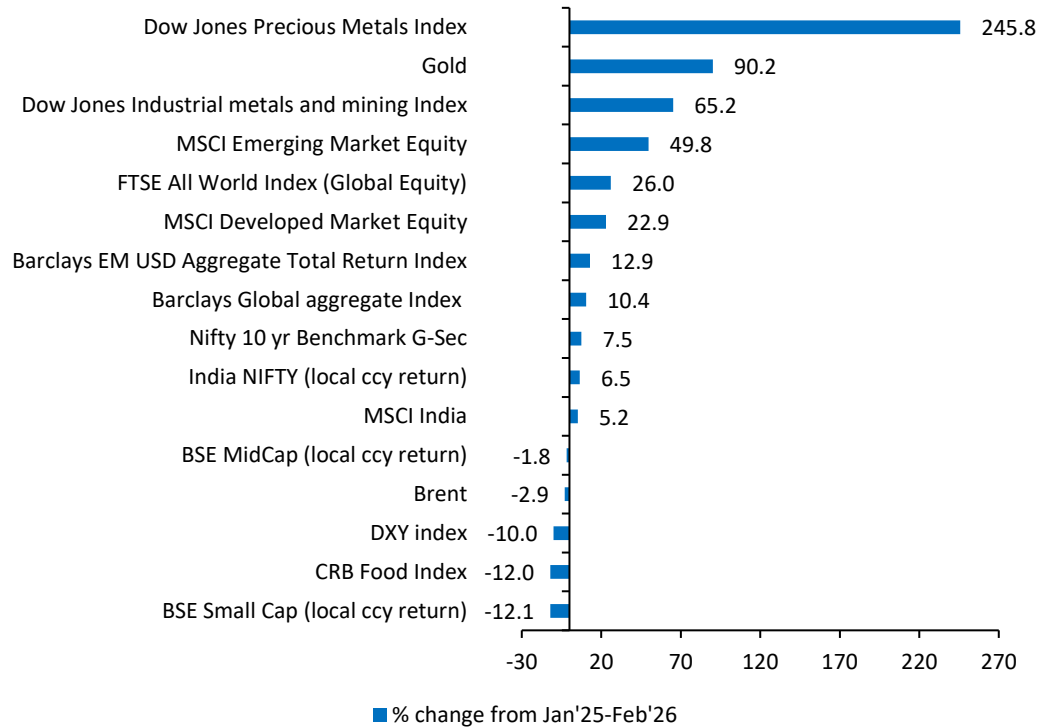


Global demand weakens; Inventories absorb supply shock

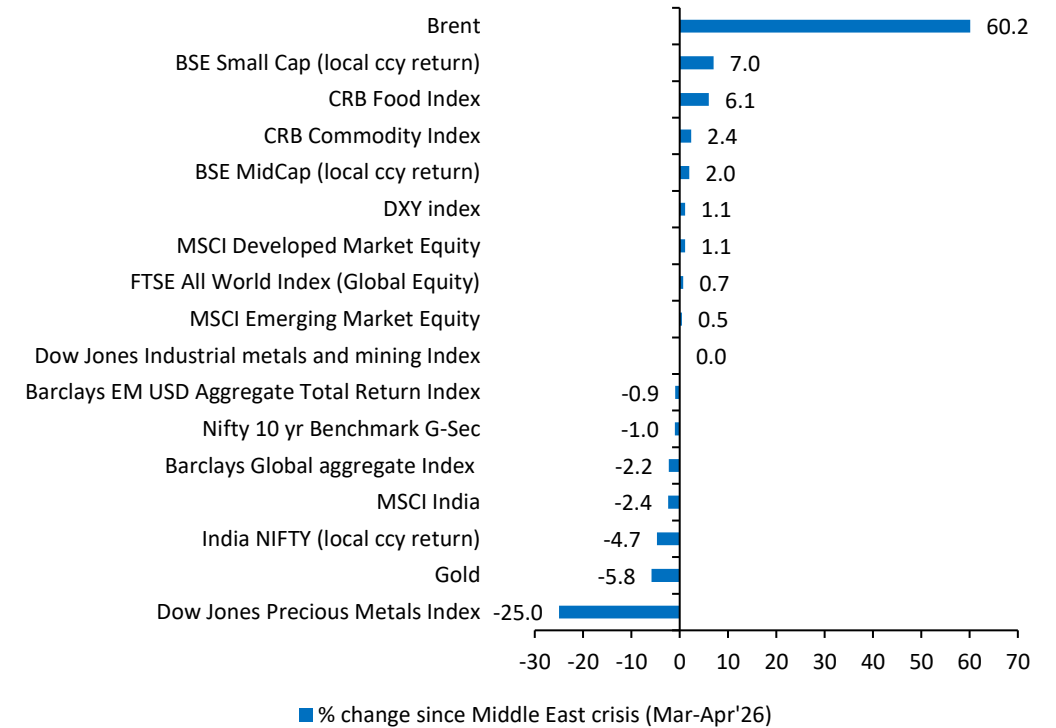
Total crude oil and related liquid (mnbpd)	Jan-26	Feb-26	Mar-26
Total world supply	106.0	108.0	98.2
Total world consumption	102.9	104.8	102.9
Surplus/Deficit	3.1	3.2	-4.7
Net withdrawal from inventory	-3.1	-3.2	4.7

Geopolitical risk triggers a sharp rotation across asset classes

Tariff uncertainty dominated 2025: Precious Metals Led Returns

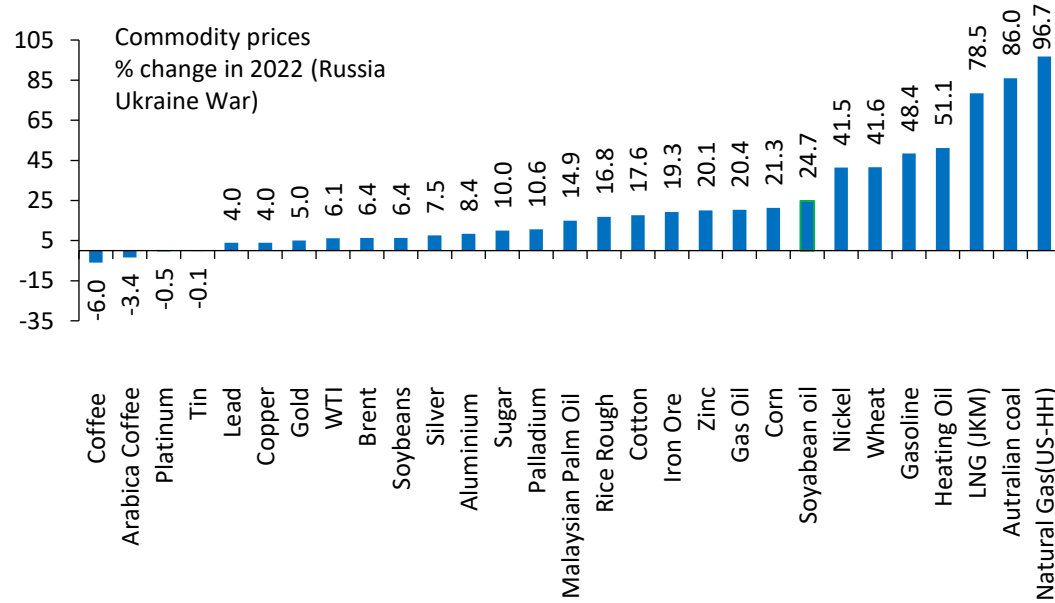


Geopolitical risk (Middle East war) dominated March-April 2026: Energy led the rally

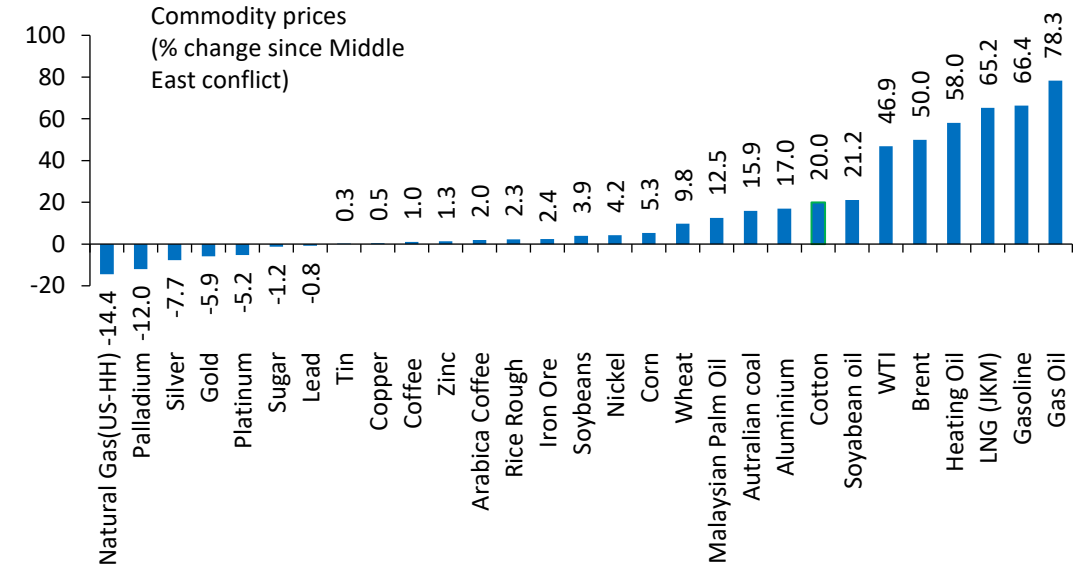


Energy supply shock pushes commodity prices higher

2022 Conflict drove sharp gains in energy prices



Middle East conflict, once again, amplifies energy market stress

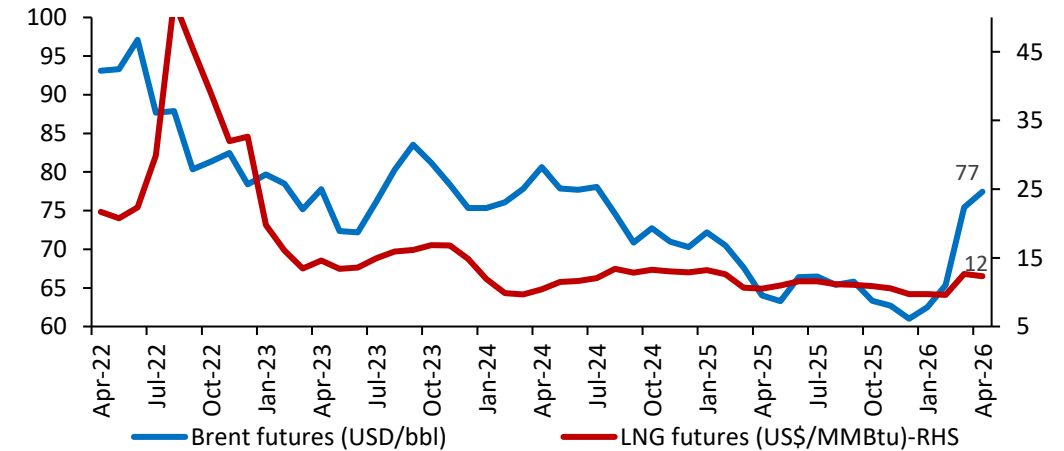


Stagflationary signals strengthen: Growth projections cut, inflation pushed higher

Rising energy costs weigh on growth while inflation risks build

Bloomberg expectation (% y-o-y)	For Real GDP for 2026 as on:		For CPI inflation for 2026 as on:	
	Feb-26	Apr-26	Feb-26	Apr-26
US	2.5	2.2	2.6	3.2
Eurozone	1.2	0.9	1.8	2.8
UK	1.1	0.8	2.4	3.1
Canada	1.2	1.2	2.1	2.5
China	4.6	4.6	0.7	1.0
India*	7.5	7.5	3.9	4.6
South Korea	2.0	2.0	2.0	2.4
Indonesia	5.1	5.0	2.8	3.1
Taiwan	4.6	6.7	1.6	1.9
Thailand	1.8	1.7	0.4	0.6
Malaysia	4.5	4.5	1.8	2.0
Philippines	5.0	4.8	2.7	3.2
Russia	0.9	0.9	5.4	5.8
South Africa	1.6	1.4	3.3	3.7
Brazil	1.8	1.8	4.0	4.3
Mexico	1.4	1.4	3.8	4.1
Colombia	2.8	2.5	5.6	5.7
Chile	2.4	2.1	3.0	3.5

Elevated futures (1Yr ahead); Energy prices point to persistent inflation pressure



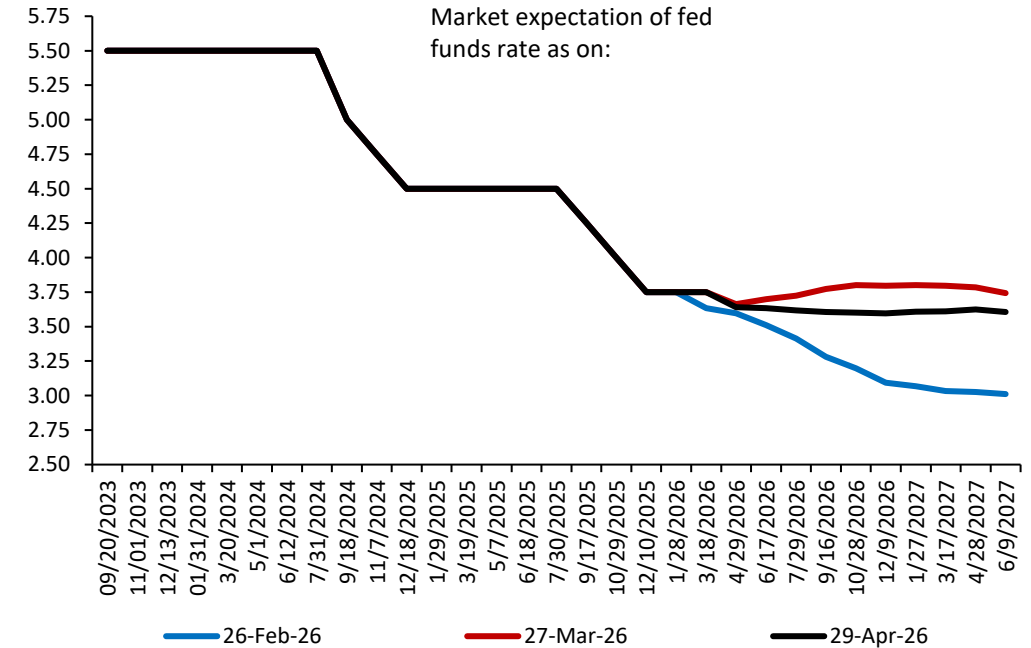
Source: Bloomberg, SBIFM Research; NB: Red highlights a downgrade in growth expectations and a higher inflation expectation for 2026 compared to the February 2026 expectation

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	3.60	3.62
Eurozone	2.15	2.65	2.79
UK	3.75	4.33	4.45
Japan	0.75	1.10	1.39
Canada	2.25	2.45	2.74
India	5.25	5.92	6.39
Australia	3.60	4.65	4.70
South Korea	2.50	2.89	3.47
Taiwan	2.00	2.11	2.31
Thailand	1.25	1.07	1.23
Malaysia	2.75	2.73	2.76
Philippines	4.50	5.05	5.46
New Zealand	2.25	2.84	3.47
Brazil	15.00	14.11	13.78
Mexico	7.00	6.77	7.23
Chile	4.50	4.83	4.97

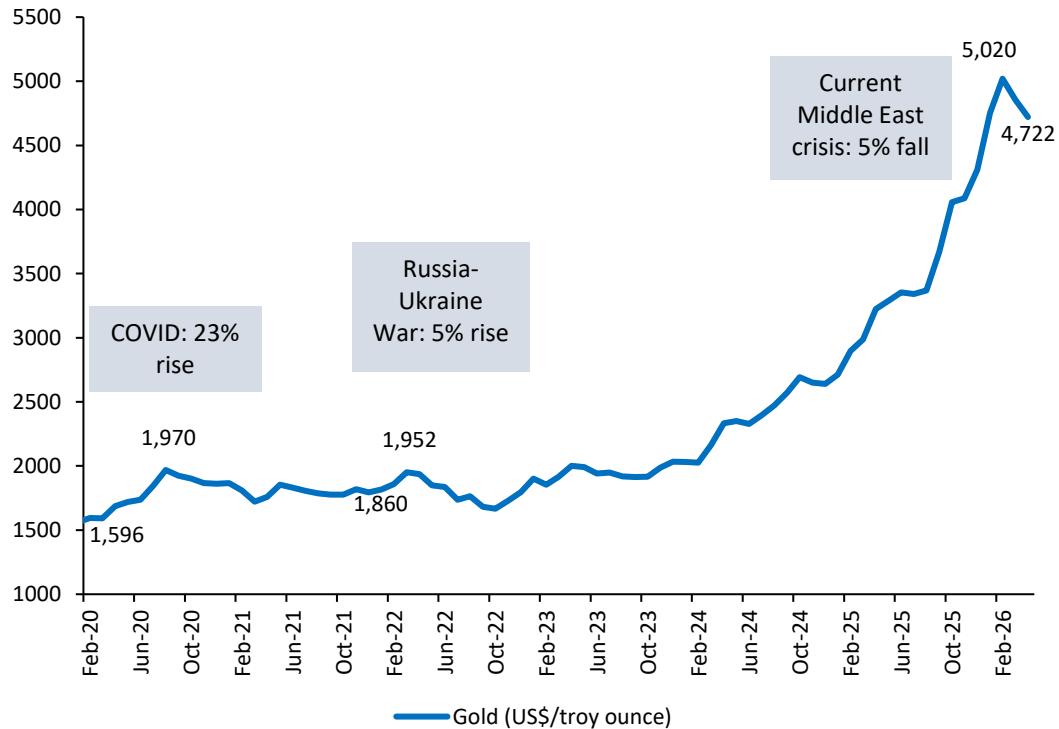
US Fed rate cuts gets eliminated in 2026 (now no rate cut is priced in for 2026 vs. first rate cut in July 2026 previously)



- 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

Gold fails to act as a geopolitical hedge; 5% fall since Middle East escalation

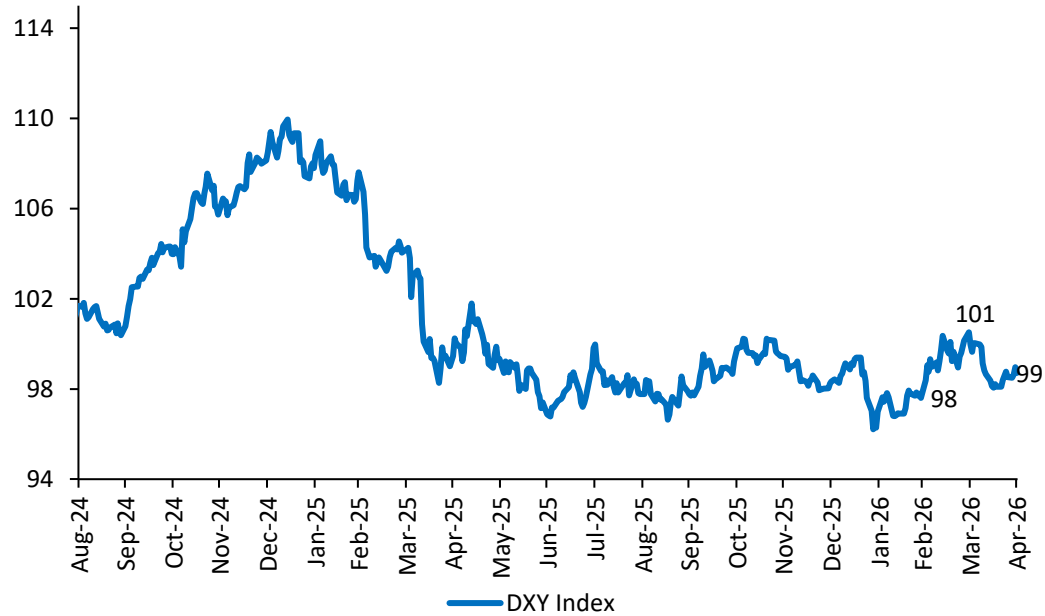


Bonds struggle as higher oil prices generate an inflationary impulse

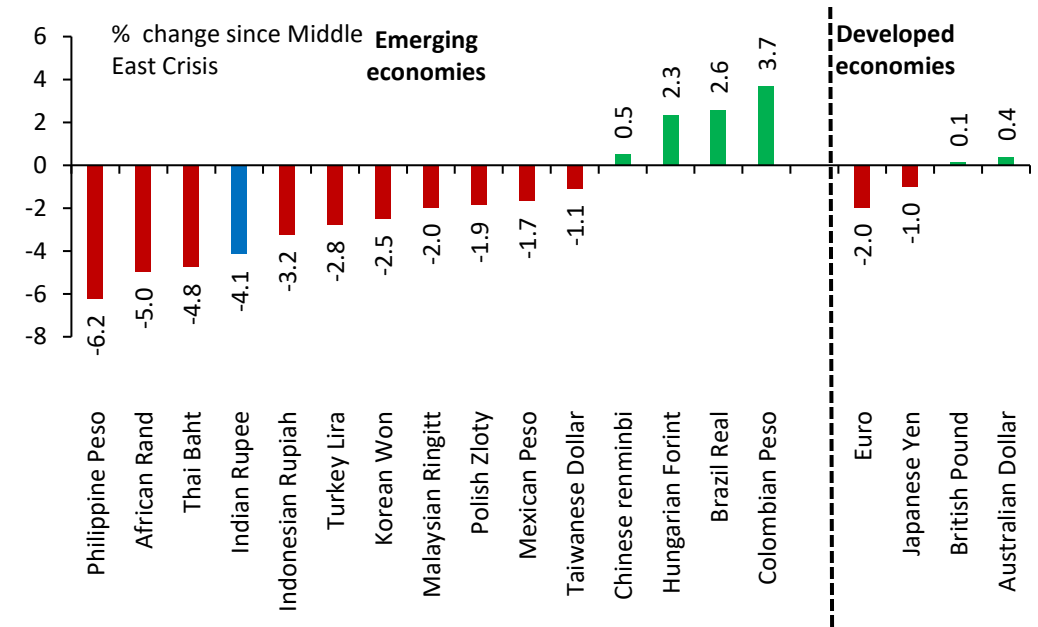
10 Year Gsec Yield (% mth end)	Feb-26	Mar-26	Apr-26	Change since Feb'26 (in bps)
Developed market				
US	3.94	4.32	4.40	46
Germany	2.64	3.00	3.09	45
Italy	3.27	3.91	3.92	65
Japan	2.12	2.35	2.53	41
Spain	3.06	3.51	3.55	49
Switzerland	0.21	0.37	0.43	23
UK	4.23	4.92	5.04	81
Emerging Market				
Brazil	13.55	14.01	14.02	47
China	1.81	1.82	1.75	-6
India	6.66	7.04	7.03	37
Indonesia	6.41	6.83	6.82	41
South Korea	3.45	3.88	3.84	40
Malaysia	3.50	3.64	3.56	6
Phillippines	5.90	6.98	6.96	107
Taiwan	1.42	1.50	1.51	9
Thailand	1.71	2.23	2.14	43
Turkey	30.12	33.54	34.35	423
Mexico	8.67	9.30	9.23	57
Poland	4.93	5.88	5.83	90
South Africa	8.13	9.32	9.03	90

Dollar strength drives broad currency depreciation

DXY strengthens by ~1% since Middle East crisis



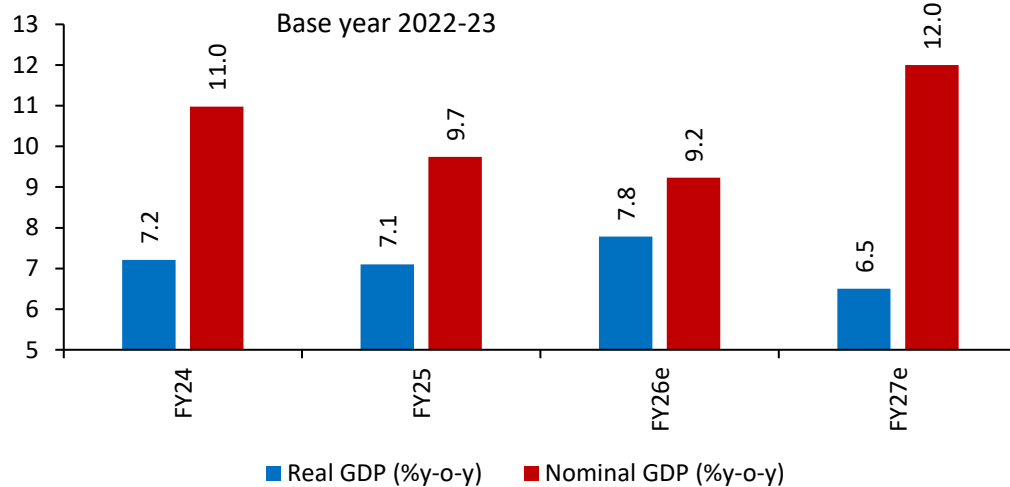
Majority of developed and emerging market currencies depreciate



- A sharp March rebound in the dollar (+2.5% m-o-m) has left the DXY ~1% stronger since the Middle East crisis, triggering widespread currency depreciation across EMs and DMs. The INR stands out as a notable underperformer, both recently and year-to-date.

India Growth outlook: Expectations moderate

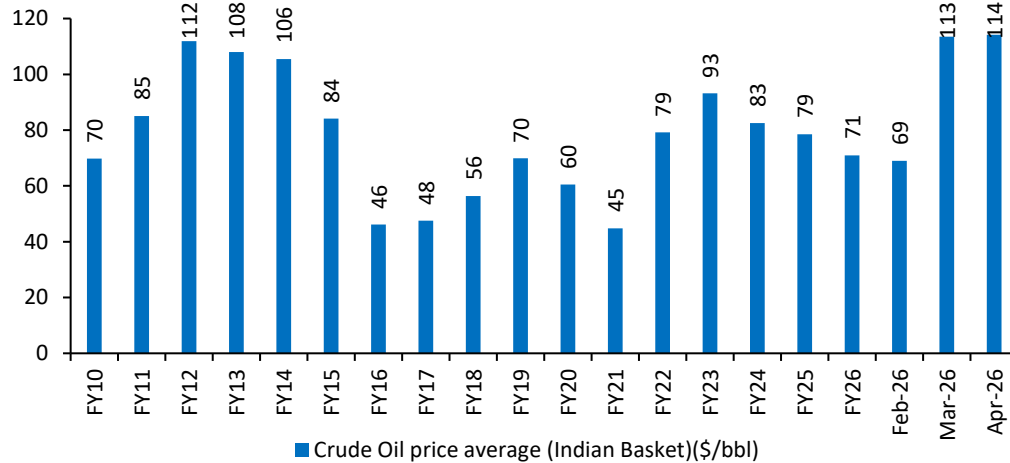
Real growth could moderate in FY27 while nominal growth could likely improve driven by higher WPI inflation



- Real GDP growth is expected to moderate from ~7.8% y-o-y in FY26 to ~6.5% in FY27, even as nominal GDP accelerates to 12–13%, driven by higher WPI inflation.
- The slowdown reflects supply-side constraints as much as price pressures, with energy shortages emerging as a key drag on activity.
- Industrial output is likely to weaken, particularly in energy-intensive sectors.
- Agriculture remains broadly stable for now, but Kharif-season weather risks and rising household inflation could weigh on demand.
- Export flows to the Middle East may face disruptions.

India macro gets impacted with energy shock from the Iran war

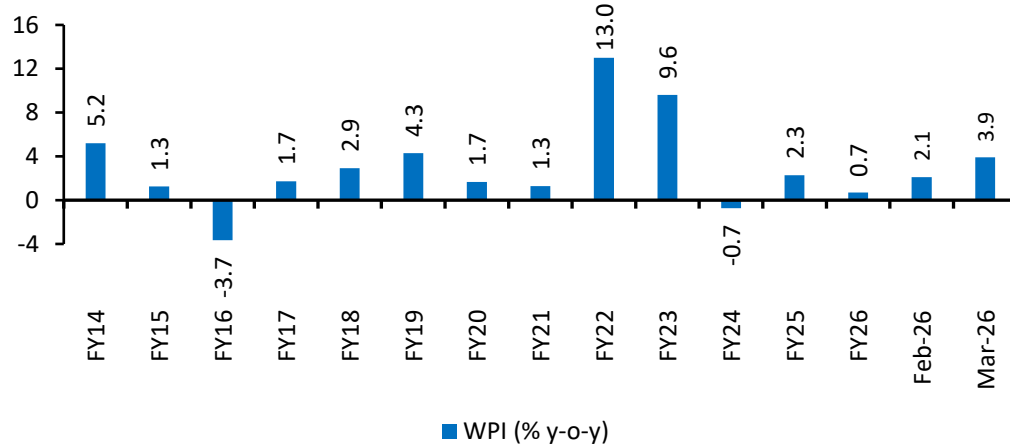
Indian crude basket jumped from US\$ 69/bbl in Feb'26 to US\$ 113/bbl by March 2026



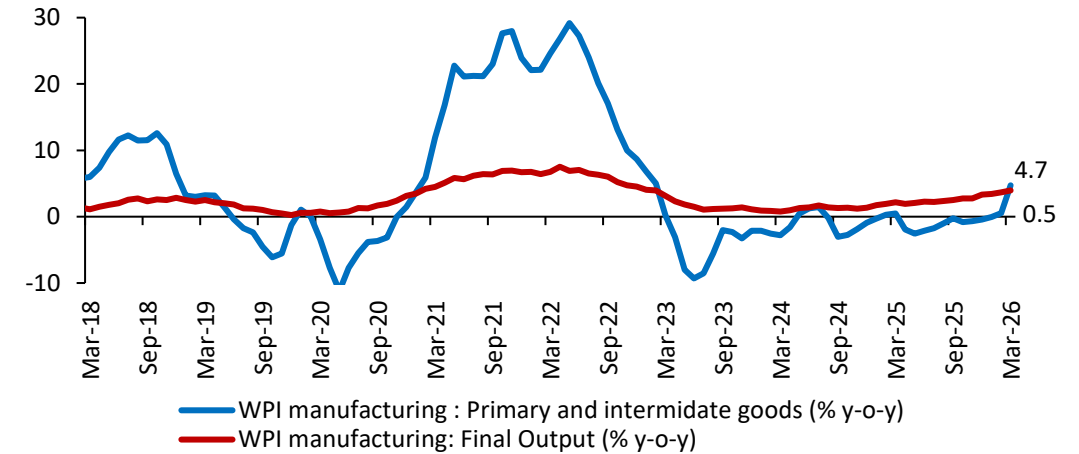
- Owing to higher freight costs and rupee depreciation, crude prices in rupee terms have almost doubled.

Raw material inflation rises in India : could translate into price hikes in final goods

WPI inflation jumped from 2.1% y-o-y in Feb'26 to 3.9% in Mar'26 driven largely by energy linked inputs

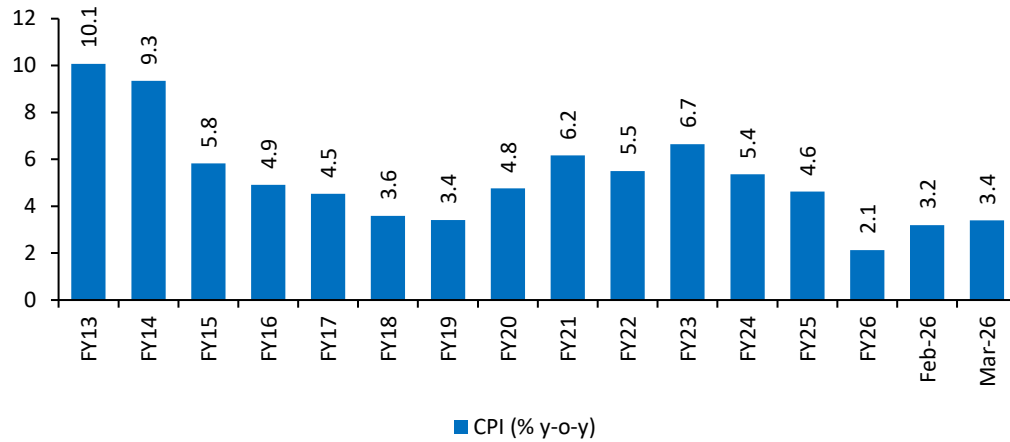


Input inflation saw a 9X jump from 0.5% to 4.7% while output inflation trend is broadly unchanged at 3.9%

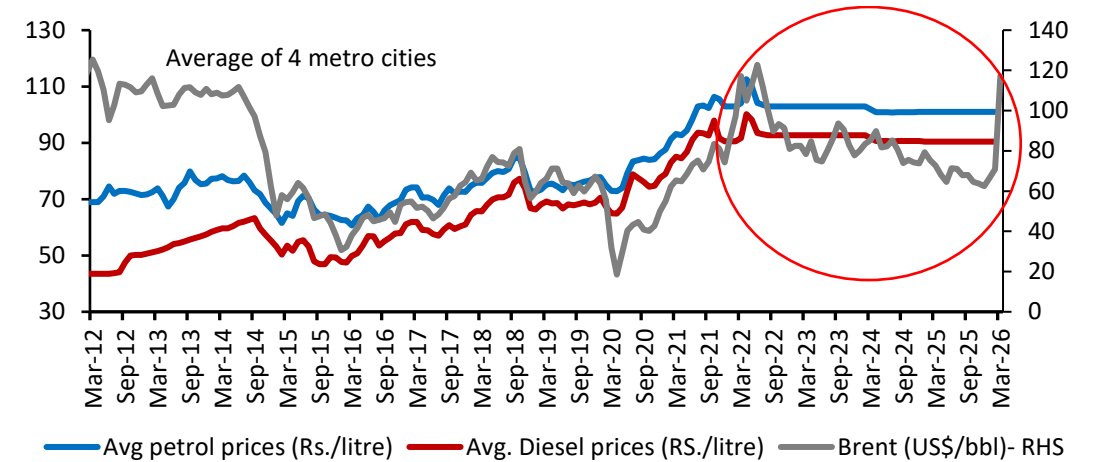


Government and industry absorb costs : limited retail inflation rise thus far

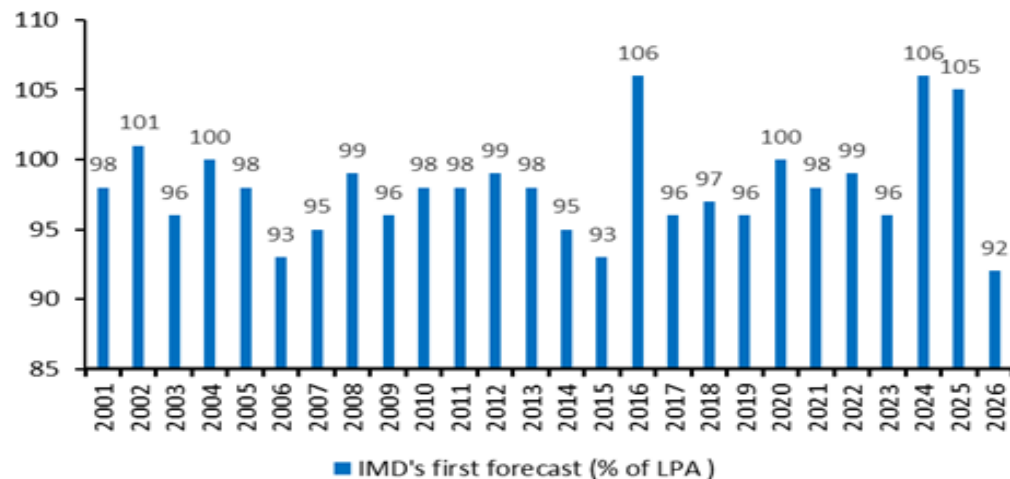
CPI Inflation remains anchored by stable food prices; only airfares, LPG, and kerosene reflect energy shock



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



2026 monsoon is faced with El-Nino risks which could be inflationary



Since 2000, 4 out of 5 El Nino conditions have resulted in below normal or deficient rainfall

#	El Nino Years	Rainfall
1	1982-83	Deficient
2	1986-88	Deficient
3	1991-92	Normal
4	1993	Normal
5	1994-95	Excess
6	1997-98	Normal
7	2002-03	Deficient
8	2006-07	Normal
9	2009-10	Deficient
10	2015-16	Deficient
11	2023-24	Below Normal

India High frequency data heatmap (1/2)

Bank credit, and consumption-oriented data holds up (corporate wage, auto sales, tractor sales, consumer sentiment); core industry output declines

%y-o-y		FY24	FY25	1HFY26	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
Overall Macro Indicators	GST collections (Rs. Billion)	11.7	9.4	9.8	4.6	-4.0	1.3	2.0	2.8	2.1
	Bank Credit (Rs. Tn)	19.2	13.4	9.9	12.5	11.5	14.5	14.5	15.4	16.1
	Petroleum Consumption (000 MT)	5.0	2.1	1.3	-1.5	0.6	4.6	0.7	5.5	2.2
	Electricity generation (bn KWh)	7.1	5.2	1.0	-6.9	-1.5	6.3	5.2	2.3	1.8
Logistics and Movements of Goods	Air Traffic: Passengers handled (mn passengers)	15.0	9.5	2.6	4.7	7.0	-2.8	3.9	0.5	na
	Air Traffic: Cargo handled ('000 tonnes)	7.0	10.5	4.7	-2.5	15.6	9.5	9.0	17.9	na
	Rail freight (mn tonnes)	5.2	1.7	3.2	2.3	4.2	3.2	3.5	na	na
	National Electronic Toll Collection (mn numbers)	10.9	11.7	15.6	17.5	17.3	12.7	15.7	7.9	14.2
	Total E-way bills (mn numbers)	16.1	17.3	21.8	8.2	27.6	23.5	15.8	18.8	12.9
	HSD Consumption (000 MT)	4.3	2.0	2.9	-0.3	4.8	5.2	3.3	4.3	na
	Total Port traffic (mn tonnes)	7.6	3.4	4.3	3.0	12.3	8.0	3.1	3.8	na
Consumer	Digital Payments (Value INR tn)	36.9	26.3	15.1	10.1	16.6	15.9	18.6	14.6	na
	Card Payments: Value: Credit Cards (Rs. Tn)	27.8	15.2	16.2	6.2	11.5	8.9	8.1	6.0	na
	Nauki Job Speak Index (Jul 2008=1000)	-9.4	1.4	6.6	-9.3	23.5	13.2	3.4	11.9	9.2
	MGNREGA (work demanded by persons)**	0.3	-7.7	-8.5	-35.7	-32.0	-28.6	-25.0	-10.9	-21.8
	Rural Wage (Rs./ day)	6.3	5.8	12.8	18.4	18.1	17.9	17.7	na	na
	Domestic Passenger vehicle sales ('000 units)	8.7	2.7	-1.5	15.8	18.1	29.0	8.0	7.3	14.1
	Domestic two wheeler sales ('000 units)	13.3	9.1	0.7	2.1	21.2	39.4	26.2	35.2	19.3
	Domestic Tractor sales ('000 units)	-8.3	8.4	18.8	14.8	30.1	37.1	43.0	34.2	29.1
	Urban consumer sentiment index*	96.7	104.3	109.3	109.0	113.5	112.8	114.2	114.8	113.8
	Rural consumer sentiment index*	102.4	112.9	117.1	118.1	117.5	121.5	119.9	124.3	124.5
	IIP: Consumer durables (2011-12=100)	3.6	8.0	4.8	-1.3	11.2	12.4	7.2	7.1	5.3
IIP: Consumer non- durables (2011-12=100)	4.1	-1.5	-1.8	-5.2	8.0	8.5	-2.3	-0.5	1.1	
Business	Manufacturing PMI*	57.2	57.4	58.4	59.2	56.6	55.0	55.4	56.9	53.9
	Services PMI*	60.3	59.2	60.4	58.9	59.8	58.0	58.5	58.1	57.5
	Coal (mn tonnes)	11.8	5.1	-0.8	-8.5	2.1	3.6	3.1	2.2	-4.1
	Fertilizers(mn tonnes)	3.7	2.9	-0.4	7.4	5.6	4.1	3.7	3.4	-24.6
	Steel(mn tonnes)	12.5	6.8	11.0	5.9	6.7	10.1	11.5	7.6	2.2
	Cement(mn tonnes)	8.9	6.3	7.7	5.2	14.6	13.7	11.3	8.9	4.0
	Import of Capital Goods (US\$ mn)	7.6	8.7	15.9	14.5	15.3	26.9	16.1	22.6	na

Strong data to weaker data →

Source: CMIE, SBIFM Research; NB: * these are index numbers and not y-o-y growth; ** Negative numbers represented by green and positive numbers in red

India's growth shows a mixed picture

External sector takes a hit; Wholesale price inflation see a rise

%y-o-y		FY24	FY25	1HFY26	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
Government	Centre Revex ex Interest Payment (Rs. Tn)	-3.8	2.3	-3.1	-17.3	18.8	-5.5	-10.7	-0.4	na
	Centre Capital expenditure (Rs. Tn)	28.4	10.8	40.0	-28.3	-13.8	-24.5	-24.5	59.6	na
	State Revex ex interest payment (Rs. Tn)	8.6	10.3	9.3	-13.6	37.1	3.5	12.0	25.0	na
	State Capex (Rs. Tn)	26.3	6.2	12.9	-2.2	22.5	41.3	25.7	1.6	na
	Tax collection (Rs. Tn)	13.0	9.2	3.9	11.4	-3.3	30.0	8.3	-100.0	na
Trade	Exports of Goods (US\$ bn)	-3.1	0.1	2.7	-12.5	18.6	1.3	0.4	-0.8	-7.4
	Imports of Goods (US\$ bn)	-5.3	6.3	4.8	16.9	-2.0	8.7	19.9	24.1	-6.2
	Non oil and non gold imports (US\$ bn)	-3.8	5.2	8.4	7.4	15.3	11.3	3.1	13.5	9.6
	Exports of Services (US\$ bn)	4.8	13.6	9.4	2.2	6.7	13.0	9.8	9.7	-1.2
Prices	CPI (2024=100)	na	na	na	0.3	0.7	1.3	2.8	3.2	3.4
	WPI (2011-12=100)	-0.7	2.3	0.2	-1.0	-0.1	1.0	1.8	2.1	3.9

Strong data to weaker data →

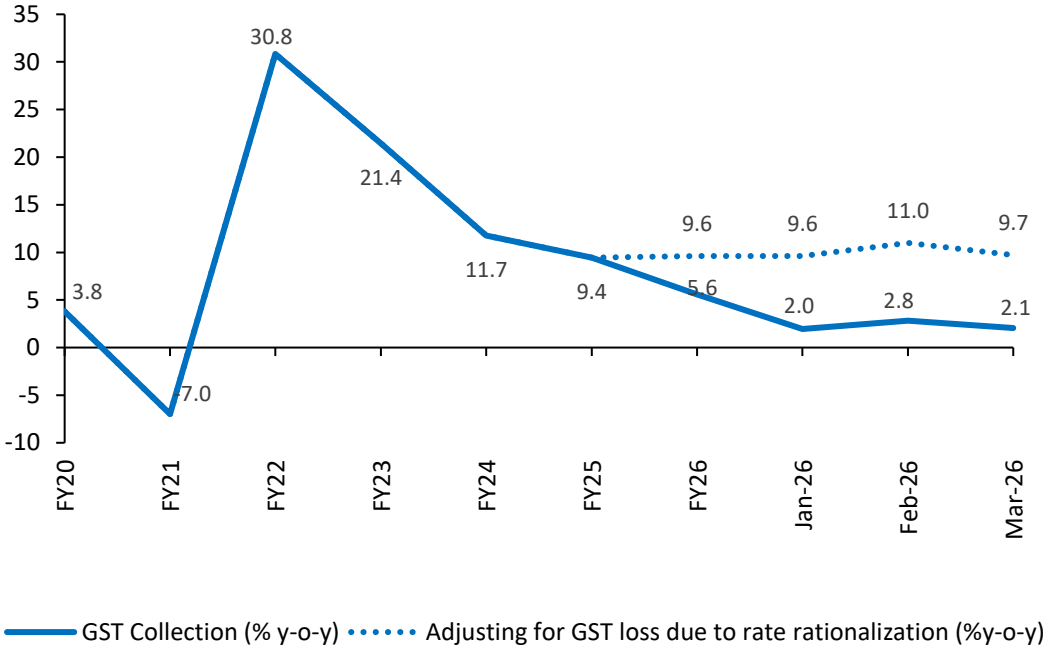
- Aggregate domestic activity has held up reasonably well in March.
- Bank credit growth has strengthened meaningfully. GST collections, when adjusted for recent rate changes, remain broadly aligned with nominal GDP growth. And non-oil non-gold imports continue to stay elevated. This suggests that demand has been supported by previously built inventories.
- There are few sector specific stress which shouldn't be ignored. Energy intensive sectors like fertilizers, steel, cement, and chemicals have seen output disruptions. Core industry output contracted in March 2026.
- Exports have also taken a hit. Logistical constraints and the closure of Middle Eastern routes have sharply curtailed shipments.
- At the same time, India's external position has weakened materially suggesting that the rupee may remain on a weaker footing in the near term.

Demand driven indicators continue to show resilience

Credit growth accelerates, led by industrial and MSME lending

% y-o-y	%					
	Share	FY25	May-25	Dec-25	Jan-26	Feb-26
Bank Credit	100.0	11.0	9.0	14.5	14.5	15.4
Non-Food Credit	99.8	11.0	8.8	14.4	14.4	15.2
Agriculture and allied activities	12.6	10.4	7.5	12.1	11.4	12.3
Industry	23.5	7.8	4.8	14.5	13.3	14.8
Micro & small	4.5	9.0	13.7	32.3	32.5	31.5
Medium	1.9	18.6	16.8	21.4	23.2	21.9
Large	17.1	6.2	1.0	8.6	6.6	9.0
Services	27.3	12.4	8.7	13.9	14.1	14.8
Personal loans	31.5	11.6	11.1	14.7	15.3	15.6
Housing (Including priority sector housing)	15.8	10.7	9.0	11.1	11.1	11.0
Advances against fixed deposits	0.8	12.7	15.5	15.8	13.6	14.6
Advances to individuals against share, bonds, etc.	0.1	18.7	1.6	4.1	5.1	2.8
Education	0.7	15.1	14.1	14.8	14.0	13.7
Vehicle loans	3.5	8.6	5.9	16.5	17.1	17.1
Loans against gold jewellery	0.7	103.5	115.3	121.8	123.9	124.2
Other personal loans	8.3	7.9	9.0	11.7	13.2	13.8

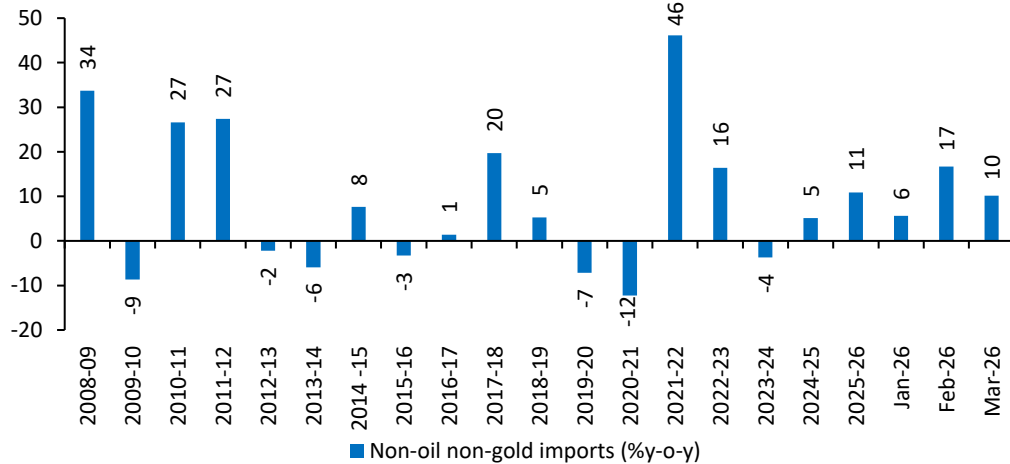
GST trends indicate sustained domestic activity



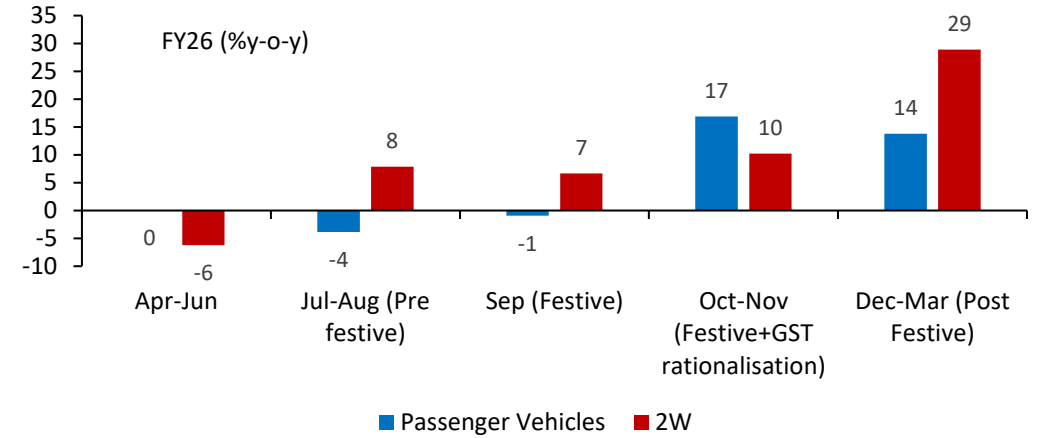
Source: CMIE Economic Outlook, SBIFM Research

High-Frequency demand indicators remain resilient

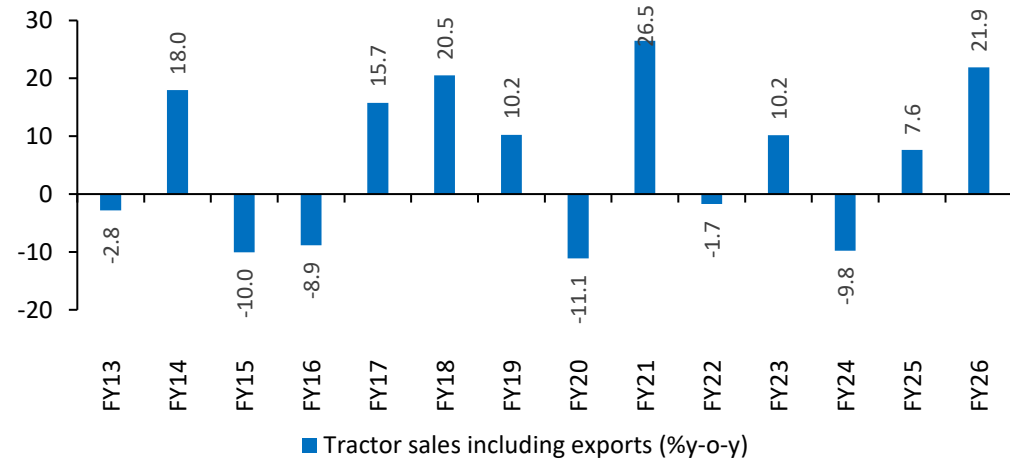
Non-Oil, Non-Gold imports remain elevated, signalling strong domestic demand



Auto sales numbers have been strong



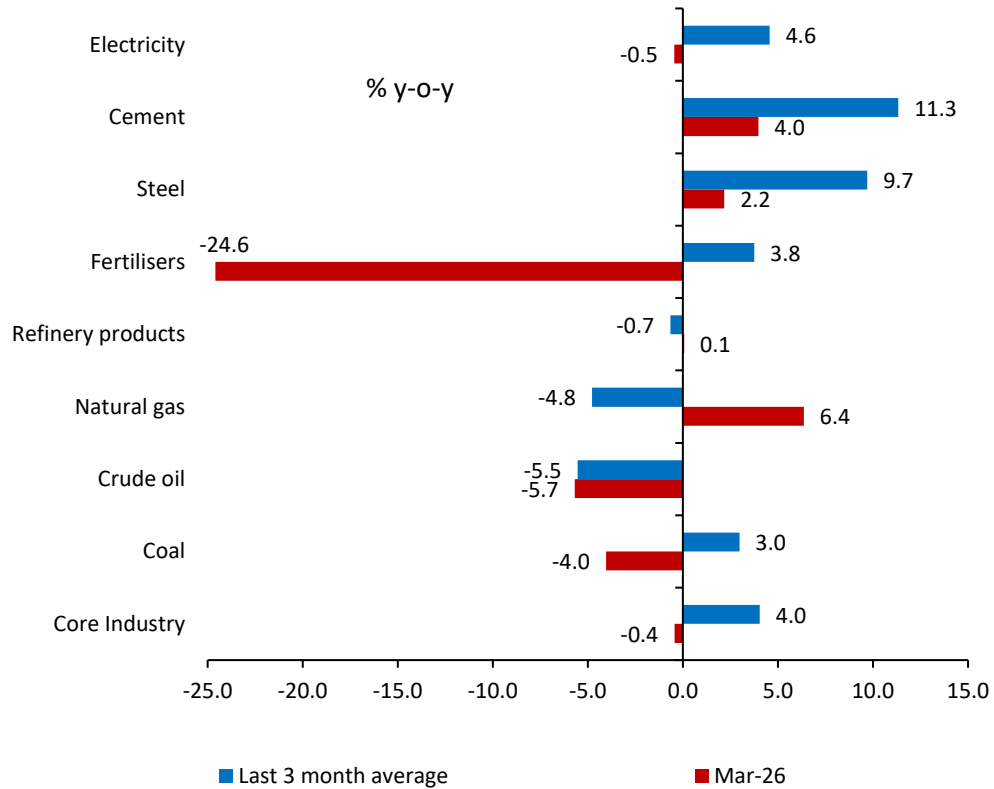
Tractor sales signal continued strength in rural activity



- Sustaining growth in the months ahead will critically depend on a rapid normalization of energy availability.

Output disruptions are visible in energy intensive sectors

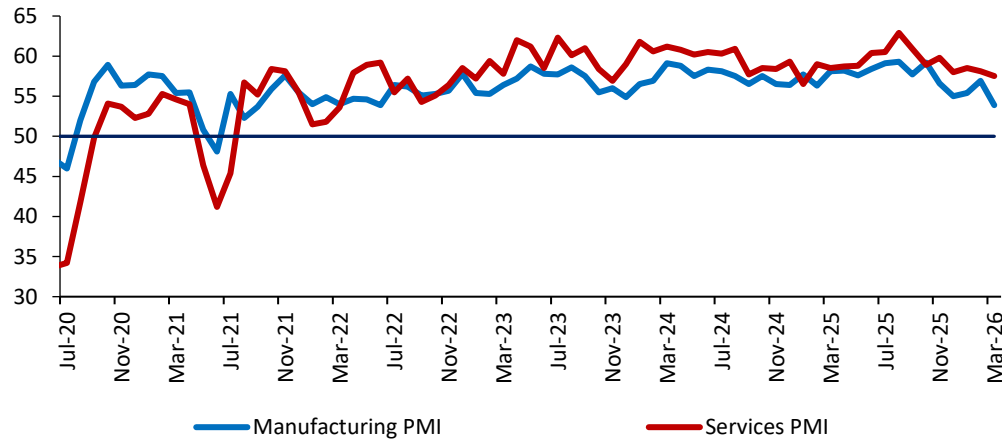
Core industries output was visibly impacted



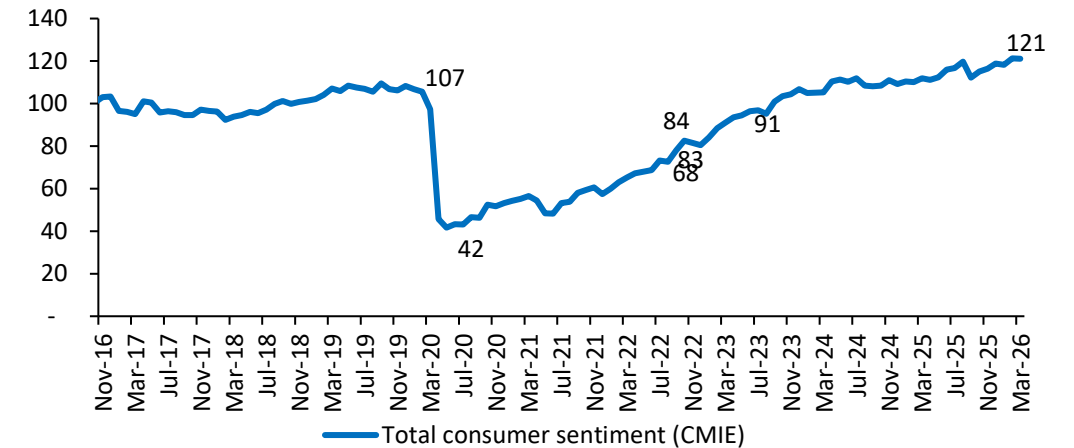
- Energy intensive sectors like fertilizers, steel, cement, and chemicals have seen output disruptions.
- Core industry output contracted in March 2026, one of the weakest readings in recent years.

Business sentiment moderates; While consumer sentiment stays upbeat

Business manufacturing and services sentiment softens on higher input costs

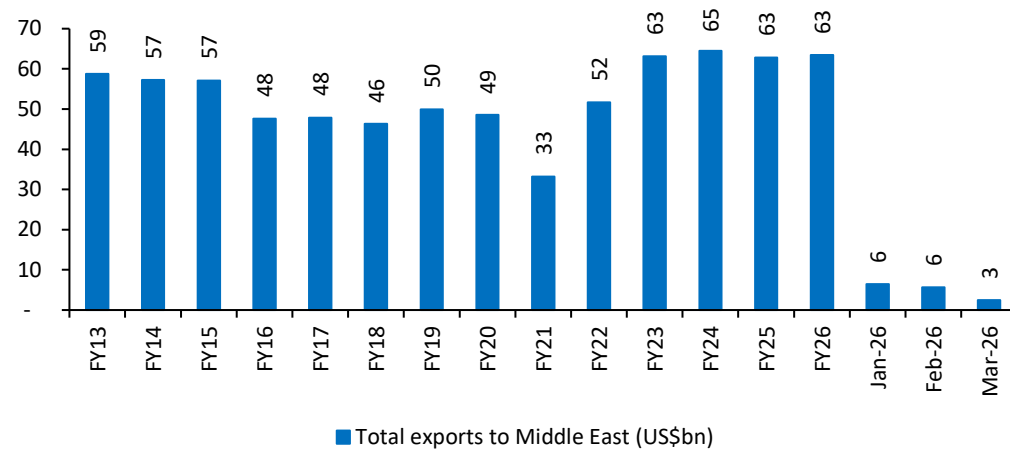


Consumer confidence at a multi-year high amid contained inflation and resumption of credit availability

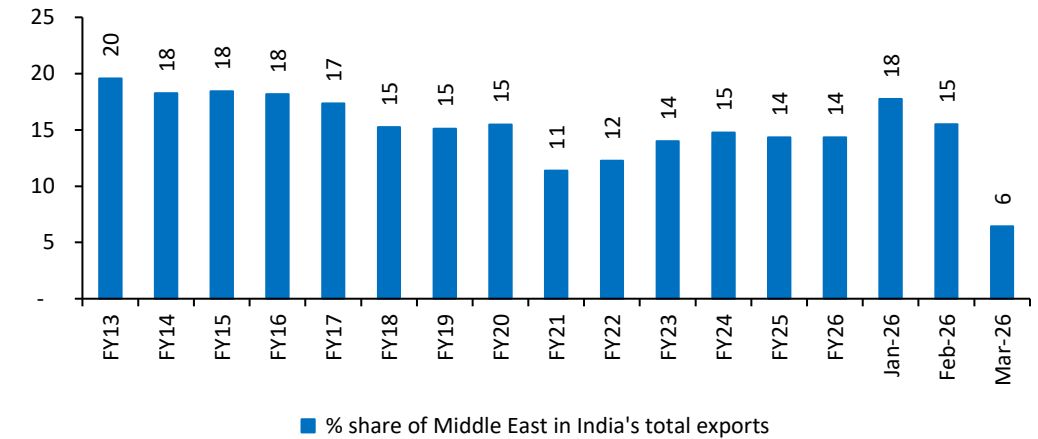


Geopolitical disruption hits India's exports to the Middle East

Exports to West Asia see a sudden and sharp decline



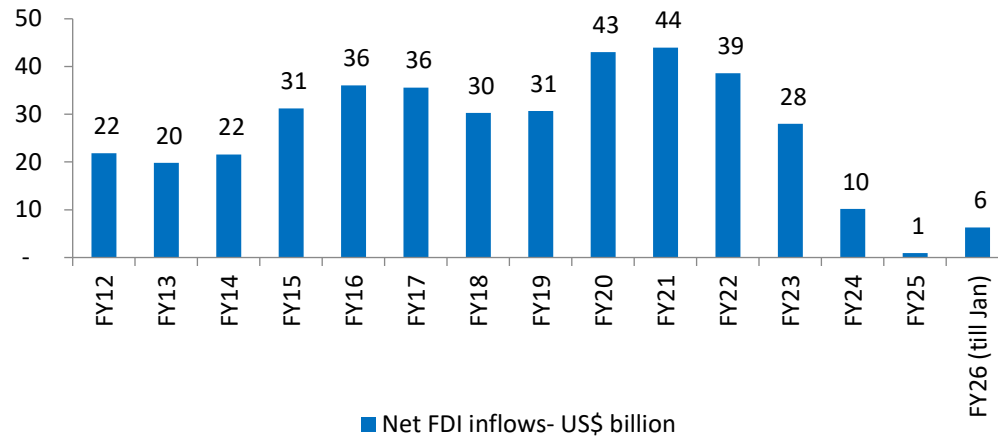
Middle East share in India's exports contracts sharply



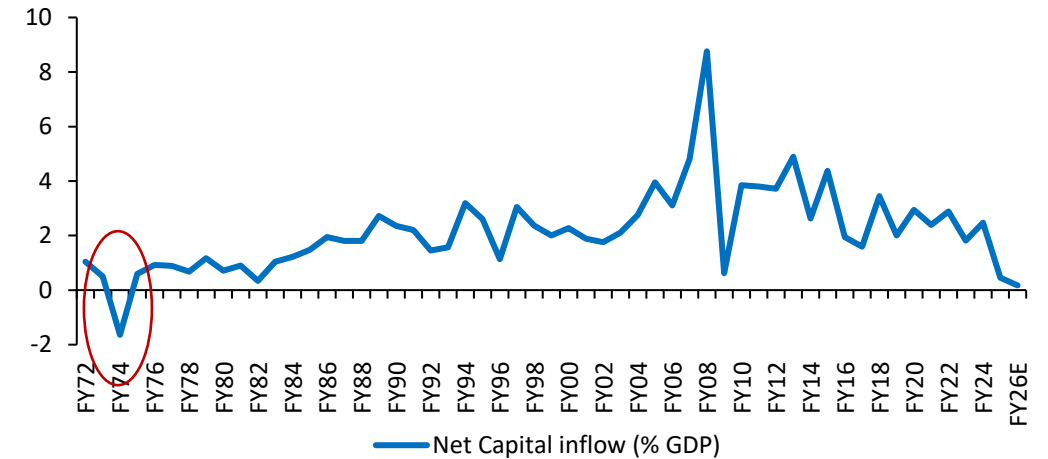
- India's exports declined y-o-y due to logistical challenges that may also continue in April.
- Exports to the Middle East—typically ~US\$6 bn per month—fell to ~US\$2.5 bn; given the region accounts for ~14% of India's exports, sectors with high exposure (agri, transport, chemicals, gems & jewellery, garments) face elevated downside risk.
- Logistical constraints have overwhelmed FX tailwinds; rupee depreciation can support exports only if shipping bottlenecks ease and global demand remains resilient or the conflict de-escalates.

India's external account is under stress

India's Net FDI has dropped to US\$ 1bn in FY25 and FY26



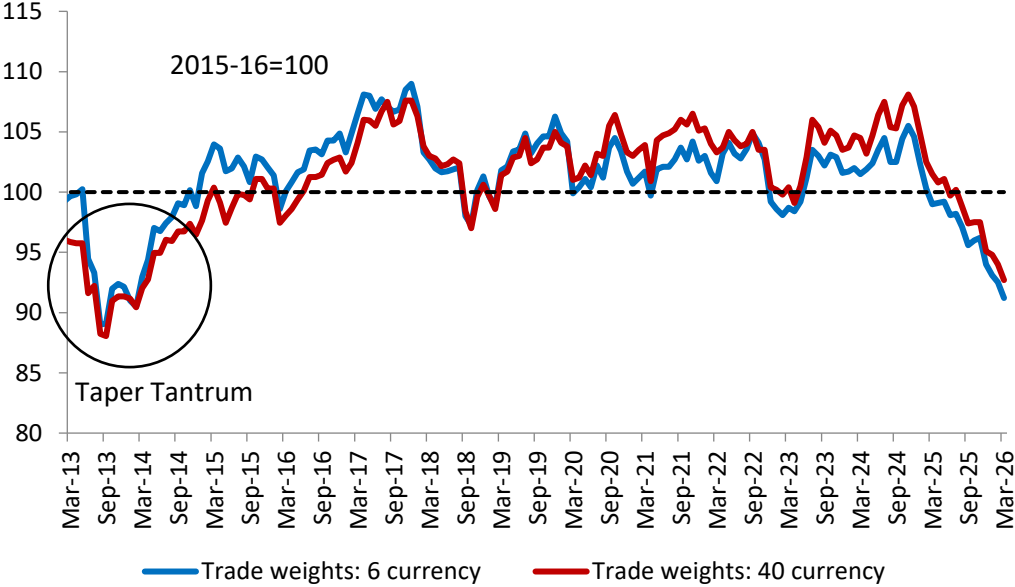
Net capital inflows at risk of turning negative in FY27 for the first time since 1974



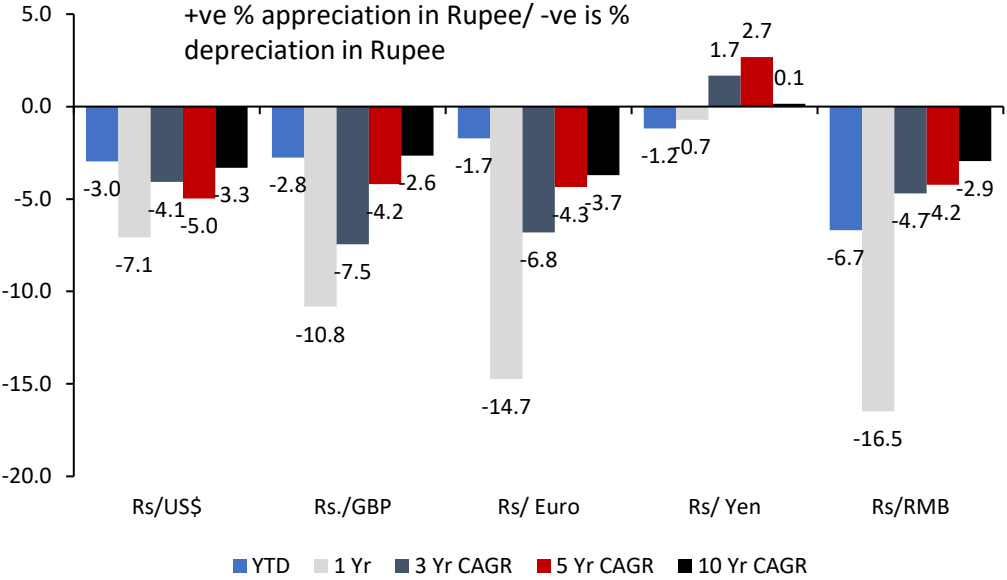
- Looking ahead, the current account deficit could widen toward 2% of GDP in FY27. Low net FDI inflows, rising outbound investment, and weak external commercial borrowing flows suggest that the rupee may remain on a weaker footing in the near term.

Rupee is on a weaker footing

Rupee REER is at 90.6 thus ~11% 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\$100 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.

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 rely 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.

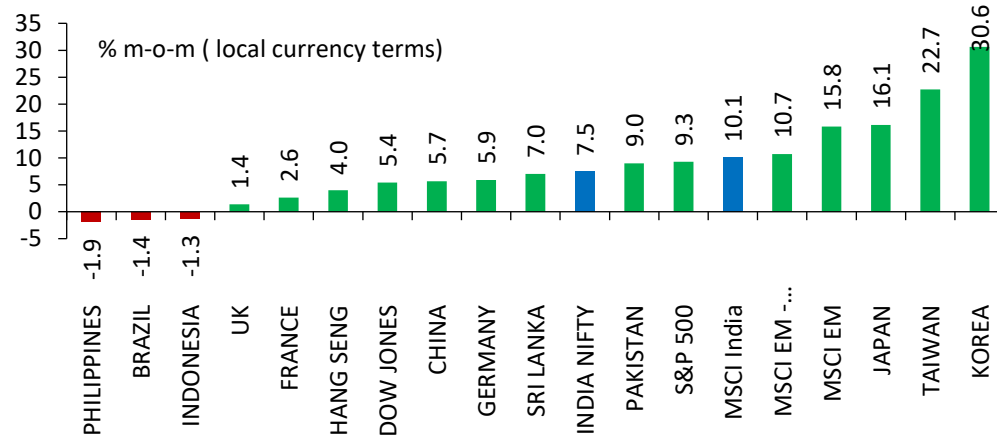
Energy shock reshapes sectoral earnings and profitability

- 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.

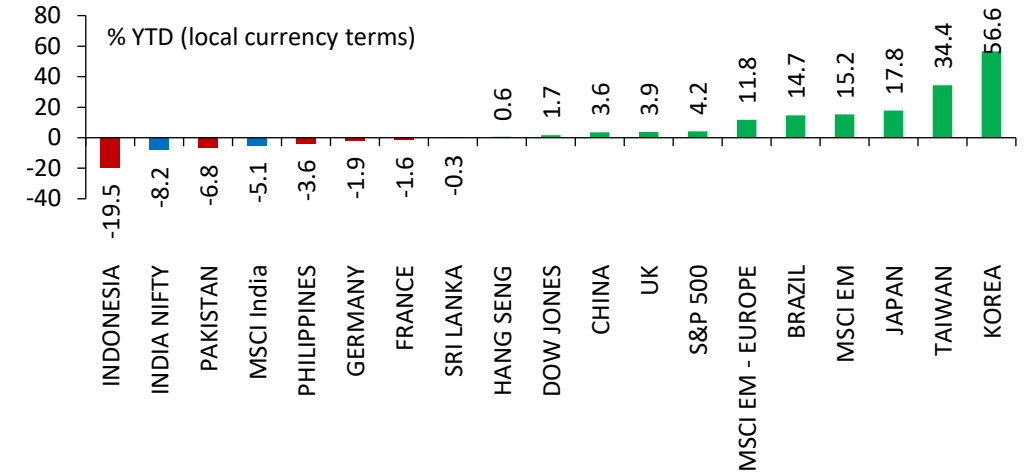
EQUITY MARKET

Equity markets recover from sharp correction last month, but macro headwinds persist

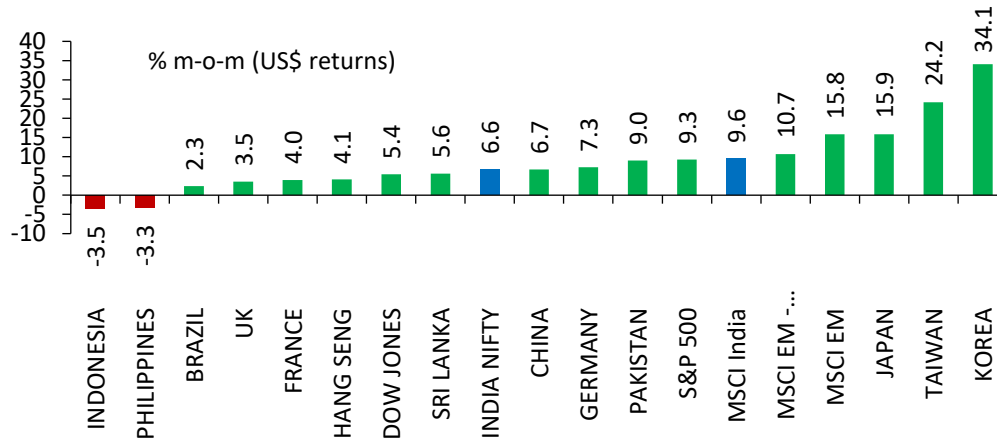
Performance in April 2026 (local currency returns)



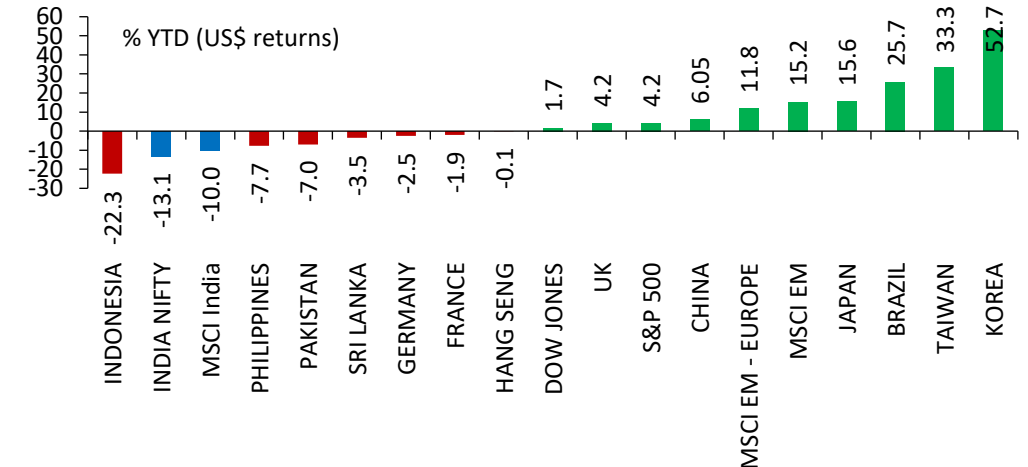
YTD performance (local currency returns)



Performance in April 2026 (US\$ returns)

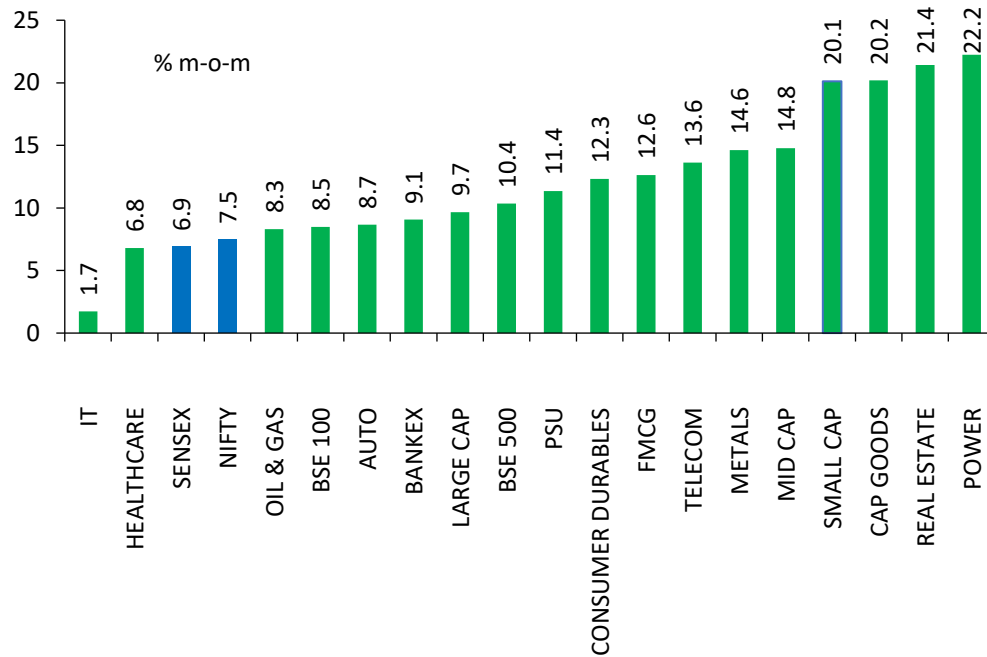


YTD performance (US\$ returns)

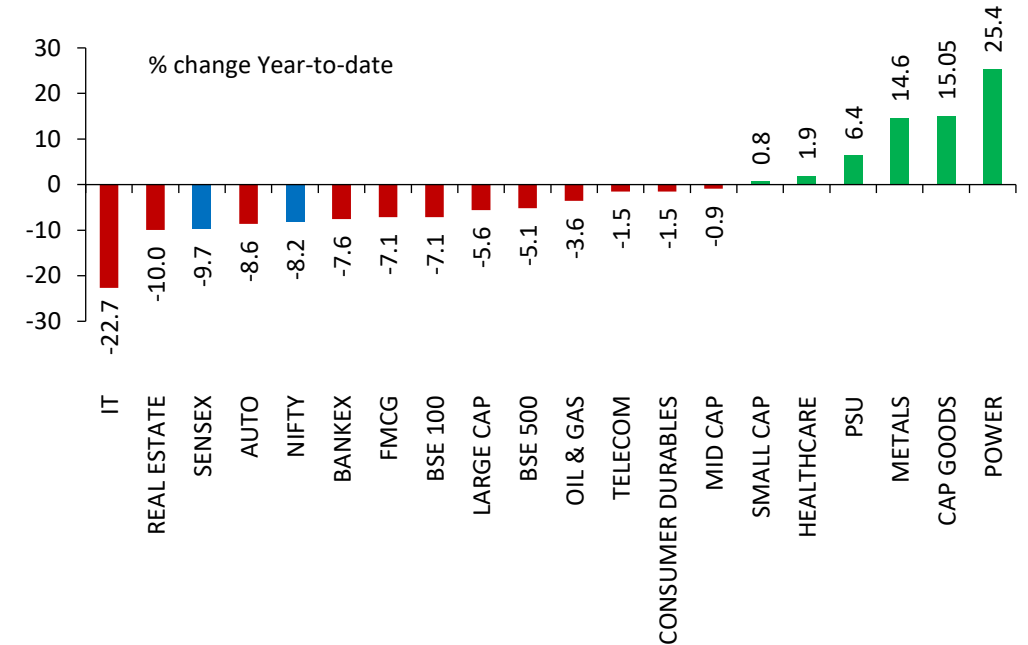


Indian equity market snapshot: April 2026

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



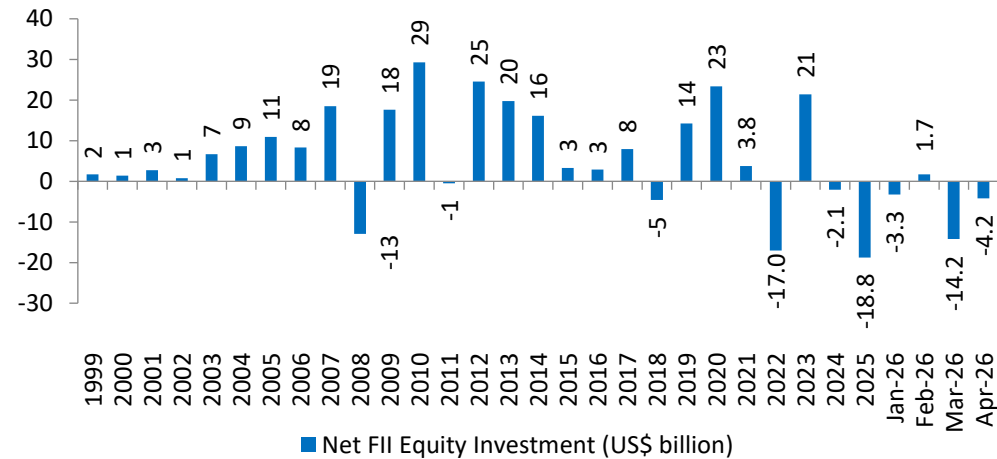
YTD performance (local currency returns)



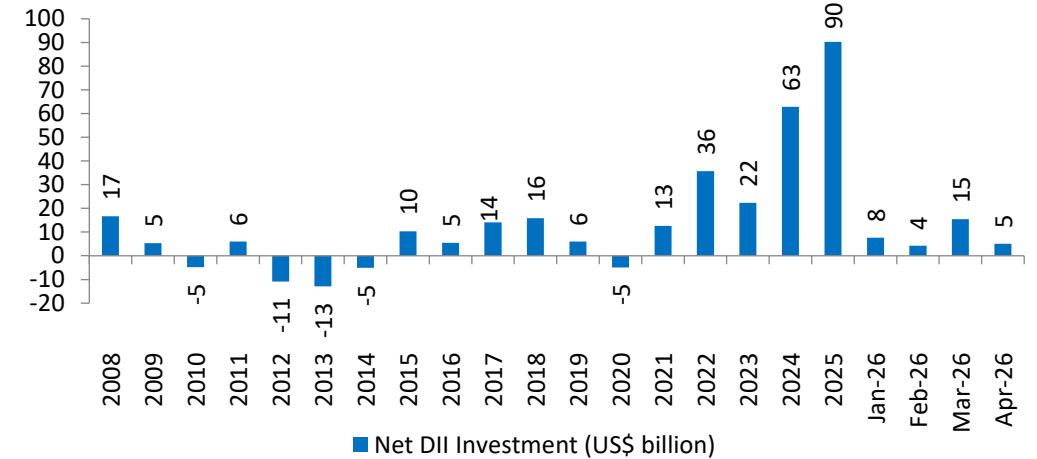
- NIFTY gained this month by 8% in April 2026. YTD, NIFTY has fallen by ~8%. Performance down the capitalization curve is looking slightly better. Small cap has risen marginally by 1%, while mid cap fell by 1% and large cap fell by 6% year-to-date respectively.
- All sectors have given positive returns on a m-o-m basis after a sharp correction last month. Power, Real Estate and Cap goods sectors witness the sharpest rise in April 2026.
- IT, Real estate, and Auto delivered the lowest returns YTD.

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

FIIs see outflows in March and April 2026



DII's support to Indian equity market

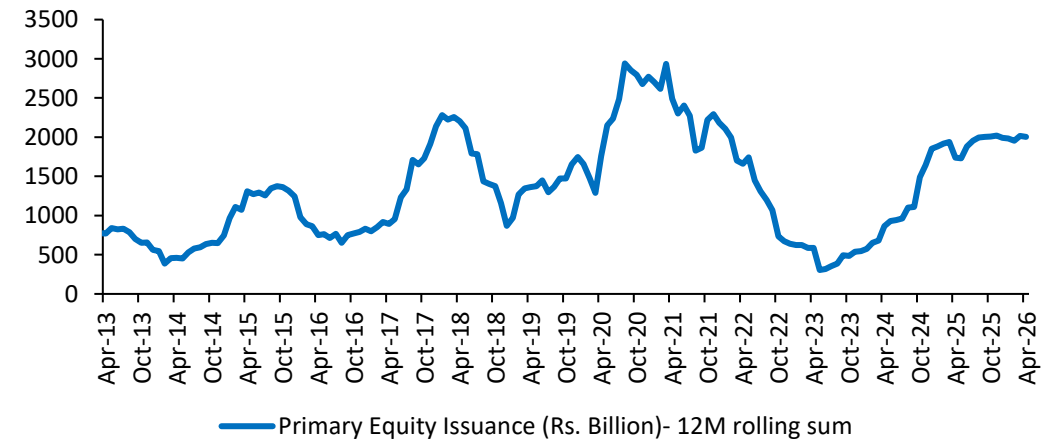


Retail participation sees a turnaround in 2026

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
In Rs cr												
FPIs	1,11,346	-14,031	56,050	21,416	1,454	5,141	2,74,032	-1,40,010	-37,632	2,08,211	-1,27,041	-1,80,831
DII's	-19,264	78,687	29,932	1,14,600	72,407	1,28,208	-1,32,389	2,21,660	2,55,236	2,06,717	6,08,035	8,49,758
Individuals#	-5,544	-6,421	-46,357	-23,914	-16,181	4,156	68,357	1,64,892	49,225	47,241	1,25,127	-5,803
In US\$bn												
FPIs	18.4	-2	8.5	3.3	0.3	1.1	37	-18.5	-5.1	25.3	-14.6	-19.7
DII's	-3.2	12.1	4.4	17.8	10.3	17.8	-18	29.6	32.1	24.9	71.8	95.8
Individuals#	-0.9	-1	-6.9	-3.7	-2.3	0.6	9.2	22.1	6.1	5.7	14.8	-0.7

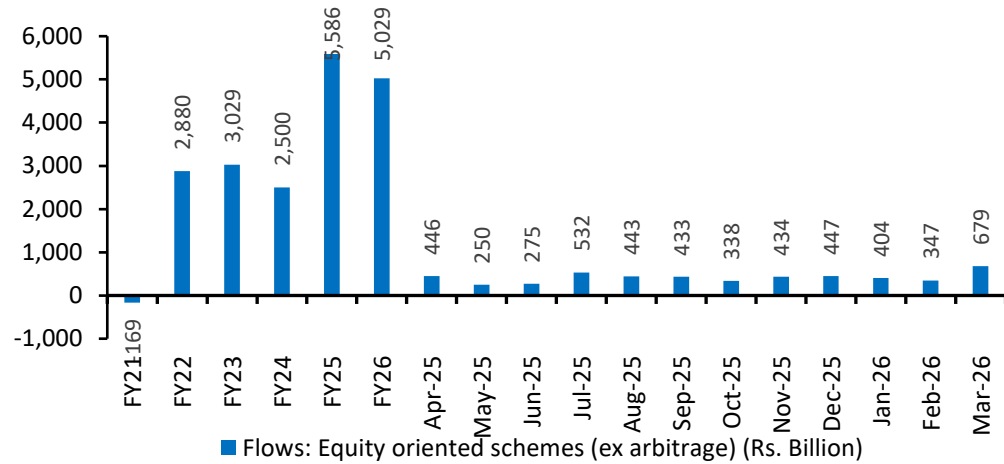
* As of March 31st, 2026. # Data for individuals include net flows on NSE in the secondary market only. Individuals include individual /proprietorship firms, HUF and NRI.

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

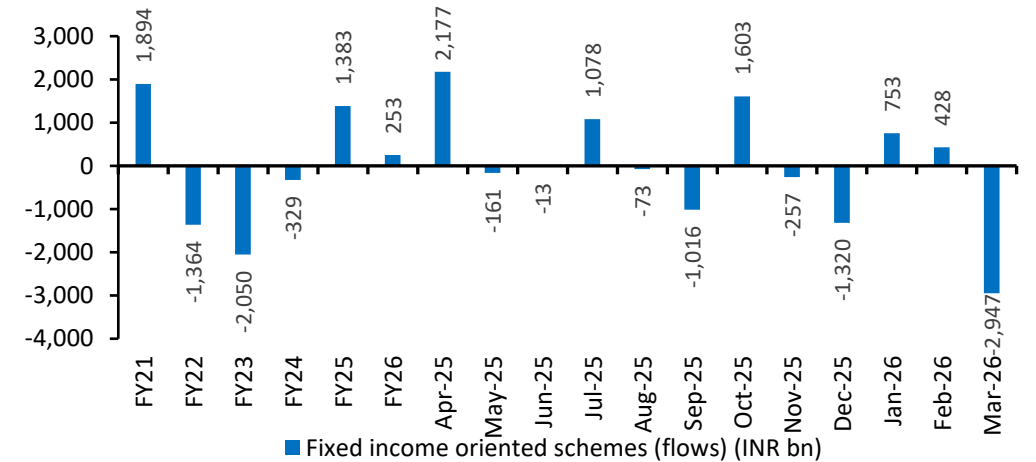


MF flows: Sharp Debt outflow in March 2026

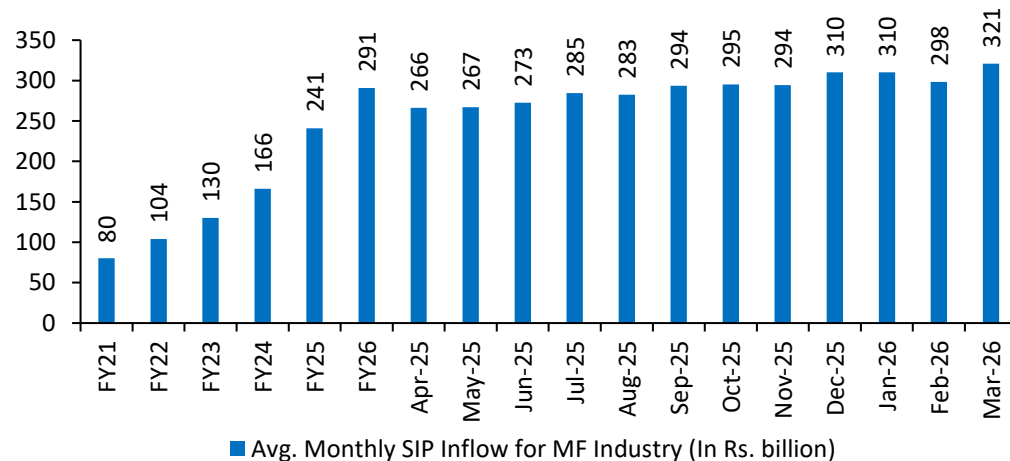
Equity inflows rise in March 2026 compared to a month ago



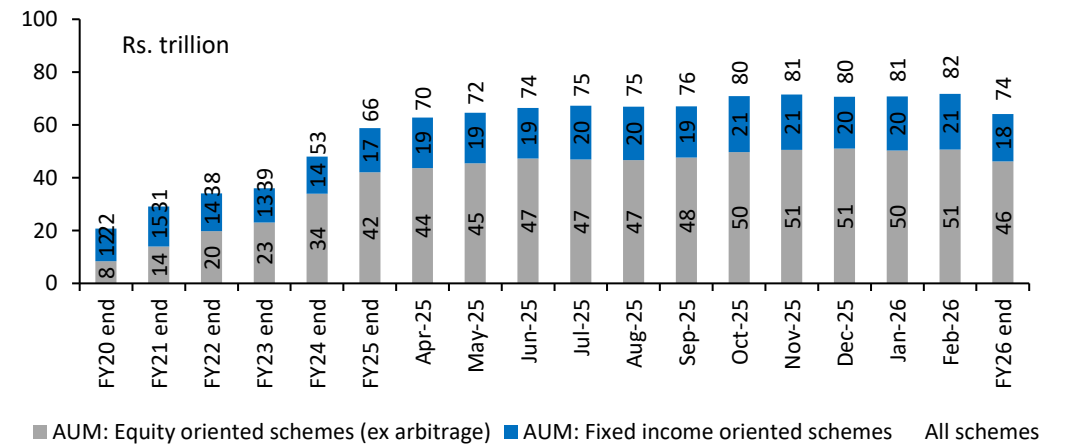
Debt outflow of INR 3tn in Mar'26 (vs. INR 26bn inflow in Q3FY26 and outflow of INR 11bn in Q2FY26)



Monthly SIP inflow improve m-o-m in March

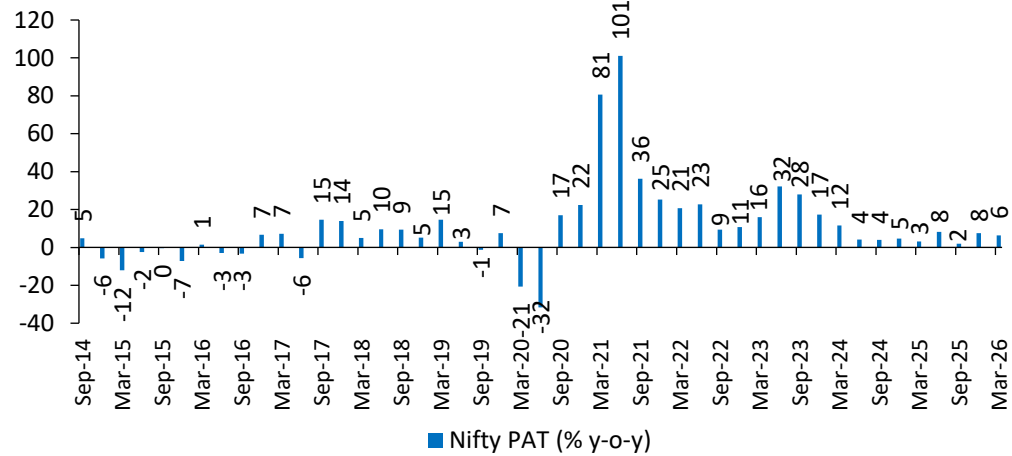


Equity and debt AUM fall m-o-m

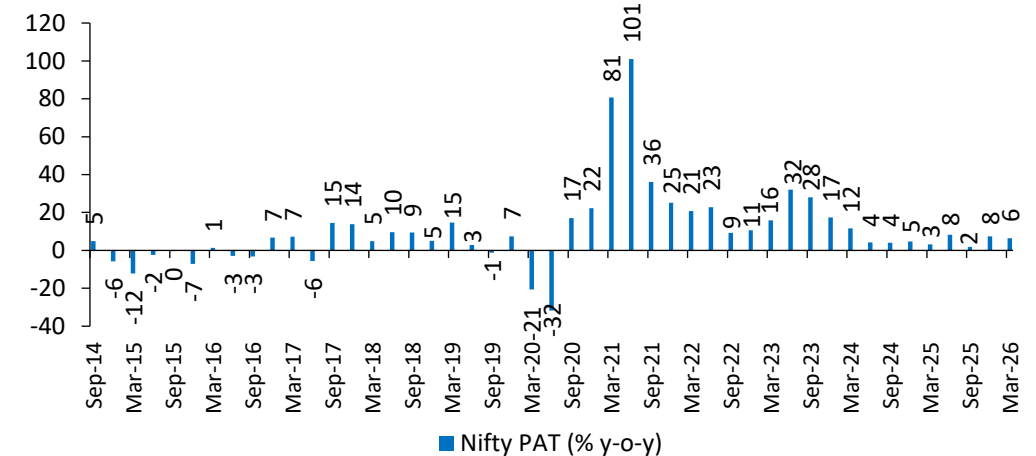


Q4 FY26 interim earnings: Weak PAT growth; Topline in line with expectations

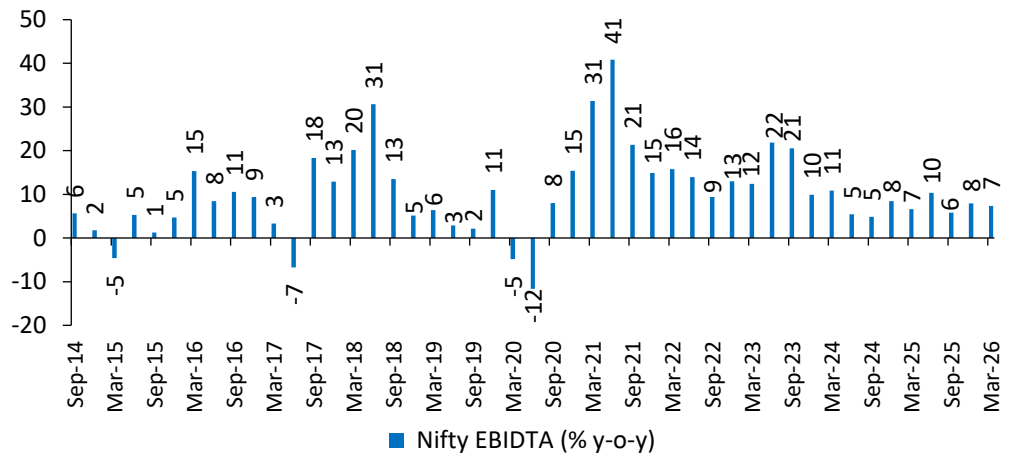
NIFTY PAT growth continues to be weak



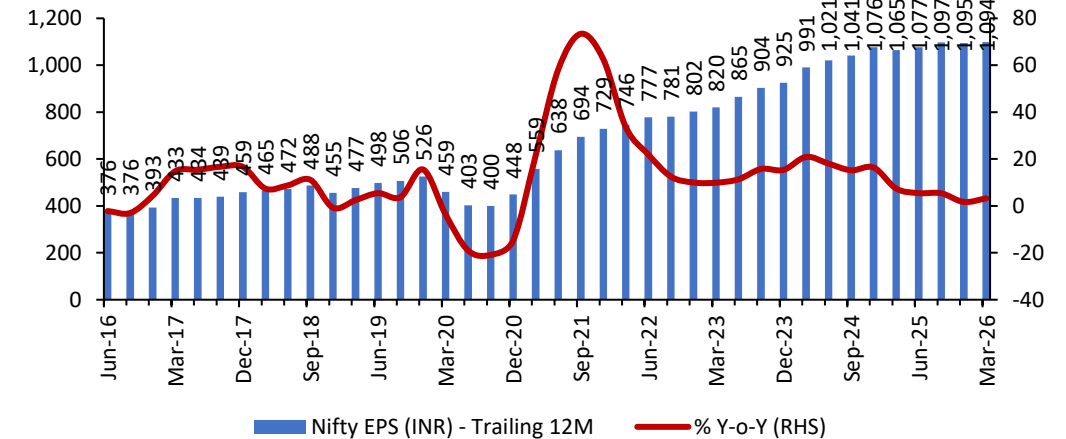
Q4 FY26 NIFTY interim sales growth in line with expectations



EBITDA growth also in line with expectations



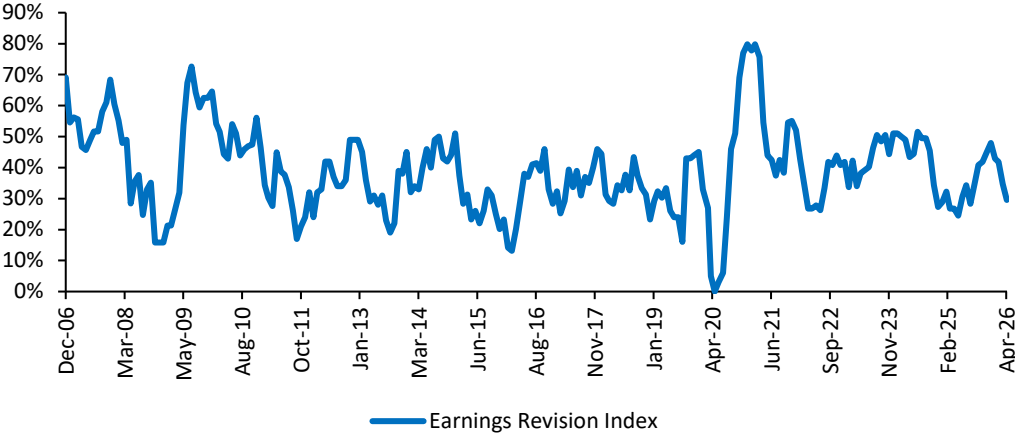
EPS growth moderates



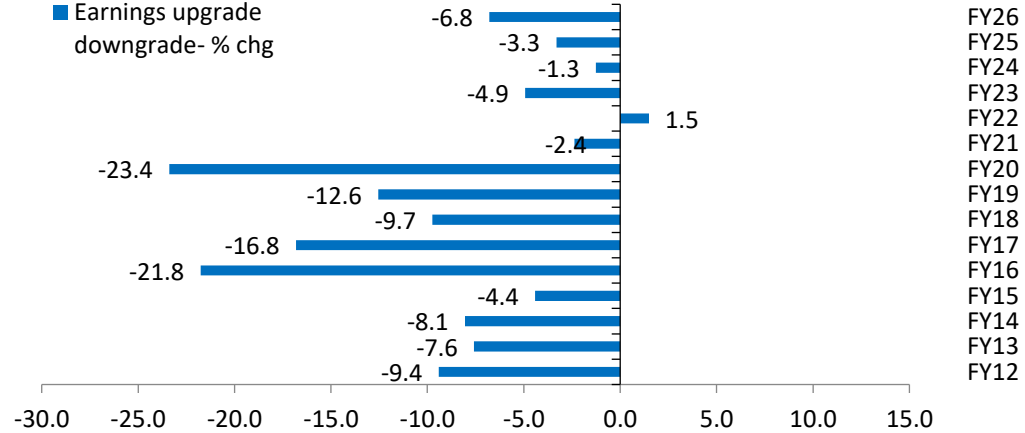
Source: MOSL, SBIFM Research; NB: Results released for 20 NIFTY companies for March 2026 quarter, historical data is for all the NIFTY 50 companies, EPS growth is adjusted for Axis bank losses for FY23

Earnings revisions fell in April

Earnings Upgrades to downgrades ratio continued to fall in April



In FY26, EPS projection sees a downgrade

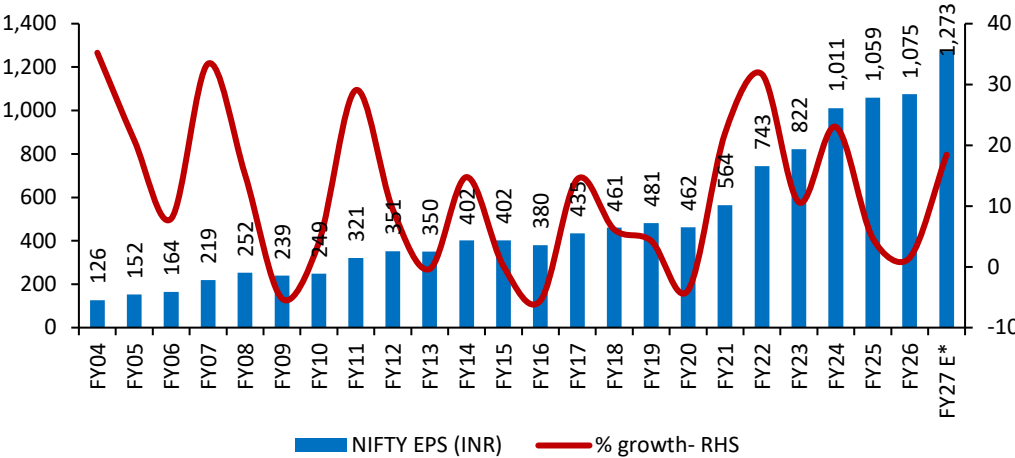


- Earnings revisions for FY26 have fallen with Materials, Industrials, Consumer Discretionary, Energy, Telecom, Financials, Consumer Staples, Utilities, Real Estate seeing downward revisions. Healthcare got upward revisions.
- Consensus expects 12.4% EPS growth CAGR for the Nifty over FY25-FY28.

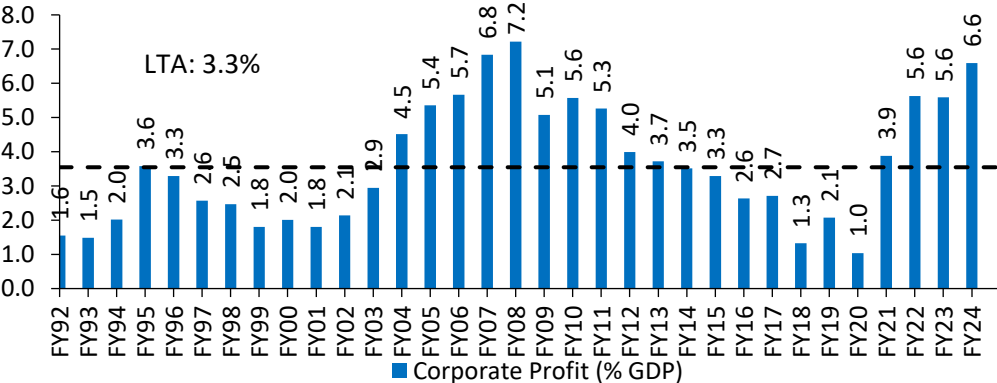
Source: Bloomberg, FactSet, SBIMF Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all BSE 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 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%	5.8%	16.3%	15.5%	12.4%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	6.1%	21.4%	34.0%	16.1%	23.6%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	10.8%	42.8%	9.4%	6.4%	18.4%
Financials	11	13.8%	27.3%	23.1%	53.0%	-4.6%	10.8%	14.2%	16.8%	13.9%
Industrials	5	22.9%	-30.1%	-0.9%	-0.9%	27.6%	-7.0%	29.9%	20.5%	13.3%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-9.9%	-27.1%	39.2%	24.6%	8.1%
Consumer Staples	4	-5.0%	-3.9%	5.6%	32.6%	14.1%	10.7%	1.7%	10.0%	7.4%
Energy	3	56.9%	11.4%	8.1%	33.6%	-6.7%	2.9%	8.7%	10.1%	7.2%
Health Care	5	5.9%	51.7%	23.6%	2.5%	24.4%	-16.0%	8.6%	20.5%	3.2%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	20.1%	-8.5%	9.5%	8.0%	2.6%
Communication Services	1		NA*		-6.1%	67.9%	13.5%	44.1%	27.2%	27.6%

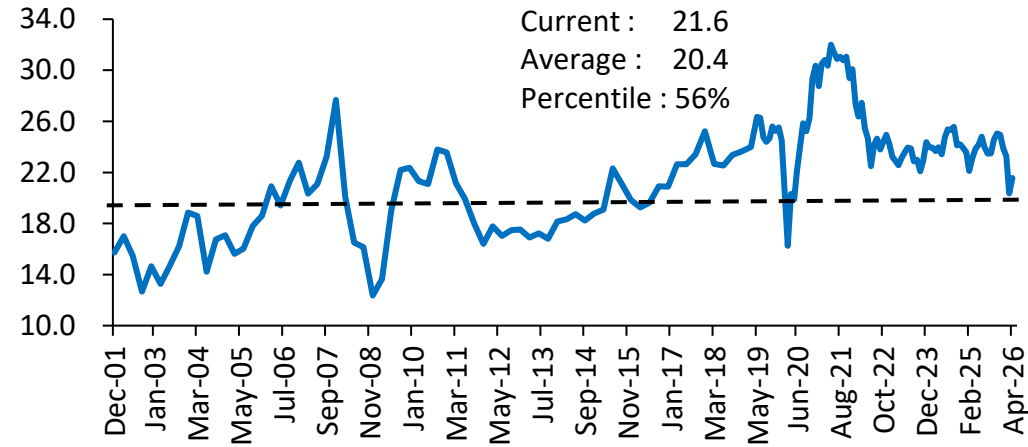
- Consensus expects 12.4% EPS growth CAGR for the Nifty over FY25-FY28.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.



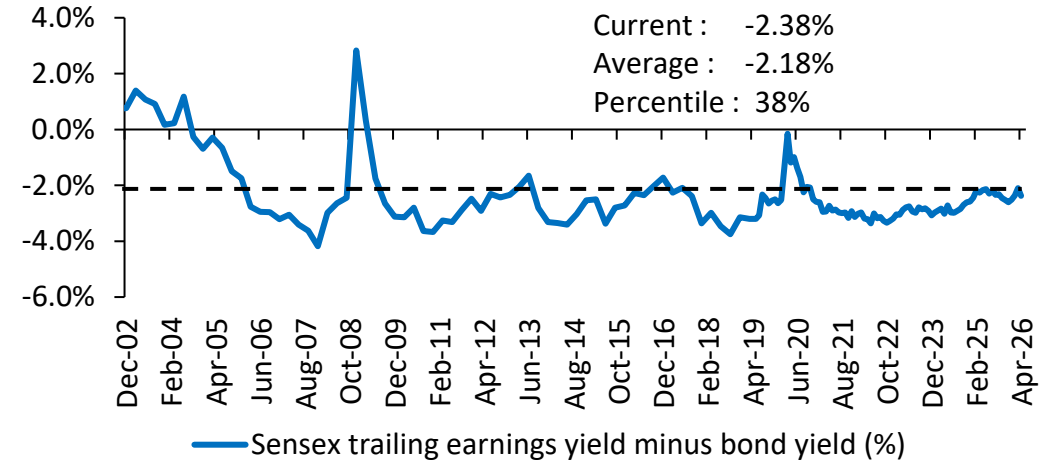
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; *FY25 and FY26 earnings estimates are SBIMF. ** EPS change is unadjusted to externalities. ***data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology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

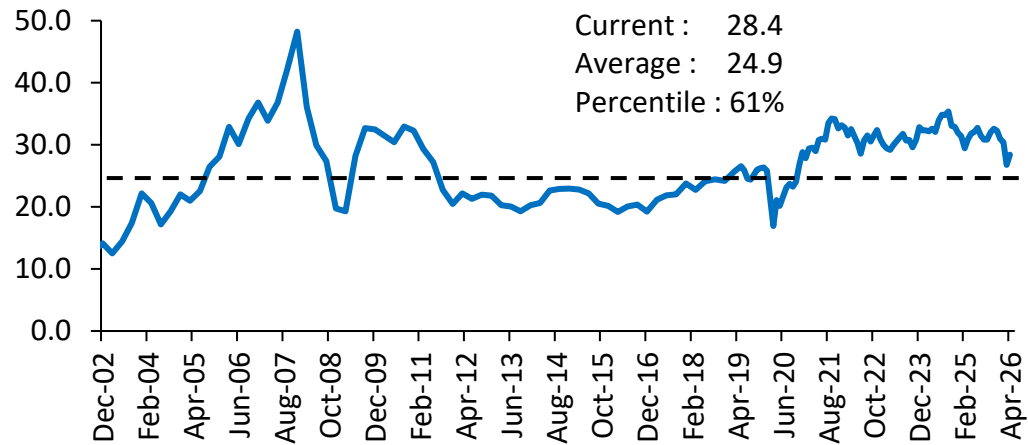
Sensex trailing PE ratio stood at 21.6 in Apr'26 vs. 20.8 in Mar'26



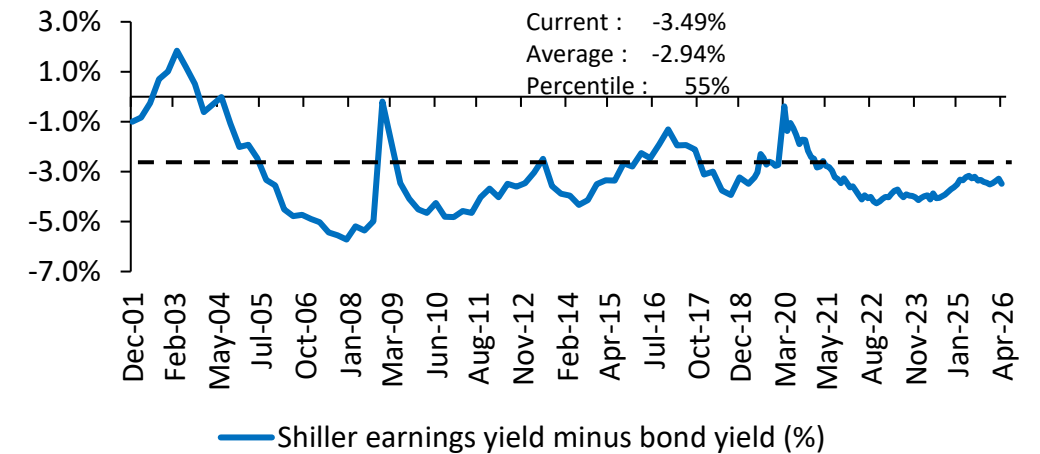
Earnings yield to bond yield spread has widened



Shiller PE ratio stood at 28.4 in Apr'26 vs. 26.8 in Mar'26

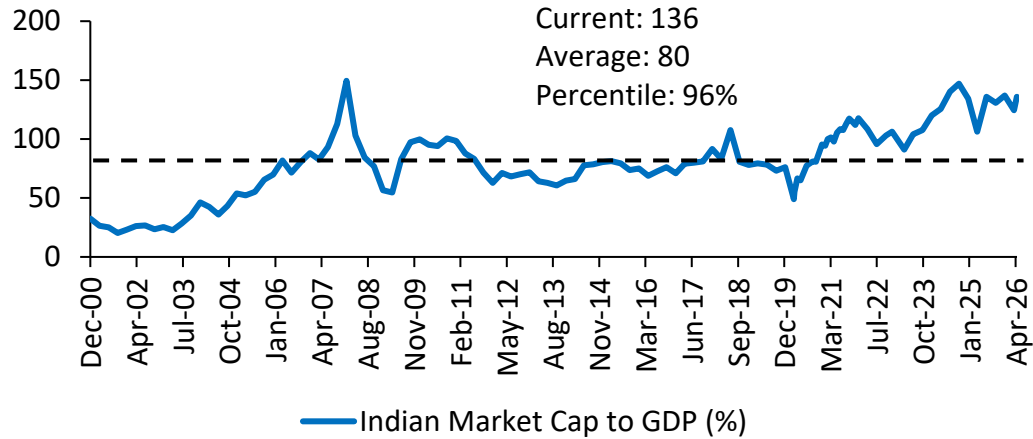


Shiller earnings yield to bond yield spread widens from last month

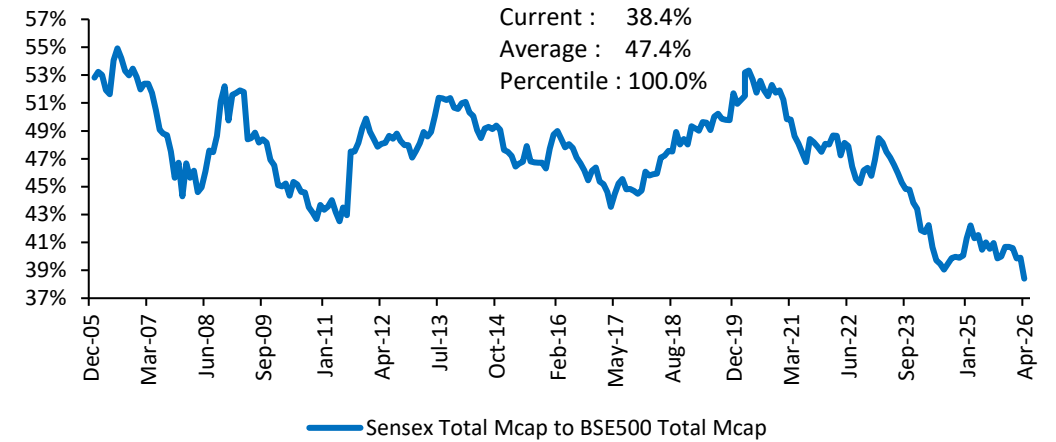


Polarization remains low, remains favorable towards large caps

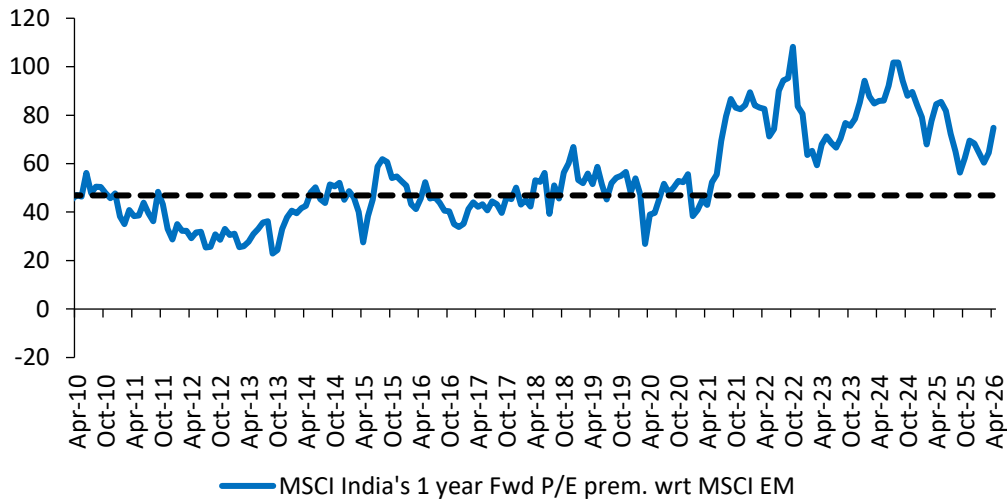
Market capitalization/GDP expensive vs. history at 96th percentile reading



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



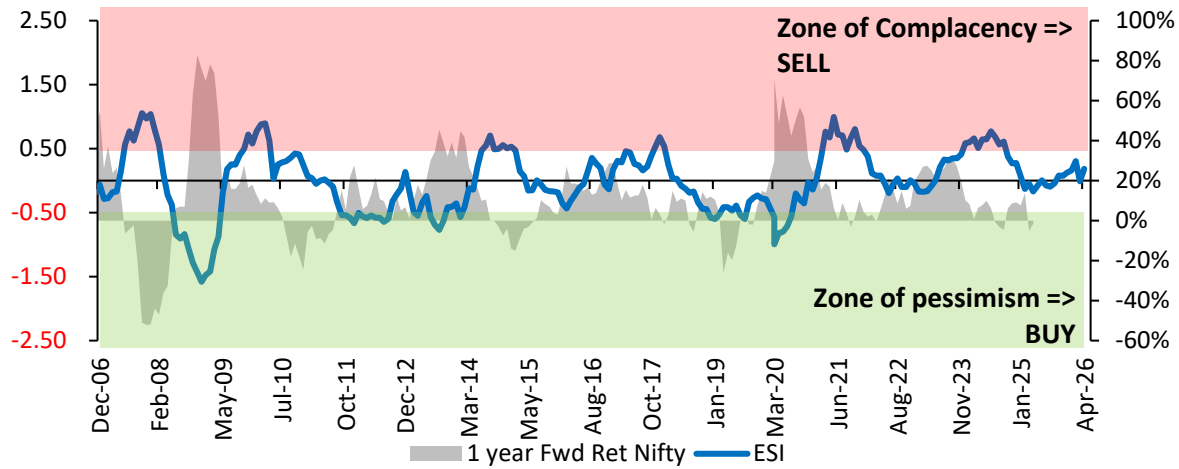
Premium relative to EM has corrected near long term average



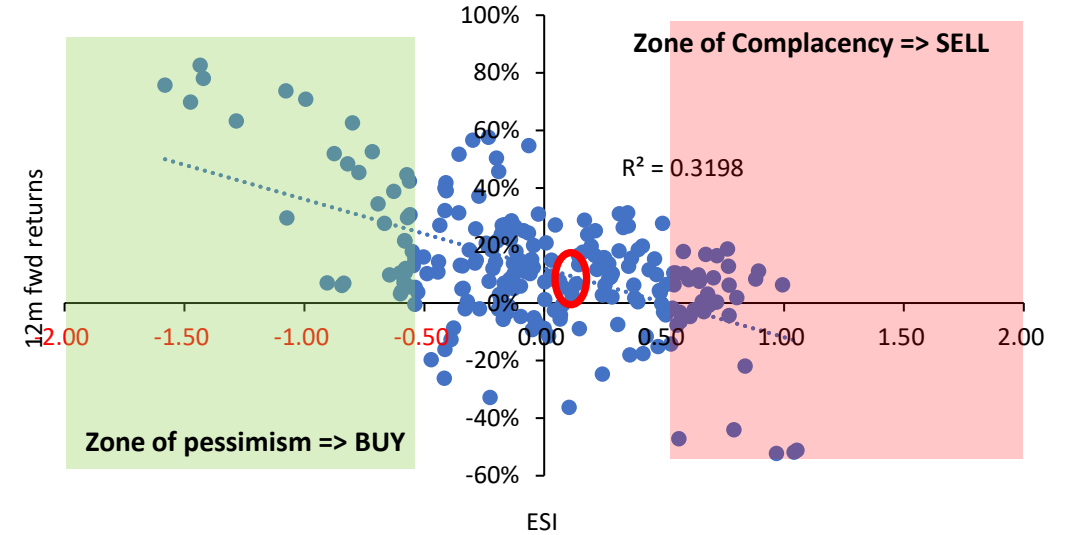
- Market polarization remains low. Broader markets have outperformed the frontline large cap indexes in the previous month.
- The ratio is low, suggesting the risk-reward is more towards large caps now.

Equity market sentiment goes up

Equity sentiment back above zero



Equity sentiment rises & goes 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

- Indian equities saw an improvement in April 2026 after a sharp correction in March 2026 with both Nifty and Sensex rising by ~7% each month-on-month respectively.
- Valuations have corrected meaningfully from the highs of 2024. They are now close to long term averages, not expensive, but not cheap either. Sentiment, however, has improved from a contrarian perspective.
- 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 restarted in March and continue in April, 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 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	Feb-26	Mar-26	Apr-26	m-o-m change (in bps)	YTD change (in bps)
Developed market							
US	4.57	4.17	3.94	4.32	4.40	8	23
Germany	2.37	2.86	2.64	3.00	3.09	9	24
Italy	3.52	3.55	3.27	3.91	3.92	2	37
Japan	1.10	2.07	2.12	2.35	2.53	17	46
Spain	3.06	3.29	3.06	3.51	3.55	5	27
Switzerland	0.33	0.32	0.21	0.37	0.43	7	11
UK	4.57	4.48	4.23	4.92	5.04	12	56
Emerging Market							
Brazil	15.16	13.74	13.55	14.01	14.02	1	28
China	1.68	1.86	1.81	1.82	1.75	-6	-10
India	6.76	6.59	6.66	7.04	7.03	-1	44
Indonesia	6.97	6.05	6.41	6.83	6.82	-1	78
South Korea	2.87	3.39	3.45	3.88	3.84	-3	46
Malaysia	3.81	3.51	3.50	3.64	3.56	-7	6
Philippines	6.82	6.00	5.90	6.98	6.96	-2	96
Taiwan	1.61	1.35	1.42	1.50	1.51	0	16
Thailand	2.25	1.64	1.71	2.23	2.14	-9	50
Turkey	29.04	28.96	30.12	33.54	34.35	81	539
Mexico	10.44	9.12	8.67	9.30	9.23	-6	12
Poland	5.89	5.17	4.93	5.88	5.83	-5	66
South Africa	10.33	8.20	8.13	9.32	9.03	-30	82
Colombia	11.86	12.62	13.41	12.83	13.11	28	49
Hungary	6.55	6.79	6.40	7.17	6.03	-114	-76

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	Feb-26	Mar-26	Apr-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	4.93	5.44	5.03	-41	-22
	Overnight MIBOR Rate	7.15	5.67	5.17	6.98	5.34	-164	-33
Money Market	1 Yr T-Bill	6.69	5.54	5.59	5.65	5.65	1	11
	3M T-Bill	6.55	5.26	5.30	5.33	5.26	-7	0
	3M CD Yield	7.28	5.88	6.86	7.65	6.40	-125	53
	12M CD Yield	7.60	6.56	6.78	7.30	7.15	-15	60
	3M CP Yield	7.37	6.22	6.69	7.37	7.20	-17	98
	12M CP Yield	7.78	6.83	7.02	7.55	7.49	-6	66
Government bonds	3 year GSec	6.72	6.07	5.85	6.52	6.41	-11	34
	5 year GSec	6.72	6.31	6.28	6.75	6.75	0	44
	10 year GSec	6.79	6.59	6.66	7.04	7.03	-0.4	44
	30 year Gsec	7.01	7.27	7.34	7.74	7.59	-16	32
	10 year SDL	7.15	7.30	7.44	7.69	7.64	-5	34
	30 year SDL	7.14	7.56	7.64	7.94	7.80	-14	24
AAA Corporate	3Yr AAA Corp bond	7.58	7.00	7.13	7.53	7.34	-19	34
	5Yr AAA Corp bond	7.46	7.10	7.23	7.62	7.39	-23	29
	10Yr AAA Corp bond	7.24	7.30	7.42	7.69	7.55	-14	25
Swaps	1 Yr IRS	6.51	5.45	5.48	6.25	6.02	-24	56
	2 Yr IRS	6.27	5.55	5.59	6.44	6.26	-18	71
	5 Yr IRS	6.20	5.92	5.99	6.75	6.63	-12	71
Others	INR/USD	85.61	89.88	90.98	94.81	94.92	-0.1^	-5.6^
	Crude oil Indian Basket**	73.34	62.20	69.01	113.49	114.25	0.7	83.7

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, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

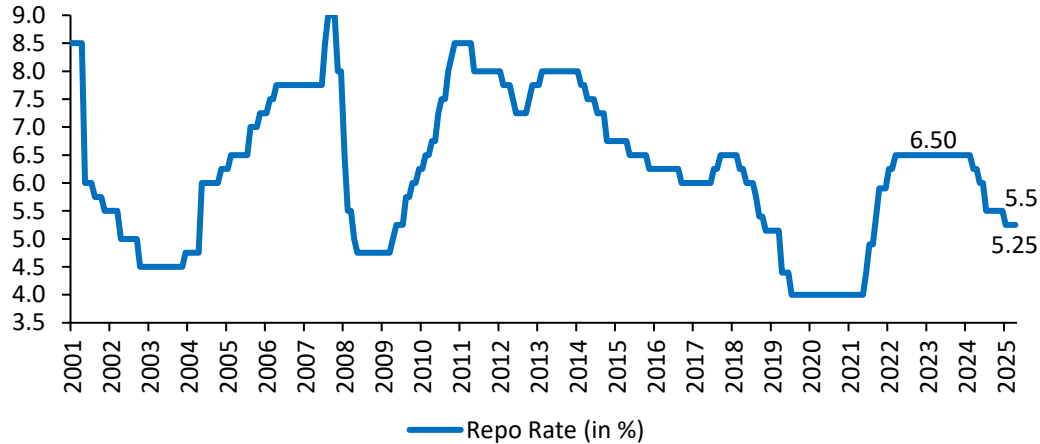
G-Sec Yields see some relief in April but remain elevated

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
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
30-Apr-26	5.25	5.46	5.64	6.21	6.41	6.64	6.75	7.01	6.98	7.03	6.90	7.03	7.34	7.59
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
30-Apr-26	-13	-7	0	-16	-11	-13	0	7	-11	3	-2	-0.4	-11	-16
Change YTD (in bps)	-2	9	12	45	34	32	44	49	36	38	26	44	35	32

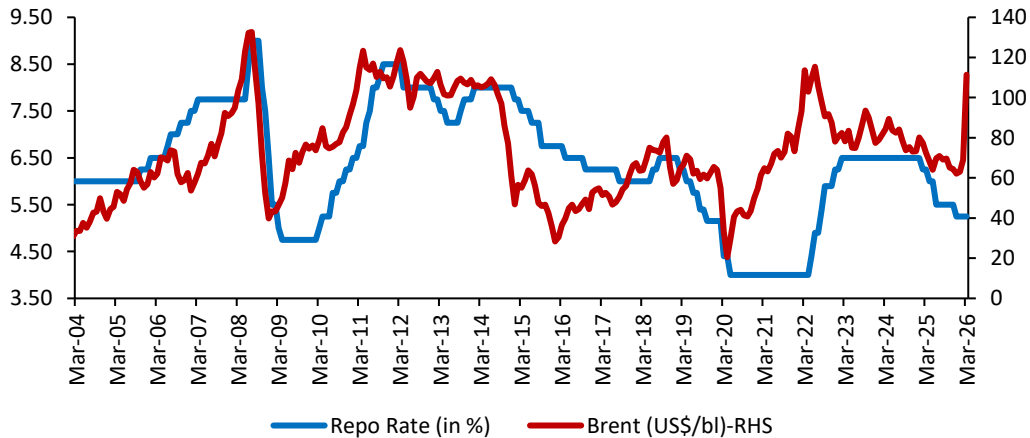
Monetary policy expectations change: Slowing growth, higher inflation risks

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



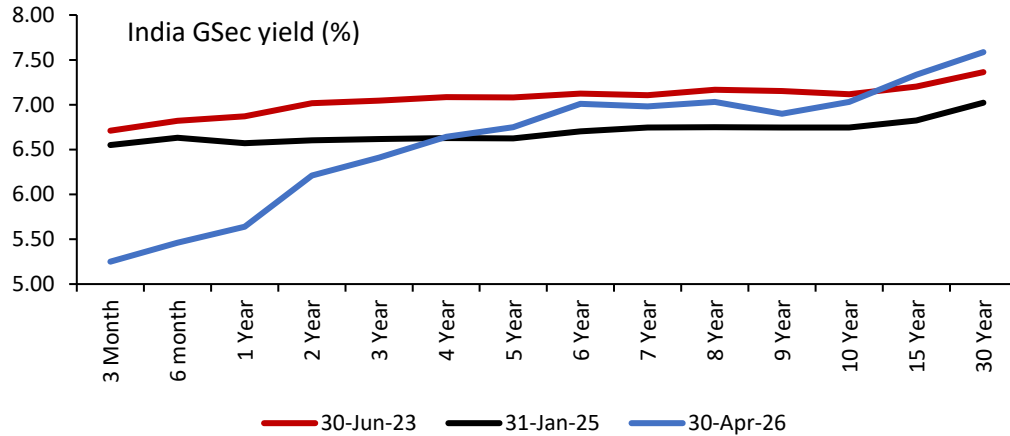
- The Monetary Policy Committee kept the repo rate unchanged at 5.25% at its latest meeting in April 2026. The stance remains at neutral.
- While the policy decision itself was on expected lines, the underlying macro narrative has clearly shifted from guarded confidence to heightened vigilance as global risks intensified.
- Global supply shocks alter the growth inflation dynamics.
- We continue to think that liquidity tools and actions will remain a centre stage of RBI's monetary policy in 2026.
- From a market perspective, the April policy reinforces the message that the bar for near term policy action remains high, even as comfort around the inflation trajectory has moderated.
- Global energy prices will be a key determinant of the future rate trajectory in India.

Brent crude price and interest rate

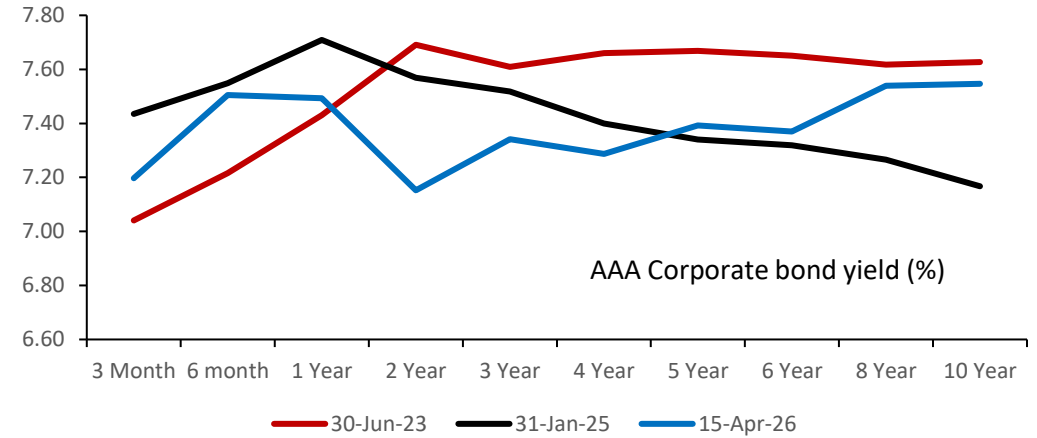


Simultaneous expansion of private and government credit creates tight demand-supply dynamic

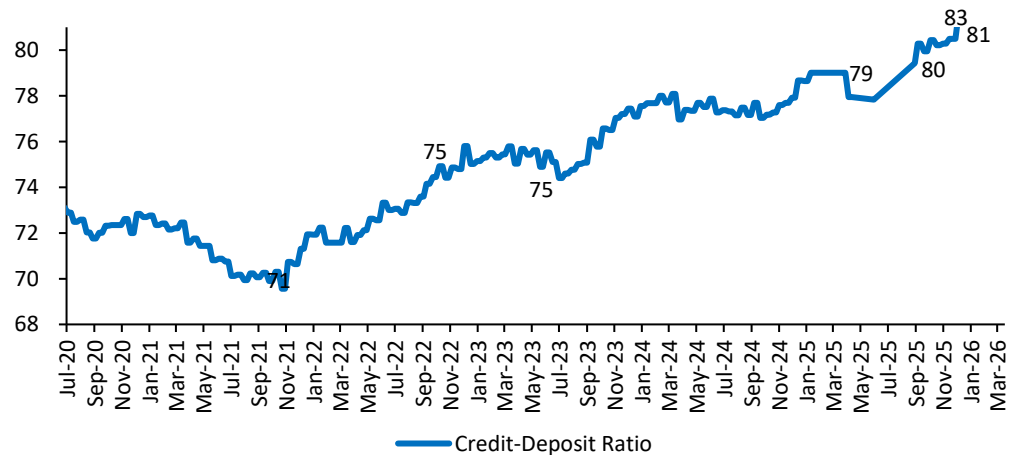
Visible steepening in G-sec yield curve in the last year



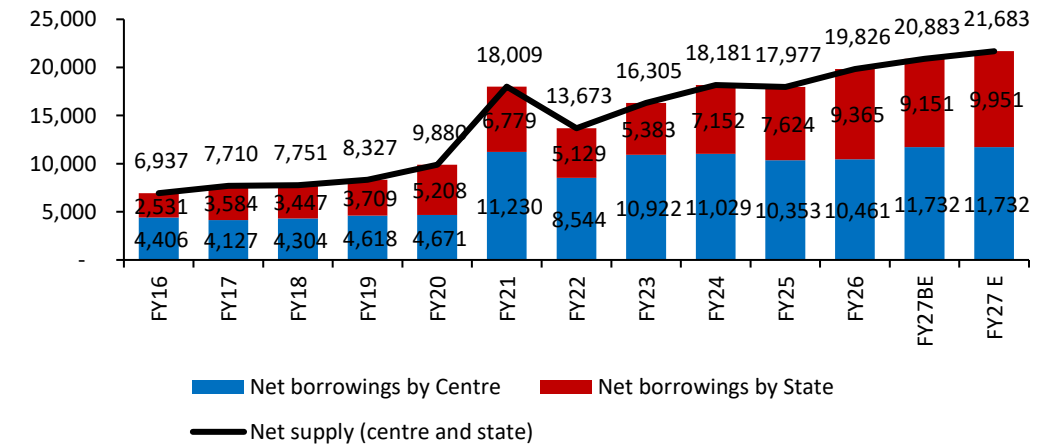
Similarly corporate bond yield curve steepens with rising private sector credit



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

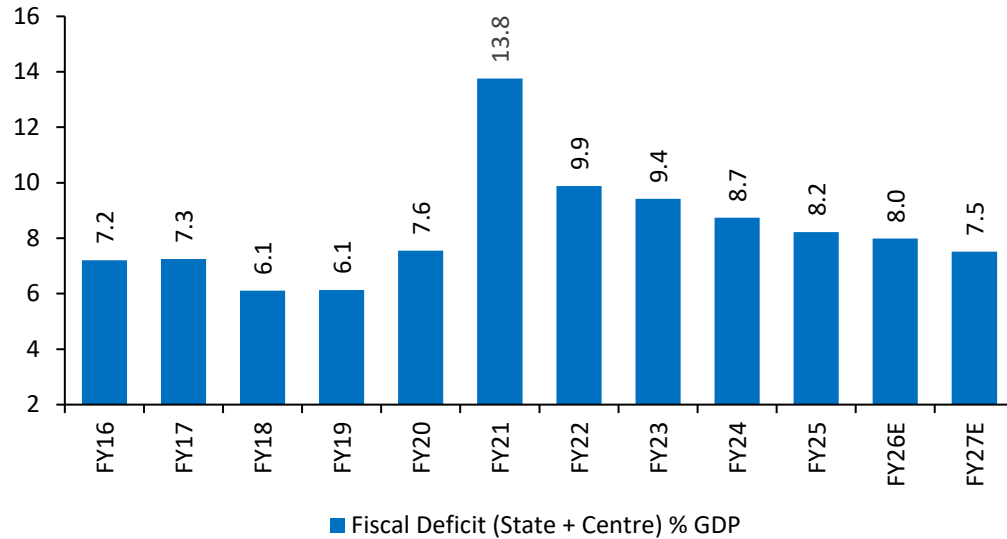


Rise in Government borrowing; Overall net government (Centre + State) issuances to rise by ~10% y-o-y in FY27

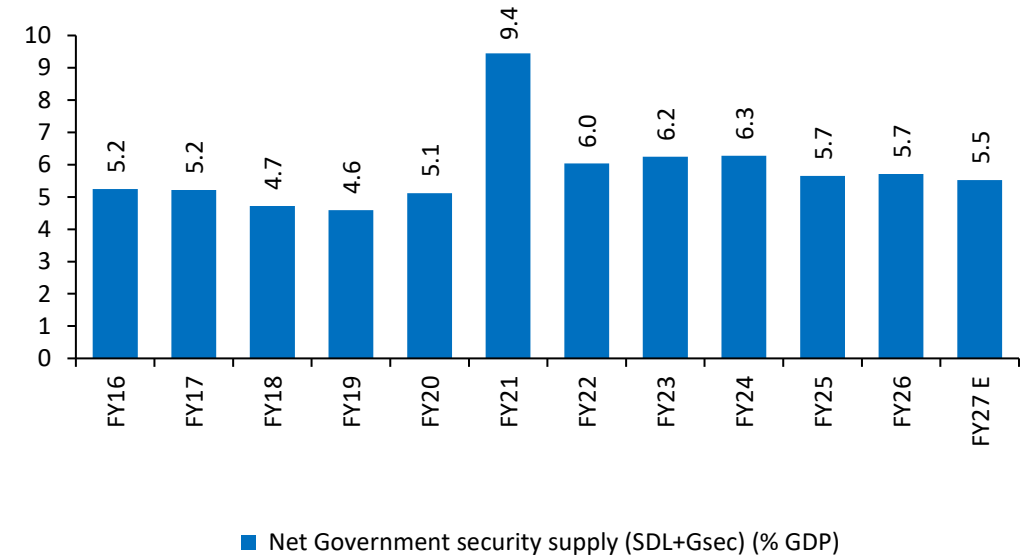


Government borrowing from market sources is expanding despite fiscal consolidation

Government on a fiscal consolidation path since FY21..

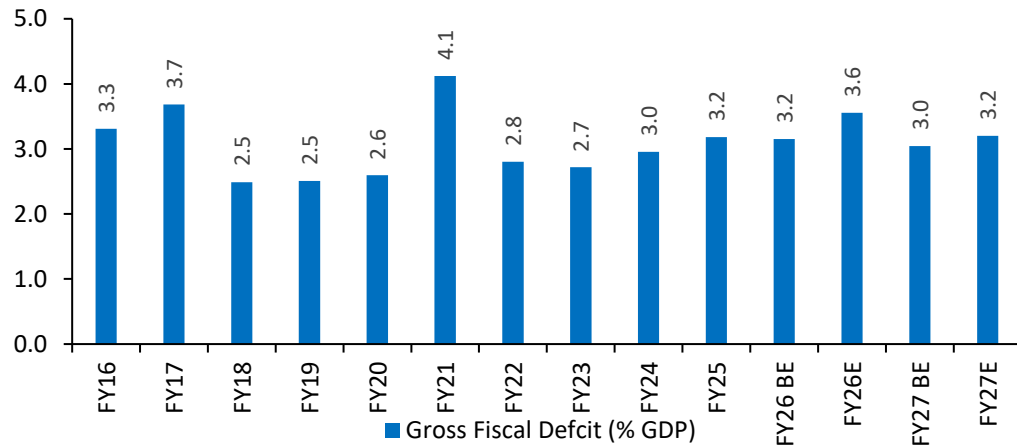


..Yet, net govt borrowing from market via dated securities remain elevated

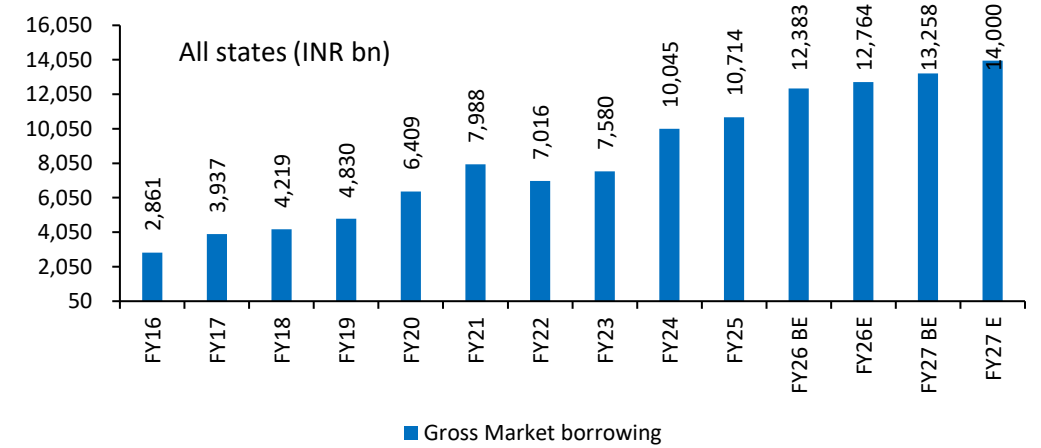


FY27 States budget target a fiscal consolidation to 3.0% from an estimated 3.6% of GDP in FY26

State fiscal deficit could once again exceed budgeted estimates in FY27..

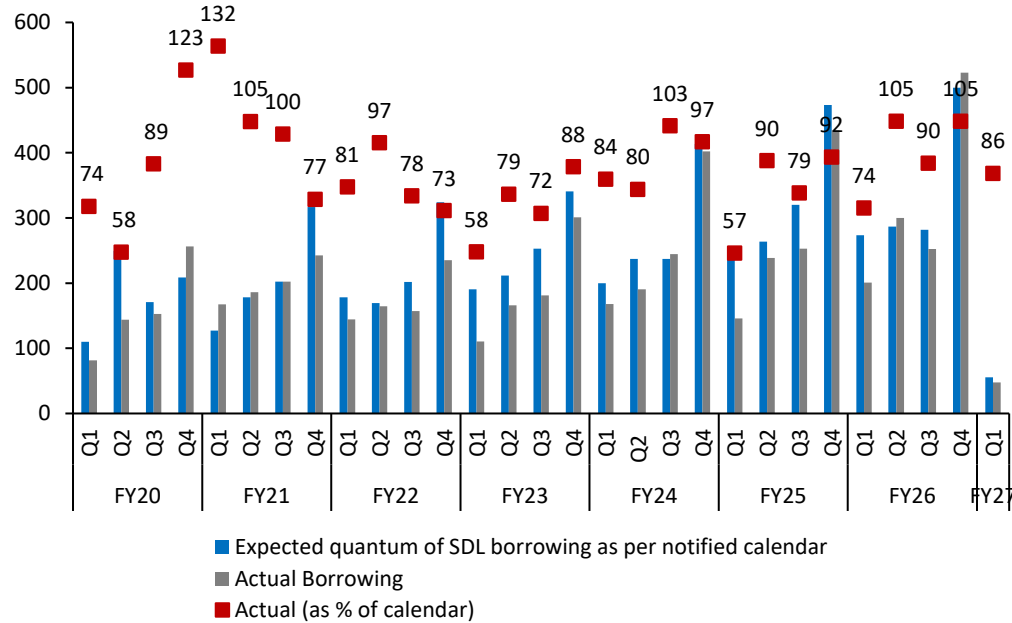


..Implying higher than budgeted SDL supply in FY27

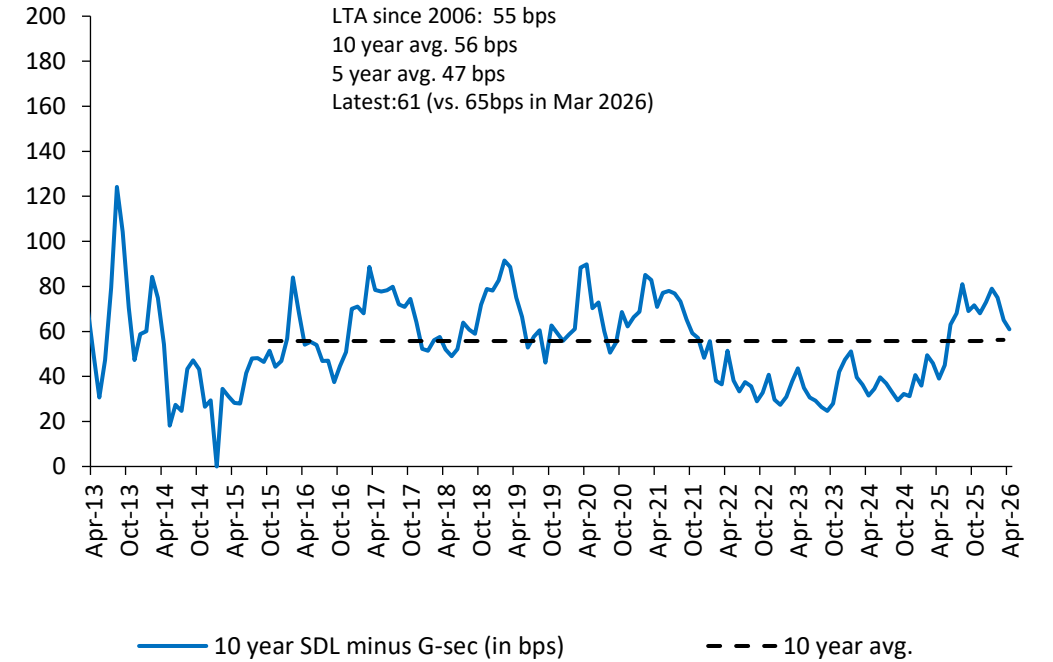


Q1 FY27 gross SDL issuances at 86% of calendar till date

Q1 FY27 gross SDL issuances at 86% of calendar till date



SDL spreads moderate but above long term average



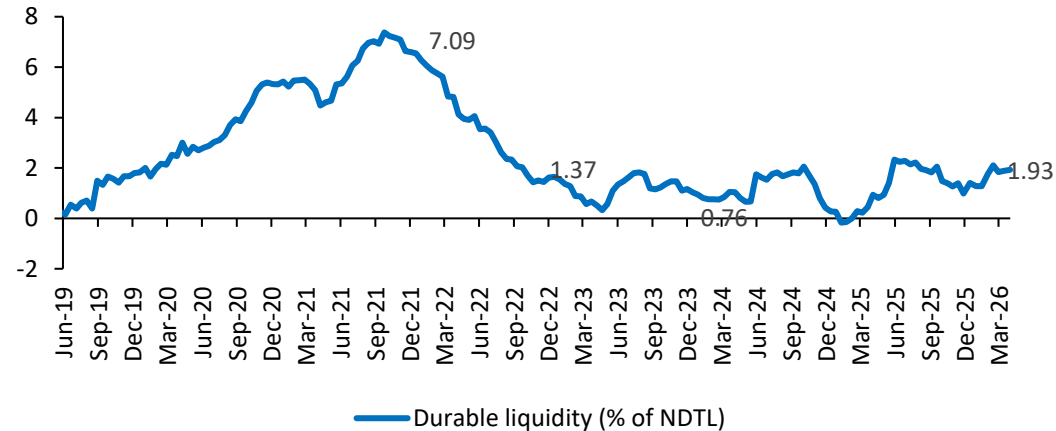
- Interestingly, while SDL supply has also risen significantly, spreads on these instruments have remained relatively contained because markets had already anticipated the supply increase.

Durable liquidity remains near Rs.4-5 trillion due to FX outflows despite massive liquidity infusion

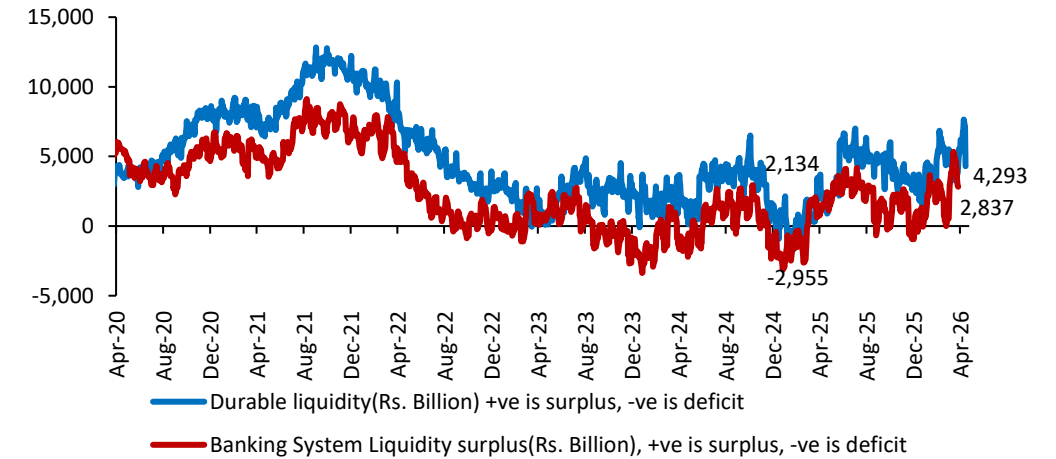
RBI provided massive liquidity support since December 2024

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
Total	19.7

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

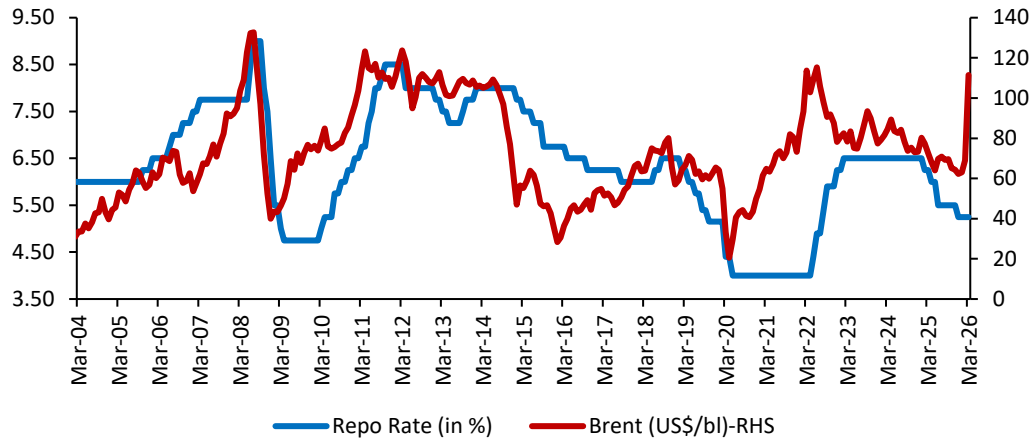


Liquidity management becomes critical as external pressures rise, expect continued OMO in FY27

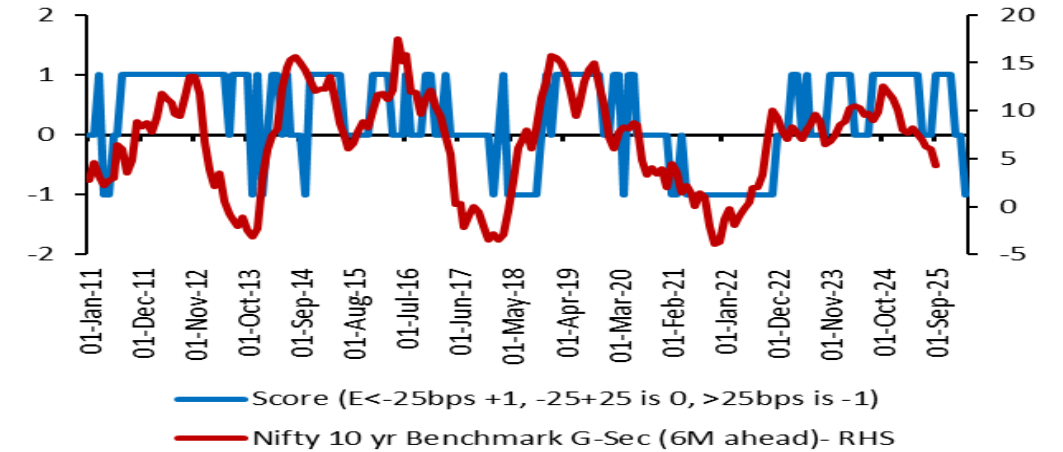
Data in Rs. trillion	FY27E
CIC Leakage	2.5-3
Incremental CRR requirement	1.3
Fx intervention (+ve is purchase, -ve is sales)	-3.5
RBI dividend transfer*	2.8
Net Impact on liquidity (-1-2+3+4)	-4.75
Net OMO purchase required to maintain current level of liquidity	4.75

Indian G-sec: Fundamentals, sentiments and valuation weakens

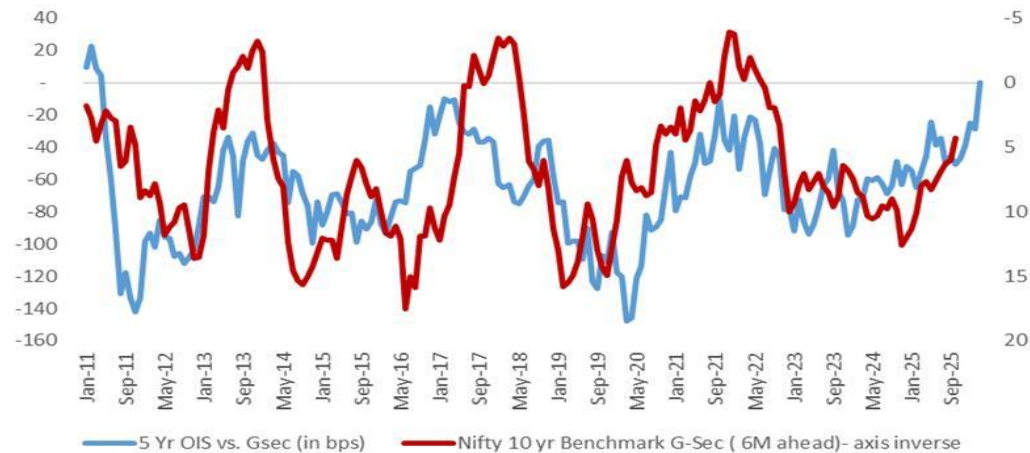
Historically energy price spikes are associated with rate hikes



Fixed Income fundamental deteriorates: Rate hikes expected by market



Sentiment weakens: as reflected in OIS



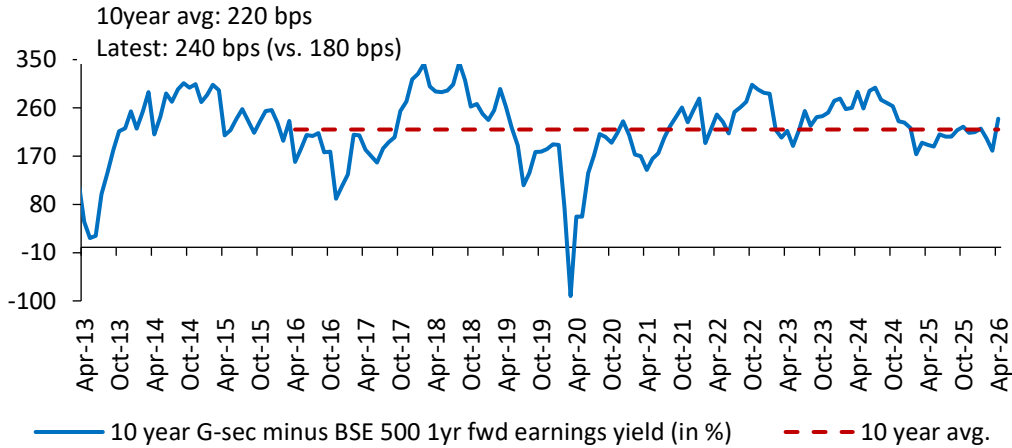
Valuation swings to unattractive as inflation bottoms out in India



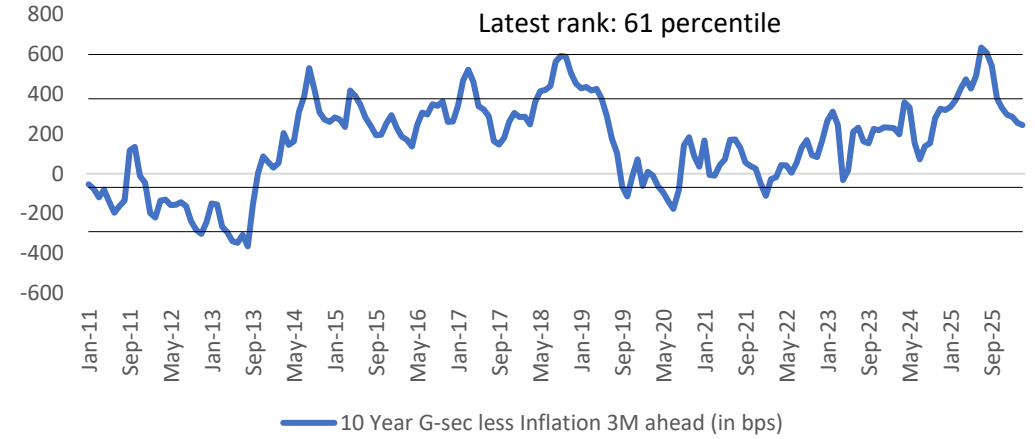
Source: Bloomberg, CMIE Economic Outlook, PPAC, SBIFM Research; NB: In the second graph, Score 0 represents expectation of neutral policy, score 1 of monetary easing and score -1 of rate hikes

Indian G-sec valuations: neutral to marginally unattractive

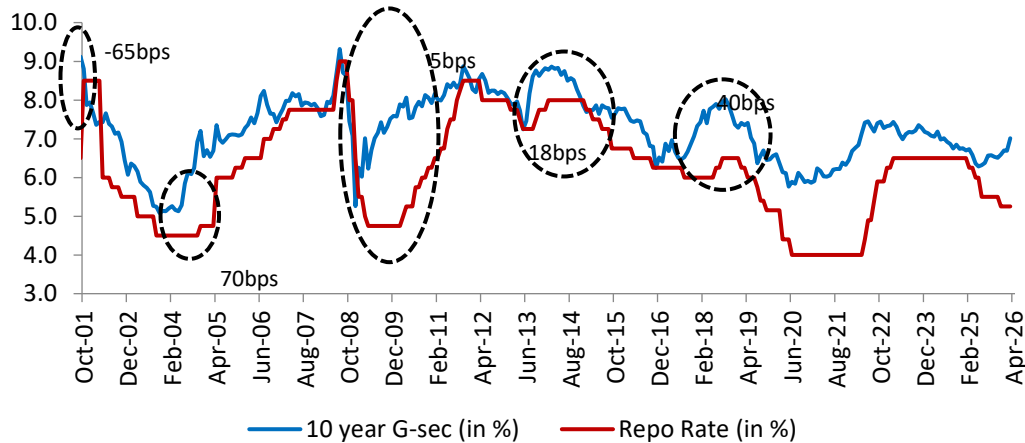
G-sec spread vs. equity turns neutral



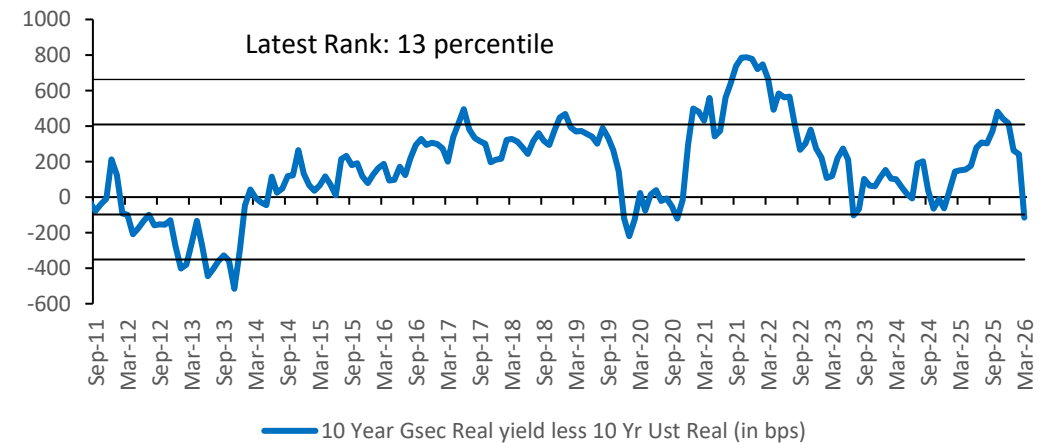
Real rate turns positive



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



FII turn net sellers of Indian government bonds in March and April 2026

India witnessed Debt outflows in March and April 2026

EM FII Debt inflow US\$ million	2024	2025	Feb-26	Mar-26	Apr-26
South Korea	43,139	87,632	8,129	4,007	5,024
Indonesia	2,258	189	(202)	(1,290)	300
Thailand	(1,092)	2,346	352	(1,033)	225
South Africa	(6,307)	(5,269)	(125)	(4,558)	195
Mexico	2,090	(5,147)	2,124	(1,206)	(158)
India	16,832	7,472	1,354	(1,050)	(681)
Poland	23,948	24,300	5,542	-	-
Bulgaria	2,462	5,534	3	-	-
Malaysia	274	4,899	136	1,279	-
Brazil	(17,387)	(3,453)	(6,732)	-	-
Philippines	3,461	2,397	(1,169)	-	-
Czech Republic	14	9	-	-	-
Russia	-	-	-	-	-
Ukraine	(548)	(122)	-	-	-
China	57,660	(81,349)	(182)	(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, Mar'26)	CPI Inflation Mar'26	Real Rate (% 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Mar 2026	10 year G-sec yield adjusted for 12m fwd premium (in %)- Mar 2026
Russia	16.0	5.9	10.1	0.0	16.0
Brazil	14.0	4.1	9.9	5.6	8.4
Colombia	12.8	5.6	7.3	13.0	-0.2
South Africa	9.3	3.1	6.2	7.1	2.3
Hungary	7.2	1.8	5.4	6.7	0.5
Mexico	9.3	4.6	4.7	7.3	2.0
India	7.0	3.4	3.6	3.0	4.1
Poland	5.9	3.0	2.9	4.2	1.6
Philippines	7.0	4.1	2.9	5.3	1.6
Turkey	33.5	30.9	2.7	47.0	-13.4
Thailand	2.2	-0.1	2.3	1.9	0.4
Malaysia	3.6	1.7	1.9	2.8	0.8
South Korea	3.9	2.2	1.7	2.7	1.1
Indonesia	6.8	5.8	1.1	5.4	1.4
China	1.8	1.0	0.8	1.3	0.5
Taiwan	1.5	1.2	0.3	1.5	0.0

Debt Outlook: Cautious

- 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.
- External sector dynamics are turning adverse: every US\$10/bbl rise in crude widens the current account deficit by ~US\$15bn annually, portfolio outflows have resumed, and the rupee faces depreciation pressure.
- 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).
- Thus, government borrowing from market sources is expanding at a time when private credit demand is picking up and foreign capital flows are limited. The implication is twofold. First, the cost of funds is likely to stay elevated. Second, RBI liquidity support will remain critical in keeping financial conditions manageable.
- For fixed income investors, returns are therefore likely to come more from carry than from capital gains.

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