6th OCT 2026

September saw India's economy and its markets move in opposite directions. Domestic fundamentals continued to exhibit considerable underlying strength, with steady growth, firm factory activity, robust tax collections and a healthy labour market, even as markets were increasingly governed by forces beyond India's borders. A sharp rise in energy prices, higher global rates and mounting sovereign debt altered the cost of capital worldwide, creating a growing dissonance between the health of India's economy and the behaviour of its markets.

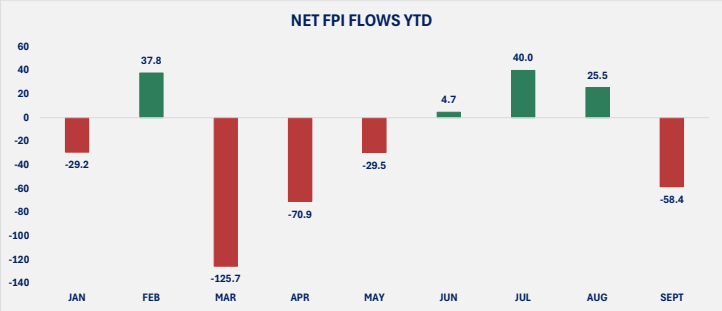
EQUITIES

INDIA: Nifty 50 TRI fell 6.0% in September, while Midcap 150 TRI and Smallcap 250 TRI declined 7.1% and 3.1%, respectively. Selling intensified in the final week as higher crude prices, a stronger dollar, rising bond yields, foreign outflows and expectations of tighter monetary policy converged, taking the benchmarks to six-month lows. IT was the sharpest laggard as subdued discretionary spending, softer growth expectations and concerns over AI-led disruption weighed on sentiment, even as global technology indices reached record highs. NBFCs, Consumer Durables and Auto also weakened amid rising-rate concerns, while higher yields pressured banks through treasury losses. Insurance stocks declined following IRDAI's consultation on commissions, while Pharma remained relatively resilient, supported by the exemption of select speciality drugs from US tariffs on Indian imports.

Media	Commercial & Transport Services	Power	Pharma	REITs & Realty
1.7%	1.2%	-0.4%	-2.8%	-2.8%
Telecommunications	**MidSmall Healthcare**	**Metal**	**FMCG**	**Consumer Services**
-2.9%	-3.0%	-3.2%	-3.3%	-4.2%
Housing Finance	**Oil & Gas**	**Private Bank**	**Healthcare**	**Construction**
-4.3%	-4.3%	-4.7%	-4.7%	-4.8%
Insurance	**Cement**	**Chemicals**	**Bank**	**Financial Services**
-5.4%	-5.5%	-5.5%	-5.9%	-6.3%
Realty	**Capital Goods**	**PSU Bank**	**MidSmall Financial Services**	**MidSmall IT & Telecom**
-6.3%	-6.4%	-6.9%	-8.5%	-8.8%
Auto	**Hospitals**	**Consumer Durables**	**NBFC**	**Information Technology**
-8.8%	-9.1%	-9.4%	-9.9%	-11.2%

**Source: NSE Monthly Report (1M Ret)*

FPIs, which had turned net buyers in July and August, sold ₹58,443 crore in September, taking cumulative 2026 outflows to ₹2,05,792 crore as quarter end rebalancing added to the selling pressure. SIP contributions reached a record ₹32,297 crore in August and systematic buying likely continued to provide a steady source of demand as market weakness created opportunities for fresh monthly deployments.



**Sources: NSDL*

INDICES	CURRENT	10 YR MEDIAN	AVERAGE (SI)	COMMENT
Nifty 50 (PE)	19.4	23.4	21.0	UNDERVALUED
Nifty 50 (PB)	2.8	3.6	3.6	UNDERVALUED
Nifty 50 (Dividend Yield)	1.2	1.3	1.4	OVERVALUED
Nifty Midcap 150 (PE)	28.4	33.7	31.1	UNDERVALUED
Nifty Midcap 150 (PB)	3.8	3.5	3.1	OVERVALUED
Nifty Midcap 150 (Dividend Yield)	0.7	0.9	1.2	OVERVALUED
Nifty Smallcap 100 (PE)	37.7	32.3	43.4	UNDERVALUED
Nifty Smallcap 100 (PB)	3.7	3.5	3.1	OVERVALUED
Nifty Smallcap 100 (Dividend Yield)	0.5	0.8	1.1	OVERVALUED

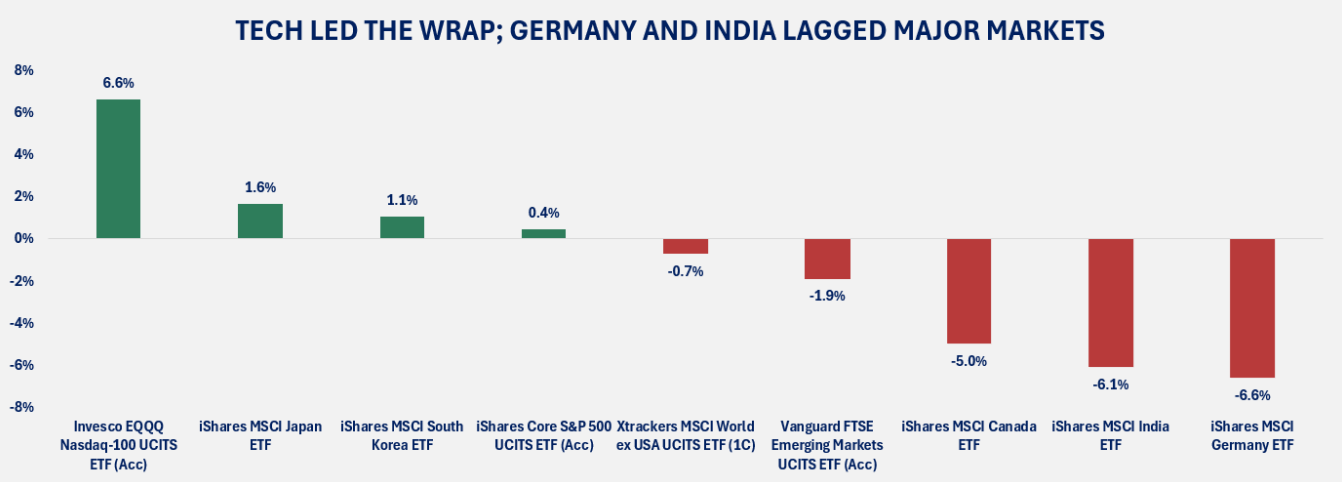
**Data as on 30th Sept 2026*

As on 30th September 2026, Nifty 50 traded at a PE ratio of 19.4x, below both its 10-year median of 23.4x and its long-term average of 21.0x. Nifty Midcap 150 traded at 28.4x, below its 10-year median of 33.7x and its long-term average of 31.1x. Nifty Smallcap 100 traded at 37.7x, above its 10-year median of 32.3x but below its long-term average of 43.4x.

US: Nasdaq 100 rose 3.2% in September, while the S&P 500 declined 0.5% and the Dow Jones Industrial Average fell 4.3%, its weakest month since March. After a mid-month wobble driven by concerns around AI safety, the Nasdaq recovered on renewed enthusiasm around Meta's Muse AI agent and a six-day rally in semiconductor stocks. The Dow remained under pressure as its more cyclical constituents were more sensitive to higher oil prices and interest rates, while S&P 500 financials fell 7.3%, their weakest month since March 2023. Hot August payrolls and producer prices led the Fed to raise rates by 25 bps to 3.75% to 4.00% on 16 September, its first hike since 2023, with 16 of 18 officials projecting one further increase. Earnings, however, remain a counterweight. Analysts raised Q3 earnings estimates by 1.4% during the quarter, compared with a typical 2.2% decline, lifting expected growth to 29.5% from 26.7%. A record 72 companies also issued positive guidance. Gains remain concentrated, with Energy leading at 114.0% on higher oil prices, while Information Technology growth falls to 24.4% when semiconductors are excluded. With earnings estimates rising faster than prices, forward P/E has eased to 19.0x, below both its five year and ten-year averages; data above provided as per factset.

US listed ETF inflows reached a record $150.6 billion in September, taking 2026 inflows to $1.54 trillion and surpassing last year's full year record with a quarter remaining. The composition of flows, however, became more defensive. Fixed income ETFs attracted $42.4 billion, narrowly ahead of US equity ETFs at $41.2 billion, as investors viewed 10-year yields above 5.25% as an attractive entry point. Within equities, enthusiasm for the AI trade moderated despite record market levels, with QQQ seeing $4.8 billion of outflows. Treasury bill, broad bond and municipal funds were among the largest beneficiaries, reflecting a broader preference for income and capital preservation.

GLOBAL:



**Source: Investing.com*

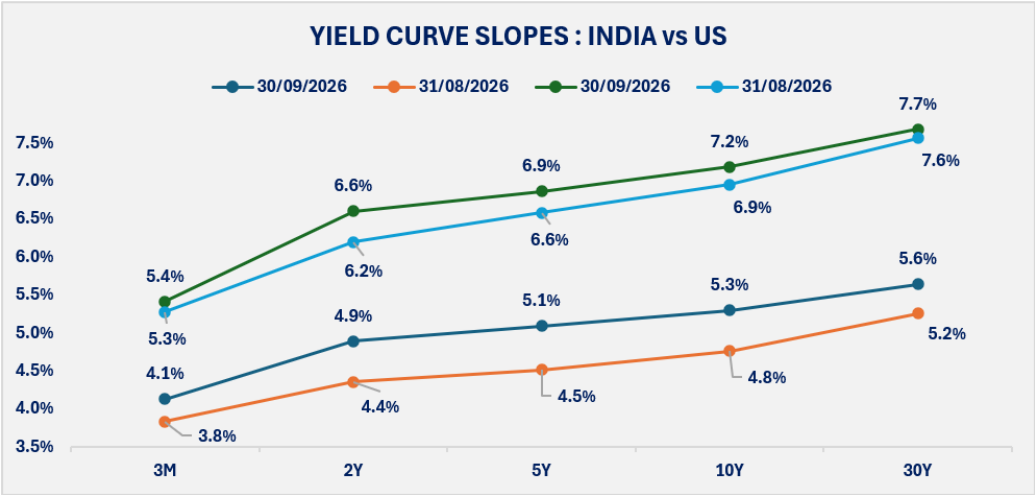
MSCI country ETFs

Japan rose 1.6%, led by AI and semiconductor related shares amid strength in global chip stocks and renewed optimism around AI infrastructure demand. South Korea gained 1.1% after a couple of shaky months as AI related positions were unwound sharply. Canada fell 5.0% as rising global bond yields weighed on equity valuations. India declined 6.1% amid a stronger dollar, higher crude prices, rising bond yields, persistent foreign outflows and expectations of rate hikes. Germany was the weakest market, falling 6.6% as consumer inflation rose to 3.3% in September, its highest level in almost three years, while Bund yields reached their highest level since 2008.

Global Wrap (UCITS)

EQAC returned 6.6% as the Nasdaq 100 rallied on renewed enthusiasm around Meta's Muse AI agent, a six-day rally in semiconductor stocks and lower oil prices. CSPX gained 0.4%, with strength in technology offset by weakness in financials. EXUS declined 0.7% as European equities weakened amid a sharp rise in global bond yields to multi decade highs, raising expectations of higher interest rates to contain inflation driven by rising energy prices. VFEA fell 1.9% as a stronger dollar weighed on emerging market equities.

FIXED INCOME:



Source: Investing.com

Debt was the defining theme of September, as war, higher oil prices and fiscal pressures pushed borrowing costs higher in both the US and India. In the US, the Iran war added to an already stretched fiscal position, with the federal deficit reaching $1.97 trillion in the first 11 months of the fiscal year 2026 and net interest costs exceeding $1 trillion for the first time. The conflict has also lifted long term rates by an estimated 0.5 percentage points. At the same time, a hawkish Fed and rising AI related debt issuance, estimated at $300 billion to $570 billion this year, added to competition for capital. The rise in Treasury yields was driven predominantly by real rates, with more than 70% of the increase in the 10-year yield since February attributed to expected real short-term rates and the real term premium. The 10-year Treasury yield ended September at its highest level since 2007, while the 30-year yield reached its highest since 2002.

India faced similar pressures from the other side of the oil trade. As a net importer, its crude import bill rose 48% to $74.8 billion between April and August despite broadly flat volumes. Strong revenue receipts are helping the government maintain its 4.3% fiscal deficit target, while second half (H2) borrowing is planned right on track at ₹7.86 lakh crore allowing the government to actually trim its full-year budgeted borrowing by ₹1.2 lakh crore. At the short end, efforts to defend the rupee near 96 per dollar saw forex reserves drop by $18.3 billion in a single week as the RBI anchored the currency ahead of a widely expected 25 bps rate hike on 7th October. This tight liquidity pushed short-term money market rates upward, flattening the yield curve as the 2-year yield was up 41 bps, compared with an 11 bps rise in the 30-year yield. The India and US bond markets are increasingly interconnected, with the 10-year yield differential narrowing to 189 bps from 219 bps. A narrower spread can encourage foreign outflows, putting further pressure on the rupee and tightening domestic liquidity.

CURRENCY & ECONOMIC INDICATORS:

ECONOMY	TARGET	CURRENT	DIFFERENCE
United States	2.00%	3.40%	-1.40%
China	2.00%	0.80%	1.20%
Germany	2.00%	3.30%	-1.30%
Japan	2.00%	1.90%	0.10%
United Kingdom	2.00%	3.10%	-1.10%
India	4.00%	4.82%	-0.82%
France	2.00%	3.00%	-1.00%
Italy	2.00%	4.20%	-2.20%
Russia	4.00%	6.30%	-2.30%
Brazil	3.00%	4.22%	-1.22%

**Source: Trading Economics*

Eight of the ten largest economies are now running above their inflation targets, with energy emerging as the common driver. War driven oil prices are feeding through to costs across importing economies, turning what initially appeared to be a regional inflation problem into a global one. The result is a more synchronised policy response, with central banks tightening and bond yields rising across major markets.

INDICATOR	PREVIOUS	LATEST	TREND
CPI inflation (Aug)	4.45%	4.82%	▲
WPI inflation (Aug)	9.78%	9.92%	▲
Manufacturing PMI (Sep)	52.8	55.1	▲
IIP growth (Aug)	7.40%	8.00%	▲
Unemployment (Aug)	5.10%	5.00%	▼
Gross GST (Sep)	₹1,99,853 Cr	₹2,03,521 Cr	▲
USD/INR (Sep end)	₹ 95.14	₹ 96.11	▲
Dollar index (Sep end)	99.46	101.45	▲
Brent, Dec contract (Sep end)	$90.49	$98.03	▲
Real GDP growth (Q1 FY27)	7.8% (Q4 FY26)	7.80%	–
Nominal GDP growth (Q1 FY27)	9.1% (Q4 FY26)	10.30%	▲

India's economy remains in good shape. Growth is holding near 8%, factory activity has rebounded, tax collections are at record levels and unemployment is at a six-month low. The key pressure point is inflation, which is largely imported. The war has kept oil above $100, with higher energy costs now feeding through the economy. Manufacturers reported a faster rise in input costs in September, driven by electronics, pharmaceutical inputs and steel, with retail inflation expected to follow. This is why the RBI is widely expected to raise rates on 7 October. The move would be a response to an external inflation shock rather than an overheating domestic economy.

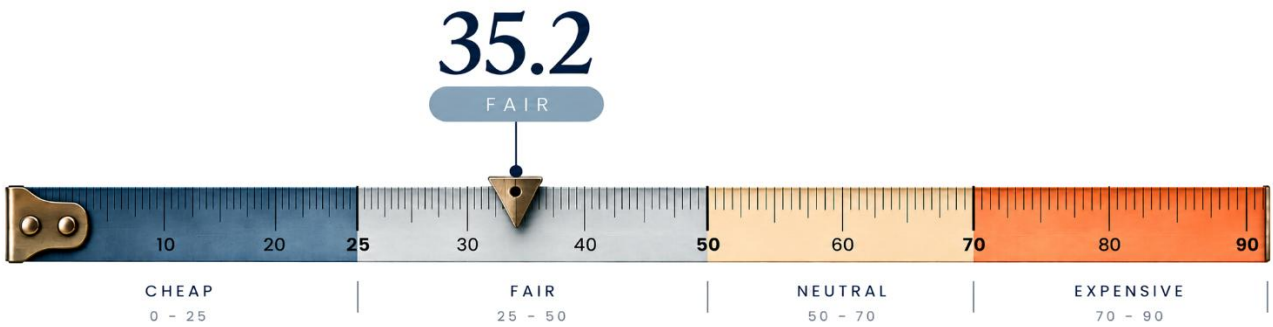
Markets, however, are yet to reflect this underlying strength, as the current pressure is largely external, coming from crude prices, US yields, a firmer dollar and foreign selling. Until these pressures ease, strong domestic fundamentals may continue to remain disconnected from market performance. A de-escalation that brings oil prices lower, or a pause in global rate hikes, could begin to close this gap. With earnings, growth and domestic flows already in place, the underlying foundation for a market recovery remains intact.

INDICATOR	PREVIOUS	LATEST	TREND
Real GDP growth, annualised (Q2)	2.5% (Q1)	2.20%	▼
GDP price deflator, annualised (Q2)	3.2% (Q1)	6.10%	▲
PCE inflation (Aug)	3.70%	3.42%	▼
ISM Manufacturing PMI (Sep)	54.6	54.5	▼
ISM New Orders (Sep)	53.7	55.3	▲
ISM Prices Paid (Sep)	71.1	77.9	▲
Consumer sentiment, UMich (Sep)	51.7	48.1	▼

The US economy remains divided between resilient businesses and increasingly stretched households. On the business side, momentum remains solid. Q2 GDP was revised up to 2.2%, manufacturing has expanded for nine consecutive months and new orders accelerated to 55.3 in September. The pressure point is inflation. ISM Prices Paid rose to 77.9, while the GDP deflator accelerated to 6.1% in Q2 from 3.2% in Q1. Even as headline PCE eased to 3.42%, inflation remains well above the Fed's 2% target. Households are feeling the strain, with consumer sentiment falling to 48.1, below its level at the start of every recession since 1978, as higher prices continue to erode real incomes. The combination of resilient growth and persistent inflation explains the Fed's shift towards tighter policy. Until price pressures ease meaningfully, the divergence between strong corporate earnings and increasingly constrained household finances is likely to persist.

Gold remained under pressure in September, with Gold in USD falling 6.6% and Gold in INR declining 5.7%. The Fed's first rate hike since 2023 pushed real yields higher and increased the opportunity cost of holding a non-income generating asset. Silver fell further, declining 9.6% and leaving it down 14.2% for the year. From its January peak, gold is now around 23.1% lower, highlighting the risks of momentum driven positioning. Longer term support, however, remains intact. Central bank buying continues to provide structural demand, while investors added nearly $2 billion to gold ETFs in the week before the rate hike. This suggests that while the short-term correction has been sharp, underlying demand for gold remains firm.

CONCLUSION:



The Nifty 50 Equity Valuation Index (EVI) stands at 35.2, down from 40.1 last month, placing the market towards the cheaper end of the Fair zone. At 19.4x trailing P/E, below its 25-year average of 21.0x, valuations have become more attractive following September's correction. Based on consensus FY27 earnings growth of 13%, the Nifty 50 trades at a forward P/E of 17.1x. A re-rating to its long-term average valuation implies a fair value of approximately 27,700, representing around 23% upside from current levels. Importantly, the de-rating has been driven by a higher global cost of capital rather than a deterioration in Indian growth or earnings. This leaves the market trading at a more attractive valuation against an underlying fundamental base that remains intact. We continue to recommend adding to equities, with a slight overweight towards large cap and midcap segments. With inflation above target and the RBI expected to tighten, we prefer shorter-duration fixed income with maturities of 1 to 2 years.

In the US, the Fed has shifted from holding rates to tightening, while fiscal pressures, war spending and AI related borrowing are keeping long term yields at multi decade highs. Earnings remain the key counterweight. Q3 estimates rose through the quarter, CY2026 earnings growth is expected at 32.4%, and forward P/E has eased to 19.0x, below both its five year and ten-year averages. With recent gains concentrated in Energy and semiconductors, we prefer broad based indices over concentrated technology exposure and favour dollar cost averaging over lump sum deployment. Within fixed income, we prefer intermediate maturity Treasuries and TIPS, while remaining cautious on long duration given elevated term premium and continued supply risks.

Gold's correction from its January peak has improved the entry point, while its long-term structural drivers remain supportive. Rising government debt, war related spending and sustained official sector demand continue to underpin the asset. Central banks remain significant buyers, albeit at a slower pace, with Q2 purchases of 289 tonnes, a record for any second quarter, and full year buying expected at around 850 tonnes. We therefore recommend gradually building gold exposure through staggered purchases within each portfolio's strategic allocation. Gold continues to offer diversification against inflation and policy risk, while the near-term rise in real yields favours a phased accumulation approach over lump sum deployment.

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