

AXIS MARKET PLAYBOOK

H1 Review and H2 Roadmap



Editorial Foreword

From the CEO's Desk

H1 CY2026 was a genuinely difficult period for Indian equities. West Asia tensions pushed Brent crude briefly above \$100/bbl, and foreign institutional investors pulled out over ₹2 lakh crore during the half, among the heaviest such outflows on record. This wasn't really about India specifically; a lot of that money chased the AI and semiconductor story instead, running into Taiwan, Korea, and Japan on its own momentum. One effect landed on us directly: India's valuation premium over other emerging markets narrowed to some of its thinnest levels in years, and foreign ownership of the Nifty 500 fell to a multi-year low by March.

July brought the first signs of a turn, though it's a mixed picture, not a clean one. FII's ended a four-month selling streak and came back as net buyers, helped along by profit-booking in the AI/chip trade in East Asia making Indian valuations look reasonable again by comparison. IT was the immediate beneficiary, putting in its best month in years. Q1 FY27 earnings, reported through the month, have also been encouraging in pockets, with several banks posting record profits. The US-Iran conflict did flare up again mid-month and pushed crude back up nearly 20%, so the macro overhang from H1 hasn't fully cleared, but the direction of travel through July was clearly better than the one we started the half with.

Domestic investor participation carried markets through the roughest stretch in between. Monthly SIP contributions ran above ₹31,000 crore through the period, and that steady buying cushioned much of the foreign selling. The Nifty and Sensex still saw real drawdowns during the sharper phases of FII selling, and the rupee came under pressure too, but domestic flows held the line in a way that's genuinely become one of the strengths of this market.

On policy, the backdrop is moving in the right direction, with more still to come. The interim trade deal with the US, signed in February, already cut tariffs and gave exporters more clarity than they'd had in a year, and a fuller, comprehensive trade agreement is still being negotiated and could land in the coming months. Separately, the RBI's FCNR swap window has already pulled in over ₹3.5 lakh crore in foreign currency inflows since June, ahead of where most analysts expected it to be by now. Put together, and assuming the Iran situation stays contained, India looks better placed heading into H2 than it did a year ago.

There were also encouraging signs beneath the surface through H1. Participation broadened beyond the largest companies into select mid- and small-caps, and into sectors like capital goods, defence, and power, though selectively rather than across the board. Valuations overall have come down closer to long-term averages, a healthier starting point than a year ago, and if earnings keep coming through the way they have in early Q1 FY27, there's a real case for this turning into a sustained recovery.

The sections that follow walk through the macro developments, market positioning, and sector trends that shaped this half. H1 tested how much foreign selling the market could absorb without breaking, and it held, not without cost, and with real help from the RBI and from investors who kept their SIPs running through the worst of it. Whether H2 turns out easier is genuinely not clear yet. But for the first time this year, the setup doesn't feel stacked against us.

— Pranav Haridasan, MD and CEO, Axis Securities



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Nifty 52W Range 22,183 – 26,373 <i>Current ~24,205 (June '26)</i>	FPI Net CY2026 YTD -₹2.25 Lakh Cr <i>Jan–June 2026</i>	SIP Monthly Run-Rate ₹31,781 Cr <i>June 2026 (AMFI)</i>	Brent Crude (June '26) ~\$73/bbl <i>Strait of Hormuz crisis</i>
India FY26 GDP Growth 6.7%-6.9% <i>RBI Estimate (June '26)</i>	India CPI Inflation 4.38% <i>June I 2026 (New CPI Series)</i>	RBI Repo Rate 5.25% <i>Held, Neutral stance (Feb '26)</i>	MF Equity Inflows (June'26) ₹28,961 Cr <i>AMFI data; total MF: ₹82.22L Cr</i>

Sources: RBI, AMFI, Bloomberg

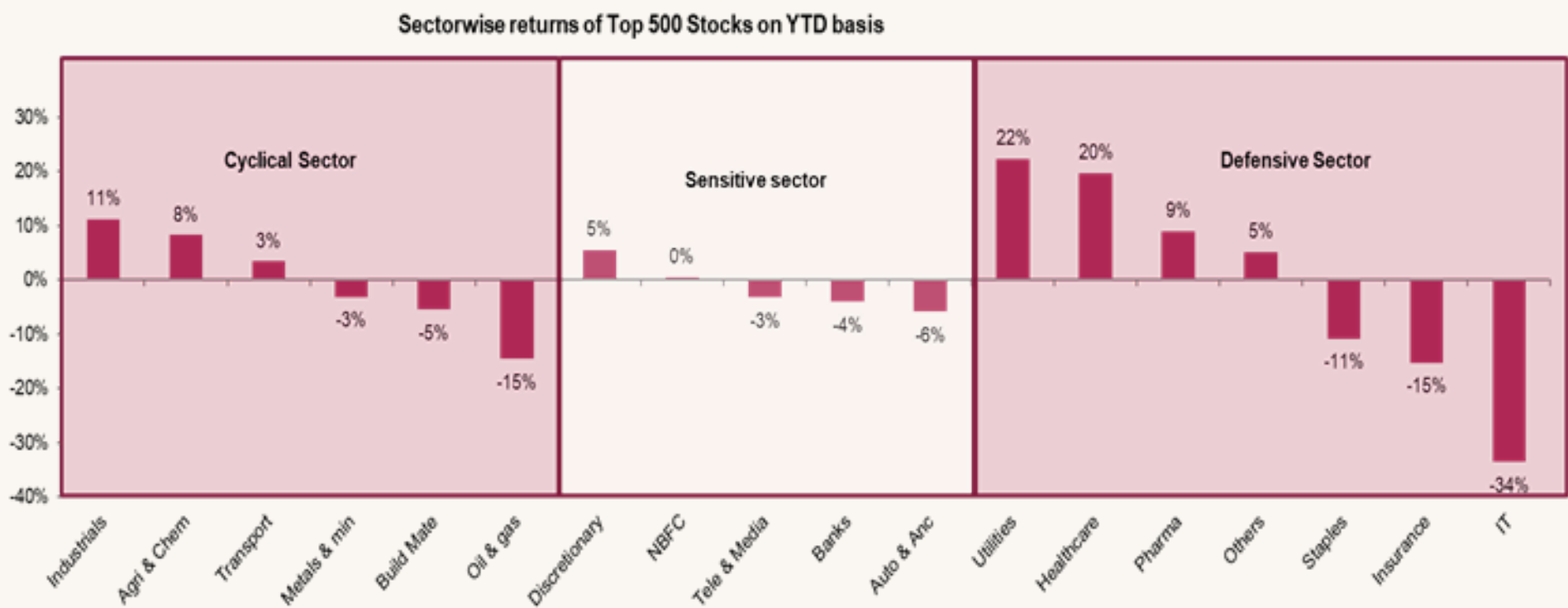
A Snapshot of H1CY2026 Market Performance

Metric	Level / Reading (as of late June '26)	H1 Character
Nifty 50	ATH 26,373 (5-Jan) → ~24,000–24,100 now; YTD ~-7.9%	New high, deep correction, partial recovery
Sensex	~77,000–77,200 (post-correction)	Mirrors Nifty's correction-recovery
Midcap / Smallcap	Midcap near 52-wk high (~62,700); Smallcap +~6.2% (H1CY26)	Far more resilient than Nifty's correction
FII Activity (H1 cumulative)	(₹2.25 lakh crore)	Alternating net buy/sell by month
DII Activity (H1 cumulative)	₹3.67 lakh crore	Counter-cyclical buying on dips
Crude Oil (Brent)	Declining trend through June	Disinflationary tailwind for India
Dominant Macro Event	Iran–Israel–US conflict / Hormuz risk	Defined H1 volatility regime

Source: Bloomberg, Axis Securities

Sector Leadership (H1CY26)

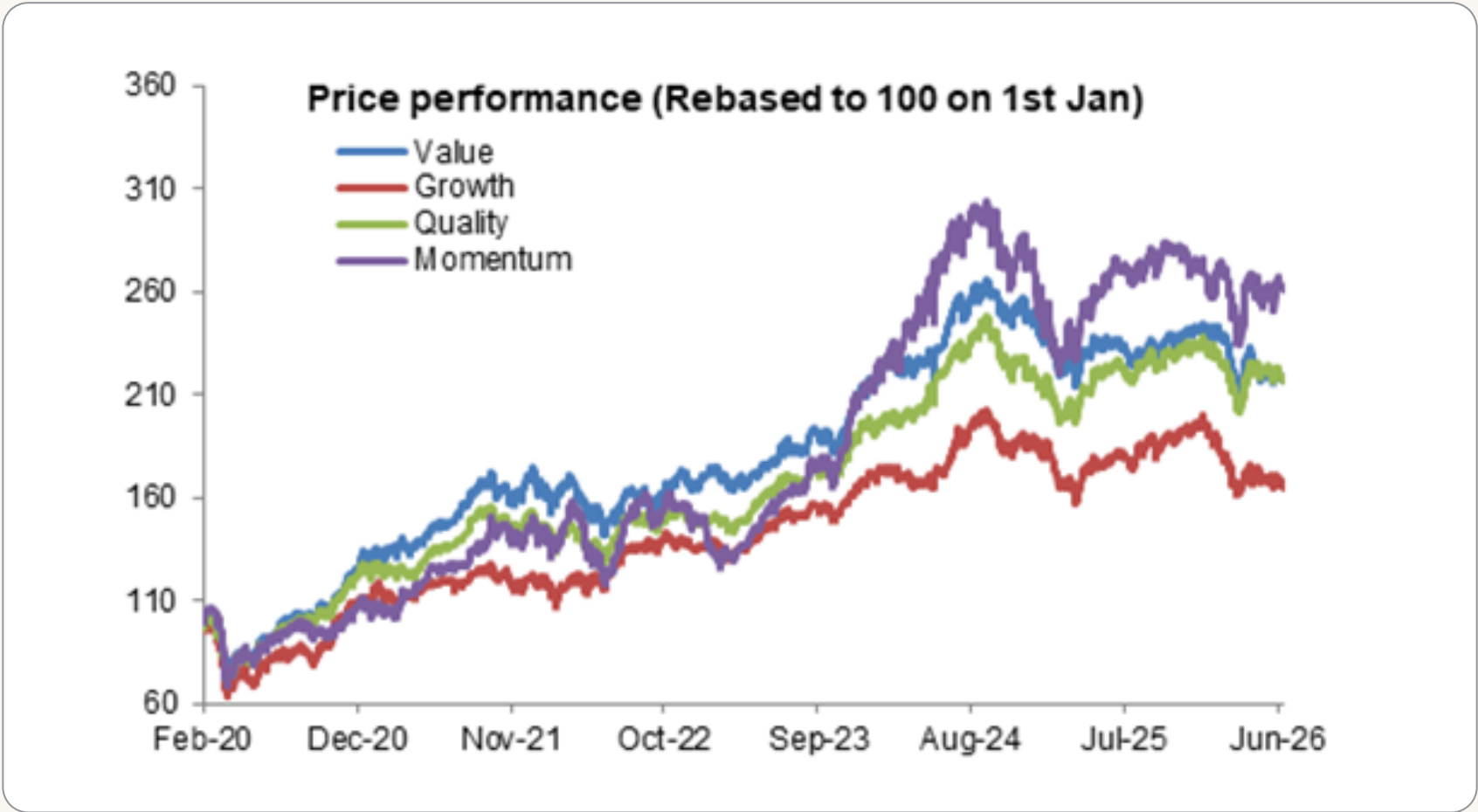
- Gainers: Nifty Energy (12.5%), Nifty Metal (12.1%), Nifty Pharma (11.5%)
- Laggards: Nifty IT (-30.6%), Nifty FMCG (-12%), Nifty Service (-9.4%)
- YTD rally led by Utilities and Healthcare in defensive and Industrials, Agri & Chemical in Cyclical. The Metals index came under pressure recently on strengthening of the USD. IT Sector Underperformance continues to remain under focus – led by AI concerns



Source: Bloomberg, Axis Securities

Quality was the Best-Performing Theme in the Last One Year

- Both quality and growth outperformed value and momentum in 2025. Over the past year, quality has outperformed all other style indicators, followed by growth and momentum. However, over the last three and six months, momentum has outperformed all other styles, indicating a gradual increase in investors' risk appetite.
- We believe that structural growth and high-quality plays, which offer robust corporate balance sheets and long-term sustained earnings visibility, will continue to outpace the broader market, irrespective of near-term volatility.



Source: Bloomberg, Axis Securities

Performance (%)				
Perf	Value	Growth	Quality	Momentum
2022	-0.90%	12.40%	-0.90%	7.10%
2023	27.80%	24.80%	32.00%	39.00%
2024	15.60%	9.80%	11.30%	30.00%
2025	-1.20%	5.40%	7.30%	-0.70%
1m	-1.00%	-1.60%	-2.40%	0.50%
3m	2.30%	1.50%	7.50%	11.20%
6m	-10.20%	-15.00%	-7.00%	-3.10%
1YR	-8.50%	-8.40%	-3.60%	-5.40%
2YR	-9.10%	-4.80%	-1.90%	-4.60%

Source: Bloomberg, Axis Securities

Major Economic & Geopolitical Developments

- Iran–Israel–US conflict and Strait of Hormuz risk — the defining macro overhang of H1.
- US–Iran talks progressing toward a potential longer-term deal on Middle East energy exports.
- Crude oil prices on a declining trend, easing India's inflation and current-account pressure.
- Safe transit of oil tankers through Hormuz — a tactical relief point for markets.
- Continued uncertainty over US tariff policies and trade negotiations created periodic volatility in global markets, though progress on bilateral trade agreements helped improve investor sentiment toward the end of H1CY26.
- Rising geopolitical tensions accelerated defence spending and investments in energy security across major economies, creating structural growth opportunities for defence, power, and energy-related sectors.

Sector-wise H1CY26 Cumulative Return Table

National Index						
Index Performance (%)	1m	3m	6m	Since 28 Feb'25	Since 26 Sep'24	1Year
Nifty 50	1.40%	6.90%	-8.70%	7.90%	-9.00%	-6.50%
Nifty Next 50	0.80%	18.70%	3.30%	25.50%	-7.10%	3.80%
Nifty 500	1.50%	12.00%	-3.70%	15.70%	-6.10%	-2.60%
Nifty Midcap 100	0.10%	17.40%	2.20%	29.00%	2.20%	3.40%
Nifty SmallCap 250	4.30%	24.00%	6.20%	28.00%	-3.90%	-0.40%
Sector Index (%)	1m	3m	6m	Since 28 Feb'25	Since 26 Sep'24	1Year
NIFTY AUTO	0.50%	11.40%	-6.10%	29.20%	-3.70%	10.90%
NIFTY BANK	6.10%	14.50%	-3.40%	19.00%	5.80%	0.40%
NIFTY COMMODITIES	-4.90%	7.30%	2.90%	28.90%	0.70%	9.60%
Nifty Financial Services	4.70%	12.90%	-3.80%	15.30%	5.60%	-2.30%
NIFTY ENERGY	-2.80%	14.00%	12.50%	32.40%	-10.00%	8.70%
NIFTY FMCG	-1.20%	7.10%	-12.00%	-3.70%	-26.20%	-11.10%
NIFTY IT	-9.60%	-9.50%	-30.60%	-29.50%	-37.60%	-32.50%
NIFTY INFRA	0.40%	9.70%	-2.30%	22.50%	-2.80%	-0.20%
NIFTY MEDIA	5.00%	17.20%	2.30%	6.60%	-31.20%	-15.70%
NIFTY METAL	-6.90%	12.40%	12.10%	52.30%	25.40%	31.30%
NIFTY PHARMA	4.00%	13.90%	11.50%	27.80%	8.90%	14.90%
NIFTY PSU BANK	4.10%	7.90%	-0.50%	50.30%	24.80%	17.90%
Nifty Private Banks	6.10%	15.70%	-2.80%	15.30%	2.50%	-1.20%
NIFTY REALTY	6.00%	27.40%	-5.50%	4.00%	-26.70%	-15.90%
NIFTY SERV SECTOR	2.80%	7.50%	-9.40%	3.70%	-9.50%	-9.60%

Source: Bloomberg, Axis Securities

01

SECTION ONE

Eight Insights That *Defined the Half.*

Before we walked you through six months of charts, data and market twists, we asked ourselves a simple question: if H1 2026 could be captured in 8 key takeaways, what would they be?

The next two pages are the answer.

If you only have ten minutes with this report, spend them here.

01 When Geopolitics Replaced Fundamentals

Market volatility was driven more by geopolitical factors than economic fundamentals. Investor sentiment fluctuated due to rising tensions among Iran, Israel, and the US, particularly regarding potential disruptions in the Strait of Hormuz, vital for nearly 20% of global crude oil trade. Initially, fears of supply disruptions increased crude oil prices, raising concerns about inflation and India's import costs. As tensions eased and US-Iran diplomatic efforts progressed, market sentiment improved. A successful transit of over 860,000 metric tons of crude through the Strait restored confidence in global energy supplies, leading to a correction in oil prices. The decline in energy prices has improved India's macroeconomic outlook by lowering inflation expectations and supporting the Indian Rupee. This led to a broad rally in domestic equities, with mid- and small-cap stocks outperforming due to increased risk appetite and foreign investor interest.

Global headlines dictated market sentiment before domestic fundamentals reclaimed the narrative.

02 Crude Oil Became the Market's Compass

The sharp increase in crude oil prices during the US-Iran conflict, from about \$65 to nearly \$126 per barrel, significantly impacted India's economy. Higher crude prices raised the import bill, pressured the Indian Rupee, and fueled inflation through increased costs in fuel, transportation, and raw materials. Crude-dependent sectors such as paints, chemicals, tyres, aviation, and logistics faced input cost inflation and margin pressures, while rising energy prices dampened hopes for policy easing and weakened investor sentiment toward Indian equities. Conversely, the recent decline in crude oil prices has improved India's macroeconomic outlook. Lower energy prices are expected to moderate inflation, reduce the import bill, and strengthen the Indian Rupee, thereby enhancing the current account balance. This positive shift in macro fundamentals could attract more foreign institutional investment (FII) into domestic equities. The macro transmission was straightforward: lower crude → softer inflation → stronger INR → improved FII flows and equity market sentiment.

Lower crude translated into stronger macro confidence.

03 Domestic Money Held the Market Together

Foreign institutional investors have continued to remain net sellers in Indian equities during much of 2026, reflecting concerns over elevated domestic valuations, global monetary policy uncertainty and the relative attractiveness of developed markets. However, strong and consistent inflows from domestic institutional investors have helped absorb much of the foreign selling pressure, thereby providing stability to the broader market. Going forward, sustained moderation in crude oil prices, improving earnings visibility, stable currency movements and lower global bond yields could encourage foreign investors to gradually increase allocations toward Indian equities during the second half of FY27. Total FII outflows in FY27 YTD have reached nearly ₹1.23 lakh crore, while DIIs have infused ₹2.08 lakh crore.

Domestic liquidity is no longer cushioning the market — it is increasingly defining it.

04 Leadership Moved Beyond Large Caps

Mid- and small-cap stocks emerged as the primary drivers of market performance in H1CY26, significantly outperforming large-cap peers amid broad-based domestic participation and improving earnings expectations. Strong inflows from retail investors and domestic institutional investors, coupled with resilient economic growth and healthy corporate balance sheets, supported the rally. The performance was particularly pronounced in sectors benefiting from manufacturing, capital expenditure, defence, infrastructure, and consumption themes. However, the sharp appreciation has led to elevated valuations across several pockets, making stock selection increasingly important. Going forward, sustained earnings delivery and reasonable valuations will be key determinants of further upside, while companies with strong fundamentals are likely to continue outperforming.

The market rewarded participation — but future returns will reward selectivity.

If you only have ten minutes with this report, spend them here.

05 Earnings Stayed Resilient, Not Uniform

The Q4FY26 earnings season has broadly reflected resilience in India Inc. despite a difficult global backdrop. Aggregate earnings growth for Nifty companies remained moderate (5-6%) but stable, supported by domestic demand-oriented sectors, financials, industrials, healthcare, capital goods and selective manufacturing segments, while broader market companies delivered stronger earnings momentum. Nifty500 earnings grew by 9% YoY.

The earnings story wasn't weak—it was selective.

06 Beyond Tariffs, Towards Opportunity

The proposed trade agreement between India and the United States is a crucial medium-term catalyst, with ongoing negotiations and no final deal yet. Progress in market access, tariff rationalisation, and supply chain cooperation is expected to boost bilateral trade, strengthen India's manufacturing ecosystem, and enhance its status as a global production hub. As companies diversify supply chains under the China+1 strategy, India is well-positioned to attract more foreign direct investment (FDI) and export opportunities. A successful agreement could improve earnings for export-oriented sectors like engineering goods, electronics, pharmaceuticals, textiles, and some auto components, while also fostering capital expenditure and manufacturing investments.

Trade policy is increasingly shaping tomorrow's investment opportunities.

07 India's Trade Footprint Continued to Expand

In the first half of 2026, India boosted its global trade by finalising key Free Trade Agreements (FTAs), including one with the UK that enhanced market access and reduced tariffs. Progress was also made with the EU, Oman, and New Zealand, while talks with the US continue. These efforts aim to increase exports, attract foreign direct investment, and strengthen India's status as a global manufacturing hub.

Every new trade corridor expands India's long-term growth story.

08 Retail Stayed Invested

Investor behaviour reflected a disciplined long-term approach, as consistent SIP inflows, steady mutual fund investments, and buy-on-dips strategies offset foreign outflows and reinforced confidence in Indian equities. Retail participation remained resilient, with 10.52 crore active SIP accounts, SIP AUM reaching ₹17.7 lakh crore, and equity mutual funds attracting net inflows of ₹28,961 crore in June 2026, underscoring investors' long-term conviction.

Disciplined investing continued to fuel India's equity story.

02

SECTION TWO

Moments *That Moved Markets.*

Markets rarely move in a straight line.

They react to elections, policy decisions, central banks, earnings, wars and unexpected headlines — often long before the numbers catch up. H1 CY2026 was no different.

Here's a look back at the moments that shifted sentiment, changed expectations and, in many cases, altered the market's direction.



FEB 2026

Union Budget FY26-27

HIGH POSITIVE

- The Union Budget maintained the fiscal consolidation path while sustaining strong capital expenditure of ~₹12 lakh crore.
- Key Positives: Capex thrust, middle-class income tax relief (boosting urban consumption), continuation of PLI schemes, and digital infrastructure investment.
- A landmark fiscal milestone: The government targeted a 4.5% fiscal deficit/GDP for FY26 — signalling macro discipline without sacrificing growth.
- Market reaction: Nifty rose 1.5–2% on budget day; Capital Goods, Infrastructure, and FMCG stocks outperformed.

FEB – DEC 2025

RBI Rate Cut Cycle

HIGH POSITIVE

- The RBI delivered a cumulative 125 bps of rate cuts — the most aggressive easing cycle in years — enabled by the 'goldilocks' macro environment.
- December 2025 Cut: Repo rate brought to 5.25%; RBI Governor called conditions a 'rare goldilocks period' of high growth + ultra-low inflation.
- February 2026 MPC: Rate held at 5.25%; neutral stance maintained. Liquidity management through OMOs continued.
- RBI MPC (June 3–5, effective June 5): Repo rate held at 5.25%; neutral stance retained; FY27 GDP forecast cut to 6.6%, inflation forecast raised to 5.1%

FEB 2026

India-US Trade Deal

SIGNIFICANT POSITIVE

- India signed its landmark bilateral trade deal with the US, targeting Rs 47.33 lakh crore in total bilateral trade.
- Tariff framework: 18% tariff on goods trade — a structured improvement versus the pre-deal tariff uncertainty environment.
- Sectors benefiting: IT services, pharmaceuticals, textiles, and specialty chemicals — all major FII/FPI allocation themes.
- The EU trade deal was also inked, further cementing India's positioning as the preferred global trade partner.

ONGOING

SEBI Regulatory Actions

SELECTIVE

- SEBI's F&O lot size rationalisation reduced retail speculative volumes in near-term derivatives — positive for market health, short-term negative for discount broker revenues.
- Enhanced SME IPO scrutiny: Several SME listings showed volatile post-listing performance; SEBI's tightening improved investor protection.
- GST rate rationalisation (September 2025): A government action — not SEBI — but had direct market impact via the consumption surge it generated.

APRIL 2026

Capital Account Liberalisation

POSITIVE

- The Government and RBI introduced a series of measures, including capital gains tax exemption for eligible FPIs/BIS investors, expansion of the Fully Accessible Route (FAR) for government securities, and a concessional ECB forex swap facility.
- These initiatives are expected to improve foreign capital inflows, deepen debt markets and reduce external borrowing costs, with a selective positive impact across financial markets.

Sources: Union Budget, RBI, SEBI



MAR – JUN 2026

DEFINING EVENT

US-Iran War and Strait of Hormuz

- The US military engagement with Iran and effective near-closure of the Strait of Hormuz was the defining geopolitical event of H1 CY2026.
- Brent crude surged from ~\$65–70/bbl (Jan 2026 open) to \$113.63/bbl (May 4, 2026 peak) — a ~60% rise in 4 months.
- IEA warned of record inventory drawdowns of 4 million barrels/day in March–April; Saudi Aramco flagged 100 million barrels/week of supply loss.
- US dismissed Iran's peace counteroffer; ceasefire described by Trump as on 'massive life support' — escalation risk remains in H2.
- US-Iran signs MOU to clear standoff related to war; negotiation going on; flip-flop continues.
- Crude cools off to \$70–\$80/bbl, Equity market volatility reduces.

JAN – JUN 2026

ADVERSE

Record FPI Outflows

- FPIs were net sellers every month in 2026 except February — when a brief ₹22,615 crore inflow (the highest in 17 months) provided temporary relief.
- The March 2026 outflow of ₹1.35 lakh crore was the largest single-month FPI exodus on record — comparable only to the March 2020 COVID crash in terms of velocity.
- CY2026 YTD net FPI outflow of ₹2.25 lakh crore significantly exceeds the full-year CY2025 outflow of ₹1.77 lakh crore — in just six months.
- FPIs sold bank stocks worth ₹60,655 crore in March 2026 alone — a concentrated exit from India's most liquid large-cap segment

APR – MAY 2026

MIXED

Q4 FY26 Earnings

- Q4 FY26 earnings broadly confirmed the 'selective recovery' thesis — BFSI, FMCG, and Capital Goods delivered in-line to modest beats; IT disappointed.
- Key positive surprise: Sensex rose 7% in April 2026 — driven by earnings optimism and partial DII-driven recovery.
- BSE Midcap and Smallcap rose 14% and 20% respectively in April — a sharp bounce from oversold conditions, absorbed enthusiastically by retail investors.
- Nifty 50 FY27 EPS growth consensus: 12–14% — earnings recovery thesis intact despite macro headwinds.

Sources: Bloomberg, Axis Securities

03

SECTION THREE

Beneath *the Surface*

To understand where markets went, you first need to understand what moved them. The next section explores the global and domestic forces that influenced market direction in H1 2026.

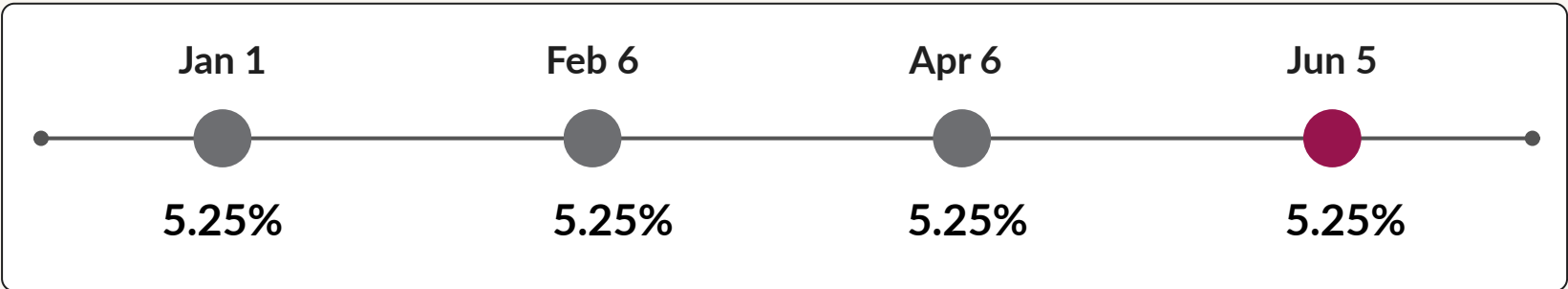
THE FORCES THAT SHAPED MARKETS:

- A. INDIA'S GROWTH & POLICY ENVIRONMENT
- B. GLOBAL FACTORS & MARKET VOLATILITY
- C. INVESTOR SENTIMENT & MARKET POSITIONING

The Domestic Advantage

A) INDIA’S GROWTH & POLICY ENVIRONMENT

RBI Policy Stance: a Deliberate Pause, Not a Reversal.



**Repo Rate
Unchanged at
5.25%**

Source: RBI

The Reserve Bank of India (RBI) decided to keep the repo rate unchanged at 5.25% in June 2026, following 100 basis points (bps) of cuts since February 2025. This was a unanimous MPC decision to pause rather than a signal of a changed easing trajectory – the committee explicitly cited elevated energy prices, supply-chain disruption stemming from the West Asia conflict, and a deficient monsoon forecast as reasons to let the prior 100 bps of cuts work through the economy before adding further stimulus. The choice of a hold, rather than either a cut or a hawkish hike signal, reflects a central bank trying to keep optionality open in both directions: Growth support if the geopolitical overhang clears, and inflation vigilance if it doesn't.

Additionally, the RBI revised its FY27 GDP growth forecast down to 6.6% and raised its CPI inflation projection to 5.1%, signalling a moderate stagflation risk. Governor Sanjay Malhotra stated that India's growth story remains "intact," framing the downgrade as a temporary adjustment.

Capital Account Opening: an Unusually Aggressive Pivot toward Foreign Capital

To address H1 FII outflows, the government and RBI introduced a multi-pronged capital-account liberalisation package effective April 1, 2026. Key components include: a capital-gains tax exemption for FPIs to lower costs; removing investment limits on select government securities and NRI/OCI investments to expand the pool of foreign buyers; expanding the Fully Accessible Route (FAR) to include 15-year, 30-year, and 40-year government bonds linked to global indices to attract passive flows; and a concessional forex swap facility for external commercial borrowings, with the RBI covering hedging costs for new 3–5 year FCNR deposits until September 30, 2026, reducing currency-hedging costs for foreign lenders and depositors. This package is one of the most comprehensive measures India has implemented outside of a Budget cycle and reflects the seriousness with which policymakers are addressing the FII outflow situation.

Domestic Demand: a Genuine Rural-led Recovery Underway

Rural demand growth is currently running at roughly 8.4% year-on-year, comfortably ahead of urban demand growth of around 4.6% – a reversal of the urban-led consumption pattern that dominated much of the post-pandemic recovery. This rural outperformance is being driven by a normal monsoon, record foodgrain production, and targeted government fiscal stimulus aimed at rural households. Layered on top of this, the GST rate recalibration – cutting key consumer and auto categories from 28% to 18% – is acting as an additional, policy-driven demand catalyst rather than a purely cyclical one. The combination of a rural income tailwind and a tax-driven price reduction on discretionary goods gives the consumption recovery thesis two independent legs to stand on, which is a stronger setup than either factor alone would suggest.

When the World Moved Dalal Street

B) GLOBAL FACTORS & MARKET VOLATILITY

The Conflict that Defined the Half

The Iran-Israel-US conflict and risks in the Strait of Hormuz were the main global factors affecting markets in the first half of 2026. Brent crude oil prices exceeded \$100 per barrel in March due to escalating tensions and the potential for new US military action against Iran. This rise in oil prices stressed India's import bills and current account despite robust domestic fundamentals. De-escalation occurred gradually, marked by fluctuations in the market as US-Iran talks progressed. A key moment came in June when oil tankers carrying over 860,000 metric tons of crude safely transited the Strait of Hormuz, a crucial chokepoint for global oil supply. The market reacted positively to this event, reflecting heightened sensitivity to Hormuz disruption risks. Overall, investor sentiment had anticipated greater disruption, which fueled a sharp recovery rally from previous lows.

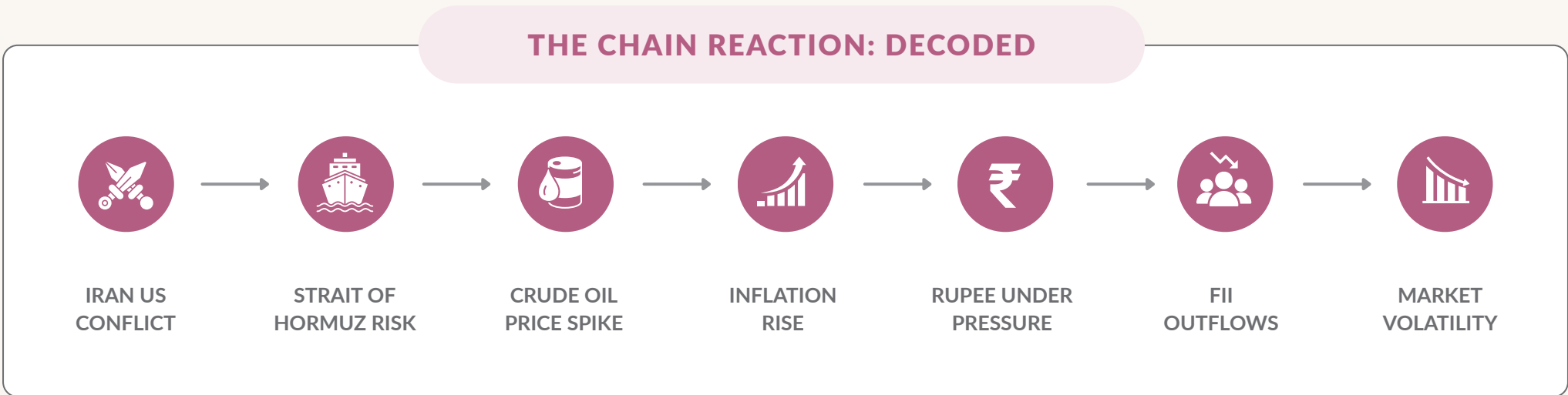


Brent Crude Oil Price Chart (H1)

(Source: tradingeconomics.com)

Capital Account Opening: an Unusually Aggressive Pivot Toward Foreign Capital

Foreign investors' concerns are reflected in the financial data: since the start of 2026, cumulative Foreign Institutional Investor (FII) equity outflows have reached about ₹2.25 lakh crore. This significant outflow has pressured the rupee and prompted the government's capital account liberalisation in April. The sequence of events is important: escalating conflict and risks in the Hormuz Strait drove crude oil prices over \$100 per barrel, raising India's import costs and worsening inflation expectations. This made Indian assets less attractive to foreign investors, leading to the outflows. In response, the government adopted policy changes to improve the appeal of Indian assets through tax incentives and better access. As crude oil prices declined from their March peak, the situation began to improve. Lower oil prices eased inflation and supported the rupee, given India's reliance on energy imports. This, along with the capital account measures, offers cautious optimism that FII flows could turn positive in the second half of the year, assuming the trend of de-escalation continues.



A Different Kind of Bull Market

C) INVESTOR SENTIMENT & MARKET POSITIONING

The large-cap vs. broader-market divergence is the single most telling data point of H1.

Despite a ₹2.25 lakh crore pullback from Foreign Institutional Investors (FIIs), the Nifty Midcap 100 and Nifty Smallcap 100 indices performed notably better than the large-cap index. The Nifty Midcap 100 reached a 52-week high of about 62,907, while the Nifty Smallcap 250 rose roughly 6.2% over the past six months, whereas the Nifty 50 is about 8.7% below its all-time high from early January. This trend is expected, as FIIs typically focus on large-cap, index-heavy stocks. The most affected segments underperformed, while those dependent on domestic retail and Domestic Institutional Investor (DII) demand remained resilient. This divergence suggests a shift in market leadership, with funds moving from large-cap momentum stocks to quality mid- and small-cap businesses. Domestic investors are increasingly selective, favouring companies with strong earnings visibility and solid balance sheets, reflecting growing confidence in India’s economic drivers and a transition to a fundamentals-led investment approach.

Equity Market Valuation & Relative Positioning

From an equity market perspective, valuations have corrected significantly, with benchmark indices now trading around their long-term average of 18 times one-year forward earnings. India continues to offer a premium compared to emerging markets due to strong growth visibility and earnings quality, although this premium has decreased. The correction in the first half of CY2026 has lowered valuations to levels that often signal durable buying opportunities. Domestic investors, as shown by the resilience of mid-cap and small-cap indices, seem to recognise this. While this reset improves the medium-term appeal of Indian equities, future market gains will depend on corporate earnings and companies’ ability to maintain profit margins amid rising input costs, high energy prices, and inflationary pressures from increasing diesel prices.

Valuation Correction in The Broader Index

Many sectors are still in the Oversold zone as compared to the Sep’24 levels except PSU banks and Pharma

	12m fwd PE	Long term Avg	Valuation as on Sep’24	% down from Sep’24
PSU Banks	8.2	9.9	7.6	9.0%
Pharma	31.5	24.2	30.8	2.3%
Infra	21.6	18.9	22.6	-4.4%
Auto	23.6	19.5	24.8	-4.8%
Energy	14.4	11.8	15.3	-5.6%
Banks	13.2	15.6	14.2	-7.0%
Nifty	18.3	18.3	21.3	-14.0%
Service sec	17.1	18.3	20.6	-17.4%
Media	20.3	22.4	25.3	-19.9%
Metal	11.6	11.3	16.2	-28.3%
FMCG	28.5	33.2	42.8	-33.4%
Realty	26.2	27.0	44.8	-41.5%
IT	14.9	20.7	29.2	-49.1%

Sources: Bloomberg, Axis Securities

04

SECTION FOUR

Sectoral *Deep-Dive*

Not every sector shared the same story.
While some gained momentum, others faced challenges.

Here's how key sectors fared in H1 CY2026.

H1CY26 Trend: ▲ Positive

~15%

System Credit Growth – Mar 2026

H2CY26 View: ▲ Positive

~17-18%

System Credit Growth – Jun 2026

“ The biggest surprise of H1CY26 wasn't resilience – it was the return of credit. ”

WHAT HAPPENED IN H1CY2026?

BANKS

Liquidity Pressure, Then Relief

Deposit growth lagged credit growth, keeping LDR elevated, but RBI's action on FCNR deposits helped banks mobilise funds.

Asset Quality Improves

Unsecured segments showed positive signs of turning constructive; secured segments remained resilient.

NIM Compression

NIMs were steady to slightly negative as banks absorbed the Dec'25 rate cut by deposit pricing.

Outlook Shifts to Optimism

As H1CY26 concluded, the overall outlook for the banking sector shifted toward greater optimism.

NBFCs

Buoyant AUM growth

Strong AUM growth sustained throughout H1CY26, driven by healthy loan disbursements.

Segment Performance

Growth anchored by Vehicle Finance and Gold Finance. The MFI segment witnessed a gathering recovery as asset quality normalised.

Margin (NIM) Dynamics

NIM improved on the moderation in cost of funds. Incremental CoF inched up; product mix shifted towards lower-yielding secured segments.

Asset Quality Improving

Collections strengthened, delinquency moderated, and fresh NPA accretion slowed.

Earnings Drivers

Robust business momentum, combined with normalising credit costs, drove strong earnings growth in H1CY26.

VIEW FOR H2CY2026

POSITIVE

- NIM headwinds expected to ease
- Unsecured loan growth to pick up
- Liquidity & funding conditions improving
- Asset quality expected to remain stable

NEUTRAL

- Loan demand remains healthy
- Asset quality to hold steady
- Credit costs to stay low, supporting earnings
- NIMs may face slight downward pressure

KEY MONITORABLES

RBI rate actions among war-led inflation

Rising inflation impact on growth and asset quality

Deficit or delayed monsoon

Incremental funding costs movement

Geopolitical uncertainty & crude oil prices

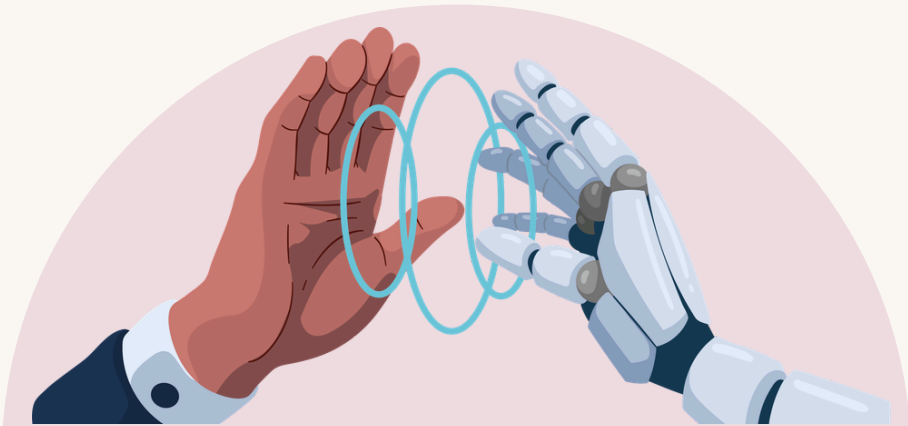
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AXIS DIRECT

H1CY26 Trend: Neutral to Moderately Positive

H2CY26 View: Moderatly Positive

“ H1 wasn’t about weaker technology demand – it was about clients waiting for greater clarity before committing to the next wave of AI investment. ”



WHAT HAPPENED IN H1CY2026?

While discretionary spending stayed muted, the foundations of the next technology cycle quietly strengthened. The first half of CY26 was less about rapid growth and more about preparing for an AI-driven transformation.

Demand Stayed Soft: Discretionary tech spending remained under pressure for two quarters, hit by AI-led disruption and an uncertain macro backdrop.

Large Caps Slowed: Muted revenue growth as clients were cautious on new projects and extended decision timelines.

Margins Held Up: Automation, better utilisation and cost optimisation initiatives helped protect margins and profitability.

Midcaps Outperformed: Consistent growth led by stronger execution, market-share gains and niche digital opportunities.

INR Provided Support: Depreciation of the Indian Rupee acted as a financial tailwind, partially offsetting revenue headwinds.

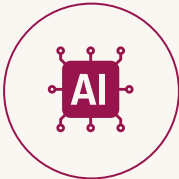
VIEW FOR H2CY2026



MODERATELY POSITIVE

- **Enterprise Spending Accelerates:** Stronger investments expected in cloud migration, automation, digital infrastructure modernisation and AI transformation.
- **Transition Phase & AI Deals:** Industry is in a structural transition. Pace of enterprise AI adoption and AI-led deal wins will be the key monitorable.
- **Near-Term Demand Soft:** Lower discretionary spending in the US & Europe continues to weigh on large-cap IT momentum in the near term.
- **Scale-Up of AI Projects:** Opportunities will improve as AI pilots transition into large-scale commercial implementations.

KEY MONITORABLES



AI DEAL WINS
Pace of enterprise AI adoption and AI-led deal conversions.



US TECH SPENDING
Trends in discretionary tech spending across key industries.



FED RATE PATH
US Fed rate actions and impact on client IT budgets.

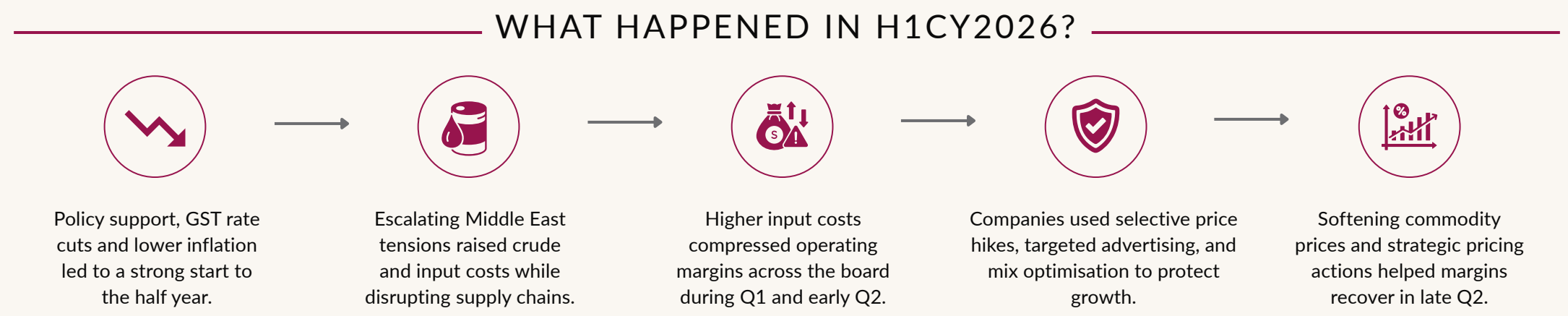


INR MOVEMENT
Currency volatility and its impact on growth and profitability.

H1CY26 Trend: Positive

H2CY26 View: Positive

Despite a sharp spike in crude-linked costs and supply chain disruptions, FMCG companies protected growth through pricing discipline, volume resilience and smart execution.



Demand Resilience:
Urban demand remained stable while rural consumption continued to recover. Discretionary spending improved gradually.

Revenue Growth:
Top-line growth was largely volume-led. Companies protected revenue with selective price increases.

Margin Trajectory:
Elevated crude & palm oil costs initially hit margins. Profitability improved in Q2 as raw material prices softened and pricing benefits flowed through.

Divergent Earnings:
Performance varied based on commodity exposure, pricing power and operating leverage across companies.

VIEW FOR H2CY2026



OUTLOOK: POSITIVE

- Sustained rural demand & gradual urban recovery
- Strong monsoon to support farm incomes
- Focus on premiumisation to drive mix improvement
- Easing commodity inflation
- Lower input costs & pricing benefits to aid margin expansion



KEY DRIVERS

- Lower raw material costs to materialise
- Full benefits of earlier pricing to flow through
- Easing commodity inflation
- Stable crude oil prices supportive of margins

KEY MONITORABLES



COMMODITY PRICE MOVEMENTS

Trajectory of crude oil, palm oil, and other key input costs.



MONSOON PROGRESS & FARM INCOMES

Impact on rural demand and overall consumption momentum.



GEOPOLITICAL DEVELOPMENTS

Any escalation in the West Asia conflict will impact crude and sentiment.



DEMAND RECOVERY TRAJECTORY

Urban recovery pace and discretionary spending trends.

H1CY26 Trend: Positive

H2CY26 View: Positive

Strong consumer appetite across value and premium segments, healthy store additions and improving footfalls powered a robust performance in H1CY26.

H1CY2026 AT A GLANCE



STORE EXPANSIONS
Robust across formats



FOOTFALLS
Improving consistently



REVENUE GROWTH
Healthy & volume-led



MARGINS RECOVERY
Compressed in Q1, improved in Q2

WHAT HAPPENED IN H1CY2026?

Resilient Sector Growth: Strong performance driven by physical store expansions, increased customer footfalls, and consistent consumer demand.

Dual-Segment Traction:
Demand remained strong, with value retailers benefiting from smaller-town demand and premium categories, including luxury retail and jewellery, maintaining strong sales.

Sequential QSR Improvement:
Quick Service Restaurant demand increased quarter-over-quarter, though high promotional spending and operating costs restricted margin growth.

Divergent Profitability:
While revenue growth was robust, profitability varied significantly among companies, influenced by cost inflation, operating leverage, and promotional discounting intensity.

VIEW FOR H2CY2026



OUTLOOK: POSITIVE

- Resilient demand across value & premium segments
- Healthy store expansions and improving footfalls
- Structural shift toward premiumisation continues



KEY DRIVERS

- Festive season sales & improving consumer sentiment
- Margin recovery as fuel & logistics costs ease
- Lower supply-chain costs to support broader spending

KEY MONITORABLES



PACE OF DEMAND RECOVERY
Sustained improvement in consumption momentum.



MONSOON OUTLOOK
Impact on rural income and discretionary spending.



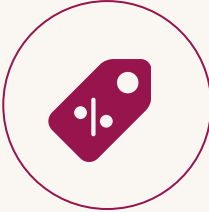
FESTIVE SEASON PERFORMANCE
Strength of demand and conversion during the festive period.



STORE OPENING GUIDANCE
Execution of expansion plans across formats and geographies.



SSSG GROWTH
Same store sales growth as a key health indicator.



PROMOTIONAL INTENSITY
Trend in discounting and its impact on margins.

H1CY26 Trend: Positive

H2CY26 View: Neutral to Positive

“ The auto sector proved its resilience in a volatile macro backdrop. Demand strength, premium mix and exports enabled the industry to protect margins and deliver steady earnings growth. ”



WHAT HAPPENED IN H1CY2026?

Strong Demand Across Segments: Improving affordability, supportive policies and premiumisation drove strong demand.
Resilient Volumes & Exports: Domestic volumes stayed resilient across 2Ws, PVs and tractors, while exports accelerated, providing an additional growth buffer for OEMs and ancillaries.
Margin Pressure Managed Well: Commodity and energy costs, along with supply chain disruptions, pressured margins.
OEM Strategy: OEMs mitigated impact through price hikes, richer product mix and higher margin export contribution.
Ancillaries Outperform: Auto ancillaries maintained growth, driven by higher content per vehicle and continued localisation.
Earnings Resilient: Strong volumes and operating leverage helped absorb input cost inflation, keeping earnings growth resilient across OEMs and ancillaries.

VIEW FOR H2CY2026



NEUTRAL TO POSITIVE

- Demand outlook remains healthy, supported by rural recovery, improving affordability and festive season momentum.
- Strong export pipeline and new model launches to support volume & revenue growth.
- Margin expansion expected as input costs ease and pricing benefits sustain.
- EV transition, localisation and technology adoption to strengthen competitiveness.

KEY MONITORABLES



COMMODITY PRICE MOVEMENTS
Trajectory of crude oil, steel, aluminium and other key inputs.



MONSOON PROGRESS & RURAL DEMAND
Impact on rural income, tractor demand and overall consumption.



GEOPOLITICAL DEVELOPMENTS
Any escalation in global conflicts, impacting crude prices, supply chains and sentiment.



DEMAND & EXPORT TRAJECTORY
Sustainability of 2W & PV demand recovery and export momentum.

H1CY26 Trend: Positive

H2CY26 View: Neutral to Positive

270.8 GW

Peak Power Demand
(May '26)
All-time high

8.8% YoY

Power Consumption
Growth
Q1FY27 vs Q1FY26



WHAT HAPPENED IN H1CY2026?

Sharp Demand Inflection: After FY26 demand growth of just 1%, H1CY26 rebounded, with peak demand reaching a record 270.8 GW and Q1FY27 consumption rising 8.8% YoY to 485.4 BU.

Merchant Power Price Recovery: IEX DAM prices rose to ₹5.1/unit in Q1FY27 (+15.7% YoY) from ₹3.58/unit in February 2026, benefiting merchant and thermal power producers.

Benign Domestic Fuel Costs: Abundant domestic coal availability kept fuel costs comfortably low despite higher generation.

Grid Capex Momentum Strong: PGCIL exceeded its FY26 capex target, spending ₹39,967 crore vs ₹35,000 crore, with guidance of ₹37,000 crore (FY27) and ₹45,000 crore (FY28), supported by a ₹9.16 lakh crore transmission capex pipeline through FY32.

Smart Metering Acceleration: Of the 25 crore smart meter target, 15 crore have been tendered and 7 crore installed. The deadline has been extended to March 2028, with ₹18,000 crore allocated for FY27.

Geopolitical & Trade Headwinds: West Asia tensions increased imported fuel costs; US reciprocal tariffs pose near-term risks for export-oriented T&D players, while grid capex remains insulated.

VIEW FOR H2CY2026

NEUTRAL TO POSITIVE

- Demand to normalise but remain on a higher structural baseline.
- Below-normal monsoon (84% probability) reduces hydro output and raises agri & cooling load, keeping DAM prices elevated in Q2 before seasonal softening in Oct-Dec.
- DAM prices expected to ease from H1 peaks, yet stay above last year.
- Strong multi-year capacity additions, higher PLFs and new optionality in nuclear & BESS, backed by SHANTI Act and customs duty exemptions.
- Robust order books, capex pipeline and RDSS execution ensure high revenue visibility for ancillary & T&D players.

KEY MONITORABLES

Monsoon conditions will shape seasonal demand and hydro generation.

Coal, LNG and metal costs remain key margin drivers.

RDSS rollout and cash flows to drive execution visibility.

Global conflicts could disrupt fuel costs and sentiment.

Timely transmission execution remains critical for growth delivery.

Capex momentum will determine long-term earnings visibility.

Sustained power demand will support capacity utilisation and pricing.

Policy support remains crucial for sector investment momentum.

H1CY26 Trend: Positive

H2CY26 View: Neutral to Positive

“ Despite near-term volatility, the metals sector remains on a strong structural footing, backed by policy support and long-term demand from India's infrastructure and clean energy transition. ”

WHAT HAPPENED IN H1CY2026?

Constructive Fundamentals: Structural demand remained steady, led by next-gen industries such as EVs, renewables and data centres.

Steel Industry Supported: Three-year safeguard duty (Dec 2025) ensured a 10–12% import parity cushion against cheaper Chinese inflows.

Aluminium Supply Tight: The global market remained firm due to China's 45 MTPA capacity cap and smelter closures, keeping supply limited.

Geopolitical Overhang: West Asia tensions added volatility to energy costs and global logistics, while domestic demand stayed sensitive to post-monsoon construction activity.

VIEW FOR H2CY2026

OUTLOOK: NEUTRAL TO POSITIVE

- Seasonal demand may soften in the monsoon quarter.
- Prices expected to moderate after strong Q1FY27.
- Long-term demand drivers remain intact across key end-user segments.
- Tactical "Buy on Dips" opportunity for long-term investors.

STRUCTURAL TAILWINDS

- Multi-year demand from EVs, renewables and data centres
- Safeguard duties ensure pricing support for steel
- Capacity expansion by major producers strengthens outlook
- Regulatory protection remains favourable for domestic players

KEY MONITORABLES

US FED POLICY
Rate cuts could improve global metals demand and prices.

INFRASTRUCTURE DEMAND
Construction activity will determine domestic steel consumption.

MONSOON PROGRESS
Seasonal slowdown may temporarily weigh on volumes.

STEEL & ALUMINIUM PRICES
Price trends will shape revenue and margin performance.

GEOPOLITICAL DEVELOPMENTS
Supply chain disruptions could keep commodity markets volatile.

EXPORT MARKETS
EU quotas may redirect exports to alternative markets.

TRADE PROTECTION
Safeguard duties remain critical for domestic pricing support.

EV & RENEWABLE DEMAND
Energy transition continues to support long-term metal demand.

H1CY26 Trend: Neutral to Moderately Positive

H2CY26 View: Moderately Positive

The sector entered a gradual recovery phase in H1CY26, supported by improving domestic demand, inventory normalisation and stabilising margins. However, persistent pricing pressure from China and geopolitical uncertainty prevented a broad-based turnaround.

“ The sector has moved beyond stabilisation. The next phase of value creation will depend on differentiated products, disciplined pricing and sustained global demand. ”



WHAT HAPPENED IN H1CY2026?

Demand Recovery Gathers Pace: Domestic consumption remained stable while export demand improved sequentially, supported by inventory normalisation and better visibility for new orders.

Input Costs Range-Bound: Raw material prices stayed largely stable, aiding margin stability. However, geopolitical tensions in West Asia led to a spike in crude-linked inputs toward the end of H1.

Exports Show Improvement: Global markets saw better traction QoQ, though intense competition from Chinese overcapacity kept pricing pressure intact in key agrochem and commodity chemical segments.

Agrochemical Segment Recovers: Healthy Rabi demand and strong Kharif outlook supported agrochemicals, while channel destocking normalised across key markets.

Earnings Recovery is Measured: Gradual improvement in volumes and stable input costs supported earnings, though pricing pressure and product mix kept the recovery measured.

VIEW FOR H2CY2026

MODERATELY POSITIVE

- Broader demand recovery expected to strengthen.
- Normalised inventory levels, along with improving global industrial activity, to support growth.
- Companies with differentiated portfolios, strong innovation pipelines, and growing high-value contracts are set to outperform the wider sector.
- Agrochemical demand to remain healthy, though excess Chinese capacity threatens generic pricing discipline.
- Operating leverage and better product mix to drive margin expansion.
- Bottom-line earnings growth likely to accelerate with volume recovery.

KEY MONITORABLES

RAW MATERIAL COSTS	GEOPOLITICAL DEVELOPMENTS	EXPORT ORDER MOMENTUM	TRADE MEASURES	CHINESE COMPETITION	SPECIALTY CHEMICALS	MARGIN RECOVERY	MANAGEMENT COMMENTARY
Crude-linked input prices remain the biggest margin variable.	Global tensions could disrupt supply chains and logistics.	Recovery in overseas demand will determine growth sustainability.	Anti-dumping actions may improve domestic pricing power.	Pricing discipline depends on easing excess Chinese supply.	Innovation-led businesses are expected to outperform peers.	Operating leverage should strengthen profitability as volumes recover.	FY27 guidance will indicate confidence on demand and capex.

H1CY26 Trend: **Moderately Positive** (Favor branded players)

H2CY26 View: **Cautiously Positive** (Favor branded players)

Strong demand in premium housing and improving commercial leasing reflect structural shifts in consumer preference and corporate space needs. With regulatory overhangs mostly cleared, the sector is set for a more stable growth trajectory.

WHAT HAPPENED IN H1CY2026?

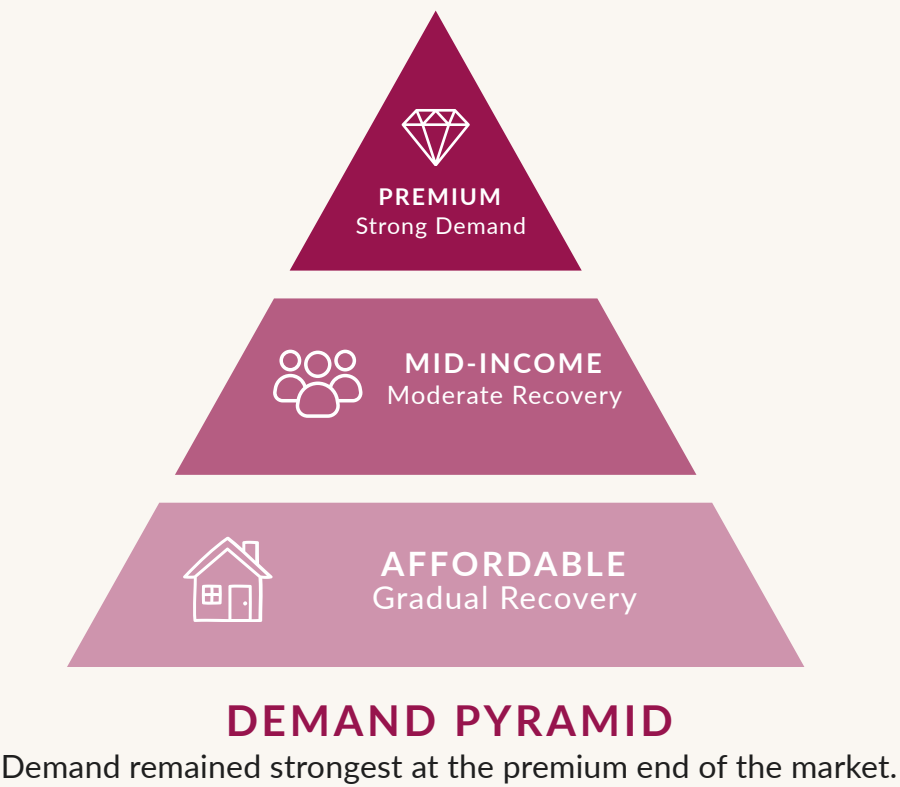
Strong Sales Momentum: Robust sales driven by successful launches and sustained demand across key geographies and established developer portfolios.

Premium & Luxury Outperform: Premium and luxury housing segments continued to see strong traction, supported by rising incomes and preference for branded, quality developers.

Guidance vs. Execution: Most players missed aggressive H1 guidance, but management confidence remains high as major regulatory approvals are now behind the sector.

Annuity & Commercial Improve: Leasing momentum in offices and retail assets improved, with occupancy rising and rental yields stabilising, enhancing recurring cash flows.

Balance Sheets Remain Strong: Branded developers maintain healthy cash flows, low leverage and strong land banks, enabling sustainable growth and launches ahead.



VIEW FOR H2CY2026



- Residential demand remains healthy.
- Premiumisation continues as the key driver.
- Business development pipeline remains strong.
- Commercial leasing stays supportive, driven by GCCs and modern offices.

KEY MONITORABLES



AVERAGE SELLING PRICES (ASPS)
ASPs will indicate pricing power and market strength.



OFFICE LEASING ACTIVITY
Leasing momentum will drive commercial realty performance.



CONSTRUCTION COST MOVEMENTS
Construction costs remain a margin sensitivity.



POLICY DEVELOPMENTS
Policy reforms may influence approvals and launches.



INTEREST RATE ACTIONS
Rate changes will impact affordability and demand.



PACE OF PROJECT COMPLETIONS
Timely execution is critical for cash flow visibility.

Durable Goods

Building Materials & Consumer Durables

H1CY26 Trend: **The year commenced on a subdued note but transitioned to a more positive trajectory.**

H2CY26 View: **Positive**

WHAT HAPPENED IN H1CY2026?

Plastic Pipes Volatility: Resin prices were erratic with sharp spikes and a ~25% correction, leading to channel de-stocking. Weak monsoon muted agri demand; product mix improvements and market share gains supported growth.

Plywood & MDF Rebound: Decent double-digit growth after a prolonged slump. Higher chemical costs were offset by price hikes. Import dumping reduced with shipping restrictions and BIS implementation.

Consumer Durables & RAC Surge: Strong retail demand, led by explosive RAC growth due to prolonged summer. Elevated input costs and BEE-related price revisions pressured margins.

Bathware Turnaround: Meaningful improvement in retail and project demand after nearly two years of stagnation. Premiumisation trends and steady construction activity supported recovery.

Steady Macro Backdrop: Underlying demand remained stable across categories; profitability tied closely to raw material costs and pricing discipline.

VIEW FOR H2CY2026



- Accelerating residential construction, infrastructure spend & premiumisation to drive growth.
- The festive season in H2CY26 will sharply boost consumer spending.
- Promotions, new launches & channel restocking will support offtake.
- Real estate momentum provides a strong demand cushion for building materials.
- Disciplined pricing amid stable raw material costs to support margin recovery.

KEY MONITORABLES



FESTIVE SEASON DEMAND
Consumer spending surge to drive offtake across categories.



RETAIL OFFTAKE
Sustained retail sales momentum is critical.



CHANNEL INVENTORY LEVELS
Inventory discipline will shape channel restocking and demand visibility.



RAW MATERIAL PRICE MOVEMENTS
PVC resin & chemical price trends to impact margins.



PRICING ACTIONS
Pricing discipline and pass-through ability remain key.



HOUSING COMPLETIONS
Recovery in real estate completions will drive end-demand.



H1CY26 Trend: Improving Trend

H2CY26 View: Moderately Positive

WHAT HAPPENED IN H1CY2026?

Travel Demand Remains Robust: Strong leisure and business travel drove sustained demand across domestic and international markets.

Operational Metrics: Hotel operators maintained healthy occupancy levels alongside strong Average Room Rates (ARRs)—particularly within the premium and luxury segments—even though ARR growth slowed down compared to the high benchmarks set last year.

Rate Growth Continues: ARR (Average Room Rates) grew across metros and leisure destinations, supporting topline momentum.

RevPAR Growth Led Performance: A healthy mix of occupancy and rate growth led to strong RevPAR improvement across hotel chains.

Operational Leverage Benefits: Improved operating efficiencies and scale benefits supported margin expansion and profitability.

VIEW FOR H2CY2026



MODERATELY POSITIVE

- Continued positive growth backed by resilient domestic demand and improving inbound tourism.
- Festive and holiday season to drive higher occupancy and room demand.
- Premium & luxury hotels to benefit from strong MICE, weddings and corporate events.
- Limited new room supply in major markets supports pricing power.
- Geopolitical developments remain the key monitorable risk.

KEY MONITORABLES



OCCUPANCY LEVELS
Monitor occupancy trends across key markets and segments.



AVERAGE ROOM RATES (ARR)
ARR trend indicates pricing power and demand strength.



REVENUE PER AVAILABLE ROOM (REVPAR)
Key indicator of overall operational performance.



INBOUND TOURIST ARRIVALS
Growth in international arrivals supports hotel demand.



CORPORATE TRAVEL TRENDS
Corporate travel recovery drives weekday and business demand.



HOTEL SUPPLY ADDITIONS
New room supply additions will influence occupancy & pricing.



MANAGEMENT COMMENTARY
Management outlook on demand visibility, pricing & strategy.

H1CY26 Trend: Neutral to Moderately Positive

H2CY26 View: Moderately Positive

WHAT HAPPENED IN H1CY2026?

Forecast Upgrade: Exceptional resilience and growth in the domestic market prompted tracking agencies to sharply upgrade the Indian Pharmaceutical Market (IPM) annual growth forecast to 11.3%.

Domestic Drivers: Domestic momentum was heavily anchored by high-margin chronic therapies—specifically the diabetes and cardiac segments—alongside a massive boom in nutritional supplements that protected revenues from seasonal fluctuations.

Export Milestone: Despite facing strict pricing pressures and minor supply chain frictions abroad, foreign operations thrived, pushing total pharmaceutical exports beyond ₹2.93 lakh crore.

Global Footprint Expansion: Indian drugmakers successfully expanded their presence in highly regulated markets like the US and Europe by securing steady US FDA approvals and scaling up shipments of complex generics, biosimilars, and Active Pharmaceutical Ingredients (APIs).

Strategic Evolution: Backed by proactive compliance and supply chain diversification, the sector successfully solidified its transition from a volume-driven manufacturer into a high-value global innovation partner.

VIEW FOR H2CY2026


MODERATELY
POSITIVE

- Robust Outlook: Structural outlook remains strong, but margins may face pressure.
- Domestic Growth: IPM aims for 11.3% growth, driven by chronic therapies, nutrition, and new oncology and obesity launches.
- Export Strength: Global demand and mild price erosion support pharmaceutical exports.
- Margin Risks: Unfavourable product mix, higher raw material costs, and freight disruptions may impact profitability.
- Long-Term Competitiveness: Focus on biosimilars, high-value innovation, and CDMO operations for future growth.

KEY MONITORABLES



DOMESTIC VOLUME
GROWTH
Chronic therapies and
IPM growth trend.



NEW PRODUCT
LAUNCHES
Impact of key therapy launches
on revenues and margins.



EXPORT DEMAND
Sustained demand from
regulated & emerging
markets.



FREIGHT & LOGISTICS
COSTS
Middle East tensions
impacting freight costs.



RAW MATERIAL PRICES
(APIs)
Input cost trend for APIs and
chemicals.



PRODUCT MIX &
PRICING
Mix shift and pricing
actions to support margins.



CDMO & INNOVATION
PIPELINE
Execution of strategic
projects and partnerships.



MANAGEMENT
COMMENTARY
Visibility on demand, margins
and growth outlook.

H1CY26 Trend: Positive

H2CY26 View: Positive

Hospitals delivered higher topline growth in H1CY26, supported by healthy demand and incremental ARPOB improvement, though profitability expansion remained moderate due to capacity ramp-ups and operational headwinds.

WHAT HAPPENED IN H1CY2026?

Demand Remains Resilient: Strong demand across hospitals, diagnostics and pharma distribution driven by chronic disease prevalence, rising awareness and insurance penetration.

Hospitals See Higher Occupancy: Average occupancy improved across key regions with better case mix, elective procedure growth and improved patient footfalls.

Specialty & Chronic Therapies Drive Growth: Oncology, cardiology, diabetes and rare disease segments witnessed robust growth, supported by new launches and improved access.

Pharma Distribution Strength Continues: Institutional and retail distribution grew well with improved inventory management and rural penetration.

Margin Expansion in Focus: Operating leverage, cost optimisation and technology adoption supported margin stability and expansion across key players.

VIEW FOR H2CY2026



POSITIVE

- H2CY26 expected to outperform H1CY26 across hospital chains in India.
- New units ramping up, leading to better operational efficiency and profitability.
- ARPOB growth likely to stabilize after a strong increase.
- International patient inflows from Africa and Middle East expected to normalize.

KEY MONITORABLES



EXECUTION OF NEW HOSPITALS
Timely ramp-up and stabilisation, especially in newer cities.



CAPACITY UTILISATION
Improved occupancy and better operating leverage.



ARPOB TRENDS
Monitor sequential stability in average revenue per occupied bed.



INTERNATIONAL INFLOWS
Return of patients from Africa & Middle East to support payor mix.



REGULATORY DEVELOPMENTS
Impact of CGHS capping on oncology treatments and other policies.



PROFITABILITY TRENDS
Monitor margin trajectory and cost management.



INPUT COSTS
Inflation in manpower, medicines and medical consumables.

H1CY26 Trend: Positive

H2CY26 View: Positive

“

Rising data demand, 5G expansion and improved realisations strengthened revenue visibility.
With capex normalising and digital businesses scaling, the sector is well positioned for sustainable growth in H2.

”

WHAT HAPPENED IN H1CY2026?

Data Demand Continues to Surge: Sharp rise in data consumption, led by video streaming, social media and digital services, supported revenue growth.

ARPU Stabilisation: Tariff hikes and better pack mix improved realizations; early signs of ARPU stabilisation in key markets.

5G Rollout Gains Pace: Operators expanded 5G coverage aggressively, enhancing network quality and driving premium user acquisition.

Capex Cycle Normalising: Peak capex phase largely behind; focus shifts to network monetisation and efficiency improvement.

Enterprise & Digital Services Grow: Strong momentum in cloud, IoT, enterprise connectivity and digital solutions business.

VIEW FOR H2CY2026



POSITIVE

- Healthy subscriber additions and strong financials to support leadership.
- 5G monetisation, strategic partnerships and tariff hikes to sustain growth.
- Focus on 5G adoption, device penetration and expanding FWA.
- Competition moderated, but risks from debt and regulation persist.
- Medium to long-term outlook remains positive.

KEY MONITORABLES



TARIFF HIKES & ARPU
Whether tariff hikes stick without churn and deliver meaningful ARPU growth.



5G MONETISATION
How fast 5G is monetised and translates into higher revenue and usage.



SUBSCRIBER ADDITIONS
Sustained subscriber growth across prepaid and postpaid segments.



FWA ADOPTION
Scale-up of 5G home broadband and its contribution to revenues.



REGULATORY DEVELOPMENTS
Any AGR/regulatory changes impacting costs or profitability.



CAPEX DISCIPLINE
Monitoring capex spends and return ratios across operators.



DEBT & FINANCIAL HEALTH
Debt levels of weaker players and overall sector balance sheet strength.

H1CY26 Trend: Cautiously Optimistic

H2CY26 View: Cautiously Optimistic

Execution challenges in H1CY26 weighed on performance, but strong order books, record toll collections and asset monetisation keep the sector's medium-term outlook positive.

WHAT HAPPENED IN H1CY2026?

Operational Pressures: Q4FY26 and Q1FY27 performance was hindered by slow execution, high input costs, labour shortages, bad weather, and project delays.

Financial Performance: Revenue growth was muted, EBITDA and margins contracted, though PAT showed better resilience.

Activity & Awarding: Highway construction and road project awarding remained subdued despite sequential improvements.

Revenue Visibility: Healthy corporate order books supported medium-term revenue visibility.

Toll & Asset Monetisation: Toll collections hit record highs from traffic growth and tariff hikes, while NHAI accelerated asset monetisation through TOT and InvIT initiatives.

Sector Diversification: EPC companies diversified beyond roads into railways, metro, power T&D, water, urban infrastructure, and renewables.

T&D Growth Drivers: Strong order inflows in T&D, notably for KEC International and Kalpataru Projects, back future growth.

Bidding Strategy & Outlook: Profitability-focused selective bidding was adopted. Execution recovery and fresh order awards remain key earnings catalysts for H2CY26.

VIEW FOR H2CY2026



POSITIVE

- **H2CY27:** Expect soft activity due to slower project awards.
- **Transition:** Project approval pipelines will clear as execution gathers pace.
- **H2CY27:** Activity will likely accelerate, driving revenue and margin improvement.
- **CY27 Outlook:** The overall outlook for India's infrastructure sector remains positive.

KEY MONITORABLES



GOVERNMENT INFRASTRUCTURE SPENDING

Sustained capex is the primary growth driver for the sector.



HIGHWAY PROJECT AWARDS

Recovery in project awards in H2FY27 will be crucial.



PRIVATE SECTOR CAPEX REVIVAL

Watch revival in data centres, manufacturing, renewables, airports and industrial infra.



INTENSE COMPETITION

Limited project availability continues to drive competitive pressures.



EXECUTION CHALLENGES

Land acquisition delays, approvals, adverse weather and labour shortages remain key.



WORKING CAPITAL & PAYMENT DELAYS

Elevated working capital requirements due to delayed payments remain a headwind.



REGULATORY DEVELOPMENTS

Changes in policies, clearances and compliances to monitor closely.



CAPEX DISCIPLINE

Focus on capital allocation and cost discipline will be important.

H1CY26 Trend: **Volume-Led Recovery Amid Margin Pressures**

H2CY26 View: **Demand Momentum to Continue; Margin Recovery Likely**



“Cement is a key enabler of India's growth story. Strong demand across housing and infrastructure, improving realisations, and better cost efficiency have supported healthy margins and cash flows, positioning the sector for sustained growth in H2 and beyond.”

WHAT HAPPENED IN H1CY2026?

Volumes Remain Robust: Cement demand grew across regions, led by strong activity in housing, infra, commercial and industrial segments.

Price Realisations Improved: Better pricing power and product mix support drove higher realisations and revenue growth.

Cost Efficiency Gains: Fuel cost moderation, operational efficiencies and alternative fuel usage supported margin expansion.

Capacity Expansion Continues: New capacity additions and debottlenecking projects progressed well to meet rising demand in key markets.

Sustainability Focus Strengthened: Increased use of green energy, waste heat recovery and lower clinker factor to reduce carbon footprint.

VIEW FOR H2CY2026



- Healthy post-monsoon demand to sustain industry volume growth.
- Infrastructure and housing remain the sector's key demand pillars.
- Stable fuel costs and pricing discipline to support margin recovery.
- Capacity additions likely to be absorbed by strong demand.
- Large pan-India players remain best placed to outperform.

KEY MONITORABLES



PACE OF POST-MONSOON DEMAND RECOVERY



SUSTAINABILITY OF CEMENT PRICE HIKES



FUEL & FREIGHT COSTS



GOVERNMENT INFRASTRUCTURE SPENDING



IMPACT OF NEW CAPACITY ADDITIONS



COST OPTIMISATION FOR MARGIN RECOVERY



MANAGEMENT COMMENTARY ON DEMAND



EARNINGS RECOVERY OUTLOOK

Sources: Company, Axis Securities

05

SECTION FIVE

The Investor Never Left. *They Simply Changed Their Strategy*

Markets tell us what happened. Investor behaviour tells us why.

Behind every market move were millions of investment decisions—where capital flowed, where caution prevailed, and where conviction strengthened.

This section explores the trends that shaped investor behaviour in H1 CY2026 and what they could signal for the road ahead.

INVESTOR BEHAVIOUR & MARKET PARTICIPATION TRENDS

- A. RETAIL INVESTOR TRENDS — THE NEW MARKET ANCHOR
- B. INSTITUTIONAL PARTICIPATION

The Rise of India's Retail Investor

Retail didn't chase the rally. It stayed through the correction.

₹31,115 Cr

Monthly SIP Contribution

10.52 Cr

Active SIP Accounts

₹17.7 Lakh Cr

SIP AUM
(June 2026)

The SIP Infrastructure – Magnitude and Resilience

The SIP ecosystem has achieved a scale and resilience that make it the primary shock absorber of Indian equity markets

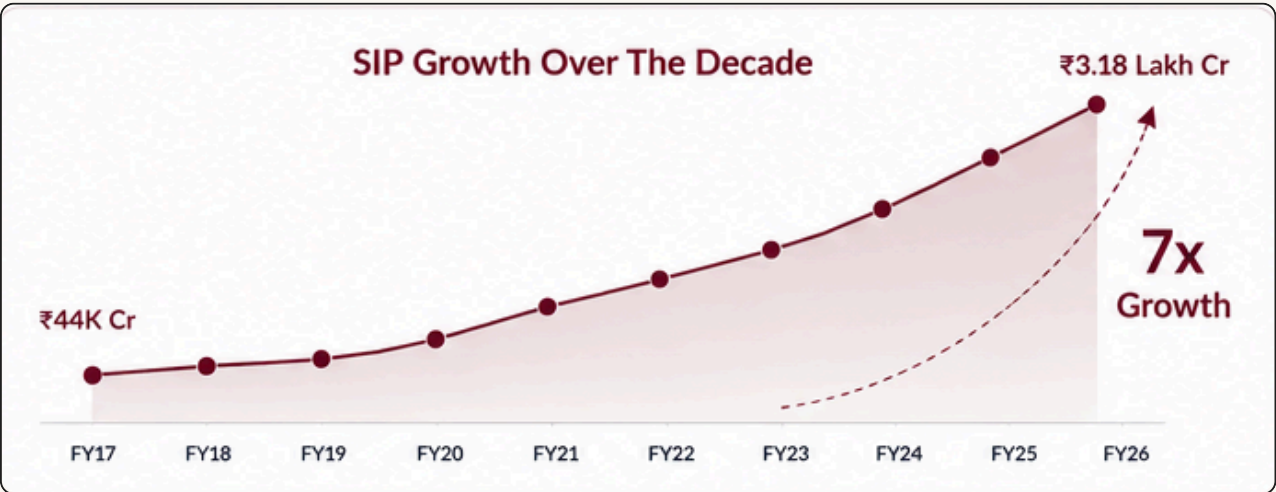
The numbers from AMFI tell the story with precision:

SIP Metric	Data Point	Source / Period
Monthly SIP Run-Rate (Jun '26)	₹31,115 crore	AMFI, June contribution data
Monthly SIP Run-Rate (May '26)	₹30,954 crore	AMFI, May contribution data
SIP YoY Growth (Jun '26)	+16.5% year-on-year	Omniscience Capital analysis, May '26
Total Active SIP Accounts	10.52 crore accounts	AMFI, June 2026
SIP AUM	₹17.70 lakh crore	AMFI, June 2026
Total MF AUM (June '26)	₹82.22 lakh crore	AMFI (+10.5% YoY)
SIP Decade Growth (FY17 to FY26)	~7x – ₹44K Cr to ₹3.18L Cr annualised	AMFI historical data
New SIP Registrations (June '26)	55.51 lakh in one month	AMFI
Equity MF Inflows (June '26)	₹28,961 crore (net)	AMFI

Despite a sharp Nifty correction (ATH 26,373 in early January to ~24,000–24,100) currently witnessed during the early part of CY26, Midcap and Smallcap indices staged a strong recovery and outperformed the Nifty 50 during H1CY26. The resilience of the broader market was supported by sustained domestic institutional and retail participation, with investors selectively accumulating fundamentally strong companies. This highlights the growing depth of domestic liquidity and the market's preference for earnings-driven opportunities beyond large-cap stocks.

Even during one of the year's most volatile periods, SIP inflows remained remarkably steady. That consistency turned domestic investors into one of the strongest stabilising forces for Indian equities, reducing dependence on foreign capital during market corrections.

Retail participation is no longer momentum-driven. It's increasingly systematic and long-term.



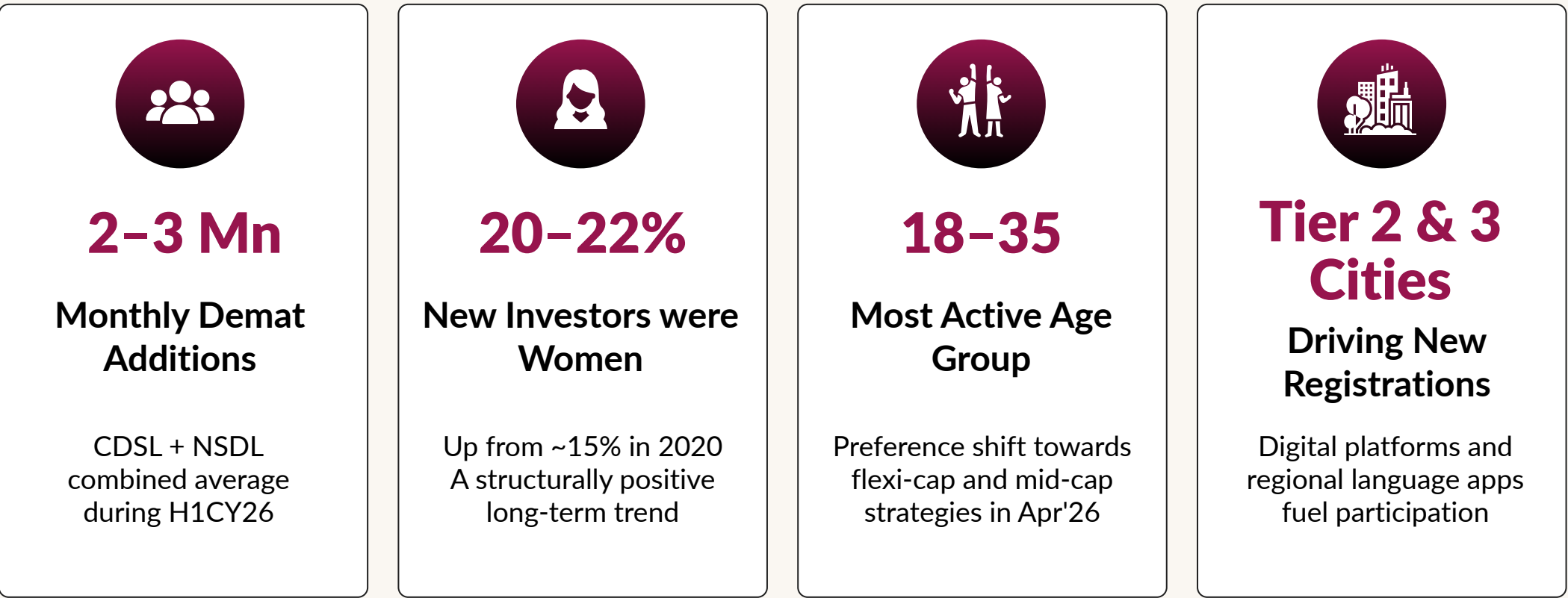
Sources: AMFI

The Indian Investor is Changing

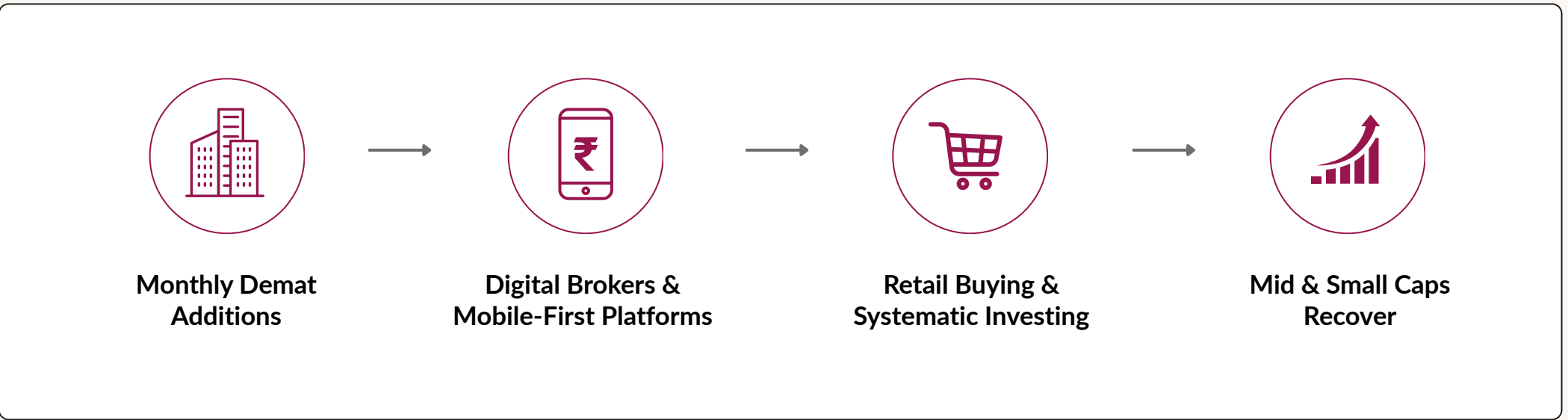
A. RETAIL INVESTOR TRENDS

Investor confidence stayed the course

Even through H1's volatility, demat additions remained healthy, participation broadened beyond metros, and younger investors continued entering the market. The correction became a period of accumulation rather than withdrawal.



How broader participation is strengthening markets?



The NSE Midcap 100 and Smallcap 250 bounced strongly in June, up **+17.4%** and **+24%** respectively, driven by retail accumulation in oversold names.



KEY TAKEAWAY
Retail participation is no longer concentrated in metro cities – it is becoming broader, younger and more geographically diversified.

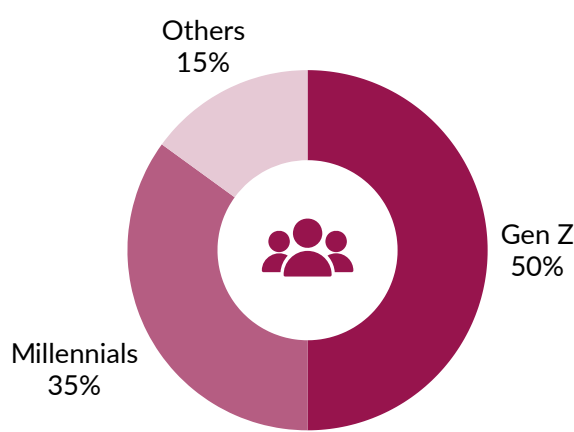
Understanding Today's Investor

WHAT DID OUR CUSTOMERS ACTUALLY DO DURING H1CY2026?

01

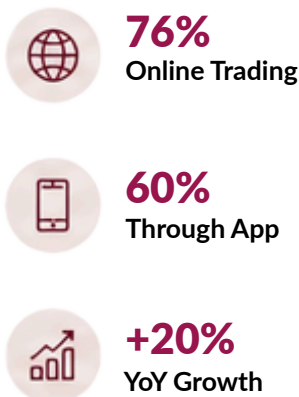
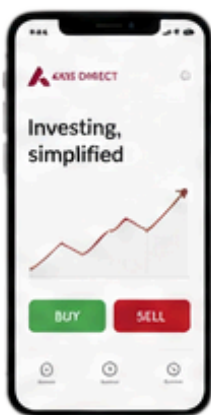
Gen Z is no longer "the future."

They are one of the fastest-growing investors today.



02

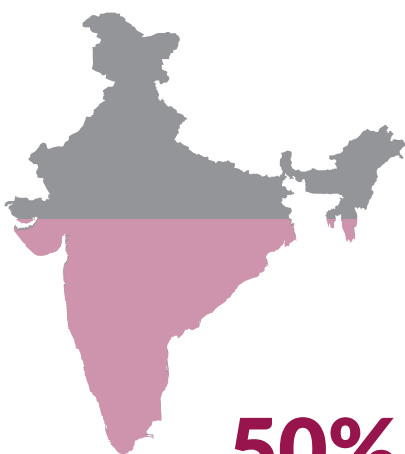
Investing has become mobile-first.



Mobile-first investing continued to become the preferred way of participating in markets.

03

Where did participation come from?



50% of acquisitions from Tier 2 & Tier 3 Cities

04

Women are entering earlier than ever.



27% New Acquisitions are Women
~50% of them belong to Gen Z

05

DIY Investing is becoming mainstream.



of which



of which



47% of UTC came from Unmapped Customer Base

90% Traded through online channels

67% Preferred the app as their primary trading channel.

06

Average SIP amount remained stable

₹3000-4000

Month over month, throughout H1CY26

07

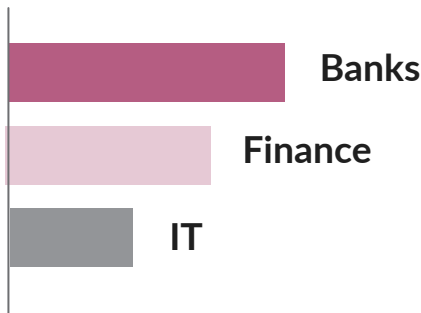
Average lumpsum investment amount remained largely stable

₹90,000 - ₹1 lakh

Month over month, throughout H1CY26

08

Top Traded Sectors



THE BIGGEST BEHAVIOURAL SHIFT:

Not just higher participation, but higher conviction. Investors stayed invested, accumulated during corrections and gradually increased risk as markets recovered.



(Source: Axis Securities Internal Data)

The Bigger Picture

B. INSTITUTIONAL PARTICIPATION

Foreign Institutional Investors (FIIs) remained net sellers during H1CY26, with cumulative equity outflows of approximately ₹2.25 lakh crore, reflecting concerns around elevated global uncertainty, geopolitical tensions, higher crude oil prices during parts of the period, and relative valuation premiums in Indian equities. However, the flow pattern was far from one-sided. FII activity remained highly tactical, with periods of meaningful buying interspersed with bouts of selling as global risk sentiment evolved. Following the easing of geopolitical tensions, moderation in crude oil prices, a stable US dollar, and improving risk appetite, foreign flows showed signs of stabilisation toward the end of the period. This suggests that FII positioning has been largely driven by global macro developments rather than a structural deterioration in India's investment outlook. With India's macro fundamentals remaining resilient, corporate earnings expected to improve, and global uncertainties gradually receding, FII flows have the potential to turn more constructive in H2CY26.

Domestic Institutional Investors (DIIs) continued to provide a strong counterbalance to foreign selling throughout H1CY26. Supported by robust and consistent inflows into mutual funds through SIPs, insurance companies, and other domestic institutions, DIIs remained steady buyers during periods of heightened market volatility, thereby cushioning the impact of FII outflows. The resilience of domestic savings has become a defining structural strength of Indian equity markets, reducing dependence on foreign capital and improving market stability. This sustained domestic participation reinforces confidence in the long-term investment case for Indian equities and is expected to remain a key support for market valuations going forward.

Policy response: The government's April 1, 2026 capital-account measures were a direct, fast-turnaround policy response to the scale of H1 outflows once that scale became evident – the tax exemption, FAR expansion and concessional swap facility detailed in Section 3A were not part of a pre-planned reform calendar but a reaction to flow data: policymakers are clearly monitoring FII flows closely and are willing to move quickly with capital-account tools when outflows reach a level they consider concerning.

Sources: Bloomberg, RBI



DID YOU KNOW?

Defence: Defence remained one of the strongest investment themes in H1CY26, supported by rising geopolitical uncertainties, robust government spending and the Atmanirbhar Bharat initiative. India's defence production is expected to exceed ₹2 lakh crore in FY27, while exports are likely to cross ₹40,000 crore, underpinning strong long-term growth prospects.



Energy security: Energy security remained another key investment theme as crude oil prices experienced sharp volatility during H1CY26 amid geopolitical developments. Although oil prices moderated towards the end of the half following easing geopolitical tensions, the episode highlighted India's strategic emphasis on expanding renewable energy capacity, strengthening transmission infrastructure, increasing domestic gas usage, and improving energy storage capabilities. Consequently, companies across power generation, transmission & distribution, defence-linked energy systems and capital goods continued to witness healthy investor interest.



Artificial Intelligence (AI): AI also remained at the forefront of global equity markets. While enthusiasm around AI infrastructure, semiconductors and hyperscale data centres continued to drive technology spending globally, Indian investors increasingly focused on companies expected to benefit from AI-led digital transformation, electronics manufacturing, engineering R&D, industrial automation and data centre infrastructure. The global AI investment cycle continued to support demand for high-performance computing, cloud infrastructure and digital engineering services, creating long-term growth opportunities for several Indian technology and manufacturing companies.



06

SECTION SIX

The Road Ahead

H2CY2026 Outlook & Investment Strategy

As the first half of 2026 closes with resilient domestic fundamentals, moderating geopolitical risks and evolving policy support, the focus shifts from what shaped markets to what could drive the next phase of returns.

Market Outlook

Why We Remain Constructive on H2CY26: Three Independent Drivers Support the Outlook

Our constructive view on Indian equities for H2CY26 is not based on a single macro assumption but on the convergence of three independent factors—reasonable valuations, improving macro conditions and an earnings-led recovery. Together, these factors provide a stronger foundation for the next phase of the market compared with the largely sentiment-driven environment that characterised H1CY26.

1. Valuations Have Become More Reasonable After the Correction

- **Valuation correction:** The sharp correction in early CY26 has brought Nifty 50 valuations closer to their long-term historical average on a one-year forward earnings basis.
- **Improved relative attractiveness:** India's valuation premium over emerging markets has narrowed significantly, making Indian equities relatively more attractive for global investors.
- **Better risk-reward:** Although valuations are not cheap, they are meaningfully more reasonable than six months ago, reducing downside risks and offering attractive entry opportunities in quality businesses.
- **Earnings-led market:** Future market returns are likely to be driven primarily by corporate earnings growth and fundamental improvements rather than further valuation expansion.
- **Favourable for long-term investors:** The current valuation environment supports a disciplined, long-term accumulation strategy focused on fundamentally strong companies. The sharp correction witnessed during the early part of CY26 has significantly moderated market valuations.

2. Macro Environment Is Gradually Turning More Supportive

- **Easing global headwinds:** Crude oil prices have moderated from recent peaks, while easing geopolitical tensions and progress in global trade agreements have improved overall investor sentiment.
- **Benign domestic macro environment:** Inflation remains under control, and the RBI's liquidity-enhancing measures have improved financial system liquidity, supporting economic activity.
- **Supportive rural outlook:** Despite a delayed monsoon, expectations of a normal rainfall season continue to support rural demand, agricultural activity, and consumption recovery.
- **Strong structural fundamentals:** Government-led infrastructure spending, sustained manufacturing investments, and a healthy fiscal position continue to underpin India's medium-term growth prospects.
- **Positive earnings backdrop:** Improving macroeconomic conditions are expected to support corporate earnings growth, providing a favourable environment for equity markets over the medium term.

3. Q1FY27 Earnings Could Become the Next Major Market Catalyst

- **Focus shifts to fundamentals:** With most macroeconomic concerns largely priced in, market attention is now shifting from macro developments to corporate earnings and business fundamentals.
- **Q1FY27 earnings in focus:** The upcoming Q1FY27 earnings season will provide the first comprehensive assessment of corporate performance in the new financial year and set the tone for the markets.
- **Management commentary is the key:** Investors will closely monitor management guidance on demand trends, pricing power, margin sustainability, capital expenditure, export outlook, and order inflows, which are likely to be more important than the headline earnings numbers.
- **Earnings to drive markets:** Sustained market gains will increasingly depend on the ability of companies to deliver earnings growth and meet or exceed expectations.
- **Selective stock performance:** Companies with strong earnings visibility, healthy order books, and consistent execution are expected to outperform, resulting in a more selective, fundamentally driven market.

Taken together, these three factors reinforce our positive medium-term outlook on Indian equities. Although near-term volatility cannot be ruled out due to geopolitical developments, crude oil prices and global monetary policy uncertainties, we believe the market is gradually transitioning from a macro-driven phase to an earnings-driven cycle. Consequently, we expect stock-specific opportunities to outperform broad market moves, with investors increasingly rewarding companies that deliver consistent earnings growth, strong cash flows, healthy balance sheets and superior execution. We therefore remain constructive on Indian equities for H2CY26 while maintaining a preference for quality businesses with sustainable long-term growth prospects.

The Key Risk

- **Key downside risk:** A renewed escalation in the Iran–Israel–US conflict or a sharp rise in Brent crude oil prices above US\$100/bbl remains the biggest risk to the H2CY26 outlook.
- **Crude as the key transmission channel:** Higher crude prices could increase inflationary pressures, widen the current account deficit, weaken the Indian Rupee, and reduce the RBI's flexibility to support growth.
- **Impact on capital flows:** Elevated crude prices may negatively affect FII sentiment, resulting in higher market volatility and weaker foreign capital inflows.
- **Pressure on corporate earnings:** Rising energy and input costs would compress corporate margins, particularly for oil-sensitive sectors, while increasing inflation risks.
- **Risk to market outlook:** A sustained spike in crude prices could weaken the disinflation narrative and challenge the earnings-led market recovery expected in H2CY26.

Sources: Bloomberg, Axis Securities

Market Outlook

THREE SCENARIOS

BULL CASE 28,615 NIFTY50-DEC2026(PE 20.5X)	BASE CASE 27,200 NIFTY50-DEC2026(PE 19.5X)	BEAR CASE 23,030 NIFTY50-DEC2026(PE 16.5X)
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BASE CASE : Gradual Recovery; Quality Outperforms

Assumptions: Strait of Hormuz reopens in H2; Brent crude settles in \$80–90/bbl range; RBI delivers 1 rate cut in H2 FY26; monsoon outcome improves

Nifty 50 target (PE 19.5x): 27,200 by December 2026; earnings growth of 12–14% for Nifty FY27E intact.

FPI re-engagement: Gradual return as global risk-off eases; India's macro premium vs. EM peers supports allocations.

Strategy: Overweight quality BFSI, Capital Goods, and Pharma; selective IT on dips; neutral FMCG awaiting monsoon clarity.

BULL CASE: Hormuz Resolution + FPI Surge

Assumptions: US–Iran ceasefire holds; Hormuz fully reopens; Brent falls to \$70–80/bbl; US Fed cuts rates 25 bps in H2; monsoon above LPA.

Nifty 50 target (PE 20.5x): 28,615 by December 2026— FII-driven re-rating, consumption recovery, and corporate margin expansion.

FPI inflows: ₹1.42–1.89 lakh crore potential over 3–4 months post-Hormuz reopening; India's macro story reactivates FII allocations.

Strategy: Add cyclicals (Metals, Auto); increase mid-cap allocation; ride momentum in rate-sensitive NBFCs and Housing Finance.

BEAR CASE : Prolonged Hormuz Closure + Earnings Disappointment

Assumptions: Conflict escalates; Brent sustains \$110–120+; India CAD >3.5% of GDP; RBI forced to hold rates; monsoon below-normal.

Nifty 50 downside (PE 16.5x): 23,030 by December 2026; earnings downgrades across energy-sensitive sectors; INR tests ₹100/USD.

FPI outflows: Additional ₹50,000–80,000 crore possible; DII absorbs but with higher market volatility.

Strategy: Maximum defensives (Pharma, FMCG staples, IT cash-generative names); reduce cyclicals; increase gold/multi-asset allocation.

Sources: Company, Axis Securities

Sector Playbook

Outlook

- If the recovery continues along the pattern established in H1, the most likely outperformers split into two distinct categories. The first is cyclical recovery plays — Auto, Financials and Metals — which benefit directly from GST-driven demand, rural income growth, and an infrastructure/capex cycle that does not depend on the geopolitical situation resolving favourably.
- The second is structural, geopolitically-anchored themes — Defence and Energy/Power — which have their own independent growth drivers (indigenisation, nuclear capacity expansion, data-centre demand) but have also benefited from the heightened risk awareness the Iran conflict created.
- On the cautious side, FMCG and Paints remain genuinely exposed to crude-linked input costs until oil normalises further, and the offsetting rural-demand tailwind, while real, may not be sufficient to fully restore margins in the near term.
- IT remains the sector most dependent on factors outside India's control — global tech-spending recovery and US client budgets — making it more appropriate for tactical rather than high-conviction structural positioning at this point in the cycle.

Sector Strategy for H2CY26: Balancing Cyclical Recovery with Structural Growth Themes

As the market transitions from a macro-driven phase to one increasingly led by corporate earnings, we believe sector leadership in H2CY26 will be driven by a combination of cyclical recovery opportunities and long-term structural growth themes. Investors are likely to reward sectors where earnings visibility remains strong, balance sheets are healthy, and policy support continues to provide a multi-year growth runway.

Cyclical Recovery Plays: Auto, Financials and Metals

- The first group comprises sectors that stand to benefit from the continued improvement in domestic economic activity.
- **Financials** remain well positioned on the back of healthy credit growth, improving corporate loan demand, resilient asset quality and supportive liquidity conditions. Strong deposit mobilisation, improving retail credit demand and higher capital expenditure by corporates should continue to support earnings growth across leading banks and NBFCs.
- **The Automobile sector** is expected to benefit from improving rural incomes, lower financing costs and sustained replacement demand. Passenger vehicles, two-wheelers and tractors are likely to witness improving demand trends as rural consumption gradually recovers, while premiumisation and new product launches continue to support margins.
- **The Metals sector** is also favourably placed, supported by robust domestic infrastructure spending, sustained government capital expenditure and improving steel and aluminium prices. While global demand remains mixed, domestic demand continues to remain resilient, providing earnings support despite periodic volatility in raw material prices.
- Importantly, these sectors derive the majority of their earnings from domestic economic activity and therefore remain relatively insulated from near-term geopolitical uncertainties.

Structural Growth Themes: Defence, Power and Energy

The second category comprises sectors benefiting from long-term structural policy support and strategic national priorities.

- **The Defence sector** continues to offer one of the strongest long-term investment opportunities, supported by rising defence expenditure, increasing indigenisation under the Atmanirbhar Bharat initiative, healthy order books and growing export opportunities. India's defence production is expected to exceed ₹2 lakh crore, while defence exports are likely to cross ₹30,000 crore in FY26, providing strong multi-year earnings visibility for both defence PSUs and private sector companies.
- **The Power and Energy** sector also remains a structural beneficiary of India's energy transition. Rapid growth in renewable energy, expansion of the national transmission network, increasing electricity demand from manufacturing, electrification, electric vehicles and hyperscale data centres, along with renewed policy focus on nuclear power capacity expansion, continue to create significant investment opportunities across utilities, capital goods and power equipment companies. Rising AI adoption and data centre investments are expected to drive electricity demand over the coming decade, further strengthening the sector's long-term outlook.

These themes received additional investor attention during H1CY26 as geopolitical tensions highlighted the strategic importance of energy security and domestic defence capabilities, reinforcing confidence in their long-term growth prospects.

Sectors Where We Remain Selective

While the broader market outlook remains constructive, we continue to adopt a selective approach towards a few sectors.

- **The FMCG and Paints sectors** continue to face near-term margin pressures from elevated crude-linked raw material costs, particularly in packaging materials, solvents and derivatives. Although improving rural demand, better agricultural income and easing food inflation are expected to support volume growth, margin recovery is likely to remain gradual until input costs stabilise further. Consequently, earnings growth may continue to lag volume growth over the next few quarters.
- Similarly, **IT Services** remains relatively more dependent on external factors than domestic sectors. Enterprise technology spending, discretionary digital transformation budgets, client decision-making and macroeconomic conditions in the United States and Europe continue to influence revenue growth. Although AI-led investments, large deal wins and cloud migration provide medium-term opportunities, near-term earnings visibility remains constrained by cautious client spending. We therefore believe IT is better suited for selective tactical exposure rather than an overweight structural allocation until there is clearer evidence of a sustained recovery in global technology spending.

Our Preferred Positioning

- Overall, we continue to favour sectors with strong domestic earnings visibility, policy support, healthy balance sheets and sustainable cash-flow generation.
- We **remain overweight on Financials, Defence, Capital Goods, Power & Utilities, Telecom, Auto, Healthcare**, while **maintaining a selective approach towards IT** and remaining **relatively cautious on FMCG and Paints** until margin pressures ease.
- As H2CY26 unfolds, we expect earnings delivery rather than valuation expansion to be the primary driver of market performance, making disciplined stock selection increasingly important.

DID YOU KNOW?

One of the biggest challenges investors face is distinguishing between short-term market volatility and long-term wealth creation opportunities. While no market cycle repeats exactly, history suggests that equity markets often move through a **combination of short-term, medium-term, and long-term cycles**. A useful framework for understanding these movements is the **2-4-8 Market Cycle Model**.

This framework helps investors separate market noise from economic trends and structural growth opportunities, enabling more informed investment decisions.

THE THREE CYCLES

2-YEAR CYCLE



MARKET NOISE

Short-term fluctuations driven by sentiment, liquidity and positioning.

- Liquidity & interest rates
- Geopolitical developments
- Corporate earnings momentum
- Investor sentiment
- Sector leadership changes rapidly

During this phase, markets may see sharp rallies or corrections, even with stable long-term economic outlooks. Sector leadership shifts quickly as investors adjust portfolios according to current macroeconomic conditions.

BEST SUITED FOR:

Tactical asset allocation
Sector rotation
Buying corrections

4-YEAR CYCLE



ECONOMIC CYCLE

Linked to the business and economic cycle of expansion and slowdown.

- Corporate earnings cycle
- Credit growth & capital expenditure
- Employment & income trends
- GDP growth & inflation
- Monetary & fiscal policy

Economies progress through phases of recovery, expansion, slowdown, and stabilization before beginning anew. Equity markets tend to excel during recovery and expansion when earnings growth accelerates and business confidence rises.

HELPS UNDERSTANDING:

Economic positioning
Sector leadership
Corporate earnings trends

8-YEAR CYCLE



WEALTH CREATION

Driven by long-term structural shifts that creates enduring value.

- Demographic changes
- Technological innovation
- Infrastructure development
- Rising productivity
- Financialisation of savings
- Policy reforms

During structural bull markets, corporate earnings compound, creating wealth and leading to new market leaders. Valuation multiples often rise with earnings. Historically, investors in high-quality businesses through these cycles have achieved higher returns than those trying to time the market.

FOCUS ON:

Long-term structural themes
Quality businesses
Compounding wealth

Applying the Framework to Investment Decisions

The 2-4-8 framework encourages investors to view markets through multiple lenses:

Cycle	Time Horizon	Investor Focus
2-Year	Sentiment, liquidity, and short-term positioning	Tactical opportunities, market sentiment, and sector rotation
4-Year	The business and economic cycle	Economic conditions, earnings trends, and business cycle positioning
8-Year	Structural, economy-wide transformation	Long-term structural themes and remaining invested in quality businesses

Investors who understand the distinction between these cycles are often better equipped to navigate volatility and avoid emotional investment decisions.

The Current Indian Market Context

India continues to benefit from several long-term structural drivers, including:

- Rapid infrastructure development
- Manufacturing expansion supported by policy initiatives
- Rising domestic savings and SIP participation
- Formalization of the economy
- Digital transformation and technology adoption
- Strong government focus on capital expenditure
- Growing opportunities in defence, power, industrials, and premium consumption

While periodic corrections and sector rotations are inevitable, these short-term movements should be viewed within the context of India's broader structural growth story.

Key Takeaways for Investors

Successful investing requires understanding the difference between temporary market fluctuations and enduring economic trends.

The 2-year cycle is largely driven by sentiment and liquidity, the 4-year cycle reflects economic and business conditions, while the 8-year cycle represents the true wealth-creation opportunity.

Investors who remain focused on long-term structural trends, maintain disciplined asset allocation, and avoid reacting to short-term market noise are generally better positioned to achieve their financial objectives.

“ The most successful investors recognise all three cycles – but build their portfolios around the opportunities presented by the long-term structural cycle. ”



Closing Note

H2CY2026 FORWARD-LOOKING TAKEAWAYS

- Geopolitics, not domestic fundamentals, was the defining swing factor of H1 — and crude oil remains the cleanest leading indicator into H2
- Domestic capital used the FII-driven correction as a valuation opportunity rather than a reason to retreat — a maturing, more resilient investor base than in prior cycles
- Policy has turned unusually accommodative toward foreign capital even as the RBI stays domestically cautious — a combination worth watching for H2 flow reversal
- Structural themes (defence, energy security, rural consumption) showed more durability through the volatility than momentum-driven trades — reinforcing a quality-over-momentum stance for H2
- With valuations below long-term averages and seasonality historically favourable into July, H2 sets up as a buy-the-dip-with-discipline market rather than a chase-the-rally one — provided the Hormuz/crude risk continues to fade



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