

Monthly Market Outlook

May 2026
Equity & Debt Insights



Equity Market Outlook



Look back at the month (April 2026)

- Indian equities posted a strong recovery in April 2026, with the Nifty 50 rising 7.46%, while broader markets outperformed sharply as the Nifty Midcap 150 index gained 13.22% and the Nifty Smallcap 250 index surged 17.10%, reflecting improving investor confidence and broader market participation.
- India strengthened trade integration, signing its 9th Free Trade Agreement, covering 38 developed countries, with New Zealand in just nine months, enhancing export access across manufacturing, agriculture, MSMEs and services.
- Underlying economic momentum remained firm, with gross GST (Goods & Services Tax) collections hitting a record ₹2.43 lakh crore in April 2026, up 8.7% year-on-year, driven largely by import-related revenues.
- Foreign investor flows stayed cautious, as FIIs were net sellers to the tune of ₹60,847 crore (USD ~6.47 billion) in April 2026.

May 2026 Outlook

- Global growth is expected to moderate, with the IMF (International Monetary Fund) projecting GDP growth of 3.1% in 2026 and 3.2% in 2027, assuming the ongoing conflict remains limited in duration and intensity. Global headline inflation is seen edging up modestly in 2026 before resuming its downward trend in 2027.
- Energy markets face renewed uncertainty, as the UAE-OPEC's third-largest producer with ~3.5 million barrels per day of crude output, exits the bloc, weakening OPEC+ cohesion and reshaping the global oil supply landscape amid geopolitical realignments.
- Supply-chain risks extend beyond crude, with disruptions to key non-oil commodities such as aluminium, methanol, sulfur and graphite, increasing cost pressures for global manufacturing and posing challenges to the green energy transition.
- India's rural economy faces near-term risks, as fertiliser supply disruptions linked to the Iran conflict begin to impact domestic availability and prices. While government interventions are underway, any prolonged shock could weigh on rural incomes and dampen broader consumption momentum.
- India's medium-term growth outlook stays resilient, with FY27 GDP growth projected at 6.9%, anchored by sustained domestic demand, policy continuity and underlying economic strength.



Economic Market Outlook



Look back at the month (April 2026)

- The RBI maintained policy status quo, with the MPC unanimously keeping the policy repo rate unchanged in its first meeting of FY27, while reiterating that future actions would remain strictly data-dependent amid rising global uncertainties.
- MPC minutes reflected a hawkish bias, highlighting risks from geopolitical tensions, export-import disruptions, and potential El Nino conditions, even as members signaled willingness to look through temporary price shocks if second-round inflation effects remain contained.
- Headline CPI (Consumer Price Index) inflation rose to 3.40% YoY in March, up from 3.21% in February, marginally above expectations. The increase was driven largely by food and beverages, while core inflation remained relatively soft. Fuel prices remained stable, as retail petrol and diesel prices were held unchanged, with Oil Marketing Companies absorbing higher costs following the government's excise duty reduction in late March.
- Global monetary policy remained tight, with the US Federal Reserve holding rates steady at 3.50–3.75% for the third consecutive meeting. The 8–4 vote split underscored internal divergence, even as the Fed cut growth forecasts and raised inflation projections, maintaining a hawkish bias.
- System liquidity stayed comfortable, with banking liquidity peaking at ~₹4 trillion in early April. RBI liquidity absorption via VRRR auctions, along with GST outflows, currency in circulation, and forex operations, brought liquidity down to ~₹1.9 trillion by month-end.
- TREPS rates were trading between 5.15–5.25% during the month. The Indian 10-year G-sec yielding 6.90–7.05%, while US 10-year Treasury yields remained elevated throughout the period.

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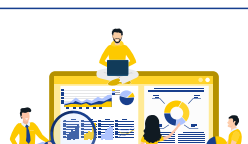
- Rising Middle East tensions pose risks of a supply-driven price shock, particularly via crude oil. If elevated energy prices persist and second-round inflationary effects emerge, both the RBI's MPC and the US Fed are likely to stay on pause to assess the evolving impact.
- Bond yields are expected to remain range-bound amid global uncertainty, with the Indian 10-year G-Sec likely to trade between 6.95–7.10%, while the US 10-year Treasury yield is expected to stay in the 4.25–4.40% range.
- Liquidity conditions are expected to remain adequately managed, with the RBI continuing proactive liquidity fine-tuning to balance surplus conditions while ensuring smooth transmission across money markets.
- Weather risks warrant close monitoring, as the possible emergence of El Nino conditions poses an upside risk to food prices and headline inflation later in the year.
- Global trade growth is expected to moderate in 2026 versus 2025, amid persistent tariff-related uncertainties, the ongoing West Asia conflict, and elevated energy prices.

Source: Bloomberg, Ministry of Statistics and Programme Implementation (MOSPI), Reserve Bank of India (RBI), LIC MF Internal Research.

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