

Monthly Market Outlook

October 2026
Equity & Debt Insights



Equity Market Outlook



Look back at the month (September 2026)

- Indian equity markets witnessed a sharp correction in September 2026 amid heightened global uncertainty and risk aversion. The Nifty 50 declined 6.06%, while the Nifty Midcap 150 and Nifty Smallcap 250 indices fell 7.09% and 3.12%, respectively, reflecting broad-based profit booking across market segments.
- Sectoral performance remained largely negative during the month. Defensive sectors demonstrated relative resilience, with Healthcare, Power, Metals and FMCG outperforming the broader market despite delivering negative returns. In contrast, Auto, Consumer Durables and Information Technology witnessed the sharpest declines amid concerns around demand and global growth.
- Domestic macroeconomic indicators remained relatively resilient despite market volatility. India's medium-term growth outlook continued to be supported by resilient domestic demand, infrastructure investments and healthy corporate earnings, with the Q1FY27 earnings season reflecting stable profitability trends across sectors.
- Foreign Institutional Investors (FIIs) turned net sellers during the month, recording net outflows of approximately ₹35,861 crore (USD 3.8 billion), contributing to heightened market volatility amid evolving global macroeconomic and geopolitical developments.

October 2026 Outlook

- Global markets continue to monitor developments in West Asia, particularly concerns surrounding energy supply disruptions and volatility in crude oil prices. Elevated oil prices could influence inflation expectations, external balances and overall market sentiment across emerging economies, including India.
- Global monetary conditions remain tight following the US Federal Reserve's 25 bps rate hike to 3.75%-4.00%. Higher US Treasury yields and a stronger US dollar may continue to influence capital flows towards emerging markets and keep global financial conditions relatively restrictive.
- The RBI recently increased the policy repo rate by 25 bps to 5.50% and shifted its stance to "calibrated tightening", reflecting its focus on managing inflation risks while preserving macroeconomic stability. The upward revision in FY27 GDP growth expectations highlights continued confidence in India's domestic growth prospects.
- India's long-term growth outlook remains supported by improving consumption trends, continued focus on domestic manufacturing, robust banking sector balance sheets and sustained infrastructure development. The ongoing China+1 opportunity continues to support medium-term manufacturing and export prospects.
- Near-term risks continue to stem from geopolitical developments, elevated crude oil prices and slower growth in key export markets. However, resilient domestic fundamentals, policy support and infrastructure investments continue to provide support to economic activity and corporate earnings.



Economic Market Outlook



Look back at the month (September 2026)

- Headline CPI inflation for August 2026 increased to 4.8% year-on-year from 4.5% in July, primarily driven by higher food and fuel prices. Core inflation also inched higher, indicating a gradual buildup in underlying inflationary pressures. Wholesale Price Index (WPI) inflation rose to 9.9%, reflecting elevated fuel, power and manufactured product prices.
- India's external sector remained relatively stable, supported by strong FCNR(B) inflows, resilient services exports, healthy remittances and robust corporate profitability. The Current Account Deficit (CAD) for FY27 is expected to remain manageable despite risks arising from crude oil price volatility.
- Banking system liquidity remained in significant surplus during the month, reaching nearly ₹9.5 trillion by mid-September. The RBI undertook liquidity absorption measures through Open Market Operations (OMO), Variable Rate Reverse Repo (VRRR) auctions and foreign exchange interventions to manage excess liquidity and align money market rates with policy objectives.
- Government borrowing plans for H2FY27 remained supportive for the bond market, with overall borrowing lower than initially estimated and issuances tilted towards longer-duration securities. Gross state government borrowings are also expected to remain contained, supported by stronger fiscal conditions.
- Bond markets experienced volatility during the month, with the domestic 10-year Government Security yield trading in the 6.95%-7.20% range. Yield movements were influenced by geopolitical developments, volatile crude oil prices and the US 10-year Treasury yield crossing the 5% mark.

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- Inflation risks remain tilted to the upside due to the potential strengthening of El Niño conditions, lower reservoir levels and persistent volatility in crude oil prices amid ongoing geopolitical tensions. Food and energy prices are likely to remain key drivers of inflation expectations.
- The RBI is expected to continue its cautious and data-dependent approach while actively managing liquidity conditions through various liquidity-absorption measures. Monetary policy decisions are likely to remain focused on balancing inflation control and growth objectives.
- Liquidity conditions are expected to remain comfortable, although RBI operations including OMO sales and VRRR auctions may continue to absorb excess system liquidity and maintain orderly market conditions.
- Domestic bond yields are likely to remain influenced by crude oil prices, inflation trends, geopolitical developments and the trajectory of global monetary policy. Elevated US Treasury yields and dollar strength could continue to affect global bond market sentiment.
- Globally, financial markets are expected to remain sensitive to inflation data, central bank communication and geopolitical developments. Commodity prices, currency movements and evolving liquidity conditions will continue to influence investor sentiment across fixed income markets.

Source: Bloomberg, Ministry of Statistics and Programme Implementation (MOSPI), Reserve Bank of India (RBI), NSDL, PIB, Nifty Indices, LIC MF Internal Research;
CPI: Consumer Price Index, GDP: Gross Domestic Product, FCNR (B): Foreign Currency Non-Resident (Bank), FOMC: Federal Open Market Committee

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