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Stress, Value & Opportunity: India's Macro & Market Outlook — June 2026

The rupee is at record lows, FIIs are rotating out, and two years of Nifty returns are near zero. But beneath the headline stress, valuations in Banking and Chemicals are deeply attractive, while Capital Goods, Manufacturing, and the Power & Transmission sector offer compelling earnings-led growth opportunities. This brief maps the macro headwinds — and the opportunities they've created.

1. THE RUPEE'S DEEPENING SLIDE

In the span of roughly two years, the Indian rupee has shed approximately 14% of its value against the US dollar. From ₹83.53 in early 2024, USD/INR crossed ₹95 in May 2026 — setting fresh record lows almost every week in early 2026. The rupee hit ₹94.71 in March 2026 before slipping further to ₹95.10 in early May, falling 1.7% in a single week across five consecutive losing sessions. This is one of the steepest sustained depreciations since the 2013 taper tantrum.

What makes this episode notable is the disconnect from domestic fundamentals. India's GDP grew at 7.6% in FY26, inflation remained broadly within the RBI's 4% target, and fiscal discipline was largely maintained. The currency selloff has been driven overwhelmingly by external forces — a reminder that in an integrated global financial system, a country's currency is as much a function of global risk appetite as domestic macro health.

Driver	Impact on INR	Severity
Crude oil import bill (Hormuz shock)	Higher USD demand to pay for oil imports; trade deficit widens	High
FPI equity outflows (₹1.92 lakh crore sold, Jan–May 2026)	FPIs sell INR, buy USD to exit India positions	High
US tariff uncertainty on Indian exports	Dampens export earnings expectations; risk-off sentiment	Medium
Narrowed US-India rate differential (RBI repo at 5.25%)	Reduces carry appeal of rupee assets for global funds	Medium
Safe-haven USD demand (geopolitical shock)	Global capital flight to USD in any crisis episode	Medium

Source: Univest / Bajaj Broking Research (May 2026). USD/INR at ₹95.10 as of early May 2026.

"In just over twelve months, the Indian rupee lost more than 10% of its value against the US dollar. Two years ago, the same dollar cost ₹83. The rupee has now depreciated roughly 14% since then — one of the steepest sustained slides since 2013."

— Univest Research, May 2026

2. CURRENT ACCOUNT

The headline CAD number for FY2026 is deceptively benign. At ₹2.10 lakh crore ($25.2 billion), or 0.6% of GDP, it appears in line with the prior year's ₹1.91 lakh crore ($22.9 billion, also 0.6% of GDP). But the quarterly path tells a more volatile and worrying story, and the forward risk from the Hormuz crisis has materially changed the calculus for FY2027.

India closed FY26 on a bright note — a current account surplus of ₹59,000 crore ($7.1 billion) in Q4 FY26 (January–March 2026), supported by a surge in services exports. Net services receipts rose to ₹5.04 lakh crore ($60.4 billion) in the quarter, up from ₹4.44 lakh crore ($53.3 billion) a year earlier, led by computer and business services. However, the goods trade deficit widened sharply to ₹6.95 lakh crore ($83.4 billion) in Q4 FY26, versus ₹4.94 lakh crore ($59.3 billion) in Q4 FY25 — a ₹2 lakh crore deterioration in a single quarter, largely driven by the Hormuz-linked oil import surge.

Quarter	Current Account Balance (₹)	% of GDP	Key Driver
Q1 FY26 (Apr–Jun 2025)	−₹22,320 crore deficit	0.2%	Near-flat; services surplus offset wider goods deficit; remittances up 18% YoY
Q2 FY26 (Jul–Sep 2025)	−₹1.14 lakh crore deficit	1.3%	Gold import spike; goods deficit widened; remittances ₹3.55 lakh crore
Q3 FY26 (Oct–Dec 2025)	−₹1.23 lakh crore deficit	1.3%	US export slowdown; merchandise deficit ₹8.70 lakh crore; services held up
Q4 FY26 (Jan–Mar 2026)	+₹66,030 crore surplus	Surplus	Strong services quarter (₹5.61 lakh crore); goods deficit ₹7.76 lakh crore on Hormuz oil surge
Full Year FY26	**−₹2.34 lakh crore deficit**	**0.6%**	**Manageable; services and remittances absorbing goods deficit pressure**

Source: RBI Balance of Payments press releases — Q1 (Sep 2025), Q2 (Dec 2025), Q3 (Mar 2026), Q4 (Jun 2026). USD figures converted to ₹ at ₹93 per USD (approximate average rate for FY26). Original RBI data in USD: Q1 −$2.4 bn, Q2 −$12.3 bn, Q3 −$13.2 bn, Q4 +$7.1 bn, FY26 −$25.2 bn.

3. NIFTY RETURNS: THE INCONVENIENT TWO-YEAR TRUTH

The 2-year index return picture tells a straightforward story: prices have gone nowhere. The Nifty 50 moved from ~23,600 in June 2024 to ~23,400 in June 2026 — a 2-year CAGR of approximately 0%. The Nifty Midcap 150 moved from ~20,000 to ~22,400 — a 2-year CAGR of approximately 6%. The Nifty Smallcap 250 is also broadly flat over the same period, delivering near-zero CAGR from June 2024 to June 2026. All three indices sit meaningfully below their September–January 2024–25 peaks.

But here is the critical point: earnings have not been flat. India Inc.'s corporate earnings have continued to grow at ~ 11 %over this period. The profit-to-GDP ratio has touched multi-year highs. Midcap and smallcap companies in particular have delivered strong PAT growth even through the price correction. What has happened is a time-wise correction — prices have stood still while earnings have caught up. The Nifty 50 now trades at ~19.5x P/E, exactly its 15-year historical average, having de-rated from the frothy 24–25x of its 2024 peak. This is not a market in distress.

Index	Jun 2024 Level	Jun 2026 Level	2-Year CAGR	Valuation Implication
Nifty 50 (Large Cap)	~23,600	~23,400	~0% CAGR	P/E reset from 24–25x to 20x (long-run avg); earnings grew, price did not
Nifty Midcap 150	~20,000	~22,400	~6% CAGR	Modest price gain; but earnings grew 15–18%; P/E materially de-rated
Nifty Small cap 250	Broadly flat	Broadly flat	~0% CAGR	Sharp peak-to-trough correction absorbed; valuations now close to fair value
Nifty 50 (USD terms)	~$284 (at ₹83)	~$246 (at ₹95)	~-7% CAGR	FII's actual experience; explains sustained selling; sets up reversal when INR stabilizes

Nifty 50: high of 23,337 in June 2024 per 5paisa; current ~23,400 (June 2026). Nifty Midcap 150: 22,400 as of 4 June 2026 per Tickertape. Small cap 250 broadly flat over a 2-year period. Source: NSE / Tickertape / 5paisa.

The message is clear: India has delivered a time-wise correction, not a fundamental one. Earnings have grown; prices have not. Every rupee of earnings growth now buys more index ownership than it did two years ago. Historically, periods of near-zero 2-year index returns in India — 2011–13, 2015–16, 2019–20 — have been followed by strong multi-year compounding for investors who stayed or added at those levels. The sector-level opportunity is even more compelling, as explored below.

4. FII FLOWS: ROTATION, NOT ABANDONMENT

The scale of FII selling has been striking. Net FPI flows swung from +₹30,000 crore in FY2025 to −₹1.39 lakh crore in FY2026 (provisional). Between January and May 2026, cumulative FII equity selling crossed ₹1.92 lakh crore per NSDL data. Yet it is important to understand what is driving this — it is a rotation, not a structural exit from India.

The capital leaving India is moving primarily to AI-linked semiconductor markets in Asia and back to the US. In 2026 YTD dollar terms, Taiwan's equity market has surged approximately 40% on TSMC and the AI chip super cycle; South Korea's Kospi has rallied 62% on Samsung and memory demand; Japan's Nikkei is up 18%. India, by contrast, has fallen approximately 13–14% in dollar terms — a double blow of local currency equity declines and rupee weakness. For global fund managers managing Asia ex-Japan mandates, reallocating from India (expensive, oil-impacted, currency-pressured) to Taiwan and Korea (cheap, AI-tailwind, recovering earnings) has been an obvious trade.

Market	2026 YTD (USD terms)	FII Direction	Primary Driver
Taiwan	+40%	Strong inflows	AI chipmaker rally; TSMC; semiconductor super cycle
South Korea	+62%	Strong inflows	Kospi recovery; Samsung; AI memory demand
Japan	+18%	Positive	Yen weakness; corporate governance reform
China	+7%	Recovering	Stimulus measures; Hang Seng tech recovery
India	−13–14%	₹1.92 lakh crore net sold	Hormuz oil shock; INR at record lows; valuations

Source: Outlook Business / Avisa Capital CIO, May 2026. Returns in USD terms, YTD to early May 2026.

The critical counterweight has been India's domestic institutional investors. Monthly SIP inflows have remained above ₹29,000 crores every month through the crisis period — providing a consistent and substantial bid that has absorbed FII selling without a systemic market breakdown. This domestic depth is India's structural advantage that did not exist in prior crisis cycles.

5. WHERE THE VALUE IS: FOUR SECTORS WORTH WATCHING

Two years of flat-to-negative real returns and sustained FII selling have done what such episodes always do: they have created value. India's aggregate market multiple has re-rated from a premium to fair value, and in several sectors the correction has been sharper than fundamentals justify. Four sectors stand out as particularly compelling on a combination of valuation, earnings growth visibility, and structural policy tailwinds.

A. Banking — The Most Undervalued Sector in India

The Nifty Bank index trades at a P/E of approximately 14.8x and a P/B of 1.91x as of April 2026 — and according to Index Screener, the P/B ratio is currently in the "Very Cheap" zone based on 15 years of history. This is remarkable for a sector that has arguably never been in better fundamental shape. Gross NPA ratios have fallen to multi-decade lows. Credit growth is running at 13–15% annually. The RBI's rate cut cycle (repo now at 5.25%) is improving NIMs for liability-heavy lenders. Capital adequacy ratios across both PSU and private banks are well above regulatory minimums.

The underperformance is a function of FII selling — banking stocks are the most liquid and carry the largest index weights, making them the easiest exit route for foreign funds needing to raise cash quickly. Leading private sector banks have seen 15–25% corrections from their 2024 peaks despite reporting consistent earnings growth. PSU banks trade at approximately 1.0–1.2x book — historically a strong entry signal. For long-term investors, the combination of low valuation, strong balance sheets, rate tailwinds, and a 13%+ CAGR credit growth backdrop is rarely available simultaneously.

> **INVESTMENT THEME Banking — P/E ~14.8x | P/B in 'Very Cheap' zone (15-year history)**
>
> Nifty Bank is 8.87% below its recent peak. Credit growth at 13–15% YoY. Gross NPA at multi-decade lows. RBI in rate cut cycle (repo at 5.25%). PSU banks at ~1.0–1.2x book; private sector banks at significant discount to 2024 peak multiples. Staggered SIP entry recommended given near-term volatility.

B. Capital Goods — Rich Valuations, But Earnings Growth Justifies the Premium

A note of honesty first: the capital goods sector is not cheap. Nifty Capital Goods trades at approximately 28–30x P/E — a premium multiple that fully reflects the sector's strong near-term earnings outlook. The investment case here is not valuation; it is earnings growth visibility. The government allocated ₹11.11 lakh crore in capital expenditure in FY26, and the private sector capex cycle is now finally gaining traction after years of underinvestment. Order backlogs across the engineering and capital goods space have never been larger.

Order backlog growth of 20–25% across the sector provides multi-year revenue visibility, with FY27 revenue growth projected at 14–18%. The sector has corrected 15–20% from its 2024 peak, which has improved the entry point modestly — but valuations remain elevated. The rational case for investing here is that earnings are growing fast enough to justify the premium, and the structural demand from infrastructure, defence, and energy transition spending is a decade-long story, not a cyclical trade. Investors should approach this as a quality-growth allocation rather than a value play.

GROWTH THEME — NOT A VALUE PLAY Capital Goods — Premium valuation, premium earnings growth

P/E ~28–30x reflects the strong earnings cycle, not mispricing. FY27 revenue growth forecast: 14–18%. Order backlogs at all-time highs. Government capex at ₹11.11 lakh crore; private capex cycle beginning. Suitable for investors with a 3–5 year horizon seeking quality compounders, not those looking for beaten-down value.

C. Manufacturing — Strong Structural Story, But Price Discovery Already Done

India's manufacturing sector is operationally in fine shape. The HSBC India Manufacturing PMI rose to 55.0 in May 2026 — a three-month high — and IIP grew 7.8% in December 2025, the highest in over two years. Manufacturing GVA expanded 7.72% in Q1 and 9.13% in Q2 FY2025–26. But the headline data point for investors is this: The Nifty India Manufacturing index at P/E 26x is not cheap by conventional standards.

The opportunity in manufacturing is structural, not cyclical and not valuation-driven. The PLI scheme has attracted ₹2.16 lakh crore in investments and generated ₹20.41 lakh crore in incremental sales, with 14.39 lakh jobs created. Medium and high-technology industries now contribute 46.3% of manufacturing value added. The government's target to raise manufacturing's GDP share from 15–17% to 25% by 2035 underpins a decade-long demand story. Within this broad sector, however, the sharper and more specific opportunity today lies in a sub-segment where earnings growth is exceptional and the policy tailwind is most concentrated: Power and Transmission infrastructure.

GROWTH THEME — NOT A VALUE PLAY Manufacturing — Decade-long structural story; invest selectively

Nifty India Manufacturing P/E ~26x; fairly valued on forward earnings. PLI outcomes: ₹2.16 lakh crore invested, ₹20.41 lakh crore in sales, 14.39 lakh jobs created. GDP share target: 15–17% → 25% by 2035. Selectivity is key: sub-sectors with highest earnings visibility include electronics, precision engineering, and energy equipment manufacturing — particularly anything tied to the power sector buildout.

D. Power & Transmission — The Sharpest Earnings Growth Story in India Right Now

If there is one sector where the confluence of policy, earnings growth, and structural demand is most concentrated in 2026, it is Power and Transmission infrastructure. India needs to add approximately 500 GW of renewable energy capacity by 2030, upgrade its ageing transmission grid, and build entirely new high-voltage direct current (HVDC) corridors to carry power from generation hubs to consumption centers. None of this is optional — it is load-bearing infrastructure for India's economic growth. And the order pipeline for the companies building it is unlike anything seen in this sector before.

The numbers are striking. India's power transmission sector needs an estimated ₹4–5 lakh crore of investment in new transmission lines, substations, and grid infrastructure over the next five years per the Ministry of Power's transmission plan. Transformer manufacturers are running at full capacity with 18–24-month order books. Cable and conductor manufacturers are similarly oversubscribed. The renewable energy build-out — solar parks, wind farms, and offshore wind — requires vast amounts of high-voltage cabling, switchgear, and grid integration equipment, creating a demand surge that domestic manufacturers are scrambling to meet.

Unlike Capital Goods and Manufacturing broadly, the Power & Transmission sub-sector also has a valuation story. Many mid-cap transformer, cable, and conductor manufacturers have corrected 25–40% from their 2024 peaks — not because their order books shrank, but because broad FII selling and valuation concerns in the mid-cap space dragged them down indiscriminately. The result is a rare combination: above-market earnings growth, driven by non-discretionary government-mandated infrastructure spending, available at multiples that have moderated from their 2024 highs.

INVESTMENT THEME Power & Transmission — Policy-mandated demand; 25–40% correction from peak

India's ₹4–5 lakh crore transmission investment pipeline over 5 years. 500 GW renewable target by 2030 driving cable, transformer, and switchgear demand. Transformer manufacturers at 18–24-month order visibility. Sub-sectors: power transformers, cables & conductors, switchgear, EPC contractors for transmission lines, HVDC equipment. Corrected meaningfully from 2024 peak; earnings growth trajectory intact.

E. Chemicals — A Beaten-Down Sector Beginning to Recover

India's specialty chemicals sector endured a painful 2023–25 correction driven by Chinese dumping, demand weakness, and margin compression. That correction has left valuations significantly more attractive than during the 2021–22 boom, and several structural catalysts are now aligning for a recovery. The China+1 diversification thesis — global chemicals companies reducing single-source dependence on China — remains firmly intact and is, if anything, accelerating post the geopolitical tensions of 2025–26.

India's chemicals industry is forecast to grow revenues at 13% CAGR over the next three years per analyst consensus. The Nifty Chemicals Index sits at approximately ₹29,241 (May 2026). Companies across agrochemicals, fluoro chemicals, specialty intermediates, and adhesives are reporting improving order pipelines from Europe and the US as global buyers diversify away from Chinese suppliers. The sector offers a range of risk-return profiles — from defensive agrochemical producers to high-growth fluoro chemical and specialty plays. The sector's sensitivity to input costs (largely crude oil derivatives) warrants selectivity in the current oil price environment, but for investors with a 2–3-year horizon, the entry point is meaningfully better than 18 months ago.

INVESTMENT THEME Chemicals — 3-year revenue CAGR forecast 13%; China+1 thesis intact

Nifty Chemicals Index at ₹29,241 (May 2026). Sector corrected 30–40% from 2022 peak. Global supply chain diversification from China driving fresh order pipelines. Sub-sectors include agrochemicals, flurochemicals, specialty intermediates, adhesives, and crop protection chemicals.

Sector Valuation Snapshot — June 2026

Sector	Key Index	P/E	P/B	Valuation Status	Catalyst
Banking	Nifty Bank	14.8x	1.91x	Very Cheap (15Y history)	Rate cuts; NPA improvement; credit growth
Capital Goods	Nifty Cap Goods	~28–30x	~5x	Premium; growth-justified	14–18% revenue growth; record order backlogs
Manufacturing	Nifty India Mfg.	26.0x	4.07x	Fairly valued; not cheap	Structural story; PLI payoff; selectivity needed
Power & Transmission	Mid-cap sub-sector	Moderated from peak	N/A	Growth + value combo	₹4–5 lakh cr invest. pipeline; 25–40% off 2024 peak
Chemicals	Nifty Chemicals	—	—	Well below 2022 peak	China+1; global order recovery; 13% CAGR
Nifty 50 (ref)	Nifty 50	~22x	~3.5x	Fair value (at hist. avg.)	—

Sources: Index Screener (Nifty Bank, Nifty India Manufacturing, April 2026), Craytheon NSE Sector PE, analyst consensus reports.

6. OUTLOOK: NAVIGATING H2 2026

The macro headwinds are real — a rupee under pressure, a widening goods trade deficit, and persistent FII outflows. But the market has already priced in much of the bad news. Nifty 50 forward P/E is back at its long-run average of 19x. Nifty Bank P/B is at a 15-year low. Power & Transmission sub-sector offers both earnings growth and valuation comfort. The domestic SIP engine is absorbing selling without structural breakdown.

The rupee recovery timeline is tied to two variables: The Hormuz situation (which most institutions do not model as a permanent closure) and the trajectory of US rates. Bank of America and ING project USD/INR recovery once oil normalizes and FII flows stabilize. The current account, despite near-term pressure, is backed by a robust services export engine, record FDI, and rising remittances.

For investors with a 2–3-year horizon, this environment has historically been a strong entry point. Every major India correction since 2001 — including 2008, 2013, 2020, and 2022 — has been followed by a sharp recovery. The sectors highlighted in this brief offer different types of opportunity: Banking and Chemicals offer classic valuation comfort — prices have corrected more than fundamentals. Capital Goods and Manufacturing offer quality growth at a premium — earnings justify the multiple, but these are not cheap buys. Power & Transmission offers the rarest combination: non-discretionary earnings growth driven by government-mandated infrastructure, available at multiples that have corrected meaningfully from 2024 highs. A diversified position across these themes, entered in a staggered manner over 6–12 months, and held with a 3-year horizon, is the most rational posture for the current environment.

SOURCES & REFERENCES

All data cited in this brief are drawn from the following primary sources.

#	Source	What was used	URL
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2	NSDL / SEBI	FII/FPI net equity flows; cumulative selling Jan–May 2026	nsdl.com
3	BW Business world (Jan 2026)	Nifty 50 CY2025 return of 10.5%; Midcap 5.4%; Small cap correction data	businessworld.in
4	Index Screener	Nifty Bank P/E 14.79x, P/B 1.91x (Apr 2026); Nifty Mfg. P/E 26.03x valuations	indexscreener.in
5	Outlook Business (May 2026)	FII selling near exhaustion; Asian market rotation; DII absorption data	outlookbusiness.com
6	India-Briefing / IBEF	Manufacturing PMI 55.0; IIP growth; PLI scheme outcomes; GVA data	india-briefing.com / ibef.org
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