

Panam - Newsletter - March - 2026

Short Term Pain - Long Term Gain

CY26 has begun on a weak footing, extending the softness witnessed in CY25 which was largely driven by global factors such as geopolitical tensions and tariff-related uncertainties. As a result, India was among the relatively weaker performing equity markets globally during that period. Sentiment had begun to improve in early February 2026 following progress on the India–US trade agreement, which raised expectations of a more stable economic environment and a potential recovery in market momentum. However, the recent escalation in tensions between the US and Iran has once again introduced fresh uncertainty, impacting sentiment that was still in a fragile recovery phase.

Following the escalation, Indian equity markets corrected sharply with benchmark indices declining nearly 4% within two trading sessions, in line with the broader global equity sell-off. At the same time, crude oil prices surged by more than 15% in a short period. This development is particularly significant for India given its dependence on imported energy and the strategic importance of the Strait of Hormuz, through which nearly 20% of global oil trade flows and over which Iran has considerable influence. Consequently, the duration of the conflict and the trajectory of crude oil prices will remain key variables driving volatility across global asset classes.

India's high dependence on imported crude means movements in oil prices have a direct impact on the country's external balances. The country imports roughly 85% of its crude requirement, making oil one of the largest components of the import bill. Historical sensitivity estimates from the RBI, Ministry of Finance and various brokerage reports suggest that every \$10 per barrel increase in crude prices raises India's annual import bill by roughly \$14–15 billion. This typically results in a widening of the current account deficit by approximately 0.3–0.4% of GDP, assuming other variables remain unchanged.

Higher crude prices also have implications for the fiscal position. Elevated oil prices can increase subsidy pressures, particularly through LPG and fertilizer subsidies, while also limiting the government's flexibility to adjust fuel excise duties in order to manage inflationary pressures. Historical analysis from RBI and SBI Research indicates that a \$10 per barrel increase in crude prices could widen the fiscal deficit by roughly 0.1–0.2% of GDP, depending on the duration of the price shock and the government's policy response.

From a currency perspective, sustained increases in crude prices typically exert depreciation pressure on the Indian rupee as a higher oil import bill increases demand for dollars. Historical estimates suggest that every \$10 per barrel increase in crude oil prices can lead to around ₹0.5–1 depreciation in the rupee, although the final outcome depends on capital flows, RBI intervention and global dollar strength. As such, the trajectory of crude prices remains a key macro variable in the current geopolitical context, with implications for India’s external balances, fiscal dynamics and currency stability.

Historical evidence suggests that geopolitical conflicts tend to have a short-term negative impact on equity markets, primarily driven by uncertainty and commodity price spikes. An analysis of six major geopolitical events between 1990 and 2026 indicates that markets typically remain under pressure for roughly four weeks during the event period, during which equities experience corrections. However, once the event risk stabilizes, markets have historically delivered strong recoveries. On average, the Sensex generated returns of about 28% over the three months following such events and approximately 38% over six months, suggesting that geopolitical shocks have historically created attractive entry opportunities for long-term investors rather than leading to prolonged market downturns.

Geopolitical events - History

Historically, markets bottom post geopolitical events

Event	Date	1 Month Return	3 Month Return	6 Month Return	12 Month Return
Iraq War	Aug '90	-14	36	39	65
Kargil War	May '99	-11	17	33	40
9/11 Terror Attack	Sep '01	-18	18	35	45
Mumbai Terror Attack	Nov '08	-3	20	24	36
Pulwama Attack	Feb '19	-2	9	12	14
Russia-Ukraine War	Feb '22	-11	7	19	25

From a sectoral perspective, the immediate impact of a sharp rise in crude oil prices tends to be negative for sectors with high energy intensity. Aviation, paints, chemicals and logistics typically face margin pressure as fuel and input costs rise. Oil marketing companies can also face short-term profitability pressure if retail fuel prices do not fully adjust to higher crude prices. At the same time, certain sectors may benefit from such developments. Upstream oil producers tend to gain from higher crude realizations, while commodity exchanges such as

MCX benefit from increased volatility in commodities like crude oil and gold, which drives higher trading volumes. Precious metals, particularly gold, also tend to perform well during geopolitical uncertainty as investors move towards safe-haven assets.

Overall, while geopolitical events such as the ongoing US-Iran conflict may create short-term volatility in equity markets through higher crude prices and risk-off sentiment, historical evidence suggests that the impact on markets has generally been temporary, with equities recovering meaningfully once the uncertainty around the event begins to fade.

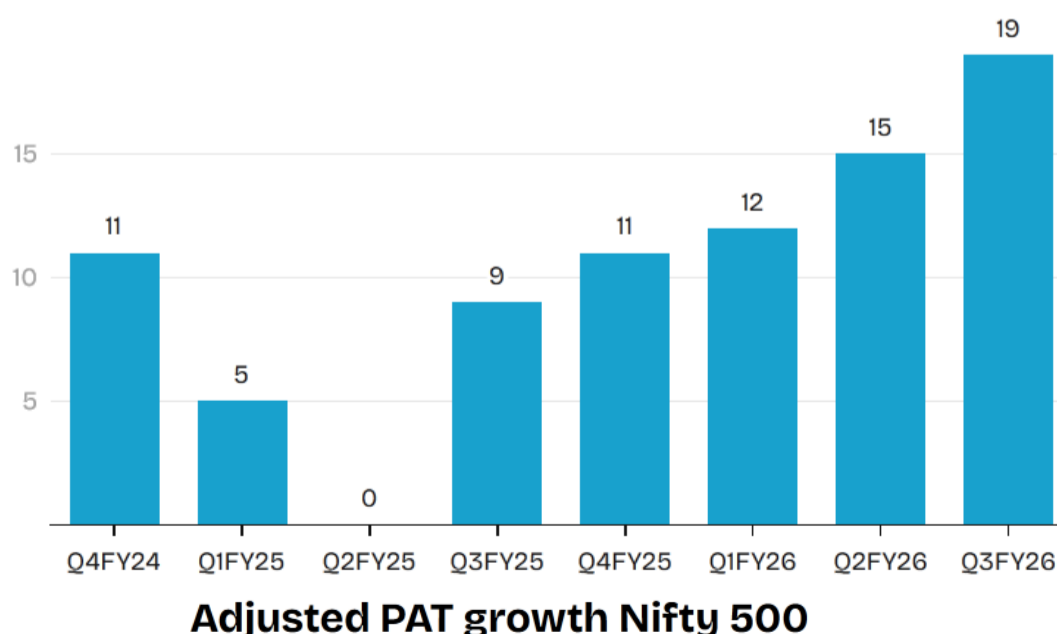
Underlying Earnings growth - provide opportunity

Corporate earnings for the Nifty 500 in Q3FY26 registered strong double-digit growth, marking the highest earnings expansion seen over the past eight quarters. The improvement was supported by better sectoral participation and the gradual benefits of GST 2.0 related compliance and formalisation trends flowing through several sectors, despite the backdrop of continued geopolitical uncertainties.

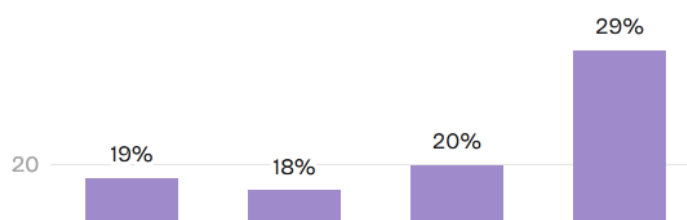
Within the broader market, small-cap companies outperformed, reporting PAT growth of 29% YoY, compared with 20% growth for mid-caps and 18% for large-caps. The stronger performance in the small-cap segment was largely driven by operating leverage, higher exposure to domestic cyclical sectors and a sharper earnings recovery across industrial and commodity-linked businesses.

Exhibit 1 - Nifty 500 YoY Earnings Growth

Earnings growth highest in the last 8 quarters



Adj PAT Growth YoY %



Mid-cap earnings growth was relatively more moderate as profitability remained concentrated in a limited set of companies. Meanwhile, large-cap earnings were somewhat constrained by weaker performance in globally exposed sectors such as IT services, pharmaceuticals and energy, which continued to face demand headwinds and margin pressures.

Overall, the stronger earnings delivery from small-cap companies reflects the continued momentum in the domestic capex cycle, along with improving demand conditions across infrastructure, manufacturing and related industrial segments.

Sources	Link
Import bill impact (\$10 crude increase)	https://www.deccanchronicle.com/business/for-every-10-hike-in-crude-import-bill-will-go-up-by-14-billion-1940734
Import bill impact (\$10 crude increase)	Iran War Impact: Amitabh Kant Warns Every \$10 Climb In Oil Price Will Hit India
CAD - Impact	Every \$10 per barrel rise in crude oil prices can shave about 0.5% off India's GDP growth: SMC's Bharti - The Economic Times

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