India Rewind

June 2026

DSP ASSET MANAGERS

**India Rewind is a monthly update from DSP's Investment Desk.
It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.**

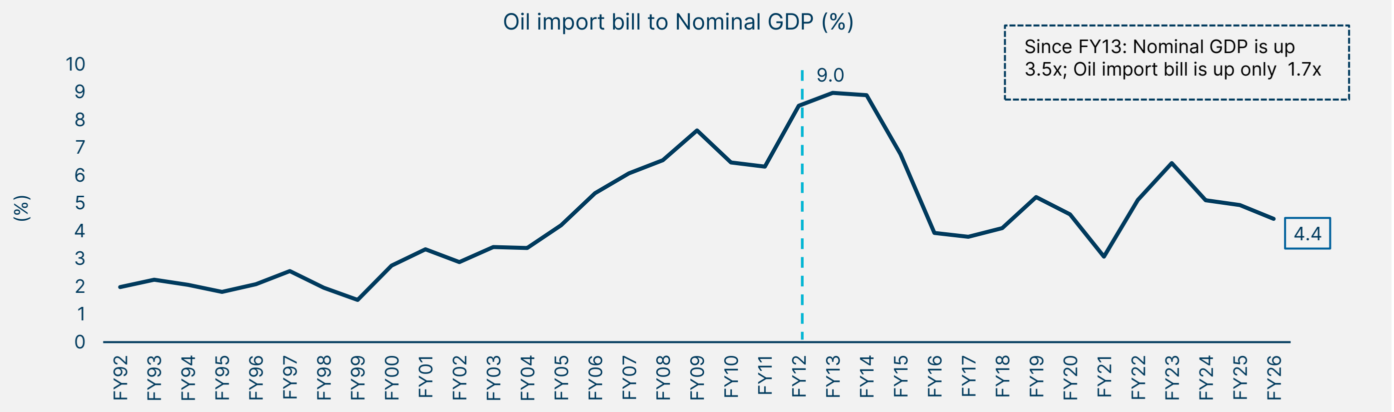
Indian equities remained range bound in May, with MSCI India broadly flat in USD terms versus ~7.8% for MSCI EM and ~4% for MSCI World. Year to date, India continues to trail most major markets, though the underperformance is largely explained by the global AI trade - markets with higher semiconductor and hardware exposure, such as South Korea and Taiwan, have materially outperformed. Adjusting for this, India's ex-IT equity performance is meaningfully narrower, suggesting that broader market resilience remains intact beneath the headline gap. Foreign portfolio outflows have cumulated to ~USD 26 billion in CY26 year-to-date, while domestic institutions have absorbed much of this, with net inflows of ~USD 41 billion - reinforcing the structural shift in market ownership toward local capital.

India's growth backdrop remains robust - 4QFY26 GDP came in at 7.8%, taking full-year FY26 growth to 7.7%. However, the first signs of macro transmission from external stress are now visible. GST collection growth has slowed to low single digits, private capex eased to ~5% in 2HFY26, and the trade deficit has started to widened. Brent crude averaged ~USD 103/bbl in 1QFY27, sharply higher than the USD 63-78 range across the prior four quarters, and gradual fuel price hikes through May have raised the risk of second-round pass-through into consumer inflation. That said, India's oil vulnerability is structurally lower than in previous high-crude cycles - the oil import bill is now ~4.4% of GDP versus ~9% a decade ago - which helps contextualise the risk as a margin headwind rather than a macro derailment (see chart of the month below).

The RBI unanimously held the repo rate at 5.25% at its June review, while cutting FY27 GDP growth estimate by 30bp to 6.6% and raising CPI inflation by 50bp to 5.1%. Rather than tightening to defend the currency, the central bank has opted to attract capital inflows - expanding the Fully Accessible Route to include 15-, 30- and 40-year G-Secs, removing FPI limits on short-term investments under the General Route, and offering to bear full hedging costs on fresh FCNR(B) deposits and PSU ECBs through September 2026. The government complemented this with an ordinance removing withholding and capital gains taxes on foreign sovereign bond holdings - a move that could also pave the way for India's inclusion in the Bloomberg Bond Index. Taken together, these measures could channel an estimated USD 75–100 billion in incremental capital flows and shift India's FY27 balance of payments outlook from a projected deficit of USD 75 billion to near-neutral. The rupee, which touched a record low near 96.96/USD, has since stabilised ~95/USD - a development worth watching, as currency stability directly improves India's dollarized return profile for international allocators.

At ~19.4x one-year forward earnings, the MSCI India trades below its 10-year average - a zone that has historically preceded favourable 12-month outcomes. RBI has played its part, now the near-term direction will be driven by the durability of these measures, and whether earnings can absorb the evolving cost environment. Macro landscape has intensified and policy responses have been proactive. Having said that, India's structural offset - domestic demand resilience, a long infrastructure runway and growing self-sufficiency in capital markets - continues to provide balance.

Chart of the Month: India's Oil Vulnerability Has Structurally Halved Since FY13



Info Sources: Elara Capital, Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, UBS, Kotak Securities. Data as of May 2026. MXASJ – MSCI Asia Ex-Japan, FPI – Foreign Portfolio Investor, DII – Domestic Institutional Investor, RBI – Reserve Bank of India, FY – Financial Year, CY – Calendar Year; YoY is Year over Year, YTD – Year to date, EM – Emerging Markets, DM – Developed Markets, FTA - Free Trade Agreement. Past performance should not be taken as an indication or guarantee of future performance

Ashish Tekwani
Manager,
Investment Strategist

Jay Kothari
Senior Vice President,
Lead Investment Strategist

Past Issues:
- India Rewind May 2026
- India Rewind April 2026

BY.DSPUK.MC008.2026

We hope you found this note interesting. We welcome your feedback on InvestmentStrategists@dspim.com

India at a Glance

DSP ASSET MANAGERS

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E
Economic Activity and Employment								
GDP, USD bn	2,871	2,668	3,176	3,390	3,568	3910	3910	3991
GDP per capita, USD	2,141	1,969	2,321	2,451	2,554	2771	2753	2787
Real GDP growth, %	4.0	-6.6	8.7	7.2	8.2	6.5	7.6	6.2
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	4.8	6.2	5.5	6.7	5.4	4.6	2.1	5.2
Repo rate, % (year-end)	4.4	4.0	4.0	6.50	6.50	6.25	5.25	5.75
10-year bond yield, % (year-end)	6.1	6.2	6.8	7.3	7.1	6.5	7.0	7.3
USDINR (year-end)	75.4	73.5	75.8	82.3	83.0	85.6	94.7	96.0
Fiscal Accounts								
General government budget balance, % GDP	-7.8	-13.9	-9.5	-9.4	-8.5	-8.0	-8.0	-7.5
Balance of Payments								
Trade balance, USD bn	-158	-102	-189	-266	-243.2	-287.2	-339.5	-406.6
Exports, USD bn	320	296	429	456	440.2	441.8	446.9	470.7
Imports, USD bn	478	398	619	720	683	729	786	877
Current account balance, USD bn	-25	24	-39	-67	-25	-23	-41	-100
Foreign direct investment (net), USD bn	43.0	44.0	38.6	35	18	1	10	15
Total FX reserves, USD bn	478	577	607	578	646	668	695	658
Total external debt, % GDP	19.5	21.4	19.1	18	18.1	17.1	19.9	20.3
Credit ratings								
Moody's	Baa2	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB	BBB
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March; E – Estimates. Data as of May 2026