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CLAY COMPASS

Navigating Markets, Economy & Beyond

Indian equity markets closed out July on a strong note, extending the recovery that began in June and delivering back-to-back monthly gains for the first time in 2026. The Nifty 50 rose about 2.2% to end at 24,383.60, while the Sensex gained around 2.1% to close at 78,094.64 — both comfortably outperforming most Asian and US peers during the month.

Equity

The rally was led by a sharp comeback in IT stocks, with the Nifty IT index surging nearly 17% — its best monthly show since July 2020 — as a global sell-off in AI-linked technology names prompted international investors to rotate capital toward Indian software services companies. Better-than-expected June-quarter earnings, particularly from IT, financials and select consumer names, gave investors the confidence to buy on dips through the month. Foreign portfolio investors turned net buyers of Indian equities for the first time since February, adding over ₹15,400 crore, while domestic institutions contributed a further ₹32,800 crore — a combination that kept the market well supported even amid periodic bouts of volatility linked to Middle East tensions and crude oil price swings.

Macroeconomics

The broader growth backdrop remains constructive, though the RBI has turned somewhat more watchful. At its June policy review, the central bank held the repo rate steady at 5.25% with a neutral stance, while trimming its FY27 GDP growth forecast to 6.6% (from 6.9%) and raising its inflation projection to 5.1% (from 4.6%), citing elevated crude oil prices linked to geopolitical tensions in West Asia and pressure on the rupee from sustained FPI outflows earlier in the year. That said, the return of foreign capital in July, coupled with resilient corporate earnings, has helped ease some of these concerns and reinforces the view that India's medium-term growth story remains intact even as near-term inflation and currency risks are monitored closely.

Fixed Income

Government bonds had a comparatively muted month, recording their first monthly loss in four months as elevated crude prices and global yield pressures weighed on sentiment; the 10-year benchmark yield has been trading in the 6.8–6.9% range. The RBI's continued open market bond purchases and liquidity support measures have helped cap sharper spikes in yields, but the market remains sensitive to crude oil trends, the pace of government borrowing, and global rate cues, particularly from the US Fed, which held rates steady at its July meeting.

Gold

Gold consolidated after its strong run earlier in the year, with prices seeing a mild correction alongside silver during the month as some of the safe-haven demand eased. Longer-term structural drivers — record global public debt levels, continued central bank buying, and an uncertain geopolitical backdrop — continue to underpin the medium-term case for gold as a portfolio diversifier and hedge, even as near-term price action stays choppy.

Outlook

Taken together, healthy corporate earnings, the return of foreign institutional flows, and a still-resilient domestic growth narrative kept sentiment constructive through July. Key parameters to monitor heading into August include the trajectory of crude oil prices, RBI's evolving stance on inflation and the rupee, and global cues around AI-related capital flows — all of which could inject bouts of volatility even as the longer-term outlook for Indian equities remains positive.

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