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Markets end September quarter in the red. Will Q3 bring relief or more pain?

Niti Kiran, Mayur Bhalerao | 5 min read | 30 Sep 2026, 02:35 PM IST



Indian equities fell nearly 4.9% in Q2FY27 after gaining 6.3% in Q1FY27, marking the Sensex's sharpest Q2 decline in over a decade. (REUTERS)

SUMMARY

Indian equities concluded their worst September quarter in more than a decade as surging crude oil and persistent foreign capital outflows dragged indices down. With lingering geopolitical risks and impending corporate margin pressure, analysts expect near-term market movement to remain constrained.

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Indian equities slipped into the red in the September quarter (Q2FY27) following an impressive show in the June quarter (Q1FY27). Relinquishing early gains, markets transitioned into a corrective phase as global and domestic pressures mounted.

Globally, escalating geopolitical tensions, surging US 10-year Treasury yields, and volatile crude oil prices severely tested investor sentiment during the quarter. Back home, an uneven monsoon season—marked by a rainfall deficit in key agricultural regions—heightened concerns over rural demand and food inflation.

The **Federal Reserve's September rate hike**—its first in three years—and hawkish stance triggered renewed foreign capital outflows. Meanwhile, steady consumption and strong domestic institutional flows offered support. As markets enter the next quarter, this challenging backdrop is expected to keep investor sentiment cautious.

September slump

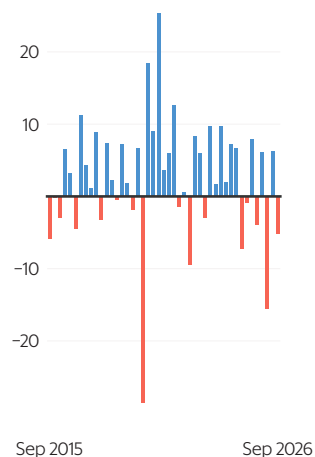
After rising 6.3% in the June quarter, equities have corrected nearly 4.9% in the September quarter, marking the sharpest Q2 drop for the benchmark Sensex in over a decade. With volatility spiking, analysts expect the near-term market outlook to remain cautious.

“Honestly, this quarter’s dip feels more like a pause than a sign that India’s growth story is in trouble. Markets just needed to catch their breath,” said Monjit Gogoi, founder of AlphaVERSE. Equities have now fallen for two consecutive months, with the frontline index ending September down over 5% in its sharpest monthly decline since March 2026.

He also noted that with US bond yields elevated, crude oil nearing \$100, and foreign capital exiting, persistent volatility is expected to keep the market range-bound in the coming quarter. “The next breakout move will need fuel, like cheaper oil, falling global yields, or knock-out earnings. Investors aren’t just piling into anything that moves anymore,” Gogoi said.

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Sensex quarterly returns (in %)



Source: CMIE • [Get the data](#)



Moreover, analysts expect elevated crude to remain a persistent drag on market sentiment. “As long as the Strait of Hormuz stays disrupted, crude oil will remain a headwind,” said Rajesh Singla, CEO and fund manager, Alpha AMC. “India imports most of its crude, so higher prices hit the trade deficit, the rupee and inflation together, and limit the RBI’s room to support growth,” he noted. However, the drag is conditional and not permanent, Singla said. “If supply routes reopen, the oil premium can unwind quickly and markets can react sharply. Until then, every crude spike will show up in equities.”

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Spot crude oil prices, \$/barrel



Broad-based selling

The quarter also saw widespread selling pressure, leaving large, mid, and small cap indices with disappointing returns across the board. The Nifty 100 was down 4.3% while the Nifty Midcap 150 index declined 3.8% and Smallcap 250 index gained 0.6%. In the previous quarter, the large cap index delivered nearly 9% returns while the small and mid cap indices posted double-digit returns.

While indiscriminate selling is unlikely to continue indefinitely, given robust domestic liquidity and improved large cap valuations relative to history, Pranay Aggarwal, director & CEO, Stoxkart said near-term breadth is expected to stay selective rather than broad. “Pockets of relative resilience are emerging in pharmaceuticals, financials, capital goods, and domestic consumption, favouring a rotation toward higher-quality stocks until external pressures ease.”

Quarterly returns of indices, in %

	Nifty 100	Nifty Midcap 150	Nifty Smallcap 250
Mar 2025	-1.8	-9.6	-14.9
Jun 2025	8.7	15	17.8
Sep 2025	-3.2	-4.3	-6.2
Dec 2025	5.5	5.9	-0.05
Mar 2026	-14.3	-12.8	-14.4
Jun 2026	8.9	17.2	24
Sep 2026	-4.7	-4	0.4

Source: Bloomberg • [Get the data](#)



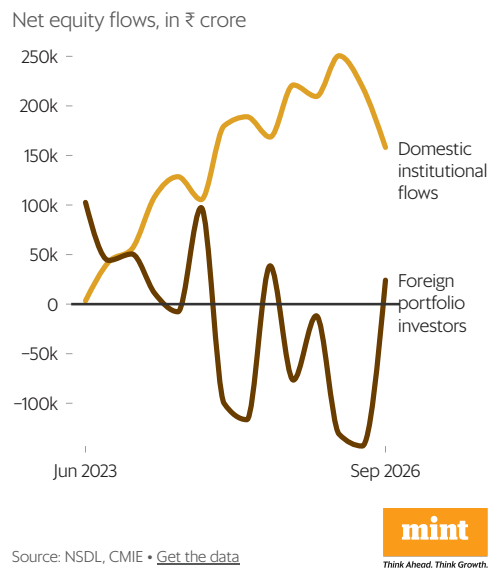
Capital flight

Meanwhile, foreign portfolio investors (**FPIs**) briefly turned net buyers in July and August before reverting to net sellers in September, driven by higher yields, elevated crude, rupee weakness and a preference for artificial intelligence (AI)-heavy markets.

Experts said while capital could flow back to India as overseas investors move beyond the crowded AI trade in Taiwan & South Korea, external market pressures could prevent an immediate or

sustained capital rotation. “It is still too early to expect a sustained redirection, given the current external backdrop, with domestic absorption capacity remaining the primary stabilizer until macros improve,” said Aggarwal of Stoxkart. Besides, the near-term outlook for foreign flows remains cautious and dependent on relief in oil prices and yields, he added.

Although **overseas investors** pulled out a net ₹25,662 crore in September, their overall inflow for the July–September quarter remained positive at ₹24,170 crore. Meanwhile, domestic institutional investors absorbed the selling pressure by purchasing equities worth ₹1.5 trillion over the same three-month period.



Active IPO market

Even as investors choose to remain on the sidelines in secondary markets, the primary market continues to see active participation, highlighted by landmark listings like NSE and anticipation around marquee issues like Jio Platforms. In the September quarter so far, 69 public issues raised ₹90,390 crore, compared to ₹3,794 crore mobilized by nine issues in the previous quarter, data from Primedatabase.com showed.

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“Big IPOs can steady sentiment, but they cannot reverse a macro-driven fall,” Singla warned. “The NSE issue drew strong demand, but it listed only slightly above the issue price, which shows investors are participating without paying up. Jio will be the real test.” In a weak market, he said he expects tighter pricing and more selective demand, with some smaller issuers potentially postponing their plans.

	Number of IPOs	Issue amount (in ₹ crore)
Mar 2023	3	633
Jun 2023	6	7,437
Sep 2023	25	18,874
Dec 2023	23	22,491

Mar 2024	22	13,120
Jun 2024	14	18,159
Sep 2024	26	33,232
Dec 2024	29	95,273
Mar 2025	9	15,723
Jun 2025	15	29,652
Sep 2025	50	39,881
Dec 2025	29	90,659
Mar 2026	18	18,778
Jun 2026	9	3,794
Sep 2026	69	90,390

Latest data as of 28 Sep 2026.

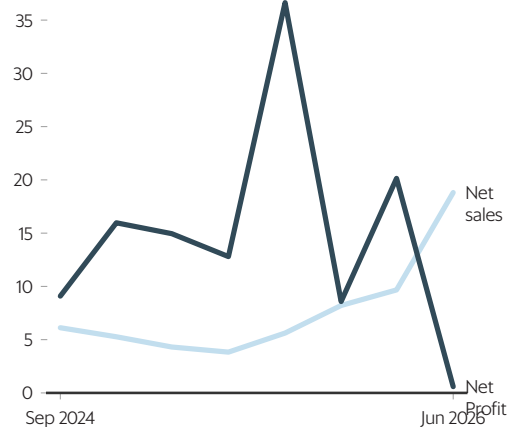
Source: primedatabase.com • [Get the data](#)



Beyond market sentiment and capital flows, attention is shifting to corporate fundamentals as the Q2FY27 earnings season approaches. While corporate earnings in the June quarter were driven by top-line growth — backed by resilient domestic consumption and infrastructure spending — elevated input costs kept profitability under pressure.

As India Inc awaits the Q2FY27 earnings season, expectations point to a clear divergence, with top-line expansion failing to translate into bottom-line gains. According to an ICRA report released in August, India Inc.'s aggregate operating profit margin will face continued headwinds in Q2FY27 from higher raw material, fuel, freight, and packaging costs, potentially compressing by 100–150 basis points year-on-year.

Aggregate year-on-year change (in %) for Nifty 500 companies



Source: CMIE, Mint analysis • [Get the data](#)



“Looking ahead, earnings growth for FY27 has been tempered in places toward high-single to low-double digits, depending on the oil path, with near-term margin pressure likely to persist while crude remains elevated,” said Aggarwal.

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