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THE WEEK THAT WAS

MSCI Rebalance Triggers ₹21,000 Cr Outflow on Friday — Nifty -1.5% to 23,548, Bank Nifty Marks 18 Months Flat

A heavy MSCI Global Standard Index quarterly rebalance and continued US-Iran deal jitters dragged Indian equities sharply lower on Friday May 29. Nifty 50 closed at 23,547.75 (-1.50% Friday; -0.72% WoW). Sensex 74,775.74 (-1.44% Friday; -0.85% WoW). Bank Nifty fell to ~52,800 — broadly flat from its September 2024 peak of 61,765, the longest flat trace since the 2018-19 NBFC stress cycle. Friday's FII outflow of ₹21,106 Cr was the heaviest single-session of 2026; DIIs absorbed ₹16,764 Cr.

§ 01 Friday Close · Weekly Move

NIFTY 50	SENSEX	BANK NIFTY	INDIA VIX
23,547.75	**74,775.74**	**~52,800**	**Spiked**
▼ 359.40 (-1.50%)	▼ 1,092.06 (-1.44%)	▼ ~1.8% WoW	↑ on MSCI day

§ 02 The Story of the Week · MSCI Rebalance Friday

Friday May 29 was defined by mechanical, not fundamental, selling. The May 2026 MSCI Global Standard Index quarterly rebalance triggered an estimated **USD 800 million to USD 1 billion of passive foreign outflows** from Indian large-caps in a single session. FIIs sold **₹21,105.86 Cr in cash equities on Friday alone** — the heaviest single-day outflow of 2026, approximately 11% of full calendar-YTD pulled in one trading session. The largest weights in passive India ETFs — HDFC Bank, ICICI Bank, Axis Bank, Reliance, Infosys, TCS — bore the bulk of the mechanical selling.

DIIs stepped up with **₹16,764.14 Cr buying** — the largest single-session domestic absorption of 2026 — covering approximately 80% of the FII selling. The April SIP flow of ₹31,115 crore continues to be the marginal funder of that DII bid. Without this structural domestic backstop, the MSCI-driven Friday outflow would have produced a 3–4% intraday index decline rather than the -1.5% headline. The DII absorption rate is now the highest single-week ratio in the post-2020 era — domestic retail SIPs are functionally underwriting passive foreign rebalances.

★ WHY THIS MATTERS FOR YOUR PORTFOLIO

The Friday selloff was mechanical, not fundamental. ₹21,000 Cr of FII outflow looks alarming on the ticker — but ₹16,764 Cr was bid back by domestic SIPs on the same day. The headline -1.5% is the residual after that absorption. For a flexi-cap or large-cap SIP investor, this is a non-event. For a banking-sector concentrated portfolio, it is the next leg of an 18-month patience test that has historical precedent on its side.

§ 03 Weekly Movers · Top & Bottom

↑ Top Performers

Trent	+ defensive bid Fri
Shriram Finance	+ NBFC rebound
Cipla, Sun Pharma	Pharma defensives
Energy basket	+ Brent at $103
Gold (₹15,700+/g)	Record high

↓ Heaviest Hit (MSCI day)

HDFC Bank	MSCI passive flow
ICICI Bank, Axis	MSCI passive flow
Reliance	MSCI weight reduce
TCS, Infosys	-25% from 52w high
Tata Steel, JSW	Metals -1.5% WoW

§ 04 Bank Nifty Has Been Flat For 18-20 Months

Bank Nifty closed near 52,800 on Friday. The index hit its all-time high of approximately **61,765 in September 2024**. It has not been higher since. The current level is broadly the same as where it was in late 2023 — nearly 20 months of meaningfully flat performance. For an investor who started a banking-sector SIP in late 2024 or runs a flexi-cap weighted 22–30% to financials, the patience has been brutal. The natural question, asked across thousands of Trustner conversations this week: **is the banking story broken?**

History has an answer. Bank Nifty has had four prior flat phases of comparable length: post-GFC 2008-10 (24 months → +138% recovery), NPA cycle 2013-14 (18 months → +89%), NBFC crisis 2018-20 (20 months → +51%), and post-COVID 2021-22 (12 months → 65%+). In every prior case, the flat phase ended and the patient holder won. The current setup shows the same preconditions: valuation has compressed from peak PE 18x to ~14x (fair-value zone), NIM compression is bottoming, HDFC merger integration is now 24 months old. The companion blog (link below) walks through the full historical analysis.

§ 05 Sectoral Performance · Week

Pharma	+0.4%	Energy	+0.2%
Consumer Dur	+0.1%	Auto	-0.5%
FMCG	-0.7%	Nifty 50	-0.7%
IT	-1.2%	Metal	-1.5%
Bank Nifty	-1.8%	Financial Svcs	-1.8%

§ 06 Macro Snapshot

Brent crude	~$103/bbl (Iran-deal jitters)
USD/INR	₹95.40 – ₹95.70 (RBI defence held)
10-Yr G-Sec	~7.05% (hawkish RBI tone)
RBI repo rate	5.25% (June MPC: hold expected)
CPI Inflation	~3.5-4% (within band)
GDP projection	6.9% (FY27 resilient)
First rate cut	August 2026 most likely

§ 07 Institutional Flows

FII Friday	-₹21,106 Cr (MSCI day)
FII YTD 2026	-₹2.13 lakh Cr
DII Friday	+₹16,764 Cr
DII YTD 2026	+₹1.87 lakh Cr
Apr SIP flow	₹31,115 Cr
DII absorption	~88% of FII selling
SIP accounts	10+ crore live

§ 08 Q4 FY26 Earnings · Underneath The Noise

Approximately **60% of the 1,400+ stocks reporting Q4 results** have delivered positive earnings surprises — up from 56% in Q3. The underlying earnings cycle is improving even as headline indices struggle with macro headwinds. Banks (private + PSU): NIM bottoming, credit costs at multi-year lows. Pharma: domestic + US-formulation traction. Auto: Q4 PAT pressured but margin recovery sequentially. IT: large-deal pipeline weak; midcap IT resilient. The earnings reset is the bullish counter-narrative to the macro pressure — markets typically discount earnings 6-9 months in advance.

> **★ WHY THIS MATTERS**
> Headline indices are flat-to-down because of macro (oil, FII outflow, MSCI mechanics). Underneath, earnings are improving. Markets discount the future. When the macro pressure eases — which the August RBI rate cut will catalyse — the index has the earnings cushion to translate that relief into a sustained rally. This is the textbook setup for a flat-to-rising 12-month window starting from current levels.

§ 09 The Week Ahead · What To Watch

Monday June 1: MSCI rebalance flow tails off — expect bounce in HDFC Bank, ICICI, Reliance as mechanical pressure passes. **Wed-Thu June 3-4:** RBI MPC meeting (most likely hold; watch Governor's tone for August cut signalling). **Friday June 6:** May 2026 services PMI + manufacturing PMI prints — both expected resilient. **Through the week:** Q4 earnings tail continues (~200 stocks); Iran-deal headlines remain market-moving for oil/rupee. **Structural watch:** Bank Nifty 52,000 is the key support — a sustained close below would extend the flat phase; a close above 54,000 would be the first technical hint of cycle turn.

§ 10 · SIP DISCIPLINE · INVESTOR LETTER

Bank Nifty Has Been Flat For 18 Months. Should You Sell Your Banking Funds? Three Words: No, No, No.

This week the question every client will ask their Relationship Manager is: *"Bank Nifty has gone nowhere for 18 months — should I sell my banking funds?"* The answer demands honesty plus historical perspective.

Banking is the most cyclical major sector of the Indian market. Bank Nifty has had four prior flat phases of comparable length: post-2008 (24 months), 2013-14 NPA scare (18 months), 2018-19 NBFC crisis (20 months), and 2022 (12 months). **In every prior case, the patient holder won.** The 2009-10 recovery delivered +138%, the 2014-15 leg +89%, the 2019-20 leg +51% from the bottom.

The current setup is similar. Valuation has compressed from peak PE 18x to ~14x (fair zone). NIM pressure from the deposit war is bottoming. The RBI rate-cut cycle (delayed but not denied) will be a tailwind once it starts. The HDFC Bank-HDFC Ltd merger drag is now 24 months old and should normalise from Q1 FY27. **The clients who panic-sold banks in 2019-20 missed the 2020-21 recovery.**

(1) Continue SIPs in flexi-cap + large-cap funds. They carry 22-30% financials exposure — you are accumulating units in banks at the lowest valuations since 2020. **(2) Banking-sector SIP? Do NOT pause it.** This is exactly when SIP cost-averaging justifies its design. **(3) Lumpsum surplus → flexi-cap, not banking-only.** Diversification is the safety net while the sector recovers. **(4) Don't chase Friday's MSCI selloff.** 80% was already bid back by DIIs the same day. **(5) June 6 MPC will hold.** August is the first realistic rate-cut window.

(6) Continue debt allocation in short-duration regular plans. Long duration is not the play yet. **(7) The single most useful conversation this fortnight is a banking-exposure review with your Trustner RM.** If your total financials weight across all funds exceeds 35%, this is the right week to rebalance — not because banks are broken, but because concentration is concentration regardless of sector.

Set the SIP, let it work, hold the line. **The patient win in banking. They always have.**

— Ram Shah · Founder & CEO, Trustner Asset Services · CFP™

§ 11 This Week's Featured Reading

Companion blog: "Bank Nifty Has Been Flat For 18 Months. Is The Banking Story Broken? History Has An Answer." — A 10-minute read walking through the four prior flat phases (2008-10, 2013-14, 2018-20, 2021-22), the three preconditions that turn cyclical flat phases into recovery rallies, and concrete portfolio actions for the June 2026 window. Read at **merasip.com/blog**.

Portfolio diagnostic: Worried about banking concentration? Book a 30-minute portfolio review with your Trustner Relationship Manager. We analyse sector overlap, fund redundancy, and rebalancing actions across your full holding. Free for existing clients. WhatsApp **+91 6003903737** or email **wecare@trustner.in**.