

Alpha Strategist - June'26

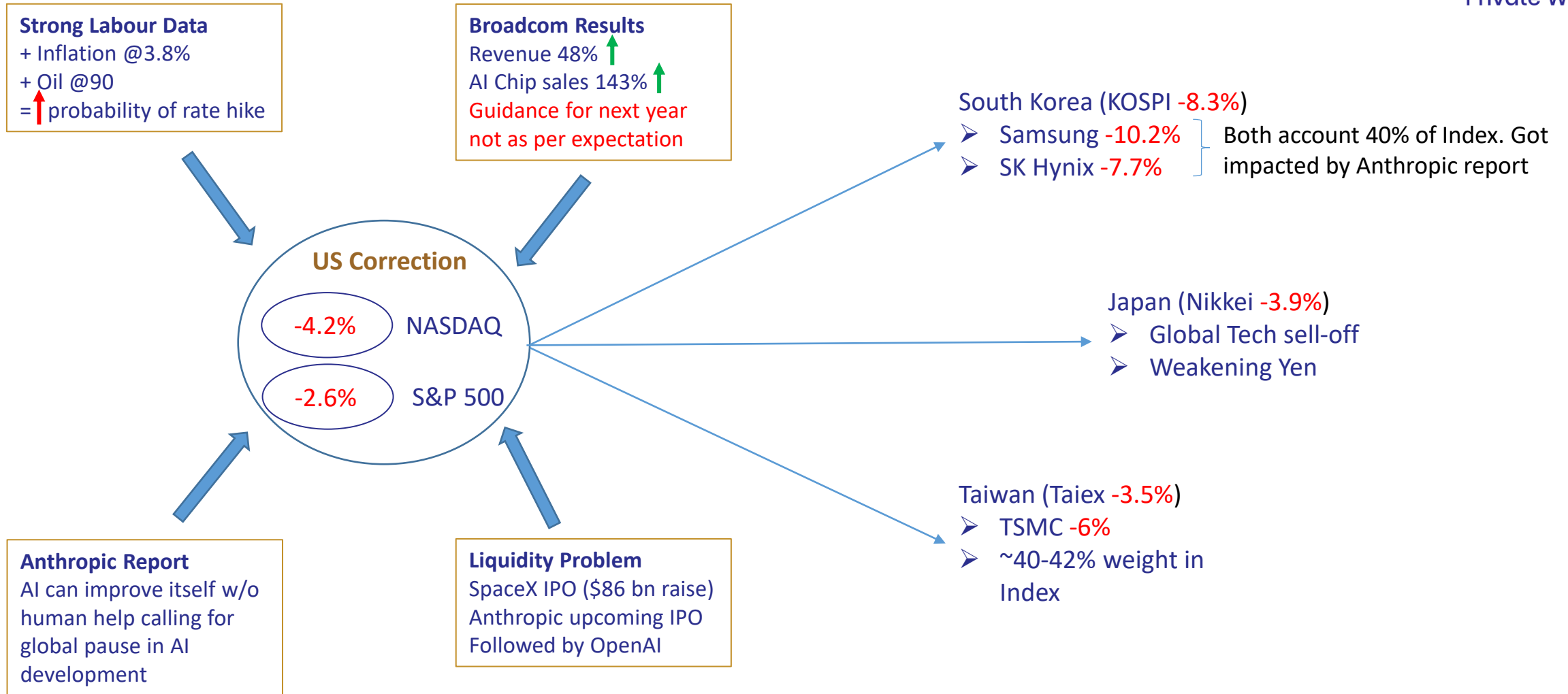
“Base Camp”

Summary

- Recent volatility in global equity markets was driven by an AI-led correction in tech stocks, reflecting stretched positioning rather than a broad deterioration in economic fundamentals.
- The U.S. economy remains resilient with decent GDP growth and a strong labour market. Companies posted healthy earnings growth though elevated inflation & long-term bond yields continue to pose a challenge for risk assets.
- Equity demand in U.S. is shifting from buyback-driven support to rising supply via IPOs and secondary capital raises for capex, which may pose as a near-term headwind. While in India is witnessing increase in buyback after change in taxation
- Indian real GDP growth remained robust, supported by strong services sector performance, even as manufacturing momentum moderated due to the US-Iran conflict. With the GDP deflator staying muted, nominal growth remained sub-10% despite healthy real expansion
- Persistent capital outflows have weighed on net FDI leading to pressure on BoP. Policy actions to contain outflows and encouraging inflows e.g. hedging cost support for FCNR(B) deposit, tax exemption to FIIs for G-Sec should help in stabilizing INR.
- Lower inflation has constrained nominal sales growth across sectors; however, a gradual pickup in inflation could support stronger top-line growth going forward. However impact on margins should be managed for translating that into bottom line growth.
- Nifty EPS grew 5% YoY in FY26, extending the streak of single-digit earnings growth. While FY27 estimates have been trimmed, stable FY28 projections suggest the weakness is cyclical rather than structural. Meanwhile, mid & small caps continued to outperform on earnings, with the investment case remaining intact, underpinned by structural themes of formalisation, digitalisation, and India's investment cycle.
- Markets appear to be in a **“Base Camp”** phase, consolidating after a strong climb, with valuations cooling and earnings catching up before the next potential leg of growth starts also depending on the external geopolitical environment.
- We continue to maintain neutral view on equities with overweight on mid & small cap. Deployment can be lumpsum in hybrid strategies while staggered allocation is suggested for pure equity oriented strategies.
- In fixed income, we suggest accrual focused strategy for both direct & managed products across the credit spectrum and income generating assets.
- Gold continues to serve as an effective portfolio diversifier and currency hedge, providing protection amid geopolitical uncertainty and evolving global macro conditions. Silver's persistent supply deficit, rising industrial demand, and recent price correction make a strong case for investment; however, a measured allocation is warranted given its inherent volatility.

Highlights

A Glimpse of Volatility : AI – led rout in Global Markets



US Economy

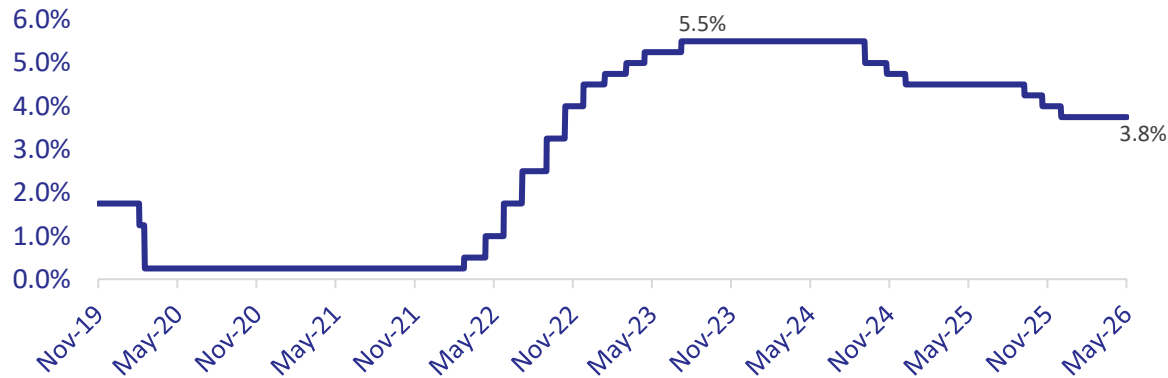
Economic Activity remains positive, labour markets remain resilient and inflation has re-accelerated leading to the likelihood of no near term Fed easing, probability of hike has increased.

Indicator	Latest period	Actual	Estimate	Previous	Beat / Miss	Macro read
GDP QoQ annualized	Q1 CY26, second estimate	1.60%	2.00%	0.50%	Miss	Growth Accelerated from 0.5% to 1.6%. However the revision down from 2.0% was driven by weaker consumer spending and inventories, not a broad collapse in activity
CPI YoY	May-26	4.20%	4.20%	3.80%	In Line	Headline Inflation re-accelerated, largely driven by energy prices. Inflation is above the Fed target for straight 62 months
Core CPI YoY	May-26	2.90%	2.90%	2.80%	In Line	Underlying inflation remains above target, suggesting persistent price pressure
Core PCE YoY	Apr-26	3.30%	3.30%	3.20%	In line	Fed's preferred inflation gauge remains elevated
Non-farm payrolls	May-26	172k	85k	179k	Beat	Hiring remained resilient and broad-based despite growth concerns
Unemployment rate	May-26	4.30%	4.30%	4.30%	In line	Unemployment remained steady, indicating limited labour market deterioration

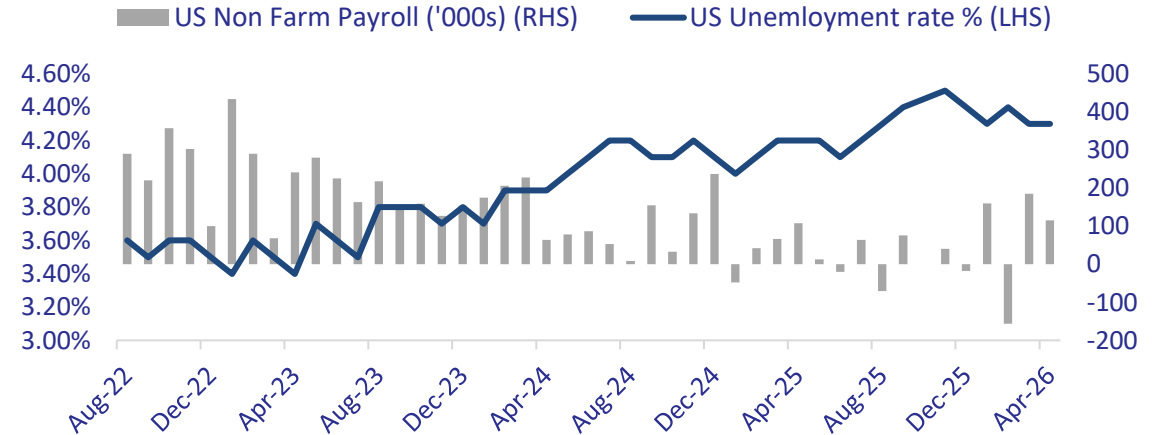
Fed Policy Key event to watch amid Rising Inflation

FOMC continues to maintain status quo keeping the target range unchanged at 3.5%-3.75%

Fed - Funds Rate (Upper Band)

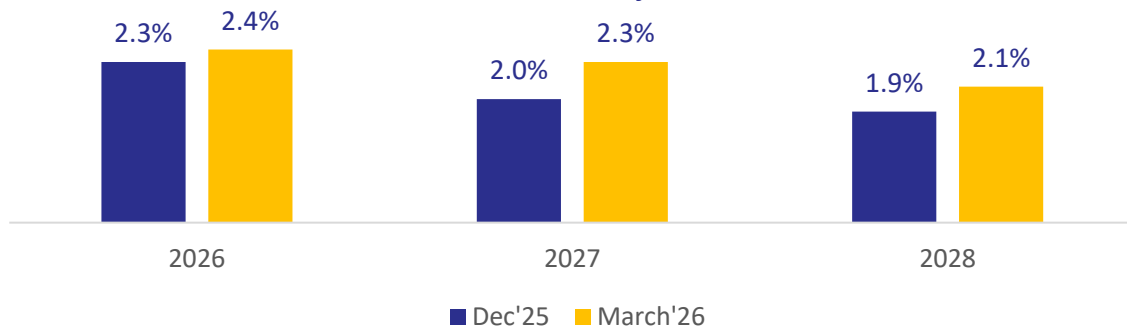


Labor Demand looks soft, while headline joblessness is stable – no longer exceptionally tight



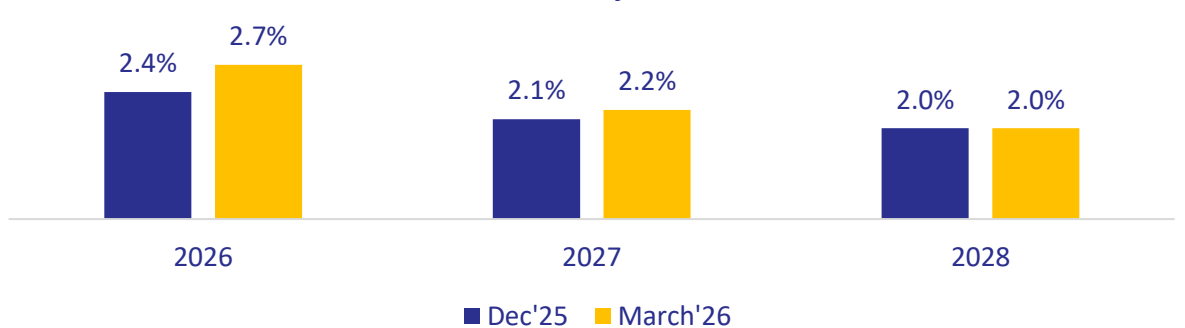
March'26 projections for real GDP growth have been revised upwards compared to Dec'25

US Real GDP Projections



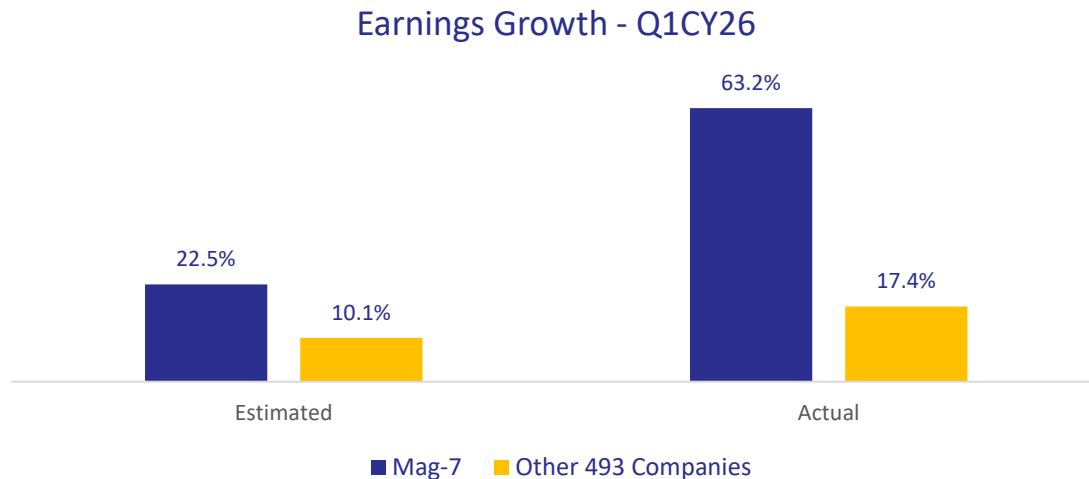
PCE inflation is trending upwards, witnessing renewed inflation persistence especially if core CPI stays firm

US PCE Projections



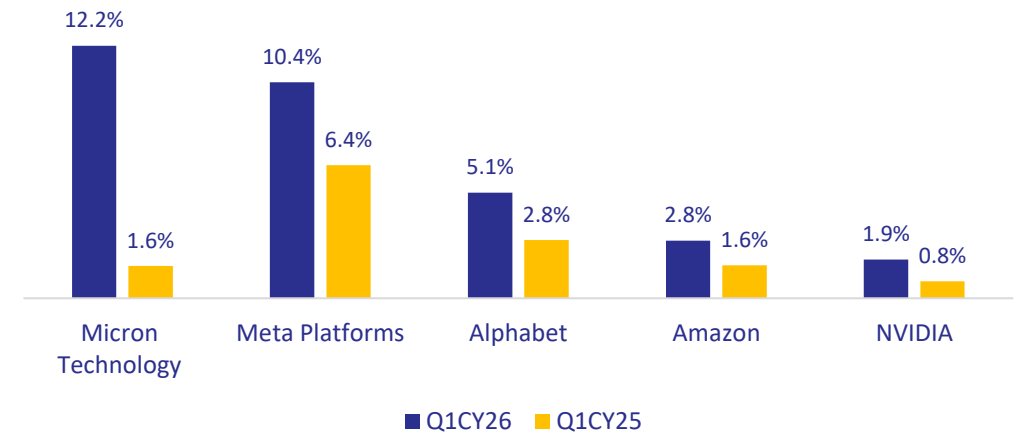
US Quarterly Earnings – Strong Growth, Concentrated Leadership

S&P 500 earnings growth continues to remain resilient...



...however, Market leadership remains narrow

Top 5 Contributors to S&P Earnings Growth (Q1CY26)



- **S&P 500 earnings growth in Q1 CY26 accelerated to ~28.6% YoY**, marking the strongest quarterly profit expansion since 2021 and significantly exceeding the ~13% growth expected at the start of the reporting season
- US continues to maintain resilience in earnings despite geopolitical risk, private credit concerns and AI disruption
- Earnings surprises remained robust, with ~85% of S&P 500 companies beating EPS estimates and ~81% surpassing revenue expectations, well above long-term averages
- **While earnings growth has broadened across sectors, market leadership remains concentrated in AI-linked mega-cap companies, delaying the anticipated convergence with the broader S&P 500**

US & Japan Yields – From “Higher” to “Much Higher”



US sells 30-year bonds at 5% yield for first time since 2007

The \$25bn auction comes hours after data showing sharpest rise in producer prices since Russia’s invasion of Ukraine

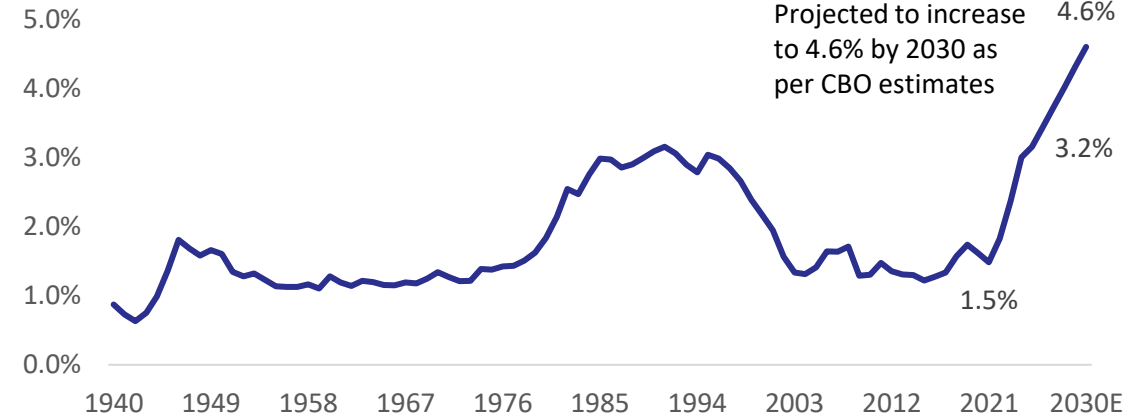
US 30 Year Yield



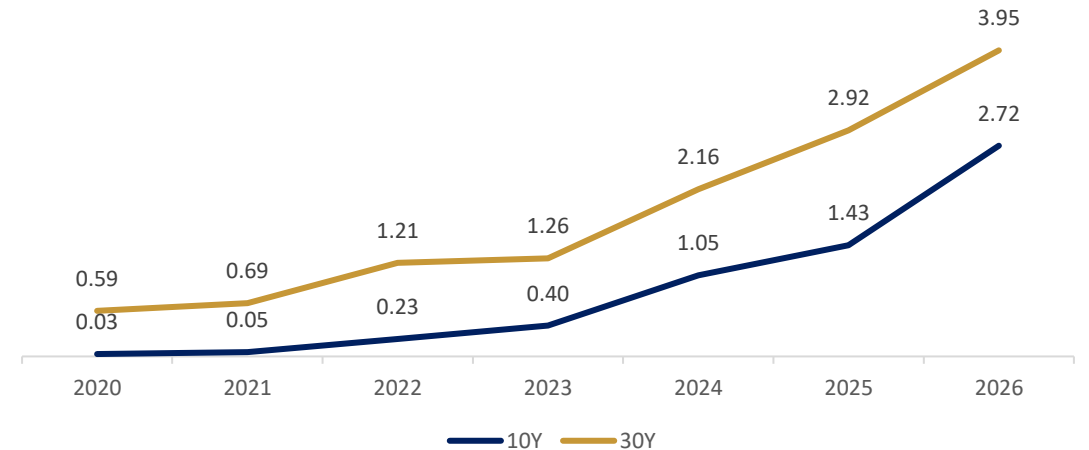
Source: Factset

Disclaimer: The above data is for informational purposes. The analysis may or may not be sustained in future.

Fed Interest Outlay as % of GDP

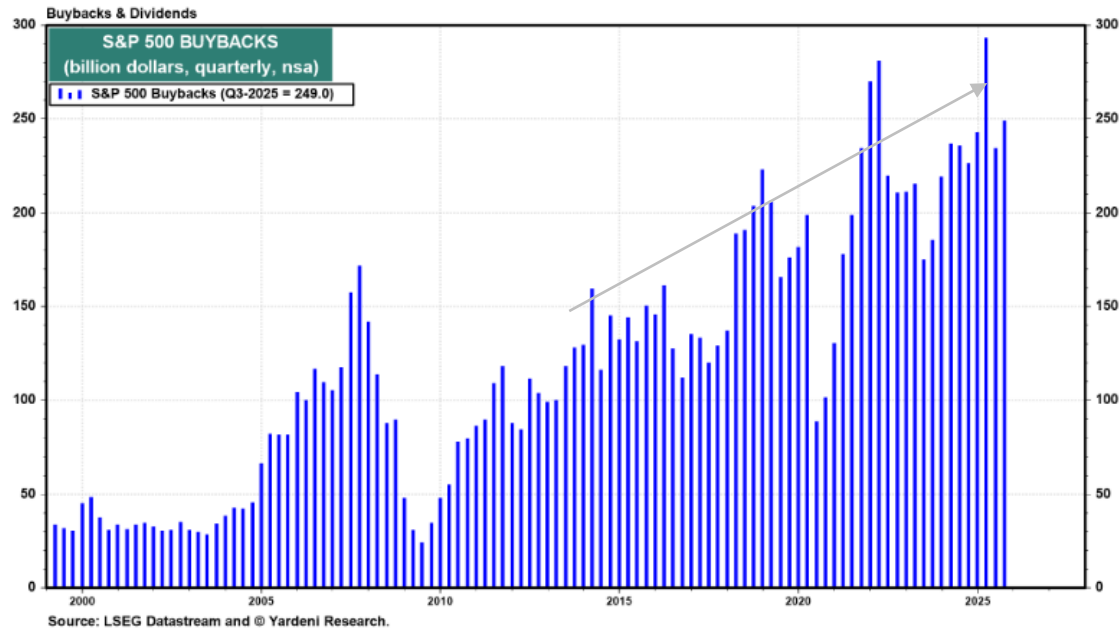


Japanese Bond Yields



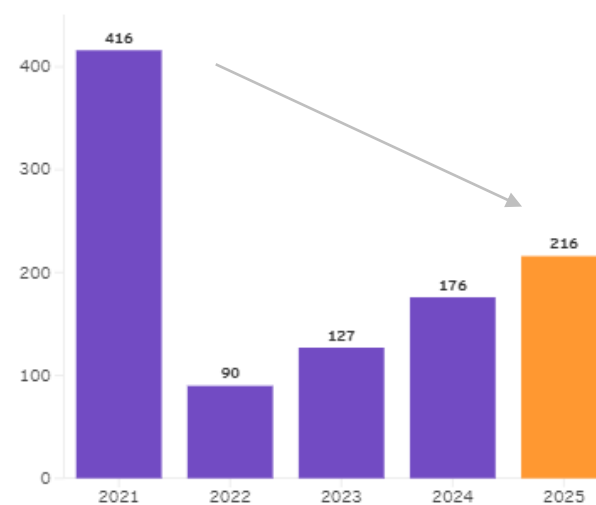
US Equities: Past Scenario – Strong Buybacks, Muted IPO Supply

For the 12-month Sep'25 period, **S&P 500 buybacks surpassed a record \$1.020 Tn**, up 11.1% YoY, providing **strong demand support**



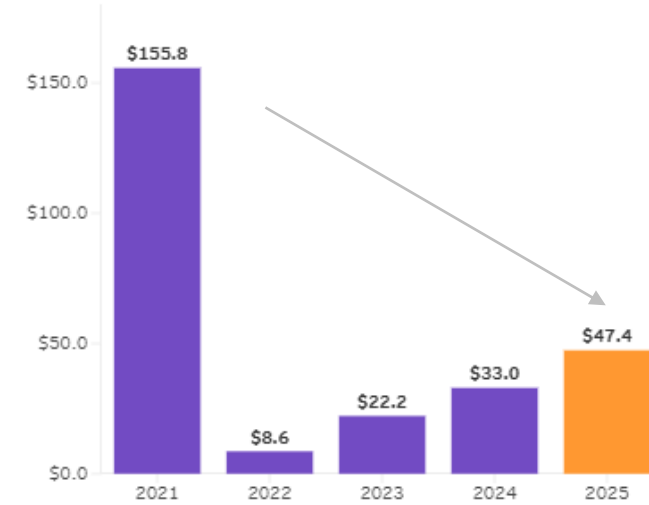
At the same time, **US IPO supply remained well below the 2021 peak**, keeping new equity issuance relatively contained.

Number of IPOs



Sources: EY analysis, Dealogic Data as of December 31, 2025.

IPO proceeds (US\$b)



Sources: EY Analysis, Dealogic Data as of December 31, 2025.

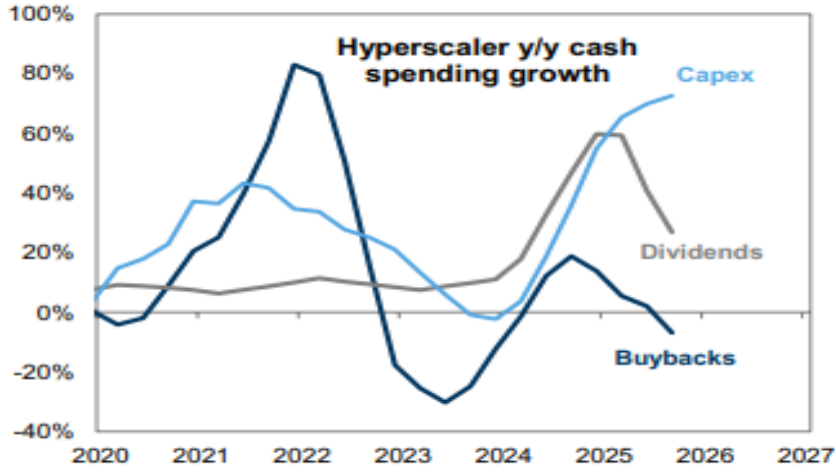
Net effect: strong corporate demand + limited new supply = better US equity performance

US Equities: Current Scenario

What is Changing: Capex Rising, Buybacks Slowing, IPO Pipeline Reopening

Growth in investment spending has started to erode buyback, dividend growth and free cash flow available

trailing 4-quarter spending



Source: Compustat, Goldman Sachs Global Investment Research

- Spending has been funded through OCF. As this has decreased, Big Tech groups have reduced buybacks and used debt to finance exp. **They could also issue new shares to finance further investment.**
- Evidence:** Meta is considering raising tens of billions of dollars; Alphabet moved to raise \$84.75 Bn in upsized equity offerings (Reuters)

Source: Goldman Sachs, Compustat, FactSet

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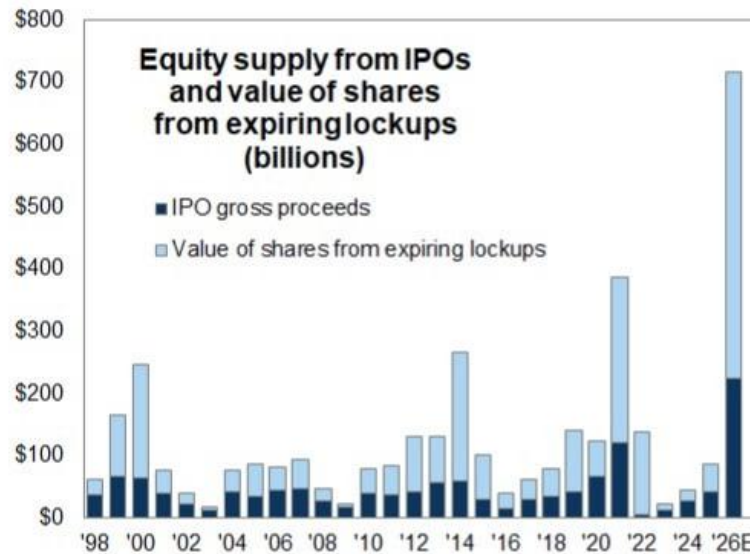
Current IPO Pipeline:

3 Major IPOs (~\$195 Bn) + Others

Company	Target Valuation	Capital Raise Target
SpaceX	\$ 1.75 - \$ 2 Tn	~\$ 75 Bn
OpenAI	\$ 852 Bn - \$ 1 Tn	~\$ 60 Bn
Anthropic	~\$900 Bn	~\$ 60 Bn

Sources: SpaceX S-1, CMC Markets, IndexBox, Sophic Capital, Bloomberg, IND Money

In addition to the shares floated at IPO, **expiring lockups will also increase equity supply**



Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research

IPOs are often the beginning of the end for bull markets



Sources: BCA Research, S&P Global

*Includes Xerox, Ford, McDonald's, Apple, Blackstone and Goldman Sachs

Net Impact = Possible muted performance of the US markets -> Positive for EMs like India

Similar Lines: What is Happening in India?

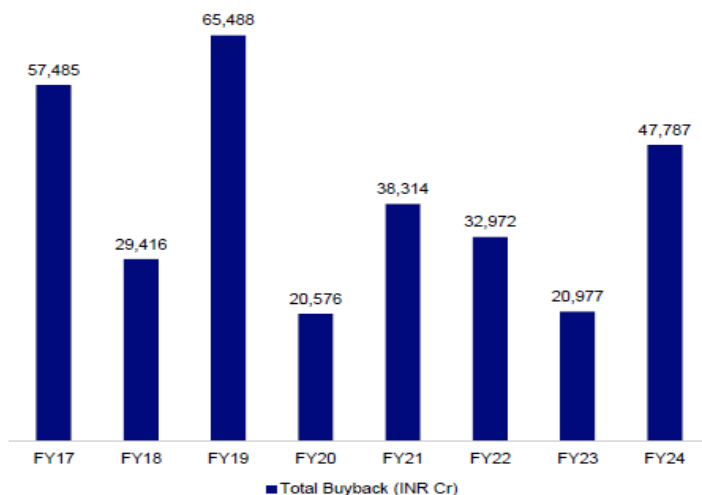
Regulatory Changes Affecting Buybacks

India's three buyback tax regimes and what each meant for investors

Period	Pre-Oct 2024	Oct 2024 – Mar 2026	Budget 2026 / From Apr 2026
Tax treatment	Buyback tax was paid by the company; proceeds were largely tax-free for investors.	Buyback proceeds were taxed as deemed dividend in investors' hands. The entire buyback amount was taxable at slab rate; cost of acquisition became a capital loss separately.	Buybacks shifted back to capital gains taxation. Investors are taxed mainly on the gain, not the full proceeds.
Impact	Buybacks were highly attractive for shareholders, especially promoters / HNIs, because tax did not apply in their hands.	Very unfavourable for investors , especially HNIs, because tax applied on gross proceeds rather than only gains. This reduced buyback attractiveness.	Positive reset for investors; improves buyback attractiveness and may revive buyback activity by cash-rich companies.

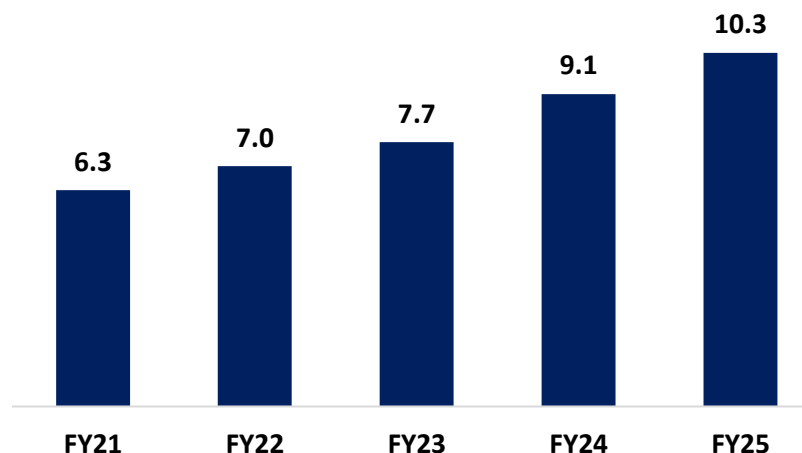
Pre Oct-24, buybacks were elevated

India Total Buybacks — NSE 500 Universe



Over the years, cash balances have increased

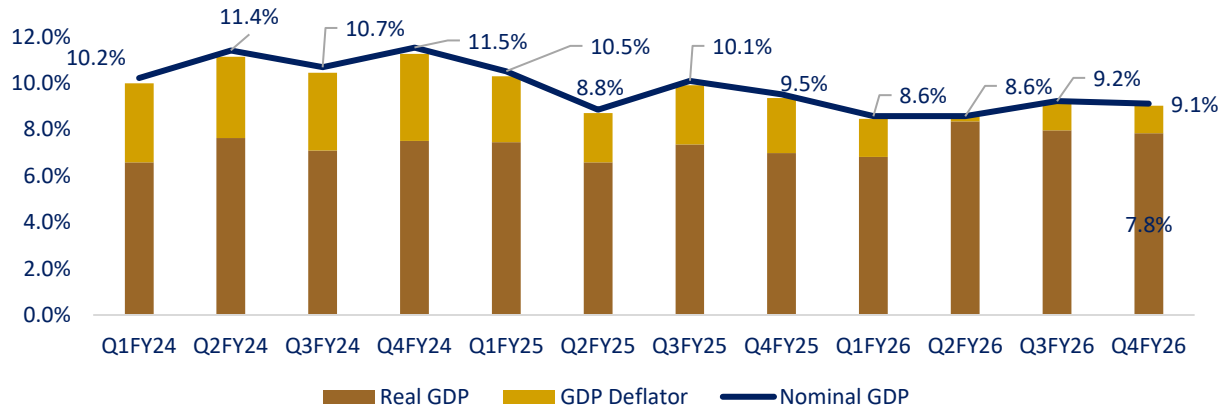
NSE 500 (ex-financials) cash balances (INR Lakh Cr)



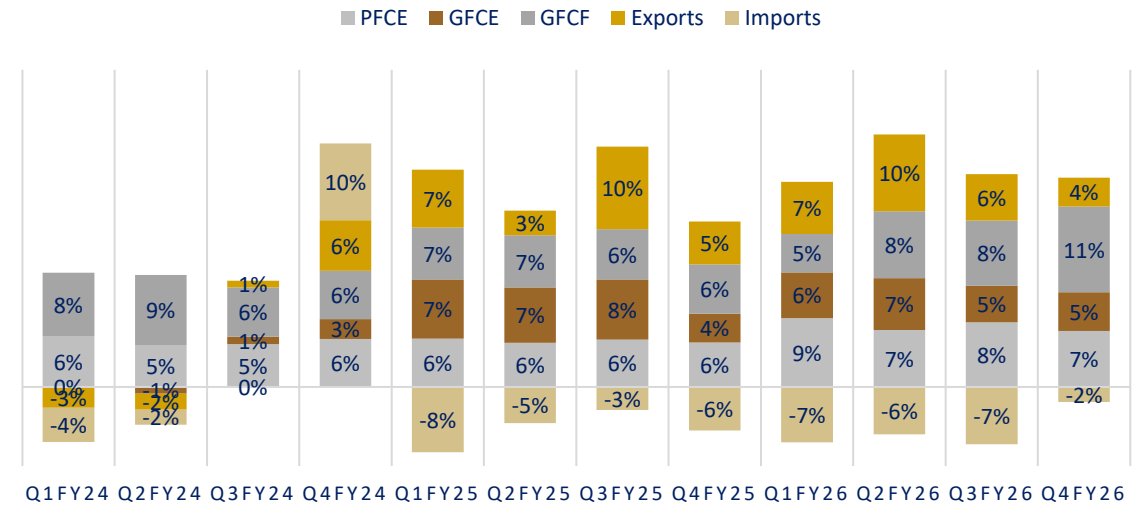
- **With the attractive regulatory landscape now and elevated cash levels, the buyback wave has already begun in India**
- **Buyback of shares worth Rs. 25,000 Cr has already been announced, highest since 2023 which will act as a demand support**
- On the supply side, FYTD (2027), only 1 mainboard IPO has been listed, indicating a slowdown in the momentum of equity supply

India GDP Dissection

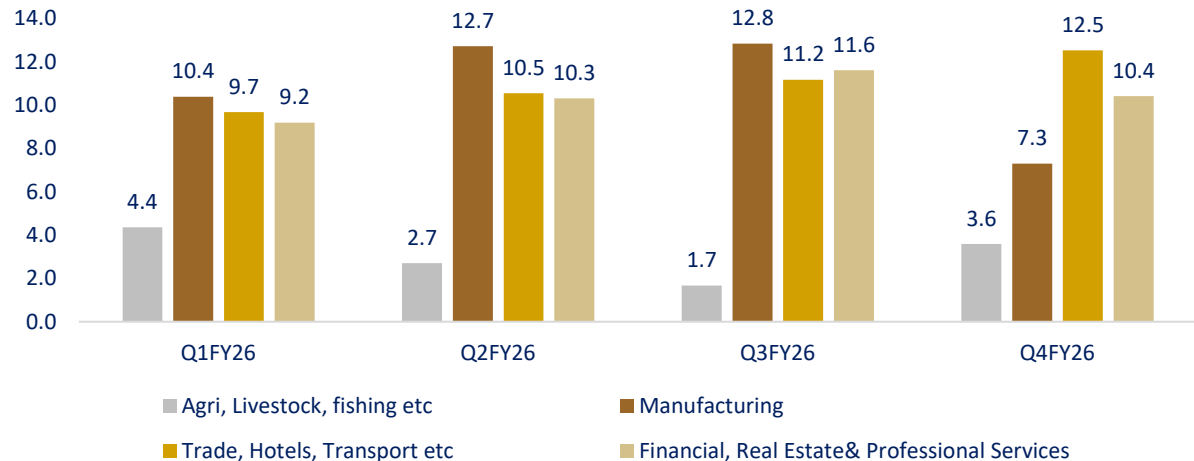
Higher Real GDP due to low GDP Deflator



REAL GDP BREAKUP- EXPENDITURE METHOD



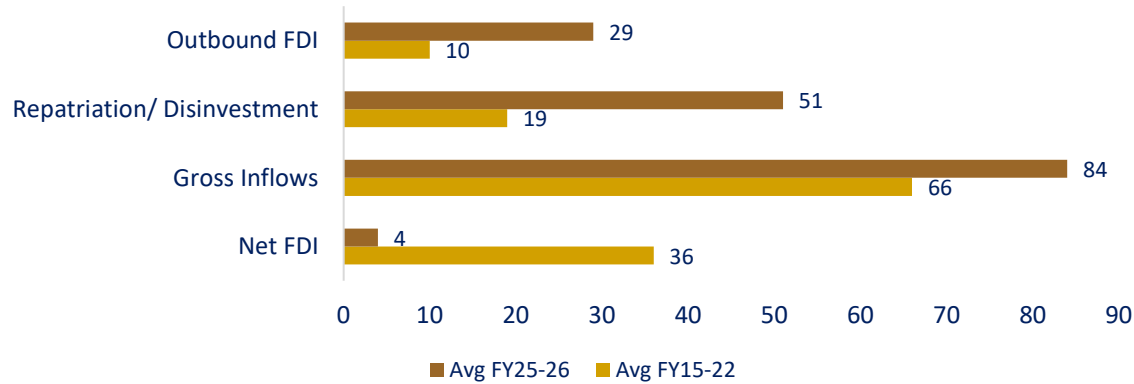
Sector Wise Growth



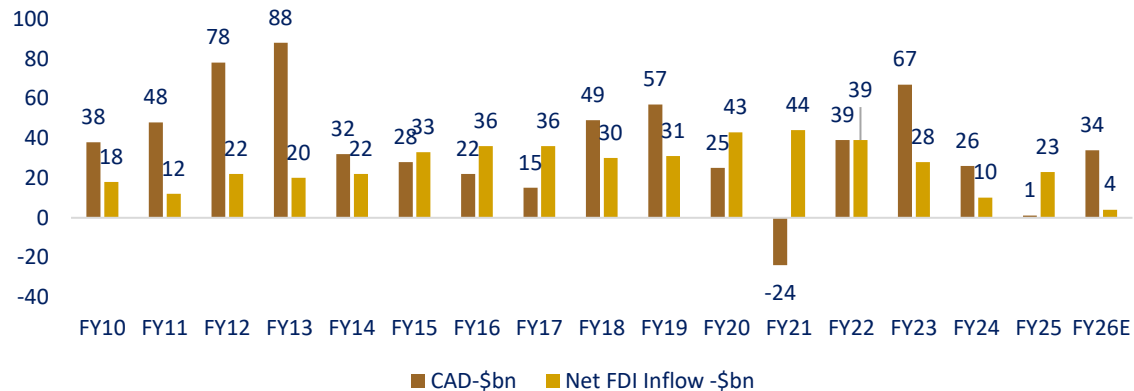
- Investment activity remained robust, with GFCF growth accelerating to 11% in Q4 FY26, supported by strong infrastructure spending, capacity expansion and sustained public capex.
- Real GDP stayed resilient at 7.8% supported by a benign inflation environment.
- The growth mix shifted towards services as manufacturing slowed sharply in Q4 FY26 (May Manufacturing PMI suggesting Q4 slowdown as temp)

Higher Capital Outflows Continue to weigh on Net FDI

Weak net FDI due to increased repatriation of past investment and outbound FDI



FY15-FY22 : period when net FDI inflow surpassed the current account deficit



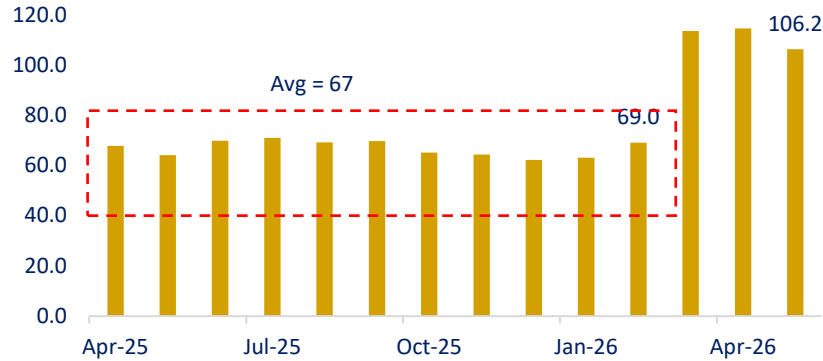
History of BoP troubles in India

Event	FX Reserves (US\$ bn)	Import Cover	CAD (% GDP)	Net Capital Inflow (% GDP)	BoP (% GDP)	Rupee Movement
1991 BoP Crisis: India Development Bonds	~US\$4 bn	15 days–2 months	3.00%	2.2	-0.8	~30% depreciation (FY89–FY91; 50% FY91–FY94)
1998 Resurgent India Bonds	~US\$30 bn	7–8 months	1.30%	2.37	1.1	~15% depreciation (FY98–FY99)
2001 India Millennial Bonds	~US\$42 bn	7–8 months	0.60%	1.89	1.3	~9% depreciation (FY01–FY02)
2013 FCNR(B) Bonds	~US\$290 bn	7 months	4.80%	2.63	0.8	~22% depreciation (FY13–FY14)
2026*	~US\$690 bn	10–11 months	1.00%	0.17	-0.7	~13% depreciation since May 2025 till May 2026

- Net FDI inflow = Gross inflows – Repatriation/ Disinvestment – Outbound FDI

Reserves Strength offsets BoP Pressure

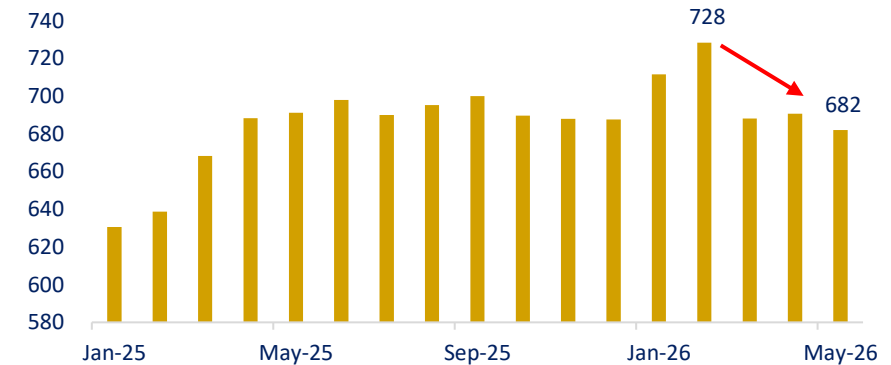
Crude Oil FOB Price (India Basket) (\$/bbl)



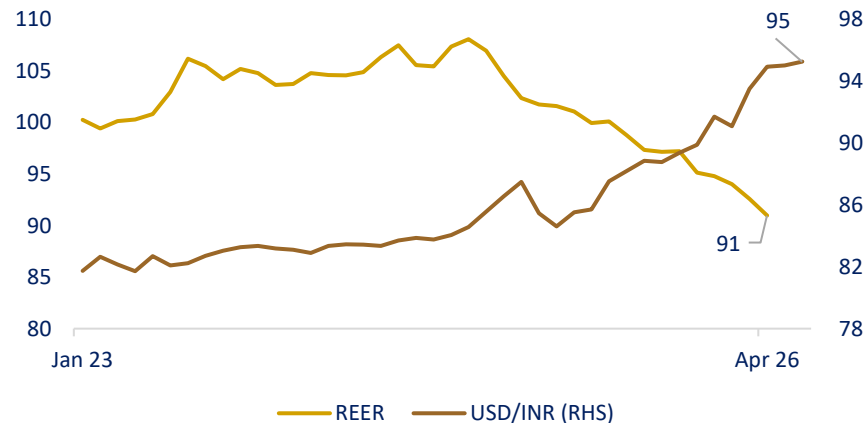
If Oil Sustains above 100 \$/bbl for 6M

Avg Crude Price	67 \$/bbl
Price Increase	33 \$/bbl
Avg 6M Import	0.9 Bn barrels
Incremental Oil Bill	\$ 30 bn

Foreign Currency Reserve \$bn



REER oversold and Steep Depreciation of INR



	bn \$
Oil Import Shock	30
FPI outflow avg 6m	27
BOP Pressure	57
Forex Reserve	682
Forex Asset	573
Impact	8.4%

- Higher oil prices may widen external imbalances, but the projected impact remains modest relative to India's reserve stockpile.
- With REER at oversold levels and INR already depreciated sharply, further currency risk appears relatively contained

Policy Response to Support External Stability

Gold / Silver Import Duty Hike

6% → **15%**

10% Basic Customs Duty + 5% AIDC

- Higher tariffs make bullion imports costlier
- Helps curb non-essential gold/silver imports
- **Reduces pressure on forex reserves and CAD**



Lower dollar outflows

RBI to Cover Hedging Cost on Fresh 3–5 Year FCNR(B) Deposits

- RBI introduced a concessional swap facility for fresh 3–5 year FCNR(B) deposits, valid until **30 September 2026**
- This reduces banks' hedging cost, allowing them to offer more attractive rates to NRIs
- Higher FCNR(B) mobilisation can **improve dollar liquidity, support forex reserves and ease rupee pressure**



Higher FPI Inflows

Net Impact = support for rupee stability and external balance

Government Announces Measures to Deepen the FPI G-Sec Market

Tax exemption on G-secs for FPIs

Tax item for G-Secs	Earlier	New
Interest Income	20%	Exempt
STCG	30%	Exempt
LTCG	12.5%	Exempt
Effective date	—	1 Apr 2026

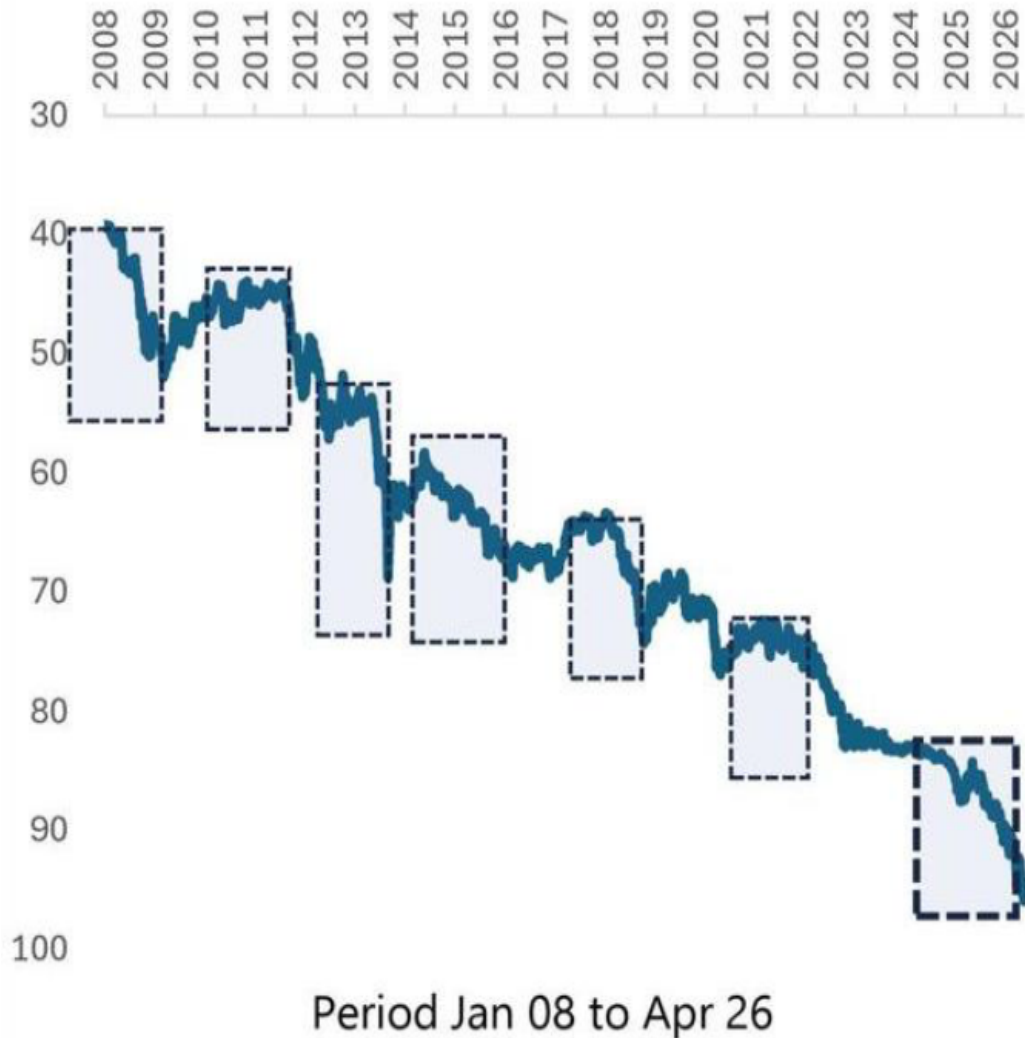
- Improvement in post-tax returns for FPIs -> thereby making Indian government bonds attractive -> **supporting debt inflows**

Expansion of FAR access to 15Y, 30Y, 40Y G-Secs and Sovereign Green Bonds to **enhance FPI participation**

2013 – Impact of similar actions

Parameter	Pre / Stress Phase	Post FCNR(B) Window	Impact
Foreign flows / dollar mobilisation	India was facing external funding pressure and FX reserve drawdown	Banks mobilised US\$34.3bn under the special swap schemes	Large positive external-flow support; roughly US\$26bn via FCNR(B) and balance through overseas bank borrowing route
USD/INR	Rupee hit ~ 68.80/US\$ closing low on 28 Aug 2013	By 29 Nov 2013, rupee was around 62.44/US\$	Rupee appreciated by ~ 9% from the crisis low; the scheme helped break one-way depreciation pressure
10Y G-Sec yield	10Y yield had already moved up sharply due to liquidity tightening and risk aversion	Monthly average 10Y yield moved from 8.60% in Sep'13 to 8.86% in Nov'13 and 8.88% in Dec'13	No sustained rally in 10Y bonds; FX stability improved, but bond yields stayed elevated due to monetary tightening, inflation risk and rate-hike expectations

INR depreciation & subsequent Equity market returns



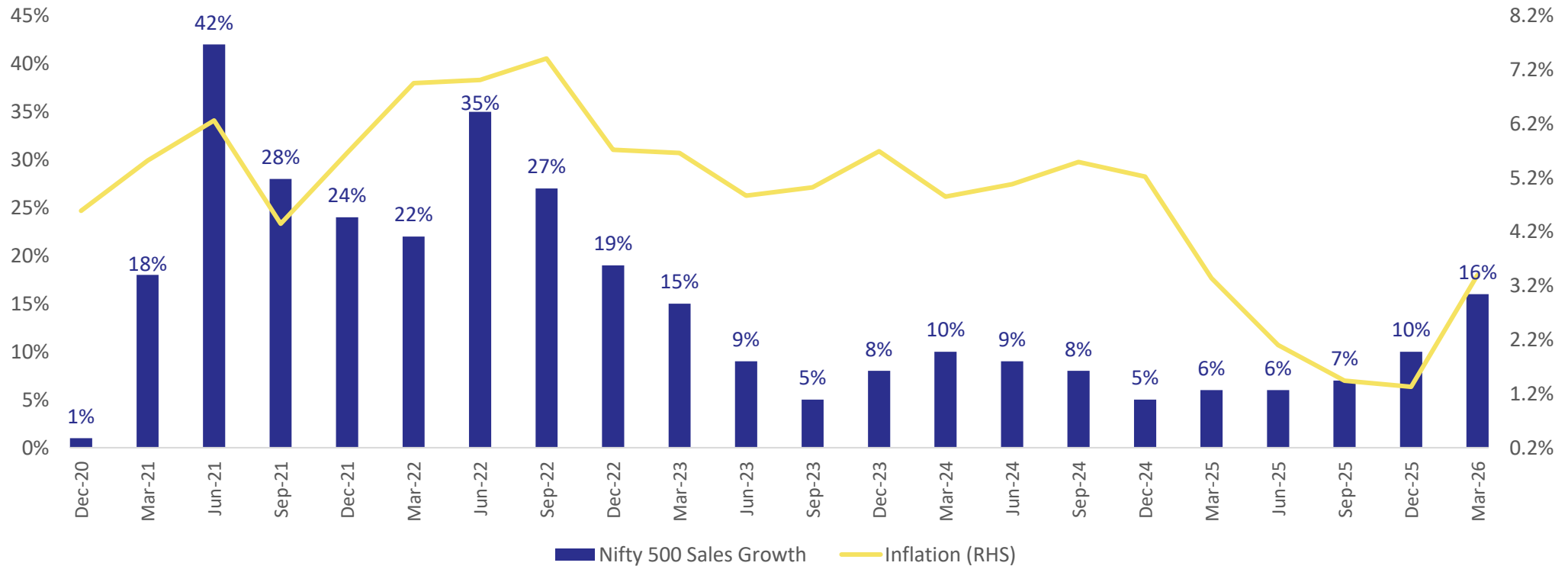
Rupee Depreciation Period			Subsequent Nifty 500 TRI Return		
Start Date	End Date	Rupee Depreciation	1 year (%)	3 year CAGR (%)	5 year CAGR (%)
Jan-08	Mar-09	31.5	118.5	30.5	22
Aug-11	Dec-11	20.3	33.5	24.9	15.5
Feb-12	Jun-12	16.5	10	20.6	17
Oct-12	Aug-13	15.6	42	20.3	18.6
May-14	Feb-16	15.2	29.8	15.4	16.6
Jan-18	Apr-20	20.0	86.2	30.4	26.8
May-25	May-26	14.0	?	?	?

Source: Kotak MF

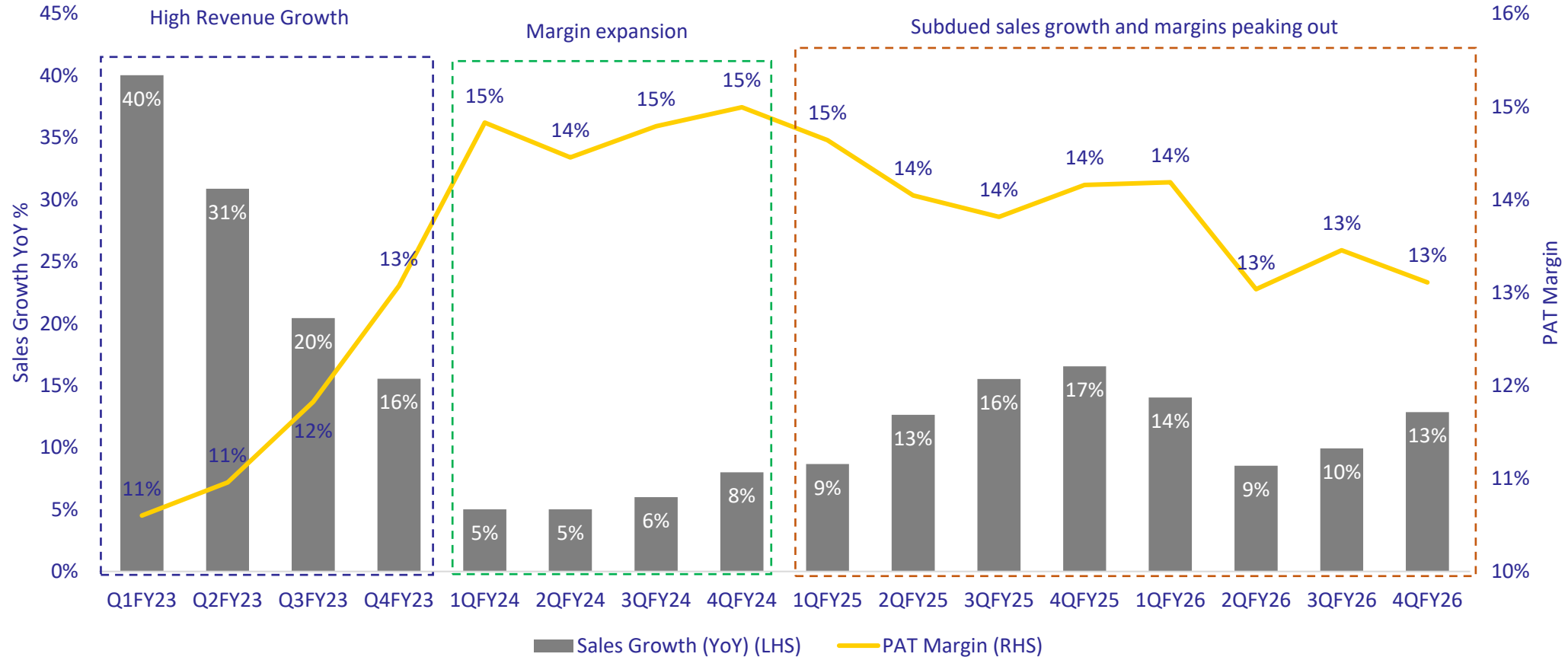
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Impact of Inflation over broader market sales growth

Comparison of CPI versus Sales growth of Nifty 500 companies



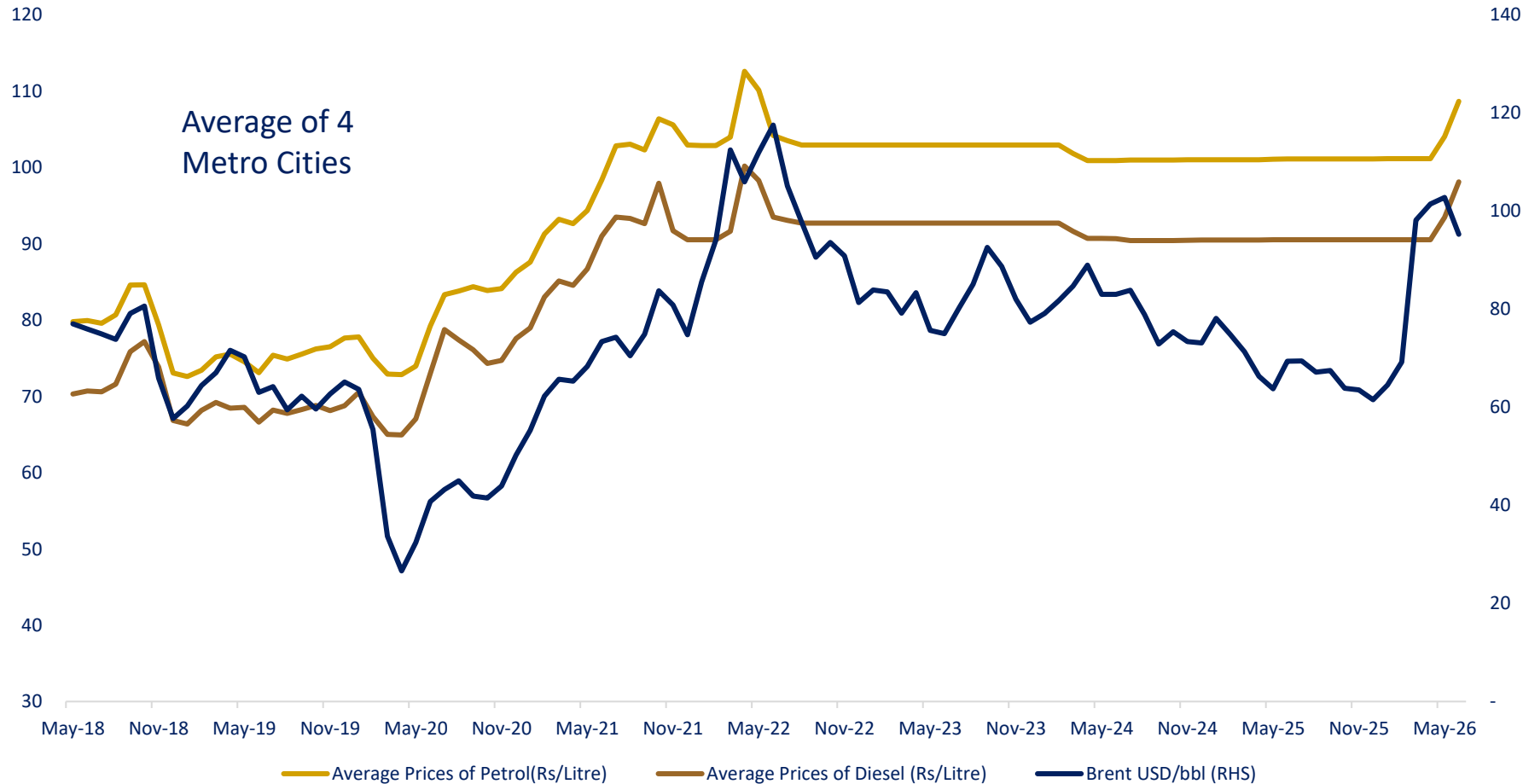
Nifty 50 - Trend in revenue growth and PAT margin



- While strong sales growth in Nifty 50 companies drove the performance in FY23, strong margins contributed in FY24
- Since FY25 onwards, the sales growth did not pick up as per expectations while the margins peaked out and started coming down.

Passthrough of energy shock to retain inflation in May 2026

Average Metro Cities Petrol and Diesel Prices (INR/litre)



- Petrol and diesel prices were increased total by **₹7.5/litre in May 2026**, as higher crude prices and pressure on oil marketing company margins made price hikes difficult to avoid.
- Further hikes may be required if crude oil prices remain elevated, especially as global energy markets continue to stay volatile.
- Higher fuel prices can push up CPI inflation through direct transport costs and indirect freight/logistics costs, with FY27 CPI expected at **~5.5% vs. 2.1% in FY26**.

India's Next Growth Engines – Policy Initiatives

Policy Theme	Objective	Capex Trigger	Beneficiary Sectors	Distributed Across Market Caps		
				Large Cap	Mid Cap	Small Cap
Green Hydrogen Mission	Energy transition	Electrolysers, Renewable power	Power, Capital Goods, Industrials	High	Moderate	Low
India Semiconductor Mission	Manufacturing self-reliance	Semiconductor fabs, EMS	Electronics, Capital Goods	Low	High	High
Data Centre & Digital Infrastructure	AI & cloud adoption	Data centres, fibre, power	Power, Telecom, Real Estate (REITs), Industrials	High	Moderate	Moderate
PM Gati Shakti	Logistics efficiency	Roads, railways, ports	Infrastructure, Logistics	High	High	Moderate
Defence Indigenisation	Import substitution	Defence procurement	Defence, Engineering	Moderate	High	High

- While benchmark indices remain dominated by financials, IT and consumption sectors, **India's next investment cycle is increasingly being shaped by emerging themes such as semiconductors, defence, green hydrogen and data centers** – creating opportunities across the broader industrial, manufacturing and infrastructure ecosystem
- While large caps are likely to remain key beneficiaries of India's policy push, a meaningful portion of the ecosystem-driven opportunity set resides in mid and small-cap companies that are less represented in benchmark indices

Equity

Imagine you fell asleep on Feb 01, 2025 & just woke up today...you missed

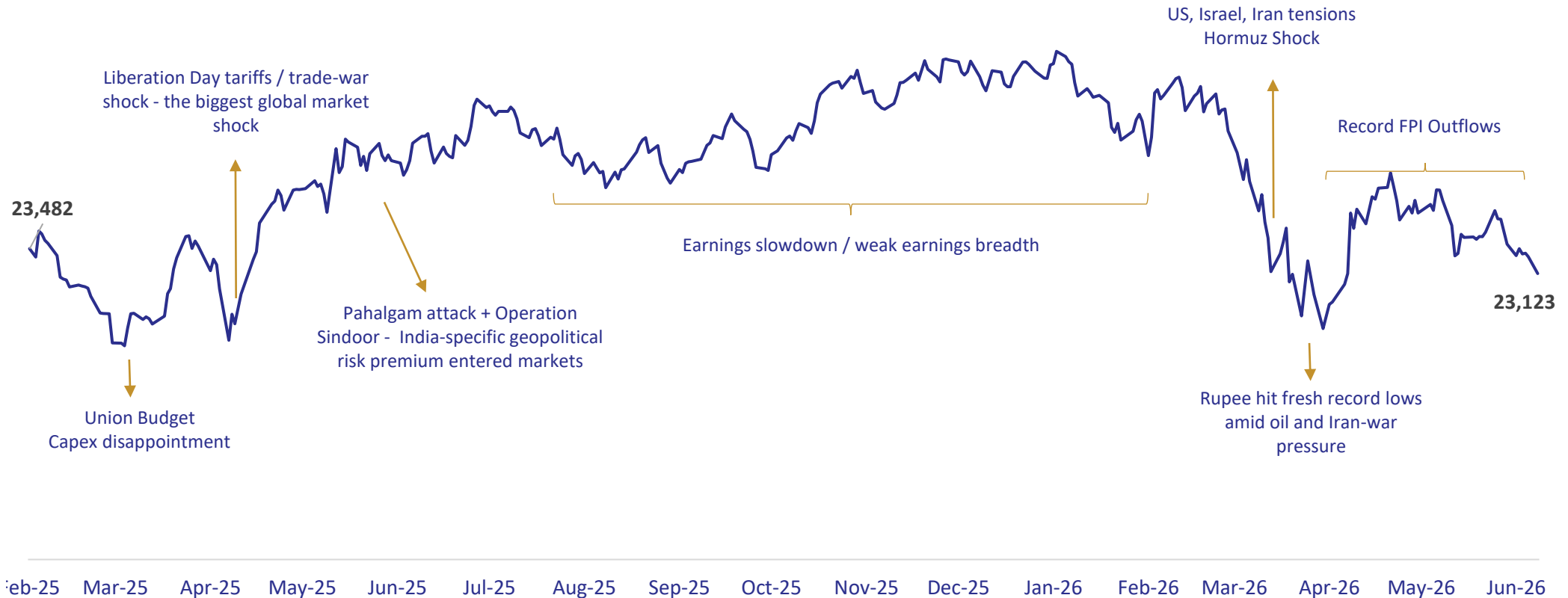
- Worldwide Tariff announcement by US (Feb'25 and Apr'25)
- India – Pakistan War (May'25)
- Israel vs Iran : 12 day war (May'25)
- Punitive tariff on India (Aug'25)
- US/Israel-Iran War (Mar'26)
- INR Depreciation : ~11% in a year (Mar'26)

Nifty on Feb 01: ~23,500

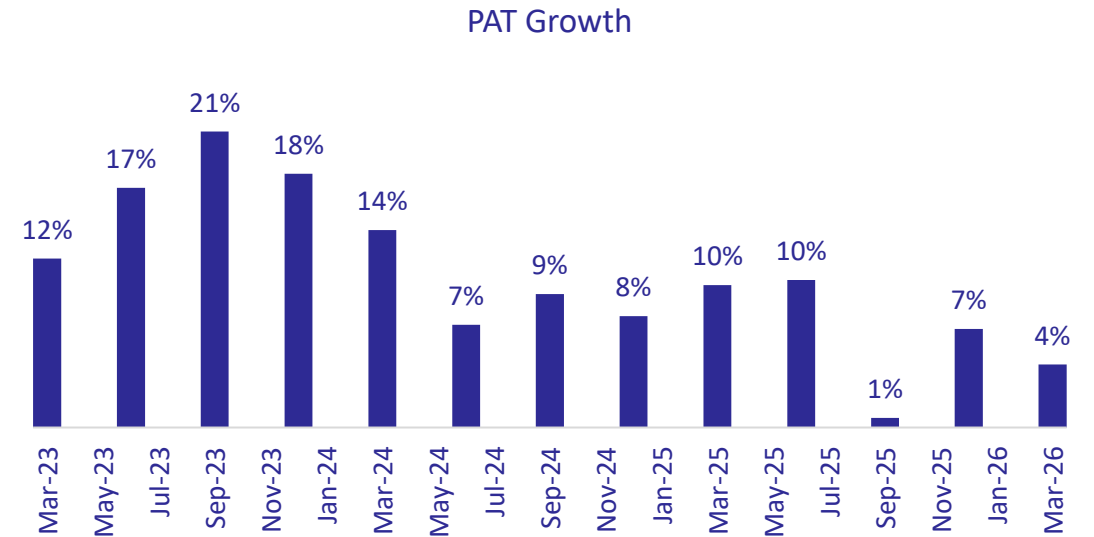
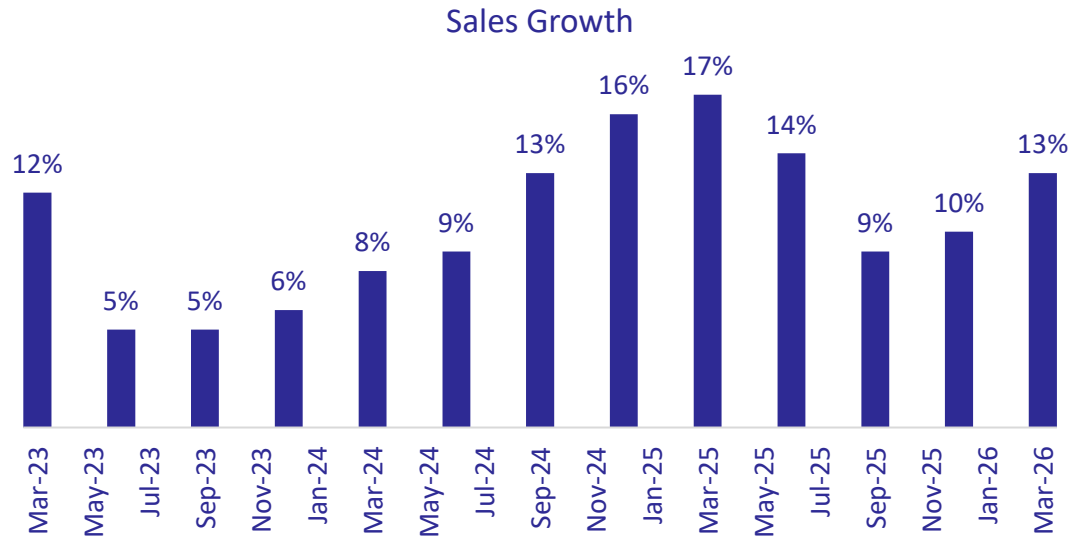
If I had told you all this when you woke up, where would you have predicted Nifty?

Volatile year – Nifty in time correction

Nifty 50 Price chart



Nifty 50 – Q4FY26 Sales and PAT growth



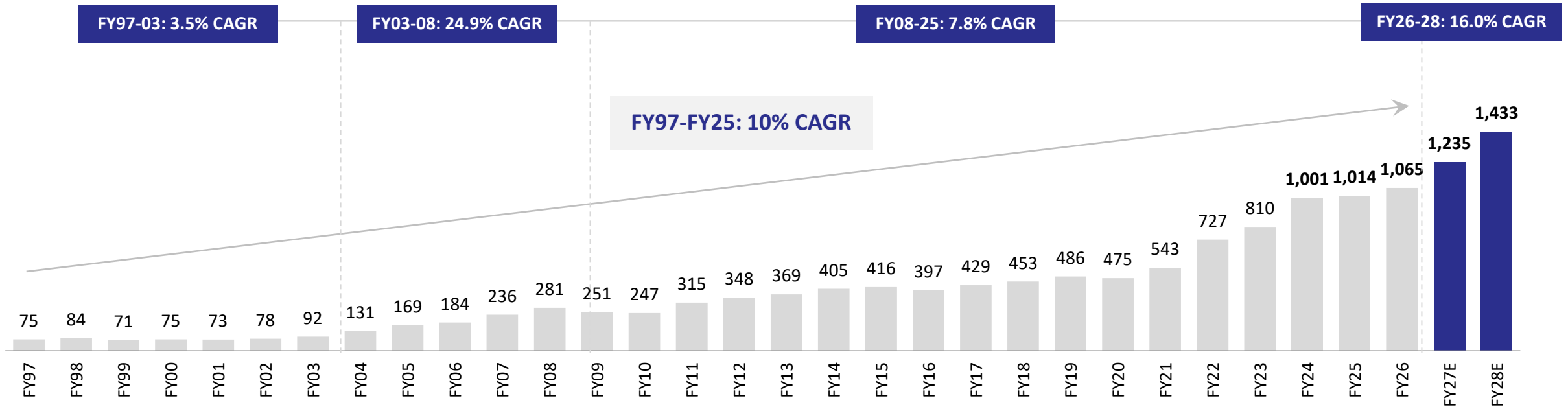
- Nifty 50 delivered an overall sales growth of 13% YoY. This was driven by Consumer, Auto and metals while utilities and pharma contributed negatively
- The PAT growth was at 4% positively contributed by Telecom, Metals, BFSI, and Technology. Five companies—Bharti Airtel, JSW Steel, HDFC Bank, Infosys, and TCS—accounted for 75% of the incremental YoY accretion in Nifty earnings. Oil & Gas (ex-OMCs), Healthcare, Utilities and Aviation were laggards

Sectors expected to drive earnings in FY27E & FY28E

Nifty 50 Sector	Estimates based on Q4FY26 results (INR Bn)				Growth YoY (%)				Contribution to Incremental earnings	
	FY25	FY26	FY27E	FY28E	FY25	FY26	FY27E	FY28E	FY27E	FY28E
Automobiles	586	476	558	704	66%	-19%	17%	26%	7%	10%
BFSI	2804	2982	3454	4088	14%	6%	16%	18%	39%	43%
Capital Goods	200	231	267	325	17%	15%	16%	22%	3%	4%
Cement	110	137	172	189	-18%	25%	25%	10%	3%	1%
Consumer	386	406	418	461	-7%	5%	3%	10%	1%	3%
Healthcare	249	238	246	293	15%	-4%	3%	19%	1%	3%
Logistics	108	136	155	204	22%	26%	14%	32%	2%	3%
Metals	602	717	856	961	1%	19%	19%	12%	12%	7%
Oil & Gas	1081	1220	1230	1,304	-14%	13%	1%	6%	1%	5%
Retail	53	69	83	101	17%	30%	21%	21%	1%	1%
Technology	1101	1187	1308	1383	8%	8%	10%	6%	10%	5%
Telecom	176	269	400	519	LP	53%	49%	30%	11%	8%
Utilities	357	351	386	419	4%	-2%	10%	8%	3%	2%
Others	118	27	109	154	-2%	-77%	305%	41%	7%	3%
Nifty	7,931	8,446	9,642	11,105	8%	7%	14%	15%	100%	100%

- BFSI, Metals, Telecom, and Technology to drive FY27E earnings for the Nifty.
- In terms of PAT growth in FY27E; Cement, Retail, Telecom and Others stand-out compared to the rest.
- Others include stocks like Eternal and Interglobe Aviation

Nifty 50 – Earnings Growth Outlook



FY26 EPS grew by 5%. FY27 EPS and FY 28 EPS is expected to grow by 16.0% each to 1235 and 1433 respectively.

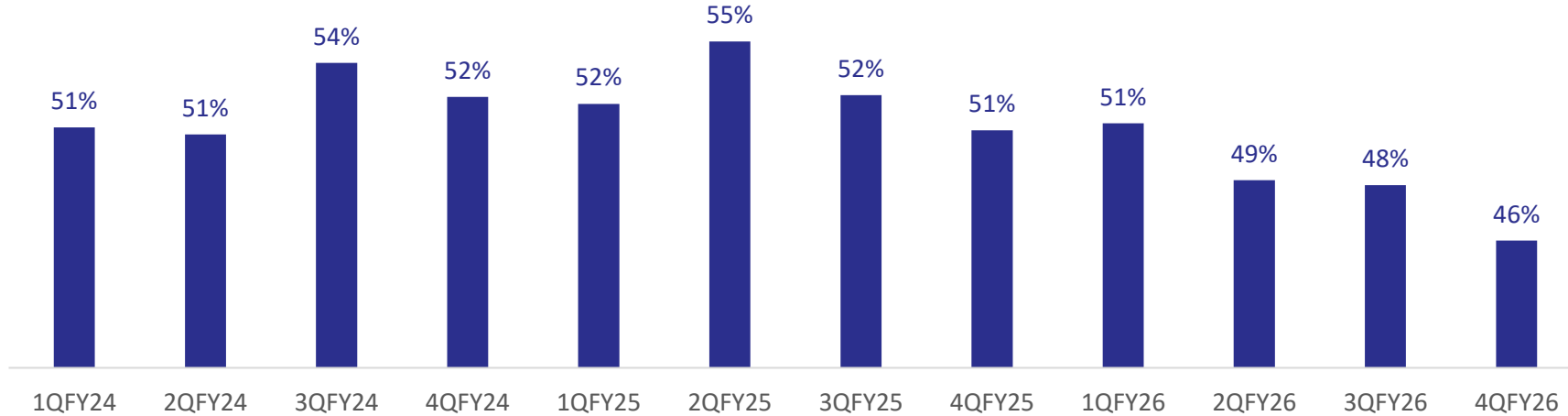
Nifty 500 – Earnings Summary

Rs in Trillion	No of Cos	Q4FY26					
		Revenue	YoY	Reported PAT (Parent's Share)	YoY	Adj PAT (Parent's Share)	YoY
NIFTY500	500	45.9	10.3%	5.6	24.7%	4.9	14.9%
BFSI	96	11.8	4.0%	1.8	10.1%	1.9	13.1%
Non-BFSI	404	34.1	12.7%	3.7	33.3%	3.0	16.1%
Non-BFSI Exc Cement, O/G, Metal/Mining	359	22.4	14.5%	2.7	24.6%	2.1	9.0%
Commodities: Cement, O/G, Metal/Mining	45	11.7	9.5%	1.1	61.4%	0.9	37.8%
Nifty 500 Excl Commodities	455	34.3	10.6%	4.5	18.3%	4.0	10.9%

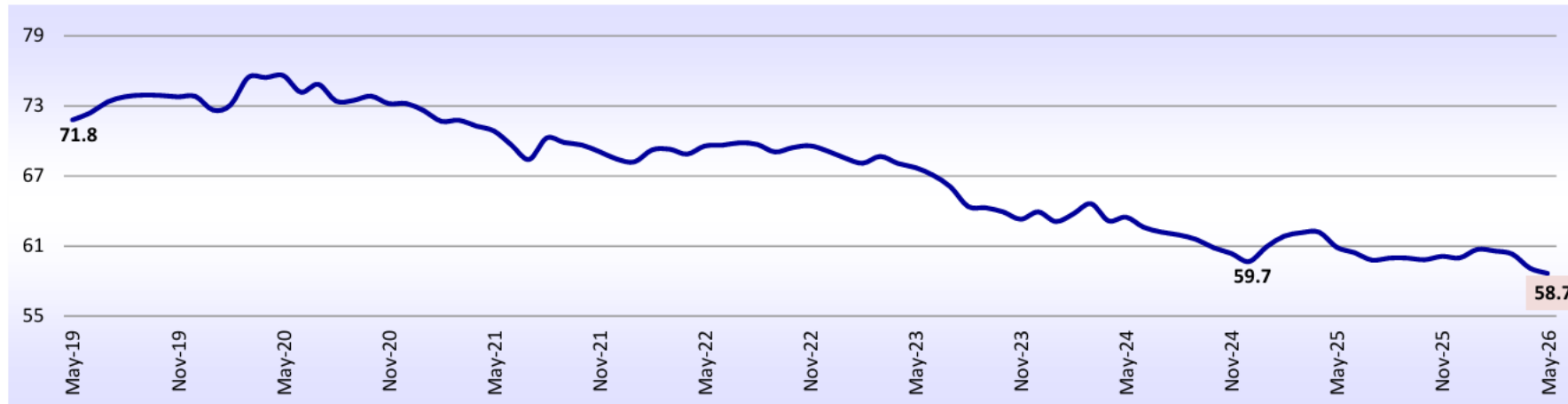
Nifty 500 Earnings	No of Cos	202406	202409	202412	202503	202506	202509	202512	202603
Rs in Trillion		Last 8 Quarters Adjusted PAT Growth % YoY							
Large Caps	100	3.8%	3.1%	5.4%	6.8%	9.4%	8.0%	12.0%	9.5%
Mid Caps	150	9.3%	2.9%	39.4%	15.9%	20.7%	28.1%	17.6%	35.9%
Small Caps	250	22.1%	-1.2%	-1.4%	4.4%	3.4%	24.9%	29.5%	14.4%
Total	500	6.0%	2.7%	8.9%	7.8%	10.5%	12.3%	14.3%	14.9%

Declining share of Nifty 50 earnings

Nifty's PAT share in Nifty 500 PAT



Market cap contribution of Top 100 companies % to total market cap



MOFSL Universe Projections



	Revenue (%)		PAT (%)	
	FY27E	FY28E	FY27E	FY28E
MOFSL UNIVERSE	10%	8%	11%	18%

High

Sector	Revenue (%)		PAT (%)	
	FY27E	FY28E	FY27E	FY28E
Automobiles	14%	12%	13%	24%
Consumer Dur.	15%	15%	22%	23%
Telecom	13%	11%	133%	55%

Quadrant 4:
Lower Revenue + High PAT
 (Margin Expansion Winners)

**Theme: Operating Leverage
 + Pricing Power**

Sector	Revenue (%)		PAT (%)	
	FY27E	FY28E	FY27E	FY28E
Real Estate	23%	27%	29%	31%
EMS	39%	24%	41%	48%
Capital Goods	11%	22%	14%	24%
Infrastructure	15%	22%	27%	44%
NBFC - Lending	18%	19%	18%	21%
Others	22%	19%	58%	39%
Logistics	15%	18%	16%	33%
Retail	19%	16%	23%	23%

Quadrant 1:
High Revenue + High PAT
 (Growth Leaders)

**Theme: India's Investment
 Cycle + Formalisation +
 Digitalisation**

PAT Growth (%)

Sector	Revenue (%)		PAT (%)	
	FY27E	FY28E	FY27E	FY28E
Banking - PSU	12%	14%	5%	13%
Health Care	14%	12%	12%	19%
Utilities	18%	11%	16%	16%
Insurance	11%	11%	11%	15%
Chemicals	13%	11%	15%	15%
Cement	13%	11%	18%	17%
Consumer	10%	9%	7%	12%
Metals	9%	7%	16%	12%
Technology	10%	7%	12%	7%
Media	6%	6%	23%	13%
Oil & Gas	3%	-3%	-25%	19%

Quadrant 3:
Low Revenue + Low PAT
 (Mature/Cyclical Sectors)

**Theme: Stable Earnings,
 Limited Growth Catalysts**

Sector	Revenue (%)		PAT (%)	
	FY27E	FY28E	FY27E	FY28E
NBFC Non Lending	18%	16%	28%	17%
Banking - Private	16%	18%	25%	20%

Quadrant 2:
High Revenue + Low PAT
 (Growth Cyclicals)

**Theme: Moderate
 Profitability, High Growth**

Revenue Growth (%)

Low

High

High Revenue Growth is > 15% (FY28E)
 High PAT Growth is > 20% (FY28E)

High Revenue, High PAT Quadrant

Sector	Revenue (%)		PAT (%)		Total No. of Companies	No. of SMID	% of SMID	Revenue (%)				PAT (%)			
	FY27E	FY28E	FY27E	FY28E				FY27E - LC	FY27E - SMID	FY28E - LC	FY28E - SMID	FY27E - LC	FY27E - SMID	FY28E - LC	FY28E - SMID
Real Estate	23%	27%	29%	31%	15	13	87%	19%	25%	17%	32%	22%	34%	19%	41%
EMS	39%	24%	41%	48%	7	7	100%	--	39%	--	24%	--	41%	--	48%
Capital Goods	11%	22%	14%	24%	19	11	58%	10%	21%	22%	22%	12%	30%	23%	33%
Infrastructure	15%	22%	27%	44%	3	3	100%	--	15%	--	22%	--	27%	--	44%
NBFC - Lending	18%	19%	18%	21%	29	23	79%	19%	18%	20%	19%	16%	21%	21%	21%
Others*	22%	19%	58%	39%	42	39	93%	35%	17%	29%	14%	1037%	17%	46%	37%
Logistics	15%	18%	16%	33%	9	8	89%	16%	14%	17%	18%	14%	23%	32%	37%
Retail	19%	16%	23%	23%	26	23	88%	21%	17%	17%	14%	20%	27%	20%	27%
Total					150	127	85%								

*Others includes internet/platform companies, travel & hospitality, building materials, specialty industrials, staffing/business services and select new-age consumption names

Example: Eternal, Swiggy, One97, FSN E-Commerce, InterGlobe Aviation, Indian Hotels, TBO Tek, Indegene, Inventurus, APL Apollo, Astral, Supreme Industries, Gravita, MTAR Tech and Va Tech Wabag..

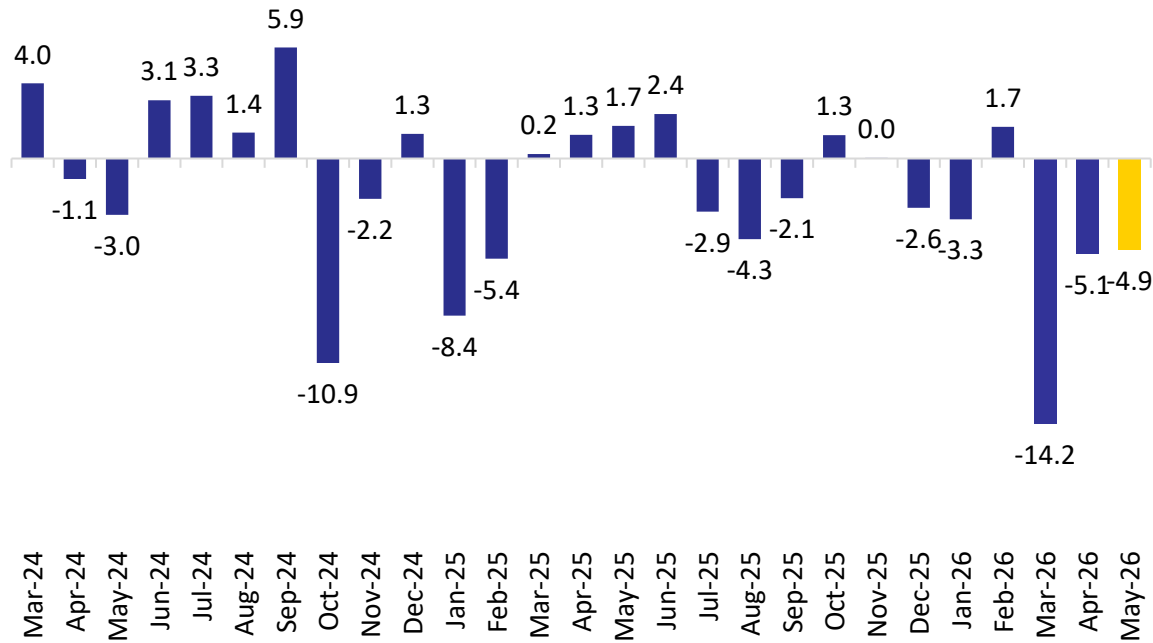
- Quadrant 1 is meaningfully **SMID-led**, with 127 of 150 companies falling in the SMID bucket, implying ~85% representation. More importantly, **SMID companies are also expected to deliver stronger PAT growth** across sectors
- Common Theme: India's domestic growth cycle, spanning **manufacturing, infrastructure execution, urbanisation, energy transition and logistics formalisation** through EMS, Capital Goods, Infra, Real Estate and Logistics
- The theme is further supported by **credit expansion and premium/organised consumption**, reflected in NBFCs and Retail
- The "Others" bucket adds exposure to **digital platforms, travel & hospitality, building materials, speciality manufacturing and business services**

FII vs DII Flows



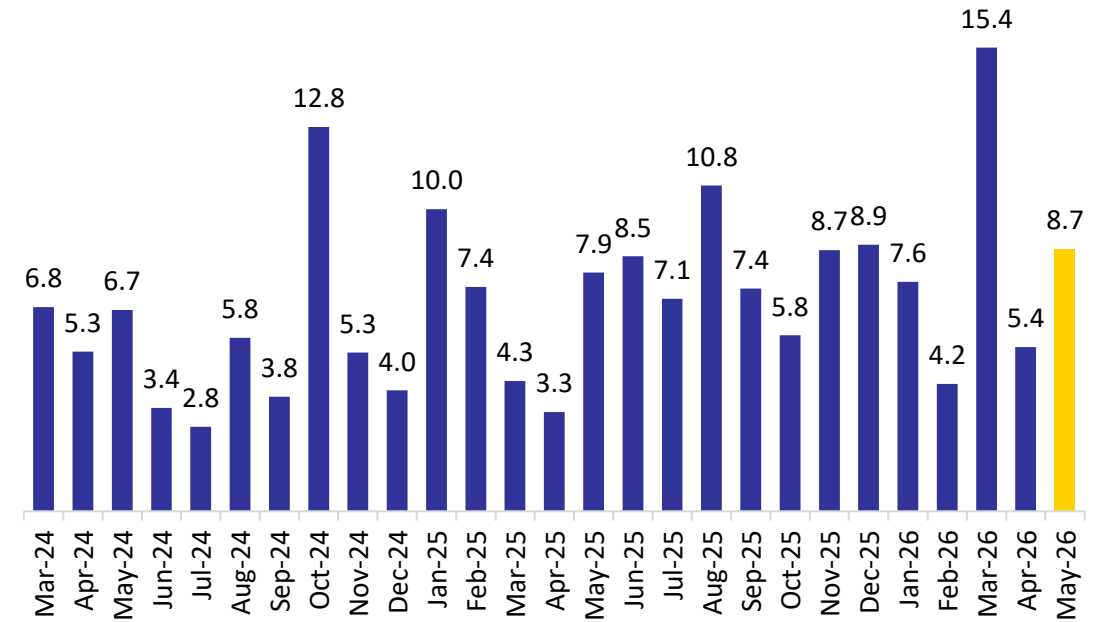
FII record outflows for the third straight month

FII Equity Flows (US\$ Bn)



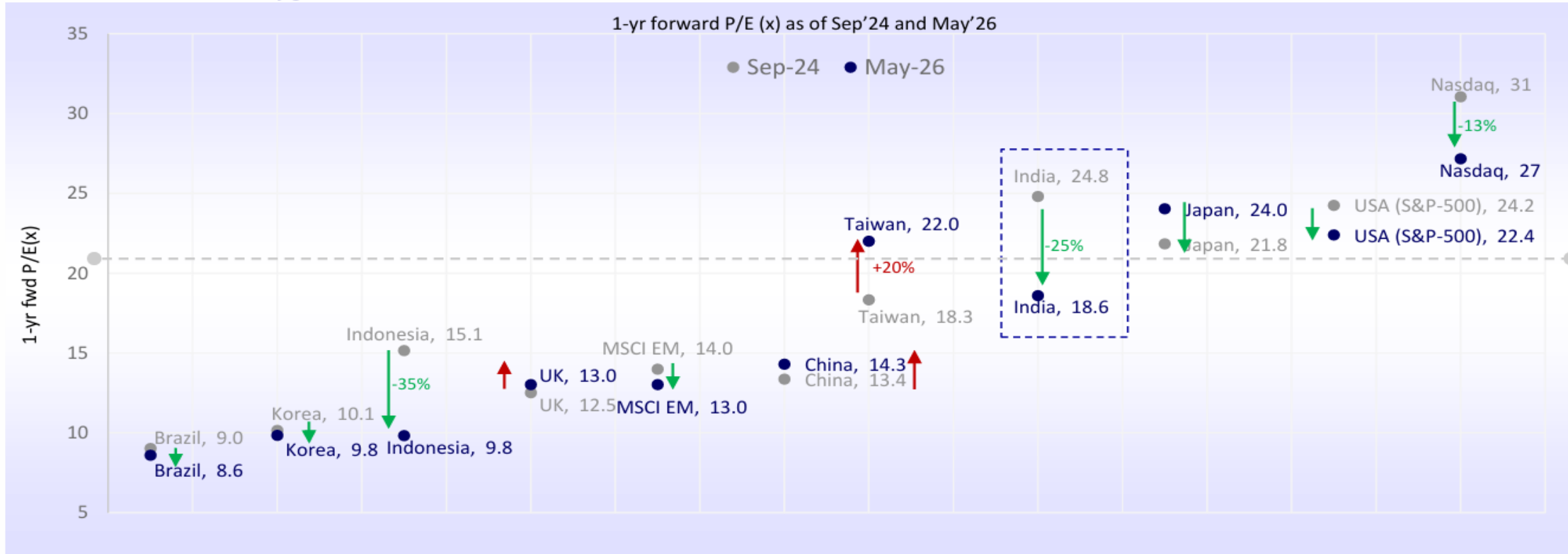
DII inflows continue to remain strong

DII Equity Flows (US\$ Bn)



India Valuation compared to Global Indices

12-month forward P/E of key global indices



EPS growth of indices

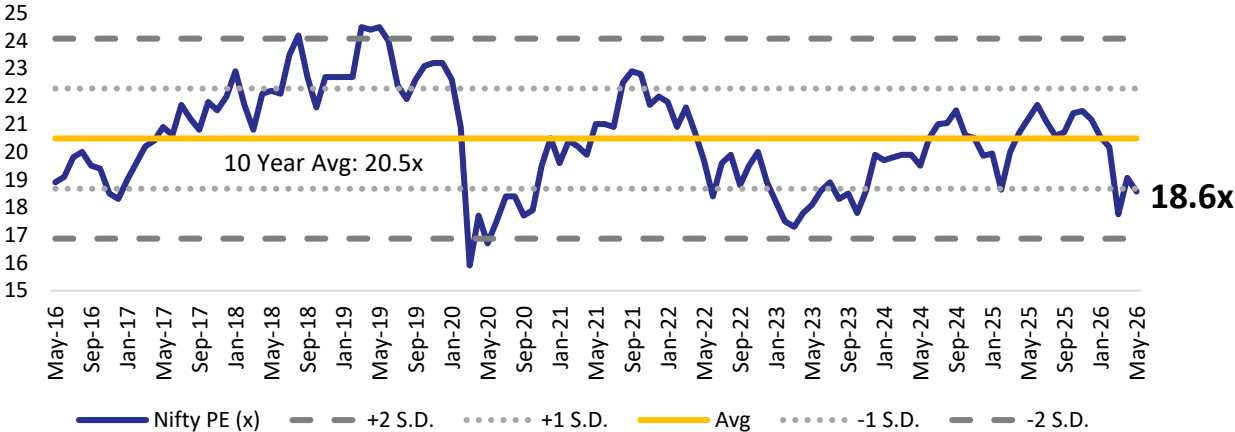
YoY earnings growth (%)	Brazil	Korea	Indonesia	MSCI EM	UK	China	Taiwan	Japan	India	S&P-500	Nasdaq
FY27/CY26 YoY change (%)	36.8	230.7	50.5	56.9	28.9	38.0	57.2	11.7	16.0	31.5	50.1
FY28/CY27 YoY change (%)	7.7	28.8	14.5	20.2	6.6	11.5	23.6	1.9	16.0	15.3	22.7
FY26-28E: 2 year CAGR (%)	21.4	106.4	31.3	37.3	17.2	24.0	39.4	6.6	13.8	23.1	35.7

Source: Bloomberg. MOFSL: Note: Have considered MOFSL estimates for FY27 and FY28 earnings growth for India.

Market Indices Valuations – Based on Forward Earnings



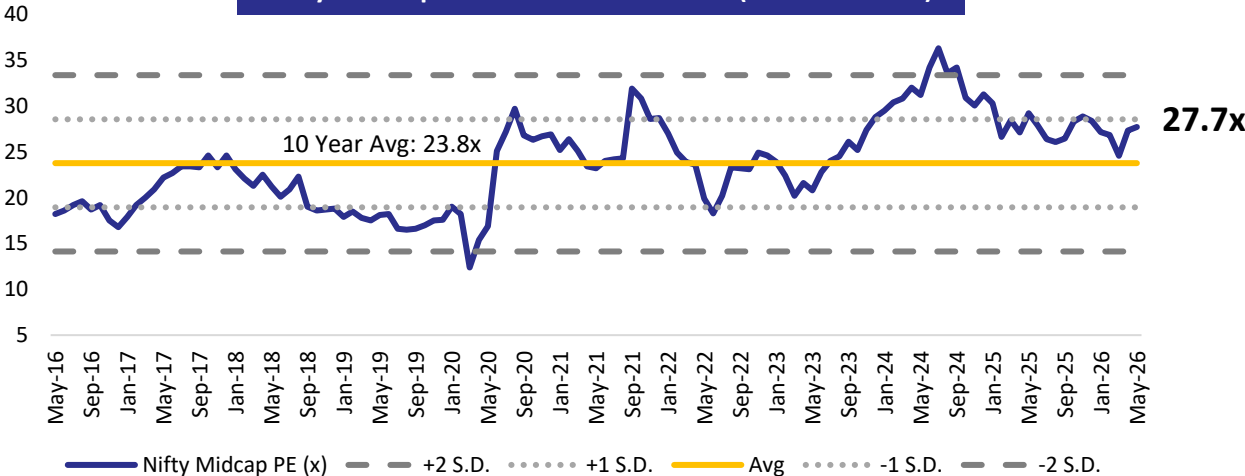
Nifty 50 PE 1 Year Forward - (10 Year Period)



- Nifty 50 forward P/E is currently trading near its -1 standard deviation, indicating relatively attractive large-cap valuations.
- Mid Cap and Small Caps continue to trade above their long-term averages.

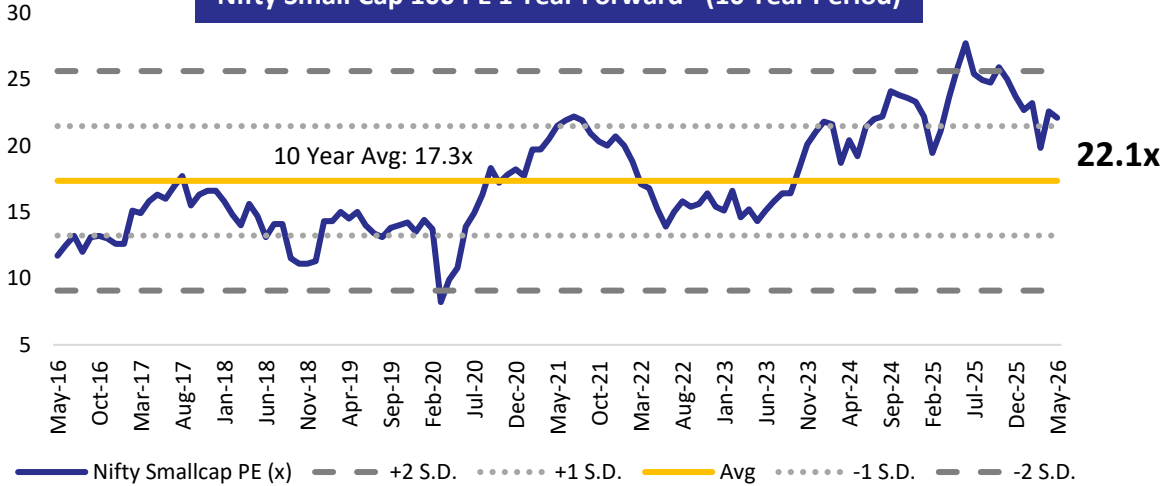
Source: Internal Research, MOFSL

Nifty Mid Cap 100 PE 1 Year Forward - (10 Year Period)



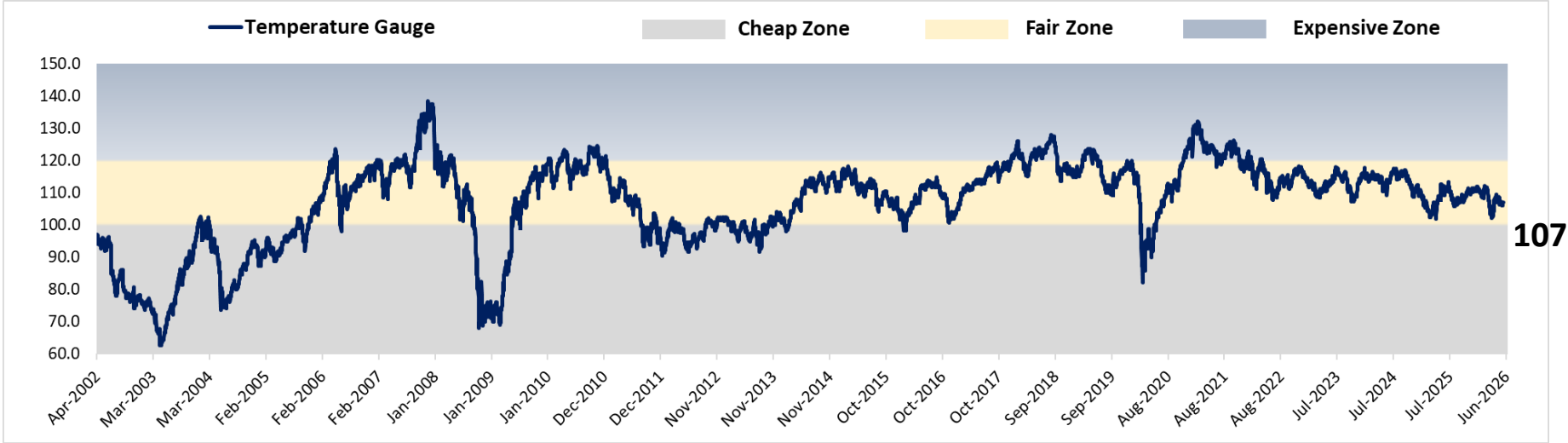
Source: Internal Research, MOFSL, Bloomberg

Nifty Small Cap 100 PE 1 Year Forward - (10 Year Period)

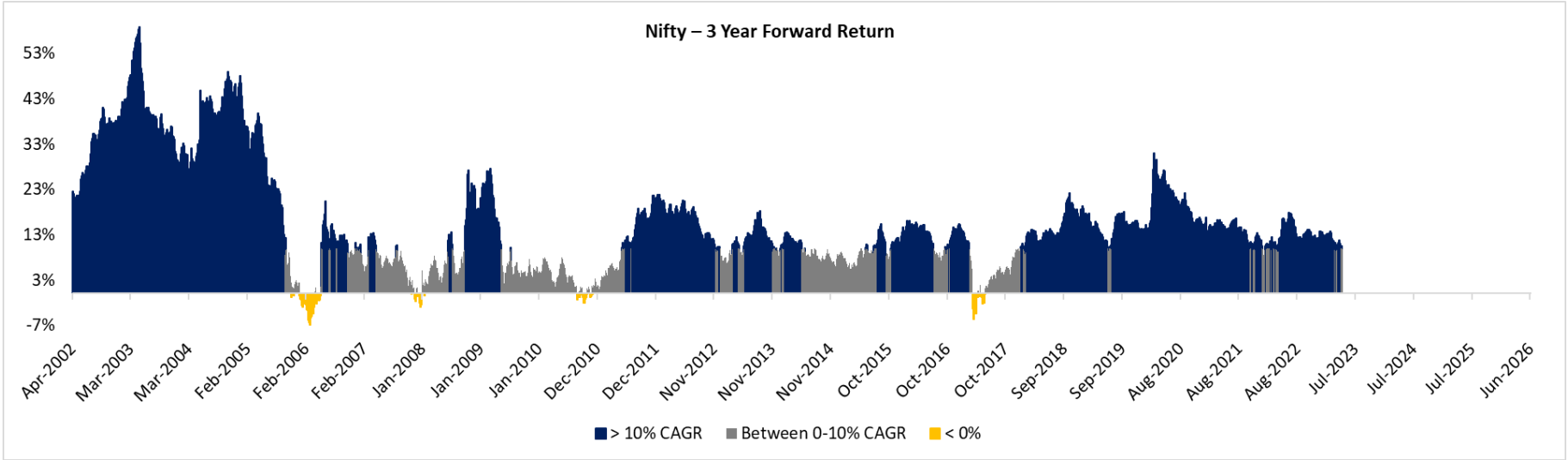


Source: Internal Research, MOFSL, Bloomberg

Temperature Gauge Index



Temperature Gauge Index is an equally weighted index of BY/EY and MOVI Index



It incorporates PE Ratio, PB Ratio, Div. Yield and G-sec Yield, and hence is a useful valuation metric.

Data as on 4th Jun'26
 Source: Capital Line, Bloomberg Internal Research
 Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

Temperature Gauge Index – Sensitivity Analysis



Temperature Gauge Index - Sensitivity Analysis					
Nifty50/10 Yr Gsec	6.60%	6.80%	7.00%	7.20%	7.40%
22150	103	104	105	106	107
22400	104	105	106	107	107
22650	104	105	106	107	108
22900	104	105	106	107	108
23150	105	106	107	108	109
23400	105	106	107	108	109
23650	105	106	107	108	109
23900	106	107	108	109	110
24150	106	107	108	109	110
24400	106	107	108	109	110
24650	107	108	109	110	111
24900	107	108	109	110	111
25150	107	108	109	111	112

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as on 4th Jun'26

3 Yr Forward Returns Of Nifty At Different Levels Of Temperature Gauge Index

Nifty 50				36M Return CAGR			Time Positive	% Times	
Index in Range		Count in Range	% of count	Min	Max	Average	% Times Positive	6% to 10%	>10%
65	70	60	1%	24%	57%	43%	100.0%	0%	100%
70	75	202	2%	15%	51%	32%	100.0%	0%	100%
75	80	285	3%	14%	45%	37%	100.0%	0%	100%
80	85	168	2%	15%	43%	34%	100.0%	0%	100%
85	90	207	2%	12%	49%	33%	100.0%	0%	100%
90	95	539	6%	2%	47%	27%	100.0%	2%	97%
95	100	832	9%	1%	44%	18%	100.0%	8%	91%
100	105	786	9%	-2%	30%	13%	89.7%	18%	64%
105	110	1118	13%	-4%	22%	10%	65.1%	12%	44%
110	115	2018	23%	-7%	22%	9%	71.6%	27%	32%
115	120	1617	18%	-4%	21%	9%	84.8%	23%	33%
120	125	804	9%	-2%	18%	10%	93.5%	10%	61%
125	130	135	2%	0%	16%	12%	99.3%	4%	80%
130	135	84	1%	-2%	15%	6%	91.7%	0%	36%
135	140	28	0%	-3%	0%	-1%	10.7%	0%	0%

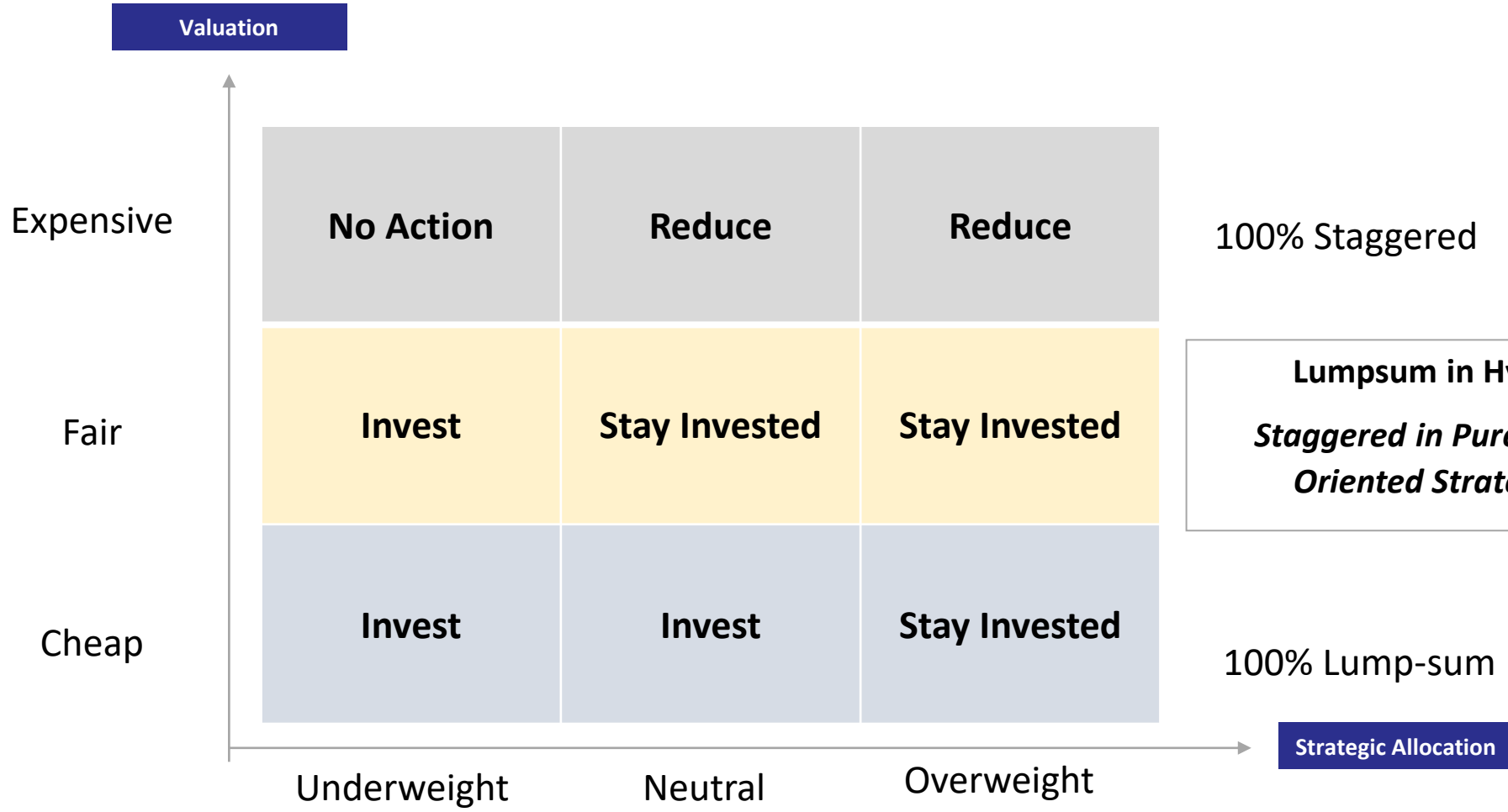
Data as on 4th Jun'26

Source: Capital Line, Bloomberg Internal Research

Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

Equity Allocation & Deployment Grid

Below grid is based on Temperature Gauge Index



Data as on 4TH Jun'26
 Source: Capital Line, Bloomberg Internal Research
 Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

Equity View & Portfolio Strategy

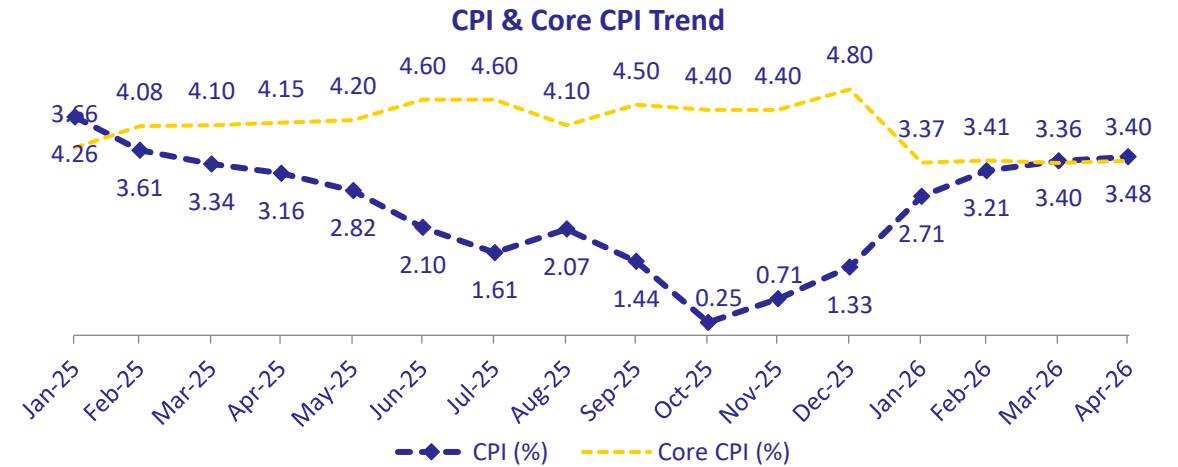
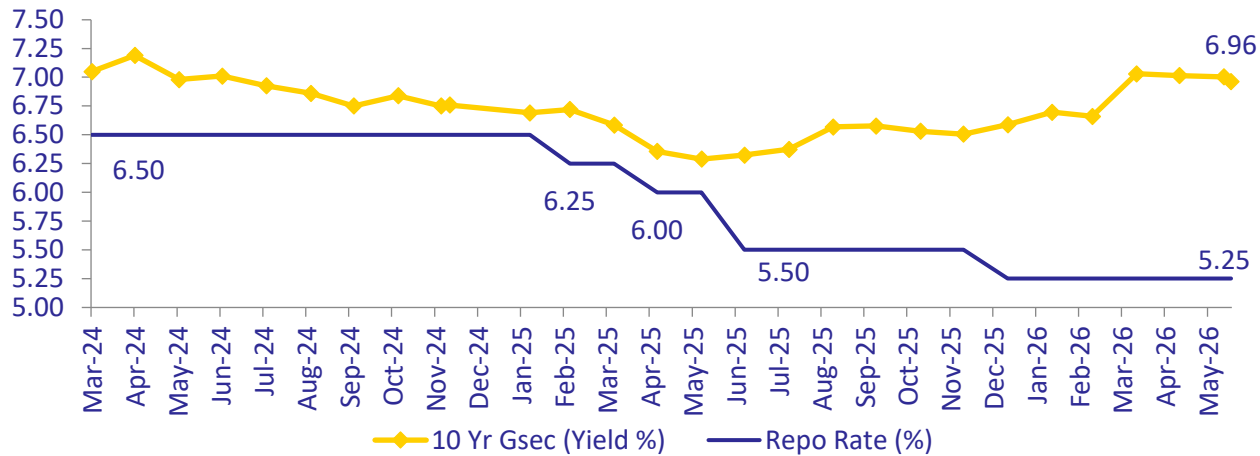


- Global markets continue to grapple with higher bond yields, sticky inflation and geopolitical uncertainty. The recent pullback in global markets reflected stretched positioning in a handful of technology-led stocks.
- Indian equities faced similar challenges in the last one month, with the Nifty 50 declining by ~1%. Despite headwinds from foreign outflows, geopolitical tensions, higher crude oil prices, and currency volatility, domestic institutional participation and steady SIP inflows helped support market resilience.
- For Indian equities, the current phase appears to be a correction in sentiment rather than fundamentals as macro and long term structural story remains intact. Policy initiatives by RBI to stabilise the currency should boost sentiment.
- Nifty EPS increased 5% YoY in FY26, extending the trend of single-digit earnings growth. Although FY27 estimates have been trimmed, stable FY28 projections suggest near-term pressure rather than a long-term concern. However, mid & small cap segment continued to deliver strong earnings.
- Valuations on forward basis have become more reasonable compared to global peers as well as historical averages. Large cap (Nifty 50) is trading 1S.D. below 10-year average on 1-yr forward PE basis. While mid and small caps still trade at a premium, excesses seen over the last two years have moderated significantly.
- Considering the current scenario, we continue to maintain Neutral view on Equities. Portfolio Allocation: **50% allocation to Hybrid/Large caps, 10% to Global and 40% allocation to Mid & Small Caps (overweight position)**
- **Investment Strategy: Lump-sum investments in Hybrid funds at current levels; For Pure equity-oriented strategies, a staggered SIP/STP approach over the next 2-3 months is prudent given the uncertainty. Any sharp correction should be used for aggressive deployment.**

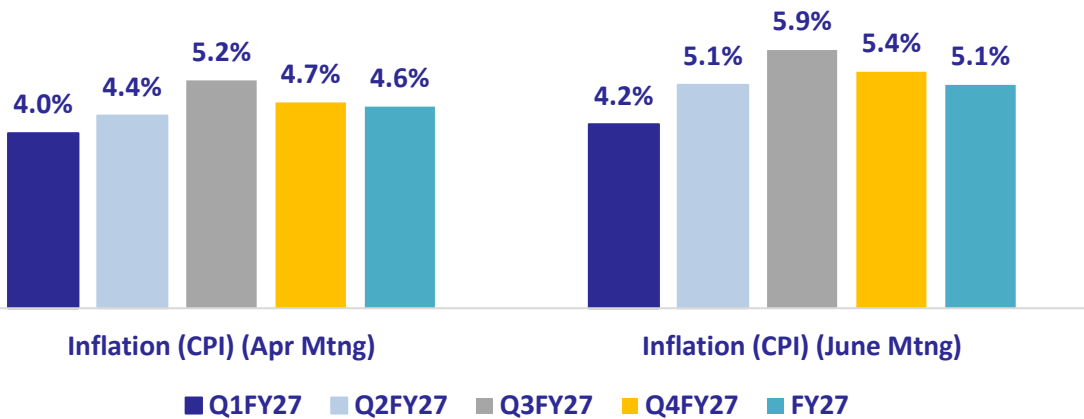
Fixed Income

RBI Maintains Status Quo with a Cautious Pause

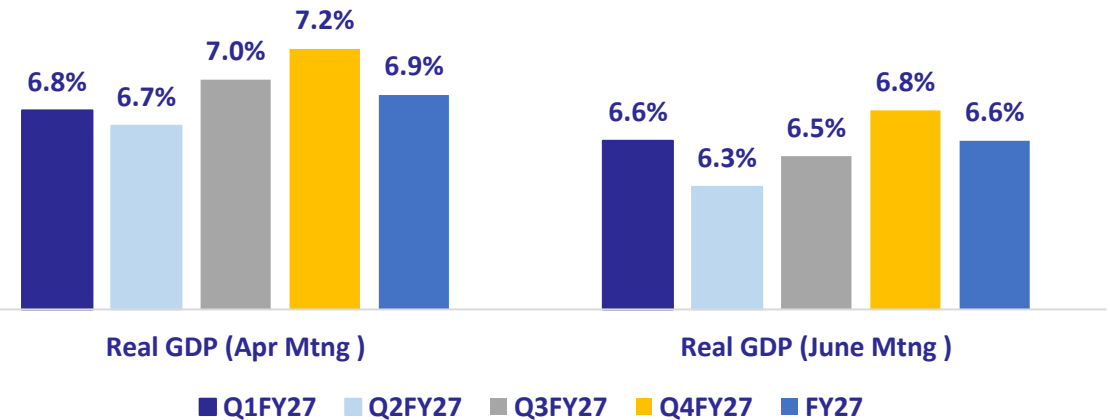
Upside Inflation Risks | Growth Momentum Moderation | Hawkish Policy Data Dependent



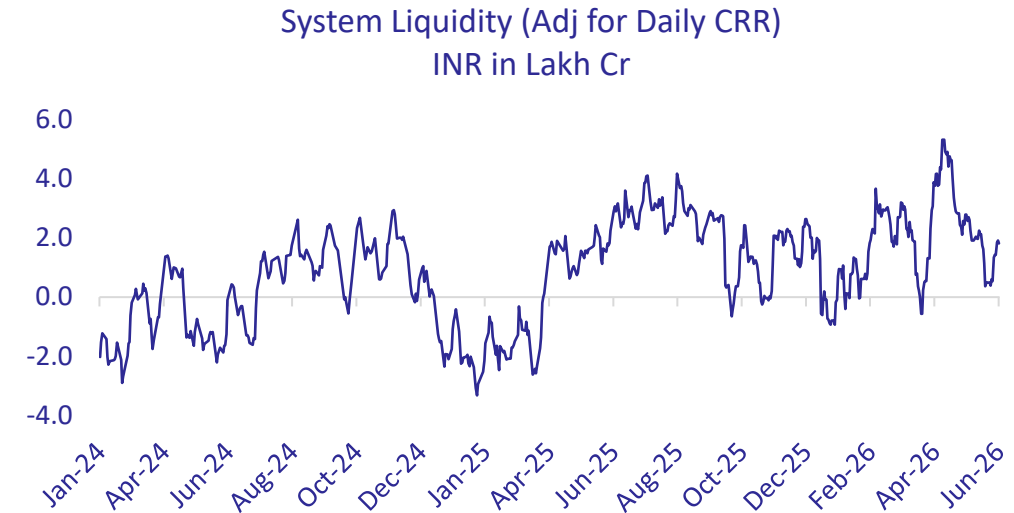
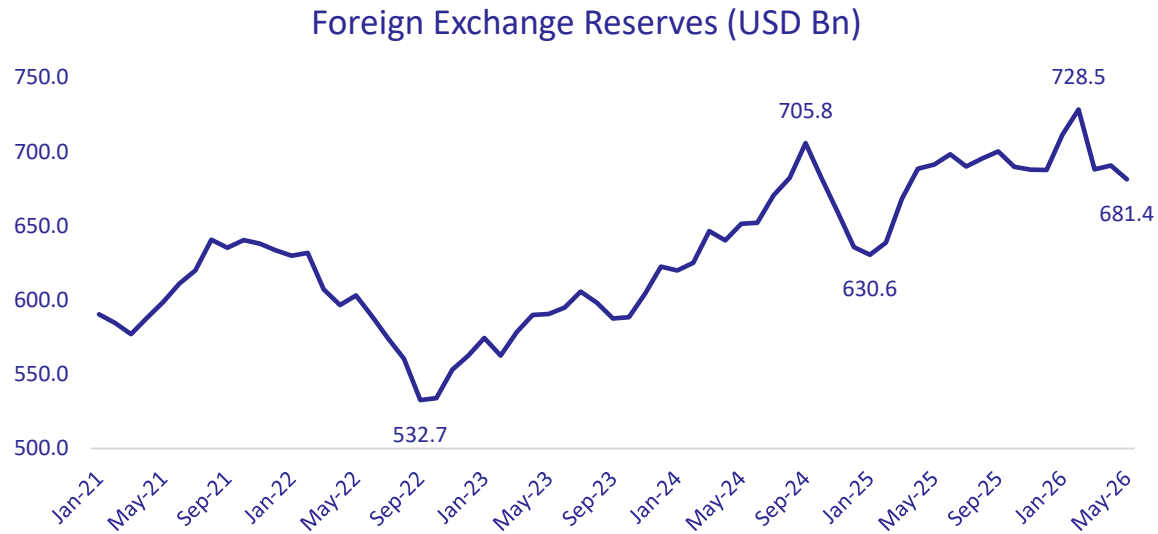
Inflation Projections for FY27



Growth Projections for FY27



Active intervention to manage liquidity & currency

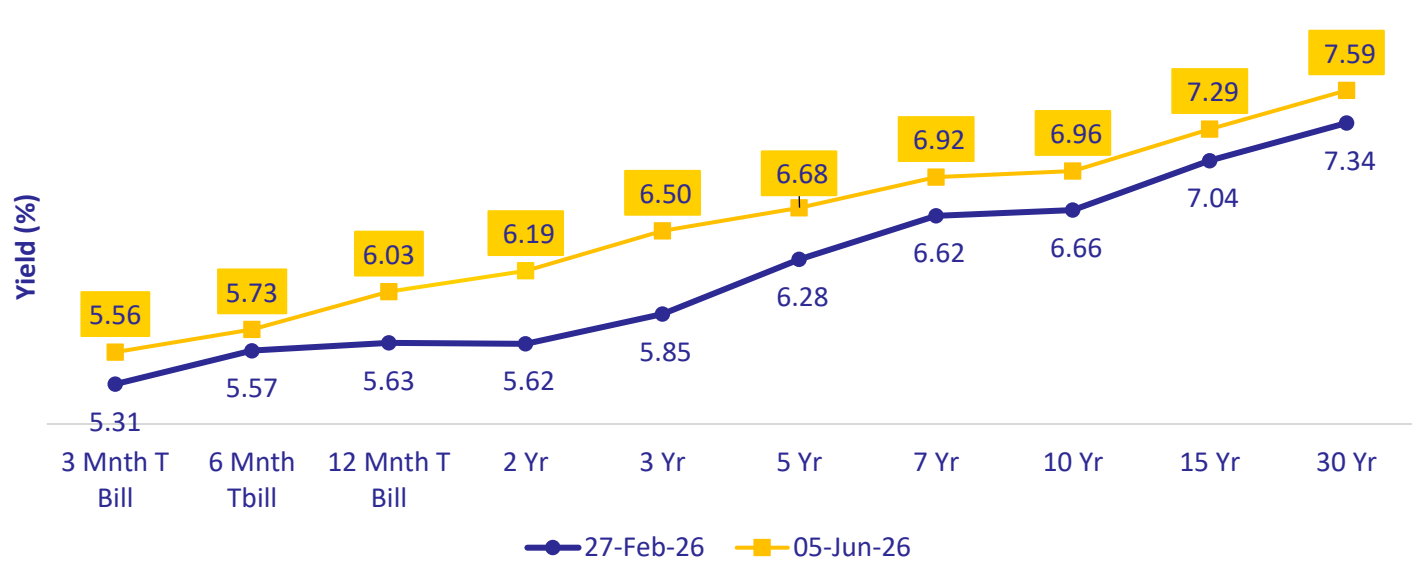


- System liquidity seems sufficient to meet the needs of the economy. RBI is not trying to tighten through liquidity while keeping rates unchanged.
- Liquidity is being managed to support credit flow and economic activity, even as RBI remains vigilant on inflation.
- Forex Reserves was at \$728B in Feb 26 before declining to \$681B by May 26, as RBI sold dollars to defend the rupee amid geopolitical volatility.
- A \$5B dollar-rupee buy/sell swap auction in May drew bids of ~\$9.8B, signalling strong demand. This would also help in injecting liquidity back into the banking system
- Forex Reserves remain comfortable at ~10 months of import cover

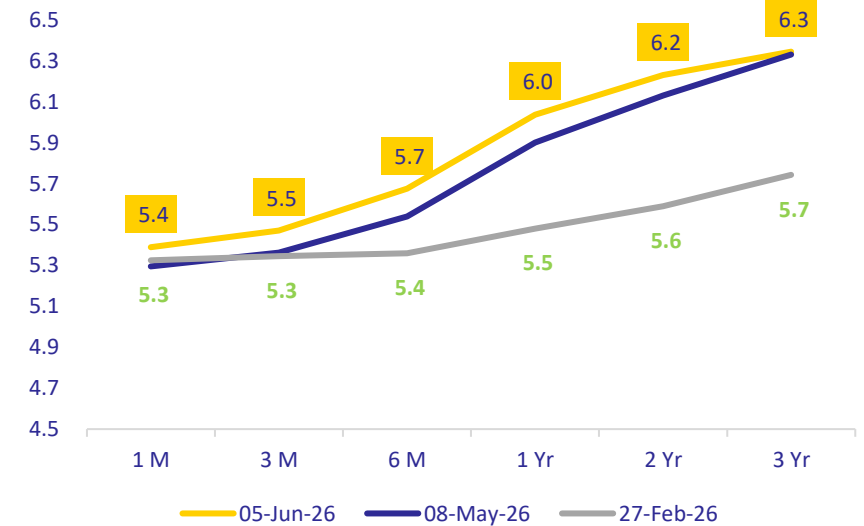
Effect on yields – May remain higher for longer

Immediate Relief Rally | Positive Measures for External Flows | Rate Hike Theme Still on the Edge

Movement in G - Sec Yields Across Maturities



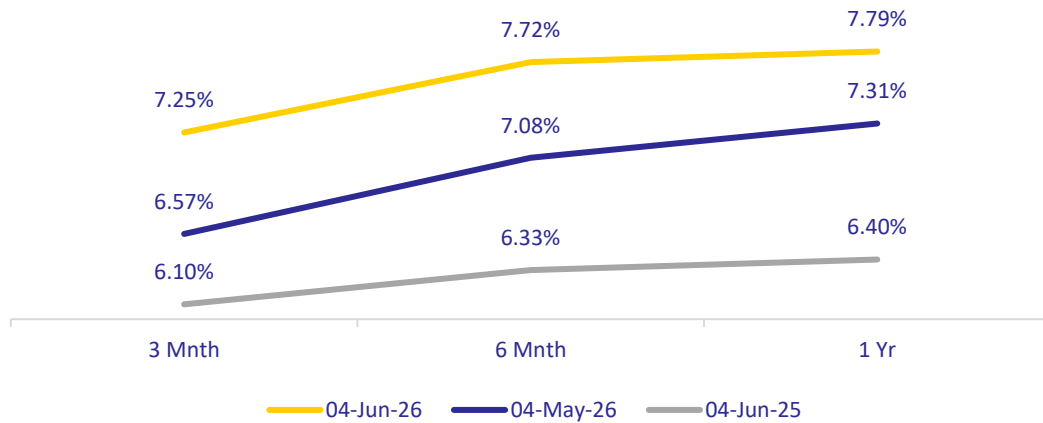
Overnight Indexed Swap (OIS Curve)



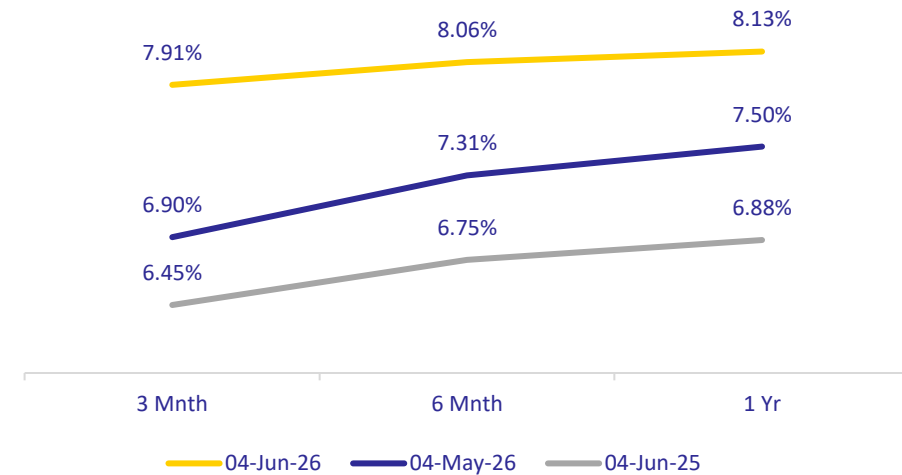
- RBI's focus on inflation over growth
- Positive Measures for external flows : FPI tax exemption on Gsecs; FAR expansion; ECB & FCNR (B) hedging cost support
- 1-year OIS rate is currently trading @6%, indicating market expectation of 2-3 rate hikes within the next 1 yr

Surge in Yields @ Shorter End of the Curve

Surge in Yields of Certificate of Deposits (CDs)



Surge in Yields of Commercial Papers (CPs)



- CD and CP yields have surged by 50 – 100 bps in a months time on back of compressing liquidity surplus and fears of a hawkish monetary policy

Fixed Income View & Portfolio Strategy



- The MPC maintained the status quo, highlighting the RBI's balancing act between rising inflation risks and moderating growth. While the macro environment is becoming increasingly challenging, the combination of elevated inflation and slowing growth makes an immediate rate hike less automatic, keeping the RBI firmly data-dependent.
- Growth projections remain cautious, with real GDP expected at 6.6% in FY27, reflecting the impact of higher energy prices, global supply disruptions, and softer external demand. At the same time, the West Asia conflict has introduced meaningful upside risks to inflation, with FY27 CPI projected at 5.1% and Q3 inflation rising to 5.9%, close to the upper tolerance band.
- Recent measures e.g. FCNR(B) hedging-cost support, FAR expansion, and FPI tax exemptions on government securities, should strengthen capital inflows, reduce rupee volatility, and ease pressure for an immediate policy response. However, the possibility of future rate hikes remains firmly on the table if inflation risks intensify.
- Forex intervention by RBI and high credit growth led to tighter liquidity conditions and hence sharp rise in short term yields. Liquidity situation have started improving in this month.
- 10-Yr Gsec yield has softened by ~25-30 bps from the highs and is trading below 7%, due to fall in crude oil prices and policy measures to stabilize currency. We expect yield to trade in the range with recent highs acting as resistance.

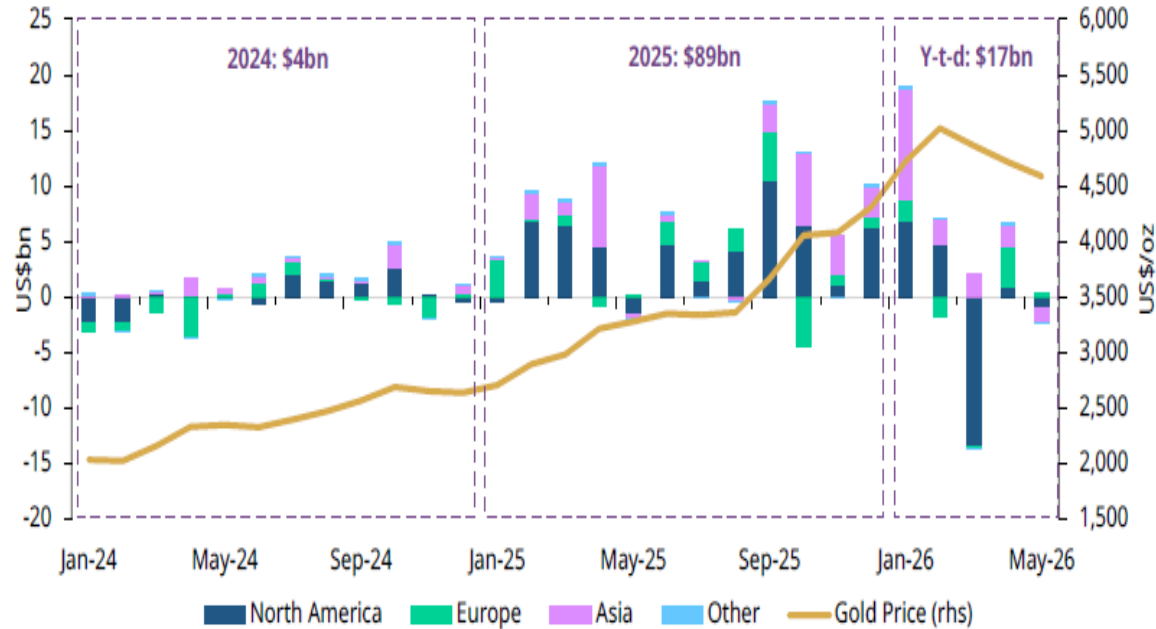
Given the macro backdrop, we continue to suggest accrual strategies as the core allocation.

- **Accrual can be played across the credit spectrum by allocating 55% – 60% of the fixed income portfolio** to Performing Credit & Private Credit Strategies, high yield NCDs and income generating assets like InvITs.
- **Remaining part of the portfolio can be allocated in relatively liquid fixed income alternative solutions like** Arbitrage Funds (min 3 months holding period), Hybrid SIF Funds (min 2 yr holding period), Conservative Equity Savings funds (min 3 years holding period)

Gold/Silver

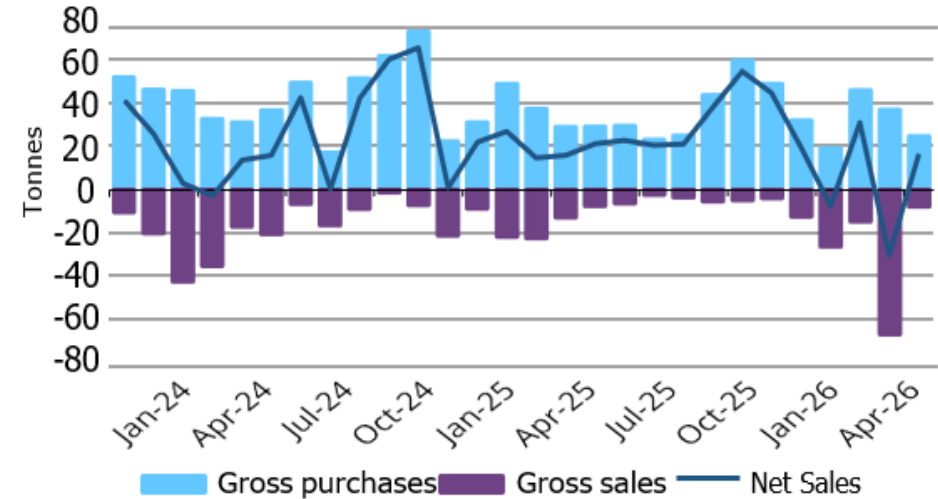
Gold - Demand by CBs & ETFs remain muted..

Chart 1: Global gold ETF flows slowed to a trickle in May
Global gold ETF flows by region and average gold price*



*As of 31 May 2026. Gold price based on the quarterly and monthly average LBMA Gold Price PM in USD.
Source: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

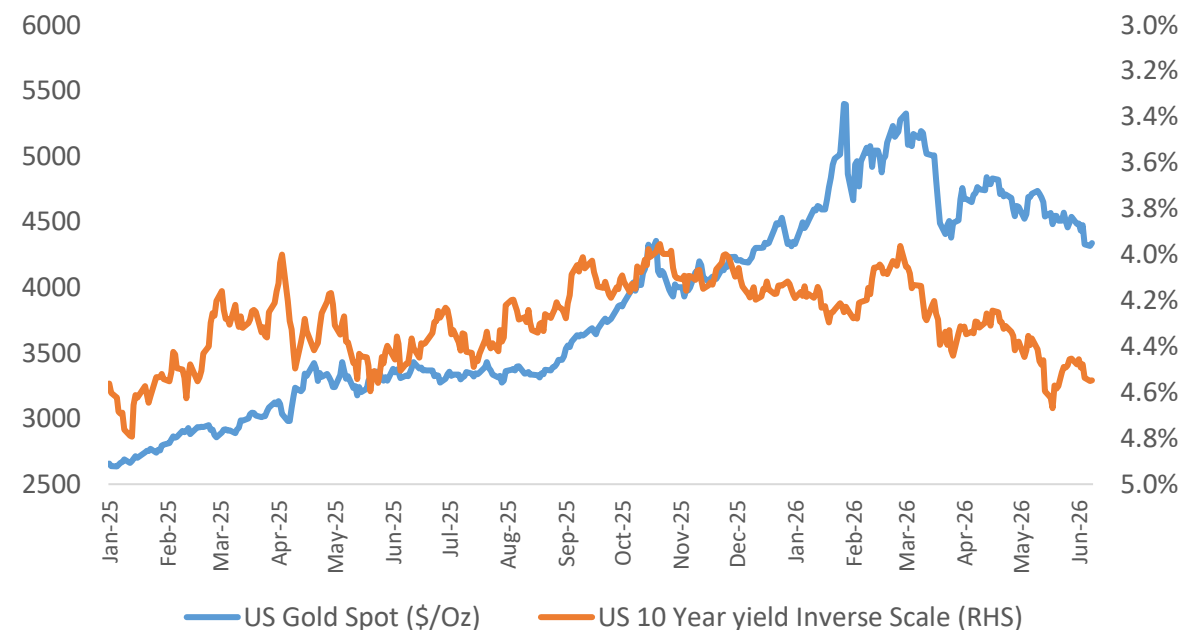
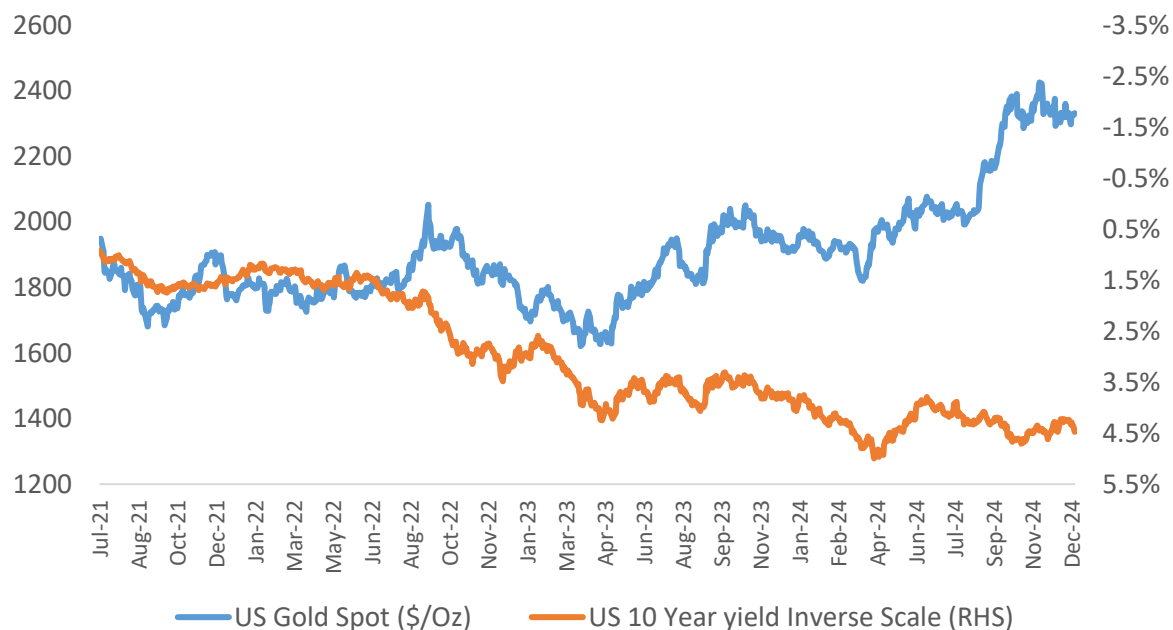
Central banks resumed net gold purchases in April, having bought 19t. This was a rebound from the sizeable net sales reported in March.



*Data to 29 May 2026, where available.

Source: IMF, respective central banks, World Gold Council

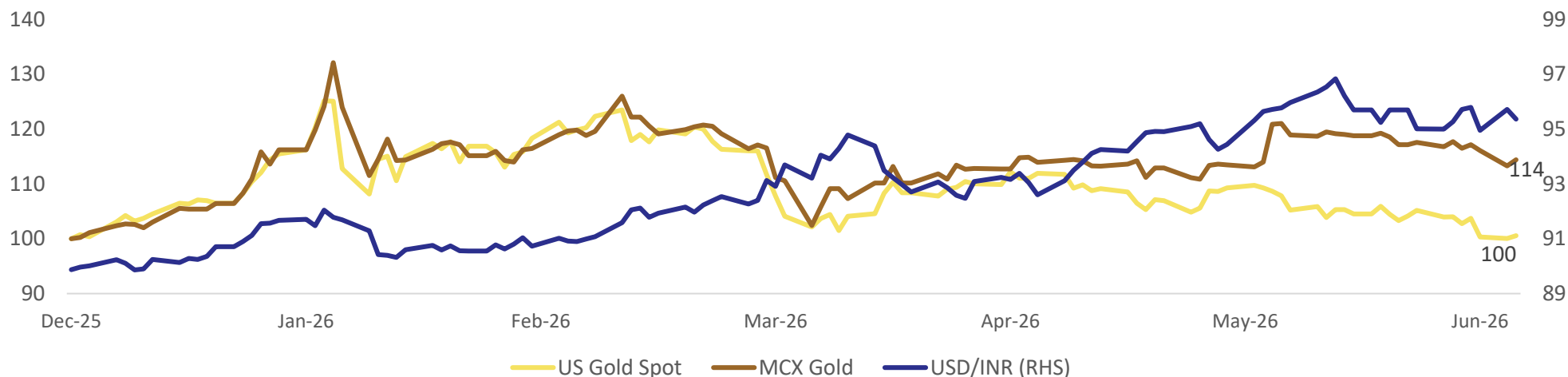
..hence traditional factors coming back into play



- Rampant gold buying by central banks from second half 2022 played a pivotal role breaking the correlation between Gold and US 10 year G-Sec yield.
- Central Banks made record purchases of more than 1000 metric tonnes from 2022 to 2024. However from 2025, there was some loss in the momentum. This could have led to correlation rising between Gold and US 10 year G-Sec yield.

Domestic Gold – Natural currency hedge

GOLD CYTD Returns & USD/INR movement



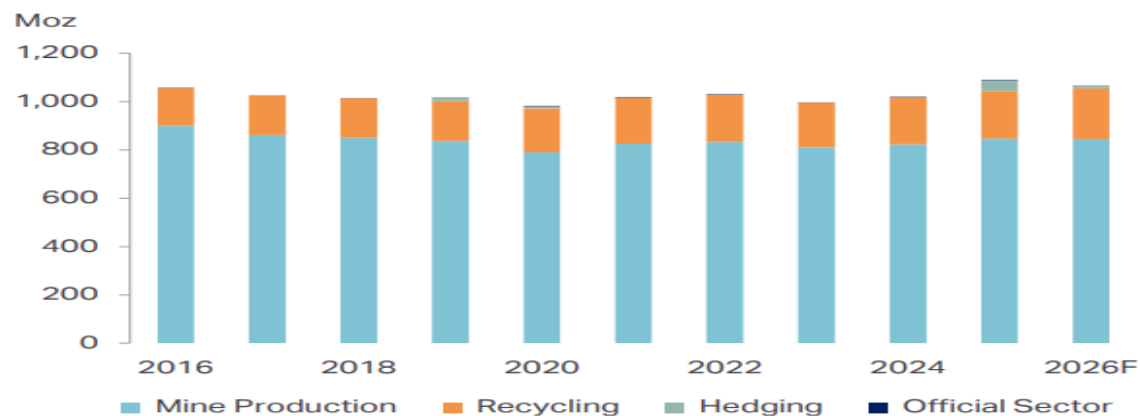
Gold Spot (USD) and MCX gold is re-based to 100.

Returns of MCX gold include the impact of custom duty hike from 6% to 15%

Returns	1 Week	1 month	3 month	CYTD	6 month	1 year	Since Jan'25
US Gold Spot	-3.3%	-8.0%	-15.6%	0.5%	3.1%	30.4%	41.9%
MCX Gold	-2.8%	0.8%	-4.6%	14.4%	18.8%	58.6%	61.9%
Outperformance by MCX gold	0.5%	8.8%	11.0%	13.9%	15.7%	28.3%	20.0%
USD/INR	0.1%	1.0%	3.5%	6.1%	6.1%	11.3%	7.8%

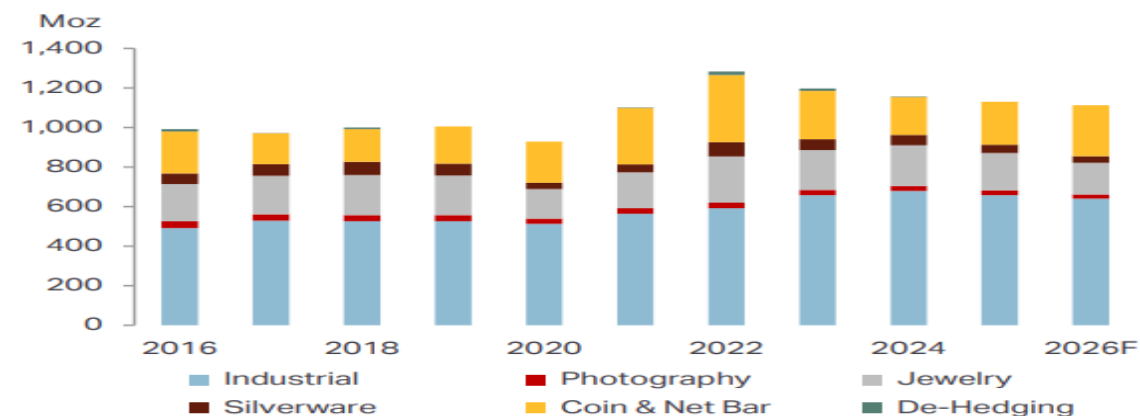
Silver – Speculation reduced, Demand deficit to continue in 2026

Global Supply Forecast



Source: Metals Focus

Global Demand Forecast



Source: Metals Focus

Silver speculative net positions



Investing.com

Recent data indicates that Large speculators and asset managers (“Managed Money”) are maintaining subdued speculative positions.

Silver Price – at 2/3rd retracement of the rally



Disclaimer



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