Alpha Strategist – Sep’26

“A Tale of Two Currents”

Summary

- Middle East tensions are keeping crude elevated and volatile. The US–Iran standoff has disrupted oil supplies and shipping, while OPEC output fell in August despite planned production increases.
- The Fed remains constrained by sticky inflation and resilient growth. Core PCE at 3.3% and firm labour data have increased the possibility of rate tightening.
- Fiscal and supply pressures are keeping long-term yields elevated. US federal debt has crossed $40 trillion, while heavy Treasury and AI-related corporate issuance is adding to bond supply. Alongside similar fiscal concerns globally and elevated rates may put pressure on equity valuations.
- India's growth momentum remains strong. Q1FY27 GDP grew 7.8% YoY, keeping India among the fastest-growing major economies with lower volatility in growth.
- Corporate earnings are showing strength in recovery as Nifty 500 ex-OMC PAT increased 23%, led by Financials, Metals, Autos, Oil & Gas, Chemicals and Telecom.
- Domestic flows remain supportive, but supply is rising sharply. Strong DII flows and improving FII participation are being partly absorbed by IPOs, block deals and government stake sales.
- Markets are therefore facing two opposing currents. Global risks—crude, higher yields, fiscal stress and AI-capex concerns—are being balanced by strong domestic growth, earnings and liquidity.
- We maintain a Neutral view on Equities, with 40% in Hybrid/Large Caps, 10% Global and 50% Mid & Small Caps. We prefer lumpsum deployment in Hybrid strategies and staggered deployment in pure equities.
- In Fixed Income, we continue to prefer accrual over duration. We favour private credit, high-yield NCDs and income-generating assets, with the balance allocated to liquid alternatives like arbitrage funds and SIFs.
- We maintain a neutral allocation to precious metals, with a mix more biased for Gold over Silver. Gold continues to merit allocation given elevated geopolitical risks, fiscal concerns and sustained central-bank demand.

Highlights

Brent Crude Oil – Volatility continues



- US–Iran conflict has escalated again: The latest round has moved beyond rhetoric to direct attacks on oil tankers and shipping.
- The problem has broadened beyond Hormuz: Both the Gulf and alternative Red Sea export routes are facing constraints simultaneously.
- Actual OPEC supply has fallen despite planned increases: OPEC production fell by roughly 640,000 bpd in August, largely because of Saudi export disruptions and constraints on Iranian shipments.

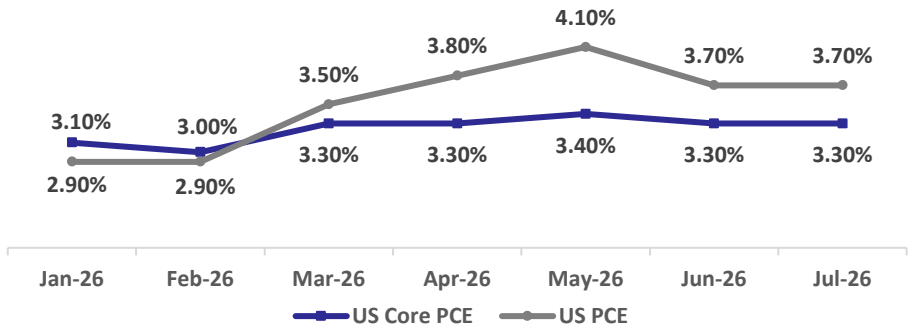
Source: Tradingview

The above data is for informational purpose. The analysis may or may not be sustained in future

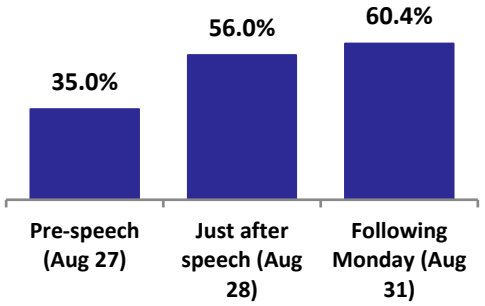
Fed Chair Warsh's Hawkish Debut at Jackson Hole Symposium

Emphasis on Inflation Stability -> Rate Hike Odds are back on the Table

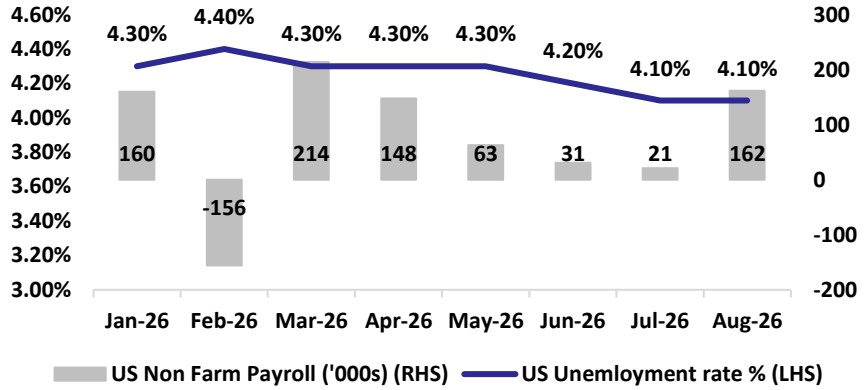
Inflation has plateaued & remains sticky : Well above Fed's Target of 2%



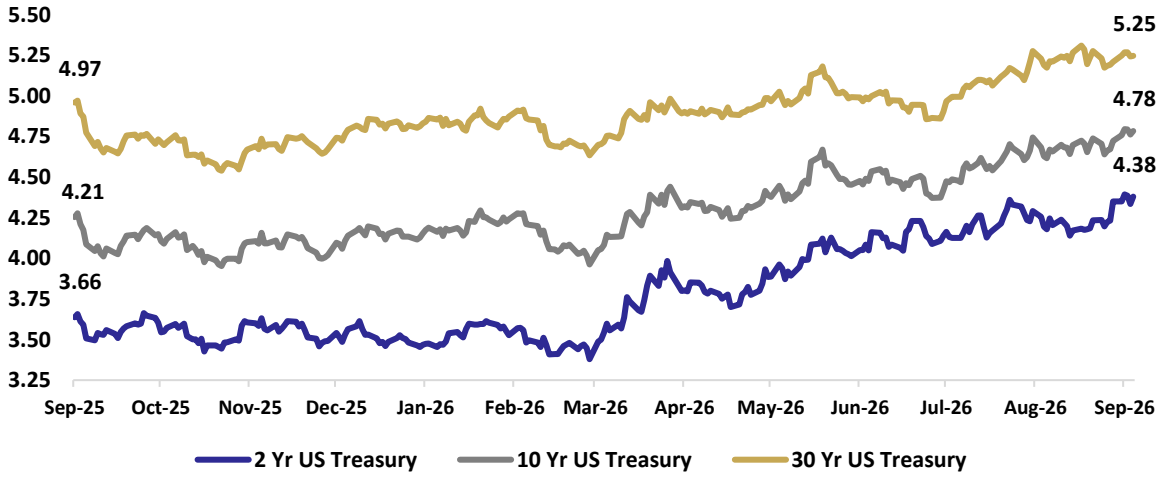
CME-Implied Probability of a 25bp Fed Hike (%)



Labor Market Remains Resilient



US Treasury Yield Curve : Higher Across the Board



- Warsh's narrative shifted towards "higher rates may still be necessary." Does not expect inflation to return to 2% in near future
- Warsh's "quieter Fed" approach (less forward guidance) adds a fresh layer of policy uncertainty priced into the long end
- Short term yields also rose on the hawkish read

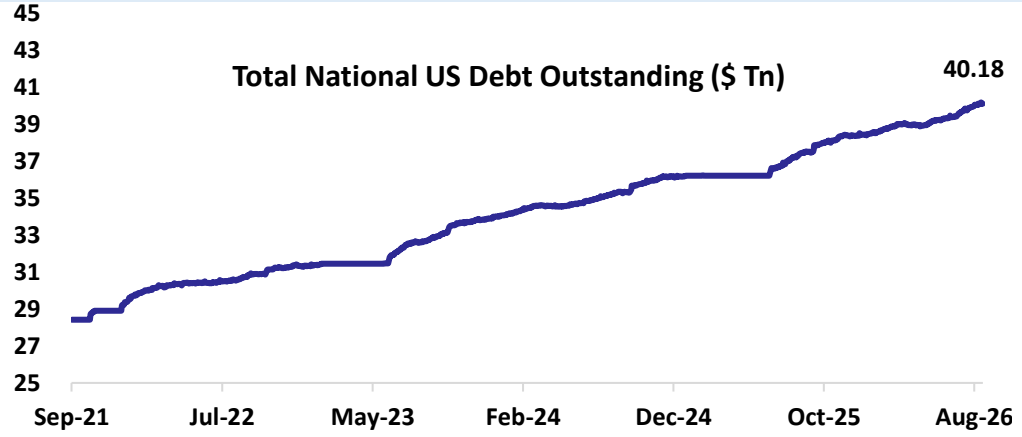
Source : Investing.com , Internal Research, Data as on 4th Sep 2026

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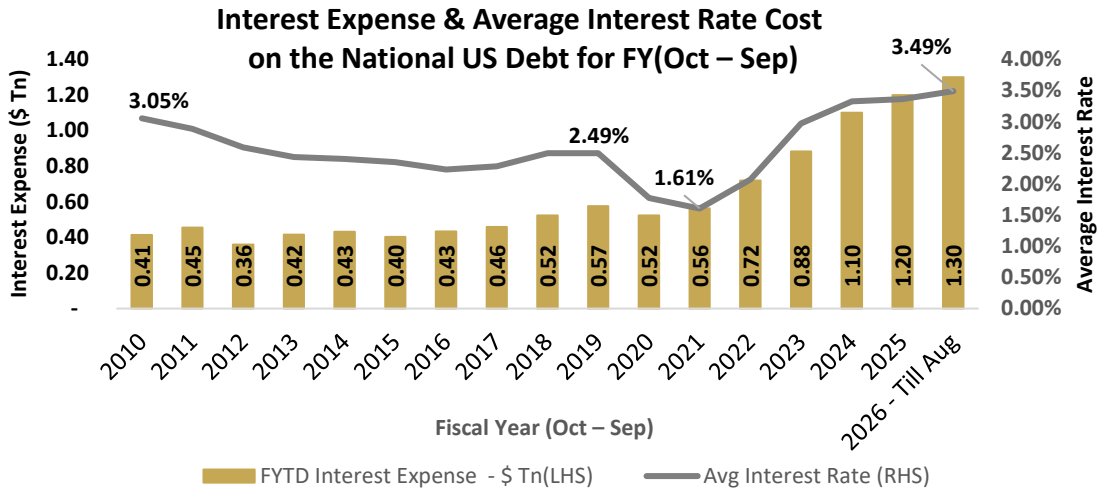
Impact of Higher Yields on US Sovereign & Corporate Debt

Sovereign borrowing costs are climbing while corporate risk premia stay historically tight

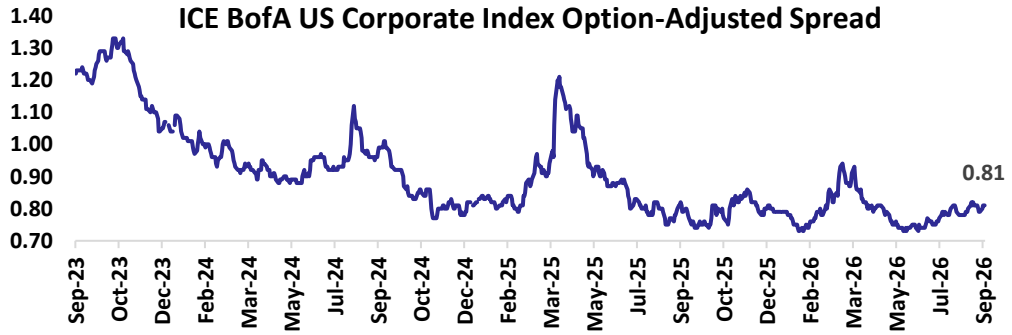
Financial outlays, defense spending, constrained Federal tax revenues, social Govt programs continued to put pressure on fiscal health



Higher long-end yields & elevated Federal issuance raise the government's refinancing cost



Investment-grade OAS — near multi-decade low on back of strong balance sheets

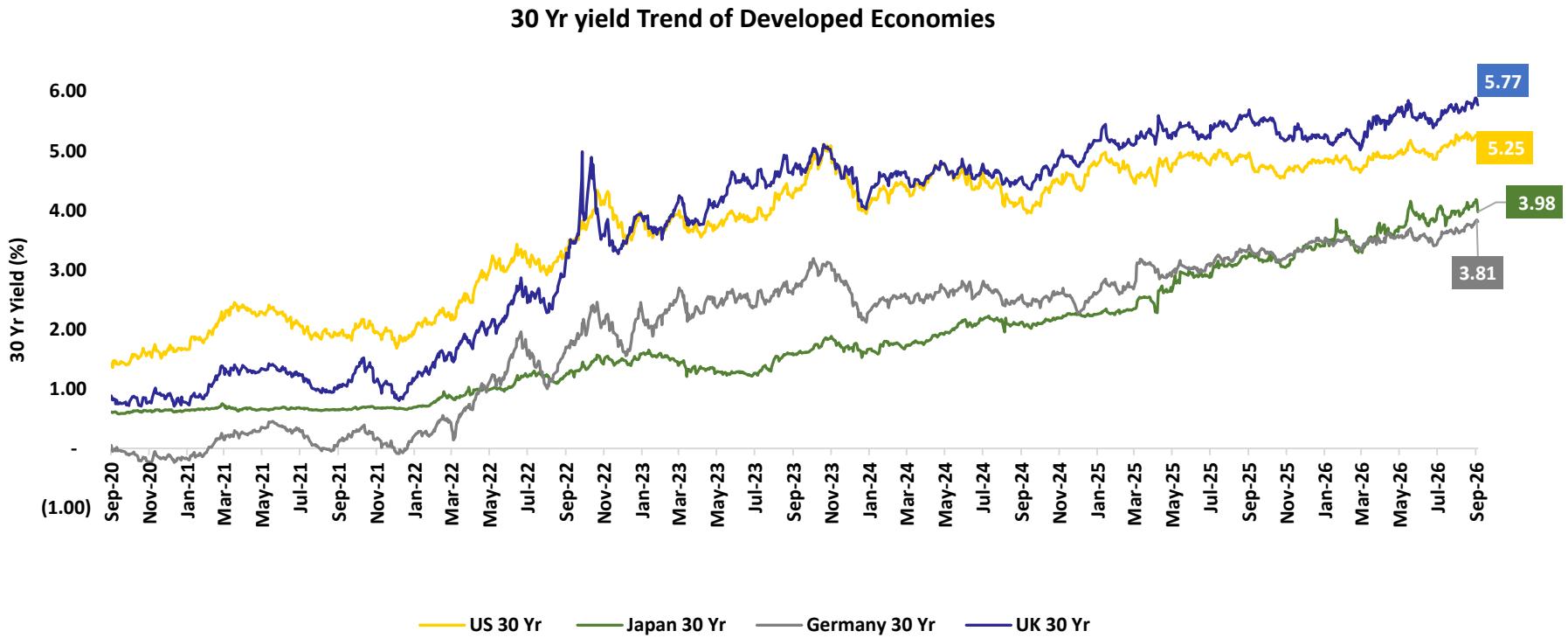


Source : US Treasury, FRED.StLouisfed.org, Internal Research, Data as on 3rd Sep 2026

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Sovereign Long Term Yields of Developed Economies Surge

Markets reprice monetary tightening, inflation and fiscal risks



US Yield → **highest level in almost two decades**

Europe Yield → **reached/ exceeded the levels since 2011 euro crisis**

Germany Yield → **hit 3.75% for the first time since 2011**

UK Yield → **highest level since 1998**

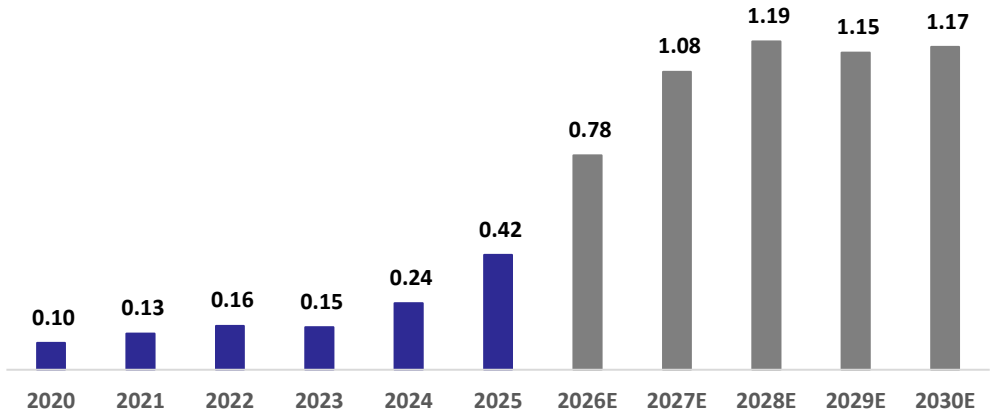
Japan → **Yields approached all time high**

- For economies like US,Japan, UK & Germany, long term sovereign yields are near multi decade high due to Central Bank's pivot to rate normalization, persistent inflation risks, growing concerns on rise in sovereign debt and fiscal discipline.
- Also, because of the higher carry, reallocation of global capital can be envisaged , putting more pressure on the yields.
    - Case in point is reallocation in Japanese Bonds (Till now Yen was a source of global carry trades, but as the bond yields continue to rise, more capital could remain at home)

Source : Franklin, Vanguard, Bloomberg, Internal Research The above data is for informational purpose. The analysis may or may not be sustained in future

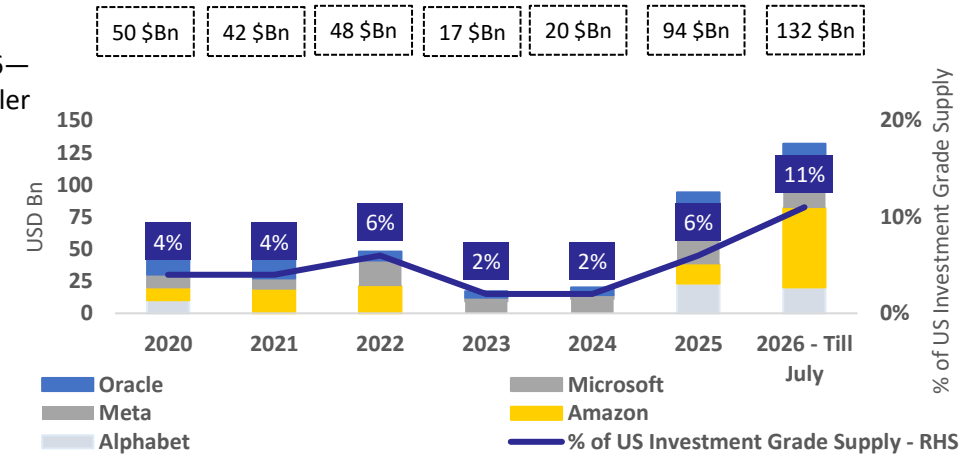
AI Hyperscalers | Shift from Cash-Flow Funding to Bond Funding

Hyperscaler Capital Expenditure (USD Tn) – Actual & Bloomberg Estimates

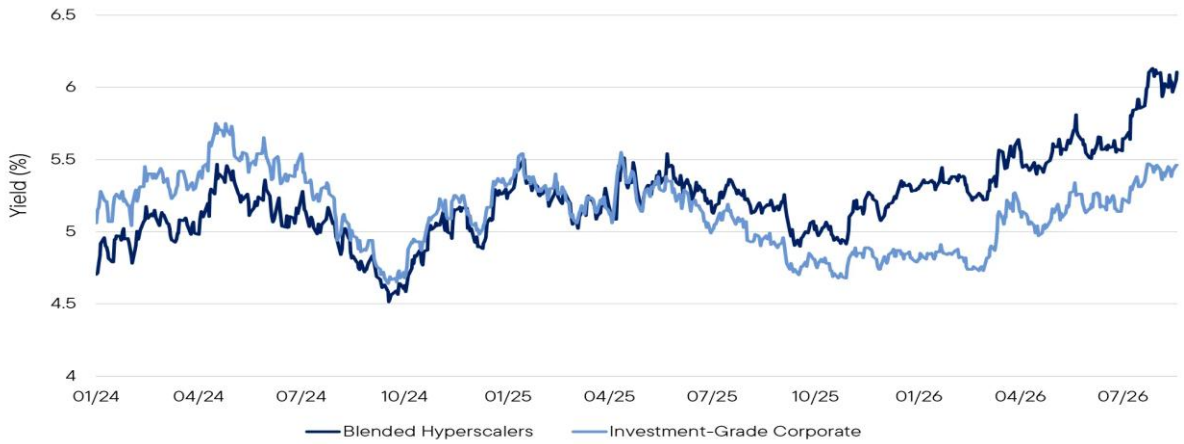


AI-related debt issuance for 2026—extending beyond the hyperscaler expected to range from $300 - $570 Bn

Bond Issuance by 5 AI Hyperscalers (Increase from USD 50 Bn to USD 132 Bn)



Investment-Grade Hyperscaler Yields Outpace Investment-Grade Corporate Yields



Hyperscaler blended yield represents an equal-weighted blend of Amazon, Alphabet (Google), Meta, Microsoft and Oracle. For each issuer, one 10-year bond and one 30-year bond are equally weighted. Investment-grade corporate represented by the Bloomberg US Corporate Bond Index., Data as on 18th Aug 2026

- Rapid capital expenditure by hyperscalers such as Alphabet, Meta, Microsoft, Amazon and Oracle has contributed to a significant increase in corporate debt issuance, including longer-maturity bonds.
- Heavy issuance has at times outpaced investor demand, pushing spreads wider and requiring issuers to offer higher coupons.
- Repricing appears more technical than fundamental, as these companies have maintained strong balance sheets, high credit ratings and significant cash-generation capacity
- Yields have moved close to high-yield levels despite materially different credit risk

Source : Franklin, Vanguard, Bloomberg, Internal Research. The above data is for informational purpose. The analysis may or may not be sustained in future

Japan’s Yen Dilemma: Solving One Problem, Creating Another

A stronger yen helps restore currency stability — but can unwind carry trades and transmit stress into global assets.

WEAK YEN

→ Yen slides to multi-decade lows

→ US–Japan intervene to buy yen

→ Japan sells dollars / foreign securities

→ Reserve drawdown can mean lower UST holdings

→ Pressure can spill into US Treasury yields

YEN

The policy pivot

STRONGER YEN

→ BOJ tightening + intervention lift yen

→ FX gains erase the carry-trade yield pickup

→ Investors cut short-yen / leveraged positions

→ Global assets are sold to repay yen funding

→ Risk-asset volatility and repatriation rise

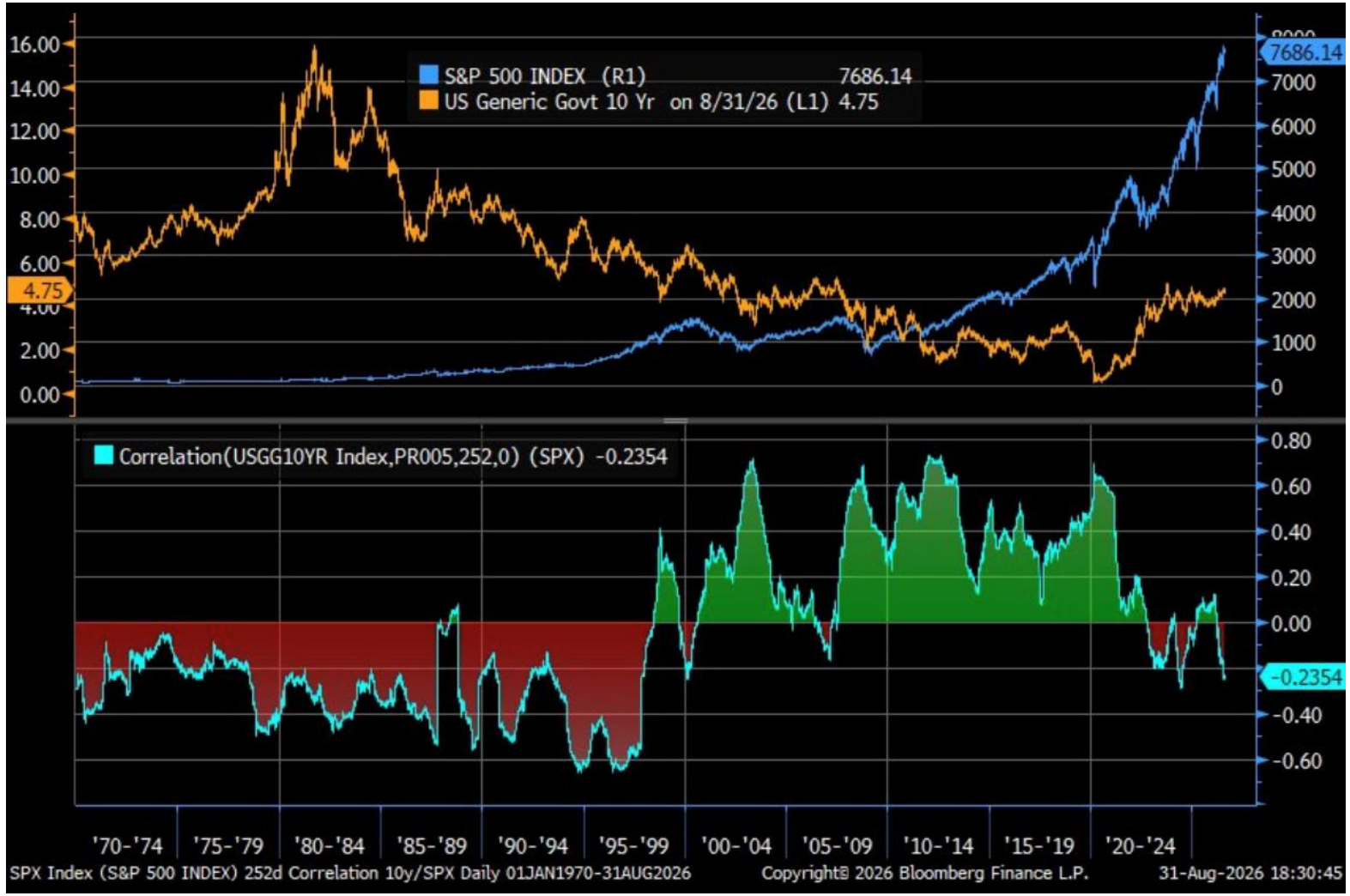
THE CATCH-22

A weak yen forces intervention; a stronger yen threatens the trade built around cheap yen funding.

Context: Reuters, 7–10 Sep 2026 — joint US–Japan yen intervention, BOJ tightening expectations and yen carry-trade unwind risk.

Source : Reuters, Internal Research

10 year Yields & Stocks: Correlation Turns Negative



- The US 10-year is hovering around 2007 levels (pre-crash), while the rolling one-year correlation with the S&P 500 moved further into negative territory (–0.24).
- When the yield–stock correlation is negative, rising yields typically pressure equity prices. This also causes bond prices and stock prices to move more in the same direction, reducing the traditional diversification benefit of a stock–bond portfolio.
- Historically, this negative relationship dominated the 1960s–1990s "Temperamental Era," **when yields responded more to inflation than growth.**
- The late-1990s through ~2022 "Great Moderation" saw the opposite (positive correlation), **as yields tracked growth expectations.**

Source: Bloomberg, Liz Ann Sonders - Shwab Center
The above data is for informational purpose. The analysis may or may not be sustained in future.

AI Capex, Higher Cost of Capital & India Rotation Thesis

Rising yields can amplify AI funding pressures, potentially triggering a capex reset and valuation de-rating across AI-linked companies. In such a scenario, India's relatively low direct AI concentration could position it as an anti-AI-concentration trade, offering a degree of relative margin of safety.

01



PHASE I — THE BOOM

AI capex accelerates

- AI adoption expectations rise
- Hyperscaler AI capex surges
- GPU, data-centre, networking and power investment accelerates
- Internal cash flow becomes less sufficient
- Debt, loans, private credit and SPVs gain importance

02



PHASE II — PRESSURE

Rates reprice the buildout

- Long-duration yields rise
- New bonds, loans and project finance become costlier
- WACC and hurdle rates move higher
- Each new dollar of AI infrastructure needs stronger returns

Current Situation

03



PHASE III — BREAK POINT

Critical trigger

- AI monetisation fails to keep pace with capex
- Utilisation / revenue / ROIC disappoint
- Free-cash-flow pressure becomes visible
- Management turns selective on incremental AI spend

04



PHASE IV — MELTDOWN

Capex reset + de-rating

- Projects are cut, delayed or reprioritised
- AI supplier EPS estimates are downgraded
- Valuation multiples compress
- Credit spreads widen

Meltdown = EPS ↓ + P/E ↓ + tighter credit

05



PHASE V — ROTATION

India as relative safety

- AI-heavy markets and sectors underperform
- Investors seek lower AI-concentration exposure
- India may be seen as an anti-AI-concentration trade
- Relative support: banks, consumption, domestic capex, healthcare, autos and telecom

Source: Internal Research

India : External Pressure, Internal Reform

1990–91 Gulf War vs. 2026 — similar global headwinds →Catalyst for India's new reform cycle

'1991 THE PRECEDENT

2 Aug 1990: Iraq invades Kuwait → Gulf War oil shock → Balance-of-Payments crisis

Petroleum import bill
$2.0bn → $5.6bn

Gold pledged (emergency)
67 tonnes (~$605mn)

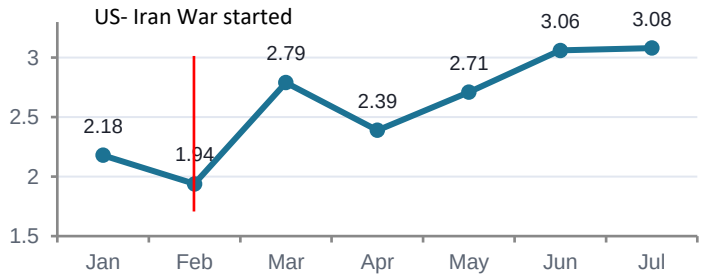
Rupee devaluation (Jul '91)
~18.7%, two tranches

Crude / LPG / LNG import dependency
90% / 95% / 64%

Result: 1991 reforms — economy opened under crisis duress, forced by an empty reserve chest.

Cause	Impact
Tariffs / Trade Barriers	**FTA momentum accelerated** as we looked to diversify trade relationships, secure market access and reduce dependence on individual markets.
India – Pakistan Conflict	**Boost to indigenous defence manufacturing**, with stronger order pipelines, higher domestic production and rising defence exports. FY26 total AoN: ₹9,28,000 cr — roughly 2x annual capex outlay, approved within a single fiscal year.
Iran–Israel War / Energy Crisis	**Energy security gained urgency:** EV registrations rose ~35% from **2.06 lakh/month to 2.77 lakh/month**, while **₹5–6 trillion transmission capex by FY32** supports renewable integration and reduces dependence on imported fuel.

Monthly EV regd, lakh units (Jan–Jul '26)



AON rising after Op Sindoor

Date	AoN (₹ cr)
3 Jul '25	1,05,000
12 Feb '26	3,60,000
27 Mar '26	2,38,000
3 Jul '26	52,000
Cumulative	**~9,80,000**

Sources: RBI (forex); ThePrint/CutTheClutter 8 Jul'26, DRDO press digest, MoD Year-End Review 2025 (defence AoN & production); JMK Research/Vahan Dashboard (EV, Jan–Jul'26); ICRA via SolarQuarter 13 Jul'26 (transmission capex). AoN : Acceptance of Necessity

India ranks among the most efficient growth economies

GDP Size	Country	10-Year Avg. (Quarterly GDP)	Std Dev	Growth-to-Volatility Ratio
$32.4T	United States	2.5%	2.5%	0.96
$20.9T	China	5.6%	3.2%	1.73
$5.5T	Germany	0.7%	3.0%	0.25
$4.4T	Japan	0.5%	2.5%	0.19
$4.3T	United Kingdom	1.5%	6.4%	0.23
$4.2T	**India**	**6.1%**	**6.2%**	**0.99**
$3.6T	France	1.3%	4.4%	0.31
$2.7T	Italy	1.2%	5.1%	0.23
$2.7T	Russia	1.5%	3.2%	0.46
$2.6T	Brazil	1.3%	3.3%	0.40

- The Growth-to-Volatility Ratio (GVR) functions like a Sharpe Ratio for GDP growth. It captures how efficiently an economy converts volatility into growth, or how much growth is earned per unit of instability.

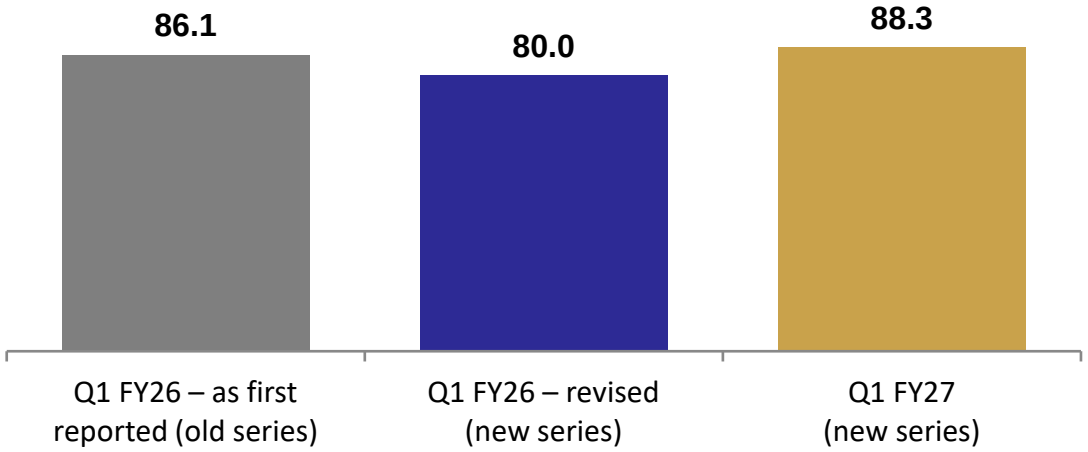
- By this measure, China (1.73) and **India (0.99)** clearly lead the pack, whereas mature economies like Japan (0.19), Italy (0.23), and the UK (0.23) deliver markedly weaker growth relative to the volatility they experience.

Source: Bloomberg, Edelweiss TEMPO – Aug'26

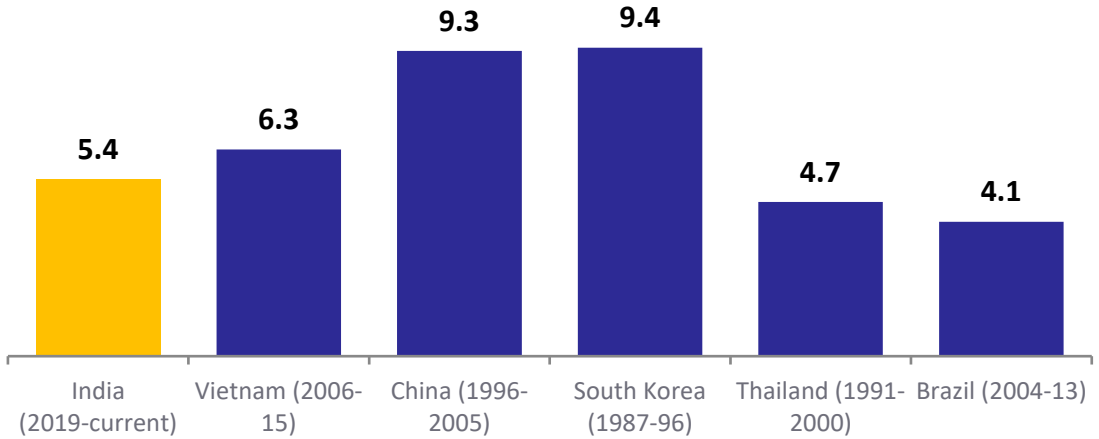
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Q1FY27 GDP - Debunking the Skepticism

Q1 GDP at current prices (₹ lakh cr) — what the base-year switch did to the comparison



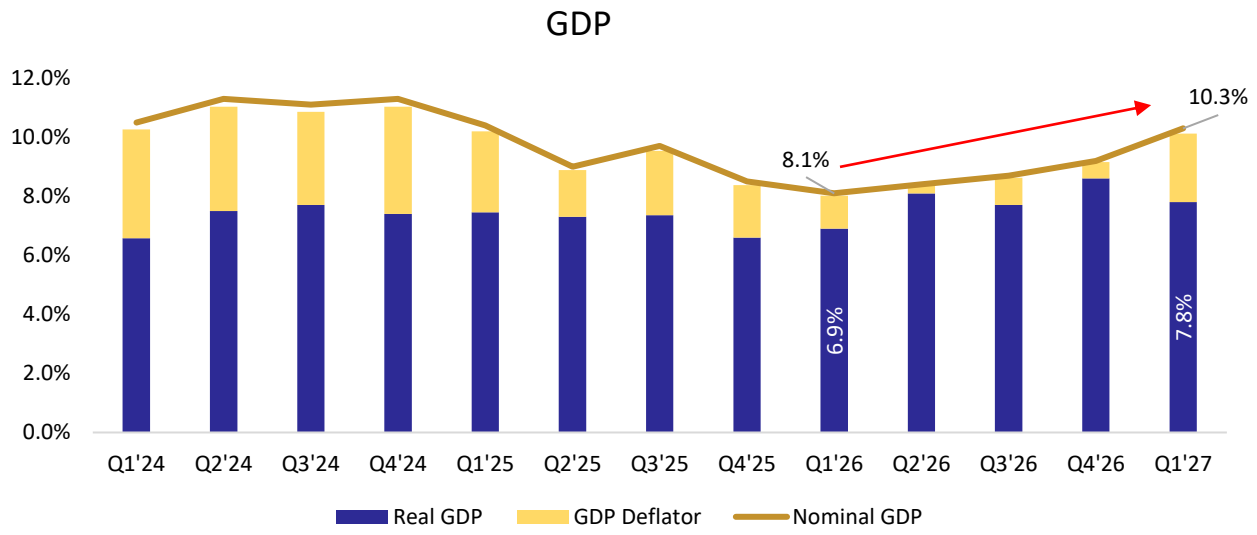
Avg. growth vs. peers' own demographic-dividend years

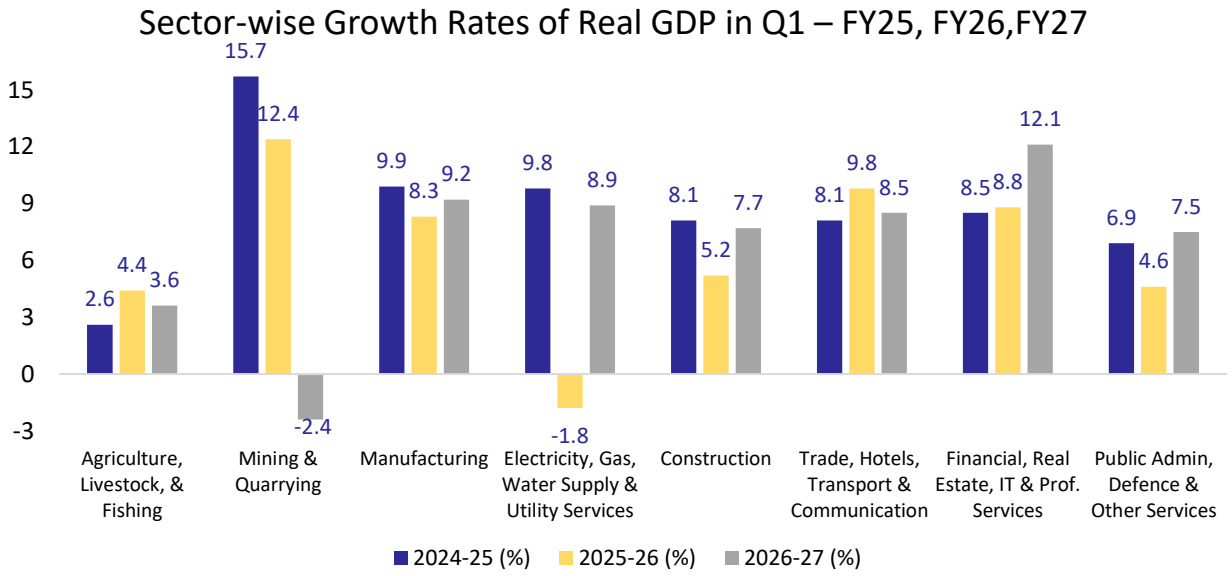


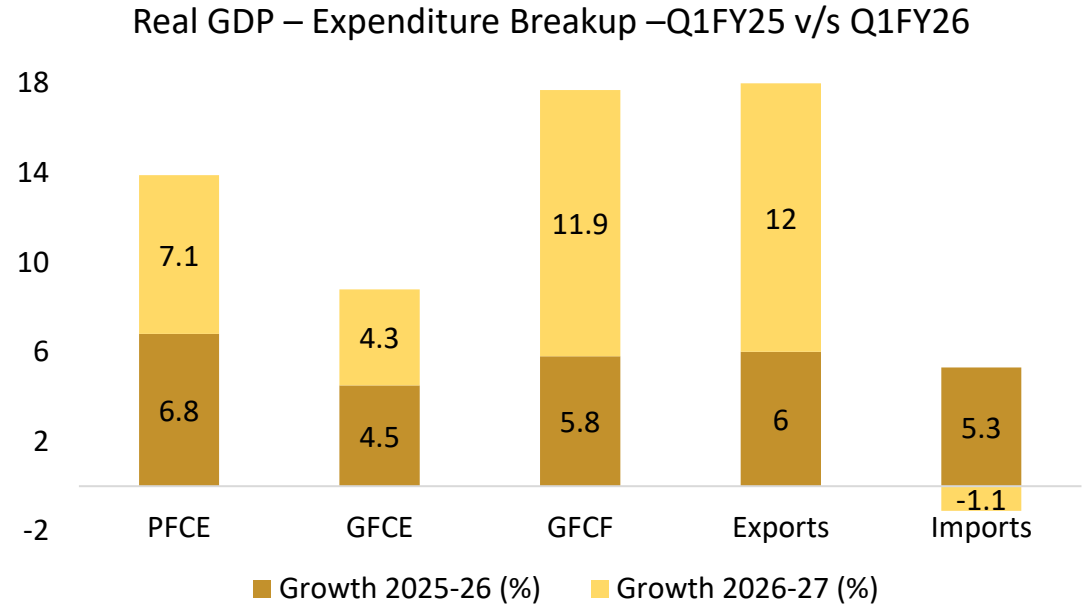
- GDP revisions are routine, not a red flag – hence we need to wait before the revised numbers are released before concluding growth or decline
- The change in statistical base and framework do not validate a fair comparison between Q1FY26 and Q1FY27 GDP numbers - Statistics Ministry attributes the change to the 2022-23 base-year switch and richer source data
- On a like-for-like basis, India sits mid-pack — but the comparison isn't fully fair to India; unlike its peers, India's window (2019-current) includes the COVID-19 shock. Strip that out, and India's underlying trend growth through its demographic dividend years looks stronger

Source : MoSPI, RBI, Mint, Reuters, Internal Research. The above data is for informational purpose. The analysis may or may not be sustained in future

Q1FY27 GDP: Growth Accelerates as Services Gain Momentum







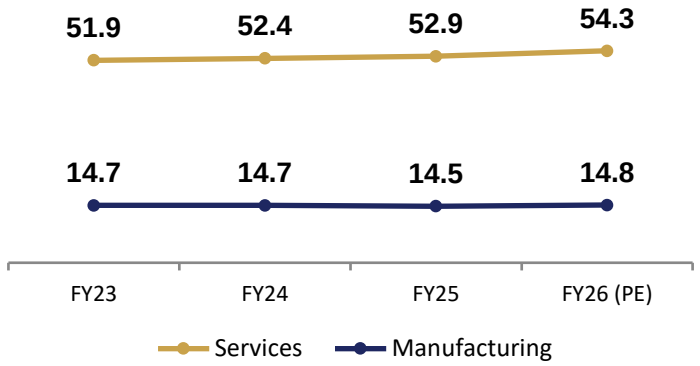
- **India's real GDP growth accelerated to 7.8% YoY in Q1FY27**, up from 6.9% in Q1FY26 and ahead of the RBI's 7.0% estimate, indicating stronger-than-expected underlying economic momentum
- **Growth was led by services and manufacturing:** Financial, Real Estate, IT & Professional Services grew **12.1%**, Manufacturing **9.2%**, and Construction **7.7%**, highlighting continued strength in non-farm economic activity
- **Domestic demand remained supportive while external trade added to growth:** Private consumption grew **7.1%**, while exports expanded **12.0%** and imports declined **1.1%**.

Source: MOSPI, Internal Research

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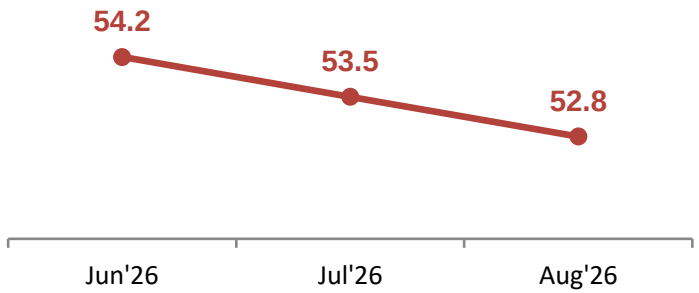
Manufacturing remains Flat: Bifurcated Engine and Low-base Momentum to Drive Growth

Share of GVA — manufacturing vs. services, FY23→FY26



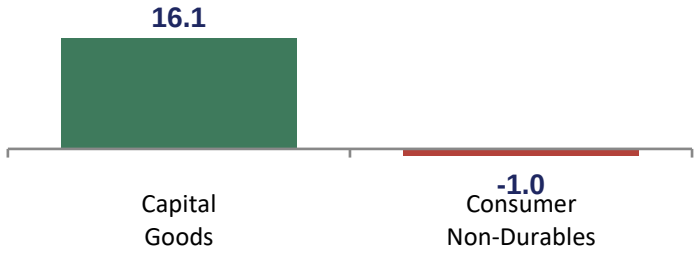
Manufacturing has barely moved while services climbed every single year

Manufacturing PMI — 3rd straight monthly decline



PMI 52.8 in Aug '26 weakest in 5 yrs; new orders and hiring both softened - the first headcount cut in 2.5 years

IIP — capex strength vs. consumer softness (Jul '26)



Investment-linked output up sharply on the same output measure; consumer goods output contracted

+15.8%
Electronics production, FY25→FY26 (₹11.3L→₹13.1L cr)

₹2.4L cr
Actual PLI investment vs. ₹1.91L cr approved outlay

34.3% of GDP
GFCF (investment) share, Q1 FY27 — up from 31.4%

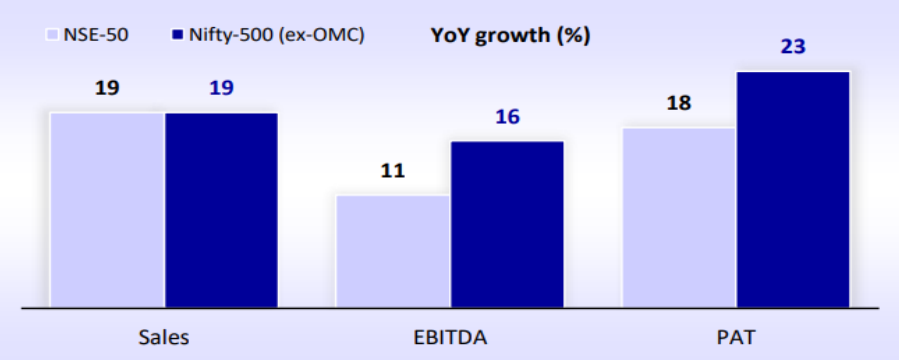
- India is yet to see a tilt from services to manufacturing in value-add - the expansion that exists is real but concentrated in capex-led sub-sectors
- **India's manufacturing value-add CAGR is projected to accelerate to 12.1% by 2030F (vs. 5.1% in 2019-24)** – a genuine low-base opportunity, but only if strategic-sector capex broadens into consumer-facing demand rather than staying import-substitution-narrow

Sources: MoSPI GDP Provisional Estimates FY25-26, S&P Global/HSBC PMI, MoSPI IIP (Jul 2026), PIB, World Bank/Frost & Sullivan (via KMAMC Kontext)
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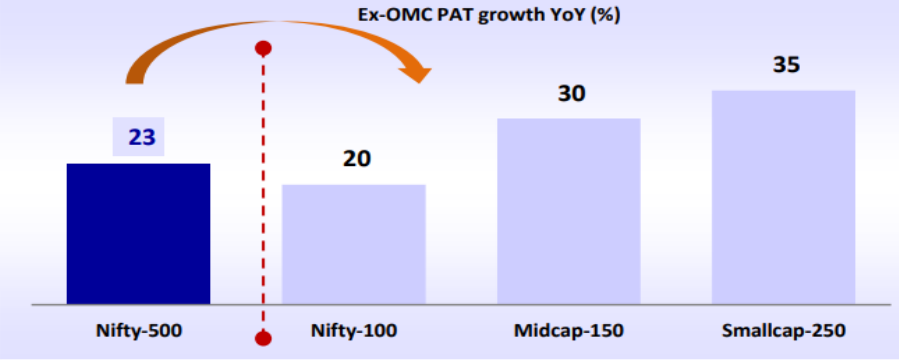
Q1FY27 Earnings Review: Broad-Based Earnings Strength

+23%	+13%	1.5x
Nifty-500 (ex-OMC) PAT growth YoY	Nifty-500 headline PAT growth YoY	Upgrade-to-downgrade ratio, FY27E

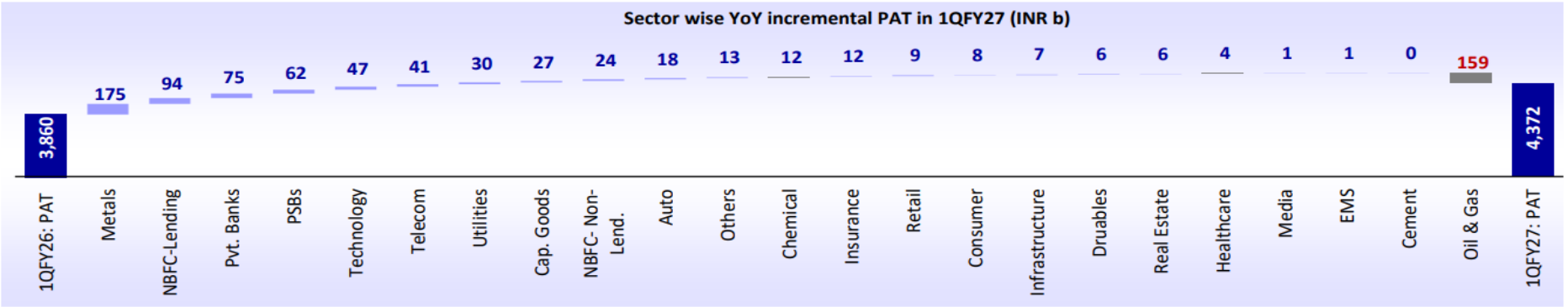
Nifty-500 continues to outperform Nifty-50 in 1QFY27



Broad-based strength across Mcaps in 1QFY27 (ex-OMC)



Incremental profit contributors within the Nifty-500 (1QFY27): Metals and Financials lead the charge



Source: MOFSL Eagle Eye, September 2026

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

Broad-Based Beat Across Market Caps, Earnings Upgraded

motilal oswal
think wealth creation

MOFSL EARNINGS REVIEW · 1QFY27

Earnings broadened across 19 sectors in 1QFY27, with Large-, Mid- and Small-cap PAT growth all outpacing MOFSL estimates.

48%
Companies beat PAT estimates (25% missed) – MOFSL Universe

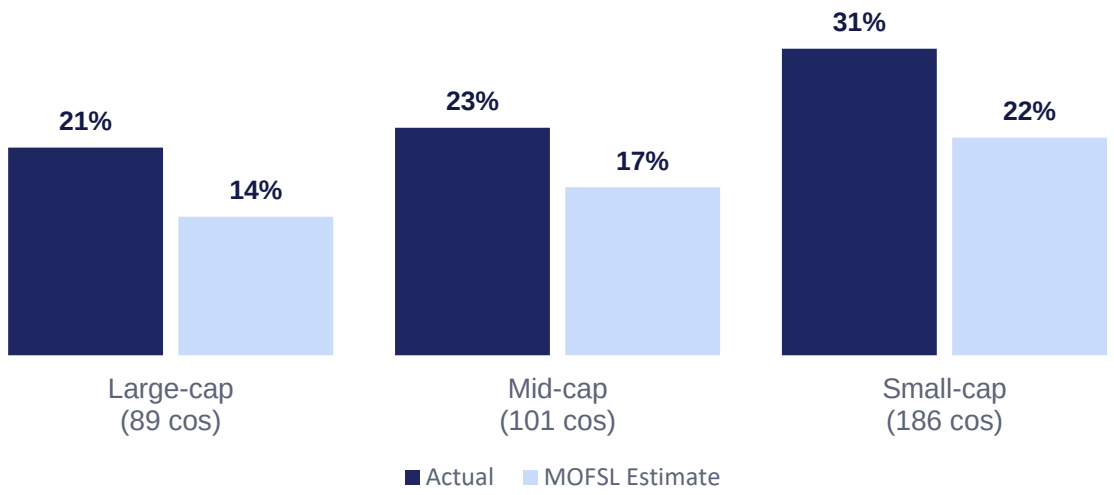
1.5x
Upgrade : downgrade ratio – 130 vs. 89 stocks, FY27E

22%
MOFSL Universe PAT growth YoY, ex-OMCs (est. +15%)

₹1,232
Nifty FY27E EPS, raised 0.6% this quarter

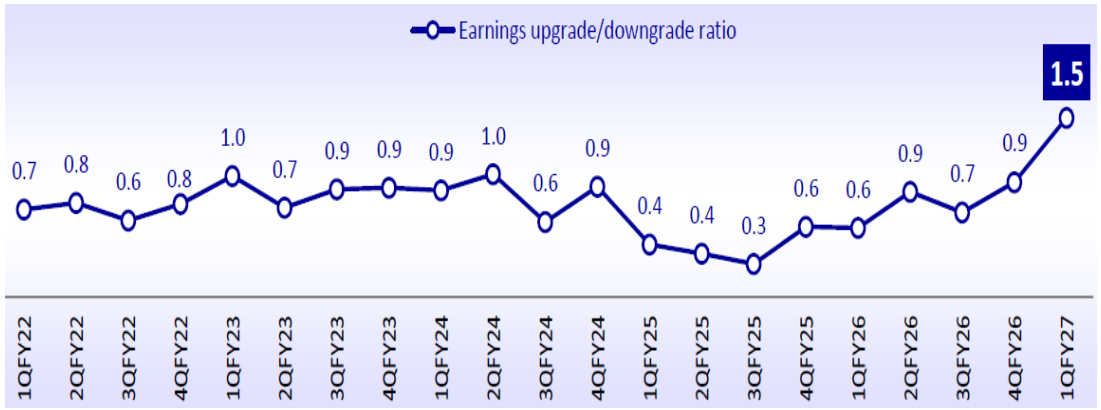
Earnings Growth by Market Cap

1QFY27 PAT growth, YoY % — MOFSL Universe, ex-OMCs



Beat ratio (PAT, % of cos exceeding estimate): Overall 48% · Large-cap 57% · Mid-cap 39% · Small-cap 48%

The upgrade-to-downgrade ratio trend for the MOFSL Universe turned favorable in 1Q – the highest in 22 quarters



Sector Performance

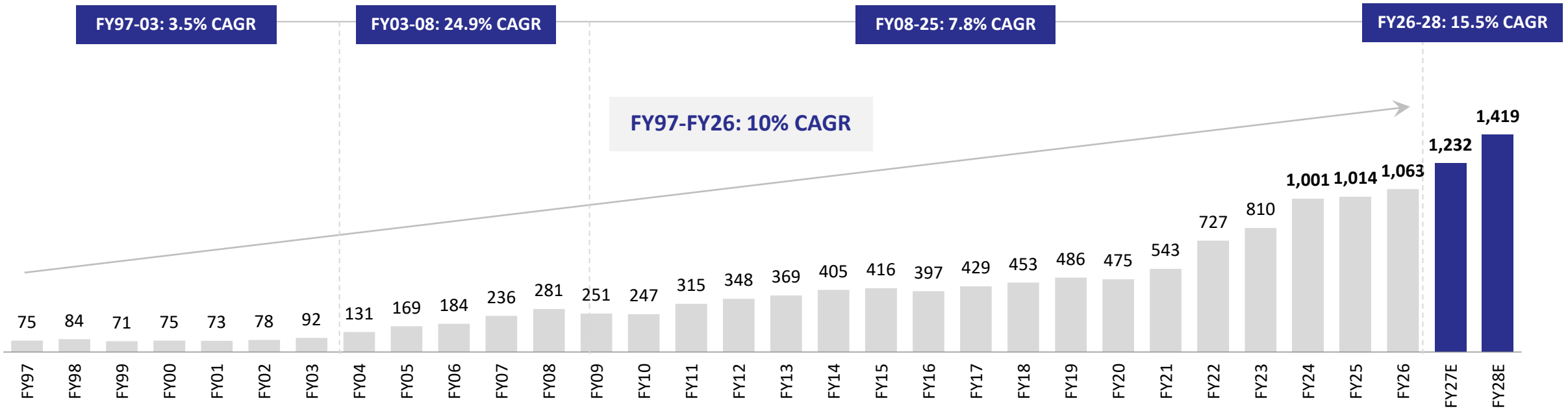
- **Leading the beat: Financials, Metals, Auto, O&G (ex-OMC), Chemicals, Telecom**
- **Key drags: OMCs, Cement**

19 sectors within MOFSL coverage exceeded 1QFY27 earnings expectations; OMCs were the primary drag on aggregate growth.

Source: Motilal Oswal Financial Services, 1QFY27 Corporate Earnings Review. Growth and beat-miss figures for MOFSL Coverage Universe, ex-OMCs unless stated; market-cap classification by number of companies in each segment.

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

Nifty 50 – Earnings Growth Outlook



FY27 EPS is expected to grow by 16% to 1232 (raised by 0.6%) and FY28 EPS is expected to grow by 15% to 1419 (raised by 0.3%).

Source: Internal Research, MO Institutional Equities

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

India Equities: A Growing Wall of Supply

Domestic liquidity remains strong, but it is being asked to absorb a rising pool of primary issuance and secondary exits.

IPO SUPPLY

₹46,453 cr

Raised Apr–Aug FY27

→ Primary issuance accelerated sharply in Jul–Aug

→ Potential IPO pipeline: ~₹4 lakh cr +

→ Large upcoming issues can absorb meaningful incremental liquidity

SECONDARY SUPPLY

₹3.05 lakh cr

Block & bulk deals, Apr–Aug 2026

→ August alone: ~₹80,000 cr — a 14-month high

→ Promoter monetisation + PE/VC exits are increasing

→ Post-IPO lock-ins and elevated valuations add to sell-downs

GOVT. STAKE SALES

~₹55,600 cr

FY27 disinvestment receipts so far

→ OFS remains an active supply channel

→ FY27 disinvestment target: ₹80,000 cr

→ Further CPSE stake sales can add supply through the year

THE LIQUIDITY EQUATION

SIP / Domestic Institutional Flows → IPOs + OFS + PE/VC Exits + Promoter Sales → Liquidity gets dispersed

Broad re-rating becomes harder | Stock and sector selectivity matters more

"The issue is not the absence of liquidity — it is the increasing number of claimants on that liquidity."

Note: IPO, block/bulk and government OFS figures can overlap and should not be aggregated. Sources: public market reports and DIPAM, Sep 2026.

Patience Has No Fixed Timeline

motilal oswal
think wealth creation

JAPAN · Nikkei 225 (1989 – 2025)



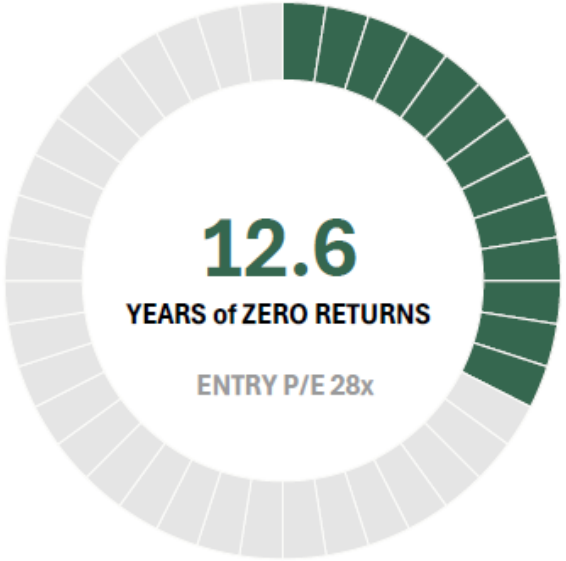
- Flat from Dec-1989 to June-2025, for over 35 years with a near 80% drawdown from peak to the lowest point.
- It has been one of the poster child of excesses turning to very long-term pain.

CHINA · CSI 300 (2007-2026)



- Peaked 2007 at 5900 on a P/E of 49x. It is yet to hit that peak again.
- Fell 72% en route.
- Over the last two decades an investor would have questioned the long-term thesis repeatedly.

UNITED STATES · S&P 500 (2000-2013)



- Peaked 2000 at 1,552 on a P/E of 28x. Flat until 2013.
- A near-identical 12.8-year flat stretch also ran 1962–1974.
- Fell 48% en route.

INDIA · SENSEX (1992–03)



Mar-1992 peak at 4,285 on roughly 57× earnings, the most expensive entry in this set. Back to that same level by Aug-2003, a round trip of -0.9% over 11.4 years with a 50% collapse in between (trough 2,122 in Apr-1993), and another 58% collapse between Feb'00 to Sep'01.

Each dial = one 40-year investing life, cut into 40 one-year segments. ■ shaded = years the index went nowhere (round-trip to ≈0% net return). □ pale = years left.

Source: DSP Netra. Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Daily 2Y Rolling Returns: Nifty 50

Daily 2 Year Rolling Returns				1Y Forward Return (Absolute %)								3Y Forward Return (CAGR %)							
Return Bands		Count in Range	% Times	Min	Max	Average	% times					Min	Max	Average	% times				
							<0%	0% - 5%	5% - 10%	10% - 15%	>15%				<0%	0% - 5%	5% - 10%	10% - 15%	>15%
	0%	258	7%	2%	97%	32%	0%	4%	20%	10%	66%	11%	32%	19%	0%	0%	0%	31%	69%
0%	5%	470	13%	-1%	67%	23%	1%	5%	14%	15%	65%	-4%	24%	15%	2%	3%	9%	34%	52%
5%	10%	685	19%	-7%	59%	21%	3%	9%	7%	17%	64%	-3%	24%	13%	2%	8%	16%	30%	44%
10%	15%	768	21%	-30%	55%	14%	16%	8%	14%	17%	45%	2%	23%	13%	0%	3%	17%	46%	35%
15%		1456	40%	-23%	40%	6%	23%	21%	21%	20%	13%	5%	21%	13%	0%	0%	23%	53%	24%
		3637																	

Data Period – 1st Jan'10 to 7th Sep'26. Traded days considered.

Current band has been highlighted in grey.

Current Value (As on 7th Sep): -2.8%

Historically during such phases of 2 yr returns turning negative, Nifty Index has always delivered positive return in the next 1 yr. On 3Y basis as well, avg 19% return has been generated with 100% instances giving >10% returns.

Period	Event
Jan-12	2011 Eurozone debt crisis, high inflation, RBI rate hikes, rupee slide
Apr-12 – Jan-13	Lingering Eurozone crisis + GAAR tax uncertainty
Apr-13	Pre-Taper Tantrum (May 2013 Fed QE-tapering shock)
Nov-16 – Jan-17	Demonetization (Nov 2016) + Trump election global sell-off
Mar-20 – Sep-20	COVID-19 pandemic crash
Jul-26 – Sep-26	FII selling, weak rupee, high 2024 base

The specific dates of –ve 2Y returns lie in these months

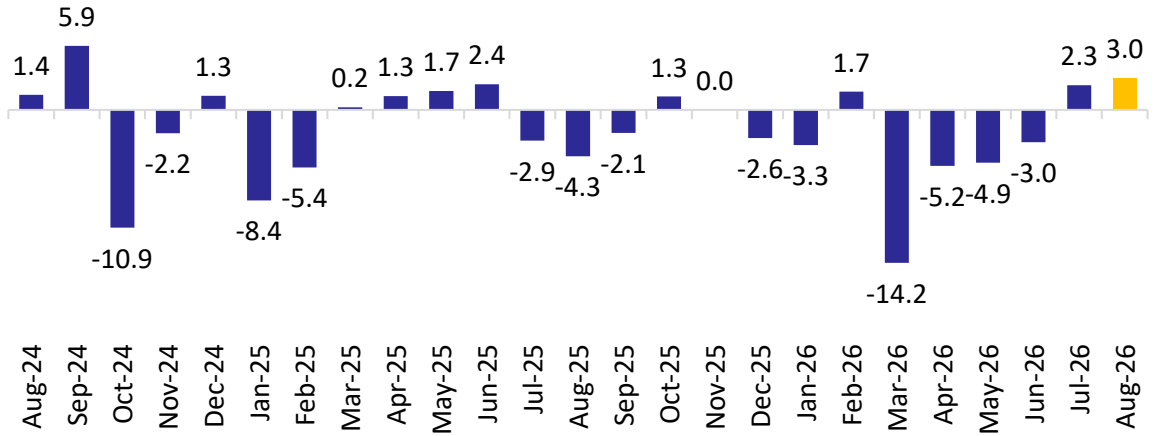
Source: Internal Research, NSE

Equity

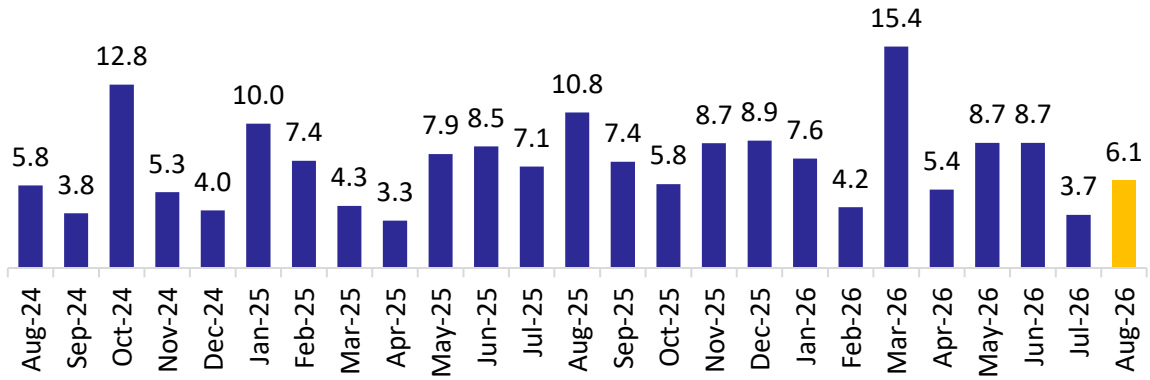
FII vs DII Flows

FIIs record inflows for the second consecutive month while DII inflows remain strong in Aug'26

FII Equity Flows (US$ Bn)



DII Equity Flows (US$ Bn)



Over the years, the % of market cap affected by the similar amount bought/sold by FPIs has reduced

CY	FPI Equity Flow (In Cr)	% of Mcap bought/sold by FPIs
2008	-52,987	1.7%
2009	83,431	1.4%
2010	1,33,260	1.8%
2011	-2,714	0.1%
2012	1,28,361	1.9%
2013	1,13,134	1.6%
2014	97,059	1.0%
2015	17,801	0.2%
2016	20,563	0.2%
2017	51,252	0.3%
2018	-33,014	0.2%
2019	1,01,122	0.7%
2020	1,70,262	0.9%
2021	25,752	0.1%
2022	-1,21,439	0.4%
2023	1,71,107	0.5%
2024	-191	0.0%
2025	-1,64,041	0.3%
2026*	-2,19,929	0.5%

FPIs had a larger influence on Indian equities during earlier market cycles with flows forming a larger share of market cap

Despite large FPI flows, their relative impact on market cap has declined

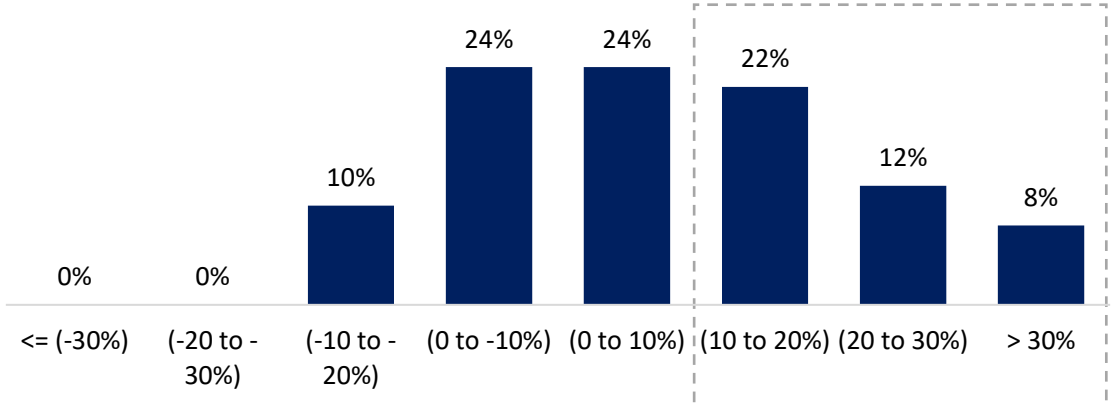
Source: Internal Research, MO Institutional Equities, NSDL, Bloomberg, Edelweiss TEMPO – Aug'26

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

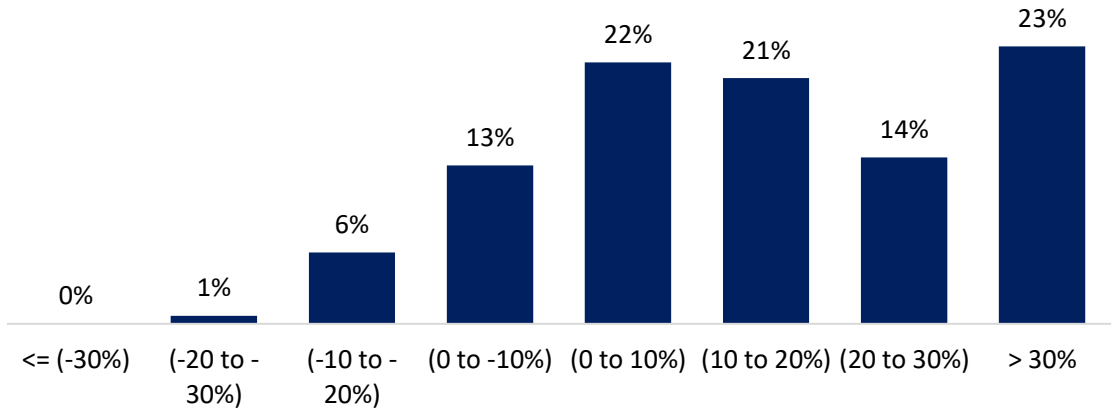
Return Distribution of Indices (FYTD)

Nifty 50	Nifty 100	Nifty Mid Cap 150	Nifty Small Cap 250
4.9%	7.7%	18.3%	29.0%

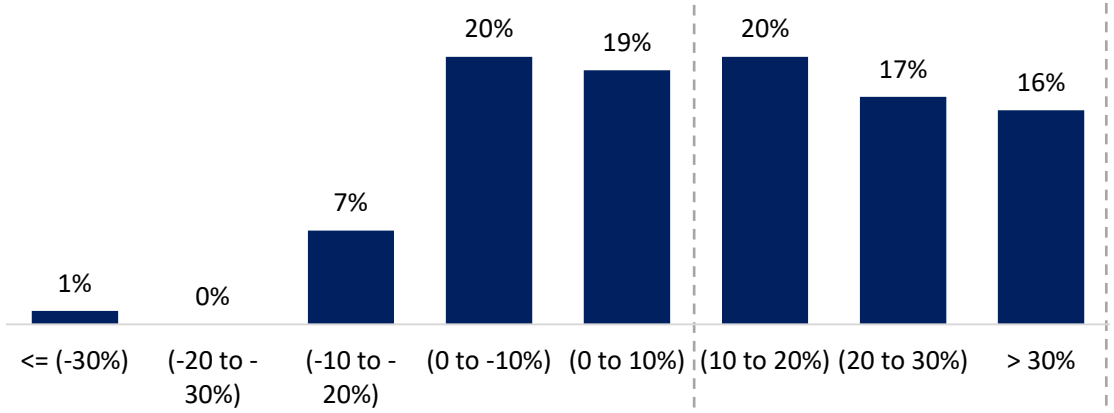
Nifty 50



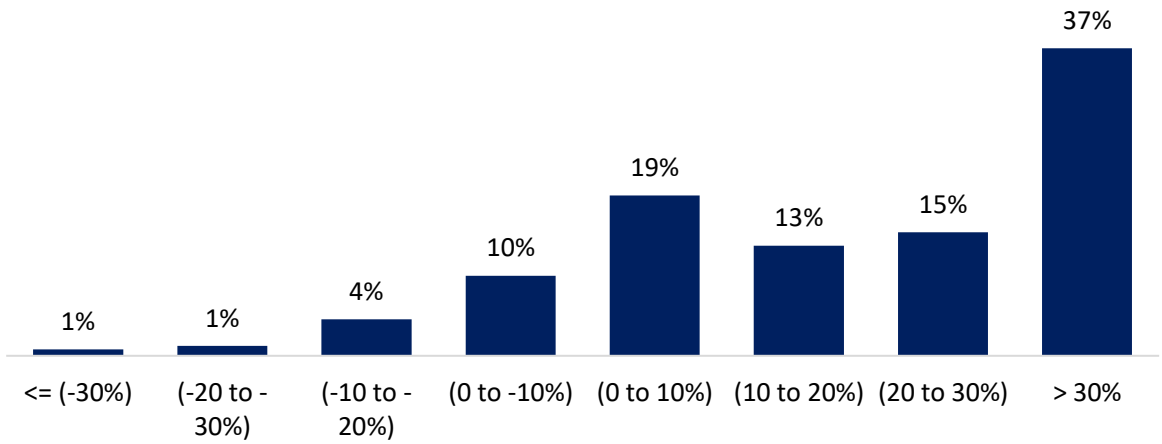
Nifty Mid Cap 150



Nifty 100



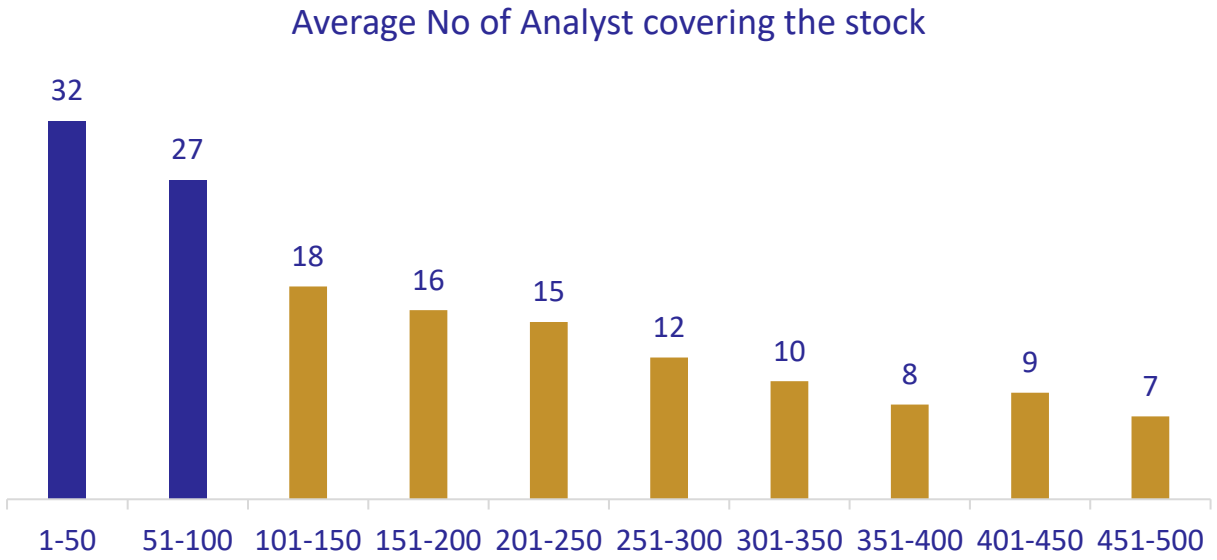
Nifty Small Cap 250

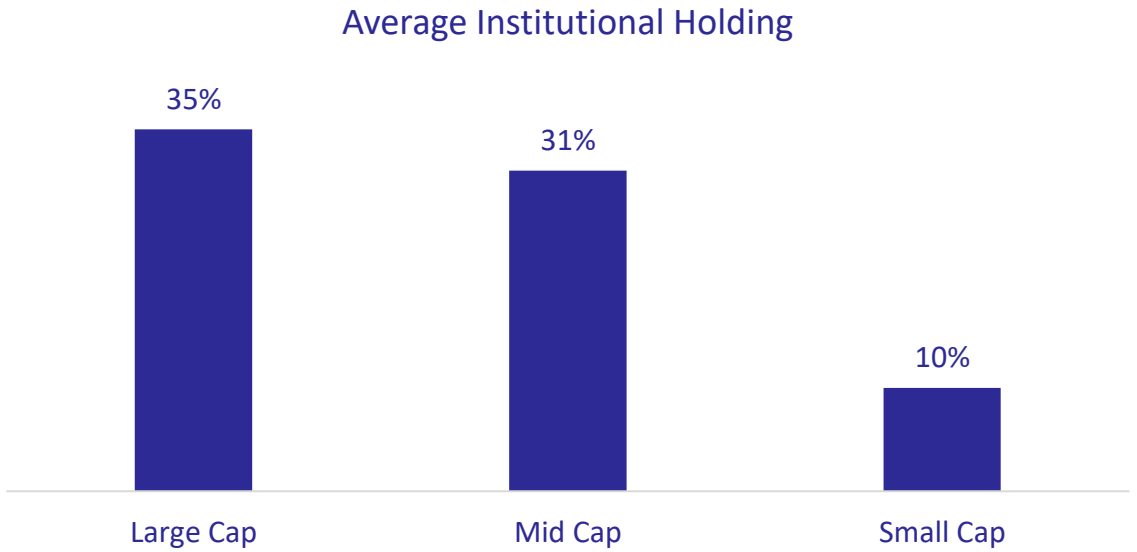


Source: Internal Research, ACE Equity, ACE MF; Data as on 9th Sep'26

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

Small Caps: Hunting Ground for Alpha & Multi-baggers





No of Multi-baggers 10 years (2015-2025)			
	>5x-10x	10x-20x	>20x
Large Caps	22	7	0
Mid Caps	31	8	4
Small Caps (250-750th)	81	29	16

No of Multi-baggers 5 years (2020-2025)			
	>5x-10x	10x-20x	>20x
Large Caps	8	1	0
Mid Caps	21	5	1
Small Caps(250-750th)	61	17	7

- 57 companies in small-midcap space have become more than 10x in past 10 years, as compared to only 7 from large-caps
- 112 companies in small-midcap space have become more than 5x in past 5 years, as compared to only 9 from large-caps
- The progression of business growth and valuation re-rating underpins the structural play for a multi bagger over time.

What happens after a large cap correction >= 15%

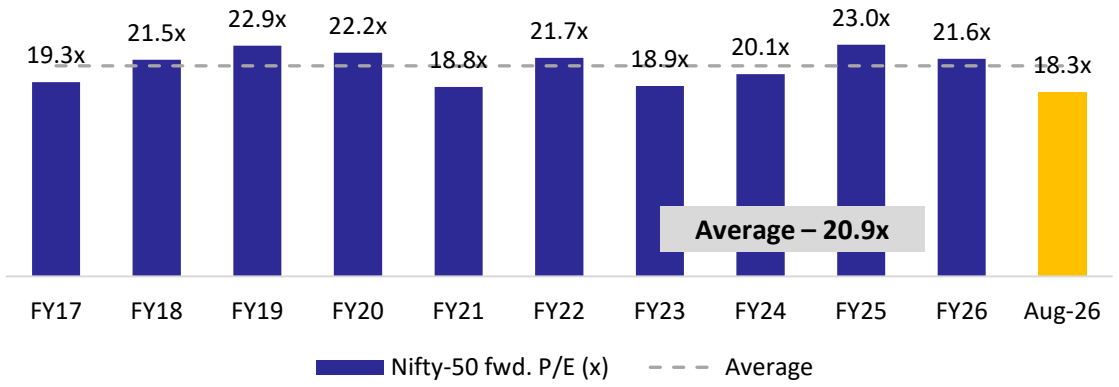
Absolute Returns >>			6-month From Bottom			1-year From Bottom			3-year From Bottom		
Peak Date	Bottom Date	Peak-to-Bottom Fall	Large cap	Midcap	Smallcap	Large cap	Midcap	Smallcap	Large cap	Midcap	Smallcap
10-May-06	14-Jun-06	-30.8%	54.7%	57.3%	58.4%	70.7%	76.5%	84.5%	71.3%	55.4%	52.5%
07-Feb-07	05-Mar-07	-15.3%	45.1%	46.3%	48.1%	32.9%	26.7%	35.4%	55.6%	53.7%	47.4%
07-Jan-08	27-Oct-08	-61.1%	45.1%	30.6%	18.9%	89.8%	110.0%	88.9%	125.6%	144.2%	122.4%
05-Nov-10	20-Dec-11	-28.9%	18.2%	23.9%	22.5%	34.6%	48.1%	41.5%	95.8%	137.9%	127.2%
03-Mar-15	25-Feb-16	-20.6%	28.8%	35.4%	37.0%	31.8%	45.0%	48.5%	61.9%	63.3%	40.0%
17-Jan-20	23-Mar-20	-37.9%	48.3%	56.3%	67.6%	93.7%	117.5%	133.7%	130.0%	179.5%	200.9%
18-Oct-21	17-Jun-22	-16.8%	19.3%	23.1%	21.7%	25.0%	38.2%	34.6%	74.8%	129.4%	130.1%
26-Sep-24	28-Feb-25	-17.2%	13.1%	19.4%	21.3%	14.9%	21.8%	13.2%	--	--	--
Average Return			**34%**	**37%**	**37%**	**49%**	**60%**	**60%**	**88%**	**109%**	**103%**
% of instances SMIDs beat Large cap			**-**	**7/8**	**7/8**	**-**	**7/8**	**6/8**	**-**	**5/7**	**3/7**

Last 21 years data suggests, broad sell-offs have historically favoured an initial mid/small-cap tilt, with midcaps the more persistent 1–3 year allocation
From the Feb-25 low, the Mid Cap 150 index is already up ~31%, and the Small Cap 250 is up ~34%, while the Nifty 100 has delivered ~11%.

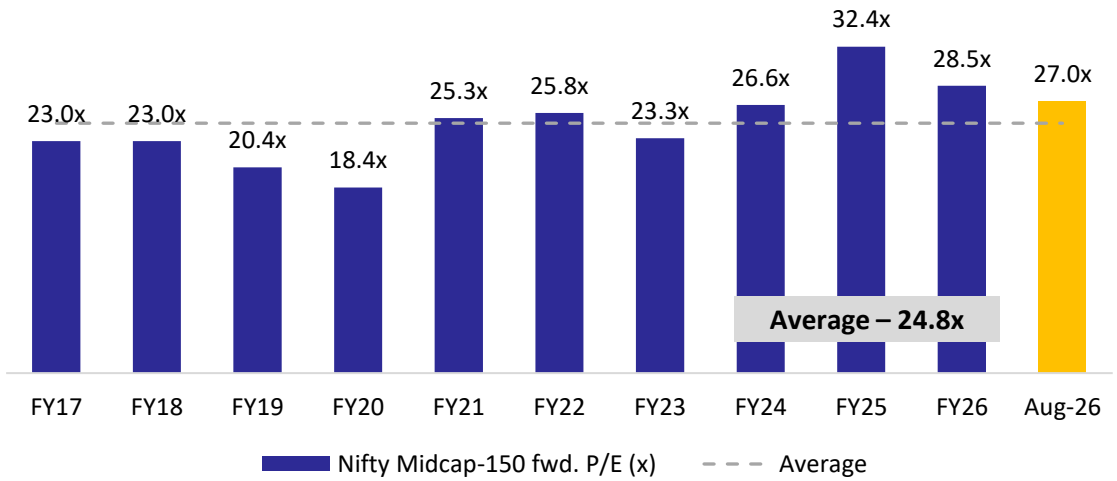
Source: Bloomberg, Edelweiss TEMPO – Aug'26; Data as on 31st July 2026 | Period considered: 01st Jan 2016 to 31st July 2026
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

12-Month Forward Valuations

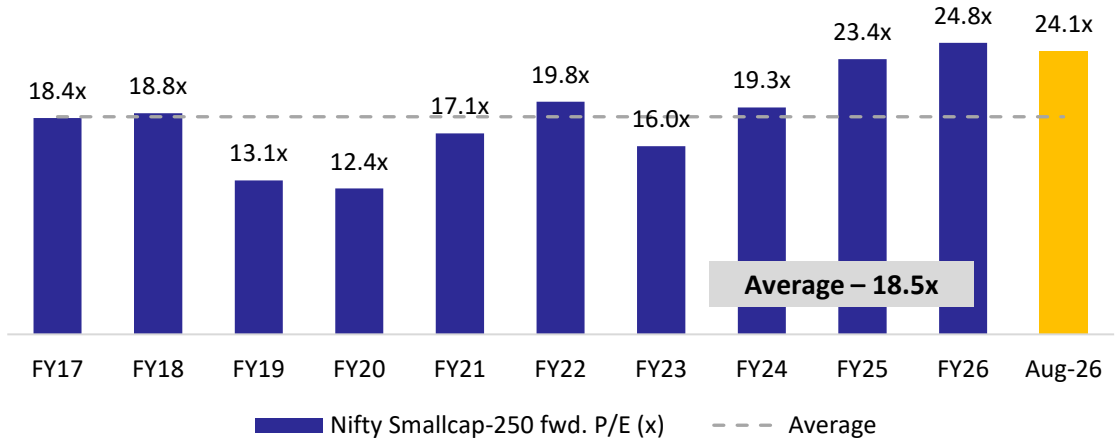
Nifty-50 fwd. P/E (x)



Nifty Midcap-150 fwd. P/E (x)



Nifty Smallcap-250 fwd. P/E (x)

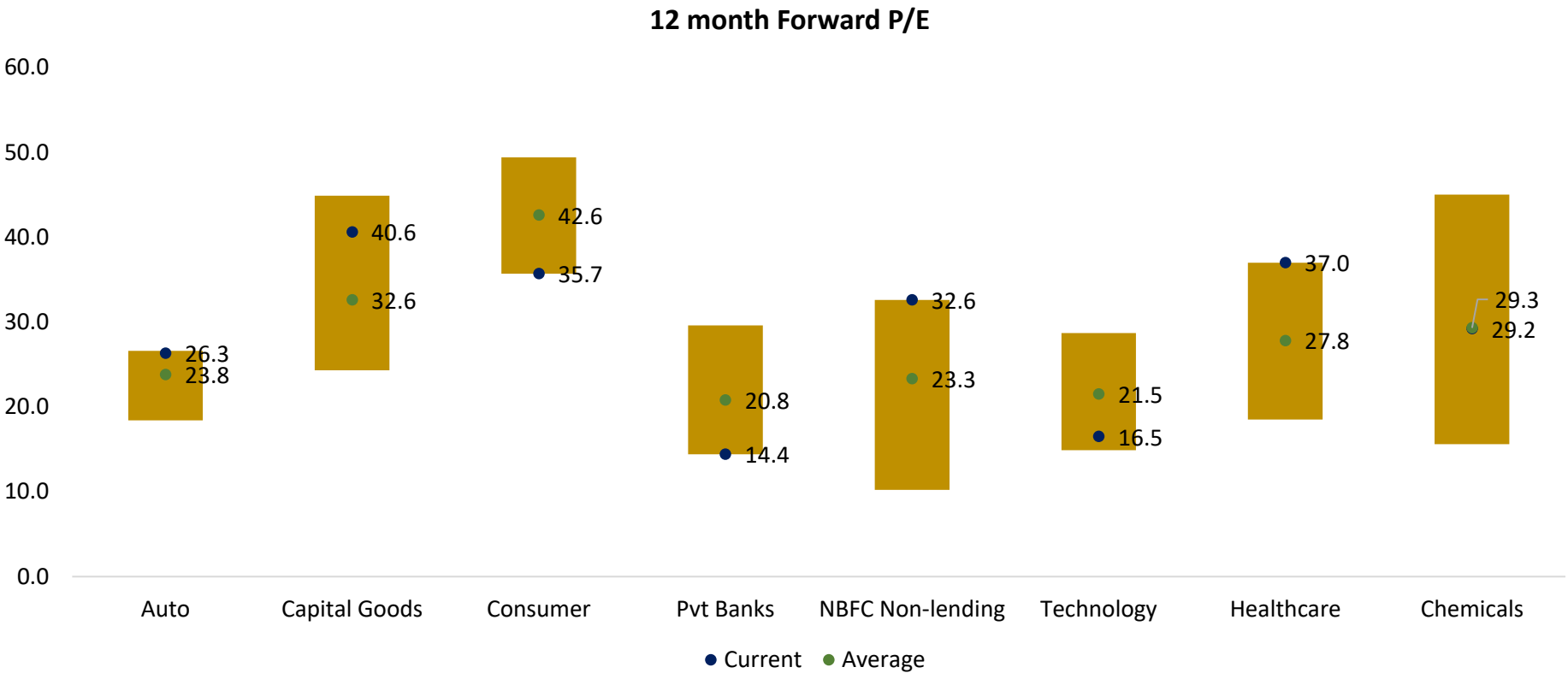


The Nifty is now trading at a 12-month forward Price-to-Earnings (P/E) ratio of 18.3x, which is 12% below its historical average of 20.9x. Mid and small-cap equities' 12-month forward P/E trades at a 9%/30% premium to their 10-year averages of 24.8x/18.5x but the extent of the premium has come down compared to Sep'24.

Source: Internal Research, MO Institutional Equities

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

12-Month Forward Valuations – MO Universe (Sectoral)



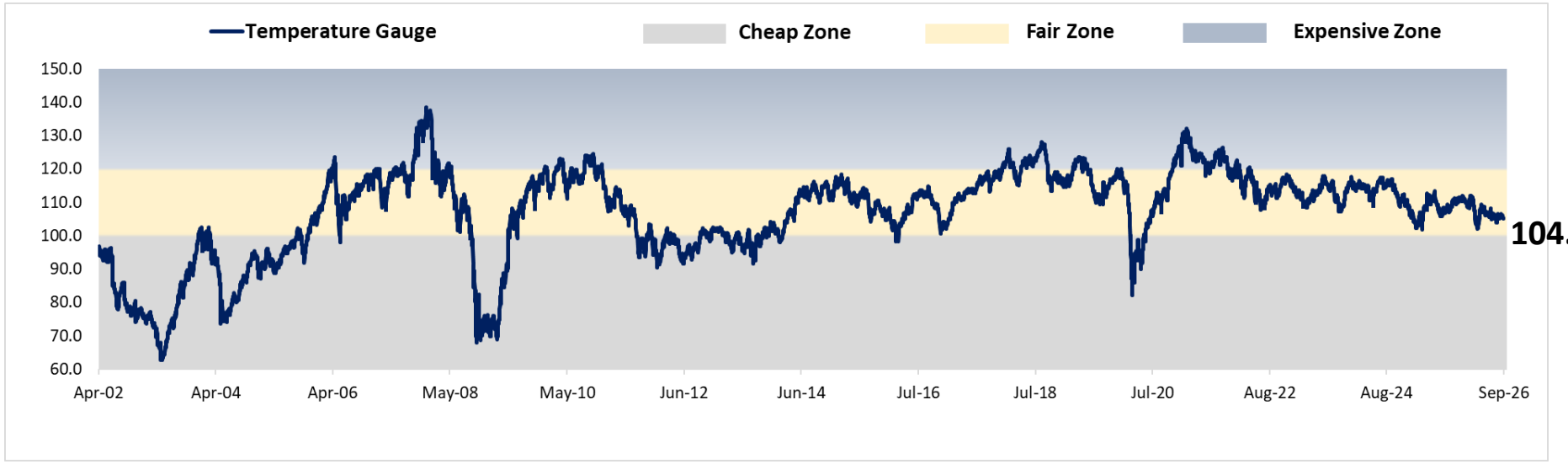
Note: The average data represents 10 year avg (from FY17 onwards). The data point for each FY is the 12 mth avg of one year fwd P/E across MOFSL Universe sectors

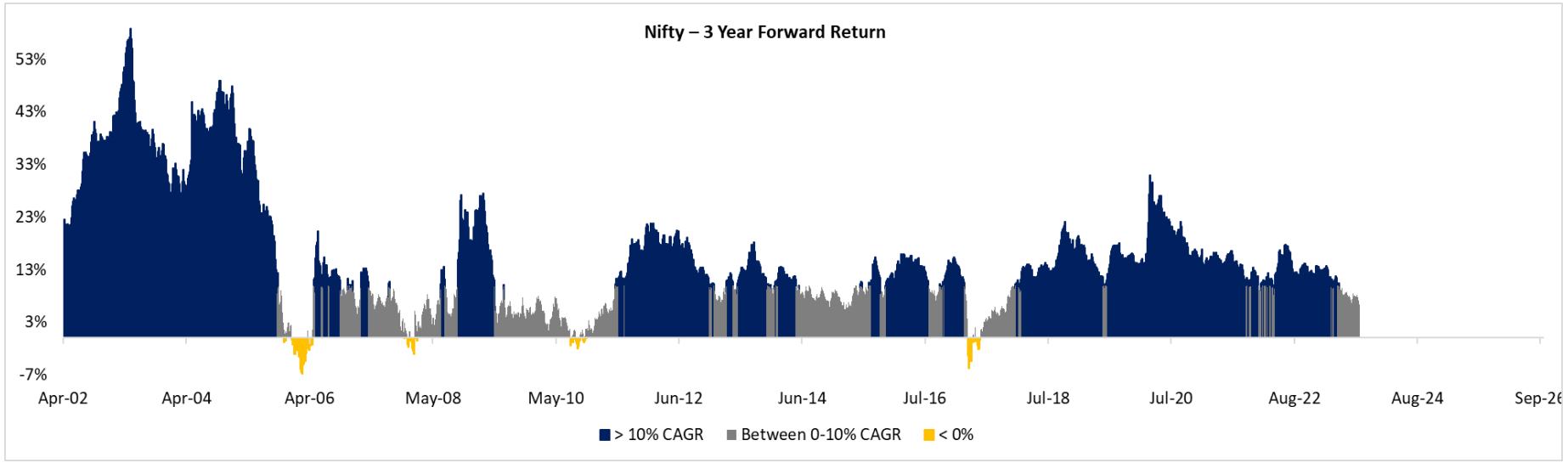
- The 12 month forward P/E for Private Banks, Consumer, Technology, Chemicals and Retail are trading at a discounts of 31%, 16%, 23%, 0.4% and 30%, respectively, to their 10 year averages.
- In contrast, valuations remain above their LPA for Automobiles (+10%), Capital Goods (+25%), NBFC Non lending (+40%), Healthcare (+33%), and Chemicals (+0.4%).

Source: Internal Research, MO Institutional Equities

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

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 10th Sep'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	6.58%	6.78%	6.98%	7.18%	7.38%
22200	101	102	102	103	104
22450	101	102	103	104	105
22700	101	102	103	104	105
22950	102	103	103	104	105
23200	102	103	104	105	106
23450	102	103	**104**	105	106
23700	103	104	104	105	106
23950	103	104	105	106	107
24200	103	104	105	106	107
24450	104	105	105	106	107
24700	104	105	106	107	108
24950	104	105	106	107	108
25200	105	106	106	107	108

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

Data as on 10th Sep'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.

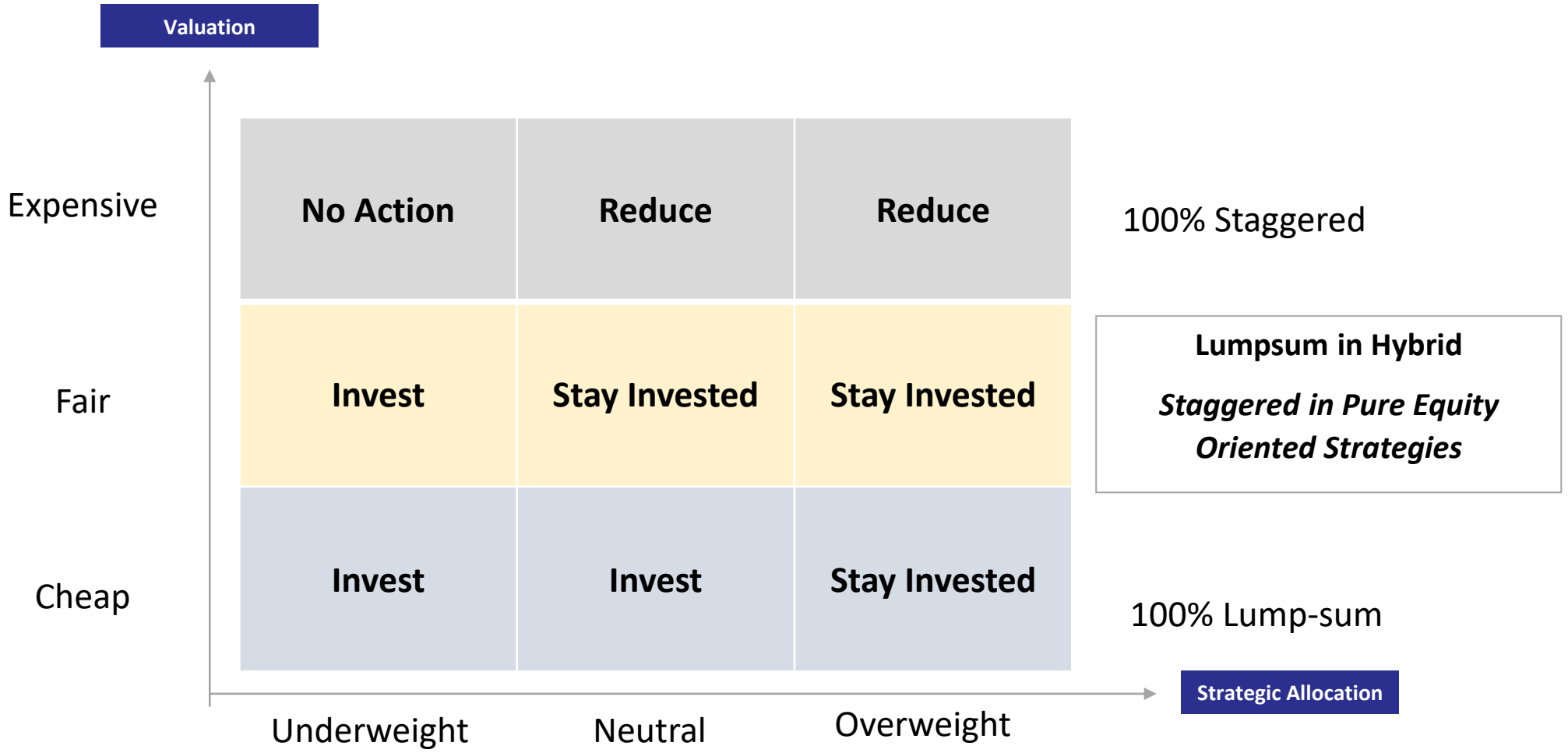
3 Yr Forward Returns Of Nifty At Different Levels Of Temperature Gauge Index

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	795	9%	-2%	30%	13%	88.7%	18%	64%
105	110	1207	13%	-4%	22%	10%	60.3%	11%	41%
110	115	2018	22%	-7%	22%	9%	74.5%	30%	32%
115	120	1617	18%	-4%	21%	9%	87.1%	25%	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 10th Sep'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 10th Sep'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

- Markets showed signs of recovery through June and July, before the trend reversed in August. Improving earnings and better domestic sentiment supported Indian equities initially, while global markets too remained resilient.
- That backdrop changed as global risks intensified. Escalating Middle East tensions pushed crude higher, reviving concerns around inflation, growth and corporate margins.
- At the same time, the rate environment turned less supportive. Sticky inflation, rising fiscal deficits and hawkish stance by major central banks has pushed long-term yields higher, increasing the pressure on equity valuations globally.
- India, however, continues to have a strong domestic economic backdrop. Q1FY27 GDP growth of 7.8% came ahead of expectations, highlighting resilience in consumption, investment, manufacturing and services.
- The improvement is also visible in corporate earnings. Nifty 50 profits grew around 18% YoY in Q1FY27, providing stronger fundamental support to the market after several quarters of earnings moderation.
- Strong domestic liquidity provides another cushion. Record SIPs and sustained mutual fund inflows continue to support equities, although a rising pipeline of equity supply is absorbing an increasing share of this liquidity.
- Nifty 50 is trading at 18.3x 12-month forward P/E, ~12% below its historical average of 20.9x. Mid & Small Caps remain at a 9%/30% premium to their 10-year averages, though the premium has moderated meaningfully from Sep'24. This leaves valuations in a fairly balanced zone. Markets are neither cheap enough to warrant aggressive buying nor expensive enough to turn outright cautious.
- Indian equities are therefore caught in a "Tale of Two Currents." Strong domestic growth, earnings and liquidity are pulling the market forward, while high crude, rising global yields, fiscal concerns and increasing supply are working in the opposite direction.
- Considering the current scenario, we continue to maintain Neutral view on Equities. Portfolio Allocation: 40% allocation to Hybrid/Large caps, 10% to Global and 50% allocation to Mid & Small Caps (continuing overweight position)
- Investment Strategy: Lump-sum investments in Hybrid funds at current levels; For Pure equity-oriented strategies, a staggered approach over the is prudent given the uncertainty. Any sharp correction should be used for aggressive deployment**.**

Fixed Income

Fixed Income : Higher for Longer

A hawkish Fed handoff

Chair Kevin Warsh's first Jackson Hole speech leaned hawkish on inflation, lifting September hike odds and re-pricing the front end higher

Long bonds repricing worldwide

30-year yields are near multi-decade highs in US, Japan, Europe on back fiscal expansion and term-premium repricing — while China diverges lower

RBI remains watchful

August MPC minutes flag a rate-hike case if inflation upside risks, tighter global monetary conditions persist - hence a sharp pivot from the 2025 rate cutting cycle

Rupee under structural pressure

USD/INR has ranged 89.9–96.9 in 2026; a record FCNR mobilisation drive has cushioned, but not reversed, the slide.

India's curve has re-steepened

The 10-year G-sec yield has increased from ~6.6% to ~6.9–7.0%, even as system liquidity stays comfortable

RBI's Currency Defense - FCNR (B) Swap | 2013 vs 2026

motilal oswal
think wealth creation

2013 Taper Tantrum

$34bn
mobilised via FCNR(B) swaps

3.5%
concessional swap rate (vs ~7% market rate)

- Window: Sep–Nov 2013
- Tier-I overseas borrowing cap: 50% → 100%
- Rupee: 67.64 low → ~61 in weeks

2026 Oil Shock +Tariff Overhang

$127bn
mobilised — nearly 4x 2013

0%
hedging cost — RBI absorbs it fully

- Window: Jun 8 – Aug 31, 2026
- CRR/SLR waived on deposits till Mar 2027
- Rupee: still hit a fresh record low, ~93–97

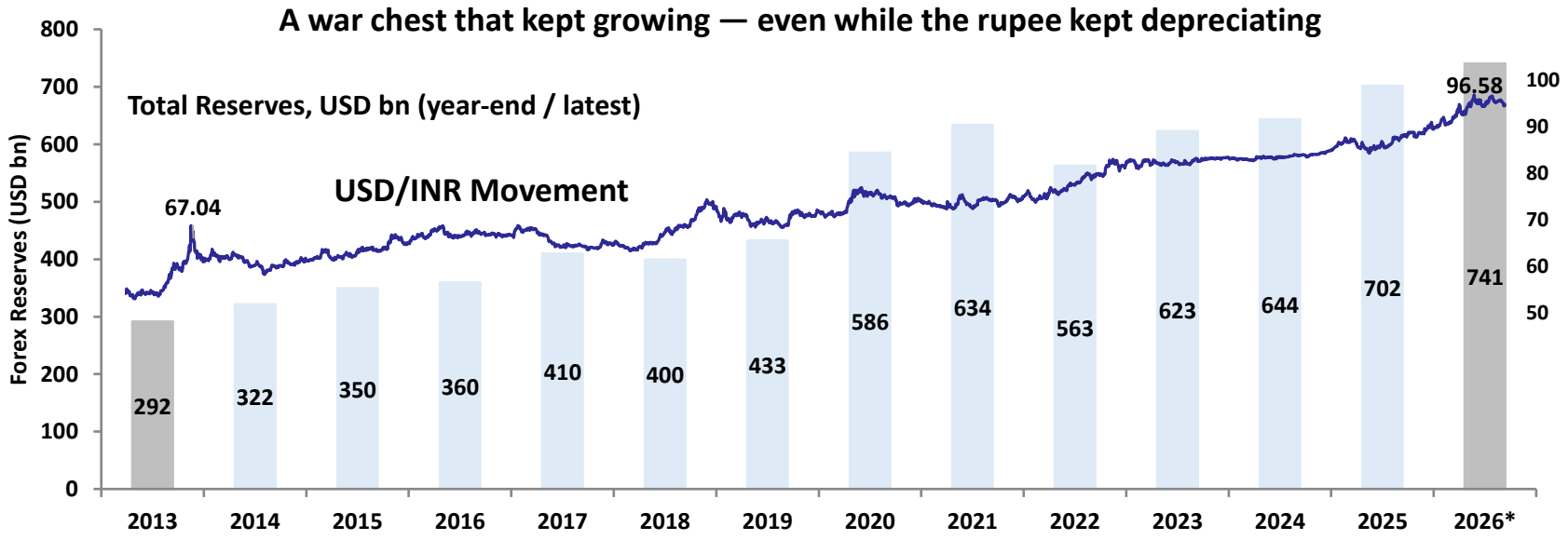
Now : 2026

Cushioned rupee depreciation, but no visible appreciation

High oil import bill due to higher crude oil prices, widened trade deficit, FII outflows, decreasing spread over US bond yields : leads to more dollar supply than demand

Fuels Rupee Liquidity

Liquidity surplus reached to a record high of INR 10.8 Tn – surpassing Sep 2021 high of INR 9.2 Tn – RBI may deploy offsetting tools to absorb excessive



$292bn

2013 taper tantrum

Reserves dipped toward $275bn defending the rupee before recovering.

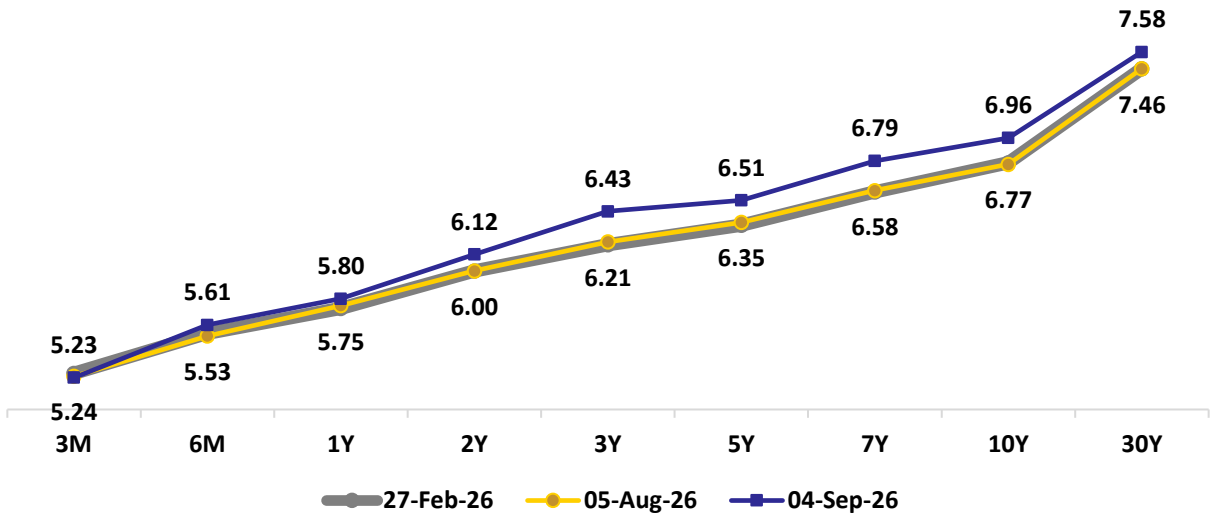
$741bn

2026 record high

FCNR(B) swap inflows push reserves to an all-time peak, ~11 months of imports.

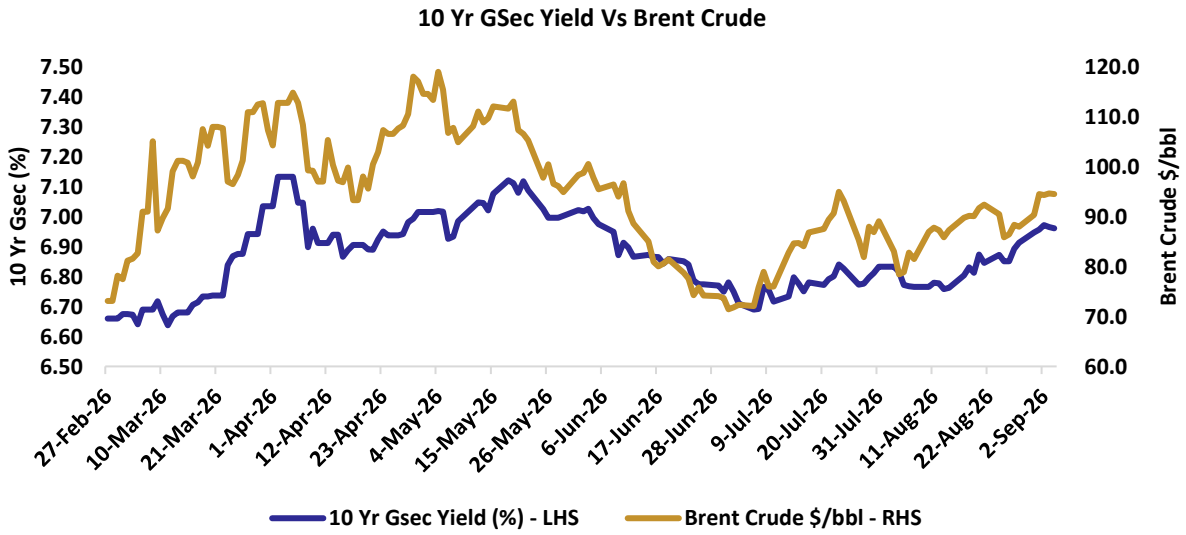
Sources: RBI Weekly Statistical Supplement; CEIC; Trading Economics; Investing.com, Internal Research. *2026 as of Aug 28.
Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

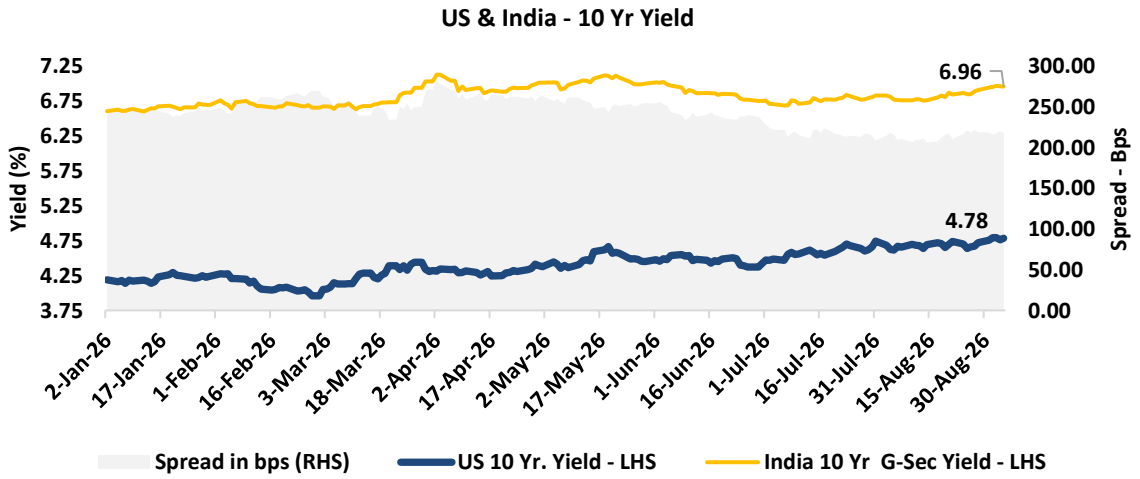
Indian G-Sec Curve Has Steepened More



Key Drivers

- Indian G-Sec Yield curve has steepened more , with yields increasing in mid – longer end of the curve. 10 yr increased from 6.77% to 6.96%, also increasing the term premium by 15 – 20 bps
- Majorly driven by global factors like rise in crude oil prices, UST yields, FED & Global Central Banks' hawkish signals
- Surge in system liquidity to a record of INR 10.8 Tn, largely driven by FCNR (B) deposit scheme, kept the money market yields at ease
- India duration is now a play on the crude price trend and global monetary tightening — a further Hormuz-style shock or a US hawkish surprise are the two biggest swing factors for the 10Y in the near to medium term.





Source : Internal Research, Data as on 4th Sep 2026

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

Fixed Income View & Portfolio Strategy

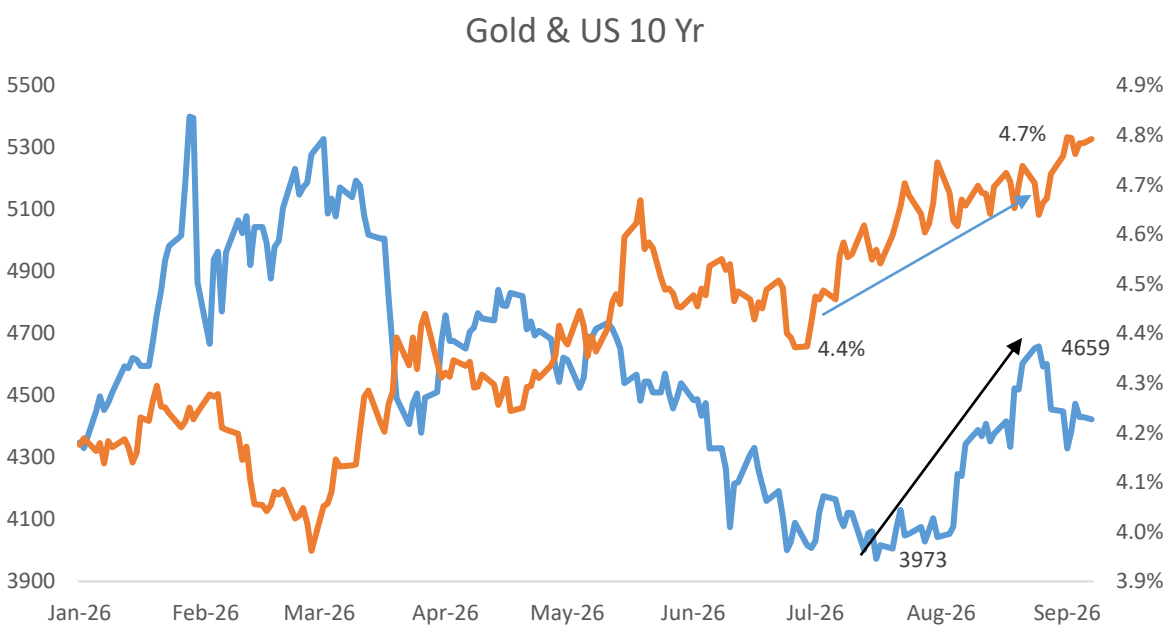
- Higher-for-longer yields and greater volatility are becoming an important feature of the fixed-income landscape, particularly at the long end, creating a different investment environment from the low-yield regime of the previous decade.
- Persistent inflation risks, renewed monetary tightening expectations and rising fiscal deficits are pushing global sovereign yields higher, with the pressure particularly visible at the longer end.
- Back home, the RBI has so far held the policy rate at 5.25%, but the balance of risks has become more challenging. Higher crude prices, renewed inflation pressures, INR vulnerability and a potentially tighter Fed/BoJ policy path reduce the room for monetary easing.
- Indian bond yields have consequently moved higher, with the benchmark 10-year G-Sec yield crossing the 7% . The Indian yield curve has also steepened. Abundant banking-system liquidity due to large FCNR(B) inflows has helped contain shorter-end rates.
- We expect long end yield to be volatile due to inflation concerns, rising crude oil prices and policy path of Fed/BoJ.

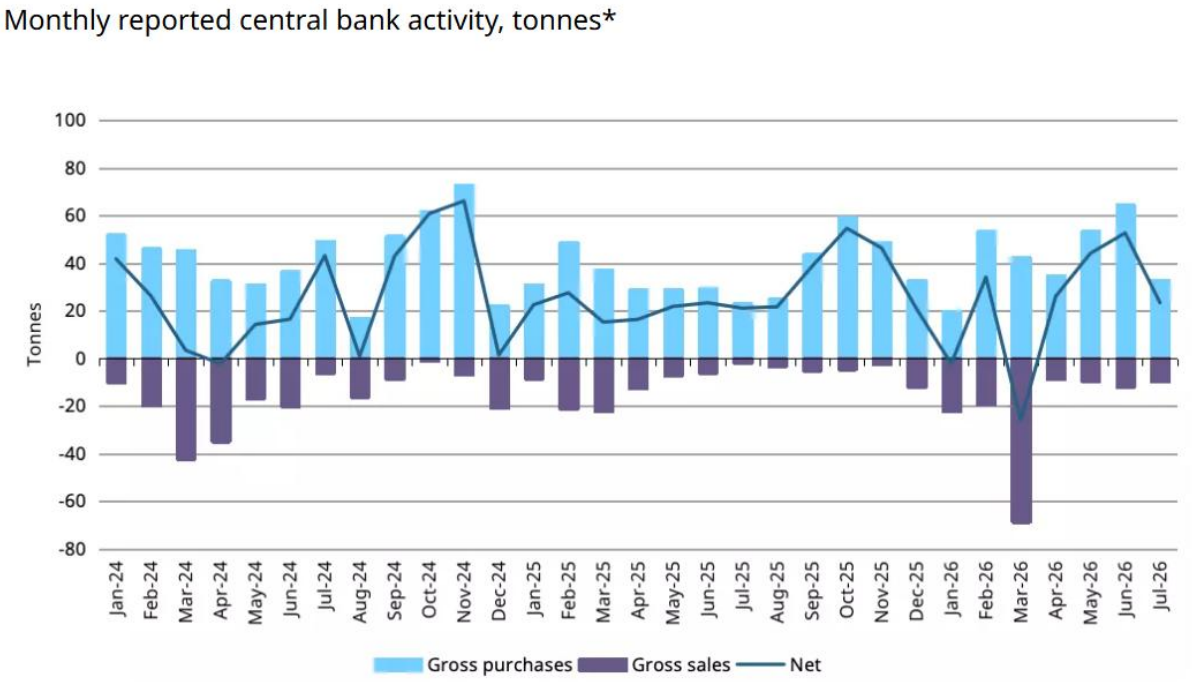
Hence we continue to prefer 'accrual strategies over duration' as the core allocation within fixed income portfolios

- Accrual exposure should be built across the credit spectrum, with **55–60% of the fixed income allocation** directed towards private credit strategies, high-yield NCDs and income-generating assets such as InvITs
- The **balance of the portfolio** may be deployed in relatively liquid fixed-income alternatives, offering both flexibility and risk-adjusted stability namely Arbitrage Funds (min 3 months holding period) and Hybrid SIF Funds (min 2 yr holding period) having debt/arbitrage+ positioning.

Gold & Silver

Gold – Higher Inflation expectations and strong central bank demand





China's record gold buying spree

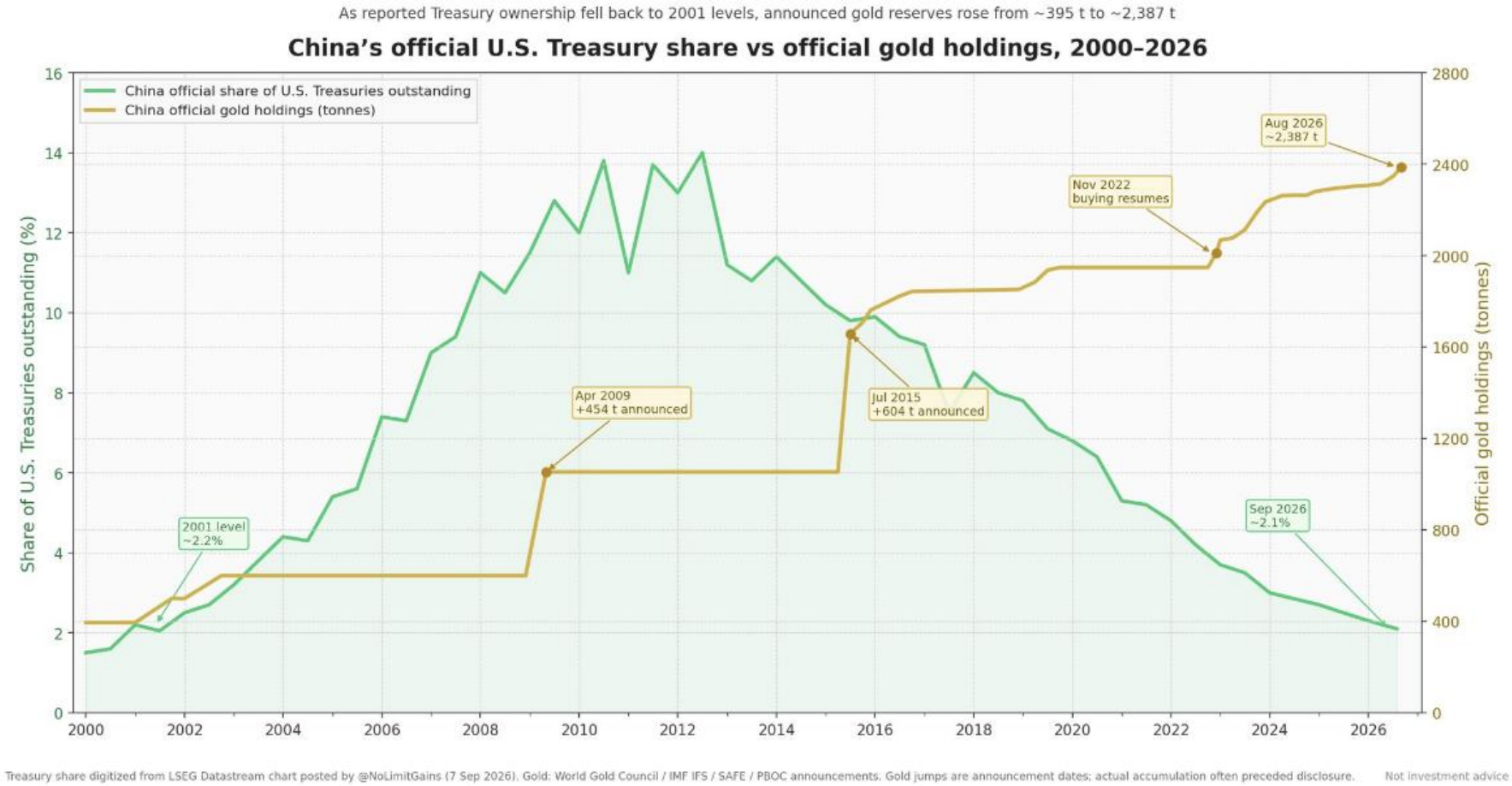
continued adding bullion to its reserves for 22 consecutive months

- Gold rallied ~16% from mid Jul'26 to end of Aug'26, while the 10Y made fresh cycle highs.
- China has increased its gold reserves by the largest amount since Aug'23. Data released by the People's Bank of China on Monday showed that its gold holdings increased by 650,000 ounces

Source: Investing.com, World Gold Council

The above data is for informational purpose. The analysis may or may not be sustained in future.

China’s official US Treasury share vs. official gold holdings



China's share of U.S. Treasury holdings is down from ~14% in 2012 to ~2% as of Sep’26. At the same time its gold holdings have been consistently rising and currently stands at 2,387 tonnes.

Source: World Gold council, IMF, PBOC

The above data is for informational purpose. The analysis may or may not be sustained in future

Silver – steep correction 2026, structural drivers remain



- Silver has remained range-bound in recent months following a loss of momentum after its sharp rally in 2025
- Safe haven buying is missing amidst US-Iran war supporting inflationary concerns, while industrial metals continue to soar
- Global silver market is projected to record its 6th consecutive annual deficit of ~67Moz in 2026, keeping physical fundamentals supportive.
- Nearly 70% of global silver output is produced as a by-product, limiting the industry's ability to rapidly increase supply during price rallies.
- AI infrastructure, data centres, power-grid upgrades, electronics and electrification trends continue to provide long-term demand suppor

Source: Tradingview

The above data is for informational purpose. The analysis may or may not be sustained in future

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