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Two prices matter more than any other for global markets: the price of oil and the price of money. This month, both are moving sharply in the wrong direction. Although flows through the Strait of Hormuz have recovered to ~80% of pre-war levels, Brent remains above $100 as freight and insurance costs stay elevated. For India, this continues to exert pressure on inflation, the INR and the current account. At the same time, sticky inflation and fiscal pressures have pushed global bond yields higher, with the US 10-year yield at ~5.3%, reinforcing expectations of a higher-for-longer rate environment.

However, higher yields do not necessarily translate into weaker equity markets. The outcome ultimately depends on earnings growth, economic momentum and starting valuations. This helps explain the resilience of US equities, where S&P 500 forward EPS has risen ~26% since February and helped offset valuation de-rating. India, in contrast, has faced weaker index leadership as large benchmark heavyweights have been impacted by earnings downgrades, higher crude, INR weakness and persistent FII selling.

Further, despite similar market breadth, contrasting index leadership has driven a sharp divergence in the performance of the S&P 500 and Nifty 500.

Against this backdrop, Indian equities have gone through a corrective and consolidating phase, with the Nifty recording its longest weekly losing streak in 25 years. Domestic institutional flows have so far absorbed significant foreign selling and cushioned the correction. However, weaker household savings, higher rates and nearly two years of muted investor returns mean the sustainability of domestic flows will be an important monitorable from here.

The encouraging development is that the fundamental and valuation backdrop is beginning to improve. Nifty 50 earnings are expected to grow ~27% YoY in Q2FY27, while the recent correction has brought the index to ~17.2x 12-month forward earnings, around 18% below its historical average. More importantly, relative valuations increasingly favour large caps. Mid-cap valuations appear broadly reasonable, while small caps continue to trade at a sizeable premium to historical averages.

> *"Indian equities therefore appear to be at a "**Yellow Signal**" - not a reason to stop, but a signal to proceed with greater caution. Reasonable valuations provide the seat belt, improving earnings provide the fuel, while elevated yields, crude prices and geopolitical uncertainty remain the cross-traffic or speed breakers."*



Ashish Shanker
MD & CEO,
Motilal Oswal Private Wealth

Considering this backdrop, we continue to maintain a Neutral view on Equities, while increasing our preference for Hybrid and Large Cap strategies. We recommend 50% allocation to Hybrid/Large Caps, 40% to Mid & Small Caps and 10% to Global Equities, compared with 40%/50%/10% earlier. The shift towards large caps is a relative allocation call, driven by better valuation comfort, greater downside protection and improving risk-reward after a period of underperformance.

From a deployment perspective, we recommend deploying lump-sum allocations into Hybrid/Large Cap strategies at current levels, while staggering the balance and using meaningful market corrections for accelerated deployment.

In Fixed Income, RBI's October policy decision marks the beginning of an inflation-led tightening cycle, with external stability emerging as an important additional consideration. We retain our base case of a further 50 bp of tightening, taking the repo rate to 6.00% by mid-2027. We continue to favour accrual-oriented strategies until inflationary pressures moderate and the policy-rate cycle moves closer to its peak. Core allocations should remain focused on private credit, high-yield NCDs and other income-generating assets, complemented by liquid alternatives such as arbitrage funds and SIFs.

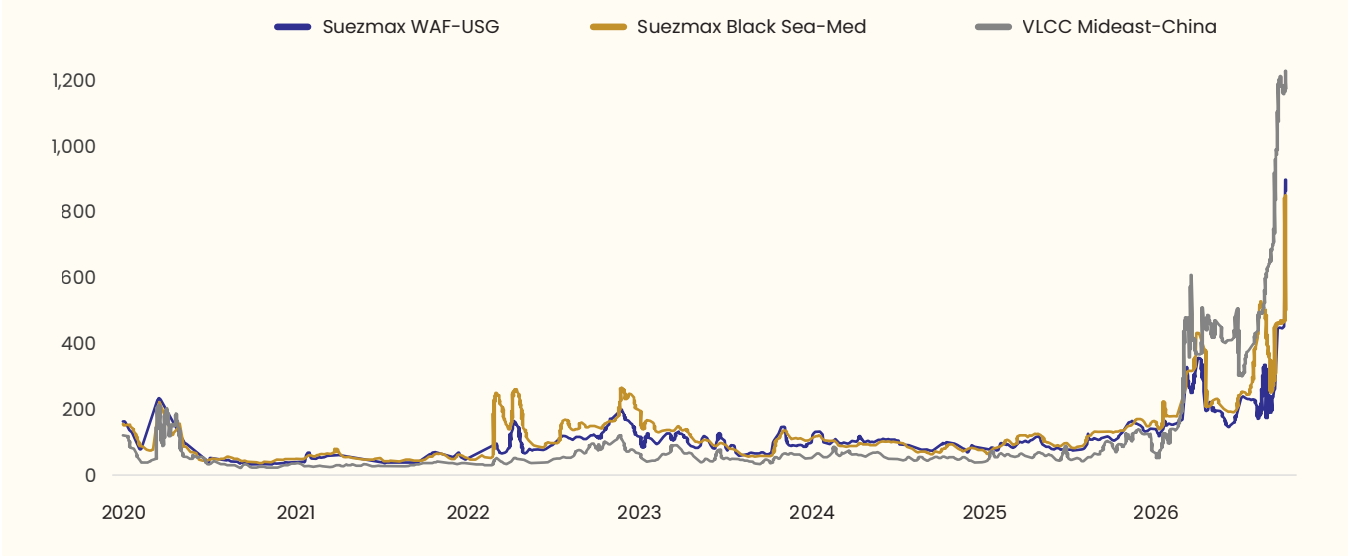
We also maintain a Neutral allocation to Precious Metals, with a clear preference for Gold over Silver. Gold continues to merit allocation given elevated geopolitical risks, fiscal concerns and sustained central-bank demand and recent corrections has put it at an important support level as well. Silver's dependence on industrial demand, higher cyclicality and volatility warrant a more measured approach.

Happy Investing!



Although flows through Hormuz have recovered to ~80% of pre-war levels, Brent remains above $100 as logistics costs stay elevated

TANKER RATES HAVE HIT RECORD HIGHS



Note: Freight rates in USD per day. Source: SSY/LSEG | Ron Bousso

$30K → $1.2M

VLCC Middle East Asia rate per day, Jan vs now

3% → 27%

Freight share of the delivered price of a barrel

WHY PRICES AREN'T FALLING WITH SUPPLY

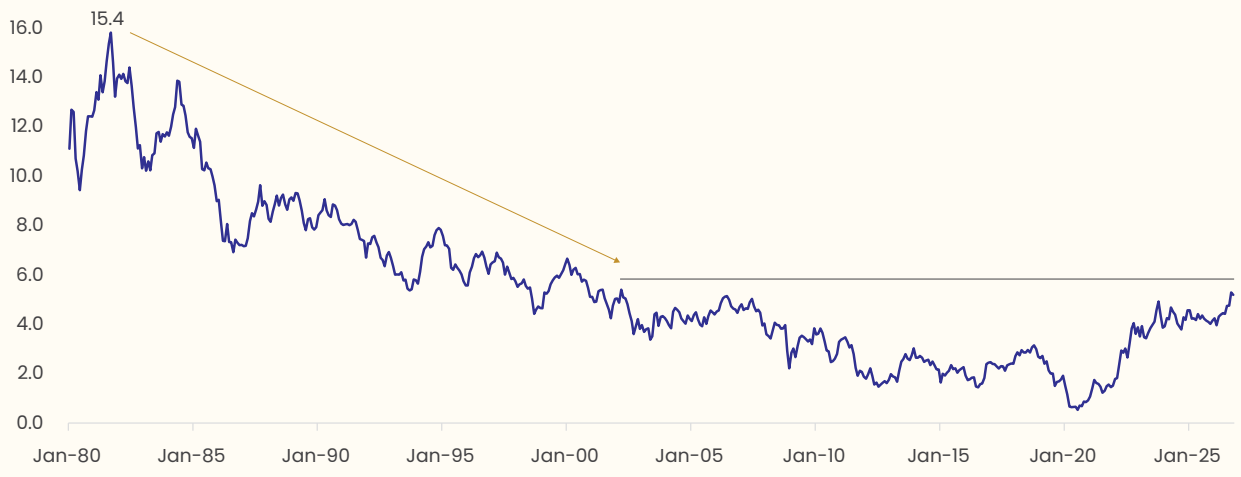
- **Shuttle system:** Crude is relayed through Hormuz and transferred to other ships in the Gulf of Oman, tying up VLCCs
- **Longer voyages:** Asian buyers are pulling Atlantic Basin barrels over longer routes, tightening tanker supply further
- **Refining crunch:** Lost Middle East & Russian capacity sent diesel to records, lifting demand for medium-sour crude

Supply risk is fading, but shipping and refining now set the price - for importers like India, landed cost stays high even if Brent cools

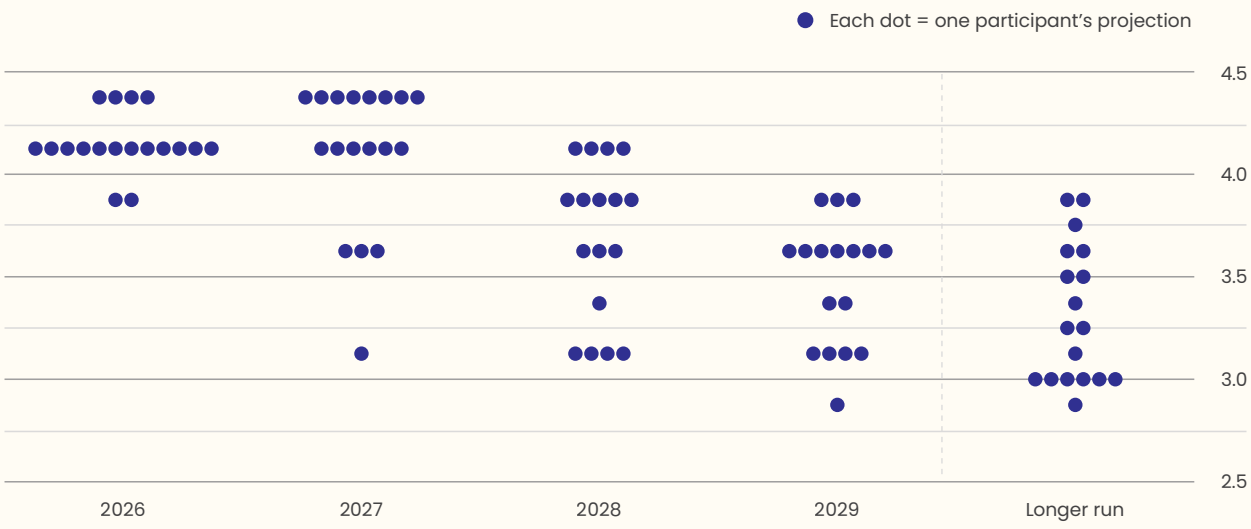
Source: Reuters (R. Bousso, 5 Oct 2026) citing Kpler, Poten Partners, Energy Aspects; SSY/LSEG. VLCC = very large crude carrier
The above data is for informational purpose only. Performance related data may or may not be sustained in future.

Sticky inflation and fiscal pressures have pushed global bond yields higher, with the US 10-year yield at ~5.3%

US 10 YEAR YIELD



TARGET LEVEL FOR THE FEDERAL FUNDS RATE ACCORDING TO FOMC PARTICIPANTS' ASSESSMENTS



U.S. 10-year Treasury yields surged above 5.3%, touching their highest level in 24 years

Fed rate cut expectations point toward gradual easing after two more rate hikes, with policy rates projected to moderate over time, though persistent inflation and fiscal pressures may keep long yields elevated

Data as on 10th Oct 2026. Source: Jefferies Greed & Fear, Investing.com, PineTree Macro

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

Higher yields do not necessarily translate into weaker equity markets

Outcome ultimately depends on earnings growth, economic momentum and starting valuations

DRIVERS AND MACRO CONDITIONS AROUND KEY BOND YIELD SURGE EPISODES

	1987 BLACK MONDAY	1994 BOND MASSACRE	1999 PRE DOT-COM BUST	2013 TAPER TANTRUM	2018 "LONG WAY FROM NEUTRAL"	2026 TODAY
Archetype	Market Structure Fragility	Fed Policy Surprise	Valuation Shock	Term-premium Shock	Policy-error Scare	--
Driver of yield rise	Inflation + dollar/ fiscal concerns	Strong growth + Fed tightening	Overheating + Fed tightening	QE-exit / term-premium repricing	Growth + Fed tightening/ QT	Growth + Fed framework uncertainty
Growth backdrop	Strong	Very strong	Very strong	Moderate → Improving	Strong	Resilient
Earnings backdrop	Strong	Very strong	Strong but peaking	Moderate → Improving	Strong	Very strong
Equity valuations	Expensive after strong rally	Neutral	Extreme	Neutral	Elevated	Elevated
Equity outcome	Sudden crash	Resilient	Bear market	Resilient	~20% correction	--
Did rising yields contribute to equity sell-off?	Yes - materially	No	Partly – delayed/ contributory	No	Yes - materially	--

Source: Pictet Asset Management. The above data is for informational purpose only.
Performance related data may or may not be sustained in future.

US Earnings Strength vs India's Earnings and Flow Pressures

S&P 500 VS NIFTY-50 SINCE FEBRUARY 2026, FORWARD BASIS: EARNINGS UPGRADES IN THE US, CUTS IN INDIA

+15%

Upgrade to S&P 500 CY26 EPS estimate since Feb

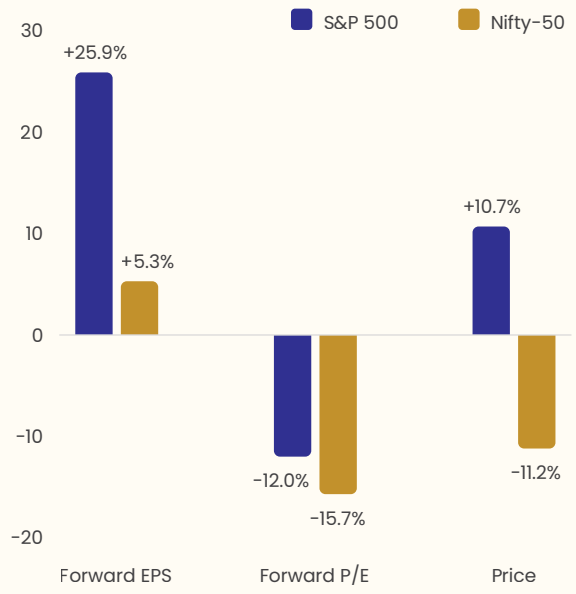
-2%

Cut to Nifty-50 FY27 EPS estimate since Feb

-16%

Nifty-50 forward P/E since Feb, vs -12% for US

CHANGE SINCE FEBRUARY 2026 (%): 12-MONTH FORWARD EPS, FORWARD P/E AND PRICE



Price = forward EPS x forward P/E.
S&P 500: 26 Feb–30 Sep (FactSet).
Nifty-50: mid-Feb–30 Sep (MOFSL forward P/E 20.4x to 17.2x).

WHY THE US IS HOLDING UP

Earnings boom: CY26 EPS growth tracking +32%, and rising

Energy exporter: $100 oil lifts US energy profits

Capital magnet: Higher yields and a firm dollar draw in global money

WHY INDIA IS NOT

Earnings trimmed: FY27 growth seen at +16%, but estimates cut since Feb

Oil importer: Brent ~$103 means a weak rupee and RBI hikes

FII exit: ₹25,662 cr sold in Sep, hitting large caps

US earnings upgrades absorbed the rate shock; India saw estimate cuts and a deeper de-rating, so Q2FY27 delivery is key.

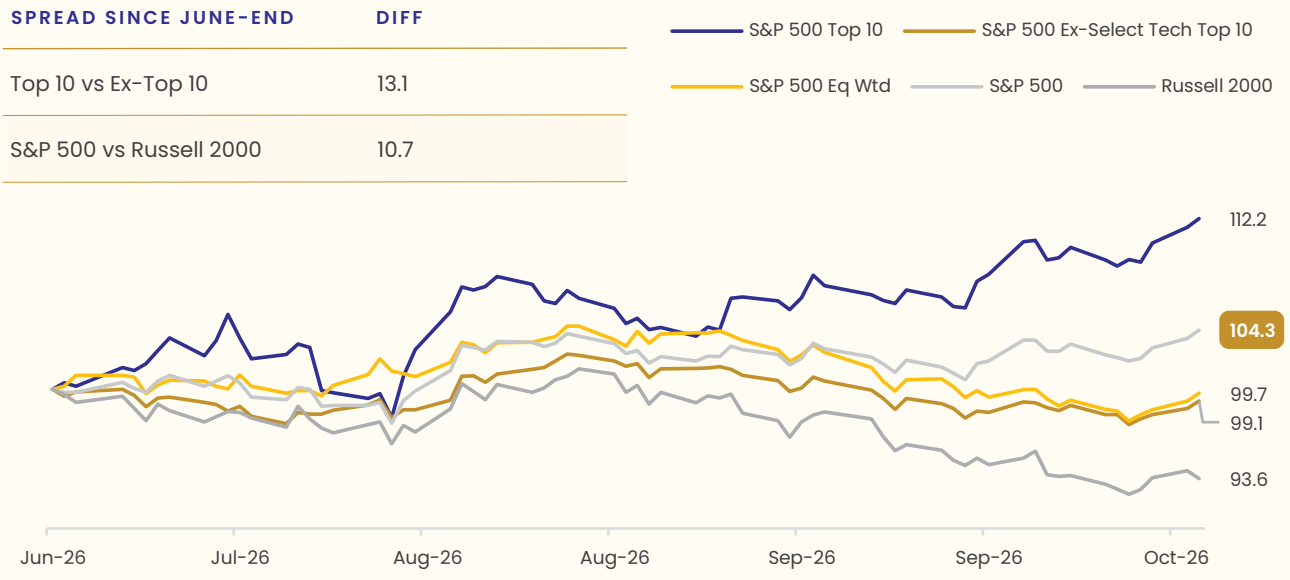
Source: FactSet Earnings Insight (27 Feb and 2 Oct 2026); MOFSL India Strategy 3QFY26 review (Feb 2026) and 2QFY27 preview (6 Oct 2026); NSE Indices; Outlook Money (Brent, FII flows to 29 Sep). Nifty forward EPS implied from MOFSL 12M forward P/E. Estimates may change.
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

US vs India: Similar Breadth, Divergent Index Leadership and Performance

In the US, S&P 500 resilience is being driven by heavyweight stocks; in India, Nifty 500 weakness reflects large-cap selling, even as lower-weighted small caps remain relatively resilient.

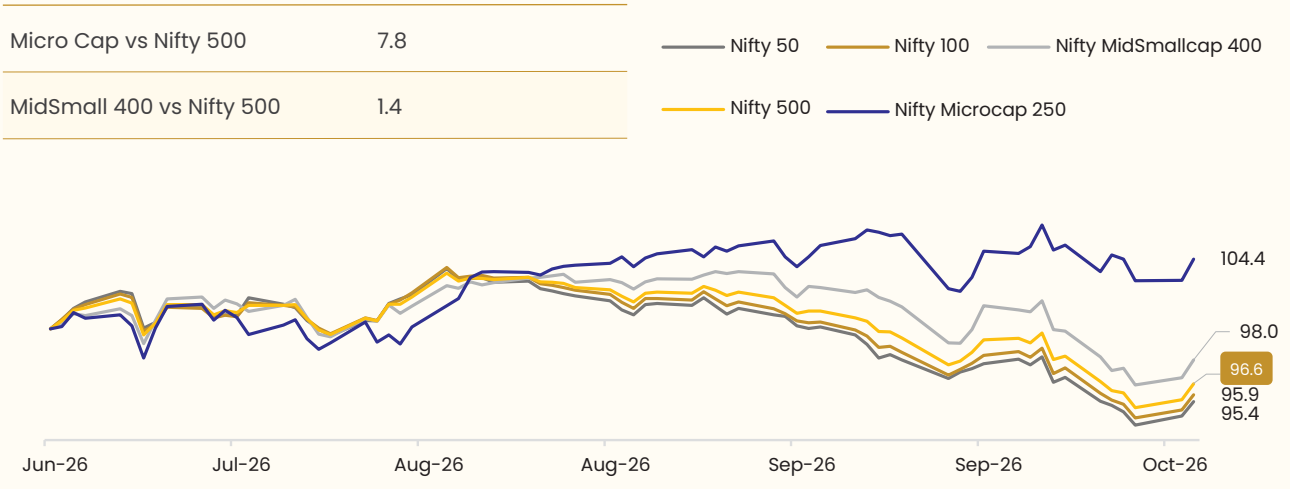
DIVERGENCE WITHIN INDICES (US)

SPREAD SINCE JUNE-END	DIFF
Top 10 vs Ex-Top 10	13.1
S&P 500 vs Russell 2000	10.7



DIVERGENCE WITHIN INDICES (INDIA)

SPREAD SINCE JUNE-END	DIFF
Micro Cap vs Nifty 500	7.8
MidSmall 400 vs Nifty 500	1.4



Source: Internal Research, Investing.com, S&P 500, ACE Equity. Data as on 6th Oct'26

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

EXAMPLE (US):

NVIDIA
Perf: **19.7%** | Wt: **7.6%**

APPLE
Perf: **15.3%** | Wt: **7.0%**

MICROSOFT
Perf: **42.2%** | Wt: **5.7%**

AMAZON
Perf: **7.5%** | Wt: **3.9%**

META
Perf: **31.2%** | Wt: **2.6%**

~27% wt. is holding the index up

EXAMPLE (INDIA):

HDFC BANK
Perf: **-10.8%** | Wt: **5.7%**

ICICI BANK
Perf: **-2.4%** | Wt: **4.9%**

RIL
Perf: **-5.9%** | Wt: **4.1%**

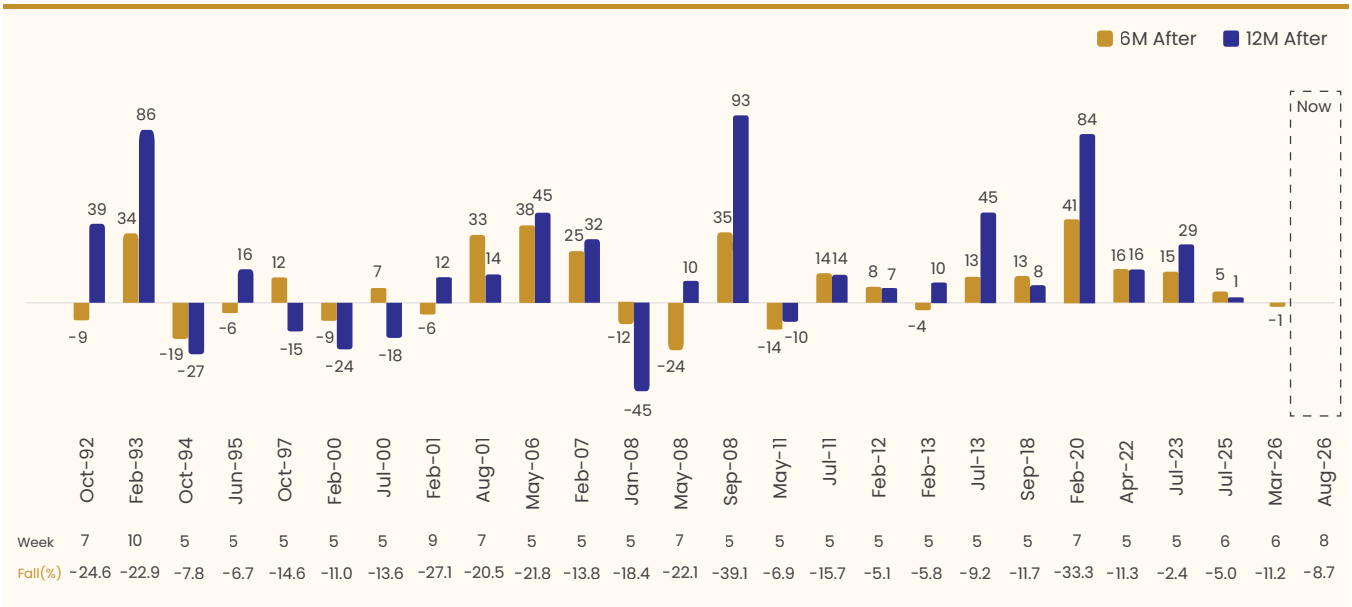
BHARTI AIRTEL
Perf: **-2.2%** | Wt: **2.8%**

SBI
Perf: **-6.6%** | Wt: **2.0%**

~19.5% wt. bringing the index down and so many more

Source: Internal Research, Investing.com, S&P 500, ACE Equity. Data as on 6th Oct'26
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Indian Equities: Nifty 50 Recording Longest Weekly Losing Streak in 25 Years



Source: Internal Research, ACE MF; Data as on 4th Oct'26; Starting month of the week has been mentioned.
The above data is for informational purpose only. Performance related data may or may not be sustained in future.

STREAKS HURT

25 streaks since 1990 cost an average of 15%, from 2.4% to 39.1%.

RECOVERY IS NORMAL

Avg. return after 5+ week streaks: 8.3% (6M), 17.5% (12M). After 7+ weeks: rises to 11.5% and 40.7% respectively.

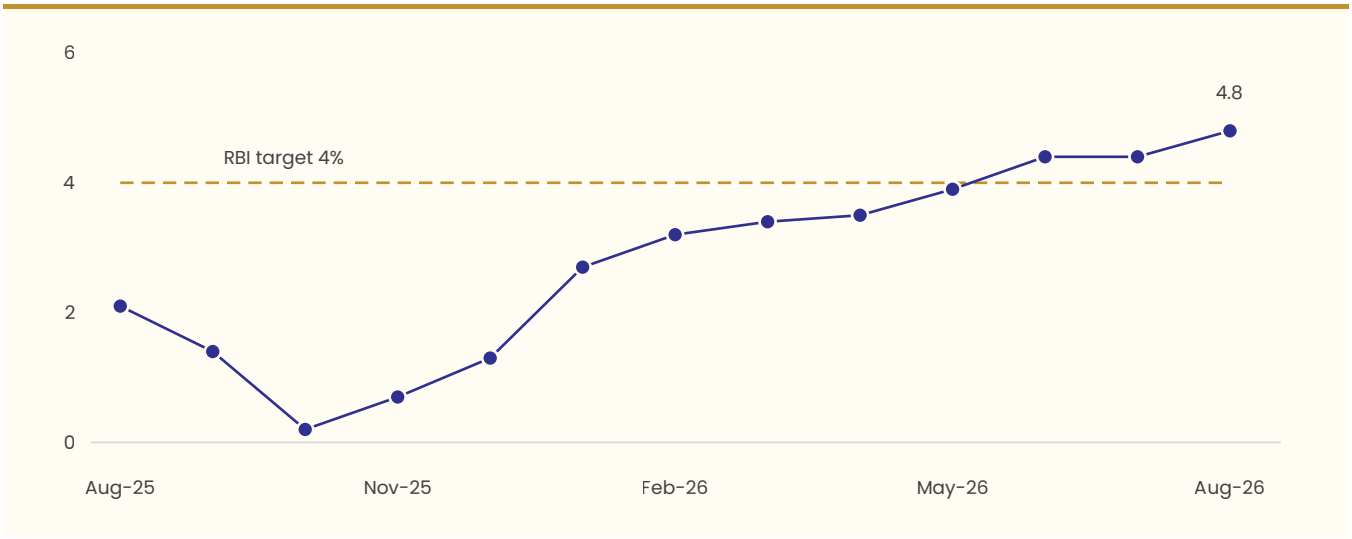
TODAY IS SHALLOW

This streak is -8.7%. Shallow streaks (<10% fall) returned a lower average of +8.8% over 12M.

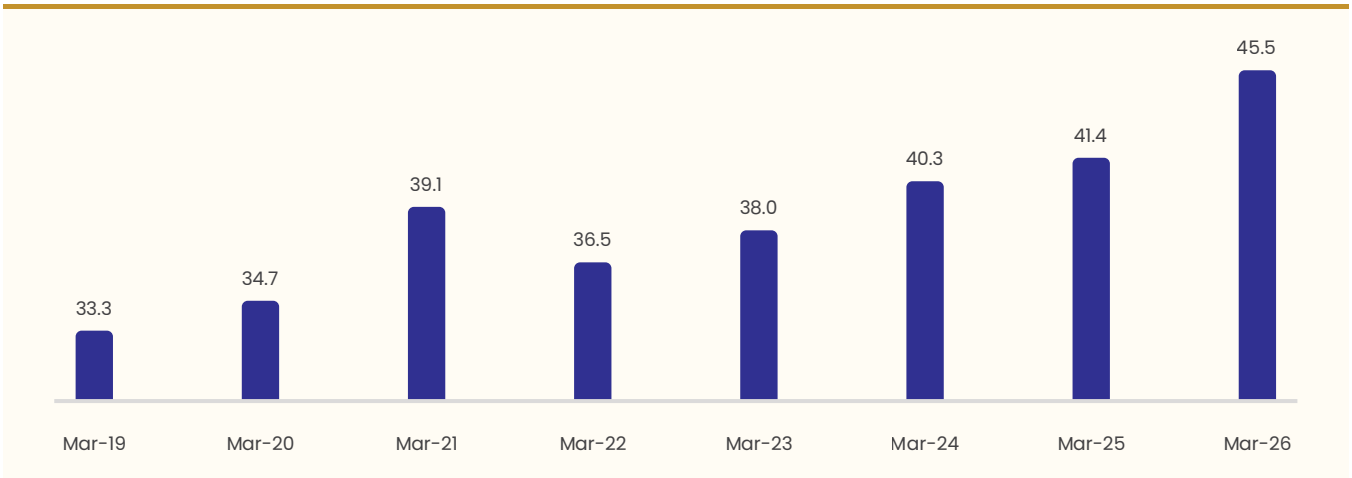
Indian Domestic Flows Facing Its First Real Test in 6 Years

Rising prices and debt are squeezing household savings just as 2-year SIP returns turn negative, putting at risk the DII flows that have absorbed record FII selling

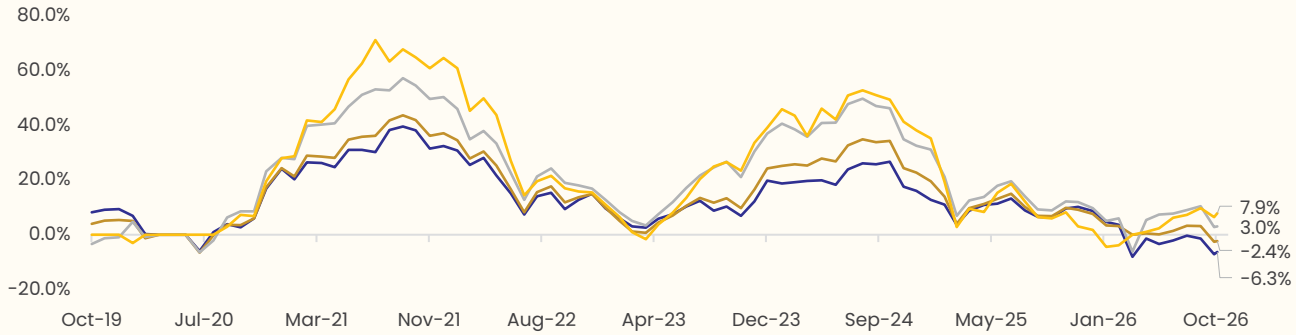
RETAIL INFLATION (CPI % YOY) IS RISING



HOUSEHOLD DEBT AS A % OF GDP IS AT RECORD HIGHS



2 YEAR SIP RETURNS - XIRR



INDEX	2Y SIP RETURN (%)
Nifty 50	-6.3
Nifty 500	-2.4
Nifty Midcap 150	3.0
Nifty Smallcap 250	7.9

COSTS ARE RISING

CPI inflation rose to 4.8% in August, a 20-month high, while wholesale inflation hit 9.9%, so household budgets are under growing pressure.

HOUSEHOLD DEBT IS ELEVATED

Household debt has climbed to a record 45.6% of GDP, so a larger share of income now goes to EMIs and less is left to invest.

SIP RETURNS GO NEGATIVE

A 2-year Nifty 50 SIP is now showing a loss (-6.3%), the first since 2020, testing the patience of a generation of new investors.

THE DII CUSHION THINS

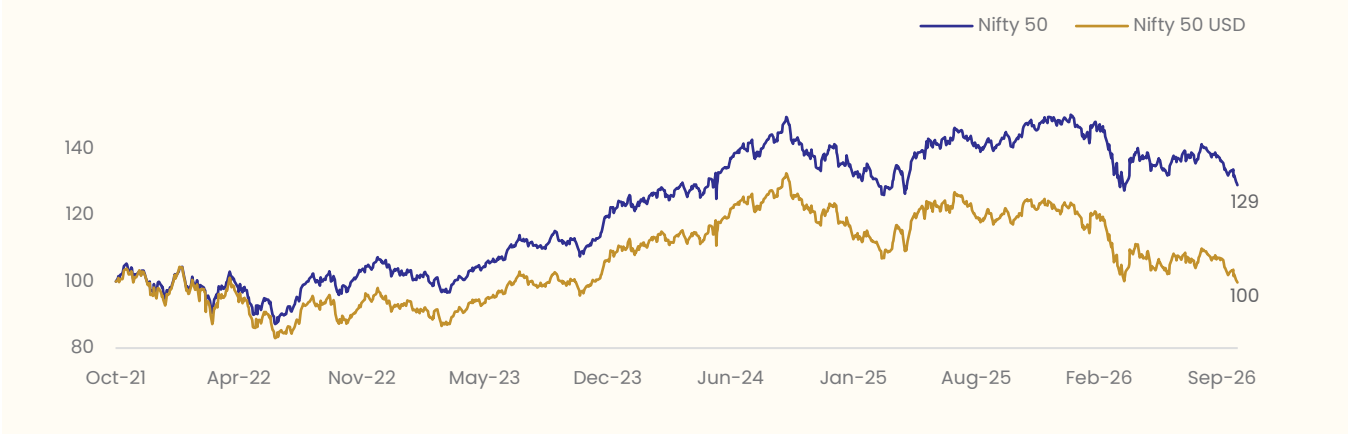
If SIP flows stall, as they did in 2019 and 2020, domestic investors will have less money to absorb continued FII selling.

Source: Internal Research, MoSPI, RBI Bulletin, ACE MF. Data as on 6th Oct'26.

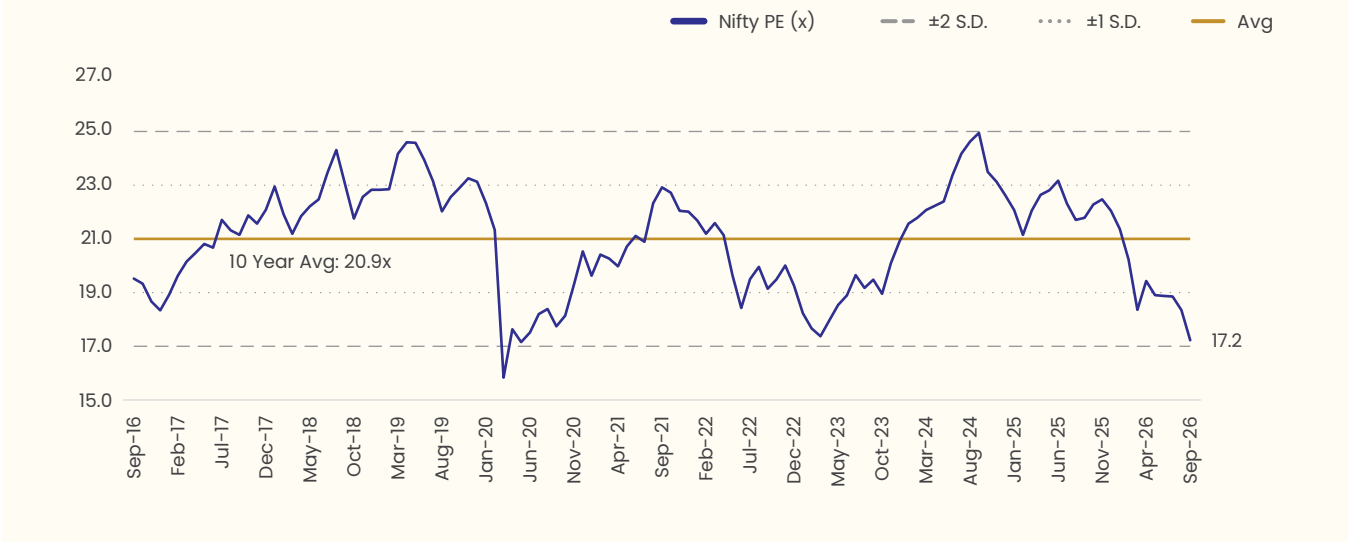
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Recent Correction Brings Nifty 50 Valuations 18% Below Historical Average

NIFTY 50 & NIFTY 50 USD (RE-BASED TO 100) – OCT'21 TO SEP'26



NIFTY 50 - 1Y FORWARD P/E



Source: Internal Research, NSE, MOFSL

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

Fixed Income: RBI's October policy decision marks the beginning of an inflation-led tightening cycle

5.50%

1ST HIKE SINCE 2023

Follows 125 bps of cuts in 2025 and four holds at 5.25% in 2026

CHANGE OF STANCE

From 'Neutal' to 'Calibrated Tightening'

HAWKISH TONE

Next move is a hike or a pause; cuts are off the table. Data-dependent and flexible.

~50 bps

Additional raise in Repo Rate expected in near - medium Term

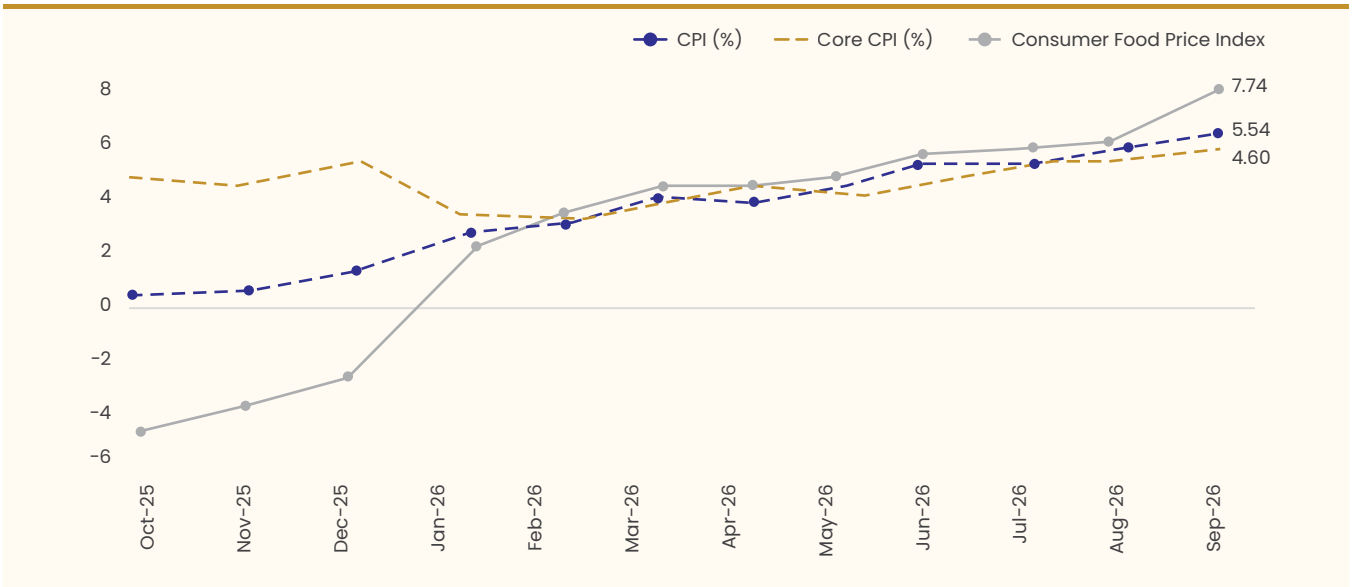
A PRE EMPTIVE TURN BY RBI : RESILIENT GROWTH GIVES RBI ROOM TO ACT ON INFLATION RISKS

Inflation outlook has become less favourable on back of elevated food & energy prices, weather related risks, global uncertainty

The October Monetary Policy Report assumes crude oil at US$95/bbl in H2 FY27, compared with the April baseline of US$85/bbl for FY27, a weaker assumed rupee (₹95/$ versus ₹94/$) and a below-normal FY27 monsoon.

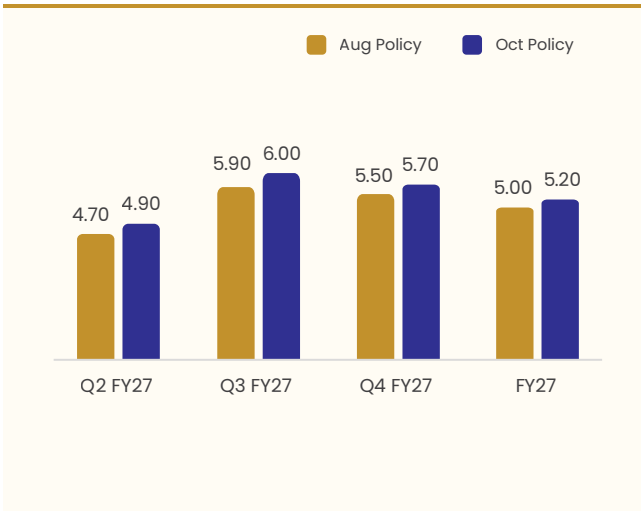
Real rates currently near zero , as compared to 1% - 1.5% in the past — RBI may want to make real rates attractive, going forward

INFLATION TREND

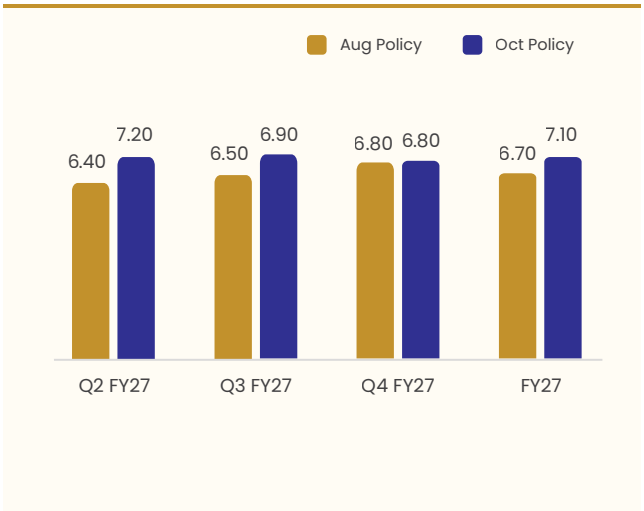


Source : RBI Website, Internal Research, Data as on 8th Oct 2026
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

CPI INLATION PROJECTION (%)



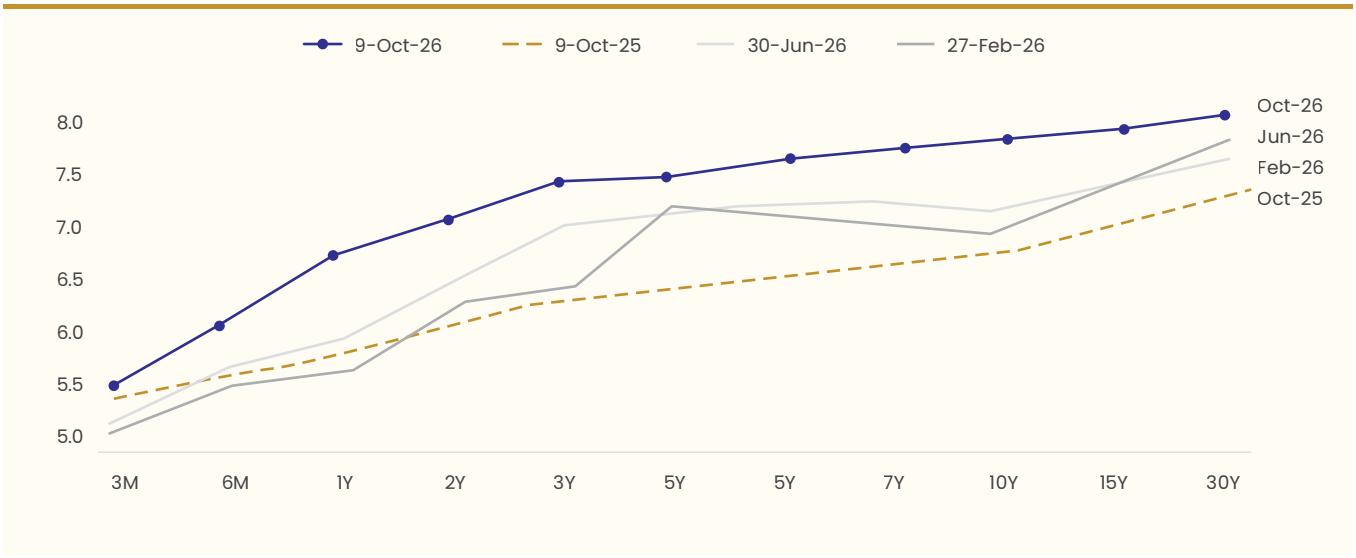
REAL GDP GROWTH PROJECTION (%)



Source : RBI Website, Internal Research, Data as on 8th Oct 2026
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Movement in India G-Sec Yield Curve

CURVE UP 8–102 BP; THE BELLY TOOK THE HIT



Source: CCIL traded benchmarks, T-bill cut-offs, ICRA/ABSL tracker, Cbonds par curve, Trading Economics;
The above data is for informational purpose. The analysis may or may not be sustained in future.

TENOR	OCT-25	FEB-26	JUN-26	OCT-26
3M	5.42	5.25	5.30	5.50
1Y	5.62	5.55	5.72	6.26
2Y	5.66	5.85	5.98	6.55
3Y	5.86	6.00	6.25	6.88
5Y	6.14	6.45	6.40	6.99
10Y	6.52	6.66	6.75	7.30
15Y	6.85	7.00	7.00	7.49
30Y	7.10	7.28	7.42	7.74

Source: CCIL traded benchmarks, T-bill cut-offs, ICRA/ABSL tracker, Cbonds par curve, Trading Economics;
The above data is for informational purpose. The analysis may or may not be sustained in future.

LONG END HELD

10y – 30y compressed to 44 bp as insurers and pension funds bought 30–50Y despite a larger long-bond share in H2 supply.

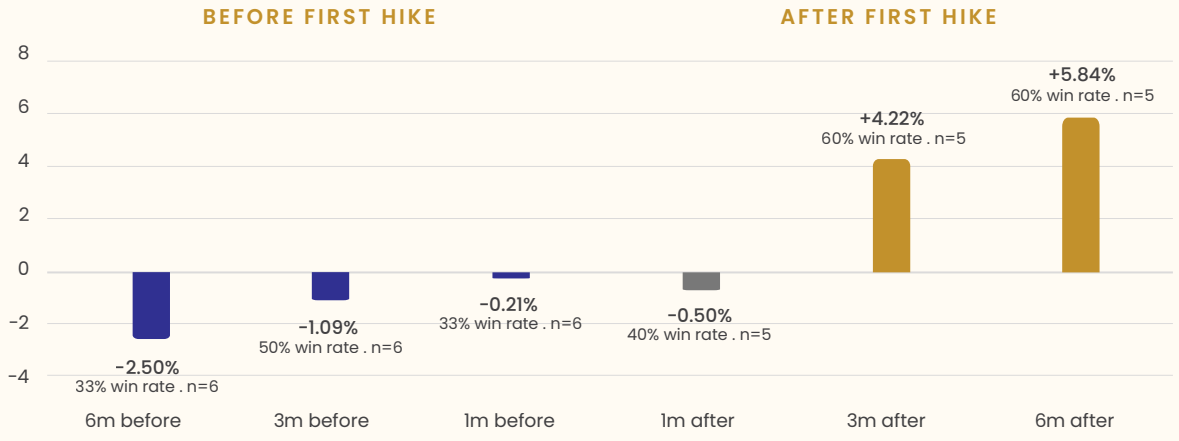
TERM PREMIUM IS RICH VS POLICY

10Y at 180 bp over repo is the widest of the four dates

Gold: Continues to merit allocation given elevated geopolitical risks, fiscal concerns and sustained central-bank demand

Gold has historically strengthened after the feds first rate hike.

AVERAGE GOLD RETURN AROUND THE FIRST RATE HIKE OF A TIGHTENING CYCLE



Source: Katusa Research
The above data is for informational purpose only. Performance related data may or may not be sustained in future.

Temperature Gauge Index

We are cognizant of the fact that investments are tuned to meet your objectives and therefore call for a suitable asset mix based on your investment objective. However the challenge always remains to accurately estimate when the market is cheap or expensive. In order to arrive at the decision of preferring equity over debt or vice versa, we believe earning yield to bond yield is an excellent parameter to consider. This ratio indicates the perceived risk differential between equity and bonds.

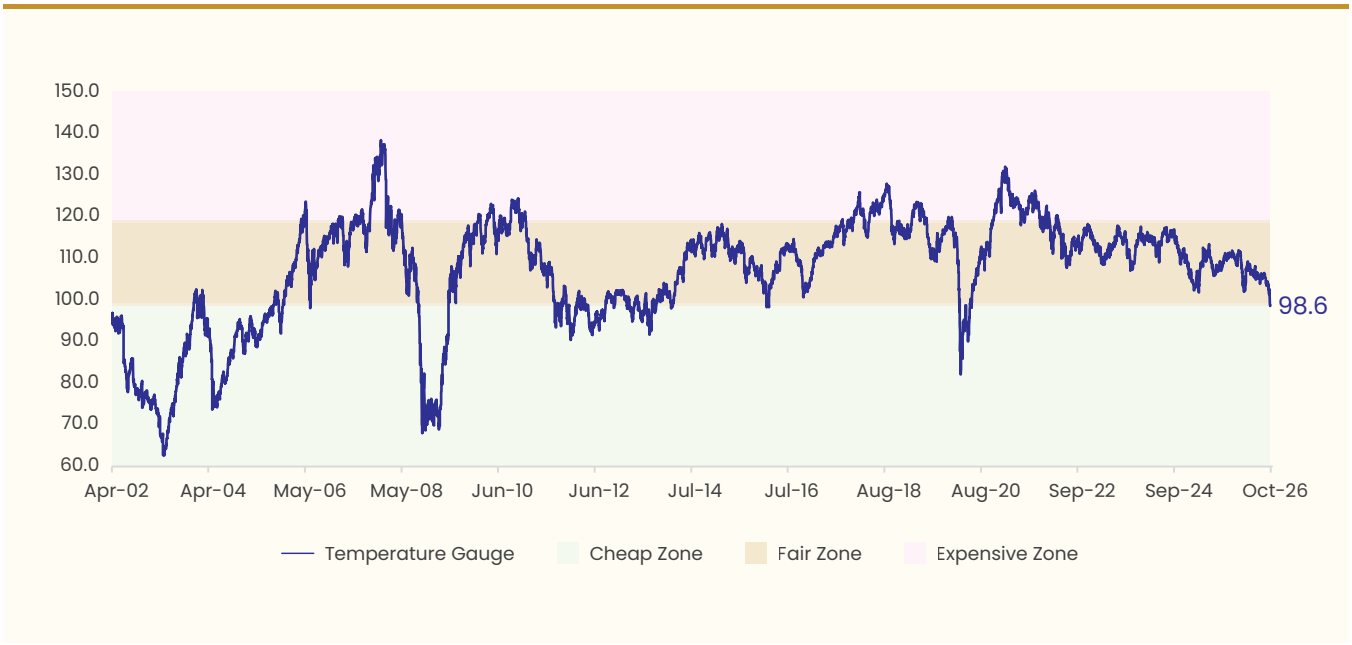
Historically whenever earnings yield and bond yield spreads are above 0.8, equities are considered to be undervalued.

The earnings-yield-to-bond-yield parameter along with our in-house indicator of market valuations named as MOVI – The Motilal Oswal Valuation Index enables us to arrive at a well-researched and thought through asset class outlook. MOVI is basically an index which is calculated based on the Price to Earnings (PE), Price to Book Value (PB) and Dividend Yield (DY) on the components of Nifty 50. By means of an algorithm the weighted average PE, PB and DY of the components of Nifty 50, one arrives at an index. A higher level on the MOVI means markets are expensive and hence one should reduce equity exposure and vice versa.

With the above mentioned input variables, we have crafted a unique model coined as Temperature Gauge which helps in making investment choices across asset classes.

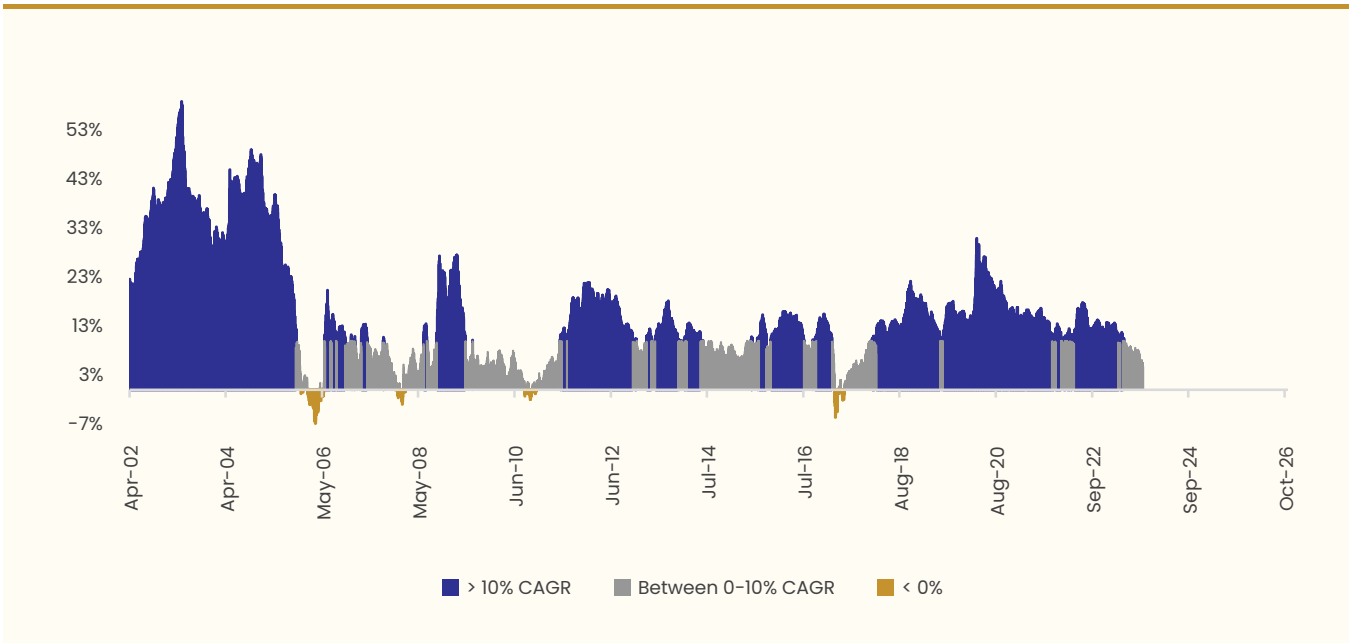
*This qualitative and quantitative process would enable us to construct **"winning portfolios"** for our clients. In line with our philosophy of providing better insights to you, we hope you find the same informative.*

TEMPERATURE GAUGE INDEX



Data as on 12th Oct'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.

NIFTY -3 YEAR FORWARD RETURN



Data as on 12th Oct'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

Nifty50/10 Yr Gsec	6.98%	7.18%	7.38%	7.58%	7.78%
21050	95	96	97	98	98
21300	96	96	97	98	99
21550	96	97	97	98	99
21800	96	97	98	99	99
22050	97	97	98	99	100
22300	97	98	99	99	100
22550	97	98	99	100	101
22800	98	98	99	100	101
23050	98	99	100	100	101
23300	98	99	100	101	102
23550	98	99	100	101	102
23800	99	100	101	101	102
24050	99	100	101	102	103

Blue Colour Text Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as on 12th Oct'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.

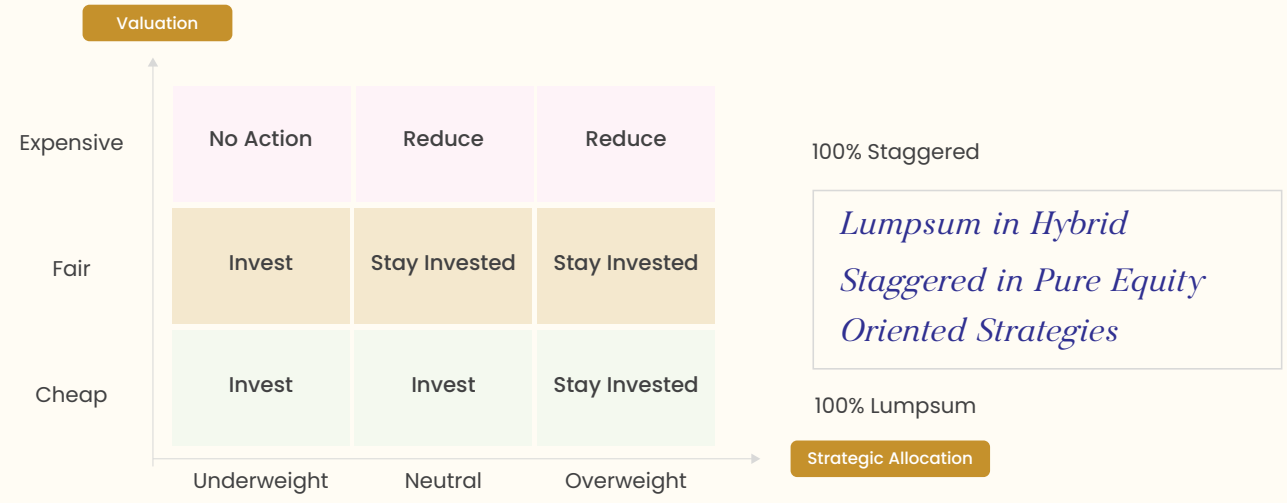
3 YR FORWARD RETURNS OF NIFTY AT DIFFERENT LEVELS OF TEMPERATURE GAUGE INDEX

NIFTY 50				36M RETURN CAGR			TIMES POSITIVE	% TIMES	
INDEX 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	836	9%	1%	44%	18%	99.5%	8%	90%
100	105	823	9%	-2%	30%	13%	85.7%	17%	61%
105	110	1207	13%	-4%	22%	10%	60.3%	11%	41%
110	115	2018	22%	-7%	22%	9%	75.6%	30%	32%
115	120	1617	18%	-4%	21%	9%	87.8%	25%	33%
120	125	804	9%	-2%	18%	10%	93.5%	10%	61%
125	130	135	1%	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 12th Oct'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 12th Oct'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.

UPI's Price Tag:

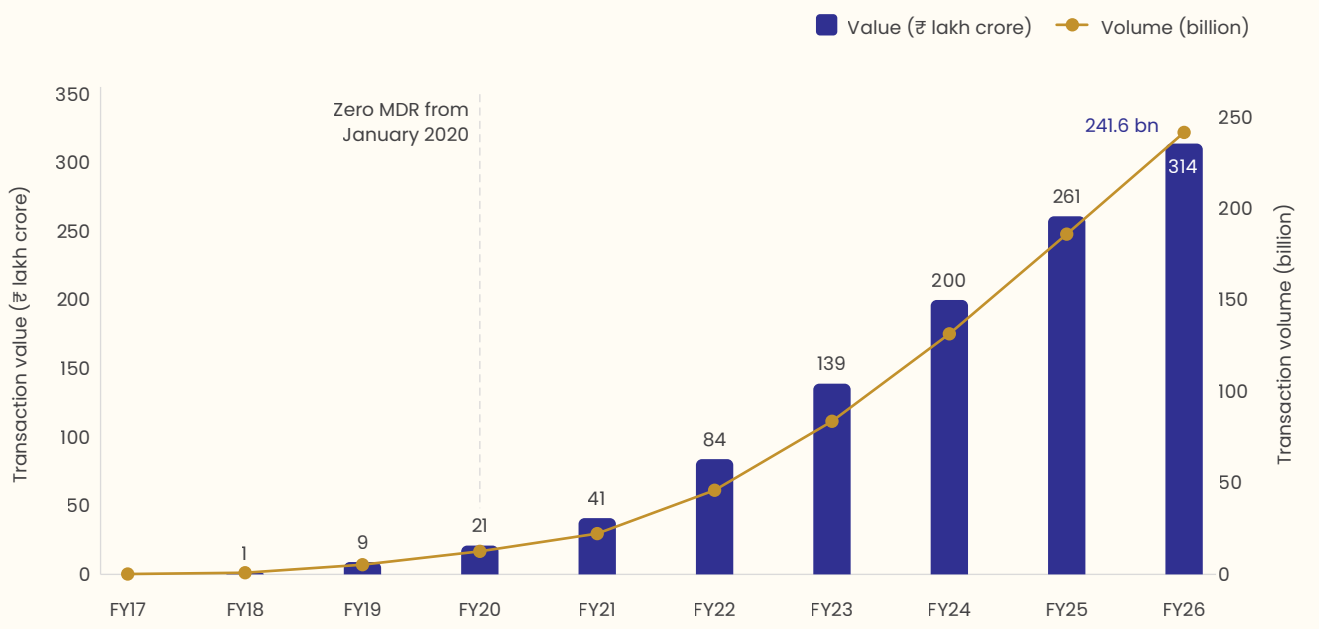
Can Free Payments Stay Free Forever?

A cup of tea, a cab ride, a pharmacy bill, a mutual fund investment – almost every payment in India can now run through the Unified Payments Interface, or UPI.

For the user, the experience is effortless: scan, enter PIN, done. No cash, no card machine, no visible charge. That simplicity has made UPI one of India's biggest financial-infrastructure success stories. Since January 2020, merchants accepting UPI have paid no Merchant Discount Rate, or MDR – the fee businesses usually pay for accepting digital payments.

The bet worked. In August 2026, UPI processed 24.51 billion transactions worth ₹29.82 lakh crore, or roughly 791 million transactions a day.

UPI'S DECADE OF GROWTH, ANNUAL UPI TRANSACTIONS, FY17-FY26



Source: https://indiabudget.gov.in/budget2022-23/economicsurvey/doc/stat/tab36.pdf

Free was never costless. Banks, payment apps and the wider payments ecosystem have carried much of the cost, while government incentives have covered only part of the bill. That is why the new MDR debate matters. Shortly after Diwali, larger merchants are expected to start paying 0.4% on select UPI payments above ₹2,000. The charge was originally scheduled for October 15, but NPCI deferred the rollout beyond the festive season, with a fresh date to be notified separately.

The question is no longer whether UPI can scale. It already has. The question is whether India can keep UPI free for users while making the system sustainable for those who run it.

What is MDR?

MDR, or Merchant Discount Rate, is the fee paid by a merchant for accepting a digital payment. In card payments, this is common. When a customer pays by debit or credit card, the merchant pays a small fee. That fee is shared across the customer's bank, the merchant's bank, the card network, and payment processors.

UPI took a different path. From January 2020, MDR on UPI and RuPay debit card transactions was made zero. This gave every kirana store, street vendor, restaurant, pharmacy, and retailer a strong reason to accept UPI. It was simple, instant, and free.

The new framework does not charge consumers for using UPI. Person-to-person transfers remain free. UPI apps cannot add a platform fee. The charge, where applicable, is on the merchant side.

In simple terms, MDR is not a fee for sending money. It is the cost a merchant pays for accepting digital payments.

WHAT IS CHANGING?

TRANSACTION	
Person-to-merchant, up to ₹2,000	Nil
Person-to-merchant, above ₹2,000	0.4%, capped at ₹300 (cap applies from ₹75,000)
Railways, telecom, insurance, fuel, agri inputs (above ₹2,000)	Flat ₹5
Mutual funds, brokers, securities dealers	0.02%, capped at ₹300
Small merchants receiving up to ₹1 lakh a month via UPI QR	Nil
Person-to-person transfers, AutoPay mandates	Nil

The design protects smaller transactions and smaller merchants, while introducing a charge on higher-value merchant payments. By government estimates, the MDR would apply only to a small share of merchant transactions. That is important because UPI's success has been built on mass adoption.

The policy intention is clear: preserve UPI's everyday utility while creating a revenue pool for the ecosystem that keeps it running.

How Does UPI MDR Compare with Cards?

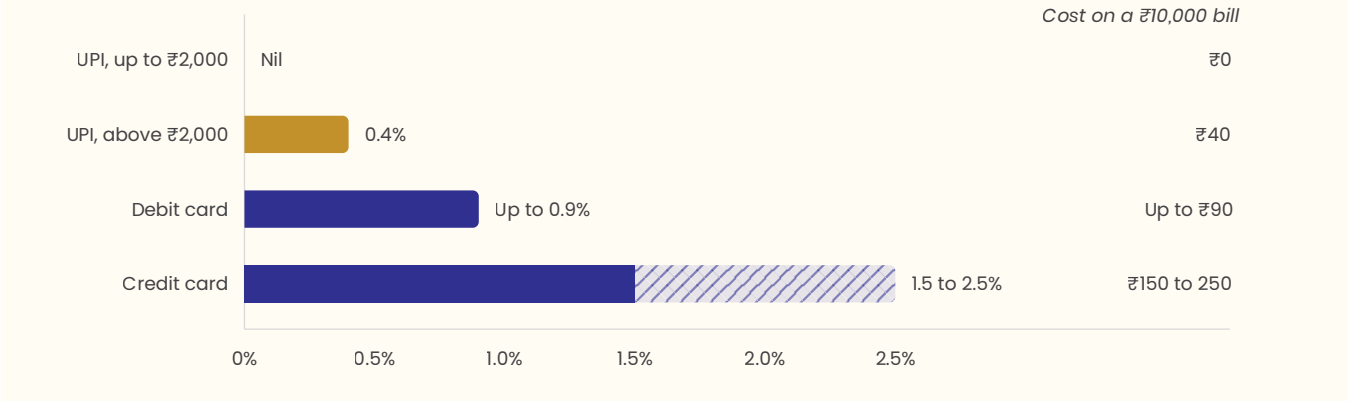
Even after the proposed charge, UPI remains cheaper than most card-based payment methods. Debit card MDR can go up to 0.9%, while credit-card MDR is typically around 1.5–2.5%. Against that, UPI's proposed 0.4% MDR above ₹2,000 remains modest.

This comparison puts the charge in perspective. UPI is not becoming an expensive payment method. It is moving from being free for eligible merchant transactions to being modestly priced for select higher-value transactions.

However, the behavioural shift is still important. Merchants have accepted UPI at zero cost for six years. Even a small charge can change behaviour when the starting point is zero.

UPI STAYS THE CHEAPEST DIGITAL OPTION FOR MERCHANTS

Merchant discount rate by payment mode under the new UPI framework



Note: UPI above ₹2,000 is capped at ₹300 per transaction (from ₹75,000). Small merchants receiving up to ₹1 lakh a month via UPI QR remain at nil MDR. Hatched area shows the range of card MDR. Source: https://www.businesstoday.in/personal-finance/story/upi-mdr-rules-rs12-on-rs3000-rs200-on-rs50000-and-rs300-cap-on-rs75000-payments-check-faqs-555724-2026-09-15

Why Do It at All — The Cost of Free Infrastructure

UPI's first phase solved adoption through zero cost; its next phase must solve sustainability without breaking the behaviour that made it successful.

Running a payment network at UPI's scale requires continuous spending on technology, uptime, cybersecurity, fraud monitoring, dispute resolution, customer support and merchant onboarding. As volumes rise, these costs rise too.

The industry's estimated annual cost of running UPI is about ₹20,700 crore. The FY27 government allocation for the RuPay and low-value UPI incentive scheme is roughly one-tenth of the same – the gap explains the problem. A system processing close to 800 million transactions a day cannot have its economics settled one budget at a time.

For banks, UPI has largely been a cost centre rather than a direct revenue product. It increased account activity, improved customer engagement, and created richer transaction data, but it did not generate transaction revenue in the way cards did.

They could absorb this because they had other richer income sources (lending, deposits, cards, wealth products, transaction banking and treasury income).

Payment apps faced a similar challenge. UPI helped them acquire users and merchants at enormous scale, but the core payment transaction was difficult to monetise directly. So, the business model moved around the transaction rather than through it. Apps monetised through soundboxes, payment gateways, merchant services, lending, insurance, broking, advertising, and other financial products.

In other words, UPI became the front door, while the money was made elsewhere. That model helped adoption. It may be less suitable for the next phase, where the system needs sustained investment in reliability, security, and innovation.

Who Gains, and Who Worries?

A merchant-side MDR gives banks and payment companies a direct revenue stream. For banks, it can help fund settlement systems, fraud control and technology infrastructure. For payment apps, it can improve the economics of merchant acquisition and reduce dependence on indirect monetisation. For payment aggregators, it creates a new question on how should the MDR be shared between counterparties. Therefore, the debate is not only about merchants paying 0.4%. It is also about how that 0.4% is distributed across the ecosystem.

Merchants see it differently. For large merchants, 0.4% may be manageable, especially compared with card costs.

For low-margin businesses, wholesalers, distributors, small retailers and MSMEs, even a small fee can matter. A business earning a 5-8% gross margin may view 0.4% as meaningful. If the cost cannot be passed on, margins reduce. If it is passed on indirectly, customers may resist. If merchants begin nudging customers toward cash for larger payments, digital adoption could be affected.

Therefore, the exemption for small merchants is important. It protects the base of the UPI network, where the economic sensitivity is highest and where digital payments have delivered the biggest behavioural change.

What Changes for Consumers?

For consumers, the direct impact should be limited. Person-to-person transfers remain free, and users are not expected to pay a transaction fee for using UPI. But costs can still move indirectly. Merchants may reduce discounts, prefer cash for certain high-value transactions, introduce informal minimums, or build the cost into pricing. Organised retailers may absorb the charge more easily. Smaller merchants may be more sensitive. The consumer may not see a UPI fee on the screen, but the economics can still show up through merchant behaviour.

Clear communication will matter. If consumers believe UPI itself has become chargeable, usage patterns could change unnecessarily. The distinction between user charges and merchant MDR must remain clear.

Public Utility or Commercial Network?

UPI sits between two models. As a public utility, it earns subsidy through spill overs: less cash, better transaction records, deeper formalisation, and wider financial inclusion. As a commercial network, it needs revenue to compensate banks, apps and technology providers that keep it reliable and secure.

The new framework is a hybrid. Users and small merchants stay inside the utility, while larger merchants pay a regulated, capped fee that works more like a toll than a market price. The balance carries risks. MDR rewards whoever owns the merchant relationship, which may entrench the largest apps. The ₹2,000 threshold and 0.4% rate were set by committee and can be revised. Priced too low, the ecosystem underinvests; priced too high, UPI loses the ease of use that built it.

The ideal outcome lies somewhere in the middle: free for users, protected for small merchants, affordable for larger merchants and sustainable for the ecosystem.

The Price of Scale

UPI has changed how India pays. The MDR debate is about how India pays for UPI. The first phase of UPI was about building trust and adoption. A free payment experience was essential to that journey. The next phase is about making the system sustainable without damaging the very behaviour that made it successful.

This requires careful design. Users should remain protected. Small merchants should not be pushed away. Larger merchants should face a cost that is lower than most other digital payment methods. Banks and payment companies should receive enough incentive to keep investing in reliability, fraud prevention and innovation.

The real question is not whether UPI should remain free for users. It is whether India can keep UPI free for users while building a sustainable economic model for everyonewho keeps it running.

Snapshot:

Macro Economies

	US	JAPAN	AUSTRALIA	GERMANY	FRANCE	UNITED KINGDOM	EURO AREA
GDP YoY	2.2%	0.7%	2.1%	1.0%	0.7%	1.4%	1.2%
Inflation rate	3.4%	1.9%	4.0%	3.3%	3.0%	3.1%	3.8%
10 Yr Bond Yield	5.3%	5.4%	5.4%	3.4%	4.9%	5.4%	4.1%
Policy rate	4.0%	1.3%	4.6%	2.7%	2.7%	3.8%	2.7%

Snapshot:

Emerging Economies

	INDIA	INDONESIA	BRAZIL	MEXICO	SOUTH KOREA	CHINA	RUSSIA
GDP YoY	7.8%	5.3%	2.0%	2.1%	3.7%	4.3%	1.3%
Inflation rate	4.8%	3.3%	4.2%	3.3%	2.9%	0.8%	6.3%
10 Yr Bond Yield	7.2%	7.2%	14.3%	9.5%	4.4%	1.7%	16.9%
Policy rate	5.3%	5.8%	13.8%	6.5%	3.0%	3.0%	14.0%

Disclaimer: Data updated from Trading Economics as on 1st October 2026.

Global Market Review & Outlook

Sep-26 marked a shift in global market sentiment as investors confronted renewed inflationary pressures, tighter monetary policy and a sharp sell-off in government bonds. The combination of rising energy prices, resilient US economic activity and persistent inflation concerns pushed bond yields higher across developed markets, challenging expectations of an easing monetary environment. Global equities also came under pressure, with the MSCI World Index declining -1.3% during the month, although the heavyweight technology stocks remained resilient.

MSCI WORLD INDEX

-1.3%

Global equities fell amid rising yields and inflation, while technology stocks remained resilient.

United States

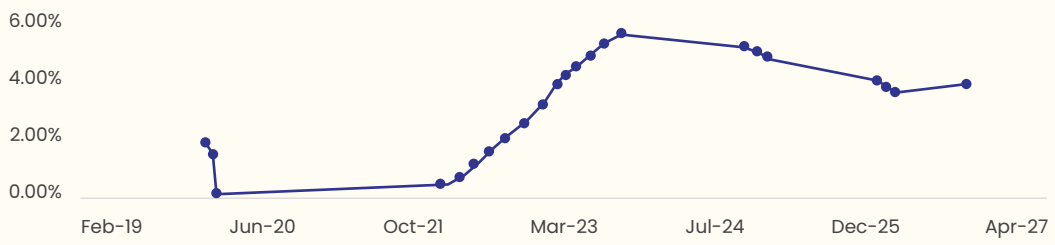
The Fed raised benchmark rates by 25 basis points, taking the federal funds target range to 3.75%–4.00%. The unanimous decision reflected continued concerns surrounding elevated inflation despite resilient domestic economic activity. The Fed highlighted solid consumer spending, robust capital investment and stable labour market conditions, reinforcing its assessment that the US economy remained capable of absorbing tighter monetary policy.

U.S. FED RATE HIKE

25 bps

The Fed raised interest rates by 25 basis points to 3.75%–4.00%, amid persistent inflation and resilient economic activity.

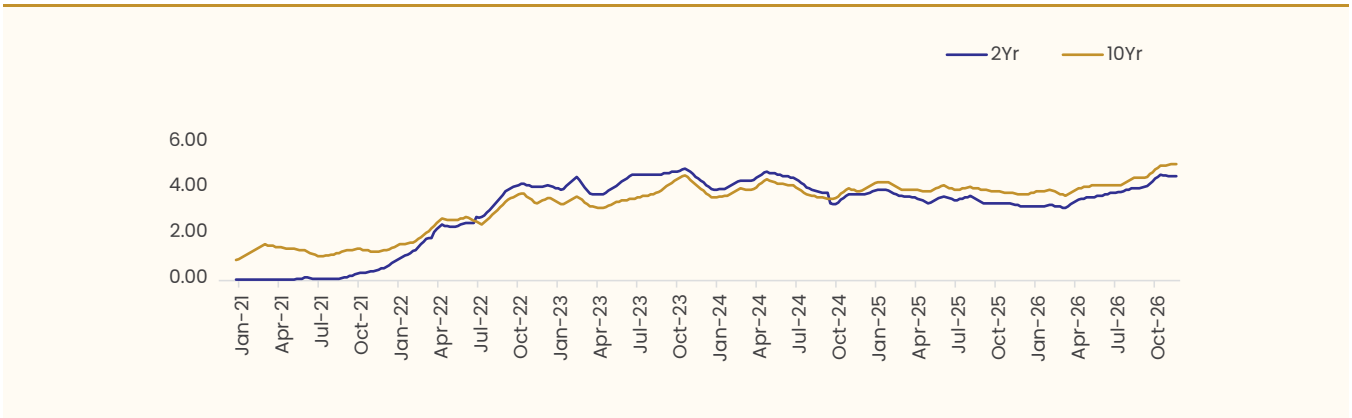
FED TARGET RATE



Source: Investing.com

The policy decision contributed to a significant repricing in US fixed-income markets. The U.S. 10-year and 2-year Treasury yields are trading near multi-decade highs driven by economic resilience, stubborn inflation, and fiscal supply concerns as investors adjusted expectations towards interest rates remaining elevated for longer. Higher energy prices and continued investment in AI infrastructure further complicated the inflation outlook, increasing pressure on long duration bonds.

US BOND YIELDS



Source: Investing.com, As on 30th Sep 2026

US equity markets delivered mixed performance. The S&P 500 declined by 0.5% during September, while technology stocks showed greater resilience, supported by continued optimism surrounding AI-related investment and earnings growth. Despite September weakness, the S&P 500 was up 11.8% year to date as of Sep-end.

US BENCHMARK	SEP-26	YTD 26
Nasdaq 100	3.2%	20.4%
Nasdaq Composite	1.9%	15.6%
S&P 500	-0.5%	11.8%
Russell 2000	-5.4%	12.7%
S&P Midcap 400	-4.4%	8.8%
Dow Jones Industrials	-4.3%	5.9%

Source: Investing.com, As on 30th Sep 2026

Europe, United Kingdom & Japan

France emerged as a focal point of investor concern, with its 10-year government bond yield recording its largest monthly increase in almost four years amid uncertainty surrounding public finances and the government's fiscal outlook.

The European Central Bank raised its three key policy rates by 25 bps taking the deposit facility rate to 2.50%. The ECB projected euro-area inflation averaging 3.0% in 2026, while revising its growth forecast upwards to 0.9%, reflecting greater-than-expected economic resilience. Meanwhile, the BOE maintained its benchmark rate at 3.75% as UK inflation reached 3.1% in August.

FRANCE'S 10-YEAR BOND YIELD

~4 Years

France's 10-year bond yield saw its sharpest monthly rise in nearly four years amid fiscal concerns.

EURO-AREA INFLATION FORECAST

3.0%

BOE held rates steady as UK inflation reached 3.1% in August.

Japan's 10-year government bond yield reached approximately 3.06% by September-end, reflecting expectations of further monetary tightening and higher domestic borrowing costs. Q2 2026 GDP growth was revised upwards to 1.4% annualised (0.4% QoQ) from 1.1%, and private consumption remained flat. The Bank of Japan raised its policy rate by 25 bps to 1.25% on September 18, its highest level in 31 years, as persistent inflation and improving wages supported monetary normalisation.

BANK OF JAPAN POLICY RATE

1.25%

The Bank of Japan raised its policy rate by 25 bps in September, reaching its highest level in 31 years.

MARKET	BENCHMARK	SEP-26	YTD 26
Developed Markets	MSCI World	-1.3%	10.7%
Eurozone	EUROSTOXX 50	-2.4%	7.2%
France	CAC 40	-4.4%	-2.3%
UK	FTSE	-2.0%	6.8%

Source: Investing.com, As on 30th Sep 2026

Emerging Markets

Emerging markets recorded $26.3 billion in foreign portfolio outflows in September, their first monthly outflow since June, following the Federal Reserve's 25-bps rate hike. Equities accounted for $19.2 billion of withdrawals, driven largely by foreign selling in South Korea following a 59% YTD rally in the KOSPI, while fixed income recorded approximately $7 billion in outflows.

SOUTH KOREA'S KOSPI RALLY

59%

YTD rally preceded foreign selling amid elevated valuations and volatility.

Despite September's reversal, EM bonds attracted US$246 billion in YTD inflows, whereas equities recorded US$113.9 billion in YTD outflows, compared with $27.3 billion during the corresponding period last year. Excluding China, equity outflows reached US$151.5 billion. South Korea and Taiwan remained central to the global AI and semiconductor investment theme through elevated valuations and increased market volatility.

Underlying manufacturing activity remained supportive, with manufacturing PMI of South Korea reaching 53.9 and semiconductor-related exports continuing to benefit from global AI investment, signalling expansion even as equity valuations came under pressure.

MARKET	BENCHMARK EM	SEP-26	YTD 26
South Korea	KOSPI	0.3%	58.7%
Brazil	BOVESPA	5.0%	16.1%
Taiwan	Taiwan Weighted Index	3.9%	65.5%
China	Shanghai Composite	-3.6%	-3.2%
Emerging Markets	MSCI EM	-0.8%	21.4%

Source: Investing.com, As on 30th Sep 2026

Oil & Energy

Brent crude gained approximately 8.3% reporting a price of $98.0 per barrel Sep-end as tensions renewed between the United States and Iran, alongside tightening fuel supplies and increased concerns surrounding global energy availability. The increase reversed part of the earlier moderation in oil prices and renewed inflationary pressures across both developed and emerging economies.

For energy importing economies, particularly across Europe and Asia, rising crude prices threatened to increase production costs, weaken purchasing power and place additional pressure on external balances. Meanwhile, the potential for further disruptions to Middle Eastern energy infrastructure and shipping routes remained a key source of uncertainty.

BRENT CRUDE PRICE

$98.0

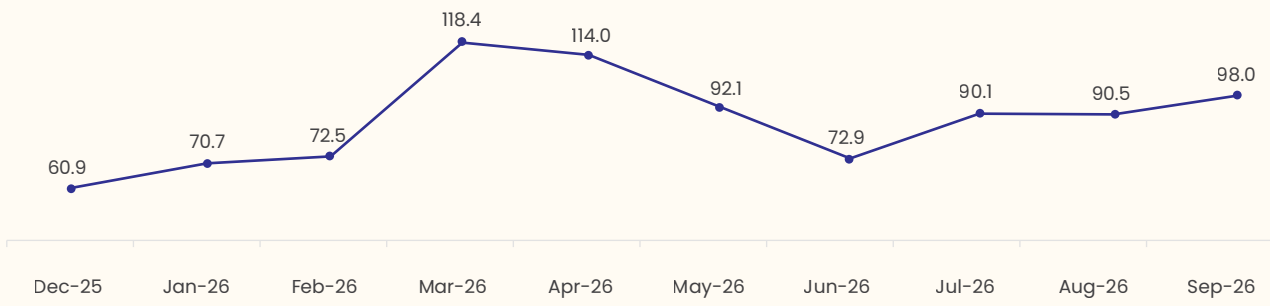
per barrel as of September-end

BRENT CRUDE PRICE INCREASE

+8.3%

September price gain

BRENT CRUDE, MONTH-END LEVELS IN US DOLLARS PER BARREL



Source : Investing.com, As on 30th Sep 2026

Looking Ahead

September highlighted a more challenging investment environment as resilient economic growth coincided with persistent inflation and renewed monetary tightening. The sharp increase in global bond yields demonstrated the sensitivity of financial markets to changing interest rate expectations, while higher energy prices reinforced concerns surrounding the durability of the disinflationary trend. Investors will remain focused on the Federal Reserve's next policy decisions, the trajectory of oil prices and the sustainability of AI driven corporate earnings growth.

Indian Economy Review

India's growth momentum remains resilient, but the macro backdrop has become more complex. Strong domestic activity, healthy GST collections and firm industrial output continue to support growth, even as inflation pressures broaden and higher crude prices raise input costs. With the RBI now shifting towards calibrated tightening, the key question is whether growth can remain strong as inflation and external risks build.

RBI Shifts to Calibrated Tightening

The Monetary Policy Committee unanimously raised the repo rate by 25 bps to 5.5%, its first increase since February 2023. More important was the shift in stance from "neutral" to "calibrated tightening", approved by a 4–2 majority. This effectively rules out rate cuts for now, leaving the RBI with the choice of either pausing or raising rates further. At the same time, the RBI raised its FY27 GDP growth forecast from 6.7% to 7.1%, supported by stronger-than-expected growth, resilient consumption, healthy investment activity and continued strength in services.

FY27 GDP GROWTH FORECAST

7.1%

Revised upward from 6.7%, driven by resilient consumption, strong investments and services growth.

The concern, however, is inflation. The RBI expects inflation to remain elevated over the coming quarters, more importantly, price pressures are becoming broader with the headline inflation rising to 4.8% in August. Food inflation has also become more widespread, led by sharp increases in items such as sugar and onions.

The RBI has therefore not signaled a prolonged hiking cycle, but further action will depend on how inflation evolves, whether price pressures spread further and the extent of second-round effects on the broader economy.

Growth Indicators Stay Firm, with Some Pockets of Weakness

High-frequency indicators continue to signal healthy domestic activity, albeit with some divergence. Gross GST collections rose 14.7% YoY to ₹2.0 lakh crore in September, though import GST contributed more than half of the overall increase, tempering the read-through for domestic consumption. Vehicle sales reached a record September high of 25.4 lakh units; while the 31.8% YoY growth benefited from a weak base, the 4.7% MoM rise and 20.8% H1 FY27 growth point to underlying strength. Passenger vehicle inventories, however, remain elevated at 43–45 days.

Industrial activity was robust, with IIP growth at 8.0% in August, led by manufacturing, capital goods and consumer durables, indicating stronger investment and discretionary demand, while consumer non-durables remained subdued. PMI readings also improved in September, but softer export orders suggest that domestic momentum remains resilient even as external demand weakens.

GST COLLECTIONS

₹2 Lakh crores

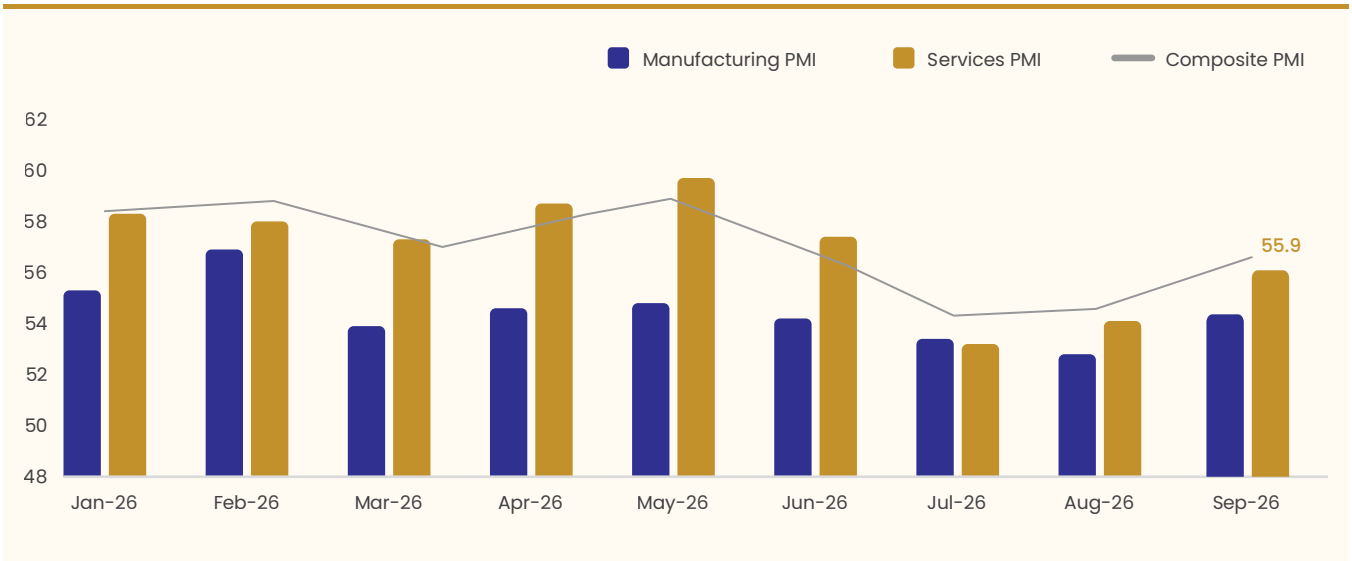
+14.7% YoY | September

VEHICLE SALES

25.4 Lakh units

+31.8% YoY | September

PMI READINGS

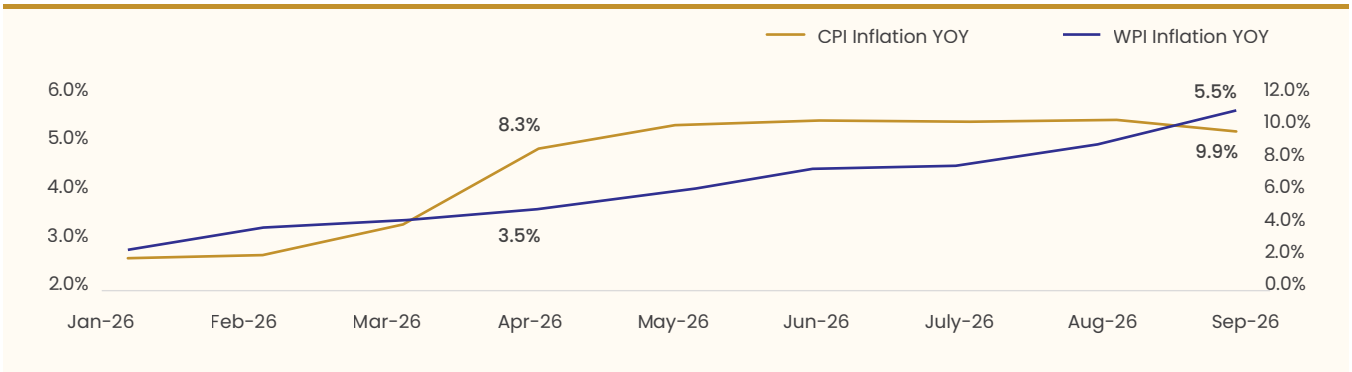


Source: Investing.com

Rising Input Costs Keep Inflation Risks Elevated

Retail inflation has risen steadily from 2.7% in January to 4.8% in August, with food inflation at \~6.0% and rural inflation remaining above urban inflation. The sharper pressure, however, is visible in wholesale prices, with WPI inflation rising to 9.9%, led by fuel and power inflation at 22.9% and manufactured products at 8.4%, largely reflecting higher crude prices following supply disruptions around the Strait of Hormuz. The wide CPI-WPI gap partly reflects index composition, but also suggests that higher input costs may not yet have been fully passed on to consumers, leaving room for further retail inflation through second-round effects.

INFLATION YOY%



Source: Investing.com

What to watch

RBI has forecasting the quarterly GDP growth to slow by a 1% in Q4 vs Q1. Three questions will show whether that path holds. First, do price pressures spread? The RBI's test is underlying inflation: core inflation, and the share of the CPI basket above 4%. Second, does demand hold once the GST and base-year effects fade and borrowing costs rise? Third, do the external pressures ease? That depends on oil and the situation in the Strait of Hormuz, the dollar and global yields, and how long the RBI keeps drawing on reserves.

Market Performance

NIFTY 50	NIFTY MIDCAP 150	NIFTY SMALLCAP 250	NIFTY 500
-6.1%	-7.1%	-3.1%	-5.9%

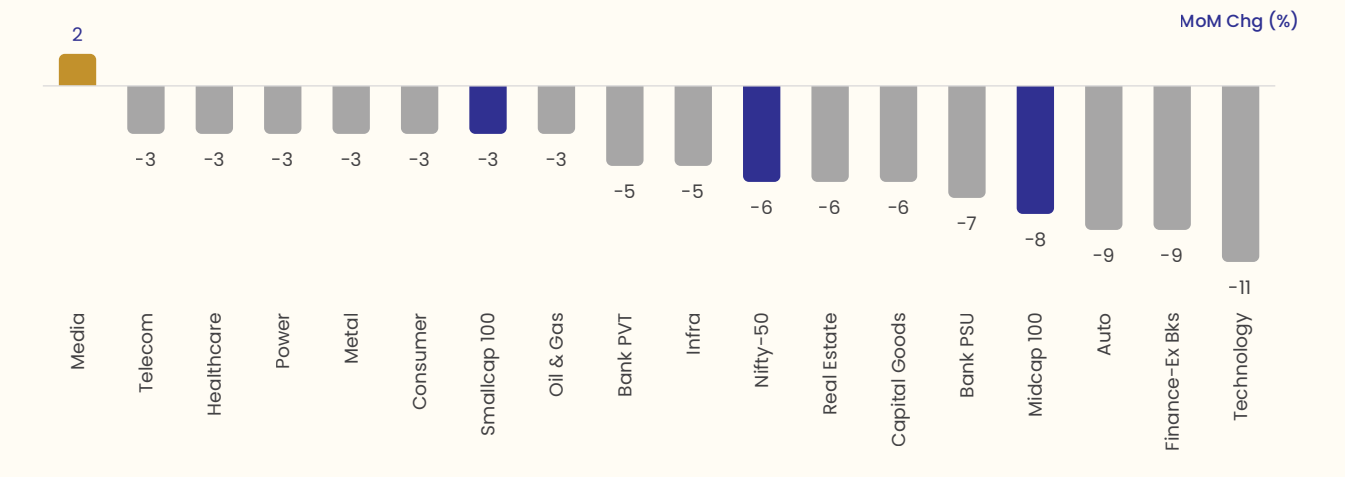
Indian equities remained under pressure in September 2026, with the Nifty 50 falling 6.1% MoM to 22,620, its second consecutive monthly decline. The index moved within a 1,574-point range before ending 1,460 points lower, marking its second-steepest monthly fall since October 2024 and taking the CY26 YTD decline to 13.4%. Market breadth was also weak, with 45 of 50 constituents ending lower.

Broader markets also corrected, with the Nifty Midcap 150 down 7.1%, the Nifty 500 down 5.9%, and the Nifty Smallcap 250 down 3.1%, indicating relative resilience in small caps.

Sectoral Performance

Sectoral weakness was broad-based in September, with Media (+2%) the only major sector to end higher. Technology led the decline, falling 11%, followed by Financials ex-Banks and Automobiles (-9% each), PSU Banks (-7%) and Capital Goods (-6%), reflecting the broad-based nature of the market correction.

SECTOR PERFORMANCE – SEP (%)



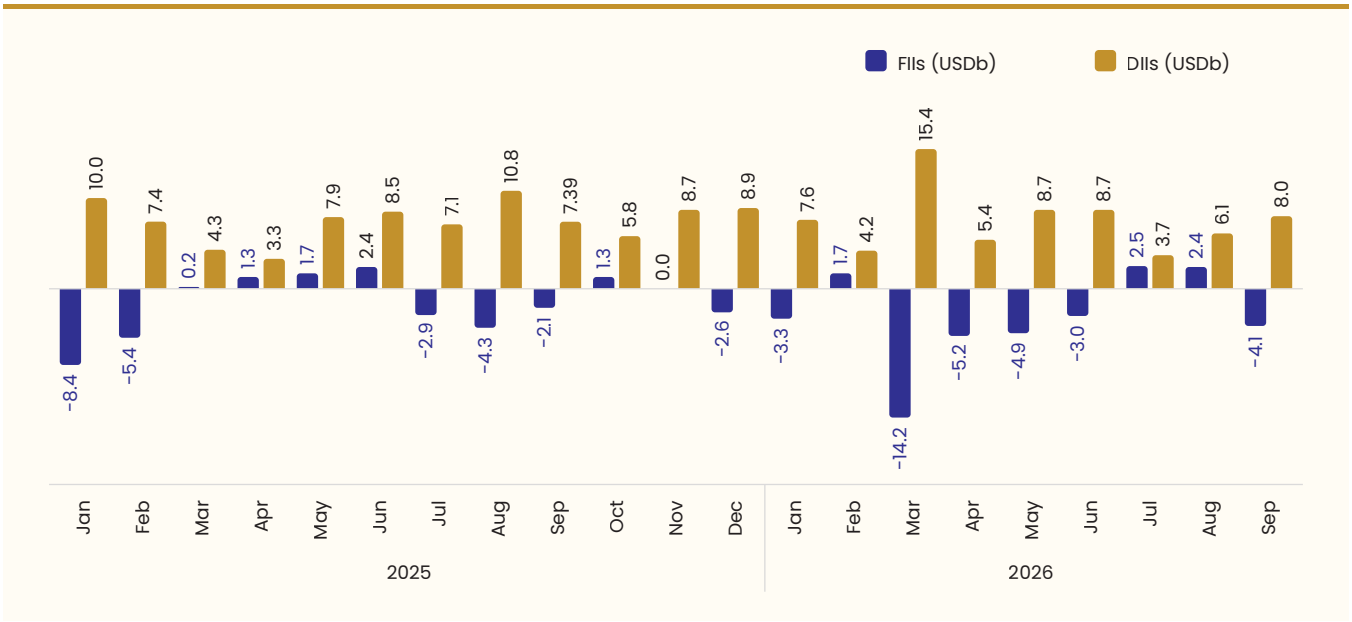
Source: Motilal Oswal Bulls and Bears Report

FII vs DII Flows

FII flows reversed in September 2026, with net equity outflows of USD 4.1 billion after two consecutive months of inflows, taking cumulative CY26 YTD outflows to USD 28.3 billion.

Domestic flows, however, remained robust. DIIs invested USD 8.0 billion during the month, lifting cumulative CY26 YTD inflows to USD 67.8 billion and continuing to provide a strong liquidity counterbalance to foreign selling. That said, with a section of domestic investors now experiencing negative returns even on two-year SIP vintages, the durability of retail flows through an extended weak market will be an important trend to monitor.

FII VS DII FLOWS



Source: Motilal Oswal Bulls and Bears Report

Corporate Earnings — Q2FY27 Preview (As on 31st Aug'26)

Nifty 50: Earnings Growth Expected at a 17-Quarter High

Nifty 50 earnings are expected to grow a strong 27% YoY in Q2FY27, the highest in 17 quarters, with sales and EBITDA growth of 17% and 19%, respectively. The earnings outlook remains healthy, with FY27E Nifty EPS retained at ₹1,233, implying 16% growth.

NIFTY 50

27% YoY

Earnings growth,
the highest in 17 quarters

MOFSL Universe: Broad Based Earnings Acceleration

The MOFSL Universe is expected to deliver 22% YoY PAT growth, the strongest in 11 quarters, while ex-OMCs earnings are estimated to grow 24%, the highest in 12 quarters. Growth is expected to be unusually broad-based, with almost all sectors contributing positively, led by Financials, Metals, O&G (ex-OMCs) and Telecom. Sales and EBITDA are projected to grow 19% and 17% YoY, respectively.

MOFSL UNIVERSE

22% YoY

PAT growth,
the strongest in 11 quarters

Market Cap Trends: Small Caps Lead Earnings Growth

Large-, mid- and small-cap earnings are expected to grow 23%, 11% and 29% YoY, respectively, alongside healthy sales growth of 19%, 20% and 17%. Small caps are expected to lead PAT growth, while large caps also remain strong; mid-cap earnings growth is relatively moderate despite robust topline growth. Overall, the Q2FY27 preview points to a broadening earnings recovery.

MARKET CAP TRENDS

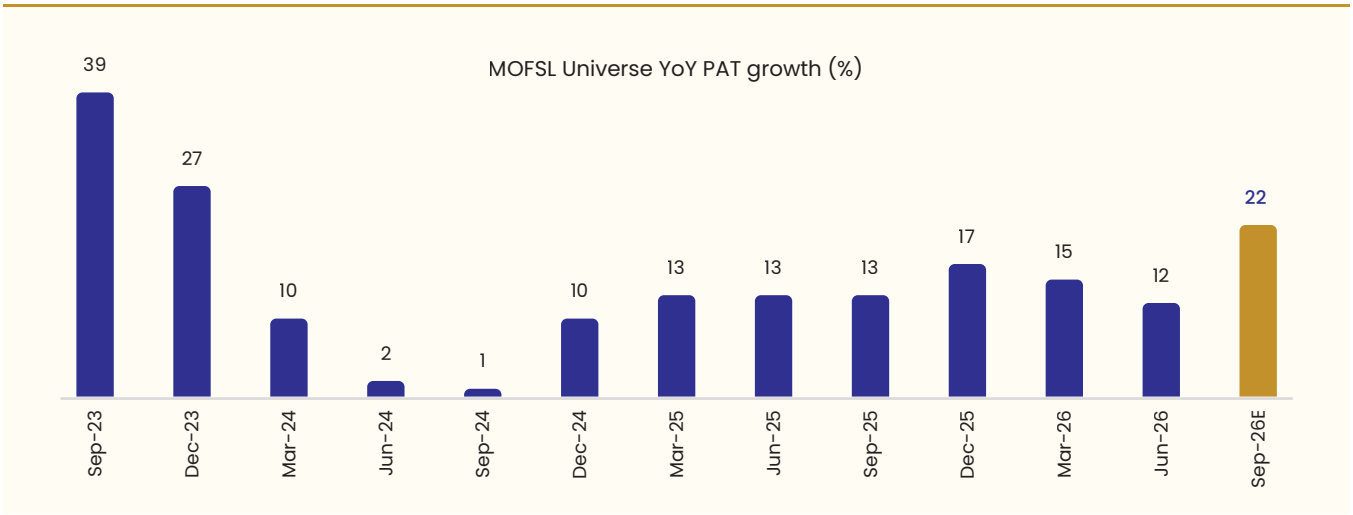
23% Large-CAP

11% Mid-CAP

29% Small-CAP

Earnings growth,
with small caps leading

MOFSL UNIVERSE PAT GROWTH TO HIT AN 11-QUARTER HIGH



Source: Motilal Oswal India Strategy Report

Valuations

The Nifty is now trading at a 12-month forward Price-to-Earnings (P/E) ratio of 17.2x, which is ~18% below its historical average of 20.9x, and is almost at -2 SD. Mid and small-cap equities' 12-month forward P/E trades at a 5% discount and 34% premium to their 10-year averages of 24.1x/17.7x but the extent of the premium has come down compared to Sep'24.

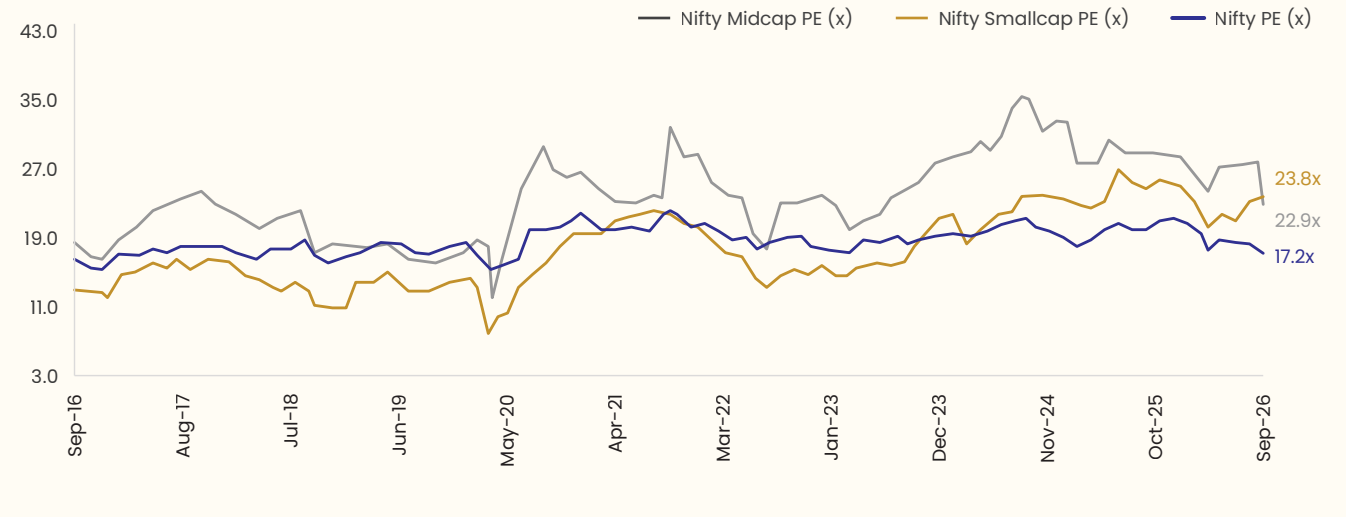
CURRENT NIFTY 50 VALUATIONS

17.2x

12-Month Forward P/E Ratio

~18% BELOW 10-YEAR AVERAGE

SEP'16 - SEP'26 - 1Y FORWARD P/E



Source: Motilal Oswal Institutional Equities Report

BELOW ARE THE COMPARATIVE VALUATIONS OF A FEW KEY SECTORS

SECTOR	12M FORWARD P/E OR P/B	10Y AVG P/E OR P/B	KEY VIEW
Automobiles	23.6x P/E	23.8x P/E	At a 1% discount; festive demand remains strong, though a higher base and commodity costs may moderate growth and margins in 2H.
Private Banks	1.9x P/B	2.5x P/B	At a 25% discount; strong credit growth and FCNR(B) liquidity are supportive, though surplus liquidity may weigh on near-term NIMs.
PSU Banks	1.1x P/B	~0.9x P/B	At a 21% premium; healthy credit growth and stable asset quality support earnings, while rural/MSME stress remains a monitorable.
Capital Goods	37.7x P/E	32.7x P/E	At a 15% premium; ordering momentum is improving across key segments, though elevated valuations warrant selectivity.
Consumer Staples	33.5x P/E	42.6x P/E	At a 21% discount; urban demand remains steady, while weak rainfall, inflation and margin pressure could constrain rural recovery.
Consumer Durables	34.7x P/E	38.2x P/E	At a 9% discount; appliance and cables & wires demand remains healthy, though elevated commodity prices pose a margin risk.
Healthcare	35.1x P/E	27.9x P/E	At a 26% premium; healthy domestic formulations and CDMO demand support growth, while hospital pricing remains a key risk.
Real Estate	24.8x P/E	33.8x P/E	At a 27% discount; organized retail continues to expand, supported by a strong mall pipeline and experiential demand.
Technology	14.5x P/E	21.5x P/E	At a 32% discount; valuations are attractive, but weak discretionary spending and AI-led productivity gains constrain revenue visibility.

Portfolio Strategy

Indian Equity markets have gone through a corrective and consolidating phase over the last one month as the global backdrop continued to remain less supportive for India. Sticky inflation, fiscal pressures, elevated long-end yields and high crude prices are keeping global financial conditions tight. For India, this has translated into pressure on the INR, current account and domestic liquidity, with the Nifty recording its longest weekly losing streak in 25 years.

India has also lagged despite resilient global markets. The S&P 500 remains near record highs, supported by a narrow set of mega-cap and AI-linked stocks, while Indian benchmark saw the mega cap's underperformance weighing on the overall Index performance.

Domestic liquidity has so far cushioned the correction, with DIIs absorbing record FII selling. However, weaker household savings, rising rates and almost 2 years of very low or negative returns suggest that the durability of these flows will be an important monitorable from here.

The positive is that the fundamental backdrop is beginning to improve. Nifty 50 earnings are expected to grow ~27% YoY in Q2FY27, while valuations have corrected meaningfully, with the Nifty trading at ~17.2x 12-month forward P/E (same as covid level), ~18% below its historical average. The relative valuation picture increasingly favours large caps. Mid-cap valuations are broadly reasonable, but small caps continue to trade at a sizeable premium to historical averages, while leverage also remains disproportionately concentrated in the segment.

Indian equities therefore appear to be at a "**Yellow Signal**" — not a reason to stop, but a signal to proceed with caution. Reasonable valuations provide the seat belt, improving earnings provide the fuel, while higher yields, crude and geopolitical uncertainty remain the cross traffic or speed breakers.

Considering the current scenario, we continue to maintain a Neutral view on Equities, but increase allocation towards Hybrid/large caps.

PORTFOLIO ALLOCATION

50%	10%	40%
ALLOCATION	ALLOCATION	ALLOCATION
Hybrid/Large caps	Global	Mid & Small Caps

Investment Strategy: Deploy lumpsum in hybrid/large cap strategies at current levels and stagger the remaining.

Synchronized Global Sell Off in Bonds: India rose the least among the deficit economies

U.S. 10-year Treasury yields surged above 5.3%, touching their highest level in 24 years. Fed rate cut expectations point toward gradual easing after two more rate hikes, with policy rates projected to moderate over time, though persistent inflation and fiscal pressures may keep long yields elevated

India's move is mid-pack in yield terms, but India carries the highest starting yield, so carry absorbed much of the price loss.

Bloomberg's global sovereign yield gauge reached 3.72% on 31 Aug — its highest since mid-2008.

5.3%+

U.S. TREASURY YIELD

Reached its highest level in 24 years, driven by persistent inflation and fiscal pressures.

3.72%

GLOBAL SOVEREIGN BOND YIELDS

Reached its highest level since mid-2008 on 31st August.

10Y YIELD	9-OCT-25	9-OCT-26	Δ 1Y (BP)	DRIVER / POLICY
US	4.14%	5.23%	+109	Fed hiked in Sep (first since 2023); 10Y hit 5.35%, a 24-year high
UK	4.70%	5.42%	+72	Fiscal credibility, oil; BoE Nov hike ~70% priced
Germany	2.65%	3.45%	+80	ECB hikes from June; record €512 bn Bond issuance
France	3.49%	4.87%	+138	Briefly >5% (2002 high); OAT–Bund spread ~150 bp at peak
Japan	1.70%	3.02%	+132	BoJ at 1.25% after Sep hike; 10Y at 30-year high
China	1.86%	1.67%	-19	Disinflation; LPR (Loan Prime Rate) unchanged for 16th month
India	6.52%	7.30%	+78	RBI hike to 5.50%; CPI 5.54%; INR pressure

Source : Trading Economics ,CCIL, Bloomberg

The OAT-Bund spread is the difference in yield between France's 10-year government bonds (known as OATs,) and Germany's 10-year government bonds (known as Bunds). Bloomberg's global sovereign yield gauge refers to a weighted metric—often drawn from the Bloomberg Global Treasury Index—that tracks the average interest rate (yield) paid on investment-grade government bonds across major global economies. It blends together the yields of government IOUs (like US Treasuries, Japanese JGBs, German Bunds, and UK Gilts) into a single percentage.

RBI Pivots to A 'Calibrated Tightening' Stance

5.50%
1ST HIKE SINCE 2023
Follows 125 bps of cuts in 2025 and four holds at 5.25% in 2026

CHANGE OF STANCE
From 'Neutal' to 'Calibrated Tightening'

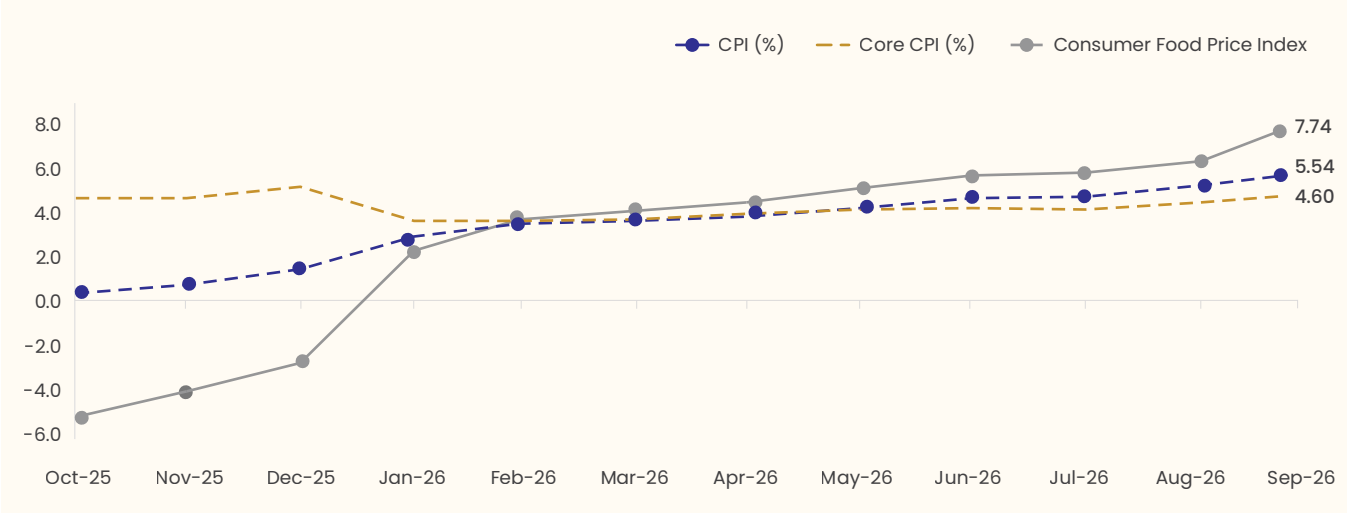
HAWKISH TONE
Next move is a hike or a pause; cuts are off the table. Data-dependent and flexible.

~50 bps
Additional raise in Repo Rate expected in near - medium Term

A PRE EMPTIVE TURN BY RBI : RESILIENT GROWTH GIVES RBI ROOM TO ACT ON INFLATION RISKS

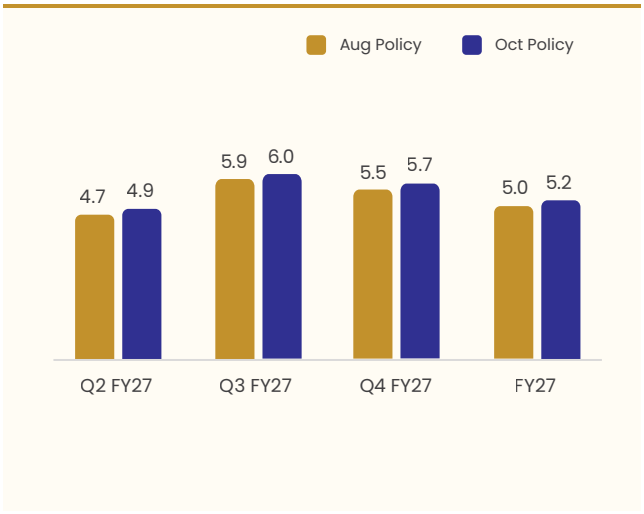
Inflation outlook has become less favourable on back of elevated food & energy prices, weather related risks, global uncertainty. The October Monetary Policy Report assumes crude oil at US$95/bbl in H2 FY27, compared with the April baseline of US$85/bbl for FY27, a weaker assumed rupee (₹95/$ versus ₹94/$) and a below-normal FY27 monsoon. Real rates currently near zero , as compared to 1% - 1.5% in the past – RBI may want to make real rates attractive, going forward.

INFLATION TREND

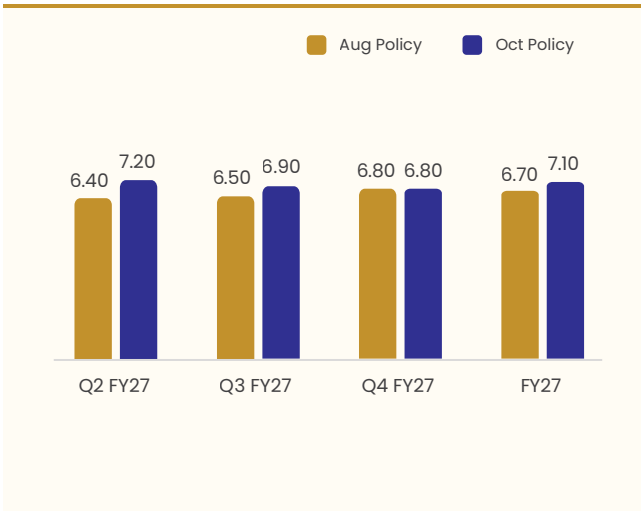


Source : RBI Website, Internal Research, Data as on 8th Oct 2026

CPI INLATION PROJECTION (%)



REAL GDP GROWTH PROJECTION (%)



Source : RBI Website, Internal Research, Data as on 8th Oct 2026

India — US Spread Halved : 383 bp in 2023 -> 205 bp in 2026

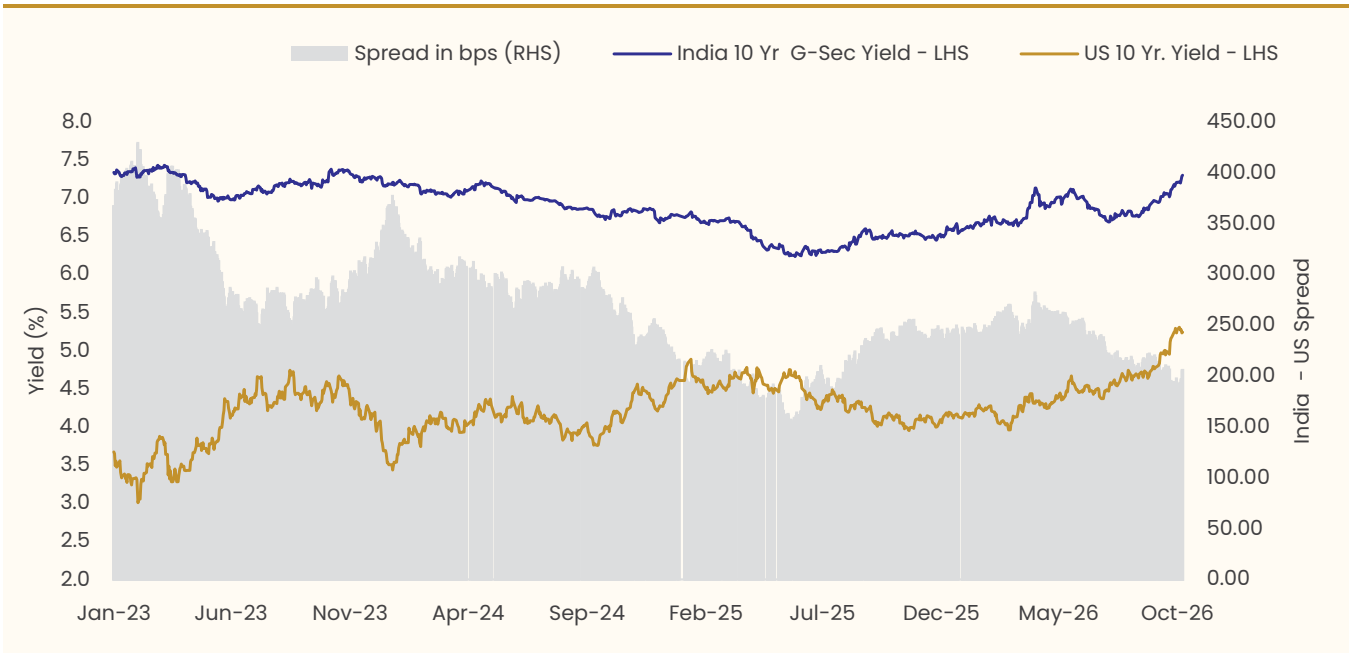
A thin spread plus a weak rupee keeps foreign money tactical.

WHY THE SPREADS COMPRESSED

2023: Fed at 5.25–5.50% took US 10Y to 4.9%; India stayed ~7.2%

2025: RBI cut 125 bp + OMO buying vs Fed's slower easing; spread ~190–220 bp

2026: US +106 bp (inflation, oil, Fed hike, term premium) vs India +73 bp. Index inclusion added a structural bid for Indian bonds



Source : Trading Economics , Bloomberg

PERIOD (CY2026-YTD)	NET FLOWS IN DEBT
Jan–Feb	+₹24,804 cr
Mar - May (war shock)	-₹16,538 cr
Jun - Aug (record)	+₹72,722 cr
Sep – Oct MTD	-₹20,855 cr
YTD Till 13th Oct	+₹60,133 cr

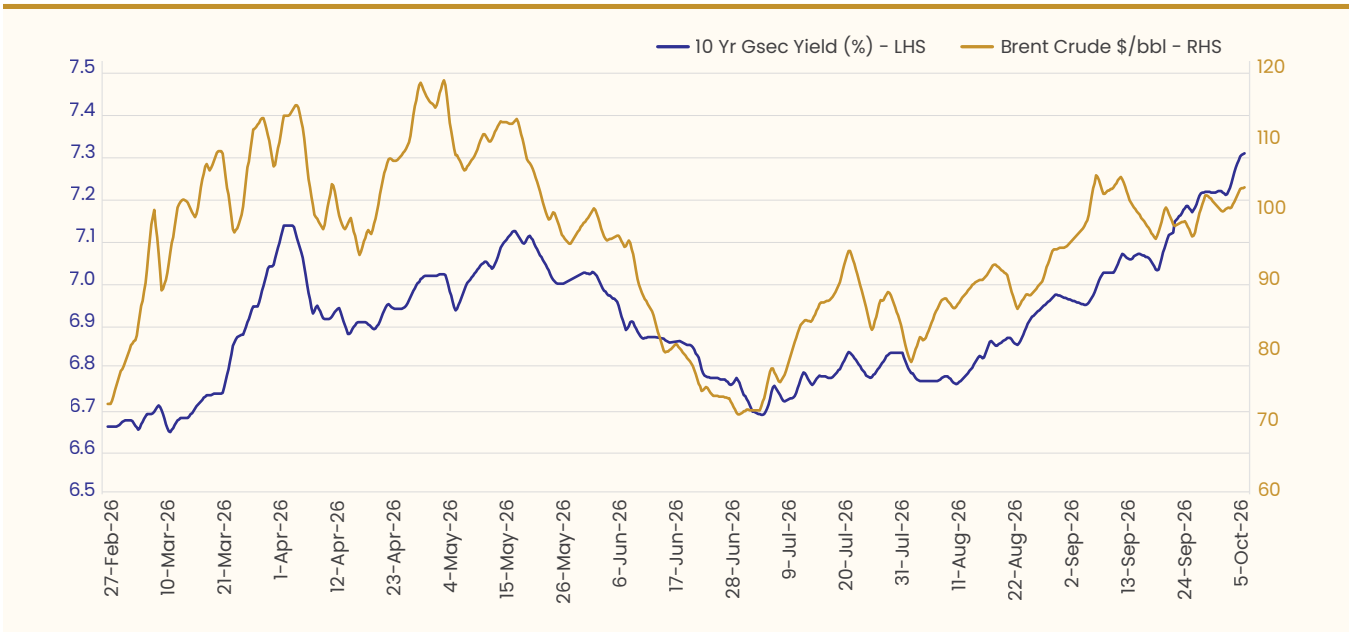
Source : Trading Economics , Bloomberg ·

India 10 Y vs Brent Crude Oil : Oil sets the direction, Fed & RBI set the size

PHASE	BRENT / 10Y	WHAT HAPPENED
Mar–May shock	$73 → $124 / 6.66 → 7.10%	Yields rose only ~45 bp on a 70% oil spike: RBI held, bought INR time, ceasefire hopes
Jun–Jul relief	$70 / 6.69%	Oil -21% in June + record FPI buying; yields fell 35 bp
Aug–Oct re-coupling	$104 / 7.30%	Oil back above $100, but also US 10Y at 5.2%+, Fed hike and RBI hike — the joint driver lifts correlation

CORRELATION OF 0.69 (MAR – MAY) INCREASED TO 0.82 (AUG – SEP)

10YR GSEC YIELD VS BRENT CRUDE



Source: Investing.com, Internal Research

India G-Sec Yield Curve

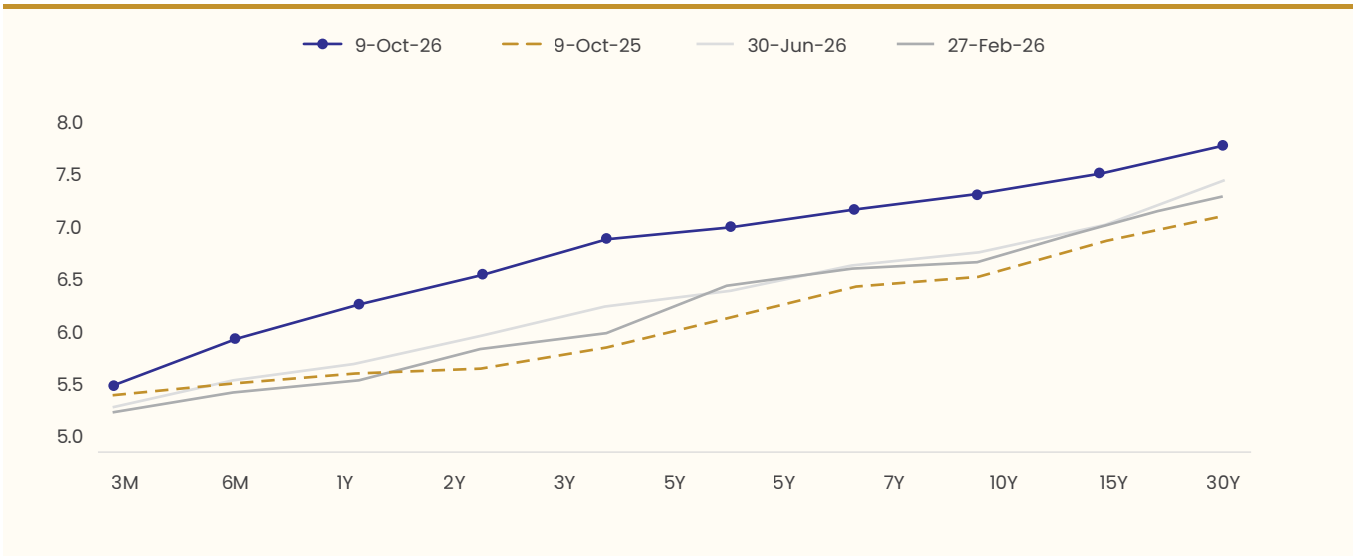
CURVE UP 8–102 BP IN LAST ONE YEAR; THE BELLY TOOK THE HIT

The money market lags : 3M only +8 bp: a ₹3.9 trn surplus kept bills near repo. CRR and OMO drains should lift 3–6M eventually

Bear-flattening, 1–5Y : 3Y +102 bp and 1Y +64 bp vs 10Y +78 bp: the hiking cycle is priced in the belly. 1Y G-sec ≈ 1Y OIS at 6.25%.

Long end held : 10y – 30y compressed to 44 bp as insurers and pension funds bought 30–50Y despite a larger long-bond share in H2 supply

Term premium is rich vs policy. 10Y at 180 bp over repo is the widest of the four dates



TENOR	OCT-25	FEB-26	JUN-26	OCT-26
3M	5.42	5.25	5.30	5.50
1Y	5.62	5.55	5.72	6.26
2Y	5.66	5.85	5.98	6.55
3Y	5.86	6.00	6.25	6.88
5Y	6.14	6.45	6.40	6.99
10Y	6.52	6.66	6.75	7.30
15Y	6.85	7.00	7.00	7.49
30Y	7.10	7.28	7.42	7.74

Source: CCIL traded benchmarks, T-bill cut-offs, ICRA/ABSL tracker, Cbonds par curve, Trading Economics;

Fixed Income View & Portfolio Strategy:

INDIA IS REPRICING WITH THE WORLD, BUT LESS THAN THE WORLD : HENCE FOCUS ON CARRY, WAIT MORE FOR VALUE BUYING

West Asia war (from late Feb) pushed Brent from ~$73 to a $124 peak; Fed, ECB, BoJ hiked; global 10Y yields at 15–25 year highs.

India's buffers — domestic investor base, fiscal consolidation, RBI intervention — limited the damage in rupee terms, but the INR is still down by ~8% in a year against USD.

RBI's October policy decision marks the beginning of an inflation-led tightening cycle, with external stability emerging as an important additional consideration.

The RBI should balance domestic price stability and growth resilience while preserving sufficiently attractive risk-adjusted returns on rupee assets amid elevated global yields and capital-flow volatility.

We retain our base case of a further 50 bp of tightening, taking the repo rate to 6.00% by mid-2027. Until inflation pressures ease and the policy-rate cycle approach its peak, we favour accrual strategies over an early exposure in

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

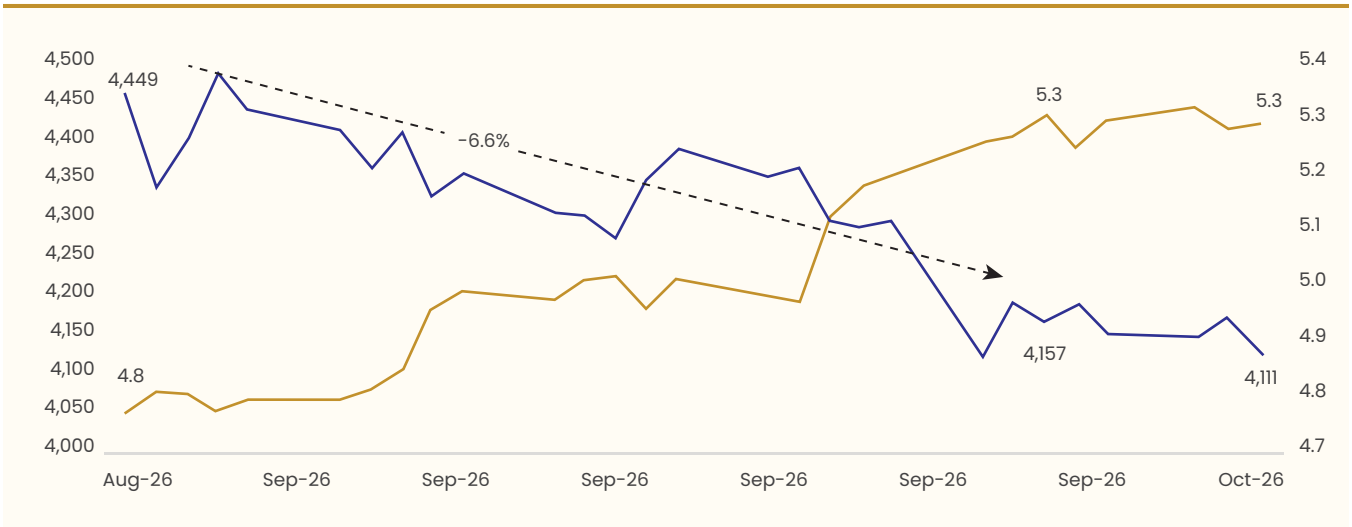
The balance of the portfolio may be deployed in relatively liquid fixed-income alternatives, offering both flexibility and risk-adjusted stability namely Arbitrage Funds (min 3 months holding period) and Hybrid SIF Funds (min 2 yr holding period) having debt/arbitrage+ positioning.

Gold Article

Gold corrected sharply in September, with the spot price falling 6.6% to end the month at $4,157 and further declining to $4,111 by 7th October. The pullback came as the US 10-year Treasury yield rose 53 bps to ~5.3%, the dollar strengthened ~2%, and expectations around the Federal Reserve shifted.

Price correction tells only a part of the story. Beneath it, investor behavior was divergent. Gold ETFs continued to attract strong inflows even as futures investors reduced positions sharply. The divergence between price, flows and positioning makes the current market increasingly about who is buying and why.

GOLD SPOT – XAU/USD AND US 10Y YIELD (%)

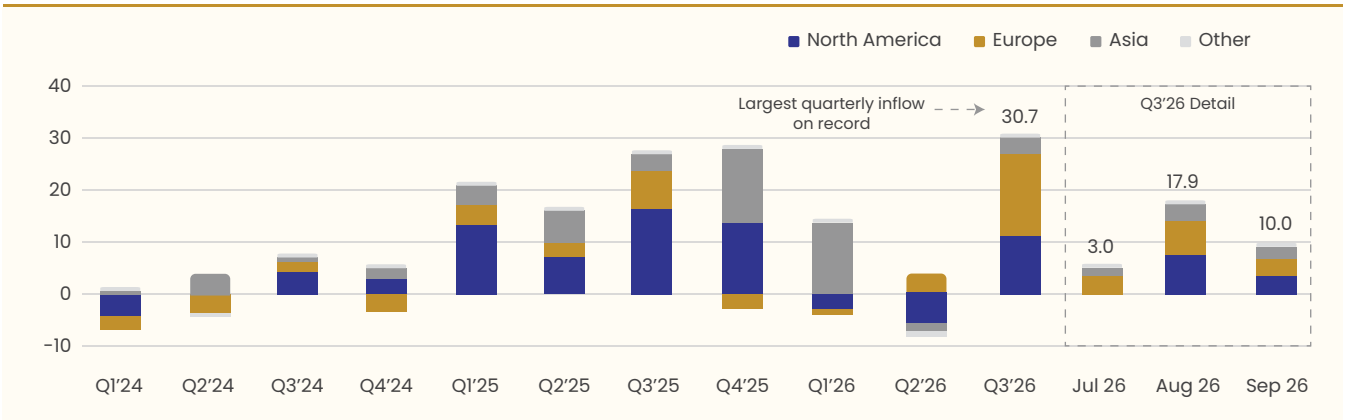


Source: Investing.com; Data as on 7th Oct'26

Investment through Gold ETFs Remained Strong

Global physically backed gold ETFs recorded ~$10 billion in inflows, equivalent to 67 tonnes, in September, led mainly by North America and Europe. This took the Q3 inflows to the largest quarterly inflow on record of ~$31 billion. Furthermore, despite the decline in gold prices, this strong demand lifted the total global ETF holdings to a record 4,256 tonnes.

GLOBAL GOLD ETF FLOWS BY REGION*



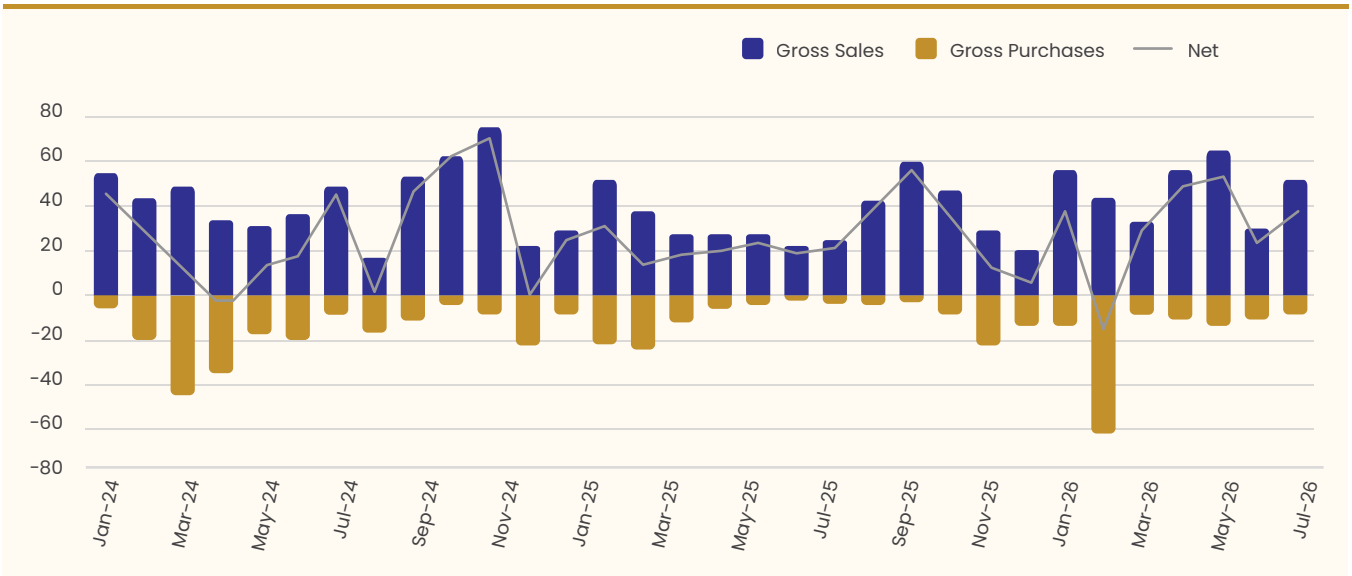
Source: Bloomberq, Company Filinqs, World Gold Council

In contrast to strong ETF inflows, positioning in the futures market weakened during September. Managed-money net positions on COMEX fell by $12 billion, or 84 tonnes, while total spreading positions declined by $22 billion, or 156 tonnes. The pullback in futures exposure likely added to the pressure on gold prices, highlighting a clear divergence between longer-term investment demand through ETFs and more tactical trading activity in futures.

Central Banks Remain Structural Buyers

As per the data as on 6th October, that came for central bank buying in August, the demand has continued to remain supportive. Reported net purchases rose to 39 tonnes in August, from 23 tonnes in July. China led the buying with around 20 tonnes, followed by Poland and Uzbekistan at 8 tonnes each.

MONTHLY REPORTED CENTRAL BANK ACTIVITY, TONNES*



Source: IMF, respective central banks, World Gold Council

Conclusion

On one side are higher yields, a firm dollar and the prospect of tighter monetary policy, all of which raise the opportunity cost of holding gold and can continue to generate short-term volatility. Recent US inflation data have kept the possibility of further Federal Reserve tightening alive, reinforcing this headwind.

On the other side, the nature of demand is broadening. Central banks continue to accumulate reserves, ETF holdings have reached record levels, and concerns around fiscal sustainability and sovereign debt are creating another reason for investors to hold an asset with no issuer or counterparty.

Taken together, this creates a more balanced setup, with near-term macro headwinds offset by a resilient underlying demand base. We therefore maintain a **Neutral allocation to Gold.**

Client Portfolio Strategy

	VIEW		
ASSET CLASS	SHORT TERM	LONG TERM	PORTFOLIO ALLOCATION
Equity	Neutral	Positive	50% allocation to Hybrid/Large caps, 10% to Global and 40% allocation to Mid & Small Caps Lump-sum in Hybrid funds and a staggerred approach over the next 2-3 months for Pure equity-oriented strategies
Debt and Alternates	Biased towards accrual strategies	Biased towards accrual strategies	For 3 - 5 years: 55% – 60% of the portfolio to Performing Credit & Private Credit Strategies, Select InvITs/NCDs For < 3 years: Arbitrage Funds (min 3 months), Hybrid SIF Funds (min 2 years), Conservative Equity Savings funds (min 3 years)
Commodities	Gold: Neutral Silver: Neutral	Gold: Positive Silver: Neutral	Gold ETFs, Silver ETFs, Passive FoFs

FOCUSED INVESTMENT LIST

ASSET CLASS	HOLDING PERIOD	STRATEGY	MANAGED STRATEGIES
Equity	3 years+	Equity Hybrids	ABSL Balanced Advantage Fund, Edelweiss Aggressive Hybrid
		Multi Asset	White Oak Multi Asset Fund, ICICI Pru Multi Asset Fund
		Multi Caps	**PMS:** Equinova Edge PMS, MO Founders PMS, Alchemy Select Stock PMS **AIFs:** Helios Emerging Star Fund, Alchemy Long Term Ventures Fund 3, Clarus Capital AIF I, MO Value Migration AIF Series I **MFs:** DSP Business Cycle Fund, Abakkus Flexi Cap Fund, Helios Flexi Cap Fund, Mirae Asset Multi Cap Fund, MO Large and Mid Cap Fund, Kotak Multi Cap Fund
		Mid & Small Cap	Edelweiss Mid Cap Fund, Invesco India Mid Cap Fund Bandhan Small Cap Fund, Sundaram Small Cap Fund
Debt and Alternates	3 months+	Arbitrage Funds	Kotak Arbitrage Fund, Invesco India Arbitrage Fund, Motilal Oswal Arbitrage Fund, Edelweiss Arbitrage Fund, HDFC Arbitrage Fund
	2 years+	Real Assets + Arbitrage	White Oak Dividend Yield Fund
	2 years+	SIFs - Hybrid	Altiva Hybrid Long-Short Fund, RedHex Hybrid Long-Short Fund
	3 years+	InvITs	Indigrid InvIT, IndusInfra InvIT, RaajMarg InvIT
	Remaining Tenor: 8.0 years	Private Credit	EAAA India Special Assets Fund IV
	Remaining Tenor: 5.4 Years		MO India Credit Excellence Fund - I
	Remaining Tenor: 5.6 Years		Lighthouse Canton Growth Debt Fund II
	3 years+	SIFs - Equity	iSIF Equity Ex-Top 100 Long-Short Fund
	Remaining Tenor: 8.0 Years	Venture Capital	Fundamentum III AI & DeepTech Fund
	Remaining Tenor: 8.9 years	Private Equity	Agastya Capital India Growth Fund
	Remaining Tenor: 9.1 years		L Catterton India Fund I
	Remaining Tenor: 8.0 years	Commercial Real Estate	India Assets Excellence Fund - I
	Remaining Tenor: 6.6 years	Real Assets	Neo Infra Income Opportunities Fund II
Offshore	3 years+	Out-bound Equity Strategies	DSP Global Equity Fund, WhiteOak Global Emerging Markets ex-India

Client Portfolio Strategy

IN-HOUSE MANDATE SOLUTIONS LIST

ASSET CLASS	HOLDING PERIOD	STRATEGY	MANAGED STRATEGIES
Equity	3 years+	DPMS (Equity MFs)	Delphi 4C Advantage
		CAT III AIF (boutique equity managers)	Delphi Emerging Star Strategy
		NDPMS (bespoke equity portfolio)	Delphi Alpha Edge PMS , Catalyst PMS
Fixed Income	3 months - 3 years	NDPMS (bespoke fixed income portfolio)	Delphi Income Shield PMS
Multi Asset	3 years+	DPMS (MFs)	Delphi All Weather Strategy (AWS)

CLIENT ONBOARDING CHECKLIST

Client Name:

General Information:

Do you have a single window view to all of your assets, liabilities, investments?	Yes ☐	/ No ☐
Is the family aware of your investments?	Yes ☐	/ No ☐
Do you have any family in foreign locations?	Yes ☐	/ No ☐
Is there any transfer to India or from India to family member abroad?	Yes ☐	/ No ☐
Do you hold any foreign assets or investments?	Yes ☐	/ No ☐
Do you have any family member with special requirement? Have you planned for them?	Yes ☐	/ No ☐

Type of Investments:

Stocks ☐ Bonds ☐ AIF ☐ PMS ☐ Real Estate ☐ Mutual Fund ☐ Fixed Deposit ☐

Do you have joint holder?	Yes ☐	/ No ☐	Were you a joint holder with someone?	Yes ☐	/ No ☐
Do you have Nominees?	Yes ☐	/ No ☐	Need assistance to transfer joint holding?	Yes ☐	/ No ☐
Do you need to update nominee?	Yes ☐	/ No ☐			

Physical Shares:

Do you own physical shares that needs to be converted to demat?	Yes ☐	/ No ☐
Do you own physical Mutual Funds that needs to be converted to demat?	Yes ☐	/ No ☐

PPF & EPF:

Do you know the status of your PPF or EPF?	Yes ☐	/ No ☐

Loans:

Do you have existing loans?	Yes ☐	/ No ☐
Is there a change, top-up requirement?	Yes ☐	/ No ☐
Are there any receivables?	Yes ☐	/ No ☐
Is your family aware of the receivables?	Yes ☐	/ No ☐

EMERGENCIES: HAVE YOU PLANNED FOR EMERGENCIES?

Life Insurance:

Insurance?	Yes ☐	/ No ☐
Is your family aware of it?	Yes ☐	/ No ☐

Medical Insurance:

Medical Insurance?	Yes ☐	/ No ☐
Do you think it is adequate?	Yes ☐	/ No ☐

Will:

Do you have a Will?	Yes ☐	/ No ☐
Do you need to update your Will?	Yes ☐	/ No ☐

Real Estate:

Do you have multiple real estate?	Yes ☐	/ No ☐
Have you planned for liquidity / transfer?	Yes ☐	/ No ☐

Family situation:

Are there any Dependents, potential inheritance, global mobility consideration?	Yes ☐	/ No ☐

Other Questions:

Digital assets, such as domain names and digital art?

Is your family aware of Lockers?

Is your family aware of the Bank accounts?

Is your family aware of Income sources?

How are your vehicles held?

GENERAL INFORMATION & CLIENT PROFILE

PARTICULARS	DETAILS
Portfolio Characteristics	
Investment Horizon	
Liquidity Requirements	
Cash Flow Requirements	
Restricted Investments	
Performance Benchmarking	
Portfolio Review	
Review of Guidelines	

INVESTMENT CHARTER – EXPOSURE GUIDELINES

MANDATE	CRITERIA	PORTFOLIO COMPLIANCE
Asset Allocation	• Equity (Mutual Funds, Direct Equity, AIFs) • Fixed Income (Mutual Funds, Structures, AIF, Direct Debt) • Alternatives (Real Estate, Private Equity, Long Short Funds) • Liquid Assets (Liquid, Ultra Short-term, and Arbitrage Funds)	
Return Expectations[1]		
Investment Time Horizon[2]		

[1] Return expectations for portfolio since inception for active and closed holdings. There is no guarantee that the performance will be achieved.
[2] Average age of portfolio holding–Including Closed Holdings

INVESTMENT CHARTER – EXPOSURE GUIDELINES

MANDATE	CRITERIA	PORTFOLIO COMPLIANCE
Market Cap Limits	• Large Cap (Top 100 Companies) • Mid Cap (101 to 250th Company) • Small Cap (251st Company Onwards)	
Interest Rate Risk	Modified Duration	
Credit Quality	• AAA & Above • AA & Above • A & Below	
Close Ended Investments	Maximum allocation to closed ended investments	
Mutual Funds & Managed Accounts	• Single AMC • Single Scheme	
Other Instruments	• Single Issuer • Single Instrument	
Proprietary Products	Own AMC/ Self-Managed Funds/ Structures/ Debt	

NOTES

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SAFE HARBOR

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