Alpha Strategist – Oct’26

“The Yellow Signal”



motilaloswalpwm.com

Yellow Signal

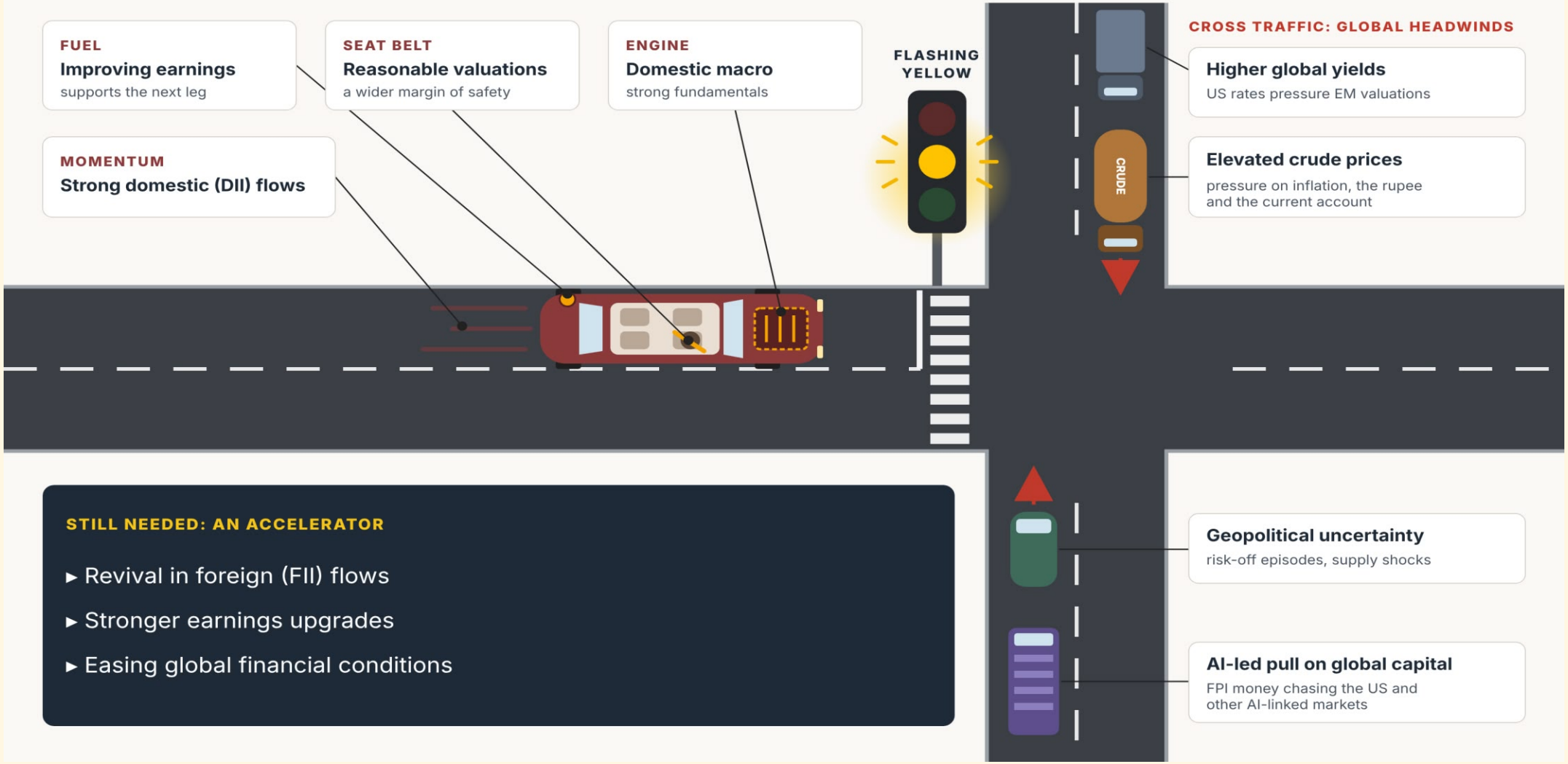
Indian equities are approaching a flashing yellow signal: the journey can continue, but the crossing demands greater awareness

FUEL
Improving earnings
supports the next leg

SEAT BELT
Reasonable valuations
a wider margin of safety

ENGINE
Domestic macro
strong fundamentals

MOMENTUM
Strong domestic (DII) flows



CROSS TRAFFIC: GLOBAL HEADWINDS

Higher global yields
US rates pressure EM valuations

Elevated crude prices
pressure on inflation, the rupee and the current account

Geopolitical uncertainty
risk-off episodes, supply shocks

AI-led pull on global capital
FPI money chasing the US and other AI-linked markets

STILL NEEDED: AN ACCELERATOR

- ▸ Revival in foreign (FII) flows
- ▸ Stronger earnings upgrades
- ▸ Easing global financial conditions

Summary

- Crude remains the key external risk for India. Although Hormuz flows have recovered to ~80% of pre-war levels, Brent remains above $100 as freight and insurance costs stay elevated. For India, this keeps pressure on inflation, the INR and the current account.
- Global yields remain elevated as sticky inflation and fiscal pressures keep financial conditions tight. The US 10-year yield has moved to ~5.3%, reinforcing the likelihood of a higher-for-longer rate environment.
- Higher yields do not automatically imply an equity correction; the outcome depends on earnings, growth and starting valuations. This helps explain why US equities have remained resilient despite the rise in rates.
- The US-India divergence is largely one of index leadership. S&P 500 forward EPS is up ~26% since February, helping offset de-rating, while Indian heavyweights have lagged amid earnings downgrades, higher crude, INR weakness and persistent FII selling.
- Domestic liquidity has cushioned the correction so far, but is facing a more meaningful test. Retail inflation is at ~5.5%, household debt is near a decade high, and nearly two years of subdued returns have reduced the relative attractiveness of SIPs versus fixed deposits.
- Large-cap valuations have now become more attractive. The Nifty trades at ~17x forward earnings, below its long-term average, while earnings growth is expected to improve. This creates a more favourable risk-reward versus mid and small caps.
- We therefore maintain a Neutral view on **Equities**, but expect the relative tide to turn in favour of large caps. Hence we increase allocation towards Hybrid/Large Cap strategies by 10% and reduce SMID allocation from relative point of view. Portfolio Allocation: 50% Hybrid/Large Caps, 40% Mid & Small Caps and 10% Global Equities.
- **Fixed Income**: We continue to favour accrual strategies until inflation pressures ease and the policy-rate cycle moves closer to its peak. We suggest private credit, high-yield NCDs and income-generating assets as core allocation, and balance into 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

Crude: Gulf supply is back to 80% of pre-war levels

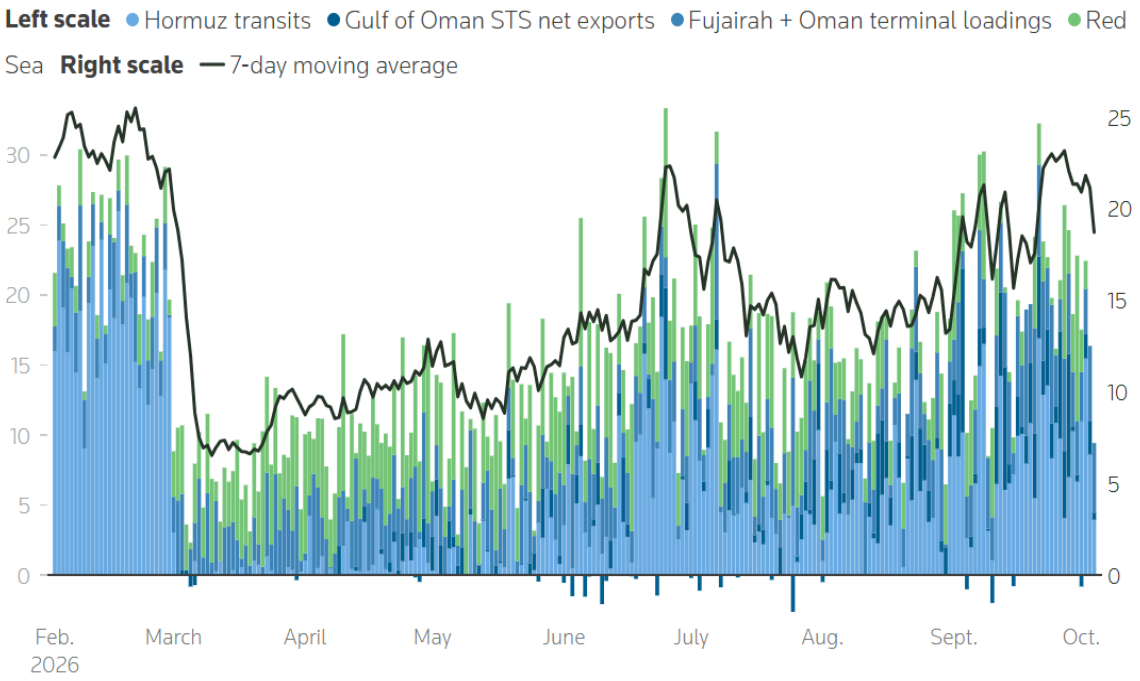
Exports collapsed after the 28 Feb Hormuz blockade; September was the strongest month of the war, led by Saudi Arabia

81%
Gulf oil flows vs pre war

1.6 mb/d
Global supply deficit, down from 4 mb/d at the May peak

Zero
Iranian crude exports under the US blockade

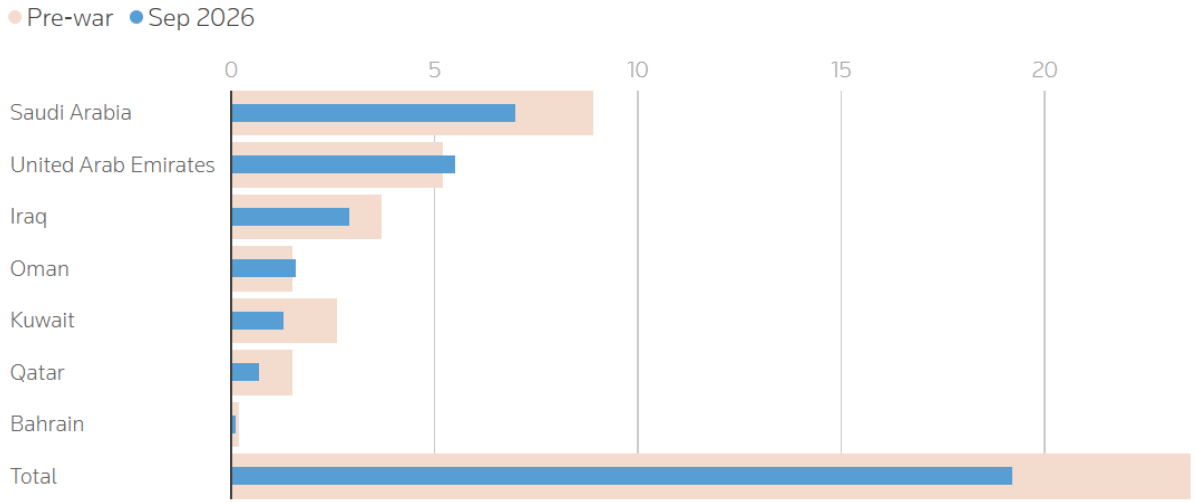
Hormuz-area crude exports: collapse in March, recovery since June



Note: Crude oil exports in millions of barrels per day

Source: Kpler | Ron Bousso

September vs pre-war, by country (mb/d)



Note: in million barrels per day

Source: Vortexa | Reuters, October 5, 2026 | Ahmad Ghaddar

- **Saudi led the rebound** ; where Crude exports rose from 4.2 mb/d to 6.6 mb/d in Sep'26 , as attacks on the East-West Pipeline pushed barrels through Hormuz

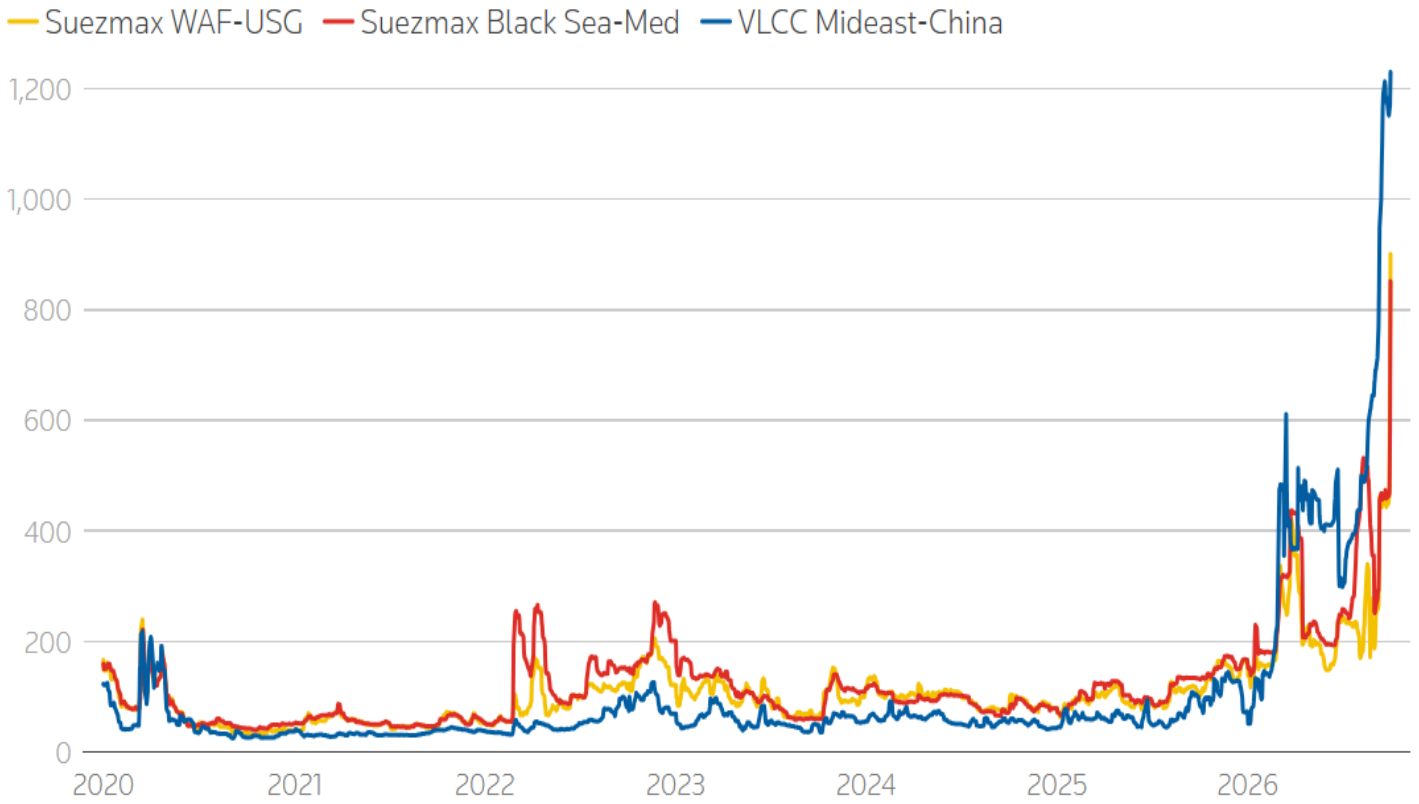
Source: Kpler, Vortexa, Energy Aspects via Reuters (R. Bousso, 5 Oct 2026; A. Ghaddar, 6 Oct 2026). mb/d = million barrels per day

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

Crude: Supply is back, but logistics keep prices high

Brent is still >40% above pre-war even as the supply gap narrows - freight, insurance and refining now set the price

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

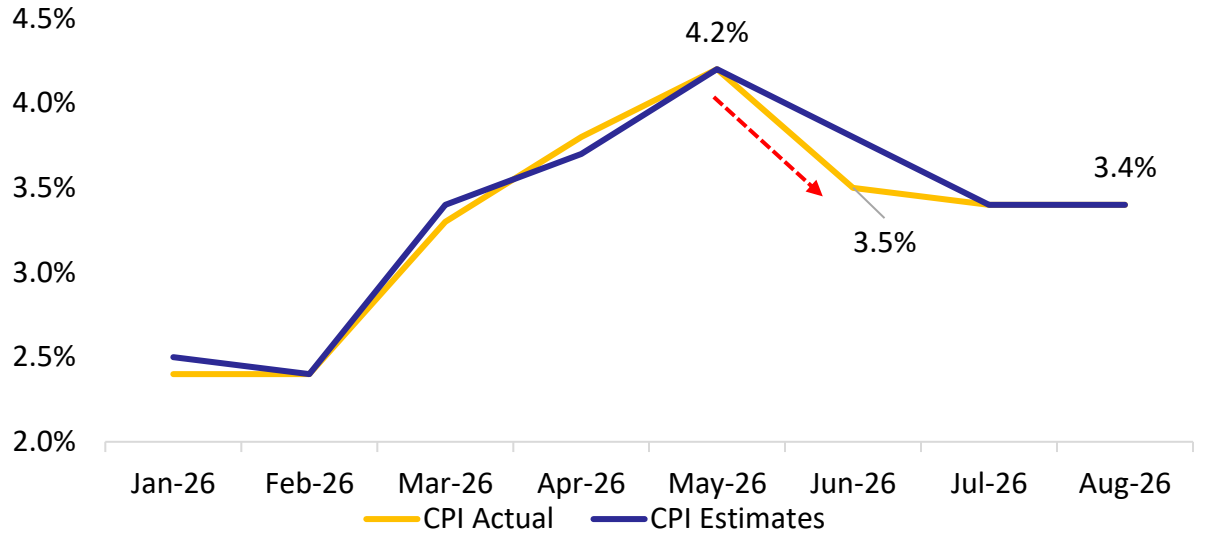
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US Economy (Jobs, Inflation & Fiscal)

Non Farm Payroll and Unemployment Data

Month	NFP Actual	NFP Estimate	Unemployment
Jan-26	1,60,000	70,000	4.30%
Feb-26	-1,56,000	59,000	4.40%
Mar-26	2,14,000	60,000	4.30%
Apr-26	1,48,000	62,000	4.30%
May-26	63,000	85,000	4.30%
Jun-26	31,000	1,10,000	4.20%
Jul-26	-10,000	80,000	4.10%
Aug-26	1,33,000	56,000	4.10%
Sep-26	29,000	90,000	4.20%
Total	**6,12,000**	**6,72,000**	

CPI Actual v/s Estimate



- **Labour conditions are softening:** NFP has slowed and unemployment is moving higher, pointing to weaker economic momentum.
- **Fiscal pressure and National Debt is rising**: U.S. debt held by the public is now **~101% of GDP**, while the fiscal deficit remains around 5.8% of GDP. Leading to upward pressure on Treasury borrowing costs, higher federal interest expenses, and reduced fiscal room for future policy interventions.
- **FED rate hiked by 25 bps** as inflation remains above target (Sep'26 – 3.7% vs 3.4% in Aug) and price pressures are still sticky.
- **Going forward, the Fed may turn more cautious** as it balances sticky inflation against weaker employment, slower growth and rising fiscal stress. But Sep inflation number has made Oct'26 policy decision a close call.

Source: Internal Research, Investing.com, FRED, Bureau of Labor Statistics

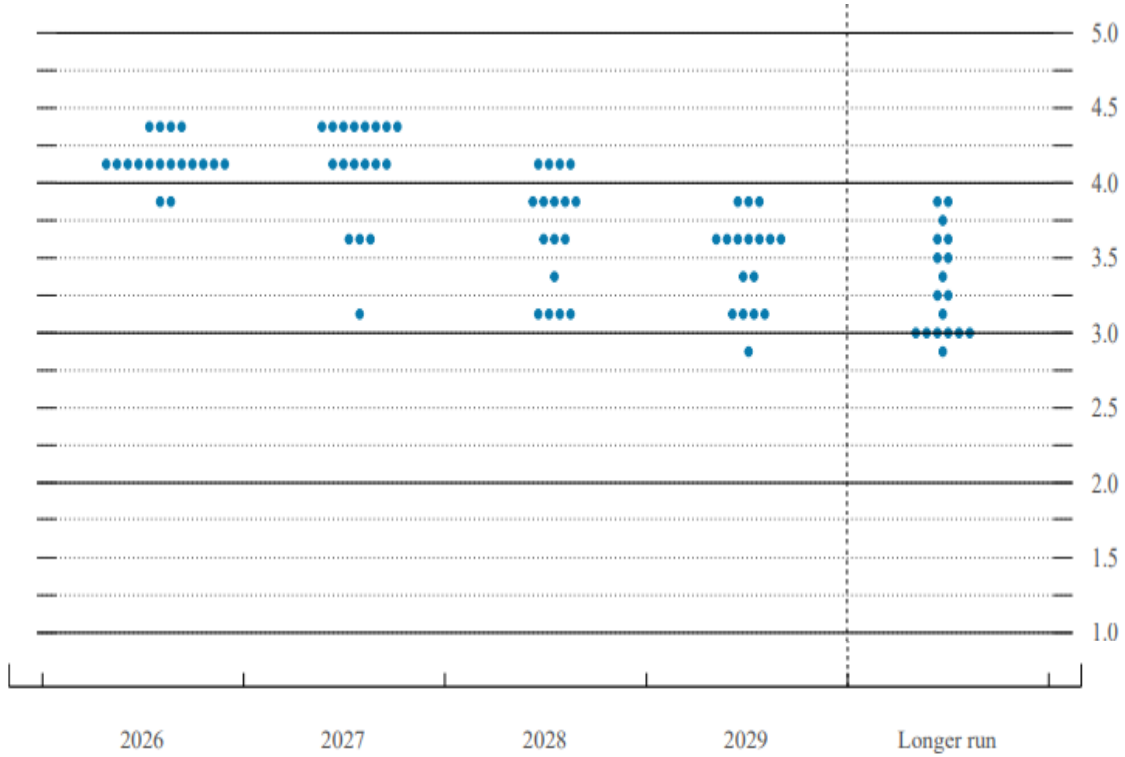
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US Bond Market Trends

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.

Rates are outrunning growth — and France is most exposed

4%

median rich-world 10-yr yield — highest in 15+ years, 2.5pts above 2015–19

THREE FORCES PUSHING YIELDS UP

1 · Inflation and rate hikes

Oil ~40% dearer since the Iran war; the Fed, ECB and BoJ are all hiking.

2 · AI's hunger for capital

$230bn of hyperscaler bonds this year; could add ~0.5pt to US real rates.

3 · Fiscal and political risk

Near-record debt meets populist politics in France, Italy and Japan.

The test: do borrowing costs exceed growth?

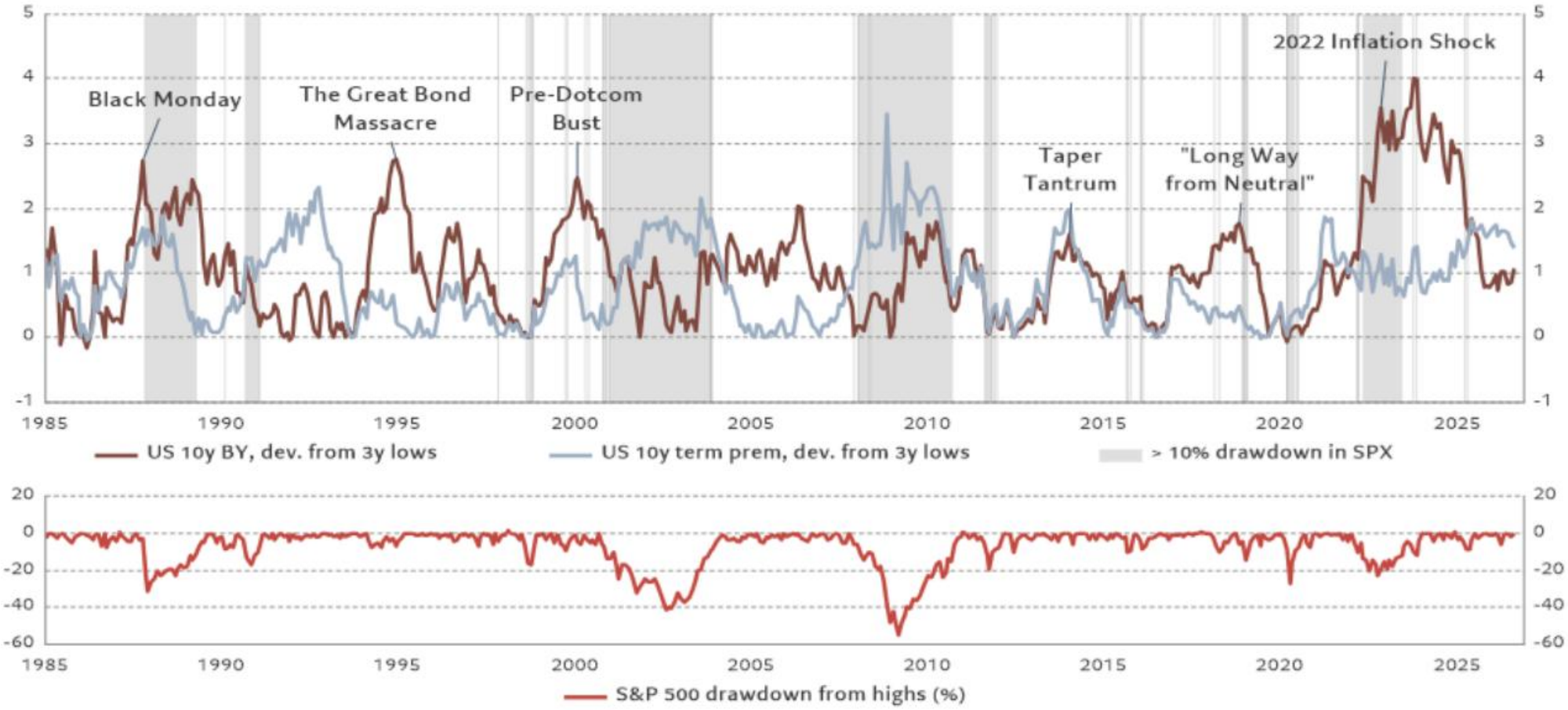
United States	Cushioned	Strong growth (Q3 nowcast 3.7%) offsets a ~6% deficit. But interest of $1trn+ a year could near-triple to $2.8trn in a decade.
Japan	Rising strain	Net debt 134% of GDP; 30-yr yield a record 4.2%+ after the government dropped its primary-surplus pledge.
Italy	Exposed	Net debt ~130% of GDP; 10-yr up ~1pt since June to 4.7%. Rates beat growth, but a primary surplus is a buffer.
France	Most at risk	Rates ~2pts above growth, the widest gap in the rich world. Primary deficit 2.9%;

1/3 of OECD fixed-rate government debt refinances in 2026–28 — higher yields will hit budgets steadily.

Source: IMF, Internal Research

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

3 year rolling US 10Y yields vs. S&P 500 drawdowns



A longer historical exploration rejects any mechanical relationship between bond yield surges and equity drawdowns. There have been plenty of large increases in yields that equities have absorbed with little difficulty, alongside a smaller number that have preceded major corrections.

Source: Refinitiv DataStream, Pictet Asset Management

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

Bond yield surges does not always imply equity market drawdowns

motilal oswal
think wealth creation

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

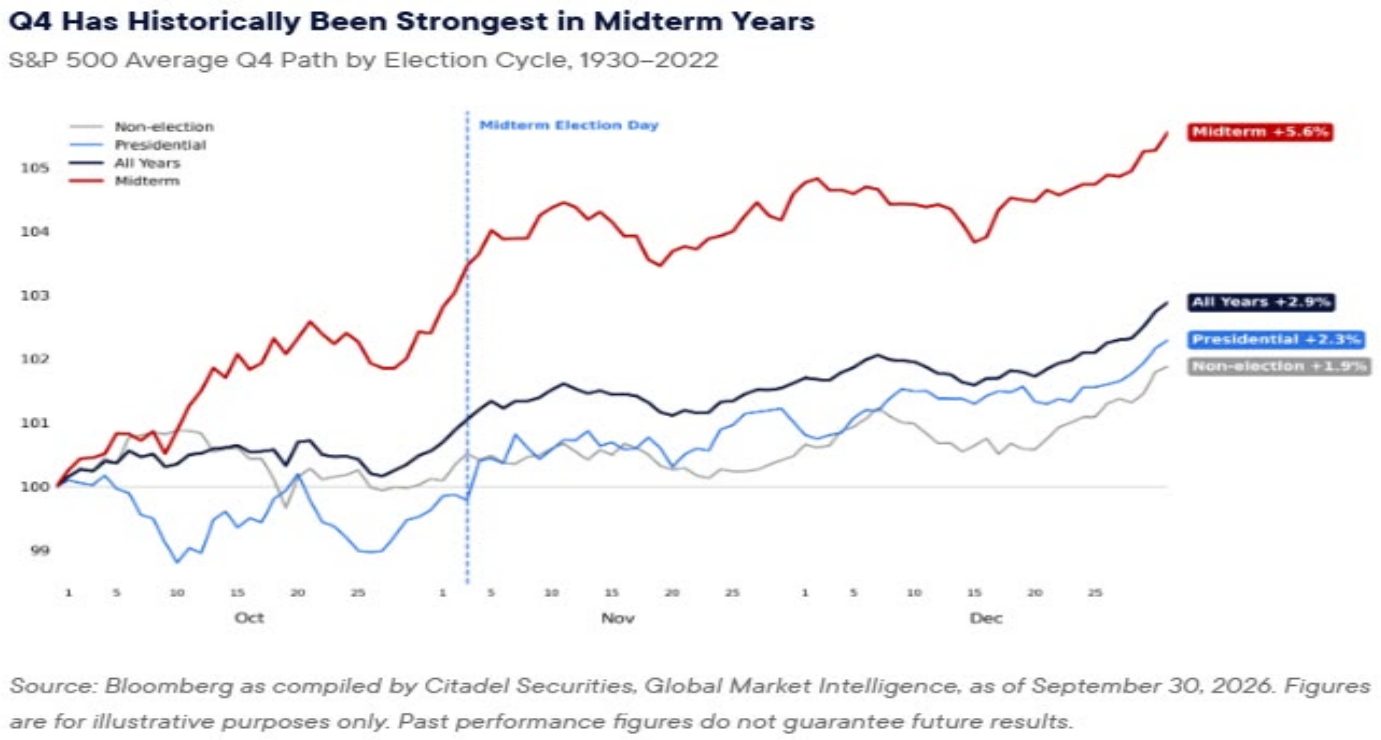
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Post-Midterm Rallies are the Norm, But 2026 Lacks the Usual Set-up

S&P 500 around US midterm elections: what history shows, and why this year is different

+6.3%
Avg. 3M after the vote

14 of 14
Positive 12M after the vote



Source: Bloomberg as compiled by Citadel Securities, Global Market Intelligence, as of September 30, 2026. Figures are for illustrative purposes only. Past performance figures do not guarantee future results.

Why 2026 may not repeat

No dip to rebound from: +13.1% YTD to Aug, 6th-best midterm start since 1926

Trifecta at risk: when the ruling party lost full control at a midterm, stocks rose 10.4% over the next 6M vs 16.1% otherwise

Rates, earnings and AI capex to set direction

Source: Hartford Funds via Landmark Wealth Management; U.S. Bank; Bloomberg. Past performance is not indicative of future results.
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RBI's October Measures: What Changed and How They Work

A rate hike on 7 Oct and a rupee package on 10 Oct: each step, whom it targets, and an example where it helps

When	Measure	What changed	In practice
7 Oct	**Repo rate hike**	5.25% to 5.50%, unanimous; stance now "calibrated tightening", so the next move is a hike or a pause	First hike since Feb-23; reverses a fifth of the 125bp of cuts made in 2025
10 Oct	**Oil-company dollar window**	From 12 Oct, RBI sells dollars directly to IOC, BPCL and HPCL for their full daily needs, until further notice	~$11–12bn a month of dollar demand moves off the market (analyst estimate)
10 Oct	**Proof of exposure from $5mn**	Hedges without documents capped at $5mn, down from $100mn; users must declare no double hedging	*e.g. a firm wanting a $20mn forward must now show a matching import bill*
10 Oct	**No rebooking**	Contracts cancelled from 10 Oct cannot be rebooked; rollovers at maturity are still allowed	*e.g. cancelling a hedge when the rupee firms and rebooking it when it weakens is no longer possible*
10 Oct	**20% FX risk reserve**	Banks keep 20% of the rupee value with RBI on dollar-buying hedges above $2mn	*e.g. on a $10mn import hedge (~₹97 cr), ~₹19 cr is parked with RBI; adds ~1.3–1.5% to cost (est.)*



Source: RBI Monetary Policy Statement and Statement on Developmental and Regulatory Policies (7 Oct 2026); RBI announcements of 10 Oct 2026 via Business Standard and Business Today; Emkay (hedging-cost estimate). Example converts at ₹96.7/$ (9 Oct close); whether the 20% reserve earns interest is not specified.

Performance of Global Equity Markets

Market	Index	1M	3M	6M	1Y	2Y CAGR	3Y CAGR
United States	S&P 500	1.9%	3.7%	18.3%	16.0%	16.6%	22.0%
United States	Nasdaq Composite	4.1%	5.7%	25.5%	20.3%	23.4%	27.1%
United Kingdom	FTSE 100	-2.7%	-1.0%	1.0%	11.2%	12.8%	12.1%
France	CAC 40	-5.0%	-7.3%	-1.2%	-1.3%	2.1%	3.7%
Germany	DAX	-2.3%	-1.4%	9.8%	4.4%	15.4%	17.4%
Japan	Nikkei 225	7.1%	1.4%	32.5%	47.6%	35.3%	31.7%
China	CSI 300	-5.8%	-12.5%	-2.1%	-6.1%	4.1%	5.7%
Taiwan	TAIEX	7.0%	7.0%	53.0%	86.2%	49.5%	44.5%
South Korea	KOSPI	3.8%	-13.8%	27.4%	95.6%	64.4%	42.3%
India	Nifty 50	-4.7%	-6.8%	-0.8%	-9.2%	-4.6%	5.0%
Brazil	Bovespa	11.2%	19.4%	9.4%	43.3%	25.0%	21.7%

Returns in Local Currency

Returns greater than 0% are shaded green, while returns less than 0% are shaded red . Data as on 8th Oct'2026

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

Why the US Shrugged Off Higher Rates and India Did Not

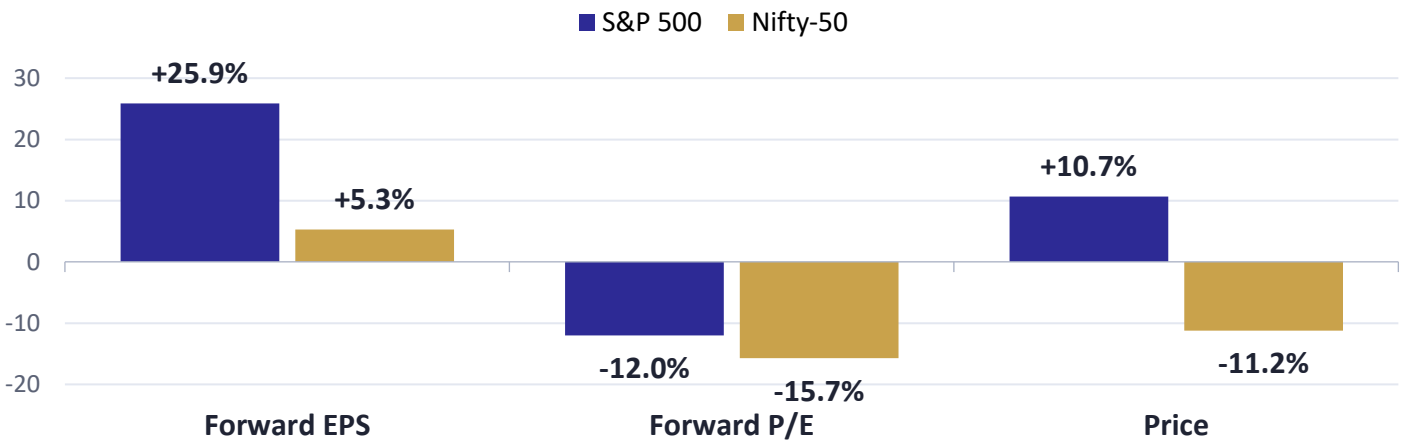
S&P 500 vs Nifty-50 since February 2026, forward basis: earnings upgrades in the US, cuts in India

+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

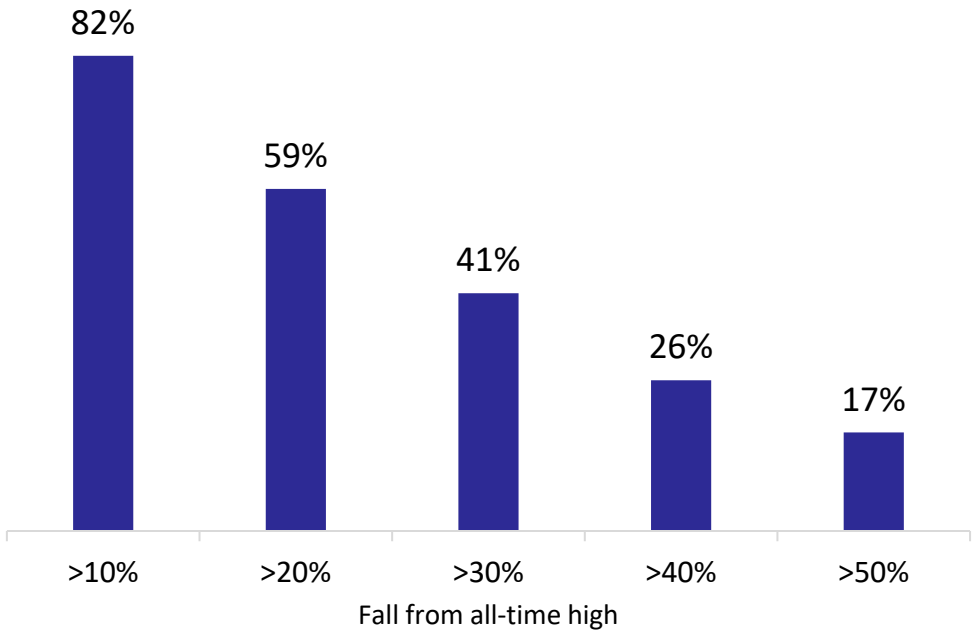
Source: FactSet Earnings Insight (27 Feb and 2 Oct 2026); MOFSL India Strategy 3QFY26 review (Feb 2026) and 2QFY27 preview (6 Oct 2026); NSE Indices; Outlook Money (Brent, FII flows to 29 Sep). Nifty forward EPS implied from MOFSL 12M forward P/E. Estimates may change.

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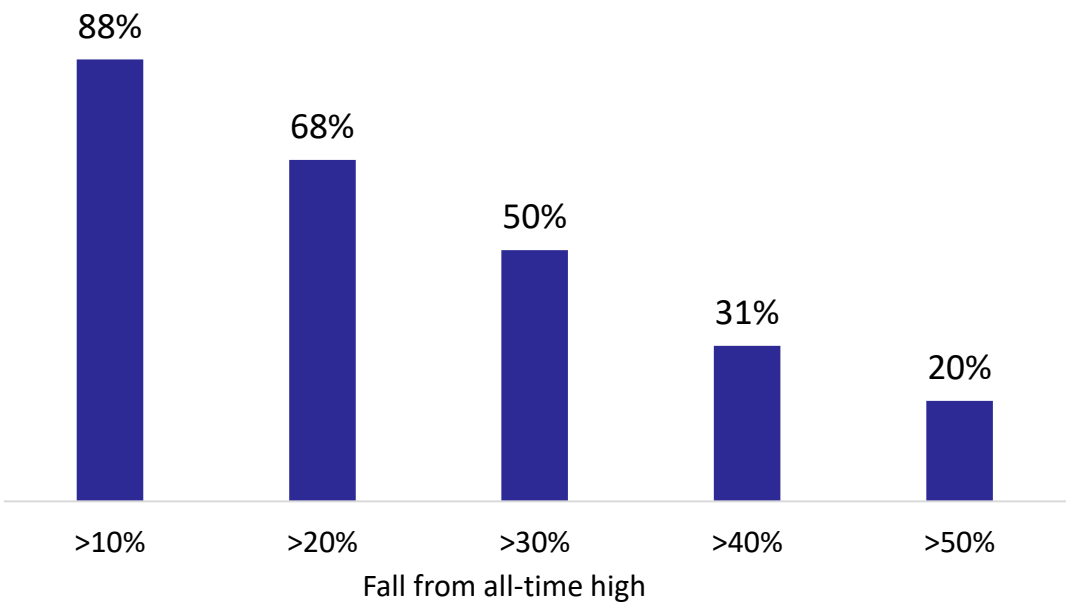
US Markets vs India: Opposite Leadership, Similar Breadth

By the share of stocks below their all-time high, **breadth is weak in both markets**, and slightly weaker in India.

S&P 500 stocks % below ATH



Nifty 500 stocks % below ATH



India vs US: more stocks below ATH at every threshold

+6pp	+9pp	+9pp	+5pp	+3pp

The US index hides its weak breadth while India's reflects it… The S&P 500 is held up by a handful of mega-caps even as 59% of its stocks sit more than 20% below their highs.

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

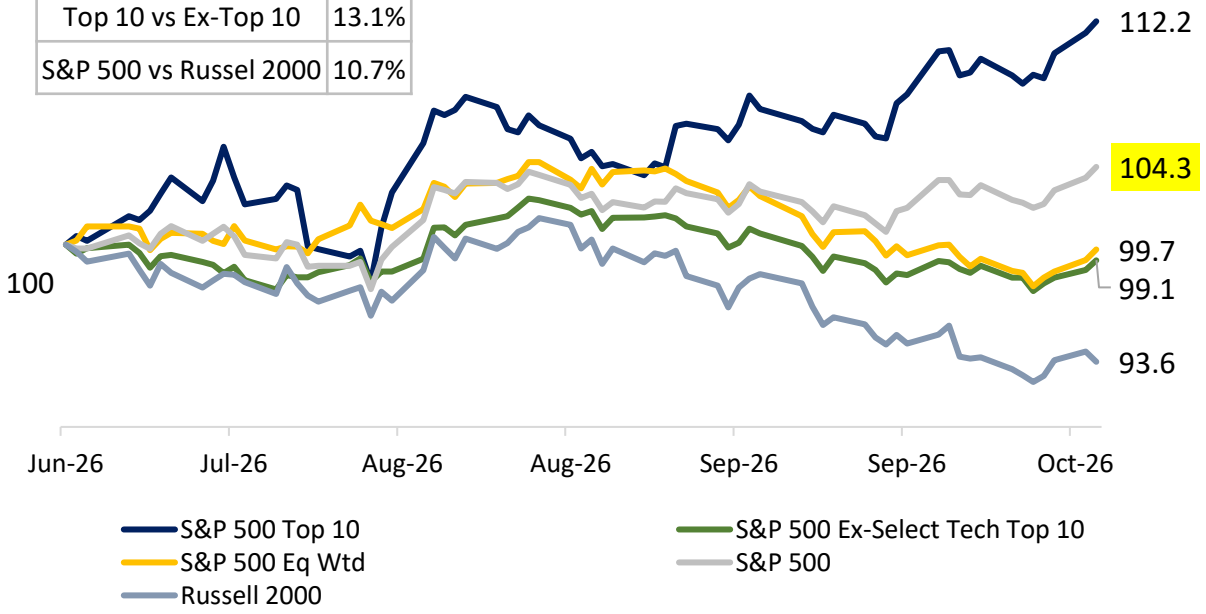
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US Markets vs India: Similar Breadth, Opposite Leadership

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**.

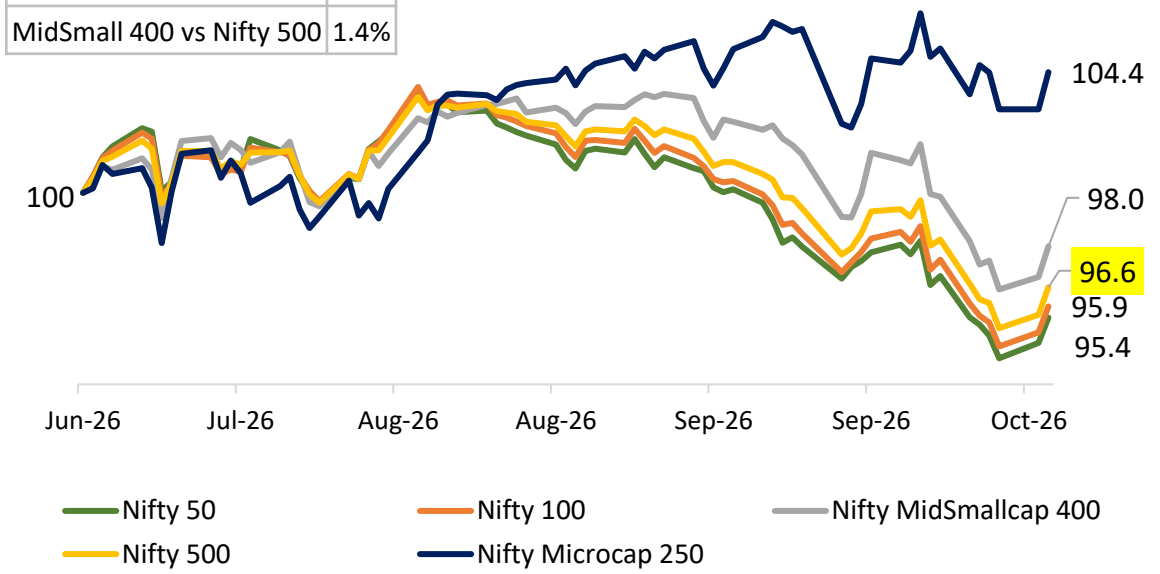
Divergence within Indices (US)

Spread since June-end	Diff
Top 10 vs Ex-Top 10	13.1%
S&P 500 vs Russel 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%



Example:

Nvidia Perf: 19.7% | Wt: 7.6%	Apple Perf: 15.3% | Wt: 7.0%	Microsoft Perf: 42.2% | Wt: 5.7%	HDFC Bank Perf: -10.8% | Wt: 5.7%	ICICI Bank Perf: -2.4% | Wt: 4.9%	RIL Perf: -5.9% | Wt: 4.1%
Amazon Perf: 7.5% | Wt: 3.9%	Meta Perf: 31.2% | Wt: 2.6%	~27% wt. is holding the index up	RIL Perf: -2.2% | Wt: 2.8%	SBI Perf: -6.6% | Wt: 2.0%	~19.5% wt. bringing the index down and so many more

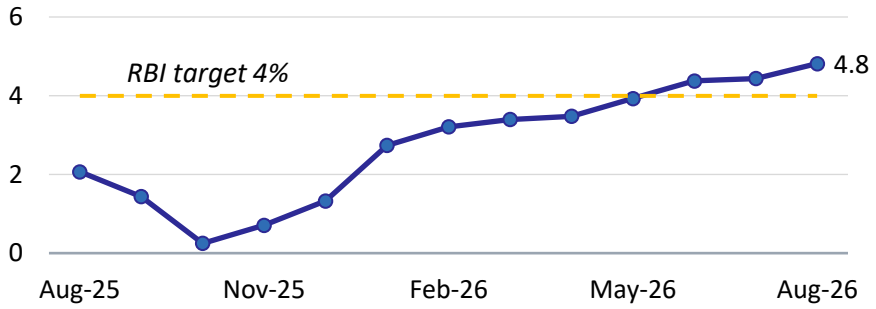
Source: Internal Research, Investing.com, S&P 500, ACE Equity. Data as on 6th Oct'26

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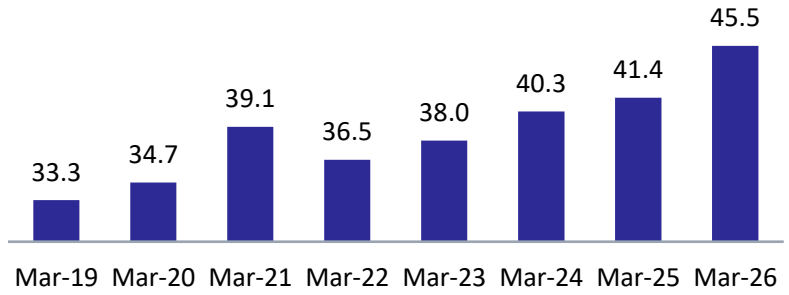
Domestic Flows Facing Its First Real Test in 6 Years

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

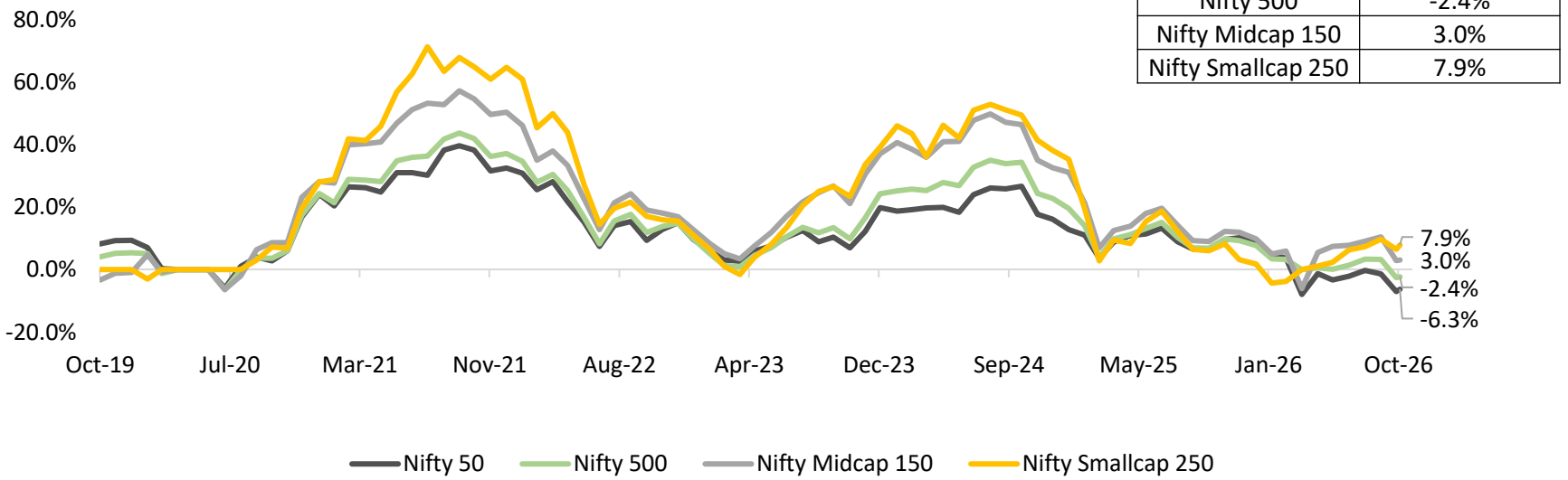


Household Debt as a % of GDP is at record highs



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%



1. 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.

2. Household debt is elevated

Household debt has climbed to a record 45.8% of GDP, so a larger share of income now goes to EMIs and less is left to invest.

3. 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.

4. 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

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MTF Book has Doubled, and the Leverage sits in Smallcaps

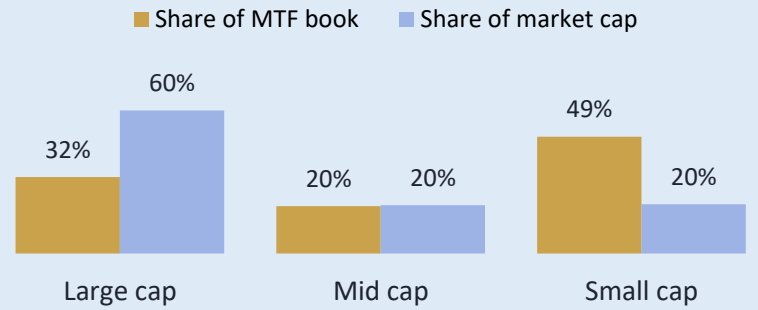
Margin Trading Facility (MTF) book: growth, concentration and behaviour under stress

₹1.59L cr
MTF book, 30 Sep 2026

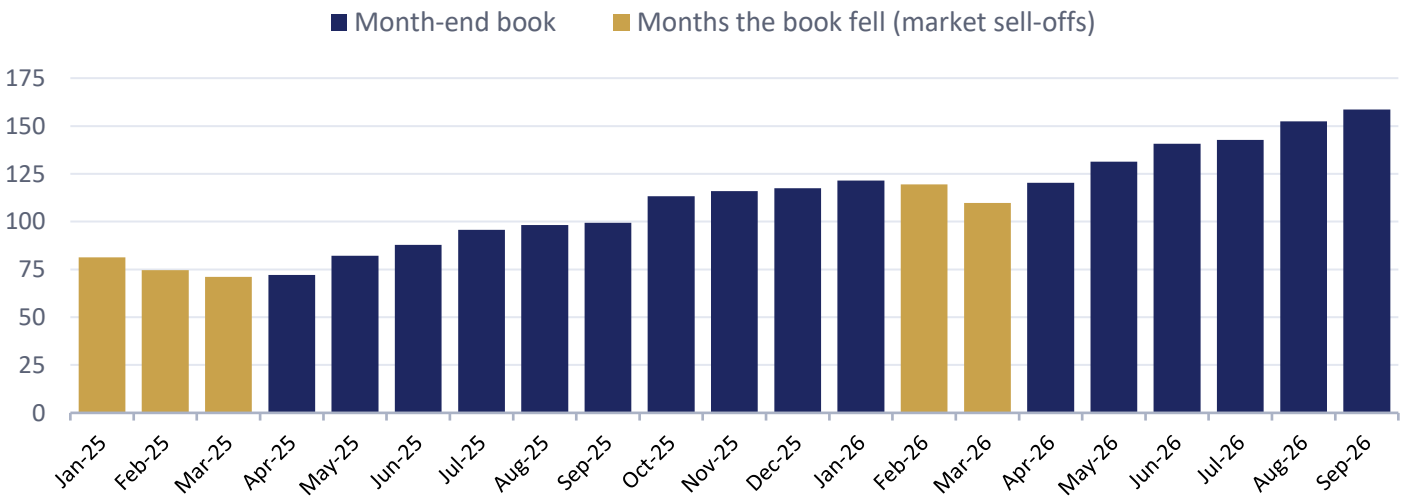
+60%
YoY growth, while Nifty-50 is -13% CY26 YTD

2.4x
Small-cap tilt: 49% of book vs 20% of market cap

Where the leverage sits



MTF book, month-end (₹ '000 crore)



Under stress, mid caps unwind first

March 2026: book down 8% in a month; mid-cap funding down ~18%, large caps only ~2%

Early 2025: book fell ~18% over three months of correction

Rising MTF book in a falling market is not a bubble, but a risk amplifier: concentrated small-cap leverage can turn a correction into forced selling

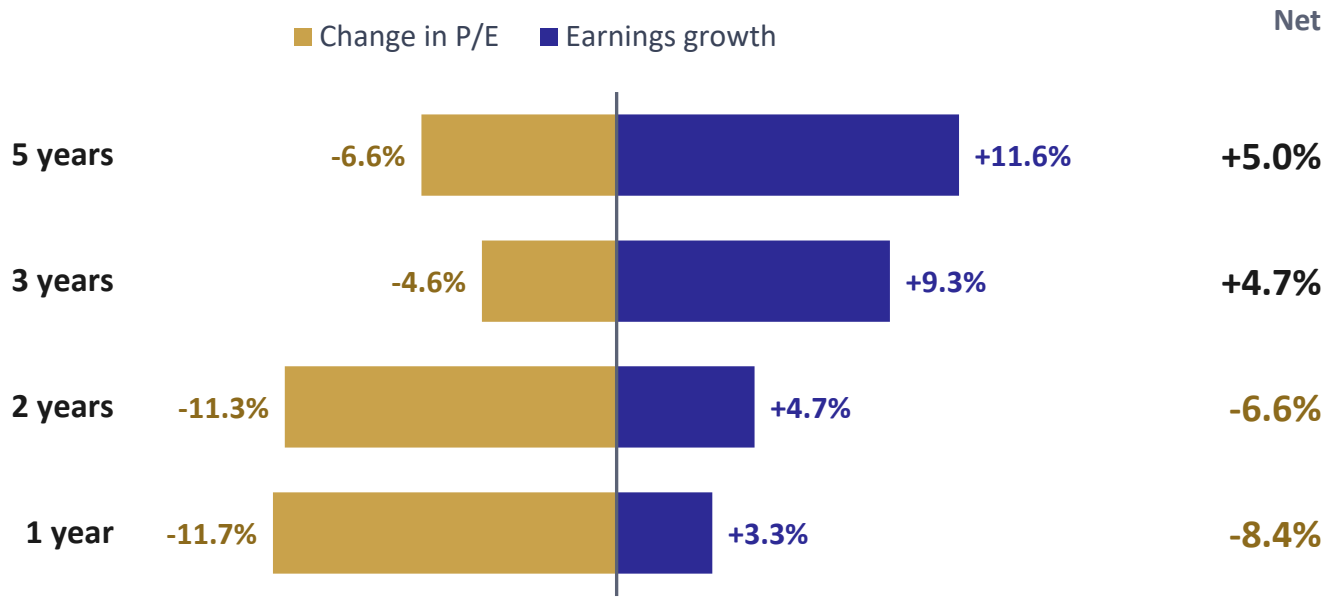
Source: IndiaMTF, compiled from NSE and BSE daily MTF disclosures (month-end data); MOFSL (Nifty-50 return as on 1 Oct 2026). Size buckets per AMFI method (top 100 large, next 150 mid, rest small); market-cap split as of 30 Sep 2026, excluding unclassified stocks.

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

Earnings Grew, but Valuations Shrank Faster

Nifty-50 return attribution: how much came from earnings growth and how much from the change in P/E

Where Nifty-50 returns came from (% a year)



Earnings and P/E bars add up to the net price return (log terms); dividends add ~1.3% a year

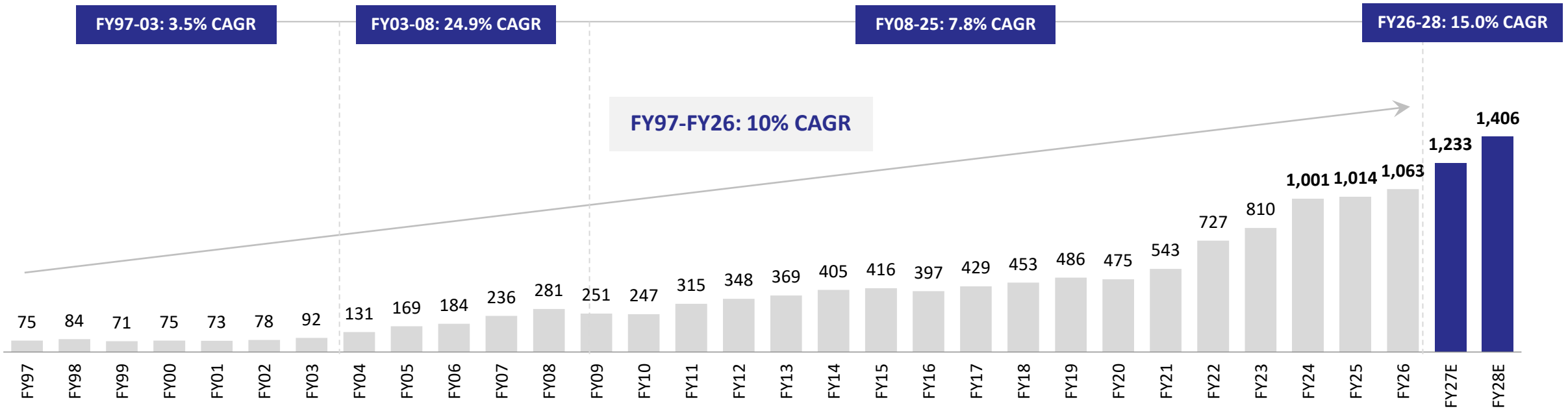
What it takes to recover

At ~12% earnings growth and today's ~19x P/E, the Nifty regains its old peak in about 1½ years.

Earnings have grown in every period; the de-rating is what turned recent returns negative

Source: NSE Indices monthly Index Dashboards (trailing P/E on consolidated earnings); Yahoo Finance (month-end index levels); data to 30 Sep 2026. Earnings = index level ÷ trailing P/E; annualised in log terms; excludes dividends. Past performance is not indicative of future results.

Nifty 50 – Earnings Growth Outlook

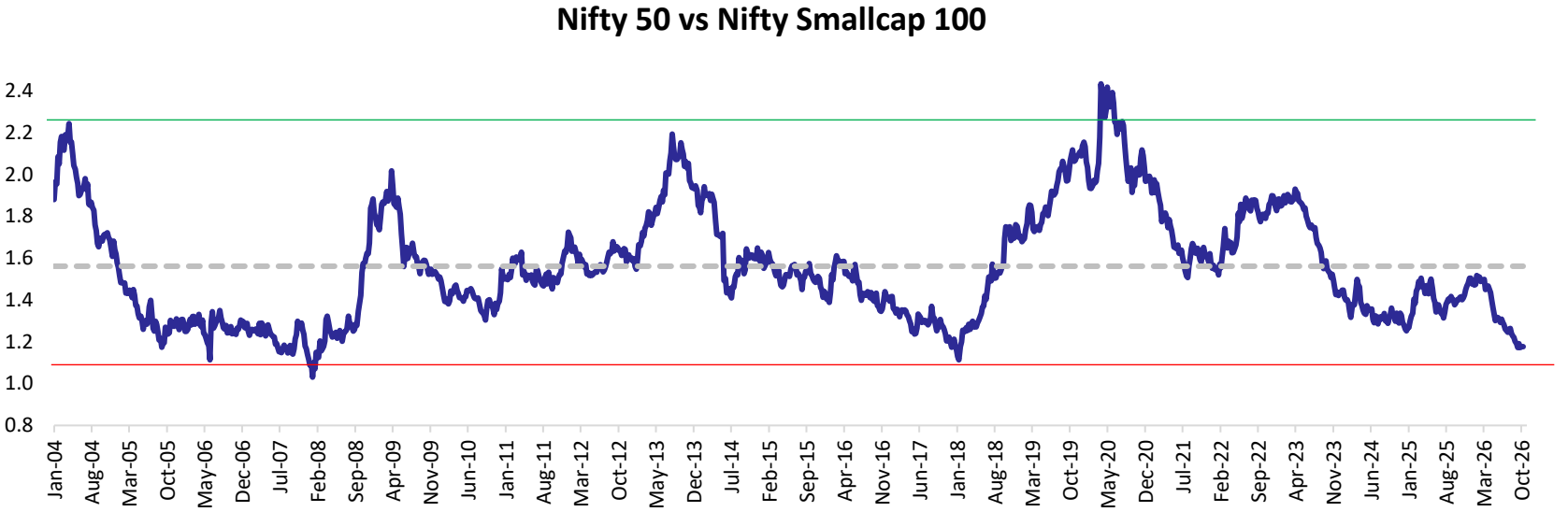


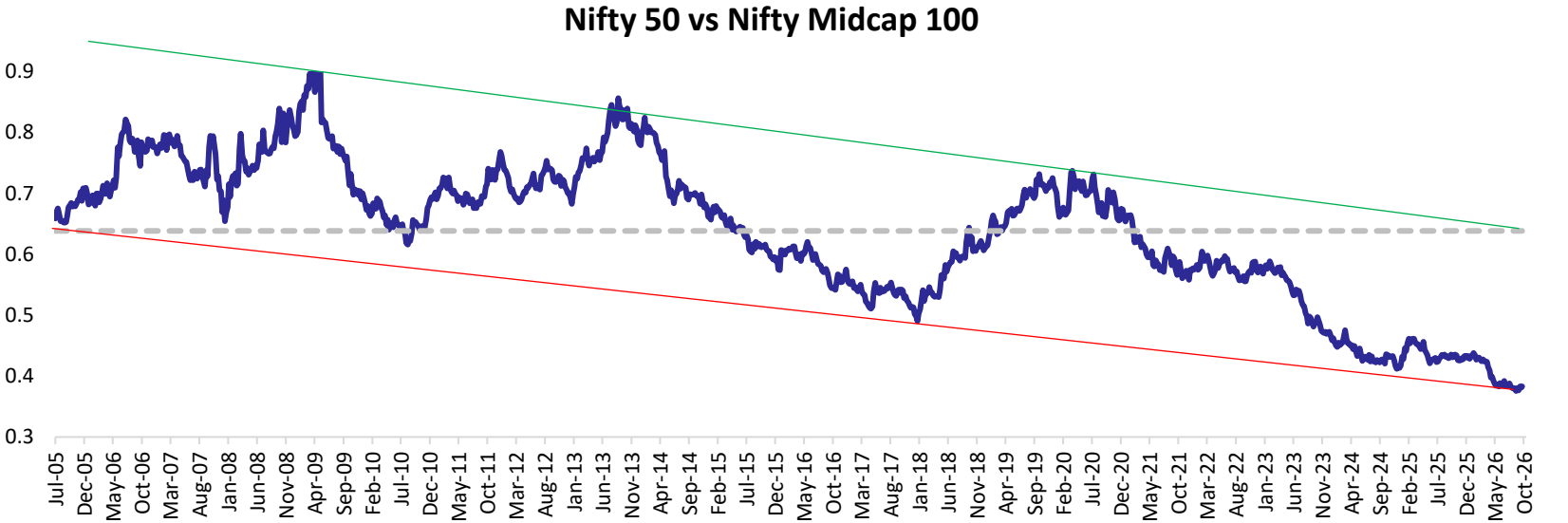
As per the Q2FY27 earnings preview, FY27 Nifty EPS estimate has been unchanged and the FY28 estimate has been cut by 1.3%.
Thus, EPS is expected to grow 16%/14% YoY to INR1,233/INR1,406.

Source: Internal Research, MO Institutional Equities

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

Large Caps vs Small and Mid Caps: Cycle of price performance





The chart shows that in both the cases the ratio has reached the level, where in the past, support levels have been found..

Technically, there is an expected movement of the ratio on the upside showcasing that it might be the right time to look large caps more constructively.

Source: Internal Research, Investing.com; Data as on 10th Oct'26

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

Nifty 50 vs Nifty Midcap 100 Ratio and 3Y Forward Returns

Nifty 50 vs Nifty Midcap 100				3Y Forward Return (CAGR %) – Nifty 50								3Y Forward Return (CAGR %) – Nifty Midcap 100							
Ratio 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%
	0.45	585	14%	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
0.45	0.55	577	14%	-6%	14%	7%	10%	25%	40%	25%	0%	-13%	22%	3%	47%	17%	14%	4%	19%
0.55	0.65	1318	32%	-2%	22%	12%	2%	6%	17%	60%	16%	-10%	32%	16%	8%	6%	10%	21%	55%
0.65	0.75	1367	33%	-2%	31%	12%	1%	10%	28%	21%	40%	-9%	40%	18%	8%	8%	2%	9%	72%
0.75	0.85	313	8%	7%	22%	12%	0%	0%	23%	65%	12%	15%	33%	25%	0%	0%	0%	0%	100%
0.85		2	0%	13%	15%	14%	0%	0%	0%	100%	0%	29%	31%	30%	0%	0%	0%	0%	100%
		4162																	

Data Period – 1st Jan'10 to 12th Oct'26. Traded days considered.

Current band has been highlighted in grey.

Current Value (As on 12th Oct): 0.4

Currently, on a 3Y basis, 7% return is expected to be generated with 90% probability of positive returns for Nifty 50 and 3% return is expected with a 53% probability of positive returns. This is just historical, and reinforces the case for large cap from relative perspective.

Source: Internal Research, NSE

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

Nifty 50 vs Nifty Smallcap 100 Ratio and 3Y Forward Returns

Nifty 50 vs Nifty Smallcap 100				3Y Forward Return (CAGR %) – Nifty 50								3Y Forward Return (CAGR %) – Nifty Smallcap 100							
Ratio 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%
	1.3	369	9%	-4%	14%	7%	11%	27%	28%	34%	0%	-21%	2%	-8%	84%	16%	0%	0%	0%
1.3	1.5	1305	31%	-6%	19%	8%	7%	26%	27%	34%	6%	-21%	22%	-1%	55%	18%	9%	16%	2%
1.5	1.7	1251	30%	1%	22%	12%	0%	6%	34%	36%	24%	-7%	25%	15%	5%	4%	10%	28%	54%
1.7	1.9	642	15%	6%	22%	13%	0%	0%	20%	56%	23%	8%	31%	21%	0%	0%	2%	7%	91%
1.9	2.1	442	11%	9%	24%	15%	0%	0%	7%	50%	43%	9%	33%	24%	0%	0%	0%	7%	93%
2.1		153	4%	13%	31%	21%	0%	0%	0%	21%	79%	17%	39%	31%	0%	0%	0%	0%	100%
		4162																	

Data Period – 1st Jan'10 to 12th Oct'26. Traded days considered.

Current band has been highlighted in grey.

Current Value (As on 12th Oct): 1.2

Currently, on a 3Y basis, again, 7% return is expected to be generated with 89% probability of positive returns for Nifty 50 and a -8% return is expected with only 16% probability of positive returns.

The case is more extreme than mid caps and again is historical, and does favor large caps from relative perspective.

Source: Internal Research, NSE

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

15 years of return has come in just four 1-year phases

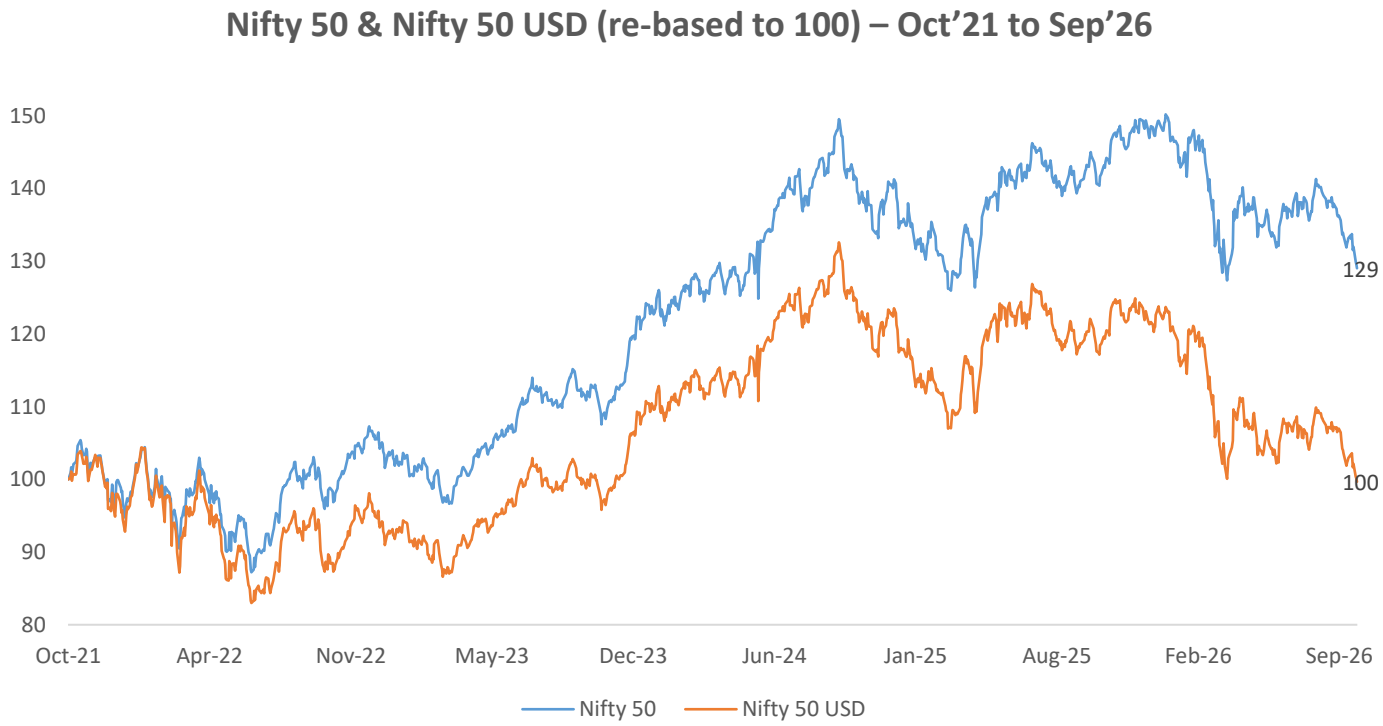


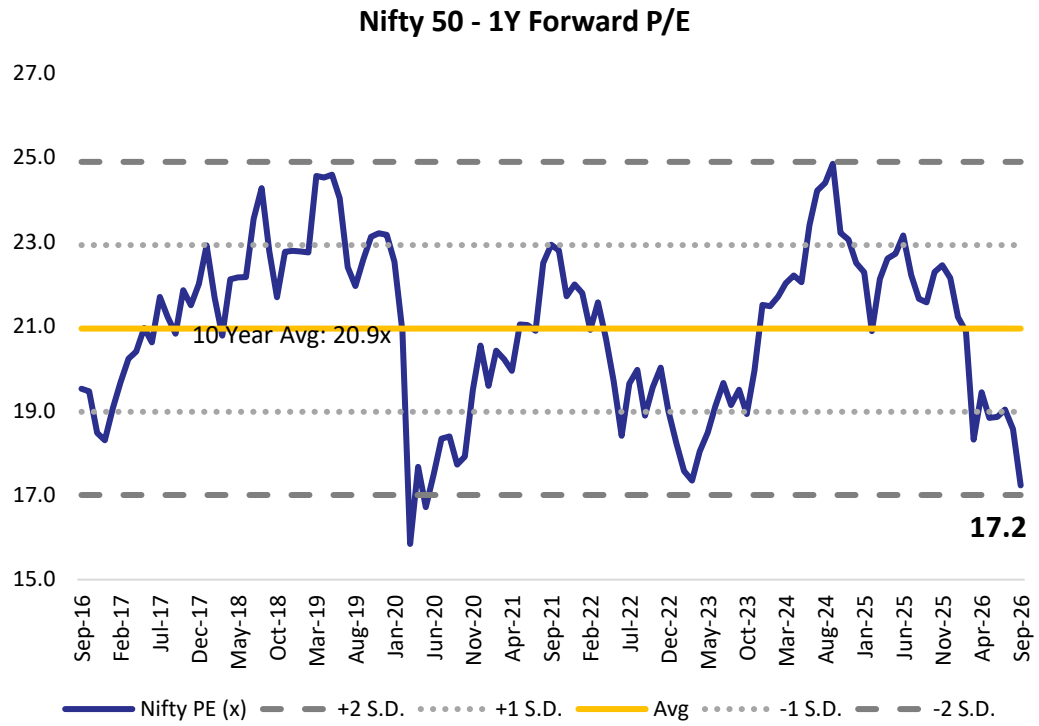
Source: 3P Investment Managers

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

Equity

Five Years of Gains, Zero in Dollars: Nifty Now Trades Near Covid-Low Valuations



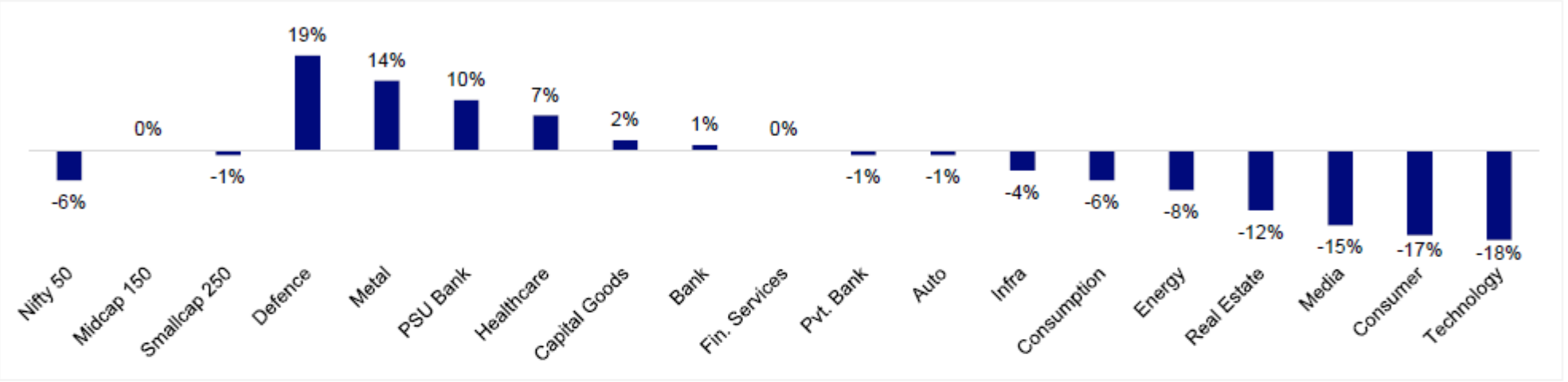


Source: Internal Research, NSE, MOFSL

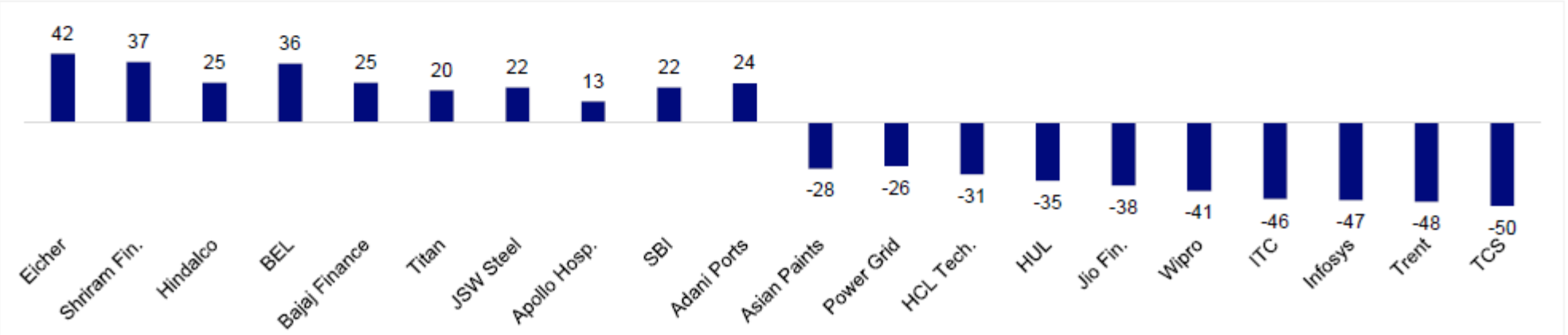
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

Market Cap Indices and Sectoral Performance over the last 2 yrs

Sectoral 2yr CAGR ranges from +19% to −18%



Even within Nifty-50, there has been significant variance in returns (2-year return %)

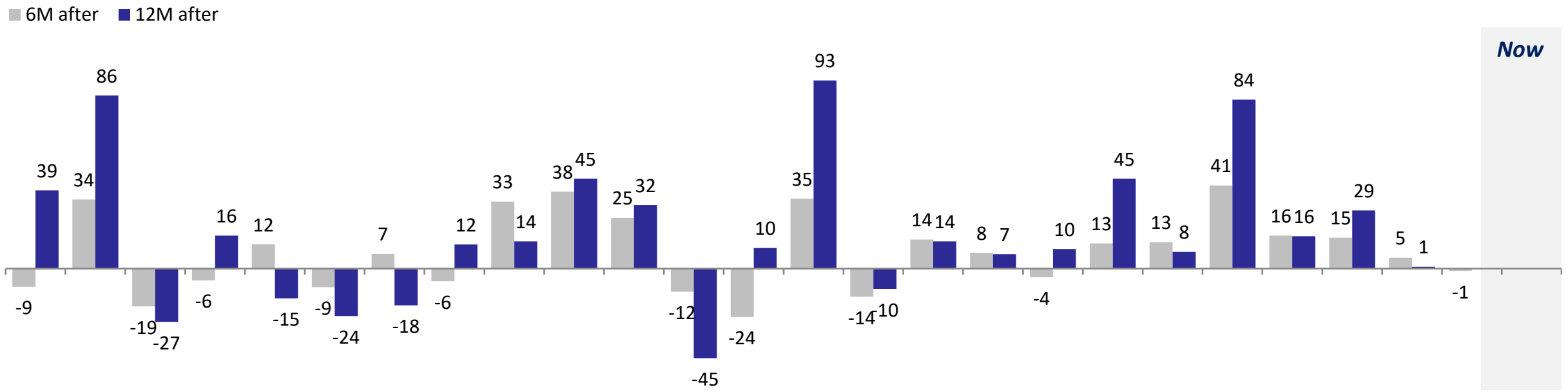


Source: Internal Research, NSE. Data as on 30th Sep' 2026

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

Nifty: Longest Weekly Losing Streak in 25 Years

Returns after every 5+ week losing streak since 1990 (%)



	Oct-92	Feb-93	Oct-94	Jun-95	Oct-97	Feb-00	Jul-00	Feb-01	Aug-01	May-06	Feb-07	Jan-08	May-08	Sep-08	May-11	Jul-11	Feb-12	Feb-13	Jul-13	Sep-18	Feb-20	Apr-22	Jul-23	Jul-25	Mar-26	Aug-26
Weeks	7	10	5	5	5	5	5	9	7	5	5	5	7	5	5	5	5	5	5	5	7	5	5	6	6	8
Fall (%)	−24.6	−22.9	−7.8	−6.7	−14.6	−11.0	−13.6	−27.1	−20.5	−21.8	−13.8	−18.4	−22.1	−39.1	−6.9	−15.7	−5.1	−5.8	−9.2	−11.7	−33.3	−11.3	−2.4	−5.0	−11.2	−8.7

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

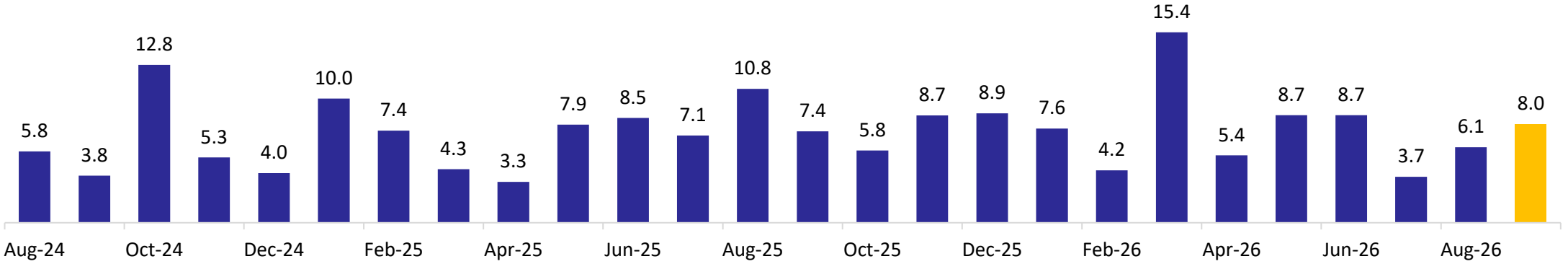
This streak is −8.7%. Shallow streaks (<10% fall) returned a lower average of +8.8% over 12M.

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.

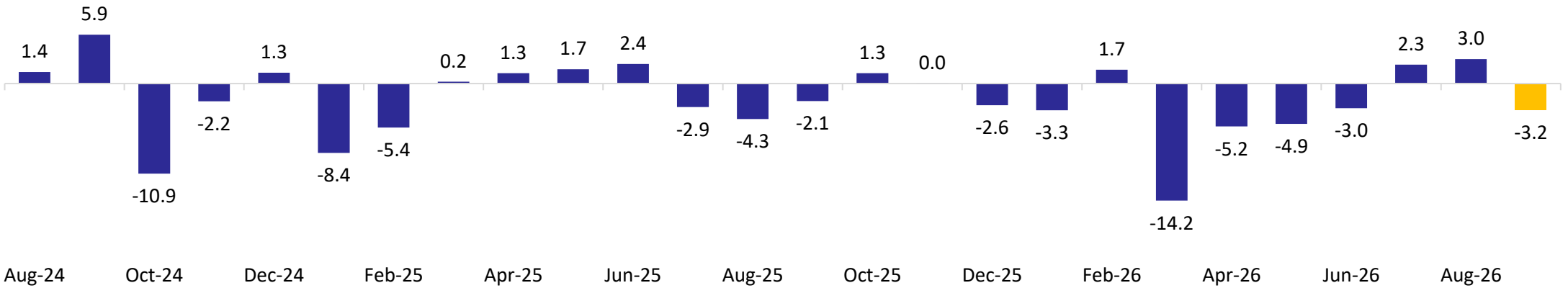
FII vs DII Flows

FIIs record outflows after 2 months of inflows, while DII inflows remain strong in Sep'26. The question is the sustenance of this strength of DII flows, considering the negative 2 year SIP returns.

DII Equity Flows (US$ Bn)



FII Equity Flows (US$ Bn)



Source: Internal Research, MO Institutional Equities

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

Q2FY27 preview: Earnings are Doing the Heavy-Lifting

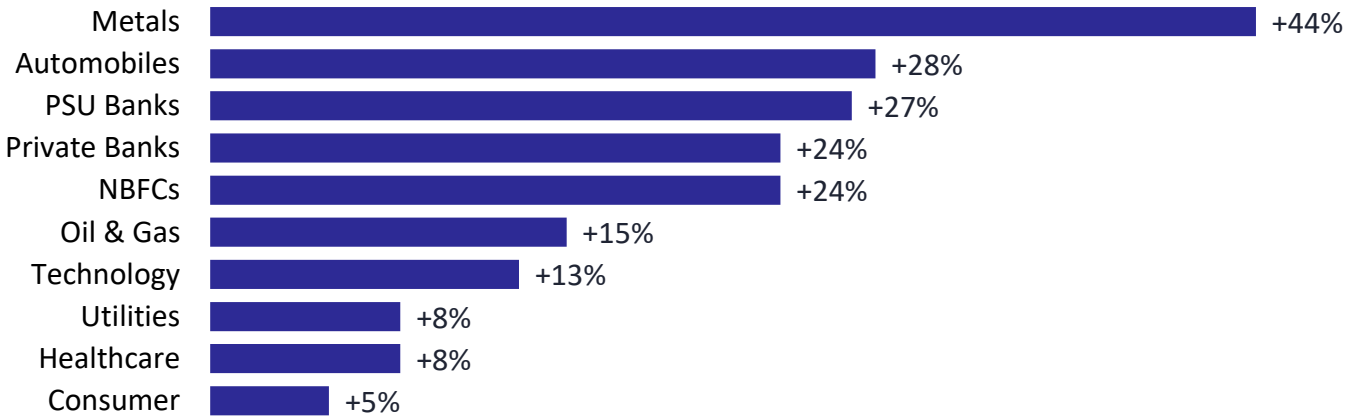
What the September'26 quarter is expected to show: sector earnings, valuations and market backdrop

+27%
Nifty-50 profit growth, Q2FY27E (YoY)

-13%
Nifty-50 return, CY26 YTD

17.2x
Nifty 1-yr fwd P/E vs 20.9x long-term avg.

Profit growth, Q2FY27E (YoY %): the 10 largest sectors by profit



These 10 sectors earn ~84% of profits; the universe average is +22%

Earnings: strong, but uneven

Wider market: profits for 399 covered companies +22% YoY, on sales growth of 19%

Broad-based: all 32 sectors expected to grow profits, 20 of them by more than 15%

Outlook intact: FY27 Nifty EPS held at ₹1,233 (+16%); FY28 trimmed ~1.3%

Earnings are doing the heavy lifting while valuations reset. Growth is uneven – indicating selective and diversified approach

Source: MOFSL India Strategy 2QFY27 Preview (6 Oct 2026); market data as on 1 Oct 2026. Earnings estimates for the MOFSL coverage universe (399 companies) and Nifty-50. Largest sectors ranked by Q2FY27E PAT. Past performance is not indicative of future results.

Q2FY27: Banks and IT – Heavyweights with Different Stories

Private banks and IT services: what the September'26 quarter is expected to show

Private banks

Volumes strong, margins under pressure

+24%
Profit growth, YoY

18.8%
System loan growth, YoY

8–20bp
NIM dip at large banks, QoQ

Growth driver: FCNR(B) inflows of ~USD133b lifted deposit growth to 17% YoY and funded lending

Margin squeeze: rapid balance-sheet growth dilutes NIMs; seen recovering as funds are deployed

Quality holds: asset quality benign; ~20% earnings CAGR expected over FY26–28

IT services

Cheap, but no catalyst yet

+1.1%
Large-cap USD revenue, QoQ

+2.5%
Large-cap USD revenue, YoY

~25%
Valuation discount to 10-yr avg.

Soft demand: discretionary spend weak; softness likely to run into Q3 on furloughs

Guidance risk: a weak first half makes the top end of FY27 guidance hard to reach; trims possible

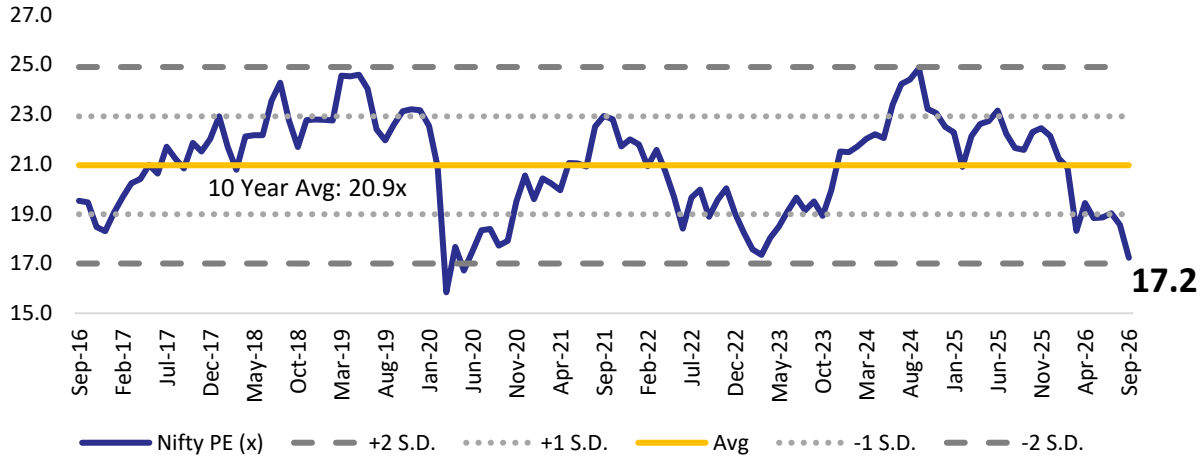
Rupee flatters: INR revenue +11.6% YoY vs +2.5% in USD; mid-tier firms outgrow large-caps

Banks offer growth with near-term margin noise; IT offers value but needs a demand pick-up

Source: MOFSL India Strategy 2QFY27 Preview (6 Oct 2026), Banks and Technology chapters; market data as on 1 Oct 2026. Bank figures cover 12 private banks under MOFSL coverage (system loan growth as of 15 Sep 2026); IT figures cover six large-cap IT services firms. All figures are estimates; actual results may differ. The above data is for informational purpose only. Performance related data may or may not be sustained in future.

Nifty Indices 1Y Forward Valuations

Nifty 50 - 1Y Forward P/E

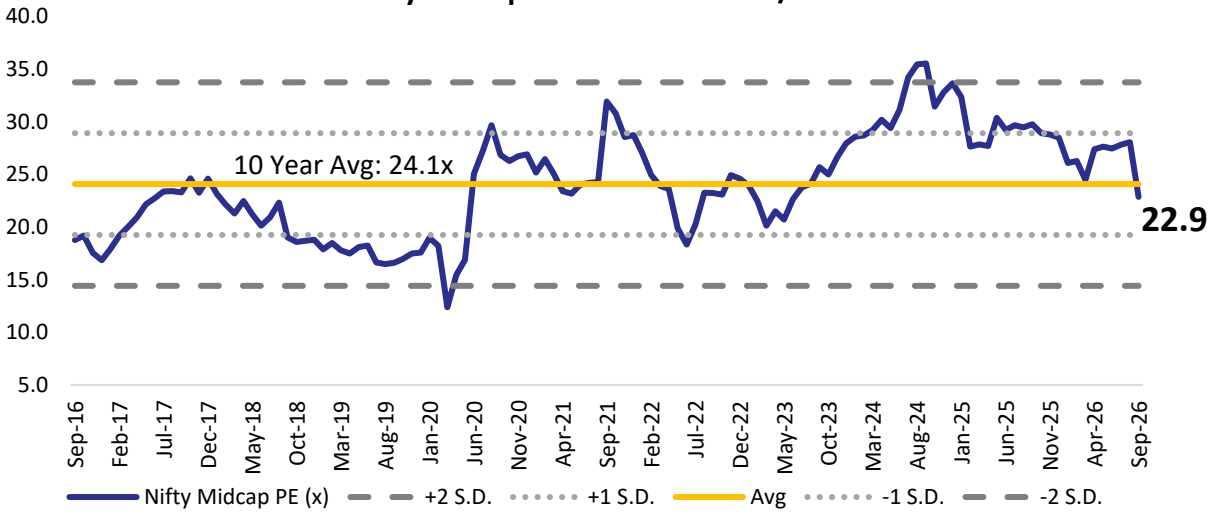


Source: Internal Research, MOSL

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 at the -2 SD.

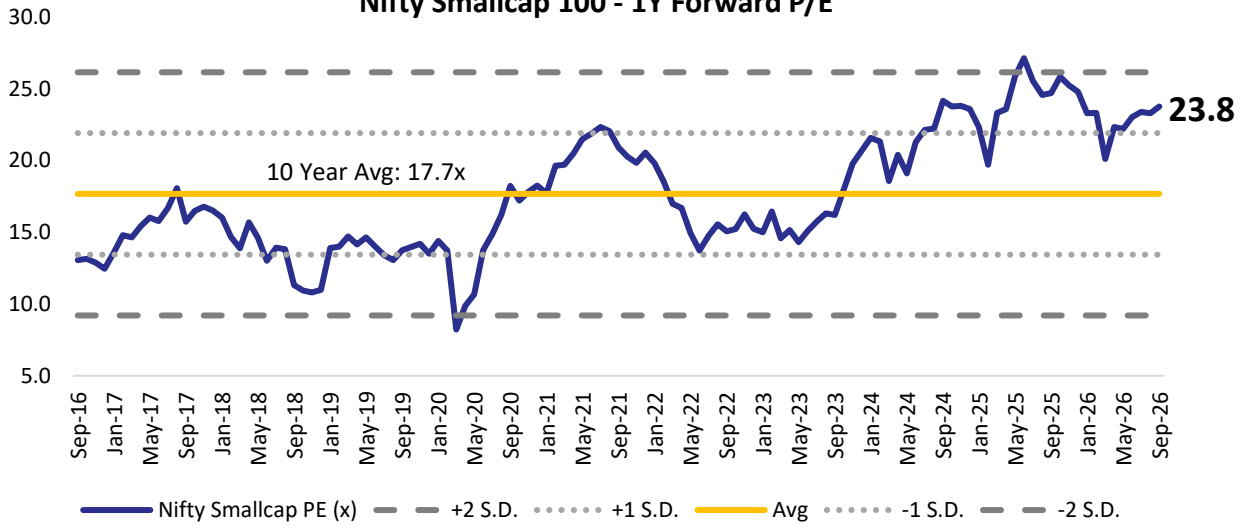
Mid-cap equities' 12-month forward P/E trades at a 5% discount to its 10Y average of 24.1x , while of small-cap is trading at a 34% premium to its 10Y average.

Nifty Midcap 100 - 1Y Forward P/E



Source: Internal Research, Bloomberg

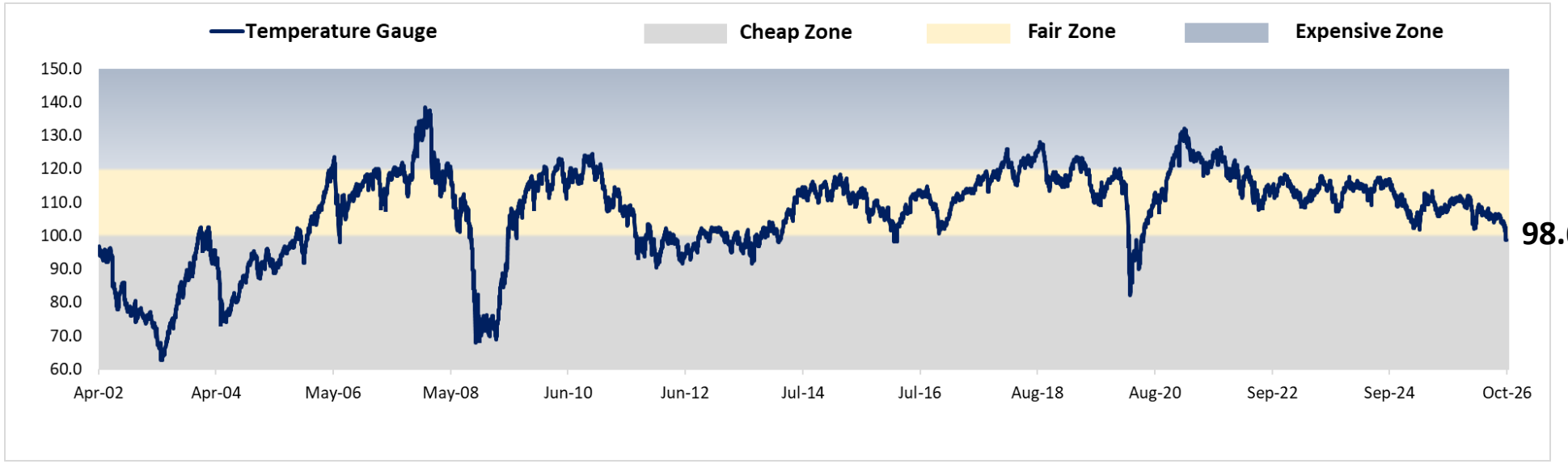
Nifty Smallcap 100 - 1Y Forward P/E

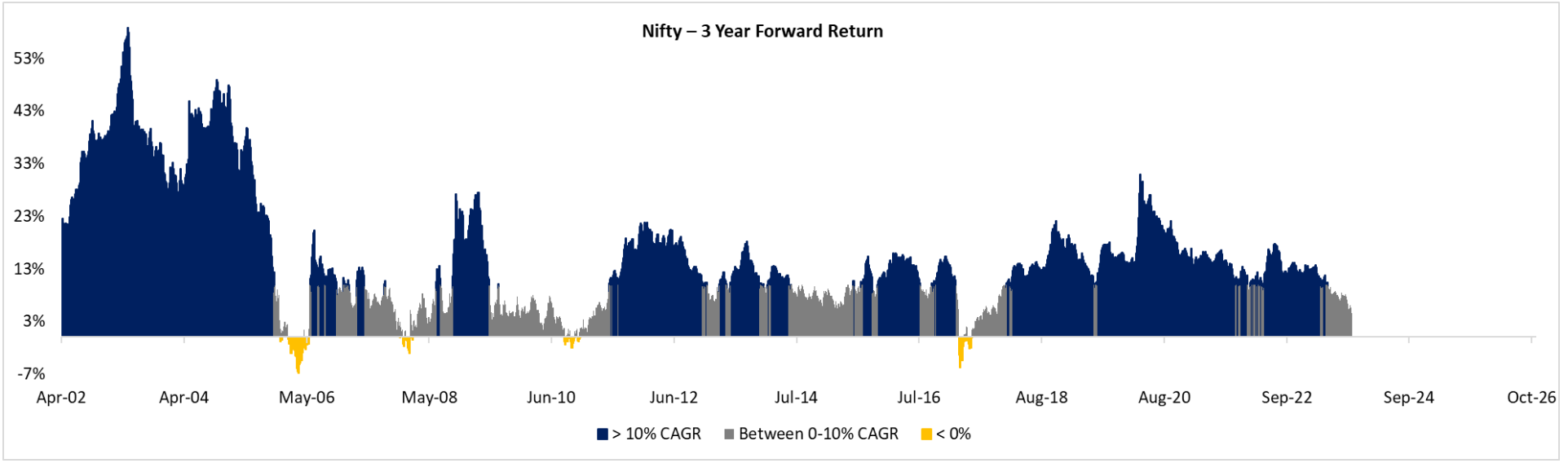


Source: Internal Research, Bloomberg

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 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

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

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

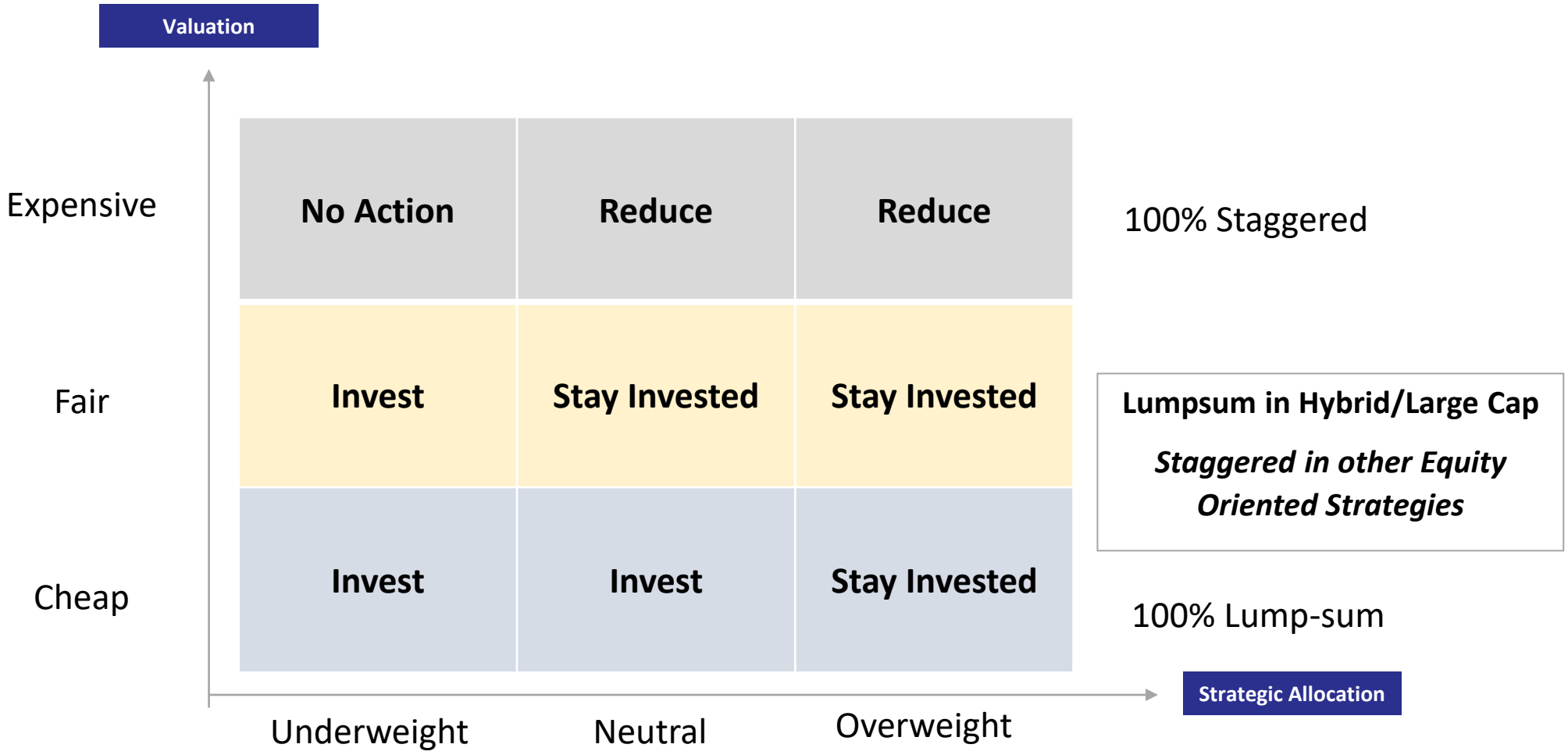
3 Yr Forward Returns Of Nifty At Different Levels Of Temperature Gauge Index

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	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.

Equity View & 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 weighting 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. We suggest 50% exposure to hybrid/large caps, 40% to mid & small cap (from 50% earlier) and 10% to global. The preference for large caps is driven by better valuation comfort, greater downside protection and relative attractiveness after underperformance.

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

Fixed Income

Synchronized Global Sell Off in Bonds

India rose the least among the deficit economies

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**

- Bloomberg's global sovereign yield gauge reached 3.72% on 31 Aug — its highest since mid-2008.
- India's move is mid-pack in yield terms, but India carries the highest starting yield, so carry absorbed much of the price loss.

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

Source : Trading Economics ,CCIL, Bloomberg
The above data is for informational purpose. The analysis may or may not be sustained in future.

India's Edge Over Longer Horizon -> High Carry, Less Volatility

Over 5–15 years India ranks #2 in USD; over 1 year the rupee erased the carry

USD total return	6M	1Y	2Y	3Y	5Y	7Y	10Y	15Y
India	**−3.0**	**−6.9**	**−2.1**	**1.9**	**0.6**	**1.7**	**2.9**	**3.5**
US	−4.8	−4.1	−0.3	2.9	−2.1	−1.1	0.0	0.9
UK	−3.4	−1.8	0.4	4.5	−3.6	−1.9	−0.5	−0.4
Germany	−5.8	−7.1	−1.1	2.5	−4.8	−3.3	−1.8	−1.0
France	−11.2	−10.3	−2.9	1.0	−5.7	−4.0	−2.2	−0.8
China	4.1	10.2	7.0	8.4	3.9	5.4	3.9	4.0
Japan	−3.1	−12.0	−10.1	−6.9	−10.7	−8.7	−6.4	−5.4
India rank / 7	**2**	**4**	**5**	**5**	**2**	**2**	**2**	**2**

- India in INR terms: +1.2% (6M), +1.4% (1Y), +5.7% p.a. (5Y), +6.8% p.a. (10Y), +8.3% p.a. (15Y). The INR cost 4–5% p.a. over long horizons and 8.2% in the last year.
- China beat India at every horizon (yields fell, CNY firm). Over 2–3 years DM bonds bought at 2023's higher yields did better.
- **Drivers for India's long term Outperformance : Highest carry, Sticky domestic owners, Fiscal consolidation, Index Inclusion**
  - Last 12 months: INR −8.2% and +78 bp yields → −6.9% in USD, behind US, UK and China.

Source: Trading Economics ,Bloomberg ·
The above data is for informational purpose. The analysis may or may not be sustained in future.

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 'Neutral' to 'Calibrated Tightening'

Hawkish Tone

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

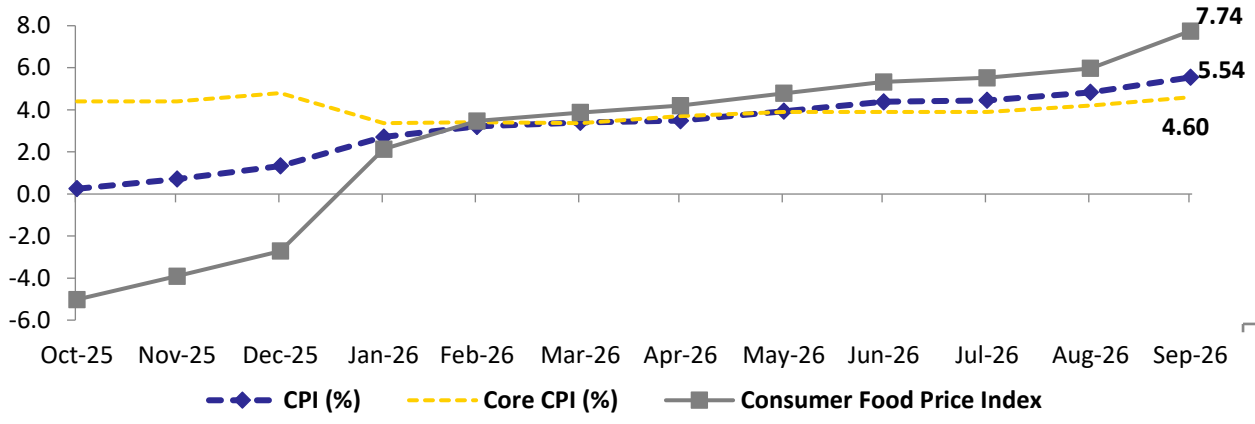
~50 bps

Additional raise in Repo Rate expected in near - medium Term

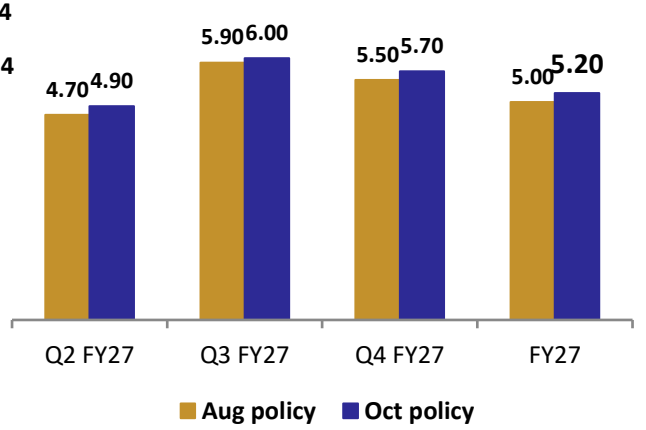
A Pre Emptive Turn by RBI : Resilient growth gives RBI room to Act on Inflation Risks

- 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**

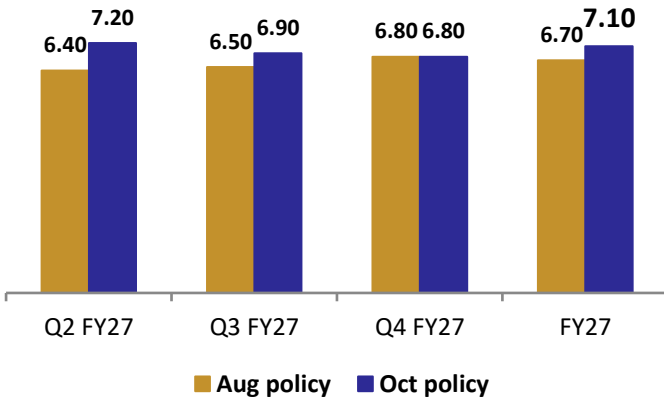
Inflation Trend



CPI inflation projection (%)



Real GDP growth projection (%)

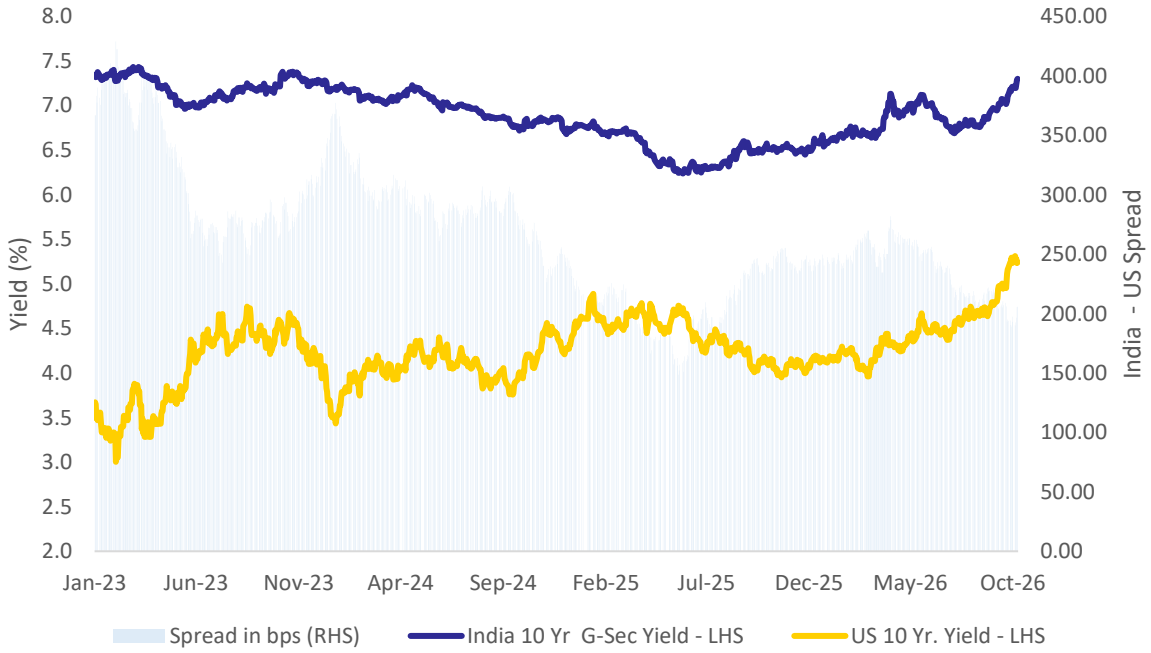


Source : RBI Website, Internal Research, Data as on 8th Oct 2026

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

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

A thin spread plus a weak rupee keeps foreign money tactical



Period	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

Why the spreads compressed

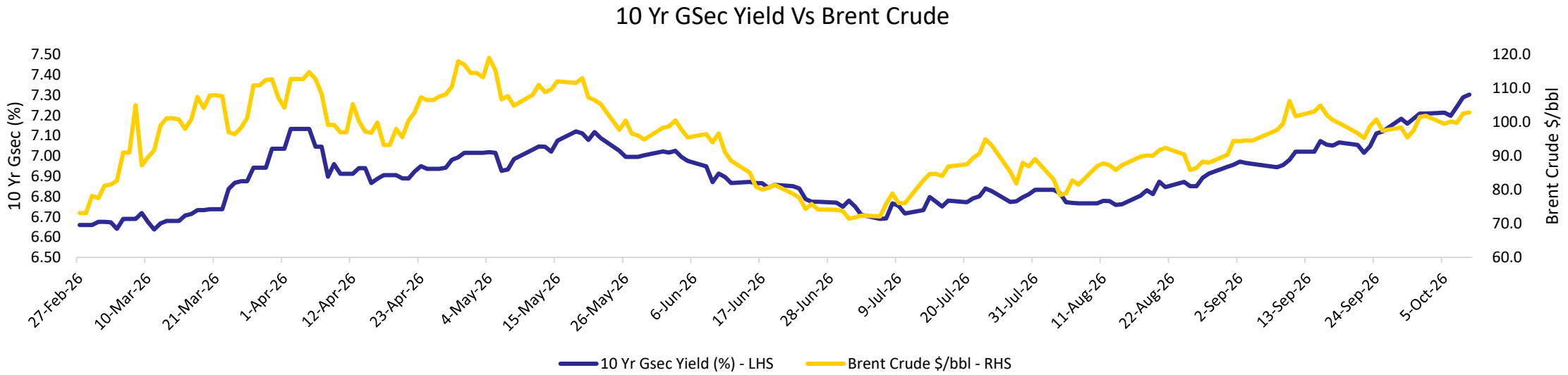
- 2023: Fed at 5.25–5.50% took US 10Y to 4.9%; India stayed ~7.2%
- 2025: RBI cut 125 bp + OMO buying vs Fed's slower easing; spread ~190–220 bp
- 2026: US +106 bp (inflation, oil, Fed hike, term premium) vs India +73 bp. Index inclusion added a structural bid for Indian bonds

Source : Trading Economics , Bloomberg ·
The above data is for informational purpose. The analysis may or may not be sustained in future.

India 10 Y vs Brent Crude Oil

Oil sets the direction, Fed & RBI sets the size

Correlation of 0.69 (Mar – May) increased to 0.82 (Aug – Sep)



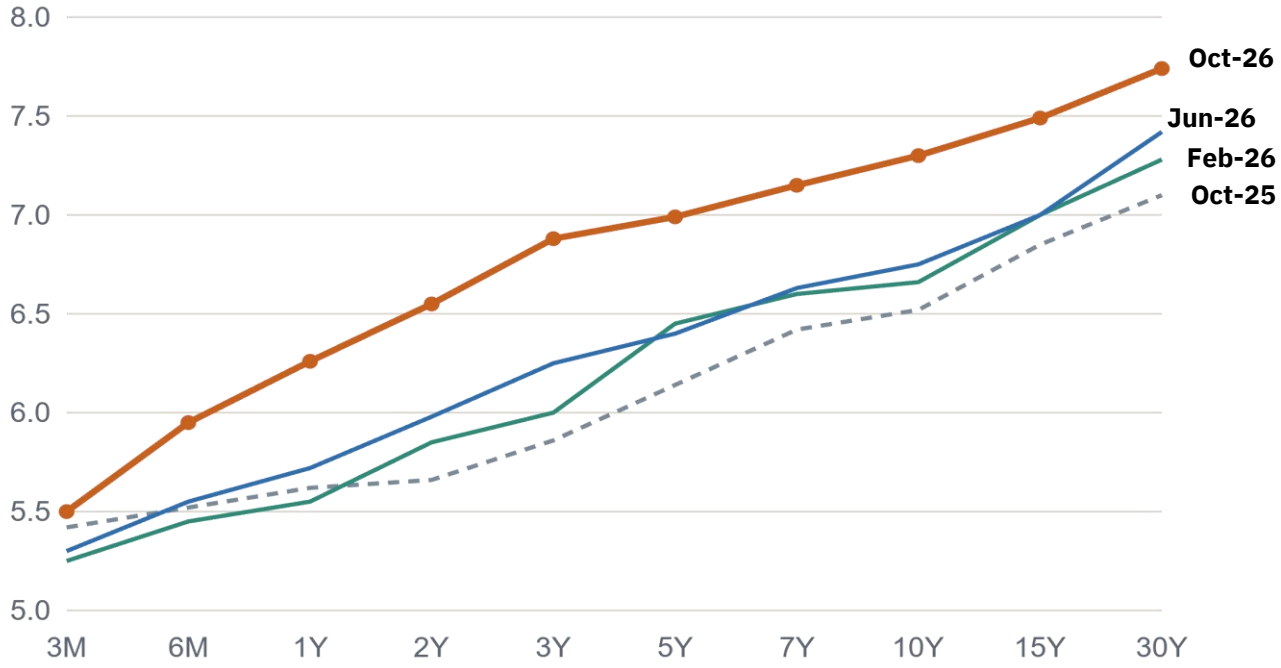
Phase	Brent / 10Y	What happened
Mar–May shock	$73→$124 / 6.66→7.10%	Yields rose only ~45 bp on a 70% oil spike: RBI held, bought INR time, ceasefire hopes
Jun–Jul relief	$70 / 6.69%	Oil −21% in June + record FPI buying; yields fell 35 bp
Aug–Oct re-coupling	$104 / 7.30%	Oil back above $100, but also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

Source: Investing.com, Internal Research

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

India G-Sec Yield Curve

Curve up 8–102 bp; the belly took the hit



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

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

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.

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

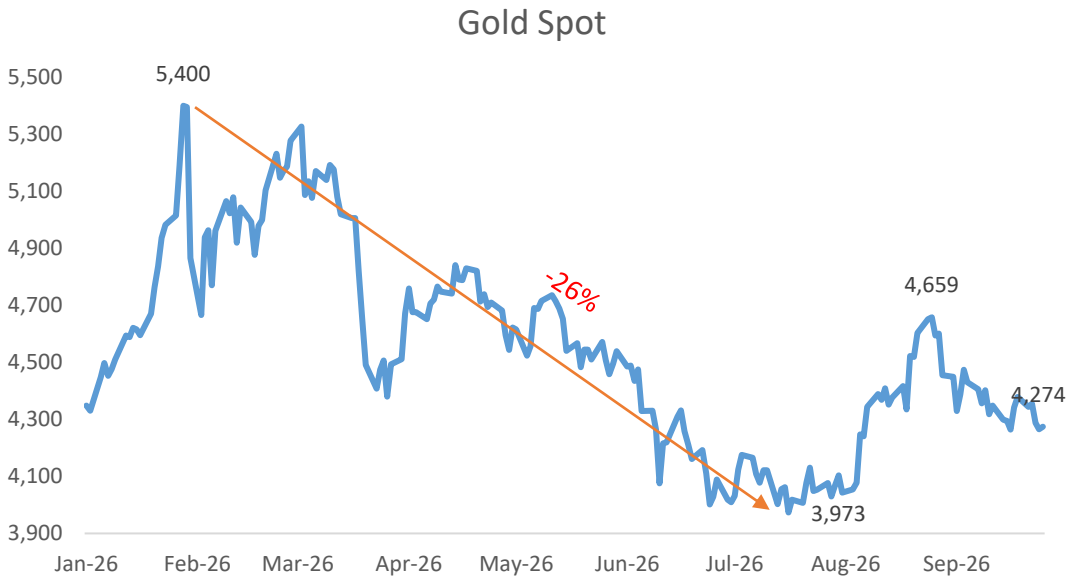
- West Asia war (from late Feb) pushed Brent from ~$73 to a $124 peak; Fed, ECB, BoJ hiked; global 10Y yields at 15–25 year highs.
- India's buffers — domestic investor base, fiscal consolidation, RBI intervention — limited the damage in rupee terms, but the INR is still down by ~8% in a year against 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 approaches its peak, we favour accrual strategies over an early exposure in long-duration.

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

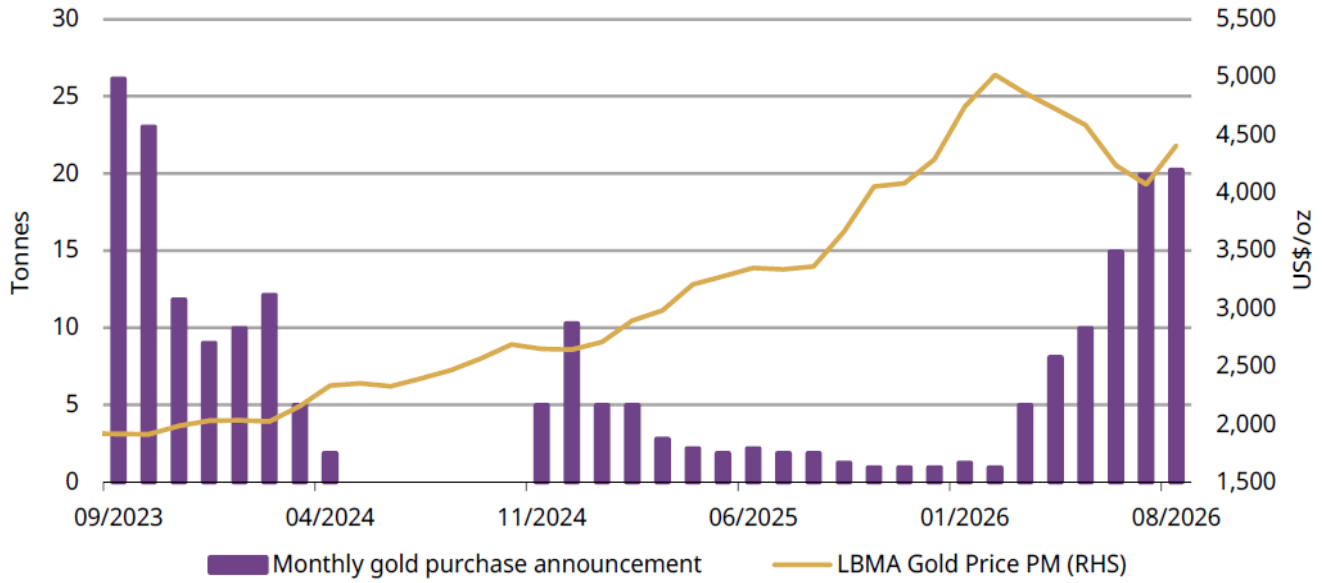
- Accrual exposure should be built across the credit spectrum, with **55–60% of the fixed income allocation** directed towards private credit strategies, high-yield NCDs and income-generating assets such as InvITs
- The **balance of the portfolio** may be deployed in relatively liquid fixed-income alternatives, 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 Price CY26 YTD and PBoC gold buying spree



The PBoC extended its gold purchasing streak to 22 months



The headwind: the Fed

Higher policy rates raise the cost of holding an asset that yields nothing. J.P. Morgan's bear case is inflation that keeps running while the Fed keeps hiking, flipping Western ETF flows to outflows.

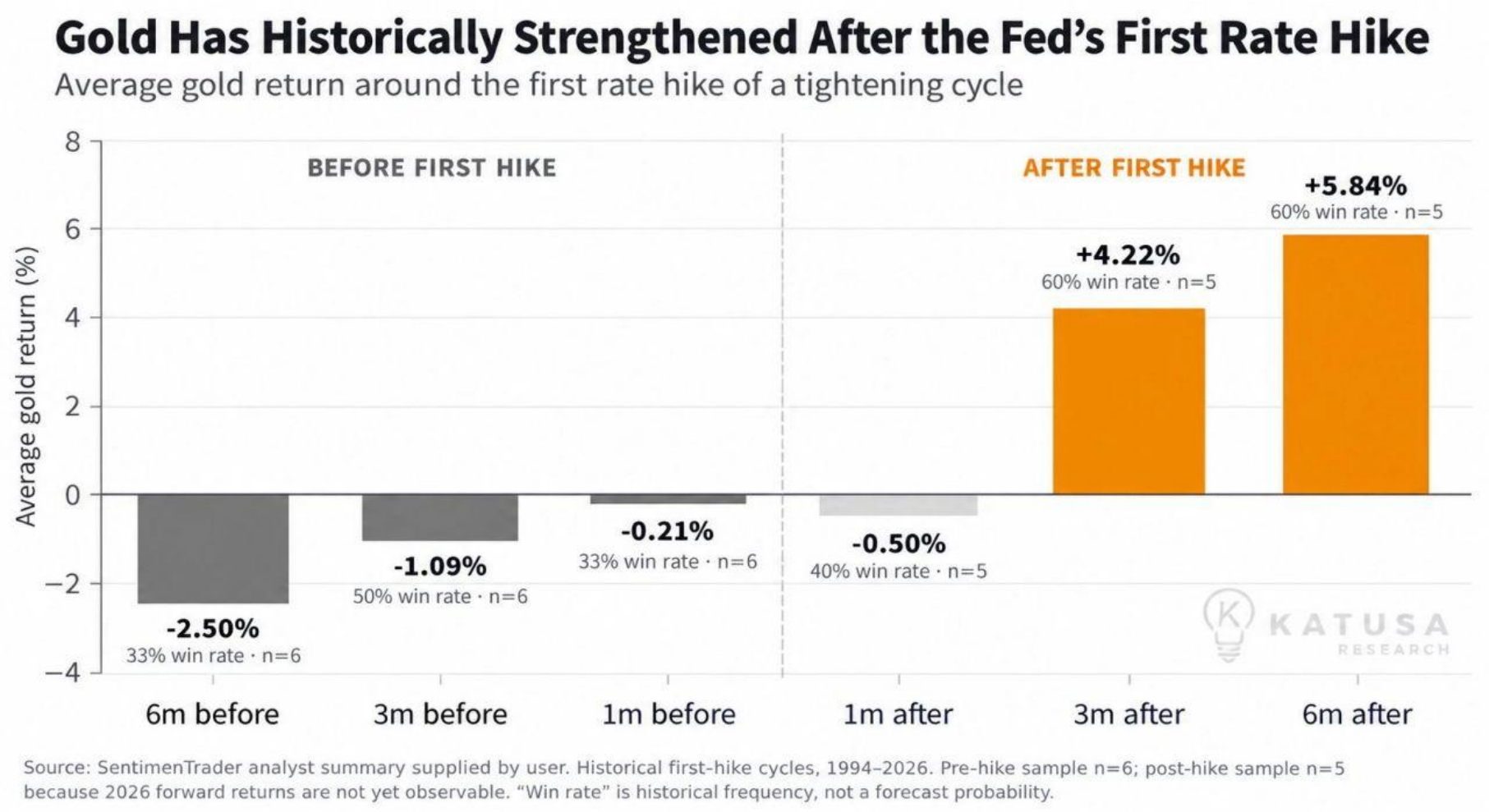
The support: official buying

Central banks keep diversifying, with China the largest identifiable buyer in June, and about $2bn went into ETFs in September. The WGC still sees 2026 buying below the 2025 total.

Source: WGC, Investing.com

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

US Fed rate hike & Gold



Source: Katusa Research

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