EBONY WEALTH

EBONY WEALTH - MONTHLY MARKET UPDATE - July 2026

Markets

> *Geopolitical events can alter the path of markets, but rarely the destination. Long term returns remain anchored to economic growth, corporate earnings, and valuation discipline.*

The market discussion and view presented in the document is inherently provisional, poised for rapid evolution amid fluid oil market dynamics, the ultimate pivot for global assets.

Lower oil prices could unleash a brisk rally in equities and bonds, trigger a USD sell-off, and deliver tailwinds to worldwide equities (including EM) and bonds; conversely, upward oil pressure would reverse these dynamics, fostering equity/bond headwinds and dollar strength.

How AI, Infrastructure and Capital Expenditure Are Reshaping Global Markets

Over the past two decades, global financial markets have been shaped by one dominant force—abundant liquidity. Following the Global Financial Crisis, exceptionally accommodative monetary policy, near-zero interest rates and quantitative easing lowered the cost of capital and drove a prolonged expansion in asset valuations. Equity returns were supported not only by improving corporate earnings but also by steadily rising valuation multiples.

That investment regime is changing.

We believe the global economy is entering the early stages of a fundamentally different investment cycle. Unlike the post-GFC period, when liquidity and monetary policy were the principal drivers of returns, the coming decade is likely to be characterised by sustained capital investment across technology, infrastructure, manufacturing, energy and other strategic industries. Investment performance will increasingly depend on productivity, earnings growth and capital formation rather than multiple expansion driven by falling interest rates.

This is not simply another business cycle. It represents a structural shift in the foundations of global growth. While cyclical fluctuations will continue, the defining theme of the coming decade is likely to be one of the largest global capital expenditure cycles in modern history.

Several structural forces are converging simultaneously. Artificial Intelligence is accelerating demand for digital infrastructure. Governments are rebuilding domestic manufacturing capacity, strengthening supply-chain resilience and increasing defence spending. At the same time, ageing infrastructure, electrification, energy security and the transition to cleaner energy require sustained investment over many years.

Individually, each trend is significant. Together, they mark the emergence of a new investment regime.

Unlike previous expansions driven largely by consumption, housing or financial leverage, the next phase of global growth is expected to be led by investment in productive assets. Governments, corporations and institutional investors are deploying capital to expand productive capacity, enhance technological competitiveness and improve long-term economic resilience. History suggests that such investment cycles generate opportunities far beyond the industries where they originate.

The structural tailwinds that defined the post-GFC era—abundant labor, inexpensive capital, globalization and accommodative monetary policy—are gradually reversing. Labor markets are tightening, supply chains are being redesigned for resilience rather than efficiency, governments are pursuing more expansionary fiscal policies, and investment requirements across semiconductors, power infrastructure, strategic minerals and manufacturing continue to rise.

These are supply-side constraints that require investment rather than stimulus.

As a result, capital expenditure is becoming the principal engine of economic growth. Governments are investing in semiconductors, transportation, power generation and defense, while corporations are expanding manufacturing capacity, automating operations and building the infrastructure required for an increasingly digital economy. Unlike traditional stimulus, these investments expand productive capacity and create long-term economic value.

Importantly, this cycle is likely to extend well beyond a conventional business cycle. Building semiconductor fabrication plants, electricity grids, logistics networks, ports, renewable energy assets and hyperscale data centers require substantial capital, long execution periods and sustained investment. These projects also create powerful multiplier effects across engineering, industrials, equipment manufacturers, financial institutions and specialized service providers.

History shows that the world's greatest periods of wealth creation have been driven not only by liquidity but by sustained investment cycles. From industrialization and post-war reconstruction to the internet revolution, long-term investment opportunities consistently extended well beyond the industries where structural change first emerged.

We believe the current cycle shares these characteristics. Artificial Intelligence is the catalyst—not the complete investment story. AI requires semiconductors; semiconductors require fabrication facilities; data centers require electricity; electricity requires generation, transmission and grid infrastructure; and manufacturing expansion requires engineering, logistics, financing and skilled labor. Every layer of this ecosystem reinforces demand across the next, creating a broad and durable investment multiplier.

This is why we believe the defining opportunity of the coming decade is not Artificial Intelligence alone, but the unprecedented scale of capital investment required to support it.

As this structural transformation unfolds, investment opportunities should broaden well beyond technology. Engineering companies, industrial manufacturers, utilities, construction firms, logistics operators, financial institutions, defense contractors and infrastructure developers all stand to benefit from rising capital expenditure. Rather than remaining concentrated within a handful of technology companies, earnings growth is likely to become progressively broader, creating a healthier and more sustainable market environment.

Market volatility driven by geopolitics, policy uncertainty, commodity prices or monetary policy should be viewed as cyclical fluctuations within a much larger secular trend. Investors who remain focused on the structural forces reshaping the global economy, rather than short-term market movements, are likely to be better positioned to benefit from one of the most significant capital investment cycles of the modern era.

The Investment Cycle Extends Far Beyond Artificial Intelligence

Artificial Intelligence has emerged as the defining investment theme of this decade. While we share the view that AI will fundamentally reshape the global economy, we believe investors should look beyond software and AI models. More importantly, AI is the catalyst for one of the largest capital expenditure cycles in modern history.

Every major technological revolution required substantial investment in enabling infrastructure before its economic benefits became widespread. Railways depend on steel and transportation networks. Electrification required decades of investment in generation and transmission infrastructure. The internet revolution was built on fibre-optic networks, semiconductor manufacturing and cloud infrastructure. AI is following the same path.

While software applications attract the greatest investor attention, the supporting ecosystem is significantly larger. Every AI workload requires advanced semiconductors, high-performance networking, hyperscale data centers, cooling systems, uninterrupted electricity and sophisticated engineering capabilities. Behind every digital innovation lies a substantial physical infrastructure requirement.

Unlike earlier technology cycles, AI cannot scale without unprecedented investment in tangible assets. Expanding AI adoption requires bns of dollars of investment in semiconductor fabrication, data centers, electricity generation, transmission networks and digital infrastructure. This spending extends well beyond technology, creating opportunities across engineering, capital goods, utilities, industrial automation, specialized construction and logistics.

The implications are significant. Every dollar invested in AI infrastructure generates demand across multiple industries, creating a multiplier effect throughout the economy. Consequently, the long-term beneficiaries extend far beyond software developers and semiconductor manufacturers to include companies involved in electrical equipment, engineering services, cooling technologies, power infrastructure, advanced manufacturing and industrial logistics.

History suggests that the first phase of any technological revolution rewards companies developing the underlying innovation. As adoption accelerates, however, investment opportunities broaden towards businesses enabling large-scale deployment. These second- and third-order beneficiaries have often generated substantial value as investment spending spreads across the broader economy.

The AI Investment Multiplier

Rather than viewing Artificial Intelligence as a single investment theme, it is more useful to view it as a multi-layered investment ecosystem, where each stage of adoption creates demand across multiple industries.

We believe the AI investment cycle is now entering this broader phase.

First Order	Second Order	Third Order
Semiconductors	Data Centres	Utilities
AI Platforms	Power Equipment	Industrials
Cloud Infrastructure	Engineering	Logistics
Networking	Cooling Systems	Financials
Memory & Storage	Digital Infrastructure	Manufacturing
Software	Construction & EPC	Transportation

The table highlights an important investment principle: the economic value created by Artificial Intelligence is unlikely to remain concentrated within a handful of technology companies. Instead, it is expected to spread progressively across businesses responsible for building, financing and operating the infrastructure that enables AI at scale.

The Physical Infrastructure Supercycle

Perhaps the most underappreciated aspect of the current investment cycle is the unprecedented demand for physical infrastructure.

For decades, developed economies underinvested in electricity generation, transmission networks, transportation infrastructure and industrial capacity. Globalization encouraged capital to flow towards financial assets and digital businesses while manufacturing increasingly shifted to low-cost regions. Efficiency became the dominant objective, often at the expense of resilience.

That paradigm is now reversing.

Artificial Intelligence, electrification, electric vehicles, renewable energy and advanced manufacturing are driving a structural increase in electricity demand. Hyperscale data centers require continuous, reliable power, while industrial electrification is placing additional pressure on already constrained grids. Meeting this demand will require sustained investment across generation capacity, transmission networks, substations, transformers, and energy storage.

Manufacturing expansion is creating a similar investment cycle. New production facilities require industrial parks, transportation corridors, ports, warehouses and logistics infrastructure, while supply-chain diversification is encouraging companies to establish manufacturing closer to end markets. Governments are simultaneously increasing investment in roads, railways, airports, defense infrastructure and strategic industrial assets to strengthen long-term economic resilience.

Unlike previous technology-led expansions, this cycle combines investment in both digital and physical infrastructure, significantly broadening the range of beneficiaries. Engineering companies, capital goods manufacturers, utilities, construction firms, industrial automation providers, logistics operators and infrastructure developers all become integral participants in the capital expenditure cycle rather than isolated investment themes.

Importantly, infrastructure projects unfold over years, not quarters. Their long execution periods create sustained demand for labour, materials, equipment, financing and specialised services, supporting earnings across multiple industries and extending the duration of the investment opportunity well beyond a typical economic recovery.

Manufacturing Is Returning as a Strategic Priority

One of the defining characteristics of globalisation was the concentration of manufacturing in regions offering the lowest production costs. While this improved efficiency, recent disruptions exposed the vulnerabilities of highly concentrated supply chains.

The pandemic, semiconductor shortages and rising geopolitical tensions have reinforced the importance of resilience alongside efficiency. Governments and corporations are therefore reassessing decades of manufacturing strategy.

Industrial policies across the United States, Europe and Asia are encouraging domestic production of semiconductors, batteries, renewable energy equipment, defence systems and other strategic technologies through fiscal incentives, tax benefits and direct government support.

At the corporate level, supply chains are becoming more diversified through *China+1*, near-shoring and friend-shoring strategies. Rather than reversing globalisation, companies are building greater redundancy to reduce operational and geopolitical risk.

The investment implications extend well beyond factory construction. Manufacturing expansion drives demand for industrial automation, robotics, engineering services, specialised machinery, transportation, warehousing, industrial software and financial services, creating multiplier effects across the broader economy.

Countries offering political stability, skilled labour, competitive production costs and supportive policy frameworks are likely to attract a disproportionate share of global capital investment. As manufacturing capacity becomes more geographically diversified, investment opportunities should broaden across regions rather than remain concentrated in a handful of markets.

Investment, Not Consumption, Is Becoming the Primary Growth Engine

Global growth over the past decade was largely supported by household consumption, accommodative monetary policy and rising financial asset prices. We believe the coming decade will instead be characterised by sustained investment in productive assets.

Governments are investing in infrastructure, defence, clean energy, semiconductors and strategic technologies. Corporations are expanding manufacturing capacity, accelerating automation, deploying Artificial Intelligence and strengthening supply-chain resilience. Utilities are investing in electricity generation and transmission, while financial institutions finance increasingly large public and private capital expenditure programmes.

Unlike traditional fiscal stimulus, productive investment expands the economy's long-term capacity. It raises productivity, improves competitiveness, supports employment and encourages further private-sector investment, creating a self-reinforcing cycle of stronger earnings and sustainable economic growth.

We believe this represents one of the defining investment opportunities of the coming decade. While financial markets will continue to experience periodic volatility, long-term capital is likely to flow towards businesses participating in this global investment cycle rather than those primarily dependent on financial engineering or abundant liquidity.

Market Leadership Is Likely to Broaden

The current market cycle has been led by a relatively small group of mega-cap technology companies benefiting directly from the rapid adoption of Artificial Intelligence. While their leadership has been supported by exceptional earnings growth and dominant competitive positions, history suggests that every structural investment cycle eventually broadens beyond its initial winners.

Previous technological revolutions followed a similar pattern. Early beneficiaries were the companies developing the underlying innovation, but as adoption accelerated, opportunities expanded across industries providing the infrastructure, equipment and services required for widespread deployment.

We expect the AI investment cycle to evolve similarly. The first phase rewarded companies building foundational AI technologies. The next phase is likely to benefit engineering firms, industrials, capital goods manufacturers, utilities, logistics providers, construction companies and specialised manufacturers enabling large-scale implementation. Over time, AI-driven productivity improvements should also support earnings across a much broader range of sectors.

This broadening of market leadership is healthy. Markets dominated by a narrow group of companies become increasingly vulnerable to valuation compression or earnings disappointments. Broader earnings participation creates a more resilient and sustainable bull market supported by stronger corporate fundamentals.

For investors, this reinforces the importance of looking beyond headline indices. During the liquidity-driven era, passive investing benefited from broad multiple expansion. In the next decade, as return dispersion widens, business quality, capital allocation, balance-sheet strength and sustainable competitive advantages are likely to become increasingly important drivers of investment performance.

For active investors, this should create a significantly richer opportunity set than that experienced during the liquidity-led market of the previous decade

A Different Interest Rate Regime

The emerging investment landscape has important implications for inflation, interest rates and asset valuations. Investors should avoid assuming that the ultra-low interest-rate environment that followed the Global Financial Crisis will return.

Between 2008 and 2022, central banks maintained one of the most accommodative monetary policy regimes in modern history. Near-zero policy rates, quantitative easing and abundant liquidity significantly reduced the cost of capital, supporting a prolonged expansion in valuations across equities, bonds, real estate and private assets. For much of this period, financial markets were driven as much by monetary policy as by underlying economic fundamentals.

Federal Funds Rate – The Era of Ultra-Low Interest Rates

Period	Fed Funds Target Rate	Period	Fed Funds Target Rate
Dec-08	0.00–0.25%	**End-2018**	2.25–2.50%
2009–2015	0.00–0.25%	**2019**	1.50–1.75%
Dec-15	0.25–0.50%	**Mar 2020 (COVID-19)**	0.00–0.25%
End-2016	0.50–0.75%	**Mar 2020 – Mar 2022**	0.00–0.25%
End-2017	1.25–1.50%		

The post-pandemic inflation shock demonstrated that these conditions were exceptional rather than permanent. Supply-chain disruptions, labour shortages, geopolitical tensions and unprecedented fiscal expansion triggered the sharpest inflationary pressures in decades, forcing central banks into one of the fastest tightening cycles in modern history.

Federal Funds Rate – The Normalisation Phase

Date	Fed Funds Target Rate	Date	Fed Funds Rate
Mar-22	0.25–0.50%	**Jul 2023 (Peak)**	5.25–5.50%
May-22	0.75–1.00%	**Sep-24**	4.75–5.00%
Jun-22	1.50–1.75%	**Dec-24**	4.25–4.50%
Jul-22	2.25–2.50%	**Mar-25**	4.00–4.25%
Sep-22	3.00–3.25%	**Jun-25**	3.75–4.00%
Nov-22	3.75–4.00%	**Dec-25**	3.50–3.75%
Dec-22	4.25–4.50%	**Current (Jul 2026)**	**3.50–3.75%**

Although the Federal Reserve has begun easing policy from its 2023 peak, this should not be interpreted as a return to the post-GFC monetary regime. We believe the long-run neutral interest rate is likely to remain structurally higher than during the 2010s.

Several structural forces support this view.

Governments across developed economies continue to run elevated fiscal deficits while increasing investment in infrastructure, defence, semiconductor manufacturing and energy security. At the same time, corporations are entering one of the largest capital investment cycles in decades, driven by AI infrastructure, manufacturing expansion, industrial automation, supply-chain diversification and energy transition. Simultaneous demand for capital from both the public and private sectors is likely to keep the cost of capital structurally higher than in the previous decade.

Demographic trends reinforce this shift. Ageing populations are slowing labour-force growth, increasing the need for productivity-enhancing investment while supporting structurally higher real interest rates.

We therefore expect the coming decade to be characterised by higher nominal growth, moderately higher inflation and interest rates that remain above the exceptionally low levels experienced between 2008 and 2022. This should not be viewed negatively; rather, it reflects an economy investing in productive assets and long-term competitiveness.

The investment implications are significant. Future equity returns are likely to depend far more on earnings growth, productivity improvements and disciplined capital allocation than on valuation expansion alone.

Businesses with strong balance sheets, sustainable free cash flow, pricing power and the ability to consistently earn returns above their cost of capital should command increasing valuation premiums. Conversely, companies dependent on excessive leverage or inexpensive financing may face a more challenging environment.

This reinforces the case for active investing. As capital becomes more expensive and return dispersion widens, business quality is likely to become an increasingly important determinant of long-term investment performance.

The period between 2008 and 2022 should therefore be viewed as an exception rather than the norm. The coming decade is likely to reward productivity, innovation and efficient capital allocation far more than abundant liquidity.

Government Policy Is Becoming a Structural Growth Driver

Government policy is emerging as a far more important driver of long-term economic growth than it was during the previous decade. For much of the post-GFC period, monetary policy carried the primary burden of supporting growth while fiscal policy remained relatively restrained. That framework is now changing.

Governments across major economies are increasingly using industrial policy, fiscal incentives and strategic investment programmes to strengthen economic resilience, accelerate technological leadership and reduce dependence on external supply chains. Semiconductors, clean energy, defence, critical minerals, transportation infrastructure and digital connectivity have become strategic priorities rather than purely commercial investments.

Rather than crowding out private investment, public spending is increasingly crowding it in. Government incentives encourage corporations to expand manufacturing capacity, invest in advanced technologies and strengthen domestic supply chains, while financial institutions provide the capital required to finance these investments. Engineering, construction and industrial businesses, in turn, execute large-scale infrastructure programmes.

The result is a reinforcing cycle in which public policy accelerates private investment and capital formation. We believe this represents another defining feature of the emerging investment regime and an important structural driver of the broader capital expenditure cycle.

Navigating Short-Term Volatility Within a Long-Term Structural Trend

Our long-term outlook remains constructive, but the path ahead is unlikely to be linear. Financial markets will continue to experience periodic volatility driven by geopolitics, inflation, monetary policy, trade developments and commodity prices. While these factors will shape short-term sentiment, they should be viewed within the context of a much larger structural transformation.

History shows that every secular investment cycle experiences periodic corrections. We expect the current cycle to be no different. Geopolitical tensions, evolving trade policies and energy security concerns may create near-term uncertainty, but they also reinforce many of the structural themes underpinning our investment thesis by accelerating investment in infrastructure, manufacturing, defence and supply-chain resilience.

Similarly, monetary policy should not be viewed through the lens of the post-GFC era. While policy rates will continue to respond to inflation and growth, we believe the broader environment will remain characterised by structurally higher capital investment and a more normal cost of capital.

Commodity prices are also likely to remain volatile as demand for energy, industrial metals and critical minerals rises alongside investment in AI infrastructure, electrification and advanced manufacturing.

For long-term investors, periods of market volatility should be viewed as part of the investment cycle rather than a challenge to the structural thesis. Such corrections often provide opportunities to accumulate high-quality businesses positioned to benefit from enduring structural trends.

Portfolio Positioning

If our thesis is correct, investors should increasingly position portfolios around businesses benefiting from long-duration capital investment rather than short-term macroeconomic cycles.

We continue to favour:

- **AI enablers**, including semiconductors, digital infrastructure, power equipment and engineering services.
- **Industrials, capital goods and infrastructure companies** benefiting from sustained global capital expenditure.

- **Utilities and energy infrastructure** supporting electrification and rising power demand.
- **Manufacturing, automation and supply-chain beneficiaries** positioned to benefit from the reconfiguration of global production.
- **Financial institutions** positioned to finance the next investment cycle. Sustained capital expenditure across infrastructure, manufacturing, energy and technology should drive long-term growth in corporate lending, project finance, capital markets activity and transaction banking. Well-capitalised banks and diversified financial institutions are therefore likely to be key beneficiaries of this structural investment cycle.
- **High-quality businesses** with strong balance sheets, robust free cash flow, disciplined capital allocation and durable competitive advantages.
- **Active investment strategies** capable of identifying structural winners as market leadership broadens across sectors and geographies.

While maintaining conviction in these long-term themes, investors should remain diversified across sectors and geographies. Structural investing is not about concentrating portfolios around a single technology. Rather, it is about participating in the broader ecosystem that enables the next phase of global economic growth.

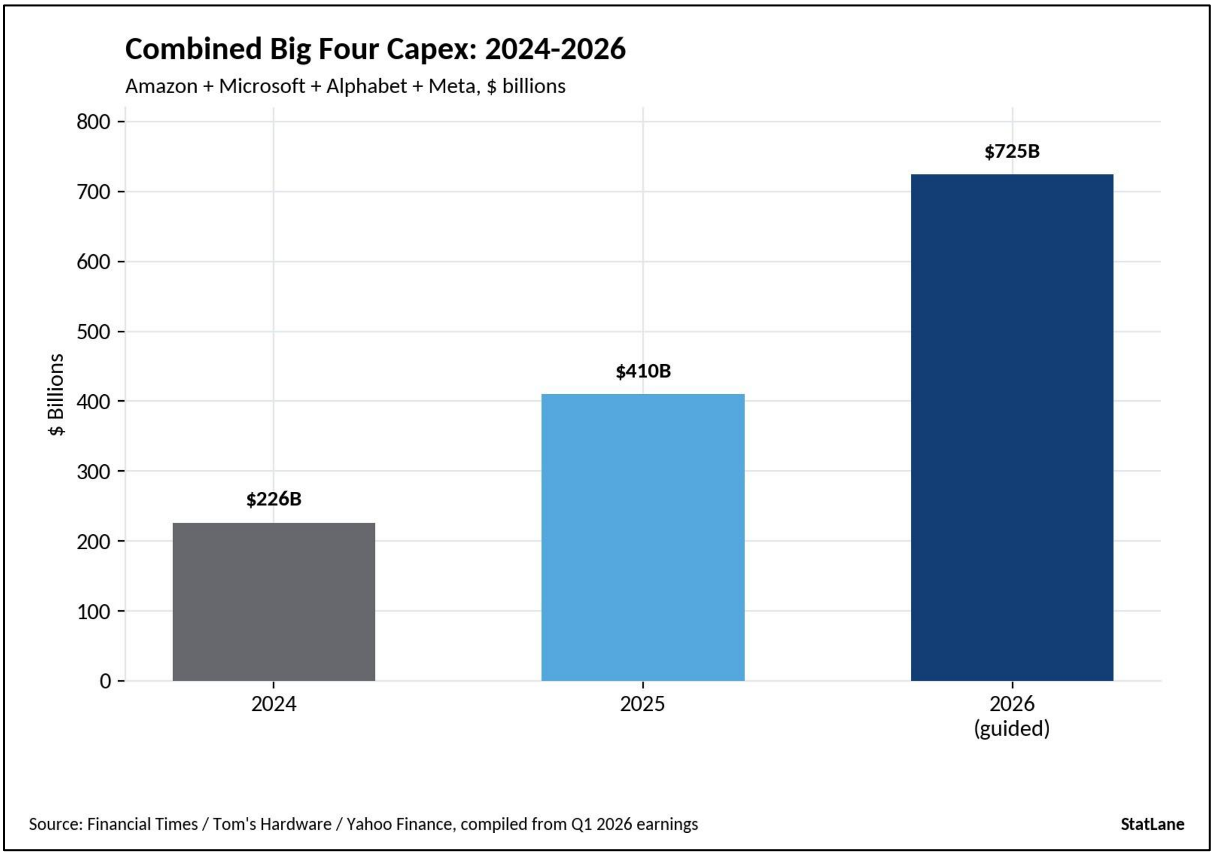
Key Risks to Our Outlook

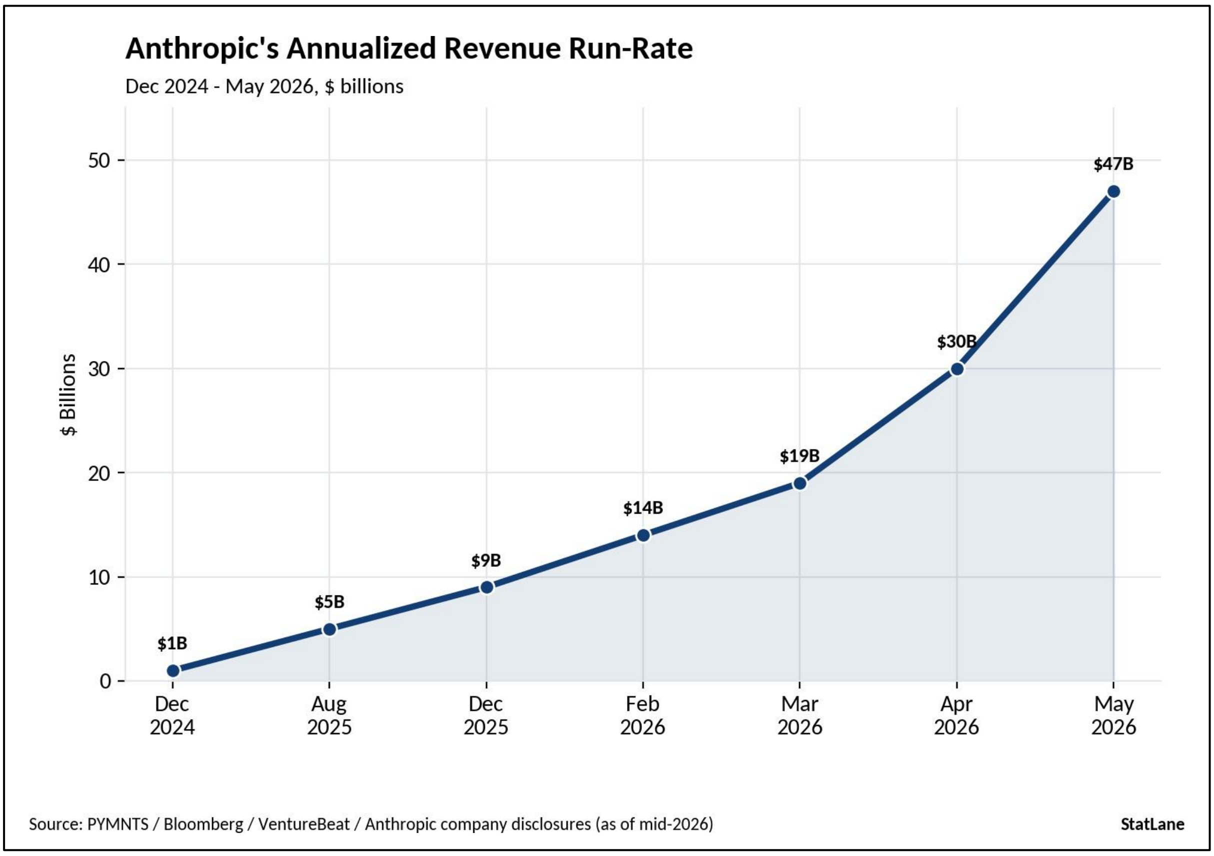
While our long-term outlook remains constructive, several factors could influence the pace and timing of returns.

- **Geopolitical escalation:** A significant disruption to global trade, energy markets or financial conditions could delay capital investment and weaken economic growth.
- **Persistent inflation:** Inflation remaining above central bank targets could keep interest rates elevated, increasing financing costs and weighing on corporate profitability.
- **Fiscal sustainability:** Large fiscal deficits and rising government borrowing may place upward pressure on bond yields and the long-term cost of capital.
- **Valuation risk:** Parts of the technology sector already discount strong future earnings growth, leaving them vulnerable to periods of valuation correction despite favourable long-term fundamentals.
- **Execution risk:** AI adoption and productivity gains may take longer to materialise than markets currently anticipate, while policy and regulatory developments could periodically influence sector leadership.

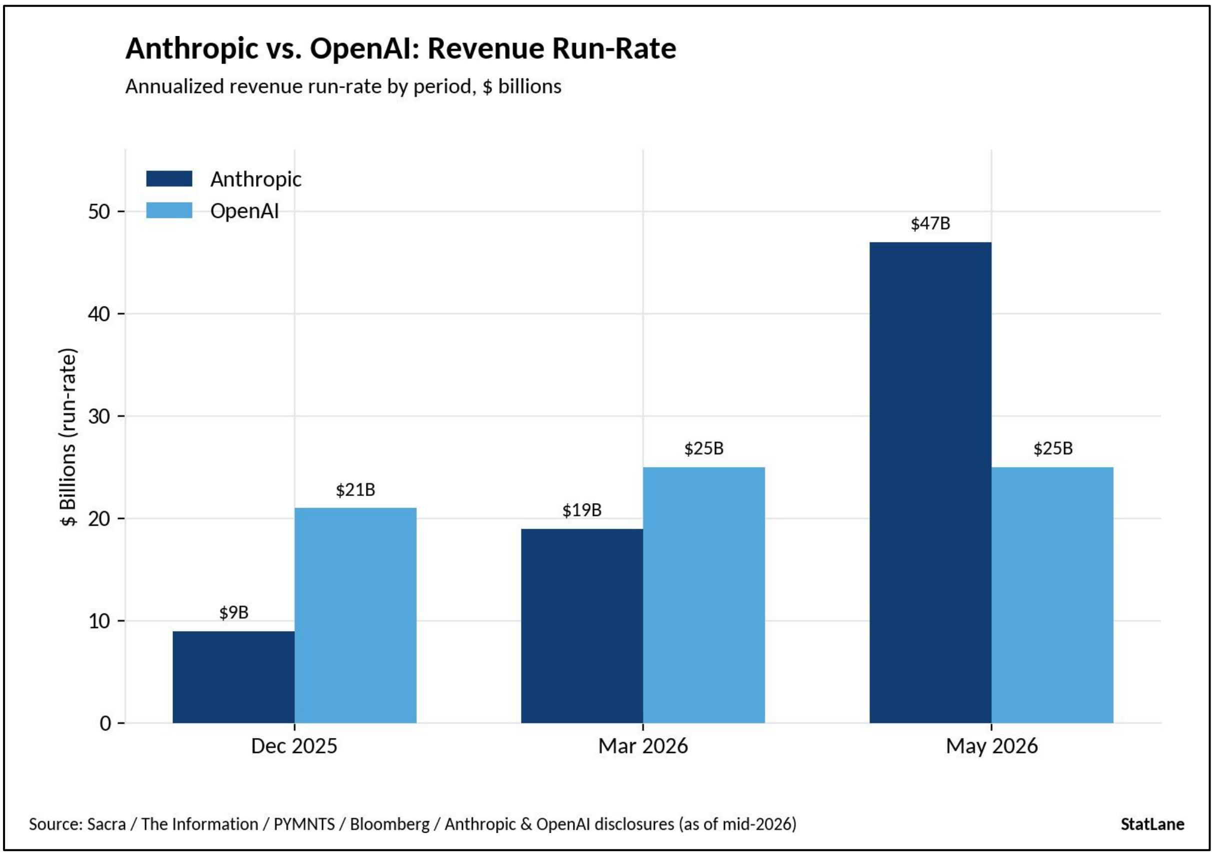
While these risks may create short-term volatility, we do not believe they materially alter the long-term structural investment thesis presented in this report.

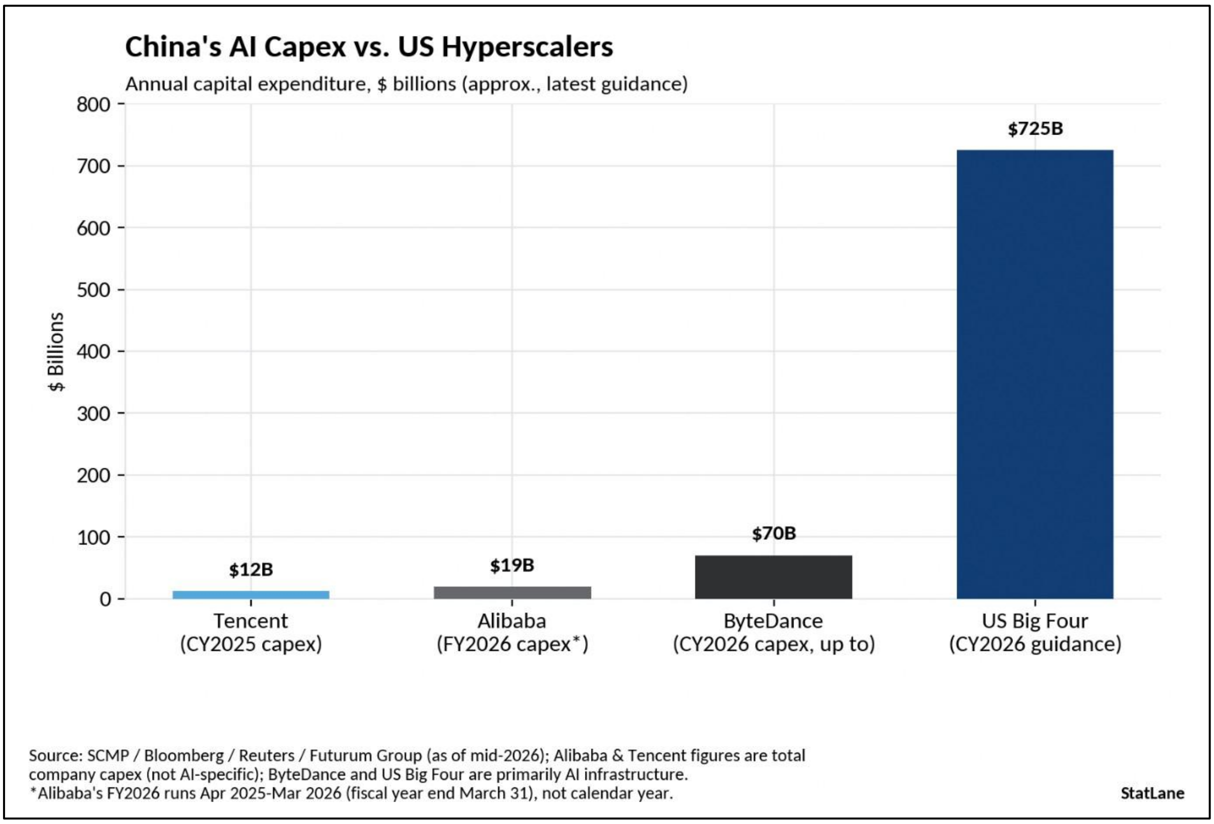
AI Infrastructure & Revenue Race





AI Infrastructure & Revenue Race





Oil Prices Stayed Calm During the War -But the Safety Net Is Almost Used Up

Source: *Jean-Marc Natal and Azim Sadikov, "The Oil Market Absorbed the War Shock, but Buffers Are Running Low," IMF Blog, International Monetary Fund, July 15, 2026. Summary and commentary below are our own.*

Full article: *https://www.imf.org/en/blogs/articles/2026/07/15/the-oil-market-absorbed-the-war-shock-but-buffers-are-running-low*

Background: A Historic Disruption, A Muted Response

The war in the Middle East triggered the largest disruption to the global oil market in decades -by some measures larger than the 1973 oil shock or the 1990 Gulf War. The conflict effectively closed the Strait of Hormuz, cutting off roughly 20 million barrels a day of crude and refined products, about a fifth of world consumption. On paper, a shock of this size should have sent prices sharply higher. Instead, after an initial spike when hostilities began, crude settled into a $90–100 per barrel range -elevated, but well below the levels many analysts and energy desks had modelled going into the conflict.

Why Prices Didn't Explode: Three Shock Absorbers

- Starting cushion -the market entered the crisis already in surplus, with global production running about 2 million barrels a day above demand.
- Demand adjustment -higher fuel prices pushed industry and power generation, particularly across Asia, to cut oil use or switch to coal and renewables.
- Supply response and inventories, non-Gulf output rose almost 2 million barrels a day above 2025 levels, led by the US, with Venezuela, Guyana, and Russia also contributing. Commercial and strategic inventory drawdowns covered an estimated 4.1 million barrel a day deficit over March–May.
- Rerouting around the chokepoint - Saudi Arabia shifted crude through its pipeline to the Red Sea port of Yanbu; the UAE ran its Fujairah export terminal, located outside the strait, close to full capacity.

The Warning: Buffers Are Now Largely Spent

Each of these cushions has been heavily drawn on. Spare production capacity has been deployed, demand has already adjusted as far as it comfortably can, and inventories are run down. The market's remaining room to absorb another shock is now considerably smaller than it was in the spring, meaning a fresh disruption, whether a regional escalation or an unrelated supply outage, could move prices far more sharply than the initial shock did.

Recovery also carries a lag even in the best case. A durable US–Iran agreement that reopens Hormuz would still, on industry estimates, take two to three months before a meaningful share of stranded oil reaches global markets, as shipping schedules, insurance coverage, and tanker operations gradually normalize. There is also a longer-term risk that prolonged shutdowns permanently impair output in fields and regions where financing to restart operations is limited, meaning some lost supply may never fully return.

Scale of the Shock in Historical Context

The IMF frames this as the largest oil-market disruption in decades, exceeding the scale of the 1973 Arab oil embargo and the 1990–91 Gulf War in terms of barrels affected. Before the conflict, global oil production already exceeded demand by roughly 2 million barrels a day, providing an initial cushion that earlier historical shocks did not always have. That starting surplus combined with faster and larger non-Gulf supply growth than in past crises, is a key reason prices stabilized well below the peaks seen in previous major disruptions, even though the physical volume of oil affected this time was larger.

Wider Economic Spillovers

Beyond the direct price effect, the IMF's broader analysis of the conflict points to uneven spillovers across economies. Energy-importing countries and those with limited fiscal or reserve buffers are more exposed to higher import bills for fuel and related goods, which can widen trade deficits and pressure currencies. Higher yields and wider credit spreads in some emerging markets have raised debt-service burdens and complicated refinancing. By contrast, economies with deep domestic capital markets, and commodity exporters with ample buffers, have generally been better positioned to absorb the stress, even if not fully insulated from higher risk premium.

IMF's Three Lessons for Policymakers

- Rebuild strategic and commercial oil inventories that were drawn down during the crisis.
- Diversify energy sources and routes to reduce dependence on any single choke point or corridor.
- Support a rapid supply recovery, since the speed of normalization will largely determine how much further damage the global economy sustains.

The IMF's central message is one of conditional relief: the worst-case oil-price scenario was avoided this time, but largely because multiple buffers happened to align simultaneously, a surplus at the outset, flexible demand, spare non-Gulf capacity, and ample inventories. With those buffers now thin, the same conflict continuing, or a new and unrelated disruption, would have less room to be absorbed. Diplomatic progress toward reopening the Strait of Hormuz, and the speed of shipping and insurance normalization that follows, are likely to be the key variables determining whether the market avoids a repeat, more severe test of these depleted defenses in the second half of the year.

U.S. Equities

U.S. exceptionalism remains intact, but higher interest rates are likely to moderate future returns

US equities have continued to outperform most major global equity markets over the past several years, reaffirming the structural advantages of the US economy. While Europe continues to grapple with subdued growth and China faces persistent structural challenges, the US has demonstrated remarkable resilience, supported by stronger domestic demand, superior corporate profitability and continued leadership in technology and innovation. This divergence has translated into sustained earnings outperformance and has reinforced the US as the preferred destination for global capital.

However, after a prolonged period of outperformance, the market is entering a more mature phase of the cycle. Much of the easy gains driven by valuation expansion have already been realised. Going forward, the ability of corporate America to sustain earnings growth in a higher interest rate environment will determine whether US equities continue to outperform global peers.

Earnings continue to justify optimism

Corporate earnings remain the strongest pillar supporting US equities. Despite higher borrowing costs, companies have consistently demonstrated resilience through strong pricing power, disciplined cost management and continued productivity improvements. The AI investment cycle has further strengthened the earnings outlook, driving unprecedented capital expenditure across cloud infrastructure, semiconductors and digital platforms. Consensus bottom-up 2027 EPS for the S&P 500 index has risen from ~USD357 at the start of the year to ~USD400, an unusually large upward revision that remains the strongest pillar of the bull case and helps explain why the ytd rally has been earnings rather than sentiment driven. However the picture is more mixed, Microsoft's cloud division posted its fastest growth in four years Wednesday evening, while Meta's forward guidance was comparatively soft and Qualcomm missed on memory-segment weakness earlier in the week, extending the chip-name rout.

Importantly, earnings growth is gradually becoming broader. While mega-cap technology companies continue to lead, improving profitability across financials, industrials and healthcare suggests that market leadership is beginning to widen. This is a healthier backdrop than one driven solely by a handful of technology stocks and improves the sustainability of the current bull market.

The next phase of the market, however, is unlikely to reward AI investment announcements alone. Investors are increasingly demanding evidence that elevated capital expenditure translates into sustainable revenue growth, margin expansion and stronger free cash flow. Companies demonstrating superior capital allocation and earnings quality are therefore likely to command a greater valuation premium.

Economic resilience continues to distinguish the US

The US economy has remained remarkably resilient despite policy rates being at their highest levels in nearly two decades. Consumer spending has held up well, labour markets remain relatively healthy and business investment continues to benefit from manufacturing reshoring, infrastructure spending and artificial intelligence-led capital expenditure.

Although economic growth is expected to moderate from the robust pace witnessed over the past two years, current growth remains sufficiently strong to support corporate earnings while avoiding a meaningful deterioration in labour market conditions. Compared with other developed economies, the US continues to offer a superior macroeconomic backdrop for equity investors.

A more hawkish Federal Reserve changes the market narrative

The latest Federal Reserve meeting marked an important shift in market expectations. While policy rates were left unchanged, the Committee's communication and the unusually large number of dissents favouring an immediate rate increase reinforce that inflation remains a key concern for policymakers. Markets have consequently increased the probability of an additional rate hike over the coming months.

This represents an important change in the investment environment. Earlier expectations that monetary policy would gradually become supportive are now giving way to the prospect of interest rates remaining restrictive for longer. Consequently, liquidity is unlikely to provide the same support to equity valuations that investors had anticipated at the beginning of the year.

A higher-for-longer policy environment does not necessarily derail the earnings cycle, but it does imply that equity markets will become increasingly sensitive to inflation data, labour market conditions and Federal Reserve communication. Periods of elevated volatility should therefore be expected rather than viewed as a deterioration in the long-term investment outlook.

Valuations warrant greater selectivity

US equities continue to trade at a premium relative to both their historical averages and most international markets. While superior earnings quality, stronger returns on capital and structural leadership in innovation justify part of this premium, elevated valuations reduce the market's margin of safety.

The valuation premium also remains highly concentrated within a relatively small group of mega-cap technology companies. Beyond these leaders, several sectors continue to trade at more reasonable valuations despite improving earnings prospects. We therefore expect future market returns to become increasingly driven by earnings growth and stock selection rather than further expansion in valuation multiples.

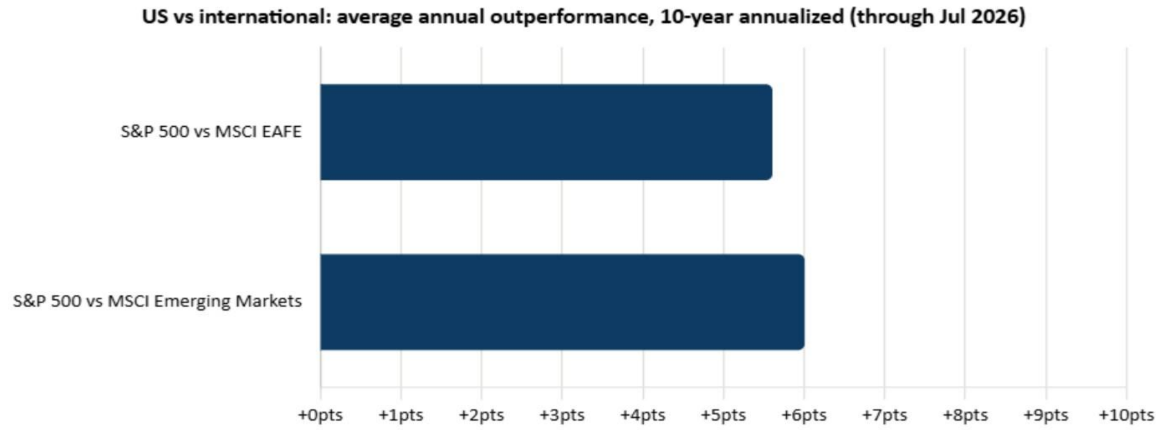
Key Risks

The principal risk to our outlook is that inflation proves more persistent than currently anticipated, compelling the Federal Reserve to resume policy tightening and pushing bond yields higher. Such an environment would place further pressure on equity valuations, particularly within long-duration growth stocks.

Additional risks include slower monetisation of AI investments, renewed geopolitical tensions disrupting energy markets or semiconductor supply chains, and rising fiscal deficits leading to sustained upward pressure on long-term interest rates. While these risks are unlikely to alter the long-term structural advantages of US equities, they could result in higher volatility and a more moderate return environment over the coming quarters.

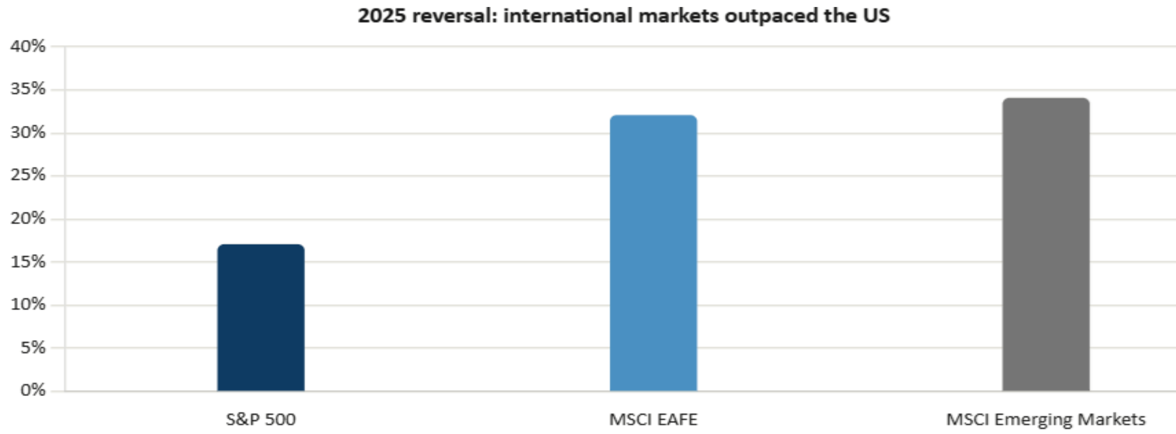
U.S. Equities vs. the rest

U.S.'s decade long edge is still intact but has narrowed from roughly +7.7/+8.8% a year (through 2024) to +5.6/+6.0 points a year (through July 2026)



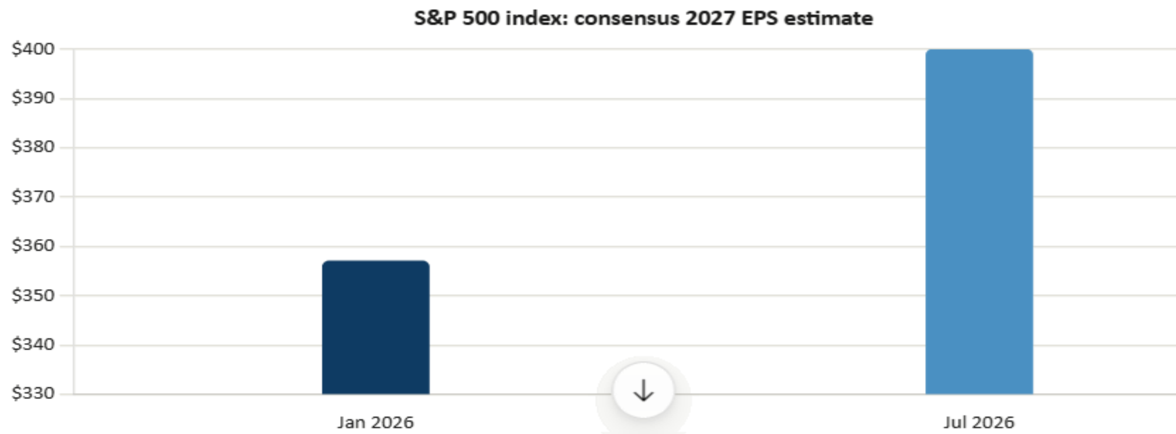
Source: Wespath Institutional Investment, weekly market performance summary, 10-year annualized returns as of July 24, 2026 (S&P Dow Jones Indices, MSCI, total return, USD)

the reversal of 2025!



Source: Madison Partners market research, based on MSCI and S&P total-return indices (USD), full-year 2025

And it's the Super Earnings that is driving returns



U.S. Bonds

Higher yields have restored the attractiveness of fixed income, but the long end remains vulnerable

US fixed income has re-emerged as an attractive asset class following one of the sharpest interest rate adjustment cycles in decades. After years of exceptionally low yields, investors can once again generate meaningful income from high-quality bonds. However, the market is now being influenced less by expectations of policy easing and more by concerns around persistent inflation, elevated fiscal deficits and rising Treasury supply.

The recent Federal Reserve meeting has reinforced this shift. Although the policy rate remained unchanged, the Committee's hawkish tone and increasing market expectations of another rate hike suggest that restrictive monetary policy is likely to remain in place for longer than previously expected. Consequently, long-term bond yields have continued to move higher as investors demand greater compensation for inflation and duration risk.

Inflation and fiscal dynamics continue to shape bond markets

Inflation has moderated significantly from its post-pandemic highs, but progress towards the Federal Reserve's target has become increasingly gradual. Sticky services inflation, resilient economic activity and periodic energy price shocks continue to present upside risks to inflation expectations.

At the same time, elevated fiscal deficits and substantial Treasury issuance have become structural drivers of higher long-term yields. Unlike previous cycles where bond yields were influenced primarily by monetary policy, today's market is increasingly reflecting concerns around fiscal sustainability and a higher term premium.

These factors suggest that even if policy rates eventually peak, longer-duration Treasury yields may remain structurally higher than investors have become accustomed to over the past decade.

Income has become more attractive than capital appreciation

Current yield levels provide investors with an opportunity to lock in attractive income that has been unavailable for many years. High-quality government and investment-grade corporate bonds now offer compelling carry, improving the role of fixed income as both an income-generating asset and a portfolio diversifier.

In the current environment, maintaining exposure to high-quality government and investment-grade corporate bonds remains the preferred strategy. Credit spreads continue to trade near historical lows, limiting the additional compensation available from lower-rated securities.

We also favour intermediate duration exposure over exposing portfolios to long duration bonds. Intermediate maturities provide an attractive balance between income generation and interest rate risk while offering greater flexibility should inflation or Federal Reserve expectations change.

Should inflation moderate more decisively and economic growth slow materially, opportunities to extend duration may emerge. Until then, maintaining a balanced duration profile remains appropriate.

Key Risks

The primary risk to fixed income markets is a further rise in inflation that compels the Federal Reserve to tighten policy beyond current market expectations. Higher Treasury issuance and widening fiscal deficits could also continue pushing long-term yields higher even without additional policy tightening.

Conversely, a sharper-than-expected slowdown in economic growth could lead to a more rapid decline in yields, benefiting duration-sensitive assets but widening corporate credit spreads. Geopolitical developments, particularly those affecting global energy markets, remain an additional source of volatility for both inflation and bond markets.

Indian Economy

Snapshot

Indicator	Period	Latest Value
Real GDP growth	FY25-26 (actual)	7.7% y-o-y
	FY26-27 (IMF, Jul-26)	6.4% (RBI: 6.6%)
CPI inflation	June 2026	4.38% y-o-y
WPI inflation	June 2026	9.87% y-o-y
RBI repo rate	Since 5 Jun 2026	5.25% (neutral stance)
Fiscal deficit	FY26-27 target	4.3% of GDP
Merchandise trade deficit	June 2026	USD30.43 bn
Forex reserves	17 Jul 2026	USD676.2 bn
Bank credit growth	Fortnight to 27 Jun 2026	18.6% y-o-y (2-yr high)
Rupee (USD/INR)	Late July 2026	~95.7-96.9

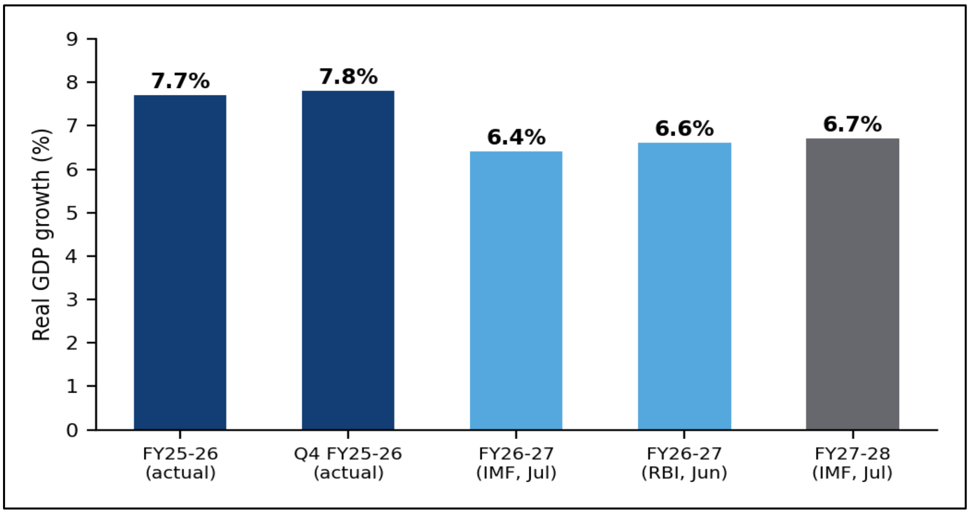
Sources: MoSPI; Ministry of Finance (CGA); Ministry of Commerce & Industry; RBI; IMF; S&P Global/HSBC PMI; various financial media (July 2026).

Economic Growth

India's economy remained resilient in FY2025-26, with GDP expanding by **7.7%** (Provisional Estimates released on 5 June 2026), accelerating from **7.1%** in FY2024-25 and surpassing the government's initial guidance. Growth remained particularly strong in the final quarter, with **Q4 (January-March 2026) GDP rising 7.8% year-on-year**, the fastest quarterly expansion since the base-year revision. The next official GDP release, covering **Q1 FY2026-27 (April-June 2026)**, is scheduled for **31 August 2026**.

In the absence of fresh growth data, attention has shifted to forward-looking estimates. In its July World Economic Outlook Update, the IMF marginally lowered India's FY2026-27 growth forecast to **6.4%** from **6.5%** projected in April, while raising its FY2027-28 forecast to **6.7%** from **6.5%**, reflecting expectations that the impact of elevated global energy prices will gradually subside as the West Asia energy shock fades next year. The RBI adopted a relatively more cautious stance during its June Monetary Policy Committee meeting, revising its FY2026-27 GDP growth forecast down to **6.6%** from **6.9%**, while simultaneously increasing its inflation projection to **5.1%** from **4.6%**. This combination of moderating growth and rising inflation has led some economists to highlight the emergence of mild stagflationary risks. S&P Global has also projected growth of around **6.6%**, citing persistent energy price pressures and a weaker-than-normal monsoon.

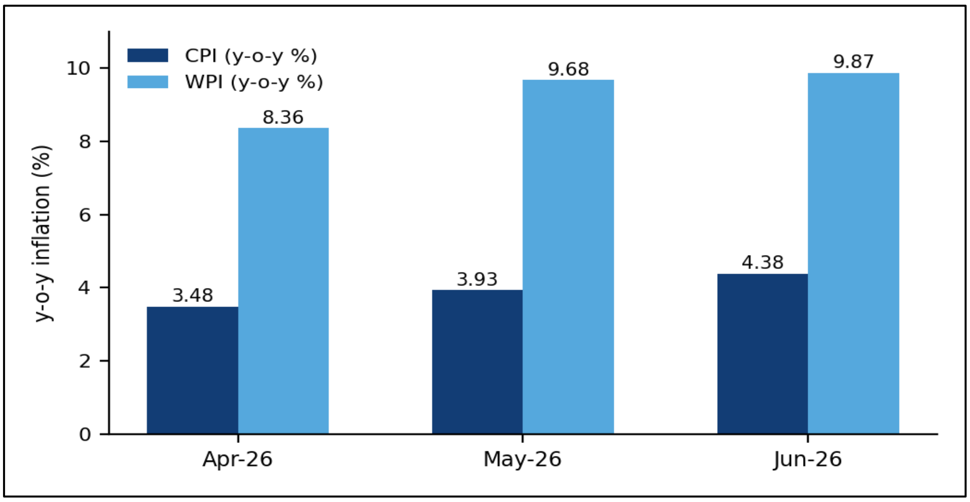
GDP and Outlook



Inflation – CPI & WPI

Inflationary pressures strengthened during the first quarter of FY2026-27, with headline Consumer Price Index (CPI) inflation (2024-base series) rising to **4.38% year-on-year in June 2026**, compared with **3.93% in May** and **3.48% in April**, marking its highest reading in nearly one-and-a-half years. The increase primarily reflected the delayed transmission of higher global energy prices following the West Asia conflict, coupled with an uneven onset of the monsoon that pushed up transportation and food prices. Transport inflation accelerated to **4.31%**, while food inflation (CFPI) rose to **5.32%** in June from **4.78%** in May, led by a sharp increase in vegetable prices, including ginger (up over 50%) and tomatoes (up nearly 32%). Housing inflation, however, remained relatively benign at around **2.0-2.1%** throughout the quarter.

Wholesale inflation also remained elevated. The Wholesale Price Index (WPI) increased to **9.87% in June**, compared with **9.68% in May** and a revised **8.36% in April**. Fuel & Power inflation remained the primary driver at **27.41%**, although it moderated from **30.33%** in May. Primary Articles inflation strengthened to **7.0%** from **4.99%**, while the WPI Food Index rose to **6.14%** from **4.49%**. Looking ahead, the RBI continues to identify geopolitical developments in West Asia and weather-related risks associated with El Niño as the key variables influencing the inflation trajectory during the second half of FY2026-27, prompting it to raise its full-year CPI inflation forecast to **5.1%**.



Monetary Policy & Interest Rates

The RBI's Monetary Policy Committee kept the repo rate unchanged at 5.25% during its policy meeting held between 3-5 June 2026, marking the second consecutive policy pause while unanimously maintaining a neutral policy stance. The Standing Deposit Facility (SDF) rate remains at 5.00%, while the Marginal Standing Facility (MSF) rate and Bank Rate continue at 5.50%. The Cash Reserve Ratio (CRR), which had earlier been reduced from 4% to 3%, also remains unchanged.

Governor Sanjay Malhotra noted that monetary policy had become "more cautious" in response to the continuing geopolitical uncertainty in West Asia. Reflecting this cautious outlook, the MPC revised down its FY2026-27 growth forecast to 6.6% while increasing its inflation forecast to 5.1%.

Beyond policy rates, the RBI also announced a series of capital account measures aimed at improving foreign capital inflows and supporting the rupee. These included a concessional swap facility for fresh FCNR(B) deposits, expanded Fully Accessible Route (FAR) access for longer-tenor government securities and the removal of FPI limits on short-term investments under the general route. The next MPC meeting is scheduled for **5 August 2026**, with market consensus currently expecting another status quo, although some market participants have suggested that the RBI could resort to unconventional liquidity measures should pressure on the rupee or domestic bond markets intensify.

Fiscal Position

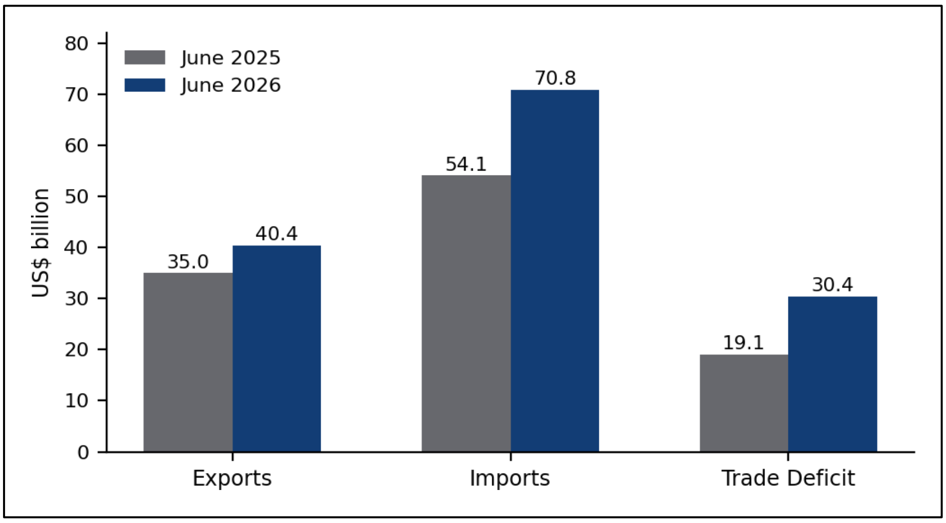
The Central Government concluded FY2025-26 with a fiscal deficit of approximately **₹15.2 lakh crore**, equivalent to **4.4% of GDP**, in line with the revised budget estimate and an improvement over **4.8% of GDP** recorded in FY2024-25. For FY2026-27, the Union Budget targets a further reduction in the fiscal deficit to **4.3% of GDP**, while simultaneously maintaining a strong focus on capital formation through a record budgeted capital expenditure of **₹12.22 lakh crore**.

Fiscal execution during the initial months of the financial year has been uneven. The fiscal deficit widened sharply to nearly **₹3.6 lakh crore** in April, almost double the corresponding level a year earlier, primarily due to front-loaded expenditure on fuel and fertiliser subsidies amid elevated crude oil prices. However, the RBI's record dividend transfer of **₹2.9 lakh crore**, received on **22 May 2026**, significantly boosted non-tax revenues and reduced the cumulative fiscal deficit for April-May to around **₹1.6 lakh crore**, equivalent to **9.6%** of the full-year budget target. During April-May, total government expenditure increased **18.1% year-on-year** to **₹8.8 lakh crore**, including capital expenditure of **₹2.5 lakh crore**, while total receipts declined **2%** to **₹7.2 lakh crore**, reflecting largely unchanged net tax collections.

External Trade

India's merchandise trade deficit widened sharply to a five-month high of **USD30.43 bn** in June 2026, representing an increase of nearly **59% year-on-year**. Merchandise imports rose **31.0%** to **USD70.84 bn**, driven primarily by higher imports of crude oil, gold and electronic goods, with crude imports increasing by over **40%** and electronics imports by **59%**. Merchandise exports also remained robust, increasing **15.5%** year-on-year to **USD40.41 bn**, although this growth was insufficient to offset the stronger rise in imports. According to Commerce Secretary Rajesh Agrawal, the increase in imports was largely attributable to higher international prices rather than higher import volumes.

Including services, total exports for June were estimated at **USD73.45 bn**, while total imports stood at **USD88.76 bn**. During the first quarter of FY2026-27, merchandise exports reached a record **USD129.32 bn**, an increase of **15.9%**, while merchandise imports grew even faster to **USD216.18 bn**, up **19.9%** year-on-year. Combined exports of goods and services touched an all-time quarterly high of **USD232.73 bn**, representing growth of **11.4%**. The United States remained India's largest export destination, followed by the UAE, Singapore and China, while exports to ASEAN and Africa recorded particularly strong growth, highlighting India's continued success in diversifying its export markets.



Current Account, Capital Flows & the FCNR(B) Swap Facility

India recorded a **current account surplus of USD7.1 bn**, equivalent to **0.7% of GDP**, during the fourth quarter of FY2025-26, supported by strong net services receipts of **USD60.4 bn** and remittance inflows of **USD41.3 bn**. Nevertheless, for FY2025-26 as a whole, the current account deficit widened modestly to **USD25.2 bn (0.6% of GDP)** from **USD22.9 bn** in the previous year, largely reflecting a merchandise trade deficit of **USD337.3 bn**.

With merchandise imports continuing to outpace exports during the opening quarter of FY2026-27, most economists expect the current account deficit to widen further this year. However, SBI Research has adopted a relatively constructive outlook following the RBI's recent capital account measures, projecting the FY2026-27 current account deficit at 1-1.2% of GDP.

A key pillar supporting this optimism is the RBI's concessional FCNR(B) swap facility, introduced on 8 June 2026, which remains open until 30 September 2026 for FCNR(B) deposits and until 31 December 2026 for overseas foreign currency borrowings (OFCBs) and External Commercial Borrowings (ECBs). As of 17 July 2026, the facility had mobilised USD20.7 bn, comprising USD17.4 bn through FCNR(B) deposits, USD2 bn via OFCBs and USD1.3 bn through ECBs. SBI Research estimates total FCNR(B) mobilisation of USD65-70 bn over the life of the scheme, rising to USD80-85 bn when OFCBs and ECBs are included. Combined with expected FDI inflows of USD15-18 bn and remittances exceeding USD150 bn, these inflows could potentially result in a balance of payments surplus exceeding USD50 bn during FY2026-27, compared with earlier expectations of a sizeable deficit.

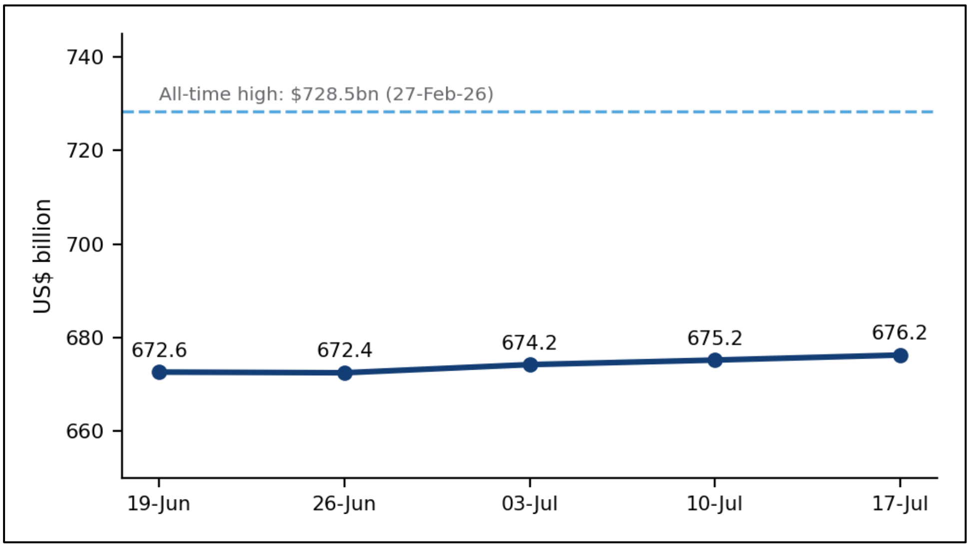
Under the scheme, banks are permitted to swap fresh FCNR(B) dollar inflows with the RBI at concessional rates. In addition, the RBI has removed interest rate ceilings on FCNR(B) and NRE deposits, prompting several banks to raise FCNR(B) deposit rates by as much as **450bps** to attract overseas deposits.

Net FDI inflows stood at **USD7.7 bn** during FY2025-26, reflecting a recovery in foreign direct investment, while foreign portfolio investors remained net sellers of Indian equities to the tune of approximately **USD16.4 bn**, largely due to heightened global risk aversion arising from the West Asia conflict. Consequently, portfolio flows are expected to remain a key determinant of external sector stability during the remainder of FY2026-27.

Foreign Exchange Reserves

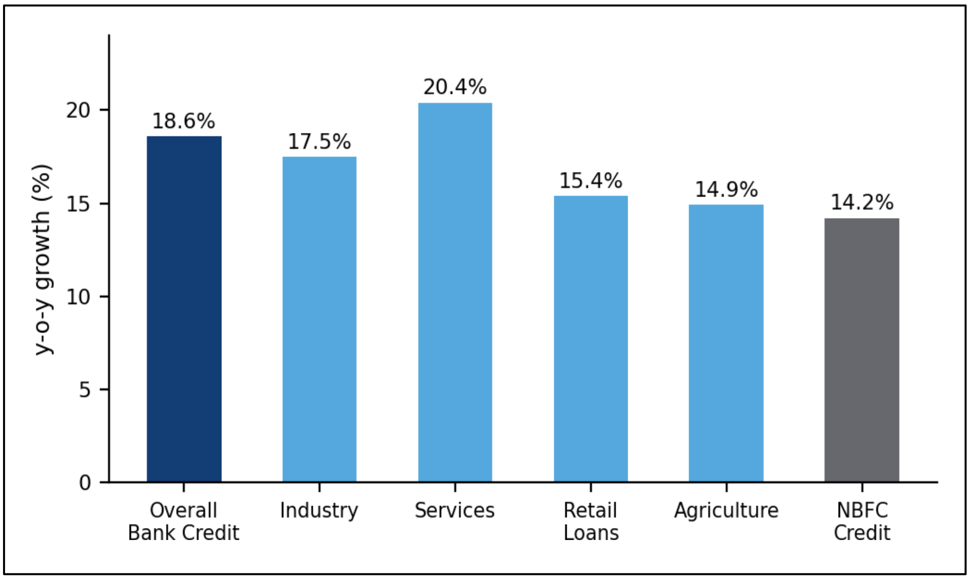
India's foreign exchange reserves stood at **USD676.24 bn** for the week ended **17 July 2026**, extending their recovery for a fifth consecutive week. Reserves had previously reached a record high of **USD728.49 bn** during the week ended **27 February 2026**, before escalating geopolitical tensions in West Asia triggered sustained RBI intervention through dollar sales to stabilise the rupee, resulting in a subsequent decline in reserves.

The recent recovery has been supported by inflows under the FCNR(B) swap scheme alongside a stabilisation of the rupee, with improvements recorded across both foreign currency assets and gold holdings. Separately, Prime Minister Narendra Modi has repeatedly urged citizens since May 2026 to help conserve India's foreign exchange reserves by moderating discretionary foreign travel, reducing fuel consumption and limiting gold purchases.



Banking -Credit & Deposit Growth

Scheduled commercial banks' credit growth accelerated to an over two-year high of 18.6% y-o-y in the fortnight ended 27 June 2026 (from 17.70% in the fortnight ended 15 June). Deposit growth was steady at 12% however continued to trail credit growth, keeping the credit-deposit growth gap above 500bps.



Bank credit growth by sector (y-o-y, as of end-May/June 2026) vs. overall bank and NBFC credit growth.

Source: RBI fortnightly/sectoral credit data, as reported by Business Standard, Outlook Money, 10-27 July 2026.

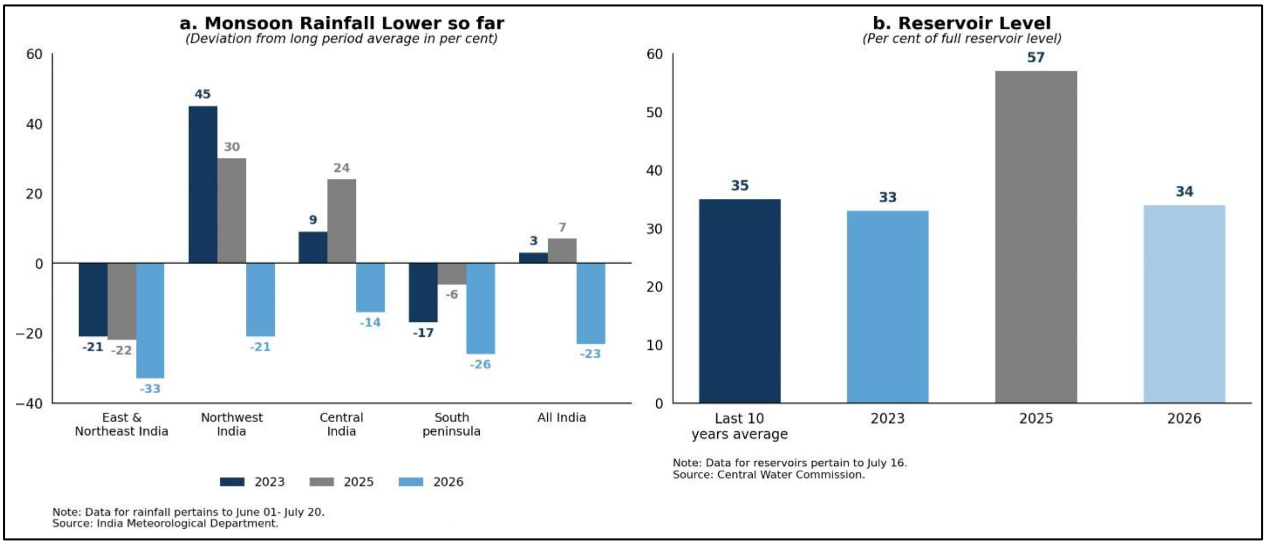
Monsoon & Agriculture

The 2026 southwest monsoon has had one of its weakest starts in over a decade, with June recording a rainfall deficit of nearly 40%—the fifth driest June since 1901. Cumulative rainfall during the **1 June-15 July** period remained **23% below the Long Period Average (LPA)**, with the shortfall concentrated in East & Northeast India (-36%) and the South Peninsula (-26%), while Northwest (-19%) and Central India (-13%) fared relatively better as rainfall improved through July. IMD's July outlook continued to project **below-normal rainfall (<94% of LPA)** for the month.

Kharif sowing, as of **17 July**, stood at **658.19 lakh hectares**, compared with **700.47 lakh hectares** a year earlier (-6.0%). Pulses, coarse cereals, cotton and oilseeds remain behind last year's pace, while rice acreage has largely recovered following improved rainfall. Although the delayed monsoon poses upside risks to food inflation in H2 FY2027, comfortable foodgrain stocks, wider irrigation coverage and improved farm resilience should help limit the broader macroeconomic impact.

Sources: IMD; Ministry of Agriculture & Farmers' Welfare; Reuters; The Indian Express; Mint; Economic Times.

Downside Risks to Agriculture Production



Note: Data as on July 17
Source: Ministry of Agriculture and Farmers' Welfare (MoAFW).

Indian Equities

Indian equities remained resilient during July despite a volatile global environment, with the Nifty trading close to record highs as investors increasingly focused on corporate earnings rather than macro uncertainties. While renewed geopolitical tensions in the Middle East, elevated crude oil prices and trade-related developments continued to influence global markets, India's macroeconomic fundamentals remained relatively strong. Stable domestic growth, moderating inflation, supportive monetary policy and resilient domestic liquidity continue to provide a favourable backdrop for equities. As a result, we believe the market is gradually transitioning from a liquidity-led rally to one where earnings growth will become the primary driver of returns.

One of the key developments over the past month has been the renewed rise in crude oil prices. Brent crude is currently trading around **USD89/bbl**, significantly above levels prevailing before the recent geopolitical flare-up. Although the increase warrants monitoring, it remains well below the extreme levels briefly witnessed during the peak of the Iran conflict. For India, which imports nearly **85%** of its crude oil requirements, sustained higher oil prices pose risks to inflation, the current account deficit and corporate margins. However, India's stronger macroeconomic position, sizeable foreign exchange reserves, improved fiscal discipline and diversified sourcing of crude imports provide a far better cushion than in previous oil cycles.

Global monetary conditions also remain an important determinant of capital flows into emerging markets. The US Federal Reserve maintained interest rates in July, reiterating a cautious and data-dependent approach as inflation continues to moderate while remaining above its long-term target. The absence of further monetary tightening has helped contain global financial volatility, although elevated US bond yields and policy uncertainty continue to influence foreign portfolio flows. For India, a stable global interest rate environment, combined with expectations of gradual monetary easing over the medium term, should remain supportive for foreign capital inflows once corporate earnings strengthen.

Domestically, economic fundamentals continue to remain favourable. The Reserve Bank of India has maintained the repo rate at **5.25%** after delivering a cumulative **125bps** reduction earlier this year. Inflation remains within the RBI's tolerance band despite some upward pressure from food prices and higher crude oil, while improving liquidity conditions and lower borrowing costs are expected to support credit growth, private investment and consumption. Government capital expenditure also remains robust, with continued spending on infrastructure expected to crowd in private investment and sustain domestic economic momentum.

The delayed onset of the southwest monsoon, which emerged as a key concern in our previous note, has improved considerably during July. Rainfall has strengthened across most parts of the country, reducing concerns around agricultural output and food inflation. Healthy reservoir levels, comfortable foodgrain inventories and improving kharif sowing should support rural incomes and consumption during the second half of FY27. While regional rainfall distribution will continue to be monitored, the probability of a meaningful macroeconomic disruption from the monsoon has reduced significantly over the past month.

Domestic liquidity continues to remain the strongest structural support for Indian equities. Systematic Investment Plan (SIP) contributions remain close to record highs, while sustained inflows into equity mutual funds continue to offset periods of foreign portfolio outflows. This growing domestic investor base has fundamentally altered the structure of Indian equity markets, reducing dependence on foreign capital and improving market resilience during episodes of global risk aversion.

Overall, India's investment case remains compelling despite an uncertain global backdrop. Higher crude oil prices and geopolitical developments could create intermittent volatility, while global trade and monetary policy remain key external risks. However, India's relatively strong macroeconomic fundamentals, supportive policy environment, healthy domestic liquidity and improving corporate earnings outlook reinforce our constructive medium-term view on Indian equities. With valuations now closer to their long-term averages, we expect

earnings growth rather than valuation expansion to drive market returns over the next 24-36 months, making disciplined stock selection and sector allocation increasingly important.

Earnings, Valuations and Market Positioning

With macroeconomic risks gradually moderating, investor attention has shifted decisively towards corporate earnings. After two consecutive years of earnings downgrades, the Q1 FY27 earnings season suggests that the earnings cycle is beginning to stabilise. While the recovery remains uneven across sectors, the pace of estimate cuts has slowed materially, management commentary has become more constructive and order books across domestic sectors remain healthy. We believe FY27 has the potential to mark the beginning of a more sustainable earnings recovery, with markets increasingly rewarding earnings delivery over liquidity-driven multiple expansion.

The domestic investment cycle also continues to strengthen. Companies across Capital Goods, Industrials and Infrastructure have reported another quarter of healthy execution and robust order inflows, supported by sustained government infrastructure spending, manufacturing investments and improving private sector capital expenditure. Order books across the sector remain at record levels, providing strong revenue visibility over the next two to three years. We continue to believe that India's capex cycle is still in its early stages and remains one of the most compelling structural investment themes.

Banking sector credit growth continues to remain robust at around 17-18% YoY, supported by healthy retail demand, improving corporate credit offtake and sustained economic activity. Asset quality remains at multi-year highs, with gross NPAs at their lowest levels in over a decade, while strong capital adequacy and benign credit costs provide further support to profitability.

The Pharmaceutical sector has once again demonstrated resilient earnings growth, supported by healthy domestic demand, easing pricing pressure in the US generics market and an improving product pipeline. In contrast, the IT sector continues to face headwinds from cautious discretionary technology spending by global clients, though deal pipelines remain healthy even as conversion timelines have lengthened amid global macro uncertainty.

Consumption trends also appear to be improving. Premium consumption has remained resilient throughout the slowdown, while better monsoon progress, moderating inflation and lower borrowing costs are expected to support a gradual recovery in rural demand during the second half of FY27. We therefore continue to favour businesses with strong brands, pricing power and healthy balance sheets over broad-based exposure to the consumption theme.

Valuations have become considerably more balanced over the past year. While Indian equities continue to trade at a premium to both Emerging Markets and most Asian peers, the relative valuation premium has compressed meaningfully from the elevated levels witnessed during 2023 and late 2024. This has been driven by a combination of earnings catching up with prices in India, a rerating across several global equity markets and improving investor sentiment towards other emerging markets. Consequently, India no longer appears as expensive on a relative basis as it did a year ago.

We believe this moderation in valuation premium should be viewed positively rather than as a sign of weakening fundamentals. India continues to offer one of the strongest structural growth stories globally, supported by superior earnings growth, stronger return on equity, policy stability, improving corporate governance standards and a domestic demand driven economy that is less dependent on global trade than many of its peers. In our view, these structural advantages continue to justify a premium over most emerging markets, although a return to the extreme valuation premiums witnessed over the last two years appears unlikely.

Within India, however, valuation dispersion remains significant. Largecap equities now trade broadly in line with long-term averages, supported by improving earnings visibility, while parts of the mid and smallcap universe continue to discount optimistic earnings expectations even after time and price correction over last 2 years.

Market positioning also remains constructive. Domestic institutional investors continue to provide a strong structural anchor through sustained SIP contributions and equity mutual fund inflows, significantly reducing the market's dependence on foreign capital. At the same time, foreign institutional ownership of Indian equities remains below historical averages. As corporate earnings recover and global risk appetite improves, we believe India is well positioned to attract incremental foreign capital, supported by its resilient macroeconomic fundamentals, improving profitability and long-term structural growth prospects.

Positioning

The investment backdrop has improved meaningfully over the past few months. Macro risks have moderated, earnings expectations have stabilised and relative valuations have become more balanced. While near-term volatility arising from global developments cannot be ruled out, we believe the medium-term outlook for Indian equities remains constructive. Investors should therefore use periods of market weakness to gradually increase equity exposure rather than attempt to time short-term market movements.

Our preference remains towards largecap equities, where valuations are now broadly in line with long-term averages and earnings visibility remains superior. The sharp compression in India's valuation premium over both emerging and developed markets, together with an improving earnings outlook, has enhanced the risk-reward for large-cap stocks. We continue to believe that large caps offer the best combination of quality, earnings visibility and valuation comfort in the current environment.

Within the broader market, we remain selectively constructive on midcaps, particularly companies benefiting from India's structural themes such as manufacturing, infrastructure, financialisation and premium consumption. However, we expect returns to become increasingly stock-specific as broad-based valuation re-rating gives way to an earnings-led market. We therefore remain disciplined in stock selection and continue to avoid businesses where valuations have moved materially ahead of fundamentals.

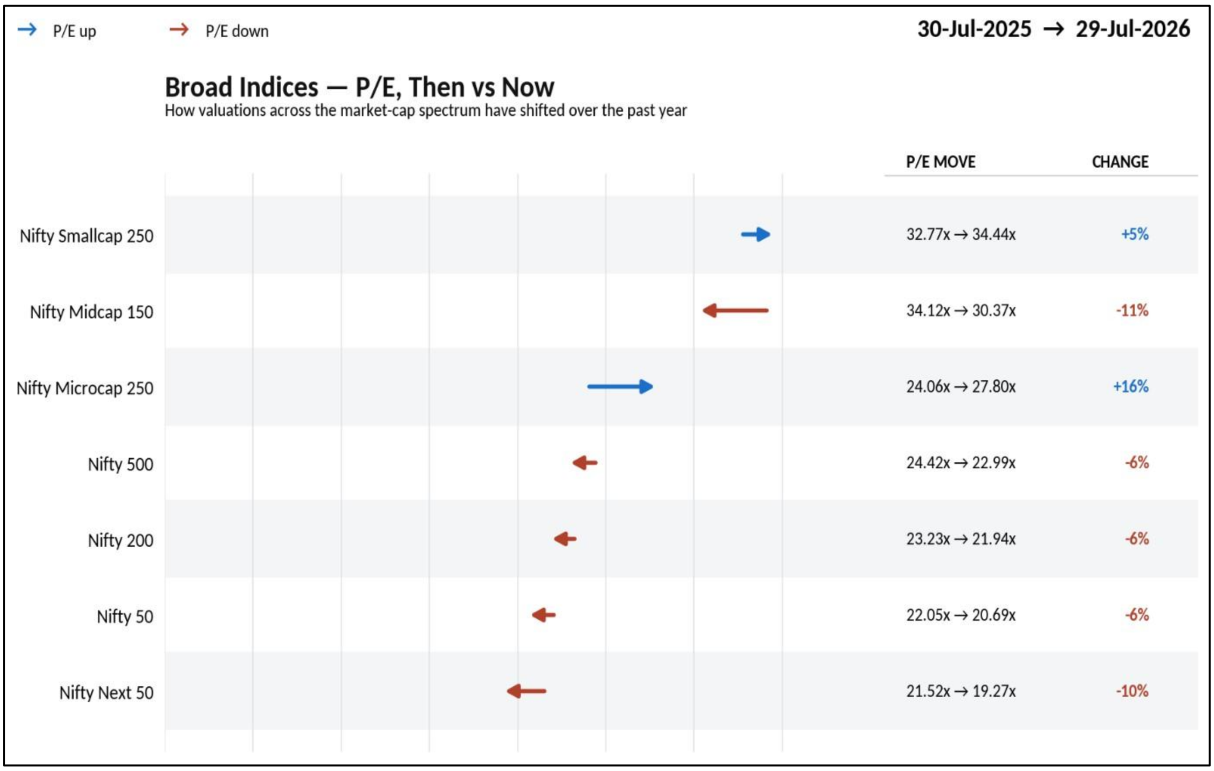
From a sectoral perspective, we continue to favor Banking & Financial Services, Capital Goods, Industrials and Infrastructure, where earnings visibility remains strong and the structural investment cycle continues to strengthen. These sectors remain our highest-conviction overweight positions.

Within Information Technology, we are selective rather than structurally bullish. The sector has become more attractive following the correction in valuations, but earnings recovery remains dependent on a revival in discretionary technology spending globally. We therefore view IT primarily as a tactical trading opportunity rather than a long-term overweight.

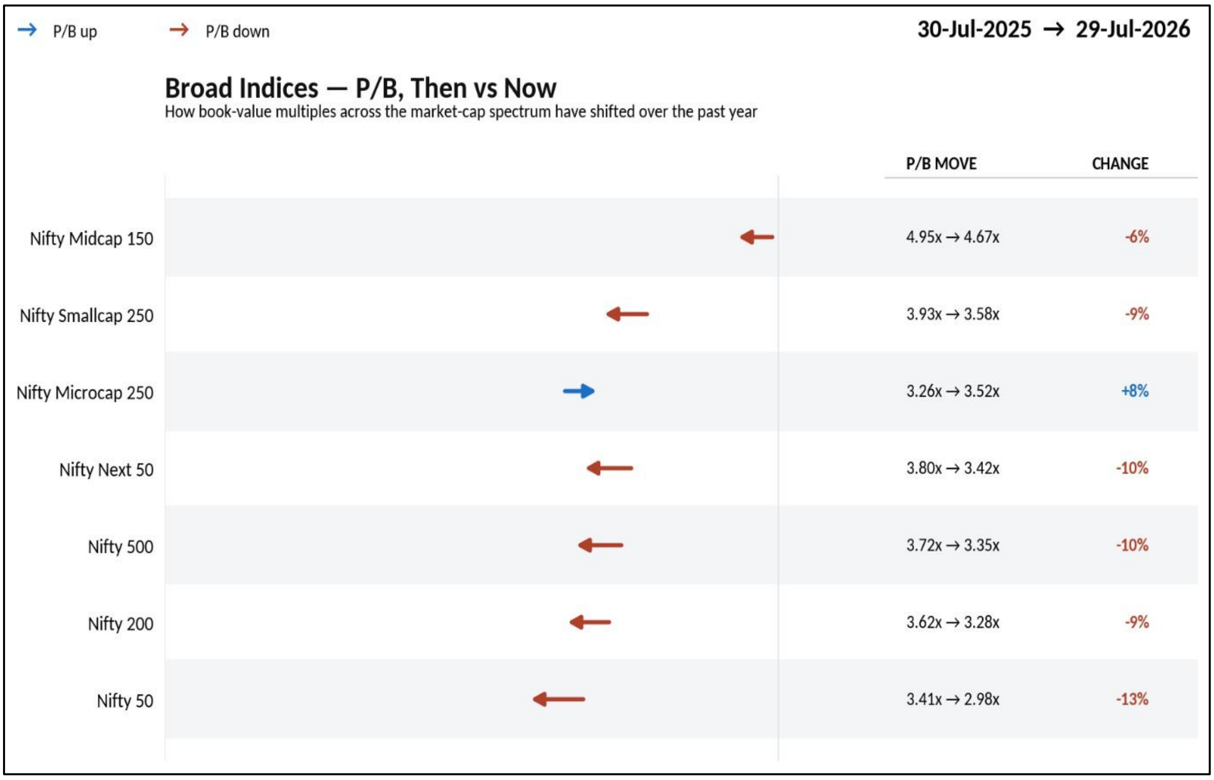
The sharp earnings delivery over the past year has also resulted in meaningful valuation expansion across Automobiles and Pharmaceuticals. While both sectors continue to enjoy favorable medium term fundamentals, much of the near-term optimism is now reflected in valuations. Consequently, we would view any market-led correction or stock-specific weakness as an opportunity to accumulate.

The market appears to have moved into a more balanced phase. Valuations have normalised, India's premium over both emerging and developed markets has compressed meaningfully, and liquidity conditions remain supportive without being excessive. This leaves the market on a healthier footing than a year ago, with future returns likely to depend increasingly on the pace and breadth of corporate earnings recovery rather than multiple expansion. If the expected improvement in earnings materialises over the coming quarters, we believe Indian equities remain well positioned to deliver attractive risk-adjusted returns despite a more uncertain global backdrop.

Broad Market Indices – Trailing P/E Valuation shift July 25 vs. July 2026

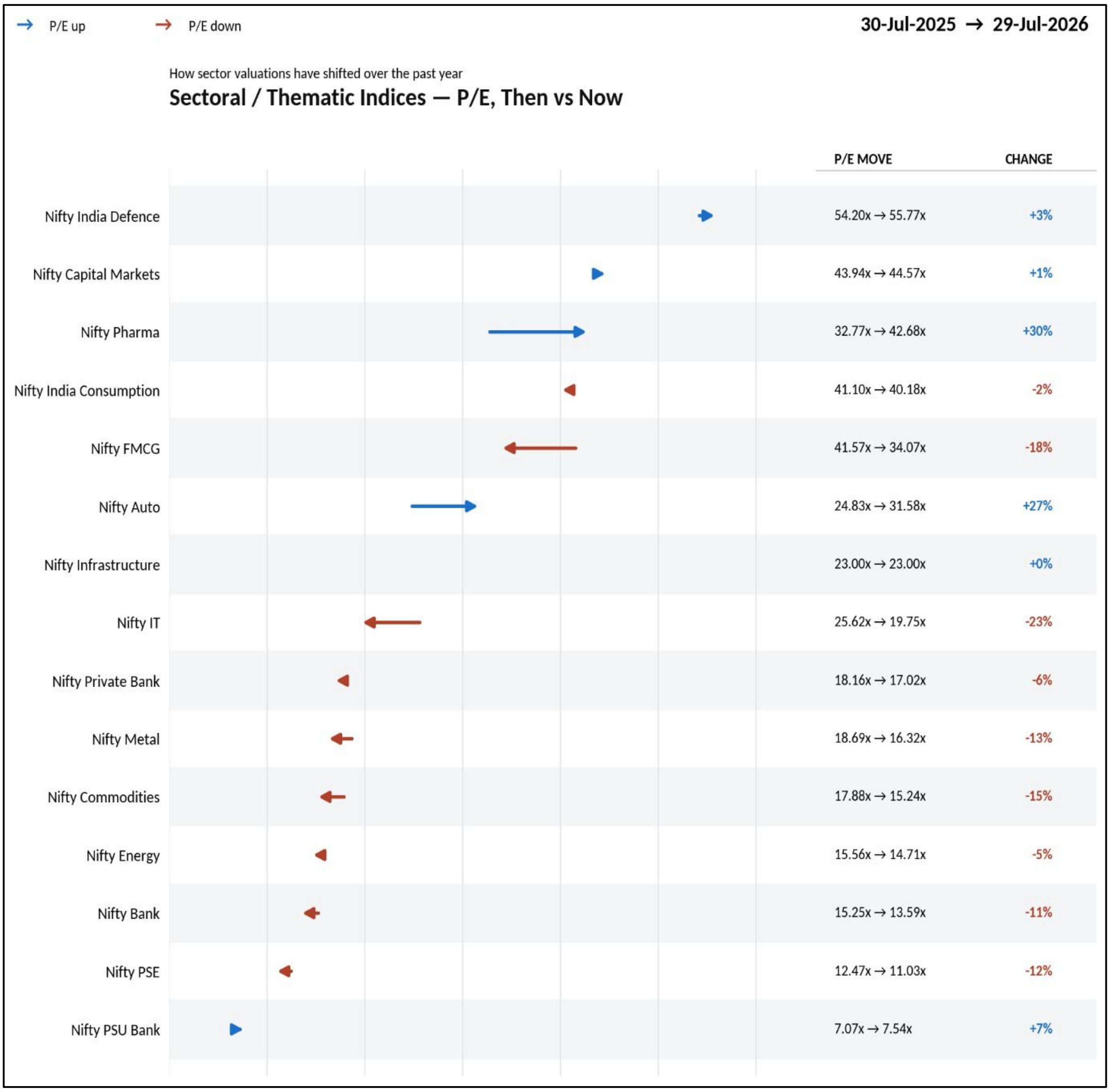


Broad Market Indices – Trailing P/B Valuation shift July 25 vs. July 2026



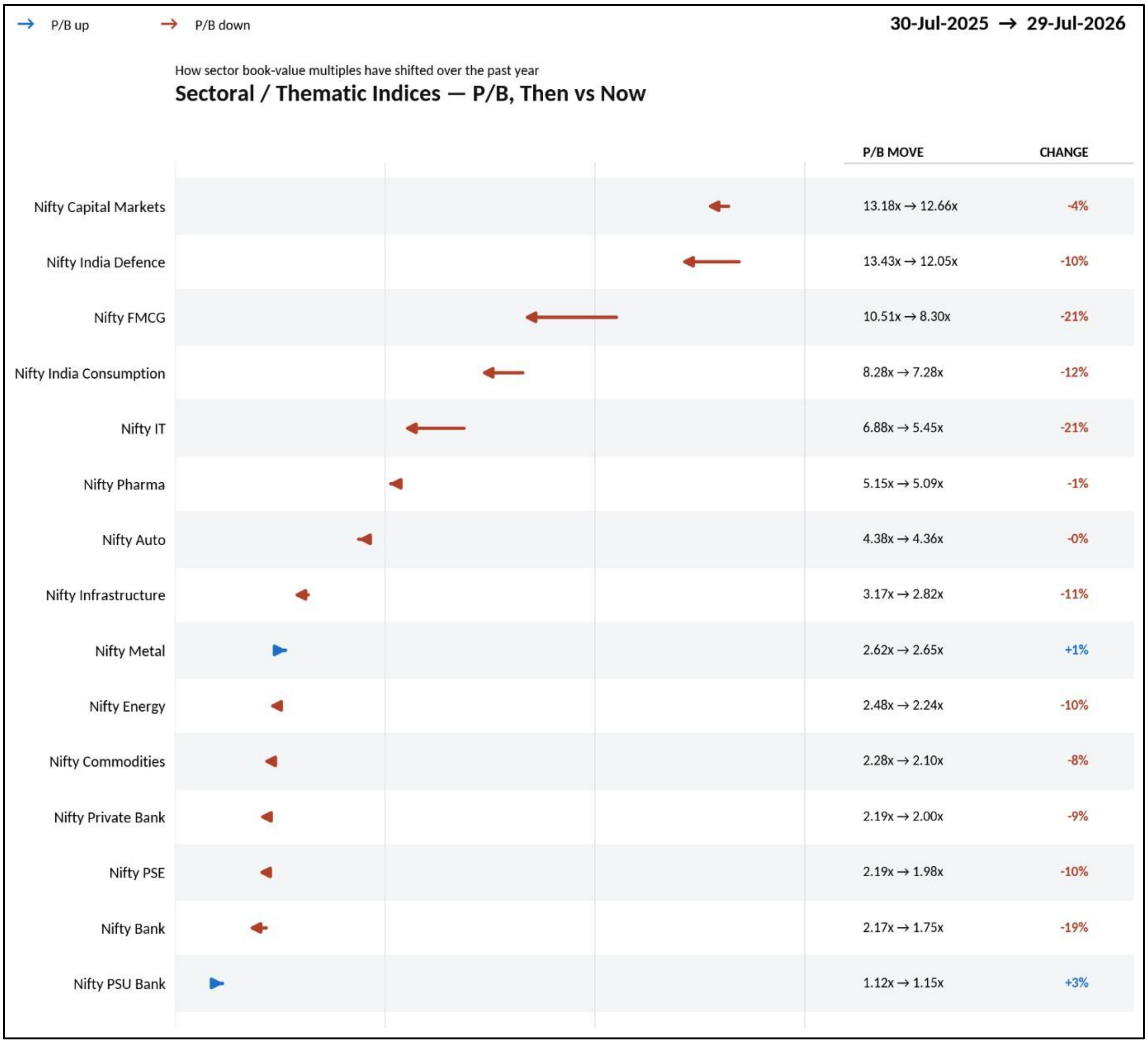
Source: NSE, Nifty Indices. P/E is trailing P/E, P/B is trailing P/B

Sectoral Indices - P/E Valuation shift July 2025 vs. July 2026



Source: NSE, Nifty Indices. P/E is trailing P/E, P/B is trailing P/B

Sectoral Indices – Trailing P/B Valuation shift July 2025 vs. July 2026



Source: NSE, Nifty Indices. P/E is trailing P/E, P/B is trailing P/B

Indian Bonds

The Reserve Bank of India (RBI) maintained the repo rate at **5.25%** at its June 2026 Monetary Policy Committee meeting for the third consecutive review while retaining a neutral policy stance. Although the RBI revised its FY27 GDP growth projection to **6.6%**, the moderation reflects a weaker global environment rather than any meaningful deterioration in India's domestic economy. India continues to be among the strongest-performing large economies globally, supported by resilient consumption, healthy credit growth and sustained public investment. At the same time, the RBI increased its FY27 CPI inflation projection to **5.1%**, acknowledging that imported inflation arising from higher commodity prices has become the principal risk to the inflation outlook.

Unlike previous monetary cycles, the current inflation challenge is being driven largely by external factors rather than excessive domestic demand. The renewed military confrontation involving the United States and Iran has increased geopolitical uncertainty and reintroduced a significant risk premium into global energy markets. Concerns over disruptions to shipping through the Strait of Hormuz, through which nearly one-fifth of global crude oil trade passes, have kept energy markets volatile, with Brent crude trading close to **USD 90 per barrel**. For India, one of the world's largest crude importers, oil prices remain the single most important macroeconomic variable influencing inflation, the current account deficit, fiscal balances and the exchange rate.

Various estimates suggest that every **USD 10 per barrel increase in crude oil prices widens India's current account deficit by approximately 40–50 bps of GDP**, while simultaneously increasing imported inflation and placing pressure on the rupee. Persistently elevated crude prices also raise the government's subsidy burden and complicate fiscal consolidation efforts. Consequently, developments in West Asia have become a far more important driver of domestic bond yields than traditional domestic macroeconomic indicators.

The Indian Rupee has remained under pressure through much of the year as elevated crude oil prices, higher US Treasury yields and foreign portfolio outflows strengthened the US dollar. The RBI has actively intervened in both the spot and forward foreign exchange markets to smooth excessive volatility and maintain orderly market conditions. More importantly, the central bank has complemented foreign exchange intervention with measures aimed at attracting durable foreign capital rather than relying solely on reserve depletion.

A key component of this strategy has been the temporary relaxation of regulations governing **Foreign Currency Non-Resident (Bank) [FCNR(B)] deposits**, enabling banks to mobilise foreign currency deposits from Non-Resident Indians more effectively. The RBI has simultaneously expanded the **Fully Accessible Route (FAR)** for Government Securities, eased operational requirements for foreign investors and introduced additional measures to deepen India's debt markets. These initiatives have strengthened India's external financing position while reinforcing investor confidence during a period of heightened global uncertainty.

These reforms also coincide with India's inclusion in major global sovereign bond indices, which marks an important structural shift for the domestic bond market. Unlike earlier episodes, when foreign inflows were largely tactical and dependent on short-term interest rate differentials, index inclusion is expected to generate sustained passive allocations into Indian Government Securities over the coming years. Together with FCNR(B) inflows and continued capital market reforms, these developments should broaden the investor base and improve the long-term resilience of the government securities market.

Another noteworthy development has been the resilience of the domestic bond market despite one of the largest government borrowing programmes in recent years. Strong demand from banks, insurance companies, provident funds and overseas investors has enabled the government to complete its borrowing programme without triggering a meaningful increase in yields. This reflects both the depth of domestic financial savings and growing confidence in India's macroeconomic framework.

At the same time, global fixed-income markets continue to present meaningful headwinds. Higher US Treasury yields, uncertainty surrounding the Federal Reserve's policy trajectory and elevated geopolitical risks have narrowed the India-US interest rate differential and periodically reduced the relative attractiveness of emerging market debt. While India's structural growth story continues to differentiate it from many other emerging economies, domestic bond yields can no longer be viewed independently of global financial conditions.

Monetary Policy Outlook

Market consensus currently expects the RBI to maintain an extended pause in policy rates. Our assessment differs. We believe the current repo rate represents the low point of the present interest rate cycle and that the next move by the RBI is more likely to be an increase than a reduction. This view is based on four considerations.

First, inflation risks are becoming increasingly structural rather than transitory. Elevated crude oil prices, continued geopolitical uncertainty in West Asia and the possibility of further disruptions to global energy supplies.

Second, US Treasury yields are expected to remain elevated as the Federal Reserve adopts a higher for longer policy approach. This narrows the India-US interest rate differential, places renewed pressure on the rupee and reduces the RBI's flexibility to pursue an accommodative monetary policy.

Third, India's domestic economy continues to exhibit sufficient strength through healthy credit growth, resilient consumption, sustained government capital expenditure and improving private investment. Under these conditions, there is limited justification for additional monetary easing.

Finally, while the RBI's policy initiatives—including FCNR(B) deposits, liquidity operations, foreign exchange intervention and measures to attract overseas capital—are strengthening India's external position, these measures cannot permanently offset pressure on INR if oil remains high if geopolitical tensions remain prolonged.

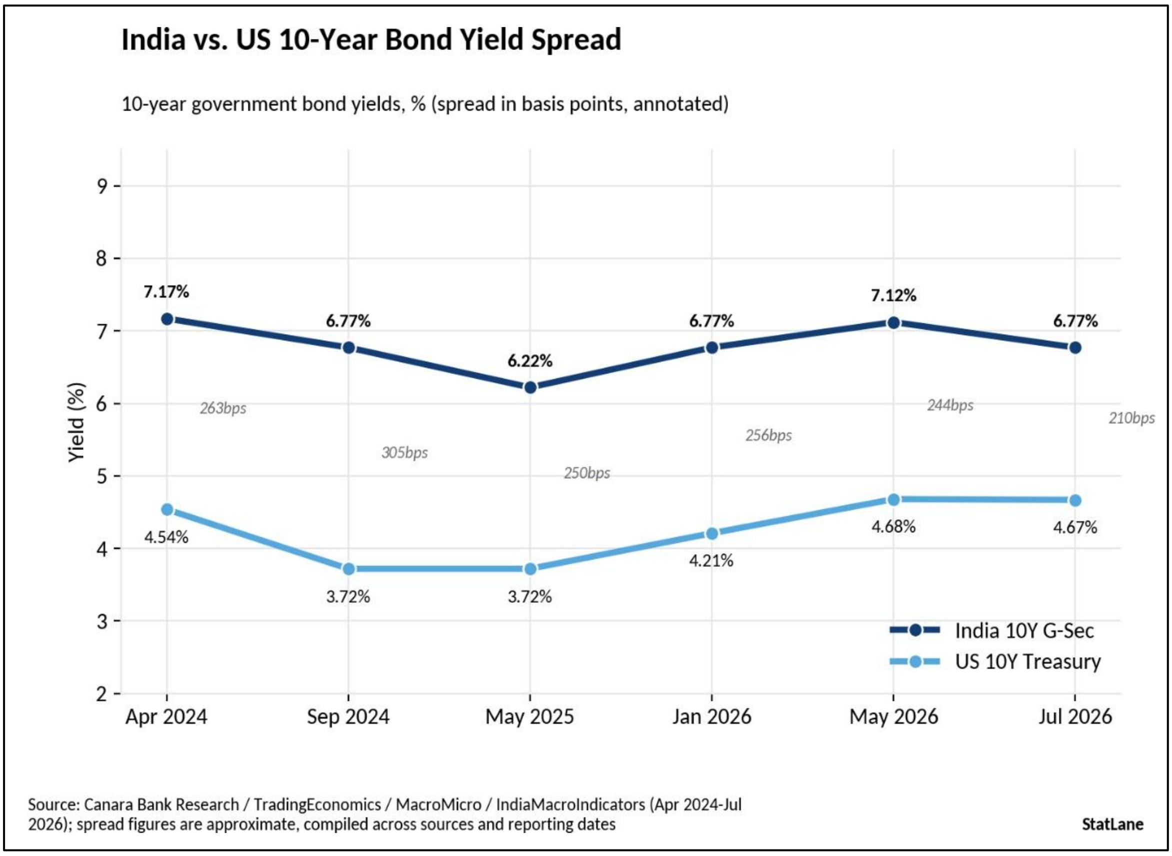
Accordingly, we expect the RBI to deliver its first 25bps repo rate hike during the final quarter of FY27, followed by another 25bps increase during the first half of FY28, taking the policy rate to 5.75%. While the precise timing will depend on developments in crude oil prices, the rupee and global financial markets, we believe the direction of the next policy move is now biased towards gradual tightening rather than easing.

Positioning

The 3-5-year segment of the yield curve continues to offer the most attractive balance between carry and interest-rate risk. Investors should therefore continue to prioritize accrual, maintain high credit quality and use duration selectively using Corporate bond funds, Banking & PSU debt funds and target maturity funds. Investors with an investment horizon exceeding two years may also consider Income Plus Arbitrage strategies as part of a tax-efficient fixed-income allocation.

Yield Matrix	29-Jul	1 Week Ago	1 Month Ago	3 Month Ago
AAA NBFC				
1 Year	7.75%	7.65%	7.47%	7.47%
3 Year	7.85%	7.90%	7.72%	7.85%
5 Year	7.85%	7.91%	7.77%	7.85%
AAA PSU				
1 Year	7.24%	7.24%	7.10%	7.17%
3 Year	7.40%	7.43%	7.22%	7.62%
5 Year	7.43%	7.41%	7.33%	7.65%
Corporate Bond				
1 Year	7.33%	7.25%	7.13%	7.23%
3 Year	7.31%	7.34%	7.20%	7.54%
5 Year	7.34%	7.32%	7.28%	7.57%
Government Bond				
1 Year	5.72%	5.79%	5.65%	5.93%
5 Year	6.44%	6.48%	6.43%	6.75%
10 Year	6.80%	6.80%	6.77%	6.99%
30 Year	7.46%	7.43%	7.32%	7.57%
SDL				
1 Year	6.12%	6.25%	5.89%	5.95%
5 Year	7.03%	7.04%	6.92%	7.23%

Source: ICRA Analytics Research



Market Data

Index Performance 31 July 2026	1M	3M	1 Yr	3 Yr	5 Yr
Nifty 50	2.4%	2.3%	-0.4%	8.6%	10.4%
Nifty Next 50	3.0%	6.1%	10.9%	18.6%	14.3%
Nifty 100	2.5%	3.0%	1.5%	10.2%	10.9%
Nifty 200	2.4%	3.5%	3.2%	11.7%	12.1%
Nifty 500	2.2%	3.9%	3.4%	12.3%	12.5%
Nifty Midcap 150	1.7%	5.4%	9.0%	18.5%	17.9%
Nifty Smallcap 250	1.3%	7.4%	5.2%	17.2%	15.3%
Nifty Microcap 250	0.2%	9.8%	5.7%	20.9%	20.7%
Nifty Auto	9.0%	11.7%	23.0%	23.5%	24.6%
Nifty Bank	-0.5%	4.9%	3.1%	8.7%	11.5%
Nifty Capital Goods	-4.0%	1.0%	12.7%	21.2%	28.1%
Nifty Financial Services Ex-Bank	3.6%	6.6%	13.4%	19.8%	15.1%
Nifty FMCG	0.9%	-3.3%	-11.1%	-0.7%	8.2%
Nifty IT	17.1%	5.3%	-11.2%	3.0%	2.2%
Nifty Metal	1.8%	-0.3%	38.7%	24.5%	18.7%
Nifty Oil & Gas	2.0%	-3.6%	0.8%	12.5%	12.9%
Nifty Pharma	5.0%	14.4%	17.2%	21.8%	13.8%
Nifty Private Bank	-1.4%	5.1%	2.2%	6.3%	9.6%
Nifty PSU Bank	-1.5%	-0.7%	23.0%	22.8%	29.3%
Nifty Capital Markets	-2.4%	1.6%	23.2%	55.1%	28.6%
Nifty Commodities	0.9%	-3.3%	14.1%	16.9%	14.3%
Nifty CPSE	-2.3%	-12.3%	4.7%	25.9%	29.9%
Nifty India Consumption	5.3%	6.4%	3.8%	14.0%	14.8%
Nifty India Defence	-1.9%	4.1%	20.7%	47.5%	54.3%
Nifty India Manufacturing	3.1%	5.5%	15.8%	19.9%	17.8%
Nifty Infrastructure	0.4%	0.4%	4.7%	16.6%	17.4%

Commodity	29-Jul	Wk Ago	Mth. Ago	Year Ago
Brent Crude ($/bl)	90.42	95.43	72.67	72.62
Silver ($/oz)	57.64	59.70	58.30	38.20
Gold ($/oz)	4,065	4,129	4,016	3,326

Source: Refinitiv

Global Index Performance	1M	YTD	12M
S&P 500	-0.1%	10.1%	19.6%
Dow Jones Industrial Average	0.3%	9.2%	18.9%
S&P Developed Ex-U.S. BMI	-1.3%	12.8%	27.6%
S&P Emerging BMI	-3.2%	6.3%	16.8%
S&P Europe 350	2.1%	10.3%	24.1%
S&P Asia 50	-4.5%	40.5%	69.2%

Factor-Based Equity	1M	YTD	12M
S&P 500 Value	2.0%	10.2%	19.7%
S&P 500 Low Volatility	1.9%	8.3%	7.8%
S&P 500 Equal Weight	1.0%	13.3%	19.2%
S&P 500 Quality	-6.1%	13.7%	20.3%
S&P 500 High Beta	-10.1%	20.2%	37.3%
S&P 500 Momentum	-11.0%	21.1%	25.5%

Note 1: Source: S&P Dow Jones Indices LLC and/or its affiliates. 2 Index performance based on total return (USD)

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