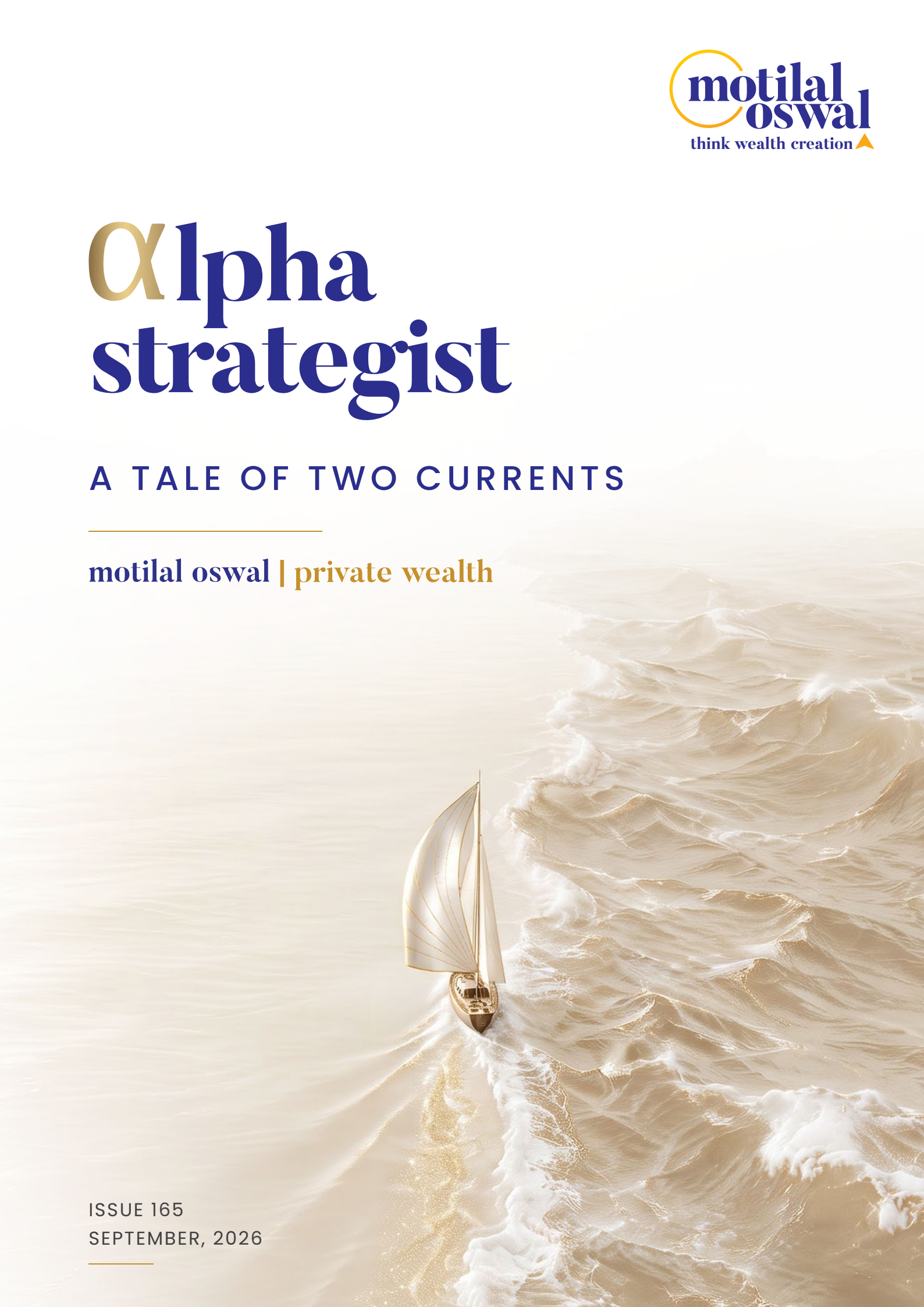
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## A TALE OF TWO CURRENTS

motilal oswal | private wealth



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In our previous edition of "Clearing Skies" we highlighted that visibility in the investment environment was beginning to improve after a period of heightened uncertainty around US-Iran war. At the same time, we cautioned that the skies were clearing, not completely clear, with geopolitics, crude oil and currency volatility remaining the key risks to watch.

Since then, some of these risks have moved to the foreground. Escalating geopolitical tensions, higher crude oil prices and rising global yields have begun to weigh on sentiment, even as India's domestic growth and earnings trajectory has continued to strengthen.

> *"The investment environment has therefore evolved into what we describe as "**A Tale of Two Currents**" - global headwinds pulling against improving domestic fundamentals."*



**Ashish Shanker**

MD & CEO,
Motilal Oswal Private Wealth

The Middle East conflict has disrupted oil supply and shipping and led to prices rising above $100. At the same time, sticky US inflation and resilient growth have increased the probability of further monetary tightening by the Fed. Rising fiscal deficits and increasing bond supply have added further pressure, keeping long-term yields across major developed markets elevated and weighing on equity valuations globally.

Running against these headwinds is a considerably stronger domestic current. India ranks among the most efficient growth economies with high growth and lower volatility. India's Q1FY27 GDP growth accelerated to 7.8% YoY, ahead of expectations, supported by broad-based strength across manufacturing, consumption, investment and services. Importantly, the improvement is also visible in corporate earnings. Nifty 50 profits grew ~18% YoY in Q1FY27, marking a meaningful recovery after several quarters of earnings moderation. Mid & Small Cap earnings continued to surprise on the positive side. The upgrade-to-downgrade ratio trend for the MOFSL Universe turned favourable in Q1 at 1.5 – the highest in 22 quarters.

Domestic liquidity also remains a strong support for markets. However, the other side of this liquidity equation is growing equity supply which may limit the scope for broad-based re-rating. This FY so far seen IPO supply worth ~46k Crs.

The Nifty 50 currently trades at ~18.3x 12-month forward earnings, ~12% below its historical average. Mid and Small Caps continue to trade at premiums to their respective 10-year averages, although these premiums have moderated meaningfully from September 2024 levels. Markets are therefore neither cheap enough to warrant aggressive buying nor expensive enough to turn outright cautious.

With opportunities becoming increasingly selective, the emphasis remains on identifying the right sectors and businesses rather than relying on broad market beta.

Against this backdrop, we continue to maintain a Neutral view on Equities, while retaining our overweight position in Mid & Small Caps. Our recommended allocation remains 40% Hybrid/Large Caps, 10% Global Equities and 50% Mid & Small Caps. We prefer lump-sum deployment in Hybrid strategies, while pure equity strategies should be approached through staggered deployment, with sharp corrections used to accelerate allocations.

In Fixed Income, higher yields increasingly appear to be the new normal with renewed inflation concerns and hawkish stance by major central banks. Hence we continue to prefer accrual-oriented strategies, with core allocation towards private credit, high-yield NCDs and income-generating assets like InvITs, and the balance in liquid alternatives like Arbitrage and Debt/arbitrage oriented SIFs.

We maintain our neutral stance on precious metals with preference for Gold over Silver. Gold should benefit from continuing geopolitical uncertainty and sustained central-bank demand, reinforcing its role as a portfolio diversifier. While silver's structural demand-supply dynamics remain favourable, its higher cyclicality and volatility keep our relative preference tilted towards gold.

*Happy Investing!*



# Middle East Conflict Has Disrupted Oil Supply and Shipment, Leading to Prices Rising Above $100

BRENT CRUDE OIL (SPOT $)




US–Iran conflict has escalated again: The latest round has moved beyond rhetoric to direct attacks on oil tankers and shipping.

The problem has broadened beyond Hormuz: Both the Gulf and alternative Red Sea export routes are facing constraints simultaneously.

Actual OPEC supply has fallen despite planned increases: OPEC production fell by roughly 640,000 bpd in August, largely because of Saudi export disruptions and constraints on Iranian shipments.

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

# Fed Chair Warsh's Hawkish Debut at Jackson Hole Symposium:

*Sticky US inflation + Resilient Growth Have Increased Probability of Monetary Tightening by Fed*

EMPHASIS ON INFLATION STABILITY -> RATE HIKE ODDS ARE BACK ON THE TABLE

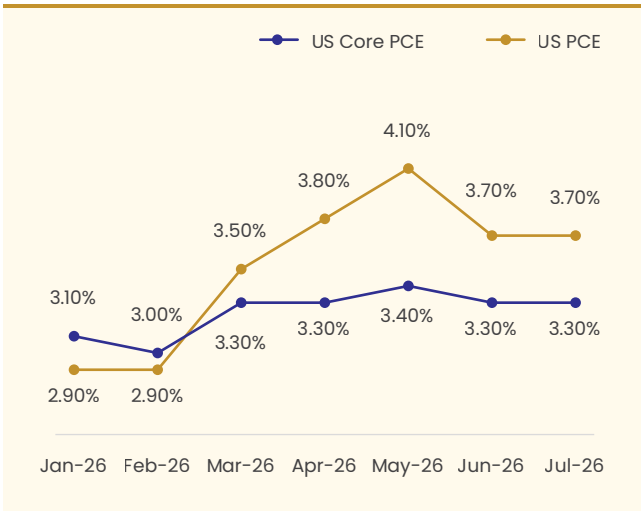
Warsh's narrative shifted towards "higher rates may still be necessary." Does not expect inflation to return to 2% in near future

Warsh's "quieter Fed" approach (less forward guidance) adds a fresh layer of policy uncertainty priced into the long end

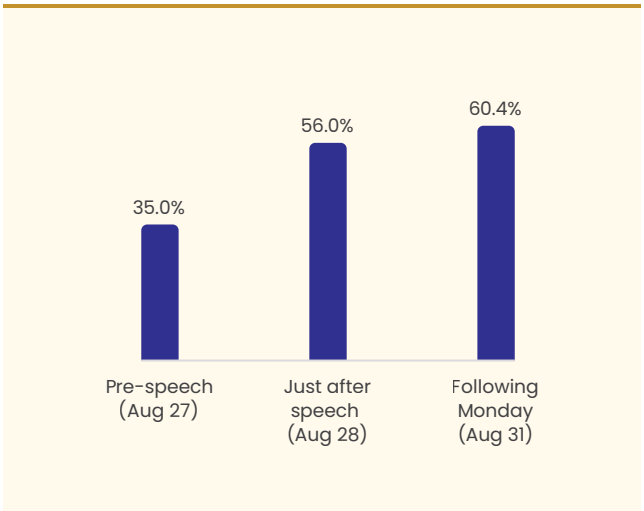
Short term yields also rose on the hawkish read

## EMPHASIS ON INFLATION STABILITY -> RATE HIKE ODDS ARE BACK ON THE TABLE

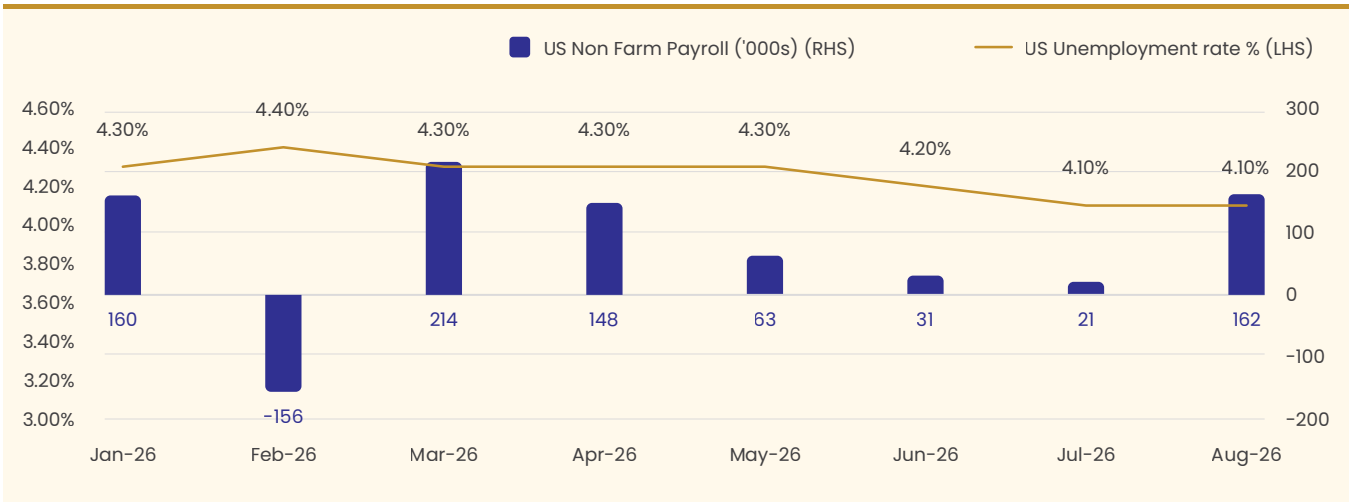
### Inflation has plateaued & remains sticky : Well above Fed's Target of 2%



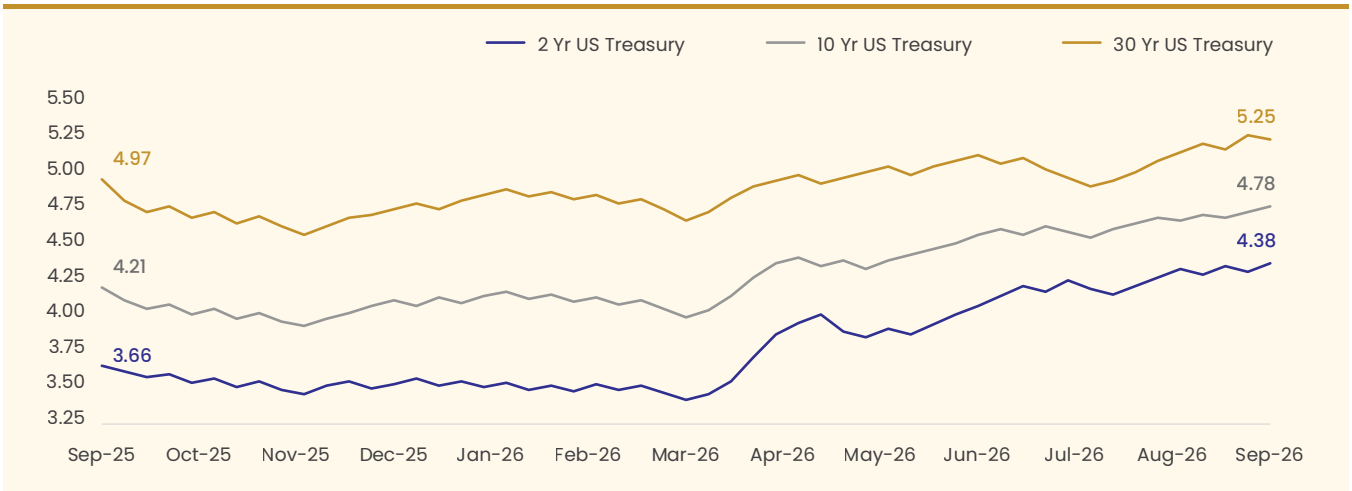

### CME-Implied Probability of a 25bp Fed Hike (%)




## LABOR MARKET REMAINS RESILIENT




## US TREASURY YIELD CURVE : HIGHER ACROSS THE BOARD

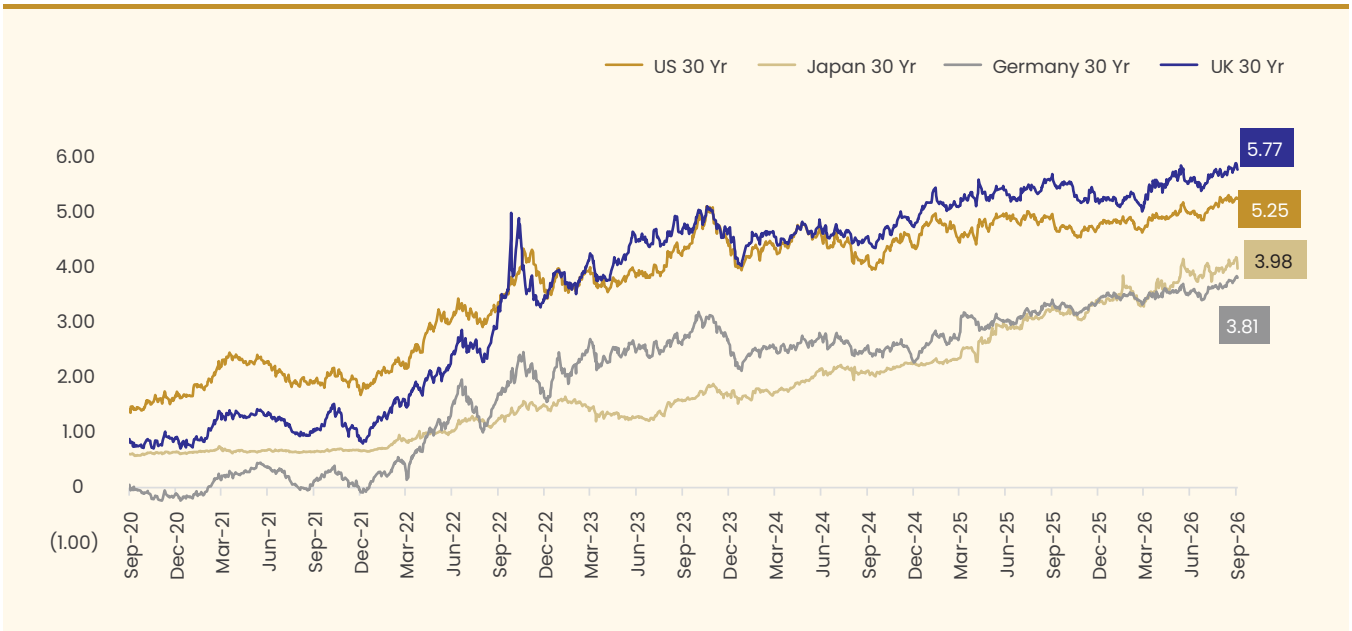



Source : Investing.com , Internal Research, Data as on 4th Sep 2026. The above data is for informational purpose.
The analysis may or may not be sustained in future.

# Elevated Sovereign Long Term Yields of Developed Economies

*Markets reprice monetary tightening, inflation and fiscal risks*

## 30 YR YIELD TREND OF DEVELOPED ECONOMIES




## KEY REASONS

- US Yield → highest level in almost two decades
- Germany Yield→ hit 3.75% for the first time since 2011
- Japan → Yields approached all time high
- Europe Yield → reached / exceeded the levels since 2011 euro crisis
- UK Yield → highest level since 1998

For economies like US, Japan, UK & Germany, long term sovereign yields are near multi decade high due to Central Bank's pivot to rate normalization, persistent inflation risks, growing concerns on rise in sovereign debt and fiscal discipline.

Also, because of the higher carry, reallocation of global capital can be envisaged , putting more pressure on the yields.

Case in point is reallocation in Japanese Bonds (Till now Yen was a source of global carry trades, but as the bond yields continue to rise, more capital could remain at home).

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

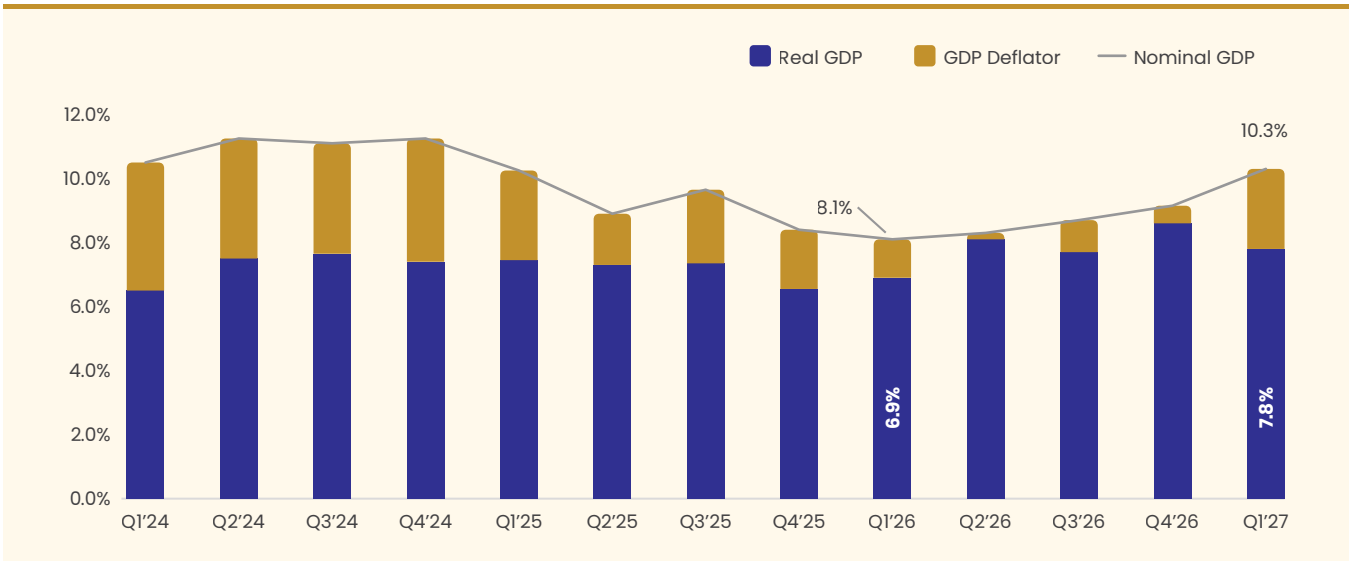
# Against Global Headwinds, India's Domestic Current Remains Strong

| GDP SIZE | COUNTRY | 10- YEARS AVG. (QUARTERLY GDP) | STD DEV | GROWTH-TO-VOLATILITY RATIO |
|---|---|---|---|---|
| $32.4T | United States | 2.5% | 2.5% | 0.96 |
| $20.9T | China | 5.6% | 3.2% | 1.73 |
| $5.5T | Germany | 0.7% | 3.0% | 0.25 |
| $4.4T | Japan | 0.5% | 2.5% | 0.19 |
| $4.3T | United Kingdom | 1.5% | 6.4% | 0.23 |
| $4.2T | India | 6.1% | 6.2% | 0.99 |
| $3.6T | France | 1.3% | 4.4% | 0.31 |
| $2.7T | Italy | 1.2% | 5.1% | 0.23 |
| $2.7T | Russia | 1.5% | 3.2% | 0.46 |
| $2.6T | Brazil | 1.3% | 3.3% | 0.40 |

The Growth-to-Volatility Ratio (GVR) functions like a Sharpe Ratio for GDP growth. By this measure, China (1.73) and **India (0.99)** clearly lead the pack.

India's Q1FY27 GDP growth accelerated to 7.8% YoY, ahead of expectations, supported by broad-based strength across manufacturing, consumption, investment and services

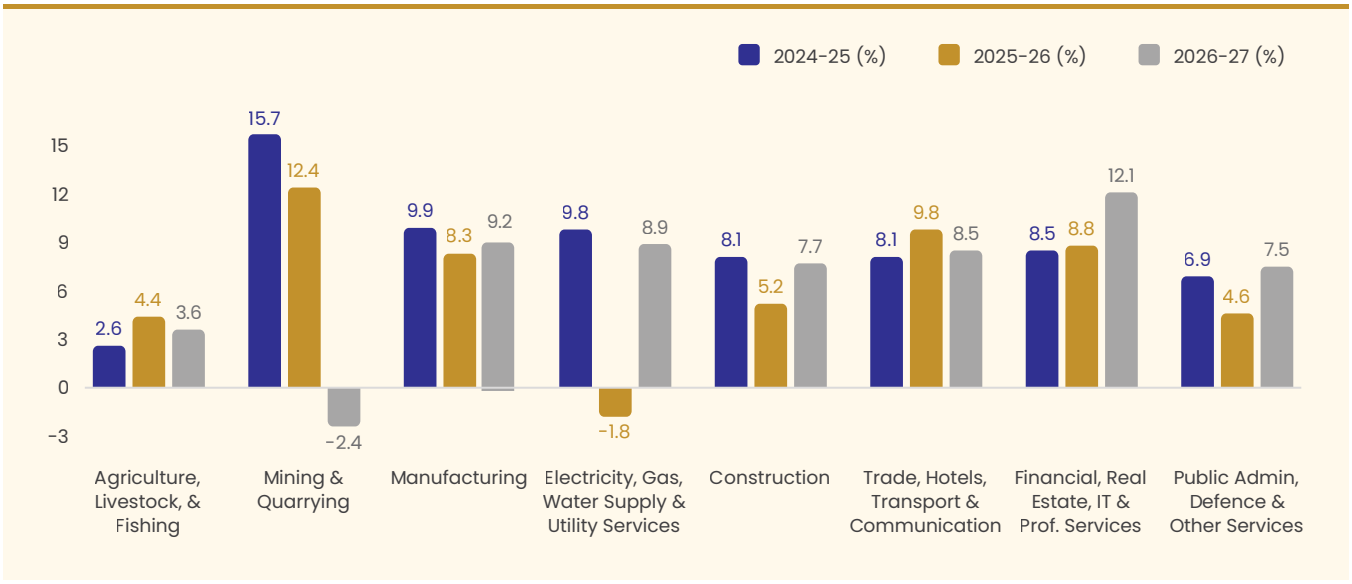
## INDIA GDP GROWTH RATE (%)




Source : Franklin, Vanguard, Bloomberg, Internal Research

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

### SECTOR-WISE GROWTH RATES OF REAL GDP IN Q1 – FY25, FY26,FY27




Source : Franklin, Vanguard, Bloomberg, Internal Research

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

# Broad-Based Beat Across Market Caps, Earnings Upgraded

### MOFSL EARNINGS REVIEW · 1QFY27

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

### EARNINGS GROWTH BY MARKET CAP

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

**48%**

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

**1.5x**

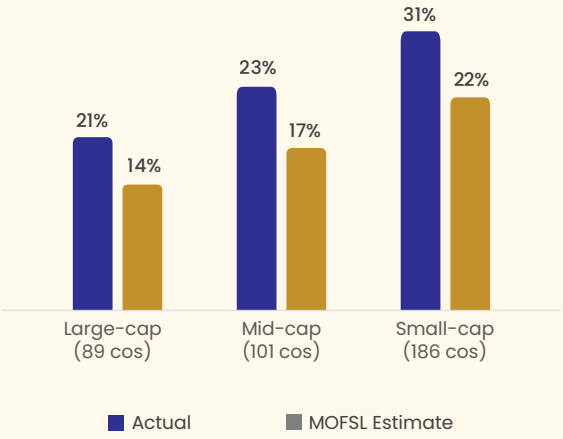
Upgrade : downgrade ratio – 130 vs. 89 stocks, FY27E

**22%**

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

**₹1,232**

Nifty FY27E EPS, raised 0.6% this quarter



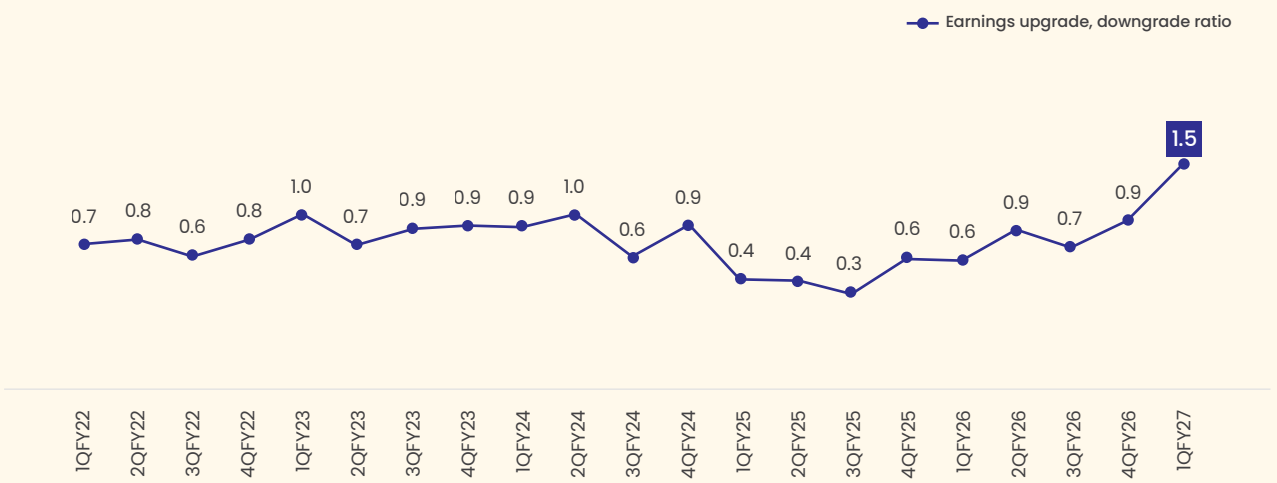

Source: Motilal Oswal Financial Services, 1QFY27 Corporate Earnings Review. Growth and beat-miss figures for MOFSL Coverage Universe, ex-OMCs unless stated; market-cap classification by number of companies in each segment.

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

BEAT RATIO (PAT, % OF COS EXCEEDING ESTIMATE):

| OVERALL | LARGE-CAP | MID-CAP | SMALL-CAP |
|---|---|---|---|
| 48% | 57% | 39% | 48% |

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




# Sector Performance

Leading the beat: Financials, Metals, Auto, O&G (ex-OMC), Chemicals, Telecom

Key drags: OMCs, Cement

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

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

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

# India Equities: A Growing Wall of Supply

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

### IPO SUPPLY

**₹46,453 cr**

Raised Apr–Aug FY27

- Primary issuance accelerated sharply in Jul–Aug
- Potential IPO pipeline: ~₹4 lakh cr +
- Large upcoming issues can absorb meaningful incremental liquidity

### SECONDARY SUPPLY

**₹3.05 LAKH CRORE**

Block & bulk deals, Apr–Aug 2026

- August alone: ~₹80,000 cr - a 14-month high
- Promoter monetisation + PE/VC exits are increasing
- Post-IPO lock-ins and elevated valuations add to sell-downs

### GOVT. STAKE SALES

**~₹55,600 cr**

FY27 disinvestment receipts so far

- OFS remains an active supply channel
- FY27 disinvestment target: ₹80,000 cr
- Further CPSE stake sales can add supply through the year

### THE LIQUIDITY EQUATION

**SIP / DOMESTIC INSTITUTIONAL FLOWS → IPOS + OFS + PE/VC EXITS + PROMOTER SALES → LIQUIDITY GETS DISPERSED**

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

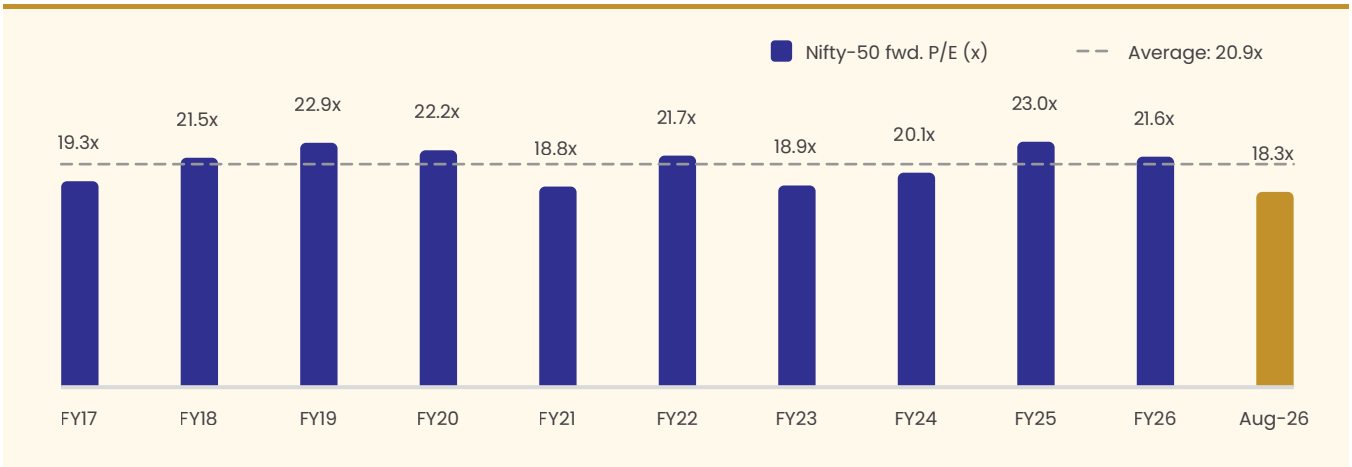
*"The issue is not the absence of liquidity — it is the increasing number of claimants on that liquidity."*

Note: IPO, block/bulk and government OFS figures can overlap and should not be aggregated. Sources: public market reports and DIPAM, Sep 2026.
Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

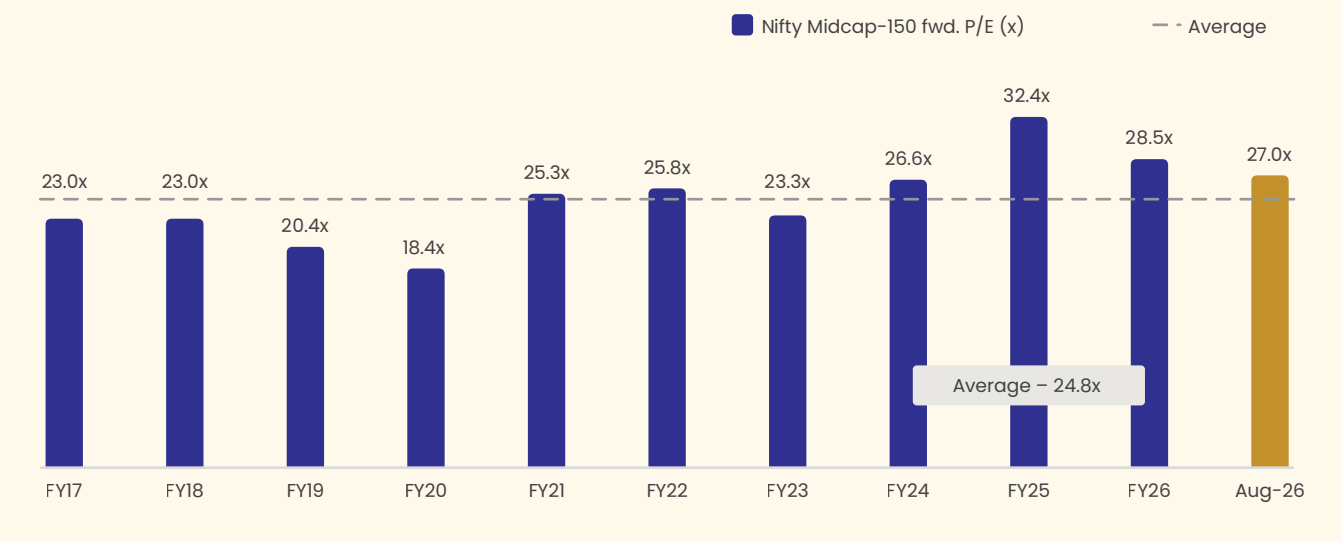
# 12-Month Forward Valuations:

*Markets Neither Cheap Nor Expensive*

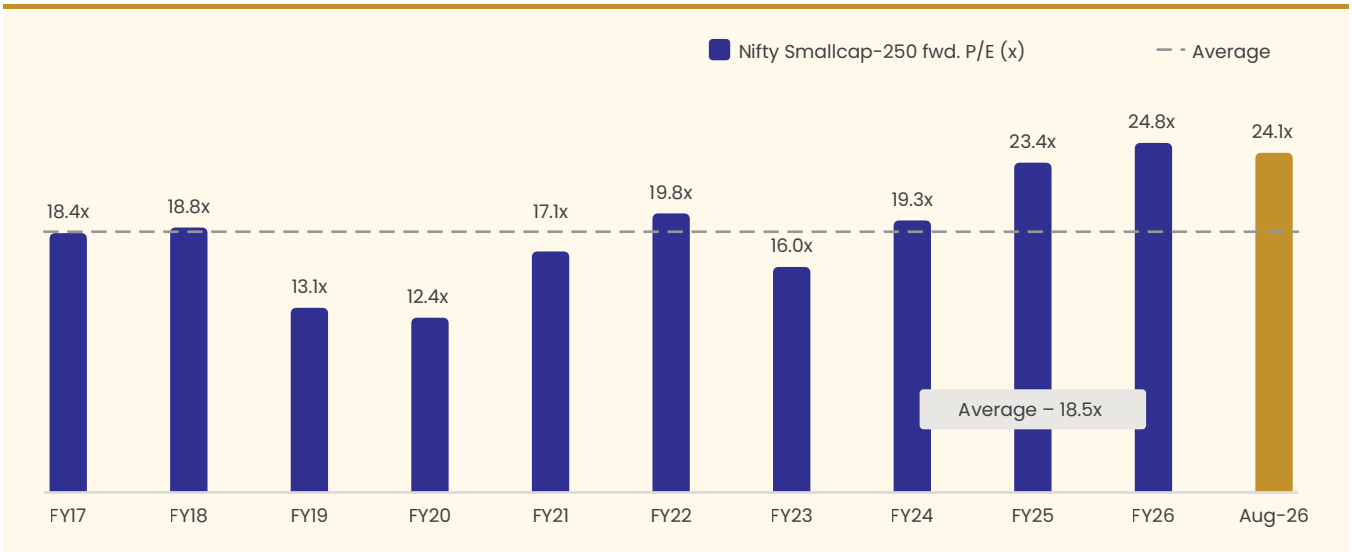
### NIFTY-50 FWD. P/E (X)



## NIFTY MIDCAP-150 FWD. P/E(X)




## NIFTY SMALLCAP-150 FWD. P/E(X)

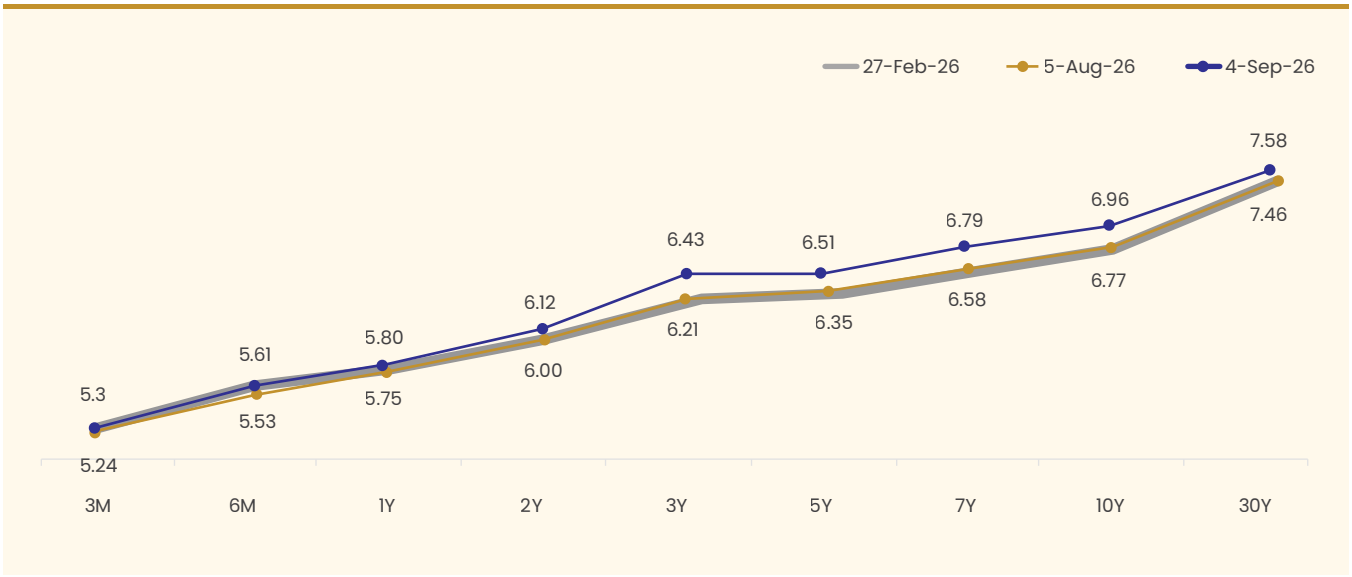



*The Nifty is now trading at a 12-month forward Price-to-Earnings (P/E) ratio of 18.3x, which is 12% below its historical average of 20.9x. Mid and small-cap equities' 12-month forward P/E trades at a 9%/30% premium to their 10-year averages of 24.8x/18.5x but the extent of the premium has come down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

Source: Internal Research, MO Institutional Equities. Disclaimer: The above data is for informational purpose. The analysis may or may not be sustained in future.

# Fixed Income: Higher Yields Appear to be the New Normal

## G SEC YIELD CURVE




## KEY DRIVERS

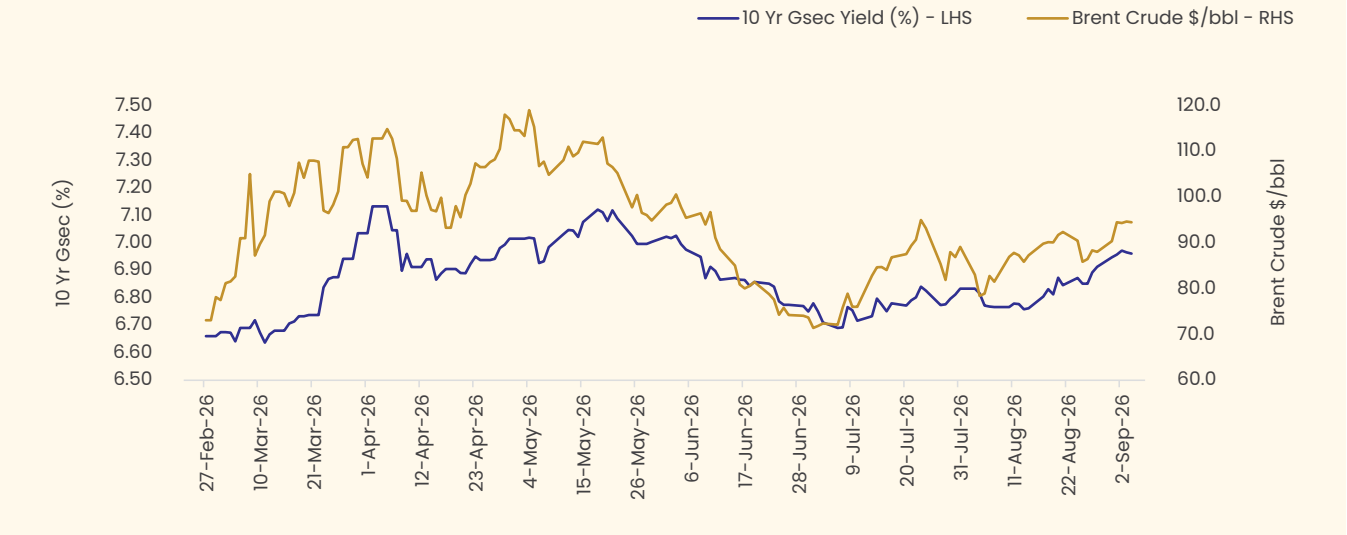
**Indian G-Sec Yield curve has steepened more**, with yields increasing in mid – longer end of the curve. 10 yr increased from 6.77% to 6.96%, also increasing the term premium by 15 – 20 bps

Majorly driven by global factors like rise in crude oil prices, UST yields, FED & Global Central Banks' hawkish signals

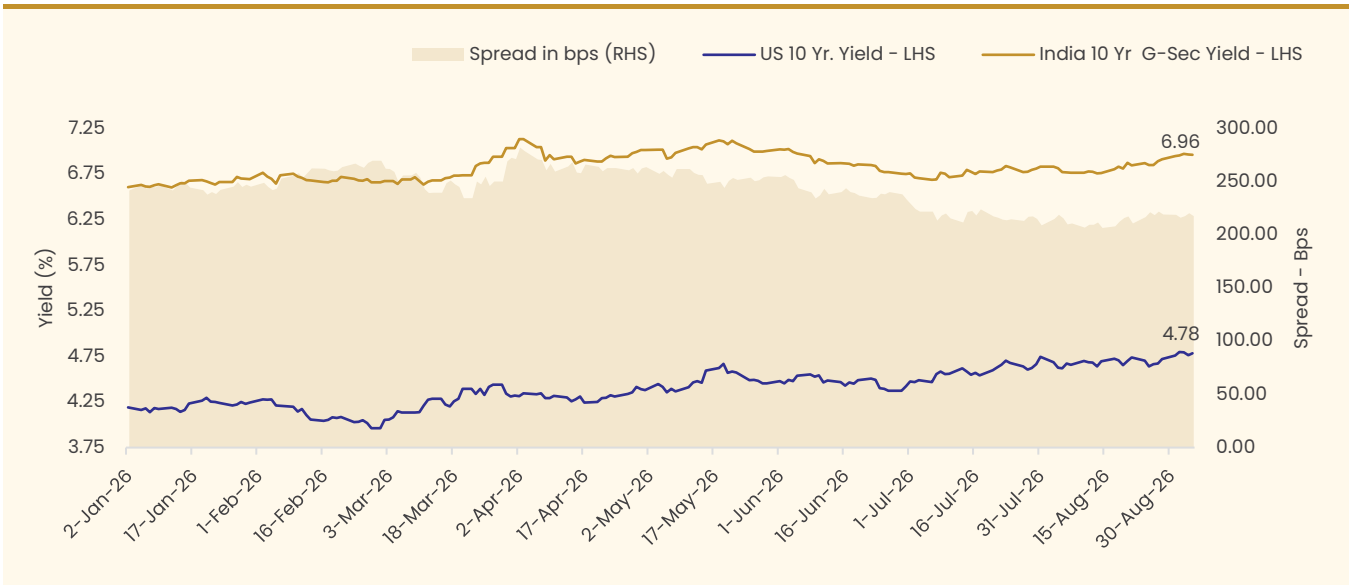
Surge in system liquidity to a record of INR 10.8 Tn, largely driven by FCNR (B) deposit scheme, kept the money market yields at ease

India duration is now a play on the crude price trend and global monetary tightening — a further Hormuz-style shock or a US hawkish surprise are the two biggest swing factors for the 10Y in the near to medium term.

## 10 YR GSEC YIELD VS BRENT CRUDE



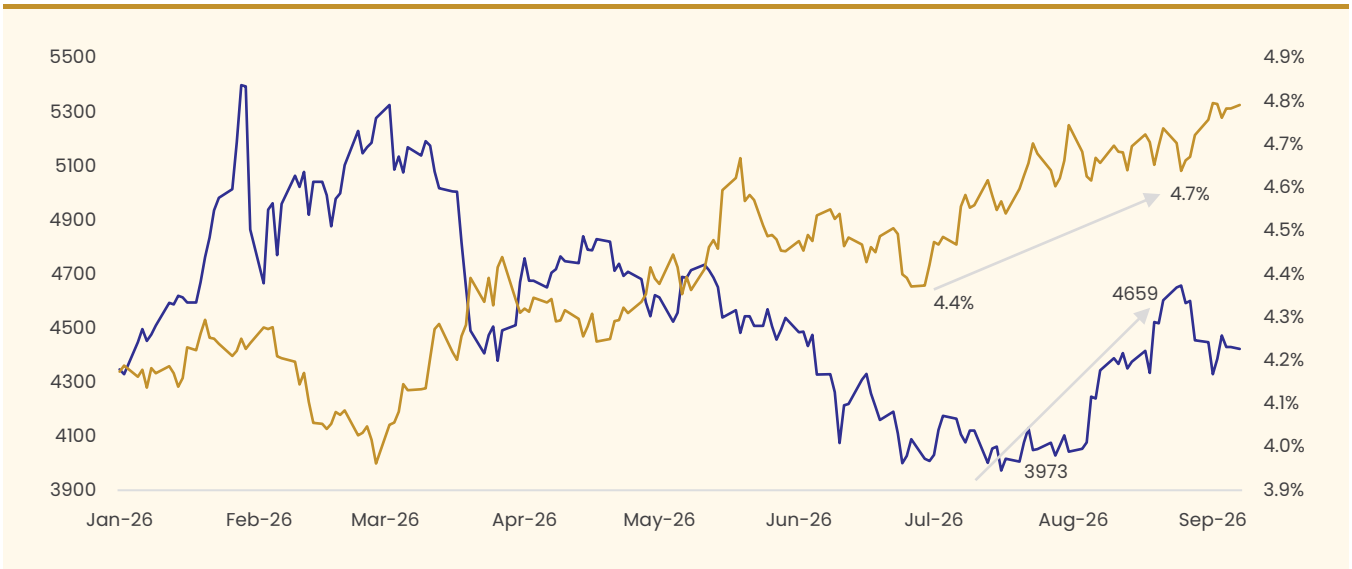
### US & INDIA - 10 YR YIELD




Source : Internal Research, Data as on 4th Sep 2026. Disclaimer: The above data is for informational purpose.
The analysis may or may not be sustained in future.

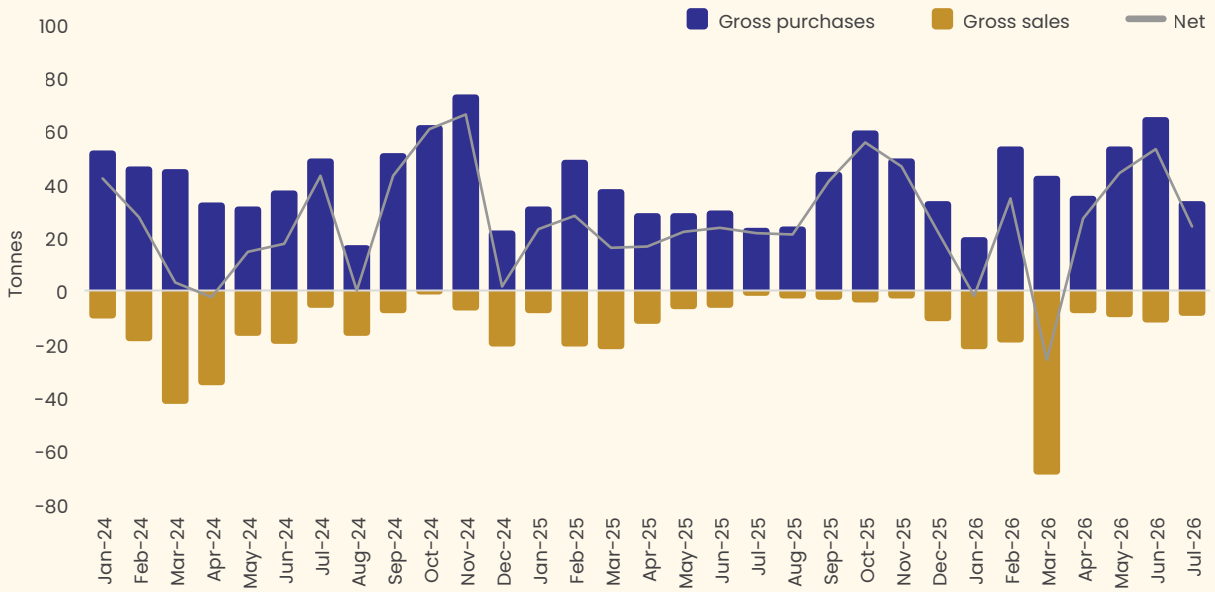
# Gold — Should Benefit from Continuing Global Uncertainty and Sustained Central Bank Demand

### GOLD & US 10 YR




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

## MONTHLY REPORTED CENTRAL BANK ACTIVITY, TONNES*




Gold rallied ~16% from mid Jul'26 to end of Aug'26, while the 10Y made fresh cycle highs.

China has continued adding bullion to its reserves for 22 consecutive months and has increased its gold reserves by the largest amount in Aug'26 since Oct'23. Data released by the People's Bank of China showed that its gold holdings increased by 650,000 troy ounces .

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

# Temperature Gauge Index

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

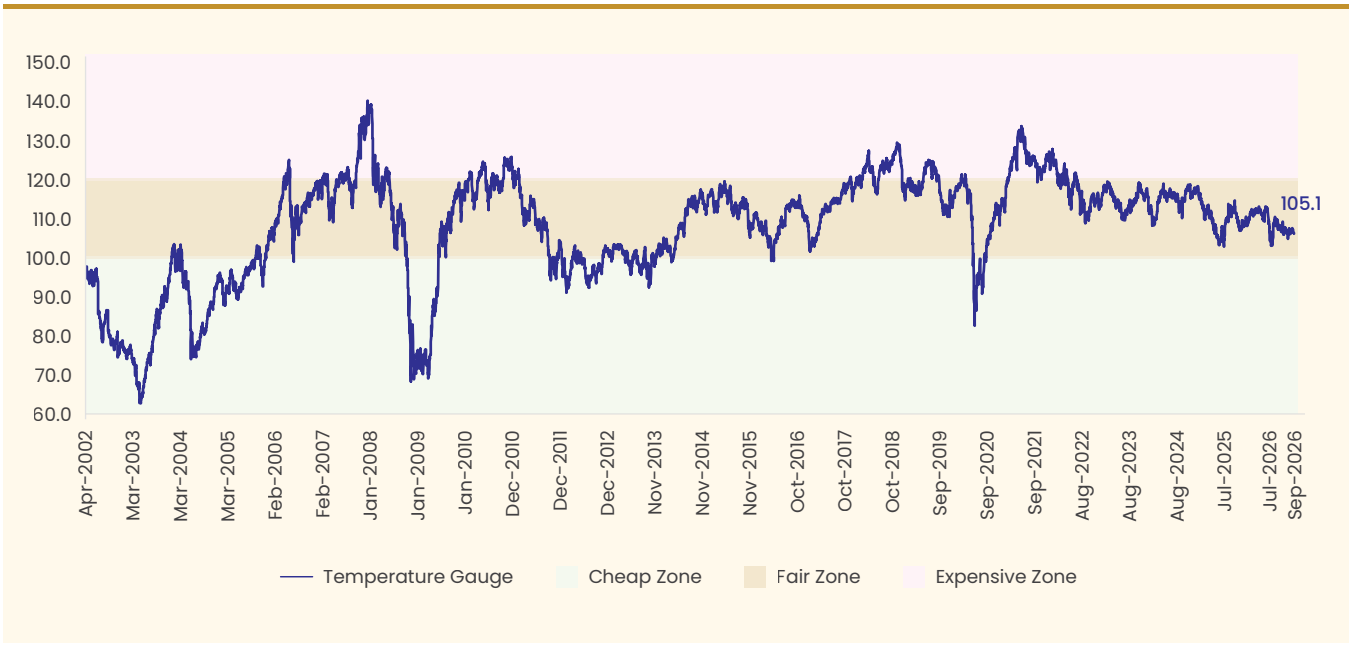
Historically whenever earnings yield and bond yield spreads are above 0.8, equities are considered to be undervalued.

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

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

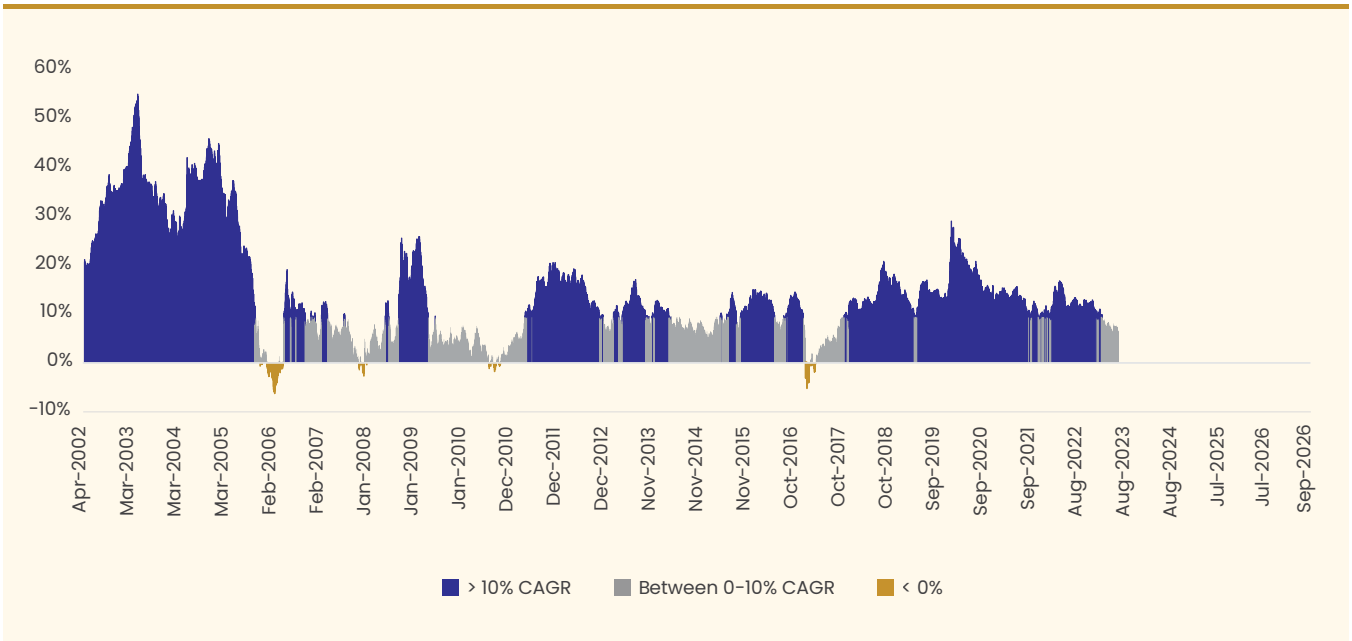
*This qualitative and quantitative process would enable us to construct **"winning portfolios"** for our clients. In line with our philosophy of providing better insights to you, we hope you find the same informative.*

### TEMPERATURE GAUGE INDEX




Data as on 7th Sep'26. Source: Capital Line, Bloomberg Internal Research. Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

## NIFTY -3 YEAR FORWARD RETURN




Data as on 7th Sep'26. Source: Capital Line, Bloomberg Internal Research. Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

## TEMPERATURE GAUGE INDEX – SENSITIVITY ANALYSIS

| Nifty50/10 Yr Gsec | 6.56% | 6.76% | 6.96% | 7.16% | 7.36% |
|---|---|---|---|---|---|
| 22500 | 102 | 102 | 103 | 104 | 105 |
| 22750 | 102 | 103 | 104 | 105 | 105 |
| 23000 | 102 | 103 | 104 | 105 | 106 |
| 23250 | 103 | 103 | 104 | 105 | 106 |
| 23500 | 103 | 104 | 105 | 106 | 107 |
| 23750 | 103 | 104 | 105 | 106 | 107 |
| 24000 | 104 | 104 | 105 | 106 | 107 |
| 24250 | 104 | 105 | 106 | 107 | 108 |
| 24500 | 104 | 105 | 106 | 107 | 108 |
| 24750 | 104 | 105 | 106 | 107 | 108 |
| 25000 | 105 | 106 | 107 | 108 | 109 |
| 25250 | 105 | 106 | 107 | 108 | 109 |
| 25500 | 105 | 106 | 107 | 108 | 109 |

Blue Colour Text Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as on 7th Sep'26. Source: Capital Line, Bloomberg Internal Research. Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

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

| NIFTY 50 | | | | NIFTY 50 | | | TIMES POSITIVE | % TIMES | |
|---|---|---|---|---|---|---|---|---|---|
| INDEX RANGE | | COUNT IN RANGE | % OF COUNT | MIN | MAX | AVERAGE | % TIMES POSITIVE | 6% TO 10% | >10% |
| 65 | 70 | 60 | 1% | 24% | 57% | 43% | 100.0% | 0% | 100% |
| 70 | 75 | 202 | 2% | 15% | 51% | 32% | 100.0% | 0% | 100% |
| 75 | 80 | 285 | 3% | 14% | 45% | 37% | 100.0% | 0% | 100% |
| 80 | 85 | 168 | 2% | 15% | 43% | 34% | 100.0% | 0% | 100% |
| 85 | 90 | 207 | 2% | 12% | 49% | 33% | 100.0% | 0% | 100% |
| 90 | 95 | 539 | 6% | 2% | 47% | 27% | 100.0% | 2% | 97% |
| 95 | 100 | 832 | 9% | 1% | 44% | 18% | 100.0% | 8% | 91% |
| 100 | 105 | 792 | 9% | -2% | 30% | 13% | 89.0% | 18% | 64% |
| 105 | 110 | 1207 | 13% | -4% | 22% | 10% | 60.3% | 11% | 41% |
| 110 | 115 | 2018 | 22% | -7% | 22% | 9% | 74.4% | 30% | 32% |
| 115 | 120 | 1617 | 18% | -4% | 21% | 9% | 87.1% | 25% | 33% |
| 120 | 125 | 804 | 9% | -2% | 18% | 10% | 93.5% | 10% | 61% |
| 125 | 130 | 135 | 2% | 0% | 16% | 12% | 99.3% | 4% | 80% |
| 130 | 135 | 84 | 1% | -2% | 15% | 6% | 91.7% | 0% | 36% |
| 135 | 140 | 28 | 0% | -3% | 0% | -1% | 10.7% | 0% | 0% |

Data as on 7th Sep'26. Source: Capital Line, Bloomberg Internal Research. Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

## EQUITY ALLOCATION & DEPLOYMENT GRID

### BELOW GRID IS BASED ON TEMPERATURE GAUGE INDEX




Data as on 7th Sep'26. Source: Capital Line, Bloomberg Internal Research. Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

# Closing Auction Session:

*India's Market Close Gets a New Test*

For most investors, the closing price of a stock looks like a routine number. It is simply the last value seen at the end of the trading day.

In reality, the closing price has become one of the most important numbers in the market. It is used to calculate portfolio values, mutual fund NAVs, index levels, derivatives settlement, arbitrage positions and institutional performance. For passive funds and ETFs, it also decides how closely they can track their benchmark.

This is why India's new Closing Auction Session, or CAS, matters.

Introduced on August 3, 2026, CAS changes the way closing prices are discovered for stocks that are part of the derivatives universe. Earlier, the closing price was based on the volume-weighted average price, or VWAP, of trades during the last 30 minutes of continuous trading. Under CAS, regular trading in eligible stocks stops at 3:15 pm and the closing price is discovered through a separate auction window.

The idea is simple. Instead of allowing the closing price to emerge from scattered trades during the last half hour, the exchange brings all closing buy and sell orders into one auction. The price at which the maximum number of shares can trade becomes the official closing price.

Globally, this is a well-established practice. Markets such as the US, UK, Hong Kong, Singapore, and Thailand already use closing auctions in some form. These auctions help large institutions, index funds and ETFs execute end-of-day trades closer to the official closing price.

India is therefore adopting a global standard. But the first month has shown that global practices need to be adapted to local market realities. In India, the derivatives market is extremely large, while cash-market liquidity during the closing auction is still developing. This imbalance has turned the market close into one of the most closely watched parts of the trading day.

## What CAS Is Trying to Improve

The earlier VWAP-based system averaged trades over the last 30 minutes, reducing the influence of a single final trade. However, large institutional orders could still move prices during the closing period, and other participants had limited visibility into the size and timing of those flows.

CAS attempts to make the closing process more transparent and orderly. Instead of using the average price of trades already executed in the final 30 minutes, CAS brings all closing buy and sell orders into one auction and discovers a single price at which the maximum quantity can trade.

### VWAP VS CAS – A SIMPLE ILLUSTRATION

Assume a particular stock trades as follows in the final 30 minutes:

| TIME | PRICES | SHARES TRADED |
|---|---|---|
| 3:02 PM | ₹ 100 | 1,000 |
| 3:10 PM | ₹ 101 | 2,000 |
| 3:18 PM | ₹ 102 | 3,000 |
| 3:25 PM | ₹ 104 | 4,000 |

*Under the old VWAP system, the closing price would be the weighted average of these trades:*

**VWAP CLOSE =**

**₹102.40**

Now assume that during CAS, the auction book looks like this:

| AUCTION PRICE | BUY QUANTITY | SELL QUANTITY | MATCHED QUANTITY |
|---|---|---|---|
| ₹ 102 | 8,000 | 3,000 | 3,000 |
| ₹ 103 | 6,000 | 6,000 | 6,000 |
| ₹ 104 | 4,000 | 8,000 | 4,000 |

*Under CAS, the exchange chooses the price where the maximum quantity can trade. In this example, the official close becomes:*

**CAS CLOSE =**

**₹103**

In short, VWAP looked backward – it averaged the trades that had already happened in the final 30 minutes. CAS looks at the final pool of buy and sell interest at the close and discovers a single price at which the maximum quantity can trade.

*CAS doesn't always produce a higher price; it aims to ensure that large trades towards the closing time have less power to single-handedly move / manipulate the closing price.*

This makes it more auction-based and potentially more useful for institutional execution.

For a long-term investor, this may sound like a small operational change. For index funds, ETFs, arbitrage funds, derivatives traders, and institutional desks, it matters because the closing price affects execution costs, NAVs, hedge positions and settlement prices.

# The First Month: A Mixed Scorecard

The first month of CAS has given mixed signals.

On regular trading days, participation in the closing auction has been thin. According to Bernstein, trading during the CAS window has accounted for only around 1.6–2.3% of daily NSE turnover. This is much lower than the roughly 10% of turnover that used to take place in the comparable closing window under the old VWAP system.

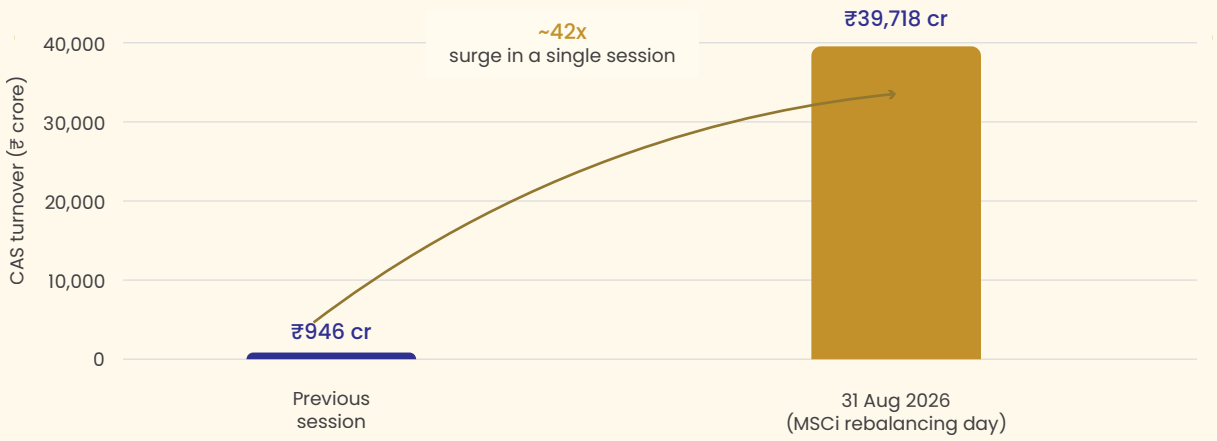
This means fewer participants are currently active in the window that now decides the official closing price.

The picture changed sharply on August 31, 2026, when the MSCI August 2026 Index Review took effect. Index rebalancing days usually lead to heavy trading near the close, as passive funds, ETFs and index investors adjust their portfolios to match benchmark changes.

On that day, CAS saw its first major test and passed it emphatically. NSE recorded ₹39,718 crore of turnover in the closing auction - 42 times higher than the previous trading session, with more than 98,000 unique investors participating. NSE also recorded around ₹63,000 crore of cumulative CAS turnover in the first month.

# The Auction Passes Its First Big Test

NSE CLOSING AUCTION SESSION (CAS) TURNOVER - MSCI AUGUST 2026 INDEX REVIEW




**22%**

of NSE's total cash market turnover that day

**98,000+**

unique investors participated in the auction

**99.9%**

NSE market share in CAS that session

**₹63,000**

CRORES

cumulative CAS turnover, first month (98.2% NSE share)

Source: https://nsearchives.nseindia.com/web/pressrelease/2026-08/PR_cc_31082026_1_20260831195410.pdf

*CAS can attract large liquidity when institutions and passive investors have a strong reason to participate. On ordinary days and expiry days, the auction is still thin and can become more sensitive to large orders.*

# The Bigger Issue: Cash v/s Derivatives Liquidity

The main issue exposed by CAS is India's cash-derivatives imbalance.

India has one of the largest equity derivatives markets in the world. The notional value traded in index derivatives is many times larger than the turnover in the underlying cash shares. On expiry days, this gap can become even wider.
This creates a problem because derivatives settle using closing prices that come from the cash market. If the cash auction is thin, even a small movement in the underlying stocks can influence a much larger derivatives market.

The issue becomes more important near expiry. Traders who hold options often need to adjust their hedges as the index moves. If the index moves close to an important strike price, hedging activity can rise sharply. If this hedging takes place during a thin closing auction, it can move the prices of underlying stocks. Those stock-price moves then affect the value of derivatives, which can lead to more hedging.

This feedback loop is the key risk. CAS has not created India's large derivatives market, but it has made the pressure more visible by concentrating closing-price discovery into a short window.

# The Alleged Gaming of CAS

The most controversial episode came on August 13, 2026, the weekly expiry day for SENSEX options. SEBI passed an interim order against Copthall Mauritius Investment Ltd. and Mansi Share and Stock Broking, alleging that the entities influenced the CAS-driven SENSEX close to benefit their options positions. The estimated wrongful gains were around ₹3.68 crore.

The alleged method was straightforward. Large buy or sell orders were placed in SENSEX stocks during the CAS window. These orders moved the indicative closing level in a favourable direction. The orders were then cancelled before execution.

This is commonly described as a "spoof and pull" concern. A large order is used to influence the displayed auction price, but the order is withdrawn before it trades.

The incentive to influence the close existed even earlier because derivatives have always settled on closing prices. CAS has made that incentive more concentrated because the final price is now discovered in a shorter and more visible auction window.

The episode has highlighted the need for stronger rules around order cancellation, better surveillance, and careful handling of expiry-day settlement.

# Does CAS Need a Reset?

The case for CAS remains strong. A transparent closing auction can improve price discovery, help institutional execution, and support passive investing. The question is how India should refine the design.

Other markets offer useful lessons. The NYSE has stricter restrictions on order cancellation before the close. Thailand uses a random closing time within a defined window. Hong Kong combines random closure with a no-cancellation period.

India already has some safeguards. The CAS order-entry period closes randomly within the last two minutes, and market orders are locked from 3:25 pm. The key issue is around limit orders. These orders are important because they help price discovery, but if cancellation is too flexible, they can also be used to influence indicative prices.

The solution needs balance. If cancellation rules are too tight, genuine participants may avoid the auction. If rules are too loose, the auction can become vulnerable on expiry days.

SEBI's decision to review the derivatives settlement methodology is therefore important. The next phase should focus on four areas: deeper participation in the auction, stronger cancellation rules, better surveillance around expiry days and a review of whether derivative settlement should rely directly on prices discovered in a thin cash auction.

# The Closing Question

CAS was introduced to make India's market close cleaner, deeper and more transparent. Its first month has shown both the promise and the challenge.

The MSCI rebalancing day showed that CAS can handle large institutional flows when participation is strong. Ordinary days and expiry days showed that the auction still needs more depth and stronger guardrails.

The broader lesson is simple. Market reforms cannot be judged only by whether they work globally. They must also fit the structure of the local market. India's equity market is large and sophisticated, but its derivatives market has grown much faster than the cash liquidity that supports it.

CAS has changed how India's market closes. The next task is to make sure that the new close is not only efficient and transparent, but also resilient enough to carry the weight placed on it.

*Snapshot:*

# Macro Economies

| | US | JAPAN | AUSTRALIA | GERMANY | FRANCE | UNITED KINGDOM | EURO AREA |
|---|---|---|---|---|---|---|---|
| GDP YoY | 2.1% | 0.6% | 2.5% | 0.9% | 0.7% | 0.9% | 1.0% |
| Inflation rate | 3.4% | 1.9% | 3.5% | 2.9% | 2.4% | 2.9% | 3.3% |
| 10 Yr Bond Yield | 4.8% | 2.9% | 5.2% | 3.3% | 4.2% | 5.2% | 3.7% |
| Policy rate | 3.8% | 1.0% | 4.4% | 2.4% | 2.4% | 3.8% | 2.4% |

*Snapshot:*

# Emerging Economies

| | INDIA | INDONESIA | BRAZIL | MEXICO | SOUTH KOREA | CHINA | RUSSIA |
|---|---|---|---|---|---|---|---|
| GDP YoY | 7.8% | 5.3% | 1.8% | 2.2% | 3.7% | 4.3% | -0.2% |
| Inflation rate | 4.5% | 3.2% | 4.4% | 3.1% | 3.1% | 0.5% | 6.0% |
| 10 Yr Bond Yield | 7.0% | 7.2% | 14.4% | 9.3% | 4.4% | 1.7% | 16.1% |
| Policy rate | 5.3% | 5.8% | 14.0% | 6.5% | 3.0% | 3.0% | 14.0% |

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

# Overview:

Global markets entered September with a more challenging rates backdrop as inflation, fiscal pressures and geopolitical risk pushed long-term borrowing costs higher across major economies. As of 16 September 2026, 10-year government bond yields stood at around 5% in the US, 5.3% in the UK, 4.8% in France, 3.5% in Germany and 3% in Japan, with several of these markets at multi-year highs. Renewed tensions in the Middle East and higher oil prices added another layer of inflationary pressure, reinforcing concerns that elevated energy costs could delay monetary easing.

# United States

The Federal Reserve raised its policy rate by 25 bps to 3.75–4% on 16 September, its first hike since 2023. August CPI remained elevated at 3.4% YoY, while core CPI stood at 2.4%, keeping inflation above the Fed's 2% target.

The shift in the rate outlook has supported the dollar, with the DXY rising from 99 at the end of August to above 100 by mid-September, while the 10-year Treasury yield moved above 5%. This combination is tightening financial conditions and raising the bar for further equity-market gains. The S&P 500 still gained 2.6% in August, supported by strong earnings and technology-led growth. Its forward P/E, remained elevated at around 19x, leaving valuations increasingly dependent on continued earnings growth as the cost of capital rises.

NEW FED FUNDS TARGET RANGE

**3.75% to 4.00%**

A 25 bps increase, the first since July 2023, approved by a unanimous 12 to 0 vote. The Committee noted that inflation remains elevated and that the move supports a timelier return to the 2% goal.

Overall, the US market is entering a higher-rate environment where earnings growth will need to keep pace with rising financing costs and a stronger dollar.

# Europe

Eurozone activity strengthened through August, with manufacturing PMI rising to 52.7 from 52, its strongest reading in more than four years, supported by improving orders, exports, higher defence and infrastructure spending, and rising AI-related investment.

However, the recovery is facing a renewed inflation shock, with headline inflation accelerating to 3.3% in August from 2.9% in July, while energy inflation jumped to 14%. The ECB responded with a 25-bps rate hike on 10 September, taking the deposit rate to 2.5%, while raising its 2026 inflation forecast to 3%. The German 10-year Bond yield reached 3.8% on 15 September, its highest level since 2009. The rising bond yields signals a broader rise in borrowing costs. It could challenge the sustainability of the recent improvement in manufacturing activity in the coming months

MANUFACTURING PMI

**52.7**

Rose to 52.7 in August from 52, the strongest manufacturing expansion in more than four years.

HEADLINE INFLATION

**3.3%**

Eurozone headline inflation increased to 3.3% from 2.9%, a renewed rise alongside better activity.

Source: Macromicro.com

# Japan

Japan's currency came under renewed pressure as the yen approached ¥164/USD. Authorities responded with the country's largest-ever intervention, spending ¥15.4tn (USD 99 bn) between 30 July and 26 August to support the currency.

The intervention contributed to a record ~USD 80 bn decline in foreign-exchange reserves in August, while the yen subsequently moved back towards ¥ 155/ USD in early September. At the same time, Japan's 10-year government bond yield reached 3% on 15 September, its highest level since 1996, as markets priced higher inflation and continued fiscal expansion.

The combination of yen intervention and rising domestic yields could influence global bond demand, currency markets and Japanese investment flows into overseas assets.

YEN-BUYING INTERVENTION

**¥15.4tn**

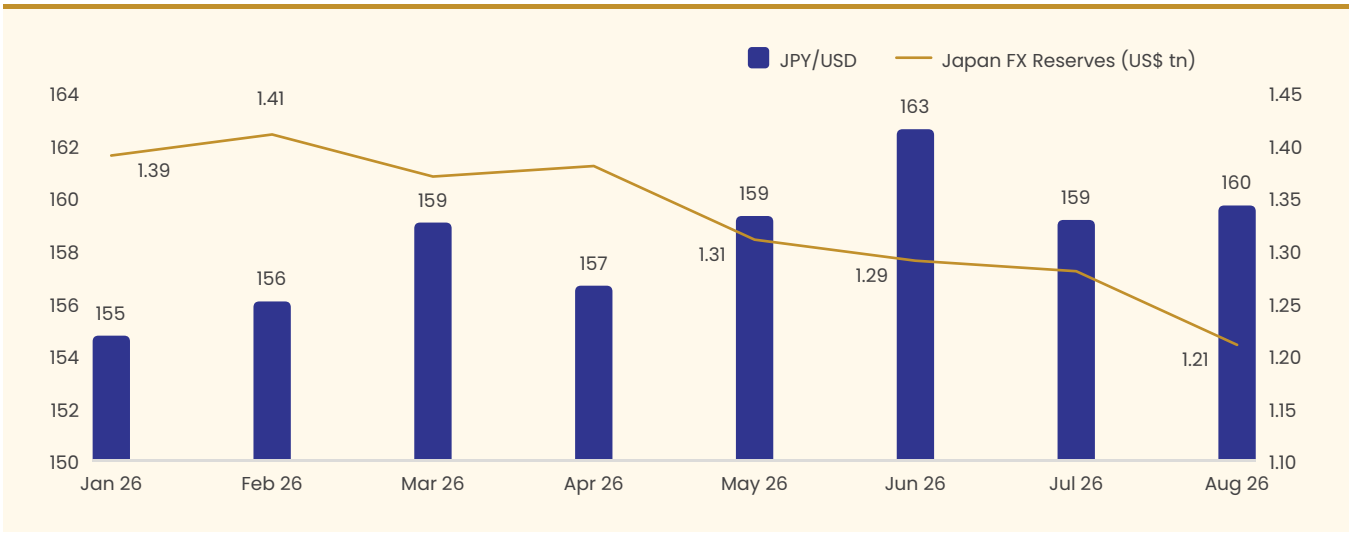
¥15.4tn / US$98.7bn spent between July 30 and August 26 to support the yen.

10-YEAR JGB YIELD

**3.0%**

Crossed 3% in early September, its highest level since 1996.

JAPAN: YEN WEAKNESS AND DECLINING FOREIGN EXCHANGE RESERVES




Source: Tradingeconomics.com

# Emerging Markets - South Korea

South Korea's 2026 GDP growth forecast was raised to 3.3% from 2.6% in May, driven by stronger semiconductor exports and investment. August exports surged 69% YoY, supported by strong semiconductor, computer and cosmetics shipments. August CPI inflation rose to 3.1% from 2.8% in July, while core inflation reached 3.4%.

SOUTH KOREA | GDP GROWTH FORECAST

**3.3%** RAISED FROM 2.6% IN MAY

Driven by stronger semiconductor exports and investment

The Bank of Korea raised its policy rate by 25 bps to 3%, citing inflation and financial-stability risks. Unemployment declined to 2% from 2.6% in July. Stronger employment could support consumption and demand-side inflation. KOSPI rose ~7% in August, while the won strengthened ~1.5% against USD. The 10-year Korean Treasury yield increased ~10 bps during August.

BANK OF KOREA | POLICY RATE

**3.0%** POLICY RATE HIKE +25BPS

Citing inflation and financial-stability risks

# Oil

Oil has moved back to the centre of the macro-outlook as disruptions around the Strait of Hormuz intensified. Brent crude crossed USD100/bbl on 9 September, its highest level since late July, and reached around USD108–109/bbl in mid-September as attacks on shipping and Saudi energy infrastructure raised concerns over the availability of alternative export routes.

BRENT CRUDE REACHED AROUND

**USD108-109/bbl**

In mid-September as attacks on shipping and Saudi energy infrastructure raised concerns

Vessel traffic through the Strait of Hormuz fell to seven crossings on 10 September, half the 10-day average of 15. At the same time, damage to Saudi Arabia's East-West pipeline has constrained one of the key routes used to bypass Hormuz, forcing Saudi Arabia to explore ship-to-ship transfers through Oman.

The sensitivity is particularly high now, with bond yields already elevated and markets reassessing the path of monetary policy. Sustained oil prices above USD100/bbl could add to headline inflation and reduce the room available for monetary easing.

# Looking Ahead

*The global macro environment is likely to remain sensitive to three key developments in the coming weeks. In the US, the Fed's September projections indicate one further rate hike in 2026, making upcoming inflation data important for the path of global interest rates. The duration of the Middle East supply disruption will determine whether Brent remains above USD100/bbl and adds to global inflationary pressures. In Japan, the BOJ's policy signals could influence the yen and Japanese demand for overseas bonds, with potential spillovers into global bond and currency markets.*

# Indian Economy Review

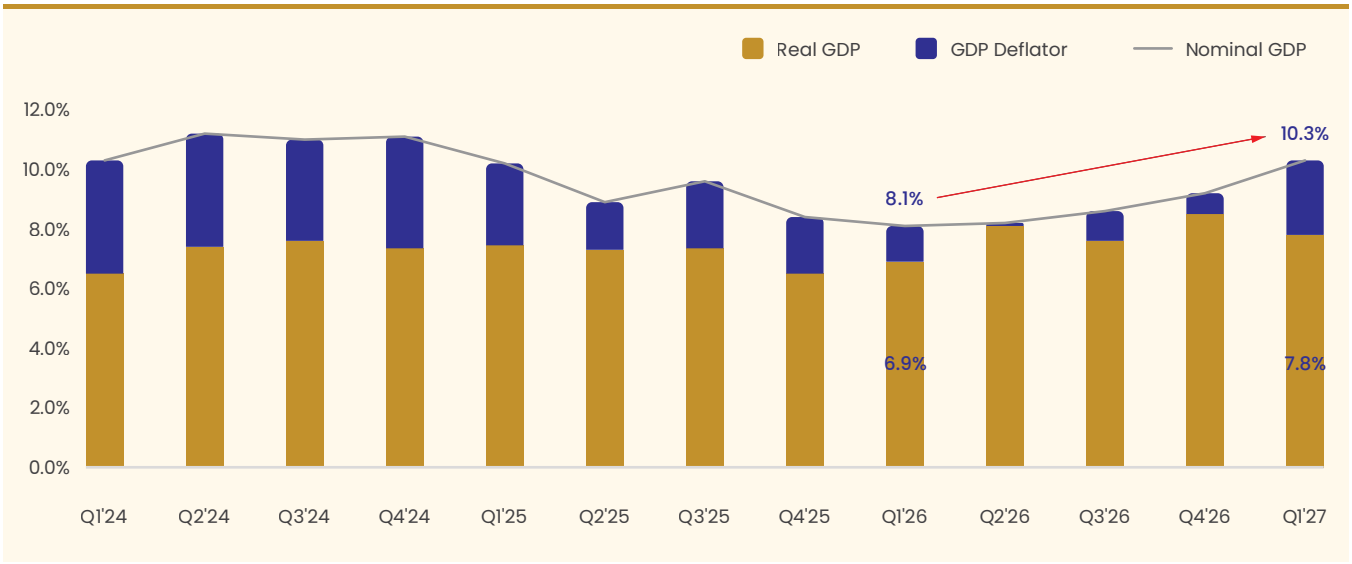
The Indian economy has started FY27 on a strong footing, with real GDP growing 7.8% in Q1 and consumption and investment remaining supportive. The momentum has carried into Q2, with firm GST collections and automobile sales and continued expansion in industrial activity. At the same time, PMI data point to a more measured pace of private-sector expansion, while inflation remains an area to watch.

**REAL GDP GROWTH, Q1**

## 7.8%

Real GDP grew 7.8% in Q1, with consumption and investment remaining supportive.

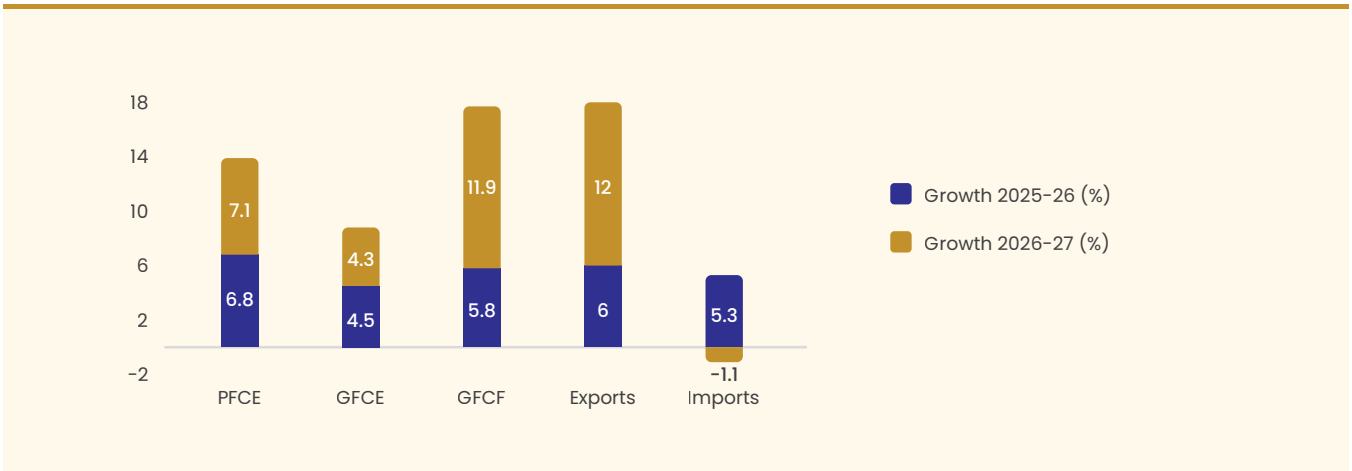
### GDP GROWTH RATE (%)




Source: MOSPI

Growth was relatively broad-based across both demand and production. Private consumption grew 7.1%, while gross fixed capital formation rose 11.9%, indicating support from both consumption and investment. On the production side, Financial, Real Estate, IT & Professional Services grew 12.1%, Manufacturing 9.2%, and Construction 7.7%, highlighting continued strength in non-farm activity.

### REAL GDP – EXPENDITURE BREAKUP –Q1FY25 V/S Q1FY26




Source: MOSPI

External trade also supported growth, with exports of goods and services rising 12.0% in real terms, while imports declined 1.1%. Taken together, the Q1 performance was broad-based rather than dependent on a single source of growth.

With such a strong starting point, the next question is whether this momentum has continued into Q2. Early high-frequency indicators provide a largely positive answer.

# High-Frequency Data Keeps the Momentum Intact

Industrial activity remained supportive at the start of Q2. IIP grew 6.7% year-on-year in July, following an upward revision of 8.8% in June. Manufacturing rose 7.3%, electricity 8.7%, and capital goods 16.1%, pointing to continued investment activity. Cumulatively, IIP grew 6.3% during April-July FY27, versus 4.0% a year earlier.

GST collections also remained near the ₹2 lakh crore mark, rising 14.8% year-on-year to ₹1.99 lakh crore in August. Domestic collections grew 9.3%, while import-related collections rose 29%. Net GST revenue stood at ₹1.68 lakh crore, up 8.3%. Import-related collections continue to outpace domestic collections, while refunds also rose sharply. Even so, gross GST collections for April-August were up 11% year-on-year to ₹10.43 lakh crore.

IIP GROWTH, JULY

**6.7%**

IIP grew 6.7% year-on-year in July, following an upward revision of 8.8% in June.

GROSS GST COLLECTIONS, AUGUST

**₹1.99** LAKH CRORE

Gross collections rose 14.8% year-on-year to ₹1.99 lakh crore in August.

# Record Auto Sales Show Strong Demand -

*and a Shift in Preferences*

Automobile sales remained strong, with retail volumes reaching a record 24.23 lakh units in August, up 17.5% year-on-year. Passenger vehicle sales crossed 4 lakh units for the first time in August, while two-wheeler and commercial vehicle sales rose 19.7% and 14.5%, respectively.

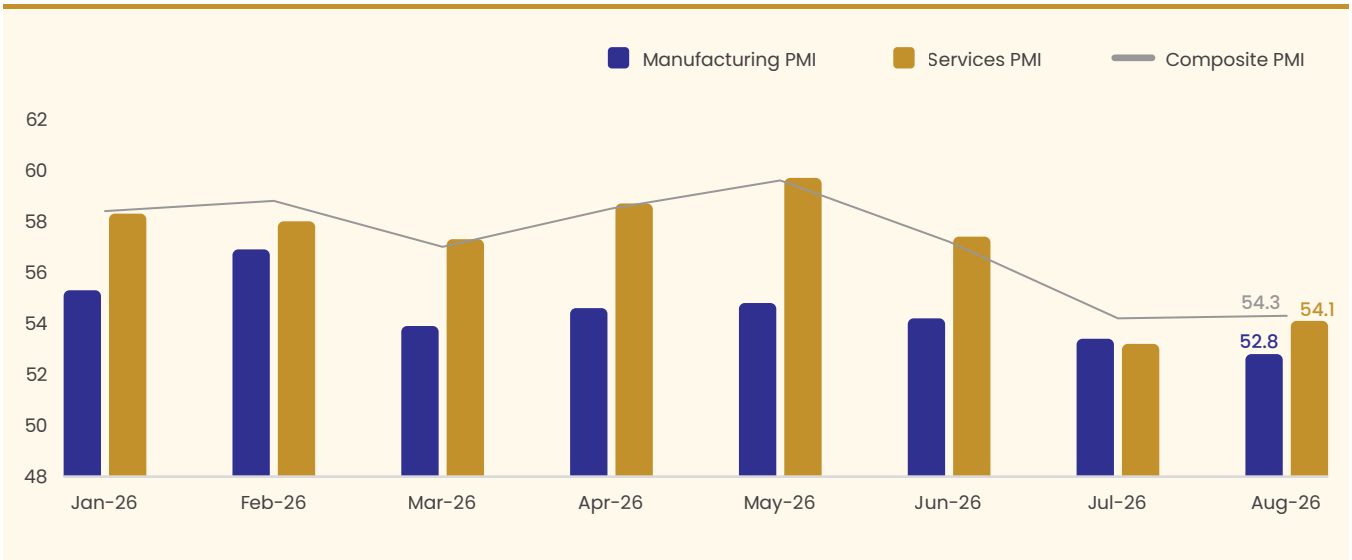
More notable is the shift in fuel mix. CNG, hybrid and electric vehicles together accounted for 41.95% of passenger-vehicle sales, slightly ahead of petrol/ethanol at 40.85%, **highlighting changing consumer preferences alongside higher volumes.**

With demand and industrial indicators remaining supportive, PMI data becomes important in assessing whether businesses are seeing the same strength or a moderation in activity.

# Private Sector Keeps Expanding, But the Pace Has Cooled

The August Composite PMI data edged up to 54.6 from 54.3 in July, remaining in expansion but well below levels seen earlier in the year. Services provided support, with reading rising to 54.5 and employment reaching a 15-month high. Manufacturing moderated further to 52.9, its lowest since August 2021, with output and new orders growing at their slowest pace in five years.

PMI READINGS




Source: HSBC PMI

The PMI therefore points to continued expansion, but at a slower pace, with services offsetting softer manufacturing.

# Fiscal Position Remains Broadly on Track

The Union government's April-July FY27 accounts show receipts of ₹13.07 lakh crore, or 35.8% of the full-year Budget Estimate, while expenditure stood at ₹17.62 lakh crore, or 32.9%. Capital expenditure accounted for ₹4.51 lakh crore, with revenue expenditure at ₹13.11 lakh crore. The fiscal deficit stood at ₹4.55 lakh crore, or 26.8% of the full-year target, against the FY27 target of 4.3% of GDP. This suggests the fiscal position remains broadly on the planned consolidation path, while capital expenditure continues to receive significant allocation.

FISCAL DEFICIT

**₹4.55** LAKH CRORE

26.8% of the full-year target, against the FY27 target of 4.3% of GDP.

This combination of strong economic activity and fiscal consolidation has also received external recognition.

# Sovereign Rating Upgrade Adds to the Positive Macro Backdrop

Japan Credit Rating(JCR) Agency upgraded India's long-term foreign- and local-currency issuer ratings from BBB+ to A-, with a Stable Outlook. JCR cited resilient growth, improving fiscal quality, a stronger financial system and a robust external position. It also highlighted stronger banking and NBFC balance sheets, a contained current account deficit and adequate foreign exchange reserves. While the upgrade does not alter the near-term outlook, it reinforces the improvement in India's broader macroeconomic fundamentals.

The picture therefore remains strong on growth, demand and fiscal indicators. Inflation, however, has become the key area to watch.

# Inflation Moves Higher, Bringing Food Prices Back Into Focus

July CPI inflation rose to 4.45% from 4.38% in June, with food inflation increasing to 5.52%. Rural inflation stood at 4.84%, compared with 3.96% in urban areas. While food remains the key source of pressure, inflation across several other categories remained moderate, suggesting the increase is not yet broad-based. Wholesale inflation remains considerably higher, with WPI at 9.78% in July. Fuel and power inflation stood at 20.05%, while manufactured products inflation was 8.29%.

CPI INFLATION, JULY

**4.45%**

Retail inflation rose to 4.45% in July from 4.38% in June

FOOD INFLATION

**5.52%**

RURAL

**4.84%**

URBAN

**3.96%**

The gap between WPI and CPI is therefore worth watching. Higher input costs have not yet fully passed through to consumers, but greater pass-through could add to inflationary pressure in the months ahead.

# Growth Is No Longer the Question

The data through August confirms that FY27 has started from genuine strength, not just favorable base effects. What has changed is the balance of risks: manufacturing is expanding at its slowest pace in five years and wholesale inflation remains well above retail inflation.

None of this threatens the FY27 growth story on its own. But growth and inflation are now pulling in opposite directions, making the next CPI print an important test of whether food-price pressures are beginning to broaden.

# Market Performance - Aug'26

| NIFTY 50 | NIFTY MIDCAP 150 | NIFTY SMALLCAP 250 | NIFTY 500 |
|---|---|---|---|
| -1.2% | 1.7% | 2.5% | -0.04% |

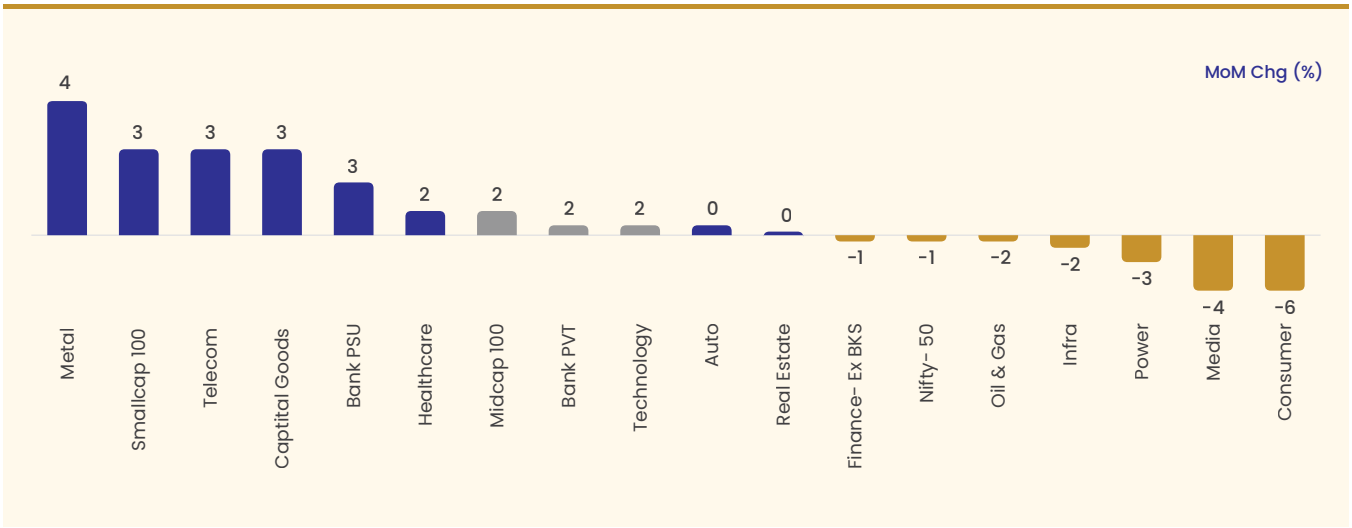
Indian equities ended their two-month winning streak in August 2026, with the Nifty 50 declining 1.2% MoM to close at 24,080. The index remained volatile, moving within a 781-point range during the month before ending 303 points lower. Consequently, the Nifty 50's decline widened to 7.8% in CY26 YTD. Market breadth also weakened, with 31 of the 50 index constituents closing lower.

However, broader markets outperformed, with the Nifty Midcap 150 gaining 1.7% and the Nifty Smallcap 250 rising 2.5% during the month.

# Sectoral Performance

Sector performance remained divergent in August, with Metals, Telecom, Capital Goods and PSU Banks outperforming, while Consumer stocks led the decline. The rotation towards cyclicals, even as consumption-oriented segments weakened, underlined the selective nature of the market.

SECTOR PERFORMANCE –AUGUST (%)



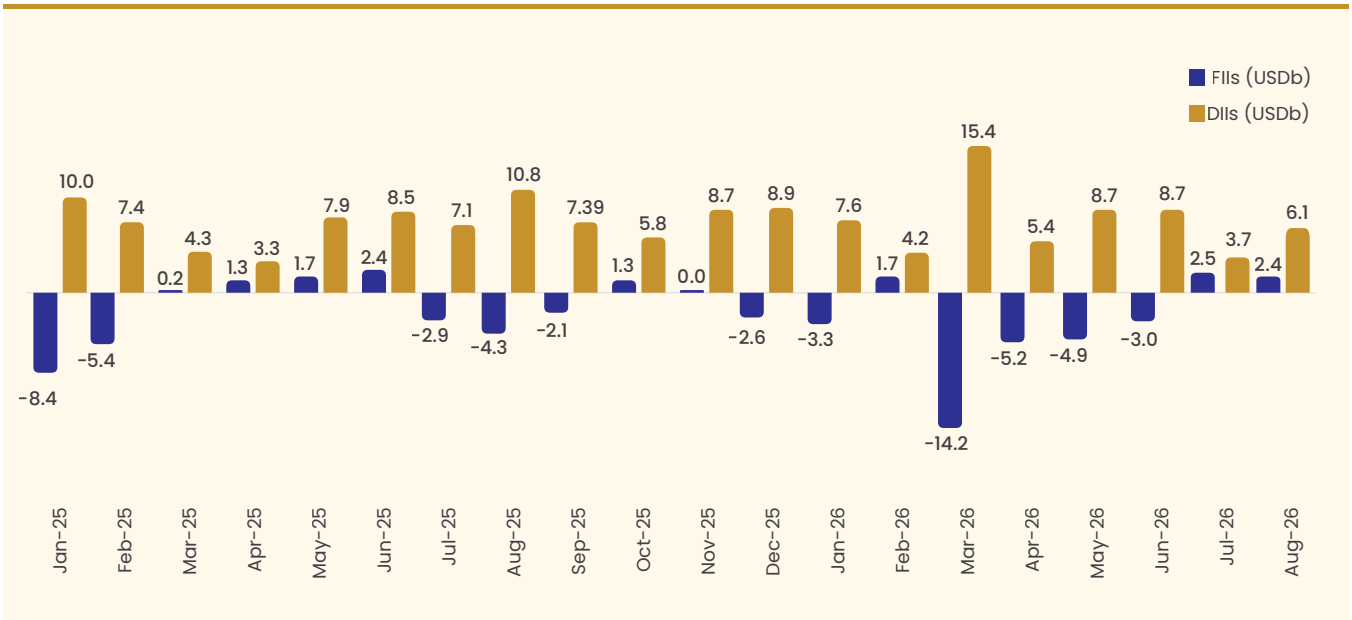

Source: Motilal Oswal Bulls and Bears Report

# FII vs DII Flows

FII flows remained positive for the second consecutive month in August 2026, with net equity inflows of USD 2.4 billion, following USD 2.5 billion in July. However, cumulative FII outflows remained sizeable at USD 24.1 billion in CY26 YTD, reflecting the heavy selling earlier in the year.

Meanwhile, DII inflows strengthened to USD 6.1 billion in August from USD 3.7 billion in July, taking cumulative CY26 YTD inflows to USD 59.8 billion. The growing scale and ownership of domestic institutions has reduced the market's sensitivity to foreign flows, providing a stronger liquidity buffer against FII selling.

FII VS DII FLOWS




Source: Motilal Oswal Bulls and Bears Report

# Corporate Earnings — Q1FY27 Final Review (As on 31st Aug'26)

## *Nifty 50: PAT Growth Reaches A 10-Quarter High*

The Nifty 50 delivered 18% YoY PAT growth, well ahead of the 10% estimate and its strongest growth in ten quarters. However, gains were concentrated, with ONGC, Hindalco, Reliance Industries, JSW Steel and Bharti Airtel accounting for 60% of incremental earnings. Consequently, FY27E Nifty EPS was upgraded modestly by 0.6% to Rs.1,232.

NIFTY 50 - 10 QUARTER HIGH

**18% YoY**

earnings growth
vs 7% estimated

## *MOFSL Universe: Broad Based Earnings Beat*

MOFSL Universe recorded PAT growth of 11% against the -2% estimate. Excluding OMCs, a 22% PAT growth was recorded against 15% estimate. Overall, the growth was fueled by BFSI, Metals, O&G (ex-OMCs), while the drags were OMCs, Cement and Aviation.

MOFSL UNIVERSE - PAT GROWTH

**22% YoY**

earnings growth ex-OMC
vs 15% estimated

## *Market Cap Trends: Strength Across Categories*

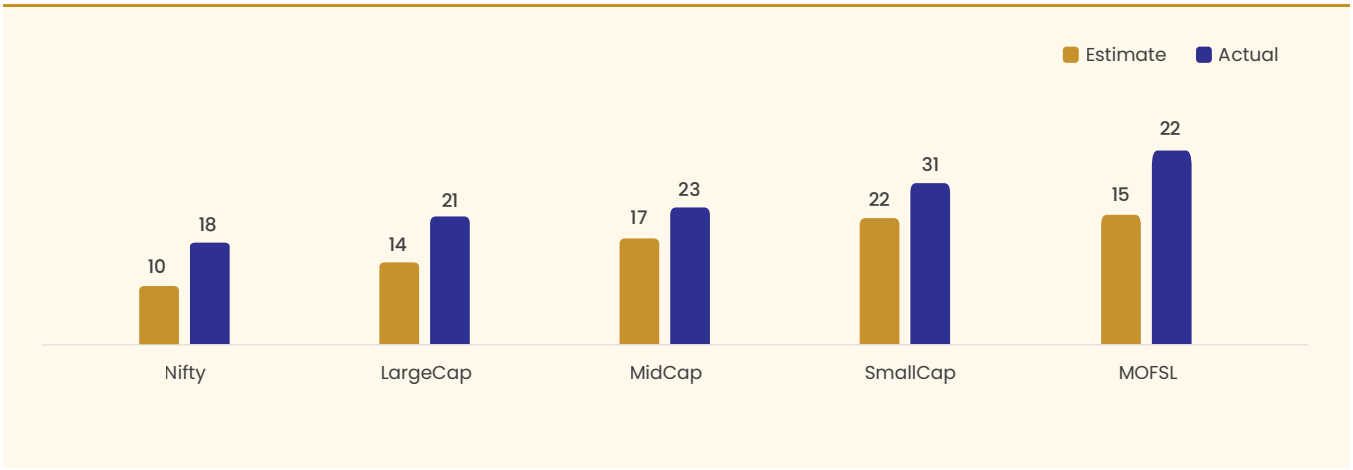
Excluding OMCs, large-, mid- and small-cap earnings grew 21% (vs 14% est), 23% (vs 17% est.) and 31% YoY (vs 22% est.), respectively, with each segment exceeding expectations. Mid-cap earnings growth reached an 11-quarter high, while small-caps delivered the strongest growth, supported by a favourable base, Financials and Oil & Gas. Importantly, the FY27E upgrade-to-downgrade ratio improved to 1.5x, signaling a more constructive earnings outlook.

SMALL-CAP EARNINGS GROWTH

**+31% YoY**

earnings growth ex-OMC
vs 22% estimated

NIFTY 50 PAT GROWTH EX OMC (%)




Source: Motilal Oswal India Strategy Report

# Valuations

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

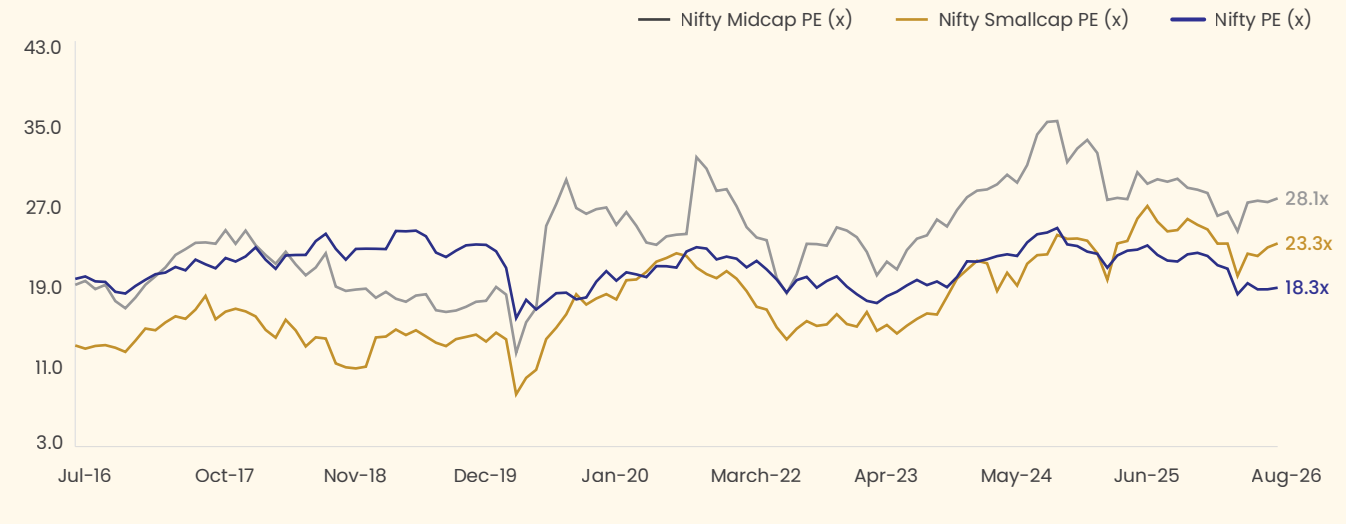
CURRENT NIFTY 50 VALUATIONS

**18.3x**

12-Month Forward P/E Ratio

~12% BELOW 10-YEAR AVERAGE

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




Source: Motilal Oswal Institutional Equities Report

## BELOW ARE THE COMPARATIVE VALUATIONS OF A FEW KEY SECTORS

| SECTOR | 12M FORWARD P/E OR P/B | 10Y AVG P/E OR P/B | KEY VIEW |
|---|---|---|---|
| Automobiles | 26.3x P/E | 23.8x P/E | At a 10% premium; PV and tractor demand remains strong, while premium two-wheelers, CVs and exports support volumes. Margins should recover, although growth may moderate in 2HFY27 due to a higher base. |
| Private Banks | 2.0x P/B | 2.5x P/B | At a 21% discount; strong credit growth and stable asset quality remain supportive. However, rising funding costs and competitive deposit rates may keep NIMs range-bound. |
| PSU Banks | 1.2x P/B | ~0.9x P/B | At a 33% premium; credit growth and moderating slippages support the outlook. Slower CASA growth, funding costs and emerging stress in MSME and business loans remain key monitorable. |
| Capital Goods | 40.6x P/E | 32.6x P/E | At a 25% premium; ordering momentum is improving across power transmission, data centers and industrial capex. Strong order books support earnings visibility, but elevated valuations warrant selectivity. |
| Consumer Staples | 35.7x P/E | 42.6x P/E | At a 16% discount; rural and urban demand remains resilient, but commodity volatility and calibrated price increases may pressure margins and slow the consumption recovery. |
| Consumer Durables | 40.8x P/E | 38.1x P/E | At a 7% premium; festive stocking and strong cables-and-wires demand remain supportive. However, commodity inflation, price hikes and potential channel destocking pose near-term risks. |
| Healthcare | 37.0x P/E | 27.8x P/E | At a 33% premium; healthy domestic formulations, improving CDMO activity and steady hospital growth support the premium, despite continued pricing pressure in US generics. |
| Real Estate | 26.0x P/E | 33.7x P/E | At a 21% discount; office supply expanded strongly, while absorption remained stable. Record GCC leasing and lower vacancy provide support to the commercial real-estate outlook. |
| Technology | 16.5x P/E | 21.5x P/E | At a 23% discount; valuations remain inexpensive, but weak discretionary spending, shorter deal cycles and AI-led productivity gains continue to constrain revenue visibility. |

# Portfolio Strategy

Markets showed signs of recovery through June and July, before the trend reversed in August. Improving earnings and better domestic sentiment supported Indian equities initially, while global markets too remained resilient.

That backdrop changed as global risks intensified. Escalating Middle East tensions pushed crude higher, reviving concerns around inflation, growth and corporate margins.

At the same time, the rate environment turned less supportive. Sticky inflation, rising fiscal deficits and hawkish stance by major central banks has pushed long-term yields higher, increasing the pressure on equity valuations globally.

India, however, continues to have a strong domestic economic backdrop. Q1FY27 GDP growth of 7.8% came ahead of expectations, highlighting resilience in consumption, investment, manufacturing and services.

The improvement is also visible in corporate earnings. Nifty 50 profits grew around 18% YoY in Q1FY27, providing stronger fundamental support to the market after several quarters of earnings moderation.

Strong domestic liquidity provides another cushion. Record SIPs and sustained mutual fund inflows continue to support equities, although a rising pipeline of equity supply is absorbing an increasing share of this liquidity.

Nifty 50 is trading at 18.3x 12-month forward P/E, ~12% below its historical average of 20.9x. Mid & Small Caps remain at a 9%/30% premium to their 10-year averages, though the premium has moderated meaningfully from Sep'24. This leaves valuations in a fairly balanced zone. Markets are neither cheap enough to warrant aggressive buying nor expensive enough to turn outright cautious.

Indian equities are therefore caught in a "**Tale of Two Currents**." Strong domestic growth, earnings and liquidity are pulling the market forward, while high crude, rising global yields, fiscal concerns and increasing supply are working in the opposite direction.

*Considering the current scenario, we continue to maintain neutral view on Equities.*

### PORTFOLIO ALLOCATION

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

*Investment Strategy: Lump-sum investments in Hybrid funds at current levels; For Pure equity-oriented strategies, a staggered approach is prudent given the uncertainty. Any sharp correction should be used for aggressive deployment.*

# Structural Shift in Fixed Income Market:

*Higher yields is the new normal*

Higher-for-longer yields and greater volatility are becoming an important feature of the fixed-income landscape, particularly at the long end, creating a different investment environment from the low-yield regime of the previous decade.

For economies like US, Japan, UK & Germany, long term sovereign yields are near multi decade high due to Central Bank's pivot to rate normalization, persistent inflation risks, growing concerns on rise in sovereign debt and fiscal discipline.

Also, because of the higher carry, reallocation of global capital can be envisaged, putting more pressure on the yields.

Case in point is reallocation in Japanese Bonds (Till now Yen was a source of global carry trades, but as the bond yields continue to rise, more capital could remain at home)

### A HAWKISH FED HANDOFF

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

### LONG BONDS REPRICING WORLDWIDE

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

### RBI REMAINS WATCHFUL

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

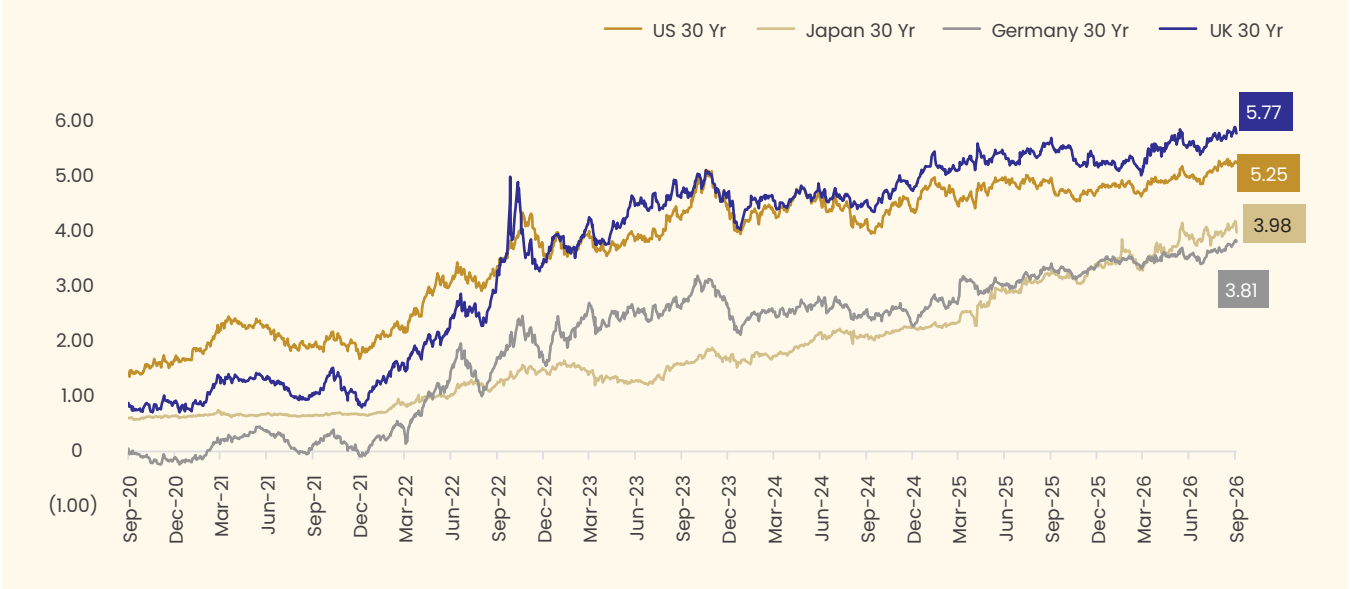
### RUPEE UNDER STRUCTURAL PRESSURE

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

### INDIA'S CURVE HAS RE-STEEPENED

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

## 30 YR YIELD TREND OF DEVELOPED ECONOMIES



# Indian G-Sec Curve Has Steepened More

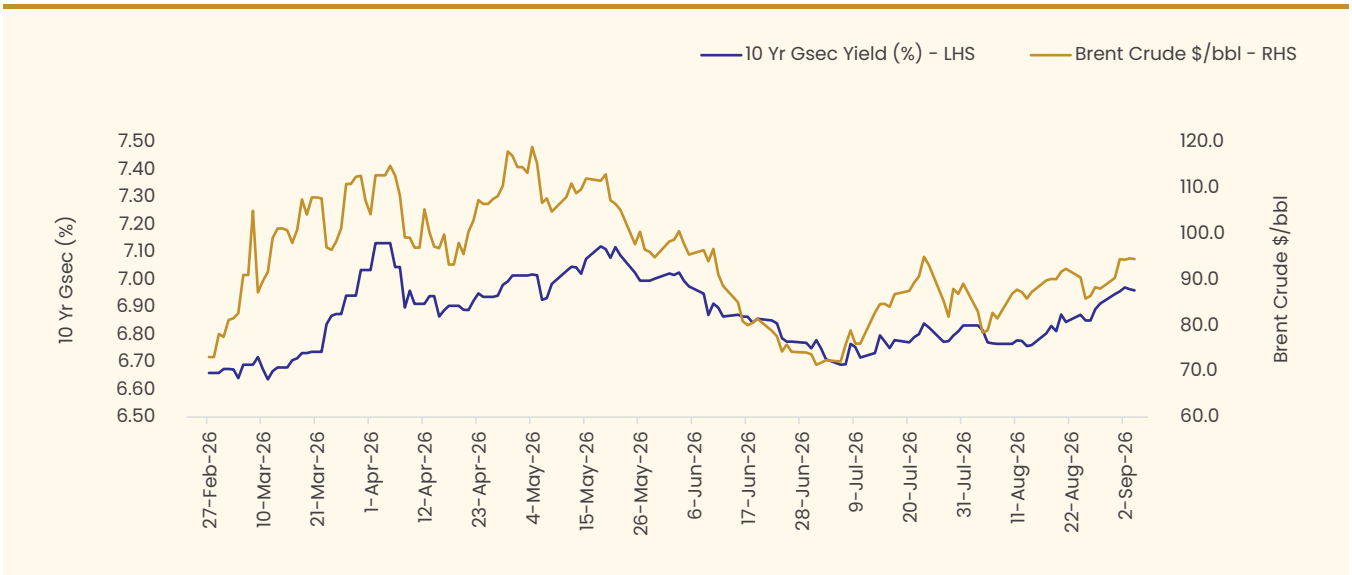
India-US 10Y spread remained between ~210–240 bps through the year as both curves sold off together during the oil shock, then India outperformed on RBI's dovish Aug-26 tone even as US yields stayed elevated.

As Brent retraced toward $78–84 (Apr–Aug'26), India's 10Y partially unwound the spike, but a full retracement to pre-shock lows (~6.30%) has not occurred — elevated global yields and India's own food/fuel inflation are keeping a floor for the yields.

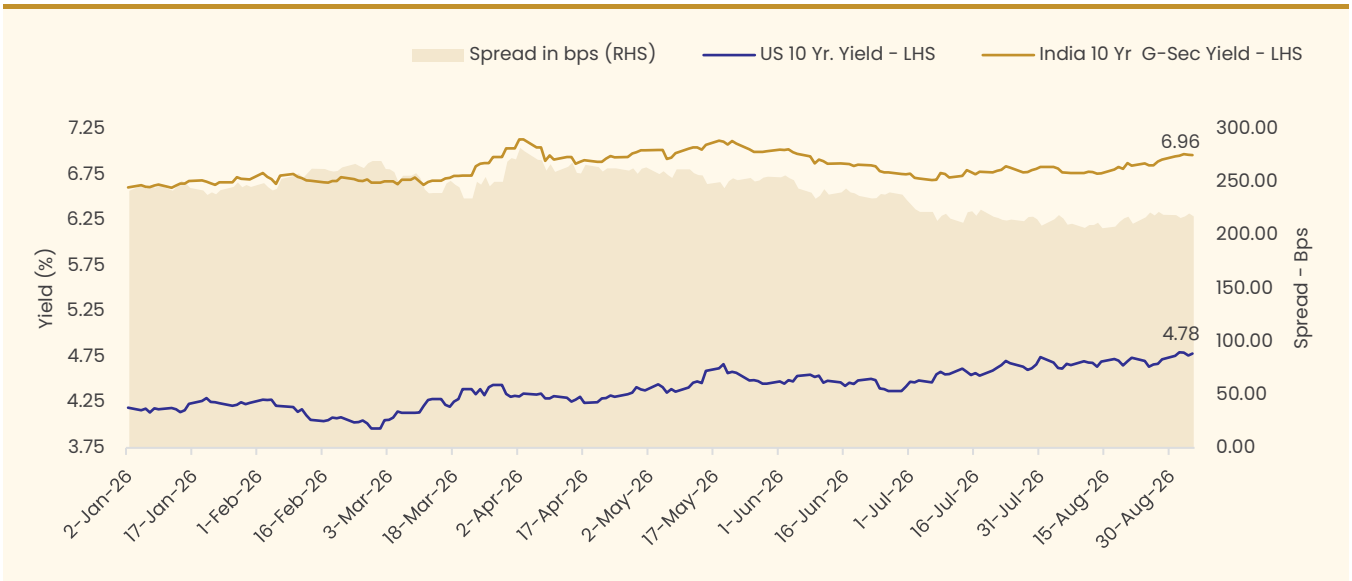
Yield curve has softened and has come to the levels of pre US-Iran War with 10 yr yield hovering @ 6.77%.

India duration is now a levered play on the crude price trend/supply and Fed pricing simultaneously — a further Hormuz-style shock or a US hawkish surprise are the two biggest swing factors for the 10Y in the near to medium term.

### 10 YR GSEC YIELD VS BRENT CRUDE

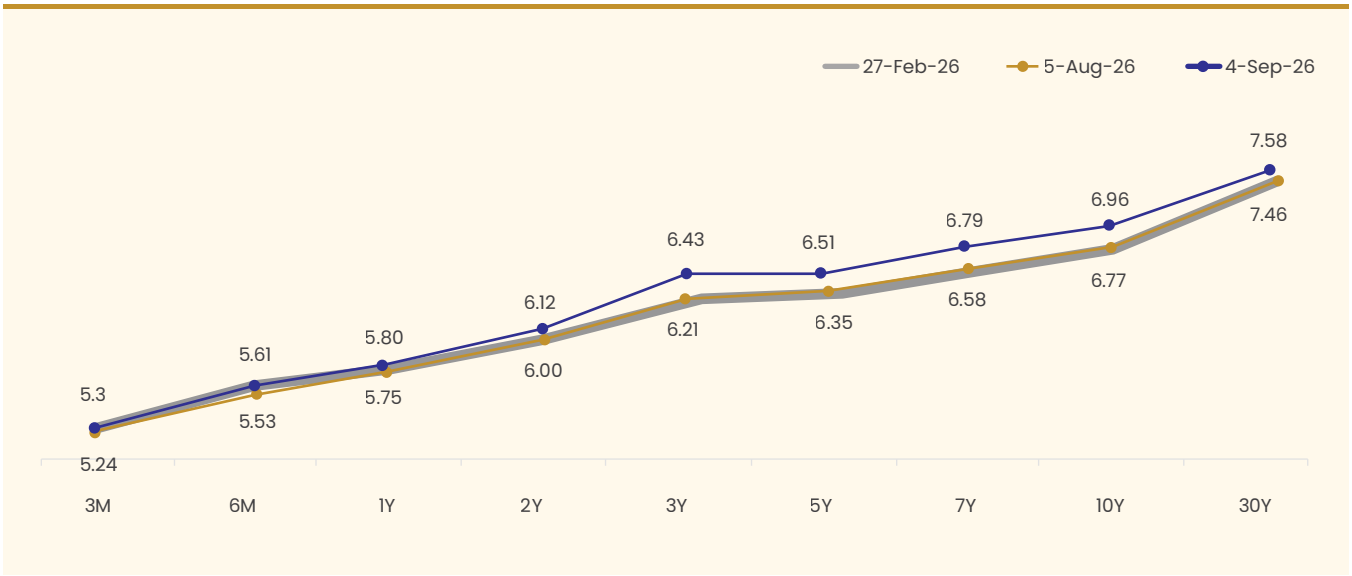



### US & INDIA - 10 YR YIELD




Source : Investing.com ; market reports, internal research, Data as on 4th Sep 2026

## G SEC YIELD CURVE




Source : Investing.com ; market reports, internal research, Data as on 4th Sep 2026

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

FCNR(B) swap inflows increased forex reserves to an all-time peak of USD 741 Bn , ~11 months of imports, vs 2013 era where forex reserves dipped toward $275bn defending the rupee before recovering.

However, this move by RBI in 2026, cushioned rupee depreciation, but there was no visible appreciation of the currency. High oil import bill due to higher crude oil prices, widened trade deficit, FII outflows, decreasing spread over US bond yields led to more dollar supply than demand.

Also, on back of record inflows of USD 127 BN due to FCNR(B) deposits, domestic liquidity surplus reached to a record high of INR 10.8 Tn – surpassing Sep 2021 high of INR 9.2 Tn – RBI may deploy offsetting tools to absorb excessive liquidity.

**2013 TAPER TANTRUM**

**$34bn**
mobilised via FCNR(B) swaps

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

Window: Sep–Nov 2013

Tier-I overseas borrowing cap: 50% → 100%

Rupee: 67.64 low → ~61 in weeks

**2026 OIL SHOCK +TARIFF OVERHANG**

**$127bn**
mobilised - nearly 4x 2013

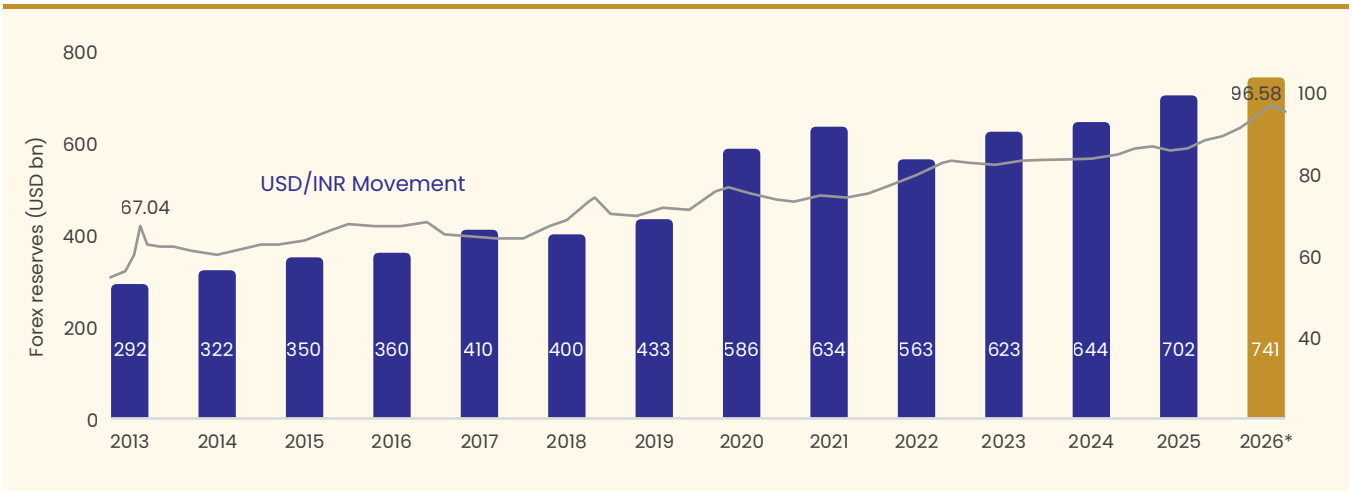
**0%**
hedging cost - RBI absorbs it fully

Window: Jun 8 – Aug 31, 2026

CRR/SLR waived on deposits till Mar 2027

Rupee: still hit a fresh record low, ~93–97

USD/INR MOVEMENT




Source: RBI Weekly Statistical Supplement; CEIC; Trading Economics; Investing.com, Internal Research. *2026 as of Aug 28.

# Fixed Income View & Portfolio Strategy

Higher-for-longer yields and greater volatility are becoming an important feature of the fixed-income landscape, particularly at the long end, creating a different investment environment from the low-yield regime of the previous decade.

Persistent inflation risks, renewed monetary tightening expectations and rising fiscal deficits are pushing global sovereign yields higher, with the pressure particularly visible at the longer end.

Back home, the RBI has so far held the policy rate at 5.25%, but the balance of risks has become more challenging. Higher crude prices, renewed inflation pressures, INR vulnerability and a potentially tighter Fed/BoJ policy path reduce the room for monetary easing.

Indian bond yields have consequently moved higher, with the benchmark 10-year G-Sec yield crossing the 7% . The Indian yield curve has also steepened. Abundant banking-system liquidity due to large FCNR(B) inflows has helped contain shorter-end rates.

We expect long end yield to be volatile due to inflation concerns, rising crude oil prices and policy path of Fed/BoJ.

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

Accrual exposure should be built across the credit spectrum, with 55–60% of the fixed income allocation directed towards private credit strategies, high-yield NCDs and income-generating assets such as InvITs

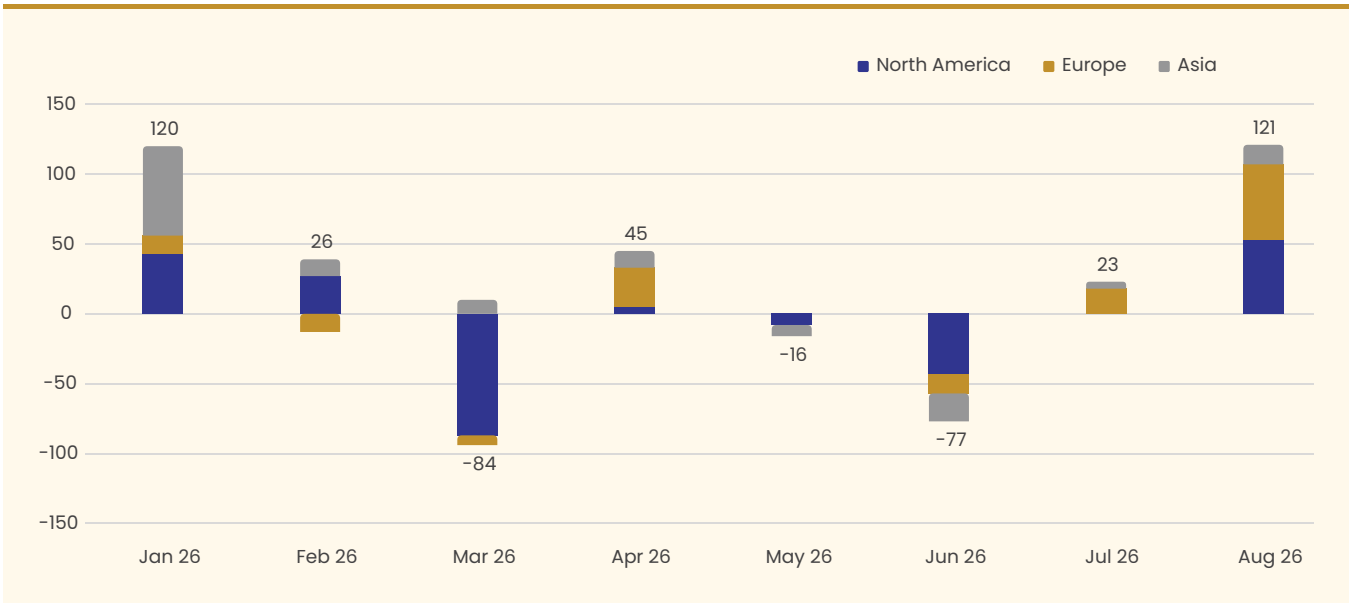
The **balance of the portfolio** may be deployed in relatively liquid fixed-income alternatives, offering both flexibility and risk-adjusted stability namely Arbitrage Funds (min 3 months holding period) and Hybrid SIF Funds (min 2 yr holding period) having debt/arbitrage+ positioning.

# Gold and Silver

August was a significant inflection point for gold. After the sharp correction in June and relatively stable July, gold delivered a 13% USD return in August, its third-strongest monthly return in 25 years, ending the month at around US$4,563/oz. For Indian investors, the return was 9% in INR terms, as rupee appreciation partially offset the international gold rally.

The more important signal, however, came from flows: global gold-backed ETFs attracted approximately US$ 18 bn in August, the second-largest monthly inflow on record. The global ETF AUM went up 16% MoM to US$ 615 bn and holdings to a record ~4000 tonnes.

GOLD ETF NET FLOWS IN USD MN




Source: World Gold Council

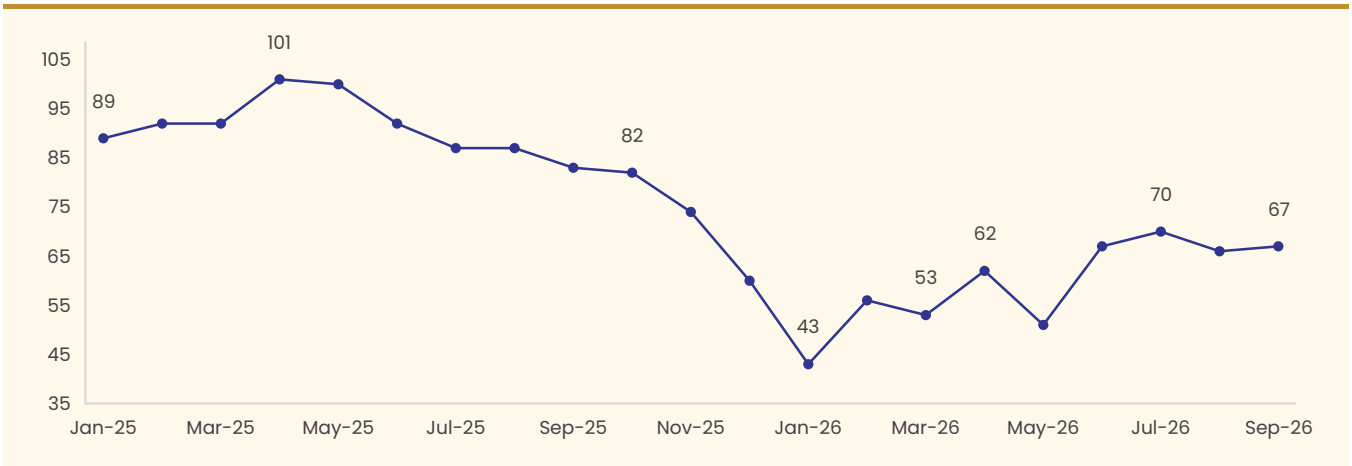
The regional composition of these flows provides further insight into the recovery. The August rally was supported by renewed institutional and tactical demand rather than a single regional investment cycle. Europe recorded it's highest net flow in August supported by concerns around fiscal sustainability and sovereign borrowing costs.

# Gold and Silver: Diverging Drive

Gold and silver remained volatile through August and early September, but their relative performance increasingly reflected differences in their underlying demand drivers.

Like Gold, Silver also delivered a strong 15% return in August, rebounding sharply after the correction witnessed in June and July. The relative move is also visible over a longer period through the gold-to-silver ratio.

## GOLD TO SILVER RATIO




Source: Trading Economics

After reaching 100x in April 2025, the ratio declined to 60x by December before recovering to 70x in July 2026. It subsequently moderated to 66.6x in September, indicating that silver has continued to retain a significant part of its relative outperformance versus gold.

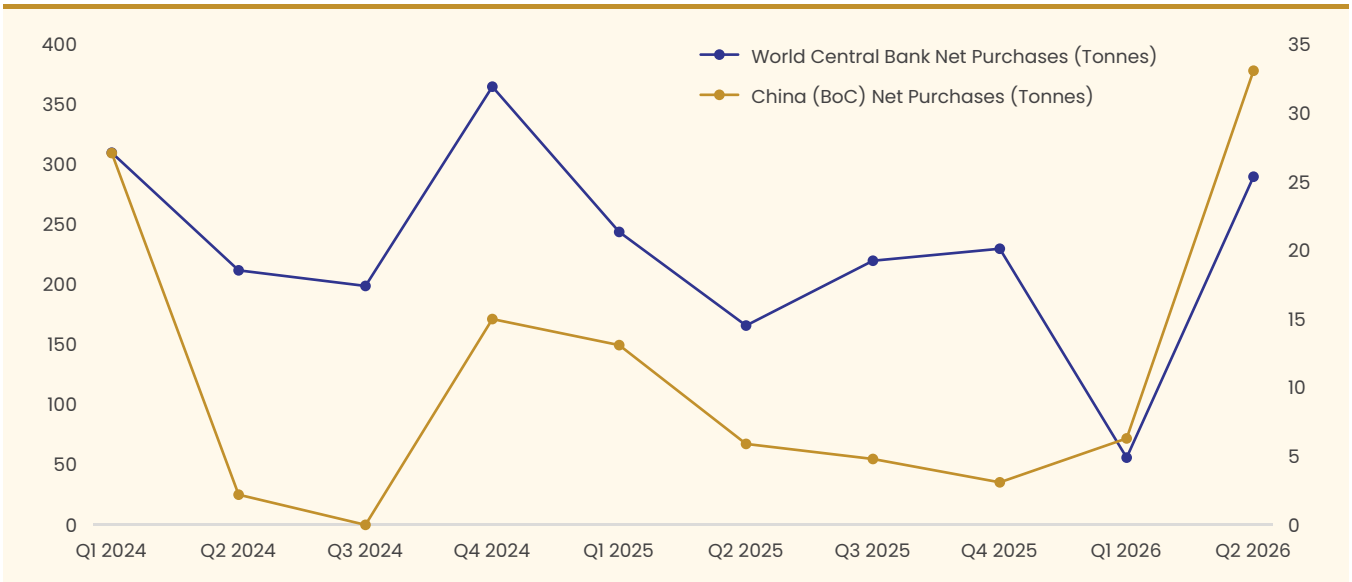
The divergence is relevant because the two metals increasingly reflect different parts of the economic cycle: gold remains more closely connected to reserve diversification, currencies and macroeconomic uncertainty, while silver combines precious-metal investment demand with a substantially larger industrial component.

## GOLD - RESERVE MANAGEMENT IS BECOMING A BROADER THEME

Official-sector demand remains an important structural component of the gold market. China accelerated its gold accumulation in August, with the People's Bank of China adding 20 tonnes, its largest monthly increase since October 2023. This extended its gold-buying streak to 22 consecutive months, taking official holdings to ~2400 tonnes, equivalent to 10% of total foreign-exchange reserves.

According to the World Gold Council, central banks purchased approximately 130 tons of gold through July, compared with around 160 tons over the same period last year. Poland has been the largest central-bank buyer so far in 2026 as it works towards a target of holding 30% of its reserves in bullion.

## NET WORLD'S GOLD PURCHASE VS CHINA'S CENTRAL BANK (IN TONNES)




Source: Macro Trends

# Silver - The Industrial Story Is Changing

A significant change is taking place within industrial demand of silver itself. Industrial fabrication is forecast to decline around 2% to ~20,200 tonnes in 2026., primarily due to lower silver usage in photovoltaic applications as manufacturers increase thrifting and substitution.

At the same time, demand from data centers, AI-related technologies and automotive applications continues to expand.

This distinction is increasingly important at elevated silver prices. The higher prices encourage recycling, thrifting and substitution in price-sensitive applications. Consequently, growth in end-market activity does not necessarily translate proportionately into higher silver consumption. The Silver Institute's latest outlook also expects total supply to increase by around 1.5% in 2026, while mine production rises by approximately 1%; this would leave the market in deficit for a sixth consecutive year at ~ 2,000 tonnes.

# Looking Ahead

*Going forward, the key indicators to watch will be whether gold can sustain institutional participation at elevated price levels and whether silver can translate strong end-market growth into actual metal consumption. The key question for both metals is whether their recent strength represents a temporary price-cycle recovery or the beginning of a more sustained shift in global asset allocation.*

Source: https://mining.com.au/china-makes-biggest-monthly-gold-purchase-in-nearly-three-years/

# Client Portfolio Strategy

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

## FOCUSED INVESTMENT LIST

| ASSET CLASS | HOLDING PERIOD | STRATEGY | MANAGED STRATEGIES |
|---|---|---|---|
| Equity | 3 years+ | Equity Hybrids | ABSL Balanced Advantage Fund, Edelweiss Aggressive Hybrid |
| | | Multi Asset | White Oak Multi Asset Fund, ICICI Pru Multi Asset Fund |
| | | Multi Caps | **PMS:** MO Founders PMS, Alchemy Select Stock PMS<br>**AIFs:** Helios Emerging Star Fund, Alchemy Long Term Ventures Fund 3, Clarus Capital AIF I, MO Value Migration AIF Series I<br>**MFs:** DSP Business Cycle Fund, Abakkus Flexi Cap Fund, Helios Flexi Cap Fund, Mirae Asset Multi Cap Fund, MO Large and Mid Cap Fund, Kotak Multi Cap Fund |
| | | Mid & Small Cap | Edelweiss Mid Cap Fund, Invesco India Mid Cap Fund Bandhan Small Cap Fund, Sundaram Small Cap Fund |
| Debt and Alternates | 3 months+ | Arbitrage Funds | Kotak Arbitrage Fund, Invesco India Arbitrage Fund, Motilal Oswal Arbitrage Fund, Edelweiss Arbitrage Fund |
| | 3 years+ | Equity Savings | ICICI Pru Equity Savings Fund, Kotak Equity Savings Fund |
| | 2 years+ | Real Assets + Arbitrage | White Oak Dividend Yield Fund |
| | 2 years+ | SIFs - Hybrid | Altiva Hybrid Long-Short Fund, RedHex Hybrid Long-Short Fund |
| | 3 years+ | InvITs | Indigrid InvIT, IndusInfra InvIT, RaajMarg InvIT |
| | Remaining Tenor: 8.0 years | Private Credit | EAAA India Special Assets Fund IV |
| | Remaining Tenor: 5.5 Years | | MO India Credit Excellence Fund - I |
| | Remaining Tenor: 5.7 Years | | Lighthouse Canton Growth Debt Fund II |
| | 2 years+ | SIFs - Equity | iSIF Equity Ex-Top 100 Long-Short Fund |
| | Remaining Tenor: 8.0 Years | Venture Capital | Fundamentum III AI & DeepTech Fund |
| | Remaining Tenor: 8.9 years | Private Equity | Agastya Capital India Growth Fund |
| | Remaining Tenor: 9.1 years | | L Catterton India Fund I |
| | Remaining Tenor: 6.6 years | Real Assets | Neo Infra Income Opportunities Fund II |
| Offshore | 3 years+ | Out-bound Equity Strategies | Mirae Asset Global Allocation Fund, DSP Global Equity Fund, WhiteOak Global Emerging Markets ex-India |

# Client Portfolio Strategy

## IN-HOUSE MANDATE SOLUTIONS LIST

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

## CLIENT ONBOARDING CHECKLIST

### Client Name:

### General Information:

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

### Type of Investments:

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

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

### Physical Shares:

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

### PPF & EPF:

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

### Loans:

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

## EMERGENCIES: HAVE YOU PLANNED FOR EMERGENCIES?

### Life Insurance:

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

### Medical Insurance:

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

### Will:

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

### Real Estate:

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

### Family situation:

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

### Other Questions:

Digital assets, such as domain names and digital art?

Is your family aware of Lockers?

Is your family aware of the Bank accounts?

Is your family aware of Income sources?

How are your vehicles held?

## GENERAL INFORMATION & CLIENT PROFILE

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

## INVESTMENT CHARTER – EXPOSURE GUIDELINES

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

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

## INVESTMENT CHARTER – EXPOSURE GUIDELINES

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

## NOTES

# Motilal Oswal Wealth Limited

CIN: U67110MH2002PLC135075
Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road,
Opposite Parel ST Depot, Prabhadevi, Mumbai 400 025 Tel No.: 022 7193 4200/63;
Website: www.motilaloswalpwm.com Registration details:

**Sandipan Roy**
CIO, Motilal Oswal Private Wealth
sandipan.roy@motilaloswal.com

## SAFE HARBOR

Motilal Oswal Wealth Limited **("Motilal Oswal Private Wealth" or "MOPW")**, a company incorporated under the Companies Act 1956, is registered with SEBI as Portfolio Manager **(Portfolio Management Registration No. INP000004409)**; Registered with SEBI as Investment Adviser **(Registration No. INA000021094)**; Registered with AMFI as Distributer of Mutual Funds **(AMFI Registration No. ARN 87554)**, Registered with APMI as Distributer of Portfolio Management Services **(APRN Registration No. APRN 03188)**, Distributor of other financial products, acting as an Investment Manager to Motilal Oswal Wealth AIF, a trust organised in India under the provisions of the Indian Trusts Act, 1882 and registered with Securities and Exchange Board of India as a Category III – Alternative Investment Fund **(SEBI Registration Number: IN/AIF3/22-23/1142)** and to Motilal Oswal Wealth Alternates Trust, a trust organised in India under the provisions of the Indian Trusts Act, 1882, and registered with Securities and Exchange Board of India as a Category II – Alternative Investment Fund **(SEBI Registration Number: IN/AIF2/25-26/2095)**. SEBI Registration Details in line with SEBI Social Media Circular - https://shorturl.at/P5dr9

Pursuant to para 2.3 of SEBI Master Circular dated July 16, 2025 for Portfolio Managers, Clients have an option to enter into PMS Agreement with the Portfolio Manager directly, without intermediation of persons engaged in distribution services. At the time of onboarding of Clients directly, no charges except statutory charges will be levied. This facility is available with effect from July 1, 2020.

Registration granted by SEBI, enlistment with BSE and certification from NISM in no way guarantee performance of the Investment Adviser or provide any assurance of returns to investors.

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