Narnolia®

INVESTMENT PERSPECTIVE

JULY 2026

Structural Growth Regains Momentum

Policy Support
Economic Strength
Investment Opportunity

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Market Recovery Driven by Easing Global Risks

June 2026 witnessed a distinct two-sided consolidation phase, starting on a highly defensive note as the index initially drifted to a multi-week low of 23,161 mid-month. However, a dramatic shift occurred past mid-month. The primary catalyst was a substantial easing of West Asia tensions and progress toward a US-Iran understanding, which pulled Brent crude oil sharply down to pre-war levels. This macro relief significantly cooled the imported inflation threat. The recovery was driven aggressively by interest-rate-sensitive financial heavyweights, with the Bank Nifty surging over 6.4%. India VIX sharply contracted and Nifty successfully rallied, closing the month with gains of 2.06% at 23,865.

Economic Indicators Continue to Strengthen

June reaffirmed the continuity of India's structural economic growth, which had gathered momentum in January before being briefly disrupted by the US-Iran conflict. Encouragingly, most leading economic indicators continue to exhibit strong momentum. Gross GST collections for June 2026 increased 13.9% year-on-year to ₹1,94,812 crore. Notably, import-related GST collections surged 34%, suggesting robust imports of industrial inputs, electronics, and capital goods, consistent with a broad-based revival in domestic manufacturing activity and capital expenditure.

Consumption and Industrial Activity Remain Robust

India's power consumption remained strong, rising 11.6% year-on-year to 166.46 billion units (BU) in June 2026. Fuel demand continued to reflect healthy economic activity, with petrol consumption increasing 7% year-on-year to 3.77 MMT and diesel demand rising 5.5% to 8.55 MMT. The automobile sector also delivered robust performance. Maruti Suzuki recorded a 19.3% increase in wholesale volumes, Mahindra & Mahindra posted 37% growth, while Tata Motors reported an exceptional 69% year-on-year increase in passenger vehicle wholesales.

RBI Reinforces Economic Stability

During the month, the RBI delivered a strong and well-calibrated policy response. By keeping the policy rate unchanged at 5.25% while maintaining a neutral stance, the central bank signaled confidence in the resilience of the domestic economy despite uncertainty created by the Gulf conflict. The RBI further strengthened external stability by allowing banks to offer significantly higher interest rates on FCNR(B) deposits. This approach mirrors the successful strategy adopted during the 2013 taper tantrum and has already contributed to India's foreign exchange reserves recovering above US$672 billion by mid-June.

Structural Reforms to Strengthen Capital Flows

In another important structural reform, the RBI insulated public sector infrastructure borrowers from excessive currency volatility by transferring foreign exchange risk to its own balance sheet. It also removed concentration limits and short-term investment restrictions under the General Route, creating a stronger structural foundation for sustained passive inflows from global bond indices. Complementing these measures, the Ministry of Finance removed the capital gains tax for foreign institutional investors investing in Indian Government Securities. Together, these initiatives represent one of the most comprehensive policy responses in recent years to deepen India's capital markets, lower the cost of capital, and strengthen long-term capital inflows.

Investment Outlook

Our portfolio positioning, which had remained relatively conservative since mid-2024, has gradually shifted toward a more opportunity-oriented stance following the market lows in March 2026.We now await the upcoming 1QFY27 corporate earnings season for further validation of our view that the price-time correction which began towards the end of 2024 has largely run its course. We believe the Indian equity market is well positioned to enter the next phase of stronger and broader-based long-term returns.

Tide is Turning-Sleeping Giant to Run Again Amid Extreme Structural Analomies

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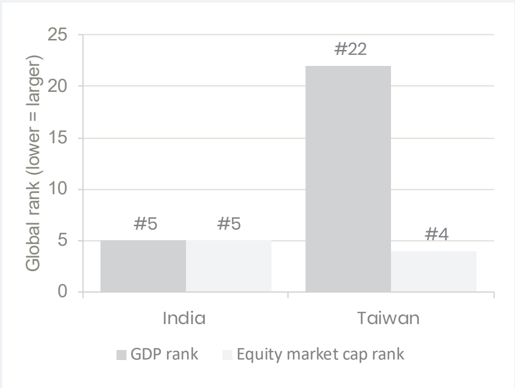
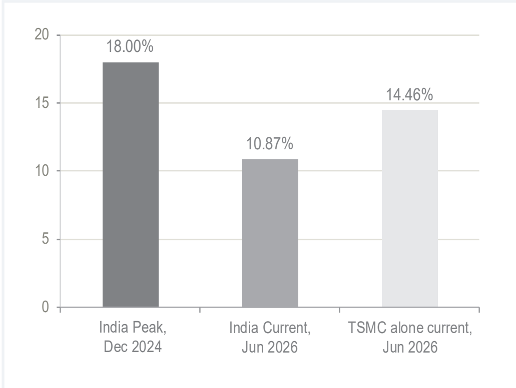
While global markets surged on an unprecedented, AI-fueled hardware rally, India's equity markets spent the last 18 months in a quiet, structural price-time correction. Global capital hyper-concentrated into the semiconductor stack, pushing index weights to such extremes that single tech giants now eclipse entire sovereign markets.

GDP Vs Market Cap Rank: Taiwan Vs India



Extreme de-rating of Weights in MSCI Indexes



But when secular trends stretch to their absolute valuation limits, the pendulum inevitably swings. India's silence isn't a sign of economic weakness, but a vital foundation-building phase. As global AI tech concentration reaches its peak euphoria, India's rested, resilient domestic growth story stands ready for its next major structural chapter.

Appreciating Cyclical vs Ignoring Structural

Taiwan
Tech and semiconductors
~88%
Global tech supply chain
AI and chip powerhouse

India
Financials, retail, services
~29%
Diversified sectors
Domestic consumption and services

No Indian company ranks within the global top 100

RELIANCE INDUSTRIES
109th
Market cap ~$178B

HDFC Bank
181st
Global rank

BHARTI AIRTEL
192nd
Global rank

India Underperforms Global Indices

Equity Market Performance

	1M	1 Y	3 Y Cagr	5 Y Cagr
Indian Indices				
NIFTY 50	1.40%	-6.50%	7.50%	8.70%
Nifty 500	1.50%	-2.60%	11.90%	11.30%
Nifty Mid Small Cap 400	2.00%	2.10%	19.10%	17.00%
Global Indices				
MSCI All World	-1.00%	24.20%	20.10%	10.90%
MSCI Developed	-0.80%	21.70%	19.50%	11.70%
MSCI Emerging	-1.90%	37.30%	21.90%	7.50%
MSCI India	0.80%	-3.70%	10.60%	9.80%
SPX 500 (US)	-1.10%	20.90%	19.00%	11.80%
KOSPI (S. Korea)	0.00%	176.00%	49.00%	20.80%
TAIWAN	3.10%	107.30%	39.70%	21.00%

As on 30th June 2026

Portfolio Update

Our Category III AIF portfolio delivered a strong performance during the period, generating a return of 2.5% compared with the Nifty's gain of 1.4%. Across strategies, our Large Cap portfolios returned 2.7%, outperforming the Nifty 100 Index, which advanced 1.4%. Our Multi Cap strategy gained 2.6% versus the Nifty 500 Index return of 1.5%, while our Mid & Small Cap strategy delivered a robust 3.1%, significantly ahead of the Nifty MidSmall 400 Index return of 2.0%.

NARNOLIA FUNDS

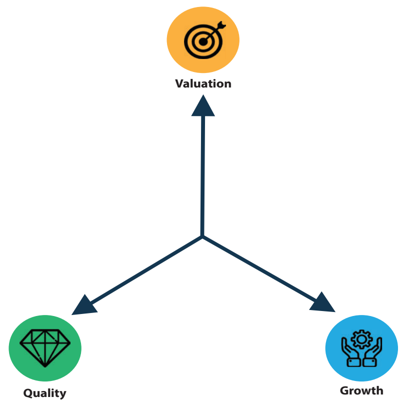
Our investment approach is rooted in the Quality-Growth style. This dual emphasis on quality and growth enables steady long-term capital compounding with controlled downside risk. We select portfolio companies whose underlying businesses possess strong competitive advantages, high-quality management, and an industry structure conducive to predictable, profitable growth and possibility of multiple long-term business up-cycles. We invest in and hold these companies during periods when they are growing significantly faster than the broader market and are available at valuations that offer substantial upside.

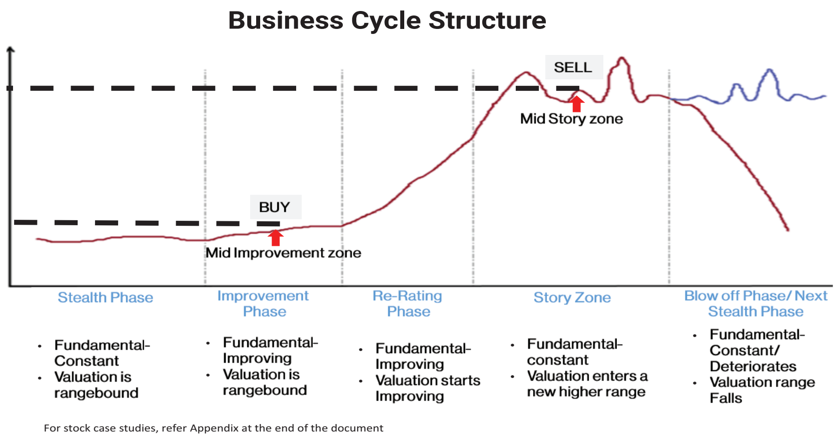
Growth in Value

Our investment philosophy is implemented through two structured frameworks. First, through rigorous fundamental research, we identify quality companies positioned for multi-cycle robust growth - we call this "Growth in Value"

Zone of Linearity

Second, we pinpoint where companies stand in their business and market cycles to invest during phases of sustained, above-market growth—what we term the "Zone of Linearity."





Equity Focussed India Fund House

Transformative change in the Indian economy and businesses is driving superior returns.After stagnating at merely 1% of global GDP until the early 1990s, India's economy has surged to 4% and is poised to reach double digits, driven by favorable demographics, macroeconomic stability, and deep managerial expertise.Our superior 15-year performance is built on a differentiated investment approach that balances high-growth capture with disciplined risk controls.

Shared Investment Philosophy and processes

Investing exclusively in high-quality companies during their growth phase enables steady capital compounding, mitigates downside risk, and eliminates behavioral biases. Our investment philosophy is grounded in our leadership's deep observational understanding of the evolution of Indian businesses over the past four decades. Long-established institutionalised processes, supported by a homegrown team with shared cultural and philosophical alignment in research, stock selection, and fund management, enable us to maintain a high level of discipline.

Deep Understanding of Indian businesses and businessmen

Over time, we have developed robust financial, business, and decision-making models covering a wide universe of high-quality Indian companies, with each model typically refined through about 40 iterations. We rigorously track over 10,000 quarterly business events and key management developments, combined with frequent management interactions. For the past 30 years, we have analysed and engaged with companies ranging from small unlisted firms to large Indian conglomerates across diverse economic cycles.

Focussed on High Absolute gains opportunity

We maintain focus on multi-cycle structural growth stories, investing exclusively in high-quality companies whose investment thesis is founded on exceptional management acumen and robust business opportunities. We invest exclusively in companies identified through our Quality-Growth framework that offer compelling absolute valuation upside, maintaining concentrated positions to drive active performance. Through our ethical and disciplined approach, we have served our esteemed clients over many years with a high degree of success