Narnolia®

INVESTMENT PERSPECTIVE

September 2026

Navigating Crosscurrents, Building Conviction

- Resilient Earnings
- Broadening Participation
- Global Capex Supercycle

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Market Overview

The Nifty 50 navigated an unusually subdued 21-day range-bound consolidation for most of August 2026 before a late-month sell-off — triggered by hawkish Fed signals and Brent crude spiking past $91/bbl — dragged the index down **1.24% MoM to close at 24,080.** This large-cap weakness masked exceptional strength in mid- and small-caps: the **Nifty Midcap 100 gained 2.1%** and the **Nifty Smallcap 100 surged 3.1%**, demonstrating strong retail and domestic institutional appetite.

Sector Leadership

Nifty Metal (+3.7%) led the charts on copper supply disruptions and domestic long-steel price recoveries, while **Nifty PSU Bank (+2.9%)**, Nifty Pharma (+2.5%) and Nifty Private Bank (+1.8%) outperformed the headline index. The Nifty was dragged by weakness in heavyweights like Reliance Industries and HDFC Bank, alongside a mild pullback in Nifty Oil & Gas (-1.3%) on crude volatility.

Global Backdrop

Emerging market equities corrected sharply in July, declining more than 10% after reaching a new high in mid-June. Indian equities remained relatively resilient through July but have shown some weakness more recently, with conflicting global signals keeping sentiment cautious. Notably, despite being among the weaker-performing markets, **India VIX is hovering around 10.5–11** — remarkably subdued next to the US (~14.5), Taiwan and Japan (both above 25), and Korea's KOSPI (above 50).

Our Outlook

The positive takeaway is that **Indian corporate earnings have remained encouraging for a second consecutive quarter**. Indian equities are well positioned to regain strength, supported by a healthy earnings growth outlook and relatively attractive valuations. We believe the **risk-reward for Indian equities is becoming increasingly favorable**, particularly for investors with a medium- to long-term horizon.

Key Headwinds

Persistently elevated crude prices, geopolitical uncertainties and rising US yields remain the key sentiment headwinds. While the 1QFY27 GDP print underscores the resilience of the Indian economy, global uncertainties continue to keep investor flows subdued — overshadowing the strength of domestic fundamentals. **A moderation in crude prices or stabilization in global bond yields could act as an important catalyst** for a revival in Indian indices.

Investment Themes

Capex, consumption and financialization remain the key themes to which investors should seek exposure. Consumption is transitioning from a cyclical recovery into what we believe could be a structural, multi-year up-cycle. Global capex as a percentage of GDP has risen **above 27% — its highest level since the 1960s** — spanning infrastructure, energy transition, defense, manufacturing, semiconductors and AI-driven data centers, with India seeing a meaningful revival led by public capex and a turnaround in private-sector spending. We also see merit in selective exposure to companies benefiting from India's recent Free Trade Agreements.

Portfolio Positioning

Our portfolios have delivered strong returns over the past five months, validating our **Quality-Growth investment philosophy.** We believe the opportunity ahead is even more compelling. India remains a strong structural investment story, and the recent price-time correction has created an attractive window to increase allocations to Indian equities and participate in the next phase of earnings and market growth.

KEY TAKEAWAYS

- **Nifty fell 1.24% MoM to 24,080** amid a late-month sell-off on hawkish Fed signals and crude above$91/bbl.
- **Midcap 100 (+2.1%) and Smallcap 100 (+3.1%)** outperformed sharply, showing strong domestic risk appetite.
- **Metal (+3.7%), PSU Bank (+2.9%)** and Pharma (+2.5%) led sector gains; Oil & Gas lagged (-1.3%).
- **India VIX held near 10.5–11** — notably calmer than the US (~14.5), Taiwan/Japan (>25) and Korea (>50).
- Indian corporate **earnings stayed encouraging for a second straight quarter**, improving the risk-reward outlook.
- **Global capex/GDP has climbed above 27%** — the highest since the 1960s — spanning infra, energy transition, defense and AI/data centers.
- Portfolios have delivered **strong returns for five consecutive months**, reaffirming the Quality-Growth philosophy.

24,080

NIFTY 50 CLOSE · -1.24% MOM

64,224

NIFTY Midcap 100 close · 2.1% MOM

INDIA’S VOLATILITY ADVANTAGE

A Mature Market Signal Amid Global Turmoil

Amid a global backdrop of elevated risk, India’s volatility profile stands out as strikingly calm. At 10.6–11.2, India VIX ranks among the lowest globally — even below developed markets like the UK (13.5–14.8) and the US (14.2–14.5), and below emerging-market peers such as Brazil (21.0–23.5), Taiwan (25.0–26.5) and South Korea (54.0–58.0). Emerging economies typically exhibit higher volatility than developed ones, reflecting thinner liquidity and greater macro sensitivity. India’s ultra-low reading instead signals maturing market structure, deepening domestic institutional participation, and growing investor confidence — positioning it closer to developed-market resilience than to the turbulence typically associated with emerging economies.

India VIX notably calmer than the US, Taiwan, Japan and Korea

Country/Region	Index/Ticker	Current Volatility Level	Volatility Region
India	India VIX (INDIAVIX)	10.6-11.2	Ultra Low
Australia	S&P/ASX 200 VIX (A-VIX)	11.5-12.8	Low
Canada	S&P/TSX 60 VIX (TSXETFVIX)	13.5-14.5	Low
United Kingdom	FTSE 100 Volatility (IVI)	13.5-14.8	Low-Moderate
United States	CBOE VIX (VIX)	14.2-14.5	Normal/Low
Eurozone	Euro Stoxx 50 Volatility (VSTOXX)	16.0-16.5	Moderate
Hong Kong / China	Hang Seng Volatility (VHSI)	17.5-18.5	High
Brazil	Bovespa Volatility (VXEWZ)	21.0-23.5	High
Taiwan	TAIEX Options VIX (TAIWANVIX)	25.0-26.5	High
Japan	Nikkei Volatility (JNIV)	28.0-30.0	Elevated
South Korea	KOSPI Volatility (KSVKOSPI)	54.0-58.0	Spike

Portfolio Update

For the month of August’26, our Large Cap Strategies declined by -1.5% and the Multi Cap strategies recorded a loss of -1.0% all broadly in line with the Nifty’s loss of -1.4%. Our Mid & Small Cap strategies delivered a strong gain of 2.4%, ahead of the Nifty MidSmall 400 Index return of 2.0%.

Narnolia Funds

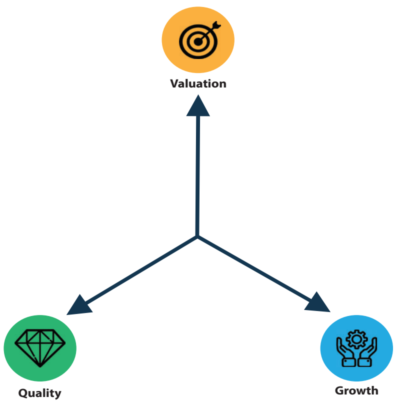
Our investment approach is rooted in the Quality-Growth style. This dual emphasis on quality and growth enables steady long-term capital compounding with controlled downside risk. We select portfolio companies whose underlying businesses possess strong competitive advantages, high-quality management, 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.

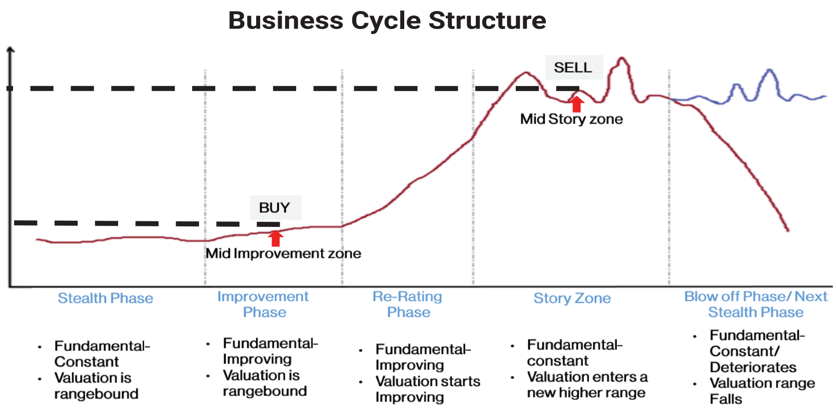
Growth in Value

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

Zone of Linearity

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."





For stock case studies, refer Appendix at the end of the document

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