Narnolia®

INVESTMENT PERSPECTIVE

October 2026

Correction Deepens, Conviction Holds

- Geopolitical Crosscurrents
- Macro Resilience Intact
- Valuations Turn Compelling



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Correction Deepens, Conviction Holds

Sharpest Correction of the Year

The Nifty 50 fell 6.1% month-on-month in September — its steepest monthly correction this year — closing at **22,620**. Persistent FPI outflows of nearly $2.7 billion, elevated global bond yields, and crude oil volatility weighed on sentiment. Unlike prior months, broader markets were not spared: the **Nifty Midcap 150** declined 7.1%.

Broad-Based Caution, Volatility Spikes

Sectoral performance reflected widespread caution as earlier front-runners saw profit-booking. Banking, Financials, and IT heavyweights drag-weighted the headline index, while defensives and select commodity-linked pockets offered brief relative support mid-month. The fear gauge **India VIX** spiked over 18% in the final week, settling near 1**4.45** — signalling heightened nearterm hedging activity.

Global Backdrop Stays Unsettled

Emerging-market equities and regional peers extended their multi-month corrective phase through August and September under the weight of trade-tariff rhetoric and US rate-trajectory uncertainty. Domestic institutional investors maintained a steady counter-buying buffer, but global macro headwinds, currency depreciation, and pre-earnings recalibration kept sentiment cautious heading into **Q2 FY27** results.

Gulf Tensions Cloud the Energy Outlook

The fluid geopolitical environment poses a risk to global supply chains and could trigger another wave of inflation. India, reliant on global supply chains for a significant share of its energy needs, remains vulnerable to conflict in major supply regions. Recent price action shows markets are concerned about a prolonged Gulf conflict and its implications for energy availability. Having navigated the earlier US-Iran escalation of March–May, and with crude sourcing now more diversified, we remain reasonably confident India can manage this episode too — though LPG and LNG availability could stay more challenging..

Macro Backdrop Remains Constructive

Beyond the near-term geopolitical risk, the broader Indian macroeconomic environment stays relatively constructive. The key impact is likely a prolongation of the ongoing price-time correction, potentially delaying the next sustained bull phase — a delay in the recovery, in our view, rather than a change in the longer-term investment thesis.

RBI Reinforces Currency Stability

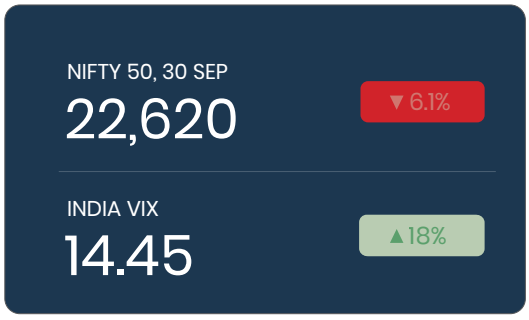
The RBI has taken further action in early October to keep the currency market in check. Combined with strong recent inflows into **FCNR(B)** deposits, we expect pressure on the rupee to depreciate to remain contained despite the recent spike in crude prices. The precedent of 2013, when similar RBI measures kept the rupee broadly stable over the following three years, is instructive.

Our Outlook

Given attractive valuations and the broader potential for earnings growth, we believe a **well-diversified portfolio** remains the most appropriate approach despite near-term headwinds from the renewed rise in crude prices. Within the broader market, select Indian **consumer** companies appear well positioned for a multi-year growth cycle. **Financials and capital-market-related** businesses present attractive opportunities, while **electronics and semiconductors** remain promising — alongside **auto ancillaries, industrials, healthcare and chemicals** for long-term earnings growth.

KEY TAKEAWAYS

- Nifty 50 closed **September** at **22,620,** down **6.1%** — the sharpest monthly fall of the year.
- FPIs pulled out nearly **$2.7 billion**; Nifty Midcap 150 fell **7.1%**, broadening the sell-off.
- India VIX jumped over **18%** in the last week to **14.45** on hedging demand.
- Gulf-region tensions are the key swing factor for energy prices and inflation into Q2 FY27.
- RBI's October measures and strong FCNR(B) inflows should keep the rupee contained, echoing 2013.



"A delay in the recovery, not a change in the thesis — India's structural growth story remains intact."

– Shailendra Kumar
Chief Investment Officer

FCNR (B) Same tool- Much Larger Canvas

	2013	2026
Trigger	Fed Taper Tantrum Rupee 53 to 67 CAD above 4% of GDP	Iran Conflict Rupee 87 to 96 CAD 0.6% of GDP
Window	4th Sep-30th Nov 2013	8th Jun- 30th Sep 2026 Closed prematurely on 31st Aug 2026
FCNR(B) raised	~$26b	$133b
Companion	Bank Capital borrowings	OFCBs + ECBs + FAR + FPI
Outcome	Rupee held <67 for years	Flows to accelerate?

In 2013 and 2026, India turned to **FCNR(B)** deposits to defend the rupee, but the scale differs sharply. The 2013 taper tantrum took the rupee from 53 to 67 with the CAD above 4% of GDP. The RBI's concessional swap window (4 Sep-30 Nov 2013) raised **~$26bn** through FCNR(B), about **76%** of a ~$34bn package that also included bank capital borrowings.

In 2026, the Iran conflict pushed the rupee from 87 to 96, a smaller ~10% slide, against a far healthier CAD of 0.6% of GDP. Yet FCNR(B) raised **$133bn** between 8 Jun and 31 Aug, the entire ~$134bn package, with OFCBs, ECBs, FAR and FPI as companions. That is roughly **five times** the 2013 haul.

The 2013 precedent was reassuring: the rupee stayed below 67 for three years, and the 2014-2017 equity rally followed.

Portfolio Update

All our strategies across Large cap, Mid and Small and Multicap have shown greater resilience during fall and created alpha in the falling markets also. In Sep26 our Large Cap strategies declined 5.3%, while Multi Cap strategies recorded a loss of 4.9% outperforming the Nifty which declined 6.06%. Our Mid & Small Cap strategies fell 3.3%, outperforming the Nifty MidSmall 400 Index by 2.4%

Narnolia Funds

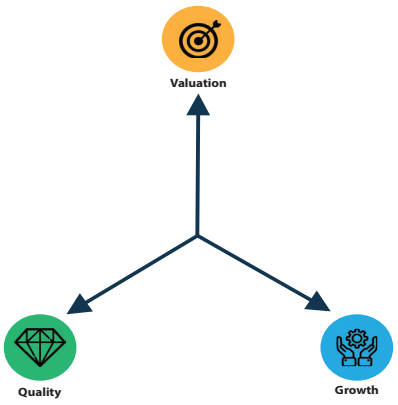
Our investment approach is rooted in the Quality-Growth style. This dual emphasis on quality and growth enables steady long-term capital compounding with controlled downside risk. We select portfolio companies whose underlying businesses possess strong competitive advantages, high-quality management,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

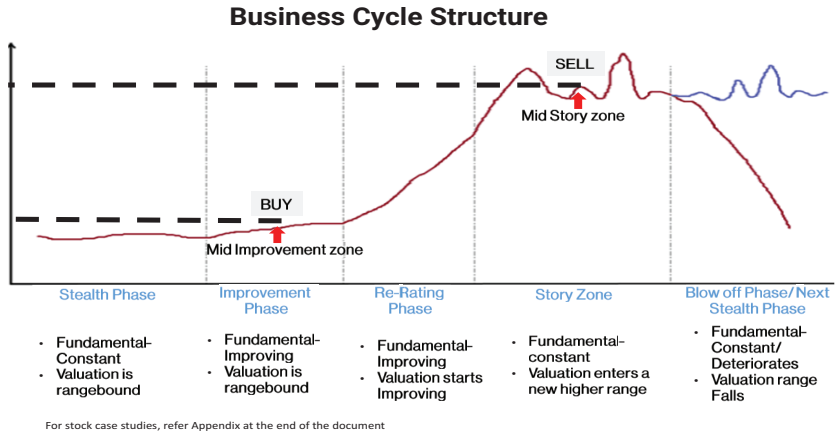
Growth in Value

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.

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.

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.

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

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