Narnolia®

INVESTMENT PERSPECTIVE

November 2026

Earnings Strengthen, Conviction Builds

Earnings Revival Meets a Global Reset

- Strongest Earnings in 10–12 Quarters
- DIIs as the Shock Absorber
- AI Cycle: A Healthy Reset

www.narnolia.com

Narnolia Velox Advisory Ltd.- SEBI Registration No:
PMS : INP000009995 | Category III AIF : IN/AIF3/14/15/0116

Earnings Strengthen, Conviction Builds

Market Overview

The benchmark Nifty 50 staged a modest structural decoupling in October 2026, **recovering 1.91% month-on-month to close at 23,053**. This rebound was carved out despite formidable macroeconomic friction—including a **25 bps rate hike by the RBI to 5.50%, Brent crude surging 15.7% to peak near $113/bbl** on Middle East supply anxieties, and relentless net FPI equity selling exceeding ₹45,160 crore ($5.04 billion). Domestic institutional investors (DIIs) served as the vital shock absorber, absorbing global liquidity withdrawals with **net buying of ₹62,220 crore.**

Market Breadth & Sectors

In a reversal of the previous month's trend, large-cap stability masked notable weakness in mid- and small-cap segments: the **Nifty Midcap 100 fell 3.4%,** while the Nifty Smallcap 100 dropped 4.1% as retail capital took profits in non-index names to re-allocate into high-quality, large-cap balance sheets during the Q2 FY27 earnings season. Among sectors, **Information Technology (+17.7%)** led the charts in a dramatic rally—driven by major client AI deal wins (TCS surging 22.0%)—while Nifty PSU Bank (+2.7%) and Nifty Private Bank (+3.0%) outperformed the index on stable asset quality prints. Weakness was concentrated in Nifty FMCG (-2.0%) and Nifty Auto (-7.7%) amid rising input costs.

Global Backdrop

Global equity markets remained volatile as elevated US 10-year yields (~4.93%) kept capital selective across emerging markets, but headline Indian benchmarks showed relative resilience through October.

FII Flows & Relative Earnings

FII flows are fundamentally driven by relative corporate earnings growth across markets. While India has remained the fastest-growing major economy, the earnings growth of Indian companies has been relatively modest compared with markets such as South Korea and Taiwan, where several companies have delivered **50–60% annual earnings growth** over the past 2–3 years, driven by the AI-led capex cycle. We believe a sustained revival in FII flows into India will depend on Indian companies regaining their relative earnings-growth advantage. As Indian corporate earnings regain that advantage, India is likely to reclaim its rightful share of global investor allocations.

The AI Correction

The recent correction in AI-related stocks has been driven by multiple factors. Several large, cash-generative technology conglomerates investing heavily in AI infrastructure are now entering a phase of negative free cash flow, raising questions about the pace and sustainability of the current investment cycle. At the same time, acute shortages of memory chips and other critical components required for AI data centers are constraining the speed of capacity expansion. After three consecutive years of **nearly 80% year-on-year growth in AI-related spending**, the pace of investment is expected to moderate in 2027. However, even at a slower rate of growth, the absolute scale of spending will remain substantial. We believe this moderation is more likely to represent a **healthy phase of adjustment than a structural reversal,** and could lay the foundation for a fresh rally once the current valuation correction runs its course.

Q2FY27 Earnings

Q2 FY27 earnings are shaping up strongly, sustaining the momentum witnessed in Q1 FY27 despite elevated crude oil prices. T**he current earnings growth trajectory is the strongest seen in the last 10–12 quarters** and appears to have a structural underpinning rather than being merely cyclical. A particularly encouraging development is the strong revival in large-cap earnings growth: the large-cap universe posted **30% YoY** earnings growth, mid-caps delivered **26% YoY** (vs. our estimate of 23%), driven primarily by Financials, Metals, and Internet & New-Age Tech, and small-caps (101 companies) outperformed with **34% YoY**.

Portfolio Positioning

Nifty companies that have declared results so far have reported **22% YoY earnings growth**, comfortably ahead of the estimated 20%. This marks the second consecutive quarter in which FY27 earnings estimates for the Nifty are likely to see upward revisions. We remain confident that a portfolio anchored in **high-quality growth companies** is well positioned to deliver strong returns over the coming years. With valuations having become more attractive and the corporate earnings cycle showing clear signs of revival, we believe the medium- to long-term investment opportunity in Indian equities is compelling.

KEY TAKEAWAYS

- **Nifty rose 1.91% MoM to 23,053** despite an RBI 25 bps hike to 5.50% and Brent near $113/bbl.
- **DIIs bought ₹62,220 crore**, absorbing FPI selling of over ₹45,160 crore.
- **Midcap 100 (-3.4%) and Smallcap 100 (-4.1%)** fell as capital rotated into large-cap balance sheets.
- **IT (+17.7%)** led on AI deal wins; Auto (-7.7%) and FMCG (-2.0%) lagged.
- **Nifty earnings +22% YoY** vs. 20% estimated; large-caps +30%, mid-caps +26%, small-caps +34%.
- AI spending growth is expected to moderate in 2027 after **nearly 80% annual growth** for three consecutive years. In our view, this represents a healthy adjustment rather than a structural reversal.

NIFTY 50 | OCTOBER CLOSE

23,053 ▲ 1.91%

NIFTY EARNINGS GROWTH*

22% YoY

*Results declared so far, as stated in the supplied November commentary.

Earnings Growth, Economic Growth and Market Returns

Over a long period of time, corporate earnings growth has moved in line with the economic growth of different geographies, and stock market returns have followed in the same way.

US: since 1947

~6.4%
GDP growth (nominal)

~7.2%
S&P 500 EPS growth (annual)

~9.36%
S&P 500 Index growth

India: last 20 years

~10.04%
GDP growth (nominal)

~12.9%
Nifty EPS growth (annual)

~11.6%
Index growth

From 2010 to 2024

Corporate Earnings Growth and Stock Returns (CAGR)

Country	Earnings Growth	Stock Return
India	13.00%	11.90%
USA	8.70%	9.70%
Taiwan	5.60%	3.90%
S Korea	2.30%	0.70%
Japan	1.10%	8.10%

While India led in corporate earnings growth, stock returns over the period were more varied across other Asian economies.

Last 2 years

Over the last 2 years there has been a marked difference. India remains one of the fastest growing major economies of the world, but Indian corporate earnings growth has lagged severely compared with some countries such as South Korea and Taiwan. Indian stock market returns have also lagged these countries.

Country	Between 2024 – 2026		
	Stock Return %	Nominal GDP Growth %	Earnings Growth %
INDIA	-3.2%	9.6%	12.6%
USA	18.0%	5.2%	23.1%
JAPAN	30.4%	2.6%	13.7%
South Korea	51.3%	4.2%	62.6%
Taiwan	57.0%	8.2%	35.4%

Portfolio Update

Portfolio Update In October 2026, our Large Cap strategies delivered a gain of 1.29%. In contrast, our Multi Cap strategies declined by 0.46%. Meanwhile, our Mid & Small Cap strategies fell 1.26%, compared to a 0.87% decline in the BSE 500 TRI Index.

Narnolia Funds

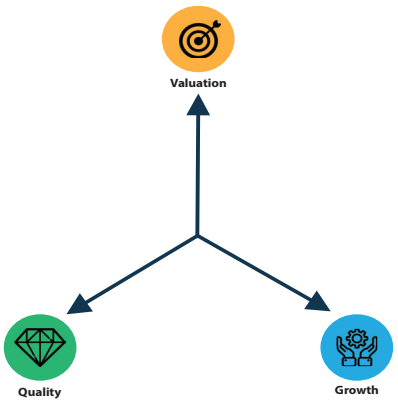
Our investment approach is rooted in the Quality-Growth style. This dual emphasis on quality and growth enables steady long-term capital compounding with controlled downside risk. We select portfolio companies whose underlying businesses possess strong competitive advantages, high-quality management,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

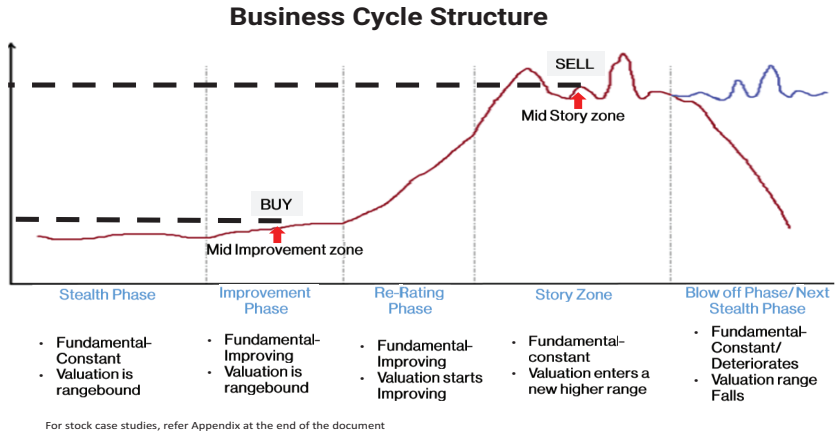
Growth in Value

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

Disclaimer:

NARNOLIA VELOX ADVISORY LTD. is a SEBI REGISTERED PMS- INP000009995, CIN- U74999WB2012PLC175826. Registered office: Marble Arch, 2nd Floor, Office 201, 236B, A J C Bose Road, Kolkata 700 020,033 40501500; Corporate Office: 803, A wing, Kanakia Wall Street, Chakala, Andheri East, Mumbai - 400093, Maharashtra; PHONE NO.: +91 22 6270 1200. For grievances kindly mail us at ig@narnolia.com or call us at 022-6270 1200. NARNOLIA VELOX FUND is a SEBI Registered Category III alternative investment fund (AIF), SEBI Registration No. IN/AIF3/14-15/0116, Validity: Permanent, Type: Non-Individual, Registered office: Marble Arch, 2nd Floor, Office 201, 236B, A J C Bose Road, Kolkata 700 020,033 40501500, Corporate Office: 803, A wing, Kanakia Wall Street, Chakala, Andheri East, Mumbai - 400093, Maharashtra; Name of Fund Manager – Narnolia Velox Advisory Limited. Contact number – 022- 62701200, email id- aif@narnolia.com. Investment in Securities Market is subject to Market risks, read all the related documents carefully before investing. Past performance may not be indicative of future results and no promise or guarantee can be given for the same. Performance related information is not verified by SEBI. For detailed disclosures & disclaimers please refer to our website at www.narnolia.com. This report is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of the Company. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alterations to this statement as may be required from time to time. The Company or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any action taken based on the above information or inadvertent error in the information contained in this report/message.