kotak
Kotak Mahindra Bank

Monthly Investment Strategy.

July 2026

Kotak Mahindra Bank, AMFI registered Mutua Fund & SIF Distributor | ARN 1390

Market Snapshot

Middle East tensions eased significantly as the US and Iran reached a memorandum of understanding after months of conflict. The ceasefire helped improve traffic through the Strait of Hormuz and oil exports from the Gulf, leading to a sharp correction in crude oil prices from US$92/bbl. as of 29th May 2026 to US$72.9/bbl. as of 30th June 2026. MSCI World and MSCI EM indices declined by -0.8% and -1.4%, respectively, in USD terms in June 2026, while MSCI India delivered a return of 1.5%.

Global Macro

- The US labour market shows signs of slowing growth, with nonfarm payrolls adding just 57,000 jobs in June, compared with expectations of 113,000 jobs.
- U.S. consumer inflation increased to 4.2% YoY in May 2026, up from 3.8% YoY in April 2026. As per Bloomberg estimates, two Fed rate hikes are expected in CY27.

Indian Macro

- Credit growth to industry accelerated to 17.5% in May 2026, while personal loan credit growth increased by 15.4% in May 2026.
- India's CPI inflation rose to 3.93% YoY, while WPI surged to 9.68% YoY in May 2026, driven by higher fuel, power, and manufacturing costs.

Earnings Outlook

- As per Kotak Institutional Equities Research*, Nifty 50 earnings are expected to grow by 17.7% in FY27.

Monsoon Update

- As per India Meteorological Department (IMD)* rainfall data as of 7th July 2026, the rainfall deficit has come down to ~17%. About a week earlier, the deficit was ~40%.

Data as on 30th June 2026 ,Source: Bloomberg

** Data/Reports sourced via Bloomberg*

Equity and Fixed Income Market Summary

Equity Market Summary

- Nifty 50 delivered 1.4% in June, while the Nifty Midcap 150 and Nifty Smallcap 250 posted gains of 1.0% and 4.3%, respectively.
- Equity market performance was largely driven by easing geopolitical tensions and India's macroeconomic stability, supported by FX and capital flow measures introduced by the RBI and the Government.
- Foreign Portfolio Investors (FPIs) remained net sellers, withdrawing nearly US$3.1 bn from Indian equities, although FPI selling moderated towards the end of the month. Domestic Institutional Investors (DIIs) purchased US$8.3 bn.
- The Nifty 500 profit-to-GDP ratio rose to 5.2% in FY26 from 4.9% in FY24. The share of SMIDs in the profit-to-GDP ratio increased from 22.9% in FY24 to 25.0% in FY26.

Fixed Income Market Summary

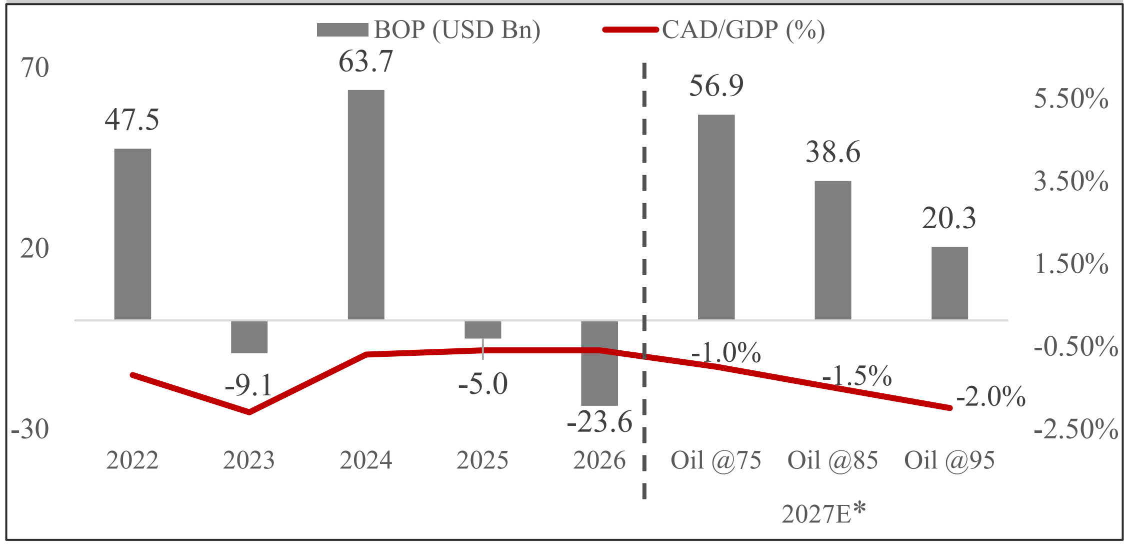
- The 10-year G-Sec yield closed June at 6.75%, down from the peak level of 7.13% witnessed in May 2026.
- Improving liquidity conditions are likely to provide continued support to bond markets and keep yields range-bound at lower levels.
- FPI debt inflows rebounded to US$5.4 bn in 1QFY27, significantly exceeding FY26 inflows of US$1.9 bn. Favourable policy measures and progress on global bond index inclusion are expected to further support foreign demand for Indian fixed-income assets.

Data as on 30th June 2026 ,Source: Bloomberg

India's External Sector Headwinds Disappearing

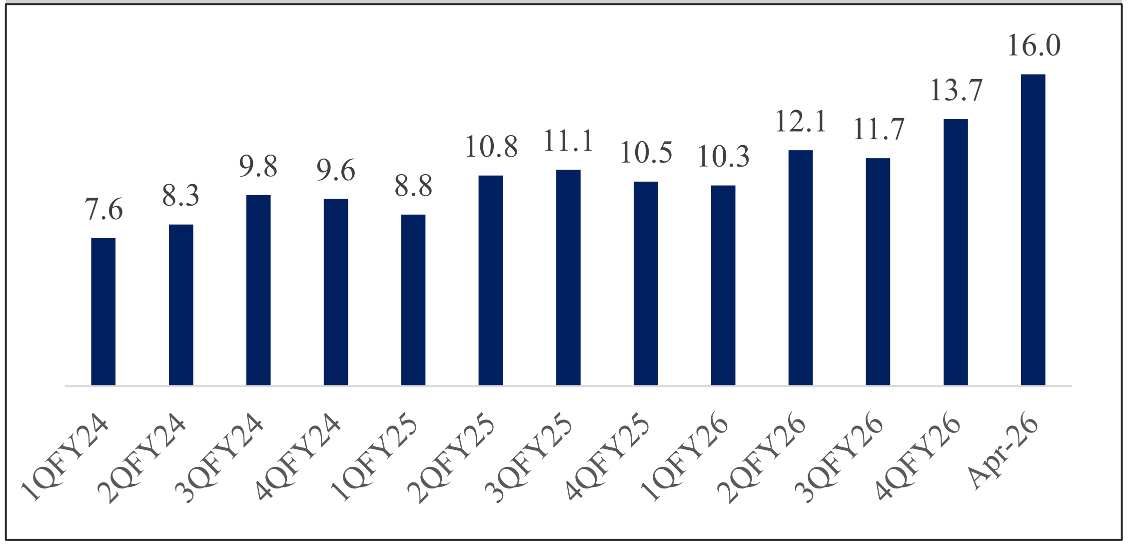
- RBI's measures to boost foreign capital flows, including expanding FAR eligibility for G-Secs and introducing concessional forex swap and FCNR(B) windows to encourage ECBs and deposits, have improved India's external sector outlook.
- The Balance of Payments (BoP), which was earlier expected to slip into a deep deficit in FY27, could shift to a surplus in FY27.
- India's current account deficit (CAD) has remained resilient, supported by a robust services surplus and strong remittances, with the CAD-to-GDP ratio expected to be 1.5% in FY27 (as per Kotak Economic Research estimates).

India's Balance of Payment and Current Account Deficit Outlook



Data as of June 2026; Source: RBI, Kotak Economic Research
** Base case assumption: US$ 100 Bn capital inflows through ECB flows, FCNR(B) deposits and partial impact of inclusion of Indian GSecs in Bloomberg Global Aggregate Index.*

Higher pace of remittance inflows in 4QFY26 and April 2026

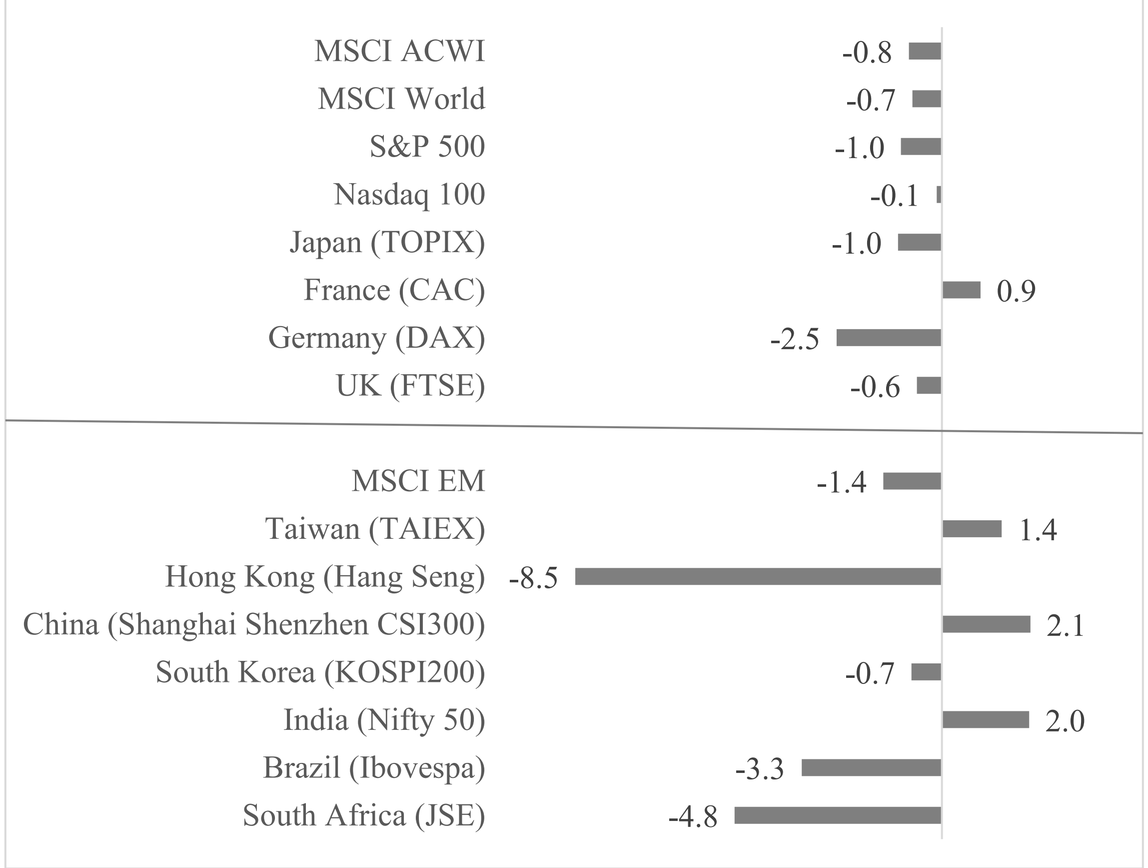


Data as of June 2026 ; Source: RBI, Kotak Economic Research

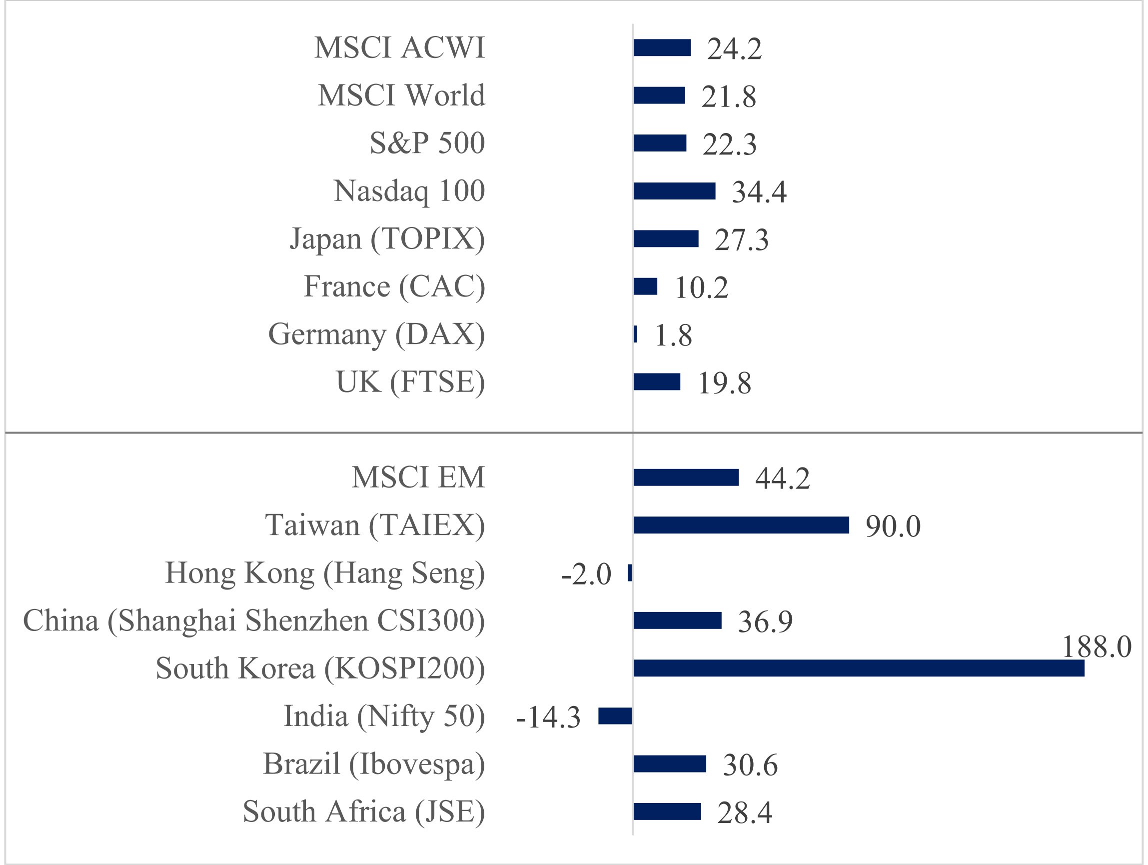
Global Equity Market Performance (in USD)

MSCI ACWI delivered returns of -0.8% in June 2026, with most developed markets posting negative returns in US dollar terms. MSCI EM delivered -1.4%, with the Hang Seng Index correcting the most at 8.5%. India (Nifty 50) outperformed most markets in June 2026, although it continues to underperform on a one-year basis.

1-Month Performance (in USD)



1-Year Performance (in USD)

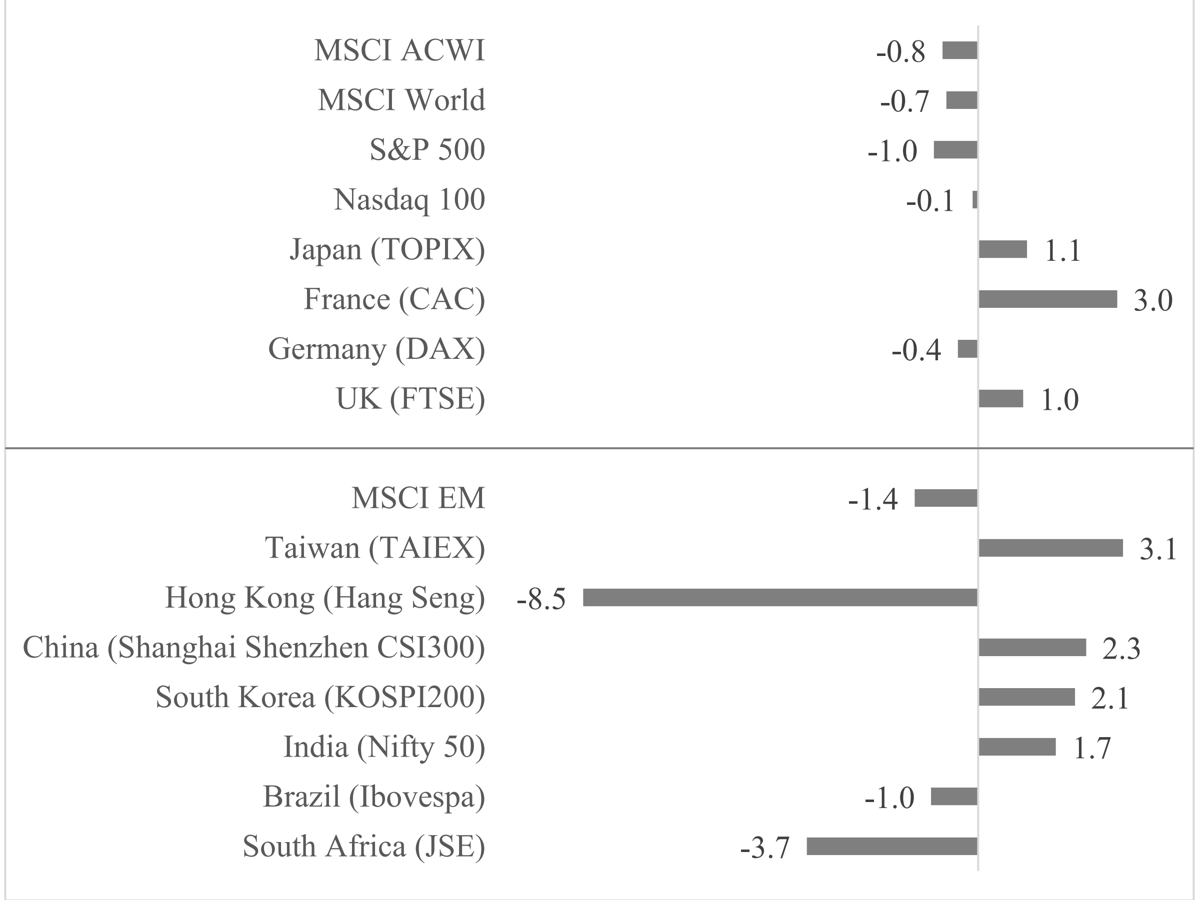


Data as on 30th June 2026, Source: Bloomberg, ICRA

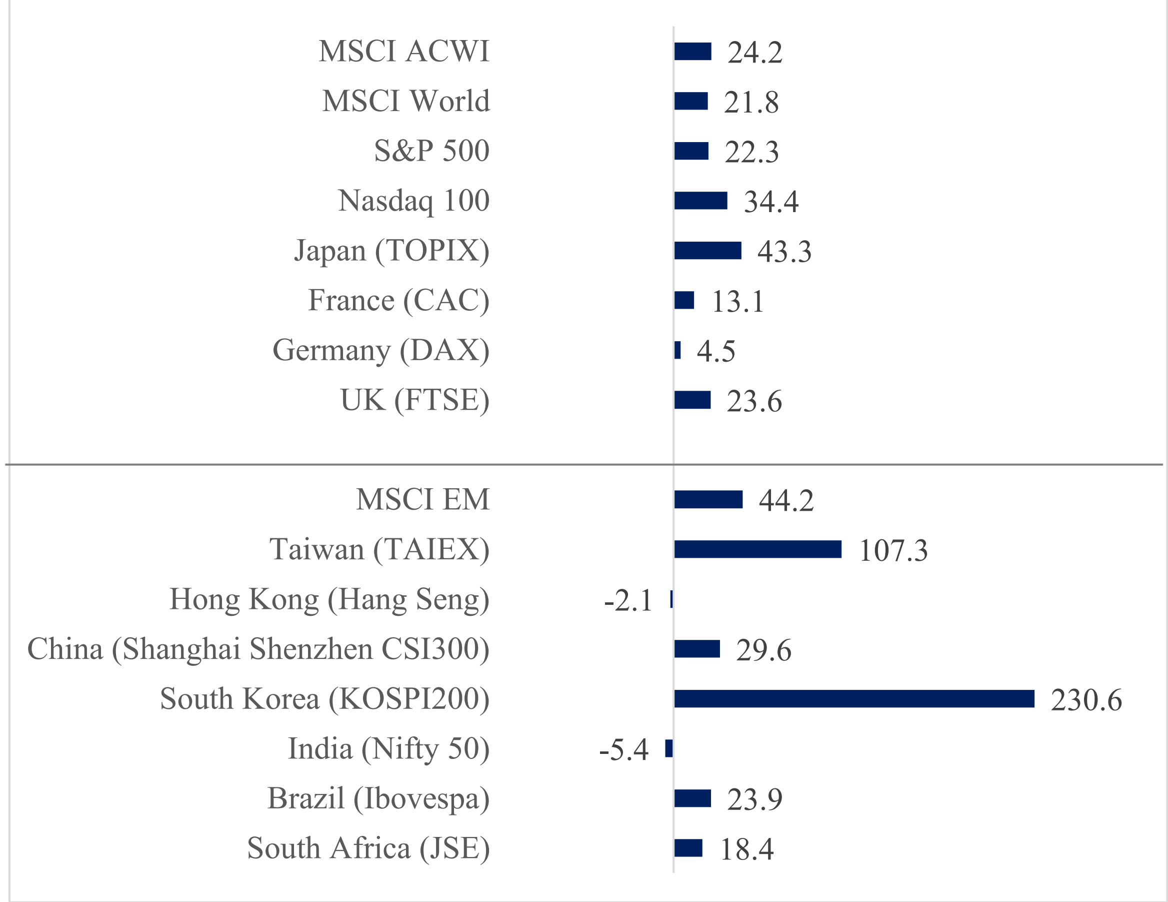
Global Equity Market Performance (in Local Currency)

MSCI ACWI delivered returns of -0.8% in June 2026, while MSCI EM delivered -1.4%, with the Hang Seng Index correcting the most at 8.5%. India (Nifty 50) delivered 1.7% in June 2026, although it continues to underperform its emerging market peers on a 1-year basis.

1-Month Performance (in Local Currency)



1-Year Performance (in Local Currency)

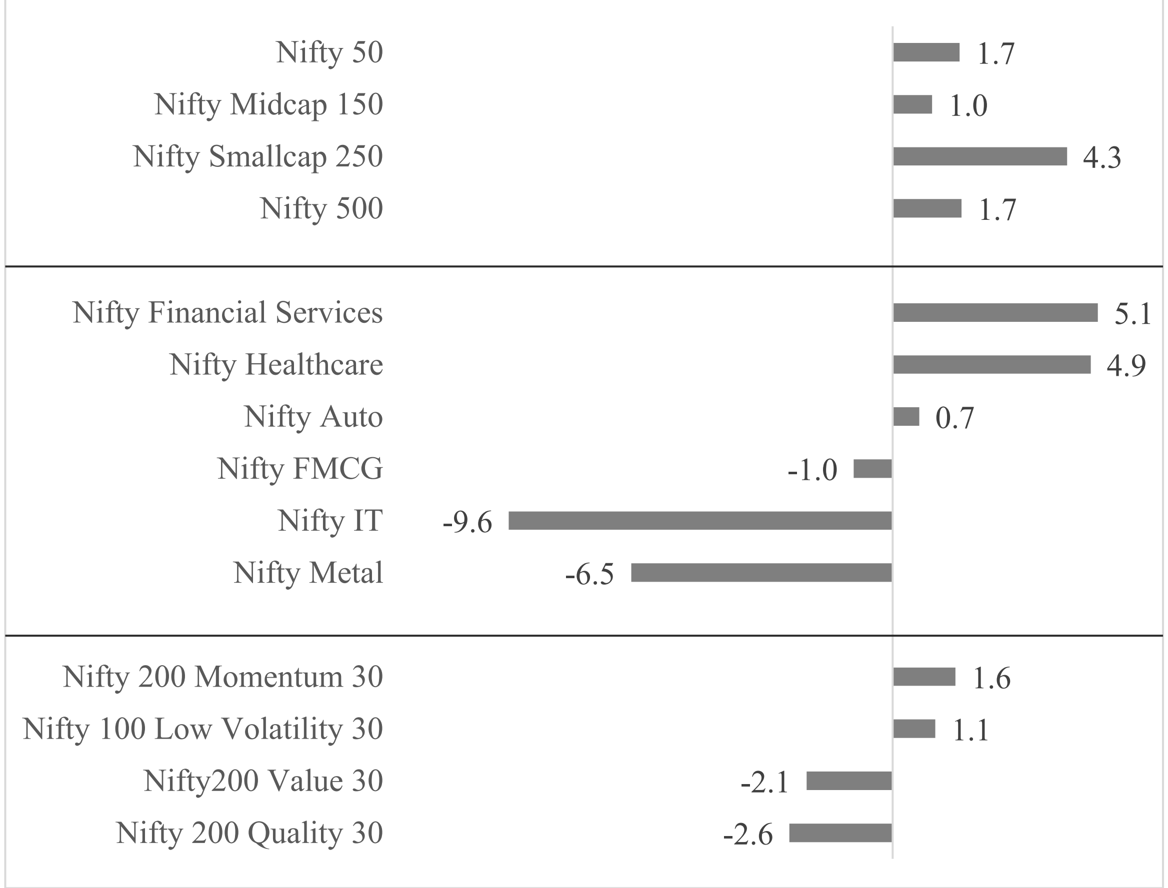


Data as on 30th June 2026, Source: Bloomberg, ICRA

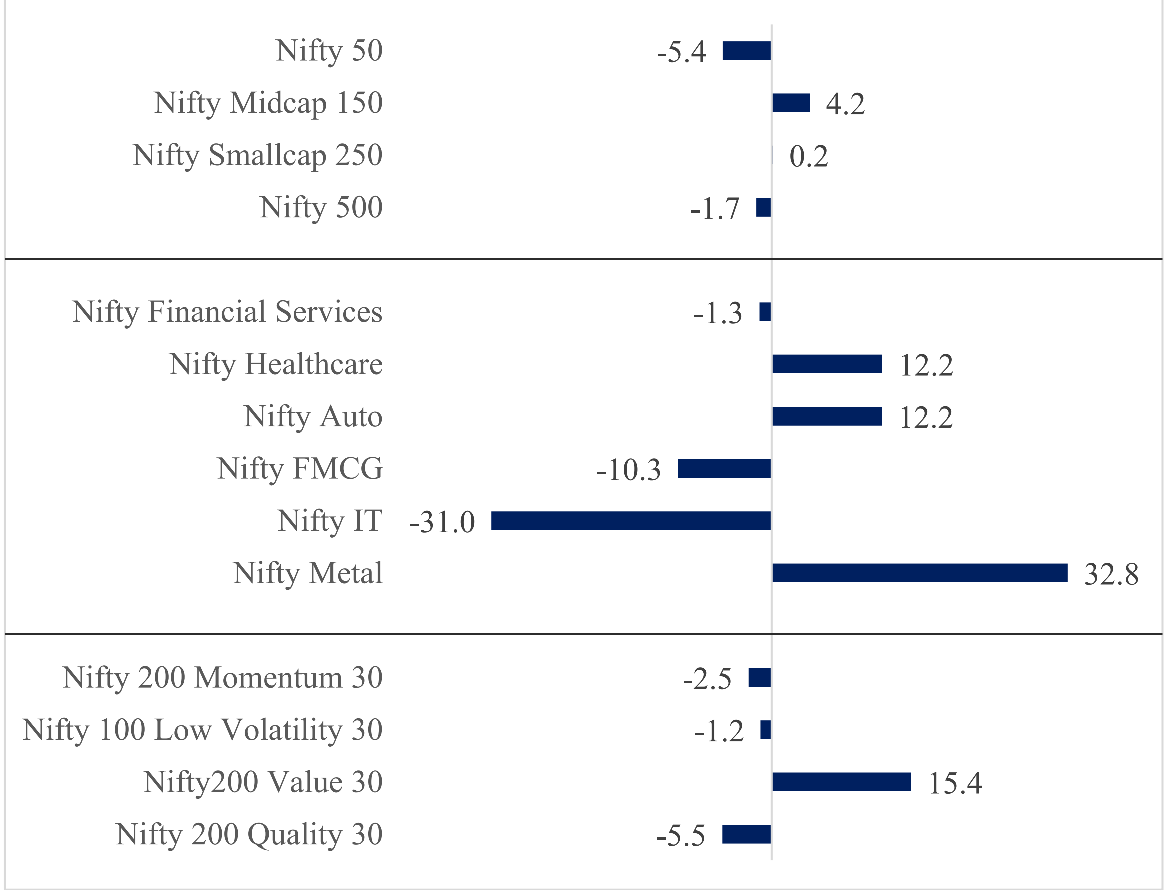
Indian Equity Market Performance

Nifty 50 delivered returns of 1.7% in June 2026, while the Nifty Midcap 150 and Nifty Smallcap 250 delivered returns of 1.0% and 4.3%, respectively. Financial Services and Healthcare were the best-performing sectors, while IT, Metals, and FMCG lagged. On a one-year basis, the Value factor continues to outperform the Quality factor.

1-Month Performance of Indian Indices (in INR)



1-Year Performance of Indian Indices (in INR)

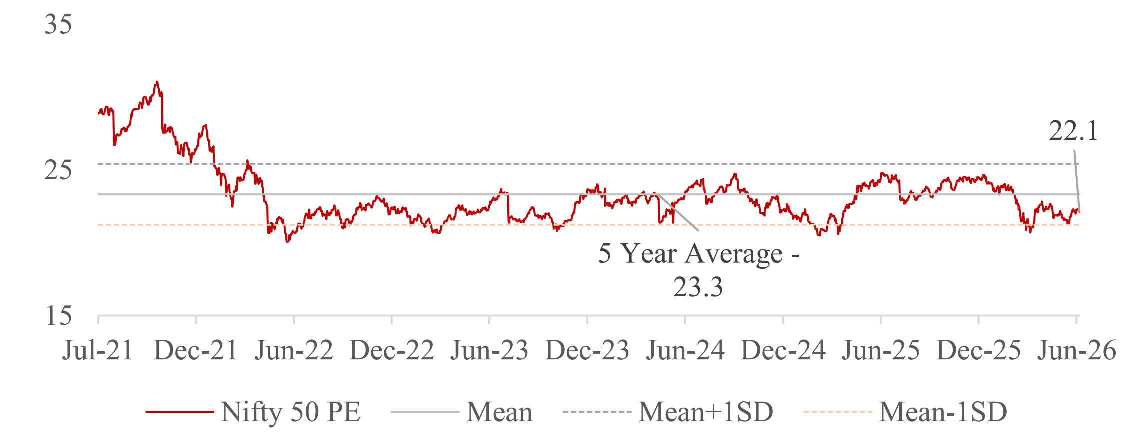


Data as on 30th June 2026, Source: Bloomberg, ICRA

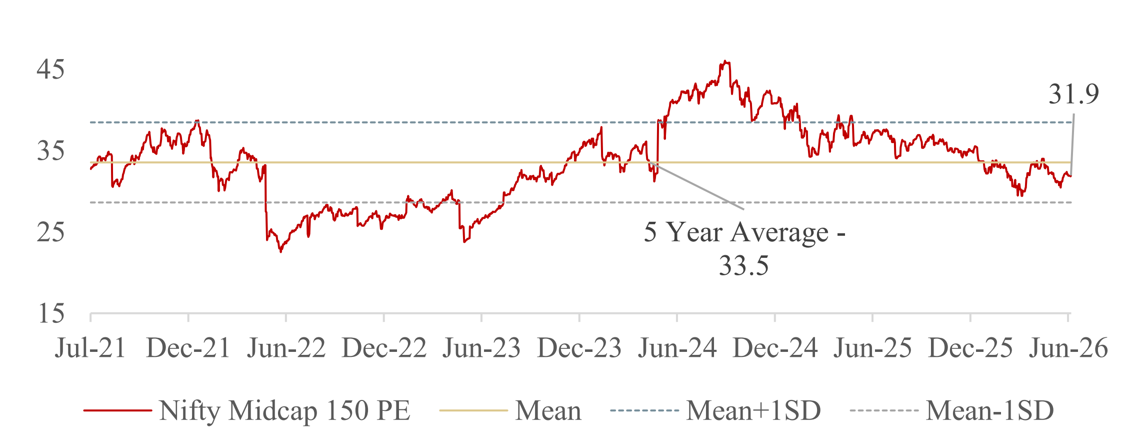
Equity Market Earnings and Valuations

Equity markets are expected to deliver superior earnings growth across market-cap segments. Nearly two years of time and price correction have led to a moderation in valuations.

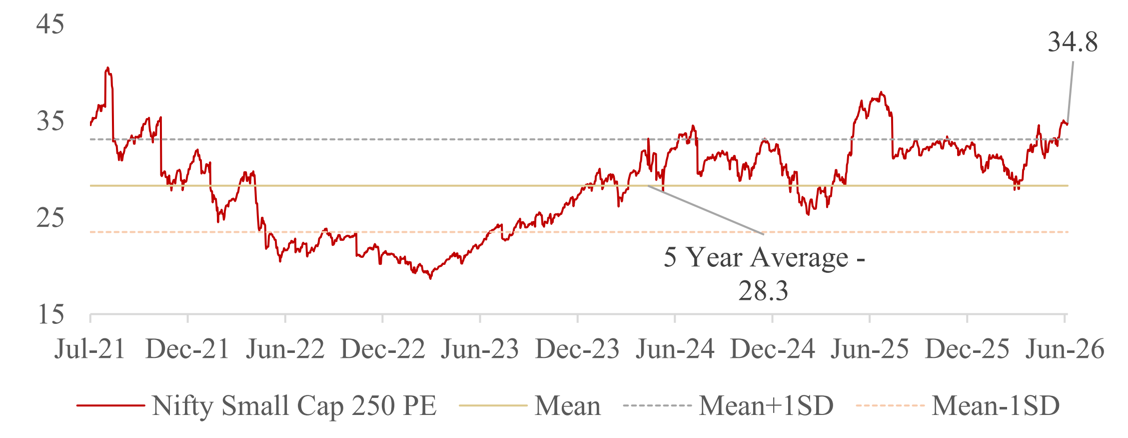
Nifty 50 PE (TTM PE)



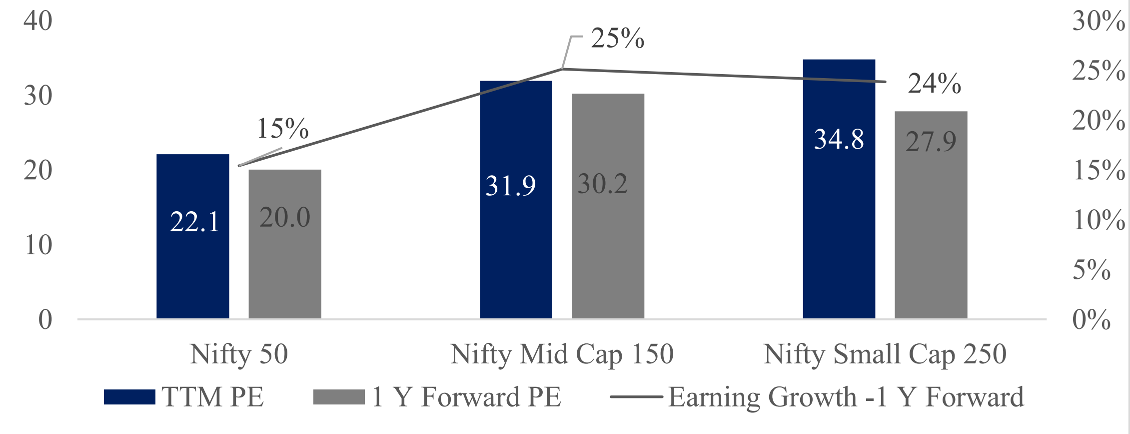
Nifty Mid cap 150 PE (TTM PE)



Nifty Small Cap 250 PE (TTM PE)



Valuations & Growth Estimates (Bloomberg Consensus)

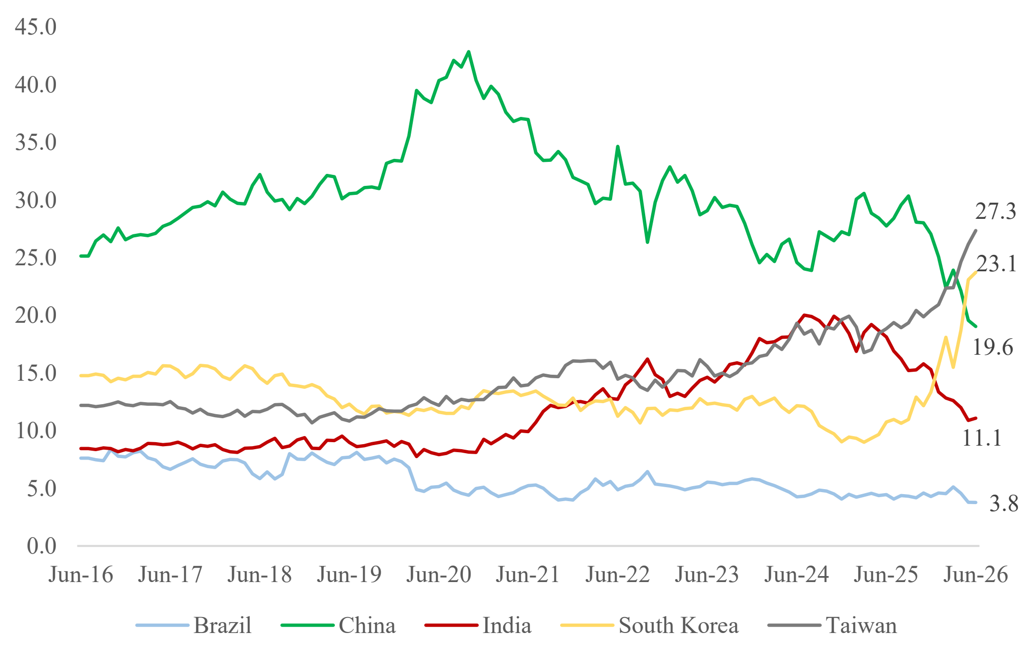


Data as on 30th June 2026 ; Source: Bloomberg

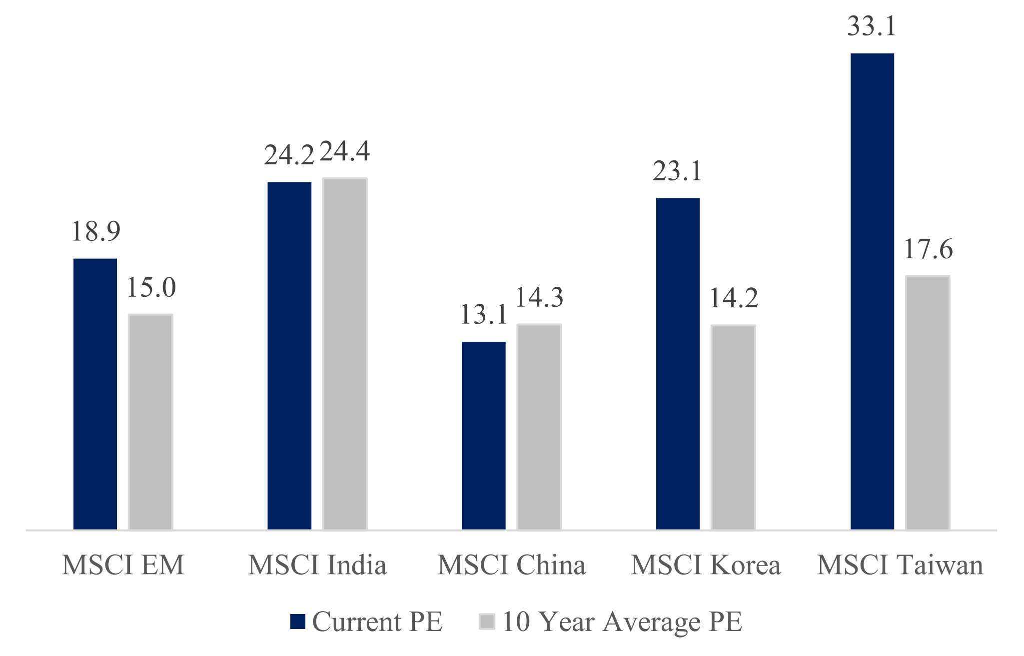
MSCI EM Constituent Trends and Valuation Perspective

- The recent AI-driven equity rally has propelled Taiwan and South Korea ahead of China in MSCI Emerging Markets Index weights for the first time. Combined, Taiwan and South Korea now represent over 50% of the MSCI Emerging Markets Index.
- India and China are currently trading below their respective 10-year average valuation multiples.

Weight of Top MSCI EM Constituents



MSCI Country-Wise Valuation vs Long Term Averages

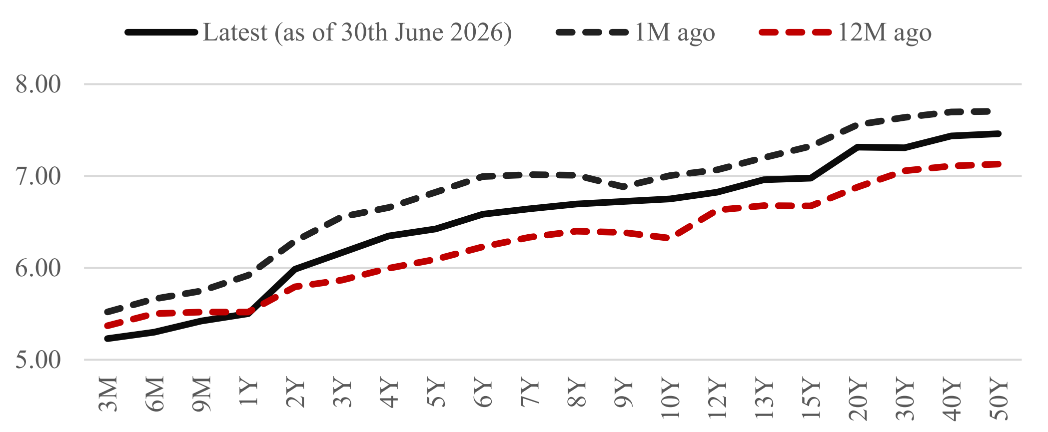


Data as on 30th June 2026.; Source: Bloomberg

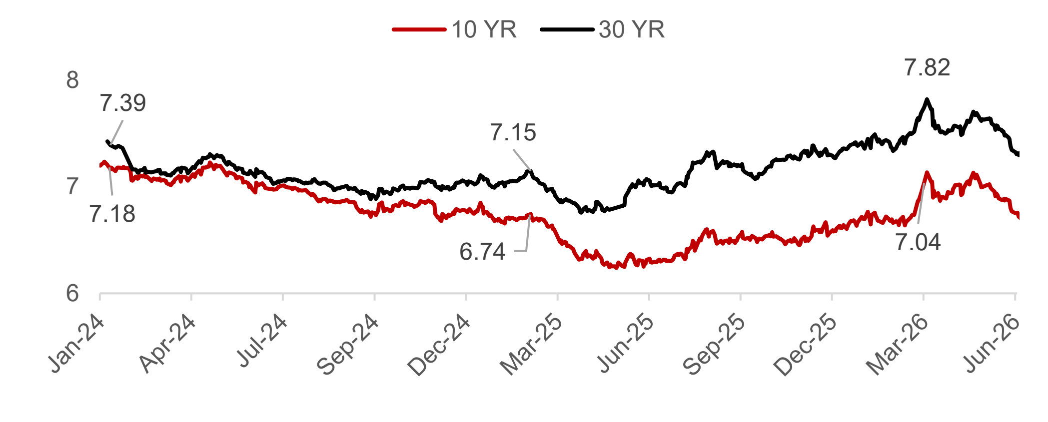
Fixed Income Market Update

The 10-year G-Sec yield nosedived by 26 bps in June 2026, marking its steepest monthly decline in the last seven years. The RBI Governor indicated that India's inflation target (the current 4% CPI target with a 2–6% tolerance band) is unlikely to be raised and could be lowered over the long-term, citing the success of the inflation-targeting framework, moderating price pressures, and a favourable growth outlook.

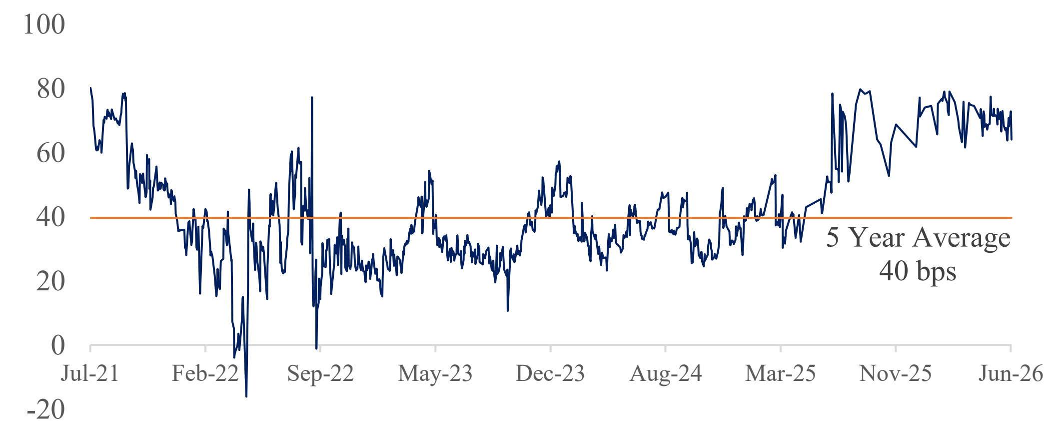
India Bond Yield Curve



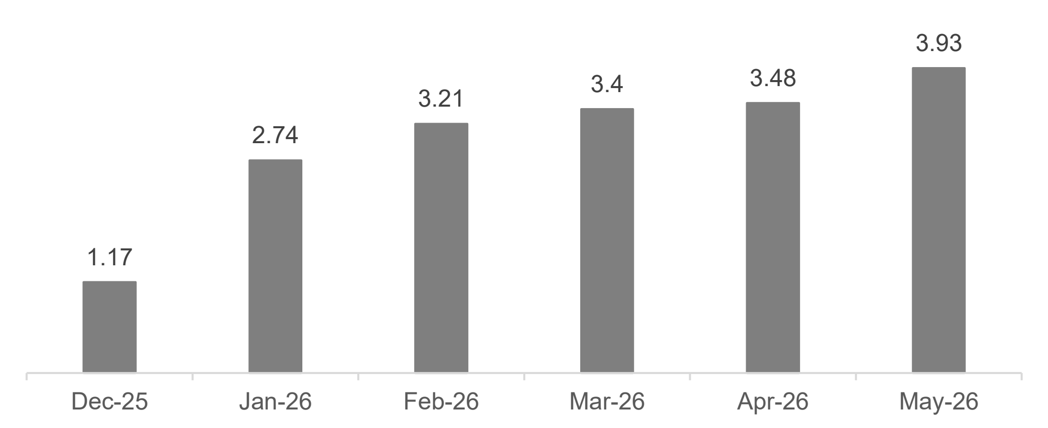
10- & 30-Year G-Sec Yield Movement



10 Year SDL spread over G-Sec (bps)



CPI Inflation (Repo rates unchanged since Dec-2025 at 5.25%)

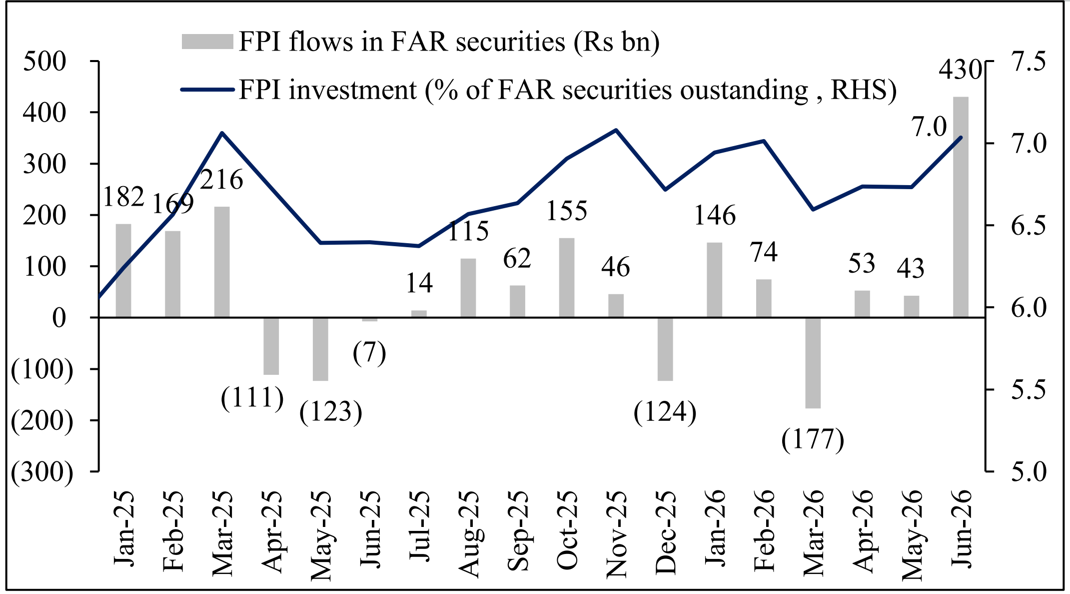


Data as of 30th June 2026, Source: Bloomberg

RBI's June Package Delivers
Capital Inflows Follow Through on the Neutral Stance

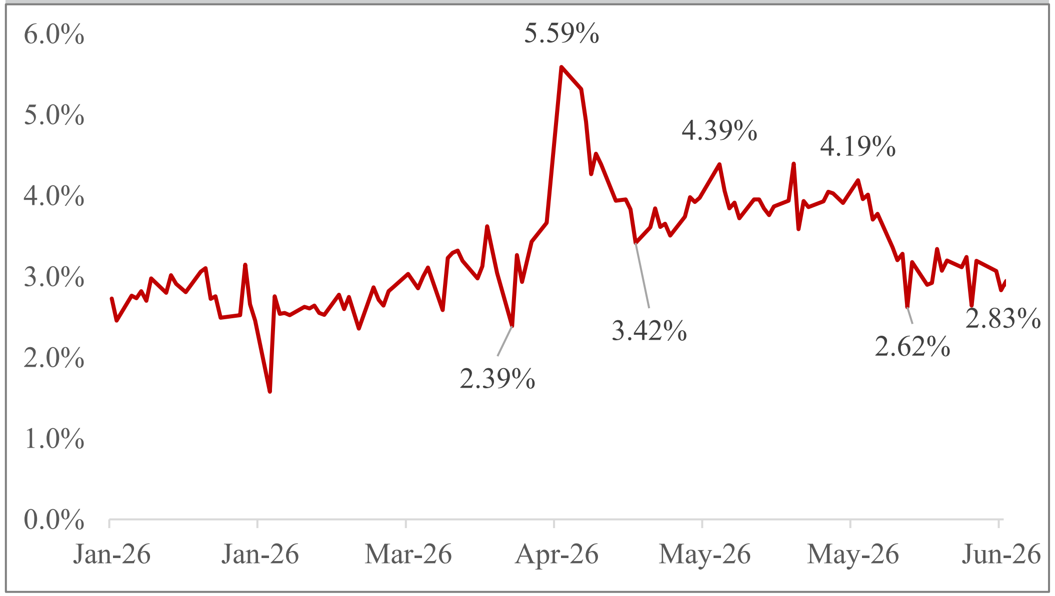
- RBI's June measures eased foreign access to G-Secs, making Indian debt more attractive despite an unchanged repo rate.
- Hedging costs have eased by 70–100 bps, directly widening the real returns earned by foreign investors on Indian debt. FPI flows into FAR securities have swung from record net selling in March 2026 to sustained net buying in June 2026.
- Potential inclusion in Bloomberg's Global Aggregate Index could attract about US$25 bn of additional passive inflows over the next 10 months.

FPI flows in FAR Securities (%) and Share of FAR Securities in G-Secs (%)



Data as of 30th June 2026, Source: CCIL, Kotak Economics Research

Hedging cost (INR-USD forward premium) or Hedged India- US 10Y spread, 15D avg, last 12-18 months

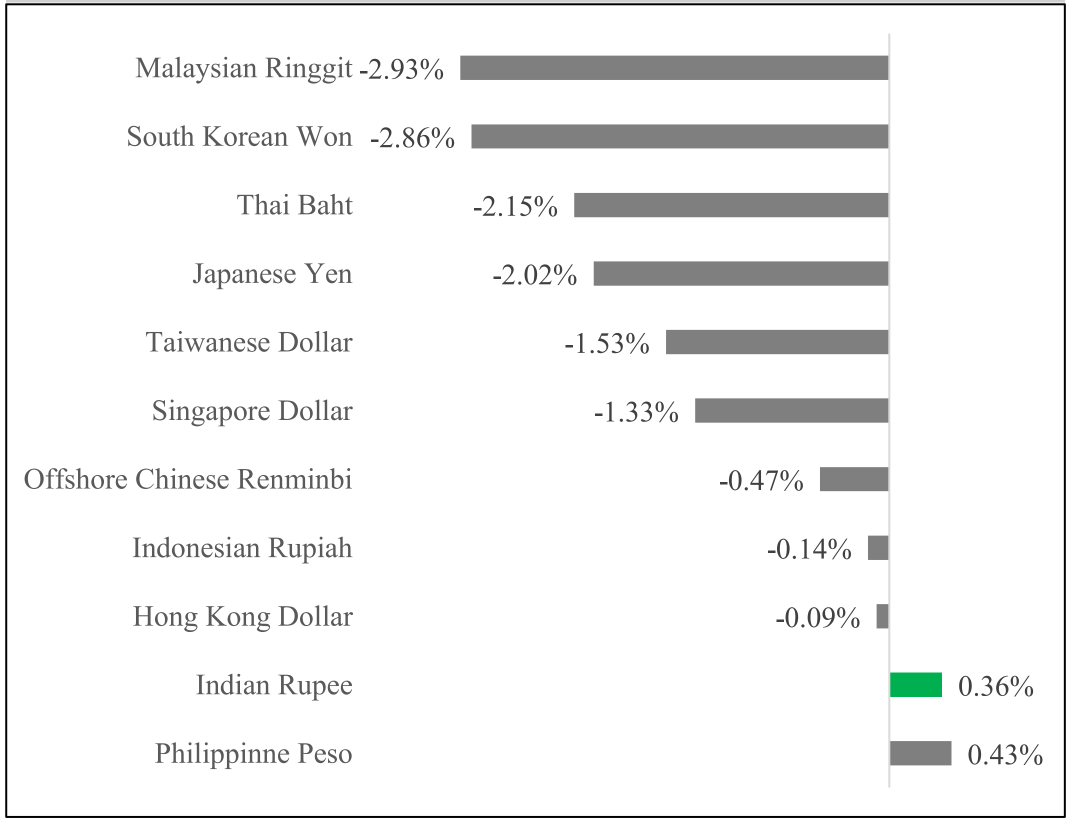


Data as of 30th June 2026, Source: Bloomberg

Currency Market Update

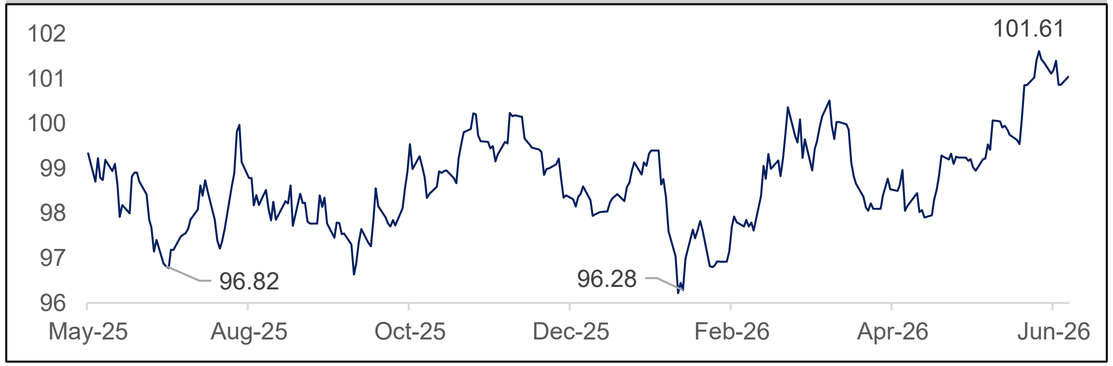
The broad-based strength in the US Dollar Index (DXY) has weighed on most Asian currencies over the past month. Despite the challenging external backdrop, the Indian Rupee has remained relatively stable relative to its regional peers, supported by resilient macroeconomic fundamentals and the RBI's proactive policy measures.

Asian currencies 1M performance vs USD (%)



USD/INR exchange rate

Dollar index (DXY)



Data as of 30th June 2026, Source: Bloomberg

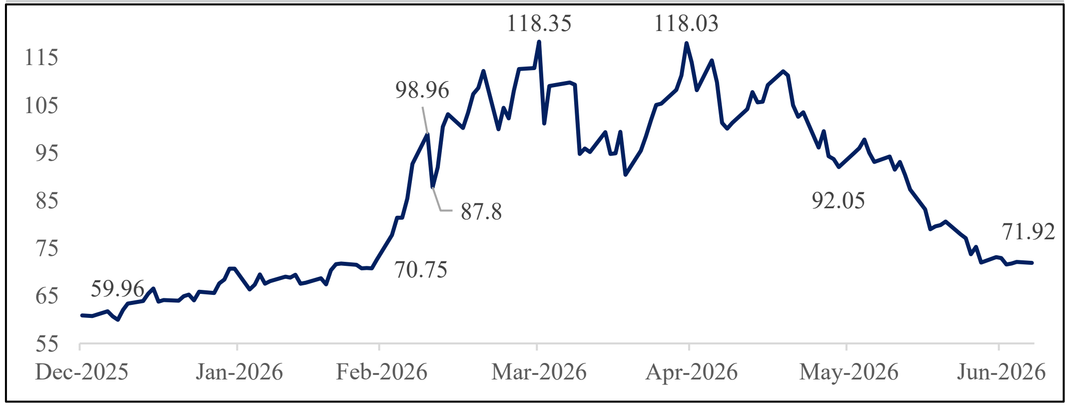
Commodities Market Update

Following a period of heightened volatility, commodity markets are showing signs of normalization, with gold and silver retreating from record highs and crude oil and broader commodity indices easing as geopolitical tensions subside.

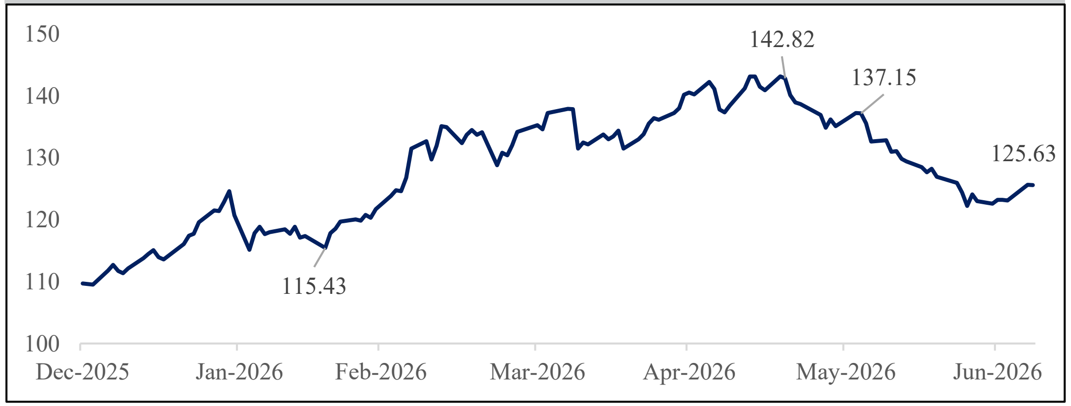
Gold prices (US$/Oz)

Silver prices (US$/Oz)

Crude Oil Prices



Bloomberg Commodity Index*

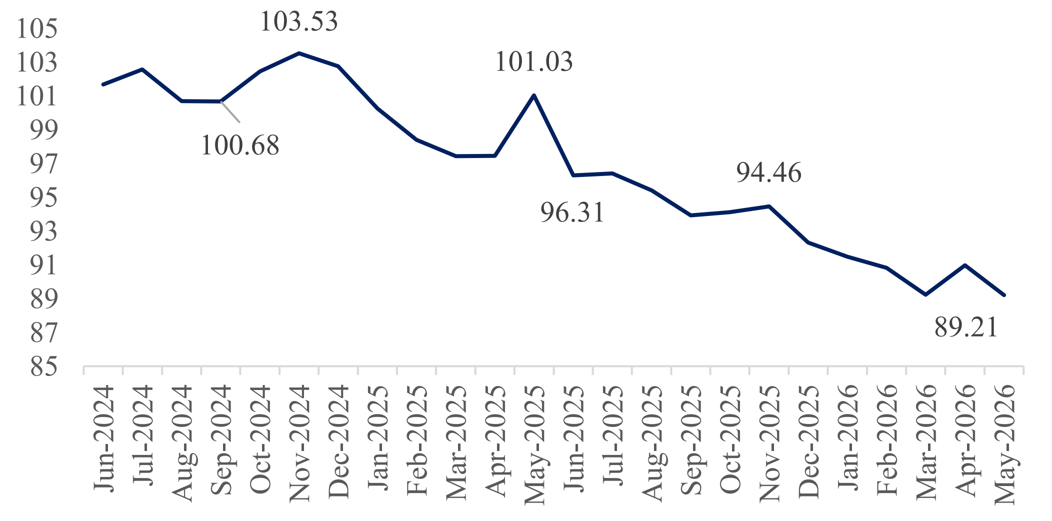


*Data as of 30th June 2026, Source: Bloomberg; * Bloomberg Commodity Index (BCOM) is composed of 25 exchange-traded futures contracts spanning 6 physical commodity sectors (Energy, Grains, Precious Metals, Industrial Metals. Softs and Livestock)*

Real Effective Exchange Rate (REER) Turns, Reserves Recalibrate

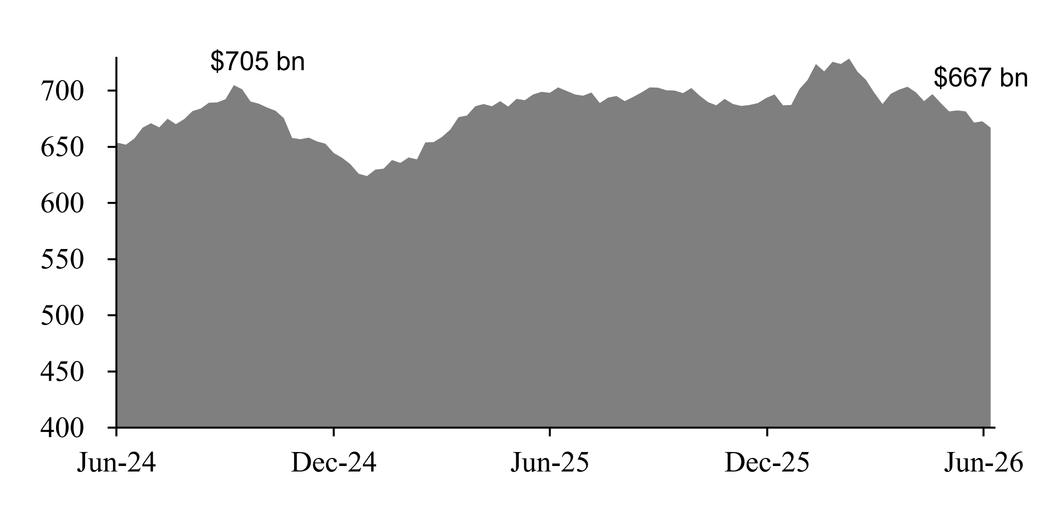
- The correction in the REER index suggests that the rupee has moved away from previously stretched valuations, improving India's external competitiveness.
- FX reserves remain below their February peak, but improving foreign investor participation suggests that RBI measures are beginning to support flows.
- The RBI's net short forward position widened through May and June, indicating that intervention was managed through the forwards market.
- Cooling oil and broader commodity prices have eased pressure on India's external account, reinforcing the supportive backdrop for the rupee.

Trend in 6-Currency real effective exchange rate index



Data as of 30th June 2026, Source: Bloomberg

FX Reserves (US$ bn)



Data as of 30th June 2026, Source: CCIL, Kotak Economics Research

Investment Summary for Mutual Fund diversification

The allocation below is indicative and should be considered based on an individual's risk profile and investment goals.

Asset Class	Outlook	Strategy	Deployment	Rationale
Equity	May increase allocation to Equity	• May go overweight on equities up to 10%. • May maintain a minimum 65% allocation to large-cap stocks and 35% to mid-cap and small-cap stocks. • May continue with a 5% overweight position in BFSI. • May have an overweight position in the healthcare sector, with an allocation of up to 10% of the equity portfolio. • The consumption theme continues to be favourable.	May be deployed in a staggered manner	• Q4FY26 earnings were 4% ahead of expectations for Nifty 50 index companies. • Nifty 50 earnings are expected to grow by 17.7%* in FY27, compared with 8% growth in FY26.
Fixed Income	May focus on carry strategies and debt alternates	• May focus on carry strategies, with elevated yields across the curve. • Investors could look to deploy in high-quality short-duration assets with maturities of up to five years. • Investors may consider participating in spread assets such as REITs/InvITs, NCDs, and credit funds based on suitability.	May be deployed in a staggered manner	• Improving liquidity conditions and strong FPI debt inflows, supported by RBI/Government measures and softer crude oil prices following the US–Iran interim peace deal, remain favourable for fixed-income markets. • We are constructive on REITs/InvITs with a two- to three-year investment horizon.

Investment Summary for Mutual Fund diversification

The allocation below is indicative and should be considered based on an individual's risk profile and investment goals.

Asset Class	Outlook	Strategy	Deployment	Rationale
Gold & Silver	May have 5% allocation in Gold.	May have gold allocation as part of overall portfolio diversification.	Deployment through Gold Funds/ETFs.	Global macroeconomic uncertainty and sustained demand from central banks and investors.
International Equity	May have global allocation of up to 25%.	May have global exposure via diversified funds.	Deployment through globally diversified feeder funds.	International allocation as part of geographic diversification.

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