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Kotak Mahindra Bank

# Monthly Investment Strategy.

**August 2026**

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

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This material is intended for information purposes only and should not be construed as investment advice, solicitation or recommendation

# Market Snapshot

- Geopolitical tensions in the Middle East resurfaced during July as hostilities between the United States and Iran intensified, briefly pushing Brent crude oil prices above US$100/bbl before easing to approximately US$88/bbl by month-end.
- In the month of July 2026 AI-related stocks witnessed a broad correction as investors reassessed growth expectations, AI infrastructure spending trends, and valuations following a strong market rally.
- The MSCI World Index, MSCI Emerging Markets (EM) Index, and MSCI India Index returned 0.5%, -3.1%, and 1.7%, respectively, in USD terms during July 2026.

## Global Macro

- IMF trimmed 2026 global growth forecast to 3.0% from 3.1% in April, citing risks from Middle East tensions, trade fragmentation, and possible AI-driven market corrections.
- IMF raised its 2026 headline inflation forecast by 0.3 percentage points from its April projection to 4.7%, while forecasting inflation to ease to 3.9% in 2027

## Indian Macro

- 1QFY27 fiscal accounts reflected healthy direct tax growth & robust capex spends, but West Asia crisis impact was visible through lower indirect taxes & higher subsidies.
- Expect the center's GFD/GDP to be at 4.3%, in line with FY2027BE, with 20-30 bps of slippages in case of elevated energy and commodity prices for a prolonged period.

## Earnings Outlook

- As per Kotak Institutional Equities Research, Nifty 50 earnings are expected to grow by 16.8% in FY27 and 14.3% in FY28.

## Monsoon Update

- As per India Meteorological Department (IMD) Till Aug 7, cumulative rainfall was 11% below long-term average. Overall rainfall in June was 40% below long-term average, while in July it was 3.5% above long-term average.

*Data as on 31st July 2026 ,Source: Bloomberg*

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# Equity and Fixed Income Market Summary

## Equity Market Summary

- The Nifty 50 gained 2.4% in July 2026, while the Nifty Midcap 150 and Nifty Smallcap 250 advanced 1.7% and 1.3%, respectively.
- Market performance was supported by strong Q1FY27 earnings reported so far and a rebound in foreign investor sentiment. FPIs recorded net inflows of US$ 2.5 bn after four months of outflows, while DIIs added US$ 3.7 bn.
- Commercial banks' credit growth rose to a two-year high of 18.6% YoY in June 2026. Industrial credit grew 19.2% YoY, with broad-based growth across micro, small, medium, and large industries.
- Auto sales registered strong growth in July 2026, with 2W and PVs sales growing by ~30% and ~21% YoY respectively, while tractor sales grew by ~34% YoY

## Fixed Income Market Summary

- RBI turns more dovish than June: MPC retained the repo rate at 5.25% with neutral stance, revised FY27 GDP growth to 6.7% (from 6.6%) and lowered FY27 CPI to 5.0% (from 5.1%). Q2FY27 inflation was cut sharply to 4.7% from 5.1%, pushing rate hike expectations beyond October.
- RBI’s June measures have already attracted nearly US$ 41 bn of FCNR(B)/bank flows and US$ 8-9 bn of FPI debt flows, helping stabilize rupee despite elevated crude prices and geopolitical uncertainties.
- Post June'26, Indian G-Secs delivered muted returns as benchmark yields hardened on the back of tighter banking system liquidity, higher crude oil prices, and delayed expectations of bond index-related inflows.

*Data as on 31st July 2026 ,Source: Bloomberg*

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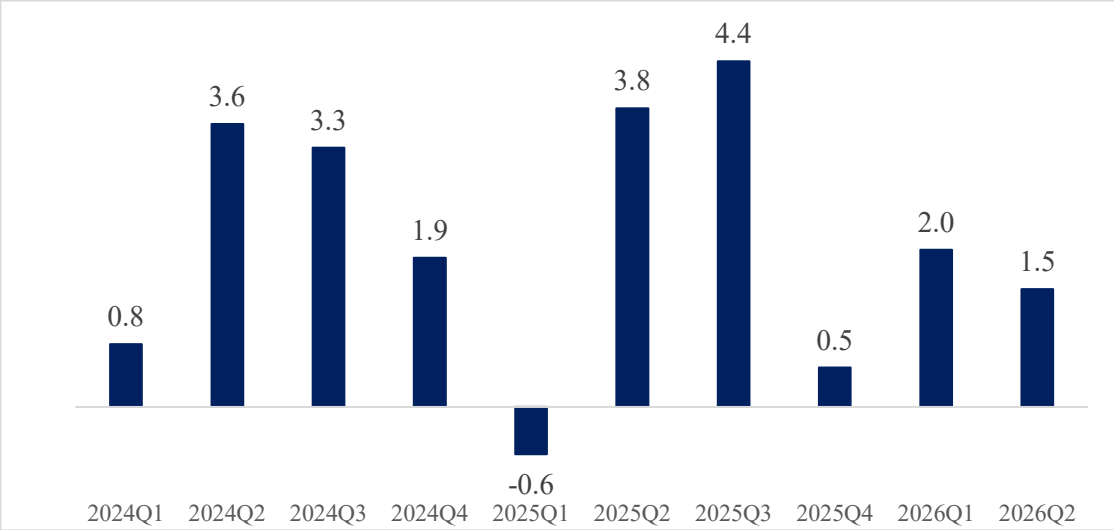
# US Growth & Inflation Slowing Down

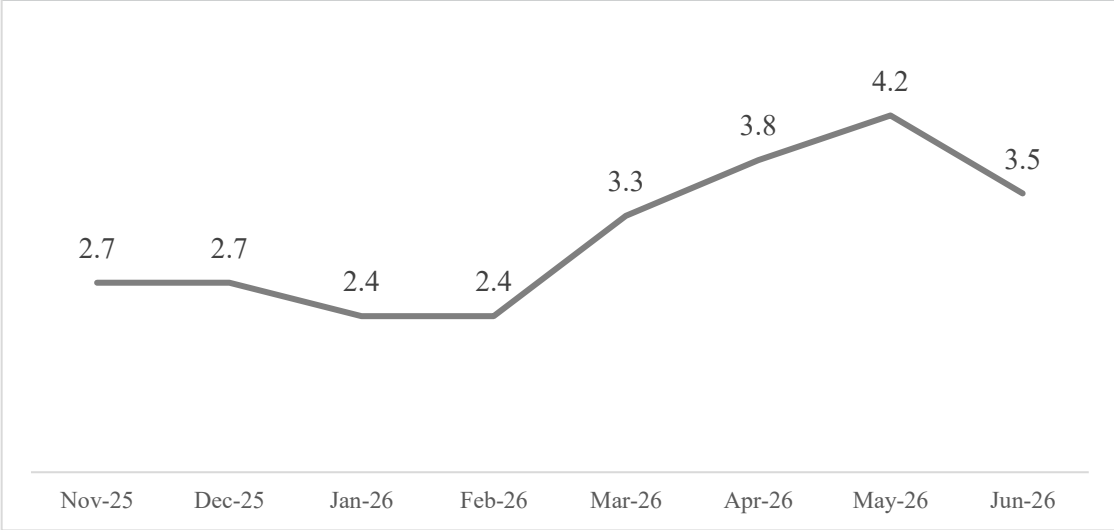
- US economy expanded at a modest 1.5% during April to June 2026, indicating a slowdown in economic activity.
- Inflation eased to 3.5%, reflecting some moderation in price pressures; though it remains well above the Federal Reserve's 2.0% target, thereby continuing to pose a concern for policymakers.
- US economy unexpectedly lost jobs in July, with nonfarm payrolls declining by 23,000 compared with economists' expectations of an 80,000 increase.
- Though the Fed faces pressure to tighten policy amid elevated inflation, it kept rates unchanged for a fifth consecutive meeting.

**US GDP Growth (YoY %)**




*Source: US Bureau of Economic Analysis,; Data as on 3rd August 2026*

**US CPI Inflation Rate (%)**




*Source: US Bureau of Labour Statistics; Data as of June 2026*

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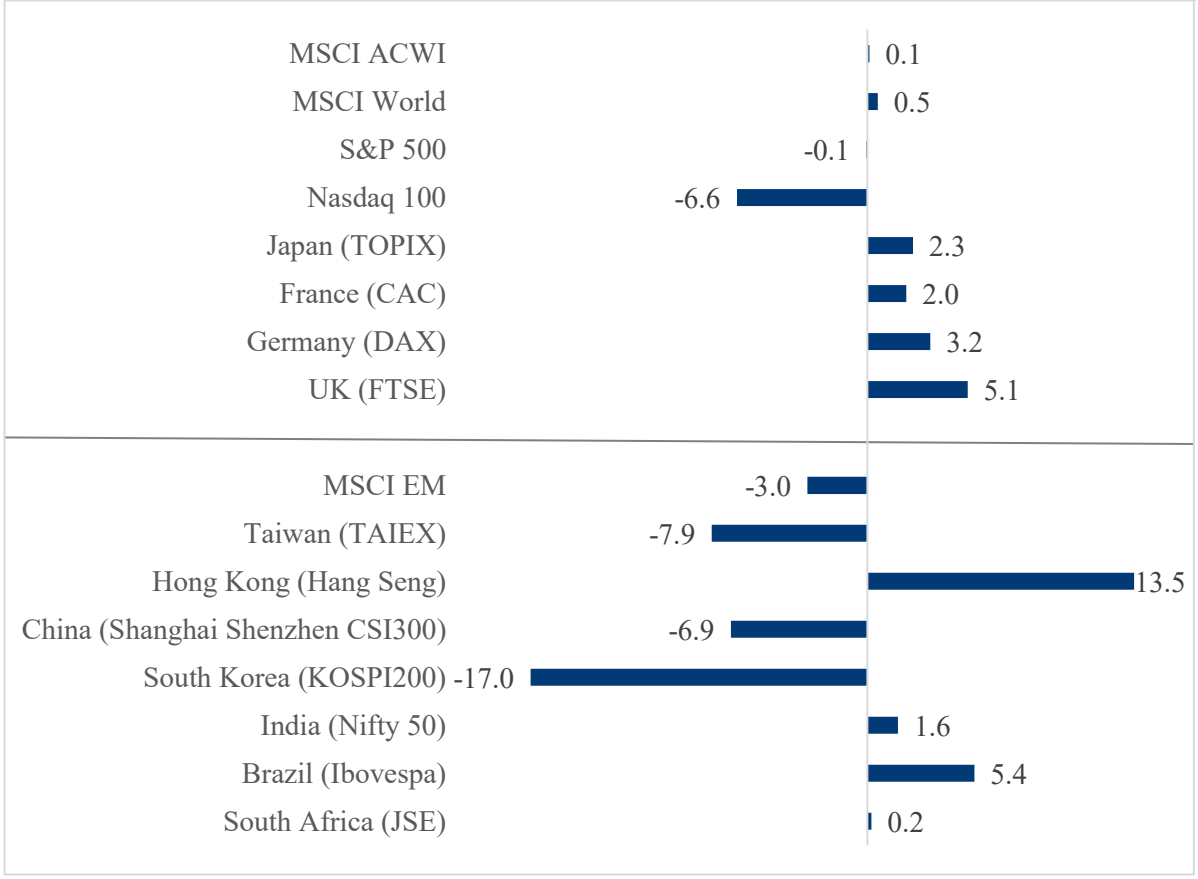
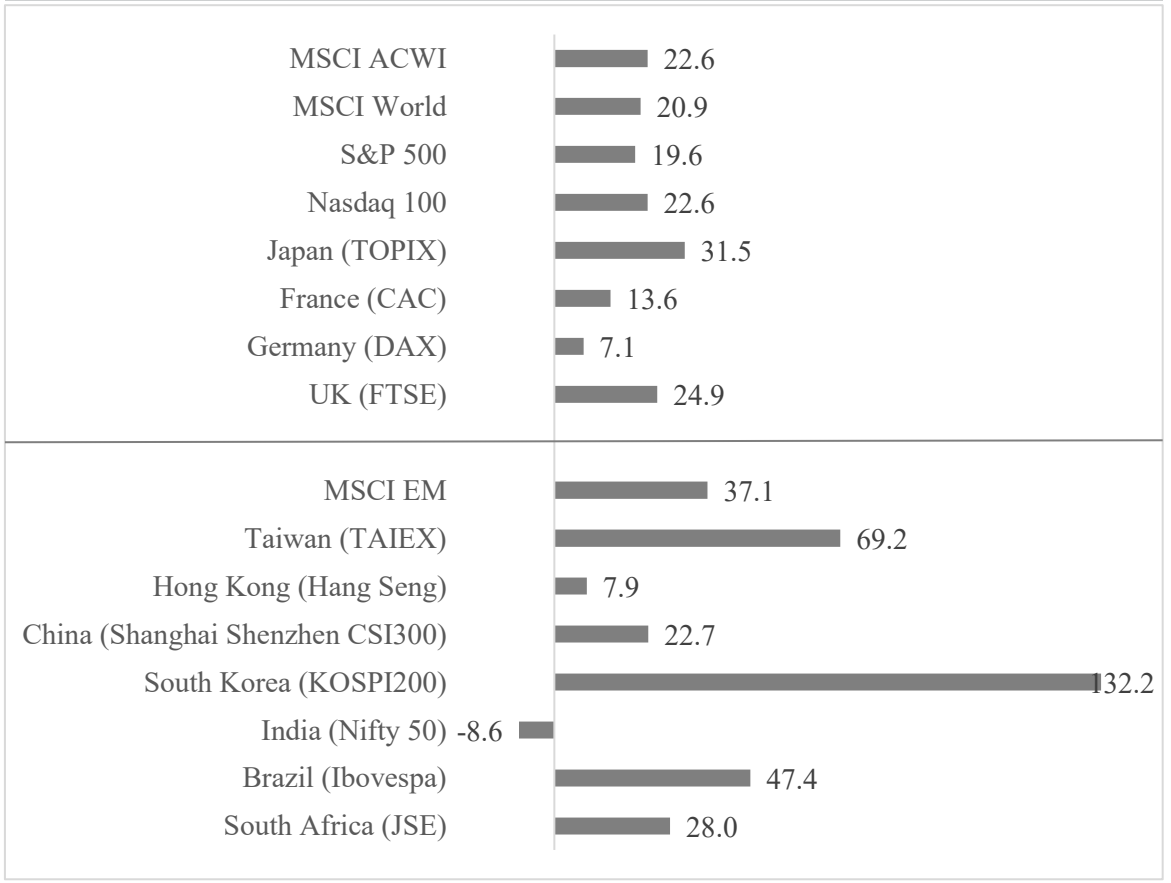
# Global Equity Market Performance (in USD)

- MSCI ACWI delivered 0.1% returns in July 2026 with most developed markets delivering positive dollar returns. MSCI EM delivered -3.0%, with South Korea Index correcting most by 17.0%. India (Nifty 50) delivered 1.6% in July 2026, though it continues to underperform on 1-year basis.

**1-Month Performance (in USD)**




**1-Year Performance (in USD)**




*Data as on 31st July 2026, Source: Bloomberg, ICRA*

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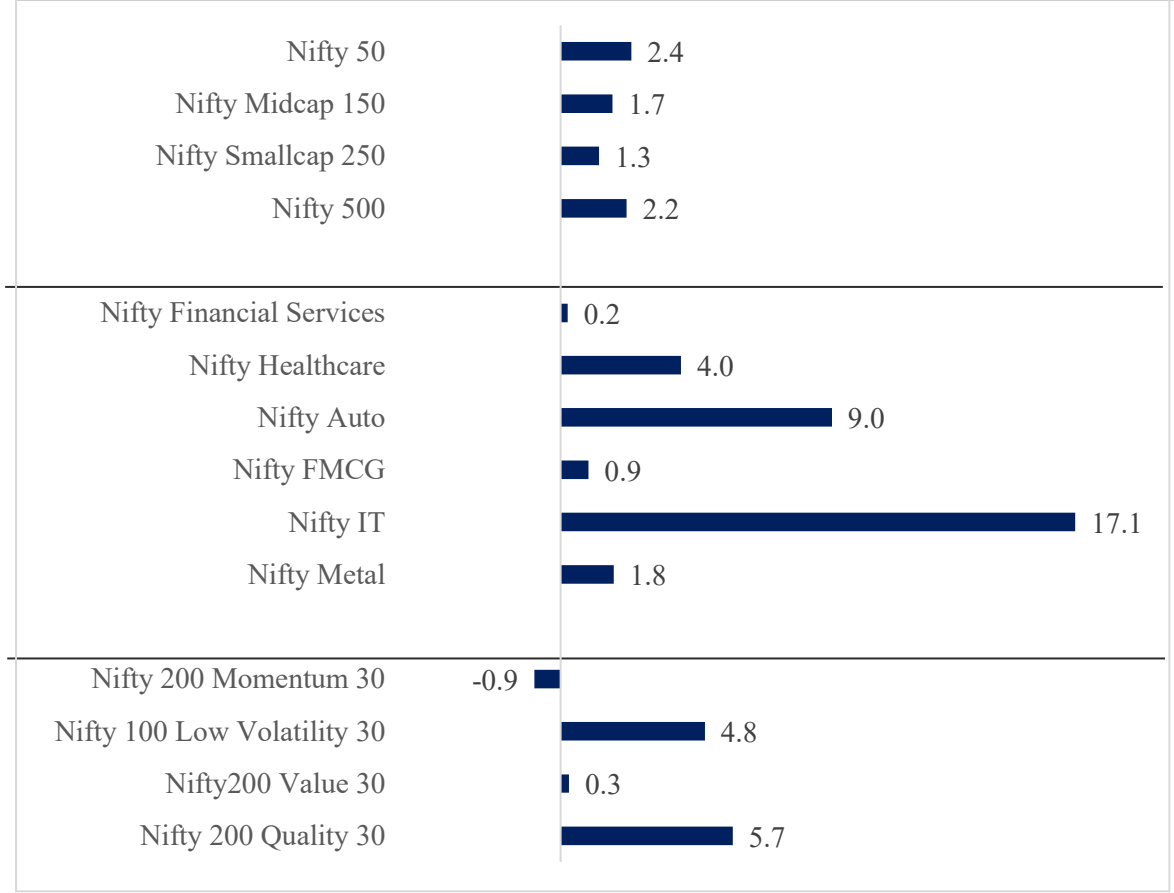
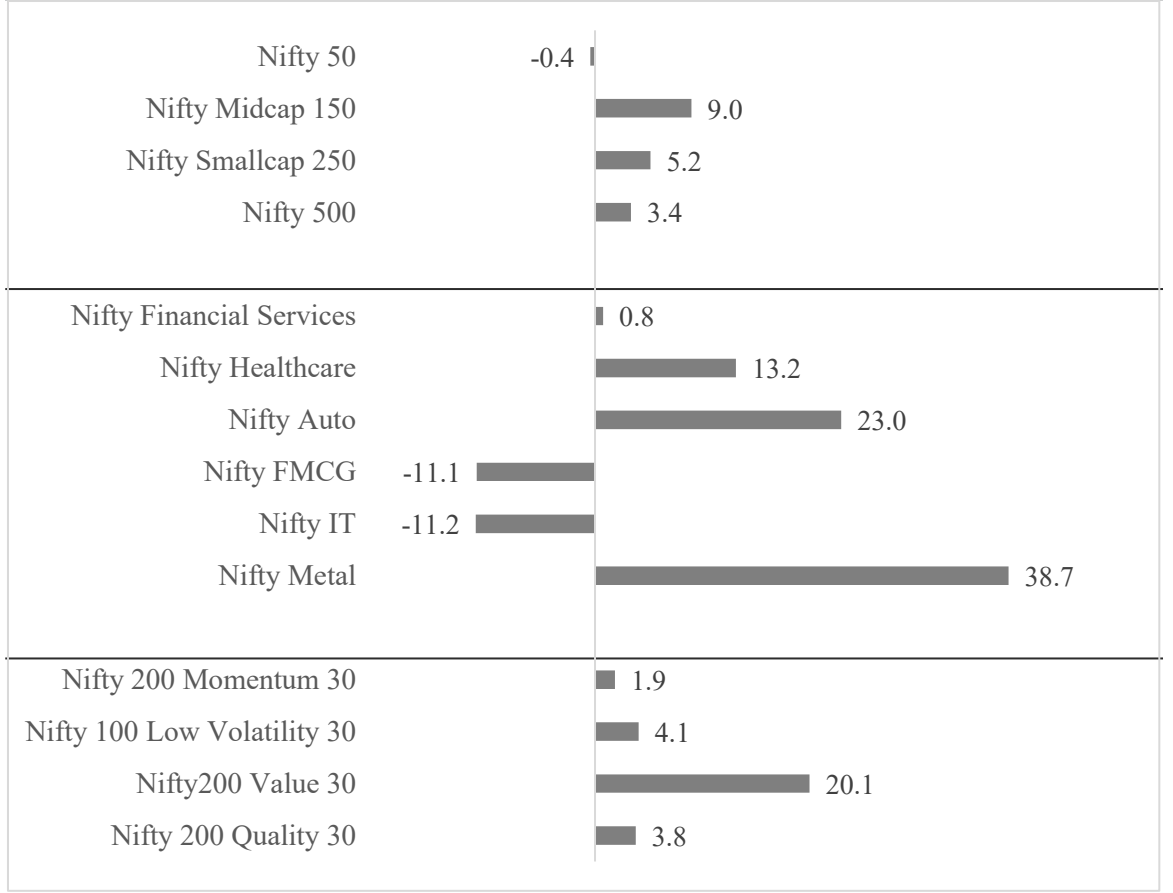
# Indian Equity Market Performance

- Nifty 50 delivered 2.4% returns in the month of Jun 2026, Nifty Midcap 150 and Nifty Smallcap 250 delivered 1.7% and 1.3% respectively. IT and Auto sectors were the top performers during the month, whereas Financials Services and FMCG recorded relatively lower returns.. On 1-year basis, Value factor continues to outperform quality.

**1-Month Performance of Indian Indices (in INR)**




**1-Year Performance of Indian Indices (in INR)**




*Data as on 31st July 2026, Source: Bloomberg, ICRA*

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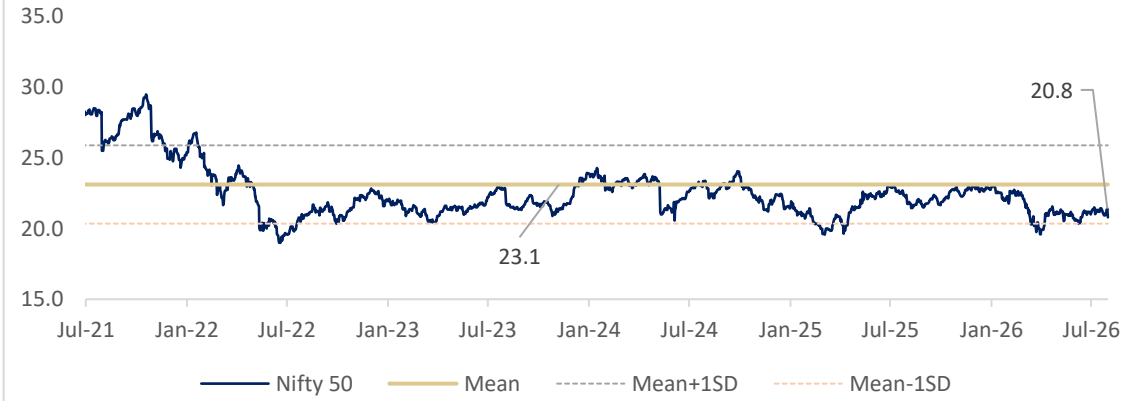
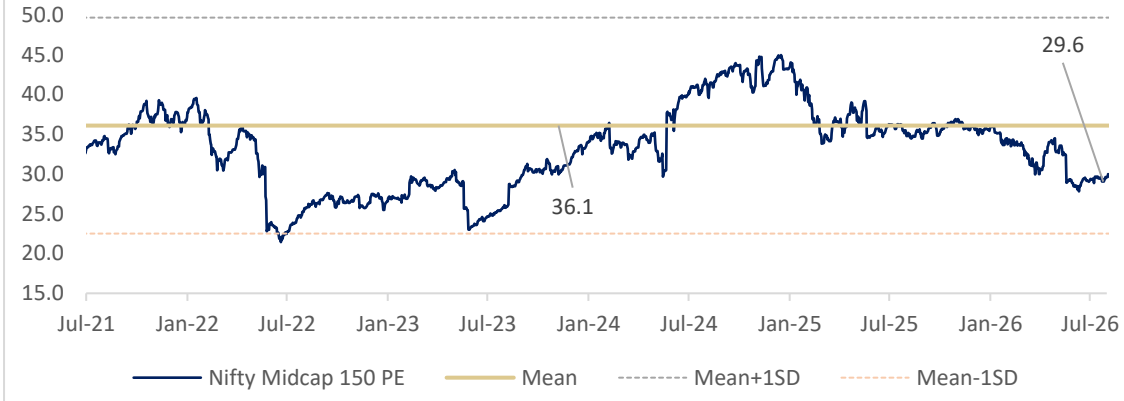
# Equity Market Earnings and Valuations

- Equity markets may deliver better earnings growth across market cap segments. Nearly 2 years of time and price correction have led to moderation in valuations.

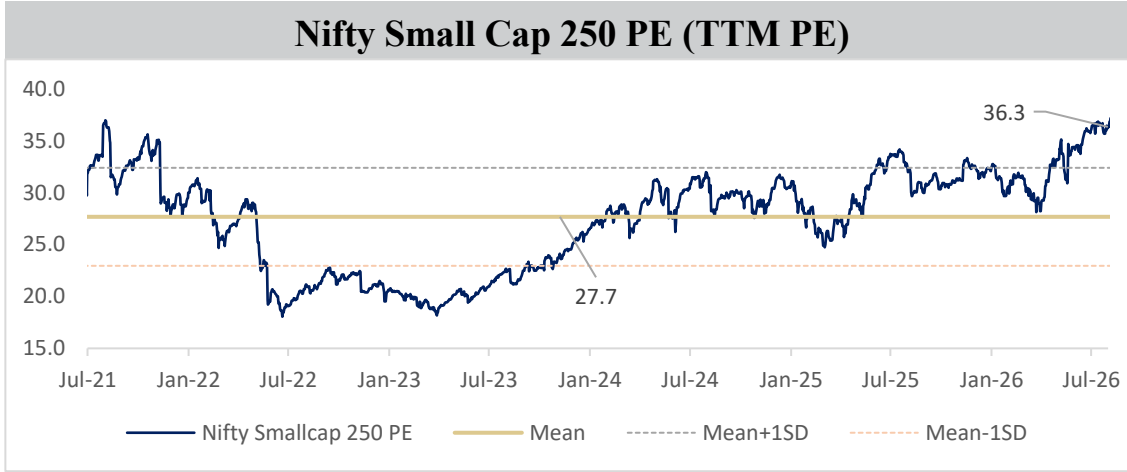
## Nifty 50 PE (TTM PE)



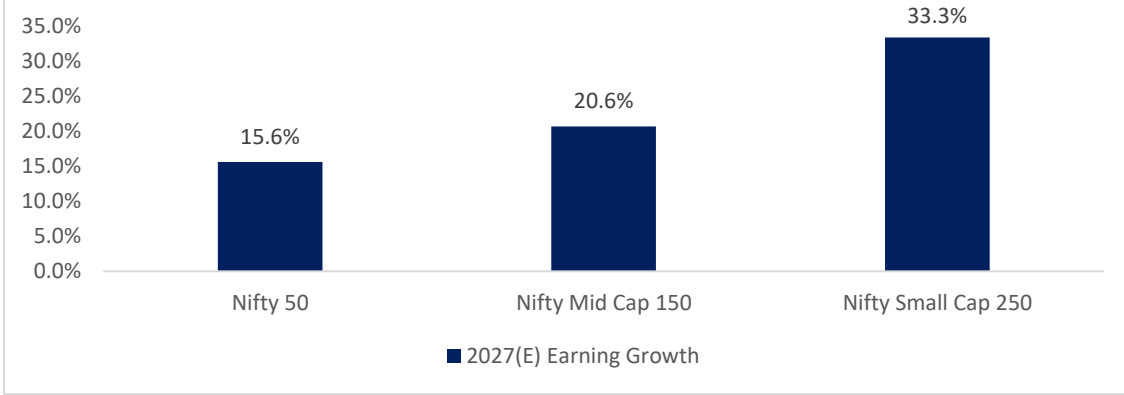

## Nifty Mid cap 150 PE (TTM PE)




## Nifty Small Cap 250 PE (TTM PE)




## Earnings Growth (Bloomberg Consensus)




*Source: Bloomberg, Data as on 31st July 2026*

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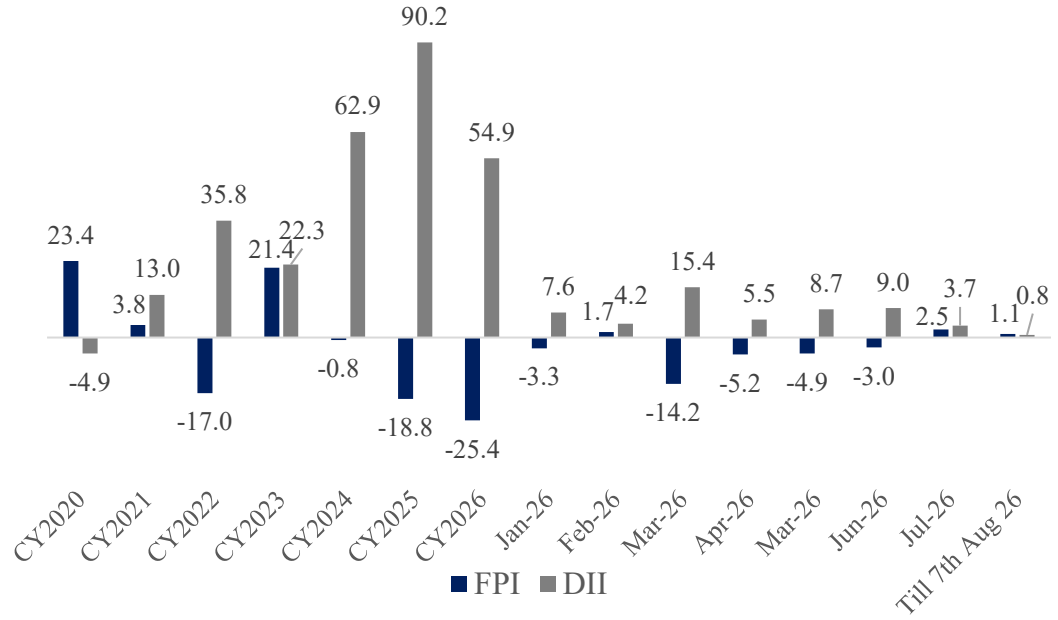
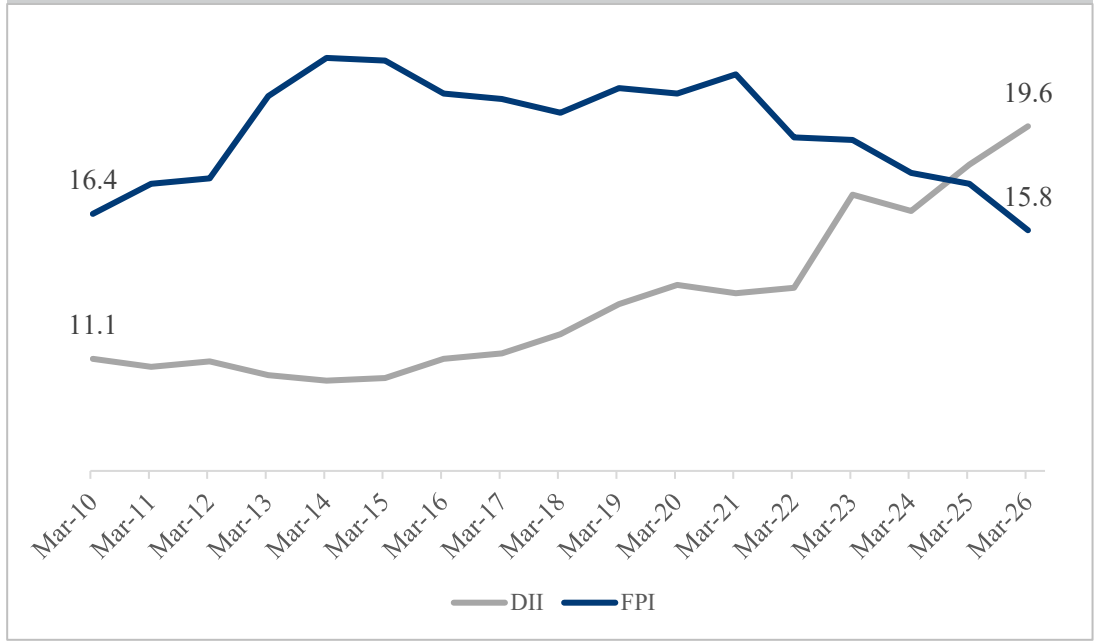
# Shifting Ownership Dynamics: Rising DII Participation and Improving FPI Sentiment

- Domestic institutions have steadily increased their share of India's listed equity market, with DII ownership rising from 11.1% in Mar'10 to 19.6% in Mar'26, while FII ownership has moderated to 15.8%.
- Following significant FPI outflows during CY2025 and the first half of CY2026, foreign investor sentiment has shown signs of improvement, with net FPI inflows recorded in July and early August 2026.

**FPI & DII Inflows in India (in USD Bn)**




**Ownership in Indian Listed Equity Market (%)**




*Source: Bloomberg; Data as on 31st July 2026.*

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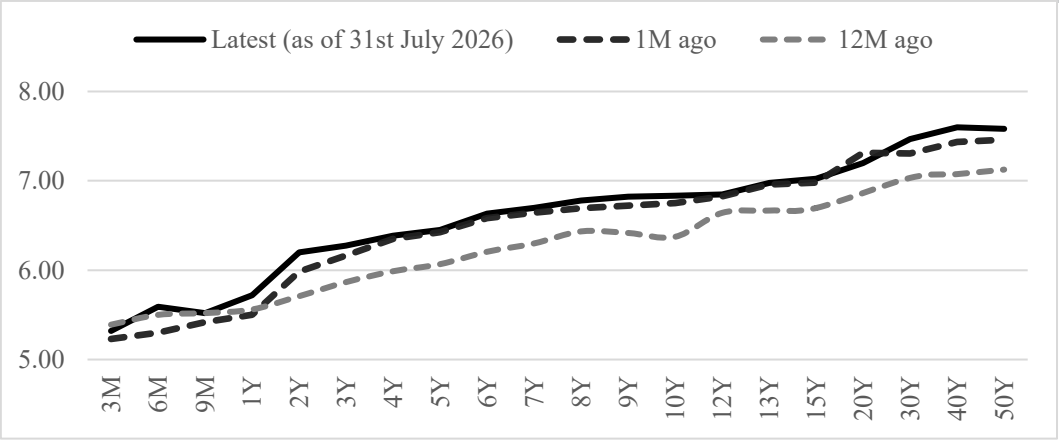
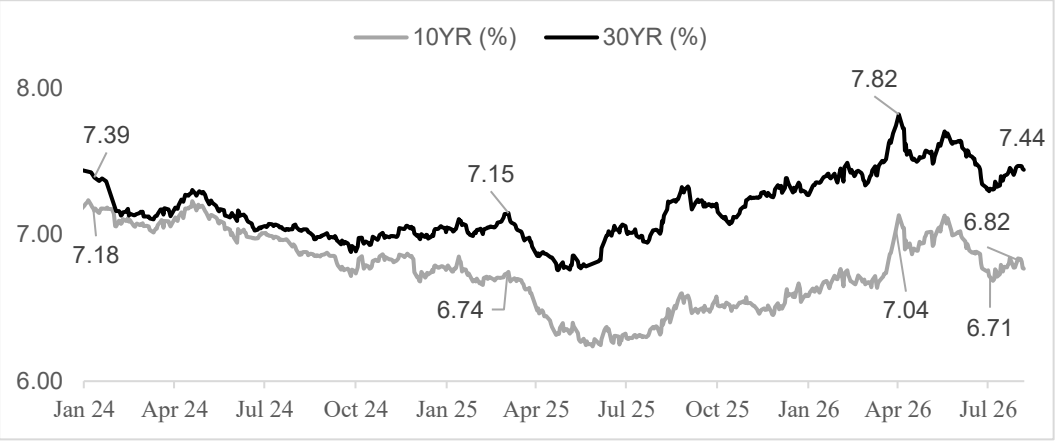
# Fixed Income Market Update

- CPI inflation remains benign, providing room for the RBI to maintain its neutral stance, while 10-year and 30-year G-Sec yields remain elevated amid supply and global yield pressures. The yield curve remains relatively steep at the long end, while SDL spreads remain above their long-term averages, which may keep carry opportunities across select segments of fixed income market.

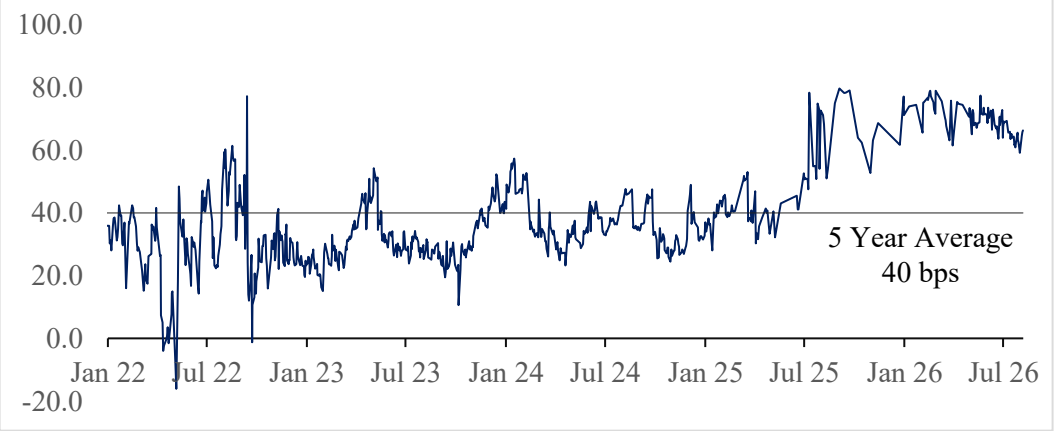
**India Bond Yield Curve**



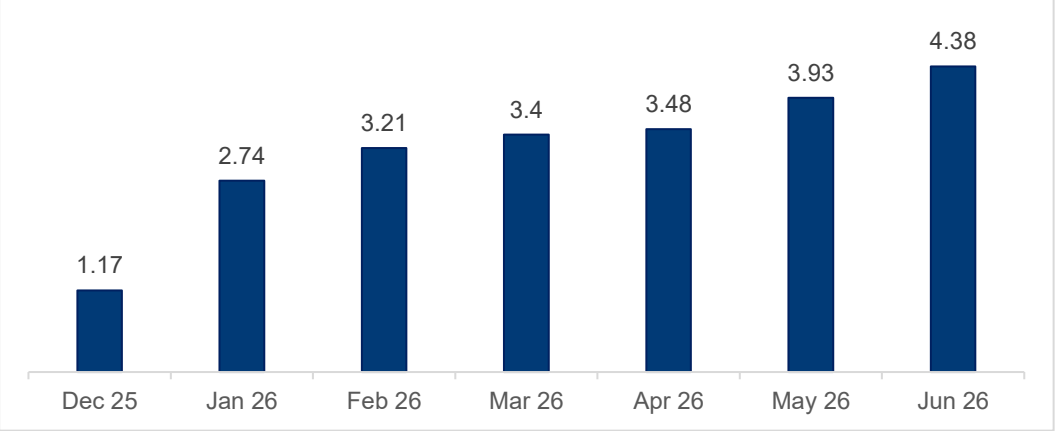

**10- & 30-Year G-Sec Yield Movement**




**10 Year SDL spread over G-Sec (in bps)**




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




Note: Data as of 31 July 2026, Source: Bloomberg

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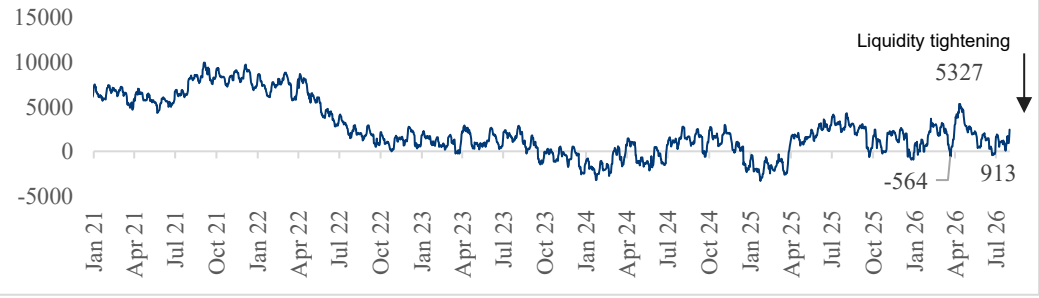
# FCNR (B) Replaces FAR as the Key Liquidity Driver, Yet Banking Liquidity Remains Constrained

- FAR inflows cooled in July as the anticipated Bloomberg Global Aggregate Index inclusion was deferred.
- In contrast, RBI's FCNR(B)/OFCB/ECB measures mobilized USD 40.8bn, becoming the key source of liquidity support.
- Durable liquidity improved materially, but banking-system liquidity remained only modestly surplus.
- Elevated government cash balances and RBI's forward-book settlements absorbed part of the liquidity injection.

**Split of Large USD inflows through FCNR(B), OFCBs and ECBs as of 31st July 2026**

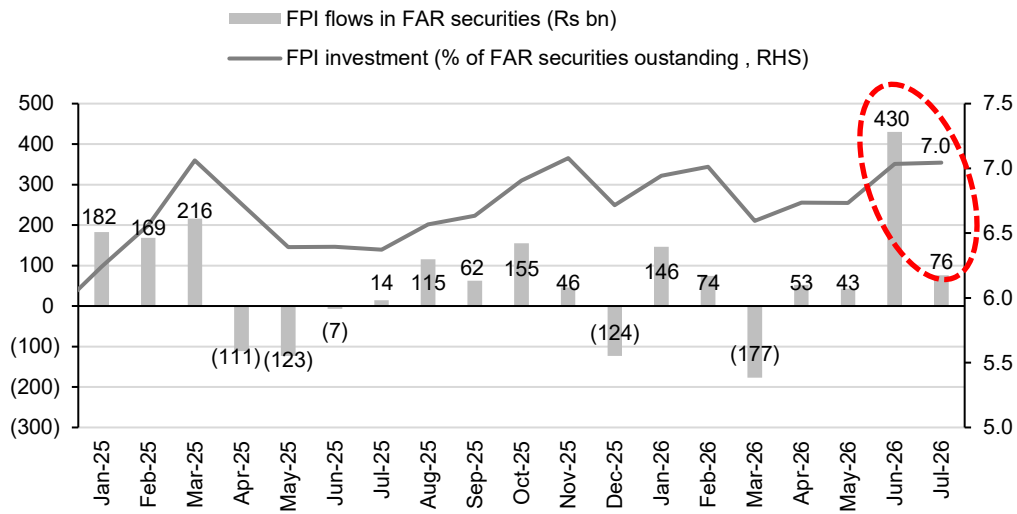
| FCNR (B) Deposits | OFCBs | ECBS |
|---|---|---|
| $ 36,725 million | $2,575 million | $1,516 million |

**Banking System Liquidity (Rs. Billion), +ve is surplus, -ve is deficit**




Note: Data as of 31st July 2026, Source: Bloomberg

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




Note: Data as of 31st July 2026, Source: CCIL, Kotak Economics Research

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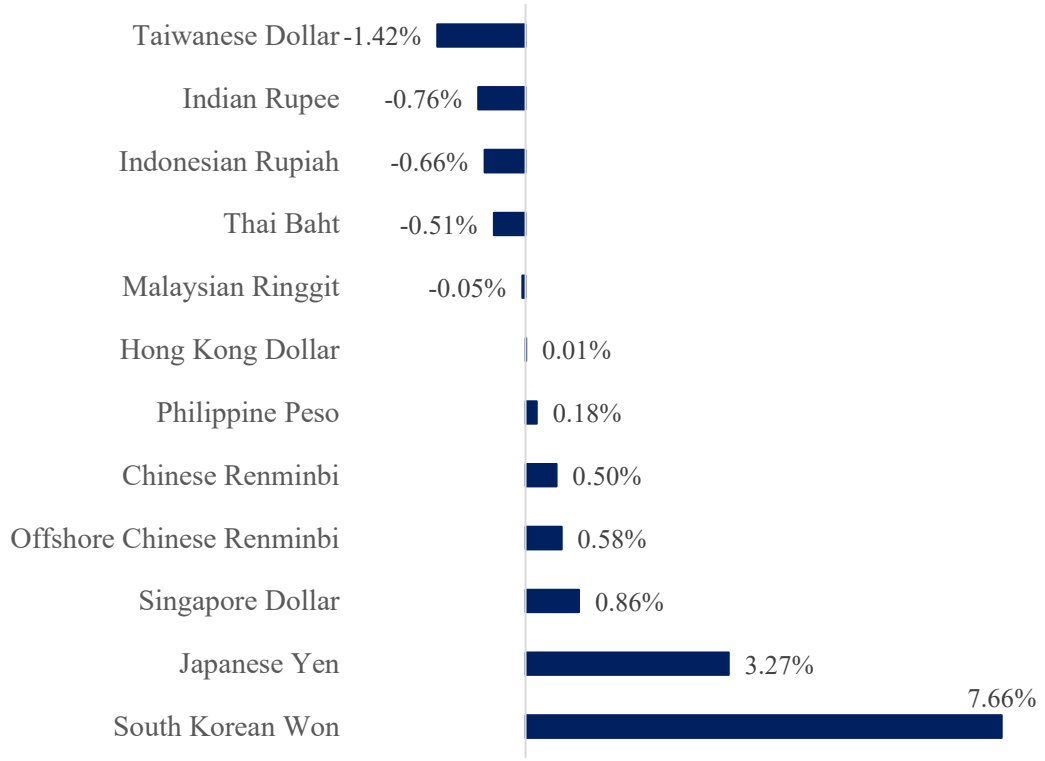
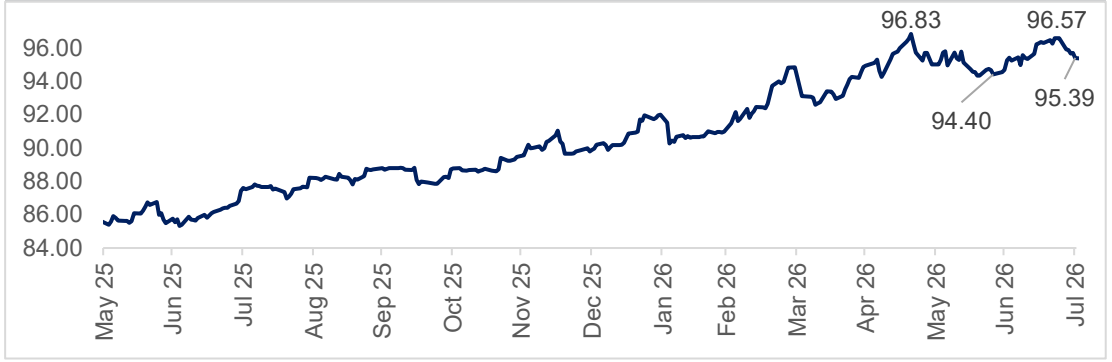
# Currency Market Update

- The US Dollar Index weakened below 100 in July as expectations of further Fed tightening moderated, supporting a broad recovery in Asian currencies. The rupee remained range-bound, with importer dollar demand offsetting broader dollar weakness, while RBI intervention helped curb volatility.

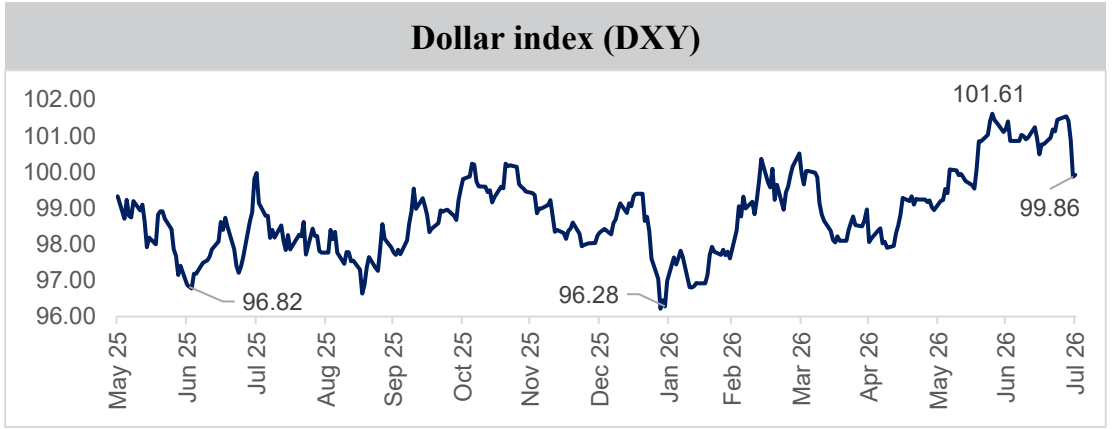
**Asian currencies 1M performance vs USD (%)**




**USD/INR exchange rate**




**Dollar index (DXY)**




Note: Data as of 31st July 2026, Source: Bloomberg

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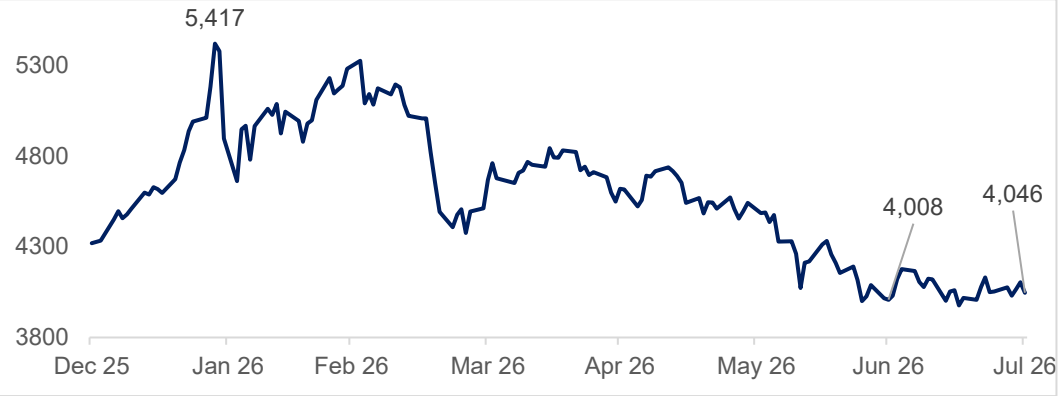
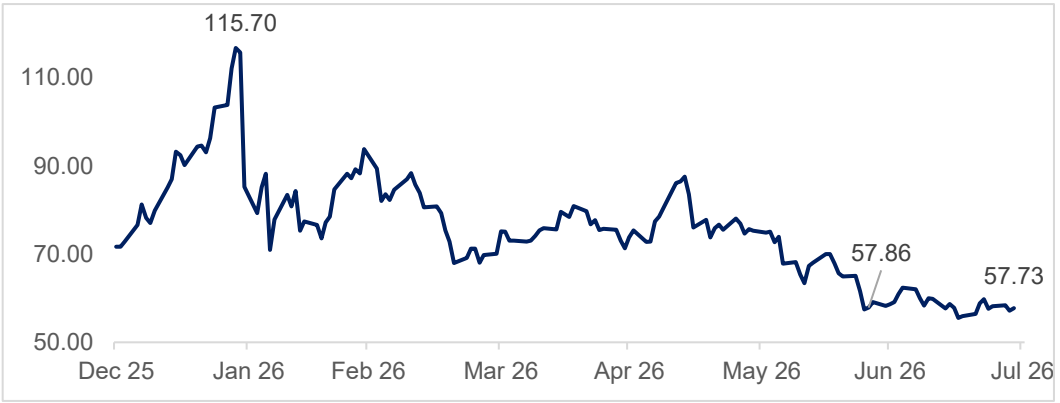
# Commodities Market Update

- Commodity markets rebounded from June lows as tighter energy market conditions, supply concerns and geopolitical risks re-emerged during July, pushing crude oil towards $90/bbl. Gold and silver remained broadly stable, supported by a softer dollar and elevated geopolitical uncertainty.

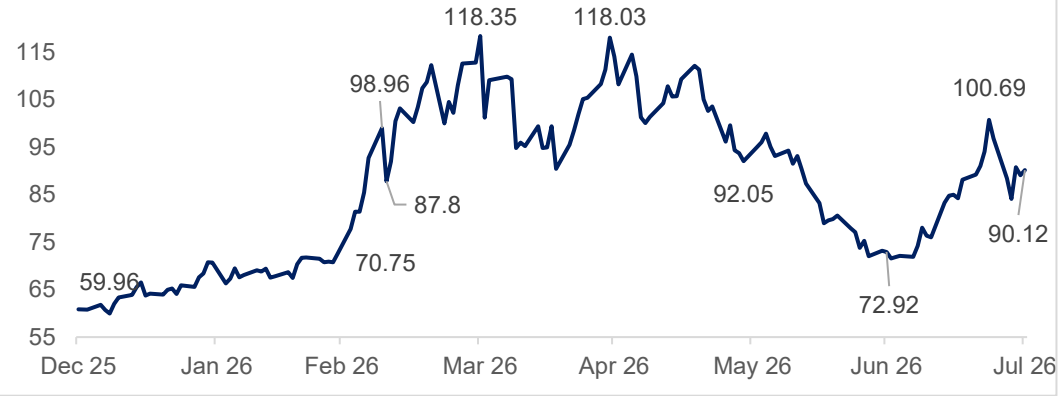
**Gold prices (US$/Oz)**



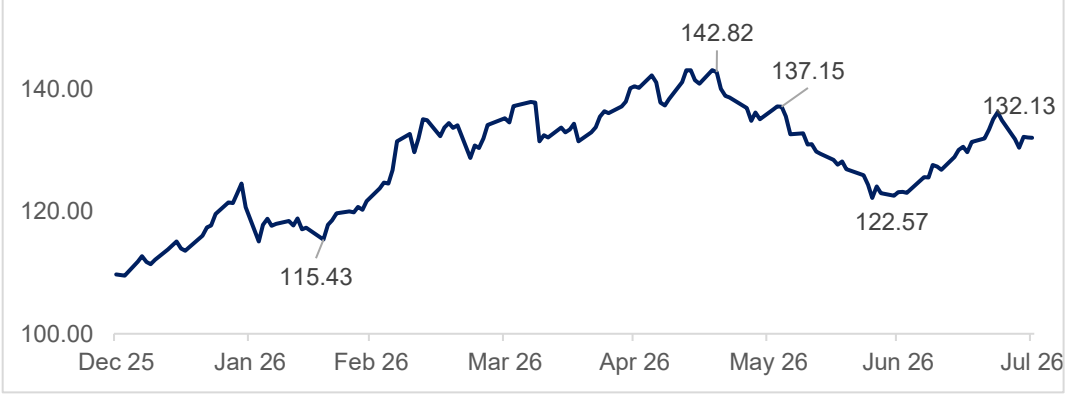

**Silver prices (US$/Oz)**




**Crude Oil Prices**




**Bloomberg Commodity Index***




Note: Data as of 31st July 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)

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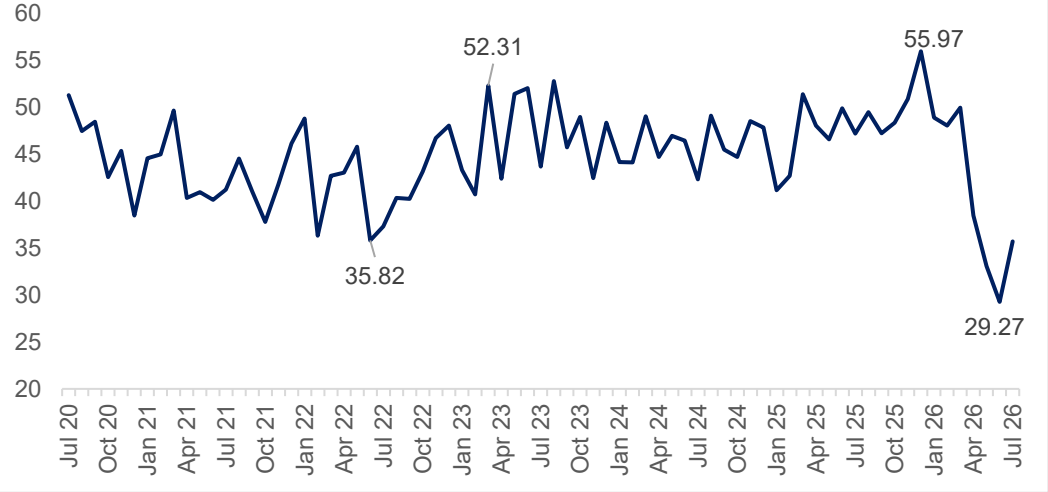
# Softening Global Demand Helps Keep Commodity Prices in Check

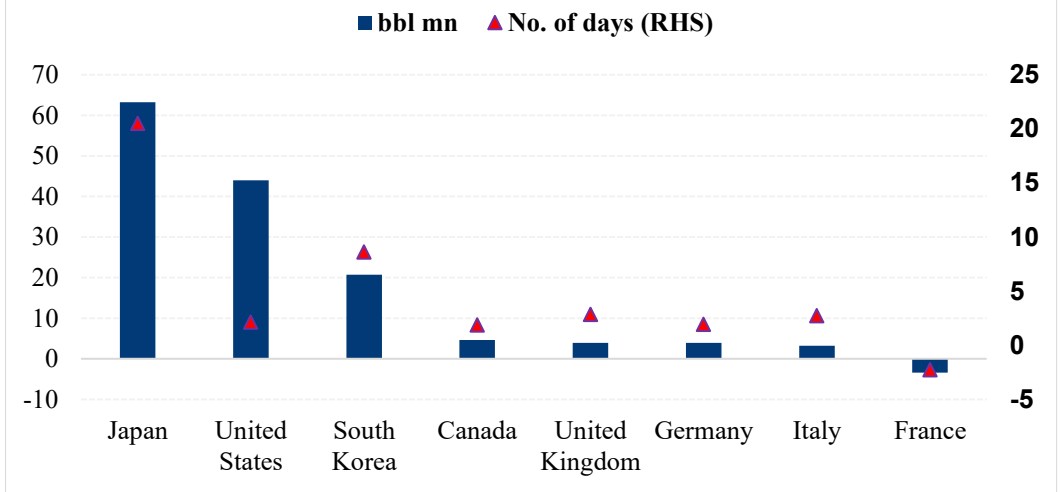
- Despite prolonged West Asia disruptions, commodity markets remained broadly stable as weaker Chinese crude demand and rising US petroleum exports helped offset supply-side pressures.
- The resulting market stability, however, masked a steady drawdown of strategic oil reserves across major economies and below-normal gas inventories across major economies, suggesting that resilience was achieved through inventory depletion as much as through market rebalancing.
- While commodity prices remained volatile, the absence of a sustained energy price spike helped limit broader inflationary spillovers despite persistent geopolitical risks.

**China crude petroleum import volume (million tons)**




Data as of 31st July 2026, Source: Bloomberg

**SPR drawdown in March-April 2026***




*SPR data is reported with a lag, so March-April 2026 is the latest comparable cross-country data available. Source: US EIA, CEIC, Kotak Bank Treasury

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# Investment Summary for mutual fund diversification

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

| Asset Class | Outlook | Strategy | Deployment | Rationale |
|---|---|---|---|---|
| **Equity** | May increase allocation to Equity | • May go overweight on equities upto 10%<br>• May maintain minimum 65% allocation to Large cap and 35% to Mid cap and Small cap<br>• May continue with 5% overweight on BFSI<br>• May have overweight on healthcare sector with allocation up to 10% of equity portfolio<br>• Consumption theme continues to be favorable | May be deployed in a staggered manner | • Q1FY27 earnings are 4.4%* ahead of KIE expectations for the Nifty-50 index companies (results for 41/50 companies).<br>• Nifty 50 earnings is expected to grow by 16.8%* in FY'27 (As per KIE), compared to 8% growth for FY'26<br>• Valuations have moderated, with Nifty 50 / Nifty 500 trading below 10 year averages |
| **Fixed Income** | May focus on carry strategies and debt alternates | • May focus on Carry, with elevated yields across the curve<br>• Investors could look to deploy in high-quality short duration assets upto 5 year maturity.<br>• Long End Bond Portfolio Exit: Since the Govt bonds are fairly valued and directionally the next move is a rate hike, one may exit the long duration bond portfolio.<br>• Investors may consider participating in spread assets like REITs/InvITs, NCDs and credit funds baaed on suitability | May be deployed in a staggered manner | • The current yield curve offers attractive carry at the shorter end. The RBI's comfort on underlying inflation, combined with its assurance on system liquidity may support the short term allocation up to 5 years.<br>• REITs/InvITs may be looked at, with a 2-3 year horizon.<br>• The risk to the view lies in the duration of the middle east conflict which can change the macro economic variables and thus the central bank actions |

**Data as on 31st July 2026 ,Source: Bloomberg*

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# Investment Summary for mutual fund diversification

The below allocation is indicative and should be considered based on individual 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 ETF | • Global macro uncertainty and consistent central bank and investment demand. |
| **International Equity** | May have Global allocation at 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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