From the Desk of CIO & CEO – June 2026

Public

Dear Patron,

Welcome to this month's edition of our market commentary, where we reflect on key developments shaping global and domestic market conditions.

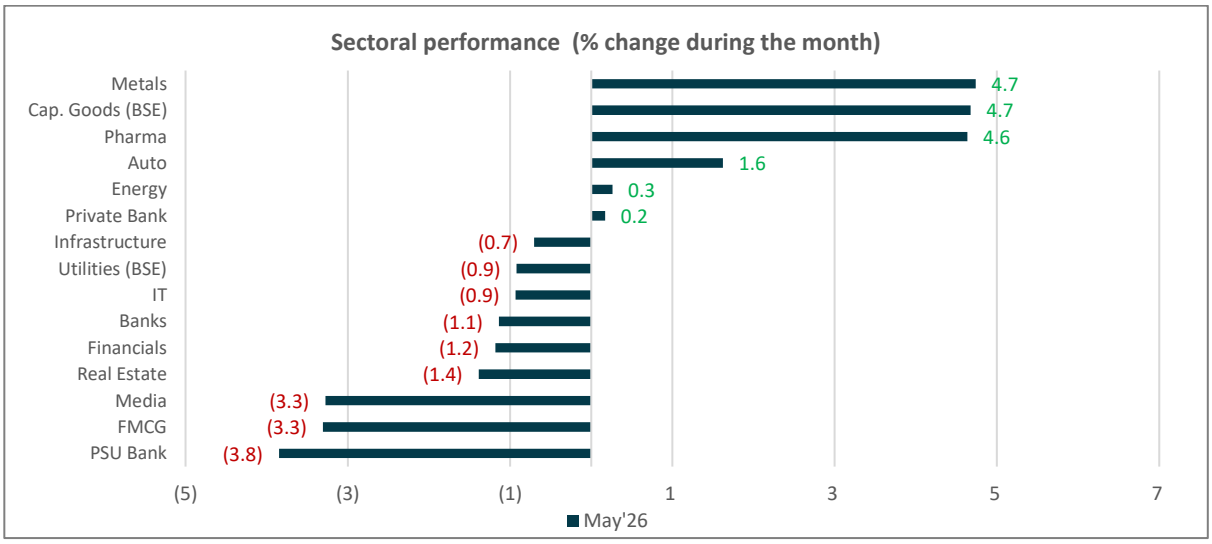
Global markets remained volatile in May amid the ongoing Middle East conflict. Elevated crude prices, higher bond yields and shifting central bank expectations kept investors on tenterhooks. Brent crude oil stayed above pre-war levels. The oil shock, along with rising inflation expectations and higher sovereign borrowing costs, has shifted the global macro narrative from disinflation confidence to inflation-risk management.

Amid these challenges, equity performance remained uneven. AI-led markets such as South Korea, Taiwan and Japan stayed resilient, while in the US, the S&P 500 rebounded 5% and Nasdaq 8% in May, supported by strong technology earnings and the AI trade. In contrast, bond markets remained cautious, with the US 10-year yield rising to ~4.6% and the 30-year moving above 5.1%, pricing inflation and fiscal risks faster than equities.

Back home, benchmark indices were largely flat, with BSE 500 and BSE 100 down 0.3% and 1.3% respectively, while mid and small caps gained ~3% and ~2%, respectively.

That said, the domestic market setup remains constructive, supported by resilient earnings, strong Domestic Institutional Investor (DII) flows and improving breadth in small and midcaps (SMIDs). In this environment, we continue to prefer large caps for stronger balance sheets, deeper liquidity and better earnings visibility, while remaining selective in SMIDs where corrections have been meaningful.

Benchmark Indices	May-26	Rise from CY26 trough till date	CY26TD
BSE500	(0.3)	10.1	(5.4)
BSE100	(1.3)	7.1	(8.4)
BSE Midcap 150	2.5	15.5	0.4
BSE Smallcap 250	1.6	20.1	1.5



Source: Bloomberg, Elara Securities Research

Global Market Update

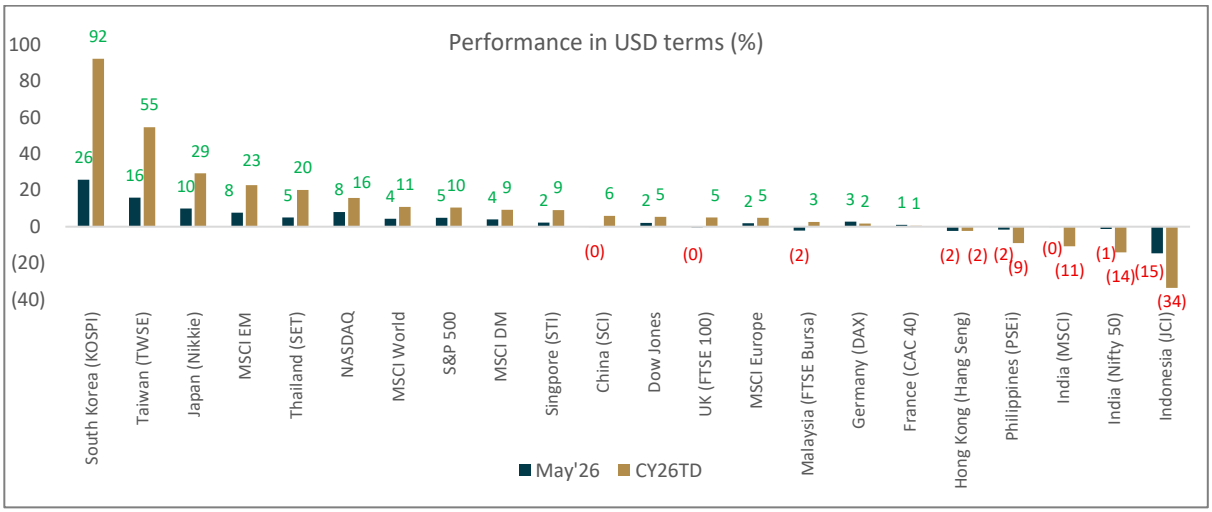
Trump's back-and-forth on a Middle East peace deal kept markets on the edge. Global equities remained volatile in May 2025 as investors grappled with mixed signals from Washington. U.S. large caps rebounded strongly, with the S&P 500 up roughly 5% and the Nasdaq up 8% in May 2026, supported by strong tech earnings. Though, gains were tempered by rising yields and policy uncertainty. U.S. Treasury yields climbed on fiscal concerns and sticky inflation, as the uncertainty on Iran-US peace deal continued.

The rising oil prices have stoked fears of inflation. The combination of oil near USD 100, rising inflation expectations and higher sovereign borrowing costs means the bar for rate cuts has risen sharply. For India, the shock is negative but not destabilising yet. Wholesale Prices have already flashed red, fuel pass-through is visible, and the rupee has weakened. Current account deficit (CAD) and fiscal deficit although are expected to go up, they remain within manageable range. The weaker real effective exchange rate (REER) gives the RBI some basis to argue that the rupee is no longer fundamentally overvalued.

The key change is in inflation expectations. In the US, the University of Michigan survey showed one-year inflation expectations rising to 4.8% in May from 4.7% in April, while long-run expectations rose to 3.9% from 3.5%, materially above the 2024 range. Meanwhile, the April FOMC minutes showed more policymakers are open to a rate hike.
The bond market is reflecting changing inflation expectations faster than equities. The US 10-year Treasury yield recently rose to around 4.6%, its highest level in more than a year, while the 30-year yield moved above 5.1%. More importantly, the rise is global. The average 10-year borrowing cost for G7 governments is approaching 4%, up from around 3.2% before the Iran war began in late February. This matters because developed-market governments are carrying historically high debt loads.

Foreign investor participation in the AI-led rally is showing signs of reversing, with South Korea and Taiwan witnessing outflows from technology and semiconductor stocks in May amid profit booking. However, earnings delivery across key AI-linked companies remains healthy, suggesting that the fundamental cycle is still intact despite concerns around crowded positioning. Nvidia continues to lead the AI accelerator cycle, while Broadcom, Taiwan Semiconductor Manufacturing Company (TSMC), Samsung and SK Hynix are also benefiting from strong demand across custom chips, advanced-node manufacturing and HBM memory. This indicates that AI earnings momentum remains secular, but the trade is now more crowded and vulnerable to periodic profit booking.

Global Market performance in May and CY26YTD (in USD terms)



Source: Bloomberg, Elara Securities

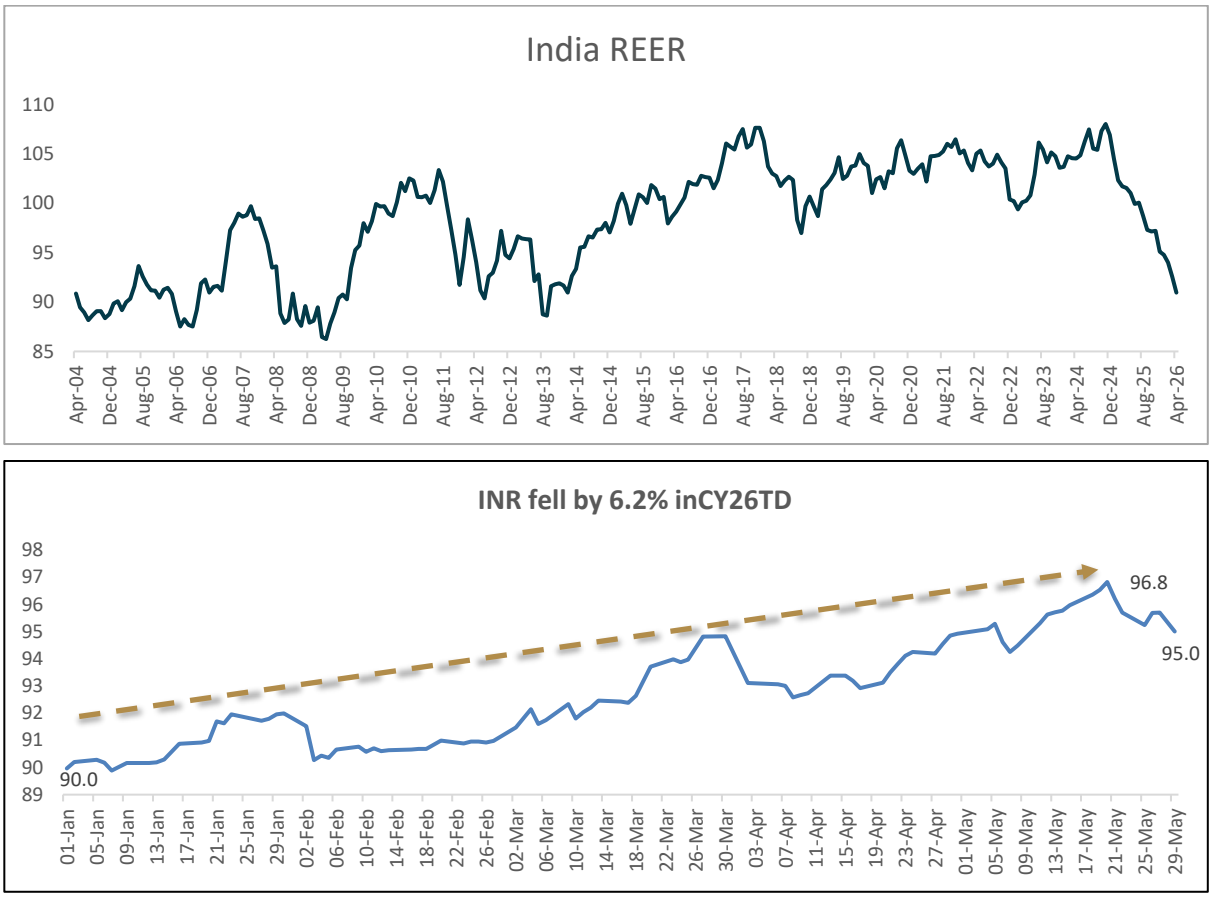
Domestic Update

Indian equities have bounced back steadily from their March lows, with the Nifty gaining 5% since then. The recovery was led by small- and mid-caps, as it gained 17% and 19% respectively. While sectorally (performance sine 30 March 2026 lows), Capital Goods (+26%), Metals (+21%), Utilities (+20%) and Energy (+17%) outperformed due to commodity tailwinds and peak power demand. DIIs drove the upmove with inflows of USD 5.4 billion in April and USD 6.9 billion in May. Whereas FII outflows continued albeit at a lesser intensity to the tune of USD 5.2 billion in April and USD 2.8 billion in May.

With inflation under control and GDP growth of around 7%, the near-term outlook remains constructive, though elevated crude and global policy uncertainty warrant a balanced positioning.

For India, the first visible impact is on wholesale inflation. April WPI inflation jumped to 8.3% YoY, the fastest in around three-and-a-half years, sharply above March's 3.88% and consensus expectations of around 4.4%. The jump was primarily due to energy costs, with some of the rise spilling into manufactured products such as metals, chemicals, textiles and machinery as well.

Note here that WPI is not the RBI's policy target, but it is a leading signal for corporate input costs, margins and eventual CPI (retail inflation) pass-through. The fuel-price channel is also becoming more direct. Domestic petrol and diesel prices have seen repeated hikes in May, rising by Rs 7.5-8 across major cities.



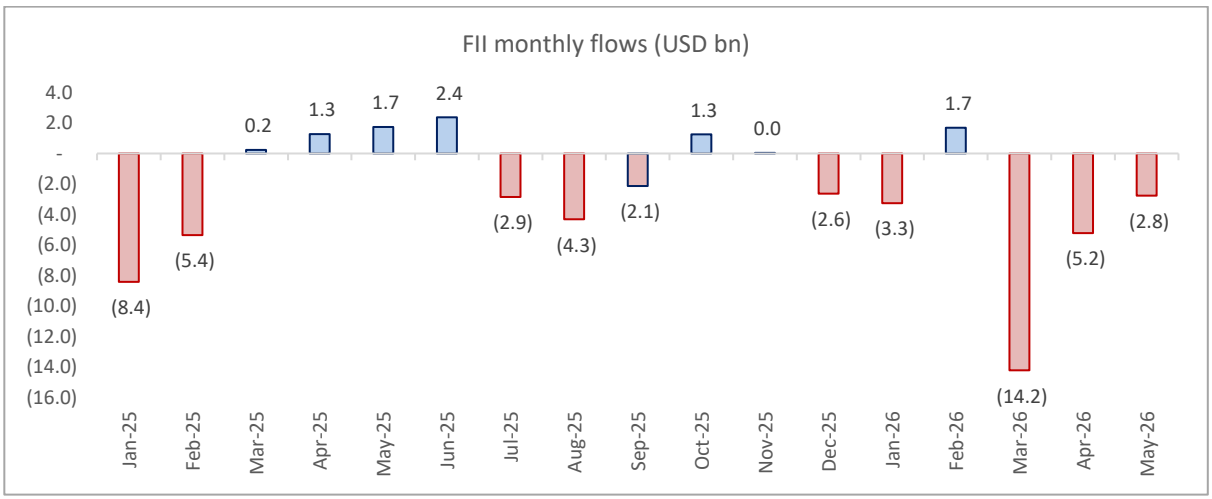
Source: Bloomberg, Elara Securities

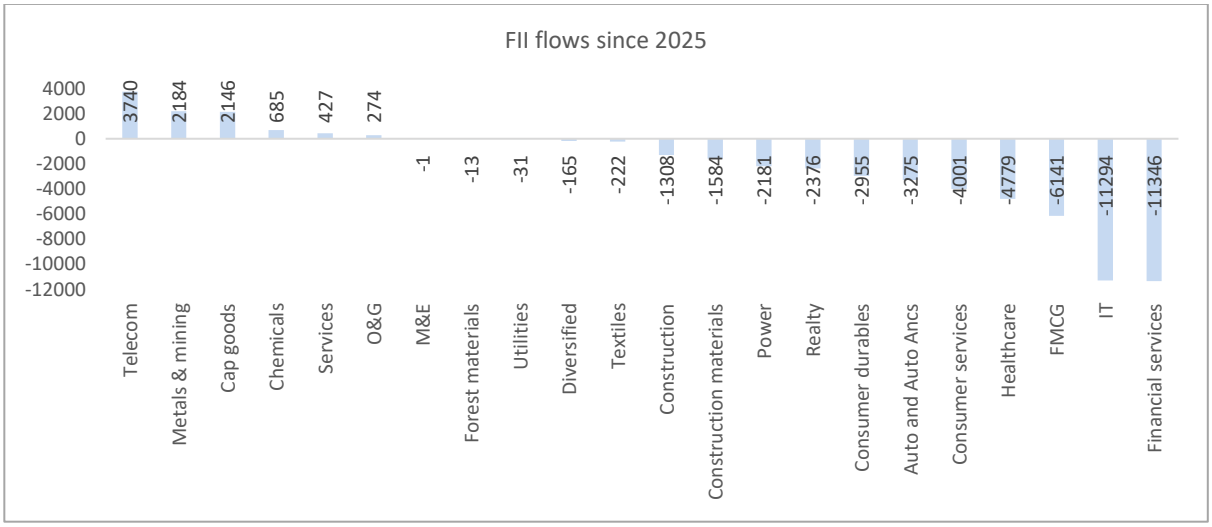
The external account is under pressure, but not yet in crisis. India's CAD stood at USD 13.2 billion, or 1.3% of GDP, in Q3 FY26, only modestly wider than a year earlier, helped by resilient services exports and remittances. However, the April merchandise trade deficit widened to USD 28.3 billion as crude imports surged. If crude averages USD 100/bbl, India's FY27 CAD could widen to 2–2.2% of GDP. That is uncomfortable, but still far from a classic balance-of-payments stress zone, provided services exports and remittances remain robust.

Fiscal risk is also manageable, but the cushion is thinner than before. The Union Budget pegged FY27 fiscal deficit at 4.3% of GDP, down from 4.4% in FY26 RE, with debt-to-GDP projected to decline to 55.6% from 56.1%. The RBI's record ₹2.87 trillion dividend transfer helps, but it fell short of market expectations, and that higher subsidies or fuel-tax adjustments could pressure the deficit path if the oil shock persists.

The USD-INR recently hit a record low near 96.96/USD, pressured by oil, higher US yields and FII outflows. However, RBI Governor Sanjay Malhotra said the rupee may now be undervalued after its recent depreciation and that the RBI will do “whatever is required” to ensure orderly FX markets.

Since the start of 2025, FII flows have been highly polarized, with buying concentrated in a narrow set of sectors such as Telecom, Metals & Mining, Capital Goods, Chemicals, Services and Oil & Gas, while the sell-off has been much broader and deeper across domestic consumption, rate-sensitive and large benchmark-heavy sectors. The sharpest outflows are visible in Financial Services at USD 11.3 billion, IT at USD 11.3 billion, FMCG at USD 6.1 billion, Healthcare at USD 4.8 billion and Consumer Services at USD 4.0 billion. Financial Services has seen the highest FII outflow mainly because it carries the largest weight in Indian indices and FII portfolios, making it the easiest source of liquidity during broad EM/India risk-off phases.





Source: CMIE, Elara Securities Research. Note: O&G includes Oil, Gas and consumable fuel; M&E includes Media, entertainment & publication; Sectoral flows as on 30 April 2026

Q4FY26 Earnings

NSE500 results in Q4FY26 were healthy with overall sales growth of ~9% YoY while EBITDA grew ~13%, leading to PAT jumping ~15%, with operating leverage still under play. Broadly, margins improved across the board with NSE 500 margins improving by 60 bps YoY to 11.8% owing to sustained demand outlook, inventory drawdown amidst Middle East war in second half off Q4FY26, and controlled costs delivering better margins.

Mid-cap and small-cap firms drove the gains more than large-caps. Mid-caps delivered the strongest profit growth of 36% YoY vs 23% for small-caps and +10% for large-caps. Within SMID space, earnings leadership was broad based, with Banks, Auto, Metals, Telecom and Real Estate emerging as the key drivers. We would like to reiterate that against the backdrop of meaningful correction and robust earnings growth, we have selectively increased our exposure to the small and midcap space over the last two months.

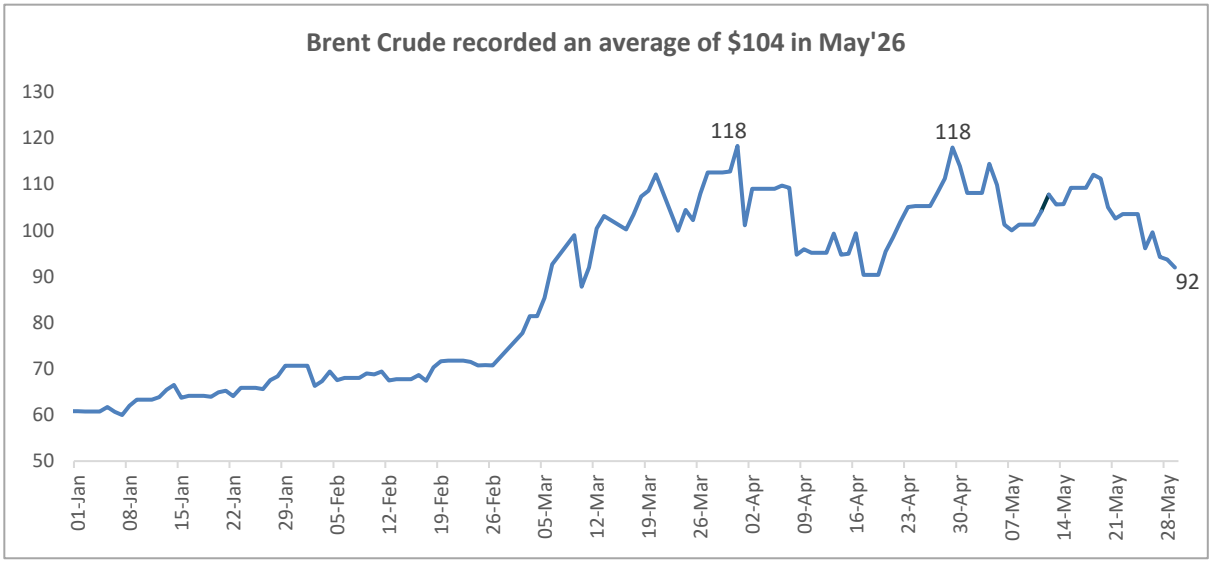
Commodities Review

Brent Crude

The Middle East conflict has kept the Strait of Hormuz risk premium alive, with crude prices remaining elevated through May'26. Brent averaged USD 104 per barrel during the month before easing to USD 92 per barrel by month-end, still well above the pre-war level of ~USD 70 per barrel. The late-May correction signals some cooling, but crude remains materially elevated CYTD

This sustained elevation in crude prices is likely to keep inflationary pressures high and weigh on input costs, consumption and margins for major crude-importing economies. However, the late-May pullback suggests some near-term relief, provided supply-side risks do not escalate further.

Brent Crude monthly average still above $100 at $104 in May'26

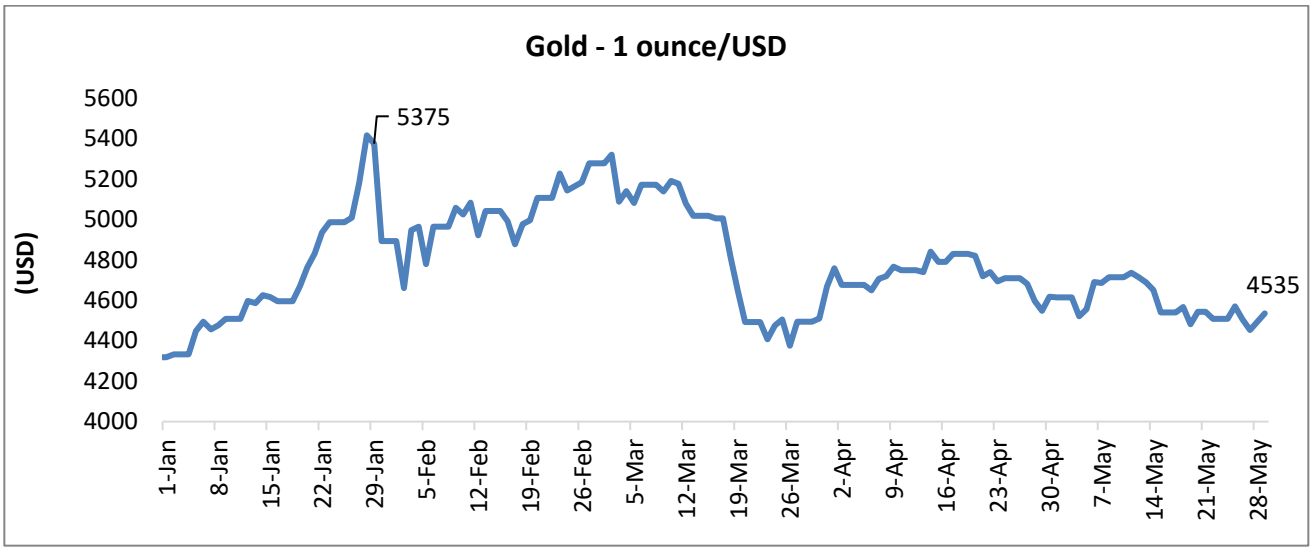


Source: Bloomberg, Elara Securities Research, Last data is as of April end data

Gold

Gold declined ~2% in May, extending the correction that began after its late-January spike. Prices are now down ~14% over the last three months, reflecting profit-booking after a sharp run, reduced safe-haven urgency and a rotation toward cyclical commodities. The weakness was also relative: while gold corrected, base metals such as aluminium and copper gained 5–6% during May due to tight inventories and supply-side constraints. In the near term, gold may remain range-bound unless geopolitical risks re-intensify or dollar/yield conditions turn meaningfully supportive again.

While ordinarily conflict and inflation fears would support gold, the latest move appears to have been weighed down by higher real yields and reduced rate-cut expectations. With oil trading around **USD 92/bbl** zone and inflation expectations moving higher, the bar for rate cuts has risen, increasing the opportunity cost of holding a non-yielding asset like gold.



Source: Bloomberg

For remainder of 2026, Gold should be viewed as a core portfolio hedge. Gold's structural support remains intact, driven by continued central bank buying, a softer dollar backdrop, and persistent geopolitical uncertainty. It remains the most reliable hedge against macro stress and policy volatility. After the recent correction, a rebound is likely, although the pace of gains may be more moderate than last year.

Portfolio Positioning

Our portfolio allocation continues to favour domestically oriented, fundamentally strong businesses with visibility across growth, margins, and policy tailwinds.

Financial Services

- We remain selectively constructive on large private players that continue to trade at a discount to their long-term average valuations despite demonstrating stable asset quality and earnings growth.
- Credit growth is gaining momentum due to the easing monetary policy.
- From low bad loans to clean balance sheet and robust credit growth to valuation comfort – banks are witnessing multiple tailwinds.

Cement

- As industry consolidation gains ground, cement makers are focused on balancing volume growth and profitability.
- Cement prices are likely to recover in coming quarters as macroeconomic conditions improve.
- With recent price hikes and improving demand, EBITDA per tonne is expected to improve. However, we will be watchful for recent movement in energy prices due to geopolitical tensions.

Defence / Infrastructure / Manufacturing

- The Make-in-India initiative and Production-Linked Incentive (PLI) schemes enabling domestic companies to compete with global players
- As per Budget documents, India's Defence spending has outpaced its neighbours since 2010. India aims to increase exports by 2.1x to ₹500 billion by FY30 from ₹236 billion in FY25.
- Favourable conditions like clean balance sheets of banks, stable government policies, and a low-interest rate environment are beneficial for companies from infra and manufacturing segments.
- Once recent geopolitical tensions ease off, a revival of global energy capex is expected.

Discretionary consumption

Automobile and auto components

- Constructive on 2W and Select PV OEMs: Rural demand uptick, GST reforms and a declining interest rate environment.
- Brand Agnostic: Auto ancillaries are relatively insulated from shifts in customer brand preferences, offering more stable growth prospects across cycles.

Real Estate

- Positive outlook on the premium segment.
- Sustained demand: Continues to gain on the sustained demand at the premium end.
- Macro tailwinds: End-buyers expected to benefit from the rate cuts.

Tactical Play

IT

- **Our Approach**: Strategically increasing exposure to large cap IT companies with fundamentally strong business models and quality earnings.
- **Valuations Support**: A tactical play with robust dividend yield and valuation comfort.
- **Tailwinds**: The depreciation of the Indian rupee could give a boost to export-oriented businesses like IT.
- **Demand Visibility**: The management commentary indicates increased client engagements on embedding AI in service offerings.
- **AI Concerns**: Enterprises are exploring AI-driven opportunities, yet the complexity of existing technology stacks ensure that widespread adoption will follow a phased, carefully orchestrated trajectory.

To sum up, geopolitical risks continue to weigh on markets, including India. We believe that investors with long-term horizon must use these volatile times to accumulate domestic equities. Our tilt has been firmly towards largecap stocks – which are positioned attractive. We have also taken advantage of recent correction to bag high-quality and growth companies from the small and midcap segment.

As Warren Buffett aptly states that “the stock market is a device for transferring money from the impatient to patient”. We would like to reiterate that patient investors – increasing their exposure to Indian equities in today’s volatile times – would be in the pole position to benefit over the next three to five years.

Warm Regards,

George Heber Joseph

CIO And CEO – Equity, ASK Investment Managers

Source: Bloomberg and documents available in public domain

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