

The Macro Canvas

Decoding Markets - October 2026

Long-Duration US Treasuries at a Historic Inflection Point

US 15+ Year Treasuries observed one of the weakest levels in nearly 90 years of history.

- US long-duration Treasuries are currently experiencing one of the worst 10-year rolling return periods on record, with annualized returns near -2%.
- Historical precedents (1959 and 1981) suggest that such extreme pessimism has often marked the end of major bond bear markets and improved long-term return prospects for investors willing to stay invested.



Takeaway

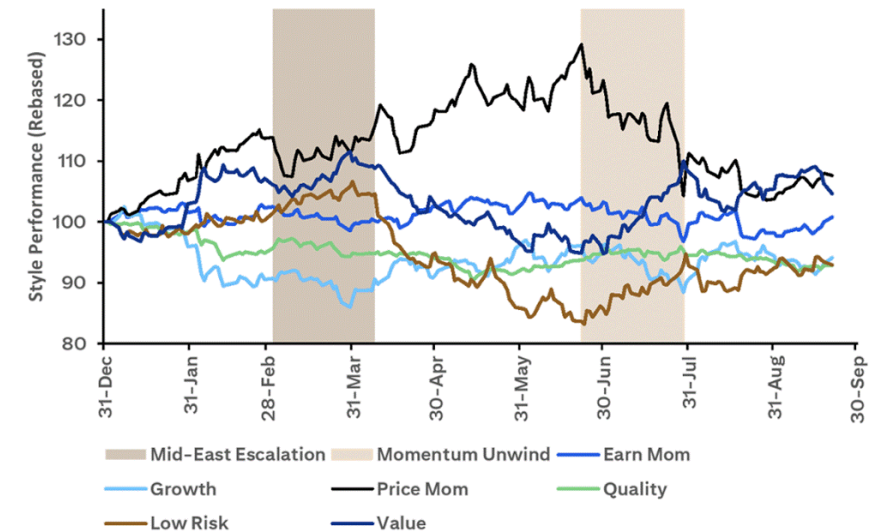
Current 10-year rolling returns have fallen below prior cyclical troughs, creating one of the most extreme valuations in long-duration bonds over the past nine decades.

MSCI World: Factor Leadership Remains Fragmented Amid Elevated Market Rotations

Frequent shifts in market leadership and sharp momentum reversals underscore the lack of a sustained style trend across global equities.

- No single style factor has established sustained leadership. Performance leadership has rotated frequently between Price Momentum, Value, Growth, and Earnings Momentum, reflecting an uncertain market environment.
- Geopolitical and positioning shocks triggered sharp factor reversals. The periods marked by the Middle East escalation and subsequent momentum unwind saw significant reversals in previously outperforming factors, particularly Price Momentum.
- Defensive factors have been relatively stable but uninspiring. Quality and Low Risk exhibited lower volatility but failed to generate meaningful outperformance, while cyclically sensitive factors delivered more volatile returns.

MSCI World - Style Leadership Remains Unclear



Takeaway

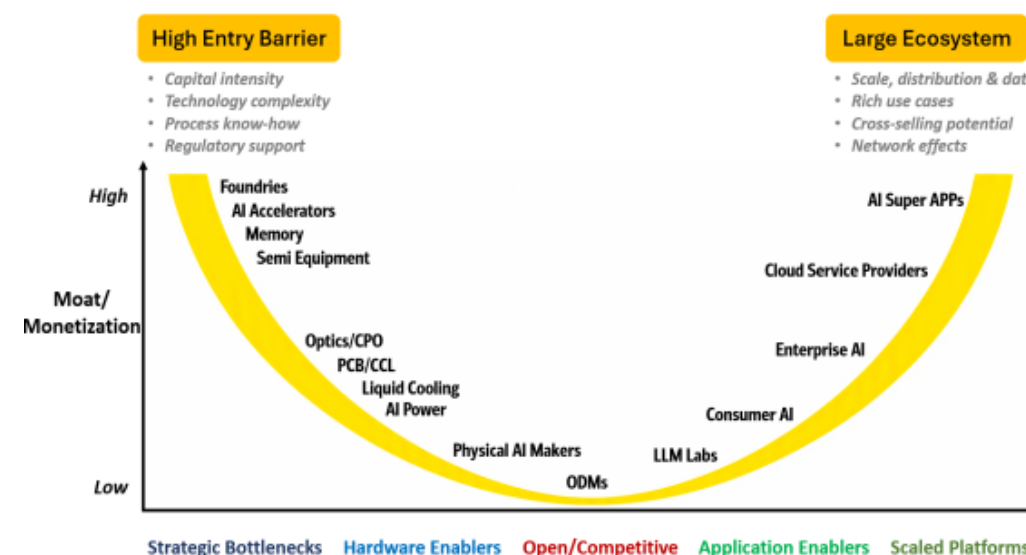
The absence of clear factor leadership suggests a market driven by short-term macro events and sentiment shifts rather than a durable style trend, reinforcing the case for diversified factor exposure rather than concentrated style bets.

The AI Value Chain: Where Competitive Moats and Economic Value Accrue

Value creation in AI is concentrated at the infrastructure and platform layers, while the middle of the value chain remains highly competitive and commoditized.

- Infrastructure providers benefit from the strongest entry barriers and pricing power. Foundries, AI accelerators, memory, and semiconductor equipment companies enjoy durable competitive advantages driven by capital intensity, technological complexity, process expertise, and regulatory barriers.
- The middle of the AI stack faces intense competition and lower monetization potential. Physical AI makers, ODMs, and many LLM developers operate in crowded markets where differentiation is harder to sustain and economic profits are compressed.
- Platform and application leaders can rebuild moats through scale and ecosystems. Cloud providers, enterprise AI platforms, consumer AI applications, and AI super apps benefit from large user bases, proprietary data, distribution advantages, network effects, and cross-selling opportunities.

AI VALUE CHAIN SMILE CURVE



Takeaway

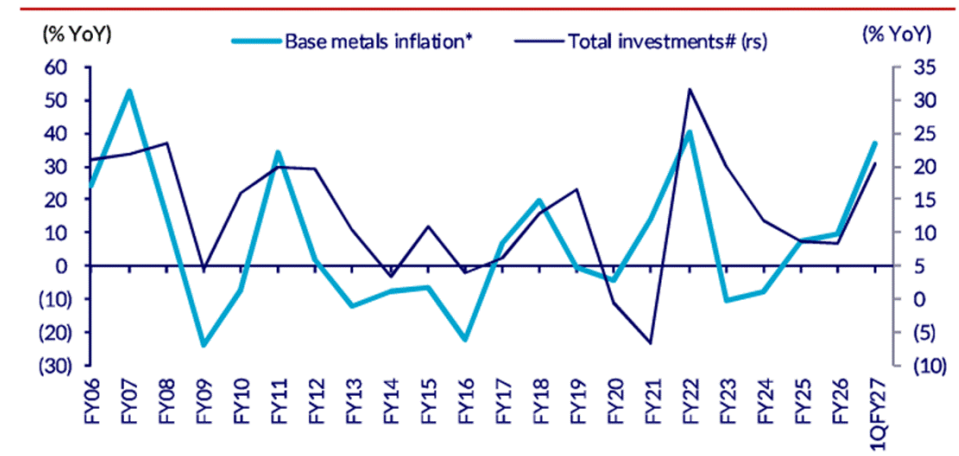
AI value is concentrated at the two ends of the value chain: infrastructure leaders and scaled platforms.

India's Investment Cycle Gains Momentum Alongside Rising Commodity Inflation

A strong correlation between base metals inflation and investment growth highlights the resilience of the ongoing capex cycle.

- Investment growth has historically tracked movements in base metals inflation. Periods of rising commodity prices have generally coincided with stronger investment activity, reflecting higher demand for infrastructure, manufacturing, and construction.
- The current upcycle is supported by a renewed rise in metal prices. Base metals inflation has rebounded sharply in FY27, while investment growth has accelerated, suggesting continued momentum in capital expenditure. Investment growth remains relatively robust despite commodity price volatility.
- While metal prices have experienced significant swings over time, the overall investment trajectory has remained positive, indicating underlying structural support for the capex cycle.

Nominal investment growth closely linked with base metals' commodity inflation



Source: World Bank, CSO, CEIC, CLSA. Note: *Including aluminium, copper, iron ore, lead, nickel, tin and zinc. #GFCF + change in inventories.



Takeaway

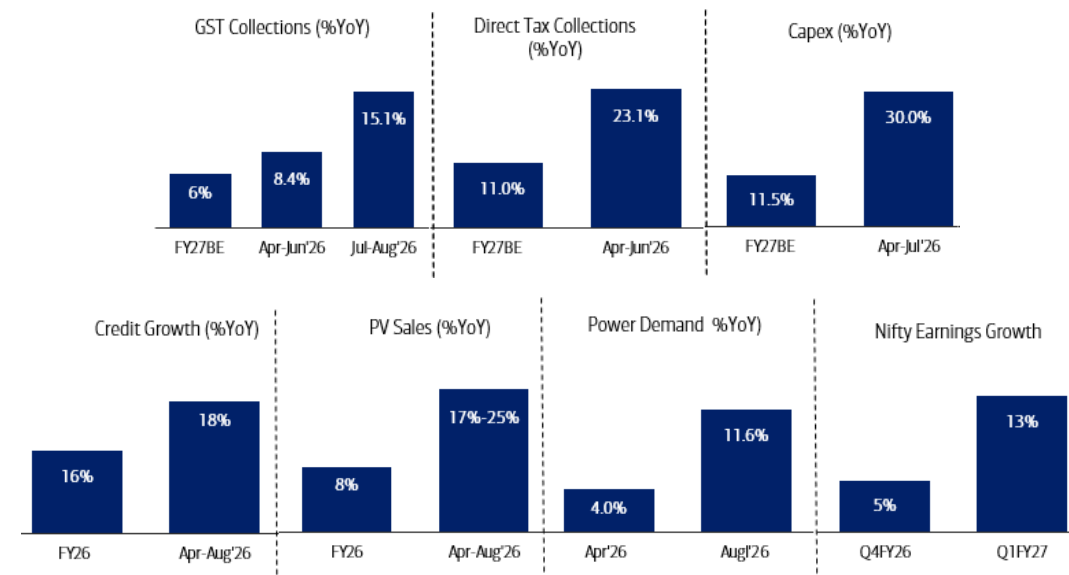
Rising commodity prices and accelerating investment growth reinforce the strength of India's capex cycle.

India's Growth Pulse Strengthens Across Key Economic Indicators

Broad-based improvement in tax collections, capex, credit demand, consumption, and earnings points to a resilient economic and corporate growth cycle.

- Government revenues are accelerating, with GST collections rising from 6% to 15.1% YoY and direct tax collections increasing from 11.0% to 23.1% YoY, indicating strong formalization and economic activity.
- Investment and financing activity remain robust, as capex growth has accelerated from 11.5% to 30.0% YoY, while credit growth remains healthy at 18% YoY, supporting future growth momentum.
- Consumption and corporate earnings are improving, reflected in stronger PV sales (17–25% YoY), rising power demand (11.6% YoY), and an earnings recovery from 5% in Q4FY26 to 13% in Q1FY27.

Despite the risks, growth has remained resilient



Takeaway

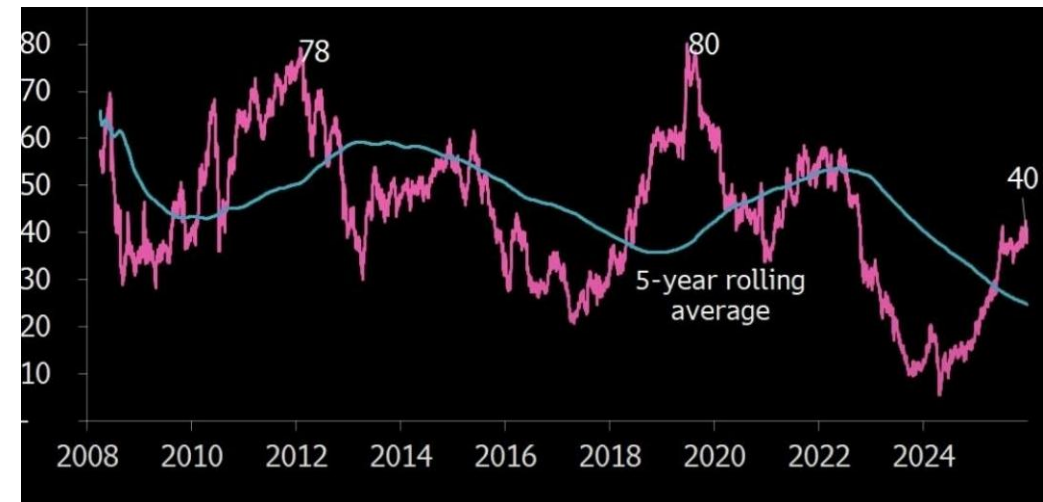
The synchronized improvement across economic, investment, consumption, and earnings indicators reinforces confidence in India's ongoing growth cycle.

Market Correction Broadens as Weak Long-Term Returns Spread Across NSE 500

Despite resilient earnings and macroeconomic fundamentals, nearly 40% of NSE 500 stocks now deliver sub-10% rolling 5-year returns, highlighting the depth of the ongoing market correction.

- Market weakness has become increasingly broad-based, with 40% of NSE 500 constituents generating less than 10% annualized returns over the past five years, up sharply from recent lows.
- The median NSE 500 stock has corrected significantly, suggesting underlying market breadth is weaker than headline indices indicate.
- Historical market cycles show this indicator can deteriorate further before a durable market bottom is established, though elevated readings have often coincided with periods of improving future return potential.

% NSE 500 index stocks with 5-year CAGR rolling returns below 10%



Takeaway

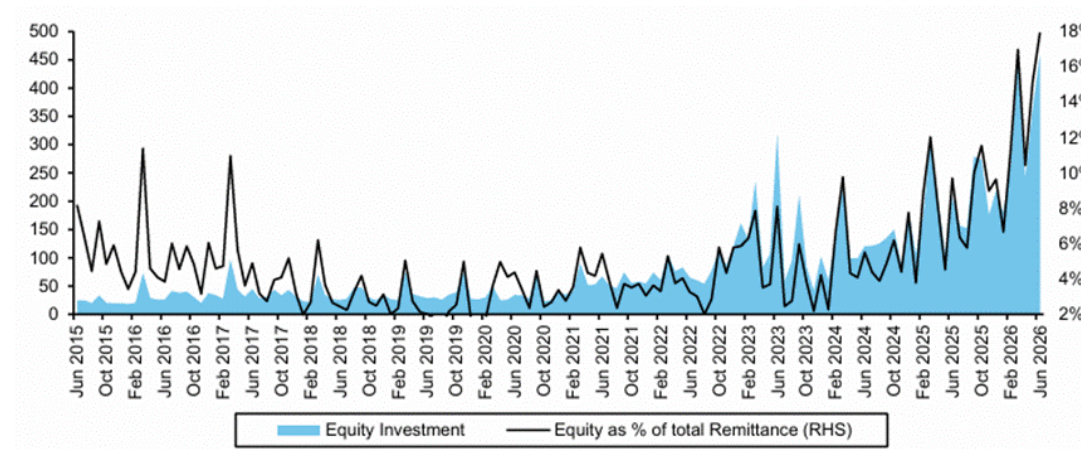
The rise in stocks delivering sub-10% long-term returns signals growing market stress, but history suggests such broad-based weakness often creates the foundation for the next recovery phase.

Indian Investors Increase Global Equity Exposure Amid Attractive Overseas Opportunities

Rising allocations to international equities reflect growing diversification needs and a widening return differential between domestic and global markets.

- Indian investments into overseas equities have increased sharply, with monthly flows reaching record highs and accelerating meaningfully since 2023.
- Equity investments account for a growing share of total remittances, rising from low single digits to nearly 18%, indicating stronger investor participation in global markets.
- Global diversification is becoming mainstream, as investors seek access to broader growth opportunities, sector leaders, and markets that offer more attractive risk-return profiles.

Investments by Indians into markets abroad monthly (\$mn)



Takeaway

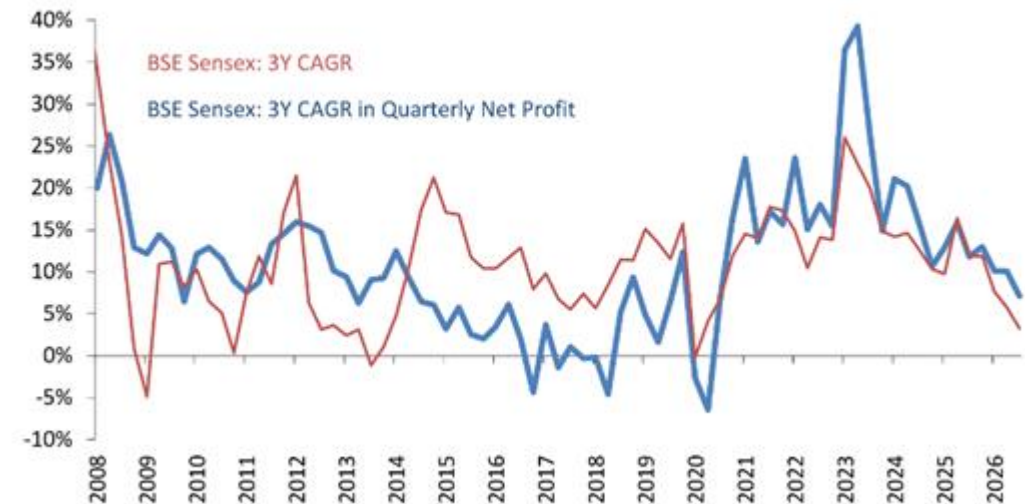
Indian investors are increasingly looking beyond domestic markets, making global diversification a key component of portfolio allocation.

Corporate Earnings Growth Continues to Drive Long-Term Equity Returns

The close relationship between profit growth and market returns reinforces earnings as the primary driver of equity performance over market cycles.

- BSE Sensex returns and corporate profit growth have exhibited a strong long-term correlation, highlighting the fundamental linkage between earnings expansion and equity market performance.
- Periods of accelerated earnings growth have typically coincided with stronger market returns, as seen during the post-pandemic recovery and earnings upcycle of 2021–2023.
- Both earnings growth and market returns have moderated recently, suggesting the market is transitioning from an extraordinary earnings cycle to a more normalized growth environment.

BSE Sensex: Three year CAGR in Quarterly Net Profit



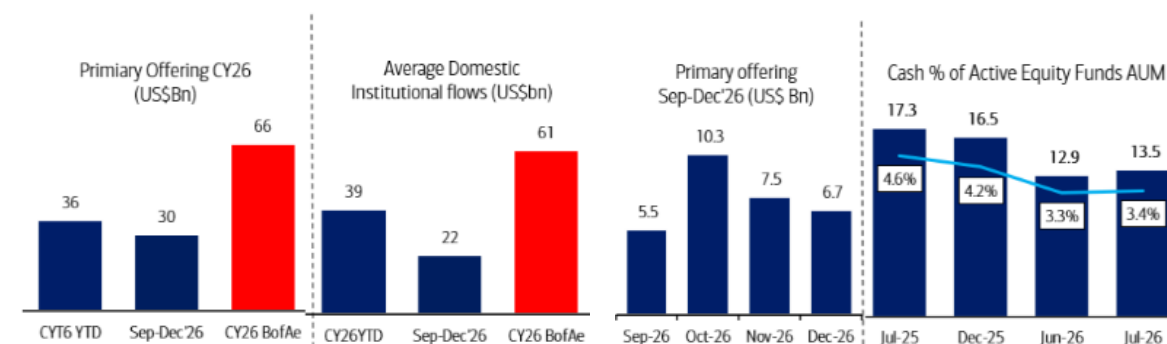
Takeaway

Sustainable earnings growth remains the most important driver of long-term equity returns, despite periodic market volatility and valuation fluctuations.

Large Primary Market Fundraising Could Temporarily Tighten Domestic Liquidity

A heavy pipeline of equity issuances may absorb institutional inflows, creating near-term liquidity pressures for secondary markets.

- Primary market fundraising is expected to remain elevated, with issuance projected at US\$30bn during Sep–Dec 2026 and US\$66bn for CY26, significantly above recent levels.
- Domestic institutional inflows may not fully offset the fundraising pipeline, potentially diverting capital away from secondary market investments.
- Fund managers are entering this period with lower cash buffers, as active equity fund cash levels remain near 3–4% of AUM, limiting their ability to absorb large issuances without portfolio reallocation



Takeaway

A surge in primary market fundraising could act as a near-term liquidity headwind for equities, even as underlying domestic inflows remain supportive.

Disclaimer



This document is for informational purposes only and does not constitute investment advice or research or constitute an offer or solicitation to sell or buy any securities. This document is for intended recipients only. The views expressed herein are based on internal data, publicly available information and other sources believed to be reliable. The document does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. There is no assurance that any investment strategy or Scheme will achieve its objectives or avoid losses. Certain statements in this document may contain forward-looking information, including projections, estimates, and other statements regarding future events or the future financial performance of the Scheme. These statements are based on current expectations and assumptions and actual results may differ materially due to various risks and uncertainties. The value of investments may fluctuate and there is no assurance or guarantee that the investment objectives of the Scheme will be achieved. Past performance of the sponsors, asset management company or any Scheme of the fund does not guarantee or indicate future results/returns. Neither the AMC, Trustee Company, sponsors or its affiliates nor any person connected with them shall accept any liability arising from the use of this document. Kindly read all scheme-related documents carefully before investing. Investment in mutual funds involves risks, including the possible loss of principal. The recipient(s) before acting on any information herein should make his/her/their own investigation and seek appropriate professional advice and shall alone be fully responsible / liable for any decision taken on the basis of information contained herein. Past performance may or may not be sustained in future is not a guarantee of any future returns.

Document Date : October 09, 2026

Mutual Fund investments are subject to market risks, read all scheme related documents carefully

Thank You