

1st June, 2026

Dear Investor,

On the announcement of cease fire by US the market gave a thumps up after extremely volatility in March with Nifty benchmark was consolidating at 23541 marginally down in May 2026. The cease fire has been fragile with both sides not coming to any diplomatic solution. The general expectations are the agreement would be reached shortly between US and Iran.

Continued weakness in Indian stock market and reasons

India continues to be amongst the relatively weaker performing markets globally, while it has rebounded 8+% from the lows seen in March. Korea continues to be amongst the better performing markets. FPIs continued to sell on most days but their selling pressure does seem to be reducing and we have seen a few days of buying. Oil price downward movement from recent peaks of around USD120/bbl on hopes of St of Hormuz opening up has been a key factor supporting sentiment around the world and in India. We are very sensitive to high oil prices on account of balance of payments concern.



Source: RBI, Bloomberg. Data as of 27th Apr'26. The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future and future returns are not guaranteed and a loss of original capital may occur.

Policy response

Oil prices have been high but in India, the pump prices have been static through the spike. This has helped prevent wider economic stress. While our oil marketing companies made a lot of margins prior to the crisis and may have some cushion, sustained pressure could impact profitability and may require price adjustments. Pump oil prices are rising in countries around us including large oil producing countries. Because of oil, there is added stress on forex. Forex reserves have seen some moderation. While we are having to pay \$5-6bn extra a month to buy oil, FPI selling is further impacting forex. Government response has been to try and accelerate move away from oil, while it is likely to have an impact only over time.

As we discussed in the last month report electrification is one of the ways out, with India generating most of its electricity from domestic price controlled coal and renewables. Nuclear power has also come back into focus. Higher blend of domestic CBG with PNG is being accelerated. All of these may result in investment themes.

Efforts to boost exports and reduce imports expected to continue. Focus on domestic manufacturing of imported items is likely to remain a focus area. Schemes are being rolled out for more value addition in spaces like solar module value chain, EVs, BESS, cell phones, etc.

Domestic consumer appears to be responding to the evolving crisis. EV vehicles sales are seen to be moving up coinciding with higher oil prices even while pump prices are, as yet, same as before. This may be on anticipation of a fuel price shock which is already been witnessed in many parts of the world.

Data centres may grow faster than expected with India emerging as a relatively stable geography with competitive cost structures and favourable tax policies. Geopolitical uncertainty is encouraging global players to diversify. Combined with India's data localisation policies, this is driving strong growth. We expect data centre capacity to rise from 1.8 GW now to 10.5 GW by FY31.

Another space that may come back into focus is defence. The event in the Middle East may have to gaps in our capabilities and the need to address them with indigenous effort. As an extension, imported consumer goods such as cameras are also getting under scanner and could result in import substitution initiatives.

While price and availability of Oil and Gas is the main focus, this is a year of difficult monsoons as well. Heat wave in the north is creeping in. Lower monsoons, after two years of good rains, may have mixed impact economy. Q1FY27 may see benefit of lower base of last year.

How are our portfolios positioned?

We think in many ways we are well positioned across select sectors.

- Higher electricity demand on higher temperatures may benefit the whole generation and transmission eco system should have decent demand in high voltage equipments and cables.
- Indigenisation/ import substitution focus of the government may benefit EMS and renewables
- Engineering segment in niche areas is expected to do well
- Discretionary spending in low ticket watches should do well.
- Defence spends may increase and domestic sourcing focus may remain high.

We are growth in earnings focussed house. Above spaces are well-represented in many of our portfolios. Moreover, our house portfolios are relatively low on spaces like Banks and IT services where growth is perceived to be relatively lower and FPI ownership is high a combo that we believe may prolong the selling pressure.

Outlook and time for alpha

The market is still trading 7-8% lower than the February levels. We believe that a lot of worries that were plaguing the market that had led to relative underperformance of our market, have shown some improvement:

- Earnings growth which was a concern, had picked up and sustained for 2 quarters and outlook before the gulf war, for Q4 was positive.
- India had concluded trade agreements with several western blocks, including the US, post which INR which was weakening had shown some strengthening, and FPIs had become buyers.

In some sense, the downtick in our markets seems to be on account of higher oil prices as a consequence of geopolitical events. As oil prices decline to pre War levels, markets may come back to levels seen in Feb. This leaves an immediate upside.

Moreover, in FY26, markets were flat to down while earnings ticked up. Earnings are again expected to see growth in FY27. The markets may reflect earnings growth in FY27 as there is some amount of catchup of FY26 trends over time.



Source: Internal Research. Past Performance may or may not be sustained in the future. The above data/graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy

We continue to believe that this is time for alpha. Earnings growth of index is low and most companies are unable to deliver continuous double digit earnings growth. Against the index earnings performance, the newer spaces such as engineering, mining, cables, aerospace, power equipment, defence, watches etc. are delivering sustained high growth which we believe is required for positive outcomes in the market. Our portfolios focus on such spaces and we believe are well positioned for the times.

Constructive View on Growth and Markets

KRIIS remains positive on India's medium-term trajectory, with real GDP growth anchored at 7%. The bigger investment push should create a virtuous cycle of higher capital formation and stronger corporate profitability.

Outlook and Valuations:

We strongly feel that in the longer-term perspective looks good in equities, post the healthy correction and with valuation becoming reasonable. We feel that this are short term hiccups and most countries involved cannot afford for war for long. We firmly believe that India is on the right path to become a third largest world economy going forward.

Thanks with Regards,
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KRIIS - The Portfolio Management Company