

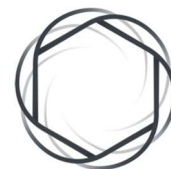


S.P. HINDUJA

BANQUE PRIVÉE

India House View

July 2026



Thoughts of the CEO

“India in a New Investment Era”

The global investment landscape continues to evolve against a backdrop of geopolitical tensions, shifting trade dynamics and a more uncertain macroeconomic environment. As central banks navigate the delicate balance between supporting growth and preserving price stability, investors should expect periods of heightened market volatility. In such an environment, maintaining a disciplined investment process becomes more important than attempting to anticipate every short-term market movement. While short-term headlines will continue to influence market sentiment, long-term wealth creation remains rooted in identifying enduring structural trends rather than reacting to temporary fluctuations.

India remains one of the world's most compelling long-term investment opportunities. Its economic resilience is increasingly underpinned by structural reforms, rising domestic consumption, expanding manufacturing capabilities, digital transformation and sustained infrastructure investment. At the same time, India's growing integration into global supply chains and continued policy reforms are strengthening its position as one of the world's most dynamic investment destinations. While cyclical headwinds may periodically affect market sentiment, these long-term drivers remain firmly in place and continue to support our constructive outlook on the country.

Rather than viewing today's environment as an obstacle, we see it as a period that rewards active management. As India monetary conditions tighten and external risks become more pronounced, we are continuously refining our portfolio positioning to enhance resilience, protect capital and selectively capture opportunities created by market inefficiencies. Our investment philosophy remains unchanged: combine long-term conviction with tactical flexibility.

We also believe that the investment landscape is becoming increasingly selective. The broad-based market rallies of previous years are gradually giving way to a period in which fundamentals matter more than ever. Differences in balance-sheet strength, pricing power, capital allocation and earnings

quality are likely to drive a much wider dispersion of returns across sectors and individual companies. This environment reinforces the importance of rigorous research, disciplined portfolio construction and a selective approach to security selection.

Diversification therefore remains a cornerstone of our investment philosophy. By combining high-quality businesses, resilient fixed income, alternative investments and prudent risk management, we seek to build portfolios capable of navigating different market regimes while remaining fully invested in India's long-term growth story.

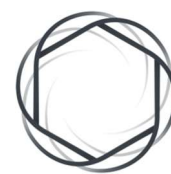
Another structural trend deserves particular attention. India is steadily becoming a larger component of global investment portfolios as financial markets deepen, regulatory reforms progress and international capital continues to recognise the country's strategic importance. We believe this structural reallocation of global capital is still in its early stages and should continue to provide long-term support to Indian financial markets.

While the months ahead may continue to present episodes of volatility, our conviction remains unchanged. We remain confident that a disciplined investment process, combined with active portfolio management and a long-term perspective, offers the best path to preserving capital while capturing the exceptional opportunities that India's economic transformation continues to create.

Yours sincerely,

Fabrice d'Erm





India Macro: Inflation and Policy Interventions

The Indian macroeconomic landscape is currently navigating a complex transition characterized by resilient domestic growth and mounting external vulnerabilities. The Reserve Bank of India's (RBI) June 2026 monetary policy pivot underscores a definitive prioritization of inflation management over aggressive growth stimulation.

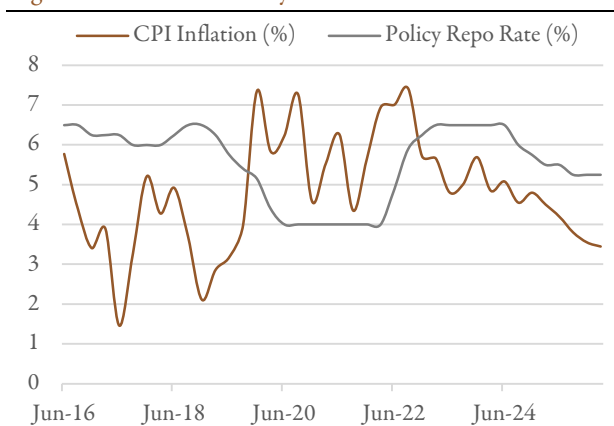
CPI Dynamics & Central Bank Pivot

Confronted with escalating geopolitical risks, rising imported inflation, and severe climatic disruptions, the Monetary Policy Committee (MPC) unanimously voted to hold the policy repo rate steady at 5.25% while maintaining a neutral stance. Concurrently, the newly released May 2026 Consumer Price Index (CPI) data reflects a 16-month high of 3.9%, reinforcing the central bank's cautious outlook.

The Reserve Bank stance signals a prolonged period of restrictive monetary conditions. The central bank's macroeconomic projections reflect this cautious reality, with FY27 real GDP growth downgraded from 6.9% to 6.6% and the inflation forecast revised upward to 5.1%.

This divergence highlights incipient signs of economic moderation driven by a sluggish global demand environment and a cooling domestic credit cycle. For institutional portfolios, this 'higher-for-longer' rate environment necessitates a shift away from high-beta, rate-sensitive growth assets toward structural compounders that can sustain earnings visibility through an elongated pause in the easing cycle.

Fig. 1: India CPI and Policy Rates



Source: RBI

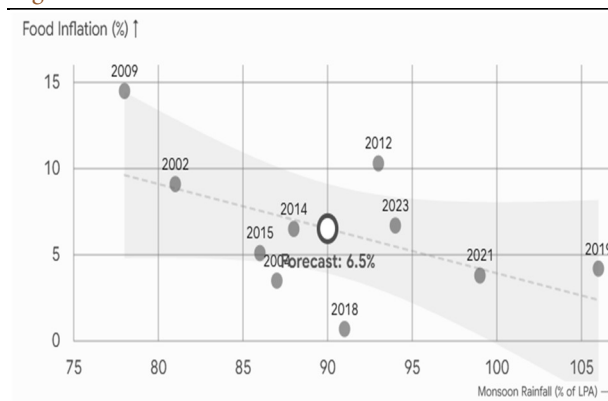
The Twin Shocks: Food and Fuel Inflation

The acceleration in India's Consumer Price Index (CPI) during May 2026, reinforces the Reserve Bank of India's cautious monetary stance. More importantly, it highlights the two more important sources of inflation risk facing the economy: weather-related disruptions to agricultural production and persistent uncertainty in global energy markets. Unlike many developed economies, where services dominate inflation dynamics, India's inflation remains particularly sensitive to food prices, making climatic conditions a key macroeconomic variable for investors.

The El Niño Shadow

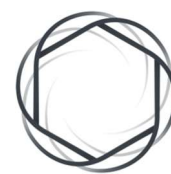
The overarching risk to the RBI's trajectory is the impending agricultural shortfall. The India Meteorological Department (IMD) has forecast a below-normal southwest monsoon at 90% of the Long Period Average (LPA), signaling an 84% probability of deficient rainfall due to rapidly developing El Niño conditions.

Fig. 2: Monsoon Rainfall & Food Inflation



Source: IMD, RBI

A weaker monsoon affects the economy through multiple transmission channels. Lower agricultural output reduces the supply of key food products, pushing prices higher and eroding household purchasing power. Since food accounts for a significant proportion of India's consumer price basket, even temporary supply disruptions can materially influence headline inflation and inflation expectations.



These effects are already becoming visible. The Consumer Food Price Index (CFPI) accelerated to 4.8% in May, driven primarily by fresh produce. Tomato prices rose by almost 50%, while ginger and raisins also recorded substantial increases. Although these categories represent relatively small components individually, together they illustrate the vulnerability of food inflation to weather-related supply shocks.

The greater concern for policymakers lies not in these isolated price increases, but in the potential for second-round effects. Persistently elevated food prices can gradually feed into wage negotiations, transportation costs and broader consumer inflation. If inflation expectations become entrenched, the RBI may be required to maintain restrictive monetary conditions for longer than markets currently anticipate, delaying any meaningful easing cycle.

From an investment perspective, periods of elevated food inflation typically increase the dispersion of returns across sectors. Companies with strong pricing power and resilient margins are generally better positioned to preserve profitability, while businesses dependent on discretionary consumer spending or operating with thin margins may face greater earnings pressure.

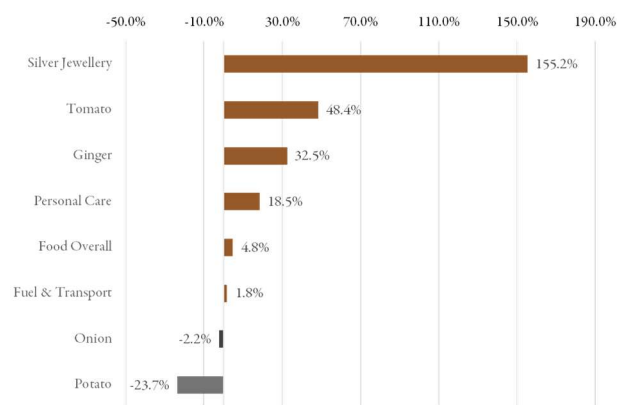
The Oil Pass-Through

The second major inflationary risk originates outside India's borders. As one of the world's largest net importers of crude oil, India remains highly exposed to fluctuations in global energy markets. Although oil prices have moderated from their recent highs, geopolitical tensions and supply disruptions continue to create uncertainty around the inflation outlook.

Energy prices affect far more than fuel costs. Higher oil prices increase transportation expenses, logistics costs, fertiliser prices and manufacturing input costs, creating inflationary pressures throughout the economy. This broad pass-through effect explains why geopolitical developments in the Middle East remain a critical variable for India's inflation trajectory.

The RBI has therefore adopted a prudent approach, balancing inflation control with financial stability while implementing measures to support the Indian rupee and attract foreign capital. A more stable currency helps mitigate imported inflation by reducing the cost of energy and other essential imports, complementing monetary policy in preserving macroeconomic stability.

Fig. 3: Sub-Component Inflation Breakdown



Source: National Statistical Office (NSO)

Investment Implications

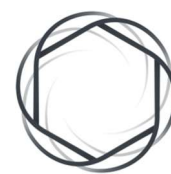
For investors, the current environment reinforces the importance of selectivity rather than broad market exposure. Companies with durable pricing power, strong balance sheets and resilient cash flows should continue to outperform in a higher-for-longer interest rate environment. Conversely, sectors highly dependent on consumer financing or vulnerable to rising input costs may remain under pressure until inflation shows a more durable moderation.

While weather-related disruptions and geopolitical events are likely to generate periodic volatility, they should be viewed primarily as cyclical challenges rather than structural impediments to India's long-term growth story. Active portfolio management remains essential to distinguish temporary market dislocations from enduring investment opportunities.

Capital Account and Currency Defense

Beyond conventional monetary policy, the Reserve Bank of India has complemented its inflation-fighting efforts with a broad set of measures aimed at strengthening the external position of the economy. By encouraging capital inflows and supporting exchange rate stability, the RBI seeks to mitigate imported inflation while reinforcing investor confidence in Indian financial markets.

For an economy that imports the majority of its energy requirements, currency stability is an important policy objective. A weaker rupee raises the domestic cost of crude oil, fertilisers and other strategic imports, amplifying inflationary pressures across the economy. Conversely,



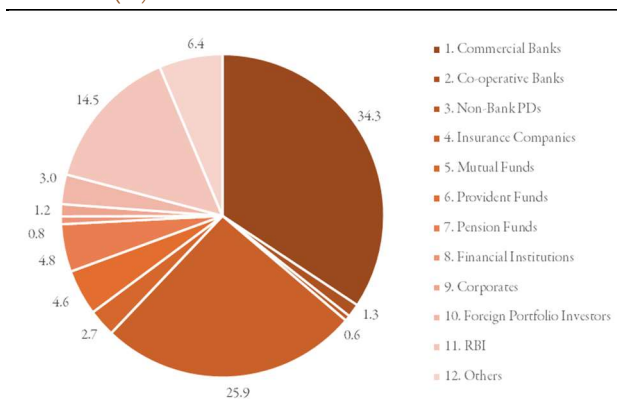
sustained foreign capital inflows help stabilise the currency, reduce imported inflation and improve the effectiveness of monetary policy.

The central bank's latest initiatives reflect this broader strategy of enhancing India's attractiveness to international investors while ensuring sufficient foreign currency liquidity. Together, these measures should deepen domestic capital markets, strengthen the balance of payments and support the long-term internationalisation of Indian financial assets.

Key strategic measures include:

1. **Removal of G-Sec Tax:** The RBI eliminated the 12.5% long-term capital gains tax on investments by Foreign Institutional Investors (FIIs) in Indian government bonds, enhancing the global competitiveness of Indian sovereign debt. This should encourage greater participation from international investors.
2. **Expansion of the Fully Accessible Route (FAR):** All new issuances of 15-, 30-, and 40-year government bonds have been placed under the 'Fully Accessible Route' (FAR). This removes previous concentration limits, allowing global index-tracking funds unchecked access to the ultra-long end of the yield curve.

Fig. 4: Ownership Pattern of Government of India Dated Securities (%)



Source: Government of India

3. **FCNR(B) Hedging Subsidy:** To encourage foreign currency deposits from Non-Resident Indians (NRIs), the RBI will temporarily absorb the hedging costs incurred by authorised banks when raising new three-to-five-year FCNR(B) deposits. This initiative should help strengthen foreign exchange reserves while reducing funding costs.

4. **Faster Repatriation of Export Proceeds:** The window for exporters to bring their earnings back into India was shortened from 15 months down to 9 months, forcing offshore dollar liquidity back into the domestic banking system at a faster velocity.
5. **Concessional Forex Swaps for Public Sector Undertakings (PSUs):** The RBI has introduced concessional swap facilities to facilitate external commercial borrowings by public sector enterprises. By encouraging offshore funding, the measure supports structural US dollar inflows while reducing pressure on domestic financial conditions.

Taken together, these initiatives demonstrate that the RBI is pursuing a broader policy framework than interest rate management alone. By combining monetary policy with targeted capital account reforms, the central bank aims to reinforce macroeconomic stability while positioning India as an increasingly attractive destination for global institutional capital.

For investors, this has two important implications. First, a more stable rupee should help moderate imported inflation and reduce currency-related volatility across Indian financial assets. Second, continued market liberalisation is likely to deepen liquidity in both the sovereign bond market and broader capital markets, supporting India's progressive integration into global investment benchmarks and attracting structurally higher foreign portfolio inflows over the medium term.

Asset Allocation Implications

Fixed Income: The Structural Barbell Strategy

The convergence of a USD 27.5 billion systemic liquidity surplus and the structural liberalization of the Fully Accessible Route (FAR), mandates a highly deliberate barbell configuration for Indian sovereign debt portfolios.

- **Monetizing the Long End (15-40 Year):** The regulatory shift transforms long-dated papers from domestic fiscal instruments into prized global emerging market assets. Investors can proactively build overweight positions in these tenors to capture the inevitable compression of the term premium as cross-border mandates scale up their allocations. The structural technical bid from foreign capital will likely anchor long-end yields, driving outperformance.





- **Short-End Optimization (91 to 182-Day):** At the front end, the SDF floor ensures short-term Treasury Bills remain highly anchored. Portfolios can deploy operational cash heavily into these ultra-liquid instruments via a rolling maturity strategy. This captures high risk-adjusted carry while shielding capital from price volatility.
- **Avoiding the Belly (5-10 Year):** Unhedged bullet positions in the belly of the curve currently expose allocators to significant duration risk without sufficient term premium, particularly if a poor monsoon triggers fiscal slippages (e.g., enhanced central food and fertilizer subsidies).

Equities: Sectoral Winners and Losers

With the repo locked at 5.25% and inflation projected to spike to 5.9%, we are in a "higher-for-longer" interest rate environment. This creates a clear divergence in the stock market between rate-sensitive sectors. Rather than favouring broad market exposure, current conditions call for greater selectivity across sectors and individual companies.

The Winners - Banks & Financials: Financial institutions remain relatively well positioned, particularly banks with strong deposit franchises, disciplined underwriting standards and resilient asset quality. A prolonged period of elevated lending rates can support margins, provided funding costs remain contained and credit quality does not deteriorate.

Table 1: Preferred Stocks

Theme	Preferred Stocks
Large-Cap Private Banks	HDFC Bank ICICI Bank
Premium FMCG / Staples	Hindustan Unilever (HUL) ITC
Capex & Infrastructure	Larsen & Toubro (L&T) Siemens India

Source: SPH Research

The Laggards - Auto & Real Estate: Rate-sensitive sectors are likely to face greater headwinds. Consumer discretionary, real estate and selected areas of the auto market may be affected by higher borrowing costs, weaker affordability and delayed household spending decisions. In these sectors, investors should focus only on companies with strong balance sheets, market share gains and clear earnings visibility

factor. Companies able to pass higher input costs to consumers without significant volume erosion should be better positioned to protect margins. This favours high-quality FMCG and staples businesses with strong brands, distribution depth and disciplined cost management.

Overall, the environment reinforces the importance of active portfolio construction. We favour companies with durable earnings, low leverage, pricing power and exposure to long-term structural themes such as financial formalisation, infrastructure, digitalisation and domestic manufacturing. In contrast, highly leveraged businesses or companies dependent on cheap financing are likely to remain vulnerable until inflation and interest-rate expectations become more favourable.

Risks

Our baseline scenario remains constructive. We expect India's structural growth drivers, prudent macroeconomic management and continued policy reforms to support the economy over the medium term. Nevertheless, the current environment remains subject to elevated uncertainty, requiring investors to continuously reassess portfolio resilience against adverse but plausible scenarios.

Within consumption, pricing power is becoming a decisive



Table 2: Scenario Analysis

	<i>Scenario A : Severe Monsoon Failure (Sub-85% LPA)</i>	<i>Scenario B : Geopolitical Escalation & Crude at \$120</i>
<i>Trigger</i>	The El Niño system intensifies, resulting in a severe deficit in July/August rainfall.	Expansion of the West Asian conflict leading to severe disruptions in the Strait of Hormuz.
<i>Impact</i>	Total crop failure in key pulses and oilseed producing states. Food inflation breaches 10%. Headline CPI stays consistently above 6.5%.	Severe imported inflation. The current account deficit widens dramatically. The Rupee faces extreme depreciation pressure despite recent capital account interventions.
<i>Policy Response</i>	The RBI is forced to abandon the neutral stance. Repo rate is hiked by 50-75 bps to actively destroy demand. Aggressive VRRR auctions drain systemic liquidity.	The RBI burns through forex reserves to defend the Rupee. Rate hikes are instituted primarily to maintain interest rate differentials and halt capital flight.
<i>Portfolio Action</i>	Liquidate all duration in fixed income. Rotate entirely to cash equivalents and highly defensive, non-discretionary consumer staples.	Overweight energy exploration and refining equities. Underweight aviation, logistics, and paint/chemical manufacturers highly sensitive to crude derivatives.

Source: SPH Research

Conclusion

The Indian economy remains structurally sound, but the immediate macroeconomic operating environment requires tactical defensive posturing. The RBI has clearly signaled that fighting imported inflation and defending the currency are the overriding priorities for Q2 and Q3 of FY27. Growth stimulation has been temporarily sidelined.

We recommend that investors execute the fixed-income barbell strategy, capitalizing on the newly opened Fully Accessible Route for long-dated bonds. In equities, portfolios should be scrubbed for high-debt, consumer discretionary names that are vulnerable to sustained high borrowing costs. Capital should be reallocated toward financial institutions with protected margins and structural themes tied to capital expenditure rather than domestic rural consumption





India Asset Allocation

							July 2026
Asset Class	Strategic Opinion	Tactical Opinion	Constituents	Most Preferred	Least Preferred	Commentary	
Cash	-	+				Building dry powder to deploy on further selloffs in risk assets. High cash levels serve as a tactical buffer to preserve capital while the market searches for a bottom amidst geopolitical instability.	
Fixed Income	=	+	Segments	Floating Rate Bonds		We focus on the 3-to-5 year duration; as the yield curve is relatively flat, this segment providing decent yields without the extreme volatility of long-dated paper. USD-denominated Indian bonds offer protection against the Rupee at record lows (~94/\$). We also like selective short-tenor (12-month) high-yield bonds where credit spreads are substantial..	
			Duration	3-to-5 Year Segment	Long-dated credit		
Equities	++	-	Sectors	PSU Banks Defensives (Staples, Healthcare) IT & Pharma (Exporters)	Consumer Discretionary	We take a modest Underweight stance, even as the Nifty valuation has cooled to 17.5x forward earnings (below 10-year average). India is a "net energy loser" in the current West Asia conflict. \$100+ Crude Oil price spikes inflation and hurt corporate margins. On top of that, very untimely, India's monsoon prospects have been downgraded further worsening the inflation outlook. Consumer discretionary remains vulnerable to inflation pressures from high oil prices and weaker rural demand if monsoons disappoint.	
			Styles	Quality and Value. Well Diversified large caps Thematic Plays	Small caps		
Alternatives	+	+		Growth Capital & Late Stage Pre-IPO Precious Metals and REITs	Private Credit	Gold remains a structural anchor as institutional allocations increase despite short-term volatility. REITs offer steady 6-7% yield in a volatile environment.	

Opinion legend: (--) very unattractive; (-) unattractive; (=) neutral; (+) attractive; (++) very attractive.





India macro data and projections *

	FY2024	FY2025	FY2026	FY2027E	FY2028E
Real GDP (percent growth) Fiscal Year	8.2	6.4	6.4	6.5	6.5
CPI (percent growth) Fiscal Year	5.4	3.4	4.7	4.3	4.2
Industrial Production (percent growth)	5.2	4.0	6.2	5.0	5.0
Interest Rates (percent) Fiscal Year	6.50	6.50	5.25	5.25	5.25
Fiscal Deficit (percent of GDP)	-5.6	-4.8	-4.4	-4.3	-4.3
Trade Balance (percent of GDP)	-7.9	-6.8	-7.1	-7.0	-7.0
Current Account Balance (percent of GDP)	-0.7	-0.6	-1.1	-1.2	-1.3
Public Debt (percent of GDP)	82.7	82.7	81.8	81.2	80.5
FX reserves (USD bn)	646	659	681	645	640

Sources: IMF

* Data are for Apr-Mar fiscal years

MSCI India (USD) 1Y Performance



Source: Bloomberg

Nifty50 (INR) 1Y Performance



Source: Bloomberg

Sector Performances	Index Market Cap (USD Bn)	CY 2025	June-26	% YTD	Fwd PE (x)
Nifty Realty	22.2	-16.6%	8.0%	-0.7%	23.8
Nifty Pharma	96.1	-2.9%	4.6%	11.4%	29.4
Nifty IT	100.8	-12.6%	-11.9%	-28.8%	14.1
Nifty Financial Services	477.6	17.4%	6.2%	-2.7%	14.6
Nifty Auto	124.8	23.5%	2.3%	-3.8%	21.5
Nifty Metal	83.7	29.1%	-7.3%	12.0%	10.7
Nifty Energy	264.4	0.4%	-1.3%	12.4%	13.7
Nifty FMCG	107.1	-2.3%	1.1%	-9.7%	31.0
Nifty India Consumption	352.7	8.2%	3.9%	-4.2%	30.7
Nifty Media	4.2	-20.5%	3.6%	5.2%	18.2
INR/USD		-5.0%	0.3%	-5.8%	

Source: Bloomberg





Figure of the Month

90

Expected Southwest Monsoon Rainfall as % of Long Period Average.

A critical forward-looking percentage for the Indian economy. Under an intensifying El Niño shadow, this projected deficit is the primary reason the RBI downgraded FY27 GDP growth to 6.60%. It represents the fine line between a controlled inflation plateau and a mandatory Q3 tightening cycle.

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We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

The future of banking is emerging at the intersection of profit and purpose.

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Editorial closing date: July the 3rd, 2026

