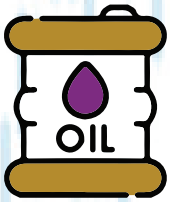
Equity PMS Newsletter

November 2026

The Changing Market Landscape: When Reality Takes Over Expectations

The market is entering a phase where expectations are being questioned, valuations are being reassessed and actual business performance is becoming increasingly important.



For much of the past year, global markets were driven by optimism around Artificial Intelligence (AI). Companies connected to semiconductors, data centres and technology infrastructure attracted significant investor interest, as markets priced in expectations of a massive AI-led growth opportunity. However, the enthusiasm is beginning to cool. Investors are increasingly questioning whether the enormous investments being made in AI will generate adequate returns. This does not mean the AI opportunity is disappearing; rather, the market is beginning to distinguish between companies benefiting from the AI narrative and those converting it into earnings.



At the same time, the global economic environment is becoming more challenging. Inflation remains elevated, while the US 10-year Treasury yield has crossed the psychologically important 5% mark during October. Why does this matter? When investors can earn attractive returns from relatively safer government bonds, they become more selective about investing in equities, particularly expensive growth stocks whose valuations depend on earnings expected many years into the future. Higher interest rates also increase borrowing costs for businesses, making future growth more expensive to achieve.



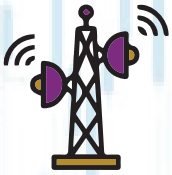
Adding to these concerns is the sharp increase in crude oil prices. International crude has remained above $100 per barrel, while India's crude basket has reached approximately $118 per barrel. For an import-dependent economy like India, expensive oil is a concern because it increases the import bill, puts pressure on the rupee and raises transportation and manufacturing costs. Eventually, these costs can translate into higher prices for consumers and lower profit margins for companies. Industries such as aviation, paints, chemicals and oil marketing could face pressure, while upstream oil producers may benefit from higher realisations.

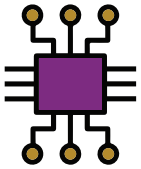


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The concern does not end with oil. Weather conditions could introduce another challenge for the global economy. The possibility of a strong El Niño has raised food-security concerns, with countries such as the UK, Japan and Taiwan also highlighting vulnerabilities in agricultural production and food supply chains. India, however, is relatively better positioned given its domestic agricultural base, food-grain reserves and established distribution network. Nevertheless, uneven rainfall could still affect crop output, rural incomes and food inflation, making this an important risk to monitor

Amid these global concerns, Indian equity markets have shown some resilience, rebounding after approaching the 22,000 levels on the Nifty. However, a recovery in the benchmark index does not necessarily indicate that the broader market has recovered. Investors are becoming increasingly selective. On the corporate front, the Q2 FY27 earnings season has offered some encouragement, with results reported so far being relatively better compared with the preceding quarters. While performance remains mixed across sectors, several companies have demonstrated resilience in revenue growth and profitability despite elevated input costs and macroeconomic uncertainties. The sustainability of this improvement will be important in determining the market's direction over the coming quarters.





This brings us to an important investment question: Are we moving from growth investing towards value investing? For several years, investors were willing to pay premium valuations for companies expected to deliver high future growth. But with rising bond yields, inflationary pressures and questions around earnings sustainability, valuation discipline is becoming important again. This does not necessarily mean abandoning growth-oriented businesses. Instead, investors may increasingly prefer companies where growth expectations are supported by actual earnings, strong balance sheets, healthy cash flows and reasonable valuations.





The coming months could therefore be a test of business quality and management execution. Companies with pricing power, sustainable competitive advantages and the ability to generate cash through different economic conditions may be better positioned to navigate uncertainty. After all, markets can be driven by expectations in the short term, but over the long term, business performance and earnings delivery remain the real drivers of wealth creation.

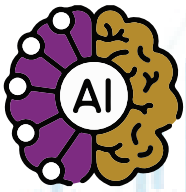
The important question for investors is no longer just how fast a company can grow, but how sustainably it can grow and whether the price being paid today adequately reflects that opportunity.



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Aligning with the Changing Market Landscape

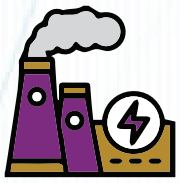
In line with the evolving market environment, we have made a few changes to the portfolio, with a greater emphasis on valuation comfort, earnings visibility and selective exposure to long-term growth opportunities. As markets become increasingly selective, we believe it is important to balance growth-oriented businesses with established companies offering relatively better valuation comfort.



On the additions side, we have added **HDFC Bank** and **Reliance Industries**, primarily from a value perspective. With the market increasingly questioning expensive valuations, we believe established businesses with strong market positions and long-term earnings potential deserve attention, particularly when valuations become more reasonable. We have also added **Jio Platforms** to gain exposure to India's growing digital ecosystem and its long-term opportunities across connectivity and digital services. **Neuland Laboratories** has been added to participate in the expanding CDMO opportunity, where increasing outsourcing requirements and the shift towards complex pharmaceutical manufacturing offer a structural growth opportunity.

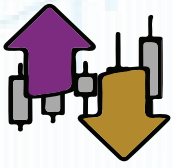


On the exit side, we have exited **Jain Resource Recycling, Shakti Pumps and Gujarat Fluorochemicals** following a reassessment of their respective business outlooks and portfolio priorities. In **Jain Resource Recycling**, the key concern is the lack of clarity on the sustainability of margins amid rising logistics costs and geopolitical uncertainties. For **Shakti Pumps**, our decision was primarily driven by limited clarity on management commentary and business visibility, which made us reassess our conviction. In **Gujarat Fluorochemicals**, we have streamlined our exposure within the specialty chemicals space. Given the overlapping investment exposure across Gujarat Fluorochemicals, Navin Fluorine and Himadri Speciality Chemical, we decided to consolidate our positioning in favour of the latter two.



Overall, these changes reflect our approach of remaining selective in an uncertain market environment. Rather than making broad changes based on short-term market movements, **we are focusing on businesses where we see a better balance between valuation, earnings visibility and long-term growth potential.**

Key Contributors and Detractors



On the performance front, **Eternal** and **Zydus Lifesciences** were the key positive contributors to the portfolio during the month. Eternal gained following its Q2 FY27 results, with investor sentiment responding to the reported business performance and operating developments. Zydus Lifesciences also delivered positive returns, supporting overall portfolio performance.

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On the other hand, **Swiggy** and **Himadri Speciality** Chemical were the key detractors during the month, with both stocks witnessing pressure following their Q2 FY27 results. The market reaction to their quarterly performance weighed on their respective share prices and impacted portfolio returns.



Overall, the month's performance highlights how quarterly earnings and management commentary continue to influence stock-specific movements. We remain focused on evaluating whether these results represent temporary deviations or changes in the underlying business outlook, rather than reacting solely to short-term share-price movements

Note: The stocks mentioned above are part of a broader stock universe of approximately 75 stocks that we actively track. Individual portfolio holdings may vary based on factors such as market conditions, portfolio strategy, and timing of entry. These stocks are highlighted for reference and may not be present in all client portfolios.

The Way Forward



As we enter November, our approach will remain focused on disciplined and selective capital allocation. We will closely monitor the ongoing earnings season, with particular attention to revenue growth, margin sustainability, management guidance and cash-flow generation. With elevated crude prices, inflationary pressures and global bond yields influencing market sentiment, we will remain cautious towards businesses where rising input costs could materially impact profitability.

We intend to use market volatility to selectively increase exposure to businesses offering a favourable balance of valuation comfort, earnings visibility and long-term growth potential. Our focus will remain on identifying companies with strong balance sheets, pricing power and proven execution capabilities, while reassessing investments where earnings delivery or management commentary deviates from our expectations. We will also remain mindful of portfolio concentration and avoid chasing stocks purely on sectoral momentum.

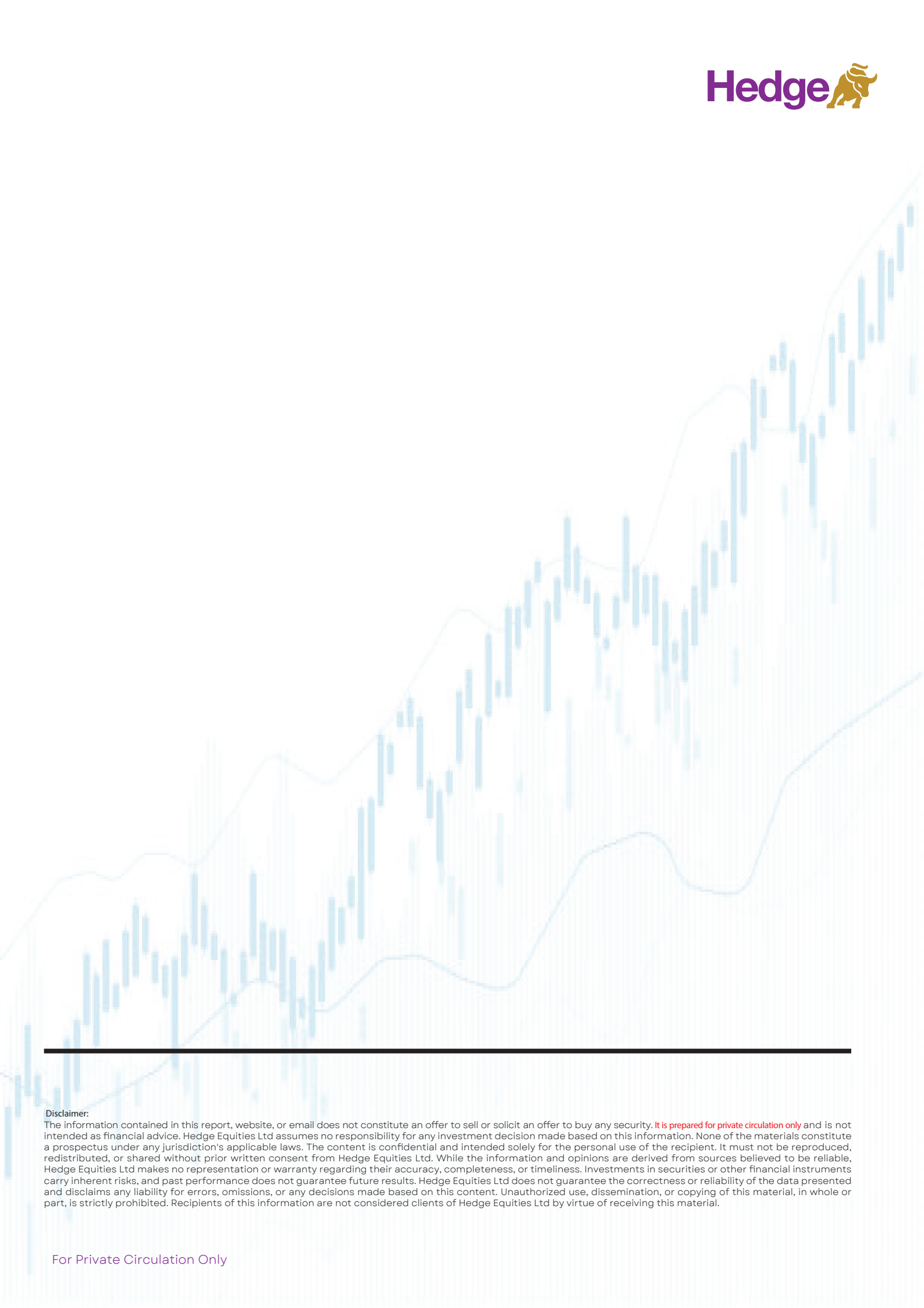
Our objective for the coming months is not to predict short-term market movements, but to position the portfolio to participate in India's long-term growth while maintaining valuation discipline and managing downside risks.



Thank you for your continued trust and confidence. We remain committed to preserving and compounding your wealth through a disciplined, research-driven investment approach.

Warm regards,
Team Hedge

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