

Navigating the Crosscurrents

Dear Investors,

September saw a meaningful shift in market sentiment as global macroeconomic and geopolitical developments weighed on Indian equities, despite resilient domestic economic activity. Higher crude oil prices renewed geopolitical tensions, elevated global bond yields, tighter US monetary conditions and foreign investor selling created a more cautious environment for risk assets.

The Middle East remained a key driver of energy markets, with Brent crude rising above \$100 per barrel and reaching around \$107 towards month-end. For India, a sustained oil shock can increase the import bill, pressure the rupee, raise input costs and complicate the inflation outlook. The rupee remained under pressure amid higher oil prices, dollar strength and portfolio outflows.

Global monetary conditions also became less supportive. The US Federal Reserve raised rates by 25 bps in September, while the US 10-year Treasury yield moved above 5.2% and the 30-year yield crossed 5.5%. Higher global yields increase the attractiveness of dollar assets and can influence equity valuations, borrowing costs and capital flows towards emerging markets. Domestic liquidity also remained an important policy consideration, with the RBI actively managing liquidity and markets increasingly watching the possibility of further policy tightening.



Importantly, India's underlying economic activity remained resilient. Q1 FY27 GDP growth stood at 7.8%, supported by investment, manufacturing and services. New project announcements rose 28% to ₹14.6 lakh crore, indicating improving visibility of the private investment cycle alongside continued public infrastructure spending. GST collections and e-way bills also remained supportive. Inflation has, however, re-emerged as a factor to monitor. August CPI inflation increased to around 4.8%, with food inflation also moving higher. Combined with elevated crude prices, this could keep inflation and the RBI's policy stance in focus.

The key takeaway from September is that market sentiment weakened despite resilient underlying economic fundamentals in India, largely reflecting the impact of geopolitical tensions and a more challenging global macro environment. While crude prices, elevated yields and inflation remain important risks to monitor, strong domestic growth, investment activity and improving business indicators continue to provide a solid foundation for India's long-term growth story.

For the Hybrid PMS portfolio, this environment reinforces the importance of balancing equity participation with high-quality fixed income. Equities remain the long-term growth engine, while fixed income provides income, liquidity and stability—helping the portfolio remain positioned for India's structural growth while navigating periods of market volatility.

From the Portfolio Desk

September saw selective portfolio repositioning. We initiated **Adani Ports, HDFC Life and UltraTech Cement**, while exiting **Eternal, Waaree Energies and Zydus Wellness**.

We added **Adani Ports** to participate in India's expanding infrastructure and logistics opportunity, supported by rising trade, manufacturing localisation and increasing logistics requirements. Its scale, diversified port network and growing logistics capabilities provide competitive advantages.

HDFC Life provides exposure to India's underpenetrated life-insurance market and the structural shift towards financialisation of household savings. Rising incomes, greater awareness and formalisation should support long-term insurance penetration, while its distribution network and established brand provide a strong platform for growth.



We also initiated **UltraTech Cement** to capture India's long-term construction and infrastructure cycle, supported by public infrastructure spending, housing, urbanisation and industrial expansion. Its scale, manufacturing footprint and distribution network provide competitive advantages. Its entry into cables and wires also expands its building-materials offering and creates an additional growth opportunity.

The exits from **Eternal**, **Waaree Energies** and **Zydus Wellness** was a strategic decision to align with our broader Hybrid Portfolio strategy with its objective of balancing growth with capital preservation and lower overall portfolio risk. We are gradually placing greater emphasis on reasonably valued businesses with stability and more visible cash flows.

Varun Beverages and **ICICI AMC** delivered strong performance during the month, while **Pidilite** and **Mahindra & Mahindra** faced pressure amid market and sector-specific concerns. We continue to differentiate between short-term price movements and changes in underlying business fundamentals, with earnings trajectory, competitive positioning and valuation remaining central to our assessment.

Our portfolio continues to be guided by four principles: business quality, competitive advantage, earnings potential and the price paid for growth. Market volatility may influence the timing of our decisions, but not the discipline behind them.

Note: The stocks mentioned above form part of a broader universe of approximately 50 stocks that we actively track. Individual holdings may vary across portfolios depending on strategy, market conditions and timing of entry. Stocks highlighted here may not be present in all client portfolios

Positioning for the Months Ahead

October begins with a combination of strong domestic growth and elevated external risks. Crude oil, the Iran conflict, US monetary policy, global bond yields, the rupee and foreign flows will remain important market variables, while inflation and the potential impact of El Niño will influence the domestic environment. These factors may keep markets volatile despite a supportive underlying growth and investment cycle.

We remain focused on businesses whose fundamentals can withstand short-term macroeconomic volatility. Our Hybrid PMS approach combines equities as the long-term growth engine with fixed income for stability, income and balance, allowing us to remain invested through market cycles while retaining flexibility to deploy capital when attractive opportunities emerge.

Uncertainty may persist, but disciplined allocation, quality businesses and a long-term perspective continue to provide a strong foundation for participating in India's growth.

**Warm regards,
Team Hedge**

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