zambala

Market Insights
MONTHLY OUTLOOK · INDIA & GLOBAL

JULY 2026
AMFI REGISTERED · ARN-118477
EUIN E180789

VOLUME IX · ISSUE VII

THE CONTRARIAN ISSUE

When Everyone Leaves the Room, *That's When It Gets Interesting.*

The month the "India is broken" story fell apart, and why the crowded exit might be the wrong door. Thirty days ago the street had written India off. Then June happened, and most of that story quietly unravelled.

> *"Crude collapsed, the rupee held its ground, and the numbers that were supposed to break simply did not."*
>
> THE MOOD IN ONE LINE · THIS MONTH'S THESIS

−$3.2 Bn	+$8.3 Bn	−20.4%	24→11%	100%	34%
Foreign outflow in June, after −$3.45 Bn in May.	**DII buying**: the 34th consecutive month.	**WTI crude** over the month, as tensions cooled.	India's **EM index weight**, peak to now.	Of the **Nifty Top 10** at or below 10-yr avg valuation.	**Foreign ownership** of the top 10, a 20-yr low.

◆ THIS MONTH'S THESIS

The data and the mood are pointing in opposite directions.

This is one of those rare moments where the numbers say one thing and the sentiment says another. That gap is usually where the opportunity hides. This issue walks through what moved in June, why the panic was overdone, and why an unloved, under-owned India may now be the contrarian trade.

IN THIS ISSUE

What Actually *Moved in June*

Nothing dramatic on the surface; the interesting action was underneath. Risk appetite was clearly alive at the smaller end of the market, and Banks, Realty and Healthcare led the sectors, each up around 5 to 6 percent. But the flow story is the one worth pausing on.

NIFTY 50 JUNE 2026	SENSEX JUNE 2026	BSE SMALLCAP JUNE 2026	BSE MIDCAP JUNE 2026	FII FLOWS JUNE 2026	DII FLOWS JUNE 2026
+1.4%	+2.3%	+5.3%	+1.1%	−$3.2Bn	+$8.3Bn
quiet surface	steady climb	risk appetite alive	modest	after -$3.45Bn in May	34th straight month

THE GREAT HANDOVER · FII VS DII FLOWS

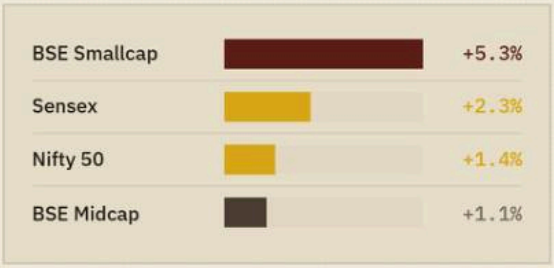
Foreign investors pulled out another $3.2 billion in June, following $3.45 billion in May. And yet the market went up. The reason is the wall of domestic money on the other side: Indian savers are now big enough to absorb the foreign exit.

Net equity flows, USD billion · the story reads itself

■ FII (FOREIGN) FLOWS ■ DII (DOMESTIC) FLOWS

Domestic institutions have now bought Indian equities for 34 consecutive months.

THE ACTION WAS UNDERNEATH · JUNE RETURNS



Sector leadership told the same story: **Banks, Realty and Healthcare** led, each up roughly 5–6%: cyclical, domestic-facing sectors, not defensive hiding places.

> *"Indian savers, quite simply, are now big enough to absorb the foreign exit."*
>
> THE FLOW STORY · JUNE 2026

◆ INDIA'S REPORT CARD · JUNE 2026: WHY THE PANIC WAS OVERDONE

The numbers that were supposed to break, didn't.

GST COLLECTIONS	IIP FACTORY OUTPUT	BANK CREDIT	CPI INFLATION	RUPEE VS USD	REPO RATE
₹1.94 L cr	+5.1%	+17.7%	3.93%	−0.4%	5.25%
+13.9% YoY	YoY growth	accelerating	near RBI target	essentially flat	steady

The scary scenario rested almost entirely on crude oil spiking. It did the opposite: **WTI fell 20.4% and Brent fell 20.8%** over the month as Iran–Israel–US tensions cooled, taking the pressure off India's biggest imported cost.

India Is Now *the Contrarian Trade*

Consider how far the narrative has swung. June 2026 delivered the largest 12-month foreign equity outflow India has ever recorded. Yet history shows the moment of maximum pessimism tends to arrive exactly when the data hits its extreme.

FROM DARLING TO CONTRARIAN · THE 180° SWING

EM INDEX WEIGHT	EM PERFORMANCE RANK	CONSENSUS VIEW
24% → 11%	**Best performer → one of the worst**	**"Must own" → nobody wants to touch it**
peak to today: weight more than halved	in the space of two years	the most contrarian bet in EM

The rupee's recent slide against the dollar was, on the long record, completely ordinary. It only *felt* like a crisis because the mood was already dark.

> *"The moment of maximum pessimism tends to arrive exactly when the data hits its extreme."*
>
> THE BIG IDEA · JULY 2026

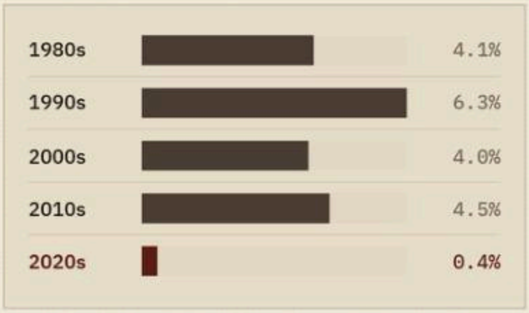
The Rupee: *Stop Fighting It*

THE RUPEE HAS ALREADY ADJUSTED · REER OVER TIME

India's real effective exchange rate (REER). Below 88 is a level normally seen only during genuine stress episodes. Schematic path between marked peaks.

THE INFLATION GAP HAS COLLAPSED

India–US inflation differential, average by decade. Historically, this gap is what pressures the rupee to keep weakening.



"The single biggest reason for a weaker rupee has quietly disappeared."

The services surplus, remittances and software exports now cushion the goods trade deficit. Oil remains the one real risk, but the easy money betting against the rupee is largely behind us.

Where the Value *Is Hiding*

For long-term investors, this is the actionable part of the note. After months of correction, India's biggest and highest-quality companies are trading cheaper than they have in years, and they are owned by fewer foreigners than at any point in two decades.

100%

Of the **Nifty Top 10** trades at or below its own 10-year average valuation.

~70%

Of those names are earning **returns on equity at or above** their long-run average.

34%

Foreign ownership of the top 10 (of free float), a 20-year low, below even the 2008 trough.

BLUE CHIPS ON DISCOUNT · A CLEAN SELECTION

COMPANY	VALUATION METRIC	CURRENT	10-YR AVERAGE	VS OWN HISTORY	ROE VS AVERAGE
Infosys	P/E	13.5	23.3	Well below	At average
TCS	P/E	14.0	26.9	Well below	Higher than average
HDFC Bank	P/B	2.1	3.7	Cheaper vs history	Below average
Axis Bank	P/B	2.0	2.1	Cheaper	Higher than average
Bharti Airtel	EV/EBITDA	10.8	13.7	Cheaper	Higher than average

Companies named for illustration only, not as recommendations. Valuations vs each company's own 10-year history.

> *"Cheap price, strong business. That combination does not show up often."*
>
> LARGE-CAP VALUE · JULY 2026

UNDER-OWNED

Below even the 2008 trough.

Foreign ownership of the top 10 Indian stocks has fallen to roughly 34% of free float, the lowest in two decades, and below the level seen during the global financial crisis. Positioning, not fundamentals, is what has been sold.

◆ THE COMBINATION

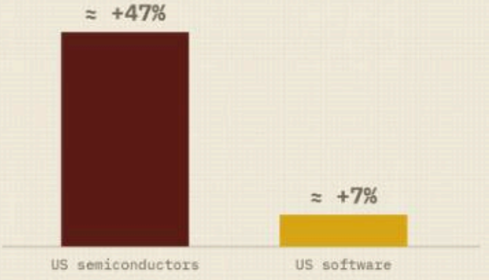
Cheaper than history. Stronger than average.

Every one of the Nifty Top 10 trades at or below its 10-year average valuation, and about 70% of them earn returns on equity at or above their long-run average. When quality goes on sale because of mood rather than earnings, patient capital is the natural buyer.

The Global Picture · *One Story: AI*

Global markets staged a strong second-quarter comeback in 2026, but the rebound was narrow. Semiconductors did the heavy lifting, and the quarter came with a warning shot about just how much of the market now rides on a handful of names.

THE NARROW RALLY · Q2 2026 RETURNS



Almost all the gains came from one corner of the market. Globally it was even starker: most big chipmakers sit in Asia, and those markets were rewarded accordingly.

THE WARNING SHOT

In early June, a single cautious comment on AI chip guidance from a major chipmaker erased **well over a trillion dollars** of value across the AI chip sector in one session, with the main US semiconductor index falling about 10%. It recovered within days, but the episode showed how fragile a market becomes when so much rests on so few names.

> CONCENTRATION CALLOUT
>
> **The 10 largest US stocks ≈ one-third of the entire US market.**
>
> Ten years ago it was half that. When a handful of companies drives everything, a broad index quietly becomes a concentrated bet. The sensible response is to lean toward what's been left behind: lagging US small caps, or select international markets outside the crowded winners.

The India connection writes itself: in a world nervous about crowded, concentrated bets, an unloved and under-owned market is exactly the diversification global investors are being told to look for.

How to Think About It: *The Mug Test*

Picture a simple mug. A stranger would pay $3 for it. The moment it becomes *yours*, you suddenly want $6. The mug did not change; your attachment did. The lesson: don't price an asset by what you wish it were worth, but by what it is actually worth. Ask the honest question: **would you buy it today at the price you would want to sell it at?**

Right now, Indian large caps pass that test. They are cheaper than their own history, owned by fewer foreigners than at any point in twenty years, and backed by an economy whose numbers refused to break in the exact month everyone expected them to.

> *"The crowd has left the room. Historically, that has been the more interesting time to walk in, slowly and systematically, rather than all at once."*
>
> THE CLOSING THOUGHT · JULY 2026