CENTRUM WEALTH

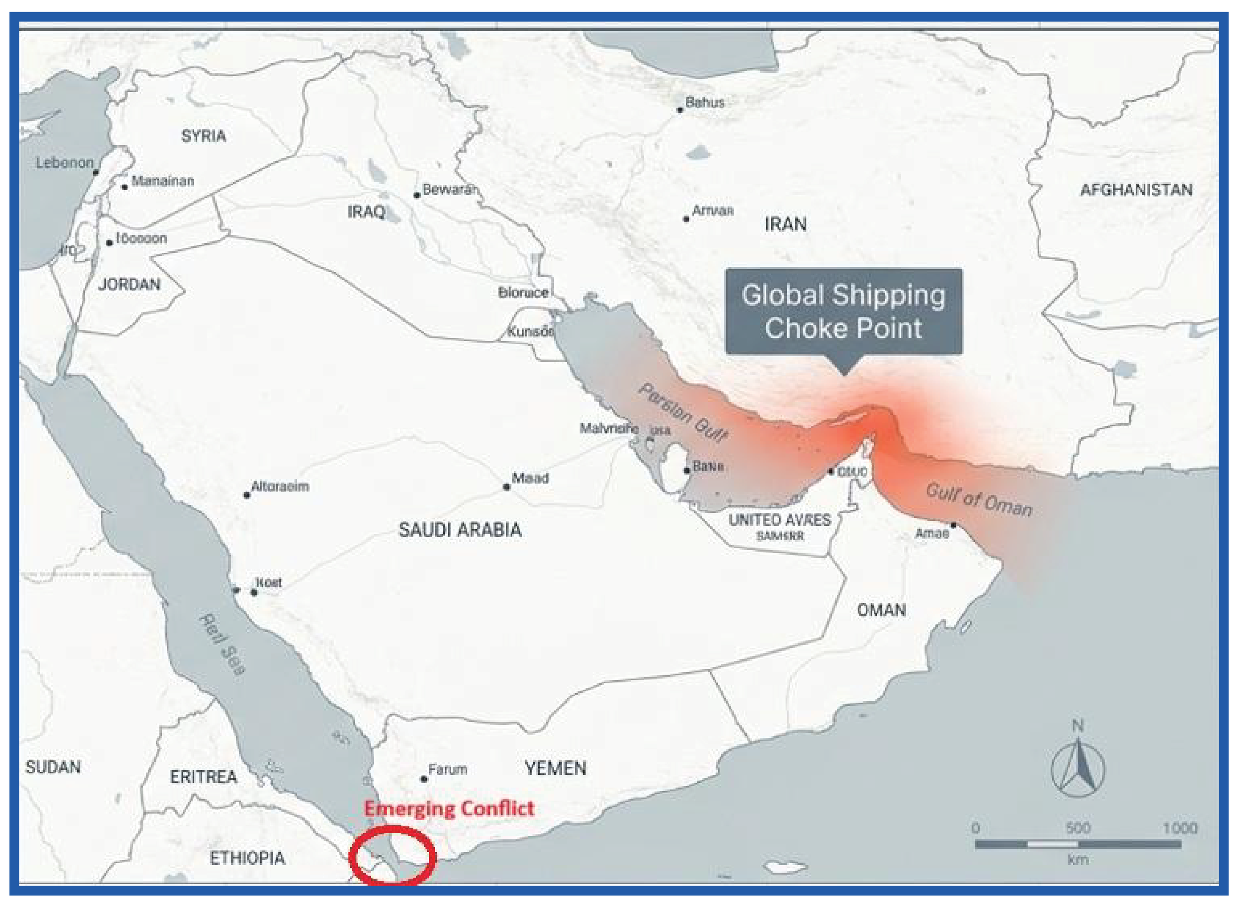
The World in Flux — and Why India Stands Out

What's Happening in the World

i. The energy crisis: two wars, one supply shock

Memorandum of Misunderstanding

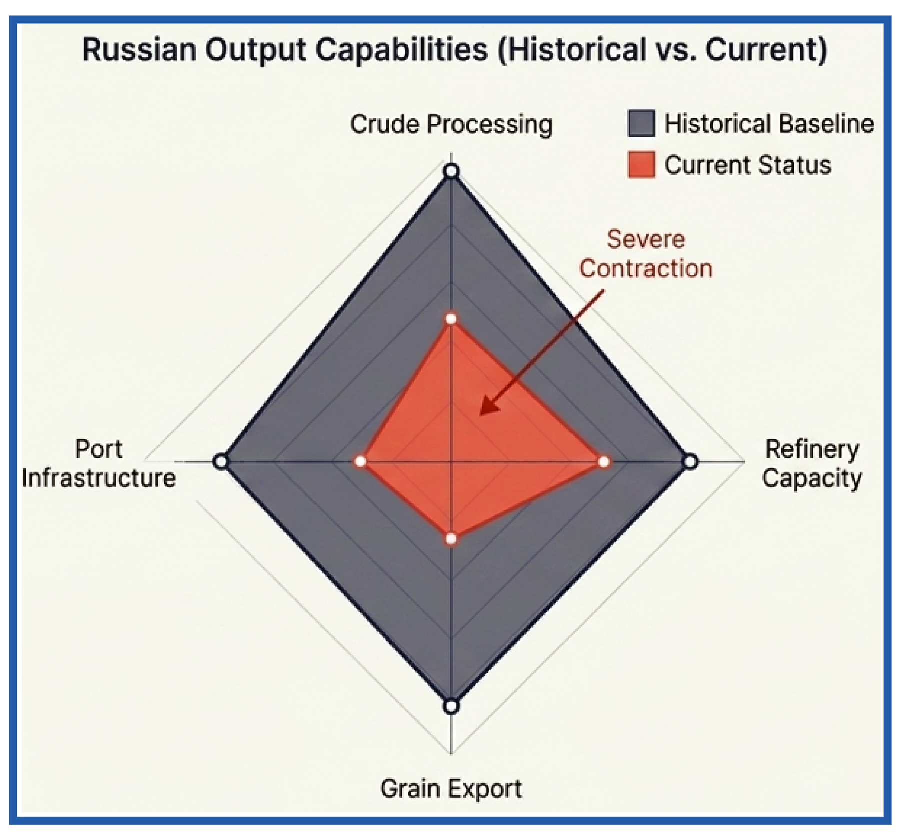
- The US-Iran war, now in its fifth month, has become the dominant macro driver. Commercial traffic through the Strait of Hormuz has fallen by over 90% since the 17 June MOU collapsed. The Strait previously carried nearly 25% of global seaborne oil and 20% of LNG trade. The US has struck Iran for 13 consecutive nights in the past 2 weeks.
- Escalation is broadening: the Houthis attacked two Saudi tankers in the Red Sea on 23 July, and the Caspian Pipeline Consortium suspended Black Sea loadings after tanker attacks, cutting off ~80% of Kazakhstan's oil exports.
- Brent crossed $100/bbl (intra-day) on 23 July for the first time since May'25, then cooled off below $90/bbl on 27th July. This correction was on the back
of reports that Pakistan/Oman, with Chinese backing, is working to revive US-Iran talks.
- Saudi Arabia's East-West pipeline to Yanbu and the UAE's Fujairah line remainthe relief valves keeping the oil prices below the earlier highs of ~$120/bbl in May'25.



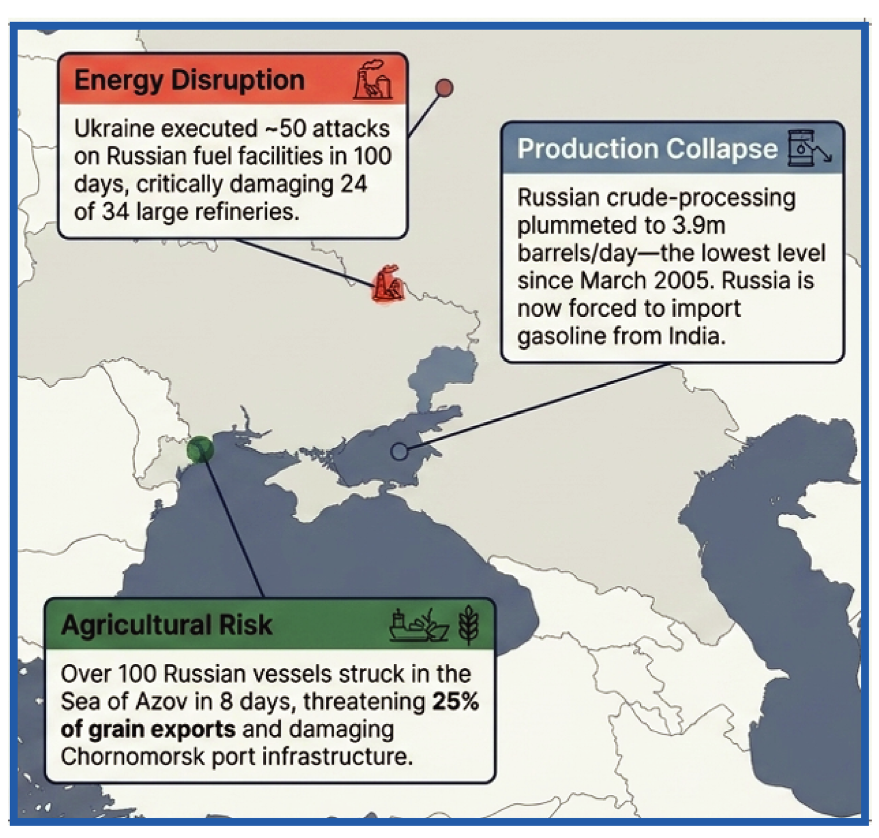
Escalating geopolitical tensions around the Strait of Hormuz continue to threaten global energy security.

The Birthplace of Drone Warfare: Russia- Ukraine

- The Russia-Ukraine drone war is squeezing refined products even harder than crude. Ukrainian drones have now struck 24 out of 34 oil refineries. This includes the Omsk refinery, 2,500km from Ukraine, and Salavat, the last major producer untouched.
- These strikes have disabled ~43% of Russian refining capacity with current production around 3.9m b/d, the lowest since 2005. Russia is now importing gasoline from India, Belarus and Kazakhstan.
- Additionally, Ukrainian drone attacks have also impacted trades in the Sea of Azov and the Black Sea.
- Ukrainian forces have reportedly struck more than 100 Russian vessels hitting 25% of Russian grain exports and 25-30% of Russian Black Sea oil exports.
- Russian missile and drone attacks have caused significant damage to the Ukraine's port infrastructure impacting their ability to export grains.



Persistent drone strikes have significantly weakened Russia's oil refining capacity.



The Russia–Ukraine conflict continues to disrupt global energy, trade, and agricultural supply chains.

ii. Inflation: the "no landing" world

- US June CPI fell to 3.5% YoY (from a three-year high of 4.2%), with core at 2.6% — but the monthly decline was almost entirely energy-driven, a tailwind that has already reversed with oil back near $90/bbl.
- **The Fed's preferred PCE gauge never reached its 2% target this cycle, and both investors and consumers have adjusted:**
  - 54% of BofA's fund-manager survey expects "no landing"
  - Michigan households expect 4.2% inflation next year and more than 3% long-run
  - Markets now price ~80% odds of a September hike — up from ~47% a week ago — ahead of the 28-29 July FOMC, which is expected to hold.
- Another important signal, the 10-year Treasury ended the week at 4.7%, its highest since January 2025
- The signal is synchronised: the ECB hiked in June for the first time since 2023, the BoJ took rates to a 31-year high of 1%, and RBA hiked rates three times this year starting from February.
- India sits inside the same regime. Headline CPI at 4.4% in June was the first breach of RBI's 4-6% target range in the last 17 months. RBI has also raised its FY27 inflation forecast to 5.1% (from 4.6%) – pointing that a hike is likely in the last quarter of 2026.

iii. Tariffs: they just won't die

The February Supreme Court ruling striking down the IEEPA tariffs changed the statute, not the strategy. The temporary 10% surcharge expired on 24 July and was replaced the same day by forced-labour duties on 60 economies

Corridor	Current Status	Implication
Universal baseline	▪ 10% surcharge (after supreme court ruling) expired on 24 July ▪ Replaced same day by open-ended Section 301 forced-labour duties on 60 economies (10% / 12.5% tiers)	▪ The court ruling briefly cut US's avg. import tariff from ~10% to 7% ▪ The new duties take it back to ~10% - this time under a law that courts are unlikely to overturn
US-India	▪ India in the 10% Section 301 tier (vs 12.5% for China, Japan, Korea); ▪ BTA still unsigned at the & last 1% & 18% framework rate not yet live	▪ Still better placed than Asian peers ▪ a signed BTA removes reciprocal tariffs on generic pharma, gems and aircraft parts — the key near-term catalyst
US-Brazil / Canada	▪ 25% duties on Brazilian goods (starting 15 July) ▪ 50% levies on ~US$20bn of Canadian goods, effective 19 August	▪ Repricing the North American supply chain
Cost so far	▪ Tariffs lifted US consumer prices ~0.8% (Harvard Pricing Lab) ▪ Manufacturing jobs down ~75,000	▪ Revenue yes but Industrial Revival no — the boost is AI-led, not tariff-led

iv. China: Coming out of Deflation

- The most under-appreciated global development this quarter is Chinese reflation.

- Nominal GDP growth (5.9% YoY in 2Q26) exceeded real growth (4.3%) for the first time in 13 quarters — the cleanest signal yet that the deflation era is ending — corroborated by PPI at +4.1% in June (highest since July 2022) and industrial profits up 20.6% in the three months to May.

- The honest caveat: this is a two-speed economy. Real GDP of 4.3% was the weakest since late 2022, fixed-asset investment is down 5.7% YTD and property investment down 18% — the revival is being driven by exports, AI and industrial profits, not the domestic consumer.

- The late-July Politburo confirmed the direction without the bazooka: deepen consumption support, protect exporters, press the "anti-involution" campaign against destructive price wars, and "maintain a reasonable share of manufacturing".

- **The export machine is where the revival is unambiguous.**

  - China shipped over 1m vehicles in a single month for the first time in June, with new energy vehicles (NEV) exports of ~499k up 153% YoY; BYD alone took ~34% of NEV exports

  - CATL is the starkest expression of the moat: it powers 40.2% of all EV-battery capacity installed worldwide. With BYD second at 14.4%, two Chinese firms supply >50% of the global market. Battery is ~1/3 of an EV's cost – so this is an effective control of the auto value chain.

India: rightly placed — the investment case

i. How India handled the energy crisis

- **India has managed the oil shock better than any major Asian importer.**

  - Discounted Russian crude - running at ~2.5m b/d, roughly half the import basket, even after the US waiver quietly expired in June.

  - India has even become a re-export refining hub, selling gasoline to Russia itself.

- **The RBI has defended the rupee (96.6 last closing rate, with reserves of US$676bn) via measured intervention**

  - FCNR deposits have showed early signs of positivity with ~$20bn of foreign inflows (against the total expectation of > $60 bn) plus bond-index flows providing cheap, sticky capital for the balance of payments.

  - Policy risks are real but manageable: the RBI cut its FY27 GDP forecast to 6.6% and raised FY27 CPI to 5.1%, and with the real repo rate compressed to 0.87% (against 5.4% in Oct'25) – hence expecting a rate hike in the last quarter (if inflation doesn't cool off).

  - The structural story – INR 12.2tn capex programme, PLI-led manufacturing and electronics exports, deleveraged corporate balance sheets, decade-low bank NPAs, and the financialization of household savings — remains fully intact and is the reason to look through cyclical FX and oil noise.

ii. The flows have turned

- FIIs sold a record net $29bn of Indian equities in 1H26 — driven overwhelmingly by Korea's MSCI EM weight surging from 9.0% to 23.7% as capital chased AI hardware, not by anything India did.

- The AI trade has now started to show cracks: Alphabet, Nvidia, Meta etc. raising money from equity and bond issuances (rather than financing the cashflow via free cash flows), OpenAI lobbying for a government stake and then the newbie SpaceX closed Friday at S$115, ~18% below its IPO price.

- Flows are now following: FIIs turned buyers in the first fortnight of July with INR 15,000 crs. of net purchase, the first sustained buying since February after four straight months of selling. Though the oil spike reversed most of it in the second fortnight, leaving the month tracking roughly flat.

- DIIs have absorbed the selling on every heavy FII-outflow day empowered by the strong and sticky annualised SIP flows of ~INR 3.6 tn. This makes sure that India corrects but doesn't cater due to FII's outflow.

- Having said that, FIIs appetite stays hostage to US yields (4.7%) and a firm dollar. Key points to be noted is: FII ownership of India is at long-term lows, selling that funded the AI trade is largely behind us, and an earnings recovery can be the trigger for their return to India. Foreign buying will be the upside catalyst for the markets.

iii. Earnings and valuations: Large caps tactically and mid & small caps structurally

- Consensus has Nifty 50/100 earnings accelerating to 14-15% annualised (against ~8% in the last 3 years) over FY26-28 while mid-cap and small caps to hold ~20%
- Interesting valuation gap: Nifty 100 is at a 33% one-yr-forward PE discount to the Midcap 150 vs. a 10-yr avg. of 20%.
- The market is not cheap, with the Nifty trading at around 19x forward earnings – marginally below its 7-year avg. of 19.3x. This makes quality large caps more attractive tactically, while selective mid and small-cap stocks remain compelling long-term where returns are backed by strong earnings growth.
- Early trends of the Q1 FY27 results are in line with our thoughts. Banks and NBFCs are the standout so far - credit growth of ~18% translating cleanly into profit. While IT is delivering on revenue, but the margin/guidance story is patchy.

iv. The currency-and-trade tailwind for manufacturing

A weaker rupee is doing quiet work for exporters. Below is the quick summary of manufacturing tailwind:

The manufacturing tailwind	Evidence
Currency (INR) reset	~16% real (trade-weighted) depreciation since end-2024 — the sharpest sustained real decline since the early 1990s, and ~15% against the yuan over the past year
Widening trade access	Preferential arrangements now span ~$9tn of global imports: ▪ UAE CEPA lifted bilateral trade from $43bn (FY21) to $101bn (FY26) ▪ UK pact is live from July 2026; the EU agreement is due in force early 2027
Early evidence	▪ Electronics: iPhone exports ~$17bn, 20%+ of global assembly. ▪ Defence: ~$2.8bn, from near-zero a decade ago. ▪ Pharma: $30bn, targeting US$65bn by 2030. ▪ Textiles: still only ~4% of a $200bn+ global market — the largest untapped FTA winner

BOTTOM LINE

- The world is absorbing a simultaneous energy-and-inflation shock
- Central banks across the globe are now hawkish with a few already raising rates
- Tariffs keep getting reincarnated under new statutes
- China is coming out of deflation gradually — led by exports, AI and industrial profits, with the July Politburo signalling further easing but no bazooka.
- Against this backdrop India stands out:
  - Discounted Russian crude keeps India the best-hedged major energy importer in Asia and policy risks are manageable
  - Earnings are reaccelerating and FIIs are turning from sellers to buyers
  - Strong and Sticky INR 3.6tn-a-year SIP machine anchors the market
  - Valuations favour large caps; earnings drive select mid & small cap opportunities
  - Weaker rupee is doing quiet work for exporters – tailwind for manufacturing

Sources: Jefferies GREED & fear "Traps and the escalation dynamic" (16 July 2026); The Economist (Buttonwood, 21 July; "The tariffs that just won't die", 23 July); Bloomberg; National Bureau of Statistics, CEIC Data. Market data as of close 24 July 2026.

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