Sohum India Opportunities Fund: Investor Update Newsletter, September 2026

Indian investors are facing a unique dichotomy – a resilient economy but fragile markets. While growth has surprised to the upside across several EM Asian economies (largely reflecting AI-related capex and technology-export strength), India has faced a less favourable external backdrop. This includes concerns over services-export and employment risks due to AI; the 2025 US tariff shock; and lately a negative terms-of-trade shock from higher energy prices amidst the West Asian crisis. Yet growth has continued to surprise to the upside.

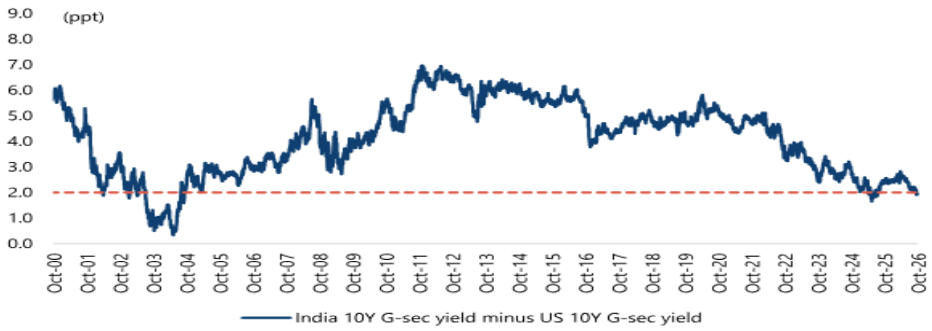
The key explanation for India's resilience is the scale and timing of domestic policy support – both fiscal and monetary.

Fiscal policy has cushioned the adverse effects of tariffs and higher energy prices through income tax relief, GST rationalisation, fuel-price absorption, higher subsidies and frontloaded public capex. Income-tax cuts in the February 2025 union budget lifted household disposable income and consumption. GST-rate rationalization in late-FY26 provided an additional consumption tailwind into FY27. Fiscal and quasi-fiscal measures also cushioned the 2026 Middle East shock: fuel-excise duty cuts and partial absorption through OMCs limited energy-price pass-through, supporting 1H CY26 consumption activity. Front-loaded fertilizer subsidies and central-government capex (up around 18% yoy in the first five months of FY27) have provided further fiscal support.

Frontloaded 100bp repo-rate cuts in 1H CY25 — within a cumulative 125bp easing cycle — along with improved liquidity (OMOs and FCNR deposit mobilization), and a broad set of RBI regulatory relaxations has also played a crucial role in supporting economic activity through easing of financial conditions. While US bond yields have risen by more than 100bps in CY26, India's yield gap with the US is near 20-years low.

Lastly, government policy push towards manufacturing in the form of FTAs (17 FTAs in place or under negotiation) and PLI schemes, has provided an export impetus (non-oil exports up 15% yoy YTD) as well as private capex impetus (capex intensity building in power, data centres, EMS, semiconductor and aerospace/defence). This is being reflected in the GDP numbers as well with fixed investment growth accelerating to a four-year high of 12% yoy in 1QFY27 along with significant acceleration in exports. It is quite possible that while the Indian economy might have peaked out on consumption and public capex contribution to GDP, exports and private capex look set to drive the next leg of growth.

Exhibit 1: India's yield gap with the US is near 20-year lowest at ~2ppt...



Source: Jefferies

Overall, strong balance sheet of all stakeholders – households, corporate, government, external and RBI has helped to absorb the negative externalities without significantly impacting growth.

The recently concluded 1QFY27 earnings season has further corroborated that the economy's fundamental strength remains intact despite external shocks and methodological controversies over the new GDP series. Aggregate earnings of the Nifty-500 universe grew 13% YoY in 1QFY27; however, excluding OMCs, earnings growth was significantly stronger at 23% YoY. Aggregate sales ex-OMCs of the Nifty-500 grew 19% YoY in 1QFY27, marking the strongest growth in 15 quarters after a prolonged period of moderate revenue growth. Even the Nifty delivered an 18% YoY PAT growth – a 10-quarter high. High frequency indicators suggest that earnings momentum should continue into Q2FY27. Overall, we remain optimistic on the earnings growth cycle and expect mid-teens earnings growth in FY27E/FY28E (Nifty EPS of Rs.1070/Rs.1200/Rs.1400 for FY26/FY27E/FY28E respectively).

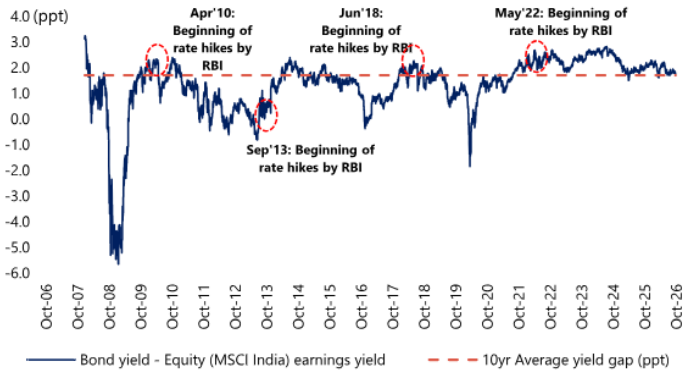
Unfortunately, strong earnings growth has not translated into market returns as persistent FII outflows has overshadowed economic resilience. In fact, India has become the default "anti-AI" trade, with Indian equities among the weakest performing major markets globally since 2025. The divergence within Indian markets has also been stark as a sharp sectoral rotation has emerged. Sectors with a higher representation of SMID companies have led the rotation, driving strong outperformance and re-rating across manufacturing, capital goods, defense, EMS, data centers, and new-age and internet companies. In contrast, heavyweight names within traditional sectors such as Auto, Banking, Consumer, IT Services, Oil & Gas, and Utilities have faced weaker investor interest, contributing to large underperformance of largecaps. Consequently, over the last 12 months, largecaps have dipped 8%, underperforming midcaps (+5% YoY) and smallcaps (+10% YoY). We believe that risk-reward is now becoming more favourable for largecaps on better valuations vs. SMIDs, while the earnings growth gap is narrowing over FY26-28E.

Exhibit 2: NIFTY50 forward P/E at average levels



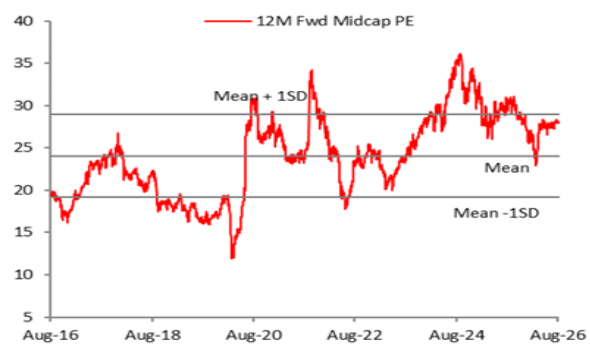
Source: ISEC Research

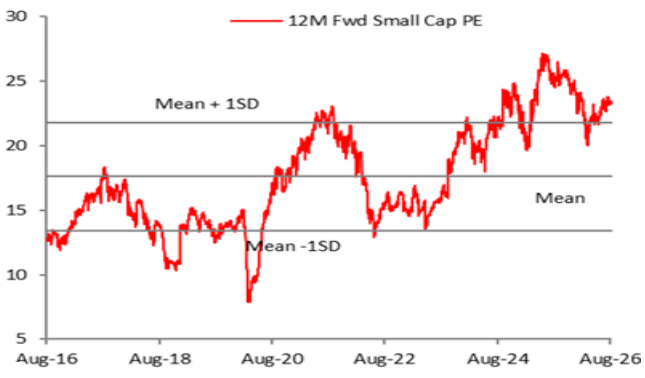
Exhibit 3: The bond-equity yield gap is currently at 177bps is close to 10yr average



Source: Jefferies Research

Exhibit 4: While SMID valuations have seen some moderation from peaks, they are still quite expensive





Source: Phillip Capital Research

Portfolio Composition & Performance

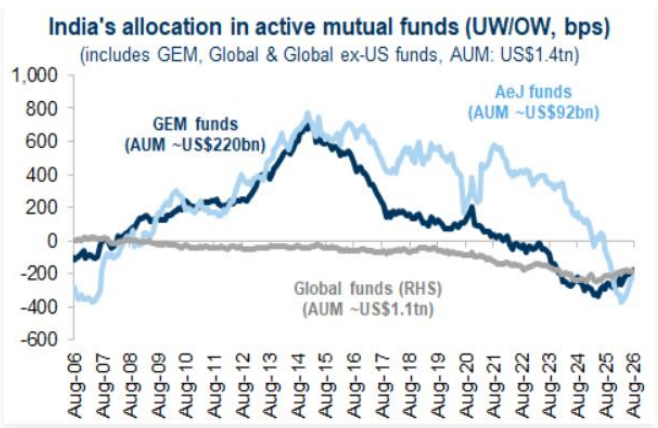
In the current market, what we are seeing is that very large companies are completely out of favour. Despite they decent value, the market isn't interested in them. Instead – it is keener on the already bloated SMID space. Last two years of fatigue have forced many market participants to throw in the towel and chase quick returns via hot themes (new IPOs in particular). However, it will be interesting to watch how this plays out in 2027 as nobody is thinking what will happen if the towel lands in the wrong place. We feel that the time when sharper, sober investment strategy will prevail over the smartness of short-term return chasing is fast approaching.

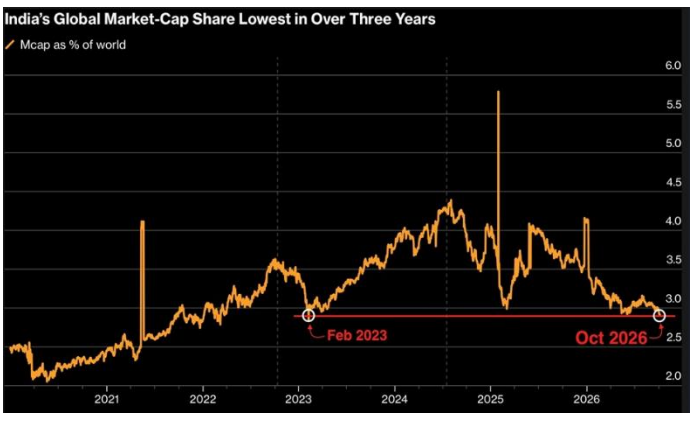
We continue to follow a GARP strategy with focus on earnings resilience amidst prevailing global macro uncertainty without overpaying for the same. In the last letter, we had highlighted that we are neutral on BFSI but will look to increase our weight selectively. We believe that a rate hike cycle can be a positive catalyst for large private banks which have been completely out of favour. Rate hikes are positive for banks' NIM as EBLR loans re-price quicker while deposits rates transmission comes with a lag. We note systemic liquidity has been abundant, and banks have strong deposits growth, thanks to the massive FCNR flows. Rates for a large share of TD (FCNR) will likely remain fixed and, thus, banks could see delayed pressure on CoF. Further, we note that in the initial phase of the last cycle, large private banks saw a steep rise in loan yields (160–225bps) while NIM expanded 60–70bps. Although hardening rates tend to have a moderating impact on banks' credit growth (including bond substitution); that said, at this stage, we are less concerned. This is because current system growth is running at 19-20% YoY whereas most estimates are building in 15-16% growth. Overall, large private banks should deliver high teens EPS growth in FY28 and could see significant re-rating given extremely benign valuations.

Within BFSI we also like the capital markets theme as regulation has strengthened trust, expanded participation and increased resiliency. We are also overweight capital goods, auto OEM & auto ancillary, power and utilities, telecom, real estate and logistics while we stay underweight IT, oil & gas and consumer staples. So far, our portfolio positioning has helped us greatly in navigating the volatility of CY26.

We believe that markets (especially beaten down large caps) look set for a solid rebound once we see resolution of the West Asia crisis and easing of crude oil prices, amidst a favourable nominal-GDP-led earnings backdrop. In mid and small caps, we would seek much higher margin of safety without compromising with quality /character of business and promoters. Positioning is also quite favourable with India one of the most underweight markets among global funds and India's global market-cap share lowest in over three years.

Exhibit 5: India remains an oversold market





Source: Goldman Sachs and Bloomberg

To conclude, while rising DM bond yields do pose a near-term risk, we feel risk-reward is now extremely favourable, and we recommend increasing exposure to equities. We think most of the price damage is done and at most we can have some more time correction.

Performance Table of Sohum India Opportunities Fund (SIOF) – AIF (20th May 2022 till 30th Sep 2026)	Nifty 50 TRI	Pre-Tax NAV* (SIOF - AIF)	Outperformance
Since Inception (Absolute Return)	46.72%	90.44%	43.71%
Since Inception (CAGR)	9.17%	15.88%	6.71%

**Sohum India Opportunities Fund Pre-tax post fee NAV*

We thank our investors for their continued trust and partnership.

Warm Regards,

Sanjay H Parekh, Founder & CIO

8th October 2026