

CLAY COMPASS

Navigating Markets, Economy & Beyond

THE MONTH IN ONE LINE

August inverted July. The headline indices fell — the Nifty 50 down 1.2% to 24,080.40 and the Sensex down 1.5% to 76,957.27, snapping a two-month winning streak as renewed geopolitical tension, firmer crude & concerns over US interest rates weighed on sentiment. Underneath, almost every domestic signal ran the other way: the Nifty Midcap 100 and Smallcap 100 rose 2.1% and 3.1% for a fifth consecutive monthly gain, volatility picked up following the introduction of the Closing Auction Session (CAS), foreign investors put roughly INR 30,000 crore into equities & 21 mainboard IPOs raised about INR 21,000 crore — the highest monthly deal count of 2026. Then, after the close on 31 August, Q1 FY27 GDP printed at 7.8% against the RBI's 7.0% forecast for the quarter.

THE CLAY DASHBOARD

The indicators we track every month, with our reading on each

Indicator	Latest	Change / context	Signal
GLOBAL			
US Federal Reserve	3.50% – 3.75%	Last held on 29 July, the fifth straight hold of 2026, with 3 of 12 voters backing a hike. Chair Warsh's Jackson Hole speech on 28 August lifted September hike odds to about 60% from below 40%	Hawkish tilt
US 10-yr Treasury	4.75%	Rising through August; broke above 4.8% in early September, the highest since late 2023	Rising
US Dollar Index	~99.4	Down from ~101.4 at the end of July	Softening
MSCI World Index	+2.58%	Developed markets rose while the Nifty fell 1.2% — August's weakness was India-specific, not necessarily global	Risk-on
MSCI Emerging Markets Index	+3.37%	EM outpaced developed markets, and both left India behind	Outperform
INDIAN EQUITY AND VALUATION			
Nifty 50	24,080.40	–1.2% MoM; broke a two-month winning streak	Lagging
Nifty 50 trailing P/E	20.36x	vs a 22.22x three-year median — a discount of ~8.4%	Attractive
Nifty 50 EPS	₹1,182.73	vs ₹1,173.42; +0.8% MoM	Improving
India vs EM P/E premium	1.52x	India has historically traded at about a 63% premium to EM. The August reading is well below that	Compressed
FLOWS			
Net FII activity	–₹7,532 crore	vs –₹5,779 crore in July, on the exchange cash segment	Selling
Net DII activity	+₹58,268 crore	vs +₹35,100 crore in July	Buying
DOMESTIC MACRO AND RISK			
Q1 FY27 GDP	7.8%	Released 31 August, beating the RBI's 7.0% forecast. Up from 6.9% a year earlier, down from 8.6% in Q4 FY26. New 2022-23 base-year series	Beat
Manufacturing PMI	52.8	From 53.5 in July; third consecutive fall and a five-year low. Factory employment declined for the first time in two and a half years	Weakening
Services PMI	54.1	From 53.3 in July; still expanding, but among the weakest readings in over four years	Slowing
RBI repo rate	5.25%	Held on 5th August — a fourth straight hold, unanimous, stance neutral. FY27 GDP forecast raised to 6.7%, CPI trimmed to 5.0%	On hold
USD/INR	~95.12	vs about 94.70 at the end of July; a second consecutive monthly depreciation	Depreciating

THE GLOBAL LENS

What moved in the globe and the channel through which it reaches an Indian portfolio

Central banks & rates

The Fed's most recent decision came on 29th July, holding the funds rate at 3.50–3.75% for the fifth consecutive time in 2026 — but with three of twelve voters backing a hike. Kevin Warsh's first Jackson Hole speech as Chair, on 28th August, removed the ambiguity: he told the symposium that unless underlying inflation was moving to target clearly and fast enough, the Fed had work to do. Market-implied odds of a September increase jumped from below 40% to roughly 60%.

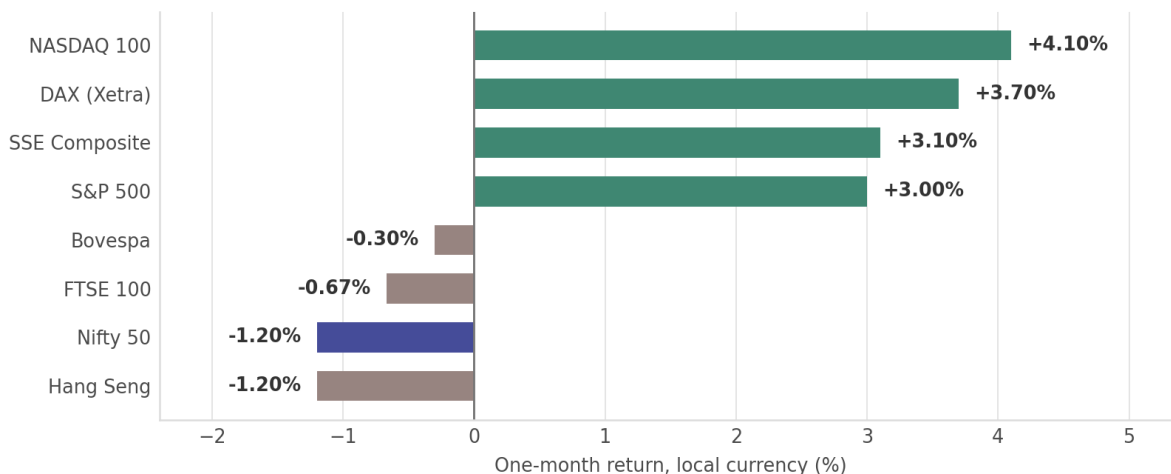
The US 10-year finished August around 4.75% and pushed above 4.8% in early September, its highest since late 2023. The European Central Bank is leaning the same way. The direction of the global rate cycle has changed, and for an oil-importing economy running a 19-month-high inflation print, that matters more than any single month's index return.

Global growth and risk

Equities ignored the hawkish turn. The MSCI World rose 2.58% and MSCI Emerging Markets 3.37%, led by the NASDAQ 100 at +4.1%, Germany's DAX at +3.7%, the Shanghai Composite at +3.1% and the S&P 500 at +3.0%. Weakness was confined to a handful of markets: the FTSE 100 fell 0.67%, Brazil's Bovespa 0.30% and the Hang Seng 1.2%.

India was the outlier. The Nifty 50 fell 1.2%, lagging emerging markets by roughly 4.6% and developed markets by 3.8%. This was not a risk-off month globally. It was a month in which the specific things that hurt India — crude near \$90 with the Strait of Hormuz constrained, US strikes on Iran on 28 August, and rising global yields — got worse, while the things that support most other equity markets did not.

Exhibit 1 | Major global equity markets, August 2026



Source: Exchange data, index providers

How it transmits to India

Global development	Channel	What it drives in India	August 2026 reading
Fed policy and US Treasury yields	Rate differential	FII appetite, the rupee, and the RBI's room to ease	Hawkish turn after Jackson Hole; the 10-year at 4.75% and rising. Narrows India's carry advantage & caps the RBI's scope to cut
Crude and West Asia	Terms of trade	CPI, the current account, the RBI's stance	Brent near \$90 throughout; US strikes on Iran on 28 August; Hormuz transits severely constrained. July CPI already at a 19-month high of 4.45%
Global sector rotation	Flows	Which Indian sectors attract foreign bids	July's AI-hardware unwind reversed. The rotation that lifted Indian IT in July did not repeat
Global risk appetite	Breadth and issuance	Small caps, primary issuance, FII flows	India's own small caps rose 3.1% and 21 mainboard IPOs raised about INR 21,000 crore, the busiest month of 2026

CLAY'S READ

August was a month when global markets leaned against India & none of it showed up as a shared risk-off move — MSCI World and MSCI Emerging Markets both advanced, so this looks like a rotation problem rather than a risk problem. The Fed's hawkish pivot narrows the case for near-term RBI easing just as domestic growth needs support, while crude near \$90 with Hormuz constrained is doing double duty, pressuring both the currency and the inflation path the RBI is relying on to justify easing later. The one channel that stayed supportive — global risk appetite, reflected in India's own record IPO activity — is also the most exposed to reversal if the September FOMC surprises hawkish. We would watch oil ahead of the Fed decision itself: a hike alongside stable crude is far more manageable for India than a hold alongside crude above \$95.

EQUITY

Most sectors rose. The index fell anyway.

The Nifty 50 closed August at 24,080.40, down 1.2%, with the Sensex 1.5% lower at 76,957.27.

Where the gains landed

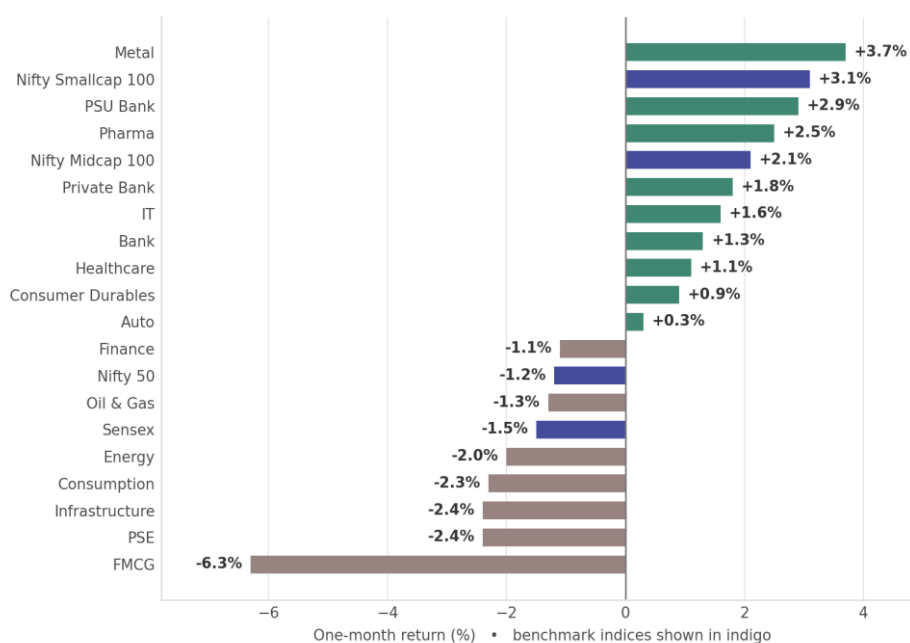
The month's defining feature is a contradiction: nine of the sixteen sector indices we track rose, yet the benchmark fell. The decline was not broad. It was concentrated in the heaviest weights.

Metal led at +3.7%, extending a run that leaves it the year's strongest sector. PSU Bank added 2.9%, Pharma 2.5%, Private Bank 1.8% and IT 1.6%. Bank, Healthcare, Consumer Durables and Auto all finished positive, though none by more than 1.3%.

What dragged was heavier. FMCG fell 6.3%, by some distance the worst performer and the clearest single drag on the index. Infrastructure and PSE each lost 2.4%, Consumption 2.3% and Energy 2.0%. Oil & Gas fell 1.3% — notable in a month when Brent sat near \$90, since higher crude squeezes India's oil marketing companies rather than helping them. Finance, the single largest weight in the index, declined 1.1%. Between them, financials, energy and consumer staples carry enough index weight to overwhelm nine sectors of modest gains.

Two points deserve emphasis for anyone extrapolating July. IT's 1.6% did not extend its July rebound — after surging 16.77% in July, the sector added less than two points in August and remains the weakest performer of the calendar year. And FMCG's decline is not a one-month event: it has now lagged over the month, the quarter and the year, which possibly points to a structural problem rather than a rotation.

Exhibit 2 | Indian benchmark and sector index returns, August 2026



Source: Exchange data

Breadth & Market Cap

The broader market extended its run. The Nifty Midcap 100 rose 2.1% and the Nifty Smallcap 100 3.1%, a fifth consecutive monthly gain for both, with each trading near lifetime highs while the benchmark fell.

One caveat belongs alongside that record. Part of the gap reflects index construction rather than stock selection. HDFC Securities notes that roughly 40% of Midcap and Smallcap constituents have changed over the past two years, and about 20% in the past year, against six changes in the Nifty 50 over two years and two in the past year. Stocks tend to enter the broader indices after performing well and exit after lagging, so those indices are refreshed far more aggressively than the benchmark — which flatters their trailing returns.

CLAY'S READ

Nine of sixteen sectors rising while the index falls is not a contradiction once weights are accounted for — it is concentrated weakness in Finance, FMCG & Energy that happens to sit in the heaviest index buckets, not broad-based deterioration. FMCG's decline across the month, quarter & year is the one data point here we would treat as a genuine trend rather than noise; IT's flat August looks more like a July overreaction settling than a fresh problem. On breadth, the reconstitution point is worth taking seriously before extrapolating five straight months of small & mid-cap gains: a meaningfully higher churn rate in those indices means part of the trailing return is index methodology rather than stock selection, which should temper rather than confirm expectations of continued outperformance.

FLows AND VALUATIONS

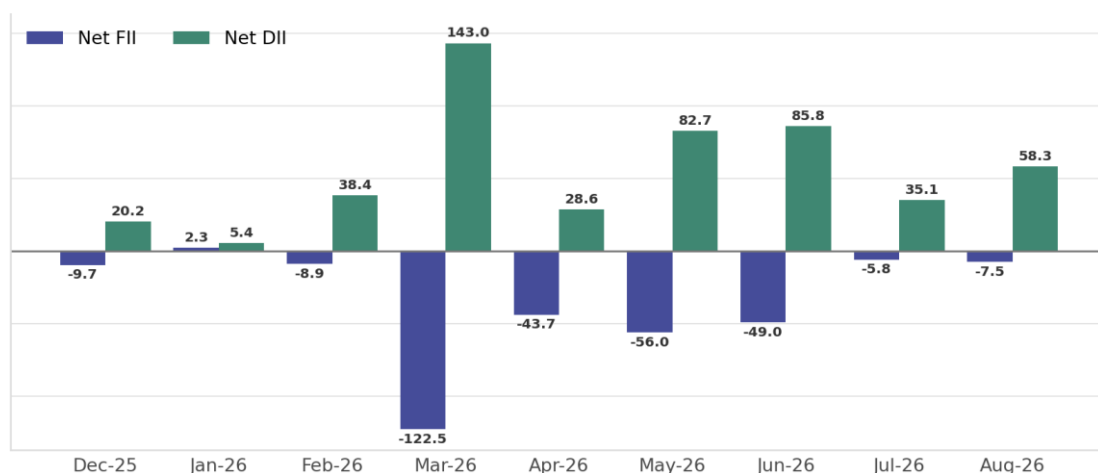
Foreign money returned. It just didn't arrive where the index is priced.

Foreign portfolio investors bought INR 29,631 crore of Indian equities in August — the largest monthly inflow in 23 months and a second consecutive month of buying after July's INR 20,200 crore. On the exchange cash segment, however, they were net sellers of INR 7,532 crore, while domestic institutions bought INR 58,268 crore.

Twenty-one mainboard IPOs raised roughly INR 21,000 crore during the month, the busiest primary market of 2026. Much of the foreign money that arrived, potentially went into new issuance rather than existing shares — which is how the Nifty fell 1.2% in a month of record inflows.

The recovery deserves proportion. July and August together brought INR 49,831 crore of foreign equity buying, the first back-to-back positive months of 2026, against INR 2.24 lakh crore withdrawn across the year to end-August. The direction has turned; the level has not.

DII net buying rose 66% month-on-month, though not for the reason the headline suggests. Gross buying fell 12.5% to INR 3.56 lakh crore while gross selling fell 19.9% to INR 2.98 lakh crore. Domestic institutions did not deploy more in August — they redeemed less.



Valuations

The Nifty 50 ended August at 20.36 times trailing earnings, against a three-year median of 22.22 — a discount of about 8.4%. The index has been de-rating steadily rather than correcting sharply.

Down the market cap curve, valuation inverts the return story: the segment that fell in August is the cheap one, and the segments that rose are not. The Nifty Midcap 100 at 30.36 times trades 12.5% below its two-year average but marginally above its five-year. The Microcap 250 at 28.1 sits above both recent averages and 6.6% below its five-year. The Nifty Smallcap 100 is

the clear outlier at 31.38 — above its one-, two- and five-year averages, and 16.7% above the five-year figure of 26.9. After five consecutive monthly gains, small caps are the only segment that is expensive on every time horizon we track.

Against emerging market peers, India ended August trading at 1.52 times EM earnings multiples, against a historical premium of roughly 63%. Foreign investors are being asked to pay far less for Indian growth relative to the alternatives than they have been accustomed to — and August's divergence, with EM up 3.37% in dollar terms while Indian large caps fell, will have compressed the gap further still.

Earnings

Nifty 50 EPS rose to ₹1,182.73 in August from ₹1,173.42, up 0.8% month-on-month. The Q1 FY27 season was the strongest in some time, with Nifty 50 profits growing 18% year-on-year — the fastest pace in ten quarters — prompting Motilal Oswal & PhillipCapital to raise their FY27 estimates.

Earnings are therefore becoming less of a constraint on Indian equities. With the index de-rating to 20.36 times even as profits reach new highs, the recent valuation compression appears driven more by flows, risk appetite and macro conditions than by weakening corporate profitability.

CLAY'S READ

The headline FPI number and the index return tell two different stories, and the reconciliation matters more than either figure alone. Record inflows routed largely into new issuance rather than the secondary market is a lower-conviction form of re-engagement than the headline suggests — foreign capital is willing to underwrite fresh supply but has not yet bid up existing large caps. The DII improvement carries a similar caveat: a rise in net buying driven by lower redemptions rather than fresh deployment is a different signal about domestic risk appetite than the headline implies. Set against that caution, the earnings and valuation combination is the more constructive part of this section — an index trading at a discount to its own history and to EM peers, with trailing EPS at a record and profit growth at its best pace in ten quarters, is not the valuation profile of a market pricing in a growth scare. This looks more like a re-rating driven by flows & macro uncertainty than one driven by the earnings outlook, and the former is the easier of the two to reverse.

MACROECONOMICS

Growth beat expectations. Momentum did not improve.

The RBI held and revised in India's favour

The Monetary Policy Committee left the repo rate at 5.25% on 5th August — a fourth consecutive hold, unanimous, with the neutral stance retained. The RBI nudged its FY27 growth forecast up to 6.7% from 6.6% and trimmed its inflation projection to 5.0% from 5.1%, with Governor Malhotra indicating that the committee expects inflation to peak in the third quarter before declining. The next review falls on 5–7 October.

A strong quarter, a soft month

Released after the close on 31st August, Q1 FY27 real GDP grew 7.8% — 80 basis points above the RBI's own 7.0% projection for the quarter, and up from 6.9% a year earlier, though below the 8.6% recorded in Q4 FY26. These figures come from the new 2022-23 base-year series introduced in February, so comparisons with older data do not hold.

The survey evidence describes a different period and a flatter picture. Manufacturing PMI fell to 52.8 from 53.5, a third consecutive decline and a five-year low, with factory employment contracting for the first time in two and a half years. Services rose to 54.1 from 53.3, but that is still the second-weakest reading since March 2022, below its 54.5 long-run average, with new business growing at the second-slowest pace in over four years. The composite index was unchanged at 54.3 — a faster services expansion was needed simply to offset the manufacturing slowdown.

Private sector growth did not deteriorate in August. It stopped improving, at a level that is historically soft. A Reuters poll of economists now puts FY27 growth at 6.7%, matching the RBI, with elevated oil prices and a weak rupee cited as the drag.

Oil remains the swing variable

Retail inflation reached 4.45% in July, a 19-month high, with food at 5.52%. Brent held near \$90 through August, and the US struck Iran on 28 August with Strait of Hormuz transits still constrained. The RBI's path has CPI peaking at 5.9% in the third quarter — a projection that assumes crude behaves. The rupee has already absorbed some of that pressure, and the RBI's special FCNR(B) swap window closed on 31 August, removing one source of support.

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We would weigh the PMI readings over the GDP print for a sense of where the economy is heading — not because the GDP number is unreliable, but because it describes April-June, while the PMIs describe August. A third straight fall in manufacturing to a five-year low, with factory employment now contracting, is the more current & more concerning data point, even though it is sitting next to a headline growth beat. The RBI's own forecasts — growth nudged up, inflation trimmed — were set before that manufacturing weakness fully showed up in the survey data and before the Fed's hawkish turn narrowed the room to cut. The neutral stance is doing more work than a fourth consecutive hold suggests: it rests on Q3 inflation peaking on schedule and oil cooperating, and August's crude and currency moves make that a slightly harder call than it was in July. We would watch the October MPC less for the rate decision, which looks like another hold, and more for any shift in language around that inflation-peak assumption.

GOLD, COMMODITIES AND CURRENCY

A rate story overrode a safe-haven story

Gold gained about 10% in August, a sharp acceleration from July's 0.85% gain. Silver added over 15% after declining around 1.6% the month before, reversing its losing run. The average gold-silver ratio fell from 69.21 in July to 67.66 in August, recovering from January's low of 42.70 but still below both its three-year and five-year (80.93) averages.

Central banks continue to reprice gold within their reserve mix rather than trade it. India's gold reserves rose further in August to \$114 billion, a record 15.6% of total foreign exchange reserves — against roughly 80% for the United States, 40% for Germany and 75% for France.

Base metals were firmer and steadier. COMEX copper set a fresh record high during August, extending a rally that has run for most of the year, though LME three-month forwards stayed below their January peak. Brent eased through the month to end near \$89, still elevated by the standards of the past two years, with the US strikes on Iran on 28 August adding volatility without shifting the range.

The rupee weakened for a second consecutive month, moving from roughly 94.70 at end-July to around 95.12 by month-end after touching 95.77 intra-month. That it fell while the dollar index also fell is the point worth noting: for the second month running, India-specific pressures — crude, the trade deficit and a compressing yield advantage — outweighed the benefit of a softer global dollar.

CLAY'S READ

Gold and silver's August surge reads as a rates story rather than a fear story — both moved with the deteriorating real-rate outlook and central-bank reserve reallocation, not with any spike in equity volatility, which is why the rally sits alongside risk-on conditions in global equities rather than against them. India's gold-reserve share at a record 15.6% is a slow, structural allocation shift rather than something August specifically added to, and is worth revisiting quarterly rather than reacting to monthly. The rupee is the more actionable signal here: a currency that weakens in a month when the dollar index itself falls is unambiguously a domestic-pressure story, driven by the same crude and trade-deficit dynamics running through the macro section, and it removes an argument — a weak-dollar tailwind — that might otherwise have offset it. With the FCNR(B) swap window now closed, the rupee has one fewer official backstop heading into a month when the Fed decision could widen, rather than narrow, the rate differential working against it.

THE CLAY HOUSE VIEW

Domestic fundamentals outweigh a difficult external month — we stay constructive, selectively

August was the month global & domestic signals diverged most sharply this year, and putting the two together produces a more encouraging picture than the headline index return suggests. Growth beat forecasts, earnings posted their best quarter in ten & valuations softened against both India's own history and its EM peers, even as global rates moved against risk assets and India-specific pressures — oil, the rupee and a stalling manufacturing PMI — drove the decline the index reflects.

We read August's underperformance as a function of what got worse externally rather than a domestic growth or earnings problem, which is the more important distinction for positioning. On that basis, we remain constructive on Indian equities over a medium-term horizon, with the valuation cushion built up in August offering some protection against further external shocks. Within the market, we would lean toward domestically-oriented cyclicals & financials that have already absorbed most of the bad news in their price — Private Bank, Pharma, select PSU names — over segments now priced for continued strength on

every horizon we track, notably small caps after a fifth consecutive monthly gain. FMCG's underperformance across the month, quarter and year is the one sector signal we would treat as a standing caution rather than a rotation to buy into.

The three variables that would change this view are the same three we are watching in September: a hawkish surprise at the FOMC that further narrows the RBI's room to ease, a sustained move in Brent materially above \$90 on further West Asia escalation, and an India CPI print that puts the RBI's assumed Q3 inflation peak in doubt. Absent a shift on two or more of those, we would treat August's divergence as a month to look through rather than a change in trend.

Asset class/segment	Stance	Why	Recommended investment product(s)
Indian equity			
Large cap	Overweight	20.36x vs a 22.22x three-year median; the only cap segment at a meaningful discount to its own history, while EPS reached a record ₹1,182.73	Nifty 50 Index & Nifty Next 50 Index Funds
Flexi cap/multi cap	Neutral	The appropriate default holding; lets the manager arbitrate a cap curve where valuations & returns are pointing in opposite directions	Buoyant Opportunities AIF, SBI Focused, Whiteoak Flexi Cap, Stallion Core Asset PMS
Mid cap	Neutral	30.36x against a 34.7x two-year average but marginally above its five-year; fair rather than cheap	Invesco Midcap, AAA Gems AIF
Small cap	Neutral	31.38x, above its one, two & five-year averages; 16.7% above the five-year figure of 26.9x. Five consecutive monthly gains, supported by the highest earnings growth across segments	Sage One OE AIF, Bandhan Small Cap, Catalyst New India AIF (PE)
Gold & silver			
Gold	Hold – strategic allocation	Up about 10% in August; central-bank accumulation structural, with India's holdings at a record 15.6% of reserves. But gold is trading on Fed odds, and a September hike is live	Gold FOFs
Silver	Underweight vs gold	Up over 15% in August, but the gold-silver ratio at 67.66 remains well below its 80.93 five-year average; silver still carries a relative premium	
International equity			
Developed & emerging	Neutral	MSCI World +2.58% and MSCI EM +3.37% both beat India in August, but a hawkish Fed and a 4.75% US 10-year cut against extrapolating that. Rupee weakness flatters INR-denominated returns	PPFAS S&P 500, PPFAS Nasdaq 100, Edelweiss Greater China, HDFC Developed & HDFC Emerging Market

WHAT WE'RE WATCHING IN SEPTEMBER

The events that will decide whether August's divergence closes or widens

When	Event	Why it matters	Our marker
10 September	US August CPI	The last major input before the FOMC. A soft print takes a hike off the table; a firm one makes it the base case	Hike risk
14 September	India August CPI	Tests the RBI's 5.0% FY27 path and its assumption that inflation peaks in Q3 at 5.9%	Inflationary pressure
15–16 September	US FOMC	The first meeting of 2026 at which a hike is live. Odds moved to roughly 60% after Jackson Hole	Commentary / Meeting Output
Mid-September	India August IIP and trade data	Whether the survey weakness is showing up in actual output, or is sentiment running ahead of the numbers	Trend in PMI & Trade data
Through Sep	Brent and the Strait of Hormuz	The dominant transmission channel into CPI, the rupee and the current account	Elevated risk on Crude
Through Sep	FPI equity flows	Whether August's turn extends into a third month of buying	Continuity of flows
5–7 October	RBI Monetary Policy Committee	Whether the neutral stance survives a fifth consecutive hold	Hold likely

DATA SOURCES AND METHODOLOGY

Every figure in this issue is drawn from the sources below. Data is as at 31 August 2026 unless stated otherwise.

Section	Primary sources
Global rates and policy	US Federal Reserve (FOMC statements and Jackson Hole remarks), US Treasury
Global equity markets	Exchange data, MSCI, index providers, investing.com, Trendlyne
Indian equity, valuations	NSE, BSE, Nifty Indices, exchange data
Flows	NSDL FPI monitor (monthly FPI totals); NSE and BSE cash-segment provisional data (FII and DII comparison)
Macroeconomics	RBI (policy statements and bulletins), MoSPI (GDP, CPI, IIP), HSBC / S&P Global India PMI
Commodities and currency	MCX, World Gold Council, RBI Weekly Statistical Supplement, exchange data

Methodology notes

- Foreign flows are reported on two bases. Headline FPI figures in the text are NSDL final data, which capture every route foreign capital takes into Indian equities, including primary issuance and off-market transactions. The FII-versus-DII comparison uses exchange cash-segment provisional data, because DII flows are reported on that basis only. The two series will differ and are not additive.
- GDP figures follow the new 2022-23 base-year series introduced by MoSPI in February 2026. Comparisons with data published under the earlier 2011-12 series do not hold.
- Nifty 50 EPS is a trailing twelve-month figure. Month-on-month changes reflect the trailing window rolling forward rather than newly reported quarterly results.
- Global equity returns are shown in local currency. MSCI World and MSCI Emerging Markets returns are quoted in US dollars and are not directly comparable with the local-currency figures.

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