

Dear Investors,

India's April macro data undoubtedly reflects a period of elevated global stress - higher energy prices, currency volatility, and geopolitical uncertainty have all added near-term pressure to the system. Yet beneath these headline concerns, the broader picture continues to point toward **an economy that is becoming structurally stronger, more self-reliant, and increasingly driven by domestic resilience** rather than external liquidity cycles.

### India's April WPI: A Transient Shock, Not a Structural Breakdown

India's **Wholesale Price Index rose 8.3% YoY in April 2026**, largely led by the sharp spike in global energy prices following the Strait of Hormuz disruption. While the inflation print appears elevated on the surface, the composition of inflation is important: the shock remains concentrated in imported energy rather than broad-based demand overheating.

### Corporate India Showing Remarkable Pricing Discipline

One of the more encouraging developments has been the measured response from Indian corporates. Despite significant upstream energy inflation, manufacturers have absorbed a meaningful part of the cost pressure instead of aggressively passing it through to consumers. Manufactured products inflation at just 4.6% reflects both operational efficiency and improved balance sheet strength across corporate India. While this could **temporarily weigh on margins in Q1FY27**, it also demonstrates a far healthier corporate ecosystem compared to previous commodity shock cycles. Stronger balance sheets, lower leverage, and better working capital discipline provide companies with the flexibility to navigate short-term volatility without compromising long-term competitiveness.

### Currency Weakness: Challenging Near-Term, Constructive Long-Term

The move in USD/INR beyond 95 has amplified imported inflation pressures, especially for crude oil. However, unlike previous periods of macro stress such as 2013 or 2018, India enters this phase with significantly stronger fundamentals - healthier banks, improved fiscal discipline, rising household financialization, and sustained public capex support. More importantly, a weaker Real Effective Exchange Rate (REER) meaningfully improves India's export competitiveness and manufacturing economics. Historically, such periods have **often marked the beginning of stronger medium-term investment and earnings cycles** rather than prolonged economic weakness.

## The Structural Shifts Markets May Be Underestimating

What makes the current environment particularly interesting is that several long-duration structural trends are quietly strengthening beneath the surface volatility. A major evolution underway is India's transition from an economy heavily dependent on global liquidity and outsourcing toward one increasingly **powered by domestic consumption, premiumization, and localized manufacturing**. Across sectors such as premium consumer products, healthcare, organized retail, travel, hospitality, automobiles, and building materials, companies continue to generate healthy operating cash flows with limited dependence on global demand conditions. This broadening of domestic economic strength makes the **overall market structurally more resilient to external shocks than in prior cycles**.

## Valuation Reset Has Improved Risk-Reward

The correction across small- and mid-cap segments over the past 18 months has meaningfully compressed valuations even before any major earnings slowdown emerged. Many fundamentally strong businesses with sustainable 15-20% earnings growth profiles are now trading at substantially more reasonable valuations relative to historical averages. This creates a far more constructive medium-term setup where **earnings durability and valuation comfort are beginning to align** simultaneously.

## Nuclear, Coal Gasification & Energy Localization

India's long-term nuclear expansion plans, combined with increasing investments in coal gasification, synthetic fuels, and methanol ecosystems, reflect a decisive push toward reducing hydrocarbon import dependence. At the same time, the economics of electric vehicles and battery manufacturing become even more compelling in a high crude-price environment. What was previously viewed primarily as a climate initiative is increasingly evolving into a macroeconomic and national security priority. In parallel, India's strategic petroleum reserve expansion gives policymakers greater ability to smooth volatility and manage external shocks more effectively than in prior oil cycles.

## Fund Performance & Portfolio Positioning

Against this backdrop of heightened volatility, the fund continues to demonstrate strong relative resilience. Year-to-date returns of 4.2% significantly outperform the broader market decline (NIFTY: -8.3%), reflecting the strength of our bottom-up stock selection and disciplined portfolio construction. In May as well, the portfolio has continued to hold up relatively well, generating a modest positive return of ~0.6% versus a decline of ~1.5% in the NIFTY. While near-term macro volatility may persist, we believe the underlying structural foundations of the Indian economy remain firmly intact. In many ways, the current environment may ultimately prove to be less a period of fragility and more the early stages of India’s next phase of domestically driven, structurally resilient growth.

	Feb-26	Mar-26	Apr-26	May-26	YTD*
NIFTY	-2.3%	-11.3%	7.5%	-1.5%	-8.3%
RNM CAPITAL TRUST AIF CAT III FUND	11.8%	-11.5%	4.7%	0.6%	4.2%

\*YTD - 04 Feb 2026 to 15 May 2026

