Waiting helps you as an investor, and a lot of people just can't stand to wait.
Charlie Munger

September 3, 2026

Dear Investor,

One of the hardest things to do in investing is nothing.

Not because nothing is happening. Often, because too much is. A new data point emerges. The market moves sharply. An expert changes the forecast. A headline creates urgency. And almost instinctively, we feel the need to respond.

Yet investing is one of those rare disciplines where activity and progress are not always the same thing. Every movement in the market does not require a movement in the portfolio. Every new piece of information does not change the long-term picture. And every period of uncertainty does not demand a new decision. The real skill lies in knowing the difference.

Good investing requires us to continuously absorb information, question assumptions and remain open to change. But it also requires restraint - the ability to distinguish between developments that genuinely alter an investment thesis and those that simply alter the mood of the market.

August offered plenty for investors to absorb. Geopolitical developments continued and markets responded in different ways. We will examine these more closely in the sections that follow but before we do, there is a broader point worth remembering.

A pause is also a decision.

There are times to act decisively. There are times to rebalance, reassess or change course. And there are equally times when the most considered response is to stay with a sound plan and allow it the time to work.

This is not passivity. It is discipline.

For long-term investors, perhaps one of the most valuable questions to ask before making a change is therefore not simply, *"What has happened?"* But rather: **"Has what happened changed why I invested in the first place?"**

If the answer is no, sometimes the wisest action may be no action at all.

Global Outlook:

In January 2025, we published "Get ready for a broader US equity market," arguing that the extraordinary concentration in US mega-cap technology stocks was unlikely to persist indefinitely. While the Magnificent Seven[1] had become the dominant driver of market returns, we believed improving fundamentals across a much broader set of companies, sectors and regions would eventually support a healthier and more diversified bull market.

One year later, in January 2026, we expanded on that framework in "Broadening momentum: From US technology leadership to US small-caps and emerging markets," moving from the broad idea of improving market breadth to identifying where we believed leadership would emerge: US small-caps, equal-weighted equities and emerging markets.

Market developments over the past 18 months have broadly evolved in line with some of the themes discussed in our earlier outlook. Today, however, investors face a different challenge. The broadening bull market remains intact, but after a powerful recovery from the March lows, markets are entering a more demanding phase. Earnings trends continue to provide support, yet liquidity[2] is becoming less accommodative, market leadership is becoming increasingly selective, and volatility is likely to increase.

In our view, the broadening trend across global equity markets continues to remain visible. Earnings continue to provide fundamental support, and global participation remains exceptionally strong. But after a powerful advance, we think the combination of higher valuations in parts of the market, tighter monetary conditions and increasing market dispersion argue for greater discipline.

This is a call to maintain discipline. Stay invested and diversified.

The next phase of the bull market is unlikely to reward concentration in a handful of expensive momentum stocks. Instead, we believe it is likely to favor investors who remain globally diversified, focus on earnings quality and maintain the flexibility to take advantage of the opportunities that may emerge during periods of higher volatility.

Stay invested. Stay diversified. Be ready. For more information on the paper, please click here.

Equity Outlook: [3]

The geopolitical backdrop remains fluid, with the Iran conflict continuing to influence crude oil prices and near-term market sentiment. Although intermittent signs of de-escalation have provided some relief, crude prices have remained volatile, renewing some concerns for India. Any durable resolution to the conflict could lead to a meaningful correction in oil prices and help ease the associated macroeconomic pressures.

- Improving domestic activity has been relatively more supportive for mid- and small-cap companies than for large caps. Banks, diversified financials, capital-market businesses, metals and industrials have reported healthy earnings.
- Foreign investor sentiment has also improved. India had earlier been viewed as a counterweight to the global AI trade, with capital moving towards markets and sectors perceived as direct AI beneficiaries.
- FPI flows turned positive in July after four consecutive months of outflows.
- Valuations have also become more reasonable compared with the elevated levels seen two years back, while India's premium to other emerging markets has moderated. This could provide a relatively better starting point for medium-term returns, particularly if earnings growth continues to normalise.
- Overall, near-term uncertainty around geopolitics, crude oil, inflation and global monetary policy may continue to generate volatility. However, strengthening domestic demand, improving earnings, more reasonable valuations and the possibility of renewed foreign participation may provide support to the medium-term outlook for Indian equities.

In the face of evolving macro risks and persistent volatility, maintaining a disciplined and diversified investment approach remains critical. We see opportunities across market cap segments and diversified equity categories such as flexi cap and multi cap strategies could help investors navigate changing market conditions. Hybrid categories, such as Balanced Advantage, Multi Asset Allocation and Aggressive Hybrid participate in equities while aiming to manage near-term volatility.

Fixed income Outlook:[4]

Domestic conditions remain broadly stable, supported by improved system liquidity, healthy debt inflows and RBI measures to support external balances. However, macro risks have tilted upward, driven by higher crude oil prices, a weaker monsoon, lower reservoir levels and softer Kharif sowing trends, which could exert upward pressure on food inflation in the coming quarters.

- Inflation has already moved higher, and the trade deficit has widened due to elevated energy imports, while the rupee continues to face external pressures despite recent capital inflows.
- We may continue to face geopolitical uncertainties and rising interest rate scenario globally.
- Against this backdrop, the RBI is expected to remain focused on managing liquidity and inflation expectations, with policy commentary likely to be more important than near-term rate action.

We remain constructive on relative high-quality fixed income instruments and expect yield movements to be driven more by global geopolitical developments and their potential impact on inflation, along with evolving domestic and global monetary policy conditions. Accordingly, our investment approach remains disciplined, with portfolios continuing to focus on relatively high-quality instruments while selectively evaluating duration opportunities where the risk-reward appears favourable.

A Shared Milestone

August marks India's **79th Independence Day**, a reminder of how far the nation has come since 1947 and how much further it aspires to go. Independence is not merely a date in history; it is a story of resilience, ambition and collective progress. Over the decades, India has evolved into one of the world's most dynamic economies, powered by entrepreneurship, innovation and the aspirations of over a billion people.
As Franklin Templeton celebrates **30 years in India**, we are proud that our journey has become a small part of this larger national story. For three decades, we have had the privilege of partnering with Indian investors as they built businesses, educated families, planned retirements and created lasting wealth across generations. As India continues its journey towards becoming a developed economy, we remain committed to playing our part in deepening financial participation, promoting investor awareness and helping more Indians achieve their financial aspirations. **Thank you for your continued trust and partnership.**

As always, you can directly write to me at avisatwalekar@franklintempleton.com with any feedback and questions. I value your questions, and feedback and look forward to the opportunity of providing investment solutions. Your continued trust has been the foundation of our journey in India, and I am thankful for your continuous support.



Avinash Satwalekar
President, Franklin Templeton Asset Management (India) Pvt. Ltd.

Source:

1. Magnificent Seven refers to shares of Apple, Microsoft, Amazon, Alphabet, Meta Platforms, Nvidia, and Tesla
2. Global liquidity is proxied by the aggregate monetary policy stance of major central banks, measured as the number of central banks easing versus tightening monetary policy
3. Bloomberg, RBI, NSE, Ministry of Statistics and Program Implementation (MOSPI), Morgan Stanley (Time Period: July 2026)
4. Franklin Templeton, Bloomberg, RBI, MOSPI, Ministry of Finance (Time Period: July 2026)

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