"Contentment makes poor men rich; Discontent makes rich men poor."
Benjamin Franklin

July 2, 2026

Dear Investor,

There are months that quietly pass by. And then there are months like June.

In the span of just a few weeks, the world witnessed one of the largest IPO in history as SpaceX made its public market debut, briefly surpassing the market capitalisations of both Amazon and Microsoft. Technology stocks experienced sharp bouts of volatility. India's benchmark indices corrected after a strong run. Gold and silver, traditionally viewed as safe-haven assets saw steep price corrections, reminding investors that even perceived certainty can be fleeting.

It was a month that reinforced one timeless truth: markets have an extraordinary ability to humble certainty. The temptation during such periods is to view every event in isolation, a falling index, a soaring IPO, a commodity correction, a geopolitical headline. Experienced investors, however, recognise a different pattern. Markets are constantly repricing expectations. They reward innovation, question valuations, reassess risk and, above all, remind us that prices can move much faster than fundamentals.

Indian markets have been in a phase of consolidation after several years of good performance. Corrections are rarely comfortable, but they are often necessary. They temper excesses, improve market breadth and create opportunities for disciplined investors to accumulate quality businesses with a longer investment horizon.

For long-term investors, months like these offer an important lesson. Wealth is rarely created by reacting to every headline. It is created by remaining invested through cycles, maintaining discipline, and allowing compounding to do what timing never can. Longer term success is built by viewing short-term volatility as an opportunity.

Global Market Outlook:

The US economic outlook has been branded with a scarlet letter: a K. Countless media reports warn us that US growth has bifurcated, that affluent households now carry the entire economy on their shoulders, and that any wobble in equity markets might bring the whole edifice down.

The "K-Shaped Thesis" in a nutshell goes as follows: US consumption has split into two arms:

- affluent households spending freely on the back of equity gains, and
- lower-income households are cutting back under the weight of high inflation and stagnant wages.

Aggregate growth, the argument runs, is now structurally dependent on a narrow asset-rich slice of the population, and thus highly vulnerable to any correction in stock prices. According to Global Franklin Templeton Fixed Income CIO Sonal Desai, that narrative is quite misleading. She notes that incomes have been rising broadly across the population and argues that the economy looks more resilient than the headlines suggest.

Click here to read what is "On Her Mind".

India Equity Outlook: [1]

The current macro environment presents a complex backdrop for Indian equities, with the ongoing West Asia crisis emerging as a key overhang across currency, inflation, consumption and corporate profitability.

- While the economy has historically absorbed crude in the USD 80–90/bbl range without significant disruption, a sustained move beyond USD 100–110/bbl might likely transmit through higher inflation, margin compression, and a gradual erosion in household purchasing power.

- Elevated crude prices, alongside higher gold imports and sustained FPI outflows over the past two years, have contributed to emerging stress in the balance of payments.

- Foreign investor sentiment towards Indian equities have been influenced by the earnings slowdown seen through late 2024 and 2025 in the context of elevated valuations. While domestic flows continue to provide stability, foreign flows may remain volatile in the near term.

- Sectorally, the environment points towards some degree of rotation. Export-oriented sectors such as pharma are relatively better positioned to benefit from currency depreciation, while manufacturing segments may face continued margin compression.

Overall, the market is navigating a phase where improving demand dynamics coexist with margin headwinds and external uncertainties. While near-term earnings visibility may remain moderated, the underlying recovery remains intact, suggesting a gradual progression in equity returns.

In the face of elevated macro risks and persistent volatility, asset allocation and diversification remain critical. Diversified equity categories such as flexi cap and multi cap strategies provide exposure across sectors and market capitalizations, allowing portfolio positioning to evolve with changing market conditions. Hybrid strategies, such as Balanced Advantage, Multi Asset Allocation and Aggressive Hybrid Funds, combine equity participation with diversification across asset classes or dynamic allocation frameworks, which may help moderate portfolio volatility during periods of market stress.

India Fixed Income Outlook: [2]

A widening current account deficit, driven by strong oil imports and persistent FII outflows, has led to rupee weakness and increased external vulnerability. From a growth perspective, higher energy prices, adverse weather conditions have started to weigh on demand, while fiscal pressures could increase due to subsidy support.

- In the current environment, we believe the RBI has at the moment leaned towards supporting growth, though the earlier “lower for longer” monetary phase is likely to be short lived. The fear of falling behind the curve, the need to anchor inflation expectations, and the spillover of inflation into wages and retail prices might likely see the RBI spring into action at least once on or before the December 2026 policy meeting.
- The ongoing rally at the longer end of the curve may prove temporary, as the realities of a prolonged war, adverse weather conditions, and persistently higher energy prices linger, prompting markets to demand higher compensation for taking on duration risk.
- In this environment, financial conditions remain on tenterhooks, and we believe the current risk-reward for adding duration is not adequately attractive.
- The short end of the yield curve may continue to be influenced by robust credit demand, market volatility, and evolving liquidity conditions.

Accordingly, our strategies remain disciplined, with portfolios focused on high quality along with selective choice of duration where risks are adequately compensated. Overall, we remain constructive on fixed income, with opportunities suited to investors seeking balanced risk-adjusted returns. In the evolving economic environment, accrual-based short duration strategies and actively managed duration strategies may be well positioned to navigate changing market conditions.

June has reminded us that markets can change direction overnight. But investing has never been about predicting the next month. It has always been about preparing for the next decade.

The headlines may change. Market leaders will evolve. New technologies will emerge, and old assumptions could be challenged. Yet the principles that underpin successful investing remain remarkably constant - discipline, diversification, patience and perspective.

As we enter the second half of the year, those principles continue to guide our investment philosophy and our commitment, with the aim to help you achieve your long-term financial goals.

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. Bloomberg, RBI, NSE, Ministry of Statistics and Program Implementation (MOSPI), Morgan Stanley
2. Franklin Templeton, Bloomberg, RBI, MOSPI, Ministry of Finance.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.