ABL Digital India Cross-Asset Weekly

Trend, Correlation & Macro Report | week ending 2026-10-30

57 instruments across equities, sectors, FX, commodities, rates & REITs | 618 weeks

REGIME: Risk-on

EXECUTIVE SUMMARY

The Markov filter puts an 85.3% posterior on Risk-on, but every component of the risk-appetite composite argues the other way at -0.69, and the composite is the more honest read: Nifty sits below its 40-week average (nifty_trend -1.02), PC1 explains 74% of equity variance (low_concentration -1.03), high-yield credit is tight (-0.78), and sector breadth, despite reading 100% up this week, scores -1.43. Lean defensively within equity rather than out of it. The momentum and fair-value evidence agree on favouring Pharma (+11% 26-week RS, +1.8% this week) and IT (+10% RS, the only sector with positive three-month return at +5%, and cheap -4.3% to its rupee/US-tech fit) over the broad-beta laggards: FMCG (-16% RS), PSE (-15%), Energy (-14%) and Metal (-9%). Fade Banks, which screen RICH +4.0% on the tightest model in the book (R^2 0.94) with US 10Y at 5.0% and Bank~US 10Y correlation -0.38.

Three things matter this week. Crude at MCX 9,780 is -0.2% on the week but +38% over three months, and that is the single largest input to the -2.15 low_oil drag inside an external-conditions score of -1.18; for a net importer it is the live threat to the 3.5% CPI print and the RBI's 5.25% neutral stance. US 10Y at 5.0% with Nifty~US 10Y tightening to -0.57 on 13 weeks means duration-sensitive and rate-levered exposure is where the damage lands. India VIX 17.2, 84th percentile, with a +4.0 volatility risk premium, means protection is expensive but the distribution is genuinely wider.

The biggest risk is that crude's 38% three-month move passes into the rupee. USDINR 95.2 has barely moved (-0% 3m) and screens only -0.8% cheap on a well-fit model (R^2 0.73), so the channel is not yet transmitting. A break above 96 on USDINR, or India VIX above 20, would confirm the defensive tilt and argue for cutting cyclicals; Nifty reclaiming its 40-week average with breadth holding above the 10-week MA would vindicate the Markov read and justify adding back beta. Weekly skill here is modest; treat these as conditions, not predictions.

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Executive Dashboard

India cross-asset state and the week's key readings.

REGIME	NIFTY 1W	SECTOR BREADTH	INDIA VIX
Risk-on	+0.7%	100% up	17.2

KEY CROSS-ASSET READINGS (level | 1w | 1m | 3m)

Nifty 50	22,753.2	+0.7%	+1.5%	-6.7%
Bank	54,366.7	+0.1%	-0.2%	-5.1%
IT	32,273.1	+0.9%	+14.0%	+5.1%
USDINR	95.2	+0.2%	-1.2%	-0.2%
DXY	102.0	+0.2%	+0.1%	+2.2%
US 10Y	5.0	-0.0	-0.3	+0.2
India VIX	17.2	+0.3	+2.7	+5.4
Gold	142,834.0	+0.6%	-4.2%	-0.1%
Crude	9,780.0	-0.2%	+14.4%	+37.6%
Copper	1,386.0	+0.6%	-2.4%	+0.9%
Embassy REIT	421.9	+0.0%	-1.6%	-3.7%

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INDIA CROSS-ASSET SCORECARD

Domestic risk appetite and the external (global) backdrop that drives India

DOMESTIC RISK APPETITE

Risk-off

score -0.69





EXTERNAL CONDITIONS (global backdrop)

Headwind backdrop

score -1.18





Each component is a 10-year z-score, sign-aligned so higher = risk-on / more supportive; the headline is their average. External conditions read the dollar, US rates, oil, global credit and EM risk — India's key channels.

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WHAT CHANGED THIS WEEK

Week-over-week moves and how the market-state readings shifted · 2026-10-30

TOP GAINERS

Zinc	+2.4%
Metal	+2.2%
Pharma	+1.8%
Energy	+1.5%
Infra	+1.3%
Midcap 50	+1.2%
Smallcap 250	+1.1%
PSE	+1.1%

TOP DECLINERS

Brent	-4.6%
NatGas	-2.1%
Crude	-0.2%
EURUSD	-0.2%
EM Equity	-0.1%
Brookfield REIT	+0.0%
Fed Balance Sheet	+0.0%
Nexus REIT	+0.0%

KEY LEVELS — week-over-week

Nifty 50	22,753.2	+0.7%	US 10Y	5.0	-0.0
Bank	54,366.7	+0.1%	US HY OAS	3.4	+0.0
IT	32,273.1	+0.9%	Gold	142,834.0	+0.6%
USDINR	95.2	+0.2%	Crude	9,780.0	-0.2%
India VIX	17.2	+0.3	S&P 500	7,681.8	+0.8%

MARKET-STATE READINGS — now vs prior report

Regime	prior: R-	->	**Risk-on**
Risk appetite	prior: -0.59	->	**-0.69**
External backdrop	prior: -1.09	->	**-1.18**
PC1 share	prior: 40	->	**40%**

The fastest orientation: what actually moved and how the headline state shifted since last week. USDINR/VIX/rate/spread increases are shown as adverse (red).

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India Cross-Asset Analysis

Executive Summary

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Regime, Scorecard & Market State

The headline conflict in this week's briefing is between the statistical regime classifier and the composite that measures what risk appetite actually looks like. The Markov-switching model assigns a 0.853 posterior to Risk-on, with only 0.107 on Risk-off and 0.040 on Neutral; that is a confident classification. The rule-based read inside the same block, however, lists three conditions that do not describe a risk-on tape: Nifty is below its 40-week average, sector breadth is only 7% above its 10-week moving average, and India VIX at 17.2 sits in the 84th percentile of its history. The risk-appetite scorecard resolves the disagreement at -0.69, classified Risk-off, and the component decomposition is worth reading item by item because five of six readings are negative.

Sector breadth scores -1.43, the weakest component, despite 100% of sectors closing up on the week. The reconciliation is that a one-week sweep off a low base is not breadth; the 7% cushion above the 10-week MA is thin, and every sector except IT carries a negative three-month return, with Realty at -12%, MNC -15%, Auto -13% and FMCG -13%. The week's green screen is a rebound inside a downtrend, not a change of trend. Nifty trend contributes -1.02, consistent with price below the 40-week average. Low concentration reads -1.03, which is the scorecard penalising the fact that 74% of equity and sector variance loads onto a single principal component. Credit high-yield is -0.78, so the credit channel is tightening rather than easing. India VIX contributes a modest -0.15, which is the one soft negative. The only positive is risk-over-haven at +0.28, and that is doing modest work: gold at 142,834 is up 0.6% on the week but flat over three months, so the haven side is not bid hard enough to drag the ratio down.

The practical reading is that the Markov model is picking up the absence of an active sell-off rather than the presence of genuine appetite for risk. Nifty's +0.7% week and the lack of a volatility spike are consistent with that. But a regime label built on the absence of stress is a weak foundation when the composite that measures participation, trend, concentration and credit is negative across the board. For an investor, this argues for staying invested with a defensive sector mix and lower beta, rather than either capitulating to cash or adding broad-index exposure on the regime label alone. The macro tiles are supportive and should not be ignored: Manufacturing PMI 54.2, Services PMI 57.3, IIP +5.1%

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YoY, GST collections at Rs 1.95 lakh crore growing 13.9% YoY, and a 6.6% FY27 real GDP projection describe an economy expanding at pace. The market-state problem is a price, positioning and external-conditions problem, not a growth problem — which is precisely why it is more likely to resolve through the rate and currency channel than through earnings.

Global Backdrop & External Conditions

The external-conditions score is -1.18, a headwind backdrop, and the components say clearly where the pressure comes from. Low oil scores -2.15, the single worst reading in the entire briefing. That is not a statement about the current week — crude is -0.2% over five sessions — but about level: MCX crude at 9,780 is 38% higher than three months ago. For an economy that imports the large majority of its crude, a 38% quarterly move in the import bill is the dominant external variable, and it feeds directly into the terms of trade, the current account, the rupee and ultimately the inflation path.

Low US rates scores -1.65, with the US 10Y at 5.0% and effectively unchanged on the week and over three months. A 5% US long rate is a persistent, not a transient, headwind: it raises the global discount rate, compresses the carry advantage of Indian assets, and the relationship data shows the transmission is real and strengthening. Nifty~US 10Y has moved from -0.36 over 52 weeks to -0.57 over 13 weeks, and Bank~US 10Y sits at -0.38 on both windows. US rates are not drifting out of the picture; their grip on Indian equity has tightened.

Weak dollar scores -0.79 with DXY at 102.0, up 0.2% on the week and 2% over three months — a firming dollar, which is the wrong direction for EM capital flows. Tight credit is -0.78, matching the high-yield component inside the domestic risk-appetite scorecard, so the credit signal is corroborated on both sides of the book. EM momentum is -0.52, which says India is not being helped by its peer group. There is no component of the external backdrop currently functioning as a tailwind.

The honest conclusion is that the world is a headwind for India right now, and the composition matters more than the score. Two of the five drags — oil and US rates — are precisely the two that run through the rupee-inflation-policy chain rather than through sentiment. That makes this headwind more consequential than a sentiment-driven one of equivalent magnitude, because it carries a mechanism that can reach domestic policy. The offset is India's buffer: forex reserves ex-gold at USD 636 billion give the RBI genuine capacity to manage currency volatility, and CPI at 3.5% with core at 3.7% leaves real headroom beneath the repo rate at 5.25%. India enters this headwind with reserves and a benign starting inflation print, which is why the appropriate response is a defensive tilt rather than a reduction in India exposure.

Sector Rotation & Momentum

The one-week and 26-week pictures tell different stories, and the 26-week picture is the one to position on. On the week, Metal led at +2.2%, Pharma +1.8%, Energy +1.5% and Infra +1.3%, while Bank (+0.1%), Fin Services (+0.2%), FMCG (+0.3%) and PSU Bank (+0.3%) trailed. That ordering — cyclicals and commodity-linked names leading, financials lagging — looks like a risk-on rotation. It does not survive contact with the three-month column. Metal's +2.2% week sits on top of a -8% quarter; Energy's +1.5% on -10%; Infra's +1.3% on -8%; PSE's +1.1% on -10%. These are oversold bounces in sectors still in drawdown, and the 26-week relative strength confirms it: Metal is a laggard at -9%, PSE -15%, Energy -14%.

The 26-week relative strength leadership is Pharma +11% and IT +10%, then a sharp drop to Realty at -0%, Bank -1% and Auto -4%. The laggards are FMCG -16%, PSE -15%, Energy -14%, MNC -12% and Metal -9%. Two features of this structure matter. First, only two sectors have meaningfully positive relative strength, and both are defensives or quasi-defensives — the leadership is narrow and defensive in character, which corroborates the -1.43 breadth score far better than the 100%-up week does. Second, IT is the only sector with a positive three-month absolute return at +5%, and it is also one of the three lowest PC1 loadings alongside Pharma and FMCG, meaning it offers genuine diversification away from the dominant risk factor.

The IT case deserves a caveat, because its correlation structure has shifted hard. IT~USDINR has moved

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from -0.40 over 52 weeks to -0.75 over 13 weeks. The sign is counterintuitive for an export sector that should benefit from a weaker rupee; what the recent window is capturing is that rupee weakness has been coincident with global risk-off and pressure on US tech, and that channel currently dominates the translation benefit. IT is cheap at -4.3% to fair value, but the model's R^2 is 0.44 — the weakest well-fit model in the book — so that cheapness is a secondary consideration behind the momentum and low-PC1-loading case, not the primary one.

Pharma is the cleaner expression: +11% relative strength, +1.8% on the week, only -3% over three months against a field averaging considerably worse, and a low PC1 loading. Energy warrants specific attention for a reason that runs counter to intuition: Energy~Crude correlation is -0.09 over 52 weeks and -0.07 over 13 weeks. Indian Energy is not a crude beneficiary; the index is weighted toward refiners and marketers for whom a 38% crude move is a margin and under-recovery problem. Do not use Energy as a crude hedge. Its -14% relative strength and -10% quarter are the market pricing exactly that.

Factor Structure & Systemic Risk

The PCA results need careful reading because the briefing presents two different decompositions. Within equity and sectors, PC1 explains 74% of variance — a very high concentration reading, and the direct source of the -1.03 low_concentration drag in the risk-appetite scorecard. The highest loadings are Nifty 100, Nifty 200 and Nifty 500, which is to say the broad-market aggregates, and the lowest are IT, Pharma and FMCG. In practical terms, three-quarters of what moves Indian equity is a single undifferentiated beta factor, and sector selection buys you much less than it would in a normally differentiated market. The three low-loading sectors are where genuine idiosyncratic return still lives — and it is not coincidence that two of them, Pharma and IT, are the only sectors with positive relative strength.

Across the wider 49-instrument cross-asset set, PC1 — Risk, proxied by Nifty — explains 40%, followed by PC2 at 10% and PC3 at 8%, both mapping to global risk via an inverse S&P relationship, and PC4 at 5% mapping inversely to US 10Y rates. The structure is the familiar one-dominant-risk-factor shape, with the second and third factors describing the global risk channel and the fourth the US rate channel. Cumulatively, these four factors account for 63% of cross-asset variance. For portfolio construction, this means that holding more Indian equity lines is primarily an expression of one factor, and that meaningful diversification has to come from the rate and currency dimension rather than from spreading across sectors or market-cap tiers.

The systemic co-movement gauge cuts against the concentration story and is the clearest good news in the briefing. Average pairwise conditional correlation across the ten-asset MV-DCC system is +0.11 now, down from +0.13 a year ago. That is low in absolute terms and marginally falling. Cross-asset diversification is working. The nuance is the persistence parameter at 0.934: shocks to the correlation structure decay slowly, so when this gauge does rise it will stay elevated for an extended period rather than mean-revert within a few weeks. At +0.11 there is a real buffer before that becomes a problem.

The bivariate DCC conditional correlations fill in the detail. Nifty~India VIX is -0.60 with low persistence at 0.2149, so the inverse volatility relationship is strong but its intensity shifts quickly. Nifty~USDINR is -0.34 with persistence 0.3594, confirming that rupee weakness and equity weakness travel together. Nifty~Crude is -0.31 with persistence 0.564 — the highest persistence of the three — which says the crude-equity link is the stickiest of the cross-asset relationships. That matters directly: if crude holds its 38% three-month gain, the drag on Indian equity through this channel is not something that fades in a week or two.

Putting the two readings together: concentration inside equity is high and worsening the risk picture, while diversification across asset classes is still functioning. The implication is that the useful hedges and diversifiers against an India equity book are currently found outside equity — in gold, in rates exposure, in currency — rather than in defensive sector rotation, which buys less protection than it appears to when 74% of variance is one factor.

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Cross-Asset Correlation & Lead-Lag

The Granger network is unusually clean, and it says India is a price-taker this week. Net leaders are Crude, India VIX, US 10Y and Gold; net followers are EM Equity, Bank, USDINR and Nifty 50. Every leader is either a global macro variable or a volatility measure; every follower is an Indian or EM risk asset, including the rupee. This is the signature of a tape driven by external conditions rather than by domestic fundamentals — and it is exactly consistent with the external-conditions score at -1.18 while the macro pulse reads expansionary. The domestic economy is not setting the direction of Indian asset prices right now; crude, US rates and the volatility complex are.

The lead-lag correlations into Nifty quantify how much predictive content each leader carries. India VIX is -0.55 contemporaneous and -0.23 at one week's lag — a powerful same-period relationship that decays substantially but does not vanish. Crude is -0.19 contemporaneous and -0.23 lagged, notable because it is the only input whose lagged correlation exceeds its contemporaneous one. Crude moves tend to show up in Indian equity with a delay, which is mechanically sensible for an import-cost channel that works through margins, the currency and inflation expectations rather than through instant repricing. For an investor, that is the single most actionable asymmetry in the briefing: the 38% three-month crude move may not be fully in the price. DXY is -0.31 contemporaneous and -0.02 lagged, and USDINR -0.34 contemporaneous and -0.00 lagged — both essentially same-week effects with no follow-through, so currency moves are coincident information rather than a forecasting tool. US 10Y shows -0.01 contemporaneous and -0.06 lagged, which looks weak until read alongside the -0.57 13-week level correlation: US rates matter through the level and the trend, not through weekly changes.

The relationship watch shows two correlations that have tightened materially and both increase portfolio risk. Nifty~USDINR has moved from -0.38 to -0.59 over the 13-week window, so rupee depreciation and equity weakness are now substantially more synchronised — which strips out the natural hedge an unhedged foreign investor would ordinarily enjoy, and means a crude-driven rupee move would hit both legs at once. Nifty~US 10Y has tightened from -0.36 to -0.57, as discussed. Nifty~Crude is the one to flag for the opposite reason: -0.39 over 52 weeks but -0.01 over 13 weeks. The contemporaneous crude-equity relationship has essentially switched off recently, even as the DCC conditional correlation reads -0.31 with high persistence and the lagged Granger correlation reads -0.23. The most plausible reconciliation is that the market has been treating the crude rally as supply-driven and transitory and has not yet priced its pass-through. If that assumption proves wrong, the repricing comes through the lagged channel, which is where the correlation structure still shows a live link.

Nifty~Gold is +0.16 on both windows, slightly positive, so gold is not currently functioning as an equity hedge for Indian investors — both are being supported by the same liquidity conditions. Metal~Copper at +0.29/+0.27 is the one durable fundamental linkage, and with copper at 1,386 up only 1% over three months, there is no industrial-metals impulse behind Metal's +2.2% week. That bounce has no fundamental support in the copper tape.

Relative Value & Fair Value

Discipline here means weighting each dislocation by the reliability of the model that produced it, and the briefing makes that straightforward because it reports R^2 alongside every residual. None of the cointegrated spreads breaches the $|z| > 1.5$ stretched threshold, so there is no high-conviction mean-reversion trade on the board this week. The largest absolute z-score is Banks vs Nifty and US rates at +0.94 — a meaningful but not extreme dislocation, and the signal to act on precisely because it comes from the most reliable model in the set.

Banks screen RICH +4.0% with R^2 0.94. That is an exceptionally tight fit, and it means the +4.0% residual is very likely a genuine dislocation rather than model error. The economics are coherent: with US 10Y at 5.0% and Bank~US 10Y at -0.38 across both windows, banks are carrying valuations that the rate environment does not support, while PSU Bank (+0.3% on the week, -3% three months) and Bank (+0.1%, -5%) are among the weakest performers. The convergence path for a rich asset with weak momentum and a tightening adverse rate correlation is down, not sideways. Trim bank exposure.

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Rupee vs dollar, oil and US rates is the second most reliable model at R^2 0.73, and it reads cheap by only -0.8% with z -0.34. This is the most important fair-value reading in the briefing, and its importance lies in how small it is. The model explicitly includes oil as an explanatory variable, and crude is up 38% in three months, yet USDINR at 95.2 is only 0.8% below its modelled level, having moved 0.2% on the week and roughly nothing over three months. The crude shock has not yet transmitted to the currency to the extent the historical relationship implies. Two readings are possible: either the RBI is actively smoothing, which the USD 636 billion reserve position makes entirely feasible, or the market judges the crude move temporary. Either way, the rupee is where the unresolved tension in this briefing sits, and the direction of any resolution is toward depreciation, not appreciation.

Nifty vs global rates, dollar and oil reads cheap -0.3% with z -0.12 and R^2 0.61. Essentially fair value. Indian equity is correctly priced for the external conditions it faces — which argues against the view that the market is ignoring the backdrop, and also means there is no valuation cushion if conditions deteriorate further.

Gold vs US real yield and dollar screens RICH +7.0% with R^2 0.56 and z +0.38. The largest percentage dislocation in the book, but on a moderate fit, so size the conclusion accordingly. Gold at 142,834 is also carrying a -14% current drawdown with a -6.7% five-percent expected shortfall, the worst tail metric in the briefing. A moderately-fit model, a 7% rich reading, flat three-month performance and the worst tail risk in the set do not make a case for adding gold here, notwithstanding its diversification value.

IT vs rupee and US tech reads cheap -4.3%, z -0.42, but on an R^2 of 0.44 — the weakest fit of the well-fit set, meaning over half the variance in IT's relationship to the rupee and US tech is unexplained. Discount this one explicitly. The case for IT rests on its +10% relative strength, its +5% three-month absolute return in a field where every other sector is negative, and its low PC1 loading. The -4.3% cheapness is a supporting data point, not the thesis.

Currency, Rates & the Oil-INR Channel

This is the chain that matters most for India, and this week it is unusually informative because it is visibly not transmitting. Crude at MCX 9,780 is up 38% over three months. For a net importer, that is an import-bill shock and a terms-of-trade deterioration, and the standard sequence is a wider current account deficit, a weaker rupee, imported inflation and eventually a harder monetary stance. The first link has not fired. USDINR sits at 95.2, up 0.2% on the week and roughly unchanged over three months, and the fair-value model that includes oil as an input finds the rupee only 0.8% cheap on an R^2 of 0.73.

The most likely explanation is official smoothing. Forex reserves ex-gold at USD 636 billion give the RBI substantial capacity to absorb a crude-driven current account deterioration without allowing a disorderly rupee move, and a 38% crude rally against a static currency is consistent with intervention. The investment implication is specific: suppressed currency volatility is not the same as absent currency risk. It defers the adjustment and makes it less orderly if it eventually arrives, and it concentrates the risk in a single observable variable. USDINR is the gauge to watch above all others in this briefing.

The inflation and rates links are, for now, comfortable. CPI at 3.5% with core at 3.7% is a benign print, and the repo rate at 5.25% from a July MPC described as neutral leaves meaningful real policy headroom. But the CPI print dates from April 2026 and the repo decision from July, while the crude move is a three-month development — the inflation data has not yet had the opportunity to reflect it. The India 10Y G-sec at 6.76%, explicitly flagged in the briefing as sensitive to crude and US yields, is the forward-looking instrument: it embeds expectations the CPI series cannot yet show. The spread of 151 basis points over the repo rate indicates the bond market pricing some term premium for exactly this risk.

Two correlation facts sharpen the positioning conclusion. Nifty~USDINR has tightened from -0.38 to -0.59 over 13 weeks, so rupee weakness and equity weakness are now substantially synchronised; a foreign

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investor's unhedged India book no longer carries the partial natural offset it did. And IT~USDINR at -0.75 over 13 weeks means the sector that should structurally benefit from a weaker rupee has recently traded the opposite way, because rupee weakness has been coincident with global risk-off. If a crude-driven depreciation arrives in a risk-off context, IT's translation benefit may be swamped by the risk-off beta; if it arrives in a calmer tape, the translation benefit should assert itself. That conditionality is worth holding explicitly rather than assuming IT is a clean rupee hedge.

The dollar side adds modest pressure. DXY at 102.0, up 2% over three months, with Nifty~DXY at -0.38 over 52 weeks, is a headwind to flows rather than a crisis. US 10Y at 5.0% is the more consequential external rate variable, both through the -0.57 13-week equity correlation and through its direct effect on the G-sec curve and the carry case for Indian duration.

Volatility, Tail Risk & What to Watch

India VIX at 17.2 is in the 84th percentile by the regime block's reckoning and the 77th by the volatility block's five-year measure, up 0.3 points on the week and 5 points over three months. The absolute level is not a panic level, but the percentile ranking says the market is pricing materially more uncertainty than it usually does, and the three-month trajectory is the relevant part: a 5-point rise in implied volatility alongside a flat index is the options market absorbing the crude and rates news that the cash market has not yet reflected.

The volatility risk premium is +4.0 and positive, meaning implied exceeds realised. For an investor, that cuts two ways. Buying protection here is expensive — you are paying a 4-point premium over what has actually been delivered — and systematically selling volatility has historically been compensated in this configuration. But the premium is positive for a reason: the crude pass-through to the rupee is unresolved, and the lagged crude-into-Nifty correlation of -0.23 says the mechanism for a repricing is live. Selling volatility into an unresolved import-cost shock is selling the exact risk that is most likely to crystallise. The India-minus-US VIX spread at -2.3 is the more interesting detail: Indian implied volatility is priced below US implied volatility. For a market facing a 38% crude move, a 5% US 10Y, a -1.18 external-conditions score and a -0.69 risk-appetite composite, India screens cheap relative to the US on volatility. That is a relative-value observation worth noting, and it argues that if protection is to be bought, Indian protection is the better-priced leg.

The tail metrics are moderate on the equity side and poor on gold. Nifty's five-percent expected shortfall is -4.0% against a current drawdown of -14%. A 4% expected weekly loss in the worst five percent of outcomes is a contained tail for an index already 14% off its high; the market is not pricing a crash, it is pricing a grind. Gold's ES5 of -6.7% with the same -14% drawdown is the worse tail, and combined with the +7.0% rich fair-value reading it reinforces the conclusion against adding gold exposure here.

The overall posture this briefing supports: stay invested in India, tilt defensively, favour the low-PC1 sectors with genuine relative strength, fund it from the rich and rate-exposed, and treat the rupee as the variable that decides whether this is a pause or a turn. Weekly predictive skill is modest and the signals in this briefing conflict in places — the Markov regime against the composite, the 13-week Nifty~Crude correlation against the DCC and lagged readings — so these are conditions to monitor, not outcomes to count on.

What would confirm the defensive view and argue for cutting cyclical and bank exposure further: USDINR breaking above 96, which would signal the crude pass-through has begun and the RBI has stopped absorbing it; India VIX above 20, taking it decisively past its 84th-percentile reading; the India 10Y G-sec moving above 7.00% from 6.76%, which would say the bond market is pricing the inflation consequence of crude; the next CPI print coming in above 4.0% against the current 3.5%; the MV-DCC average pairwise conditional correlation rising from +0.11 toward +0.20, which given the 0.934 persistence would mean diversification failing for an extended stretch rather than briefly; and Nifty failing to reclaim its 40-week average while sector breadth drops back below its 10-week MA.

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India Cross-Asset Analysis (cont.)

What would change it toward adding beta and rotating into the laggards: crude retracing below roughly 9,000 on MCX, which would remove the -2.15 oil drag from external conditions and vindicate the market's apparent judgement that the rally was transitory; US 10Y falling back below 4.75%, which would loosen the -0.57 correlation grip on Indian equity and particularly help Banks and Realty; Nifty reclaiming and holding its 40-week average with breadth sustained above the 10-week MA, which would turn the -1.43 breadth and -1.02 trend components positive and genuinely align the composite with the Markov Risk-on reading; PC1's share of equity variance falling from 74% toward the 60s, indicating sector differentiation returning and sector selection beginning to pay again; India VIX back below 15 with the risk premium compressing; and Banks' +4.0% rich residual converging on the R^2 0.94 model, which would remove the clearest valuation objection in the equity book.

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PART I

Global Backdrop & Macro

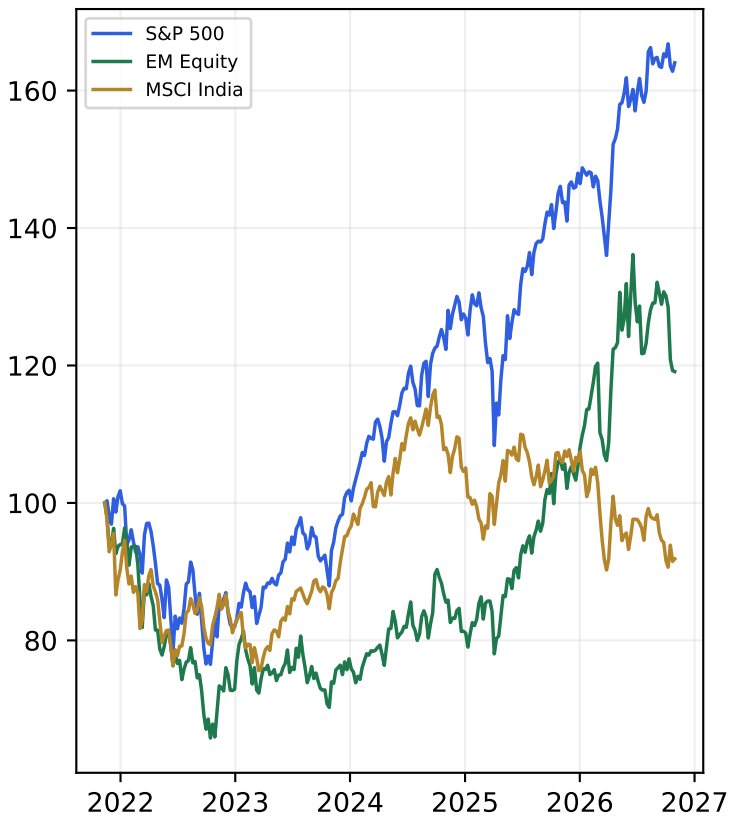
The external forces that drive India — global equity risk, US yields, credit, the dollar and the domestic macro pulse.

- Global equity, US yields & credit spreads, dollar & Fed balance sheet
- India macro prints (repo/CPI/GST/PMI/IIP) and FII/DII flows

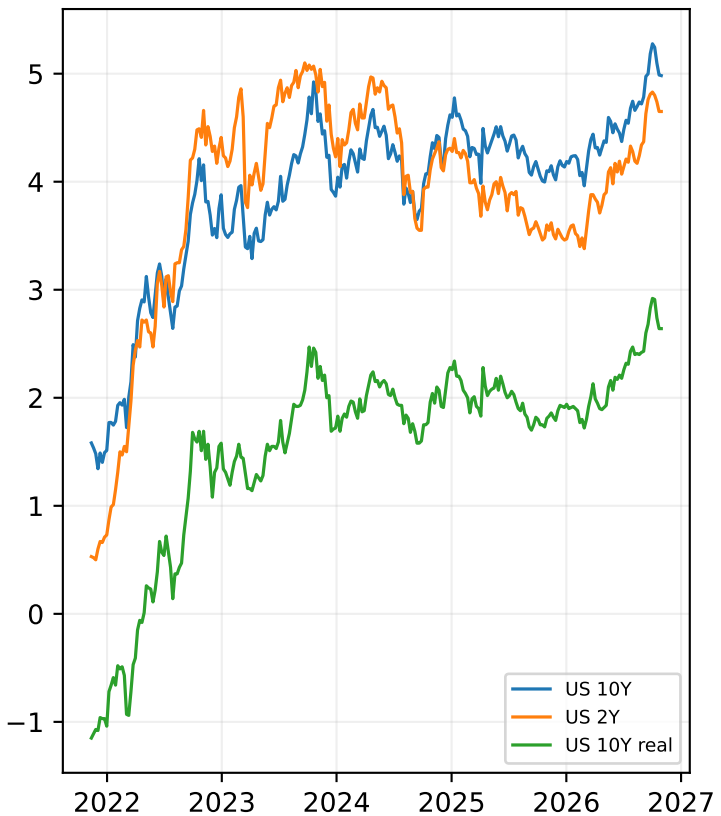
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Global Backdrop & Rates

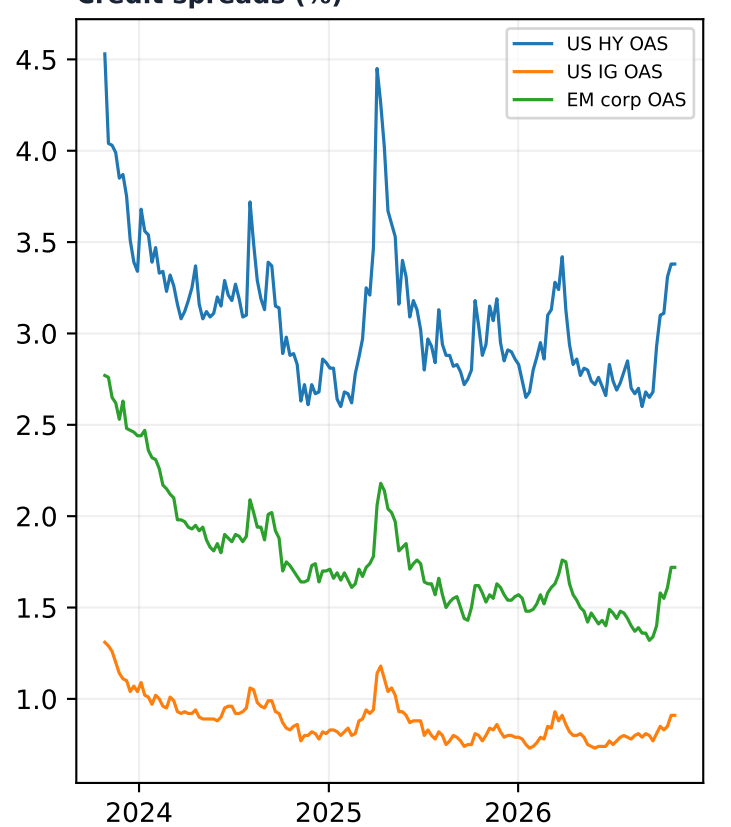
Global equity (indexed=100, 5y)



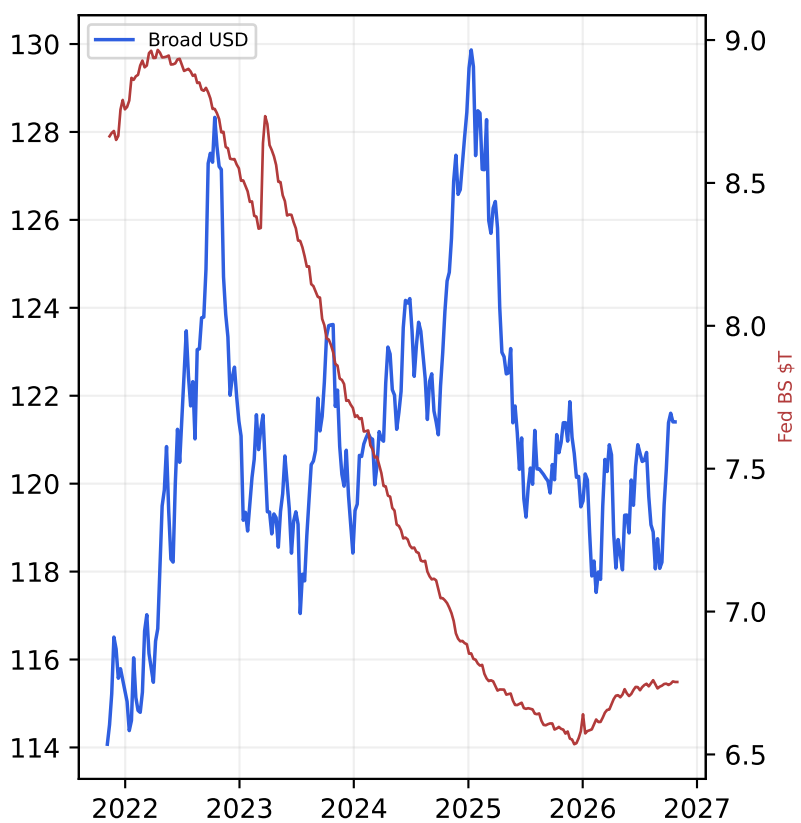
US yields (%) — India's external cost of capital



Credit spreads (%)



US dollar & Fed balance sheet



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Macro Pulse

Latest India macro prints (release-based figures are the official print with its as-of date; markets are weekly).

FII/DII latest cash flows: DII net Rs 2,610 cr, FII net Rs -1,462 cr

INDICATOR	LATEST	AS OF
RBI Repo Rate	**5.25%**	Jul 2026 (MPC, neutral)
India 10Y G-sec yield	**6.76%**	Jul 2026 (RBI/FBIL; +ve on crude/US-yields)
CPI Inflation YoY	**3.5% (core 3.7%)**	Apr 2026
GST Collections	**Rs 1.95 lakh cr (+13.9% YoY)**	Jun 2026
Mfg PMI	**54.2**	Jun 2026
Services PMI	**57.3**	Jun 2026
IIP YoY	**+5.1%**	May 2026
Real GDP growth	**6.6% (FY27 proj.)**	RBI FY2026-27
Forex Reserves (ex-gold)	**USD 636 bn**	2026-08
Real House Prices (idx)	**161.9**	2026-01 (NHB/BIS)
CPI Index (FRED/OECD)	**157.6**	2025-03

Release-based series (repo/CPI/GST/PMI/IIP/GDP) are entered from official releases in config/macro_prints.yaml and refreshed monthly.

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PART II

Cross-Asset Structure

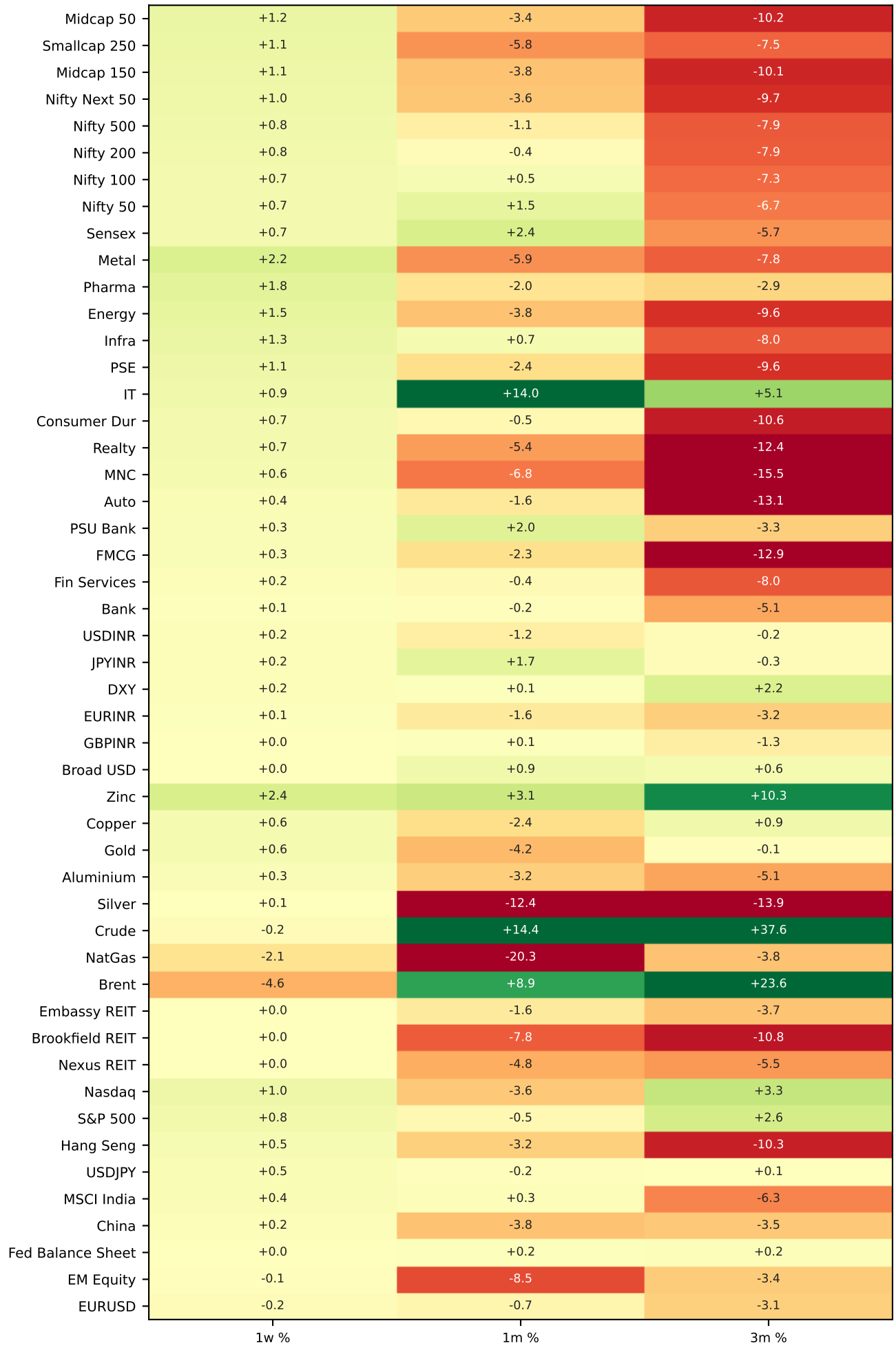
How Indian and global assets move together — factor structure, systemic co-movement, directional lead-lag and relative value.

- PCA factor model & multivariate DCC conditional-correlation
- Correlation heatmap, wavelet coherence, Granger causality & cointegration

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Weekly Returns Heatmap

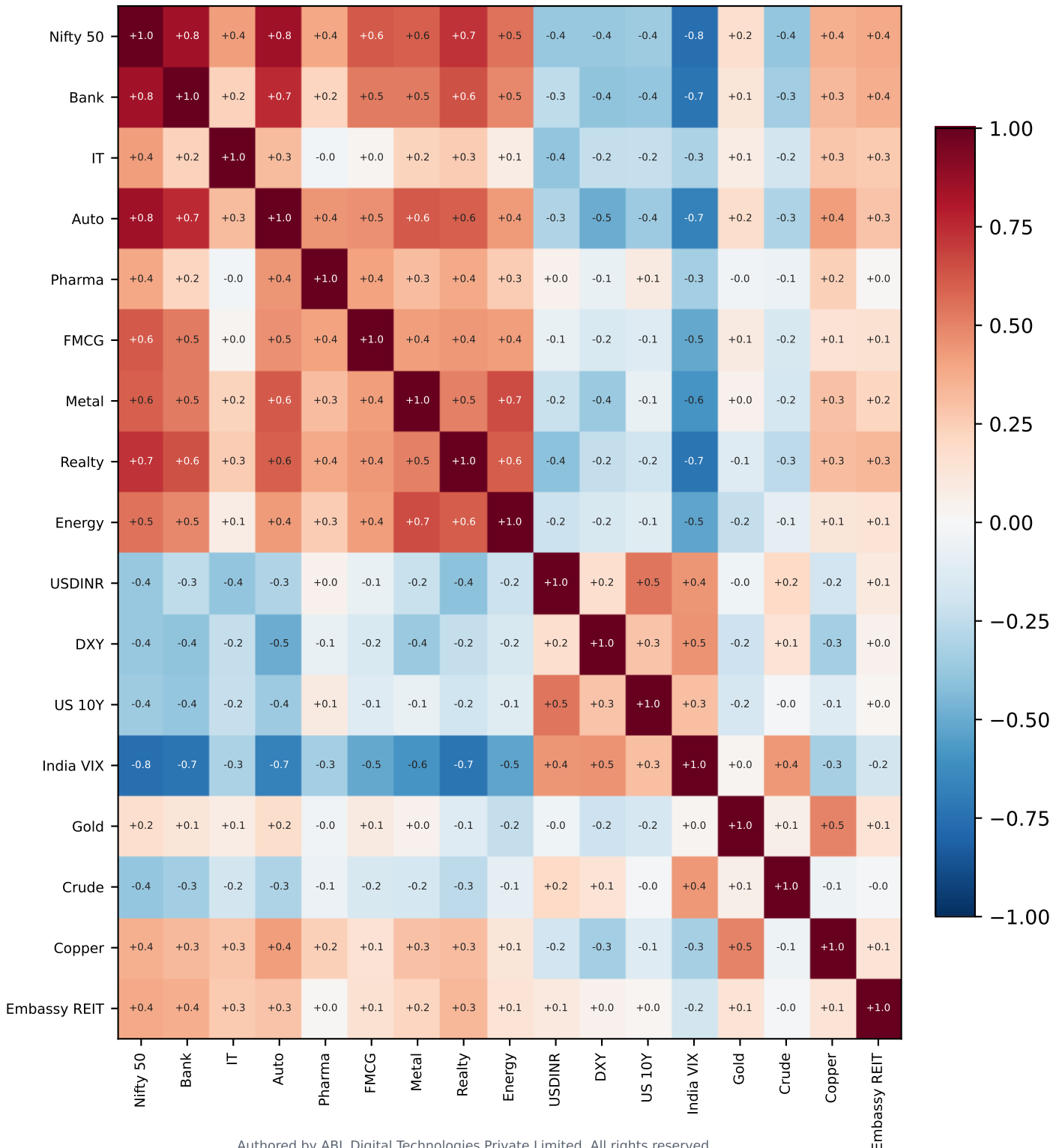
Price return (%) by instrument over 1w / 1m / 3m. Commodities priced in MCX (INR, Kite).



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52-Week Cross-Asset Correlation

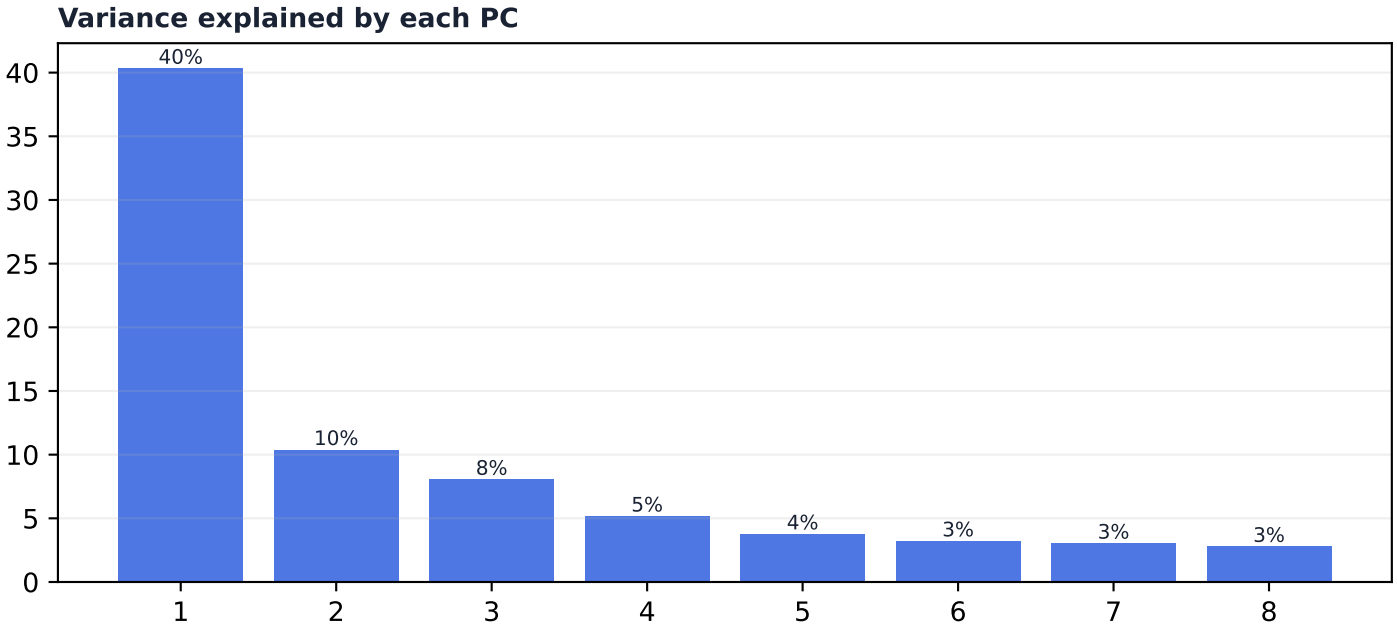
Correlation of weekly changes (log-returns; diffs for VIX & rates).



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CROSS-ASSET FACTOR STRUCTURE (PCA)

Independent forces driving the 49 instruments (156 weeks)



PC1 — Risk (Nifty)

40.3% of variance (cum 40%) · marker corr +0.94

+ Nifty 500 +0.22, Nifty 200 +0.22, Nifty 100 +0.22, Nifty Next 50 +0.21, Nifty 50 +0.21
– India VIX -0.14, US VIX -0.08, USDINR -0.08, US 10Y real -0.08, Brent -0.08

PC2 — Global risk (S&P) (inverse)

10.4% of variance (cum 51%) · marker corr -0.64

+ EM corp OAS +0.35, US HY OAS +0.35, US IG OAS +0.31, US VIX +0.29, JPYINR +0.15
– Nasdaq -0.29, US 2Y -0.29, S&P 500 -0.28, US 10Y -0.26, USDJPY -0.22

PC3 — Global risk (S&P) (inverse)

8.0% of variance (cum 59%) · marker corr -0.27

+ DXY +0.42, USDJPY +0.29, US 2Y +0.15, Realty +0.14, US 10Y real +0.10
– EURUSD -0.40, GBPINR -0.36, EURINR -0.34, JPYINR -0.24, EM Equity -0.22

PC4 — US rates (10Y) (inverse)

5.1% of variance (cum 64%) · marker corr -0.60

+ S&P 500 +0.18, Nasdaq +0.16, EM Equity +0.12, China +0.09, DXY +0.09
– US 10Y real -0.41, US 10Y -0.38, US 2Y -0.32, EURINR -0.31, USDINR -0.31

Principal components are the uncorrelated factors explaining the most joint variance. A high PC1 share means one force (usually broad risk) dominates — diversification is thin.

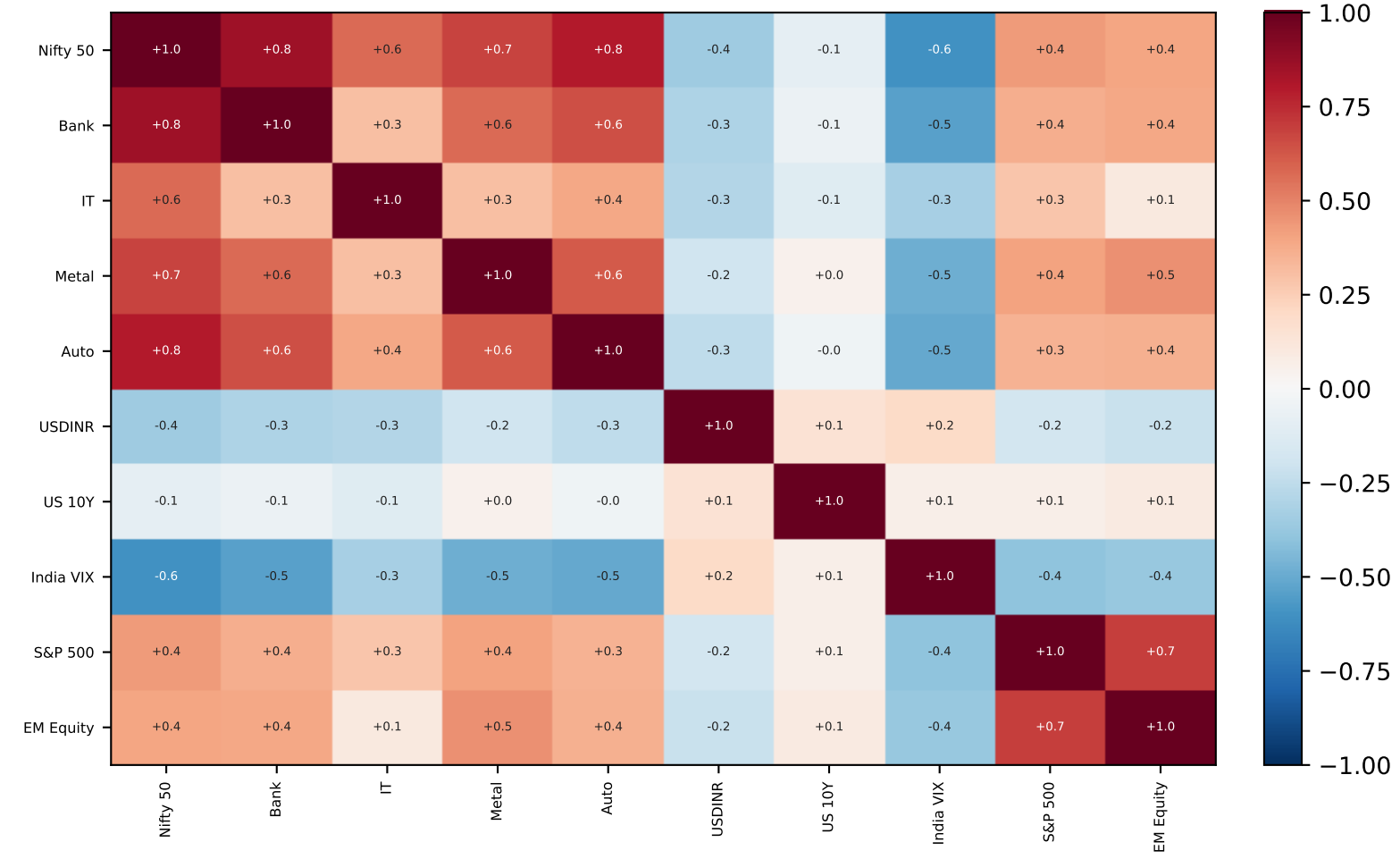
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Average pairwise conditional correlation (multivariate DCC-GARCH)



N=10 · persistence 0.934 · now +0.11 · rising = diversification failing in real time

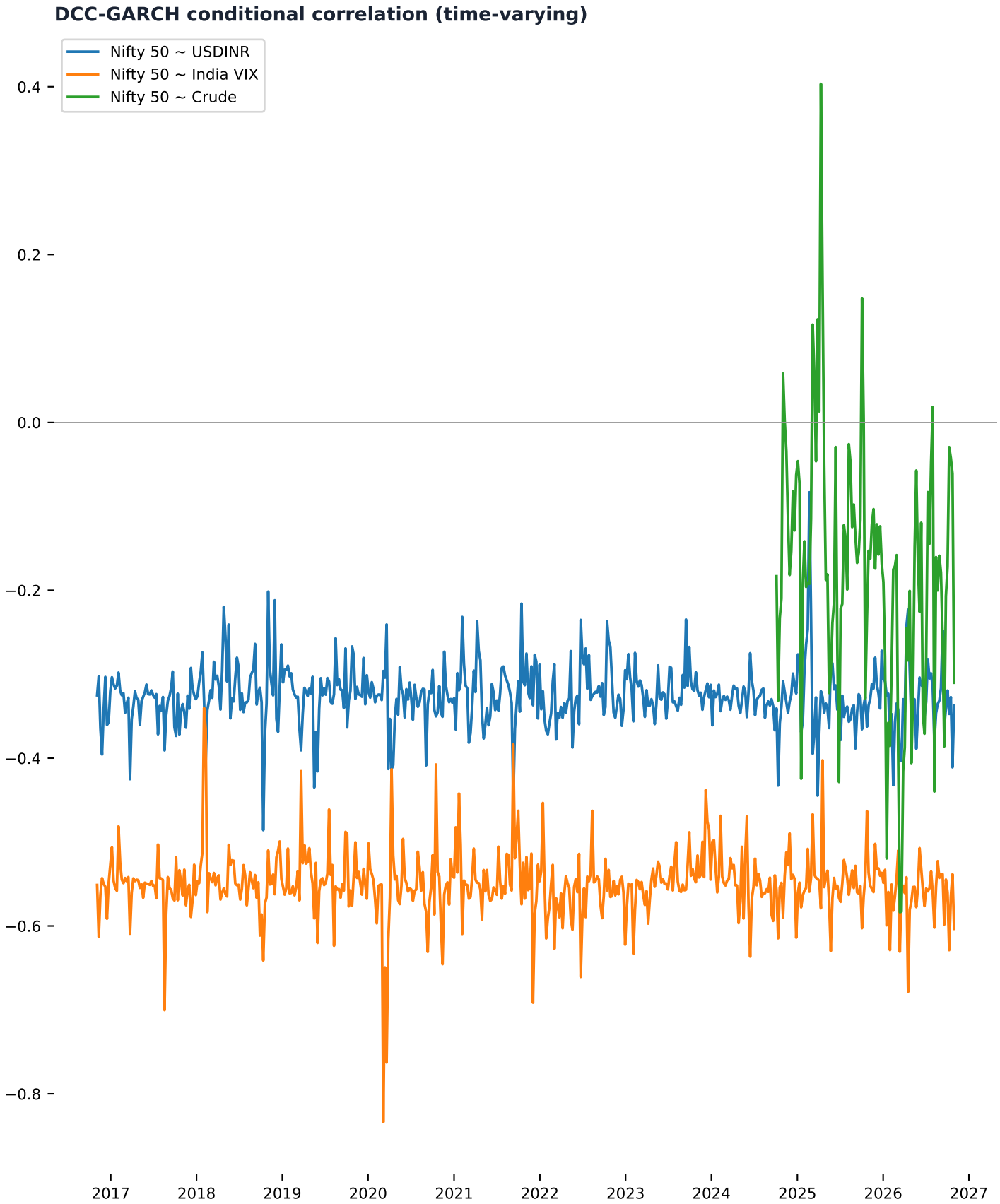
Latest conditional-correlation matrix



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Regime & Conditional Correlations

Markov-switching regime: Risk-on (Markov-switching). Smoothed posterior: Risk-on 0.85, Risk-off 0.11, Neutral 0.04

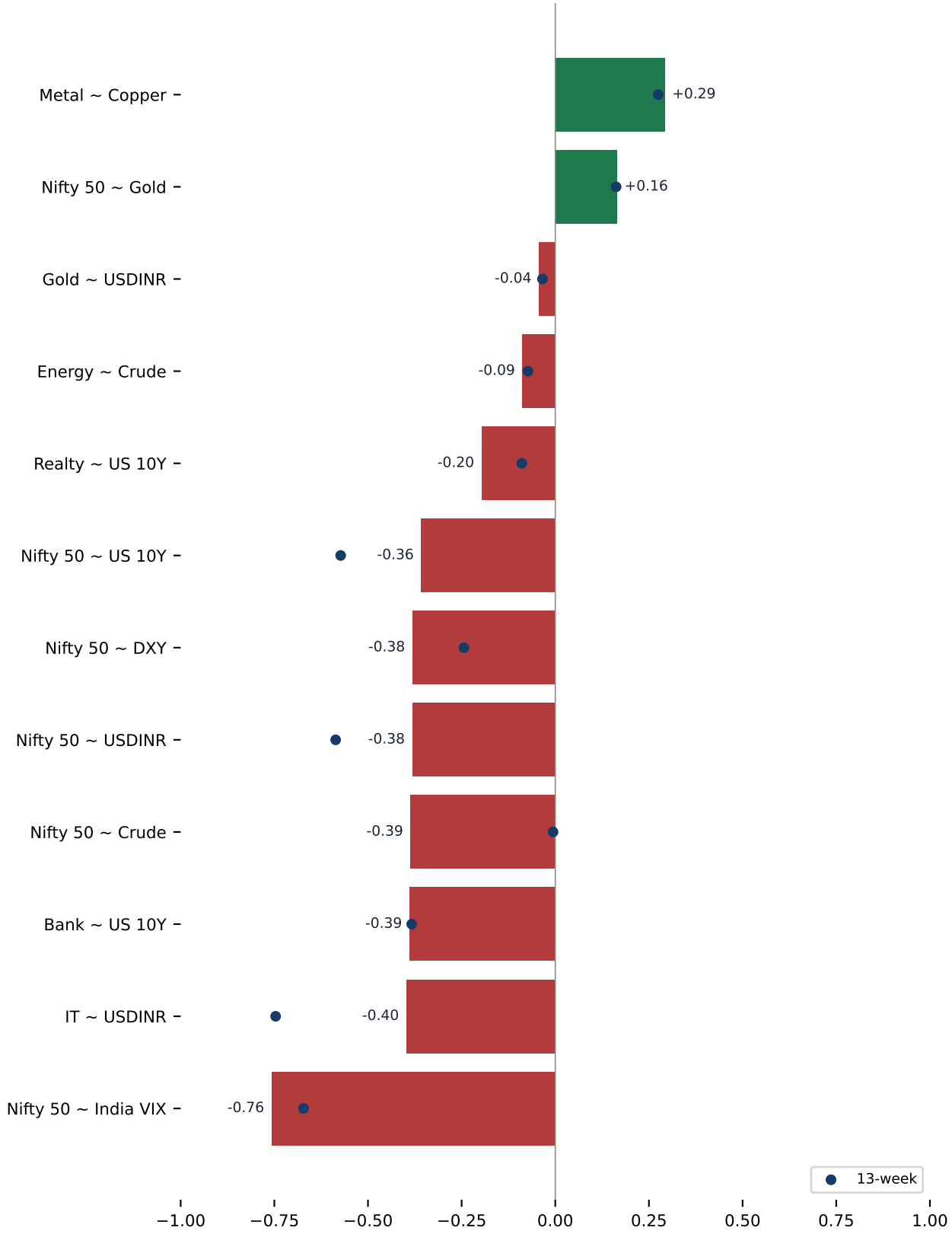


Now: Nifty 50 ~ USDINR -0.34 (persist 0.3594), Nifty 50 ~ India VIX -0.60 (persist 0.2149), Nifty 50 ~ Crude -0.31 (persist 0.564)

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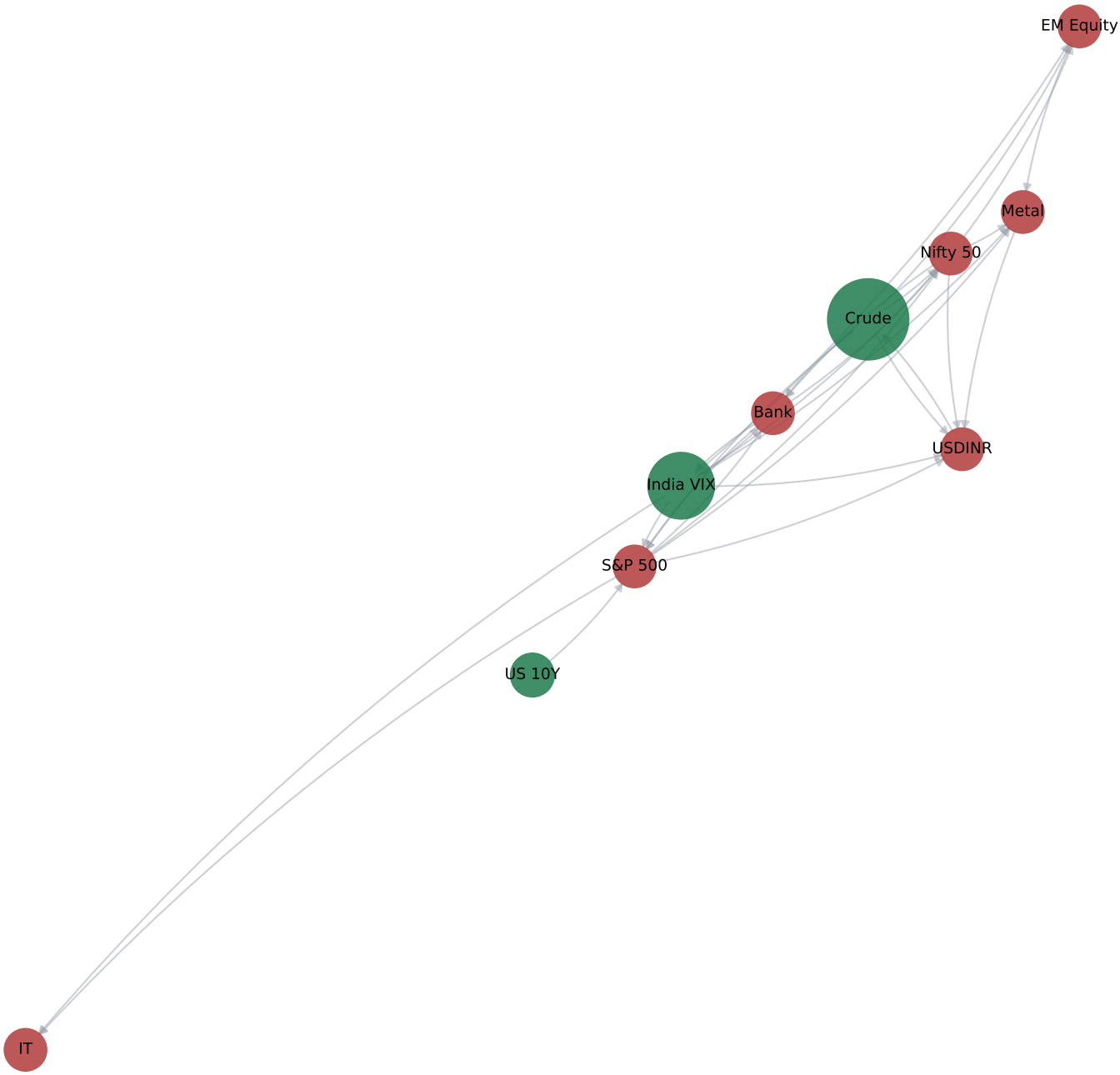
Cross-Asset Relationship Watch-List

India-specific pairs: 52-week correlation of weekly changes (dot = last 13 weeks).



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Directional lead-lag — Granger causality network

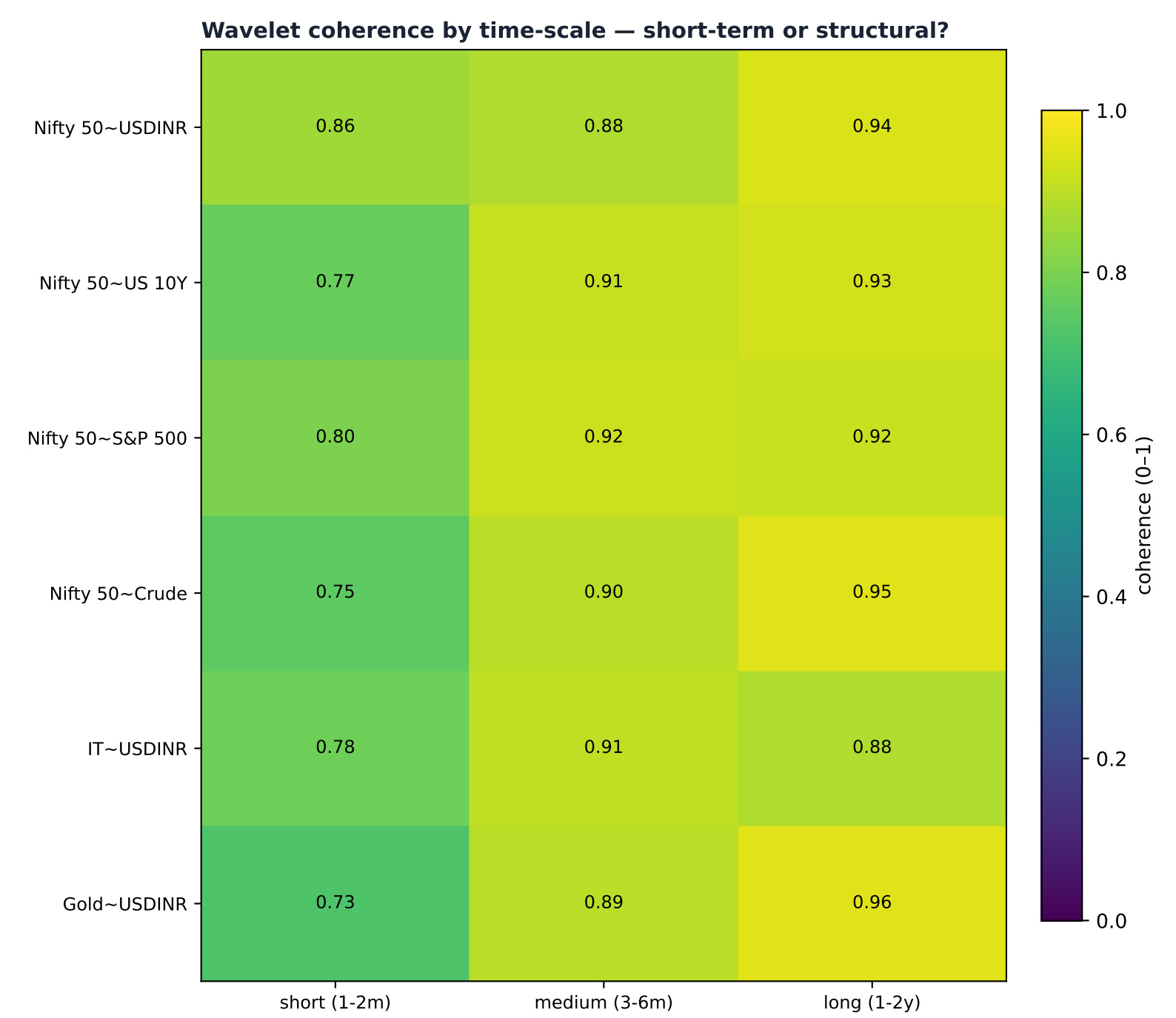


arrow = X Granger-causes Y (p<0.05); green/large = net information EXPORTER (leader)

LEADERS: Crude +0.24, India VIX +0.13, US 10Y +0.01, Gold +0.00, IT -0.01

FOLLOWERS: EM Equity -0.10, Bank -0.08, USDINR -0.07, Nifty 50 -0.05, S&P 500 -0.04

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STATISTICAL RELATIVE VALUE (cointegration)

Mean-reverting India spreads and how stretched each is now

Pair	Coint?	p-val	Hedge	Half-life	Spread z
Nifty vs S&P 500	no	0.963	1.25	55w	+2.71
IT vs USDINR	no	0.924	-0.02	135w	+1.85
Nifty vs Nifty500	no	0.388	1.25	14w	+1.76
Nifty vs EM Equity	no	0.874	0.64	62w	+1.74
Nifty vs Sensex	no	0.670	0.91	26w	-1.50
Gold vs Silver	no	0.373	1.59	9w	-0.96
Bank vs Fin Services	no	0.246	1.02	20w	-0.87
WTI vs Brent	yes	0.000	0.84	1w	+0.48
USDINR vs DXY	no	0.177	-0.08	15w	+0.22

Low p-value = the spread is statistically mean-reverting. Half-life = weeks to close half a dislocation. |z|>2 (red) flags a historically wide gap. Pairs shown NOT cointegrated: the long-run link has broken — the z is informational only.

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PART III

Sectors, Momentum & Fair Value

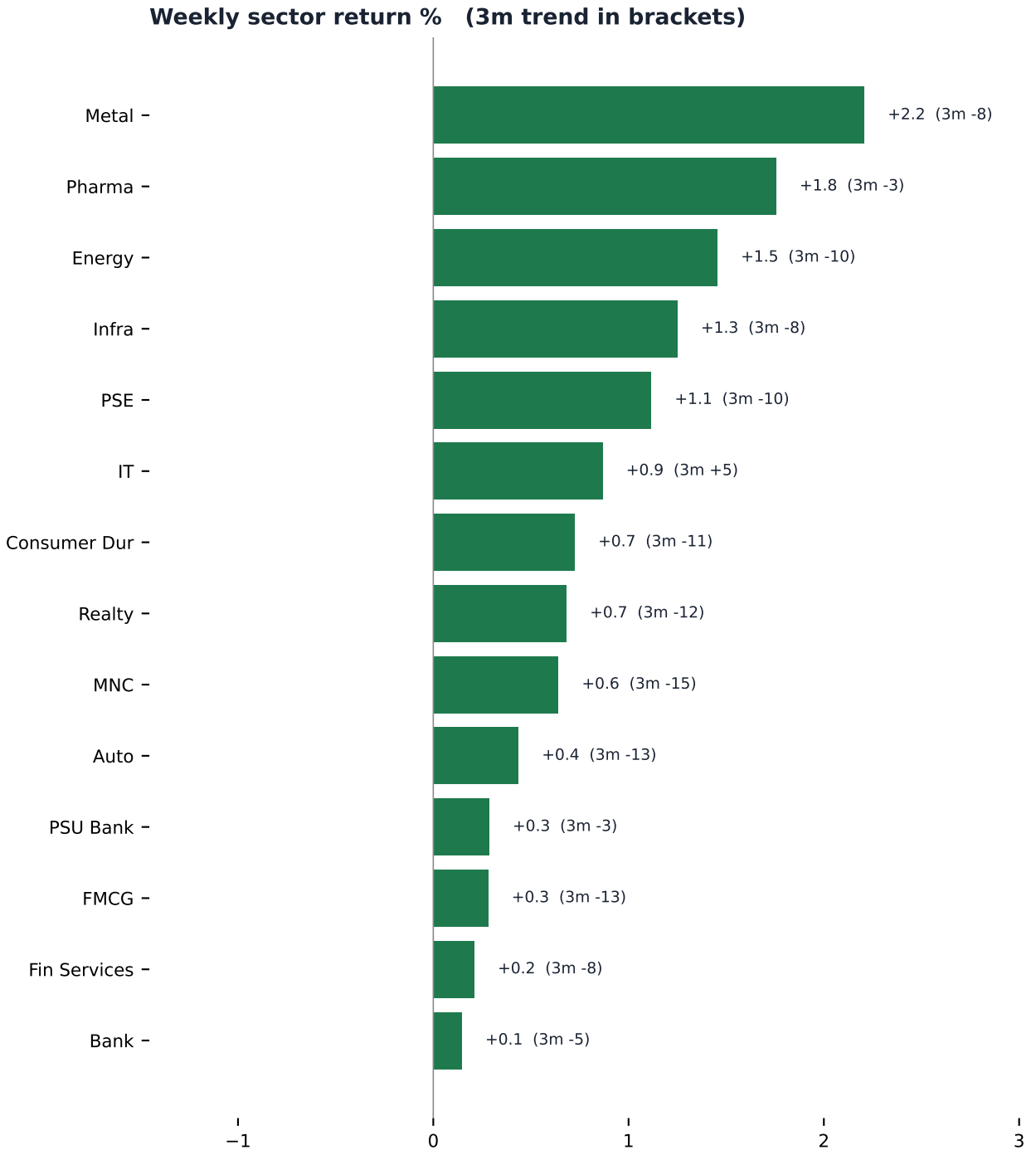
Where the money is rotating and what is rich or cheap versus its drivers.

- Sector rotation, momentum & trend battery, factor-beta attribution
- Fair-value residual models (rich/cheap vs economic drivers)

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Sector Rotation

NSE sectoral indices, weekly return. Breadth: 100% of sectors up this week; 7% above their 10-week average.



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MOMENTUM & TREND

Time-series momentum, trend state and distance below the 52-week high

Instrument	13w	26w	52w	Score	vs40wMA	<52wHi
Nifty 50	-7%	-5%	-12%	**-0.50**	-5%	-14%
Smallcap 250	-8%	-1%	-4%	**-1.00**	-2%	-10%
Bank	-5%	-1%	-6%	**-1.00**	-4%	-11%
IT	+5%	+10%	-10%	**+0.50**	+7%	-17%
Auto	-13%	-4%	-7%	**-1.00**	-6%	-16%
Pharma	-3%	+11%	+16%	**+0.00**	+5%	-5%
FMCG	-13%	-16%	-24%	**-1.00**	-11%	-23%
Metal	-8%	-9%	+11%	**-0.50**	-6%	-13%
Realty	-12%	-0%	-17%	**-1.00**	-3%	-17%
Energy	-10%	-14%	-3%	**-1.00**	-8%	-14%
Gold	-0%	-6%	+19%	**-0.50**	-5%	-14%

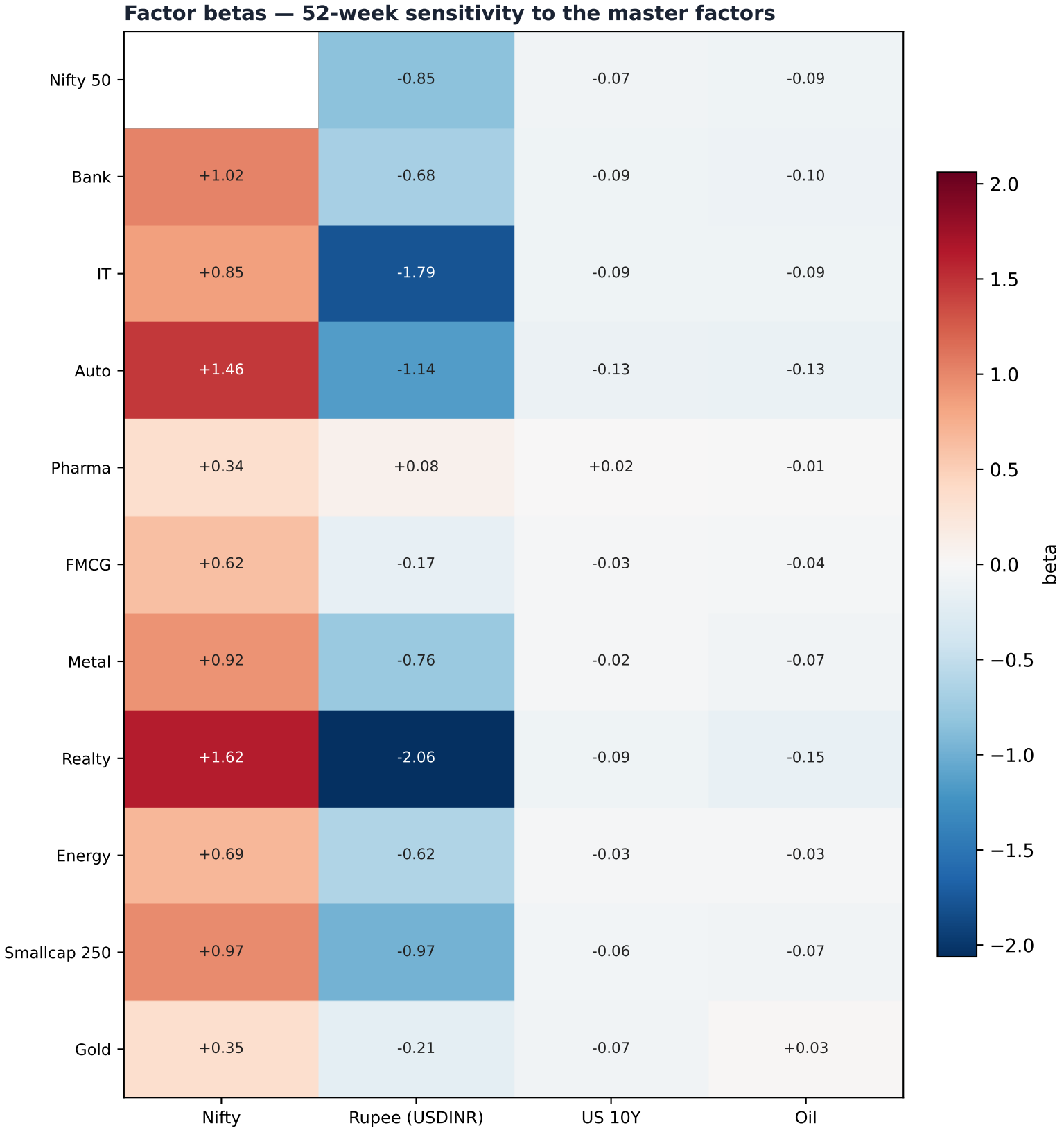
Sector 26-week relative strength:

LEADERS: Pharma +11%, IT +10%, Realty -0%, Bank -1%, Auto -4%, PSU Bank -5%

LAGGARDS: FMCG -16%, PSE -15%, Energy -14%, MNC -12%, Metal -9%, Infra -8%

Score = mean sign of the 4/13/26/52-week returns (+1 = uptrend across all horizons). 'Golden' vs 'death' = 10w vs 40w MA cross.

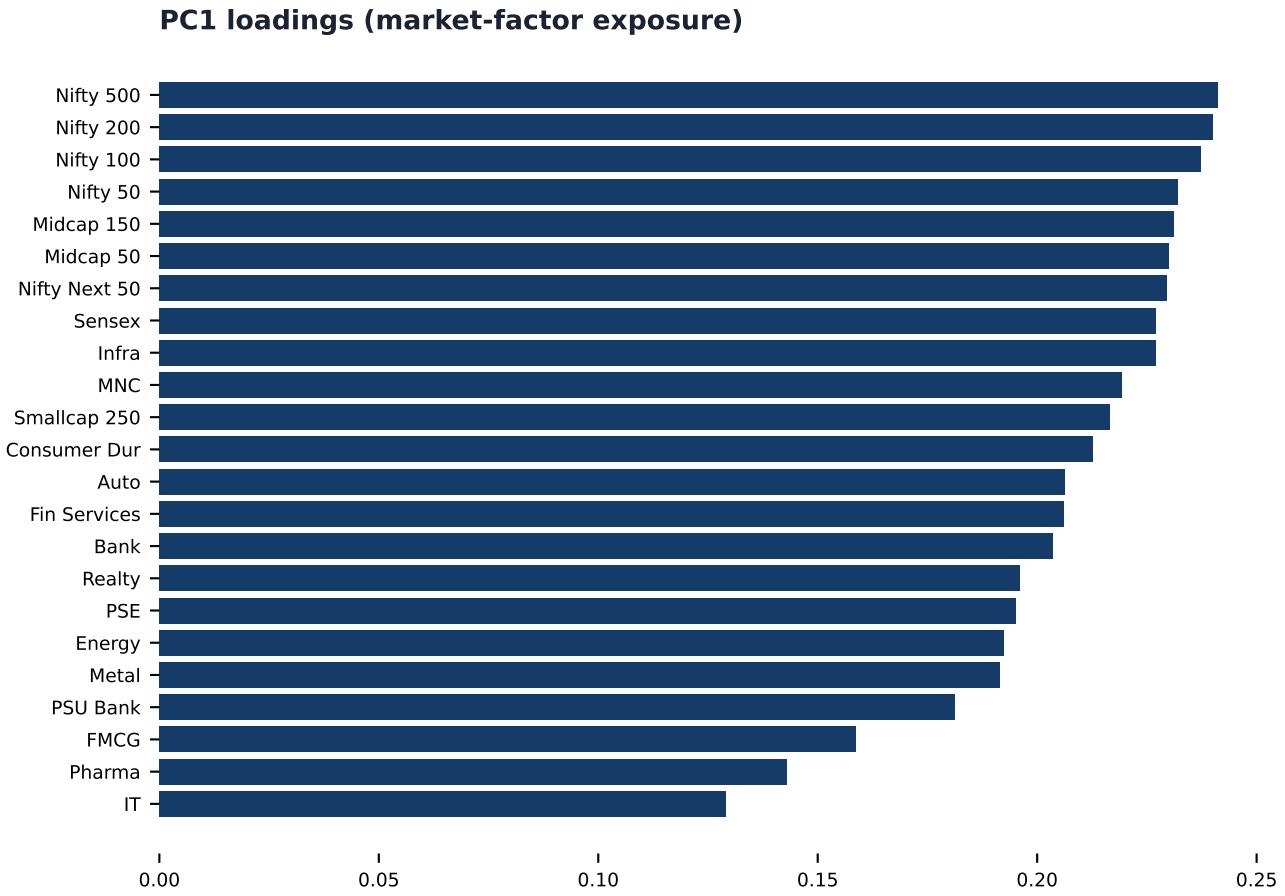
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Risk Concentration & Lead-Lag

PCA on equity + sector weekly moves: PC1 explains 74% of variance (PC2 6%). Higher PC1 = more single-factor.



LEAD-LAG INTO NIFTY 50 (weekly; honest — skill is modest)

Leader	Contemp. corr	1-week-lag corr
Crude	-0.19	-0.23
India VIX	-0.55	-0.23
US 10Y	-0.01	-0.06
DXY	-0.31	-0.02
USDINR	-0.34	-0.00

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FAIR VALUE — RICH / CHEAP vs DRIVERS

Each asset regressed on its economic drivers; the residual is the rich/cheap signal

Banks vs Nifty & US rates

RICH z +0.94

actual 54366.70 · model-fair 52299.46 · gap +4.0% · R² 0.94



IT vs rupee & US tech

cheap z -0.42

actual 32273.05 · model-fair 33707.66 · gap -4.3% · R² 0.44



Gold vs US real yield & dollar

RICH z +0.38

actual 142834.00 · model-fair 133514.42 · gap +7.0% · R² 0.56



Rupee vs dollar, oil & US rates

cheap z -0.34

actual 95.18 · model-fair 95.95 · gap -0.8% · R² 0.73



Nifty vs global rates, dollar & oil

cheap z -0.12

actual 22753.20 · model-fair 22827.37 · gap -0.3% · R² 0.61



Model-fair value is what the drivers justify; the gap is how far actual sits from it. |z|>1.5 flags a stretched dislocation. Trust in proportion to R² — a low-R² model is a weak anchor, stated honestly.

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PART IV

Volatility & Risk

The volatility complex and downside risk.

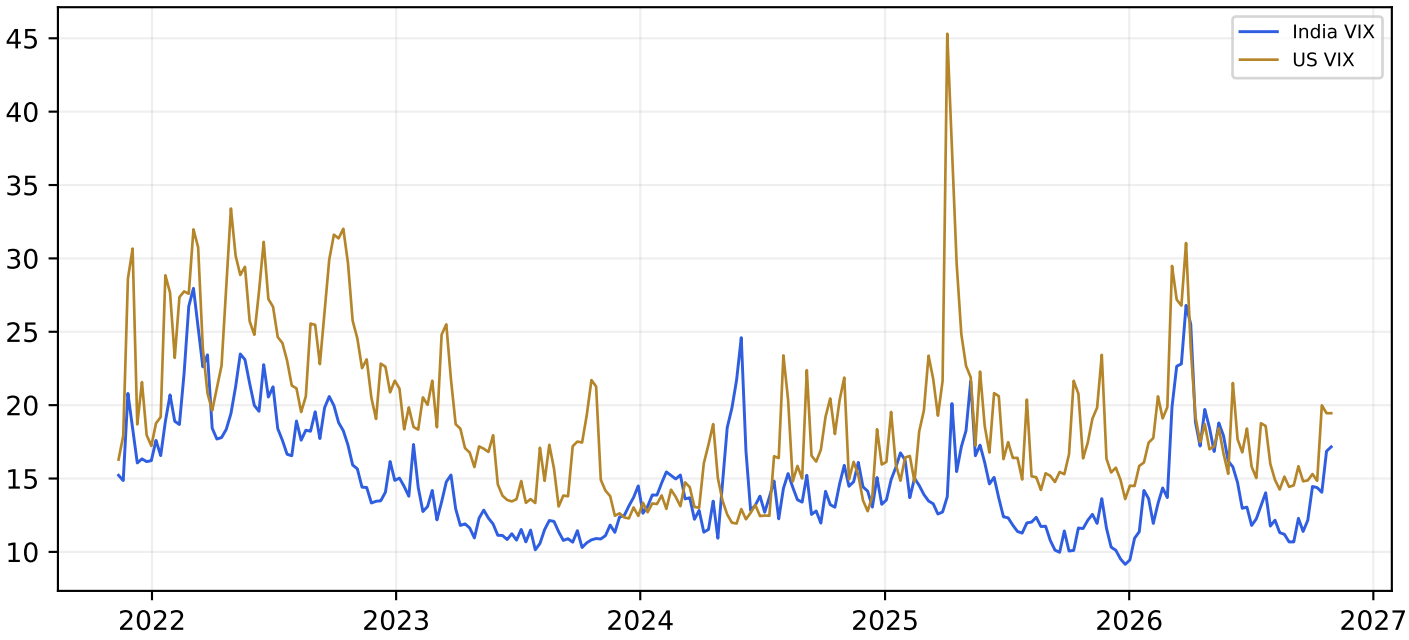
- India VIX in context, the volatility risk premium, India-vs-US fear
- Tail risk: VaR / expected shortfall, drawdowns, tail dependence

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VOLATILITY

India VIX in context, the volatility risk premium, and India-vs-US fear

India VIX vs US VIX (5y)



VOL RISK PREMIUM (India)

+4.0 pts

India VIX 17.2 − realised 13.2

positive (implied > realised, carry cushion)

FEAR CONTEXT

India VIX 77th %ile of 5y

India−US VIX -2.3

India calmer than US (global-led risk)

A positive vol-risk premium (implied > realised) is the usual carry cushion; negative flags realised stress. India VIX above US VIX = a domestic risk premium; below = globally-led risk.

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TAIL RISK

Downside: 5% VaR / expected shortfall, drawdowns and fat-tailedness (5-year weekly)

Instrument	VaR5	ES5	DnVol	MaxDD	CurDD	Skew	Kurt
Nifty 50	-2.9%	-4.0%	9%	-16%	-14%	-0.3	+0.5
Smallcap 250	-4.8%	-6.8%	15%	-25%	-11%	-0.5	+1.4
Bank	-3.9%	-5.0%	11%	-16%	-11%	-0.0	+1.0
IT	-6.0%	-7.7%	17%	-41%	-30%	-0.4	+1.0
Metal	-5.5%	-7.7%	17%	-32%	-13%	-0.4	+1.0
Realty	-6.7%	-8.5%	18%	-41%	-30%	-0.2	+0.3
Gold	-4.5%	-6.7%	16%	-15%	-14%	-0.4	+1.3
Crude	-10.2%	-14.0%	31%	-36%	-3%	-0.2	+0.9
USDINR	-1.0%	-1.4%	3%	-3%	-2%	-0.2	+1.7

Lower-tail dependence WITH the Nifty (P both crash together):

Bank 0.64 IT 0.38 Gold 0.09 USDINR 0.04

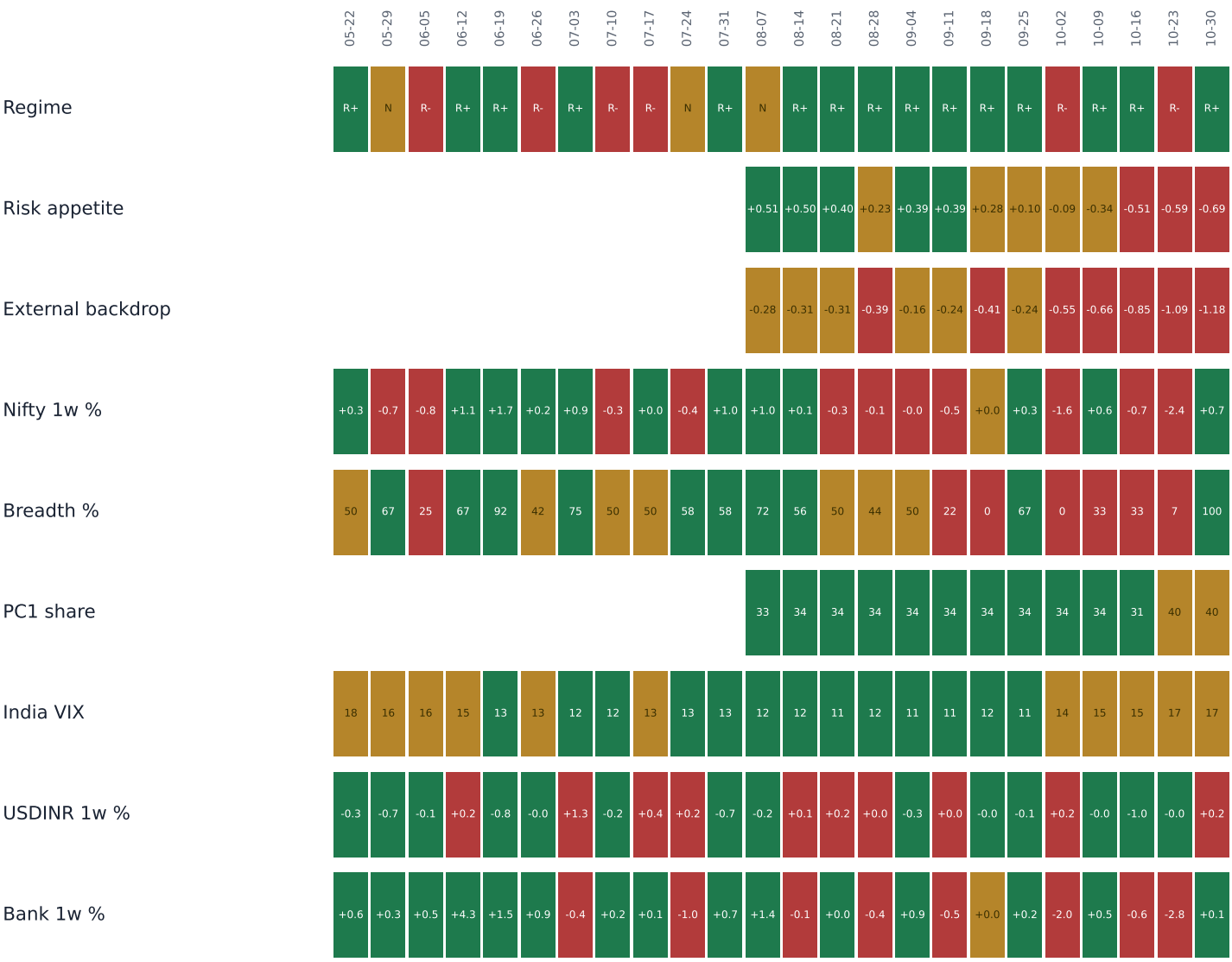
VaR5 = the typical bad-week loss (5% quantile); ES5 = the average loss BEYOND it. Lower-tail dependence near 1 = crashes together; near 0 = a genuine diversifier when it matters.

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Historical Trend - Key Metrics

Key readings from every weekly report, most recent on the right. Cells are colour-coded green (favourable / risk-on), amber (neutral) and red (adverse / risk-off) so the multi-month trend is readable at a glance.

R+ risk-on / favourable N neutral R- risk-off / adverse



Each column is one weekly report - read left (older) to right (latest) for the trend over the past months.

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