ABL Digital India Cross-Asset Weekly

Trend, Correlation & Macro Report | week ending 2026-08-21

62 instruments across equities, sectors, FX, commodities, rates & REITs | 608 weeks

REGIME: Risk-on

EXECUTIVE SUMMARY

Stay constructively risk-on but selectively so. The Markov filter puts a 57.9% posterior on Risk-on against 39.6% Risk-off, and the composite risk-appetite scorecard reads +0.40 — but the internals matter more than the headline. The score is carried by risk-over-haven (+1.21), HY credit (+1.11), a compressed India VIX at 11.3 (+0.78, 12th–13th percentile) and 61% breadth above the 10w MA (+0.67), while price trend is outright negative (nifty_trend -1.02, Nifty below its 40w average) and concentration is a mild drag (-0.37). That is a market where risk pricing has recovered faster than price itself — a stance for owning cyclical laggards-turned-leaders rather than levering the index. Lean toward Auto (+7.7% on the week, +13% 3m), Metal (+5.4%), Media (+4.9%) and PSU Bank (+3.9%), keep Pharma and Realty as the 26w momentum core (+17%, +16%), and fade private financials — Pvt Bank -4.2% on the week and -4% on 26w relative strength, with the fair-value model flagging Banks 5.4% rich on a 0.94 R^2 fit, the most trustworthy dislocation in the pack.

Three developments define the week. First, external conditions scored -0.31 (neutral, tilting hostile): low_us_rates -1.51 and low_oil -1.27 say the US 10Y at 4.7% and crude at 7899 are both restraining, so the global bid is not funding this rally — India has to carry itself. Second, IT screens 12.1% cheap versus rupee and US tech, but on a 0.43 R^2 — a genuine signal to size small, not a conviction long, and it sits against IT's -1.8% week. Third, India VIX at 11.3 with a +1.9 variance risk premium and India-minus-US VIX at -2.9 means downside protection is cheap in absolute and relative terms; convert some equity beta into optionality rather than trimming exposure outright.

The biggest risk is the crude–INR–rates chain reasserting itself: Granger tests name Crude, India VIX, US 10Y and Gold as net leaders into USDINR, Bank and Nifty 50, so the causality runs from the external block inward. USDINR at 95.6 breaking decisively above 96, crude sustaining a move back above 8300 on MCX, or India VIX closing above 14 would invalidate the risk-on lean and argue for cutting cyclicals and financials first. Weekly predictive skill here is modest; treat these as tilts, not conclusions.

Executive Dashboard

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

REGIME	NIFTY 1W	SECTOR BREADTH	INDIA VIX
Risk-on	**-0.3%**	**50% up**	**11.3**

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

Nifty 50	24,287.7	-0.3%	+2.2%	+2.4%
Bank	57,497.8	+0.0%	+1.4%	+6.4%
IT	30,807.8	-1.8%	+7.1%	+6.6%
USDINR	95.6	+0.2%	-1.0%	-0.1%
DXY	99.5	-0.1%	-1.9%	+0.2%
US 10Y	4.7	+0.0	+0.0	+0.1
India VIX	11.3	+0.0	-2.7	-6.6
Gold	155,966.0	+0.9%	+10.0%	+0.2%
Crude	7,899.0	+0.4%	-2.6%	-8.2%
Copper	1,385.4	+0.5%	+5.5%	+5.0%
Embassy REIT	452.6	+0.0%	+3.3%	+5.3%

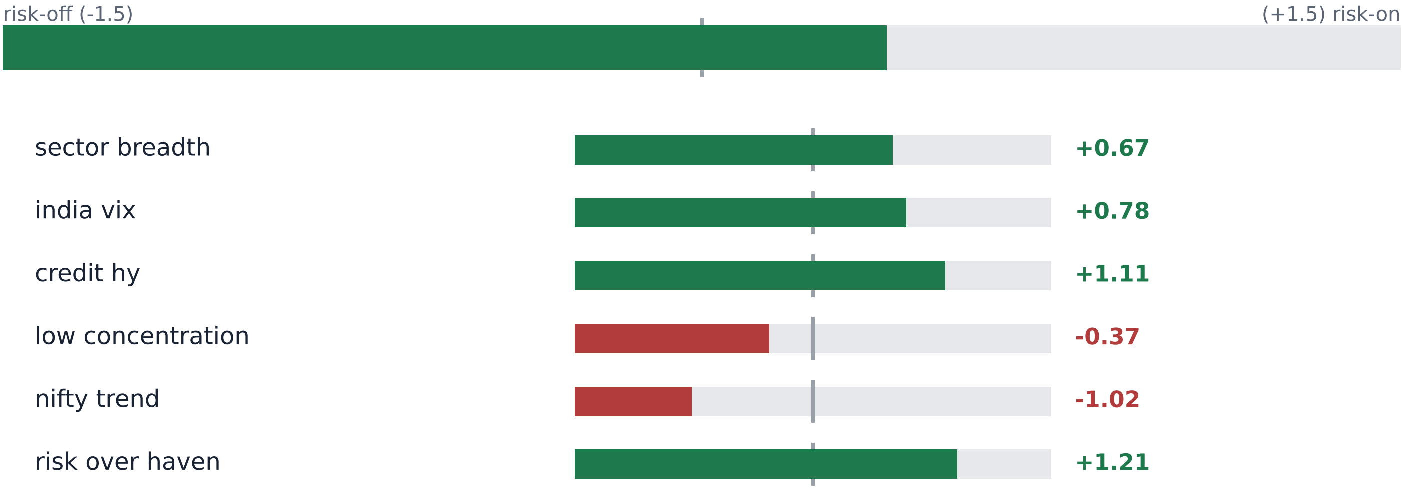
INDIA CROSS-ASSET SCORECARD

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

DOMESTIC RISK APPETITE

Risk-on

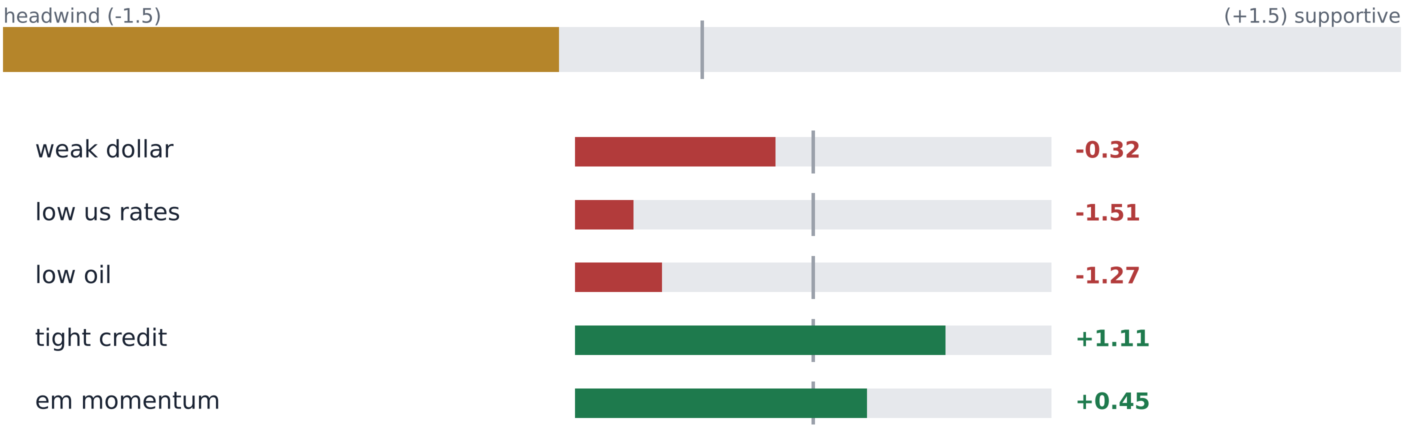
score +0.40



EXTERNAL CONDITIONS (global backdrop)

Neutral backdrop

score -0.31



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.

WHAT CHANGED THIS WEEK

Week-over-week moves and how the market-state readings shifted · 2026-08-21

TOP GAINERS

Auto	+7.7%
Metal	+5.4%
Media	+4.9%
PSU Bank	+3.9%
MNC	+3.3%
Consumer Dur	+3.1%
Midcap 100	+2.2%
EM Equity	+1.8%

TOP DECLINERS

Pvt Bank	-4.2%
Fin Services	-2.6%
NatGas	-2.4%
IT	-1.8%
Energy	-1.6%
Services	-1.5%
FMCG	-1.3%
Realty	-1.1%

KEY LEVELS — week-over-week

Nifty 50	24,287.7	-0.3%	US 10Y	4.7	+0.0
Bank	57,497.8	+0.0%	US HY OAS	2.7	+0.0
IT	30,807.8	-1.8%	Gold	155,966.0	+0.9%
USDINR	95.6	+0.2%	Crude	7,899.0	+0.4%
India VIX	11.3	+0.0	S&P 500	7,772.5	-0.2%

MARKET-STATE READINGS — now vs prior report

Regime	prior: R+	->	**Risk-on**
Risk appetite	prior: +0.50	->	**+0.40**
External backdrop	prior: -0.31	->	**-0.31**
PC1 share	prior: 34	->	**34%**

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).

India Cross-Asset Analysis

Executive Summary

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Regime, Scorecard & Market State

The regime read and the tape are in mild disagreement, and reconciling that is the core analytical task this week. The Markov-switching model assigns 57.9% to Risk-on, 39.6% to Risk-off and a negligible 2.4% to Neutral — a majority, not a mandate. A 40-point gap between the two live states is a soft signal, and the rule-based cross-check makes clear why: the Nifty is trading below its 40-week average even as 61% of sectors sit above their 10-week MA and India VIX prints 11.3 at the 12th percentile. That combination — weak long-term trend, healthy short-term breadth, suppressed volatility — is characteristic of an early-recovery tape that has not yet earned trend confirmation, and it is exactly what shows up in the risk-appetite decomposition.

The composite at +0.40 is a net of strong positives against one large negative. Risk-over-haven at +1.21 and HY credit at +1.11 are the heaviest contributors: investors are being paid to take credit and equity risk over safety, which is not how genuine risk-off episodes look. India VIX at +0.78 and sector breadth at +0.67 corroborate. Against this, nifty_trend at -1.02 is the market telling you that the index itself has not participated — the Nifty fell 0.3% on the week with breadth split evenly at 50% up. Low concentration at -0.37 adds a mild penalty, consistent with the PCA structure discussed below.

The investor implication is precise: the risk-on signal is being generated by volatility and credit conditions, not by price momentum in the benchmark. That argues for expressing risk through the components that are actually working — Auto, Metal, Media, PSU Bank, and the 26w momentum leaders Pharma (+17%) and Realty (+16%) — rather than through index-level beta, which is fighting a negative trend factor. Current Nifty drawdown of 8% with an ES5 tail of -4.0% frames the asymmetry: the index is already wounded, so incremental index exposure buys you the trend headwind without the sector alpha. A recovery of the Nifty above its 40-week average would flip nifty_trend from the largest detractor to a contributor and would materially strengthen the case for adding broad beta; until then, treat the regime call as permission to stay invested in leadership, not as a green light to lever up.

Macro tiles support the constructive base case without arguing for urgency. Repo at 5.25% with the MPC neutral, CPI at 3.5% with core 3.7%, Manufacturing PMI 54.2, Services PMI 57.3, IIP +5.1% and GST collections at Rs 1.95 lakh crore up 13.9% YoY describe an economy expanding at a healthy clip with inflation comfortably inside target. Real GDP projected at 6.6% for FY27 is the anchor. This is a supportive fundamental floor — it is why the risk-off tail is only 39.6% and not higher — but none of it is new information, so it should inform position sizing rather than trigger fresh action.

Global Backdrop & External Conditions

The external-conditions composite at -0.31 is labelled a neutral backdrop, and the label is fair, but the composition is more adversarial than the headline suggests. Two of the five components are deeply negative: low_us_rates at -1.51 and low_oil at -1.27. Both are scored as the absence of a tailwind — the US 10Y sits at 4.7%, unchanged on the week and flat over three months, and crude at 7899 on MCX is nowhere near a level that would be scored as supportive despite being 8% lower over three months. Against these, tight_credit registers +1.11 (global credit spreads are behaving, not stressed) and em_momentum +0.45 (the EM complex is carrying positive momentum India can ride). Weak_dollar at -0.32 is a marginal negative, with DXY at 99.5 essentially unchanged on the week and flat on three months — the dollar is not helping, but it is not actively punishing either.

The synthesis is that the world is a mild net headwind, and the specific shape of that headwind matters. A 4.7% US 10Y that refuses to fall is the binding constraint on Indian valuation multiples and, more directly, on Indian financials. The evidence is in the correlation structure: Bank versus US 10Y runs -0.41 over 52 weeks and tightens to -0.58 over 13 weeks. That strengthening negative relationship says the rates channel into banks is intensifying, not fading, which sits directly alongside the fair-value model flagging Banks 5.4% rich on a 0.94 R^2 fit. Nifty versus US 10Y at -0.34/-0.27 confirms the index-level drag, and Nifty versus DXY at -0.37 tightening to -0.51 over 13 weeks says dollar strength has become a more potent transmitter of pain than it was a year ago.

For positioning this means India's risk-on signal is domestically generated and externally unsupported. That is a durable configuration only so long as the external block stays quiet. The +1.11 on global credit is the single most important stabiliser in the composite — it is the component that keeps the backdrop at neutral rather than hostile. If global HY spreads widen and that component rolls over, the external score drops toward -0.8 or worse and the domestic risk-appetite read almost certainly follows, because credit is also the +1.11 pillar of the domestic scorecard. The two scorecards share a load-bearing wall. Investors should therefore watch global credit as the highest-information external variable, ahead of the dollar and ahead of the level of US yields.

The forex reserves position at USD 566 billion ex-gold provides genuine buffer against external shock and is a reason to treat rupee risk as manageable rather than acute. It does not neutralise the crude channel, but it means a disorderly currency episode requires a larger shock than it would have in a thinner-reserve environment.

Sector Rotation & Momentum

The rotation this week is unambiguously toward cyclicals and away from financials, and the one-week and 26-week lenses agree in some places and conflict in others — which is where the actionable information sits.

Auto leads decisively at +7.7% on the week and +13% over three months, a rare case where the short-term move is confirmed by the medium-term trend. That is the cleanest momentum expression on the board. Metal at +5.4% weekly but only +2% over three months is the opposite profile — a sharp move off a flat base, with Metal's 26-week relative strength at +11% suggesting the base is turning rather than the move being noise. The complication is that Metal versus Copper correlation has inverted, running +0.25 over 52 weeks but -0.35 over 13 weeks. That breakdown means the Metal rally is not being driven by underlying industrial metal prices — copper is up only 0.5% on the week and 5% over three months. A metals move decoupled from its input commodity is more fragile than one riding a copper bid, so size Metal as a tactical position rather than a structural one.

India Cross-Asset Analysis (cont.)

Media at +4.9%/+10% and PSU Bank at +3.9%/+3% round out the weekly leaders, with Media also holding a +15% 26-week relative strength that puts it in the momentum core alongside Pharma (+17%) and Realty (+16%). PSU Bank rising 3.9% while Pvt Bank falls 4.2% in the same week is the single sharpest intra-sector dispersion on the board — an 8-point spread within financials. That is a rotation within the sector, not a sector-level move, and it favours the state-owned franchises over the private ones.

The laggards tell the more important story. Pvt Bank at -4.2% weekly and -4% on 26-week relative strength, Fin Services at -2.6%, and Bank flat on the week but -6% on 26-week relative strength constitute a coordinated financial-sector deterioration. Services at -7% and FMCG at -6% on 26-week relative strength complete the laggard set. The financials weakness is not idiosyncratic — it is the visible expression of the -0.58 Bank-to-US-10Y correlation operating on a 4.7% US yield. Until that yield moves lower, the mechanical drag on financials persists, and the fair-value model's 5.4% rich reading on Banks with a 0.94 R^2 says the market has not yet fully priced the drag.

Realty deserves separate treatment because its signals conflict. It is down 1.1% on the week yet holds +15% over three months and +16% on 26-week relative strength — the second-strongest momentum name on the board. But Realty versus US 10Y has flipped sign, from -0.19 over 52 weeks to +0.21 over 13 weeks. A rate-sensitive sector losing its negative rate correlation is unusual and suggests the recent Realty strength has been driven by domestic factors — real house prices at index 161.9 as of January 2026 corroborate a firm underlying market — rather than by any rate-relief expectation. That makes the momentum more durable than a rate-driven rally would be, but it also means Realty will not benefit if US yields finally fall. Hold it on domestic merit, not as a rates trade.

IT at -1.8% on the week against +7% over three months is the sector where the fair-value signal and the price action point in opposite directions, and it is addressed in the relative-value section.

Factor Structure & Systemic Risk

Concentration is high, and this is the most important structural fact in the briefing. PC1 explains 74% of equity and sector variance — within the equity complex, roughly three-quarters of everything that moves is one thing moving. The highest PC1 loadings are Nifty 100, Nifty 200 and Nifty 500, which is definitional: PC1 is the broad Indian equity beta factor. The lowest loadings are IT, Pharma and FMCG, and those three are consequently the only genuine diversifiers available inside Indian equities.

The practical consequence is that sector selection within India buys far less diversification than a naive reading of the sector dispersion would suggest. Auto up 7.7% and Pvt Bank down 4.2% in the same week looks like a market with rich cross-sectional opportunity, but with 74% of variance in a single factor, a portfolio of Indian sector bets is overwhelmingly a leveraged bet on Indian equity direction with a small active overlay. Investors sizing sector positions should size them as beta-plus-tilt, not as independent risks. The corollary is that IT, Pharma and FMCG earn a place in the portfolio for their factor properties even where their standalone momentum is unremarkable — FMCG at -1.3% weekly and -6% on 26-week relative strength is a poor momentum holding but a real variance dampener, and that trade-off should be made consciously rather than by default. This also explains the -0.37 low_concentration drag on the risk-appetite scorecard: the model is correctly penalising a market whose gains rest on a single factor.

The broader 38-instrument factor structure gives a different and more reassuring picture. PC1, the India risk factor proxied by Nifty, explains 34%; PC2, inverse US rates, explains 13%; PC3, inverse global risk proxied by the S&P, explains 10%; and PC4, US rates again, explains 6%. Together the first four factors account for 63%. A 34% PC1 across a genuinely cross-asset instrument set is elevated but not extreme — it says one dominant risk factor exists, which the briefing flags, but it leaves meaningful independent variation in the rates and global-risk dimensions. The appearance of US rates in both PC2 and PC4 confirms that the rates channel is not a single simple factor but has both a level and a shape component affecting Indian assets.

The systemic co-movement gauge is the clearest good news in the briefing. Average pairwise conditional correlation from the multivariate DCC across ten assets stands at +0.13, down from +0.15 a year ago. Diversification is working, and marginally better than it was. At +0.13, cross-asset hedges are actually hedging — a genuinely low reading that is characteristic of calm rather than stressed markets. The critical caveat is the persistence parameter of 0.9285: correlation shocks in this system decay slowly, so if average correlation starts rising, it will keep rising for an extended period rather than mean-reverting quickly. That asymmetry matters for risk management. A move from +0.13 toward +0.25 would not be a blip to trade through; it would be the beginning of a persistent diversification breakdown and a reason to reduce gross exposure rather than merely rebalance. Monitor this gauge as a slow-moving but high-conviction risk indicator.

Cross-Asset Correlation & Lead-Lag

The Granger network delivers an unambiguous causal ordering: net leaders are Crude, India VIX, US 10Y and Gold; net followers are USDINR, EM Equity, Bank and Nifty 50. Everything that leads is external or volatility-based; everything that follows is an Indian risk asset. India is a price taker this week, and the tape is being driven from outside.

That ordering has a direct positioning consequence. Because Crude, US 10Y and the dollar lead rather than follow, watching Nifty for early warning is watching the wrong variable — by the time the index confirms, the causal chain has already run. The correct monitoring hierarchy is crude and US yields first, USDINR second, Indian equities third. Investors who reverse that order will consistently be late.

The lead-lag correlations into Nifty quantify how much of this is genuinely predictive versus merely contemporaneous, and the answer is sobering. India VIX shows a strong contemporaneous relationship at -0.55 but only -0.22 at a one-week lag — most of the volatility-equity relationship is same-week, not predictive. USDINR is even starker: -0.34 contemporaneous collapsing to -0.01 at a one-week lag, meaning the rupee moves with equities but tells you nothing about next week. DXY behaves identically, -0.31 contemporaneous to -0.01 lagged. US 10Y is essentially uninformative at both horizons, -0.00 contemporaneous and -0.06 lagged.

Crude is the exception and the finding that matters. It is the only variable whose lagged relationship with the Nifty (-0.24) is stronger than its contemporaneous one (-0.18). Crude leads Indian equities with a genuine one-week lag. For a net oil importer this is mechanically sensible and analytically valuable: it is the one input in this briefing with real weekly predictive content, modest though the magnitude is. A -0.24 lagged correlation explains roughly 6% of next-week variance — a genuine edge, but a small one that must be sized accordingly and never treated as a forecast.

The DCC-GARCH conditional correlations refine this further. Nifty to India VIX sits at -0.52 with persistence of only 0.23 — the equity-volatility relationship is strong but unstable, resetting quickly after shocks, so VIX-based hedges need frequent re-striking. Nifty to USDINR is -0.33 with persistence 0.3411, also relatively fast-decaying. But Nifty to Crude, while weakest in level at -0.16, carries persistence of 0.6588 — by far the most durable relationship in the set. The oil-equity link is quiet right now but structurally sticky: when it activates, it stays activated. That is the asymmetry investors should hold in mind. The currently benign -0.16 understates the risk because the high persistence means a crude shock would produce a lasting, not transient, drag on Indian equities.

Relative Value & Fair Value

Five fair-value dislocations clear the $R^2 \geq 0.4$ well-fit threshold, and they deserve radically different weights.

The Banks model is the one to act on. Banks versus Nifty and US rates screens 5.4% rich at z +1.31 on an R^2 of 0.94. A 0.94 fit means the model explains 94% of the historical variation in bank sector pricing — this is close to a mechanical relationship, and a 5.4% deviation from it is a real signal, not noise. The z of +1.31 falls short of the $|z| > 1.5$ stretched threshold, so this is a meaningful richness rather than an extreme one. But the confirming evidence is unusually strong: Pvt Bank fell 4.2% this week, Bank carries -6% on 26-week relative strength, Fin Services -4%, and the Bank-to-US-10Y correlation has tightened to -0.58 over 13 weeks against a 4.7% US 10Y that shows no sign of falling. Model, momentum and macro all point the same way. Underweight private financials specifically; PSU Bank at +3.9% weekly is a separate and better-behaved exposure.

The IT model points the other way and must be discounted explicitly. IT versus rupee and US tech screens 12.1% cheap at z -1.27 — the largest dislocation in the set by magnitude — but on an R^2 of just 0.43. The model explains only 43% of IT's historical variation, meaning 57% is unexplained by the rupee and US tech factors. That is a weak-fit model, and a large residual from a weak-fit model is substantially more likely to reflect model misspecification than genuine mispricing. Treat the 12.1% headline as roughly a 5% signal after fit-adjustment, and note the corroborating weakness: IT fell 1.8% this week and IT-to-USDINR correlation is only -0.28 over 52 weeks and -0.22 over 13 weeks, weaker than the standard narrative of IT as a rupee-depreciation beneficiary would imply. That weak correlation is itself part of why the R^2 is low. IT is worth a small contrarian position given PC1 loadings make it a diversifier as well as a value candidate — but size it as a half-position at most, and do not let the 12.1% number drive the sizing.

The remaining three are informational rather than actionable. Nifty versus global rates, dollar and oil is 2.2% rich at z +0.82 on R^2 0.54 — a fair fit and a modest dislocation, consistent with the index being fully valued given the 4.7% US 10Y and current crude, and a mild argument against adding index beta. Rupee versus dollar, oil and US rates is 1.3% rich at z +0.53 on R^2 0.68, the second-best fit in the set. A well-fit model showing the rupee only 1.3% rich says USDINR at 95.6 is close to fair given its drivers — the currency is not stretched, which removes one potential source of stress and supports the view that rupee risk is manageable. Gold versus US real yield and dollar is 6.6% rich at z +0.33 on R^2 0.55; the large percentage against a small z indicates a wide historical dispersion in this relationship, so the richness is well within normal range and not a signal. Gold at 155966 is up 0.9% on the week, and its Nifty correlation of +0.12 rising to +0.17 over 13 weeks means gold is currently a poor equity hedge — it is moving with risk assets, not against them, which is unusual and reduces its portfolio utility right now.

Notably, no cointegrated spread in the well-fit set breaches $|z| > 1.5$. Nothing is genuinely stretched. That is consistent with the low volatility and low cross-asset correlation environment: this is a market with modest valuation dispersion, which caps the return available from pure relative-value trades and argues for expressing views through momentum and sector selection rather than through mean-reversion.

Currency, Rates & the Oil-INR Channel

USDINR at 95.6, up 0.2% on the week and flat over three months, is a currency doing nothing — and for India that is the good outcome. The fair-value model confirms it, showing the rupee just 1.3% rich on a solid 0.68 R^2. The stability is being purchased by crude cooperation: MCX crude at 7899 is up only 0.4% on the week and down 8% over three months. That 8% three-month decline is the quiet reason India's macro is comfortable, and it flows directly through the import bill to the currency and onward to inflation.

The chain is visible in the macro prints. CPI at 3.5% with core at 3.7% sits well inside the RBI's tolerance band, which is what allows the MPC to hold repo at 5.25% with a neutral stance rather than being forced into defensive tightening. That neutral stance is itself a risk-asset support — it means policy is not a headwind, and it preserves optionality for easing should growth falter. India's 10Y G-sec at 6.76% carries the briefing's own annotation that it is positively sensitive to crude and US yields, which is precisely the transmission mechanism at issue. With the US 10Y stuck at 4.7% and unchanged over both one week and three months, the domestic bond market has no external room to rally; the 274bp spread of G-sec over Treasury is the compensation India pays for that constraint.

The critical point for investors is that this entire benign configuration rests on crude staying where it is. The DCC evidence makes the fragility concrete: the Nifty-to-Crude conditional correlation is currently only -0.16, the weakest of the three measured pairs, but its persistence is 0.6588 — roughly double that of the Nifty-VIX pair at 0.23 and the Nifty-USDINR pair at 0.3411. Low current level, high persistence. The oil channel is dormant, not absent, and when it wakes it does not go back to sleep quickly. Layer on the Granger result — Crude is a net leader into USDINR and Nifty — and the causal architecture is complete: crude moves first, the rupee follows, inflation expectations and the G-sec follow that, and equities absorb the result with a one-week lag that is the only genuinely predictive signal in the briefing at -0.24.

Two further correlation facts sharpen the currency picture. Nifty to USDINR at -0.39 over 52 weeks softening to -0.29 over 13 weeks means rupee weakness has become somewhat less damaging to equities recently — a modest cushion. But Nifty to DXY has moved the other way, from -0.37 to -0.51, meaning dollar strength has become materially more damaging. The distinction matters: broad dollar strength is now a bigger threat to Indian equities than rupee-specific weakness. DXY at 99.5 is the variable to watch, more than USDINR itself. Meanwhile Energy versus Crude has flipped from -0.06 over 52 weeks to +0.29 over 13 weeks, so the energy sector now offers a partial natural hedge against oil upside that it did not offer a year ago — though Energy's -1.6% week and -5% three-month performance mean that hedge comes at a carrying cost.

Forex reserves ex-gold at USD 566 billion underwrite the RBI's capacity to smooth any disorderly move. This does not prevent a crude-driven rupee slide — reserves cannot offset a sustained terms-of-trade shock — but it does mean the adjustment would likely be orderly rather than gapping, which materially changes how a currency-hedging decision should be sized.

Volatility, Tail Risk & What to Watch

India VIX at 11.3 sits in the 13th percentile of its five-year distribution, unchanged on the week and down 7 points over three months. This is compressed volatility, and the variance risk premium at +1.9 confirms the market is charging more for implied volatility than realised volatility has delivered — historically a mildly constructive signal, since a positive premium is normal in calm markets and its disappearance often precedes stress. India-minus-US VIX at -2.9 is the more actionable observation: Indian volatility is priced nearly three points below US volatility. For a market with India's growth rate, external oil dependence and single-factor concentration at 74% of PC1 variance, trading below US implied volatility is anomalous. Indian downside protection is cheap on both an absolute and a cross-market basis.

That combination — an equity view that is constructive but resting on a negative price trend, plus historically cheap protection — argues for a specific portfolio construction. Rather than trimming equity exposure to manage the risk that nifty_trend at -1.02 is signalling, buy the protection the market is underpricing and keep the sector exposures that are working. The caveat is the DCC persistence of 0.23 on the Nifty-VIX pair: that relationship resets fast, so volatility hedges need active management and periodic re-striking rather than set-and-forget sizing.

Tail metrics frame the downside. Nifty ES5 at -4.0% against a current drawdown of 8% means the index has already absorbed twice its expected tail loss — the damage is largely done, which is part of why the risk-appetite composite can read positive despite the negative trend component. Midcap 100 ES5 at -5.4% with zero current drawdown is the asymmetry to respect: midcaps carry 35% more tail risk than large caps and have given back nothing, so they are the most exposed part of the equity complex to a regime flip. Trim midcap beta before large-cap beta. Gold ES5 at -6.7% with a 6% current drawdown, combined with its +0.17 thirteen-week correlation to the Nifty, makes gold the worst risk-adjusted holding in the set right now — highest tail risk, already drawn down, and not hedging equities.

The signals that would confirm this view are specific and observable. Watch for the Nifty reclaiming its 40-week moving average, which would turn nifty_trend from a -1.02 detractor into a contributor and would justify adding index-level beta; for Auto to hold above its current run after +7.7%, with breadth above the 10w MA holding at or above 61%; for the risk-appetite composite to build above +0.60 on trend improvement rather than on further VIX compression; and for crude to stay below 8000 on MCX, keeping the -8% three-month decline intact and the CPI-repo-G-sec chain benign.

The signals that would change it are equally concrete. Crude sustaining above 8300 on MCX would activate the 0.6588-persistence equity channel and, with a one-week lag, transmit to the Nifty. USDINR breaking decisively above 96 would confirm the crude shock reaching the currency and would put the 6.76% G-sec under upward pressure. India VIX closing above 14 — roughly a 24% move from 11.3 and out of the bottom quartile — would end the cheap-protection window and signal that the compressed-volatility regime has broken. DXY above 101 would bite through the -0.51 thirteen-week Nifty correlation, which is now the more potent currency channel than USDINR itself. The US 10Y moving above 4.9% would deepen the already -1.51 low_us_rates drag and pressure financials through the -0.58 Bank correlation. Average MV-DCC conditional correlation rising from +0.13 toward +0.25 would signal diversification failing, and with persistence at 0.9285 that shift would be durable rather than transient — the clearest single trigger for reducing gross exposure. Finally, global credit rolling over from the +1.11 that currently props up both the domestic risk-appetite score and the external-conditions score would remove the shared load-bearing pillar of this entire constructive view, and should be treated as the highest-priority external variable to monitor.

PART I

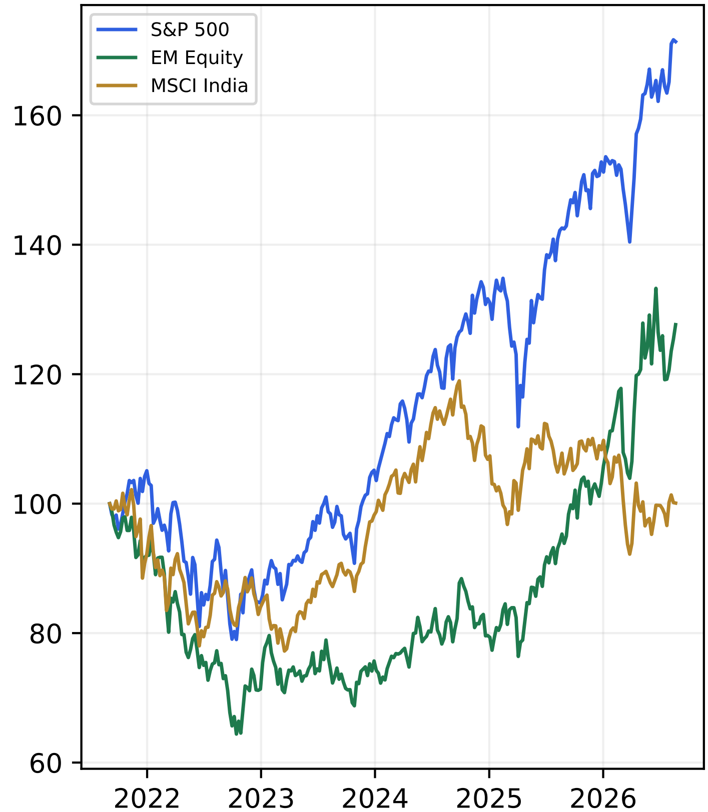
Global Backdrop & Macro

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

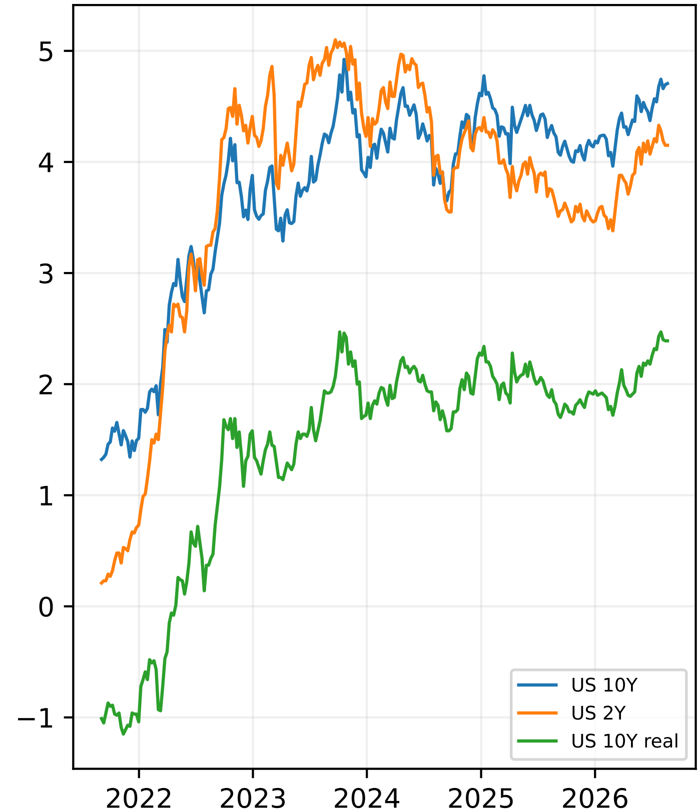
- Global equity, US yields & credit spreads, dollar & Fed balance sheet
- India macro prints (repo/CPI/GST/PMI/IIP) and FII/DII flows

Global Backdrop & Rates

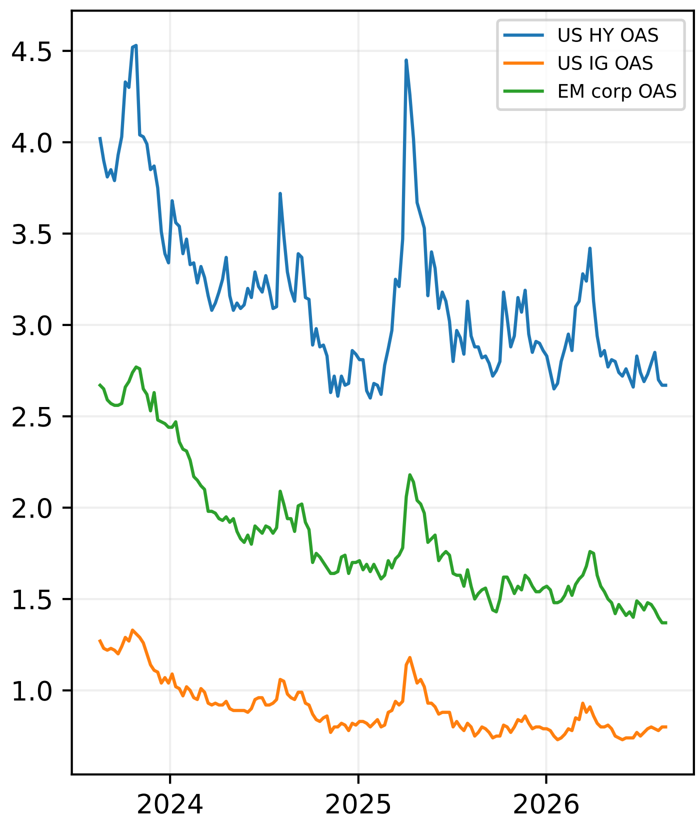
Global equity (indexed=100, 5y)



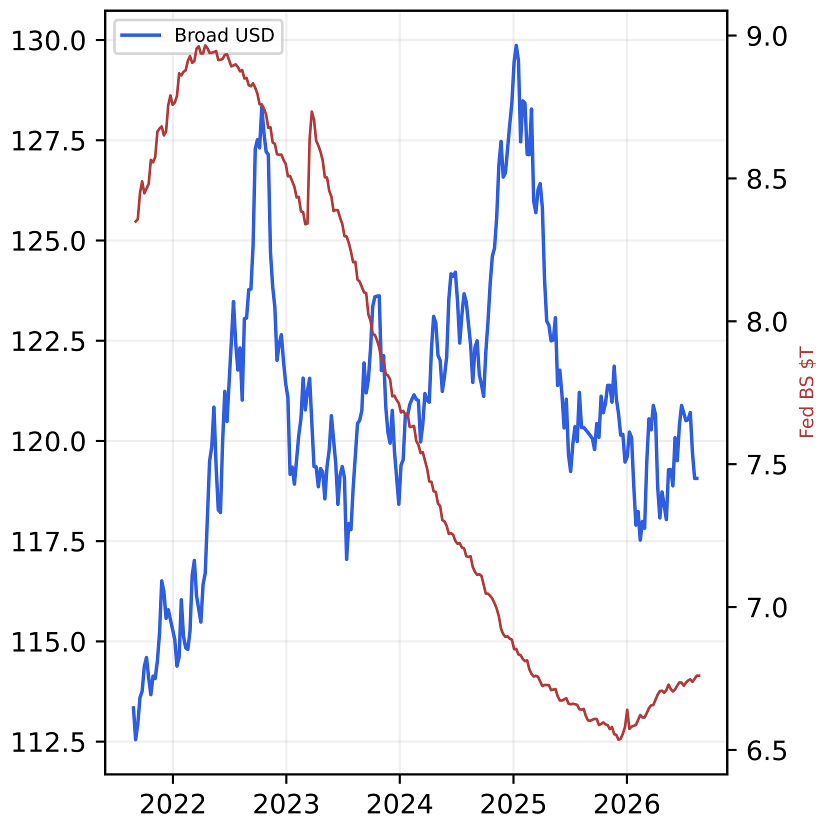
US yields (%) — India's external cost of capital



Credit spreads (%)



US dollar & Fed balance sheet



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 5,101 cr, FII net Rs -2,535 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 566 bn**	2026-06
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.

PART II

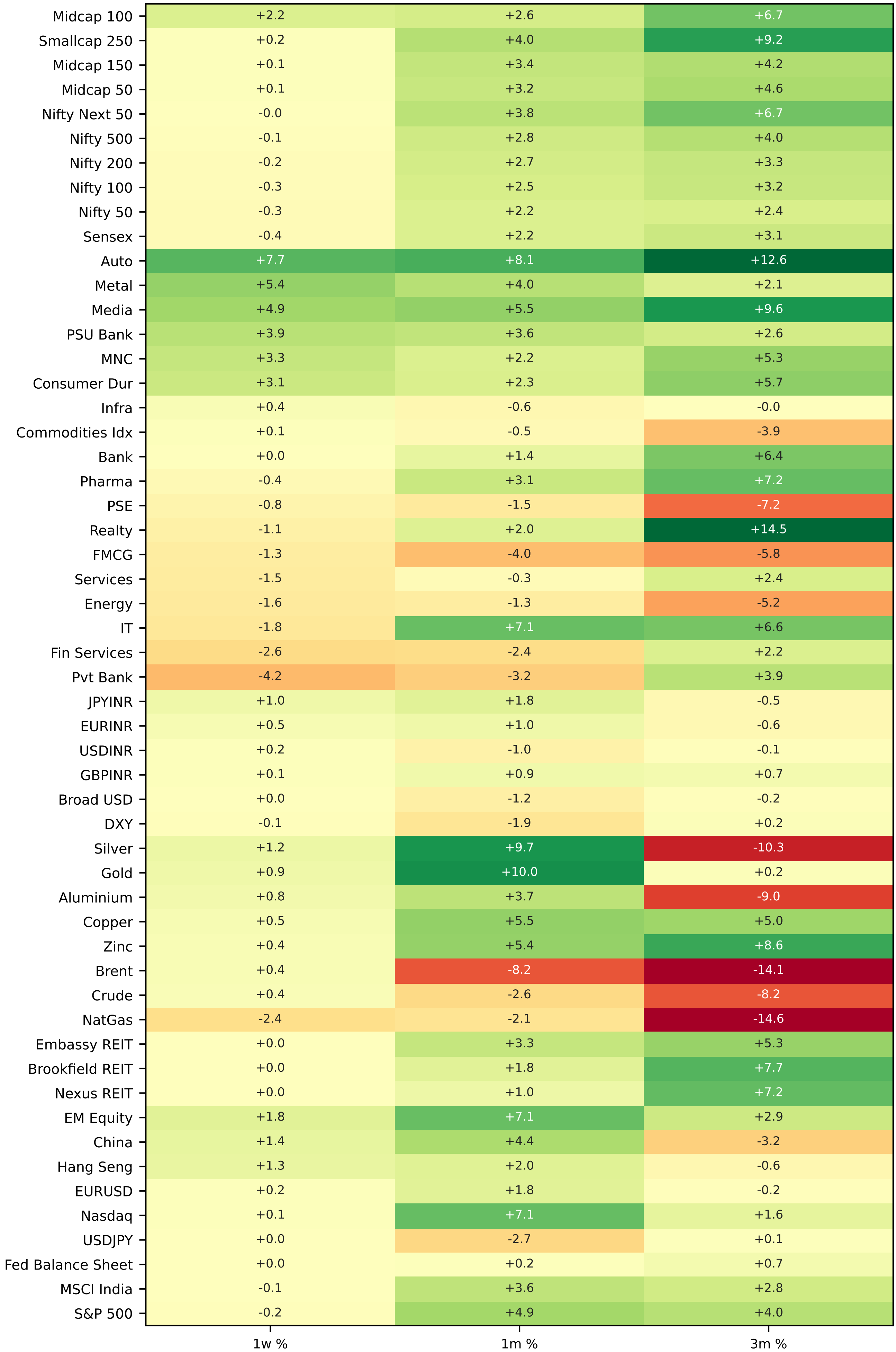
Cross-Asset Structure

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

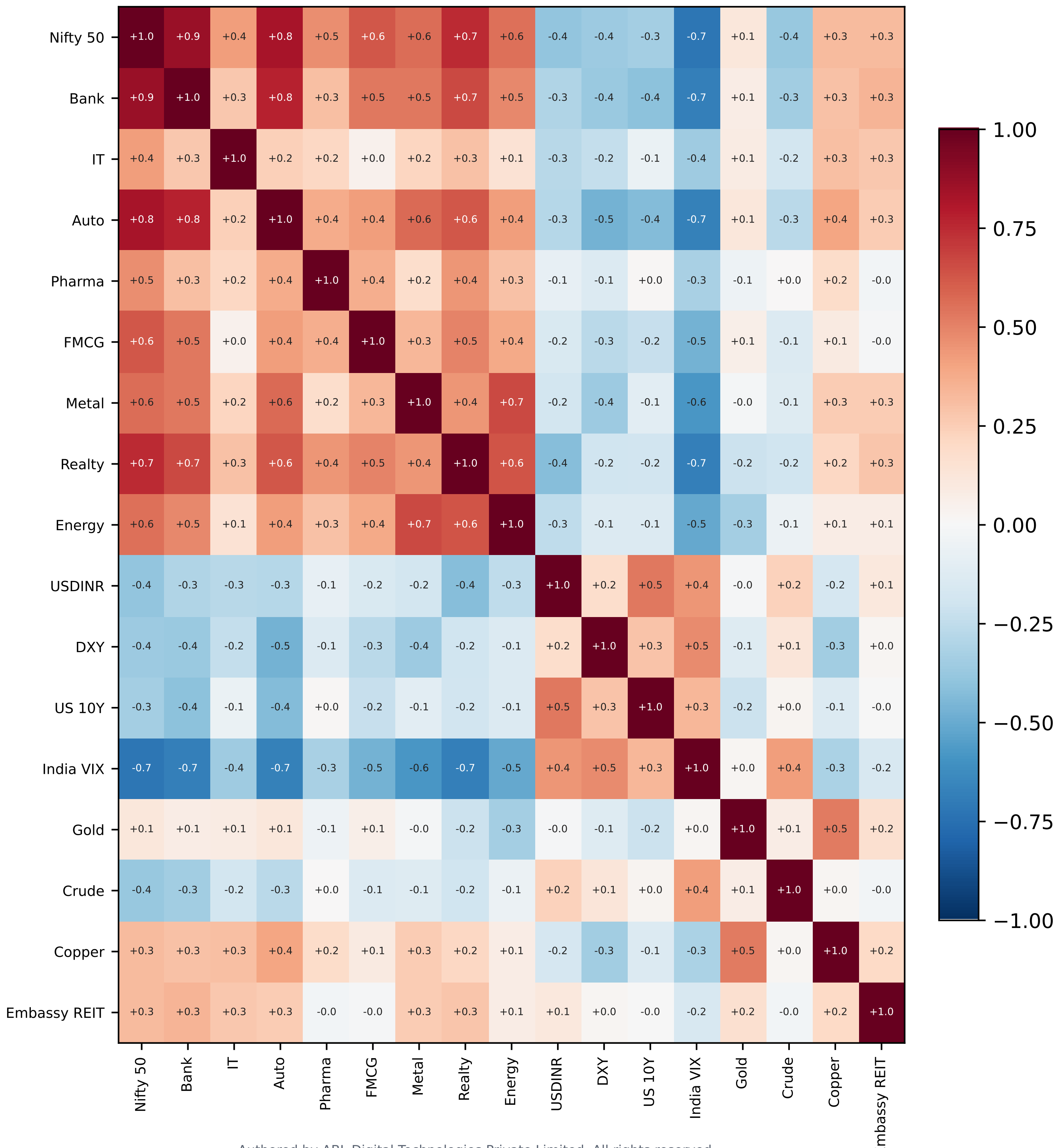
Weekly Returns Heatmap

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



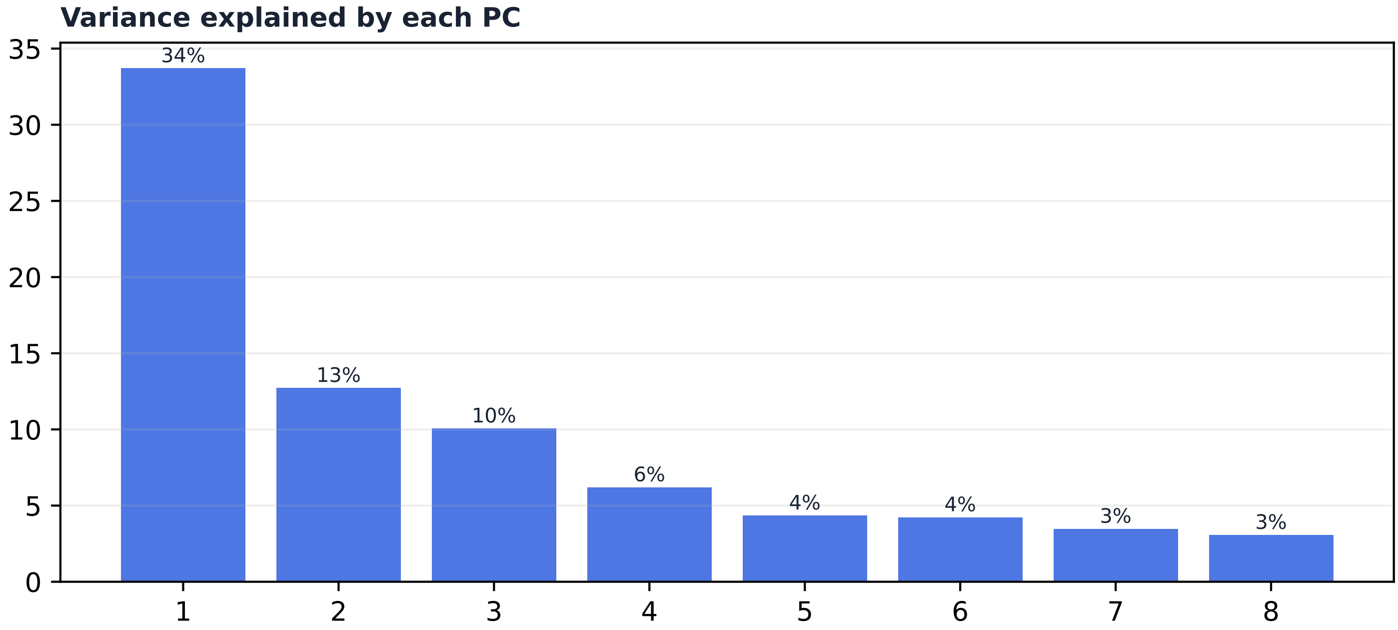
52-Week Cross-Asset Correlation

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



CROSS-ASSET FACTOR STRUCTURE (PCA)

Independent forces driving the 38 instruments (156 weeks)



PC1 — Risk (Nifty)

33.7% of variance (cum 34%) · marker corr +0.92

+ Nifty 500 +0.27, Nifty 200 +0.27, Nifty 100 +0.27, Nifty 50 +0.26, MSCI India +0.26

– India VIX -0.17, US VIX -0.13, US HY OAS -0.11, USDINR -0.11, US IG OAS -0.11

PC2 — US rates (10Y) (inverse)

12.7% of variance (cum 46%) · marker corr -0.56

+ EM corp OAS +0.37, US HY OAS +0.33, US IG OAS +0.30, US VIX +0.27, JPYINR +0.18

– US 2Y -0.31, USDJPY -0.26, US 10Y -0.26, Nasdaq -0.25, S&P 500 -0.25

PC3 — Global risk (S&P) (inverse)

10.1% of variance (cum 56%) · marker corr -0.31

+ DXY +0.40, USDJPY +0.25, US 2Y +0.12, US HY OAS +0.12, US VIX +0.12

– EURUSD -0.38, GBPINR -0.36, EURINR -0.32, EM Equity -0.22, JPYINR -0.20

PC4 — US rates (10Y)

6.2% of variance (cum 63%) · marker corr +0.63

+ US 10Y real +0.43, US 10Y +0.41, EURINR +0.35, US 2Y +0.32, USDINR +0.25

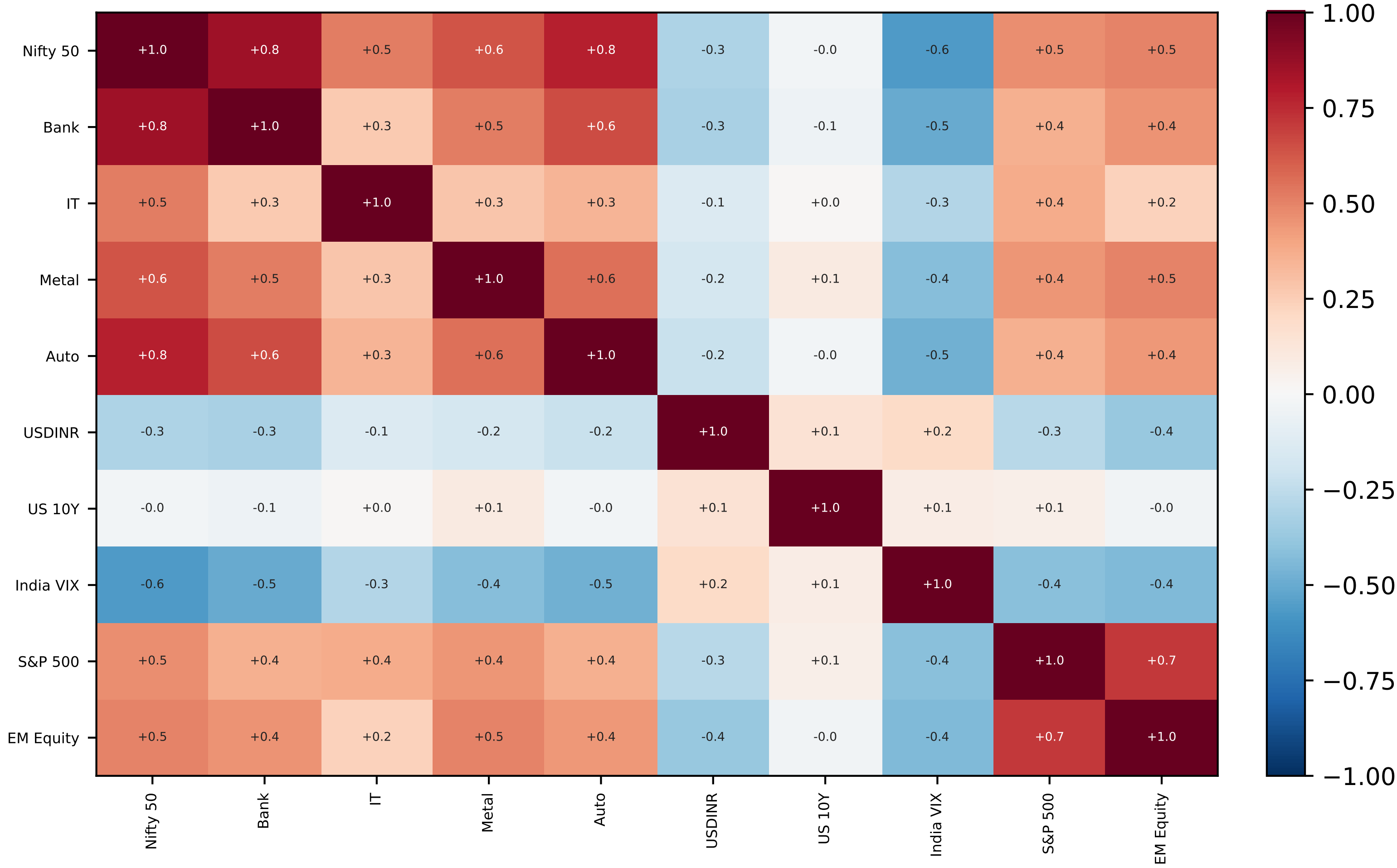
– S&P 500 -0.16, DXY -0.15, China -0.14, Nasdaq -0.14, EM Equity -0.13

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.

Average pairwise conditional correlation (multivariate DCC-GARCH)

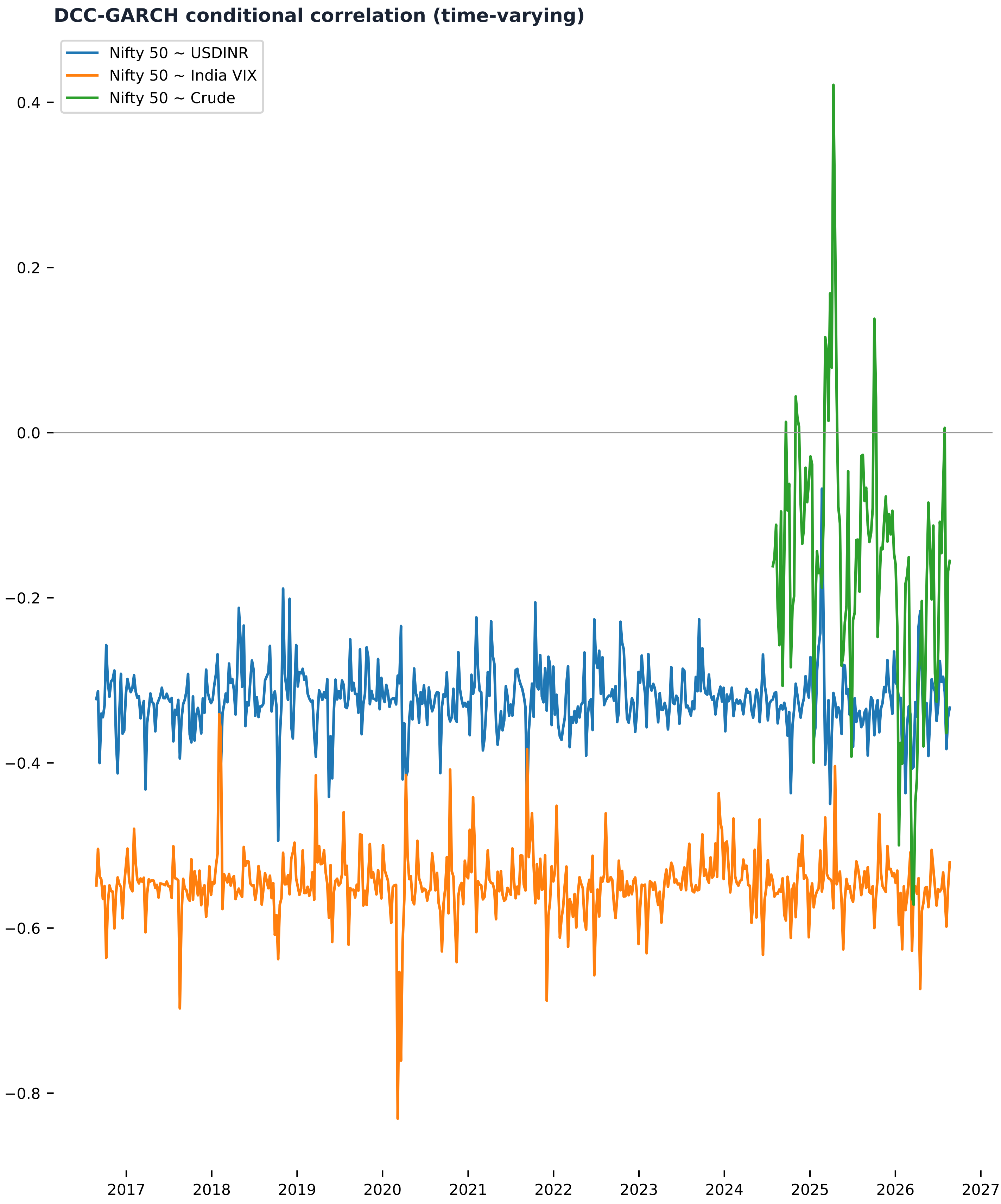
N=10 · persistence 0.9285 · now +0.13 · rising = diversification failing in real time

Latest conditional-correlation matrix



Regime & Conditional Correlations

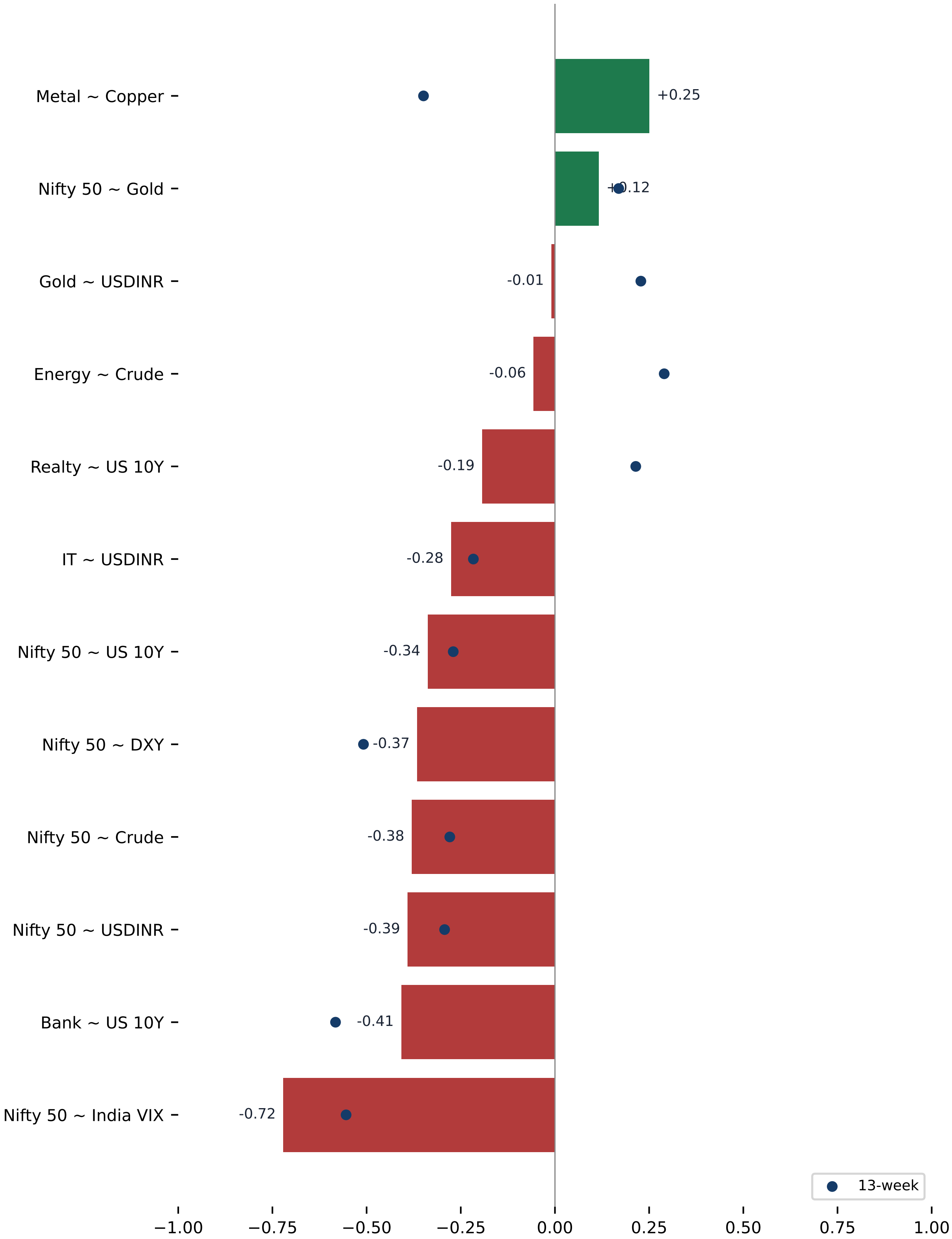
Markov-switching regime: Risk-on (Markov-switching). Smoothed posterior: Risk-on 0.58, Risk-off 0.40, Neutral 0.02



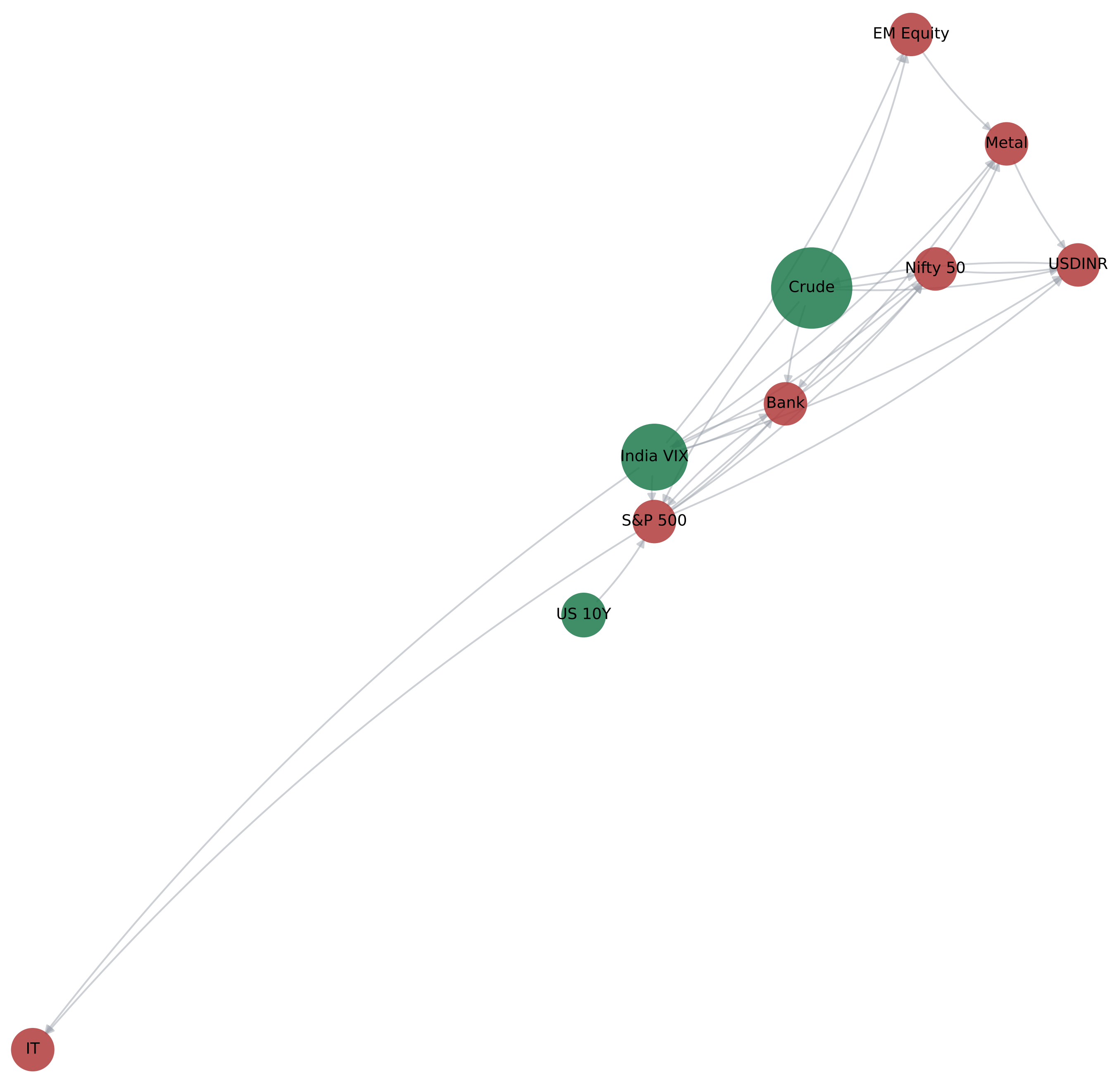
Now: Nifty 50 ~ USDINR -0.33 (persist 0.3411), Nifty 50 ~ India VIX -0.52 (persist 0.23), Nifty 50 ~ Crude -0.16 (persist 0.6588)

Cross-Asset Relationship Watch-List

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



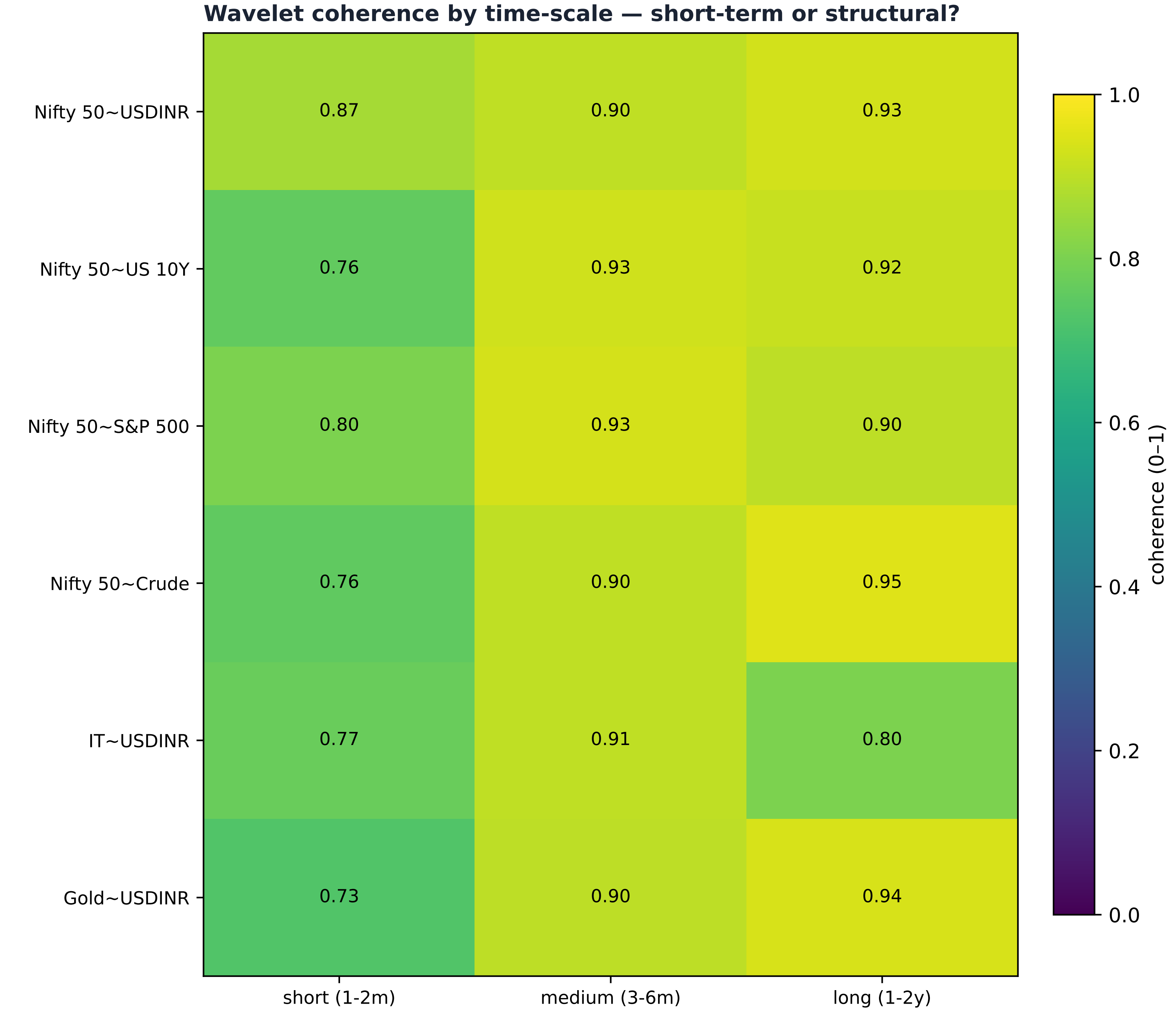
Directional lead-lag — Granger causality network



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

LEADERS: Crude +0.23, India VIX +0.13, US 10Y +0.01, Gold +0.00, IT -0.01

FOLLOWERS: USDINR -0.09, EM Equity -0.08, Bank -0.08, Nifty 50 -0.06, S&P 500 -0.03


Wavelet coherence by time-scale — short-term or structural?
Nifty 50~USDINR
Nifty 50~US 10Y
Nifty 50~S&P 500
Nifty 50~Crude
IT~USDINR
Gold~USDINR
0.87
0.90
0.93
0.76
0.93
0.92
0.80
0.93
0.90
0.76
0.90
0.95
0.77
0.91
0.80
0.73
0.90
0.94
short (1-2m)
medium (3-6m)
long (1-2y)
coherence (0–1)
0.0
0.2
0.4
0.6
0.8
1.0

STATISTICAL RELATIVE VALUE (cointegration)

Mean-reverting India spreads and how stretched each is now

Pair	Coint?	p-val	Hedge	Half-life	Spread z
Largecap vs Midcap	**no**	0.140	1.85	9w	**+2.62**
Nifty vs S&P 500	**no**	0.911	1.19	31w	**+2.54**
Nifty vs Nifty500	**no**	0.483	1.24	12w	**+2.51**
Nifty vs Sensex	**no**	0.743	0.91	27w	**-2.35**
Nifty vs EM Equity	**no**	0.914	0.53	73w	**+2.30**
IT vs USDINR	**no**	0.978	-0.01	150w	**+2.08**
USDINR vs DXY	**no**	0.236	0.03	19w	**-0.71**
Pvt vs PSU Bank	**no**	0.055	2.78	9w	**+0.70**
Bank vs Fin Services	**no**	0.450	1.01	24w	**-0.39**
Gold vs Silver	**no**	0.430	1.53	9w	**-0.37**
Midcap vs Smallcap	**no**	0.446	0.93	18w	**-0.34**
WTI vs Brent	**yes**	0.000	0.82	1w	**-0.34**

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.

PART III

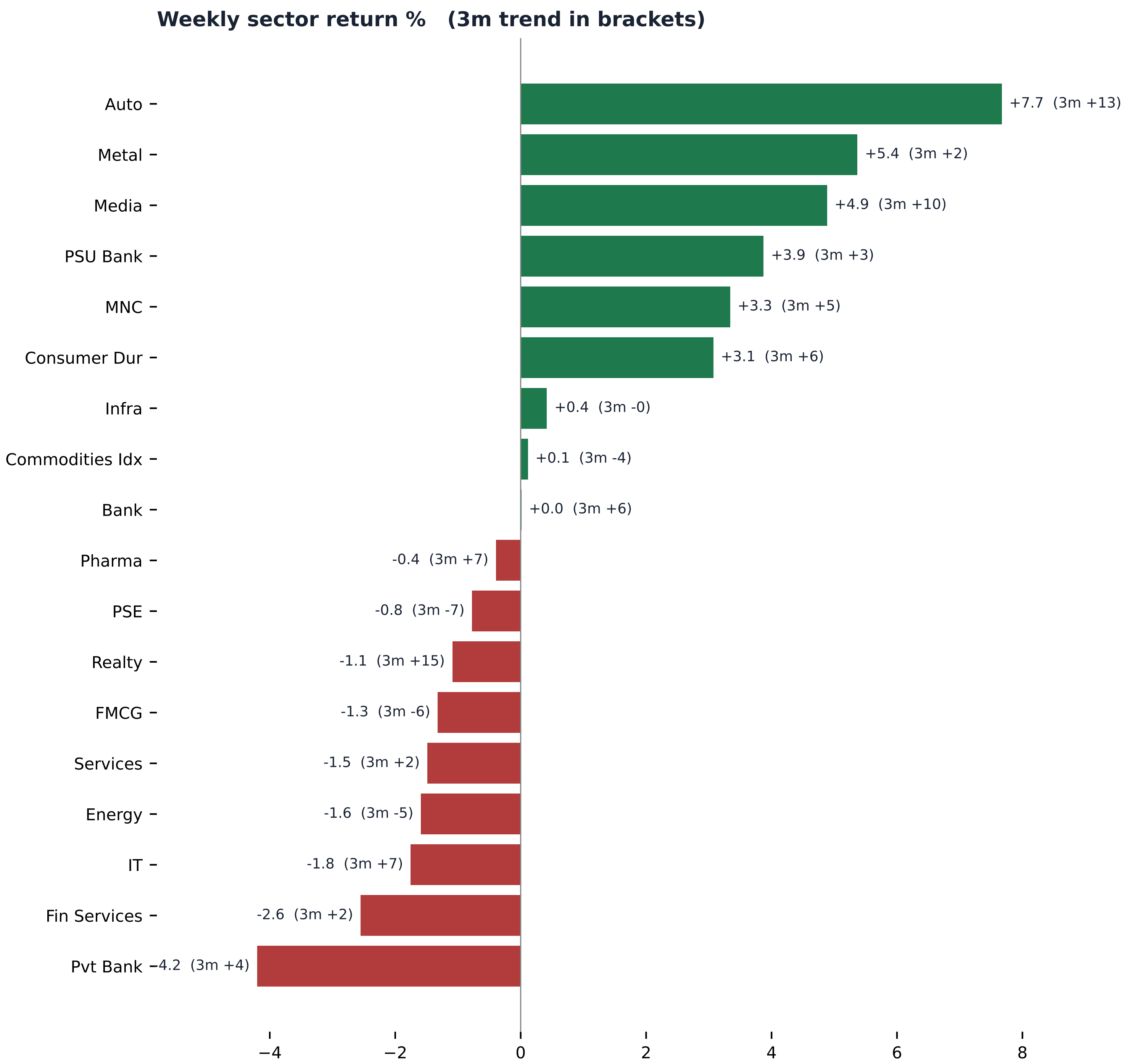
Sectors, Momentum & Fair Value

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)

Sector Rotation

NSE sectoral indices, weekly return. Breadth: 50% of sectors up this week; 61% above their 10-week average.



MOMENTUM & TREND

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

Instrument	13w	26w	52w	Score	vs40wMA	<52wHi
Nifty 50	+2%	-5%	-2%	**+0.00**	-1%	-8%
Midcap 100	+7%	+9%	+13%	**+1.00**	+7%	0%
Smallcap 250	+9%	+15%	+7%	**+1.00**	+10%	-0%
Bank	+6%	-6%	+4%	**+0.50**	+0%	-6%
IT	+7%	-4%	-13%	**+0.00**	-4%	-21%
Auto	+13%	+9%	+25%	**+1.00**	+9%	0%
Pharma	+7%	+17%	+18%	**+1.00**	+12%	-1%
FMCG	-6%	-6%	-14%	**-1.00**	-6%	-15%
Metal	+2%	+11%	+44%	**+1.00**	+10%	-3%
Realty	+15%	+16%	+1%	**+1.00**	+10%	-4%
Energy	-5%	+10%	+11%	**+0.00**	+4%	-5%
Gold	+0%	-3%	+54%	**+0.50**	+5%	-6%

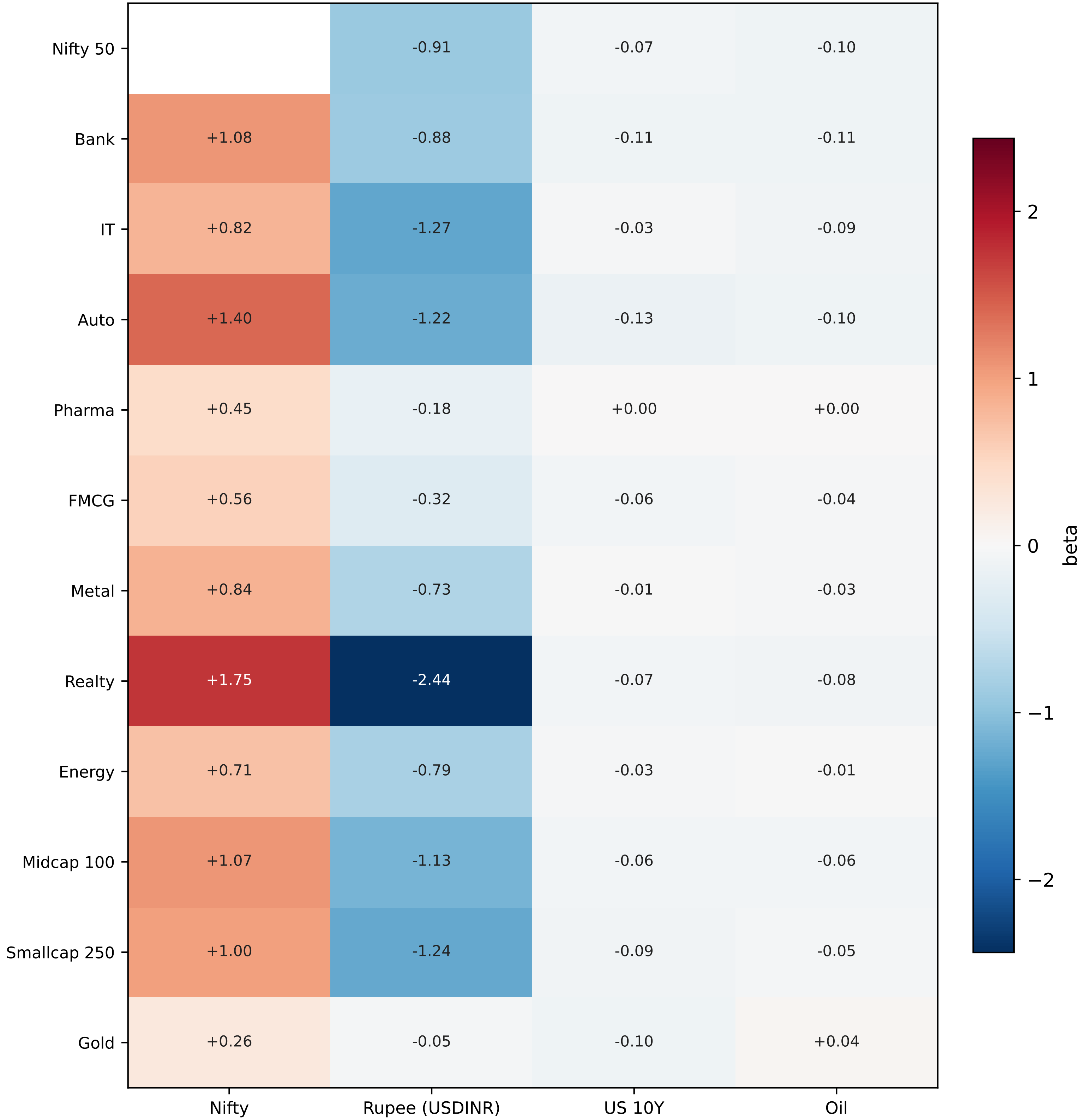
Sector 26-week relative strength:

LEADERS: Pharma +17%, Realty +16%, Media +15%, Metal +11%, MNC +10%, Energy +10%

LAGGARDS: Services -7%, FMCG -6%, Bank -6%, Pvt Bank -4%, Fin Services -4%, IT -4%

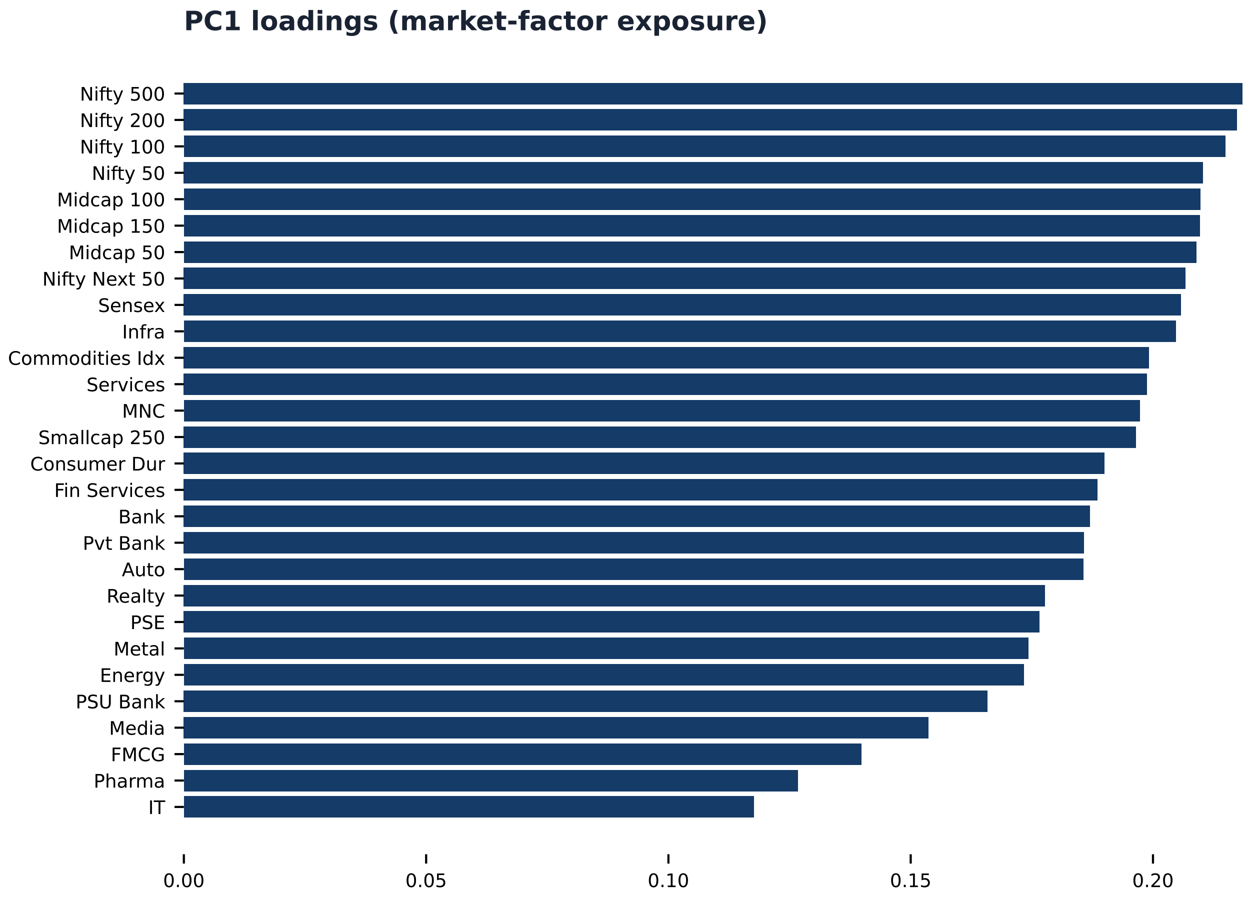
Score = mean sign of the 4/13/26/52-week returns (+1 = uptrend across all horizons). 'Golden' vs 'death' = 10w vs 40w MA cross.

Factor betas — 52-week sensitivity to the master factors



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	-0.18	-0.24
India VIX	-0.55	-0.22
US 10Y	-0.00	-0.06
USDINR	-0.34	-0.01
DXY	-0.31	-0.01

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 +1.31

actual 57497.80 · model-fair 54552.57 · gap +5.4% · R^2 0.94

IT vs rupee & US tech

cheap z -1.27

actual 30807.80 · model-fair 35067.15 · gap -12.1% · R^2 0.43

Nifty vs global rates, dollar & oil

RICH z +0.82

actual 24287.65 · model-fair 23761.52 · gap +2.2% · R^2 0.54

Rupee vs dollar, oil & US rates

RICH z +0.53

actual 95.59 · model-fair 94.34 · gap +1.3% · R^2 0.68

Gold vs US real yield & dollar

RICH z +0.33

actual 155966.00 · model-fair 146369.87 · gap +6.6% · R^2 0.55

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 R^2 — a low-R^2 model is a weak anchor, stated honestly.

PART IV

Volatility & Risk

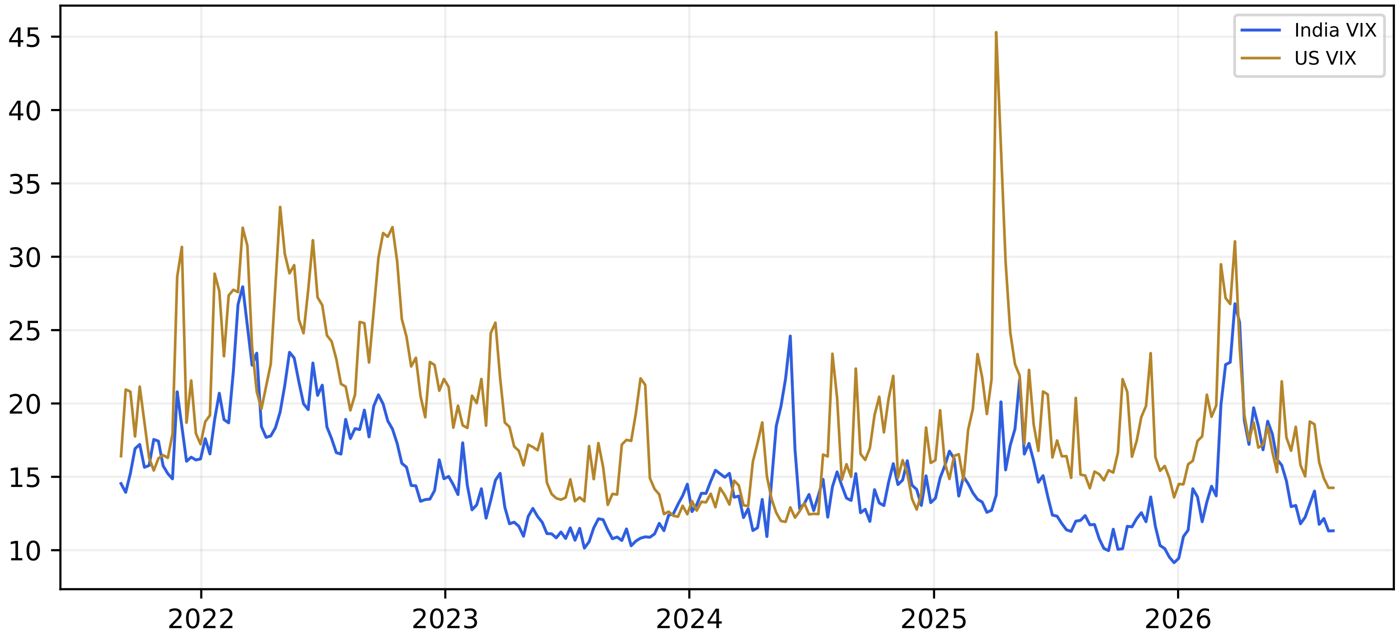
The volatility complex and downside risk.

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

VOLATILITY

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

India VIX vs US VIX (5y)



VOL RISK PREMIUM (India)

+1.9 pts

India VIX 11.3 − realised 9.4

positive (implied > realised, carry cushion)

FEAR CONTEXT

India VIX 13th %ile of 5y

India−US VIX -2.9

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.

TAIL RISK

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

Instrument	VaR5	ES5	DnVol	MaxDD	CurDD	Skew	Kurt
Nifty 50	-2.8%	-4.0%	9%	-17%	-8%	-0.3	+0.5
Midcap 100	-4.4%	-5.4%	12%	-21%	0%	-0.4	+0.7
Smallcap 250	-4.8%	-6.6%	15%	-25%	-1%	-0.5	+1.3
Bank	-3.9%	-5.0%	11%	-19%	-6%	-0.1	+0.9
IT	-6.3%	-7.8%	17%	-41%	-33%	-0.6	+0.7
Metal	-5.6%	-7.9%	17%	-32%	-3%	-0.4	+1.0
Realty	-6.3%	-8.5%	18%	-41%	-20%	+0.2	+1.5
Gold	-4.3%	-6.7%	16%	-15%	-6%	-0.5	+1.8
Crude	-9.0%	-13.8%	30%	-36%	-22%	-0.1	+1.1
USDINR	-1.0%	-1.4%	3%	-3%	-1%	-0.1	+1.6

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

Midcap 100 0.67   Bank 0.66   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.

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

	03-13	03-20	03-27	04-03	04-10	04-17	04-24	05-01	05-08	05-15	05-22	05-29	06-05	06-12	06-19	06-26	07-03	07-10	07-17	07-24	07-31	08-07	08-14	08-21
Regime	R-	N	R-	N	R-	R+	R-	R+	R+	R-	R+	N	R-	R+	R+	R-	R+	R-	R-	N	R+	N	R+	R+
Risk appetite																						+0.51	+0.50	+0.40
External backdrop																						-0.28	-0.31	-0.31
Nifty 1w %	-5.3	-0.2	-1.3	-0.5	+5.9	+1.3	-1.9	+0.4	+0.7	-2.2	+0.3	-0.7	-0.8	+1.1	+1.7	+0.2	+0.9	-0.3	+0.0	-0.4	+1.0	+1.0	+0.1	-0.3
Breadth %	0	50	17	42	100	92	33	75	92	17	50	67	25	67	92	42	75	50	50	58	58	72	56	50
PC1 share																						33	34	34
India VIX	23	23	27	26	19	17	20	18	17	19	18	16	16	15	13	13	12	12	13	13	13	12	12	11
USDINR 1w %	+0.7	+1.4	+0.9	-2.1	+0.3	-0.5	+1.8	+0.7	-0.5	+1.6	-0.3	-0.7	-0.1	+0.2	-0.8	-0.0	+1.3	-0.2	+0.4	+0.2	-0.7	-0.2	+0.1	+0.2
Bank 1w %	-7.0	-0.6	-2.2	-1.4	+8.5	+1.2	-0.8	-2.2	+0.8	-2.9	+0.6	+0.3	+0.5	+4.3	+1.5	+0.9	-0.4	+0.2	+0.1	-1.0	+0.7	+1.4	-0.1	+0.0

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