
TRU

INSIGHTS

June 2026



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From the MD & CEO's desk



“Global markets continued to contend with the combined impact of geopolitical uncertainty, elevated energy prices, and an increasingly fragmented trade landscape. As inflationary pressures resurfaced, central banks maintained a cautious stance on policy easing, contributing to periodic volatility across financial markets. Notwithstanding these challenges, Indian equities displayed notable resilience, supported by strong domestic investor participation, improving valuations following the recent correction, and continued confidence in India's long-term growth prospects.”

Dear Investors,

Global financial markets continued to navigate a complex macroeconomic environment during May, shaped by a combination of geopolitical uncertainty, evolving trade dynamics, and diverging growth trajectories across major economies.

Geopolitical developments remained a key influence on investor sentiment. While concerns around direct military escalation in the Middle East moderated during the month, tensions in the region continued to keep energy markets sensitive to supply-side disruptions. Crude oil prices remained elevated due to the continued U.S. naval blockade around the Strait of Hormuz.

From a monetary policy perspective, inflation has started accelerating globally driven by higher energy prices which has resulted in central banks adopting a cautious stance. Consequently, markets have had to recalibrate expectations regarding the pace and extent of future policy easing, resulting in periodic volatility across both equity and fixed-income markets.

Post a strong rally in April Indian equities took a breather in May with the Nifty 50 declining by 1.9% during the month, while broader markets outperformed for the second month in a row. The Nifty Midcap 100 and Nifty Smallcap 100 indices were up by 3.2% and 0.7% for the month. FIIS continued to be net sellers in Indian equities to the extent of ~Rs. 55,900 cr in May-26 while DIIs more than offset the FII selling pressure with net purchase of ~Rs. 82,600 cr.

Geopolitical tensions are likely to remain elevated in the near term which may lead to heightened volatility till the time we do not see any concrete developments on an US-Iran peace deal. However, investors should keep in mind the fact that valuations are closer to long-term averages, particularly within large-cap stocks with the Nifty trading at close to 10% discount to its long period average while earnings growth is expected to accelerate in 2HFY27. Hence any near-term volatility should be viewed as an opportunity to increase equity exposure as I continue to believe that the Nifty could hit a new all time high later this year once the uncertainty around the US Iran conflict starts abating.

In this edition of Tru Insights, we examine the key global and domestic developments influencing markets, assess their implications for investors, and explore opportunities across asset classes. We also present a detailed analysis on whether copper is expected to drive the next leg of the commodities super cycle.

We thank you for your continued trust and confidence and remain committed to helping you navigate markets with clarity, insight, and a long-term perspective.

Warm Regards,
Dhiraj Relli
MD and CEO – HDFC Securities



Macro Economic Highlights

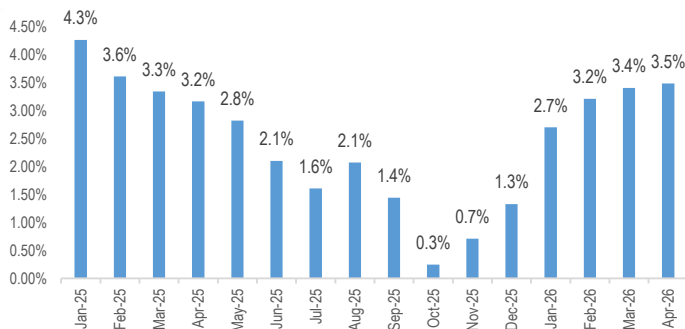
Global Pressures Rise, India Remains Resilient

Global markets remained influenced by geopolitical tensions, trade uncertainties, and persistent inflationary pressures, resulting in elevated volatility across energy and financial markets. Despite these external challenges, India's economic indicators remained broadly constructive, with manufacturing and services activity continuing to expand and exports reaching record levels. Inflation remained contained at 3.48%, reflecting the economy's resilience even as trade balances and foreign exchange reserves responded to evolving global conditions.

Domestic Macro Highlights

Inflation: India's annual inflation rate rose to 3.48% YoY in April 2026 from 3.4% YoY in March, marking a one-year high. Under the new CPI series, food inflation jumped to 4.2% YoY from 3.87% YoY in the prior month, while accommodation price growth slowed to 1.71% YoY from 2.88% YoY. Transportation costs fell 0.01% YoY compared to a -0.05% YoY decline in March, despite rising wholesale energy prices driven by the Middle East war and a weaker rupee. On a monthly basis, domestic consumer prices increased by 0.27% MoM over the previous month.

India CPI Inflation



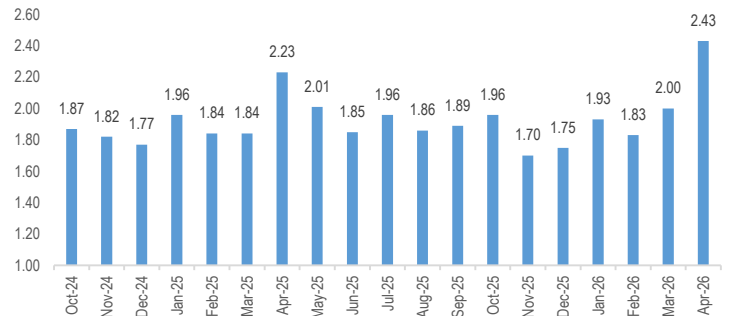
Source: MoSPI

India's April Trade Deficit Widens Significantly: India's merchandise trade deficit expanded to \$28.38 billion in April 2026 from \$20.67 billion in March, overshooting poll estimates of \$26.5 billion due to the Middle East war. Monthly imports climbed to a six-month high of \$71.94 billion against \$59.59 billion in March, driven by an 84% MoM surge in gold imports to \$5.63 billion and a 53% MoM spike in oil shipments to \$18.63 billion (up from \$12.18 billion). Meanwhile, merchandise exports rose to a decadal high of \$43.56 billion compared to \$38.92 billion in March, while estimated services exports of \$37.24 billion and imports of \$16.66 billion partially offset the goods gap.

India's May PMI Hits Multi-Month High: The HSBC India Manufacturing PMI rose to a three-month high of 55.0 in May 2026 from 54.7 in April as finished goods stocks reached an 11-year high. Concurrently, the Services PMI inched up to 58.9 in May from 58.8 in April, marking the strongest expansion since last November even as new orders grew at a softer pace. Driven by strong domestic demand, manufacturing output and purchasing gains accelerated, while services employment expanded at the fastest rate in nearly a year. Despite sharply climbing manufacturing input costs linked to geopolitical tensions, output price inflation remained moderate, while services sector input and output inflation both eased.

GST Collections: India's gross GST collections eased to ₹1.94 lakh crore in May 2026 from a record ₹2.42 lakh crore in April, though revenues grew 3.2% YoY against ₹1.88 lakh crore in May 2025. Net GST revenue rose 3.3% YoY to ₹1.67 lakh crore (vs ₹1.62 lakh crore in May 2025), supported by a 19.1% YoY jump in gross import revenue to ₹59,654 crore, while gross domestic revenue fell 2.6% YoY to ₹1.35 lakh crore. Total refunds rose 2.6% to ₹27,281 crore, pushing cumulative FY27 refunds up 10.9% to ₹59,063 crore, while two-month cumulative gross collections grew 6.2% YoY to ₹4.37 lakh crore.

India's Gross GST Collections decreased from Rs. 2.42 lakh crore in April-26 to Rs. 1.94 lakh crore in May-26.



Source: gst.gov.in

India's Forex Reserves Drop to One-Year Low: India's total foreign exchange reserves fell by \$7.51 billion week-on-week to \$681.38 billion for the week ended May 22, 2026, dropping from \$688.89 billion the previous week. The sharp contraction was heavily driven by a \$4.53 billion drop in gold holdings to \$114.79 billion (down from \$119.32 billion), coupled with a \$2.87 billion decline in foreign currency assets to \$543.03 billion (down from \$545.90 billion).

India's March Industrial Growth Hits Five-Month Low: India's industrial production rose 4.1% YoY in March 2026, down from a revised 5.1% YoY expansion in February to record its slowest growth in five months. Manufacturing output (over 77% of total production) slowed to 4.3% YoY from a 5.9% YoY increase in the previous month, while electricity growth decelerated to 0.8% YoY from 2.3% YoY due to higher feedstock costs. Conversely, mining output picked up, surging 5.5% YoY compared to 3.1% YoY in February. The overall moderation reflects the impact of the Middle East war, which pressured the rupee and slowed goods production via rising energy prices and inflationary risks.

Global Macro Highlights

Trade & Tariff Implications

US Tariff Refunds Face Court Limbo: The Trump administration announced plans to appeal a federal court order widening a \$166 billion tariff repayment pool to all eligible importers of record. This follows a U.S. Supreme Court ruling invalidating broad duties imposed under a 1974 trade law due to lack of congressional authority. U.S. Customs and Border Protection had already processed \$20.6 billion in repayments out of \$85 billion in accepted applications as of May 22, 2026, with online claims active since May 12.

Impacts of Middle East conflict set to reshape energy investment plans as disruptions put focus on security: Global energy investment is projected to grow 5% real-term to reach \$3.4 trillion in 2026 (up from a record \$3.3 trillion in 2025), driven by a massive shift toward domestic security following a near-closure of the Strait of Hormuz. The IEA reports that \$2.2 trillion will flow to clean energy systems - including \$665 billion for renewables (with solar accounting for \$365 billion), over \$80 billion annually for nuclear, and \$550 billion for electricity grids, marking a nearly 20% YoY increase. Conversely, spending on fossil fuel supply will absorb \$1.2 trillion, with natural gas reaching a 10-year high of \$330 billion (up over 10% via U.S. and Qatari LNG) and coal rising to a 14-year high of \$180 billion (with China handling nearly 70%). Meanwhile, upstream oil investments will fall below \$500 billion, marking a contraction for the third consecutive year despite elevated geopolitical crude pricing.

Geopolitical Landscape

Euro Zone factory growth slows as costs surge: The S&P Global Eurozone Manufacturing PMI fell to 51.6 in May 2026 from April's near four-year high of 52.2, though it finished slightly ahead of a preliminary flash estimate of 51.4. While marking a fourth consecutive monthly expansion, factory output growth slowed to its weakest pace since January as the output index dipped to a four-month low of 51.3 (down from 52.3 in April) due to stagnating new orders and declining export demand. Driven by energy shocks from the Middle East war, input costs escalated at their steepest rate since May 2022, forcing firms to raise factory-gate charges at the fastest pace in three-and-a-half years.

China's April industrial output hits multi-year low: China's industrial production expanded 4.1% YoY in April 2026, slowing sharply from a 5.7% YoY rise in March. The reading marked the softest pace of expansion since July 2023 as macroeconomic fallout from the Iran war weighed on domestic economic momentum. Growth moderated across both manufacturing (4.0% YoY vs 6.0% YoY in March) and mining (3.8% YoY vs 5.7% YoY), whereas the utilities sector-comprising electricity, heat, gas, and water - accelerated to 5.3% YoY from 3.5% YoY in the prior month.

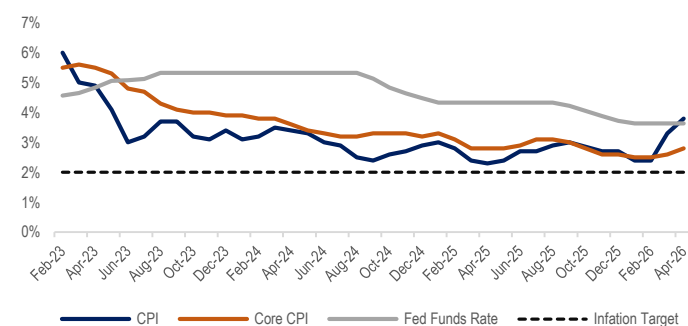
Monetary Strategies & Inflationary Pressures

Fed Policymakers Signal Potential Rate Hikes: U.S. Federal Reserve officials signaled on May 29, 2026, that the central bank may need to implement future interest rate hikes if Middle East energy shocks drive persistent inflation. Even traditionally dovish members, like Vice Chair for Supervision Michelle Bowman, conceded that her monetary outlook could shift toward tightening if war disruptions extend into the second half of the year. Financial markets are currently betting that the Fed will lift its benchmark interest rate above the current 3.50%–3.75% range by the end of 2026, reversing initial pre-war expectations of rate cuts.

US Producer Prices Surge by Most in Four Years: The US Producer Price Index (PPI) for final demand surged 1.4% MoM in April 2026, marking the largest monthly gain since March 2022 and accelerating from an upwardly revised 0.7% MoM advance in March. On an annual basis, the PPI jumped 6.0% YoY last month, reflecting the biggest twelve-month advance since December 2022 following a 4.3% YoY increase in March.

US Inflation and Interest Rates

Benchmark interest rates and YoY change in the CPI Inflation



Source: Trading Economics, Federal Reserve

US April Inflation Hits Multi-Year High: The annual US inflation rate accelerated to 3.8% YoY in April 2026 from 3.3% YoY in March, marking the highest rate since May 2023 due to an Iran war oil shock. Energy costs saw their steepest surge since September 2022 at 17.9% YoY (vs 12.5% YoY in March), driven by gasoline at 28.4% YoY (vs 18.9% YoY) and fuel oil at 54.3% YoY, while shelter rose to 3.3% YoY (vs 3% YoY) and food recorded 2.3% YoY (vs 2.7% YoY). Monthly CPI rose 0.6% MoM, easing from March's 0.9% MoM jump which was the largest since June 2022. Meanwhile, the core inflation rate edged up to a multi-month high of 2.8% YoY from 2.6% YoY in March and increased 0.4% MoM on a monthly basis, up from 0.2% MoM in both February and March.

Global Growth Projections:

IMF Upgrades UK Growth Forecast Amid Risks: The International Monetary Fund (IMF) upgraded its 2026 UK growth forecast to 1%, up from its previous estimate of 0.8%, noting the economy entered the latest global shock with more momentum than expected after expanding 0.6% QoQ in the first three months of the year. However, the body warned that the ongoing Iran war and domestic political uncertainty following poor election results for the Labour government could trigger higher energy and food prices, threatening household energy bills with a typical £221 annual increase. While inflation is expected to rise temporarily, the IMF advised that keeping the Bank of England's benchmark interest rate steady at 3.75% for the remainder of the year should suffice to return inflation to its 2% target by the end of 2027.



Equity Market

Geopolitical Risks and Oil Shock Drive Market Volatility

Geopolitical developments in the Middle East remained a key driver of market sentiment during the month, keeping energy markets sensitive to potential supply disruptions and crude oil prices elevated near USD 95/bbl. While the broader macro environment remained uncertain, Indian markets continued to benefit from resilient domestic participation and improving valuation comfort. Investors remained focused on the impact of higher energy prices on inflation, trade negotiations between major economies, and the outlook for corporate earnings. Against this backdrop, markets are increasingly balancing near-term risks with India's strong structural growth prospects.

Equity Outlook

Indian equities paused after April's strong rally, with the Nifty 50 declining 1.9% in May amid elevated geopolitical tensions and crude oil volatility. However, broader markets remained resilient, with the Nifty Midcap 100 and Smallcap 100 gaining 3.2% and 0.7% respectively, supported by robust domestic flows. FIIs remained net sellers of ~₹55,900 crore, while DIIs more than offset the outflows with net purchases of ~₹82,600 crore. While near-term volatility may persist due to geopolitical and trade-related uncertainties, improving earnings expectations and valuations closer to long-term averages continue to provide support to the domestic equity market.

Post a strong rally in April Indian equities took a breather in May as Geopolitical developments remained a key influence on investor sentiment. While concerns around direct military escalation in the Middle East moderated during the month, tensions in the region continued to keep energy markets sensitive to supply-side disruptions. Crude oil prices remained elevated due to the continued U.S. naval blockade around the Strait of Hormuz.

While the Nifty 50 declined by 1.9% during the month, while broader markets outperformed for the second month in a row. The Nifty Midcap 100 and Nifty Smallcap 100 indices were up by 3.2% and 0.7% for the month. FIIS continued to be net sellers in Indian equities to the extent of ~Rs. 55,900 cr in May-26 while DIIs more than offset the FII selling pressure with net purchase of ~Rs. 82,600 cr.

Geopolitical tensions are likely to remain elevated in the near term which may lead to heightened volatility till the time we do not see any concrete developments on an US-Iran peace deal. For India, elevated crude oil prices remain an important macro variable due to the country's dependence on energy imports. Persistently high energy prices have the potential to keep imported inflation elevated, widen the current account deficit, and delay the pace of global monetary easing.

While crude oil prices continue to remain elevated, the benchmark Brent prices have come down in the last one month from around USD 110/bbl to ~USD 95/bbl on hopes of positive developments on the US Iran peace deal.

Though crude prices will be one of the variables driving market movements in the near-term, progress on the India US trade deal will also come in focus with the U.S Government proposing new import duties of 12.5% on 54 countries (including India and China) and 10% on six other countries under section 301. The section 301 tariffs are expected to replace the universal 10% tariff imposed by the U.S. president under Section 122 of the Trade Act of 1974.

Valuations too are closer to long-term averages, particularly within large-cap stocks with the Nifty trading at close to 10% discount to its long period average while earnings growth is expected to accelerate in 2HFY27. We continue to believe that the Nifty could hit a new all-time high later this year once the uncertainty around the US Iran conflict starts abating.

We continue to maintain our view that current market level presents a compelling entry point given that valuations are much closer to long period averages and a gradual deescalation of the US Iran war should help propel Indian markets to all-time highs later this year. Our preferred sectors are Financials, Industrials, Power, OMCs, Real Estate, and Auto. We remain underweight on, mid-cap IT, Cement, and Telecom.



Debt Market

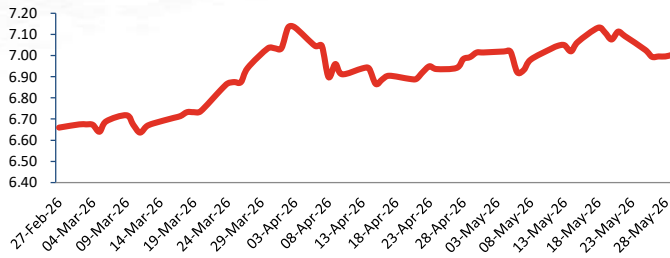
Markets at the Crossroads of Liquidity and Inflation

Bond markets navigated a complex environment marked by tightening domestic liquidity, evolving inflation dynamics, and heightened geopolitical uncertainty. While supportive inflation conditions provided comfort to policymakers, fluctuations in global energy markets and sovereign bond yields continued to influence market sentiment. The central bank's substantial surplus transfer strengthened the government's fiscal position, even as liquidity conditions became less accommodative during the month. Global fixed income markets remained sensitive to changes in monetary policy leadership and inflation expectations, reinforcing the interconnected nature of bond markets.

Fixed Income Outlook

India's 10-year G-sec yield remained flat in May 2026, closing at 7.0%. During the month, yields were volatile, mainly moving in line with changes in global crude oil prices. The RBI also introduced a new 10-year G-sec during the month. The coupon on this bond was set at 6.94%, and its yield closed at 6.98% in May 2026.

India's 10-Year G-Sec Yield remained flat in May 2026
Indian 10 Year G-Sec Movement (For last 3 months)



Source: CCIL

The RBI's MPC voted unanimously to keep the repo rate unchanged at 5.25%. The MPC also decided to continue with the neutral monetary policy stance. Real GDP growth for FY27 is projected at 6.6%, 30 bps lower than 6.9% estimated in Apr 2026 MPC. CPI inflation for FY27 is projected at 5.1%, 50 bps higher than 4.6% estimated earlier.

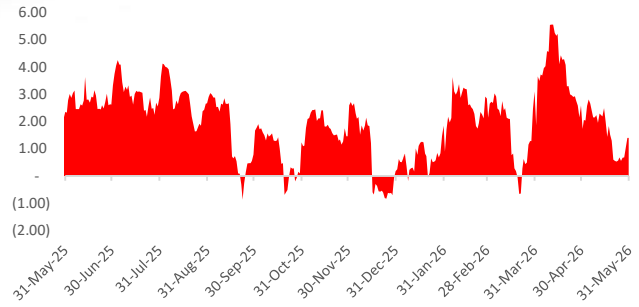
Importantly, the RBI, along with the government, announced a set of coordinated measures to boost capital inflows, combining both short-term actions and structural reforms. These steps, along with improving flows, could lend near-term support to the rupee.

The Governor, in the post policy press conference, highlighted that the MPC would look out for any generalised impact on inflation and household expectations to determine future rate action. On policy rates, the RBI remained non-committal on forward guidance.

The RBI announced a record dividend transfer of INR 2.87 lakh cr to the government for FY26 (INR 2.69 lakh cr in FY25). In the Union Budget, the government had estimated a total dividend of INR 3.16 lakh cr from the RBI, nationalised banks, and financial institutions combined. The RBI also decided to keep its Contingent Risk Buffer (CRB) at 6.5% of its balance sheet, which is within the permitted range of 4.5% to 7.5%.

Liquidity in India's banking system tightened in May 2026. The average surplus declined to INR 1.64 lakh cr, compared to INR 3.9 lakh cr in April 2026. This drop was mainly due to continued FII outflows and the RBI's intervention in the forex market, which absorbed liquidity. Towards the end of May, the RBI conducted a USD/INR buy-sell swap auction worth \$5 bn to inject liquidity into the banking system.

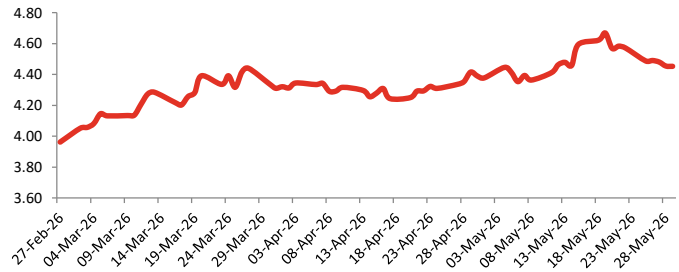
Banking system liquidity tightened in May 2026
India's banking system liquidity (Rs Lakh cr)



Source: RBI

The US 10-year Treasury yield increased by 6 bps in May, closing at 4.45%. During the month, it rose to a high of 4.7%, mainly due to geopolitical tensions between the US and Iran, which pushed global crude oil prices higher. As the situation improved with an extended ceasefire between the US and Iran, crude oil prices eased below the \$100 per barrel mark. This led to a decline in yields towards the end of the month.

US Yields rose to 4.45% in May 2026
US 10 Year G-Sec Movement (For Last 3 Months)



Source: Investing.com

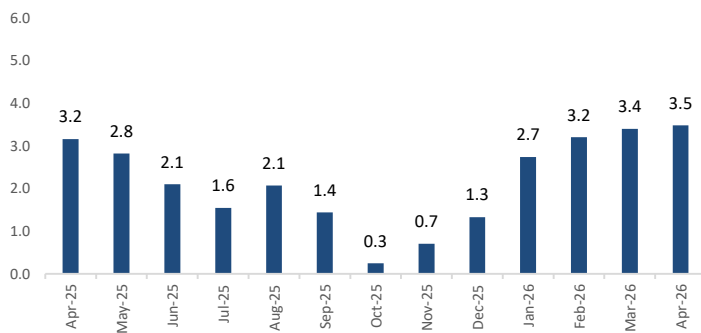
During the month, Kevin Warsh was appointed as the new US Federal Reserve Chair, taking over from Jerome Powell in May 2026. He assumes leadership at a time of elevated inflation and geopolitical uncertainty, especially due to rising energy prices. While markets expect some continuity in policy, Warsh is seen as having a strong focus on controlling inflation, which could keep interest rates higher for longer. His stance and communication will be closely watched by markets going forward. As per CME FedWatch, the market is currently expecting the US Fed to hike rates by Dec 2026, with a 52% probability (at the time of writing).

US CPI inflation rose to 3.8% YoY in Apr 2026, up from 3.3% in March, marking the highest level in nearly three years. The increase was largely driven by a sharp rise in energy prices, especially fuel, along with some broad-based price pressures. Core inflation (ex-food and fuel) remained relatively moderate at 2.8% YoY, but still above the Fed's 2% target, indicating underlying inflation pressures remain sticky.

Fixed Income Outlook

India's CPI inflation for April 2026 remained low at 3.48% YoY, as the impact of higher energy prices on households has been limited so far. This provides a favourable starting point for inflation, despite rising global energy and commodity prices, giving the RBI enough room before turning hawkish. However, risks to inflation remain on the upside, driven by higher energy prices, rupee depreciation, and potential risks from El Niño and a below-normal southwest monsoon.

India's CPI Inflation remained low in May 2026 Driven by higher energy prices CPI Inflation YoY%



Source: MoSPI

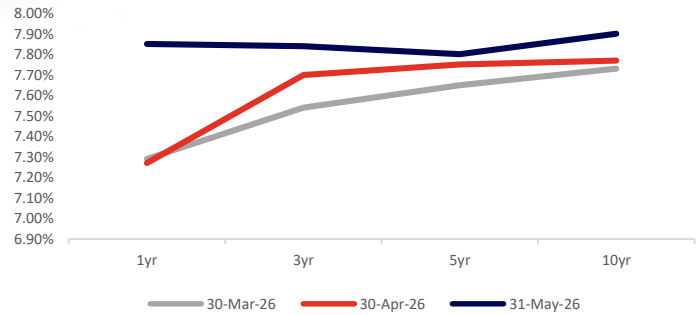
The RBI did not use interest rates to support the currency and kept the policy rate and stance unchanged, as expected. We expect RBI to keep rates unchanged in the August policy, with a 50-bps rate hike likely in FY27, possibly starting from the October policy.

The RBI and government took coordinated steps to boost capital inflows through both short-term measures and long-term structural reforms. While the exact impact of these measures is difficult to quantify at this stage, capital inflows could be around \$40–50 bn, with potential for higher inflows if global conditions stabilize. The Indian rupee is expected to appreciate in the near term, with the USD/INR likely to move towards 93 as capital flows gradually increase.

Liquidity conditions are expected to remain comfortable in the coming quarter, supported by capital inflows, potential RBI sterilization, and reduced pressure on the rupee.

Spreads in the 1-3 year AAA PSU and NBFC corporate bond segment remains highly attractive, in the range of 130–240 bps over corresponding G-secs, offering a compelling accrual opportunity in the current interest rate environment.

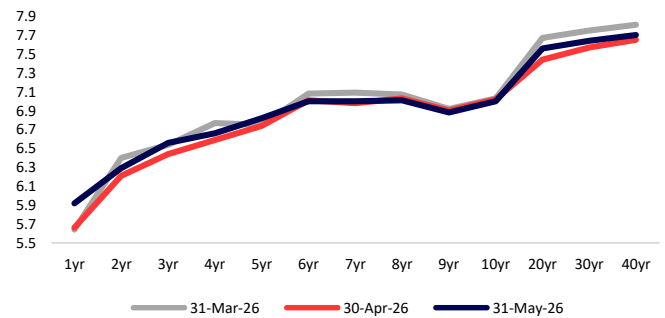
AAA PSU Corporate Bond Yield Curve



Source: Bloomberg

The G-sec yield curve is expected to flatten in the near to medium term, mainly due to higher issuance in short to medium term bonds and as the market starts preparing for the RBI's next rate hike cycle.

India's G-Sec Yield Curve continues to remain steep G-Sec Yield Curve



Source: Bloomberg

Demand-supply conditions for long-duration bonds remain weak, and the limited scope for meaningful fiscal consolidation could keep long-end yields elevated. Hence, investors should remain cautious on long-duration strategies.



Deep Dive

Copper: The Next Leg of the Commodity Supercycle

Commodity cycles rotate and the baton is passing. Precious Metals rallied first with Gold delivering >60% and Silver >140% returns in 2025, meanwhile, Copper was also up 40% in 2025 but still trades at multi-decade lows vs. both Gold and Silver. That gap matters because Copper's demand drivers, e.g., Power grids, AI, data centres, EVs, and Global electrification capex, are non-discretionary, while supply is constrained, with no major tier-1 Copper discoveries as well as declining Chilean copper output. Furthermore, with the DXY softening and inflationary pressures mounting, macro indicators suggest a potential structural re-rating for Copper.

Copper: The Next Leg of the Commodity Supercycle

Executive Summary:

There is a notable historical precedent for the inclusion of commodities in a diversified asset allocation mix. Relative to US equities, commodities are trading near 25-year lows on the S&P GSCI / S&P 500 ratio, a level that has historically coincided with shifts in relative asset class performance cycles over multi-year horizons. With US equity valuations stretched, higher-for longer inflation embedded, and de-dollarisation accelerating, commodities represent an asset class trading at lower relative levels.

Within commodities, supercycles do not move uniformly. The 2024-25 phase belonged decisively to precious metals – Gold rallied roughly >60% and Silver an extraordinary 148% in CY2025 alone. Market data indicates a potential rotation toward base metals, with Copper emerging as a key metric of this trend.

Copper consumption is closely linked with three long-term structural drivers: (i) global electrification, (ii) AI data-centre build-out, and (iii) the energy transition, running into a supply pipeline that has barely grown for a decade. The metal made fresh all-time highs at ~\$14,800/t in 1QCY26 and currently trades around \$13,500/t (see [here](#)).

Importantly, from a valuation standpoint, the Copper-to-Gold and Copper-to-Silver ratios are at or near multi-decade lows (Refer figure 9 & 10 in the note below). Historically, such extremes have preceded periods of meaningful copper outperformance versus precious metals.

For Indian investors, dedicated copper ETFs are not yet avaieregulated routes: MCX futures for the sophisticated and the Nifty Metal basket for equity allocators, and global copper ETFs via the LRS route for UHNI portfolios.

1. Why Commodities? Why Now?

Before discussing “Copper” specifically, an important structural question is how commodities behave as an asset class.

A. Commodities currently trade at the lower end of their historical valuation range relative to US Equities.

The S&P GSCI commodity index, measured against the S&P 500, has compressed to levels last seen in the late 1990s. The long-term median S&P GSCI to S&P 500 ratio is roughly 25%; today it sits closer to 11%. Historically, when this ratio has compressed to these levels, subsequent multi-year periods have frequently seen commodities outperforming equities on a relative basis, e.g., the 2000–08 Commodity supercycle, began from similar valuation floors. Historically, statistical mean reversion has been a factor observed in long-term asset ratios.

Figure - 1: Commodities (S&P GSCI) to US Equities (S&P 500) Ratio...



Source: Bloomberg, HDFC TRU. Note: Priced as of 30 April, 2026.

Figure - 2: Commodities (S&P GSCI) vs. US Equities (S&P 500) – 10-year Rolling Annualized Alpha (%)



Source: Bloomberg, HDFC TRU. **Note:** Priced as of 30 April, 2026.

B. The Macro Backdrop is supportive of “Hard Assets”.

i) Higher-for-longer Inflation. Reshoring, defence spending and the energy transition, are all medium-term inflationary forces. Commodities have historically shown correlation with rising goods prices.

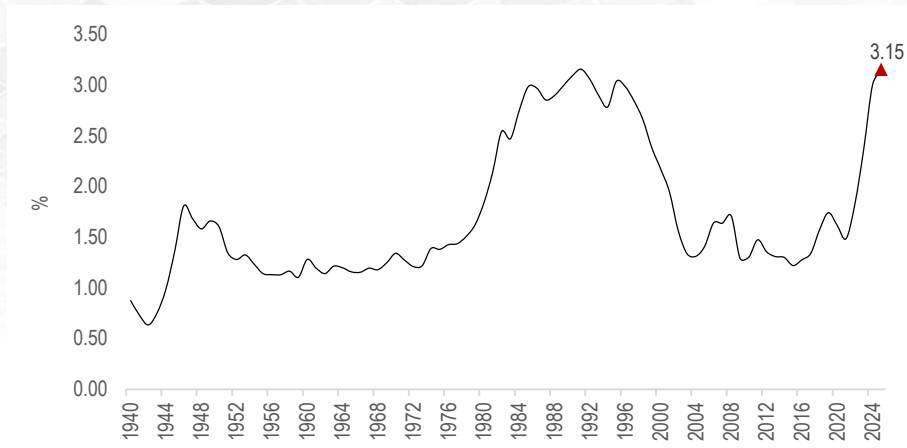
Figure - 3: The US 10-year Breakeven Inflation Rate and Commodities exhibit a very strong correlation...indicating higher inflation expectations in the near to medium-term...



Source: FRED, HDFC TRU.

ii) Fiscal dominance and currency debasement. US federal debt now exceeds 120% of GDP and interest costs are the single fastest-growing line item in the budget. Central banks globally have responded by adding Gold at a record pace. In environments characterized by high fiscal outlays, market participants often evaluate hard assets as long-term allocations rather than short-term tactical positions.

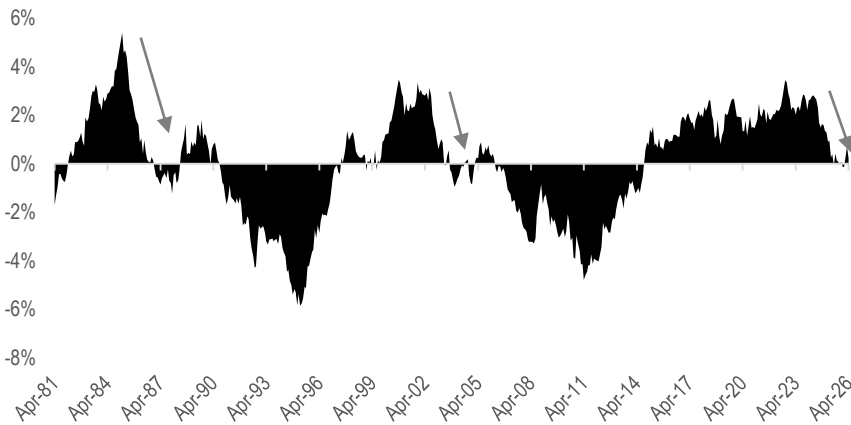
Figure - 4: US Federal Outlays: Interest as % of Gross Domestic Product (GDP) at multi-decade highs...



Source: FRED, HDFC TRU.

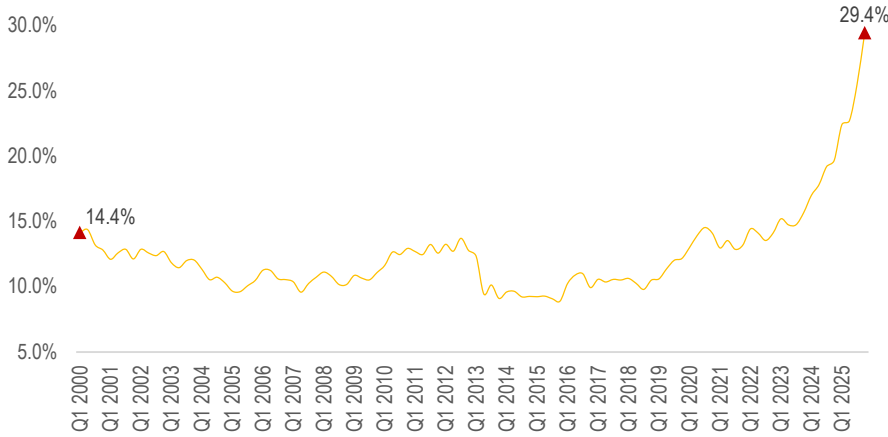
iii) **De-dollarization theme accelerating.** A weak DXY is mechanically positive for USD-denominated commodities and has historically removed a major headwind from metals. Moreover, central banks, especially in emerging markets, are shifting reserves away from US Treasuries into Gold.

Figure - 5: The DXY Index (10-year Rolling Returns %)



Source: Bloomberg, Tavi Costa, HDFC TRU.

Figure - 6: Share of Gold in the Total FX Reserves inching up...primarily driven by EM Central Banks (e.g. China)...



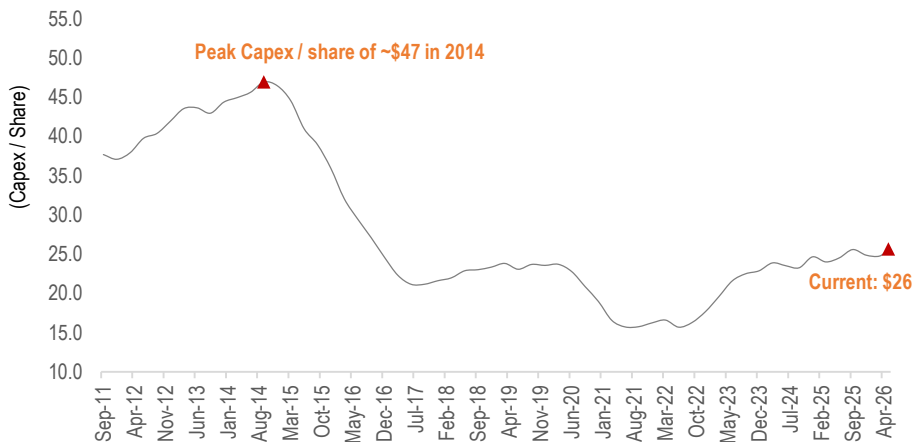
Source: Bloomberg, HDFC TRU. Note: Priced as of 30 April, 2026.

C. A decade of under-investment has set up the Supply side

The commodity bear market of 2011–2020 was brutal for producers. Mining capex collapsed by more than 40% from its peak, Oil & Gas E&P spending stagnated, and ESG pressures further restricted new project development across the resource complex. Discoveries of new tier-1 copper, oil and gas deposits have effectively flatlined since 2015.

Demand, meanwhile, has accelerated, such as, electrification, AI, defence & emerging-market urbanisation are all commodity-intensive. From an economic perspective, structural supply constraints coupled with rigid demand dynamics typically exert upward pressure on baseline market clearing prices. Current conditions are consistent with those observed at the onset of previous multi-year commodity cycles.

Figure - 7: MSCI ACWI Global Metals & Mining Index: TTM Capex/share down ~45% from the 2014 peak...



Source: Bloomberg, HDFC TRU.

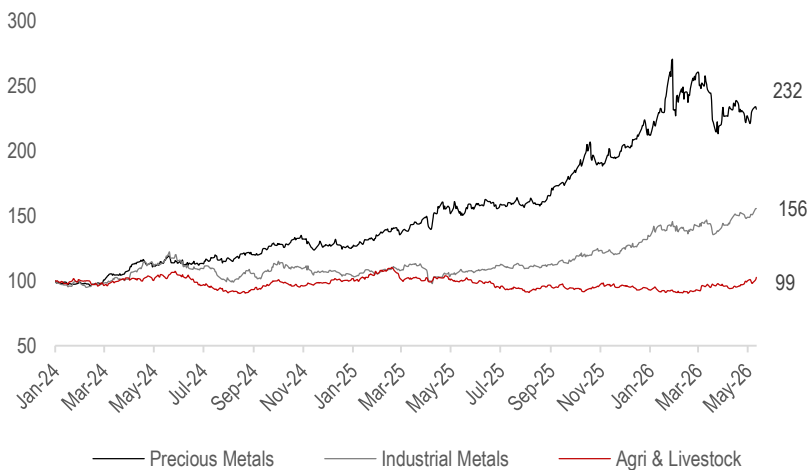
2. Where are we in the Commodity Cycle?

Long-cycle commodity bull markets: the 1970s, the 2002–08 BRICs cycle, and the post-2020 hard-asset reset share a remarkably consistent internal rhythm. They rarely move as one. Capital rotates from the metals most sensitive to monetary debasement (gold first, then silver) into those most sensitive to real-economy demand (industrial and base metals), and finally into agri commodities and energy.

The current cycle has followed that template almost to the letter:

- **Phase 1 (2024-2025); Precious metals lead.** Gold re-rated as central banks accumulated record tonnage and the US fiscal trajectory deteriorated. By end-2025, gold was up ~66% for the year and silver had compounded ~142%, breaching \$100/oz in early 2026.
- **Phase 2 (now unfolding); Base metals take the baton.** Copper and Aluminium have begun to rerate, but is still in the early innings. The thesis is no longer purely cyclical, it is structural, driven by physical demand from electrification, grid upgrades, AI infrastructure, and EVs.
- **Phase 3 (12–24 months out); Broadening to Agri and Energy.** If history rhymes, agri-commodities will follow.

Figure - 8: Performance Scorecard



Source: Bloomberg, HDFC TRU. **Note:** We have used the S&P GSCI Indices as proxy for Precious Metals, Base Metals and Agri.

The chart makes the rotation case visually. Precious Metals have more than doubled predominantly driven by Silver, but Industrial Metals (led by Copper) are up only ~55% over the same window.

Table – 1: In price performance terms, “Copper” has barely started...

Asset (in USD terms)	2024	2025	2026 YTD	2-yr CAGR
Gold	+27%	+65%	+9%	+41%
Silver	+22%	+148%	+21%	+75%
Copper	+4%	+41%	+14%	+18%
S&P 500 Index	+24%	+16%	+8%	+19%
Nifty 500 Index	+12%	+2%	-12%	-2%

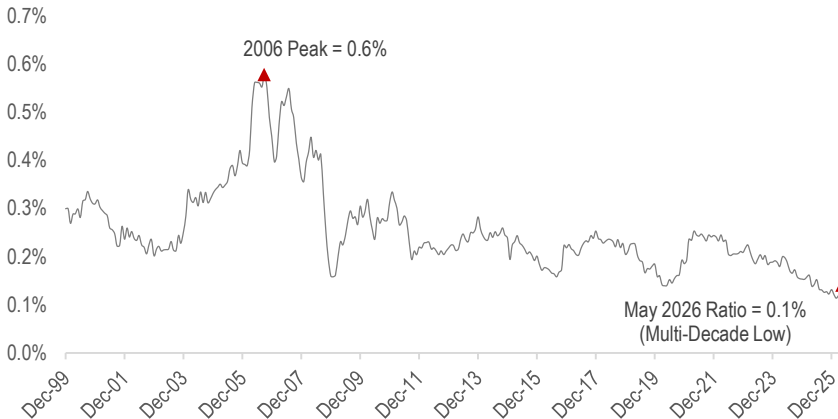
Source: Bloomberg, HDFC TRU. **Note:** Priced as of 12 May, 2026.

3. The Valuation Signal

Ratio analysis between commodities is one of the cleanest ways to identify late-cycle exhaustion in leaders and early-cycle opportunity in laggards. Two ratios are particularly important right now.

A. The Copper-to-Gold ratio; has been falling within a well-defined descending channel since 2011 and is now testing the lower boundary. In 25 years of data, readings below roughly 0.15% have been followed by significantly stronger forward returns for copper.

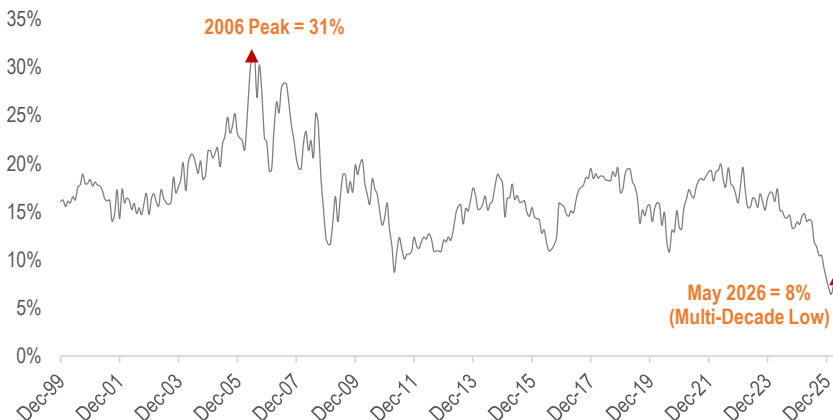
Figure - 9: Copper-to-Gold ratio at multi-decade lows...



Source: Bloomberg, HDFC TRU. Note: Priced as of 12 May, 2026.

B. The Copper-to-Silver ratio. Silver is roughly 50% an industrial metal, so the Copper-to-Silver ratio strips out some of the safe-haven distortion that affects Gold. Even on this metric, Copper has been left behind.

Figure - 10: Copper-to-Silver ratio also at multi-decade lows...



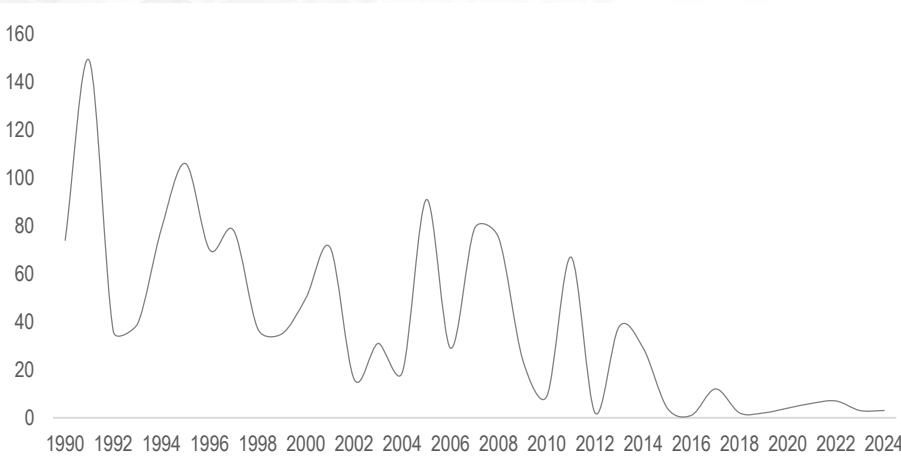
Source: Bloomberg, HDFC TRU. Note: Priced as of 12 May, 2026.

Historically, such extremes tend to mean-revert. This can statistically occur via a correction in precious metals, a catch-up in copper, or a combination of both based on evolving supply-demand dynamics.

4. Copper: Structural Demand–Supply Dynamics

A. Copper New Discoveries at Record Lows. The mining sector is navigating a structural shift in production pipelines, as new copper discoveries have declined, failing to offset the natural depletion of existing aging assets.

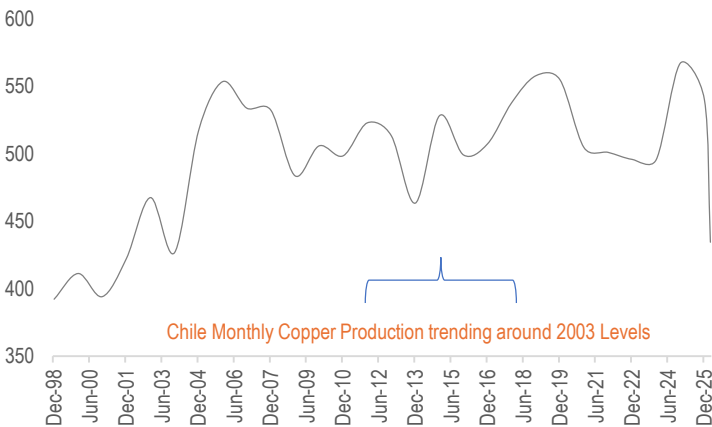
Figure - 11: Copper – New Discoveries



Source: S&P Global, Tavi Costa, HDFC TRU. **Note:** Discovery = The deposit must contain at least 500k MT of Copper.

B. Chile Production. Chile’s shifting Copper output metrics have influenced global supply calculations. As the world’s top producer, operational setbacks, compounded by water scarcity and a lack of new high-grade discoveries, have tightened the market for Copper concentrates. This supply framework remains a key variable as global supply chains adjust to offset changes in Chilean production volumes amidst rising demand for energy transition metals.

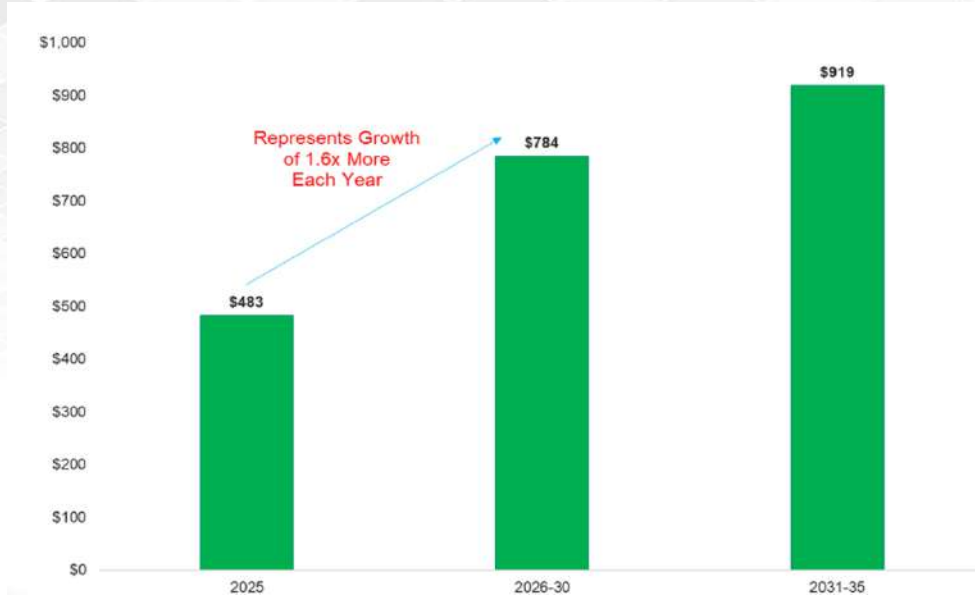
Figure - 12: Chile – Copper Monthly Production (in ‘000 tons)



Source: Bloomberg, HDFC TRU.

C. Energy Security and Electrification. The ongoing Middle East conflict is driving up energy costs, forcing vulnerable nations to quickly switch to local renewable energy and upgrade their power grids. This massive expansion of electrical infrastructure is highly positive for Copper, as the metal is essential for the wiring and components needed to connect new power systems. To protect its own infrastructure, the U.S. has declared its power grid a national security priority, using the Defense Production Act (DPA) to secure it.

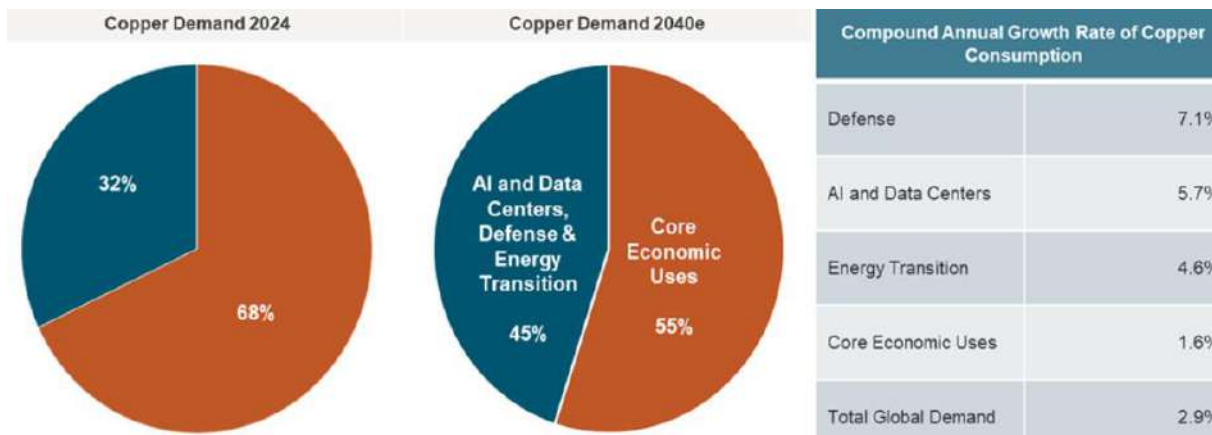
Figure - 13: Annual Grid Investments Forecasted to Grow



Source: BNEF Energy Transitions Trends 2026. NZE Forecast, Sprott, HDFC TRU.

D. Shift towards less price-sensitive end uses. The landscape of Copper demand is undergoing a fundamental shift, moving away from price sensitive cyclical industries toward strategic, priority-driven sectors. Over the next two decades, projections suggest that growth could be driven primarily by defense, AI and data centers, and the energy transition segments, which have historically shown less sensitivity to traditional economic fluctuations.

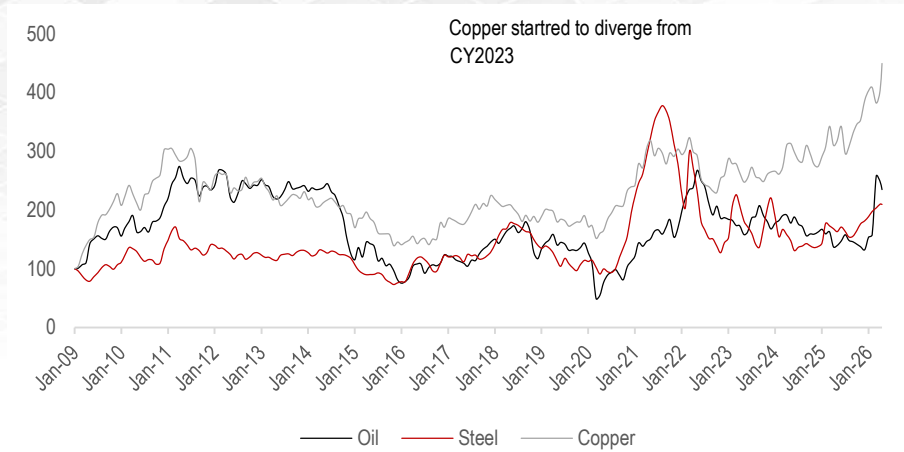
Figure - 14: By 2040, high-growth strategic categories (AI, Defense, etc.) are projected to represent 45% of total demand, up from 32% in 2024, effectively decoupling a significant portion of the copper market from broader economic volatility



Source: S&P Global, January 2026. 2040e refers to estimated demand forecasts.

E. Gradual Decline in Correlation with Economic Cycle Commodities (like Oil & Steel). Copper is increasingly decoupling from traditional economic indicators like Oil / Steel, marking a significant shift in its market behavior. While these commodities once moved in tandem due to their shared reliance on the global business cycle, Copper is now being propelled by unique structural drivers, specifically the energy transition and high-tech infrastructure.

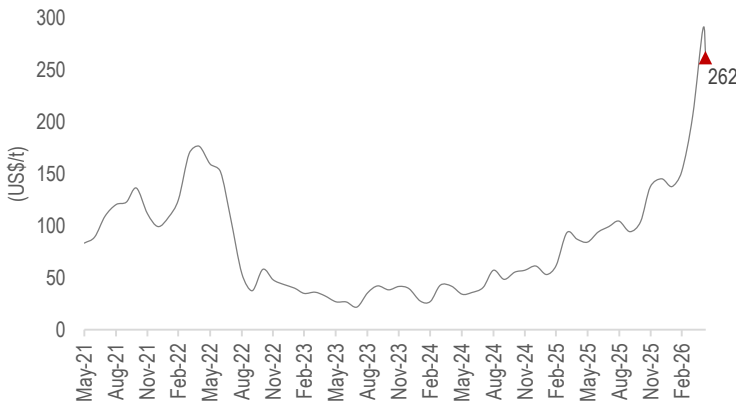
Figure - 15: Copper has decoupled from other Important Business Cycle Commodities like Oil and Steel...



Source: Bloomberg, HDFC TRU.

F. Sulfuric Acid Price Shock. The sharp spike in sulfuric acid prices is creating a supply-side bottleneck that places significant upward pressure on Copper prices. It is a critical input required to extract Copper and accounts for roughly 20% of Global Copper production, and the surging cost of acid has dramatically increased the break-even points for miners, particularly in Chile and Africa. This logistical constraint influences the marginal cost of production, shifting the baseline cost curves for global mine operations.

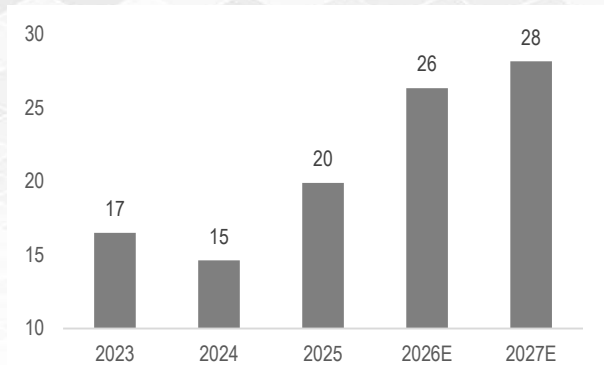
Figure - 16: Sulfuric Acid Price (USD/MT) is up ~80% on a YTD basis and >200% YoY



Source: Bloomberg, HDFC TRU.

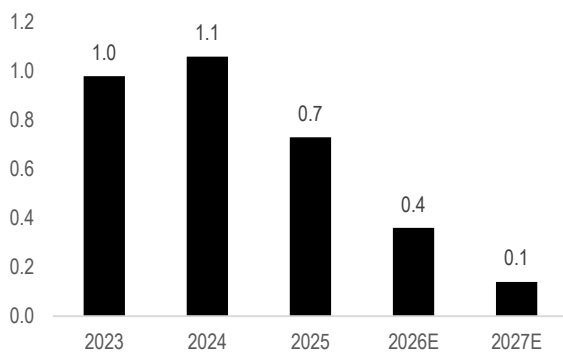
G. Copper Miner's Healthy Profitability and Strong Balance Sheet. According to Sprott AMC (see [here](#)), at the current spot price of ~\$13-14k per metric ton, 99% of the world's copper mines are operating below their AISC, meaning virtually every mine is profitable, with the median copper mine carrying an AISC margin of ~55%. Infact, 9 out of 10 copper mines have operated profitably every year since 2020, a span that encompasses multiple commodity cycles and macro shocks.

Figure - 17: STOXX Global Copper Miners Index: ROE (%)



Source: Bloomberg, HDFC TRU.

Figure - 18: STOXX Global Copper Miners Index: Net Leverage (x)



Source: Bloomberg, HDFC TRU.

5. Key Risks to the Thesis

Copper is a cyclical commodity, and an evaluation of its structural drivers must be balanced against potential near-term risks, which include:

- **Sustained US-Iran Conflict.** According to J.P. Morgan, every 10% increase in Oil prices due to a supply shock could dampen global GDP by 0.16%. The beta of copper demand to global GDP is estimated at 1.2, meaning that if global GDP falls by 1%, copper demand growth could fall by 1.2% as a result.
- **US recession risk.** A meaningful US slowdown would compress base-metal demand even with AI/grid tailwinds intact.
- **Near-term surplus possible.** According to International Copper Study Group (ICSG), the refined copper market is expected to show a surplus of 96k tonnes in 2026, due to weaker demand and higher secondary output. A larger surplus of 377k tonnes is forecast for 2027 on additional supply.
- **Substitution at extreme prices.** Sustained prices above \$14,000-\$15,000/tonne incentivise substitution.
- **China demand wobble.** China is ~60% of global copper demand. Any weakness in demand relating to transport, construction, power and appliances will be net negative.

6. Our Take

Analysis of structural factors suggests copper is experiencing market dynamics different from typical historical cycles, supported by (1) a stretched copper-to-gold ratio at multi-decade lows, (2) demand engines (grid, AI, EVs) that are non-discretionary, and (3) a supply pipeline that cannot respond inside 5–7 years, presents a combination of structural variables frequently analyzed together within global commodity markets.

Figure - 19: Copper Price (\$/lb)



Source: Bloomberg, HDFC TRU.

Reading Room



AI Disruption Wave

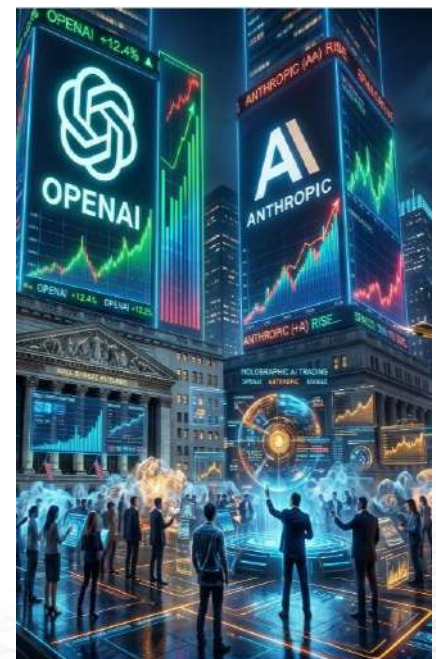
- **Rapid Acceleration of AI Capabilities:** AI has shifted from gradual improvement to a sudden leap (2025–2026), where systems can independently complete complex tasks—designing, coding, testing, and refining outputs with minimal human input.
- **From Tool to Replacement:** Leadership experts describe the layoffs as evidence of a systemic shift driven by AI adoption. With nearly 92,000 tech workers laid off in 2026 alone, the cumulative total since 2020 has reached almost 900,000.
- **Narrow Group Driving Global Change:** The future of AI is being shaped by a small group of researchers at leading firms (e.g., OpenAI, Google DeepMind). Most industry professionals are also reacting to - rather than controlling - this shift.
- **Mass Job Disruption Imminent:** Experts estimate up to 50% of entry-level white-collar jobs could be eliminated within 1–5 years. Roles involving screen-based cognitive work (analysis, writing, decision-making) are most vulnerable.
- **Public Perception Gap:** Many people underestimate AI because they rely on outdated or free versions. Current advanced models are significantly more powerful, creating a dangerous gap between reality and awareness.
- **Universal Impact Across Industries:** AI disruption is not limited to tech - it extends to law, finance, medicine, consulting, customer service, and more. Unlike past automation, AI improves across all knowledge domains simultaneously.

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AI IPO Boom & Anthropic's Rise

- **Anthropic Files for Major IPO:** Anthropic, the AI company behind Claude, has confidentially filed for an IPO, potentially happening as early as late 2026. This positions it among the most anticipated public offerings alongside OpenAI and SpaceX.
- **Part of a Historic Tech IPO Wave:** The upcoming IPOs of Anthropic, OpenAI, and SpaceX could trigger a massive influx of capital into the market—possibly one of the biggest wealth-creation moments in tech history.
- **Valuation Surge & Industry Leadership:** Anthropic recently surpassed OpenAI in valuation, reaching \$900 billion, compared to OpenAI's \$730 billion, highlighting intense competition at the top of the AI industry.
- **Explosive Growth Driven by Coding AI:** A key driver of Anthropic's rapid growth is its focus on AI-powered coding tools. Its annual revenue run rate has already exceeded \$47 billion, fueled by strong enterprise demand.
- **Focused Product Strategy:** Unlike competitors offering broad AI ecosystems (browsers, image tools, commerce), Anthropic has focused primarily on coding and enterprise solutions, which has proven highly effective.
- **Breakthrough Technology Adoption:** Models like Claude Opus 4.5 significantly improved coding capabilities, leading to widespread adoption by businesses and developers globally.

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