GRAVITYWELL RESEARCH

ISSUE 02 · VOL. I
JUNE 2026 · GLOBAL EDITION

Capital Axis

MONTHLY CAPITAL INTELLIGENCE · FOR INSTITUTIONAL INVESTORS

RATES ↑

OIL ↓

COVER STORY · GLOBAL MACRO

The Regime Break

In one June week, four central banks turned hawkish even as oil collapsed. That was the month the disinflation era ended.

01

The Power Bill

AI's $725bn constraint, and the $570bn debt engine behind it

02

India's Divergence

The one central bank that held while the world tightened

03

The Scenario Matrix

Bear, base, bull, and the portfolio built for each

3.8%	2.25%	1.00%	-21%	94.6
FED 2026 DOT · +40BP	ECB · 1ST HIKE SINCE '23	BOJ · 31-YR HIGH	BRENT · WORST MO. SINCE '20	RUPEE · OFF RECORD

GWR-2026-CA-002
GRAVITYWELL RESEARCH · GLOBAL MACRO DESK

Contents

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Capital Axis

FROM THE DESK · ISSUE 02 · VOL. I · JUNE 2026 · GLOBAL EDITION

EDITOR'S LETTER

The week the regime broke, and why cheaper oil couldn't save the rate cut.

Regimes rarely end on a date you can circle in advance. This one did. Between 11 and 17 June the European Central Bank raised rates for the first time since 2023, the Bank of Japan went to a level it had not seen since 1995, the Bank of England split with two members voting to hike, and a new Federal Reserve chair held steady while his colleagues quietly rubbed out the 2026 rate cut and pencilled in a rise instead. Four of the world's anchor central banks leaned the same way in the same week, which the disinflation years never managed.

What makes it strange is what oil was doing at the time. The Strait of Hormuz shock that began in February had pushed Brent above $120 by April. Then a US-Iran ceasefire on 17 June sent it down more than a fifth on the month, back into the low $70s, its worst month since March 2020. In the old playbook a 20% fall in energy is a green light to cut. This time nobody did. That is what this issue is about: the break shows up not in the oil price but in the reaction to it, because the reflex to ease the moment a shock fades has gone.

Central banks have more or less agreed that after five years of inflation above target they will stop looking through it, and stop easing on reflex the moment a shock passes. The Bank for International Settlements called the shift "policy discipline." Christine Lagarde, speaking in Sintra, said policy had gone "back to basics." Higher-for-longer stopped being a forecast and became the base case, and everything that depends on lower future rates repriced against it. The dollar climbed, the yen fell to a four-decade low, and gold and bitcoin, the assets that had thrived on cheap money, both dropped double digits.

India is our main case study, and it did the opposite. The Reserve Bank held at 5.25%, kept a neutral stance, and Governor Malhotra called rate hikes "premature." One big central bank looked at the same shock and bet that cheaper oil bought it room the others would not take. Whether that reads as nerve or as exposure is the question we follow through Part IV, and the one we will be graded on in Issue 03.

Last month we put three calls on the record and said we would mark them. We do that on page 41, without dodging. We do not tell you where to put your money; we tell you where the money is going, and why. The rest is your edge.

The Editorial Desk

CAPITAL AXIS · GRAVITYWELL RESEARCH · JUNE 2026

GLOBAL MACRO DESK **Central Banks, Rates & FX** Cover Story · Global Reset · The Tape	TECHNOLOGY & INFRASTRUCTURE **AI, Power & Data Centres** The Power Bill · Debt Engine · Bubble	INDIA BUREAU **Macro, Flows & Markets** Hormuz Tax · RBI · Rotation · Paradox
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This Month in Capital

The Brief

The month in one page: the number, the chart, what they said, and who moved.

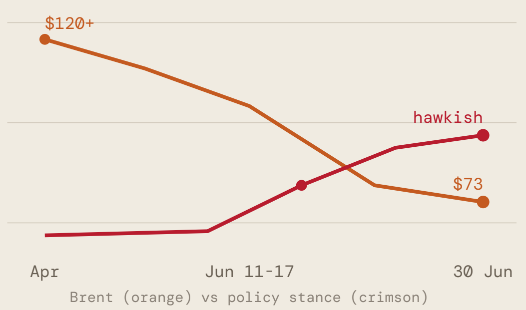
NUMBER OF THE MONTH

3.8%

The Fed's new median 2026 policy-rate projection, up from 3.4% in March and now **above** the current 3.50-3.75% band. A single dot moved, and with it went the rate cut the market had banked on all year. The clearest read yet on the reaction-function reset.

SOURCE: FEDERAL RESERVE SEP · 17 JUN 2026

CHART OF THE MONTH: THE HAWKS STAYED AS OIL FELL



Sources: ECB, BoJ, Fed, BoE; ICE Brent (CNBC). Stylised.

WHAT THEY SAID

> *"This committee will deliver price stability."*
>
> KEVIN WARSH · FED CHAIR · FOMC PRESS CONFERENCE, 17 JUNE 2026

Six words, delivered at his first meeting, that the market read as the end of the easing bias. In the same room the Fed cut its statement to 130 words, dropped forward guidance, and let the projections carry the hawkish message. Across the Atlantic, Christine Lagarde told Sintra that monetary policy had gone "back to basics"; the ECB's June hike, she said, was "justified under every scenario."

PEOPLE WHO MOVED MARKETS

01 **Kevin Warsh**

Held rates, flipped the dots, retired forward guidance in his FOMC debut.

02 **Christine Lagarde**

First ECB hike since 2023; declared the unconventional era over at Sintra.

03 **Sanjay Malhotra**

Held the RBI at 5.25% and called hikes "premature," the standout divergence.

04 **Jensen Huang**

"Agentic AI has arrived," even as the Mag 7 shed $2tn and began to lag.

Part One

I

The Regime Break

The cover thesis in full: how one June week retired the disinflation-era playbook, why a collapsing oil price could not reverse it, and what now reprices.

IN THIS PART

The Cover Story

The Regime Break

Between 11 and 17 June, four of the world's anchor central banks turned hawkish at once, and they did not flinch when the oil shock that started it collapsed. The disinflation era ended by decision rather than by crisis.

BY THE GLOBAL MACRO DESK · RATES & CENTRAL BANKS

> JUNE 2026 DISPATCH: The ECB hiked for the first time since 2023. The BoJ reached a 31-year high. The Fed held but its dots erased the cut. The BoE split hawkish. Then a ceasefire crashed Brent 21%, and the hawks stayed anyway. Their refusal to reverse tells you more than the oil price does.

4 hawks

in one week: the first synchronised tightening of the post-pandemic cycle, into a falling energy price.

4.2% US CPI, MAY: A THREE-YEAR HIGH, ENERGY-LED	**−21%** BRENT IN JUNE; NO RATE CUT FOLLOWED	**162¥** YEN/USD: A FOUR-DECADE LOW DESPITE A BOJ HIKE

The Cover Thesis

Four Central Banks, One Direction

For three years the world's monetary authorities eased on their own timetables. In June they moved together, and the synchronisation drew more attention than any single decision.

GLOBAL MACRO DESK · GRAVITYWELL RESEARCH

The disinflation era had a reflex. When growth wobbled or a shock hit, central banks cut, and markets learned to buy the dip because the cut was coming. In June 2026 that reflex was withdrawn, and it was withdrawn in concert.

On 11 June the European Central Bank raised its deposit rate to 2.25%, its first hike since 2023, blaming a Middle East war that had "generated inflation pressures." On 16 June the Bank of Japan lifted to 1.00%, a level not seen since 1995. On 17 June the Federal Reserve held at 3.50-3.75%, but its new Summary of Economic Projections lifted the 2026 median dot to 3.8%, above the current band, and nine of eighteen participants pencilled in a hike. The same day the Bank of England held at 3.75% on a 7-2 vote, with two members already wanting to raise.

Only the Bank of Canada, holding at 2.25% for a fifth straight meeting, and the Reserve Bank of India, holding at 5.25%, stayed out of the move. The centre of gravity had shifted decisively hawkish, and it did so in a week rather than over the many months such a turn normally takes.

> *"Monetary policy has gone back to basics."*
>
> CHRISTINE LAGARDE · ECB · SINTRA, 29 JUNE 2026

What made this a regime change rather than a coincidence was the SEP itself. In March the Fed's median dot implied a 2026 cut. By June it implied a hike, a 40-basis-point swing in the central projection, driven by a PCE inflation forecast revised up almost a full point to 3.6%. The market had spent the first half of the year pricing the old reflex. In one afternoon that repricing reversed.

THE JUNE CENTRAL-BANK GRID

Fed (17 Jun)	3.50-3.75%	*hold · dots↑*
ECB (11 Jun)	2.25%	*+25bp*
BoJ (16 Jun)	1.00%	*+25bp*
BoE (17 Jun)	3.75%	*hold · 7-2*
BoC (10 Jun)	2.25%	*hold ×5*
RBI (5 Jun)	5.25%	*hold · neutral*

THE SIGNAL

What matters here is the correlation, not the level of any one rate. Four anchor banks turning hawkish in a single week is the market's cleanest evidence that the reaction function has shifted, and not just the forecast.

THE WARSH STATEMENT

Cut to **130 words** from 341. Forward guidance removed. Easing bias gone. Five policy-review task forces announced. The new chair declined to submit his own dot.

The Consequence

What Reprices Off the New Curve

If higher-for-longer is now the base case rather than a risk scenario, the assets that were priced for the old reflex have the furthest to travel.

The evidence that this was a reaction-function shift rather than a growth story is in the cross-asset tape. The dollar index rose 2% to 101.3, its strongest month since mid-2025, as the world repriced a higher US real rate. The yen fell to 162 per dollar, a four-decade low, *despite* a BoJ hike: when every major central bank tightens, a 25-basis-point move buys no relative advantage, and the carry trade shrugged. Gold, the disinflation hedge, fell 11.6%; bitcoin fell 20% with record spot-ETF outflows. Long duration told the clearest story: the assets that live on the promise of lower future rates were marked down hardest.

ASSET / FACTOR	JUNE MOVE	READS AS
US Dollar Index (DXY)	+2.0%	Higher US real rate repriced
Japanese yen (USD/JPY)	162 · 4-dec low	Synchronised hikes neutralise the BoJ move
Gold (spot)	-11.6%	Disinflation hedge unwinds
Bitcoin	-20.3%	Long-duration risk; record ETF outflows
US 30-yr Treasury	4.86%	Term premium on sticky inflation
Mag 7 (US mega-cap tech)	≈ -$2.0tn	Growth-multiple compression
Brent crude	-21%	The shock that started it, now fading

Point-in-time June 2026 reads; see The Global Tape (p.14) and Source Register (p.48). Mag 7 loss is intra-month market-cap change.

The equity puzzle

And yet developed-market equities did not break. The S&P 500 fell only 1.2% on the month and is up 9.6% on the year; Europe and Japan printed records: the Euro Stoxx 50 at an all-time close, the Nikkei up 5.3% on the month and roughly 37% on the quarter, its best since 1965. Q2 was the best quarter for US stocks since 2020. Risk assets, in other words, shrugged at the very regime the bond market and the central banks were confirming.

Two readings compete. The benign one: growth is genuinely solid (US GDP +2.1%, jobs beating), earnings are carrying the load, and equities can live with higher-for-longer if the "for-longer" reflects strength. The uneasy one: this is the late-cycle pattern in which the last thing to reprice is the riskiest thing, and June's cracks (a 10% one-day chip rout, the Mag 7 turning negative on the year) are the first tremors.

THE NEW BASE CASE

Higher-for-longer is a fact
Not a scenario; priced into the front end

Cuts pushed to 2027-28
Fed dots; ECB "back to basics"

Energy as a repeat offender
The supply curve is flatter; shocks stick

Divergence is the trade
Who holds (RBI) vs who hikes matters for FX

THE HOUSE VIEW

The oil price will keep swinging; the reaction function is the durable change. Position for a higher, flatter, more volatile rate path: long real assets and quality cash-flow, short the duration that only works if the old reflex returns.

Deconstruction · 10–17 June 2026

One Week, Four Hawks

The eight days that reset the global rate regime, taken in sequence, with the tape's response to each.

DATE	BANK / EVENT	MOVE	RATE
10 Jun	Bank of Canada	Hold (5th)	2.25%
11 Jun	ECB	**Hike +25bp**	2.25%
16 Jun	Bank of Japan	**Hike +25bp**	1.00%
17 Jun	Fed	Hold · dots↑	3.50-3.75%
17 Jun	Bank of England	Hold · 7-2	3.75%
17 Jun	US-Iran ceasefire MoU	Brent ↓	≈$80→$73

The choreography matters. The ECB and BoJ moved before the Fed, so by the time Chair Warsh stepped to the podium the hawkish direction was already set, and the Fed confirmed it rather than setting it. Then, hours after the decisions, the US-Iran ceasefire reopened the Strait of Hormuz and sent oil into its steepest monthly fall since March 2020. The classic trigger for a dovish reversal arrived *immediately*, and not one of the four banks blinked. By Sintra on 29 June, Lagarde was describing the hike as "robust across every scenario," and the BIS annual report was praising "policy discipline."

WHY SEQUENCE IS THE STORY

A reversal is easy while a shock persists and hard once it fades. That the banks held their hawkish line as the shock evaporated is strong evidence the change is structural rather than tactical. Their target was the persistence of inflation; the oil price of any single week was beside the point.

THE TAPE, 17 JUNE (FED DAY)

S&P 500	7,420	*−1.2%*
US 2-yr yield	4.22%	*+16bp*
US 10-yr yield	4.50%	↑
DXY	>100	↑

WORST DEBUT IN 32 YEARS

The S&P's 1.2% drop was the worst first "Fed day" for a new chair since 1994: a market that had priced continuity was now repricing a break.

THEN THE BOND RALLY

Into month-end, Treasuries rallied as oil fell, with the 10-yr easing to 4.38%. The regime is hawkish, but the tape trades two ways.

Higher-and-Energy-Scarce: the new reaction function, defined

GLOBAL MACRO DESK · FRAMEWORK NOTE

"Higher-for-longer" is a level statement. It says rates settle above the pre-pandemic norm. The regime break of June 2026 is a *function* statement: it changes how central banks respond to shocks, not just where rates sit. We label it **higher-and-energy-scarce**: a world in which (1) inflation has run above target long enough to erode the credibility dividend, (2) the supply curve is flatter, so shocks pass through faster and disinflation costs more jobs, and (3) energy has become a recurring source of those shocks rather than a one-off.

The three inputs

Persistence. US inflation has exceeded 2% for more than five years; the ECB's headline is back to 3.2%, a two-year high. Warsh's framing, "the recent past need not be prologue," is a deliberate signal that the Fed will not let a fifth year become a sixth.

A flatter supply curve. The IMF's April outlook warned the shock represented "a sharp deviation from the global disinflation trend" and that a flatter supply curve makes squeezing inflation out costlier in employment. Central banks read that as a reason to act earlier, not wait.

Energy as a repeat offender. Hormuz is the second energy shock in three years. When the source of inflation surprises keeps returning from the same place, the option value of "looking through" collapses, and you stop treating each spike as transitory.

WHAT THE FRAMEWORK PREDICTS

- Cuts are conditional on realised disinflation, not forecast disinflation
- Real yields stay positive and volatile; term premium rebuilds
- FX is driven by *relative* reaction functions, so the holder (RBI) is the outlier trade
- Energy and defence capex are structurally bid; long-duration growth is structurally taxed

FALSIFICATION

The framework is wrong if any anchor bank cuts before core inflation is verifiably at target: a reflexive ease on a growth scare would show the old reaction function survived. We watch the 29-31 July meetings for exactly this.

> *Higher-for-longer tells you where rates are. Higher-and-energy-scarce tells you how central banks will behave the next time something breaks.*
>
> GRAVITYWELL RESEARCH · GLOBAL MACRO FRAMEWORK

Part Two

II

The Global Reset

The mechanics beneath the thesis: who tightened and why, the energy round-trip that triggered it, and how every major asset class repriced through June.

IN THIS PART

Monetary Policy · June 2026

The Turn, Bank by Bank

Six decisions across three inflation regimes, all pointing one way. The detail behind the synchronised pivot.

CENTRAL BANK	POLICY RATE	ACTION	LATEST CPI	STANCE SIGNAL
Federal Reserve	3.50-3.75%	Hold; 2026 dot → 3.8%	4.2%	Hike bias; cuts to 2027-28
ECB	2.25%	**+25bp (1st since '23)**	3.2%	"Back to basics"
Bank of Japan	1.00%	**+25bp (31-yr high)**	1.5%	Door open to more
Bank of England	3.75%	Hold, 7-2 (2 for hike)	2.8%	Hawkish hold
Bank of Canada	2.25%	Hold (5th)	2.8%	Watching energy
RBI (India)	5.25%	Hold, neutral, 6-0	3.93%	Hikes "premature"

CPI = latest available YoY at cut-off (US & euro area May; Japan/UK/Canada May; India May 3.93% new 2024 base). See Source Register (p.48).

The two that hiked

The **ECB** is the purest expression of the turn. Euro-area headline inflation had climbed to 3.2%, its highest since 2023, with energy up nearly 11%; core rose to 2.6%. The Governing Council raised all three rates and revised its 2026 inflation path up on "a higher path for energy prices." Lagarde's Sintra coda, that policy is "back to basics" and forward guidance "not in the cards," was the plainest statement of intent all month.

The **BoJ** hiked to 1.00% on a 7-1 vote, its highest since 1995, and signalled more to come as the yen sat near four-decade lows. Japan's own inflation is modest (headline 1.5%), but a collapsing currency imports it, and the Bank has decided that defending the yen now matters as much as supporting demand.

The holds that were hawkish

The **Fed** held but did the work through projections; the **BoE** held 7-2 with Greene and Pill dissenting for a hike; the **BoC** held for a fifth time but flagged oil "roughly $10 above" its April assumptions. Even the pauses leaned tight.

INFLATION, REPRICED UP (2026 F'CAST)

Fed core PCE	3.3%	*from 2.7%*
Fed headline PCE	3.6%	*from 2.7%*
ECB HICP	3.0%	*revised ↑*
IMF world CPI	4.4%	*"deviation"*

THE BIS IMPRIMATUR

The Bank for International Settlements' 28 June annual report called the moment a supply crisis from "the historic closure of the Strait of Hormuz" and noted markets now price tighter policy across the US, euro area, UK and Canada. Its prescription: "policy discipline." The central bankers' central bank endorsed the turn.

THE DISSENTERS' DIRECTION

Note which way the dissents point. In 2024-25, dissents were doves wanting faster cuts. In June 2026, the BoE's dissenters wanted *hikes*. The tail of the distribution moved with the median.

Commodities · The Trigger That Faded

Why the Hawks Stayed as Oil Fell

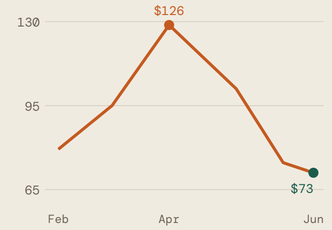
The Hormuz shock spiked Brent above $120 and then gave it all back inside June. The lesson central banks drew was the opposite of the one the price action suggested.

The oil chart of 2026 is a mountain. War from late February closed the Strait of Hormuz (roughly a fifth of the world's seaborne oil and LNG) and drove Brent above $120 by April. A 17 June US-Iran ceasefire and a toll-free reopening reversed it; Brent ended June near $73, down about 21% on the month, its worst since March 2020, with WTI around $70.

The instinct is to read the round-trip as "shock over, cut coming." Central banks read it differently, for three reasons. First, the spike still fed a real inflation impulse now embedded in the data: US CPI at a three-year 4.2%, euro-area energy up 11%, UK services inflation re-accelerating. Second, the reopening is fragile: renewed strikes on 29 June threatened it, and European gas storage sits near 48%, the lowest heading into winter in roughly 15 years. Third, and most important, this was the second energy shock in three years. When the same chokepoint keeps generating inflation, the credibility of "transitory" is gone.

BRENT CRUDE, 2026	LEVEL	NOTE
April peak	≈$126	Wartime high, intraday
4 June	$97.95	Pre-ceasefire
19 June	$80.57	Ceasefire repricing
30 June	≈$73	−21% on the month

BRENT: THE 2026 MOUNTAIN



Source: ICE Brent via CNBC/Fortune. Stylised path.

THE ASYMMETRY

Gas tells the same story quietly: European TTF eased 11% on the month but is still up ~30% on the year. The spot relief is real; the structural scarcity is not resolved. That asymmetry is why the banks tightened into the fall.

Markets · June 2026 in Full

The Tape

One month, every asset class. Records in Europe and Japan, a selloff in China and crypto, gold's worst month in years: this is the regime break showing up across the tape.

EQUITIES (30 JUN CLOSE)

S&P 500	7,449	−1.2%
Nasdaq Comp.	26,214	↓
Euro Stoxx 50	6,326	*record*
STOXX 600	641.7	+2.5%
FTSE 100	10,497	+1.5%
Nikkei 225	70,062	+5.3%
Hang Seng	22,881	−9.1%
MSCI EM	1,723	−2.8%

RATES & CREDIT

US 2-yr	4.10%	*rallied*
US 10-yr	4.38%	−9bp
US 30-yr	4.86%	*elevated*
Bund 10-yr	2.85%	*flat*
Gilt 10-yr	4.76%	*flat*
JGB 10-yr	2.69%	↑
US IG OAS	76bp	*tight*
US HY OAS	280bp	+20bp

COMMODITIES · FX · CRYPTO

Brent	$73	−21%
Gold	$4,015	−11.6%
Silver	$58.5	−22%
DXY	101.3	+2.0%
USD/JPY	162	*40-yr low*
EUR/USD	1.139	*flat*
Bitcoin	$58,504	−20.3%
VIX	16.5	*cooled*

THE SPLIT SCREEN

June was less a risk-off month than a rotation month. Europe and Japan made records: the Nikkei's ~37% quarter was its best since 1965, Euro Stoxx 50 closed at an all-time high on the AI-and-rearmament trade, MSCI EM logged its best quarter since 2009 on a weaker-dollar first half. The pain concentrated in three places: Chinese equities (Hang Seng −9.1%, its worst month of the year, on an AI selloff), US mega-cap tech (the Mag 7 shed ~$2tn), and the disinflation hedges (gold −11.6%, silver −22%, bitcoin −20.3%).

READ-THROUGH

Credit stayed calm, with HY spreads widening only ~20bp to 280, which is why equities held. The regime break is showing up in rates, FX and precious metals first. If it reaches credit, the equity complacency ends. Watch HY OAS as the tripwire.

Currencies · Relative Reaction Functions

When Everyone Hikes, FX Is About Who Won't

In a synchronised tightening, the currency winners are set by relative resolve. The dollar rose and the yen fell to a generational low, but the trade that matters is the outlier that holds.

A rate hike is supposed to lift a currency. In June it did not, because everyone hiked. The Bank of Japan raised to a 31-year high and the yen still slid to 162 per dollar, a four-decade low, because a 25-basis-point move buys nothing when the whole field is moving. Tokyo, having already spent an estimated ¥11.7tn (~$73bn) on intervention in April-May, signalled it may return.

The dollar, by contrast, rose 2% to 101.3, its best month since mid-2025, breaking above 100 after the FOMC. Treasury Secretary Bessent used an Economic Club of New York address to underline the point: "There is nothing accidental about the dollar's place in the world." In a higher-and-energy-scarce regime, the reserve currency with the deepest markets and the highest real rate is the default winner.

Emerging-market currencies bore the mirror image. The lira topped 46 for the first time; the real sat near 5.18 even after a Brazilian hike to 14.25%. And the rupee, our marquee case, closed near 94.6, off its 96.9 May record, steadied by an oil that finally fell and by a central bank that chose *not* to chase the global tightening.

FX VS USD (30 JUN)

DXY	101.3	*+2.0%*
Yen	162	*40-yr low*
Euro	1.139	*flat*
Sterling	1.326	*flat*
Rupee	94.6	*off record*
Lira	46.7	*record*
Real	5.18	*soft*

THE DIVERGENCE TRADE

The one bank that broke ranks, the RBI, holding at 5.25% while the world tightened, is the pivot of the whole EM-FX question. Held rates and a falling oil bill are a rupee tailwind now; if the regime break proves durable and the dollar keeps rising, the same hold becomes a vulnerability. We take that question apart in Part IV.

> *"There is nothing accidental about the dollar's place in the world."*
>
> SCOTT BESSENT · US TREASURY SECRETARY · ECONOMIC CLUB OF NEW YORK, 23 JUNE 2026

The Other Pole · Deflation vs Reflation

China Deflates While the West Reflates

While four central banks turned hawkish, the world's second economy went the other way. It eased into an underlying deflation that its own headline prices, lifted by the same oil shock, temporarily disguise.

The regime break has a mirror. As the Fed, ECB, BoJ and BoE tightened, the People's Bank of China cut: it held its 1-year loan prime rate at a record-low 3.00%, trimmed the reverse-repo to 1.40%, and lowered reserve requirements. It is the cleanest policy divergence on the board: the West is confronting inflation that will not fade, while China still confronts a shortfall of demand.

The nuance matters, because China's *headline* prices have turned positive: CPI +1.2%, PPI +3.9% in May, the first factory-gate inflation since 2022. But that is the same imported energy shock lifting everyone; the impulse is cost-push rather than a genuine pickup in demand. The honest gauge, the GDP deflator, has now been negative for a twelfth straight quarter, the longest stretch since China's market transition. Property is still contracting (development investment −16.2% year-to-date); retail sales limp along; the yuan is *appreciating* (~6.79 to the dollar) rather than weakening, which reads as a capital-outflow scare that has faded, not as reflation taking hold.

The transmission to the world runs through trade. Exports rose 19.4% in May to a record, and China is pushing surplus capacity (EVs at record export volumes, solar priced through the floor) into global markets. That is a disinflationary force pressing *against* the regime break everywhere else, and the reason the tariff wall keeps rising.

CHINA, JUNE 2026

1Y Loan Prime Rate	3.00%	*easing*
CPI (May)	1.2%	*cost-push*
PPI (May)	3.9%	*energy*
GDP deflator	<0	*12th qtr*
Q1 GDP	5.0%	*target 4.5-5%*
Property dev inv.	-16.2%	*YTD*
Exports (May)	+19.4%	*record*
USD/CNY	6.79	*firming*

THE DIVERGENCE TRADE

Chinese equities re-rated in 2026 (CSI 300 +26% YoY) on stimulus and a domestic AI story: DeepSeek's V4 on Huawei Ascend silicon, a 70%-chip-self-sufficiency drive by 2028. The pair-trade of the regime: long China's easing-plus-AI-autonomy against a crowded, hawkish-headwind US mega-cap complex.

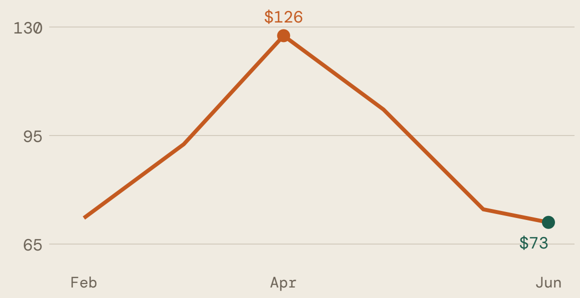
> *The West is repricing for inflation that won't leave. China is repricing for demand that won't come. One oil shock hit both, and drove their central banks in opposite directions.*
>
> GRAVITYWELL RESEARCH · GLOBAL MACRO DESK

Standing Reference · The Data Room

The Month in Six Charts

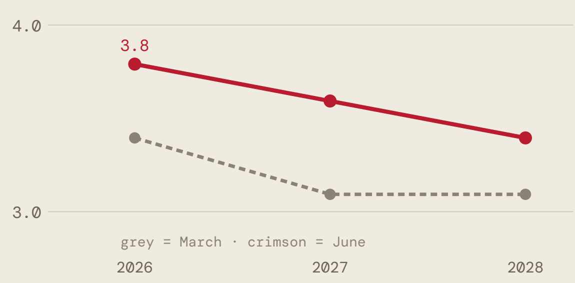
The regime break, drawn. Six series that carry the June story: the oil round-trip, the dot-plot flip, the real-yield tell, the rotation, the hedge unwind, and the split tape.

1 · BRENT CRUDE, 2026 ($/BBL)



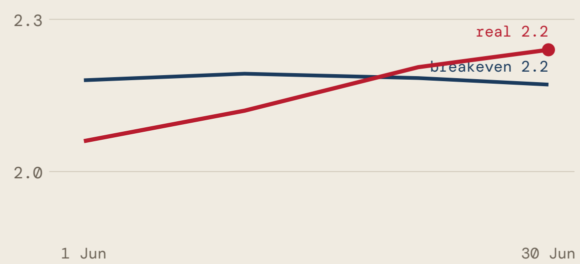
Source: ICE Brent via CNBC / Fortune.

2 · FED MEDIAN DOT: MARCH VS JUNE (%)



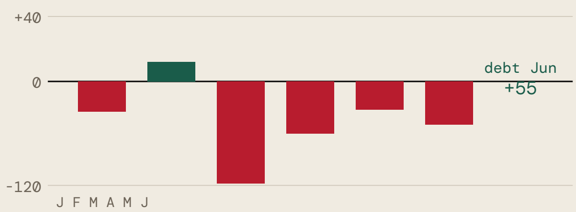
Source: Federal Reserve SEP, 17 Jun 2026.

3 · US 10-YR: REAL YIELD UP, BREAKEVEN FLAT (%)



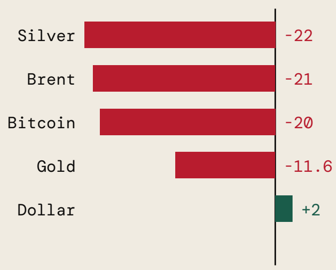
Source: FRED (DFII10, T10YIE). The regime signature.

4 · INDIA FPI 2026, EQUITY MONTHLY (₹ '000 CR)



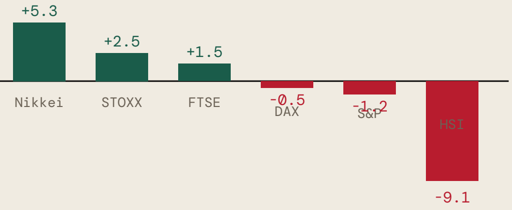
Source: NSDL / PTI. Equity out, debt in.

5 · THE HEDGE UNWIND: JUNE MOVE (%)



Source: Fortune, TradingEconomics. Disinflation hedges sold.

6 · THE SPLIT TAPE: EQUITY INDICES, JUNE (%)



Source: exchange data via MarketScreener / TradingEconomics.

Point-in-time June 2026 reads. Charts are drawn from the figures in The Global Tape (p.14) and the Source Register (p.48); axis scales are indicative.

Part Three

III

The Power Bill

The real limit on AI is power, and it is reshaping the grid. A $725bn capex year, a $570bn debt engine, and the month the bubble question went mainstream.

Feature · AI & Energy

AI's Constraint Was Never Silicon

The four largest hyperscalers will spend roughly $725bn this year, up 77%, and the binding limit on all of it is power, the same force that kept central banks hawkish.

TECHNOLOGY & INFRASTRUCTURE DESK · GRAVITYWELL RESEARCH

Add up the 2026 capital-spending plans of Amazon, Microsoft, Alphabet and Meta and you reach about $725bn, a 77% jump on 2025 and more than the annual GDP of most G20 members. Add Oracle and the number pushes past $780bn; the sell-side already models the "big five" above $1tn in 2027. It is the largest private capital-formation wave in corporate history, and it has run into a physical constraint.

That constraint is electricity. Chips can be fabricated and buildings can be poured; the hard part is firm power, delivered to a substation and co-located with compute, on the timescale of an AI arms race. The International Energy Agency expects global data-centre electricity demand to roughly double to 950 TWh by 2030. In the United States, Goldman sees data-centre load rising from ~31 GW to 66 GW by 2027; PJM, the largest US grid, attributes 94% of its 2024-2030 peak-load growth to data centres.

That has a second-order consequence that runs through this entire issue: **the AI build-out is itself an inflationary force.** US retail electricity rose 7% in 2025; the Dallas Fed estimates data centres add 0.05 percentage points to headline PCE this year, rising to 0.13pp by 2030. The compute boom is helping to keep central banks as hawkish as Part I described.

2026 HYPERSCALER CAPEX

Amazon	~$200bn	*+52%*
Microsoft	~$190bn	↑
Alphabet	$180-190bn	*raised*
Meta	$125-145bn	*raised*
Oracle (FY26)	~$56bn	*+162%*

BIG 4 ≈ $725BN · +77% YoY

THE NUMBER THAT MATTERS

$725bn is a guidance figure, and guidance has been revised up every quarter of 2026. Amazon's Jassy defended the $200bn as "not on a hunch." The spend is committed; the returns are the open question of page 22.

The Binding Constraint

The Race for Firm Power

The scramble for firm power reshaped the utility map in June: a $67bn merger came under fire, 20-year gas contracts were signed, and a regulator was forced to rewrite the rules.

The defining corporate response is consolidation for scale. NextEra's ~$67bn all-stock bid for Dominion (announced 18 May, though the fight over it is very much a June story) would create the world's largest regulated electric utility: ~$249bn of market value, ~110 GW of capacity, and, critically, a monopoly over Northern Virginia's "Data Center Alley," the densest concentration of data centres on earth. In June the politics arrived: Senator Angus King urged FERC to reject it; Senate antitrust Democrats vowed scrutiny; Virginia legislators raised affordability alarms. The deal is not blocked, but it is now the test case for whether the state will let the grid consolidate around AI demand.

Below the merger, the contracts fill in the picture. Chevron signed a 20-year PPA with Microsoft for a co-located 2.67 GW gas plant in West Texas. Tesla, Sunrun and Renew Home aggregated 16+ GW of home batteries into a virtual power plant for hyperscale data centres. Google bought Intersect Power for $4.75bn to secure gigawatts directly. When the grid cannot deliver fast enough, buyers are securing their own supply.

The regulator moved too. On 18 June, FERC issued six "show cause" orders directing every US grid operator to justify or reform how they connect large loads, an admission that the interconnection regime cannot cope. PJM's 2027/28 capacity auction had already cleared near its cap at $333/MW-day and, for the first time, fell short of the entire region's reliability requirement.

THE GRID, STRESSED

IEA DC power '30	950 TWh	*≈2×*
PJM '27/28 clear	$333	*near cap*
PJM load growth	94%	*= DCs*
Gas-plant cost	+66%	*YoY*
US retail power	+7%	*2025*

NextEra / Dominion $67bn

UTILITY · ALL-STOCK · UNDER FERC/POLITICAL FIRE

World's largest regulated utility; ~110 GW; owns Data Center Alley. Close targeted for H2 2027, assuming it survives Washington.

Chevron / Microsoft 2.67 GW

20-YR PPA · WEST TEXAS · 22 JUN

Co-located gas for AI. With grid power constrained, Microsoft is buying its own baseload.

INVESTABLE CONCLUSION

In the AI trade, the binding scarcity has moved from the GPU to the megawatt with an interconnection date. Regulated utilities with data-centre pipelines, gas-turbine makers with multi-year backlogs, transmission, and firm-power developers capture rents the model-builders cannot. This is the layer we would own.

Credit · Financing the Buildout

The $570 Billion Engine

Cash flow funds only half the buildout. The other half is a fast-growing debt machine, and in June it went global and off-balance-sheet, in some cases too far.

Morgan Stanley estimates a ~$2.9tn global data-centre buildout through 2028, of which operating cash flow funds roughly half, leaving a ~$1.5tn financing gap. Its 2026 forecast: $250-300bn of debt from hyperscalers and their joint ventures, and ~$570bn of AI-related issuance all-in, more than double last year. By 31 May, $236bn had already priced, four times the year-earlier pace.

June showed the engine's newest gears. CoreWeave sold $3.55bn of dual-currency junk bonds, including the first-ever euro high-yield deal from a US AI-infrastructure company, with an order book above €7bn. Apollo and Blackstone closed a $35bn private-credit facility for Anthropic's compute: a special-purpose vehicle buys Google TPUs and leases them back, which keeps the debt off Anthropic's balance sheet, with Broadcom residual-value guarantees on $30bn of it. Data-centre asset-backed issuance is running toward JPMorgan's $30-40bn annual estimate.

The risk is concentration and structure. When compute is financed through SPVs, leases and residual-value guarantees, the leverage is real but the disclosure is thin. Oracle became the cautionary tale: after revealing ~$130bn of debt against its AI push, its stock had its worst week since 2001.

AI DEBT, 2026

All-in issuance	~$570bn	*>2×*
Hyperscaler/JV	$250-300bn	↑
YTD to 31 May	$236bn	*4× YoY*
DC ABS/CMBS	$30-40bn	↑
Financing gap	~$1.5tn	*to '28*

Apollo + Blackstone $35bn

PRIVATE CREDIT · ANTHROPIC COMPUTE · 17 JUN

Off-balance-sheet SPV buys TPUs, leases to Anthropic; Broadcom guarantees $30bn. A template for the next $1tn of AI debt.

CoreWeave $3.55bn

JUNK BONDS · FIRST US-AI EURO HY · 11 JUN

$1.25bn at 9.625% + €2bn at 8.50%; book >€7bn. The AI credit trade reaches Europe.

> *"It is going to happen. And I tell this to my regulators... you're going to panic."*
>
> JAMIE DIMON · CHAIRMAN & CEO, JPMORGAN · ON A CRACK IN THE BOND MARKET

Valuation · The Debate Goes Mainstream

Revenue Finally Met Depreciation. Barely.

June delivered both the bulls' vindication and the bears' warning shot: AI sales crossed depreciation for a second quarter, even as the Mag 7 shed $2tn and, for the first time since 2022, began to lag the market.

The data point the bulls had been waiting for landed on 25 June: global AI sales excluding China reached $25bn in Q1 2026, exceeding the ~$21bn of quarterly depreciation on the data centres and chips behind them, the second straight quarter above the line. Trailing-twelve-month generative-AI revenue hit $110bn, roughly three times faster than the internet, mobile or cloud waves grew at the same stage. The economics, for now, hold.

The caveat is in the word "barely." Depreciation still consumes more than two-thirds of AI revenue, the estimate excludes China, and it assumes a six-year life for hardware that may age faster. As the report's author, Azeem Azhar, put it: "the margin for error is narrow."

The market spent June testing that margin. On 5 June, a soft Broadcom outlook triggered a 10.3% one-day drop in the Philadelphia semiconductor index, its worst since March 2020, and erased over $1tn of chip value. Nvidia, which had touched $5.5tn in May, fell back toward $4.85tn. The Magnificent Seven lost roughly $2tn on the month and turned negative for the year (−3.3%), lagging the broad market for the first time since 2022. "Yet another way in which 2026 is looking like 1999," one strategist observed.

THE LEDGER

AI sales, Q1	$25bn	*> dep.*
Depreciation	~$21bn	*>⅔ of rev*
TTM genAI rev	$110bn	*3× cloud*
Nvidia mkt cap	$4.85tn	*off $5.5tn*
Mag 7, June	-$2.0tn	*−9.7%*
Mag 7, YTD	-3.3%	*lags mkt*

MICRON'S TELL

Micron's Q3 revenue rose 346% to $41.5bn; CEO Mehrotra said the memory industry was "structurally transformed" and he had "no line of sight as to when supply will catch up." Demand is not the bubble risk. The risk lies in the financing structure and in the assumption that six-year hardware holds its value.

THE HOUSE POSITION

This is not 1999 in the fundamentals: revenue is real and growing, and Mag 7 forward multiples (~28×) are a fraction of the dot-com top-7 (~66×). It may be 1999 in the *financing*: off-balance-sheet SPVs, vendor-financed circularity, and a $570bn debt engine priced for everything going right, into the very rate regime that just turned against long-duration bets. Our positioning follows from that split: we hold the power and the picks-and-shovels, and stay cautious on the model-layer narrative.

The Numbers Behind the Boom

Does the $725bn Pay Off, and Who Is Funding It?

Two questions decide whether the AI supercycle is an investment or a bubble: the return on the capex, and the resilience of the debt behind it. June sharpened both, and neither answer is comforting.

THE RETURN · DOES THE CAPEX EARN?

The bull case has real evidence: Google Cloud's operating margin *expanded* 12-15 points year-on-year as AI scaled. So does the bear case: AWS's margin *contracted* ~190bps on depreciation drag, and Microsoft's gross margin fell to a multi-year low. The hurdle is steep. Sequoia and Bain both peg it at roughly **$4 of revenue per $1 of capex**; Goldman calculates hyperscalers need **>$1tn of annual profit** to hold historic returns on capital, against ~$450bn of consensus income, barely half. Bain's June survey of 951 firms found only 4% achieving >30% cost cuts from AI; 44% are funding the next wave from savings that haven't materialised.

FREE CASH FLOW	LATEST	TREND
Amazon (TTM)	$1.2bn	−95% YoY
Oracle (FY26)	-$23.7bn	capex +162%
Alphabet (Q1)	$10.1bn	−47% YoY
Microsoft (Q3)	$15.8bn	−22% YoY
Big-4 aggregate	→ ~$0	by Q3 2026

THE DEPRECIATION WAR

Amazon *shortened* server lives to 5 years, while Meta, Microsoft and Google *extended* theirs: the same industry, opposite calls on how fast GPUs age. Michael Burry claims $176bn of understated depreciation (2026-28); The Economist estimates a shift to 2-year lives would cut aggregate profit sharply and imply a ~$4tn market-value hit. This accounting assumption, arguably the most consequential in the market, remains unsettled.

THE FUNDING · WHO HOLDS THE $570BN

Cash flow funds only half the ~$2.9tn buildout; the rest is a fast-growing debt machine, some ~$570bn of AI-related issuance in 2026, of which $236bn priced by end-May. AI is now the largest single sector in JPMorgan's investment-grade index, ~15% of the US corporate-bond universe. The risk is where it sits.

WHO HOLDS IT	EXPOSURE
Life insurers	$807bn private/illiquid; top-10 = 44%
Private credit (5 firms)	Blackstone, Blue Owl, Apollo, PIMCO, BlackRock
Banks	~$450bn committed; offloading via SRTs
CLOs	$40-150bn of loans face AI risk
Pensions / SWFs	Maple-8 >$6.6bn; MGX $49bn fund

The maturity wall clusters in 2026 and peaks in 2027. Oracle is the bellwether: ~$130bn of debt, a stock down 19% in its worst week since 2001, and a 5-year CDS at ~198bp, above its 2008 crisis level. The template deal, Apollo & Blackstone's $35bn off-balance-sheet SPV that buys chips and leases them to Anthropic with Broadcom guaranteeing $30bn of it, is exactly the opacity regulators fear.

THE BIS WARNING

On 28 June the Bank for International Settlements named an AI-capex bust and "circular-financing collapse" among its top three systemic threats, noting that deal terms are "poorly disclosed, with risks of the same asset being pledged multiple times." Its point was blunt: leverage that sits off balance sheet has not gone away.

Sector Spotlight · The Investable Layer

Firm Power: Where the AI Megawatt Actually Pays

Part III argued the scarce asset in AI is the megawatt, not the model. Here is the sub-sector anatomy: the seven layers of the power stack, what each captures, and the June datapoint that prices it.

TECHNOLOGY & INFRASTRUCTURE DESK · SECTOR DESK

LAYER	THE TRADE	JUNE DATAPOINT	RETURN / YIELD
Regulated utilities	DC-pipeline monopolies with contracted load	NextEra-Dominion $67bn; Dominion 51 GW contracted	rate base ~11%/yr
Gas-turbine OEMs	Multi-year order backlog, pricing power	Gas-plant cost +66% YoY; ~5-yr lead times	backlog to 2030s
Nuclear / SMR	Baseload PPAs to hyperscalers	Chevron-Microsoft 2.67 GW co-located (22 Jun)	SMR $65-100/MWh
Transmission & grid	The bottleneck toll; interconnection scarcity	FERC 6 show-cause orders (18 Jun); ~5-yr queue	regulated returns
Storage / VPP	Firming intermittent supply for DCs	Tesla / Sunrun 16 GW virtual plant (24 Jun)	capacity payments
Renewables + PPAs	Contracted green power, co-located	Wind PPA $79/MWh, solar $64/MWh (records)	8-12% IRR
India InvITs	The EM vehicle for the same trade	Sovereign-compute needs firm green power	6.8-8.9% yield

June 2026 reads; see The Power Bill (p.19) and Source Register (p.48). Returns are indicative sub-sector ranges, not forecasts.

Why the layer matters more than the name

The AI trade the market chases is the model-builder and the chip. The trade that actually clears is the one that owns firm, dispatchable power co-located with compute. Demand is not the question: the IEA sees global data-centre electricity roughly doubling to 950 TWh by 2030, and PJM attributes 94% of its 2024-2030 peak-load growth to data centres. Supply is the question, and every layer above prices a different piece of that shortage.

The cleanest signals are in the plumbing, not the equities everyone quotes. Gas-turbine costs up 66% with five-year lead times is a backlog story for the OEMs. A regulator issuing six show-cause orders in a single day is an admission that interconnection, not generation, is the choke point, which is the transmission trade. And a 2.67 GW gas plant contracted straight to a hyperscaler is the co-location model that bypasses the grid entirely.

India runs the same playbook one layer down the cost curve. Its sovereign-compute build needs the same firm green power, and every gas-fired megawatt widens the oil-import bill the regime break is already punishing. That makes contracted renewables plus storage, wrapped in an InvIT at a 6.8 to 8.9% yield, the highest-leverage domestic expression of the whole thesis.

OWN VS AVOID

● **Own: contracted cash flow**
Regulated utilities, transmission, InvITs, PPA-backed renewables
CORE

● **Own: the backlog**
Gas-turbine and grid-equipment OEMs with multi-year books
CORE

▪ **Watch: merchant power**
Uncontracted generation levered to spot prices
SELECTIVE

▪ **Avoid: unhedged build-out**
Spec renewables without offtake; the AI narrative equities
PASS

THE SECTOR CALL

Own the megawatt with an interconnection date and a signed offtake. The generation everyone can see is not scarce; the firm, deliverable, contracted power co-located with compute is. Capture it through regulated returns and backlog, not through the equities that merely carry the AI label.

Part Four

IV

India, the Epicentre

The shock hit India hardest, and India answered differently: an oil tax on the balance of payments, a central bank that held while the world tightened, and an exodus that rotated rather than reversed.

IN THIS PART

India Macro · The Imported Shock

One Strait, Written Across the Balance of Payments

No large economy is more exposed to Hormuz than India. The oil spike taxed the rupee, the deficit and the reserves. In June the bill began to ease, though it did not disappear.

India imports about 88% of its crude, and roughly 40% of it transits the Strait of Hormuz. When the strait closed and Brent ran above $120, the pass-through was mechanical and brutal. May's petroleum-import bill hit a record ~$22.7bn, up 62% year-on-year; the combined April and May FY27 oil bill jumped 70%. The rupee fell to an all-time low of 96.9 on 20 May, and forex reserves have drawn down ~$56bn from their February peak of $728bn to ~$673bn.

June brought relief as Brent collapsed to the low $70s: the rupee recovered to ~94.6 and the 10-year government bond yield fell to 6.70%, a 15-week low. But the current-account math still points the wrong way: CRISIL projects the FY27 deficit widening to ~2.2% of GDP on costlier energy, from a FY26 deficit of just 0.6%. The one clean external-account print, a Q4 FY26 surplus of $7.1bn, predates the shock's pass-through, which will land in the July to September data.

India's response was to diversify the barrel. Russian crude hit a record ~2.70 mb/d in June (above half of all imports) as discounted, non-Hormuz supply was rushed in. New Delhi says it holds 76 to 80 days of fuel cover. India can reroute around the strait, but it cannot remove the exposure.

THE HORMUZ TAX, METERED

Crude imported	88%	*record*
via Hormuz	~40%	*exposed*
May oil bill	$22.7bn	*+62%*
Rupee low (May)	96.9	*record*
Rupee (30 Jun)	94.6	*recovered*
Reserves	$673bn	*−$56bn*
Russian crude	2.70 mb/d	*record ->50%*

SENSITIVITY

Every $10/bbl on crude adds roughly $17bn to $18bn to India's import bill and ~0.4pp to the current-account deficit; ~0.3pp to CPI. The June oil collapse is worth roughly a rate cut to India's macro, which is exactly the room the RBI is now betting it has.

The Marquee Question · RBI

The Bank That Held While the World Tightened

On 5 June, days before the global pivot, the Reserve Bank held at 5.25% and stayed neutral. Governor Malhotra called hikes "premature." It is the boldest divergence of the month, and the one we will be graded on.

INDIA BUREAU · GRAVITYWELL RESEARCH

While the ECB, BoJ, Fed and BoE all leaned hawkish within a fortnight, India's Monetary Policy Committee held the repo rate at 5.25% on a unanimous 6-0 vote and kept its stance neutral. Governor Sanjay Malhotra was explicit: "If we wanted to prepare the market for rate hikes, we would have changed stance from neutral to restrictive." Hikes, he said, would be "premature."

Far from complacency, the hold was a calculated bet. The RBI raised its FY27 inflation forecast to 5.1% (from 4.6%) and cut growth to 6.6% (from 6.9%), acknowledging the shock. But it wagered that a falling oil price would do the tightening for it, and chose to defend the currency through the balance sheet rather than the policy rate. Alongside the hold came a ~$40bn package of inflow measures: a $5bn FX swap, an FCNR(B) hedging subsidy, expanded FAR access to long-dated G-secs, and the removal of the FPI general-route debt limit. Having sold a record $53bn defending the rupee in FY26, the RBI switched to *buying* dollars in June to rebuild reserves.

The early scoreboard favours the hold: oil fell, the rupee steadied, bonds rallied, GDP printed 7.7% for FY26, and foreign money flooded into Indian debt. The risk is symmetric. If the regime break proves durable and the dollar keeps climbing, a 5.25% rate against a 3.8% Fed dot and a rising DXY leaves the rupee exposed, and the RBI with a smaller reserve buffer than it started the year with.

RBI, JUNE 2026

Repo rate	5.25%	*hold · 6-0*
Stance	Neutral	*retained*
FY27 CPI f'cast	5.1%	*from 4.6%*
FY27 GDP f'cast	6.6%	*from 6.9%*
Inflow package	~$40bn	*targeted*
Cumulative easing	125bp	*since '25*

ON THE RECORD

We judge the RBI's hold the correct call for June; the oil collapse validated it within weeks. But it is a bet that the shock is transitory, at a time when other central banks have just concluded the opposite. We revisit it after the 5 August MPC.

> *"Faced with difficult trade-offs, monetary policy has turned more cautious."*
>
> SANJAY MALHOTRA · RBI GOVERNOR · 5 JUNE 2026

External Vulnerability & What's Left in the Locker

Financing the Deficit, and the Bet Behind the Hold

The RBI's decision to diverge only works if the money keeps arriving. Here is what actually funds India's balance of payments, how much firepower remains, and where the hold could break.

India's external account is stronger than its headlines suggest and more fragile than its reserves imply. The FY26 current-account deficit was a benign 0.6% of GDP, but the *overall* balance of payments swung to a $23.6bn deficit, because the capital account thinned: net FDI was just $6.9bn (gross inflows a record ~$94.5bn, gutted by repatriation), and foreign portfolio investors pulled $16.4bn. What plugged the gap was borrowed and deposited money: $14.2bn of external commercial borrowing and $14.4bn of NRI deposits.

That is the vulnerability the oil shock exposed. Forecasts for the FY27 deficit span 1.1% (Goldman, on cheap oil) to 2.5% of GDP (Morgan Stanley, on $95 crude), and the BoP outcome splits the Street between a modest surplus and a $60bn+ deficit. Barclays' verdict is the one to hold: India needs ~$7bn to $8bn of inflows every month to balance, and the RBI's measures "will not resolve the structural BoP issues."

Hence the ~$40bn inflow package (FCNR deposit subsidies, FAR bond access, the removal of FPI debt limits, a $5bn swap). The catch: it all landed between 8 and 17 June, so none of it shows in the data yet, and the pre-package base was weak (FCNR(B) drew just $0.9bn in all of FY26). It is a bet that a cheaper oil bill and engineered inflows can buy time while the structural deficit remains unresolved.

EXTERNAL BUFFERS & FIREPOWER

FX reserves	$672.6bn	*−$56bn*
Import cover	~11 mo	*ample*
IMF ARA metric	109%	*adequate*
External debt/GDP	20.8%	*up*
ST debt/reserves	47.3%	*rising*
RBI net fwd short	$106.7bn	*stretched*
FY27 fiscal deficit	4.3%	*on track*

LEVERS REMAINING

Rates: constrained (CPI rising to 3.9%). **CRR:** at a 3.0% floor. **FX:** spot buying, but a $107bn short forward book to unwind. **Macropru:** the June package. The buffer is genuine, but the marginal lever is expensive.

THE CREDIBILITY RISK

Russia now supplies a record >50% of India's crude (2.70 mb/d), just as the US let its sanctions waiver lapse on 17 June, months after India pledged to wind the purchases down. The same barrels that steadied the rupee are now a diplomatic liability. Rating anchor: S&P BBB (stable), the 2025 upgrade intact.

Capital Flows · Equity Out, Debt In

The Money Didn't Leave. It Changed Asset Class.

Foreign investors pulled a record ₹2.74 lakh crore from Indian equities in 2026 and moved the money into Indian bonds. The bifurcation this magazine tracks has a new axis.

The headline is a record exodus: foreign portfolio investors sold ₹2.74 lakh crore (~$29bn) of Indian equities in the first half of 2026, already more than in all of 2025, which dragged FPI ownership of NSE-listed companies to 15.8%, a 17-year low. For the first time, domestic institutions own more of the Nifty 500 than foreigners do.

The second line tells the real story. In June, even as FPIs sold ₹49,340 crore of equities, they bought ₹55,518 crore of Indian *debt*. That was the first month bond inflows exceeded equity outflows, and it took 2026 debt inflows to ₹63,784 crore. The RBI's FAR expansion and the removal of the FPI debt limit, plus a bond yield falling to 6.70%, made Indian duration the trade. The same foreign capital that fled the equity tape arrived in the government-bond market.

Underneath both sits the domestic floor. Domestic institutions bought ~₹4.7 lakh crore of equities in H1, which absorbed ~90% of FPI selling in FY26. The buying was funded by SIP inflows running at a record ~₹31,000 crore a month and a mutual-fund industry now at ₹81.6 lakh crore. The indices bent (Nifty −8.4%, Sensex −10.3% in H1) but did not break.

FLOWS, 2026 (₹ CRORE)

FPI equity YTD	-2.74L cr	*record*
FPI equity, Jun	-49,340	*out*
FPI debt, Jun	+55,518	*in*
FPI debt YTD	+63,784	*in*
DII equity H1	+4.7L cr	*floor*
SIP / month	~31,000	*record*
FPI ownership	15.8%	*17-yr low*

THE NEW BIFURCATION

Issue 01's frame (portfolio capital out, strategic capital in) now has a twist: *within* portfolio capital, equity is out and debt is in. Foreigners are de-risking from Indian growth and buying Indian yield. That reflects a judgment on valuations and the rupee rather than on the country.

Indian Equities · H1 2026

A Bad Half, and a Sector That Fell Off a Cliff

The headline indices logged their worst first half since Covid, but the real story lies beneath them: an IT wipeout, a rotation into defensives, and a quiet small-cap rally.

The Sensex closed June at 76,479 and the Nifty at 23,866, down 10.3% and 8.4% respectively for the half, the worst first half for the Sensex since the pandemic, and roughly 9 to 11% below the September-2024 record. Yet both rose modestly *in* June as oil fell and bonds rallied, and India's market capitalisation crept back above $5tn.

The damage was concentrated. Nifty IT fell about 31% in H1 (its worst first half since 2003) as fear that generative AI will compress the services model gutted the majors: Infosys −38%, TCS −37%, Wipro −35%. This is the domestic face of the global AI trade, and we give it its own page overleaf. Money rotated hard into defensives and domestic-facing names (realty, FMCG, pharma, chemicals and defence all outperformed) while breadth stayed strong beneath the weak headline: the Nifty Microcap 250 rose 11.4% in H1, the best of any tier.

Valuations sit near, not above, the long-run average (the Nifty's trailing P/E around 20.8×), and India's premium to emerging markets has compressed from its 2024 extreme. After a record foreign exodus, the domestic bid has kept the market expensive-ish rather than cheap. That is the tension a value buyer must resolve.

INDIAN MARKETS (30 JUN)

Nifty 50	23,866	*−8.4% H1*
Sensex	76,479	*−10.3% H1*
Nifty IT	n/a	*−31% H1*
Microcap 250	n/a	*+11.4%*
India VIX	13.4	*calm*
Nifty P/E	20.8×	*≈ avg*
Mkt cap	~$5.0tn	*−13% vs '24*

ROTATION MAP

Out: IT, metals, autos. **In:** realty, FMCG, pharma, defence, chemicals, small/micro-caps. A domestic-demand tilt, funded by SIPs.

India & AI · Two Sides of One Trade

Boom Abroad, Threat at Home

The same technology powering a $725bn capex wave in America is compressing the valuations of India's biggest export industry, and forcing India's own compute build to reckon with its own power bill.

India lives on both sides of the AI trade, and in June the two sides pulled apart. Abroad, AI is a capital-formation supercycle: the hyperscaler capex, the power scramble, the debt engine of Part III. At home, the first-order effect on India's flagship export sector has been destruction: the IT-services majors, whose model is selling human engineering hours, fell about a third in the first half as the market concluded that agentic AI erodes the very billable hour they sell.

That is the paradox. The country that supplies the world's software talent is, for now, a net loser in the equity market from software's biggest leap, while the country that owns the chips, the clouds and the power is the winner. India's answer, the sovereign-compute build this magazine chronicled in Issue 01, now runs into the same constraint the Americans hit: power. India's own data-centre ambition (Reliance, Adani, the hyperscalers' local regions) competes for grid capacity, and its renewable-plus-storage thesis is the only credible way to feed it without widening the very oil-and-gas import bill that Hormuz just inflated.

So the trades invert. Short the narrative that Indian IT services are cheap because they've fallen; the de-rating may be structural, not cyclical. Long the picks-and-shovels of India's own compute build (power, transmission, data-centre real estate, and the semiconductor packaging layer), where AI is a tailwind rather than a threat.

TWO SIDES, JUNE 2026

- **IT services**
  Infosys −38%, TCS −37% (H1); billable-hour risk
  THREATENED
- **Sovereign compute**
  Reliance/Adani DC build meets its power bill
  CONSTRAINED
- **Power & picks-and-shovels**
  Renewables, grid, DC real estate, ATMP
  ADVANTAGED

THE CROSS-THEME

Part III said the scarce asset in AI is the megawatt. Part IV says India's version of that trade is doubly scarce, because every megawatt it burns on gas widens the import bill that the regime break is punishing. Firm green power is India's single highest-leverage AI investment.

> *The world's back office is being repriced by the tool it helped build. India wins the AI decade only if it becomes a seller of compute and power, not only of engineering hours.*
>
> GRAVITYWELL RESEARCH · INDIA BUREAU

Part Five

V

The Capital Corridor

Where the money moved in June: the largest IPO in history, a $60bn all-stock software buy, a foreign bank taking control in India, and an M&A market on pace for its second-best year ever.

Deals of the Month · Global

The Month Musk Went Public, and Went Shopping

A record-shattering IPO, the largest venture-backed acquisition ever, telecom consolidation in France and a pharma buying spree. Deal appetite ignored the rate regime.

MARQUEE TRANSACTIONS

SpaceX IPO (Nasdaq: SPCX) — ~$75bn

LARGEST IPO EVER · 12 JUN · ~$1.8TN CAP

Priced at $135; closed day one +19% for a ~$2.1tn valuation. The SpaceX-xAI combine (merged Feb) becomes a public colossus and resets the scale of what a single listing can raise.

SpaceX → Anysphere (Cursor) — $60bn

ALL-STOCK · 16 JUN · LARGEST VC-BACKED M&A

Days after listing, Musk bought the AI-coding leader (~$4bn ARR) for ~15× revenue, the biggest acquisition of a venture-backed startup on record.

Orange/Bouygues/Iliad → SFR — €20.4bn

TELECOM · 6 JUN · ENDS FRANCE'S 4-OPERATOR ERA

A consortium carves up Altice France's SFR, more European consolidation that the rate regime is accelerating rather than slowing.

Qualcomm → Modular — ~$3.9bn

SEMIS/SOFTWARE · 24 JUN · ANTI-CUDA STACK

All-stock bet on an open AI-software layer to challenge Nvidia's moat. Modular had raised $250m at $1.6bn just nine months earlier.

PHARMA'S BUYING SPREE

ACQUIRER → TARGET	VALUE
Merck KGaA → Bio-Techne	$11.3bn
AbbVie → Apogee	$10.9bn
GSK → Nuvalent	$10.6bn
onsemi → Synaptics	~$7.0bn
Accenture → Dragos +	~$4.2bn

THE AI CAP-TABLE

The private AI labs queued for the public market: OpenAI filed confidentially (8 Jun) off its $852bn round; Anthropic filed (1 Jun) at a $965bn valuation with revenue past a $47bn run-rate; Groq raised $650m; Mistral and Databricks were in talks at ~€20bn and ~$170bn. For now, the primary market for AI is wide open.

Deals of the Month · India

Strategic Capital Kept Arriving

While portfolio money fled the tape, strategic and private capital wrote some of the largest cheques in Indian corporate history, including the first foreign majority buy of a profitable Indian bank.

MARQUEE TRANSACTIONS

Emirates NBD → RBL Bank $2.75bn

BANKING · 18 JUN · 60% MAJORITY

The largest-ever FDI in Indian banking and the first foreign majority acquisition of a profitable Indian bank. Gulf strategic capital arrived in the middle of the exodus.

Bharti Airtel → Airtel Africa ₹28,200cr

TELECOM · 22 JUN · STAKE TO ~79%

A ~$3.3bn cashless share-swap that consolidates the African business as an Indian champion doubles down abroad.

CRED → Meta-led round $900m

FINTECH · 22 JUN · ~$4.5BN POST

Meta anchors a Series H; founder Kunal Shah steps back to join Meta. Global platform capital is buying into Indian fintech distribution.

Sarvam AI → HCLTech-led $234m

AI · 15 JUN · NEW UNICORN ($1.5BN)

India's newest AI unicorn. Sovereign-AI ambition is finding domestic strategic backing.

PRIMARY MARKET

THE BIG ONE FILED

Reliance Jio Platforms filed its DRHP on 19 June, a ~₹37,000cr (~$4.3bn) all-fresh issue, no OFS. It is the anchor listing of India's 2026 pipeline.

JUNE IPO	SIZE	LIST
Advit Jewels	₹165cr	+37%
CMR Green Tech	₹631cr	strong
Turtlemint	₹883cr	−11%
Cordelia Cruises	₹585cr	−16%

SEBI BOARD · 19 JUN

Reintroduced open-market buybacks (from 1 Aug), fast-tracked AIF launches ("GARUDA"), and allowed mutual-fund intraday borrowing. Vedanta's four-way demerger listed 15 Jun.

Private Markets · The Bigger Picture

A Record Year for Deals, Made of Fewer, Larger Bets

Global M&A is on track for one of its biggest years ever, though the volume is concentrated in megadeals and driven by a strategic conviction that the cost of capital is no longer falling.

Higher-for-longer did not freeze the deal market. It changed its shape. Bain's mid-year review put global deal value up 41% year-on-year in the first five months, on pace for roughly $5.3tn, a whisker below the 2020 record. PwC sees ~$4tn, +13%, the strongest since 2021. The common thread in every provider's data is concentration: megadeals (>$5-10bn) are taking a record share, while total deal counts fall. When money costs more, acquirers make fewer, more strategic bets, and pay in stock more often (a record ~35% cash-and-stock mix).

Private equity is sitting on a wall of dry powder and finally deploying it into scaled platforms. In India, a queue of billion-dollar processes formed in June: KKR, Warburg, TPG, Advent, CVC and Permira circled the maternity chain **Cloudnine** at a ~$1bn valuation; Blackstone, Advent and Warburg are chasing **Axis Finance** at a similar size. The exit drought that constrained Indian PE is easing as strategic buyers and a reopening IPO window provide the way out.

The primary pipeline is the release valve. India has 236 mainboard DRHPs in the queue and 23 issuers have already raised over ₹27,000cr in 2026; a ~$48bn wave of IPO lock-in expiries across 79 stocks is redistributing ownership from founders and early backers to the public float. The domestic-institution bid, record SIPs, is the natural absorber.

GLOBAL M&A 2026 (PACE)

Bain full-year	~$5.3tn	*+41% 5m*
PwC full-year	~$4.0tn	*+13%*
Europe H1	$343bn	*+39%*
Megadeal share	record	*fewer, bigger*

INDIA PE: PROCESSES IN PLAY

- Cloudnine: ~$1bn, six-sponsor race
- Axis Finance: ~$1bn, Blackstone/Advent/Warburg
- 236 mainboard DRHPs queued; ₹27,000cr+ raised YTD
- ~$48bn IPO lock-in unlock across 79 stocks

READ-THROUGH

A deal market this active into a hawkish regime is a vote that strategic value beats the cost of capital. It also concentrates risk: fewer, larger, stock-funded bets are more exposed if the equity multiple that funds them compresses.

PE/VC in a Higher-for-Longer World

"Twelve Is the New Five"

The regime break lands hardest where leverage and time are the business model. Private equity's returns math just got harder, its exits are jammed, and its liquidity is increasingly synthetic.

Higher-for-longer is a tax on the leveraged-buyout model. A decade ago a deal needed ~5% annual EBITDA growth to hit a 2.5x return; with entry multiples at a record 14x, leverage cut from 50% to 36% of enterprise value, and debt costing 8-9%, Bain calculates the same return now needs **10-12%**. "Twelve is the new five." With financial engineering no longer enough, the return now has to be earned through operations.

The bigger problem is the exit. Distributions have run below 15% of net asset value for four straight years, a record. That has left ~32,000 unsold companies worth ~$3.8tn, and average holding periods have stretched to seven years. With the IPO window still barely open for sponsors (just five PE-backed listings in Q1), the industry is manufacturing liquidity synthetically: a record ~$230bn secondaries market, continuation vehicles now ~43% of it, and ~$150bn of NAV loans. LPs have noticed: DPI is now the top re-up criterion, and roughly one in five is cutting buyout allocations.

Private credit, the decade's great absorber, showed its first cracks. AUM cleared $2tn, but Fitch's "true" default rate hit a record 5.8%, PIK interest doubled to ~11% of the market, and in June Blackstone's BCRED joined funds capping redemptions. The plumbing that financed the buyout and AI booms is being stress-tested for the first time.

THE STATE OF PLAY (2025-26)

Entry multiple	14×	*record*
LBO debt cost	8-9%	*from 6-7%*
Distributions/NAV	~14%	*4-yr low*
Unsold backlog	$3.8tn	*32,000 cos*
Dry powder (buyout)	$1.3tn	*aging*
Secondaries '25	~$230bn	*record*
Private-credit default	5.8%	*record*

THE AI VALUATION QUESTION

No marquee AI lab has taken a down-round. Every name re-rated *up* through H1 (OpenAI $852bn, Anthropic $380bn→$965bn in 3.5 months, SpaceX public at $1.77tn). That is the tell: the bubble risk is entirely forward-looking, flagged by the BIS, Bill Gurley ("about to burst") and Apollo's Rowan ("a shakeout is coming"). India's version is quieter: PE/VC deal value fell ~19% in Q1, but GIFT City commitments hit $39bn.

> *"Even with easing likely, structurally higher rates favour real assets and private credit: collateral-based cash flows over financial engineering, operational improvement over multiple expansion."*
>
> KKR · MID-YEAR MACRO OUTLOOK, "THE DIVERGENCE CONUNDRUM" · 10 JUNE 2026

Part Six

VI

The Desk

The desk's calls, put to work and put on the record: five trades for the regime, last month's forecasts graded without mercy, the case against our own thesis, and the month ahead.

IN THIS PART

Investor Quick Read

Five Trades, Five Risks

The month distilled to what you can act on, with positioning for a higher, flatter, energy-scarce rate path and the five ways the thesis breaks.

GLOBAL MACRO DESK · GRAVITYWELL RESEARCH

FIVE CONVICTION TRADES

T1 **Own the Watts That Power AI**

Regulated utilities with data-centre pipelines, gas-turbine makers with multi-year backlogs, transmission and firm-power developers. The scarce asset in AI is the megawatt with an interconnection date.

T2 **Short Duration, Long Quality Cash Flow**

The regime taxes long-duration growth and rewards positive real yield. Favour front-end/quality carry and profitable compounders over the story stocks that need the old reflex back.

T3 **The India Debt / Divergence Trade**

FAR-eligible Indian government bonds at ~6.7% with a central bank on hold and a falling oil bill, the flow the FAR reforms just unlocked. Size to the rupee view.

T4 **Buy India's Picks-and-Shovels**

Long India power, grid, data-centre real estate and semiconductor packaging; underweight IT services where the AI de-rating may be structural, not cyclical.

T5 **Buy the Gold Washout, Selectively**

Gold's ~12% June drop is a positioning unwind, not a thesis break; a higher-and-energy-scarce world with heavy sovereign debt keeps the structural bid. Accumulate on weakness, hedged.

FIVE MATERIAL RISKS

SEVERITY-RATED

▪ **A dovish reversal**

A growth scare pulls a cut forward, and the old reflex returns

HIGH · thesis-killer

▪ **AI credit event**

$570bn debt engine cracks; HY spreads gap wider

HIGH

▪ **Hormuz re-escalation**

Ceasefire fails; oil re-spikes, rupee back to records

MEDIUM

▪ **Dollar overshoot**

DXY breakout strains EM FX and the RBI's hold

MEDIUM

◦ **Equity air-pocket**

Mag 7 concentration unwinds into thin credit

WATCH

THE BOTTOM LINE

Underwrite the regime break: own real assets, power and positive real yield; fund it by underweighting the long-duration growth and disinflation hedges priced for the old world. Hedge the two tails that reverse it: a dovish central-bank pivot and an AI credit event.

Three Roads Out of the Regime Break

The Scenario Matrix

A thesis needs probabilities behind it. Here is how the regime break resolves across bear, base and bull cases, with the asset paths each implies, anchored to the Street's own numbers.

DRIVER	BEAR · STAGFLATION (25%)	BASE · FRAGILE SOFT LANDING (50%)	BULL · DOVISH REVERSAL (25%)
Fed, YE-26	Hikes to 3.75-4.00%, then stuck	Holds 3.50-3.75%	Cuts toward 3.00-3.25%
10-yr yield	4.80%+	4.30-4.40%	≤4.20%
S&P 500	5,400-6,300	7,800-8,100	8,000-9,000
Recession odds	35-42%	~15%	<15%
Brent	>$100 (Hormuz relapse)	~$80	$60-75
Gold	$6,000+	$4,900-5,500	drifts as real yields hold
Dollar (DXY)	100+	~99-100	low-90s
India / rupee	95-97, RBI forced to hike	93-96, RBI holds	<93, cut back on table
Analogue	1970s Burns stop-go	1994-95 soft landing	ECB 2008/2011 forced pivot

Probabilities are Gravitywell's synthesis of the strategist distribution below; ranges are the cited Street anchors, not point forecasts. S&P bear = Goldman's oil-shock ladder; base = the 7,800-8,100 consensus cluster; bull = Evercore's ~30%-probability high case.

WHAT THE MARKET IS PRICING

Futures put a hike by October at ~60%, and Goldman has removed every 2026 cut. The regime's signature is in the bond math: 10-year real yields rose to ~2.2% while breakevens stayed anchored near 2.2%. The market is repricing *real* rates, not inflation expectations. That is the higher-and-energy-scarce world, priced into the bond market.

History is the swing factor. Central banks that hiked into a supply shock have often reversed within one-to-two quarters once it faded, as the ECB did in 2008 and 2011. That is the bull case. But the 1970s warn that easing before inflation is anchored re-entrenches it. That is the bear case. The base case is that the Fed simply waits, data-dependent, through the 29 July meeting.

THE CONTRARIAN TELL

Not one of 21 strategists surveyed forecasts a 2026 equity decline; year-end targets are clustered in their tightest band in a decade; margin debt is a record $1.42tn (~2σ) and semis are the most crowded trade (73% of managers). Uniform bullishness is itself a risk factor, and the reason we hold the bear tail at 25%, above what the consensus implies.

From Thesis to Allocation

Positioning for the Regime, Hedging the Reversal

A model multi-asset stance for the higher-and-energy-scarce regime: tilts, instruments, and the two tail-hedges that pay if the thesis is wrong. Illustrative, not advice.

SLEEVE	STANCE	TILT	EXPRESSION / INSTRUMENT	BEST SCENARIO
Real assets & power	**Overweight**	++	Regulated utilities w/ DC pipelines, grid, gas-turbine OEMs, InvITs/PPAs	Base / Bear
Quality equity, cash-flow	Overweight	+	Profitable compounders, defensives; underweight story growth	Base
Positive real yield	Overweight	+	Front-end & belly; TIPS; quality IG carry	Base / Bear
India duration (FAR)	Overweight	+	FAR G-secs ~6.7%, currency-hedged	Base / Bull
Gold	Add on weakness	+	Accumulate the ~12% washout, hedged	Bear / Bull
Long-duration growth	**Underweight**	- -	Unprofitable tech, richly-priced Mag-7 concentration	n/a
IT services	Underweight	-	AI-disrupted billable-hour models (India + global)	n/a
AI credit / crowded semis	Underweight	-	HY AI-infra paper, off-B/S SPV exposure, 73%-crowded semis	n/a

Tilts are directional (relative to a neutral 60/40-plus-alternatives benchmark), not target weights. See Five Trades (p.38) for the security-level expression and the Scenario Matrix (p.39) for the payoff map.

THE LOGIC

The through-line is simple: own what a higher, flatter, energy-scarce rate path rewards. That means real assets, power, positive real yield, and the one central bank that broke ranks (India, via its bond market). Fund it by underweighting what the old reflex priced: long-duration growth, the disinflation hedges bid for a rate-cut world, and the AI credit whose returns assume everything goes right into a regime that just turned against it.

Private-markets overlay: follow the smart money into real assets and private credit, but demand collateral and daily liquidity; the June redemption caps are the warning. Underwrite the AI buildout through the *power* layer (12-18% target IRRs on contracted infra) rather than the model-builders or their junk-rated debt.

THE TWO TAIL-HEDGES

■ **Dovish-pivot hedge**

If a growth scare forces cuts, long duration & growth snap back

carry a duration call

■ **AI-credit hedge**

If the $570bn engine cracks, HY & semis gap wider

CDX HY / Oracle CDS

THE ONE-LINE BRIEF

Hold power, quality cash flow and real yield as the core of the book, keep only a tactical position in the long-duration narrative, and stay hedged against a dovish pivot. This regime favours patient capital over leveraged bets, so size positions accordingly and keep the reversal insured.

Accountability · Graded Monthly

The Scorecard

Last month we put three calls on the record and promised to mark them. Here they are, graded against what June delivered.

CAPITAL INTELLIGENCE DESK · ISSUE 01 → ISSUE 02

GRADING OUR OWN CALLS: ISSUE 01 (MAY 2026)

IN MAY WE SAID…	WHAT JUNE DELIVERED	GRADE
Brent below $90 by end-June reverses the FPI tape; above $110 extends the exodus	Brent ended June ~$73; equity selling decelerated (H2 net buying) & debt flooded in, but equities still net-sold for the month	PARTIAL: right on oil as master variable
RBI holds at 5.25% on 5 June; language turns on the rupee, not growth	Held 5.25%, neutral, 6-0; Malhotra cited global turbulence & "cautious" policy, hikes "premature"	HIT
Contracted-cashflow infra (InvITs, yield trusts) outperforms the Nifty over two quarters	Defensives/realty/infra beat an IT-led Nifty in H1; two-quarter clock still running	ON TRACK

Self-grade: one clean hit, one partial, one still running. The oil call captured the direction; "reverses the tape" was too strong for equities but correct for the rupee and the bond market. We keep the standard exacting.

OUR CALLS: ON THE RECORD (GRADED IN ISSUE 03)

CALL 1

No anchor central bank cuts before core inflation is verifiably at target. The 29 July FOMC is a hawkish hold; the reaction function stays reset.

CALL 2

The rupee holds a 93-96 band through Q3 as the oil relief offsets the rate divergence; the RBI stays on hold on 5 August.

CALL 3

AI power and infrastructure (utilities, grid, gas turbines) outperform the Mag 7 over the next two quarters as the trade rotates from model-builders to power-owners.

THE STANDING WAGER

The regime break holds: central banks do not ease reflexively, real assets and power outperform long-duration growth, and the divergence trades (India debt, the RBI hold) pay until the dollar says otherwise. We are graded on this every month until the tape proves us wrong.

The Opposing View · Signed

The Case Against the Regime Break

A magazine that only prints its own thesis is a brochure. Here is the strongest case that June's hawkish turn is a head-fake the doves will reverse by autumn, and our answer.

CONTRARIAN COLUMN · GRAVITYWELL RESEARCH

The house has declared a regime. I have watched central banks declare resolve at exactly the wrong moment for twenty years. Here is why June was the peak of the hawkishness rather than its start.

Four hard objections. **One.** The trigger is already gone. Oil round-tripped from $126 to $73; the ECB and Fed tightened against an inflation impulse that is now deflating in real time. By autumn the year-on-year energy comparisons turn sharply negative and headline inflation falls with them. **Two.** The growth cost. A flatter supply curve cuts both ways: hold too tight into fading inflation and you get the recession the hawks swore they'd avoided, and then the cuts come fast. **Three.** The politics. A US administration publicly demanding lower rates and cheaper gasoline will not tolerate a restrictive Fed into 2027; the "independence" everyone is praising has a short shelf life. **Four.** The market already disagrees. If this were a durable regime break, credit would have cracked and equities would have broken. Instead HY spreads widened a trivial 20bp and Europe and Japan printed records. The bond market is not buying "higher for longer"; it rallied into month-end.

The tell is gold and the yen. A genuine inflation regime does not crush gold 12% in a month. June was a positioning washout dressed up as a doctrine.

THE HOUSE REPLY

The bear is right that oil is falling and that equities haven't broken, but wrong that either disproves the thesis. The regime break is about the reaction *function*, not this quarter's CPI: the evidence is precisely that the banks held their line as the trigger faded. Gold fell because real yields rose, which is the regime, not its refutation. We concede the politics: a forced dovish pivot is the single largest risk to everything in this issue, and it is why Call 1 on the Scorecard is the one we most want to be right about.

WHERE WE CONCEDE

If core inflation falls to target by Q4 and a central bank cuts anyway, the regime break was a one-week illusion and we will have been early, which in this business is the same as wrong. We would rather be graded and wrong than vague and safe.

The Allocator's View · Q&A

"You Rebuild the Playbook From the Rate Up"

A composite of the questions institutional allocators put to the desk this month, and how we answered them, synthesised from our conversations across the buy-side.

Q. Is one hawkish week really a "regime"? Central banks reverse constantly.

They do, which is why we anchor the claim on behaviour, not rhetoric. The evidence is that four banks tightened and then *held* as the oil trigger collapsed. A reversible pivot reverses when the shock fades; this one didn't. That is the signal.

Q. If equities keep making records, why reposition at all?

Because the leadership is changing under the surface. The Mag 7 turned negative on the year for the first time since 2022 while power, defence, European and Japanese equities led. You don't fight the index; you rotate within it, toward the assets the new rate path rewards.

Q. The RBI held. Is Indian duration a buy or a trap?

A buy with a currency hedge. FAR-eligible G-secs at ~6.7% with a central bank on hold and a falling oil bill are attractive. The foreign bid proved it in June. The trap is unhedged: if the dollar breaks out, the rupee gives back what the coupon pays.

THE ONE-PAGE PLAYBOOK

Start from the rate
Positive, volatile real yields are the anchor

Own real assets
Power, energy, defence, infrastructure

Trade duration tactically
Long bonds are a trade, not a holding

Play divergence in FX
Who holds vs who hikes is the alpha

Hedge the pivot
A forced ease reverses all of it

THE UNCOMFORTABLE TRUTH

Every allocator we spoke to is positioned for a regime they don't fully believe in, because the cost of being wrong on higher-for-longer, again, is now larger than the cost of being early. That asymmetry is itself the regime.

The Month Ahead · July 2026

The July Decision Tree

What to watch, when, and what each outcome means for the regime-break thesis. The calendar that will confirm or break the call.

THE CALENDAR THAT MATTERS

2 Jul — **US June jobs report** — DATA
A hot print hardens the hawkish hold; a miss revives the cut debate the desk is betting against.

14 Jul — **US CPI (June) · Q2 bank earnings** — DATA
The inflation read that frames the 29 July FOMC; JPMorgan opens earnings season.

15 Jul — **China Q2 GDP · BoC decision** — CB
China growth into the AI-selloff; Canada tests whether the holds stay hawkish.

23 Jul — **ECB Governing Council** — CB
Does Lagarde follow June's hike with a signal, or pause "back to basics"?

28-29 Jul — **US FOMC decision** — CB
The core test of Scorecard Call 1. A hawkish hold confirms the regime; any dovish tilt breaks it.

29-31 Jul — **Mega-cap earnings · BoE · BoJ** — EARNINGS
Alphabet, Microsoft, Meta, Amazon, Apple report into an AI-capex reckoning; BoJ outlook.

3-5 Aug — **RBI MPC decision** — CB
The divergence, re-tested. We are on record: another hold.

DECISION TREE · 29 JUL FOMC

Hawkish hold	*thesis ✓*
Hint at hike	*thesis ✓✓*
Dovish tilt	*thesis ✗*
Cut signalled	*thesis broken*

ALSO ON THE RADAR

NATO summit, Ankara (7-8 Jul); US Section 122 tariff authority expires (24 Jul); Hormuz ceasefire durability; European gas storage into winter.

WHAT WOULD CHANGE OUR MIND

A soft jobs report and a cool CPI that together push the Fed to signal a cut on 29 July. That single sequence would retire the regime-break thesis, and we would say so, on this page, next month.

Standing Reference · The Data Room

The Indicators

June 2026 on one page: the rates, currencies, commodities and markets that define the regime, with month and year context. Point-in-time reads at 30 June unless noted.

POLICY RATES & YIELDS

INSTRUMENT	LEVEL	NOTE
Fed funds (upper)	3.75%	hold; dot 3.8%
ECB deposit	2.25%	+25bp
BoJ policy	1.00%	+25bp
BoE bank rate	3.75%	hold 7-2
RBI repo	5.25%	hold
US 2-yr	4.10%	rally
US 10-yr	4.38%	-9bp
US 30-yr	4.86%	high
India 10-yr	6.70%	15-wk low
US HY OAS	280bp	+20bp

CURRENCIES (VS USD)

PAIR	LEVEL	MO.
DXY (index)	101.3	+2.0%
USD/JPY	162	40-yr low
EUR/USD	1.139	flat
GBP/USD	1.326	flat
USD/INR	94.6	off record

COMMODITIES & CRYPTO

ASSET	LEVEL	MO.
Brent crude	$73	-21%
WTI	$70	-20%
Gold	$4,015	-11.6%
Silver	$58.5	-22%
Copper	$6.19	tariff
EU TTF gas	€43.9	-11%
Bitcoin	$58,504	-20.3%
Ether	$1,559	-22%

EQUITIES (30 JUN CLOSE)

INDEX	LEVEL	YTD/H1
S&P 500	7,449	+9.6%
Nasdaq Comp.	26,214	+12.8%
Euro Stoxx 50	6,326	record
Nikkei 225	70,062	Q2 +37%
Hang Seng	22,881	-9.1% mo
Nifty 50	23,866	-8.4%
Sensex	76,479	-10.3%

INDIA MACRO DASHBOARD

INDICATOR	LATEST	INDICATOR	LATEST
CPI (May, new base)	3.93%	WPI (May)	9.68%
GDP (FY26)	7.7%	FY27 GDP (RBI)	6.6%
FX reserves	$673bn	CAD (FY26)	0.6%
FPI equity YTD	-₹2.74L cr	FPI debt YTD	+₹63,784cr

Point-in-time reads at/near 30 June 2026; India CPI/WPI/GDP on new 2024 / 2022-23 base years. Not official month-end settlements. Full attribution in the Source Register.

The Lighter End of Capital

Marginalia

The month's footnotes, ironies and small print: the things that don't fit a dashboard but tell you where the culture of capital is going.

Six words, thirty-two years

Kevin Warsh's "this committee will deliver price stability" was called the "six words that demolished expectations." The S&P's 1.2% drop on his debut was the worst first Fed-day for a new chair since 1994. A market that had priced continuity marked the man who wasn't Powell.

The 130-word statement

The FOMC statement shrank from 341 words to 130. Removing forward guidance is a matter of philosophy, not brevity: guidance is a promise, and this Fed has decided to stop making them. Lagarde said the quiet part in Sintra: forward guidance is "not in the cards."

Musk's fortnight

In one June, Elon Musk took SpaceX public in the largest IPO in history (~$75bn), then spent $60bn of the new paper buying an AI-coding start-up. The primary and M&A markets, in a single founder, in fourteen days.

The gasoline tweet

With oil down 21%, the US President still told gasoline retailers on 30 June to cut prices "IMMEDIATELY!" It is a reminder that in an election-shadowed year, the politics of the pump will fight the economics of the barrel, and the Fed sits between them.

The IT irony

The country that staffs the world's software desks watched its IT majors fall a third on fears of the very tool it helped build. India's engineers are training the models; India's IT index is being repriced by them.

1999, again

"Yet another way in which 2026 is looking like 1999," a strategist sighed as the Mag 7 turned negative for the year. The comfort: forward multiples are a quarter of the dot-com peak. The worry: the debt behind them is new.

> *Every regime change is obvious in retrospect and deniable in the moment. The deniers get one month's grace. This was that month.*
>
> MARGINALIA · CAPITAL AXIS

In Their Own Words · June 2026

Overheard

The month in quotation: the lines from the podiums, the earnings calls and the conference stages that moved, or explained, the tape.

"This committee will deliver price stability."

KEVIN WARSH · FED CHAIR · 17 JUNE

"Monetary policy has gone back to basics."

CHRISTINE LAGARDE · ECB · SINTRA, 29 JUNE

"Faced with difficult trade-offs, monetary policy has turned more cautious."

SANJAY MALHOTRA · RBI · 5 JUNE

"We won't get growth unless we have stability."

ANDREW BAILEY · BANK OF ENGLAND · 30 JUNE

"There is nothing accidental about the dollar's place in the world."

SCOTT BESSENT · US TREASURY · 23 JUNE

"Agentic AI has arrived... useful AI has arrived."

JENSEN HUANG · NVIDIA · GTC TAIPEI, 1 JUNE

The memory industry is "structurally transformed"; there is "no line of sight as to when supply will catch up."

SANJAY MEHROTRA · MICRON · 24 JUNE

"It is going to happen... you're going to panic."

JAMIE DIMON · JPMORGAN · ON A BOND-MARKET CRACK

Standing Reference · Citations

Source Register

Every figure in this issue is sourced and dated to a primary publication or the most recent primary read. Where a June print was unpublished at cut-off, the latest available reading is used and labelled.

1 Federal Reserve: FOMC statement, SEP/dot plot & press conference, 17 Jun 2026 (target 3.50 to 3.75%; 2026 median dot 3.8% vs 3.4% Mar; PCE 3.6%).

2 ECB: Monetary policy decisions & June staff projections, 11 Jun 2026 (deposit 2.25%, +25bp; HICP 3.0% '26). Lagarde, ECB Forum Sintra, 29 Jun.

3 Bank of Japan: policy statement, 16 Jun 2026 (rate 1.00%, +25bp, 7 to 1). BoE MPC minutes, 17 Jun (3.75%, 7 to 2). Bank of Canada, 10 Jun (2.25%).

4 BLS / BEA: US CPI May +4.2% (10 Jun); PCE +4.1%, core PCE +3.4% (25 Jun); NFP +172k, unemployment 4.3%; Q1 GDP +2.1% (25 Jun).

5 ICE Brent / WTI via CNBC, Fortune, Al Jazeera: Apr peak ~$126; 30 Jun Brent ~$73, WTI ~$70; June −~21%.

6 EIA: Hormuz chokepoint (~20% of seaborne oil & LNG); Q1 2026 flows −30% YoY. TradingEconomics: EU TTF €43.9/MWh (30 Jun).

7 BIS: Annual Economic Report 2026, 28 Jun ("historic closure of the Strait of Hormuz"; "policy discipline"). IMF WEO Apr 2026 (energy +19%; world CPI 4.4%).

8 Index closes 30 Jun via MarketScreener/Investing.com/Trading Economics: S&P 7,449; Nasdaq 26,214; Euro Stoxx 50 6,326; Nikkei 70,062; Hang Seng 22,881; MSCI EM 1,723.

9 FRED: US 2Y 4.10%, 10Y 4.38%, 30Y 4.86%; IG OAS 76bp, HY OAS 280bp (29 Jun). Fortune: gold $4,015 (−11.6%), silver $58.5, BTC $58,504 (−20.3%).

10 GuruFocus / Trading Economics: DXY 101.3 (+2%); USD/JPY ~162 (4-decade low); EUR/USD 1.139; GBP/USD 1.326.

11 FT/Tom's Hardware: hyperscaler 2026 capex ~$725bn (+77%): Amazon ~$200bn, Microsoft ~$190bn, Alphabet $180 to 190bn, Meta $125 to 145bn; Oracle FY26 ~$56bn.

12 NextEra/Dominion joint release & Utility Dive, 18 May 2026 (~$67bn; ~110 GW). FERC show-cause orders, 18 Jun. PJM 2027/28 auction $333/MW-day. IEA: DC power ~950 TWh by 2030.

13 Bloomberg/Exponential View, 25 Jun: AI sales $25bn > ~$21bn depreciation (Q1); TTM genAI $110bn. Morgan Stanley: ~$570bn AI debt 2026; $1.5tn gap. Apollo+Blackstone $35bn Anthropic SPV (17 Jun); CoreWeave $3.55bn bonds (11 Jun).

14 Company/exchange: Nvidia Q1 FY27 rev $81.6bn (+85%), mkt cap ~$4.85bn [tn]; Micron Q3 $41.5bn (+346%); Broadcom AI-semi $10.8bn; SOX −10.3% (5 Jun).

15 RBI: MPC resolution, 5 Jun 2026 (repo 5.25%, neutral 6 to 0; FY27 CPI 5.1%, GDP 6.6%); FX package (MUFG). MOSPI/PIB: CPI 3.93% (May); DPIIT: WPI 9.68%. NSO: GDP FY26 +7.7%.

16 NSDL/PTI: FPI equity YTD −₹2.74L cr, Jun −₹49,340cr; debt Jun +₹55,518cr, YTD +₹63,784cr. NSE/AMFI: DII H1 +₹4.7L cr, SIP ~₹31,000cr; FPI ownership 15.8%.

Add. NSE/BSE: Nifty 23,866, Sensex 76,479 (30 Jun); Nifty IT −31% H1. Deals: Emirates NBD-RBL ($2.75bn), Airtel-Africa (₹28,200cr), CRED-Meta ($900m), Sarvam ($234m), SpaceX IPO/Cursor; Bain & PwC mid-year M&A. SEBI Board, 19 Jun.

Standing Reference · Decoding the Jargon

Glossary & Acronyms

Institutional capital runs on shorthand. The working definitions behind the terms used in this issue.

Reaction function: the implicit rule mapping economic conditions to a central bank's policy response; the object that "broke" in June.

Dot plot / SEP: the Fed's Summary of Economic Projections; each participant's rate forecast, the "dots."

Forward guidance: a central bank's communicated intent about future policy; removed from the June Fed statement.

Higher-for-longer: the expectation that policy rates settle above the pre-pandemic norm for an extended period.

Term premium: the extra yield investors demand to hold long-dated bonds vs rolling short ones.

OAS: Option-Adjusted Spread; the credit spread over Treasuries, the market's risk gauge (IG vs HY).

DXY: the US Dollar Index, the dollar against a basket of major currencies.

Carry trade: borrowing a low-yield currency (e.g. the yen) to buy higher-yield assets; unwinds when rates converge.

Hyperscaler: a mega-cap cloud/AI operator (Amazon, Microsoft, Alphabet, Meta) running planet-scale data centres.

Capex: capital expenditure; here, the hyperscalers' ~$725bn 2026 spend on AI infrastructure.

PPA / IPP: Power Purchase Agreement / Independent Power Producer; the contracted basis of firm power.

Interconnection queue: the backlog of power projects awaiting grid connection; the AI buildout's bottleneck.

ABS / SPV: Asset-Backed Security / Special-Purpose Vehicle; the structures financing data centres off-balance-sheet.

FPI / FII: Foreign Portfolio / Institutional Investor; fast, liquid cross-border equity & debt flows.

DII: Domestic Institutional Investor (MFs, insurers); the absorber of FPI selling, the "domestic floor."

FAR: Fully Accessible Route; the channel giving foreigners unrestricted access to specified Indian G-secs.

SIP: Systematic Investment Plan; recurring retail mutual-fund flow, ~₹31,000cr/month in India.

CAD: Current Account Deficit; the external gap that the oil bill widens.

MPC / repo rate: Monetary Policy Committee / the RBI's policy lending rate (5.25%).

Mag 7: the Magnificent Seven US mega-cap tech stocks; ~⅓ of the S&P 500 by weight.

Gravitywell Research · Monthly Standard

The Lexicon of the Regime Break

*The frameworks this publication coins and maintains as a standard. Where the market lacks a word for what is happening, **Gravitywell Research** supplies one, defined and governed here as the citable standard.*

The Regime Break · Capital Axis Framework

The cover thesis of this issue: the June 2026 shift in which the world's anchor central banks retired the disinflation-era reaction function. They moved hawkish in concert and refused to ease when the triggering oil shock collapsed. The change is in behaviour, not the rate level.

Higher-and-Energy-Scarce

Our label for the successor regime: rates settle high *and* energy is a recurring source of inflation shocks, so central banks act earlier and ease only on realised (not forecast) disinflation. The evolution of "higher-for-longer" from a level to a rule.

The Reaction-Function Reset

The specific mechanism of the break is that the market re-prices the *response rule* rather than the forecast, that is, what the central bank will do the next time something breaks. It is measured by the correlation of policy moves rather than their magnitude.

The Power Bill

The thesis that the binding constraint on the AI supercycle is firm electricity rather than silicon, and that the buildout is itself an inflationary force that feeds back into the regime break. Own the watts, not the models.

THE GRAVITYWELL INSTRUMENTS

The Bifurcation: India's split of portfolio (fast) vs strategic (patient) capital; now with a new axis: equity out, debt in.

Capital Formation Index (CFI): the India two-axis gauge; the strategic axis stays positive on continued FDI/deals, the portfolio axis negative on the record equity exodus.

The Divergence Trade: long the outlier that holds (RBI) vs the field that hikes; the month's cleanest FX/rates expression.

ON CITATION

These terms are maintained by Gravitywell Research. Definitions are fixed across issues so readings stay comparable. Cite as: *Gravitywell Research, Capital Axis, [month] 2026.*

The Gravitywell Lexicon is a living standard. Generic market terminology is decoded separately in the Glossary & Acronyms.

Standing Reference · For the Technical Reader

Methodology & Caveats

How we sourced this issue, what was unpublished at cut-off, and the corrections we made to our own working assumptions.

Sourcing standard

Every figure is dated to a primary source where reachable (central-bank releases, BLS/BEA, RBI/MOSPI, company filings, exchange data) and to top-tier financial press otherwise (Bloomberg, Reuters, FT, CNBC). Point-in-time market, FX and commodity reads are intraday or last-available snapshots as at ~30 June 2026, **not** official month-end settlements. Forward-looking figures, guidance and pledges are labelled as such at the point of use.

The Capital Formation Index

The GWR India Capital Formation Index scores seven public data series across two axes (portfolio-capital and strategic-capital) on 3-month momentum vs a 24-month trend (−5…+5); the headline Bifurcation Spread is the strategic axis minus the portfolio axis. For June 2026 the portfolio axis stays negative on the record ₹2.74L cr equity exodus, partly offset for the first time by strong FPI *debt* inflows; the strategic axis stays positive on continued FDI and marquee M&A. The rubric is fixed so readings are comparable across issues.

DATA CAVEATS

(1) June CPI/WPI (India & UK), June trade/oil-bill data, June AMFI SIP/AUM, and June-quarter BoP were unpublished at cut-off; latest-available prints are used and labelled. (2) Oil in 2026 was a spike-and-collapse round-trip (peak ~$126 Apr → ~$73 Jun), not a straight-line rise; the rupee's all-time low (~96.9) was in May, not June. (3) Hyperscaler capex (~$725bn) is guidance, revised up through 2026. (4) AI-debt and buildout figures are analyst estimates (Morgan Stanley). (5) M&A pace figures diverge by provider (Bain ~$5.3tn vs PwC ~$4tn) on differing methodologies and are not averaged.

MASTHEAD · THIS ISSUE

Global Macro Desk · Technology & Infrastructure · India Bureau · Deals & Private Capital · The Desk · Data Room · Editorial Standards. Produced by Gravitywell Research, Capital Intelligence Desk.

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DATA CAVEATS

(1) June 2026 CPI/WPI (India & UK), June trade and oil-import data, June AMFI SIP/AUM, and the June-quarter balance of payments were unpublished at cut-off; latest-available prints are used and labelled. (2) 2026 oil was a spike-and-collapse round-trip: Brent peaked near $126 in April and ended June near $73 (−21% on the month); the rupee's all-time low (~96.9) occurred in May, not June. (3) Hyperscaler 2026 capex (~$725bn) is company guidance, revised upward through the year. (4) AI-related debt issuance (~$570bn) and the ~$1.5tn data-centre financing gap are Morgan Stanley estimates; the AI-revenue-vs-depreciation figures are from Exponential View via Bloomberg and exclude China. (5) Global M&A pace figures diverge materially by provider (Bain ~$5.3tn vs PwC ~$4tn) and are reported, not averaged. (6) Index, FX and commodity levels are point-in-time reads near 30 June 2026, not official month-end settlements. (7) India CPI/GDP/WPI are on new base years (2024 / 2022-23) and are not directly comparable to older series.

METHODOLOGY

Capital Formation Index: proprietary GWR index aggregating seven publicly available data series across two axes (portfolio-capital and strategic-capital), directionally scored rather than numerically combined to avoid false precision. All data sourced from the Federal Reserve, ECB, BoJ, BoE, RBI, BLS, BEA, MOSPI, DPIIT, NSO, NSDL, NSE/BSE, AMFI, SEBI, EIA, IEA, BIS, IMF, Bloomberg, Reuters, FT, CNBC, Morgan Stanley, Bain, PwC, and company announcements.

RESEARCH CREDITS

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