

## Portfolio Musing FY25 – Turning the Corner? - Stay patient and it will pay

### Introduction

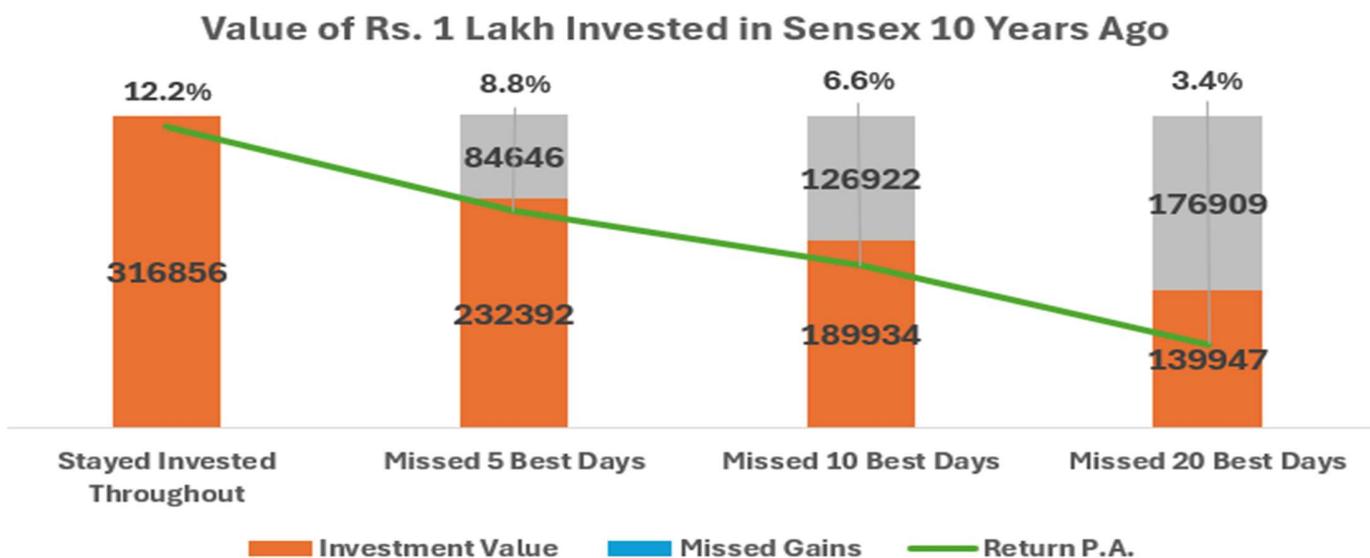
In recent months, global financial markets have faced heightened volatility due to geopolitical tensions, increased protectionism, weakening economic indicators and to an extent over valuation. The threat of higher tariffs by the US for most countries has created uncertainty for markets, central banks and policy makers worldwide raising concerns about potential inflationary pressures and resultant economic impacts. The Indian markets have also experienced severe volatility with additional pressure on the currency, driven by slower growth, and relentless FII selling. In India particularly in FY25 (Apr 24-Mar 25) we had a combined tightening of fiscal and monetary policy as the government spending reduced dramatically because of general and state elections in 2024, also RBI had tightened liquidity and increased regulatory hurdles for lenders, thereby slowing credit growth. However, much of these have reversed now with change of guard at RBI and the government resuming spending post elections towards the latter half of the year FY25. Additionally, events like the Maha Kumbh ([https://drive.google.com/file/d/1S0L7l9HpRpyVwzatLijLm3ZrZaTxQrvY/view?usp=drive\\_link](https://drive.google.com/file/d/1S0L7l9HpRpyVwzatLijLm3ZrZaTxQrvY/view?usp=drive_link)) will also contribute to the economic momentum. As a result, India’s Q4 2025 GDP growth is expected to recover to 6.7%. We feel that some market participants have already recognized the long-term fundamentals and hence, there has been recovery of both the equity markets and currency in the past few days.

### Equities are only exhibiting their inherent nature:

Generally financial markets go through cycles of uncertainty, and bear markets are typically characterized by RUST i.e. Randomness, Uncertainty, Stressors & Turbulence - creating a challenging environment for investors. Markets have corrected many times in the past and will keep doing in the future too. Markets tend to overdo these things on both sides, which we have witnessed in the last six months and a bit. But one should always remember that the slope of the curve will always be up. Especially in markets like India where fundamentals are strong, we are largely domestic driven economy, with an export share of only 20% of GDP and the US goods exposure at around 2% or lower ( USD77bn). Much of India’s exposure to the US is services, which as of now is not impacted by tariffs. So uncertainty about the Trump effects on tariffs will be transitory in nature, may also present a buying opportunity for those with lower exposure to equity. We recommend investors to remain patient through these testing times and not panic, because staying invested pays off in the long term. There is enough data to prove that patience pays.

### Stay invested at all times, because timing the market can be counterproductive

As seen in the graph below, if one missed the best days in the markets in the last decade, the difference in return experience is dramatic. Since, we are not sure when markets bottom out and how soon they will recover, it is highly detrimental to stay in cash or not being invested at all times.

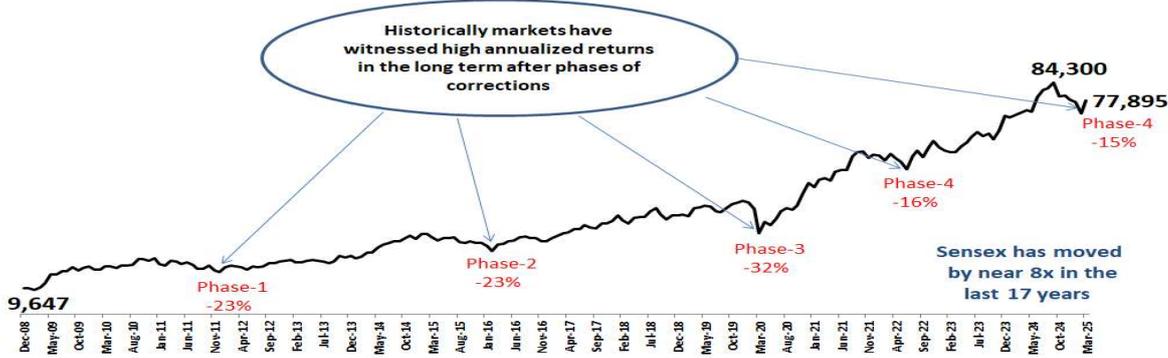


Also, even if one were to assume that this time it’s different for a variety of reasons, it still pays to stay on through the turbulence because of how markets recover post severe corrections. As seen in the table and graphs below

### Markets recovery from sharp falls

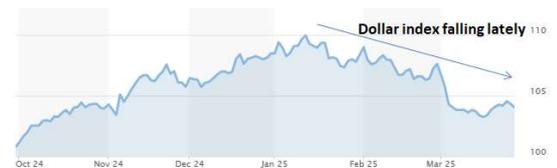
Phases	Period of correction	Correction from top	Annualized returns after correction phase	
			Annualized return after 3 yr	Annualized return after 5 yr
Phase-1	April 2011 to December 2011	-23.0%	22.8%	12.0%
Phase-2	January 2015 to February 2016	-22.5%	17.2%	17.8%
Phase-3	February 2020 to March 2020	-32.3%	30.4%	22.4%
Phase-4	January 2022 to June 2022	-16.0%	15.7%	?
Phase-5	September 2024 to March 2025	-15.0%	?	?

Any steep correction presents an opportunity to add, as markets tend to bounce back fairly sharply. It is just a matter of when and not if.



**Nifty in USD terms – Outperforms the S&P 500 index in the long term**

USD returns annualized	25 yrs	20 yrs	15 yrs	10yrs	5 yrs
S&P 500	5.8%	8.1%	11.0%	10.2%	17.5%
NIFTY	8.7%	9.4%	6.0%	7.8%	19.6%



One major concern for international investors, is the depreciating INR and how it impacts equity returns in the long term. As seen in the table above Nifty (USD adjusted) has historically outperformed S&P 500 over a long period of 25 years. The massive outperformance of the US markets in the previous decade impacts the 10- and 15-year relative performance. This outperformance was largely due to an expansion of Federal Reserve balance sheet after the Global Financial crisis and earnings growth largely led by big tech companies (read Magnificent Seven). However, we believe that we are witnessing mean reversion as in the last 5yr NIFTY has outperformed S&P 500. We expect the outperformance of the Indian markets to continue this decade as the US becomes more protectionist under Trump, impacting corporate earnings and also increasing inflation. On the flip side India has better macro fundamentals and a structurally falling inflation, which will also help the currency. Hence, we feel that INR/USD to remain volatile in the short term like the equity markets, but should depreciate less as compared to previous years as the inflationary trends between the two countries converge and growth trends diverges.

**Earnings growth and Valuation Outlook**

As mentioned before FY25 was a year of extreme tightness in the Indian economy which affected demand and economic activity, resulting in lower corporate profitability. We feel that these have been reversed with

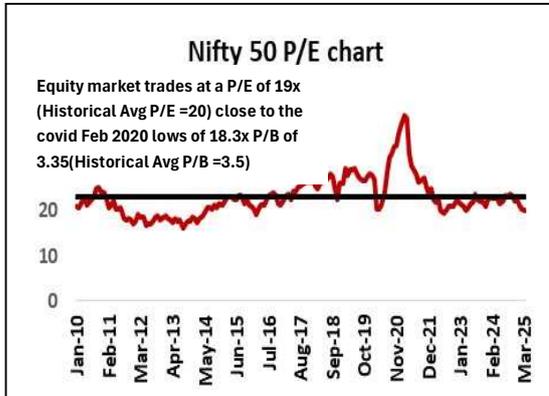
**Fiscal policy reversal**

- Increased government spends, with almost 90% of budgeted spends completed/in progress by Feb,2025.
- Aggressive personal income tax cuts in the budget, leading to higher disposable income with consumers.
- 8<sup>th</sup> pay commission – expected to bring USD50bn of additional spending power to the economy.

**Monetary Policy reversal- Hawkish to Benign**

- Recent liquidity infusions to the tune of USD85 Bn
- A repo rate cut of 0.25% in Jan 2025, with an expectation of additional rate cut likely in April
- Reduced regulatory hurdles – reduction in risk weights for personal lending to banks and NBFCs.

These measures along with excellent corporate balance sheet strength (low debt), buttressed by China +1 opportunity and a lower base of FY25, should drive double earnings growth in FY26 and beyond. Given these assumptions, valuations don't appear stretched on an aggregate basis, but there will be pockets of overvaluation which can be avoided and adjusted by positioning portfolios efficiently.



However, given the heightened news flows around the world, uncertainties will remain so one should readjust return expectations accordingly and not expect the high teen returns which we saw over the last 3 years to continue. Markets can mean revert and one should remain cognizant of that.

#### **Wishing you a very Happy Ugadi!! & Gudi Padwa.**

Happy Investing!! Keep the faith, because even the foreigners have in India. Despite all the noise of the recent FII selling of over USD 160bn since September 2024, they still hold over USD800bn of Indian equity. Additionally they have invested an equal amount of their selling this year in primary markets. We are also seeing a revival of FII flows as they have been net buyers in the month of March 2025 with Net Purchase of Rs. 2000 crore against Rs. 60,000 crore of net sale in the last month. So maybe we are turning the corner!!!

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