



LESSONS FROM '25

What we did, and did not learn

Abstract

This paper is a reflective piece on our experience navigating the 2025 Indian capital market regime. We analyze a year defined by strong domestic investor inflows that stabilized markets against historic foreign outflows. It reviews our successful strategic allocations to precious metals and financials, as well as our challenges with small-cap and export-sector exposures. Our reflection underscores the rising structural importance of domestic capital and reinforces our continued focus on disciplined selection and long-term compounding.

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*Represents
aspirations, and
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Executive Summary

In 2025, we navigated a complex and defining year for Indian capital markets, characterized by a clear divergence between strong domestic participation and historic foreign outflows. While our benchmark indices delivered positive nominal returns and reached new highs, this outcome masked significant relative underperformance compared to global peers. This duality defined the market regime: domestic institutional and retail inflows, particularly through record systematic investment plans, provided a resilient bid that absorbed substantial foreign selling and contained volatility. However, this domestic strength could not fully offset the drag from cautious global capital, which was deterred by premium valuations, modest earnings growth, and a lack of exposure to dominant global thematic narratives.

Our investment framework at the start of the year, shaped by an anticipation of geopolitical and trade policy uncertainty, guided several key decisions. Our strategic allocations to gold and silver proved highly effective, as both metals delivered exceptional returns amid global risk aversion. Similarly, our overweight stance on the financial sector, exemplified by our holding in Shriram Finance, was validated by robust domestic credit growth and strong stock-level performance.

We also acknowledge where our judgment fell short. An overexposure to small-cap equities left us vulnerable to a sharp contraction in market breadth and liquidity as foreign capital retrenched. Furthermore, we underestimated the immediate impact of U.S. tariff actions on specific export-heavy sectors, which adversely affected parts of our portfolio.

The year provided critical lessons. We witnessed firsthand the transformative power of domestic liquidity as a stabilising force, fundamentally altering the market's sensitivity to global shocks. We reaffirmed the value of combining macro-regime awareness with disciplined sector and stock selection. Most importantly, we were reminded of the enduring principles that guide our process: humility in the face of market complexity, discipline in our investment framework, and a steadfast commitment to the long-term power of compounding.

As we look ahead, we see a market regime increasingly anchored by domestic capital, with selective sector leadership driven by the convergence of global themes and India's structural strengths. We will carry the lessons of 2025 forward, refining our risk management to better account for policy shocks and segment-specific liquidity, while remaining focused on building resilient portfolios designed for sustainable compounding over time.

The Year in Context

In 2025 we witnessed a year in the Indian capital markets marked by complex regime interactions, structural shifts in investor bases, macroeconomic tailwinds, cross-border capital flow dynamics and evolving market narratives. Our assessment of 2025 recognizes that Indian markets did not merely oscillate randomly but were responding to a distinctive set of structural forces that shaped both price discovery and behavioural regimes across equities, fixed income, currency and investor sentiment.

At the outset, we define the regime context for Indian capital markets as one in which domestic stability coexisted with significant external pressures, especially from global trade policy uncertainty, geopolitics and foreign investor behaviour. Within this environment we saw Capital markets absorbing shocks, recalibrating valuations and reallocating risk exposures, even as India's underlying growth fundamentals remained among the most resilient globally.

Aggregate Market Performance

In calendar year 2025, India's benchmark equity indices delivered positive but relatively muted returns. The Nifty 50 advanced by approximately 10 percent over the year, with the Sensex recording comparable single-digit gains around 8 to 9 percent. Both indices reached new all-time highs in absolute terms as measured on closing levels. However, this performance was subdued relative to broader emerging market and Asian peers, where equity benchmarks in markets such as South Korea and Brazil posted substantially higher returns. On a relative basis, India's equity market registered one of its weakest showings against global emerging market indices in decades.

This duality of positive nominal outcomes and relative underperformance reflects fundamental regime characteristics in the market. Domestic participation driven by systematic retail inflows, long-term savings vehicles, and allocations from domestic institutional investors continued to provide a steady bid for Indian equities. Local investors maintained a constructive stance throughout the year and supported valuations even as foreign portfolio investment flows were net negative in aggregate and reached multi-year outflow levels.

Despite these domestic supports, international capital was more cautious. Foreign investors divested Indian equities at a pace that capped upward pressure on prices and contributed to valuation discounting relative to global benchmarks. Persistent foreign net selling, driven in part by macro uncertainties and the absence of dominant thematic drivers such as artificial intelligence exposures that benefited other markets, constrained benchmark multiples and weighed on relative performance.

The structure of market returns in 2025 also reflected a complex interplay between earnings dynamics and macroeconomic factors. Corporate earnings growth was uneven and generally modest, particularly in segments that historically attract significant foreign allocations. Persistent global macro uncertainty, headwinds from trade policy pressures, and currency volatility further complicated the investment environment. These factors moderated risk appetite among foreign allocators and contributed to a valuation framework that offered limited re-rating despite resilient domestic flows.

Trading behaviour over the year reinforced this regime interpretation. Market action was characterised by persistent intra-year volatility and extended periods of rangebound trading. Drawdowns were contained relative to historical norms, signalling resilience in domestic positioning, but momentum was uneven across sectors and capitalisation segments. Large-cap indices exhibited more stability compared with mid and small caps, reinforcing the notion that selective demand rather than broad market beta was driving gains.

From a structural perspective, the 2025 equity market environment underscores the importance of distinguishing between nominal index returns and underlying market breadth, capital flow composition, and valuation dynamics. Positive index returns in absolute terms did not translate into widespread outperformance on a global or regional basis. Instead, those returns were supported by stable domestic capital formation against a backdrop of constrained foreign participation and modest earnings growth. This regime is indicative of a market where structural positioning and investor composition play a more significant role than cyclical exuberance in driving outcomes.

Domestic vs External Forces

A defining feature of India's capital markets was the pronounced divergence between domestic investor strength and foreign investor retrenchment. Foreign institutional investors (FIIs) exhibited sustained net selling throughout the year, with net annual outflows from Indian equities reaching record levels. Data from market sources indicate that FIIs were on track to withdraw approximately ₹1.58 lakh crore by late December, marking the largest annual equity capital outflow in the history of India's markets.

This outflow phenomenon was not concentrated in a narrow window of technical repositioning. Rather, it reflected broader shifts in global capital allocation behaviour. Several factors contributed to the reduction in foreign participation, including elevated equity valuations in India relative to other emerging markets, heightened sensitivity to global monetary conditions, and evolving risk preferences among non-resident investors. Persistent macroeconomic volatility, tariff-related trade policy uncertainty, and the

influence of higher interest rate environments in developed economies also weighed on foreign risk appetite.

In contrast, domestic institutional investors (DIIs), encompassing mutual funds, insurance companies, pension funds, and systematic investment plans (SIPs), acted as structural liquidity providers. Throughout 2025, DIIs maintained robust net inflows into equities, effectively offsetting external selling pressure and supporting market valuations. Domestic funds reportedly injected substantial capital, with mutual fund SIP contributions remaining consistently high and overall DII flows surpassing foreign outflows by a significant margin.

The result of this persistent domestic liquidity was a market environment characterised by an upward drift in benchmark indices accompanied by relatively limited drawdowns. The Nifty 50 and Sensex registered positive annual returns and reached all-time highs, even as foreign selling activity persisted. This resilience reflected the capacity of local investor demand to absorb offshore exits and stabilise prices across extended periods of volatility.

From a structural standpoint, the 2025 flow dynamics highlight an important shift in the underlying drivers of Indian equity performance. The increased prominence of domestic capital has not only mitigated the transmission of external risk into Indian markets but has also altered the sensitivity of benchmarks to foreign sentiment. With a deeper domestic investor base and greater reliance on SIP and long-term institutional inflows, the market exhibited a degree of insulation from global capital rotations uncommon in previous cycles.

In summary, the divergence between foreign and domestic investor behaviour in 2025 represented more than a cyclical fluctuation. It underscored an evolving regime in cross-border capital flows, wherein domestic liquidity increasingly anchored market stability amidst external retrenchment and global uncertainty.

Valuation Regimes and Sector Rotation

A distinct valuation regime evolved in Indian capital markets. India's equity market traded at premium multiples relative to many Asian and emerging market peers, a dynamic that materially influenced cross-border capital allocation. On a forward earnings basis, the Indian benchmark commanded valuations that were meaningfully above those of markets such as South Korea, China and Brazil, contributing to India's relative underperformance within the emerging market universe. Independent data show that Indian equities traded at a substantial forward price-to-earnings premium versus the

broader emerging market benchmark throughout the year, consistent with sustained valuation differentials versus key peers.

This premium reflected a longer-term structural positioning of India as a higher-growth, higher-profitability market, but it also constrained incremental foreign allocations within a global regime marked by narrower thematic focus and heightened sensitivity to relative value. The valuation gap was evident across multiple earnings horizons and supported by higher earnings quality and return on equity metrics in India relative to broader EM indices. In such a context, price/earnings multiple expansion was limited, even as domestic liquidity remained supportive and local investor confidence underpinned near-term price resilience.

Within this prevailing regime, sectoral leadership displayed a pronounced pattern of internal rotation. Financial services, automobile and metals sectors exhibited relative strength at various points during the year, driven by domestic economic activity, cyclical demand factors and policy support for infrastructure and credit expansion. These sectors outpaced broader market averages and were among the contributors to cumulative index gains, particularly in periods of renewed risk appetite. Conversely, sectors traditionally favoured by global thematic capital, such as information technology and certain consumer staples segments, lagged due to diminished exposure to dominant global narratives, including artificial intelligence and high-growth digital platforms. This sectoral divergence was documented in market performance data that showed notable underperformance in IT year-to-date returns and comparatively stronger outcomes in cyclical sectors like autos and metals.

The structural rotation across sectors was not uniform, but it was indicative of an internal repricing of risk and reward as capital sought earnings trajectories capable of justifying elevated valuations within a more cautious global context. Fundamental drivers such as credit growth, commodity price movements, and domestic consumption trends influenced relative sector performance, while global cyclical narratives around technology and export-oriented themes received less traction from foreign allocators. These patterns reinforced the notion that within the premium valuation regime, selective domestic momentum and sector rotation played a greater role in return generation than broad foreign index allocations.

Taken together, the premium valuation backdrop and the observed sector rotation represent a nuanced regime in which internal market dynamics, sectoral fundamentals and relative earnings expectations shaped performance outcomes. In this regime, Indian equities continued to deliver positive nominal returns, yet the interplay between valuation dispersion, sector leadership shifts and cross-border capital behaviour highlighted the complexity of market drivers in 2025.

Retail and Institutional Equilibria

In 2025, one of the most significant structural developments in India's capital markets was the pronounced increase in domestic investor participation, particularly through mutual funds and retail systematic investment plan (SIP) contributions. This trend extended and deepened existing patterns of retail engagement and institutional ownership, fundamentally influencing market dynamics and resilience throughout the year.

Domestic institutional investors, including mutual funds, insurance companies and pension vehicles, demonstrated sustained net investment into Indian equities. According to industry reports, domestic institutional investor flows into Indian stocks reached record levels, with net investments from DIIs measured in the hundreds of thousands of crores during the year, reflecting broad based commitment from long term local investors. DIIs' shareholding in Indian equities surpassed that of foreign investors for the first time in many years, with DIIs holding just over 17.6 percent of listed stocks compared with foreign ownership of roughly 17.2 percent as of March 2025. This shift in ownership structure highlighted the growing role of domestic capital as a stabilising force in the market.

Mutual fund assets under management expanded significantly over the course of 2025. Data from the Association of Mutual Funds in India show that total mutual fund AUM rose sharply, reaching levels approaching eighty lakh crore rupees by late in the year. Equity oriented funds in particular saw robust inflows and asset growth, with contributions from SIPs remaining a core driver of net inflows. Monthly SIP contributions consistently crossed twenty-five thousand crore rupees and at times exceeded twenty-seven thousand crores, illustrating sustained retail engagement even as markets experienced volatility. The number of SIP accounts also grew substantially, with more than eight crore unique contributing accounts reported in mid-year and continuing to expand across the year, indicating a deepening of retail participation across demographic and geographic segments.

The expansion in mutual fund participation was not simply a function of short-term flows. Over the longer horizon, equity mutual funds recorded a run of consecutive monthly net inflows, with data showing positive inflows through more than fifty sequential months. Retail contributions to these funds remained resilient through multiple market cycles, suggesting that Indian household investors embraced disciplined, long-term investing behaviour, particularly through SIP vehicles. Independent analysis noted that an overwhelming majority of mutual fund schemes delivered positive returns for SIP investors during 2025, reinforcing investor confidence in regular contributions through varied market conditions.

Household involvement in equity investing also expanded outside of mutual funds. The growth in SIP accounts coincided with a broader rise in dematerialised accounts, reflecting an increase in direct and indirect market participation by Indian households. This expansion of the investor base contributed to a thicker liquidity pool that could absorb external selling pressure. In practical terms, the strength of domestic liquidity meant that even amid episodes of heightened volatility and significant foreign institutional net selling, market drawdowns were comparatively shallow relative to what might have occurred under a more FII dependent regime. Domestic flows effectively cushioned the impact of foreign retrenchment, stabilising price action and underpinning benchmark performance.

The structural evolution of domestic investor participation in 2025 effectively transformed the Indian equity market's funding base. Local capital became the dominant force in price formation and liquidity provision, reducing the influence of external volatility on market outcomes. This broader participation spectrum not only supported near term market resilience but also reinforced long term growth narratives across asset classes by aligning investor capital with domestic economic fundamentals and savings behaviour. The resulting shift in investor mix reflects a regime change in India's capital markets, where domestic capital flows now play a central role in absorbing risk, shaping valuation dynamics and supporting sustained market development.

Macro Dynamics and Currency Volatility

The behaviour of the Indian rupee became a central element of the capital markets narrative, with currency movements influencing valuations, capital flows, sectoral earnings perceptions, and broader risk pricing. The Indian rupee ended the year with one of its weakest annual performances in recent history, depreciating materially against the U.S. dollar and emerging as one of the worst-performing major Asian currencies over the period. According to exchange rate data, the rupee declined nearly five percent on a year-on-year basis and recorded its worst annual performance since 2022 as it repeatedly tested and breached key levels beyond 90 rupees to the dollar. The depreciation reflected persistent foreign portfolio outflows, elevated hedging demand, strong dollar pressures, and protracted uncertainty over major trade negotiations, particularly a delayed comprehensive trade agreement with the United States that had been anticipated earlier in the year. Real effective exchange rate measures also eased, signalling that the currency was no longer overvalued in trade-weighted terms.

From an institutional perspective, the prevailing currency regime generated several important effects for capital markets and valuation frameworks. First, the sustained depreciation pressured inward valuations when measured in foreign currency terms,

influencing cross-border portfolio allocation decisions and foreign investor sentiment. As global investors price assets in dollars, a weaker local currency mechanically reduces returns when converted back into foreign currency units, dampening the relative appeal of domestic equity and fixed income exposures at a time when portfolios were already constrained by valuation premiums and broader risk aversion. The rupee's relative weakness against the dollar thus contributed to the repricing of Indian equities on a U.S. dollar basis and accentuated the sensitivity of returns to capital flow dynamics.

Second, the currency behaviour had a countervailing effect on the export sector by enhancing the competitiveness of goods and services priced in foreign currency. Export-oriented industries, including certain segments of manufacturing and services that earn a significant portion of revenues in dollars, experienced incremental support to earnings prospects as the rupee's depreciation translated into higher domestic currency receipts from foreign sales. In this context, currency depreciation acted as a channel for earnings support, particularly for multinational and export-driven companies that were able to convert foreign revenues into stronger rupee returns. This dynamic was observable in segments where export exposure was significant, and it informed sectoral positioning and forward earnings models throughout the year.

The drivers of the rupee's depreciation were multifaceted and reflected intersecting macroeconomic and policy forces. Persistent external imbalances, notably record foreign portfolio investor outflows from equity markets and weaker capital account inflows, heightened demand for dollars relative to rupees, placing downward pressure on the exchange rate. Foreign institutional investors withdrew substantial capital from Indian markets over the course of the year, contributing to sustained currency depreciation as these flows translated into net dollar demand in foreign exchange markets. Trade policy uncertainty amplified these pressures. Elevated tariff rates on key exports and the absence of definitive progress on trade agreements with major partners heightened external uncertainty. Hedging behaviour by importers and non-deliverable forward market participants further accentuated volatility, while the global dollar rally and divergent interest rate expectations between the United States and India provided an additional structural backdrop for sustained pressures on the rupee.

Policy responses from the Reserve Bank of India reflected an evolution toward a more flexible currency management framework. Rather than defending specific exchange rate targets, the central bank communicated an emphasis on mitigating disorderly volatility and allowing market forces to determine the currency's trajectory within a managed floating regime. This approach was accompanied by selective interventions to smooth extreme fluctuations and by adjustments in foreign exchange reserves to reinforce stability without imposing rigid controls. The central bank's stance signalled confidence

in the external sector's underlying fundamentals while acknowledging near-term pressures stemming from capital flow volatility and global financial conditions.

Over the course of the year, the rupee's performance became emblematic of broader structural shifts in India's external balance and capital markets regime. The currency's adjustment was not disorderly in the sense of abrupt or destabilising outliers, but rather unfolded as a market-driven equilibrium response to tightening global financial conditions, elevated external uncertainties, and shifts in investor positioning. In this view, the rupee's relative weakness in 2025 served as an endogenous mechanism by which external imbalances and capital flow adjustments were priced through the foreign exchange market, allowing the exchange rate to function as an automatic stabiliser in response to changing macroeconomic signals.

The cumulative impact of the rupee's behaviour in 2025 extended beyond nominal exchange rate levels to influence valuations, return expectations, sector earnings profiles, and risk pricing. For foreign investors, currency-adjusted returns were a critical input in portfolio allocation decisions and cross-market comparisons. For domestic corporates and exporters, the weaker currency offered a partial offset to external headwinds by supporting rupee earnings from foreign revenues. For policymakers and institutional investors, the evolving currency regime underscored the interplay between macroeconomic fundamentals, capital flow dynamics, and market-based adjustment mechanisms in shaping the outlook for India's financial markets as the economy transitioned into 2026.

Risk, Volatility and Market Microstructure

Across calendar year 2025, we observed that realised volatility in Indian equities remained relatively contained even as major global equity benchmarks experienced sharp fluctuations driven by tariff policy uncertainty, macroeconomic shifts and episodic risk-off episodes in global markets. India's headline indices, including the Sensex and Nifty 50, exhibited muted drawdowns by historical standards. For example, the Sensex's maximum intra-year peak-to-trough decline was in the low single digits, a relatively modest outcome compared with periods of broader systemic stress in global markets. This pattern of constrained drawdowns persisted even as the external environment presented a series of shocks and as foreign portfolio investors maintained elevated net selling pressure into much of the year. We interpret this subdued realised volatility environment as indicative of a market microstructure regime increasingly influenced by local liquidity conditions and structural order flow dynamics. Domestic institutional investors, retail systematic investment plans, and household participation collectively contributed to a persistent bid across a wide range of market levels. These flows acted

as consistent buy-on-dip behaviour that mechanically dampened the impact of transient sell-offs initiated by offshore reallocations or global risk aversion. Market commentary throughout 2025 noted that despite significant foreign selling pressure, domestic demand for equities remained robust, absorbing supply without translating into large negative price excursions. The relative calm in price action reflects the broader shift in the composition of market funding. With domestic institutions and retail investors accounting for a rising share of overall trading volumes and net flows, structural order flow became less contingent on foreign participation and more driven by systematic domestic demand. This structural shift in capital flows altered the traditional linkage between global volatility regimes and local price behaviour, resulting in Indian equities displaying comparatively lower realised volatility than might have been expected given the breadth of external shock episodes observed through the year. The persistence of low levels in implied volatility gauges, such as the India VIX, during extended consolidation phases further underscored this regime characteristic. However, we also recognise that this regime carries latent risk considerations for return dynamics going forward. A volatility regime characterised by narrow range-bound movements and contained drawdowns, in the absence of pronounced corrective phases, can compress expected future returns. In institutional discussions, such compressed volatility environments are seen as having the potential to entrench valuation levels and delay necessary repricing adjustments that historically have reset risk premia and provided attractive entry opportunities. With limited drawdowns, risk premiums may be suppressed, leading to stretched valuations that reflect a structural bid rather than underlying earnings momentum. This dynamic has been widely debated among professional investors as a factor that may weigh on forward return expectations unless accompanied by fresh fundamental catalysts.

From a regime analysis perspective, the subdued realised volatility observed across 2025 suggests that Indian equity markets were operating in a distinct microstructure state where domestic liquidity and structural order flow provided a stabilising influence. The net effect was a market that could absorb external dislocations with limited transmission into sharp local drawdowns, while also creating a structural context in which future expected returns may be tempered by the very mechanisms that supported short-term stability.

Narratives That Defined the Year

1. Structural Outflows, Domestic Strength

One of the most persistent narratives in 2025 was that Indian markets experienced historic foreign outflows even as domestic investors expanded their footprint. Foreign portfolio investors sold Indian equities in large amounts throughout the year, resulting in net annual outflows that were among the highest on record. Yet domestic institutional investors, led by mutual funds and supported by steady retail SIP contributions, provided substantial net buying, helping to absorb selling pressure and support valuations. Domestic institutions' shareholding in Indian equities surpassed that of foreign investors, reflecting a shift in the market's ownership structure and reinforcing the growing influence of local capital in shaping market outcomes.

This duality shaped not only absolute performance but also how global capital viewed India's risk-return profile. While foreign investors remained selective or cautious in deploying fresh capital, domestic flows provided a stabilising force that limited drawdowns and underpinned near-term resilience, even amid episodes of sharp offshore reallocations.

2. Relative Underperformance Despite Strong Economics

India continued to post one of the world's highest growth rates and maintained a low inflation environment in 2025. Despite these strong macroeconomic fundamentals, equity performance lagged many emerging and developed peers. Indian benchmarks delivered positive nominal returns but underperformed broader emerging market and Asian indices by wide margins, reflecting a disconnect between economic fundamentals and equity market outcomes.

This relative underperformance was rooted in a combination of factors, including moderation in corporate earnings growth, tariff anxieties and thematic allocation gaps in global portfolios. Markets with greater exposure to emergent narratives such as artificial intelligence and high-growth technology sectors in the United States and other hubs outpaced India, where sectors like information technology lagged due to less direct exposure to those global themes.

As a result, despite strong domestic economic data, investors from abroad often favoured other markets with more pronounced exposure to dominant secular trends, contributing to India's lagging comparative returns in 2025.

3. Increasing Market Depth and Participation

A third defining narrative was the deepening and broadening of India's capital market ecosystem, driven by the growth of mutual funds, rapid expansion of SIP flows and rising

retail participation. The mutual fund industry experienced meaningful expansion in assets under management, supported by uninterrupted net inflows into equity-oriented schemes and substantial monthly contributions through SIPs. Annual SIP contributions surpassed previous highs and remained a consistent source of demand, reflecting disciplined long-term investing behaviour among retail participants.

The expansion of retail participation was mirrored in the widening base of demat accounts and the increasing share of individual investors in overall market capitalisation. This growth in domestic liquidity reduced the market's dependence on external capital and provided a deeper pool of buyers across market cycles.

Taken together, these developments signified a broader structural shift in India's markets toward greater domestic ownership and internal resilience. The increasing depth and diversity of participation not only cushioned the impact of foreign outflows but also supported longer-term narratives of financialization and savings channelled into equity investments.

Forward Regime Signals

Looking forward, we see a set of structural signals that point to how Indian capital markets may evolve beyond 2025 and into 2026 and beyond:

Rebalancing of foreign allocations as valuations and earnings expectations realign

We expect foreign investor behaviour to shift gradually as Indian valuations become more competitive and corporate earnings recover. Several global brokerages and market analysts have highlighted the potential for renewed foreign interest if earnings momentum improves and valuations moderate relative to global peers. Projections from analysts such as HSBC and Goldman Sachs suggest a more attractive earnings and valuation mix could help draw foreign allocations back over time.

Continued domestic liquidity support through retail and mutual fund flows

Domestic capital remains a powerful structural stabiliser. Domestic institutional investors including mutual funds have maintained strong net inflows through 2025, underpinned by record SIP contributions and broadening retail participation across cities and demographic cohorts. The mutual fund industry's assets under management rose

significantly in 2025, reflecting deeper financialization of savings, while systematic flows cushioned markets against volatility caused by foreign outflows

Sectoral rotation based on global thematic convergence with India's competitiveness in technology, manufacturing and services

While foreign flows were selective in 2025, structural rotation within India is likely to continue as sectors that align with global thematic trends and domestic competitiveness attract capital. Export-oriented technology, manufacturing and services sectors may benefit from currency dynamics and policy support, and this could drive selective leadership if global thematic narratives increasingly include India's strengths. Markets have already reflected differential performance across sectors in 2025, and this pattern is expected to develop further as global and domestic themes converge.

Macro stability underpinning relative equity valuations even as currency regimes adjust to external imbalances

Macro stability remains a central anchor for forward regime expectations. India's growth trajectory and inflation profile remained relatively favourable in 2025 despite external pressures including currency depreciation and capital flow volatility. The Indian rupee ended 2025 with its weakest annual showing in several years, influenced by external imbalances and capital flow volatility. However, this adjustment has not been disorderly and may support export competitiveness while markets absorb the impact through valuation and earnings adjustments.

In aggregate, our assessment of 2025 reinforces that Indian capital markets are evolving toward a regime characterised by domestic funding dominance, calibrated responses to global volatility, and selective sector leadership driven by deeper structural dynamics rather than short-lived sentiment swings. The large domestic investor base, sustained SIP and mutual fund flows, and potential for foreign allocation realignment provide a foundation for a more resilient and balanced market structure as the economy transitions into the next phase of its cycle.

Our Starting Framework

We started the year with caution, realising that the geopolitics of the world would largely drive risk regimes and investor behaviour in global capital markets. We recognised early on that escalating geopolitical tensions, persistent trade policy friction and tariff pressures would be prominent drivers of volatility, with impacts that could span beyond cyclical fluctuations into structural regime shifts in cross-border capital flows. From wars to tariffs, we understood that macro policy developments would be a primary input into capital allocation decisions and valuation regimes across markets.

In positioning our portfolios, we deliberately weighted our risk exposures to reflect these assumptions. Early in the year we exposed ourselves to gold and silver, and we admit that this allocation was partly born out of a gut instinct about how macro uncertainty and safe-haven demand would unfold. That positioning proved prescient as both metals delivered strong performance relative to traditional asset classes, driven by elevated investor demand, global risk aversion and structural support from industrial and investment flows. Silver in particular outpaced gold and became one of the standout performers across major asset classes in 2025, supported by domestic and international ETF inflows and record price rallies. (turn0search1) Gold also responded to macro pressures and safe-haven demand, with significant price gains that resonated with our early strategic allocation.

Alongside our precious metals exposure, we went overweight on the financial sector. Our conviction in finance was grounded in expectations of resilient credit growth, improving asset quality trends and the sector's deep linkage to domestic savings and lending dynamics. Financial stocks outperformed a number of other segments, reflecting both macro stability in credit conditions and robust domestic liquidity flows, and validating our positioning in a regime where local investors were providing sustained bids.

We defined risk not only through traditional measures such as volatility and drawdown potential but also through structural shifts in capital flows and external vulnerability. Our risk framework consciously integrated the possibility that foreign institutional investor behaviour could decouple from domestic fundamentals, exposing markets to potential repricing or regime shifts. We also recognised that a weaker currency, while introducing valuation pressure in foreign currency terms, could provide support to export-oriented sectors and offer hedging utility for hard asset allocations.

A core element of our framework was the belief that in a regime shaped by geopolitical fragmentation and tariff uncertainty, reliance on domestic liquidity and behavioural patterns would become more pronounced. This led us to prioritise quality businesses with strong balance sheets and domestic earnings resilience over broad cyclical exposures that were most exposed to external shocks. We also positioned for

range-bound market dynamics, anticipating that domestic systematic order flow and buy-on-dip behaviour among retail and institutional investors would limit severe drawdowns even in periods of heightened global stress.

As the year progressed, our assumptions were stress-tested repeatedly. The structural outflow of foreign capital, the persistence of tariff tensions, and episodes of currency adjustment affirmed our cautious bias. At the same time, the robustness of domestic flows, strong performance in selected commodities and the resilience of financials validated key components of our initial positioning and risk definitions. The combination of these factors allowed us to navigate a complex regime in 2025 in which global shocks were transmitted selectively rather than uniformly into Indian markets.

In summary, our starting framework was grounded in disciplined risk definitions, diversified positioning that included strategic allocations outside traditional equities, and a forward-looking view on how structural drivers would shape the investment landscape. Our early exposure to gold and silver and our overweight stance on finance reflect a broader thematic approach that balanced macro uncertainty with selective sector opportunities. These decisions were informed by both quantitative analysis and informed judgement about regime behaviour, and they helped guide positioning through a year defined by structural shifts in capital markets.

What Worked

In 2025, several of our early positioning decisions proved to be prescient and contributed meaningfully to performance outcomes. Our framework emphasised macro risk regimes, structural flows and selective opportunities, and in key cases this approach was validated through realised market behaviour and security-specific performance.

Gold and Silver Exposure

Our early allocation to gold and silver proved to be one of the most effective tactical decisions of the year. Both metals delivered exceptional returns relative to major equity benchmarks as macro uncertainty, geopolitical risk and expectations of monetary easing drove safe-haven and strategic investment demand. Precious metals experienced historic performance in 2025, with silver emerging as one of the standout performers across global commodity markets and gold delivering its strongest annual gains in decades. Silver's price more than doubled over the course of the year, rising by over 150 percent as it was propelled by a combination of robust investor interest, supply constraints and dual demand from both investment and industrial sectors. Gold also

rallied significantly, with prices advancing around 60 percent as safe-haven flows, central bank purchases and expectations of interest rate cuts supported valuations at elevated levels. These outcomes were reflected in strong price trajectories across both metals globally.

Our decision to lean into precious metals early in the year was informed by an assessment of structural risk regimes. We anticipated that geopolitical tensions, tariff policy uncertainty and weak capital flows could elevate demand for non-yielding assets that historically perform well in risk-off environments. The significant gains in gold and silver not only provided portfolio ballast during periods of equity range-bound trading but also diversified sources of return at times when traditional risk assets were experiencing muted performance. While there were periods of profit taking and technical corrections toward year-end, the cumulative annual performance of these metals remained strong and vindicated our early conviction in this exposure.

Shriram Finance

Our overweight positioning in the financial sector, and in particular in Shriram Finance, also played out well over the course of 2025. Financials outperformed broader benchmarks at multiple points during the year, reflecting underlying resilience in domestic credit growth, improving asset quality metrics and the stabilising influence of strong retail and institutional flows into Indian markets. Shriram Finance exemplified the positive outcomes of our sector selection process.

Shriram Finance's share price delivered strong relative performance, rising substantially from its early-year lows by capturing investor interest on the back of improving fundamentals and strategic developments. Over the year the stock appreciated significantly, entering the top fifty most-valuable stocks on the BSE and climbing well ahead of the broader index. A major catalyst for this outperformance was the strategic investment by MUFG Bank, which agreed to acquire a stake of approximately 20 percent in the company, significantly strengthening its capital base and enhancing market confidence in its growth prospects. Following this announcement, credit rating agencies upgraded the company's debt to top-tier status, reflecting improved financial credibility and prospects for lower cost of funds.

Operational performance also supported the stock's momentum. Shriram Finance reported steady earnings growth and improvements in asset quality through the year, including a rise in net profit and a reduction in non-performing assets, which reinforced investor confidence in the company's core lending franchise. Brokerage coverage and analyst upgrades further contributed to positive sentiment, with consensus views

highlighting the company's strong competitive position in vehicle and SME financing segments.

Our overweight allocation to Shriram Finance was grounded in a disciplined sector selection process that identified financials with robust balance sheets, earnings durability and favourable structural tailwinds from domestic lending growth. The stock's performance validated this approach, as it delivered considerable alpha relative to the benchmark, supported by both fundamental improvement and strategic capital inflows.

Summary of Outcomes

Gold and silver exposure delivered significant diversification and absolute gains, validating our macro-informed tactical allocation in a regime of elevated geopolitical and monetary uncertainty. Financials and Shriram Finance outperformance reflected strong fundamentals, strategic capital reinforcement and domestic liquidity dynamics that supported sector leadership.

These outcomes illustrate how a combination of systematic process and informed judgment helped navigate a complex 2025 environment. Our decisions were rooted in a forward-looking assessment of structural drivers, risk regimes and thematic opportunities, and the realised performance of precious metals and select financial equities affirmed the robustness of our framework.

What Didn't Work

In reflecting on areas where our process and judgment did not perform as expected, two key themes emerged across 2025: overexposure to small-cap segments and underweighting export-heavy businesses in a shifting macro and tariff environment. We underestimated the "Tariff Effect".

Overexposure to Small Cap

Despite our emphasis on structural drivers and domestic liquidity, we misjudged the risk profile of small-cap stocks in the context of 2025's market regime. While the broader equity market delivered modest positive returns, small-cap indices struggled relative to large-caps. The BSE SmallCap index experienced one of its weakest performances in several years, declining materially and lagging the benchmark. A large proportion of small-cap constituents traded well below their prior highs, with nearly 90 percent of

names failing to recover even as headline indices reached record levels. This weakness reflected the combination of persistent foreign selling, currency pressures and liquidity rotating toward larger, more liquid names. Small-cap valuations appeared stretched early in the year following strong performance in prior periods, but the repricing that ensued was deeper than we anticipated and contributed to portfolio drawdowns. The misalignment between expected domestic strength and actual risk in smaller names highlighted a blind spot in our calibration of liquidity risk outside the large-cap space. Overexposure to these segments resulted in relative underperformance as capital favoured safer, high-quality assets amid cross-border uncertainty.

Our error in small caps was partly rooted in an underappreciation of how quickly structural foreign outflows would narrow market breadth. Small-cap stocks are inherently more vulnerable to shifts in risk appetite and capital flows, and in 2025 they traded in a regime where external investor retrenchment and selective domestic buying concentrated around large, liquid names, leading to significant dispersion. This divergence was sharper than our scenario models had forecast, indicating that our risk definitions around segment-level liquidity were insufficiently sensitive to the magnitude of capital flow shifts.

Export-Heavy Sector Exposure in the Face of Tariff Shock

A second material misjudgement was our exposure to export-heavy businesses at a time when trade policy risk escalated sharply. We entered the year with a moderately positive view on select export segments, expecting that India's broadening export base would support earnings even amid global uncertainty. However, this position was challenged by the imposition of punitive tariffs by the United States on a wide range of Indian exports. Beginning in mid-2025, the U.S. government enacted tariffs of up to 50 percent on Indian goods including textiles, gems, jewellery and other labour-intensive exports, a move that severely eroded the competitiveness of these products in the U.S. market and disrupted established supply chains. These tariffs hindered export order books and created substantial competitive disadvantages for affected industries relative to lower-tariff regional peers.

The tariff shock was more severe and more rapidly enforced than we had incorporated into our positioning assumptions. In textile hubs such as Tirupur, export orders to U.S. buyers fell sharply and production activity slowed, with factories cutting output or pausing operations in response to cancelled contracts or repricing demands. Labour-intensive clusters faced job losses and margin compression as the higher effective cost of exports discouraged U.S. demand. These developments eroded the earnings prospects of many export-linked names that had appeared poised to benefit from demand diversification and structural export growth.

Although broader Indian exports continued to grow in sectors such as electronics, engineering goods, agriculture and pharmaceuticals, which collectively account for a substantial share of merchandise exports and recorded notable expansion in 2024-25, our positioning did not sufficiently differentiate between subsectors likely to face headwinds from U.S. tariff actions and those with more resilient global demand drivers. India's electronics exports, for example, grew robustly under supportive policies and expanding manufacturing output, but a large share of traditional export categories faced reduced access and heightened competitive pressures due to tariff escalation.

Summary of Key Misjudgements

Small-cap overexposure resulted in disproportionate drawdowns as breadth weakened and investor flows favoured larger, more liquid names. Export-heavy positioning was adversely affected by abrupt and significant tariff increases that eroded competitiveness and order books, particularly for labour-intensive and U.S.-centric export categories.

These outcomes have underscored the importance of refining our risk frameworks to explicitly incorporate policy-driven trade shocks, segment-specific competitiveness, and the velocity of tariff implementation. Going forward, we will integrate more robust scenario analysis around trade policy risk and export competitiveness, and recalibrate our liquidity risk models to better anticipate dispersion effects across market capitalisation segments during structural regime shifts.

What We Learnt

Looking back at 2025, we gained numerous insights about how markets behave, how different segments respond to structural and cyclical shocks, and how our own positioning and decision-making frameworks performed under stress. The year highlighted the importance of combining disciplined process with informed judgment, and it also revealed blind spots that we must address going forward.

Domestic Liquidity as a Stabilising Force

One of the most significant lessons we learnt is that domestic capital has become a dominant stabilising factor in Indian equity markets. Despite record foreign institutional outflows, domestic investors, particularly through mutual funds and systematic investment plans, consistently provided strong net buying. This sustained demand helped absorb selling pressure, kept drawdowns limited, and contributed to range-bound

market behaviour even when global indices experienced sharp fluctuations. We observed that in periods of heightened global volatility, domestic liquidity acted as a shock absorber and was a key determinant of local resilience. This reinforced the necessity of factoring domestic participation, retail accumulation patterns, and institutional order flow into both our strategic and tactical frameworks. Recognising domestic liquidity dominance allows us to position portfolios in a way that is more insulated from transient external shocks.

Value of Macro-Regime Awareness and Tactical Allocations

We also learnt that macro-regime awareness and tactical flexibility are critical to navigating complex markets. Our early exposure to gold and silver, which was partly informed by macro judgment and partly by intuition, proved beneficial. Both metals delivered exceptional returns relative to traditional equity benchmarks, reflecting elevated geopolitical risk, safe-haven demand, and structural industrial and investment flows. This outcome validated our view that non-traditional assets can serve as effective portfolio ballast during periods of uncertainty. We observed that by anticipating regime-driven volatility and macroeconomic risks, we could deploy tactical allocations that enhanced portfolio resilience and provided incremental return streams while broader equities remained range-bound.

Importance of Sectoral and Stock Selection Discipline

Our overweight stance on financials, and in particular Shriram Finance, reinforced the importance of selecting sectors and companies based on fundamental strength, earnings durability, and structural positioning rather than short-term sentiment trends. Financials outperformed at multiple points throughout the year, benefiting from strong domestic credit growth, stable asset quality, and sustained institutional and retail flows. Shriram Finance delivered strong stock-level performance due to improvements in its capital structure, operational earnings, and investor confidence driven by strategic investment inflows. This experience demonstrated that a disciplined approach to sector and stock selection, grounded in detailed analysis of balance sheets, earnings resilience, and competitive positioning, can produce meaningful alpha even in a year characterised by structural external pressures and selective foreign participation.

Risks of Overconcentration and Blind Spots

We learnt important lessons from areas where our framework did not perform as expected. Our overexposure to small-cap equities proved detrimental because these stocks were disproportionately affected by concentrated foreign outflows and liquidity constraints. Many small-cap companies underperformed relative to large-cap benchmarks and delivered significant negative contribution to our portfolios. This

highlighted the necessity of calibrating segment-specific liquidity risk and considering how shifts in structural capital flows can affect market breadth.

Similarly, our positioning in export-heavy businesses exposed us to policy-driven shocks that we had underestimated. The imposition of tariffs by the United States on several Indian exports, including textiles and labour-intensive products, had an immediate and material effect on earnings prospects for affected companies. We did not fully anticipate the speed and magnitude of these policy actions, which disrupted order books, eroded competitiveness, and constrained performance in certain export-oriented sectors. At the same time, we observed that some export segments, such as electronics, pharmaceuticals, and engineering goods, exhibited resilience and growth. This underscored the need to differentiate within a sector between areas vulnerable to policy shocks and those supported by structural tailwinds, a nuance we had not sufficiently incorporated into our positioning.

Range-Bound Market Behaviour Can Conceal Latent Risks

We learnt that markets can remain range-bound for extended periods even in the presence of structural risks. While limited volatility and shallow corrections provided near-term stability, they can also compress forward returns and delay necessary repricing in valuations. Range-bound dynamics may give a false sense of security, particularly when liquidity from domestic sources is strong. This lesson reinforced our need to analyse not only absolute returns but also the distribution of risk across market segments, and to anticipate potential corrections that may be delayed but are ultimately inevitable.

Integrating Process and Judgment

Finally, we learnt that disciplined investment process and informed judgment must be applied in tandem. Our early allocation to gold and silver, guided by macro insight and intuition, and our overweight in financials demonstrated that judgment can add significant value when appropriately aligned with structural and fundamental analysis. At the same time, misjudgements in small-cap and export-heavy exposures illustrated that intuition alone, without rigorous scenario testing and risk calibration, can lead to unexpected outcomes. Going forward, we aim to combine structural market analysis, scenario planning, and fundamental sector evaluation with tactical judgment to refine our approach and mitigate blind spots.

Conclusion

In summary, 2025 taught us that Indian capital markets are increasingly shaped by domestic liquidity, structural order flows, and macro-policy regimes. We learnt that

resilience requires understanding how these factors interact with sectoral and asset-specific dynamics. The year reinforced the importance of disciplined process, careful risk calibration, and informed judgment. It also highlighted the need for continuous learning, scenario planning, and segmentation analysis to anticipate where structural or policy shocks may impact portfolios. By integrating these lessons, we are better positioned to navigate future regimes, balance risk and reward, and capture opportunities while mitigating exposures that could undermine performance.

What We Did Not Learn

While 2025 provided numerous valuable insights, it also revealed areas where our inference and understanding were limited. There were situations where we believed we had identified clear patterns or structural signals, only to discover that those assumptions did not fully capture the complexity of the markets.

Limits of Inference from Past Regimes

We did not fully appreciate the limits of extrapolating past patterns into a highly dynamic and policy-driven year. For example, our assumptions about small-cap resilience and export-linked growth were based in part on historical relationships between domestic liquidity, earnings growth, and capital flows. In practice, the intensity of foreign outflows, combined with abrupt trade policy changes, produced outcomes that diverged significantly from historical expectations. This highlighted that structural relationships observed in prior years may not hold under new geopolitical, tariff, or capital flow regimes.

False Certainty in Macro Predictions

We also discovered that our early judgments on trade policy risk and tariff impacts were overly confident. We underestimated the speed and scale of U.S. tariff implementation on specific export sectors, which caused unexpected pressures on earnings and stock-level performance. Similarly, while we anticipated some foreign retrenchment, the magnitude of net outflows and its concentrated effect on smaller, less liquid segments exceeded our models' predictive capacity. This exposed a tendency to interpret our scenario assumptions as more certain than they were, and reminded us that even well-reasoned inferences can fail in the presence of exogenous shocks.

Overreliance on Single Signals

We did not learn sufficiently to balance multiple converging signals against each other. For instance, our positive conviction on gold and silver was successful, but it was partly based on intuition rather than a fully integrated assessment of global liquidity, interest rate trajectories, and industrial demand. Similarly, our overweight in finance worked well, but the underperformance in small-cap and export-heavy segments revealed that focusing too narrowly on domestic liquidity dominance or historical growth patterns can mask sector-specific or policy-driven vulnerabilities.

The Need for Scenario Flexibility

We did not fully internalise the importance of flexible scenario planning. While we modelled some potential tariff or geopolitical shocks, the actual outcomes fell outside the ranges we considered most likely. This reinforced that markets can move along multiple vectors simultaneously and that rigid assumptions about which scenarios are probable may limit our ability to adapt quickly.

Conclusion

In 2025, we learnt much, but we also recognised what we did not learn. We realised that even disciplined frameworks and careful analysis can create a false sense of certainty. Markets operate in complex, evolving regimes where structural, policy, and behavioural factors interact in ways that are not always predictable. This acknowledgement underscores the importance of humility in inference, constant scenario testing, and readiness to recalibrate assumptions as new information emerges. Recognising the limits of our knowledge is essential to avoid overconfidence and to strengthen our decision-making in future market cycles.

Risk Revisited

Volatility

We observed that realised volatility in Indian equities remained relatively contained throughout the year, even when global markets experienced sharp swings. Domestic liquidity, systematic investment plans, and buy-on-dip behaviour contributed to this muted intra-year movement. While contained volatility supported near-term stability, we recognised that low realised volatility can mask latent risks. Extended periods of range-bound trading can compress forward returns and create conditions where valuations remain elevated relative to earnings growth. We learnt that volatility should be interpreted not only as a statistical measure but also as a function of market structure, capital flows, and behavioural dynamics.

Liquidity

Liquidity proved to be a critical stabiliser in 2025. Domestic investors, particularly mutual funds and retail participants, provided consistent flows that absorbed foreign selling pressure and supported large-cap and high-quality names. This structural dominance of local liquidity reduced drawdowns and mitigated the transmission of external shocks. However, we also observed that liquidity is not uniform across market segments. Small-cap and less liquid export-heavy stocks were disproportionately affected by foreign outflows, highlighting the need to assess liquidity not just at the market level but at the segment and security levels. Effective risk management requires a granular understanding of how structural liquidity interacts with investor behaviour under stress.

Permanent Loss

Permanent loss of capital remains the most critical risk for investors. In 2025, our overweight exposure to small-cap stocks and certain export-oriented businesses exposed us to outcomes that were not fully captured by volatility or liquidity metrics. While some positions underperformed due to external shocks such as tariff impositions and concentrated foreign selling, others suffered because segment-specific fundamentals deteriorated faster than expected. We learnt that permanent loss risk is often obscured in range-bound markets and that careful assessment of structural vulnerabilities, earnings resilience, and policy exposure is necessary to protect capital over time.

Integrated Risk Perspective

The year reinforced the importance of integrating these three dimensions of risk. Volatility provides information about short-term price movement, liquidity measures the ability to enter or exit positions, and permanent loss captures the long-term impact on capital. We observed that domestic liquidity can dampen volatility but does not eliminate the possibility of structural or policy-driven losses. We also learnt that risk cannot be fully managed through historical data alone. Scenario analysis, macro regime assessment, and sector-specific scrutiny are necessary complements to traditional risk metrics.

Conclusion

In revisiting risk, we confirmed that 2025 was a year where conventional metrics needed to be viewed in the context of structural market shifts. Domestic liquidity, contained volatility, and selective sector performance provided stability, but blind spots and external shocks demonstrated that permanent loss risk remains ever-present. We learnt that robust risk management requires a multi-dimensional approach that integrates market structure, macro factors, and company-specific fundamentals, and that constant vigilance is required to adapt frameworks as regimes evolve.

Implications Going Forward

Looking ahead, we believe that the experiences of 2025 provide a clear set of implications for how we approach markets, positioning, and risk management. The year reinforced that while certain structural elements have strengthened, vulnerabilities and uncertainties remain. Understanding what has changed and what continues to hold is central to building resilient portfolios and maintaining disciplined investment decision-making.

Structural Changes and Enduring Trends

One of the most important changes we observed is the growing dominance of domestic liquidity in Indian capital markets. Mutual funds, systematic investment plans, and retail participation have become key stabilising forces, capable of absorbing foreign outflows and supporting market breadth. We expect this dynamic to continue and possibly strengthen as more households participate in equity markets and as domestic institutions expand their capacity to allocate across asset classes. This structural shift suggests that Indian markets are less dependent on global capital flows than in prior cycles, and that domestic order flow will increasingly dictate the resilience of indices during periods of global volatility.

We also note that sectoral dynamics are likely to be influenced by a combination of global thematic trends and domestic competitiveness. Our experience in 2025 demonstrated that sectors such as financials, which are closely linked to domestic credit and savings, can provide stable returns even amid foreign retrenchment. At the same time, export-oriented businesses remain sensitive to trade policy, currency movements, and global demand cycles. We anticipate that selective sector leadership will continue to emerge, with capital favouring companies that combine strong fundamentals, earnings resilience, and exposure to favourable macro or policy tailwinds. Understanding the

interaction between domestic structural support and global thematic flows will remain critical to effective positioning.

Volatility and Risk Considerations

The subdued volatility observed in 2025 provides both lessons and caveats. We learnt that low realised volatility can provide the appearance of stability, but it may also conceal latent risks and compress forward return potential. Markets can remain range-bound for extended periods even while structural risks are accumulating, particularly when domestic liquidity dominates price formation. Going forward, we intend to interpret volatility not as an absolute measure but in the context of capital flow dynamics, sectoral exposures, and policy developments. This approach will allow us to better anticipate potential drawdowns and to calibrate exposure in segments that are susceptible to structural shocks.

Portfolio Positioning and Diversification

Our experience with gold, silver, and financials highlighted the value of combining tactical allocations with core strategic positions. We will continue to allocate to assets that provide diversification and hedging benefits, particularly in regimes where macro uncertainty is elevated. At the same time, our missteps with small-cap and export-heavy exposures emphasised the need for more rigorous scenario analysis, stress testing, and sensitivity assessment. We will refine our framework to account for policy shocks, structural liquidity constraints, and segment-specific risk, ensuring that overconcentration does not lead to disproportionate portfolio losses.

Policy and Macro Awareness

Trade policy, geopolitical developments, and currency regimes remain critical determinants of market behaviour. We learnt that tariffs and other policy actions can have immediate and material effects on earnings, capital flows, and sector performance. Our future approach will involve closer monitoring of policy trajectories and more granular differentiation between businesses that are likely to be vulnerable and those with structural resilience. Currency movements, while volatile, can create opportunities for export-oriented sectors and for assets that benefit from safe-haven demand, and these will be integrated into our forward-looking assessments.

What Remains Constant

Despite these changes, several principles remain central to our investment philosophy. Disciplined risk management, careful sector and stock selection, and the integration of process with judgment continue to be the foundation of how we construct and manage portfolios. Domestic liquidity, macro awareness, and fundamental analysis remain essential inputs, and we will continue to emphasise diversification, scenario planning,

and monitoring of structural capital flows. These enduring elements allow us to navigate periods of uncertainty with a framework that is both flexible and grounded in evidence.

Conclusion

In aggregate, the implications of 2025 for the years ahead are clear. We are operating in a market regime characterised by increasing domestic funding dominance, selective sector leadership, and moderated sensitivity to global shocks. Volatility may remain subdued but latent risks persist, and careful attention to liquidity, structural flows, and policy developments is required. We intend to leverage the lessons of 2025 by strengthening scenario analysis, refining risk definitions, and calibrating exposures to sectors and assets that offer resilience and growth potential. By doing so, we position ourselves to navigate evolving market regimes effectively, capture emerging opportunities, and manage the risks inherent in both domestic and global environments.

Closing Thoughts

As we reflect on the events, challenges, and opportunities of 2025, three principals have emerged as central to the way we approach markets and manage portfolios: humility, discipline, and compounding. These principles have guided our decisions throughout the year, enabling us to navigate periods of uncertainty, capitalize on opportunities, and remain aligned with a long-term perspective. They have proven to be more than abstract concepts; they have been practical tools that shape our process, influence our judgment, and reinforce our ability to make thoughtful investment decisions. Over the course of the year, we have been reminded that markets are inherently unpredictable and that even the most carefully constructed frameworks cannot foresee every outcome. This recognition has reinforced the importance of humility, the value of discipline, and the enduring power of compounding.

Humility is perhaps the most critical of these principles. In 2025, we were confronted with events and market movements that challenged our assumptions and highlighted the limits of our knowledge. Markets often behaved in ways that defied expectations, from unexpected policy shifts to sudden volatility in specific sectors, demonstrating that overconfidence in our assumptions can be costly. For example, our experience with small-cap exposures reminded us that even seemingly attractive opportunities carry risks that are not always immediately apparent. While careful analysis and rigorous research are essential, they do not eliminate uncertainty. Recognizing the limits of our knowledge has allowed us to remain vigilant, to question our convictions, and to adjust positions when market conditions change. Humility encourages us to continuously learn from both successes and missteps. It prompts us to stress-test our scenarios, to

consider alternative outcomes, and to respect the complexity and interconnectedness of the market ecosystem. By embracing humility, we cultivate the capacity to acknowledge uncertainty, to respond thoughtfully rather than react impulsively, and to maintain a balanced perspective that informs our long-term decision-making.

Discipline is the second cornerstone of our approach and is essential for translating analysis and insight into consistent results. In 2025, our disciplined investment process guided us through a range of market conditions, from periods of heightened volatility to relatively stable phases. Our overweight positioning in financials, combined with early exposure to gold and silver, illustrated how disciplined frameworks, grounded in fundamental analysis and a structural understanding of markets, can deliver meaningful results even when uncertainty is high. Discipline ensures that we do not chase short-term trends or succumb to market noise. It reinforces the consistent application of risk controls, helps us adhere to principles of portfolio construction, and ensures that our pursuit of opportunity is always balanced with the protection of capital.

The value of discipline extends beyond the selection of individual securities or sectors. It informs the timing and sizing of positions, the management of liquidity, and the assessment of portfolio risk across different market environments. By maintaining discipline, we are able to navigate complex market regimes without overreacting to transient events, to capitalize on favourable conditions when they arise, and to avoid decisions driven by emotion rather than analysis. Discipline provides a foundation of stability that enables us to act decisively when opportunities present themselves while protecting against risks that could erode long-term returns.

Compounding is the third principle and remains at the heart of long-term wealth creation. The disciplined deployment of capital, the patient holding of high-quality assets, and the reinvestment of returns generate growth over time that is difficult to replicate through short-term speculation or reactive trading strategies. In 2025, we were reminded that even in range-bound markets, compounding can work effectively when supported by structural positioning, domestic liquidity, and selective sector exposures. Respecting the power of compounding requires patience, a long-term perspective, and the avoidance of unnecessary risks that could permanently impair capital. Compounding is not merely a mathematical phenomenon; it is a philosophy that shapes how we think about time, risk, and opportunity. It reinforces the importance of consistency, of allowing investments to grow and compound steadily, and of avoiding distractions that can derail progress.

Our experience in 2025 highlighted how humility, discipline, and compounding are interconnected. Humility allows us to recognize uncertainty and adjust our approach; discipline ensures that we act consistently and manage risk; and compounding allows the results of thoughtful, disciplined decision-making to accumulate over time. Together, these principles create a framework for resilient, long-term investment management.

They help us remain focused on what truly matters: sustainable growth, capital preservation, and the ability to deliver meaningful outcomes for the portfolios under our stewardship.

Throughout the year, we were reminded that success in capital markets is rarely achieved through short-term performance alone. Markets are complex and unpredictable, and transient trends often mask underlying structural shifts. Overconfidence, impatience, or reactive decision-making can lead to missteps that compromise long-term results. By adhering to humility, discipline, and compounding, we reinforce the behaviours and processes that have historically driven durable outcomes. These principles are not shortcuts or guarantees; they are commitments that require continuous attention, reflection, and refinement.

In practical terms, our application of these principles manifested in a variety of ways. We rigorously monitored macroeconomic developments, adjusting exposures when valuations and risk-reward dynamics changed. We maintained a careful balance between cyclical opportunities and structural growth trends, always mindful of risk management and the potential for unexpected events. We prioritized high-quality assets with sustainable earnings potential, ensuring that our portfolios could withstand market fluctuations while benefiting from longer-term growth trajectories. We also reinvested returns prudently, allowing the compounding effect to work over time, rather than pursuing speculative gains that could compromise capital.

Looking ahead, the lessons of 2025 provide a clear guidepost for the years to come. Markets will continue to evolve, presenting new opportunities and challenges. Policy shifts; technological innovation, demographic changes, and global economic developments will create environments that are both uncertain and dynamic. By internalizing the lessons of humility, discipline, and compounding, we are better prepared to navigate these conditions, manage risk effectively, and deliver sustainable value over the long term.

Humility will continue to remind us to question assumptions, remain curious, and adapt to new information. Discipline will ensure that we act with consistency, maintain portfolio integrity, and avoid the pitfalls of short-term thinking. Compounding will continue to reward patience, thoughtful decision-making, and the disciplined deployment of capital. These principles are not theoretical abstractions; they are practical tools that shape our daily actions, inform our long-term strategy, and guide our interactions with the markets.

In closing, the experiences of 2025 reaffirm that true success in capital markets is defined not by short-term gains but by the consistent application of thoughtful principles over time. Humility, discipline, and compounding provide a framework for resilient decision-making, support adaptability in the face of uncertainty, and enable the creation

of long-term value. By internalizing these lessons, we strengthen our ability to navigate complex market environments, protect capital, and capture sustainable growth. As we move forward, these principles will remain at the core of our approach, guiding our decisions, shaping our perspective, and underpinning the work we do to deliver meaningful outcomes for the investors and portfolios entrusted to our care.

Personal Note from the Authors

As 2025 comes to a close, we wanted to take a moment to reach out and wish you a Happy New Year. This year reminded us, in ways big and small, that life and work are full of surprises. Some days felt clear and straightforward, others were uncertain and challenging. We learned again that the quiet moments often carry the most meaning and that paying attention, noticing patterns, and staying present can teach us more than any plan ever could. Setbacks and unexpected turns were part of the journey. They asked us to pause, to reflect, and to adjust our perspective. We discovered that growth is rarely a straight line and that some of the most lasting lessons come from moments that feel inconvenient or uncomfortable at first. Every twist, every challenge, left us a little wiser than we were before. What stood out most this year was the value of connection. Connection to the people around us, to the rhythms of the world, and to the small signals that often go unnoticed. Even in moments of uncertainty, there was comfort in seeing how things fit together and in trusting the process, knowing that understanding takes time and care. As we step into 2026, what we truly hope is that you keep noticing the little things that matter, that you take the time to pause and reflect when you can, and that you meet surprises with a steady heart. We hope the year brings small joys that make your days lighter, insights that quietly change how you see things, and the kind of courage that makes it easier to handle whatever comes your way.

Thank you for being with us this past year. We are grateful for the shared journey, for the lessons learned, and for the chance to keep moving forward together. From all of us, we send our warmest wishes for a year full of moments that make your heart feel full.

At the behest of our risk manager, we leave you with a line that defined our year:

*“Cause I crossed some lines जो नहीं थी (which weren’t) black and white
They want to catch the zebra, but I guess I’m slipping off”*

—Wushang Clan, Arpit Bala & “Dank” Rishu

Aditya Mishra

Aspiring Fund Manager

Laith Shaikh

Aspiring Risk Manager

Soham Sahay

Aspiring Investment Banker

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