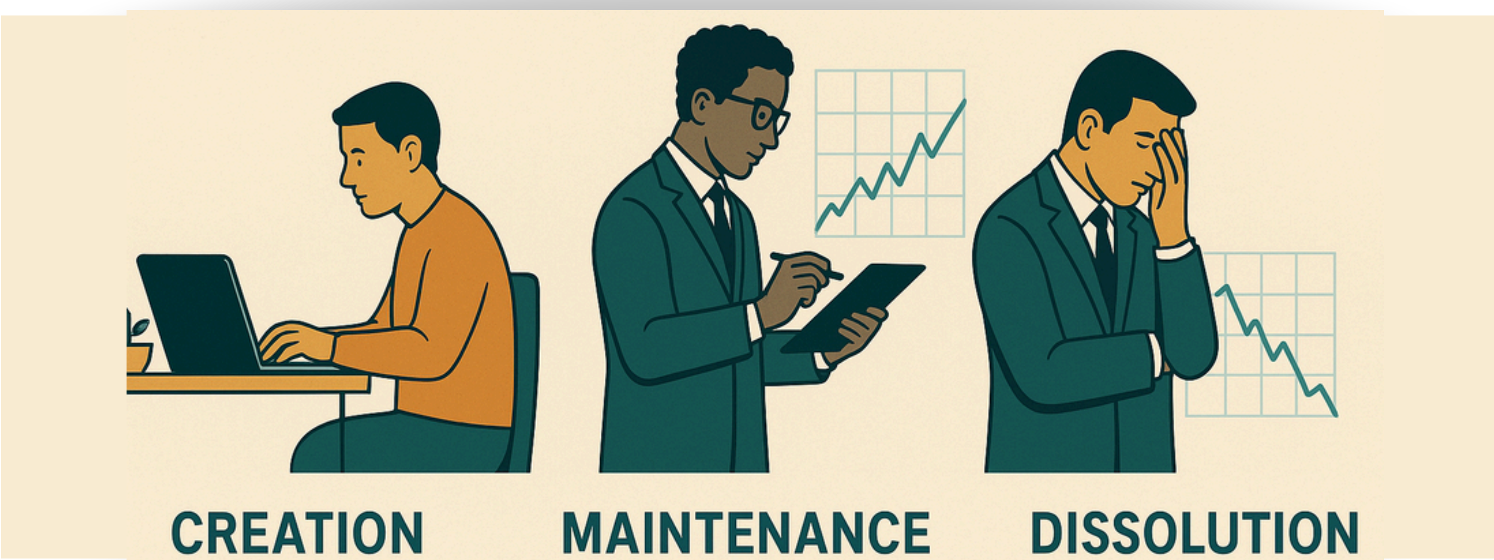
Monthly Newsletter

VALTRUST MOMENTUM



Rebalancing the Indian Equity Story

Just a year ago, in September 2024, Indian markets were everyone's favorite story. The Nifty was scaling new highs, having just crossed the 26,000 mark, and was up 21% year to date. Over the next few months, however, more than half those gains evaporated.

This year, while the Nifty is now above where it ended 2024, the market breadth tells a different story. The Nifty Smallcap Index hit a new low this year—lower than last year's trough. On the surface, headline numbers look stable, but underneath lies massive churn.

A recent Bloomberg article noted that Indian markets are trailing Asian peers the most since 1998—even though India continues to lead on GDP growth. Over the past year, India's weight in the MSCI Emerging Market Index has fallen from 22.3% to 15.2%, largely due to relative underperformance. Yet, it's worth remembering that in September 2015, India's weight was just 7.2%. In the long run, we've gained share—but in the short term, we've given some back.

Valuation premium is often cited as a reason for this underperformance. Interestingly, the long-struggling Chinese market is having a blockbuster year, despite facing similar tariff pressures as India.

Foreign Portfolio Investor (FPI) flows into Indian equities are negative $13 billion for 2025. Meanwhile, the share of U.S. equities held by foreign investors is near the all-time high last seen in the 1970s—fueled by massive capital flows into AI-driven companies.

Gold and silver have been on a tear, recording one of their best years. Much of this is attributed to aggressive central bank buying, as they diversify away from the U.S. dollar.

Traditionally, gold rallies when growth is weak and equities are under pressure—but this time, both U.S. equities and gold are rising together. Unlike equities, gold has no earnings—its value depends solely on what the next buyer is willing to pay. When prices rise daily, investors who missed the rally often buy out of FOMO. Buying at peaks from fear of missing out is as damaging to long-term returns as selling at lows to avoid short-term pain.

The Indian economy today seems more antifragile than ever. That doesn't mean it's immune to global slowdowns—but ongoing infrastructure investments provide a meaningful cushion in the short to medium term.

Indian philosophy envisions time as cyclical—marked by creation, maintenance, and dissolution. Markets behave no differently. Each year, a new sector captures the imagination and appears destined to "go to the moon." Yet, over the long term, no single sector dominates; leadership rotates endlessly.

The key to bridging the behavioral gap in investing lies in avoiding both panic and greed. For discretionary investors, this is easier said than done—hence the rarity of those who truly thrive over decades. Systematic strategies, on the other hand, remove emotional bias and make it easier to endure the short-term yin and yang of markets.

Back in January 1980, gold peaked at about $665 per ounce—and didn't reclaim that high until 2008. Similarly, long-term equity markets like the U.S. have gone through extended stretches of flat returns, followed by extraordinary bull runs. The key is survival—because only those who stay invested through lean years are around to enjoy the years of abundance.