



India: Nearing the End of the Hard Climb

Annual Note - 2026

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15 January, 2026

“Man is the creature of the era he lives in; very few can raise themselves above the ideas of the time.” – Voltaire

The words of Voltaire resonate strongly with the investment environment we are navigating today. The past year was marked by pronounced idiosyncrasies, reinforcing the need for investors to pause, **reflect on the last five years**, and **reassess how portfolios should be positioned going forward**. We believe this juncture warrants a **deliberate rethink of strategy** rather than a reactive response to short-term market signals. Structural shifts such as de-dollarisation, de-globalisation, and rising protectionism are reshaping the global economic order and introducing a new set of realities for capital allocation. In this context, the imperative is not to chase narratives, but to develop robust frameworks that filter out noise and translate long-term trends into clear, actionable investment decisions.

Remembering Charlie Munger – A Framework for Long-Term Thinking

Charlie Munger, Vice Chairman of Berkshire Hathaway, passed away in November 2023, leaving behind a legacy that profoundly shaped modern investing. He was a thought leader who has inspired the values here at Pravia, **especially with regards to developing frameworks for Long-Term Thinking**. His philosophy extended well beyond stock picking – he emphasized **mental models, inversion thinking, and long-term rationality**. We constantly try to integrate these into the Indian investing context.

Pravia’s way of thinking is extremely influenced by his way of thinking and will constantly focus on applying these models to Indian investing. One of his most quoted lines encapsulates this approach:

“All I want to know is where I am going to die, so I’ll never go there.”

– Charlie Munger

This concept of **inversion** – understanding what causes failure before seeking success, is particularly relevant in macro investing.

Core Principles –

Think Backwards	Avoid Misery/Failures	Identify obstacles
<ul style="list-style-type: none"> • Look at a problem from the opposite direction to gain new insights 	<ul style="list-style-type: none"> • Its often easier to identify and prevent negative outcomes (misery, failure, stupidity) than to engineer perfect success 	<ul style="list-style-type: none"> • List the ways one could fail or make things worse, then avoid them

Applying Munger’s Inversion to India –

Applying Charlie Munger’s inversion framework to India requires asking a simple but powerful question:

“What Would Have Made One Sell India Over the Last Decade?”

If one applied inversion framework to India over the last 10 years, the following risks could have plausibly broken the investment thesis.

What could happen?	Assumed outcome	What actually happened?
India is a large labour market if we face any large Humanitarian crisis	Large scale unemployment	Covid-19 made the entire country sit at home - which ended with India being a global leader in the Digital and Technology space
If World faces large geopolitical event, the inflation could skyrocket	India could get poorer at a fast pace	Russia-Ukraine spiked global inflation, disrupting supply chains. Yet Inflation in India is comfortably within target
India could enter in a war with our neighbour	This could set India 10 years behind	India Pakistan went neck to neck - With India disrupting leading global defence companies
FII's start selling and continue for extended periods of time	Markets could crash; there wouldn't be any support	Financialization of savings worked surprised everyone with DIIs upholding the Indian markets
USA starts going against India	Economy could spiral down without our largest ally	India's growth remains unaffected by the current 50% tariffs

The underlying message is “India has become Resilient!” What we (Investors) need now is Navigation!

It’s a Marathon & We are near the end of a Frustrating climb!

We always likened investing in India to Running a long-distance marathon. It demands resoluteness to stay invested, along with a continuous assessment of the path ahead to ensure correct direction.

In this marathon, we believe we are currently navigating a difficult, high-gradient stretch. While an easier slope lies ahead, this challenging phase is testing patience and, in many ways, becoming more complex rather than easing.

At this stage, the right approach is not to sprint unnecessarily, but to conserve energy, pace oneself, and remain mentally disciplined and motivated.

Key General Messages –

- 1. Indian Macro remains strong –** India’s macroeconomic fundamentals remain robust. The country has maintained a strong focus on fiscal discipline, while monetary policy has largely stayed supportive of growth. Inflation and interest rates are currently in a favourable zone. Despite FII outflows and currency depreciation, risks appear contained. Importantly, even

amid multiple geopolitical disruptions, India has stayed committed to fiscal consolidation and broad-based economic expansion.

2. **Some Things Are Clear, Others Remain Hazy Globally** – Clear global trends include de-dollarisation, selective globalisation, rising protectionism, a reconfiguration of long-standing geopolitical relationships, elevated debt levels in developed economies, and a policy bias toward lowering interest rates despite inflationary risks and expansionary fiscal stances. What remains hazy is the future framework for global geopolitical leadership, the evolution of currency and transaction frameworks, and the social consequences of rising inequality and disparities, which could lead to unrest. **This uncertainty calls for agility, coupled with an open and opportunistic mindset.**
3. **Asset Allocation and a Bar-belled Approach** – We believe Asset Allocation was never so important as it is now, not merely for diversification, but to express risk and opportunity in a deliberate and meaningful manner. We believe, each asset class and sub-asset class must have a clearly defined role within portfolios. **On one end, there should be a focus on safety and yield; on the other, allocations aimed at growth must be supported by disciplined risk management and strong evaluation frameworks.** This is an opportune time to relook asset allocation! **Case in point – Precious metals, role of low yielding yet safe fixed income etc.**
4. **Investing in India** –
 - a. **Equities** – We remain positive on Indian equities. However, the opportunity set lies increasingly in intra-sector divergences – for example, capital markets and financial intermediaries over traditional banking; healthcare over pharmaceuticals; digital businesses over legacy IT; and discretionary consumption over FMCG. It is also important to re-assess actual risk versus perceived risk, as seen in sectors such as metals. We believe **Infrastructure, Consumption, and Manufacturing (ICM)** remain the three defining long-term investment themes, although a new analytical lens is required to identify opportunities in this evolving environment. We will continue to propose sub themes as they become lucrative. **Larger Leaders will compound wealth.**
 - b. **Fixed Income** – Downwards pressure on interest rates is likely to persist, and the long end of the yield curve continues to be favourable. Given a lower interest rate regime, REITs, INVITs, yielding assets deserve an allocation in portfolio.
 - c. **Precious Metals and alternates** – We propose to shift allocation in favour of Gold and reducing Silver. We recommend to continue holding precious metals allocation till we see meaningful changes in global construct to return to normalcy or new normal.

Risks –

- **Geopolitics** – India continues to face geopolitical risk from its neighbouring countries
 - **Chaos/Anarchy** - Indian population is used to lot of infrastructure frameworks like – internet networks, connectivity, transportation. Any disruption to these can create risks (case in point – Indigo Episode)
 - **Crude/Energy and natural resources** - Crude/Energy & natural resources remain vital to India’s growth. Global geopolitical dynamics, including supply-chain disruptions (for example, in critical materials like magnets), pose risks. Price or supply volatility could derail the growth trajectory.
 - **Low Growth Sectors** – In the current environment, low-growth sectors carry higher risk. They may undergo prolonged periods of time correction, delivering little or no returns while testing investor patience. Portfolio construction should therefore prioritise structurally growing sectors.
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Why are we so Positive? Despite the Questionable Trends of the Past Year

We are reminded of the words of the legendary investor, the late Mr. Rakesh Jhunjhunwala, who once said in a well-known interview: *“I am always an optimist – that’s why I am an investor. Otherwise, I would simply hold RBI bonds.”*

We believe investors have **several reasons to remain optimistic about India** – provided we cut through the noise and focus on data and fundamentals –

What happened last year – In summary, India broadly focused on improving internal health, navigate by keeping policy initiative on the money and using every crisis to its strength.

1. Fiscal Consolidation – India focused on improving internal health than spend more & also kept the debt levels under check

While the world is borrowing aggressively to drive growth and consumption, India has adopted a disciplined framework of fiscal consolidation, with clearly articulated medium-term fiscal deficit targets.

The government publishes 3-5-year glide paths, and has taken measures across both income and expenditure, as well as on the balance sheet sides.

- **Revenue Side measures** (compliance driven over rate hikes): Greater emphasis on improving compliance through digitalisation and rationalisation of GST rates, rather than increasing tax rates.
- **Expenditure-side rationalization** - Gradual reduction in revenue expenditure as % of GDP, targeted subsidies via direct benefit transfers, and Aadhar linked identification, Phasing out inefficient schemes.
- **Capex-led consolidation** (unlike traditional austerity models)- Government capex has risen sharply, while Revenue spending growth has been moderate.

2. Favourable Debt Structure

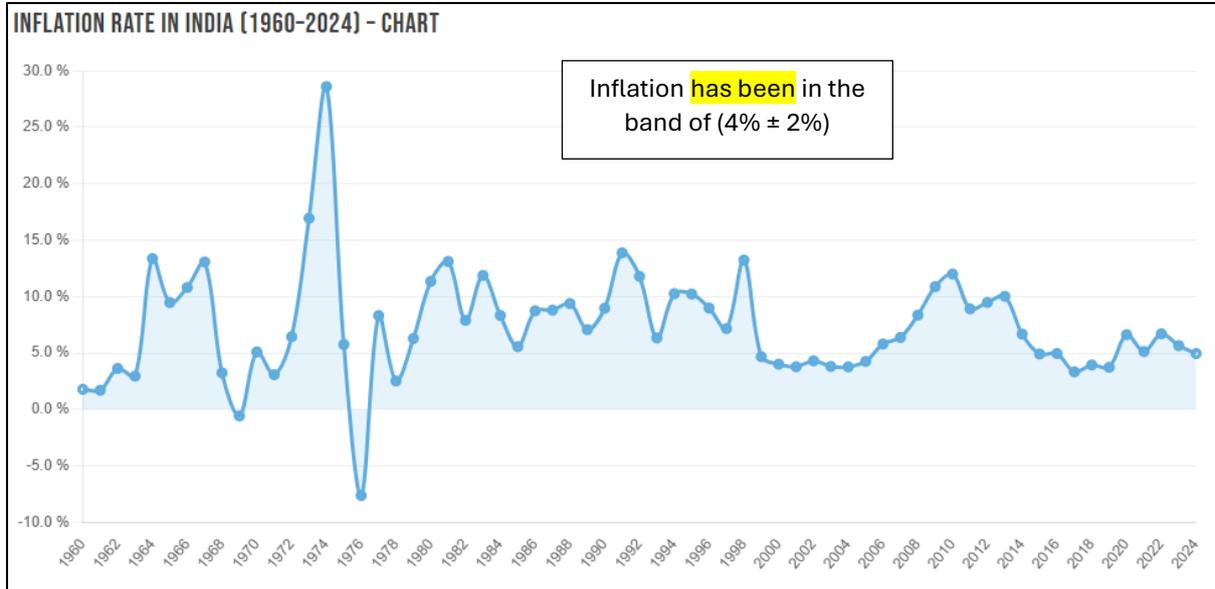
India has been prudent in borrowing through a combination of conservative debt structure, institutional discipline, and macro-risk management. The prudence can be understood in different contexts –

- **Predominantly Domestic, Local-Currency Borrowing** - Over 95% of government debt is denominated in INR, and raised domestically
- **Long Maturity Profile and Low Rollover Risk** – Over past 2 years India has strategically resorted to borrowing at long end (20-year issuances) which has led to reducing refinancing risks contrary to the US, which has relied more on short-term borrowing. Importantly, this borrowing has largely been directed toward capex rather than revenue expenditure.

3. Policy makers and Policy Measures have been extremely synchronised to boost economy -

The past year was challenging from a global policy perspective. India faced pressure from the U.S. on tariffs, alongside unprecedented FII selling. Despite this, India continued to stimulate growth through a combination of manufacturing incentives, infrastructure spending, digital public infrastructure, FDI-friendly policies, renewable energy initiatives, rural development, and significant tax and business reforms.

The RBI, operating within a clear, rule-based monetary policy framework, successfully maintained inflation within the target band – closer to the lower end. While the currency depreciated meaningfully, the outlook from here appears manageable unless global uncertainty escalates sharply.



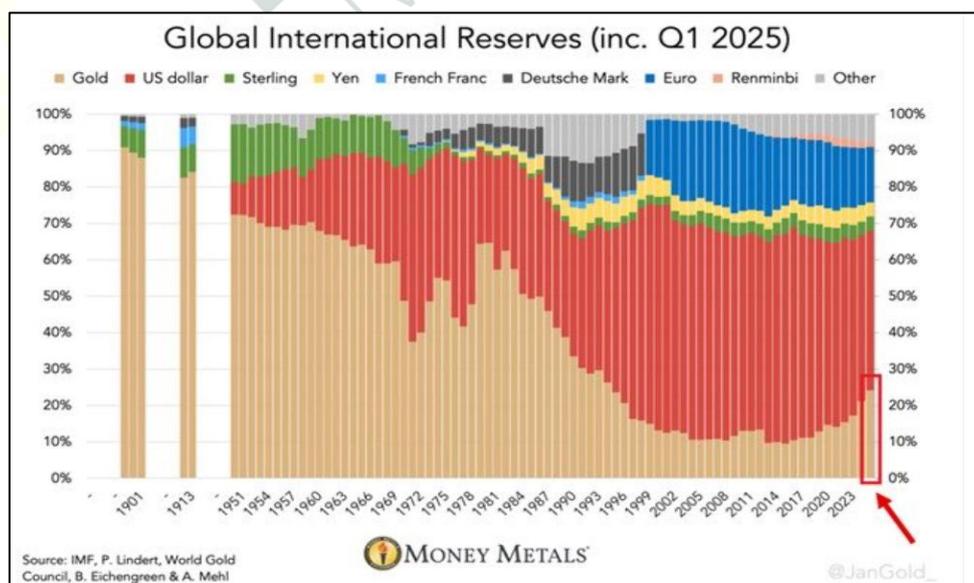
Source – Focus Economics

Weaker Global Backdrop

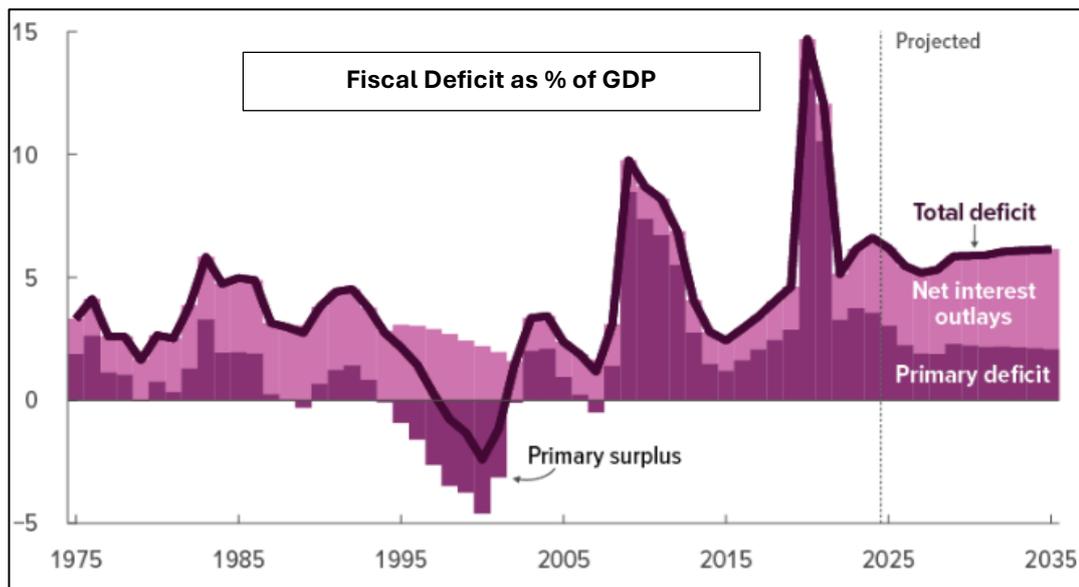
While India stayed focused on its path without being distracted by noise, the deteriorating global backdrop has created relative opportunity.

USA –

- **Dedollarisation** – One of the defining themes of this decade, with the U.S. visibly losing some of its monetary leverage.

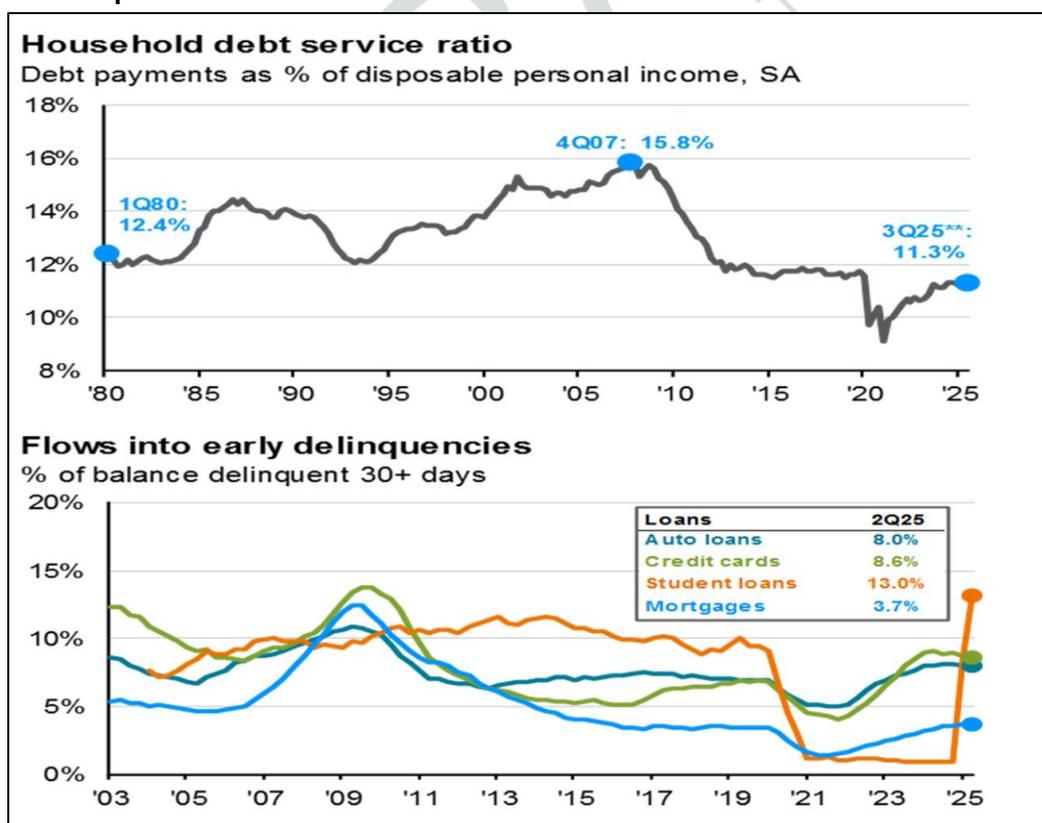


- **Unprecedented high Debt pile & High Fiscal Deficit** – with debt exceeding USD 37 trillion and rising, US now is resorting to Nominal GDP growth as DOGE has failed. It's certainly a vicious cycle, where money printing is required to push GDP growth and repay debt.



Source: Congressional Budget Office

Early cracks in consumption: Signs of stress are emerging in the U.S. credit and consumption markets.



Source: JM Morgan Report



China - Since the outbreak of the Russia-Ukraine war in early-2022, China has been the only major industrialised economy that has **struggled with persistent deflation**. While there were some green shoots last year due to dominance in critical minerals, we believe **China’s demographic challenges are structural and will remain a long-term headwind**.



Source: Statista

Investing in India –

We believe India’s GDP construct is evolving and will look materially different by 2030–32. Investors have already witnessed the emergence of several new trends, and many more are likely to shape the next investment regime.

The fundamental rule of investing remains unchanged – **follow earnings and cash flows**. Any sustained risk to these warrants a reassessment of strategy. With a broader GDP base and continued emphasis on balance-sheet strength, a “risk-on” approach is being rewarded. We expect credit growth to remain healthy and per capita income levels to rise.

In recent years, the traditional investment framework has **often perceived new opportunities as risks**, even when they have been cash-flow accretive (for example, metals). We believe **portfolio strategies must evolve in line with the changing macro construct to capture opportunities pragmatically**.

Equity Investing

Changing Orientation -

- Manufacturing orientation – India is steadily building the foundation to increase manufacturing’s share of GDP from ~14% to ~20% over the next five years, a meaningful structural shift.

- Intra-sector shifts – Clear divergences are emerging within sectors; for instance, capital markets versus banking, digital businesses over legacy IT, healthcare over pharmaceuticals, and discretionary consumption over FMCG. We expect these shifts to deepen and give rise to new investment themes.

Favourable Areas -

- At Pravia, we prefer thematic investing and continue to focus on intra-sector divergences. We believe Infrastructure, Consumption, and Manufacturing (ICM) remain structurally attractive themes, and we stay positive on real-economy-oriented sectors.

Use of Proper Investment Vehicles –

We continue to emphasise the importance of selecting the right investment vehicles to generate alpha. Given our constructive view on Indian equities and the evolving market construct, open-ended structures offer the flexibility to capture upside meaningfully while retaining liquidity when required.

Fixed Income and alternates Investing

- **Lower rates for longer** – Through calibrated policy measures, the RBI has successfully brought inflation below the targeted range. Despite periodic currency volatility, interest rates have broadly remained on a downward trajectory. Going forward, if the government adopts a more balanced borrowing strategy across maturities—rather than concentrating issuance at the long end—there is a reasonable likelihood of easing pressure on long-term bond yields, which could lead to a decline in long-term interest rates.
- **Focus on yielding assets** – Yielding assets should form an integral part of portfolios. With REITs taxed like equities and InvITs offering long-tenor exposure in an improving macro environment, investors should consider allocating credibly toward these opportunities.

Precious Metals

We published a detailed note on Precious Metals, in December suggesting that **silver should no longer be viewed purely as an industrial metal**, as its valuation is largely driven by its linkage to gold. **We view copper and aluminium as more representative industrial metals and expect them to perform better.**

Gold continues to be our favoured allocation in the era of disruption, dislocation. We continue to maintain core allocation.

Conclusion -

We believe portfolios should adopt a “Bar-belled approach” – balancing safety and yield on one end with growth-oriented allocations on the other, supported by disciplined risk management and strong evaluation frameworks. In the current environment, low-growth sectors pose greater risk than low-yielding fixed income. Regular portfolio review and questioning the portfolio (not necessarily churning), can lead to better outcomes and a greater sense of preparedness during periods of volatility.

We wish you a safe and rewarding 2026!

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