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# From Reflection to Readiness And the Road Ahead for '26



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# Forward



The global landscape is undergoing a profound transformation. Tectonic shifts in power equations are moving the world toward a multipolar order defined by protectionism and a strategic drive for self-sufficiency. Traditional economic correlations are weakening, market cycles are shortening, and elevated volatility has become the new normal in a continued search for risk-adjusted returns. Additionally, Governments now play a central role in directing investment and reconfiguring supply chains to enhance national resilience, replacing the relative predictability of the past with structural uncertainty.

Amidst this realignment, India remains the world's fastest-growing major economy, supported by a large domestic market and a strong demographic dividend. Its relatively low export dependence offers some insulation, yet it remains exposed to global volatility and therefore, must be agile.

Looking back at 2025, it was a year of providing support to the economy, the consumer and the markets. From the tax relief announced in the Union budget, a favorable monsoon helping rural demand and food output, a dovish central bank that slashed policy rates and kept liquidity abundant to GST cuts, the theme was clear to one and all – economic growth had to be protected. We believe these measures will continue to have a positive impact on demand dynamics and GDP prints for CY 26 as well.

That said, from an investor's standpoint, we expect moderate returns as steady inflows from domestic players could be countered by more volatile foreign money.

This is the essence of what this report aims to uncover, through a mix of history and macroeconomic dynamics. The bigger message is to show India can leverage its unique position to navigate a world of shorter cycles, higher volatility, and shifting global power structures.

We hope you enjoy reading it as much we enjoyed penning it.

**And, on that note, we'd like to extend our best wishes to you and your families. Have a happy, joyous and prosperous new year!**



**Madhu Lunawat**  
Founder, CEO & MD



**Prasanna Pathak**  
Deputy CEO & Managing Partner



**Akshay Chinchalkar**  
Head of Content & Managing Partner



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# The Year That Was

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# Markets and Macros

—— but first, some fun insights ——

# | Domestic Markets That Made Headlines



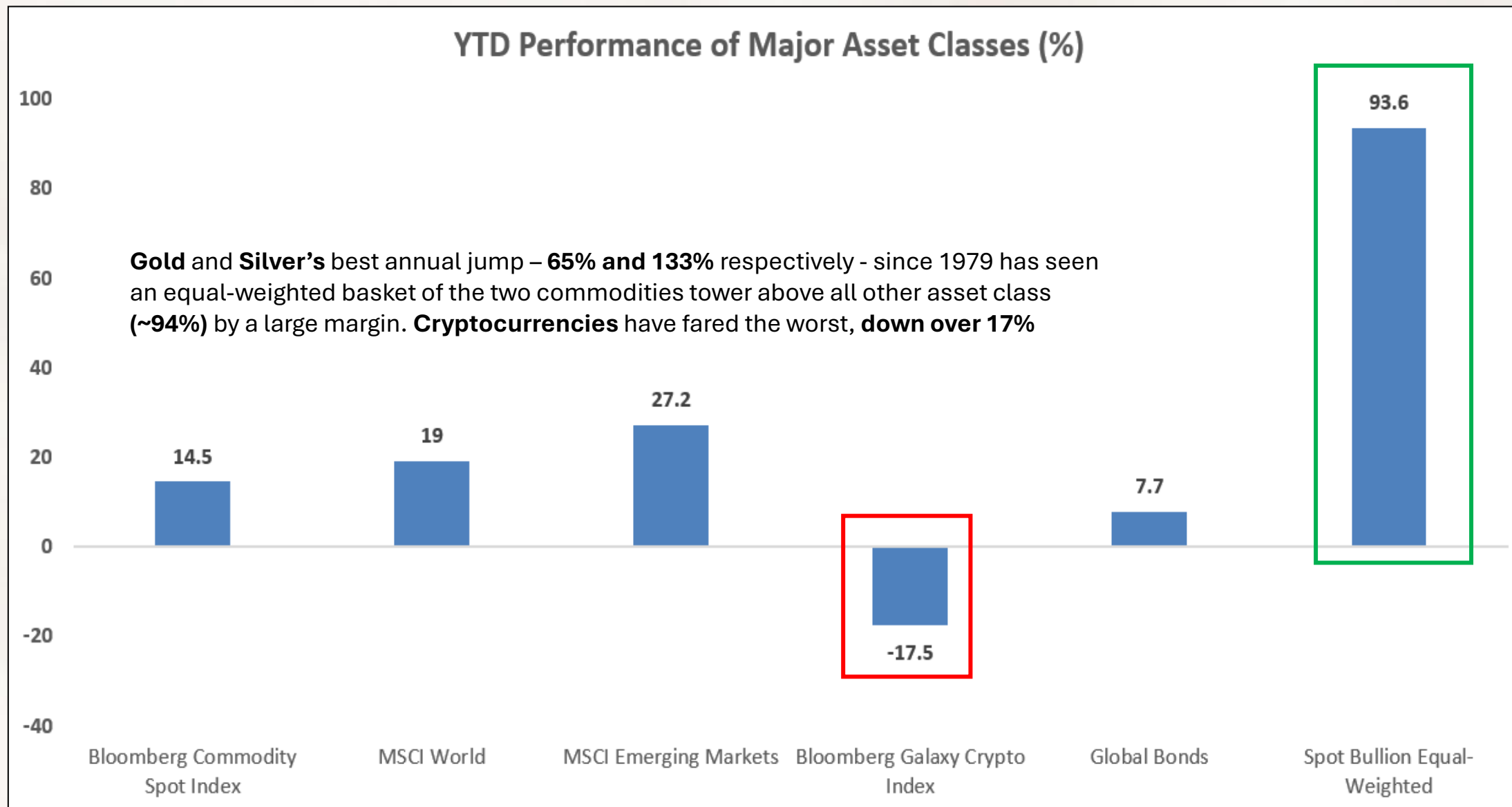
- **Nifty** is slated to **end higher for the 10<sup>th</sup> straight year**, a streak that has **never** been witnessed before
- The 50-member index is **outperforming** the Nifty Smallcap 250 by the **widest margin since 2019**
- **Domestic mutual funds** saw **57 straight months of inflows in November**, a record streak
- **Foreigners** are on track to **withdraw \$18 billion** from India's equity markets, which if it were to happen, would mark the **worst year of outflows in two decades** – the second worst was -\$17 billion, in 2022
- **Domestic** investors, however, bought stocks **worth \$83 billion**, 42% higher than the CY 24 reading
- The Nifty's **largest daily gain** of '25 so far has been the **3.8% surge** seen on 12<sup>th</sup> May, on the **India-Pakistan ceasefire**
- The **Rupee** is set to **end lower against the US dollar for the eighth straight year**. This will be the **first** such **losing streak** in **50 years**
- The **RBI cut rates four times** this calendar year totaling a **cumulative 125 bps from 6.5% to 5.25%**; the **last time they cut rates so aggressively was during 2019 – 2020**
- The 40-member **NSE Energy index** is on the verge of having its **first down year** in at least a **decade**

# | Global Markets That Made Headlines



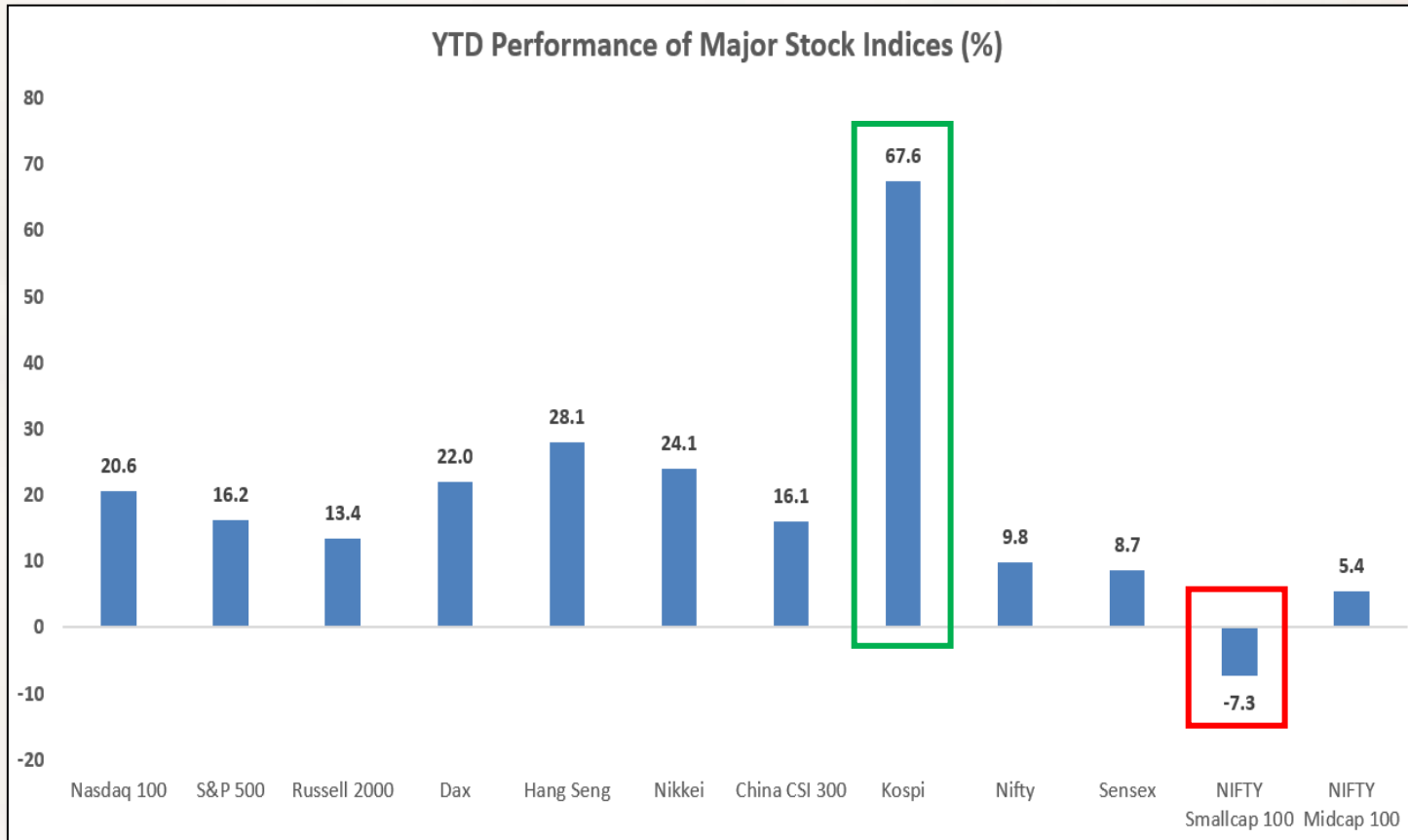
- The **Dollar index is down 9.1% YTD**, its **worst**-such performance in **eight** years
- Spot **Gold has surged 65%** for the year, its best annual run since the 126% spike in 1979; **Silver has jumped about 133%**, its best annual performance since the 435% advance witnessed 47 years ago
- **Brent** crude prices are **down** for the **third year in a row**, the first time we are seeing this since 2015
- **Nvidia** became the first company ever to achieve a **\$5 trillion market capitalization**
- US mega-tech firms (**“Mag 7”**) collectively **lost half a trillion dollars** in market capitalization on January 27 when **Nvidia lost \$590 billion in a single session** – the largest ever intraday slump for any stock in history
- In May, **Moody’s** became the last of the three big ratings companies (after S&P and Fitch) to **downgrade** the **credit rating of the US** from the “perfect” AAA status it enjoyed
- The **S&P 500** recorded its **fastest ever 15% rebound from its lows** this year, hitting an all-time high by mid 2025
- The **Fed cut rates thrice in 2025** but that didn’t push the 10-year yield lower
- The **Bank of Japan** hiked its policy rate to **0.75%**, the highest level in **30 years**

# | The Year of Bullion by a Long Shot



Source: Bloomberg, data shows year-to-date returns for 2025, snapshot as of 21st December 2025

# | Equities: Korea Clear Winner, India Rotation Underway

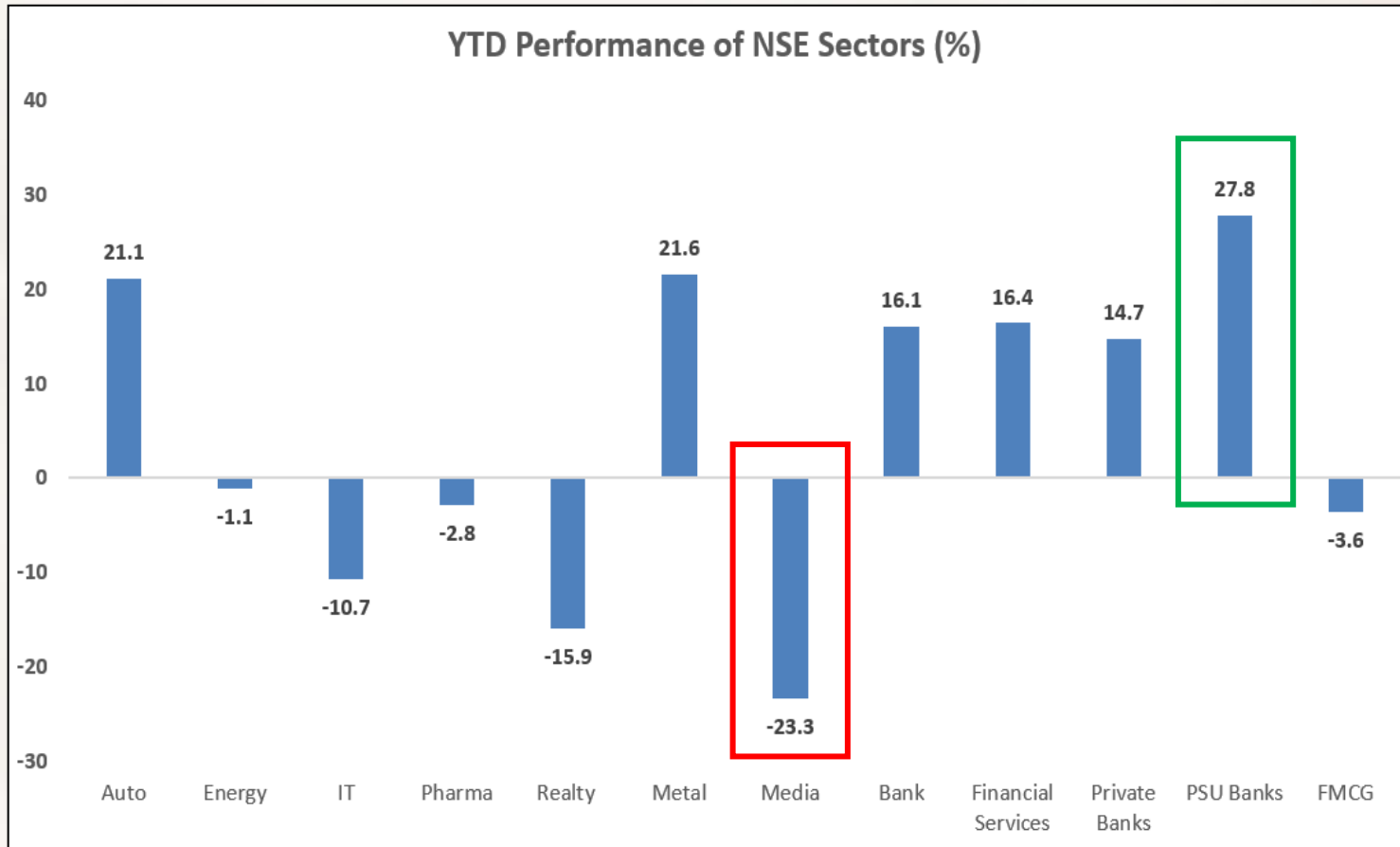


Source: Bloomberg, data as of 19<sup>th</sup> December 2025

- Korea's **Kospi** has been the best performing market of all major stock indexes globally.
- The ~**68%** surge it has seen has been fueled by a rally in **semiconductor stocks, foreign flows, a reform-focused government coming to power and moderate inflation**, among other things.
- Meanwhile, **India** has gone from “everything higher” to “large caps favoured”. Mid- and small-caps are underperforming the nifty, which shows that the liquidity-driven beta has vanished, sending the **Nifty Smallcap 100 down over 7%**.
- Overall, for stocks, the year has been all about **AI + semis + quality growth v/s policy overhang**.

**Did you know?** Beginning 2006, the nifty has **risen in even years 90% of the time**, with average and median returns of **10% and 15%, respectively**. Takeaway? If this pattern were to persist, **2026** is likely to be a **positive year** based on the laws of probability, but returns could be modest - **something that has been particularly evident in the 10 years starting 2016**.

# | NSE Sectors: PSU Banks Surge, Media Goes South

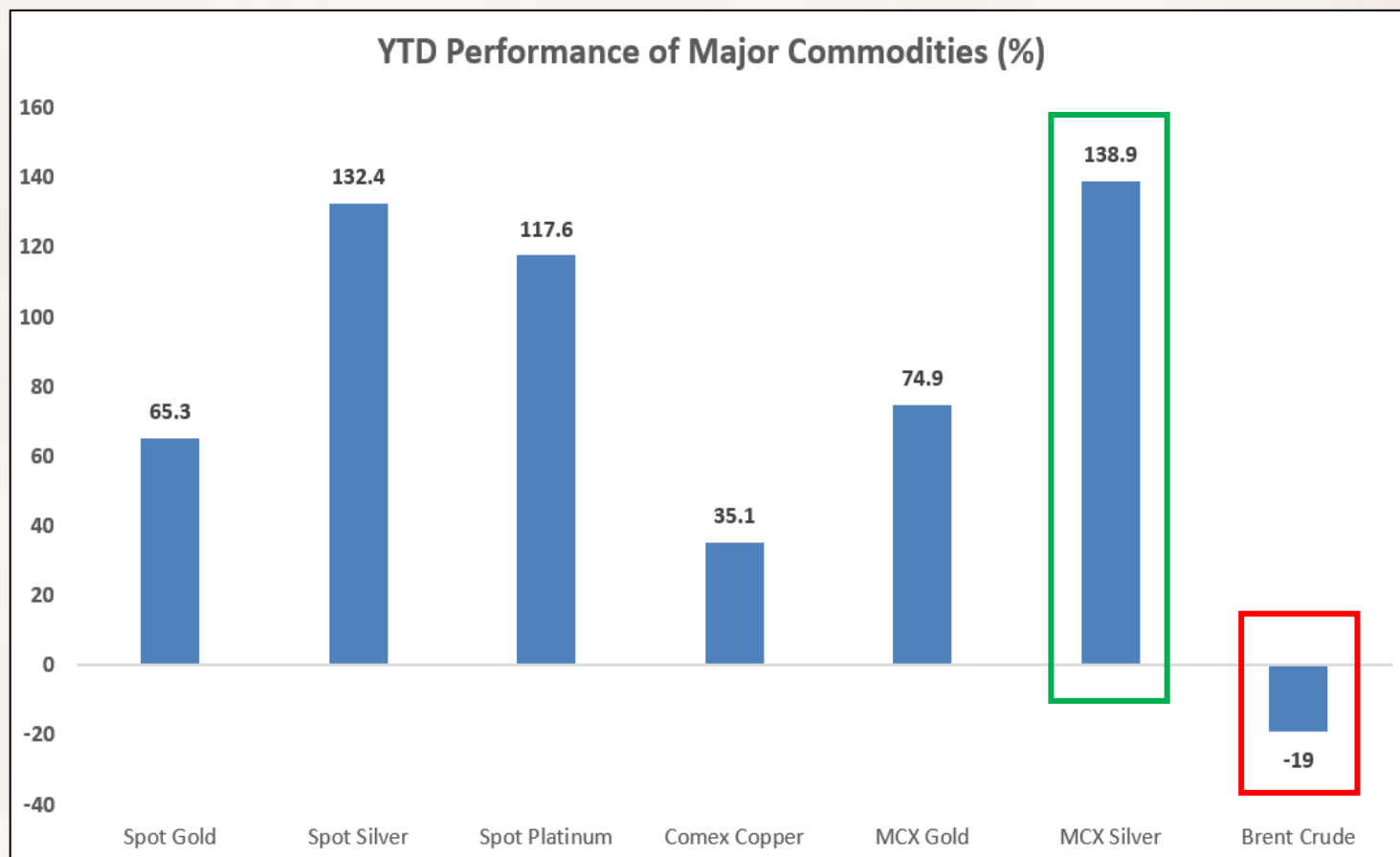


Source: Bloomberg, data as of 19<sup>th</sup> December 2025

- **PSU banks** have been the best performing sector, with its **~28% gains** for the year driven largely by a **sharp improvement in NPAs** and a **recovery in credit growth**.
- **Metals** have been second-best, **driven by hopes of a global recovery, stimulus in China, and firmer commodity prices** that benefited primarily from the dollar's downtrend.
- **Media stocks have fallen the most** (-23%) due to **weak advertising spends** in an uncertain macro environment that hit broadcaster and digital ad revenues.
- Overall, sector performance shows that **consumer spending is strong**, but structurally challenged areas such as IT and real estate have found the going tough.

**Did you know?** Decade-long data shows the **NSE energy index has outperformed** all other sectors in **CY Q1**, with an **average gain of 1.7%**. The **first quarter** has been **unusually challenging** for stocks, with **11 of the 12 NSE sectors** ending **down** on average.

# Commodities: Shiny Gets Shinier, Brent Bulls Missing

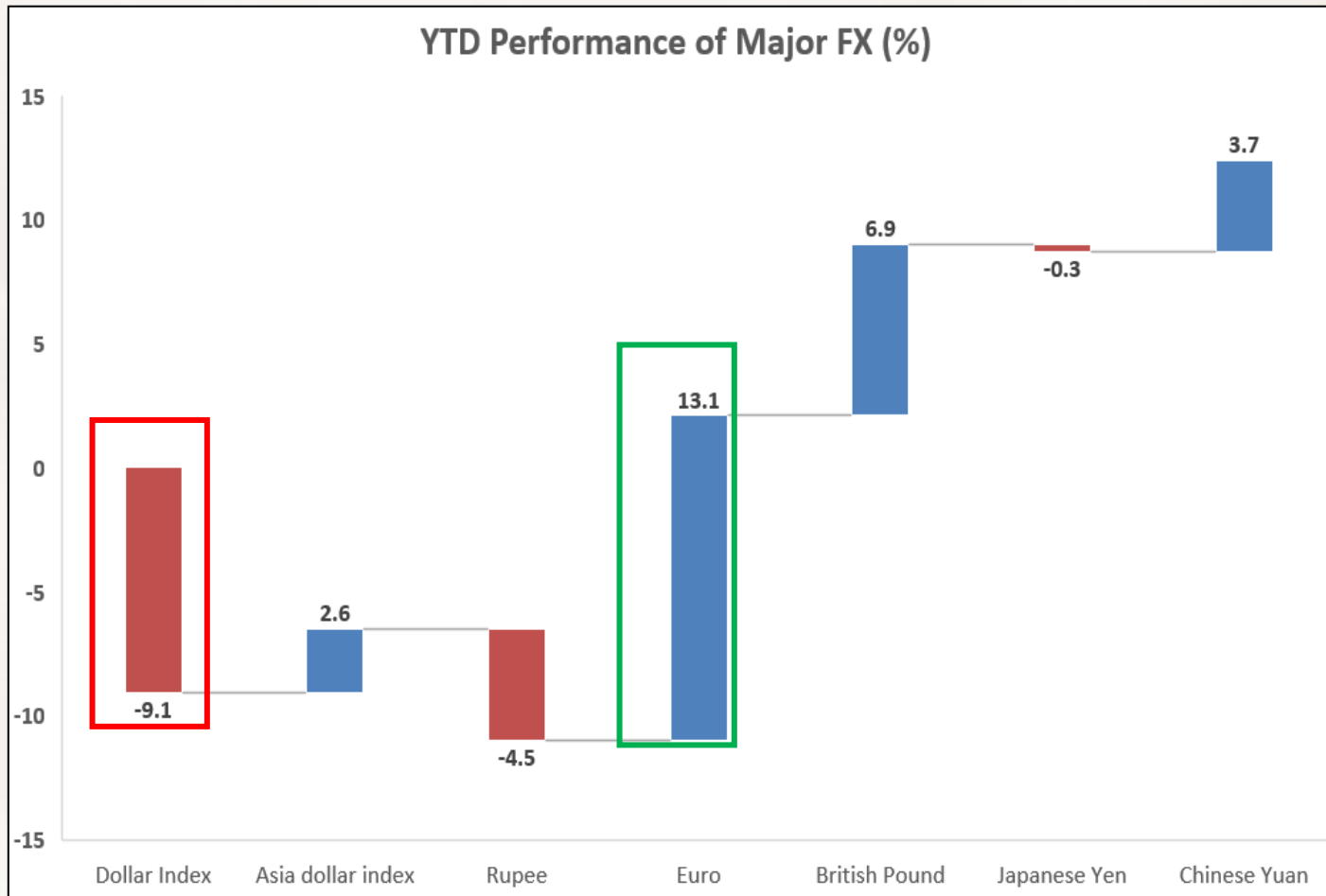


Source: Bloomberg, data as of 19<sup>th</sup> December 2025

- Speaking commodities, and 2025 has been the year of the “**uncertainty premium**”.
- **Gold** and **Silver** have rallied hard thanks to a perfect storm of a **softening dollar**, **increasing geopolitical upheavals** and **largely lower US yields** as the Fed turned dovish on monetary policy.
- **Copper** (+35%) has benefited from increasing demand for AI data centers and China’s much-needed stimulus.
- **Brent** (-19%) has been the outlier (despite OPEC+ production cuts), on demand fears due to more EV adoption and investments in renewable energy; also, the geopolitical “**war premium**” has not stuck long enough to disrupt supplies.

**Did you know?** So far this year, **silver has outperformed gold by 2x**, and both are likely to end the year in positive territory. **Two decades of history shows that this has happened four other times. In three out of those four instances, silver underperformed gold in the following year.** Therefore, if history repeats, investors may **rotate out of Silver into its shinier equivalent -- Gold**. Note that the sample size of this occurrence is small.

# | FX: Dollar Shunned, Rupee Notable Exception

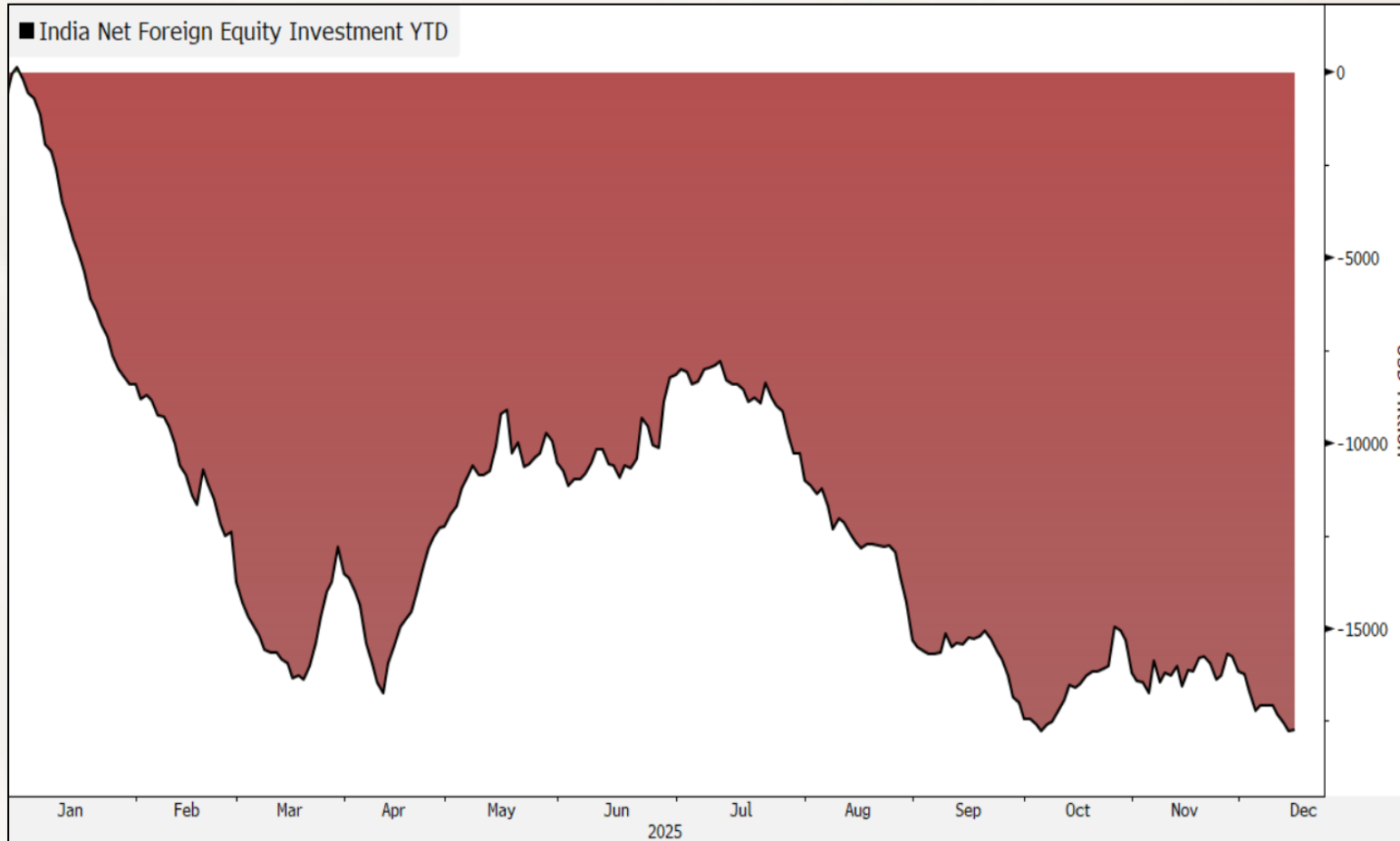


Source: Bloomberg, data as of 19<sup>th</sup> December 2025

- The **US Dollar (DXY)** is down **9.1%** for the year so far, which is its **second-worst performance in eight years**
- This can be explained by a **shift in Fed policy from very hawkish to dovish and improving risk appetite**, which reduced the “safe haven” status of the world’s reserve currency.
- Chair Powell has said that further cuts in ‘26 will be data-dependent but **if the US economy avoids a slowdown, the dollar may find plenty of takers**
- The real newsmaker though has been the **rupee, down 4.5%** on a YTD basis. **Foreign investors exiting the nation’s stock markets, high tariffs and uncertainty around the trade deal** with the US have kept the currency under pressure, which recently fell to a **record low of 91** before rebounding strongly.

**Did you know?** Based on 10 years of data, **December** has been the **worst** month for the **dollar index**, which has averaged a **1.3% drop** and **slipped in 80%** of the instances analyzed.

# | Foreigners Have Been Selling Local Stocks.....

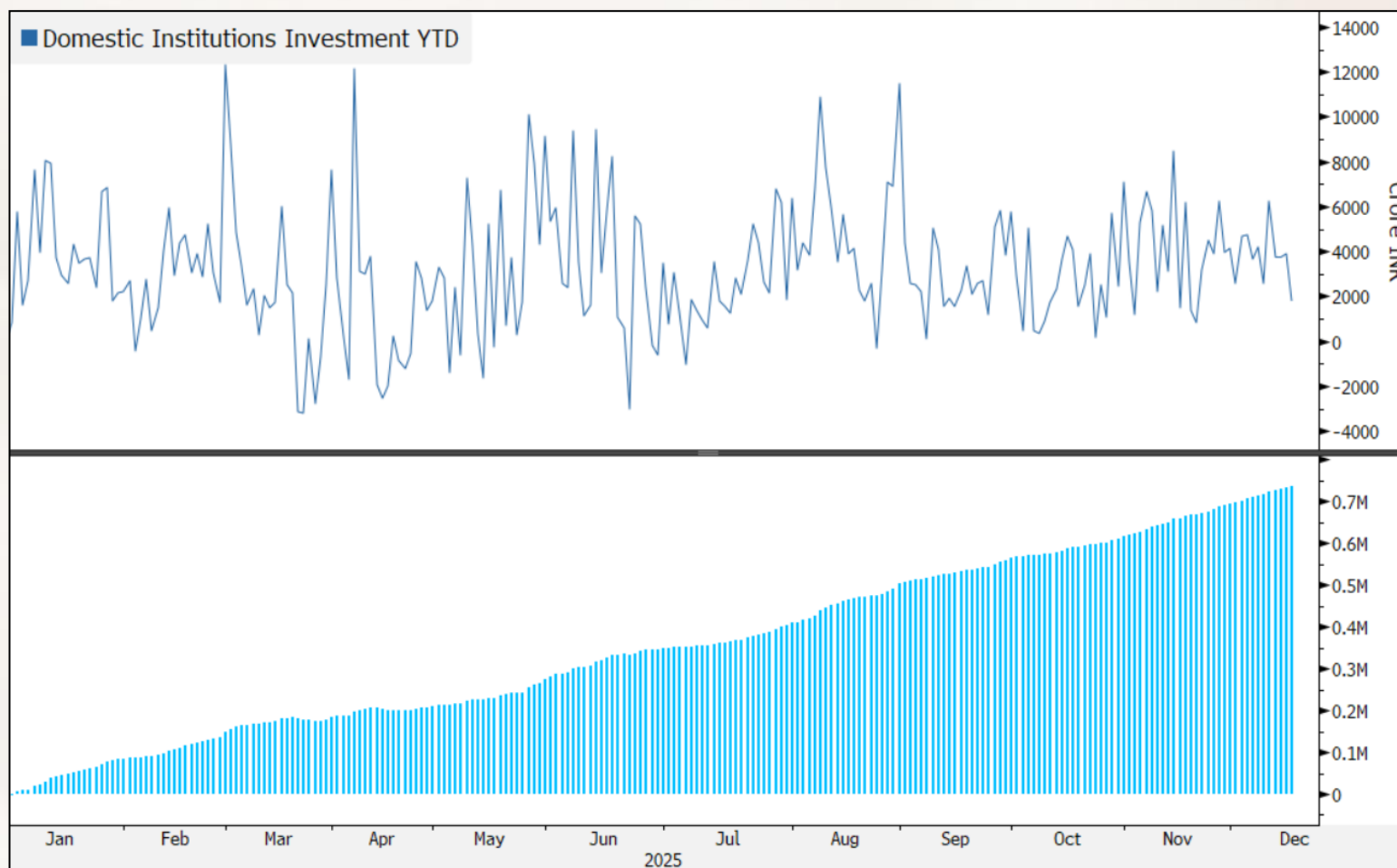


Source: Bloomberg, data covers the period beginning 1<sup>st</sup> January 2025 to 17<sup>th</sup> December 2025

- Foreigners have **withdrawn** nearly **\$18 billion** in '25.
- **High valuations relative to Emerging Market (EM) peers, a dovish RBI, a persistent current account deficit and cyclicity in earnings** are some of the plausible reasons that can explain why foreign money has exited Indian stock markets.
- One should also note that India was one of the best performing major markets globally as the world climbed out of the Covid-crisis. That vast outperformance compared to other markets has led foreigners to de-risk from India and move into markets which have become more **attractive from a risk-return standpoint** and the **AI-led boom**.

**Did you know?** If 2025 were to end today, it would be the **worst year for foreign money** in the last two decades after the **\$17 billion outflow** seen in **2022**

# | .....while Domestic Institutions are Keeping the Faith



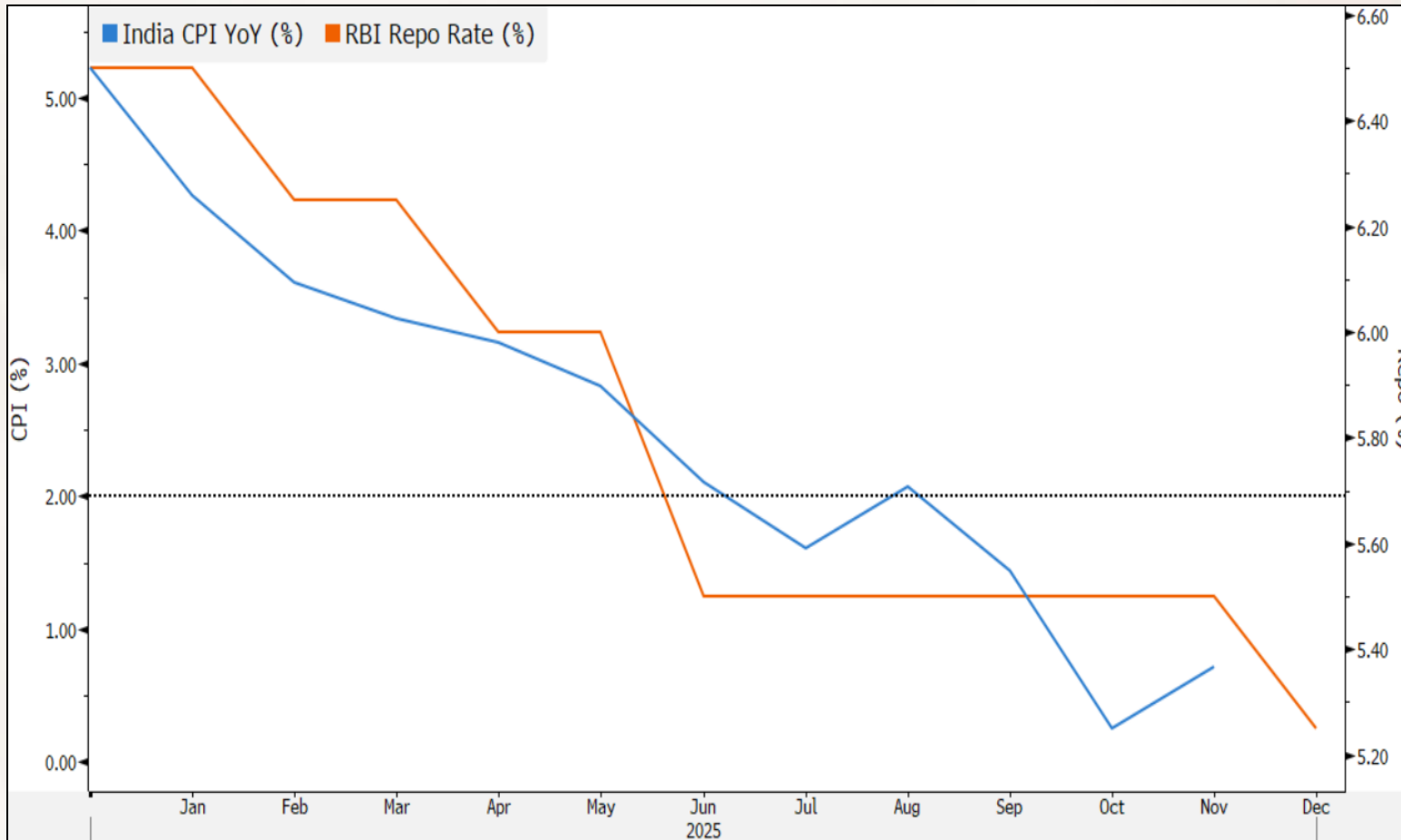
Source: Bloomberg, data covers the period beginning January 1<sup>st</sup>, 2025 to 17<sup>th</sup> December 2025

Note: Panel 1 shows daily DII flows, while panel 2 shows the aggregated number for the year on a rolling basis

- **Domestic investors** have invested a record **7,50,000 crores (\$83 billion)** this year (panel 2), **absorbing the selling that has come mainly from foreigners and promoters** offloading their stakes in what has been a banner year for share sales.
- That's a **42% jump from 2024 levels** and has been the primary reason that Indian stocks have rebounded hard from their April troughs when President Trump announced reciprocal tariffs on America's major trading partners, including India.
- Individual Investor appetite has been on the rise as the **SIP** culture becomes entrenched, with mutual funds, insurance companies and pension funds receiving steady flows every month, regardless of market volatility.

**Did you know? Domestic mutual funds saw 57 straight months of net inflows** through November, a streak that continues to set records

# | Inflation is in Comfortable Territory



Source: Bloomberg, chart shows YTD data from 1<sup>st</sup> of January 2025

- India's CPI (blue line) has been in a clear downtrend, giving the RBI enough reason to cut its main leading rate (Repo, orange line).
- The drop in retail inflation has been **driven majorly by plunging food prices**, but the **RBI recently said that it expects inflation to begin a climb starting January** and average about 2.9% in the three months through March '26.
- **How many cuts will we see from the RBI in 2026?** That's a tough one to answer since it depends on many things including what the US Fed does, but inflation is certainly not a concern for now as India's CPI has been below the lower end of RBI's target range (2%) for three straight months starting September.

**Did you know?** This month's **Repo rate cut by the RBI** was its **fourth move lower** for this calendar year

# | Foreign Exchange Reserves Have Stabilized

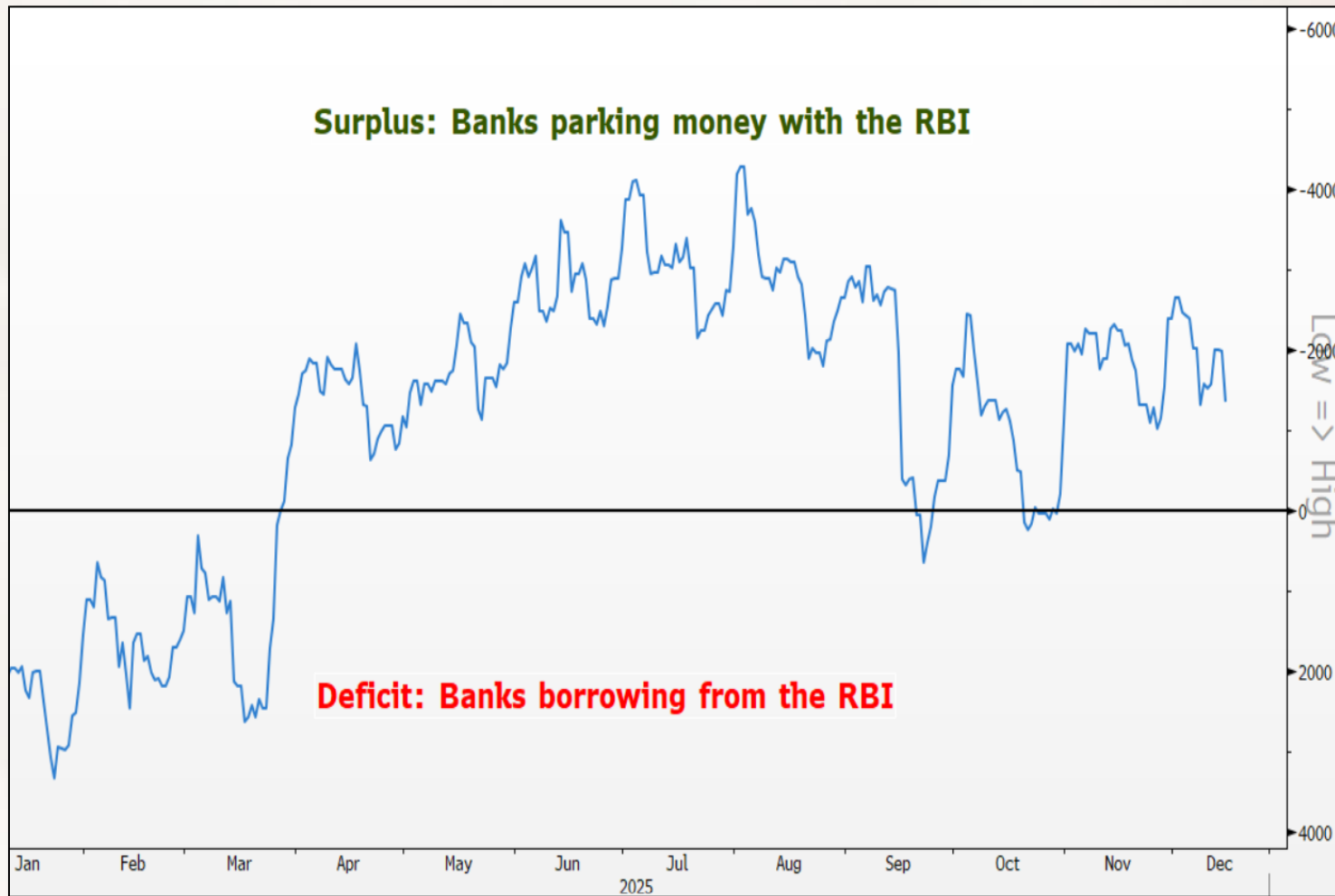


Source: Bloomberg, weekly chart range shows data from the 1<sup>st</sup> of January 2021 to 19<sup>th</sup> December 2025

**Did you know?** From the peak in 2021 till the lows seen in 2022, our FX reserves **dropped by \$118 billion**

- Our FX reserves scaled a record high of **\$705 billion** in September '24 and then fell to near **\$630 billion** as investor sentiment soured.
- However, they rebounded strongly starting January as the RBI **shifted its stance to dollar buying from dollar selling, the Balance of Payments (BoP) moved to a surplus and a general risk-on sentiment in took hold.**
- With governor Malhotra maintaining that he would allow the rupee to move more “freely”, the **pace of intervention from the central bank has slowed down.**
- That has helped FX reserves to stabilize (orange box) near their record highs, but with the rupee hitting new lows almost every day, the RBI will have to keep a hawk-eye on developments.

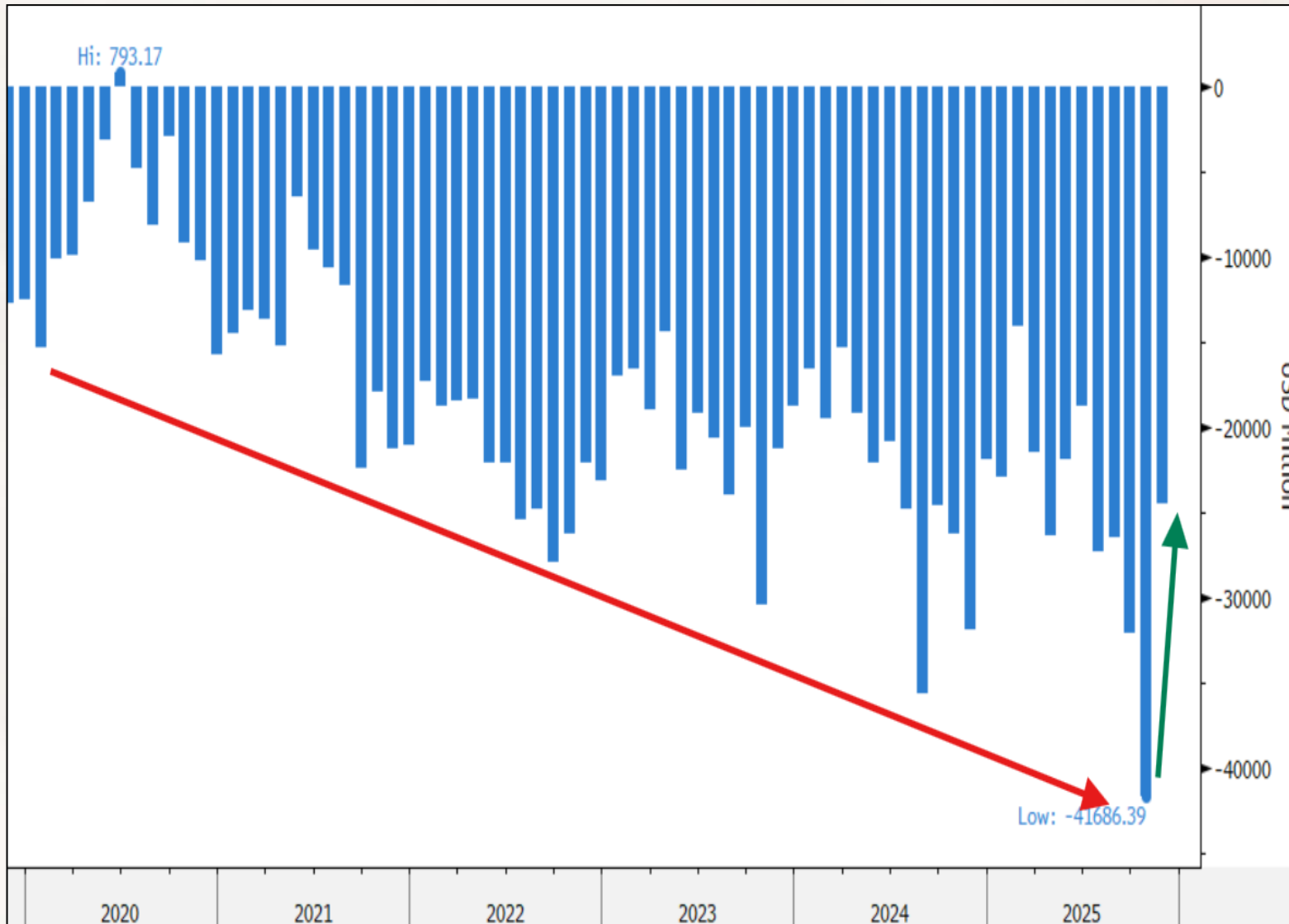
# | Banking System Liquidity Has Largely Been in Surplus



Source: Bloomberg, chart range covers the period from January 2025 to December 2025

- The calendar year has seen **banking liquidity** system remain in **surplus** for most of the year.
- The deficit in the first quarter, which was the result of tax outflows and topside intervention by the RBI (selling dollars to arrest the rupee slide meant that rupees are leaving the banking system), went into surplus mode by late March.
- That **helped lower the cost of borrowing** for market participants who were looking for funds.
- For equity investors, a **banking system surplus along with an accommodative stance means a generally risk-on environment**.
- Still, any pickup in global volatility whilst running a liquidity surplus can trigger capital outflows and risk an inflation uptick, so these trends need to be monitored carefully.

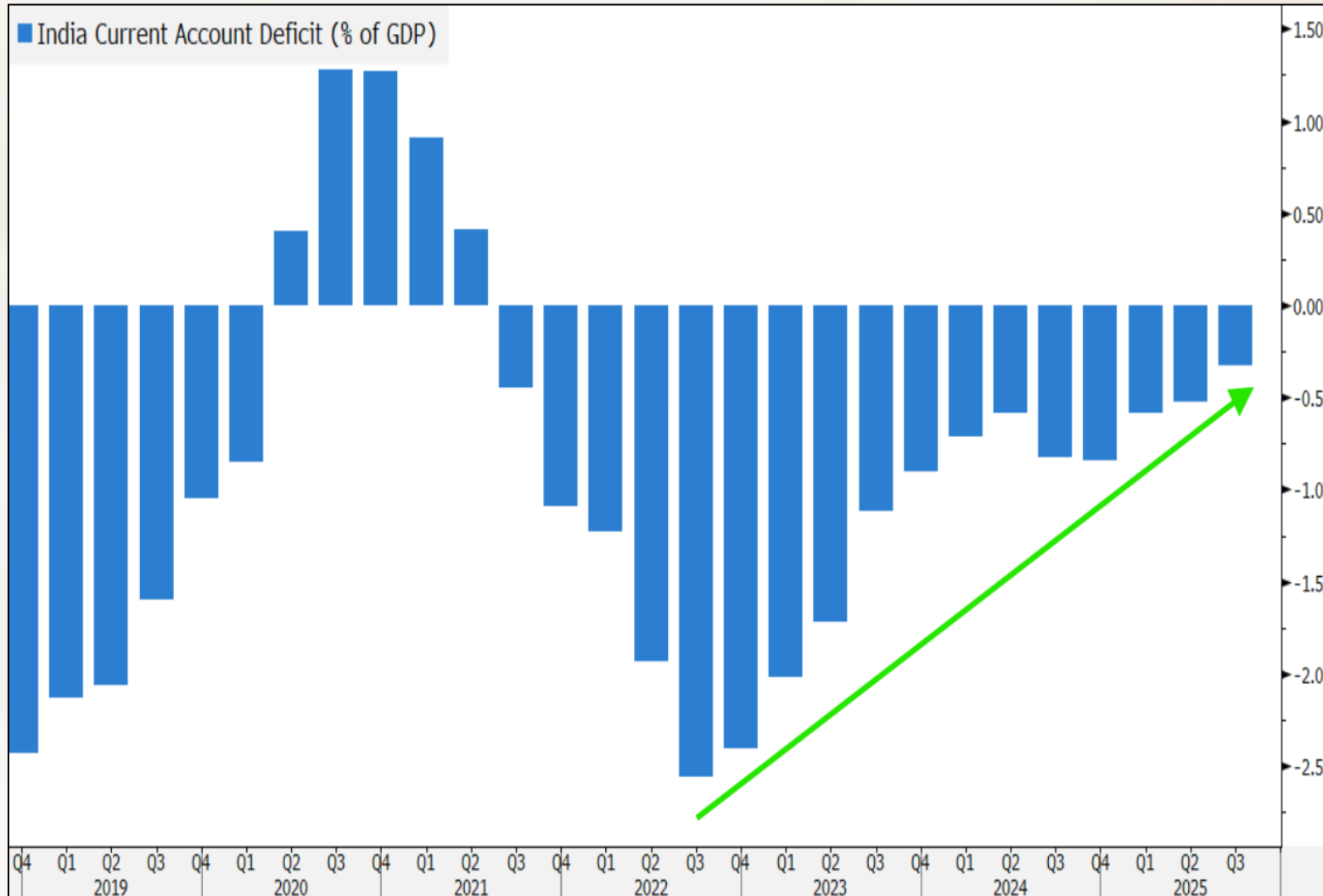
# | Trade Deficit Rebounded Sharply in November.....



Source: Bloomberg, monthly chart range covers the period from Dec 2019 to Dec 2025

- Since the covid-era lows, the **larger trend in India's merchandise trade balance has been down**, i.e., the difference between what we import v/s export has only increased.
- That has happened because post the pandemic, **our imports surged (think machinery, electronics, intermediate goods, oil, bullion etc.)** but exports did not rise at the same rate.
- **Slowing growth in our major trading partners and high inflation kept demand for our goods muted**, and although India's services exports were high, they have not been big enough to offset the goods deficit.
- **In October, the deficit jumped to an all-time high of \$42 billion**, but the November reading shrank markedly despite high US tariffs as India started exporting more to other nations, including China.

# | .....and our CAD-to-GDP is Trending Higher



Source: Bloomberg, quarterly chart range covers the period from Q1 2019 to Q3 2025

- India's **current account deficit (CAD) as a % of GDP has been improving** for the last several quarters mainly because **less foreign currency is leaving relative to what is coming in**; nominal GDP has also been growing steadily.
- Exports and services haven't fallen off a cliff despite the year of tariffs, and at the same time, oil prices have been more stable at the low-end of the yearly range. That's kept the import situation manageable.
- Remittances from Indians abroad have also helped, alongside the Government's push for import substitution and export promotion.
- Simply put, as long as nominal GDP growth is on an uptick, the deficit is expected to shrink further.



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# What 2026 Might Bring

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# | Even Year Seasonality is Mostly Positive.....



Benchmark	Winning % in even year	Average return (%) in even year	Average return (%) in winning even year	Average return (%) in losing even year
Nifty	90	9.9	16.8	-51.8
Nifty 500	80	9.6	19.6	-30.3
Midcap 100	80	12.5	25.0	-37.4
Smallcap 100	70	8.5	28.4	-38.0

Sector	Winning % in even year	Average return (%) in even year	Average return (%) in winning even year	Average return (%) in losing even year
Auto	80	14.4	27.8	-39.0
Energy	90	4.4	10.2	-48.2
IT	60	9.7	31.1	-22.4
Pharma	60	17.6	39.2	-14.8
Metals	80	11.7	26.3	-46.8
Banks	80	17.2	28.1	-26.0
Finsvcs	90	16.2	24.1	-55.1
FMCG	80	14.2	20.2	-10.0

Source: Bloomberg, data analyzed for calendar years beginning 2006 and ending 2024

**How to read this table?** Look at **Nifty** above. You can see that **in a year ending in an even number, it has risen 90% of the time and has returned about 10% on average. In even years in which it rose, the average return was ~17%. In the loss making even year, it fell 52%.**

- The sectors that account for the bulk of the Nifty's returns have high winning percentages for a year ending in an even number
- Lenders, Metals, Energy, FMCG and Auto have gone up in an even year at least 80% of the time over the last two decades
- Except for IT and Energy stocks, average returns for all sectors are in double-digits
- Given their weightage, should these sectors perform like they historically have, the Nifty should be well supported in 2026
- **Sectors to watch out for in '26: Lenders (Banks, Financial Services), Auto, Metals**

## ....Even After Removing Big Outlier Returns (2008)



Benchmark	Winning % in even year	Average return (%) in even year	Average return (%) in winning even year	Average return (%) in losing even year
Nifty	100	16.8	16.8	0.0
Nifty 500	89	17.0	19.6	-3.4
Midcap 100	89	20.5	25.0	-15.4
Smallcap 100	78	17.3	28.4	-21.4

Sector	Winning % in even year	Average return (%) in even year	Average return (%) in winning even year	Average return (%) in losing even year
Auto	89	22.1	27.8	-23.1
Energy	100	10.2	10.2	0.0
IT	67	16.8	31.1	-11.7
Pharma	67	22.4	39.2	-11.1
Metals	89	21.1	26.3	-19.9
Banks	89	24.6	28.1	-2.8
Finsvcs	100	24.1	24.1	0.0
FMCG	89	17.9	20.2	-0.3

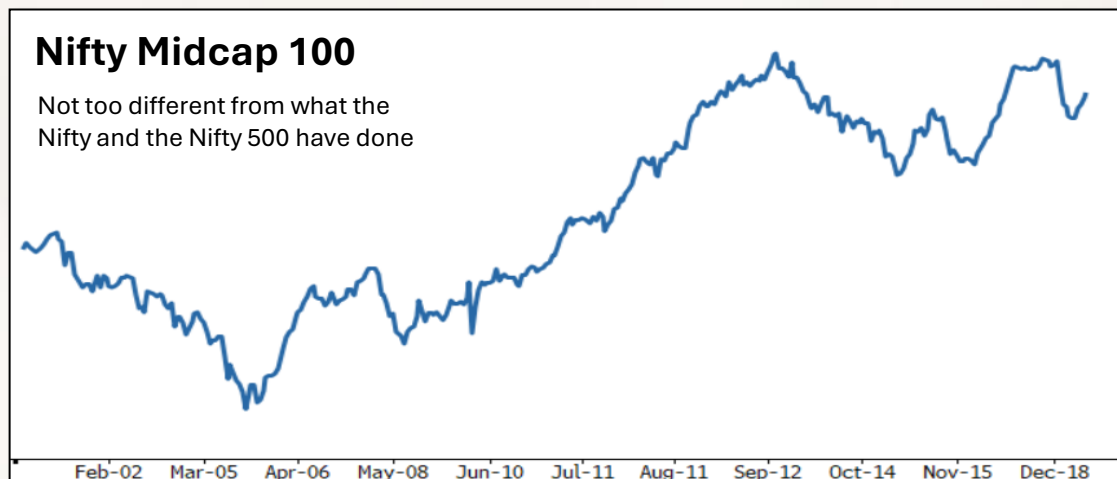
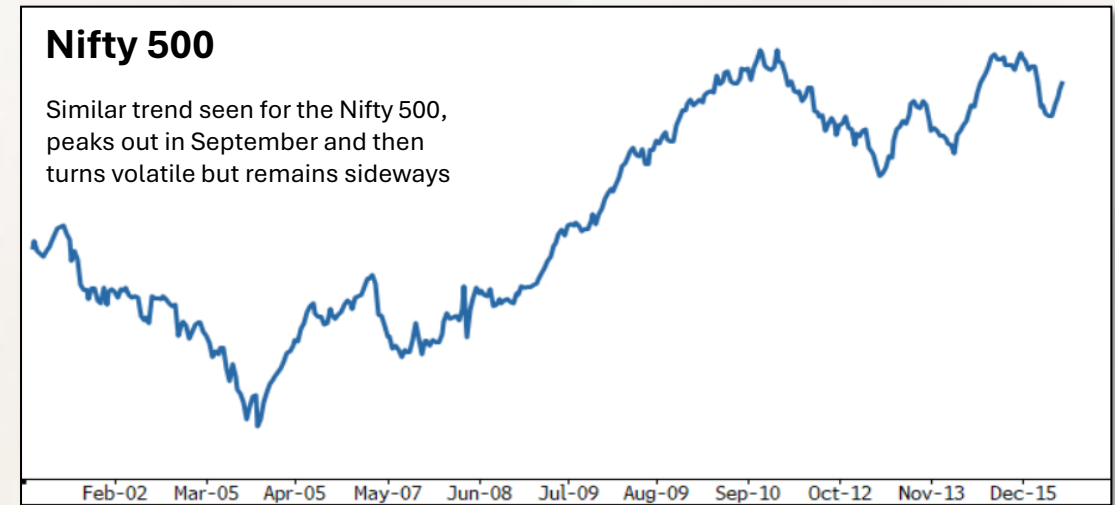
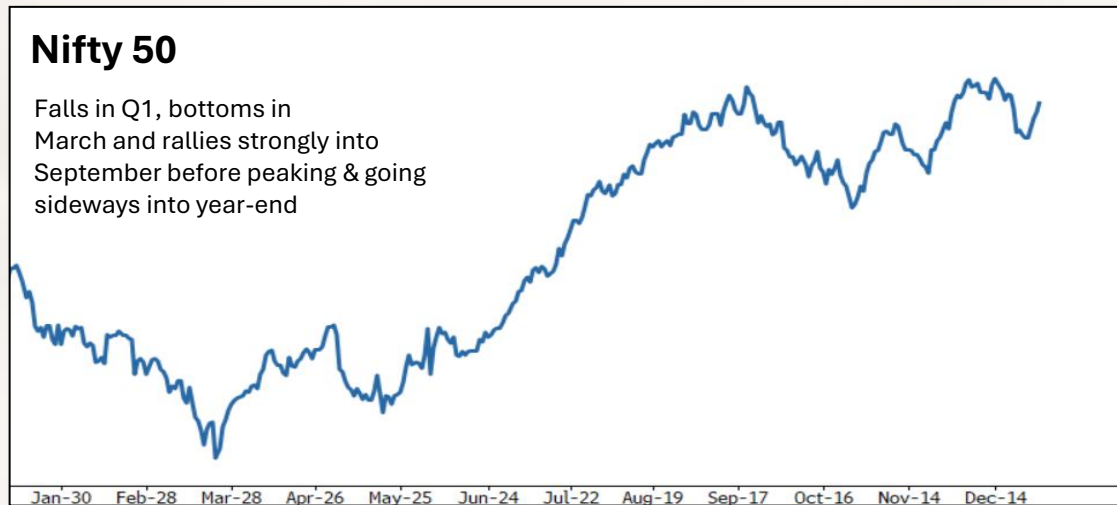
Source: Bloomberg, data analyzed for calendar years beginning 2006 and ending 2024, excluding 2008

- When we exclude 2008 (outlier drop since the Great Recession of 2008 was a rare event), we see that the Nifty has **never fallen** in an even year
- The **index has returned 16.8% on average**, while the broader NSE 500 has put in a similar performance (with one losing year when it lost 3.4%)
- Speaking sectors, and we see that the same themes (**Auto, Lenders, Metals**) stand out yet again
- **Financial Services is particularly strong** – the sector has **never dropped in an even year** – and its average return (**24.1%**) has been high
- **Energy** is another interesting sector – it also has a **100% win-record in an even year** – but its average return is the lowest at near 10%

# Typical Movement in Even Years (2006 – 2024)



**What do these charts show?** They show how prices have done (on average) in **a year ending in an even number**. For example, the Nifty, has showed a tendency to fall in Q1 before bottoming out in end-March and then rallying before peaking out in September.



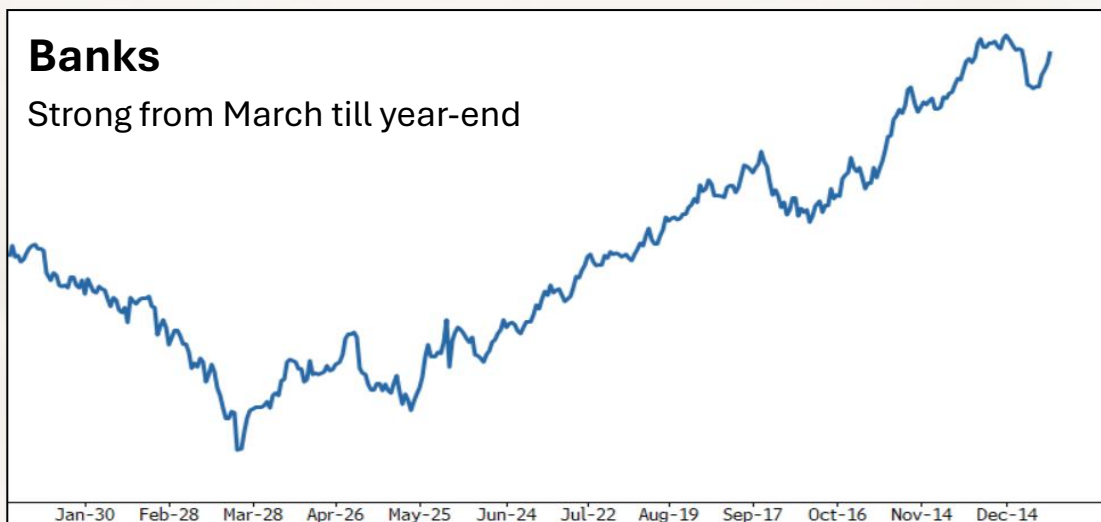
Source: Bloomberg; data analyzed over a 20-year period ending 2025

# | Key Sectors: Typical Trend in Even Years (2006 – 2024)



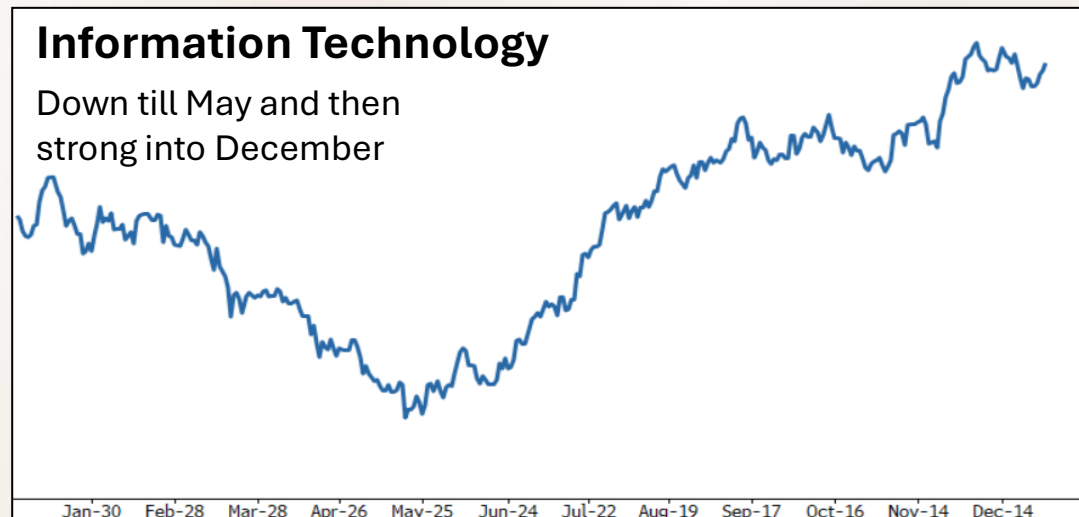
## Banks

Strong from March till year-end



## Information Technology

Down till May and then strong into December



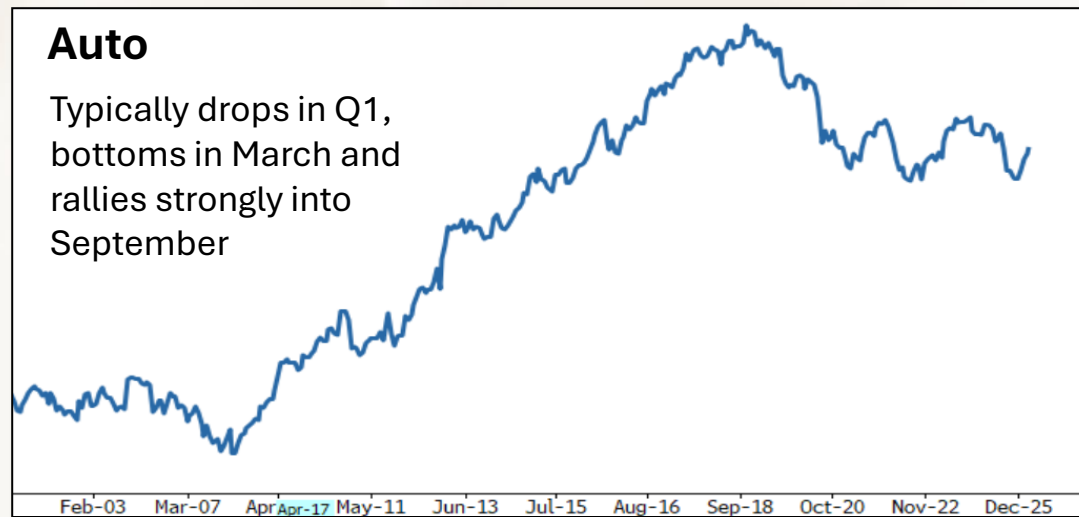
## Energy

Declines into March, then rally into September peak, before dropping into year-end



## Auto

Typically drops in Q1, bottoms in March and rallies strongly into September



# | Model 1: What Happens After a Sizeable Drop & Recovery?



**We looked at the drop that began in Sept '24 and asked the following questions:**

- How many times has the market fallen at least 15% from a 52-week high, and then recovered at least as much from the 52-week low inside a 12-month period?
- Where was the market one year forward after such an occurrence?
- We are asking these questions since this is exactly what happened between Sept '24 and July'25

**Here's what we found:**

- This exact pattern has been seen **12 other times beginning 2001**
- On average, **the Nifty was up about 25%** in the 12 months following this pattern
- The **win-rate was 92%** -- this means in 11 out of 12 cases, the nifty was **higher** one-year forward
- In **one out of those 12 instances**, the index saw a **negative return** (a loss of about 16.8%) in the subsequent 12 months.

**In simple terms: When the Nifty takes a big dip and then shows a strong initial recovery inside a 12-month period, it has historically tended to perform well** over the next year, but there is still a small chance of a negative return.

# | Model 2: Does a TTM P/E Below or Above 20 Matter?



Investors care about valuations, and so we used two buckets for the **Trailing 12m P/E ratio** – one, when it is below 20 and the other, when it is above 20. Our objective was to **compare whether next year's returns were significantly different based on the level that the P/E ratio ended the year at**. For this analysis, we used data beginning 2006.

## Here's what we found:

- TTM P/E < 20
  - Number of years: 11
  - Best return: +76%
  - Worst return: -52%
  - Average next year return: ~22%
  - Median next year return: ~28%
- TTM P/E >= 20
  - Number of years: 8
  - Best return: 24%
  - Worst return: -25%
  - Average next year return: ~6.7%
  - Median next year return: ~6.6%

**In simple terms: Low P/E ratios have certainly resulted in higher returns over the next 12 months**, but there are few things to note. See below:

- Low Price-to-Earnings multiple does not mean there is **no risk**; one of the worst declines (-52% in 2008) came when the trailing 12-month PE ratio was below 20
- There are **several other factors** that determine forward returns; the P/E ratio is one of many
- Outlier returns (highly positive, or highly negative) are **rare** and not typical in a normal market

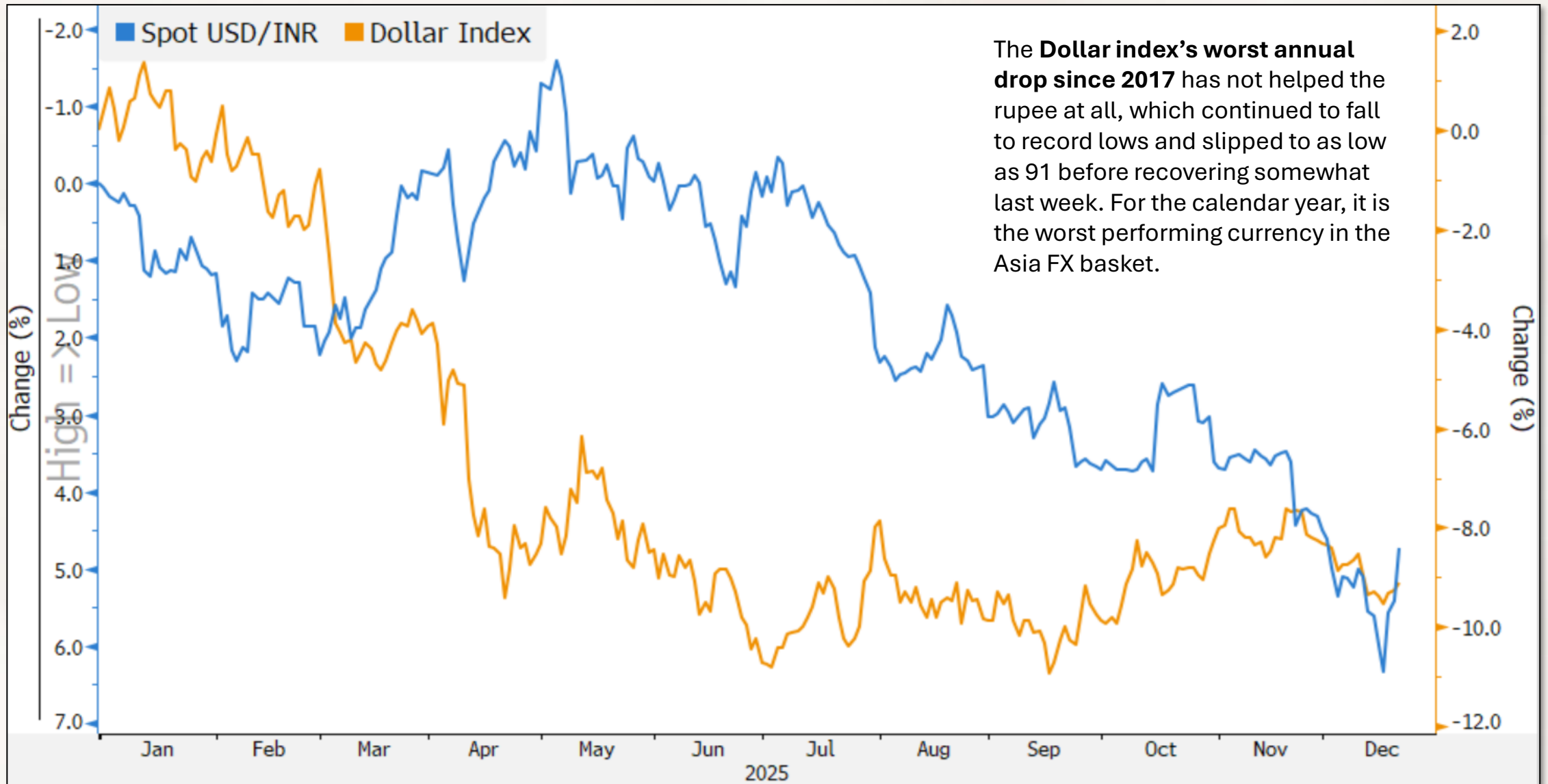


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# Trends to Monitor Closely

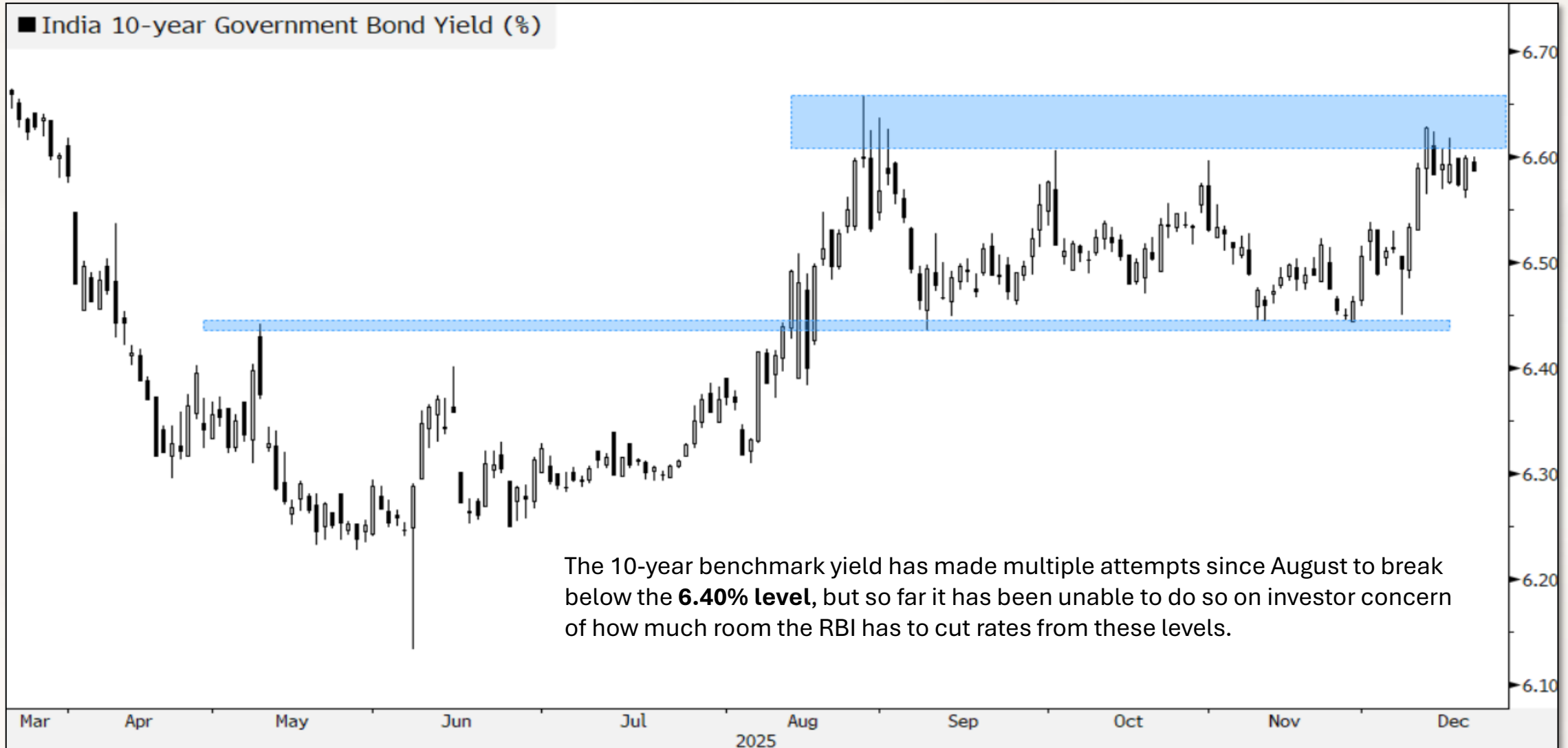
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# | The Rupee's Continuing Slide



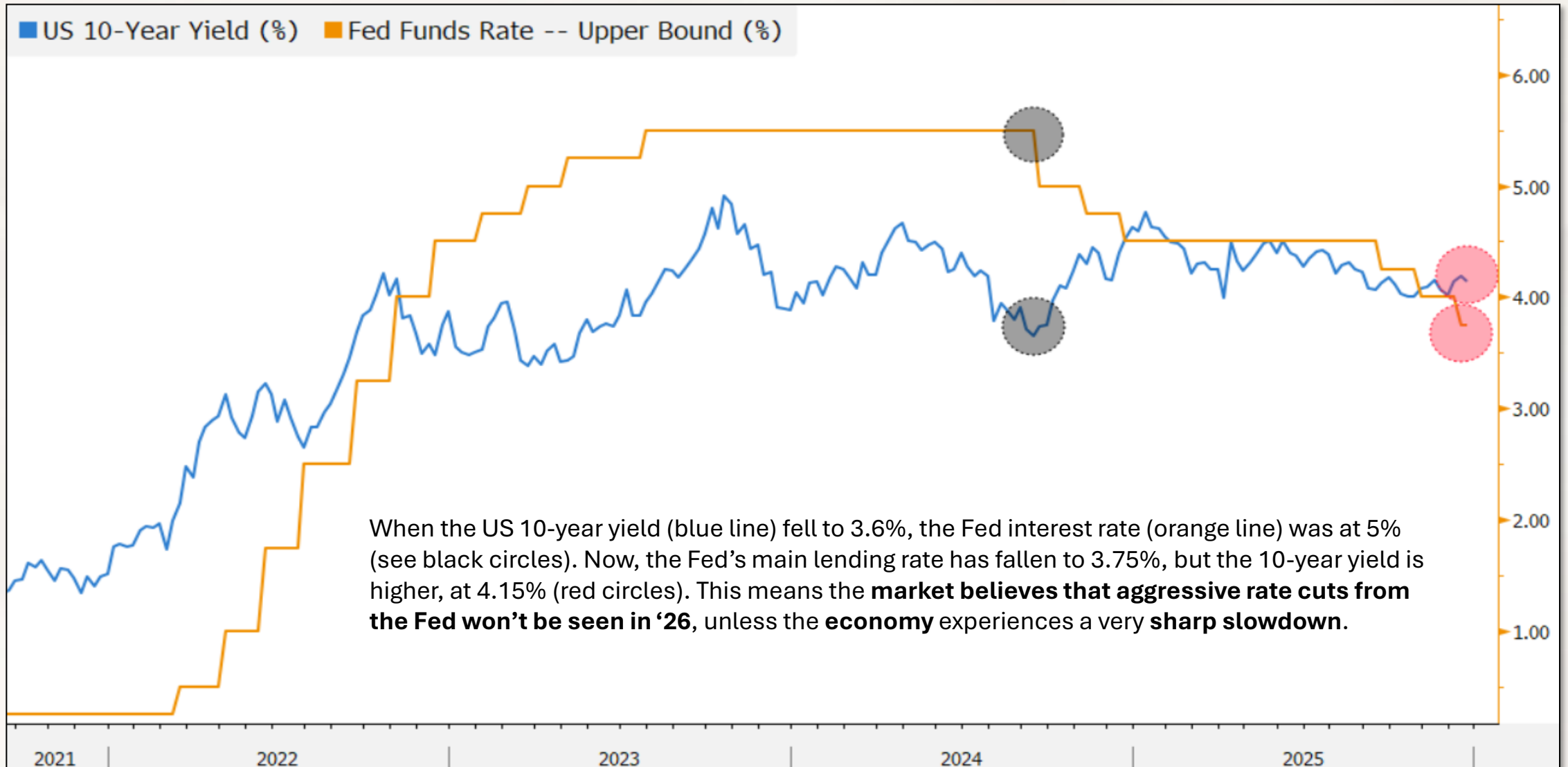
Source: Bloomberg, chart range covers the period from December 31, 2024, to December 1, 2025

# | India's Benchmark Bond Yield Refuses to go South



Source: Bloomberg, chart range covers the period from March 15, 2025, to December 18, 2025

# | US Yields Are Higher Despite Fed Cuts



Source: Bloomberg, chart range covers the period from September 2021 to December 2025

# | The Dollar Index is at 16-Year Support



Source: Bloomberg, monthly chart range covers the period from June 2008 to December 2025

# | Gold Silver Ratio May be Telling a Story



Source: Bloomberg, daily chart range covers the period from 31<sup>st</sup> December 2012 to 18<sup>th</sup> December 2025



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# Concluding Remarks

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# | 2026: Moving From Resilience to Diversification



In 2025, global financial markets moved through a **challenging but resilient** phase. Growth slowed in many regions due to trade tensions, geopolitical uncertainty and still-elevated interest rates, but most major economies avoided deep slowdowns. Equity markets, helped by easing inflation and expectations of rate cuts, generally delivered positive returns, with technology and AI-related themes continuing to attract strong investor interest. That said, forecasts from multilateral agencies suggest that **growth in '26 will only see a moderate uptick** as trade frictions and policy uncertainty persist in many regions.

Against this backdrop, India's stock markets held their ground. We saw heightened uncertainty around the end of March as President Trump announced **reciprocal tariffs**, and India was no exception. And still, as it almost always happens, the market formed a bottom when the news flow was very negative. Surprisingly, even though India subsequently went on to become the most tariffed Asian nation, the optimist investor had enough evidence that **quality stocks with earnings visibility** were available at a reasonable price. To quote Sir John Templeton, "The time of maximum pessimism is the best time to buy". At the April lows, helplessness was abundant and the news flow was anything but bullish. In other words, "maximum pessimism" was the predominant undertone, and stocks have showed incredible resilience as the Nifty climbed to a new record.

Looking ahead, global conditions are likely to be **mixed as the room for monetary policy to soften further and for fiscal conditions to expand are limited**, so **returns** may be more **balanced across regions and sectors** rather than driven by a narrow group of large technology stocks. For India, the outlook remains constructive, but policymakers will have to be cognizant of **global headwinds and domestic execution risks**.

Overall, 2025 reinforced two key lessons: **resilience** matters, and **diversification** across geographies, asset classes and sectors is essential. **As investors enter 2026, they need to remember that cycles are getting increasingly shorter and sharper. This means one needs to be adequately diversified across a range of asset classes with low correlations, to ensure that overall portfolio performance can ride out the volatility.**

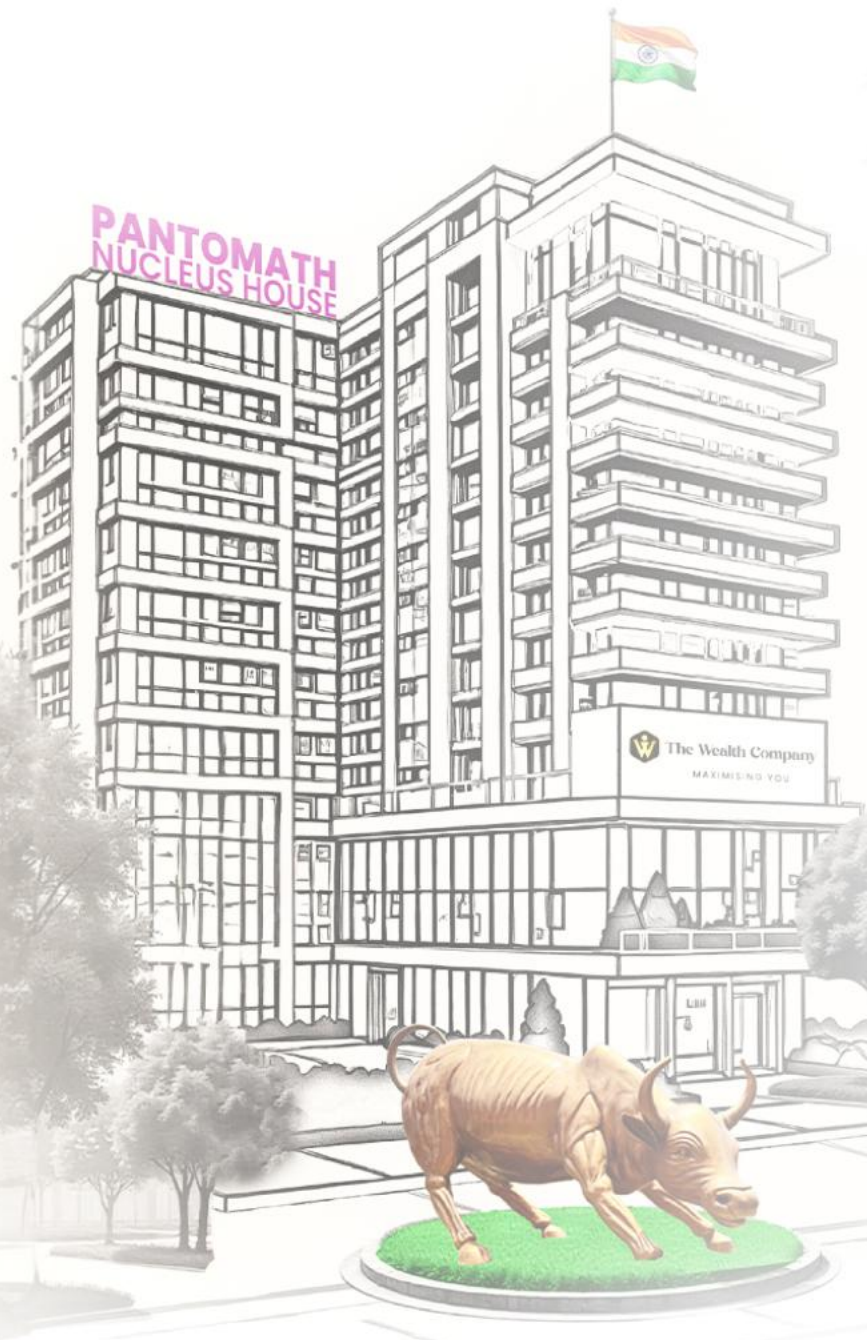
**In summary – diversification** across less correlated assets, **realistic return expectations** and an unhinged **focus on quality** will define 2026 and the performance of your investments.



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# Thank you

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