

# Markets in Transition : Our Perspective & Portfolio Approach

January 2026

## Staying The Course Through Market Volatility

- Cut the clutter, focus on the basics

**Recent global geo-political developments have threatened to uproot the rules-based international order that was taken for granted over the last several decades and have triggered sharp reactions from markets.** While it is difficult to pierce through these events and envisage the ultimate scenario, as market participants and investors, one is required to assess their implications and navigate portfolios through these volatile times.

Despite the elevated uncertainty, global markets have remained relatively unscathed – although, the nature of market movements reflects a barbell strategy with both risk assets (equities) and traditional safe havens (precious metals, currencies) rallying in tandem. **In this backdrop, the decline in Indian markets across equities, the INR and bond prices stand in sharp contrast.**

### Why are Indian equities in this situation?

After the earnings drought for 5-6 quarters, domestic equities were just about beginning to stabilise in Dec'25 with early signs and expectations of an economic recovery (as indicated by latest incoming data on auto demand, power consumption, credit growth, rail freight). **Even as this is underway, global investor sentiment (FPI) remains muted.** This is largely premised on the following factors

- 1. Elusive India-US trade agreement** - Although, US exports is a small contributor to GDP, the negative sentiment on this front has kept FPIs cutting their exposures to India consistently.
- 2. Negative sentiment reflected through higher FPI flows has led to a sharp fall in the INR**, especially in the last 2-3 months. Falling INR and FPI outflows have turned into a self-fulfilling loop
- 3. Alongside this, global GDP and corporate earnings growth have stayed resilient, especially in many other Emerging Market (Ems) economies. Valuations too are cheaper than India for many EMs. EM funds are thus running their lowest exposure to India in the last 7-years.** All through January when Indian markets slid, global equity and currency markets have fared well, reinforcing the FPI nervousness towards India.
- 4. Retail investor flows have thus been the primary driver for Indian equities through CY25 ( viz : Cumulative Equity MF inflows in CY25 stood at USD ~40B). But lately, the sharp rise in precious metals like Gold and Silver seems to have redirected retail equity flows attracted by the solid returns from these assets in CY25. The uncertain and volatile global geo-political situation and the resulting longer term positive outlook on precious metals have further aided the shift in flows.**
- 5. The early set of corporate results for 3QFY26 too has presented a mixed picture. While the recovery currently underway seems intact, the return to a strong earnings growth phase seems gradual.**

### Where do we go from here?

CY25 has been a year when Indian policymakers have loosened policy substantially – the Government cut direct taxes in February last and subsequently reduced GST rates for most consumers later in the year. **The RBI meanwhile cut policy rates by 125bp and pumped Rs. 14.5T of liquidity into the system**, even while encouraging banks to enhance credit and deregulating and easing credit conditions appreciably.

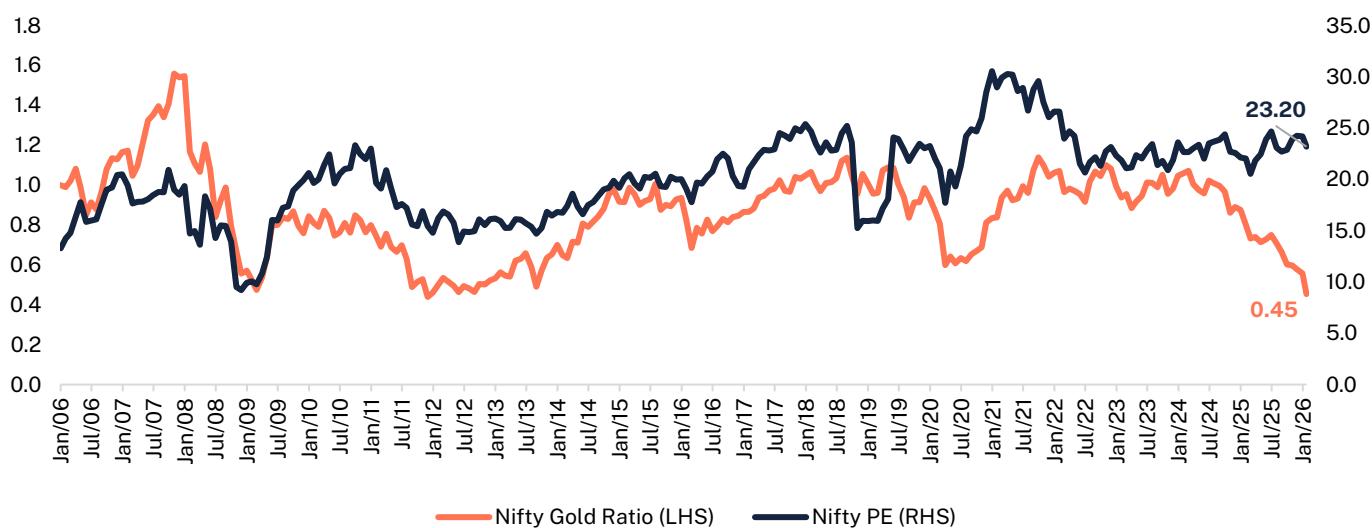
Encouragingly, high-frequency indicators have begun to show a meaningful recovery into December 2025. Trends across credit and deposit growth, industrial output, auto sales, port activity, fuel consumption, and consumer sentiment point to improving underlying momentum. **These early signs suggest that the combined policy measures of the Government and the RBI are starting to gain traction – as is typically the case, with a lag of a few quarters.**

Looking ahead, with inflation expected to remain low and stable (well within the policy comfort zone at ~3.5% in FY27) and crude oil prices likely to soften over CY26, policymakers are expected to retain a growth-supportive, reflationary stance. This should further strengthen the growth outlook through CY26.

Against this backdrop, corporate earnings growth is expected to recover to ~14-16% in FY27, while nominal GDP growth is projected to improve to ~10.5-11%, from ~8.5-9% in FY26. While the recovery remains nascent and uneven at this stage, it is expected to broaden and deepen over the course of the year.

From a valuations perspective, large-cap equities have turned reasonable (vis-à-vis their long term averages). In fact, relative to Gold, the Nifty is at similar to levels that prevailed in CY'13. **This calls for a relatively constructive view on equities vs. Gold.** Equities appear to be better placed even relative to fixed income going by the current earnings yield (on Nifty) vs the 10-year bond yield and their historic relationship.

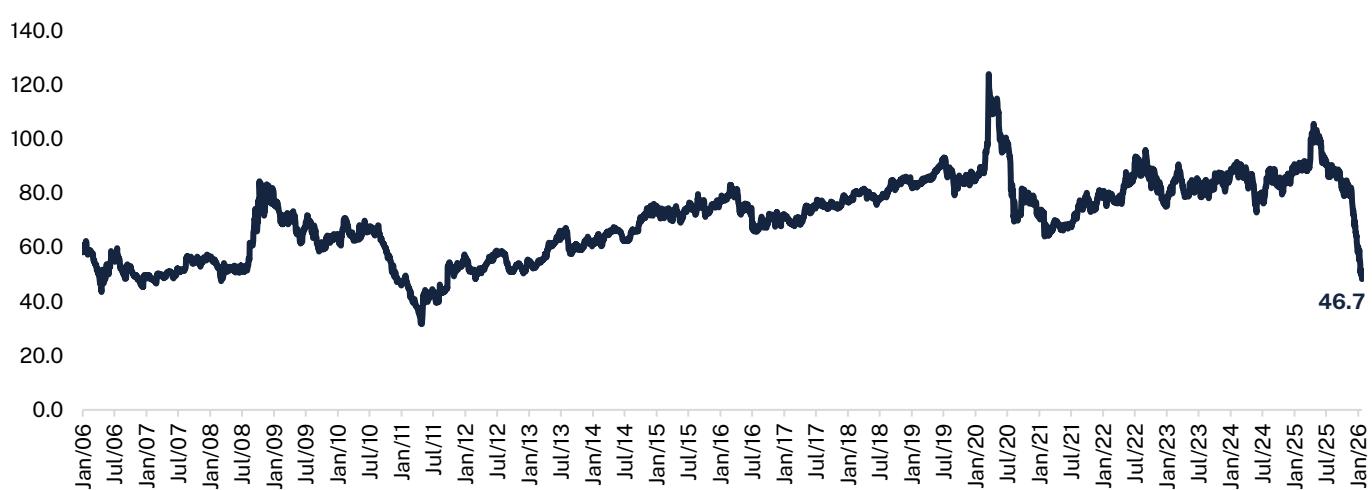
**Nifty Gold Ratio vs Nifty TTM PE (Source: Bloomberg; data as on 26<sup>th</sup> Jan 2026)**



**The broad message therefore is that with policymakers reflating the economy, nominal growth should improve as the cycle progresses over the next few quarters.** This, together with ongoing structural reforms, a lower rate environment, and the strong balance-sheet health of India Inc., should help sustain a healthy earnings recovery. All these factors, combined with resilient domestic liquidity support, the medium-term outlook for Indian equities remains constructive over a 3-5 year investment horizon. **This is aligned with Spark's Investment Guidance Committee (SIGC) view of maintaining mild overweight stance on equity allocation across the three risk profiles**

On precious metals, the parabolic rise of Gold and Silver does understandably raise the odds of a correction in the near-term. **Within this, Gold seems better placed if one were to go by the historical relationship between gold and silver prices** – the Gold/Silver ratio currently stands at 45 – 46, close to lower end of the 50 to 80 range seen over the long-term.

**Gold-Silver Ratio (Gold & Silver Spot rate per troy ounce in INR) (Source: Bloomberg; data as on 26<sup>th</sup> Jan 2026)**



## Building Resilient Portfolios in the Current Environment

**The objective in the current juncture is not to predict short-term market moves, but to construct portfolios that are resilient to near-term volatility**, capable of containing drawdowns, and positioned to participate meaningfully as global shocks dissipate. Accordingly, our approach is anchored around a central portfolio principle: diversification—across asset classes and within asset classes—combined with prudent, gradual deployment.

In this context, our portfolio strategy is anchored around three key pillars:

### 1) Diversification: Central to Risk Management and Superior Portfolio Outcomes

This is not an environment for narrow positioning or concentrated thematic bets. With elevated cross-asset correlations and an uncertain global transmission mechanism, **portfolio construction should seek to minimise binary outcomes** through diversification across multiple dimensions:

- **Across asset classes:** equities, fixed income, gold, and alternates (aligned to client suitability)
- **Within equities:** Across market capitalisation, investment styles, and complementary strategies—spanning listed equities as well as select unlisted / private equity exposures where appropriate
- **Within fixed income:** a mix of short-to-medium duration strategies, high-quality / performing credit (including real estate-backed exposures), and real-asset-oriented yield strategies such as REITs and InvITs
- **Precious Metals** : An allocation of ~5–8% to the gold–silver complex can play a useful role in portfolios as a hedge against financial market volatility and episodic risk-off phases. **This exposure also benefits from structural support from central bank demand, diversification away from fiat currencies, and the longer-term US dollar debasement theme**

Specifically, Spark PWM's Guidance Portfolios provide detailed allocation frameworks & granular details across risk profiles, offering practical guidance on diversification across asset classes, within equities, within fixed income, and precious metals.

Importantly, diversification in the current context is not being viewed as a defensive construct alone - it is the primary mechanism to capture opportunities across asset classes and styles as market leadership evolves.

### 2) Equity strategy diversification is a critical portfolio lever in the current market context

In macro-led selloffs (such as now) and in subsequent recoveries, typically sectoral leadership rotates quickly. Equity allocation should therefore avoid over-reliance on any single theme, segment, or narrative. Prefer maintaining a **balanced ownership across the three-bucket structure to balance earnings resilience, tactical opportunity capture, and cyclical participation**:

- **Compounders (Lower earnings volatility; higher visibility of growth)** (~25–30% of equity allocation) Strategies focused on businesses with durable franchises, stronger balance sheets, and relatively superior & steadier earnings visibility—aimed at providing stability to the equity portfolio through volatile phases.
- **Active Sector Rotation (Earnings momentum capture + valuation discipline)** (~55–60% of equity allocation) : Strategies designed to rotate dynamically towards sectors with improving earnings outlook over a 3–5 quarter horizon—typically positioning in advance of inflection points and nimbly booking profits as valuations re-rate. This bucket forms the core return engine of the portfolio in the current regime.
- **Cyclicals (Domestic economic recovery-linked participation)** (~15–20% of equity allocation) : Strategies aligned to the domestic economic recovery cycle. Given that the recovery is still evolving and near-term visibility remains uncertain, we recommend a measured allocation—ensuring participation without overexposure.
- From a market-cap perspective, while SIGC continues to maintain an overall large-cap tilt, calibrated exposure to large & midcap / multi-cap strategies can be considered. This will enable measured participation in selective mid-small-cap opportunities, particularly as valuation comfort has improved across these segments following the recent correction.

- **Emerging Market Equities:** In addition, we continue to favour select Emerging Market equity exposure (~7-10% of the equity allocation), where the earnings growth–valuation trade-off remains more favourable relative to India. Several EM markets (including China) are benefiting from resilient earnings momentum, supportive macro conditions, and comparatively attractive valuations, making them a useful diversification and return-enhancement lever within the overall equity portfolio construct.

### **3) Deploy capital via calibrated tranches within the above diversified framework**

Corrections of this nature are best navigated through staggered allocations – therefore,

- Phase investments across multiple tranches over the next 3 – 5 months
- Use volatility to improve average entry points
- Keep some dry-powder available for follow-on deployment

In summary, while near-term market action may remain volatile and headline-driven, **India's underlying setup continues to be supported by policy reflation, reforms, resilient domestic liquidity, and a gradually improving earnings runway.** The appropriate response is not to reduce participation or over-focus on single-point forecasts, but to strengthen portfolio construction — diversifying appropriately across asset classes and within asset classes, while deploying gradually and prudently.

With the Union Budget due in the next 4-days, incremental policy clarity could further reinforce confidence and provide a clearer glidepath for earnings recovery.

As the Canadian Prime Minister Mark Carney noted at Davos, “**Nostalgia is not a strategy**”—a reminder that markets are repricing to a changing global order, and portfolio outcomes will increasingly be driven by discipline, diversification, and calibrated risk-taking, rather than prediction. In this environment, diversification is not a preference — it is a prerequisite for staying invested through volatility and participating meaningfully as global shockwaves subside

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