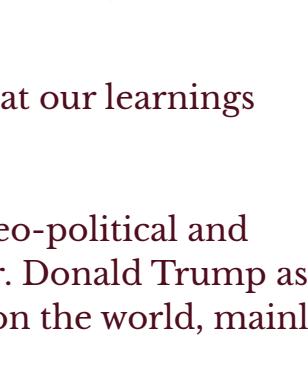




Investing in a Changing World Order and a Global Monetary Reset

A Note by our Chief Investment Officer



Dear Patrons,

At the very outset, let me wish you a very Happy New Year 2026. I hope that our learnings from 2025 help us become better investors in 2026 and beyond.

The year 2025 was marked by high volatility and a pivotal change in the geo-political and monetary landscape. It began with US 2024 elections, the comeback of Mr. Donald Trump as the 47th President of United States and the ensuing Tariff War unleashed on the world, mainly China.

History will look at the year 2025 as a year that marked the return of –

- 1. Protectionism (and the fall of globalization)** as countries scrambled to secure strategic resources viz energy and critical minerals
- 2. Inflation, the End of Free Money and “Higher for Longer” Nominal Interest Rates**
- 3. Fiscal Dominance over Monetary Policy** - to drive Nominal GDP Growth as it remains the only viable way out of the debt quagmire
- 4. Volatility and Macro Investing** – after an extended period of disinflation, low interest rates, easy liquidity and low volatility, the world faced rising commodity prices, high Inflation, tightening liquidity, higher yields, steep yield curves and high volatility, in 2025. This lays the foundation for return of Macro Investing after it was written off as “dead” for more than a decade since the Global Financial Crisis
- 5. Real Assets** – As governments (ex-China) go for fiscal expansion to re-industrialize, the anticipated bond supply coupled with high debt levels has forced them to cut rates and resort to Yield Curve Control to contain rising yields (financial repression) and weaken their currencies. Real Assets (Precious Metals, Commodities ex-Energy) ran up sharply, outperforming every other asset class, with Copper, Gold and Silver rising ~48%, ~70% and ~150% respectively, in 2025!
- 6. Emerging Markets** – Emerging Market equities underperformed World Equities by ~67% over 14 years (see pic 1 below) since 2010. In 2025, as commodities rose and sovereign balance sheets of emerging economies (commodity exporters) strengthened, EM currencies, bonds and equities have marked a turnaround.

2026 – key trends to watch out for

- 1. The Changing World Order and the Global Monetary Reset** – The present unipolar (US dominated) world order is changing with the rise of a more assertive China. We got a glimpse of the new G2 world order when the US backed down after China cut supply of rare earths. Will China (the 2nd largest economy in the world), remain as un-investable as it was deemed, in the new world order? The post-1971 fiat currency based monetary framework is unravelling as the global South (led by BRICS, mainly China) reinstates the Gold backed system, while the West adopts the Stable Coin backed digital currency system. This shift should be chaotic (as all monetary resets are) and lead to a repricing of precious metals like Gold and Silver, a trailer of which was seen in 2025, when Gold and Silver rose ~70% and ~150% respectively
- 2. End of US exceptionalism and the rise of Chinese Tech** – The Tech and AI led US exceptionalism faces a stiff challenge from Chinese open-source AI models - DeepSeek, Qwen. China is better placed to win the Tech and AI race with access to cheap energy (Solar), cheap Capital (bond yields lowest among major economies), undervalued currency, highly skilled and productive labor and the world's largest high-tech industrial infrastructure. China won't remain un-investable for long as the Chinese Government looks to channelize the large pool of household savings from bank deposits to domestic equities to help repair household balance sheets damaged by the Real Estate downturn. Chinese tech stocks remain considerably undervalued compared to their western counterparts, even after the rise since Sep 2024. Meanwhile, if China can successfully boost domestic consumption (watch the Yuan and Chinese bonds), this could broaden the equity rally. Dividend yields on Chinese blue-chip stocks are a full percentage point higher than the yield on 10-year Chinese Sovereign Bonds, providing a strong valuation backstop to Chinese equities.
- 3. Real Assets outperform Financial Assets** – Real Assets should continue to outperform Financial Assets in 2026. For Indian investors, apart from precious metals, REITs and InvITs have emerged as an excellent Alternative Investment opportunity with the potential to generate double digit returns and deliver a mix of tax efficient regular income and capital growth over the medium to long term. Indian Government and Regulators have pushed REITs and InvITs to get publicly listed and opened them for investments from Mutual Funds, Pension Funds and other institutions. Most Indian investors (including institutions) are massively under-invested in REITs and InvITs. As institutional and later retail capital flows in REITs and InvITs, having them early in your portfolio can lead to superior income and capital gains.
- 4. The AI Capex boom and the US Electrification theme** – As the US moves towards electric mobility and scrambles to build Data Centers and Re-industrialize at a record pace, availability of reliable power has become a key input (and a constraint) in its way. US power consumption is at an inflection point, with load growth accelerating over the next decade. The AI boom is driving unprecedented power consumption, with hyperscalers scrambling for energy solutions. US manufacturing revival is energy intensive creating new demand centers beyond AI and data centers. Neither the US grid nor the generation base are equipped to handle this changing demand profile. US power consumption demand is projected to grow at 4.3% over 2023-2030, driven mainly by Industrial and AI segments. On the contrary, US power generation has not grown over the last 2 decades with the mix shifting towards intermittent sources i.e. renewables. Even if they somehow add generation capacity, the transmission and distribution (T&D) infrastructure is woefully inadequate to transmit power to end-users. The US Power Grid is outdated with 40-year-old transformers and transmission constraints. Grid Interconnection queues have increased to 5 yrs while lead times for Power transformers, Distribution transformers, HV Cables and Switchgear have increased to over 3 yrs. Permitting for new T&D lines has resulted in massive delays for deployment at approx. 5+ years. As per some estimates, the US needs to up its T&D spend by 4 times (from \$50 bn to \$2 tn) over the next decade to meet the demand. Also, there is a massive need for energy storage and battery solutions to balance power supply and demand, as renewables grow. Businesses catering to this demand right across the energy supply chain (Generation, Transmission and Distribution) provide an extremely attractive investment opportunity.
- 5. Emerging markets (EM) outperform Developed markets** – Going ahead, lower fiscal deficits, lower debt, lower inflation, undervalued currencies and high real rates coupled with stronger balance sheets and a bull market in commodities should continue driving EM outperformance over Developed markets. The US Dollar needs to weaken significantly for US to reindustrialize. This should provide a strong tailwind for EM currencies, bonds and equities, in 2026 and beyond.

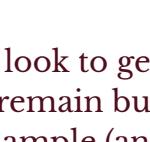
Apart from Chinese Tech, a very strong tailwind is shaping up for Latin American assets.

a. **Geo-politics:** As US sharpens its focus back on securing its own backyard i.e. the Americas (Fort Monroe doctrine 2.0 and the latest US Defense Policy) and tries to backstop Latin American economies (as it did with Argentina), the risk premiums of LatAm markets should narrow and drive re-rating of LatAm assets (currencies, bonds, equities in order)

b. **Rush for Commodities and Critical Minerals:** Most LatAm countries are net producers & exporters of commodities (Agri, metals - precious and industrial, critical minerals). An ongoing bull market in commodities can lead to a bull market in LatAm assets

c. **High Real Rates:** LatAm economies have the highest real rates in the world, making them extremely attractive for global investors

Together, these factors set the stage for a cyclical uptrend in LatAm currencies and bonds. A bull market in currency and bonds lays the foundation for a bull market in equities.



Key risks in 2026 –

A. Potential Unwinding of the Yen carry trade

The most common type of carry trade is borrowing in a low-yielding currency (such as Yen) and investing in a higher yielding asset (Emerging Market, US Assets). The pre-requisites for a sustained carry trade are stable currencies and low volatility in asset prices. Essentially carry trades are short volatility trades which thrive well in steady conditions. So, what happens when volatility surges and cost of capital rises? The carry trade unwinds!

The biggest carry trade of all has been the Japanese Yen Carry trade, driving asset prices across the world since the late 90's. With Japanese inflation and bond yields rising to multi decade highs, the Yen carry trade runs a serious risk of unwinding. If (as a BIG IF) the Japanese Government and Central Bank can muster the political will to tighten monetary policy and hike rates at the “required” pace. So far, they have lagged, hiking rates too less and too late, instead choosing to reflate the economy to manage debt, thereby keeping real interest rates negative. No wonder that the Yen keeps falling despite rising yields. A rise in Japanese bond market volatility coupled with a stronger Yen will be an early indicator of the unwinding, which if it happens (low to medium probability), could be bad news for global risk assets.

One can hedge against this risk to some extent by investing in Japanese Equities focused on REITs.

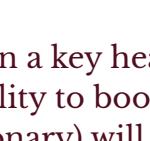
B. A Rise in Energy prices

The ongoing AI boom and re-industrialization (ex-China) needs huge amounts of energy. It is then a surprise that energy prices (Crude oil, Natural Gas, Coal, etc) have fallen 50-75% from their 2022 peaks and continue to stagnate. A spike in energy prices at this stage can be catastrophic for global growth (already reeling under supply chain disruption and high interest rates) impacting capex (AI, re-industrialization) and disrupting bond markets. For net energy importers like India which also faces an exodus of foreign investors and a pressure on currency, this could significantly worsen the twin deficits.

Ironically, Energy remains the most ignored sector in the US and beyond, driven by sustained weakness in Crude oil, Natural Gas and Coal, primarily on oversupply concerns. And this brings us to a potential contrarian trade that can act as an effective hedge against higher energy prices too.

Despite weakness in energy prices, energy stocks have stopped falling. It could be due to anticipation of higher demand (from AI and re-industrialization), or potential supply disruptions in an uncertain geo-political backdrop or due to energy companies generating decent cash flows even at these prices, due to massive cuts in capex.

When stocks stop falling on bad news (lower energy prices in this case), it is generally a sign of change in trend. In terms of valuations, world energy stocks (MSCI World Energy) are available at a bargain, trading at 1.5 to 2.0 times Price to Book vs a Price to Book of 4.0 for MSCI World Index. In US, energy stocks now account for less than 3% of the S&P 500 in terms of market cap. World Energy stocks thus remain one of the best contrarian bets and portfolio hedge at present.



The Global Indian Investor

Indian investors have historically exhibited a strong home bias with over 98% of savings invested domestically compared to 27% for US investors and 50% for UK investors. Though this trend has started changing (overseas financial assets crossed \$1 trillion in 2024-25), it is still short of an ideal allocation (approx. 10-20% of total wealth for MNIs and 25-40% for HNIs / Family Investors). The Liberalized Remittance Scheme (LRS) and the rise of Family Offices in global financial centers (Dubai, Singapore) have been key enablers of this shift with LRS outflows reaching \$ 29.6 billion in 2024-25, of which only a small fraction is currently overvalued US Tech Stocks.

The Indian investor's obsession with domestic equities, thanks to the countless missionaries and a 5-year bull run, has led to a complete apathy towards overseas markets and other asset classes like Real Assets. Most of us failed to notice that Nifty 50 index is flat (in INR terms) and is down ~8% in USD terms since Sep 2024. In the same period, MSCI World Stock Index (ACWI) is up 20%. MSCI Emerging Equities (EEM) ETF is up ~19%, Chinese stocks are up ~50%, Japanese stocks are up ~30%, Brazil stocks are up ~25% and S&P 500 is up ~21%. In the same period, Gold is up ~70%, Silver is up ~14%, Copper is up ~25% and VanEck Real Assets ETF (proxy for global Real Assets) is up ~26%. Imagine missing out on these opportunities when Indian equities fell ~8% in USD terms!

Time has come for Indian investors to go Global, build overseas portfolios and look to get US Dollar returns. This does not mean we are bearish on India's growth potential. It is just that we believe there are ample (and probably better) opportunities overseas and that there are ways to play the India growth story other than through relatively expensive domestic equities suffering from a supply glut (spate of IPOs and heavy promoter selling) and weak growth.

Slowing nominal growth (8.7% in Q2FY26) and record promoter selling has been a key headwind to equity upside. The key to Indian equities getting back their mojo lies in their ability to boost nominal GDP growth back to the 12%+ mark. An acceleration in nominal growth (reflationary) will provide a strong tailwind to Real Assets like REITs, InvITs and Commodities (precious and industrial metals) too. Most of us are seriously under invested in these assets. There is a pressing need to rebalance our portfolios (at least partly) out of financial assets (Equities, Bonds) and move to Real Assets (REITs, InvITs and Precious Metals). REITs and InvITs provide an excellent alternative to Fixed Income due to their dual advantage of providing stable, tax efficient regular cash flows over medium to long term, as well as potential capital appreciation.

For an Indian investor, the investment experience in 2026 will be shaped by her ability to broaden the horizon and shift focus from purely domestic financial assets to - 1. Real Assets and 2. Global Markets - and effective management of the illiquidity risk that has crept into portfolios by way of over exposure to Private Equity and Private Credit.