

Sohum India Opportunities Fund: Investor Update Newsletter, December 2025

The global economy in 2025 was shaped by persistent conflict – both kinetic and commercial. Apart from protracted conflicts in Eastern Europe and the Middle East, we saw new skirmishes in the Indo-Pacific underscoring shifting power dynamics in Asia. Yet, equally consequential were the non-violent wars waged through tariffs, sanctions, and supply-chain manoeuvres. The U.S.-China trade rivalry expanded into technology restrictions, rare-earth exports, and semiconductor dominance, forcing smaller economies to recalibrate strategies for access and autonomy. In effect, 2025 marked a structural shift from globalization to “strategic fragmentation”—a multipolar order defined less by free trade and more by military power, resource control, and regional alliances.

Amid this turbulence, the AI boom emerged as both a technological revolution and an economic pivot. Generative and agentic AI transformed industries—from software and finance to manufacturing and healthcare—fuelling a wave of capital expenditure unseen since the early internet era. Nations treated AI capability as a matter of national security, sparking a parallel race for computing power, data access, and talent.

The above two trends dictated the winners and losers of 2025. Geopolitical uncertainty meant that precious metals were the best performing asset class in 2025. Similarly, European equities had a stellar year led by increased fiscal spending on defence and infrastructure in lieu of EU initiatives for strategic autonomy amidst the Russia-Ukraine war. On the other hand, from China’s DeepSeek to South Korea’s memory chips, Asia proved itself to be a key player in the AI race. The excitement over China’s rapid catchup in AI capabilities saw Chinese tech stocks shine in 2025 – as the country developed its own AI eco-system in response to trade restrictions, making it less dependent on the West. Similarly, markets backed by a critical position in the semiconductor supply chain like South Korea and Taiwan proved to be some of the best performing market globally in 2025. Coming to the US, it has been years since the US stock market has rested on one central idea and AI is without doubt that. The chart below highlights how the US stock market has become more concentrated than at any time in history tracking data going back to 1926. The top 10% of US stocks now account for a record 78% of US stock market capitalization. This compares with the previous peak of 75% reached back in 1932 and the 2000 high of 73%.

Exhibit 1: US stock market concentration



Source: Jefferies

Unfortunately, the biggest loser of trade wars and AI turned out to be India with 2025 proving to be the weakest year for Indian equities in the last 3 decades, relative to EM. As India got slapped with the highest tariff rates, the Indian rupee was also the biggest underperformer among Asian currencies, down ~4.7% against the USD (Exhibit 2), its worst annual drop in three years. This was exacerbated by foreign outflows of US\$19bn, the largest annual \$ selling since 2001. We also saw record equity supply (primary and secondary issuances) hit the market at US\$61bn, with record amount of IPO listings worth US\$18bn. As such, India was also seen as an “Anti-AI” trade due to its low leverage to global semi-conductor supply chain. Also, with the Indian tech sector (large IT outsourcing companies) seen as vulnerable to AI generated software, it gave rise to fears of urban job losses.

While 2025 turned out to be a mediocre year for Indian markets (Nifty returned 10.5% with broader markets under-performing: the Nifty Smallcap 250 fell by 5.6% while the Midcap 100 rose 5.7%), we expect better days ahead. Firstly, after hitting a multi-decade low of 8.7% in Q2FY26, we expect nominal GDP growth to revert to 10%+ trend growth path in FY27. The increase in nominal GDP should support double digit earnings growth in FY27 after two consecutive years of single digit growth. Growth was constrained in the early part of 2025 through the lag effect of restrictive monetary policy and the fiscal consolidation of the central govt. During 2025, the RBI has done substantial easing with 125bps of repo rate cuts and relaxation of the lending rules. Moreover, overnight liquidity in the banking system has remained largely in surplus since end-Mar'25, reversing the deficit seen in the first three months of the year. This has been possible due to a series of RBI liquidity infusion measures like OMO's, USD-INR swap and long-term VRR operations. Additionally, RBI cut the Cash Reserve Ratio (CRR) by 50 bps in Dec'24 and by another 100 bps in CY25 in four phases, together releasing about INR3.7 trn. Going ahead, we see scope for one more rate cut by the RBI and expect liquidity to remain in surplus mode.

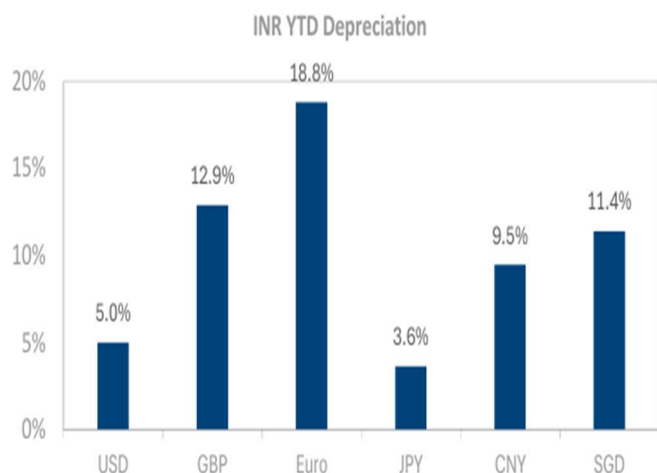
The central govt. has also reduced the pace of fiscal deficit reduction to 40bps in FY26, and we expect this to decline to 10bps next year. The government employee's salary sees a reset higher once in a decade, and the next one is due 1st Jan26. The estimated impact of hikes on GDP is about 0.7-0.8% of GDP and thus have a meaningful impact on the fiscal and consumption dynamics. Procedural delays imply that the salary revisions will fully take effect in FY28, though there may be an interim measure in FY27 budget as well, as govt. looks to spread out the fiscal hit. Historically, pay commission awards have provided a strong boost to real incomes and discretionary spending. Overall, the combined impact of monetary and fiscal easing is likely to support growth in FY27.

Secondly, we believe that the worst of the INR depreciation is behind us. The extent of recent INR depreciation has not been concomitant with the macro fundamentals – softness in the US dollar, robust growth, subdued inflation and manageable CAD despite the tariff shock. Despite US tariffs, India's CAD is expected to remain in the 1%-1.3% range as higher trade deficit gets offset by fast rising service exports driven by GCCs. However, what has impacted INR is 1) the absence of positive sentiments on the India-US trade deal and 2) weak capital flows which has not been sufficient to finance even a modest CAD, resulting in a BOP deficit. While timing of the trade deal is difficult to forecast, we expect 2026 to be a better year for capital flows. We have recently seen a slew of FDI deals in the finance sector (Shriram-MUFG, RBL-ENBD, Yes Bank – Sumitomo, Blackstone-Federal bank, Warburg Pincus-IDFC First) as well as announcements of large-scale AI investments by the hyperscalers, which suggests sentiment is improving at the margin. We also note that FPI ownership of BSE500 is now close to decadal low of 19%. Further, on a REER basis the INR looks undervalued now (Exhibit 3). All the above suggests that the worst of INR depreciation is now behind us.

Overall, with a higher nominal GDP growth and a more stable currency, we believe that Indian equities look set to deliver healthy low to mid double digit returns on an aggregate basis. We are working with NIFTY EPS of Rs.1100/Rs.1270/Rs.1450 for FY26/FY27/FY28 respectively, which implies growth of 9%/15%/14%. The market is thus trading at ~20.5x one-year forward earnings which is broadly in line

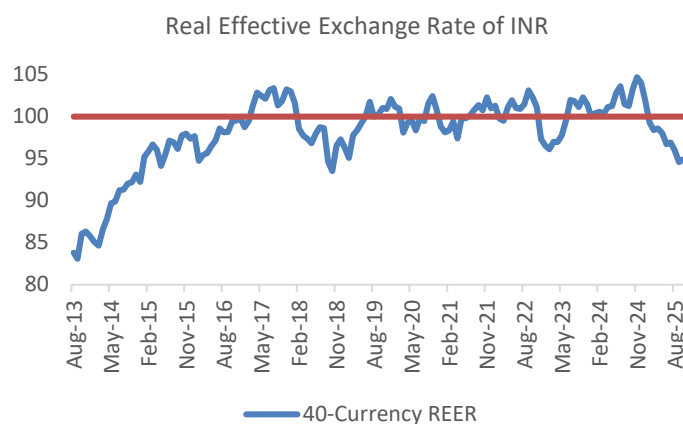
with its large five-year average. Despite the consolidation, markets are by no means cheap but confidence on 15% FY27 earnings growth should support market sentiments, in our view.

Exhibit 2: INR has depreciated sharply against most major currencies in 2025.....



Source: Bloomberg

.....Exhibit 3: And now looks undervalued on a REER basis



Source: RBI

Portfolio Composition & Performance

Nifty earnings growth is projected at 15% in FY27, after 2-years of sub-10% growth. Most of the earnings swing is likely to come from Autos, Banks, Power and Consumer; where low base and policy support are expected to drive an uptick. In our portfolio, we are overweight lenders (credit growth uptick, lower earnings base), Autos (GST cut beneficiary), Telecom (best mass consumption proxy, tariff hikes), metals (global commodity rally), power and utilities (AI led energy demand, weather disruption in base), Insurance (GST cut beneficiary) and capital goods. Our key underweights are IT (demand challenges) and staples (high valuations and modest growth).

In 2025, India's Nifty Banks was up 16% YoY, vs. 10.5% for Nifty. Lenders (banks and NBFCs) look set to outperform again in 2026 after a strong 2025. When we look at previous global easing cycles (2001 and 2008), banks were spectacular outperformers, in the US as well as in India (large rate cycles are usually globally synchronous). This should partly explain why lenders were superstar performers in India in 2025, and 2026 should see more of this. Bank credit growth has improved from 10% to 11-12% in past 3 months. We also believe that normalization of inflation (from near 0% now to target of 4%) as well as stability in bond-loan market share will aid credit growth. We expect bank credit growth to improve towards 12-13% in FY27. Deposit growth will likely be similar & with RBI staying constructive on liquidity & LDR, banks will have access to funds to service credit demand. The worst of NIM compression is over for banks and we should see topline growth tracking higher than credit growth in FY27. Moreover, credit quality indicators have been improving & we could see positive earnings surprise coming. Valuations for the sector are at long-term average levels which provides comfort.

Auto sector has been among the best performers over the years – we continue to remain constructive on auto demand amid tailwinds from GST cut, easing liquidity and upcoming govt wage hikes. We expect 2026 to be another strong year for the metals and mining sector as the fundamental setup for many commodities remains positive. Supply constraints in key commodities (copper, aluminium) combined with resilient demand (grid capex to meet AI led energy demand) should keep base metal prices elevated. Also, the reinstatement of safeguard duty should lift Indian steel prices and commissioning of new capacities by key steel players provides visibility on volume growth.

Power sector stocks underperformed in CY25 as weak demand trends since Aug 2024 continued vs. recovery expectations. Extended monsoons impacting residential cooling demand and irrigation/pumping usage in agriculture, along with weak industrial activity, kept power demand flat YoY in Apr-Nov 2025. We believe that demand should see a recovery in 2026 amidst normalised weather and industrial activity environment. Structural demand drivers for the sector continues to remain strong amidst data centre capex and EV transition.

We continue to remain underweight on IT. During 2025, a combination of very rich valuations (large cap multiples in the 27-28x range), AI-led uncertainty, tariffs by Trump, non-tariff kerfuffle's like H1B all combined to cause a massive underperformance by Indian IT. We believe discretionary spend will remain subdued in FY27 as well. While deal bookings are healthy, a sharp growth pick-up in FY27 is unlikely due to rising asks for AI-led productivity benefits, longer deal durations and deflation in application service revenues. Margins should remain range bound due to pricing pressures and AI-led impact on higher margin revenue streams.

Performance Table of Sohum India Opportunities Fund (AIF)

	Nifty 50 TRI	Pre Tax NAV* (SIOF)	Outperformance
Since Inception (20/05/2022)	67.90%	100.66%	32.75%
Since Inception CAGR	15.38%	21.2%	5.82%

**Sohum India Opportunities Fund Pre-tax post fee NAV for direct option (average large cap holding of 77%). Data as of 31st December 2025*

Overall, ***our portfolio companies across all segments large, mid and small cap are well poised to deliver industry-leading earnings growth (Portfolio companies' earnings growth at 15.6% over FY25-27, with PE of 17.2x on FY26 & 14.3x on FY27 at 26,130 Nifty and ROE at 17.6%) and we anticipate the same to translate into benchmark outperformance in the near to medium term.*** We continue to be steadfast in our approach that is grounded in reality and conservatism. We are truly thankful to all our investors who have stayed with us and backed us in our journey. Our long-term focus, disciplined approach and complete alignment of interests provides resilience to this partnership. We believe this is just the start and we remain excited about the opportunities in the coming years with focus on delivering superior value and performance to our unit holders.

We wish all our readers a very Happy New Year!

Warm Regards,

Sanjay H Parekh