

# Monthly Letter

January 2026



*Invest well. Celebrate life.*

We were -1.4% in December vs -0.3% for the NIFTY50 TRI. December was a tough month for our market, with FPIs keeping the foot on the selling pedal. Although high-frequency economic indicators for November and December continue to signal robust domestic momentum, FPIs evidently see more attractive risk-reward opportunities overseas, resulting in persistent outflows. The month also witnessed a heavy pipeline of IPOs. While the quality of these offerings has been high, a large share comprised exits by foreign private equity investors—another indication of the desire to repatriate gains. The weakness in our currency is thus more a result of this capital outflow than the current account deficit, which notwithstanding the unconscionable US trade tariffs, is still within control at about 1.5% of GDP. This month also has the additional disadvantage where participation falls dramatically, as the global holiday season takes effect, and prices move on thin volumes.

| Returns*                   | Prodigy Growth Strategy | NIFTY 50 TRI |
|----------------------------|-------------------------|--------------|
| 1 Year                     | -9.4%                   | 11.9%        |
| 3 Years                    | 23.9%                   | 14.3%        |
| 5 Years                    | 21.1%                   | 14.7%        |
| Since Inception (1-Mar-12) | 22.8%                   | 13.5%        |

\*Figures are annualised, are as of 31<sup>st</sup> December 2025, and are not verified by SEBI. The portfolio returns are post-fixed and performance fees. In line with SEBI guidelines, all the portfolio and benchmark returns are calculated using the TWRR method.

The initial signs of 2026 point to more of the same issues holding down our market, viz, significant IPOs (a pipeline of Rs 1.25 trillion already in the wings, accentuated by the expiry of lock-ins from the numerous and very sizeable 2025 issues) and incessant promoter and FPI selling (indicating that they still believe valuations are elevated). However, we believe that the worst in terms of market performance is behind us. We say this because the positive undercurrents for our market have been building up throughout 2025, which are the significant reforms (income tax cuts, GST cuts, new labour codes and more), strong monsoons, robust rural demand, benign inflation, interest rate cutting cycle, and a rationalization of excess valuations coming in from 2024. We are also in a supportive regulatory environment wherein the RBI is pushing liquidity into the system and is focused on boosting credit growth. We see a shift in the market internals too in December. The advance-decline ratio, which was dramatically negative, has started stabilizing at more realistic levels. The Index of Industrial Production for November has also come in at a multi-year high on the back of the GST cuts and reviving demand. Automobile sales numbers also remain robust post-festive season, and thus, there are many reasons to be optimistic. We see a revival in earnings growth for corporate India in 2026, arising from the above factors, which should establish a floor for our market, at the very least. The upside could come from a lifting of selling pressure by the FPIs and the US trade deal. The significant depreciation of the INR of 5%+ to the USD in 2025, has made India look even cheaper in dollar terms, especially for those entities that do not have any India exposure to date.

The brunt of the US tariff of 50% has also been in the system for many months now, and we have learnt to live with it, however challenging it has been. The much-awaited trade deal with the US, which has become like

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waiting for Godot, should hopefully happen sometime in the coming quarter. India will come out stronger from this experience and more resilient. In hindsight, it will have been an inflection point in our economic history, one that catalyzed long-pending reforms, setting us up for the next growth phase. India can turn it into an opportunity with near-term pain paving the way for long-term gain.

The significant outperformance of other Asian markets in 2025 relative to ours is truly surprising. This is the worst case of underperformance by India relative to its Asian peers in the last 27 years! South Korea gained 76% in 2025 and is expected to gain another 20% in 2026 as per large research houses. Other markets in Asia gained around 25% in 2025, versus year-to-date performance of NIFTY50 TRI gain of around 11.9% (the broad market was down substantially in 2025 with small caps down 7%). This relative underperformance, compounded by significant rupee depreciation, has become a negative spiral, driving FPIs away to greener pastures. India is being viewed as an anti-AI play or an AI-hedge. If the AI trade globally is to weaken, then funds are expected to return to India; given our supposed software services leadership, we can only view this potential positive through a prism of disappointment. As the FPI proportion of our market has dwindled over the past five years and is now at a decadal low of ~16% (significantly lower than many other emerging markets), their influence on our market is continuously reducing. So long as domestic SIPs in India hold up in 2026, we believe that the Goldilocks Economy India currently is in (High Growth – Low Inflation), should finally shine through.

We see compelling opportunities in new-age businesses, which now form a meaningful proportion of our holdings. These companies are leveraging digital infrastructure to challenge and disrupt legacy models. To us, this is the best part of the continuous flow of IPOs, as they bring to us these hitherto inaccessible opportunities. In this multipolar world, geopolitical risks always remain as dark clouds on the horizon, yet we have more than enough reasons to remain steadfastly positive on Indian equities, and we believe 2026 should be better than 2025. This is the time to be constructive on our market. The darkest hour is before dawn.

Thank you for your belief in us through tough times. Happy New Year!

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