When patterns break, new world emerges **18th June 2026**

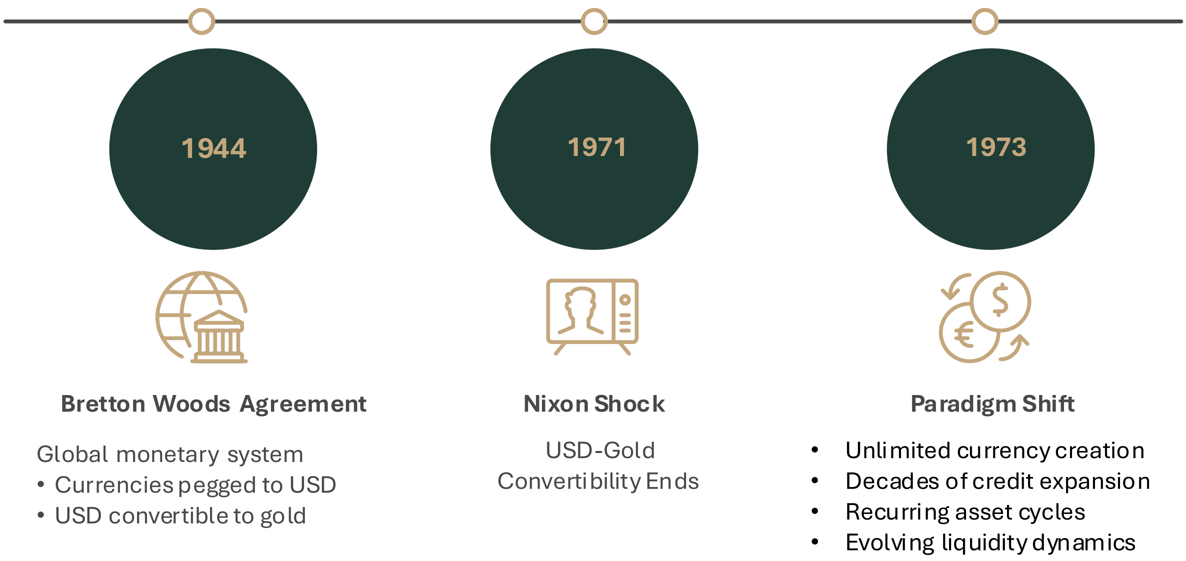
Since 2018-19 we have held on to our conviction that the world, and India within it, is moving through a **'paradigm shift'.** Wherein, long standing economic models, assumptions, behaviours, and market structures eventually **either collapse under their own weight or are broken by external shocks.** The break is rarely gentle – it typically arrives as a crisis, followed by a new regime, and that regime in turn **creates new technology, institutions, and investment opportunities.**

The framework owes much to, Ray Dalio's **Principles for Dealing with the Changing World Order,** which we have used as a lens to read both global and domestic cycles. Dalio's central observation is simple but uncomfortable, **the patterns that feel permanent** – a reserve currency, a dominant sector, 'safe' asset, **are in fact stages in a very long cycle,** built on extrapolation sustained by debt, habit, and **they break**.

How patterns break – Reference to Anecdotes

We refer to historical anecdotes to draw parallels, because we believe, "History doesn't repeat itself, but it does often rhyme"

I. The collapse of Bretton Woods and Nixon Shock (1944-73):



This is a textbook case of a fixed system that ignored its own imbalances, broke, and of the large new large order that replaced it.

II. Japan's Asset Bubble and 'Lost Decades' (1985-90 & 1990-2024)

- Through 1970-80s Japan became the second largest economy. In 1985 the Plaza Accord pushed the Yen sharply higher, the BOJ eased rates to cushion exporters (large part of the economy). Cheap abundant credit flooded, valuations detached from earnings reality. Japanese equities traded at astronomical valuations.

- Nikkei peaked on 29th December 1989, then the imbalance corrected, the central bank tightened, equities and property prices collapsed. The Nikkei lost ~80% of its value in the following years. It took 35 years (until 2024) for Nikkei to finally surpass its 1989 high.

The lesson: "Extrapolating a long-term boom is itself a risk". Thinking 'this time it is different' prevents investors from exercising agility and positioning portfolios as per changing paradigms.

India's Pivotal Moments

Year	Shift	What broke and what was created
1991	**Liberalisation**	Three decades of growth launched by ▸ Opened to private participation ▸ Global trade opened ▸ The rupee was devalued and ▸ Private enterprise was unshackled
2003	**The infra / capex push**	Roads, power and the Golden Quadrilateral kicked off a hard-asset and capex cycle that powered the 2003–2007 bull market.
2016	**Digitalisation pivot**	Demonetisation, the JAM trinity and UPI accelerated formalisation and a digital-payments revolution that reshaped consumption, credit and the new-age economy.
2020 onwards	**Geo-political Volatility and changing market construct**	We have navigated through a phase of uncertainty and disruption across board, some key pointers that we mention are ▸ Nifty 500 of 2030 significantly different from 2020 ▸ Cyclical sectors (infra, metals, commodities, PSUs) - Mainstream ▸ Focus on central government actions over central bank.

Pravia's Actions –

We have been iterating through our notes, that the construct of the market is changing, the key is to **identify emerging patterns and act on them with agility** by analysing and adapting to them.

At Pravia, we believe asset allocation is not just for diversification but also for risk management, our broad actions in the last 6 months reflect our stance and we continue to act with agility.

Jan 2026 - Gold and Silver Trimmed

We changed our over-weight allocation on Gold and Silver across portfolios

Jan 2026 - Energy & Metals as an allocation

We took an exposure through ETFs and active funds

March 2026 - Smallcap Index & Rare Earths

We turned positive on the smallcap universe through index and active funds

May 2026 - Banking Sector & REITs

Tactically entered Nifty Bank index, due to favourable valuations, along with REIT exposure

June 2026- Digital Allocation

Tactical exposure due to favourable valuation in IT & growth in new-age

In this note, we argue that there are visible signs of patterns breaking, giving new opportunities. We examine the change in the following patterns, along with domestic and global data.

- Pattern 1 – Defensives are **'safe'**
- Pattern 2 – Cyclicals carry a **'high risk'**
- Pattern 3 – Large caps are **'less volatile'**
- Pattern 4 – New Age/New Businesses **'are un-investible'**
- Pattern 5 – Debt has **'lower volatility'** than equities
- Pattern 6 – Gold **'performs well'** in times of crises
- Pattern 7 – Central Banks '**control the money supply**'

Pattern 1 – Defensives are safe

The conventional classification bundles FMCG, pharma, and IT into the **'defensive bucket'**. The 2022–2025 cycle demolished this myth. Inflation, rural demand slowdown, and AI-driven displacement hit these sectors with full force, leaving them significantly more volatile than the broader market.

Index	2021	2022	2023	2024	2025	YTD 2026
Nifty Pharma TRI	10.88	-10.73	34.76	40.03	-2.25	7.25
Nifty IT TRI	62.35	-24.46	26.30	24.42	-10.44	-23.94
Nifty FMCG	12.37	20.08	30.78	1.55	-0.43	-12.47
NIFTY 500 - TRI	**31.60**	**4.25**	**26.91**	**16.24**	**7.76**	**-6.00**

Source – Morningstar Direct, Data as on 10th June 2026

Rural markets (35-45% of FMCG sales) stagnated under inflation and poor harvests. HUL and Nestle traded at 50-60x PE with single-digit volume growth – **'became more cyclical'**. Meanwhile, the Nifty IT index lost ~35% from its December 2024 peak as AI enterprise models threatened to displace Indian IT's highest-value work, a sector labelled 'defensive' for over two decades.

Pravia Insight – 'Defensive' is a perception, and can differ from reality. FMCG and IT are cyclically exposed to volume destruction and tech disruption respectively. Pravia believes in setting the context before looking at the backdrop and then defining the course of action**. E.g. we positioned Energy as the new FMCG in the current market construct.**

Pattern 2 – Cyclicals carry a High Risk

Perception - "Cyclical sectors (capital goods, commodities, PSUs) are boom-bust traps to avoid". Reality – Given the inflationary scenario, higher yields, geopolitical uncertainty, energy transition, infrastructure build-out, indigenisation, etc. cyclicals such as commodities, energy utilities, infrastructure plays, etc. have turned structurally positive *(the same is reflected in numbers)*.

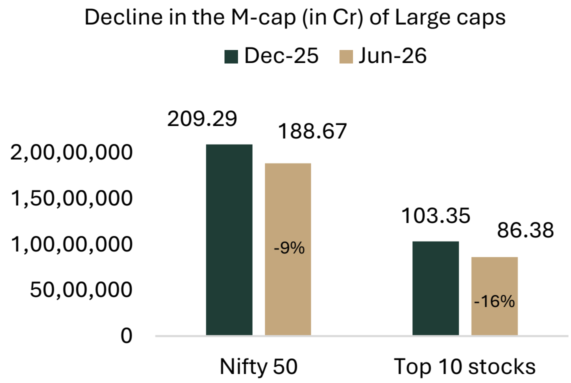
Index	2021	2022	2023	2024	2025	YTD 2026
Nifty Metal TRI	73.43	25.33	19.12	9.25	29.90	16.71
Nifty Energy TRI	38.38	16.48	30.58	6.50	1.84	13.03
Nifty Commodities TRI	49.79	8.67	30.65	6.11	18.42	5.18
Nifty Infra TRI	37.77	7.49	40.08	16.79	14.64	-4.82
Nifty Defence TRI	60.93	66.80	45.62	105.38	19.98	18.23
NIFTY 500 - TRI	**31.60**	**4.25**	**26.91**	**16.24**	**7.76**	**-6.00**

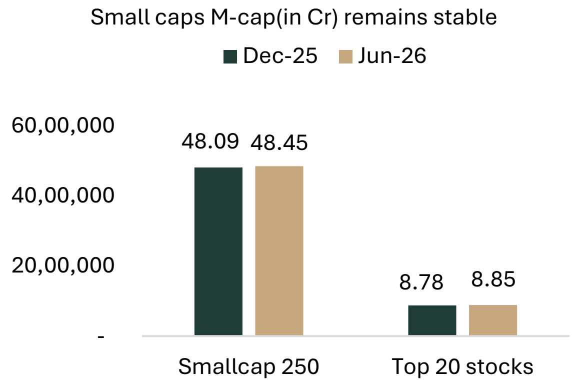
Source – Morningstar Direct, Data as on 10th June 2026

Pravia Insight – The returns delivered in the last 5 years indicate a paradigm shift in the market structure of India. We acknowledge the risk cyclicals carry. However, in the current market construct, one needs to have agility to manage the risk associated with them, and the biggest risk currently is not owning them at all.

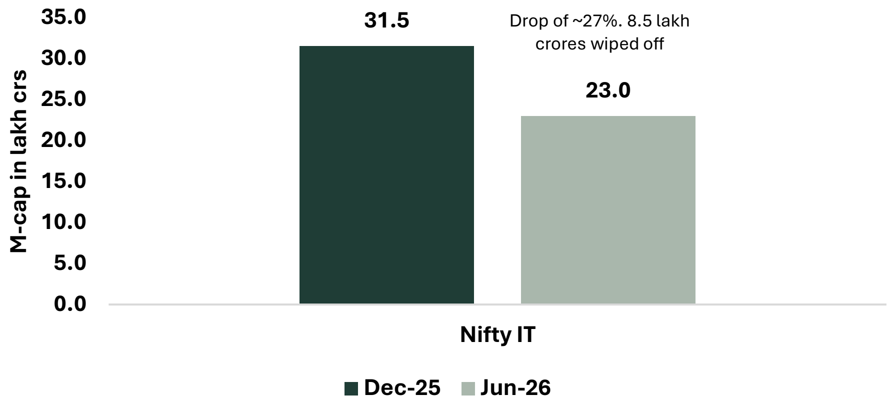
Pattern 3 – Large caps are less volatile

The most talked about thing in the equity markets is, ***"Invest in large cap stocks, as they tend to have lower volatility"***. This notion has been challenged and fractured significantly in the recent years as the markets underwent a significant change, as sector rotation, and broad basing played out. Put mid-caps as well. (construct of the index changed substantially, more predictable than large caps as well)





Source – Morningstar Direct



Source – Morningstar Direct

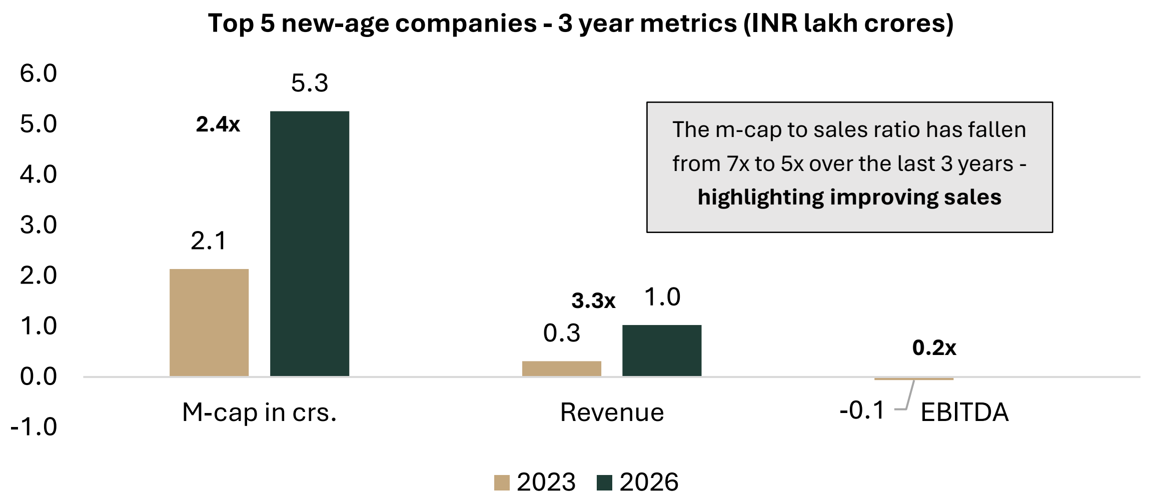
Pravia Insight – Volatility follows earnings certainty, not market cap particularly. Large companies with disrupted business models carry high risk which isn't always perceived. The market construct has changed significantly in the last 5 years, in favour of mid and small caps.

<u>Pattern 4 – New-Age / New Sectors are Un-investable (Digital and Defence)</u>

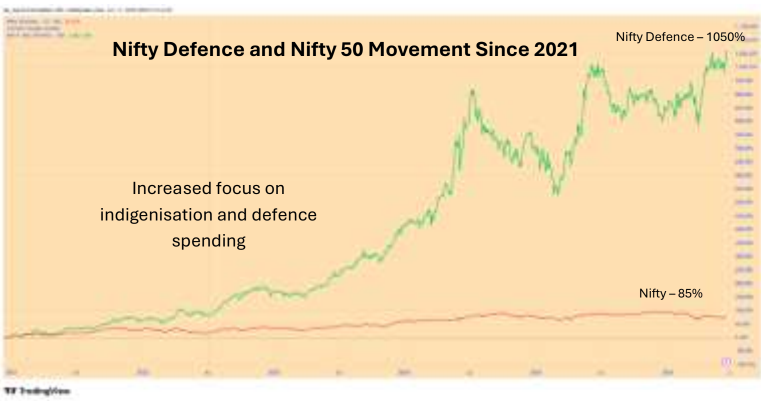
Some of the themes in the Digital and Defence space seemed un-investable, due to lack of profitability, lack of an appropriate valuation framework, and the policy uncertainty around defence, and the stigma around PSUs.

However, these themes have done exceedingly well in the last 5 years due to –

- Evolving and expanding TAM for the new-age companies
- **Shifting power from the producers to consumers through review and rating mechanisms due to digital platforms.**
- Optionality and disruption of the old ways of doing business, add to the TAM of digital cos.
- **Government focus on defence indigenisation, improvement in the fundamentals of defence companies, expanding order books, and execution capability.**



Source – Ace Equity



Pravia Insight – Patterns change as narratives evolve into actions, we need to have an eye for data which provides investment opportunities as they materialise.

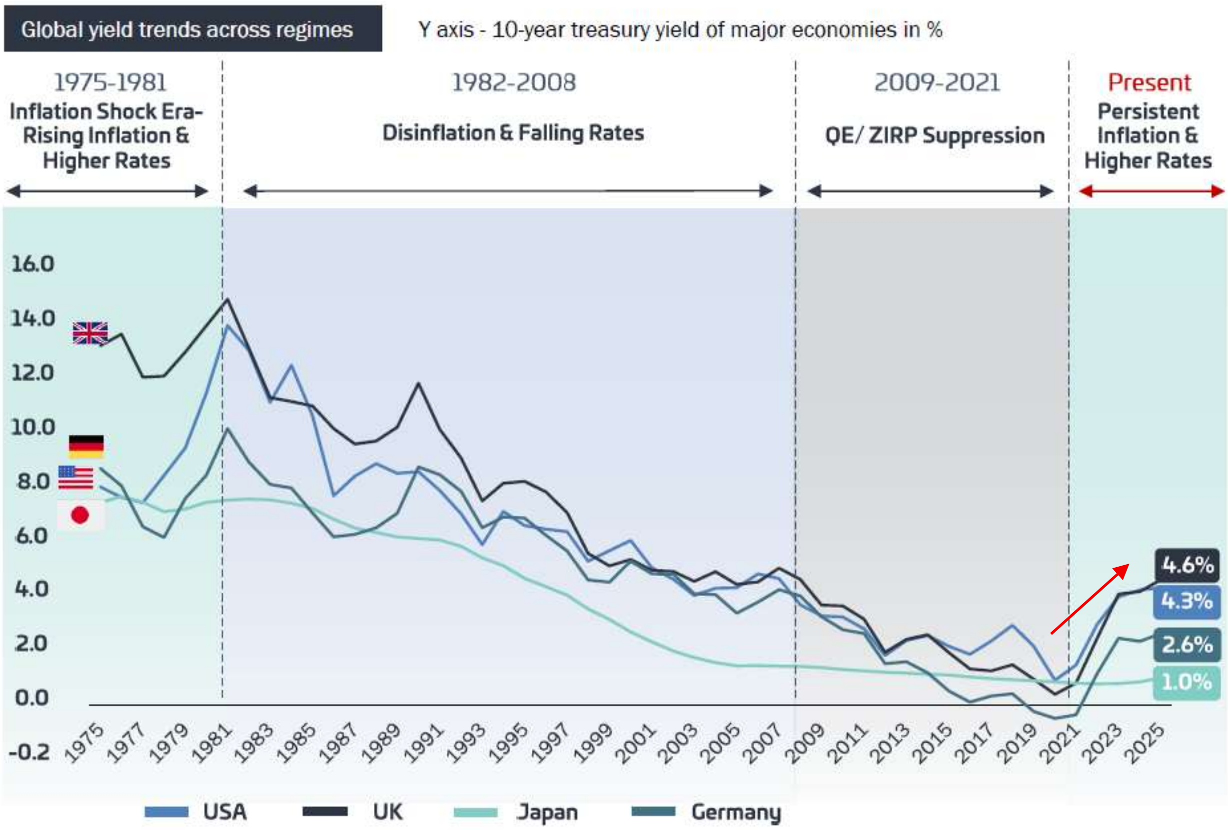
Pattern 5 – Debt has lower volatility than equities

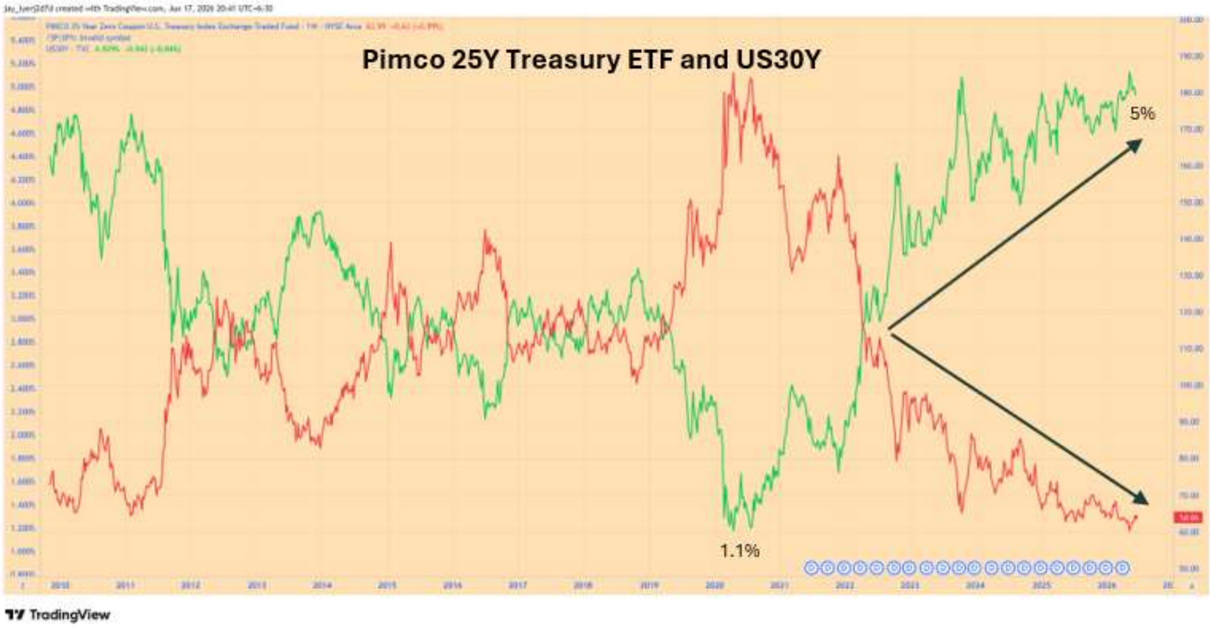
The primordial understanding in markets is that long term debt investments are safer than equity, and exhibit lower volatility, which is what drives asset allocation decision in portfolios.

However, in the current scenario panned by geopolitical uncertainty, disruption of supply chains, higher inflation, high higher yields on bonds have jumped significantly. Long term debt is **highly volatile** due to global uncertainty and paradigm shifts.

- Geo-political uncertainty
- Disruption of supply chains
- Higher inflation
- Higher Debt levels globally
- AI Trade Disruption
- Higher Fiscal Deficits

The yields on long terms bonds have jumped significantly in the DMs as well as EMs, making it volatile.





Pravia Insight – We are presently in a volatile geo-political scenario, inflation is persistent, expectations of rate hikes exist – this has made long term debt volatile, contrary to the usual understanding.

<u>Pattern 6 – Gold performs well in times of crises</u>

The **"gold is a safe haven"** thesis has decades of evidence behind it. Gold prices have risen sharply at the onset of nearly every major conflict since 1979, following a fairly predictable multi-phase pattern.

Gold has no counterparty risk, cannot be devalued by government decree, and maintains purchasing power across centuries; characteristics that become invaluable when investors seek to preserve wealth through uncertain times.

However, this time it was different. When the Iran conflict started gold was already behind with a stupendous rally, and the war broke its's appeal, coupled with central some central banks selling gold, viz. Turkey, as demonstrated below –

Oil shock → Surge in inflation → Tightening expectations globally → Rising real yields and USD → Gold Collapses

Pravia Insight – Gold rallied on the back of central bank demand, money flowing into gold ETFs, geopolitical uncertainty. However, when oil rallied significantly the equation changed. An asset class might exhibit different nature in different times and hence a generalised conclusion might not be appropriate. We reiterate that gold will continue to do well as long as there is global uncertainty.

Pattern 7 – Central Banks control the money supply

For roughly three decades (the 1990s through the 2010s), the governing arrangement was monetary dominance: an independent central bank set interest rates to hit an inflation target, and the government was expected to adjust its budget to stay solvent at whatever rates the central bank chose. Monetary policy led; fiscal policy followed.

What's happening now is a drift toward *fiscal dominance* – **where the central bank's room to manoeuvre becomes constrained**, and sometimes subordinated, to the government's financing needs and political demands, as they need to spend money on defence, infrastructure, real asset creation on priority now.

Monetary Dominance (1990s to 2010s)
Central banks leads – set rates and fiscal follows

Power shifted via 3 channels

Fiscal Dominance – drift since 2020
Government needs constrain:
- Low rates due to higher debt
- Higher inflation + Low rates become the mandate

Balance Sheet linkages
- QE made central banks largest holders
- Hiking rates imposes loses on the central banks
- Every independent move has a cost

Debt Overhang
- Debt-to-GDP over 120% in DMs (2x in 5 years)
- Each hike is fiscally painful
- Pressure to keep rates lower

Political pressure to keep rates lower, lack of control over politics, and independence erodes informally. In short, the control of money is shifting from central to political

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Pravia Insight – Government finances are a precursor to monetary policy decisions. In a high-debt world, fiscal policy sets the tone for monetary policy.

Conclusion: When patterns break, new world emerges

We are in a volatile world, that is **causing some of the old patterns to break**, and new patterns are forming as a result, taking us into a new world order.

We have been following the changing trends and shifting paradigm since 2018-19, and looking for opportunities emerging out of the changing world order.

We have been iterating through our notes, that the construct of the market is changing, the key is to **identify emerging patterns and act on them with agility** by analysing and adapting to them.

At Pravia, **we believe asset allocation is not just for diversification but also for risk management,** our broad actions in the last 6 months reflect our stance and we continue to act with agility.

This is not a one-time event, it will happen again, in a different sector, with a different catalyst. The investors who survive it are those who build data-first frameworks and agile in adapting to emerging opportunities through portfolio frameworks.

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