

Thinking Big Picture

Value Has Arrived, the Story Will Follow

Two quiet years

Flat years are not lost years. They are how strong markets catch their breath before the next climb.

Fear feels bigger

When markets fall, worst case stories start to sound likely. Most of them remain just that - stories.

Better price, same story

What was good at 25 times earnings is better at 19. The price is now working for you, not against you.

Stay the course

Don't panic. Keep Things simple. Let asset allocation do heavy lifting. Implement Barbell Strategy.

Two years of flat-to-negative returns have left many investors with one quiet question: will Indian markets ever reward me again? The feeling of market fatigue is completely understandable as the quiet stagnation can feel heavier than a sharp decline. At Pravia, we believe it is a good time to reiterate (something that we have been saying throughout this phase) **that India manages to disappoint Best of the Optimists and Best of the Pessimists**. We are writing this note not to excuse short-term flatness, but to **zoom out**.

Quiet years rarely make headlines. But they often lay the foundation for long-term family wealth.

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Buying right is half the battle. Selling right is the other half, but if you buy right, the second half is much easier.

Howard Marks

Bad news everywhere. Hence, good prices.

Two years ago, India was the market everyone wanted to own. Prices were high. The headlines made sure everyone knew it.

- *India becomes 6th largest market in MSCI ACWI, tops emerging markets in MSCI EM IMI (21 September 2024)*
- *India's weight in MSCI EM IMI reaches 22.27%, surpassing China's 21.58% (7 September 2024)*

Today, the mood has flipped. The Nifty 50 is lower than it was two years ago. It is down about 8% over the past year and sits roughly 14% below its 52-week high. Over the same twelve months, the S&P 500 in the US is up 14%, Japan's Nikkei is up 52%, and Korea's KOSPI has nearly doubled.

The headlines look grim. Global risks suddenly look real. And the easiest thing in the world right now is to sell and wait for "clarity".

We think that would be the wrong move. Not because we can predict next month or the next year, but because the price you pay for good Indian businesses today is far better than it was when this pause began. **In September 2024, we had the narrative and no value (Nifty PE - 24.38x), today we have the value but no clear story (Nifty PE - 19.30x).**

Two flat years are the market catching up with an expensive start - not a sign that the story is broken.

Strong-growth markets climb like a staircase: a step up, a long flat landing, then the next step.

The questions on every investor's mind

"Two years, and nothing to show for it. Why?"

Because two years ago, we started from an expensive place. When prices run far ahead of what companies earn, the market needs time to catch its breath. That pause is exactly what we have lived through.

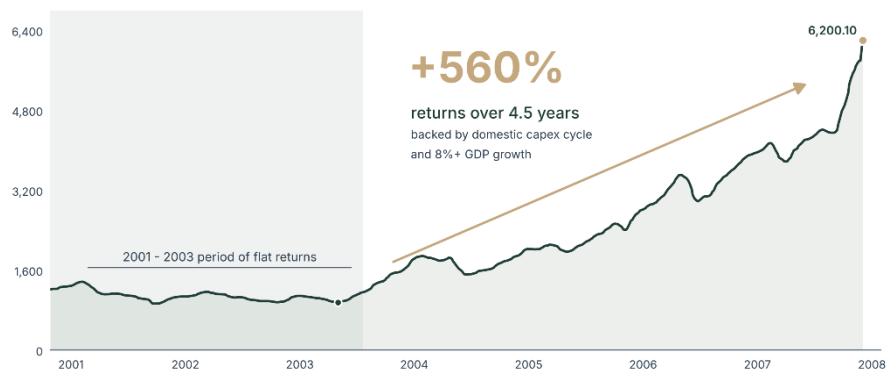
Prices have fallen. Earnings have not.

- **Companies are still earning well.** Nifty 50 companies have earned a steady 15–16% return years.
- **Banks are lending more.** Bank credit grew about 17% in Q1 FY27 compared with a year ago.
- **India is getting its house in order.** Government debt is forecast to fall to about 83% of GDP, while it rises in the US, UK, France and China.

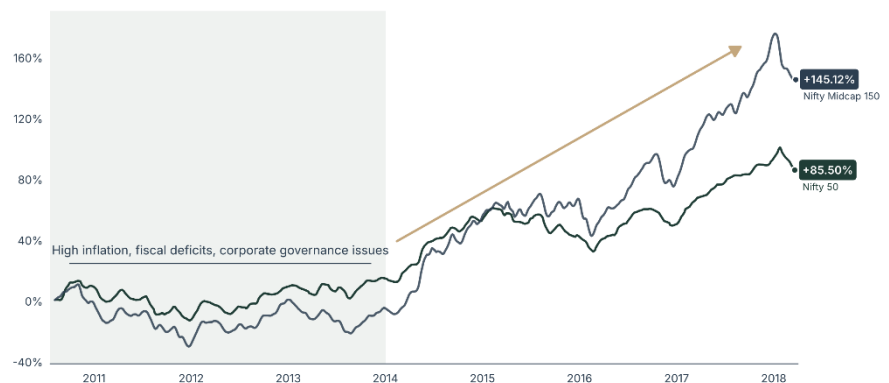
"Are we stuck in a low-return era?"

Growing markets don't rise in a straight line. They make higher highs and higher lows – a step up, a long flat landing, then the next step.

India has walked this path before. Our market went nowhere in the early 2000s. It went sideways again in the middle of the last decade. Each landing felt endless while we were on it. In a high-growth market, this is normal, not alarming.



Source: Nifty 50 Index; Investing.com



Source: Investing.com

Our view: we are closer to the bottom of this cycle than the top, and India's growth is holding up.

Markets take turns. Chasing last year's winner is how investors end up buying high.

"Other markets are flying. Why not India?"

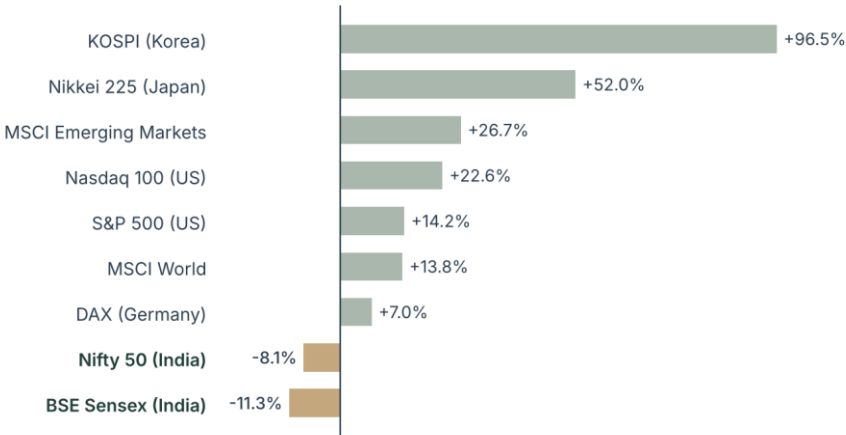
It is a fair question, and the numbers are real (Figure 1). Much of the world has had a strong year, while India has been left out of the party.

Much of the **global rally** has been driven **almost entirely by a handful of giant tech companies riding the artificial intelligence boom**. India's story is of a whole economy (Figure 2). Markets take turns. **Heroes of the past have seldom remained winners of the future**. Also, in September 2024, India was flying and other emerging markets like Korea were lagging meaningfully.

Figure 1

The world had a good year. India took a breather.

One-year change in major stock market indices, %



Source: Investing.com, one-year change as of 30 September – 1 October 2026. Index levels in local currency.

Figure 2

Behind the big winners: one bet. Behind India: the whole economy

Country	Financials	IT	Industrials	Consumer Discretionary	Energy	Materials	Consumer Staples	Health Care	Utilities	Telecom	Real Estate
India	29	8	11	12	9	8	6	6	4	5	1
China	19	10	5	26	4	6	3	5	2	19	2
Brazil	36	1	8	2	18	14	5	1	0	13	2
Taiwan	7	88	2	0	0	0	0	0	0	1	1
Korea	8	61	1	15	1	1	5	1	2	3	2
Japan	18	16	26	15	2	2	4	6	2	7	2
USA	12	35	9	10	4	5	9	2	2	11	2

Source: Bloomberg; Sector-wise weights across MSCI Indices as on 30th June 2026

The world is rerouting its supply chains and more of those roads now lead to India.

"If India's story is so strong, why does the market keep stalling?"

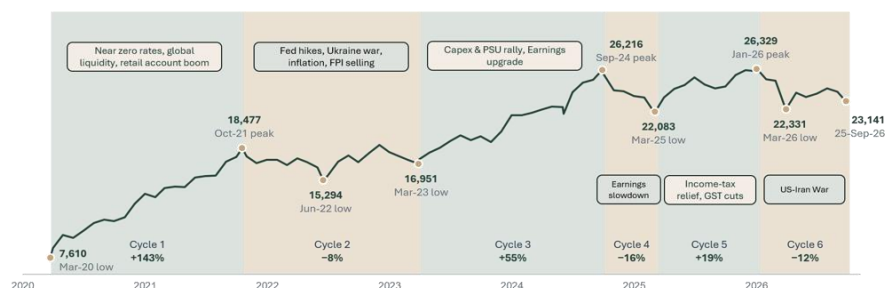
Since 2020, the world has started looking at India differently. China+1, supply-chain diversification, digital infrastructure, manufacturing, services and geopolitics and all these trends have been immensely helpful for Indian broader economy strengthening – outcome is visible in Midcap and Small caps.

But a long climb is never a straight line. India's big, long-term rise is made up of shorter cycles - sharp rallies, painful corrections and long flat stretches along the way.

Figure 3

Six cycles. One long climb.

Nifty 50 index level, March 2020 – September 2026



Source: Nifty Indices, Sensex is used as proxy for Nifty 50 Index before its launch. This is a logarithmic chart.

Look at the journey since 2020 (Figure 3). Six cycles in six years - three up, three down. Yet, the Nifty 50 went from 7,610 to over 23,000 (~3 times). **Not a sign that the story is broken. Simply the price of the climb.**

What was required and will be required by Investors definitely is AGILITY

Every stall and every fall since 2020 has been part of the journey – not the end of it.

"So many global risks suddenly look real. What if they all come true?"

The risk hasn't changed much. Our sentiments about it have.

Brent near \$ 100. The rupee near 96. The Indian ten-year yield near 7.21%. These worries are real but these are also the reasons why the valuations have turned favourable.

When the Nifty was at 26,000, saying the index will fall to 18,000 sounded absurd. At 22,000, the very same number feels just around the corner.

The worst case hasn't become much more likely. It has simply started to *feel* closer. These are tail risks – possible, but unlikely. You don't manage them by running away from the market. **You navigate them through allocation discipline.**

Investors buy with method and too often sell on emotion.

Buy with the head. Don't sell with the heart.

Most investors are careful when they buy. But when it comes to selling, especially at these levels, **the method disappears and emotion takes over**. Selling now would mean doing the exact opposite of what you did when you bought.

Two traps to watch out for right now:

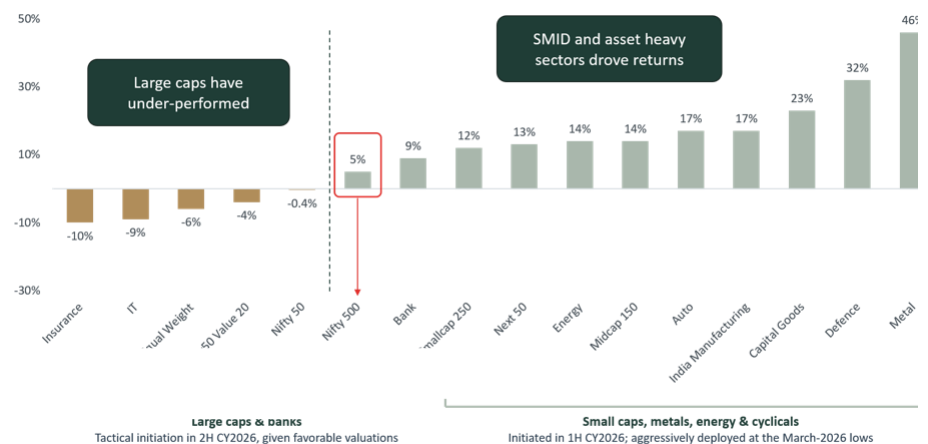
- **Panic.** If you bought something at 25x earnings, there is no reason to sell it at 19x. If it was good at 25, it is better at 19.
- **Seeing only what you fear.** Once you decide the market is risky, every red day feels like proof. Look for bad news and you will find it - every single day.

So here is the question worth asking: **with everyone focused on bad news, isn't this a good price?**

That one question has served us well before. In March 2026, fear was everywhere. That is exactly when we looked hard at **metals, energy, manufacturing and consumption, largely through small cap and thematic funds, for a higher upside capture**. The sentiments were terrible. The prices were not.

Figure 4

We bought what others feared. Now we're buying what others ignore



Source: Nifty Indices, Pravia Research

A good entry price is your margin of safety.

Price is your protection

When the price is in your favour, risks are manageable. When the price is against you, anything can go wrong. A good entry price is your cushion – your margin of safety.

Equity markets reward good entry prices. The only question is how long you hold.

What about foreign investors who have been selling?

The selling is real - about ₹4.03 lakh crore out in 2026 so far and ₹44,013 crore in September alone but steady domestic institution flows are catching up given our markets a home-growth floor.

We could not predict their moves two years ago, and we won't pretend to now.

Money flows follow mood, and as the sentiments change, we believe they will come back for most liquid large caps first.

What could go right that nobody is talking about?

Bad news is loud. Good news is quiet. Right now, a lot can go right for India:

- **Trade deals.** New free trade agreements are opening fresh doors for Indian businesses.
- **A sound economy.** Growth, stability, fundamentals remain in good shape.
- **Foreign money.** We not necessarily need foreign investors to buy. We just need them to stop selling. That alone changes the picture.

What we (Pravia) are doing?

To take full advantage of this valuation gap, we are tactically implementing a **Barbell Strategy**. Large companies, in particular, are cheaper than they have been in a decade, and that is an opportunity we intend to capture through **tactical allocation to banks, insurance and large caps** (The Nifty 50 Value 20 trades at 14.2x, about 24% below its 10-year average of 18.7x, with a 2.1% dividend yield and 15.5% ROCE). This shift gives us a cushion to absorb valuation shocks from our existing exposure and build an all-weather portfolio.

Index	March 26	Current	10Y Median
Nifty 50	19.6x	② 19.4x	23.3x
Nifty Smallcap 250	① 23.4x	34.4x	31.8x

Smallcap valuation re-rated to 34.4x since

① March 2026
Small caps at 23.4x

② Now
Nifty 50 at 19.4x

Source: Screener

India doesn't need foreign investors to buy. It only needs them to stop selling.

2026 is a year of allocation. Let structure, not emotion, manage the risk.

Our playbook

LARGE CAPS

Own broadly

Buy the whole basket. Big companies are cheap, and they are where foreign money returns first.

MID & SMALL CAPS

Pick bottom-up

Choose company by company. Not every small stock deserves your money – the good ones do.

WHERE PRICES RUN HOT

Stagger in

Invest in steps, not all at once. Let time smooth out the price you pay.

The three scenarios for the next 12 months

BULL CASE (50%)

Best of both

Large caps win back the higher prices they deserve, and small caps keep growing.

BASE CASE (40%)

Steady climb

Large and small caps both keep growing, in step with their earnings.

BEAR CASE (10%)

Slow going

Large caps stay cheap, and small caps give back some of their gains.

Back to basics

In our view, the biggest risk right now is being under invested. This is the time to allocate.

Aim higher

Position for higher upside capture when markets turn.

Buy right

Focus on entry valuation. The price you pay decides what you make.

Stay balanced

Manage risk through asset allocation - not by running for the exit.

In an inflation driven environment where returns often clusters in select sectors, portfolio agility is far more critical than minimizing transaction costs. We believed - 2026 is the year of allocation and communicated start of this year through annual note and the bumps along the way are part of the long road to building wealth. No panic. No guessing. Keep things as simple as you can, and let compounding do its work. That is how it has always worked for us and we see no reason for it to stop now.

Our customised strategy presentation as per this strategy for each portfolio will soon be discussed in Review for this quarter with investors.

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Statutory Information:

- Pravia Investment Advisors Private Limited: CIN: U66309MH2025PTC451047; Regd Off Address: 801, A-Wing 215 Atrium, CTS No 215, Andheri-Kurla Road, Andheri East, Chakala MIDC, Mumbai - 400093; Contact: +91 9004139937
- Corporate Investment Adviser SEBI Registration no. INA000021322, Validity of Registration: Nov 04, 2025 – Perpetual. BSE Enlistment No.2375,
- Principal Officer: Ms. Vaibhavi Shah (E-mail: info@pravia.in), Contact: +91 9004139937
- Compliance Officer and Grievances Redressal Officer: Mr. Sachin Dwivedi (E-mail: compliance@pravia.in) Contact: +91 9004139937

SEBI Regional Office: SEBI Bhavan, Plot No. C-4 A, G Block, Bandra Kurla Complex, Bandra East, Mumbai 400 051.