Palette Wealth

INSIGHTS

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2026 AND BEYOND

Year ends are a good time to sit back and reflect. Good reflections lead to good realizations of trends and countertrends. We ourselves are not big fans of market commentary – ever wondered why most business TV channels run on mute in offices ? We want to put our necks out and make a few predictions, fully aware of the fact that most predictions don't work out. And since this is our first year, we don't have to look back (yet) and pat ourselves on the back (or cringe as the case may be).So, let's look ahead and see how some trends may play out over the next 12 – 24 months. As our favorite Howard Mark says, we can't predict, but we can prepare.

India Equities – We have been highlighting the high valuations and lack of earnings growth. Expect more of the same. Which means it will be one more difficult year to make money. Either the time correction continues or price corrections gives us a better entry point. The "lots of SIP liquidity providing support to the markets" narrative will get challenged as the primary and secondary sellers drain out record amounts from the markets. And no, the foreigners are not returning to buy any time soon. If the past is any guide, the IPO juggernaut will only stop once the buyers back off. Fortunately, the market participants are behaving well (as of now). We wrote about this in our **August newsletter**.

India Fixed Income – While the RBI has been cutting rates, the fisc will be under pressure with the cuts in income tax and GST. Capital gains tax collection will also remain muted given the lackluster returns of the equity markets. Credit for Indian mid sized corporates remains tight, as we have highlighted in our **September newsletter**. We expect the unsecured and MFI stress to gradually alleviate and the overall credit environment to remain benign in India, till the time the equity capital markets are open for stressed corporates to deleverage via equity offerings. We are also closely watching the US credit markets where early signs of trouble seem to be emerging.

Global Equities – Our US view is not too different from the India view. The AI overspending chickens will come home to roost. The fiscal situation is getting out of hand. The standout market of the year was Europe, in our view. Markets that had been written off as structurally stagnant suddenly commanded attention. The Czech Republic, Hungary and Slovenia each rallied over 60% and Germany gained 34% in dollar terms. While many of these smaller markets are not investible, this is a good example of the cyclicality of the markets and the revision to mean. The US has been the place to be for (too) long now. How much more time before that changes ? We will find out.

The revelation of the year were **precious metals.** Gold didn't just rise—it skyrocketed 80% and silver a staggering 140%. Part of the rise can be attributed to FOMO and underweight portfolios. But a stronger signal is from the price action of Bitcoin. Wasn't that the new asset class of the future? Is the smart money allocating for eventual dollar debasement? As one of the largest holders of gold, India is in a sweet spot, the wealth effect will be real.

We will also put our money on a fall in **crude prices**. While action on Venezuela may lead to temporary volatility, it is fair to assume that Russian crude will start flowing back as the settlement with Ukraine takes place. The Chinese have been buying aggressively to fill their stockpiles and once that stops, the prices will go lower. Benefit to India. There will also be stock winners and losers if this plays out.

There are a couple of other local trends we want to highlight. The proliferation of start ups is here to stay. Thanks to a confluence of factors, the entrepreneurial juices in India are flowing again. We remain hopeful that the **risk-taking** willingness and ability in Indian society will keep going up.

The second is the revival of **manufacturing** and import substitution. While there is enough data that the pessimists point out to, showing the imports from China are only going up, we are seeing enough happening on the ground thanks to favorable government policy and enterprises entering to capture this opportunity, to believe this is already changing very significantly. If this was easy, the imbalances would not have got built up in the first place. We are getting there, one step at a time.

The **asset monetization** program will further accelerate. Expect many more REIT and INVIT offerings from both the government and private parties. It is a great way for assets becoming more efficient and capital getting unlocked.

This was also the year when **nature** reminded us who is the boss. The year 2025 emerged as one of the costliest on record for natural catastrophes, with global economic losses exceeding $220 billion. Los Angeles burned, while powerful storms including Hurricane Melissa battered the Atlantic coast. Intense heatwaves scorched India, the US and Europe, as Southeast Asia grappled with devastating floods and landslides across Indonesia, Malaysia and India. These events underscore the urgent imperative for resilient infrastructure and sustainable energy transitions worldwide.

In summary, we remain **long term bullish on India** while being cautious on the markets in the short term. Our discussions with our clients have been around reviewing their allocations, the large move in equities since Covid have led to portfolios that are not as balanced as one would like them to be. As always, we will be happy to discuss these trends and other thoughts in detail over a cup of coffee.