WEALTH FIRST

MONTHLY NEWSLETTER - JAN’26

REVIEW 2025

Let this new year be less about chasing what rises fastest, and more about planting what grows strongest—quietly, steadily, and in alignment with your goals.

Global Equities (in USD terms)

- Global equities endured sharp volatility in early 2025 as U.S. tariffs rose to 1930s-era levels, with developed markets (MSCI World Index, USD Net TR) falling ~16.5% by early April before recovering on fiscal stimulus and monetary easing to finish the year +21.6%.
- 2025 marked the first post-pandemic year where all major asset classes delivered positive returns, driven by a broad second-half "risk-on" rally.
- Emerging markets (MSCI EM Index, USD) led global performance with +30.6%, supported by currency appreciation, stronger fundamentals, and investor inflows.
- AI dominated U.S. equities: within the S&P 500 Total Return Index (+16.4%) though only 2 of the Magnificent Seven beat the index as leadership narrowed.
- 2025 was the first year in 20 years where the S&P 500 was the worst-performing major equity market.

Global Equities (in USD)		
	1m	1y
Nasdaq	-0.7%	20.2%
S&P 500	-0.1%	16.4%
MSCI Europe	3.8%	31.9%
MSCI Emerging Equities	2.7%	30.6%
Nifty 50	-0.9%	5.4%

Domestic Equities (in INR Terms)

Domestic Equities (in INR)		
	1M	1Y
Nifty 50	-0.3%	10.5%
Nifty Next 50	0.3%	2.0%
Midcap 150	-0.5%	5.4%
Smallcap 250	-0.3%	-6.0%
Metals	8.5%	29.1%
Oil & Gas	1.8%	10.1%
Auto	1.5%	23.5%
Capital Goods	-3.0%	-1.0%
Consumer Durables	-3.0%	-6.9%
Real Estate	-2.8%	-16.6%
IPO	-0.2%	-3.9%

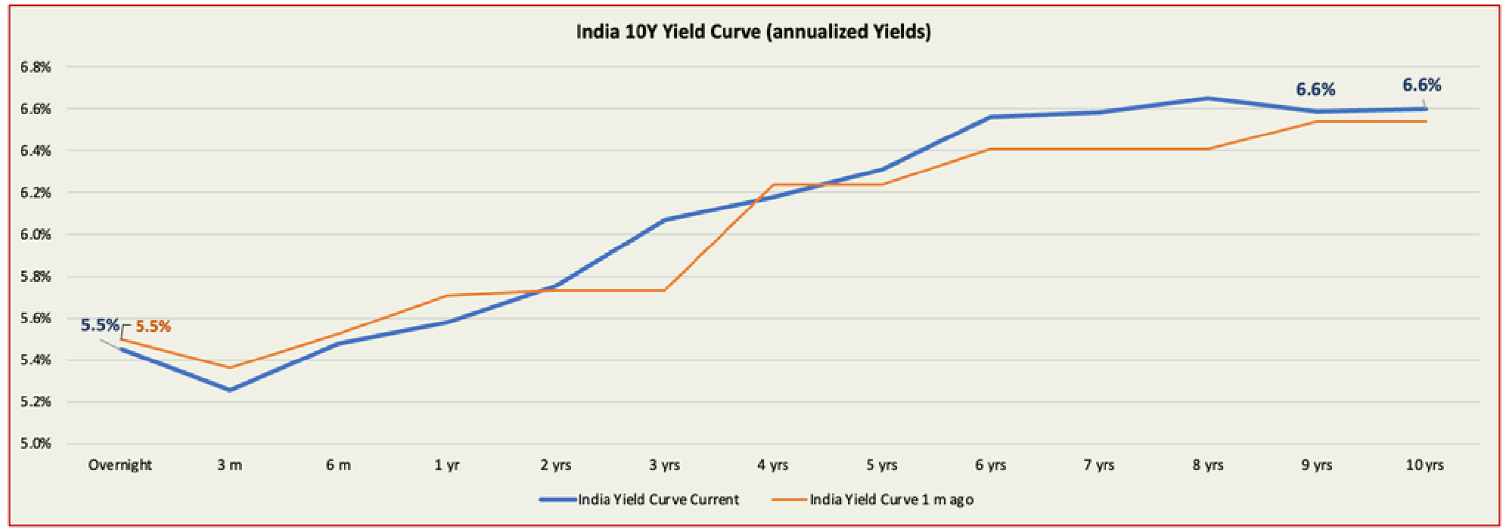
- Indian equities delivered moderate but resilient returns in 2025 despite heavy foreign outflows and currency depreciation. The Nifty 50 Total Return Index advanced 10.5% with the index reaching all time highs.
- Sectoral performance reflected policy support and domestic demand resilience. The Nifty PSU Bank Index surged ~30%, the Nifty Metal Index gained 29%, and the Nifty Auto Index rose 23%, benefiting from infrastructure spending, production-linked incentive (PLI) schemes, and accommodative monetary policy. The Bank Nifty Index outperformed, rising over 17% to an all-time high of 60,114, supported by strong credit growth and improved asset quality.
- Primary markets were a major bright spot. 86 IPOs raised ₹1.71 lakh crore, and newly listed stocks significantly outperformed the Nifty 50, supported by deep domestic liquidity. Investor participation broadened beyond Tier-1 cities, with record household penetration in non-metro regions, providing a structural stability to Indian equities

Global Yields

- Global bonds delivered solid returns in 2025 as inflation fears eased and central banks pivoted toward rate cuts. The Bloomberg Global Aggregate Bond Index (USD, Hedged) returned approximately 8.2% over the year.
- The U.S. Federal Reserve cut policy rates by 75 bps, supporting the Bloomberg U.S. Treasury Total Return Index, which gained 6.3%, making U.S. Treasuries the best-performing major sovereign bond market despite fiscal concerns.
- UK bonds also performed well, with the FTSE Actuaries UK Gilt All Stocks Index returning 5.0%, aided by 100 bps of Bank of England rate cuts and easing wage pressures. In contrast, German Bunds (ICE BofA German Government Index) posted negative returns as Germany loosened fiscal constraints to boost defence and infrastructure spending.
- Japanese government bonds underperformed. The JP Morgan JGB Index declined as yields rose sharply, with 10-year JGB yields increasing 99 bps to 2.1% and 30-year yields rising 113 bps to 3.4%, reflecting ongoing BoJ normalisation and fiscal expansion expectations

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
1 Y ago	1.2%	1.6%	4.5%	4.5%	6.7%
6 M ago	1.6%	1.7%	4.2%	4.5%	6.3%
3 M ago	1.7%	1.9%	4.1%	4.7%	6.5%
1 M ago	1.9%	1.8%	4.1%	4.5%	6.5%
Jan-26	2.1%	1.9%	4.2%	4.5%	6.6%

Domestic Yields



- The 10-year Indian Government Bond benchmark yield declined 17 bps over 2025, marking its third consecutive annual fall. The Gsec fell to a low of 6.24% from a high of 6.9% before remaining range bound for most part between 6.48% - 6.68%.
- The RBI injected ₹11.7 trillion into the banking system through open-market operations, FX swaps, and CRR reductions, including ₹7 trillion in bond purchases. By early 2026, the 10-year yield hovered near 6.6%, with expectations of range-bound movement amid heavy state borrowing.

India Macro Trends

Macro Trends	Dec-25	Nov-25
FII flows (in crs)	-22,611	-3,765
DII flows (in crs)	79,620	77,084
FII flows - Debt (in crs)	717	-3,969
New Corporate Bond Issuances (in crs)	39,290	36,007
Surplus Liquidity (in crs)	3,21,560	3,61,346
GST Collection (in crs)	1,74,550	1,70,276
CPI	0.7%	0.3%
Manufacturing PMI	55.0	56.6
Services PMI	59.1	59.5
Forex Reserves (in billion dollar)	696.6	688.1

- India remained among the fastest-growing major economies in 2025, with the IMF raising GDP growth to 6.6%. Retail inflation collapsed to historic lows, touching 0.25% in October, driven by sharp moderation in food and fuel prices, giving the RBI significant policy headroom.
- The RBI cut the repo rate by 125 bps in 2025 and injected a record ₹11.7 trillion into the banking system through ₹7 trillion of bond purchases, FX swaps, and CRR reductions, keeping system liquidity in durable surplus for most of the year and supporting credit growth and asset prices..
- Foreign investors remained net sellers, with FII outflows of ₹1.52–1.58 lakh crore (USD ~18–34 bn) amid higher U.S. rates, tariffs, and geopolitical risk. In contrast, DIIs invested ~₹5.65–6.0 lakh crore, decisively offsetting foreign selling and acting as the primary stabilising force in equity and debt markets.
- Retail inflows strengthened structurally, with SIP contributions averaging nearly USD 3 bn per month and rising ~80% YoY. Investor participation broadened beyond Tier-1 cities, creating a more resilient domestic flow-driven market structure.
- India's foreign exchange reserves remained near USD 700 bn, fluctuating through the year due to RBI intervention and valuation effects but providing a strong buffer against external shocks and currency volatility.
- GST collections grew 8.6% FYTD, with December collections at ₹1.75 lakh crore (+6.1% YoY), signalling resilient domestic consumption despite tax rationalisation and global uncertainty.
- Manufacturing activity moderated intermittently during the year, with Manufacturing PMI dipping to a two-year low in December, reflecting external headwinds and tariff pressures. In contrast, Services PMI remained firmly expansionary, supported by strong services exports, digital adoption, and domestic demand resilience.
- India accelerated trade diversification through FTAs with the UK, EFTA, and New Zealand, while continuing EU negotiations, helping mitigate U.S. tariff pressures. PLI schemes attracted USD 20–21 bn in investments, generated ₹16.5 lakh crore in output, and created ~12 lakh jobs, reinforcing manufacturing, electronics, and export competitiveness.
- Despite FII volatility, currency pressure, and geopolitical risks, the combination of low inflation, surplus liquidity, strong domestic flows, resilient tax collections, and large FX buffers anchored macro stability and underpinned India's relative outperformance on a risk-adjusted basis in 2025.

Commodities

- Commodities delivered 15.8% returns in 2025, measured by the Bloomberg Commodity Index, driven overwhelmingly by precious metals. The Bloomberg Precious Metals Sub-Index surged 80.2%.
- Gold rallied sharply, with MCX Gold prices up ~81%, reaching a record ₹1,40,465 per 10 grams, supported by over 900 tonnes of global central-bank purchases, geopolitical risk, and Fed rate cuts. Silver dramatically outperformed, with MCX Silver prices rising 165–172%, driven by solar, EV, AI infrastructure demand, and impending Chinese export restrictions.
- Energy markets weakened significantly. Brent crude (ICE Brent futures) fell nearly 19% YTD, sliding from early-year highs near $83 to ~$60, weighed down by non-OPEC supply growth and weak global demand. Industrial metals remained volatile but strong, with LME Copper reaching record highs on EV and AI-driven demand amid supply disruptions.

Commodities	Returns	
	1M	1Y
Brent Crude	-2.5%	-20.5%
Precious Metals		
Gold	2.5%	63.7%
Silver	26.3%	140.7%
Industrial Metals		
Steel	1.4%	0.3%
Iron Ore	2.2%	7.7%
Aluminium	4.3%	20.1%
Copper	8.7%	39.7%
Zinc	2.0%	8.1%
Nickel	13.0%	9.9%
Lead	1.3%	4.3%

Performance of Currencies against USD

Currencies against USD			
		1m	1 yr
India	USD/INR	-0.6%	-4.6%
AUD	USD/AUD	1.8%	7.4%
Japan	USD/JPY	-0.4%	0.3%
China	USD/CNY	1.4%	5.5%
Euro	USD/EUR	1.2%	13.9%
Pound	USD/GBP	1.7%	8.3%
Dollar Index	DXY	-0.9%	-10.9%

- Currency movements played a decisive role in asset returns in 2025. The DXY / trade-weighted U.S. dollar index fell 7.0%, its steepest annual decline since 2009, significantly boosting non-USD asset returns.
- The EUR/USD rose 13.4% and GBP/USD gained 7.6%, amplifying European equity performance for local investors. In contrast, the USD/INR depreciated ~5%, making the rupee the weakest Asian currency in 2025. Persistent FPI outflows, importer demand, and U.S. tariffs on Indian exports weighed on the currency, reducing INR-adjusted equity returns to roughly 5.5% despite double-digit headline gains

From Silver's Catch-Up to Gold's Turn

In our previous blog in February (we had sighted Silver's undervaluation that now appears to be realized with gains of 126.5% in the last 1 year. https://wealthfirst.co.in/2025/02/28/gold-vs-silver-time-to-rebalance/

1. Over the past year, silver delivered a powerful catch-up rally as the gold–silver ratio corrected from extreme levels.
2. As of 20 December 2025, the ratio has fallen to below 60, down from above 90 earlier in the past year driven not by weakness in gold, but by strong silver outperformance.
3. 2025 marked a breakout year for silver, with prices crossing $80 per ounce and gains exceeding 120%, supported by structural supply deficits, rising industrial demand from AI, solar, and EVs, and broader macro uncertainty. Indian markets mirrored this momentum, with silver prices crossing ₹2 lakh per kg in December.

With the ratio now closer to long-term averages, the ratio suggests silver may no longer be the clear valuation outlier it once was. While it may still offer tactical opportunities, the easy gains from extreme undervaluation appear behind us.
Gold, meanwhile, is likely to re-emerge as the portfolio anchor. Central-bank demand, geopolitical risk, and constructive forward views including those from Goldman Sachs can continue to support gold's role as a stabilizer in uncertain times.

Bottom line: Silver has caught up. From here, gold may take center stage, while silver may shift toward a more tactical role as the cycle evolves.

BEHAVIOURAL FINANCE

Denominator Neglect in Diversification: The Illusion of Smart Investing

Denominator neglect is a behavioural bias where investors focus on the potential of each new investment—usually a fund, stock, or theme—without considering how little it actually matters to their total portfolio.

Real-Life Example: AMFI & CAMS Investor Behaviour Study (2021–2022)
CAMS (which processes ~70% of India's mutual fund transactions) reported that a significant share of retail investors hold more than 15 mutual funds, many of which:

- Belonged to the same category (e.g., multiple large-cap or multicap funds)
- Had overlapping portfolios (e.g., same top holdings in HDFC, ICICI, Infosys, etc.)
- Made up 1–2% or less of the total investment corpus individually

These investors continued to add new NFOs and trending themes—AI, EV, defence, global tech—each time with ₹10–50K, thinking they were diversifying.
Yet, the combined impact of these new funds was marginal. What's worse, the psychological attachment to these tiny positions often distracted them from rebalancing their core holdings, which actually drove performance.
This shows classic denominator neglect: overattention to the numerator (new fund's upside), neglecting its portfolio weight.

Why It Matters

- Leads to portfolio clutter, not true diversification
- Reduces focus on core strategy
- Makes review and decision-making harder over time

Conclusion:
Adding more funds doesn't mean you're investing better—unless each one meaningfully contributes to the whole, it's just noise.

Market Watch

Snippets

- Despite ₹1.52–1.58 lakh crore of FII outflows, Indian markets stayed positive with DIIs investing ~₹5.65–6.0 lakh crore and SIP inflows averaged ~$3 bn per month, structurally changing market dependence.
- A 7% fall in the USD lifted European equity returns to 20.4% (EUR) and 27.2% (GBP), while India's ~5% INR depreciation reduced Nifty's dollar return to ~5.5% from a 10.6% headline gain.
- Even with U.S. tariffs at 1930s-era levels, global equities recovered from a 16.5% drawdown and finished +21.6% (MSCI World) after the Fed cut rates by 75 bps and the RBI by 125 bps.
- Gold (+81%) and silver (+165–172%) far outperformed equities and bonds, supported by 900+ tonnes of central-bank gold purchases and persistent geopolitical risk, while Brent crude fell ~19%

Takeaways

- Hybrid exposure may suit 2026 better than pure equity, as much of the rate-cut and earnings recovery (125 bps RBI cuts, Q2 earnings rebound) is already priced, shifting returns from broad beta to balanced allocation.
- The U.S.–India trade outcome is the key swing factor to monitor, with inflation benign (CPI at multi-year lows), GST cuts largely absorbed, FTAs progressing, and domestic liquidity supportive—leaving external trade clarity as the main variable.
- Market conditions are increasingly aligned for gradual financialisation, as low inflation, stable yields, strong DII/SIP flows, and improving earnings visibility create a constructive backdrop, even if headline returns moderate

Key Events

Fed rate decision: 28th Jan 2026

RBI MPC Meet decision: 6th Feb 2026

US-India trade deal

THANK YOU

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