India – a new dawn

Andrew Draycott

Portfolio Manager,
Chikara Indian Subcontinent
Elite Rated by FundCalibre

Abhinav Mehra,

Independent Investment Advisor (Delhi based),
Chikara Indian Subcontinent
Elite Rated by FundCalibre

What do you think of when you picture India? Do you picture tropical rainforests or the snow-covered Himalayas? Perhaps you think of cricket, or the majestic Taj Mahal? Or you might visualise tigers and lions, it being the only country which is inhabited by both. At Chelsea, we see an exciting, long-term structural growth story.

This vast country has incredible demographics, with approximately 65% of the population of working age. Its strong GDP growth is something developed economies can only dream of. There is a rapidly-growing middle class and, by 2030, nearly 80% of households are projected to belong to the middle-income bracket. The government is working hard on reforms and infrastructure and its manufacturing sector is benefiting from companies wishing to diversify away from China.

If you had invested in India at the beginning of 2000, your investment would have risen by 1,321%*, with India outperforming every other sector (including technology, which is up 331%*) over that time period. But this performance hasn't just gone up in a straight line – there have been several bumps along the way. 2025 was one of those bumps, with India ranked bottom of the IA sectors. So why was India's performance last year so lacklustre? We've asked two of our Chelsea Selection fund managers, who manage funds investing in India, to shed light on this and to talk to us about investing in this exciting country.

India has experienced strong economic growth relative to many peers over the past two decades and has recently overtaken Japan to become the world's fourth-largest economy. The long-term performance divergence versus developed markets is striking. Over the past 20 years, the MSCI India Index has returned c.413%, compared with c.184% for the FTSE 100. Over the past decade, India has returned c.176% versus c.134% for the FTSE 100, both measured in US dollar terms.*

Is now a good time to invest in India?

Despite this long-term outperformance, India has underperformed meaningfully over the past 12 months, which in our view represents a rare and attractive entry point for investors. While the FTSE 100 is up 37%, the S&P 500 19%, and the MSCI Emerging Markets Index 40%, MSCI India has returned just 6% over the same period, with our strategy up 8%. This divergence has been driven less by fundamentals and more by global capital reallocation. Foreign portfolio investors reduced India allocations to multi-year lows as capital chased AI-related opportunities in the US and higher-beta emerging markets, turning India into a funding source. This was compounded by elevated US tariffs, delays in trade negotiations, and a roughly 5% depreciation of the Indian rupee as the central bank prioritised reserve accumulation and export competitiveness over defending the currency. As a result, emerging-market managers are now among the most underweight India they have been in many years, setting the stage for potential catch-up should relative performance turn.

Crucially, India's economic and earnings momentum has remained resilient through this period. GDP growth has stayed close to 7%, supported by proactive government measures aimed at mitigating tariff-related risks and sustaining domestic demand. Reform momentum has accelerated meaningfully, with a broad range of initiatives announced or advanced over the year. These include tax rationalisation, income tax relief, labour reforms, expanded foreign direct investment allowances, liberalisation in strategic sectors, and a sustained push to improve administrative efficiency and ease of doing business. Sector-specific incentives have also been introduced across areas such as rare-earth processing and semiconductor manufacturing. Since the imposition of US tariffs, reform announcements have emerged with unusual frequency, marking the most aggressive and consistent reform cadence we have observed since launching the strategy in November 2018.

As we enter 2026, several supportive factors are aligning simultaneously. Valuations have corrected across sectors, the rupee is at attractive levels, and both fiscal and monetary stimulus are beginning to feed through the economy, with more than 100 basis points of interest-rate cuts already delivered. At the same time, foreign investor sentiment towards India is at cyclical lows. In our assessment, tariffs represent a near-term headwind which is expected to have a limited direct economic impact of roughly 40 basis points of GDP. India continues to pursue alternative trade agreements to mitigate near-term risks, and our base case remains that a trade agreement with the US will ultimately be concluded. More importantly, we believe the lasting drivers of returns will be sustained reform execution and a renewed acceleration in private-sector investment over the coming years.

Domestic savings continue to be structurally channelled into equity markets, with another record year of inflows reinforcing the depth and resilience of India's capital base. As valuations normalise and growth momentum strengthens, we expect foreign investor participation could

***Source:** FE funds info 1/1/2000-1/1/2026

Source: Bloomberg, 16/01/2006-14/01/2026.

improve gradually through 2026. If the global AI investment cycle moderates, India could become increasingly attractive to investors seeking durable, domestically-driven growth, particularly given that the world's fourth-largest economy (by nominal GDP) has so far received limited benefit from AI-related capital flows.

How do changing demographics play into our investment thesis for India?

India's demographic profile further strengthens the long-term investment case. The country has the youngest population globally, with more people under the age of 40 than any country has ever had at any point in history. With a median age of 28, this demographic tailwind is expected to persist for at least the next two decades, supporting both consumption growth and labour-force expansion. India produces approximately two and a half million STEM graduates annually, at a time when developed economies and several large emerging markets are grappling with ageing populations and shrinking workforces.

What is our view on the current political situation and its impact on the market?

Political stability also remains a key pillar of the investment thesis. India continues to benefit from a stable government, supported by a parliamentary majority and allied partners, with Prime Minister Modi now in his third term. While the Bharatiya Janata Party's (BJP's) majority narrowed in the 2024 general election, this largely reflected a coordinated opposition alliance rather than a structural erosion of support. Subsequent state elections have reinforced political continuity, with the ruling coalition securing control in several large and populous states. This stability underpins policy continuity and reform execution. While geopolitical relations, particularly with the US, have experienced periodic volatility, recent developments suggest renewed momentum in strategic and trade discussions, with India and the US remaining critical long-term partners.

Where we are seeing opportunities within the Indian market.

Against this backdrop, we continue to see compelling bottom-up opportunities across the Indian market. The strategy focuses on sectors with low penetration and long growth runways, where consumer behaviour is changing. Innovation is disrupting traditional profit pools, enabling faster adoption through lower costs and improved accessibility. With the lowest data pricing globally, Indian consumers have been among the fastest adopters of digital services, whether in travel, financial services, logistics, or everyday consumption. We are invested in leading platforms positioned to benefit from this structural shift.

Importantly, while many of these businesses delivered strong operational growth through 2025, share prices lagged due to broader market dynamics, creating attractive valuations across high-quality growth companies. Even within more traditional sectors, such as banking and healthcare, we own leading private-sector franchises that have compounded earnings consistently over long periods and now trade at compelling valuations. We also prioritise companies with strong balance sheets, allowing them to consolidate market share and strengthen competitive positions during periods of macro uncertainty. The past 15 months have provided further evidence of this resilience, despite heightened competition and external headwinds, such as currency volatility, geopolitical tensions, tariffs, and foreign capital outflows.

We remain optimistic about the outlook over the next 12 to 24 months. Earnings dispersion is increasing, reform momentum remains intact, and India's structural growth drivers continue to strengthen, creating a favourable environment for disciplined, domestically-focused, long-term investors.

THE CHELSEA VIEW

We like this fund for its high-conviction, index-agnostic approach which focuses on capitalising on India's domestic growth opportunity. The team targets high-quality mid and large-cap companies in structurally growing sectors, favouring businesses with strong management teams and good alignment to shareholders. Its high active share and concentrated nature mean performance may diverge from the index, but for investors seeking differentiated exposure to India's long-term growth potential, we view this as a compelling option.

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