Dear Investor,

**Introduction**

The end of this financial year marks the beginning of a global reorientation that has been a long time coming. In previous quarterly letter we have written at length about our new multi-polar world, where governments—rather than markets—will be the key drivers of capitalism, and where globalisation is on the retreat. While these shifts were incremental over the past few years, Trump's decisive election victory has emboldened him to accelerate them, even at the cost of disrupting the existing world order. The US's renewed focus on energy independence, domestic manufacturing, and national security has already triggered reactive policies across the globe.

Tariffs imposed on Canada and Mexico during the quarter foreshadowed stricter global tariffs announced later in April. Both equity and debt markets reacted very negatively, forcing Trump to postpone the broader tariff rollout by 90 days. It has been clear for some time that a rationalisation of global trade is long overdue, and that the notion that the US could indefinitely fund global consumption was always unsustainable. Still, the chaotic solution chosen by Trump has shifted the conversation away from building a resilient global economy to simply weathering the near-term shock.

In such policy-driven environments, markets struggle to price risk accurately. Investors are either panicked, as in early April, or complacent and blind towards downside risks. Looking just at broad index volatility masks the vast dispersions in individual company outcomes, and creates a false sense of stability.

Despite the global volatility, sentiment around India has improved markedly from six months ago when markets were in a turbulent correction. The current prevailing assumption is that India will respond positively to Trump's calls for lower tariff barriers. This is a strong assumption and only time will tell how well Indian companies adjust, and how deftly our government navigates the ongoing negotiations.

**Portfolio Performance**

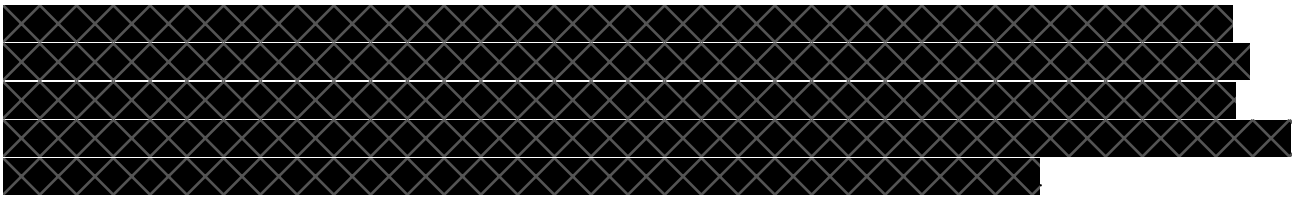
Recent volatility notwithstanding, overall portfolio performance for the full year has been quite acceptable. Last year FY2024 was clearly an abnormally good year, and prudent investors would do well to avoid anchoring their expectations to such performance.

| *Asset Class* | *FY2025Q4 return* | *FY2024Q4 return* | *FY2025 return* | *FY2024 return* |
|---|---|---|---|---|
| [redacted] | | | | |
| [redacted] | | | | |
| [redacted] | | | | |
| [redacted] | | | | |

Last year, signs of excess in equity markets were clearly visible. The euphoria among small cap stocks, the limitless appetite for IPOs, and the hyperactivity of fund houses were just some of the signs we repeatedly pointed to in these letters. Bold claims that Indian markets no longer needed foreign capital were tested as FIIs exited in October 2024. This withdrawal created a vacuum, followed by a painful drawdown in small capitalisation stocks as domestic investors sold. As painful as this period may have been, it is not something that surprised us. While some retail investor may scarred, their growing participation is a structural trend in Indian equity markets that is likely here to stay.

**Investment strategy going forward**

In response to the exuberance of the last few quarter Cycas had been advising clients to cautiously deploy capital, with a priority toward allocating to large caps, and gold, with conservative fund managers. As far back as FY2021Q3, we thought of gold primarily as a ‘hedge against government incompetence and short-termism’, and it seems perfectly appropriate to remain invested during our current times.



Almost all of Cycas’ attention is currently on public markets. After the hard selling of private equity and performing credit funds last year, it seems prudent to take a step back and re-evaluate the merits of these asset classes. The returns of these funds are heavily fund manager dependent, and are widely dispersed, and it makes little sense to risk investing in a relatively new asset class with unproven fund managers. Further, it not entirely clear to us what value they add to a well-constructed investment portfolio, aside from optically dampening volatility. Before considering investment opportunities in these asset classes we would rather wait to see which funds emerge in the top quartile.

**Changes in the West**

The US is now the central axis of deep geopolitical and economic shifts. Trump’s return coincides with two other mega-trends: AI-driven disruption and the demographic changes in the developed world. We are entering our third major technological revolution with the rise of artificial intelligence, while simultaneously confronting the prospects of social upheaval, and a geopolitical reorientation.

These forces will reshape labour markets, redefine work, and increase reliance on state-led redistribution, ironically making Western economies look more like India, with its wealth transfers via taxation and subsidies. Good leadership ideally provides a common vision, and should ease these fictitious transitions, but Trump’s performance has so far been underwhelming. His inconsistent tariff policies are more likely to create near-term damage than long-term resilience.

The uncertainty around policy, rather than policy itself, is the greatest economic cost. Decisions regarding capital allocation, operations, and hiring are all put on hold until managers have clarity on the policy environment. Going in to Trump 2.0, it seemed clear that Trump would once again use the stock market as his barometer for success. However, his willingness to disrupt the economy to implement poorly conceptualised tariffs proves this wrong.

**Implications for India**

Unfortunately (or fortunately) India is not a key player in the ongoing global reorientation. We are likely to continue our historic strategy of non-alignment, albeit with a strong bias toward the USA on an economic basis. However given Trump's renewed focus North American isolationism, ties to India are likely to be only strategic, without any ideological strength. In the event of a conflagration with our northern neighbours, it is hard to imagine America extending any kind of security umbrella.

For now it is clear that India needs to gain favour with Trump and align itself with America's trade policy. Even with at the risk of severe distortions to various sectors of the economy, it is possible to envision India benefitting from US tariffs. Overcoming domestic political compulsions to reduce tariff barriers, and integrating deeper into global value chains are immediate actions that India needs to do. It is still early days and the Indian economy is not yet reeling from increased tariff barriers, but when it does the government's response will be key. Do we take the easy way out and support domestic industries through handouts and subsidies? Or can we transform the country into a globally integrated modern economy in a '1991' moment? Given our country's track record of only acting when pushed, I am optimistic.

While the economy may be slowing down, Indian equities are beginning to offer attractive opportunities in sectors that are relatively immune from the effects of the tariffs. [redacted]

**Conclusion**

These letters over the last few quarters have been reiterating how capitalism is changing from neoliberalism, where it was believed that private corporations are the centre of the economy and that free markets know how to allocate capital best, to something else where the role of the the private sector is diminished in return for more state involvement. This paradigm change is unstoppable, and is being driven at base by demographic changes, advancements in technology, and the financialisation of the global economy. For investors these will be trying times since company performance will increasingly depend on fiscal policy and international relations.

As an investor in India some similarities should instant emerge between India's version of capitalism and the path that Western neoliberal capitalism is tending toward. In India much of the capital expenditure thus far has been heavily influenced by the state, either directly, or indirectly by nudging the private sector. Indian companies also routinely find themselves at the mercy of India's own tariff policy. Finally, the extreme inequality in India has meant that much of the private sector and affluent class is forced to indirectly transfer wealth to the less affluent through excessive taxation, resulting in our own Universal Basic Income policy for much of society.

Drawing parallels such as this helps us orient ourselves in a rapidly changing investment environment. Almost every few months the investment community is gripped by a new narrative, always racing to find the best 'pocket' from which to ride the wave. While it is crucial to be aware of these ongoing gyrations, we do our best to look beyond them at the underlying value of our investments. There are fundamental factors about

the economy and markets that do not change from month to month, and these are where we spend our attention. Focusing on long term factors slows down our pace of action and reduces our unforced errors.

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