VALUEQUEST

The **Great Pivot**

From fiscal restraint to growth impulse and why India's bull run may be restarting after a pause.

VQ Perspectives November 2025

Table of Contents

THE QUIET TURN	03	Turning points in markets are rarely loud.
GLOBAL CONTEXT	04	Debasement, Liquidity and everything bull market.
INDIA'S MACRO PIVOT	05	From Restraint to Impulse.
MARKET DYNAMICS	06	Under-owned, Under-appreciated.
EARNINGS AND LIQUIDITY	07	The Two Catalysts.
MEGATRENDS AND SECTORAL OPPORTUNITY	08	The government's reform and investment focus is clear and targeted.
THE DISBELIEF PHASE	09	Where Compounding Begins.
CLOSING THOUGHTS	10	The Great Pivot.

"Animal spirits are a driving force — once they return, they can turn hesitation into momentum, and momentum into conviction."

- Adapted from John Maynard Keynes

The Quiet Turn

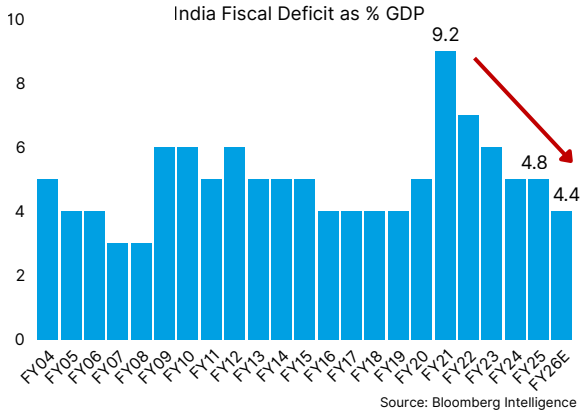
Turning points in markets are rarely loud. They arrive not with fanfare, but in subtle shifts, in liquidity, in sentiment, in positioning.

For over a year, India's markets have been on pause. While global equity markets roared ahead on the back of AI and fiscal largesse, India was on the sidelines. A deliberate fiscal consolidation path, limited AI exposure, and relentless equity supply created a perfect storm of indifference.

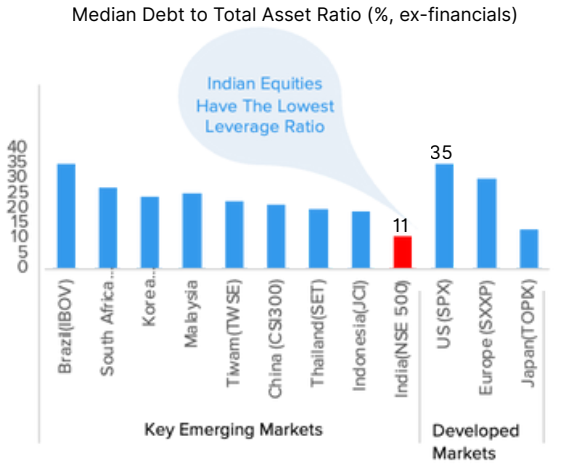
This indifference has now morphed into something more corrosive:
A vicious cycle of negativity that has gained a life of its own.

- Foreign investors have grown disdainful, not fearful, patience is exhausted.
- Domestic investors are anxious, markets have given no returns for a year while peers have rallied.
- Narratives have hardened: **India is overvalued, underperforming, over-owned.**

This is precisely what both the Government and the RBI are determined to reverse. Policy has shifted and with it, the tone of the cycle.



Source: Bloomberg Intelligence



Source: Bloomberg Intelligence

The ingredients are quietly aligning:

- Corporate balance sheets are in their best shape in decades.
- Foreign ownership is at multi-year lows and positioning is net short.
- Earnings downgrades have run their course.
- It is exactly this disbelief phase that often sets the stage for the strongest market rallies.
- Global liquidity is rising as major central banks ease policy.
- India's fiscal stance has turned expansionary after years of restraint.
- RBI has executed a front-loaded rate cut cycle to support growth.

It is exactly this disbelief phase that often sets the stage for the strongest market rallies.

> Bull markets don't begin with euphoria. They resume when pessimism becomes stale and animal spirits find a crack of light.

Global Context

Debasement, Liquidity and everything bull market.

Global markets are witnessing a remarkable confluence of two forces:

Fiscal Expansion: Major economies are spending aggressively, from the US "**Big Beautiful Bill**" to Germany's defense push and Japan's fiscal easing.

Monetary Easing: Rates have fallen across the US, Europe, Japan, and Korea, unleashing a wave of liquidity.

This combination of looser money and limited equity issuance has created a powerful tailwind for risk assets. Until recently, AI-linked equities soaked up most of this liquidity. But with valuations stretched and positioning crowded, the market's attention is slowly broadening.

Emerging markets, especially those with clean macro fundamentals, stand to benefit. And India — under-owned, under-appreciated, and structurally strong, is on that shortlist.

The world is awash with liquidity again.

- Fiscal policy is expansionary across the US, Europe, Japan and Korea.
- Central banks have turned dovish, unleashing a wave of liquidity.
- Equity issuance remains limited, amplifying the flow impact.

For the past 12 months, most of this liquidity chased AI-linked stocks in the US and North Asia. India, absent from the AI boom, was left out of the party. But as the AI trade matures, leadership is beginning to broaden.

Country	Before Sep 2024	Sep 2024	Current Rate Oct 2025	Future Estimated
US	5.25-5.50%	4.75-5.00%	4.00-4.25%	3.5-3.75%
Europe	3.25%	2.75%	2.00%	1.8-2.0%
Japan	0.25%	0.25%	0.50%	Potential hike
Korea	3.50%	3.00%	2.50%	2.50%
China	3.45%	3.35%	3.00%	3.00%

Source: Bloomberg

Emerging markets with credible macro stories are back in the frame. India, with its under-ownership and improving growth impulse, is well-positioned to benefit from this second wave of global flows.

> Liquidity always finds new stories. And when it does, narratives can shift faster than people expect.

"More money has been lost preparing for bear markets than in the bear markets themselves."

- Peter Lynch

India's Macro Pivot:

From Restraint to Impulse

For almost four years, India has operated under a fiscal consolidation framework. While this discipline has built macro stability, it has also acted as a brake on growth.

Nominal GDP growth has slowed from 12–13% to 8–9%.

Credit growth has eased from 15% to 10%.

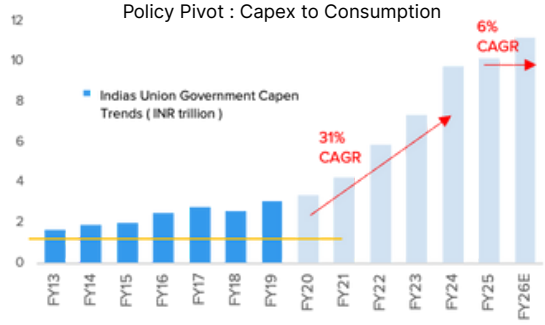
Capex impulse cooled as government tightened purse strings.

The result: growth moderated just as global animal spirits peaked elsewhere.

Bank credit growth has picked up In the recent fortnight*
Total loans (%YoY)

Source: RBI, CLSA. Note: *Last data of the fortnight ending 3rd Oct 2025. Data taken from money supply.

Policy Pivot : Capex to Consumption



Source: Budget documents, Bloomberg Intelligence

But the stance is changing, decisively.

Fiscal: Unconditional transfer schemes by states, increased capex allocations, and a reform push focused on manufacturing, energy transition, and jobs.

Monetary: RBI has already cut repo rates by 100 bps, including a surprise 50 bps front-loading in June, a strong signal of growth intent. Liquidity conditions have improved materially.

Reform momentum: The GST overhaul, Jan Vishwas 2.0, and Income Tax Bill, 2025 are part of a broad push towards simplification and scale.

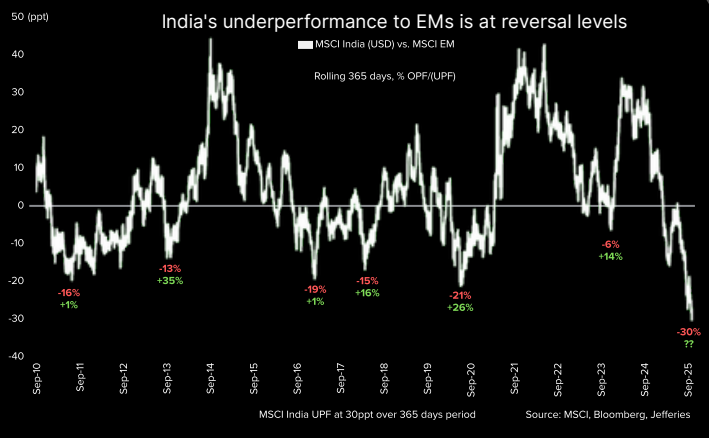
This synchronized policy pivot is rare. Historically, such turning points have marked the start of multi-year growth cycles. This is not a timid adjustment. It's a clear growth pivot. And history tells us that when fiscal and monetary impulses align, market cycles often follow.

> Markets don't wait for earnings to arrive. They move when the stance changes.

Market Dynamics:

Under-owned, Under-appreciated

India is in the second-longest bull market in its history. But unlike previous cycles, the recent leg has been marked by underperformance versus peers.

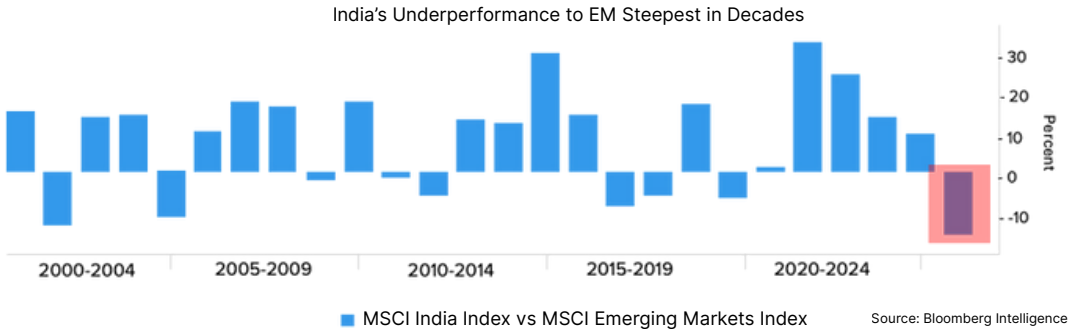


Why?

- No large AI beneficiaries in India.
- Earnings downgrades amid global tariff concerns.
- Active EM funds turning underweight India.
- Heavy primary market supply countering domestic flows.

The result:

- Foreign ownership of Indian equities is at decadal lows.
- FII positioning is net short.
- Median stock prices are 20-25% below their 52-week highs.
- 73% of BSE 500 stocks trade below their 200 DMA.



This is what time correction looks like in slow motion. And strong macro with time correction combined with policy pivot creates the best entry point.

Today's environment is not characterized by fear; it's characterized by fatigue.

- FIIs have grown impatient, rotating capital to faster-moving markets.
- Domestic investors are anxious after a year of range-bound markets.
- Index levels look stable, but beneath the surface breadth is weak:
  - Median stock prices are ~20% below 52-week highs
  - 73% of BSE 500 stocks trade below their 200 DMA

Negativity has become self-reinforcing. It's no longer about fundamentals alone, it's about narrative inertia. And when narratives overshoot reality, they often snap back sharply.

> Markets are driven not just by data, but by the stories people tell about the data.

When sentiment and positioning are this depressed, even small positive triggers, a trade deal, a liquidity tailwind, or early signs of earnings revival can act as a slingshot. Flows can return quickly. Valuations rarely wait for comfort.

Earnings and Liquidity:

The Two Catalysts

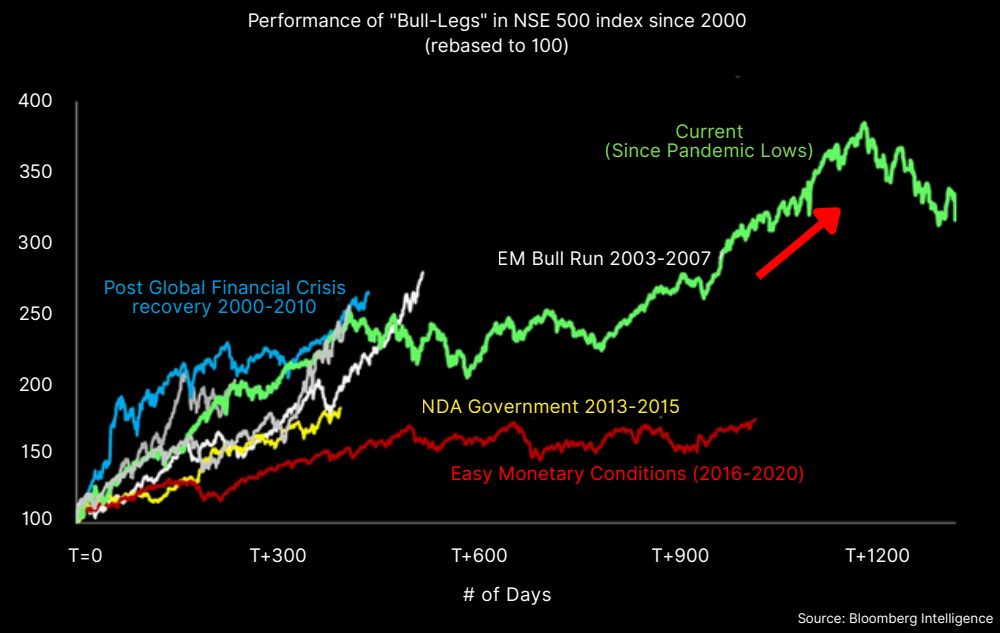
In the past, India's strongest bull markets have been fueled by a twin engine: liquidity + earnings.

- Liquidity is turning: FII outflows are moderating, domestic flows remain strong, and rates are lower.
- Earnings are set to follow: lower rates, stronger consumption impulse, and capacity utilization nearing pre-COVID highs.

Corporate India is leaner, less leveraged, and better capitalized than it has been in decades. Margins are expanding, and fiscal tailwinds are reinforcing demand.

It's the quiet, grudging restart of a rally that paused mid-way.

> Markets don't wait for certainty. They turn when doubt begins to fade.



Bull-Leg is defined as trough to peak performance of NSE 500 index before a drawdown of atleast 20%

> Markets are forward-looking discounting machines — they don't need today's earnings to rally, just tomorrow's confidence.

Megatrends and Sectoral Opportunity

The government's reform and investment focus is clear and targeted. Over the next decade, India is likely to see disproportionate capital allocation and policy support across:

- Energy Transition — Renewables, grid infra, battery storage.
- Defense & Aerospace — A multi-decade domestic build-out.
- Electronics & Semiconductors — Strategic supply chain shift.
- Pharma & Healthcare — Exports + domestic demand.
- Auto & Components — Electrification and global linkages.
- Data Centers & AI Infrastructure — India's own layer of the AI stack.
- Consumption – Adding another engine to the bull market.

> In 1999, few imagined Infosys would lead the next decade. In 2013, financials were the contrarian call. In 2025, the next leadership may come from India's strategic megatrends.

These are not fads. They are policy-backed, capital-backed, multi-year growth vectors.

The Disbelief Phase

Every bull run begins the same way — in a fog of skepticism.

In 2003, when India emerged from the post-dotcom gloom, FII ownership was thin, macro noise was high, and confidence was low. Those who allocated then compounded quietly.

In 2013, when the "Fragile Five" narrative dominated, nobody imagined Nifty would triple over the next decade.

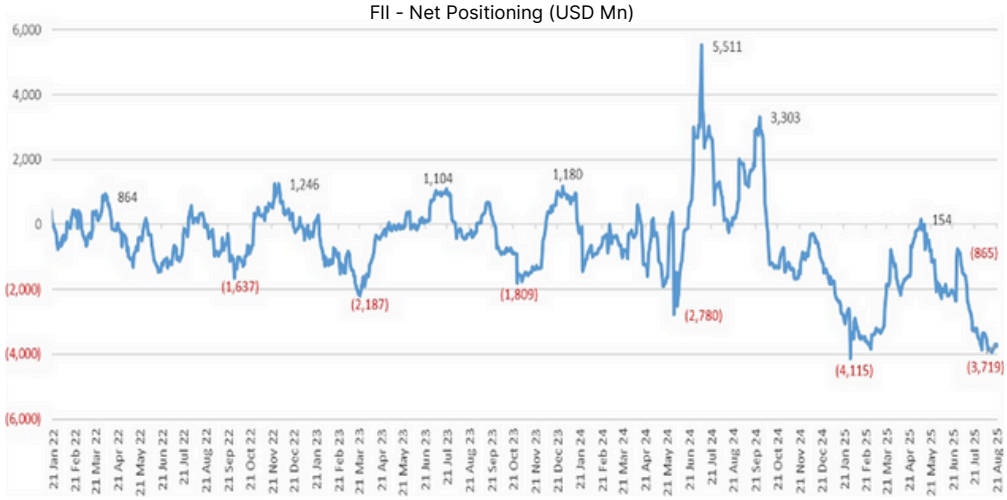
And in 2025, when the headlines are still about AI elsewhere and flows are light, India stands at a similar kind of inflection point.

India Allocation

Equity Mutual Funds	Total Assets (US$ bn)	Avg. Fund allocation (%)	Benchmark (MSCI)	OW/UW(bp) vs. MSCL
Global ex-USA Funds	345	140%	50%	-365 bp
EM Funds	140	1.410%	169%	-280 bp
Global funds	625	30%	18%	-145 bp
AEJ Regional funds	80	1.930%	191%	25 bp
Overall (AUM wgt.)	$1,190 bn	350%	57%	-215 bp

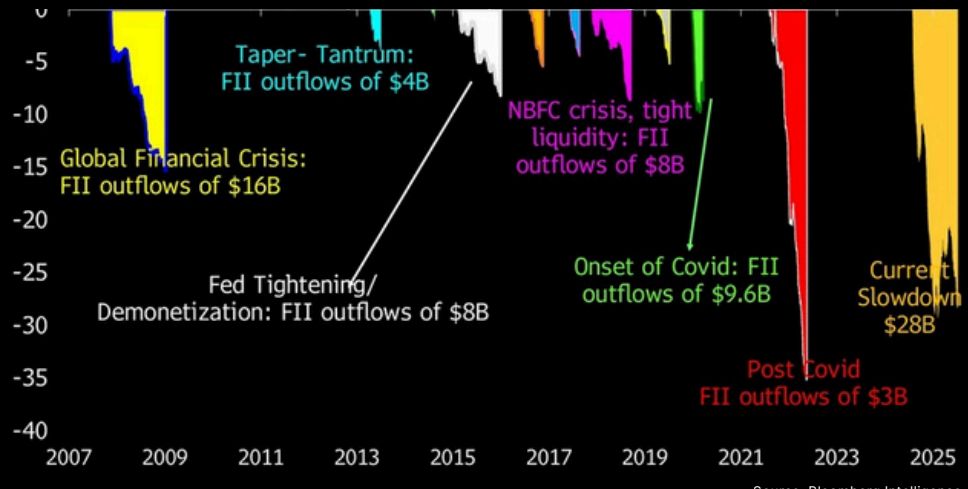
Note: As of Jul end. 2025
Source: EPFR FactSet MSCL Goldman Sachs Global Investment Research

FII - Net Positioning (USD Mn)



Source: Bloomberg

Major Episodes of FII Outflows in Indian Equities ($ billion, cumulative peak-to-trough outflows)

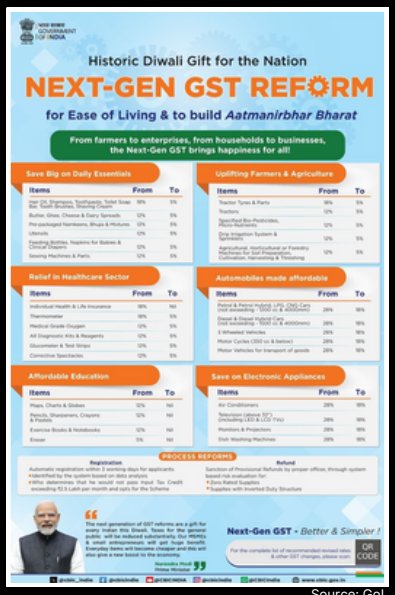


Source: Bloomberg Intelligence

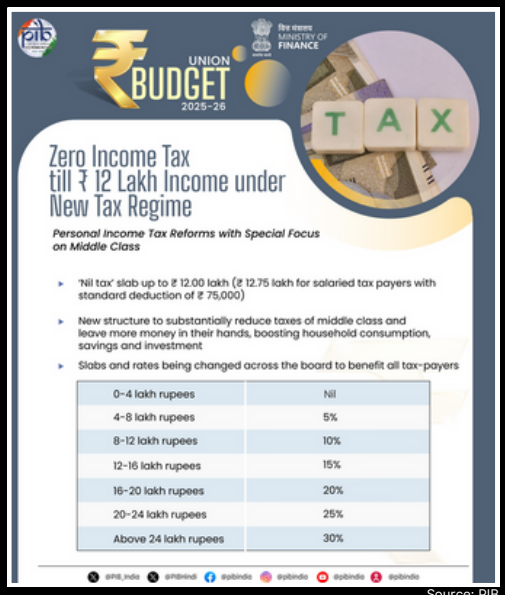
Closing Thoughts

The last four years have been about restraint, consolidation, and patience. The next few could be about acceleration, liquidity, and growth.

For India, this is not the beginning of a new bull run. It's the reawakening of one that paused after a long sprint. Negativity has overshot. Positioning is light. Policy is turning. And the economy, while not roaring yet, is warming up again.



Source: GoI



Source: PIB

RBI in 2024	RBI in 2025
Kept system liquidity extremely tight, avg. system liquidity was in deficit	Boosted liquidity into surplus territory & committed to maintain surplus
Proposed to tighten LCR norms, would have further squeezed out 6-7 lcs crs of liquidity	Draft LCR norms eased out significantly, will actually boost instead if contracting liquidity
Increased risk weights for lending to NBFC's/unsecured loans/credit cards	Restoring of original risk weights for lending to NBFC's
Pressure on banks to manage high C/D ratios	Lowering pressure on banks to reduce C/D ratio
Engineered a slowdown across most high growing credit segments	Changes to PSL norms – Higher ticket size housing loans to be allowed under PSL, easier for banks to manage PSL compliance
	Co-leading norms eased out

> Spring doesn't arrive with trumpets. It starts with a change in the wind.

We believe the coming quarters will see animal spirits slowly return to India's equity markets. When that happens, the turn may feel sudden — but the foundations are being laid right now.

- PM Modi pledged an **"arsenal of reforms"** after GST overhaul announcement and passage of Income Tax Bill, 2025.
- Said reforms are future-focused, not limited to achieved targets.
- **Next-gen reforms to boost** manufacturing, industry, consumption, and jobs.
- Government actions: repealing obsolete laws, simplifying rules, digitizing approvals, decriminalizing offences.
- Criticized past governments for vote-bank politics, reliance on developed nations for technology.
- Claimed India previously **"missed the bus"** in internet & communication tech but now is **"driving the bus."**
- Highlighted India's indigenous 5G system rollout as proof of new approach.
- Stressed reforms are conviction-driven, not crisis-driven or incremental.
- Monsoon session showed reform commitment: Jan Vishwas Bill 2.0 repeals 300 minor offences.
- Linked Atmanirbhar Bharat to Viksit Bharat, built on speed, scale, scope.
- Cited EPFO data: 2.2 million formal jobs added in June, all-time record.

This is not a call to chase momentum. It's a call to recognize **when the wind changes direction.** It's a reminder that skepticism, not euphoria, is where great compounding stories begin.

> Spring doesn't announce itself. It melts the snow quietly.

We believe India stands at the early innings of a new growth and market cycle. The positioning is light, the policy impulse is strong, and the earnings cycle is about to turn. **That is what makes this The Great Pivot.**

Disclaimer

This document prepared by ValueQuest Investment Advisors Private Ltd, is meant for the sole use of the recipient and not for public circulation. This document should not be reported or copied or made available to others, either in part or full. The information contained herein is obtained based on internal data and publicly available information and other sources believed to be reliable. ValueQuest does not claim or warrant the accuracy, correctness or completeness of the data mentioned herein. As such, this document should not be relied upon for any purposes including investments in any security. This document is for personal information only and does not constitute an offer, invitation, or inducement to invest in any security whatsoever. ValueQuest or any of its employees are under no obligation to update the information contained in this document. As permitted by SEBI regulation, ValueQuest and its affiliates, associates, officers, directors, and employees, including persons involved in preparation of this document may: (a) from time to time have a long or short position, or buy or sell, any of the securities of any company mentioned herein or otherwise; or (b) be engaged in any other transaction involving such securities. Client has an option for direct onboarding without intermediation of person engaged in distribution services. Performance related information provided in this document is not verified by SEBI. Past performance is not a guide for future performance. Investment in equities involves substantial risk including permanent loss of capital (in whole or in part) and hence may not be suitable for all investors. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in such statements. Readers shall be fully responsible /liable for any decision taken based on this document. Readers should before investing make their own investigation and seek appropriate professional advice. Investments in securities are subject to market and other risks and there is no assurance or guarantee that the objectives of the fund will be achieved. Clients are not being offered any guaranteed/assured returns. The distribution of this document in certain jurisdictions may be restricted by law, and persons in possession of this document, should inform themselves about and observe any such restrictions.

ValueQuest Investment Advisors Pvt Ltd.
Quest, 1073, Raja Bhau Desai Marg, Century Bazaar,
Prabhadevi, Mumbai 400025, India

ValueQuest Investment Advisors Pvt Ltd.
Kohinoor Square Business Park, B – 4101, 41st Floor,
NC Kelkar Marg, Shivaji Park, Dadar West, Mumbai
400028, India

info@valuequest.in
022 69394444
www.valuequest.in

CIN: U65991MH2010PTC198452 SEBI PMS Reg No: INP000003724