

Webinar summary

Market summary and portfolio positioning

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Speaker: Jigar Mistry · 45 min presentation +

Q&A;

HEADLINE

The agenda covered six themes: (i) tariff tantrums and global impact, (ii) India's policy pivot from capex to consumption, (iii) the state of markets and the economy, (iv) the earnings trajectory, (v) flows — domestic vs global, and (vi) portfolio stance and performance. The overall read: tariffs remain jawboning rather than structural reset, India's fiscal pivot is reshaping leadership within the market, and domestic flows continue to anchor prices despite sustained FII selling and rupee weakness.

| STANCE | FUND SIZE | TRACK RECORD | BENCHMARK |
|---|--|--|---|
| BALANCED ~58% large cap, ~42% small/mid cap | ~USD 900 Mn As of Aug 2025 (PMS + Cat-3 AIF) | Cycle-aware Core / satellite allocation, no large cash calls | BSE 500 Beta managed via allocation, not timing |

KEY THEMES

Tariff tantrums and global trade

Trump's tariff announcements sit between two interpretations: short-term **jawboning** (a negotiating posture that settles at moderately higher tariff levels) or a deeper **ideological reset** invoking the Triffin dilemma — shrinking the US empire, reshoring production, and undoing 40 years of reserve-currency-led globalisation. Time-horizon asymmetry is key: Trump's mid-term window is ~6–8 months; Xi's horizon is indefinite. China likely gains the upper hand; India takes **collateral micro-level damage**, concentrated in **textiles and jewellery** exports. At the macro level, even six months of disrupted exports to the US is ~0.5% of GDP — limited but visible.

Policy pivot — capex to consumption

The Union Budget cut fiscal deficit to **4.4%** (vs 4.9% prior) by deferring capex outlays by ~a year. Analysis of 16 state budgets shows social spending (“freebies”) now exceeds planned capex. Combined with central + state + PSU capex slowdown, **~INR 4–5 L Cr** (1.3–1.5% of GDP) has been redirected to households via tax cuts, subsidies and GST reductions. Since capex carries a ~2.5x GDP multiplier vs ~1x for transfers, near-term consumption rises but long-term growth *intensity* may weaken.

State of markets and investor base

Indian equity market cap is **~USD 5.5 Tn**. Promoters hold ~50%, FIIs ~18%, MFs ~10%, retail ~15% — retail dominates beyond the top 250 names. Retail ownership value surged from **INR 16 L Cr (2020) to INR 70 L Cr (2025)**. Small-cap folios have risen ~5x in under five years. By late 2024, the small-cap index had grown EPS 14% vs price growth 24% on a 3Y basis — ~30% froth, corrected sharply in 2025, with equilibrium now better aligned though illiquidity risk persists.

Earnings trajectory

1QFY26 growth was ~7%, unevenly distributed: midcaps outperformed, small caps lagged, large caps held ground. FY26–FY27 consensus has already been cut by 5–7%; cyclical sectors (metals, pharma) and non-operating income drove much of the print. GST cuts effective late September will not show fully until **3QFY26 (January 2026)** — that print is the real checkpoint on whether consumption can offset the capex slowdown.

Flows — dollar, rupee and domestic anchors

The dollar index fell from ~110 to ~98 through 2025 — normally a tailwind for EMs — but India diverged: the rupee hit all-time lows. RBI’s NDF short position reached ~USD 100 Bn, draining liquidity by >INR 3 L Cr and forcing CRR cuts, OMOs and FX swaps. Domestic equity inflows are tracking **USD 60–65 Bn** annually — offsetting FII outflows and anchoring prices. Household allocation to equities is ~4% of savings (0.7% in 2014, 15%+ at the 1992 peak) — a move to even 10% would add ~INR 10 L Cr per year.

PORTFOLIO STANCE & POSITIONING

As of September 2025 the portfolio is balanced at ~58% **large cap** and ~42% **small/mid cap**. The framework remains explicitly cycle-based: portfolio beta is adjusted by varying **core vs satellite** weights rather than by taking large cash calls. In aggressive phases satellites run larger; in defensive phases satellites are reduced and core stable, cash-generative names form the majority. Sector focus: **BFSI** as the dominant allocation, with selective additions in **building materials** and **FMCG** where value has emerged.

“Participation in growth opportunities, balanced with defensive buffers to preserve capital during volatility — cautious optimism, sector-agnostic in principle, tactical in tilt.”

EXECUTION FRAMEWORK

| LEVER | WHAT | STATUS |
|--------------------------------|--|------------|
| Core — BFSI led | BFSI remains the dominant allocation; structural growth in financial services despite periodic dislocations. | Active |
| Selective satellites | Building materials and FMCG added where valuations offer genuine entry points; risk sized by liquidity. | In place |
| Small / mid-cap caution | Defensive posture in higher-volatility small and mid-caps; illiquidity risk priced explicitly. | Maintained |

PERFORMANCE — ALIGNED WITH THE PHILOSOPHY

- **Cycle-driven framework:** aggressive post-COVID, rebalanced to large caps through 2022–23, re-added to small/mid caps after the 2023 budget reset.
- **Risk-managed drawdowns:** defensive rebalancing through the small-cap correction of 2025 limited NAV impact relative to the index.

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- **No large cash calls:** beta is adjusted via core/satellite balance; diversification and predefined exit strategies are central.
 - **Continuous re-evaluation:** positions are monitored against both top-down macro and bottom-up fundamentals.

RECENT PORTFOLIO ACTIONS

- **Added:** BFSI weight maintained; building materials and FMCG selectively on valuation.
- **Reduced / avoided:** capex-heavy themes (defence, railways, PSUs) where the pivot from capex to consumption weakens the multi-year growth runway.
- **Cash discipline:** tactical cash only, not a prolonged strategy — portfolio risk is managed through beta, not idle balances.

Q&A HIGHLIGHTS

US rates and Indian equity returns. Past periods of rising US rates often coincided with Indian corrections, but the current cycle is different — domestic markets have held up on resilient earnings and strong domestic flows.

Tariff impact on India. Macro impact is modest (~0.5% of GDP if half of US-bound exports disrupted for six months). Micro impact is acute in textiles and jewellery; government support expected. Services exports (IT, pharma, financial back-office) largely insulated.

RBI vs Fed policy. Repo–Fed funds differential is now near **100 bps** (vs ~800 bps in 2013), leaving RBI little room to move independently without rupee pressure. Cuts are therefore contingent on US actions.

Flows and currency risk. FII outflows persist on currency volatility; domestic flows (~USD 60–65 Bn annually) are the market's anchor. Rupee trajectory will determine the timing of FII return.

Cash in portfolio. Held tactically in small amounts to capture opportunities. Portfolio risk is managed by adjusting beta through core/satellite allocation, not by sitting on cash.

Market timing. Avoid precise timing — focus on dynamic risk management and cycle-aware positioning rather than reacting to short-term fluctuations.

OUTLOOK

Tariffs are currently viewed as **jawboning** likely to resolve within 3–6 months, with residual micro-level pain for specific export sectors rather than broad macro damage.

India's transition from capex-led to consumption-led growth is profound — near-term electoral and income benefits, but long-term growth intensity depends on whether consumption translates into productivity and whether private investment fills the gap left by slower public capex.

Domestic flows are structurally large enough to anchor the market even through extended FII selling. Concentrated retail ownership in small / microcaps remains a latent volatility factor worth respecting — which is why the portfolio retains a cautious tilt in that segment.

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