RBC BlueBay
Asset Management

Asian takeaways

Time Correction Thali

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Key points:

- India's equity markets have cooled since late 2023, reversing a period of outperformance against broader emerging markets and China.
- India's valuation premium has narrowed significantly, particularly versus China, as investors prioritise themes like AI and defence.
- Despite near-term challenges, India retains structural growth potential in sectors like power/electrification, financials, healthcare, and manufacturing.

A reversal of fortune for India's equity market

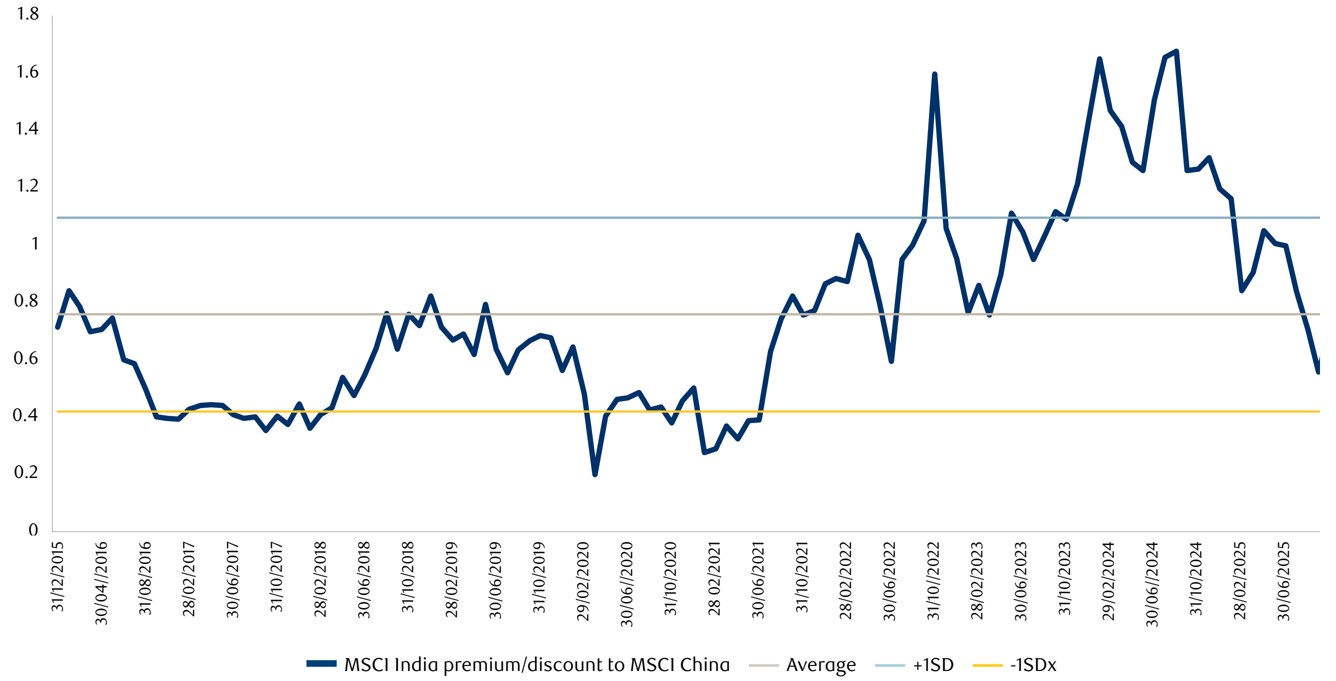
Travelling to India in the second half of 2025, we were faced with a markedly different backdrop to that which we saw when we wrote our previous note in late 2023: Asian Takeaways – Masala musings. Then, the country's equity markets were buzzing with enthusiasm following a strong rally in the wake of the global pandemic. The country was riding a wave of significant outperformance compared with broader Emerging Markets and North Asian economies, with the polarisation in its performance relative to global giant, China characterising the period.

Over the past 18 months, however, we have seen a dramatic shift in the narrative as previous darling, India, has cooled off, with North Asian economies (namely Taiwan, South Korea and China) taking centre stage. India's weak macro environment has been a headwind for its equity markets on the back of disappointing corporate earnings, muted domestic consumption and a weakening currency.

"Over the past 18 months, however, we have seen a dramatic shift in the narrative as previous darling, India, has cooled off."

Valuation differentials illustrate this reversal, peaking mid-2024 and significantly narrowing over the course of 2025. Indeed, India's valuation premium to China has decreased significantly over the past year and a half, recently falling below its 10-year average (Figure 1), with on-the-ground experts referring to the prolonged decline as a 'time correction'.

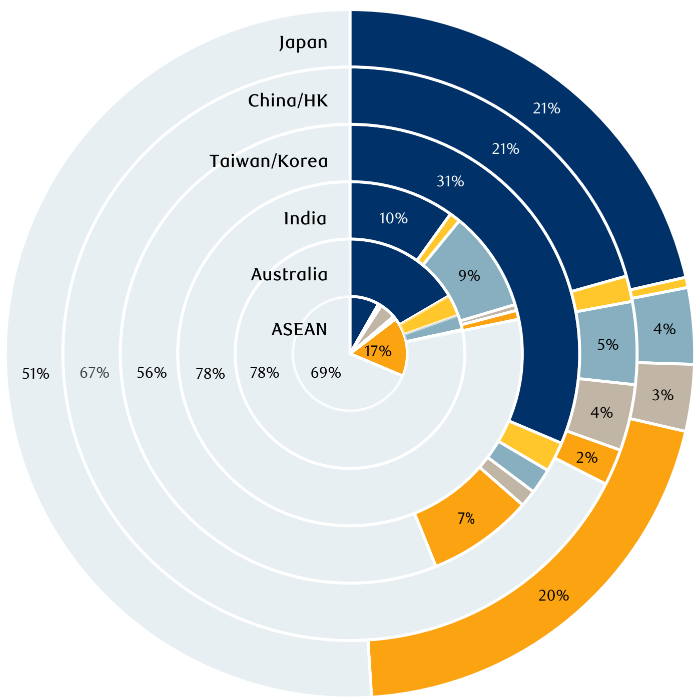
Figure 1: MSCI India's premium to China is nearing -1SD



Source: Bloomberg, as at 30 November 2025.

Key investment themes have also helped to shape markets in 2025, with US hyperscalers such as Amazon, Microsoft and Google influencing global flows with their ramp up of Artificial Intelligence (AI) capital expenditure. Defence capex has been another important theme, as both US and EU governments look to increase spending in this area. India, unlike some of its Asian peers, lacks meaningful exposure on both fronts, and so has been left behind as investors follow these major industry trends (Figure 2).

Figure 2: Taiwan and Korea lead Asia Pacific's AI thematic while India lacks exposure



	Japan	China/ HK	Taiwan/ S. Korea	India	Australia	ASEAN
AI & Tech Diffusion	21%	21%	31%	10%	17%	8%
Multipolar World	0%	1%	2%	1%	3%	1%
Future of Energy	4%	5%	2%	9%	2%	5%
Longevity	3%	4%	1%	1%	0%	1%
Market and Governance Reform	20%	2%	7%	1%	0%	17%
Not thematic	51%	67%	56%	78%	78%	69%

Source: Morgan Stanley Research. Note: Stocks mapped to multiple themes have a pro-rated share assigned to each.

Government boost to consumption, but will spending return?

With India's valuations coming off over the past 18 months, the question now is whether the historically expensive market is looking 'cheap'. Whilst the time correction is compelling, if we zoom out, the country's growth outlook is somewhat murkier than it was previously, with much riding on a revival in domestic consumption. Recent Goods & Services Tax (GST) cuts have been a decent fillip, with the government reducing taxes on hundreds of goods across essentials (such as shampoo) and aspirational products (such as premium food and high-end electronics).

These cuts not only demonstrate a serious commitment to boosting consumption, with the government strongly enforcing the implementation of cost reductions to consumers, but also to improving the wealth distribution effect. There is considerable room for improvement in terms of wealth concentration, with India's top 1% controlling over 40% of the country's total wealth[1].

Whilst much of the economy has now fully recovered from the global pandemic, a structural recovery beyond the shorter-term reactions to GST 2.0 and pent-up demand during Covid lockdown has yet to be seen. Even after the GST cut (late Sept 2025), consumer sectors have shown the highest rate of earnings cuts and weak price performance over the last 13 weeks[2].

> **"Over the past decade, strong government capital expenditure has led growth, with the hope that the private sector would follow suit – although this is yet to be realised."**

Indeed, the longer-term impact of these cuts is somewhat debatable, and India still faces a number of roadblocks (both figuratively and literally) when it comes to sustained growth prospects, with deep-rooted issues such as infrastructure integrity needing attention.

Over the past decade, strong government capital expenditure has led growth, with the hope that the private sector would follow suit – although this is yet to be realised. Looking at infrastructure as one example, slowing government capex poses a significant challenge. Mumbai traffic highlights the ongoing need for road and general infrastructure improvements – even a one-mile journey can take up to 20 minutes in peak times – and until areas such as this are addressed, businesses will continue to face logistical challenges.

15 August 2025: Prime Minister Narendra Modi announced the upcoming "Next-Generation" GST reforms during his Independence Day address, framing them as a "Diwali gift" for the common man.

Long-term growth drivers still intact and opportunities persist

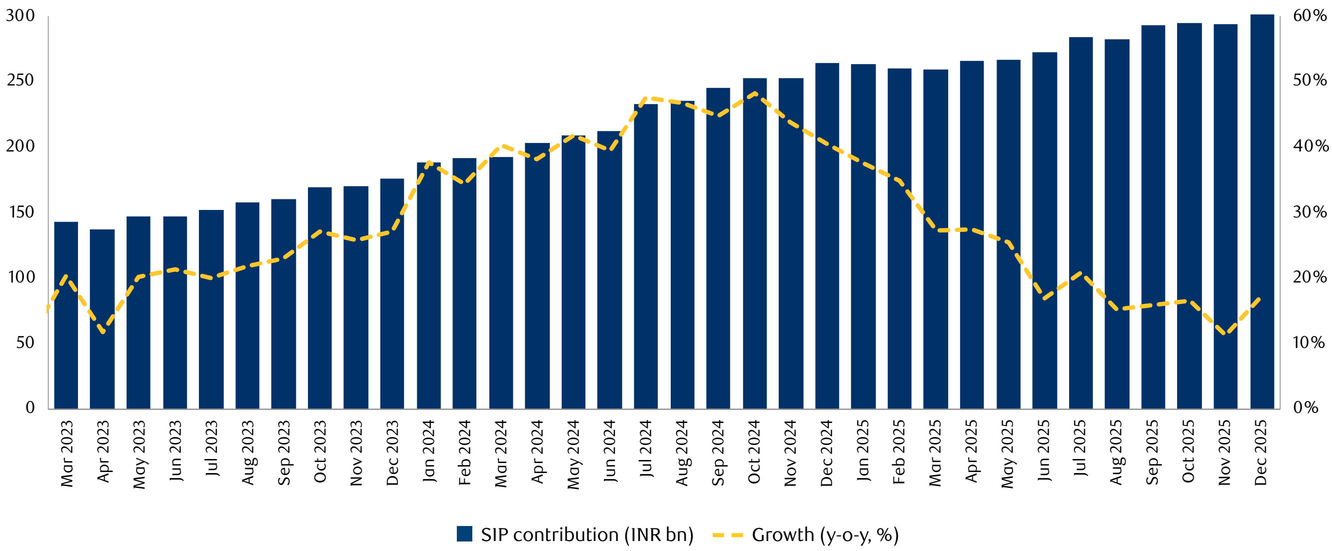
Whilst India has somewhat fallen out of favour with investors and the country faces ongoing economic challenges, we continue to recognise its long-term potential, and as bottom-up stock pickers, the market is not short on attractive opportunities.

Areas such as power and electrification offer compelling narratives with the government continuing to expand capex within these segments, and with the country being early in its economic cycle, we would expect both industrial and residential consumption to pick up. Capex should help to ease bottlenecks within baseload generation, energy storage solutions and the power grid. India is looking to onshore its solar supply chain and has already seen module capacity increase by over 7x since pre-2020 on the back of the government's "Make in India" initiative[3]. Increased efforts here will help to reduce the country's reliance on China, and lead to the emergence of national champions.

Elsewhere, parts of Financials are looking more compelling, particularly non-banking finance companies (NBFCs) as this industry becomes increasingly developed. Sophisticated digital platforms and fintech partnerships are boosting efficiency and reach, whilst easing regulatory pressures have helped to bolster the sub-sector. Asset management businesses are also worth watching with India's mutual fund industry growing at a rate of 20% annually over the past 10 years; assets under management have tripled from INR 268bn in 2020 to INR 792bn in 2025[4]. The industry remains underpenetrated and increasing participation from retail and Systematic Investment Plan (SIP) investors makes for a compelling narrative (Figure 3).

[1] World Inequality Lab, *World Inequality Report 2026*.
[2] Source: UBS HOLT, as at 7 January 2026.
[3] CLSA, company data, as at January 2026.
[4] AMFI, Bernstein Analysis, as at 19 June 2025.

Figure 3: Growing SIP contributions have led industry AUM growth (INR bn)



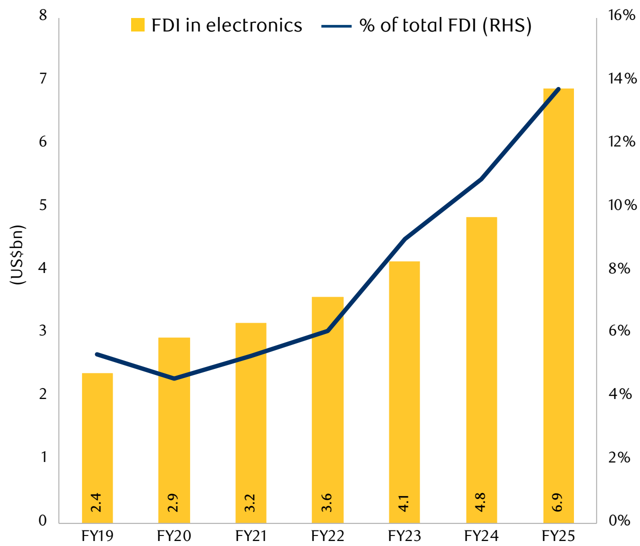
Source: AMFI, HSBC, as at 31 December 2025.

In healthcare, hospitals offer investment opportunities as modernisation and consolidation transform the sector. Historically a very fragmented space, we're seeing larger hospitals seeking inorganic expansion via acquisition of smaller providers, with around US$ 7.6bn worth of deals being made in this space over the past four years[5]. Our own site visits pointed to the leaps that private hospitals are making when it comes to enhancing the quality of services available in order to remain competitive in the space, investing substantially in modern equipment and infrastructure.

"In health care, hospitals offer investment opportunities as modernisation and consolidation transform the sector."

On-site due diligence at one of Mumbai's newest private hospitals' brownfield expansion project.

Figure 4: Investment in EMS is expected to continue its strong momentum



Source: CLSA, Department for Promotion of Industry and Internal Trade, as at 6 January 2026.

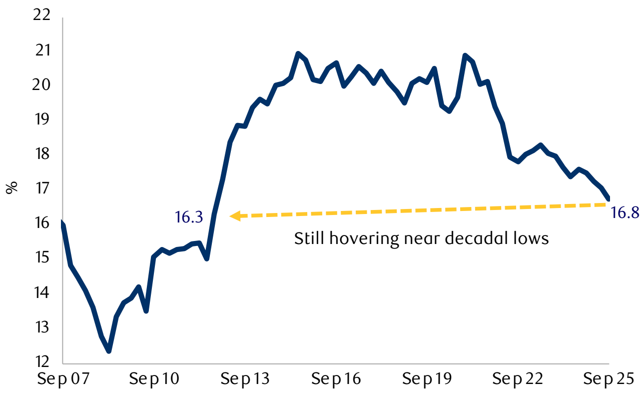
Continuing some of the themes we saw over previous visits, Make in India still has room to go, with the government pushing localisation efforts. Electronics Manufacturing Services (EMS) has been one the key beneficiaries here, with the government's Product Linked Incentive scheme offering significant support to the sector. Mobile phone production, by way of example, has nearly doubled since FY21[6], and the possible extension of this scheme could offer further opportunities, whilst the electronics sector overall is expected to see growth in investment, continuing its strong momentum from the past few years (Figure 4).

[5] Company data, Nomura research, as at 2 December 2025.
[6] Ministry of Electronics, UBS.

In the long run, India's investment appeal remains, with its narrative of favourable demographics and strong growth potential still firmly in place. However, in the nearer term, recent weak consumption and muted growth mean that it may take some time for foreign investors to shift fund flows back to the market (Figure 5). With that said, as selective bottom-up stock pickers, we believe there is still plenty of opportunity in the country's equity markets. Furthermore, India offers an interesting proposition as a hedge against a potential AI bubble in global markets.

> **"In the long run, India's investment appeal remains, with its narrative of favourable demographics and strong growth."**

Figure 5: Foreign institutional investor ownership is near decadal lows



Source: CLSA, Department for Promotion of Industry and Internal Trade, as at 6 January 2026.

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Mayur is a senior portfolio manager and head of the Asian Equity team at RBC GAM. Prior to joining the firm in 2013, he was a portfolio manager at a global asset management firm, responsible for Asia Pacific ex-Japan mandates, managing assets on behalf of sovereign wealth, institutional and retail clients around the world. Mayur had earlier worked at major brokerage firms in London and Hong Kong, workingin derivatives and equity research. He began his career in the investment industry in 1998.

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