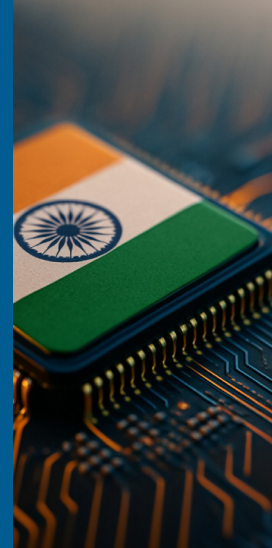


India: Bystander in the Trailblazing AI Rally



TALES FROM THE EMERGING WORLD | EMERGING MARKETS EQUITY TEAM | December 2025

For more than thirty years, India stood out as one of the most consistent compounders in Emerging Markets (EM), delivering steady returns through a wide range of global cycles (*Display 1*). As India faces one of its worst periods of performance relative to EM, some investors are wondering whether a market with such a durable track record has lost its mojo. Historically, Taiwan and the U.S. have been India's closest peers in producing sustained outperformance. But both are now viewed as prime beneficiaries of a global artificial intelligence (AI) cycle, while India is cast as a laggard. That perception, in our view, has been the main driver of underperformance this year.

DISPLAY 1**India's Performance Versus Emerging Markets**

% total annual return, U.S. dollar (USD)

DATE	INDIA	EM	INDIA - EM	DATE	INDIA	EM	INDIA - EM
1993	34.6	74.8	-40.2	2010	21.0	19.2	1.8
1994	9.9	-7.3	17.3	2011	-37.2	-18.2	-19.0
1995	-30.9	-5.2	-25.7	2012	26.0	18.6	7.3
1996	-2.2	6.0	-8.2	2013	-6.9	-0.8	-6.1
1997	11.3	-11.6	22.9	2014	28.0	-3.2	31.2
1998	-21.2	-25.3	4.1	2015	-6.1	-14.6	8.5
1999	87.4	66.4	20.9	2016	-1.4	11.6	-13.0
2000	-21.7	-30.6	8.9	2017	38.8	37.8	1.0
2001	-19.5	-2.4	-17.1	2018	-7.3	-14.2	6.9
2002	8.4	-6.0	14.4	2019	7.6	18.9	-11.3
2003	78.4	56.3	22.1	2020	15.9	18.7	-2.8
2004	19.1	26.0	-6.9	2021	26.7	-2.2	28.9
2005	37.6	34.5	3.0	2022	-7.5	-19.7	12.3
2006	51.0	32.6	18.4	2023	21.3	10.3	11.0
2007	73.1	39.8	33.3	2024	12.4	8.1	4.4
2008	-64.6	-53.2	-11.5	2025	4.8	30.4	-25.6
2009	102.8	79.0	23.8				

Source: Bloomberg, Factset, Haver. As of November 30, 2025. Performance represented by the MSCI India and MSCI Emerging Markets Index. It is not possible to invest in an index. **Past performance is no guarantee of future results.**

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Global investors have been persistent sellers even as Indian participants have largely maintained their faith in the domestic market. The key question is whether flows will return to India once the global AI trade loses steam and the country's strong fundamentals are recognized by investors. Our long experience of investing has taught us that it is almost impossible to perfectly time the markets. It is helpful to step back and examine the journey of the Indian equities over the years and the probability of a comeback.

Structural Changes

India's economic liberalization began in the early 1990s, when a balance-of-payments crisis forced the country to dismantle one of the most restrictive economic systems in the emerging world. The reforms that followed opened the economy, broadened competition and laid the groundwork for a sustained growth cycle. Since 1992, nominal GDP has compounded at roughly 8.5% in USD terms, while the MSCI India Index has delivered nearly 9% annually, far outpacing MSCI China's 2% and the 7% for the MSCI Emerging Markets over the same period.

If there is a pattern at the heart of India's economic policy, it's this: Don't let a crisis go to waste. The government has consistently used the cover of a crisis to push through reforms that transform the country's economic trajectory. Five pivotal moments illustrate this dynamic (See *Display 2*).

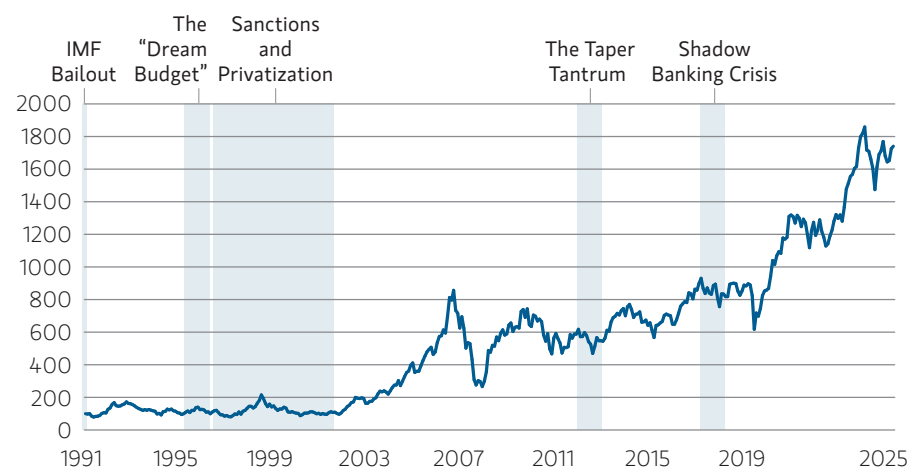
1991: THE IMF BAILOUT

A near default forced India to pledge its gold reserves and undertake sweeping reforms, including ending the License Raj, which imposed strict registration and licensing requirements, devaluing the rupee and opening the economy to foreign capital. The reforms have been described as the bedrock of its economic transformation and the most consequential in shaping the country's growth trajectory.

DISPLAY 2

India Has Not Been Letting Crises Go to Waste

MSCI India returns over past three decades (USD, Indexed to 100, Dec 1992)



Source: Bloomberg, Factset, Haver. As of November 30, 2025. **Past performance is no guarantee of future results.** It is not possible to invest in an index.

1997: THE "DREAM BUDGET"

Despite political instability at home and a currency crisis in Southeast Asia, the government used the opportunity to cut tax rates and simplify duties, widening the tax base in a shift toward market-oriented policymaking.

1998–2002: SANCTIONS AND PRIVATIZATION

Amid nuclear-related international sanctions and geopolitical tensions over a border war with Pakistan, policymakers pressed ahead with major infrastructure investments, such as the "Golden Quadrilateral" highways, linking major cities, and privatized several state-owned firms.

2013: THE TAPER TANTRUM

Faced with capital flight and rising prices, the central bank introduced an inflation-targeting framework, forced the cleanup of bank balance sheets and implemented an Insolvency and Bankruptcy Code to address non-performing assets.

2018: SHADOW BANKING CRISIS

When one of the country's largest non-bank lenders defaulted, it exposed the shortcomings of India's shadow banking system, leading to corporate tax cuts, stronger regulation and new production-linked-incentive (PLI) schemes to boost manufacturing.

Enduring Drivers

India's democracy rests on institutions that, while imperfect, operate with surprising resilience. The executive, legislative and judicial branches maintain checks and balances designed to ensure smooth operation of government machinery. The country's capital markets are deep and allow easy transactions for foreign entities. The judiciary has been willing to uphold investor rights even in contentious cases, including cross-border tax disputes.

The external vulnerabilities have also narrowed over time. India's oil intensity has fallen, softening the impact of price shocks on the economy. Services exports, especially IT and business services, have grown from 4.4% to 6.3% of GDP over the past 15 years.

Domestic demand accounts for nearly 60% of output, insulating India's \$4 trillion economy from global trade shocks. Services, mostly inward looking, account for around 55% of GDP, further reducing macro volatility.

Current Slowdown

After the pandemic spending pushed the deficit to 9.2% of GDP in FY2021, the government is committed to reach a target of 4.4% by FY2026.

The process has inevitably restrained near-term growth, but if that target is met, it should position the economy for a healthier expansion in 2027 and beyond. Additionally, recent tax reforms, including exemptions for low-income households and rationalization of the Goods and Services Tax, are part of efforts to boost consumption.

Monetary policy has followed a similar arc. After tightening by 250 basis points (bps) between 2019 and 2022, the Reserve Bank of India shifted to a more accommodative stance, easing by about 100 bps and injecting liquidity into the system. Given typical policy lags, these steps are likely to support growth in the coming quarters.

We believe that with both fiscal and monetary policies turning supportive, the current cyclical slowdown is in its final stages. Historically, such turning points have created openings for incremental reforms.

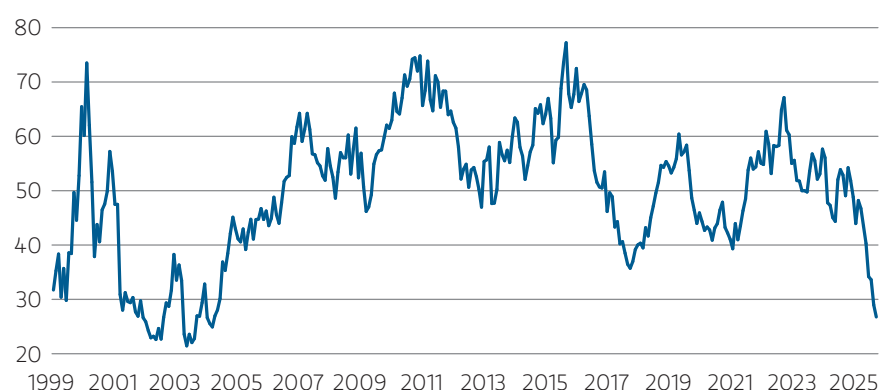
Global Rotation

India's underperformance this year has coincided with an unusual concentration of global investor interest in AI beneficiaries. Roughly 70% of EM funds were underweight India by mid-2025, directing capital instead toward China, Taiwan and Korea. The prevailing narrative holds that India's IT services sector may face headwinds if generative AI reduces demand for traditional outsourcing models (*Display 3*).

DISPLAY 3

Will India's IT Services Face AI Headwinds?

India IT Services/Rest of EM Technology Sector; Relative Performance, Indexed to 100



Source: Bloomberg, Factset, Haver. As of November 30, 2025

We believe this very challenge could act as a catalyst for a new wave of domestic innovation. India's combination of cost-efficient engineering talent, digital infrastructure and rapidly expanding startup activity places the country in a strong position to become a large-scale AI implementation hub. If executed well, AI could enhance productivity far beyond the technology sector, reinforcing India's competitive position rather than eroding it.

Staying the Course

With both the government and central bank turning supportive of growth, we believe the current cyclical slowdown is fading. More recently, the government has announced labor reforms, and the current economic slowdown serves

as another opportunity to implement measures to further restructure and liberalize the economy.

Timing India's market cycles is notoriously difficult. Over the past two decades, in years when the MSCI India Index posted a positive return, missing the best two weeks would have erased between one-fifth to all of its annual gains.

As of March 2025, India had about 560 listed companies with market capitalizations exceeding \$1 billion. Nearly a quarter had gained more than fivefold over the past decade, one of the highest ratios globally.

This strong structural position and improving cyclical trend strengthens our view that the current slowdown is an opportunity to add exposure to a market that has rewarded long-term conviction.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by a portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio. Please be aware that a portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries.

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The **MSCI China Index** captures large and mid-cap representation across China A-shares, B-shares, H-shares, Red-chips and P-chips. It reflects the Mainland China and Hong Kong opportunity set from an international investor's perspective.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets.

The **MSCI India Index** is designed to measure the performance of the large and mid cap segments of the Indian market.

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