



POWER
POINT

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A TOUGHER MACRO NEEDS A SMARTER PORTFOLIO RESET

In recent months, investor concern is rising as inflationary pressures, once seen as transitory, risk becoming entrenched. The drivers are clear: disruptions to energy infrastructure in West Asia pushing oil and gas prices up, persistent supply-chain constraints, and a domestic agricultural squeeze driven by a weaker-than-expected monsoon and elevated fertilizer costs.

The Reserve Bank of India's decision to raise 2026-27 inflation forecast to 4.6% from 4% signals that risks are real. More concerning is the downgrade of growth projections from 7.6% to 6.9%—a “double whammy”. For investors, it is akin to climbing a steep incline with a heavier load, as preserving real returns becomes challenging. India's deep consumption base offers insulation, but not immunity.

Rewriting the rulebook

When macro conditions shift, conventional portfolio rules require surgical reassessment. Mind the debt trap: As interest rates rise to anchor inflation, highly leveraged companies feel the strain. Interest-coverage ratios tighten. Balance sheets begin to matter more than bold projections.

This is not a “growth at any price” environment. Investors must tilt towards businesses with strong free cash flows and low debt. Such companies can absorb higher borrowing costs without compromising reinvestment capacity or shareholder returns.

Elasticity of demand: In an inflationary cycle, pricing power is the ultimate moat. Firms offering non-discretionary goods and services, products consumers cannot eliminate, retain the ability to pass on input costs. If a business can protect margins without sacrificing volumes, it demonstrates quality. That resilience safeguards capital when inflation compresses weaker players.

Role of real assets: When purchasing power erodes, tangible assets act as shock absorbers. Strategic exposure to precious metals and commodities can generate “inflation-plus” returns that paper assets may struggle to match.

Investor's action plan

A holistic approach looks at every corner of your portfolio to ensure no asset class is left vulnerable to the “double whammy”.

Rising inflation, slowing growth make it harder for investors to preserve real returns

Fixed income: In fixed income, rising rates amplify price risk—especially for long-duration bonds. Investors should pivot towards shorter-duration debt funds or high-quality corporate bonds, which are less sensitive to rate hikes. Laddering fixed-income maturities becomes crucial. By staggering maturities, investors can reinvest proceeds into higher-yielding instruments as rates rise—transforming an inflation headwind into a reinvestment tailwind.

Equities: In equities, speculative, cash-burning businesses carry disproportionate risk. The pivot should be towards defensive sectors such as consumer staples and healthcare. Within the sectors, the focus must remain on quality—companies with high return on equity (ROE), consistent earnings visibility, and low leverage. These “cash-cow” franchises tend to outperform during periods of margin compression and economic deceleration.

Real estate: Residential real estate demand can soften under rising mortgage rates. Commercial real estate, however, particularly via REITs, often incorporates inflation-linked rental escalations. As living costs rise, so too can rental income, creating a natural hedge against inflation. That said, given the strong run-up in this segment, exposure should be built cautiously and selectively.

Commodities and gold as hedge: Gold remains India's traditional hedge—and with reason. In a low-growth environment where the rupee may face pressure, gold serves as an international store of value. Its role is not to generate aggressive returns, but to stabilize portfolios during currency stress and macro uncertainty.

International diversification: Geographical diversification remains underappreciated. While India's long-term story remains intact, concentration risk can magnify cyclical shocks. Holding assets across currencies and geographies reduces dependence on domestic variables—whether monsoon variability or West Asian oil volatility. Exposure to global equities can help balance localized slowdowns.

Bottom line

High inflation combined with slowing growth creates a challenging investment landscape—but also a clarifying one. This is not a time for panic. It is a time for deliberate rebalancing. Prioritize quality over speculation. Shorten debt duration. Strengthen real asset allocation. Diversify geographically. Disciplined investors who adapt early can navigate the incline—and emerge stronger when the cycle turns.

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