

# INVESTMENT PERSPECTIVE

## AUGUST 2025

After a positive June, the Indian stock market experienced a significant downturn in July 2025, wiping out the previous month's gains. The benchmark Nifty 50 index fell by 2.77%, reflecting a broad-based market decline across all capitalizations. The Nifty 100 and Nifty Midcap 150 both dropped by 2.74%, while the Nifty Small Cap 100 Index was hit particularly hard, plummeting by 5.71%. Sectoral performance varied sharply. The healthcare and FMCG sectors bucked the trend, with the Nifty Healthcare Index rising by 3.14% and the Nifty FMCG up by 1.76%. In contrast, several key sectors underperformed significantly. The Nifty IT index suffered a major blow, falling by 9%, while Nifty Realty declined by 7.34%. Both private and public sector banks also saw substantial losses, with the Nifty Private Bank and Nifty PSU Banks indexes down by 4.07% and 4.87% respectively.

Since August 2024, we have held the view that the Indian market is in a price-time correction phase, which we expect to continue until the first quarter of 2026. During this period, the market will likely see alternating periods of buying and selling, resulting in minimal net movement. We believe the Nifty is currently trading within a range, with 26,000 as the upper limit and 22,000 as the lower limit. For the next bull market to begin, we anticipate the market needs another two quarters of this time correction. We see the potential risk to this outlook as being more on the upside, meaning a bull run could start sooner than expected. This extended correction period is supported by the fact that corporate earnings are currently growing at a single-digit rate (Nifty earnings for the first quarter of fiscal year 2026 were around 7.5% year-over-year).

### **The case for a rally in the next financial year is based on two key factors:**

- Valuation: By February-March 2026, the Nifty's valuation multiples should become significantly more attractive.
- Earnings Growth: We expect Nifty earnings growth to rebound to a robust 15% or higher in the following financial year.

### **We continue to believe that the current price-time correction in the Indian market was triggered by a combination of factors:**

- High Valuations: Valuations became elevated in the middle of the previous calendar year.
- Tight Macro Conditions: The market faced very tight monetary and fiscal policies.
- Regulatory Overreach: There was a period of excessive regulatory intervention.

While the overall macroeconomic backdrop has since improved, it will take some time for these positive changes to translate into tangible growth in corporate earnings.



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Market corrections often coincide with a surge of news and events that heighten volatility. The current geopolitical and geo-economic news, particularly regarding new tariffs, should be viewed in this context. While headlines about tariffs on Indian goods appear negative, a closer look reveals that India's direct trade linkages are not significant enough to fundamentally alter its macroeconomic landscape.

The tariff situation is still evolving, and its final form is uncertain. While the immediate impact on India may be limited, a sustained period of high tariffs could have significant second-order effects. This could prompt a major re-pivoting of India's geopolitical and macroeconomic policies, potentially leading to a period of rapid fiscal loosening. Such a move would aim to trigger accelerated consumption and corporate earnings growth.

India has successfully navigated similar crises in the past, and its current strong fiscal position gives policymakers the flexibility to adopt a more expansionary stance while maintaining prudence. Furthermore, a prolonged tariff situation could spur a surge in domestic risk capital formation, ultimately strengthening India's technological base.

Following the strong rally from April to June, we previously held the view that the Nifty's risk-reward ratio was unfavorable, and the market's recent decline has validated this perspective. After this downturn, the risk-reward ratio for the Indian market has returned to a more balanced state.

In contrast, most global markets appear overstretched. Their valuation multiples have surpassed the highs seen at the start of the year, even as their recent earnings seasons have been disappointing. Consequently, the risk-reward outlook for global markets is not favorable. We advise long-term investors to use any future market dips in India as an opportunity to increase their exposure.



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