

INVESTMENT PERSPECTIVE

OCTOBER 2025

The Nifty 50 recorded a slight gain of 0.75%. Broader indices showed stronger performance: the Nifty 100 rose by 1.19%, the Nifty 500 by 1.24%, and the Nifty Small Cap 250 by 1.18%. Sectorally, Nifty Auto was the clear leader, surging 6.34%, while Nifty IT was the major drag, falling 4.34%. For the year-to-date (YTD) period, the contrast between segments is stark: Nifty 100 (large cap) is up 4.81%, while the Nifty Small Cap 250 is significantly down, losing 8.82%. Foreign Portfolio Investors (FPIs) continued to pull money out of equities, selling \$2.71 Billion in September, following a larger outflow of \$3.00 Billion in August 2025.

India US trade deals remain elusive. Given the unpredictable nature of current US tariff policy, the possibility of future disruptive trade actions cannot be discounted. It is important not to view recent, seemingly punitive measures against India (like those concerning H1B visas or branded pharmaceuticals) solely as negotiation ploys in the bilateral trade discussions. Therefore, a high degree of alertness is required to manage portfolio risk related to this shifting geopolitical environment. Two critical factors will help shape the future outlook: the resolution of India-EU trade talks and the definitive ruling from the US Supreme Court on tariff legality.

The Indian market is exhibiting a sideways trend since Sep 2024, with the next potential decline (inside the broader sideways move) likely to originate from external pressures. A review of the top 20 global stock market indices reveals a clear pattern of elevated valuations. In numerous major economies, current Price-to-Earnings (P/E) ratios are at or near their highest levels of the past decade. Examples include the U.S. index trading at a P/E of 32.1 (close to its 5-year high of 33.3) and Germany's DAX at 29.8 (near its 30.3 peak). Furthermore, markets traditionally known for moderate valuations, such as Switzerland and the UK, are trading substantially higher than their historical bottoms. This globally stretched valuation is particularly worrying given that global GDP growth over the last decade has been the weakest since 1965, highlighting a potential disconnect between market pricing and underlying economic fundamentals.

We anticipate that the current subdued performance (soft patch) in the Indian market will act as a buffer, potentially insulating it from any significant global financial market disruptions. The rallies observed in AI stocks, cryptocurrencies, and private credit appear stretched; any further upward movement would likely push these sectors into bubble territory. The outsized influence of AI is evident, given that AI-related stocks have been responsible for 75% of S&P 500 returns, 80% of earnings growth, and 90% of capital spending growth since the launch of ChatGPT in November 2022.

Over the next 4–6 weeks, the Indian market's primary focus will be on the corporate earnings season. These results are expected to provide crucial clarity on demand conditions following the recent GST rationalization and tariff-related adjustments. Our forecast for India Inc. is a 9% bottom line (net profit) growth during 2QFY26. Regarding the overall market, we maintain our thesis of sideways movement for another 1–2 quarters.



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