

# INVESTMENT PERSPECTIVE

## NOVEMBER 2025

Supported by resilient domestic growth and stable investor sentiment, the Indian equity market posted solid gains in October 2025, weathering global turbulence. After recovering slightly in September, the benchmark Nifty 50 climbed 4.62%. Both the mid-cap (+4.8%) and small-cap (+4.69%) segments followed suit. Sectorally, the Nifty Realty index was the top performer, surging 9.22%, while IT (+6.89%), Bank (+5.75%) and Metal (+5.72%) indices also saw strong increases. Critically, the strong index returns across capitalizations and sectors masked a narrow rally, as positive alpha was largely concentrated among a select group of heavily weighted large-cap stocks.

The October focus for the Indian market was largely on the corporate earnings season. Standout performers among our portfolio stocks included FEDERALBNK, which surged approximately 22% following strong Q2 results and a capital raise announcement. PVRINOX also gained significantly, climbing 12.3% as it reported a net profit of Rs 106 crore (reversing a net loss) and saw a 12% year-over-year revenue increase, propelled by successful film releases.

The primary market concern has shifted from tariff volatility to the potential for an AI-related bubble. Given that most major global indices are near valuation highs, we maintain that a simple cyclical downturn could result in double-digit losses. We believe market momentum will persist until a decisive counter-catalyst emerges. A structural market shift—a deeper, sustained change—is dependent on three factors:

1. Investor leverage becoming unsustainable.
2. Corporate balance sheets becoming excessively leveraged.
3. Companies' profit margins facing significant threats.

While investor leverage is approaching unsustainable levels, the other two conditions are not yet apparent. Crucially, the major companies driving large-scale AI investment have long been strong cash generators, and their profit margins remain intact, even in recent quarterly reports.

India's lower allocation from global investors stems from a focus on AI growth globally, where the country is not perceived as a significant player. We observe that current AI development is concentrated in two areas: foundational model creation and infrastructure building. While roughly 200 Indian companies are deeply involved in these activities, they are not yet part of the listed equity space. We anticipate that large, listed Indian IT firms will begin to capture value once enterprise AI adoption takes hold given their unparalleled ability to deliver quality enhancement and essential continuity services.

The recent quarterly earnings season in India demonstrated a sequential (quarter-on-quarter) improvement in corporate profits, and the order pipeline for Fiscal Year 2027 (FY27) appears very robust. An important development is that the valuation of the benchmark Nifty-50 index has returned to its long-term average, which should limit any significant downside risk. However, that is not the case for mid-cap and small-cap Indian stocks. Based on



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the quarterly trajectory, we project that Q1 FY27 (Q2 Calendar Year 2026) will see strong mid-teens earnings growth across Indian companies. Our current thesis remains a sideways market movement for the next one to two quarters, with the primary risk leaning to the upside.



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