

# INVESTMENT PERSPECTIVE

## DECEMBER 2025

Nifty touched an all-time high, its 12-month rolling returns have remained largely range-bound over the past year. India's equity market capitalization stands at USD 5.3 trillion; however, its share of global market cap has declined sharply to 3.6% from a peak of 4.7% in September 2024, as global markets rallied strongly in 2025 and significantly outperformed India. This correction has largely been driven by valuation normalization, even as earnings momentum has begun to recover.

Nifty-500 companies delivered a healthy performance in 2QFY26, with aggregate sales, EBITDA, and adjusted PAT growing 8%, 12%, and 15% YoY, respectively. Ex-financials, aggregate earnings rose a strong 20% YoY. The earnings recovery was broad-based, led by mid- and small-cap companies. Aggregate earnings of the Nifty Midcap-150 grew 27% YoY, while small caps posted an even stronger 37% YoY growth, significantly outperforming large caps, which grew 10% YoY. Despite strong earnings performance in the small-cap segment, valuations across both the mid and small-cap spaces remain elevated. We anticipate that it will require another two quarters of robust corporate earnings growth to normalize these valuations to more comfortable levels. In contrast to the sideways market movement, the Indian economy continues to demonstrate robust underlying strength.

Amid global trade uncertainties and elevated US tariffs on Indian imports, GDP growth in Q2FY26 surprised positively, coming in well above market expectations, supported by broad-based resilience and a favourable base effect. Private consumption expanded by nearly 8%, aided by tax cuts and an early festive season that boosted demand. Gross Fixed Capital Formation (GFCF) also grew at a healthy pace, driven by sustained strength in government capital expenditure. The construction sector continued to see robust growth, reflecting ongoing momentum in public capex. However, nominal GDP growth has moderated sharply over the past few quarters, as the GDP deflator—a combination of WPI and CPI—has remained near historical lows. This softness in nominal GDP is significant, given its implications for corporate profitability, the government's debt-to-GDP ratio, and tax revenues. While the risk of fiscal slippage has increased, it remains manageable, with direct tax collections gaining momentum in recent months, led by an improvement in personal income tax receipts.

In its recent credit policy, the RBI described the prevailing combination of strong growth and low inflation as a "Goldilocks" environment. With cumulative repo rate cuts of 125 bps already delivered in CY25, we expect an additional 25 bps cut in February 2026, primarily supported by a benign inflation outlook over the next year. On the growth front, the RBI has revised its FY26 GDP growth forecast upward by 50 bps to 7.3%; we believe actual growth could surprise on the upside here as well. On liquidity, the RBI surprised markets with a sizeable and durable liquidity injection of INR 1.5 trillion in December 2025 alone (OMOs: INR 1 trillion; FX swaps: INR 500 billion).

We foresee the market remaining sluggish for the next 3-4 months as valuation normalization takes its course. Interestingly, India's market exhibits the lowest volatility compared to all other major global stock markets and MSCI India's valuation is at a 55% premium to MSCI Emerging Markets, positioning it near the bottom of its historical premium range of 45% to 90%.



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