

INVESTMENT PERSPECTIVE

JANUARY 2026

The Nifty continued to exhibit sluggish price action through December 2025, trading in a narrow range and closing the month with a marginal decline of 0.28%. The spread between the monthly low and high was among the tightest seen in the past 2–3 years, highlighting a phase of consolidation in the Indian equity market. The start of calendar year 2026 has been weak for Indian equities, with markets once again underperforming major global indices, mirroring the trend observed through most of 2025. However, it is important to note that in Q4CY25, the MSCI India Index delivered a return of 3.8%, outperforming the MSCI World Index, which gained 2.6% during the same period. We expect Indian markets to outperform in 2026. While India appeared to lag in 2025—particularly compared to the strong performance of Taiwan and South Korea driven by AI momentum, Indian underperformance was primarily attributable to decelerating corporate earnings and stretched valuations at the end of 2024 rather than the AI trade itself. With valuations now normalized to more reasonable levels and corporate earnings showing signs of improvement, the outlook favors Indian markets in the year ahead.

From a sectoral perspective, metals, banking and automobile stocks outperformed, benefiting from cyclical tailwinds and selective buying interest. In contrast, IT and healthcare stocks remained under pressure, reflecting earnings concerns and relative valuation headwinds.

While we remain confident about the strong performance outlook for 2026, over the near term—specifically the next quarter—we expect Indian equities to continue undergoing a phase of time and price correction, particularly within the mid- and small-cap segments. The upcoming quarterly earnings season will be a key determinant in assessing the underlying strength of corporate fundamentals and will likely set the direction and sustainability of the next market rally once the current corrective phase concludes. The 'earnings floor' is firmly behind us. Following a strong rebound in Q2FY26, the upcoming Q3FY26 season is poised to be a standout performer—likely the strongest in over two years. With consumption surging and inflationary pressures easing, we expect corporate India to deliver a high-velocity growth performance this quarter.

The quality of earnings growth is expected to improve meaningfully compared to recent quarters, with most sectors likely to report double-digit growth for the first time since 1QFY25, when the earnings slowdown had begun. The earnings downgrade cycle appears to be moderating, as evidenced by a progressive decline in the intensity of earnings cuts from 2QFY25 through 1QFY26. Large-cap companies are expected to deliver ~8% sales growth, while small-cap companies are likely to outperform, with sales growth of around 12% and EBITDA growth of approximately 13%. We estimate Nifty-50 earnings growth of about 8% YoY in 3QFY26. As the base effect fades, we expect earnings momentum to strengthen further, leading to mid-teens earnings growth for the Nifty during FY2026–27.

Given the uneven nature of early-cycle growth, we advise a stock-specific lens over a generalized sectoral approach. Our primary expectation lies in a wave of upgrades for Automotive and Financial counters. Furthermore, we expect a handpicked selection of Consumer, Pharma, and IT stocks to diverge from their peers with exceptionally strong Q3 prints.



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