

Investment Note on Current Markets

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Dear Valued Investors

On a rolling USD total-return basis, Indian equities have underperformed the MSCI Emerging Markets Index over the past 24 months. What makes the current phase noteworthy is that it ranks among the longest and deepest periods of underperformance by Indian equities relative to the index since 2000. Comparable episodes of such relative weakness were seen during the Global Financial Crisis (2007–09), the Taper Tantrum (2013–14), and the India NBFC Crisis (2018–19). The Nifty 50, after touching highs above 26,200, is currently trading around 24,500. Similarly, the Nifty Smallcap 100 Index, which traded above 19,500 in the last quarter of 2024, is now near the 16,500 level. At this stage, however, we believe that this phase of sharp and prolonged underperformance may be approaching its end, and a **meaningful reversal in relative performance may not be far away.**

The current environment is admittedly clouded by uncertainty – the US-Iran conflict is creating visible headwinds for market sentiment. However, it would be a mistake to lose sight of the underlying strengths of the Indian economy. Domestic consumption continues to hold up well, and credit growth remains on a healthy trajectory. Once the immediate reaction to the Gulf situation settles, these fundamental drivers should reassert themselves and support Indian markets through the rest of the year.

From current levels based on the valuations and earnings growth perspective, we remain positive on Nifty. Even accounting for the uncertainties arising from the Gulf situation, Nifty earnings over the next four quarters are likely to grow by more than 12%. That implies **PE of approximately 19.6 for December 2026 for Nifty – a valuation level that is genuinely attractive, particularly for large cap oriented portfolios.**



The large cap Indian equities have already undergone more than 18 months of time correction, bringing valuations to fair and more sustainable levels. Additionally, a large majority of these companies derive their revenues primarily from the domestic economy, which shows clear signs of improvement. This should translate into a meaningful earnings recovery – from the single digit growth seen in recent quarters to mid-teen levels going forward.

Summing up, the **next few weeks may remain uncertain** due to the evolving US–Iran situation and some volatility arising from developments in the private credit market. However, as April begins, market focus is likely to shift back to fundamentals—particularly Indian corporate earnings for Q4 FY26 and the outlook for FY27. At this stage, **the earnings trajectory appears constructive, which should provide a more positive anchor for markets** once the near-term global uncertainties subside.

Wishing you a very Happy and Prosperous FY27 ahead



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