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INVESTMENT PERSPECTIVE

MARCH 2026

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. During the second half of 2024, we had highlighted concerns around elevated valuations and the possibility of a relative slowdown in earnings, which could lead to either price corrections, time corrections, or a combination of both. 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 and the ongoing debate around AI's economic impact are 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 - both of which are powerful tailwinds. 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.

However, in the near term for the next few weeks we need to remain cautious. History reminds us that many major conflicts were not initially planned but escalated beyond their original intent, and the current situation carries a similar risk of unintended escalation. What makes this moment particularly volatile is that the threshold between calibrated strikes and outright war has already been tested in concrete ways. The region is already experiencing a de facto blockade driven by active combat and risk avoidance. Major shipping firms (Maersk, Hapag-Lloyd, MSC) have suspended transits and war-risk insurance premiums are skyrocketing.

But from current levels, a gain of 10 to 15% by December 2026 for Nifty remains a realistic expectation. 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.

This is a reasonable time to accumulate quality large cap stocks. It is worth noting that 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. Importantly, the quality of earnings across these large caps remains strong, which adds further confidence to the investment case.

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.

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