Dear Investor,

Indian equity markets have been struggling in 2025, with a sharp fall in indices, particularly in the mid and small cap parts of the markets. This fall has sharply reduced the divergence among the performance of different indices. So much so that the returns profile currently among the indices are not very different. At one point, the overall returns of these indices were hugely divergent. Nifty's returns from April until September were 18%, while mid and small cap indices delivered 26% and 33% during the same period. Post the fall, performance across market caps for this fiscal is now almost similar.

After the violence in markets in the last few months, we believe that there are certain factors that have turned now from the economic policy perspective to warrant stability. Obviously, over a long period of time, it's the earnings of businesses and their capital efficiency that drive the performance.

Being accommodative

Since Covid-19, the stance of monetary and fiscal policy has been tight. There has been tight control over liquidity and fiscal deficit. However, we are now seeing a shift, predominantly from the Reserve Bank of India (RBI). The RBI has taken decisive and proactive approach toward managing banking system liquidity. The RBI has already purchased Indian government bonds worth ₹2.6 lakh crore, including a planned ₹50,000 crore auction on 25 March, with ₹2.3 lakh crore acquired in the past 45 days alone. Additionally, two USD-INR swaps totalling approximately ₹1.3 lakh crore have been executed, with another ₹88,000 crore (USD 10 billion) scheduled.

We expect the RBI's Monetary Policy Committee (MPC) to continue maintaining its accommodative stance and prioritise liquidity. This could lead to a decent 75 bp rate cut in FY26E, with a further potential additional 25 bps cut in FY27E, assuming that the headline inflation moderates, and inflationary pressures remain subdued. Such policy measures should support lending, albeit with a lag, and drive economic growth and corporate earnings.

Although systemic liquidity remains in deficit—averaging ₹1.4 lakh crore in March 2025, compared to ₹2 lakh crore in January 2025—the liquidity situation is expected to shift into a moderate surplus by Q1FY26 as seasonal pressures ease. The RBI's proactive liquidity management has helped stabilise market conditions and strengthen financial resilience amid global uncertainties.

On the global front, a softer US dollar and declining crude oil prices provide a supportive backdrop despite ongoing trade and geopolitical uncertainties. Furthermore, as liquidity eases and yields moderate at the shorter end of the yield curve, risk-on behavior increases.

If the RBI accelerates liquidity injections in FY26, markets are likely to price in further rate cuts amid softer economic conditions. This would boost investor sentiment toward Indian equities. Additionally, a reversal of Foreign Portfolio Investor (FPI) outflows due to fair valuations, could lead to superior risk-adjusted returns going forward.

Earnings outlook

The earnings are the hallmark of any market. In the long term, it is only earnings that matter the most. Eventually, it's the earnings and capital efficiency that long-term value creation.

FY25 has been a year of sub-par growth in profits for the economy. India Inc should close the year with mid-single-digit profit growth. However, growth is expected to pick up in FY26 on the back of a low base of FY25, improvement in economic activity, a normal monsoon, and also the possibility of some semblance in the world order. Nifty50's profits are expected to be in the mid-teens growth in FY26. The coming year should see support from some acceleration in revenues, aided by some margin improvement for India Inc. This pick-up in growth could be a supporting factor for the equity markets in a volatile environment. Sectors that may lead growth in earnings include a mix of cyclical and structural businesses like Cement, Telecom, Consumer Durables, Industrials, commodities if prices remain elevated. This should be another year of low growth for Indian IT software services companies, although growth may be a slight improvement from the current lows seen in FY25.

The ongoing correction in markets, has resulted in valuation correction in markets, resulting in pockets of opportunities in markets.

At ASK, we believe markets are back to 101 of investing. The focus has be on growth and quality of growth. Most of our portfolios should report high single-digit to low-digit higher profit growth compared to the benchmark, along with ROCEs which are way superior. We have relatively higher investments in sectors including Telecom, Consumer Discretionary, manufacturing and Healthcare – which to our minds should be the growth leaders. In the relatively slower growth economy, we believe businesses that are growth leaders should start to command valuation and lead to polarisation in the marketplace.

Happy investing,

Sumit Jain

Deputy CIO, ASK Investment Managers Ltd

Source: ASK IM Research and documents available in public domain

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