

Indian markets over the last year

Research Context: General

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Complete Report

Complete Report: Indian Markets Over the Last Year

Introduction

The Indian markets have exhibited a mixture of resilience and volatility over the past year, reflecting a complex interplay of domestic dynamics and global economic factors. The Economic Survey 2024-25 highlights that despite significant fluctuations, Indian markets have performed admirably in the global context. This report aims to provide a detailed analysis of the Indian markets over the last year, focusing on key trends, performance metrics, and underlying economic factors influencing market behavior.

Context

In FY25, Indian markets witnessed both challenges and opportunities. The compounded annualized returns of the Nifty 50 index stood at 8.8% over the past decade, trailing behind other significant global indices such as the U.S. NASDAQ and Dow Jones but still demonstrating robust performance in a volatile environment. The ongoing recovery post-COVID-19, driven by domestic consumption and government initiatives, has provided a strong foundation for market growth.

However, external factors, such as geopolitical uncertainties and fluctuating foreign investment flows, have also played a crucial role in determining market outcomes.

Main Findings and Analysis

1. Market Performance

The analysis of market performance over the last year reveals several key insights:

- **Volatility and Growth:** The Indian markets have been characterized by significant volatility, with the secondary markets managing to deliver positive performances despite this turbulence. The primary markets experienced heightened listing activities, indicating strong investor enthusiasm and confidence, as reported in the Economic Survey 2024-25.
- **Domestic vs. Foreign Investment:** According to BNP Paribas Exane, strong domestic flows are expected to continue supporting the Indian equity markets, potentially offsetting any outflows from international investors. The domestic investment landscape, bolstered by government expenditure and consumer demand, has contributed significantly to the market's resilience.
- **Earnings Growth and Corporate Health:** Despite recent challenges, corporate India has shown steady earnings growth. The trend of internal investment, consumption, and government spending driving approximately 80% of India's GDP growth speaks volumes about the robustness of the economic fundamentals. Companies have demonstrated the ability to deliver on their strategic goals, reflecting an improving corporate health environment.

2. Sectoral Trends

The Indian stock market has shown varied performance across different sectors.

- **Information Technology (IT) Sector:** The IT sector has experienced muted trends, which have implications for investor strategies. Investors are advised to remain vigilant and consider diversification across sectors to mitigate risks associated with sector-specific downturns.
- **Infrastructure, Healthcare, and Digitalisation:** These sectors are poised for long-term growth, driven by structural tailwinds such as increasing consumption, infrastructure

development, and advancements in healthcare and digital technologies. Investing in quality companies within these sectors may yield favorable returns as the economy continues to evolve.

3. Market Dynamics and Investor Behavior

The Indian market exhibits unique characteristics that influence investor behavior:

- **Leverage and Asymmetry:** Research indicates that the Indian market has reversed leverage and asymmetry compared to other markets, making it potentially more promising for investors. However, significant autocorrelation in returns suggests market inefficiencies, offering opportunities for savvy investors to capitalize on predictive patterns.
- **Fat-Tailed Distribution of Returns:** The analysis of price returns indicates a fat-tailed cumulative distribution consistent with a power law, similar to developed markets. This characteristic reflects the potential for extreme market movements, emphasizing the need for risk management strategies among investors.

Supporting Evidence and Data

1. Economic Indicators

- **GDP Growth:** India's GDP growth has been primarily driven by internal factors, with government policies fostering an environment conducive to growth. The steady drop in the unemployment rate from 6% to 3.2% over seven years underscores the positive economic trajectory.
- **Market Listings:** The surge in primary market listings despite market volatility showcases investor confidence and optimism about future growth prospects. The Economic Survey emphasizes that this trend is indicative of a healthy market environment.

2. Comparative Performance Metrics

- **Returns Comparison:** The compounded annualized returns of the Nifty 50 at 8.8% reflect a competitive stance among global markets, although trailing behind indices like

the NASDAQ (15.3%) and the Dow Jones (9.2%). This comparative analysis highlights the need for continuous improvement in market strategies to enhance returns.

- **Sector Performance:** An examination of sector performance indicates that while some sectors, such as IT, may lag, others like healthcare and infrastructure are gaining momentum, suggesting an evolving investment landscape.

Conclusion

The Indian markets over the past year have navigated through significant volatility while demonstrating resilience supported by strong domestic fundamentals. The interplay of government spending, robust corporate performance, and evolving consumer dynamics paints a promising picture for the future. Investors are encouraged to focus on sectors with long-term growth potential and to adopt strategies that leverage the unique characteristics of the Indian market.

Key Takeaways

- **Resilience Amidst Volatility:** Indian markets have shown remarkable resilience despite global uncertainties, making them a focal point for investors seeking growth opportunities.
- **Domestic Support:** Strong domestic investment flows are likely to continue supporting market performance, even in the face of subdued foreign investment.
- **Sectoral Opportunities:** Investors should consider diversifying their portfolios across sectors, focusing on infrastructure, healthcare, and digitalisation for long-term gains.
- **Market Characteristics:** Understanding the unique dynamics of the Indian market, including its inefficiencies and return distributions, can aid investors in making informed decisions.

This comprehensive analysis provides a clear understanding of the Indian markets' performance over the last year and outlines potential strategies for navigating the evolving investment landscape in 2025 and beyond.

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