FINGINE Report

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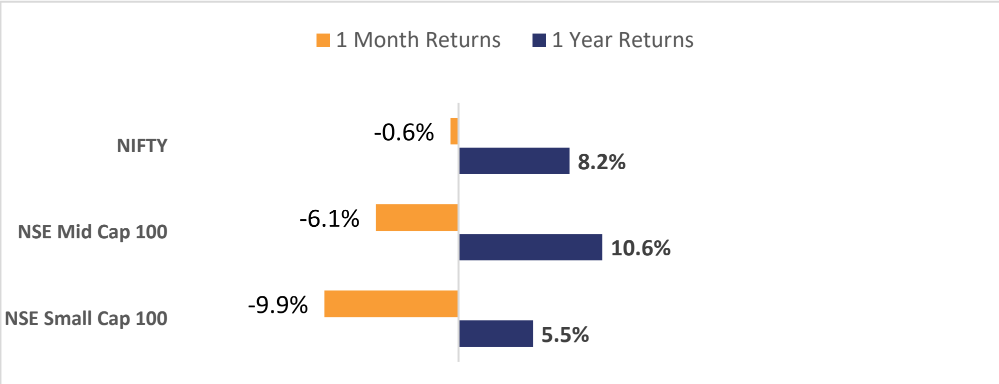
The first month of the new year saw an extension of the already weak sentiment prevalent in the Indian equity markets since end-September. While the Nifty 50 was down less than 1% in January, the Midcap 100 and Smallcap 100 indices closed lower by 6% and 10% respectively, indicating substantial selling pressure in the broader markets. It is understood that mid- and small cap valuations had moved far ahead of earnings in euphoric market conditions prevailing right up to September and the current correction is making these stocks more aligned with reality once again.



Following an aggregate decline of 9% in the value of the Nifty 50 during the October-January period, even February has started with an extension of the overall weakness despite the positivity associated with some of the union budget announcements. FIIs have been selling aggressively and, while DIIs are continuously adding to their positions, institutions' participation in aggregate remains negative. From the technical perspective, the broader markets have formed lower lows over the past few months, trading below all the key moving averages and are looking oversold. Also, for the first time over the last few years, there is no recovery seen after a fairly significant decline.

Meanwhile, it was a strong start to 2025 for investors globally, with assets across equities, bonds and commodities all broadly delivering positive returns. In the equity markets, there was a departure from the status quo of the last two years, with Europe outperforming the US, and value stocks beating their growth counterparts. The return of President Trump to the White House, along with his 'America First' policy agenda, proved supportive for US equities, but the emergence of Chinese artificial intelligence (AI) company DeepSeek, called into question the US technology sector's ability to deliver against lofty expectations.

The union budget speech delivered on 1 February has highlighted significant income tax cuts that are now expected to raise consumption across various B2C categories from consumer staples, consumer durables, QSR, automobiles etc. The demand in these categories could get further boosted by the easing monetary cycle which is reflected in the 25-basis point cut in the repo rate announced the Reserve Bank of India recently. In addition to the expected expansion in consumption, the government's capital expenditure, a key constituent of the country's recent GDP growth, is slated to grow further based on budgetary estimates. The fiscal deficit target has been cut significantly cut from 4.8% in FY25 to 4.4% in FY26, which is a further positive as this eases the pressure from government borrowings on interest rates and in turn rationalises cost of capital for the private sector.

Going forward, with the expectation of a revival in the consumption cycle and continued capex investments, supported by lower interest rates, there is a positive framework for earnings growth that have seen another quarter of deceleration based on the currently announced third quarter financial results. Now, following the recent correction in valuations, participants in Indian equity markets may now look forward to a more favourable risk-reward in their portfolios.

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