Monthly Market Outlook

Trade Deal Delay Keeps Indian Equities Subdued in Dec'25

January 2026

Indian Markets Reel Under FPI Selling Pressure

India's equity markets underwent a time correction in 2025, failing to scale new highs during the year. Elevated valuations, a heavy supply of initial public offerings (IPOs). The benchmark equity indices remained largely range-bound during the month and ended with modest losses, as the US–India trade deal remained elusive and Foreign Portfolio Investors (FPIs) continued to be net sellers. FPIs were net sellers of USD 2.5 bn in December, while Domestic Institutional Investors (DII) bought USD 8.1 billion during the month. Broader market indices also posted monthly losses, with the BSE MidCap declining by 0.5%, while the BSE SmallCap ended the month down 1.0%.

Monetary policy easing by both the RBI and the Fed failed to uplift market sentiment. The Nifty 50 and BSE Sensex indices posted monthly losses of 0.3% and 0.6% respectively in December 2025.

Among sectoral indices, Metals, Auto, and IT outperformed, posting monthly gains of 7.9%, 1.3%, and 1.2%, respectively. In contrast, Defence, Consumer Durables, and Real Estate significantly underperformed, recording monthly losses of 3.3%, 3.0%, and 3.0%, respectively.

Outlook for January 2026

Indian markets begin 2026 with a considerably stronger underlying position than in 2025. Macroeconomic headwinds have eased with accommodative monetary policy, income tax cuts, and GST reforms, while valuations have become more reasonable following a period of correction. Markets expect mid teen EPS growth 2026, with reduced risks of downgrades compared to 2025. Over the 18 months, earnings estimates in India were lowered. However, the picture is looking better over the last three months.

The market is expected to continue its focus on high earnings visibility, sustained profitability and structural growth catalysts along with reasonable valuations. While bottom-up stock picks around popular themes remain expensive, underperformers due to slower growth with relatively attractive valuations offer selective opportunities. Stock picking with a focus on growth at reasonable valuations will remain the cornerstone of performance, with a clear preference for domestic-oriented sectors over export-heavy plays.

Foreign portfolio inflows are also poised to revive, supported by India's strong macroeconomic fundamentals, including a stable current account deficit, subdued inflation, and fiscal consolidation. The economy's growth engine is transitioning from government-led capital spending toward private consumption, particularly discretionary segments.

Multiple structural factors support a consumption rebound. Personal income tax cuts will increase household disposable income, thereby benefiting categories of discretionary spending. Inflation pressures have moderated significantly, further supporting consumption. Monetary accommodation and the RBI's relaxation of various banking norms also aim to accelerate credit expansion.

However, the global environment is expected to remain volatile with continued trade and tariff disputes, geopolitical conflicts and heightened economic uncertainty. Given this backdrop, we prefer domestically focused sectors over those dependent on global dynamics, as internal fundamentals provide greater resilience amid international uncertainties.

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