



# Top 10 issues for 2026



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DEC. 29, 2025

PERSON OF THE YEAR | THE ARCHITECTS OF AI





Hi,

We are glad to present another edition of our Annual Study. As usual it is divided into 3 parts – recap of 2025, a review of what we said in 2025 and what actually happened and our outlook on the main issues that will affect the market in 2026. We are proud to share that 8 out of the 10 issues that we highlighted last year actually turned out to be true.

A list of 10 issues may be too small for an year full of 365 days. We have tried to focus on the one we consider as more important ones. We can't claim to be soothsayers but highlighting the issues upfront helps in creating framework in which to evaluate how do we stand today and is there a need to make changes to our portfolio to incorporate the new realities that are emerging.

This year the ten issues we have highlighted are the deal with USA, trajectory of our currency, expected policy initiatives by the Government, artificial intelligence, commodity trends, geopolitics, a few promising themes for the year, liquidity flows from domestic and international investors, earnings outlook and finally a toss between consumption or industrial stocks to pick winners. For every issue we have given some data to put things in perspective before placing our views.

We enjoy this exercise because it forces us to think hard and review all that has happened. We believe that investment is something that falls between an exact science and a masterful art where decision need to be made based partly on data and partly on probable outcomes. The interplay of events in the short term, liquidity in the medium term and valuations in the long term decide the direction and elevation of the markets and stocks. Having a framework to look into the future is a valuable tool to asses our position the present.

The study on Top 10 Issues is an endeavour in this. We hope you like it and make full use of it.

With regards

Investment of Citrus Advisors

# Recap of 2025

# Recap: How did the Global Indices do in 2025 vs 2024

## Indian Market

Benchmark	Index Level	CY25	CY24
NIFTY 50	26130	10.51	8.80
BSE SENSEX	85221	9.06	8.17

## Emerging Markets

Benchmark	Country	Index Level	CY25	CY24
Seoul Composite	South Korea	4214	75.63	-9.63
Bovespa	Brazil	161125	33.96	-10.36
IPC	Mexico	64308	29.88	-14.90
Hang Seng	Hongkong	25631	27.77	17.56
MerVal	Argentina	3051617	20.44	172.52
Straits Times	Singapore	4655	22.91	17.14
Jakarta Composite	Indonesia	8647	22.13	-2.65
Shanghai Composite	China	3965	18.30	14.53
KLSE Composite	Malaysia	1685	2.57	12.58

## Developed Markets

Benchmark	Country	Index Level	CY25	CY24
Madrid General	Spain	1712	50.52	13.40
ATX	Greece	5326	45.41	6.64
Nikkei 225	Japan	50339	26.18	19.22
RTS Index	Russia	1114	24.73	-17.56
DAX	Germany	24490	23.01	18.85
FTSE 100	UK	9931	21.51	5.01
Nasdaq	USA	23242	20.36	29.81
S&P 500	USA	6846	16.39	23.84
NYSE	USA	22004	15.22	13.20
Swiss Market	Swiss	13267	14.37	4.16
Dow Jones	USA	48063	12.97	12.96
CAC 40	France	8150	10.42	-3.04

- ❖ In CY25, performance of Indian Markets have been in the bottom quartile in both Emerging and Developed markets.
- ❖ South Korean and Spanish markets have given >50% returns and have outperformed in Emerging and Developed markets respectively.

# Recap: How did the Sectoral Indices do in 2025 vs 2024

Benchmark	Theme	Index Level	CY25	CY24
NIFTY 50	Index	26130	10.51	8.80
BSE SENSEX	Index	85221	9.06	8.17
Nifty Midcap 150	Index	22277	5.37	23.80
Nifty Smallcap 250	Index	16685	-6.01	26.43
Nifty Microcap 250	Index	22546	-9.95	34.20
NIFTY PSU BANK	Finance	6494	30.46	14.48
NIFTY METAL	Industrial	16606	29.11	8.42
NIFTY AUTO	Consumer	23412	23.45	22.64
Nifty India Defence	Industrial	1052	19.30	55.52
NIFTY BANK	Finance	6088	17.15	5.32
NIFTY PRIVATE BANK	Finance	13823	15.90	-0.38
Nifty Infrastructure	Industrial	22834	13.62	15.88
Nifty India Manufacturing	Industrial	43338	11.50	25.23
Nifty CPSE	Industrial	9532	4.55	25.26
NIFTY PSE	Industrial	8464	3.37	21.35
NIFTY ENERGY	Industrial	6541	0.39	5.14
NIFTY FMCG	Consumer	8650	-2.33	-0.33
NIFTY PHARMA	Exports	50860	-2.94	39.10
NIFTY IT	Exports	35188	-12.58	22.03
NIFTY SME EMERGE	Index	56800	-13.50	53.96
NIFTY REALTY	Consumer	24780	-16.57	34.39

- ❖ Nifty Smallcap and Microcap indices, that outshined Nifty50 last year, have underperformed significantly in CY25.
- ❖ In CY25, we can clearly see a sectoral change with sectors like Pharma, IT, SME Emerge and Realty outperforming in CY24 but have underperformed this year.
- ❖ Defence, Auto and PSU Banks have done well in both CY24 and CY25.
- ❖ PSU Banks and Metals were the stars of 2025

# Recap: 3 Year and 5 Year Wealth Creating Sectors

## Performance of bench mark in last 3 years and 5 years

Benchmark	Index Level	3 Year Performance	5 Year Performance
NIFTY SME EMERGE	14365	30.00	53.42
Nifty Midcap 150	22277	23.25	23.14
Nifty Smallcap 250	16685	20.69	22.37
BSE SENSEX	85221	12.98	13.31
NIFTY 50	26130	11.87	12.28

## Sectors that have outperformed the bench mark in last 5 years

Benchmark	Index Level	5 Year Performance
NIFTY PSU BANK	6365	37.22
NIFTY METAL	11168	27.95
BSE Power Index	6503	25.81
NIFTY AUTO	28190	25.10
NIFTY REALTY	878	22.83

## Sectors that have outperformed the bench mark in last 3 years

Benchmark	Index Level	3 Year Performance
Nifty India Defence	7747	51.88
NIFTY AUTO	28190	30.69
NIFTY REALTY	878	26.63
NIFTY PSU BANK	8533	25.43
Nifty Infrastructure	9616	22.29

- ❖ Nifty SME Emerge has been the best performing broader market index in both last 3 years and 5 years.
- ❖ Defence sector has outperformed in last 3 years and PSU banks has topped the charts in last 5 years.
- ❖ Nifty PSU Bank has been a consistent performer in both last 3 and 5 years.
- ❖ Auto Sector has been the dark horse in the markets dominated by PSU entities.

# Recap: 3 Year and 5 Year underperforming sectors

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Nifty Midcap 150	22277	23.25	23.14
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## Sectors that have underperformed the bench mark in last 3 years

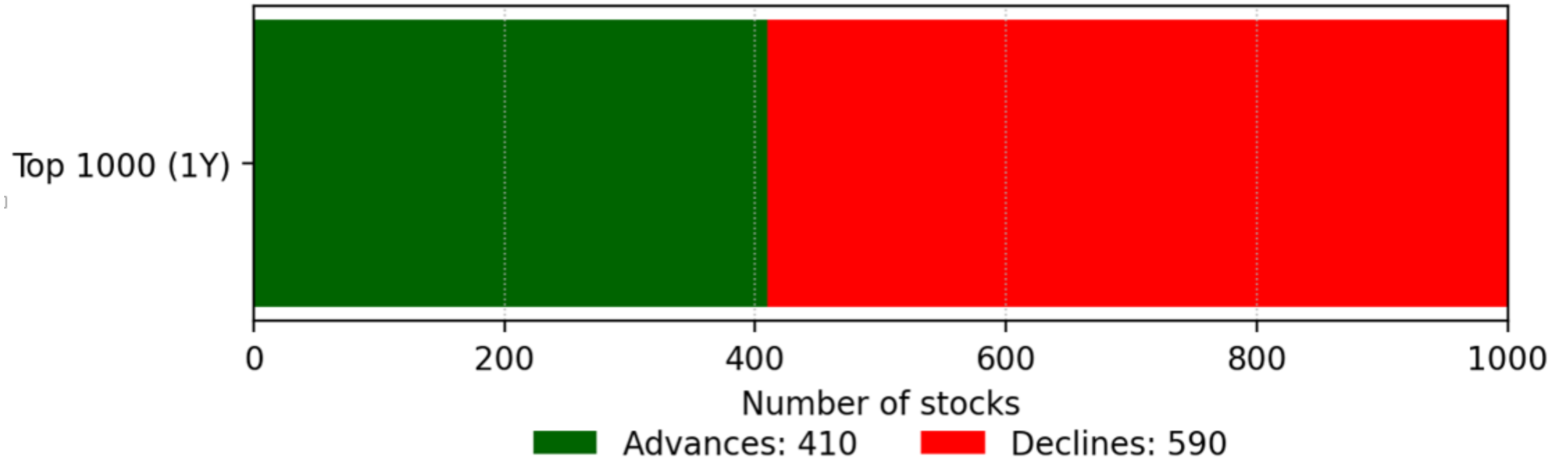
Benchmark	Index Level	3 Year Performance
NIFTY MEDIA	1445	-10.14
NIFTY FMCG	55476	7.88
NIFTY PRIVATE BANK	28721	9.50
NIFTY IT	37884	9.78
Nifty Services Sector	33656	10.63
NIFTY ENERGY	35326	10.92
NIFTY BANK	59582	11.47

## Sectors that have underperformed the bench mark in last 5 years

Benchmark	Index Level	5 Year Performance
NIFTY MEDIA	1445	-2.61
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NIFTY PRIVATE BANK	28721	10.73
Nifty Services Sector	33656	11.38
NIFTY PHARMA	22724	11.96

- ❖ Nifty Media has been the worst performing Index in both last 3 and 5 years.
- ❖ IT sector has underperformed the benchmark in both last 3 and 5 years.
- ❖ Though Nifty PSU Banks have outperformed in last 5 years, Nifty Private Bank and Nifty Bank as a whole has failed to outperform the benchmark in both 3 and 5 year periods.

## Recap: Advance and Decline Ratio for top 1000 stocks





# Recap: Advance and Decline Market Cap wise

## A. Large Cap (Top 100):

Range of Performance	Number of stocks
> 100%	0
50-100%	8
25-50%	27
10-25%	22
0-10%	13
Negative Performance	30

## B. Mid Cap (Next 150):

Range of Performance	Number of stocks
> 100%	3
50-100%	11
25-50%	19
10-25%	24
0-10%	14
Negative Performance	79

### Summary:

- Though the Nifty 50 and Sensex have outperformed the broader markets we observe that there are no stocks above 100% returns and 30 stocks have given negative returns in CY25 among the large caps
- In CY25, Midcap 150 Index has given low single digit return of ~5%. This is not surprising as more than 50% stocks gave a negative return in 2025

## Recap: Advance and Decline Market Cap wise

### C. Small Cap (Above 1000 Crs):

Range of Performance	Number of stocks
> 100%	51
50-100%	52
25-50%	75
10-25%	96
0-10%	88
Negative Performance	766

### D. Micro Cap (Below 1000 Crs):

Range of Performance	Number of stocks
> 100%	79
50-100%	63
25-50%	64
10-25%	88
0-10%	68
Negative Performance	1061

#### Summary:

- For Small Caps we observed that out of 1100+ stocks more than 65% of the stocks have given negative returns in CY25 and Small Cap 250 Index is down ~6%.
- For Micro Caps, we have considered stock between 100 Crs to 1000 Crs. Out of 1400+ stocks in this segment, ~75% stocks have given negative returns with Nifty Micro Cap 250 being one of the worst performing broader market index in CY25 with negative return of ~10%.

## When did stocks hit their 52-week high and low

### A. No. of Stocks that hit 52WH in CY25:

Quarter	Number of stocks	Percentage
Q1	544	37%
Q2	172	12%
Q3	354	24%
Q4	417	27%
<b>Total</b>	<b>1487</b>	<b>100%</b>

### B. No. of Stocks that hit 52WL in CY25:

Quarter	Number of stocks	Percentage
Q1	606	41%
Q2	495	33%
Q3	45	3%
Q4	341	23%
<b>Total</b>	<b>1487</b>	<b>100%</b>

#### Summary:

- Out of study of total 1487 stocks that have Market Cap >1000 Crs, we observe that in CY25 stocks that have hit 52WH are equally divided between H1CY25 and H2CY25.
- But for 52WL, ~75% of the stocks have hit 52WL in H1CY25 indicating a respite in H2CY25.

## Recap: Movement of stocks from 52 High and Low in CY25

### A. Fall from 52WH:

% Fall	Number of stocks
>50%	84
25-50%	630
10-25%	512
Less than 10%	261
<b>Total</b>	<b>1487</b>

### B. Rise from 52WL:

% Gain	Number of stocks
>100%	156
50-100%	260
25-50%	373
10-25%	386
Less than 10%	312
<b>Total</b>	<b>1487</b>

### Summary:

- This analysis is as per the closing prices on 31<sup>st</sup> Dec 2025
- Out of study of total 1487 stocks that have Market Cap >1000 Crs, we observe that in CY25 ~48% of the stocks have corrected >25% from their 52WH.
- When it comes to gains from 52WL, ~52% of the stocks have gained more than 25% from their 52WL out of which there are 156 stocks that have doubled from their 52WL in CY25.



# Fund Flows in Indian Markets

Fund Flows : Month wise (Equity)			
Month	FII Secondary market	DII Flows	MF Flows
December'25	-26,793	79,620	33,781
November'25	-11,592	77,083	43,464
October'25	918	52,794	20,192
September'25	-22,760	65,343	44,571
August'25	-41,908	94,828	63,615
July'25	-38,214	60,940	48,759
June'25	16,731	72,674	43,496
May'25	9691	67,642	47,441
April'25	3416	28,228	18,063
March'25	5982	37,586	12,622
February'25	-53,758	64,853	36,163
January'25	-76,551	86,592	55,290
Fund Flows (cumulative basis) (Equity)			
Period	FII Secondary market	DII Flows	MF Flows
3M	-37,467	2,09,497	97,437
6M	-1,40,349	4,30,608	2,54,382
1Y	-2,26,619	7,88,183	4,67,457

- ❖ During the year FII selling was averaging close to 18,000 crs per month
- ❖ DII flows in the secondary market were stronger with an average of over Rs 65,000 crs per month during the year
- ❖ DIIs pumped in more than Rs 7.5 trillion in the markets.

# Major Events of 2025

RBI's first rate cut in 5 years. 125bps cut in CY2025.

Q2FY26 GDP clocks 8.2% growth, a six quarter high. S&P upgrades India's sovereign rating to BBB after 18 years.

Trump announced unilateral tariff (including 10% baseline) on all imports, triggering largest market decline since 2020. Later in August tariff hiked to 50% from 25%.

GST reform in 56<sup>th</sup> council meeting introducing two tier rate structure of 5% and 18%, removing 12% and 28% rates.

Scorching rally in precious metals-Gold, Silver and Platinum, gave heady returns.

## Top 10 Events of 2025 .....contd..

Pahalgam Terrorist Attack & Operation Sindoor, sharpened the India-Pakistan standoff. Also fired domestic defence production.

Direct tax relief in union budget, zero tax up to income of 12.75 lakhs

New labour regime replacing 29 laws to standardise wages and extend social security to gig, platform and unorganised workers.

Mega deals in financial sector-Rs 39620 cr in Shriram Finance, Rs 26850 cr in RBL bank and Rs 8850 cr in Samman Capital.

India UK Trade deal eliminating 99% tariff on Indian goods, FTA with Oman, EFTA and New Zealand.

# What we said:- Top Ten Issues 2025

Issues Outlined	Actual Outcome
1) Inflation will ease and central banks will cut rates, but the glidepath will remain sensitive to global shocks.	India inflation cooled and RBI cut rates multiple times; Fed also eased into the 3.50%–3.75% zone by year-end.
2) Consumption will revive, with the key swing being the pace of rural recovery vs urban demand; Mahakumbh will support demand pockets.	Consumption improved with better rural traction in parts of the year; event-led travel/hospitality boost was visible.
3) Government policy and politics will influence markets through Budget priorities, reforms and state election outcomes.	Policy actions such I.T. relief, GST rationalization, new Labour code and state election outcomes drove narratives and sector-level sentiment.
4) The US will cut rates and trade/tariff policy will remain a key swing factor for global risk appetite and India flows.	Fed easing played out; trade/tariff uncertainty stayed an overhang for risk sentiment/flows.
5) China will remain a key global variable, with growth challenges and policy support impacting trade and commodities.	China stayed accommodative amid growth/property stress; global spillovers remained relevant.



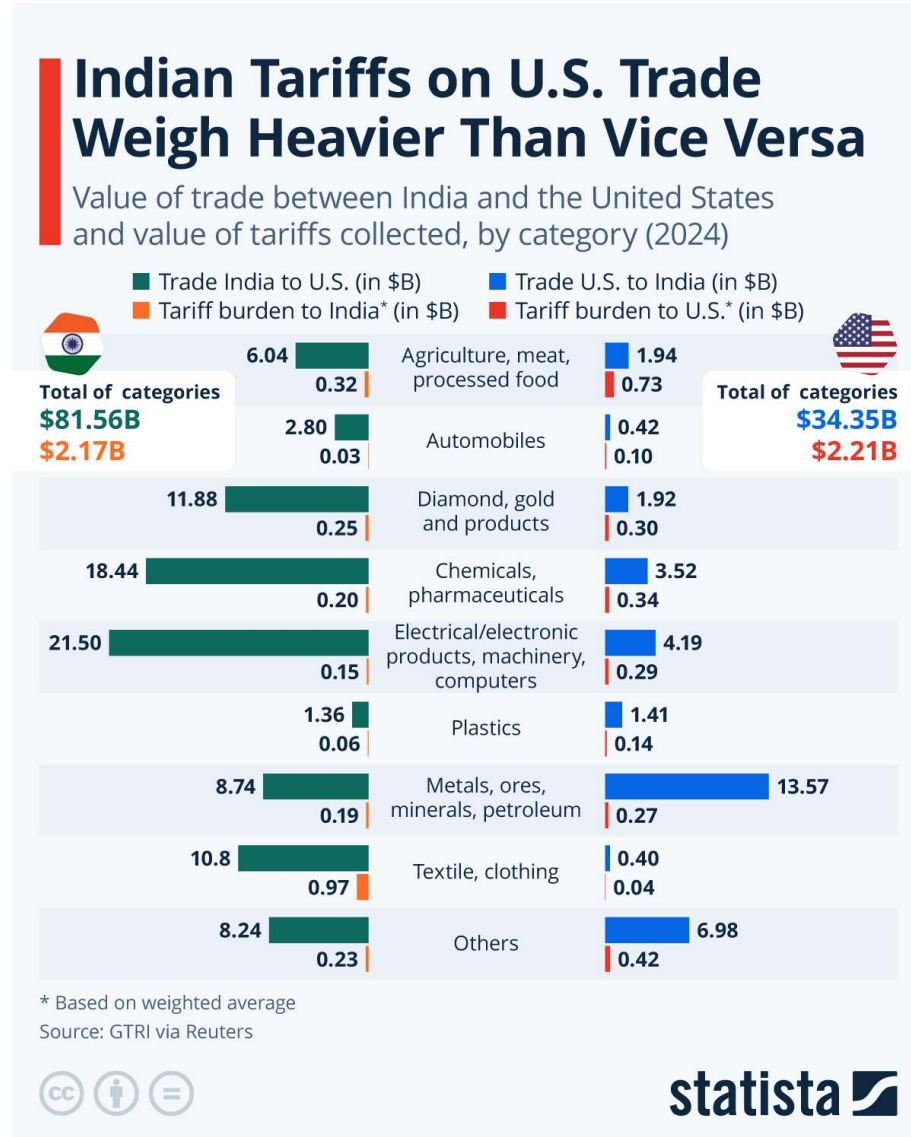
# What we said:- Top Ten Issues 2025

Issues Outlined	Actual Outcome
6) Geopolitical conflicts will remain a key macro risk and will keep risk premia elevated.	Geopolitical risk stayed elevated through the year; uncertainty remained a factor.
7) Commodity prices will remain volatile, with sharp divergence across energy, industrial metals and precious metals.	Oil weakened while precious metals surged; divergence across commodities was pronounced.
8) Domestic retail liquidity will remain the key driver of market direction, amid SIP/MF flows, IPO activity, promoter selling and SEBI measures.	Domestic flows absorbed heavy foreign selling; SIPs hit records late-2025; promoter selling was elevated; SEBI actions were progressive and protective.
9) Five themes will dominate 2025—AI & Disruption, Manufacturing, Renewables, Data Centres and Healthcare—while leadership will rotate.	AI remained important but market leadership rotated; manufacturing stayed expansionary; renewables/data centres saw strong momentum; healthcare digitisation progressed.
10) Market returns will be driven by earnings delivery, liquidity and geopolitics, with moderation versus post-COVID peaks.	Equities ended ~10% up, capped by record foreign outflows; domestic liquidity did the heavy lifting. Though small and midcaps didn't outperform large caps, midcaps gave positive returns whereas small caps gave negative returns.

# Top 10 Issues for 2026

# 1. Tariff deal with USA

# 1. Will we get a good trade deal with USA

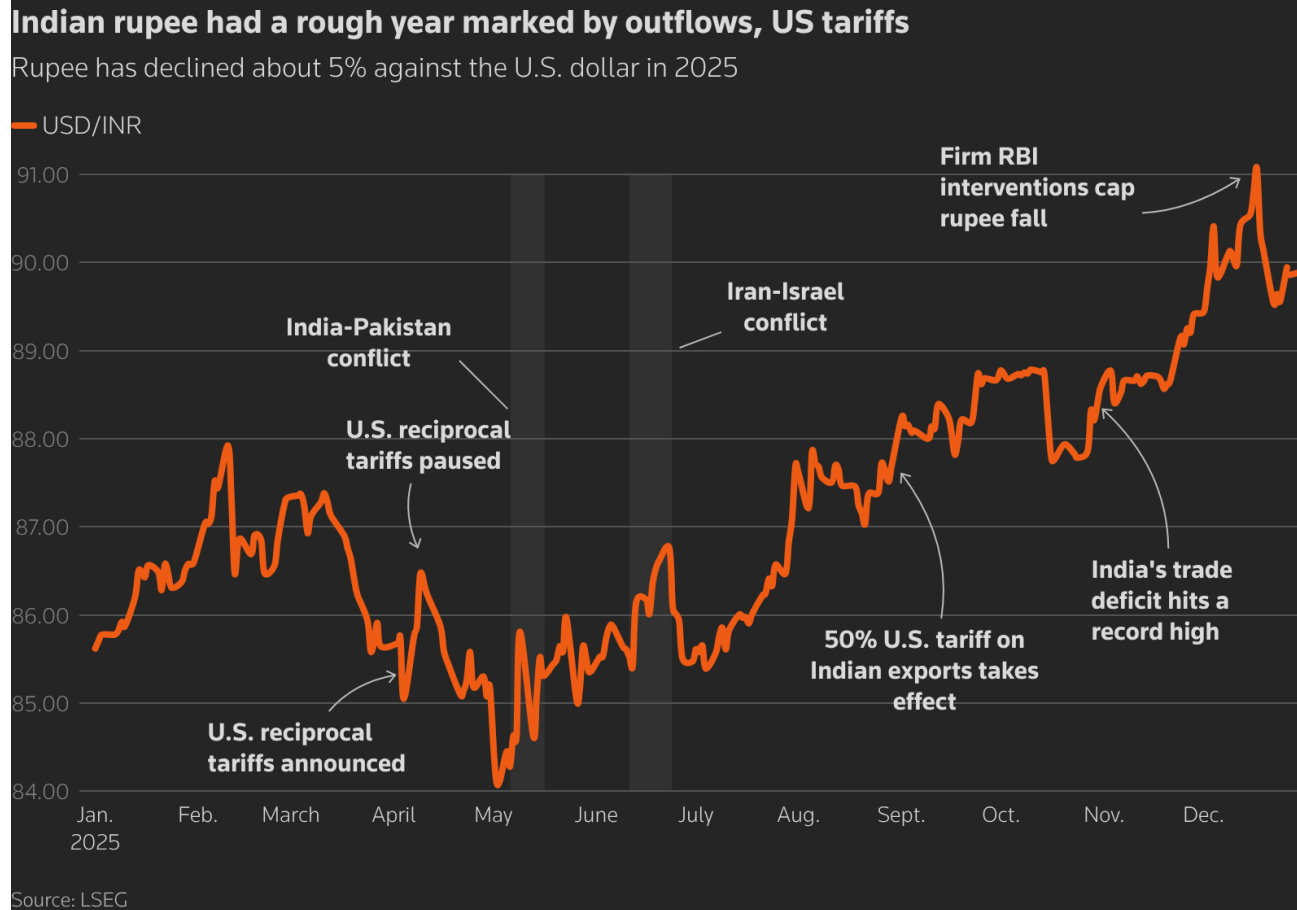


- The delay is mainly because the US is used to closing quick deals with countries that depend on Washington for security, but India doesn't—so it's harder to push India through leverage and India is holding its ground on strategic autonomy.
- Also, the talks have moved well beyond tariffs into geopolitics and domestic-policy asks: Russian oil/"distance from BRICS", buying more US oil/defence, and relaxing digital/data rules (cross-border data flows, digital taxes, e-commerce rules).
- 2026 is viewed as the "normalization year," where negotiations are expected to pivot from 2025's "Tariff Shock" (50% composite duties) toward a formal rollback or Free Trade Agreement (FTA).
- A "good deal" would immediately expand margins for high-volume sectors like textiles, chemicals, and engineering goods by removing the 25% "reciprocal" and 25% "penalty" duties.



## 2. Rupee Depreciation

## 2a. INR Depreciation to continue?



### What has plagued the INR in CY2025?

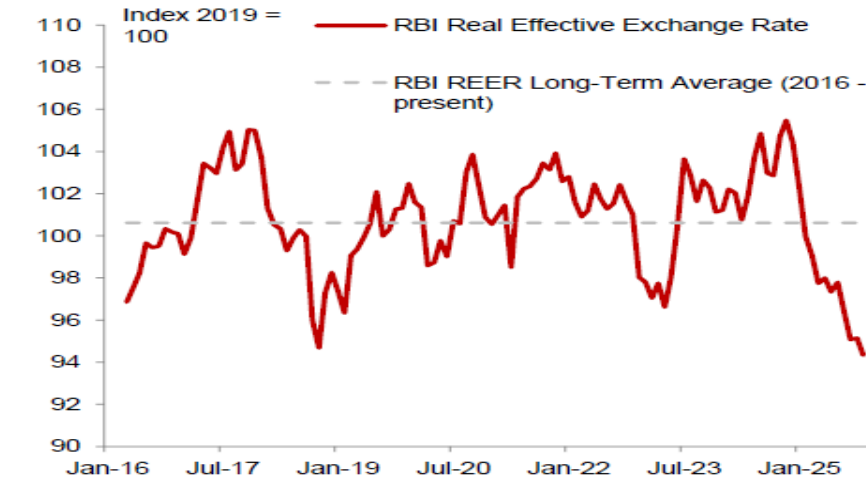
- **High Trade Deficit** – this has been persistent through the years though
- **Uncertainty around tariffs** and delay in the US-India Trade Deal. Current tariff rate imposed by the US stands at 50%, which is more than any other trading partner.
- **FPI outflows** in CY2025 on the back of risk off sentiment and a dip in Net FDI inflows.

## 2. INR Depreciation to continue?

Timeline	USD-INR	Remarks
1947	3.30	INR was pegged to British Pound and hence even USD
1965	4.76	USD-INR was stable around these levels in 1960
1966	7.50	USD-INR was devalued due to low forex reserves, Balance of Payment Crisis and Droughts
1990	17.5	Steady depreciation over the years
1991	25.8	Depreciated sharply on the back of Balance of Payments crisis and forex reserves at less than 3 weeks imports. India had opened its economy in 1991.
2000	44.5	Gradual depreciation in the liberalisation era. Events like Dot-com bust also saw a move to Risk off trade
Late 2003	45	We saw an era where Rupee strengthened from ~Rs. 48/USD to Rs 45.5/USD in 2003
Early 2007	41.4	We saw Rupee staying stable and even appreciating from 2003 to 2007. Was Rs. 41.4/USD at the start of 2007
2013	58	Post GFC in 2008, saw a gradual depreciation in INR. From 2011 to 2013, we also saw a sharp current account deficit spike. In between touched 68.5/USD in August 2013.
2016	66.5	We saw Brexit, US elections. USD-INR was weak during the year
2019	72	Oil price fall helped. We saw also a lot of RBI intervention on FX
2020-2025	74 to 90	Saw the INR gradually depreciating every year from 74/USD in 2020 to ~90 by end of CY2025. In CY2025, saw uncertainty from tariffs, relentless FPI selling. USD-INR weakest currency in CY25

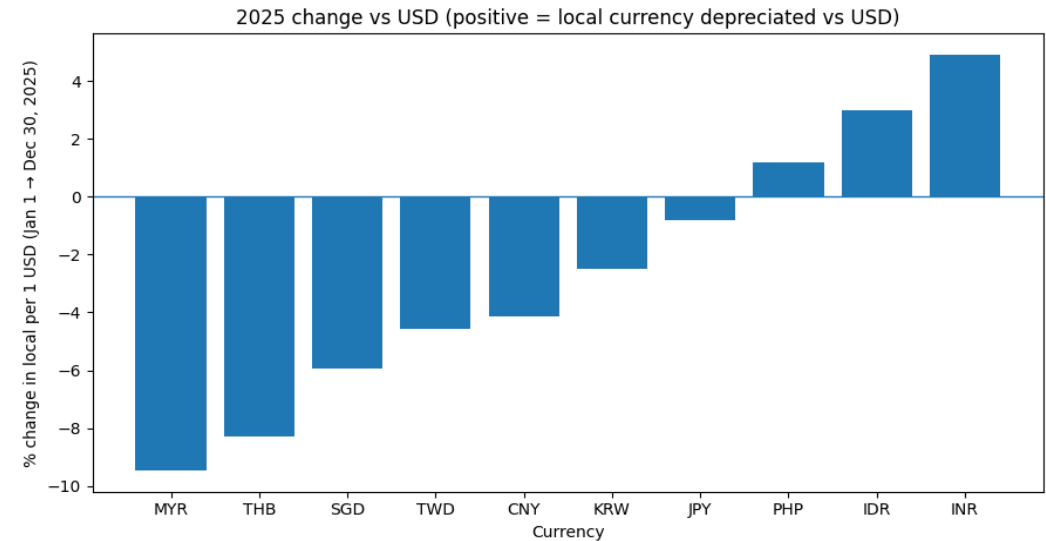
## 2b. INR Depreciation to continue? – Outlook for 2026

### Indian Rupee REER suggests INR looks cheap



Source: Bloomberg, MUFG GMR

### CY2025 – INR has been the worst hit



- Given the macro situation, USD/INR could weaken further given high current account deficit (c.1,5% of GDP), soft FDI inflows
- Inability to forge a trade deal with the US, could further weaken INR vs. USD and other developed market currencies. A positive trade deal could surprise and result in INR strengthening
- On the positive side, Basis REER (Real Effective Exchange Rate), INR looks cheap vs. Long Term average.
- Can USD INR touch 100? Seems improbable and hinges a lot on the factors above.



## 2c. Outlook on major currencies in 2026

Currency	Outlook
Euro	<ul style="list-style-type: none"><li>▪ Poised to strengthen vis-à-vis USD</li><li>▪ With Fed rate cuts in the near to medium and stable regime by ECB, can see Euro gaining strength</li></ul>
GBP	<ul style="list-style-type: none"><li>▪ See a sideways trend</li></ul>
Yen	<ul style="list-style-type: none"><li>• Expect Yen to Strengthen with a narrowing interest rate gap</li></ul>
CNY	<ul style="list-style-type: none"><li>• Expect Chinese Yuan to be stable or even strengthen vs USD given pick up in growth in China and strength in exports.</li></ul>

### 3. Policies

# 3a. Government Policy – Union Budget 2026

## Major Reforms in 2025



### New Tax Regime

- ✓ Zero tax upto 12.75 lakhs
- ✓ Tax rates: 0%, 5%, 10%, 15%, 20%, 25%, 30%



### GST Rationalisation

- ✓ 2 slab structure: 5% and 18%



### Labour Law Reforms

- ✓ Consolidation of 29 laws into 4 labour codes



### Maritime Reforms

- ✓ 5 landmark bills passed
- ✓ ₹25,000 Cr Maritime Development Fund



### MSME Definition Change

- ✓ Investment & turnover revised limits as:
  - ✓ Micro (₹2.5 Cr, ₹10 Cr)
  - ✓ Small (₹25 Cr, ₹100 Cr)
  - ✓ Medium (₹125 Cr, ₹500 Cr)



### Nuclear Reforms

- ✓ SHANTI Bill passed allowing privatization



### 100% FDI in Insurance

- ✓ 100% FDI in Insurance



### Free Trade Agreements

- ✓ FTAs with UK, Oman, EFTA, New Zealand

- **Capex stays the anchor (roads/rail/urban infra/logistics):** With recent months showing strong capex momentum, markets expect another meaningful push—plus more emphasis on crowding-in private investment.
- **Fiscal discipline + better quality of spending:** Industry bodies are pushing for debt sustainability, fiscal transparency, higher spending efficiency, and institutional reforms—so expect “reform + consolidation” language even if headline capex rises.
- **Direct tax tweaks aimed at the “middle class” (incremental, not radical):** Commentary is increasingly around simplifying and/or refreshing old-regime deductions (80C/80D/home-loan interest limits) given regime shifts and inflation—could be selective rather than a full overhaul.
- **Asset monetisation / non-tax revenues:** With disinvestment often lumpy, the government may lean more on dividends and asset monetisation to support the numbers.
- **Housing and consumption support (targeted):** Real estate stakeholders are lobbying for sharper affordability definitions and tax incentives to keep the housing upcycle broad-based.

## 3b. RBI Policy

Timeline	Repo Rate	Action
Starting CY25	6.5%	
Feb 2025	6.25%	Rate cut by 25 bps
April 2025	6.0%	Rate cut by 25 bps. Policy stance was changed from “neutral” to “accommodative”
June 2025	5.5%	RBI cuts rate by 50 bps. Upfronted the rate cut cycle to support growth. Policy stance was changed from “accommodative” to neutral”
Aug 2025	5.5%	Maintains Status quo
Oct 2025	5.5%	Maintains Status quo
Dec 2025	5.25%	Rate cut by 25 bps. Real GDP growth for FY26 has been revised upwards to 7.3% from 6.8%. This is on the back of benign inflation. CPI forecast for FY26 revised down to 2.0% from 2.6%.

- In addition to the 125bps rate cut in CY2025, RBI has also improved liquidity via Open Market Operations, Forex Swaps and CRR cuts in 4 tranches.
- While FY26 growth forecast has been revised upwards, GDP growth in H2 is expected to fall from H1 levels and expected to stabilize in H1FY27 to 6.8% as per RBI
- RBI Governor Sanjay Malhotra expects interest rates to stay low for a prolonged period, citing supportive monetary policy. He noted that ongoing trade deals, including with the US, could boost growth by up to 0.5 percentage points.

## 3c(i). Banking Consolidation

- At the 12th SBI Banking and Economics Conclave 2025, the Finance Minister highlighted the necessity of establishing large, world-class banks and that talks were on with the RBI and banks.
- This points to further consolidation in Public Sector Banks since the last merger in 2020, where in 10 PSU banks were consolidated into 4 large PSU Banks.
- As per media articles, 6 PSU Banks which are independent entities are under review - Bank of India, Indian Overseas Bank, Central Bank of India, Bank of Maharashtra, UCO Bank, and Punjab & Sind Bank.
- In terms of profitability, the cumulative profit of 12 PSU Banks, which account for around 60% of the market share in total business, together reported a net profit of ₹93,675 crore during the first half of 2025–26 (+10% yoy).
- Primary objective is to improve competitiveness of PSU Banks, strengthen balance sheet, technology adoption and further improve asset quality

### Asset Quality trend – last 5 years



Source: Pib, RBI, Ministry of Finance

## 3c (ii). IDBI Bank Privatisation

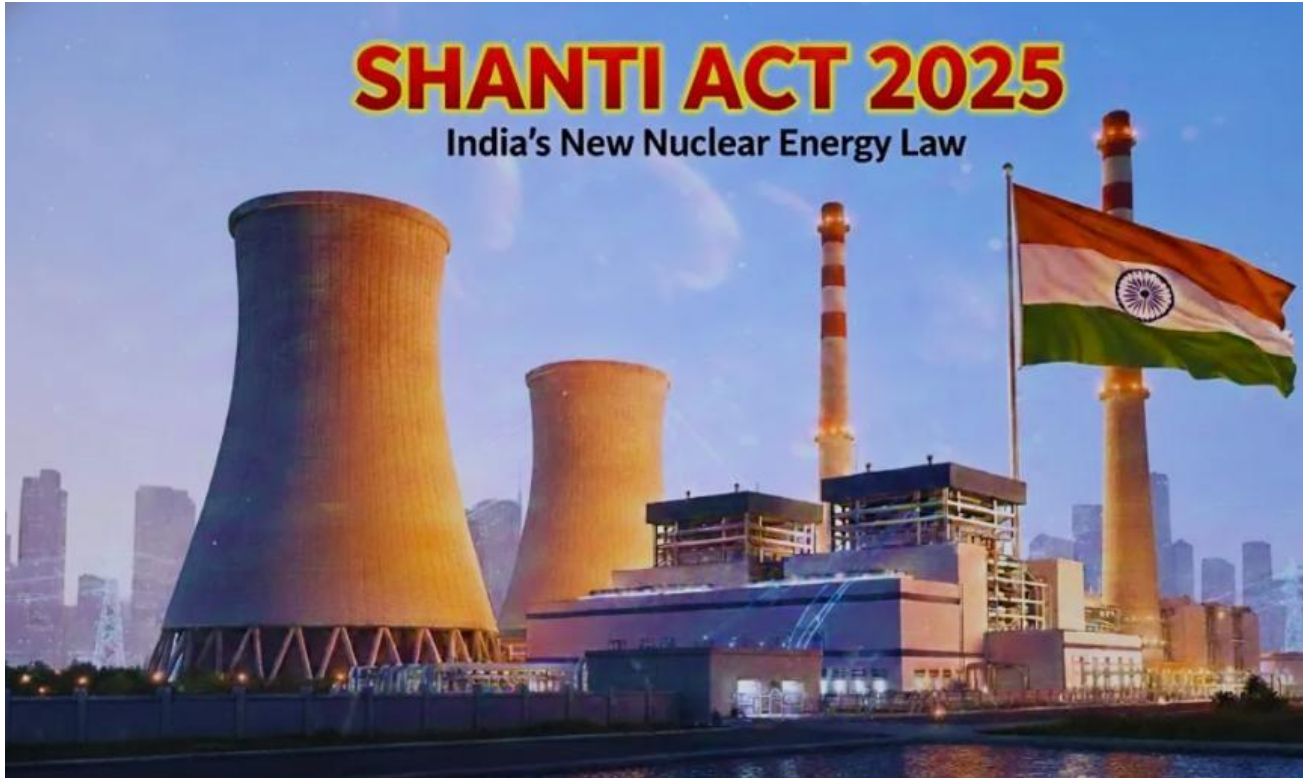
- Disinvestment of IDBI Bank was proposed in October 2022 and after a long drawn process, the government expects stake sale to go through by end of FY26.
- The Due diligence, shortlisting of bidders (Kotak, Emirates, Fairfax being a few) and SPA (Share Purchase Agreement) approval is done. The final phase of the invitation of financial bids is imminent
- Bid submission and evaluation is expected in early 2026, post which there would be a final Cabinet approval and sale closure, which is estimated to be go through by March 2026.
- The government and LIC together still hold a ~95% combined stake but plan to sell ~60.7% to a private investor — effectively transferring management and control.
- As per media articles, Fairfax appears to be the front runner.



### 3d. Major Government Policy outside the Budget

#### SHANTI ACT 2025

India's New Nuclear Energy Law



#### Nuclear Power with private sector:

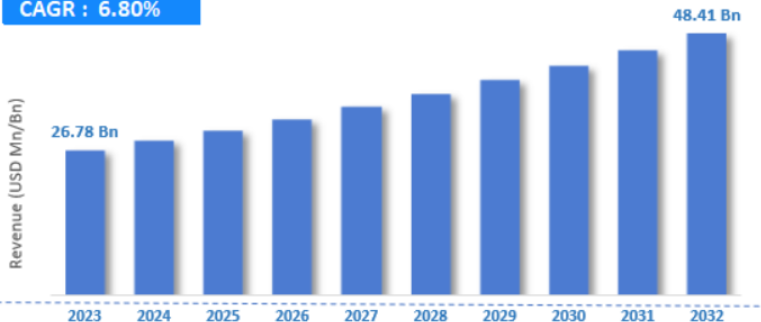
- The recent government policy announced by government that includes nuclear power is the **SHANTI Act 2025 (Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India)**
- It is the first major legal move to allow regulated private-sector participation in India's civil nuclear program, which was historically dominated by government entities.
- The SHANTI Bill replaces:
  - A) Atomic Energy Act, 1962 (who can do what in nuclear)
  - B) Civil Liability for Nuclear Damage Act, 2010 (compensation framework)
- Under the new framework, private companies can now participate via licensing
- This bill is passed to support India's clean-energy pathway and the long-term ambition of **100 GW** nuclear capacity by 2047

## 3d. Major Government Policy outside the Budget



India Aerospace and Defense Market Size, 2018-2032  
(USD Billion)

CAGR : 6.80%



source: zionmarketresearch.com



### Domestic Defence Industry:

The major Government policies outside the Union Budget shaping India's domestic defence industry in FY26 are as follows:

#### 1. Defence Acquisition Procedure (DAP) 2020 + Defence Procurement Manual (DPM):

This forms the core rulebook that shape *how* defence equipment are bought and is designed to speed up procurement and push Make in India pathways.

#### 2. Positive Indigenisation Lists: Import substitution with timelines

The 5th PIL includes 346 items to be procured from Indian industry and is a continuing lever for FY26 vendorisation and local sourcing.

#### 3. Exports: Policy plumbing to reduce friction

Exporters can use the DefenceExim portal for services including Open General Export Licence, which is designed to simplify and standardise export licensing for eligible items.

#### 4. State Level Aerospace and Defence Policy push:

Department of Defence Production has compiled a state A&D policy relevant for plant location strategy, vendor parks, and state incentives that can materially improve project IRRs.

## 4. Artificial Intelligence

# 4a. Gen AI – The Year gone by: Defining Year with potential of being a Disruptor

## Generative AI

### AI Investments, Infrastructure, Back-bone

- Capex spend by large hyperscalers reached \$325bn (source: Brookfield)
- In the US, total Data centre spending nearly equivalent to capex spend on Office construction
- Total investment commitment in AI and AI based Infrastructure estimated at \$20bn
- As per media release, Github has ~21.9mn Developer professionals and est to surpass 57.5mn by 2030
- The Rs. 10,300 crs AI mission outlay by the Indian government focused on AI infrastructure, computing, skilling programs, application development, datasets, etc took off in 2024.
- Some notable commitments by hyperscalers – Google \$15bn over 5 years, Amazon - \$35bn through 2030, Microsoft \$17.5bn over 4 years (2026-2029)

### Impact on Indian IT

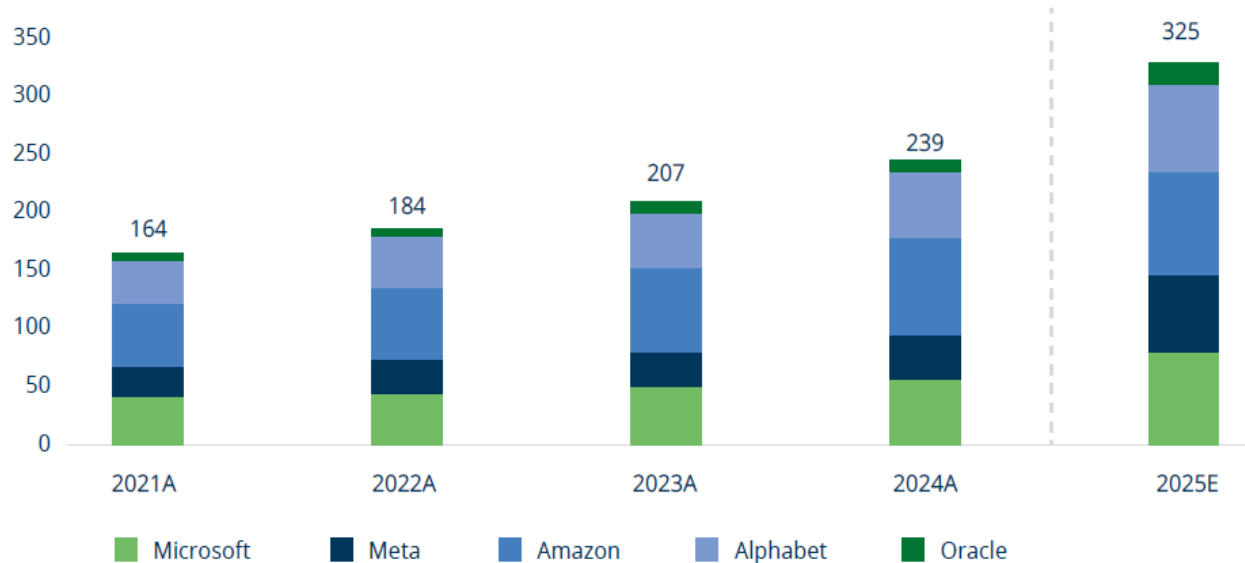
- Tech spending has been impacted in CY25, which is visible in management commentary and in overall topline growth.
- Productivity related gains have been passed on to end clients in many cases – this has impacted Net hiring and Topline growth
- ~1.2 lakh layoffs globally as per tracking site Layoffs. In India, layoff by TCS of ~12k resources was the notable one.
- Revenue models are being adopted to address Tech spending pressures. New business models being brought – fixed price contracts, billing being output driven (i.e. cost savings).
- Overall medium-term spending expected to pick up with growth in AI related investments, technology adoption and upskilling of workforce

### Risks/Competition/Outlook

- Launch of frugal Chinese AI models. Deepseek took everyone by surprise given the low investment and computing needs vis-à-vis US based chatgpt.
- On AI infrastructure related investments, see huge capex spending by the Hyderscalers.
- India's AI ecosystem estimated to shift from Testing phase to Implementation phase.
- Expect valuations to reset to normal levels and unit economics/path to profitability getting defined

## 4b. Gen AI – Investment on AI infrastructure

Capex spend by Hyperscalers (US\$bn)



Source: Microsoft, Meta, Amazon, Alphabet and Oracle SEC filings and earnings releases, 2025. Data by calendar year.

US Data centre spending



# 4b. Gen AI – Investment on AI Infrastructure

**AI Infrastructure Value Chain Represents a \$7 Trillion Investment Opportunity**



AI Factories

**\$2T**

Development of new data center capacity from land acquisition to ready-for-service



Power & Transmission

**\$0.5T**

Baseload power and electricity transmission infrastructure to energize compute



Compute Infrastructure

**\$4T**

GPU partnerships, as well as design and manufacturing of chips



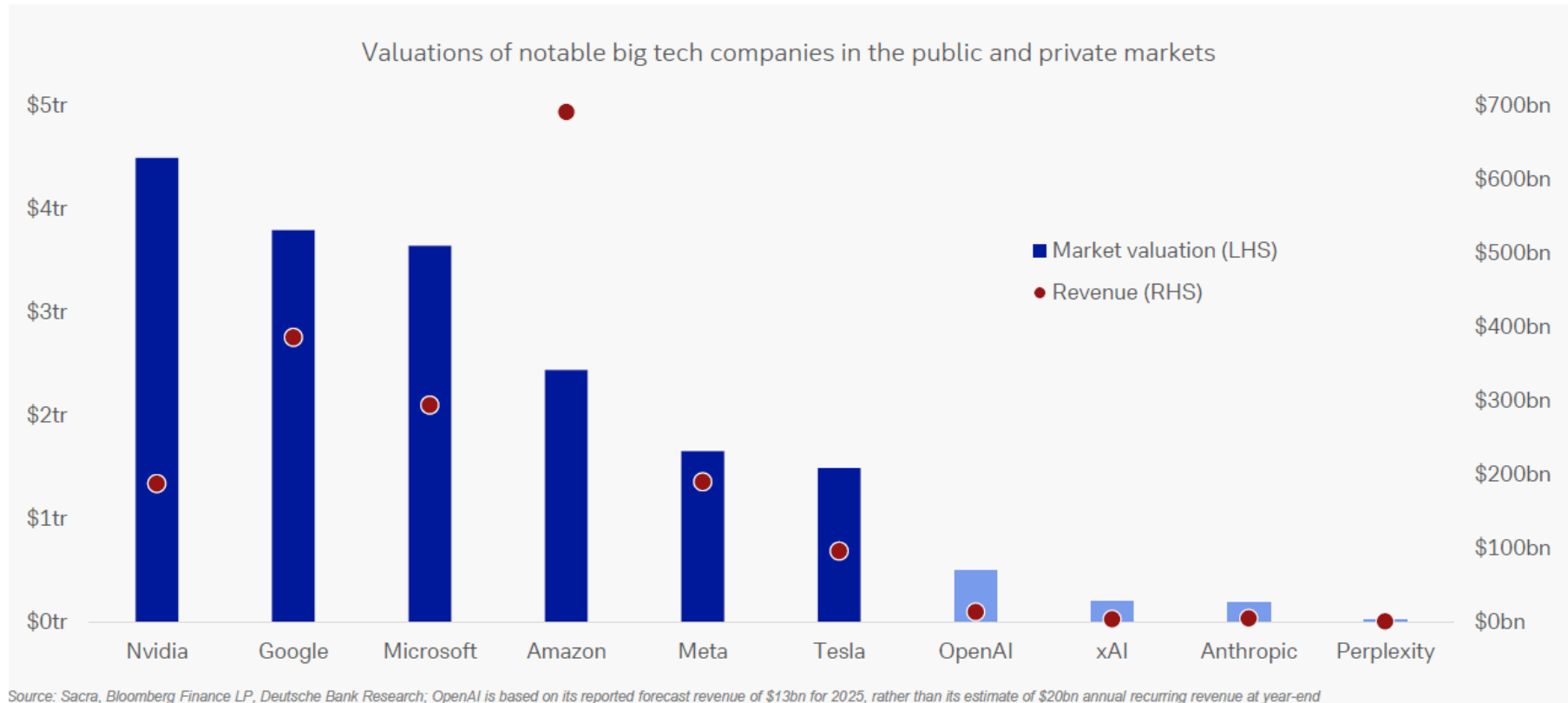
Strategic Adjacencies & Capital Partnerships

**\$0.5T**

Dedicated fiber connectivity, cooling solutions and semiconductor and robotics manufacturing

*Source: Brookfield Report on AI Backbone*

## 4c. Gen AI – AI Stocks in Bubble?



Source: Deutsche

- Signs of overheating visible – a) Open AI hitting \$500bn valuation and now heading towards path to profitability b) AI Start ups comprise ~53% of global VC funding of \$400bn, c) Huge capex by hyperscalers & ROI expected to be delayed.



## 5. Commodities

## 5a. Agricultural Commodity Outlook

### Wheat

- India's wheat market starts 2026 from a position of strength, Sown area is tracking around last year's ~328 lakh ha but is likely to end a bit higher near 330 lakh ha, supported by cooler-than-normal temperatures, healthier-than-average soil moisture, and stronger vegetation indices across major producing states, which together underpin a production estimate of roughly 120–123 Mt versus about 118 Mt last year. At the same time, government stocks are at a four-year high.

Outlook is for range-bound prices with a mild upward bias but limited scope for a runaway rally. Supportive acreage and crop conditions, coupled with large FCI inventories and the government's ability to restart open-market sales, are likely to cap upside, keeping the market anchored around key technical zones of roughly ₹2,700–2,950/ql unless weather or policy shifts materially.

### Sugar

- After hitting multi-year highs in 2023, sugar prices have shown volatility but are expected to moderate in 2026 amid the return to surplus. In late 2024, world sugar prices eased off their peaks as good harvest news from Brazil, India, and Thailand emerged.. Prices rallied briefly in February 2025 due to concerns about Brazil's and India's crop outlook, but overall the trend has been downward since late 2024.

The sugar market is entering 2026 with a surge in production. For the 2025-26 season, global sugar production is forecast to rise by 8.3 million tonnes year-on-year to reach about 189.3 million metric tons. Bumper harvests in Brazil, along with strong outturns in India and Thailand, are driving production up much faster than consumption.`

## 5b. Precious Metal Performance and Outlook

### Gold

Gold has delivered exceptional returns over the past five years, In Indian rupee terms the appreciation is at 180%, rising from ₹48,651 per 10 grams in 2020 to ₹1,36,570 by December 2025. The 2025 calendar year marked gold's strongest annual performance in over four decades with a 65% gain, driven by geopolitical uncertainty, central bank accumulation, and weakening US dollar expectations.

### Silver

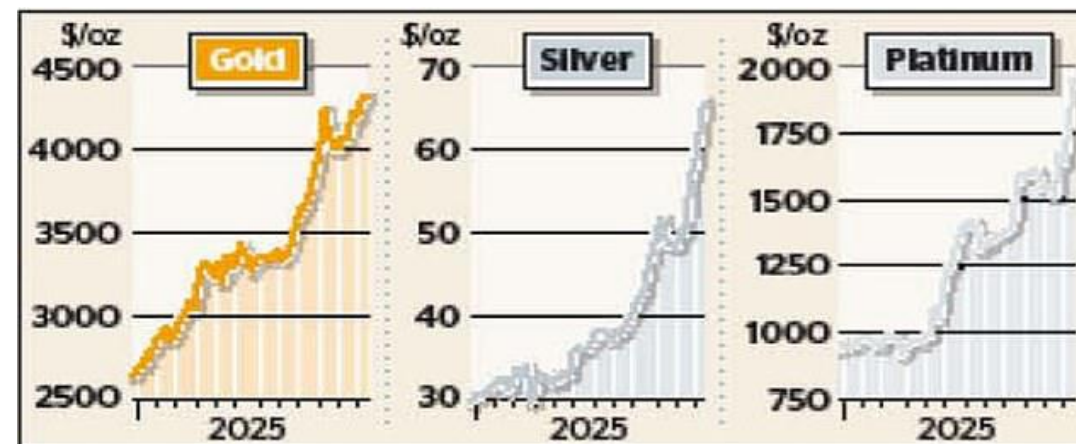
Silver has demonstrated extraordinary returns outpacing both gold and equity benchmarks, making it the standout performing precious metal of the decade. In Indian rupee terms, silver's 2025 calendar year return of 148% marks its strongest annual performance on record, far exceeding gold's 65% gain and establishing it as the outperformer among precious metals.

### Platinum

Platinum delivered a historic 120%+ return in 2025, surging from \$935/oz to a record \$2,510/oz, driven by three consecutive years of supply deficits. Over the full 5-year period platinum appreciated 106% to \$2,150/oz, 2025's breakout reflects structural physical scarcity rather than speculative excess, with supply deficits forecasted through 2028 supporting a new trading floor.

### Outlook

Growth and returns for 2026 will moderate from 2025's exceptional levels, with significant return differentiation across the complex.



Metal	Bullish Drivers	Bearish Drivers
GOLD	Central bank 70t/month ETF diversification Geopolitical demand Interest rate cut	Global recession risk Stronger USD
SILVER	Supply deficits continue Solar & EV demand Industrial tailwind	Extreme volatility ±30% Price-sensitive demand destruction
PLATINUM	3-year deficit -692koz South Africa production crisis EV+ICE demand	Automotive recession risk Recycling recovery

## 5c. Ferrous

**1) Steel:** Overall price movement in steel remained subdued during CY2025. Price trend continued to remain weak as China's slowdown impacted global prices. India continued to import steel as global prices remained low. In response, government announced safeguard duty of 11-12% to curb select steel imports.

**Outlook:** Steel prices will continue to remain at subdued level due to weak Chinese demand and export glut from China. Global steel prices are driven by Chinese demand and supply.

**2) Iron Ore:** Iron ore prices climbed slightly in CY2025 but show strong volatility through the year. Despite weakness in steel prices, iron ore prices remained firm. Fears of oversupply didn't materialize and inventories remained at a manageable level.

**Outlook:** Iron ore prices will remain subdued due to weakness in steel prices and increased mining activity internationally. New high-grade supply of iron ore is expected to start shipping from the start of 2026 which will keep prices in check and potentially drive the prices lower.

## 5d. Non-Ferrous

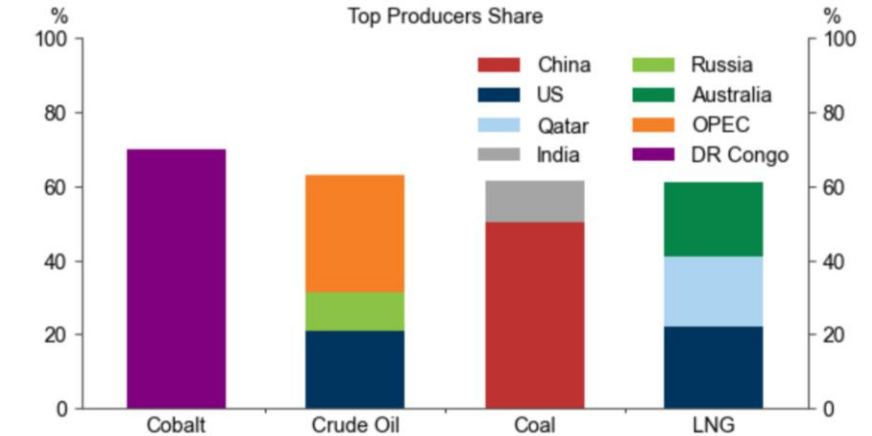
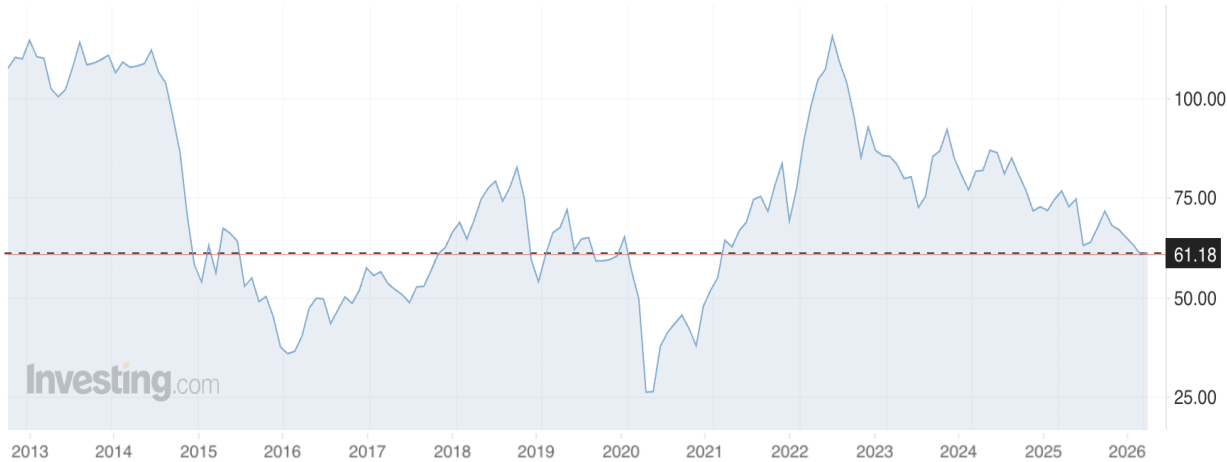
**1)Aluminum:** Aluminum prices increased in CY2025 as demand remained strong and concerns of low supply lingered. China curtailed the supply of aluminum to prevent oversupply in the market and prevent deflationary pressures.

**Outlook:** Aluminum demand remains strong with new age sectors like EVs & solar set to drive demand for the metal. China's active control to reduce supply and with global capacities operating at 90% there is a need for capacity expansion in other parts of the world.

**2) Copper:** Copper has seen strong outperformance among the metals due to low supply and strong demand driven by the need for energy transition and expanding infrastructure for artificial intelligence and data centers. 2025 has been the best year for copper since 2009 with gains exceeding 50%. US tariffs stockpiling, mining disruption in Indonesia, Congo & Chile & investments in global power grid & green energy are further driving demand.

**Outlook:** Copper is expected to continue to see tightness in supply. AI spending is expected to increase and exceed 2025's records. Energy transition, investments in power grid & EV demand will continue to keep prices high for the metal. It may not pan out as strong as 2025 but the metal is expected to remain firm and will continue to see strong demand over the coming years.

## 5e. Crude Price Trend and history and Outlook (2013–2025)



Source: IEA, EIA, National Mining Association, Goldman Sachs Global Investment Research

### Trend and History

- The Great Crash (2014-2016): OPEC's market-share strategy backfires; prices crash from \$100 to \$26
- COVID Shock & Recovery (2017-2020): Negative oil prices (-\$37/bbl) in April 2020; rapid recovery, Even unprecedented events proved temporary.
- Geopolitical Volatility (2021-2025): Ukraine war spiked prices; China slowdown pushing down; structural oversupply building.

### Outlook

We expect Brent and WTI crude oil to decline to 2026 averages of \$56/52 per barrel (compared to \$59/56 in forwards) as the last major supply wave leaves the market in a 2.0 million barrel per day oversupply.

## 5)How will commodity stocks perform in 2026?

- Domestically focused commodity stocks may see continued bullishness in 2026 as India's growth is expected to pick up on the back of revived consumption, increasing power demand, strong auto market & overall infrastructure capex being driven by government. Private capex revival continues to remain on card which should act as a key upside risk.
- Global factors may play a role in influencing the pricing and realizations but volume will be the key driver. As China continues to curb overcapacity in several parts of its economy, it may help support pricing at current levels for commodity players.
- Steel stocks should perform well on the back of volume expansion & margin gains. Coal miners will continue to see strong demand as thermal power will continue to supplement renewable energy due to its intermittent nature.
- Crude oil & natural gas are expected to see subdued pricing despite strong volumes due to increasing production by OPEC members and higher export volumes of LNG from the Middle East. This will impact specific oil & gas stocks temporarily.
- Aluminum, copper, gold, silver & zinc focused stocks should do well on the back of robust demand & low supply. This should drive realizations higher supporting margins and capacity expansion.

**Outlook for commodity stocks will continue to remain mixed depending on the commodity & value chain the company operates in.**

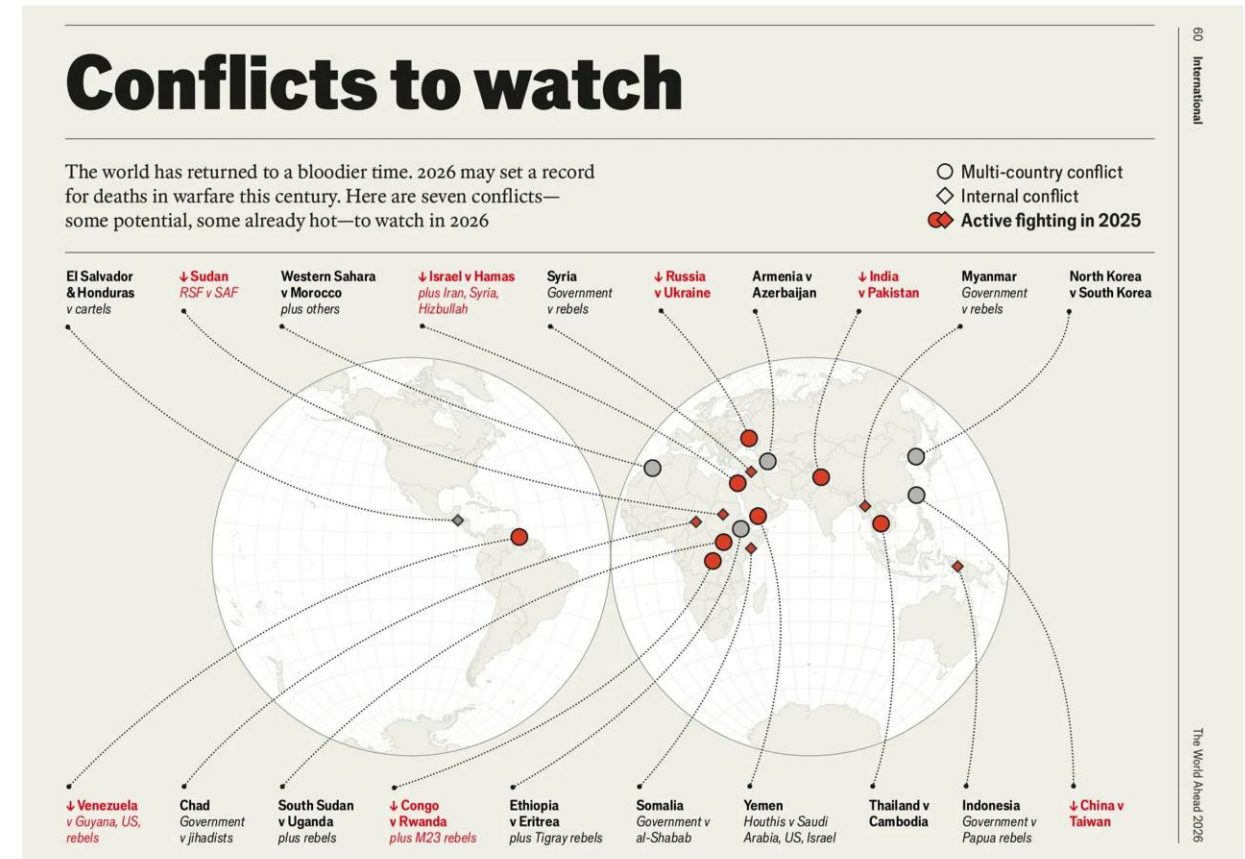


## 6. Geopolitics

## 6) End of wars... or new wars on the horizon?

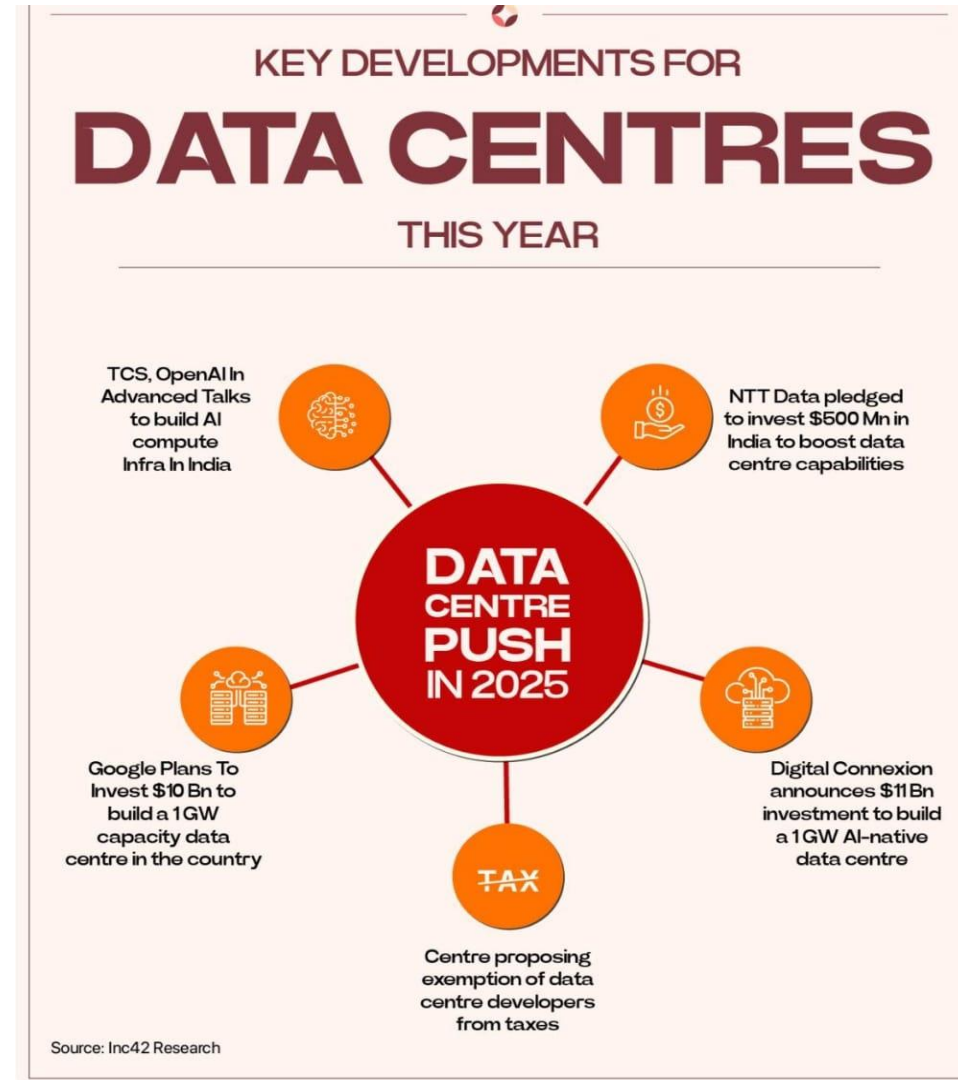
- 2025 became a year of many geopolitical surprises. Older geopolitical issues converted into military actions & newer geopolitical issues surfaced. India-Pakistan flare up, Middle East escalations involving Israel, US, Iran & its proxies & Russia-Ukraine continued to remain main events for the year.
- Smaller conflicts between Thailand-Cambodia and Pakistan-Afghanistan showed increasing reliance of countries on military actions to resolve differences. Although world remains peaceful, military build up continues to remain the theme which was visible through strong performance of defence stocks in Europe as US pursued its own independent policy for Europe.

**Political deadlocks, deglobalization & buy local themes have emerged globally. These will drive the policymakers to be more inward. We expect world to enter a more uncertain period with regards to policy shifts & geopolitical uncertainty. There might be newer unanticipated conflicts in the making. 2025 presented a newer dimension of**

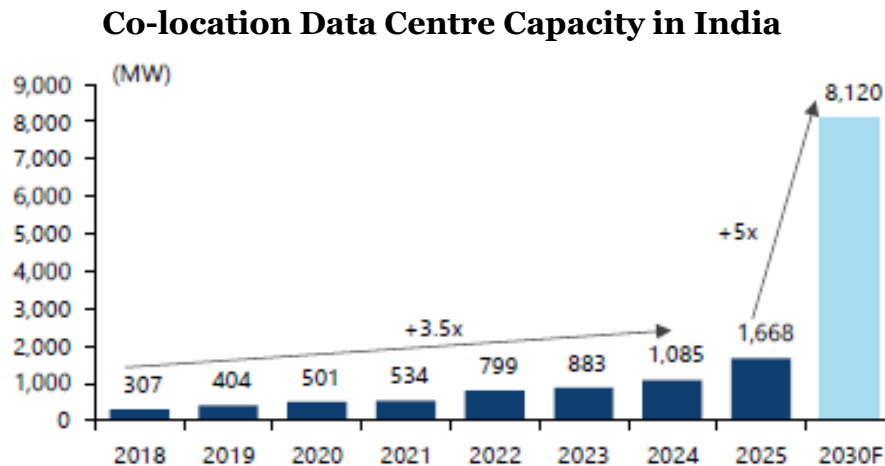


## 7. Themes for 2026

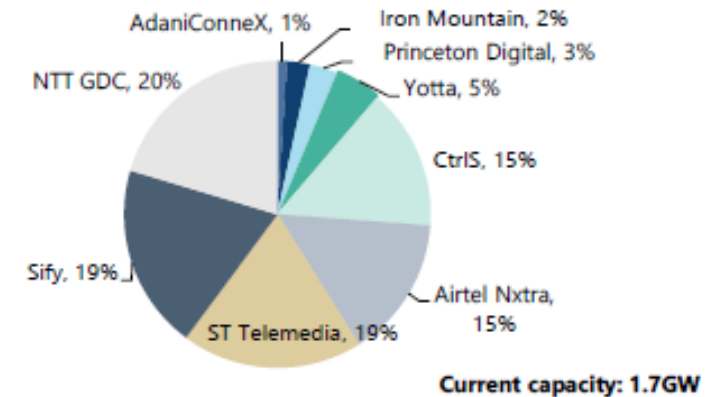
# 7a. Data Centers – Key Developments this year



# 7a. Data Centers – Data Centre Capacity



**Key Data Centre Players**



- India's co-location capacity today has jumped to ~1.7GW (nearly 5x), with NTT GDC being the largest today. Industry estimate that India would see ~5x jump from here by 2030.
- Data Centers will act as the modern factories of the world as AI becomes ubiquitous around the world.
- Reliance, Adani, OpenAI, Microsoft, Google, Amazon, TCS have all announced major capex plans for the next 5-7 years amounting to close to USD 50 billion dollars.
- Telcos are well positioned to capture the Data Centre market

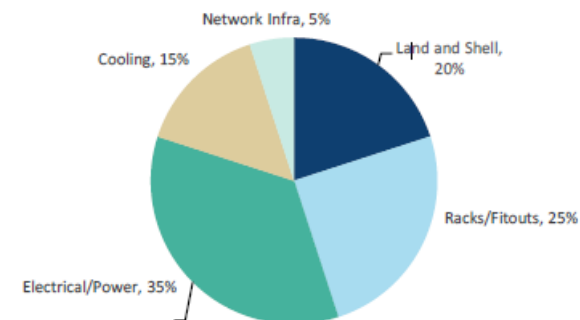
# 7a. Data Centers – Colocation/Capex opportunity

## Revenue opportunity from committed colocation capacity

Particular	2025	2030E
Colocation Capacity (MW)	1,668	8,120
Avg. realised rack rate (Rs/KW/month)	7,428	7,428
Revenues (Rs bn)	149	724
Revenues (US\$ bn)	2	8

Source: Jefferies

## Data Centre Capex Split



Source: Jefferies, Blackridge

- The estimated Revenue opportunity for Colocation from Data centre capacity is ~US\$8bn as per Jefferies estimates.
- Estimated Capex for the upcoming capacity planned in ~US\$30bn (US\$4-5mn per 1MW Data Centre Capacity)
- The Data Center Capex theme has many industries as being beneficiaries. Key Beneficiaries - Power equipment, computer hardware & software, EPC, Real estate, batteries, gensets & cooling solutions players. Newer themes & companies might emerge in India which will present unique new investments in equities market going forward.

## 7b. Battery Energy Storage Systems (BESS)

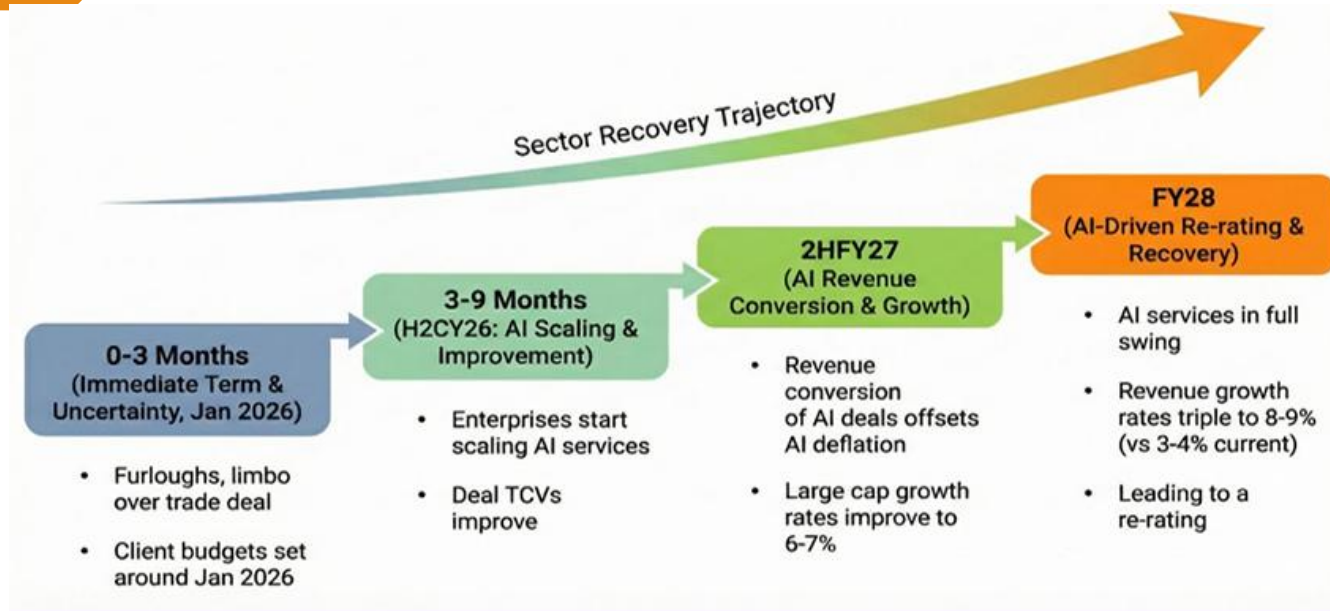
Renewables+ Peak Demand= BESS



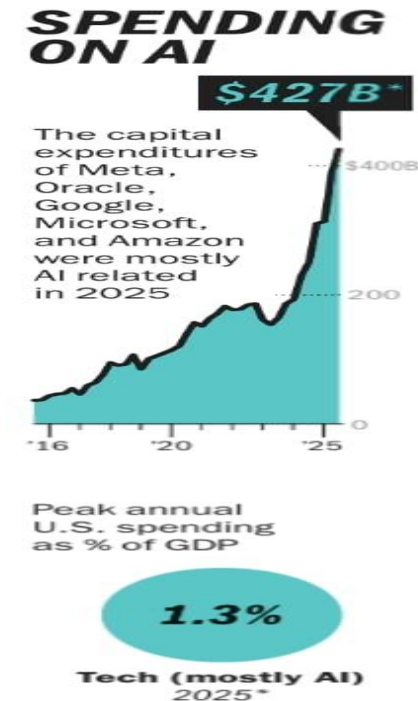
- As wind and solar penetration rises, the energy systems need flexibility for intra-day balancing, evening peaks, and grid congestion relief. Thus the demand going forward for BESS in India will keep rising.
- In India's National Electricity Planning (NEP) framework suggests that BESS requirement scales sharply and estimates cite ~**34.72 GWh** of BESS by 2026–27 and **236.22 GWh** by 2031–2032 i.e. nearly 7x in next 7 years.
- The cost of battery energy storage systems (BESS) in India has declined sharply, with tariffs discovered through competitive bidding falling to as low as Rs 2.1 per unit (kWh) signalling a major improvement in the economics of renewable power integration.
- India has moved beyond pilot to scale support via Viability Gap Funding (VGF) and grid-charge incentives. Energy Storage is increasingly treated as its own investable asset class, helped by supportive tax and market structures in key regions.



## 7c. Can IT bounce back?



Source: Motilal Oswal Institutional Equities



- We had a lacklustre CY25 for IT Services on the back of a) Productivity related efficiencies from Gen AI being passed on to the clients b) Margins have been stable despite slowdown in net hiring as growth slows down
- Near term pressure from trade deal uncertainty, Gen AI related slowdown in Tech spending . However, we expect this to be transient and not impact overall Tech spending.
- Tech Spending on just AI today is 1.3% of GDP. With an increase there, we expect Tech Spending to pick from H2FY27 onwards. Expect IT to bounce back with IT vendors with AI related capabilities and investments in place to lead.

## 7d. Industrial Automation, Robotics and Capital Goods



- India's manufacturing story is entering an exciting phase. It is shifting from being just a base for large-scale, low-cost production to becoming a hub for advanced, technology-driven manufacturing.
- Across industries, factories are becoming more digital, efficient, and connected. Machines once operated manually are being guided by sensors, software, and real-time data. This digital transformation is reshaping how products are designed, assembled, and delivered.
- AI and machine learning help manufacturers predict machine failures, plan maintenance better, and reduce downtime. Robotics is speeding up production lines while ensuring precision. Cobots (type of robots designed to work safely alongside humans) will play an integral part going forward making automation attainable even for small companies. The Internet of Things (IoT) allows machines to talk to each other, sharing real-time data to optimise operations and energy use.
- The capex mix in the capital goods segment is now moving towards productivity capex that will assist to accelerate execution as well as to control working capital

## 7e. Cryptocurrencies

**Can Crypto stage a *comeback* and become a *core* part of investor portfolio?**

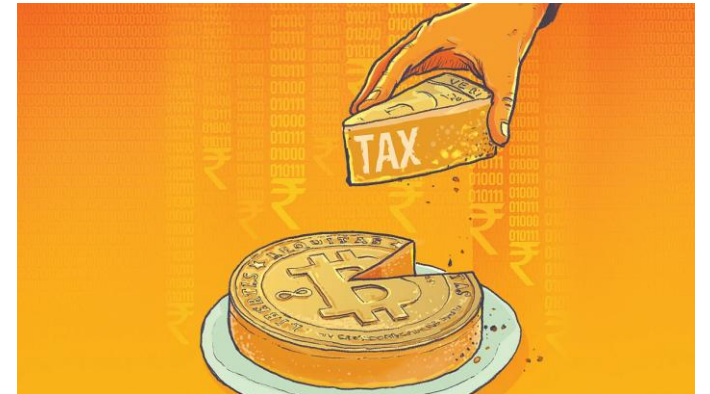
**What supports a *comeback*?**

- **Global “legitimacy rails” (ETFs + custody):** Regulated wrappers (like US spot ETFs) reduce friction and expand the institutional buyer base—this changes demand quality more than narratives do.
- **Stablecoins getting a hard rulebook in the US (GENIUS Act):** The GENIUS Act framework requires **1:1 reserves**, **monthly public reserve disclosures**, and issuer regulation for payment stablecoins
- **Fed cuts / liquidity:** Easier global liquidity typically improves risk appetite, which helps BTC/crypto in “risk-on” regimes (but reverses fast in risk-off).



**What blocks crypto from becoming *core* in India today**

- **Tax regime is structurally punitive for active investors:** CBDT explains that VDA gains are taxed at 30%, with no deduction (except cost) and no loss set-off; losses also can't be carried forward.
- **1% TDS creates friction and reduces churn/liquidity:** The Income Tax Dept tutorial reiterates **1% TDS u/s 194S**.
- **Regulation is “AML-first”:** Govt notes crypto/NFTs are **unregulated** and that VDA service providers must register with FIU-IND under PMLA obligations.
- **RBI remains cautious on stablecoins:** RBI reiterates concerns that **stablecoin risks to macro financial stability outweigh benefits** and urges prioritising **CBDCs**.

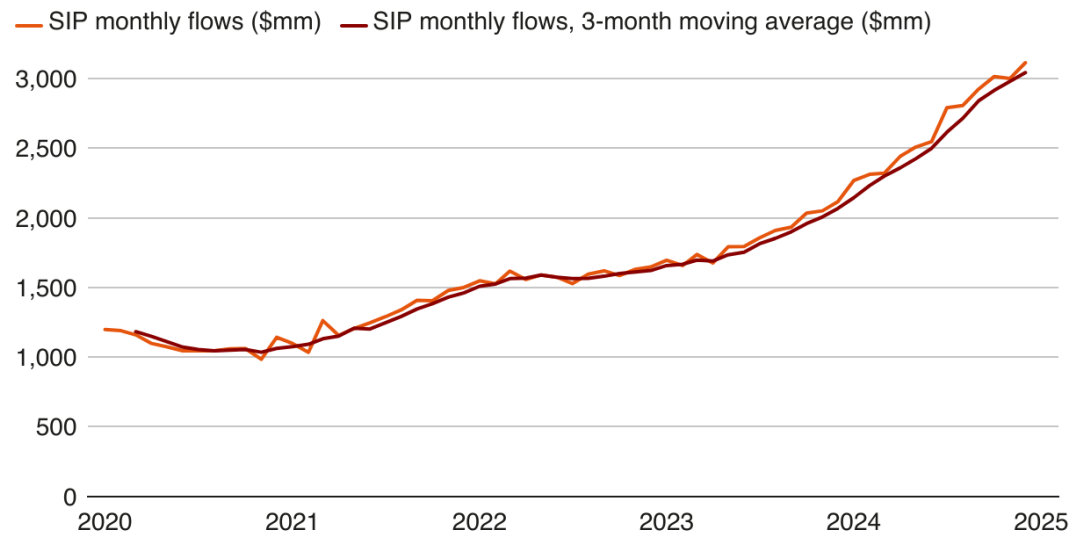


## 8. Flows



## 8.a. Flows – Will Domestic retail interest stay alive in a flat market

### Monthly equity flows from Indian SIPs have skyrocketed



Association of Mutual Funds of India

- **SIP “auto-pilot” behavior:** Monthly SIPs continue regardless of index direction because they’re linked to salary cycles and long-term goals.
- **Buy-the-dip mindset / rupee-cost averaging:** Flat markets are seen as a chance to accumulate at “reasonable” prices without FOMO-driven spikes.
- **Stock/sector dispersion still creates winners:** Even if the index is flat, themes (PSU, defence, railways, capital goods, consumption, etc.) can move—keeping retail engaged.
- **Search for returns vs low real yields:** If bank FD returns don’t feel attractive after inflation/taxes, retail keeps allocating to equities/equity MFs.
- **Domestic flows as a counterbalance to FII volatility:** Retail often views itself as the “steady buyer,” reinforcing participation during sideways phases.
- **Thus, we feel that domestic retail interest will stay alive even in a flat market**

# Average SIP Returns

Fund Category	1yr (XIRR)	3yr (XIRR)	5yr (XIRR)
Large Cap Fund	4.7	14.2	14.8
Mid Cap Fund	7.5	21.2	21.8
Multicap Fund	5.1	17.2	17.8
Small cap Fund	6.9	20.0	23.1

*As on 31<sup>st</sup> December 2025*

- Across categories, 1-year SIP XIRRs are modest (4.7%–7.5%), suggesting the recent market phase hasn't been very rewarding
- In contrast, 3-year SIP returns are strong (14.2%–21.2%) and 5-year returns remain healthy (14.8%–23.1%), highlighting solid long-term compounding.
- Mid-cap and small-cap funds lead the longer horizons (3Y ~21%/20%; 5Y ~22%/23%), reflecting higher growth potential.

## 8.b. Flows – Which way will the FIIs flow



- 2025 saw record net equity outflows;
  - Flows will improve materially vs 2025 (move towards neutral-to-positive), mainly if earnings recover—multiple market outlooks explicitly say earnings recovery is the anchor, but a sustained rally needs FIIs to return.
  - India's valuation premium has cooled (e.g., MSCI India premium over EM fell meaningfully by late-2025). Commentary now notes valuations are cheaper than recent peaks (though still premium to regional peers). This makes re-entry easier if macros cooperate.
- If INR weakens / USD & global yields stay high, FIIs can remain selective or intermittent—2025's “exodus” commentary links outflows to rupee depreciation, and macro outlook



# Emerging Markets Portfolio Flows (IIF) — Monthly 2025 (USD bn)

Month	Total (Reported)	EM Equity (Reported/Derived)	EM Debt (Reported/Derived)	China Total	China Equity	China Debt
Jan-25	35.4	(9.5)	45.0	10.1	2.0	8.1
Feb-25	15.9	(2.1)	18.0	(3.9)	11.2	(15.1)
Mar-25						
Apr-25						
May-25	19.2	8.4	10.8	12.5	1.4	11.1
Jun-25	42.8	9.9	32.9			23.8
Jul-25	55.5	16.3	39.2	37.1	6.3	30.8
Aug-25	44.8			39.0		
Sep-25	26.2					
Oct-25	26.9	12.9	14.4	0.5	3.5	(3.0)
Nov-25	(3.9)	(18.9)	15.0			
Dec-25						

Jan and Nov '25 saw heavy outflows from Emerging markets.

Flows to China have been positive almost every month, with Feb and Jul '25 being particularly high

Debt flows have been positive for EMs but erratic for China.

## 8.c. Flows – How much will the IPOs suck out

 <b>Upcoming IPOs in 2026</b>		
Company	Current IPO status	
 Bharat Coking Coal IPO	Coal India subsidiary plans for ₹1,300 crore IPO in first week of January	
 Reliance Jio	Preparing draft prospectus, IPO expected in first half of 2026	
 Flipkart IPO	Got NCLT nod to shift legal domicile from Singapore to India	
 PhonePe IPO	Confidentially filed DRHP with SEBI	
 NSE IPO	Awaiting regulatory approval and compliance clearances	
 Zepto IPO	Preparing to file draft papers with SEBI via confidential route	
 SBI Mutual Fund	Targeting IPO in 2026, offering up to 10% of equity	
 OYO	Seeking shareholder approval for ₹6,650 crore IPO	
 boAt	Filed updated DRHP for ₹1,500 crore IPO	
 Hero FinCorp	Filed DRHP for ₹3,668 crore IPO	

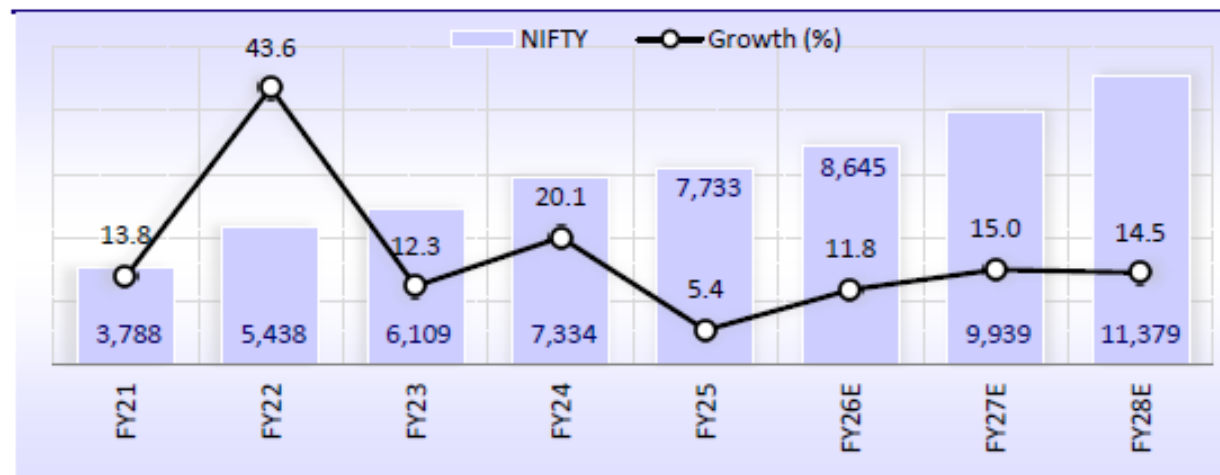
Source: Upstox  [www.indiaipo.in](http://www.indiaipo.in) 

- **2026 could be a bumper IPO year:** 190+ companies are lined up to list, with total targeted fund-raising of ₹2.5 lakh crore+ across issuers.
- **Pipeline split:** 84 companies already have SEBI approval aiming to raise about ₹1.14 lakh crore, while 108 are awaiting approvals targeting about ₹1.46 lakh crore.
- The expected listing wave spans telecom, fintech, consumer internet and financial services, indicating a broad-based primary market calendar.
- Big-ticket names highlighted include Reliance Jio (potentially the largest-ever India IPO; valuation talk ₹11–12 lakh crore) and NSE (has set aside ~₹1,300 crore to resolve regulatory issues; awaiting SEBI NOC).
- Other “watched” candidates : Flipkart, PhonePe (confidential filing; ~\$1.5bn IPO at ~\$15bn valuation), OYO, SBI Mutual Fund, Hero Fincorp, Navi, Zepto, and boAt.

## 9. Earnings Revival

## 9a. Earnings Revival on Cards?

Nifty PAT / PAT growth – See earnings pick up in FY27/FY28

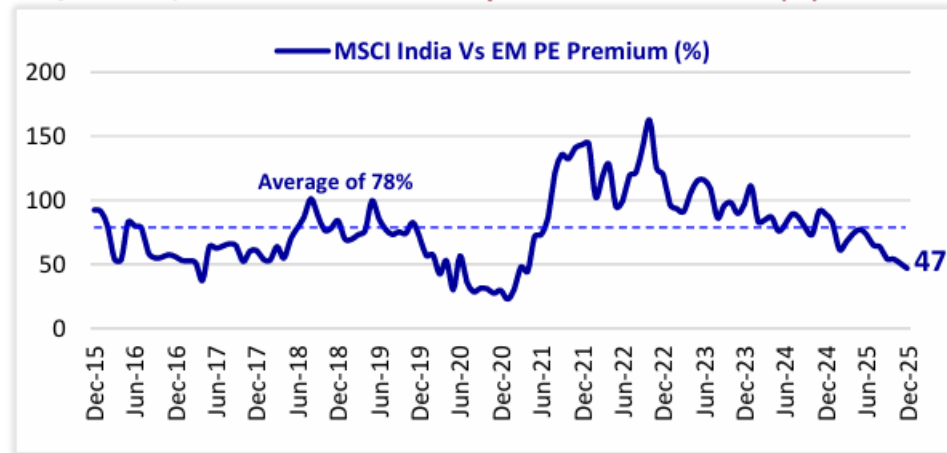


- We have seen brokerages like Motilal Oswal raising their earnings estimates for FY26 and FY27 for their universe of stocks under coverage – across Largecap and Midcap.
- For Nifty, we see PAT growth of ~14-15% in FY27/FY28 post a 12% earnings growth estimates in FY26.
- Earnings uptick being led by Telecom, Banks, NBFCs with notable drag coming mainly from Utilities.

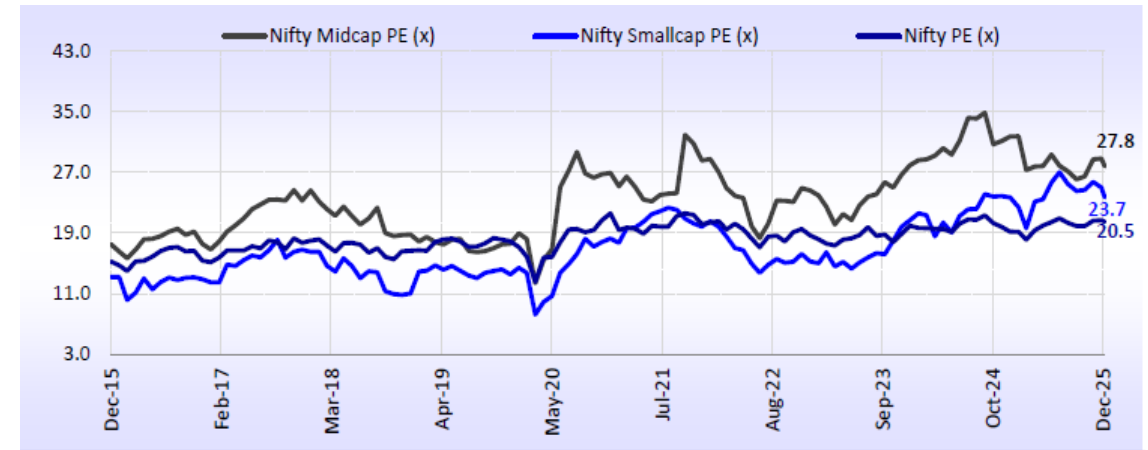
## 9b. Earnings Revival on Cards? – A Valuation perspective

MSCI India vs. MSCI EM on Trailing Twelve-month PE

In P/E terms, MSCI India trades at a premium to MSCI EM (%)



Valuation (12M forward basis) – All indices trade close Long-Term Average. Midcap and Small indices are at a premium



- The premium valuation of Indian Markets vs. Emerging Markets have fallen to 47% vs. Long Term average of 78%
- On a 1-year forward basis, the nifty trades at 20.5x 1-year forward PE, in line with Long Term average, while the mid and small cap indices trade at a slight premium vs. its long-term average.

## 9c.How have Value and Growth Stocks fared?

Industry	3Y Median PE	5Y Median PE	TTM_PE	1Y% (Perf)
Automobiles-Trucks/Lcv	22.2	18.2	33.9	143.1
Bank - Public	8.9	9.6	9.4	37.9
Metal - Non Ferrous	19.0	16.2	22.7	32.8
Exchange	51.2	44.0	55.5	31.8
Automobiles - Passenger Cars	27.9	27.7	33.8	28.9
Bank - Private	18.8	17.3	22.0	26.4
Defence	64.1	53.6	75.9	26.4
e-Commerce	14.1	11.7	753.4	22.0
Refineries	11.0	8.7	14.5	21.6
Ship Building	38.4	23.3	48.3	20.1
Automobiles-Tractors	32.6	31.4	37.1	16.5
Steel & Iron Products	25.7	17.3	29.4	15.0
Insurance	58.8	59.8	88.4	12.4
Finance - NBFC	23.6	23.4	38.1	12.4

Industry	3Y Median PE	5Y Median PE	TTM_PE	1Y% (Perf)
Consumer Durables - Electronics	102.9	113.5	50.4	-33.6
Oil Exploration	9.9	7.6	9.9	-25.0
Consumer Durables - Domestic Appliances	62.1	59.8	49.1	-23.7
Retailing	89.2	77.9	91.2	-20.0
IT - Software	30.8	27.5	34.6	-18.8
Engineering - Construction	19.0	14.9	22.7	-18.2
Transmission Towers / Equipments	36.2	28.8	27.3	-18.1
Engineering - Industrial Equipments	46.7	40.5	48.3	-16.5
Hotel, Resort & Restaurants	45.1	40.8	47.5	-13.0
Chemicals	39.0	37.2	45.7	-12.4
Diamond & Jewellery	49.8	45.0	42.9	-7.7
Power Generation/Distribution	22.1	16.5	47.4	-5.6
Cement & Construction Materials	36.2	31.9	92.8	-4.2
Pharmaceuticals & Drugs	33.5	30.6	52.3	-2.0
Finance - Housing	14.4	13.8	13.5	-1.2
Telecom	31.2	27.8	26.8	-1.0

- While no clear distinction, but growth stocks have fared well in CY25 – Defence, e-commerce, Autos, Insurance, NBFC, Exchange.
- Value stocks have broadly underperformed in CY25
- We see this trend continuing in 2026 also

## 10. Consumption or Industrials to drive the markets in 2026



# Analysing the markets

- We have divided the market into 4 segments to understand the opportunity set – and looked at the distribution of companies, market capitalization and profit pool in each segment
- We have limited our analysis to companies with market capitalization of Rs 1000 or above

Theme	No of cos. 2025	Percentage	No of cos. 2024
Consumption	322	29%	306
Industrials	560	50%	553
Financials	118	10%	108
Exports	124	11%	122
Total	1,124	100%	1,089

# Opportunity set

## Market Capitalization level

Theme	No. of cos.	Percentage	FY25 Mcap (in Cr)	% contribution	TTM Mcap (in Cr)	% contribution
Consumption	322	29%	97,64,164	25%	1,10,28,045	26%
Industrials	560	50%	1,42,11,064	37%	1,60,68,501	37%
Financials	118	10%	87,41,826	23%	1,03,95,695	24%
Exports	124	11%	56,06,845	15%	57,35,648	13%
Grand Total	1,124	100%	3,83,23,899	100%	4,32,27,889	100%

## Profit After Tax (PAT) Level

Theme	No. of cos.	% contribution	FY25 PAT (in Cr)	% contribution	TTM PAT (in Cr)	% contribution
Consumption	322	29%	1,95,488	12%	2,02,196	12%
Industrials	560	50%	6,15,429	39%	6,65,123	40%
Financials	118	10%	5,89,105	37%	5,91,567	36%
Exports	124	11%	1,94,224	12%	1,99,553	12%
Grand Total	1,124	100%	15,94,246	100%	16,58,438	100%

# 10a. Consumption – outlook on outperforming sectors

Industry	CY25 average return	Outlook
<b>Automobiles - Passenger Cars</b>	35%	Auto sector outlook on the back of GST & rate cuts, launch of new models and rising aspiration
<b>Automobile Two &amp; Three Wheelers</b>	12%	Strong rural recovery, GST & rate cuts to drive demand
<b>Consumer Food</b>	8%	Stock specific outlook remains constructive
<b>Hospital &amp; Healthcare Services</b>	1%	Rising insurance penetration & capacity expansion to renew interest. Near term uncertainty linked to stand off with insurance companies to clear soon.
<b>Breweries &amp; Distilleries</b>	1%	Positive on the basis of premiumization due to higher disposable income
<b>Diamond &amp; Jewellery</b>	-4%	Outlook for 2026 is strong on the back of increasing penetration & income levels. Also lab grown diamonds (LGD) offers an opportunity to open a new market segment.
<b>Hotel, Resort &amp; Restaurants</b>	-9%	We expect Government to bring a lot of focus in this sector. Tailwind of rising demand for leisure, travel & MICE activities remains
<b>Luggage</b>	-19%	Higher number of air travellers , growing network of airports and rising income level to drive demand
	-21%	Strong outlook on the back of GST rationalisation, Income Tax revision and Pay Commission award

# 10b. Industrial –outlook on outperforming sectors

Industry	CY25 average return	Outlook
<b>Defence</b>	30%	Budget boost & execution momentum to drive the sector in FY27
<b>Ship Building</b>	23%	Budget boost & execution momentum, focus on maritime sectors to drive the sector in FY27
<b>Recycling</b>	0%	Government policy tailwinds
<b>Power Generation/Distribution</b>	-10%	Expecting power demand to remain strong
<b>Chemicals</b>	-11%	One of the beneficiaries of any resolution in US India trade deal
<b>Cable</b>	-13%	Strong power & data center demand to drive the sector
<b>Engineering - Industrial Equipments</b>	-16%	Expecting capex momentum to continue
<b>Engineering - Construction</b>	-17%	Increasing government capex
<b>Compressors / Pumps</b>	-21%	PM KUSUM to drive demand

## 10c. Consumption or Industrial

- Sector rotation will be the key to wealth creation in 2026. Markets have seen an extended period of consolidation and now seem poised for a rally provided the earnings growth does not play a spoil sport.
- The disappointing performance of small and micro cap has made the valuations attractive for some of them. In a market which is starved of ideas we have seen a gush of money on the smallest of optimism .
- The rally in EMS, Railways, Defence are some of the examples. This does not mean that these sectors do not hold promise. But if we overpay upfront then we will need to be patient for returns. This will continue to be a challenge in 2026.

We believe that rather than chase sectors, it might be more prudent to use top down analysis to understand if macro economic dynamics are throwing up some new winners, but remain rooted to a bottom up stock selection strategy to create outperformance.

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