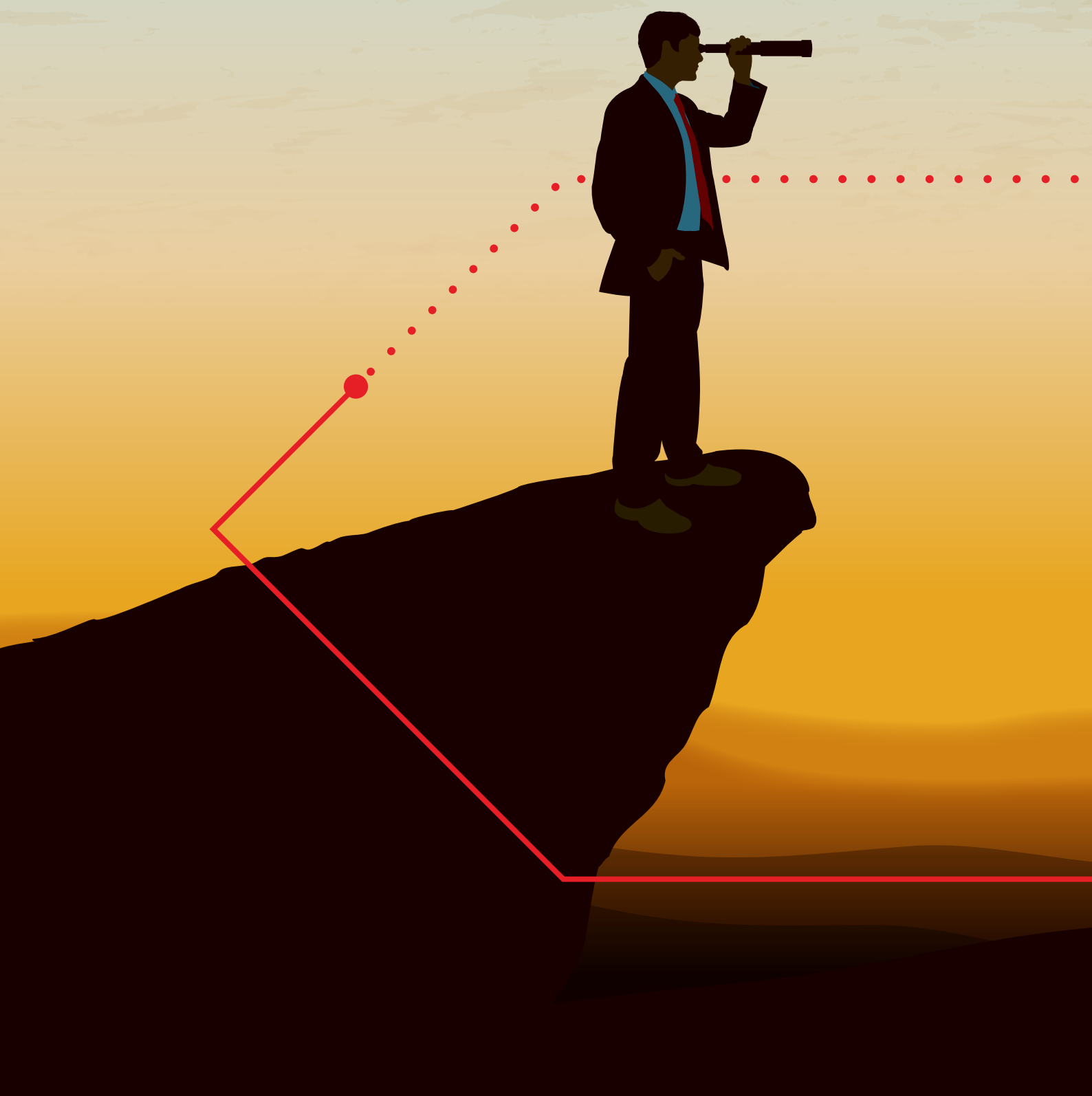


Equity Market Outlook 2026





2025 has been a tumultuous year for the India market driven by continued changes in the US trade and tariffs policy.

We also had a geopolitical conflict which thankfully remained brief and well contained.

2025 has seen significant divergence in performance. While Nifty TRI is up 12% till November on a Total return basis, NSE Midcaps are up 6.5% and whereas the BSE Smallcap index is down 5%.

While 2025 has witnessed low earnings growth for the Nifty and tepid equity market performance there have been several positives on the economic front which may support market performance in 2026.

2025 YTD (till Nov 28, 2025)

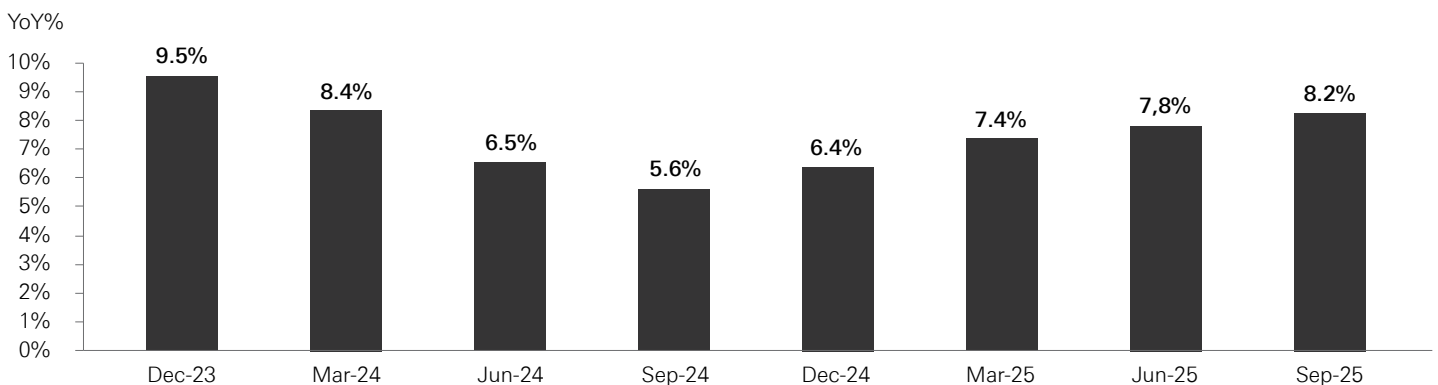


Data as on Nov 28, 2025. Source: MFI Explorer, Bloomberg

Key Drivers of 2025

1. India's economic growth momentum has continued to surprise on the upside underscored by the recent real GDP growth of 7.8%/8.2% (YoY) for Q1 and Q2FY26 respectively.

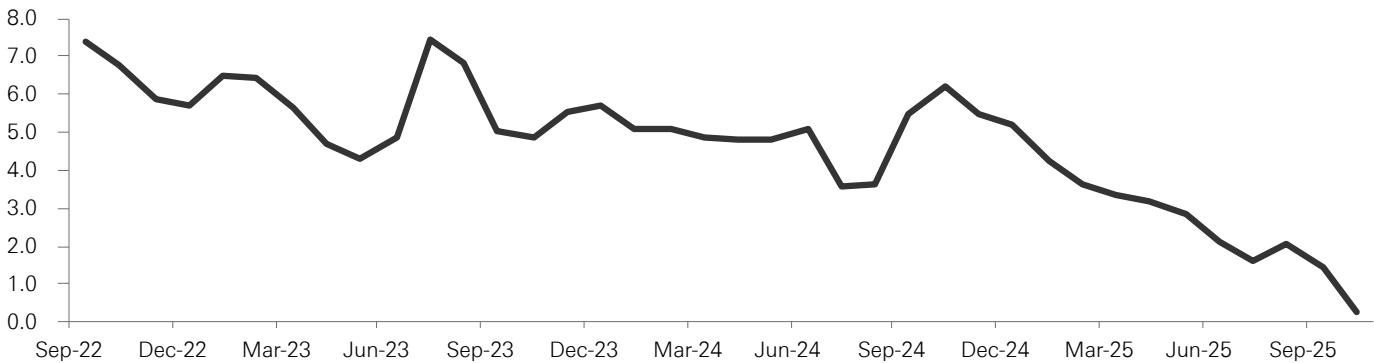
Real GDP growth



Data as on Nov 28, 2025. Source: MFI Explorer, Bloomberg

2. RBI changed its policy stance early in the year, eased liquidity significantly and has reduced repo rates by 125 bps till now. We are now starting to see signs of improvement in credit growth as a result of the same. In our view, benign inflation trends have opened up room for further interest rate cuts.

CPI Inflation (%)



Data as on Nov 28, 2025. Source: MFI Explorer, Bloomberg

3. In a major reform, government undertook simplification of GST rates by moving to 3 GST slabs from 5. The benefit of reduction in GST rates for several categories of products and services is likely to be visible in second half of current fiscal and beyond. Government also put more money in the hands of the middle class by reducing income tax rates in the Union Budget 2025.

4. Good monsoon and low inflation have boosted rural consumer confidence and bode well for future demand.

All these factors could help drive a mid-teens earnings growth for the Nifty in FY27 after a potentially single digit growth in FY26.

Sectoral Outlook

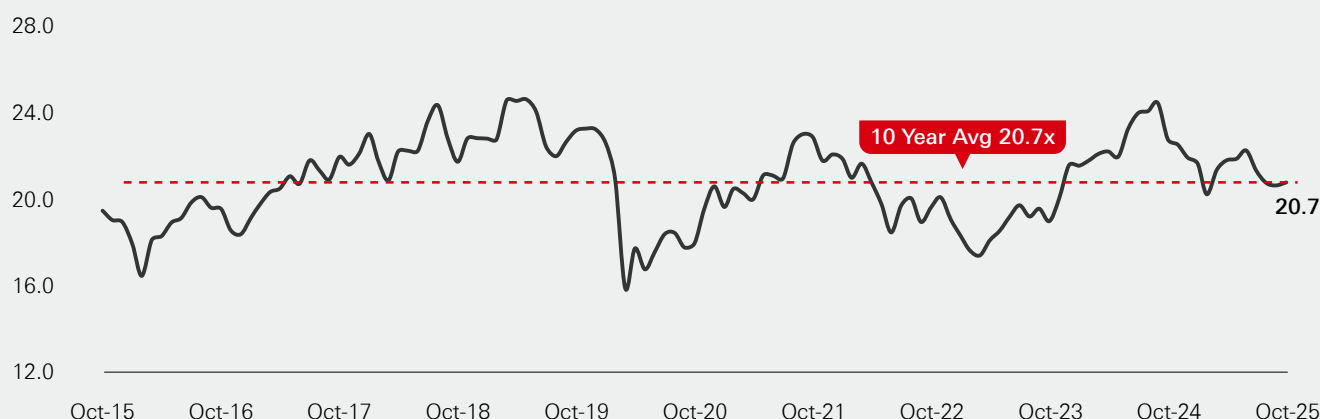
- ◆ We are overweight on Banks and NBFCs – Net Interest Margins for banks have bottomed out in FY26 and will improve in FY27. Asset quality of private banks will also improve driving a mid-teens earnings growth in FY27 after a slow FY26. NBFCs are delivering strong earnings growth driven by strong credit demand and improving margins on the back of decline in interest rates.
- ◆ We are also overweight on Consumer Discretionary sector. Segments like Internet platforms which continue to benefit from strong shift in consumer behaviour towards Quick commerce and e-commerce. Jewellery, Autos and travel related segments are also likely to benefit from recent government measures boosting disposable income for consumers.
- ◆ Electronic manufacturing services remains a structural theme in our view driven by strong government focus to build an electronics manufacturing value chain in India.
- ◆ We are Neutral on IT – we expect FY27 earnings growth likely to be near double digits supported by increased Gen AI adoption related workflow and INR depreciation. Valuations are more supportive.
- ◆ We are Neutral on Industrials. We believe increased allocation for capex in Budget 2026 would be a key catalyst to watch out for.
- ◆ While we see upside risks to Aluminium and Steel price, we feel a significant part is already captured in the valuations. We, therefore, remain underweight on metals.



Outlook for 2026

Overall, we remain constructive on the equity markets for 2026. Nifty valuations at 20.5x 1-year forward PE are in-line with its 5-year average and at a modest premium to 10-year average.

NIFTY 50 Forward P/E valuations



Source: MOSL, Bloomberg, Nifty50 PE/ROE. Latest available data as at September 2025, Note : Views provided above are based on information available in public domain at this moment and subject to change. Investors should not consider the same as investment advice. Please consult your financial advisor for any investment decision. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments. The Fund/portfolio may or may not have any existing / future position in these sector(s)/stock(s)/issuer(s). Past performance may or may not be sustained in future and is not a guarantee of any future returns.

MSCI India has significantly underperformed the MSCI EM over the last 14 months and India's valuation premium now relative to EM is back to historical average. With better earnings growth in FY27 and a potential trade deal with the US, we expect to see a return of FII investors into India.

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

Source: Bloomberg, MOSL & HSBC MF estimates as on November 28, 2025 end or as latest available.

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