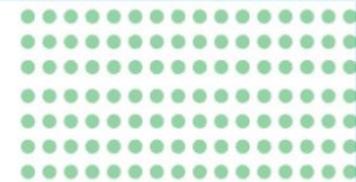


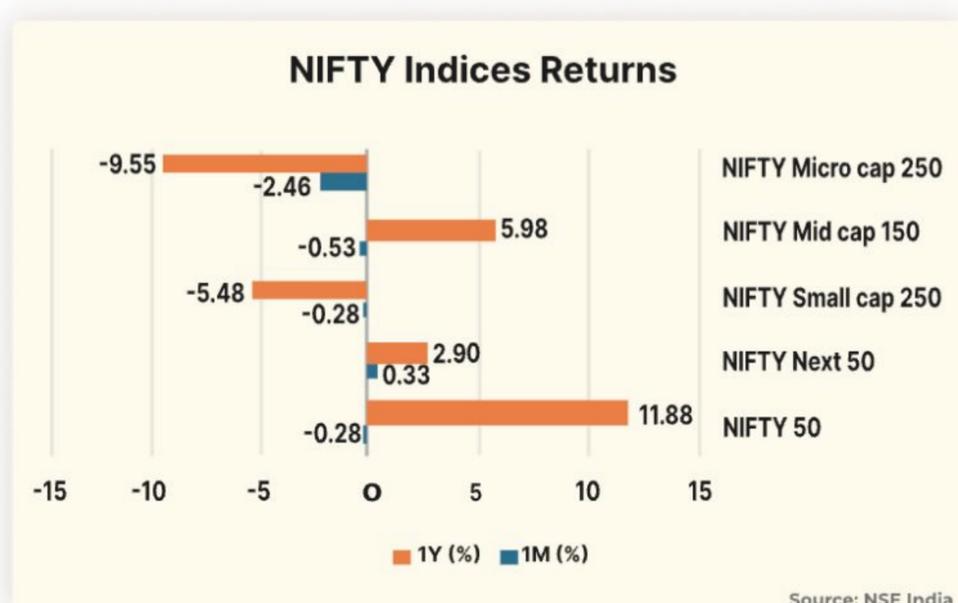


# Equity Outlook





## Monthly Recap : December 2025



NIFTY Indices	Returns (%)		
	1M	3M	1Y
Auto	1.49	6.23	24.59
FMCG	-0.22	1.62	-0.43
Media	-1.60	-6.15	-19.98
Financial Services	-0.99	6.16	18.60
Metal	8.50	11.31	29.90
Pharma	-1.19	5.94	-2.25
Consumer Durables	-2.97	-0.95	-11.75
Oil & Gas	1.64	8.54	15.25
Realty	-2.79	1.20	-16.30
Energy	-0.63	1.10	1.84
Infrastructure	-0.39	6.88	14.64
India Defence	-3.28	-1.28	19.98
India Consumption	-1.47	1.94	9.22
Commodities	3.31	6.00	18.42
Housing	-0.21	3.03	7.46
Bank	-0.29	9.05	18.08
IT	1.28	13.43	-10.44

Source: NSE India

### December Market Dynamics: Consolidation Amid Foreign Selling & Mixed Breadth

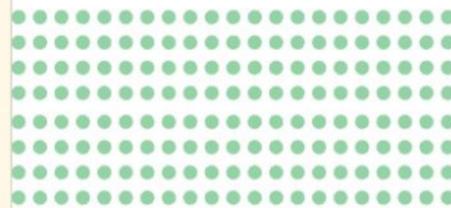
In December, **NIFTY 50** consolidated near 26,000, fell a modest  $\sim 0.3\%$  for the month while delivering a strong  $\sim 11.9\%$  return over the past year, highlighting the resilience of large-cap stocks. Foreign outflows weighed on broader market sentiment, keeping mid- and small-cap indices under pressure.

The smaller indices painted a contrasting picture: **NIFTY Microcap 250** fell 2.46% MoM and  $\sim 9.5\%$  over the year, while **NIFTY Smallcap 250** dropped 0.28% for the month and 5.48% for the year, reflecting ongoing caution among risk-sensitive investors. Overall, selective buying in metals and cyclical stocks supported pockets of the market, but consolidation in large caps amid foreign selling and year-end liquidity shifts defined December's trend.



## Sectoral Performance

- **Metals staged relative strength**, especially toward month-end, with tariff news supporting domestic steel firms and driving sector gains. Large-cap metal names helped underpin broader index stability.
- **Consumer Durables underperformed in December**, showing weaker momentum compared to other cyclicals. Post-festive normalization in demand, coupled with high interest rates and year-end portfolio rebalancing, led investors to rotate away from the sector, resulting in relative underperformance rather than a sharp sell-off.
- **Financials & Banking remained steady**, anchored by domestic credit growth and improving asset quality, which continued to attract allocations from institutional investors.
- **IT sector lagged**, drag persisted as global tech demand softness and regulatory headwinds capped gains, keeping returns muted relative to cyclical peers.



# Valuation of Indian Equity Markets

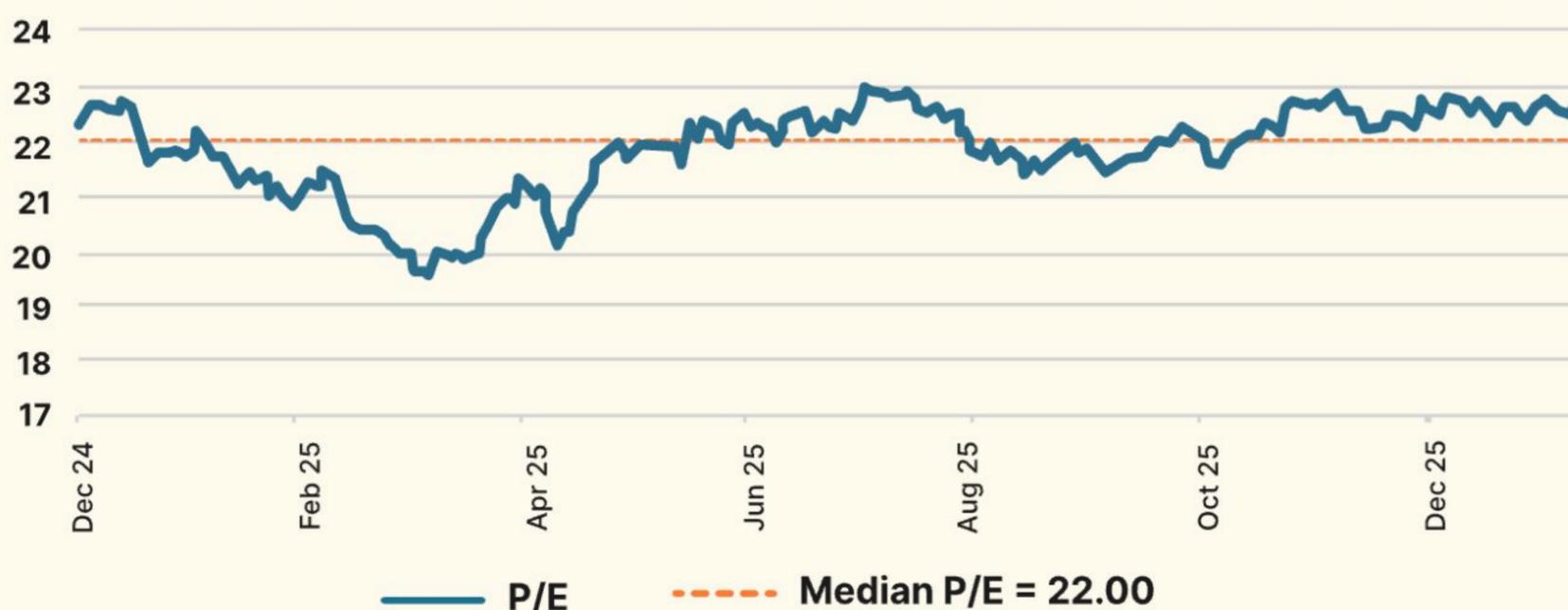
Valuations across Indian equities have moderated meaningfully over the past year. Though Nifty 50 now trades at a P/E of 22.75, up modestly from 21.79 since last year, but still below its 10-year average of 23.49. This signals that this segment might still offer selective value. This positions the benchmark in a neutral valuation zone, where markets seemed to be neither deeply overheated nor significantly undervalued.

	TTM P/E (As on 31 <sup>st</sup> Dec' 24)	TTM P/E (As on 31 <sup>st</sup> Dec' 25)	Apr'15-Mar'25 (10 Yr Historical Average)
Nifty 50	21.75	22.75	23.49
Nifty Next 50	24.90	20.18	27.43
Nifty Smallcap 50	34.68	32.18	33.04
Nifty Midcap 100	42.90	33.84	30.57
Nifty 500	25.56	24.45	26.69

Source: NSE India

Across the broader market, the cooling is more evident. The Nifty 500's P/E has declined from 25.56 last year to 24.45, now trading at a discount to its long-term average of 26.69, indicating a gradual normalization from prior valuation multiples. While mid- and small-cap valuations have corrected sharply against Dec-2024 valuations, midcap remains elevated in historical terms. Valuations have not stretched to extremes and no longer seem to be at the highs that once triggered caution.

NIFTY 50 P/E Chart



Source: NSE India

## Market Breadth Tightens Further as Valuation Discipline Deepens

The December P/E distribution for NIFTY Total Market Index companies reflects a clearer shift toward valuation discipline and earnings visibility. **The <25x P/E band now accounts for 29.33% of companies, broadly stable on a MoM basis.** Financials, especially banks, continue to dominate this band, reinforced by steady earnings delivery, improving asset quality, and expanding credit growth. **Select industrials and capital goods names remain anchored here.**

**A more meaningful change is visible in the 25–50x P/E range, which expanded to 36.13% of companies in December.** This suggests a migration of stocks from both higher and lower valuation buckets into a more “fair value” zone. Sectors such as IT, auto components, consumer durables and pharmaceuticals saw incremental additions here, reflecting stable order flows and reasonable earnings outlooks. This band increasingly represents the market’s comfort zone.

### NIFTY Total Market Index Companies P/E

P/E Range	No. of Companies	% of Total Companies	MoM Change in No. of Companies (%)
<25	220	29.33	-0.91
25-50	271	36.13	3.69
50-75	130	17.33	-3.08
75<	93	12.40	-4.30

Source: Screener.com

Note: Total adds up to 714 as P/E for 36 companies was not available.

Higher valuation clusters continued to contract. **The 50–75x band declined to 17.33%, while the >75x segment narrowed further to 12.40% of companies, marking a month-on-month compression.** Consumer-facing growth sectors, particularly consumer durables, retailing, healthcare services, and select pharma and new-age businesses, saw downgrades across these high valuation bands. **While long-term structural narratives remain intact, investors are possibly reassessing how much growth certainty is truly defensible at premium multiples.**

**Cyclical and commodity-linked sectors** such as metals & mining, oil & gas, construction materials, and industrial products **continue to cluster in the lower to mid P/E ranges (<25x and 25–50x).** This positioning reflects ongoing sensitivity to global growth signals, commodity price volatility, and capex cycles.



## Earnings So Far

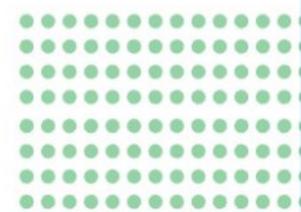
**As the market moves into the Q3FY26 earnings season, expectations are for steady but moderate growth rather than a sharp jump.** This caution stems from a mix of factors; global growth remains uneven, commodity prices have been volatile, and some sectors are still working through margin pressures. At the same time, domestic demand has held up, preventing a broader slowdown.

Financials, capital goods, defence, healthcare, and select consumption sectors are expected to lead growth, supported by steady credit demand, government capex, and healthy order books. IT services may see gradual improvement, aided by stabilising deal pipelines, though global tech spending remains uncertain. In contrast, commodity-linked and oil-related sectors face a more volatile backdrop. Metals, oil & gas, and related industries are exposed to swings in global prices, geopolitics, and supply decisions, which could lead to uneven margins and earnings visibility.

Overall, **earnings strength is expected to be selective in Q3 FY26.** With multiple factors at play, especially in IT and commodity-heavy sectors, the market is likely to reward earnings certainty over optimism.



## Institutional Activities



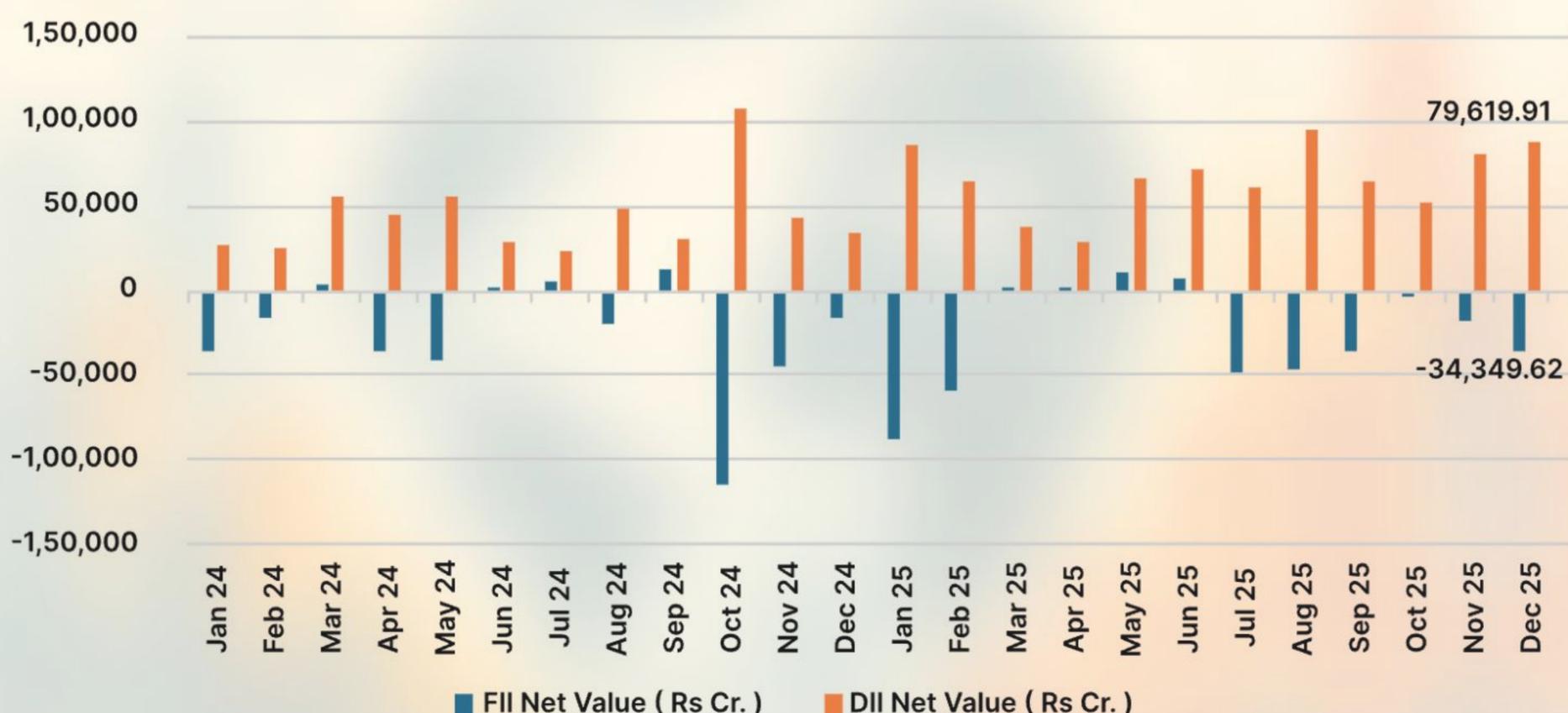
### FII Outflows Continue as Foreign Caution Persists

- **Foreign investors stay net sellers:** FIIs continued to sell Indian equities in December, with net outflows of around ₹34,350 crore. While selling persisted, it was not as extreme as some of the sharper liquidation phases seen earlier in the year, indicating more controlled risk reduction rather than panic exits.
- **Why pressure remains:** Elevated U.S. bond yields, a firm dollar, and global portfolio rebalancing towards developed markets and commodities run continued to weigh on FII sentiment. Valuations near cycle highs also kept foreign investors cautious, especially in large-cap stocks.

### DII Maintain Strong Buying and Cushion the Market

- **Strong domestic support:** Domestic institutional investors remained aggressive buyers in December, deploying close to ₹79,620 crore, once again offsetting foreign selling and providing stability to the market.
- **What's driving DII strength:** Consistent SIP inflows, sustained mutual fund participation, and steady buying by insurance and pension funds continued to anchor domestic liquidity. This trend has reinforced the growing role of domestic capital in absorbing volatility and supporting market structure.

### Graph: FII-DII in Cash Segment



## Global Markets

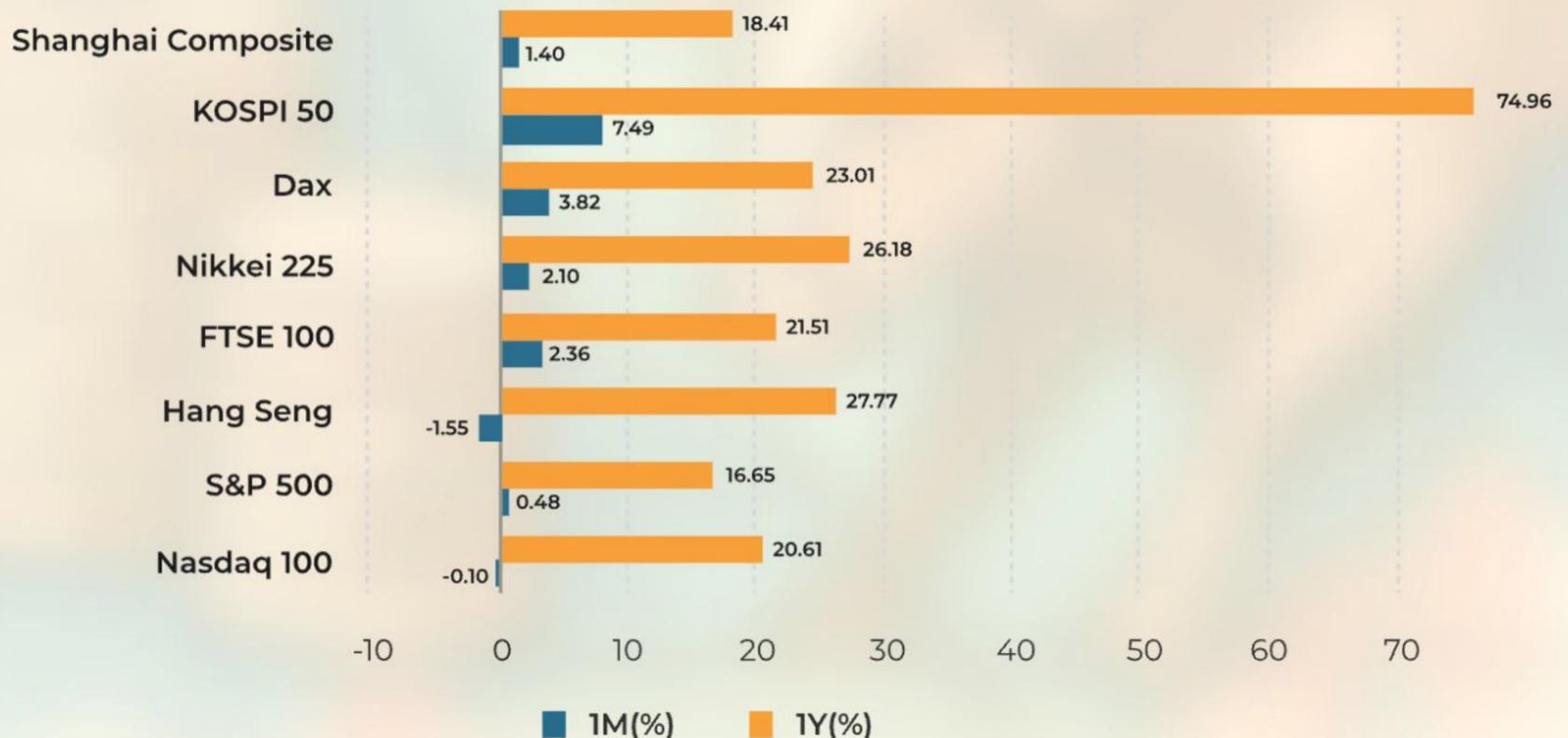
Asian markets were mostly positive in December. **Korea stood out again, delivering an exceptional 74.96% YoY and ~7.50% MoM gain**, the strongest among major global indices. The strong annual performance continues to **reflect optimism around semiconductors, memory chips, and AI-linked exports**.

**Japan's Nikkei 225 also ended December with gains of 2.10% MoM and over 26% YoY.** Support came from a weaker yen, steady foreign inflows, and improving corporate governance. However, rising bond yields and uncertainty around policy normalization limited sharper upside. **Shanghai Composite posted a modest 1.40% MoM gain, while the Hang Seng slipped about 1.55% during the month.** Despite stronger YoY numbers, weak domestic demand, property-sector stress, and cautious consumer sentiment continued to weigh on confidence and fresh inflows.

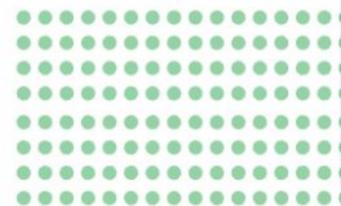
**European markets were steady** with FTSE 100 rising around 2.36% MoM and over 21% YoY, supported by defensive and dividend-heavy stocks. **Germany's DAX gained 3.82% MoM and 23.01% YoY**, helped by easing inflation, though weak manufacturing data kept investors cautious. U.S. equities, on the hand, cooled towards the year-end. **S&P 500 was largely flat in December but remained up about 17% YoY, while the Nasdaq 100 edged slightly lower** despite strong annual gains. Profit-taking in large-cap tech, high valuations, and uncertainty around the timing of Fed rate cuts capped further upside.

Overall, December felt like a pause after a strong year, with markets consolidating gains as investors focused more on earnings stability, valuations, and policy clarity going into the new year.

### Global Indices Return



# Equity In-House View

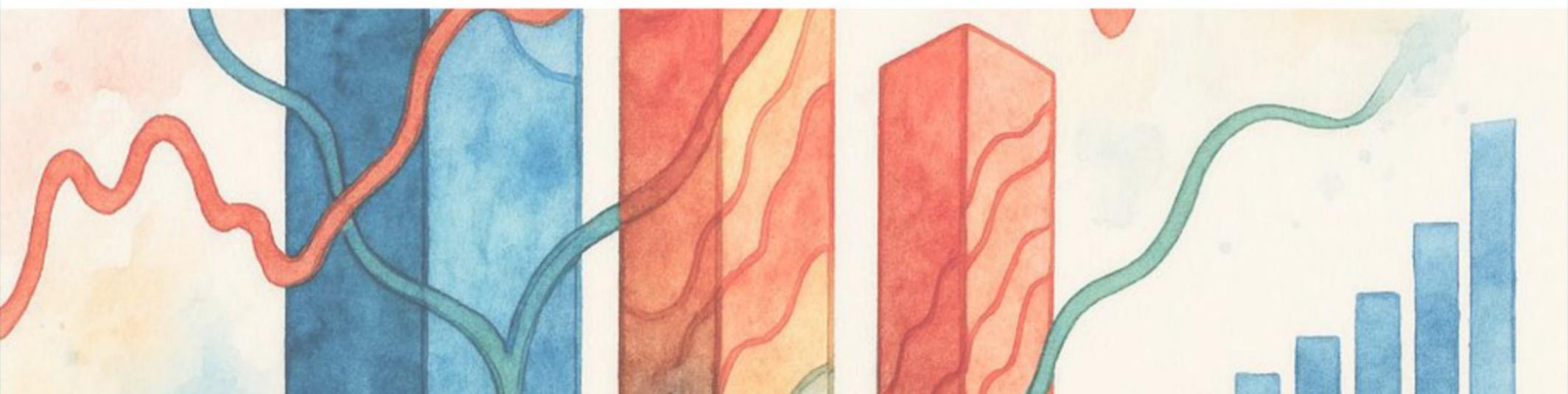


## Domestic Outlook

**While the benchmark indices have reached an all-time high, the portfolios still resist as small-cap and mid-cap stocks trade lower than the previous peaks.** More than 75% of the stocks in the listed space stand 20% lower from their 52-week high, 55% of the stocks trade 30% lower from the high and 34% trade lower by more than 40%.

**Despite persistent FII outflows, the setup ahead appears more constructive.** A combination of supportive fiscal and monetary policy measures such as lower interest rates, CRR cuts, GST rationalization, and steady government capital expenditure, has improved the domestic backdrop. **Any positive development on tariff negotiations with the US or a shift in global capital flows away from crowded AI-led trades could act as a trigger for the next leg of market recovery.**

**Compared with last year, positioning seems more comforting. We believe valuations have moderated but pockets of exuberance remain.** Keep large caps as the portfolio core, be selective in midcaps (around 26% earnings growth in Q2FY26), and treat small caps with caution as valuation comfort persists in highly selective pockets. After more than a year of consolidation, disciplined asset allocation and staggered equity deployment are essential; our stance is cautiously optimistic with increasing tilt towards mid & small caps for aggressive clients.



## Global Outlook

**Centricity continues to hold a cautious but positive outlook on global markets.** Equities are performing well but rising commodity prices point to growing risk, largely driven by U.S. policy actions: from tariffs to conflicts around Venezuela, Iran, Russia-Ukraine, and Israel. A reduced 10% tariff on China, rare-earth mineral export ban lift, and the first military action of U.S. on Venezuela remains as key verticals to gauge due to commodity action, especially gold and crude oil. **Geopolitical tensions, potential trade realignment, and divergent country outlooks have created uncertainty, yet investor flows stay strong as large funds search for relative value.**

This explains valuation gaps: **the S&P 500 actively trades above 28x-30x trailing earnings and the Nasdaq 100 above 39x-40x**, while indices such as **Shanghai Composite, Kospi and Nikkei trade around 16-21x despite substantial tech and industrial strengths.** Investors are balancing growth with safety, favoring lower valued markets with improving fundamentals. Structural risks remain a concern. Europe is burdened by geopolitical tensions and slower economic growth, while China's appealing valuation multiples are tempered by significant real estate stress and the necessity for further policy support.

Additionally, there is increased caution regarding the global technology trend: many artificial intelligence companies currently lack clear business models, cash flows, and significant improvements are necessary. However, much of the potential upside seems to be already factored into the prices. **Reducing allocation from US & moving to other emerging/low priced economies looks prudent.** In this context, a disciplined global strategy emphasizing diversification, staggered investments, and prudent asset allocation is essential.