Case for Likely NIFTY Rally Over the Next Two Quarters
Nifty at 24,400

Before making a case for a potential rally in the Nifty, let us briefly examine the current valuation landscape. Based on FY26 earnings and factoring in a 10% EPS growth, the Nifty is trading at approximately 22.3x forward earnings. By historical standards, this is not inexpensive. Yet, despite these valuations, we foresee a minimum 10% upside in the Nifty by the end of the calendar year 2025, driven by both domestic and global catalysts.

FY	Nifty EPS	PEx	Growth
FY22	725	–	–
FY23	807	30.6	11%
FY24	1006	24.6	25%
FY25	1013	24.4	1%
FY26	1110	22.3	10%
FY27	1297	19.0	17%

While the valuation compression is evident, forward growth visibility offers support. The market narrative could quickly shift if the following tailwinds play out.

Global & Domestic Triggers to Watch

A widely discussed concept in Western markets since April 2025 is TACO – Trump Always Chickens Out. This refers to short-lived market corrections following aggressive rhetoric from President Trump, which are then followed by sharp recoveries. Traders have effectively capitalized on these dips.

We believe a similar TACO dynamic may play out in Indian markets as well, especially given:

Robust domestic fund flows
Historic FII short positions

The market is primed for a short squeeze, needing only a catalyst for FIIs to return with net buying

Potential Catalysts:

Tariff Reversals or Reduction: The ongoing tariff friction with the U.S., though currently a headwind, could reverse quickly if diplomatic relations stabilize.

Global Rate Cut Cycle: President Trump's likely nomination of Stephen Miran (a known dove) to the U.S. Fed Board is being interpreted as a move to nudge the Fed toward a more accommodative stance.

RBI Rate Cuts: A significant repo rate cut by the RBI in June 2025 is expected to further enhance domestic liquidity and corporate profitability in the coming quarters.

Sectoral Outlook

Despite geopolitical tensions, macros remain favourable—especially with Brent crude steady at $66 and no major earnings disappointments in Q1FY26. The second half of FY26 could show stronger performance across sectors.

Here are our top sectoral picks:

1. **IT**
   Names like Infosys and Wipro are trading at attractive valuations. A weaker INR, recovery in global tech spending, and rate cuts in the West could benefit export-oriented IT services.
2. **Metals & Commodities**
   Rate cuts globally and a reduction in Chinese steel capacity bode well for Indian metal companies. The government's protectionist stance on domestic steel and infrastructure spending post-elections will further aid the sector.
3. **Cement & Construction Materials**
   Post-election capex and infrastructure outlays are expected to resume in earnest. A revival here will positively impact cement and building materials.
4. **Consumption**
   Higher disposable incomes from revised tax slabs and improved sentiment post-rate cuts should drive consumption higher, especially in discretionary categories.
5. **Chemicals**
   Selective companies have reported strong quarterly results. A bottom-up approach is advised to identify outperformers amidst global volatility.

Technical View

From a technical standpoint, the Nifty recently corrected from 25,800 to 24,400 after a rally that began at 21,800. The index is now consolidating between its 100-DMA and 200-DMA, with 24,100–24,400 acting as a strong support zone.

This correction should be viewed as a healthy consolidation, offering a compelling opportunity to accumulate quality large-cap names. If the broader setup plays out, many stocks could see a 15–20% upside over the next two quarters.

Conclusion

Despite current nervousness stemming from geopolitical developments and Indo-U.S. trade tensions, the medium-term outlook for Indian equities remains optimistic. Strong domestic flows, supportive central bank actions, and potential easing of global policy stances all provide a solid foundation for a rally toward 26,800+ on the Nifty by end-2025.

We reiterate: **Buy** the dips.

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