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ECONOMY ON STEROIDS LED BOOSTER FOR FY 26

It is so easy to get gloomy looking at the market performance and ignore all the positive incremental data points working beneath. From the highs, Nifty is -17%, Nifty Mid-cap is -21% and Nifty Small-cap is -26%, which by all means is a sizeable correction. With the price damage of individual names much higher than the benchmark indices, portfolios have seen a sizeable depreciation. Also, when we have these values in front of us and with no respite from FPI selling, a shift in narrative from being super bullish to bearish is a natural consequence.

Given this background, let us take a step back and understand what events have led to this market situation and what is changing to assess future possibilities. Our GDP growth in the last few quarters has been sub optimal, and corporate earnings growth weakening. Markets corrected as valuations adjusted to slower earnings growth,. When we dissect the reasons for the sub optimal GDP growth, there are several factors, though this list is not exhaustive. These include higher interest rates with tightening liquidity, calibrated slowdown of unsecured credit by higher risk weights, sub optimal capex spends as against the budgets and global turbulence to name a few. From a market standpoint, this also got coupled with DM vs EM trade along with revival of China's attractiveness with change in Government approach and tech progress led by DeepSeek. Investors globally keep moving flows at the margin, depending on the relative attractiveness of other investible markets. The convergence of these factors at the same time, has exacerbated the pain from FPI flows perspective.

WHAT IS CHANGING OR HAS CHANGED:

In our view, there has been well-planned coordinated policy action, both monetary and fiscal. Let me list down a few noteworthy measures.

Easing liquidity conditions and Monetary Policy action:

1. Cut in CRR
2. Interest rate cuts – with clear intent and emphasis on growth
3. Cut in Risk weights
4. Postponing of ECL and Project finance measures
5. On tap liquidity in the system.

Fiscal Measures:

1. Income Tax Rebate - Momentous
2. Continuing Capex
3. Front Loading of Expenditure in next quarter for next financial year
4. Welfare schemes from states

Keeping this in the background, now when we look at GDP constituents which are largely Investments, Consumption and Net Exports, the government, till now, has been steadfast in their focus on supply side (Investments) till now. This time around, in a deviation from the earlier approach, both State and Central governments have taken various measures to boost consumption. Also, as consumption improves, we may see it resulting in higher private capex to protect their respective market share.

As we move forward to the next financial year, we will see a combined effect of monetary and fiscal support to Investments and Consumption, leading to accelerated GDP growth. We see earnings downgrade cycle to ebb in next 4-6 months. In our view, FY 26 has all the potential to surprise the street on GDP growth as the effect of all the measures start playing out.

WHAT CAN GO WRONG:

Continued tariff turbulence can impact global sentiment. However, we believe that tariffs are only a measure to have better negotiation terms for a potential trade deal. Exports can have a challenging time as global trade and growth struggles. From India standpoint, this can impact capital flows and currency as global investment take a pause and wait for some certainty. Hence near-term volatility may stay high.

As valuations vis a vis other global markets turn back in long term average zone, and with the backdrop of FPI's underweight positions on India, should our GDP growth improve, we may see some crowding in of inflows from a medium-term perspective.

From a market standpoint, as the large cap valuations have turned reasonable, and this correction offers an opportunity for nibbling in for fresh investments. Stock correction till now is likely to sow the seeds of reasonable gains over the next 24 months. As a Long-Short fund which focusses on "Risk Adjusted Return" our approach will be very calibrated with exposures moving higher as we see signs of improvement backed by data over few months.

WE ARE TURNING CONSTRUCTIVE