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Indian Equities Outlook 2026

Corporate profitability is expected to serve as the core anchor for market performance as the earnings cycle bottoms out.

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he consensus target range for the Nifty at the end of 2026 is typically 28,500-29,120, an upside of 10-12%. This optimism is rooted in factors such as improving corporate earnings, resilient domestic liquidity, and key policy measures designed to boost consumption and growth.

Stock markets are primarily influenced by four factors: the economy, valuation, corporate earnings, and fund flows. Let us look at them in more detail.

Economy

The economic outlook for India in 2026 is broadly optimistic, marked by stabilizing macroeconomic conditions, strong domestic drivers, and accelerating corporate earnings growth.

India is expected to remain the fastest-growing major economy in 2026, thereby sustaining global growth momentum. Investment Information and Credit Rating Agency (ICRA) forecasts real GDP growth of 6.5% for FY26, while Kotak estimates FY27E real gross domestic product (GDP) growth at 6.5%. Citi projects GDP growth to hold near 7.1% in fiscal 2027. Growth acceleration is expected to begin from the second half of 2026. Domestic consumption will be the key driver, with fiscal stimulus expected to support it. Income tax cuts (estimated at 0.3% of GDP) and the rationalization of Goods and Services Tax (GST) rates (estimated at 0.6% of GDP) are expected to significantly boost household disposable income and urban consumption. GST cuts lowered prices across several sectors, spurring domestic demand.

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The Reserve Bank of India (RBI) has already front-loaded policy easing with 125 basis points (bps) of repo rate cuts and a 100 bps cut in the cash reserve ratio (CRR) in 2025. Another 25 bps rate reduction is anticipated in the February 2026 policy, providing further support to growth and rate-sensitive sectors. Inflation is expected to remain contained, trending below the RBI's medium-term target of 4% through FY26, driven by soft crude oil prices and GST rate cuts. The expectation is that the RBI will maintain an extended pause in 2026 following rate cuts in late 2025, signalling a stable, lower-for-longer interest rate environment.

The primary near-term risk is the heightened global uncertainty and trade instability. Elevated US tariffs, including a 50% effective tariff rate on Indian goods, are weighing down on Indian exports. While the effects of trade friction and geopolitical risks could keep markets range-bound in the near-term, India's superior macro fundamentals and domestic liquidity are expected to absorb this pressure.

The Rupee's record lows in 2025 were linked to adverse tariff outcomes and geopolitical uncertainty. The outlook for the Indian Rupee (INR) indicates continued volatility, with expectations that it will remain weak or experience further slippage in the near-term, driven by external pressures. However, underlying domestic factors are expected to provide stabilization and ultimately alleviate the pressure. Analysts generally forecast a weakening or lower trend for the Rupee in the short- to medium-term. The Rupee, which had already weakened by about 5% in 2025 to record lows, is forecast by Jefferies to slip further and trade at roughly ₹90 per US dollar over the next six to twelve months. Citi projects the Rupee at 91 per US dollar in fiscal 2027, alongside an expected $20 bn balance-of-payments surplus, driven by an improving current account and

returning capital flows. Standard Chartered maintains a 12-month target for the USD/INR exchange rate at 88.

The overall outlook for the Indian economy is POSITIVE.

Valuation

Valuation estimates across the Indian equity market suggest that valuations have moderated recently, offering a more attractive risk-reward profile, although overall metrics remain above historical averages. The Nifty 50 (Nifty) Index currently trades at a price-to-earnings (P/E) ratio of 23.9x FY26E, 20.3x FY27E, and 17.7x FY28E earnings. The Nifty 12-month forward P/E, currently around 20.3x, is below its peak of 22x but remains above its 10-year average of 18.3x.

Historically, India has traded at a premium to other emerging markets (EMs). However, recent market corrections have reduced this premium. The MSCI India Index's 2025 calendar year P/E estimate of 24x is now broadly in line with the United States' P/E of 24.2x, marking the narrowest valuation gap since 2016. Compared to other Asian and EMs, India is now considered to offer "value versus Chinese equities". However, the underperformance of Indian markets over the past year has been attributed to earlier concerns about high valuations. Valuations vary significantly across sectors, with institutional investors shifting their focus toward areas with strong future growth. The information technology (IT) sector experienced a period of growth moderation from 2022 to 2025, resulting in a decline in valuations and making it more attractive for a potential rerating. The current valuations for the IT sector are 6% below its five-year average of 25.4x and 36% below its five-year peak of 32x. The projected acceleration in growth driven by artificial intelligence (AI)-led services from FY27E onwards is expected to provide upside potential for a valuation rerating.

While Nifty valuations appear moderate, the broader market remains highly valued, with mid- and small-cap stocks trading at a premium. The 12-month forward P/E for mid-cap equities trades at a 41% premium to that of large-cap equities, substantially higher than the historical 10-year average premium of 26%. High valuations in the mid- and small-cap segments make them sensitive to unexpected corrections, where premium valuations over long-term averages could lead to sharper corrections if liquidity moderates or earnings disappoint.

For investors, the current market setup implies that while Nifty valuations are stabilizing due to resilient earnings growth, especially expected in FY27, they should be cautious about the high premiums paid for smaller segments and select stocks.

The overall valuation outlook is NEUTRAL.

Corporate earnings

Corporate profitability is expected to serve as the core anchor for market performance as the earnings cycle bottoms out. A significant transition from subdued to single-digit growth defines the corporate earnings outlook for 2026, driven by an accelerated, broad-based recovery fueled by domestic policy stimulus and structural shifts in key sectors. Analysts project that Nifty earnings growth will accelerate sharply in FY27E, with estimates ranging from 10.8% to 17.6%. This follows a period of muted performance, where growth was pegged at just 6.6% in FY25 and an estimated 8.2% in FY26E.

Bloomberg consensus expectations for FY27 earnings growth stand at 17%, while Motilal Oswal (MOFSL) forecasts a healthy 16% year on year increase. Citi Research and Jefferies both project growth to nearly double from fiscal 2026 levels, reaching approximately 13-14% in fiscal 2027. As the largest sector by weight, financials, is poised for a rebound in H2FY26. Banks are expected to see net interest margin (NIM) improvements, supported by a healthy pickup in credit growth and resilient balance sheets. At the same time, the RBI's liquidity injections provide a favourable backdrop for lending. The earnings leadership is emerging from domestic cyclicals and technology. After a period of moderation (2022-2025), the IT sector is positioning for a fundamental recovery starting in 2026/FY27. This revival is anchored in the AI-led services cycle, which is transitioning from niche proof-of-concept projects to large-scale enterprise engagements. The sector is projected to achieve a 12% EPS CAGR over FY25-28E. Consumer discretionary and autos are expected to be the primary benefi-

Nifty 50 Year-End Targets (December 2026)

Agency/Firm	Target Scenario	Nifty Target	Key Details/Basis
Kotak Securities	Bull Case	32,032	Based on a 22.0x multiple on FY28E EPS
Kotak Securities	Base Case	29,120	Based on a 20.0x multiple on FY28E EPS of ₹1,456
Goldman Sachs	Year-End Target	29,000	Implies a 14% upside
Citi Research	Base Case/Consensus	28,500	Also noted as the consensus forecast in a Reuters poll of analysts
Jefferies	Year-End Target	28,300	Implies roughly 10% upside from current levels
Kotak Securities	Bear Case	26,208	Based on an 18.0x multiple on FY28E EPS

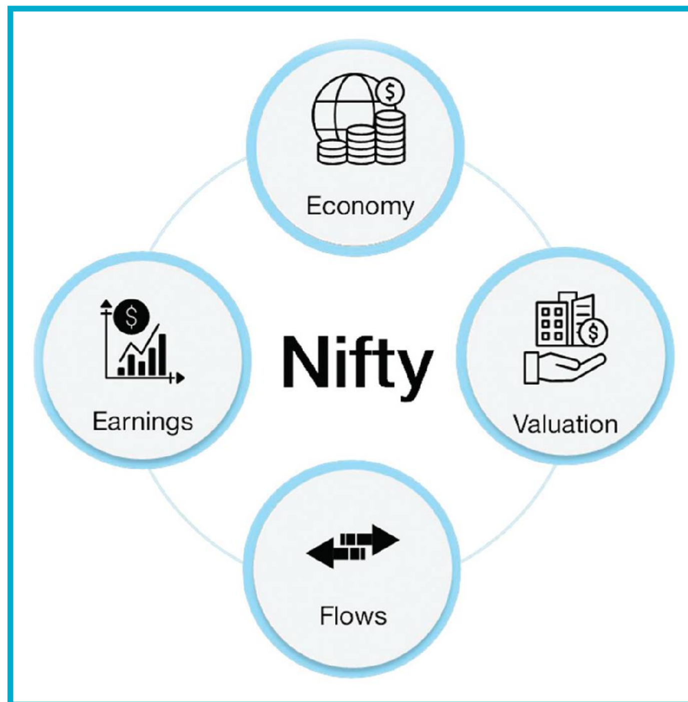
ciaries of GST rationalization and personal income tax relief, which have increased household disposable income. Analysts anticipate a "consumption-led growth cycle" as these fiscal measures lower prices and spur domestic demand. Cumulative repo rate cuts of 125-150 bps and CRR reductions are expected to lower borrowing costs for corporations and consumers alike.

Robust order inflows and rising government capital expenditure (budgeted to increase 10.1% in FY26) are expected to drive earnings for capital goods and industrial firms.

While elevated US tariffs and global trade instability pose risks to export-oriented sectors such as metals and chemicals, India's superior domestic macroeconomic fundamentals are expected to provide a buffer against these risks.

The overall outlook for earnings is POSITIVE.

Fund flows



Fund flows into the Indian market are characterized by persistent foreign selling in 2025, primarily offset by robust, steady domestic institutional investment, particularly in the equity market. If we analyze the trend in flows (both domestic and foreign) since 2012, we can clearly see the volatility in flows for foreign institutional investors (FII) and the stability in flows for domestic institutional investors (DII). The growth and stability of domestic flows, especially since 2021, have been noteworthy, as they have increased 8-fold.

FII outflows year-to-date 2025 amounted to $26 bn through mid-December. The FII exodus has been identified as the primary reason for the underperformance of the Nifty and Sensex relative to other EMs and Asian peers in 2025. Selling pressure from foreign investors started easing from October 2025. In fact, foreign investors briefly turned net buyers in October 2025, recording $1.5 bn in inflows.

Significant foreign inflows are expected in the Indian bond market following global index inclusions. India's phased inclusion in the JPMorgan Emerging Markets Bond Index (started in June 2024 and reached 10% weight in March 2025) triggered foreign inflows of ₹2 tn into the sovereign debt market. The probable inclusion of Fully Accessible Route (FAR) Indian government bonds in the Bloomberg Global Aggregate Index could attract an estimated $25-30 bn in inflows, primarily into long-duration bonds. While a low current account deficit and relatively stronger capital inflows should help stabilize the currency, there is a risk that extensive government borrowing in FY27 could pressure yields if anticipated foreign inflows disappoint. However, low foreign investor positioning is a tailwind for the likely resumption of flows into Indian equities, given superior macroeconomic fundamentals.

DIIs and strong retail participation channeled through SIPs have been the primary force cushioning the market against foreign selling pressure. DIIs were strong net buyers in 2025, investing $85 bn worth of equities through September 2025, providing substantial support against foreign selling. SIP inflows have consistently cushioned foreign outflows. SIP flows reached a record ₹294 bn in September 2025. The

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With over 35 years of experience in the financial sector, M R Raghu is currently the CEO of Marmore MENA Intelligence, a research subsidiary of Kuwait Financial Center. His expertise spans investment management, capital markets, risk management, and economic analysis.
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FIIs vs. DIIs Trend in Inflows (■ in cr)

Net Purchase/Sales	FII	DII	Net
2012	101,166	(55,800)	45,366
2013	87,105	(73,052)	14,053
2014	67,423	(28,557)	38,866
2015	(20,374)	67,587	47,213
2016	(10,582)	35,363	24,780
2017	(44,109)	90,738	46,629
2018	(73,212)	109,662	36,450
2019	39,881	42,257	82,138
2020	65,246	(35,663)	29,583
2021	(91,626)	94,846	3,220
2022	(278,429)	275,726	(2,704)
2023	(16,325)	181,482	165,157
2024	(304,217)	527,438	223,221
YTD-2025	(295,525)	751,404	455,879
2012-2025	**(773,579)**	**1,983,431**	

Note: Data as of Dec 16, 2025. Source: Moneycontrol

overall outlook, from a funds flow perspective, is POSITIVE for domestic flows and NEUTRAL for foreign flows.

What can be the surprises?

The consensus outlook for 2026 is generally optimistic, based on domestic resilience and accelerating earnings. Therefore, surprises typically involve external shocks, domestic policy disappointments, or sudden shifts in market dynamics, particularly those related to geopolitics and liquidity management.

While the prevailing forecast acknowledges the drag from elevated US tariffs (which reached a 50% effective rate on Indian goods), an unexpected and rapid reversal or softening of these duties by the US administration could be a major positive surprise. Conversely, a significant escalation of geopolitical conflicts or trade instability could keep markets range-bound in the near-term and introduce considerable volatility.

A sharp rise in raw material prices or sustained volatility in global commodity markets (such as crude oil) poses a key risk to inflation and corporate margins.

The mid- and small-cap segments are trading at a high premium to historic valuations. An unexpected moderation in domestic liquidity or a disappointment in earnings from these segments could lead to sharper and unexpected corrections.

Although FPI outflows were substantial in 2025, low FPI positioning is considered a tailwind for the *resumption* of flows. A faster or stronger return of FPIs than currently forecast could significantly boost market sentiment, especially given the resilience already demonstrated by DIIs.

The IT sector's recovery is driven mainly by the AI-led services cycle, with growth anticipated from FY27E onwards. An unexpected acceleration in large-scale enterprise AI adoption in 2026 could quickly drive revenue growth higher than conservative current estimates.

Conversely, continued AI-led deflationary pressures in traditional IT services (Application Development and Maintenance) could hurt revenue despite significant AI deal announcements, creating a negative surprise if productivity gains outweigh new monetization. The hotels and capital goods sectors have strong tailwinds from sustained domestic demand, infrastructure spending, and favorable supply-and-demand dynamics.

A stronger-than-expected acceleration in private capital expenditure could convert the "Positive" outlook on capital goods into an even more pronounced upside surprise, fueling multi-year growth beyond the base-case scenario. ■

Reference # 20M-2026-01-16-01