

# Nifty correction over? Alchemy Capital's Alok Agarwal sees metals, PSU banks leading rally

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## Synopsis

Following a significant 1.5-year consolidation, Indian equities show signs of a reset with compressed valuations and policy support. Alok Agarwal believes the bulk of the correction is over, highlighting metals, capital market plays, PSU, and regional private banks as potential leaders for the next market phase.



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The Nifty Smallcap 250 Index has been underperforming since September 2024.

*After a bruising 1.5-year consolidation that saw the [Nifty 500](#) drop 15% and market breadth weaken sharply, signs of a reset are emerging. [Alok Agarwal](#), Head - Quant & Fund Manager at Alchemy Capital Management believes the bulk of the correction is over, citing compressed valuations, policy support and improving earnings breadth, while flagging metals, capital market plays, PSU and [regional private banks](#) as potential leaders.*

*Edited excerpts from a chat:*

**How are you reading the current equity market construct following the 1.5 year-long consolidation phase? Is the time correction done or do you see risks of a deeper time correction given valuations and liquidity dynamics?**

The Indian equity market has navigated a 1.5-year consolidation since late 2024, with the Nifty 500 correcting 15% from its September 2024 peak to its March 2025 trough, addressing sluggish earnings and global uncertainties like anticipated tariffs from the US. The breadth of the market was quite weak. While the index fell 15% during this period, more than one-third of the stocks fell by over 25%.

India's economic deceleration is impossible to ignore. GST collections have grown in single digits year-on-year for eight consecutive months, while nominal GDP and Nifty 50 earnings have similarly languished in single-digit territory—the latter for seven straight quarters. These aren't fleeting data blips; they represent a genuine cyclical slowdown that has rattled investor confidence.

Both the government and the [RBI](#) have responded with unprecedented vigour. Direct tax cuts and targeted GST reductions are putting money back into consumer pockets, while fiscal discipline ensures macro stability.

Simultaneously, the RBI has delivered record-low policy rates and reduced the [CRR](#) (Cash Reserve Ratio), flooding the system with liquidity while keeping inflation firmly in check. This coordinated fiscal-monetary push creates powerful conditions for recovery, with typical policy lags suggesting the impact should materialise in the coming quarters.

More compelling is the valuation reset. Indian equities have underperformed emerging markets and global indices by over 2,000 basis points in the past 12-15 months—a staggering divergence that is virtually unprecedented. This correction has eliminated the valuation excess that built up during the bull run, creating asymmetric risk-reward dynamics.

When policy support aligns with compressed valuations and extreme underperformance, mean reversion becomes highly probable. India's structural growth drivers—favourable demographics, ongoing urbanisation, and digital penetration—remain intact, in our view. The slowdown is real, but likely temporary.

We believe the bulk of price and time correction is over. Markets may begin to perform better as growth picks up.

**From a sectoral standpoint, which themes are demonstrating durable earnings momentum, and where do you see the next leg of leadership emerging?**

While the broader market may digest the growth slowdown, pockets of genuine earnings momentum are emerging—and they're likely to define the next phase of market leadership.

Precious and Non-Ferrous Metals stand out as structural beneficiaries of two powerful tailwinds, in our view. The de-dollarisation trend, accelerated by geopolitical fragmentation, is driving central banks globally to accumulate gold and diversify reserves – The Central Banks' holdings of gold in their forex reserves have surpassed those of [US Treasuries](#) for the first time in nearly 30 years. Simultaneously, the AI infrastructure boom requires enormous quantities of silver (this is expected to be the sixth straight year of deficit), copper (current and expected new capacities are unlikely to meet more than 70% of demand over the next 10 years), aluminium, and specialised metals for data centres, semiconductors, and power generation systems. We believe metals are benefiting from a multi-year capex and electrification cycle, rather than a purely cyclical rebound.

Capital Market Plays—exchanges, brokers, wealth managers, and asset managers—represent one of the clearer secular growth trends in India. Retail investor participation continues to deepen, with mutual fund SIPs hitting record levels month after month, as Indian household savings shift from physical assets to financial instruments.

The earnings visibility for quality franchises in this space remains favourable, with operating leverage intact and regulatory tailwinds supporting growth.

PSU and Regional Private Banks offer compelling value as a turnaround story

reaches maturity. PSU bank net NPAs (Non-Performing Assets) have improved dramatically, with significant improvement in asset quality, narrowing the gap with private peers, a transformation few anticipated a couple of years ago. Yet valuations remain at significant discounts, creating unusual risk-reward dynamics. Regional private banks, meanwhile, are gaining share in underbanked markets with intact NIMs (Net Interest Margins) and disciplined credit growth.

**Do you think gold has topped out in the near term and that silver is best avoided at this point?**

Gold is a precious metal that has long served as a store of value. In a highly leveraged world, where even government balance sheets are significantly levered, confidence in fiat currencies is taking a knock. Over the last 25 years, while US GDP has become 3x, its debt has grown over 6x – hence, the incremental Debt/GDP in the last 25 years has been over 200%.

In the last two centuries, whenever a country's Debt/GDP crossed 120%, it had a high probability of defaulting over the next few years. The US is at 125% now.

As a result, the central bankers of the world are slowly, but more importantly, steadily, increasing their exposure to gold. Now, their holdings of gold have surpassed those of US Treasuries for the first time in nearly 30 years – this speaks volumes.

India's holdings of long-term US Treasuries have dropped to \$174 billion (as of Dec 2025), down 26% from a 2023 peak, and now account for one-third of the nation's foreign exchange assets. Gold in India's forex reserves now stands at \$107 billion. US Treasuries holdings to gold holdings ratio was 5.2x in May 2023, now it is 1.6x - a clear diversification.

With regard to silver, it has a dual role – both as a monetary asset and for industrial usage. As a monetary asset, its value is pegged to gold. Silver's unique property is that it is the best conductor of electricity. The world's demand for electricity is rising, driven by AI, data centres, renewable energy, grid modernisation, EVs etc. Silver has been in deficit for the last five years and the demand is only rising at a rapid pace. Moreover, the inventories are at record lows.

We are bullish on both gold and silver.

**What should investors think about asset allocation at this juncture? Does the risk-reward favour incremental equity exposure, or a more diversified stance across asset classes?**

The question of asset allocation has never been more critical—or more complex. We're operating in a fundamentally unique regime compared to the one that prevailed over the past decade.

We remain constructive on equities and precious metals. Specific equity sectors may offer durable earnings momentum, while precious metals may benefit structurally from de-dollarisation and AI-driven demand. The valuation reset in Indian equities, combined with policy support, may create

an attractive risk-reward for patient capital.

However—and this is crucial—we're navigating a world grappling with an emerging new order, elevated debt burdens across developed economies, subdued growth, and persistent geopolitical tensions. Volatility is likely to remain structurally higher, with sharper drawdowns and more frequent dislocations, and this reality demands a more diversified stance. Precious metals aren't just a tactical play; they offer a degree of resilience amid concerns around currency stability and geopolitical risk.

The opportunity in equities is real, but so is the volatility ahead.

It is advisable to work with a qualified investment advisor or financial planner who can calibrate exposure to your specific circumstances—your time horizon, risk tolerance, liquidity needs, and tax situation all matter significantly.

**The pain in IT stocks isn't ending amid all the negative newsflow around the potential impact of AI. How serious is the threat for a long-term investor who comes with a 4-5 year horizon?**

The Nifty IT Index trades at an eight-year low relative to the Nifty 500—a valuation discount that's drawing attention from contrarian investors. But before rushing into what appears less expensive, long-term investors may have to confront uncomfortable realities about this sector's trajectory.

The weakness predates AI anxiety. Over the last 3, 5, and 10 years, the IT sector's earnings growth has remained in single digits or barely scraped into double-digits. This isn't a temporary disruption, in our view; it's sustained underperformance reflecting genuine business model pressures—commoditisation of services, pricing pressure, and sluggish demand from key Western markets.

Now layer on AI disruption, which is very real. Generative AI isn't just another technology shift; it threatens to fundamentally alter how code is written, tested, and maintained. The labour arbitrage model that powered Indian IT's rise faces structural obsolescence as AI tools enable clients to accomplish more with fewer engineers.

This combination—already anaemic growth now facing additional headwinds—suggests that the earnings trajectory could deteriorate further rather than stabilise. While they may offer high dividend yields, attractive free cash flow yields, and elevated payout ratios, these metrics are backward-looking. If growth erodes further, cash generation suffers, and those compelling yields may become unsustainable.

The valuation discount exists for a reason. Until Indian IT companies demonstrate concrete strategies to reinvent themselves—pivoting to AI enablement rather than displacement, moving up the value chain, or achieving genuine cost transformation, the risk-reward may remain unfavourable even on a 4-5-year horizon, in our view.

**How do you assess Q3 earnings trends so far, and what would you need to see in Q4 numbers to sustain market momentum?**

The Q3FY26 earnings season delivered a tale of two markets—one that's encouraging beneath the surface, and another that continues to be weak at the index level.

Corporate India delivered its fourth consecutive quarter of double-digit earnings growth, with impressive participation: 19 of the 27 sectors in the Nifty 500 posted double-digit growth. This breadth matters enormously—it signals the earnings recovery isn't confined to a handful of winners but is spreading across the economy.

Metals led the charge, with profits surging 33% year-on-year, benefiting from improved realisations and operational leverage. Oil & Gas, particularly OMCs (oil marketing companies), saw profits jump 2.4x as refining margins normalised and inventory gains materialised.

On the other hand, the Nifty 50 delivered just 7% PAT growth—its seventh consecutive quarter of single-digit earnings expansion. This disconnect between broad market strength and benchmark weakness reflects composition effects. The Nifty 50's heavy weightings in IT, certain consumer segments, and select financial names that are struggling have masked the improving momentum elsewhere.

For markets to sustain momentum in Q4FY26, two factors would be crucial, according to us. First, sectoral breadth must hold—confirmation that 15-20 sectors can sustain double-digit growth may support the durability of the recovery. Second, stability in Nifty 50 heavyweights would be constructive.

**Are we finally going to see smallcaps rallying once again in FY27?**

The Nifty Smallcap 250 Index has been underperforming since September 2024. While the main indices like Nifty 50 & BSE 500 have traded largely flat, the Nifty Smallcap 250 Index is down 8%.

This correction has done important work in purging valuation excess. The high multiples that characterised pockets of the smallcap universe through mid-2024 have compressed. However, excesses still persist in certain corners—particularly in momentum names where narratives have outpaced fundamentals.

The path to sustained smallcap participation in FY27 runs through macro recovery. As overall earnings growth accelerates, smallcaps typically exhibit higher beta to the cycle. Their operating leverage, when growth returns, may drive disproportionate earnings surprises that may re-rate valuations quickly.

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