Synopsis

FII sentiment towards India is reviving due to macro stability and easing global uncertainties, suggesting a shift from "pause" to "play" for the market. Despite some economic slowdown indicators, strong corporate profits and potential consumption boosts point towards renewed foreign inflows and a potential bullish phase.



collections and credit growth are showing a slowdown (with new reduced rates in GST likely to spur consumption growth).

revival, says Alok Agarwal, Head – Quant and Fund Manager at Alchemy Capital Management. With macro stability, easing global uncertainties, and improving earnings visibility, Agarwal believes the "wall of worry" for Indian markets has now shrunk to a "low fence," setting the stage for renewed foreign inflows.

FII sentiment toward India is showing signs of

The market has gone through a 12-month-long phase of time correction.

Edited excerpts from a chat:

we looking at a phase of consolidation before the next leg of growth? This Diwali feels like the market equivalent of a festooned, well-lit intersection—there's anticipation, some honking, and a sense that

correction": the Nifty 50 consolidated in a range, digesting the outsized gains

something's about to give. The last 12 months have been a classic "time

Do you see this Diwali marking the start of another market cycle - or are

of FY24 without giving up ground. Liquidity has been ample, but valuation comfort zones are still being negotiated. A few economic indicators like **GST** collections and credit growth are showing a slowdown (with new reduced rates in GST likely to spur consumption growth). With other economic indicators like manufacturing PMI trending up,

and retail SIP flows holding steady at record levels, the odds favour a shift from "pause" to "play." However, with global uncertainties lurking and sectoral froth in parts of the market, we may see short-term consolidation before the next strong leg. Once earnings visibility returns, global macros stabilise and we get some success on trade deals with the US, Diwali could light up the next bullish phase, in our view. From a quant and fundamentals perspective, what indicators are flashing strength or fatigue in the current rally? On the numbers front, some dials are blinking green, while others are

flickering orange. Quantitatively, market breadth has improved, with 65% of Nifty 500 stocks trading above their 200-DMA (Daily Moving Average) higher than usual post-correction phases. Momentum and volatility (Average

True Range (ATR), RSI levels tell us that froth is highest in smallcaps, yet

India's Volatility Index (VIX) remains unusually low at 13-14, hinting at

possible complacency. Fundamentally, credit growth at 10%, deposit growth at 10% and four straight months of single digit growth in GST collections point towards a slowdown. However, with reduced GST rates, consumption is likely to bounce. Corporate profit-to-GDP at 17-year highs, and ROE for BSE 500 above 15% are all signs of strength. However, trailing P/E and price-to-book ratios for broader indices are at the 85th percentile of their 10-year range, flashing fatigue. Watch for FPI flows and quarterly earnings trends for the next cue. RBI has been pro-growth

with substantial improvement in liquidity over the last 1 year, record low rates

and CRR, easing of rule with respect to lending – all these are likely to show effects soon. For the past three months, Indian stock markets have remained largely stable despite challenges such as increasing U.S. tariffs (both punitive and nonpunitive) and foreign institutional investors (FIIs) offloading assets worth INR 850 billion. Favourable monsoons and an anticipated rise in domestic consumption have

been critical in helping markets weather the current negative developments.

grappling with the effects of punitive tariffs and a sharp hike in H-1B visa fees.

The global geopolitical environment continues to be unstable, with India

While there is hope for a trade agreement with the U.S. in the near-future, persistent disagreements over agriculture, dairy, genetically modified crops, and labour-intensive sectors make this increasingly challenging.

In the first five months of 2025, the Government of India (GOI) increased its

capital expenditure by 43%, though spending is expected to level off unless

additional funds are allocated. A resurgence in demand is likely to boost

private sector capacity utilisation and encourage private capital expenditure, which has been on hold. The introduction of GST 2.0 is anticipated to significantly offset the impact of U.S. tariffs. Conditions are favourable for a revival in consumer demand, driven by 1) normal monsoons, 2) controlled inflation, 3) a 100-basis-point

interest rate cut, 4) reduced GST rates on consumer discretionary and essential

goods, and 5) tax relief measures in the FY26 budget.

into the wedding season. Additionally, the implementation of the 8th Pay Commission in 2026 is likely to further stimulate demand and maintain economic momentum into FY27. On the whole, we see most negatives in the price and an improving riskreward metric in favour of equities.

The festival season has seen robust demand, which is expected to continue

We favour sectors with growth visibility, and with a higher certainty factor. We are bullish on Capital Markets, Capital Goods, Consumer Discretionary, Auto, New age platform-based companies, Travel (including hotels, aviation), Defence, Power, Cement. As per Bloomberg consensus estimates, most of these

sectors are likely to grow their earnings at a CAGR of over 15-25% for next 2

years.

pie.

Which themes or sectors do you expect to outperform in the next 12–18

months, and where do you see value emerging amid stretched valuations?

FMCG and IT – Though they have corrected, they still trade at valuations that do not seem justified by their earnings growth. Earnings will need to grow in line with or ahead of the market to sustain valuations. Banking has seen a slowdown for the past few quarters – but could be nearing its bottom in terms of earnings growth trajectory. With multiple steps undertaken by a pro-growth Central Bank, we believe, most of the headwinds for the sector are clearing up.

would also start picking up? With the "wall of worry" looking more like a low fence, FII flows are poised for a comeback. India's relative macro stability—GDP growth above 6.5%, a contained fiscal deficit, controlled inflation—stands out against most emerging market (EM) peers. As tariff issues with major trading partners are

resolved and the US rate hike fears fade, global allocators will increase India's

In the last 12 months, Indian markets (in USD terms) underperformed the

world markets by 23% and EM by 26% - these are the worst relative 1-year

We have seen progress on the tariff talks front, geopolitical tensions have

both fiscal and monetary policies are being gradually felt. Now as earnings

eased from peak fear levels, macros are looking good and the impact of

growth starts picking up in next 1-2 quarters, do you think FII inflows

performance in the last 15-20 years. This was largely driven by weak earnings momentum and currency depreciation, as several other markets saw earning upgrades on better economic outlook and lower impact from tariffs than earlier anticipated. Indian market also saw a hit on valuations, as FII flows turned negative, but several EMs continued to see inflows. India's P/E premium to world stands at 9% vs 10-year average of 15% and peak of 43% in September 2022. Compared to EMs, premium is 68% vs 10-year avg of 65% and

peak of 109% in October 2022. A shift in domestic economic momentum

(helped by fiscal and monetary easing) can aid in relative outperformance as

global uncertainty persists. The India market underperformed most international markets over the past one year but delivered a healthy 12.4% CAGR over the past five years. The valuation premium to EM is now at prepandemic levels. Cyclical slowdown in earnings is likely to sustain in the near term, with a modest recovery in FY27E, in our view. We think of the consumption stimulus as only marginally positive for the markets with a short-term positive impact in select segments. The FII underweight stance on India is the highest since

2009. With earnings recovery in sight, the same underweight stance could make them cover the gap. The incremental risk reward favours India and FIIs would soon be expected to be back. How big is the rupee depreciation issue from an FII flow perspective? Is it fair to link a large part of the rupee factor to Trump tariffs?

In FII boardrooms, currency returns are as critical as local equity returns. The

rupee sliding 4-5% against the USD in CY25 has moderated inflows. But the

real drivers, in our view, are India-US interest rate differentials, India's

inflation, and crude prices. While Trump's tariff stance has stirred some

discussion, unless we see actual disruption to India's exports or a rise in import costs, the direct impact is likely to remain marginal compared with the US monetary policy. That said, if India's macro outperformance persists, FPIs may look through modest currency moves. A trade deal in near term can alter both the tariff as well as FII flow impact. Recently, RBI also expressed concerns about sharp depreciation of rupee and is willing to intervene in the market to check the speculative interest. What are the key risk factors investors should watch out for in the months ahead, and how are you hedging against potential volatility?

Some of the key roadblocks ahead are a potential resurgence in global inflation, surprises in the US Fed policy, Middle East geopolitical shocks, and domestic politics (Samvat 2082 brings multiple state elections). Smallcap overheating and stress in shadow banking sector are under-appreciated risks. To hedge, a barbell approach—balancing high-quality names with high

prices. If you have to start afresh for Samvat 2082, how would you go about

growth candidates is quite effective, in our view. While we follow a GARP

approach, one area we want to stay clear of is low growth at unreasonable

allocating Rs 10 lakh to equities, gold, silver and debt? In the new world order, where increasingly the dominance of fiat currency is being questioned, combined with high government debts and potentially

A high inflation along with an increased volatility in currency does not favour debt too much – if at all, it needs to stay clear of credit risk and duration risk.

rising inflation – the best hedges in our view are equities and precious metals.