

Navigating a VUCA* World - Stay Invested, Be Selective

October 2026

Financial markets are navigating a challenging mix of geopolitical uncertainty, volatile energy prices, shifting interest-rate expectations, the rapid evolution of artificial intelligence and uneven earnings momentum.

From initial concerns around slumping earnings and high valuations, Indian equities seemed to be on the cusp of a recovery since late '25/early'26, but have since been caught in the global vortex of factors above.

Against this backdrop, we assess the macroeconomic landscape, the growth outlook, the valuation dispersions and how investors can therefore navigate the evolving investment landscape.

Where we stand: Growth, valuations and earnings

Facts

- **Global growth has held up:** CY26 global growth has been revised up in recent months, after earlier fears of a slowdown owing to the Middle East conflict. This has been primarily led by the AI-led capex growth across economies. While growth has held up at an estimated 3.1% for CY26, it is yet lower than CY25 (3.5%).
- **India's growth has held up well too:** Despite its dependence on imported crude, India's GDP growth has held up very well - Q1 FY27 GDP grew 7.8%, investment rose about 12%, and private companies announced projects worth roughly ₹14 lakh crore. FY27 GDP growth is estimated at ~7-7.2% on the back of a string of upgrades in recent months. Government capex in FY27 (until Aug.'26) is up 18% yoy with New & Renewable energy, Defence, Water resources, Railways and Housing being the primary thrust areas. The sharply lower INR/USD has improved external competitiveness that is reflected in a 17.9% yoy growth in exports (Apr-Aug '26), although the external deficit widened due to higher crude prices.
- **Earnings growth remains strong:** Global corporate earnings is estimated to have grown by a whopping 29% CY26 to September. S&P 500 earnings are expected to grow ~33% in CY26 and ~16% in CY27. Indian companies' **Q1 FY27 earnings growth was broad-based** with more than 20 sectors beating consensus and the strongest beat-to-miss and upgrade-to-downgrade ratios in six to eight quarters. **Q2 is shaping up to be stronger** - Nifty profit growth is expected at roughly 21-27% year on year, potentially the best in over four years; FY27 earnings growth is estimated at about 14%.
- **Earnings drivers are broadening:** financials (loan growth of about 19% and lower credit costs offsetting margin pressure), metals, telecom and upstream oil & gas, two-wheelers (revenue up about 20%) and resilient discretionary consumption; most sectors are expected to post double-digit profit growth.
- **Inflation and rates are rising globally:** Inflationary pressures are prominent globally, mainly in food and fuel and these seem to be broadening out across other segments. This has turned the global rate cycle upward – the US Fed, the ECB, the BoJ, among several others have hiked rates lately, with US policy rates expected to tighten by another ~75 bp over the next year. The RBI hiked rates in October and is expected to hike rates by a further 75-100 bp over the next 12-months.
- **Crude, the rupee and rates are the pressure points:** Alongside high crude prices and rising global rates, the INR/USD has been under pressure despite a record fund raise through the FCNR program. The recent extraordinary measures taken by the RBI as stamped out speculation and bought short-term relief.

Valuations

- **Large caps have corrected meaningfully:** the Nifty 50 trades at 16.8x one-year forward earnings, more than one standard deviation below its five-year average of 19.6x and close to COVID-period levels. The Midcap 150 trades at 23.9x (average 27.4x), while the Smallcap 250 trades at 20.1x, in line with 20.9x average.

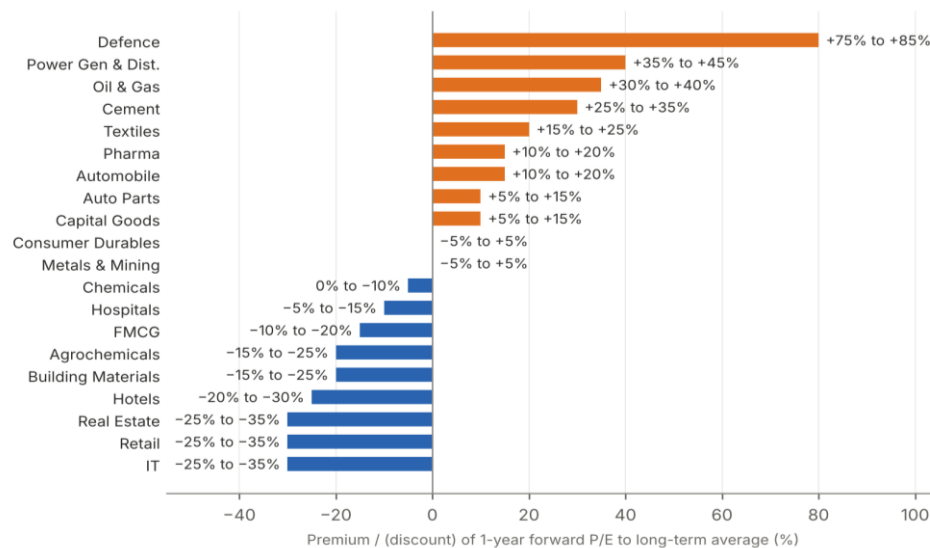
Index	1-yr forward P/E	5-year average	Read
Nifty 50	16.8x	19.6x	Below -1 SD; near COVID-period levels
Nifty 500	18.4x	20.9x	Below average
Nifty Midcap 150	23.9x	27.4x	Below average; selective opportunities
Nifty Smallcap 250	20.5x	20.9x	Near +1 SD; limited margin of safety

Source: Bloomberg, Spark PWM; one-year blended forward P/E, data as of end-Sep 2026.

- **Relative valuations are mixed:** the mid- and small-cap premium to the Nifty has narrowed to about 25%, near historical lows, but India still trades roughly 77% above MSCI EM despite CY26 earnings growth (13-15%) trailing China, Korea and Taiwan.
- **Sector valuations are polarised:** Ten of 20 sectors trade above their long-term forward P/E averages, nine are below average and one is in line. Defence, power, cement and oil & gas remain expensive, while IT, FMCG, building materials, retail, real estate and hotels trade at discounts of varying degrees. Banks account for much of the Nifty's valuation discount.

Capex and defence themes are priced richly; IT and consumption are cheap

Orange = premium to long-term average · blue = discount · ranges rounded to ±5%



Sector one-year forward P/E versus long-term average, September 2026; ranges rounded to ±5%. Financials, which are valued on price-to-book, are not covered. Source: Bloomberg, Thomson Reuters and FactSet (5 Oct 2026).

Assessment

- **India's demand drivers are impact:** Resilient domestic demand and a healthy investment pipeline underpin the medium-term outlook, although growth could moderate in 2HFY27. The poor monsoons (~13% below average) are likely to hurt rural consumption, although festive consumption and accelerated public spending ahead of the Uttar Pradesh elections may provide some support. The 8th pay commission recommendations expected in the next few quarters can have an incremental impact of ~0.6-1% of GDP
- **Rates: Higher for longer.** The secular rise in global capex (incl. in AI), the geopolitics-led move towards self-reliance leading to de-globalization, persisting conflicts that disrupt supply chains and adverse climate conditions are all pointing towards global interest rates being elevated for longer. The resulting rise in competition for capital is a headwind for most borrowing nations like India- likely spurring the need for local policy and fiscal reforms.
- That said, **risks of global growth rolling over seem to be building up** as rising rates and inflation hurt demand. The AI trade too seems to be tiring with recent large IPO cancellations and sharp rise in credit spreads of key players in the AI infra value chain, hinting at an impending cool-off. While policy rates are seen to be rising, long bond yields show early signs of peaking- thus, hinting at a flatter yield curve that is suggestive of emerging growth concerns. Key factors to watch for in the next few months would be commodity prices and the USD to vindicate or negate this scenario.
- **INR weakness and need for a catalyst:** For India, the INR's persistent weakness and stronger earnings growth in the US and AI-linked Asian markets have dented foreign interest; strained India-US relations add to uncertainty. The absence of a catalyst is widely seen as the missing link to attracting foreign capital.
- **Valuations have improved, but unevenly:** large caps offer value but with subdued growth, mid caps have de-rated with earnings support, and small caps remain relatively expensive, although with a promise of strong growth. India's market thus offers disparate pockets of opportunity and risks – thus, increasing the need for a careful approach to building portfolios.
- **Sector premiums largely reflect superior growth:** the richly valued segments such as precision manufacturing, auto anc, electrical equipments, aerospace and defence etc are underwritten by strong earnings growth, long order books and policy tailwinds. The market appears to be drawing comfort from valuations adjusted for growth (PEG ratio) rather than headline multiples, making earnings delivery very critical to sustaining stock prices. Rerating prospects are virtually absent, while derating risks could be meaningful where earnings falter. Financials combine value and visibility and are set to be the largest drivers of near-term earnings growth.
- The earnings recovery is real and broadening beyond the traditional financials and commodities leaders, pointing to compounding into FY28 rather than a one-quarter spike. Metals, telecom and oil & gas lead the near-term upturn, while financials, electronics manufacturing, defence and capital goods offer better visibility into FY28.

Sector Outlook

- The sector preferences outlined below reflect the views of Spark Capital PWM's in-house equity research team. The approach is to stay invested in identified opportunities while maintaining liquidity to deploy selectively during market volatility.

Sector	Where we focus	Why we like it
Banking	Private and small finance banks	Growth with downside resilience; favour strong deposit franchises and limited duration risk.
EMS	Order-book leaders	Core play on the multi-year manufacturing and capex upcycle.
Defence	Precision engineering	One of the strongest structural themes; we prefer order-book visibility over high-beta exposure.
Power	Renewables and power equipment	Part of the structural capex cycle; we back execution leaders with clean balance sheets.
Pharma	CDMOs	Diversifies domestic macro, rate and oil risks; a weaker rupee is a tailwind.
Healthcare	Hospitals	Defensive, structural domestic demand with pricing power and steady cash flows.
Auto & auto ancillaries	Ancillaries and non-auto diversifiers	Plays on premiumisation and pricing power rather than broad-based rural consumption.

Implication

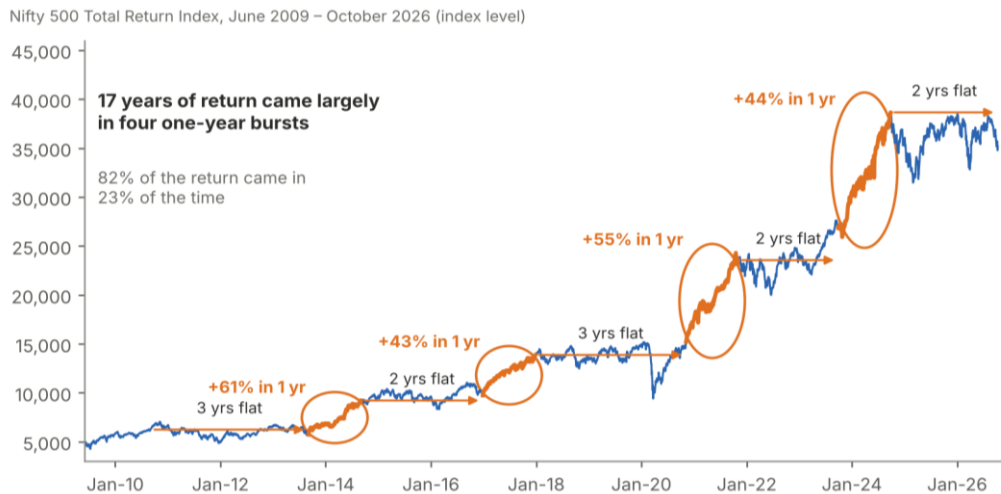
- India's offers stable and visible growth – this needs to be matched by corporate earnings and stable macros. Indian equities offer a good alternative in a world that is veering away from preferring far-out growth in the future to visible, sustainable growth. Stable INR, stable macros and stable earnings growth in a sustained manner coupled with loads of patience is the recipe.
- The disparate and lop-sided growth and valuations picture across market-caps and sectors/themes suggests that portfolios should be diversified more than ever before. This is all the more so given the sharp volatility across asset classes and the swift change in fortunes. Key is to diversify, but yet tilt exposures to specific pockets rather than spread out investments across all spaces. Our three-bucket approach lends itself well to this thought process.
- **Volatility could create more attractive entry points.** While rates, inflation, geo-politics and the AI trade have predominated recent market movements, the focus could swiftly shift towards growth concerns, especially as rate hike expectations peak in the next few months. Staggered deployment provides flexibility to participate as valuations and earnings visibility improve.
- **Q2 results will help establish the strength of the recovery.** Beyond headline profit growth, demand and margin trends and FY28 earnings revisions will be important indicators to shape outlook – the Q2 results and accompanying management commentary therefore would be important milestones. Stable margins despite higher input costs would strengthen the case for a more durable recovery.

All told, Indian equity investors have plodded through a grinding market over the last 2-years, even as growth and earnings have recovered and seem to be building hereon. We therefore believe that the case for staying invested in Indian equities remains intact. Our medium-term outlook remains moderately constructive, with a focus on earnings visibility, valuation discipline and staggered deployment rather than expecting a swift or broad-based recovery.

History offers perspective: Returns rarely arrive in a straight line

The historical pattern of equity returns offers useful perspective in periods like this. Markets can spend extended stretches consolidating, correcting or delivering modest returns, with a disproportionate share of long-term wealth created in relatively short phases.

Nifty 500 TRI: long flat stretches, short powerful bursts



Nifty 500 TRI, June 2009 – October 2026. Source: ACE MF, Internal.

The broad market tells the story vividly. Over the past 17 years, the Nifty 500 TRI compounded at about 12% a year, but almost all of that return arrived in four one-year bursts (approximately), of about 61% (2013–14), 43% (2016–17), 55% (2020–21) and 44% (2023–24). Each rise was followed by two to three years of flat or modest returns. In all, about 82% of the index's return came in just 23% of the time.

The current consolidation is a test of patience, not necessarily a reason to step away from equities. While history offers no certainty on the timing of a recovery, it reinforces the importance of staying invested through market cycles while maintaining valuation discipline and focusing on businesses with sound fundamentals. Long-term wealth creation depends not on avoiding every correction, but on managing downside risks while remaining positioned to participate in the eventual recovery.

Portfolio positioning: Where do we go from here?

Our stance is to remain invested, but to be more selective in how equity risk is taken. The objective is to participate in the medium-term growth opportunity while recognising the polarized landscape across growth and valuations.

Equities: our three-bucket approach.

- **Sector rotation:** Strategies that identify sectors likely to deliver superior earnings over the next four to six quarters across growth, GARP and value styles, run by managers who combine valuation discipline with the flexibility to adapt, including the ability to pick up value in de-rated sectors such as IT and consumption as earnings stabilise. This occupies the largest part of our portfolio construct currently.
- **Selective domestic cyclical:** Beneficiaries of the domestic investment cycle, such as power, renewables, manufacturing, precision engineering, defence and aerospace. The structural opportunity is attractive and largely backed by strong earnings growth, but with several of these sectors trading well above their historical valuations, bottom-up selection, growth-adjusted valuation discipline and staggered entry are essential. This segment is the second largest part of our portfolio construct.
- **Quality compounders:** Businesses with strong competitive positions, sound balance sheets and visible, sustained earnings growth. The correction has improved entry points in select companies where the long-term thesis remains intact.

We favour

- High-active-share, bottom-up strategies with benchmark-agnostic portfolio construction over broad market-cap or index-oriented approaches.

- We remain constructive on mid- and small-cap opportunities given their medium-term growth potential, but manager selection, liquidity and valuation discipline are increasingly critical. We prefer participation in large-cap opportunities through diversified multi cap and flexi cap strategies, allowing managers to balance valuation comfort with growth potential across market capitalisations.

Key high-conviction equity ideas

Mutual Funds	PMS / AIFs (CAT III) / / Global investments
Invesco India Large & Mid Cap Fund	Equinova Edge PMS
Old Bridge Flexi Cap Fund	Emkay Capital Builder PMS
Union Multicap Fund	AlfAccurate Advisors Budding Beasts PMS / India Equity Fund AIF
Helios Flexi Cap Fund	Trivantage Capital Edge PMS
Abakkus Small Cap Fund	Buoyant Opportunities Strategy AIF
Aditya Birla Flexi Cap Fund	ICICI Pru PIPE Strategy
DSP Business Cycle Fund	Ashoka White Oak Global Emerging Markets ex India GIFT Fund

High-conviction ideas beyond equity

MFs / SIF	Performing Credit	Real assets
RedHex Hybrid Long-Short SIF	Spark Equitized Credit Solutions Fund III (SpECS III)	Stoicap-NDR Edu-Infra Rental Yield Fund "EDIYF"
WhiteOak Capital Multi Asset Allocation Fund	Northern Arc Diversified Debt Fund	Neo Infra Income Opportunities Fund II
	Piramal Performing Credit Fund II (PCF II)	
	Curated NCDs	

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