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Daily Voice: Markets much more balanced after recent correction, likely to focus on earnings than macros, says Rahul Singh of Tata MF

<https://www.moneycontrol.com/news/business/markets/daily-voice-market-becomes-much-more-balanced-after-recent-correction-likely-to-focus-on-earnings-than-macros-says-rahul-singh-of-tata-mf-12948349.html>

Going by the RBI projection of a GDP growth rate of 6.7% for FY26 and the pick up in Government capex in the current quarter, we might expect economic activity to turn around after a quarter or two, said Rahul Singh.

Rahul Singh is the CIO-Equities at Tata Asset Management

Since October 2024, following the correction in equities, "the market has become much more balanced now," said Rahul Singh, the CIO-Equities at Tata Asset Management in an interview to Moneycontrol.

According to him, markets are likely to react more to earnings rather than macros (USD strength, tariffs, inflation) from here on as Nifty-50 valuations are now only at a small premium compared to long term average.

Further, after weak Q3 earnings, he believes that the pain might continue for a while. "We are living with certain macroeconomic uncertainties, and it might take while, say at least a quarter, for things to settle down," said Rahul with more than 27 years of investment experience.

Even after the recent correction that started in October 2024, do you believe the IT, power, and auto sectors are still at high valuations?

I think the market has become much more balanced now. The market was extremely thematic until second half of 2024, leading to valuation excess in those themes like manufacturing, defence, capital goods, power and real estate. Since then, valuation in certain stocks have started looking reasonable again after the correction. Meanwhile, some of the laggard large cap sectors like banking and consumer have relatively lower valuations with potential for fundamental outlook improvement post the Union Budget as well as RBI's recent monetary policy.

In light of this, investors are advised to maintain their Systematic Investment Plans (SIPs) in core diversified categories (Large Cap, Large and Mid, Flexi Cap) to take full advantage of what we believe is going to be a more stock-specific and sector-agnostic market from here on.

Considering the reasonable valuations in the banks, insurance, and oil & gas sectors, are you betting big on them?

Banks have displayed resilience on NIMs (net interest margin) even as growth has slowed down. We expect growth to pick up from next year as liquidity eases and corporate borrowing needs to start to grow especially as equity fund raiser will likely to slow down in FY26. On the other hand, despite concerns on unsecured lending, the increase in NPLs (non-performing loans) and credit cost has been modest and has not provided any negative surprise in Q3 results even in segments.

While PSU banks saw better earnings growth than private banks, led by lower credit cost, the private banks

outperformed PSU banks on deposit growth and NIM fronts. We believe the market has largely priced in all these concerns and overall loan growth is expected to improve from second half of FY26.

Lack of any negatives from the Union Budget was a positive for the insurance sector especially as valuations are at multi-year lows and we expect gradual growth recovery. For Oil & Gas sector, stable crude is a positive, and valuations have now turned into value zone; however the sector is lacking any positive triggers on the policy front and/or earnings growth.

Do you expect the risk of corporate earnings downgrades to increase further in April when the March 2025 quarter earnings start coming in?

We believe that the pain might continue for a while. We are living with certain macroeconomic uncertainties, and it might take while, say at least a quarter, for things to settle down. Going by the RBI projection of a GDP growth rate of 6.7% for FY26 and the pick up in Government capex in the current quarter, we might expect economic activity to turn around after a quarter or two.

However, earning estimates are quite depressed in banks, IT, consumer and commodities all of which had a low base in FY25; hence the scope for disappointment is low in these sectors. On the other hand, we have seen earnings downgrades in industrials and capex plays as either the topline or margins have disappointed and in some cases order books growth has slowed down too. Recovery in these sectors will be key for meeting the profit growth expectations of around 14-15% CAGR for FY25-27.

Do you believe the risk related to US tariffs will diminish by the first half of 2025?

Recent actions by the Trump administration have intensified trade tensions and has created uncertainty across various industries. However, it is bit too early to respond as the US administration may apply “reciprocal” levies on a country-by-country basis. We also need to see a further segmentation of these tariffs on certain critical sectors for India alike Pharma.

What are the other biggest risks to the equity markets for the rest of the first half of 2025? Do you see the possibility of another correction (about 5%) from here?

Markets are likely to react more to earnings rather than macros (USD strength, tariffs, inflation) from here on as Nifty-50 valuations are now only at a small premium compared to long term average. We could therefore be looking ahead at a period of sector-agnostic and stock-specific returns from hereon where index movements will become secondary.

Do you foresee more corrections in midcaps and small caps to bring their valuations into more attractive levels?

Despite the recent correction in broader markets, mid-cap and small-cap stocks in India continue to trade at valuation premium of 70%/25% respectively (on TTM basis). Large Caps therefore appear to have a better risk-reward with lesser chances of earnings disappointments even as valuations (especially in small caps) have corrected significantly. Hence, we would recommend investors to focus on core diversified categories of funds to manage the changed macros and the shift in the nature of the markets away from thematic and towards stock-specific.