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'US-Iran pact positive for equities, but recovery could be gradual'

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MUMBAI

Indian equities are navigating a complex mix of artificial intelligence (AI)-led disruption, shifting global capital flows and lingering geopolitical uncertainty, creating both opportunities and challenges for investors.

In this conversation with *Mint*, Rahul Singh, CIO-equities at Tata Mutual Fund, discusses where markets could be headed, the sectors best positioned to benefit from the trend, the outlook for foreign flows, and what investors should be doing in the current environment.

How do you see markets moving from here on?

Markets have been dealing with two major headwinds: AI-related risks for India and geopolitical tensions, which impacted the current account deficit and the rupee. The geopolitical situation appears to be improving, and the worst may be behind us. That is a relief for corporate earnings.

However, AI-related concerns remain, especially regarding global capital flows

moving towards AI and away from markets like India. That dynamic could persist for another three to six months.

If commodity prices soften and supply chains normalize, Nifty earnings growth of around 15-17% becomes more achievable for this financial year. That would provide a base for markets to recover gradually. I am more optimistic today than I was a few months ago, though I do not expect a sharp rebound. We also need to watch out for impact of El Niño on rural consumption even though agriculture as percentage of

rural income has been coming down.

Is the decline in oil prices following the US-Iran agreement a key positive for India?

Normalization of oil supplies and energy infrastructure is likely to take time, but markets generally react positively once they believe the worst is over. For India, the key takeaway is that downside risks appear to be reducing.

We may not return to crude oil at \$65 anytime soon because geopolitical risk premiums have risen, but oil in

the \$80-\$85 range is manageable for India from the standpoint of the current account and fiscal deficit.

The bigger risk was bond yields rising sharply and creating a tailspin of macros. That risk has now moderated, helping create a stronger base for equity valuations. Earnings growth still needs to deliver, but the backdrop is certainly better than before.

Which sectors are best positioned in the current environment?

Banking remains attractive. While it has become a consensus sector, the key triggers are now falling into place. Credit growth is improving and the interest-rate cycle is turning, which could support margins over time.

Healthcare is another sector we remain positive on from a five- to ten-year perspective. Latent demand remains strong and it is one of the few sectors where supply is still playing catch-up.

For the shorter term, power and resources stand out. Power is benefiting from rising demand and a large capex cycle. The recent geopolitical environment underscores the need for energy security and the focus on building and pro-

tection of domestic energy sources whether it's coal, renewable or oil & gas.

These sectors address different investment horizons: banking for cyclical recovery, energy for strategic importance, and healthcare for long-term compounding.

Where do you see the biggest opportunities within the power sector?

Generation utilities are benefiting from demand growth and capacity expansion in both thermal and renewable energy. Importantly, renewable growth requires thermal base-load capacity as well.

Transmission and distribu-



small-cap valuations were significantly stretched. That is no longer the case.

Valuations in the mid- and small-caps space have corrected meaningfully in recent months. They are not cheap, but the earlier preference for large caps has reduced.

Many of the opportunities in themes such as power, manufacturing and healthcare are actually emerging in the mid- and small-cap universe today. That is why categories such as flexi-cap and multi-cap funds make sense—they allow investors to participate across market caps.

How are you viewing the outlook for India's IT sector, particularly as companies navigate AI adoption, pricing pressures and uneven demand?

Two forces are at play. On one hand, AI-driven productivity gains could lead to revenue deflation in traditional coding and low-end services. On the other hand, AI adoption by enterprises could

create entirely new opportunities for IT companies. The key question is timing: Will the revenue pressures come first, or will new opportunities offset them quickly?

At present, the risks appear skewed toward some initial disruption. Over time, companies that adapt quickly to AI may emerge stronger, while others could struggle. There are still many moving parts, and we need a few more quarters to gain clarity.

Do you expect foreign investor selling to persist?

AI-themed investments continue to attract substantial global capital, and several large AI companies are expected to list in the coming months. Until that cycle plays out fully, the AI theme is unlikely to fade.

For India, the bigger question is how AI affects IT services and job creation at a structural level in the long run. Even if the AI euphoria eventually cools, the technology itself is likely to endure—much like the internet did after the

dot-com bubble burst.

India may benefit from some relief in capital flows eventually, but ultimately our market performance will depend on domestic earnings growth. If India can sustain earnings growth of 12-15% over the next few years, markets can potentially generate reasonable returns from current levels.

What should investors be doing right now?

Asset allocation has become even more important. Investors should adopt a multi-asset approach across equities, debt, and commodities such as gold and silver.

Within equities, I would advise investors to focus on core categories such as flexi-cap, large & mid-cap, and multi-cap funds rather than chasing thematic or sectoral funds.

Many of the themes that worked previously have lost momentum. Today's market is increasingly driven by bottom-up stock picking.

Investors should use this period to consolidate their portfolios into core categories. Markets are giving investors time to make those adjustments, which is often not possible during strong directional markets.

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