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'Sustained earnings growth key to equity upside'

Q&A The easing of geopolitical tensions has given a boost to Indian equities, but the next leg of market movement will depend on whether firms deliver on earnings expectations, says **Rahul Singh**, chief investment officer (CIO)-equities, Tata Asset Management. In an email interview with **Abhishek Kumar** in Mumbai, Singh says Nifty50 earnings growth could rise to around 15 per cent in FY27 if commodity prices soften further and supply chains continue to normalise. Edited excerpts:

The market is recovering as concerns over West Asia tensions ease. But do current valuations and earnings growth expectations leave enough room for further meaningful upside?

■ The easing of geopolitical tensions has improved the market backdrop by reducing downside risks to corporate earnings and key macro variables such as the dollar/rupee exchange rate. However, from here, market returns are likely to be driven more by earnings growth than by further valuation expansion, as Indian equities remain relatively expensive.

If commodity prices continue to soften and supply chains normalise further, the *Bloomberg* consensus estimate of around 15 per cent Nifty earnings growth for the current financial year appears increasingly achievable. That would provide a strong foundation for a gradual market recovery.

Artificial intelligence (AI)-related concerns remain an overhang — both in terms of their potential long-term impact on India's demographic dividend and influence on global capital flows. In this environment, companies and sectors delivering superior earnings growth are likely to command valuation premiums. Looking ahead to 2027, India's growth differential relative to other major economies is expected to narrow, making stock selection and earnings execution even more critical drivers of returns.

What factors are likely to drive equity markets in the coming months?

■ Corporate earnings will remain the single biggest driver of equity markets in the coming months. An improving macro environment, easing geopolitical risks, softer commodity prices and stable bond yields should provide a supportive backdrop. On the domestic front, the investment cycle, improving credit growth, manufacturing tailwinds and healthy asset quality within the banking system continue to support the medium-term outlook.

At the same time, global capital flows, AI-led investments and movements in crude oil prices will remain important variables influencing market sentiment.



"GLOBAL CAPITAL FLOWS, AI-LED INVESTMENTS AND CRUDE OIL PRICE MOVEMENTS WILL ALSO REMAIN IMPORTANT VARIABLES"

Rahul Singh
CIO-equities, Tata Asset Management

Which sectors are best positioned to lead the next phase of market rally? Are there any sectors where you remain cautious?

■ We continue to favour banking, healthcare, power and the broader resources and energy space. Banking is well placed as improving credit growth and a turning interest-rate cycle should support earnings over time, making the risk-reward favourable at current valuations. Healthcare remains a compelling long-term structural opportunity, supported by strong demand and reasonable valuations.

Within energy, rising electricity demand, ongoing investments in both conventional and renewable power generation, transmission capex, and the increasing focus on energy security continue to create opportunities. On the other hand, we remain relatively cautious on IT in the near term.

While AI presents significant long-term opportunities for enterprise AI adoption, the pace at which these opportunities emerge and competition from AI-native services companies will determine the extent to which they can offset near-term deflationary pressures.

What are the key risks that equity markets face at this juncture?

■ The biggest risks continue to be external. Geopolitical developments, volatility in crude oil and other commodity prices, and changes in global trade policies remain key monitorables. In addition, AI's impact on global capital allocation as well as job creation has structural implications for India. Ultimately, the performance will depend on whether corporate earnings meet expectations.

Broader markets have significantly outperformed since April. Do you expect this trend to continue?

■ The valuation gap between large-cap and broader markets has narrowed meaningfully since 2024, making the latter more reasonably valued. More importantly, several attractive themes, including energy, manufacturing and healthcare, are better represented within the midcap and smallcap universe. Rather than taking a market cap call, investors should opt for flexi-cap and multi-cap strategies that can capture opportunities across segments.

What are your expectations for the June quarter earnings season?

■ The upcoming earnings season will be important in determining whether the recent improvement in market sentiment is supported by fundamentals. Consensus expectations continue to point towards healthy earnings growth over the next two financial years, with a compound annual growth rate of around 15 per cent. Going forward, the quality and sustainability of earnings will be more important than top line growth in determining market direction.