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After a difficult 2025, Indian stocks could see better days in 2026

Synopsis
Global markets are showing signs of profit-taking, but Indian equities might benefit from deeply negative sentiment, potentially leading to better returns in 2026. Smallcaps could face prolonged stress, while autos, pharma, and FMCG are favored sectors. Fiscal constraints may limit the upcoming Union Budget's stimulus potential.


With government capex having been a major driver of growth in recent years, she warned that any fiscal tightening could weigh on GDP momentum.

Global markets are seeing the first clear signs of profit-taking across asset classes, raising questions about whether the recent weakness is a temporary blip or the start of a more sustained phase of volatility.

Speaking to ET Now, First Global, Founder & CMD, Devina Mehra said markets should not be viewed as moving in lockstep and cautioned against drawing broad conclusions from short-term global moves.

"So, I mean, we have to look at markets separately because it is not as if all markets move together. Most years that does not happen," Mehra said, noting that 2022 was a rare exception when most asset classes moved in the same direction.

For Indian equities, she pointed to deeply negative sentiment as a potential positive signal.

"In terms of Indian equities, I mean the only positive I see is that everybody is so negative now," she said, adding that research shows sentiment often acts as a contra indicator. "When sentiment is at a low, the next period returns are above normal. When sentiment is at a high, the next period returns are below normal.”

Mehra said that after a difficult 2025, the odds may favour a better outcome in the year ahead.

“So, my guess is 2026 for India might well be better than 2025, that would be my bet in probability terms,” she said.

She highlighted that India was among the weaker-performing global markets last year, partly due to currency effects, but also due to broader market pain.

“Even though the indices in rupee terms had a positive number, the median stock was still down. So, there has been a lot of red in the portfolios and therefore a lot of pain for investors,” she said.

Smallcaps may face prolonged stress

On market segments, Mehra warned that smaller companies could see longer periods of underperformance, based on historical cycles.

“If you look at the history of the smallcap index, it fell nearly 80% in 2008-09 and then it took eight years to come back to that level,” she said, adding that index churn means many earlier stocks never recover.

“This is high risk means that just remember that of all the stocks that were ever listed in India, more than two-thirds do not even trade anymore. They have gone to zero,” she said.

She said investors should remain invested within their equity allocation but be open to changing sectors and stocks.

“So, my bet would be more sectoral rather than saying largecap versus smallcap,” Mehra said.

Portfolio positioning: Autos, Pharma, FMCG in focus

Mehra outlined First Global’s broad sector preferences, noting that the firm is currently in the middle of a portfolio rebalance.

“For the last two years or so we have been overweight auto components and then slowly also autos, which has been a good run,” she said. The firm has also remained overweight on pharma and healthcare and turned overweight on FMCG over the past year.

“In IT now we have little more midcap IT than largecap IT,” she said, adding that banking exposure has been selectively increased, including PSU banks and oil marketing companies.

Budget faces fiscal constraints

On the Union Budget, Mehra said fiscal realities could limit the government’s ability to deliver large stimulus or tax relief.

“I do not envy the finance minister her job because this time it is a very tough job,” she said, pointing to weaker-than-expected tax collections and sluggish nominal GDP growth.

“The nominal GDP growth as per the ministry's own expectations is supposed to be little over 8%. To give you some sense, in the last 20 years the average has been 12%,” she said.

She added that tax collections have lagged budget assumptions, raising the risk of a significant shortfall.

“If that continues, there is going to be a 1.3 trillion shortfall. That is a big amount,” Mehra said.

With government capex having been a major driver of growth in recent years, she warned that any fiscal tightening could weigh on GDP momentum.

“So, as I said, I do not envy the finance minister her job this time,” she said.