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TCS, Infosys vs midcaps: Why market gurus are betting on select IT stocks in 2026

IT stocks have faced a tough 2026, with the Nifty IT Index down 19%. Market gurus remain cautious on large caps but see opportunities in select midcap IT stocks amid the AI disruption.

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TCS, Infosys, HCLTech: Big IT's valuation pain may be over but demand woes haven't – Why market gurus prefer midcaps (Image: Ai generated)

2026 hasn't exactly been a great year for the technology stocks thus far. The Nifty IT Index is down over 19% so far in 2026. Interestingly, the index gained over 5% in the last 1 month. Does it mean that the worst is over for the big IT stocks, then? The jury is still out on that. Top market gurus are veering more towards select midcap IT plays. The call on the large-cap IT is still cautious.

Several IT sector stalwarts like Infosys, TCS and HCLTech are down as much as 15% in the last 6 months. Most market gurus believe while the valuation pain might be over, demand woes continue. They feel the IT companies must use the current AI-led disruption as an opportunity to scale up the value chain.

Obituary of Indian tech sector written many times

Devina Mehra, Founder, chairperson and Managing Director of First Global candidly pointed out that, "the obituary of the IT sector has been written many many times. If you look at the chronology, first of all it was Y2K, then there was digitisation, there was cloud, there was software as a service and again this business model is disrupted."

However, she added that she "was never one of those who kind of decided that this sector was kind of going to die." and highlighted that "the sector has been able to pivot its business model each time, and I was quite certain they would be able to do it this time also."

Tech stocks share performance	Performance
Nifty IT Index in 2026 YTD	Down over 19%
Nifty IT Index—past month	Up over 5%
Select large-cap IT stocks—six months	Down as much as 15%

Many market observers pointed out that the IT stocks are now reacting more to AI/Anti-AI trades globally than to their fundamentals and performances. But underneath this volatility, improving fundamentals and positive deal wins are seen supporting the valuations.

Can this create attractive opportunities for investors with a medium- to long-term horizon? The street is divided, with many pointing to the earnings being materially divergent among IT firms.

India's Tech Sector: Is the worst over

Does it really mean that the Indian tech sector has turned a corner?

According to Mehra from First Global, "One can never say if something will completely turn, but definitely the downside is limited. See the Indian currency over time – what happens is that every time the rupee depreciates, eventually they have to pass on those benefits because the margins are transparent to their clients. So any benefit of the rupee depreciation doesn't last very long for the IT sector."

Kotak's Shibani Kurian corroborated the thoughts and added that, "We expect continued volatility in IT stocks in the near term – in line with the sharp volatility in all other segments of global tech. The global macro uncertainty is also adding to volatility in discretionary tech spend leading to a muted near-term growth outlook." She believes that the "near-term will also likely be a tug of war of narratives between AI compute hardware (Chip & Memory makers) on one side and software + services on the other side. However, current valuations appear to be factoring in a major business continuity risk because of AI. We expect AI to be a business amplifier over the medium term notwithstanding the deflationary pressure in the near-term.

Is AI a positive or a negative for the IT sector?

As the AI trade continues to unravel globally, the key question that most are asking is whether AI is good news or bad news. CLSA, in a recent report, highlighted that, while AI may lead to some "revenue compression in the near-term," they see it providing "strong growth opportunities over the long-term."

First Global's Devina Mehra pointed out that one "cannot right now say exactly how things are going to pan out. Depending on how the market evolves, they will be able to kind of recalibrate themselves. And which has been happening already. AI-related revenues are going up. They may not employ as many people, but the business revenue, margin, and profits are pretty okay with the outflow."

Gautam Duggad, Head of Research – Institutional Equities at Motilal Oswal Financial Services, pointed out that "I think, as far as the tech sector is concerned, in the short term, it'll keep reacting to what happens globally, especially in Korea and Taiwan. Whenever the AI trend unravels globally, our stock starts doing well. We'll have to see which way the trade settles globally, with commentary around AI deflation, taking cognisance of that."
Shibani Kurian, Sr. Fund Manager and Head of Equity Research, Kotak Mahindra AMC, explained that "Currently, enterprise adoption of AI is still at a very nascent

stage. So, the incremental revenue right now is not fully offsetting the deflationary impact, as many clients are asking for productivity-led pass-throughs. However, in the medium to long term we expect incremental revenue to offset the cannibalisation and, accordingly, AI to become a net tailwind for the industry rather than a headwind."

AI: Near-term headwind, long-term tailwind

Near-term pressure	Longer-term opportunity
Revenue compression	AI-led services revenue
Productivity benefits passed to clients	Larger transformation projects
Fewer employees per unit of business	Higher-value consulting work
Weak discretionary technology spending	Improved margins and scalability
Global technology-stock volatility	AI as a business amplifier

The Bank ledger era and lessons from there

Often the current AI-led disruption in the tech sector is likened to the challenges that the banking industry faced in the 80s. Banks moved from handwritten ledgers to computerised branches, to networked branches on a centralised core banking system to internet banking to mobile banking.

Taking a leaf out of the bank ledger era, Mehra pointed out that "when banks were planning to be computerised in the 80s, there were all these strikes in India saying that all that bankers are doing will get automated, so all the bankers will lose their jobs. Things did get automated; there are no ledgers and no passbooks and all that, but today if you look at it, banking employs more people than ever."

Rajeev Thakkar, CIO – Equity & Director, PPFAS reiterated the point, "despite this, banks today employ far more people in the banking business as compared to the 1980s and 1990s."

Fears of large-scale unemployment overblown?

That brings us to the other big worry – will AI render many jobless?

According to Rajeev Thakkar, "the fears around employment are largely overblown at the aggregate level. Sure, there will be individual companies and individual roles that may be under threat, and the pain around re-training and re-employment of the affected individuals will be real."

Devia Mehra added that, "As history suggests, every technology, when it comes in, people think it will reduce employment, which in the very short-term it does, but eventually it adds up. This also gave them an opportunity to kind of get rid of some of the non-performers. I mean, that's what a lot of insiders from the companies tell me. May not be in all the cases but a large chunk of that."

However, her big concern is not whether they will be able to pivot their business model, "I think that they will, but it is more a macro concern. In the last 25 years, this sector has been the driver of employment in India, directly or indirectly. So that might slow down. Because the requirement of people for a unit of business at least for now will slow down. Eventually it might be a different thing."

According to her, "For the past 25 years all these companies had so much cash, and they had access to trained people, and still they did nothing in terms of moving up the value chain, unlike, let's say, the Chinese companies who generally start out at the low end, but then their whole objective is to move up the value chain. These guys have continued with the same old model, but of course within that they have also been able to pivot."

She believes, "we need IT companies that had more of an R&D culture. Whereas these client-facing IT services firms have a fairly rigid format."

IT Sector: The right investment strategy now

Getting to brass stacks, the cardinal point is, how does an average investor play the IT stocks? Is it still a Buy for the medium to long-term or is the time right to sell? First Global's Devina Mehra pointed out that "We have a mix of midcaps and large caps. Midcaps, of course, involve a wider variety of strategies. So it's a little more company-specific. Large caps, even if they are doing some of those things, they are still not that high as a proportion of the revenues. So they are still kind of tied to the broad trend. I hope this is a wake-up call and they become a little innovative and move up the value chain."

Kotak is bearish in comparison, but bias in favour of midcaps continues. Kurian said that they are "largely 'Neutral' to marginally 'Underweight' the IT sector, with a preference for midcap IT companies over the large caps given the growth differential between the segments. Over the medium to long-term, we expect companies that are more agile in terms of offering AI-led solutions to their clients while at the same time are able to bring about productivity-led cost savings at their end to emerge leaders."

Even Motilal Oswal is largely 'Underweight' IT. Duggad pointed out that "We are Underweight overall," However, they have "Coforge and Infosys in the model portfolio."

Tech stocks: How leading experts are positioning investment call

Expert/institution	Overall stance	Preferred approach
Devina Mehra, First Global	Selective optimism	Mix of large caps and company-specific midcaps
Shibani Kurian, Kotak AMC	Neutral to marginally underweight	Prefer agile midcap IT companies
Gautam Duggad, Motilal Oswal	Underweight	Coforge and Infosys in model portfolio
CLSA	Near-term caution, long-term positive	AI could become a strong growth opportunity

Conclusion

Most leading market gurus believe that though AI-related developments are leading to volatility in the near-term, it is a positive development for the longer term. Just like the transition of the banks from the ledger era to automated computation, they expect that the IT industry will eventually adjust to the changing dynamics.

In terms of their view on IT stocks, most are cautious, especially for large caps. They are significantly more positive on the midcap IT space with company-specific focus and largely strategy driven approach.