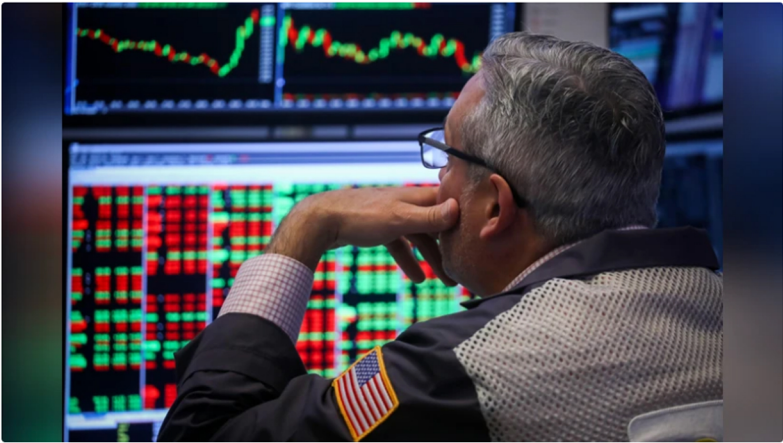


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Large vs mid vs smallcaps: Which stocks may see Santa Claus rally in Dec?

Where to invest now: Indian markets have seen Santa Clause rallies, data shows. Since 2001, the Nifty 50 has delivered positive returns in 17 of the 24 years



Will markets see Santa Claus rally in December? | Image Credit: Bloomberg

Nikita Vashisht | New Delhi
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Stock market outlook in December, Santa rally:Indian stock market's benchmark indices – BSE Sensex and NSE Nifty – claimed their record high levels (Sensex: 86,055.86; Nifty: 26,310.45) on Thursday, November 27, after a volatile calendar year 2025 (CY25).

The stage, analysts believe, is set for a 'Santa Claus' rally in December, which can extend for most part of calendar year 2026 (CY26) amid bouts of corrections and pullbacks. A 'Santa Claus' rally typically sees stocks gain during the last 5 trading days in December and the first 2 trading days in the following January.

As an investment strategy, they suggest investors stick to the safety of large-caps till there is clarity on US tariffs against India, ongoing geopolitical situation and visibility in corporate earnings growth back home.

That said, exposure to mid- and small-caps, they said, can also be taken in cases where earnings and valuations are supportive.

"December, typically, sees investors fine-tuning their expectations for the upcoming year. Right now, anticipation that CY26 could be a better year for the markets has boosted sentiment. Expectations of peace between Russia and Ukraine, moderation in US trade war tactics, a potential US-India deal, and likely interest rate reductions by the Reserve Bank of India (RBI) and the US Fed has contributed to the optimism," said Vinod Nair, head of research at Geojit Investments Limited.

Large-cap vs mid-cap vs small-cap: Where to invest?

For Anish Tawakley, co-CIO (Equity) at ICICI Prudential AMC, large-caps appear to be better placed to deliver reasonable risk-adjusted returns.

"To my mind, mid- and small-cap names carry meaningful downside risk if earnings were to disappoint. Hence, investors may consider a measured approach towards large-caps," he suggested.

Indian markets have seen Santa Clause rallies, data shows. Since CY01, the Nifty 50 has delivered positive returns in 17 of the 24 years, while the BSE Sensex has risen in 16 of the 24 years.

In the broader markets, the [Nifty MidCap index](#) has advanced in 18 of the 24 years, while the [Nifty SmallCap index](#) has risen 17 of the 20 years.

Prabhakar Kudva, director and principal officer – Portfolio Management Service, Samvitti Capital, on the other hand, thinks the risk-reward ratio is favourable for mid- and small-caps.

"The broader market has undergone significant price and time correction, clearing froth and creating a scenario where valuations are fairly attractive on average. Fundamentally, these segments possess a structurally higher growth rate compared to their large-cap peers. We, thus, expect mid- and small-caps to be better placed to outperform over the next few months as market breadth improves," he said.

"Mid and small-cap stocks may correct by another 5–10 per cent or may see a 3–6 months of time consolidation as markets stabilise. However, their long-term outlook remains constructive. Investors view small caps as high-alpha generators with access to niche growth sectors, which are unavailable in large- or mid-caps, supporting sustained inflows," noted Viraj Gandhi, CEO, SAMCO Mutual Fund.

Word of caution

Atul Bhole, fund manager at Kotak Mutual Fund, cautions that it may not be "wise" to look at one-month returns of previous years to anchor future expectations.

"In India, December comes after the festive season and just before the start of the fourth quarter of the financial year, which often improves the sentiments. However, investors must remember that global news flows, raw material price movements, regulatory and central bank actions, foreign flows, and valuations may influence equity markets," he said.

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