ETMarkets Smart Talk: 2026 could be a breakout year for investors: Earnings revival, attractive valuations set the stage, says Samvitti Capital's Prabhakar Kudva

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Synopsis

Indian stock markets are entering a pivotal phase with optimism rebuilding. Experts predict 2026 will be a breakout year for investors. Strong corporate earnings, fair valuations, and expected liquidity normalization will drive broader market participation. Domestic demand and financial sectors are expected to lead the rally. Investors should maintain a balanced capitalization strategy.

Naturally, this should be contextualized and adjusted based on personal financial goals and risk appetite.

As Indian equities enter a pivotal transition phase, market optimism is beginning to rebuild after more than a year of consolidation.

*In this edition of ETMarkets Smart Talk, **Prabhakar Kudva**, Director and Principal Officer at **Samvitti Capital**, explains why 2026 could emerge as a breakout year for **investors**.*

*With **corporate earnings** poised for a strong rebound, **valuations** returning to reasonable zones, and liquidity flows expected to normalise, Kudva believes the stage is set for broader market participation beyond just headline indices.*

He highlights how improving domestic demand, easing pressures on mid- and small-cap segments, and a potential revival in secondary market liquidity could collectively restore the market's "mojo" in the coming year. Edited Excerpts –

Q) Thanks for taking the time out. What better way to start December, the last month of the year? We have already hit fresh record highs in November. Where are we headed?

A) After a period of digestion and consolidation over the last 12 to 15 months, it is highly plausible that Calendar Year 2026 will be a much stronger year for investors.

We are anticipating that the Q3 and Q4 corporate results will be quite robust, signaling a return of growth in most pockets of the economy.

When you couple this earnings recovery with a market that is technically oversold in many segments, the setup looks very favorable.

We believe the combination of earnings momentum and attractive entry points will bode well for the market direction as we step into the new year.

Q) Nifty rose by over 10% so far in 2025 to hit fresh record highs. However, individual portfolios are still not celebrating.

A) This dichotomy exists because the broader markets have been lagging significantly behind the headline indices. The primary issue is a liquidity mismatch.

While we are seeing healthy inflows from domestic institutions (DIIs), most of this incremental capital is being absorbed by selling from Foreign Institutional Investors (FIIs) and the heavy supply of paper from new IPOs.

This leaves very little excess liquidity to chase mid and small-cap stocks. However, this is temporary. Once FII selling abates and the IPO pipeline slows down, we expect the vibrancy and momentum to return to the broader markets and individual portfolios.

Q) How are we placed from a valuation standpoint?

A) If one removes the extreme outliers from most indices, valuations are actually quite fair and are hovering around their historical averages. We are certainly not in a deep value zone, but importantly, there is no alarming froth either.

The market is priced rationally. Therefore, investors should align their expectations with fundamentals. We expect market returns in the coming year to be broadly in line with earnings growth.

If companies deliver on their profit targets, stock prices will follow suit without relying on multiple expansion.

Q) FIIs were busy pulling out money from the secondary market while DIIs/retail investors were opening taps of SIPs. What could be the big trend in 2026?

A) The defining trend for 2026 will likely be the normalization of liquidity flows. Throughout 2025, the relentless FII selling and the rush of primary market issuances acted as a sponge, soaking up the liquidity that DIIs provided.

This starved the secondary mid and small-cap space. In 2026, we expect this dynamic to shift. If the relentless supply from IPOs moderates and foreign selling pauses, we will see that domestic liquidity finally chasing secondary market stocks again.

This rotation could trigger a significant revival in the broader market, bringing the 'mojo' back to non-index stocks.

Q) How is IPO theme likely to play out in 2026? Any big names you are watching out for? FIIs have been steady buyers in the primary market space?

A) The IPO momentum is expected to continue well into 2026. From a long-term perspective, the expansion of the market universe through these listings is excellent.

However, investors need to be discerning. Valuations at the time of listing are often stretched due to hype. We view these IPOs as a hunting ground for the future.

Just as we saw with companies like Eternal or Paytm, the best opportunities often arise further down the road when the initial euphoria settles and valuations align with business reality. We remain watchful but patient buyers in this space.

Q) Which sectors or themes are likely to lead a rally in 2026?

A) We believe 2026 will mark a return to domestic market plays. Specifically, the consumption theme seems to be making a strong comeback after a lull, driven by reviving demand.

Alongside consumption, the financial sector looks poised for leadership due to clean balance sheets and reasonable valuations.

While global cyclicals had their time, the coming year will likely reward businesses that are directly levered to the Indian economic narrative.

Investors should focus on companies that derive the majority of their revenue from within India. Of course resolution of the tariff issues could see some gains coming to the beaten down export names.

Q) What are your big learnings from the year 2025?

A) The most significant learning from 2025 has been the importance of allocation within equities, specifically regarding market capitalization. It is not enough to just be diversified across sectors.

One must maintain a healthy and balanced mix of large, mid, and small-cap stocks. Relying too heavily on one segment caused pain for many investors this past year as performance diverged sharply.

A balanced capitalization strategy ensures that a portfolio can withstand volatility in one segment while capturing stability or growth in another.

Q) With equity hitting fresh record highs, do you see a rub-off effect on Gold this time around?

A) We believe Gold has most likely played out its significant move for the time being. The recent rally has priced in many of the known economic factors.

Unless there is a fresh, unforeseen geopolitical event that triggers a flight to safety, we do not expect a major upside in Gold in the near term.

It remains a good hedge for portfolio protection, but investors should not expect it to outperform equities in a growth-oriented environment like 2026.

Q) If someone wants to create a portfolio of say Rs 10 lakh in 2026, what should be the ideal portfolio allocation given he/she is in the age bracket of 30-40 years?

A) Allocation always depends on an individual's specific risk profile and liquidity requirements. However, for an average investor in the 30 to 40 age bracket who does not need the capital for more than five years, a growth-oriented approach is suitable.

A split of roughly 70% into equities, with the remaining balance divided between debt and gold, acts as a solid baseline. This allows for wealth creation through equities while providing a cushion against volatility.

Naturally, this should be contextualized and adjusted based on personal financial goals and risk appetite.

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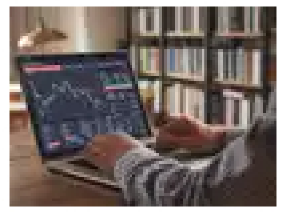
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