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Daily Voice: 'Santa rally quite likely,' says Prabhakar Kudva as he bets on double-digit 2025 gains, sub-5% repo

The most significant tailwind for 2026 is simply the mean reversion from the recent under-performance and under-ownership, said Prabhakar Kudva.

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Prabhakar Kudva is the Director and Principal Officer - Portfolio Management Services at Samvitti Capital

"A Santa rally appears quite likely," says Prabhakar Kudva, Director and Principal Officer – Portfolio Management Services at Samvitti Capital, in an interview with Moneycontrol. Given the favourable backdrop, he believes closing 2025 with double-digit gains is a realistic expectation as sentiment pivots back to optimism.

He is also of the view that the consensus does not currently price in a sub-5 percent interest rate, but the macroeconomic case for it is building. With inflation remaining benign, he says, the RBI has the policy room to be aggressive.

Among sectors, auto ancillaries are his preferred segment as they offer a unique structural advantage by providing exposure to both domestic recovery and global export opportunities.

What is your assessment of the September quarter's economic growth? Do you expect it to remain sustainable in the December quarter, and can the full-year growth figure climb above 7.5 percent?

The full impact of the recent GST cuts hasn't been reflected in the numbers yet. We expect this stimulus to boost consumption in the December quarter significantly.

Furthermore, if the looming tariff issues are resolved, the March quarter could see even stronger momentum. While 7.5 percent is an ambitious target, it is certainly achievable if these policy tailwinds align with the organic recovery we are seeing on the ground. The growth trajectory is definitely tilting upwards.

Do you expect the RBI MPC to bring the repo rate below 5 percent in 2026, following a potential 25 bps rate cut in the December meeting?

A sub-5 percent rate is not currently priced in by the consensus, but the macroeconomic case for it is building. With inflation remaining benign, the RBI has the necessary policy room to be aggressive.

We believe the central bank should use this window of opportunity to "push the pedal" on growth. A deeper rate cut would significantly lower the cost of capital and stimulate the capex cycle, providing a vital boost to the economy.

Do you anticipate a Santa rally in December and expect the market to end 2025 with a double-digit gain?

A 'Santa rally' appears quite likely. The market has endured a subdued performance over the last 11 months, creating a setup ripe for a catch-up trade as growth signals re-emerge.

Barring any unforeseen geopolitical shocks, the path of least resistance is currently upwards. Investors are looking to deploy cash before year-end, and given the favourable backdrop, closing 2025 with double-digit gains is a realistic expectation as sentiment pivots back to optimism.

What are the major tailwinds and headwinds for the market in 2026? Do you expect the tailwinds to outweigh the headwinds?

The most significant tailwind for 2026 is simply the mean reversion from the recent under-performance and under-ownership. We have successfully navigated a difficult period of low growth, tariff uncertainties, and global volatility.

Having absorbed these shocks, the market is now on a stronger footing both fundamentally and technically. With earnings expected to catch up and sentiment improving, the tailwinds of recovery and valuation comfort should decisively outweigh the remaining headwinds, except any geopolitical black swans.

Will you continue to bet on consumer discretionary and large private-sector banks in 2026 as well?

We remain bullish on consumer discretionary. The sector is positioned for a strong rebound driven by the trifecta of GST cuts, improved monsoons, and broader economic resilience.

However, regarding private-sector banks, we are more cautious. While they remain stable, intense competition and lower relative growth suggest limited upside. I don't expect fireworks there; they will likely be steady market performers.

Do you think there is still a lack of full conviction in the IT sector, even though valuations have now started to look attractive?

The IT sector has historically weathered cycles of pessimism and emerged stronger, and this time is likely no different. However, the sheer size of mega-cap players creates a mathematical headwind to aggressive growth rates.

Our conviction would lie more with large and mid-cap IT names versus the mega-cap names. These companies offer better agility and potential for earnings surprises. While valuations are attractive across the board, the risk-reward ratio is far more compelling in the mid-tier segment.

What is your preferred pick (segment) within the auto space?

Auto ancillaries are our preferred segment. They offer a unique structural advantage by providing exposure to both domestic recovery and global export opportunities. This dual-market presence effectively diversifies risk, insulating them from slowdowns in any single geography.

Rather than betting on specific OEMs, ancillaries act as a diversified proxy for the entire automotive ecosystem, providing multiple engines of growth and generally commanding better valuation multiples during industry upcycles.

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