19th November 2025

Indian Equities Enter Fair-Value Territory After a year of Underperformance and Extreme Valuations

With Premiums Normalizing and Cyclical Patterns Aligning, The Stage Is Set for a likely Rebound

Indian equities in CY2025 have delivered one of their most unusual relative performances in over a decade. While MSCI EM (Morgan Stanley Capital International Emerging Markets) has surged 30% and MSCI World delivered 17%, MSCI India is up only 6%, marking India as the **largest underperformer in two decades**. This divergence is not only statistically rare, but also sharply inconsistent with India's long-term economic fundamentals. The reasons being:

- Tariff-related uncertainty
- Capital rotation into AI-linked North Asian markets
- One of the largest phases of foreign investor de-risking in the last 20 years

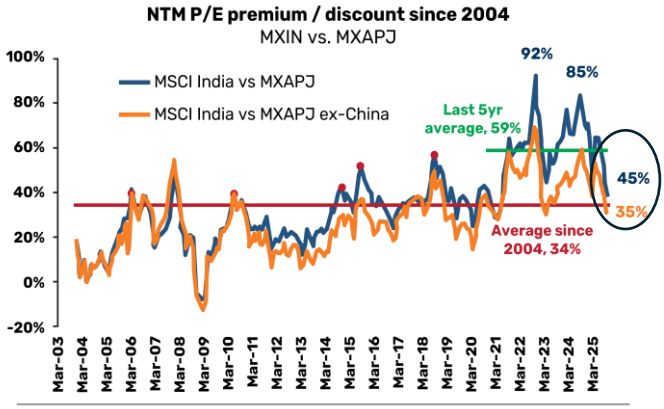
The result: Valuation compression, negative earnings revisions and a sentiment drag.

How the Tables Are Set to Turn: The Case for a Likely Reversal

Addressing what were the 2 major worries-

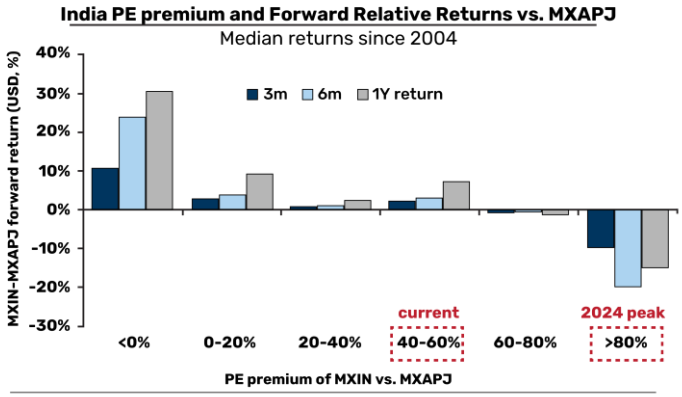
1. Valuations

India's valuation premium vs the MXAPJ region has come down closer to long-term average levels



Source: FactSet, MSCI, Goldman Sachs

History suggests at current levels of PE premium, India has modestly outperformed the Asian region over the next 6-12 months



Source: Goldman Sachs

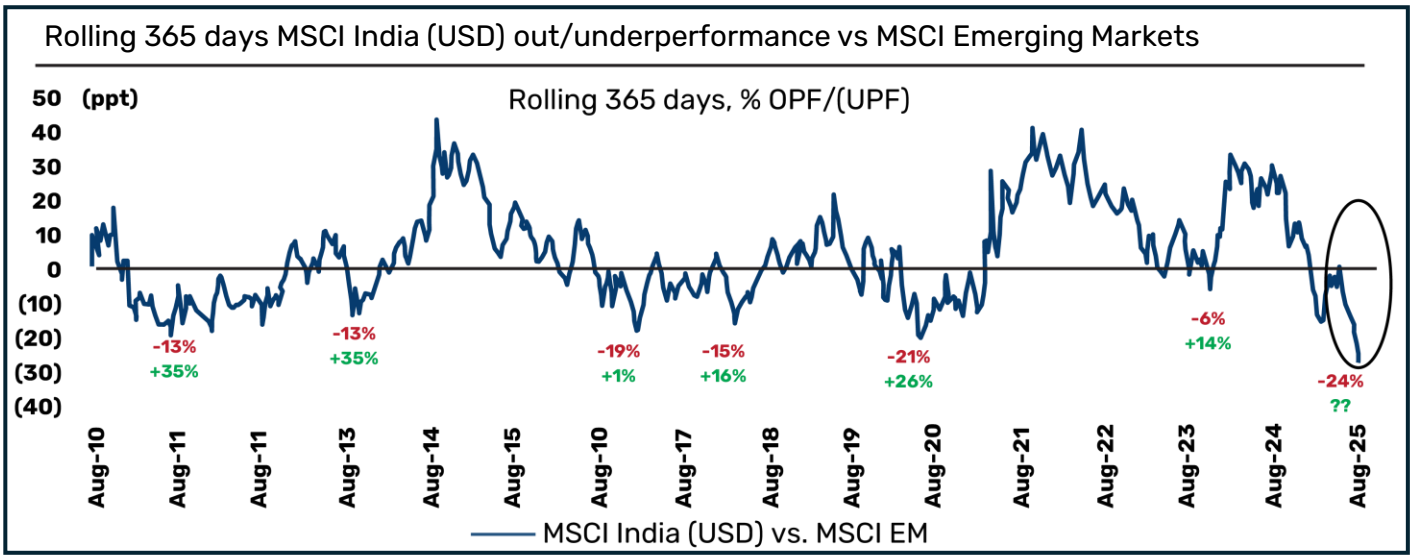
MXAPJ is an index which gives you the returns of MSCI Asia Pacific excluding Japan. Past performance may or may not be sustained in future.

Data as on 31st October 2025.

- India's valuation premium—measured using NTM P/E (Next-Twelve-Months Price/Earnings), which is simply the P/E based on expected earnings for the coming year **has fallen sharply from the extremes of 80–90% to about 45% now**, bringing valuations back toward long-term norms.

- Historically, when India trades at this mid-range premium (40–60%), it tends to **modestly outperform the broader Asian region over the next 6–12 months**, unlike the negative returns that follow when valuations become too stretched (>80%) as was the case in 2024.
- India only runs into trouble when it becomes excessively expensive. At today's valuation levels, it has generally delivered steady, positive relative performance.
- This pullback in forward P/E premium shows the market has already removed the froth and recalibrated expectations, meaning the **downside from valuations has reduced and risk-reward is potentially healthier**.

2. Underperformance



Figures in red indicate %OPF/UPF in last 365 days and in green indicate subsequent 365 days OPF/UPF. Source: Bloomberg, Jefferies
Past performance may or may not be sustained in future.

- India is now in one of its worst relative dips in 14 years and **every past dip, this deep, has been followed by a sharp rebound, often within a year**.
- Today's underperformance looks more like a temporary global rotation (money moving to cheaper EMs) than any real weakness in India's economy or earnings.
- India has generally shown more periods of relative strength than weakness over the past decade and phases like the current one have typically helped valuations normalise before subsequent recovery phases.
- Put simply, the chart suggests the current slump is less a warning sign and more a typical setup for India's next comeback cycle.

Source: Jefferies, Bloomberg, Goldman Sachs.