



BUILT ON RULES

Equity Market Update

December 2025

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TOPIC

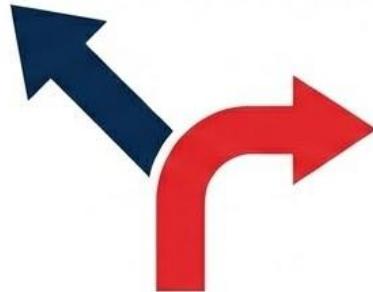
Market Overview & Performance Snapshot

Factor & Strategy Performance Analysis

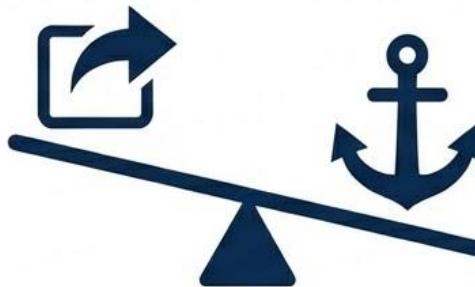
Market Structure & Growth Dynamics

Valuations & Investor Behaviour

Key Insights & Takeaways



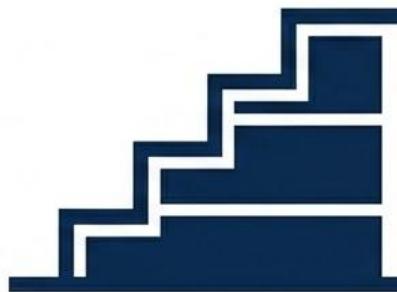
MARKET DIVERGENCE



THE CAPITAL TUG-OF-WAR



FACTOR ROTATION



STRUCTURAL DEPTH

Comparative Performance of Global & Domestic Indices



This chart provides a comprehensive overview of key indices, revealing short-term consolidation in domestic markets contrasted with sustained long-term growth, particularly in international equities.

Key Highlights

- International markets show consistent positive performance, with **S&P Europe 350** leading with a **20.5%** one-year return.
- Domestic indices faced a challenging one-month period, with most showing slight declines, while the 3-month and 1-year horizons remain largely positive.
- The **Nifty Small Cap 250** stands out as an underperformer, posting negative returns over the 6-month (-5.9%) and 1-year (-5.5%) periods.

Source: Bloomberg | As on 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.

Annual Performance Heatmap: Shifting Market Leadership (2015–2025)

Indices	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
NIFTY 50 TRI	4.4%	30.3%	4.6%	13.5%	16.1%	25.6%	5.7%	21.3%	10.1%	11.9%
NIFTY NEXT 50 TRI	8.4%	47.7%	-7.9%	1.6%	15.9%	30.9%	1.0%	27.2%	28.4%	2.9%
NIFTY MIDCAP 150 TRI	6.5%	55.7%	-12.6%	0.6%	25.6%	48.2%	3.9%	44.6%	24.5%	6.0%
NIFTY SMALLCAP 250 TRI	1.4%	58.5%	-26.1%	-7.3%	26.5%	63.3%	-2.6%	49.1%	27.2%	-5.5%

Market leadership rotates annually. Note how the highest performer in one year (e.g., Smallcap in 2020-21) can significantly lag in others, highlighting cyclical volatility.



Key Highlight

- Cyclical Leadership:** No single index dominates every year; winners rotate, with Smallcaps showing extreme highs (63.3%) and lows (-26.1%).
- The Volatility Drag:** Despite massive individual years, the Nifty Smallcap 250 TRI trails in 10-year CAGR (14.78%) due to sharp drawdowns.
- Consistent Compounder:** The Nifty Midcap 150 TRI delivered the highest long-term growth (18.3% CAGR) by balancing upswings with relative resilience.

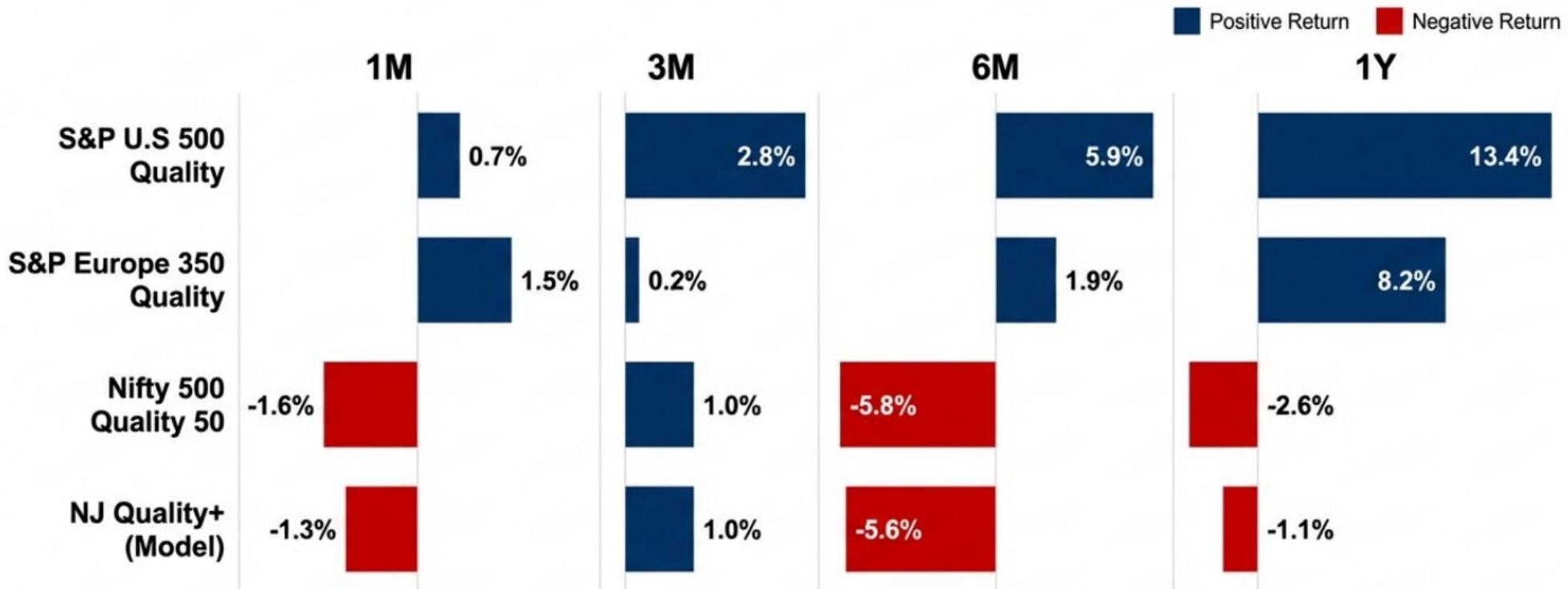
10 Year CAGR - A risk reward snapshot



Despite high annual spikes, higher volatility in Smallcaps impacts long-term compounding. Midcap and Large Cap indices show superior consistency over this 10-year window.

Source: Smart Beta | 31st December 2015 - 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.



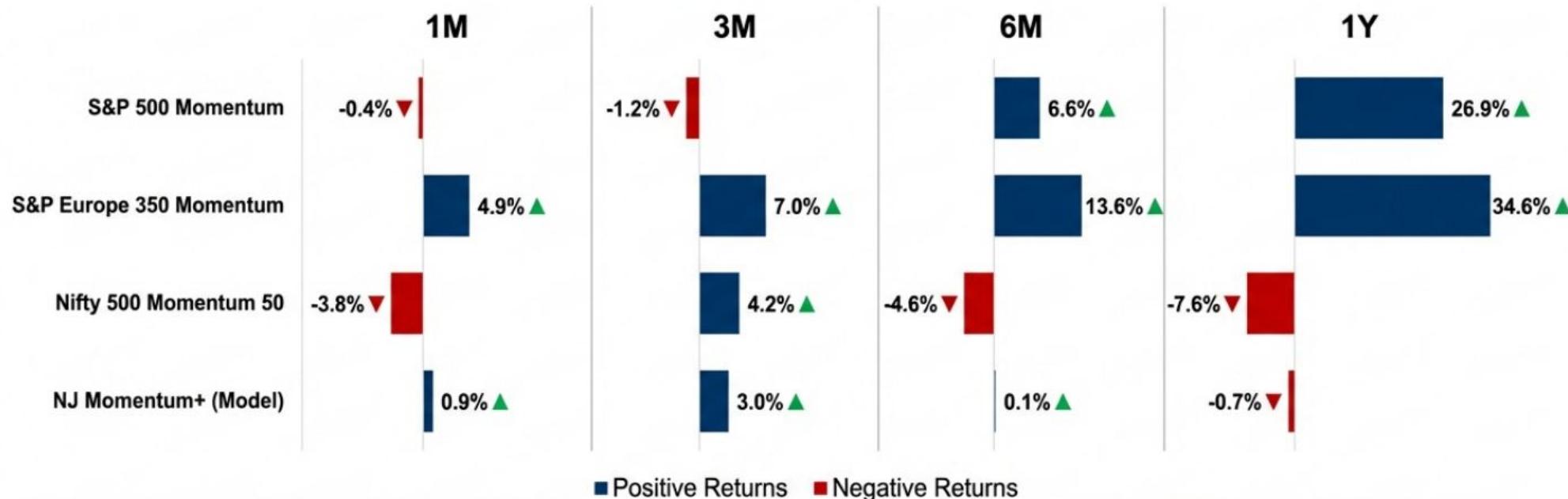
Global markets (US & Europe) displayed consistent positive momentum across all timeframes. Domestic quality indices faced headwinds in the 1M, 6M, and 1Y periods, though the NJ Quality+ Model demonstrated a narrower decline than the benchmark in 1Y performance (-1.1% vs -2.6%).

Key Highlights

- S&P U.S 500 Quality leads global performance with double-digit growth (13.4%) over 1 Year.
- Domestic markets show volatility, yet the NJ Quality+ Model mirrored the 3M recovery (1.0%) while limiting downside risk compared to the benchmark over the full year.

Source: Bloomberg, NSE, Smart Beta | As on 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.



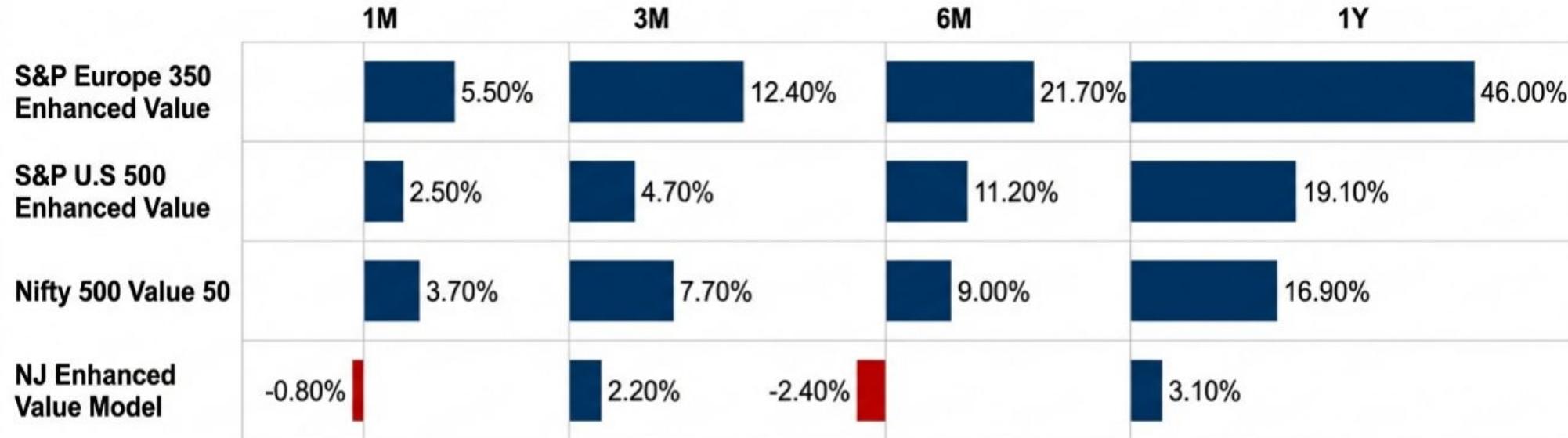
The S&P Europe 350 Momentum index leads performance across all timeframes, peaking at 34.6% over 1 year. Conversely, the Nifty 500 Momentum 50 faces structural weakness with a -7.6% decline YoY. The NJ Momentum+ Model demonstrates resilience in the short term (1M/3M) relative to the domestic benchmark.

Key Highlights

- Global Outperformance:** S&P Europe 350 Momentum delivers consistent double-digit growth (13.6% 6M, 34.6% 1Y).
- Domestic Drag:** Nifty 500 Momentum 50 lags significantly, posting negative returns in 1M, 6M, and 1Y periods.
- Model Resilience:** NJ Momentum+ Model outperforms the Nifty benchmark in the short term (1M: 0.9% vs -3.8%), acting as a stabilizer.

Source: Bloomberg, NSE, Smart Beta | As on 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.



The Value factor saw explosive growth in European markets and healthy domestic returns, though the model portfolio showed mixed results.

■ Positive Returns ■ Negative Returns

Key Highlights

- **European Dominance:** The Value factor saw exceptional growth in European markets, with the S&P Europe 350 Enhanced Value index delivering a stellar 46.00% return over the 1-year period.
- **Domestic & Model Trends:** While the Nifty 500 Value 50 posted healthy double-digit growth (16.90% 1Y), the NJ Enhanced Value Model lagged this trend, posting negative returns in the 1M (-0.80%) and 6M (-2.40%) periods.

Source: Bloomberg, NSE, Smart Beta | As on 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.



Low Volatility strategies performed best in the domestic market, outperforming US counterparts which faced negative short-term pressure.

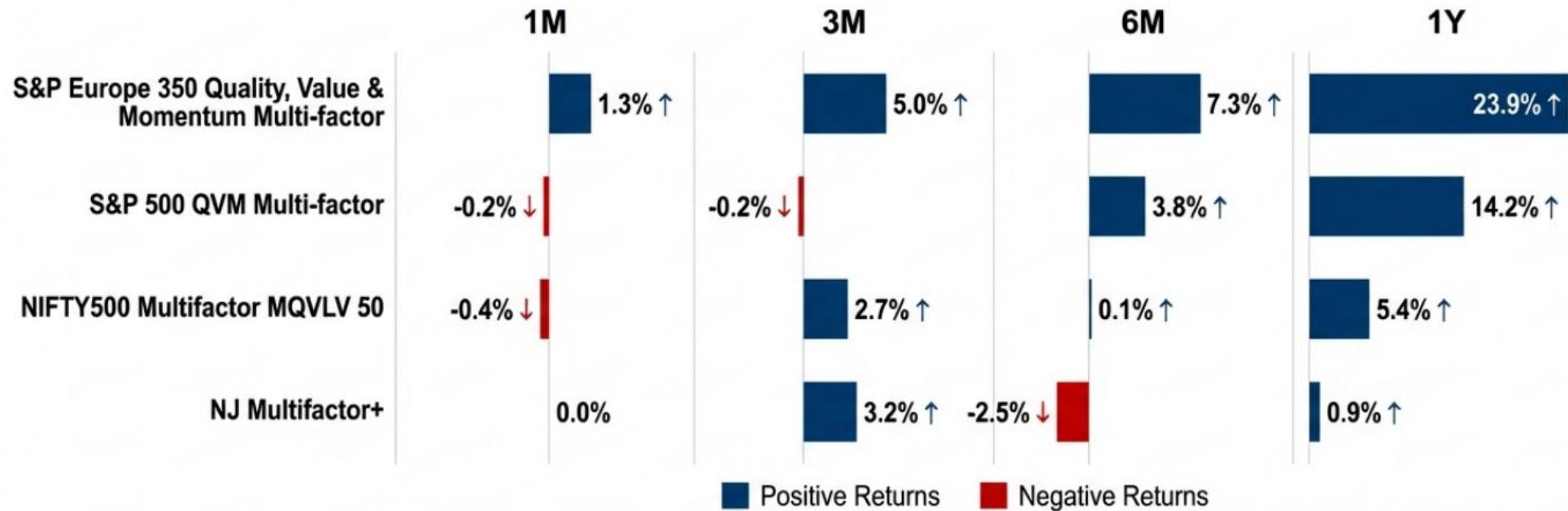
 Positive Returns
  Negative Returns

Key Highlights

- Domestic Strength:** Unlike other factors, Low Volatility performed best in the domestic market. The Nifty 500 Low Volatility 50 (16.10% 1Y) outperformed both US and European counterparts.
- Model vs. Benchmark:** The NJ Low Volatility+ Model delivered positive absolute returns across 3M, 6M, and 1Y periods (9.10%), providing stability even as US Low Volatility indices struggled with negative returns in the 1M to 6M range.

Source: Bloomberg, NSE, Smart Beta | As on 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.



S&P Europe 350 demonstrates consistent leadership across all periods, while S&P 500 QVM shows a sharp recovery in the 1-year horizon despite short-term headwinds. The NJ Multifactor+ Model maintains stability in the 3-month period.

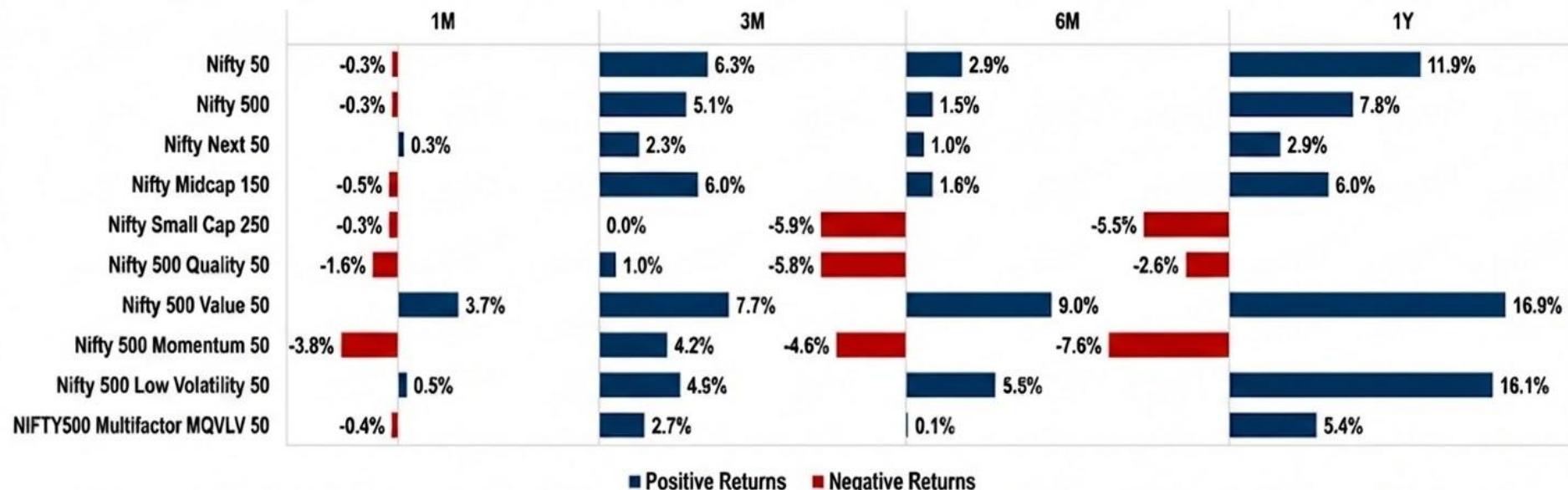
Key Highlights

- Global Divergence:** S&P Europe 350 is the standout performer, delivering 23.9% growth over 1 year.
- Model Performance:** NJ Multifactor+ Model shows resilience with 3.2% growth in the 3-month period, despite a correction in the 6-month view.
- US Recovery:** S&P 500 QVM reverses short-term negative trends (-0.2% in 1M/3M) to post strong double-digit growth (14.2%) over the full year.

Source: Bloomberg, NSE, Smart Beta | As on 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.

Domestic Factor and Market Indices Performance (%)



Factor indices show sharp performance divergence, with Value and Low Volatility strongly outperforming while Momentum and Small Caps lagged significantly over the past year.

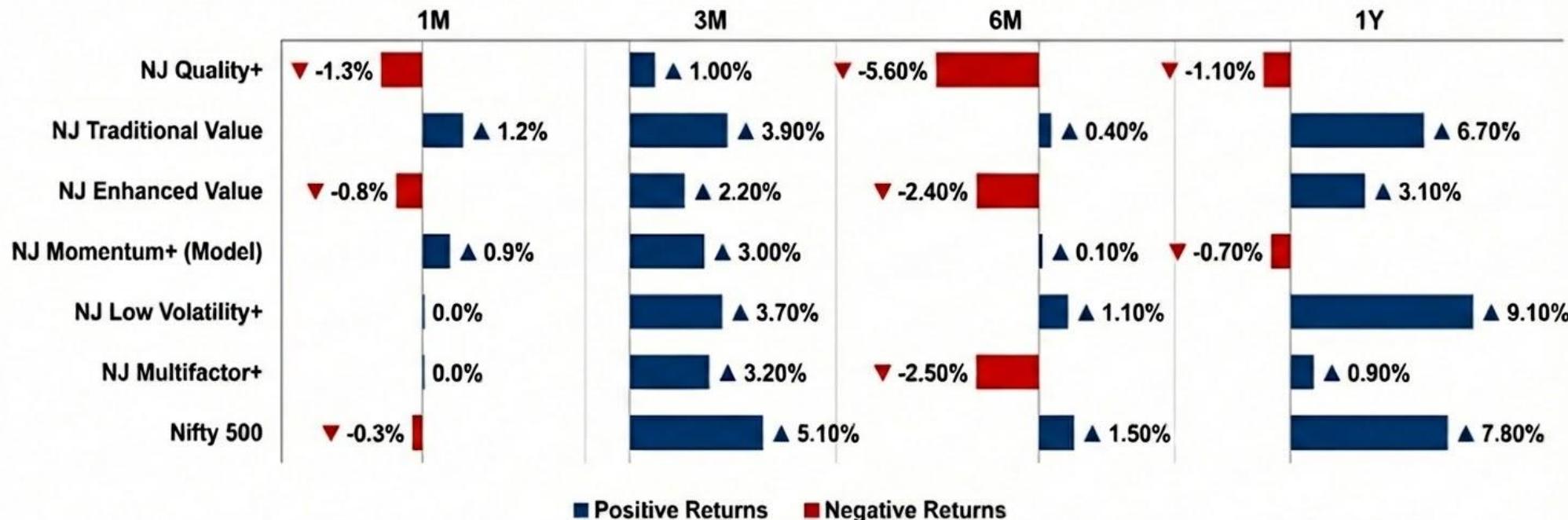
Key Highlights

- Value and Low Volatility lead the pack:** The Nifty 500 Value 50 index was the clear outperformer, delivering a robust **▲ 16.9%** over one year. The Nifty 500 Low Volatility 50 followed closely with an impressive **▲ 16.1%** return.
- Momentum and Small Caps face headwinds:** In stark contrast, the Nifty 500 Momentum 50 index was the worst performer with a significant decline of **▼ -7.6%** over one year, followed by Nifty Small Cap 250 which fell **▼ -5.5%**.
- Short-term strength in Value:** The Nifty 500 Value 50 index demonstrated consistent strength, posting positive returns across all observed periods, including a **▲ 3.7%** in the most recent one-month period when most other indices were flat or negative.

Source: Bloomberg | As on 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.

Comparative Factor Performance



Key Highlights

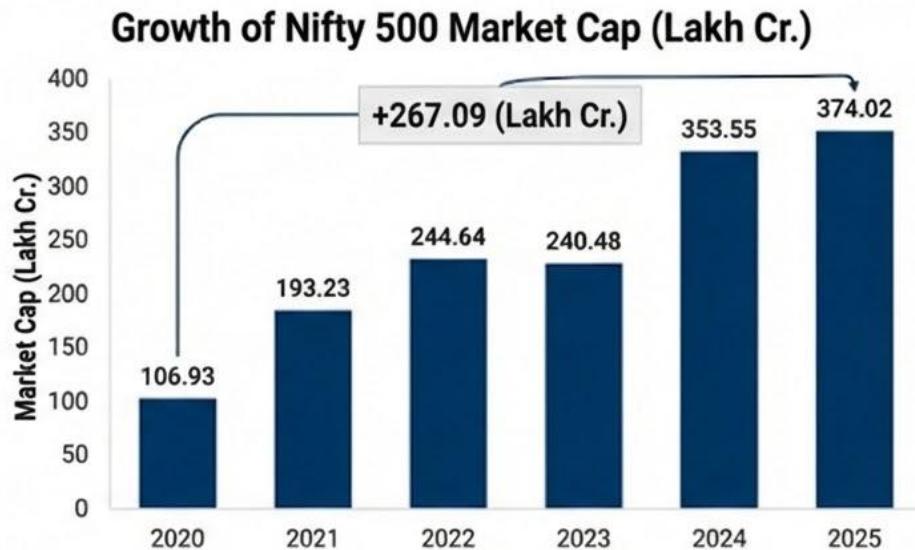
- **Defensive Leadership:** NJ Low Volatility+ is the standout long-term performer (+9.10% 1Y), showcasing significant resilience compared to high-beta factors.
- **Model Recovery:** The NJ Momentum+ Model shows short-term recovery (+3.00% in 3M) despite negative 1-year headwinds.

Source: SmartBeta, CMIE, Bloomberg | As on 31st December 2025

Note: Past performance is not indicative of future results and is presented solely for illustrative purposes.



Nifty 50 has demonstrated formidable growth, nearly tripling its market capitalization from the lows of 2020. This showcases the strong recovery and sustained momentum of India's top blue-chip companies.



The Nifty 500, representing the broader market, has expanded its market cap by 3.5 times since 2020, indicating that the growth story extends well beyond the largest 50 companies.

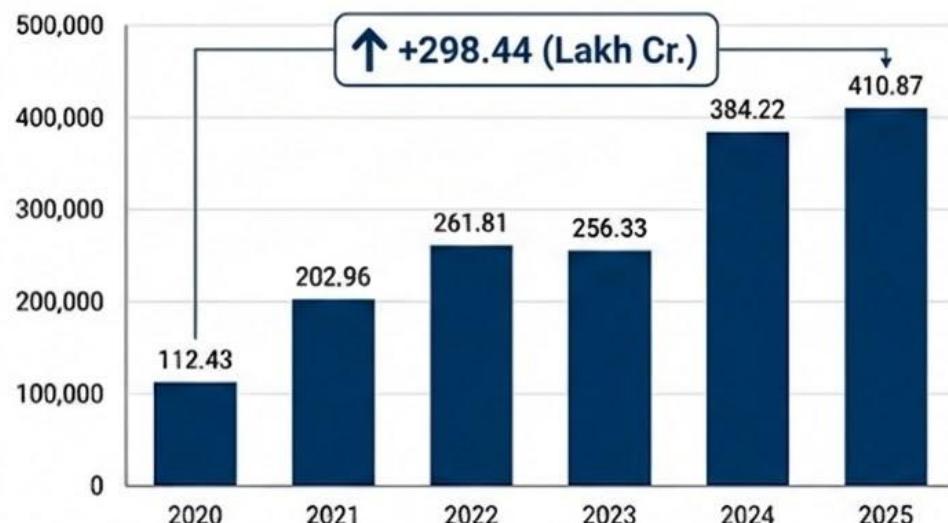
Key Highlights

- The combined market cap of India's top 500 companies has surged, with Nifty 50 growing by 182% and Nifty 500 by 250% between 2020 and 2025.
- This powerful upward trend in both indices confirms a broad-based and sustained bull run in the Indian market.
- The absolute increase in market capitalization underscores the significant wealth creation driven by the country's leading public companies.

Source: Bloomberg. Between 31 Mar 2020 - 31 Mar 2025

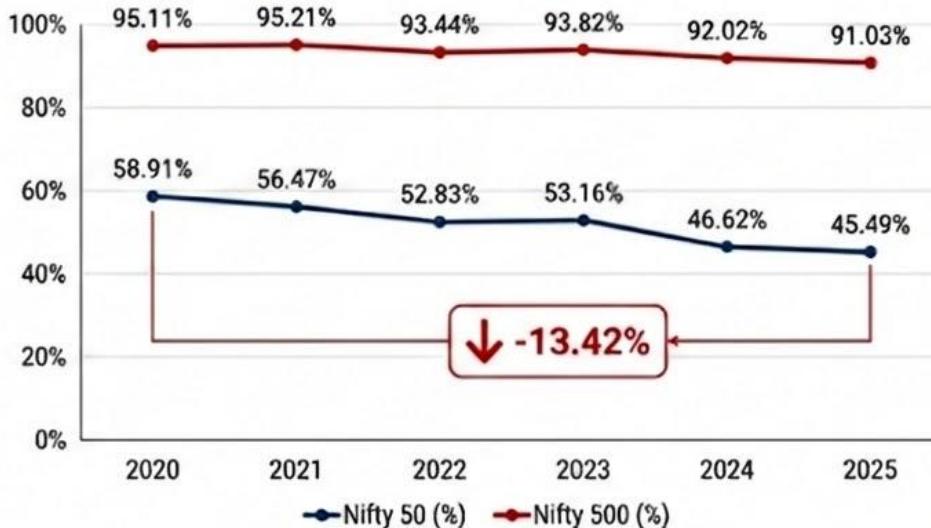
Note: Past data is not indicative of future results and is presented solely for illustrative purposes.

Growth of NSE Total Market Cap (Lakh Cr.)



The total market capitalization of all NSE-listed companies has grown by a phenomenal 265% since 2020, illustrating the immense expansion of the entire Indian equity market.

Nifty 50 & Nifty 500 as a % of NSE Market Cap



Despite their absolute growth, the market share of both Nifty 50 and Nifty 500 has trended downwards, indicating that a growing portion of market expansion is occurring outside the top-tier indices.

Key Highlights

- While the total NSE market cap has expanded by ~3.65x, the concentration within the Nifty 50 has decreased significantly, falling from 59% to 45% of the total market.
- This de-concentration suggests a healthy broadening of the market, with mid-cap, small-cap, and other emerging companies contributing more to overall growth.
- The key takeaway is a dual trend: the Indian market is experiencing explosive growth in value while simultaneously becoming more diversified and deeper in structure.

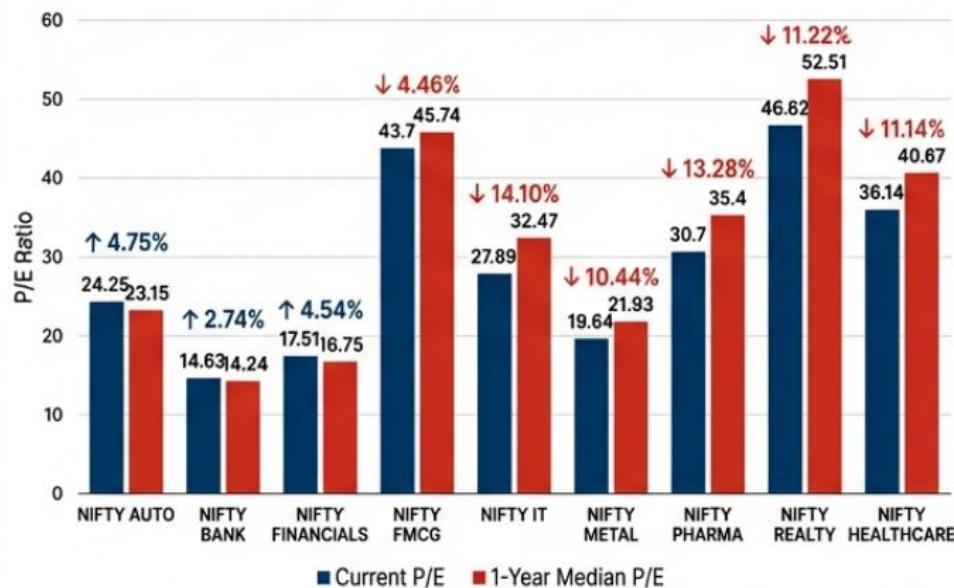
Source: NSE. Between 31 Mar 2020 - 31 Mar 2025

Source: Bloomberg, NSE. The percentage share for Nifty 50 and Nifty 500 is calculated by dividing respective index market capitalisation by NSE market capitalisation. Between 31 Mar 2020 - 31 Mar 2025

Note: Past data is not indicative of future results and is presented solely for illustrative purposes.

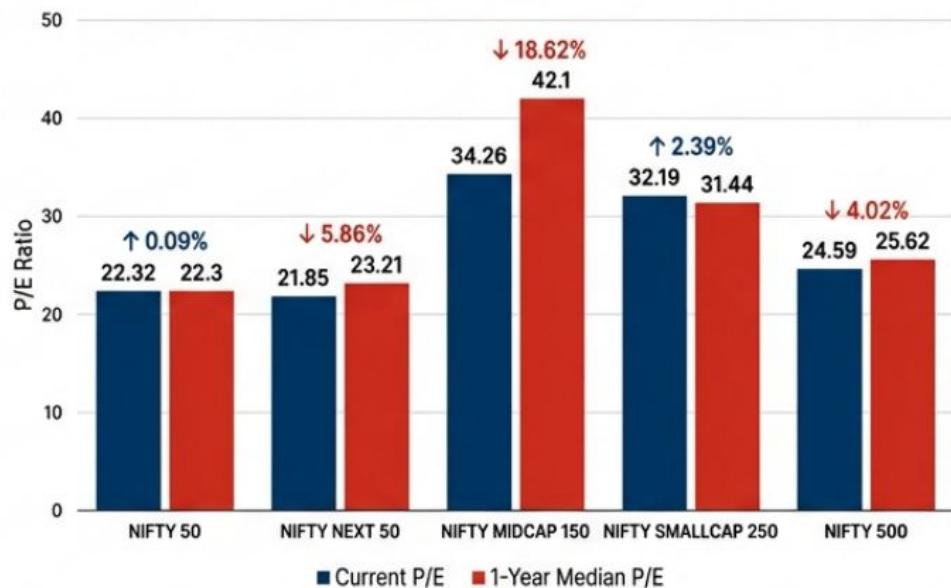
Current P/E Ratio vs 1-Year Median P/E (Sector-wise)

As of: December 2025



Current P/E Ratio vs 1-Year Median P/E (Index-wise)

As of: December 2025



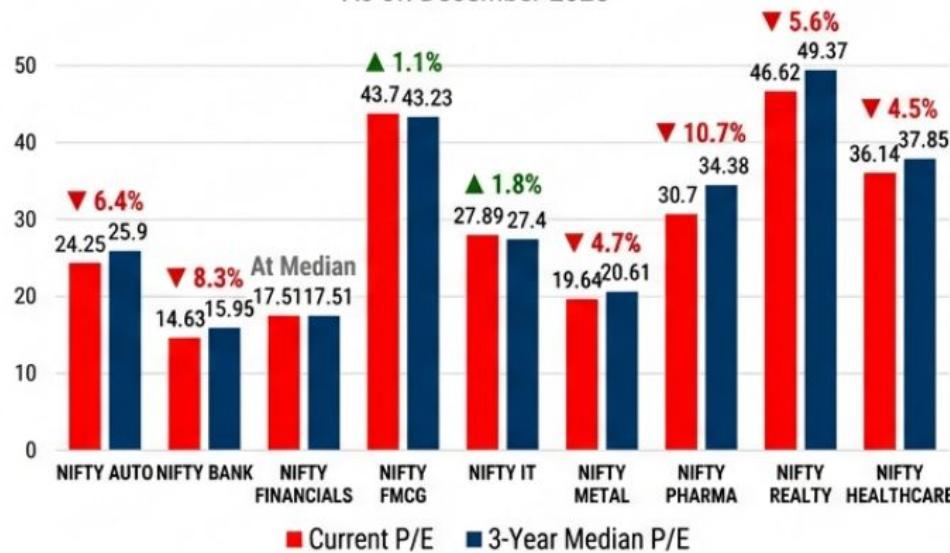
Key Highlights

- A clear divergence is visible: key cyclical sectors like Auto, Bank, and Financials are trading at a premium to their median P/E, while defensive and growth-oriented sectors such as IT, Pharma, and Healthcare have seen significant valuation corrections of over 11%.
- The Midcap index shows the steepest discount, trading nearly 19% below its 1-year median P/E. In contrast, the Smallcap index is trading at a premium, indicating a sharp contrast in investor sentiment between the two market segments.
- The headline NIFTY 50 index remains stable against its median, masking the underlying sectoral rotations and the substantial de-rating in specific high-growth areas.

Source: NSE. Current P/E is as of December 2025. 1 Year Median PE is calculated by taking the Median of P/E data for 1 year period of respective indices.

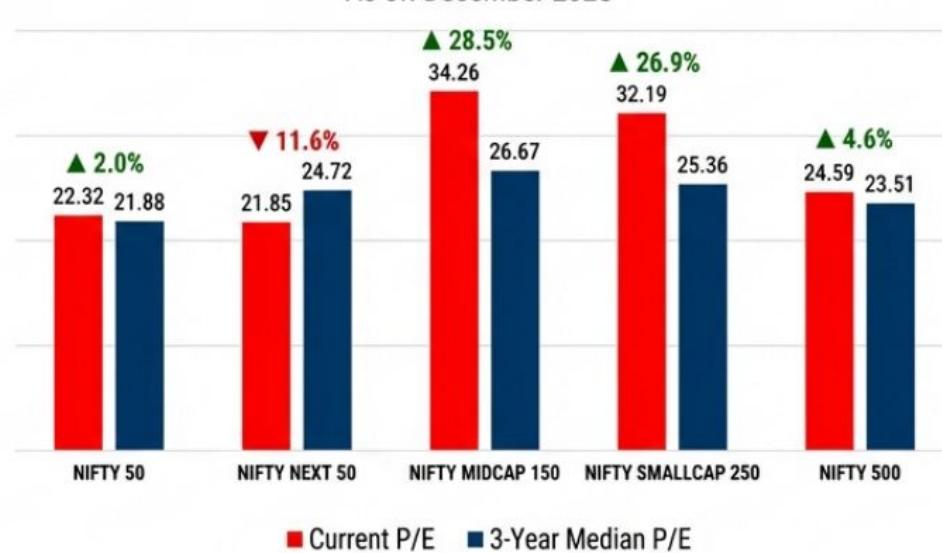
Current P/E Ratio vs 3-Year Median P/E (Sector-wise)

As of: December 2025



Current P/E Ratio vs 3-Year Median P/E (Index-wise)

As of: December 2025



Key Highlights

- Mid & Small-Cap Premium:** The NIFTY Midcap 150 and Smallcap 250 indices are trading at a significant premium of over 25% above their 3-year median P/E, highlighting strong investor sentiment in these segments.
- Sector-Specific Discounts:** Key defensive and cyclical sectors, including NIFTY Pharma (▼10.7%) and NIFTY Bank (▼8.3%), are currently valued below their historical averages, indicating potential valuation comfort.
- Large-Cap Divergence:** While the benchmark NIFTY 50 remains close to its median, the NIFTY Next 50 is trading at a notable discount (▼11.6%), masking the significant performance differences within the large-cap universe.

Source: NSE. Current P/E is as of December 2025. 3 Year Median PE is calculated by taking the Median of P/E data for 3 year period of respective indices.

Market Valuations: Current P/E Ratios vs. 5-Year Historical Median

Chart 1: Current P/E Ratio vs 5-Year Median P/E (Sector-wise)

As of December 2025

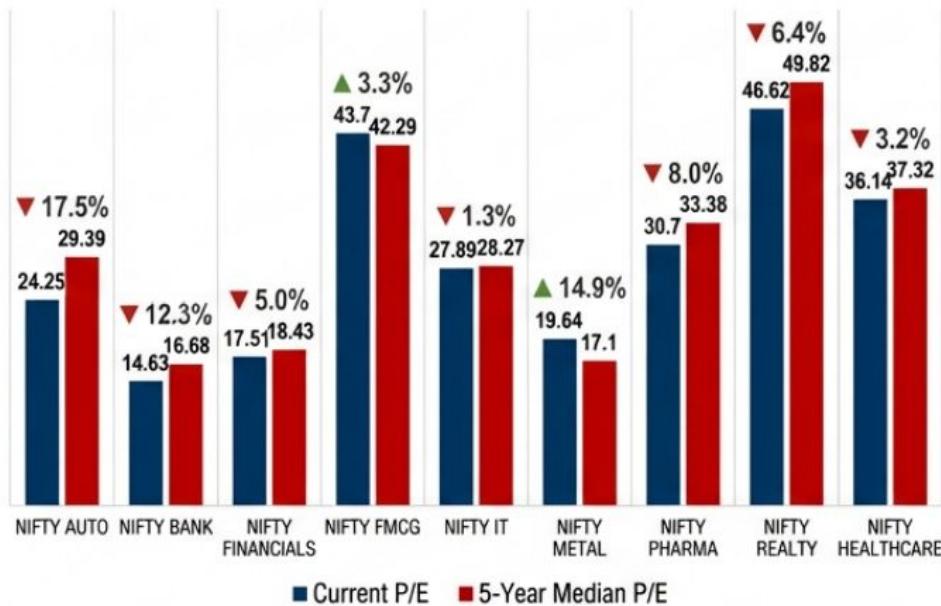
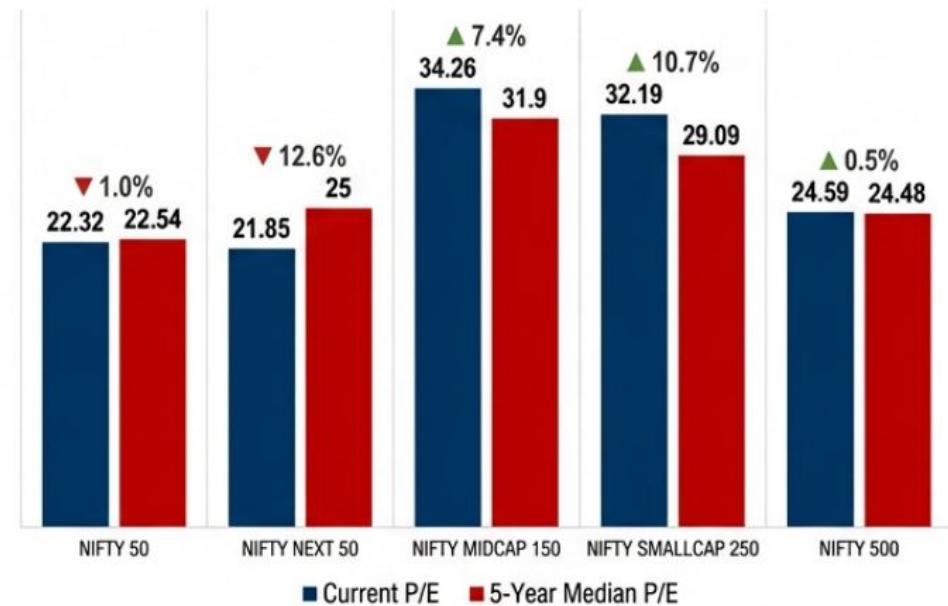


Chart 2: Current P/E Ratio vs 5-Year Median P/E (Index-wise)

As of December 2025



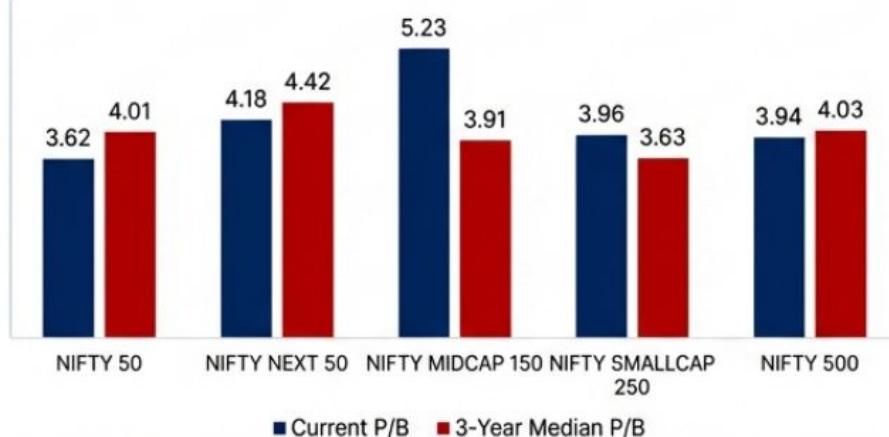
Key Highlights

- A clear valuation divergence is visible: Large-cap indices (Nifty 50, Next 50) and key sectors like Auto and Banking are trading at a discount to their 5-year median P/E, suggesting potential value.
- Conversely, Midcap and Smallcap indices are trading at a premium, with valuations 7-11% above their historical median, indicating heightened market optimism in these segments.
- The Nifty Metal sector stands out with a valuation nearly 15% above its historical average, while the broader Nifty 50 and Nifty 500 indices remain close to their long-term valuation norms.

Source: NSE. Current P/E is as of December 2025. 5 Year Median PE is calculated by taking the Median of P/E data for 5 year period of respective indices.

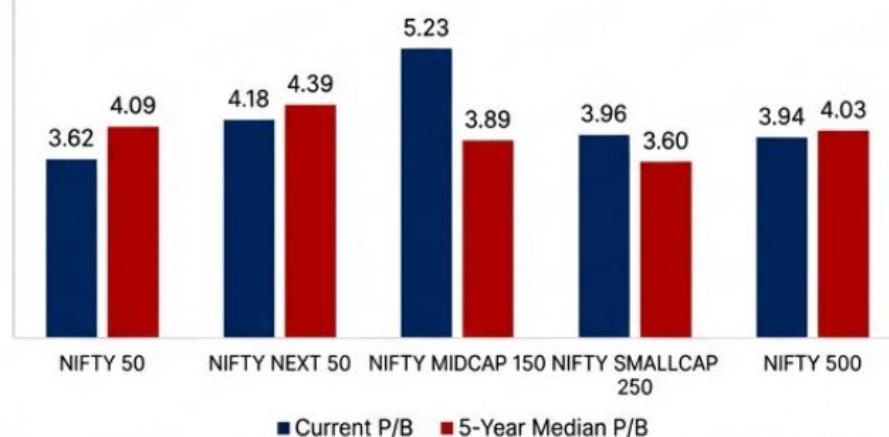
Current P/B vs 3-Year Median P/B

As of: December 2025



Current P/B vs 5-Year Median P/B

As of: December 2025



The chart displays a clear valuation divergence: Large-cap indices like NIFTY 50 are trading below their 3-year median P/B (-9.7% ▼), suggesting relative undervaluation. In stark contrast, NIFTY MIDCAP 150 is trading at a significant premium (+33.8% ▲) to its historical median.

Extending the lookback to five years reinforces the trend. The NIFTY 50's valuation appears even more attractive, trading at an 11.5% ▼ discount to its 5-year median. The premium on NIFTY MIDCAP 150 remains exceptionally high at +34.4% ▲, indicating sustained expensive valuations in this segment.

Key Highlights

- Valuation Dichotomy:** Large-cap indices (NIFTY 50, NIFTY NEXT 50) are currently trading below their medium and long-term historical P/B averages, suggesting potential relative value.
- Mid & Small-Cap Premium:** NIFTY MIDCAP 150 and NIFTY SMALLCAP 250 indices are trading at a significant premium compared to both their 3-year and 5-year median P/B ratios, highlighting potentially stretched valuations in these segments.
- Broad Market Alignment:** The NIFTY 500, representing the broader market, is trading nearly in line with its historical P/B medians, masking the underlying divergence between different market-cap segments.

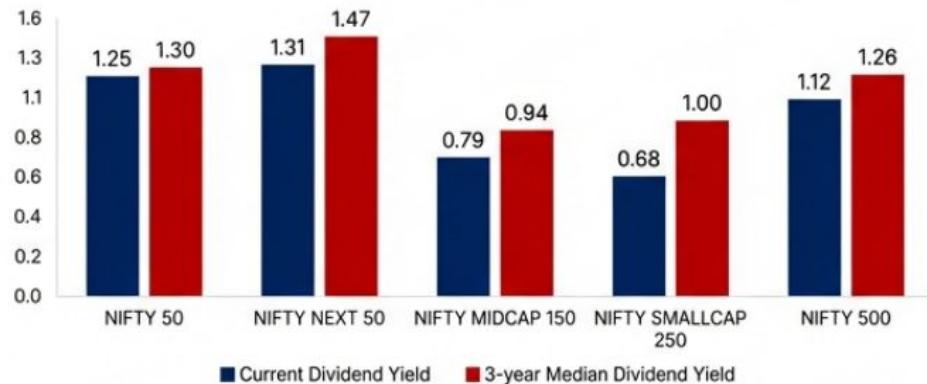
Source: NSE. Current P/B is as of December 2025. 3 Year Median P/B is calculated by taking the Median of P/B data for 3 year period of respective indices.

Source: NSE. Current P/B is as of December 2025. 5 Year Median P/B is calculated by taking the Median of P/B data for 5 year period of respective indices.

Market Valuations: Dividend Yield Analysis

Current Dividend Yield vs 3-Year Median Dividend Yield

As of: December 2025



Across all market segments, the current dividend yield is lower than the 3-year median. The NIFTY SMALLCAP 250 index shows the most significant deviation, with its current yield being 32.0% ▼ below its 3-year median.

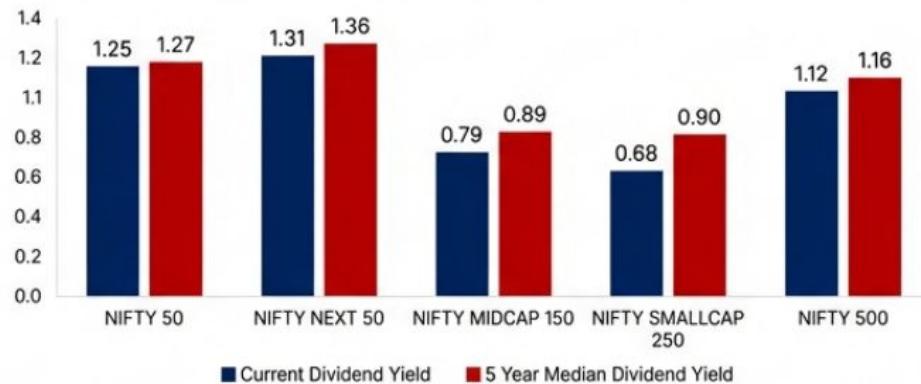
Key Highlights

- Universal Yield Compression:** All major market indices are currently offering lower dividend yields compared to both their 3-year and 5-year historical medians, indicating that investors are receiving less income relative to price.
- Small-Caps Most Impacted:** The dividend yield for the NIFTY SMALLCAP 250 index is the most suppressed relative to its history, which, combined with its high P/B ratio, points to a market driven more by growth expectations than value.
- Consistent Market Trend:** Unlike the P/B ratio which showed a clear divergence, the dividend yield data presents a consistent trend of lower yields across all market-cap segments, suggesting a broad market phenomenon.

Source: NSE. Current Dividend Yield is as of December 2025. 3 Year Median Dividend Yield is calculated by taking the Median of Dividend Yield data for 3 year period of respective indices.

Current Dividend Yield vs 5-Year Median Dividend Yield

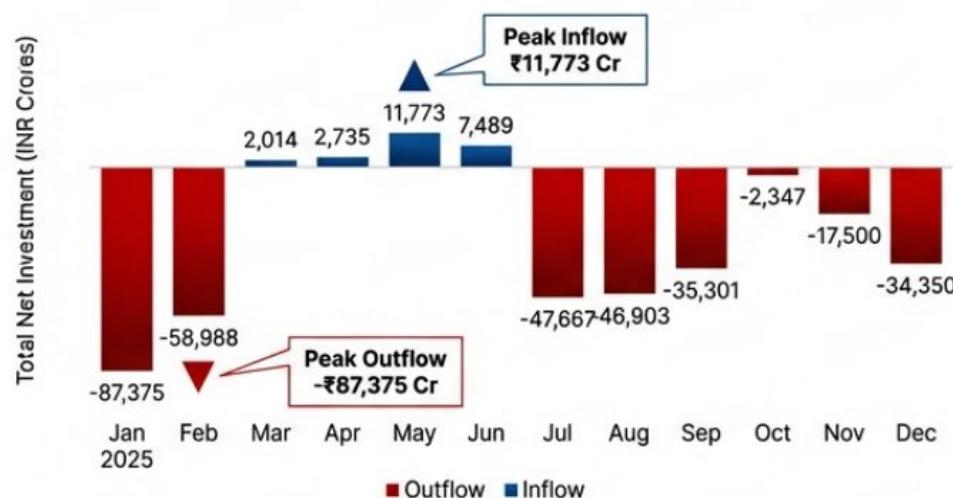
As of: December 2025



The 5-year comparison confirms the trend of suppressed dividend yields across the board. The NIFTY SMALLCAP 250 yield remains notably low, trading 24.4% ▼ below its 5-year median, reinforcing the theme of lower income potential relative to recent history.

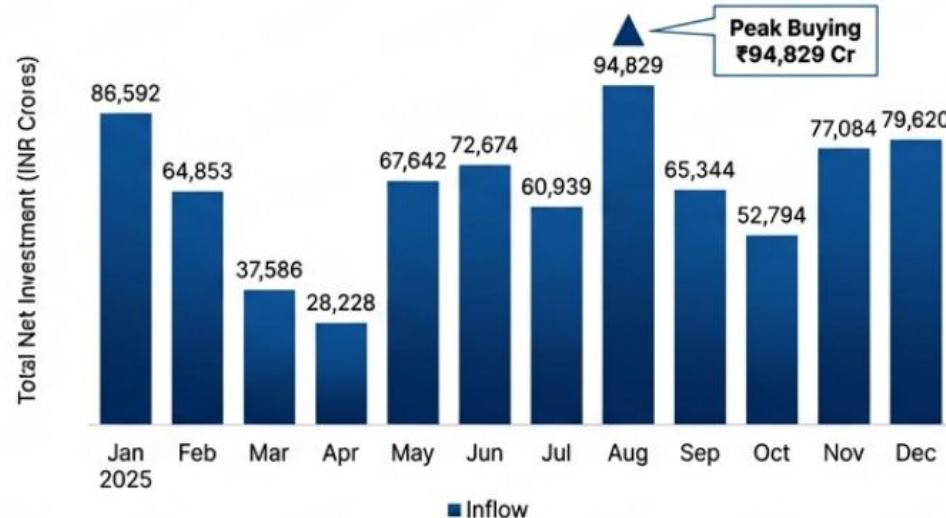
Source: NSE. Current Dividend Yield is as of December 2025. 5 Year Median Dividend Yield is calculated by taking the Median of Dividend Yield data for 5 year period of respective indices.

Foreign Institutions Exhibit Significant Caution



Foreign Institutional Investors (FIIs) were net sellers for the majority of 2025, with particularly large outflows at the beginning and end of the year, signaling a risk-off approach.

Domestic Institutions Provide Powerful Support

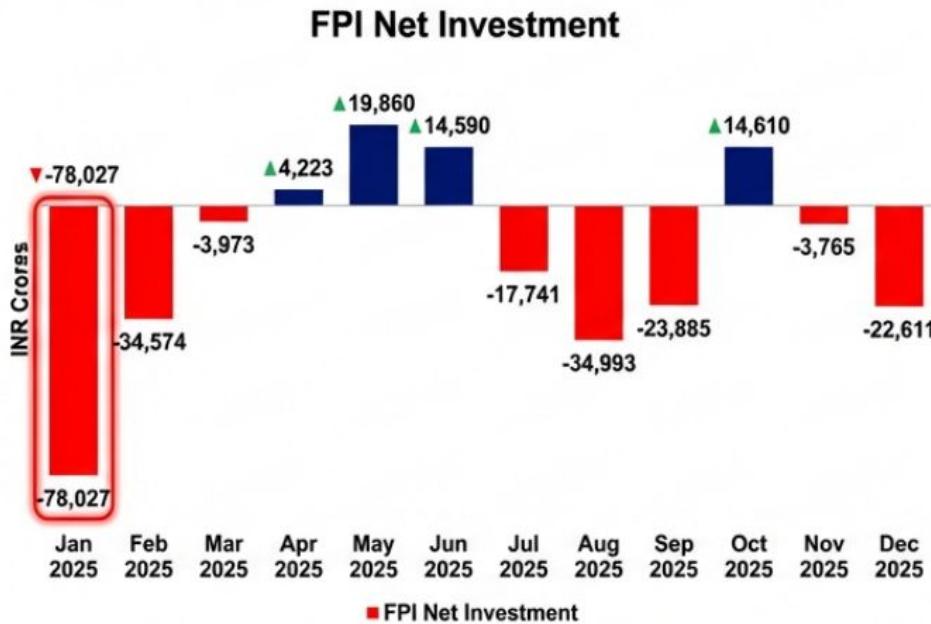


In stark contrast, Domestic Institutional Investors (DIIs) consistently infused capital every month, with a peak investment in August, effectively absorbing FII selling pressure.

Key Highlights

- A clear divergence is visible: FIIs were largely exiting positions while DIIs were consistently buying, highlighting a major shift in market dynamics.
- Domestic capital acted as a critical shock absorber, providing stability and cushioning the market against significant foreign outflows throughout 2025.
- The scale of DII investment, particularly in months with heavy FII selling like January and August, underscores the growing strength of the domestic investor base.

Source: Bloomberg | January 2025 - December 2025

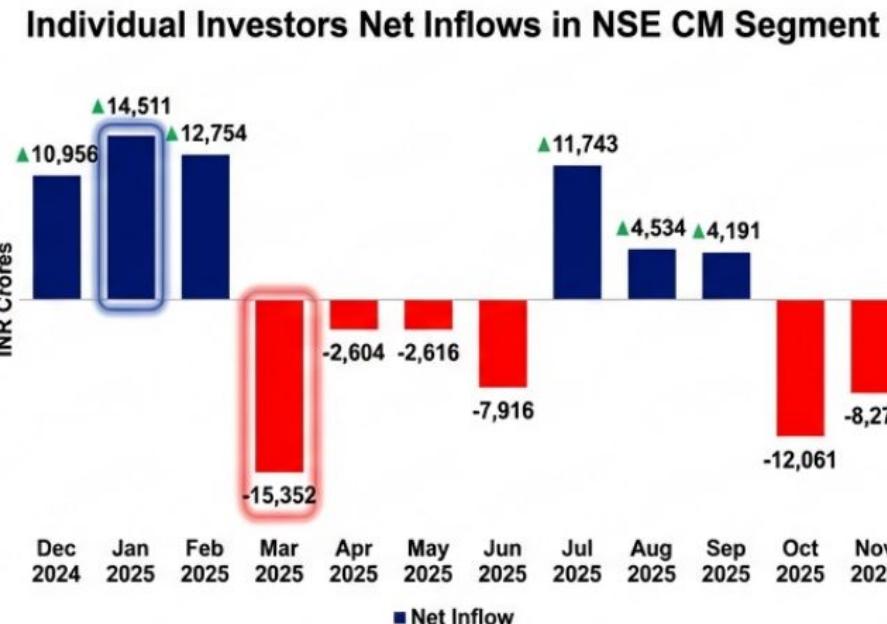


FPIs demonstrated a significant net outflow trend in 2025, with major withdrawals concentrated in the first and third quarters, interspersed with brief periods of positive investment.

Key Highlights

- Divergent Convictions:** A stark contrast emerged in early 2025, where a massive FPI outflow in January (-78,027 Cr) was directly met by strong net buying from individual investors (+14,511 Cr), indicating fundamentally different market outlooks.
- Scale of Capital:** The magnitude of FPI capital movement significantly outweighs individual flows; the peak FPI outflow in January is over 5 times larger than the peak individual investor outflow seen in March (-15,352 Cr).
- Mid-Year Caution:** Both investor groups showed caution mid-year. Individual investors recorded four consecutive months of net outflows from March to June, while FPIs registered a substantial withdrawal of -17,741 Cr in July.

Source: NSDL India | January 2025 - December 2025



Individual investor sentiment was characterized by strong net inflows at the start of the year, followed by a sustained period of outflows mid-year, and a volatile second half.

Source: NSE Market Pulse | December 2024 - November 2025

Monthly IPO Collection Demonstrates Significant Volatility



IPO fundraising activity shows dramatic monthly fluctuations, with collections peaking in October and hitting a significant low in April, reflecting the episodic and sentiment-driven nature of the primary market.

NSE Cash Market Turnover Reflects Active Trading



Secondary market liquidity, while more stable than IPO collections, still exhibits clear monthly variations, with trading activity peaking mid-year before moderating, showcasing the rhythm of market participation.

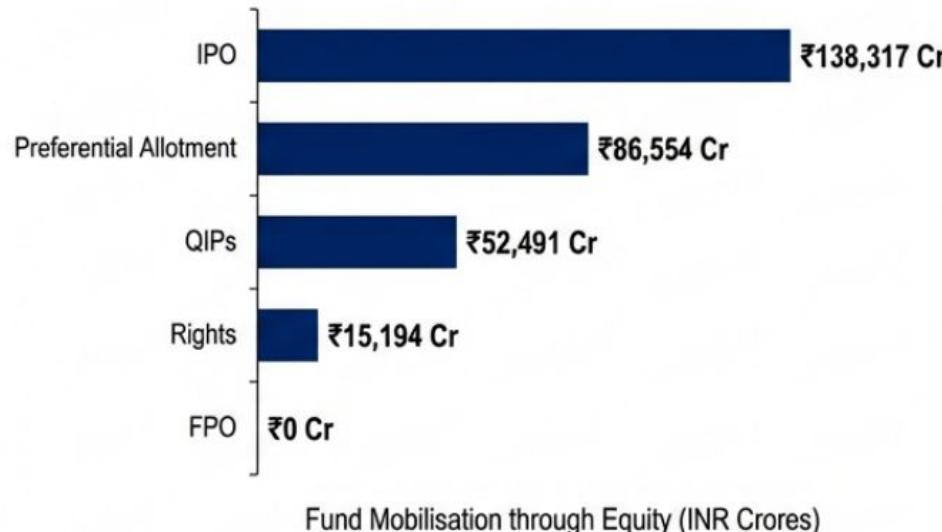
Key Highlights

- Both primary and secondary markets exhibit significant short-term volatility, with monthly capital raised via IPOs fluctuating more dramatically than trading turnover.
- Peak IPO activity in late 2025 (Oct/Nov) did not directly correlate with the highest market turnover, which occurred in June, indicating different drivers for investor participation and capital raising.

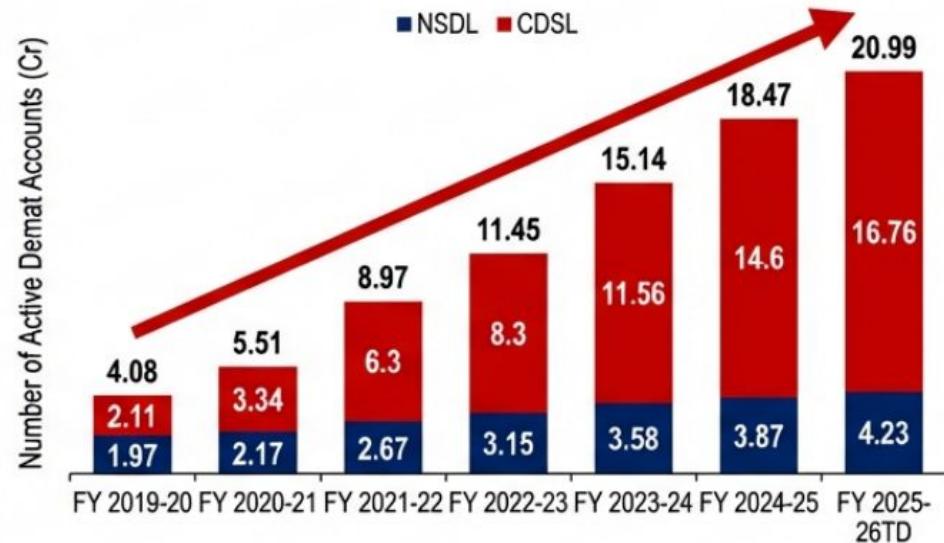
Source: NSE Market Pulse | December 2024 - November 2025

Source: NSE | January 2025 - December 2025

Diverse Avenues Fuel Robust Equity Mobilisation



Investor Base Shows Unprecedented Expansion



Key Highlights

- While IPOs lead with ₹1.38L Cr, secondary equity mobilization (Rights, QIPs, Pref. Allotment) cumulatively exceeds primary issuance at ₹1.54L Cr.
- The investor base has witnessed a ~5x expansion over six years, driven largely by CDSL, which grew from 2.11 Cr to 16.76 Cr accounts.
- Consistent year-on-year growth in active accounts indicates a structural shift in household savings toward equity markets.

Source: NSE Market Pulse Report | Data is for FY 2025-26TD as of November 2025. Only open-ended schemes are considered.

Source: Annual reports of NSDL and CDSL respectively | FY 2019-20 - FY 2025-26TD. FY 2025-26TD data is as of October 2025



Divergence is the New Norm.

The market is no longer driven by a single monolithic trend. Investors must analyze competing forces across geographies, market caps, and factors to succeed.



Domestic Depth is the New Foundation.

The Indian market's reliance on foreign capital has fundamentally shifted. The structural rise of the domestic investor provides a powerful cushion and is now a primary driver of market behavior.



Leadership is Rotational & Valuations Matter.

With inconsistent leadership and widening valuation gaps between segments, a disciplined, data-driven approach is critical to identify opportunities and manage risk.



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