2027 Investment Outlook – India Equities

November 2026



Shekhar Sambhshivan
Investment Director

Key takeaways

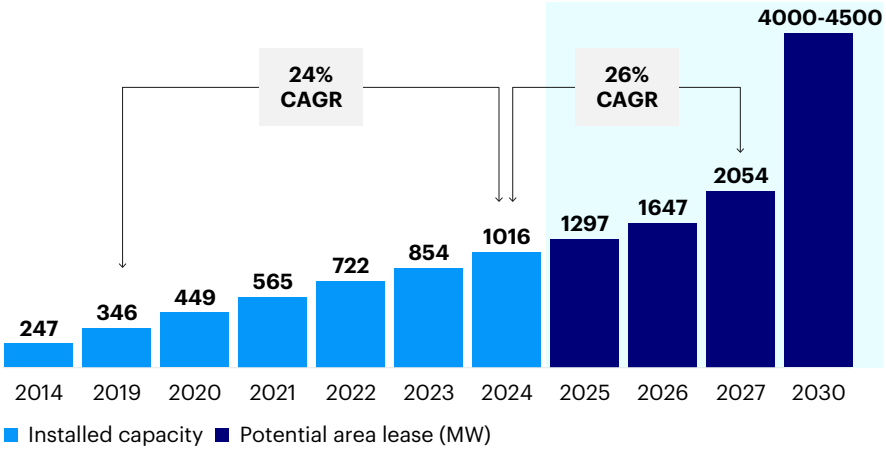
- India enters 2027 with a resilient domestic backdrop despite a more uncertain external environment.
- We see three areas that may influence Indian equity markets: the build-out of the data center ecosystem, growing capabilities in aerospace, defense and semiconductors, and resilient discretionary consumption.
- More reasonable valuations and a deepening domestic investor base support the market, but we believe a selective approach remains important given risks from energy prices, US monetary policy and geopolitical uncertainty.

India enters 2027 with a relatively resilient domestic growth backdrop despite a more uncertain external environment. Economic activity continues to be supported by domestic demand and investment, while policy initiatives are encouraging the development of new industries and deeper domestic supply chains. Real GDP growth is expected to reach 7% in 2026[1], ensuring India is among the faster-growing major economies globally. Against this backdrop, three areas warrant consideration in Indian equity markets: the development of the data center ecosystem, growing capabilities across aerospace, defense and semiconductors, and resilient domestic discretionary consumption.

Building out the data center ecosystem

India's data center build-out is creating opportunities across the broader infrastructure supply chain, supported by rising data consumption, cloud adoption and the growing computing requirements associated with artificial intelligence (AI). Installed capacity has expanded rapidly from a low base is expected to continue to grow over the coming years. India's relatively competitive construction economics may also support this expansion, with facilities estimated to cost 20 to 30% less to build than in major global markets, reflecting lower land, construction and power costs.[2]

Figure 1 – Data center installed capacity (MW)



Source: Data Center: Avendus Spark Research, September 2026

1. IMF, October 2026
2. Ibid.

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Importantly, the opportunity extends beyond data center operators. New capacity requires investment in renewable generation, transmission, transformers, switchgear, cables, backup power and cooling. Power is particularly important given the energy-intensive nature of data centers, and continued build-out is likely to require additional generation capacity as well as investment in the grid and related electrical infrastructure. We therefore see potential beneficiaries among domestic power producers and equipment manufacturers supplying the physical infrastructure needed for India's digital expansion.

Developing capabilities in aerospace, defense and semiconductors

A second opportunity is emerging from India's push to higher-value capabilities across aerospace, defense and semiconductors. In defense, the key structural shift is from an industry dominated by state-owned companies and imported equipment towards a broader domestic manufacturing base with increasing private sector participation. Domestic procurement now represents around 75% of defense capital spending, while approvals granted by the Defence Acquisition Council rose sharply to INR 6.73 trillion in FY26, indicating a sizeable multi-year pipeline.[3] We believe this should support opportunities not only for established platform manufacturers, but also for private suppliers of electronics, precision components, missiles, unmanned systems and other sub-systems.

Aerospace is following a similar path, as domestic manufacturers build the engineering and certification capabilities required to participate in global supply chains. Local content requirements and partnerships with global manufacturers could support a wider ecosystem of component and systems suppliers. Semiconductors are an early stage extension of this theme. Semicon 2.0 is a macro-level national policy framework that provides long-term policy support across chip design, equipment and materials, fabrication and advanced packaging. The continued development of these capabilities can support India's ambition to build a more integrated domestic semiconductor ecosystem over time.

Resilient domestic discretionary demand

India's large domestic consumer market remains another important source of opportunity. Rising incomes, urbanization and evolving spending patterns continue to support discretionary consumption, particularly among higher-income households. Consumers are allocating a greater share of spending to travel, hospitality, convenience and premium products, creating relatively attractive prospects for businesses positioned around experience-led and aspirational consumption.

As India's consumer market continues to develop, we see opportunities across a broader range of discretionary categories, particularly among companies with strong brands, established distribution networks and the ability to respond to evolving consumer preferences.

Valuation and liquidity

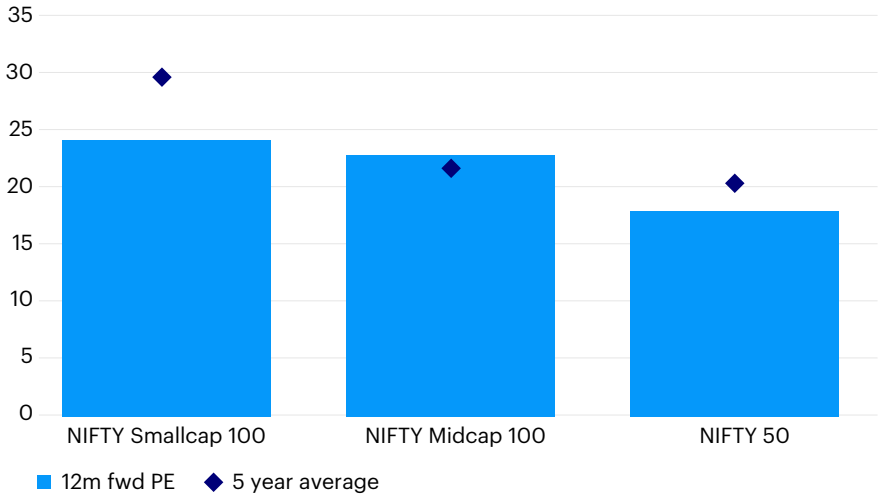
Following the market's recent adjustment, Indian equity valuations have become more reasonable, providing a changing valuation backdrop for stock selection. We continue to look for companies with sustainable earnings growth, sound fundamentals and valuations that appropriately reflect their longer-term prospects.

3. HSBC, September 2026

2027 Investment Outlook – India Equities

November 2026

Figure 2 – Large and mid-cap stocks now trade below their five-year averages



Source: Bloomberg L.P. HSBC, data as of 31 October 2026. Forward-looking estimates are based on current assumptions and expectations, and are subject to change.

Liquidity is also supported by India's deepening domestic investor base. Systematic Investment Plan (SIP) contributions into mutual funds exceeded INR 1.9 trillion in the first six months of FY2026/27[4], highlighting continued participation from domestic investors. This growing pool of domestic capital may provide an important source of liquidity for the Indian equity market.

Risks to watch

Looking ahead, the external environment remains an important consideration for India's outlook. Higher energy prices could add to inflationary pressures and weigh on the external balance, particularly given India's dependence on imported energy.

In addition, a shift towards tighter-than-expected US monetary policy or persistently high US interest rates could influence capital flows and contribute to periods of market volatility. Broader geopolitical uncertainty and disruptions to global trade could also affect investor sentiment. While these factors may create near-term volatility, we believe India's domestic growth drivers are expected to remain important in shaping the medium-term outlook.

Overall, we enter 2027 with a constructive structural backdrop for Indian equities. The combination of new infrastructure requirements, deeper domestic manufacturing capabilities and resilient discretionary demand is broadening the opportunity set. In this environment, we believe a selective approach remains important, with a focus on companies supported by sustainable earnings, sound fundamentals and reasonable valuations.

4. AMFI, October 2026

2027 Investment Outlook – India Equities

November 2026

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All data as of November 2026, unless otherwise stated. All data is USD, unless otherwise stated.

2027 Investment Outlook – India Equities

November 2026

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2027 Investment Outlook – India Equities

November 2026

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