Defensive sector weight in Nifty lowest in 15 years

Underperforms in falling mkt for first time in over 20 years

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Traditional safe-haven sectors, such as fast-moving consumer goods (FMCG), IT services, and pharma, are not working for equity investors in the current market selloff. These three sectors have underperformed the broader market during the downturn, leading to a decline in their weighting in the benchmark Nifty 50 index.

As a result, the combined weighting of these sectors in the Nifty 50 index has fallen to a 15-year low of 25.3 per cent, down from 27.4 per cent at the end of March last year and 37.6 per cent at the end of March 2014. The previous low for defensive sectors was in March 2010, when their weighting in the index had dropped to 22.4 per cent.

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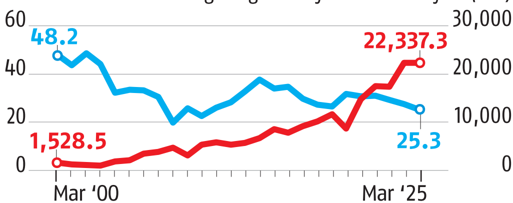
SAFE HAVEN NO MORE



Note: Latest data is for March 5, 2025; Source: Capitaline, Business Standard Calculation; Compiled by BS Research Bureau

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INDIA'S SHARE IN GLOBAL MCAP SLIPS BELOW 3%

India's share in the world mcap has fallen below 3 per cent for the first time in nearly two years. On March 3, India's mcap at $3.75 trillion was 2.99 per cent of the combined global market cap.

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Defensive sectors' loss is BFSI's gain

The decline has been led by the FMCG sector, whose weighting has fallen by 160 basis points (bps) since March 2024 to 9.5 per cent, followed by the pharma sector, which has seen a 70 bp decline to 3.1 per cent. The IT services sector has performed relatively better, with its weighting rising 20 bps over the past year to 12.7 per cent.

However, all three sectors have underperformed the broader market since the start of 2025. The Nifty Pharma index is down 14 per cent year-to-date (YTD), followed by Nifty IT (-12.1 per cent) and Nifty FMCG (-9.7 per cent). In comparison, the Nifty 50 has declined 5.5 per cent YTD.

The losses in defensive sectors have been gains for banks, finance, and insurance (BFSI) companies. The BFSI sector's weighting in the index has increased by 480 bps over the past year to 35.4 per cent. One basis point is one-hundredth of a per cent. This is the first time in over 20 years that defensive sectors have underperformed in a declining market. Typically, defensives outperform during market downturns, offering a safe haven for investors looking to protect their capital from sharp declines in cyclical sectors, such as banking & finance, mining & metals, capital goods, and automobiles.

In contrast, defensive sectors underperform during bull markets, as cyclical stocks lead market rallies. For example, defensives outperformed during the Covid-19 selloff, when their weighting in the index increased by nearly 500 bps between March 2019 and March 2020, while the Nifty 50 fell by 26 per cent.

Similarly, defensives outperformed during the 2008 global financial crisis and the Eurozone crisis-led selloff in 2012. In FY12, defensive weighting in the index rose by 220 bps, while the Nifty 50 declined by 9.2 per cent. In FY09, defensive weighting was up 600 bps as the benchmark index dropped 36.2 per cent.

According to analysts, this "unusual" behaviour by defensive sectors suggests that the current downturn in Indian equities is different from past corrections. "The underperformance of defensives indicates growth headwinds, with single-digit revenue growth in FMCG and IT, alongside pressure on their margins. The export-intensive pharma sector also faces the heat," said G Chokkalingam, founder & CEO of Equinomics Research.

In contrast, previous market corrections were largely driven by global factors, causing simultaneous selloffs across major equity markets. Others attribute this trend to a valuation de-rating cycle in Indian equities, with the highest-valued stocks and sectors leading the selloff.