Midcap stocks down 20% from peak. What should mutual fund investors do?

By Surbhi Khanna, Published on 6th March 2025

With Nifty Midcap 150 Index down by nearly 20% from its 52-week peak at a level of 18,061 now, a market expert recommends that if you have an excess midcap allocation in the portfolio it would be a prudent decision to reduce exposure considering the valuation. If you do not have mid cap exposure, you may wish to do so through a long-term SIP if you are comfortable with the volatility and have a 10 -15 year investment horizon, he further recommends.

"In recent years midcaps have performed well and as a result the weight in the portfolio would have increased, now is a good time to rebalance this weightage," said Vishal Dhawan, CEO of Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

In the last one-month, mid cap funds on an average lost around 9.57% with Quant Mid Cap Fund being the top loser. It went down by 11.07% in the last one month. The loss by mid cap funds was in double-digit in the last three and six months.

In the last three months, mid cap funds on an average lost 17.56% with HSBC Midcap Fund being the top loser. The scheme went down by 21.92%. In the last six months, these schemes went down by 18.16%. Quant Mid Cap Fund lost the most of around 23.74% in the last six months.

The experts attribute this negative performance to slowing growth, global uncertainty based on lack of clarity on US policies, and slowdown in corporate earnings.

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The report further highlighted that Naren referred to the continued flows into equity schemes that bet on small-cap and mid-cap stocks - considered expensive even after the recent sell-off. He further highlighted a few periods when SIPs as an investment plan would have lost money for investors. These included phases like 1994-2002 and 2006-2013 when SIPs in mid-caps would not have yielded any returns; on the contrary, the investment strategy eroded investor money.

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According to Naren, the outlook for SIPs in such schemes looks unfavourable unless done for 20 years, which is a rarity. Currently, he recommends SIPs in large-cap, flexi-cap schemes or equity-oriented hybrid products.

Post the debates surrounding small and mid-cap mutual funds, many investors are worried about their investments in the mid cap funds and are wondering what the outlook for mid cap funds is.

“Midcap continues to trade at a premium to their historical averages. If investors have excessive midcaps in their portfolio, they may still wish to reduce exposure. It is not recommended for investors to stop their SIPs in an attempt to time the market. Rather than looking at funds at an individual holding level look at these funds from a portfolio level. This provides a better holistic understanding,” recommended Dhawan.

He further believes that though the valuation premium of midcap has reduced, corrections going ahead are still very possible, as mid-caps continue to trade at a premium. If one has a long-term horizon of 10 years to 15 years, they could continue investing through an SIP to get advantage of rupee cost averaging, he adds.

One should always invest based on their risk appetite, investment horizon, and goals.