Planning your investments for FY26? Here's what mutual fund experts recommend

By Surbhi Khanna, Published on 24th March 2025

With the new financial year about to begin and investors seeking investment opportunities, mutual fund experts recommend that investors in FY26 adopt a cautious, long-term approach due to the uncertainties ahead. Those with low-risk tolerance should focus on debt funds, while those who can manage volatility may consider equity as an asset class.

"Investors in FY26 should take a cautious, long-term approach due to uncertainties such as global trade policies affecting both global and domestic markets, improvements in economic and earnings growth. Changes in FPI sentiment," recommended Vishal Dhawan, CEO of Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

"Investors with low-risk tolerance and discomfort with volatility can focus more on debt investments, while those who can manage volatility and have a long-term investment horizon can consider equity as an asset class," he further added.

Another expert recommends that investors with a long-term horizon focus on an 80:20 ratio of equity to debt, those with a medium-term horizon opt for a 70:30 ratio. In contrast, those with a short-term horizon should consider 100% in debt.

"Investors in FY26 should focus on disciplined investing, aligning their portfolios with long-term goals and performing annual rebalancing when required. For first-time or new investors, the first step would be to figure out your goals and investment horizon. Understand your risk and return objectives, and then choose an appropriate asset allocation strategy that aligns with your risk and return appetite. A mix of equity and debt in the right proportions would be ideal, as they have low correlation with each other and provide portfolio diversification benefits," recommended Chethan Shenoy, Director and Head - Product & Research at Anand Rathi Wealth Limited.

"If one has a long investment horizon, an asset allocation of 80:20 in equity to debt would be suitable. For the medium term, it would be 70:30, and if one has a short investment horizon, 100% allocated to debt would be most appropriate. For existing investors, it is essential to revisit their asset allocation strategy. Market corrections may have caused misalignment, making rebalancing necessary. Investors should assess where to redirect funds to maintain the right balance while considering the he tax implications of exiting different investments," Shenoy added.

In the financial year 2025 so far, equity mutual fund categories have offered an average return of up to 17%. Pharma and healthcare funds lead the return chart with an average return of 17.43% in FY25 so far, followed by international funds, which offered a 10.77% return during the same period.

Mid-cap, small-cap, and large-cap funds offered single-digit average returns in FY25 so far. Mid-cap funds have provided an average return of around 8.56% during this period. In the same timeframe, small-cap funds gave an average return of 6.49%, and large-cap funds delivered an average return of 4.76%.

According to Shenoy, investors have multiple options when it comes to investing but should avoid thematic and sectoral categories due to their cyclical nature. For the debt side of the portfolio, FDs are suitable for investors in a low tax bracket, while for those in a higher tax bracket, arbitrage funds are the best options, he added.

"Investors have multiple options when looking to invest in equity and equity-like instruments. The best way would be through equity mutual funds. There are several funds from diversified categories within the actively managed space that you can invest in to help reach your investment goals. These include large-cap, large & mid-cap, mid-cap, small-cap, flexi-cap, and multi-cap funds. Investing in these will help you generate substantial alpha, provide diversification across different sectors, and ensure exposure to various market segments," Shenoy added.

On the other hand, Dhawan believes the recent correction has eliminated some froth from the market, but some categories are still trading at a premium. Large caps look like an attractive option, and investors should focus on the large-cap space, being selective while choosing a particular sector or company based on earnings visibility, which can range from 5% to 15%, with valuation comfort.

“Portfolio allocation will differ based on investors' risk profiles, but in general – aggressive investors can follow a growth asset allocation of 50% to 70%, and moderate-risk investors can consider a growth asset allocation of 40% to 50%. The remaining part of the allocation should go toward debt and precious metals to manage portfolio volatility,” Dhawan further recommends.

For investors confused between SIP or lump-sum investment modes, Dhawan recommends that investors who can manage high volatility opt for lump-sum investing in categories where valuations are reasonable. Individuals averse to volatility can start with SIPs and look to accelerate investments if valuations become attractive and macroeconomic uncertainties reduce.

“If you have funds readily available, it would be the perfect time to invest in the market through a lump sum, as the markets are recovering. If you have a stable income, an SIP would be recommended. You can also consider a step-up SIP of 10-15%, as your income is likely to increase every year, helping to beat inflation,” Shenoy recommended.

Commenting on the outlook for the next financial year, Dhawan warns investors to be prepared for high volatility in the first half, with the second half showing early signs of recovery. Additionally, following a disciplined asset allocation will be key.

“FY26 is likely to start with a lot of uncertainties, whether global ones like trade policies, inflation, and war, or domestic uncertainties such as economic growth, earnings estimates, and interest rate cuts. These uncertainties will bring their own ups and downs in the market, so investors should be prepared for high volatility,” Dhawan commented.

“Although India’s economy is structurally sound due to its low dependence on external demand, high uncertainty does create an impact. The current quarter is showing early signs of recovery, and if this continues in H1FY26, along with more clarity on global policies, we could see a shift in investor sentiment in the second half of FY26. Following a disciplined asset allocation will be key,” he further stated.

On the other hand, Shenoy mentions that the macro outlook for India looks positive, and we can expect the Nifty 50 to deliver a CAGR of 11-13% over the medium term, given the strong macroeconomic and earnings growth outlook. Hence, the markets are expected to recover soon.

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