

Mutual fund investing in 2026: Types of schemes that may do well

By Surbhi Khanna, Published on: January 01, 2026



As existing and new investors plan their equity strategy for 2026, the big challenge is not the lack of options but choosing the right mix. While no one can predict markets with certainty, experts believe certain categories may help to navigate volatility and deliver good returns. Here's how investors can approach equity mutual funds in 2026.

Sagar Shinde, VP Research at Fisdome shared with ETMutualFunds that for 2026, the core focus should remain on flexi-cap and large & mid-cap funds, as they offer the best balance between stability and growth while allowing fund managers to tilt toward domestic opportunities amid global uncertainty.

Shinde further added that large-cap funds continue to be relevant for earnings visibility and balance-sheet strength and new investors should primarily start with flexi-cap and large-cap categories, keeping portfolios simple, diversified, and resilient across market cycles.

Another expert, Vishal Dhawan, CEO of Plan Ahead Wealth Advisors, a wealth management firm in Mumbai told ETMutualFunds that experienced investors may wish to focus on a combination of index funds, flexi cap funds, multi cap funds and international funds , considering current valuations.

Dhawan added for international funds, they should consider investing in a gradual manner and new investors may wish to start with a combination of large cap oriented index funds and flexicap funds, considering the valuations on large caps are currently more attractive vis a vis mid cap and small cap funds.

Several mutual fund categories are considered riskier such as mid caps, small cap, international funds, sectoral and thematic funds. Market experts recommend such categories to investors who have high risk appetite and can take exposure in such riskier categories. Experts also cautions investors from entering the categories that have high valuations.

So by considering all factors such as risk appetite, valuations etc Dhawan recommends that equity investors need to be careful with mid cap and small cap funds, considering mid and small cap valuations continue to be at a significant premium to long term averages and they should also be careful about adding lump sums into international funds at this point, as valuations globally are also at a premium. "A blended style of investing may be best suited to investors going forward, considering that the switch between value and growth may not be easy for investors to get the timing right with," he added.

On the other hand, Shinde says that small-cap funds should be relatively underweighted, given stretched valuations and higher downside risk if earnings disappoint. He further adds that from a style perspective, blend and quality-growth strategies are better positioned for 2026 than pure growth or deep value, as markets are likely to reward consistency, cash flows, and reasonable valuations rather than aggressive multiple expansion.

Many sectoral and thematic mutual fund categories caught investors' attention in 2025 due to different reasons be that on a positive note or on negative note. Categories that caught attention were - consumption funds, auto sector funds, tech sector funds, and international funds.

International funds were in limelight due to their stellar performance over domestic funds; consumption funds caught investors' attention when the Finance Minister introduced GST 2.0 and even auto sector based funds came in limelight post this GST 2.0 and lastly, tech sector based funds were among the worst performers.

So, do sectoral or thematic funds make sense for 2026, or should investors stick to diversified categories? Shinde is of the opinion that sectoral and thematic funds should be used only tactically and in limited allocation, and not as core portfolio holdings.

He adds that the large part of the equity portfolio should remain allocated to diversified equity funds, which offer better risk-adjusted outcomes across cycles; any sectoral exposure should be selective, fundamentally driven, and reasonably valued and in 2026, investors should avoid narrative- or momentum-driven sector bets, as timing risk in sectoral strategies remains high.

Dhawan recommends that investors should largely remain focussed on diversified equity and index funds and experienced and aggressive investors can evaluate using sectoral or thematic funds in banking and financial services, consumption and technology such that the overall exposure to thematic and sectoral funds does not exceed 10-15% of the overall allocations.

Market experts have been recommending to proceed with stagger investments as the year 2025 was a volatile year. Shweta Rajani, Head - Mutual Funds, Anand Rathi Wealth Limited shared with ETMutualFunds that the right SIP strategy for 2026 is not about reacting to markets, but about structuring portfolios correctly and staying disciplined and new investors should begin by setting clear financial goals and starting SIPs in actively managed diversified categories.

She further added that for existing investors, this is the right time to review portfolios and not to stop SIPs, and should also check whether debt or gold allocations have drifted higher due to market movements, rebalance equity back to ideal levels, and consider SIP step ups; in long term investing, consistency and asset allocation decide outcomes far more than market timing

How should investors use SIPs across different equity categories in 2026? In response to this, Dhawan recommends investors should use equity investing largely through SIPs due to valuation excess that exist across most market segments at this point, and use sharp corrections as and when they happen, to top up exposures, either domestically or internationally.

Shinde recommends that SIPs should be anchored in diversified funds, with the highest allocation to flexi-cap and large-cap funds, followed by measured exposure to mid-caps. "SIPs can be used selectively in higher-volatility segments to smooth entry points, but allocations should remain disciplined, valuation-aware, and aligned with long-term asset allocation rather than short-term market narratives," he added.

One should always make investment decisions based on risk appetite, investment horizon, and goals.