



YOUR MONEY

CORRECTION IN IT FUNDS

Avoid hasty exit or aggressive buys on dips

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The Nifty Information Technology (IT) index fell 5.9 per cent on February 4, 2026, its biggest daily drop in nearly six years. Technology funds are down 5.3 per cent over the past week. Thirty-two funds belonging to this category manage ₹51,500 crore.

AI fears triggered selloff

In its fourth quarter (Q4 2025) earnings call on February 2, Palantir Technologies highlighted that one of its AI (artificial intelligence) offerings can compress the timeline for SAP ERP (enterprise resource planning) migration to SAP S/4 from multi-year projects to about two weeks in some cases. "That narrative triggered fear that a meaningful portion of IT services work could move away from global, including Indian, IT services companies," says Meeta Shetty, fund manager, Tata Asset Management.

Next, Anthropic announced new AI plug-ins or workplace automation tools for its Claude Co-work agent. It claimed that these tools can carry out end-to-

end tasks in areas such as legal work, sales and marketing, data analysis, and so on. Investors interpreted this as a direct threat to IT services' firms labour-intensive model. "With AI now able to perform tasks such as contract analysis and legal document processing, there is concern that IT service-providers' revenues could be affected," says Gautam Kalia, head-investment solutions and distribution, Mirae Asset Sharekhan.

Will tech spends move away?

A key reason for muted IT services growth is that the spending pool is shifting toward hardware and GenAI adoption on cloud or GenAI platforms.

"When a new technology emerges, some depletion of the existing revenue pool typically occurs," says Shetty.

Traditional service offerings tend to face disruption before newer revenue streams scale up meaningfully. "This transition phase is impacting visibility on growth and margins in the short term," says Manuj Jain, cofounder, Valuometrics, which

provides valuation insights to help market intermediaries carry out dynamic asset allocation.

The risk is perceived to be high this time because of the rapid pace of change.

Macro headwinds

Besides AI, several other factors are also weighing on the sector. "Post-Covid overspending has normalised. This has weighed on growth in 2024 and 2025," says Shetty. Wars and tariffs have created macroeconomic uncertainty. They have reinforced recession-related concerns and made corporates cautious about spending on IT.

What could drive a turnaround?

Experts say that it is not all gloom and doom for the IT sector yet. Historically, when a new technology has come up, new growth levers have emerged. "A new growth engine could again emerge for IT services and support their recovery," says Shetty.

"Companies that adopt and integrate AI advancements could emerge stronger," says Gautam Kalia, head-investment solutions and distribution, Mirae Asset Sharekhan.

Vishal Dhawan, founder and

Past decade has been rewarding

Tech funds' category average returns (%)

1-year	-9.1
3-year	9.8
5-year	9.9
10-year	17.6

3, 5 and 10-year returns are annualised
Source: pbc.in

chief executive officer (CEO), Plan Ahead Wealth Advisors adds that tech firms may also benefit from AI because it could make their own cost structures leaner.

Avoid knee-jerk reactions

Existing investors should neither exit these funds in haste nor add aggressively to their current allocation. Kalia suggests that they should monitor revenue guidance and changes in new client contracts from IT companies.

Overreaction to negative news must be avoided. "Many of these businesses are cash rich and can pivot to future growth areas," says Dhawan.

Should new investors enter?

Kalia suggests that new investors should wait until greater clarity emerges on the outlook for the IT sector. He is of the view that they should also avoid buying aggressively.

Dhawan suggests that new investors could build exposure gradually through systematic investment plans and systematic transfer plans (SIP/STP), but must avoid lump sum investments at this juncture to avoid timing risk. "A staggered approach can also help deal with rupee-dollar volatility," he adds.

The IT sector has a weight of about 8.4 per cent in the Indian equity market. Jain suggests that investors use this as a reference point when deciding whether to go underweight or overweight on the sector. He adds that maintaining allocation at around this level will help investors keep volatility in check. Dhawan adds that investors enter this sector with at least a five- to seven-year view.