Quote by Shravan Shetty, Managing Director, Primus Partners

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Are markets heading for Santa rally Analysts advise investors to exercise cautious optimism

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Article Content:

Santa Rally

Markets are currently buzzing in anticipation of what is popularly known as the 'Santa rally' in domestic stock markets. Analysts have listed out which are the key triggers markets should look forward to during the festive period, despite remaining divergent in their views about what to expect.

The 'Santa rally' refers to a sharp uptick in the stock markets around Christmas and New Year despite the absence of foreign institutional investors (FII). Indian benchmark indices closed in the deep green on December 22, but were almost flat in the morning trading hours of December 23.

How have stock markets performed in December so far?

Sensex gained more than 600 points (0.75 percent) to close at 85,567.48 on Monday. The benchmark index however slipped into the red with marginal losses on Tuesday. It was down 24.27 points (0.03 percent) at 85,545.73, as seen at 10.45 am. The index's overall returns in December so far are still negative.

Nifty 50 meanwhile rose 206 points (0.79 percent) to 26,172.40 on Monday. The index was trading almost flat in the green on Tuesday. It was up 6.30 points (0.02 percent) at 26,178.70.

'Selective, range-bound Santa Rally':

The possibility of a Santa Rally during the year-end cannot be ruled out, said Kunal Kamble, Senior Technical Research Analyst at Bonanza. He however noted that this rally may remain selective and range-bound rather than a sharp one-sided move.

“From a participation perspective, FII activity has moderated, with net open positions around –₹13,964 crore. Historically, December has been dominated by DII and retail participation, which generally carries a bullish bias due to year-end optimism and portfolio adjustments,” he added.

'Santa Rally dependent on India-US trade deal'

Shravan Shetty, Managing Director at Primus Partners said that the possibility of a Santa rally is primarily dependent on positive news, specifically in terms of the India-US trade deal. He noted that the current FII outflow has led to consolidation this year, after higher returns compared to global markets seen post COVID-19 era.

"The Nifty is close to the peak seen in September 2024, and hence we believe there would need to be an external trigger that will move markets outside of the band it’s been in for the past 18 months," he said.

India positioning itself for 'Grand slam' phase over medium term:

Harshal Dasani, Business Head at INVasset PMS, however said that the idea of a year-end ‘Santa Rally’ is more nuanced than a simple seasonal surge. “Globally, risk appetite is clearly supportive—several major equity markets are trading near or at all-time highs, monetary conditions are easing, and the RBI’s rate cuts have improved domestic liquidity and borrowing sentiment. Combined with recent tax relief measures and the festive season tailwinds, India has many ingredients in place for a strong cyclical upswing in consumption and corporate activity," he explained.

The broader setup suggests India is positioning itself for a potential "grand slam" phase over the medium term, Dasani said. He however cautioned that the near-term constraint remains sentiment rather than fundamentals.

"Markets appear to be consolidating and waiting for clarity on the India–US trade relationship, which has become a key overhang. Progress on this front is likely to take time, especially given India's calibrated strategic alignment with Beijing and Moscow, which complicates negotiations. As a result, while sharp, runaway gains during the festive year-end period cannot be ruled out, the more probable outcome is a measured move—where optimism builds gradually rather than explosively. A decisive breakout may require geopolitical and trade clarity, rather than just seasonal cheer," he added.

Only selective uptick ahead?

Siddharth Maurya, Founder & Managing Director at Vibhavangal Anukulakara did not agree to the idea of Indian markets seeing a sharp festive surge. He suggested that markets may see only a selective and modest uptick during this period.

"Liquidity tends to improve towards the year-end, and short-covering can support prices, but sustained gains will depend on global cues, FII flows and earnings visibility. In the current environment, any Santa Rally is likely to be stock-specific and range-bound, rather than a broad-based rally across benchmark indices," he said.

Technical outlook:

Kamble noted that Nifty has often seen a sharp correction around December 21 historically, and then saw stabilization. "In the current setup, such a sharp correction has not yet occurred. Instead, Nifty witnessed mild profit booking after making an all-time high, indicating healthy consolidation rather than distribution," he noted.

India VIX is currently trading near its lower support zone, indicating complacency, Kamble said, adding that such low volatility environment often precedes abrupt directional moves, making the near-term setup more favourable for option buyers.

"A mild Santa Rally bias can be maintained as long as key supports hold. The market is showing structural stability rather than aggressive momentum, suggesting controlled upside with intermittent consolidation," he concluded.

Explaining the technical side of the markets, Kamble said the Nifty 50 is clearly respecting the 25,720 level, where a window formation on the daily timeframe is visible.

This suggests that the market is likely to treat this zone as an important base in the near term.

“From a trend perspective, the bias remains positive as long as Nifty sustains above the near-term support at 25,995, followed by 25,720. On the upside, immediate resistance is placed near 26,330, and a move beyond this level could open the path toward 26,450,” he added.

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