



EQUITY MARKET

Cyclical and defensive stocks

Why some businesses swing with the economy and others move less, and what the labels do not tell you

Index figures up to 31 August 2026

For training and education only. Not investment advice.

Some businesses rise and fall with the economy. Others sell much the same amount in good years and bad.

The first kind is called cyclical and the second defensive. The labels describe how sales and profits tend to behave. They do not say that a share is safe.

Three terms



Business cycle

The economy does not grow at a steady pace. Periods of faster growth are followed by slower growth or a fall in output, and then recovery.



Cyclical business

Sells things people and companies can postpone: cars, homes, steel, cement, machinery, loans. Sales and profits move a lot with the cycle.



Defensive business

Sells things bought in most conditions: soap, packaged food, medicines, electricity. Sales move less with the cycle. Profits can still fall.

These are market labels, not legal categories. A company can sit between the two.

One index provider's grouping

MSCI sorts the eleven global sectors into two groups for its Cyclical and Defensive Sectors Indexes.

Group	Sectors placed in it	What they sell, in everyday terms
Cyclical	Consumer discretionary, financials, real estate, industrials, information technology, materials, communication services	Cars and appliances, loans, homes, machinery, software services, metals and cement, telecom and media
Defensive	Consumer staples, energy, health care, utilities	Daily household goods, fuel, medicines and hospitals, electricity and gas supply

Source: MSCI Cyclical and Defensive Sectors Indexes Methodology, November 2022, section 2.1. The everyday examples are ours.

Why profits swing more than sales

A FACTORY

Sales are ₹100 crore a year.

Materials and other costs that move with sales are half of sales.

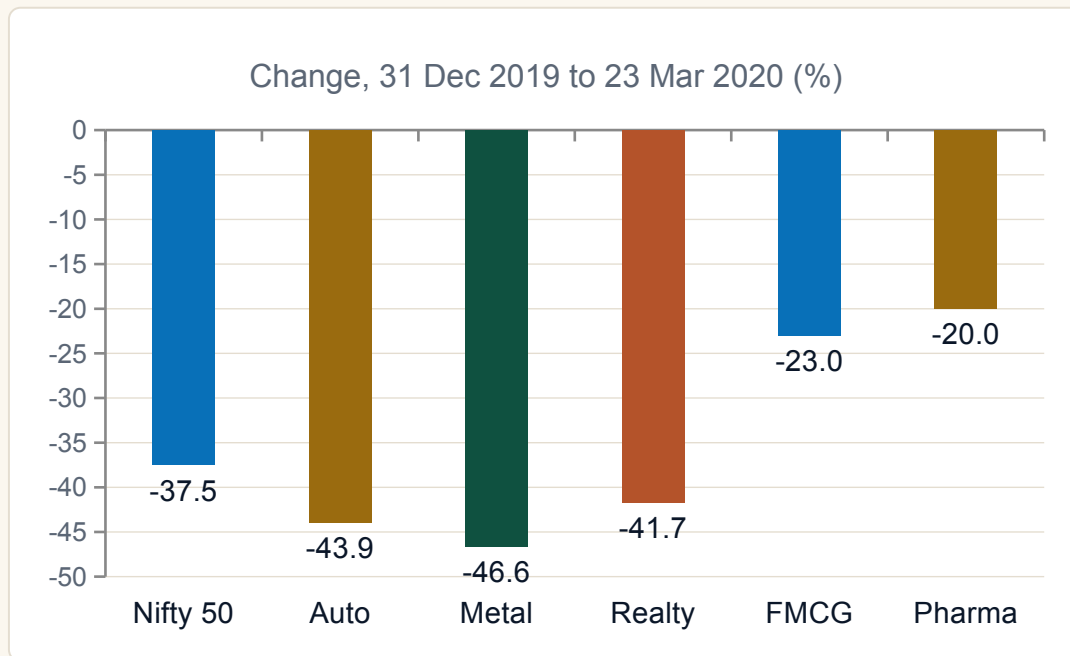
Rent, wages and interest are fixed at ₹30 crore whatever the sales.

- 1 Normal year: ₹100 crore – ₹50 crore – ₹30 crore = profit of ₹20 crore.
- 2 Slow year, sales fall 20% to ₹80 crore: ₹80 crore – ₹40 crore – ₹30 crore = ₹10 crore. Profit falls 50%.
- 3 Strong year, sales rise 20% to ₹120 crore: ₹120 crore – ₹60 crore – ₹30 crore = ₹30 crore. Profit rises 50%.
- 4 The fixed costs do not shrink when sales do. That is why a 20% change in sales became a 50% change in profit.

High fixed costs and postponable demand together make a cyclical business. Debt adds to the swing.

Illustration with an invented company and assumed figures. Not a forecast and not a view on any company.

One fall, measured: early 2020



Read the chart

- The Nifty 50 closed 37.5% lower on 23 March 2020 than on 31 December 2019.
- The NSE's auto, metal and realty indices fell more than the Nifty 50. Its FMCG and pharma indices fell less.
- All six fell. In this episode the defensive-labelled indices lost about a fifth of their level or more.

Source: NSE Indices daily index close files, 31 Dec 2019 and 23 Mar 2020. Price indices, without dividends. Past performance may or may not be sustained.

The same indices over three periods

Change in index level. The order is not the same in each period.

NSE index	31 Dec 2019 to 23 Mar 2020	23 Mar 2020 to 31 Dec 2021	31 Dec 2025 to 31 Aug 2026
Nifty 50	-37.5%	+128.0%	-7.8%
Nifty Auto	-43.9%	+136.4%	+2.3%
Nifty Metal	-46.6%	+269.0%	+18.1%
Nifty FMCG	-23.0%	+62.1%	-17.0%
Nifty Pharma	-20.0%	+121.1%	+19.6%

Source: NSE Indices daily index close files for the five dates. Price index levels, dividends not included. Past performance may or may not be sustained in future.

Where the economy stands

April to June 2026 compared with April to June 2025, at constant prices. Official first estimates.

REAL GDP GROWTH

7.8%

Up from 6.9% in the same quarter a year earlier.

HOUSEHOLD SPENDING

7.1%

Growth in private final consumption expenditure.

INVESTMENT

11.9%

Growth in gross fixed capital formation: factories, machines, buildings, roads.

Source: MoSPI press note, Quarterly Estimates of GDP for Q1 (April-June) of 2026-27, 31 August 2026 (base year 2022-23).

Where a fund investor meets this



Sectoral fund

Keeps at least 80% of its assets in shares of one named sector. Its results follow that sector's cycle closely.



Thematic fund

Keeps at least 80% in shares that fit one named theme, which may span a few sectors. It is still concentrated.



Diversified fund

Other equity categories, such as flexi cap or large cap, usually hold shares from many sectors, cyclical and defensive together.

A fund's fact sheet lists its sector weights. Read them before describing a fund to a client.

Source: SEBI Master Circular for Mutual Funds, 20 March 2026, paragraph 3.8.1 (equity scheme categories).

Four things people get wrong



'Defensive means safe.'

Defensive-labelled indices fell about 20% or more in early 2020. In Jan to Aug 2026 the FMCG index fell more than the Nifty 50.



'Cyclical means a weak company.'

The label is about how demand behaves, not about how well a business is run. Well-run companies exist in both groups.



'Just buy at the bottom of the cycle.'

Official growth figures arrive about two months after a quarter ends, and are revised. Turning points are clear only afterwards.



'The sector label fits every company.'

Two companies in one sector can differ in debt, costs and customers. A sector index is an average of many.

Sources: NSE Indices daily index close files (slides 6 and 7); MoSPI GDP press note, 31 August 2026 (slide 8).

Explaining it to a client

1

Start with the product

Can the buyer put the purchase off for a year? If yes, the business leans cyclical.

2

Then the costs

High fixed costs and high debt make profits swing more than sales.

3

Say what the label is

A description of past tendency. Not a rule, not a rating and not a promise about the share price.

4

Bring it back to the fund

Show the sector weights in the fund's fact sheet and its riskometer. Returns are not assured in any sector.

We explain what a fund holds and how such businesses behave. We do not pick sectors for a client.

Check yourself

Q1

A company has sales of ₹200 crore, costs that move with sales of 60% of sales, and fixed costs of ₹60 crore. Sales fall 10%. By how much does profit fall?

Q2

Between 31 December 2025 and 31 August 2026 the Nifty 50 fell 7.8% and the Nifty FMCG index fell 17.0%. What does this say about the word 'defensive'?

Q3

A client says: 'Growth is strong, so a fund that holds only one cyclical sector is the right choice now.' How do you respond?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- NSE Indices daily index close files for 31 Dec 2019, 23 Mar 2020, 31 Dec 2021, 31 Dec 2025 and 31 Aug 2026. Changes computed from closing levels.
- MSCI Cyclical and Defensive Sectors Indexes Methodology, November 2022 (grouping of sectors).
- MoSPI press note on Quarterly Estimates of GDP for Q1 of 2026-27, 31 August 2026.
- SEBI Master Circular for Mutual Funds, 20 March 2026, paragraph 3.8.1 (sectoral and thematic funds).
- The factory example and the quiz company are invented. They do not refer to any real company.

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