

Eight Weeks Down, Not Much Damage: *What the Data Says About This Market*

Indian equities have had a tough stretch. The Nifty 50 TRI is down 12.7% so far this year and 7.1% over one year. Over five years it has delivered just 6.5% a year.

"Earnings kept climbing while the index stood still, and that gap is what we look at this month."

OPENING NOTE · OCTOBER 2026

8	−12.7%	6.5%	19.26x	−\$56.2bn	32,297
Straight weekly losses for the Nifty. Only the third such streak since 1990.	Nifty 50 TRI so far in 2026, and −7.1% over one year.	Nifty 50 TRI a year over five years. Sensex EPS grew 12.9% a year.	Nifty trailing P/E, below its 20.9x full-history median.	Rolling 24-month FII outflow, the worst since 2012.	₹ crore of SIP flows in August 2026, up from 28,265 a year earlier.

◆ THIS MONTH'S THESIS

Prices have gone nowhere for five years. Earnings have not.

Over the same five years in which the Nifty delivered 6.5% a year, the Sensex's earnings per share grew at 12.9% a year. This month we look at how unusual the current losing streak is, where valuations now sit, how differently large caps and small and mid caps are priced, and who is doing the buying and selling. None of it tells us when conditions will change. It does show how stretched the two ends of this market are.

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A Rare Losing Streak, *With Limited Damage*

The Nifty has closed lower for 8 straight weeks. This has happened only twice before since 1990: ten weeks in 1993 and nine in 2001. The difference this time is how little ground has been lost.

NIFTY DRAWDOWN AT WEEK EIGHT

1993 streak		-16.4%
2001 streak		-18.9%
2026 streak		-8.1%

Cumulative fall in the Nifty by the eighth consecutive negative week, in the only three such streaks since 1990.

THE STREAK IN CONTEXT

Monthly closes. Four consecutive negative monthly closes ended in March 2026. That streak cost 14.8%, against a median of about 26% across the seven historical episodes.

Below the 200-day average. The Nifty has spent 145 trading days below its 200-day moving average, the 8th longest such phase on record. At its deepest it was 11.5% below.

No bear market. The index has not fallen 20% from its September 2024 peak.

"We see this as a time correction rather than a price crash. Prices have moved sideways while earnings, dividends and book values keep building."

A RARE LOSING STREAK · OCTOBER 2026

02 · VALUATIONS ARE BACK TO NORMAL

MEASURE	NOW	REFERENCE
Nifty 50 trailing P/E	19.26x	20.9x full-history median
Nifty 50 trailing P/B	2.75x	3.5x full-history median
Nifty 1-year forward P/E	17.0x	18.9x ten-year average
Sensex forward P/E	17.1x	17.7x long-term avg, 20.7x since 2014
Sensex trailing P/E	19.7x	23.8x a year ago

Cheaper, while earning *more*

A year ago the Sensex traded at 23.8 times earnings. Today it is 19.7 times, even though earnings per share rose from 3,369 to 3,679.

Every measure in the table sits at or below its own reference level. The de-rating has come from prices standing still, not from profits falling.

The *Base Rate* Argument

We looked at what followed each level of trailing five-year returns. Large caps are now near the bottom decile of their 5-year rolling returns. Starting from this zone, the next five years have historically averaged around 15% a year.

BOTTOM DECILE START

4.2% past, 15.5% next

Large caps that began with a bottom-decile five years (4.2% a year) went on to return 15.5% a year.

TOP DECILE START

26.1% past, 10.1% next

Those that began at the top decile (26.1% a year) returned 10.1% a year over the following five.

ACROSS ALL THREE INDICES

A negative relationship

In the Nifty 100, Midcap 150 and Smallcap 250, past five-year and next five-year returns have moved in opposite directions.

This is history, not a forecast. There is no sure way to time it.

04 · A MARKET SPLIT IN TWO

Small and mid caps and large caps are priced very differently right now.

LAST YEAR, ₹100 BECAME



Nifty Midcap 150 trades at 27.6x earnings and Nifty Smallcap 250 at 33x.

"At these levels, SMIDs need strong earnings delivery to justify their prices, while large caps need only some normalisation of today's wide gap."

A MARKET SPLIT IN TWO · OCTOBER 2026

Valuation gap. SMID stocks trade at a 37.5% premium to large caps on forward P/E. The long-term average is roughly zero.

Market cap share. Small and mid caps are 43.7% of total market cap, against 38.2% on the five-year average. Large caps are 56.3%, below their 64.0% average.

Relative price. The SmallCap/Sensex and MidCap/Sensex ratios sit about 72% and 56% above their historical medians.

Earlier peaks. After the relative peaks of 2007, 2010 and 2017, the median 24-month relative decline was roughly 30% for small caps and 21% for mid caps.

Quality at *No Premium*

Defensives (IT, private banks, staples) now trade at roughly the same forward P/E as cyclicals, a premium of -2%. The long-term average premium is about 70%. The last comparable extreme was around 2007.

SECTOR RETURNS · 2026 SO FAR

Defence		+20.6%
Metal		+14.5%
Healthcare		+11.0%
Capital Markets		+10.5%
Private Banks		-6.7%
Financial Svcs		-10.1%
FMCG		-16.6%
IT		-26.4%

Nifty sector indices. Bar length shows size of move.

WHY THE GAP MATTERS

Much of cyclicals' recent earnings strength has come from margin expansion, and cyclical margins rarely stay at peak levels.

Measured against their own return history, IT, Private Banks, FMCG, Financial Services, Chemicals and Cement sit near the bottom. CPSE, PSU Banks, Telecom and Capital Goods still rank above theirs.

"Defensives trade at a 2% discount to cyclicals. The long-term norm is a 70% premium."

QUALITY AT NO PREMIUM

06 · INDIA VERSUS EMERGING MARKETS

JUL 2025 TO SEP 2026 · USD TERMS



Since 2006, no earlier 6 to 24 month window saw EM rise 20% or more while the Nifty fell in dollar terms.

A shrinking weight. India's weight in MSCI Emerging Markets has dropped to 10.7% from a peak near 20%. India's share of world market cap is 3.0%, down from 4.6%.

Where the money went. Over the past year, Taiwan returned 77.6% and Korea 107.0% in dollar terms, driven by the hardware and AI trade. India (Nifty 500) returned -10.3%.

Korea		+107.0%
Taiwan		+77.6%
India		-10.3%

Who Is Selling, *Who Is Buying*

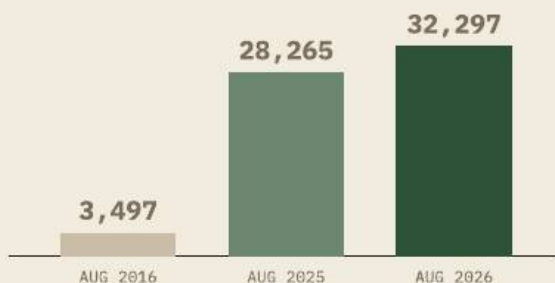
Foreign investors have pulled back harder than at any point since 2012. Domestic institutions and monthly SIPs have more than taken their place.

OWNERSHIP OF LISTED INDIAN EQUITIES



FII ownership is at a decadal low. Domestic institutions now own more than foreign ones.

MONTHLY SIP FLOWS · ₹ CRORE



Source: AMFI.

FIIs. Rolling 24-month FII outflow is -\$56.2 billion, the worst since 2012. FII flows are -\$27.3 billion in 2026 so far. FII ownership of listed Indian equities is 15.6%, a decadal low.

DIIs. Domestic institutions have put in \$67.8 billion this year and now own 19.8%, more than FIIs.

At the margin. The last three months saw +\$3.7 billion of FII inflow, and 9 of 16 major sectors had positive three-month flows.

Domestic investors. Monthly SIP flows reached ₹32,297 crore in August 2026, up from ₹28,265 crore a year earlier and ₹3,497 crore in August 2016. Active equity and hybrid funds took in ₹4.74 lakh crore of net flows over twelve months.

08 · THE MACRO BACKDROP

INDICATOR	LATEST	REFERENCE
India 10-year G-Sec	7.2%	6.8% three months ago
US 10-year	5.3%	4.5% three months ago
Rupee per US dollar	96.05	89.77 at end 2025
Brent crude	\$104	\$61 at end 2025 (+70.1%)
Gold (INR)	1,47,613	+11.3% this year
Zinc	434	+40.1% this year
Silver	2,21,110	-3.6% this year

Three *headwinds* at once

Higher oil, a weaker rupee and rising bond yields are part of why Indian equities have struggled. Brent is up 70.1% since the end of 2025, the rupee has moved from 89.77 to 96.05 per dollar, and both India and US 10-year yields are higher than three months ago.

Cycles *Do Turn*

INDUSTRIES

19 of 25 recovered

Among the 25 largest Indian industries, 19 went back to growing faster than nominal GDP within five years of their weakest growth period.

DEFENSIVES

Smoother, not flat

Over the long run, FMCG returns have moved in a 23.1 percentage point range around the mean, against 56.2 points for Metals.

FACTORS

Leadership rotates

Value, momentum, quality and alpha factors have each taken turns at the top of calendar-year returns since 2006.

10 · DIVERSIFICATION, IN NUMBERS

Healthcare · *low correlation*

BSE HC TRI has compounded at 15.95% a year since August 2004, against 14.98% for the Nifty 500 TRI. Its three-year rolling correlation with the broad market is 0.32. In 2008 it fell 33% while the broad market fell 57%.

Multi-asset · *an illustration*

A mix of 25% equity, 45% short-term bonds, 25% gold and 5% US equity returned 11.2% a year from FY2011 to date, with gold cushioning several years in which Indian equities fell. This is an illustration only.

THE TAKEAWAY

Prices have gone nowhere for five years, but earnings have not. Large caps look cheaper against their own history, small and mid caps look more expensive than they have in two decades, and foreign investors have pulled back sharply while Indian SIP money keeps coming in.

"None of this tells us when conditions will change. It does show how stretched the two ends of this market are."

THE TAKEAWAY · OCTOBER 2026

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