

Panam – October 2026 - Newsletter

THE PATIENT INVESTOR'S WINDOW: WHY NOW IS THE TIME TO INVEST

THE OPPORTUNITY LEDGER

Most investors wait for a market to feel comfortable before they commit capital. History suggests that is usually the most expensive time to invest. The best entry points rarely announce themselves with a crash and a headline; more often they arrive quietly, after a long and frustrating stretch in which prices go nowhere while businesses keep growing underneath. **We believe Indian equities, and large caps in particular, are in exactly such a stretch today.**

The Nifty has fallen for eight consecutive weeks to end September 2026, following four straight negative months that ended in March. It has spent 145 trading days below its 200-day moving average. Yet through all of this, the total damage has been remarkably small, corporate balance sheets remain clean and earnings continue to compound. The outcome is a market that has corrected more through *time* than through *price* – and in doing so has handed patient investors one of the more attractive starting points of the past decade.

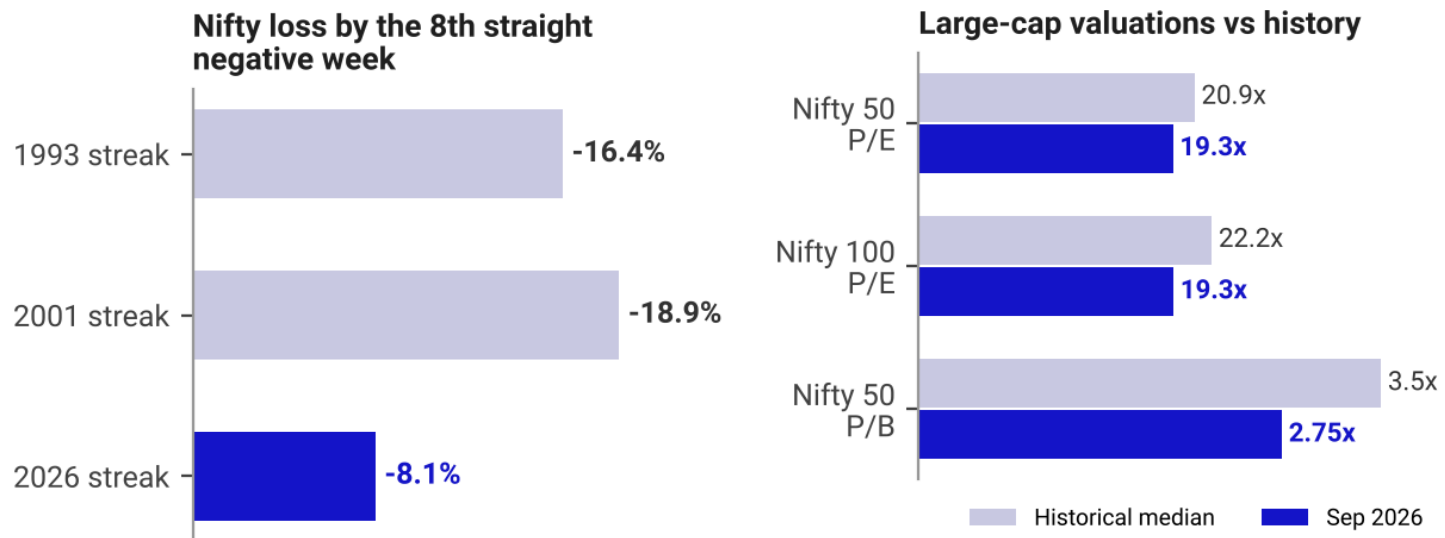
THE OPPORTUNITY AT A GLANCE		
~15% p.a. Average 5-year return that historically followed today's level of weak large-cap returns	<19x Nifty trailing P/E vs 20.9x full-history median	-2% Defensives' premium to cyclicals vs ~70% long-term average

1. The Market Has Done the Hard Work Through Time

This has been one of the most benign "bear markets" on record – if it can even be called one. The Nifty has not fallen 20% from its September 2024 peak. Instead, it has moved within a broad 22,000–24,000 range while earnings, dividends and book values continued to accrete. Each month that prices stand still while profits grow, valuations get cheaper on their own. That is a classic time correction.

The streak data make the point vividly. Since 1990, eight straight negative weeks have happened only three times. In the previous two episodes (1993 and 2001), the Nifty had already lost 16.4% and 18.9% by the eighth week; this time it has lost just 8.1%. Likewise, the December 2025 to March 2026 run of four negative months cost only 14.8%, against a median of about 26% across

the seven historical episodes. **The sequence is extreme, but the damage is ordinary** — the hallmark of a market that is oversold rather than broken.



The current phase is now the 8th-longest stretch below the 200-day average in the Nifty's history, and on its current trajectory it could soon enter the top five. Notably, earlier long stretches — ending in 2009, 2012 and 2016 — went on to become rewarding entry points for investors who stayed the course. The longer this consolidation continues without a deep drawdown, the better the odds of earning median or better long-term returns from here.

2. History's Message: Weak Past Returns Have Led to Strong Future Returns

Five years is a blink in market history, but a long time for an investor. Few have the patience to sit through long stretches of flat returns — yet it is precisely those stretches that create the conditions for the next leg of compounding. The reason is simple: when prices go sideways while company profits keep growing, the market becomes cheaper, and the next five years start from a lower base.

To test this, DSP studied the full history of the Nifty 100 (India's top 100 companies) and asked a straightforward question: **if an investor had bought at any point in the past, how did the return of the previous five years compare with the return of the following five years?**

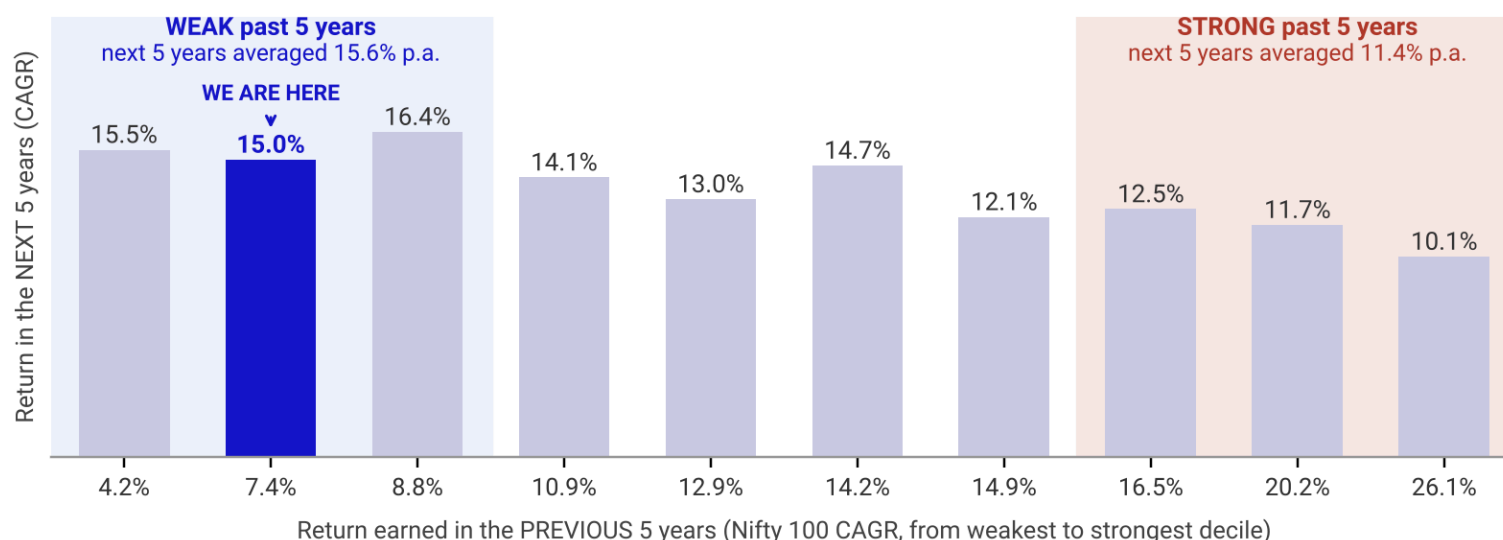
How to read the chart below

- **Step 1 – Look back.** For every month in history, we note the annual return (CAGR) investors had earned over the previous five years.
- **Step 2 – Sort into 10 groups.** These months are ranked from weakest to strongest and split into ten equal groups called deciles. Group 1 is the 10% of months with the poorest past returns; group 10 is the 10% with the best. The figure under each bar is the typical past 5-year return for that group.

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- **Step 3 – Look forward.** For each group, we measure the average annual return the Nifty 100 actually delivered over the next five years. That is the height of each bar.
- **Where are we today?** As of September 2026, the Nifty 100's 5-year return is only about 7–8% a year, which places it in **group 2**. Historically, investing from group 2 was followed by an average of **about 15% a year** over the next five years.

Nifty 100: what the next 5 years delivered, depending on how good the previous 5 years were



Source: NSE, Bloomberg, DSP. Data as of 25 September 2026. Bars show the average CAGR over the subsequent five years for each starting decile; individual outcomes within each decile varied.

The pattern is clear. When the previous five years were weak (3 bars from left groups 1–3), the next five years delivered an average of **15.6% a year**. When the previous five years were spectacular (3 bars from right groups 8–10), the next five years averaged only **11.4% a year**, and the very best starting point — a past return of 26.1% — was followed by the weakest future return of just 10.1%. In other words, **buying after the market has disappointed has historically paid better than buying after it has excelled**.

To put this in rupee terms: purely as an illustration, ₹10 lakh compounding at 15% a year for five years grows to about ₹20.1 lakh, while the same amount at 10.1% grows to about ₹16.2 lakh — a difference of nearly ₹4 lakh driven largely by *when* the money was put to work.

The same relationship holds across all three segments of the market:

Index	Weakest- past 5Y return	Next 5Y return (avg.)	Strongest - past 5Y return	Next 5Y return (avg.)	Advantage of buying when weak
Nifty 100 (Large caps)	4.2%	15.5%	26.1%	10.1%	5.5 % points a year
Nifty Midcap 150	2.4%	24.1%	24.4%	13.6%	10.5 % points a year
Nifty Smallcap 250	-2.2%	25.2%	23.9%	8.6%	16.6 % points a year

Why does this matter now? Today it is **large caps that sit closest to their historical lows** – firmly in the "weak past returns" zone where future returns have historically been strongest. Midcaps and smallcaps, after an exceptional run, have only just eased back to around the middle of their own history, so the same tailwind is not yet on their side. That is why we see the most compelling opportunity in large caps today.

3. Valuations: Large Caps Are the Most Attractive in Over a Decade

Returns ultimately come from two sources: what businesses earn and what investors are willing to pay for those earnings. On the second count, large caps have quietly become good value. On Q2FY27 numbers, the Nifty 50 trades at about 19.3x trailing earnings against a full-history median of 20.9x, and at 2.75x book against a median of 3.5x. The Nifty 100 trades about 12% below its 5-year median P/E. **Barring the brief COVID crash, large caps have not been this attractive in more than ten years.**

Large-cap metric (Sep 2026)	Current	Historical reference	What it signals
Nifty 50 trailing P/E	19.26x	20.9x median	Fair to cheap
Nifty 50 trailing P/B	2.75x	3.5x median	Below median
Nifty P/B relative to Midcaps	-34%	All-time low zone	Deep large-cap discount
India P/B premium to EM	~30%	~75% long-term avg	Premium largely compressed

4. Quality Is on Sale – At No Premium

Perhaps the rarest opportunity in today's market is in high-quality, high-ROE businesses. IT, private banks and consumer staples have historically commanded a forward P/E premium of around 70%

over cyclicals such as metals, power, PSU banks and industrials – and as much as 120% in 2019. That premium has now vanished entirely; defensive trade at roughly -2% to cyclicals. The last comparable extreme was during the 2007 capex boom, which was followed by a powerful rotation back into quality.

The performance of NSE's own quality indices shows how far this has gone. The **Nifty200 Quality 30** – the 30 companies with the highest return on equity, lowest debt and most stable earnings among India's top 200 – has delivered a total return of just **6.4% a year over the last five years**, against **16.6% a year since its launch in 2005**. In other words, investors in India's highest-quality businesses have earned well under half their long-run return over the past five years, and the index is down about 10% so far in 2026.

Index (total return)	1 year	5 years (CAGR)	Since inception (CAGR)
Nifty200 Quality 30	-5.4%	6.4%	16.6%
Nifty100 Quality 30	-3.2%	7.3%	12.0%
Nifty 100 (broad large caps)	-5.2%	7.1%	15.8%

Source: NSE Indices factsheets, data as of 30 September 2026. Total return includes dividends. Inception: Nifty200 Quality 30 – Apr 2005; Nifty 100 – Jan 2003. Past performance is not indicative of future returns.

The weakness is concentrated in the quality heavyweights. IT and FMCG – together nearly half of the Nifty200 Quality 30 – have both delivered *negative* returns over the last three years, against historical medians of roughly 14–16% a year. Their profit margins have stayed remarkably stable; what has fallen is the price investors are willing to pay for them. That is exactly the gap a patient investor can capture.

Slow phases do not last forever. Of India's 25 largest industries, **19 were back to growing faster than nominal GDP within five years** of their weakest growth period. Buying durable earnings at no premium is the kind of trade-off long-term investors should welcome.

5. India vs Emerging Markets: A Rare Gap Set to Close

Between July 2025 and September 2026, MSCI EM rose 39.3% in US-dollar terms while the Nifty fell 14.6% – a 53.9-percentage-point gap. In the available history since 2006, there had never before been a 6- to 24-month window in which EMs rose 20% or more while Indian equities fell in dollar terms. Much of the EM rally has been driven by the AI-hardware earnings boom in North Asia, which now sits on a very high base.

India still offers a higher return on equity than almost every other emerging market, yet its valuation premium has shrunk from a long-term average of about 75% to roughly 30%. Previous

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episodes in which India's relative return turned this weak – 2007 and 2019 – became turning points from which India resumed multi-year outperformance.

Foreign flows reinforce the setup. Rolling 24-month FII outflows of about \$56 billion are the worst in the dataset since 2012, roughly 3.3 standard deviations below normal – a level that historically signals capitulation. Importantly, the margin is already turning: the last three months saw net inflows of about \$3.7 billion, and nine of the 16 major sectors received positive flows over that period. When the most pessimistic sellers have already sold, the path of least resistance changes.

WHY THE TIDE MAY BE TURNING		
-53.9 ppts India's return gap vs MSCI EM since Jul-2025 – unprecedented	3.3 SD Rolling 24M FII outflow below its historical mean	+\$3.7bn Net FII inflows in the last three months

6. How We Suggest You Invest Now

Our message is not that every corner of the market is cheap – it is that the opportunity is concentrated and clear. Small and midcaps still trade at their highest relative levels versus large caps in over two decades, with the SmallCap/Sensex and MidCap/Sensex ratios around 72% and 56% above their historical medians. Large caps, by contrast, need only a modest normalisation of today's unusually wide gap to deliver. We therefore recommend a disciplined, staged approach:

Allocation	Our suggested approach
Large caps – Increase	Deploy fresh capital meaningfully into large-cap and quality-focused strategies. Valuations sit below historical medians and trailing returns are near the bottom decile – historically a strong starting point.
Quality sectors – Overweight	IT, Private Banks, Pharma, Cement, Chemicals and selective Consumer names, where valuations and earnings expectations are already low and stable cash flows offer a margin of safety.
Small & Midcaps – Continue via SIP	Stay invested through SIPs or with experienced managers who have seen full cycles, rather than through large lump sums at today's elevated relative valuations.
Deployment – Stagger	For lump sums, consider phasing investments over the next two to three quarters. This captures today's attractive entry levels while managing near-term volatility around Q2FY27 margins and global yields.

Also rallies in a narrow set of hot themes tempt investors to keep adding to recent winners until a small bet quietly takes over the whole portfolio. Sound asset allocation is what protects long-term wealth from that kind of FOMO. Rebalancing today – trimming what has run ahead and adding to what has been left behind – is exactly what disciplined allocation asks of us.

7. Closing Perspective: Opportunity Rarely Feels Comfortable

Markets reward patience and punish extrapolation. The investors who did best after 2009, 2012 and 2016 were not those who waited for the headlines to improve; they were those who recognised that time, earnings growth and falling valuations had already done much of the work. The same ingredients are present today: oversold price readings, below-median large-cap valuations, quality businesses at no premium, India at a rare discount to EMs, and foreign selling at an extreme that is already beginning to reverse.

We cannot predict the exact month the market turns, and there will be volatility along the way. Upside surprises in global AI spending, a further rise in real yields or a delayed margin squeeze could prolong the consolidation. But for investors with a three-to-five-year horizon, the balance of probabilities has clearly shifted in their favour. **Waiting for certainty usually means paying a higher price for it.**

Ready to put this opportunity to work?

Speak to your Harmony relationship manager to review your current allocation, identify gaps in large-cap and quality exposure, and design a staged investment plan suited to your goals and risk profile.

Sources: DSP Mutual Fund – NETRA "Early Signals Through Charts" (October 2026), NSE, BSE, Bloomberg, MSCI, DSP ARQ and Nuvama Institutional Equities research. Market data as of 25–30 September 2026 and subject to revision. Historical returns, base rates and the rupee example are shown for illustration only; past performance may or may not be sustained in future and is not a guarantee of future returns. This newsletter distils third-party research for Harmony's clients and does not constitute investment advice or an offer to buy or sell any security. Investments in securities markets are subject to market risks; please read all related documents carefully and consult your relationship manager before acting on any views expressed here.