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A Correction Without Capitulation

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Still Waiting for the Panic Bottom

The Nifty 50 has fallen nearly 10% in last eight weeks and valuations look comfortable, but the volatility spike and broad-market capitulation that usually mark a durable bottom have not yet arrived.

01

Fear has not peaked. India VIX has stayed in a subdued 10–15 range even as the Nifty 50 retraced much of its post March recovery. The last two panic lows, in the September 2024 correction and in March 2026, came with VIX readings of 26–30.

02

The broader market has not capitulated. Mid- and small cap indices remain ~15–25% above their March 2026 lows and still draw nearly 50% of monthly SIP inflows. Past bottoms have come with disproportionate selling in these segments.

03

The trendline has broken. The Nifty 50's discount to its long term trendline breached the –0.75 standard deviation threshold in October, at around –14%. Comparable breaches in 2000, 2008 and 2020 saw the discount widen to 30–40%.

The Setup

Indian markets are showing patterns reminiscent of the first half of 2008. Nearly every major asset class posted negative returns in Q2 FY27, and the Nifty 50 has fallen nearly 10% in last eight weeks. At 19–20x earnings, valuations look comfortable, and investor appetite remains strong, with equity mutual fund inflows up ~31% month-on-month to over ₹38,000 crore in September.

But durable bottoms have usually needed two things: a sharp spike in volatility and pronounced capitulation in the broader market. Neither has appeared yet. At the same time, six months of negligible returns have pushed the Nifty 50's discount to its long-term trendline beyond the –0.75 standard deviation threshold for the first time since 2020.

Globally, US equities are scaling fresh highs despite elevated yields, while US CPI at 3.7% and Indian CPI at 5.4% limit the room for rate cuts. For India, crude at US\$90–105 adds further pressure. Until volatility resets or breadth stabilises, the risk of further downside remains material, and portfolios should prioritise downside protection over bottom-fishing.

Entry Point or Deeper Weakness

With nearly all major asset classes—including gold, bonds and equities—posting negative returns in Q2 FY27, Indian financial markets are increasingly exhibiting patterns reminiscent of the first half of 2008. The Nifty 50 has declined nearly 10% over the past eight weeks, prompting investors to reassess whether the correction presents an attractive entry point or signals deeper market weakness.

At current levels, the Nifty 50's valuation of around 19–20x earnings may appear compelling, particularly given the sharp rebounds witnessed from these valuation levels in April 2025 and April 2026. This valuation comfort, coupled with investors' continued appetite for equities, suggests that market optimism remains relatively resilient despite subdued returns. Equity mutual fund inflows surged nearly 31% month-on-month to over ₹38,000 crore in September 2026, while systematic investment plan (SIP) contributions remained steady at approximately ₹32,000 crore. Notably, mid-cap and small-cap funds accounted for nearly half of monthly SIP contributions, highlighting investors' continued willingness to maintain exposure to higher-beta segments despite deteriorating market conditions.

However, the India VIX suggests that the worst may not yet be behind us and that markets could still be some distance away from a definitive panic bottom. Historically, sharp market declines have often culminated in a capitulation phase, when fear peaks, forced selling intensifies and risk appetite reaches an extreme low. Such episodes can create the conditions for sharp, often frenetic recoveries—but identifying the precise turning point remains challenging.

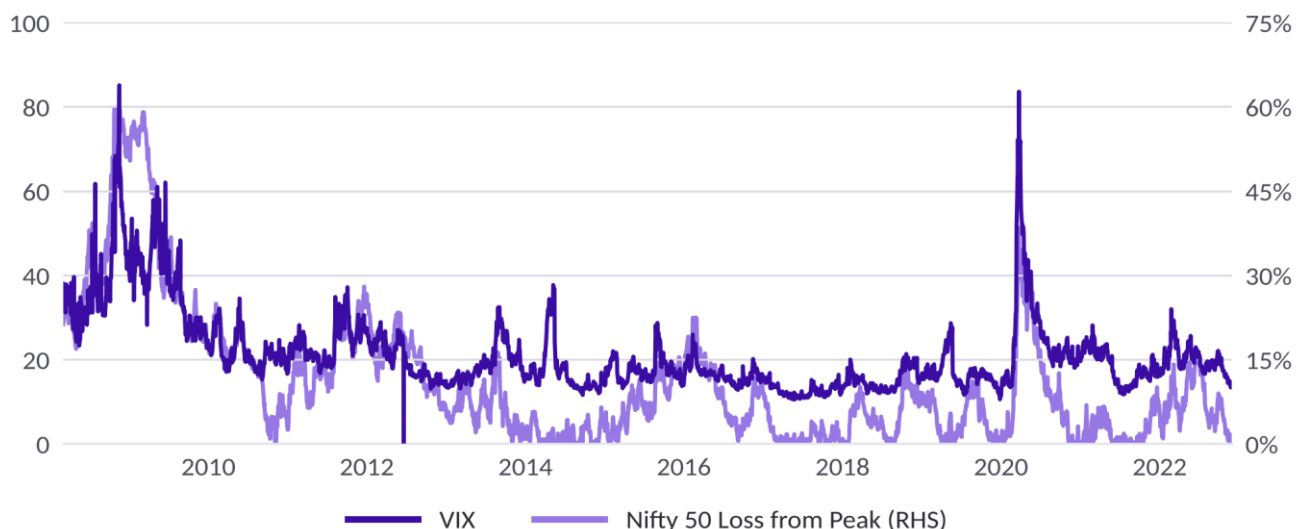
What VIX Spikes Say About Market Bottoms

Elevated India VIX readings reflect heightened uncertainty and can coincide with deteriorating liquidity, leaving equities vulnerable to outsized moves in either direction. When the VIX rises above 20, even a modest positive trigger can spark a sharp relief rally, potentially setting off short covering and attracting momentum-driven investors fearful of missing the rebound (FOMO). If these flows sustain the recovery, improving sentiment and fresh liquidity can gradually compress volatility towards its more normal range of 10–17 over the following weeks or months, providing a more supportive backdrop for equities.

A historical review of Indian markets between 2008 and 2022 suggests that panic bottoms during major bear markets and corrections have often coincided with sharp spikes in India VIX. Periods of significant market stress, characterised by declines of 20% or more in bear markets and around 10% in corrections, have frequently witnessed volatility surging above 25, reflecting heightened investor fear and aggressive deleveraging.

The 2008 global financial crisis and the 2020 COVID-19 crash provide particularly striking examples, with India VIX spiking to exceptionally elevated levels of around 70–80 near periods of extreme market stress. Similar, albeit less dramatic, patterns emerged during market corrections in 2011, 2015, 2018, 2019 and 2022, when volatility spikes above 25 accompanied episodes of heightened uncertainty and preceded subsequent market recoveries towards new highs.

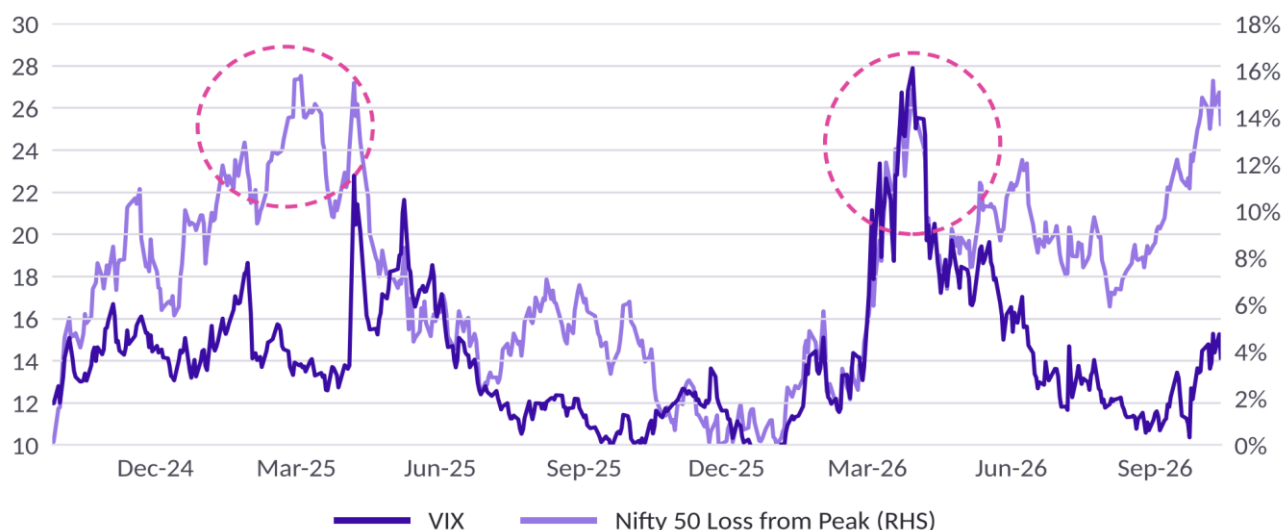
India VIX and Nifty 50 Drawdowns



Source: NSE | Ametra Research

The market correction that began in September 2024 offers an instructive example of how volatility spikes can coincide with capitulation and subsequent recoveries. After nearly six months of persistent weakness and repeated attempts to find a bottom, the Nifty 50 eventually touched a panic low of around 21,800, representing a correction of approximately 17–18%. This phase coincided with an intraday India VIX spike to 27–28, signalling heightened investor anxiety and a potential capitulation point. What followed was a sharp rebound, with the Nifty 50 recovering nearly 15% within approximately 30 trading sessions. As volatility subsequently cooled to the 10–12 range by early 2026, the index recovered its previous losses and went on to register a fresh high in February 2026. A similar pattern emerged in March 2026, when the Nifty 50 touched lows of around 22,200 amid India VIX readings of 26–30, setting the stage for a strong recovery of nearly 10% in April.

India VIX and Nifty 50 Drawdowns



Source: NSE | Ametra Research

No Spike in Fear, No Capitulation Yet

The current correction, however, presents a contrasting picture. Over the past 10 weeks, the Nifty 50 has retraced much of its recovery since March 2026, yet India VIX has remained largely subdued in the 10–15 range. The absence of a meaningful volatility spike, despite the sharp deterioration in prices, suggests that a full-blown capitulation phase may not have played out yet. If historical patterns hold, the lack of a decisive spike in investor fear raises the possibility of further downside before a more durable market bottom emerges. While this is not a definitive signal of impending weakness, it does caution against assuming that the correction has run its course.

An equally important warning sign is the relative resilience of the broader market. Mid-cap and small-cap indices continue to trade approximately 15–25% above their March 2026 lows, indicating that the degree of stress in these segments remains less severe than during previous capitulation phases. Historically, market bottoms have often been accompanied by disproportionate selling in riskier segments, as investors reduce exposure to less liquid and more volatile stocks. This was evident in March 2026, when mid-cap and small-cap stocks reportedly suffered drawdowns of around 20–40%, compared with a decline of approximately 15% in large caps.

The continued resilience of mid- and small-cap stocks, alongside their substantial share of SIP flows, may be delaying the kind of broad-based selling and liquidity reset that often accompanies market capitulation. With these segments accounting for nearly 50% of monthly SIP inflows and attracting continued investor interest, including reported month-on-month inflow growth of 20–30%, speculative excesses and pockets of valuation risk may not yet have been fully unwound.

The key concern, therefore, is the absence of two characteristics typically associated with a decisive market bottom: a sharp spike in volatility and pronounced capitulation in the broader market. Until these emerge—or are replaced by convincing evidence of stabilisation through improving market breadth, sustained buying and declining volatility—the risk of further downside remains material. Investors should be cautious about interpreting low VIX readings as reassurance when prices are weakening sharply, as subdued volatility can reflect complacency rather than the exhaustion of selling pressure.

What is the Story from Technicals

Turning to technicals, the Nifty 50's current price structure appears increasingly ominous, raising the possibility of a deeper market breakdown reminiscent of the 2008 global financial crisis and the 2020 COVID19 crash.

Ametra's proprietary model tracks the long-term trendline of the Nifty 50 and measures the index's discount or premium to this underlying trend. These deviations provide a quantitative framework for identifying potential market reversal points, periods of excessive optimism or pessimism, and significant breakouts that inform the firm's investment models.

Historically, during routine market corrections and even several bear-market phases, the Nifty 50's discount to its long-term trendline has generally remained within the historical downside threshold of approximately -0.75 standard deviations. A sustained breach of this level, particularly when accompanied by deteriorating market breadth, rising volatility and persistent selling pressure, could indicate that the correction is transitioning into a more structural breakdown rather than a conventional pullback.

Nifty 50 Discount/Premium to Historical Trend Line



Source: NSE | Ametra Research

The discount or premium to the long-term historical trendline captures more than price movements or conventional measures of overvaluation and undervaluation. By incorporating the opportunity cost of capital over the holding period, Ametra's proprietary framework also captures time correction—the erosion of trendline-relative value when markets deliver suboptimal returns over an extended period.

The significance of this time-adjusted perspective is evident from historical examples. In December 2007, the Nifty 50 level of 6,200 represented a premium of approximately 40% to its long-term trendline. By late 2013, the same index level implied a discount of 2–3%, reflecting the erosion of its relative valuation after nearly six years of negligible returns. A similar pattern emerged more recently: in September 2024, Nifty 50 levels of 26,200–26,300 represented a premium of over 20% to the historical trendline, which had narrowed to approximately 5% by February 2026. In effect, the passage of time and the lack of commensurate returns had substantially compressed the index's premium without requiring a comparable change in its absolute price level.

A Breach Not Seen Since 2020

The current reading, however, raises a more serious concern. Since the COVID-19 bear market of 2020, the Nifty 50's discount to its long-term trendline has largely respected the -0.75 standard deviation threshold. Even during subsequent bouts of market stress—including the Russia-Ukraine conflict in 2022, the tariff-related sell-off in 2025 and the Iran-related market disruption in 2026—the maximum discount reportedly remained in the 8–12% range, before the market recovered.

In October 2026, however, the discount breached the -0.75 standard deviation boundary, reaching approximately -14% or lower. This marks a departure from the trendline behaviour observed during the post-2020 correction cycles. More importantly, historical episodes in which the index breached comparable downside thresholds—including 2000, 2008 and 2020—were associated with a further widening of the discount to approximately 30–40%. Although these episodes do not guarantee a similar outcome today, they highlight the potential severity of the downside if the current technical breakdown persists.

An important feature of this signal is that it also captures the cumulative impact of time correction. The Nifty 50 was trading at similar absolute levels in March 2026, yet the -0.75 standard deviation threshold was breached only in October. The intervening six months of negligible returns progressively eroded the index's relative position against its long-term trendline, eventually pushing the discount beyond its historical boundary.

The key takeaway is that the market may be transitioning from a conventional price correction to a more consequential, time-driven technical breakdown. The breach of the -0.75 standard deviation threshold does not, by itself, establish that a 30–40% discount will follow. However, given the historical precedents, it raises the risk of a substantially deeper correction if the Nifty 50 fails to reclaim its trendline-relative threshold and deterioration spreads to broader markets.

The Global Backdrop: Echoes of the Late 1990s

Global markets are increasingly displaying characteristics reminiscent of the late 1990s, with US equities scaling fresh highs despite elevated bond yields, persistent inflationary pressures and weakness across commodity markets. This apparent disconnect between asset prices and macroeconomic fundamentals raises concerns about the sustainability of the rally, particularly as the prospect of prolonged monetary tightening threatens to challenge elevated equity valuations.

Inflation remains a critical variable for both the US and India. With US CPI inflation at 3.7% in September 2026 and Indian CPI inflation at 5.4%, the possibility of monetary easing remains constrained. If inflationary pressures persist, the Federal Reserve and the Reserve Bank of India could face limited room to ease policy, with the risk of further tightening remaining relevant should price pressures intensify. A global recession, by contrast, could bring inflation down more rapidly, although at the cost of weaker earnings, rising credit risks and greater market volatility.

For India, the persistence of crude oil prices in the US\$90–105 per barrel range during Q2 FY2026–27 would pose an additional macroeconomic challenge. Elevated energy prices could widen the import bill, exert pressure on the rupee, complicate the inflation outlook and constrain corporate profit margins. Against this backdrop, even a relatively benign scenario may leave Indian equities struggling to sustain their recent pace of gains. A further quarterly advance of around 10% would represent an optimistic outcome, while the subsequent quarters could see returns moderate to mid-single-digit levels as higher interest rates, margin pressures and less favourable base effects weigh on earnings growth across banks, NBFCs, automobiles and metals.

The broader concern, however, extends beyond the macroeconomic outlook to the changing character of global equity markets. As investors shift from GARP (Growth at a Reasonable Price) to GAAP (Growth at Any Price), market leadership increasingly becomes concentrated in high-valuation stocks whose growth expectations may already be priced for perfection. Where such valuations are supported by leverage, abundant liquidity and aggressive earnings assumptions, even a modest disappointment in growth, inflation or interest-rate expectations can trigger disproportionate corrections.

South Korea offers a timely illustration of the risks associated with momentum-driven market concentration. Following an extraordinary rally that reportedly delivered returns of nearly 250% over an 18-month period, the market subsequently surrendered close to half of those gains within just two months. Such episodes demonstrate how quickly sentiment can reverse when positioning becomes crowded and valuations leave little room for error.

Ametra's House Stance

Equity Exposure – Stay Cautious	Do not treat the correction as a confirmed entry point. The Nifty 50 has fallen nearly 10% in last eight weeks, but India VIX remains in the 10–15 range, while past panic lows came with VIX readings of 26–30. Wait for capitulation or clear stabilisation before adding risk.
Large Caps – Core Allocation	Keep core holdings in quality large caps. At 19–20x earnings, Nifty 50 valuations offer more comfort, and large caps have held up better in sell-offs: in March 2026 they fell about 15%, against 20–40% for mid- and small-caps.
Mid & Small Caps – Stay Selective	These segments remain 15–25% above their March 2026 lows and still draw nearly 50% of monthly SIP inflows. Speculative excess has not yet been unwound, leaving them most exposed if broad-based selling follows.
Trendline Breach – Respect the Signal	The Nifty 50’s discount has breached the –0.75 standard deviation threshold for the first time since 2020. Comparable breaches in 2000, 2008 and 2020 saw the discount widen to 30– 40%. Reclaiming the threshold would ease this risk.
Downside Protection — Maintain	Low VIX in a falling market can reflect complacency rather than exhausted selling. With crude at US\$90–105 and inflation limiting rate cuts, keep downside protection in place until volatility resets or breadth improves.

This Month's Recommended Strategy

October's signal — a sharp correction without a volatility spike, mid- and small-caps that have yet to capitulate, and a breach of the Nifty 50's -0.75 standard deviation trendline threshold — calls for a strategy that prioritises capital protection while staying positioned for an eventual recovery. The focus is on limiting drawdowns rather than trying to call the bottom.

Ametra Factor Income (AFI)

TOP PICK

MULTI-ASSET · UP TO 1% MONTHLY INCOME + INFLATION-BEATING COMPOUNDING

Factor Income is a multi-asset strategy that dynamically allocates across equity, debt, international equity and gold based on tactical market signals. In the current environment, where the correction may not have run its course and the next move could be sharp in either direction, its flexible allocation allows the portfolio to adapt as volatility, breadth and trend signals evolve.

The October setup is particularly relevant because the Nifty 50 has fallen nearly 10% in last eight weeks without the volatility spike that has historically marked panic bottoms, while mid- and small-cap indices remain 15–25% above their March 2026 lows. At the same time, the index's discount to its long-term trendline has breached the -0.75 standard deviation threshold, a level that preceded 30–40% discounts in 2000, 2008 and 2020. Factor Income's multi-asset structure provides a way to remain exposed to equities while retaining the flexibility offered by debt and gold if the correction deepens.

20.4%

CAGR since inception

10.6%

Volatility

–10.5%

2008 GFC drawdown

Why now: October's central signal is that the bottom may not be in yet. With VIX subdued at 10–15, broader markets yet to capitulate and the trendline threshold breached, Factor Income fits the current environment by combining market participation with multi-asset diversification and tactical flexibility.

Signals at a Glance

Indicator	Reading	Signal
Nifty 50 Decline (8 Weeks)	~10%	Correction underway
Nifty 50 P/E	19-20x	Valuation comfort, not a bottom signal
India VIX	10-15	No capitulation spike yet
VIX at past panic lows	27-28/26-30	Sep 2024 Cycle / March 2026
Mid & small caps vs March 2026 low	+15-25%	Broader market yet to capitulate
Mid & small cap share of SIPs	~50%	Speculative flows still strong
Nifty 50 discount to trendline	-14%	Breached -0.75 SD threshold
US / India CPI	3.7% / 5.4%	Limited room for easing
Crude Oil	US\$90–105	Pressure on rupee and margins

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