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MARKET INTELLIGENCE BRIEF

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The Great Divergence

MARKET INTELLIGENCE BRIEF · AUGUST 2026

The Great Divergence

The world is making a leveraged bet on AI at the richest valuations in a generation, while India coils at a volatility so low, it's hiding the size of the move building underneath.

01

Markets have detached from the rulebook. The S&P trades at 28–30x ($\sim 3\sigma$), KOSPI 20–22x ($\sim 6\sigma$), the Nikkei 20–22x, yet they are up 13%, 58% and 30% YTD respectively, despite multi-decade-high yields and a +30% commodity surge. Only extraordinary AI earnings expectations reconcile it.

02

The AI trade is now leveraged. Hyperscaler debt issuance has run \$20bn → \$108bn → ~\$300bn (2024–26e), with ~\$1.35T of off-balance-sheet AI obligations which is $\sim 8\times$ in four years. The risk isn't that AI is wrong; it's that it's not fast or profitable enough for prices that already embed success.

03

India is a coiled spring. FY27 Q1 EPS growth of just $\sim 9.5\text{--}10.5\%$ caps the re-rating case, yet India VIX has collapsed to 11–12% and the Nifty 50 has been range-bound for 4+ months. Stay invested but hedge with puts; ~27,000 by end-FY27 is the reasonable ceiling.

The Setup

For two decades, one backdrop carried almost every asset higher: low inflation and low interest rates. Ageing populations, high savings and weak structural demand held equilibrium rates down, letting central banks keep policy exceptionally loose and lifting the present value of future earnings, a mechanical tailwind for equities, real estate and every long-duration asset, amplified by quantitative easing.

That equilibrium broke in 2022. The post-pandemic demand surge, supply-chain stress, an energy and commodity shock, and Russia's invasion of Ukraine forced central banks to choose price stability over asset prices. Yields and discount rates jumped, and markets fell as much as 30%, not because starting valuations were extreme (the S&P was a reasonable 15–18x, Japan 10–12x, Korea 8–10x), but because the valuation framework itself had become hypersensitive to the rate regime.

Today, the backdrop is far less forgiving. Inflation has returned, crude is elevated, and yields sit at multi-decade highs. Under the historical relationship between yields and multiples, this should be a serious headwind. Instead, markets have done almost the opposite. That contradiction is the **Great Divergence** and understanding what is holding it together is the important question for portfolios today.

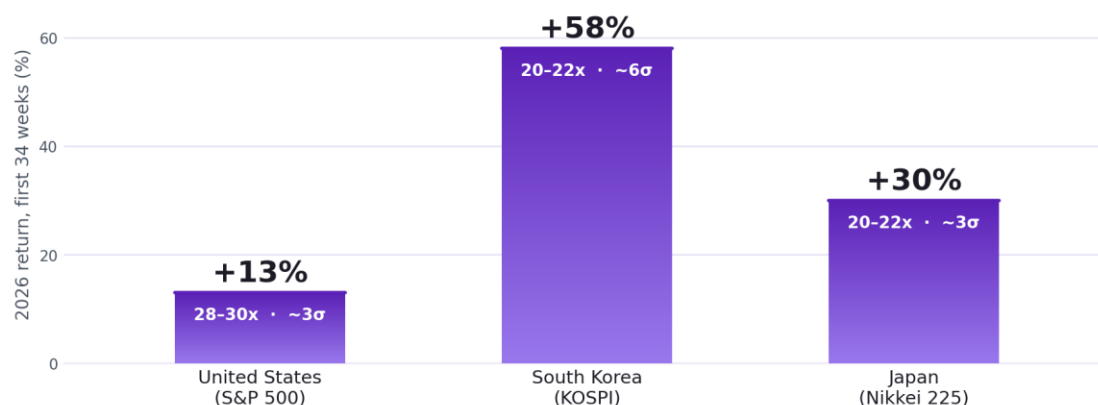
Priced for Perfection — The Leveraged AI Bet

Valuations are not merely full; they are historically extreme, and they are extreme while yields are high and the Bloomberg Commodity Index sits around 120–140, up ~30% in twelve months, a level historically tied to major inflation episodes like 2007 and 2022. Every input argues for lower multiples. Yet the S&P has returned ~13%, KOSPI ~58%, and the Nikkei ~30% year-to-date.

THE GREAT DIVERGENCE

Record valuations, extraordinary returns — while yields sit at multi-decade highs

Bars: 2026 YTD return · in-bar labels: P/E and σ above the 10-year average



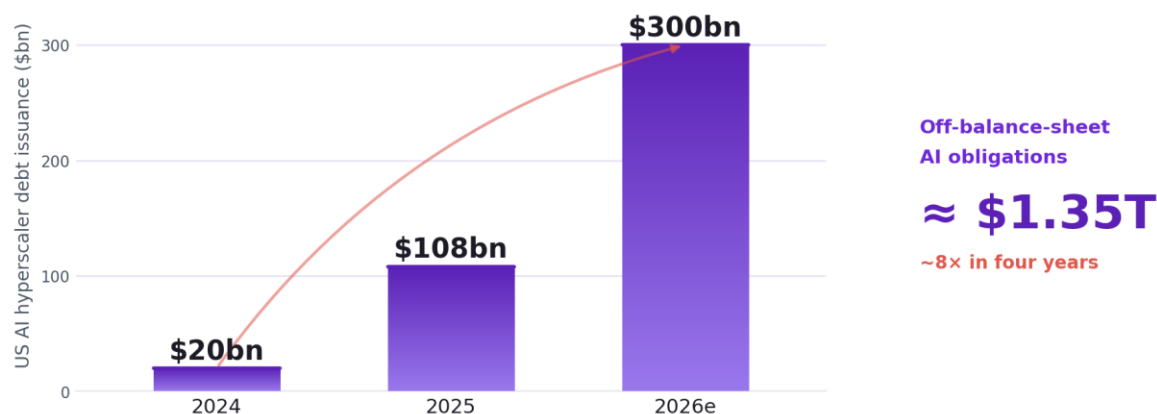
Source: exchange data; Ametra Research

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The reconciling force is the earnings denominator. Expected earnings growth across the S&P, KOSPI and Nikkei now runs in the 25–30% range, with the most aggressive FY2026 estimates implying growth as high as 300% for KOSPI, a once-in-a-generation cycle if delivered. Exceptional expected growth is letting markets absorb higher discount rates without the multiple compression conventional models demand. The framework hasn't died; the denominator has been redefined.

Layered on top is a new source of financial leverage. US AI hyperscalers are increasingly funding capex with debt. Issuance has risen from ~\$20bn (2024) to ~\$108bn (2025) toward ~\$300bn (2026), while off-balance-sheet AI-related obligations have climbed to roughly \$1.35 trillion, nearly eight times their level four years ago. Ordinarily, high financing costs, rising leverage, extreme valuations and heavy capex would command a hefty risk premium. Instead the market is assuming the yield shock is temporary, or that AI returns will simply overwhelm it.

THE AI TRADE GOES ON MARGIN

Capex is increasingly debt-financed — leverage layered onto record valuations

Issuance 2024–2026e; obligations est. Source: company filings; Ametra Research

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That is the leveraged bet: that AI-driven productivity arrives fast enough and at sufficient scale to justify prices that would otherwise be indefensible at today's rates. If it does, the payoff is generational. But the asymmetry cuts hard the other way. With success already in the price, the market has little tolerance for delay, weaker monetisation, lower returns on capital, slower adoption, or stickier rates.

The critical question is no longer whether AI transforms the economy. It will. But whether the magnitude, speed and profitability of that transformation can justify the valuations already assigned to it? This is what makes 2026 reminiscent of the late 1990s: not that the technology is hollow, but that a genuinely transformative technology can still coexist with dangerously optimistic prices. The ultimate risk isn't that the AI thesis is wrong. It's that it's right, but not right enough, fast enough, or profitable enough to earn the price the market is already demanding.

India — The Coiled Spring

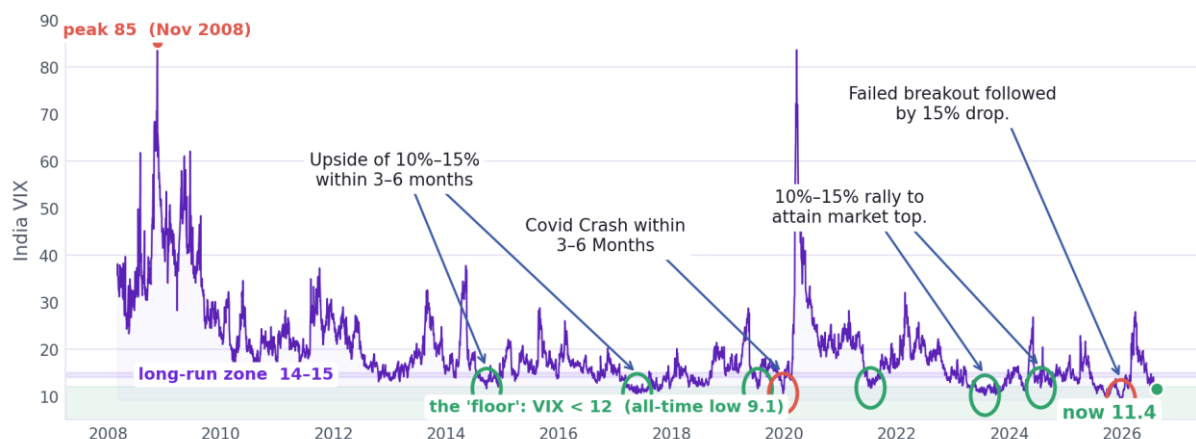
India's FY27 Q1 result season is nearly done (~90% of the Nifty 50 by weight). The headline flatters: a favourable base across metals, autos, NBFCs and banks lifted sales ~15–17% YoY. But commodity inflation cut margins by ~200bps, so Nifty 50 EPS growth is tracking only 9.5–10.5%, and the broader Nifty 500 just 7–9%. With the Nifty 50 near 25x, the market needs ~15% growth (and ~18% for the Nifty 500) to comfortably justify multiples, and with the cyclical base effect fading from Q3, even a best case caps FY27 growth near 11–12%. Earnings, in other words, are a ceiling on valuations, not a springboard; on a reasonable trajectory, that still supports the Nifty 50 drifting toward ~27,000 by end-FY27, but not much more.

The more interesting signal is volatility. The Nifty 50 has been stuck in a 23,300–24,800 range for over four months while India VIX has fallen to 11–12%, well below its 14–15% average. History is clear: when VIX settles at the low end for an extended stretch, a sharp breakout or breakdown in the Nifty 50 has usually followed over the next 3–6 months. Compressed volatility isn't safety, it's a market coiling. So two forces sit in tension: earnings cap the upside, while a record-low VIX says a large move is building. The question isn't whether the Nifty 50 breaks its range, but which way.

INDIA — THE COILED SPRING

India VIX is back at the historic floor — where big moves have started before

Every crisis spike since 2008 has been followed by a return to the low-teens; today's ~11 sits among the lowest readings on record.



India VIX, daily, Mar-2008 to Aug-2026. Source: NSE (client data); Ametra Research

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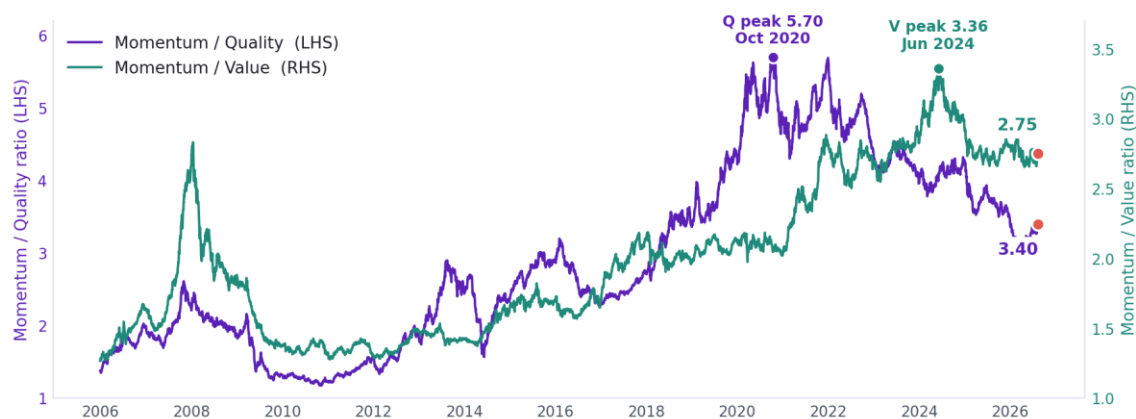
The precedent is instructive. VIX last fell below 12 in September 2025; what followed was nearly seven upside-breakout attempts over five months, before a swift ~15% correction triggered by the Iran war. With VIX back at the low end after nearly a year, a significant move over the next six months is likely. History leans bullish, but given how cheap protection is, the prudent posture is to hedge existing positions with put protection rather than trust the bullish bias alone.

The factor tape argues for the same restraint. Momentum typically leads in strong, persistent bull phases, yet it has underperformed both value and quality since September 2024, with no clear reversal. The cycle context matters: momentum's relative peak came just before the 2008 GFC, then underperformed for 5–7 years; the next leadership cycle ran ~8 years against quality (Dec 2013–Dec 2021) and ~11 years against value (to June 2024). With relative factor cycles historically lasting 5–7 years, momentum could stay subdued for several more, meaning a durable, broad-based bull trend may be a few quarters away even in a benign scenario.

FACTOR TAPE — 20-YEAR CYCLE

Momentum has been rolling over versus both quality and value — no reversal yet

Relative factor ratios since Dec-2005. Momentum leadership peaked (Q: Oct-2020, V: Jun-2024) and has trended lower since.



Daily, Dec-2005 to Aug-2026. Source: client factor data; Ametra Research

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The signals to watch for a genuine shift: the momentum-to-quality ratio turning up toward 2.5, and momentum-to-value pushing above 3. Until then: remain invested, but keep downside protection on.

Signals at a Glance

Indicator	Reading	Signal
Global equity valuations	S&P 28–30x (~3σ); KOSPI 20–22x (~6σ); Nikkei 20–22x (~3σ)	Historically extreme, priced for AI perfection
2026 YTD returns (34 wks)	US +13% · Korea +58% · Japan +30%	Gains defying a high-yield, high-inflation regime
Bond yields	Multi-decade highs (sharpest in Japan, Korea)	Discount-rate headwind the market is ignoring
Commodity inflation	Bloomberg Commodity Index ~120–140, +~30% YoY	2007/2022-type inflation backdrop
AI earnings expectations	+25–30% (S&P/KOSPI/Nikkei); KOSPI up to +300%	The denominator doing all the work
AI hyperscaler leverage	Debt \$20bn→\$108bn→~\$300bn (24→26e); off-B/S ~\$1.35T	Rising leverage embedded in the AI trade
India FY27 Q1 earnings	Sales +15–17%; margins –200bps; Nifty 50 EPS +9.5–10.5%	Strong topline, capped earnings
India Nifty 50 P/E	~25x (standalone)	Needs ~15% growth; FY27 best case ~11–12%
India VIX / Nifty range	VIX 11–12 (vs 14–15); range 23,300–24,800 for 4+ mo	Coiled - a large move is building
Momentum factor	Trailing value & quality since Sep 2024	No confirmation of a durable bull trend yet
Nifty 50 target (end-FY27)	~27,000 on delivered earnings	Modest, earnings-capped upside

Data as of 14th August 2026

Ametra's House Stance

Area	Stance	Rationale
Global equities (US/Korea/Japan)	Reduce & hedge	Extreme valuations into high yields; a leveraged AI bet with a thin margin of safety
AI & tech leaders	Own quality, size the risk	Transformative but priced for perfection; asymmetry skewed to the downside
Indian large-cap (Nifty 50)	Stay invested, don't chase	Earnings ceiling ~11–12%; ~27,000 target is modest; range-bound
Hedging	Buy put protection	Record-low VIX makes protection cheap; Sep-2025 precedent (a ~15% drop followed)
Factor tilt	Favour quality & value	Momentum still in relative downtrend; wait for mom/quality→2.5, mom/value>3
Gold & multi-asset	Maintain allocation	Inflation + high yields + tail risk - the diversifier that earns its place
Cash	Keep optionality	Deploy into the range resolution, not into the rally

This Month's Recommended Strategy

The Great Divergence argues for two complementary postures: multi-asset resilience for the cautious, and factor-disciplined patience for the contrarian. This month's featured strategy is built for exactly that regime.

Ametra FactorIncome (AFI)

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

When global markets are running a leveraged bet on AI at generational valuations, and India is coiled at a volatility so low it can only eventually move one way, the right response isn't to guess the direction, but it is to own a structure that doesn't have to. FactorIncome allocates dynamically across equity, debt, gold and international equities on tactical signals.

In exactly the consolidation-and-tail-risk environment this month's signals describe, the model leans into debt and gold, cutting drawdown risk while compounding the principal. It also turns the divergence to advantage: with real yields high, the debt sleeve earns the return equity earnings yields can no longer promise, and the gold sleeve hedges the inflation the commodity index is flagging.

20.2%

CAGR since inception

10.6%

Volatility

-10.5%

2008 GFC drawdown

Why now: the Great Divergence is the newsletter's central signal this month; FactorIncome is the portfolio response to it - multi-asset, income-generating, and built to navigate precisely the low-margin-of-safety regime now in play.

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