AMPLIFY

MARKET INTELLIGENCE BRIEF

ISSUE 3 | JULY 2026

The Rotation Trap

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MARKET INTELLIGENCE BRIEF · JULY 2026

The Rotation Trap

Chasing the rally that already ran, and the opportunity hiding in the wreckage.

01

The BEER ratio, India's most reliable bond-equity valuation barometer, has remained above its 1.5x fair value threshold for over 20 consecutive months of fading earnings and valuation momentum. Nifty 50 earnings yield at 4.0–4.2% is struggling to justify itself against AA-rated corporate bonds yielding 8.5–9.5%.

02

Mid and smallcap indices have surged 20–25% in three months and are trading near all-time highs. But the Nifty 50-to-Midcap ratio is near extreme lows at 1.05 and the same for Nifty 50-to-Smallcap ratio at 1.34, the precise zones that have preceded 30–50% broader market underperformance in every prior cycle.

03

The real opportunity is in the unloved. IT is down ~30% YTD and FMCG is down ~12%. Both sectors are at decade-high underperformance versus Nifty 50, the historically reliable entry point for patient, long-term accumulation.

The Setup

India's market is manufacturing a rally while hiding its cost. Midcaps and smallcaps have delivered 20–25% in three months, touching all-time highs. Nifty 50 trades in the 23,800–24,500 range, still 8–10% below its February 2026 swing high. The narrative is self-reinforcing: if Nifty 50 earnings are only growing at 8–10%, go broader; if large cap is range-bound, find the pockets with superior EPS growth in mid and small caps.

This narrative is not wrong, but it is dangerously incomplete. Three signals: the BEER ratio, the broader market ratio extremes, and the sector performance gap - together tell a more complicated story. The cheap is not where the crowd is running. The expensive is more expensive than the headline P/E suggests. And the next 2–3 year opportunity may already be sitting in front of investors, priced at decade lows, in precisely the sectors everyone has abandoned.

The Bond Math Nifty 50 Cannot Escape

The BEER ratio, the ratio of the 10-year government bond yield to the Nifty 50 earnings yield (the inverse of the P/E ratio), is one of India's most reliable long-term equity valuation signals. Over three decades, it has oscillated between extreme readings. Values above 1.5x have historically represented unsustainable overvaluation preceding sharp drawdowns. Values near 1x have marked undervaluation and strong subsequent equity returns.

The pattern has been consistent across every major market inflection. In 2000, 2007, and 2011, the BEER ratio peaked in exact coincidence with the exhaustion of Nifty 50 P/E expansion. The chart *(next page)* marks these exhaustion points precisely. Each time the ratio pushed above 1.7x–2.0x and P/E momentum stalled, the market's verdict was swift: sharp drawdown, bond yield compression, and ratio restoration toward fair value. The mechanism has repeated with clockwork regularity for over two decades.

Today's reading is unusual in two ways. First, the BEER ratio has remained above 1.5x for over 20 consecutive months, since September 2024, when both earnings and valuation momentum peak out. Second, this is not unprecedented: between 2017 and 2020, Nifty 50 P/E multiples locked into an unusually tight 24x–28x band for nearly two years, holding the BEER ratio stubbornly elevated while refusing to correct through price. That episode did not deliver immediate crash as happened in 2000, 2007 and 2011, but years of single-digit returns for buy-and-hold investors, a painful slow grind that ended only when the COVID shock violently restored normalcy.

The Bond Math Nifty 50 Cannot Escape (cont'd)

The arithmetic of the current situation is direct. With Nifty 50 at 24–25x P/E on a comparable basis, accounting for the NSE's shift from standalone to consolidated EPS, which makes historical comparisons on most platforms misleading, the earnings yield on Indian equities is approximately 4.0–4.2%. AA/AA-rated corporate bonds are yielding 8.5–9.5%. The risk premium equities are paying investors to bear equity risk over bonds is thin to negative on a risk-adjusted basis. It argues for what history says explicitly: in the absence of a valuation dislocation like 2020, Nifty 50 at current levels is likely to struggle to beat investment-grade corporate bonds over a 2–3 year horizon. The BEER ratio has not been resolved yet, market is locked in sub-optimal returns at higher end of valuations while waiting for its resolution.

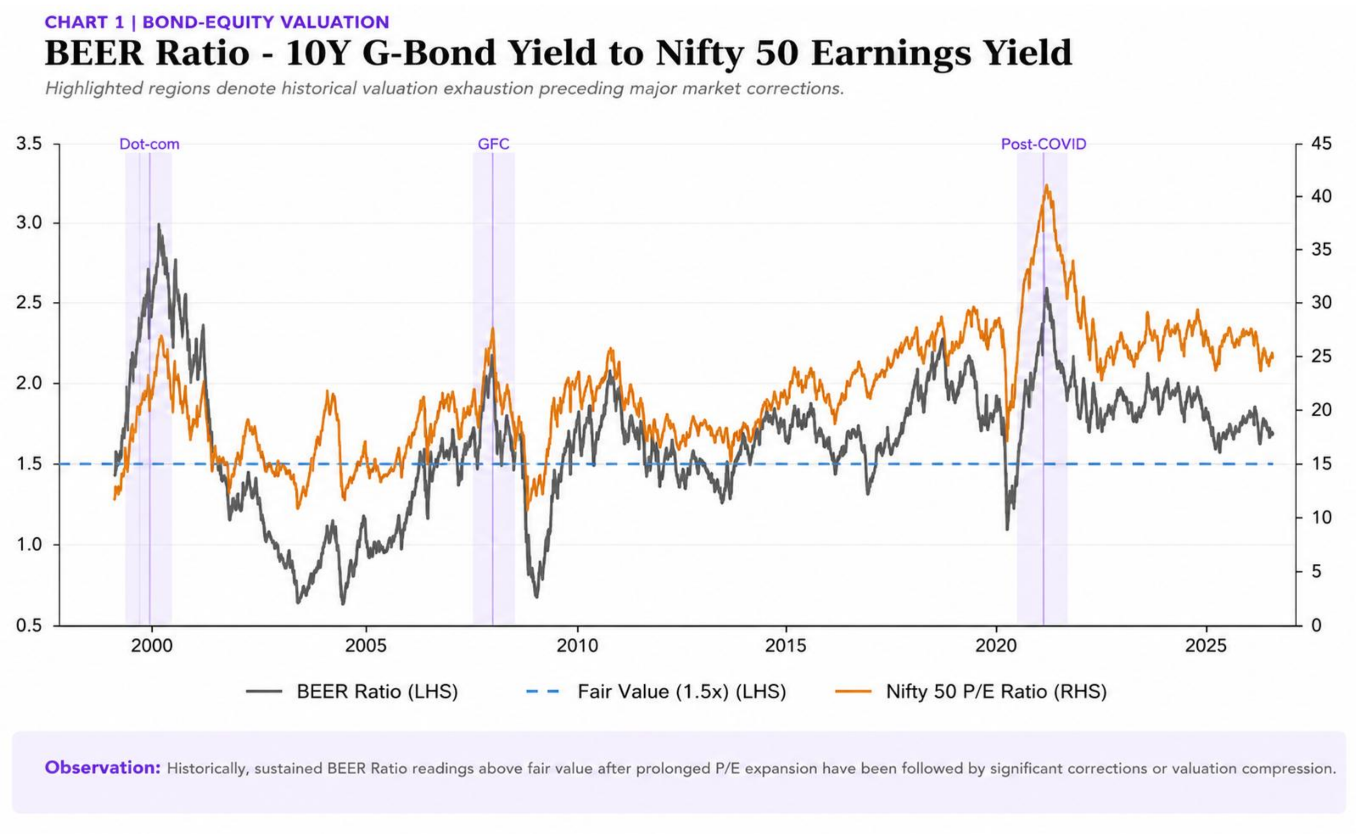


Chart 1 — BEER Ratio: 10Y G-Bond yield to Nifty 50 earnings yield, 1998–2026 (with Nifty 50 P/E on RHS).

The Rally at the Top of Its Range

The case for chasing mid and smallcap stocks today is seductive: superior EPS growth, deeper domestic market penetration, a recovery story Nifty 50 can't replicate. Over the last 20 years, broader markets have outperformed Nifty 50. And the current outperformance cycle, now entering its sixth consecutive year, is the longest in recorded Indian market history.

The problem is precisely that length.

The Nifty 50-to-Nifty Midcap 150 ratio currently stands at 1.05. The Nifty 50-to-Nifty Smallcap 100 ratio is at 1.34. These are not marginally stretched readings. They are the most extreme readings of the last 20 years. As the chart shows, peaks in this ratio mark periods of Nifty 50 outperformance; troughs - where we are now, mark the precise entry point for broader market underperformance cycles. History offers a clear precedent: from the prior trough in the Nifty 50-to-Small cap ratio at approximately 1.4, the ratio recovered to 2.5–3.0 between 2017 and 2020, representing approximately 100% outperformance by Nifty 50 over small caps on an absolute basis over three years. A benign mean reversion from today's 1.34 back toward the historical norm of 2.0 implies underperformance of a similar, or larger magnitude.

The Rally at the Top of Its Range (cont'd)

The valuation context makes the risk concrete. Nifty Midcap 150 trades at approximately 34x earnings. Nifty Smallcap 100 trades at approximately 38x, justified entirely by earnings optimism that is, by definition, already priced in. When broader market underperformance cycles have arrived historically in 2007, 2011, 2018, they have not been gentle. These episodes have consistently accompanied the onset of bear markets, with underperformance cycles lasting approximately two years and magnitude of 30–50% relative to Nifty 50 even in the best-case scenario.

The current mid and smallcap rally is being chased at precisely the valuation and ratio extremes that have most reliably marked the beginning of multi-year pain. The longest outperformance cycle in history is not evidence that mean reversion has been permanently repealed. It is evidence that the eventual mean reversion will be commensurately sharp.

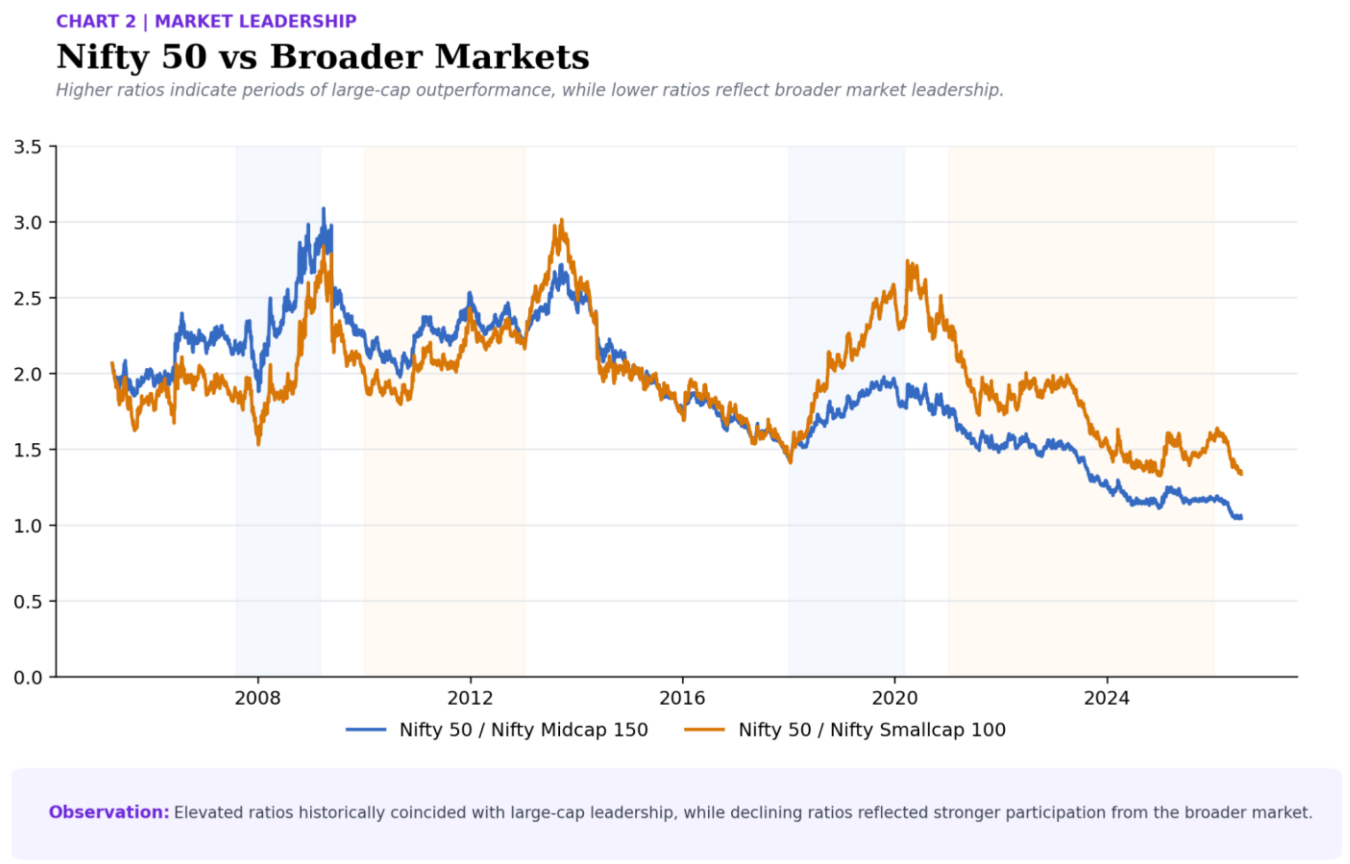


Chart 2 — Nifty 50 vs Broader Markets: Nifty 50/Midcap 150 and Nifty 50/Smallcap 100 ratios, 2005–2026.

Where the Real Opportunity Is Hiding

The H1 2026 sector performance table tells a story of extreme divergence, and within that divergence, a contrarian opportunity is quietly forming.

H1 2026 Sector Returns — Monthly & YTD

IT worst performer YTD at -29.86%; Metal and Pharma outperform; Banking delivered 6.41% in June alone

Period	Nifty 50	Auto	Banks	Cons. Durable	FMCG	IT	Metal	Energy	Pharma	Fin. Svcs
Jan 2026	-3.04%	-5.10%	0.05%	-6.41%	-7.65%	0.89%	5.91%	-3.59%	-4.44%	-1.02%
Feb 2026	-0.51%	5.39%	1.54%	9.30%	-0.08%	-19.54%	3.55%	4.12%	5.93%	2.01%
Mar 2026	-11.30%	-15.55%	-16.94%	-12.14%	-10.96%	-5.04%	-8.79%	-11.93%	-3.14%	-15.57%
Apr 2026	7.49%	9.04%	9.13%	12.87%	12.17%	1.23%	15.27%	8.41%	4.66%	9.09%
May 2026	-1.72%	1.77%	-0.97%	-6.21%	-3.23%	-0.60%	4.76%	-4.23%	4.66%	-1.02%
Jun 2026	1.67%	0.66%	6.41%	4.32%	-0.97%	-9.56%	-6.51%	-1.34%	4.11%	5.11%
YTD 2026	**-8.10%**	**-5.66%**	**-2.97%**	**-0.75%**	**-11.67%**	**-29.86%**	**12.92%**	**-9.44%**	**11.82%**	**-3.25%**

Key reads: IT (-29.86% YTD) and FMCG (-11.67% YTD) are the standout laggards — both approaching decade-high underperformance vs Nifty 50, historically the contrarian accumulation zone. Metal (+12.92%) and Pharma (+11.82%) outperform on relative strength. Banking's June surge (6.41%) is real but the ratio signal warrants caution.

At one end of the spectrum, Metal (+12.92% YTD) and Pharma (+11.82% YTD) have demonstrated genuine relative strength through a difficult first half. Banking, despite a brutal March (-16.94%), has recovered meaningfully, delivering 6.41% in June alone versus Nifty 50's 1.67%, and remains the market's current momentum trade alongside Auto and NBFCs.

At the other extreme: IT is down 29.86% YTD, its worst first half in recent memory, driven by AI-disruption fears, global tech multiple compression, and a devastating February (-19.54% in a single month). FMCG has delivered -11.67% YTD, compounded by ITC's ~30% decline following sharp cigarette taxation hikes in the Union Budget.

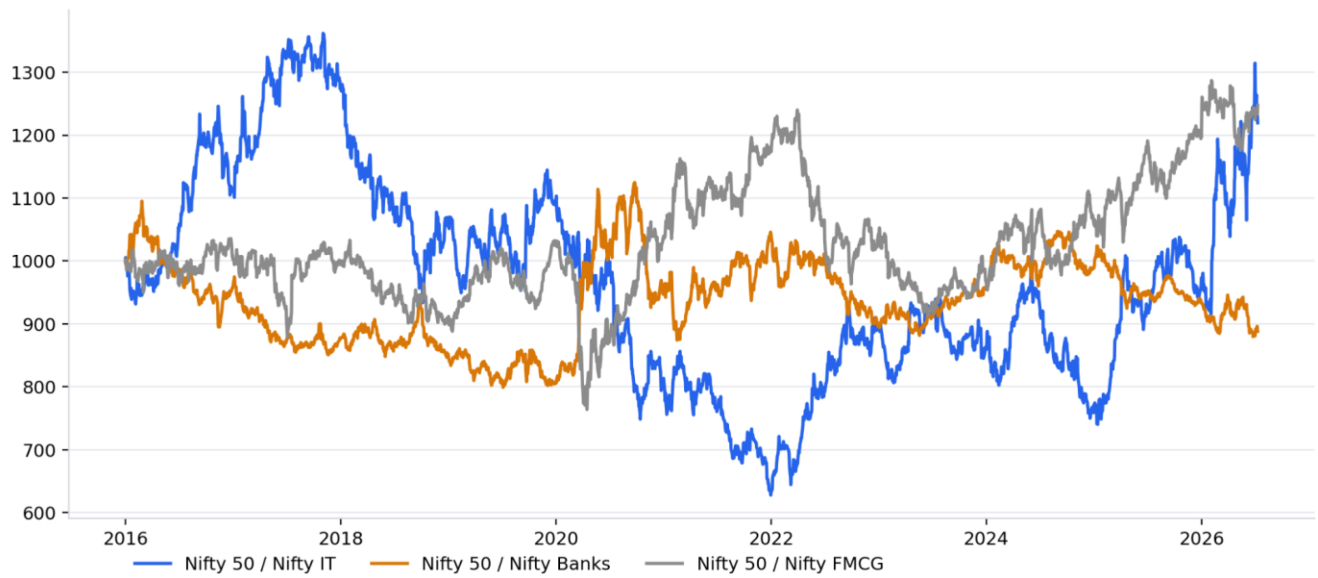
The ratio analysis tells the more important story. The Nifty 50-to-Nifty IT ratio, rebased to 1000, has reached approximately 1300, a decade high in Nifty 50 outperformance versus IT. The same ratio for FMCG is at comparable extreme levels. The logic of mean reversion is straightforward: both readings have reached zones where Nifty 50's relative outperformance has historically exhausted itself and reversed. Contrarian accumulation at these levels has been the right call in every prior cycle.

Where the Real Opportunity Is Hiding (cont'd)

CHART 3 | SECTOR LEADERSHIP

Ratio of Nifty 50 to Sectoral Benchmarks (Rebased to 1000)

Higher readings indicate Nifty 50 outperformance versus the respective sector.



Observation: Sector leadership has rotated meaningfully over time, highlighting the importance of dynamic allocation rather than relying on a single sector.

Chart 3 — Ratio of Nifty 50 to sectoral benchmarks (IT, Banks, FMCG), rebased to 1,000 at Dec-2015.

The Banking picture requires more nuance. June's 6.41% monthly return is real and momentum is intact, but the Nifty 50-to-Banks ratio at approximately 880 is near the exact levels of May 2023 when Banking's prior outperformance cycle peaked. Following that peak, Banks underperformed Nifty 50 for 18 months through October 2024. Momentum investors have valid reasons to stay positioned in Banking, Auto, and NBFCs near-term. The ratio signal, however, is no longer unambiguously in their favor.

For long-term investors, the thesis on IT and FMCG rests on a specific scenario that Issue 23 already flagged: if global equity multiple compression, comparable to the 2000 dot-com derating, materializes over coming quarters, Indian IT names with USD revenues and structural demand recovery will provide genuine defensive alpha. Most large-cap IT firms are now available at decade-high earnings yields. Gradual, disciplined accumulation, not momentum chasing, is the appropriate posture.

Signals at a Glance

Indicator	Reading	Signal
BEER Ratio (10Y G-Bond / Nifty Earnings Yield)	**Above 1.5x for 20+ months**	Equities expensive vs bonds; buy-and-hold headwind for Nifty 50
Nifty 50 P/E (comparable, like-for-like basis)	**24–25x**	Squarely in historical bear-trigger zone (24–28x)
Nifty 50 EPS growth projected FY27	**~8–10%**	Below historical average of 10–12%; no re-rating catalyst
Nifty 50 / Midcap 150 ratio	**1.05 — historic low**	Mean reversion to 1.5 implies ~12% smallcap underperformance; to 2.0 implies ~50%
Nifty 50 / Smallcap 100 ratio	**1.34 — 20-year extreme**	Prior cycle recovery from similar low = 100% Nifty 50 outperformance over 3 years
Nifty Midcap 150 P/E	**~34x**	Earnings optimism fully priced; no margin of safety
Nifty Smallcap 100 P/E	**~38x**	Most expensive vs history; prior bear cycles = 30–50% underperformance from similar levels
IT sector YTD (H1 2026)	**-29.86%**	Decade-high underperformance vs Nifty 50; contrarian accumulation zone
FMCG sector YTD (H1 2026)	**-11.67%**	ITC tax drag partially priced; ratio vs Nifty 50 approaching reversal zone
Banking sector — June 2026	**+6.41% monthly**	Momentum intact; Nifty50/Banks ratio at May 2023 peak levels — watch closely
Nifty 50 / IT ratio (rebased 1000)	**~1300**	Decade-high Nifty 50 outperformance vs IT — historically marks exhaustion point

Data as of 12th July 2026

Ametra's House Stance

Large cap — patience, not reach	**Hold quality; avoid momentum chasing.** BEER ratio above fair value for 20+ months; earnings yield vs bonds unattractive; 2017-style grind the base case
Mid & small cap — disciplined caution	**Trim on strength.** 20-year ratio extremes; 34x and 38x P/Es; prior cycles = 30–50% underperformance; the longest outperformance cycle does not repeal mean reversion
IT — gradual accumulation	**Long-term contrarian buy.** -30% YTD; decade-high underperformance vs Nifty 50; USD earnings natural rupee hedge; earnings yield at decade highs
FMCG — selective, stock-specific	**Accumulate in quality names.** Ratio reversal zone approaching; structural demand intact
Banking — momentum, watch the ratio	**Tactical hold.** June strength real; but Nifty50/Banks at May 2023 peak levels — preceded 18 months underperformance last time
Cash — optionality has value	**Maintain liquidity buffer.** Deploy into dislocations, not rallies; BEER ratio confirms bonds are a genuine alternative to equities right now

This Month's Recommended Strategy

July's signal - a BEER ratio that has refused to normalize for 20 months, broader market ratios at 20-year extremes, and the real opportunity sitting in the market's most unloved corners, argue for two complementary postures: multi-asset resilience for the cautious, and factor-disciplined equity for the patient contrarian.

Ametra FactorIncome (AFI)

TOP PICK

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

When India's bond-equity valuation barometer has been signalling overvaluation for 20 consecutive months, the right response is not to abandon equities, it is to own a structure that doesn't have to choose. FactorIncome allocates dynamically across equity / debt / international equity / gold, based on tactical market signals. In bear and consolidation phases, the environment, the BEER ratio and Nifty 50 EPS trajectory we are navigating — the model systematically increases allocation to debt and gold, reducing drawdown risk while compounding the principal.

Critically, FactorIncome's structure directly addresses the BEER ratio problem: when bond yields are genuinely competing with equity earnings yields (as they are today, with AA-rated bonds at 8.5–9.5% vs Nifty earnings yield at 4.0–4.2%), the strategy's debt sleeve participates in that return rather than sacrificing it. The 2017–2019 episode — when the BEER ratio stayed elevated for two years and delivered single-digit equity returns — is precisely the scenario FactorIncome was built to navigate.

20.4%	10.6%	–10.5%
CAGR since inception	Volatility	2008 GFC drawdown

Why now: The BEER ratio is the newsletter's central signal this month. FactorIncome is the portfolio response to it — multi-asset, income-generating, and structurally positioned to benefit from the bond vs equity dynamic currently playing out.

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