AMPLIFY

MARKET INTELLIGENCE BRIEF

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Strong Indices, Weak Breadth

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The Break Out Needs Two Different Things

The current rally has delivered strong index performance in the broader market, but the underlying evidence still does not resemble the conditions that preceded the durable 2023 breakout.

01

The rally is narrower than it looks. Mid- and small-cap indices have risen ~20–30% since March, but 60% of their constituents remain more than 20% below their 104-week highs. The rally is increasingly concentrated in a handful of high-momentum themes.

02

Earnings are not keeping pace with valuations. Nifty 50 EPS growth is tracking at ~9.5–10.5%, versus ~15% growth needed to justify current valuations. With commodity inflation compressing margins and favourable base effects fading, earnings could cap further re-rating.

03

The market is coiling, not confirming. Nifty has remained range-bound around 23,300–24,800 while India VIX has fallen to 11–12. Low volatility points to a potentially large move, but weak momentum leadership argues for staying invested with downside protection.

The Setup

The Indian market is nearing the end of another consolidation cycle, but the setup is less comfortable than in 2023. Mid- and small-caps have risen 20–30% since March, while the Nifty 50 remains about 12% below its February high, with breadth still weak.

The key for a sustained breakout is broader participation and an earnings re-rating. Q1 sales growth remained healthy, but commodity inflation compressed margins and kept EPS growth below what current valuations require. Higher crude prices could further delay the recovery.

Globally, elevated equity valuations and rising AI-related leverage are leaving limited margin for an earnings disappointment. For India, low volatility despite the prolonged range suggests a larger move could emerge over the next 3–6 months, but until breadth and earnings improve, core holdings should remain concentrated in low-risk factors and large caps.

The Breakout Barrier, Lessons from the Last Breakout

As Indian markets approach the completion of two years of consolidation, it is useful to revisit the last major consolidation cycle, from October 2021 to March 2023. During that period, there were multiple attempts to break above the Nifty's then-ATH of 18,500 in December 2022 and January 2023. However, these attempts failed amid poor market breadth and the absence of an EPS re-rating. The failed breakouts were followed by a sharp valuation contraction of around 10%–30% across various segments of the Indian market through March 2023.

The subsequent attempt in July 2023 finally breached the previous ATH decisively, supported initially by strong market breadth and followed by an EPS re-rating. This combination ultimately triggered a sustained breakout by Diwali 2023. The key words from that cycle, therefore, were **breadth** and **EPS re-rating.** Coming to the present cycle, the market structure in March 2026 appeared broadly similar, with one important difference: mid- and small-cap stocks were trading at a 20%–30% valuation premium to their March 2023 levels.

However, headline index performance suggests that the breadth argument is playing out very differently this time. Since the March 2026 lows, the mid-cap and small-cap indices have risen approximately 20% and 30%, respectively, making multiple all-time highs along the way. In contrast, the Nifty 50 has remained roughly 12% below its February 2026 ATH, let alone staging a meaningful bullish breakout.

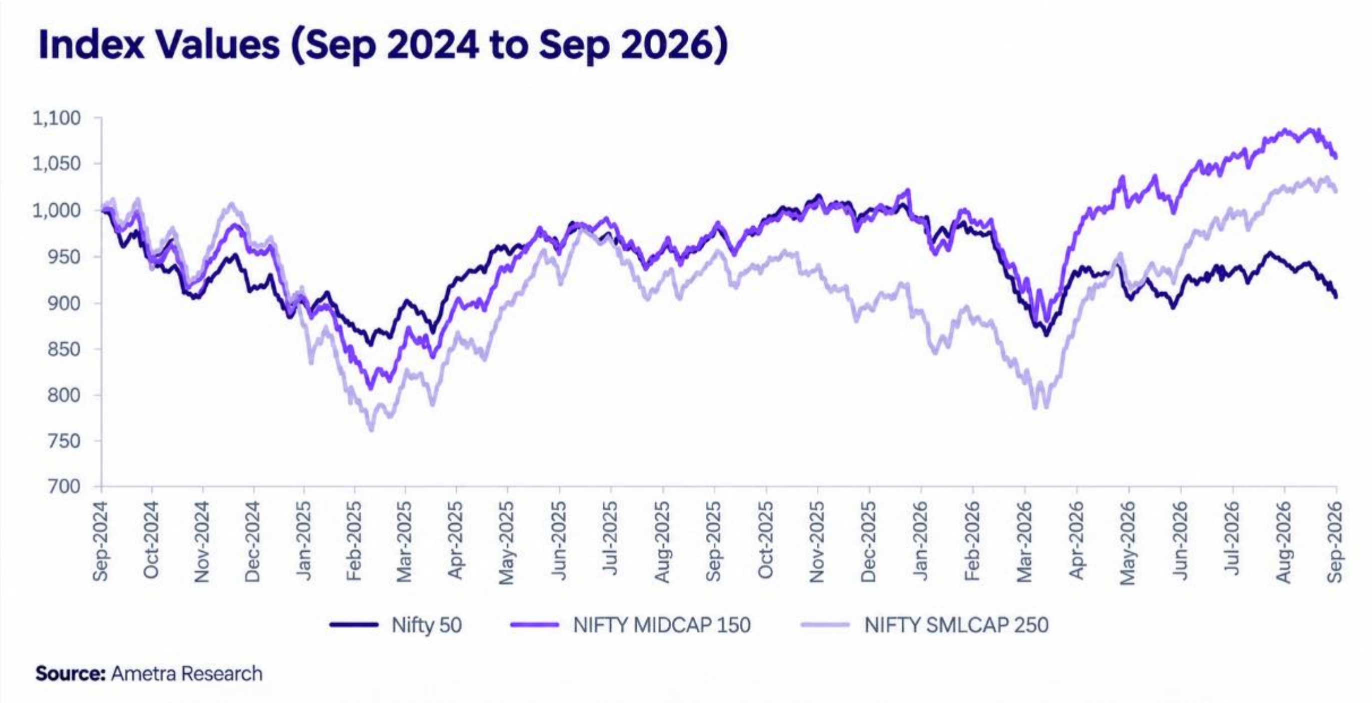
More importantly, the underlying risk-on behavior is not being reflected merely in "small-company outperformance." High-risk momentum and alpha factors have outperformed broader benchmarks and low-risk factors by nearly 10%–15% over the past three months. This is a relatively unusual development in an environment characterized by slowing EPS growth, rising bond yields and elevated crude prices.

Breadth Is Weaker Than the Index Suggests

Having said that, a deeper analysis of the mid- and small-cap universe reveals that, despite the sharp recovery from the March 2026 lows, underlying market breadth remains extremely poor.

Of the 400 mid- and small-cap constituents of the Nifty 500, 239 stocks (60%) are trading more than 20% below their 104-week highs, 283 stocks (71%) are more than 15% below their 104-week highs, and 322 stocks (80%) remain more than 10% below their 104-week highs. Despite the benchmark indices being close to their 104-week highs, only 156 stocks (42%) of the 400 have made a new 104-week high in calendar year 2026. Even among these winners, nearly 25% have subsequently given up their 104-week highs and are now trading at a discount of more than 10%.

The picture is not materially better among large caps. Of the 100 large-cap stocks, nearly 73 are trading more than 10% below their 104-week highs broadly similar to the broader market. Interestingly, 55 large-cap stocks have made new 104-week highs in 2026, a better ratio than that of the mid- and small-cap universe.



This analysis suggests that, despite the headline outperformance of mid- and small-cap indices and their proximity to all-time highs, there has been little meaningful improvement in underlying breadth over the past six months. The average stock across segments continues to trade at a significant 10%–15% discount to its 104-week high.

In other words, what appears to be broad-based small-company outperformance at the index level is, in reality, increasingly being driven by concentration in a handful of popular themes. CDMO, defence, metals, optical fibers, precision manufacturing, EMS, data centers, cables and new-age companies have attracted sustained inflows, creating what could potentially be a mirage of small-company outperformance.

The concern is that many of these stocks are trading at extremely stretched valuations of 60x–200x P/E, often against the backdrop of deteriorating balance sheets, ambitious capex plans and exceptionally optimistic earnings expectations. In several cases, valuations appear to discount earnings trajectories that would require sustained and unusually high growth to be delivered. The increasing preference for the riskiest segments of the Indian market is therefore creating an unusually high degree of bubble and concentration risk in the average Indian portfolio arguably a domestic parallel to the AI concentration risk evident in global portfolios.

EPS Re-rating: Still Waiting for Confirmation

Coming to the second part of the equation an **EPS re-rating** expectations were high that FY27 Q1 and Q2 would deliver mid-teen EPS growth, supported by favorable base effects across metals, autos and financials. These expectations were further supported by encouraging macro indicators, including nearly 20% credit growth, around 40% growth in passenger vehicles and 7.8% GDP growth in Q1.

The Q1 results, however, tell a more nuanced story. Revenue growth broadly met expectations, with sales growing by approximately 18%–20%. However, the crude and commodity shock, exacerbated by the US–Iran conflict, squeezed margins by around 250 bps. As a result, EPS growth was limited to just 9%–10%, well below the mid-teen growth that valuations had been discounting.

As highlighted in our previous newsletter, **current valuations can be justified only by approximately 15% EPS growth for Nifty 50 companies and 20% growth for Nifty 500 companies.** The recent sell-off in the Nifty 50 over the past six weeks appears to be largely a reaction to the growing possibility that Q2 could also disappoint, particularly with crude holding above US$85 through the quarter.

If this persists, the anticipated earnings recovery could be pushed out to FY28. Cyclical sectors such as autos, financials and metals would also have to contend with increasingly unfavorable base effects, making the path to a meaningful EPS re-rating even more challenging.

Therefore, neither of the two key ingredients that supported the 2023 breakout broad-based participation and earnings re-rating appears fully in place today. The headline strength of mid- and small-cap indices masks significant underlying breadth deterioration, while the earnings recovery remains below what current valuations require.

The key question for the market is consequently not whether some stocks can continue to make new highs, but whether **participation can broaden materially and earnings revisions can finally catch up with valuations.** Until both occur, the current small- and mid-cap rally risks remaining a concentrated, momentum-driven phenomenon rather than the beginning of a durable, broad-based market breakout.

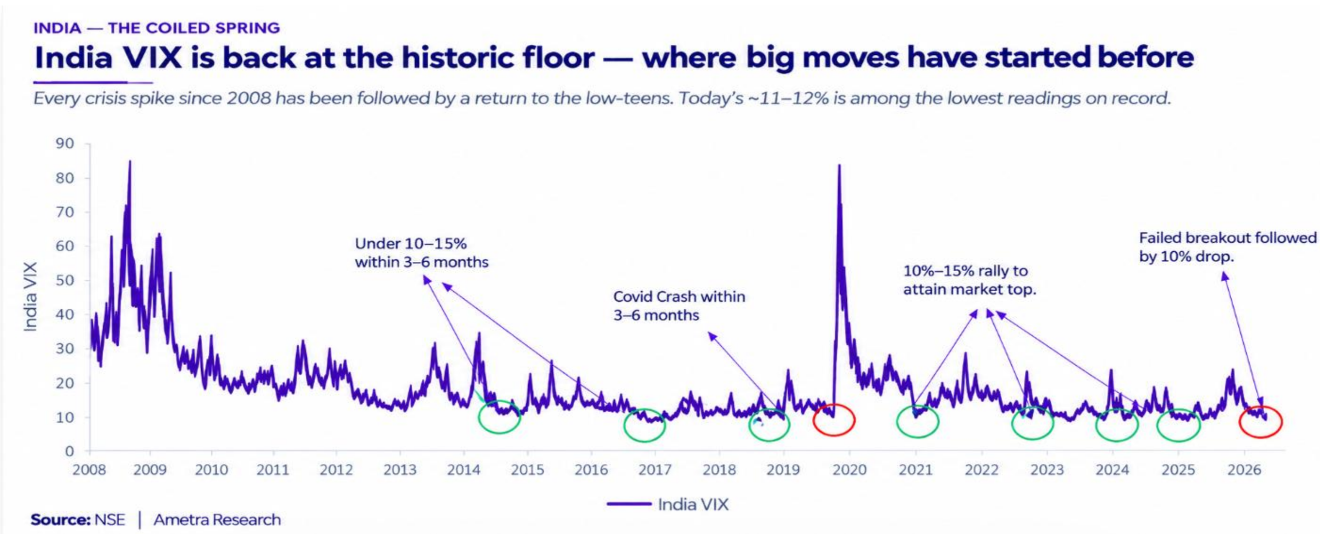
What Is the Story from Technicals?

Since March 2026, the Nifty 50 has traded in a broad 1500-point range of 23,200–24,800, with the sharp sell-off over the last 6 weeks pushing the index towards the lower end of the range. Any decisive breach of 23,200 can take the Nifty 50 to its March 2026 lows of 22,200, with valuation compression to P/E multiples at 5-year lows of 19x, a level that delivered a sharp rebound in April 2025 and March 2026. Already, there are areas in large caps that are reflecting Nifty at 15000 levels.

On the other hand, while Midcap and Small-cap benchmarks are trading near the upper end of the range, P/E valuations are also at the higher end (early 30s), which can trigger a sell-off towards the lower end for broader benchmarks in case of EPS disappointments in Q2. On the technical side, the outperformance of midcap and small-cap benchmarks is already in the reversal zone, which indicates that ‘small company outperformance’ might be coming to an end.

Technically, the outperformance of midcap and small-cap seems to have been exhausted for many months, yet it has persisted. A reversal of the Nifty 50 to Nifty Small-cap 250 ratio (to 1.27) and the Nifty 50 to Nifty Midcap 150 Index Ratio (to 1.02) would indicate that we might be entering a phase of ‘small company underperformance’ which might last 12-24 months.

The biggest puzzle in the market right now is VIX, which has sustained at an abnormally low level of 10x-12x for more than a month and failed to show any spike despite a 1300-point move in the Nifty 50. Going by historical precedence, a VIX spike is overdue, which can give a sharp breakout move. We would recommend investors hedge their positions by purchasing 1% out-of-the-money puts against any major adverse move.



It would be interesting to take a look at last consolidation cycle of Oct 2021 – Mar 2023. There were multiple attempts at breakout above ATH of 18,500 in Dec 2022 and Jan 2023 but they failed due to poor breadth and absence of EPS de-rating. These failed attempts were followed by sharp valuation contraction of around (10%-30%) across different segments of Indian market till March 2023 before next attempt breached ATH decisively in July 2023 on account of strong breadth, followed by EPS re-rating triggering a clear breakout by Diwali 2023.

Ametra's House Stance

Large Caps — Core Allocation	Stay focused on quality large caps. The Nifty 50 remains range-bound while several large-cap stocks trade meaningfully below their 104-week highs. With earnings growth yet to justify aggressive multiple expansion, quality large caps provide a more measured way to remain invested.
Mid & Small Caps — Selective Exposure	Avoid broad-based momentum chasing. Mid- and small-cap indices have risen 20–30% since March, but 60% of their constituents remain more than 20% below their 104-week highs. The rally is increasingly concentrated in a handful of themes, making selectivity important.
Earnings — Wait for Confirmation	Treat the EPS recovery as unconfirmed. Nifty 50 EPS growth is tracking around 9–10%, versus approximately 15% required to support current valuations. Higher crude and fading base effects could further delay the expected earnings re-rating.
Momentum — Watch, Don't Chase	Momentum remains a signal to monitor rather than a reason to increase risk. Momentum has continued to lag quality and value, with no clear reversal yet. A move in the momentum-to-quality ratio towards 2.5 would provide stronger confirmation of improving market leadership.
Downside Protection — Maintain	Stay invested, but retain downside protection. India VIX has fallen to 11–12 despite the prolonged Nifty range, indicating compressed volatility rather than a confirmed direction. The current setup supports maintaining protection while waiting for breadth and earnings to strengthen

This Month’s Recommended Strategy

September's signal strong mid- and small-cap index performance masking weak breadth, EPS growth still below what valuations require, and India VIX at unusually low levels calls for a strategy that stays invested while retaining downside resilience. The focus is on participating in the market without relying excessively on concentrated momentum.

Ametra FactorIncome (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 market remains range-bound and the next major move could be significant, its flexible allocation allows the portfolio to adapt as breadth, earnings and factor leadership evolve.

The September setup is particularly relevant because the broader market rally is increasingly concentrated in a handful of high-momentum themes, while 60% of mid- and small-cap constituents remain more than 20% below their 104-week highs. At the same time, Nifty 50 EPS growth is around 9–10%, below the 15% growth required to support current valuations. Factor Income's multi-asset structure provides a way to remain exposed to equities while retaining the flexibility offered by debt and gold when market conditions change.

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

Why now: September's central signal is stay invested, but protect the downside. With VIX at 11–12, weak breadth and earnings yet to confirm a durable breakout, 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 trading range	23,200–24,800	Range since March 2026
March 2026 Nifty 50 low	22,200	Downside level if 23,200 breaks
Nifty 50 P/E	19x	5-year low valuation zone
Q1 revenue growth	18–20%	Broadly met expectations
Margin pressure	250 bps	Crude & commodities squeezed margins
Nifty 50 EPS growth	9–10%	Below mid-teen expectations
EPS growth required	15% / 20%	Nifty 50 / Nifty 500
India VIX	11–12	Below 14–15 average
Momentum / Quality	2.5	Level to watch for reversal

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