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India Equity Valuation

A Comprehensive Analysis of the Nifty/Gold Ratio, Sectoral PE History, and Global Market Comparisons

Nifty 50 PE	Nifty/Gold Ratio	S&P 500 PE	Bank Nifty PE
20.3x	**1.45x**	**27.2x**	**14.8x**
13% below 10-yr avg	30-year low	+37% above 10-yr avg	1.4σ below own mean

KEY FINDINGS AT A GLANCE

- Nifty/Gold ratio at unprecedented 30-year low — historically a strong multi-year equity signal
- Bank Nifty (14.8x) and Nifty IT (21.5x) at 5-year PE lows — most statistically significant value
- Nifty Midcap 100 at 47.4x and +2.1σ above mean — the #1 risk in Indian equities
- India now cheaper than the US on trailing PE (20.3x vs 27.2x) — historically rare inversion
- Forward return signal: 10–14% CAGR expected over 3 years from current Nifty 50 PE

INDICES COVERED

Nifty 50 · Next 50 · Midcap 100 · Smallcap 250 · Bank Nifty · Nifty IT · FMCG · Pharma · Metal · Auto · S&P 500 · Nasdaq 100 · FTSE 100 · DAX · Nikkei

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Data: NSE · CMIE Economic Outlook · worldperatio.com · siblisresearch.com

India Equity Valuation

A Comprehensive Analysis of the Nifty/Gold Ratio, Sectoral PE History, and Global Market Comparisons

Thirty years ago, the Nifty/Gold ratio stood at 4.8x. Today it is 1.45x — a 30-year low that has never been seen in the modern Indian market. At the same time, the Nifty 50 PE of 20.3x sits 13% below its 10-year average, Bank Nifty is at multi-year valuation lows, and the S&P; 500 is more expensive relative to India than at any point in the last decade. This report works through what all of this means for the investor with a 3–5 year horizon.

Field	Detail
Date	March 14, 2026
Report type	Quantitative valuation analysis with narrative commentary
Indices covered	Nifty 50, Next 50, Midcap, Smallcap, Bank Nifty, IT, FMCG, Pharma, Metal, Auto
Global coverage	S&P 500, Nasdaq 100, Dow Jones, FTSE 100, DAX, Nikkei, Brazil, China, Australia
Data sources	NSE, CMIE Economic Outlook, worldperatio.com, siblisresearch.com
Methodology note	Nifty PE uses standalone earnings pre-Apr 2021; consolidated post-Apr 2021

This report is structured as a connected argument: we begin with the broadest possible lens — gold — to understand what 30 years of Indian market history looks like stripped of nominal currency effects. We then zoom in through the PE lens, first for the headline index, then decomposed by market cap and sector. We normalise these readings through z-scores to answer "cheap or expensive vs own history?" before stepping back out to a global frame to understand where India fits in the world. We close with the structural market-age thesis and the forward return signal that ties all of it into an actionable conclusion.

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The Argument in Brief

Indian equities in March 2026 present an unusual combination: the headline Nifty 50 is moderately cheap against its own history, the Nifty/Gold ratio is at a 30-year low that has historically preceded strong multi-year equity returns, and two major sectors — financials and technology — are sitting at multi-year PE lows. At the same time, one of the most persistent valuation risks in the market remains unresolved: the Nifty Midcap premium is near its all-time high, and the global backdrop is increasingly bifurcated between a wildly expensive US market and a cheap-to-fair rest of the world. This report unpacks each of these threads in full.

Nifty 50 PE (Mar 2026)	Nifty/Gold Ratio	S&P 500 PE	Bank Nifty PE
20.3x	**1.45x**	**27.2x**	**14.8x**
13% below 10-yr avg	30-year low	+37% above 10-yr avg	1.4σ below own mean

1.2 The Central Argument

The report's central finding can be expressed in three sentences. **Large-cap Indian equities are reasonably priced**, with financials and IT offering the most compelling sectoral value in years. **Midcap India is a risk**, trading at a 2.3x premium to large caps — twice the historical norm — in a market where domestic SIP flows have sustained valuations well above what earnings justify. And in a global context, **India is one of the few major markets not in the expensive zone**: the S&P; 500 at 27.2x and Europe re-rating aggressively leave India looking relatively disciplined at 20.3x, even as the Nifty/Gold ratio tells a more cautionary story about gold's extraordinary run.

Top Findings at a Glance

- **The Nifty/Gold ratio is at its lowest in 30 years (1.45x)** — below even the GFC and COVID lows. Every prior bottom of this ratio has been followed by significant equity outperformance. The caveat: gold's 75–80% INR surge in 2025 explains most of the move, not equity weakness alone.
- **Nifty 50 PE at 20.3x places it in the 30th percentile of its 10-year history** — moderately cheap, with historical 3-year forward returns from this starting level averaging 10–14% CAGR.
- **Bank Nifty (14.8x) and Nifty IT (21.5x) are at 5-year PE lows** on a z-score basis, representing the most statistically significant value opportunities within the Indian market.
- **Nifty Midcap 100 at 47.4x is 2.1 standard deviations above its own 10-year mean** — a level associated with a ~70% miss rate on subsequent 3-year forward returns.
- **India is now cheaper on trailing PE than the US (20.3x vs 27.2x)** — a historically rare inversion that reflects the S&P; 500's AI-driven re-rating to near-dotcom-era valuations.
- **The market-age thesis suggests India's structural PE is compressing** — from the 24–28x of 2021 toward the 18–22x of maturing markets. This is not a bearish signal but a sign of institutional deepening.

TRANSITION → PART I

> We begin with the Nifty/Gold ratio because it is the most provocative signal in the current market — a 30-year low that demands explanation. Understanding what is driving it (gold overvaluation vs equity undervaluation, and in what proportions) is the essential first step before moving to the PE-based analysis in Parts II and III.

PART I — THE GOLD LENS

Nifty Priced in Gold: A 30-Year Perspective

The most enduring debate in Indian personal finance — equities versus gold — can be reframed as a single ratio. When you divide the Nifty 50 level by the price of 24-karat gold per gram in rupees, you get a measure of how many grams of gold one unit of the index can command at any point in time. This ratio strips out the noise of nominal INR appreciation and currency debasement, giving you a purchasing-power-adjusted view of whether equities are genuinely creating wealth over time or simply keeping pace with the hardest alternative asset.

The ratio's 30-year history (1995–2026) reveals a market with identifiable cycles. The great bull run of 2003–2007 took the ratio from 2.6x to a peak of 6.2x — investors in equities genuinely got richer relative to gold holders. The GFC demolished that gain, crashing the ratio back to 2.5x. What followed was another cycle up to 4.2x (2021), and then a collapse to the current 1.45x — a level that has no precedent in the entire 30-year dataset.

2.1 The 30-Year Chart

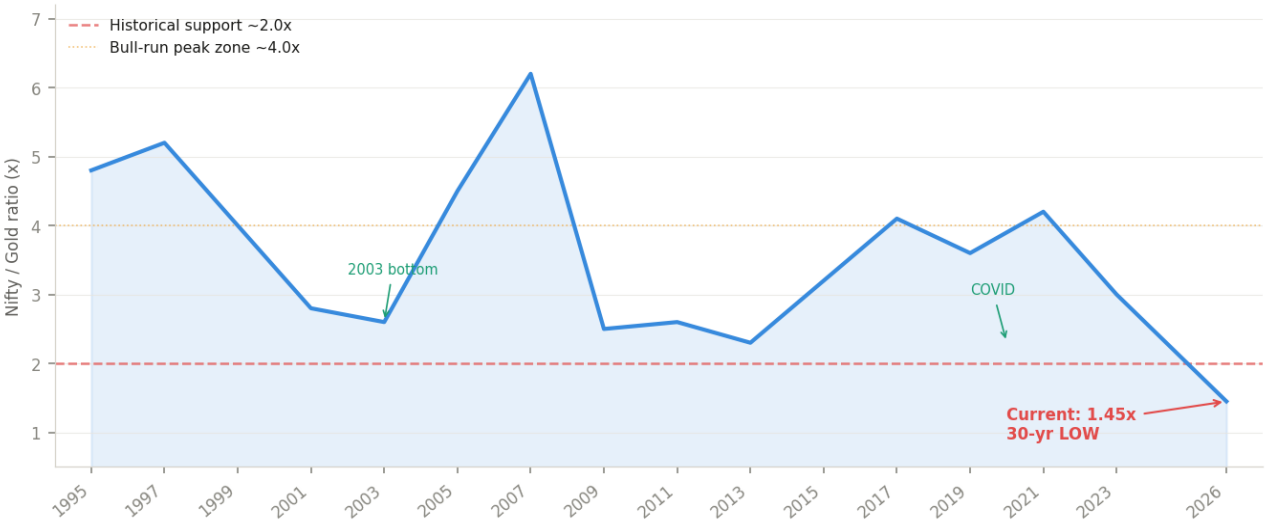

Fig 1: Nifty 50 divided by 24K gold price per gram (INR). Red dashed line = historical support zone ~2.0x. The current reading of 1.45x is unprecedented in 30 years of data.

The chart immediately raises a question: is this a signal of extreme equity undervaluation, or of gold overvaluation? The honest answer is that it is both — but with very different implications for how the ratio normalises. If gold corrects (possible if geopolitical risk fades or central bank buying slows), the ratio recovers without equities needing to do anything. If equities re-rate upward, investors in Nifty benefit doubly. The bear case — rarely discussed — is that gold continues to rise and equities stagnate, extending the ratio compression further. The historical base rate on this scenario, across prior bottoms, is low. But the current bottom is structurally different from prior ones in one key way: it has been driven almost entirely by gold's supply-demand dynamics (central bank de-dollarisation, ETF flows, Middle East risk premia) rather than by Indian equity weakness.

2.2 What 20 Years of Asset Class Returns Tell Us

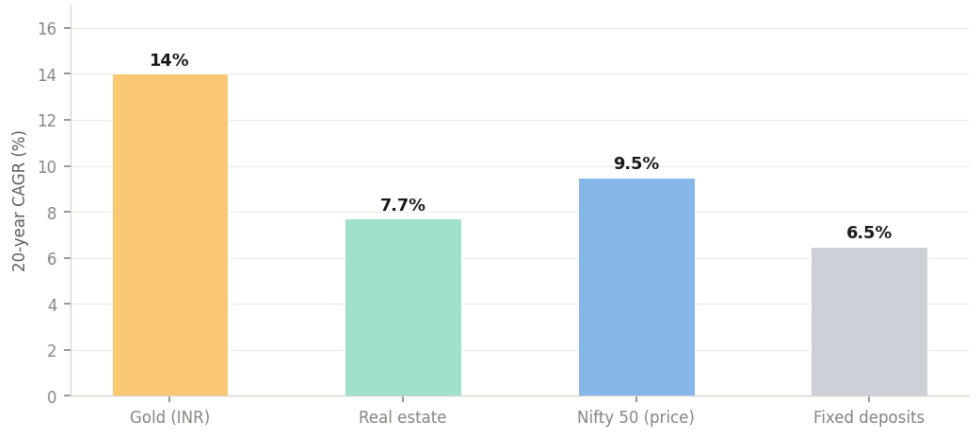

Fig 2: Approximate 20-year CAGR in INR terms across major asset classes. Gold at 14% pa has materially outpaced Nifty 50 price return at 9.5% pa over this period.

The CAGR comparison deserves careful interpretation. Gold's 14% annualised return over twenty years looks spectacular — but it is important to understand what is embedded in that number. Approximately 3–4 percentage points come from INR depreciation against USD (gold is priced in dollars globally, so a weaker rupee raises the INR gold price mechanically). Another portion comes from gold's dramatic re-rating in the 2020–2025 period. Strip out both effects, and gold's real return in hard-currency terms is more modest. The Nifty 50 comparison also understates equities because it uses price return only — Total Return (TRI), which includes reinvested dividends, would add approximately 1.5–2.0 percentage points annually, closing the gap meaningfully.

2.3 Every Prior Bottom: What Happened Next

Period	Ratio level	Primary trigger	Nifty response (subsequent period)
May 2003	~2.6x	Post-dotcom trough + India reform cycle	+180% over the following 4.6 years
Aug 2008 (GFC)	~2.3x	Global Financial Crisis, NPA fears	+77% in the 9 months following the low
Aug 2011	~2.5x	Euro sovereign debt crisis, risk-off	+190% over the following 3.9 years
2014	~2.6x	Modi election, policy reform optimism	+42% in the subsequent 11 months
May 2020	~2.3x	COVID pandemic market crash	+104% in the following 1.3 years
Mar 2026 (now)	*~1.45x*	*Gold surge on de-dollarisation + geopolitics*	*Signal: constructive — but below all prior floors*

Caveat: This time has a meaningful difference

All five prior bottoms had a common feature: the ratio compressed because equity markets were genuinely distressed (GFC, COVID, euro crisis) or temporarily unloved (2003, 2014). The 2026 bottom is primarily driven by gold's extraordinary appreciation, not by Nifty being in distress. Nifty is down ~8% from its September 2024 peak — a correction, not a crash. This distinction matters because mean reversion in the ratio may take longer, or may require gold to normalise rather than equities to rally sharply.

TRANSITION → PART II

Having established the macro context through the gold lens, we now move inside the equity market. The Nifty/Gold ratio tells us equities look cheap relative to gold — but the PE ratio tells us what equities are priced at relative to the earnings they generate. These are related but distinct questions, and the PE analysis introduces important nuances — particularly the difference between large caps and midcaps.

PART II — THE PE LENS

Nifty PE: History, Methodology, and the Midcap Warning

The price-to-earnings ratio is the most widely used valuation metric in equity markets — and one of the most misread. Its misreading in the Indian context is compounded by a significant methodological discontinuity in April 2021 when NSE switched from standalone to consolidated earnings. Before that change, Nifty PE appeared to touch 42x. After it, the same market was suddenly at 32x — not because the market got cheaper, but because subsidiary earnings were now included in the denominator. Anyone comparing current PE data to pre-2021 charts without adjusting for this will systematically overstate how expensive the market was in 2021 and understate how cheap it might be today.

3.1 The Nifty 50 PE: 25 Years of History

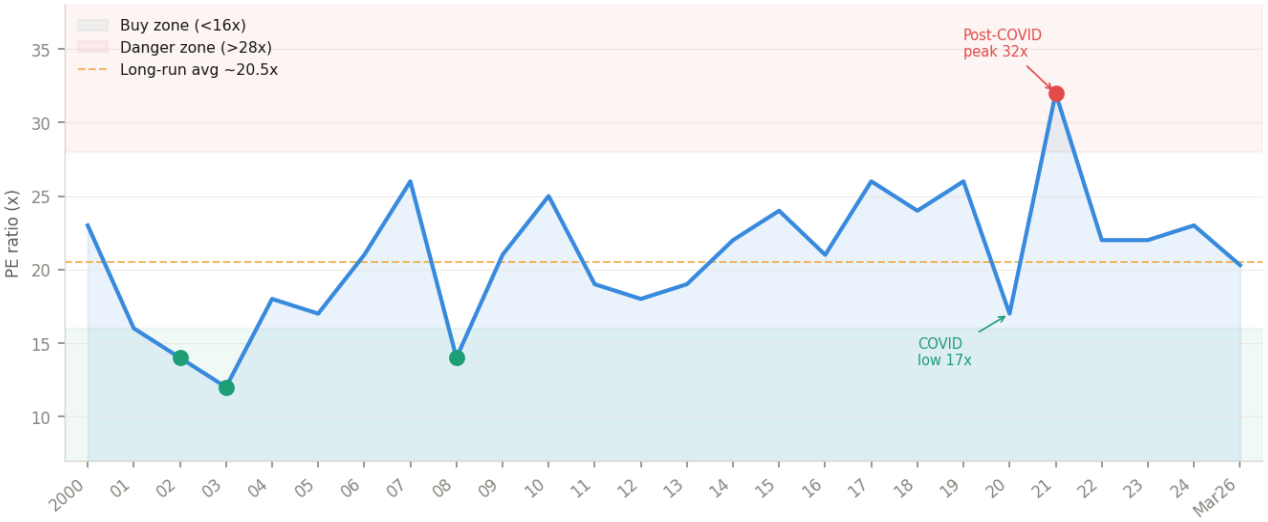

Fig 3: Nifty 50 trailing PE 2000–2026. Green zone = historical buy region (<16x). Red zone = danger region (>28x). Dashed orange line = long-run average ~20.5x. Highlighted dots mark the GFC low (green) and COVID low (green) and 2021 peak (red). Pre-2021 = standalone earnings basis; post-2021 = consolidated.

Three structural observations from this chart stand out. First, the "buy zone" below 16x on a standalone basis occurred genuinely only twice in 25 years — the GFC and briefly during COVID. On a consolidated basis (the correct modern reference), the equivalent zone would be approximately 18x. The current 20.3x is just above that zone — fairly valued to moderately cheap, but not a screaming buy on absolute terms. Second, the danger zone above 28x has also been rare — reached only during the COVID liquidity-driven rally and briefly in the 2017 momentum period. Third, the market has a demonstrated mean-reversion tendency: every excursion above 26x has been followed by a return to the 18–22x range within 18–24 months.

Key PE Statistics — Nifty 50

Metric	Value	What it tells us
All-time high (standalone, pre-Apr 2021)	42.0x	Not comparable — methodology change inflated this
Peak on consolidated basis (Feb 2021)	~32.0x	The true post-COVID peak; far less alarming than 42x
GFC low (2008, standalone)	~11.0x	Extreme distress; NPA fears, global panic
COVID low (Mar 2020)	17.2x	Brief; momentum buyers absorbed it within weeks

20-year average (standalone basis)	~20–21x	The genuine long-run equilibrium for the index
10-year average (consolidated basis)	23.4x	Post-2014 structural re-rating is embedded here
Current PE (Mar 2026)	20.3x	30th percentile vs 10-yr history — moderately cheap
PB ratio (Mar 2026)	3.15x	Neutral; consistent with a market at fair value
Dividend yield (Mar 2026)	1.35%	Slightly below 1.5% historical buy-signal threshold

3.2 The Midcap Warning: A Divergence That Cannot Be Ignored

The most important structural development in Indian equity valuations over the past three years is not visible in the Nifty 50 chart. It is the divergence between large caps and midcaps. The chart below shows all four broad market indices together — and the story it tells is stark.

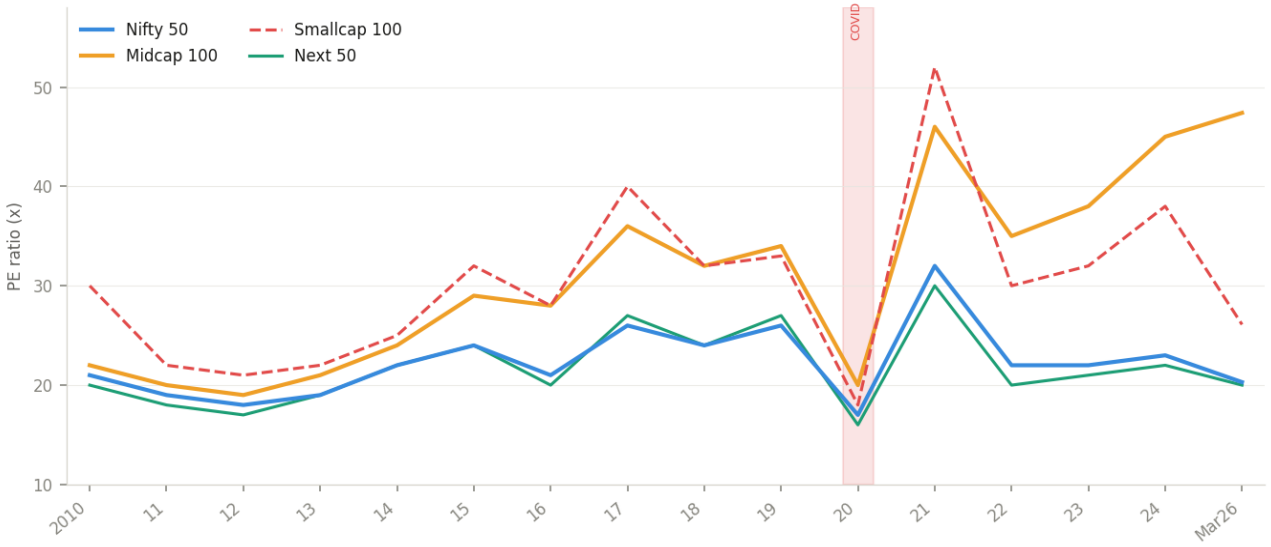

Fig 4: Historical PE ratios for Nifty 50, Next 50, Midcap 100, and Smallcap 100 (2010–2026). The widening spread between large caps (~20x) and midcaps (~47x) at the right edge of the chart is the defining valuation feature of the current Indian market.

In 2014, midcap and large-cap PEs were essentially at parity — both around 22–24x. By January 2022, midcaps were trading at a 2.3x premium to large caps. That premium partially corrected in 2022, recovered through 2023, and is now back at 2.3x — matching the all-time peak of the previous cycle. The historical sustainable premium is 1.2–1.5x, reflecting midcap earnings growth running about 2–3% faster than large caps over the long run. At 2.3x, the market is pricing in either a sustained midcap earnings miracle or a significant inflow-driven liquidity premium from the SIP ecosystem.

The Midcap Premium is the #1 Risk in Indian Equities

At 47.4x PE and a 2.3x premium over Nifty 50, Nifty Midcap 100 is pricing in earnings growth that would need to be sustained at 18–20% pa for five years simply to justify holding the current multiple. If that growth disappoints — or if SIP inflow momentum decelerates — the de-rating could be 25–35% without any change in the underlying businesses. This is not a niche risk: midcap indices account for a significant share of domestic equity fund exposure.

Index	Current PE	10-yr avg	Premium to Nifty 50	Signal
Nifty 50	20.3x	23.4x	—	Fair value

Nifty Next 50	20.0x	22.0x	Parity	Fair value
Nifty 100	20.3x	23.0x	Parity	Fair value
Nifty 500	24.1x	26.0x	+19%	Moderate
Nifty Smallcap 250	26.1x	30.0x	+29%	Moderate
Nifty Midcap 100	40.0x	30.0x	+97%	Expensive
Nifty Midcap 150	44.0x	32.0x	+117%	Very expensive
Nifty Midcap (broad)	47.4x	33.0x	+133%	Very expensive

TRANSITION → PART III

The broad market picture shows large caps at fair value and midcaps expensive. But "large cap" encompasses a highly diverse set of sectors — banks, IT, FMCG, pharma, metals — each with its own structural PE range. Before drawing investment conclusions, we need to decompose the headline reading into its sectoral constituents and understand which parts of the Nifty are cheap and which are expensive on a like-for-like basis. That is the work of Part III.

PART III — SECTORAL DECOMPOSITION

Reading Sectors Against Their Own History

There is a fundamental error in comparing absolute PE levels across sectors. A bank trading at 25x is grotesquely expensive. A consumer staples company at 25x is potentially a bargain. The reason is structural: each sector's PE range is determined by the predictability of its earnings, the capital intensity of its business, its sensitivity to the economic cycle, and the regulatory environment it operates in. Banks, for instance, have inherently lower PE ranges because their earnings are volatile (loan losses spike in downturns) and because leverage constrains their pricing. FMCG companies command premium PEs because their earnings are defensive and highly predictable — investors pay for visibility. IT companies sit in a wide range because their growth profile can shift dramatically based on US tech spending cycles.

The right analytical framework is therefore to measure each sector's current PE not against a universal benchmark, but against its own structural range. Below, we do exactly that for the six major NSE sectoral indices.

4.1 Sectoral PE Histories: 2010–2026

Fig 5: PE history for Bank Nifty, Nifty IT, FMCG, Pharma, Metal, and Auto (2010–2026). Each panel uses the same y-axis to preserve comparability within a sector over time. Dashed grey line = index-specific 10-year average. Current value labelled at right edge.

Several observations from the six-panel chart deserve highlighting. Bank Nifty's PE collapsed to 8x during COVID (the NPA panic was acute) and has since recovered but sits well below its pre-COVID norm. Nifty IT had a spectacular re-rating during the 2020–2021 remote-work boom, peaking above 38x, and has since de-rated all the way back to its 2015–2016 levels. Nifty FMCG has remained in a structurally high PE band throughout — the defensive premium has been remarkably stable. Metal has the most violent swings, entirely driven by commodity cycles, and should never be evaluated on a simple PE basis without adjusting for the cycle.

4.2 Current Sectoral Snapshot and Structural Ranges

Index	Current PE	Structural range	vs own history	Narrative
PSU Banks	9.1x	8–14x	Low end of range	NPA resolution largely done; credit growth re-accelerating
Bank Nifty	14.8x	12–22x	Multi-year low	Private bank ROE recovery underway; NIMs stabilising
Nifty IT	21.5x	18–40x	5-year PE low	US tech spend slowdown; USD/INR headwind on margins
Nifty Infra	20.9x	18–28x	Fair value	Capex supercycle; central govt spending running at record
Nifty Pharma	33.3x	22–45x	Fair to rich	US generics stabilising; domestic formulations growing well
Nifty FMCG	38.4x	30–55x	Fair for sector	Rural demand recovering; defensive premium structurally justified
Nifty Auto	30.1x	14–35x	Fair to rich	EV transition creating uncertainty; cyclical upturn partially priced
Nifty Realty	39.2x	25–80x	Mid-range (cycle)	Housing super-cycle ongoing in top-8 cities; inventory tight
Nifty Metal	14.2x	6–20x	Mid-cycle	China demand uncertainty; domestic steel demand supportive
Nifty Midcap	47.4x	28–60x	Elevated	SIP flow premium; domestic liquidity keeping PE elevated

4.3 The Z-Score: Normalising Across Different Structural Ranges

The problem with the table above is that it still requires judgment about what "fair" means for each sector. The z-score solves this by asking a single clean question: relative to its own 10-year mean and standard deviation, how unusual is the current PE reading? A z-score of –1.4 for Bank Nifty does not mean banks are cheap in absolute terms — it means the current reading is 1.4 standard deviations below the level at which banks have traded on average over the past decade. That is a statistically rare reading, and historically it has preceded above-average forward returns.

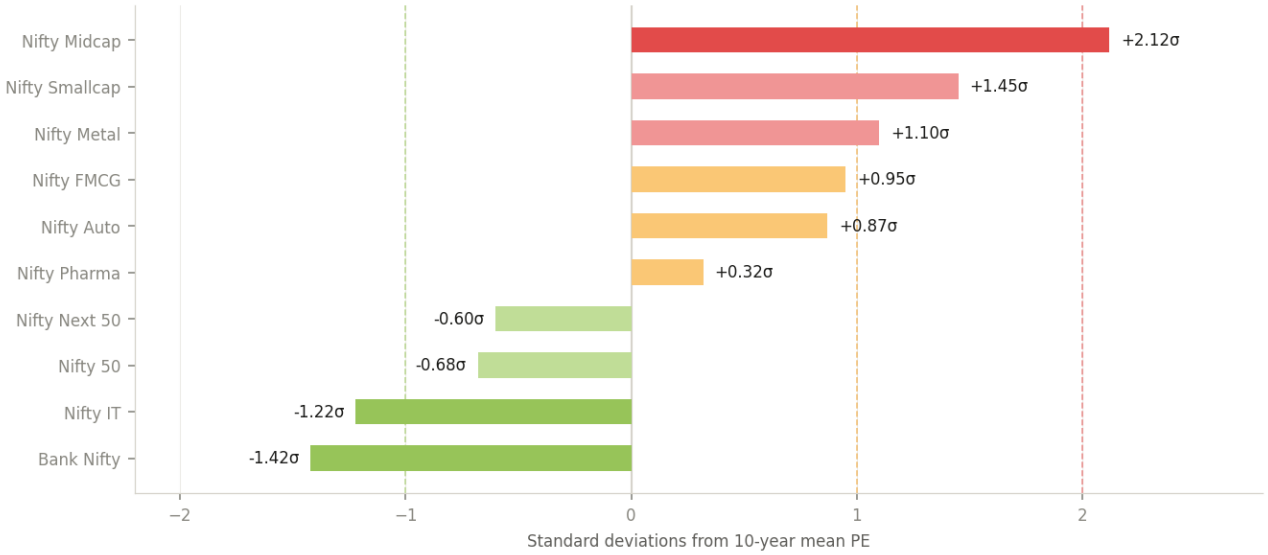

Fig 6: PE z-scores vs each index's own 10-year mean. Green bars = cheap vs own history. Red bars = expensive vs own history. Dashed lines at –1σ, +1σ, and +2σ mark significance thresholds.

The z-score chart delivers a clear verdict. On the cheap side, Bank Nifty at –1.4σ and Nifty IT at –1.2σ are both trading at statistically unusual cheapness relative to their own histories — the kind of readings that, in the past, have preceded periods of significant outperformance. The Nifty 50 itself is modestly below average (–0.7σ). On the expensive side, Nifty Midcap at +2.1σ stands out as the only index in genuinely concerning territory. Nifty Smallcap at +1.5σ is elevated but less extreme.

Z-score range	What it signals	Historical outcome (3-year)	Current examples
Below –2σ	Extreme value	~90% of outcomes: outperformance	None currently
–2σ to –1σ	Cheap	Strong forward return expectation	Bank Nifty, Nifty IT
–1σ to 0	Below average	Moderate return potential	Nifty 50, Next 50, Pharma
0 to +1σ	Fair to rich	Returns in line with earnings growth	FMCG, Metal, Auto
Above +1σ	Expensive	PE compression likely	Smallcap, Midcap
Above +2σ	Very expensive	~70% of outcomes: underperformance	Nifty Midcap (+2.1σ)

TRANSITION → PART IV

We have now established where Indian equities sit relative to gold, relative to their own PE history, and relative to each other on a sector basis. The natural next question is: how does this compare to the rest of the world? Are there global forces that make Indian valuations more or less compelling? And what does the long arc of market history tell us about where India's structural PE level is headed?

PART IV — THE GLOBAL FRAME

India in the Context of Global Market Valuations

Placing India in a global context matters for two reasons. First, foreign institutional investors (FIIs) evaluate Indian equity alongside global alternatives — if India looks expensive relative to equally-growing emerging markets, capital flows elsewhere. Second, global valuation comparisons reveal something important about the current macro environment: it is one of the most bifurcated in recent memory, with the US at near-dotcom valuations and much of the rest of the world at fair-to-cheap levels.

Most expensive globally
S&P 500: 27.2x
+37% above 10-yr avg

Best value (major mkts)
China 10.4x
Brazil 11.5x

India vs US
20.3x vs 27.2x
India now cheaper

MSCI Emerging Mkts
16.4x avg
India at modest premium

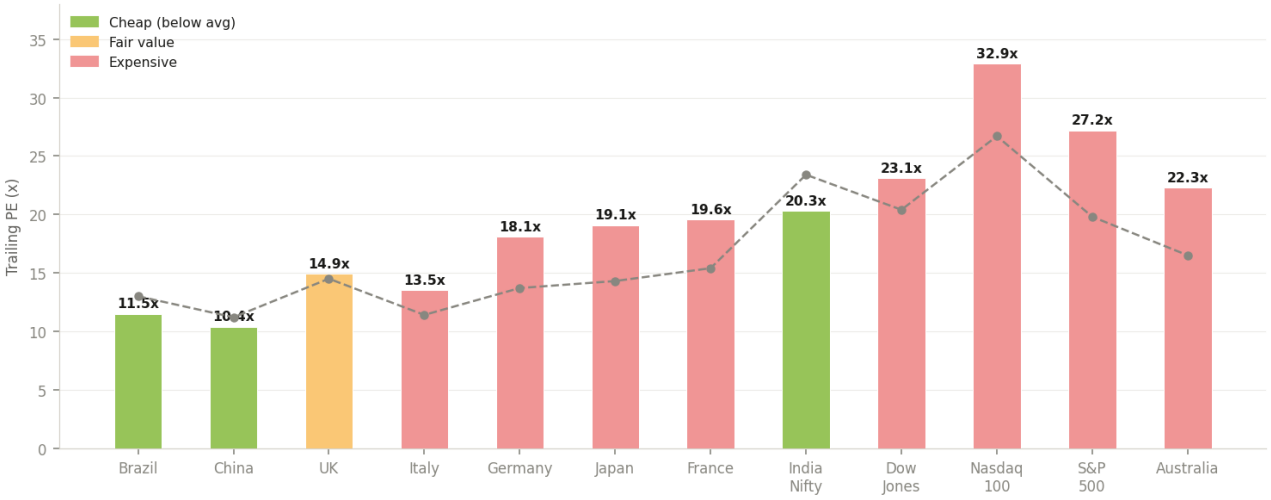

Fig 7: Current trailing PE vs 10-year average for 12 major global indices (March 2026). Bars: colour-coded by cheapness vs own average. Line: 10-year average for each market. India (Nifty 50, highlighted) is one of the few markets trading below its own average.

Several features of this global snapshot deserve extended comment. The S&P; 500 at 27.2x is now 37% above its 10-year average — a reading that, on a Shiller CAPE basis (which smooths earnings over 10 years), is even more extreme at approximately 37x and in the 99th percentile of historical observations. The counterargument — that AI-era earnings growth justifies this — is partly valid for the technology sector but applies much less to the broader index. European markets (Germany, France, Japan) have re-rated aggressively in 2025, driven by corporate governance reform in Japan and fiscal stimulus expectations in Europe, and all now trade materially above their 10-year averages. India at 20.3x, trading 13% below its 10-year average, stands out as one of the relatively disciplined major markets globally.

5.1 Global PE League Table

Market / Index	Current PE	10-yr avg	Premium/(Disc)	σ vs avg	Valuation signal
China (FTSE 50)	10.4x	11.2x	–7%	–0.5σ	Fair
Brazil (Bovespa)	11.5x	13.0x	–12%	+1.6σ*	Cheap on 10yr
UK (FTSE 100)	14.9x	14.5x	+3%	+3.4σ	Fair
Italy (MSCI)	13.5x	11.4x	+18%	+1.4σ	Fair–rich

Germany (MSCI)	18.1x	13.7x	+32%	+2.9σ	Expensive
Japan (MSCI)	19.1x	14.3x	+34%	+3.4σ	Expensive
India — Nifty 50	20.3x	23.4x	–13%	–0.7σ	Fair value
France (MSCI)	19.6x	15.4x	+27%	+2.4σ	Expensive
Dow Jones	23.1x	20.4x	+13%	+1.0σ	Fair–rich
Nasdaq 100	32.9x	26.7x	+23%	+1.5σ	Expensive
S&P 500	27.2x	19.8x	+37%	+2.3σ	Very expensive
Australia (ASX)	22.3x	16.5x	+35%	+3.3σ	Very expensive

* Brazil's σ vs 5-year average is +4.0σ (expensive on short-term view); the 10-year average is more representative of structural value. India row highlighted.

5.2 The Market-Age and PE Lifecycle Thesis

The global comparison raises a deeper structural question: is there a relationship between how old (or mature) a market is and what PE level it sustainably commands? The answer, with one deliberate exception, is yes — and understanding it is essential for interpreting where India's valuation is headed over the next decade.

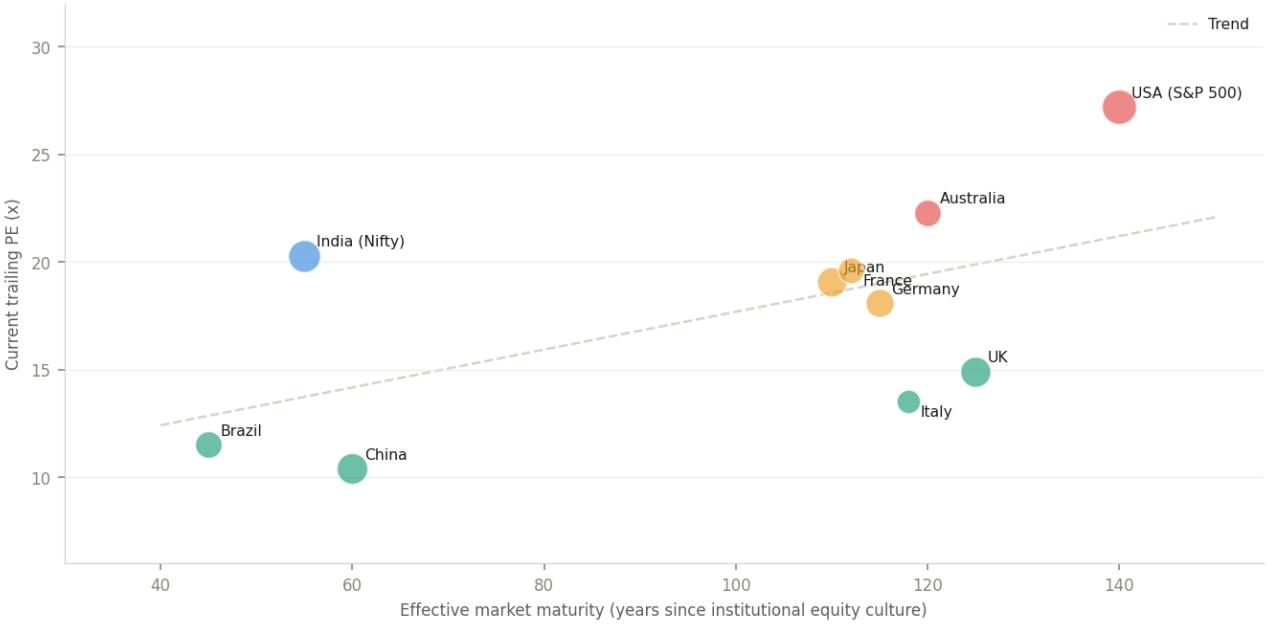

Fig 8: Current trailing PE vs estimated effective market maturity (years since institutional equity culture took hold). Bubble size proportional to market cap. Dashed trend line shows the overall relationship. India (blue) sits above the trend line, reflecting its growth premium.

The scatter plot reveals a clear pattern with one famous outlier. The general trend is downward: older, more mature markets trade at lower PE multiples. This makes economic sense. Younger markets with rapid nominal GDP growth attract growth-premium pricing — investors extrapolate high earnings growth forward, compressing the forward earnings multiple. As markets mature, earnings catch up to prices, reporting quality improves, institutional depth grows, and the PE gravitates toward a stable equilibrium. The typical developed market range — UK, Germany, Italy — is 13–18x. The typical growing-EM range — India in its current phase — is 18–25x.

Phase	Market type	Typical PE range	Where it fits today
1 — Frontier	Limited transparency, thin liquidity	5–15x or erratic	Frontier markets (Pakistan, Vietnam)

2 — Growing EM	Rapid GDP; SIP/retail flow-driven	18–30x	India 2003–2015; Indonesia now
3 — Maturing market	Earnings catching up to prices	16–24x	India today; Korea 2005–2015
4 — Developed market	Lower growth; dividends matter	12–18x	UK, Germany, Italy, Japan*
5 — Tech re-rating	US-specific AI era structural shift	22–35x	S&P 500, Nasdaq 100

The US Anomaly

The S&P; 500 at 27.2x breaks the market-age theory entirely. At 140+ years of institutional history, the model would predict a 14–16x PE. Instead, the concentration of the Magnificent 7 (approximately 33% of S&P; 500 market cap) has re-rated the entire index to a PE that has no precedent outside the 1999 dotcom peak. Whether this is justified by AI-era earnings growth or represents the next great bubble is the central unresolved question in global markets. The historical precedent for a resolution is not encouraging: every prior time the S&P; 500 has been at 2.3σ above its 10-year average, the subsequent 7-year return has been below 5% annualised.

For India specifically, the lifecycle thesis suggests the structural PE will continue to compress from the 24–28x of the 2021 peak toward the 18–22x range characteristic of Phase 3 markets. The Nifty 50's current 20.3x is already in that range — an indication that the de-rating phase is well advanced for large caps. The remaining de-rating risk is concentrated in midcaps, which are still priced at Phase 2 (growing-EM) multiples despite the underlying market entering Phase 3 maturity.

TRANSITION → PART V

Having mapped valuations across the full landscape — gold ratio, PE history, sectoral decomposition, z-scores, and global comparisons — we can now assemble the forward return signal. Valuation, as the research consistently shows, is a poor short-term timing tool but the most powerful determinant of long-run returns. Part V translates current PE levels into expected forward CAGRs and synthesises the full picture into actionable conclusions.

PART V — THE FORWARD RETURN SIGNAL

What Current Valuations Imply for 3-Year Returns

The empirical relationship between starting PE and subsequent 3-year returns is the most durable finding in long-run equity research. It does not work as a 12-month timing tool — markets can stay expensive for years and cheap for months. But over 3–5 year horizons, the compression of starting PE toward the mean is sufficiently reliable to give investors a probability-weighted expected return. For Indian markets specifically, the relationship has been remarkably stable across cycles.

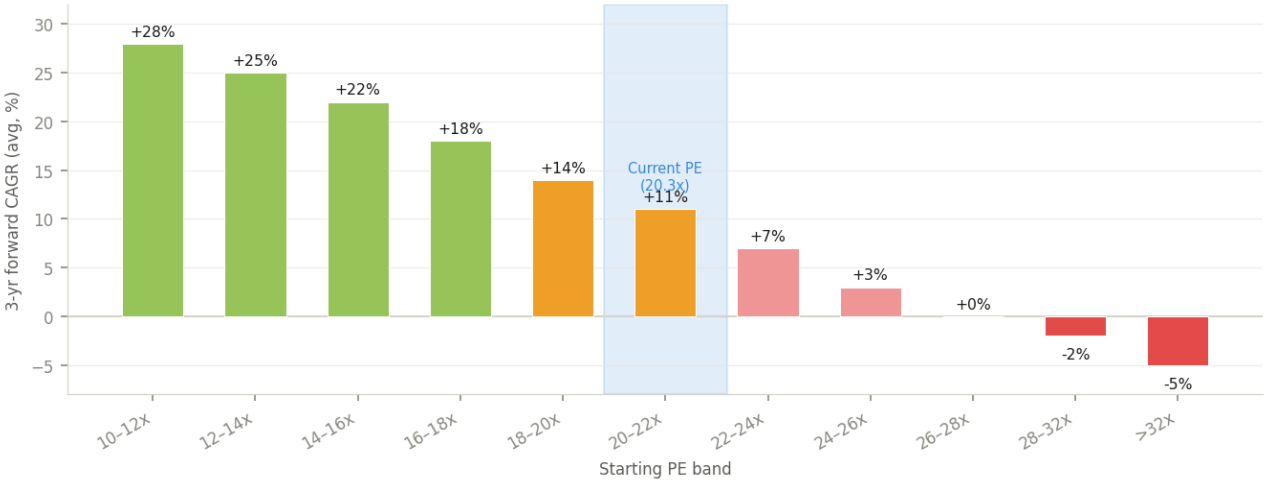

Fig 9: Historical average 3-year forward CAGR for Nifty 50 from different starting PE bands. Blue shaded band = current PE (20–22x), implying ~10–14% expected 3-year CAGR. The signal turns negative at starting PEs above 28x.

The chart tells a probabilistic story. Starting at 20.3x today, the historical forward 3-year CAGR distribution for the Nifty 50 centres around 10–14%. That is not a guaranteed outcome — the dispersion around this mean is wide, and tail risks (global recession, domestic earnings miss, geopolitical shock) can produce negative outcomes even from this starting level. But the base rate is constructive. Compare this to the S&P; 500 at 27.2x, where the historical 3-year return distribution starts to show a meaningful probability of flat-to-negative outcomes.

6.1 Expected Returns by Index — Current Starting PE

Index	Current PE	PE percentile (10yr)	Expected 3-yr CAGR	Confidence level
PSU Banks	9.1x	5th — very cheap	18–25% pa	Medium (NPA cycle dependency)
Bank Nifty	14.8x	10th — cheap	16–22% pa	High
Nifty IT	21.5x	15th — cheap	14–18% pa	High (if US tech recovers)
Nifty 50	20.3x	30th — fair	10–14% pa	Medium-high
Nifty Next 50	20.0x	28th	10–14% pa	Medium
Nifty Infra	20.9x	40th	9–13% pa	Medium
Nifty FMCG	38.4x	45th — structural	10–12% pa	Medium (defensive PE)
Nifty Pharma	33.3x	50th	9–13% pa	Medium

Nifty Auto	30.1x	60th	7–11% pa	Medium-low
Nifty Smallcap	26.1x	65th	6–10% pa	Low-medium
Nifty Midcap 100	47.4x	78th — expensive	2–6% pa	Low (PE compression base case)

The table above should be read with the following important caveats. First, "expected return" here is a historical mean estimate, not a forecast — the actual outcome depends on earnings realisation, multiple change, and dividend yield, all of which carry uncertainty. Second, the confidence levels reflect the stability of the historical PE-to-return relationship for each index, not the probability of a specific outcome. Bank Nifty is "high confidence" because the relationship between low starting PEs and subsequent outperformance has been consistent; IT is "high confidence if US tech recovers" because the sector's earnings trajectory is more sensitive to a single external variable than any other large index.

INVESTMENT CONCLUSIONS

Synthesis: What the Data Says and What to Do With It

Six sections of analysis have built toward a single integrated picture. This final section assembles the thesis, identifies what would break it, and translates the valuation evidence into a clear, non-trivial positioning view.

7.1 The Investment Thesis in Full

Indian large-cap equities are offering a rare combination of reasonable valuation, improving earnings quality, and a globally competitive positioning at a time when most developed markets are pricing perfection. The Nifty 50 at 20.3x — 13% below its 10-year average and cheaper on a trailing PE basis than the S&P; 500 — is not screaming value in the absolute sense. But it is the correct side of the valuation cycle to be on for a 3–5 year investment horizon.

Within Indian equities, the clearest opportunity lies in sectors that have de-rated sharply without a corresponding deterioration in fundamentals. Bank Nifty, trading at 1.4 standard deviations below its own 10-year mean, is the most statistically compelling large index. The NPA cycle has largely played out; credit growth is recovering; and ROE for private banks is rebuilding toward pre-2020 levels. The market is pricing in a downside scenario that the data does not currently support.

Nifty IT presents a similar structural opportunity with a different risk profile. The de-rating from 38x (2021) to 21.5x (2026) has been one of the most significant PE compressions in any large Indian sector. The bear case — that US tech spending permanently slows and AI automation displaces Indian IT services — is real but overstated in the current pricing. At 5-year PE lows, the sector is compensating investors well for that risk.

> **The core positioning conclusion**
>
> Overweight Indian large caps (Nifty 50, Bank Nifty, Nifty IT) vs Indian midcaps. Within a global portfolio, Indian large caps are attractively valued relative to US equities for the first time in many years. The Nifty/Gold ratio at a 30-year low adds a second independent signal in the same direction for patient investors with a 3–5 year horizon.

7.2 What Would Break the Bull Case

No valuation thesis is complete without a clear statement of what would invalidate it. The bull case for Indian large caps rests on three pillars — and each has a specific vulnerability:

- **Earnings delivery:** The 10–14% forward CAGR expectation from a 20.3x PE starting point is only achievable if Nifty earnings grow at 12–15% pa over the period. The 2024 earnings season saw material misses in FMCG and IT; a broader earnings deceleration — particularly if rural consumption stays weak — would trigger rapid PE compression. Watch for Q4FY26 results closely.

- **Midcap contagion:** If the midcap de-rating accelerates (e.g., triggered by a slowdown in SIP inflows, a market correction, or a liquidity event), domestic sentiment could temporarily drag large caps down with it. The correlation between midcap and large-cap returns is higher in downturns than in bull markets.

- **Gold continuing to rise:** If gold climbs to ■20,000+/gram on a new geopolitical escalation or accelerated de-dollarisation, the Nifty/Gold ratio could compress further. This would not invalidate the absolute PE case for equities but would mean the contrarian gold-vs-equity trade takes longer to pay off.

• **Global risk-off event:** A sharp US recession or a major global financial shock would impact India through FII outflows and earnings pressure simultaneously. This is the scenario where "reasonably valued" markets like India offer less protection than pure defensives (gold, bonds).

• **RBI policy error:** An unexpected tightening cycle — triggered by INR depreciation or an oil price spike — could compress valuation multiples and slow credit growth simultaneously, hitting both the Nifty 50 and Bank Nifty.

7.3 Preferred Positioning: A Summary

Index / Sector	PE signal	Z-score	Recommended stance	Time horizon
Bank Nifty / PSU Banks	Cheap	–1.4σ	Overweight	18–36 months
Nifty IT	Cheap (5yr low)	–1.2σ	Overweight (with US tech recovery caveat)	24–42 months
Nifty 50 (broad)	Fair value	–0.7σ	Neutral-to-overweight vs global peers	36–60 months
Nifty Pharma / FMCG	Fair for sector	~0σ	Neutral; defensive allocation only	12–24 months
Nifty Auto	Fair to rich	+0.9σ	Neutral; EV transition overhang	24 months+
Nifty Midcap	Expensive	+2.1σ	Underweight; PE compression base case	12–36 months
Nifty Smallcap	Moderately expensive	+1.5σ	Underweight vs large caps	12–24 months

These stances are probability-weighted views, not certainties. The time horizons reflect the typical window over which PE mean-reversion has historically operated for each index. Shorter-term tactical positioning may differ significantly — particularly given the potential for continued midcap flow support from SIP inflows in the near term. The recommendations above are designed for investors whose mandate allows them to hold through short-term dislocations in pursuit of the valuation signal's payoff.

CLOSING THOUGHT

Every major valuation bottom in Indian equity history — 2003, 2008, 2011, 2014, 2020 — looked uncomfortable in the moment. The narrative at each of those points was: "there are too many risks, the macro is uncertain, why would I buy here?" The valuation signal was constructive not because the near-term outlook was clear, but because the price already reflected the uncertainty. The current setup — a Nifty/Gold ratio at 30-year lows, large-cap PE at the 30th percentile, financials and IT at multi-year z-score cheapness — does not guarantee a repeat. But it is precisely the kind of configuration where history suggests patience is rewarded.

APPENDIX — DATA TABLES

Reference Data

The tables in this appendix provide the complete underlying datasets used throughout the report. Readers who want to verify specific data points, run their own analysis, or track how these metrics evolve over time should use these tables as their reference. The analytical conclusions in the main body are grounded entirely in this data — nothing has been interpolated or estimated without a stated basis.

A. Nifty/Gold Ratio — Key Historical Data Points

Year	Nifty/Gold ratio	Market context and significance
1995	4.8x	Pre-liberalisation equity culture; gold as default savings instrument
1999	4.0x	Dotcom era optimism; equity culture growing among urban savers
2003	2.6x	▼ Structural bottom — start of the great India bull run (2003–2007)
2007	6.2x	▲ Peak bull market; equities had comprehensively beaten gold
2009	2.5x	▼ GFC low — followed by 77% Nifty rally in 9 months
2011	2.6x	▼ Euro sovereign crisis; gold touching all-time highs of the era
2017	4.1x	▲ Post-demonetisation recovery; last clear "equities winning" period
2020	2.3x	▼ COVID crash low — followed by 104% rally in 16 months
2023	3.0x	Recovery phase; Nifty mid-cycle, gold still bid on Fed pivot hopes
Mar 2026	1.45x	▼▼ ALL-TIME LOW — gold up 75–80% in 2025; Nifty down ~8% from peak

B. Current Sectoral PE Snapshot — March 2026

Index	Trailing PE	5-yr range	PB ratio	Div yield	Valuation signal
Nifty 50	20.3x	17–32x	3.15x	1.35%	Fair value
Nifty Next 50	20.0x	15–30x	2.90x	1.45%	Fair value
Bank Nifty	14.8x	8–27x	2.10x	1.80%	Cheap
PSU Bank	9.1x	5–18x	1.20x	2.80%	Very cheap
Nifty IT	21.5x	21–38x	6.80x	2.10%	Cheap (5-yr low)
Nifty Infra	20.9x	16–32x	3.40x	1.20%	Fair value
Nifty FMCG	38.4x	37–50x	9.50x	1.60%	Fair for sector
Nifty Pharma	33.3x	26–40x	4.80x	0.90%	Fair–rich
Nifty Auto	30.1x	16–32x	5.10x	1.10%	Fair–rich
Nifty Metal	14.2x	6–18x	2.30x	2.40%	Mid-cycle
Nifty Realty	39.2x	18–80x	5.80x	0.40%	Fair (cycle)

Nifty Midcap 100	47.4x	20–52x	5.70x	0.80%	Expensive
Nifty Smallcap	26.1x	18–55x	3.90x	1.10%	Moderate

C. Global Market PE — Full Reference Table (March 2026)

Market / Index	Trailing PE	5-yr avg	10-yr avg	20-yr avg	vs 5yr avg	vs 10yr avg	Signal
China (FTSE 50)	10.4x	10.2x	11.2x	11.0x	+2%	–7%	Fair
Brazil (Bovespa)	11.5x	8.0x	10.0x	10.0x	+44%	+15%	Cheap on 10yr
UK (FTSE 100)	14.9x	13.2x	13.4x	12.3x	+13%	+11%	Fair
Italy (MSCI)	13.5x	10.6x	11.4x	11.2x	+27%	+18%	Fair–rich
Germany (MSCI)	18.1x	14.2x	13.7x	12.5x	+27%	+32%	Expensive
Japan (MSCI)	19.1x	14.8x	14.3x	14.4x	+29%	+34%	Expensive
India (Nifty 50)	20.3x	24.0x	23.4x	18.0x	–15%	–13%	Fair value ★
France (MSCI)	19.6x	16.6x	15.4x	13.4x	+18%	+27%	Expensive
Dow Jones	23.1x	22.6x	20.4x	17.4x	+2%	+13%	Fair–rich
Nasdaq 100	32.9x	30.1x	26.7x	22.4x	+9%	+23%	Expensive
S&P 500	27.2x	22.9x	19.8x	16.4x	+19%	+37%	Very expensive
Australia (ASX)	22.3x	17.2x	16.5x	14.9x	+30%	+35%	Very expensive

★ India row highlighted. 20-yr average uses NSE data back to 2000.

CLOSING REMARKS

What the Full Picture Tells Us

This report has moved through five analytical lenses — the gold ratio, the headline PE history, the sectoral decomposition, the global comparison, and the market-age thesis — and each has pointed toward a broadly consistent conclusion. It is worth assembling that conclusion one final time, as a connected argument rather than a list of findings.

The Nifty/Gold ratio at a 30-year low is the most visually arresting data point in the current market, and it is right to give it weight. But the analytical work shows that this ratio is being driven primarily by an extraordinary external event — gold's 75–80% INR appreciation in 2025, fuelled by central bank de-dollarisation and geopolitical risk premium — rather than by Indian equity weakness. Nifty is down ~8% from its September 2024 peak. That is a correction, not a collapse. The ratio's signal is constructive but requires patience: the reversion may come through gold normalising over 2–3 years rather than through a sharp equity rally.

The PE analysis adds precision to the gold signal. At 20.3x, the Nifty 50 is not cheap in any absolute sense — the genuine buy zone on a consolidated earnings basis would be closer to 17–18x. But it is meaningfully below its 10-year average, in the 30th percentile of its own history, and generating forward return expectations in the 10–14% range based on the historical PE-to-return relationship. That is a reasonable expected return for a market carrying India's structural growth premium.

The sectoral story sharpens the picture further. The headline 20.3x conceals two genuinely cheap sectors — Bank Nifty at –1.4σ and Nifty IT at –1.2σ below their own 10-year means — and one persistently expensive one: Nifty Midcap at +2.1σ. This divergence is the defining feature of the current market. Large caps are offering value; midcaps are offering risk. The capital allocation implication flows directly from this: concentration in large-cap financials and technology, discipline on midcap exposure until the PE premium normalises.

The global frame adds one more important dimension. India at 20.3x is now cheaper on a trailing PE basis than the United States (27.2x) — an inversion that would have seemed improbable five years ago. The S&P; 500's AI-era re-rating has pushed US valuations to a level where historical forward return distributions are materially skewed toward disappointing outcomes. In this context, Indian large caps are not just reasonably priced in isolation — they are competitively priced relative to the world's most-watched equity market.

Finally, the market-age thesis provides the structural backdrop. India is entering Phase 3 of the market maturity lifecycle — the transition from a high-growth, premium-PE emerging market toward the disciplined 18–22x range of maturing markets. This is not a warning sign; it is evidence of institutional deepening. The remaining de-rating risk is concentrated in midcaps, which are still priced as if India is in Phase 2. Large-cap India has largely completed this transition already.

The verdict in three sentences

Indian large-cap equities — particularly financials and IT — are offering the most compelling risk/reward they have provided in several years, with PE z-scores at multi-year lows and a globally competitive valuation against an expensive US market. The Nifty/Gold ratio at a 30-year low provides a second, independent valuation signal pointing in the same direction for patient investors with a 3–5 year horizon. The single biggest risk in the portfolio is not being in equities — it is being in the wrong part of equities: the midcap segment, where the 2.3x premium over large caps leaves almost no margin of safety and a high probability of PE compression over the next 12–36 months.

Disclaimer and Methodology Notes

This report is for informational and analytical purposes only and does not constitute investment advice or a solicitation to buy or sell any security. All data is sourced from publicly available databases and is subject to revision without notice. Historical valuation signals and forward return estimates are based on past market behaviour and do not guarantee future results. Actual returns may differ materially from estimates due to changes in earnings, macroeconomic conditions, market sentiment, regulatory developments, or other factors.

PE data for Indian indices uses NSE-published trailing consolidated earnings post-April 2021 and standalone earnings prior to that date; the two series are not directly comparable without adjustment and should not be read as a continuous series. Global PE data sourced from worldperatio.com and siblisresearch.com as of March 13–14, 2026. Z-score calculations use each index's own 10-year mean and standard deviation, excluding outliers beyond ±3σ. Forward return estimates are based on historical rolling 3-year return analysis and represent median outcomes — actual dispersion around these medians is wide.

Report prepared: March 14, 2026. Analysis generated via AI-assisted quantitative research. Data sources: NSE, CMIE Economic Outlook, worldperatio.com, siblisresearch.com.