

WHAT HAPPENS TO FORWARD RETURNS WHEN NIFTY BREACHES P/B OF 2.8?



LESSONS FROM 10 BREACHES ACROSS 8 MARKET- STRESS EPISODES SINCE 1999

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WHAT HAPPENS TO FORWARD RETURNS WHEN NIFTY BREACHES P/B OF 2.8?

PART 1 – WHAT HAPPENED IN THE MARKET WHEN NIFTY BREACHED P/B LOWS?

The NIFTY is currently trading at 2.78x P/B, close to the 2.8x level that has historically marked meaningful valuation compression. We examine ten instances across eight episodes since 1999 when NIFTY breached 2.8x, breach to local maxima return and 3- and 5-year returns from the initial breach.

PART 2 – WHAT DO ROLLING RETURNS SAY?

Starting valuations dictate whether investors face structural headwinds or tailwinds over multi-year horizons. Anchoring expectations in historical entry bands provides a clear framework to navigate current stagnation. The historical data demonstrates a clear inverse relationship between starting P/B multiples and forward performance.

PART 3 – STRONG ECONOMIC FUNDAMENTALS

India's macroeconomic fundamentals remain resilient, with strong GDP growth, moderating inflation and a healthier banking system supporting economic expansion.

Corporate profitability has recovered, while forward earnings growth remains in double digits.

PART 4 – ATTRACTIVE RERATING POTENTIAL

Combining double-digit earnings growth with scope for valuation rerating and a dividend yield above its historical median, NIFTY 50 offers a compelling return profile. Under our base and best-case scenarios, estimated annualised total returns range from 21.0%–24.0% over three years and 17.1%–18.9% over five years.

Omni Takeaway :

*With an encouraging economic outlook and the market valuation supporting a potential upside from multiple expansion, markets could potentially deliver returns **higher than the long term average return.***

PART 1 : WHAT HAPPENED IN THE MARKET WHEN NIFTY BREACHED P/B LOWS ?

Valuations are best understood in historical and fundamental context. India's underlying economic trajectory and corporate fundamentals remain relatively solid, making the current market correction important to assess against historical episodes rather than simply through the lens of price movements. We use P/B rather than P/E because book value provides a stable denominator over a cycle, while earnings can be significantly distorted during cyclical downturns.

HISTORICAL EPISODES

We identify *eight distinct episodes* of market stress (excluding the current one) since 1999 during which NIFTY's P/B breached 2.8x and remained below this threshold for at least 90 days. *There was one episode of market stress, every three years on an average, in past twenty-seven years.* This section charts out these episodes and provides the broader context in which each occurred, allowing us to understand different periods of valuation compression.

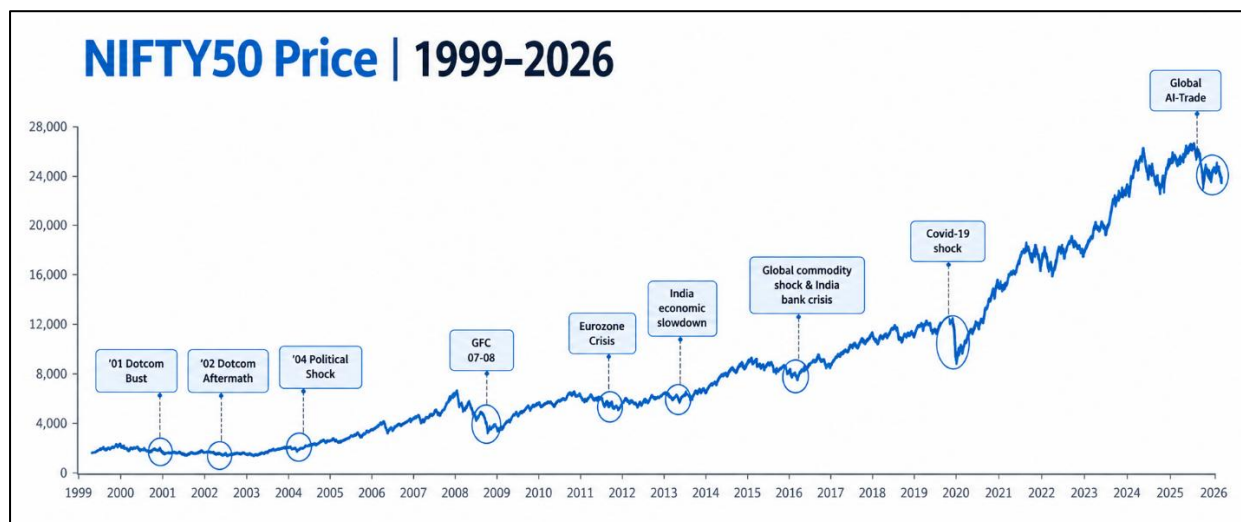


Exhibit 01 : Price Levels of NIFTY50 and Periods of Market Stress | 1999-2026
Source : NSE Indices & OmniScience Insights Lab

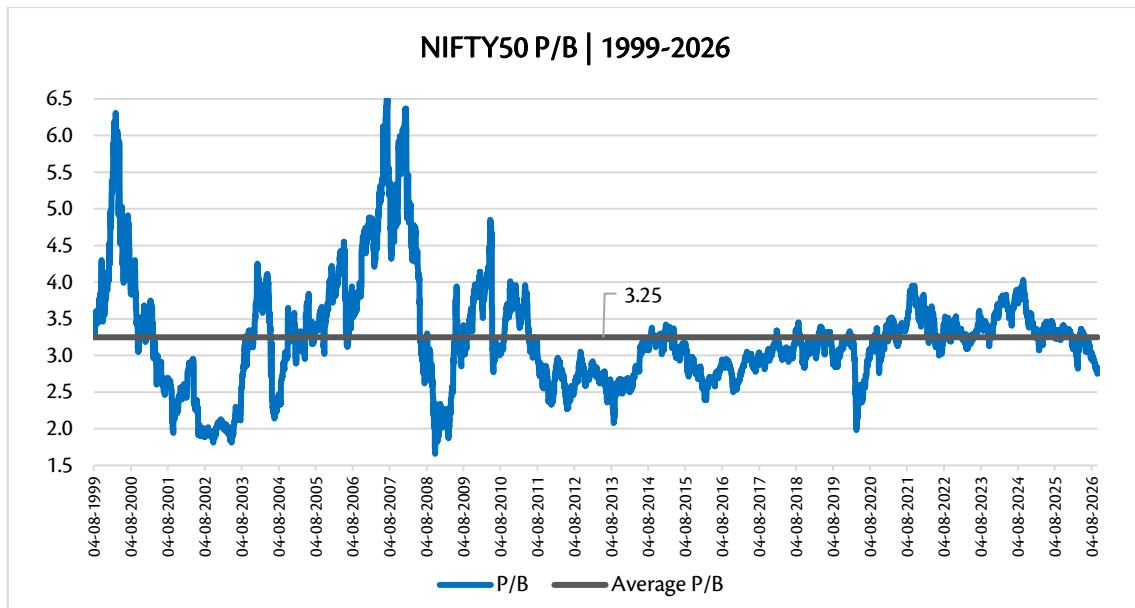


Exhibit 02 : Historical P/B Levels of NIFTY50
Source : NSE Indices & OmniScience Insights Lab

- **2001 | Dot-com bust and global slowdown:** The bursting of the global technology bubble and the subsequent US slowdown triggered a sharp correction in global equities. In India, the downturn was compounded by the Ketan Parekh-related market disruption and concerns around corporate earnings and financial-sector stability.
- **2002 | Post-dot-com slowdown and corporate stress:** Global equity markets remained under pressure following the dot-com collapse, while corporate earnings and investment activity in India were weak.
- **2004 | Election shock and policy uncertainty:** The unexpected 2004 general election outcome, particularly the defeat of the BJP-led NDA, triggered a sharp market sell-off amid concerns over the incoming government's economic policies. NIFTY fell rapidly as investors reassessed the outlook for reforms, fiscal policy and foreign investment.
- **2008 | Global Financial Crisis:** The collapse of Lehman Brothers in September 2008 and the ensuing global financial crisis triggered an unprecedented wave of risk aversion and capital flight from emerging markets.
- **2012 | Eurozone crisis and domestic growth slowdown:** The European sovereign debt crisis and weakening global growth coincided with a sharp deterioration in India's domestic investment cycle. High inflation, elevated interest rates, policy uncertainty and slowing corporate earnings further weighed on equities.

- **2013 | Growth slowdown, taper tantrum and global risk aversion:** India's weak growth and investment momentum, persistent inflation and elevated interest rates constrained domestic demand. The US Federal Reserve's tapering signals triggered capital outflows from emerging markets, intensifying pressure on the rupee and Indian equities amid concerns over India's external imbalances.
- **2016 | China slowdown, global commodity shock and demonetisation:** Concerns over China's slowdown, falling commodity prices and stress across emerging markets weighed on global sentiment. Domestically, India's November 2016 demonetisation disrupted cash-dependent economic activity, adding to near-term uncertainty, while concerns over banking-sector health further pressured equities.
- **2020 | COVID-19 pandemic:** The rapid global spread of COVID-19 and the unprecedented economic shutdown triggered one of the sharpest and fastest equity-market sell-offs in history. Global risk aversion, uncertainty around the economic impact and an oil-price shock drove NIFTY P/B down to 1.98x within just two weeks.

Broad market indexes hitting lower P/B has historically been followed by further valuation compression, although the extent has varied across episodes. We next examine the returns from the initial 2.8x P/B breach to the subsequent local maximum, alongside 3- and 5-year CAGRs measured from the breach date.

COMPRESSION AND SUBSEQUENT RETURNS

Within the above eight episodes, we identify ten individual breach instances, as certain prolonged episodes, notably in 2002-04 and 2016, saw the threshold breached more than once. This allows us to capture each qualifying breach distinctly.

Across the ten instances identified, the market took an average of 360 days to reach the subsequent local price maxima from the date of breaching 2.8x P/B, generating an average holding period return of 27.85% and a CAGR of 28.25%. Breach to local maxima CAGR ranged from 1.71% to 75.14%, highlighting the potential upside as valuations recover, while also reflecting considerable variation in the magnitude of recoveries.

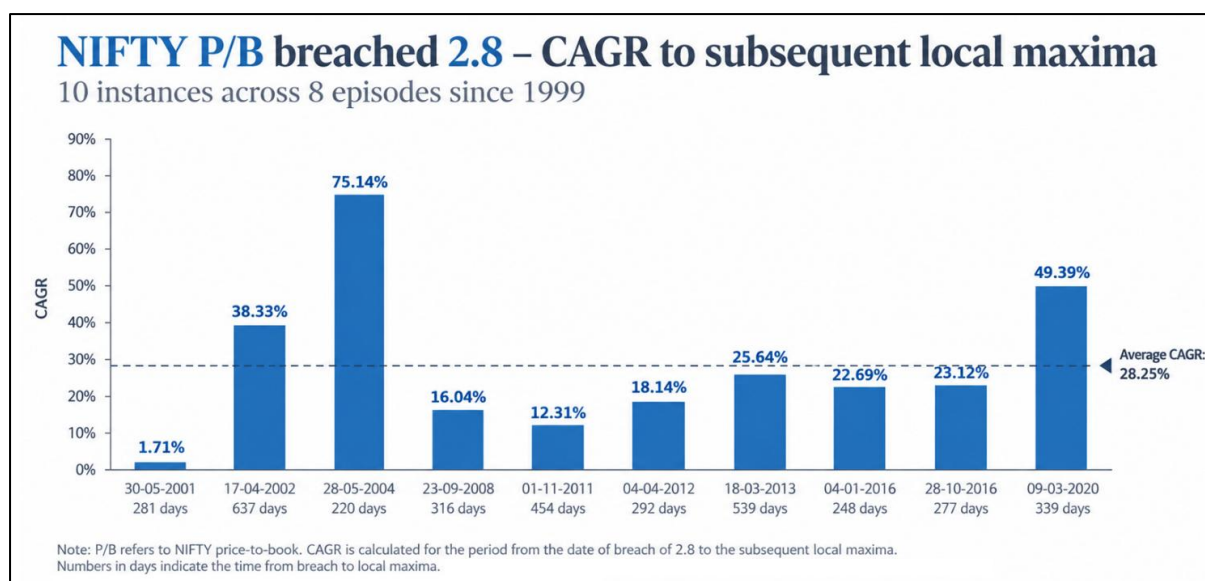


Exhibit 03 : Breach to Local Maxima Returns of NIFTY50
Source : NSE Indices & OmniScience Insights Lab

The above returns are short term opportunities which very few can time. Hence, we look at the returns generated from the initial breach over 3- and 5-year periods. While historical episodes are not directly comparable and do not guarantee future outcomes, the evidence suggests that periods of meaningful valuation compression have historically created more attractive entry points, with the potential for higher subsequent long-term returns.

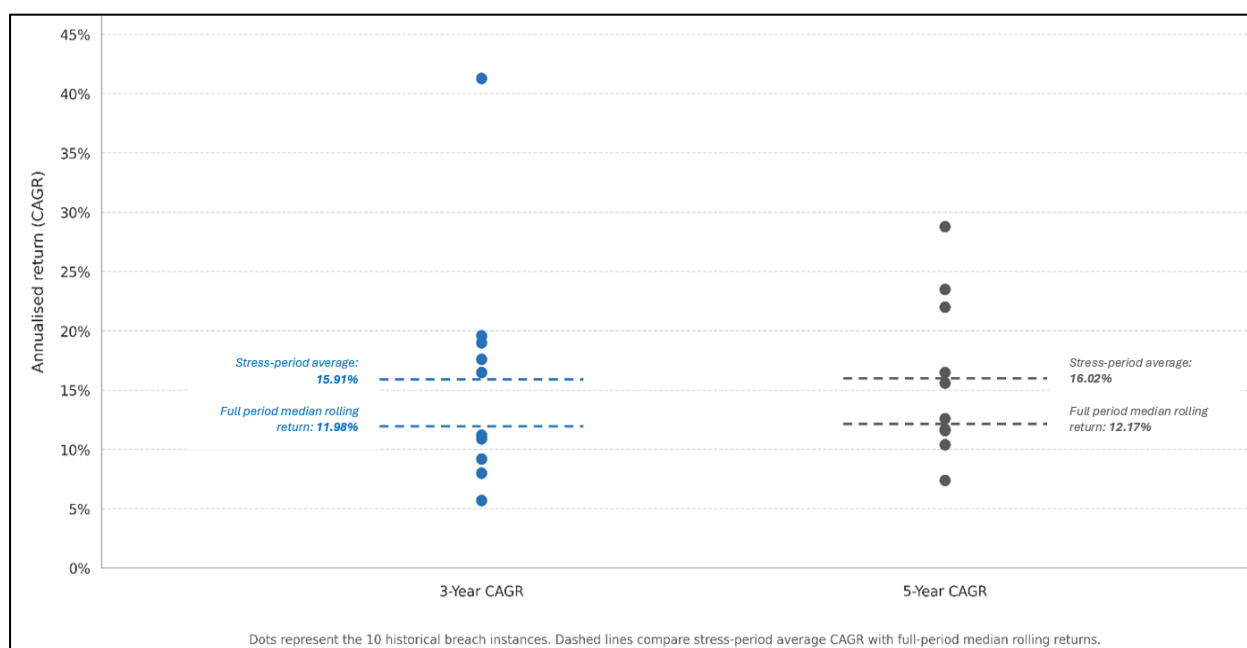


Exhibit 04 : Annualised NIFTY Returns after 10 Historical Breaches of 2.8x P/B
Source : NSE Indices & OmniScience Insights Lab

Date of breach 2.8	3 yr CAGR from breach	5 yr CAGR from breach
30-05-2001	8.0%	22.0%
17-04-2002	19.6%	28.8%
28-05-2004	41.3%	23.5%
23-09-2008	5.7%	7.4%
01-11-2011	16.5%	10.4%
04-04-2012	17.6%	11.7%
18-03-2013	9.2%	11.6%
04-01-2016	11.2%	12.6%
28-10-2016	10.9%	15.6%
09-03-2020	19.0%	16.5%
Average	15.91%	16.02%

Exhibit 05 : Returns of NIFTY50 Subsequent to Episodes of Market Stress
Source : NSE Indices & OmniScience Insights Lab

Key takeaways :

- **Investing during periods of valuation stress has historically delivered superior long-term returns.** Across ten instances of NIFTY P/B breaching 2.8x, average 3-year and 5-year CAGRs stood at 15.91% and 16.02%, respectively, exceeding the full-period median rolling returns of 11.98% and 12.17%.
- **Long-term returns were positive across all ten episodes.** The 3-year CAGR from the initial breach ranged from 5.7% to 41.3%, averaging 15.9%, while the 5-year CAGR ranged from 7.4% to 28.8%, averaging 16.0%. Average returns strengthened over longer periods.
- **The opportunity lies in capturing both earnings growth and valuation rerating.** Equity returns are driven by underlying earnings growth and changes in the valuation multiple. When economic fundamentals remain strong, portfolio companies continue to deliver earnings growth, periods of sustained valuation compression can offer an opportunity to invest at lower multiples and capture the upside from a subsequent rerating.

History suggests that entering at current valuation levels has been favourable over the medium to long term. Despite the possibility of further valuation compression and a prolonged recovery period, every episode produced positive 3-year and 5-year CAGR from the initial breach.

PART 2 : WHAT ROLLING RETURNS INDICATE?

One potential limitation of the above analysis is that the returns are measured from specific breach dates. Point-to-point returns can be influenced by the particular entry date and may therefore produce outcomes that are partly incidental.

Our [FY27 Outlook report](#) from April 2026, examined this relationship using NIFTY 50 rolling returns across different price-to-book (P/B) bands. Given the prolonged stagnation in the market, data from that report continues to be relevant.



Exhibit 06 : Rolling Returns of NIFTY 50 across Valuation Buckets | Aug 1999-Mar 2026
Source : NSE Indices & OmniScience Insights Lab

The rolling-return analysis reinforces the relationship between starting valuation and subsequent performance. Across all three investment horizons, lower P/B bands have consistently generated higher average returns. The combination of NIFTY current P/B at ~2.8x and strong underlying fundamentals, the rolling-return evidence suggests that the current market presents a very strong entry point for investors with a medium- to long-term horizon.

PART 3 : STRONG ECONOMIC FUNDAMENTALS

- **Resilient economic growth:** India's real GDP grew 7.8% in Q1 FY27, supported by investment, consumption and services activity. World Bank has raised India's GDP forecast for FY27 to 7.1% and IMF estimates that India could continue to grow by 6.9% YoY up to 2030.¹
- **Controlled Inflation:** India has transitioned from a high-inflation regime, with CPI inflation frequently around 6–7%, to a more moderate 2–6% range in recent years. External supply shocks, particularly energy prices, remain an upside risk.

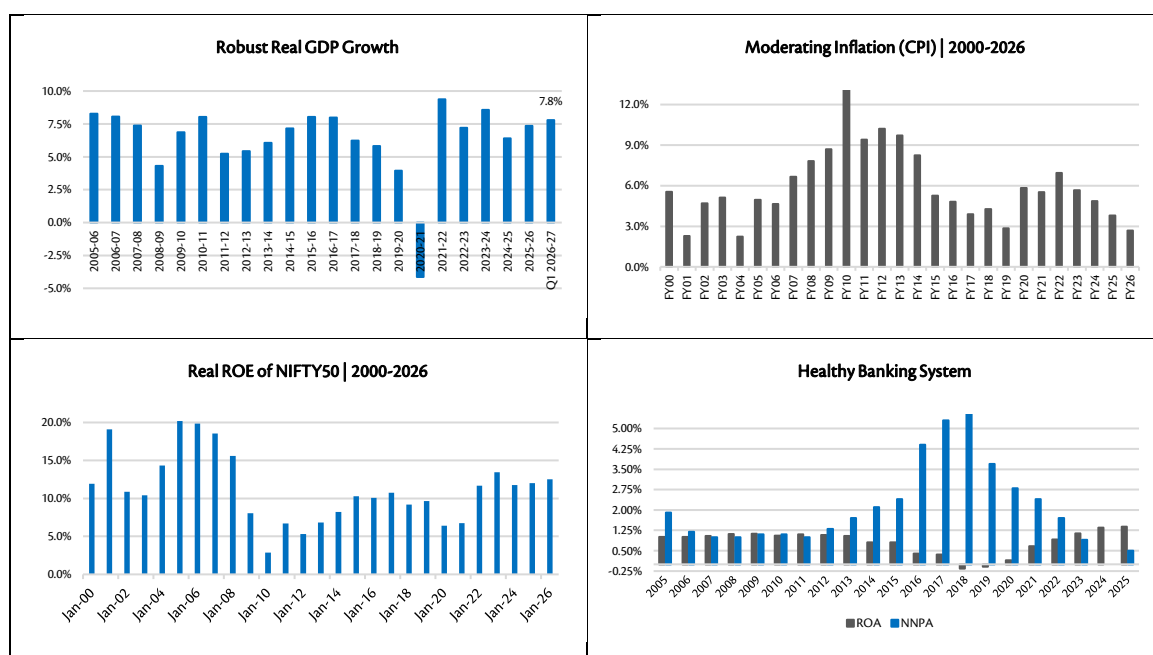


Exhibit 07 : Fundamentals of Indian Economy and Corporations
Source : OmniScience Insights Lab

- **Corporate Profitability:** NIFTY 50 real ROE has recovered from its post-pandemic lows and remains elevated relative to much of the past decade. Improving earnings growth and rising corporate profits as a share of GDP reinforces the investment outlook.
- **Financial System:** Indian banks and financial institutions enter this phase with stronger balance sheets, supported by multi-decade-low asset quality stress, healthy capital buffers and improving credit growth. This provides capacity for further credit expansion and supports investment and economic activity.

¹ <https://www.imf.org/en/countries/ind>

- **PMI Indicators:** India's private sector growth rebounded in September 2026 as the HSBC India Services PMI climbed to 55.2 and the HSBC India Manufacturing PMI rose sharply to 55.1, which collectively pushed the weighted HSBC India Composite PMI Output Index to a three-month high of 55.9.²

PART 4 : ATTRACTIVE RERATING POTENTIAL

Equity returns can be decomposed into three drivers: earnings growth, valuation rerating, and shareholder distributions through dividends and net share buybacks. Earnings growth reflects the underlying improvement in business performance, while rerating captures changes in the multiple investors are willing to pay for those earnings. Together with shareholder distributions, these components determine the total return delivered to investors over the investment horizon.

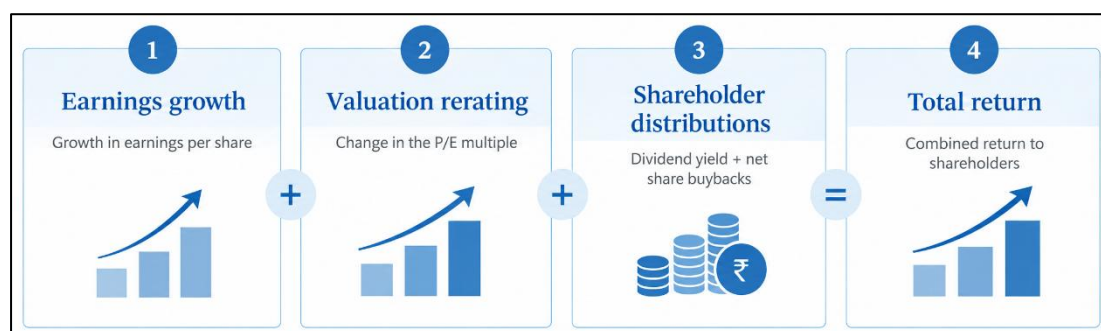


Exhibit 08 : Decomposition of Total Shareholder Return
Source : OmniScience Insights Lab

- **Double-digit forward earnings growth:** NIFTY 50 companies are expected to deliver 12.0% to 13.3% forward net income growth, over the next 3-4 years, providing a fundamental driver of equity returns.
- **Potential to capture valuation rerating:** At the current P/E of 19.1x, the estimated fair multiple of 23.0x to 25.0x, as per expected growth rates, implies additional rerating potential.
- **Dividend yield:** The current dividend yield stands at 1.49%, approximately 15% above the historical median of 1.30%

² <https://www.pmi.spglobal.com/Public/Home/PressRelease/6f70f140d5ac4cecb27c2218c31e37b5>

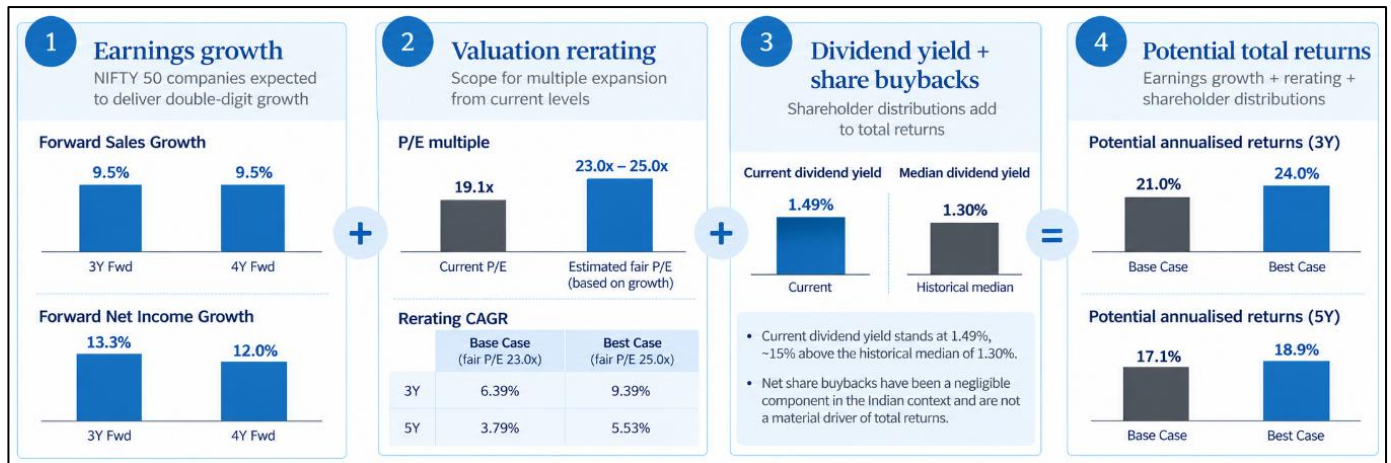


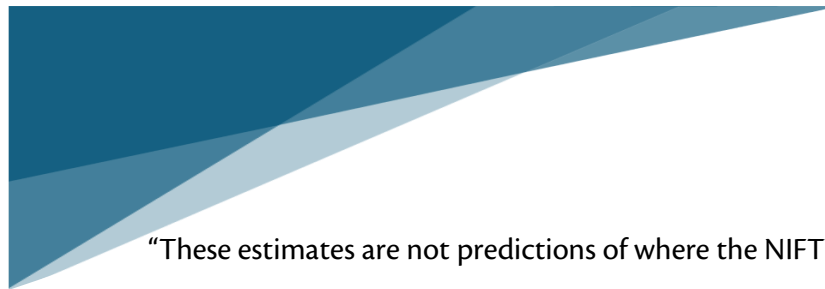
Exhibit 09 : Return Potential of NIFTY50 over next 3-5 Years

Source : OmniScience Insights Lab

Omni Estimates :

Including earnings growth, valuation rerating and a median dividend yield of 1.30%, the estimated annualised total returns rise to approximately 21.0%–24.0% over three years and 17.1%–18.9% over five years under the base and best-case scenarios, respectively.

From the current NIFTY level of 22,800, our base case implies index levels of 39,600 in three years and 42,800 in five years, while the best-case scenario points to 43,000 and 46,500, respectively.



“These estimates are not predictions of where the NIFTY will trade, but mathematical outcomes derived from fundamentals, reasonable earnings growth assumptions and potential valuation rerating. A doubling of the index may sound ambitious, but over five years, it translates to an annualised return of approximately 15%. Our objective is not to predict the market, but to quantify what reasonable assumptions about earnings and valuations could imply for long-term returns.”

Vikas V Gupta
CEO and Chief Investment Strategist

CONCLUSION

NIFTY P/B has declined to around 2.8x, a level that has historically marked meaningful valuation compression. Across the ten previous episodes since 1999, higher than typical returns followed. Such levels have historically occurred during periods of significant market stress, including the GFC, dot-com bust and COVID-19. Subsequent recoveries from these extreme valuation levels generated substantial returns.

The rolling-return analysis provides a broader test of this relationship and shows a consistent inverse relationship between starting P/B and subsequent returns across 3- and 5-year horizons. Lower starting valuations have historically been associated with higher forward returns.

With India's underlying economic trajectory and corporate fundamentals remaining supportive, the current correction appears less like a deterioration in the long-term investment case. Combining double-digit earnings growth with scope for valuation rerating and a dividend yield above its historical median, investing today offers an opportunity to enter at highly attractive valuations and a compelling return profile.

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