

# NETRA

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## Early Signals Through Charts

March 2026



# 'Oil Is Well' or Not?

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# How Oil Impacts India's Balance of Payment

India consumes far more oil than it produces. The gap must be imported and paid for in dollars.

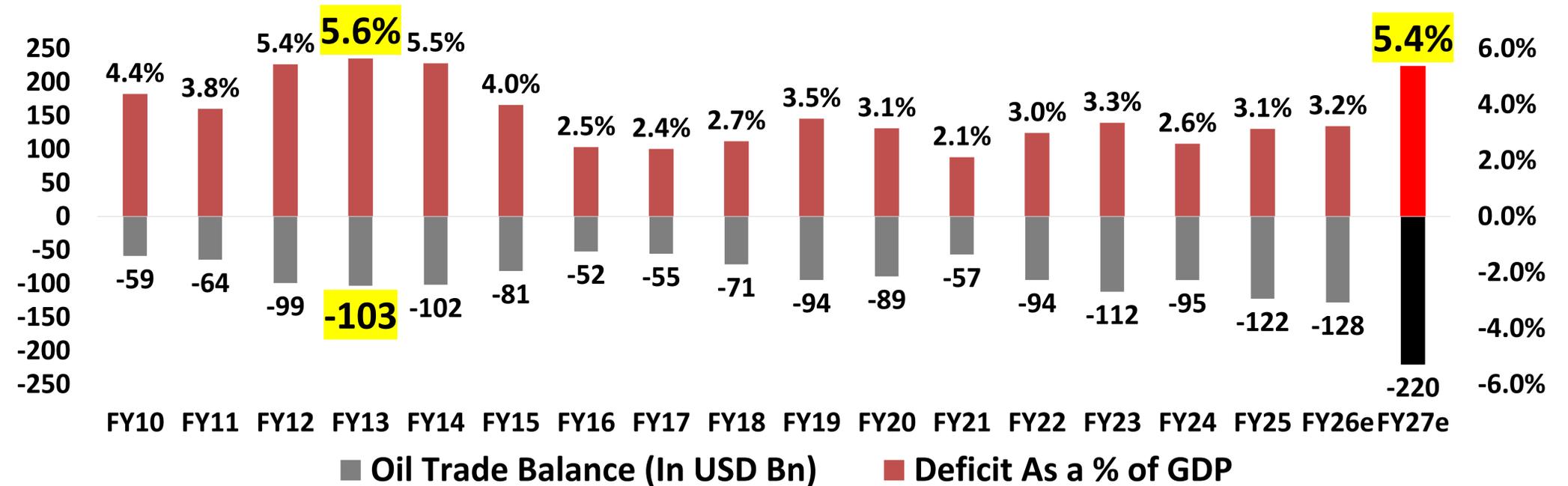
India crude consumption is about 5.3–5.5 mbpd while domestic production is ~0.6 mbpd. Import dependence is 85%. Petroleum imports are 25 to 30% of total imports. Every \$10 increase in crude adds roughly \$12–15 bn to India's annual import bill. But this correlation is convex, at higher prices, deficit rises sharply.

Assuming crude oil prices rise beyond \$120 and India imports at this price for the whole of FY27, the Oil trade deficit could rise to \$220 Billion thereby raising India's current account deficit beyond 3.1% of GDP. Deficits of this kind can lead to significant currency depreciation, heightened inflation and liquidity crunch. In prior episodes, Rupee depreciated more than 10% on such occasions, if the deficits persisted.

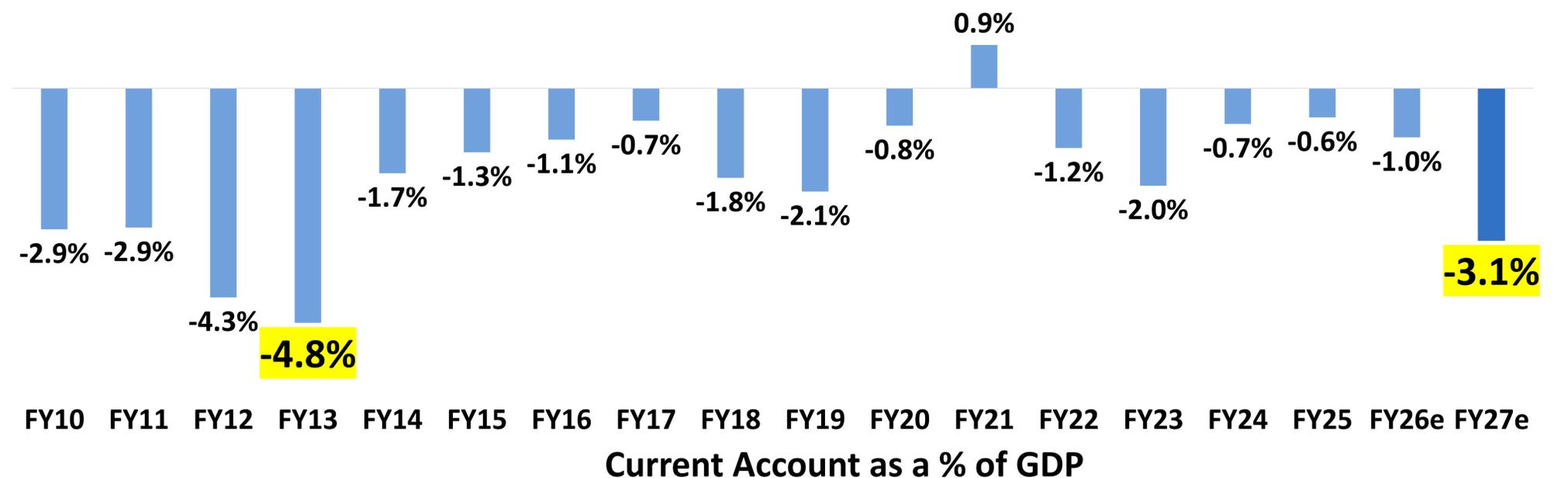
Oil is India's largest macro variable outside India's control. Although it is becoming a smaller problem, as you can see for the same Oil trade deficit of 5.4% of GDP, India's CAD would not reach 4.8% of GDP. This is because India's services exports and remittances have become large.

Yet in such years, large inflows of FDI & FPI can stabilize India's economy. That seems to be a headwind as of now.

## What Happens When Crude Oil Prices Go To \$120 per Barrel



## In Case of \$120 Oil, India's Current Account Deficit Can Rise To 3.1% of GDP



# The Crazy Artificial Intelligence CAPEX Trends

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# The AI Capex Is Crazy

The Big Tech Capex has now crossed \$1trillion over the last 5 years.

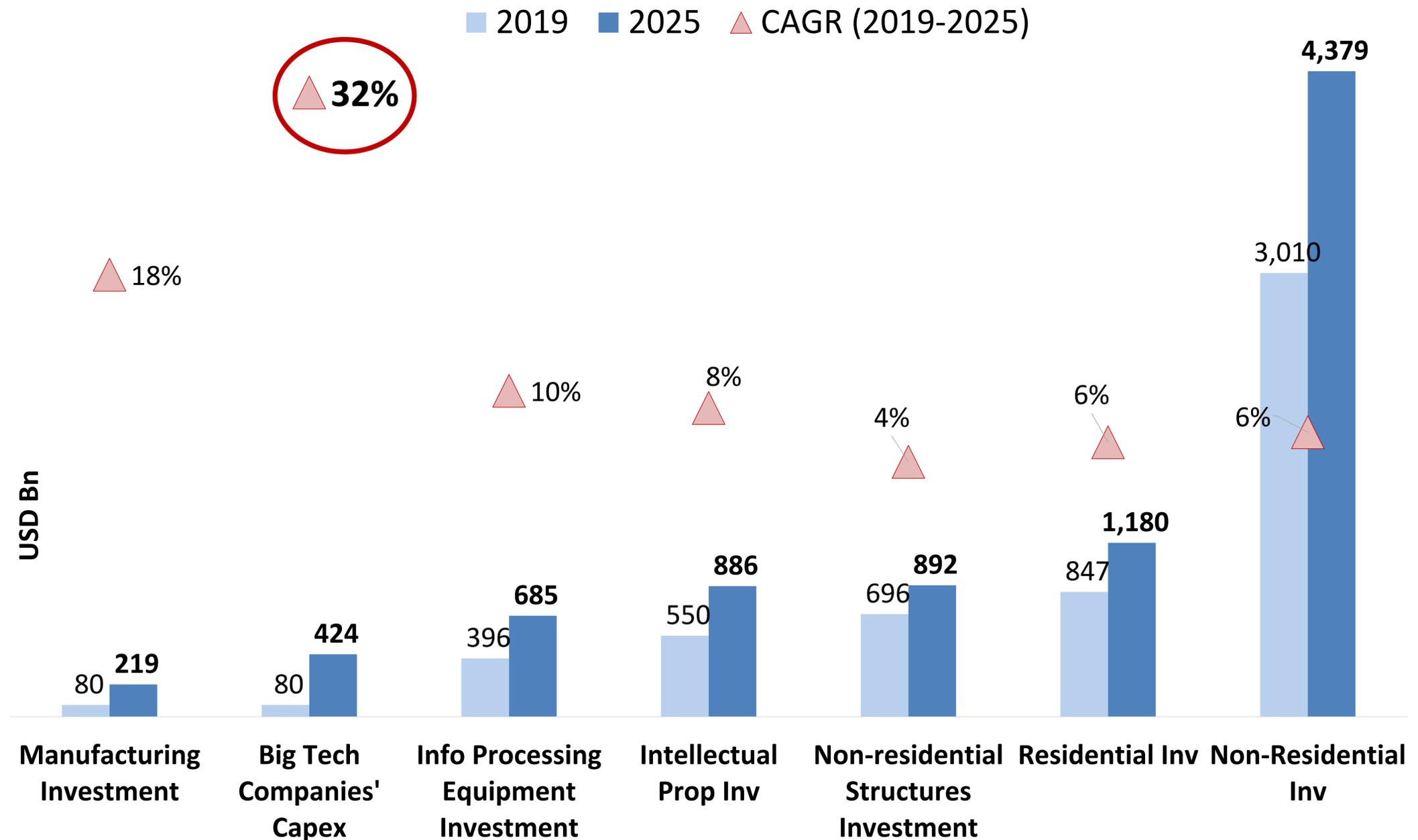
AI related (only listed) firms are commanding a market capitalization of over \$25 trillion or (23% of world GDP). If you add the unlisted AI companies' indicative market cap basis the last fund raise, the total market capitalization would be closer to \$27 to \$28 trillion, or about a fourth of global GDP.

The pace of CAPEX by Big tech is clocking 32% CAGR since 2019, outpacing all the other heads combined by over 20% differential.

The AI CAPEX frenzy is now the largest known and recorded spend in history of United States. It is now bigger than military spend on all countries on earth except for US. It is also now 8x bigger, on an annual basis, when compared to the Dot-Com era capex cyclically.

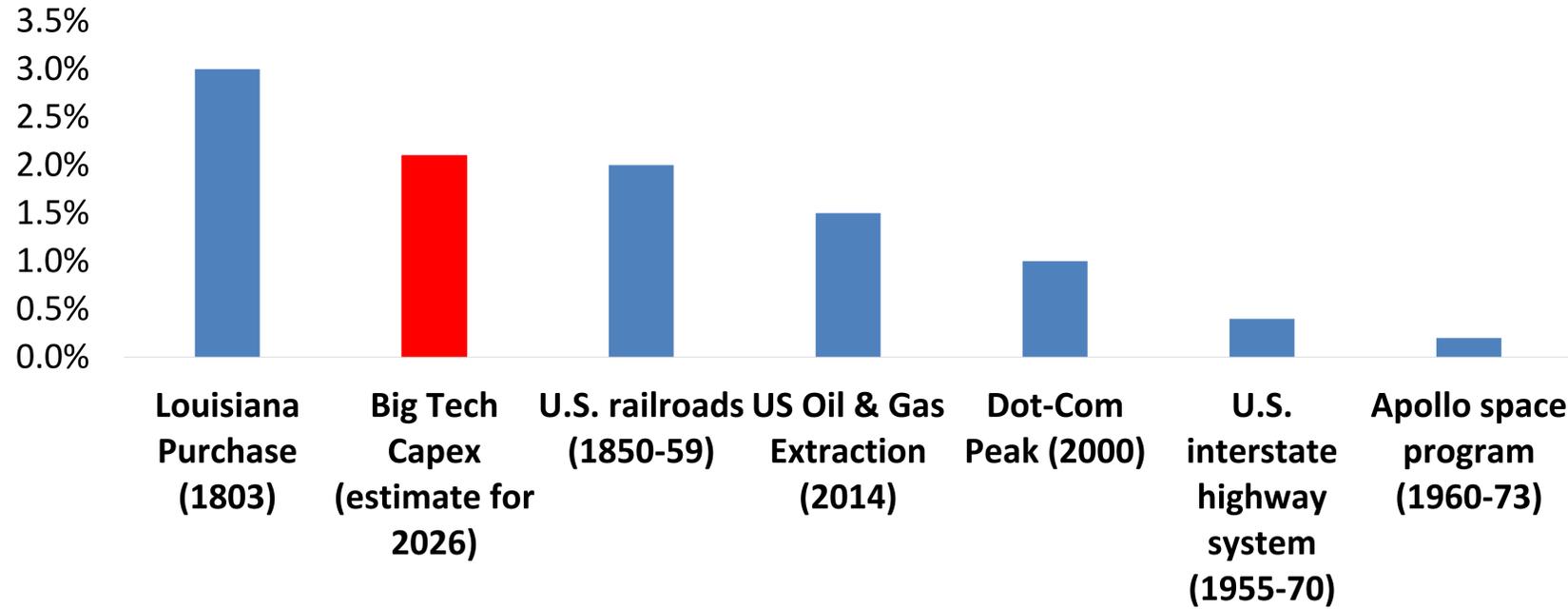
In short, the world is 'All-In' on this trade.

*Big Tech Capex Growth Is Now Outpacing Everything*

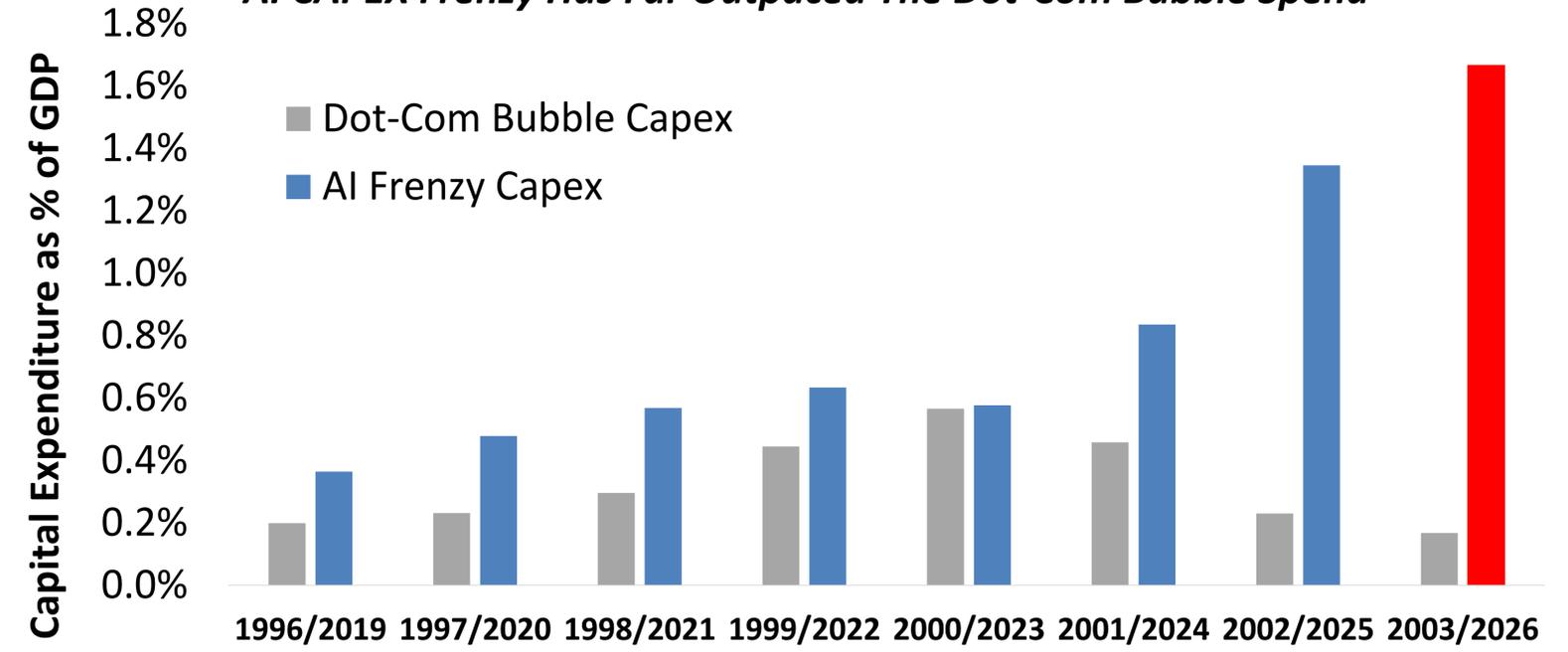


# The Size of AI Spend Rivals Everything We Have Seen Before

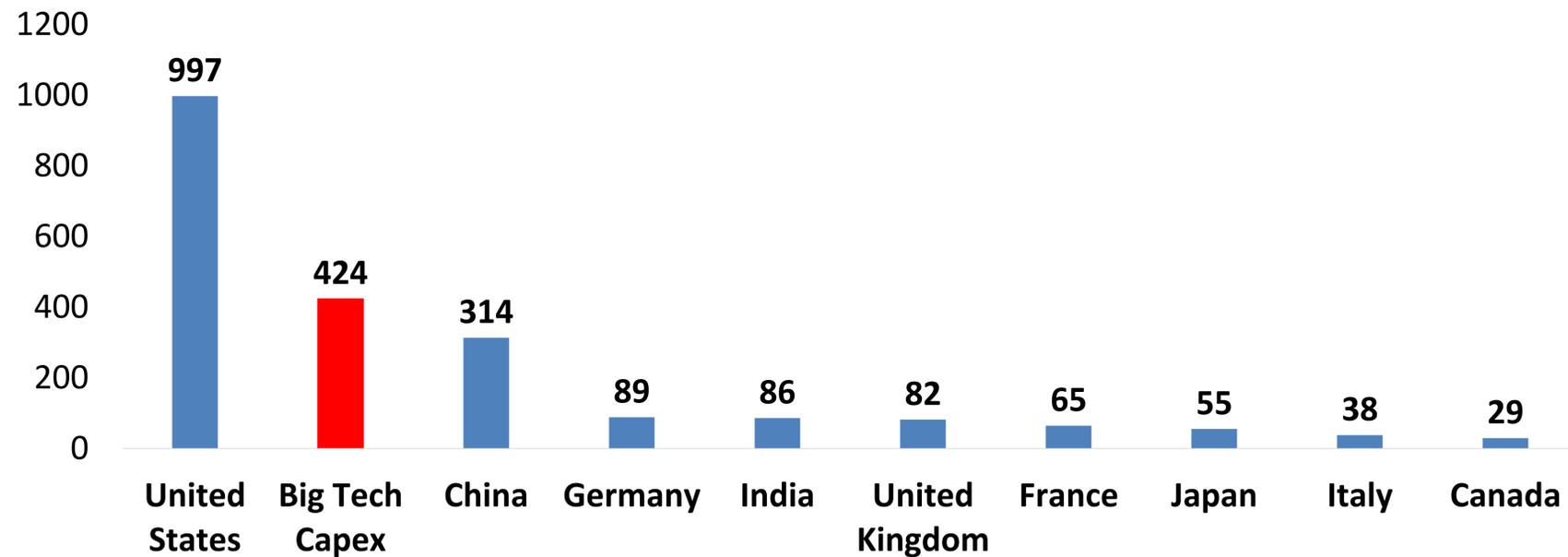
Spending (% of GDP)



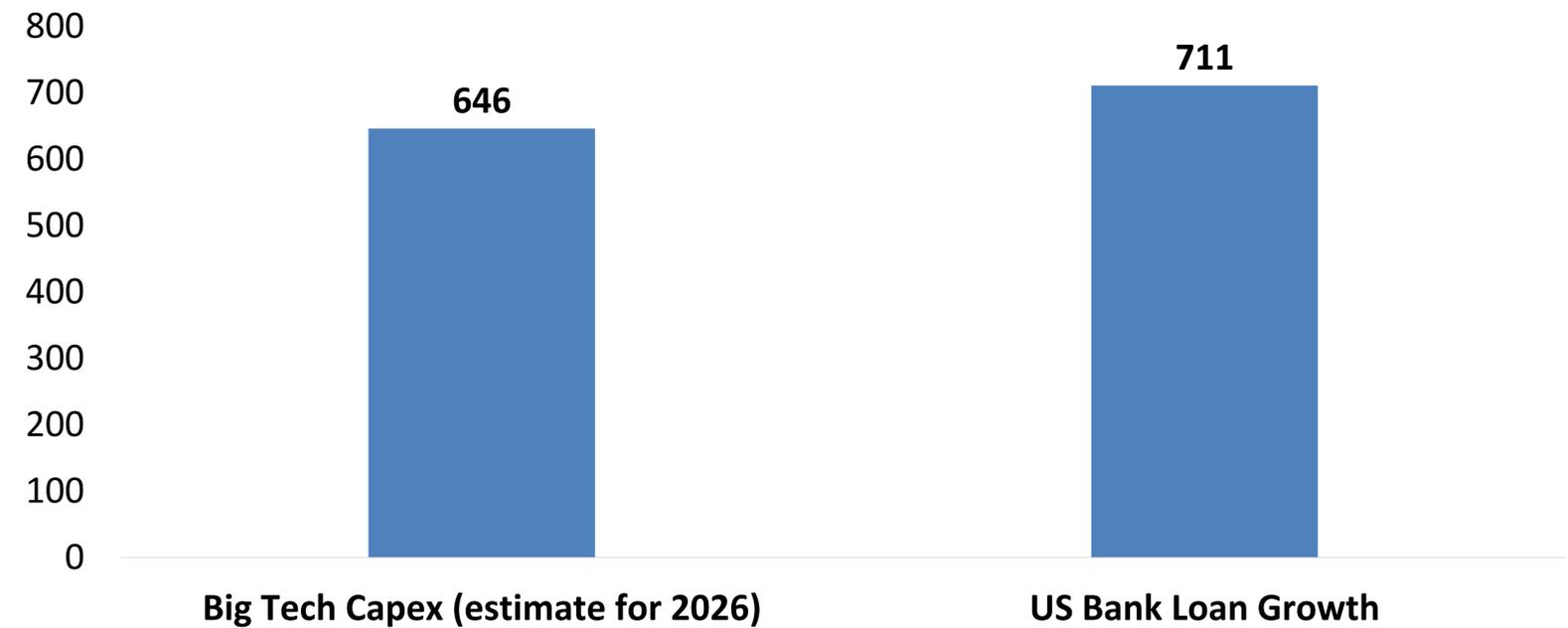
AI CAPEX Frenzy Has Far Outpaced The Dot-Com Bubble Spend



Country Military Spend (USD bn)



Big Tech Capex Vs US Bank Loan Growth (USD bn)



# Dot-Com Vs AI Matrix: Profitability of Hyperscalers Is A BIG Differential vs Dot-Com Era

Valuations & Breadth	Dot-Com Era (1999 - March 2000)	AI Era (2024 - Q1 2026)
<b>Index-Level Forward P/E</b>	Nasdaq-100 peaked at 60.1x.	Nasdaq-100 currently at 33.0x to 35.1x.
<b>Leading Cohort Valuations</b>	"Four Horsemen" (Intel, Microsoft, Cisco, Dell) P/E averaged 82.7x.	"Magnificent Seven" trailing P/E averages 38.3x.
<b>Peak Entity Valuation</b>	Cisco Systems P/S ratio reached 200x; Trailing P/E over 100x.	Nvidia Forward P/E at 24.2x to 37.7x; P/S ratio 50x.
<b>S&amp;P 500 Concentration (Top 10)</b>	Top 10 stocks accounted for 23% to 27% of index weight.	Top 10 stocks account for 41% of index weight.
<b>Shiller CAPE Ratio</b>	Peaked at 44.19 (All-time high).	Currently exceeds 40.0 (Third-highest reading in history).

Fund Raising	Dot-Com Era (1999 - March 2000)	AI Era (2024 - Q1 2026)
<b>Total Annual VC Funding (US/Global)</b>	US VC funding peaked at \$112B (2000).	Global AI VC funding reached \$211B–\$258.7B (2025).
<b>Sector Concentration</b>	39% of all VC went to internet companies in 1999.	53% to 61% of all global VC goes exclusively to AI firms.
<b>Public vs. Private Distribution</b>	Extreme public IPO activity; 527 tech IPOs in 1999 with 106% average day-one pops.	Extreme private market concentration; 73% of AI investment value is in "mega deals" >\$100M.
<b>Dominant Funding Mechanism</b>	Retail and institutional buying of newly public, unprofitable equities.	Private equity, sovereign wealth funds, and Big Tech corporate venture capital.
<b>Vendor / Circular Financing</b>	Telecoms (Lucent, Nortel) lent to startups to buy their own networking gear, ending in mass defaults.	Hyperscalers (Microsoft, Amazon, others) invest via "compute credits" to AI labs, ensuring capital returns to their cloud divisions.

# Magnification Of The Magnificent 7

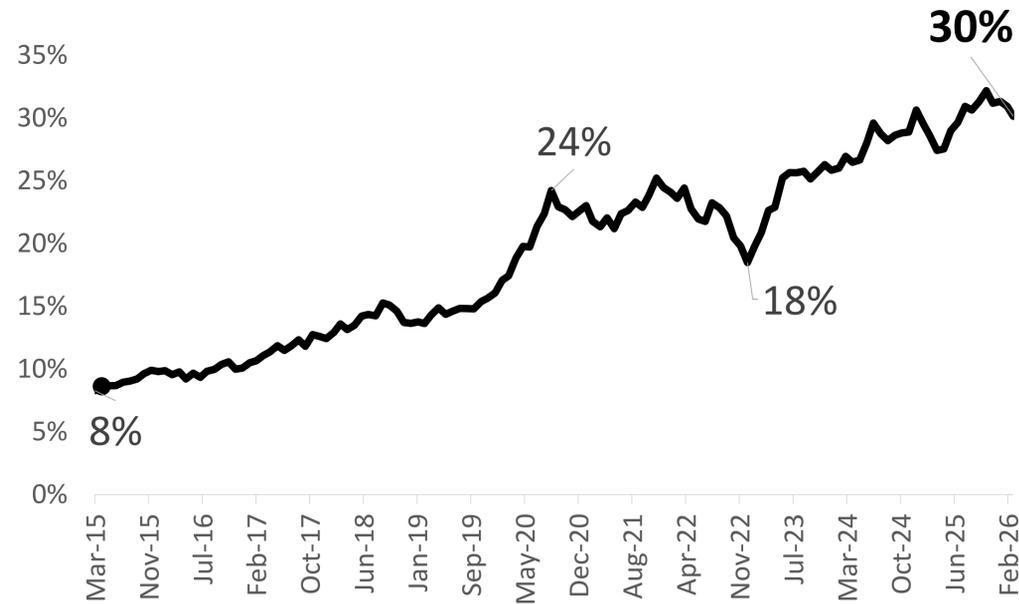
The seven largest and most influential US Tech companies: NVIDIA, Apple, Alphabet, Microsoft, Amazon, Meta & Tesla, collectively known as the 'Magnificent 7' have delivered extraordinary results in the last decade.

The Bloomberg Magnificent 7 Index tracking these seven companies has risen 24x between Dec-2015 and now far outpacing the 4x growth of the Bloomberg 500 Index (which represents the top 500 US companies). As a result, the Mag 7 companies now account for ~30% of the US 500 market capitalization highlighting significant polarization.

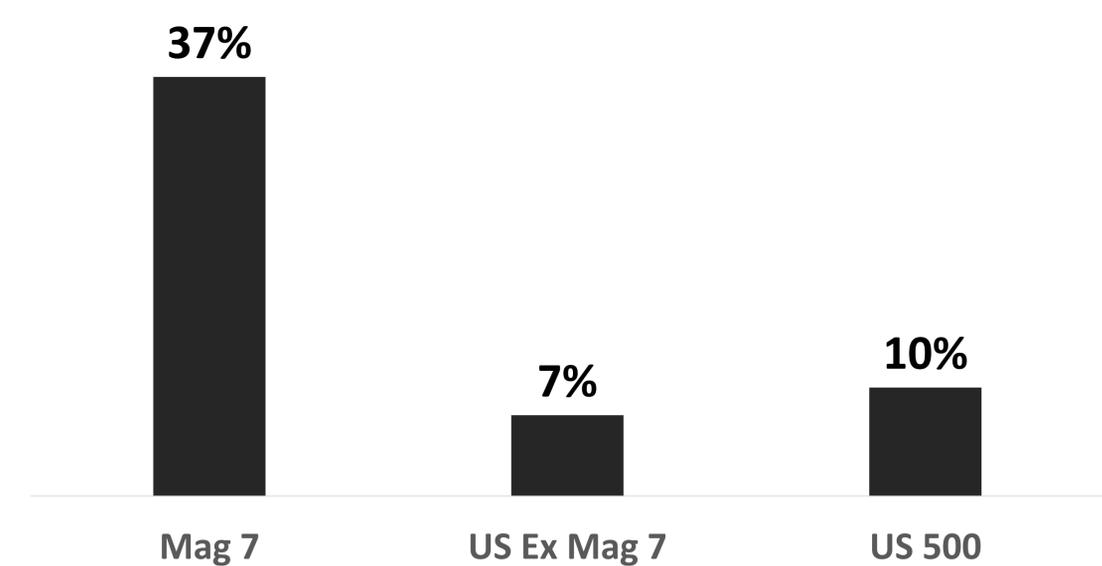
Although their earnings have also seen a commensurate growth, this concentration raises a concern. The fortunes of six of the seven companies are linked predominantly to Technology sector and increasing to the AI theme.

Valuations of Mag 7 companies remain elevated. As a result, even minor earning disappointments or any adverse developments in the AI/Tech cycle could have an outsized impact on US equity markets, at least in the near term.

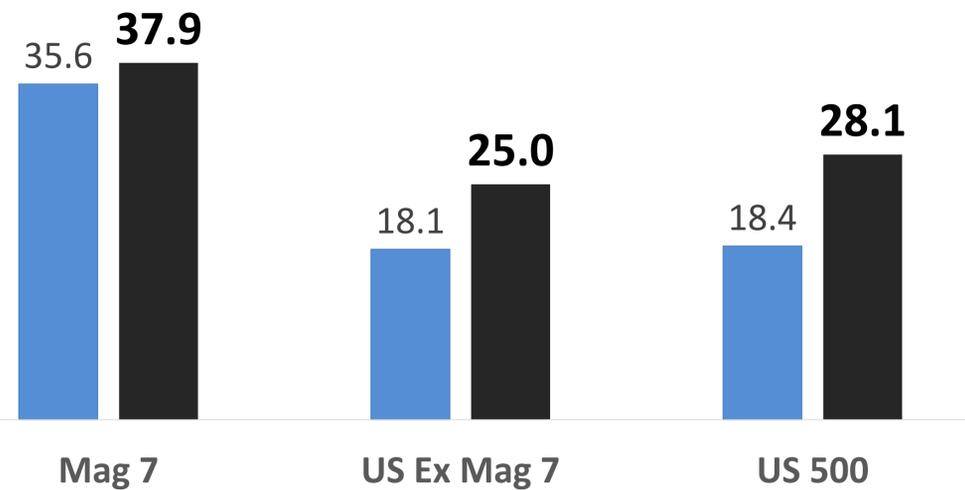
Share of 'Mag 7' Stocks in US 500 (% Wt)



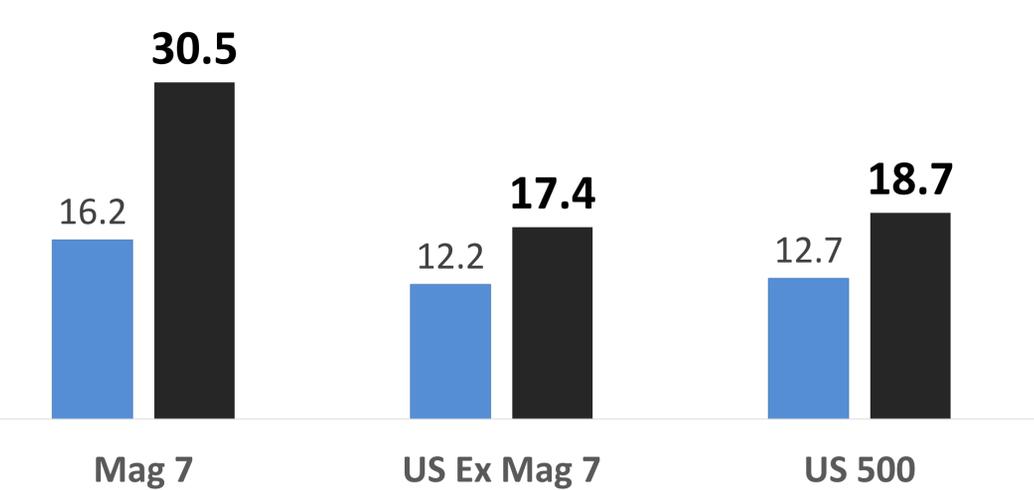
EPS Growth in Last 10 Years (CAGR %)



Price to Earnings

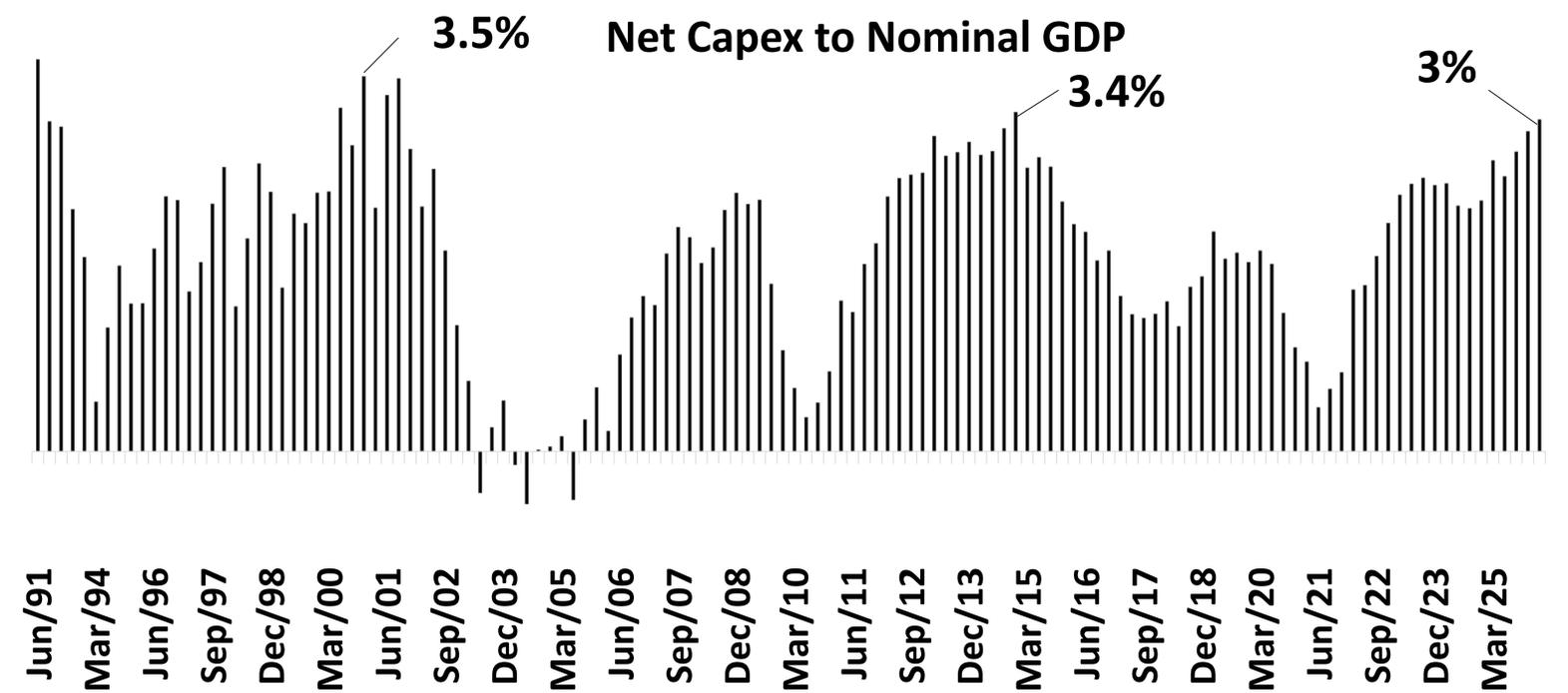
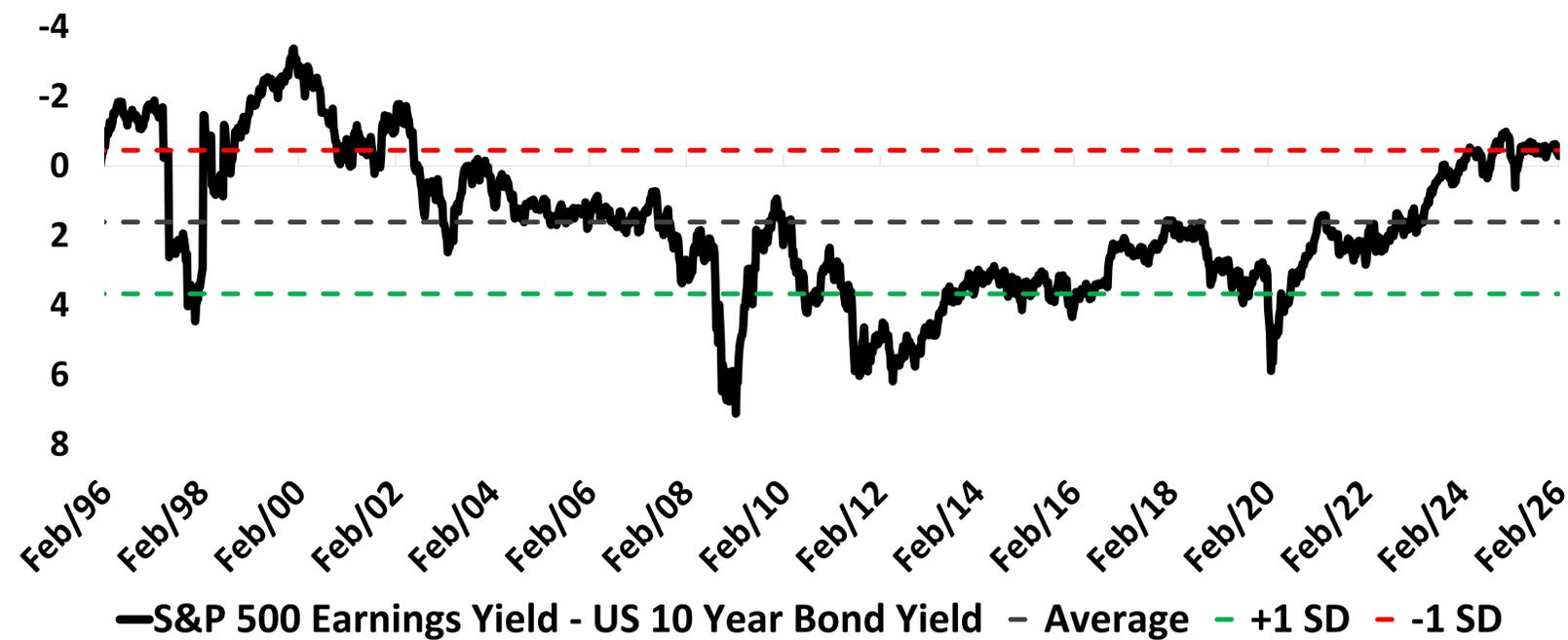
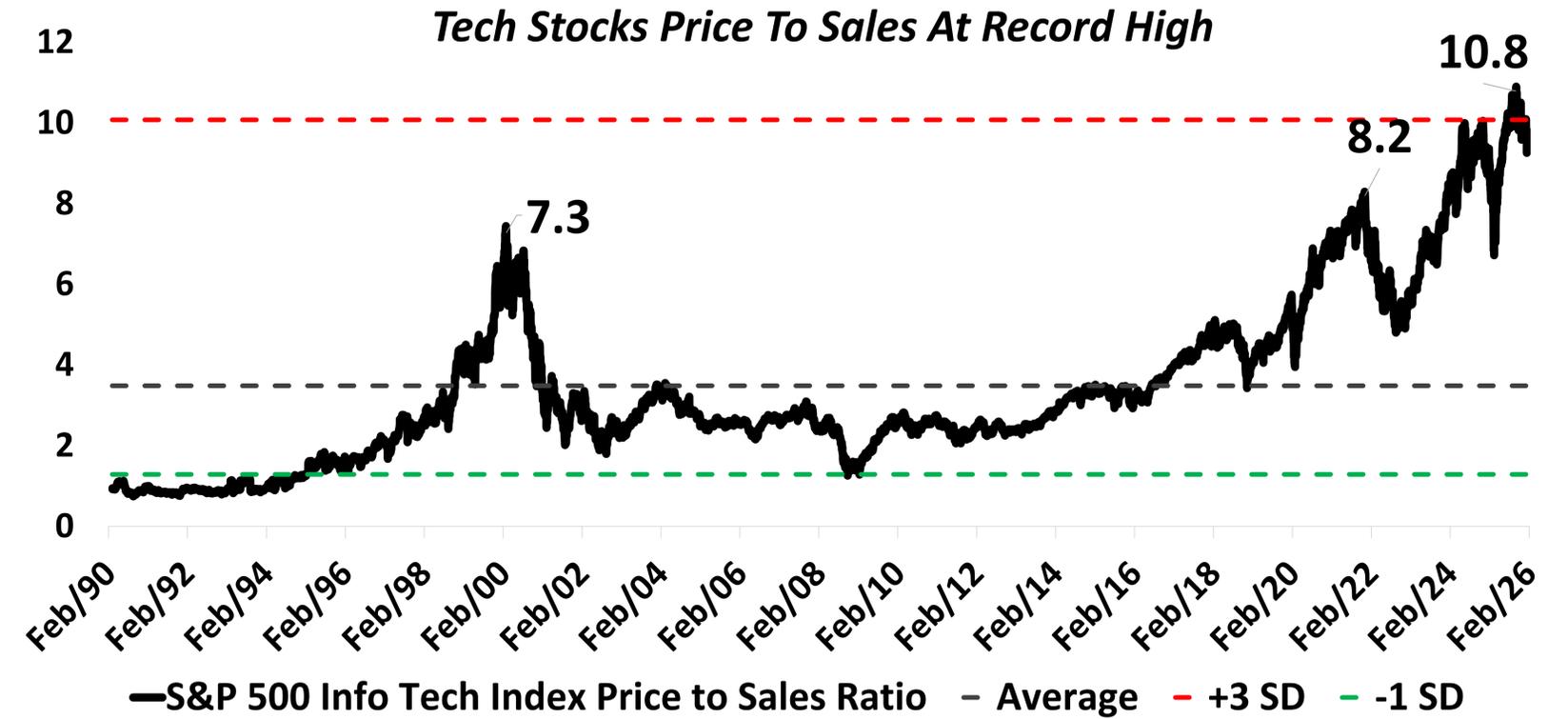
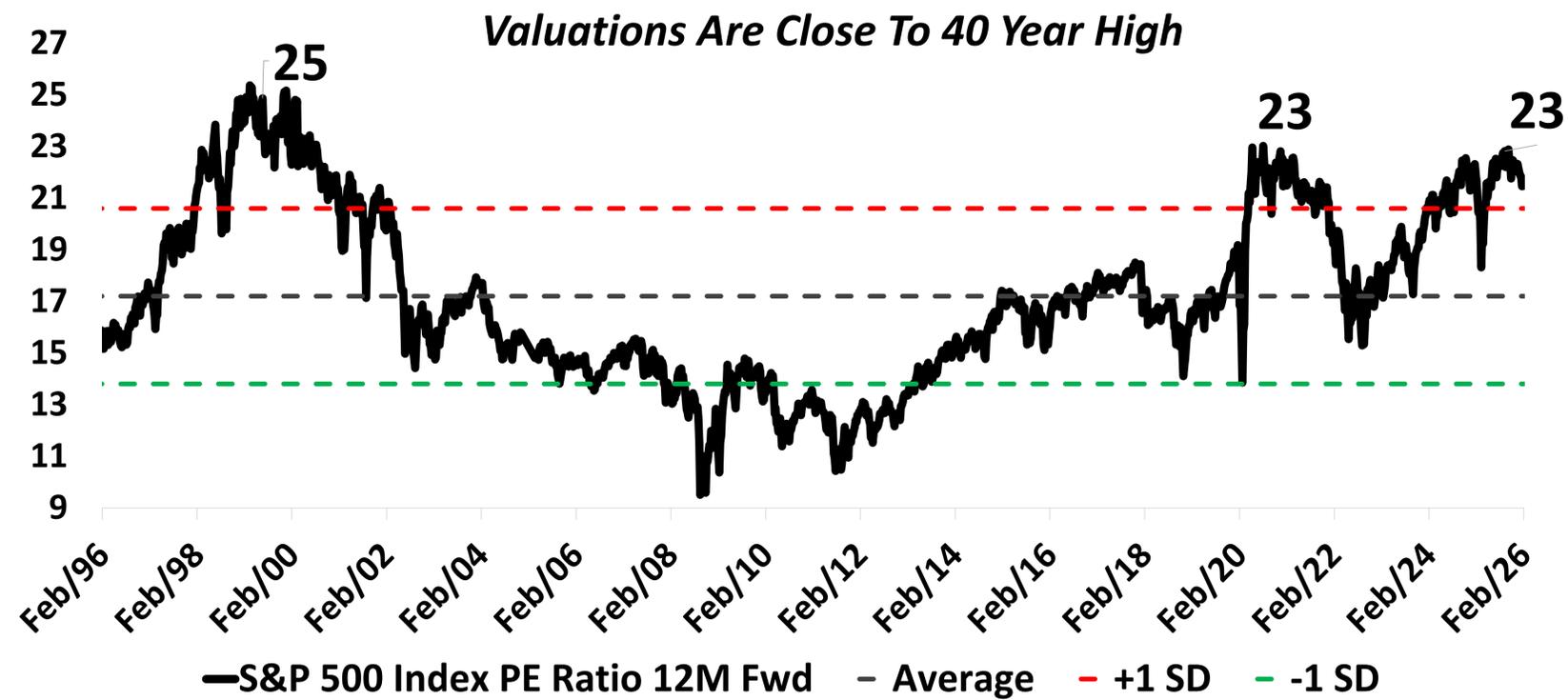


Return on Equity



■ Dec-15 ■ Current

# US Equity Valuations Continue To Remain At Record Levels



# India EM Connection & Valuation

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# Relative Performance Dynamics Within Emerging Markets

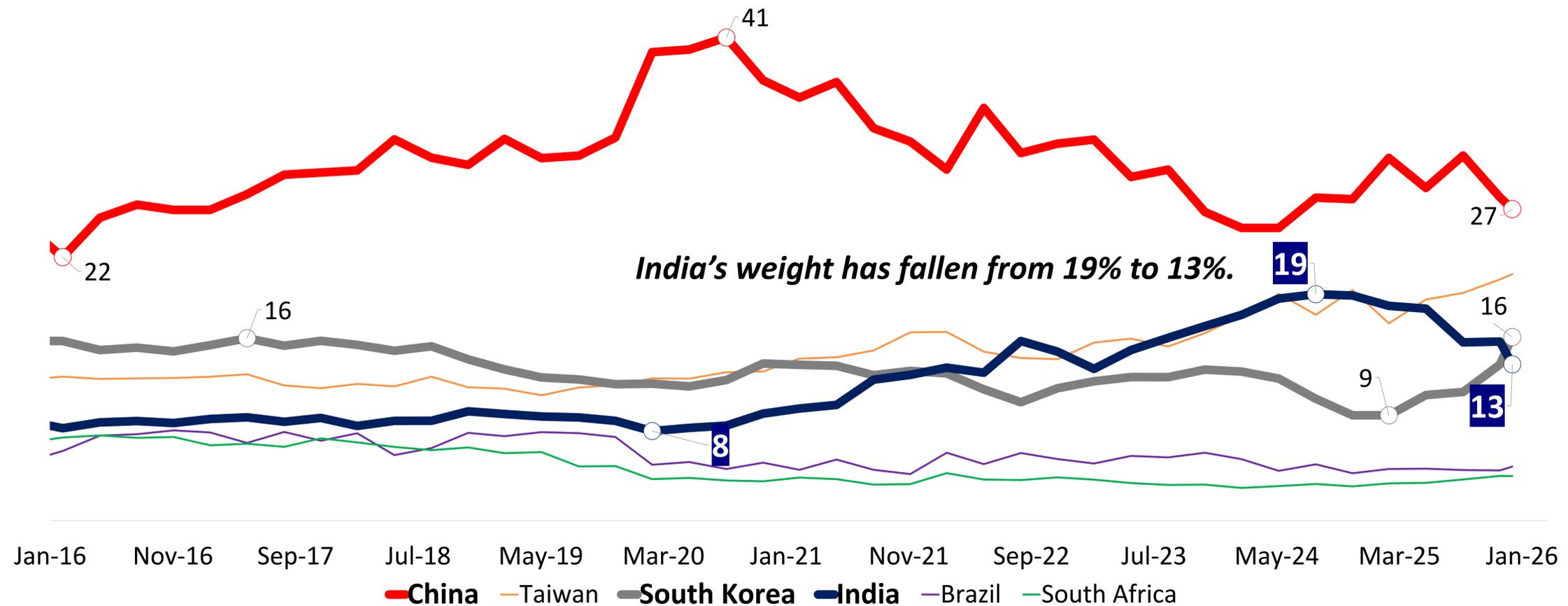
Emerging market leadership has shifted meaningfully over the past few years.

India's strong phase of relative outperformance lifted its representation within EM benchmarks to multi-year highs. Since then, the cycle has turned. China and Korea have regained relative momentum, particularly within technology and cyclical segments, altering the regional performance balance.

Part of this shift reflects changing investor positioning. As sentiment toward China stabilized and earnings expectations in select Korean and Chinese technology names improved, capital rotated accordingly. Relative trades, including long Korea/China technology versus short Indian IT, reinforced the divergence.

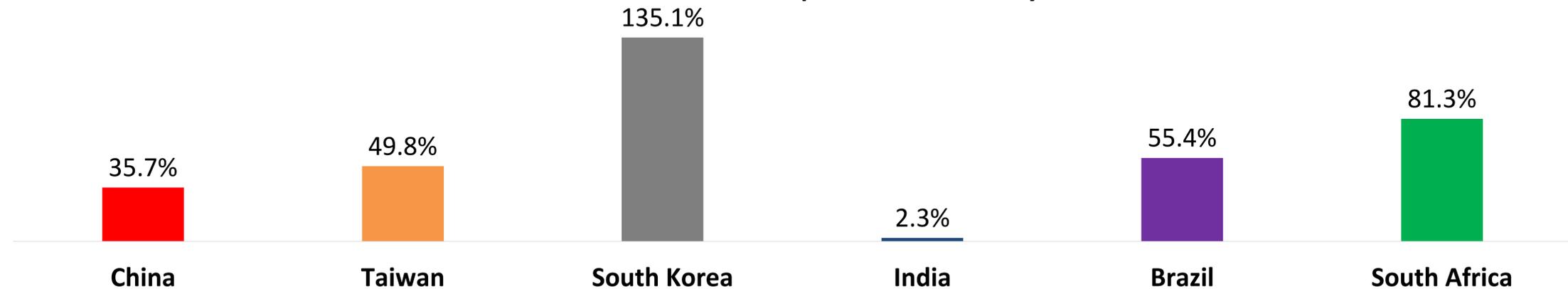
Regional leadership within EM rarely moves in straight lines. Periods of sustained outperformance are often followed by phases of rotation, as capital reassesses growth, valuation and policy dynamics across markets. The recent transition appears less about structural change and more about the cyclical nature of capital flows within emerging Asia.

**Historical Weights of Top MSCI Constituents**



**India's weight has fallen from 19% to 13%.**

**Last 1 Year Return (Jan'25 to Jan'26)**



# Even FIIs Follow Returns. Flows Don't Cause Returns

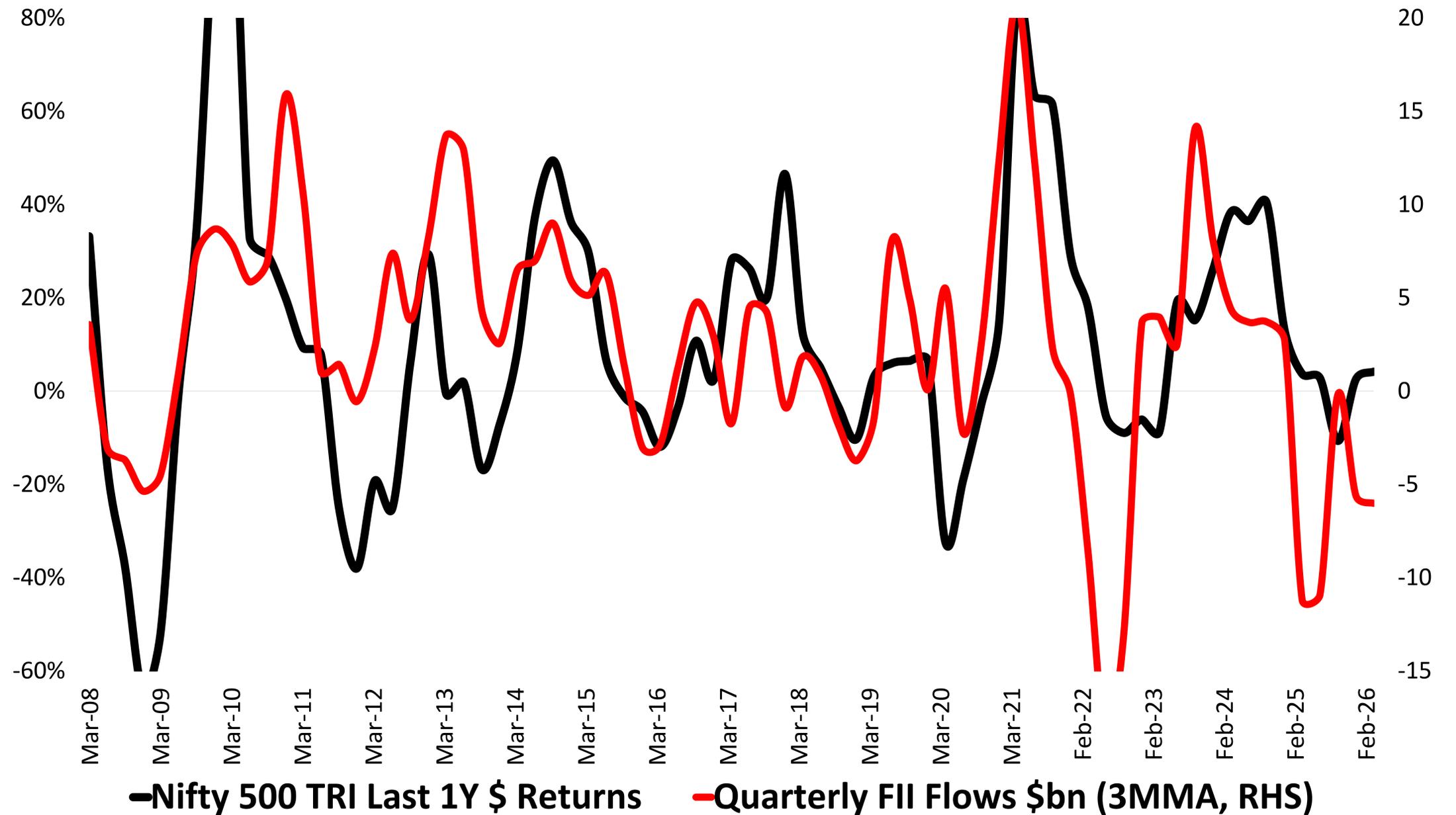
In India, the domestic institutional flows have remained strong despite Nifty 500 being rangebound over the past 20-odd months. FIIs, on the other hand, have largely stayed away from Indian equities.

An evaluation of historical FII flows into domestic equities reveals an interesting insight: FII flows have broadly tracked recent returns.

This can be partly attributed to the changes in India's weights in global and emerging market indices. When India's weight in a benchmark comes down (as it did in MSCI Emerging Markets Index recently) due to weaker returns or outperformance of other markets, the FIIs tracking such indices must also bring down their India allocation regardless of valuations as well as fundamentals. Certain active funds too rebalance in favour markets/themes that do well and short-term hot money from hedge funds tend to quickly switch in favour of markets where recent returns are relatively high.

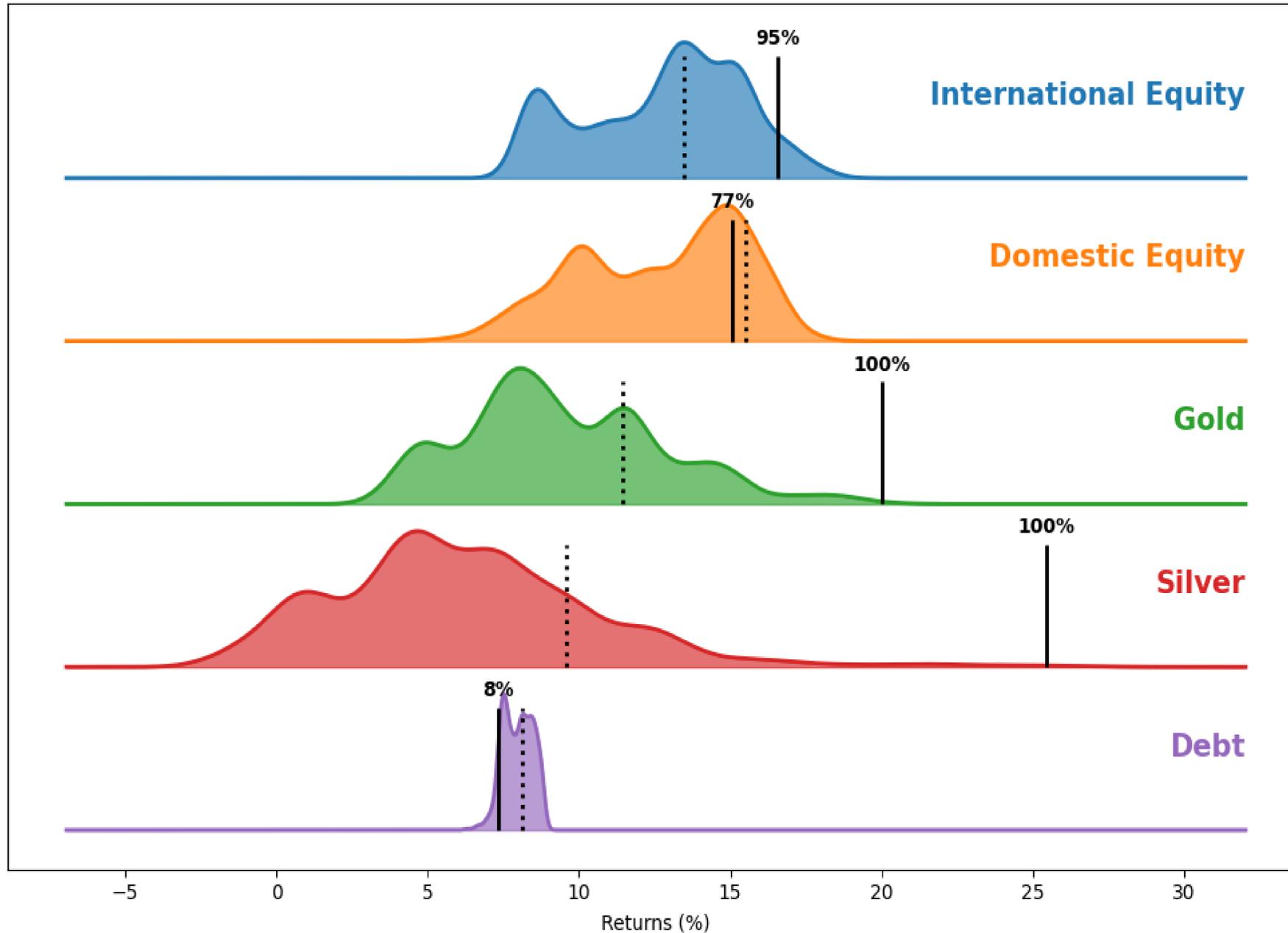
The weakness in foreign flows may persist until the domestic equity market picks up or until peer performance softens.

*FII Flows V/s Nifty 500 Returns*

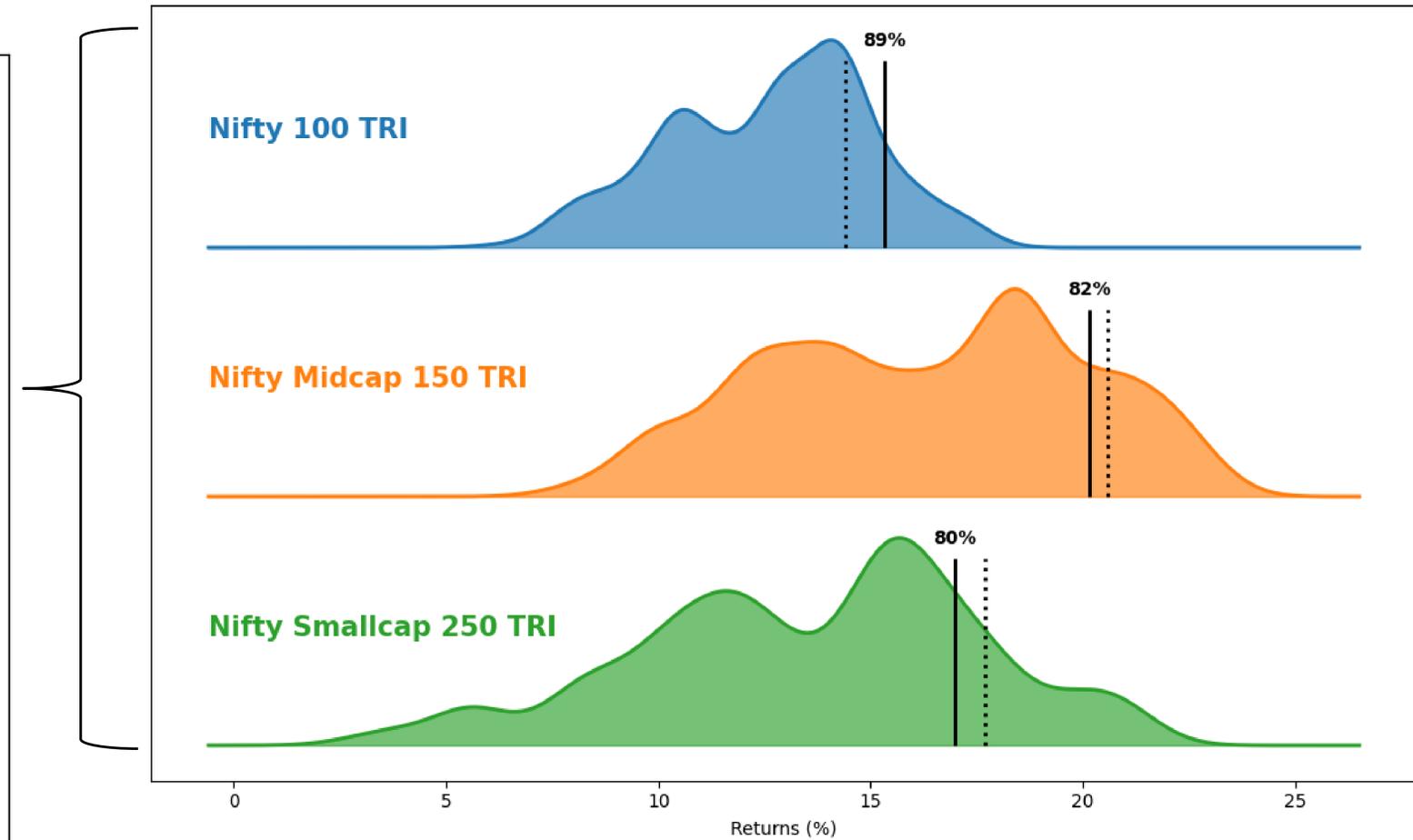


# Where Could the Next Cycle of Returns Come From?

Asset Risk in Isolation - 10 Year Rolling Return Distributions  
Solid = Current | Dotted = Sep 2024



Equity Risk in Isolation - 10 Year Rolling Return Distributions  
Solid = Current | Dotted = Sep 2024



Across asset classes, current 10-year rolling returns appear elevated relative to their own histories, especially in international equities and precious metals, suggesting a more mature phase of the cycle. In contrast, debt and select segments of domestic equities look comparatively moderate.

Given the tendency of long-term returns to mean revert, future multi-asset returns may increasingly be driven by these relatively less-stretched pockets.

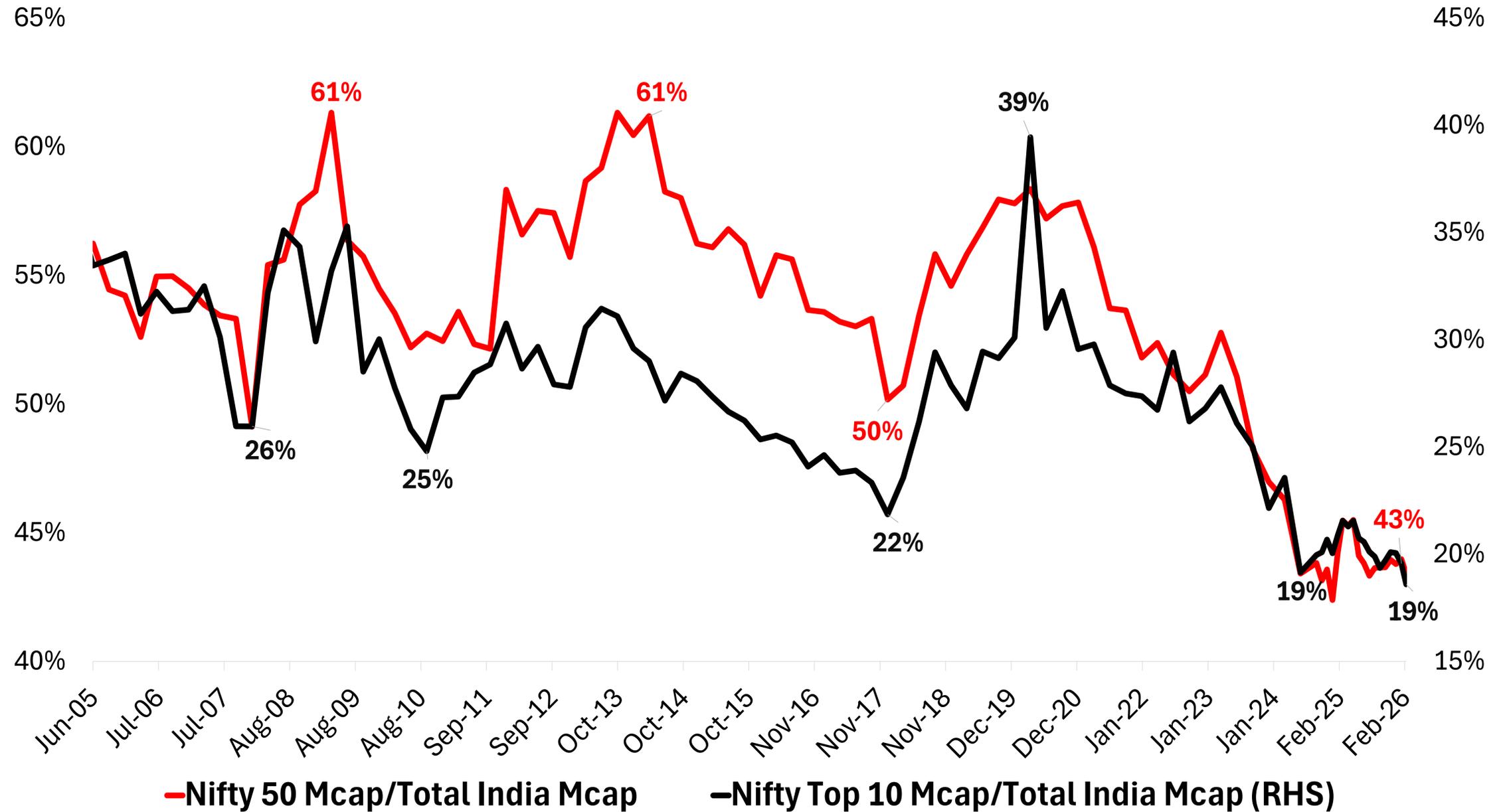
# The Large & The Largest Are Available At The Smallest Weight

A source of relative attractiveness can be found in the largecap universe of stocks (because on absolute basis largecaps aren't cheap).

The share of top 50 or top 10 stocks relative to the total market capitalization is hovering near all-time lows. These readings are hard to decipher in real-time, and harder to take advantage of. Considering the large excess returns delivered by the non-largecap universe and the narrative that 'domestic flows' would not allow non-largecap universe to 'fall', it is not easy to use this rare occurrence to advantage.

This is the precise reason why a focus on largecap universe could be a hiding place from the virus of volatility which has infected the market in the last quarter of 2024. Although the symptoms are mild, and mostly non-existent, but the incubation period of volatility is always uncertain and unpredictable. Therefore, it would be prudent to be conservative and choose protection over aggression for non-largecap universe.

**Nifty 50 and Nifty Top 10 share in Total India Market capitalisation**



# SMID Valuations Are Still In Expensive Zone, But Have Started To Normalize

In future, it will be clear in hindsight that SMIDs had a period of de-rating after nearly a decade of re-rerating. Did it begin in 2024?

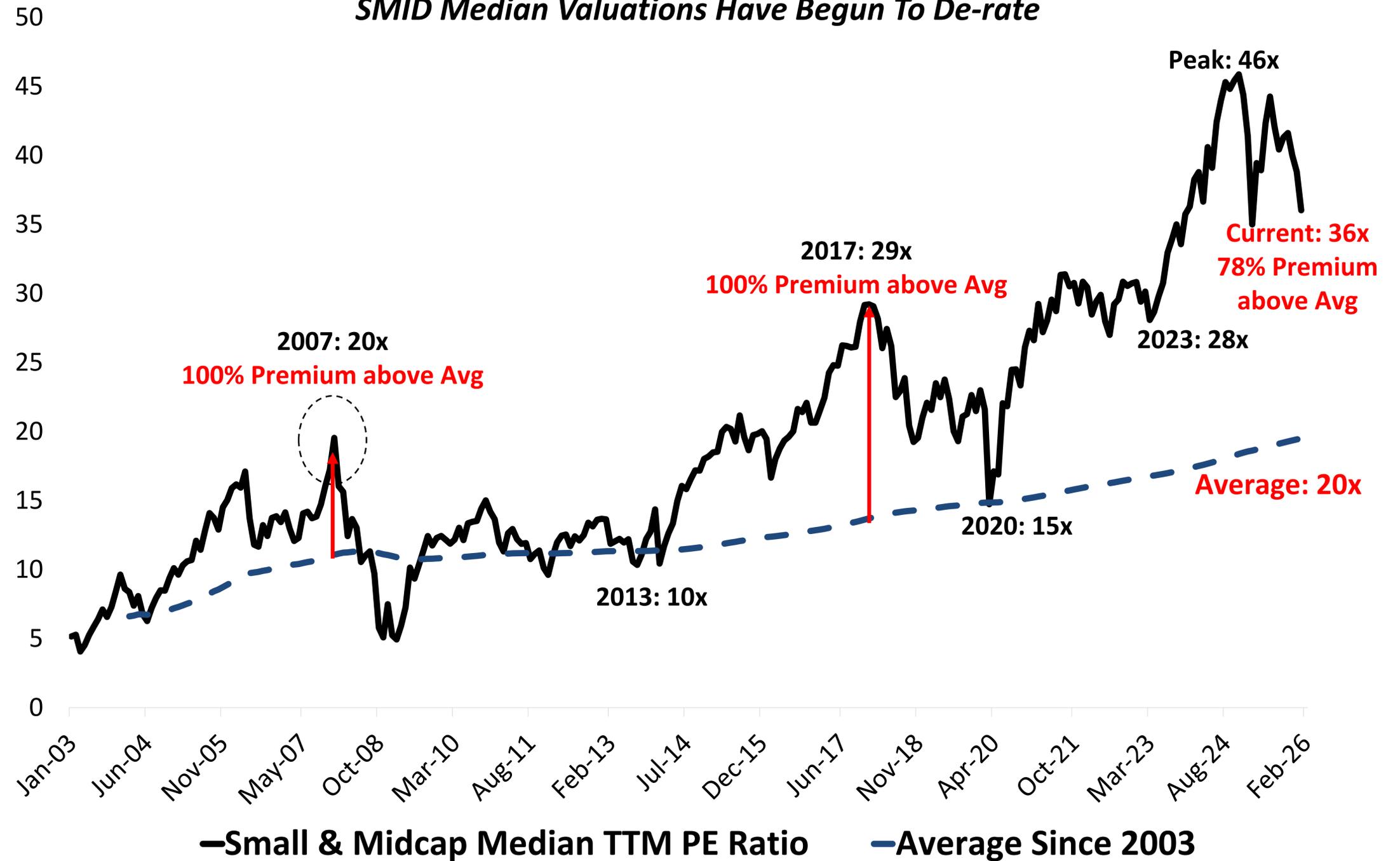
The median earnings multiple for Small & Midcap stocks craters during bear markets. In the past bear markets, the median SMID multiple has declined to low-to-mid single digits where SMIDs became exceptional opportunities for long term investors.

The re-rating for SMIDs which began post COVID has caused the median multiple to rise to unprecedented levels. (On a side note, this is another instance which shows that market keeps surprising investors).

The long-term median multiple for SMID universe now stands at 20x. If an investor were looking at this multiple in 2007, it would have appeared highly inflated but is now just the average.

If the market undergoes a capitulation event, rising earnings and panic selling brings these multiples to levels at which SMIDs become bargain buys. Watch out!

SMID Median Valuations Have Begun To De-rate



# Real Yields At Extreme: What It Means?

Real Yield is nominal yield (-) inflation.

So, for it to be as high as it is today, either interest rates must be high or inflation must be low. Could this go up further? That would mean –

## 1. Can interest rates go up?

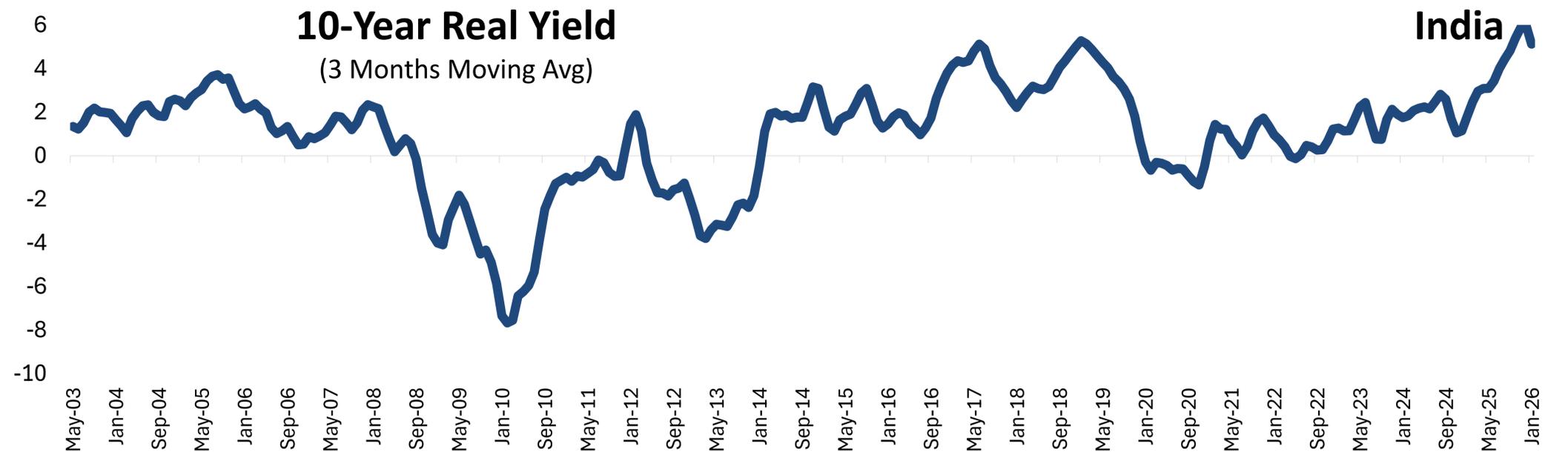
Unlikely. Monetary policy is in a tricky situation right now, but only towards cutting rates or taking a pause at current levels. As for geopolitical risk, it could mean a rate cut further to support the economy. On the external front, much of the weakness is already priced into the currency.

## 2. Can inflation go further down?

From the perspective of the average investor, particularly in discretionary consumption, further disinflation seems less likely from here. Core inflation may have already bottomed out. On the whole, inflation is likely to remain ranged.

The table in the upper panel, could be pointing toward global disinflation. India's 10-year real yield is now above 5%, sitting in the 98th percentile of its own 10-year history. And it's not an isolated case. Brazil and Mexico are in similar territory. Even the US and UK are running real yields in the top third to top quintile of their historical range.

	US	UK	Canada	Japan	China	Indonesia	Brazil	Mexico	India
<b>Current 10 Year Real Yield</b> - 3Month Avg	1.5	1.3	1.0	-0.1	1.27	3.18	9.19	5.21	5.1
<b>Percentile Rank</b> (over the past 10-year period)*	80%	71%	66%	48%	44%	48%	98%	92%	98%



This is IT



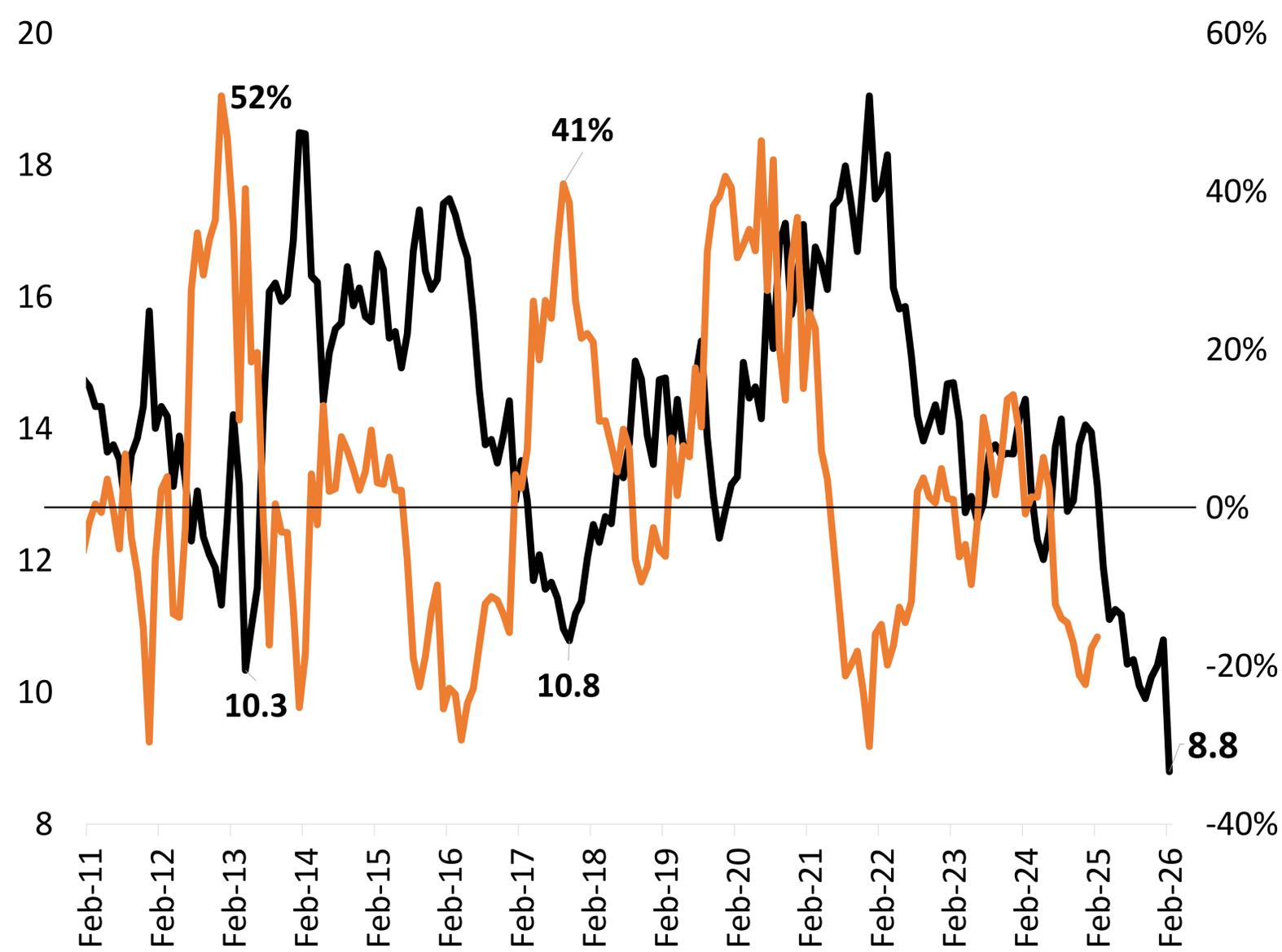
# Snapshot of Nifty IT Index

~60% of the index (weight by Mcap) is trading below the 33<sup>rd</sup> Percentile of historical valuations, despite high ROEs and strong cash flows.

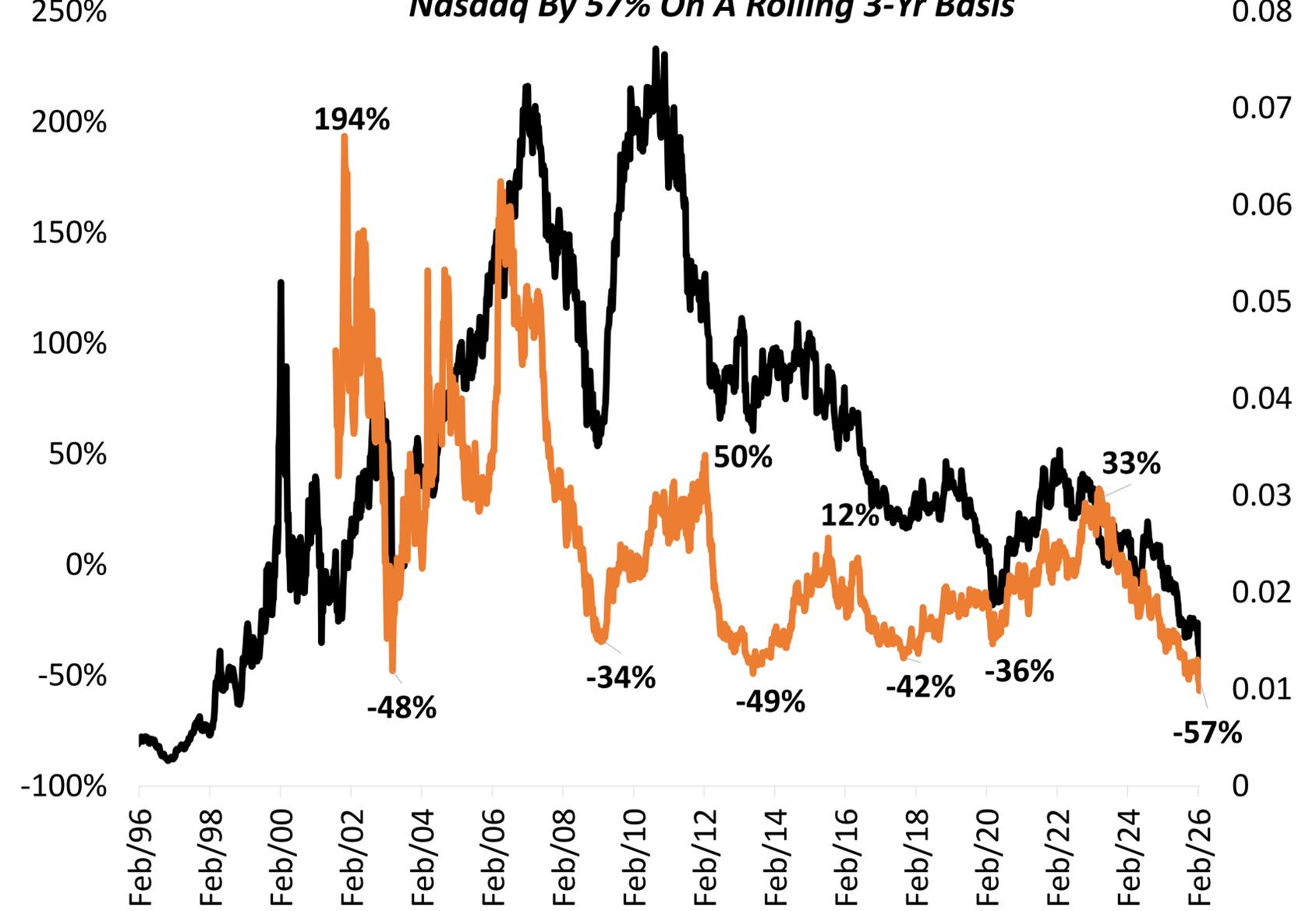
Stock Name	Weight (%)	Current Percentile of Valuation*	Valuation (P/E)	ROE	Cash as a % of Mcap <sup>#</sup>	FCF Yield <sup>@</sup>
Infosys Ltd.	28.9	25%	18.2	29%	5%	6%
Tata Consultancy Services Ltd.	21.9	13%	18.5	52%	6%	5%
HCL Technologies Ltd.	11.9	69%	21.8	25%	9%	6%
Tech Mahindra Ltd.	10.1	82%	27.7	15%	5%	5%
Wipro Ltd.	6.7	24%	15.8	17%	27%	8%
Persistent Systems Ltd.	6.0	77%	41.5	24%	2%	1%
LTIMindtree Ltd.	4.8	44%	25.5	22%	11%	3%
Coforge Ltd.	4.6	78%	31.4	16%	1%	2%
Mphasis Ltd.	3.1	69%	24.0	18%	6%	4%
Oracle Financial Services Software Ltd.	1.9	61%	24.7	29%	8%	4%
<b>Nifty IT Index</b>	<b>100.0</b>		<b>21.5</b>	<b>26%</b>	<b>8%</b>	<b>5%</b>

# IT Sector Weight Is Close To Decadal Lows – Underowned, Underperforming

*Weight of IT Sector in Nifty 50 at All time Low*



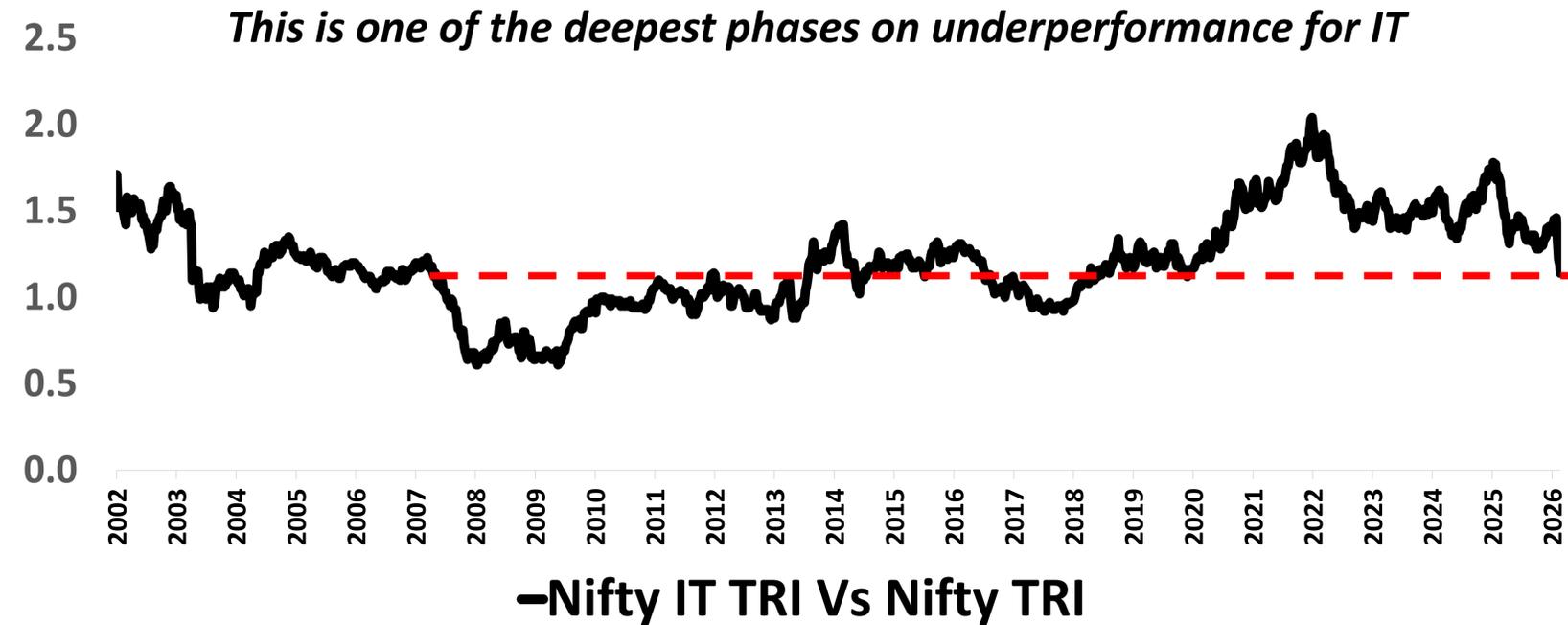
*Indian IT Stocks Are Now Underperforming Nasdaq By 57% On A Rolling 3-Yr Basis*



—Weight of IT Sector in Nifty 50  
—Fwd 1 Year Alpha of Nifty IT TRI vs Nifty 50 TRI (RHS)

—NSE IT Index (USD) / Nasdaq-100 Index (USD) (RHS)  
—3yr Rolling % Change (LHS)

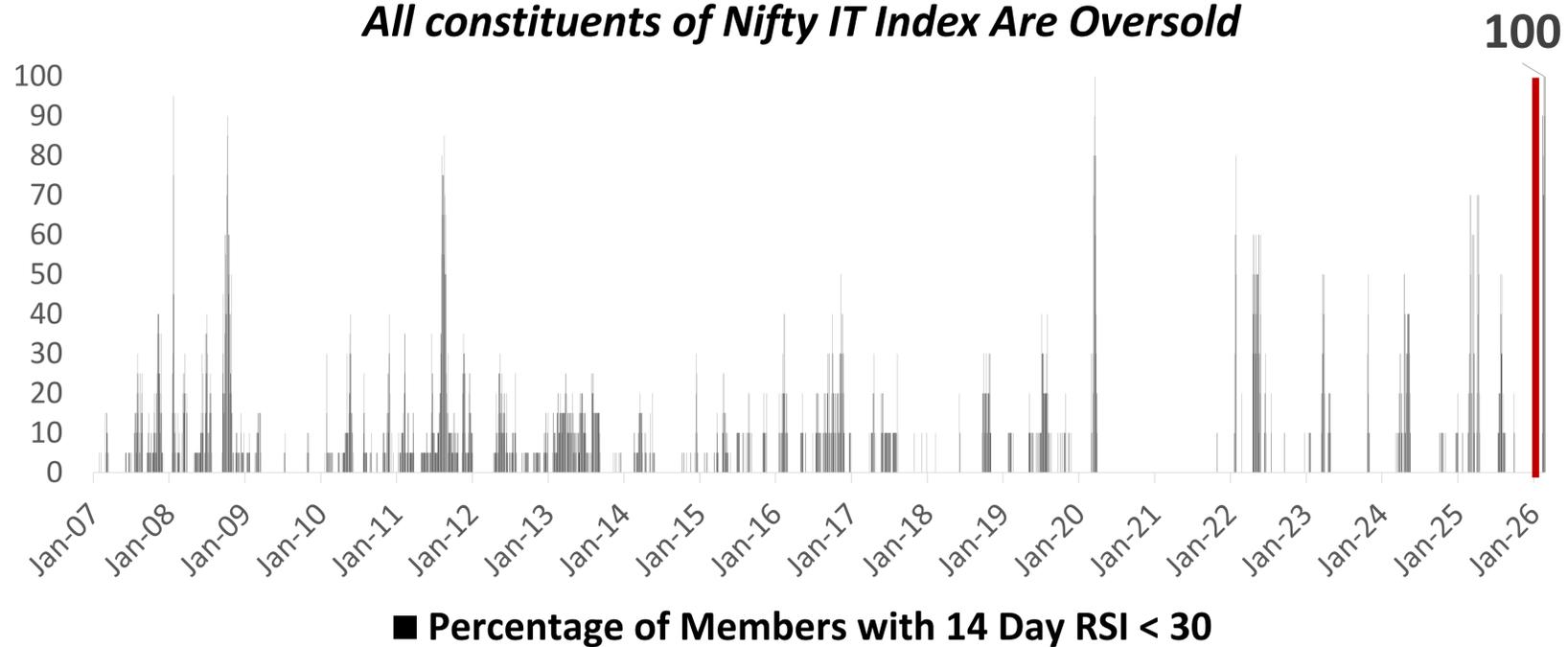
# Nifty IT Index Has Lost A Decade of Relative Performance vs Nifty Index



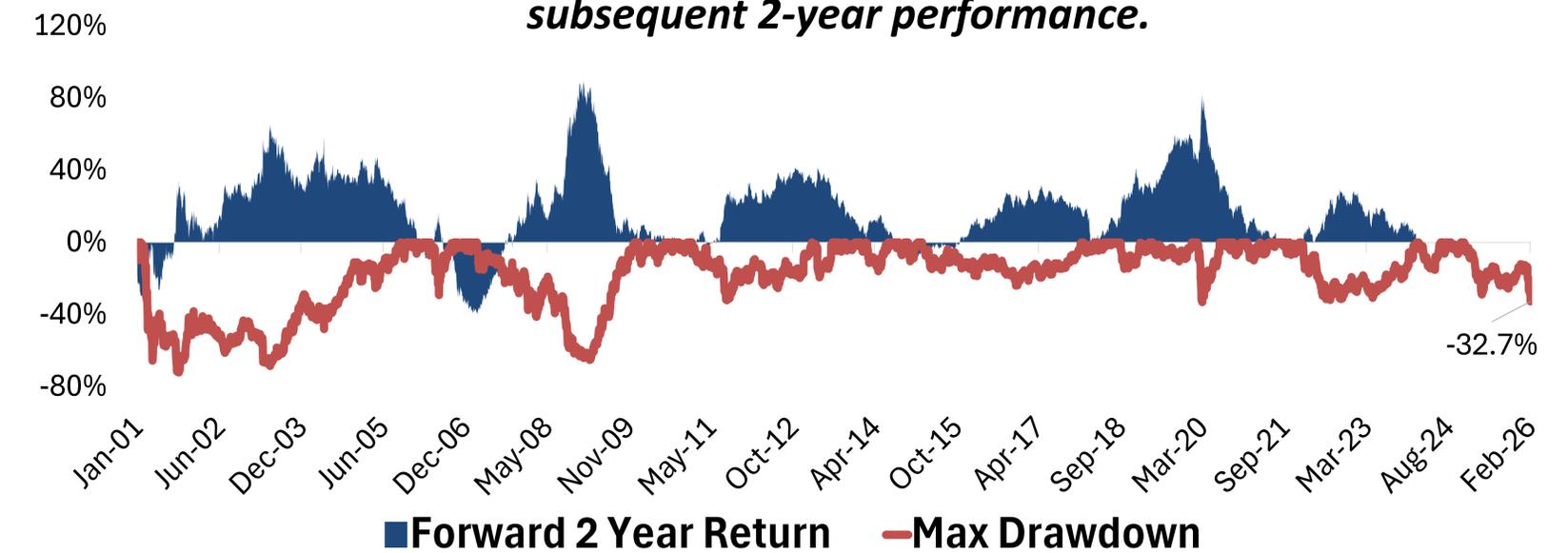
*Periods of 20–30% drawdowns have been followed by meaningfully higher average forward returns*

Max Drawdown Range	Average	Maximum	Minimum	Probability of positive returns after 2 years
0% to -15%	11%	60%	-40%	73%
-15% to -20%	22%	65%	-36%	96%
-20% to -25%	24%	72%	-1%	99%
-25% to -30%	24%	78%	-20%	99%
-30% to -50%	25%	83%	-26%	92%

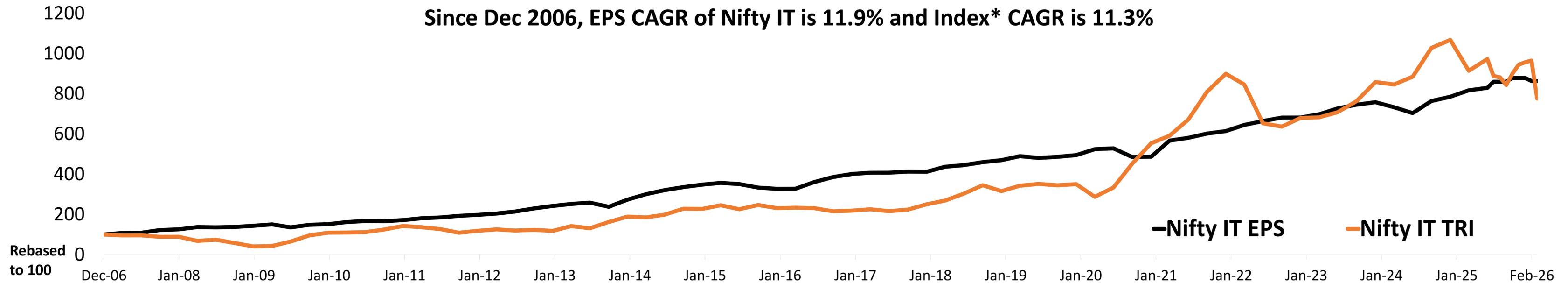
*All constituents of Nifty IT Index Are Oversold*



*Deep peak-to-trough corrections set the stage for stronger subsequent 2-year performance.*



# Select IT Majors Have Corrected Meaningfully – Fairly Priced



Name	ROE		PE		EPS Change		PE Change		Total Returns	
	Current <sup>#</sup>	Since GFC Bottom (Avg)	Forward PE <sup>^</sup>	Since GFC Bottom (Avg)	Last 3 Years <sup>@</sup>	Since GFC Bottom	Last 3 Years	Since GFC Bottom	Last 3 Years	Since GFC Bottom
Infosys	29.0	27.4	17.1	18.1	6%	10%	-7%	5%	0%	16%
TCS	52.4	39.2	17.1	21.1	6%	15%	-10%	7%	-4%	22%
HCL Tech	25.0	25.5	18.9	15.1	5%	18%	8%	11%	12%	30%
Tech Mahindra	14.6	21.5	18.3	15.7	-3%	6%	14%	16%	11%	22%
Wipro	16.6	20.2	14.9	16.7	7%	10%	-2%	5%	5%	15%



Source: Bloomberg, DSP. Data as of Feb 2026. \*Nifty IT TRI Considered. Green Highlight is where - <sup>#</sup>Current ROE is higher than Average since GFC. <sup>@</sup>Where EPS growth is higher than Total returns. <sup>^</sup>Forward PE is 1 year Forward PE and green highlight is where current forward PE is lower than avg since GFC.

# IT Sector: Neglected, Not Broken

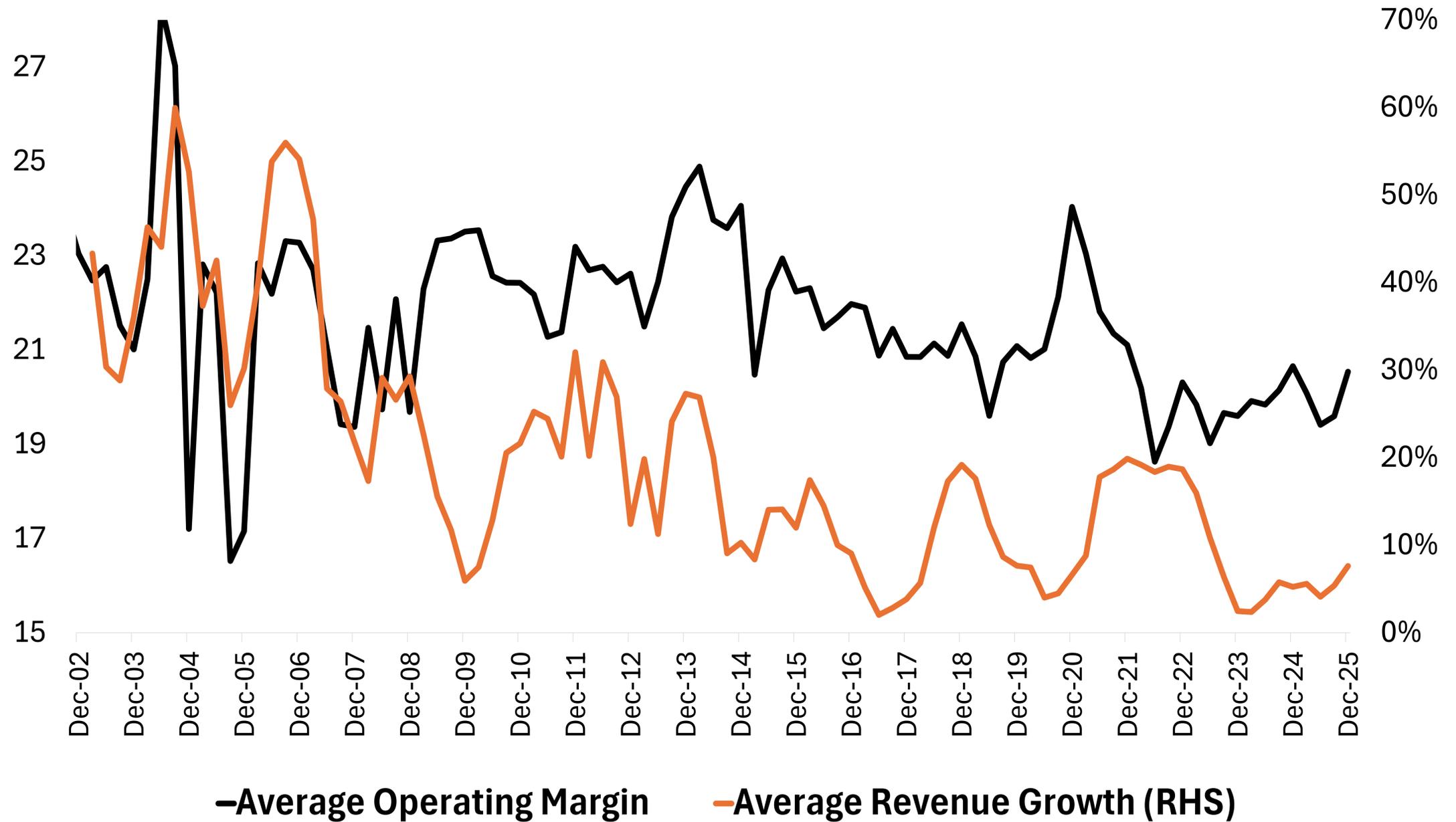
Indian IT companies have been among the most neglected segments in this market cycle. The key reasons are weaker growth and limited visibility, along with the absence of the “AI froth” that has boosted global tech valuations.

This is not the first time such skepticism has emerged. A similar phase played out in 2016–2017, when clients shifted from traditional outsourcing to digital and cloud. Investors worried about disruption, and margins and growth did weaken. But Indian IT firms adopted these technologies, tweaked delivery models, and returned to a steadier growth path.

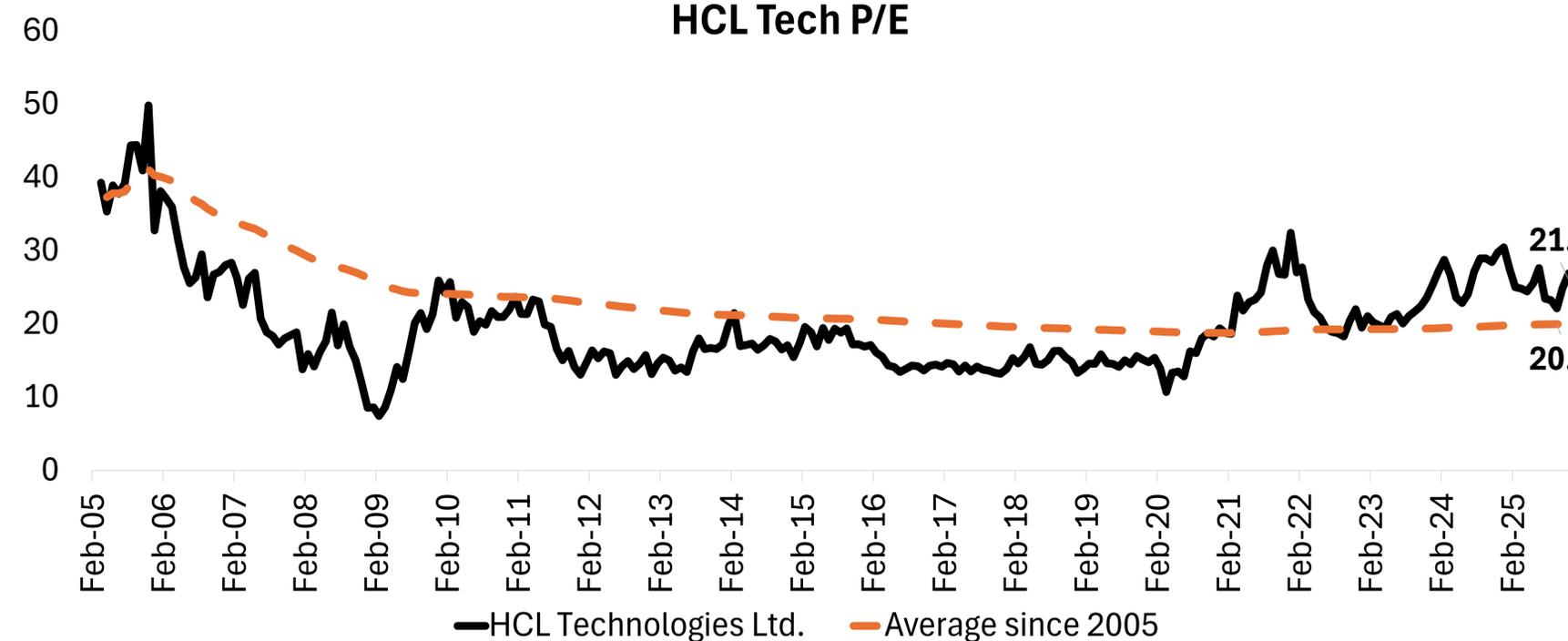
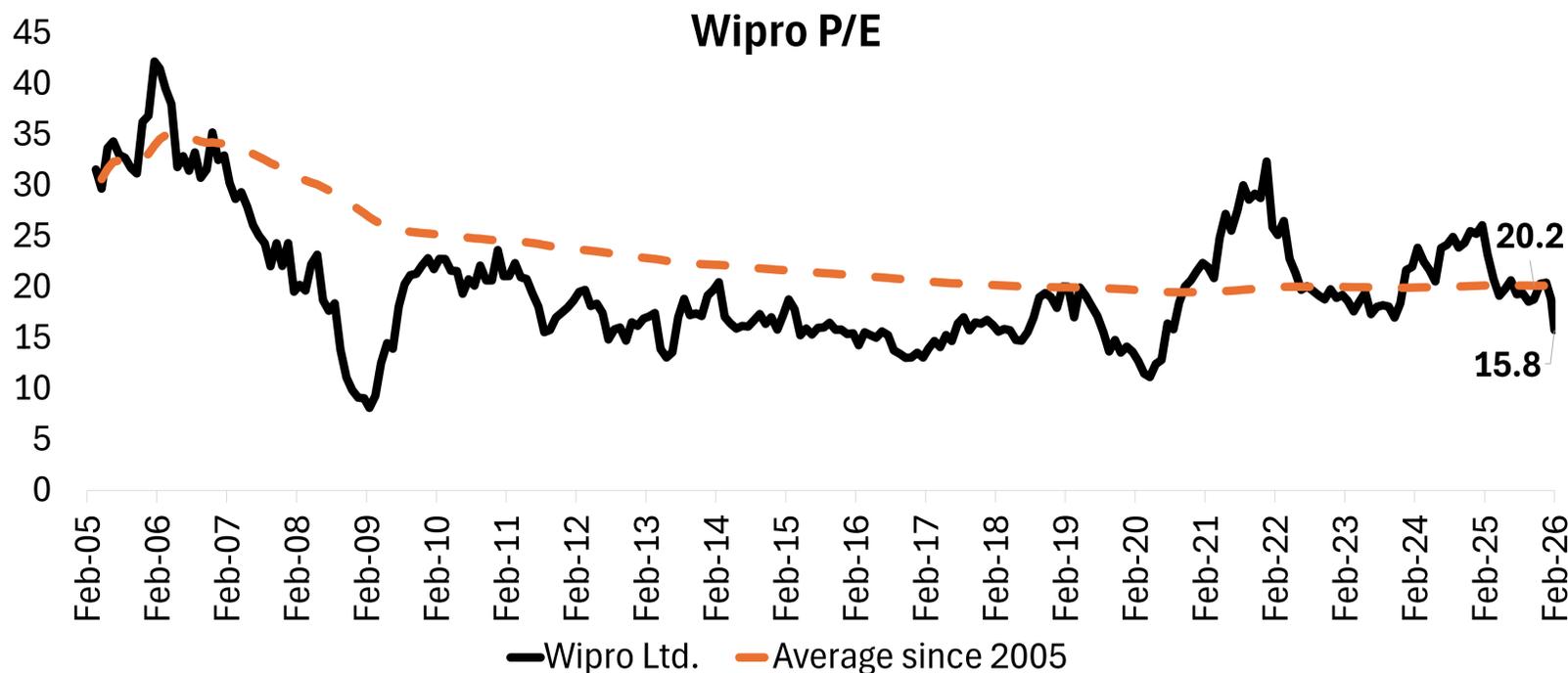
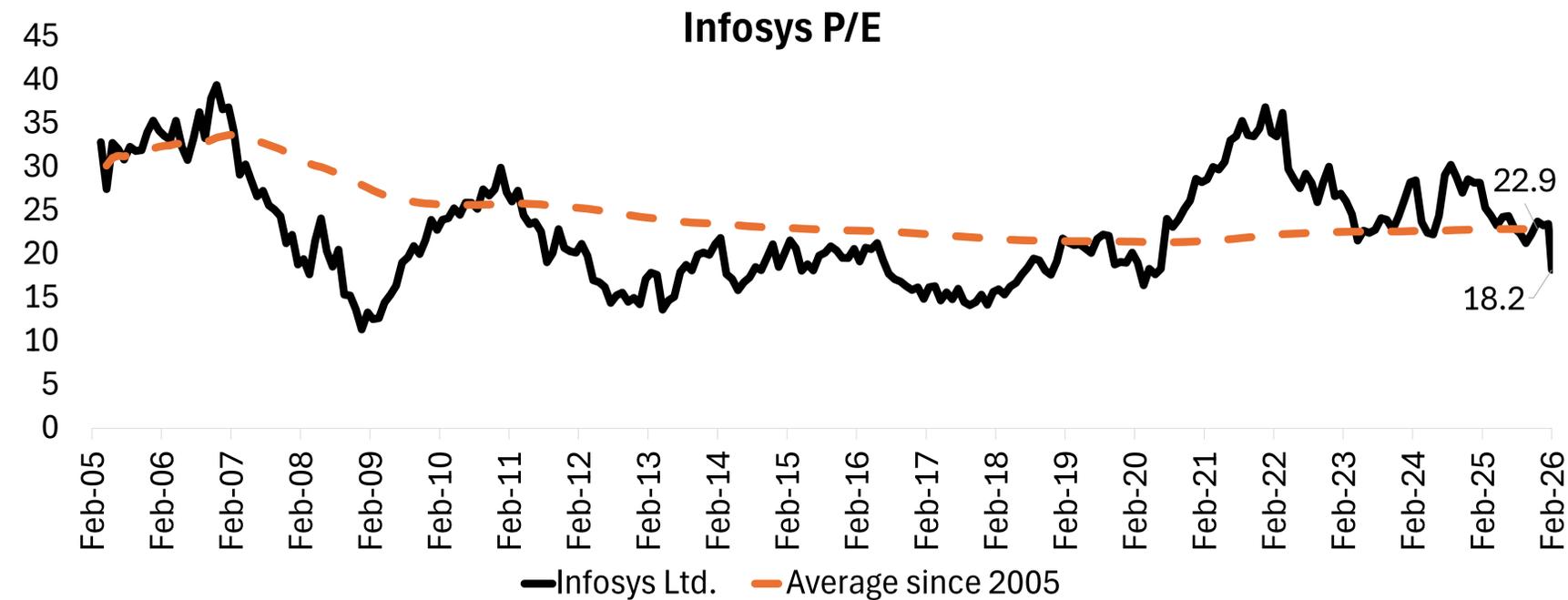
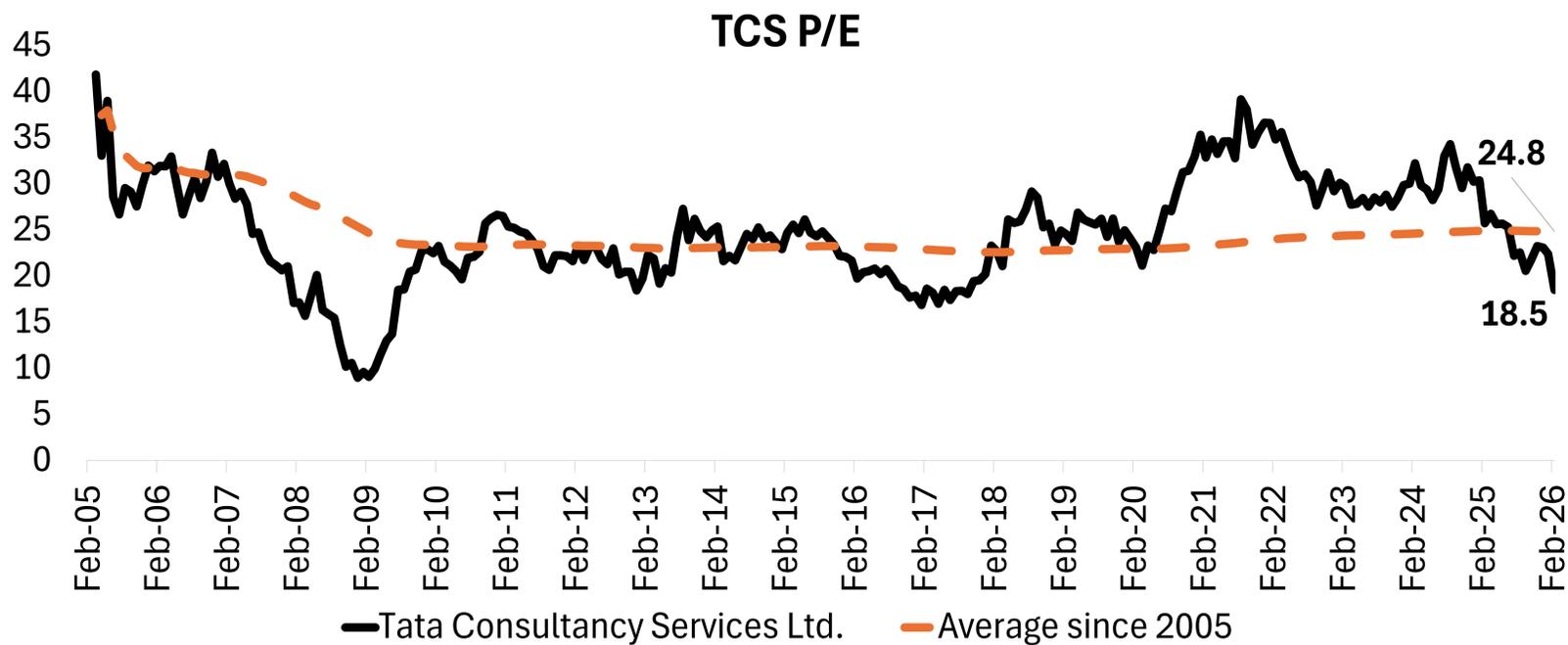
Businesses evolve, and legacy sectors like IT services have done so repeatedly. The AI-led transition may look distant today, but it is early to doubt their ability to adapt.

Even after the recent derating, the sector still shows solid ROEs, disciplined capital allocation and reasonable valuations, making it relatively attractive versus the broader market. Some further price fall can make this sector attractive on an absolute basis. Till such times a systematic investing approach seems logical.

**Currently, large-cap IT companies are undergoing a rough business cycle. Operating margins have been stable over the past 3 years, but revenues have slid to no growth zone.**



# Mega IT Stocks Are Trading Close To Or Below Average Valuations



# Investment Rules

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## What not to do (Via negativa)

### 1. Don't overpay.

Avoid stocks and securities where you can see mathematical evidence of overvaluation based on past data.

### 2. Don't confuse volatility with risk.

Risk is permanent loss and fragility to tail events, not daily price moves.

### 3. Don't forecast your way into big bets.

If your process needs precise macro calls, it is brittle. Build portfolios that survive being wrong.

### 4. Don't chase recent winners or narratives.

Recency bias is a tax on returns. Crowded trades reduce forward payoffs.

### 5. Don't ignore valuation and cycle position.

Paying any price for growth or safety is still risk. Extremes in optimism and pessimism matter.

## What to do

### 1. Engineer robustness first.

Size positions so you can hold through stress. Keep a safe core plus a small set of asymmetric bets.

### 2. Demand a margin of safety.

Underwrite conservatively and insist on a valuation buffer.

### 3. Stay inside your circle of competence.

If you cannot explain the business, key risks, and the downside path in plain words, pass.

### 4. Use disciplined asset allocation and rebalancing.

Set guardrails across equities, quality debt, and gold. Rebalance systematically, especially at emotional extremes.

### 5. Optimize for temperament and process.

Write rules, pre-commit to them, keep a no-to-do list, and act only when the odds are clearly favorable.



## Disclaimer

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