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Navigating Volatility: Staying Invested and Maintaining Discipline is Key

What's the Point?

Ongoing geopolitical tensions have triggered heightened market volatility, leading to a sharp correction in equities.

At stock level, the drawdown is deeper, with large number of stocks falling over 30% from their 52-week highs.

The correction has led to moderation in valuations. Large caps are now trading at a discount, while mid- and small-cap premiums have moderated significantly.

Historical trends across past crises show that while short-term returns may remain volatile, markets tend to recover over longer investment horizons, driven by fundamentals and earnings growth.

Investors may maintain discipline by continuing SIPs and rebalancing portfolios. The current correction may be used to increase allocation to equities in a staggered way.

Equity markets have been navigating a phase of heightened volatility over the past few months, with the ongoing conflict involving the United States, Iran, and Israel emerging as a key trigger. Escalating geopolitical tensions have led to sharp rise in crude oil prices, risk-off sentiment across asset classes, and a meaningful correction in equities from their recent peaks.

Meaningful Correction across market cap segments

The current volatility has led to meaningful correction across sectors and market cap segments. NIFTY 50 Index has corrected by ~15% from its recent peak. The broader indices, NIFTY Midcap 150 Index and BSE Small Cap 250 index have seen a sharper fall. A more granular analysis of the mid- and small-cap segments indicates that the drawdown has been significantly deeper at the individual stock level. For instance, NIFTY Midcap 150 Index is down 15% from its peak, however, 43% of the stocks are down by over 30% or more from 52 week high. Similar is the case with BSE Small Cap 250 Index, with 63% of the stocks down by over 30% or more from 52 week high.

NIFTY Midcap 150 Index

Correction from 52-Week High	Number of Stocks	Weight
0% to (10%)	5	5
(10%) to (20%)	37	35
(20% to 30%)	44	31
(30%) to (40%)	42	18
(40%) to (50%)	18	9
More than (50%)	4	1

BSE Small Cap 250 Index

Correction from 52-Week High	Number of Stocks	Weight
0% to (10%)	8	4
(10%) to (20%)	33	19
(20% to 30%)	52	23
(30%) to (40%)	64	25
(40%) to (50%)	61	20
More than (50%)	32	8

Source: Bloomberg, data as of March 23, 2026

Valuations have moderated

With the current correction, valuations have moderated across segments. In terms of 1 Year forward PE, NIFTY 50 index is now trading at a discount to its 10-Year average. While midcap and small cap indices are still trading at a premium on 1 year forward basis, the premiums have moderated significantly from the Sep'24 highs.

Index	1 Year Forward PE	10 Year Average	Premium/ Discount
NIFTY 50 Index	17.5	18.7	-6.4%
NIFTY Midcap 100	24.8	22.7	9.3%
BSE Small Cap 250 Index	22.1	18.1	22.1%

Source: Kotak Institutional Equities, data as of March 23, 2026

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How have markets fared in past crisis?

There has been multiple such crisis in the past which has led to heightened volatility in the markets. History tells us that as the investment horizon extends from the short term to one year and beyond, market performance typically shows a meaningful recovery. The improvement is largely driven by underlying fundamentals and earnings growth, rather than the temporary disruptions that influence markets in the near term. While short-term volatility is inevitable, historical trends indicate that longer holding periods tend to deliver more stable and favourable outcomes for investors.

Event	Start Date	Nifty 50 Index								
		1 Week	1 Month	3 Months	6 Months	1 Year	2 year	3 Year	5 Years	10 years
Asian financial crisis	07-Aug-97	-3%	-9%	-15%	-23%	-29%	4%	3%	-24%	243%
Dot-com	10-Mar-00	-3%	1%	-8%	-10%	-22%	-26%	-37%	35%	219%
9/11 Attacks	11-Sep-01	-12%	-7%	8%	14%	-2%	37%	63%	229%	394%
Iraq War	20-Mar-03	-2%	-8%	7%	29%	68%	106%	219%	346%	455%
Global Financial Crisis*	04-Jan-08	-1%	-13%	-26%	-36%	-51%	-17%	-2%	-4%	67%
European Debt Crisis	13-Oct-10	-4%	-3%	-8%	-5%	-19%	-9%	-2%	30%	91%
COVID-19 Correction	17-Jan-20	-1%	-2%	-25%	-12%	17%	48%	46%	88%	
Russia-Ukraine Conflict	13-Jan-22	-3%	-5%	-4%	-13%	-2%	20%	26%		

Source: NSE indices, Internal calculation, returns are on absolute basis, * the market had run up significantly before this crisis, hence long-term returns were moderate from the start of the crisis.

Conclusion - Increase Allocation to Equities in a Staggered Way

While it is difficult to gauge the impact on earnings of the companies at the current juncture, investors may continue to follow asset allocation. With correction in equities, the allocation to equities in investor's portfolio would have drifted below intended levels. This presents a good opportunity to rebalance the portfolios, by increasing exposure to equities in a staggered way, thereby maintaining strategic asset allocation.

Continuing SIPs during current times may be particularly beneficial, as it enables accumulation at relatively lower prices and improves long-term return potential through cost averaging. Staying invested with a long-term perspective, while periodically rebalancing the portfolio, can help navigate volatility more effectively and keep investments aligned with financial goals.

Sources: Bloomberg, NSE indices and other publicly available information.

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