HDFC MUTUAL FUND
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HDFC MF

# Weekend Bytes

A weekly series from HDFC Mutual Fund

## From losses to lessons

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## A Look at Market Corrections and Recovery

When markets fall sharply, investors are often faced with a difficult question: stay invested or step aside until uncertainty subsides?

It is a question that has surfaced repeatedly across market cycles. Yet while the reasons behind every crisis may differ, investor reactions often follow familiar patterns.

In early 2020, the world came to a standstill.

Flights were grounded. Offices shut down. Markets across the globe corrected sharply within weeks. The Sensex fell nearly 38% (14-Jan-20 to 23-Mar-2020) from its peak in a matter of days. Investors who had spent years building portfolios suddenly found themselves staring at deep losses.

For many, the instinct was immediate —
***"Should I exit before things get worse?"***

Some investors paused SIPs. Others shifted to cash, waiting for clarity. But many investors stayed invested, continued their SIPs, and allowed time to do its work.

What followed surprised many.

Within months, markets began recovering. Over the next few years, indices moved to new highs, reminding investors how quickly sentiment and markets can change.

### Sensex Close Prices in 2020

Source: www.bseindia.com

# The Bigger Picture

Crises change headlines. Long-term wealth creation continues.

Markets have experienced several periods of sharp correction over the years. While the triggers have varied, investor concerns during such phases have often been remarkably similar.

Each event created uncertainty. Each triggered fear. Yet, in hindsight, each became another chapter in long term wealth-creation journey.

While the causes differed, market history has repeatedly shown that periods of uncertainty have often been followed by recovery and growth.

| Event | Market Correction (Sensex) | Correction Duration | Time to Recover |
|---|---|---|---|
| Dotcom Burst (2000) | ~56% | ~19 months | ~2.3 years |
| Global Financial Crisis (2008) | ~60% | ~14 months | ~1.7 years |
| COVID-19 Pandemic (2020) | ~38% | ~2 months | <1 year |

Correction and recovery are based on Sensex closing levels, Recovery is defined as the first close above the pre-correction peak

Source: Internal Calculations based on closing prices from data procured from BSE India

More recently, geopolitical tensions in the Middle East have once again created market uncertainty. History suggests that such periods are a natural part of market cycles.

Lesson 1

## Volatility Is Not the Same as Permanent Loss

A falling portfolio often feels uncomfortable because losses are visible immediately, while recovery takes time.

But temporary declines are a natural feature of equity investing.

Historically, markets have spent far more time recovering and compounding than remaining in decline. Investors who exited during periods of panic often faced a second challenge — deciding when to re-enter.

Temporary declines can feel permanent in the moment. Market history usually suggests otherwise.

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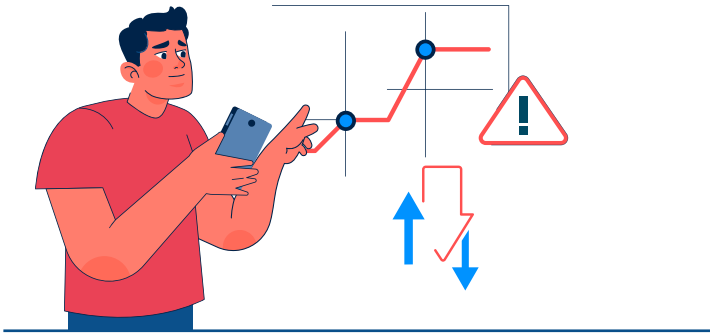
Lesson 2

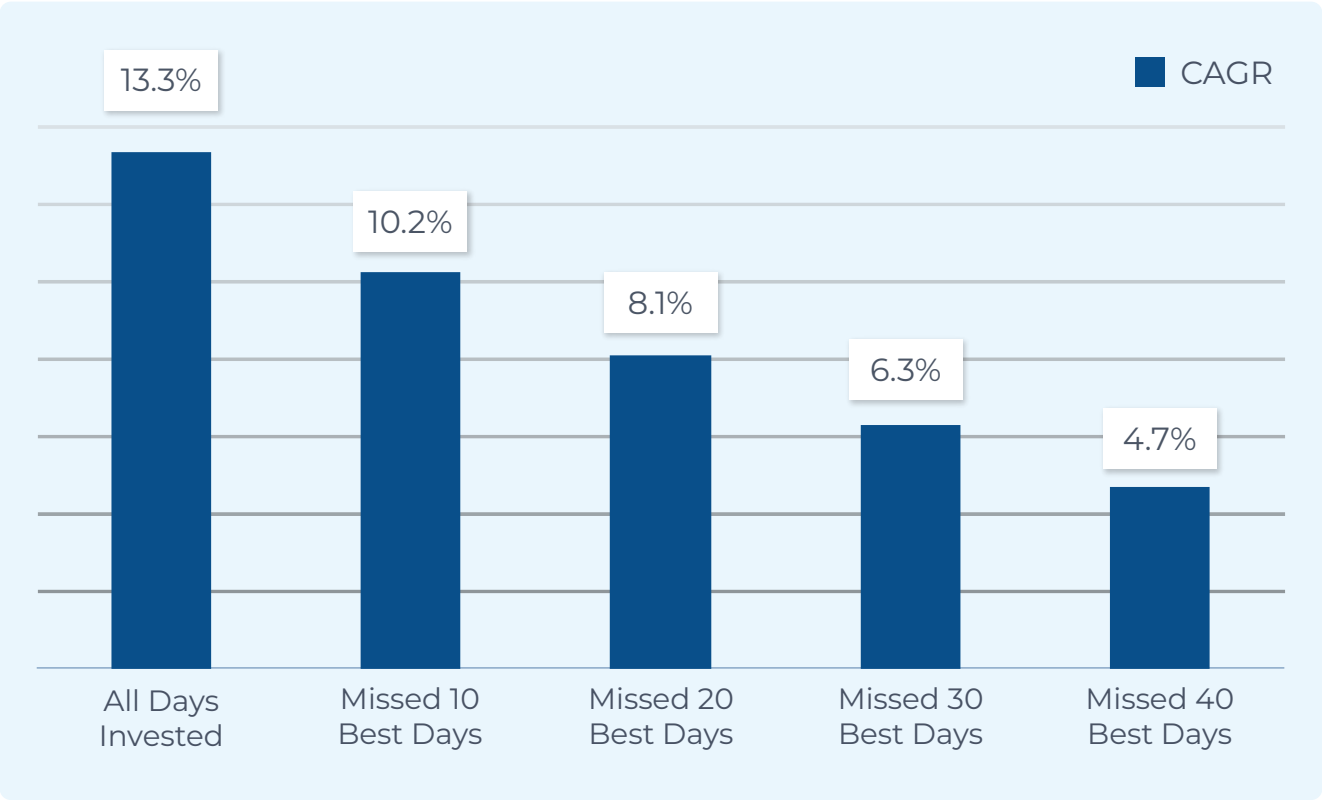
## Trying to predict exact market bottoms and tops is extremely difficult — even for experienced participants.

Long-term investing works differently. Instead of depending on perfect timing, it depends on consistency, patience, appropriate asset allocation and staying invested through cycles among other things.

This is where SIPs often demonstrate their real strength. During market corrections, the same SIP amount purchases more units. Historically, disciplined SIP investors have often benefited meaningfully when markets eventually recovered.

Time can be one of the most powerful allies in investing. As illustrated in the accompanying chart, remaining invested through market cycles can be important, as missing even a few of the market's best days can have a meaningful impact on long-term outcome.






BSE Sensex return from 1-Jan-1990 to 31-May-2026 based on Closing Price

Source: Internal Calculations based on data procured from www.bseindia.com

**Past performance may or may not be sustained in future and is not a guarantee of any future returns.**

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Lesson 3

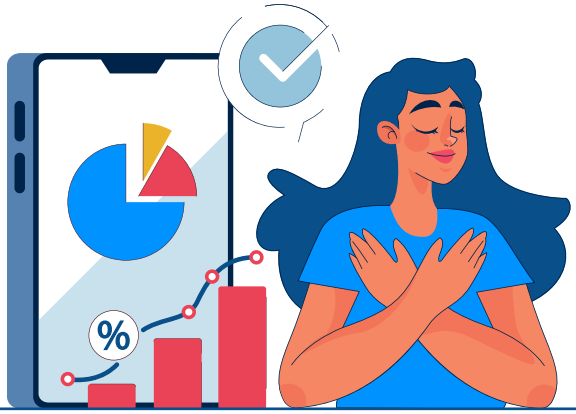
## Diversification Can Help Investors Stay Calm

Different sectors, industries and companies react differently during market stress.

While some segments may correct sharply, others may remain relatively resilient. Diversified portfolios aim to spread exposure across sectors and asset classes, helping reduce the impact of concentrated risk.

Diversification may not eliminate volatility, but it can make the investment journey more manageable emotionally.

This can help investors stay focused on long-term goals rather than short-term market movements.




Lesson 4

## Recovery Often Begins Before Confidence Returns

One of the most difficult aspects of investing is that markets tend to recover before economic headlines improve.

During periods of crisis, uncertainty feels overwhelming, news flows remain negative, forecasts become cautious and investor sentiment weakens.

Yet historically, markets have often started recovering when visibility still appeared limited.

Markets are forward-looking. They react not only to present conditions, but also to expectations of future improvement.

As a result, investors waiting for complete clarity may sometimes miss a meaningful part of the recovery phase.

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# The Human Side of Investing

Investor behaviour during crisis tends to follow familiar patterns:

| | |
|---|---|
| Optimism during rallies | Anxiety during corrections |
| Panic near market bottoms | Regret after recoveries begin |

In an era of constant news flow, instant notifications and social media commentary, these emotions can sometimes feel even more intense.

The challenge for investors is not the availability of information, but the ability to separate short-term noise from long-term fundamentals.

Markets test patience precisely when patience matters most.

History suggests that disciplined behaviour during difficult periods has often mattered more than reacting to short-term noise.

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## The Takeaway

Market corrections are uncomfortable. They test confidence, patience and conviction.

But they also remind investors of something important:

Equity investing is not a straight line. Volatility is part of the journey toward potential long-term wealth creation.

Volatility in the market may be inevitable. How investors respond to them often determines whether periods of uncertainty become sources of anxiety or opportunities for long-term wealth creation.

While market movements may dominate headlines, successful investing is often about staying focused on long-term goals rather than short-term fluctuations.

Your investment journey is measured in years, not headlines.

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Mission: To be the wealth creator for every Indian

Vision: To be the most respected asset manager in the world