

QodeTM

Valuation Spread Indicator

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Valuation Spread Indicator

Every market cycle swings between fear and greed, between deep value and stretched valuations, but most investors only recognize these extremes in hindsight.

The Valuation Spread Indicator cuts through the noise by distilling the market's valuation state into a single, real-time reading from 0 to 100, giving us a systematic framework to allocate more capital when markets are cheap and protect it when they're expensive.

Why Valuations Matter?

Markets are not random walks - valuations are the single strongest predictor of long-term returns.

01

Expensive Markets Disappoint

When valuations are stretched, forward returns compress. Historically, investing at high-valuation points has delivered below-average 3-5 year returns in Indian equities.

02

Cheap Markets Reward

Periods of depressed valuations - often accompanied by fear and pessimism - have consistently offered the best entry points for long-term investors.

03

Timing Matters for Allocation

While short-term trading on valuations is futile, adjusting broad portfolio allocation based on valuation regimes can significantly improve risk-adjusted returns over market cycles.

The VSI quantifies this - turning qualitative valuation judgment into a systematic, actionable signal.

What is the VSI?

The Valuation Spread Indicator (VSI) is a proprietary composite signal that measures the overall valuation state of Indian equity markets on a scale of 0 to 100.

Scale	0 – 100	Normalized for easy interpretation
Low VSI (< 30)	Cheap Markets	Valuations are depressed - high expected returns
Mid VSI (30–70)	Neutral	Markets priced near historical norms
High VSI (> 70)	Expensive Markets	Valuations stretched - low expected returns

VSI Reading Scale

← Expensive (Reduce Equity)

Extreme Fear
70-100

Elevated Risk
50-70

Low Risk
30-50

Extreme Calm
0-30

Cheap (Increase Equity) →

Important: The VSI is a long-term allocation tool, not a short-term trading signal. It guides strategic portfolio positioning across market cycles.

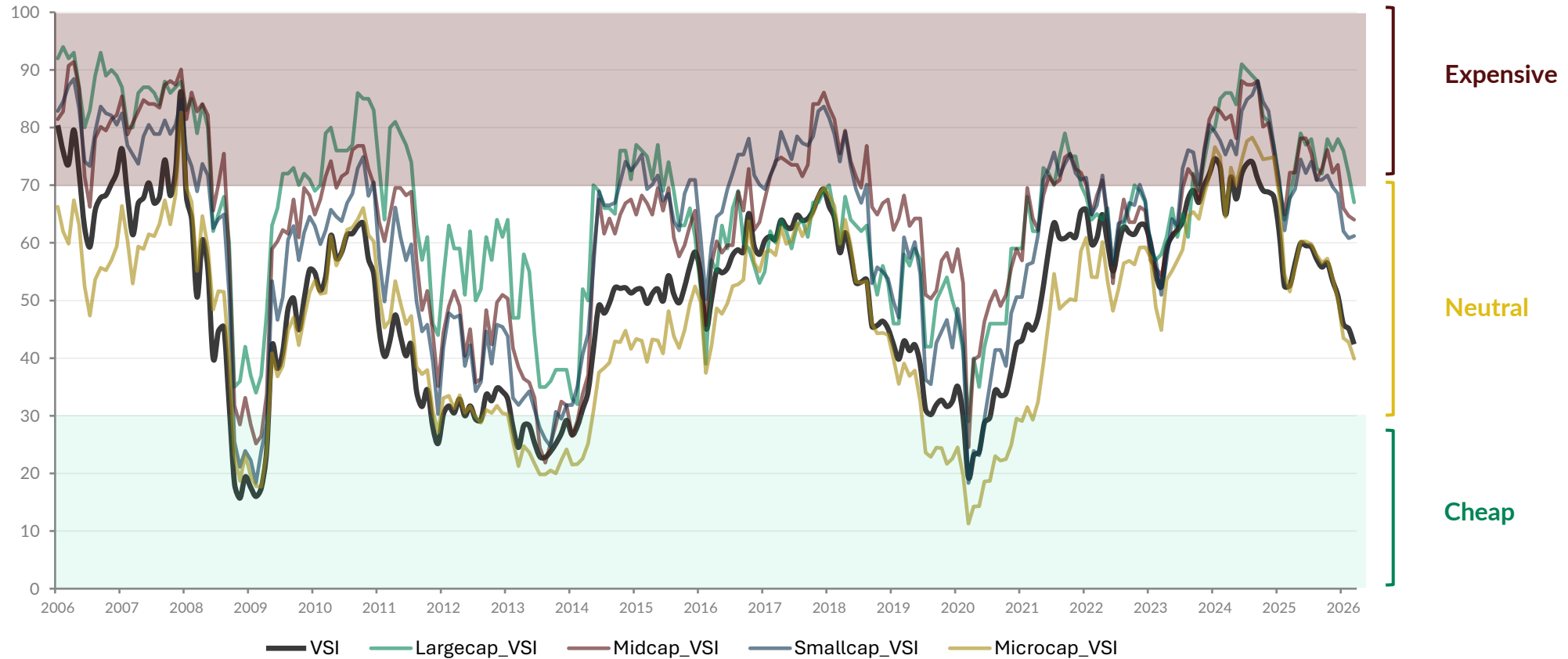
Segment-wise VSI

We also follow segment wise valuation indicator, which indicates how each segment stands based on their valuations.

The segments are divided as largecaps, midcaps, smallcaps and microcaps. Each VSI helps us decide the allocation across each segment.

Segment-wise VSI Readings

January 2006 – March 2026 | Full market cycle coverage including multiple crashes and rallies



Data Points

6,500+

Daily readings since Jan 2006

All-Time Low

14.2

Extreme buying opportunity

All-Time High

87.4

Maximum valuation stretch

Current Reading

42.4

Approaching fair value zone

VSI Regimes & Distribution

How markets spend their time across valuation zones - and what each zone implies for investors

VSI	REGIME	WHAT IT MEANS	ACTION	TIME
70 – 100	Extreme Fear	Markets extremely expensive. Very high probability of below-average multi-year returns. Minimize equity exposure.	Minimum equity allocation	8.3%
50 – 70	Elevated Risk	Valuations above average. Forward returns compressed. Begin reducing equity exposure and increasing defensive positioning.	Underweight equities	51.3%
30 – 50	Low Stress	Valuations below historical average. Above-average forward returns likely. Favorable risk-reward for incremental equity deployment.	Overweight equities	28.1%
0 – 30	Extreme Calm	Markets deeply undervalued. Historically the best time to deploy fresh equity capital aggressively. Occurs during panic selloffs and prolonged bear markets.	Maximum equity allocation	12.3%

When VSI Signaled Danger

Historical instances where elevated VSI readings preceded major market corrections

87.4

Pre-GFC Peak (2007–2008)

VSI hit 87 in Dec 2007, signaling extreme overvaluation. Nifty was at 6,100+. Over the next 15 months, the index fell 60% to 2,500. Investors who heeded the VSI warning avoided catastrophic losses.

Extreme froth preceded the 2008 collapse

69.9

2018 Exuberance

VSI hit 69.9 in Dec 2017 during the small/mid-cap mania. Mid & Smallcaps fell extremely hard and deviated from the Largecaps.

Mid & Smallcap correction of 50%+

75.1

2024 Rally Peak

VSI hit 75.1 in Jan 2024 as Nifty Smallcap 250 reached euphoric levels. While markets continued higher temporarily, the risk-reward was severely skewed against equity investors.

20-30% Correction across stocks (Current phase)

High VSI readings don't time exact peaks - but they consistently identify periods of poor risk-reward.

When VSI Signaled Opportunity

Historical instances where low VSI readings preceded major market rallies

14.2

GFC Bottom (Nov 2008 – Mar 2009)

VSI plunged to 14.2 during the Global Financial Crisis as markets were engulfed in panic. Nifty hit 2,500. Those who deployed capital at these levels saw 300%+ returns over the following 5 years.

Nifty rallied ~180% in 2 years

21.5

2013 Taper Tantrum Period

VSI fell to 21.5 in Aug 2013 amid fears of Fed tapering and INR depreciation. Indian equities were deeply unloved. The subsequent bull run delivered massive multi-year returns.

Nifty rallied ~75% over next 2 years

15.8

COVID Crash (March 2020)

The pandemic-driven selloff pushed VSI to 15.8 - deep into the buying zone. Despite extreme uncertainty, this proved to be one of the best entry points in a decade.

Nifty doubled within 18 months

Low VSI readings have been remarkably consistent signals of exceptional long-term buying opportunities.

Forward Returns by VSI Zone

NIFTY 50				QODE ALL WEATHER		
VSI ZONE	1-YEAR FWD RETURN	3-YEAR FWD CAGR	1Y HIT RATE (POSITIVE)	1-YEAR FWD RETURN	3-YEAR FWD CAGR	1Y HIT RATE (POSITIVE)
0 - 30	+33.30%	+15.90%	99.70%	+23.50%	+18.70%	100.00%
30 - 50	+11.40%	+14.20%	84.90%	+18.40%	+18.70%	99.70%
50 - 70	+10.10%	+10.20%	72.20%	+16.10%	+15.90%	81.30%
70 - 100	+4.20%	+9.50%	79.30%	+16.80%	+19.70%	100.00%

We see that the VSI improves the returns for the Nifty 50 significantly, but that QAW shows robust returns overall, irrespective of the valuations of the market.

* Hit Rate implies the % of times the security has given positive returns in the given period.

Data is backtested from Jan 2011 to Nov 2024 and live from Nov 2024 to Mar 2026.

Segment-wise Forward Returns

LARGECAP VSI	1-YEAR FWD RETURN	3-YEAR FWD CAGR	1Y HIT RATE (POSITIVE)
0 - 40	+44.10%	+16.40%	100.00%
40 - 55	+21.00%	+15.60%	92.00%
55 - 70	+11.40%	+11.60%	89.60%
70 - 100	+2.90%	+10.10%	52.00%

SMALLCAP VSI	1-YEAR FWD RETURN	3-YEAR FWD CAGR	1Y HIT RATE (POSITIVE)
0 - 30	+96.01%	+34.70%	100.00%
30 - 50	+26.90%	+24.80%	69.90%
50 - 70	+19.20%	+17.80%	67.20%
70 - 100	+5.00%	+6.30%	44.00%

MIDCAP VSI	1-YEAR FWD RETURN	3-YEAR FWD CAGR	1Y HIT RATE (POSITIVE)
0 - 30	+72.40%	+30.70%	100.00%
30 - 50	+31.80%	+25.10%	83.50%
50 - 70	+20.70%	+19.50%	81.30%
70 - 100	+5.60%	+10.40%	52.00%

MICROCAP VSI	1-YEAR FWD RETURN	3-YEAR FWD CAGR	1Y HIT RATE (POSITIVE)
0 - 30	+75.90%	+42.50%	90.90%
30 - 50	+10.20%	+26.30%	60.20%
50 - 70	+23.10%	+8.80%	62.50%
70 - 100	+2.10%	-9.70%	47.10%

Data is backtested from Jan 2011 to Mar 2026.

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