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Market Dynamics, Sectoral Rotation and Risk-Return Patterns: A Comparative Analysis of NIFTY Indices in India – September and October 2026

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***Abstract* – Purpose. This paper compares how Indian equity and debt markets behaved in two consecutive months, September and October 2026. It looks at market direction, sector leadership, risk-return trade-offs, valuations and the bond yield curve. Design. The study uses NSE Indices Limited's monthly Index Dashboards: 144 NIFTY equity indices (broad market, sectoral, strategy, thematic) and 263 fixed-income indices observed on 30 September and 31 October 2026. It applies descriptive analysis, Wilcoxon signed-rank and Kruskal–Wallis tests, Spearman rank correlation, a relative-strength quadrant for sectors and the Sharpe ratio. Findings. September was a broad sell-off: 140 of 144 equity indices fell, with a median one-month return of −5.8%. October brought a partial, narrow recovery led by large caps (Nifty 50+1.95%) and IT (Nifty IT +18.06% after −11.18%), while small and micro caps fell sharply (Nifty Microcap 250 −8.94%). Sector ranks in one month did not predict the next ($\rho = 0.14$, $p = 0.44$), and low-beta indices outperformed in October ($\rho = -0.32$, $p < 0.001$). Healthcare and pharma led on risk-adjusted terms in both months. In debt, yields rose across almost every index (median +49 basis points), most sharply at the short end (Liquid Index +92 bp), and returns fell in line with duration ($\rho = -0.97$). Originality and implications. The paper documents a rapid rotation from mid- and small-caps to large-cap and defensive sectors, alongside a bear-flattening of the yield curve. It offers practical guidance for asset allocation, sector exposure and debt-fund duration choice.**

***Keywords* - sectoral rotation; NIFTY indices; risk-return; yield curve; Indian stock market; market dynamics**

I. INTRODUCTION

Indian markets entered the autumn of 2026 under pressure. By the end of October, the Nifty 50 had lost 9.45% over one year, and 117 of 144 NIFTY equity indices showed negative one-year returns. Over the same period, debt yields climbed. Months of stress like these are when sector leadership changes fastest and when investors most need evidence on where risk is being rewarded.

NSE Indices Limited publishes a monthly Index Dashboard for every NIFTY index. It reports returns over several horizons, one-year volatility, beta, valuation ratios and, for debt, yield and duration. Comparing two consecutive dashboards gives a compact, verifiable picture of how the market rotated from one month to the next.

Objectives

- To compare the return performance of NIFTY equity indices across market segments in September and October 2026.
- To identify sectoral rotation: which sectors gained or lost leadership between the two months.
- To examine the risk-return relationship using volatility, beta and the Sharpe ratio.
- To assess changes in valuation (P/E, P/B, dividend yield).
- To analyse movements in the debt market yield curve and the link between duration and returns.

II. REVIEW OF LITERATURE

Momentum and reversal. Jegadeesh and Titman (1993) show that past winners tend to keep outperforming over 3–12 months, while De Bondt and Thaler (1985) find that extreme losers often rebound over longer horizons. Moskowitz and Grinblatt (1999) show that much of stock momentum is driven by industries, which makes sector rotation a central question for investors. Size, value and risk. Fama and French (1993) establish size and value as priced risk factors. Later work challenged the simple link between risk and return: Ang et al. (2006) find that high-volatility stocks earn lower future returns, and Frazzini and Pedersen (2014) show that low-beta assets earn higher risk-adjusted returns than the capital asset pricing model predicts. Baker and Wurgler (2006) show that small, speculative stocks are most sensitive to shifts in investor sentiment.

Risk-adjusted performance. Sharpe (1966) introduced the reward-to-variability ratio, still the standard way to compare returns after accounting for volatility.

Research gap. Most Indian studies of sector performance use long historical windows. Few examine the most recent month-to-month rotation across the full set of NIFTY equity and debt indices together, using the official dashboard data investors actually see. This paper offers such a short-window, cross-asset snapshot.

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III. DATA AND METHODOLOGY

Table 1. Sample. One equity index launched in October (Nifty High Dividend Yield 15) is excluded from comparisons.

Dataset	Indices matched in both months	Variables used
Equity – Broad Market	22	1-month, 3-month, 1-year returns; 1-year volatility, beta; P/E, P/B, dividend yield
Equity – Sectoral	34	as above
Equity – Strategy	37	as above
Equity – Thematic	51	as above
Fixed income (aggregate, G-Sec, SDL,money, market, corporate, PRC)	263	yield, modified duration, 1-month and 1-year returns

Source. NSE Indices Limited, Index Dashboard (equity, based on total return indices) and Fixed Income Indices Dashboard, as of 30 September 2026 and 31 October 2026.

Techniques.

- Descriptive statistics of one-month returns by segment.
- Wilcoxon signed-rank test for paired September–October differences; Kruskal–Wallis H test across equity categories.
- Spearman rank correlation for persistence of returns (September vs October), and for the links between beta and return and between duration and return.
- Relative-strength quadrant: each sectoral index is classed as Leading, Improving, Weakening or Lagging according to whether its September and October one-month returns were above or below the sector median.
- Sharpe ratio = (1-year return − risk-free rate) ÷ 1-year volatility, with the NIFTY 91 Day T-Bill Index yield on 31 October 2026 (5.90%) as the risk-free rate.

The analysis was carried out in Python (pandas, SciPy).

IV. RESULTS AND DISCUSSION

1. Market Direction: Broad Sell-Off, Then a Narrow Recovery

September was a near-universal decline; October was mixed. Only 4 of 144 equity indices rose in September, against 46 in October.

Table 2. One-month total returns by segment. Wilcoxon signed-rank (Sep vs Oct): $p < 0.001$. Kruskal–Wallis across segments: Sep $p = 0.34$, Oct $p = 0.22$.

Segment	n	Sep mean (%)	Sep median (%)	Oct mean (%)	Oct median (%)
Broad Market	22	−5.45	−5.78	−2.76	−2.84
Sectoral	34	−5.33	−5.22	−1.59	−2.59
Strategy	37	−6.15	−6.15	−0.92	−1.20
Thematic	51	−5.62	−6.11	−1.94	−2.28
All equity	144		−5.8		−2.2

The improvement from September to October is highly significant. The four segments, however, did not differ significantly from each other in either month: the market moved together, and the real differences lay within segments.

2. Size Rotation: Large Caps Recover, Small Caps Reverse

The clearest pattern is a reversal by company size.

Table 3. Returns and valuations by market-capitalisation segment.

Index	Sep (%)	Oct (%)	1-year Oct (%)	Volatility Oct (%)	P/E Sep	P/E Oct
Nifty 50	−6.03	1.95	−9.45	13.90	19.36	19.30
Nifty Next 50	−5.42	−2.87	−2.14	17.66	18.28	17.13
Nifty Midcap 150	−7.07	−3.69	−3.90	16.75	28.40	26.27
Nifty Smallcap 250	−3.08	−5.78	−2.61	18.14	34.45	31.28
Nifty Microcap 250	−1.00	−8.94	0.97	20.76	27.28	23.78

In September, small and micro caps fell least. In October the order flipped: the Nifty 50 gained while microcaps lost almost 9%. Across all 144 indices, September and October returns are negatively rank-correlated ($\rho = -0.25$, $p = 0.002$): last month's relative winners tended to become this month's losers. This is a short-term reversal pattern rather than momentum, consistent with a move towards liquid, lower-valued large caps when sentiment is weak (Baker and Wurgler, 2006).

3. Sectoral Rotation

Sector leadership changed sharply. September and October sector ranks are essentially unrelated (Spearman $\rho = 0.14$, $p = 0.44$).

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Table 4. Selected sectoral indices ranked by one-month return (34 sectoral indices; rank 1 = best).

Sectoral index	Sep 1M (%)	Oct 1M (%)	Rank Sep	Rank Oct	Rank change
Nifty IT	−11.18	18.06	34	1	+33
Nifty MidSmall IT & Telecom	−8.82	7.59	28	2	+26
Nifty Media	1.66	3.10	1	3	−2
Nifty PSU Bank	−6.89	2.73	26	4	+22
Nifty Pharma	−2.75	2.60	4	5	−1
Nifty Bank	−5.85	0.10	21	12	+9
Nifty Commercial & Transport Services	1.17	−4.22	2	25	−23
Nifty Metal	−3.22	−7.51	8	32	−24
Nifty Construction	−4.83	−7.94	16	33	−17
Nifty NBFC	−9.94	−8.60	33	34	−1

The relative-strength quadrant groups the 34 sectors as follows:

Table 5. Sectoral relative-strength quadrant, September–October 2026.

Quadrant	Meaning	Sectoral indices
Leading	Above median in both months	Pharma, Healthcare Index, Nifty500 Healthcare, MidSmall Healthcare, Media, Telecommunications, Private Bank, Power, FMCG, Consumer Services, Retail
Quadrant	Meaning	Sectoral indices
Improving	Below median in Sep, above in Oct	IT, MidSmall IT & Telecom, PSU Bank, Bank, Financial Services, Financial Services 25/50
Weakening	Above median in Sep, below in Oct	Metal, Construction, Housing Finance, Oil & Gas, Commercial & Transport Services, REITs & Realty
Lagging	Below median	Auto, Capital Goods, Cement, Chemicals, Consumer Durables, Hospitals, Insurance, NBFC, Realty, Financial Services Ex-Bank, MidSmall Financial Services

Three themes stand out. Healthcare and pharma held up in both months, the classic defensive pattern. Money moved into IT and large banks after their September falls. Cyclical and rate-sensitive sectors (metal, construction, housing finance, capital goods, NBFCs) weakened, in line with the rise in interest rates seen in the debt market (Section 4.6). Among thematic indices, Small Finance Banks & Microfinance (−17.70%) and India Defence Equal Weight (−10.30%) fell most in October.

4. Risk and Return

Low-risk indices did better in October. One-month returns were negatively related to beta in both months, and more strongly in October (Sep $\rho = -0.17$, $p = 0.047$; Oct $\rho = -0.32$, $p < 0.001$). Among strategy indices, concentrated large-cap, quality and low-volatility indices led (Nifty Top 10 Equal Weight +4.81%, Nifty100 Quality 30 +1.90%, Nifty500 Low Volatility 50 +1.51%), while Nifty High Beta 50 (−5.71%) and small-cap quality and momentum indices trailed. This supports the low-beta anomaly (Frazzini and Pedersen, 2014).

Over one year, volatility did not buy higher returns ($\rho = 0.12$, $p = 0.16$). With the risk-free rate at 5.90%, only 12 of 144 equity indices earned a positive Sharpe ratio.

Table 6. Risk-adjusted performance, one year to 31 October 2026.

Highst Sharpe ratio	1-year return (%)	Volatilit y (%)	Sharpe		Lowest Sharpe ratio	1-year return (%)	Volatilit y (%)	Sharpe
Nifty Pharma	23.05	14.22	1.21		Nifty FMCG	−21.69	15.37	−1.80
Highest Sharpe ratio	1-year return (%)	Volatility (%)	Sharpe		Lowest Sharpe ratio	1-year return (%)	Volatilit y (%)	Sharpe
Nifty Telecommun ications	28.81	20.84	1.10		Nifty India Railways PSU	−29.94	22.25	−1.61

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Nifty MidSmall Healthcare	18.18	15.39	0.80		Nifty Insurance	−19.84	17.57	−1.46
Nifty500 Healthcare	13.43	13.77	0.55		Nifty Cement	−21.83	20.28	−1.37
Nifty Healthcare Index	12.50	14.10	0.47		Nifty50 Value 20	−11.17	12.71	−1.34

5. Valuation and Volatility

Valuations cheapened and volatility rose. The median P/E across equity indices fell from 25.2 to 24.3, and the median dividend yield rose from 0.90% to 1.15%. One-year volatility rose for almost every index (median 16.6% to 17.2%; Wilcoxon $p < 0.001$). The sharpest de-rating came in small and micro caps (Table 3), where P/E fell by 3 to 3.5 points in a month.

6. Fixed Income: Rising Yields and a Flatter Curve

Yields rose for all but one of the 263 fixed-income indices, with a median increase of 49 basis points. The rise was largest at the short end.

Table 7. Key fixed-income indices, September–October 2026.

Index	Yield Sep (%)	Yield Oct (%)	Change (bp)	Mod. duration (yrs)	1M return Oct (%)	1-year return (%)
NIFTY 1D Rate Index	5.07	5.74	+67	–	0.47	5.25
NIFTY 91 Day T-Bill Index	5.55	5.90	+35	0.23	0.41	5.31
NIFTY Liquid Index	6.13	7.05	+92	0.10	0.48	6.52
NIFTY Money Market Index	6.91	7.76	+85	0.35	0.37	6.61
NIFTY Short Duration Debt Index	7.58	8.12	+54	1.52	−0.15	3.95
NIFTY Corporate Bond Index	8.05	8.50	+45	2.09	−0.41	2.84
NIFTY Composite Debt Index	7.80	8.13	+33	4.67	−0.93	−0.05
NIFTY Long Duration G-Sec Index	7.57	7.73	+16	9.31	−1.03	−0.12
NIFTY 10 Year SDL Index	8.02	8.23	+21	6.47	−1.89	−12.20

Table 8. Fixed-income returns by duration bucket.

Modified duration	Indices (n)	Median change (bp)	Median 1M return Sep (%)	Median 1M return Oct (%)
Under 0.5 years	88	+85	0.55	0.40
0.5–1 year	40	+62	0.48	0.19
1–3 years	59	+48	0.12	−0.26
3–6 years	51	+34	−0.54	−0.88
Over 6 years	27	+26	−1.48	−1.65

Short-term yields rose more than long-term yields, so the curve flattened while shifting upward (a "bear flattening"). Returns fell almost perfectly in line with duration (Spearman $\rho = -0.97$ in October). Only money-market and very short indices kept positive returns. The number of fixed-income indices with a positive monthly return fell from 173 to 136. Credit carry offered some cushion: the NIFTY A Short-Term Bond Index (yield 11.08%) still returned +0.08% in October, while the AAA and AA short-duration indices lost 0.32% and 0.34%.

V. IMPLICATIONS, LIMITATIONS AND CONCLUSION

For investors and advisers. Sector leadership changed almost completely within a month, so short-term performance chasing is risky. Defensive sectors (healthcare, pharma) and low-beta, quality strategies gave the best protection through the drawdown. Small- and micro-cap exposure, which looked resilient in September, gave back ground quickly in October.

For fund managers. The negative month-to-month correlation and the low-beta effect argue for disciplined rebalancing rather than momentum-led tilts in a falling market. In debt funds, rising short-term yields reward short-duration and money-market strategies; long-duration funds face mark-to-market losses until yields stabilise.

For policymakers and researchers. The simultaneous equity rotation and bear flattening suggest that tighter short-term liquidity conditions fed through to both markets. The official NSE dashboards provide a reliable, free source for monitoring such shifts.

Limitations. The study covers two months, so its findings describe a specific market episode and cannot be generalised to longer cycles. It uses index-level dashboard data, not stock-level or fund-flow data, and does not model macroeconomic causes directly. Volatility and beta are trailing one-year measures.

Future research. Extending the window to 12–24 monthly dashboards would allow formal tests of momentum and reversal, regression of sector returns on interest-rate changes, and links to foreign and domestic institutional flows.

Conclusion. Between September and October 2026, Indian markets moved from a broad sell-off to a narrow, large-cap-led recovery. Sector ranks reshuffled, with IT and banks improving, healthcare leading throughout, and rate-sensitive cyclicals weakening. Low-beta indices were rewarded, valuations cheapened, and only 12 of 144 equity indices beat the risk-free rate on a risk-adjusted basis over one year. In debt, yields rose across the curve, most sharply at the short end, and returns fell strictly with duration. Together, the two dashboards describe a market rotating defensively under rising interest rates.

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