

Executive Summary

Basic economics suggests that risk and reward have a strong correlation, **markets reward risk-takers** disproportionately and vice versa - a thesis substantiated multiple times through historical data (refer Figure 8). The current escalation of conflict between the US, Israel and Iran since late February 2026 is another such event, having triggered sharp moves across global asset classes: Brent crude has surged over 50%, Indian equities have corrected ~10%, and gold has seen heightened volatility. While the near-term noise is significant, our analysis of historical precedents, current valuation levels and domestic earnings fundamentals leads us to a clear conclusion, **this sell-off presents a meaningful, time-bound buying opportunity in quality mid- and small-cap names.**

1. Market Performance Since Conflict Began

The conflict's onset on February 28, 2026 triggered a rapid repricing across global assets. Crude oil, the most direct transmission channel, has been the standout mover, with Brent surging over 50% in five weeks. Indian equities have borne the brunt of foreign outflows and risk-off sentiment, with the Nifty 50 correcting nearly 10% and broader indices falling more sharply. Safe-haven assets such as gold initially rallied before partially reversing. The chart below captures the full cross-asset picture.

Figure 1 : Asset Class Returns: Feb 27 – Apr 7, 2026



Nifty 50: -8.2% | EM ETF: -9.6% | S&P 500: -4.3% | Brent Crude: +50.4% | Gold: +5.3% | USD/INR: +3.5.

Source : Yahoo Finance | Data as on April 7th Market Close

2. Timeline of Key Events

The conflict has escalated in distinct phases. What began as targeted US-Israel strikes rapidly evolved into broader regional involvement, with the most critical development being Iran's assertion of control over the Strait of Hormuz through which approximately 20% of global oil supply transits. The timeline below tracks the key milestones and their immediate market reactions.

Figure 2 : Timeline of Key Events

Date	Event Description	Severity	Brent Crude % on Day	Nifty 50 % on Day	Gold % on Day
02/Mar/2026	Iran War	High	7.3%	-1.2%	1.2%
03/Mar/2026	Hezbollah targets Haifa Naval Base	High	4.7%	-1.2%	-3.5%
04/Mar/2026	Iran total control over strait of Hormuz	High	0.0%	-1.5%	0.2%
06/Mar/2026	Trump demands Iran Surrender	High	8.5%	-1.3%	1.6%
12/Mar/2026	US bombs Kharg Island	High	9.2%	-1.0%	-1.0%
23/Mar/2026	Trump gives 48 hour Ultimatum to open Strait	High	-10.9%	-2.6%	-3.7%
26/Mar/2026	Trump extends deadline to open Strait	High	5.7%	1.7%	-3.9%
7/Apr/2026	Two-Week US-Iran Ceasefire Announced	High	-15.6%	3.78%	2.71%

Source : The Hindu | Note: Since Markets were closed on Feb 28th, Start of the events has been taken as of Mar 2

3. Nifty 50 - What Pulled the Index Down

The Nifty 50 has fallen approximately 778 basis points (-7.78%) since the conflict began on February 28, 2026. The breakdown below attributes this decline to individual sectors and stocks, making clear that the selloff has been heavily concentrated - Financial Services alone accounts for nearly half the total index damage, followed by Automobiles and Oil & Gas. Critically, IT was the only sector that added positive points to the index.

Figure 3 : Sector-wise Contribution (Bps)

Sector	# Stocks	Sector Weight (27 Feb 26)	Since War bps	1Y bps [Apr25 weights]
Financial Services	11	38%	-458	2
Information Technology	5	9%	15	-77
Oil Gas & Consumable Fuels	3	10%	-44	130
Fast Moving Consumer Goods	4	6%	-39	-100
Automobile and Auto Components	5	7%	-93	100
Healthcare	5	4%	-28	-4
Metals & Mining	4	4%	-22	119
Telecommunication	1	5%	-12	37
Capital Goods	1	1%	-5	53
Consumer Durables	2	3%	-11	39
Consumer Services	2	2%	-10	-3
Construction	1	4%	-57	80
Construction Materials	2	2%	-24	1
Power	2	3%	-7	11
Services	2	2%	-20	3
Total		100%	-815	390

Source : NSE | Data as on April 7th Market Close

3. Valuations - A Significant Comfort Zone

The selloff has compressed valuations across Indian indices to levels that are now comfortably below their 10-year averages, and in some cases approaching the -1 standard deviation band, a zone that has historically been a strong entry point. The valuation snapshot below, alongside the 10-year band charts, illustrates this clearly.

Figure 4 : Valuations of Key Indices

Index	Current P/E	10Y Avg	+1 SD	-1 SD	Valuation Signal
Nifty 50	19.2x	22.5x	27.1x	17.9x	Below Average
BSE Sensex	20.8x	24.3x	27.1x	21.6x	Below Average
BSE Midcap	27.2x	31.1x	37.2x	25x	Below Average
BSE Smallcap	26.5x	41.4x	68.8x	14x	Below Average

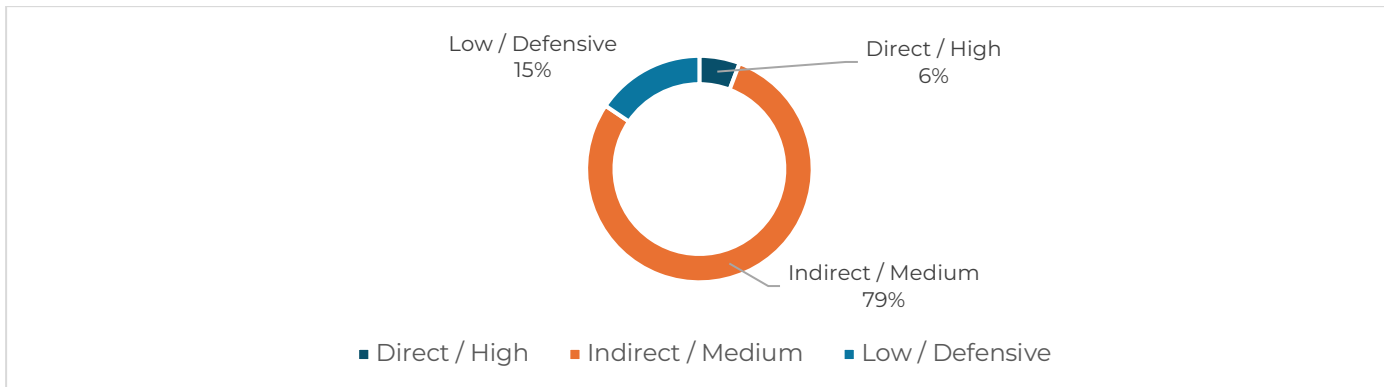
Note: P/E figures are trailing, Data as on April 6th. Source: Bloomberg.

The 10-year P/E band charts below for the Nifty 50, Sensex, BSE Midcap, and BSE Smallcap show the current readings approaching the lower end of their historical ranges, a pattern that has, without exception, resolved to the upside over subsequent 12-18 months.

4. Portfolio Exposure to the Iran Conflict

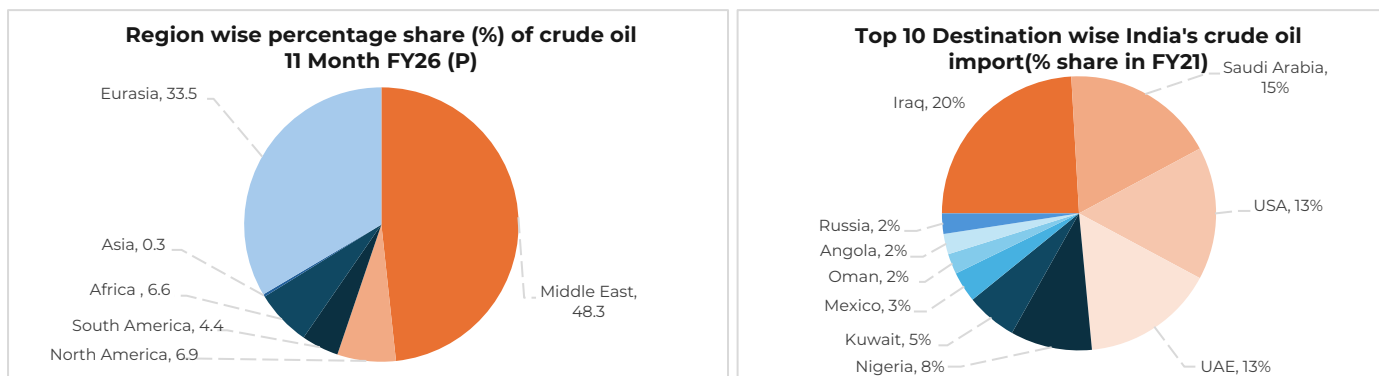
Crude oil is the primary transmission mechanism from this conflict to corporate India. Sectors with high crude input costs or supply-chain dependencies face near-term earnings headwinds. Importantly, a meaningful share of India's crude imports has already pivoted towards Russian supply, providing a partial buffer against Middle East disruptions. The table below maps sectoral exposure across our portfolio.

Figure 5 : Portfolio Weight by Crisis Impact Category



A critical structural buffer deserves emphasis: India has significantly reduced its dependence on Middle Eastern crude over the past five years. As the chart below illustrates, Russia's share of Indian crude imports has risen from just ~2% in FY21 to over 32% in FY26 substantially diluting the impact of any Hormuz disruption on Indian refiners.

Figure 6 & 7



Source : MOPNG | Note : Chart 1 Data spans Apr 25 to Feb 26

5. Why We View This as a Buying Opportunity

A. History is unambiguous : Geopolitical crises are buying opportunities

Every major geopolitical escalation of the past four decades has, in retrospect, proved to be a buying opportunity for patient investors. The chart below, which tracks Sensex performance through six major crises from the Gulf War in 1990 to the current conflict, makes this case compellingly.

Figure 8 : Sensex Close 1988-2026



Source: ICICI Securities Retail Equity Research. Bloomberg Finance L.P.

Key Takeaway from Historical Data

Across six geopolitical crises, the Sensex posted an average correction of -9% at the trough. However, investors who bought at those correction lows saw returns of +16% in 1 month, +27% in 3 months, and +37% in 6 months on average. The current correction of ~10% from the Sensex peak is squarely in line with the historical median.

B. Valuations in select pockets are the most attractive in years

As detailed in Section 3, the selloff has compressed P/E multiples across all major indices to below their 10-year averages. This is not a uniform story, large caps remain closer to fair value, while select mid and small-cap segments are trading at genuinely attractive multiples. The combination of a geopolitical selloff layered on already-compressed valuations is precisely the kind of setup that long-term compounding portfolios are built for.

6. Our View and Positioning

A sustained Strait of Hormuz closure would impair several sectors, but **historical precedent suggests prolonged conflict remains unlikely**. Every prior Gulf tension episode resolved within weeks to months, with energy and equity markets normalising thereafter.

Two factors merit attention in combination: **a geopolitical selloff with no structural earnings deterioration** and **valuations below long-term averages**. Companies where the selloff appears indiscriminate, direct crude exposure is low, and the 12-month earnings outlook is intact warrant closer review.

Regards,
Team Sowilo

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