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KAIZEN NIFTY @ 35,000 & OMICRON

(Stop fearing & prepare for Nifty @ 35,000 & Sensex @ 1,25,000 by 2030)

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So, we have another round of Covid nagging us. However, the question is how much should we be worried. Let me pose another question to you. You are crossing a road; how much should you be worried? Or, should I say, how much should you be prepared and vigilant. If you ask me, I fall in the camp of latter.

When I am crossing the road, I be more prepared than be more worried. Same is the case that applies here, i.e. in the case of stock market or any risky investment, when Omicron is heading forward as a potential threat.

As this article is targeted more towards Retail Investors, I keep it quick and refrain from using complex numbers/data/asset classes and jargons.

Let me share some quick data about the impact of Wave 1 & Wave 2 on stock market indices. Nifty fell about 40% in March 2020 when the event of the decade hit us and we were in the grip of the event with almost no time to prepare an escape plan or remedy. When world was preparing for relief from Corona, Wave 2 hit us and Nifty fell about 8%. Mind you, Wave 2 also caught all of us by surprise and lives lost were much higher than that of Wave 1. On the contrary, economic damage during Wave 2 was much lesser than that of Wave 1, and hence, stock markets suffered lesser damage during Wave 2. As a matter of fact, there is no compensation the lives lost, however, we need to be sensible enough in thinking about the economic damage as well because that is of immense importance while analyzing the stock markets and their potential return.

Now, let us talk about the potential impact of Omicron on stock markets. Looking at the lesson learned and heads up given much in advance by WHO, the preparedness level will be much higher than what it was during Wave 1 or Wave 2. This means, loss of lives, the single most important thing per me, should be contained to a much lesser level than they were during Wave 2. Having said that, now we have much better experience of striking a balance in between managing Covid and managing economy i.e. reducing the adverse effect on the economy.

What we know or understand

- Omicron is much more contagious than Delta
- Oxygen levels are not dropping (in cases up until now)
- Hospitalization need until now is much lower or not
- Countries with better vaccination rate are in relatively better position to deal with this threat
- It may surpass immunity obtained through vaccination and may infect the vaccinated people as well
- World has started preparing to take necessary measures to mitigate the spread
- As of now, no country wants to encourage a complete shutdown, while a partial or local lockdown of cities are happening at some places time to time and may not be ruled out in future too. This was seen in Wave 2 as well, which limited the economic damage

What we do not know

- How lethal Omicron could be
- Will it result into increase death rates (this is where the real threat & panic will creep in)
- We will have more data in about two weeks to know more about the impact from Omicron.
- When do we get rid of Covid….2024/2025? Or do we have to live with it having medication in place

By extrapolating the data from the past, I would not have predicted a more than 10% fall in Nifty from the top of 18,600. However, the valuations of Nifty are at about fair level and FIIs are continuously moving money away from emerging countries to US treasury. This may extend the fall a bit more, for which, I do not have clarity as of now.

So, what can happen to Nifty?

- We may have already formed a base around 16,800 mark of Nifty, however, we will come to know only about it in future when key resistance levels are taken off. With the current data, as I am writing to you, the level is 17,800 above which I will be comfortable enough in saying that we have completed the Omicron led correction.

- In case Nifty breaks below 16,800, then there is a possibility of testing any of these levels viz. 16,500, 16,200 or even sub 16,000 levels till about 15,500. All of these levels remain open until we take on 17,800, even if I see a potential bottom in place.

- Now, brokerages are predicting Nifty FY23 EPS up till 900. In case this is not revised downwards, given the prediction of about 6.5% average GDP growth from FY24 onwards, it safe for me assume a 17.5 times FY23 earning as a base case scenario for Nifty. And, this provides me a base level for Nifty at about 15,750 in worst case, with some error points, of course.

- So, now what about upside? With the given structural reforms, liquidity push, increasing per capita income, potential Capex cycle at the anvil, China +1 strategy and growing Indian entrepreneurs' contribution to the business across the world, sky is the limit for India as well as Nifty & Sensex.

- I use the same methodology that I used in Kaizen Nifty to forecast the levels of Nifty (Please refer to Kaizen Nifty report for details). Assuming that India will average a conservative Real GDP growth of 6% per annum for next 5-10 years, Indian stock markets have the ability to ensure 1.5 times better CAGR as compared to the GDP growth rate. This can help Nifty & Sensex ensure a 9% CAGR for next 5-10 years.

- Using Rule of 72, which I have explained in "Let's Learn Together" section of my website, Nifty can double in about 8 years from now. With little extension, Nifty should be able to touch 35,000 and Sensex should be able to touch 1,25,000 by the end of 2030.

So, now tell me, what are you worried for? Nifty 16,000, 15,000 or 14,000? Or should you be preparing for Nifty @ 35,000 & Sensex @ 1,25,000? There is always an element of uncertainty in what we do, however, the Choice is ours…

Cheers!!!

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