NIFTY STORY

(A Game Beyond Imagination)

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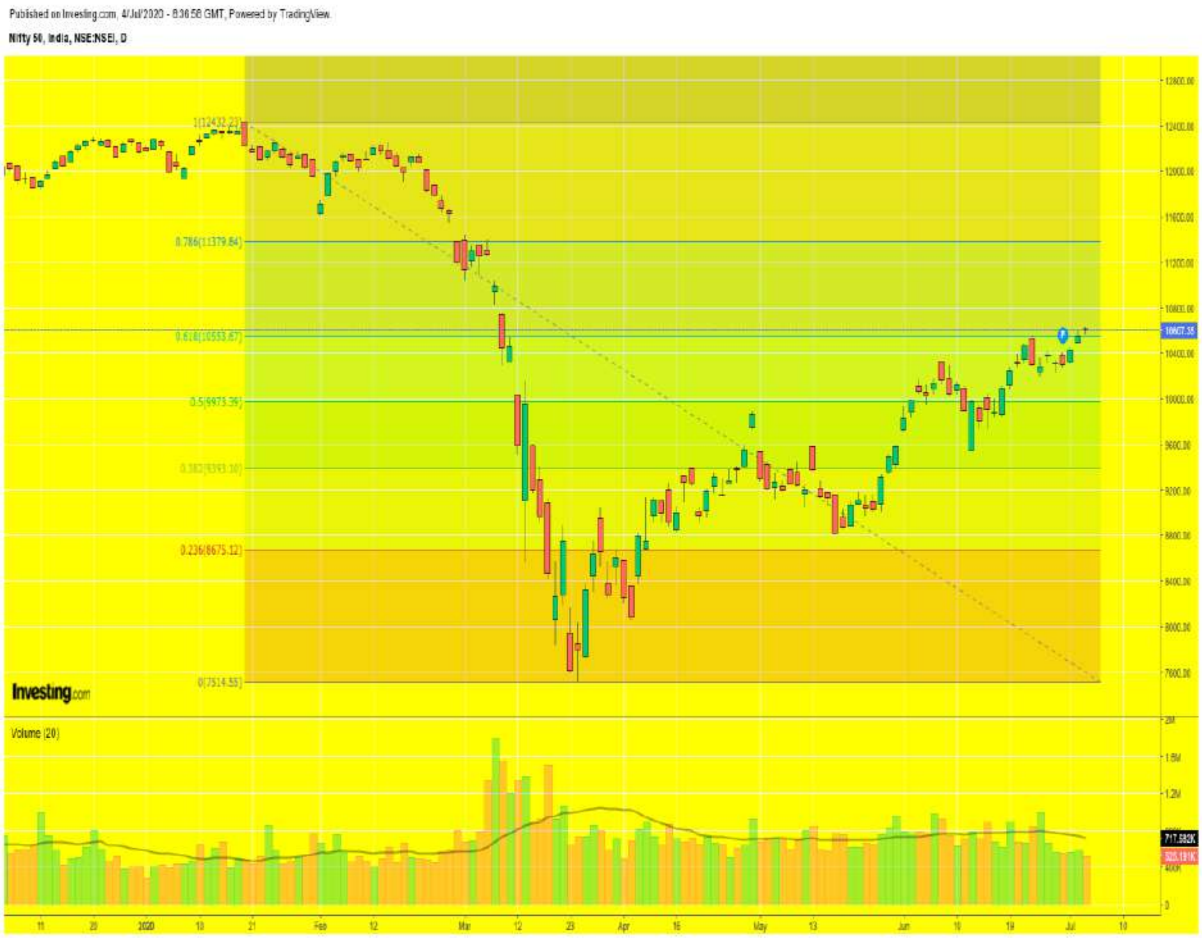
Theme – Nifty @ 17,000

A top of 12,430 on 20th January 2020, a bottom of 7,510 on 24th March 2020 (a fall of 40%) and back to 10,600 on 3rd July 2020 (a retracement of about 62% of the fall from the top); a much more than half circle in just less than 6 months. Could have this been imagined? And to add to this, when Nifty was at 7,500, the targets were coming for 6,000 and below. By the way, I would not say that 6,000 would not have been possible and in no way, I am going to claim that it is not possible in future too. Anything is possible when it is pitch dark and when there is no visibility/certainty of light. My idea is to paint potential scenarios and act accordingly as ultimately what matters is "+ve ROI on Investments". So, let me begin now.

Time and again I have mentioned that Stock Markets or Stock Prices are "lead indicators". They will reach their destination in advance and then they allow all other parameters to fall in place. Just go back in February or March; all of the research houses, investment banks and analysts including me would have told you that Covid19 may not have large economic impact. The same guys came back in April telling that Globe, including India is going to enter recession and India GDP may contract by 5.5% and beyond in FY 21. And finally, it became consensus and it is being repeated/emphasized even now. And look what stock markets did. It made a bottom much before economists even realized that Global economy is going to soil. Now, when every economist, World Bank, Rating Agencies and all others are talking of the worst ever recession, Global stock market indices are inching towards their all-time high. Why is this dichotomy? Actually, there is not much dichotomy. The way we compare the data is not the apt way to read the stock market behavior. If I say that stock markets are lead indicator then we should be comparing the current stock market behavior with a 1-2 years hence economic situation. Then, to a large extent, the divergence in the economy and the stock market behavior can be explained. What Nifty is trying to factor is not 5.5% contraction in GDP in FY 21, rather it is trying to factor an approximate 7.5% projected growth in GDP in FY 22. So, Nifty will first reach the destination and then rest of data will fall in place. And then, you will hear all GDP forecast being revised north. In a nutshell, Stock Markets are Lead indicators while Economic data is a Lag indicator.

Is Nifty out of the woods?

Fundamentally and as per the General Conditions, there is no case for Nifty to be out of the woods as the scenario around us remains gloomy. But technically, there can be a case of Nifty being out of the woods now. A rebound of strong bearish market normally does not retrace beyond 38.2% of the fall if it is in a strong downtrend. But if it is coming towards 50% of retracement then it is giving some hope and if it is coming towards 61.2% then the hope has enough reasons to turn to cheer. It is not a sacrosanct theory but it works. If Nifty has crossed 10,600 then there is a case of Nifty coming out of the woods with relatively high degree of confidence; though the path of recovery will be long and painful. As per Elliot Wave theory the downtrend is not over yet but as per the Retracement Theory, potentially, the downtrend is over.



Conducive environment

The ingredients for Nifty (stock markets) to form a base for a sustainable Bull Run are

- Sloshing liquidity
- Extreme pessimism
- Low interest rate
- Low inflation
- Government willingness and commitment towards sustained economic growth

All these ingredients are in place as of now. Governments across the world are printing money and maintaining enough liquidity in the system, pessimism is so high that everyone has accepted that this virus will not go away soon and no idea when life will come back to normal (not completely wrong also given the extending problem). Interest rates across the globe have been brought down significantly and inflation is also low (because there no demand for anything except for essentials) that no one even cares talking about it. Government of India has taken and is willing to take more steps to bring in reforms whether it is Agriculture sector or infrastructure or privatization etc. So, there is certainly a conducive environment around us for setting up a premise for a new Bull Run.

Potential Derailers

- Risk of Unknown – This is something which is good to talk about but I am not very sure if we can prepare ourselves to remain completely immune from it. Natural calamities never announce before occurring. The only thing we as human can do is to remain alert for a quick reflex to minimize the negative impact.

- Geopolitical Uncertainty – This something we all will have to live with the way we are living with Covid19. Geopolitical uncertainties in Gulf countries are well known, we are witnessing India-China border stand off now and there could be more. The South China sea dispute is another factor to always keep an eye on. China aggression in South China sea is well known and it is certainly not liked by countries like Japan, Philippines and Vietnam. The tension is only aggravating further with US intervention. China claims most of the South China sea while US wants the free access to the region citing international law. Though, India does not have much say in South China sea region but it's role can be an important one given the growing economic power in the Asian continent. Even after geopolitical uncertainties there may not be a full-fledged war given the complicated nature of bilateral trade in between the countries. Each one of

- them will have a lot to lose. Having said that these geopolitical uncertainties can keep creating short term jitters in the capital market arena.

- Inflation – The one dormant volcano which will raise its head for sure in the years to come. There is cheap money available in the system right now. At some point in time it will create a situation when more money will be chasing fewer goods. And then, it becomes a deterrent to the capital markets too.

Inflation; a risk but an opportunity too, for Equity Investors

Historically, the base of Bull Market is formed when the inflation is low but you get the best of Bull Run when inflation starts moving up. The theory is that all that cheap money begins to chase fewer goods which results in increased consumer demand. This also works as an incentive for the companies to produce more. Higher economic activities result into higher inflation as well as strong Equity market. Inflation started rising after 2004 and peaked in 2013 at 12.17% and touched a low of 1.54% in 2017; post which it again began to rise. As of now inflation remains within the comfortable zone of RBI (as per inflation targeting which began in 2016).

Source: www.macrotrends.net/countries/IND/india/inflation-rate-cpi

An Encouraging Market Cap to GDP Ratio

A very effective barometer of Equities bottoming and topping as well. Equities, under typically stressed conditions, bottom out when Market Cap to GDP ratio is closer to 0.50 and it starts turning risky above 0.80. It turns absolutely fatal at any level 1 and above. It is currently about 0.59 which is in much comfortable zone.

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Nifty, The Long-Term Way Forward

The life ahead for the stock markets will not be straight forward. It will be filled with economic pain, marred sentiments and sour memories. The progress in macroeconomic data will drive the indices further. The true color of economic revival and earnings revival will begin to reveal post the September quarter this year. Stock markets may remain deviated from fundamentals in short to medium term but they coincide with the fundamentals in the long term. The mean reversion takes place over long term to correct the excesses whether during a rise or a fall. Markets always overshoot and then adjust backwards.

Now that Nifty has crossed 10,600 then the **Base Case scenario for Nifty should become 10,000** or thereabout. As long as 10K is maintained, slowly fundamentals will also catch up. A high hope of vaccine sooner than expected has also driven sentiments jubilant. Nifty may attempt to inch towards 11K now and then it is also possible that it tests 11,200-11,400 range. If Nifty attains these levels then it will be an early indication of an onset of a New Structural Bull Run.

As it will be an early indication, so Nifty will have to pass litmus tests of Price and Time consolidation. And if this marks the early indication of a new structural bull run, then Nifty may attempt to touch 12K or thereabout by September/October. Additionally, if this is achieved then next attempt should be to re-test the previous All Time High by March 2021 or after that.

Further, in case renewed downward momentum Nifty should be able to hold about 10K under Optimistic scenario and 9K under Stressed scenario.

If Nifty attempts and crosses previous All Time High during next financial year then that will be the confirmation of beginning of a new era for Nifty that should take Nifty to 17,000+ (Pattern Target) within 3 years of crossing the previous All-Time High.

So, my Base case scenarios for Nifty are

Optimistic Scenario – 10,000
Stressed Scenario – 9,000
Crucial Period - October 2020 to January 2021

As per the data positioning, Mid cap and Small cap stocks are also preparing for a new sustained run. Their movement can be commensurate to that of Large cap and in certain situations they would even outdo Large cap stocks because they had been badly beaten down.

Apart from the indicators (Fundamental as well Technical) discussed here, there are many other indicators which have been produced by many leading research houses that are pointing towards a cheerful decade waiting for the Equity investors. The mantra according me should be the below.

- Keep Greed & Fear at the bay
- Discipline & Consistency are the best friends of Equity investors
- Buy quality companies during sharp fall i.e. BAD (Buy At Dips)
- Do not be in search of bottom or top
- Do not chase the market, wait for correction for an entry but do act when you get the entry
- Never compromise on the quality even if the opportunity is enticing enough
- Follow my concept of "InvestoTrade" as stretched valuations warrant regular profit taking
- Always be aware that Equities are NOT risk free
- Know your stomach i.e. your risk-taking ability
- Keep an investment horizon of minimum 5 years

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