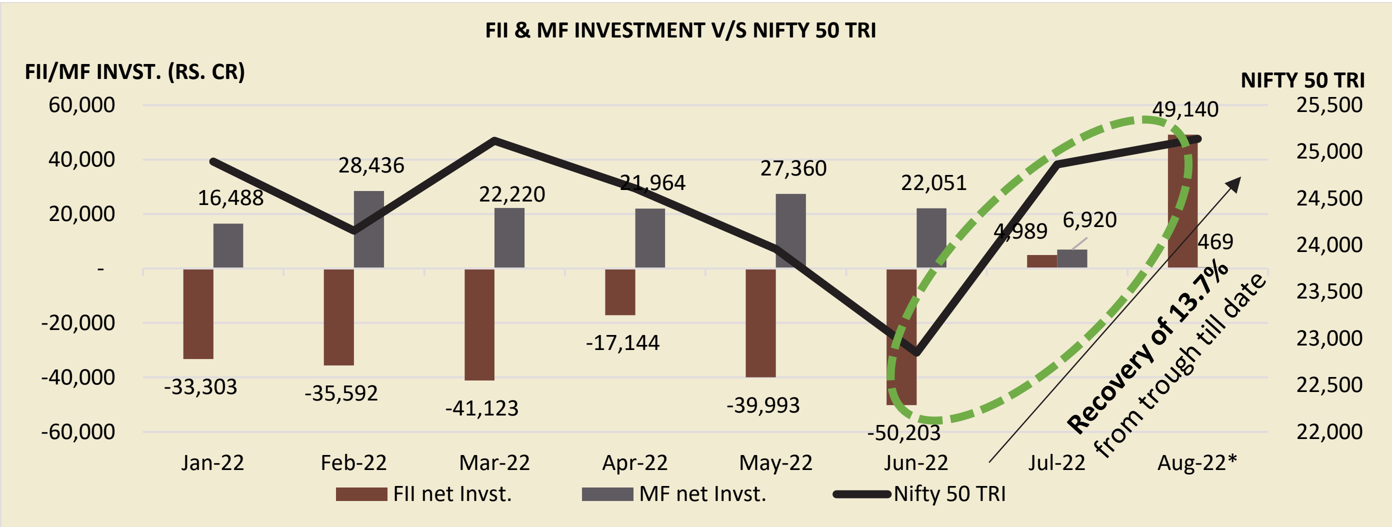
Sustainable Bounce Back OR a Bear Market Rally?

Key Highlights:

- Domestic markets have rebounded in a sharp manner
- **Nifty 50 TRI surged 13.7%** (till Aug 29, 2022) from a low it hit on June 17, 2022
- Positive factors that contributed to the recovery:
  - **Aggressive buying by FIIs**
  - **Cooling down of global crude oil prices**
  - **Upbeat Corporate Earnings**

- After 9 consecutive months of net selling, FIIs turned out to be net buyers in July 2022 to the tune of ~Rs 4,989 crs and so far in August 2022, **FIIs have purchased Indian shares worth ~Rs 49,000 crs** (can be seen in the below chart)
- Thus, the data clearly shows that FIIs are back buying Indian equities
- **Nifty 50 TRI surged 13.7% (till Aug 29, 2022)** from a low it hit on June 17, 2022
- Between October 2021 and June 2022, **FIIs sold a mammoth Rs 2.46 lakh crore** in the Indian equity markets



*Source: MFI Explorer, SEBI and NSDL. *For Aug-22 - data is shown till Aug 29, 2022. MF investment for Aug-22 is till Aug 18, 2022*

Indices	Max Date	Min date	Max Drawdown	Days from Peak to trough	Recovery from trough till date	Days from trough till date	Delta (Max drawdown-till date)
Broad Indices:							
Nifty 50	17-Jan-22	17-Jun-22	-15.8%	151	13.7%	73	-2.2%
Nifty Midcap 150	17-Jan-22	20-Jun-22	-20.3%	154	21.8%	70	1.5%
Nifty Smallcap 250	17-Jan-22	20-Jun-22	-26.6%	154	20.3%	70	-6.3%
Nifty 500	17-Jan-22	20-Jun-22	-17.4%	154	16.1%	70	-1.3%
Sectoral Indices:							
Nifty Infrastructure	17-Jan-22	20-Jun-22	-16.1%	154	14.4%	70	-1.7%
Nifty Metal	11-Apr-22	22-Jun-22	-32.9%	72	30.4%	68	-2.5%
Nifty Commodities	11-Apr-22	22-Jun-22	-24.4%	72	19.7%	68	-4.7%
Nifty Realty	17-Jan-22	20-Jun-22	-28.2%	154	21.1%	70	-7.1%
Nifty Pharma	03-Jan-22	17-Jun-22	-16.4%	165	6.7%	73	-9.6%
Nifty IT	04-Jan-22	15-Jul-22	-32.0%	192	4.9%	45	-27.1%

Source: NSE India, TRI indices considered for analysis. Data for analysis is shown for CY 2022 – from Jan 01, 2022 to Aug 29, 2022

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- The **max drawdown was seen in Small cap segment (27%)** as shown in the above table **followed by Mid cap (20%)** and **Nifty 500 (17%).**
- While, the **recovery from trough till date, the market rally was broad based** with gains witnessed in the Mid cap segment, Small cap segment and majority of sectoral indices.
- Looking at the difference from max drawdown till date (delta) shows that the **recovery has happened almost at the same level except Small cap (which is still down by 6%);** while **Nifty 50 is down by 2.2%.**
- In terms of sectoral indices, the **highest delta has been seen in IT** which is down by (27%) followed by Pharma (down by 10%) and Realty (down by 7%).
- However, there are some **sectors which have been resilient such as Auto, Banks, Consumption and Oil & Gas.**

Outlook:

- **Sustained fall in commodity prices** has led to inflation fears receding. The sharp drop in commodity and oil prices has helped bring down the cost of raw materials for companies.
- **Fears of recession have raised hopes that central banks may halt the rate hikes** to avert a slowdown.
- **Good monsoons and a normal festive season** after two years is likely **to boost earnings going ahead.**
- Valuations are expensive but most other factors: **Macro, Liquidity and Earnings are moving from neutral to positive.**

Investment Approach:

- Investors should **not try to time the market** and **invest in a staggered and disciplined way in equities for long-term, within the earmarked asset allocation** (based on the individual risk profile).
- **Large cap, Flexi cap and Multi cap funds** should be **part of core allocation** of any equity portfolio.
- **First time or Conservative investor can consider Balanced Advantage / Dynamic Asset Allocation funds** which dynamically manage the equity and debt allocation as per the changes in market scenario. Existing investors can also continue with their investment in this category to ride over volatility.

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