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INVESTMENT PERSPECTIVE

Swings and Surge are more important source of investment return in the short term while underlying Trend determines return for the long term investor.

JULY 2022

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Equity in India as an asset class has given higher return than any other class in a long term sense if we look at the last 5-10-15-20 or more years. But this superior return had been non-linear for investors. In time frames smaller than 5-6 years, return from equity had widely varied. So many investors get unnerved when after investing their money in the stock market they see poor returns or losses in the portfolio in smaller time frame. Here it is important to understand the concept of ***Trend, Swing and Surge***.

Trend is a general linear direction in which something is developing or changing over a long period, e.g. Nifty has given 15% CAGR over the last 20 years. Swing is to move up and down while being ultimately attached on the trend. Stock markets normally follow a Trend and Swings pattern.

Trend is due to major socio-economic evolution of the society that evolves over large many years. Swings are more due to liquidity and sentiment happening over shorter timeframes. While Trends are linear long term trajectory, Swings are cyclical by nature i.e. series of consecutive up and down movement. Swings are the more important source of investment return in the short term. While one is buying whether market is near swing high or swing low and similarly when one is computing investment return whether market is near swing high or swing low dramatically changes the perceived returns from the market.

When one invests for a long time, the investment goes through multiple rising and falling swings almost cancelling each other out and what one ultimately receives is the Trend return. Surges are rare events sometimes also called Black Swan events. These happen rarely like the one we witnessed during March 2020 (when covid related uncertainties arose) but have large impact on the asset class performance in near term. But invariably the impact of the surge wanes and the market gets back on the normal trend trajectory. So for long term investor what matters is only the long term trend of the market, while for short term investment the role of where the market is in the swing sense or whether there is a presence/absence of surge are more important.

Return for Short-Term Investors = Return from the Underlying Trend

Return for Short-Term Investors = Return from the cyclical Swings (+/-) Return from Surge during the period

Presently Indian equity market along with most of the other global markets is witnessing downward swing. Underlying forces beneath the current downward swing is Surge in Commodity Prices and Interest rate. All the four Financial Market - Equity, Commodity, Bonds and Currency are interlinked. Surge or similar disruption in one impacts the other three. But the good news is that commodities related surge that happened post Russia-Ukraine war has waned now.

Aluminum prices from base of 1977 had surged to 3966 USD/tone and are now already corrected back to 2522 levels. Nickel prices from base of 24000 had surged above 50000 USD/tone and are now already corrected back to 23000 levels. Wheat that rose from base of 8 $ per bushel and surged above 13 USD/bushel are now already corrected back to 8.4 USD per bushel. Even container freight index is showing signs of softness.

Over the last two years multiple high impact macro events have played out. H1CY20- sharp slide in GDP due to Covid outbreak, H2CY20- surge in container prices and broken global supply chain, H1CY21- sharp rally in steel price, high digital adoption, H2CY21- sharp rally in energy prices & product inflation, H1CY22- Russia Ukraine war and induced surge in commodity & services inflation. And all these macro events were highly impactful keeping the volatility high in various financial markets. But large part of the re-set that was needed in equity valuation, commodity prices, bond rates and currencies in response to these volatility inducing events have already taken place. In fact the high volatility period should be over in next few quarters and markets particularly equity will exhibit low volatile high trending regime in the medium term going ahead.

It is also important to remember that timing the market can prove to be risky. It is better to be stay invested in the market and be regular with it. In the long term sense one always will be getting the underlying trend returns from Indian equities just the way an Indian investor has received in the past. Factors that have helped this superior return from Indian equities are becoming even more structural and stronger.

At the same time as now we are in a downward swing, investing at current levels will yield higher return than the long term trend rates. Nifty during the last ten years have traded mostly in the range of PE of 17-24 and right now Nifty is trading at 15.5 X FY24 earnings. This makes the market even more compelling to invest for the long term.

HAPPY INVESTING!

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