

Narnolia[®]

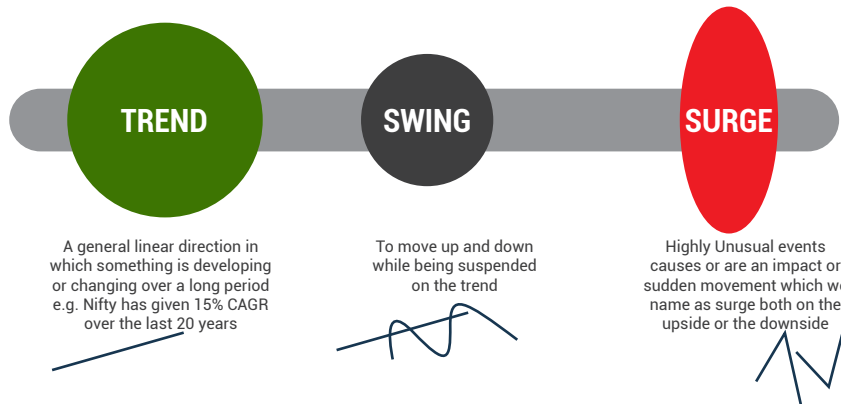
MARKET PERSPECTIVE

Markets Settling to a New Normal

July 2022

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. Surges are rare events sometimes also called Black Swan events. But invariably the impact of the surge wanes and the market gets back on the normal trend trajectory.



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.

NIFTY-TREND-SWING-SURGE



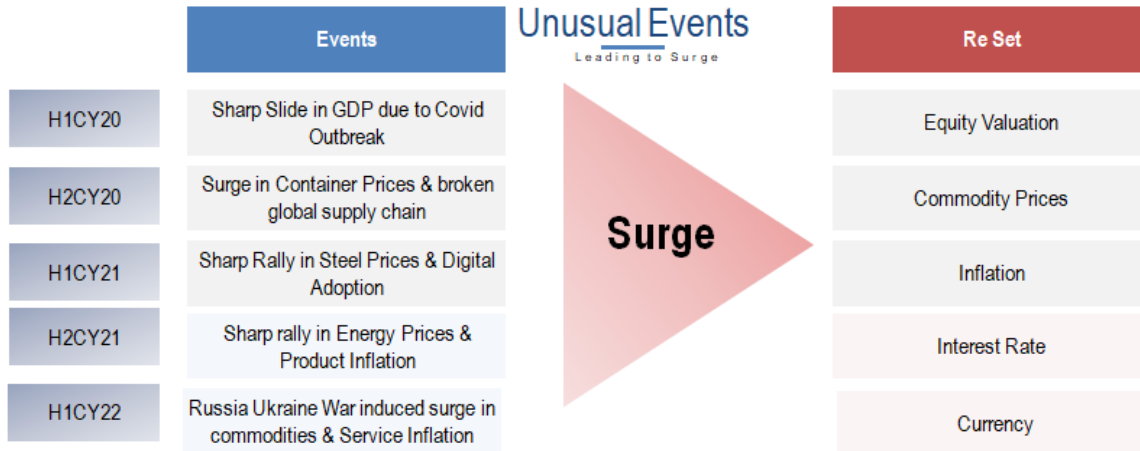
Return for Short-term Investors=Return from the cyclical Swings

(+/-) Return from Surge during period

Return for long term Investors=Return from the Underlying Trend

- » 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.
- » 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.
- » 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.

BLACK SWAN GOT HIGHLY POPULATED IN POST COVID RE SET



- » 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.
- » 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.

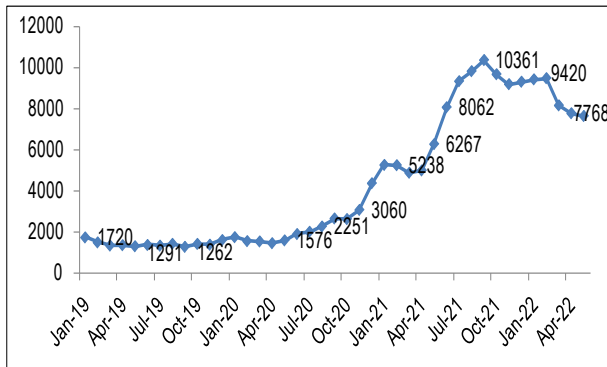
PRE SURGE - SURGE - POST SURGE SCENARIO

	Base	Peak	Current
Wheat USD/Bu	510	1277	933
Commodity Freight USD/1000	1540	10361	7635
Steel Prices CNY/T	3600	6000	4400
Palm Oil MYR/T	2500	7000	4700
Aluminium USD/T	1977	3966	2522
Nickel USD/T	17000	48240	25896
Cotton USD/lbs	78	158	114

- » Markets post surge are now finding equilibrium in the Equity valuation ratios, Commodity Prices, Inflation, Interest rates and Currency. Aluminium prices from base of 1977 had surged to 3966 USD/tonne and are now already back to 2522 levels. In Agri commodities, cotton rose from 78USD/lbs to 158 USD/lbs and now corrected to 114 levels.
- » Except for Crude and some Agri commodities most commodity prices have corrected back by nearly 50%-80% from their highest prices.

MACRO SCENARIO

Global container freight rate index from January 2019 to April 2022 (in U.S. dollars)



Source: <https://www.statista.com/statistics/1250636/global-container-freight-index/>

After swinging widely, Steel Prices are softening

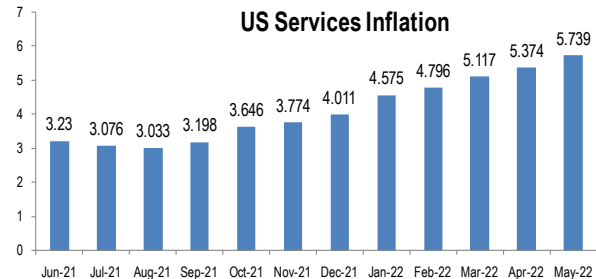
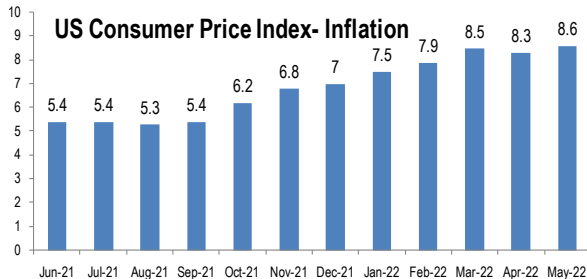


Source: <https://tradingeconomics.com/commodity/steel>

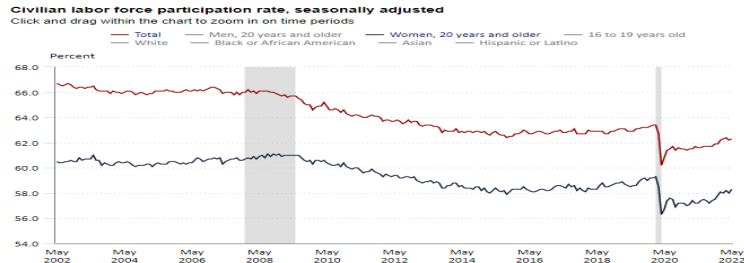
- » Container freight Index which rose from 1200-1500 USD per tonne to 10300 USD per tone is now settling at around 7600USD/tonne. Container Freight Index is an important indicator to track disruption associated with global supply chain.
- » Steel prices which rose to 6000CNY/T from the base of 3600 is now corrected back to 4000 levels.

US INFLATION IS MORE OF A LOCAL CONCERN NOW

As regards US Inflation, Since Mar 22, hike in inflation more of a factor of US services Inflation. To our mind, the ripple off effect of US inflation (more due to supply constraints) to other countries should slow down as US service Inflation is more of a local concern for US. This should be handled well as Job Participation in the country improves to 66 levels from currently around 62.



US Job Participation



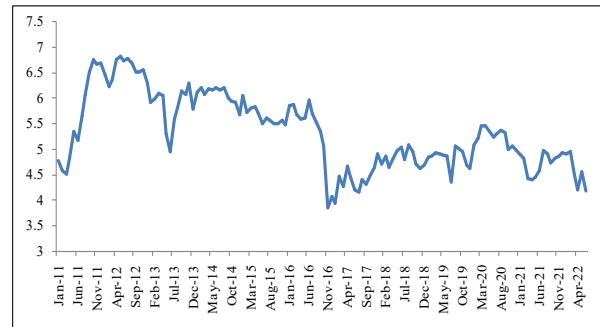
Source: <https://tradingeconomics.com>

LESSER ROOM FOR EXPANSION IN INDIA 10 YEAR BOND YIELD

10 year Bond Yield-India



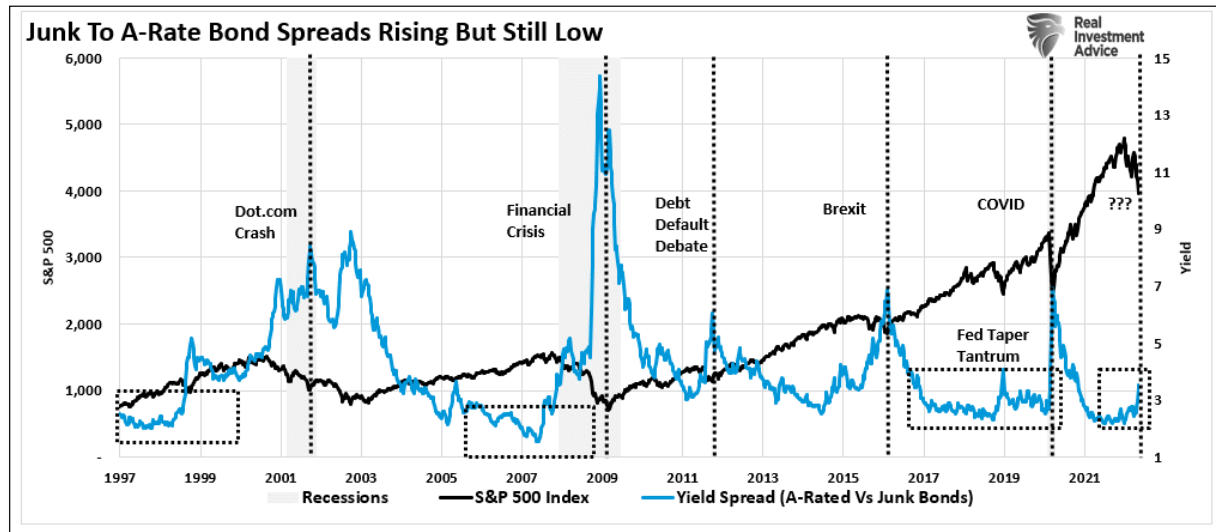
USA Interest rate differential with India



Source:<https://in.investing.com/rates-bonds/india-10-year-bond-yield-historical-data>

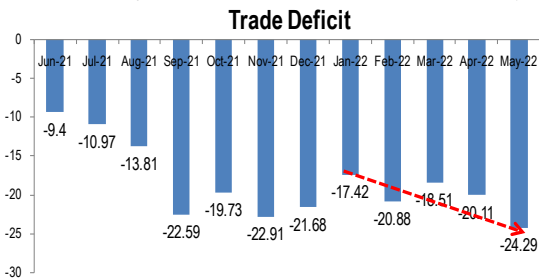
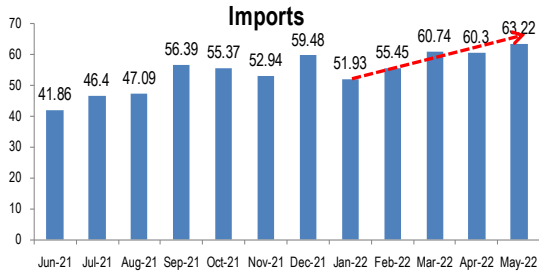
- » India's 10 year Bond yield is already high at 7.47% and we do not see it rising too higher even if RBI raises Interest rates. Keep in mind that during 2018 Loan Crisis also, the bond Yield went up to maximum of 8.3% and now it is already at 7.47%. The economic scenario in the debt market is far better than in 2018-19.
- » World over interest rate has kept falling for the last 15 years though there is a sharp increase in interest rates in near term. However, India USA Interest rate differential is on a declining trend which assures India's competitiveness over other countries.

CREDIT STRESS WILL BE EARLY INDICATOR OF FED PAUSE



- » US Junk to A rate Bond spreads are rising but still low. This would be the key early indicator to gauge both recessionary risk in US and change in stance by the US FED

CURRENCY FALLING TO 80 WILL HELP EXPORTS-- CURRENCY PERIOD



Source: <https://in.investing.com>, www.tradingeconomics.com



- » India Currency is now at 78. We assume currency reset is yet to happen. Out Balance of payment has not reset yet. The imports have continued to grow (courtesy: Energy prices) but the Exports are stagnant. Currency depreciation will become favorable for India as it will help exports and reduce imports of other goods and improve our Deficits.

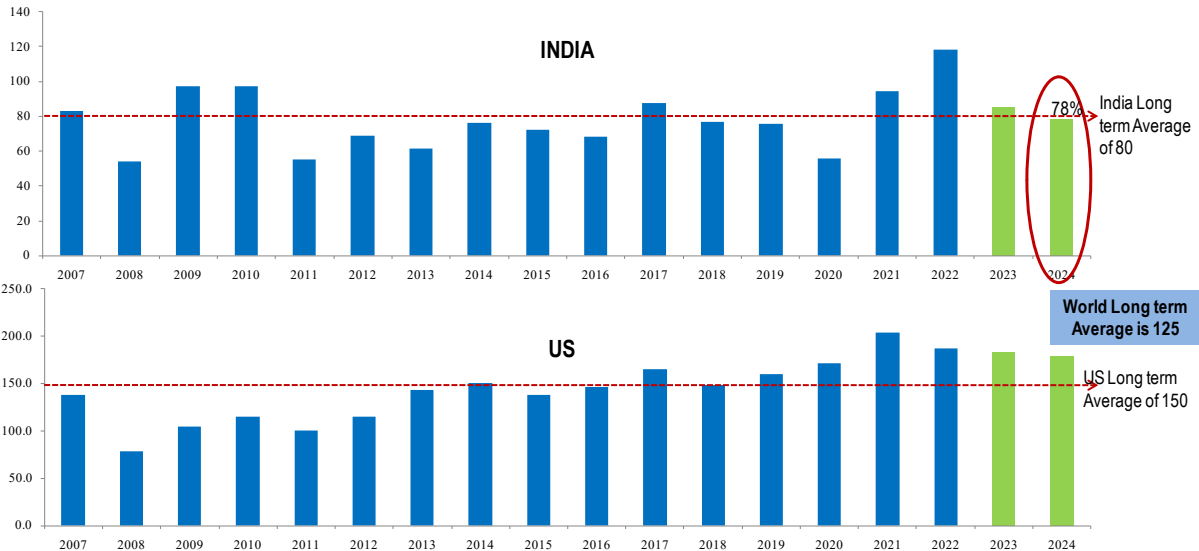
TREND REMAINS INTACT - INDIA IS PROGRESSING RAPIDLY

Important Indicators	2014	2021	Important Indicators	2014	2021
Economy Size (GDP)	10	6	Mobile Phone Production	12	2
Share in Global GDP	2.6%	3.2%	India's weight in BRICS	13.5%	21.5%
Share in Global Trade & Servs	2.0%	2.2%	India's weight in EM	6.6%	12.0%
Share in Global FDI	2.1%	6.7%	Global Innovation Index	83	46
Auto Production	7	4	WGI Governance Index	103	49
Steel Production	4	2	Ease of Doing Business	142	63

- » Since 2014, India has continuously improved its global ranking in many progress indicators . We are now 5th in GDP ranking globally, 4th largest Auto producer, 2nd largest Steel producer and 2nd largest Mobile phone producer of the world.
- » India's weight in Emerging market has doubled to 12% since 2014
- » Ease of Doing business ranking has improved from 142nd to 63rd and so on
- » These trend influencing factors remain highly structural in spite of near term challenges

MARKET CAP TO GDP

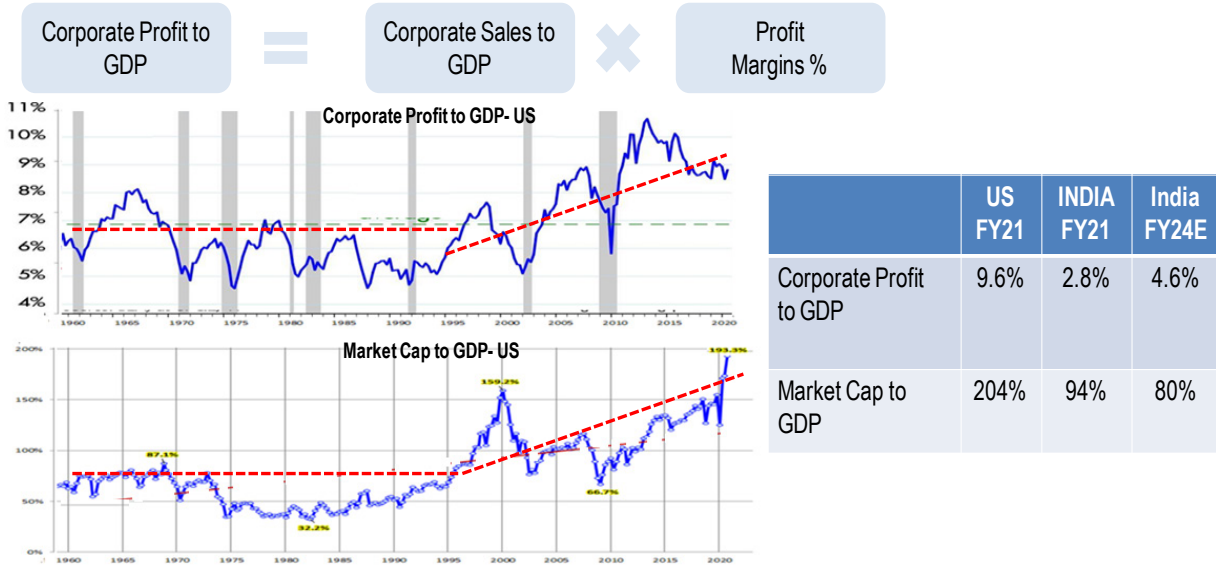
BUFFET INDICATOR



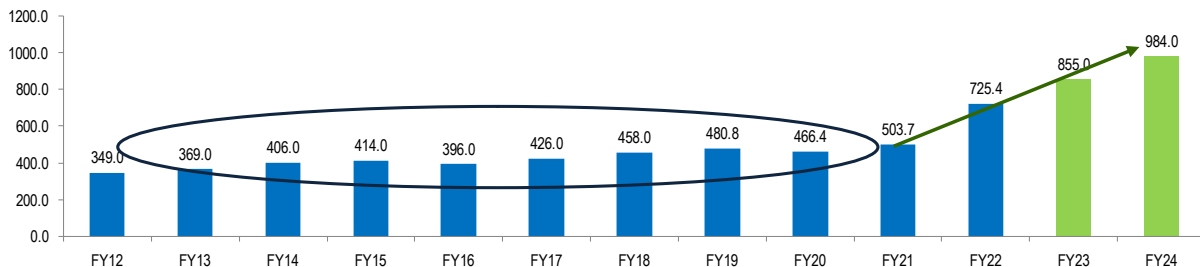
- » The market cap to GDP for India has fallen to 78% and is close to long term average of 80.
- » Also in a structural sense we expect the average of this indicator to move higher as corporate profit to GDP improves going forward

THE CONTEXT- "CORPORATE PROFITS TO GDP"

- » Every Valuation ratio has a certain context in which it can be best interpreted. Corporate profits to GDP share is the context in which we read the popular ratio- Market cap to GDP
- » As corporate profit to GDP improves, we should see the valuation range to move upwards.



NIFTY EARNING PER SHARE IS GOING TO DOUBLE



	FY22	FY23E	FY24E
Nifty Current level	15300	15300	15300
Nifty EPS	725	855	984
Price Earnings	21.1	17.9	15.5

- » 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. Nifty is expected to generate 20%+ annualized from level of 15300 in the next 2-3 years.
- » 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.

Narnolia Investment Advisors Private Ltd. (NARNOLIA) is a SEBI Registered Investment Advisors (Non Individual) having SEBI Registration Number INA300005439 (Permanent) , CIN:- U67120JH2007PTC012791 Corporate Address: 803, Wing A, Kanakia Wall Street, Chakala, Andheri, Mumbai – 400093, PH: 022 6270 1200/ 022 6839 1200, Email Id: iap@narnolia.com. SEBI Regional office address: L&T Chambers, 3rd Floor, 16 Camac Street, Kolkata – 700017

NARNOLIA is 100% subsidiary of Narnolia Capital Advisors Private Ltd. which is NBFC registered with RBI. Narnolia Capital Advisors Private Ltd is owned by Narnolia Securities under the Promotership of Mr. Krishnanand Narnolia. Details of associate entities are available on the website of the Company. Narnolia is not affiliated with any intermediaries for execution or distribution services and no consideration including any commission or referral fees is received directly or indirectly at group level for the said services. Client shall not be under any obligation to avail the execution/distribution or other services offered through any entity as recommended by NARNOLIA and no consideration is received for the same. There is no pending regulatory matter against NARNOLIA as on date. No disciplinary action has been taken against the Company by any regulatory/statutory authority. No complaint has been lodged by any client relating to our Investment Advisory Services.

Conflict of Interest

Narnolia Financial Services Ltd., a company registered under the Companies Act, 1956, is a SEBI registered intermediary and offers services as Merchant Banker, Portfolio Manager, Research Analyst and also AMFI registered Mutual Fund distributor and is one of the affiliates/Associate Company of NARNOLIA. However, appropriate Chinese walls is maintained as required under SEBI Investment Advisor Regulation.

Disclaimer

This report has been prepared by Narnolia Financial Services Ltd. (NFSL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions - including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Investment in Securities Market is subject to Market risks, read all the related documents carefully before investing. Past performance may not be indicative of future results and no promise or guarantee can be given for the same. Performance related information is not verified by SEBI. For detailed disclosures & disclaimers please refer to our website at www.narnolia.com. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFSL & its group companies to registration or licensing requirements within such jurisdictions.