

Sideways Market keeping Sectoral / Style Out-performance illusive

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Samvat 2078: Great year for Indian resilience but no clear winner or loser

Global financial markets have been in turmoil last year on the back of high inflation and high interest rate environment amidst poor political environment. Indian Equities have shown a great resilience vis a vis global equity markets. In the last one year (from 25th Oct 2021 to 24th Oct 2022), US-SPX is down by 16.8%, France CAC by 8.7% and Germany DAX by 17% while India represented by Nifty 50 down by mere 2.2%.

Certainly, Samvat 2078 has been a year of no gains for Equity participants with India Nifty 50 down by 1%. Interestingly in Samvat 2077, Nifty gave a return of 40% while in previous Samvat 2076, Nifty was up by 10%. This reiterates the fact that Stock market returns are not linear, there are some years when Equity markets give poor returns, and some are average years in terms of returns while in some years, markets give very high returns.

In other words, Nifty movements are sometimes rising, sometimes falling or sometimes sideways. Nifty after making a high in Oct'21 is down by 4% till date (i.e till 27th of Oct 2022). In % return perspective, we can say that Nifty has been in a sideways phase in last one year. However, within this sideways movement, market has witnessed multiple rallies and falls of more than 10% for short periods of time.

Multiple cycles of Rise and Fall within the Sideways movement in Nifty



Nifty remained Sideways but had multiple periods of rise and fall of more than 10%

| Short term Cycle | Period From | Period to | No of Days | Nifty Return% |
|------------------|-------------|-----------|------------|---------------|
| Falling Cycle | 18-Oct-21 | 20-Dec-21 | 63 | -10.1 |
| Rising Cycle | 20-Dec-21 | 17-Jan-22 | 28 | +10.2 |
| Falling Cycle | 17-Jan-22 | 7-Mar-22 | 49 | -13.4 |
| Rising Cycle | 7-Mar-22 | 4-Apr-22 | 28 | +13.8 |
| Falling Cycle | 4-Apr-22 | 17-Jun-22 | 74 | -15.3 |
| Rising Cycle | 17-Jun-22 | 13-Sep-22 | 88 | +18.2 |

Normally, even when the markets are sideways, internally there are some sectors or style that market prefers and movement within that sector/ style is trending. Unusually, in Samvat 2078, no single style or sector has been on a trend. Most professional fund managers have hence found the markets difficult to outperform as market has favoured different sectors or styles in the short cycles of rising / falling period within the overall sideways phase and no sector or style had been trending within this sideways market on an overall basis.

Changing Market flavour in terms of Sector/Style preference in multiple cycles in last one Year

| Period and Nifty Returns % | Outperformers | % | Underperformers | % |
|---|--------------------------|-------|--------------------------|-------|
| 18th Oct 21 to 20 Dec 21 Nifty 50 -10.1 | Nifty IT | -0.6 | Nifty Private Bank | -15 |
| | Nifty 50 Value 20 | -7.6 | Nifty Bank | -13.2 |
| | Nifty Healthcare | -7.8 | Nifty CPSE | -12.3 |
| 20 Dec 21 to 17 Jan 22 Nifty 50 10.2 | Nifty Auto | 14.2 | Nifty Healthcare | 5.0 |
| | Nifty PSU Bank | 13.3 | Nifty IT | 8.0 |
| | Nifty Bank | 11.0 | Nifty India Consumption | 7.7 |
| | Nifty CPSE | 13.1 | | |
| 17 Jan 22 to 7 Mar 22 Nifty 50 -13.3 | Nifty Healthcare | -9.9 | Nifty Auto | -20.1 |
| | Nifty DividendOpp50 | -9.4 | S&P BSE Cons. Disc | -17.8 |
| | | | Nifty Smallcap 250 | -17.7 |
| 7 Mar 22 to 4 Apr 22 Nifty 50 13.8 | Nifty Financial Services | 18.8 | Nifty CPSE | 1.9 |
| | Nifty Auto | 14.0 | Nifty IT | 6.8 |
| | Nifty Smallcap 250 | 13.6 | Nifty Dividend Opp 50 | 8.3 |
| | | | Nifty Healthcare | 9.5 |
| 4 Apr 22 to 17 Jun 22 Nifty 50 -15.2 | Nifty CPSE | -7.2 | Nifty IT | -26.1 |
| | Nifty India Consumption | -8.3 | Nifty Smallcap 250 | -19.0 |
| | Nifty Infrastructure | -12.7 | Nifty Financial Services | -17.1 |
| 17 Jun 22 to 13Sep 22 Nifty 50 18.2 | Nifty PSU Bank | 34.8 | Nifty DivOpp 50 | 17.0 |
| | Nifty Smallcap 250 | 23.1 | Nifty CPSE | 15.2 |
| | Nifty Financial Services | 23.8 | Nifty IT | 9.6 |
| | | | Nifty Healthcare | 10.7 |

In the period Oct 2021 to Dec 2021, IT outperformed Nifty by 10%, by falling lesser than Nifty, but in the next leg itself, IT underperformed Nifty by around 7%. Look at the Healthcare Index performance. Its performance has been good in one cycle and bad in the next cycle repeating over many cycles of Nifty in past one year. Similarly, Financial Services underperformed in Apr to Jun Cycle but outperformed in Jun to Aug 22 cycle. From table above it is evident that for all the sectors and styles, similar was the fate during samvat 2078.

Should we say that this is a new normal market movement and short cycles of sector and style preference will prevail in the market going forward as well?

Certainly this year with no clear trend within a sector or a style was an anomaly and will not continue for a longer period. World over, financial markets have been in turmoil looking for an equilibrium as the world fought with two black swan events one after the other (1- Covid and 2-Russia-Ukraine War) and their after effects. Cycles of no clear trend in a sector or style are an outcome of reaction of markets to several macro and political changes worldwide. At a fundamental level, as earnings of a sector starts improving, it stays so for at least a year as fundamental cycles are far more stable. Going forward once the new uptrend cycle in the Nifty starts, various sectors and styles will resume showing stable performance trajectory.

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