

INDIA

Equities Exclusive



Akshay Chinchalkar

Head of Research and Content

Nifty @22000 – An Opportunity Beckons

Executive Summary

- The Nifty 50 index has experienced a significant decline of around 16% from its September 2024 peak of 26,277, marking **the sixth-largest drop since the 2008-2009 Great Recession and the second-largest since the Covid-led crash in March 2020**. This **five-month downtrend, last seen in November 1996**, has raised concerns about a potential bear market.
- The Nifty has entered a **critical support zone defined by the 100-week Moving Average Envelope (+/-3%)**, which has historically contained declines except during extreme events like the Covid crash. This suggests proximity to some sort of a durable bottom.
- The 14-week Relative Strength Index (RSI) has reached the oversold "bull market" zone (33-40). Historically, **87% of corrections reaching this zone have resulted in a market trough and subsequent rally**.
- The decline is testing the **lower boundary of a parallel channel** originating from the late 2021 peak. **Fibonacci retracement** levels align in the 21,800–22,000 range, indicating a **potential demand zone**.
- **Breadth measures for the NSE500 index are at extreme lows**, with only 7.6%, 6.2%, and 10.1% of stocks trading above their 50-, 100-, and 200-day moving averages, respectively. These levels are comparable to those seen during the Covid crash.
- **Historical patterns suggest that extreme breadth readings often precede market bottoms**, but investors should wait for confirmation of a recovery before taking positions.
- **March has historically been a strong month for market recoveries**, with an average gain of 1.7% since 2009 (excluding the 2023 outlier plunge). The Nifty has never recorded six consecutive months of declining prices in history, suggesting a potential rebound.
- **Years ending in odd numbers and those following U.S. presidential elections have shown strong performance**, with the Nifty rising 75% and 83% of the time, respectively, and delivering median returns of 17.1% and 21%.
- **All sectors are in the red year-to-date**, with IT (-13.9%) and Media (-34.4%) performing the worst, while Financial Services (-2.1%) and Banks (-10.2%) have been the most resilient.
- Six out of 11 sectors are oversold based on their 14-day RSI, and **all sectors are trading below their 200-day moving averages**.
- **Valuations across sectors are below their one-year and five-year averages**, indicating pockets of potential opportunities for long-term investors.
- **Conclusion:** *The current market environment exhibits signs of excessive pessimism and fear – not without reason - which are often precursors to durable bottoms. **While a clear bullish trigger is yet to emerge (this is critical)**, historical patterns, technical indicators, and sectoral valuations suggest that the market is nearing a medium-term bottom. **Therefore, we would advise investors to allocate some long-term money between 21700 - 22000**. While most of us can't catch the exact top and bottom, prudent investing is about cashing in on opportunities, especially when sentiment is so one-sided. **One such opportunity is now.***

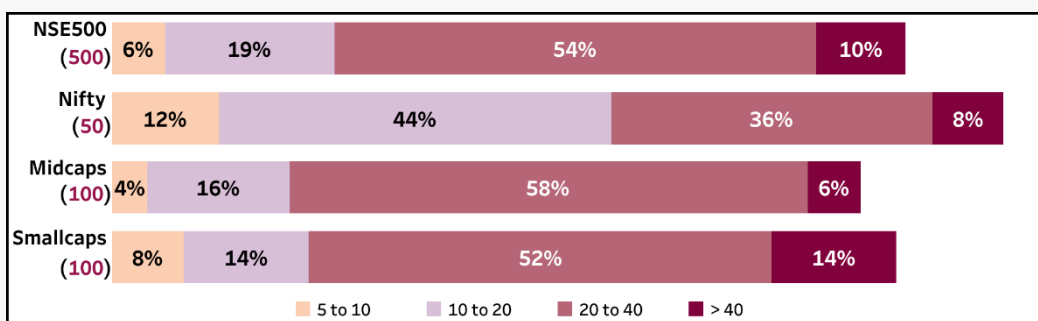
The Context:

The benchmark Nifty 50 has now lost nearly **16%** from its September record peak of **26,277**. That's the **sixth biggest drop** from an important swing high since the Great Recession lows of 2008 – 2009, and the **second largest decline** since the Covid-led crash seen in March 2020. With February ending in the red, the **decline is now five months old, matching a streak that was last seen in November 1996**.

That begets the question, what happened the last time something like this was seen? Here are some summary statistics:

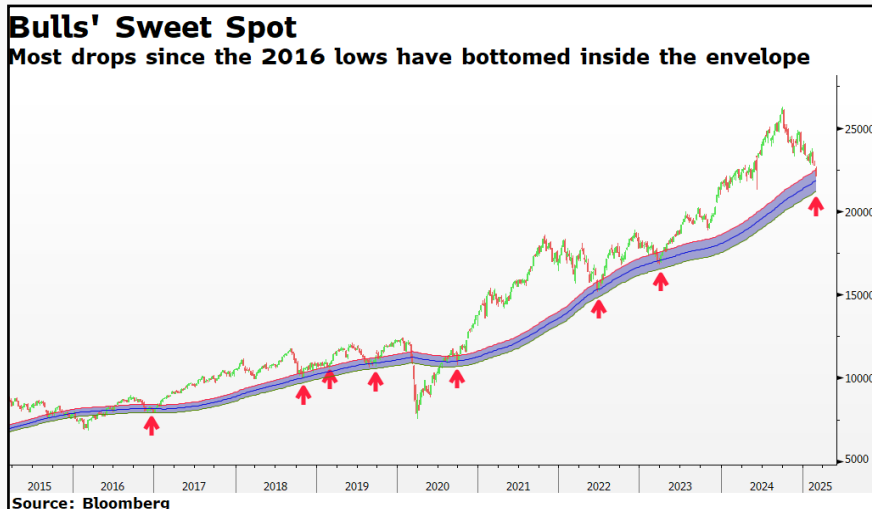
- In 1996, the Nifty sank **~26%** over a five-month period, and another **6.6%** in December to mark the final low
- It then recovered to close the month **~16%** higher from the low point
- The rebound traced a monthly **“piercing line”** candlestick pattern, which triggered an 8-month, **67%** advance from the trough to the next important swing high, seen in August '97
- That said, this rally was not without its share of volatility, as the month of March '97 saw a **17%** drop from the high to the low

Coming back to the headlines of today about the Nifty's downtrend approaching the **official definition of a bear market – price drop of at least 20% from an important high** – it does not do any justice to how widespread the carnage has been under the hood. The below visual shows the percentage of stocks in each index that have fallen X% from the record high dates:



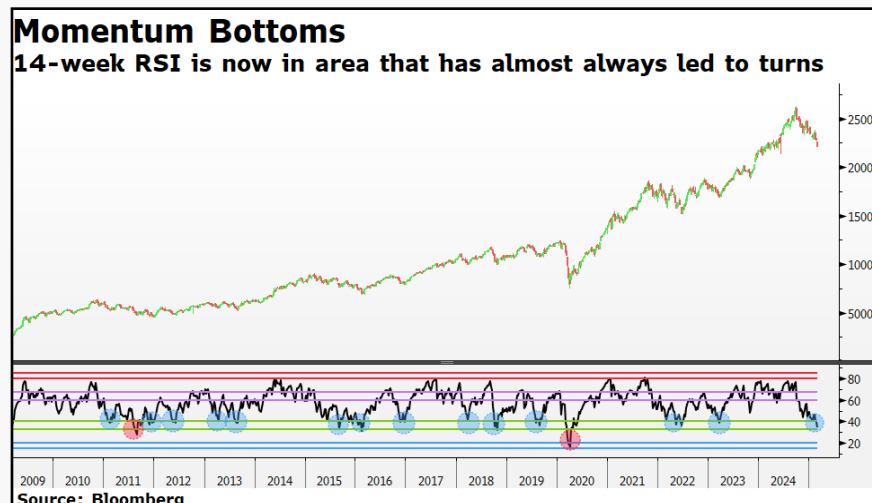
Data as of Friday close

Zone That Matters is Here:



Looking at the last decade of data, we can see that the **2016 low was the start of a major bull run**. The advance that began here and culminated at the record peak last year saw many corrections along the way. **What's notable is that except for the covid-led crash, all other declines were contained by a Moving Average Envelope (100 weeks, +/- 3%).** Unless this decline is similar to an **“unknown unknown”** such as the pandemic, there is ample evidence to believe – now that we have entered the envelope – **that we are closer to a medium-term bottom. All we need is a bullish trigger, price-wise.** For now, that has proved elusive.

The Momentum Story



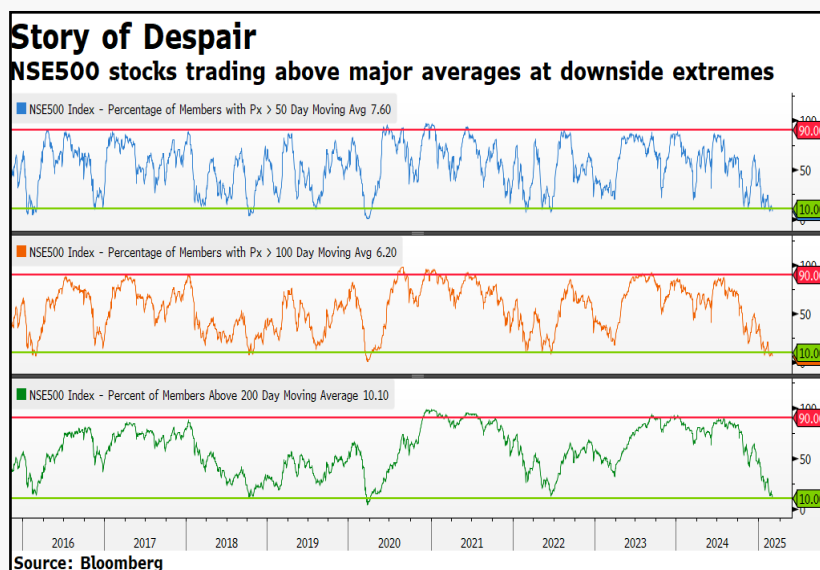
Going further back to the days of the GFC lows of '08, we can't help but notice how the **14-week Relative Strength Index (RSI) bottomed in the 33-40 area (green zone)** on nearly every correction within the larger bull market. In the 14 instances it got **“bull market oversold”**, a staggering **87%** of the time the market formed a trough and eventually rose to a new 52-week high. As we speak, the current drop has dragged the oscillator down into the lower end of this area. Based on the past, we'd say the **odds of a rally attempt from here are materially high.**

Believing in Channels and Some Sacred Geometry



The current drop is now testing the lower line of a parallel channel originating from the late '21 peak near 18,600. Then there is Fibonacci, forming a tight cluster in the same area. This zone is defined by the 23.6% retracement of the larger advance from the Covid lows to the record peak and the 38.2% retracement of the smaller bull run from the lows three years ago to the all-time high. **Last week's candle has now entered this critical "area of interest"**. The inset chart also shows the market churning around ~21700, which isn't too far away from this demand zone that lies between 21800 – 22000.

Breadth Also Stacking Up



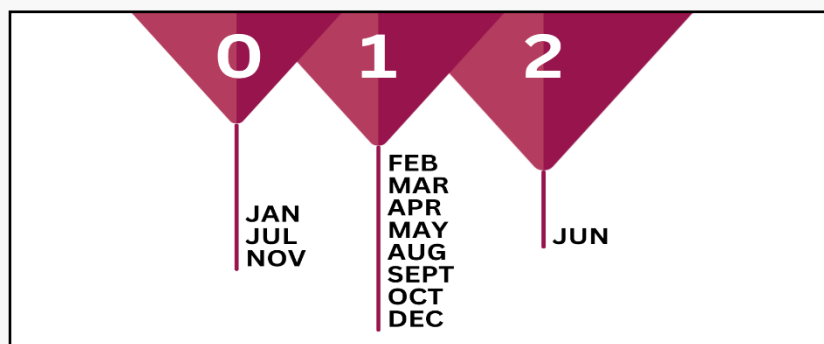
Breadth measures for the broader NSE500 are now downside-stretched. If one looks at the percentage of stocks above the 50-, 100- and 200-day averages, the readings show 7.6%, 6.2% and 10.1% respectively. **We'd call them pretty low.**

At the depths of the Covid crash, i.e. these readings stood at 1.2%, 4% and 10.3% respectively. The lesson here is rather simple - breadth measures can drop even more due to vertical plunges triggered by unexpected events. Therefore, getting in early hardly pays off unless one is willing to sit through short-term pain and then hold out for at least a quarter. Here is a case in point: In March 2020, the 50- and the 100-day readings went into single digits on March 12, but the bottom didn't occur until March 20, with the NSE500 down another **22%**.

Coming to what's occurring now, the first time the percentage of stocks in the NSE500 trading above the 50-day and the 100-day averages fell below 10 was 27th January. The close on the day was 20910. Although from the next session on, the market rebounded over **5%**, Friday's close was 19880. What this means is that when breadth measures go extreme for the first time, the market moves in the opposite direction to shake off extreme momentum, before the larger trend reasserts itself. Therefore, investors should wait for two things to happen and patiently at that; one, these extreme readings should appear in a cluster and two - this is far more important - certain hurdles should be crossed before one can be sure of getting in with risk that is manageable. **Still, the fact that these thresholds are being tested just as the Nifty nears the envelope support zone is noteworthy.**

March Effect and Bear Market Bottoms:

Starting from the 2009 GFC lows which were a pivotal point in the global risk-assets cycle, the month of March has averaged a gain of **1.7%**. If one excludes the 2023 drop of **23.2%** as an outlier, the average return improves to **3.4%** (median = 3.3%), with only **four down instances in 11**. That makes **March the best month of the year** and a likely candidate for the first up month in six (note that the Nifty has never been down six straight months, while the Sensex saw the last such downdraft in April '95)



Since 2001, there have been a total of **10 declines** exceeding the size of the current drop (~16%). Two were less than 20%, three were drops between 20% & 30% and the rest exceeded 30%. More importantly, June has seen two bear markets bottom out while March, April and May have halted one bear market each. **Although this evidence is inconclusive, given that we are at important support, March still has a chance of at least stalling the decline.**

Dashboard

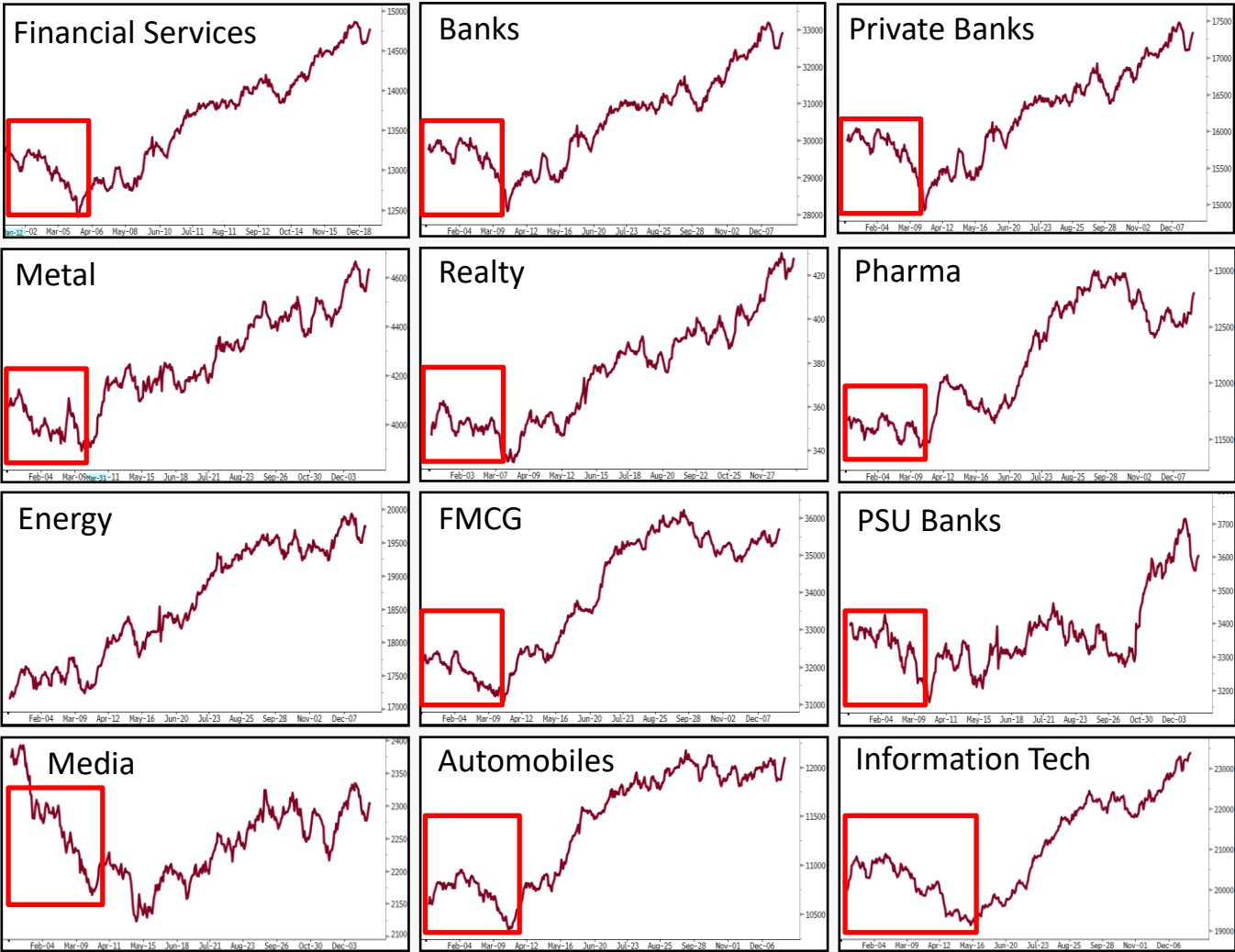
Ticker	Last Price	%YTD	Drop from Record Peak (%)	Trailing P/E 1 year	Trailing P/E 5 years	RSI 14D	Mov Avg 200D	v/s 200DMA	Prox to 200dma
► Nifty Financial Services	23028.95c	-2.06%	-7.5	16.51	16.51	45.3	23396.2	-1.00	-1.57
► Nifty Bank	48344.70c	-4.95%	-10.2	12.50	12.50	37.7	50951.7	-1.00	-5.12
► Nifty Metal	8219.25c	-4.98%	-18.3	18.18	18.18	44.4	9214.5	-1.00	-10.80
► Nifty Realty	797.90c	-24.18%	-28.6	41.09	41.09	28.7	1022.3	-1.00	-21.95
► Nifty Pharma	19813.50c	-15.37%	-15.8	29.94	29.94	27.4	21731.1	-1.00	-8.82
► Nifty Energy	30018.15c	-14.69%	-32.6	13.38	13.38	31.9	39035.8	-1.00	-23.10
► Nifty FMCG	50689.00c	-10.76%	-23.0	38.43	38.43	22.4	58714.8	-1.00	-13.67
► Nifty PSU Bank	5652.10c	-13.59%	-17.5	5.60	5.60	30.7	6788.1	-1.00	-16.74
► Nifty Media	1386.85c	-23.71%	-34.4	32.41	32.41	24.8	1927.4	-1.00	-28.05
► Nifty Auto	20498.60c	-10.23%	-25.8	22.47	22.47	25.3	24351.1	-1.00	-15.82
► Nifty IT	37318.30c	-13.89%	-11.8	28.74	28.74	19.7	40706.5	-1.00	-8.32

Source: Bloomberg, Blue circle = Current value, Orange diamond = Average | Data as of Friday close

Some notable takeaways from the dashboard above have been summarized below:

- All sectors are in the red on a YTD basis, with Realty down the most (-24.2%) & Financial Services down the least (-2.1%)
- From the record high date of Sept. 27, Media (-34.4%), Energy (-32.6%) and Real Estate (-28.6%) have fared the worst, while Financial services (-7.5%) and Banks (-10.2%) have fallen the least
- Daily Momentum (14-day RSI, Col 7) for six out of 11 sectors is oversold based on conventional logic (< 30)
- All sectors are trading below their 200-day moving averages (Col 9)
- Nifty Financial Services, Banks and IT are three sectors that are down the least from their respective 200 DMAs (col 10)
- Looking at the trailing P/E ratio, all sectors are below their one-year average P/E, and, except for Financial Services and Energy, at the low end of their high-low P/E range for the last 12 months (col 5)
- On a 5-year basis, trailing P/E's below their averages can be seen in Financial Services, Banks, Realty, Pharma, FMCG, PSU Banks, Media and Auto (col 6)

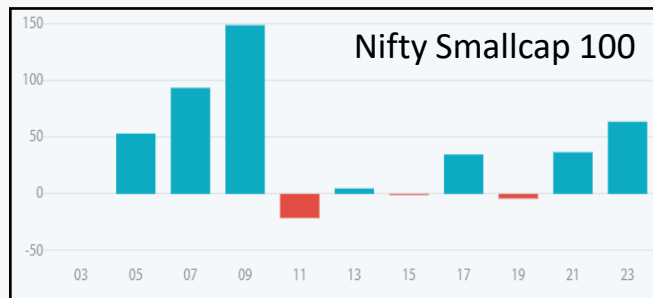
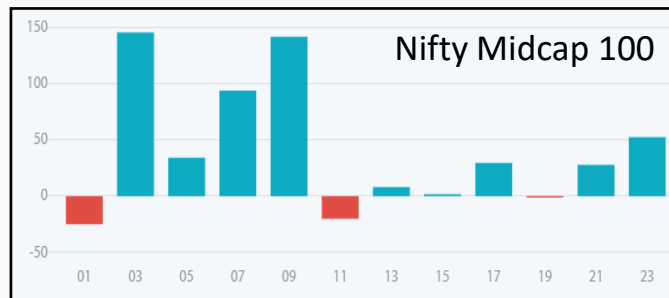
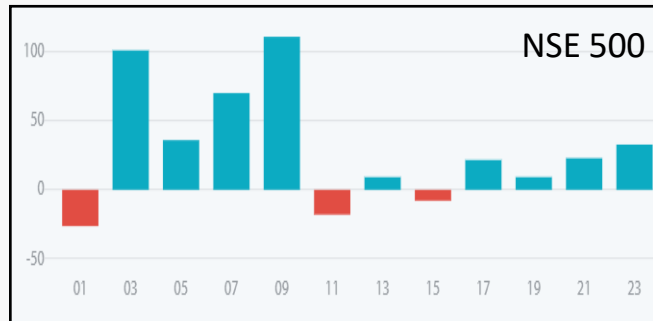
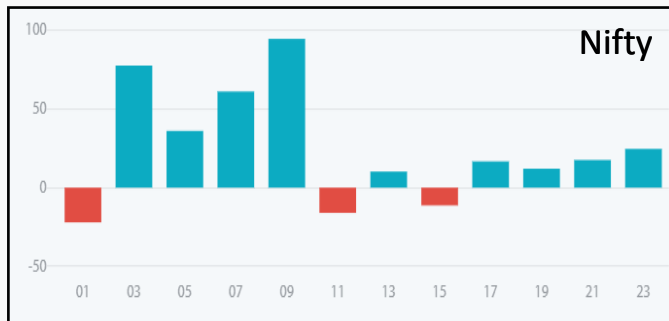
Seasonality



Source: Bloomberg

What is interesting above - based on decade-long data - is that on average, most sectors have shown a **tendency to bottom out in March, with Media and IT the only exceptions**. Also notice that generally the **first quarter of the calendar year has always been bearish**, so the January and February drops this year despite being painful, are no surprise.

Odd Year Performance

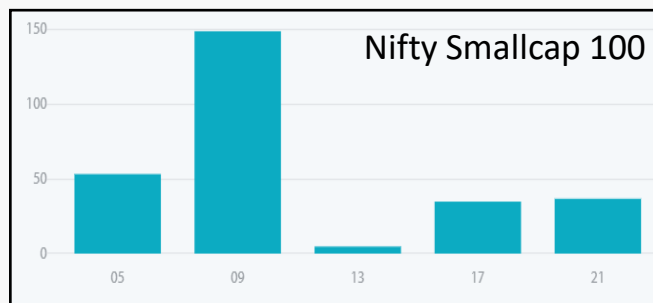
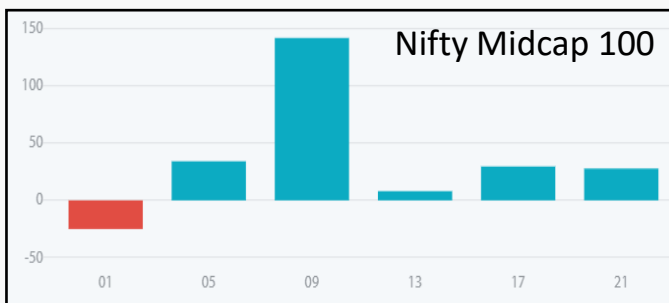
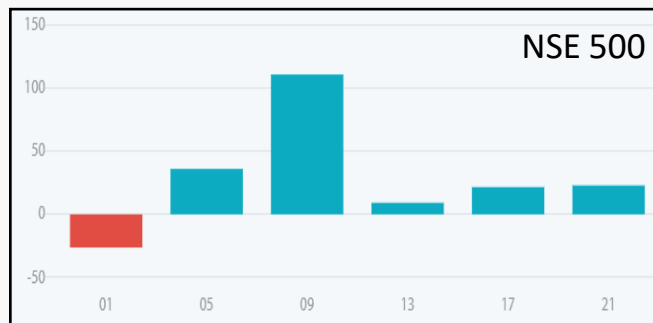
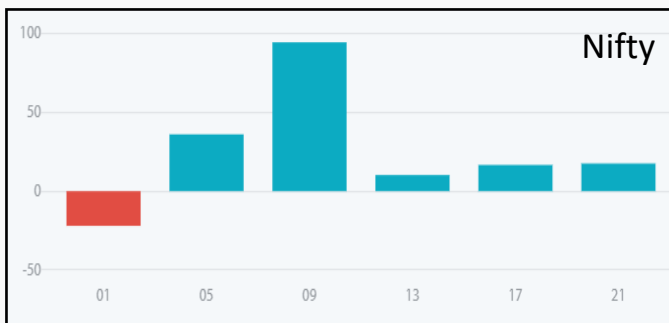


Source: Bloomberg, Seasonax

Summarizing the performance of these benchmarks since the turn of the century for the period between March 1st and December 31st, we observe that in an **year ending in an odd number**:

- Nifty has ended higher 75% of the time, with a median return of **17.1%**; the only down years were 2001, 2011 and 2015.
- NSE 500 shares a similar win rate, with a median return equalling **22.3%** and the same down years.
- Nifty Midcap 100 has also risen in nine out of 12 occasions, with a median return of **28.7%** and three losing years.
- The trend for the Nifty Smallcap 100 has been similar – it has risen 70% of the time, clocking a median return of **35.8%**.

Returns in Years Following US Presidential Elections



Source: Bloomberg, Seasonax

The findings of how each of these indexes have done in the **year immediately following a US election** are similar:

- Nifty has ended higher 83% of the time, with an average return of nearly **21%**; the only down year was 2001.
- NSE 500 has also risen in five of six instances returning **23%** on average; 2001 was the only losing year.
- Nifty Midcap 100 again shares a similar win-rate, producing an average gain of **27.8%**.
- Nifty Smallcap 100 has risen every single time, averaging a **50%** return.

In summary, we are observing things that almost always occur close to a durable bottom – excessive pessimism, palpable fear, questioning the very rationale of investing in equities even for the long-term and a shift from upside excesses to the downside, not to mention social media memes. While “the” upside trigger is missing for now, we continue to be on the lookout for one and believe it is not too far away from current levels. All it will take is a price recovery to change the narrative, like it always happens. To quote a line from a Christopher Nolan movie that won several academy awards, **“The night is darkest just before dawn”**.

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Sr. No	Name	Designation	E-mail
1	Akshay Chinchalkar	Head of Research and Content	akshay.chinchalkar@axissecurities.in