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No firecrackers in New Samvat! Broader market to remain under pressure

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Diwali has a special significance for the stock market trader. According to the Hindu calendar, it is believed that trading on Diwali, which is also known as 'Muhurat Trading', ushers in positive sentiment with wealth and prosperity throughout the year.

When we assess the performance of markets from last Muhurat session, held on the 7 November 2018, the index appears to have gained around 10 percent from the close of 10,598.

But, unfortunately these gains remained polarised and concentrated in select few largecap stocks while value destruction continued in the broader markets.

Though the Nifty500 is yet to test the highs of 2018 (10,049). It registered a modest gain of 6 percent from the close of 8,933 registered on the last Muhurat session.

Similarly, the Nifty Midcap 100 lost around 7 percent from the close of 17,400, whereas, the Nifty Smallcap 100 lost 11 percent from the close of 6,261.

Unfortunately, the mid and smallcap indices are almost trading close to new corrective swing lows from the lifetime highs witnessed in 2018 as the sequence of lower tops and lower bottoms continued in these indices.

Even from the Nifty50 space, the majority of the counters are down between 20-30 percent with worst performer being Yes Bank which registered a fall of around 80 percent from life highs.

Besides, marquee names like ITC have no place in this bull market, whereas, the largest utility companies like NTPC and a niche player in oil and gas exploration like ONGC remain underdogs.

While HDFC Bank continues to hit new highs a flamboyant, stocks like Yes Bank, which was pampered by foreign investors and institutions, suddenly has no takers.

It means it is very clear that money is chasing only a few stocks where growth is visible without any corporate governance issues.

This phenomenon accompanied by deteriorating fundamentals of economy is not going to change overnigh; hence, the market will continue to remain stock specific even in the next year.

Why this market can't be termed as a bull market:

On multiple technical parameters, this market can't be termed as a bull market because the rally is limited to a handful of counters which is driving the main index into lifetime highs.

In simple words, a technical picture of the broader market is pretty much weak and appears to be in a strong bear grip.

For instance:

a) From the Nifty50, 7 stocks are trading below 50 percent from their lifetime highs; 20 stocks are still trading with a cut of more than 30 percent from their respective lifetime highs; 27 stocks didn't test the highs registered in the year 2018 from where market slipped into vicious correction.

b) Out of 1,830 stocks of the NSE universe, 1,364 are still trading below 200-Day moving average, whereas, 971 are below their respective 50-Day moving average.

c) 1,329 stocks are still in Death Cross mode where 200-Day moving average is below their respective 50-Day moving average.

D) 1,140 stocks didn't participate in the recent rally, triggered by corporate tax cuts, from the lows of 19th September and continued their southern journey.

Long term trends on Nifty:

Long term trend studies which we maintain based on Wave theory suggesting that the last leg of the long-term bull market unfolded from the lows of 7,893 registered in December 2016, and culminated with a high of 11,760 in September 2018.

Since then the market is into some sort of corrective consolidation phase. As this leg of up move consumed seven quarters, Neo Wave logics demands that the market should spend a minimum of seven quarters before ushering in a sustainable up move.

Hence, based on our historical observations in this regard, a new bull market with sustainable runaway rallies will not occur until the end of June 2020.

Besides, the wave structure is developing in the form of an Expanded Flat on long-term charts which calls for bigger correction in the future, warranting the index to slip below 10,000 for completion of this pattern.

This will continue to remain our preferred view for the next 12 months. With deteriorating fundamentals of the Indian economy and a threat of global recession for world economy especially when ‘Dow’ is in a relentless bull market from the lows of 2009, we will not be surprised if this kind of worst-case targets is materialised going forward in next 12 months.

Confirmation of weakness in this regard shall come if the Nifty settles below 10,900 levels for a reasonable period. Whereas, if the rally continues, then our bull case target shall be in the zone of 12,500 – 13,000 levels.

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