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Markets on strong technical footing amid uncertain fundamentals

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Mysterious ways of Mr. Market are once again at its best as equity asset class across the globe witnessed huge buying interest from panic lows of March, especially when economic activity in the world is at a standstill.

As of now, it is difficult to decipher what message markets are trying to factor in.

Are they pointing at a V-shaped recovery in the global economy — which looks highly uncertain according to almost all leading economists who are expecting a prolonged U-shaped recovery?

Recent March quarter results of corporate India were in line with pre-COVID-19 slowdown though the economy was shut only for some days, whereas June quarter is going to be a complete washout owing to lockdown but markets are still up by around 35 percent from March lows.

This swift upmove on the back of too much pessimism once again vindicated that consensus traders often fail in the financial markets.

Recent jumbo stimulus unleashed by central banks globally seems to be behind this rally which appears to have bolstered the confidence of investors across the globe as Dow gained almost 49 percent from the March lows of 18,213 whereas S&P 500 gained 46 percent.

Interestingly, Nasdaq Composite recovered almost 100 percent of losses seen from February 2020 highs of 9,838.

Dollar Index which rallied from the March lows of 94.61 to a high of 103.96 has given up almost all the gains as it traded with a low of 96.43 last week.

Among other developed markets, DAX recovered by 55 percent whereas FTSE and CAC remained underperformers with gains of 32 percent and 43 percent, respectively.

While among emerging markets Brazilian Bovespa saw a recovery of 57 percent, and Russian RTSI gained 59 percent.

Trend check on Indian markets

For quite a long time, we have been insisting that Indian markets were in bear phase since the year 2018 which becomes very clear when we study small-cap/midcap100 and Nifty500 indices where long term corrective patterns based on Elliot Wave theory are very clear.

While the smallcap index is completely butchered as it went on to test the year 2014 lows, the midcap 100 index almost tested its 2016 yearly low.

Though the wave structure on long term charts of Nifty50 is not that clear, more clarity is seen on the Nifty500 index which shows the beginning of the bear phase from the year 2018 itself.

In line with those long term trends, we were of the view since the beginning of the year 2020 that one leg on the downside was pending in Nifty50 which should drag the indices below the 10,000 level to complete one corrective structure and the same appears to have triggered by the novel coronavirus crisis.

Hence, based on recent swift upmove from March lows of 7,511 there seems to be a bright possibility that price-wise bottom should be in place around 7,511 levels whereas time-wise one more corrective structure should unfold in the form of a Flat or Triangle in Elliot wave parlance.

In that scenario, the current rally can be labelled as X-wave after completion of which market shall remain in a prolonged sideways phase which should complicate short term trading going forward.

At this juncture, the market's internal setup is also looking somewhat mixed as 1,611 scrips from NSE universe out of 1,900 are trading comfortably above their 50-day moving average suggesting strength in medium-term trend though the majority of them i.e 1,308 is below a 200-day moving average.

Though 1,294 counters are still on death cross mode the majority of then are above 50-day average as pointed out above. Hence current rally which seems to be unfolding in the form of a Zig Zag should have an initial target of 10,275 and in the best case target of 11,184 can't be ruled out considering the behaviour of the global markets which are looking on a strong footing whereas near term weakness can be expected on a close below 9,940. In that scenario, a short term downswing can unfold which should drag down the indices towards 9500 levels.

Other factors which seem to be providing confidence to this rally is a big correction in Dollar Index and a pause in the rally of safe havens like gold.

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