THE ECONOMIC TIMES | Markets
English Edition | 10 September, 2021, 10:06 PM IST | E-Paper

Taper or no taper, market set to hit an intermediate top: Here are your cues

Synopsis
Even in the absence of so called 'taper tantrum', if we look at the global scenario in isolation, markets seem to have developed froth with bloated valuations, thereby warranting a major correction as a measure of self-check and a balancing act, if they have to remain in a sustainable bull market for a longer period.

The said index may undergo another 8- 10% correction, as it is starring at a critical support around 8,400 level, a breach of which shall accelerate the selling pressure in this index.

Financial markets across the world are making a mockery of the economists and forecasters by unleashing an unprecedented three-digit rally from the absolute lows of March 2020 in the midst of a global pandemic and growth worries.

One variable that majorly contributed to this rally was undoubtedly the gush of liquidity pumped in by the global central bankers. And the same liquidity factor is capable of choking the current rally as central banks are now looking for ways to suck out this liquidity in one or the other form going forward. This is already making investors nervous.

Even in the absence of so called '**taper tantrum**', if we look at the global scenario in isolation, markets seem to have developed froth with bloated valuations, thereby warranting a major correction as a measure of self-check and a balancing act, if they have to remain in a sustainable bull market for a longer period.

RELATED
Fed hawks circle before Powell speech as they push for bond taper
For Fed taper, forget when it starts. The end matters more
New money is trumping smart money on Dalal Street, but for how long?

Midcaps and smallcaps appear to be performing that balancing act already, as these indices seem to have topped out three weeks back. The **Smallcap 250** index, which has grown some 3 times from the absolute lows of 2,867 hit in March 2020 to climb a recent high of 9,262, has already corrected 9% to form a low at 8,427 level.

The said index may undergo another 8- 10% correction, as it is starring at a critical support around 8,400 level, a breach of which shall accelerate the selling pressure in this index.

Similarly, the Midcap 150 index swelled 2.6 times from the March 2020 low of 4,088 to hit a high of 10,722, but has since kicked off a corrective downswing and shed around 5% to hit a low of 10,135. A bigger correction in this index should materialise on a breach of the critical near-term support placed at 10,100 level. Though **Nifty500** price action has been in line with the main indices like Nifty50, it too has generated a sell signal on the weekly MACD charts, making it more vulnerable, and this can in turn put pressure on the broader market.

Among the sectoral indices, though **Nifty Pharma** Index has made a new lifetime high last September after a gap of six years, after the recent correction, it has given up all the gains of last month.

While biggies like Sun Pharma and Lupin from this space remained huge underperformers, Aurobindo down 35% after making a new lifetime high of Rs 1,064 in May whereas others like Dr Reddy's and Cadila are down by around 20% from their recent lifetime highs. Cipla is down 10% from its recent lifetime high.

While the **auto** index has failed to get past its lifetime high registered in 2017, leaders like **Maruti** NSE 0.31 % have remained huge underperformers, trading 18% below its 2021 high of Rs 8,329. Two-wheeler major Hero Moto, which has hugely underperformed, is down by around 25% from its 2021 highs of Rs 3,616 level. If this stock remains below Rs 2,700 in the next couple of sessions, then it should break down with another 10–15% fall.

Albeit Bank Nifty made a new lifetime high in February 2021 at 37,708 level, it is struggling in last six months. The trading range of last three months is around 1,800 points and to avoid a breakdown, it needs to sustain above 34,000 level, as any breach of that level shall accelerate the correction in this space. From this space, quality names like Kotak Bank has already corrected 20% at its recent low of Rs 1,626, whereas HDFC Bank has corrected 18% from its high of Rs 1,641 to hit a low of Rs 1,353 before stabilizing around the Rs 1,500 level. Second rung names like RBL, Bandhan Bank and IDFC Bank are down sharply by 40% from their recent highs.

To give you an even bigger picture prevailing in the broader market, out of the NSE universe of 2,327 stocks, almost 1,000 are trading with a cut of 20% or more from their respective highs registered in 2001. Around 20% stocks are trading with a cut of 30% or more.

Similarly, 50% or 1,152 stocks are trading below their respective 50-day moving averages, highlighting that the medium-term undercurrent may be shifting in favour of the bears. Some 26% of the stocks are trading below their 100-day moving averages. Though only 107 stocks registered a Death Cross, whose 50-day moving average slipped below 200-day moving average, thereby strengthening the bearish case, the list includes prominent names like Hero Moto, Maruti, Kotak Bank and some other quality midcap banks.

As traditional measures of gauging market trends are failing frequently in this strong liquidity-driven rally, we have examined sentiment-based indicators to gauge the underlying strength of ths market.

In July, retail investors put in a record $2.2 billion in US equities, out of which 44% went through ETF purchases, which was much higher than the normal average of 29%. India seems to be no exception to this retail frenzy. Studies showed that on an average, 13 to 15 lakh DMAT accounts are getting added every month since April 2020, hinting at an euphoria building up.

In the last four months till July, FIIs were on the sell side for three months, but the market managed to keep its head above the water thanks to strong retail flows. Perhaps this can also be seen through the advance-decline ratio, which has been favouring the bears consistently. Cumulative AD Line is showing a behaviour similar to what we saw in and around the corrections of 2018, the period that saw 10% individual stocks getting butchered. Typically, this is the segment that becomes more active around market tops.

This can be seen even in the huge over-subscription figures of recent IPOs in the non-institutional segment. Moreover, most of the recent IPOs facilitated an exit to existing investors rather than accumulating growth capital, a trend seen typically in matured bull markets.

In the light of above, it looks prudent for investors to take a cautious approach instead of burning their fingers by outstaying your welcome in the party.

Even Wave Counts are hinting that the market is in the last leg of the rally, before ushering in a multi-month corrective downswing. But the good thing is that, based on our long-term Wave Projections, this bull market has legs and sharp dips would be an opportunity to go long. In that scenario, as of now, our downside targets will initially remain around 15,500 level.

*(**Mazhar Mohammad** is Founder & Chief Market Strategist at www.chartviewindia.in. Views are his own)*