

# Not so happy new year? Nifty may see multi-quarter correction of 20% in 2022

*Based on its behaviour, the Nifty will likely be a muted performer and undergo a multi-quarter corrective and consolidation process in 2022, with a deep correction of around 20 percent*

**MAZHAR MOHAMMAD**

JANUARY 02, 2022 / 09:58 AM IST

As the year 2022 begins, investors remain curious about the future of equity markets, especially when Mr Market has been generous in the last two years. But the factors that worked for investors in these two years may not remain favourable for them across the globe.

Primarily, the rally from March 2020 lows was driven by massive stimulus packages unleashed by the global central bankers with low interest rates and mouth-watering valuations.

This gush of liquidity not only shielded the financial markets from the COVID-related selling but created bloated valuations across asset classes.

After 20 months of policy support, central bankers seem to have reached a saturation point from where they will be forced to withdraw some of the support.

In the new year, the factors that favoured a global market rally are standing in quite the opposite direction of where they were in 2020.

## RELATED STORIES



### **Mazhar Mohammad**

FOUNDER & CHIEF MARKET STRATEGIST|CHARTVIEWINDIA.IN

Factors like inflation and rate hikes will be a major source of volatility in 2022. As prices pick up across the world, central bankers are in a fix to raise interest rates. It will be prudent for central bankers to ease their foot off the accelerator now than slamming the brakes going forward by embarking on rate hike cycle.

Perhaps it was in line with this thought process that the Bank of England raised its interest rates by 15 basis points— from 0.1 percent to 0.25 percent—in mid-December despite growing concerns over the more transmissible Omicron variant of the coronavirus.

Only one of the nine members of the monetary policy committee voted against the hike as inflation picked up.

In 2022, the Federal Reserve may have to hike rates several times if inflation keeps soaring. Valuation cushion, too, is completely missing unlike in March 2020.

### **Technical setup for Nifty**

The long-term trend has looked good and robust, with a vertical rally of 18 months that caught many by surprise. During this period, the index rallied around 150 percent from March 2020 low of 7,511 to a high of 18,604.

Shallow corrections remained the feature of this up move that irritated many who were waiting for a pullback to make their entry. It became further complicated as valuations consistently remained higher, reaching uncomfortable zones.

Historical analysis of Nifty data reveals that this is not the first time that the index staged such a huge up move with shallow corrections.

After the global financial crisis of 2007, the Nifty consistently rallied for eight quarters with a gain of around 181 percent from an absolute low of 2,252, registered in 2008, to a high of 6,338.

A similar up move was witnessed between the years 2013 and 2015 for six quarters from the lows of 5,118 to 9,118 with a gain of around 78 percent.

On these two occasions, there were no intermittent corrections during the up move but once the top was in place, the Nifty underwent a multi-quarter corrective and consolidation process with a cut of 29 percent from the top of the year 2010 and around 25 percent from the top of 2015.

Though market witnessed vertical up moves between 2016 and 2019 from the lows of 6,825 to a high of 12,293 for 15 quarters. In between there were four negative quarterly candles with shallow

corrections, hinting at consolidation at regular intervals before all hell broke loose due to coronavirus.

Based on this historical behaviour, the Nifty should remain a muted performer and we will not be surprised if it undergoes a multi-quarter corrective and consolidation process in 2022, with a deep correction of around 20 percent.

Apart from this historical price behaviour, to further corroborate our view, we have a strong sell signal on long-term charts that worked out the majority of the time at major turning points.

Based on our Elliott Wave counts on long-term charts, our preferred view is that top is in place at the recent high of 18,604 and the Nifty may have already kicked in a multi-quarter downswing that should have worst case targets around 15,000 (+/- 500 Nifty points).

However, one alternate count on our long-term Elliot Wave charts is pointing towards one more new high in 2022 before unfolding a major correction.

If this count prevails and unfolds over the next three to six months, the Nifty should register a major top somewhere between 19,500 and 21,411, which would again pave the way for multi-quarter correction with 20 percent cut from respective top.

This count may unfold if Omicron proves to be a blessing in disguise, as pointed out by some health experts.

Some epidemiologists are of the view that the virus at the end of its lifecycle will mutate with less severity and that is how the Spanish Flu of 1895 ended.

As Omicron is reportedly not causing serious illness despite being highly contagious, it may result in herd immunity that may see Covid turn endemic. If that happens, it will be good for the world economy and the optimism would invariably spill over to financial markets with one more but final round of new highs for 2022.

**Disclaimer:** *The views and investment tips expressed by experts on Moneycontrol.com are their own and not those of the website or its management. Moneycontrol.com advises users to check with certified experts before taking any investment decisions.*



**MAZHAR MOHAMMAD** is the Founder & Chief Market Strategist at Chartviewindia.in. Prior to establishing his own consultancy in 2012, Chartviewindia.in, he was associated with Institutional Research Desk of Mumbai-based brokers with designations of AVP (Darashaw & Co.) and Head – Equity Technical Research (Portfolio Financial Services Ltd.).