

MARKET OUTLOOK

30 May 2022

Navigating index peaks and troughs

- We analyse sector out/underperformance during the peak and trough phases of a market cycle
- Mid- and small-caps generally outperform during the latter part of a market rally but underperform en route to a trough
- Autos and private banks generally do well as the market emerges from a trough; FMCG and pharma outperform when headed toward a bottom

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Our analysis: The Nifty 50 is down ~10 % from its recent Oct'21 peak. This fall can be ascribed to a combination of factors, including the war in Europe, soaring inflation, interest rate hikes by several central banks including the US Fed, and renewed lockdowns in China. Although the market has recovered from the recent bottom, we believe it would remain volatile near term. We, therefore, evaluate how various sectors perform versus the index during market cycles.

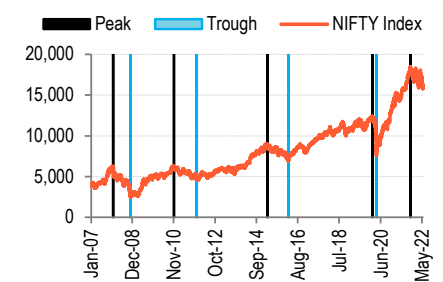
Methodology: We analysed market behaviour for a +/-12-month period around peaks and troughs that occurred over the last 15 years. Our study covered troughs during the global financial crisis in 2008, European sovereign debt crisis in 2011, China slowdown in 2015, and Covid crisis in 2020. For the peaks, in addition to the above periods we also included the recent market high in Oct'21.

We then assigned a probability to the sector behaviour based on the number of occurrences of such behaviour in the past. That said, it is likely that certain sectors were influenced by factors specific to a particular cycle and market conditions. We have, however, attempted to analyse the repetition in trends/ performance over cycles.

Conclusion: As the market approaches a peak, small- and mid-caps stocks generally outperform large-caps, but thereafter underperform when coming off the peak. On the other hand, on the way up from a trough, mid-caps tend to have better chances of outperforming large-caps than small-caps.

Sector-wise, BFSI has a high probability of outperforming the index while approaching a peak. In contrast, IT, pharma and consumer stocks tend to do better while coming off the peak and continue to outperform as the market approaches a trough. Auto, private banks and commodities have generally beaten the index when the market is emerging from a bottom.

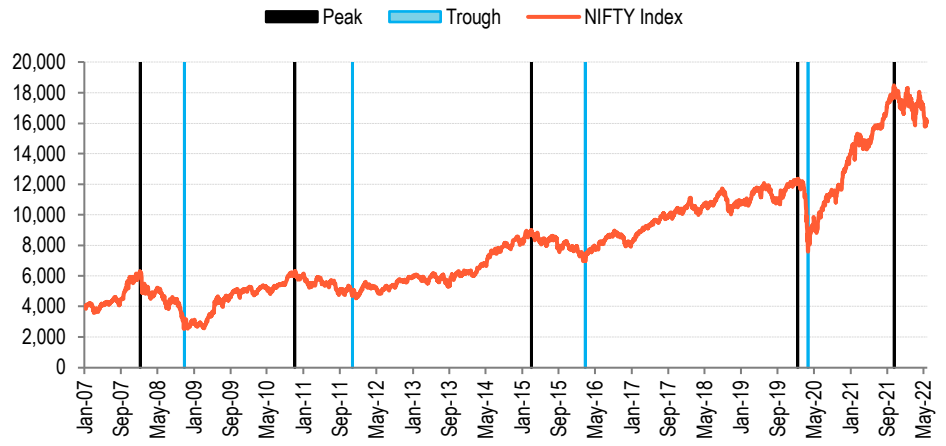
Peaks and troughs in Nifty 50



Source: BOBCAPS Research, Bloomberg

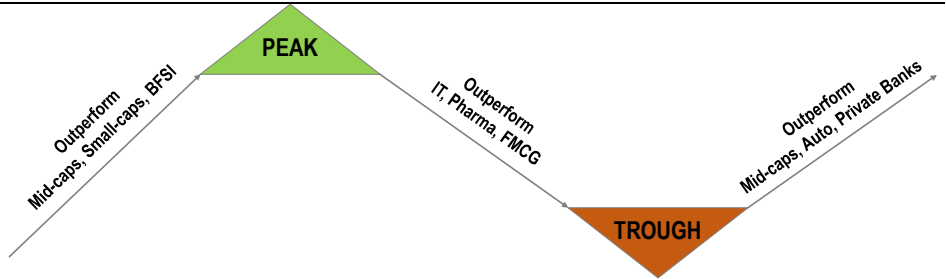


Fig 1 – Market peaks and troughs during last 15 years



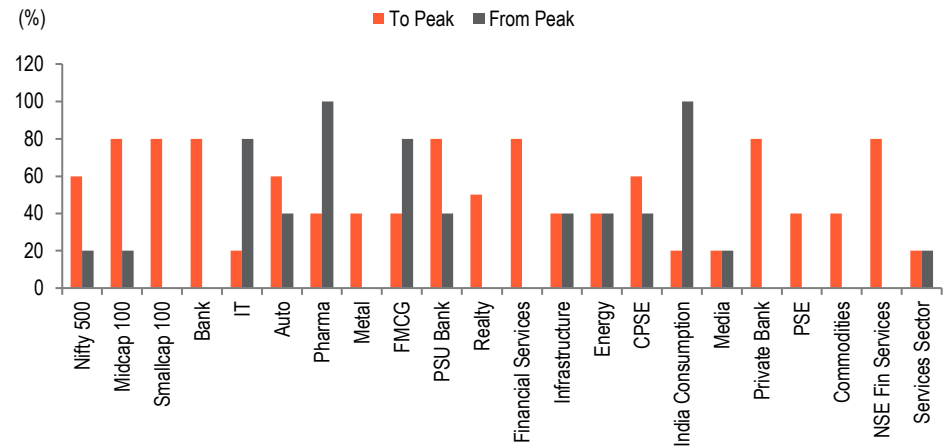
Source: BOBCAPS Research, Bloomberg

Fig 2 – Market behaviour during peaks and troughs



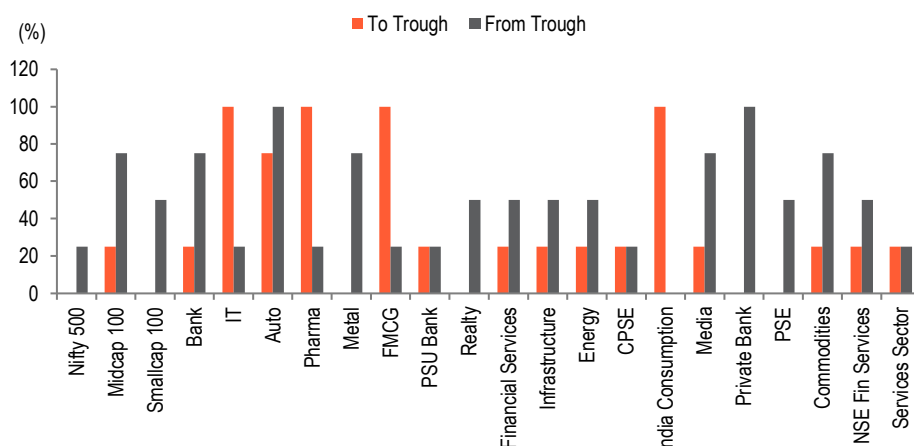
Source: BOBCAPS Research, Bloomberg

Fig 3 – Probability of outperforming Nifty 50 during peak phases



Source: BOBCAPS Research, Bloomberg

Fig 4 – Probability of outperforming Nifty 50 during trough phases



Source: BOBCAPS Research, Bloomberg

Fig 5 – Average sector performance around peaks

Name	-12M	-6M	-3M	-1M	Peak	+1M	+3M	+6M	+12M
Nifty 50	31.9	22.2	14.0	3.6	0.0	(6.8)	(15.5)	(16.9)	(17.9)
Nifty 500	35.9	23.8	15.3	4.4	0.0	(7.0)	(16.6)	(17.5)	(19.0)
Midcap 100	48.7	27.4	18.8	6.2	0.0	(7.0)	(18.3)	(18.1)	(18.0)
Smallcap 100	50.9	27.3	19.9	7.6	0.0	(8.2)	(21.0)	(22.0)	(24.3)
Bank	49.5	28.8	19.0	3.8	0.0	(7.1)	(21.9)	(25.5)	(26.0)
IT	27.7	12.7	8.0	2.8	0.0	(4.1)	(8.5)	(8.0)	(3.4)
Auto	32.4	18.2	11.0	4.0	0.0	(4.6)	(15.8)	(17.5)	(13.8)
Pharma	24.7	12.9	10.6	4.2	0.0	(1.8)	(1.9)	3.3	6.2
Metal	45.4	25.1	17.4	5.2	0.0	(12.6)	(20.0)	(22.1)	(29.6)
FMCG	23.2	19.3	10.2	3.5	0.0	(6.4)	(9.6)	(8.4)	(2.1)
PSU Bank	49.7	26.1	15.2	4.4	0.0	(6.2)	(23.0)	(26.5)	(35.2)
Realty	60.4	25.4	19.7	9.3	0.0	(8.1)	(28.1)	(31.9)	(27.4)
Financial Services	50.8	29.1	17.6	3.7	0.0	(4.7)	(21.4)	(24.0)	(23.9)
Infrastructure	32.2	21.8	13.8	4.3	0.0	(6.8)	(15.9)	(19.4)	(24.2)
Energy	28.8	25.6	15.2	5.6	0.0	(9.6)	(14.5)	(12.2)	(18.0)
CPSE	39.6	21.3	14.7	6.3	0.0	(11.6)	(16.0)	(18.3)	(25.6)
India Consumption	27.8	19.5	9.5	3.1	0.0	(2.8)	(10.4)	(10.8)	(6.8)
Media	24.9	20.6	15.4	6.5	0.0	(7.5)	(22.7)	(19.8)	(27.1)
Private Bank	49.9	30.2	19.6	3.7	0.0	(7.6)	(22.8)	(25.4)	(24.6)
PSE	36.7	23.7	14.4	4.6	0.0	(11.2)	(17.2)	(20.3)	(26.9)
Commodities	39.6	25.6	15.1	5.0	0.0	(9.2)	(16.8)	(17.5)	(22.1)
NSE Fin Services	50.8	29.1	17.6	3.7	0.0	(4.7)	(21.4)	(24.0)	(23.9)
Services Sector	36.3	21.9	14.3	3.6	0.0	(5.9)	(16.9)	(18.8)	(18.5)

Source: BOBCAPS Research, Bloomberg

Fig 6 – Average sector performance around troughs

Name	-12M	-6M	-3M	-1M	Trough	+1M	+3M	+6M	+12M
Nifty 50	(32.6)	(27.3)	(23.8)	(21.7)	0.0	10.6	19.4	27.4	58.6
Nifty 500	(33.5)	(28.1)	(24.7)	(22.1)	0.0	9.2	19.0	28.1	63.2
Midcap 100	(33.6)	(28.3)	(25.0)	(22.0)	0.0	6.0	17.3	26.7	70.5
Smallcap 100	(41.3)	(33.2)	(30.6)	(28.6)	0.0	4.5	16.8	32.9	77.4
Bank	(38.7)	(32.8)	(27.6)	(25.3)	0.0	10.0	21.8	26.0	76.3
IT	(27.0)	(22.0)	(15.0)	(16.5)	0.0	7.1	11.0	23.0	64.1
Auto	(33.8)	(26.0)	(23.2)	(21.5)	0.0	6.7	21.4	39.0	87.1
Pharma	(16.5)	(16.0)	(14.0)	(13.2)	0.0	13.6	16.5	26.8	39.5
Metal	(49.9)	(37.4)	(32.4)	(26.9)	0.0	8.5	22.5	42.7	116.1
FMCG	(14.4)	(15.0)	(13.6)	(12.2)	0.0	12.1	15.3	22.1	46.7
PSU Bank	(43.4)	(32.4)	(22.6)	(19.7)	0.0	5.2	13.0	11.2	53.2
Realty	(43.1)	(36.8)	(30.6)	(28.7)	0.0	(2.4)	16.2	18.5	64.7
Financial Services	(32.4)	(27.6)	(24.4)	(22.6)	0.0	3.5	15.4	18.6	64.7
Infrastructure	(36.8)	(29.3)	(24.4)	(19.9)	0.0	3.3	18.4	18.1	46.6
Energy	(30.7)	(23.8)	(23.0)	(22.1)	0.0	12.7	23.3	30.3	57.9
CPSE	(34.7)	(25.7)	(22.9)	(17.7)	0.0	7.7	15.2	19.2	54.8
India Consumption	(18.6)	(16.4)	(15.6)	(14.1)	0.0	4.8	10.6	17.2	41.4
Media	(41.9)	(31.3)	(28.3)	(25.2)	0.0	3.9	15.4	22.5	58.8
Private Bank	(38.1)	(32.8)	(27.9)	(26.8)	0.0	8.7	21.8	27.7	81.2
PSE	(36.9)	(28.2)	(25.5)	(21.4)	0.0	9.2	18.9	22.0	53.5
Commodities	(35.0)	(28.0)	(23.6)	(21.5)	0.0	6.3	19.3	29.6	71.6
NSE Fin Services	(32.4)	(27.6)	(24.4)	(22.6)	0.0	3.5	15.4	18.6	64.7
Services Sector	(32.3)	(27.1)	(23.4)	(21.7)	0.0	9.7	19.0	22.8	57.3

Source: BOBCAPS Research, Bloomberg

Fig 7 – Sector behaviour around peaks: O – Outperform, U – Underperform, I – In-line

Index/Sector	Jan-08		Nov-10		Mar-15		Jan-20		Current	
	To Peak	From Peak	To Peak	From Peak	To Peak	From Peak	To Peak	From Peak	To Peak	From Peak
Nifty 500	O	U	O	U	O	O	I	I	I	I
Midcap 100	O	U	O	U	O	O	U	I	O	U
Smallcap 100	O	U	O	U	O	U	U	I	O	U
Bank	O	U	O	U	O	U	O	U	I	U
IT	U	O	U	O	U	O	U	O	O	I
Auto	U	I	O	O	O	O	O	I	U	I
Pharma	U	O	O	O	O	O	U	O	U	O
Metal	O	U	U	U	U	U	U	U	O	U
FMCG	O	O	O	O	U	O	U	O	U	U
PSU Bank	O	O	O	U	O	U	U	U	O	O
Realty	NA	NA	U	U	U	U	O	U	O	U
Financial Services	O	U	O	U	O	U	O	U	I	U
Infrastructure	O	U	U	U	I	U	U	O	O	O
Energy	O	I	U	U	U	O	U	U	O	O
CPSE	O	O	O	I	U	O	U	U	O	U
India Consumption	O	O	U	O	U	O	U	O	U	O
Media	O	U	U	U	U	O	U	U	U	U
Private Bank	O	U	O	I	O	U	O	U	U	U
PSE	O	I	U	U	U	U	U	U	O	U
Commodities	O	U	U	U	U	U	U	U	O	U
NSE Fin Services	O	I	O	U	O	U	O	U	I	U
Services Sector	U	I	I	I	O	I	O	U	U	O

Source: BOBCAPS Research, Bloomberg

Fig 8 – Sector behaviour around troughs: O – Outperform, U – Underperform, I – In-line

Index/Sector	Oct-08		Nov-11		Feb-16		Mar-20	
	To Trough	From Trough	To Trough	From Trough	To Trough	From Trough	To Trough	From Trough
Nifty 500	I	I	U	O	I	I	I	I
Midcap 100	I	U	U	O	O	O	U	O
Smallcap 100	U	U	U	U	U	O	U	O
Bank	O	U	U	O	U	O	U	O
IT	O	U	O	U	O	U	O	O
Auto	O	O	O	O	O	O	U	O
Pharma	O	U	O	O	O	U	O	U
Metal	U	O	U	U	U	O	U	O
FMCG	O	U	O	O	O	U	O	U
PSU Bank	O	U	U	U	U	O	U	U
Realty	U	U	U	O	U	O	U	U
Financial Services	O	U	U	O	U	O	U	U
Infrastructure	O	U	U	U	U	O	I	O
Energy	I	O	U	U	O	U	I	O
CPSE	O	O	U	U	U	U	U	U
India Consumption	O	U	O	U	O	U	O	U
Media	U	O	U	O	O	O	U	U
Private Bank	I	O	U	O	U	O	U	O
PSE	I	O	U	U	U	O	U	U
Commodities	I	O	U	U	O	O	I	O
NSE Fin Services	O	U	U	O	U	O	U	U
Services Sector	O	U	I	I	U	O	I	I

Source: BOBCAPS Research, Bloomberg

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