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WEEKLY NEWSLETTER *21ST JULY 2018*

MARKET PULSE

The week under review continued to witness heightened polarization in the market internals, with an ever extending disparity in valuation gap between a handful of top-end stocks & the rest of markets. This theme of head-line Indices being managed to keep flying in dizzy zones, backed by relentless ramping of barely 5-7 stocks, has been in order for some time now. Yet, in the week that went by, the magnitude of the mis-match was pushed to a un-heralded territory.

The fact that NIFTY almost closed in on its all-time High, hitting levels of 11,076 this Wednesday, barely 41 points short of its all time high of 11,117-55 on 30th January may signal that the markets are in fine fettle & all is well. Contrarily, the NIFTY MIDCAP-100 (itself a highly regarded Index & possibly the BEST of Benchmarks to be compared for most category of "Quality Portfolios") has fallen a daunting 19% from its peak levels of 21,841 on 15th January to record a low point of 17,701 this Tuesday.

The plight of other smaller Indices is much worse while select basket of stocks (none too bad ones), and in good numbers, have melted down whopping 40% to 70%, many of them hitting newer bottoms during the course of the week. That, kind of sums up the markets' pulse at this juncture! In simple terms, the week that went by will go down as one more week of despairing woes, for an overwhelmingly large section of the markets.

MORE PERSPECTIVES: While a trend of falling valuations may not entirely be a new phenomenon in markets' history, the current relentless meltdown, if seen in a related perspective is quite distressing. We have seen many commentators attempting to draw parallels to the 2008 happenings but the very basic texture of the events than & now are totally baseless. During 2008 it was a Global melt-down driven by compelling factors like dismal Economy in most Developed Markets, accentuated by drastic negative events & represented by the unprecedented turnouts like the collapse of LEHMAN BROTHERS!

In current times, it's a stark contrast on these counts. US Economy as well as the Markets are witnessing a handsome, durable traction & is still seen on an up-swinging curve. Agreed that the FAANG stocks are running away like never seen before but this is complimented by the fact that the RUSSEL-2000 Index, as broad an Index as it can get, also is scaling newer Life-time Highs consistently. Most other markets across the Globe are seemingly in much better shape. Even the small & disturbed countries in our Border are said to be shaping quite cheerfully, on the Economy & Markets' front. In this context, the magnitude of pain in our broad markets, since start of February & especially since onset of May, is a matter of grave concern & need to be addressed urgently by the powers that be.

CORPORATE ACTION

With the current Earnings' season well & truly underway, there has been a perceptible pick up in momentum that is beginning to excite the D-Street player, notwithstanding the gloomy internal conditions. Of course, it's a well known phenomenon that early birds often report some of the best of quality numbers. This time too it has been on similar lines. Some of the best in class were the ones to deliver numbers right at start & many of these were on the positive sides.

TCS was the biggest name that came up early in the season & turned out to be a truly inspiring one with an all-round beat. Delivering the highest growth rate in FOUR Years, TCS reported an awesome 9.3% jump YoY & 4.1% QoQ, with Revenues topping the FIVE BILLION mark, at $5.05B even as PAT came up at $1.08B. The management commentary remained very promising & the revelation of fresh deal wins, particularly in the BFSI space ensured a positive guidance for the near future. No wonder, the stock, already being a part of the "Most Favored Class" of ultra-large & a Index heavy-weight category, got a thunderous response, well deserved for sure, even as the biggest M-CAP company in our markets added more weight & topped the INR 7 & ½ Trillion mark!

INFY followed its illustrious leader a couple of days later but with a relatively slower pace of growth but attempted to send a positive message to its stake-holders by announcing a one-for-one Bonus issue. CYINT was one more to report early from the IT pack but this well rated Mid-Space company disappointed mildly with a small negative tick in PAT growth & cited wage hikes in the quarter as the prime reason for the flat-ish PAT numbers.

ACCELERATING MOMENTUM: The onset of current week saw a smart acceleration of Results out-flows. Starting with the giant FMCG Icon – HUL – right at start of week, several prominent ones joined the band-wagon. The BAJAJ TRIO, of FINANCE, FINSERVE & AUTO were some of the most sought out ones & they ended up by delivering Exception output & had sent their Stocks into a tizzy! The difference being that the two "Financial" players reported absolutely terrific one the AUTO guy actually disappointed the Street by reporting a squeezed margin scenario. It was an unusual sight seeing the first two stocks rocketing up 7-8% while the AUTO stock tanked 9%. BAJAJ FINANCE's reported growth number of 83% jump YoY, at 834 crs will have to be seen as the MOST NOTABLE take-away from the Earnings' season thus far.

Among the other notable ones of reported earnings, FEDERAL BANK surprised positively by reporting an impressive PAT & NII number even while maintain the Asset Quality & the stock got a 20% gun-salute! KOTAK BANK, a big name these days reported good numbers but the street seems to have wanted a bit more from this one. From the private Banking space one more which pleasantly surprised the street is BANDHAN BANK & the markets, especially well informed ones, seem to have loved this & the stock set-off on a handsome rally & seems to promise a lot more.

A couple more of Quality Midcap IT companies, NIIT TECH & MINDTREE reported fairly in synch numbers, although MINDTREE Stock collapsed 10% due to suspecting reasons of a CFO quit! ULTRATECH, the leader from the Cement pack came up quite tepid numbers but not entirely unexpectedly. The Cement pack has been seen as adversely affected by various reasons during this quarter & ULTRATECH numbers only reiterated this theory.

MARKET OUTLOOK

Despite the continuing somber mood of the markets, our sense is that the markets may have already seen the actual process of bottoming out, including the badly ruined mid-space. The humongous topsy-turvy moves seen in the NIFTY MIDCAP-100 during the week (near 500 points fall on Monday, 400 points recovery on Tuesday than again 2 days of fall) ended the week a reasonable pull-back of over 200 points from the lows on Friday & presented a mildly cheerful mood at closing point. Thus, technical indicators may signal the worst being over for this leg & a further pull-back, running into an F&O Expiry this Thursday may be a fair chance. It is also apparent that the markets are now in an extremely over-sold territory which may turn a tail-wind if the tide indeed changes for better.

The moderate pull-back seen during Friday's session may have been stoked by the parallel happenings in the Parliament. Although it was quite evident that the No-Confidence Motion do not have a chance of going thru, the end-game numbers turned out to be better than expected for the ruling party which, indeed, is a position favorable from markets' point of view. Now that a potential headache event is out of the way the markets may take a positive cue & latch on to a strengthening pull-back process. A 30+ point gain on SGX NIFTY, late on Friday night also signals towards a possible gap up, albeit moderately, on Monday morning.

Of course, the unveiling of the earnings' season & the Macros from across globe, the Currency & Crude moves & the local factors like Monsoon forecasts etc will be the key to determine the near future behavior of the markets. However, the biggest worry off-late has been the steep divergence among market segments & the brutality of the Sell-Off in the Mid-spaces. Despite all sorts of theories talked about the market players do not seem to have zeroed in on a single largest factor that is spooking this space so badly. Hopefully, this "Devil" is exorcised & the markets will re-enter the "Normalized" zone soon!