

Equity Market Overview

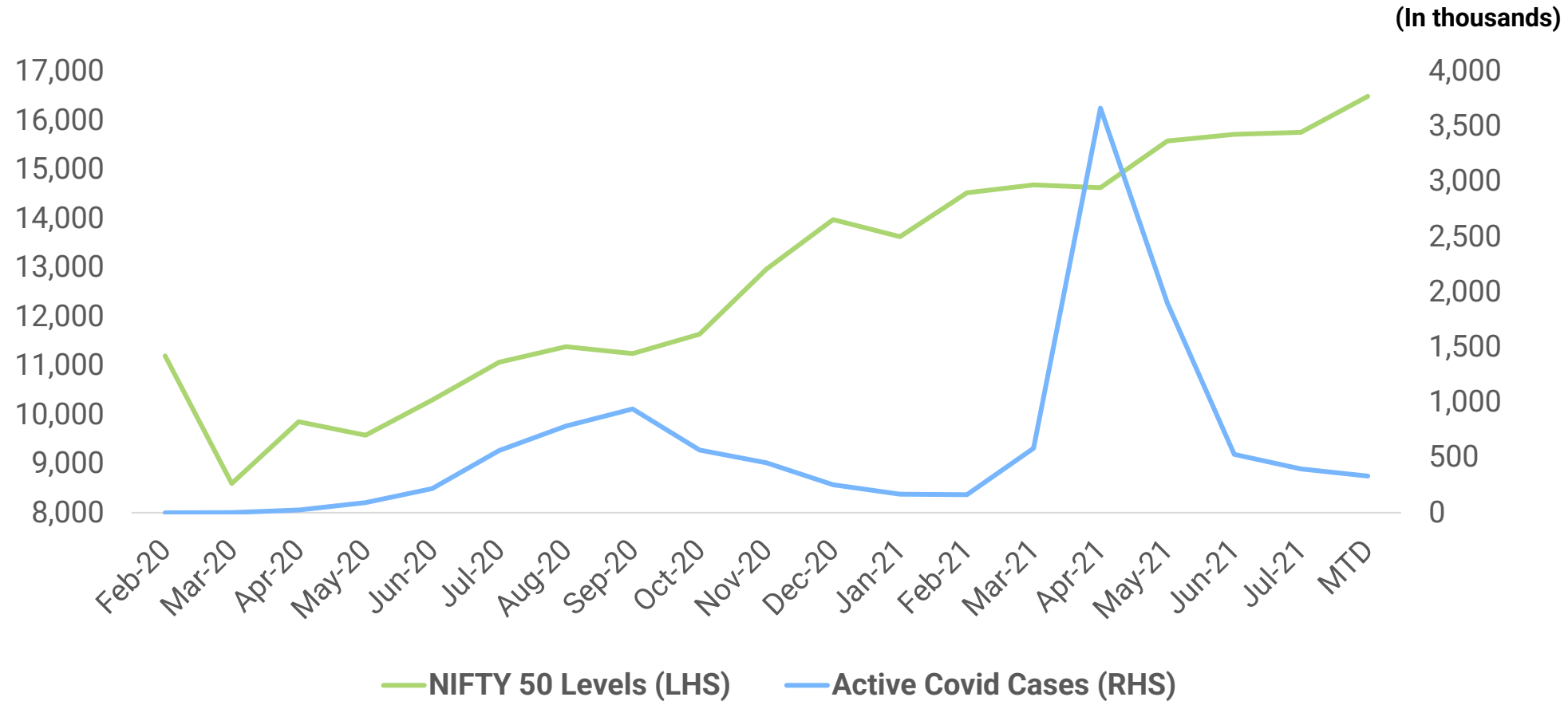
Looking back on how markets navigated Covid and what may lie ahead



Market remained resilient after the initial hiccup



Since March 2020, Nifty has continued its march despite the threat of multiple waves of infections and consequent lockdowns derailing its progress.



Source: www.mohfw.gov.in; www.prsindia.org; www.nseindia.com

What happens after significant corrections?



- History tells us that the equity market bounces back sharply after every major fall.
- In the table below, we have represented Nifty's cumulative gains for various periods after every major correction in the last 16 years.

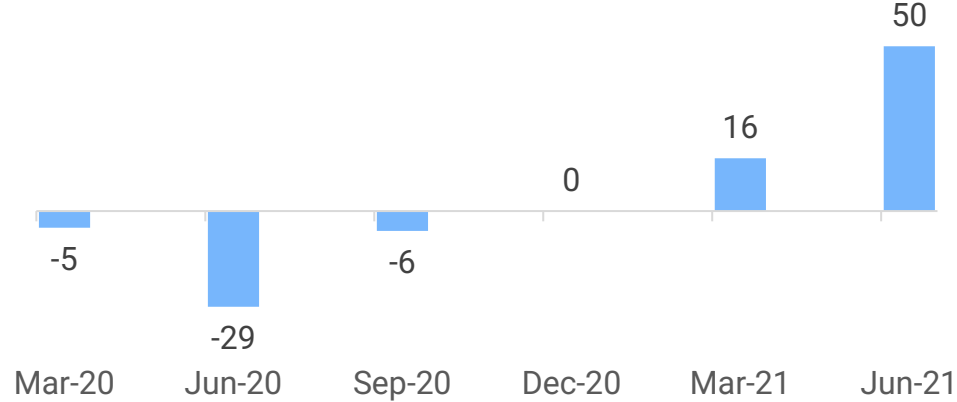
Fall end Date	Duration of Fall (in months)	% Fall	1 Yr.	3 Yrs.	5 Yrs.
Oct-05	1	-11.4%	58%	22%	154%
Jun-06	1	-14.8%	38%	37%	81%
Mar-09	14	-64.9%	74%	75%	122%
Dec-11	14	-25.7%	28%	79%	77%
Aug-13	7	-12.4%	45%	61%	113%
Mar-16	2	-8.0%	19%	50%	90%
Oct-18	9	-9.7%	14%	?	?
Mar-20	3	-44.5%	71%	?	?
Average		-23.9%	43%	54%	106%

Note: Nifty returns and fall are expressed in absolute terms for all time periods; Source: www.nseindia.com

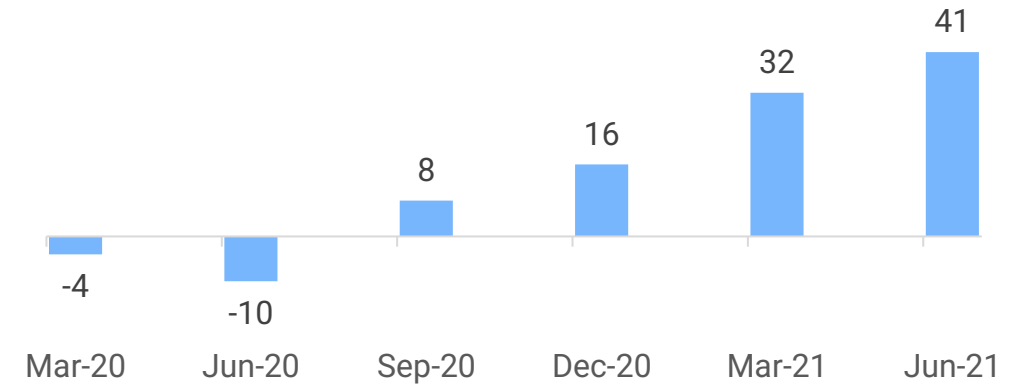
Market will progress if the fundamentals remain strong



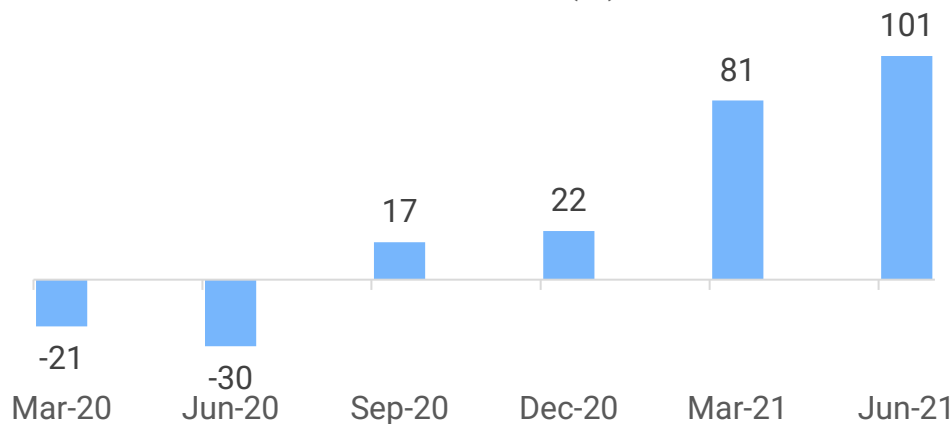
**Nifty Y-o-Y
Sales Growth (%)**



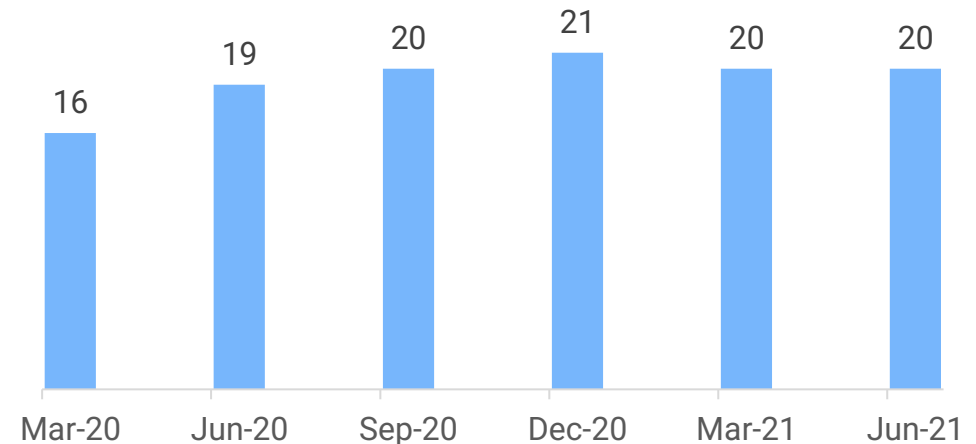
**Nifty Y-o-Y
EBITDA Growth (%)**



**Nifty
PAT Growth (%)**



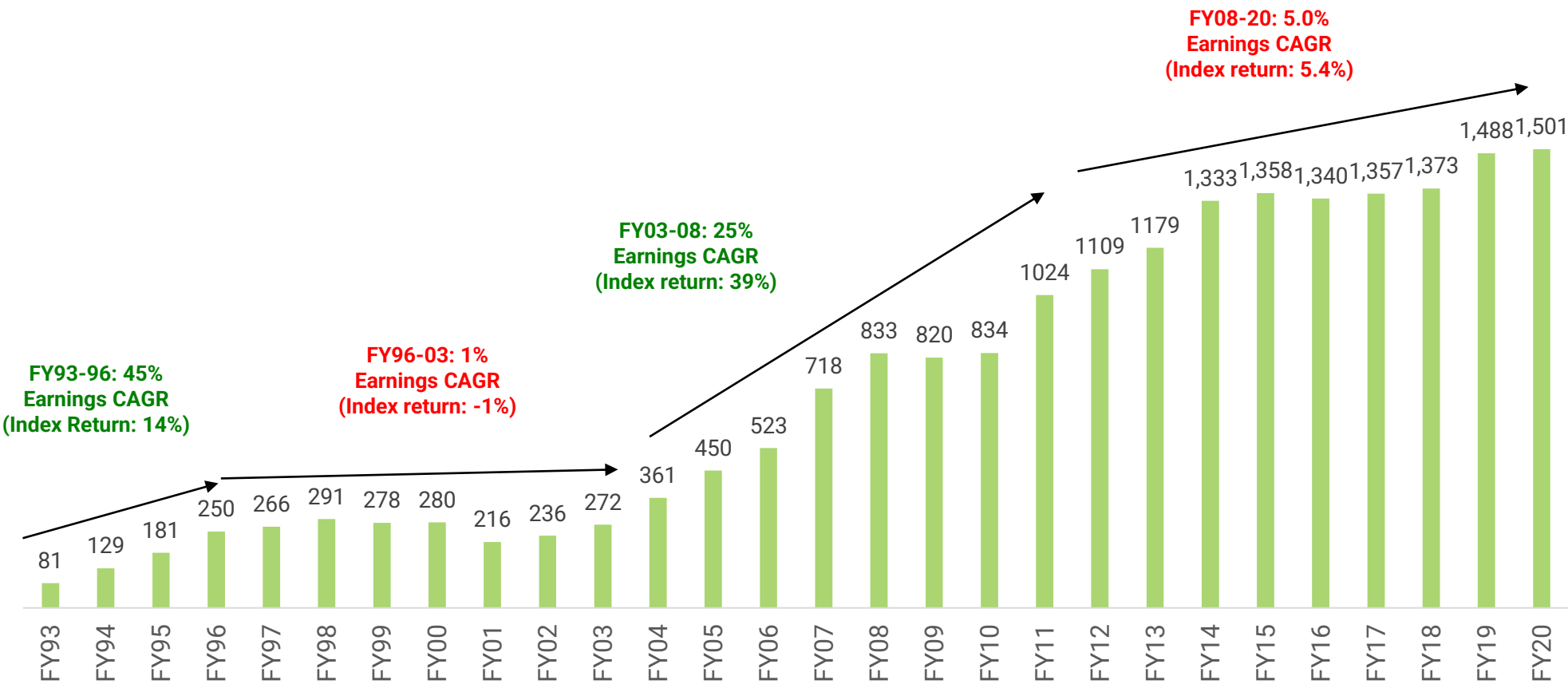
Nifty EBITDA Margin Expansion (%)



We strongly believe that...



Equity market returns tend to mirror earnings growth trajectory over the medium to long term.

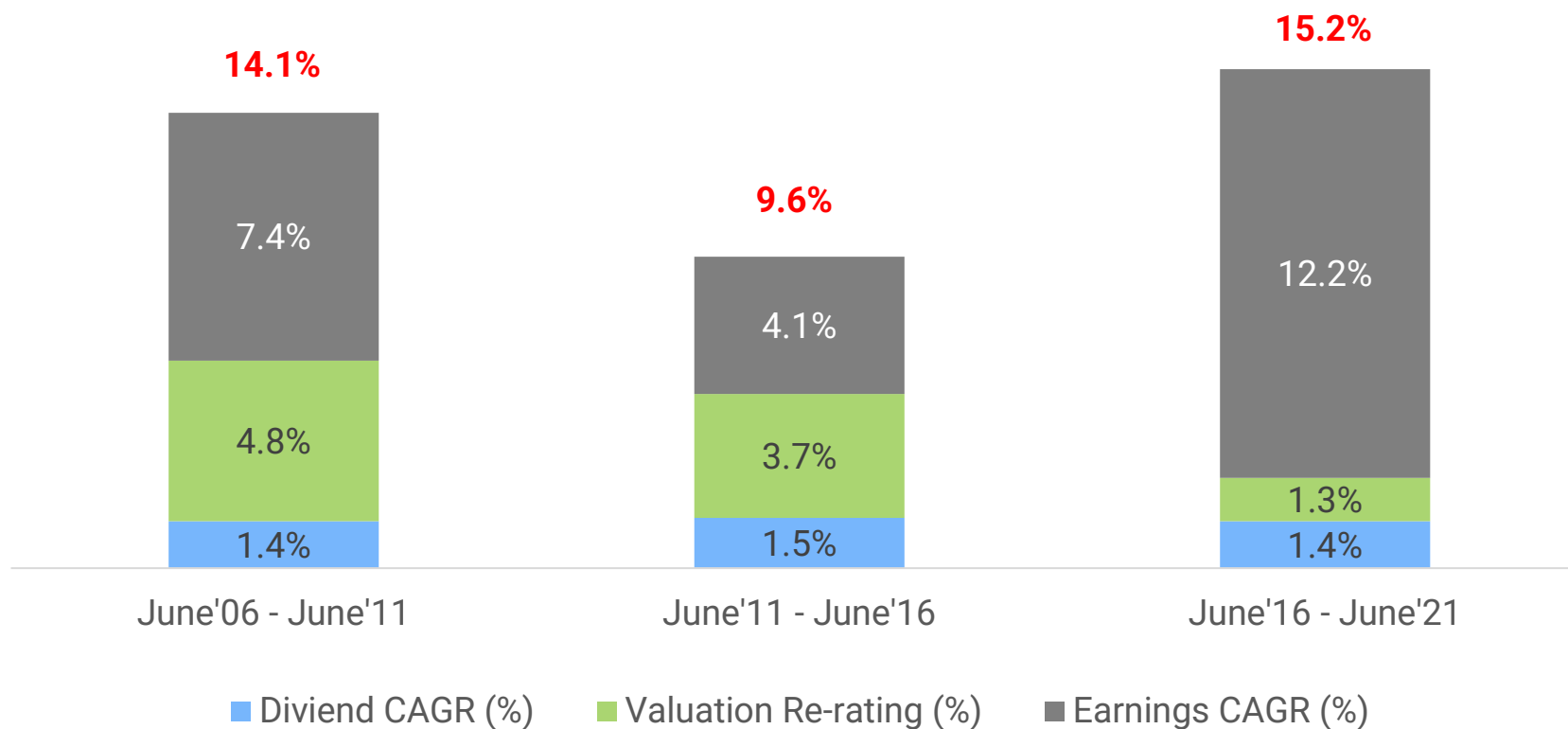


And this time it's no different



The total returns for Nifty in the last 5 years period has been primarily driven by earnings growth while the component of valuation re-rating has considerably shrunk.

Nifty Total Returns Attribution

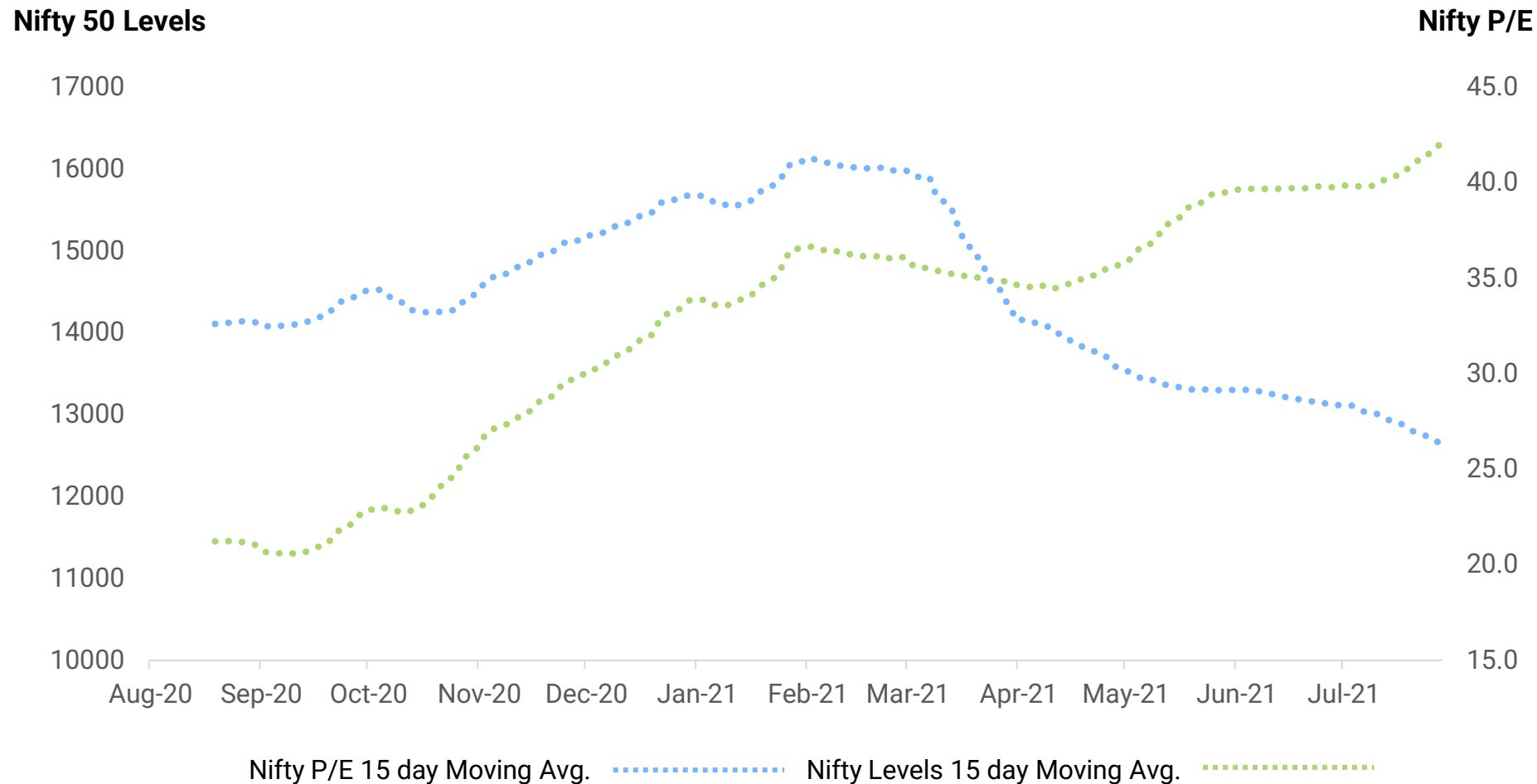


Note: Source: Bloomberg, Nifty 50 TR (Total Returns) data as of 30th June 2021.

High P/E is not always an indicator of an overvalued market



If investors would have exited their positions primarily looking at Nifty's high price to earnings ratio, then they would have lost out on major gains consequently achieved.



Market continues to remain fairly valued vis-à-vis major World economies



Market cap to GDP ratio continues to be an alternative but strong indicator of assessing market valuation

Country	CY21-average	5 Years average	10 Years average
India	106.6	80.8	75.1
USA	195.4	145.1	128.1
Japan	134.9	117.5	102.6
UK	128.7	119.9	122.3
France	117.7	92.8	82.2
Germany	70.0	58.4	53.6
S. Korea	130.7	93.8	89.5
Thailand	111.3	100.7	98.0
Australia	120.4	97.6	92.9

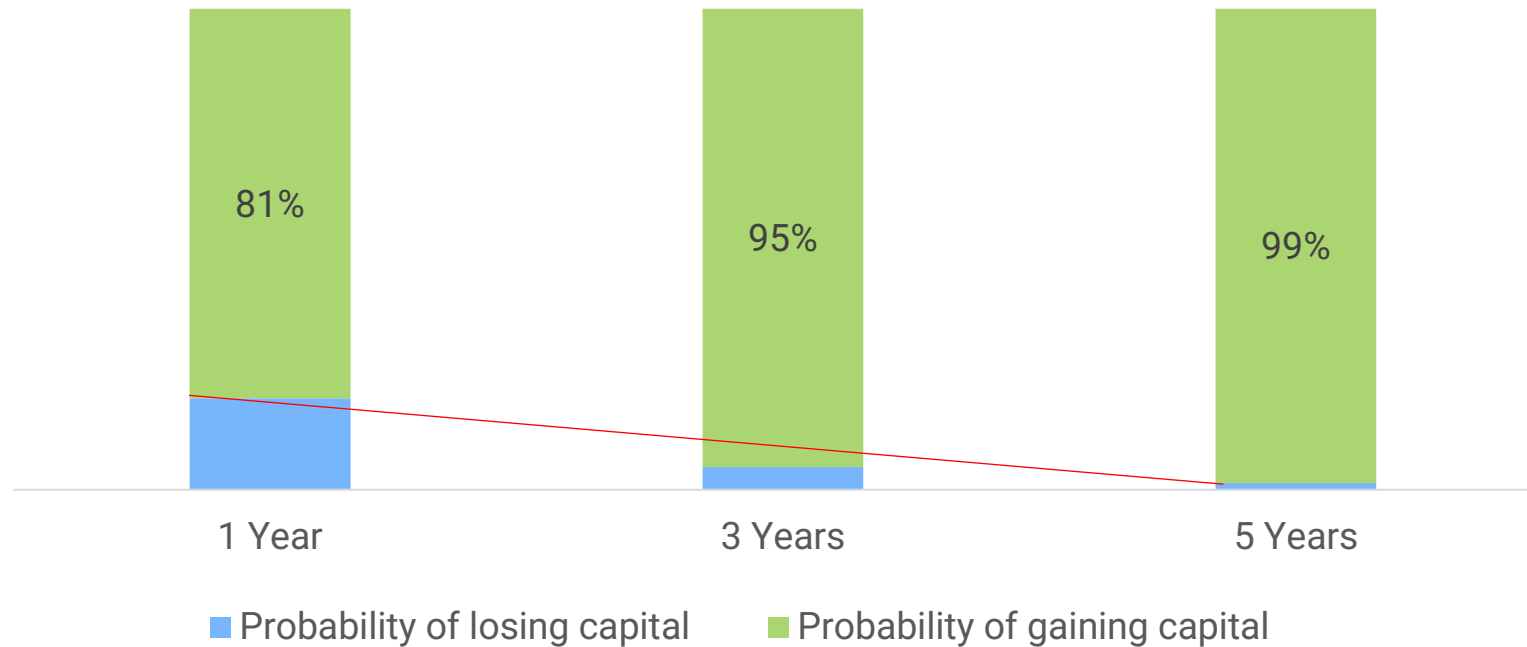
Mind of a typical investor



But higher the investment horizon, lower the downside



Volatility and drawdowns can be best managed in equity markets if and only if you invest for the longer term



Note: Analysis is based on Nifty daily rolling returns for the respective periods since April 2003; Source: www.nseindia.com

Risks & things to remember



- * Subsequent infection waves derailing economic recovery**
- * Global risk off events**
- * Global Central Banks reversing benign monetary policy due to inflation**
- * Indian Government going back on key reforms**
- * Higher non-institutional participation leading to enhanced volatility and amplification of cycles.**
- * Overtly forward-looking markets resulting in companies with weaker financials outperforming companies with stronger financials.**
- * Unknown & unknowable**

Summary



- * Since the onset of Covid – 19, Nifty has posted 12 months of positive returns out of the total 16 months till July-21.**
- * After such relentless upward movement regardless of the threat of rising infections, the markets took a much-anticipated breather in the last couple of months.**
- * Markets will be volatile in the near term and investors should be ready to face corrections from time to time. The suspense and anxiety surrounding various news flow (like tapering of bond purchase in the US), will be largely responsible for such volatility.**
- * The earnings delivery is expected to be robust in the medium term and will likely play out in the favour of the market. Expect mid/small cap segment to continue their outperformance due to broad based recovery but note that we have already travelled some distance down that road.**
- * Valuation across market capitalization are currently not cheap but also not unusual for the current stage of the cycle. Comparing large-cap, mid-cap and small-cap segments within a sector and not at the index level, is the right approach to adopt.**
- * Investors should be cognizant about their risk appetite, existing asset allocation and time horizon of investment.**

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