

INVESTMENT PERSPECTIVE

Swings and Surge are more important source of investment return in the short term while underlying Trend determines return for the long term investor.

JULY 2022



Shailendra Kumar
Chief Investment Officer
Narnolia

Equity in India as an asset class has given higher return than any other class in a long term sense if we look at the last 5-10-15-20 or more years. But this superior return had been non-linear for investors. In time frames smaller than 5-6 years, return from equity had widely varied. So many investors get unnerved when after investing their money in the stock market they see poor returns or losses in the portfolio in smaller time frame. Here it is important to understand the concept of **Trend, Swing and Surge**.

Trend is a general linear direction in which something is developing or changing over a long period, e.g. Nifty has given 15% CAGR over the last 20 years. Swing is to move up and down while being ultimately attached on the trend. Stock markets normally follow a Trend and Swings pattern.

Trend is due to major socio-economic evolution of the society that evolves over large many years. Swings are more due to liquidity and sentiment happening over shorter timeframes. While Trends are linear long term trajectory, Swings are cyclical by nature i.e. series of consecutive up and down movement. Swings are the more important source of investment return in the short term. While one is buying whether market is near swing high or swing low and similarly when one is computing investment return whether market is near swing high or swing low dramatically changes the perceived returns from the market.

When one invests for a long time, the investment goes through multiple rising and falling swings almost cancelling each other out and what one ultimately receives is the Trend return. Surges are rare events sometimes also called Black Swan events. These happen rarely like the one we witnessed during March 2020 (when covid related uncertainties arose) but have large impact on the asset class performance in near term. But invariably the impact of the surge wanes and the market gets back on the normal trend trajectory. So for long term investor what matters is only the long term trend of the market, while for short term investment the role of where the market is in the swing sense or whether there is a presence/absence of surge are more important.

Return for Short-Term Investors = Return from the Underlying Trend

Return for Short-Term Investors = Return from the cyclical Swings
(+/-) Return from Surge during the period

Presently Indian equity market along with most of the other global markets is witnessing downward swing. Underlying forces beneath the current downward swing is Surge in Commodity Prices and Interest rate. All the four Financial Market - Equity, Commodity, Bonds and Currency are interlinked. Surge or similar disruption in one impacts the other three. But the good news is that commodities related surge that happened post Russia-Ukraine war has waned now.

Aluminum prices from base of 1977 had surged to 3966 USD/tonne and are now already corrected back to 2522 levels. Nickel prices from base of 24000 had surged above 50000 USD/tonne and are now already corrected back to 23000 levels. Wheat that rose from base of 8 \$ per bushel and surged above 13 USD/bushel are now already corrected back to 8.4 USD per bushel. Even container freight index is showing signs of softness.

Over the last two years multiple high impact macro events have played out. H1CY20- sharp slide in GDP due to Covid outbreak, H2CY20- surge in container prices and broken global supply chain, H1CY21- sharp rally in steel price, high digital adoption, H2CY21- sharp rally in energy prices & product inflation, H1CY22- Russia Ukraine war and induced surge in commodity & services inflation. And all these macro events were highly impactful keeping the volatility high in various financial markets. But large part of the re-set that was needed in equity valuation, commodity prices, bond rates and currencies in response to these volatility inducing events have already taken place. In fact the high volatility period should be over in next few quarters and markets particularly equity will exhibit low volatile high trending regime in the medium term going ahead.

It is also important to remember that timing the market can prove to be risky. It is better to be stay invested in the market and be regular with it. In the long term sense one always will be getting the underlying trend returns from Indian equities just the way an Indian investor has received in the past. Factors that have helped this superior return from Indian equities are becoming even more structural and stronger.

At the same time as now we are in a downward swing, investing at current levels will yield higher return than the long term trend rates. Nifty during the last ten years have traded mostly in the range of PE of 17-24 and right now Nifty is trading at 15.5 X FY24 earnings. This makes the market even more compelling to invest for the long term.

HAPPY INVESTING!

Shailendra Kumar
Chief Investment Officer
Narnolia

Narnolia Investment Advisors Private Ltd. (NARNOLIA) is a SEBI Registered Investment Advisors (Non Individual) having SEBI Registration Number INA300005439 (Permanent) , CIN:- U67120JH2007PTC012791 Corporate Address: 803, Wing A, Kanakia Wall Street, Chakala, Andheri, Mumbai – 400093, PH: 022 6270 1200/ 022 6839 1200, Email Id: iap@narnolia.com. SEBI Regional office address: L&T Chambers, 3rd Floor, 16 Camac Street, Kolkata – 700017

NARNOLIA is 100% subsidiary of Narnolia Capital Advisors Private Ltd. which is NBFC registered with RBI. Narnolia Capital Advisors Private Ltd is owned by Narnolia Securities under the Promotership of Mr. KrishnanandNarnolia. Details of associate entities are available on the website of the Company. Narnolia is not affiliated with any intermediaries for execution or distribution services and no consideration including any commission or referral fees is received directly or indirectly at group level for the said services. Client shall not be under any obligation to avail the execution/distribution or other services offered through any entity as recommended by NARNOLIA and no consideration is received for the same. There is no pending regulatory matter against NARNOLIA as on date.

No disciplinary action has been taken against the Company by any regulatory/statutory authority.

No complaint has been lodged by any client relating to our Investment Advisory Services.

Conflict of interest

Narnolia Financial Services Ltd., a company registered under the Companies Act, 1956, is a SEBI registered intermediary and offers services as Merchant Banker, Portfolio Manager, Research Analyst and also AMFI registered Mutual Fund distributor and is one of the affiliates/Associate Company of NARNOLIA. However, appropriate Chinese walls is maintained as required under SEBI Investment Advisor Regulation.

NARNOLIA FINANCIAL SERVICES LTD. is a SEBI REGISTERED PMS- INP000006420, CIN- U51909WB1995PLC072876. Registered office: Marble Arch, 2nd Floor, Office 201, 236B, A J C Bose Road, Kolkata 700 020,033 40501500; Corporate Office: 803, A wing, Kanakia Wall Street, Chakala, Andheri East, Mumbai - 400093, Maharashtra; PHONE NO.: +91 22 6270 1200.

Disclaimer: This report has been prepared by Narnolia Financial Services Ltd. (NFSL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/ its own advisors to determine the merits and risks of such an investment. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Investment in Securities Market is subject to Market risks, read all the related documents carefully before investing. Past performance may not be indicative of future results and no promise or guarantee can be given for the same. Performance related information is not verified by SEBI. For detailed disclosures & disclaimers please refer to our website at www.narnolia.com. For grievances kindly mail us at ig@narnolia.com or call us at 022-6270 1200