RIGHT HORIZONS PMS REPORT

MARKET Flash Note

-Feb ‘22

Dear Investors,

The last couple of months have been volatile for the markets on account of correction in some of the recently listed IPOs with no defined path to profitability, weaker breadth of earnings in the third quarter by India Inc, apprehension on account of rising inflation, expectation of sharper rate hike by the Fed and most recently being uncertainty around geopolitical turmoil concerning Russia’s annexation of Ukraine. Situations are aggravated by continuous FII outflows to the tune of more than 50,000 Cr in less than two months. The current market situation can be best described as the inverse of the Goldilocks scenario as highlighted by rising commodity pressure, weaker margins, and negative global cues, leading to extreme pessimism on the street, but if history is to go by, such situations of geopolitics/ wars have had a mild short-term impact on the stock markets. We have presented similar anecdotes from the past to understand the influence of such factors on the markets:

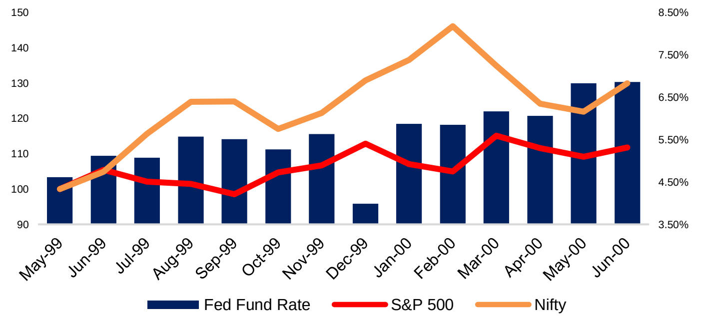
Fed Rate Hikes

The study of Federal Fund rates data from 1995 to 2022 has indicated the Federal Reserve hiked interest rates over three instances of varied duration & diverse proportions. Comparison of the Equity indices, S&P 500 & Nifty 50 over the time frame reveals both the indices have advanced.

Rate Hikes & Indices Performance for periods in comparison

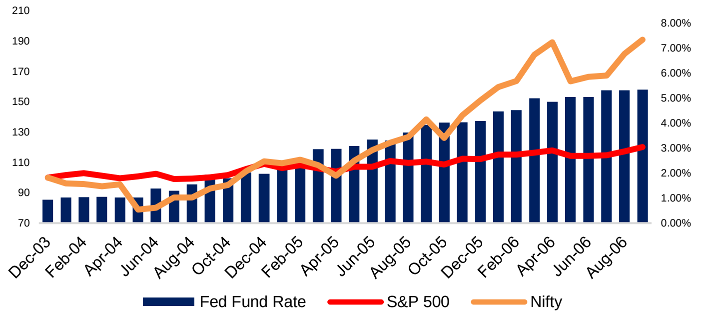
Rate Hike Cycle-1

From May 1999 to June 2000, the FOMC had hiked the interest rates by approximately three percent (2.9%), over this course the S&P 500 & Nifty 50 advanced twelve percent and thirty percent respectively.



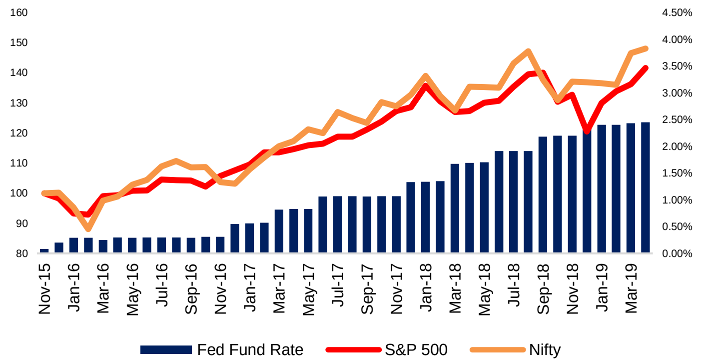
Rate Hike Cycle-2

From Dec 2003 to Sep 2006, the fund rate was hiked by an approximate four percent (4.4%). The S&P 500 & Nifty 50 soared twenty percent and ninety-one percent respectively.



Rate Hike Cycle-3

From Nov 2015 to Jan 2019, S&P 500 and Nifty 50 rallied forty-two and forty-eight percent respectively as the federal fund rate was hiked two percent (2.4%).



Source: Ace Equity, Macro Trends, Moneycontrol…

FII Outflows

The rising interest rate environment has made Emerging markets a risk-off trade and thus has seen serious outflows by FIIs for most of FY22. However, FII's buying, and selling is not a long-term determinant of market movements.

The distinctive scenario as against the past rate hikes by the Fed and the event of flight of safety, RBI now has ample forex reserves (USD 630 bn) to support the Indian Currency if it depreciates significantly.

FIIs outflows, have a short-term impact on the domestic equity markets but history reveals that in the subsequent year following the sell offs, markets have performed reasonably well.

Period	FII Flow (USD bn)	Nifty Return	Nifty subsequent 1 Year Return
May’08 - Feb’09	-11.0	-43.3 %	78.1 %
Jun’13 - Aug’13	-3.7	-6.3 %	45.4 %
Oct’16 - Jan’17	-4.6	-0.7 %	28.8 %
Apr’18 - Oct’18	-7.9	-3.3 %	14.4 %
Oct’21 - Jan’22	-8.8	-1.9 %	NA

Source: Ace Equity, Moneycontrol…

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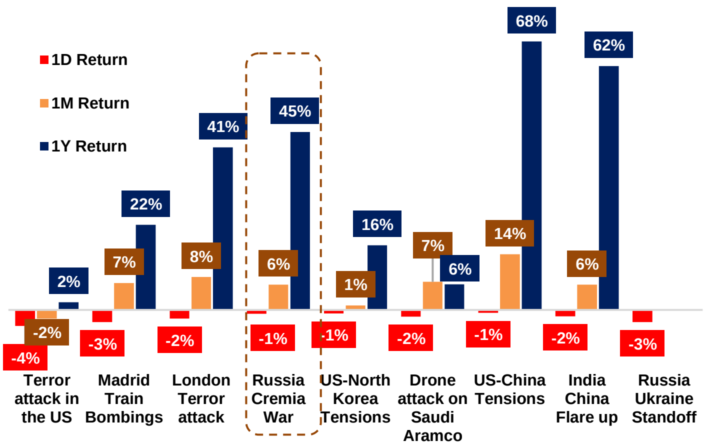
Geopolitical Tensions

Tensions rising between the U.S. and Russia over the conflict of Russia and Ukraine have undoubtedly impacted the equity markets. The S&P 500 is eleven percent off its high and the Nifty 50 is eight percent off its highs.

A study on some of the significant geopolitical crisis since 2000 helps answer whether investors should minimize their exposure to equities and harbor safer investments. On average, post geopolitical shocks Nifty 50 has been higher 1 Year post the impact of the event, stocks were higher only after a month, eighty-eight percent of the time. While there is a downside risk in short term from conflicts getting out of the market may have significant opportunity costs considering stocks sometimes jump abruptly after a crisis.

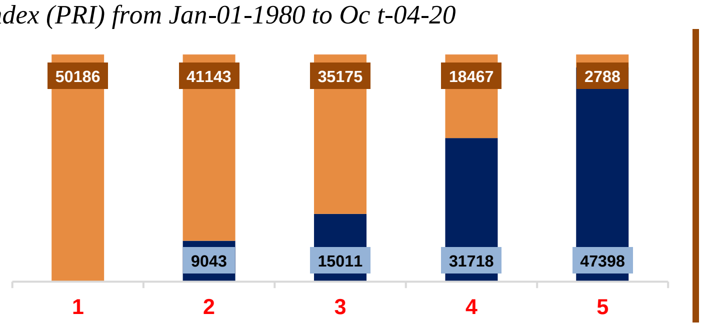
Summary of Nifty 50 performance after major Geopolitical events



Source: Ace Equity, Economic Times, …

History suggests that markets rewards investors in the long run

Hypothetical growth of Rs 100 invested in the S&P BSE Sensex index (PRI) from Jan-01-1980 to Oc t-04-20



1- If invested all the days
2- Missed the best 5 days
3- Missed the best 10 days
4- Missed the best 30 days
5- Missed the best 50 days

■ Missing Growth

Note: Best days" were identified by ranking the one-day returns (indexed) for the BSE Sensex index within this time and ranking them from highest to lowest. (Figures in Rupees)

Nifty: Major corrections & subsequent rallies since 2000

Correction From	To	Correction period	Correction (%)	Subsequent Base formation	Subsequent 1-year return	Subsequent 2-year return
Jan'20	Mar'20	3 Months	31	1 Week	79 %	
Mar'15	Feb'16	12 Months	25	2 Weeks	30 %	54 %
Nov'10	Dec'11	14 Months	29	2 Weeks	30 %	39 %
Jan'08	Oct'08	10 Months	65	5 Months	109 %	167 %
May'06	Jul'06	2 Months	31	6 Weeks	66 %	56 %
Jan'04	May'04	5 Months	36	7 Weeks	62 %	138 %
Feb'00	Sep'01	20 Months	53	21 Months	13 %	67 %
				Average	***56%***	***87%***

Outlook

In summary, investors have been anticipating rate hikes by the FOMC since 2021 and the current valuations have priced in a fifty basis-points rate hike till Q2CY22. We are of the expectation that market will not react adversely unless the hikes are disproportionately higher compared to expectations.

The declines in equities associated with geopolitical fears have generally been a temporary setback and history indicates advancing of stocks increases as time passes.

We anticipate additional volatility in the intermediate term on the backset of uncertainties surrounding the macro environment, global events, and upcoming state elections, thereby advocating investors to be prepared to do a STP or fresh allocation to stocks with strong fundamentals and superior growth prospect as the prices of stocks are reflective of the earnings growth in the long term.