

Insights Unwrapped

Navigating the 10% Correction: Our Perspective



16th November 2024

The key question: Where is the market headed with the Nifty nearing a 10% correction from its all-time high?

The global landscape is riddled with uncertainties, leaving armchair investors speculating wildly about everything- from the potential implications of Trump 2.0 and escalating trade wars to PBOC stimulus measures, U.S. bond yields, Federal Reserve policies, Musk's DOGE plan, geopolitical tensions, and the Maharashtra assembly elections.

While historical patterns offer some insight, the saying "History doesn't repeat itself, but it often rhymes" serves as a reminder to tread carefully. Attention should focus on policies and global reactions once Trump takes office in January 2025, as these will significantly impact market dynamics.

Studying Historical Data

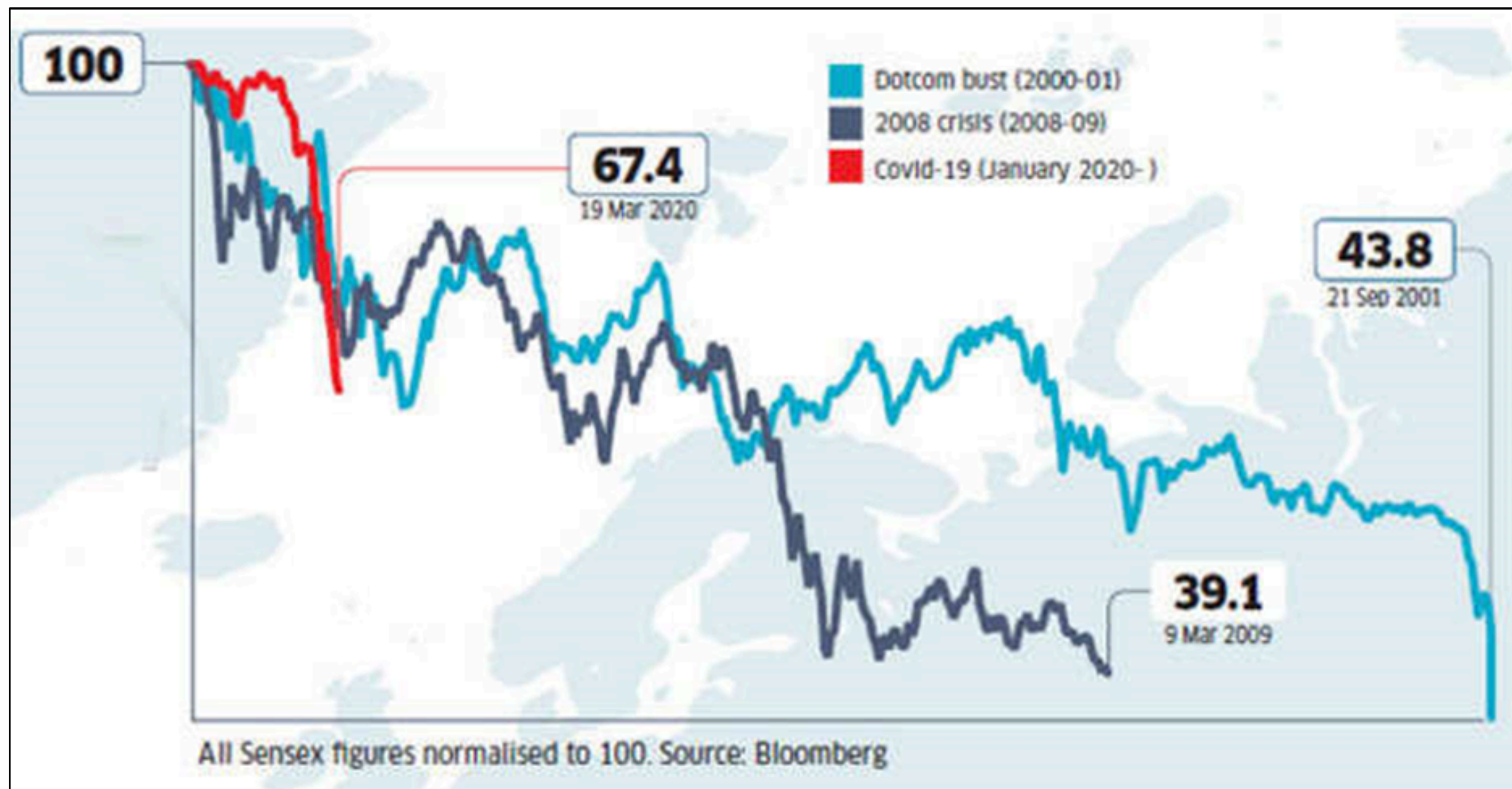
The Indian stock market, represented by the Nifty index, has experienced significant corrections in the past due to event-driven triggers or high valuations.

This analysis looks at historical patterns in Nifty's valuations using metrics like Price-to-Earnings (P/E), Price-to-Book Value (P/BV), and Dividend Yield ratios, including their deviations from median values.

By examining data from the past decade, we identify trends in Nifty's behavior following a 10% correction from its all-time high or when valuations exceed average levels. Our analysis of P/E and P/BV data highlights key corrections and their potential outcomes.

Historical Data-Event driven Corrections

Over the past 24 years, there have been three significant event-driven corrections in the Indian stock market

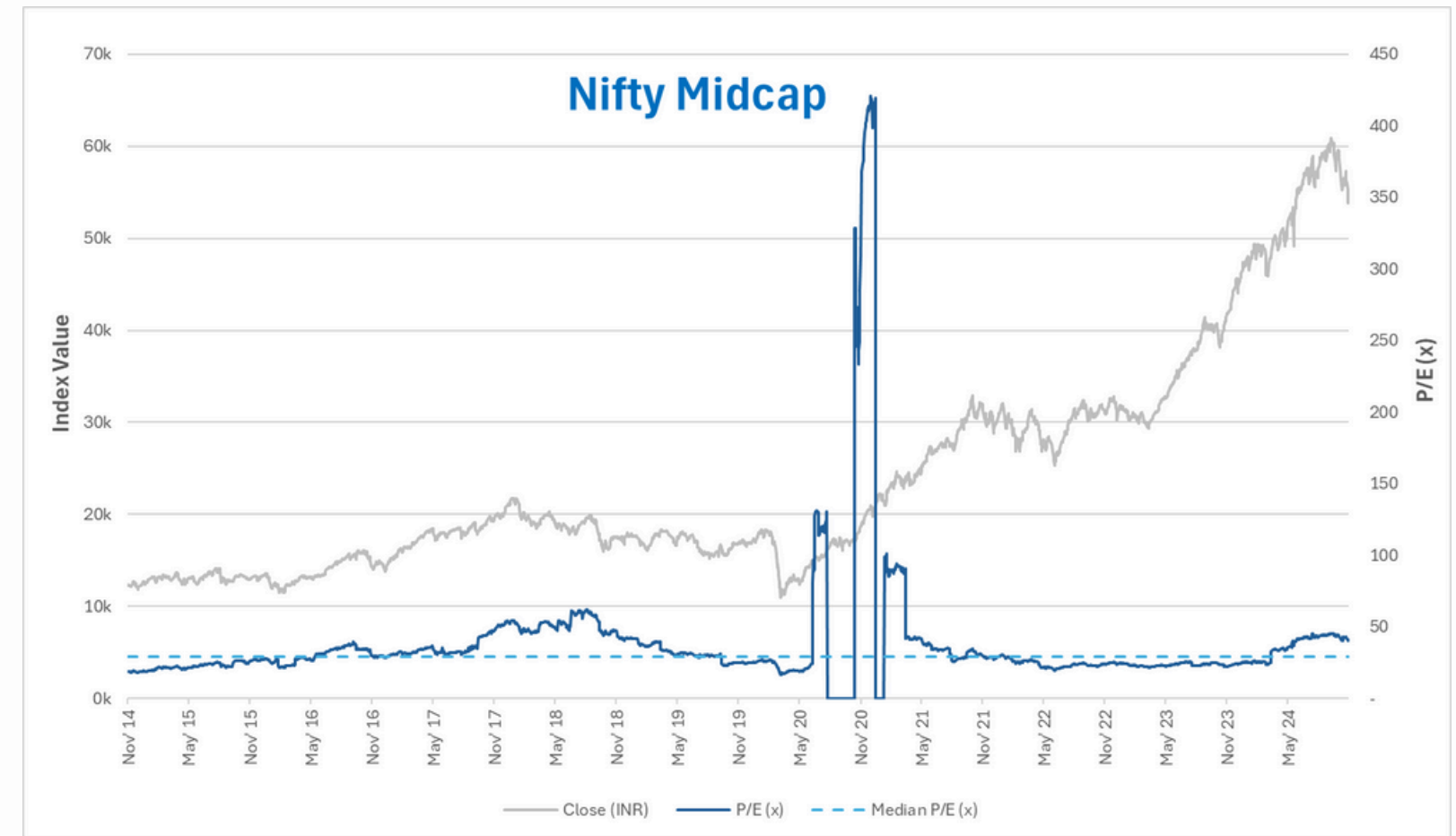
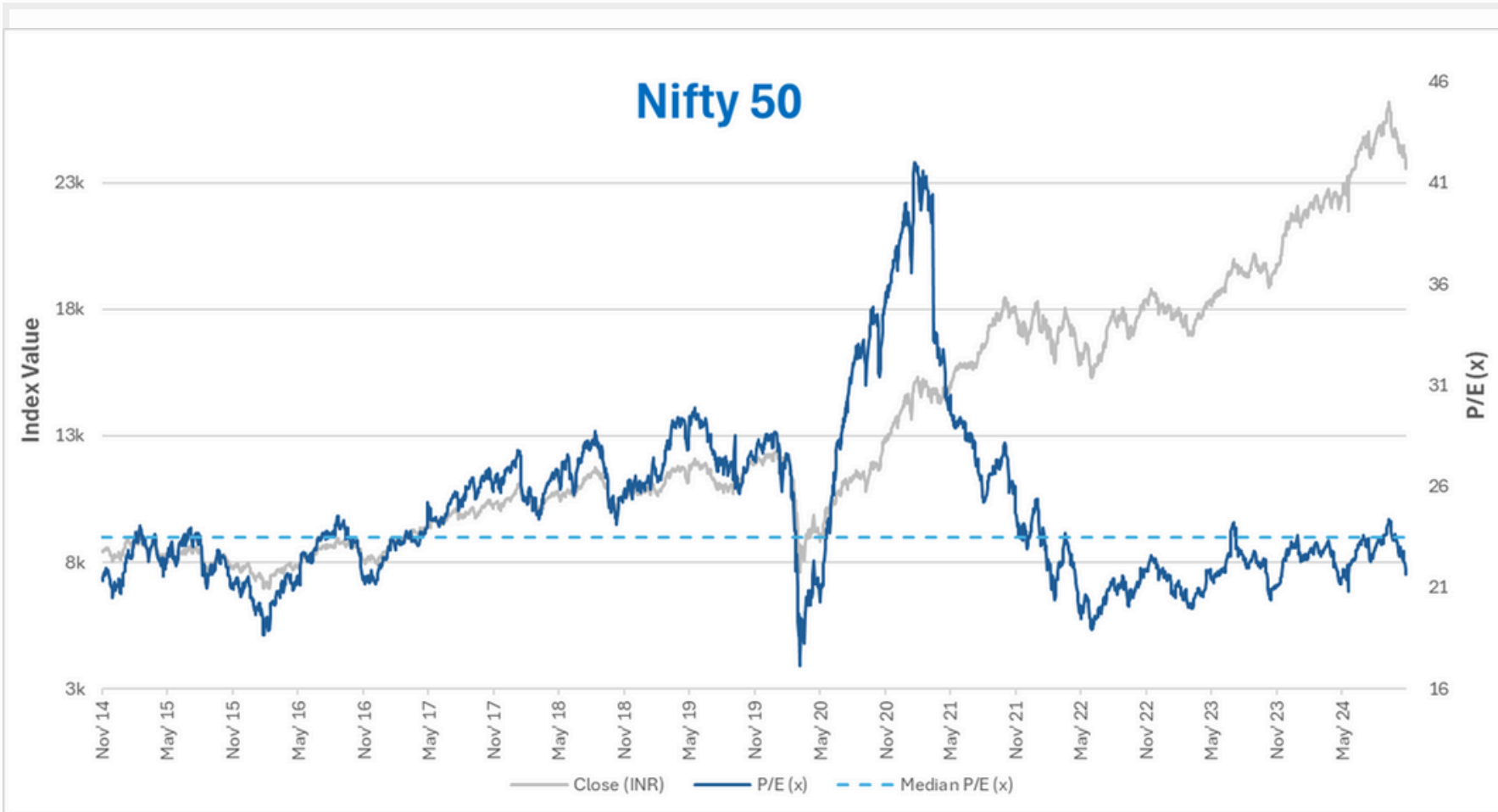


Source: Economic Times

- **March 2000:** The Dotcom Bubble led to a maximum drawdown of 56% from the all-time high (ATH). The correction lasted until September 2001.
- **January 2008:** The Global Financial Crisis resulted in a drawdown of 59% from the ATH, with the correction concluding in October 2008.
- **February 2020:** The COVID-19 pandemic triggered a drawdown of 38% from the peak, with the correction resolving rapidly within a month, by March 2020.

Source: BSE

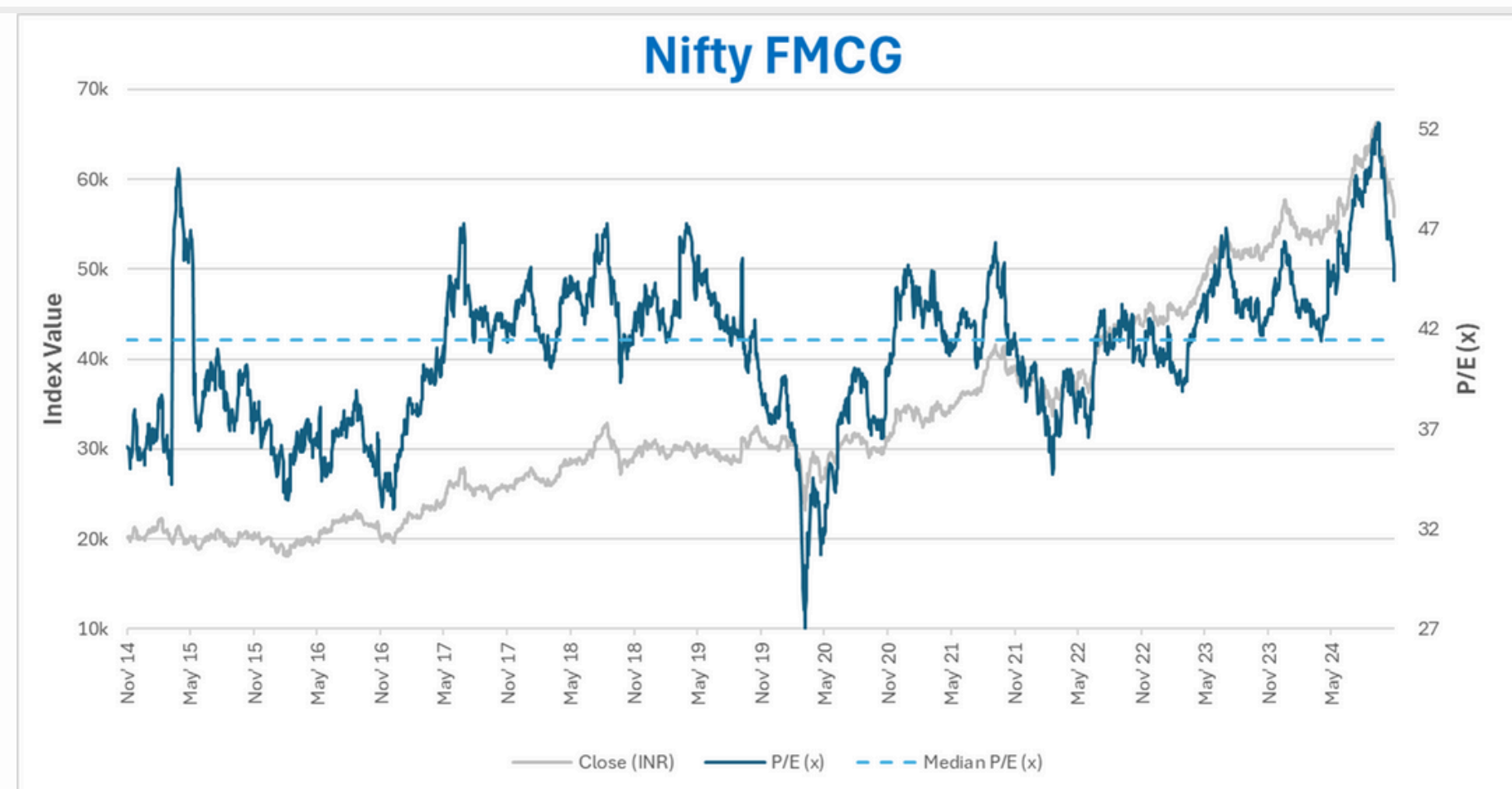
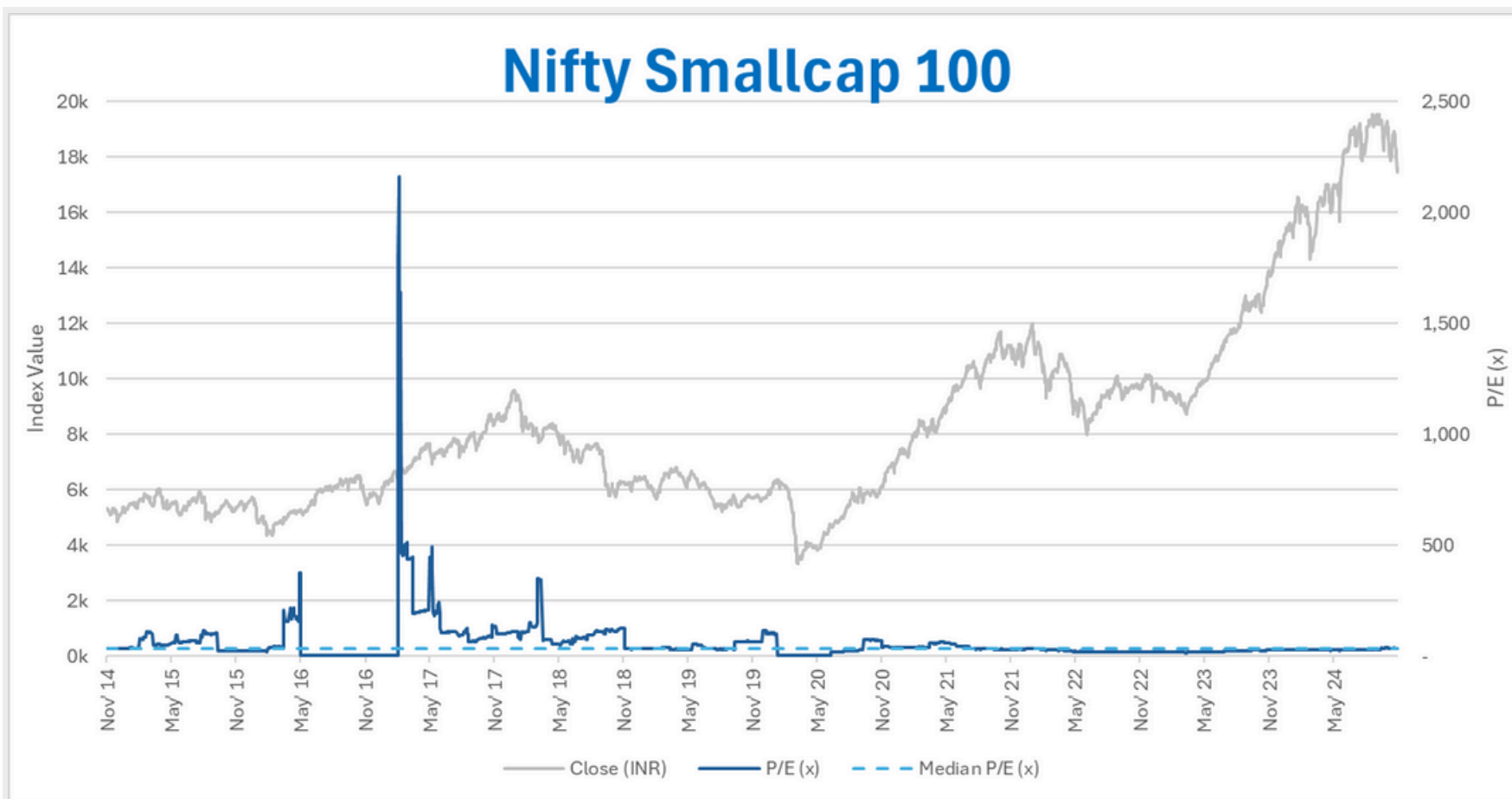
Historical Data: Nifty 50, Midcap 100



NIFTY 50	10-Yr P/E (x)	10-Yr P/B (x)	10-Yr Div yield (%)
MAX	42.0	4.9	2.0
MIN	17.2	2.2	0.9
Average	24.8	3.7	1.3
Current	21.7	3.5	1.4
(Discount)/Premium	-12.8%	-4.7%	-0.1

NIFTY MIDCAP 100	10-Yr P/E (x)	10-Yr P/B (x)	10-Yr Div yield (%)
MAX	420.6	5.6	2.2
MIN	16.4	1.6	0.6
Average	39.4	2.9	1.2
Current	40.1	4.9	0.8
(Discount)/Premium	1.9%	72.7%	0.4

Historical Data-Nifty Smallcap, FMCG



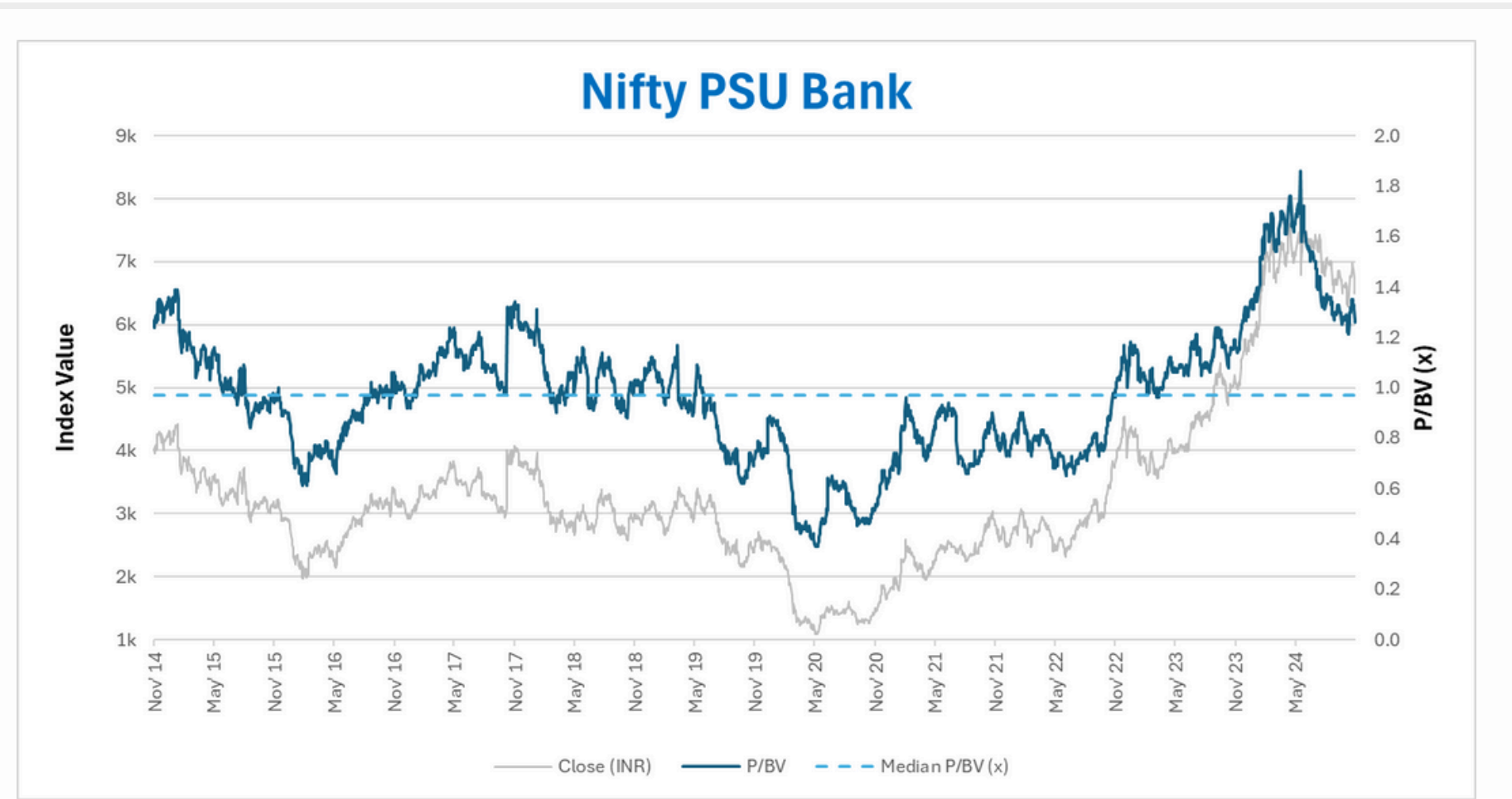
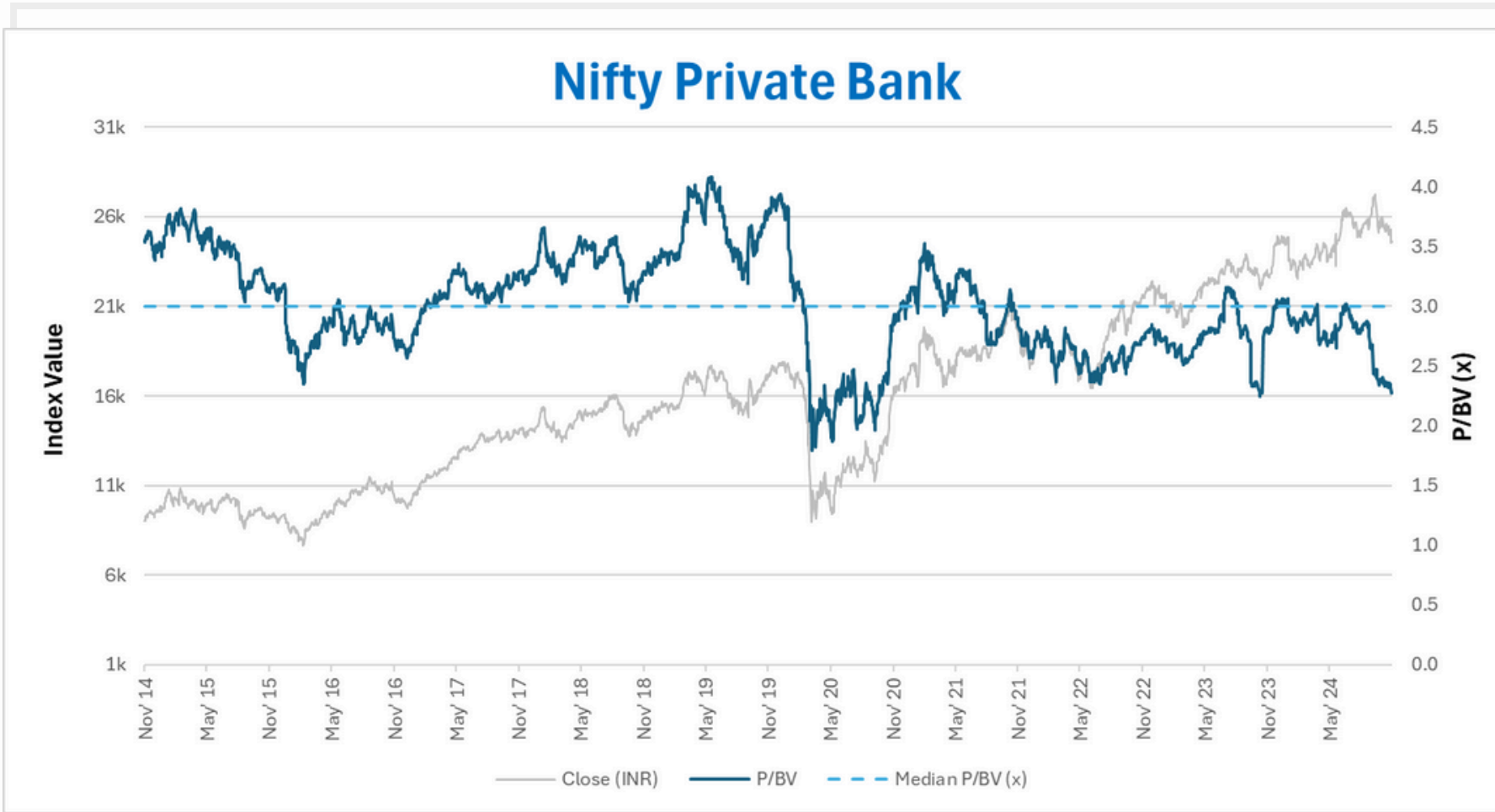
* P/E data not available for May'16-Feb'17; Jan'20-June'20

NIFTY SMALLCAP 100	10-Yr P/E (x)	10-Yr P/B (x)	10-Yr Div yield (%)
MAX	2,162.2	4.8	2.1
MIN	15.0	0.8	0.5
Average	62.0	2.4	1.1
Current	33.3	4.0	1.0
(Discount)/Premium	-46.3%	66.6%	0.1

NIFTY FMCG	10-Yr P/E (x)	10-Yr P/B (x)	10-Yr Div yield (%)
MAX	52.4	15.0	3.7
MIN	27.0	7.9	1.0
Average	40.9	11.2	1.6
Current	44.4	10.9	1.9
(Discount)/Premium	8.6%	-3.1%	-0.3

Source: NSE

Historical Data-Private Banks, PSU Banks



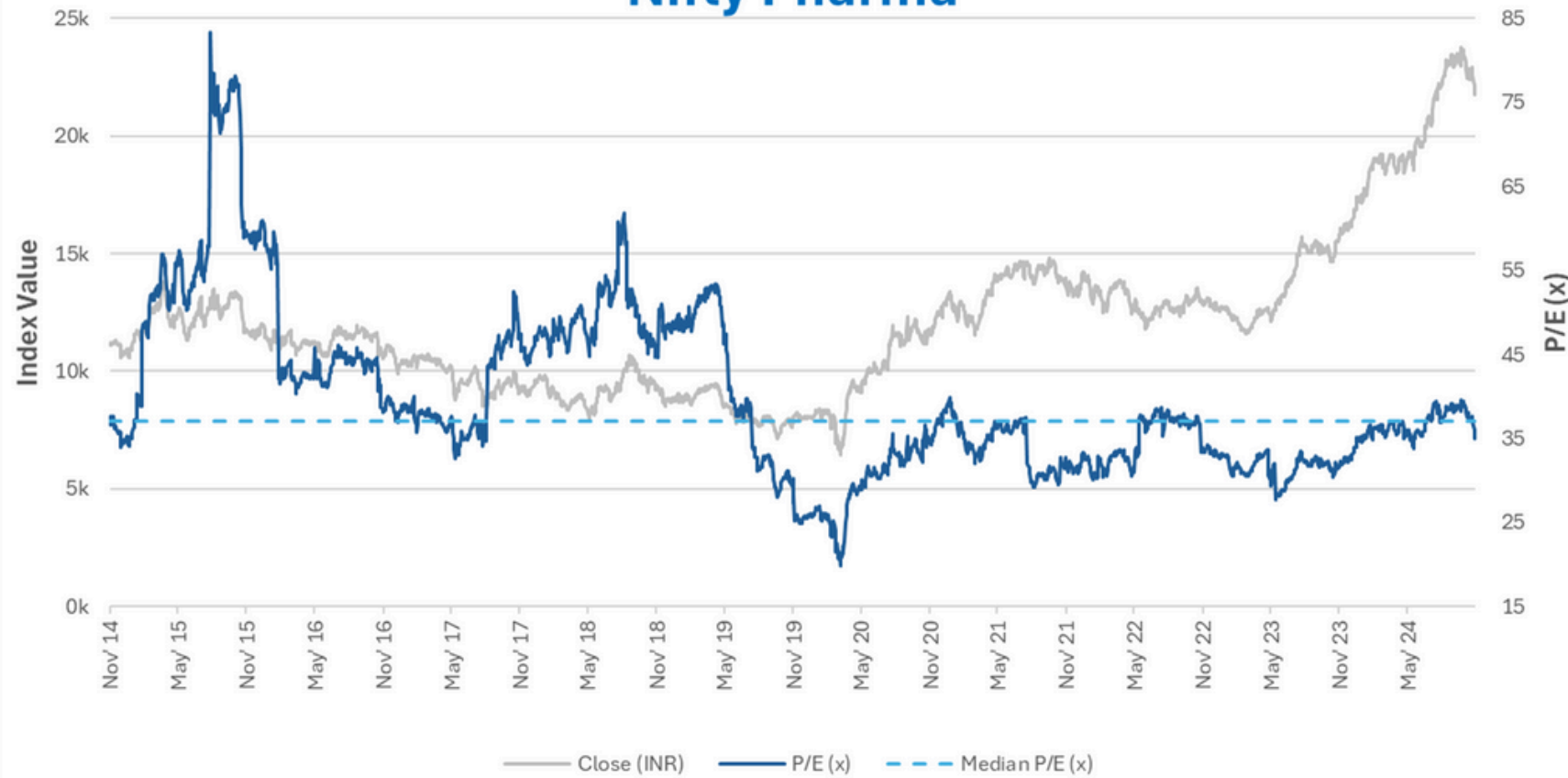
NIFTY PRIVATE BANK	10-Yr P/E (x)	10-Yr P/B (x)	10-Yr Div yield (%)
MAX	43.7	4.1	1.6
MIN	14.4	1.8	0.1
Average	25.2	3.0	0.6
Current	14.7	2.3	0.6
(Discount)/Premium	-41.6%	-24.4%	0.0

NIFTY PSU BANK	10-Yr P/E (x)	10-Yr P/B (x)	10-Yr Div yield (%)
MAX	256.8	1.9	2.9
MIN	6.7	0.4	0.0
Average	21.2	1.0	1.1
Current	7.4	1.3	2.3
(Discount)/Premium	-65.3%	29.9%	-1.2

Source: NSE

Historical Data-Pharma, IT

Nifty Pharma



Nifty IT



NIFTY PHARMA	10-Yr P/E (x)	10-Yr P/B (x)	10-Yr Div yield (%)
MAX	83.3	9.6	1.2
MIN	19.9	2.5	0.4
Average	39.8	5.0	0.6
Current	35.0	5.3	0.6
(Discount)/Premium	-12.1%	5.5%	0.0

NIFTY IT	10-Yr P/E	10-Yr P/B	10-Yr Div yield
MAX	39.6	12.1	3.0
MIN	14.5	3.6	1.1
Average	23.9	6.6	2.0
Current	33.6	8.7	1.9
(Discount)/Premium	40.3%	31.5%	0.1

Source: NSE

Our Opinion Based on Historical Facts

(Discount)/Premium to 10-Yr Average Valuations					
Indices	Valuation Parameter	10-Yr P/E (x)	10-Yr P/B (x)	10-Yr Div	Comments
				yield (bps)	
Nifty 50	P/E	-12.8%	-4.7%	-0.1	Trades at discount to its median average
Nifty Midcap 100	P/E	1.9%	72.7%	0.4	
NIFTY Small Cap 100 *	P/E	-46.3%	66.6%	0.1	Discounts to 10-Yr average, but at 13% premium to average median since June'2020. Hence, selective
Nifty FMCG	P/E	8.6%	-3.1%	-0.3	
Nifty Private Banks	P/BV	-41.6%	-24.4%	0.0	Trades at discount to its median average P/BV
Nifty PSU Banks	P/BV	-65.3%	29.9%	-1.2	
Nifty Pharma	P/E	-12.1%	5.5%	0.0	Trades at discount to its median average
Nifty IT	P/E	40.3%	31.5%	0.1	
* The average P/E of the Small Cap Index over the past 10 years has been skewed by anomalous valuations observed in 2017					
A negative sign in P/E (for non-banks) and P/BV (for banks) indicates that current valuations are at a discount compared to historical averages.					

As the Nifty nears a 10% correction, we are closely observing for signs of stabilization or a deeper downtrend. Such corrections are often pivotal in market cycles, typically resolving quickly within long-term uptrends. However, in instances like 2000, 2008, and 2020, external shocks triggered deeper corrections of 30-40%, marking significant trend shifts.

We believe that this period (Sept-Nov 2024) is primarily a mean reversion and do not foresee a correction of a larger magnitude unless extraordinary events occur in the next few weeks.

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