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Bull Market Correction or Change in Course?

What's the Point?

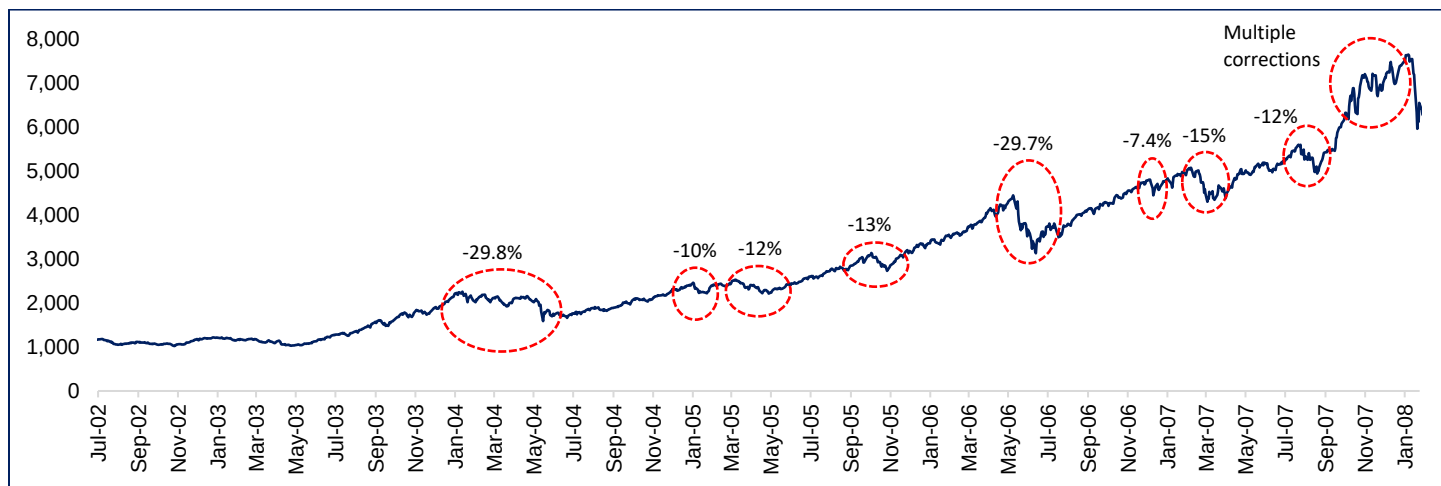
Indian Markets have seen significant turbulence in October, with NIFTY 50 Index (TRI) down 7.7% from the recent high of September 26, 2024. This has been attributed to a host of factors at the market level – 1. FPI selling (₹1 lakh crore till 25th October), 2. Large IPOs / FPOs taking away liquidity, 3. Some disappointment in corporate earnings, 4. Reported slowdown in consumption (especially urban), apart from various company specific factors. This feels in contrast to the market trajectory in the past 4 years, which have seen healthy gains for investors. We are therefore compelled to ask – ***Is it a Bull Market Correction or Change in course?*** With earnings projected to grow at ~11.5% between FY24-26 for NIFTY Index, corporate leverage being low at 0.7x Debt / Equity, strong macroeconomic growth, long term fundamentals appear well placed. Slowdown in urban consumption could reverse in the festive season, or as government spending potentially reverses during the second half of the year. These need to be watched out for.

Bull Market Corrections are a feature

Bull Market corrections have been a feature within Indian and Global markets. A study of the previous Indian Bull Market of 2003-07 reveals 12 episodes of corrections of more than -5% from the recent high to as much as -30%. These lasted a range of 6-124 days, and took an average of 50 days to recover (Range: 2 to 197 days).

If one considers the current environment as that of a bull market since the COVID-19 related crash of 2020, this is the 7th such correction of more than -5%. The largest (and only one of >10%) such has been of ~16%, ending in June 2022. This phase was impacted by a similar combination of FPI outflows and geopolitical uncertainties.

Past in Perspective – Bull Market corrections are frequent



Source: Bloomberg, I-Sec Research.

Potential Reasons for Volatility – Selling by FPIs, Earnings Releases, and Some Weakness in Consumption

- **FPIs have sold ₹1 lakh crore in October in secondary markets:**
 - As covered in our note [last week](#), FPIs have been net sellers in the recent past. With China announcing a stimulus package and India being at relative premium to China and other Emerging Markets, India's outflows are meaningful. While this has led to pressure on prices, inflows from DIIs have acted as a countering force, having invested almost an equal ₹97,000 crores in the same period.
 - Past instances of large corrections due to significant FPI selling saw higher drawdowns, which have reduced in intensity in the recent instances with rising DII and domestic investor base. In all instances so far, such periods have followed by healthy 2 year gains in markets.

Past Instances of Strong FPI Outflows and Induced Market Drawdown

Start	End	Event	FPI Outflows (US\$ billion)	India Market Cap at start of outflows (US\$ trillion)	FPI Holding (US\$ bn)	FPI flows as a % of total Mkt Cap	FPI flows as % of FPI Holdings	Returns during Outflows	Returns after 2 years
Jan-08	Mar-09	Global Financial Crisis	-15	1.9	314	-0.8%	-4.9%	-58%	45%
Jun-13	Sep-13	Taper Tantrum	-4	1.2	219	-0.3%	-1.7%	-10%	21%
Apr-15	Feb-16	Banks' Asset Clean-up	-6	1.7	332	-0.3%	-1.7%	-20%	23%
Oct-16	Jan-17	Fed Hikes + Demonetization	-5	1.7	331	-0.3%	-1.6%	-3%	14%
Jan-18	Nov-18	NBFC Crisis	-8	2.4	442	-0.3%	-1.8%	-4%	8%
Jun-19	Sep-19	Economic Slowdown	-5	2.2	420	-0.2%	-1.2%	-10%	28%
Feb-20	May-20	Onset of COVID-19	-9	2.2	530	-0.4%	-1.6%	-24%	32%
Oct-21	Jun-22	Geopolitical Tensions, Rising Commodity Prices, Rising Inflation	-34	3.6	667	-0.9%	-5.1%	-15%	23%
Sep-24	Oct-24	China Stimulus, Geopolitical tensions	-13	5.0	929	-0.3%	-1.5%	-7%	?

Source: Bloomberg

- **Earnings Season has been relatively weak:** As per analyst commentary, corporate results in Q2FY25 so far have had a higher share of disappointments, leading to some cuts in earnings forecasts. Earnings growth in the quarter has been at 2.2% YoY for the NIFTY 50 companies, indicating lower growth than recent trends.
- **Slowdown reported in Consumption:** Urban consumption has seen some slowdown, as witnessed in corporate volume growth trends and management commentaries on analyst calls. As per Ministry of Finance monthly commentary, Volume growth in urban FMCG sales has moderated to 2.8% in Q1FY25 from 10.1% in Q1FY24. In contrast, rural demand growth was higher in the quarter, at 5.2% in Q1FY25 vs 4% in Q1FY24.

Indian Equities – Fundamentals remain strong, valuations could mean-revert

Our medium to long term positive outlook on Indian equities remains unchanged driven by the structurally robust domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies. India remains amongst the fastest growing major economies, and is expected to retain that position as per IMF forecasts. Near-term risks include escalation in geopolitical tensions, slowdown in government's reforms momentum, weakness in global growth, etc. While valuations are above average, they are not significantly above average in the large cap space. Some of the geopolitical unknowns have now moved to the known unknown territory, and are therefore possibly priced in already.

As highlighted by Head-Equities, Chirag Setalvad in our recent call titled "[Samvat 2081 – Way forward](#)", one should keep in mind that asset allocation drives a significant portion of our portfolio returns, and that staying invested for the long term is paramount. One can consider investing via a mix of lumpsum and SIP, and stay invested.

Sources: Bloomberg, Kotak Research, I-Sec Research, Ministry of Finance, International Monetary Fund (IMF) and other publicly available information

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