



HDFC securities

Click. Invest. Grow.

20
YEARS



Strategy Note

20-August-2020

Warning signs of equity markets globally topping out

- The minutes of the Federal Reserve's July meeting, released on Aug 19, showed the members cut their economic growth forecast for the remainder of 2020 and stressed the need for more fiscal aid in the wake of the coronavirus pandemic. The Fed minutes echoed earlier warnings by Fed Chair Jerome Powell about the significant downside risks to the economy which remains tethered to the pandemic's trajectory. The policy committee said that the swift rebound in employment seen in May and June had likely slowed and that additional "substantial improvement" in the labor market would hinge on a "broad and sustained" reopening of business activity. The Fed also ruled out for now more dovish monetary policy measures such as yield-curve control.
- China kept its benchmark lending rate for corporate and household loans steady for the fourth straight month at its August fixing on Aug 20.
- After struggling for 5 days from Aug 11, S&P 500 ultimately managed to reach an all time high on Aug 18, but did not continue on the upside on the next day. The CBOE VIX after making a recent closing low on Aug 17, seems to have turned up from Aug 19. This suggests that caution could be returning to the markets.
- Gold futures after making a record high on August 07 (\$2089/ounce) fell and made a lower high on Aug 18 (\$2024.6/ounce). It fell sharply later in a day to \$1930.50/ounce. Gold has been rising on the back of low interest rates and safe haven demand. Post the US Fed meeting minutes release, it seems that the Fed is done with the monetary easing process for now. Hence the interest rates could inch up from here across the globe. In such an event, the lure of equities and Gold could fall.
- US 10 Year Bond yields also made a low of 0.504% on August 06 and refused to go further lower. It recovered sharply to 0.727% on Aug 13.
- Apple touched market cap of \$2 trillion on Aug 19. This is above the GDP of quite a few nations and is also almost equal to the entire marketcap of Indian listed universe. This is the extreme example of polarization of markets where big become bigger at the cost of a lot of smaller players.
- US China tensions are rising with cancellation of US China trade talks, the US State Department asking colleges and universities to divest from Chinese holdings in their endowments, further tightening of restrictions on China's Huawei Technologies Co and fears of China retaliating in some form against China. While a lot of these can be part of election rhetoric, one does not know if and when the situation goes out of control.
- US Dollar index has been weakening since May 2020 before recovering mildly off late. Although there is no clear past correlation between dollar index and stock indices, the volatility in the index can create turmoil in a way that cannot be anticipated now.
- The pending US elections in November could also create uncertainty. Some people think that if there is a Democratic sweep in the November election, many of Trump's policies will be reversed and taxes will increase. Based on that analysis, they feel that stock market could fall about 20%. Joe Biden, the democratic candidate, has a lead over Donald Trump at this point. However in case liquidity continues to be aplenty, then markets could overcome any outcome of Presidential elections.
- The moot point is whether the central banks are inclined to keep the liquidity spigots open for ever even when the past infusion does not seem to have had the intended impact. **This is one key determinant for the stock market trajectory from here.** Going by the Fed minutes, it seems that the end of monetary easing seems near. Markets could turn down before that if there is sufficient consensus or anticipation about this happening.
- In India the Nifty P/E is at atleast a 10 year high while the ground level situation, the financial sector stress and macro situation leaves a lot to be desired.
- The idea behind this note is to caution against building fearless longs and advise taking some profit off the table. While the liquidity spigot may not be turned off immediately and this may result in the party in individual stocks continuing, the risk reward on broader markets does not seem too favourable.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from 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. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042
Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) | NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | IN-DP-372-2018 (CDSL, NSDL) | CDSL DP ID: 12086700 | NSDL DP ID: IN304279 | AMFI Reg No. ARN -13549 | PFRDA Reg. No - POP 11092018 | IRDA Corporate Agent Licence No.CA0062 | Research Analyst Reg. No. INH000002475 | Investment Adviser: INA000011538 | CIN-U67120MH2000PLC152193.