

Technical Strategy:

Structural uptrend intact, Nifty to scale 18600 in CY21

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Technical Outlook

Indian equities continued their record setting spree outpacing global peers, post the second Covid-19 wave. We reassess the broader technical setup to ascertain further direction for the rest of CY21.

What we expect

Indian equities are in the middle of a multi year secular bull cycle. We expect the Nifty to head towards 18600 by end of CY21 led by BFSI, IT & telecom, auto, capital goods, realty & infra. In the process, bouts of volatility should be used as incremental buying opportunity as we do not expect the Nifty to breach 16300. Our prognosis is backed by following technical parameters:

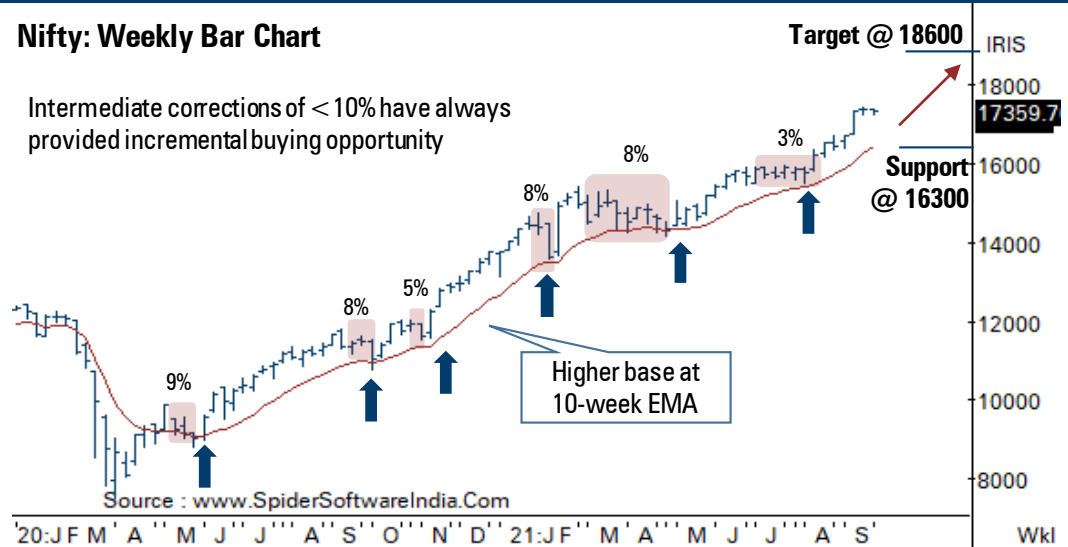
- The index followed a specific rhythm since April 2020 wherein the magnitude of each major rally has been around 33%, containing in-between corrective phases of 5-6%. The current rally since April 2021 lows of 14151, so far has gained 23%. We expect the market to maintain its rhythm of the past 15 months with the current up leg expected to mature around 18600 levels. Therefore, temporary spells of volatility of around 5% from here on would offer incremental buying opportunity
- Our bottom up statistical model based on relative strength rankings of the Nifty constituents, supports the target of 18600, thus coinciding with conventional chart work
- Relative performance ratio of Indian equities against S&P500 is on the cusp of breakout from 12-year long falling channel indicating multi year phase of relative outperformance ahead. Comparable breakout in CY04 led to relative outperformance during CY05-09
- Midcap and small cap indices are in the early stage of multi year bull market after reversing 2018-20 down cycle. Each of the major bull markets over two decades have generated average returns of 130% from breakout level. From 2020 breakout point, midcap and small cap indices have gained around 70%. Going by history, both indices are expected to gain another 30% from the current juncture over the next one year with intermediate corrective phases of 8-10%, which will offer incremental buying opportunity

Source: Bloomberg, ICICI Direct Research
September 16, 2021

Nifty (17519)

Nifty: Weekly Bar Chart

Intermediate corrections of < 10% have always provided incremental buying opportunity



Top Picks

Universe: Nifty500

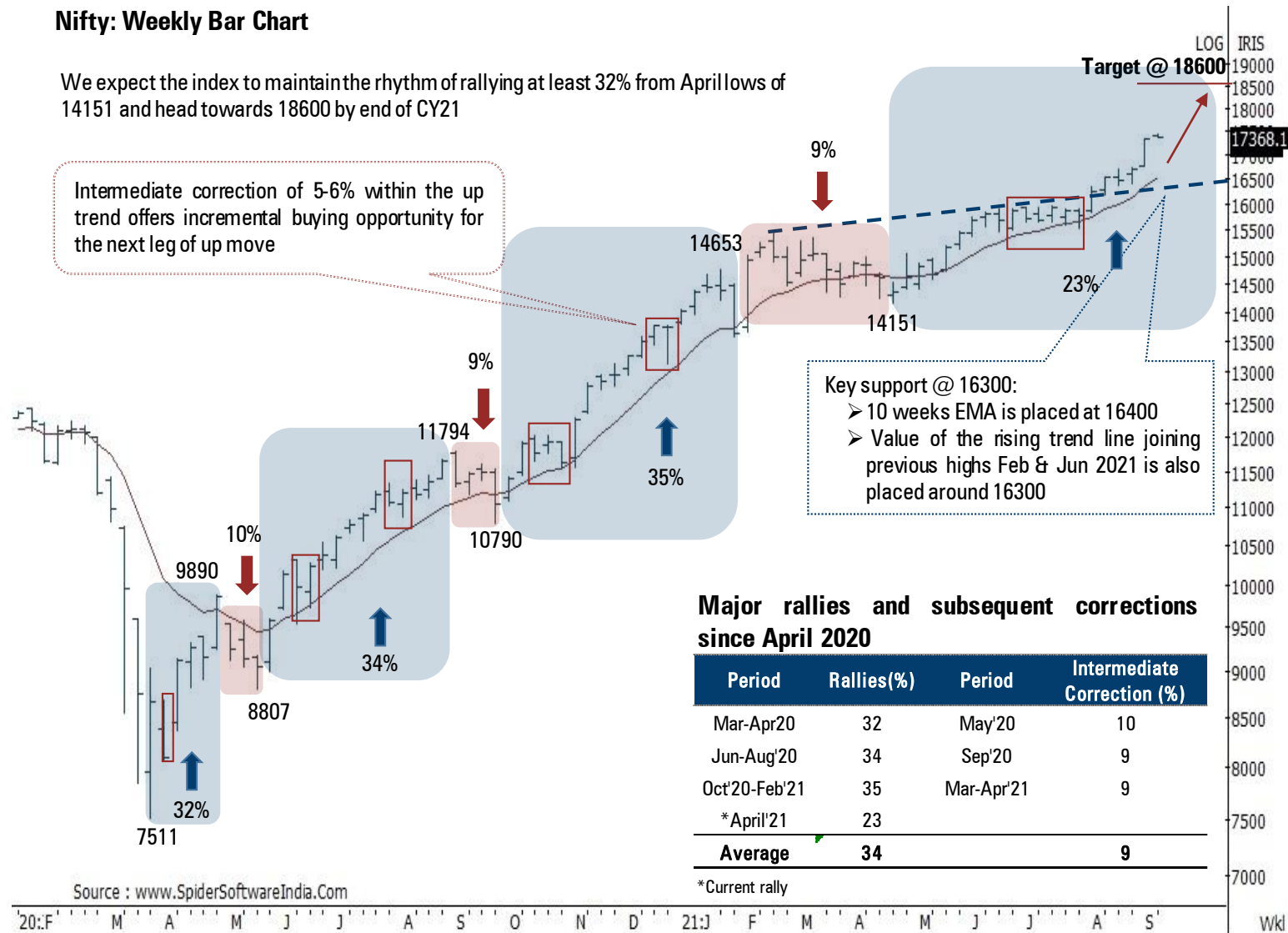
Sector	Top Ranked Stocks on Relative strength
BFSI	HDFC, Kotak Mahindra Bank, SBI, Canara Bank, Bajaj Finserv, M&M Finance
IT & Telecom	TCS, Tech Mahindra, Reliance Industries, Bharti Airtel, Mphasis, LTTS, Firstsource
Consumption	Asian Paints, Titan, Pidilite, Varun Beverages, Dixon Technologies, Havells, Trent
Auto	Tata Motors, Ashok Leyland, Escorts, Balakrishna Industries, Minda Industries
Capital goods	L&T, Siemens, HAL, BEL, Grindwell Norton
Metals	Tata Steel, Hindalco, SAIL, Tata Metaliks, Vardhaman Speciality Steel
Infra and Realty	Concor, KNR Consts, Orient Cement, DLF, Brigade Enterprises, Godrej Properties
Healthcare	Divis Laboratories, Cipla, Sun Pharma, Laurus Labs, Abbott India, Fortis Healthcare
Chemicals	Navin Fluorine, Deepak Nitrite, Tata Chemicals, PI Industries, Nocil
Others	Gujarat Gas, Butterfly, Interglobe Aviation, Balrampur Chini, Indocount Industries, Gateway Distriparks

Nifty to head towards 18600 in CY21

Nifty: Weekly Bar Chart

We expect the index to maintain the rhythm of rallying at least 32% from April lows of 14151 and head towards 18600 by end of CY21

Intermediate correction of 5-6% within the up trend offers incremental buying opportunity for the next leg of up move



Key support @ 16300:
 ➤ 10 weeks EMA is placed at 16400
 ➤ Value of the rising trend line joining previous highs Feb & Jun 2021 is also placed around 16300

Major rallies and subsequent corrections since April 2020

Period	Rallies(%)	Period	Intermediate Correction (%)
Mar-Apr20	32	May'20	10
Jun-Aug'20	34	Sep'20	9
Oct'20-Feb'21	35	Mar-Apr'21	9
*April'21	23		
Average	34		9

*Current rally

Source : www.SpiderSoftwareIndia.Com

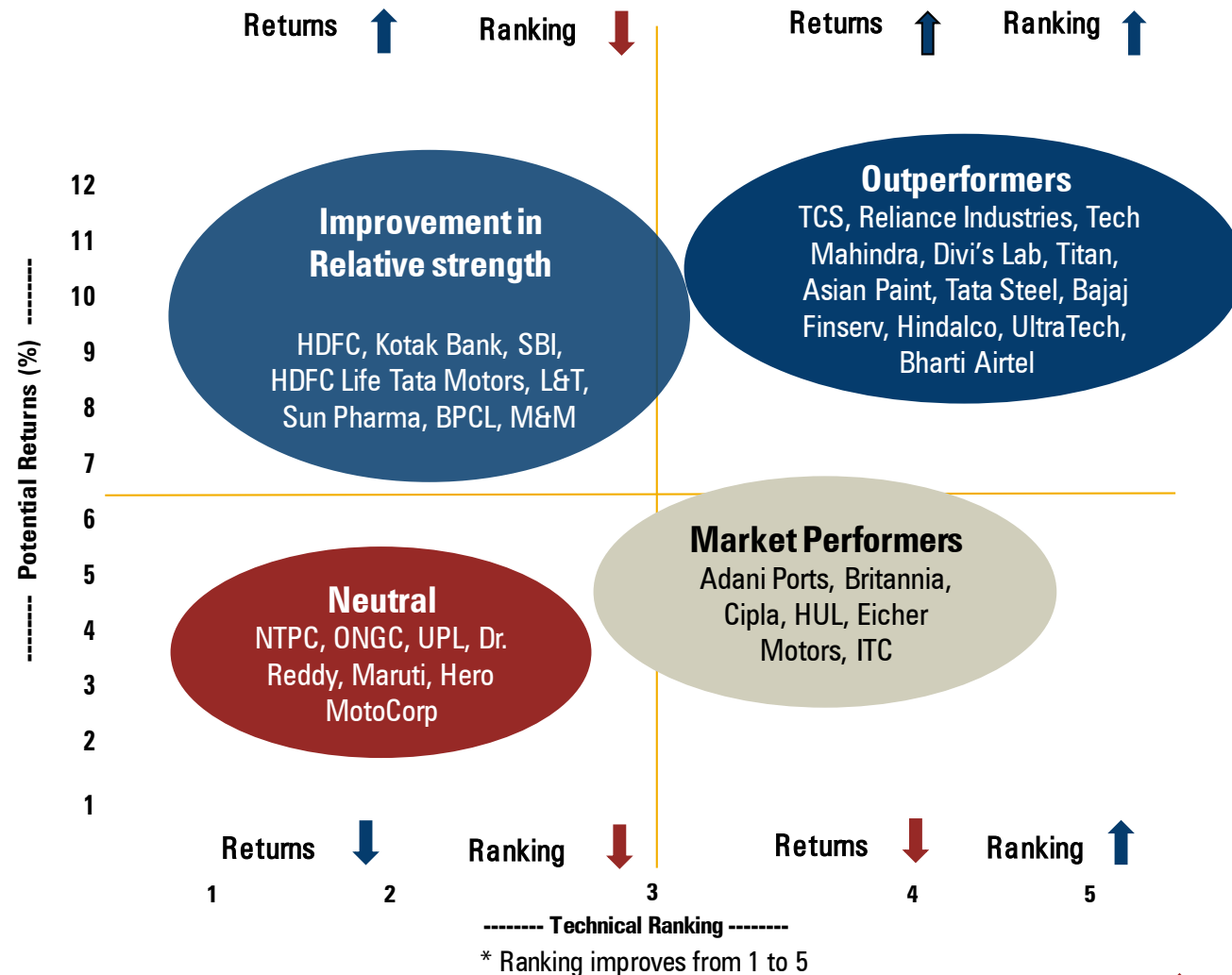
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- The index followed a specific rhythm since April 2020 wherein magnitude of each major rally has been at least 32%, containing in-between corrective phases of 5-6%. Current rally since April 2021 lows of 14151, so far has gained 23%. Based on rhythm of past 15 months, we expect current rally to mature towards 18600 by end of CY21
- As seen during the previous three instances, an intermediate correction (5-6%) towards 10 week average, would offer incremental buying opportunity



Constituents reinforce bullish stance based on Relative strength rankings

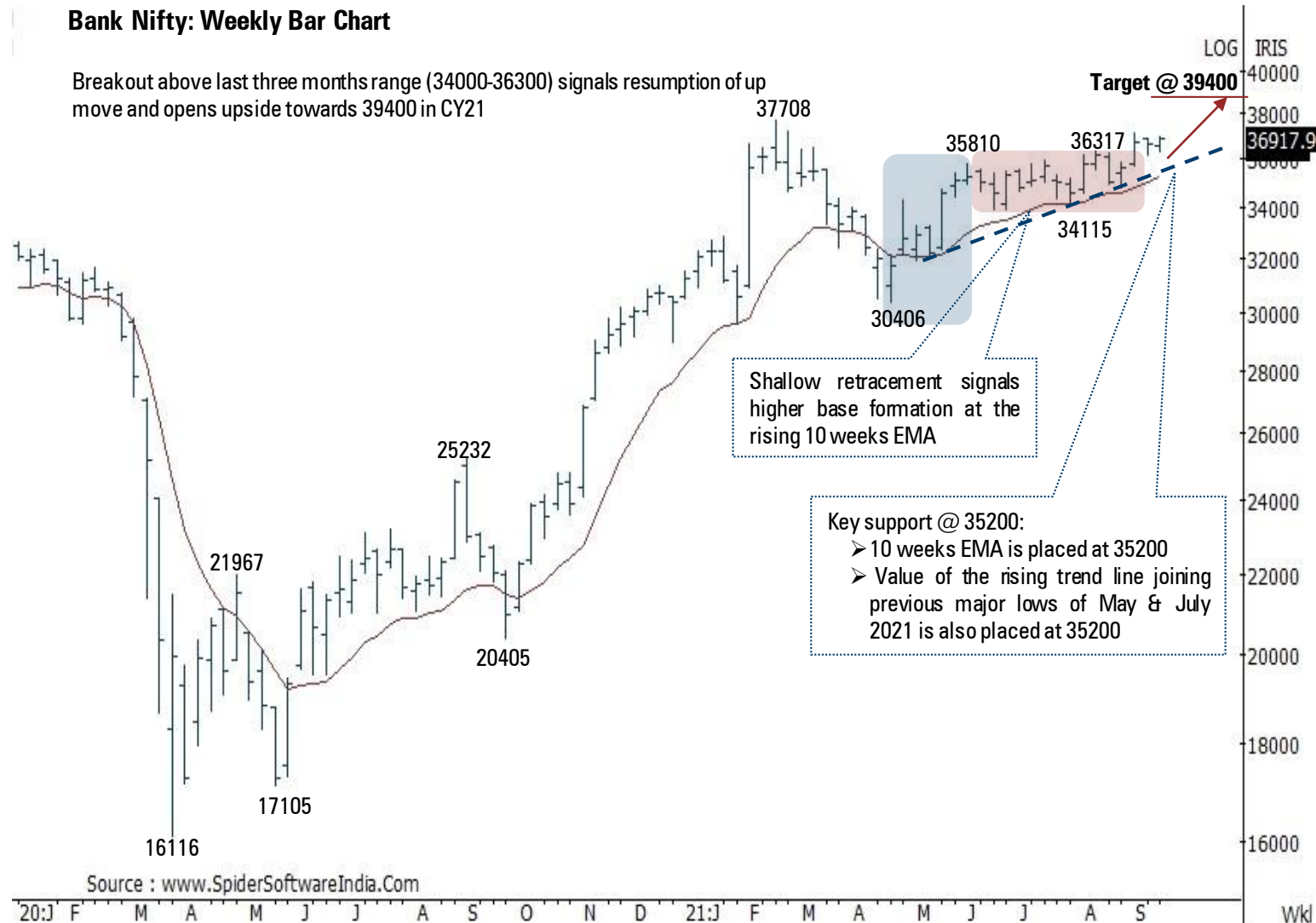
- Based on our in house relative strength ranking model, we have ranked and categorised the Nifty constituents into 4 buckets (a) Outperformers (b) Improvement in Relative Strength (c) Market Performers (d) Neutral
- The model helps in identifying outperforming sectors, stocks and ride them over the medium term while getting rid of underperformers. It also eliminates individual biases
- Stocks with highest ranks are expected to outperform benchmark
- At present, stocks in three baskets other than Neutral collectively contribute 88% of Nifty weightage supporting overall bullish undertone



Bank Nifty to head towards 39400 in CY21

Bank Nifty: Weekly Bar Chart

Breakout above last three months range (34000-36300) signals resumption of up move and opens upside towards 39400 in CY21

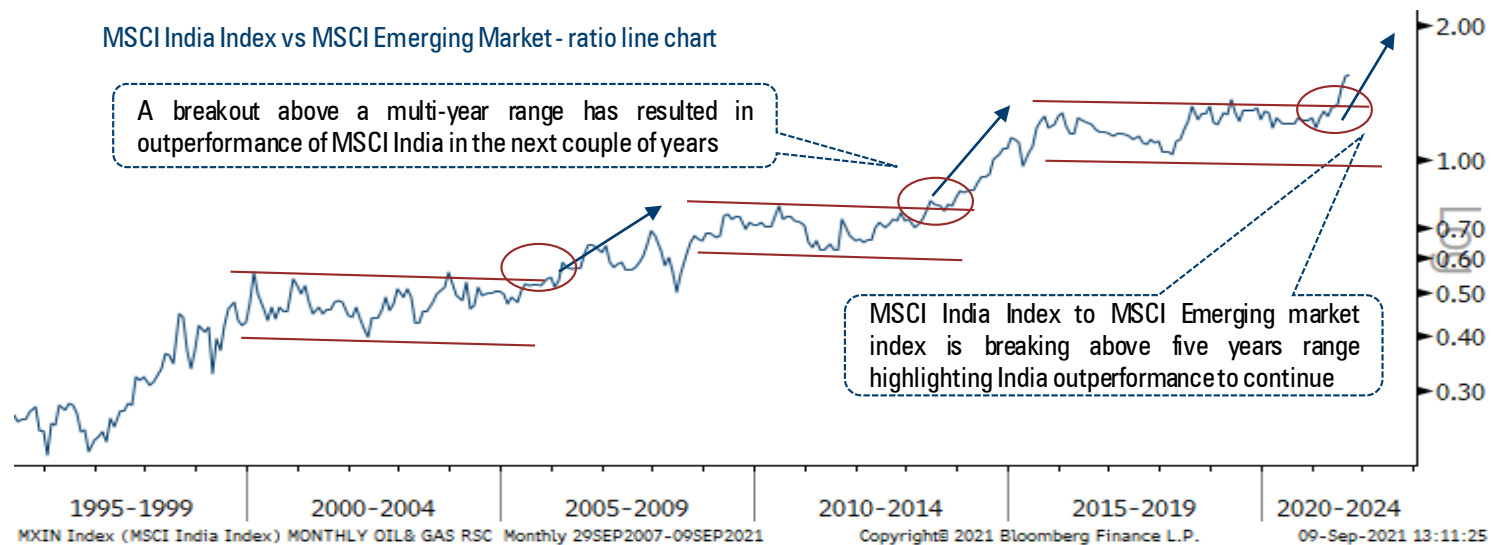
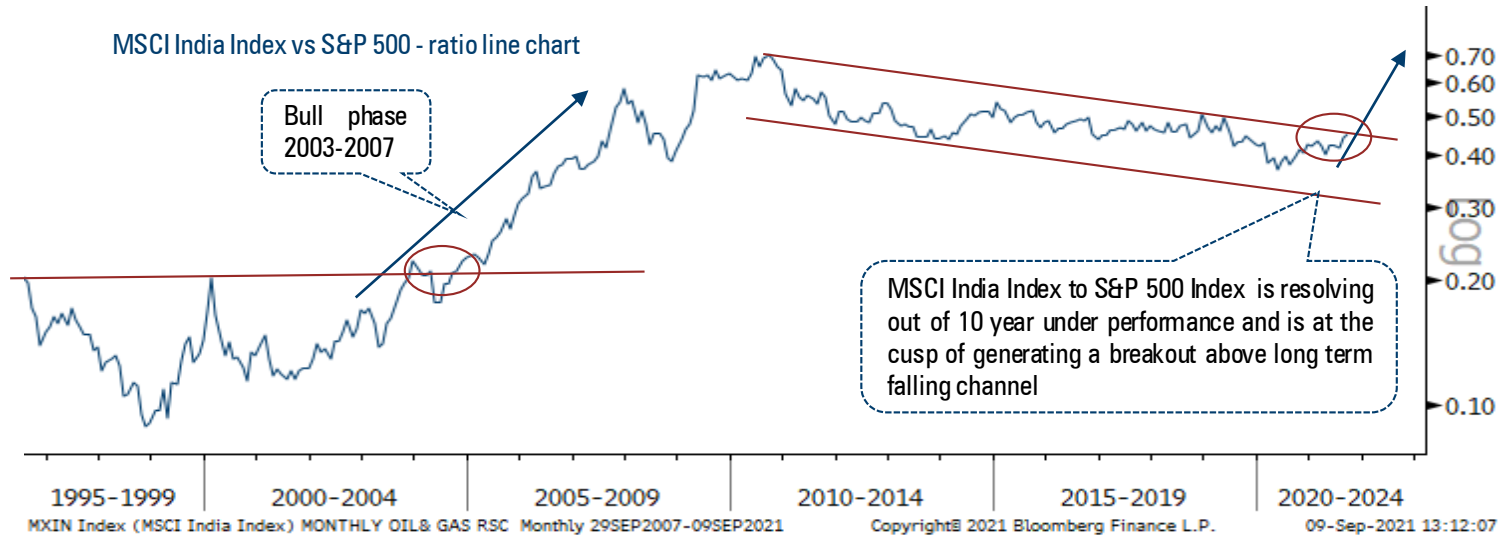


- The index has registered a breakout above last three months broad range (34000-36300) signalling resumption of up move
- Going ahead, we expect the index to accelerate its positive momentum and rally past its previous all-time high (37708) and head towards 39400 levels in CY21 as it is the 123.6% external retracement of the entire previous decline (37708-30406)
- Buying on declines strategy has worked well over past 15 months. Hence, any breather in the coming week would offer incremental buying opportunity in quality banking stocks



Indian equities to relatively outperform global peers

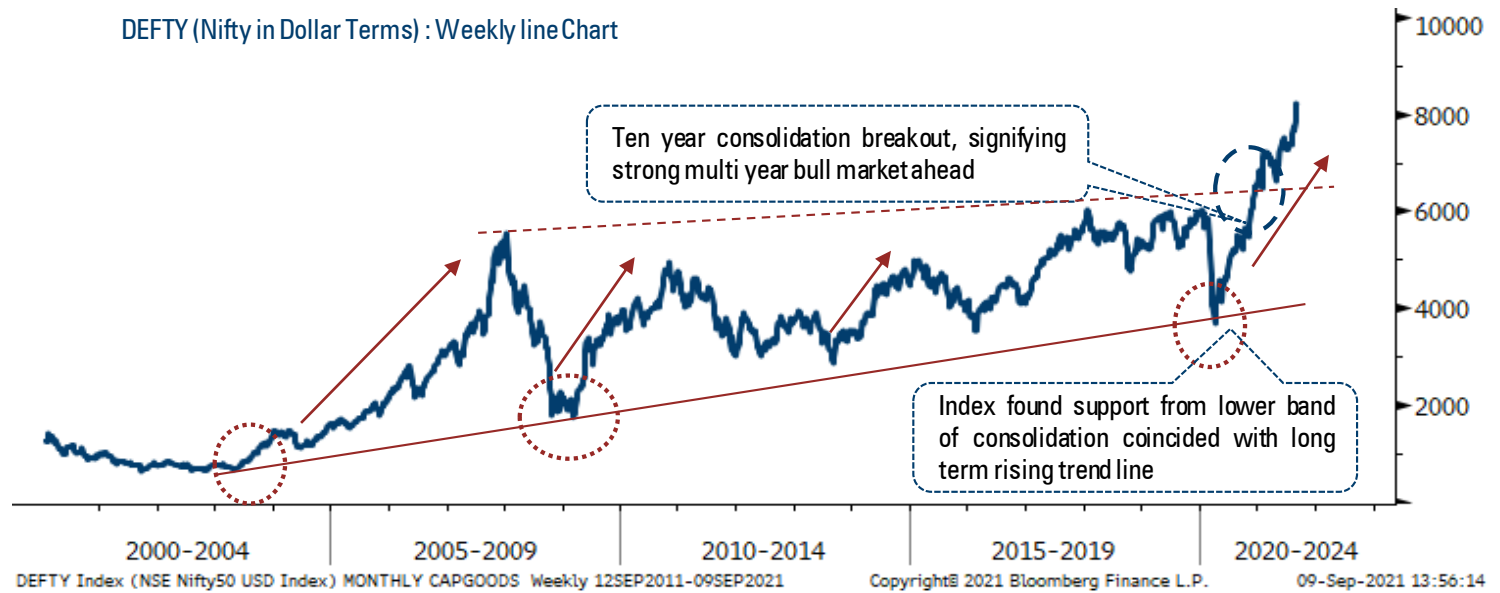
- MSCI India relative return ratio to S&P 500 is on the cusp of breaking above a decade long falling channel signalling resumption of relative outperformance of India. Similar breakout in CY04 was followed by outperformance during the CY05-09 period
- MSCI India relative to MSCI EM has registered a breakout above a five year range highlighting strength in Indian market over other Emerging market peers. A similar range breakout in CY 2004 & CY12 has seen outperformance by MSCI India in the next couple of years



Nifty in dollar term in multi year bull phase after decade long consolidation breakout

- The Nifty (in dollar terms) has seen a strong up move post a breakout from 10 year's range. With weakness in dollar likely to continue post a long term rising demand line breakdown, we expect the Nifty (in dollar term) to continue its outperformance
- Historically, India remained a key beneficiary of a weak US dollar as strong inflow of foreign capital in domestic equities augurs well. We expect this rhythm to continue in coming years

DEFTY (Nifty in Dollar Terms) : Weekly line Chart



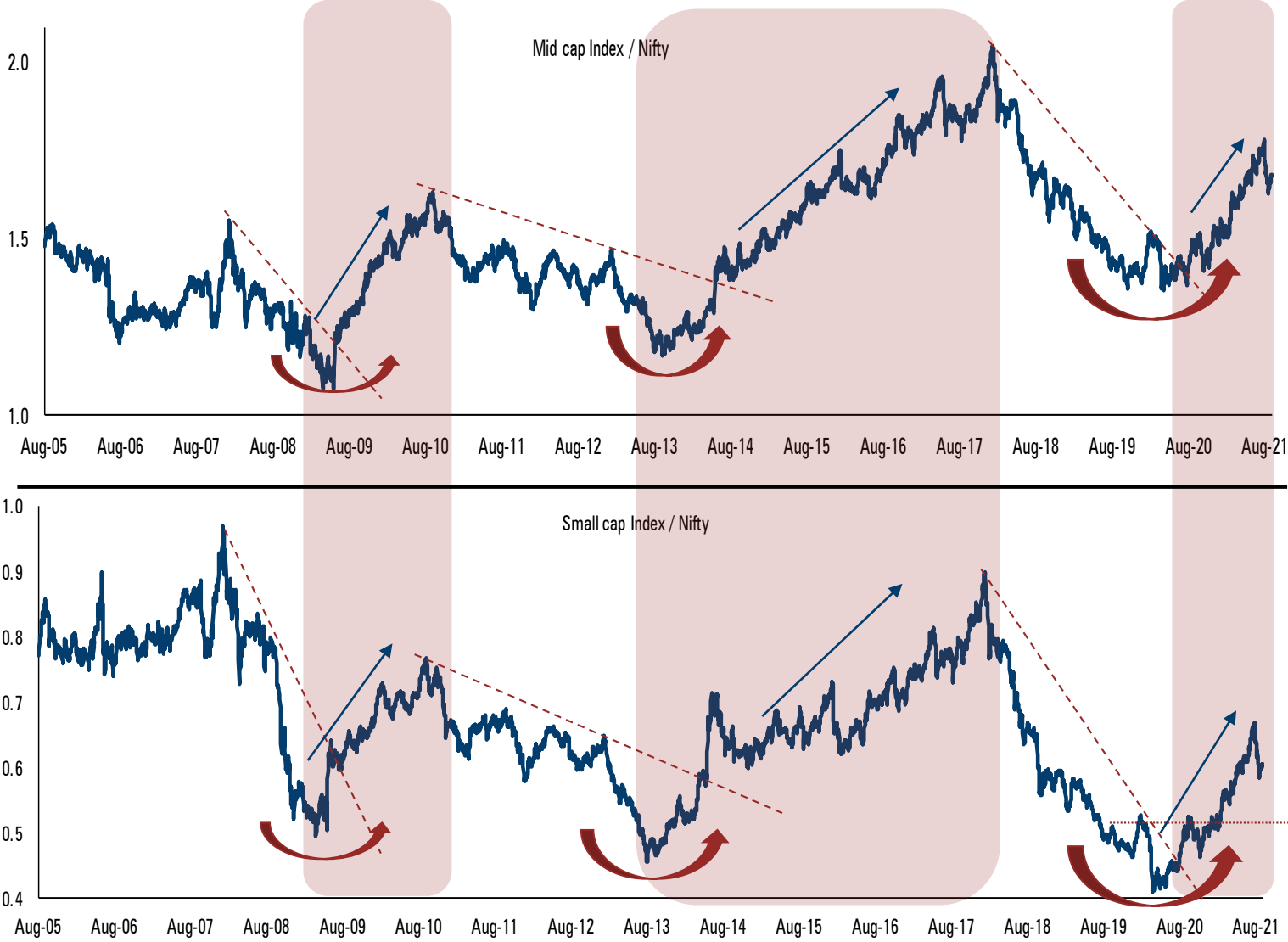
Dollar Index : Weekly line Chart



Source: Bloomberg, ICICI Direct Research
September 16, 2021

Midcaps: Relative outperformance to get augmented...

- Outperformance of broader markets is here to stay for few years as relative ratio of midcap and small cap indices against Nifty are in the middle of multi year bull cycle. As seen in earlier two instances, the ratio is expected to challenge previous peak of CY18
- Breakout from 2018-20 bear market is comparable to similar breakouts in 2009 and 2014, which resulted in a structural bull market at least for two years. We expect the same rhythm to be maintained

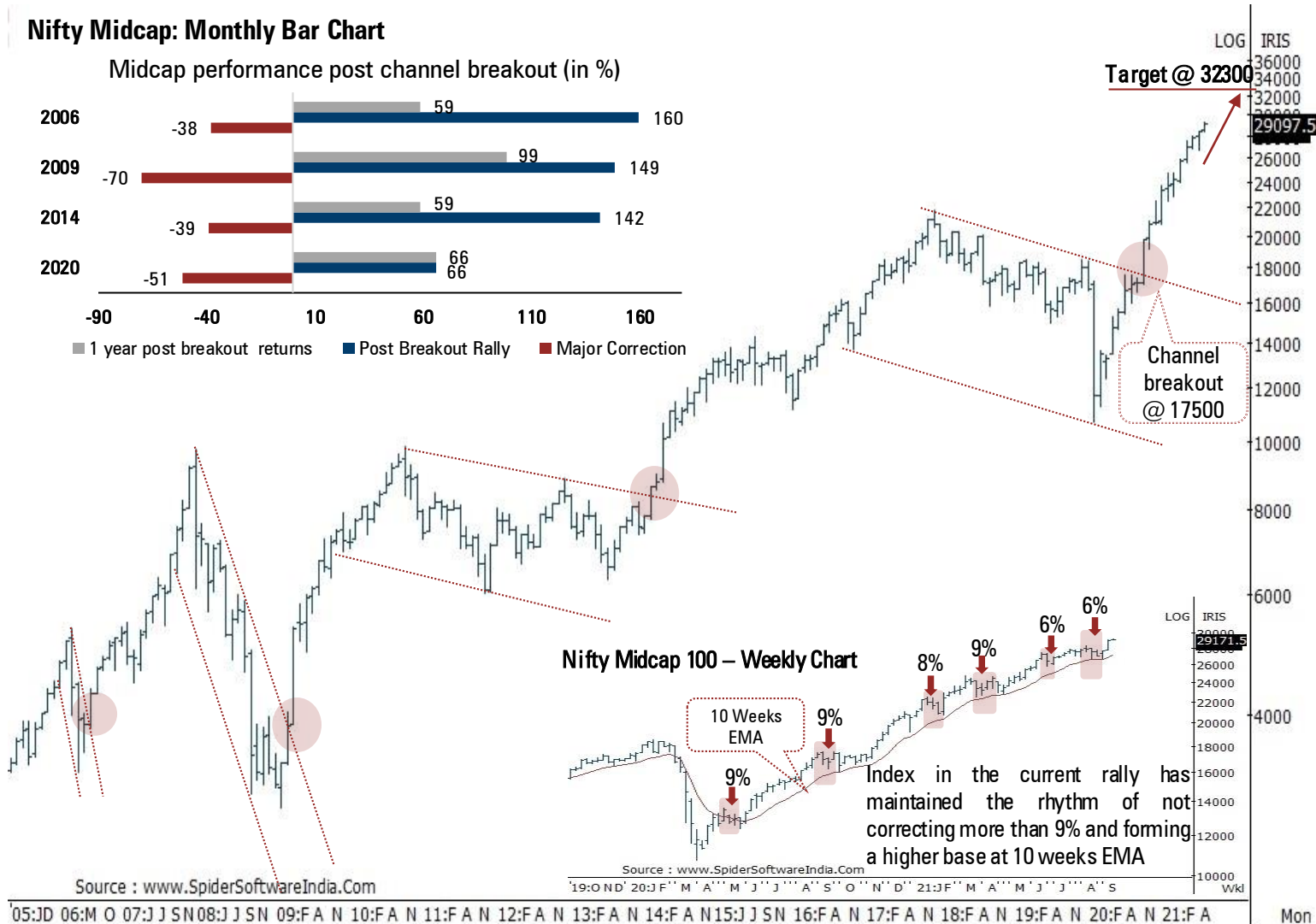
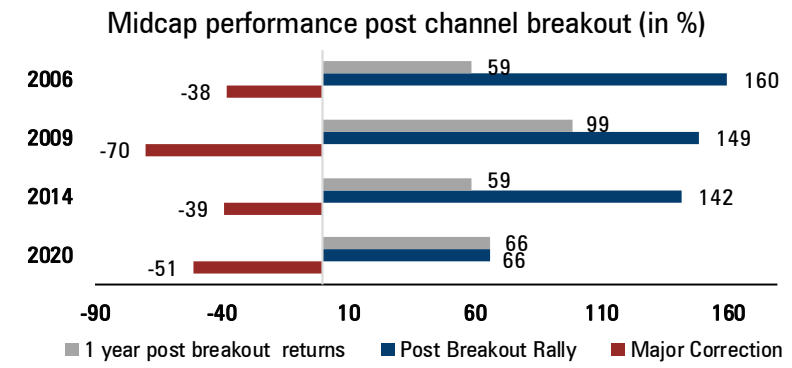


Source: Bloomberg, ICICI Direct Research
September 16, 2021

Nifty Midcap Index: to gain another 30% by March 2022

- Past three comparable bull market rallies matured after average gain of 126%, post falling channel breakout, over a period of 2-3 years
- In the current context the midcap index has gained 66% since its channel breakout last year. We expect it to gain further 30% by March 2022
- Within last one year's bull market, an average correction of 8-10% in index has always provided buying opportunity
- By December 2021, we expect the index to head towards 32300 levels providing upside of ~10%

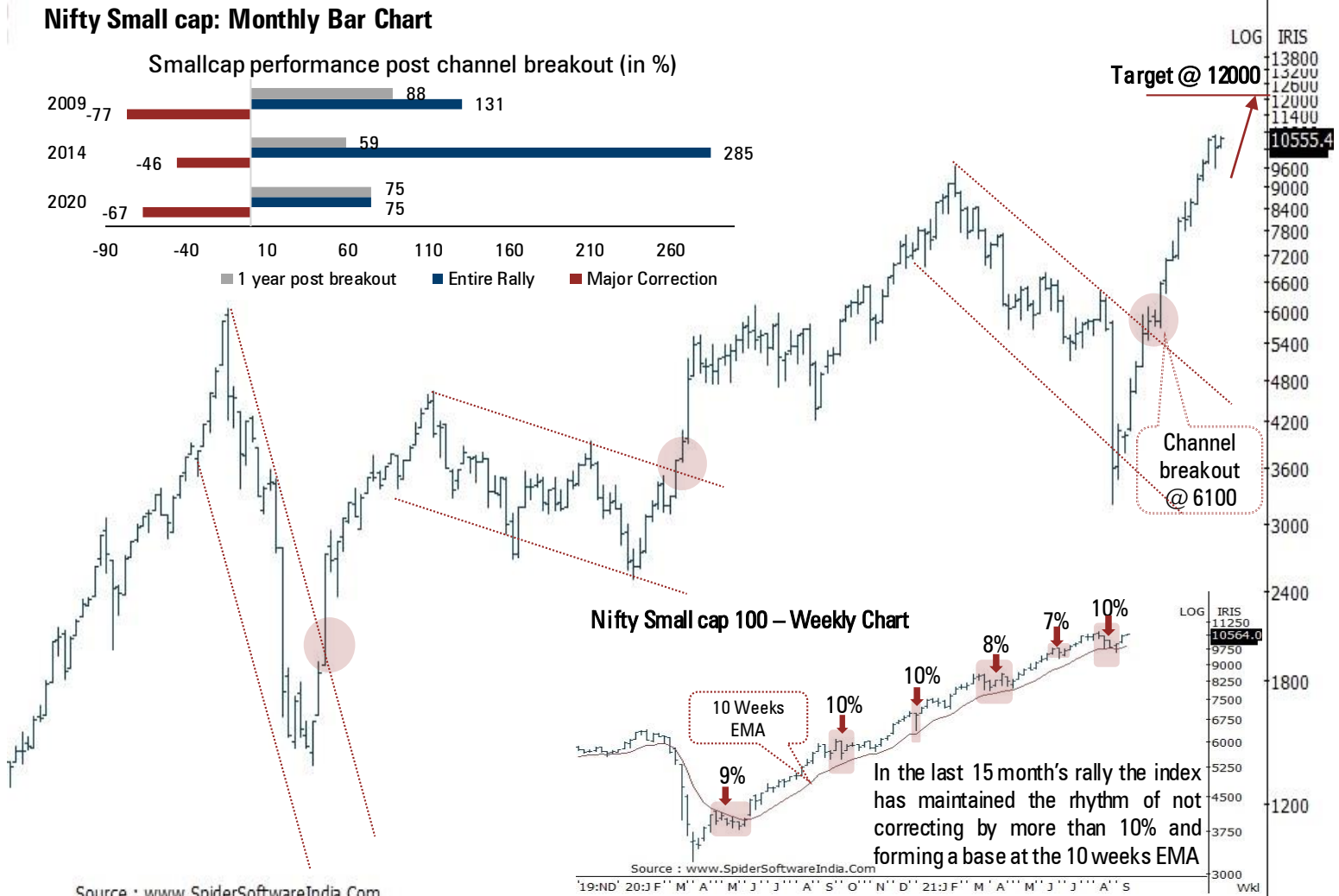
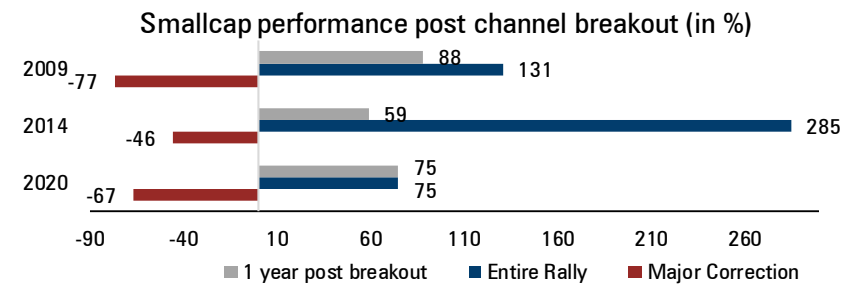
Nifty Midcap: Monthly Bar Chart



Nifty Small cap Index: Multi year breakout signals structural turnaround

- The small cap index has followed its midcap peer with a resolute breakout above 2018 peak indicating structural turnaround
- During the past two major bull phases post 2009 and 2014 breakouts, the index has gained at least 130% from breakout level
- In the current context, small cap index has gained 75% post breakout and is expected to gain further at least 30% from current levels by March 2022
- Meanwhile, the index has followed a rhythm of not correcting more than 10% over past 15 months. We believe such intermediate corrections would continue to provide fresh entry opportunity

Nifty Small cap: Monthly Bar Chart



Source : www.SpiderSoftwareIndia.Com

Improvement in Relative Strength: Resuming up move after prolonged consolidation or attempting major breakouts after elongated period of underperformance, thereby pricing in all negatives

Outperformer: Reflects structural uptrend and likely to outperform. Corrections to offer incremental investment opportunity

Market Performers: Offers favourable risk-reward, likely to perform in tandem with benchmarks

Neutral: Likely to extend price/time correction and remain laggards based on technical set-up



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