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# Rallying markets, rising returns: why soaring equities should not scare you from investing

By Pravin Palande & Ami Shah Jul 4, 2023, 05:11 AM IST


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**Synopsis**

The Nifty 50 is up 20% over the last year on positive economic data from the US. Both RBI and the Federal Reserve are discussing a rate pause, further fuelling the rally. Stocks in the banking, consumer, and infrastructure sectors are the hot picks, giving best returns. Time to stay invested?

stock **markets** are soaring again, but not everybody is a winner. Reason: Only four stocks within the **Nifty** 50 universe have managed to give high returns. The market, to a large extent, is still lacklustre, rather polarised. But that is how it moves.

A lot of experts are asking investors to be careful and wait till things calm down. But hold on. That is like timing the market. A better move would be to buy a high-trending Nifty 50 even when the dice is currently not loaded on the side of the retail investor. This is because every high market eventually leads to a higher market.

Currently, the Indian stock market is trading at a PE multiple of 22x, which is at a premium to MSCI Emerging Market (13x). But in India, debt-to-equity ratio is low, oil prices are soft (which will benefit companies), and consumerism is leading people to buy high-end **SUVs** as well as real estate. FMCG companies are not much worried about inflation. Rather, investors are betting that large companies will retain their market share while smaller ones will try to up their game. The Nifty Smallcap Index is up 31% over the last one year.

"We think the trend of outperformance will continue. I am not one of those who permanently sells the India story, but in March this year I had tweeted without any ifs and buts that this is the time to get back into the equity market and put in whatever is your equity allocation," says **Devina Mehra**, chairperson and managing director of portfolio-management services company First Global.

**New highs**

On Friday, Indian equities scaled new highs, with the Nifty touching 19,083 and the **Sensex** hitting 64,321. On Monday too, markets kept trending high at 19,322. In general, the Nifty 50 is up 20% over the last year due to improved sentiments on the back of positive economic data coming out of the US, where there has been an upward revision in the first-quarter GDP. Even the Nasdaq is up 30% over the last one year.

Indian equities, which follow the US market, are upbeat, as both the Reserve Bank of India and the US Federal Reserve are discussing a rate pause, which is fuelling the current rally. This shows animal spirits are back in stock market.

Manish Sharma, who had given up on momentum trading for some time, feels this is exactly the market he was waiting for. After Covid-19, he was taking short-term trades in companies using technical analysis, but had eventually stopped when the market went flat in mid-2022. He understands that technical analysis is also a bull-market phenomenon, and when there are no clear trends, he should simply avoid the market.

"I think these are like the good old days, when we see some clear trends in both large- and mid-cap stocks. It is something that I had missed for some time since the market went flat," he says.

Sharma is into event management and his experience in the live-music segment has taught him that hardworking musicians often set trends irrespective of their age. It is something he also observes in the stock market. Hence, instead of experimenting with newer stock ideas or artistes, he prefers to be with the consistent performers.

**Tried and tested**

The best returns over the last one year have come from companies like ITC (64%), Larsen & Toubro (56%), HDFC (30%) and ICICI Bank (25%). Of the total 18% market-cap returns of the Nifty 50, the top 10 stocks account for 11%, and the next 40 for 7% of the total returns. The top 10 stocks account for 34% of the market cap of the Nifty 50.

Reliance, TCS, and Infosys, which account for 23% of the market capitalisation, were not able to perform in terms of returns. A lot of people think these could be the value stocks for the next year if one looks at the opportunity and valuations of these companies. But today the entire concentration is on ITC and HDFC.

## Nifty 50: top gainers vs. losers in the past one year

### Top 10 stocks in Nifty 50

| Company | Latest price | one-year change (%) | Returns (%) |
|---|---|---|---|
| ITC | 449.25 | 63.92 | 1.74 |
| HDFC Bank | 1676.40 | 24.73 | 1.5 |
| ICICI Bank | 937.45 | 33.39 | 1.31 |
| Larsen & Toubro | 2421.55 | 56.44 | 0.97 |
| HDFC | 2779.65 | 27.67 | 0.94 |
| Bharti Airtel | 872.05 | 26.78 | 0.91 |
| Axis Bank | 978.30 | 56.39 | 0.86 |
| Hindustan Unilever | 2660.80 | 19.13 | 0.79 |
| State Bank Of India | 569.95 | 24.14 | 0.78 |
| Titan Company | 3024.95 | 56.23 | 0.76 |

### Worst-performing stocks in Nifty 50

| Company | Latest price | one-year change (%) | Returns (%) |
|---|---|---|---|
| Infosys | 1293.65 | -11.59 | -0.62 |
| Reliance Industries | 2529.35 | -1.96 | -0.27 |
| Tata Consultancy Services | 3214.75 | -2.3 | -0.22 |
| Wipro | 381.7 | -9.281 | -0.17 |

Note: The total market cap of the Nifty 50 companies moved up by 18% over the last one year. ITC, HDFC and ICICI were the big returns contributors to the index.
Latest price in INR as on June 28, 2023

Source: *Ace Equity*

ETPrime

These were classic value stocks of last year. But in the post-Covid-19 bull run of 2020-2022, they were ignored. As the market bounced back, these companies turned out to be absolute winners.

When artificial intelligence (AI) and biotech stocks have become the hot sectors for New Age investors, in India it is still the classics that seem to work.

Banking, consumer, and infrastructure stocks are the hot favourites and have given the best returns.

A report by brokerage and investment company CLSA says that the Indian market right now is overvalued by 14%, but points out that the firm is now less concerned about half of the 10 reasons it cited for a 40% underweight stance in November 2022. This was mainly due to lower energy prices, which have remained below USD100. Again, the rupee is in a better position, and foreign-investor ownership is on a recovery path. But the firm remains cautious because of high valuation and thinks a further margin erosion may affect India's relative profitability.

**The outlook**

While CLSA gives hard fundamental analysis, most traders and even investors getting back into the market for some quick profits are not very macro-data centric. They just want to look at certain companies.

Finance professional Vikram Gosar, 46, is a trend follower. He doesn't want to look too much into macro data, but invests in trends that can give some good returns. He considers himself both an investor and a trader. "There were two uncertainties — inflation and interest rates. Markets were range-bound. Now that inflation is under control, and rate-hike fears are out of the way, I am **investing** as well as trading more than before, as the trend is clear," he says.

Currently, Gosar is lapping up the rate-sensitive pack — banking, housing, and housing-finance stocks. He is going long in futures, as he expects the trend to be bullish.

There are many like Sharma and Gosar who have entered the market and will ride the present trend. But then there are new investors who are waiting on the side and still wondering if they should enter a highly valued market.

Here's the point: There is not much to be gained by waiting on the side. In fact, investors should invest in a highly trending market through index funds or mutual funds that have given consistent returns over longer periods. A high index may not give immediate returns to the new investor, but for those who have the patience, the market will deliver.

The idea is not to follow a fad or a sector, but to go for asset allocation or take a diversified-portfolio approach. Sharma is investing in gold, as it slides in a trending market.

"Now that markets are at an all-time high, my perspective remains unchanged. Global equity markets are looking good, and India looks even better, meaning it is in the outperforming bucket. Even if we look at the fundamentals, it is not that valuations are terribly stretched, and we expect earnings growth to be robust," First Global's Mehra says.

(*Graphic by Sadhana Saxena*)