Quarterly Playbook

14 Jan, 2021

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International & Intermarket

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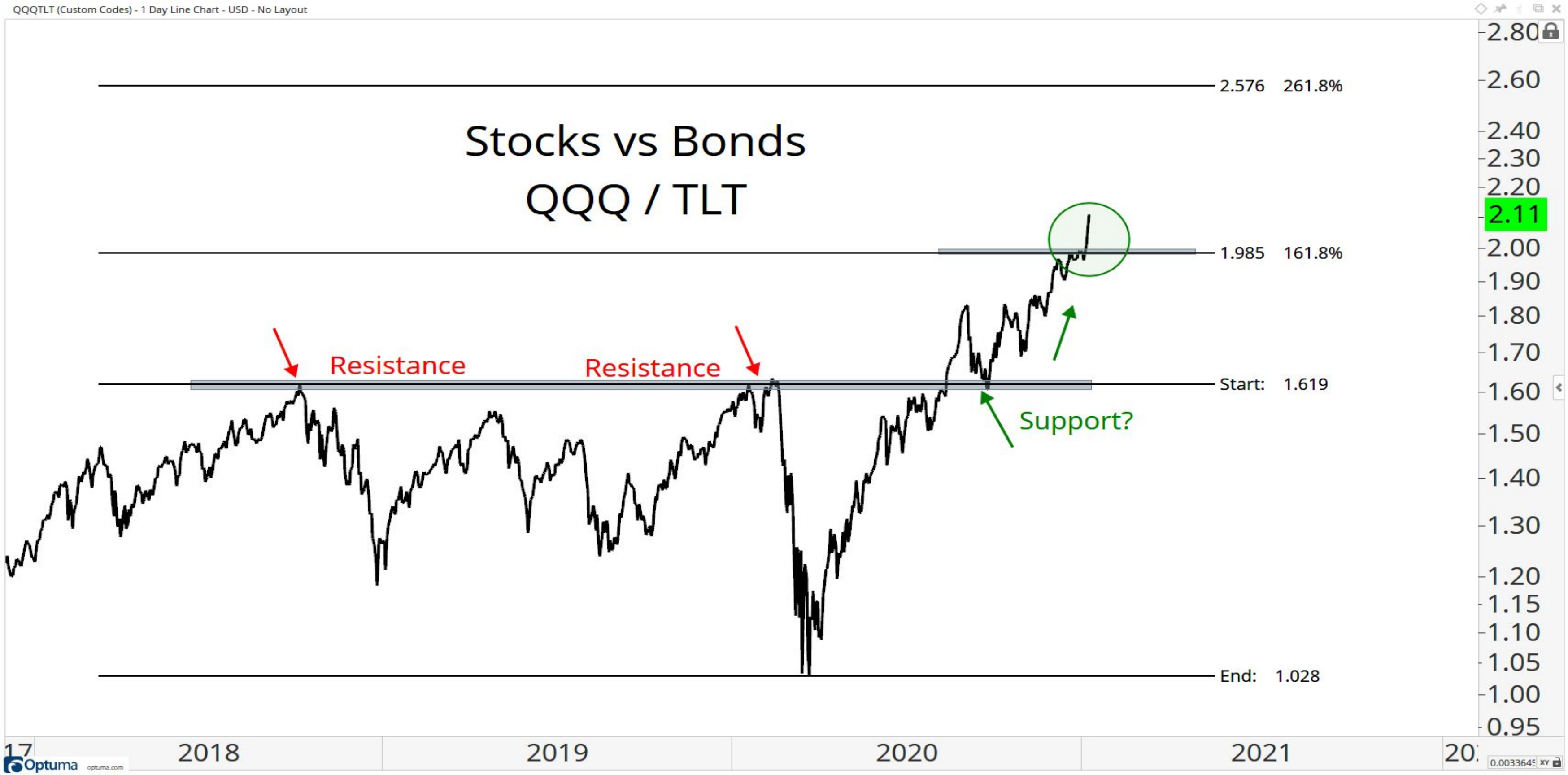
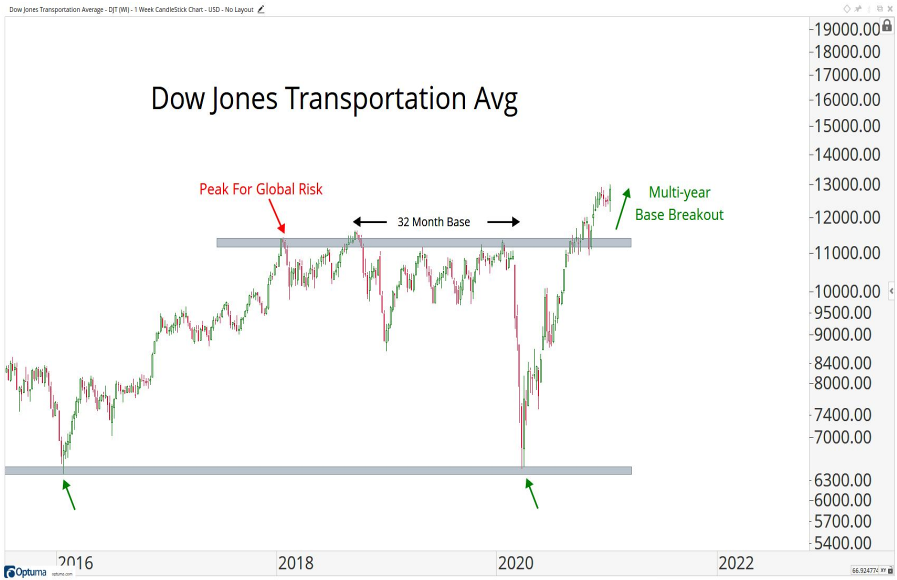
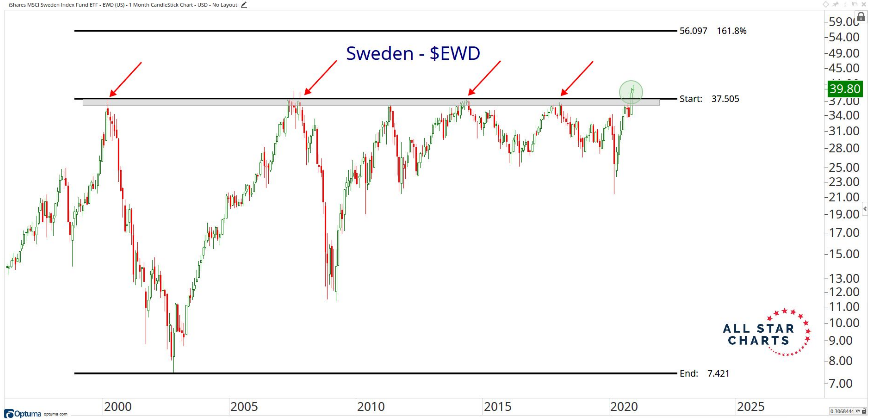
This one chart paints a clear picture of what happened in the last quarter. Risk-on assets have outperformed risk-off assets across the board. While Stocks and Commodities have generated handsome returns, Bonds and Currencies have been the worst places to be long in.

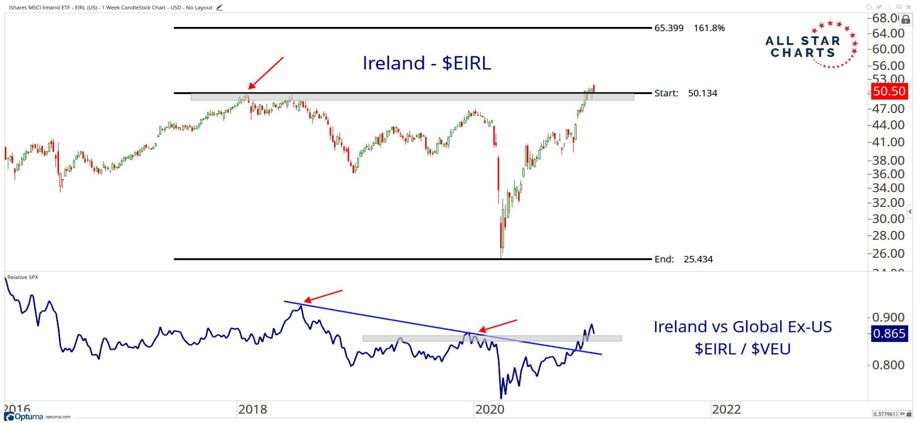


We can see a clear outperformance of Stocks relative to Bonds in the above chart. The ratio broke out of a crucial resistance in 2020, successfully retested it and continued to breach the next Fibonacci extension. The outperformance is expected to continue in the weeks and months ahead.

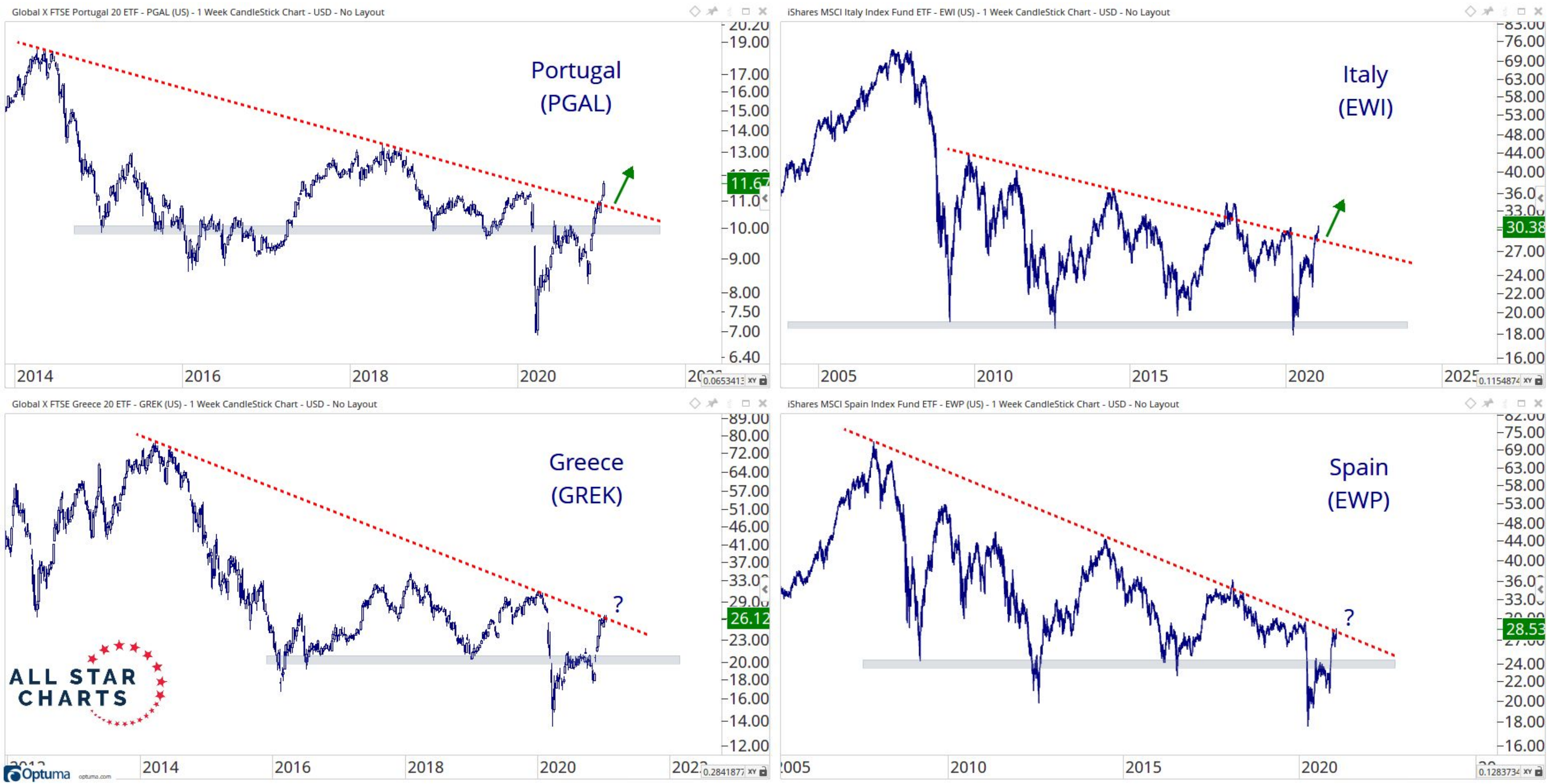


We’re seeing new highs in the S&P500, and confirmation in the Dow Jones Transportation Average. Classic Dow Theory.
This is important because while the United States was making new highs into February last year, global markets were already beginning to deteriorate, leaving the US as the proverbial last man standing. But because we’re seeing the opposite, this all lends credence to the idea that we’re closer to the beginning of a new bull market rather than the end of a prolonged one.

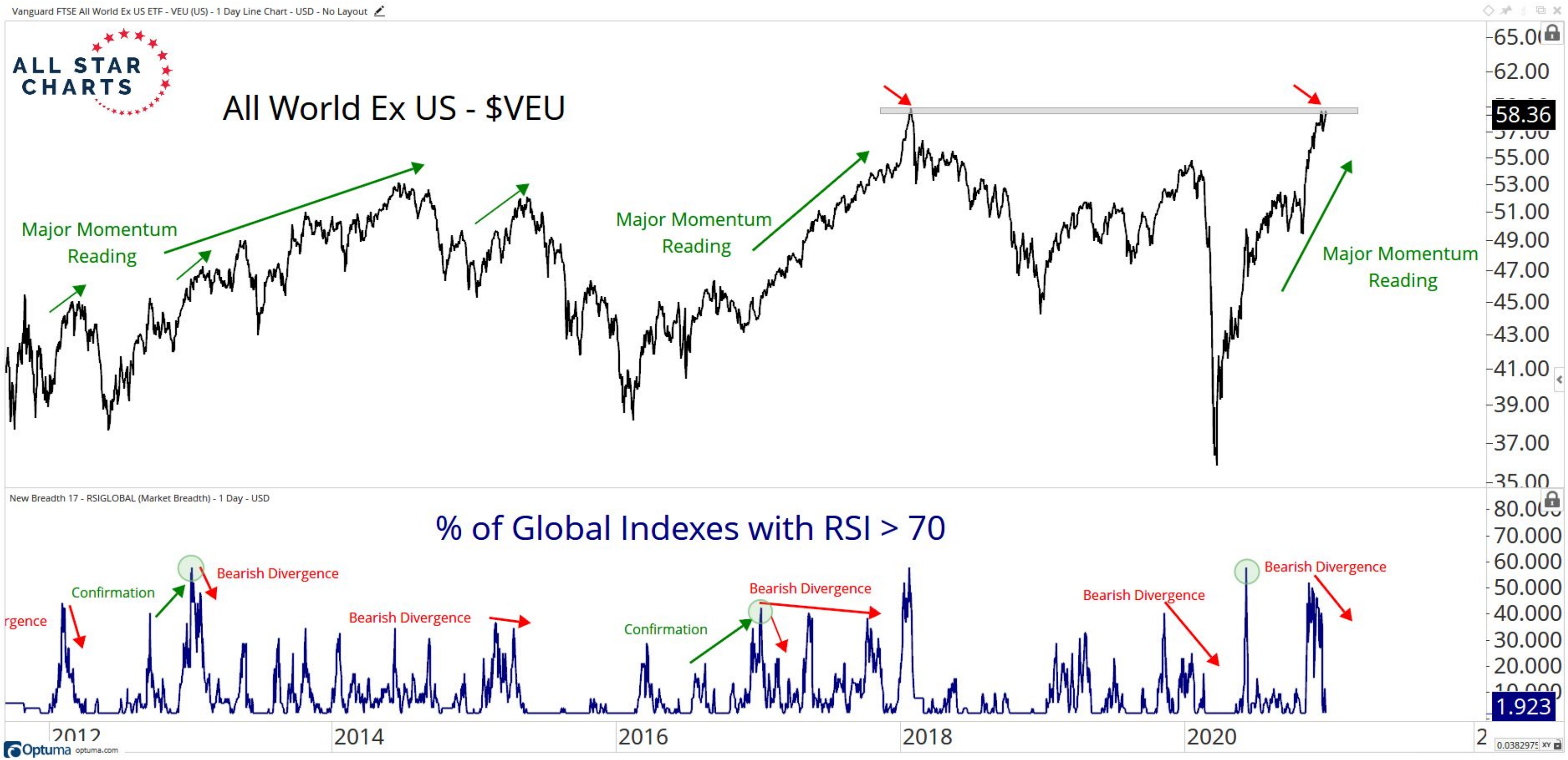




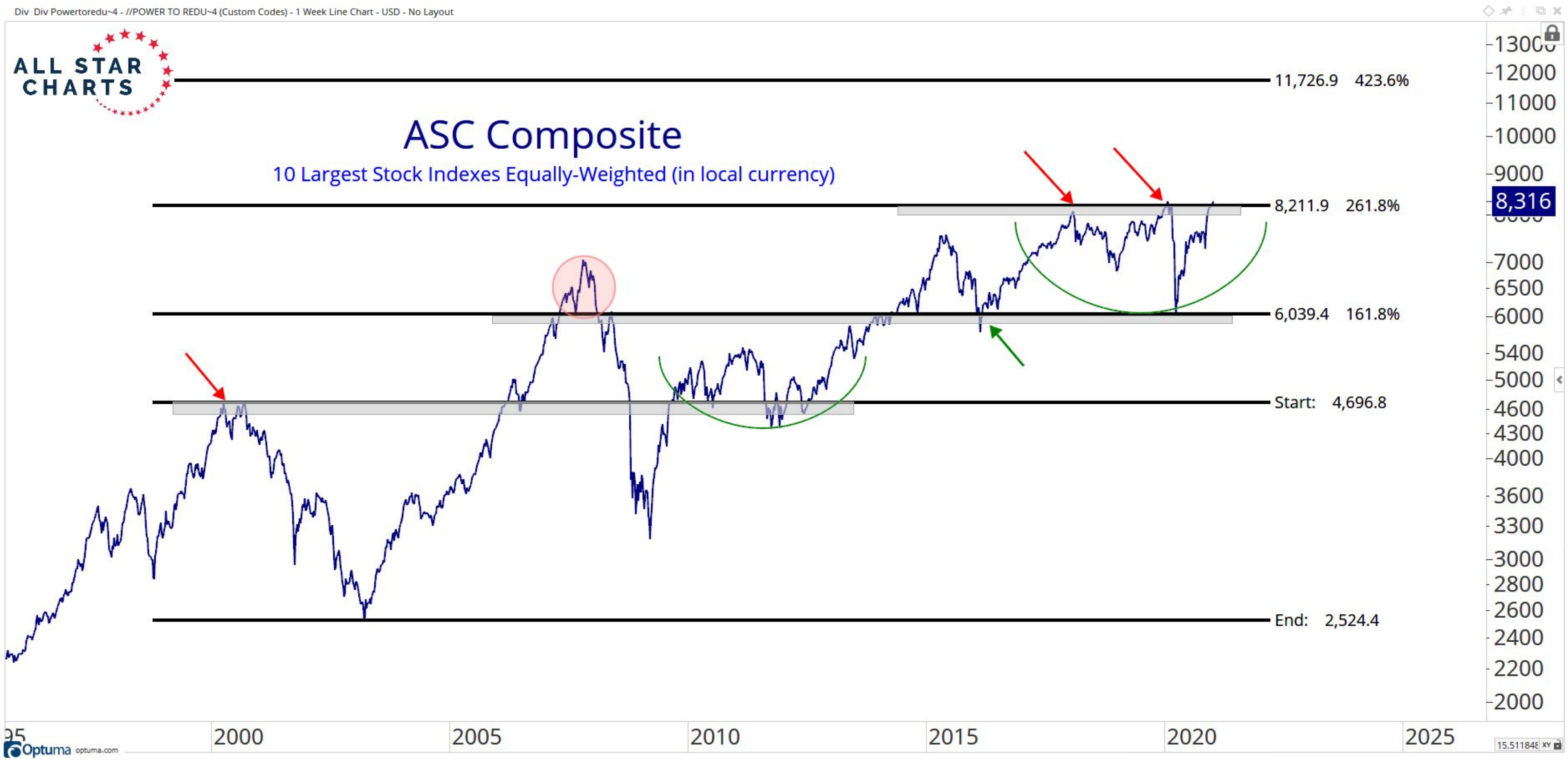
In fact, we're seeing an expansion of new highs globally - US, Europe, Emerging Markets, Latin America - even the laggards are no exception to this broad-based demand for **stock as an asset class.**



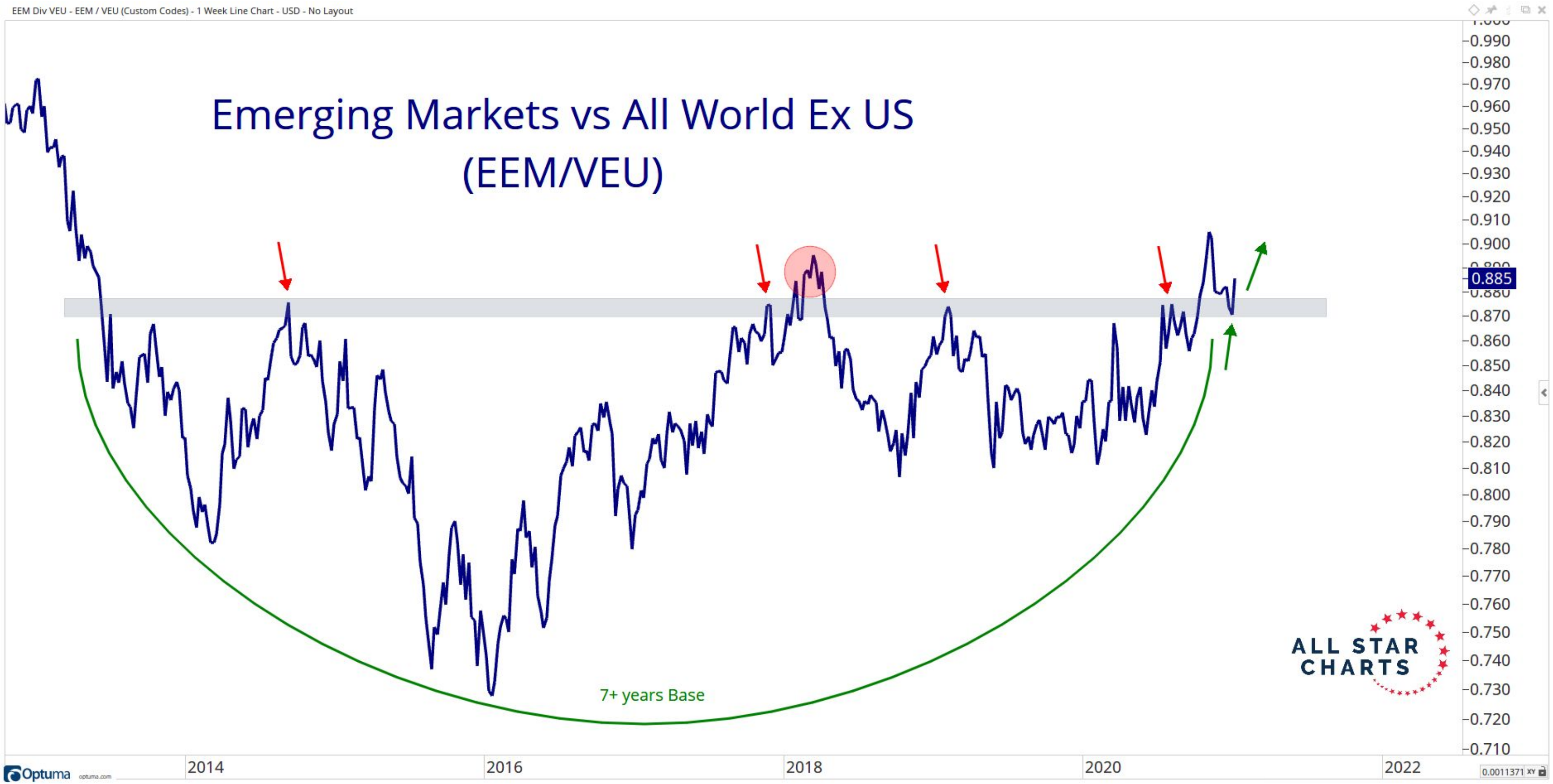
Even the ‘PIGS’ of Europe are breaking out or nearly breaking out of key long term downtrends: Portugal, Italy, Greece & Spain.



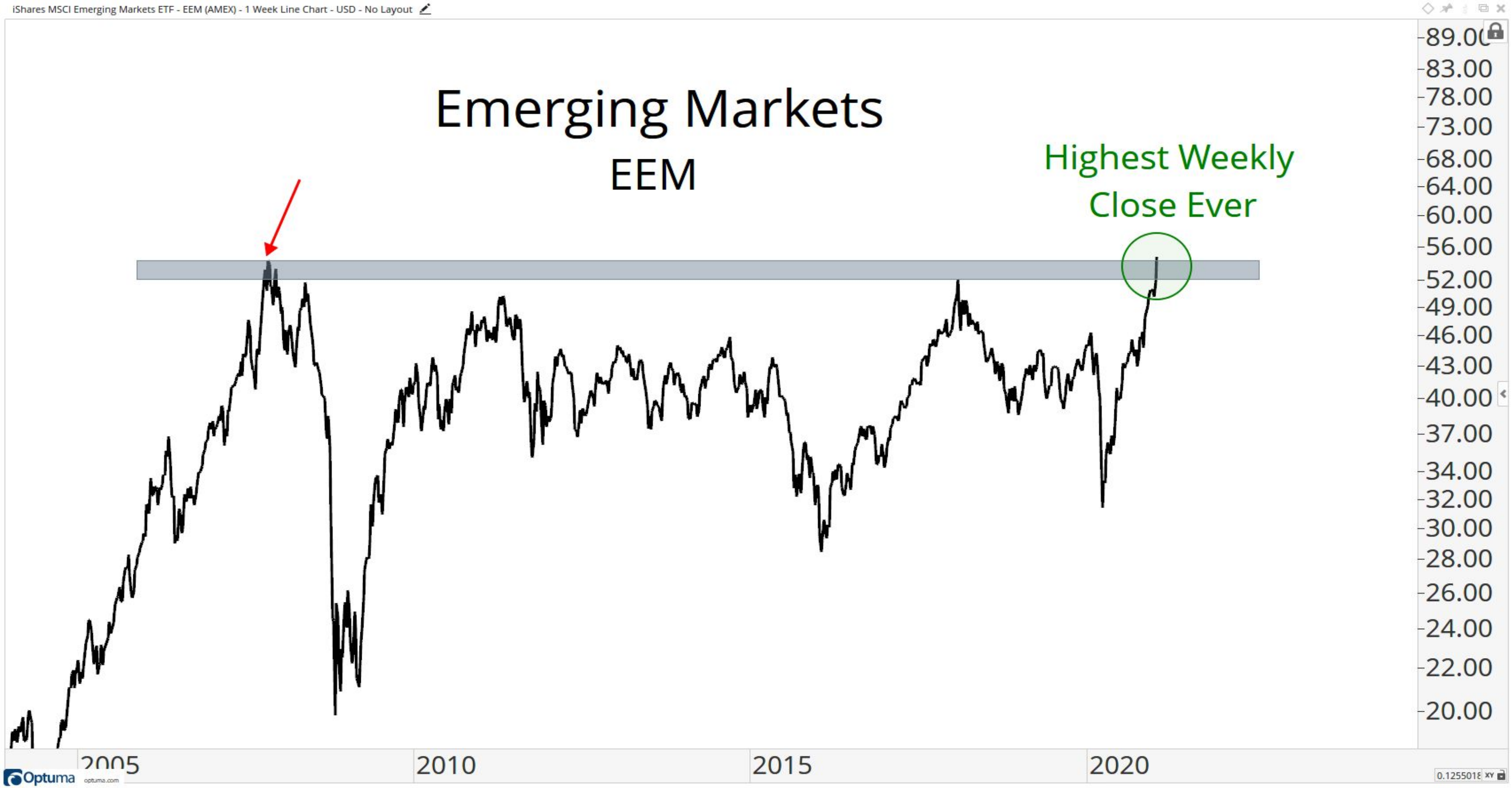
We saw big thrusts in momo regimes for International Indexes, but many of them sit at logical levels to digest recent gains. Like the thrusts in the US, evidence of long-term demand for sure, but that doesn't mean we can't see some **short-term consolidation** as it absorbs that supply from early 2018



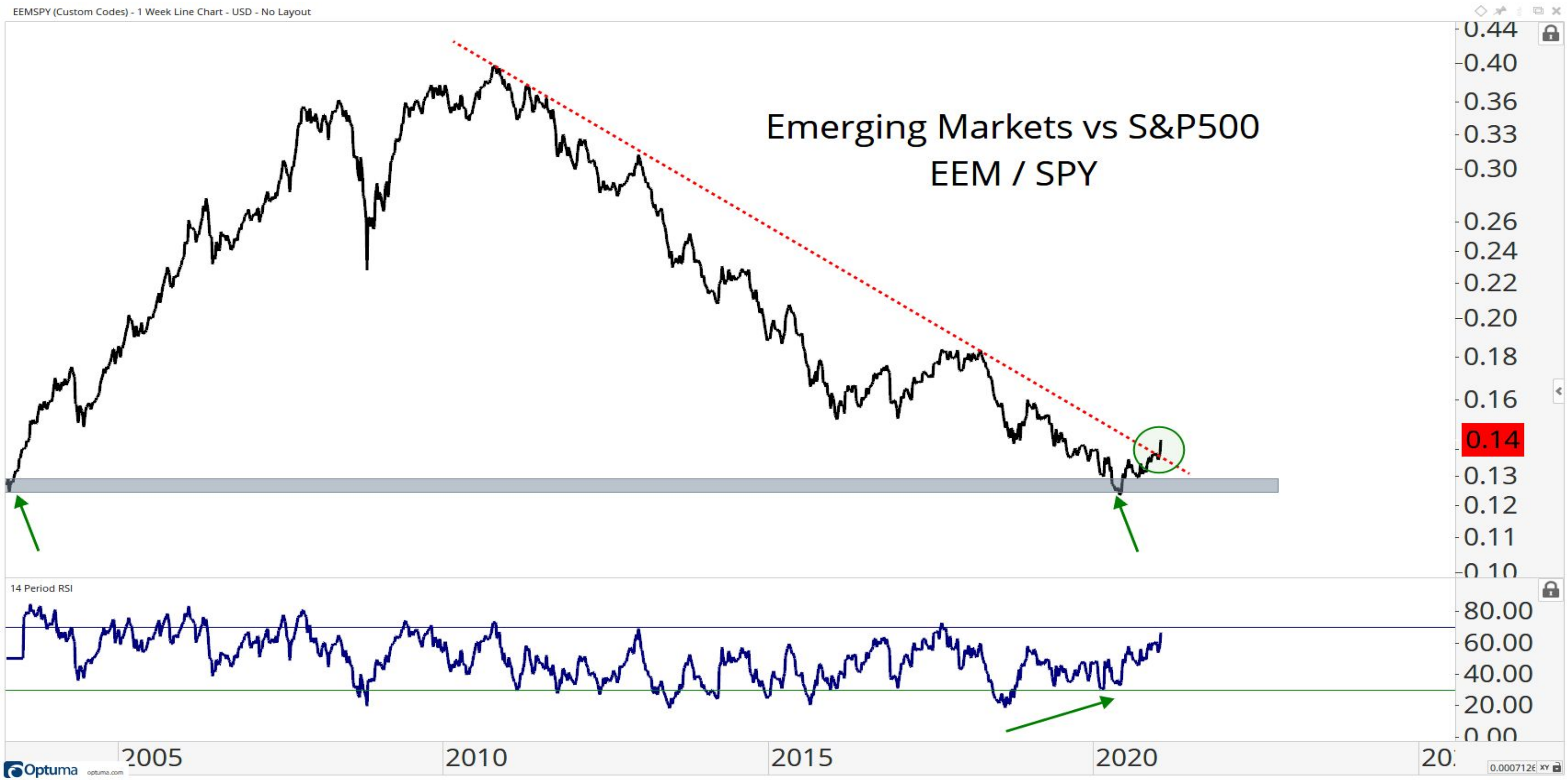
What better way to evaluate the global environment than equally-weighting them all? In this case, we've equally-weighted the 10 largest stock market indexes in the World by market-capitalization in their local currency. And what do we see? A 3-year base breakout...



It was the laggards that caught up to the leaders in Q4, rather than the leaders catching *down* to the laggards - like in Q1 and Q4 2018 = **evidence of broad-based demand for stocks as an asset class**. Emerging markets caught up with the strong rally in developed markets in the past quarter.

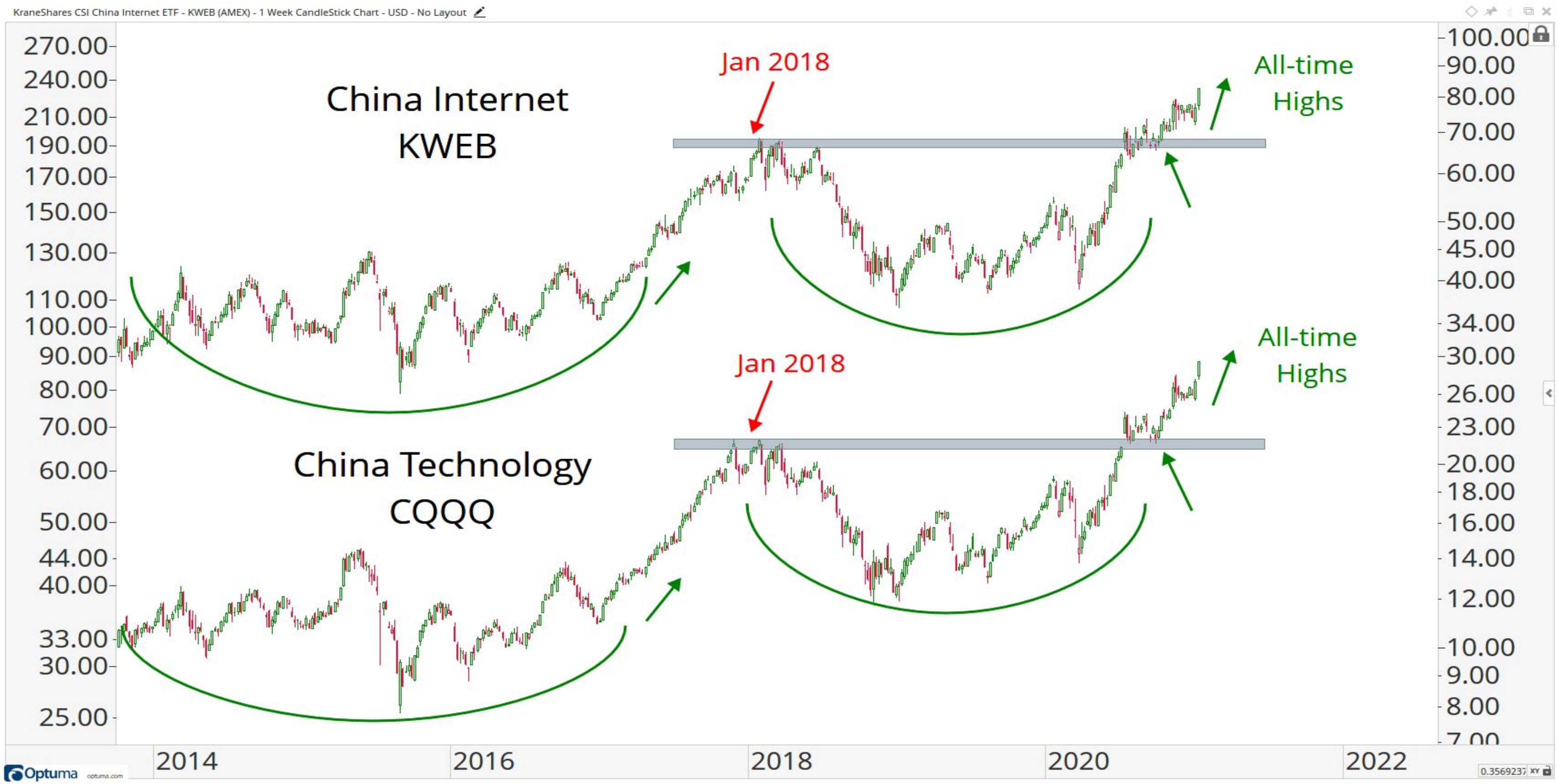


Here's the Emerging Markets Index Fund $EEM breaking out of a 12-year base. Emerging Markets has finally surpassed its 2007 peak to close at its highest weekly close ever.



We’re seeing evidence of money rotating into Emerging Markets (EEM). EEM/SPY found support at the same level as the mid-2000’s, and broke a 10 year+ downward trend. This is the biggest evidence in favour of risk-assets.

We’re on breakout watch for the world’s 2nd largest economy. It’s always nice to see consolidations above important levels rather than below. That’s what we have here in China’s Shanghai Composite. Like I’ve said before, this one looks exactly like those other times. When China goes, historically it **really** goes. If this time is like the others, expect a major rally coming.



And when you look within China, what are we seeing? The most important components in China (and Emerging Markets for that matter) are breaking out of multi-year bases to new highs.

International & Intermarket Round Up

Major Trends in Global Financial Markets:

-Bonds have been underperforming every other financial asset class

-Stocks around the World are making new All Time Highs - breaking out of Multi-year Bases

-Emerging Markets are beginning to outperform Developed Market Equities

-Chinese Internet Stocks, and the Shanghai Composite are preparing for a major rally

-Rising yields in Bonds signal an inflationary environment (weaker currencies, stronger commodities and stocks)

We want to take advantage of this trend of rallying risk-on assets, while risk-off assets like Bonds and precious metals underperform.

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India Major Indices

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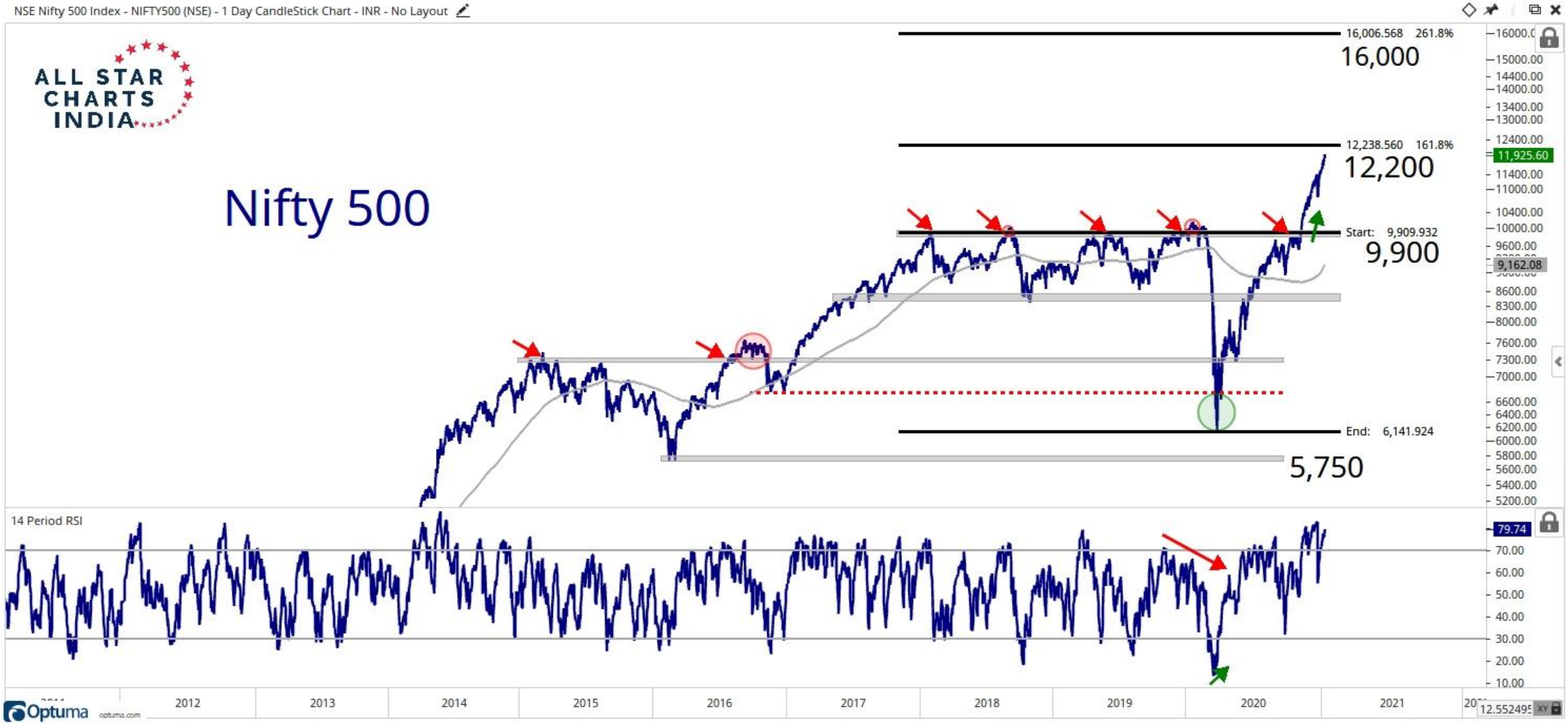
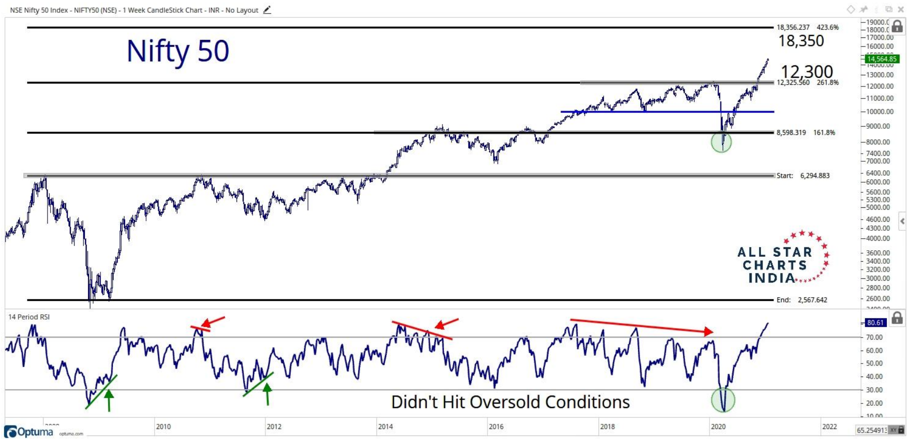
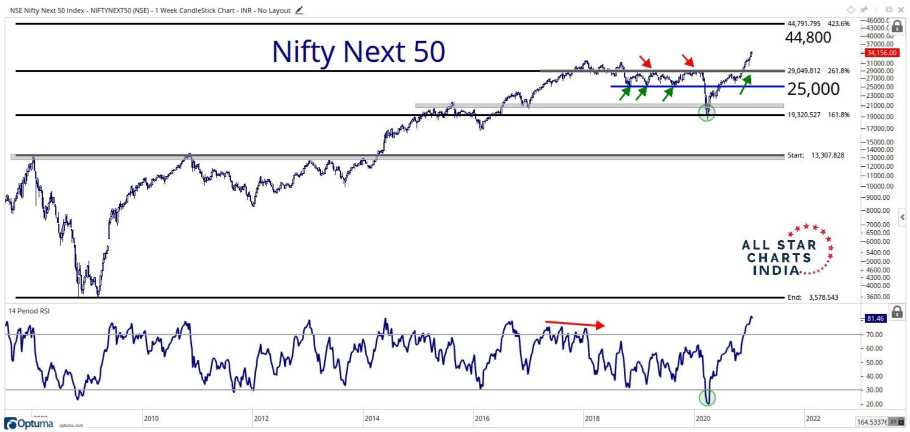


Nifty 500 has been in a strong uptrend post the breach of 9,900. Even as the index approaches its target of 12,200, the bullish momentum is strong and can continue to play as we start a new quarter. Above the level of 12,200 we will be tracking 16,000 as the next target.





Nifty50, Nifty Next 50, Nifty 100 and Nifty Mid-Cap 100 are all making new highs, moving past their 261.8% fibonacci retracements. As long as we remain above these retracement levels, we are looking for buying opportunities in stocks with favourable reward/risk ratios.

Nifty Small-Cap 100 is swiftly moving towards its next target of 7850. We would like to see a continuation of the current bullish momentum above levels of 7850, for greater participation in the market. Small-caps and Mid-caps have witnessed a good move post their dramatic fall in the beginning of 2018. As they continue to rally, we are expecting an outperformance going forward against the broader market.

The Nifty Mid-Cap 100 index looks ready to outperform the Nifty50. There are several stocks that offer a favourable reward/risk ratio.

Sector & Thematic Index review

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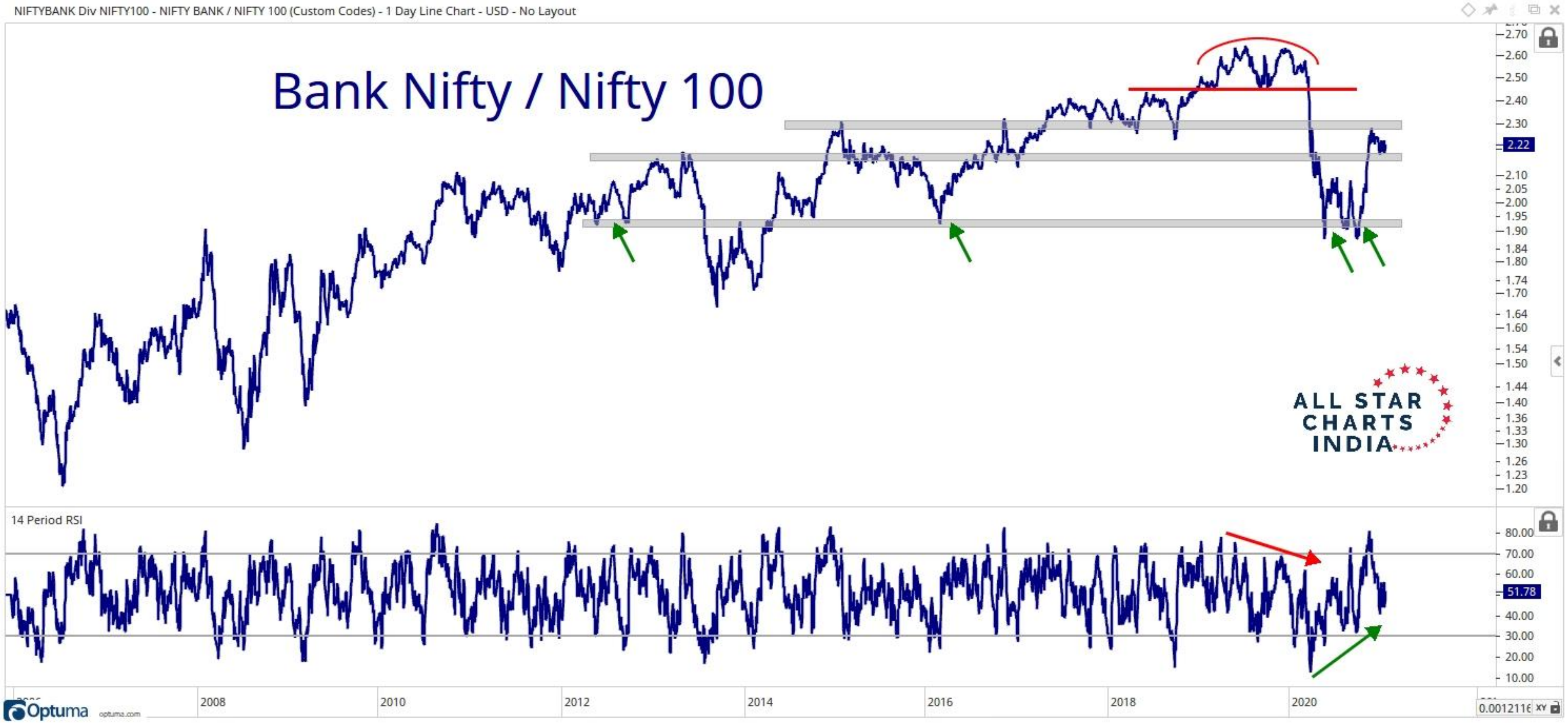
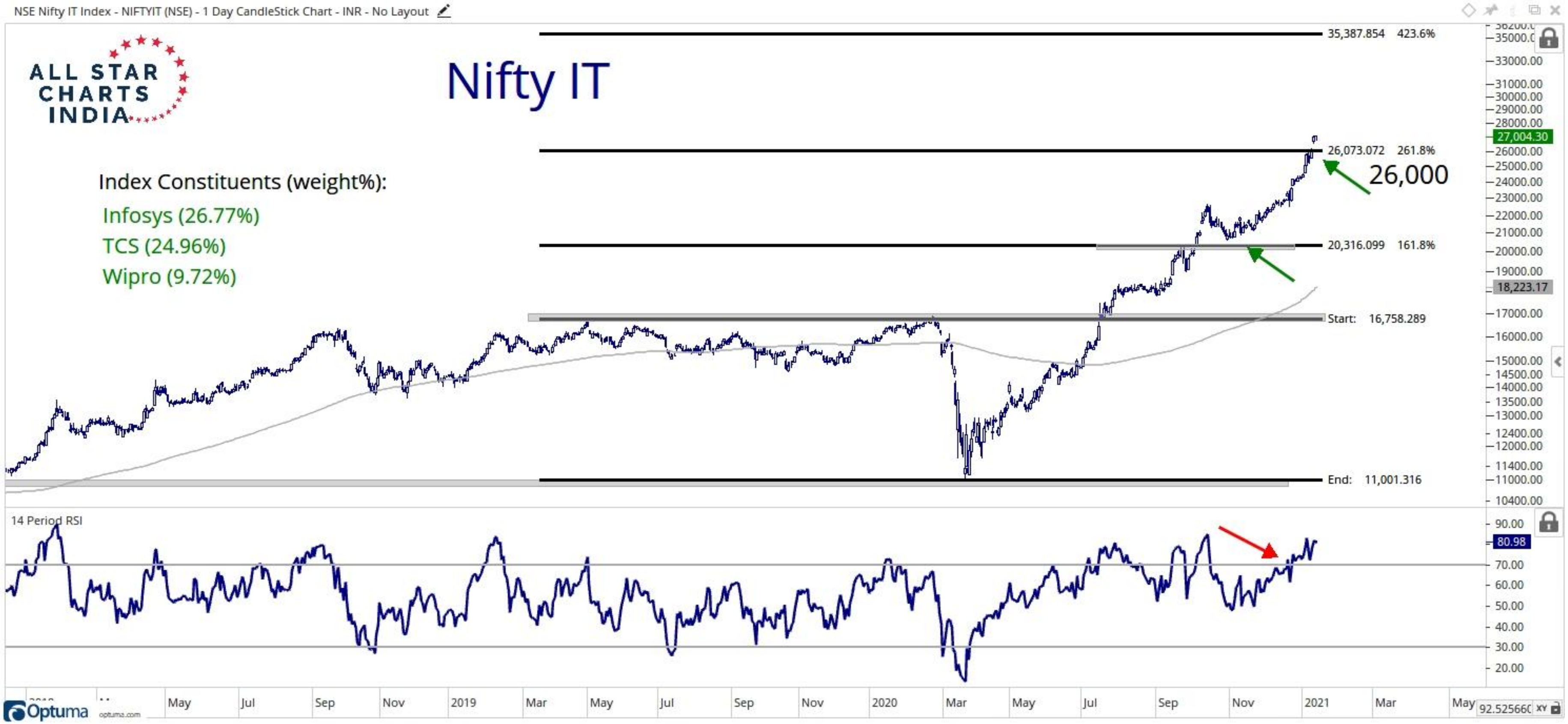
Bank Nifty is trading near its all-time highs. A break above 31,600 can take the index to its immediate target of 35,380. Once price breaks above 35,380 we can look for a move towards 55,200.

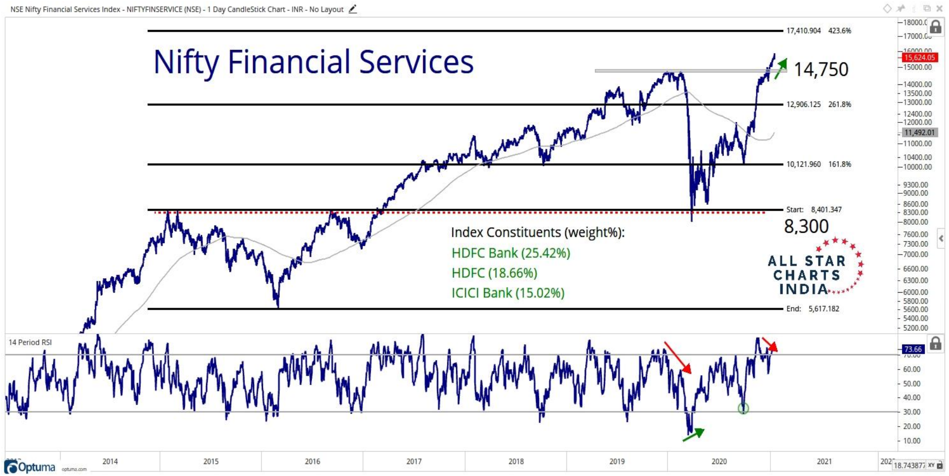


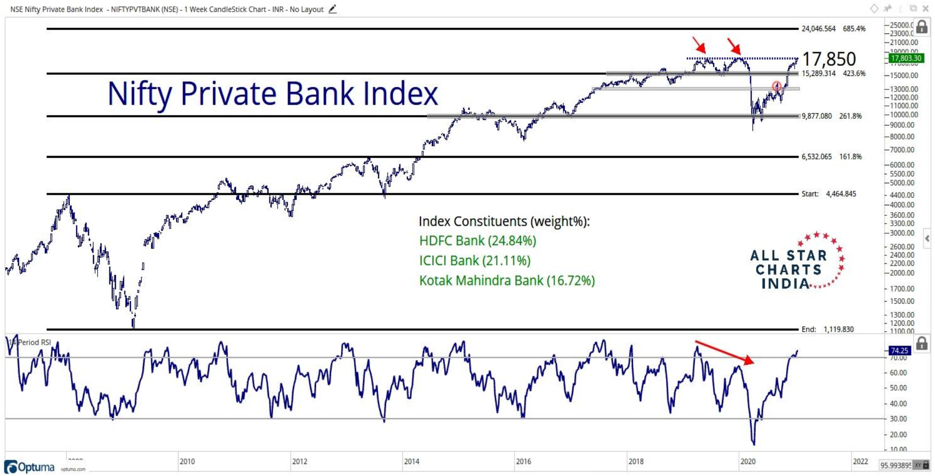
On a relative basis, price is stabilizing at the support level. This is the level we are tracking. A breakdown would result in a cautious stance in Bank Nifty.



Nifty IT has been one of the strongest sectors in the market recovery and continues its outperformance. We are bullish IT with updated risk management level of 26,000 for a target close to 35,400. Similarly, we're updating our risk management levels in stocks while holding on for the next target. Read the last update from [Dec 2](#).

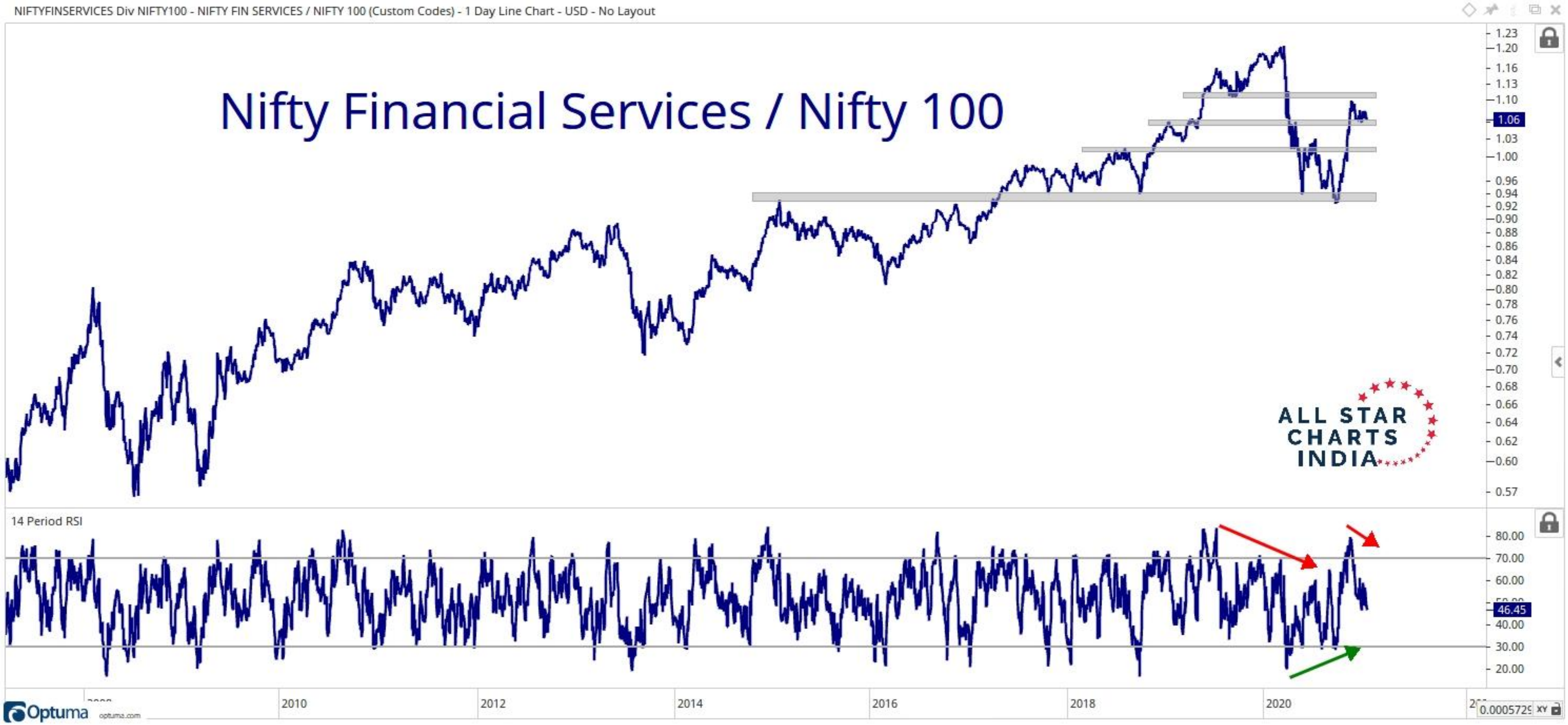
On a relative basis the IT sector continues to outperform all sectors. However, we ONLY want to be long if this ratio stays above 1.67.



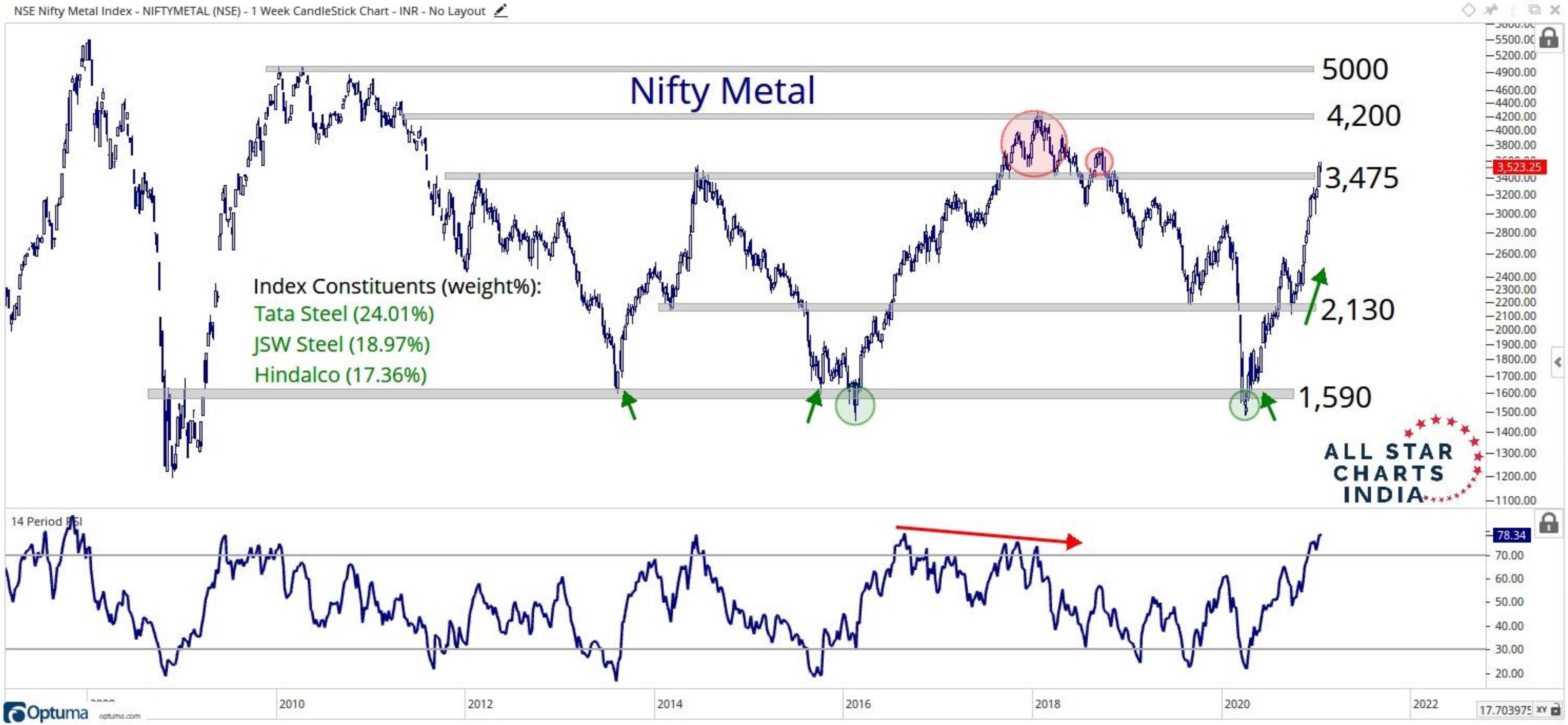


Financial Services continues to make new highs, but the waning momentum is something to keep an eye on. We are bullish on this sector with a target of 17,400 and a risk management level of 14,750. Read these posts from Dec 29, and Dec 19.

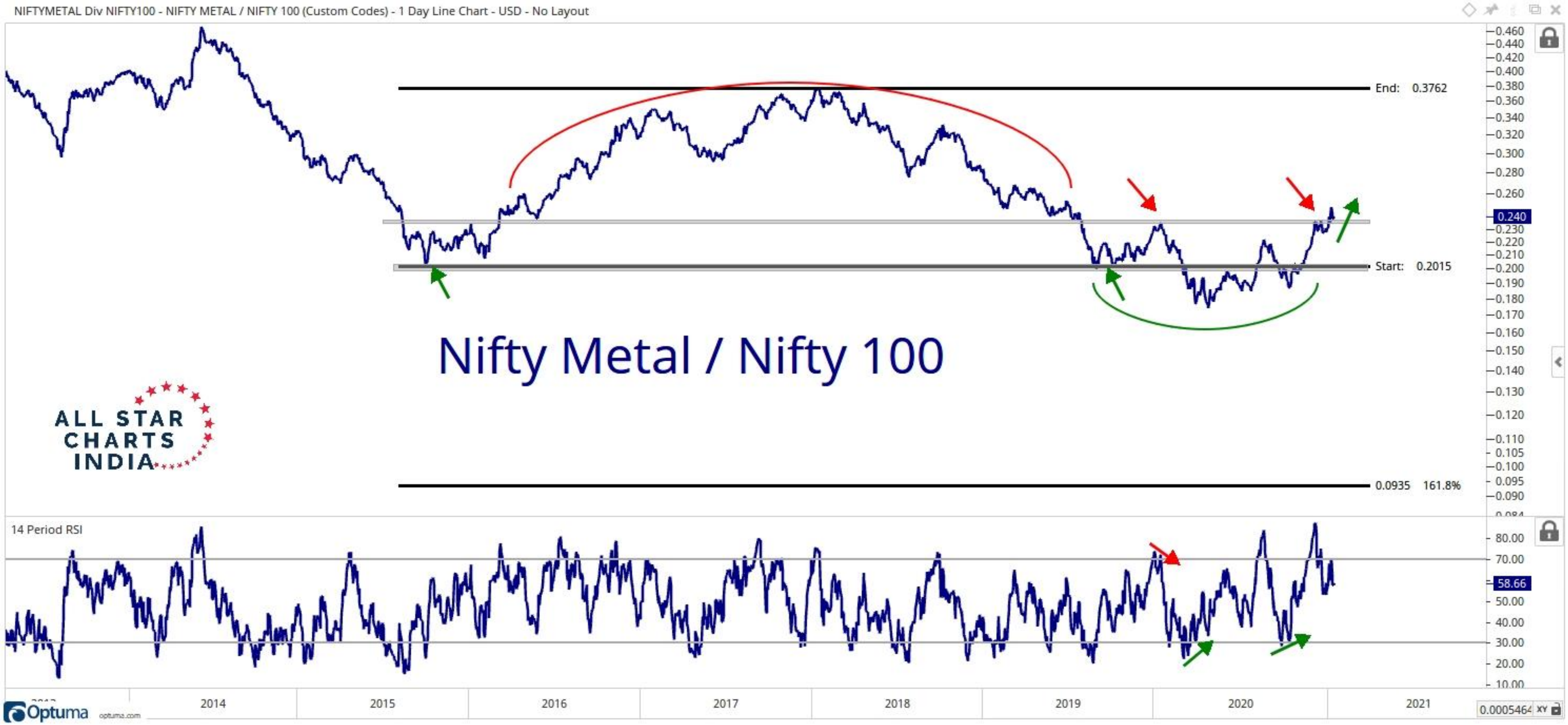
Similar to Bank Nifty, Private Banks are closing in on the all-time highs made in early 2020. A breakout above 17850 would be bullish, with a target of 24,000. We ONLY want to be long above 17850. Below that it’s somebody else’s problem.



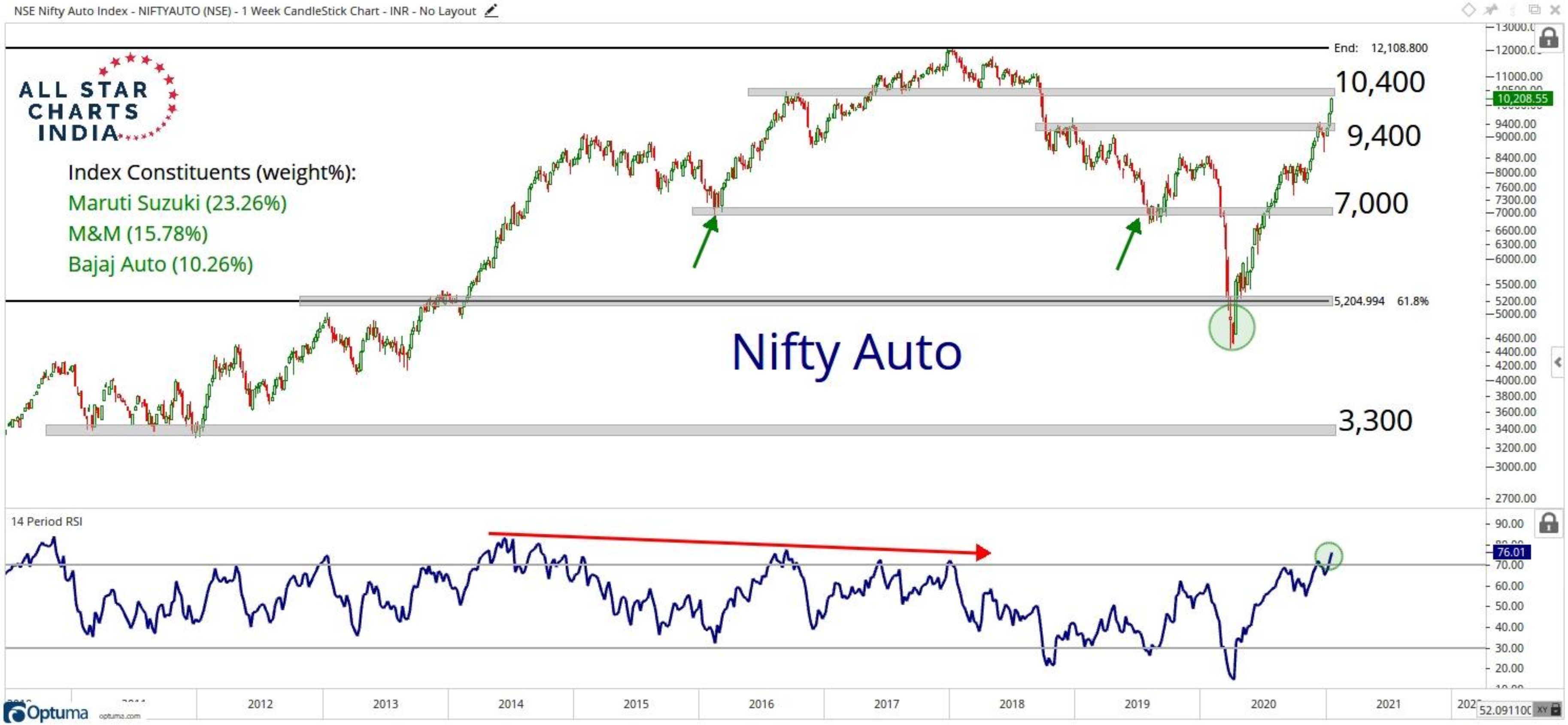
On a relative basis, this sector should perform in line with large-caps, until the range is breached on either side. The long term trend is UP, so we don't want to be betting against this sector anytime soon.



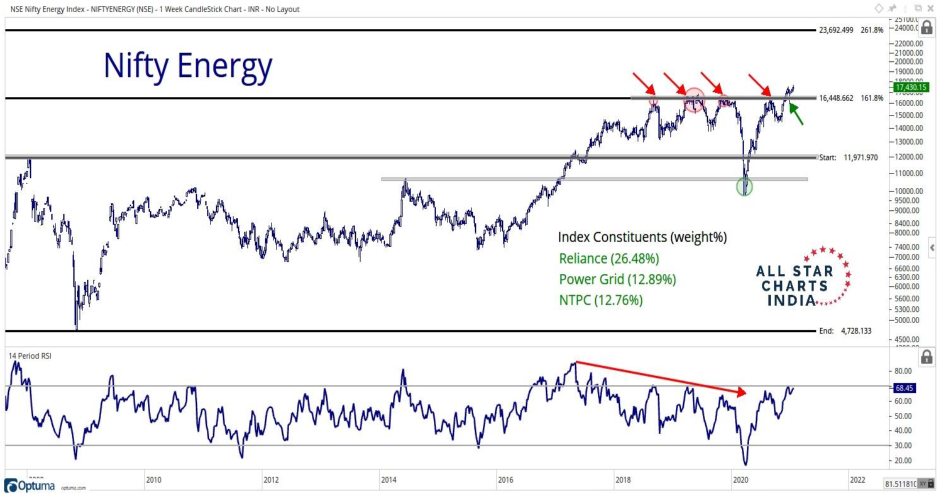
Metals just broke another major resistance at 3475, so that's our new risk management level. Now we're watching for 4200 as our next target.

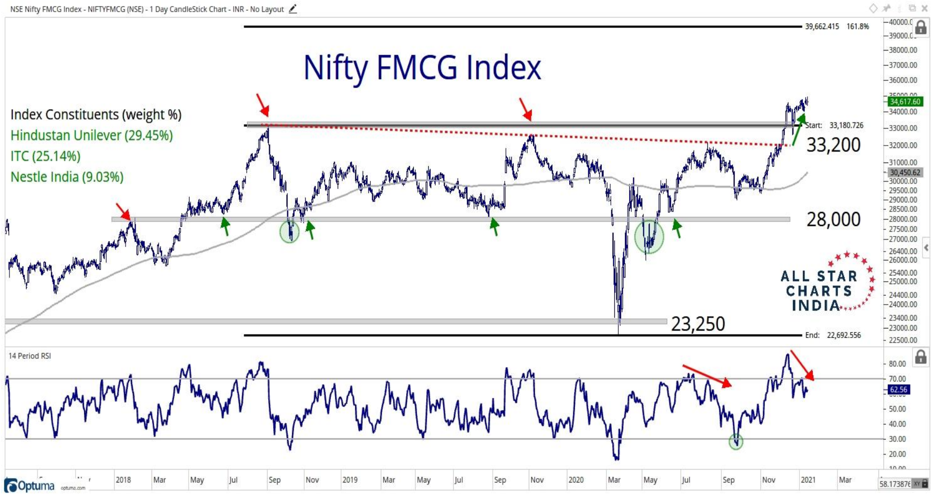


On a relative basis, Nifty Metals look like they will outperform largecaps. Rising yields in bond markets (globally, not yet in India) imply an inflationary environment that benefits metals, and other commodities. In the FICC section, we note the strength in Commodities and the Australian dollar. Therefore, there are many tailwinds for this sector.



Nifty Auto has moved into a bullish momentum regime after three years, however, it needs to move above 10,400 for another leg higher. The Tyres and Auto Ancillary sub-sectors lead with some great reward/risk opportunities shared later in this playbook.





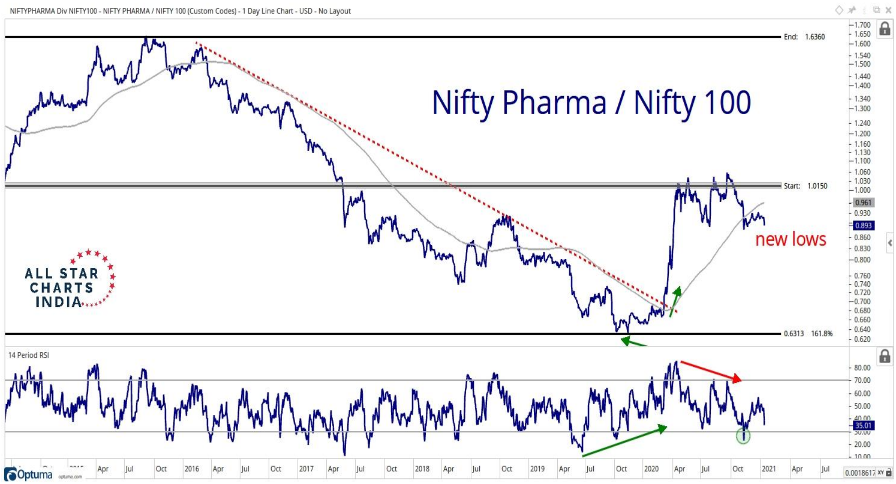
Nifty Energy has broken out of a 3-year consolidation. Making new highs, this is one sector we'd like to keep an eye on. We are long above 16,450 with a target of 23,700.

Nifty FMCG finally moved above its resistance and is consolidating above it, which is a good sign. We are bullish above 33,180 with a target of 39.600. We see rotation into consumer durables and want to be selectively long in this space.

Nifty Realty has been improving over time and is currently moving towards its resistance of 370. A sustained move above this level could open up a target of 520. We'd like to be selectively long certain stocks until the sector breaks above 370.

In a similar vein, stocks in the Construction segment offer long opportunities as well. We've shared some trade ideas in the next section.

Nifty Pharma has been a strong space to be invested in all quarter. Immediate target for the sector is 13,500, a breach of which could take the index towards 18,000. Read this update from December 13.



Nifty Realty has broken above its resistance on a relative basis, breaking the trend of lower highs and lower lows .

On a relative basis, Pharma has hit the break on its phenomenal recovery from lows. While the index is still positive, we expect to see a pause before resumption of momentum.

Equities Round-up

We want to looking for stocks to buy, NOT stocks to sell. While we've witnessed a clean rally and extended stocks and indices, market show no signs of exhaustion. Perhaps the most bullish information is embedded in the sector rotation under the surface. We want to be disciplined in exiting stocks that hit our targets, and finding more favourable reward/risk opportunities. Thankfully, there are plenty of stocks breaking out of multi-year bases.

The IT sector remains the most bullish, but since it's extended from its nearest base, we want to update our risk management level. Auto, Realty and Construction, Metals, FMCG, Chemicals, and Financial Services have favourable setups today.

Mid-caps and Small-caps are expected to outperform large-caps in the months ahead.

We continue to remain underweight in sectors like PSU, PSE and Media.

Conclusion: We want to be buying weakness, not selling strength.

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Trade Ideas

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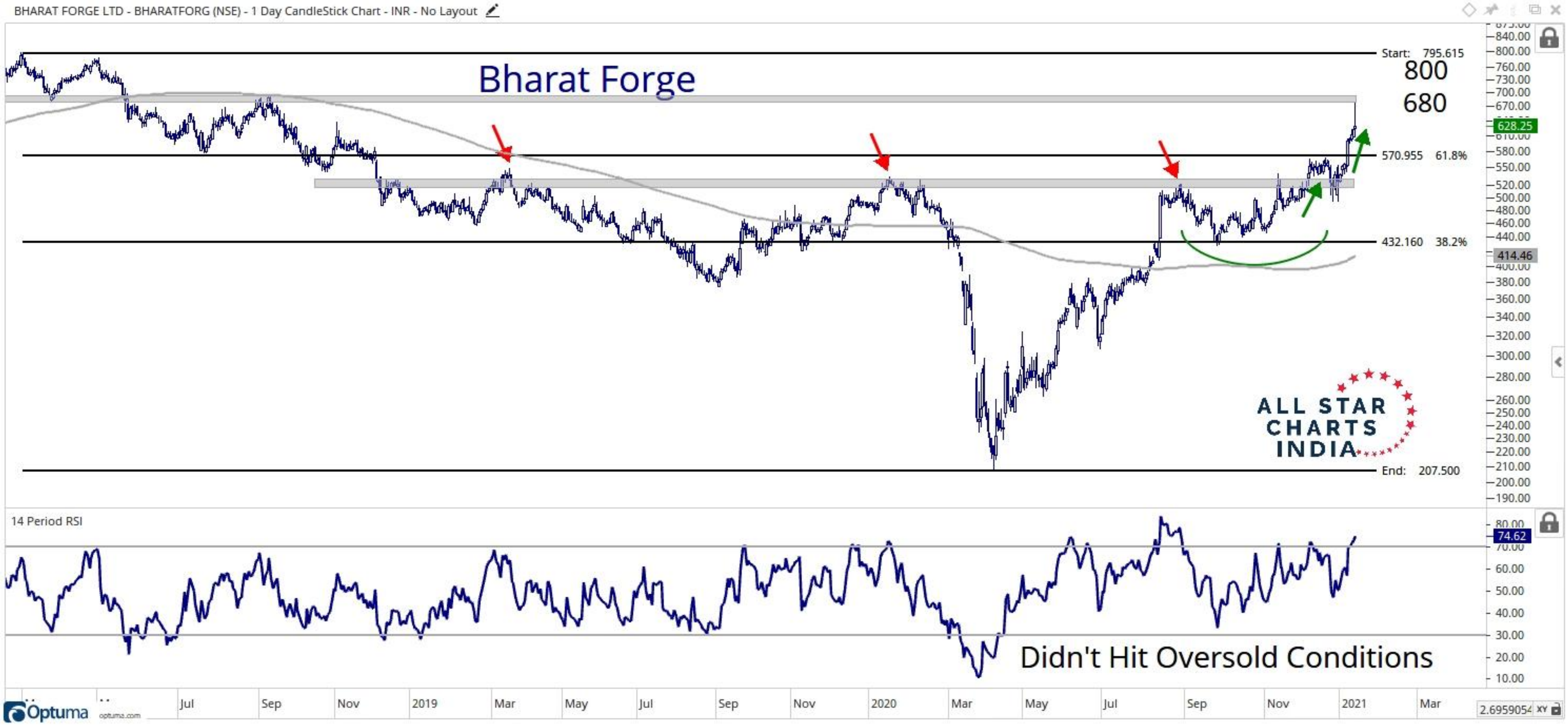
HDFC has been in a strong uptrend; pullbacks towards 2,500 can be used as buying opportunities, with a target near 3,140.

Bajaj Auto has broken out of a three year base and we are long above the risk management level of 3360 for a target of 4190.

Escorts is a buy above 1,350 with a target of 1900. The price has made an unsuccessful attempt to breach 1350 in the past, but with the Auto sector breaking out, we expect this stock to do well.

Balkrishna Industries is bullish above 1640, for a target of 2225.

MRF is long above 80,900 for a target of 1,00,200. Looks like the price a getting ready to break out of a big base.

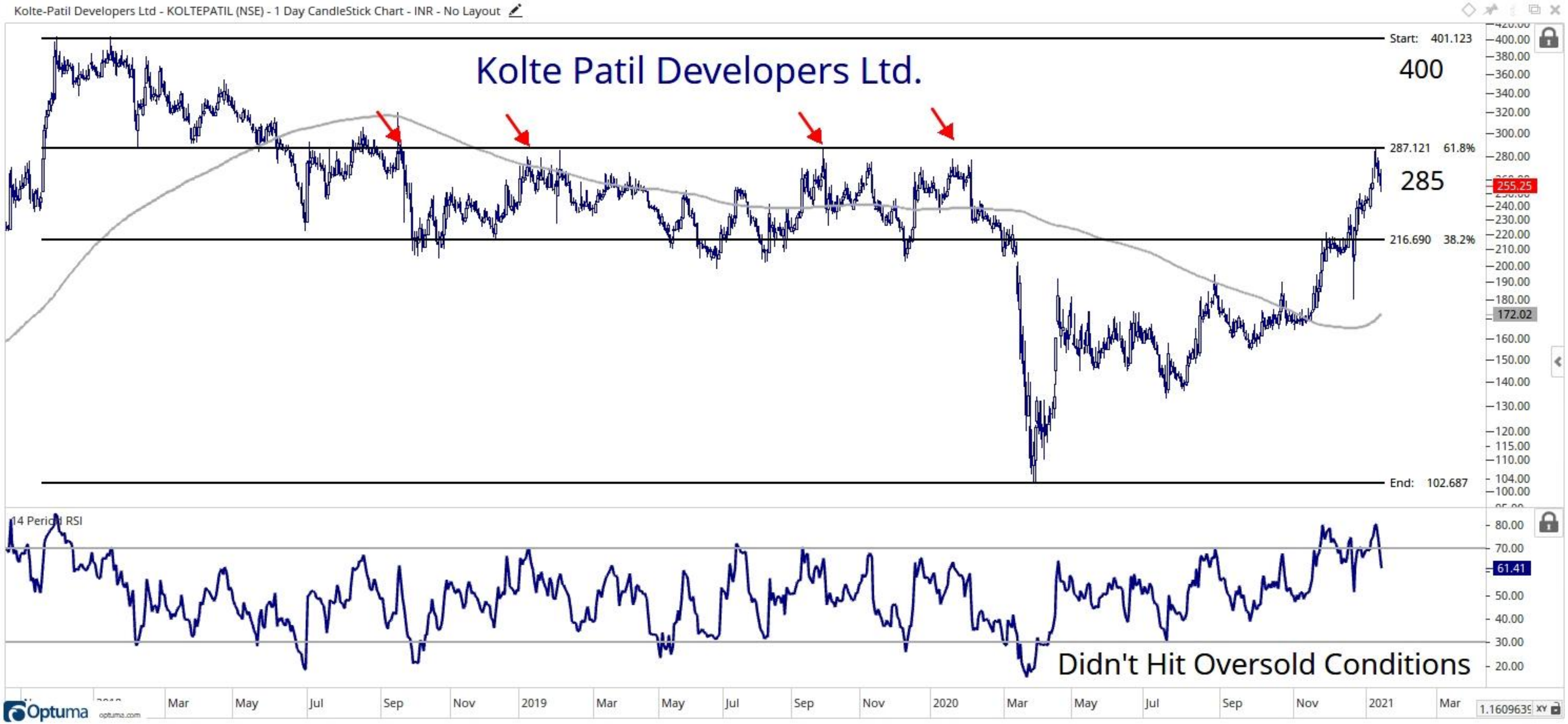


The more times a level is tested, the more likely it is to break. We can see this play out in Bharat Forge as price breaks above 520 and sustains above its fibonacci level of 570. We are positive above this level where pullbacks can be bought with a target near 800.

Brigade Enterprises is a buy as long as it remains above 245, for a target of 340.

Kajaria Ceramics is bullish. Buy any pullback with a risk management level of 645 for a target of 860.

KNR Construction breached the resistance of 340 with momentum in a bullish regime. We are looking at a target of 450 in the weeks and months ahead.



Kolte Patil is another stock that is attempting to breach its resistance on strong bullish momentum. We would like to be long above 285, for a target of 400.

JSW Steel is bullish above 410, with a target of 580. [Check out the other Metal stocks we highlighted last week.]

Nifty IT has been one of the strongest performers in the current market rally. We are bullish in TCS above levels of 3050, for a target of 3830. Also read this comprehensive top/down take from September.

L&T Technology Services is consolidating above 2285. If the price remains above that level, we can be long with a target of 3070.

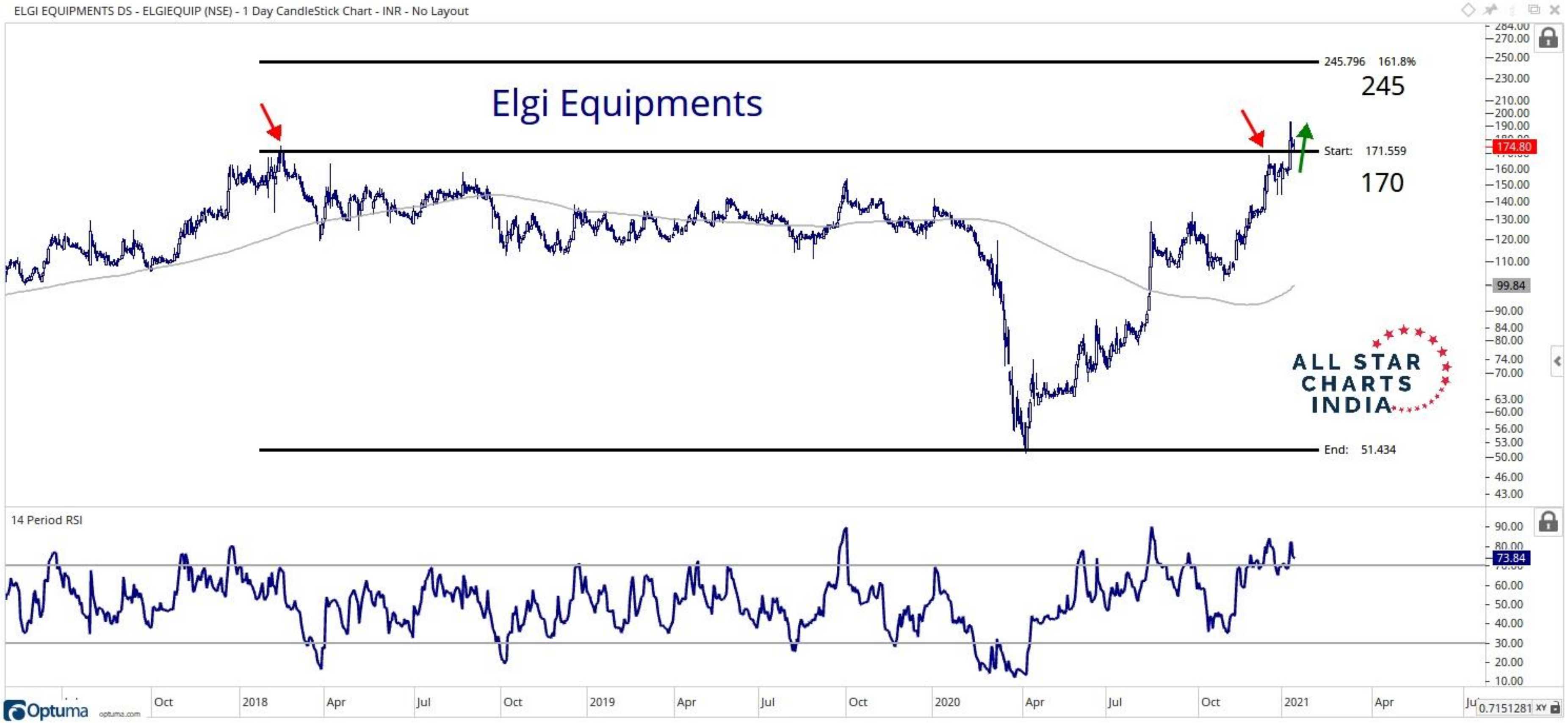
Sonata Software has broken out of a strong overhead supply zone at 400. The next target we’re looking at is 550.

AIA Engineering made new highs and is consolidating above its former resistance, now support. We are bullish above 1950 with a target of 2470.

Honeywell Automation has moved above its 2020 highs and is a buy with a risk management level of 37,800 for a target of 48,600.

SRF is in a long-term uptrend. If price sustains above 5950, we would like to be long with a target near 9540.

Carborundum Universal can be bought on a breakout above 420, with a target of 550.



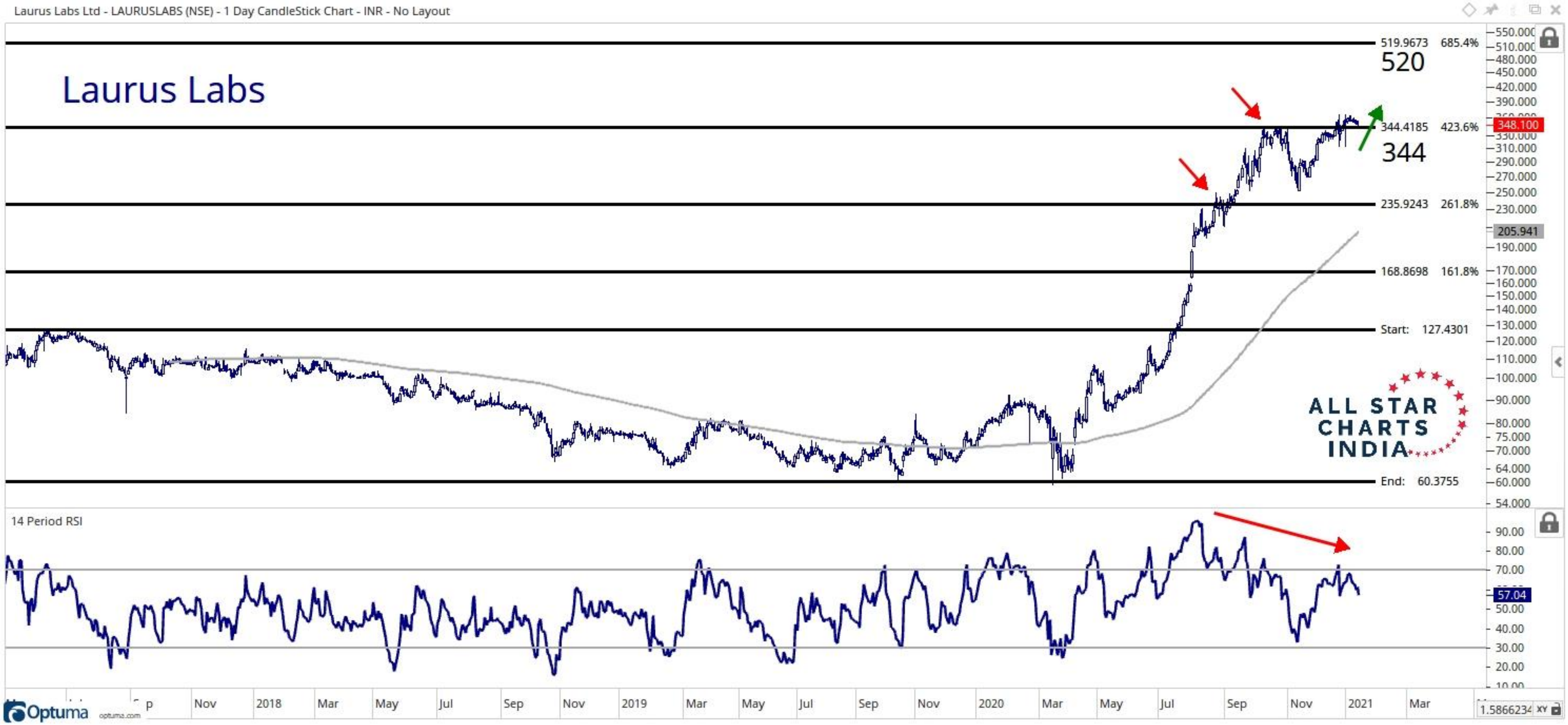
Elgi Equipment can be bought as long as price remains above 170. We're looking at a target of 245.

Voltas is a long above the level of 910, with a target of 1200.

Radico Khaitan is breaking out of a three-year base. This stock can be bought with a risk management level of 475 and a target of 740.

Indiamart Intermesh is a buy above 6,800, for a target of 10,000.

Alembic Pharmaceuticals Ltd. is a long if price remains above 1020, with a target near 1400.



Laurus Labs continues its dream run and is a buy above the level of 344, for a target of 520.

Page Industries is breaking out of its base and can be bought above 28,725 with a target near 36,435.

Lux Industries is a buy above 1,605, with a target near 2,095.

FICC

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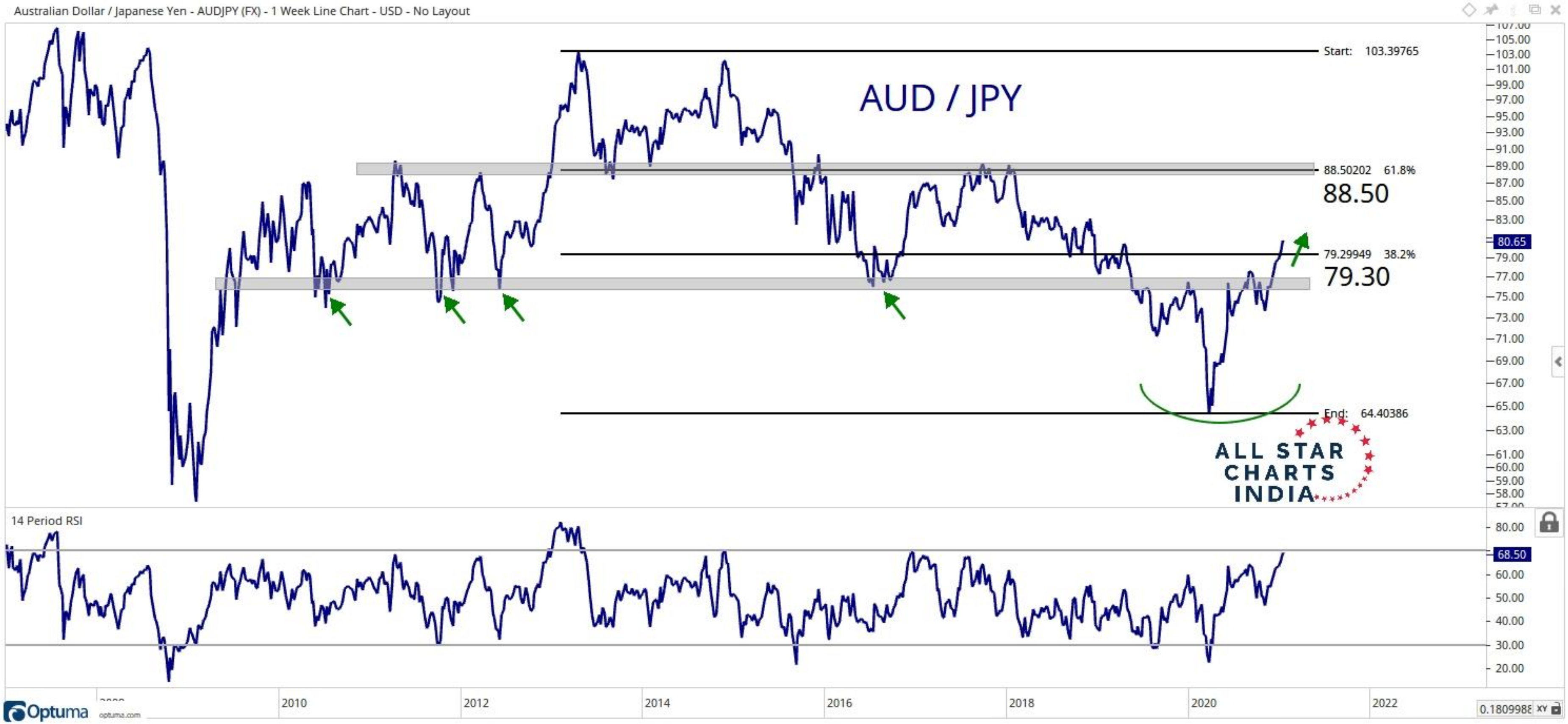
Most currency pairs have consolidated and moved sideways in a narrow band, giving little to no wriggle room. USD/INR is currently holding on to its minor support of 72.90, a beach of which could take it towards 69.

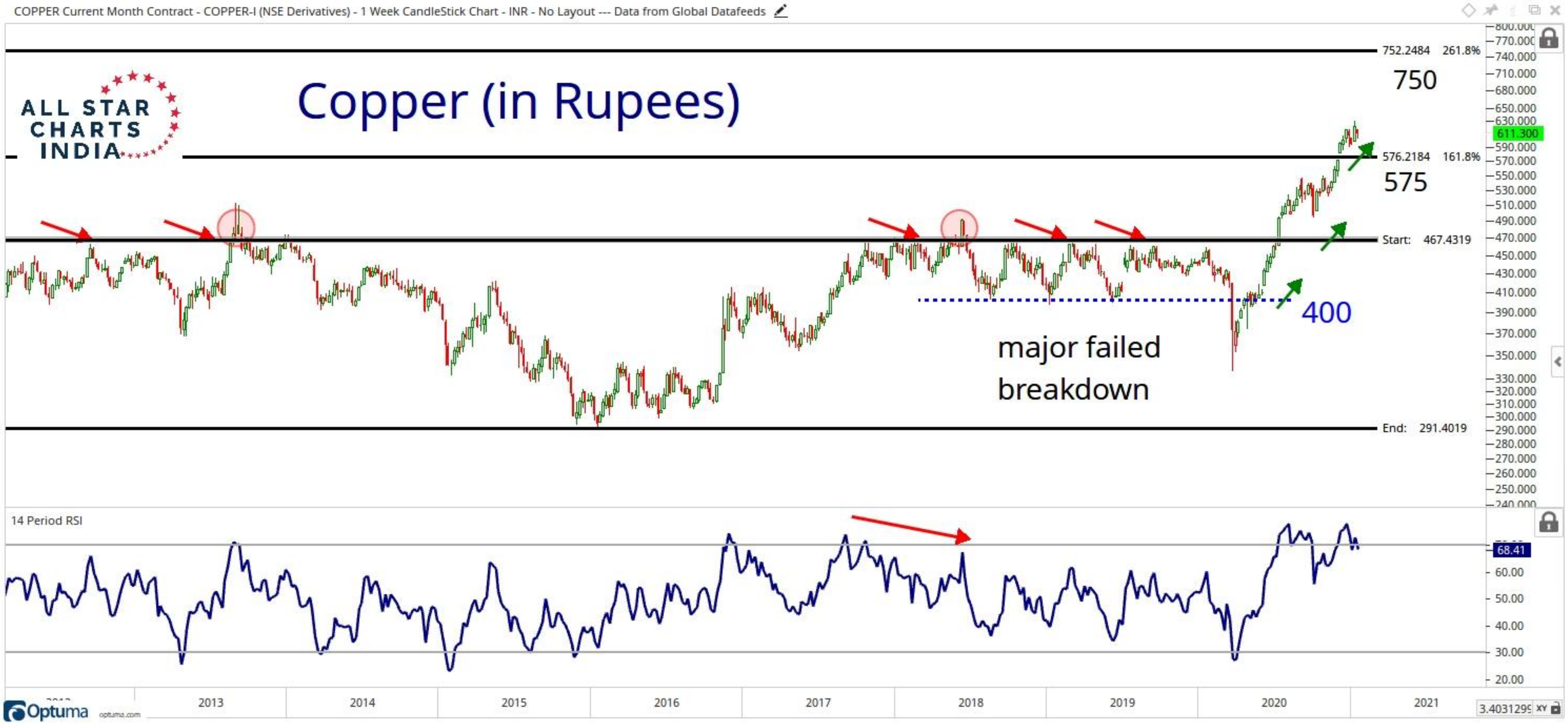
EUR/INR has broken above its overhead supply zone of 87.90. As long as the price holds above this level, we can expect a move towards 101.

One major catalyst for the sharp move we've witnessed in commodities is the correction in the US Dollar. In 2020 we witnessed a fall from 103 to 89. The Dollar index is currently trading at a crucial level which has had plenty of price memory in the past. We witnessed a bounce-back from around 89 in early 2018 and are back at that level now. A bounce-back could mean a shift in sentiment in the commodities and equity space going forward which is something we will keep an eye on.



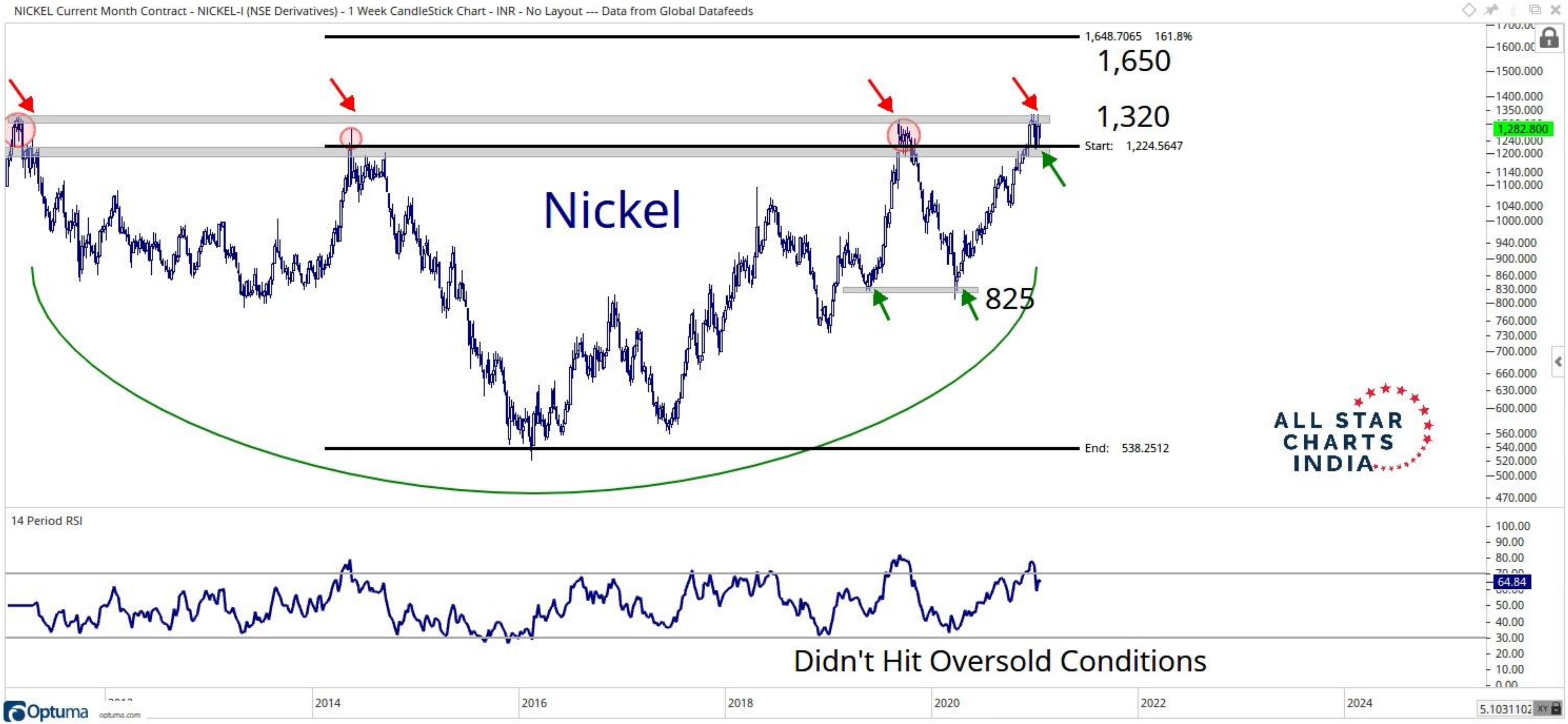
A rising AUD/JPY currency pair hints at a risk-on environment.

GBP/INR has moved above the resistance level of 97 and is expected to move towards 104 as long as it remains above 97.

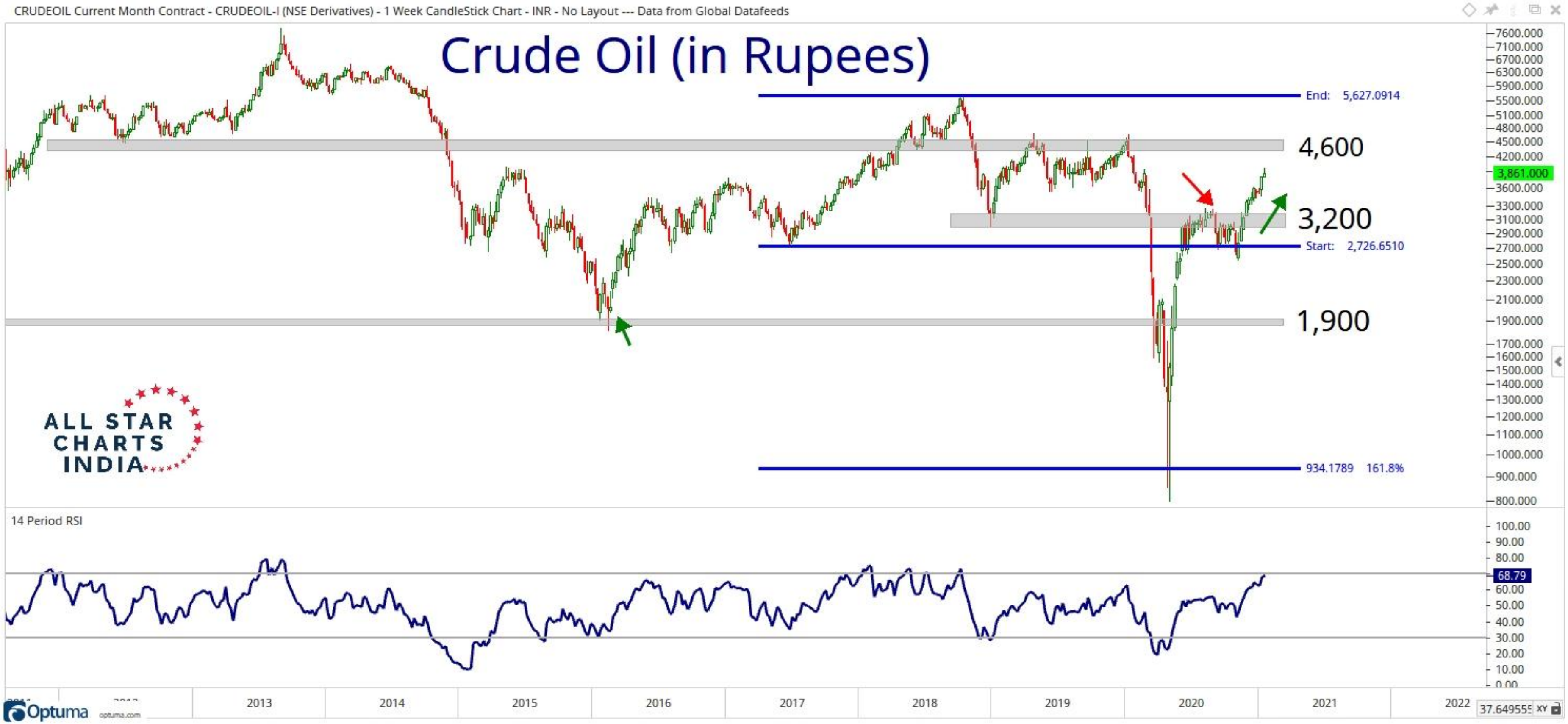


Copper has been on a tear since breaching 465, and has moved above its resistance as 575 as well. With momentum firmly placed in bullish territory, we are looking at a target of 750 in the months ahead.

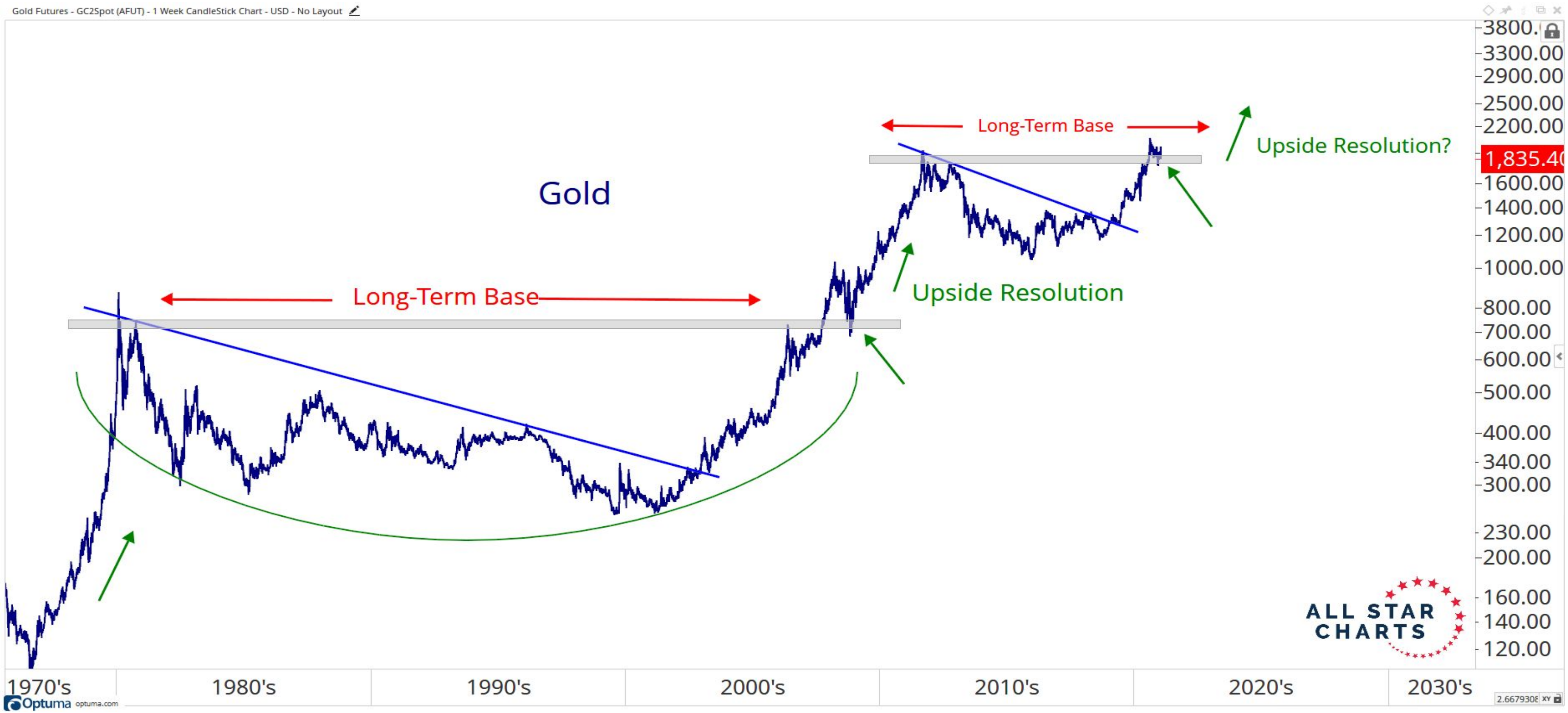
Aluminum is pushing up against its resistance of 166, which has been tested three times in the past. A breach of 166 could take the commodity higher towards 189, whereas a failed breakout could mean a correction towards 150. While momentum is on the positive side, a positive move in the US dollar index could wreak havoc in the commodities space.



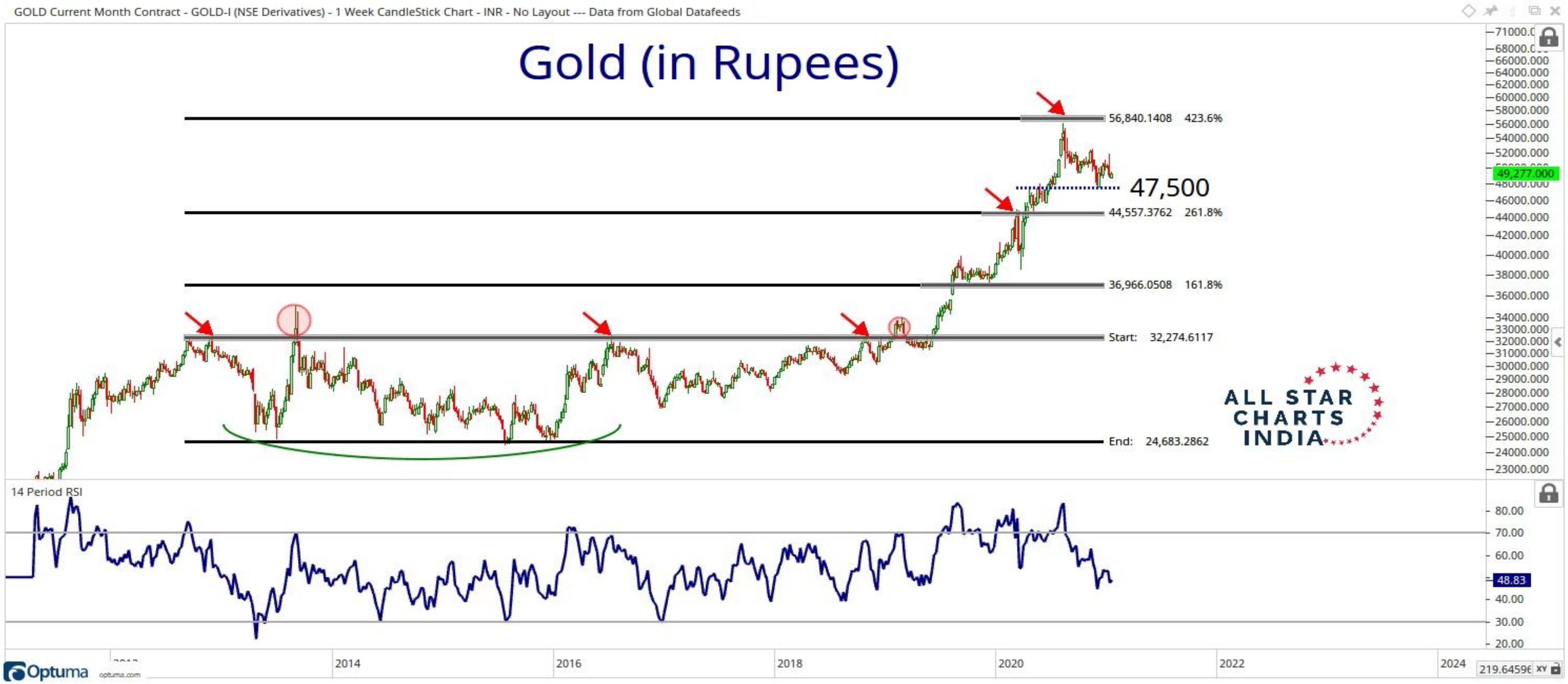
Nickel hasn't been able to move past the hurdle of 1320 and continues to halt at the same level. We are bullish only above 1320, with a target of 1650.



Crude oil has made a sharp turnaround since its historic fall and is now headed towards 4600. Our risk management level is 3200.



And here's an even longer-term view (in dollars), Gold has a tendency to carve out major bases and follow through with major rallies. Is this time different? We'll have to see.But shorter term, the yellow rock is battling with new lows while most other areas are near new highs. Not bullish.



Moving into the fourth quarter, we're staying away from Precious Metals. They remain a major laggard in the Commodity complex. Even with a weak dollar, seeing Precious Metals not being able to catch a bid really speaks to the underlying weakness. But from a long-term perspective, we do think the bias is still to the upside as long as Gold is above 44,500. But looking out for the next few months, there are simply better opportunities elsewhere.

Same with Silver. While the bias longer-term is still up, it's a mess for our timeframe looking at months and quarters. We only want to be long Silver if and only if it's above 73,900, in which case we'd look at a target near 99,400.

FICC Round-up

The strength lies in base metals while precious metals fight it out in their range-bound move.

The Dollar Index correction has a lot to do with the rally that we've witnessed so far in commodities (and stocks). With the greenback closing in on crucial multi-year support, this would be a logical place for consolidation or even a relief rally. A relief rally in the Dollar could play spoilsport in the Commodity and Stocks universe as we go forward.

Among the currency pairs, EUR/INR and GBP/INR are expected to scale higher while USD/INR churns sideways.

The weakness in the US Dollar along with the strength in commodities completes our inflationary environment picture with rising bond yields. As these trends continue, we are bullish stocks, and base metals. Any strength in the US Dollar would throw a wrench in this entire thesis. It is a risk factor, but that's not the bet we're making.

Trade Ideas

Contact Us

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