

Market Internals

With
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The IT Inflexion Point

Quantitative & Alternate Strategy

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Our weekly compendium

Our Market Internals weekly compendium offers insight into the macro signals, global trends, market perspectives, sector calls and actionable ideas highlighted during the week.

As the Lotus Blooms, Subdued

Within a bull market backdrop, a large part of the damages contained at the minimal levels. In the absence of a bull market engine (both India and global), the aftereffects of such a negative surprise in the General Elections could have been huge. Many stocks that have seen excesses on the upside have seen retracements near 40% at the lows. This is the retracement of the past 6-8 months uptrend. This means a large part of the excesses are taken care of in one fell swoop.

The IT Inflexion Point

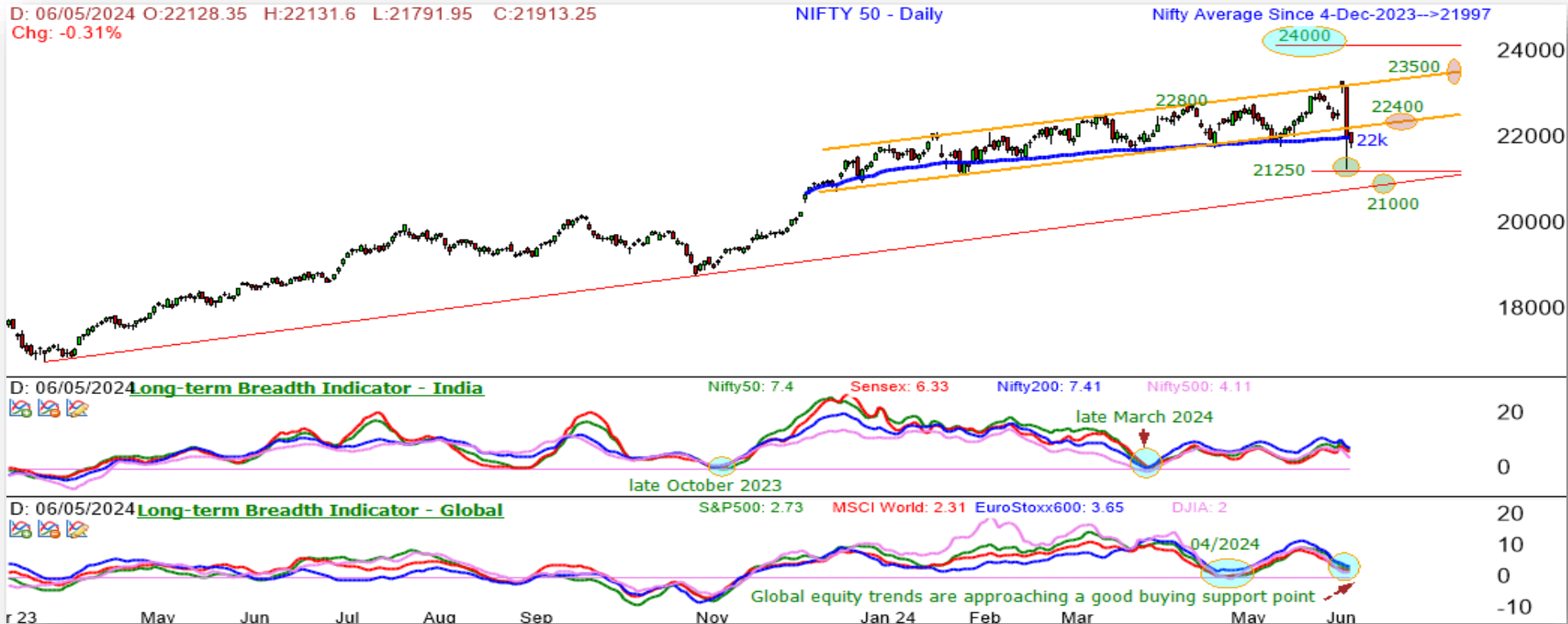
The turnaround in IT unfolds from an important long-term support. This is the ideal last ground for the next long-term inflexion in IT. We are tempted to give a quick verdict that the 2.5 years underperformance of IT has bottomed. The initial move off this low could target another 8% outperformance. To conclude, we could witness the third largest inflexion point since the past 15 years. Another multi-year outperformance could be evolving.

Our Top Pick: HCL Tech

One viable strategy at the inflexion point is to buy the basket and then increase bets on some stocks as more bottom-up patterns evolve. HCL Tech has entered a new orbit of IT leadership during mid-2023. We could be right at the optimal entry point to position for the next large alpha in the stock.

We do note that writings in subsequent slides are as per previously published MiB during the week.

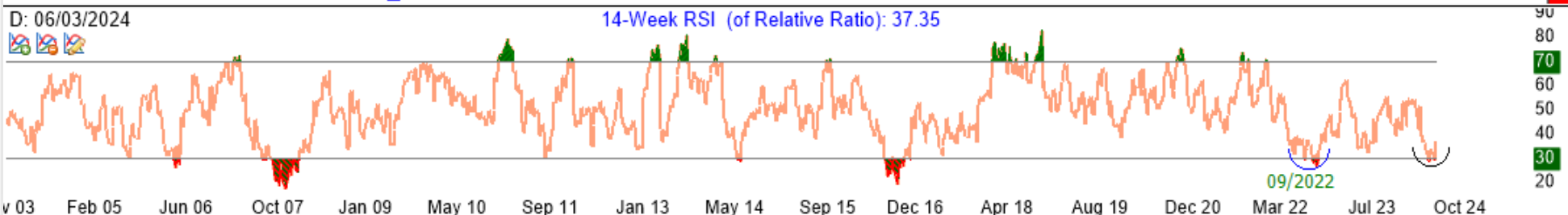
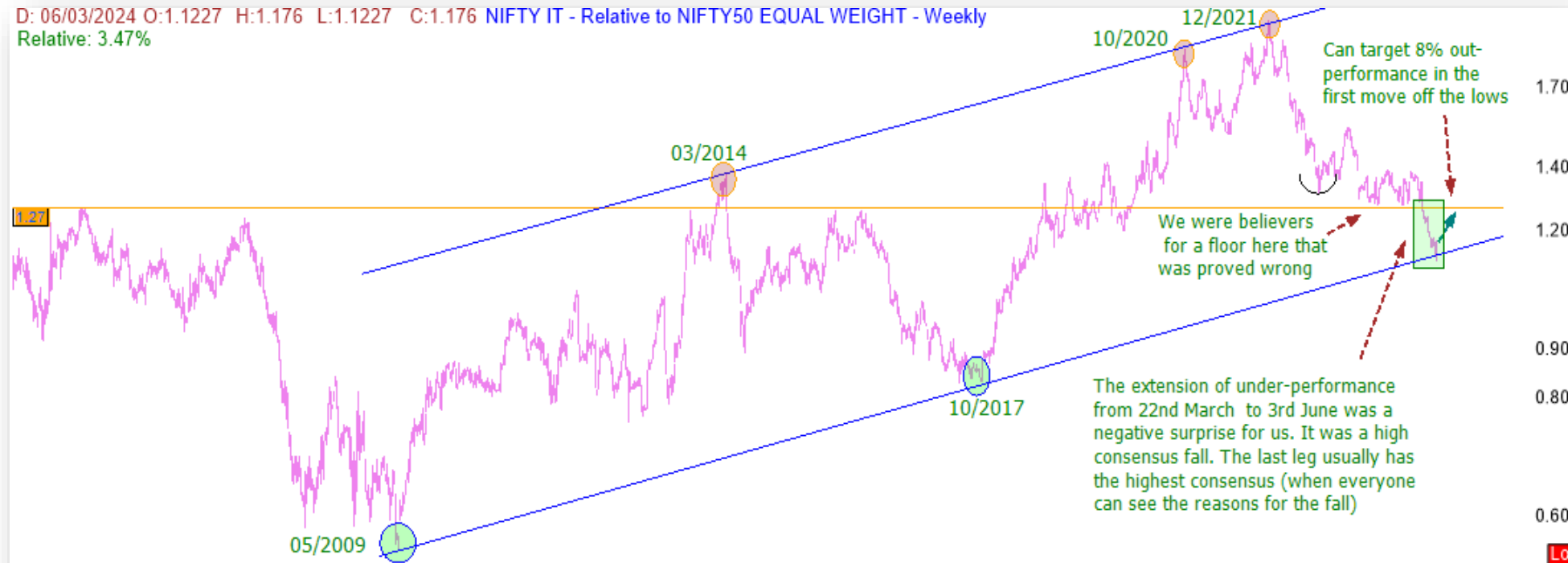
As the Lotus Blooms, Subdued



As the Lotus blooms in a subdued manner, shift is underway in terms of market levels in the near term while the bull market engine remains intact locally and globally. A short-term shift in stock and sector preferences is the first investor response. At 4 June 2024 crash lows, a 1x downward projection from the channel was met at 21250. Within a bull market backdrop, a large part of the damages could mostly be containing at the minimal levels. In the absence of a bull market engine (both India and global), the aftereffects of such a negative surprise could have been huge. The outermost support is near 21k where an important trendline connecting March 2023 bottom with October 2023 bottom configures. This could be the worst point for any further negative surprise while we believe a large part of damages are already done at the 4 June's low (provided the NDA still forms the government). Many stocks that have seen excesses on the upside have seen retracement near 40% at the lows. This is the retracement of the past 6-8 months uptrend. This means, a large part of excesses are taken care of in one fell swoop. The key investor average (blue overlay) has been a dip-buying zone recently. This is currently located at 22000 and excursions lower seems temporary. To conclude, the risk-reward for the next 3-months is currently shifted to 21000 and 24000. The higher targets like 26000 would have currently shifted from six months to 12 months. Autos continues to be the pocket of interest, delivering 2% alpha in the carnage. The latest events catalyze bullish conditions in two-wheelers aggressively. Please refer to June 3's note <https://tinyurl.com/ydwb5wck> that includes a stock matrix. We have highlighted the 90th percentile ranks as overbought and vulnerable to profit-taking. It can be used as a ready reckoner to help with ideal ideation pockets

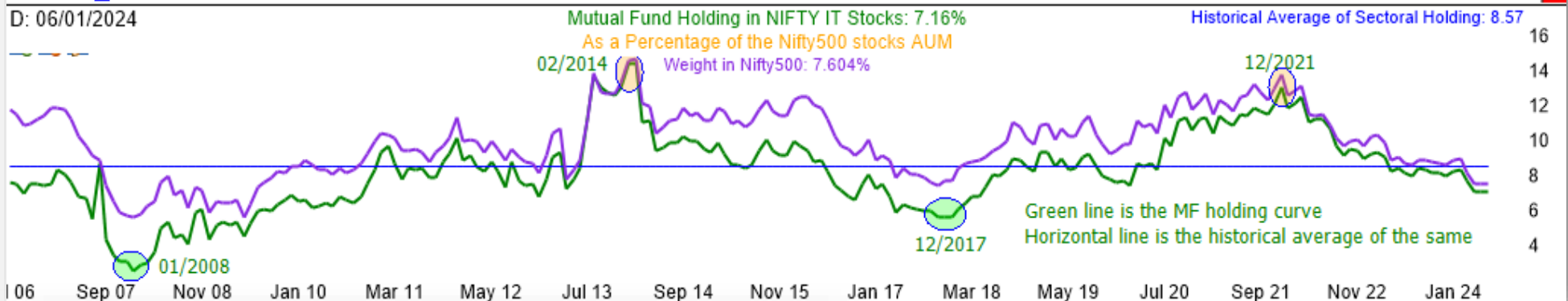
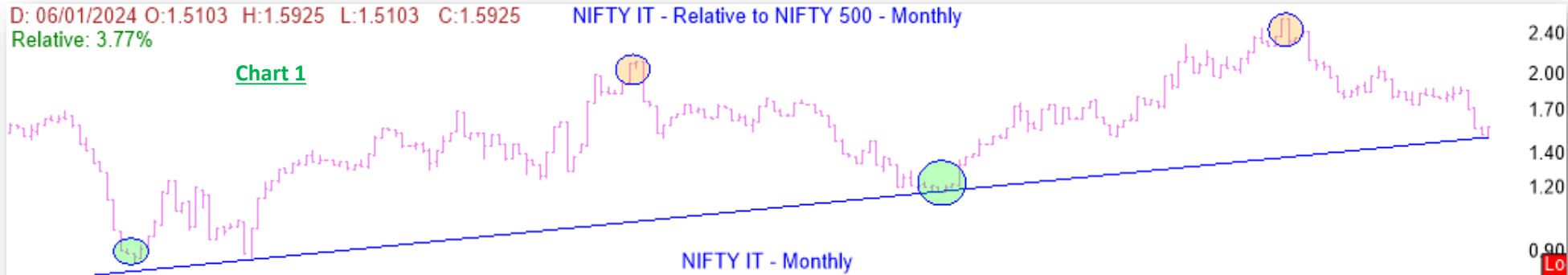
The IT Inflexion Point

D: 06/03/2024 O:1.1227 H:1.176 L:1.1227 C:1.176 NIFTY IT - Relative to NIFTY50 EQUAL WEIGHT - Weekly
Relative: 3.47%



The turnaround in IT unfolds from an important long-term support. This is the ideal last ground for the next long-term inflexion in IT. We were reading a floor for IT last year, and hence, the recent breakdown was a negative surprise to our IT layout. The final leg of any downtrend is usually a high consensus one, whereby reasons for the decline are fully discovered and executed by everyone. We have been maintaining a long-term positive bias on IT for several years. The recent excesses on the downside were challenging to digest within that perspective. The turnaround here is from a crucial level that was the last best ground for bullish response and restore the positive big picture. We are tempted to give a quick verdict that the 2.5 years underperformance of IT has bottomed. The initial move off this low could target another 8% outperformance. To conclude, we could be witness to the third largest inflexion point since the past 15 years. Another multi-year outperformance could be evolving

Our Top Pick: HCL Tech



One of the ways to understand consensus selling that accompanied the last fall in IT is the MF holdings curve that fell sharply during March-April toward a six-year low. The last prominent drop in investor interest was toward late 2017 from where the positive alpha cycle was launched. Usually when there is a sectoral inflexion, the stock preferences may not be easily evident. More clarity on stock ideation emerges over months after the bottom signal in the sector. One viable strategy at the inflexion point is to buy the basket and then increase bets on some stocks as more bottom-up patterns evolve. Within such a limitation, if we ought to choose one stock here, it would be HCL Tech. We have highlighted the big picture many times

(<https://www.elaracapital.com/researchpdf/COD30May2023.pdf>). This could be an optimal entry point to position for the next large alpha in the stock

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