

Market Internals

With

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Nifty delivers a Breadth Thrust

Quantitative & Alternate Strategy

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Restoration process testing key resistance near 24500

The best support for the bull market was one of our pivot averages from November 2023, the big bullish inflexion point. This was successfully tested at the recent lows near 23200. This was a very important level for investors as portfolios could have bled below this. When this level is protected, it is easier for the market to restore the bull market conditions. The success of the current bottoming or restoration process would be indicated when the market progresses above 24500.

Nifty delivers a Breadth Thrust

The volatile session on 5 December 2024 has delivered a Breadth Thrust sign for the Nifty. The Breadth Thrust SIGN is when the market breadth swings from oversold to overbought very fast. The latest Breadth Thrust sign increases the prospects of the uptrend restoration.

Positional dynamics of the Nifty support near 24200

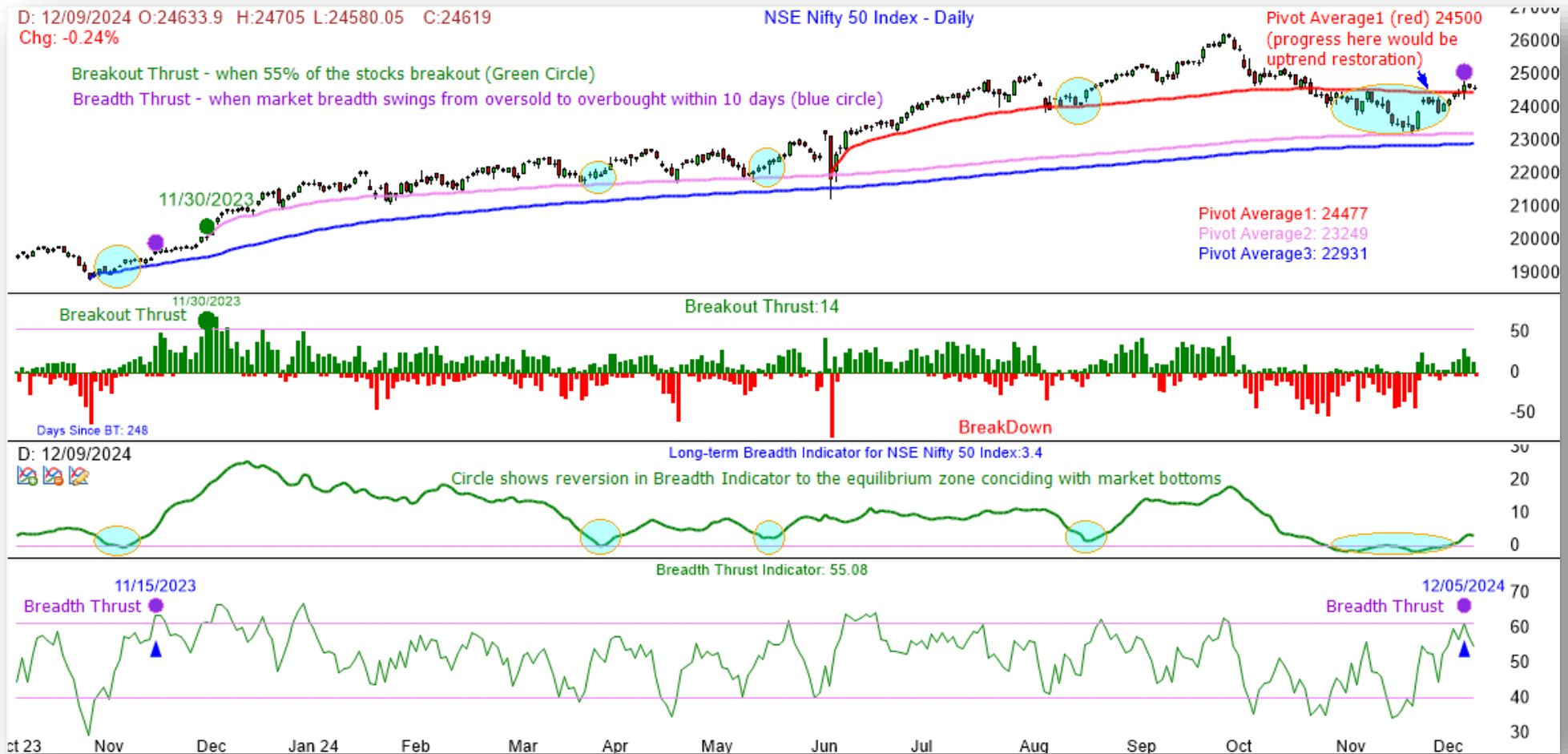
As the market sold off intra-day on 13 December 2024, our eyes were trained on the 24200 level. This is based on our dissection of the stock futures data. An approximate exposure level of the recent bears was broken near 24200 earlier. Hence, this was a crucial support for the rally. The frenetic recovery from that level augurs well for our earlier reading of the uptrend extending with projections near 25300 followed by 27000.

Restoration process testing key resistance near 24500



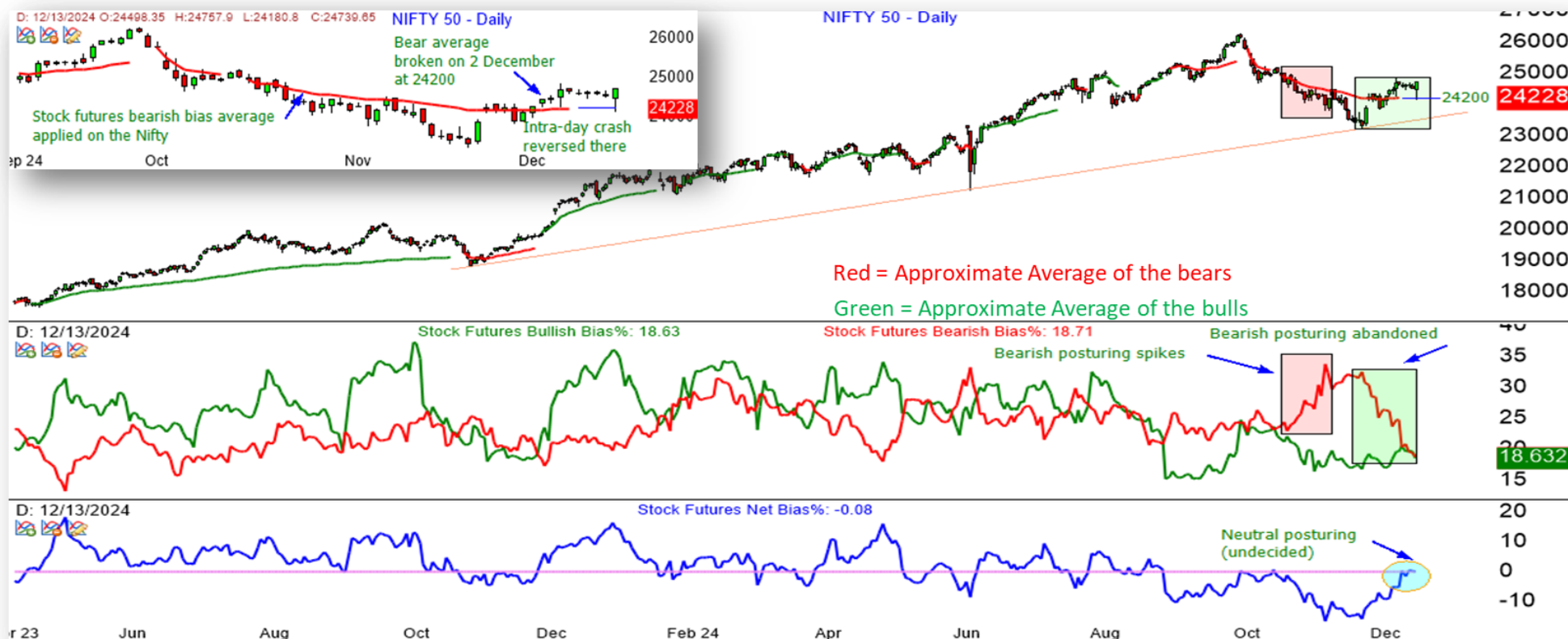
Most developed markets, Nifty50 and Nifty200 had shown concentration of breakouts during late November-early December 2023. We have constructed an average (violet line) of the Nifty from that point, which has been attracting demand successfully. This was the best support for the bull market and is tested at the recent lows near 23200. This was a very important level for investors as portfolios could have bled below this. When this level is protected, it is easier for the market to restore the bull market conditions. There were a few other clusters near 23200, including the uptrend line connecting October 2023 low to June 2024 low (blue line). Also, the Long-Term Breadth Indicator for various indices has been testing the bull market equilibrium and a restoration is underway. Three of the recent market bottoms coincided with this equilibrium test. The success of the current bottoming or restoration process would be indicated when the market progresses above 24500. Earlier, we have listed our thought process for the market bottom (<https://www.elaracapital.com/researchpdf/COD29Nov2024.pdf>).

Nifty delivers a Breadth Thrust



The volatile session on 5 December 2024 has delivered a Breadth Thrust sign for the Nifty. The Breadth Thrust sign is when the market breadth swings from oversold to overbought very fast. This is captured from the Breadth Thrust Indicator, when it swings from below 40 to above 61.5 within 10 sessions. The last Breadth Thrust in Nifty was on 15 November 2023 when the market was restoring from the October 2023 shakeout. The bigger upgrade to the uptrend was signaled when the Breadth Thrust was followed by a Breakout Thrust on 30 November 2023. The latest Breadth Thrust sign increases the prospects of the uptrend restoration. We have mentioned progress above 24500 as crucial to this restoration (<https://www.elaracapital.com/researchpdf/COD4Dec2024.pdf>). The market uptrend here is a curious mix of select heavyweights and small-caps.

Positional dynamics of the Nifty support near 24200



As the market sold off intra-day on 13 December 2024, our eyes were trained on the 24200 level, which was particularly interesting to us. This is based on our dissection of the stock futures data. We extract an approximate color on the bullish and bearish bias in positions based on the stock futures data. This is plotted in the second subgraph (green = bullish bias, red = bearish bias). Speculative confidence on the bearish side spiked recently during the middle stages of the downtrend (highlighted with the first box). During the market rally from the Nifty low of 22 November 2024, this bearish bias has started contracting sharply (second box) and has fully flattened since the past few days. Restoration of strength here would be a positive catalyst. Shorts started losing money when the Nifty rallied above 24200 earlier. Notice the recent red line overlaid on the Nifty chart. This is the approximate exposure level of the recent bears, which was broken near 24200. Hence, this was a crucial support for the rally. The frenetic recovery from that level augurs well for our earlier reading of the uptrend extending, with projections near 25300 followed by 27000. We earlier highlighted the Breadth Thrust sign on Nifty (<https://www.elaracapital.com/researchpdf/COD10Dec2024.pdf>) as a boost to this bullish bias. We have mentioned progress above 24500 as crucial to this restoration (<https://www.elaracapital.com/researchpdf/COD4Dec2024.pdf>). After the intra-day collapse, Nifty is poised near this level now.

Reiterates the long-term bottom in Nifty IT; projects 50% out-performance

We have highlighted the long-term support at May lows which completes the bear run that commenced from December 2021. The bull market in IT here would also be of an 18-24 months variety, with projections of 50% out-performance.

Buy the dip in IT

During July, Nifty IT has taken out the December 2021 peak, reiterating the resumption of the bull market. We find triggers for a rapid uptrend and hence, the latest dip can be an opportunity.

When we see robust sectoral currents unfolding, we generally prefer to buy the entire basket rather than attempt hair-splitting bottom-up ideations. We believe the latter is better enabled through fundamental analysis. If we need to pick bottom-up, it would be *HCL Tech, TechM, Infosys, OFSS, Mphasis, LTIM, Wipro, TCS, Coforge, NIIT, Mastek, eClerx and ADSL*.

Market outlook

We were a bit misaligned to the extended market weakness. We highlighted the first oversold and support after the first dip that failed to hold. ***The latest bottom is from the best oversold and support.*** We see a favorable risk-reward encouraged by:

- ❑ Robust bull market conditions prevailing in IT; one heavyweight sector in a very constructive support mode for the market.
- ❑ The worst is behind for Bank Nifty from a tactical perspective.

- ❑ The market absorbed the Adani shock. Muted impact from negative newsflow is encouraging for the bottom of a correction.
- ❑ India's relative with EM at big support and reviving.
- ❑ Signs of an interim surprise from small and micro-caps. Broader market resilience during the latest market weakness is not indicative of emerging risk-off.
- ❑ The bull market engine in developed markets is intact. Broader market in the US is entering a durable bull run while Europe tested a strong support.

We are evaluating the constructive and destructive evidences and will present our detailed readings in the next note.

Recent IT related notes:

Breakout Thrust in broader US indices

<https://www.elaracapital.com/researchpdf/COD12Nov2024.pdf>

Fresh catalysts reiterate the IT bull run

<https://www.elaracapital.com/researchpdf/COD8Nov2024.pdf>

Reiterates long-term bottom in Nifty IT; projects 50% out-performance



This is the big picture of the Nifty IT bottom that was shared during early June (<https://www.elaracapital.com/researchpdf/COD7Jun2024.pdf>). We have highlighted the long-term support at the May lows which completes the bear run that commenced from December 2021. The May bottom is in a similar league as the IT bottom during October 2017 that was followed by a three-year bull run. The bull market in IT here would also be of an 18-24 months variety.

Scope of dynamic rally; buy the dip



During July, Nifty IT has taken out the December 2021 peak, reiterating the bull market resumption. The relative chart captures the bear to bull transition with long-term averages being taken out. The recent rally was in the wake of a bull market consolidation. Visibility is strong for 15% upside near-term. We find triggers for a rapid uptrend and hence, the latest dip can be an opportunity.

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