Twitter Thread by Kirtan A Shah

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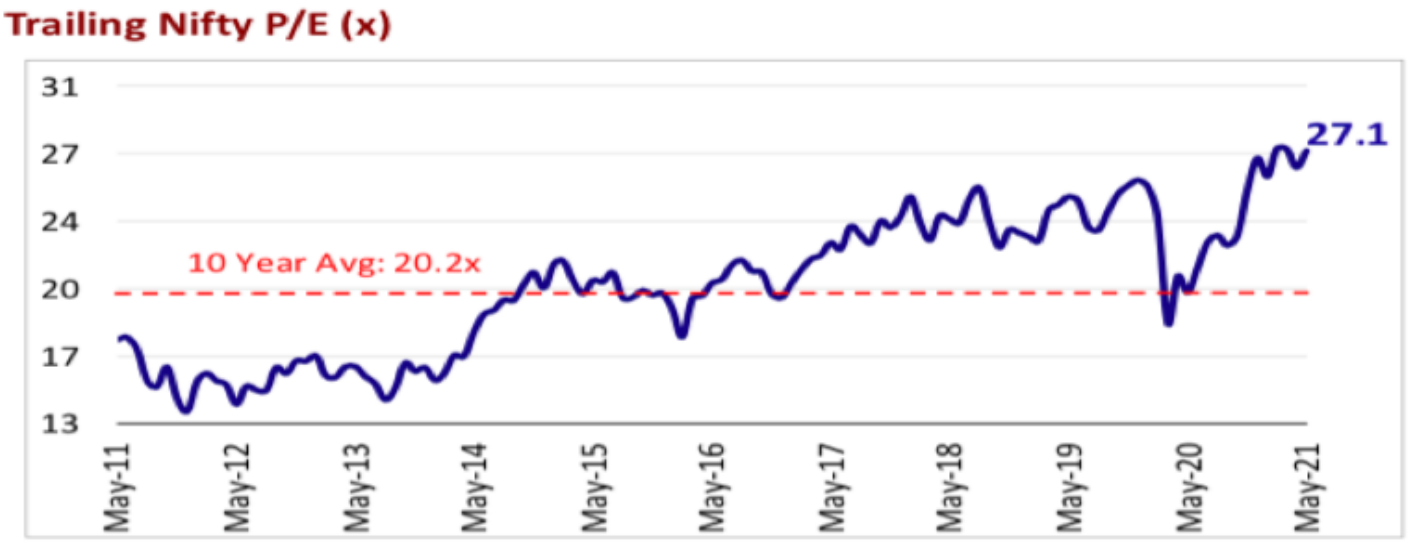
Should you add more in Equity or redeem right now?

A thread ■to guide retail on why & what should they do at these historic market highs.

Do ‘re-tweet’ and help us educate more retail investors (1/n)

#investing #StockMarket

Some investors feel that markets are trading at a PE of 27 vs 10 years historical average of 20 and a market-cap to GDP of 105 vs historical average of 79 and hence markets look expensive (2/n)



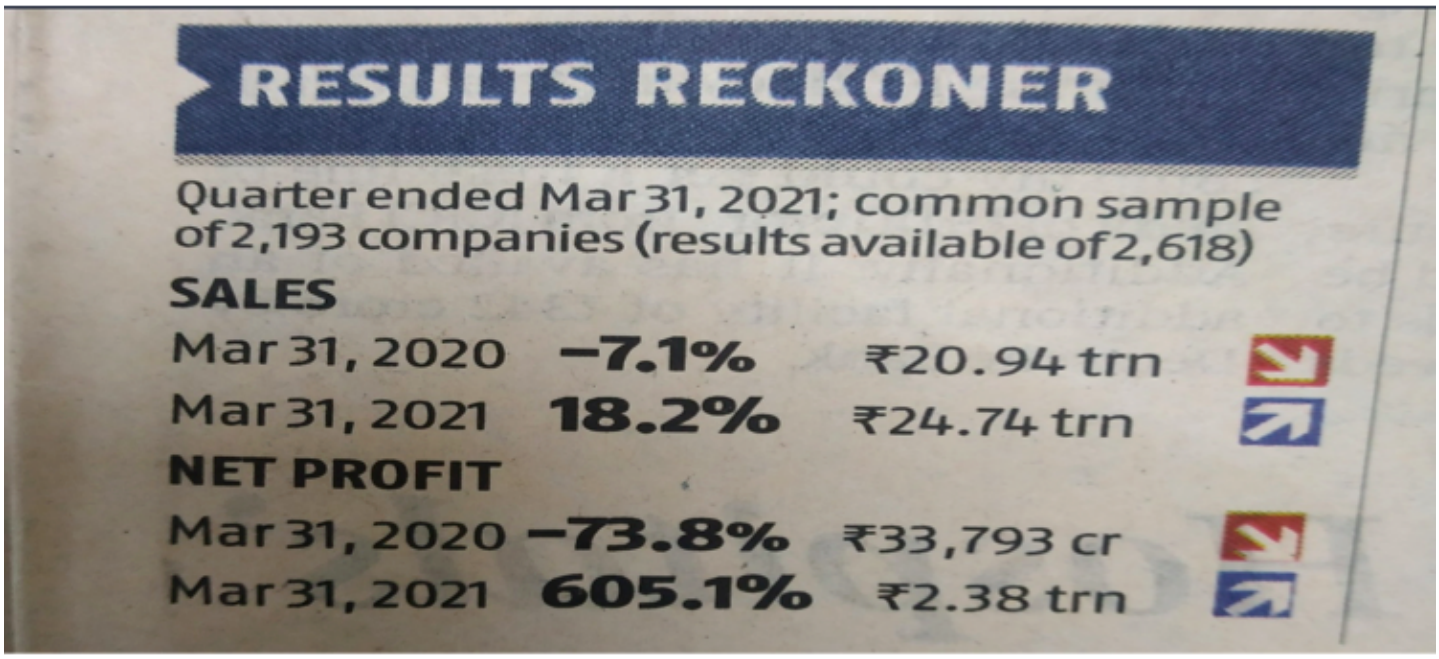
But, in such crazy liquidity driven markets, prices can move much ahead of the fundamentals & suddenly we start hearing commentaries of how the market is pricing in the earnings of FY 22 & 23 to justify the rally

If you r new to fundamentals, ■ can help https://t.co/Um5trNKc13

> Market PE at 40 and yet the market is not falling, why? Getting asked this question multiple times. Here's a thread covering \u2018very basic\u2019 premier on valuation for my retail investor friends.
>
> Do hit the \u2018re-tweet\u2019 and help us educate more investors (1/n) pic.twitter.com/8oCkBmmOXY
>
> — Kirtan A Shah (@KirtanShahCFP) January 14, 2021

Results for Q4 have come out very well but that is also because of the lower base effect of the last year.

Over the last many years, markets have corrected 10-15% each calendar year. Can it happen this year as well? Can very much and that can be a great entry point. Why? (4/n)



There are a lot of over hangs in the near term,
-Crude going up
-$ index moving up
-Inflation moving up
-COVID uncertainties
All of the above are –ve for markets & liquidity on the other side driving markets up, its impossible to judge the near term movement of the markets (5/n)

What should you do in the near term?
-Stick to your asset allocation
-Don’t take large lumpsum bets, spread it over time
-Continue your SIPs
-If you are new to markets, take MF route than direct equity (6/n)

continue .....
-Don’t expect sizeable returns for the coming 2 years
-Look at this market more from a medium term perspective (7/n)

What will work for the markets in the medium term?
-Global growth
-Lower interest rates
-CAPEX
-China + 1 (8/n)

(1) Global Growth
(a) Liquidity is infused in the markets by both, central banks & governments

(Understand more about how liquidity drives the markets ■ https://t.co/CCJIDFgu6I) (9/n)

> Liquidity is fueling the stock market rally says everyone. What is this liquidity? How does it get created? How does it fuel stocks, commodities? (Thread)
>
> Hit the \u2018re-tweet\u2019 and help us educate more investors\u2019 (1/n)
>
> — Kirtan A Shah (@KirtanShahCFP) December 18, 2020

(b) Infusion by central banks this time is close to $10T, which is like 4-5 times higher than what we saw in 2008. Was reading a report which said this liquidity has increased the pre pandemic house hold earnings in the US (10/n)

(c) US Government has infused roughly $1.9T for infra and another $2T is under consideration
(d) We also have Europe committing 750B Euros of infra spend
(e) If global growth even increases by 1%, India will benefit by 0.30 - 0.40% due to exports and capital inflows (11/n)

(2) Low Interest Rates

(a) Vs pre pandemic, G-Sec is down roughly 1.8% & repo is down 2.25%. There is a huge 17-18L cr liquidity in the banking system which can be lent (12/n)

(b) Ofcourse the argument on rising rates because of inflation remains but an increase of 0.25% - 0.50% will still be much lower than pre pandemic levels
(c) Corporate borrowings have and will continue to hugely benefit with these lower rates (13/n)

(3) CAPEX

(a) There are clear signs of CAPEX returning in Housing, Infra as well as corporates (lower rates helping)
(b) To quote only housing, the house price to income ratio is 4.5 times today across 20 cities, best in the last 20 years. There is demand for housing. (14/n)

(c) Loan rates today are sub 7% vs 9.5% 3 years back
(d) Housing revival indirectly connects with 80 odd sub sectors & is a huge employment provider. Construction is the second largest employment generator
(e) We have also seen huge government spending’s after recessions (15/n)

(4) China + 1

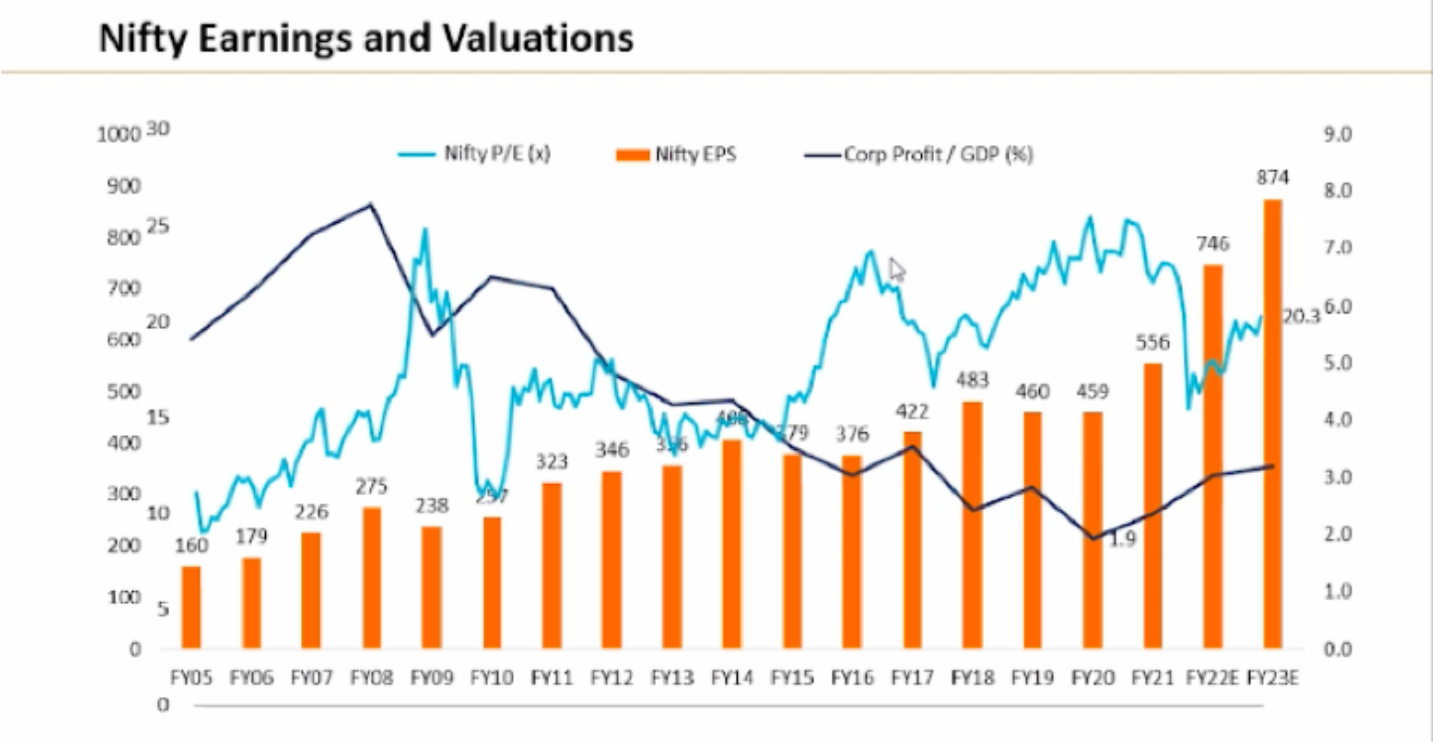
(a) Some part of China's share of global trade is expected to come to India due to Labour cost going up over the last decade in China, trade issues that China has with many, environmental challenges that china is facing (16/n)

(b) Production linked Incentive scheme (PLI) – Government is pledging to incentivise 4-6% of the top line over the next 5 years in 13 sectors upto the tune of 2L cr. We have already seen the impact with Mobile handset imports also becoming zero. (17/n)

(c) Only the PLI is expected to increase the cumulative GDP of India by 1.5% (18/n)

(5) Earning will surely get support from the above 4 points

- Today we are roughly at 2.2 – 2.3 times PAT to GDP ratio vs our average of 4.5 times, upside possible.
- From an FY23 perspective, with estimated EPS to be around 874 on nifty, we are trading at 18 times (19/n)



Attached is also the Bloomberg estimated earnings of some sectors for FY 22 & 23. Watch out for Auto, Financials, Materials & Telecom (20/n)

Sectoral Earnings Expectations

(INR cr)	Mcap	FY19	FY20	YoY (%)	FY21	YoY (%)	FY22E	YoY (%)	FY23E	YoY (%)
Auto	6,74,085	24,305	7,510	-69	15,586	108	30,115	93	40,783	35
Financials	35,17,283	69,228	1,02,378	48	1,20,293	17	1,64,425	37	2,02,480	23
Consumer	15,28,901	24,973	29,632	19	29,215	-1	35,318	21	40,331	14
Pharma	4,38,404	7,425	8,638	16	9,208	7	14,646	59	17,354	18
Materials	5,80,127	41,799	27,604	-34	33,870	23	68,080	101	60,982	-10
Industrials	9,33,638	42,253	47,988	14	55,231	15	58,073	5	68,246	18
O&G	18,44,584	98,895	56,283	-43	92,921	65	88,534	-5	1,09,797	24
IT	25,42,858	70,258	73,706	5	78,149	6	92,649	19	1,03,646	12
Telecom	2,90,336	4,295	3,867	-10	1,516	-61	29,111	1,820	35,053	20
Total	**1,23,50,216**	**3,83,430**	**3,57,605**	**(7)**	**4,35,988**	**22**	**5,80,951**	**33**	**6,78,672**	**17**
Nifty EPS*		**460**	**459**	**(0)**	**556**	**21**	**746**	**34**	**874**	**17**

* EPS Free-float weighted basis

Source: Bloomberg

Closing Remarks
- Its impossible to judge the near term movement, stick to your asset allocation
- This market should be looked at from a medium term perspective and has become very sector/stock specific
- Avoid looking at this market from a near term perspective (21/n)

Data is picked from multiple presentations & reports I read but special thanks to Mr. Neelesh Surana of @MiraeAsset_IN for his webinar on this topic the last week.

The thread is purely for education and should not be taken as an investment advice. (22/n)

This is my 38th thread, 'do re-tweet'

Have earlier written on,
-Sector Analysis - Banking, Paints, Logistic, REIT, InvIT, Sugar, Steel
- Macro
- Debt Markets
- Equity
- Gold
- Personal Finance etc.

You can find them all in the link below ■https://t.co/UrRt87OLLF (END)

Here\u2019s a compilation of Personal Finance threads I have written so far. Thank you for motivating me to do it.

Hit the 're-tweet' and help us educated more investors

— Kirtan A Shah (@KirtanShahCFP) December 13, 2020