

# NAVIGATING THE DIP

The opportunity in the recent market correction

15th Jan, 2025

## TL;DR | WHAT YOU NEED TO KNOW

**Market performance:** The Nifty 100 has declined ~9% in the last 30 days, and ~13% since an all-time high in September 2024. The Mid and Small cap segments have seen more significant corrections, aligning with our previous analysis.

**Market outlook:** Our outlook on the market remains consistent with our previous communication to you. In the short term, we anticipate the possibility of further declines, but we don't foresee any underlying issues in the long run.

**Investments through Dezerv:** While it is extremely difficult and counter productive to time the market, in anticipation of the market fall, we have been taking precaution by moving capital to ensure your portfolios are large cap heavy. We believe the valuations in the large-cap space are still reasonable and are expected to yield good returns over the next 3 years.

**Recommendation for clients:**

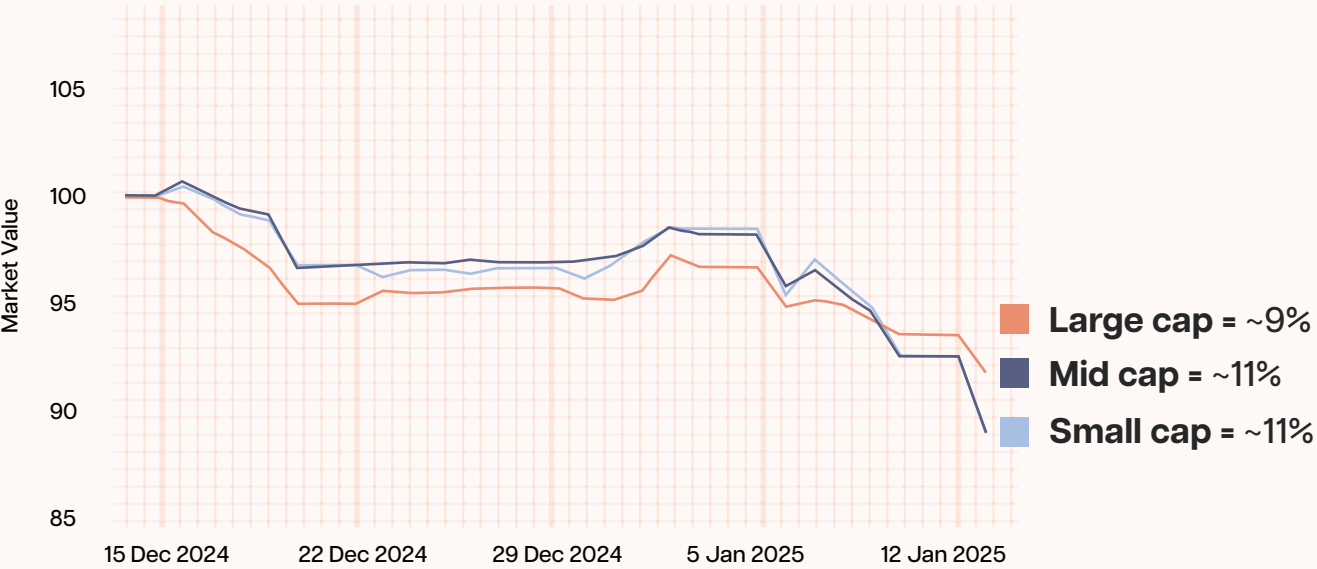
- Review all your external assets and **assess your asset allocation**.
- For investors with steady income streams, this is a **good time to benefit from Systematic Investment Plans (SIPs)**. Market corrections allow you to accumulate more units at lower prices - effectively lowering your average purchase cost.
- If you have **small cash reserves (<5% of your total equity portfolio)**, it is a good time to **deploy money now**.
- If you have large capital to invest, our recommendation for deployment remains unchanged (since we are at the same level as of Mid Nov): **40% upfront, with the remaining funds to be deployed across 8 tranches of 7.5% each, fortnightly over the next 4 months**.

### SECTION 1

## WHAT'S HAPPENING?

### Benchmark indices across market caps in the last 30 days

Value of INR 100 invested in market indices



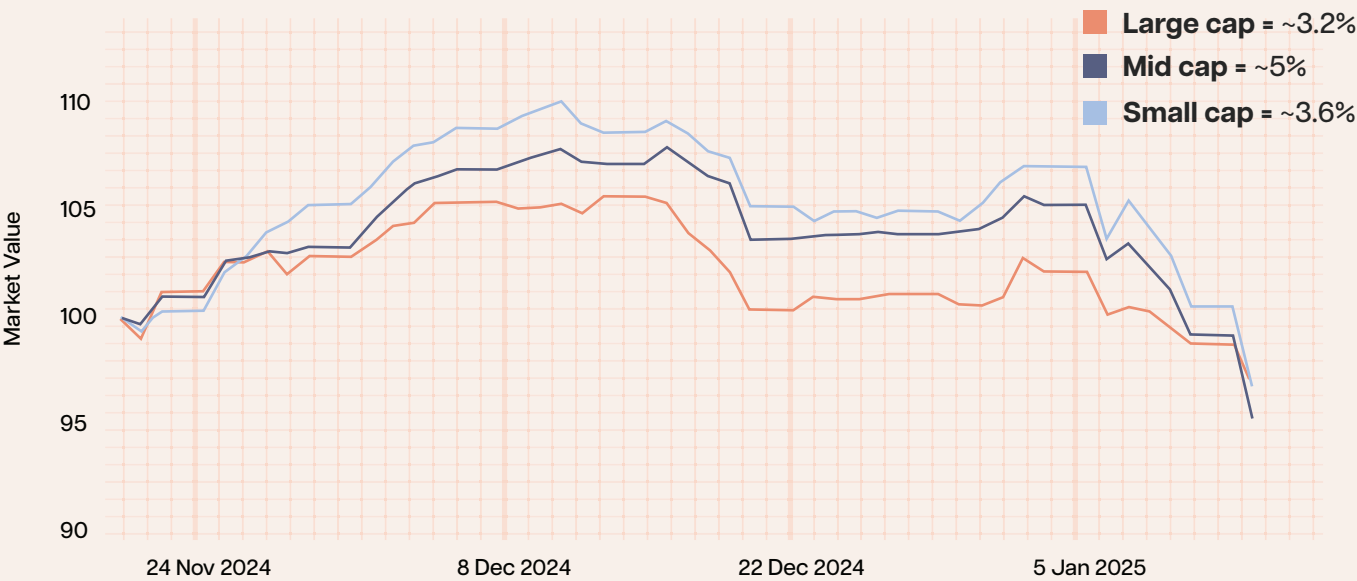
Note: Large cap = NIFTY 100 Index (TRI), Mid cap = BSE MIDCAP Index (TRI), Small cap = BSE SMALLCAP Index (TRI)

The recent correction in small and mid-cap segments reflects a necessary market adjustment following an extended period of elevated valuations. While we had highlighted valuation concerns in these segments [in our last note](#), markets often take time to reflect fundamental realities.

While the markets across various market caps have fallen ~10% in the last month, if we look back at the indices back in mid-November 2024, the markets have fallen ~4-5%.

Benchmark indices across market caps since Mid-November 2024\*

Value of INR 100 invested in market indices



\*Since our last communication on 20th November, 2024

Note: Large cap = NIFTY 100 Index (TRI), Mid cap = BSE MIDCAP Index (TRI), Small cap = BSE SMALLCAP Index (TRI)

SECTION 2

FACTORS IMPACTING THE MARKETS IN THE SHORT-TERM

In our November monthly market update, we shared our outlook that markets may experience further volatility, and may see further corrections till February/ March 2025.

On the same lines, we still anticipate markets to have a cautious outlook till March end.

The underlying reasons for the fall remain same –

- 1 **Slow GDP Growth** : India's Gross Domestic Product (GDP) is projected to grow at 6.4% in the fiscal year 2024-25, marking a four-year low and a sharp decline from the 8.2% growth recorded in FY24, according to estimates released by the government.
- 2 **Delay in interest rate cut:** In our note, we mentioned how inflation has crossed the RBI's upper limit of 6%, which may delay rate cuts. That played out as expected and in RBI's MPC meeting in the first week of December, the RBI decided to keep the repo rate unchanged at 6.5%.
- 3 **Impact of Trumps' trade policies:** Uncertainty surrounds the new Trump administration's economic and trade policies weigh heavy on the Indian markets. Amidst the recent news of the USA imposing tariffs on imports the Indian Rupee hit INR 86.58 INR 86.5 against the US Dollar (depreciating around 2% in a month).
- 4 **Budget speculation:** There is growing anticipation around policy and tax decisions in the next budget. Any changes, especially in taxes, will impact the markets in the short term. However, this is speculation and we should wait for the actual impact of the Budget.

In addition to above factors, liquidity has also played a major role in how the markets have performed.

- 5 **The supply of new equity stock due to a flurry of IPOs** - As per National Stock Exchange (NSE) in 2024, INR 1.67 lakh crore was raised through 268 IPOs. 2025 has also started with a flurry of IPOs and we believe there will be a reallocation of funds to these securities from the secondary market.

SECTION 3

# POSITIVE LONG-TERM FACTORS AMID MARKET VOLATILITY

We believe that the slow earnings growth we have seen in the last quarter is a temporary phenomenon as macro-factors of the Indian economy remain strong:

- 1 Factors like forex reserves, current account deficit and fiscal deficit look favourable.
- 2 Semi-urban and rural demand has been strong after a strong monsoon season.
- 3 The long-term consumption trends show discretionary spending increasing across urban, semi-urban and rural areas, even though there may be small pockets of stress in urban markets. You can read about these factors in depth in our last note.

Further,  
We expect a bounce back in earnings within the next 6 months supported by positive trends in

**Manufacturing:** The manufacturing sector showed a robust growth of 5.8% in November 2024, a significant leap from just 1.3% in November 2023 (as per IIP data). This growth highlights the sector's resilience and its potential to drive economic expansion.

**Services sector:** The Services Purchasing Managers' Index (PMI) climbed to 59.3 in December 2024, signaling strong service sector activity. This sustained growth in services underpins the broader economy's strength and its ability to support recovery in other sectors.

**Geo-politics:** Historical patterns suggest that actual policy implementation often tends to be more moderate than campaign rhetoric, which should help maintain market stability. We anticipate more measured actions from global leaders, including Trump, despite recent strong announcements.

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SECTION 4

# WHAT SHOULD AN INVESTOR DO?

In times of market volatility, success lies in returning to fundamental investment principles. Here's how to ensure your portfolio stays resilient and ready for recovery:

- 1 **Stay invested:** While the current correction may feel significant, especially compared to the post-Covid rally, market rebounds have historically rewarded patient investors. Disciplined investors who stay invested during downturns benefit when markets recover.
- 2 **Rely on active management:** Every market cycle has new leaders, and as per our analysis, new cycle winners always differ from previous cycle winners. Through active management, you can identify and capitalize on emerging opportunities and adapt your portfolio to changing market dynamics.
- 3 **Focus on asset allocation:** Maintain your strategic asset allocation across equity, fixed income, and gold. This is a good time to re-asses your asset allocation and capitalize on market opportunities. During market volatility, diversification is your first line of defense.

## Recommendations for investors whose portfolios are managed by Dezerv:

- We have already made our equity portfolios large-cap heavy given we see valuation comfort in this space. We believe large-cap heavy portfolios will continue to create wealth for investors over a 3-year time horizon.
- If we look at historical events with ~ 10% corrections in the market, the markets have delivered a median return of ~ 15% over the next 3 years. This presents a good opportunity for investors to generate returns in actively managed portfolios.
- We recommend our clients to continue with their existing Systematic Transfer Plan (STP) as scheduled.
- We continue to monitor the markets and your portfolios and we will reach out to you proactively if your scheduled transfer (STP) needs to be expedited or slowed down due to market conditions.

## Beyond Dezerv assets:

### External portfolio

- It is extremely important to be cautious in such a market and investors need to be mindful of valuations. Mid- and small-cap stocks have experienced a significant correction, and investors holding onto these stocks directly or through PMS should re-assess their allocations.

### Cash holdings

- If you have regular cashflows: For investors with steady income streams, this is a good time to benefit from Systematic Investment Plans (SIPs). Market corrections allow you to accumulate more units at lower prices - effectively lowering your average purchase cost. Considering Dezerv's SMART SIP approach, this disciplined investing method not only helps minimise the impact of market volatility but also transforms market downturns into opportunities for long-term wealth creation.
- If you have small cash reserves (Less than 5% of your total equity portfolio) : Good time to deploy & we will keep notifying when such opportunities arise.
- Large Cash deployment or portfolio movement: 40% immediate deployment with 8 tranches of 7.5% each fortnightly.

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