NETRA

Early Signals Through Charts

April 2025

Released on 05th April 2025

Trade War

DSP

Trump Tariffs Would Take The Rate At Levels Not Seen Since The Great Depression

DSP

Source: Tax Foundation, DSP. Data As of April 2nd, 2025.

Trade War Can Lead To A Global Slowdown

A significant body of work is underway to assess the country- and sector-specific impact of the global trade war.

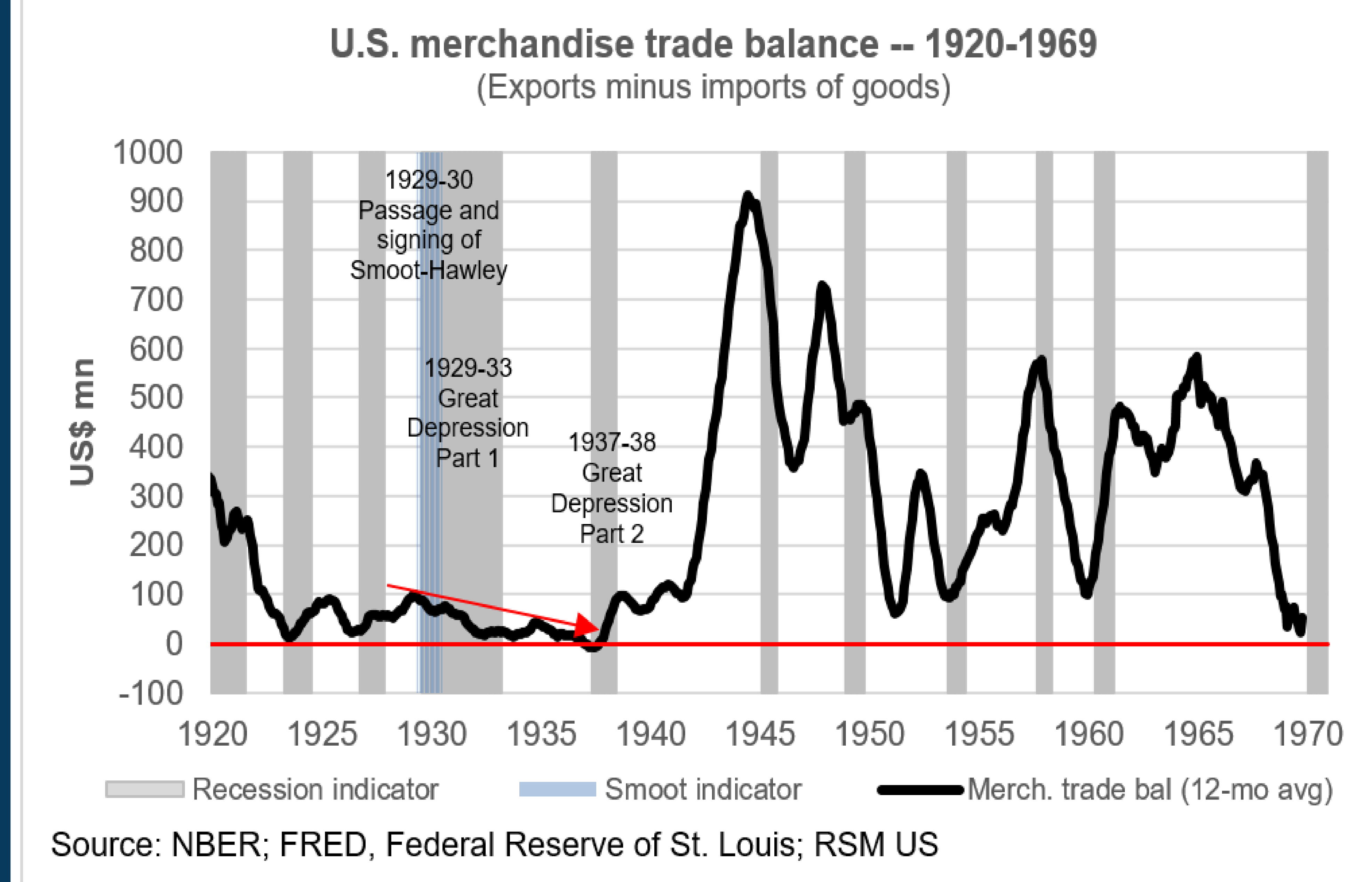
However, the key factor is the timing. Global growth is weak and slowing. The 2025 tariff imposition comes at a very different stage than in 2018, when growth was recovering, and tariff escalations had a limited impact. Back then, market expectations of a severe trade war were met with a relatively muted policy response from the Trump administration.

This time, global growth is stagnating, trade is already sluggish, and the new tariffs exceed previous expectations. This combination is likely to strain both global trade and economic growth.

Weaker economies may struggle to avoid recession. Historically, policy-driven disruptions have led to busts and crashes, often triggering spillover effects.

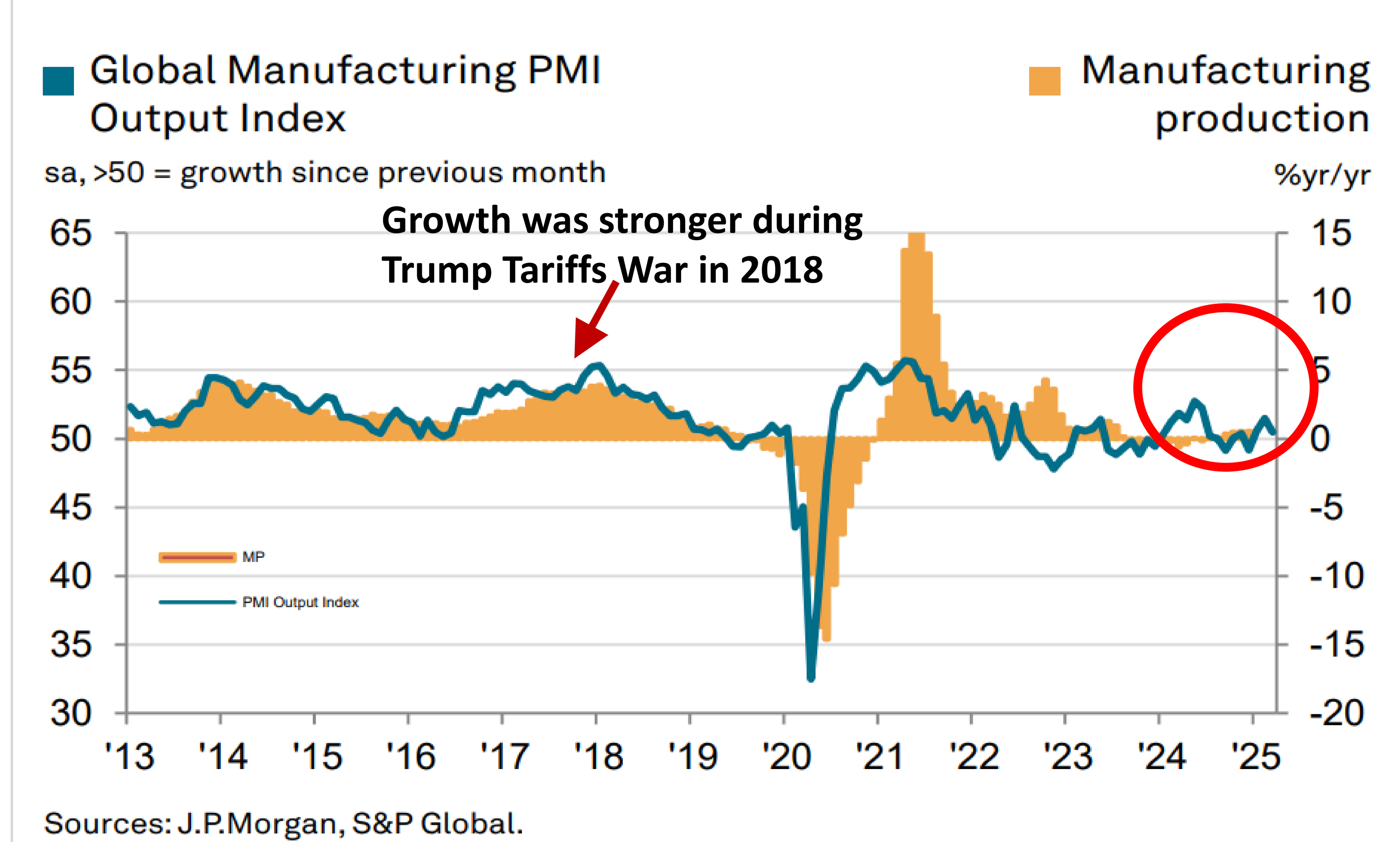
Indian investors should closely monitor global developments. Lower valuations could strip excess froth from Indian equities, making them more attractive.

US International Trade Worsened Due To Trade War



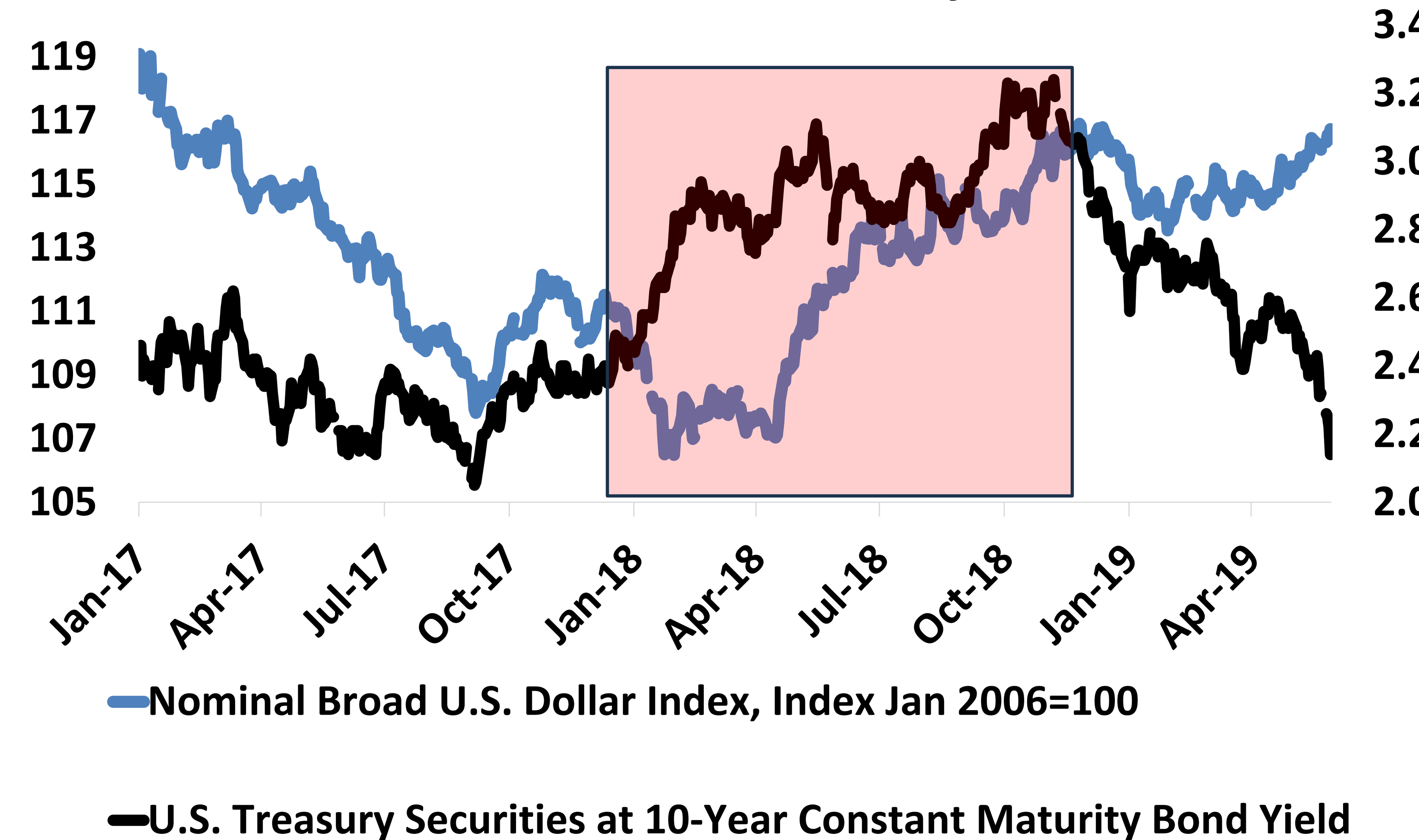
Source: NBER; FRED, Federal Reserve of St. Louis; RSM US

Global Growth Susceptible To Tariff War Escalation

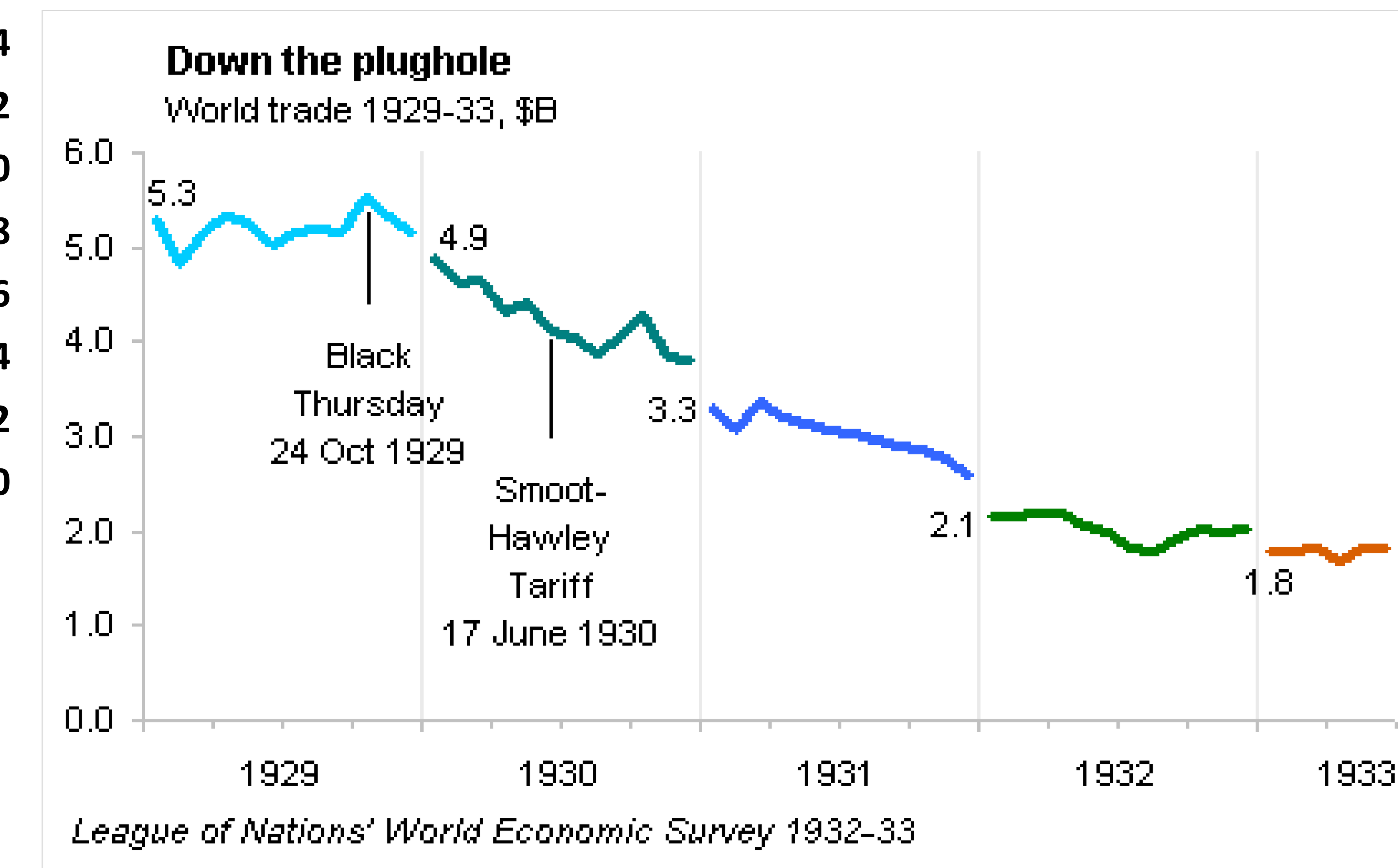


Sources: J.P.Morgan, S&P Global.

Trump Tariff in 2018 Coincided With A Rise In Bond Yields, and A USD Rally



World Trade Plunged Due To Great Depression & Trade War



League of Nations' World Economic Survey 1932-33

DSP

Source: S&P Global, DSP. Data As of Mar 2025.

India’s Per Capita Growth – Judging The Pace

DSP

India's GDP Per Capita Trends – Path To $20K

Out of the 191 countries we studied, for India

Year	2000	2010	2020	2023	CAGR (2000-2023)
Rank	158	149	150	143	
GDP Per Capita (US$)	443	1,348	1,907	2,481	7.8%

This ranking considers India's fastest growing status. This shows how hard it is to create prosperity at the per capita, or at the level of citizens, for a country with very large population. Contrast this with China.

Year	2000	2010	2020	2023	CAGR (2000-2023)
Rank	126	104	68	76	
GDP Per Capita (US$)	959	4,550	10,409	12,614	11.8%

The path to $20k GDP per capita

If we consider the best-case scenario, Japan among the Asian peers was able to compound its per capita income at 15% and reached $20k from $2500 in 15 years. On average it has taken 21 years for the winners, that is countries which did hit the $20k per capita mark. If India follows the path of the average survivor, it has to compound its per capita at 10.4% CAGR and would hit $20k in 2044. But our own pace, at its best, is 8% CAGR. At this pace, India would reach $20k in 2050.

Of the 191 countries studied, less than one-third have a GDP per capita of $20k.

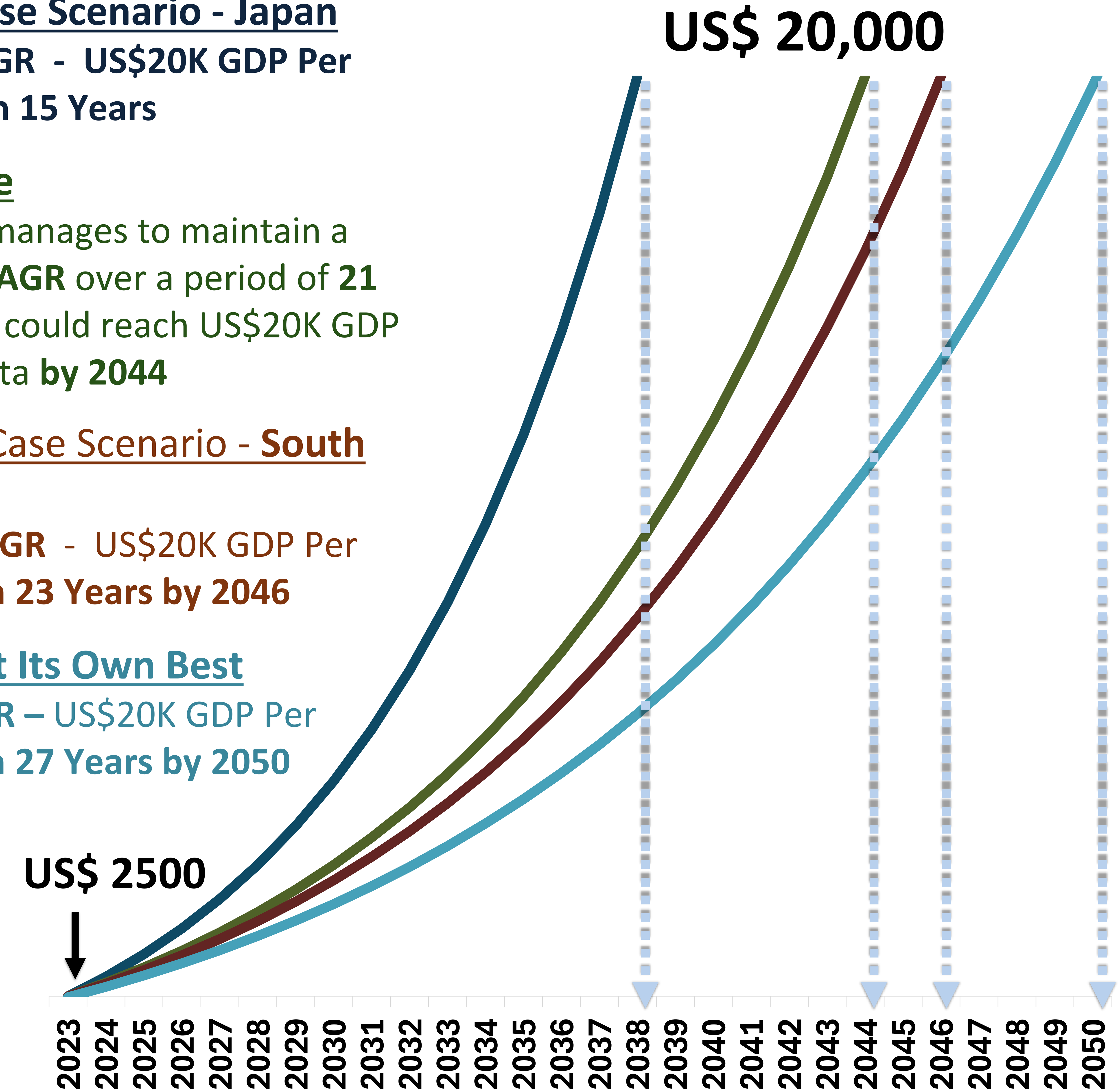
Avg. years Asian economies took to reach this income

Best Case Scenario - Japan
15% CAGR - US$20K GDP Per Capita in 15 Years

Average
If India manages to maintain a **10.4% CAGR** over a period of **21 years**, it could reach US$20K GDP Per Capita **by 2044**

Worst Case Scenario - South Korea
9.5% CAGR - US$20K GDP Per Capita in **23 Years by 2046**

India At Its Own Best
8% CAGR – US$20K GDP Per Capita in **27 Years by 2050**



DSP

Source: IMF, DSP, Data As of March 2025. The per capita figures are in current USD.

How Are Equities Placed In The Cycle

DSP

Corporate India's Balance Sheets Strongest To Withstand A Slowdown

This cycle has one of the cleanest corporate balance sheets going into a slowdown. This would probably enhance the ability of corporations to ride the slowdown better than the cycles in which indebtedness was elevated.

A deeper analysis reveals how different sectors' balance sheets have evolved across various market phases, such as the period preceding the 2003 bull run and the pre-Global Financial Crisis (GFC) era. At present, nearly all sectors are exhibiting some of the strongest balance sheet positions in their history. In fact, most sectors are experiencing their lowest median Debt-to-Assets percentage on record.

Some cyclical industries, such as chemicals and metals, have significantly reduced their debt funded assets over the years. With strong balance sheets now in place, these businesses are well-positioned to recover and grow at a faster pace when these industries see some tailwinds.

Sectors (Median Debt-to-Assets %)	2003	2008	2013	2018	2024
Media, Entertainment & Publication	32%	30%	40%	30%	7%
Information Technology	8%	16%	14%	7%	8%
Utilities	46%	26%	42%	43%	11%
Healthcare	42%	34%	33%	28%	12%
Capital Goods	39%	35%	38%	32%	14%
Chemicals	50%	44%	49%	32%	16%
Oil, Gas & Consumable Fuels	33%	24%	37%	32%	18%
Consumer Durables	47%	44%	45%	23%	18%
Fast Moving Consumer Goods	46%	50%	46%	33%	20%
Automobile and Auto Components	43%	52%	51%	31%	21%
Services	43%	39%	43%	26%	21%
Consumer Services	41%	42%	39%	24%	21%
Metals & Mining	66%	50%	52%	45%	27%
Construction	52%	47%	49%	39%	28%
Construction Materials	66%	49%	38%	38%	32%
Realty	46%	24%	39%	40%	34%
Telecommunication	49%	39%	53%	46%	40%
Power	54%	40%	45%	53%	47%

DSP

Source: Capitaline, DSP. Data as of FY24. The numbers are of FY end. Companies considered are current constituents of BSE Allcap Index.
Conditional formatting – best to worst for each sector (Row-wise).

Earnings Growth Likely To Mean Revert After A Stellar Show

Profits mean revert. Why?

Corporate profits are primarily driven by three factors.

1. Sales growth acceleration or slowdown
2. Margin expansion and contraction cycles
3. Investment efficiency or capital allocation

In the previous slide, we showed how corporate balance sheets have been cleaned up in this cycle. Most companies do not need equity dilution and are in a position to raise capital for growth when needed.

The key challenge in this cycle is slowing sales growth and contracting profit margins. After growing at a 20% CAGR for over three years until FY24, corporate earnings are now approaching single-digit growth. This highlights the strength of the previous cycle.

The focus should be on sectors with sustained above-trend profit growth and reasonable valuations.

Aggregate Sectoral Profits 5 Year CAGR (%)	2008	2013	2018	2024
Construction Materials	73%	5%	5%	16%
Oil, Gas & Consumable Fuels	15%	1%	17%	15%
Automobile and Auto Components	26%	28%	13%	25%
Capital Goods	34%	-6%	11%	20%
Consumer Durables	47%	23%	17%	13%
Healthcare	29%	14%	7%	15%
Chemicals	55%	9%	19%	7%
Financial Services	24%	23%	-22%	56%
Fast Moving Consumer Goods	9%	18%	9%	8%
Power	15%	42%	1%	16%
Construction	44%	11%	16%	14%
Consumer Services	48%	P to L	L to P	66%
Media, Entertainment & Publication	23%	27%	15%	-8%
Services	33%	-2%	14%	35%
Metals & Mining	67%	-11%	17%	6%
Information Technology	37%	28%	12%	10%
Utilities	L to P	8%	65%	20%
Realty	88%	14%	23%	20%
Telecommunication	60%	P to L	6%	L to P
Total 5 Year CAGR (%)	**27%**	**10%**	**7%**	**22%**

DSP

Source: Capitaline, DSP. Data as of FY24. The numbers are of FY end. Companies considered are current constituents of BSE Allcap Index which were listed throughout the calculation period. Conditional format- best to worst for each year (Column-wise).

Massive Price Growth Over The Cycle Needs Normalization

The 5-year CAGR of various market peaks tells you how far markets scale in bull markets. The Nifty TR Index has a long term (25 year) CAGR of 13.1%. In bull markets, many sectors and subindustry groupings under or outperform the broader index.

The Nifty total returns index has delivered a 5-Year CAGR of 25%. This is an excess return of 12% over the long period average. In fact, in the last 25 years, earnings for Nifty Index have grown at 10.2% compounded while Nifty TR Index has exceeded this number. This has come on the back of a price-to-earnings re-rating. This means investors are ready to pay a premium for the same amount of Rupee earnings. This reflects a growing sense of complacency or 'returns chasing'.

For the next few years, markets are likely to go through a period of correction, since the starting valuations are high and recent returns are elevated. The antidote to this reversion to mean is a complete focus on valuations and margin of safety.

Sectoral Mcap 5 Year CAGR (%)	2008	2013	2018	2025
Construction Materials	44%	22%	18%	26%
Oil, Gas & Consumable Fuels	38%	1%	16%	22%
Automobile and Auto Components	35%	26%	30%	37%
Textiles	27%	15%	41%	38%
Capital Goods	58%	-5%	22%	53%
Consumer Durables	56%	27%	29%	18%
Healthcare	30%	23%	12%	29%
Chemicals	32%	12%	32%	30%
Financial Services	50%	16%	21%	34%
Fast Moving Consumer Goods	16%	24%	21%	14%
Power	53%	22%	11%	45%
Construction	76%	-1%	22%	42%
Consumer Services	43%	5%	37%	55%
Media, Entertainment & Publication	33%	36%	21%	16%
Services	99%	-9%	14%	46%
Metals & Mining	81%	-8%	14%	47%
Information Technology	23%	30%	12%	22%
Utilities	54%	-6%	91%	64%
Realty	151%	30%	16%	42%
Telecommunication	67%	-8%	17%	34%
Total 5 Year CAGR (%)	**43%**	**10%**	**19%**	**30%**

DSP

Source: Capitaline, DSP. Data As of Mar 2025. Companies considered are current constituents of BSE Allcap Index which were listed throughout the calculation period. Conditional format- best to worst for each year (Column-wise).

Fewer Bargain Opportunities At This Time

Over the past six months, we've seen some froth in stock valuations getting washed away but not entirely. While certain pockets of the market are now trading near the lower end of their historical valuation ranges, many sectors still lack a significant margin of safety.

We have used the relevant valuation metric to measure a particular sector, and not many sectors currently offer opportunities with a higher margin of safety, primarily those that were more popular during the post-covid bull run (like PSU Banks, Capital Goods).

Given current earnings trends and ROE levels, the broader market still appears a bit stretched from a true value perspective. However, selective opportunities exist in segments like Financial Services companies (excluding PSU Banks) and Oil & Gas. In this environment, a more bottom-up approach may be the key to finding value.

Sector	Valuation Metric	% of stocks trading below 30th percentile of its historical valuations
Private Banks	Price to Book	70%
Nifty Financial Services (ex Banks)	Price to Book	37%
Oil & Gas (incl. RIL)	EV to EBITDA	33%
Chemicals	Price to Book	26%
Auto	Price to Earnings	20%
Metals	EV to EBITDA	20%
Healthcare	Price to Earnings	11%
FMCG	Price to Earnings	7%
Capital Goods	Price to Book	3%
IT	Price to Earnings	0%
PSU Banks	Price to Book	0%

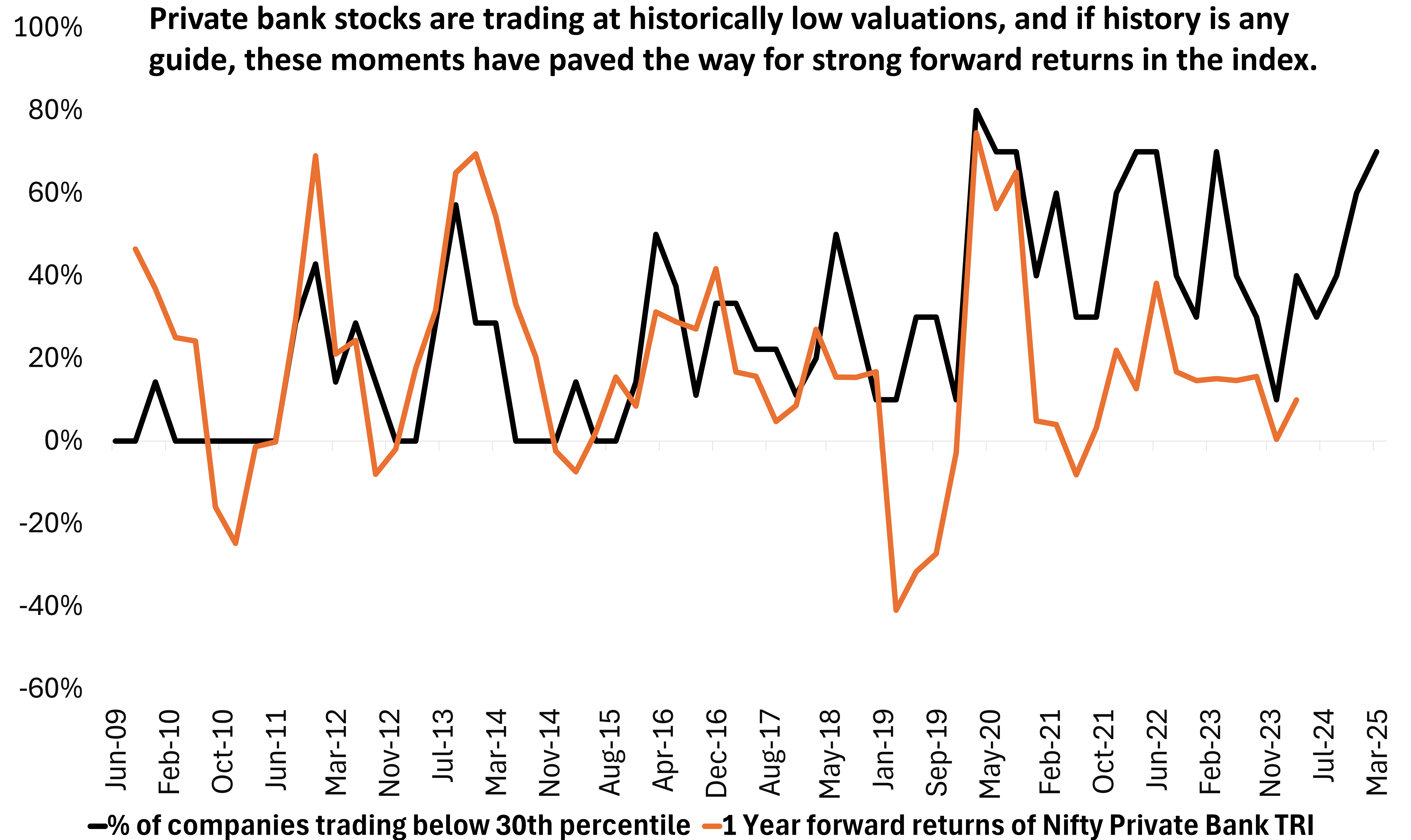
Source: DSP Navigator, Data As of Feb 2025. All Nifty indices are considered except for Capital Goods which is BSE Capital Goods index. The historical valuation starts from 2002 or since listing whichever is later.

Private Banks Offer Reasonably Priced Investment Avenue

Private Banks have underperformed Nifty 50 during the post covid bull run. However, the fundamentals of these banks have not deteriorated, rather improved.
Private banks current positioning:

- NPAs are at multi-year lows
- ROAs are at its highest levels
- Current Valuations are below long-term averages
- Share of profits > Share in market cap (in Top 500 companies)

In a market where attractive investment opportunities are scarce due to compressed margins of safety, private banks offer a compelling value proposition. Historically, whenever a significant proportion of stocks in this sector have traded below the 30th percentile of their historical valuations, the subsequent one-year returns have been meaningfully higher. At present, approximately 70% of stocks in the Nifty Private Bank Index are trading below the 30th percentile of their historical valuations. This suggests a favorable entry point, offering both valuation comfort and robust fundamentals for long-term investors.



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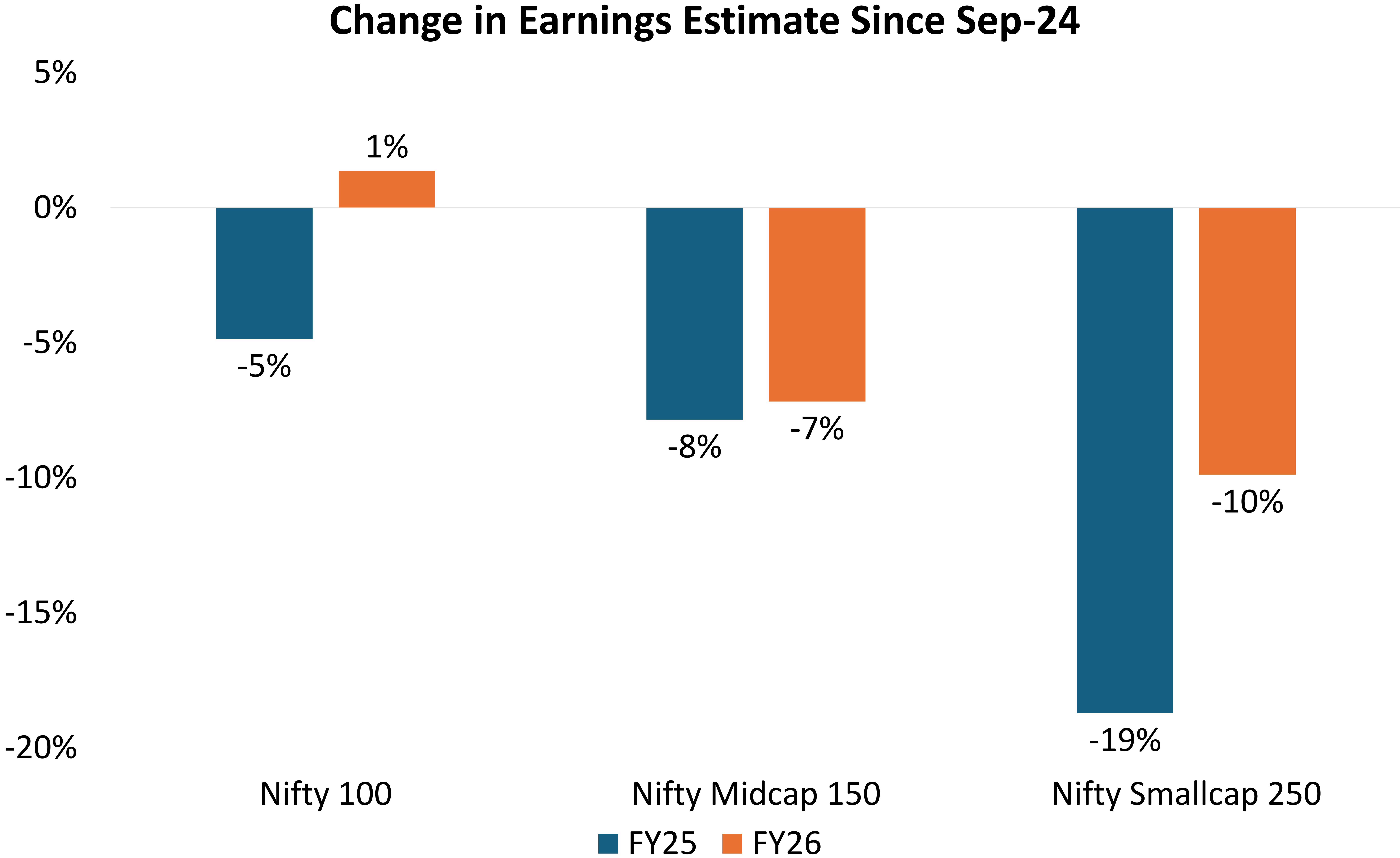
Source: Capitaline, NSE, DSP. Data As of Mar 2025. The valuations data start from 2002. Companies considered are current Nifty Private Bank Index constituents.

Earnings Slowdown Is A Persistent Headwind

The earnings estimates shown are Bloomberg's forward EPS projections, and the chart illustrates how these estimates have changed since the market peak in September 2024. Every bull market begins with optimism fueled by expectations of earnings growth. But as the cycle matures, distinguishing justified optimism from overconfidence becomes difficult. When projections outpace business fundamentals, markets correct to reflect reality.

Ironically, earnings estimates—often used to forecast future trends—are the first to be revised when sentiment shifts. This cycle underscores the paradox of market forecasting.

The chart tracks changes in Bloomberg's FY25 and FY26 earnings projections since September 2024. Large-cap stocks have experienced relatively minor downward revisions and softer declines, while SMID caps—buoyed by excessive optimism—have faced sharper corrections in both earnings and price.



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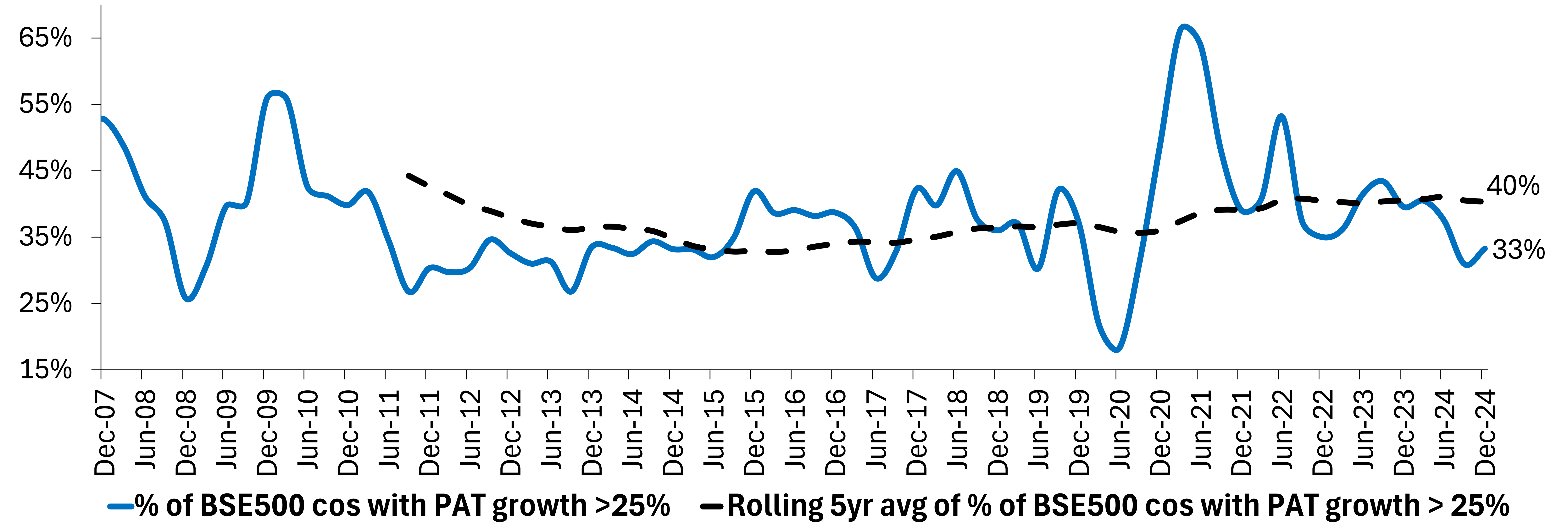
Source: Bloomberg, DSP. Data As of Mar 2025. Bloomberg Forward estimates are considered

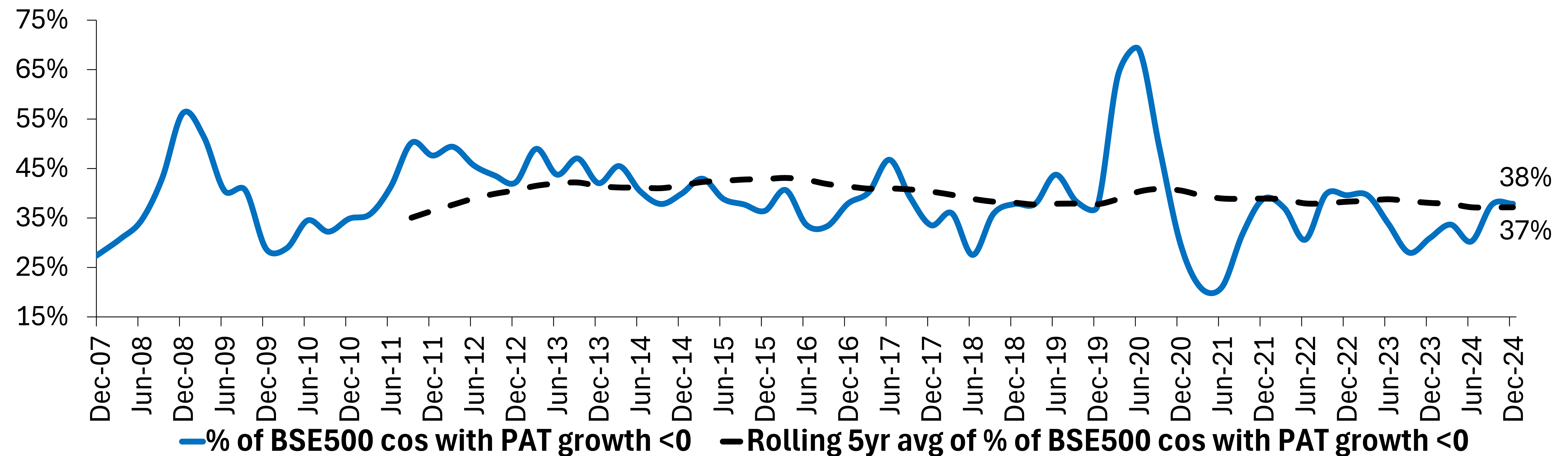
High Profit Growth Momentum Is Fading

Market concentration is undergoing a mean reversion. Following the post-COVID surge in small and mid-cap (SMID) stocks, large caps are now making a comeback. This shift is supported by earnings growth, which is increasingly driven by larger companies.

A key indicator of this trend is the decline in the number of companies reporting PAT growth of 25% or more, which has now fallen below its five-year average. If earnings growth moderates or declines further, it could pose a risk to current valuations, necessitating a de-rating of stocks.

However, an area of resilience lies in largecap stocks, particularly the top 10 companies. Their incremental contribution to total PAT has been rising consistently over the past few quarters, reinforcing their relative strength in the market.





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Source: Ambit Capital, DSP. Data As of Mar 2025

What Does History Tell Us About Capitulation

Capitulation *refers to the point where investors* ***give up*** *and sell their stocks in a panic, often at steep losses. It is characterized by* ***high trading volumes, extreme fear, and a sharp drop in stock prices. It often creates bargains and buying opportunities.***

DSP

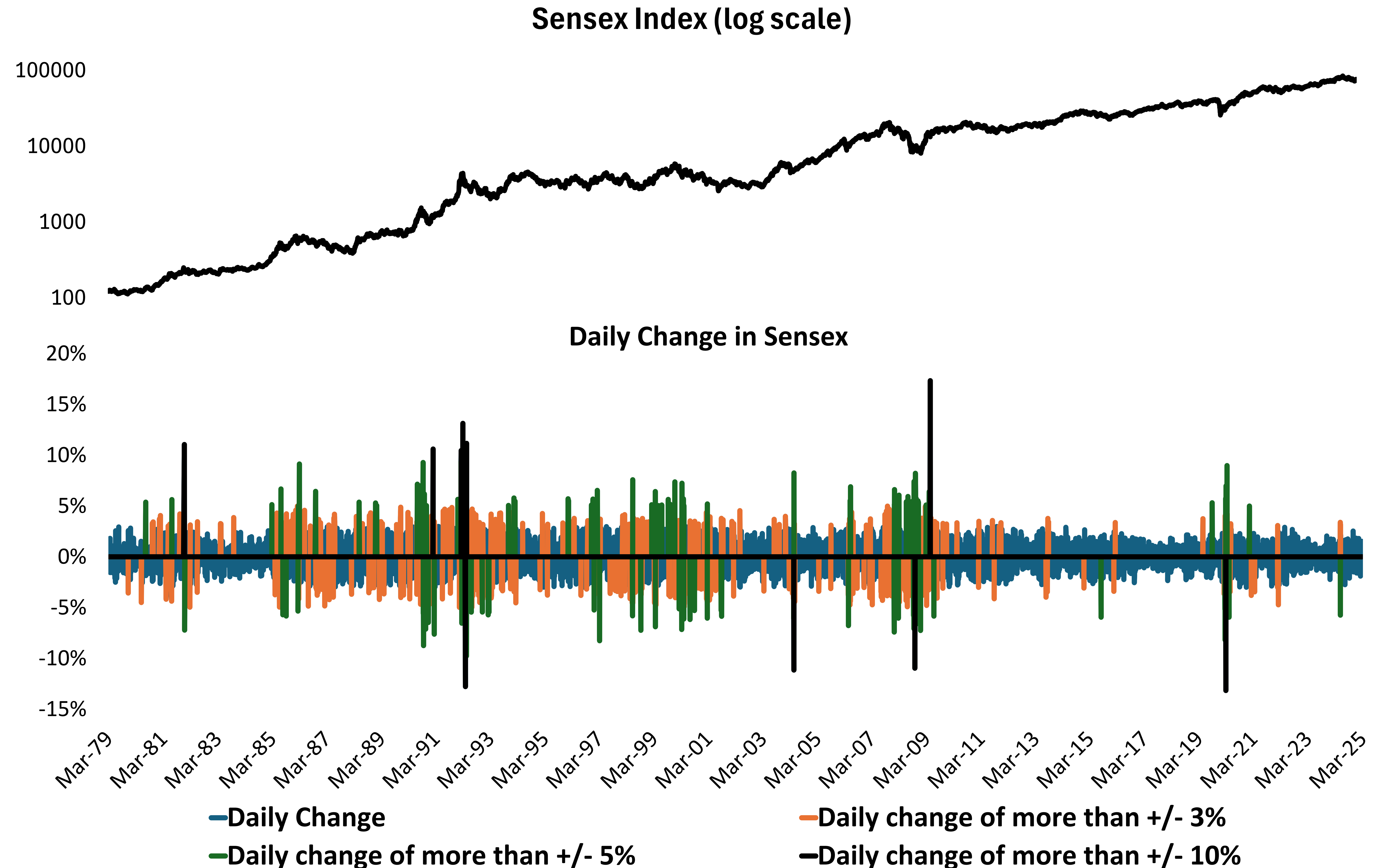
‘The Unsettling Calm’ Is Broken?

Barring the wild COVID swings which are clearly visible in the bottom right wiggle chart, it is quite clear that markets have become less violent. It is also clear that volatility moves in clusters. It ebbs and flows. Periods of calm are followed by wild moves, and periods of violent volatility are followed by boring elongated times. The only unknown is the time periods and duration of these moves.

We can see this is ‘The Unsettling Calm’. What it does is it alters investors behaviour. It makes people complacent. Allows risk averse investors to get attracted to the sure thing.

There is no evidence today that the period of calmness, although punctured in late 2024, can’t continue. But when valuations are high, earnings growth is slowing, global markets are beginning to become more volatile and trailing returns are high, it makes sense to be alert to wild prices moves. **When markets fall, they bring tremendous long-term opportunities, for the one who is prepared, with courage & capital.**

The green colored, 5% a day price changes, have become hard to come by. There are a handful of 3% decline days. A sort of an unsettling calm. A similar calm was present intermittently in 2003 to 2007 phase. But once it broke, wild moves followed. Initial signs of current calm breaking have already emerged.



DSP

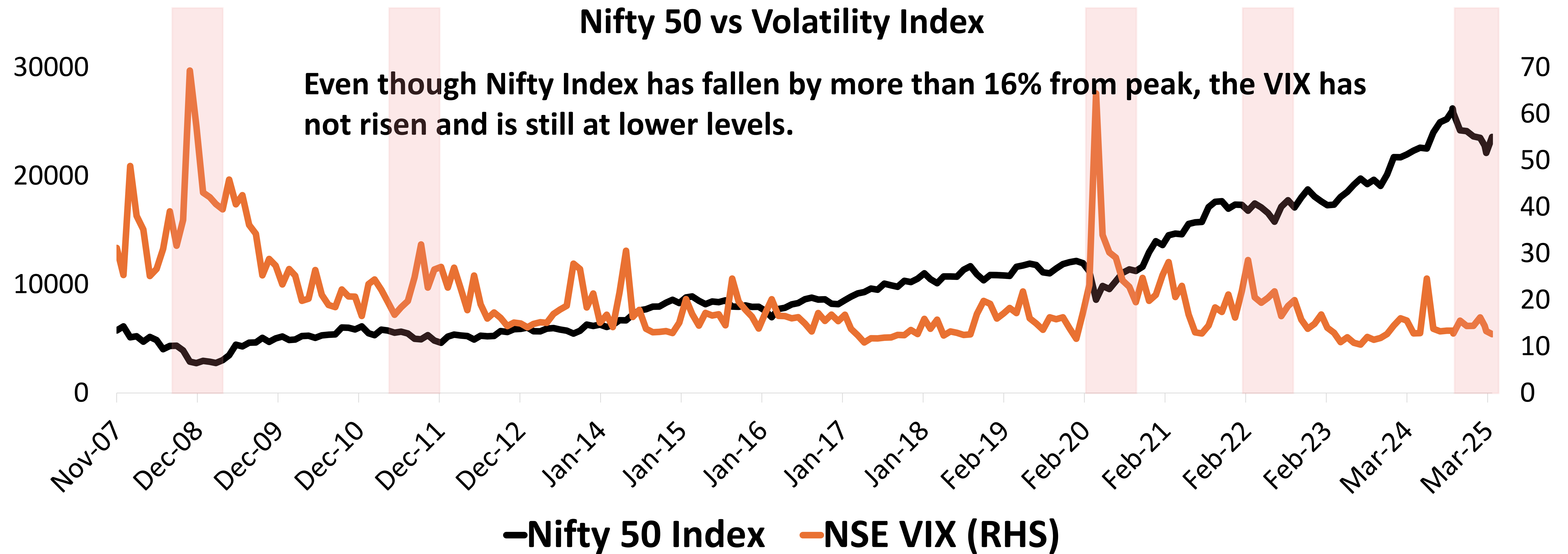
Source: BSE, DSP, Data As of Mar 2025.
Sensex Price Return index considered.

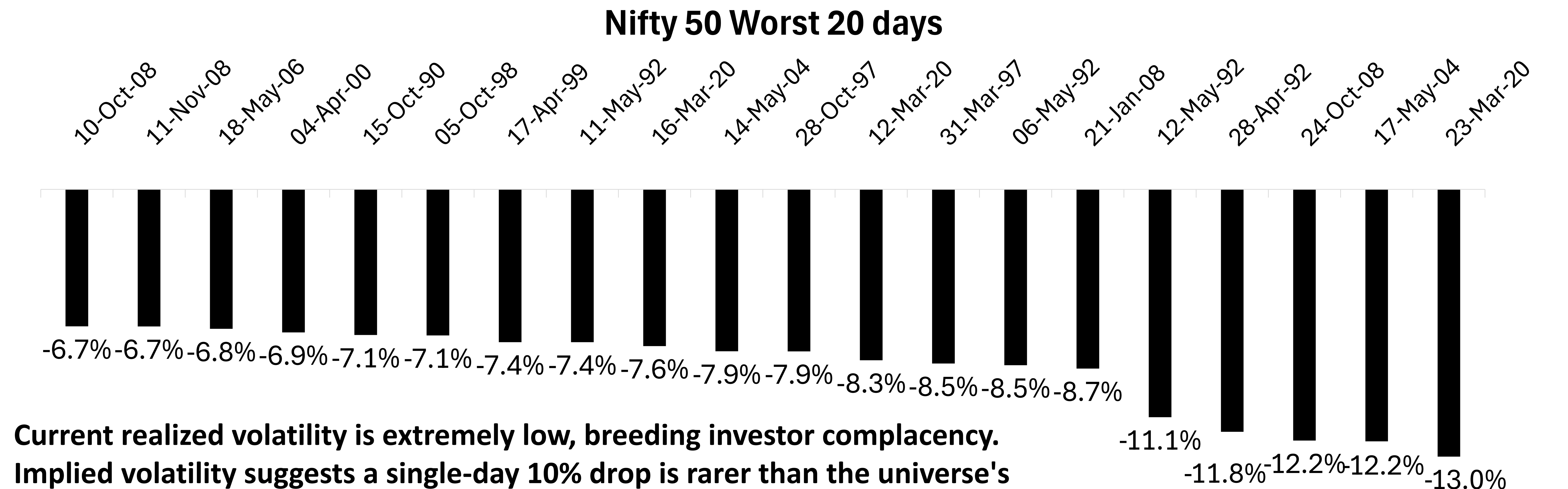
Why Elevated VIX Is A Capitulation Signal?

The one-year volatility (as calculated by annualized standard deviation) for Nifty currently stands at 14%. It was below 10% back in mid 2024, when we wrote about the lack of volatility as a red flag through our piece – ‘The Unsettling Calm’. Ultra low volatility is followed by higher volatility. Volatility moves in clusters of unknown periods, but one thing is certain that it is cyclical.

Option prices are a valuable input because they aren’t determined by a theoretical formula but is an outcome of real traders buying and selling options. Currently, the India VIX trades at 12. If we use the Black & Scholes formula for options pricing (not the most accurate way of doing it), it gives an expectation of 12% annualized volatility or 4.14% 30 trading days volatility or a 0.756% daily variation in prices, on average. The back calculated option implied volatility is lower than the current realized volatility which itself is very low.

VIX, or the expression of implied volatility, jumps when markets undergo capitulation. Why? Because traders are ready to pay any price to protect or speculate for the given underlying. There is a wild divergence of opinion about what the price of the underlying should be. This is one reason that any severe market decline without a VIX bump remains incomplete reflection of a panic.
Panic provides bargains, and as investors we would gain handsomely if we are able to buy at bargain prices.





Current realized volatility is extremely low, breeding investor complacency. Implied volatility suggests a single-day 10% drop is rarer than the universe's age—highlighting two things: 1) Standard models are flawed. 2) "Unlikely" events happen often. History shows that such declines are not so rare.

DSP

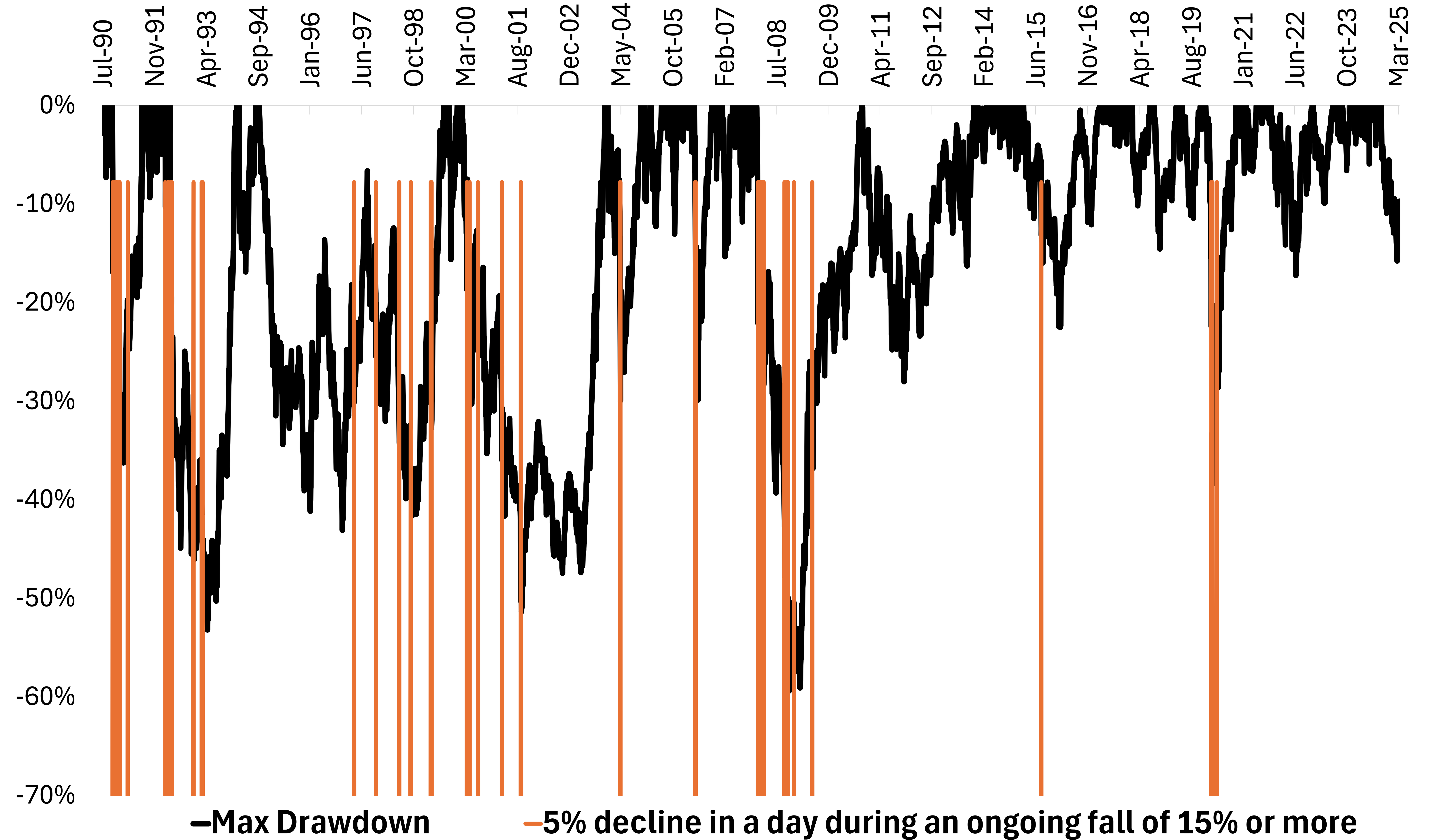
Source: NSE, DSP. Data as of Mar 2025.
Nifty 50 Price Return index considered.

Over And Over Again, The Market Displays A Regular Irregularity

From its all time high, the Nifty Index declined nearly 16% but it is yet to register a 5% daily price fall. In most past corrections, large price down moves indicates that selling pressure has reached an intensity that causes investors to panic and sell.

This kind of forced selling, or an emotional response, is what creates bargains. Bargains are an outcome of capitulation. Bargains are also an initial condition for above average returns or a fodder for the patient investors to make extraordinary returns.

There is no way to judge whether a 5% decline will occur or not. Or whether we are even in such a cycle is uncertain. What is certain is that if and when there is an emotional response from investors at large, a panic selling spree, it will signal an opportunity for the patient investor.



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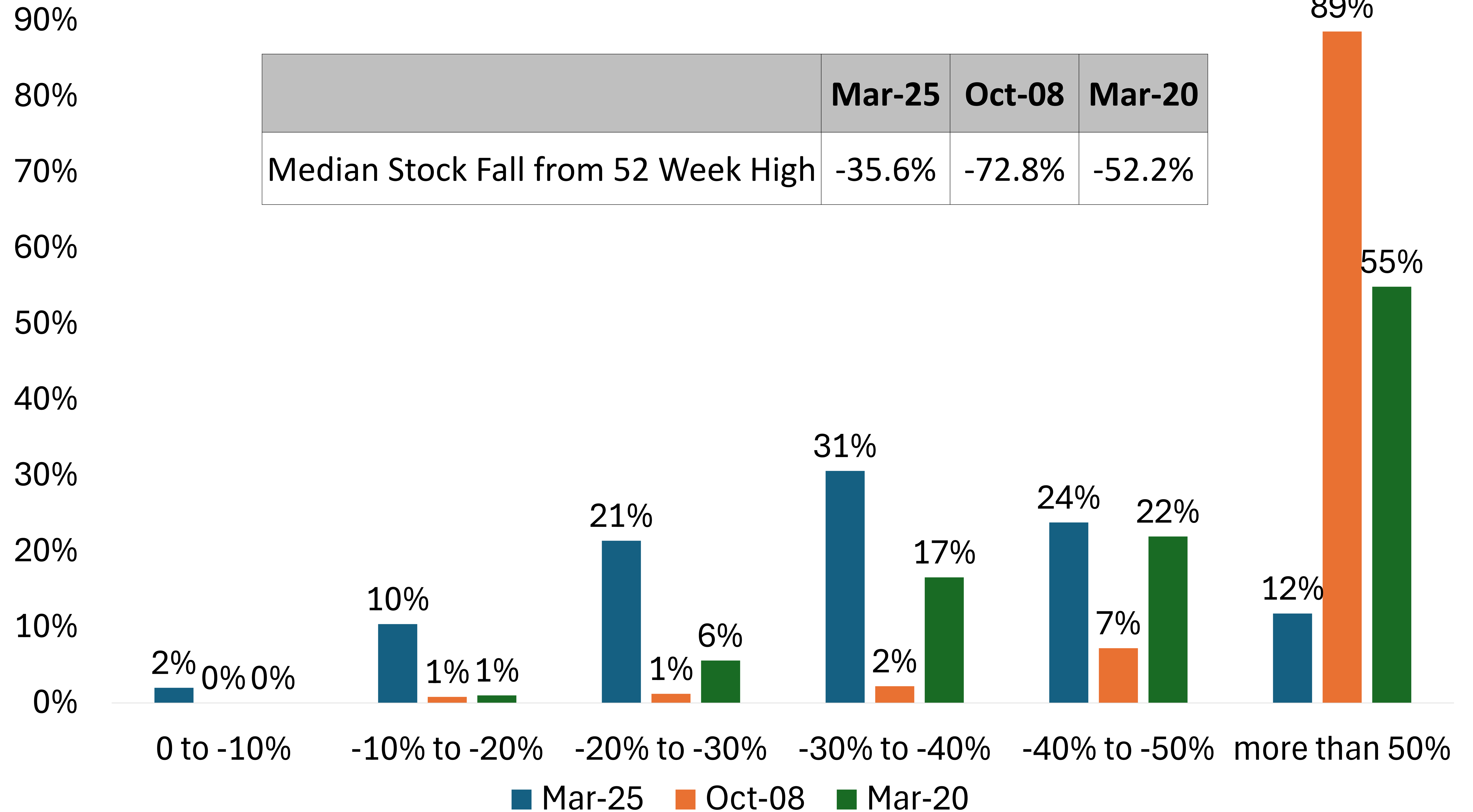
Source: NSE, DSP. Data As of Mar 2025. Nifty Price return Index is considered.

Market Breadth Deterioration Is Yet To Signal Capitulation

Taking a leaf out of Pareto principle and applying it to the quality of listed equities shows interesting outcomes. In fact, it would tell us that not all companies deserve high earnings multiple and rich valuations. In a bull market, companies which are of inferior quality, in terms of stability of earnings, growth or capital allocation, start commanding valuations which are similar or even better than high quality companies. This happens because during the depths of the bear market, most of these low-quality firms are priced for failure or poor terminal value. As the tide turns and bull market progresses, these firms begin to show extraordinary returns and improvement in profits. Investors extrapolate these trends into the future making fatal mistakes.

History tells us that in a bear market, everything falls. But weaker firms, which are usually more in number, fall deep. In fact, one sign of capitulation is when 50% of NSE 500 firms fall more than 50% from their peak. That's when buying opportunities begin to emerge. We are not there yet.



	Mar-25	Oct-08	Mar-20
Median Stock Fall from 52 Week High	-35.6%	-72.8%	-52.2%

DSP

Source: Bloomberg, DSP. Data As of Mar 2025. Nifty 500 Index considered

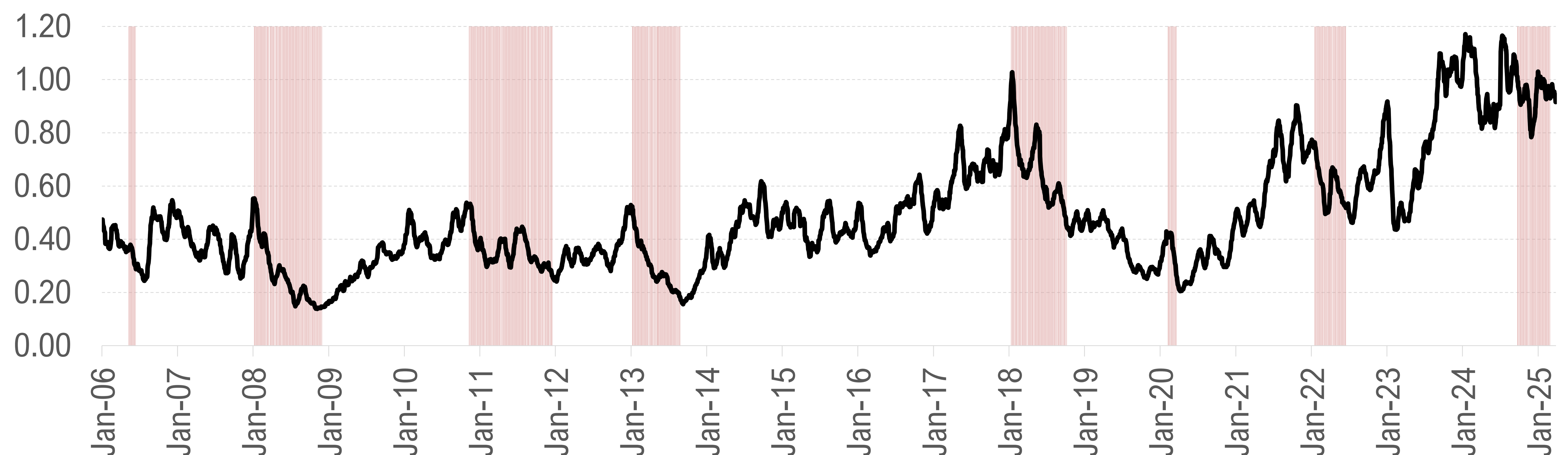
Once Bitten, Twice Shy? Not This Time, Not Yet!

Historically, market capitulations have been periods of surrender where investors to a larger extent give up on riskier pockets and seek haven in safer ones.

This phenomenon was especially evidenced in the small and mid cap (SMID) space. The past periods of volatility where Nifty MidSmallCap 400 declined by more than 20% from its 52-week highs were accompanied with significant drop in the money traded in the mid & small cap space.

The ratio of money traded in SMID segment as a percentage of large cap segment saw declines ranging between 21% and 73%. However, the recent decline (so far) has been an anomaly. There has been a clear lack of shyness that had historically caused hurried exit in favour of large caps. The ratio of SMID / Large still is at 0.9 – much closer to levels seen in Sep-24 and Jan-18.

Is this a sign of maturity? Or a sign of pause? Time will tell.



Decline Phase		Nifty MidSmallCap 400 TRI Peak to Bottom Decline	SMID Traded Value as % of Large Caps		Decline in Ratio
From	To		Ratio at Peak	Ratio at Bottom	
May-06	Jun-06	-38%	0.4	0.3	-21%
Jan-08	Dec-08	-72%	0.5	0.1	-73%
Nov-10	Dec-11	-40%	0.5	0.3	-51%
Jan-13	Aug-13	-26%	0.5	0.2	-67%
Jan-18	Oct-18	-28%	1.0	0.4	-54%
Feb-20	Mar-20	-40%	0.4	0.3	-39%
Jan-22	Jun-22	-22%	0.8	0.5	-31%
Sep-24	**Mar-25**	**-23%**	**1.0**	**0.9**	**-8%**

Source: Bloomberg, NSE, DSP. Data As of Mar 2025. Nifty100 traded value (20-Day Avg) is considered for Large Caps. Nifty500 traded value (20-Day Avg) minus Nifty100 traded value (20-Day Avg) is considered for Mid & Small Caps.

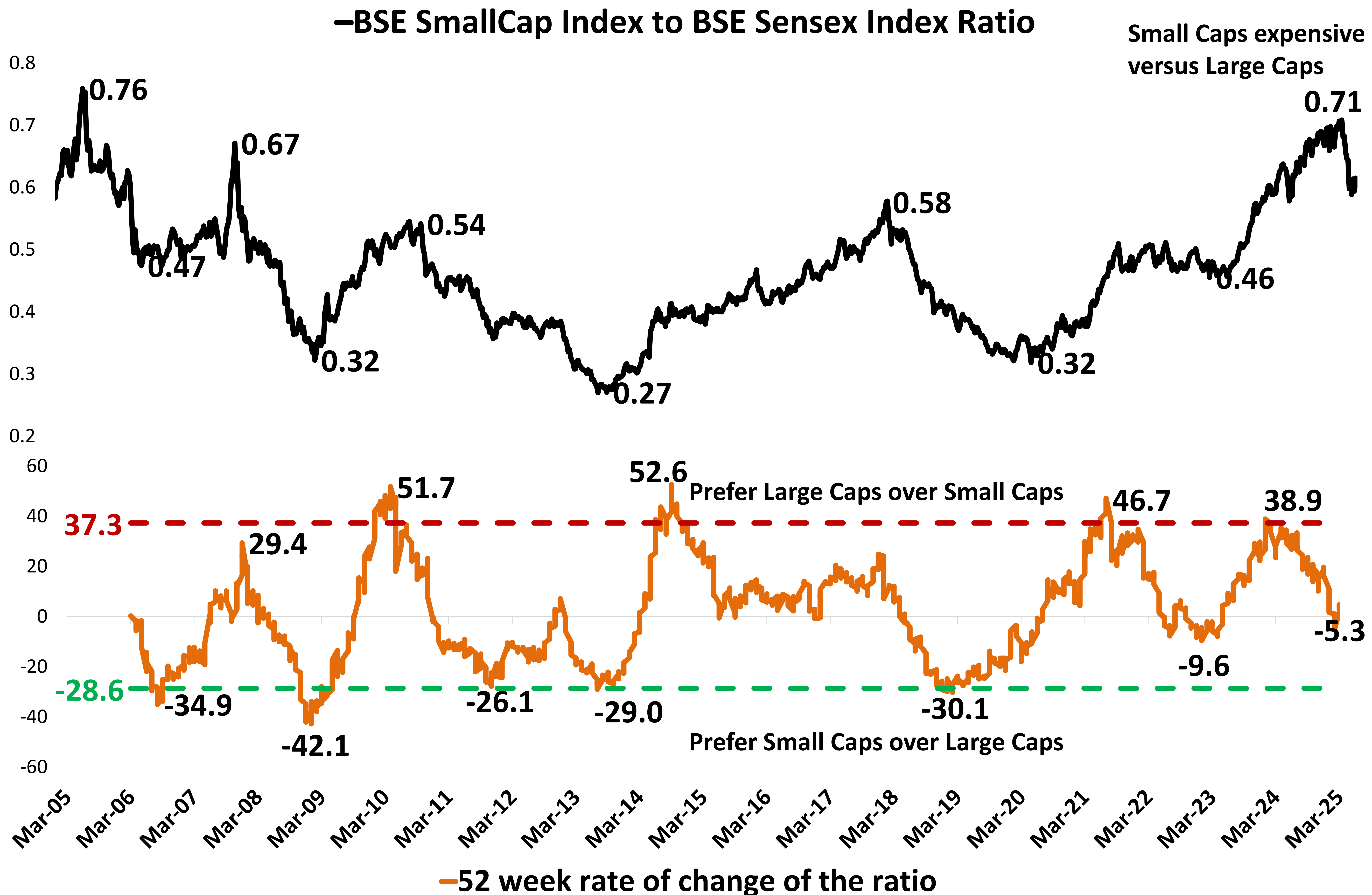
Small Caps Outperformance Over, Time For Large Caps To Outperform?

An enduring feature of bear markets is smaller firms tends to face deeper cuts and persistent underperformance versus larger firms.

The BSE Smallcap index has outperformed the BSE Sensex Index for a sustained period. The rolling one year (52 week) change shown in the graph on the bottom panel indicates two successive peaks of outperformance for smallcaps within a period of 5 years. This multiyear trend came to halt in the last two quarters and has since reversed.

The pace and magnitude of this underperformance for smallcaps versus largecaps is unknown. But if history is any guide, barring the shallow underperformance in 2022-23, smallcaps usually witness deeper cuts with rolling 1 year underperformance bottoming close to -28.6% as per history.

This means another critical sign of capitulation would be the underperformance of smallcaps getting close to its historical averages.



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Source: BSE, DSP. Data As of Mar 2025

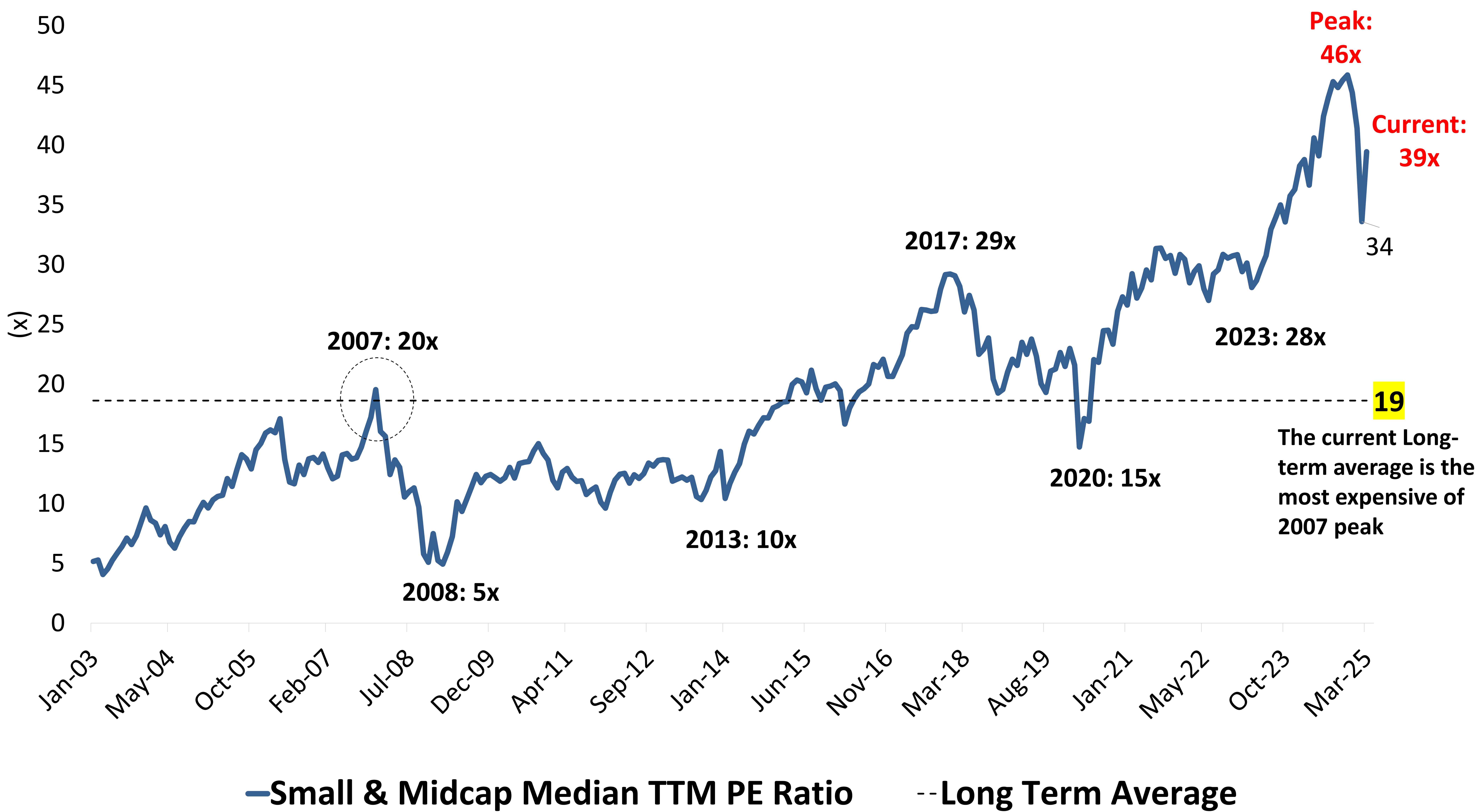
Small & Midcap Valuation Multiples Are Beginning To Soften

The median earnings multiple for Small & Midcap stocks craters during bear markets. In the past bear markets, the median SMID multiple has declined to low-to-mid single digits where SMIDs became exceptional opportunities for long term investors.

The re-rating for SMIDs which began post COVID has caused the median multiple to rise to unprecedented levels. (on a side note, this is another instance which shows that market keeps surprising investors).

The long-term median multiple for SMID universe now stands at 19x. If an investor were looking at this multiple in 2007, it would have appeared highly inflated but is now just the average.

If the market undergoes a capitulation event, rising earnings and panic selling brings these multiples to levels at which SMIDs become bargain buys. Watch out!



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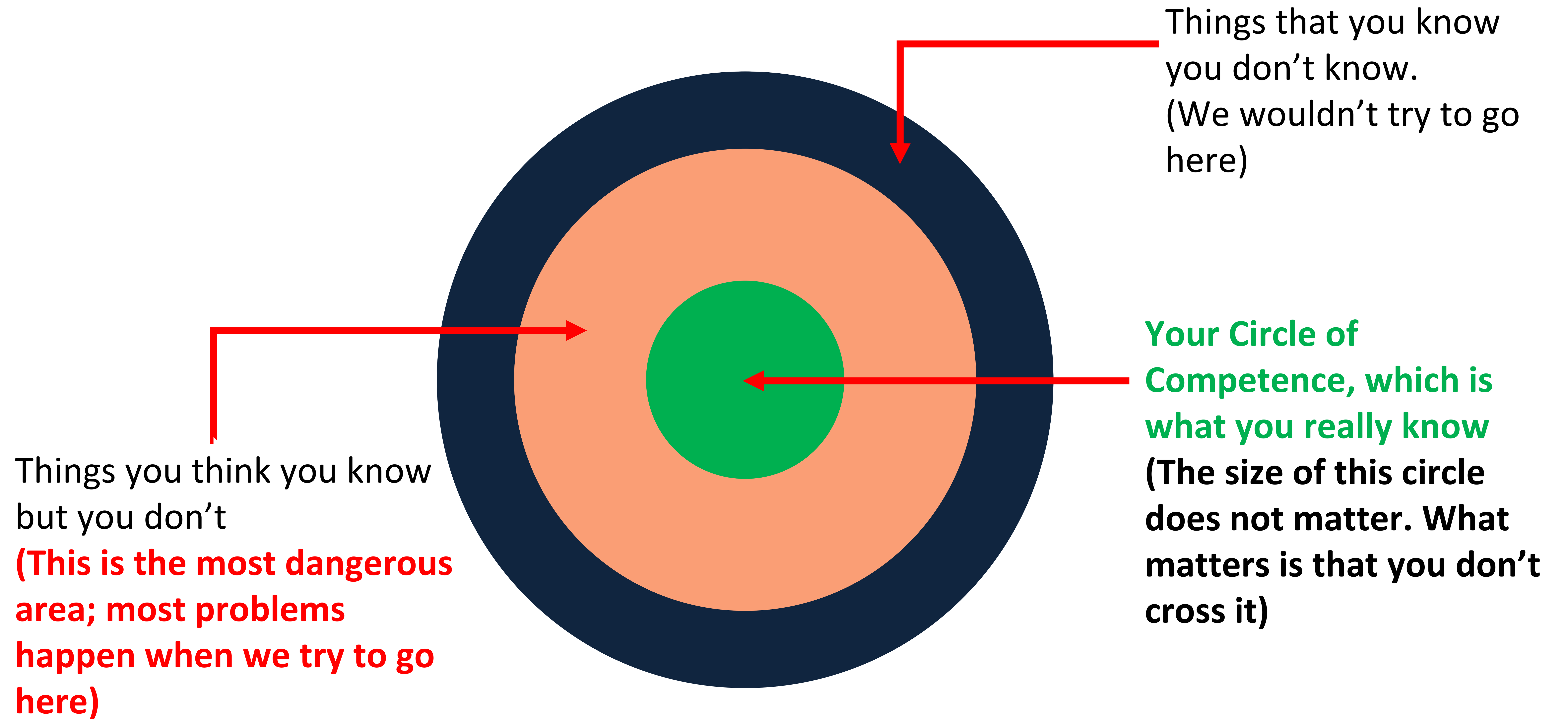
Source: Nuvama Research, DSP, Data As of Mar 2025

Play Within Your Circle Of Competence

Understanding one's Circle of Competence is essential for making informed decisions. This concept emphasizes focusing on areas where one has genuine expertise while avoiding choices beyond their understanding.

Warren Buffett illustrated the importance of the Circle of Competence in the 1997 Berkshire Hathaway Shareholder Letter using the analogy of legendary baseball player Ted Williams: "Ted carved the strike zone into 77 cells, each the size of a baseball. Swinging only at baseballs in his "best" cell, he knew, would allow him to bat .400; reaching for balls in his "worst" spot, the low outside corner of the strike zone, would reduce him to .230. **In other words, waiting for the fat pitch would mean a trip to the Hall of Fame; swinging indiscriminately would mean a ticket to the minors."**



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Source: DSP

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