# NETRA

## Early Signals Through Charts

January 2025

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# 7 Myths About Markets Debunked by Data

DSP

# Myth 1: Markets Always Go Up

Most equity investors believe that equity markets deliver superior returns over the long term. This is true. But only in a few markets. Long term equity returns are an exception, not the norm

**Over the past 30 years, among the 15 major indices, only a few markets have generated returns higher than US Bond Real Returns.**

In USD terms, more than half of these markets have generated nil to negative real returns over the past 30 years.

Even in local currency terms, there is no index which has generated double digit real returns over the last three decades.

**Long Term Equity Returns Are An Exception, Not the Norm**

| Country | Local Currency returns | Real Returns (Local Currency) | USD Returns | Real Returns (USD) | US Bond Market Index* |
|---|---|---|---|---|---|
| | CAGR (30 Years) | | | | |
| Malaysia | 2% | -1% | 0% | -3% | 4.5% **(2.0%: Real Return)** |
| Philippines | 3% | -2% | 0% | -3% | |
| Korea | 3% | 0% | 1% | -2% | |
| Japan | 2% | 2% | 1% | -2% | |
| China (HK Listed) | 2% | -2% | 2% | -1% | |
| Indonesia | 9% | 1% | 2% | 0% | |
| UK | 3% | 1% | 3% | 0% | |
| France | 5% | 3% | 4% | 2% | |
| Australia | 5% | 2% | 4% | 2% | |
| Brazil | 12% | 5% | 5% | 2% | |
| Mexico | 11% | 2% | 6% | 3% | |
| Canada | 6% | 4% | 6% | 3% | |
| China Mainland | 6% | 2% | 6% | 4% | |
| **India** | **10%** | **4%** | **7%** | **4%** | |
| **USA** | **9%** | **6%** | **9%** | **6%** | |

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Source: Bloomberg; Data as on Dec 2024. *Bloomberg US Aggregate Index is considered for US Bond Market Index.

# Myth 2: If GDP Rises, So Would The Stock Market

A common misconception across markets is "strong economic growth equals equity returns, therefore buy stocks." This narrative is flawed.

The Case in Point: Brazil, with only moderate growth, delivered one of the highest real returns for investors in the past 30 years. Conversely, China Mainland, with explosive GDP growth, has yielded low real returns.

Why?
Stock returns depend on earnings growth. Companies that consistently create value for shareholders (above their cost of capital) deliver long-term gains, exceeding bonds. This is rarer than most people believe. In many countries and companies, events outside the control of authorities can derail or stop growth.

The Takeaway: Don't be fooled by economic growth alone. Focus on a company's earnings and the price you pay for them.

## Economic Growth May Or May Not Result In Commensurate Equity Returns

### 30 Year Returns For Frontline Equity Indices In Local Currency & Adjusted For Inflation

| Country | Real GDP Growth | Local Currency Returns | Real Returns (Local Currency) |
|---|---|---|---|
| China (HK Listed) | 2.8% | 1.5% | -1.8% |
| Philippines | 4.7% | 2.9% | -1.7% |
| Malaysia | 4.8% | 1.8% | -0.6% |
| Korea | 4.3% | 2.9% | -0.1% |
| Indonesia | 4.4% | 9.5% | 1.0% |
| UK | 2.0% | 3.3% | 1.0% |
| Japan | 0.8% | 2.4% | 2.1% |
| China Mainland | 8.6% | 5.6% | 2.3% |
| Australia | 3.1% | 5.1% | 2.4% |
| Mexico | 2.0% | 10.6% | 2.5% |
| France | 1.5% | 4.6% | 3.0% |
| **India** | **6.2%** | **10.5%** | **3.8%** |
| Canada | 2.3% | 6.1% | 4.0% |
| Brazil | 2.4% | 11.7% | 5.1% |
| United States | 2.5% | 8.9% | 6.4% |

**Countries marked in green -> Real returns higher than Real GDP growth*

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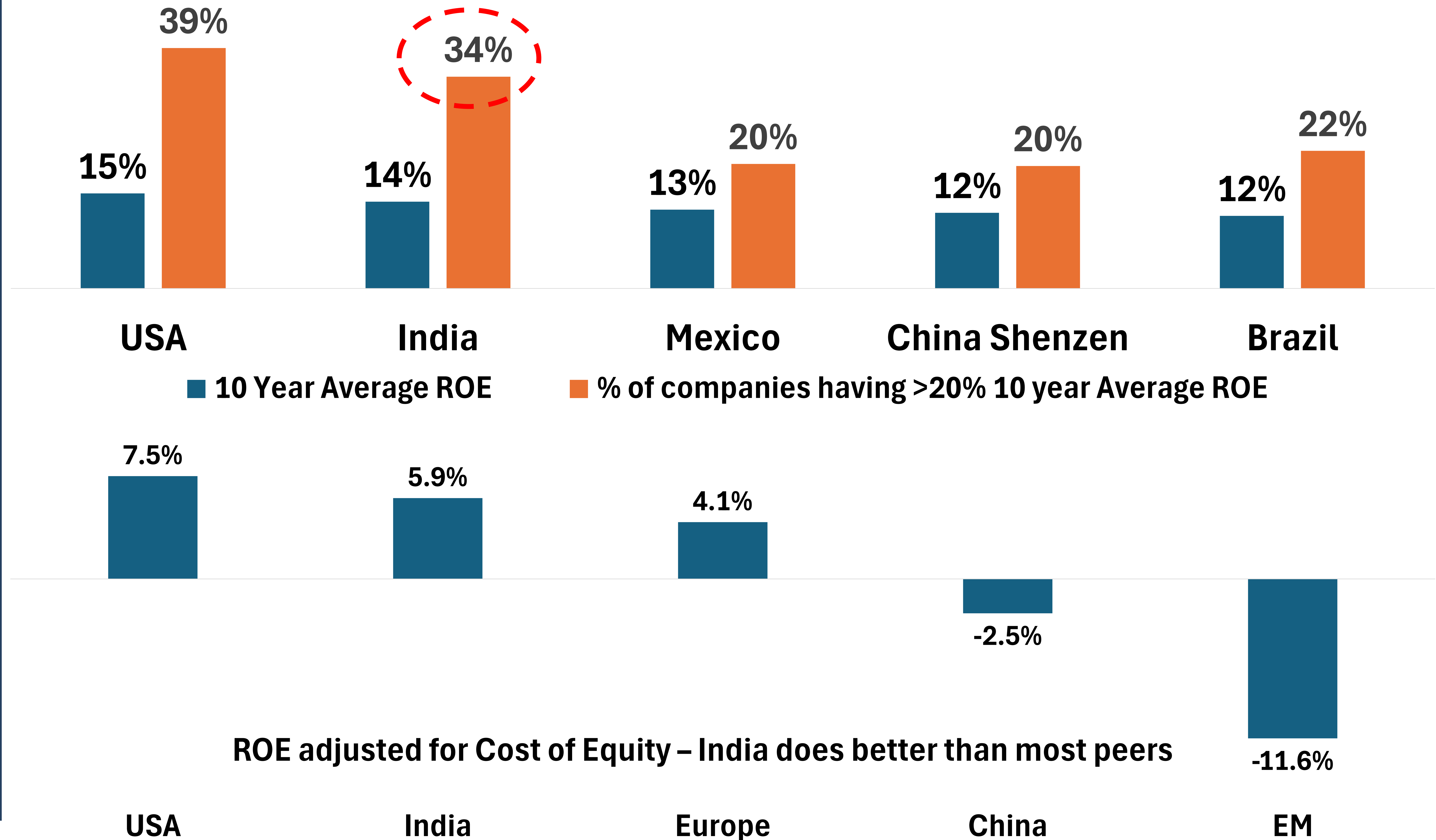
Source: Bloomberg, World Development Indicators, DSP; Data as of Dec 2024.

# Myth 3: India Outperforms Because of GDP Growth

India's long-term outperformance is often attributed to narratives like domestic flows or high GDP growth, but these are merely surface-level explanations.

The fundamental question is why stock investors should expect higher returns than those offered by bonds. The extra return that stocks can provide stems from the ability of management to generate returns exceeding their cost of capital. Therefore, the primary driver of stock prices over the long term is the returns that shareholders earn on their capital. Companies with superior return on equity (ROE) are more likely to deliver higher returns compared to their peers. Adjusted for the difference in cost of capital, India does better than most peers.

India ranks second only to the U.S. in the number of firms consistently achieving an ROE of over 20% for more than a decade. This strong performance in ROE is the true engine behind India's superior stock market results, suggesting that the underlying fundamentals are what truly matter, rather than the popular narratives surrounding market performance.

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Source: Bloomberg, DSP. Data as of Dec 2024. Large cap indices are considered for all countries. USA – S&P 500, India – Nifty 50, Mexico - S&P/BMV IPC (MEXBOL) Index, China Shenzen – CSI300, Brazil – IBOV Index. For ROE adjusted for Cost of Equity; Source: Aswath Damodaran , DSP. For this chart, ROE of the full market is considered.

# Indian Businesses Have Been More Rewarding, Consistently

Indian businesses have delivered higher shareholder returns in nine of the thirteen major sectors over the past 20 years. Based on earnings, Indian businesses have showcased one the best per share earnings growth over the last 20 years.

Economic growth, political stability, funds flows, demographics and (insert any other narrative) is easily falsifiable. Meaning, despite these triggers, many other countries do not have businesses which have delivered these numbers consistently.

The reason could be, (as we are also shooting in the dark), the ability of Indian entrepreneur to navigate challenges across cycles and yet deliver superior results. This data also highlights an unspoken dynamic. Indian entrepreneurs are laser focused on costs, and their ability to minimize inputs costs (such as labour costs and raw material costs) is a large contributor to superior profitability outcomes.

Next time you think about India, think about the enterprising entrepreneur before any narratives.

| Sectors | India Leader | Global Leader | Indian Leader 20 Year Average ROE | Global Leader 20 Year Average ROE | Indian Leader 20 Year EPS CAGR | Global Leader 20 Year EPS CAGR |
|---|---|---|---|---|---|---|
| Aerospace & Defence | Bharat Electronics Ltd | RTX Corp | 21.2 | 16.4 | 14% | -1% |
| Pharmaceuticals & Biotech | Sun Pharmaceuticals | Johnson & Johnson | 20.7 | 24.9 | 16% | 9% |
| Banks | HDFC Bank Ltd | JPMorgan Chase & Co | 17.9 | 11.1 | 21% | 12% |
| Automobiles | Tata Motors Ltd | Volkswagen AG | 17.4 | 11.5 | 15% | 15% |
| IT - Software | Tata Consultancy Services | Microsoft Corp | 43.5 | 33.5 | 18% | 15% |
| Ferrous Metals | Tata Steel Ltd | Glencore PLC* | 14.8 | 5.0 | -1% | -6% |
| Cement & Cement Products | Ultratech Cement Ltd | CRH PLC | 18.0 | 10.7 | 29% | 4% |
| Oil | ONGC | EXXON Mobil Corp | 17.6 | 19.5 | 9% | 4% |
| Construction | Larsen & Toubro Ltd | China State Construction* | 19.5 | 18.4 | 10% | 15% |
| FMCG | Hindustan Unilever Ltd | Nestle SA-REG | 69.3 | 19.7 | 11% | 5% |
| Healthcare Services | Apollo Hospitals | Tenet Healthcare Corp | 10.5 | -5.8 | 15% | 4% |
| Telecom - Services | Bharti Airtel Ltd | Verizon Communications | 11.1 | 30.0 | 12% | 0% |
| Power | NTPC Ltd | ENEL SPA | 10.9 | 12.0 | 7% | -1% |

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Source: Bloomberg, DSP. Data as of Nov 2024. *For companies with history lesser than 20 years, the data is since listing.

# India's Scale & Size Is Becoming Hard To Ignore: A Trillion Dollar of Annual Investments

India has come out of an investment winter. The investment to GDP ratio (measured as Gross Fixed Capital Formation to GDP) peaked in 2011 and remained low until the COVID-led disruption upended the supply chains. Post COVID recovery and a large push through government expenditure, the investments are making a come back.

Over the last seven and a half decades, $14trn has been spent on investments since independence. This includes spending on housing by households, infrastructure creation by the government, and private capital expenditure. India has spent $8trn on new investments over the last 10 years. As the base becomes large, this number could repeat itself in the next 5 to 7 years.

What does this mean?
The size of India's annual investments is becoming large enough for it to get investor attention.

## Gross Fixed Capital Formation By Country (US$ Bn)

| 1990 | 1995 | 2000 | 2005 | 2010 | 2015 | 2020 | 2024* | | 34-Yr CAGR |
|---|---|---|---|---|---|---|---|---|---|
| 1269 | **1697** | 2373 | 2990 | 2756 | 4656 | 6240 | 8245 | | 14.0% |
| **1114** | 1594 | **1415** | **1251** | 2674 | 3778 | 4610 | 6149 | | 8.0% |
| 433 | 609 | 450 | 901 | **1303** | **1110** | **1289** | 1157 | | 4.9% |
| 297 | 321 | 395 | 543 | 664 | 672 | 841 | **1088** | | 4.8% |
| 258 | 243 | 297 | 479 | 585 | 604 | 731 | 977 | | 4.0% |
| 148 | 238 | 294 | 447 | 557 | 524 | 594 | 708 | | 2.8% |
| 129 | 111 | 146 | 269 | 399 | 509 | 472 | 597 | | 2.6% |
| 95 | 92 | 122 | 256 | 379 | 371 | 384 | 496 | | 2.5% |
| 86 | 91 | 108 | 188 | 330 | 354 | 322 | 443 | | 2.4% |
| 84 | 83 | 44 | 136 | 311 | 281 | 303 | 378 | | **-0.1%** |

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Source: World Development Indicators, Bloomberg, DSP; Data as of Dec 2024
*For France, Germany, Russia, Australia and India, estimates are based on run rate. For US, UK, China and Japan, estimates are based on 10 year average growth rate

# India's Scale & Size Is Becoming Hard To Ignore: Consumption Growth, Outpacing Global Peers

India's 7%+ GDP Growth rate is not without merit, and a significant driver of this growth is household consumption expenditure, which constitutes 60% of the GDP. Both China and India have seen a consistent rise in this figure, resulting in impressive CAGR of 11.7% and 7.1%, respectively. India's growth trajectory has been heavily based on household consumption, which soared from USD 200 billion to USD 2 trillion over the past 30 years.

China has historically maintained a conservative approach to domestic consumption (only 38% of GDP), basing its growth primarily on investments. In contrast, the United States has relied on domestic consumption, which accounts for 70% of its GDP. US alone is almost 50% of the consumption of the largest 10 economies put together.

While India's consumption growth has remained strong, in absolute and relative to its peers, it needs to maintain this strength to instill confidence for domestic investment and to attract foreign investments.

## Households Final Consumption Expenditure (US$ Bn)

| 1990 | 1995 | 2000 | 2005 | 2010 | 2015 | 2020 | 2024* | 34-Yr CAGR |
|---|---|---|---|---|---|---|---|---|
| 3809 | 4963 | 6767 | 8769 | 10260 | 12297 | 14206 | 19938 | 11.7% |
| 1608 | 2925 | 2666 | 2648 | 3275 | 4178 | 5611 | 7804 | 7.1% |
| 998 | 1444 | 1102 | 1642 | 2090 | 2479 | 2733 | 2461 | 5.1% |
| 726 | 876 | 1097 | 1610 | 1874 | 1877 | 1952 | 2313 | 5.0% |
| 701 | 856 | 735 | 1195 | 1587 | 1779 | 1634 | 2227 | 4.2% |
| 333 | 338 | 566 | 905 | 1464 | 1318 | 1598 | 2066 | 3.9% |
| 253 | 336 | 406 | 637 | 922 | 1241 | 1408 | 1619 | 3.1% |
| 215 | 230 | 299 | 471 | 917 | 900 | 941 | 1227 | 2.7% |
| 180 | 211 | 239 | 396 | 785 | 758 | 769 | 1022 | 2.5% |
| 170 | 206 | 120 | 382 | 635 | 718 | 693 | 934 | 1.1% |

Source: World Development Indicators, DSP; Data as of Dec 2024.

*For Germany, Australia, India and Russia, estimates are based on run rate. For Japan and Canada estimates are based on 4 quarter rolling sum till Sep'24. For China and France estimates are based on 10-year average growth rate

# Myth 4: Gold Is A Poor Investment Because It Yields Nothing

In emerging markets, Gold is an indispensable diversification asset.

Diversifying with gold is essential for emerging market portfolios due to its consistent outperformance compared to equities in most regions. Gold has delivered superior returns in local currencies across emerging markets, driven by economic and political instability, which often weakens currencies and boosts gold prices.

While India stands out with a more stable currency and strong equity performance, many other emerging markets have faced chronic challenges, making gold a valuable asset. India is the only exception, at this point, where local stocks are beating gold. But this hasn't been the case always. Even in India, Gold & stocks have seen periods of leading and lagging performance.

Including gold in a portfolio acts as a hedge against volatility, protecting against risks while enhancing overall returns. For investors in emerging markets, gold offers both stability and growth potential in uncertain times.

## Gold Beats Local Equities In Most Emerging Markets

| Emerging Markets (Returns in 21st century) | Equity Market Returns (In Local currency) | Gold Returns (In Local currency) | Gold's Excess Returns over Equity Market |
|---|---|---|---|
| Turkey | 21.1% | 29.1% | 8.0% |
| Brazil | 8.1% | 14.7% | 6.6% |
| Poland | 4.0% | 9.2% | 5.2% |
| South Korea | 5.3% | 10.4% | 5.1% |
| Chile | 7.4% | 12.0% | 4.6% |
| Argentina | 40.1% | 44.1% | 4.0% |
| Malaysia | 6.4% | 9.9% | 3.5% |
| China | 5.8% | 8.6% | 2.9% |
| Mexico | 10.2% | 12.6% | 2.5% |
| Hungary | 9.2% | 11.2% | 2.0% |
| South Africa | 13.2% | 14.2% | 1.0% |
| **India** | **13.4%** | **12.2%** | **-1.3%** |

*All Market returns are TRI using TRA Function on Bloomberg

***Data since 31-12-1999**

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Source: Bloomberg, DSP. Data as of Dec 2024

# Myth 5: Mixing Of Assets Is Over-Diversification

Multi-asset investing is more than just a strategy—it can be the go-to strategy for portfolio management. Asset allocation, if done conservatively and exercised over the long term, can solve for multi generational wealth creation. This strategy has worked across many markets and has given equity-like returns with lesser volatility.

We have outlined some of the major Developed and Emerging Markets, and across all markets, the Multi Asset strategy has achieved optimal outcome. In most cases, it has outperformed domestic equity in local currency terms. Another critical point to note is that over this 20-year period, Gold has outperformed equity markets in local currency terms across all markets.

The important point to highlight here is the difference in standard deviation, because most of the times a dismal period in one asset class will be offset by another asset class.

## Multi-Asset Allocation Has Worked Across Countries, Over The Long Term

### 20-Year CAGR Returns In Local Currency By Asset Class and For Multi Asset Allocation Strategy

| Nominal Local Currency 20-Yr CAGR | Inflation | Equity returns | Debt returns | International equity returns | Gold returns | Multi Asset returns | Standard Deviation (Domestic Equities) | Standard Deviation (Multi Asset) |
|---|---|---|---|---|---|---|---|---|
| Emerging Markets **(USD)** | 6.1% | 3.5% | 5.5% | 5.6% | 9.3% | 5.7% | 19.4% | 12.6% |
| **India** | **6.5%** | **12.9%** | **7.4%** | **9.2%** | **13.1%** | **12.4%** | **21.3%** | **11.3%** |
| China | 2.2% | 7.1% | 4.4% | 7.1% | 8.7% | 9.1% | 25.5% | 13.8% |
| Thailand | 2.0% | 3.8% | 2.8% | 4.9% | 8.6% | 5.3% | 18.1% | 10.1% |
| Pakistan | 10.4% | 15.7% | 9.8% | 14.1% | 18.1% | 16.4% | 19.5% | 11.5% |
| Japan | 0.7% | 4.5% | 0.8% | 7.8% | 11.7% | 6.0% | 20.9% | 12.5% |
| **USA** | **2.6%** | **8.2%** | **2.6%** | **2.3%** | **9.3%** | **7.0%** | **19.2%** | **11.1%** |
| UK | 2.7% | 2.7% | 2.3% | 7.8% | 11.7% | 5.2% | 17.6% | 10.4% |

Source: Bloomberg, DSP. Data as of Dec 2024. All returns are in local currency except for Emerging Market (USD). Multi Asset is based on Annual rebalancing and the weights are: Domestic Equity – 50%; Debt – 20%; International Equity – 15%, Gold – 15%. Indices used For Equity: Emerging Markets (USD) – MSCI EM Index, India – Nifty 50, China – CSI300, Thailand – SET Index, Pakistan – KSE 100 Index, Japan – TOPIX, USA – S&P500, UK- FTSE 100 Index. For Debt, we have used: Emerging Markets (USD) – Bloomberg EM Sovereign Index, India – Crisil Short Term Bond, China - Bloomberg China Treasury, Thailand – Thai BMA Govt Bond Index, Pakistan - Bloomberg emerging fixed income – Pakistan, Japan - FTSE Japan Gov Bond, USA - Bloomberg US treasury bond index, UK - Bloomberg UK Gilt 1-5 year Index. International Equity for Emerging Markets (USD), India, Thailand, Pakistan, Japan, UK – MSCI ACWI and for China – MSCI ACWI ex China and for USA – MSCI ACWI ex US. Gold returns are in local currency except for Emerging Markets(USD).

# Myth 6: Systematic Investment Plan Is Only For Non-Professionals

*"The penultimate hurdle is myopia (or "hyperbolic discounting," if you happen to be a geek). This reflects the idea that consequences, which occur at a later date, tend to have much less bearing on our choices the further into the future they fall. This can be summed up as, "Eat, drink and be merry, for tomorrow we may die." Of course, this ignores the fact that on any given day we are roughly 26,000 times more likely to be wrong than right with respect to making it to tomorrow. Or, if you prefer, this myopic bias can be summed up by Saint Augustine's plea: "Lord, make me chaste, but not yet."* — **James Montier**

*"Almost all good businesses (and investors) engage in "pain today, gain tomorrow" activities."* — **Charlie Munger**

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."

Most investors will be better off by doing away with all activity and hyperactivity. Often during our interaction with clients and partners we highlight that if you start a SIP (Systematic Investment Plan) and never stop, you don't have to do anything. You don't have to listen to experts, nor read any reports (including #DSPNetra). That's because by averaging your investments over the long term, you accept average valuations, average returns and average volatility. In investing, most investors don't even make average returns. Any type of investor benefits from SIP because of the discipline it provides. SIP is investor type agnostic.

So, as Charlie says, let's try and be a little less stupid rather than trying to be the smartest.

| | **Lumpsum returns** | **Lumpsum Real Returns** | **SIP Returns** | **SIP Real Returns** |
|---|---|---|---|---|
| Country | **Last 30 Years ( All Returns in local currency, real returns adjusted for inflation)** | | | |
| China (HK Listed) | 2% | -2% | 2% | -1% |
| Brazil | 12% | 5% | 11% | 4% |
| Philippines | 3% | -2% | 5% | 0% |
| China Mainland | 6% | 2% | 4% | 1% |
| UK | 3% | 1% | 3% | 0% |
| France | 5% | 3% | 4% | 2% |
| Malaysia | 2% | -1% | 2% | 0% |
| Mexico | 11% | 2% | 9% | 1% |
| Indonesia | 9% | 1% | 10% | 2% |
| Canada | 6% | 4% | 6% | 4% |
| Korea | 3% | 0% | 5% | 2% |
| Australia | 5% | 2% | 5% | 2% |
| India | 10% | 4% | 13% | 6% |
| USA | 9% | 6% | 9% | 6% |
| Japan | 2% | 2% | 6% | 5% |

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Source: DSP, Bloomberg; Data as of Dec 2024.
SIP Real Returns > = 5% shaded in green; SIP Returns > Lumpsum Returns shaded in green

# Myth 7: Quality Businesses Have Highly Stable Prices

*"If you're going to be in this game for the long pull, which is the way to do it, you better be able to handle a 50% decline without fussing too much about it."*

— ***Charlie Munger***

**There is no way to predict stock prices.**
**The only certainty is that stock prices will fluctuate more than investors can stomach volatility.**

Irrespective of where you invest, you are very likely to face a correction of 50% or higher at least once in your investing life.

For example, let's take the top 10 listed companies (based on free float market cap) in India and US. These stocks become giants due to their consistent business performance across years. But **almost all of them have gone through drawdowns of 50% or higher at least once in the last 30 years.**

Volatility is not a choice. However, you can manage the extent of pain with your asset allocation.

*"The availability of a quotation (stock price) should never be turned into a liability whereby its periodic aberrations in turn formulate your judgments."* – Warren Buffet

**India - Max Drawdown of Largest 10 Listed Companies**

| Company | Max Drawdown in Last 30 Years (%) | Drawdown Period |
|---|---|---|
| HDFC Bank Ltd | -55% | Jan-08 to Mar-09 |
| Reliance Industries Ltd | -68% | Jan-08 to Oct-08 |
| ICICI Bank Ltd | -82% | Jan-08 to Mar-09 |
| Infosys Ltd | -83% | Mar-00 to Oct-01 |
| Larsen & Toubro Ltd | -77% | Jan-00 to Sep-01 |
| Tata Consultancy Services Ltd | -66% | Jan-07 to Mar-09 |
| ITC Ltd | -58% | Sep-94 to Jan-96 |
| Bharti Airtel Ltd | -57% | Oct-07 to Aug-12 |
| Axis Bank Ltd | -78% | Jan-08 to Mar-09 |
| State Bank Of India | -61% | Jan-08 to Mar-09 |

**US - Max Drawdown of Largest 10 Listed Companies**

| Company | Max Drawdown in Last 30 Years (%) | Drawdown Period |
|---|---|---|
| Microsoft Corp | -75% | Dec-99 to Mar-09 |
| Apple Inc | -82% | Mar-00 to Apr-03 |
| Nvidia Corp | -90% | Jan-02 to Oct-02 |
| Amazon.com Inc | -94% | Dec-99 to Sep-01 |
| Alphabet Inc | -65% | Nov-07 to Nov-08 |
| Meta Platforms Inc | -77% | Sep-21 to Nov-22 |
| Berkshire Hathaway Inc | -51% | Dec-07 to Mar-09 |
| Eli Lilly & Co | -75% | Aug-00 to Mar-09 |
| Broadcom Inc | -49% | Dec-19 to Mar-20 |
| JPMorgan Chase & Co | -76% | Mar-00 to Oct-02 |



Source: DSP, Bloomberg. Data as of Dec 2024. Top 10 stocks of Nifty 50 and S&P 500 are considered. Maximum drawdown since inception is shown for companies that have been public for less than 30 years.

# The Unsettling Calm, Revisited

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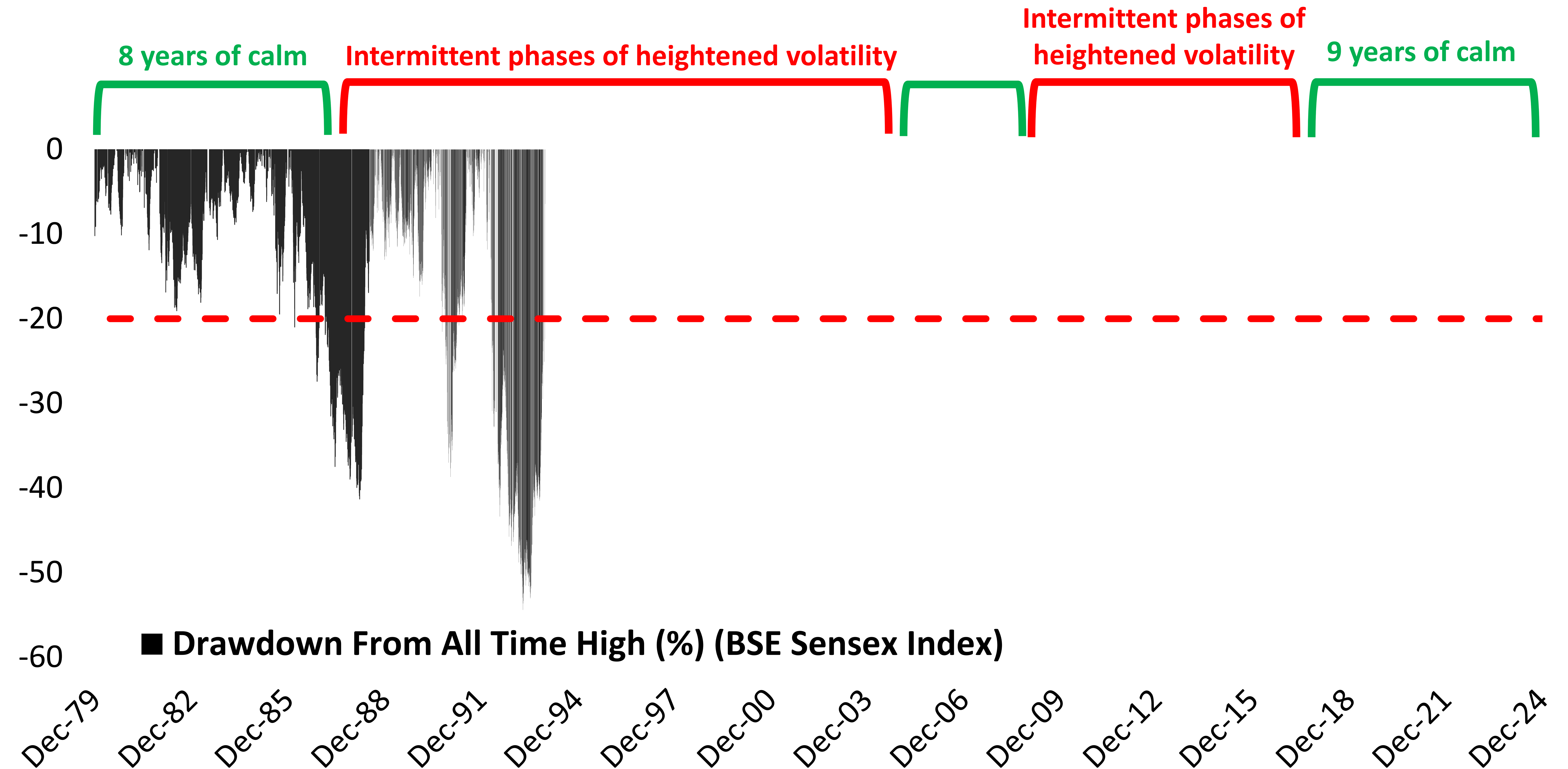
# 9 Years of Calm Rivals 1980s Low Volatility Era

BSE Sensex Index has now gone for almost 9 years without a bear market.

Defining a bear market:
**One of the ways to define a bear market is a decline of more than 20% and a time period of more than one year to regain previous highs.** COVID decline was much deeper, but the markets recovered in about 9 months to reclaim all time highs. This made sure that participants avoided the long-drawn periods of pain when stocks don't deliver returns.

The previous period of such a stable and smooth market was way back in 1980s. Volatility moves in clusters and current cluster of low volatility would likely give way to higher volatility. **We don't know when or why, though. But history tends to rhyme more often.**



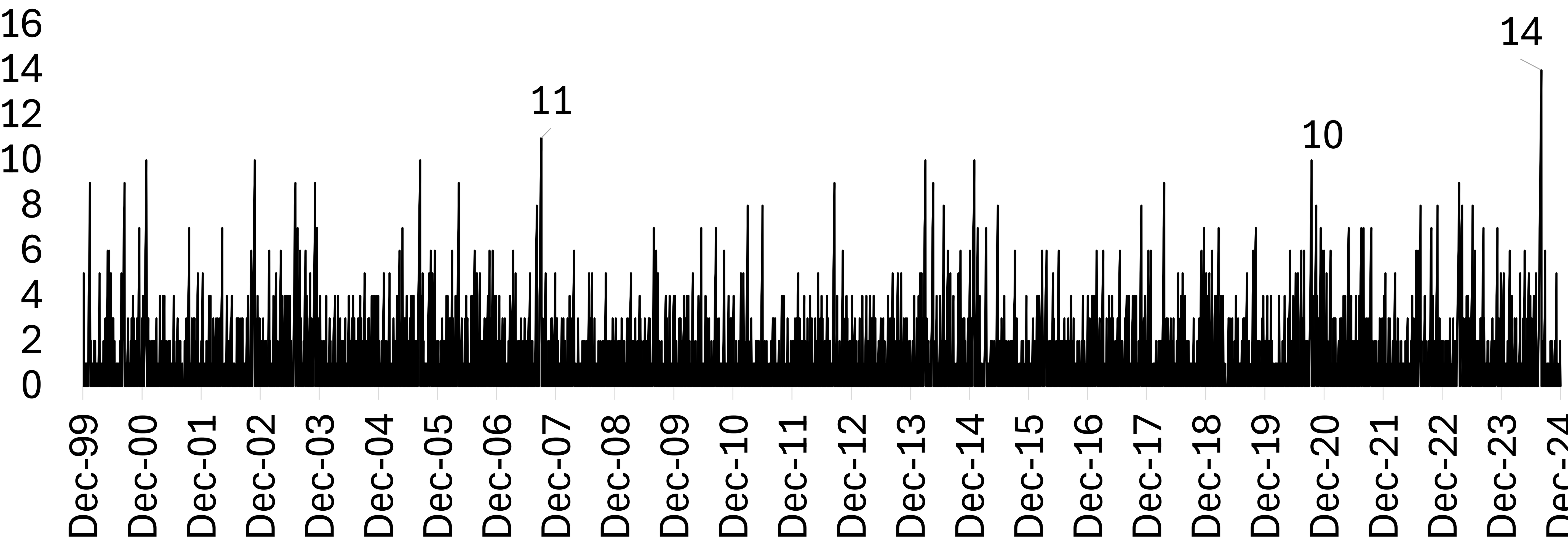

**One of the ways to define a bear market is a decline of more than 20% and a period of more than one year to regain previous highs. It's been 9 years since we are in a relatively shallower drawdown phase.**

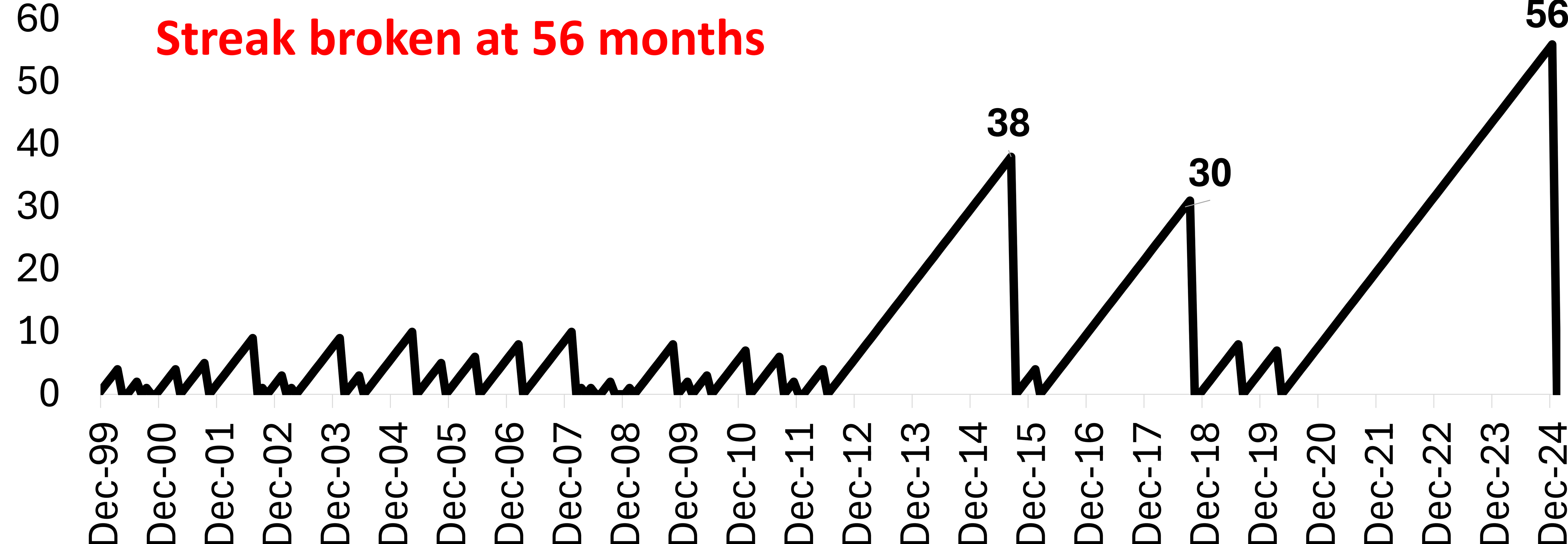
DSP

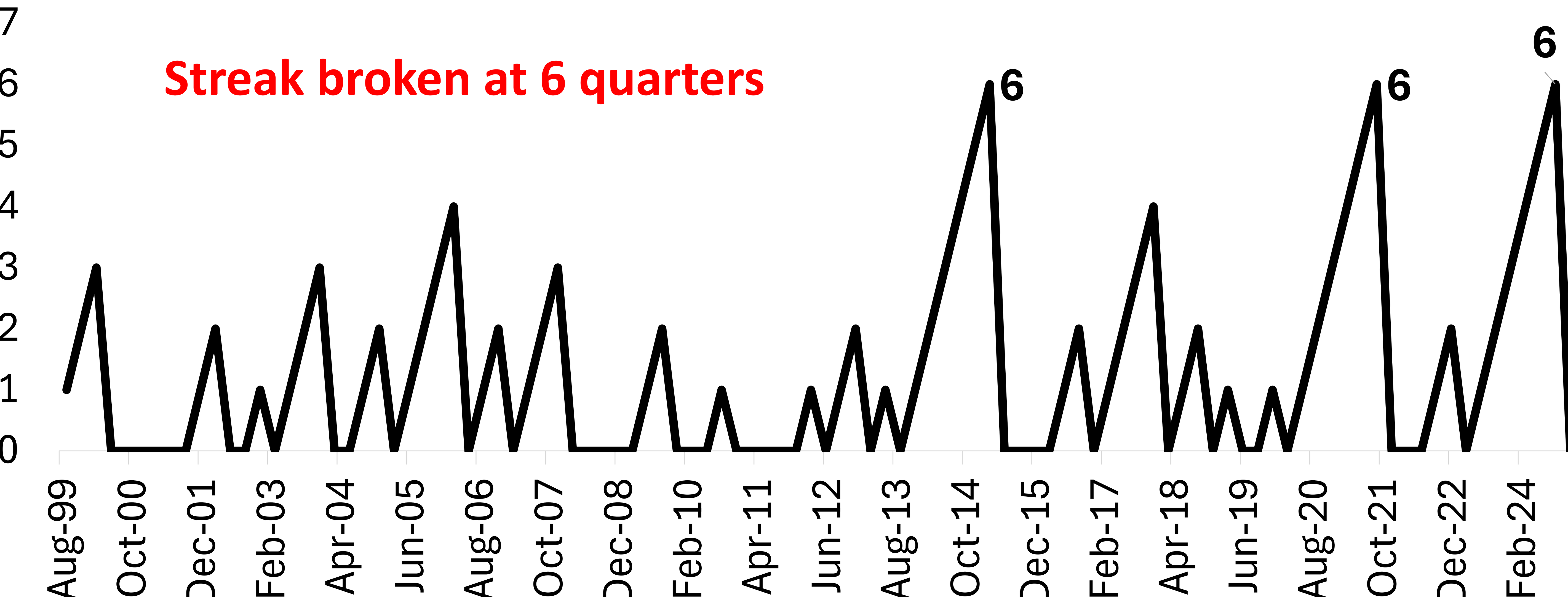
Source: BSE, DSP; Data as on Dec 2024

# The 'Unsettling Calm' Stretches – Lack of Volatility Is Unprecedented, First Cracks Appear

**All stats for Nifty 50 TRI index**



Source: NSE, DSP. Data as of Dec 2024. Nifty 50 TRI index is considered.

# ‘Margin of Safety’ Eroded – Just A Few Companies Are Trading At Attractive Valuations

Within the NSE 500, the percentage of stocks trading below 3 times their book value has decreased from 70% during the COVID period to just 27% currently.

This contrasts with the historical average of 44%, highlighting favorable conditions for purchasing SMID stocks during the earlier phase. As we now approach the phase of rich valuations in this cycle, a more cautious approach is warranted in these segments.

The large-cap space faces a similar challenge, although there are still areas where a margin of safety exists.

The number of companies trading below 3 times their book value is near its all-time lows, indicating a need for a more focused, bottom-up approach to identify new investment opportunities.

**Large Cap P/B Bands**



**Large Cap: P/E Bands**



**SMID P/B Bands**



**SMID: P/E Bands**

Source: Bloomberg; DSP. Data as of Dec 2024. Negative earnings (P/E) and book value (P/B) companies are excluded.

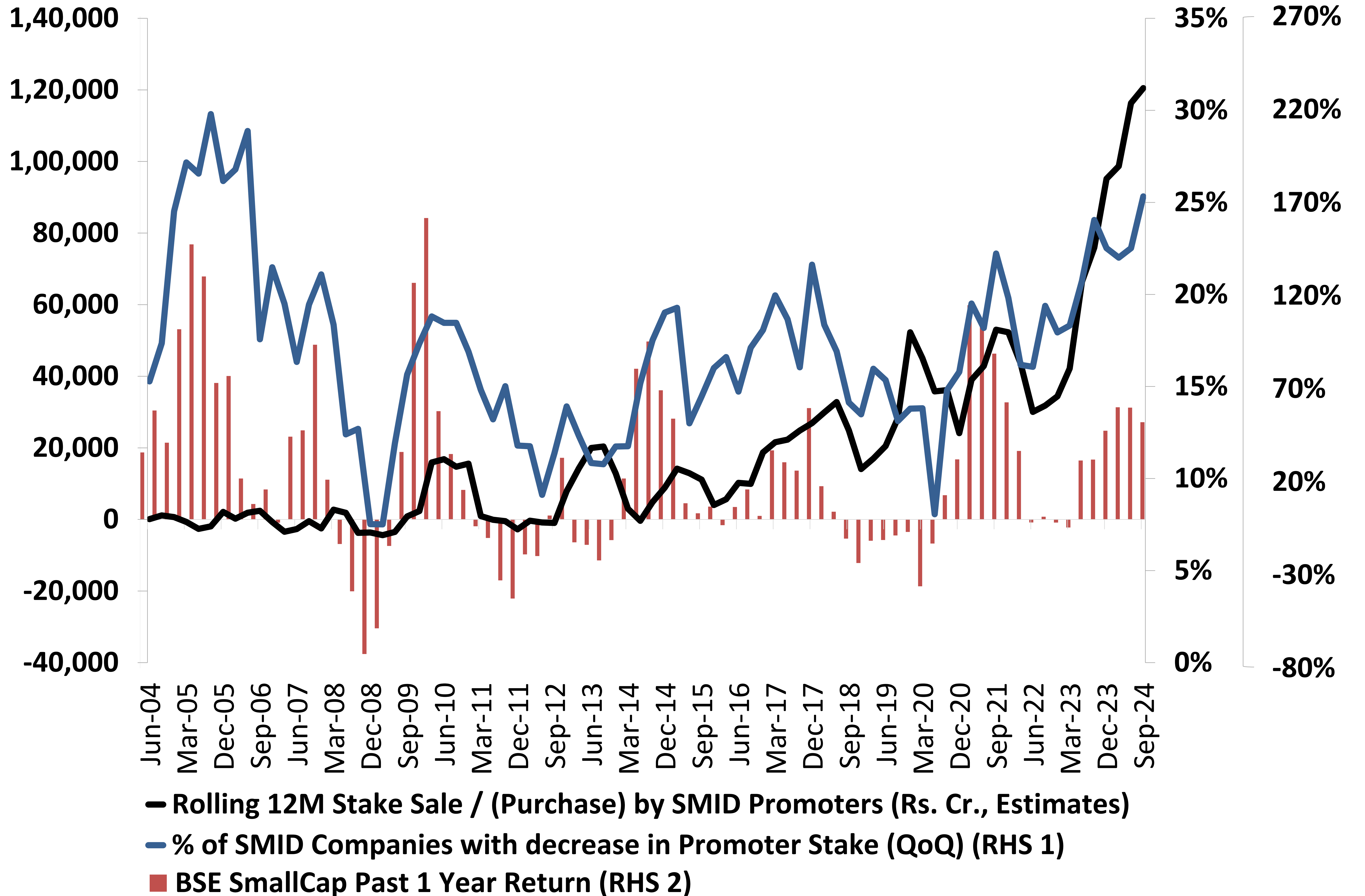
# Promoters Offloading Their Equity Stake At A Record Pace

One in four small & Midcap firm promoters have been net sellers of their equity stakes. The pace of selling has especially seen a significant acceleration in the last two years with the rally in SMID stocks. In the past 12 months, the promoter selling in SMID stocks based on our estimates stood at Rs 1.2 lakh crores.

While the surging sale of promoter stake may not be a cause for concern on these businesses, it does highlight some concern on the valuations at which some of the SMID companies are currently trading.

The SMID universe trades at nearly 40x trailing price to earnings multiple at a time when earnings growth is approaching low double digits, at an aggregate level, for this universe.

Large stake sale by promoters could have been an outcome of pricey valuations which means investors are left holding overpriced equities.




DSP

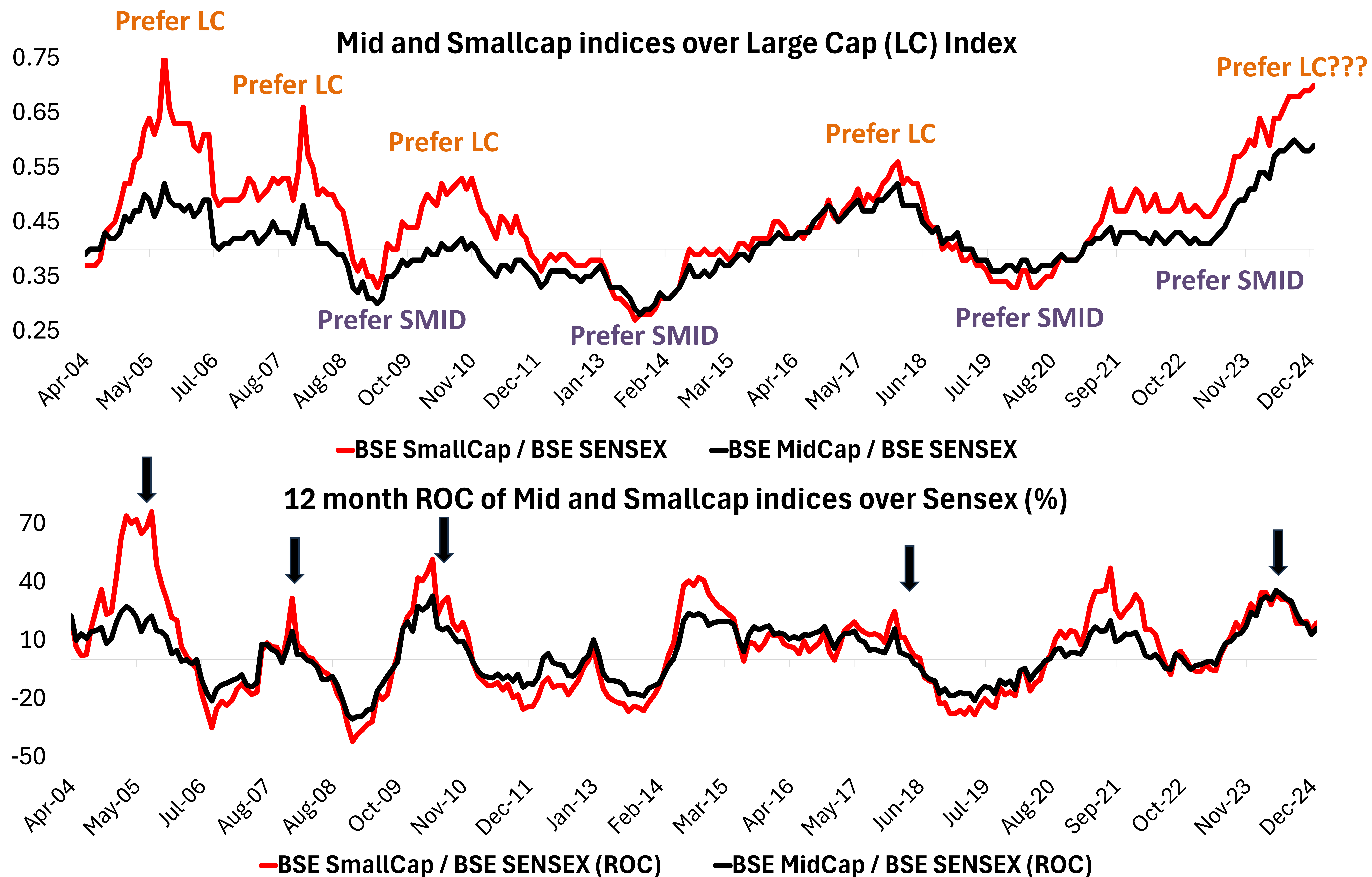
Source: Capitaline, DSP. Data as of Sep Qtr of 2024. Companies currently (as of Dec-24) part of BSE MidCap Index and BSE SmallCap Index are considered for this analysis. Stake Sale Amount is estimated as Quarter over Quarter Change in Promoter Stake % multiplied by Prior Quarter End Market Capitalization.

# Large Cap: A Favourable Risk Reward Makes Them A Place To Hide?

Is this the time for large caps?

History shows that at points like these, incremental investments in Small & Midcap only through SIPs are the preferred path.

Post-COVID, mid and small-cap indices have consistently outperformed large-cap indices, as evidenced by the rising Midcap/ Sensex and Smallcap/ Sensex price ratios. The Midcap Index is now trading at its highest relative level to Sensex, while Small cap index is just shy of its 2005 record. This means that relatively, SMID cap space has done better and is at most expensive level relative to the large cap. The 12-month rate of change is now showing signs of reversion, suggesting that we might be approaching a period of mean reversion. This could indicate that it is time to consider allocating investments towards larger-cap indices. Even valuations for large caps are only relatively favourable at this point and that broadly valuations are above average or expensive.

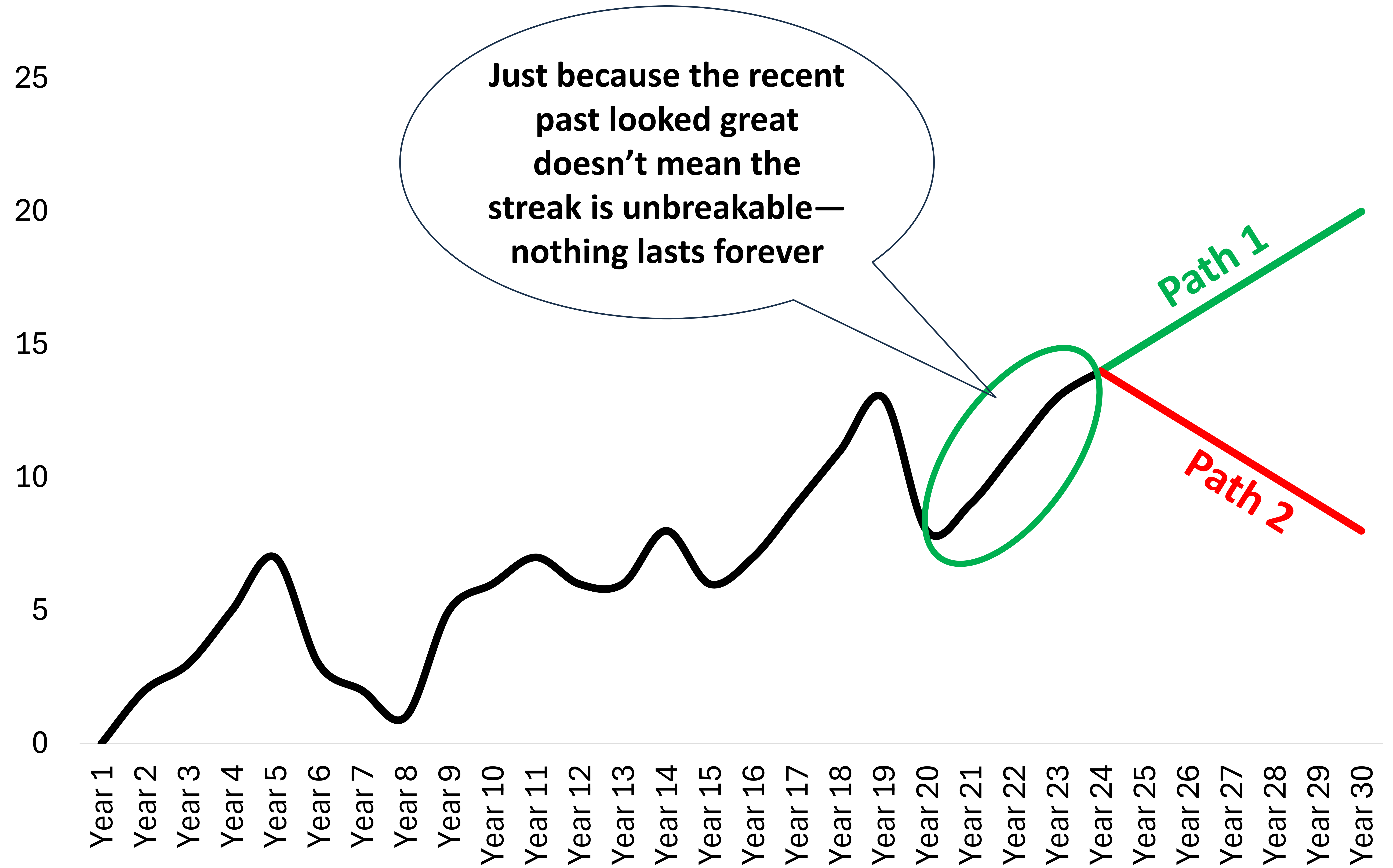



Source: Bloomberg; DSP. Data as of Dec 2024. ROC – Rate of Change

# Don’t Let Yesterday’s Headlines Dictate Tomorrow’s Investments

We often overestimate the value of what we know while underestimating the importance of what we don't. Markets are unpredictable, and true resilience comes from embracing uncertainty rather than resisting it. By constructing a portfolio that is diversified and adaptable, you can protect against unforeseen risks and position yourself to benefit from unexpected opportunities and market outliers. This approach transforms uncertainty from a threat into a source of potential growth.

**As Nassim Nicholas Taleb aptly states: 'If you are fragile, the Black Swan* will break you. If you are robust, it will not matter to you. If you are anti-fragile, you will benefit.'**




DSP

Source: DSP. *Black Swan means an unpredictable and rare event that comes as a surprise and has a massive impact.

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