

TRENDS & TIDES

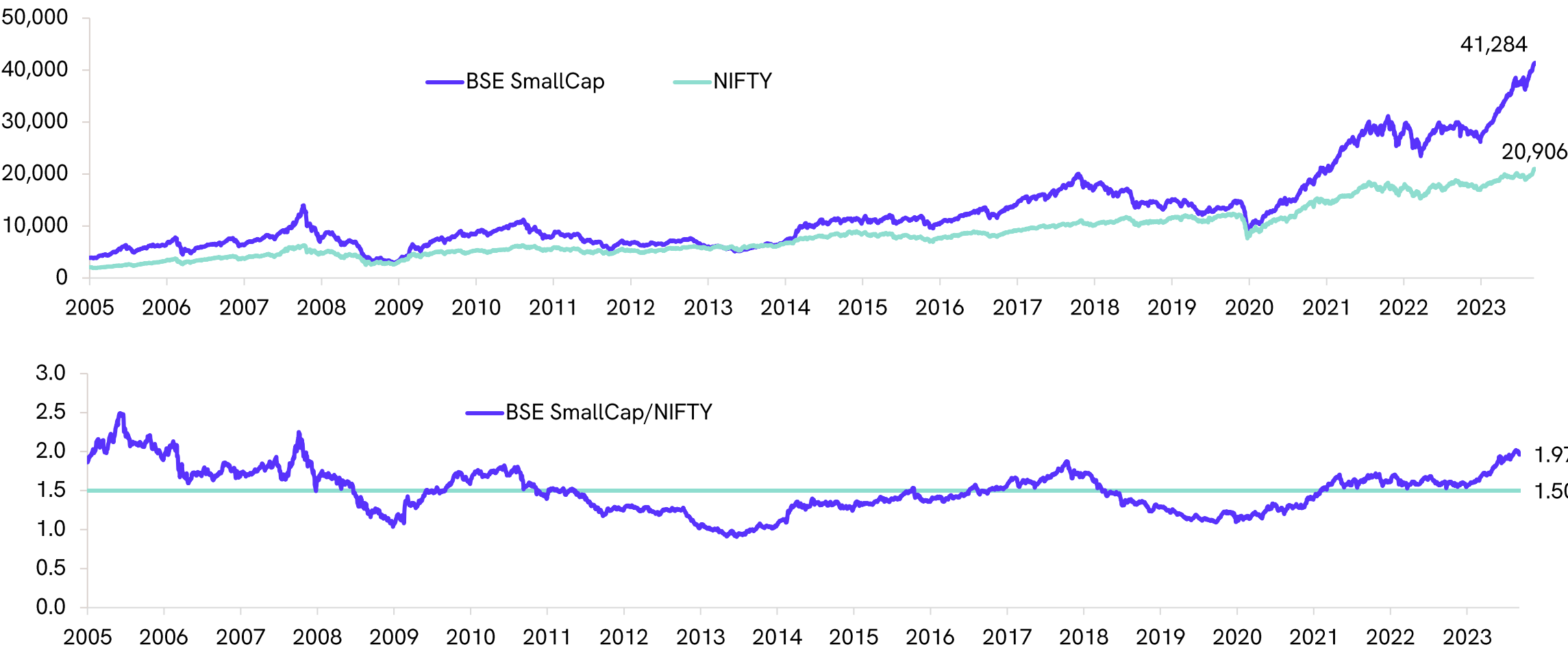
Equity Strategy - December 2023



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Small-caps have experienced a significant rally compared to large-caps

BSE Small-cap index has reached its highest level in a decade relative to the NIFTY index

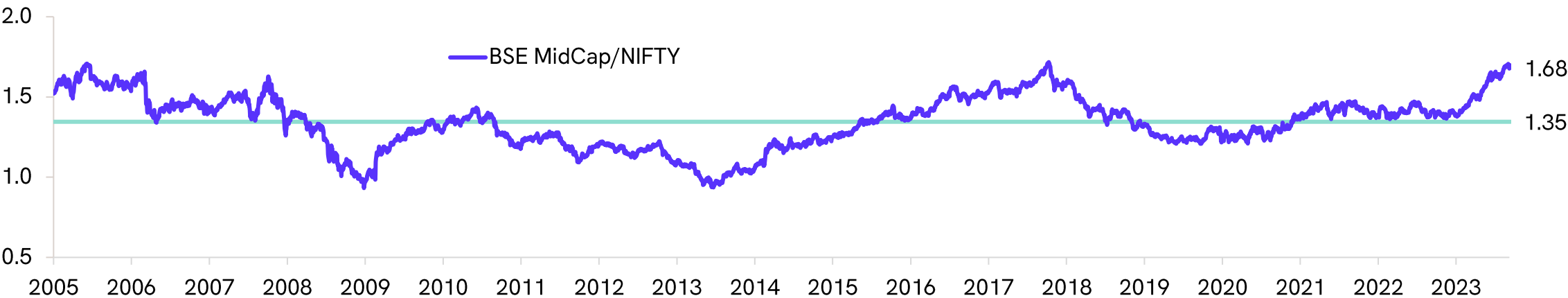
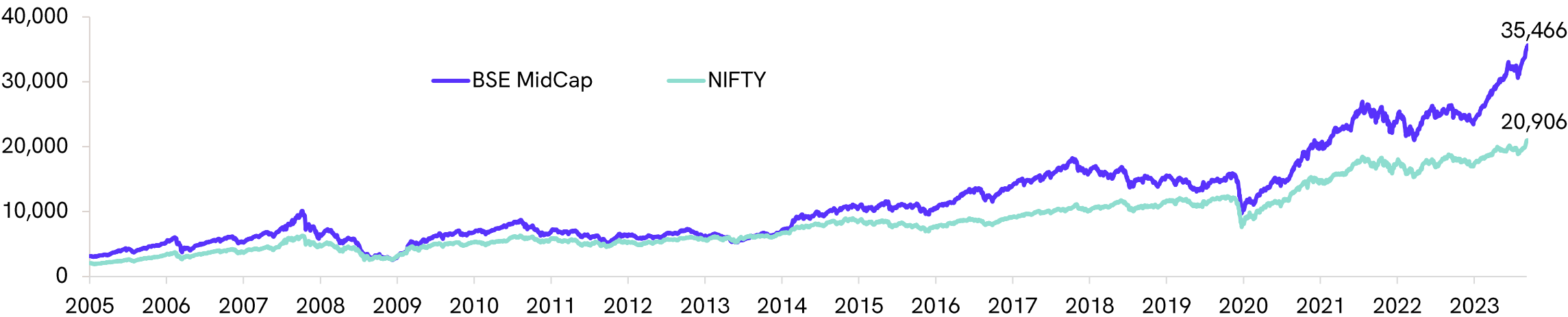


Source: Bloomberg, 360 ONE Asset Research

Note: Data as of 12th December 2023

Mid-caps have also rallied considerably relative to large-caps

BSE Mid-cap index is nearing its highest level relative to the NIFTY index

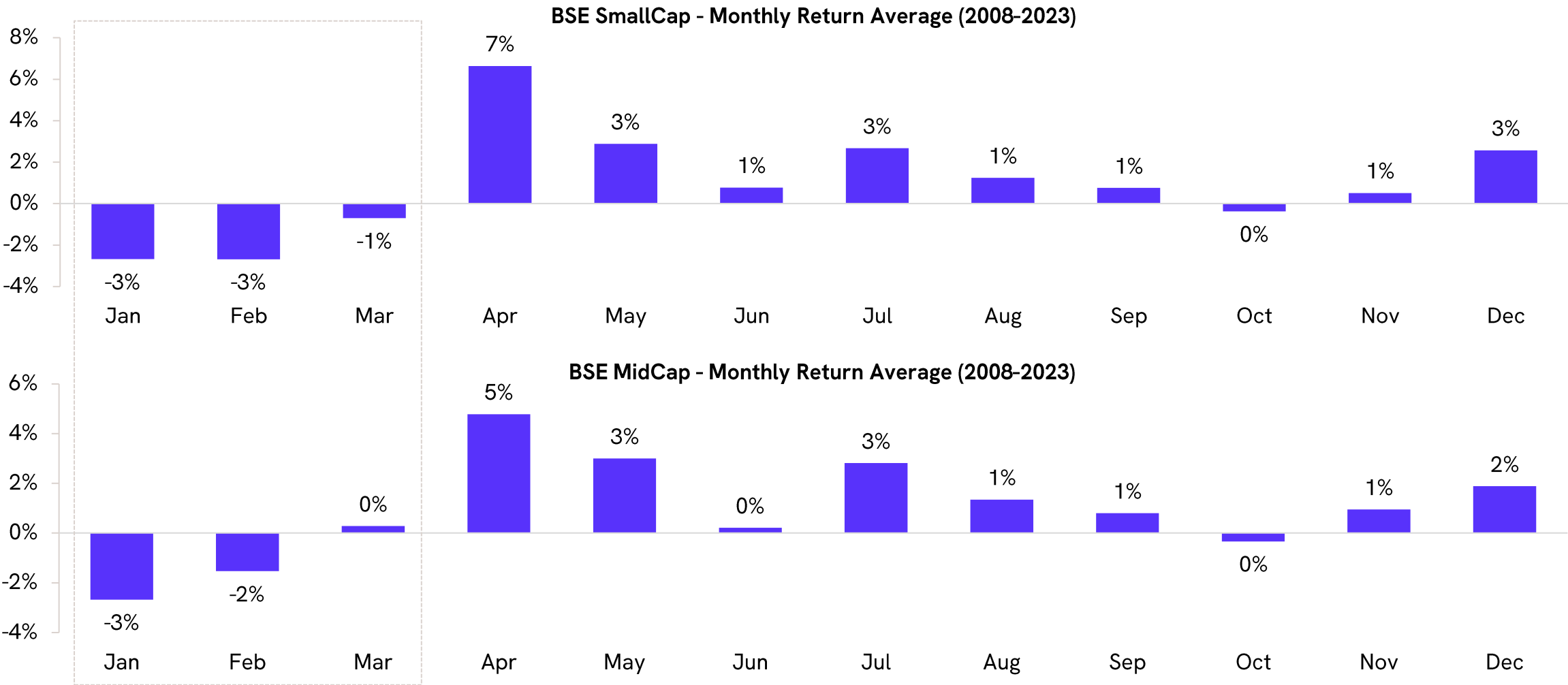


Source: Bloomberg, 360 ONE Asset Research

Note: Data as of 12th December 2023

January to March tends to be seasonally weak for small and mid-caps

Small-cap and mid-cap indices may experience a correction due to high valuations and seasonal factors

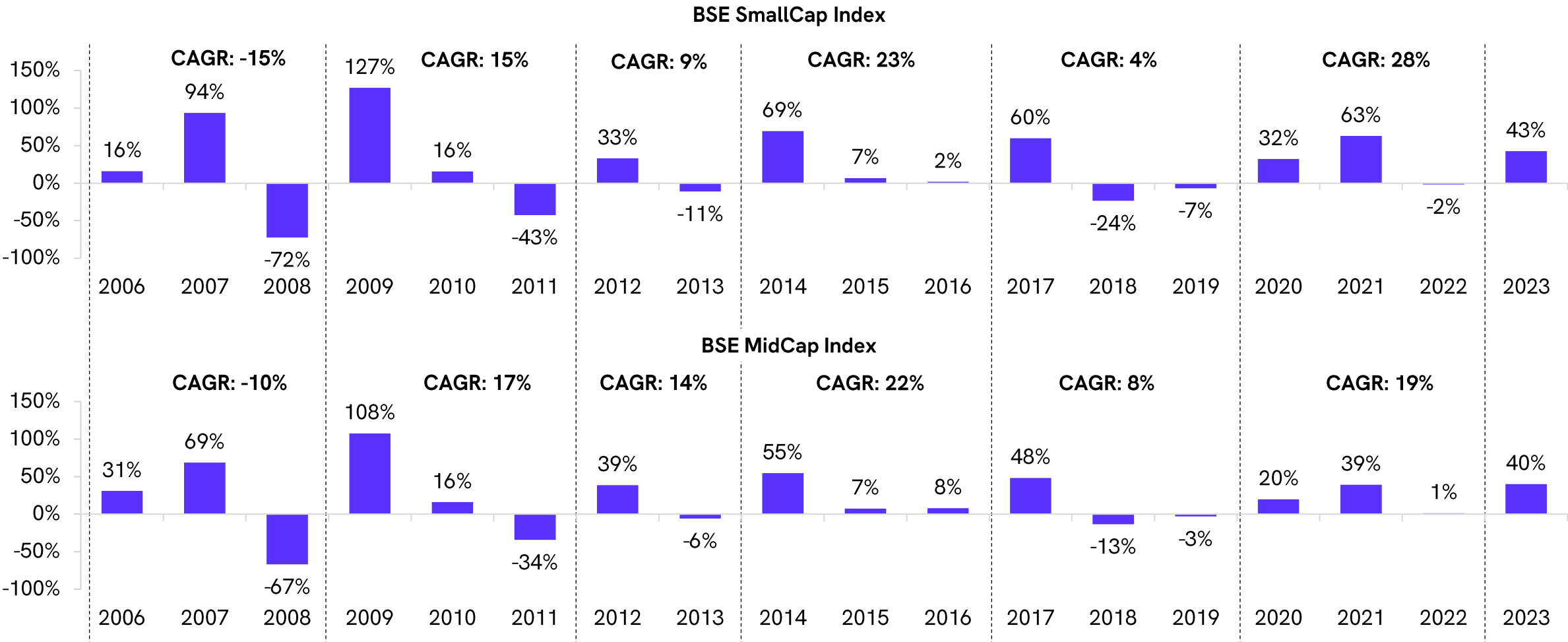


Source: Bloomberg, 360 ONE Asset Research

Note: December seasonal returns exhibit an average from 2008 to 2022

Small and mid-caps may erode excess returns in a downcycle

The small-cap index has provided a CAGR return of 10% from 2006 to 2022, while the mid-cap index has yielded a CAGR of 11%

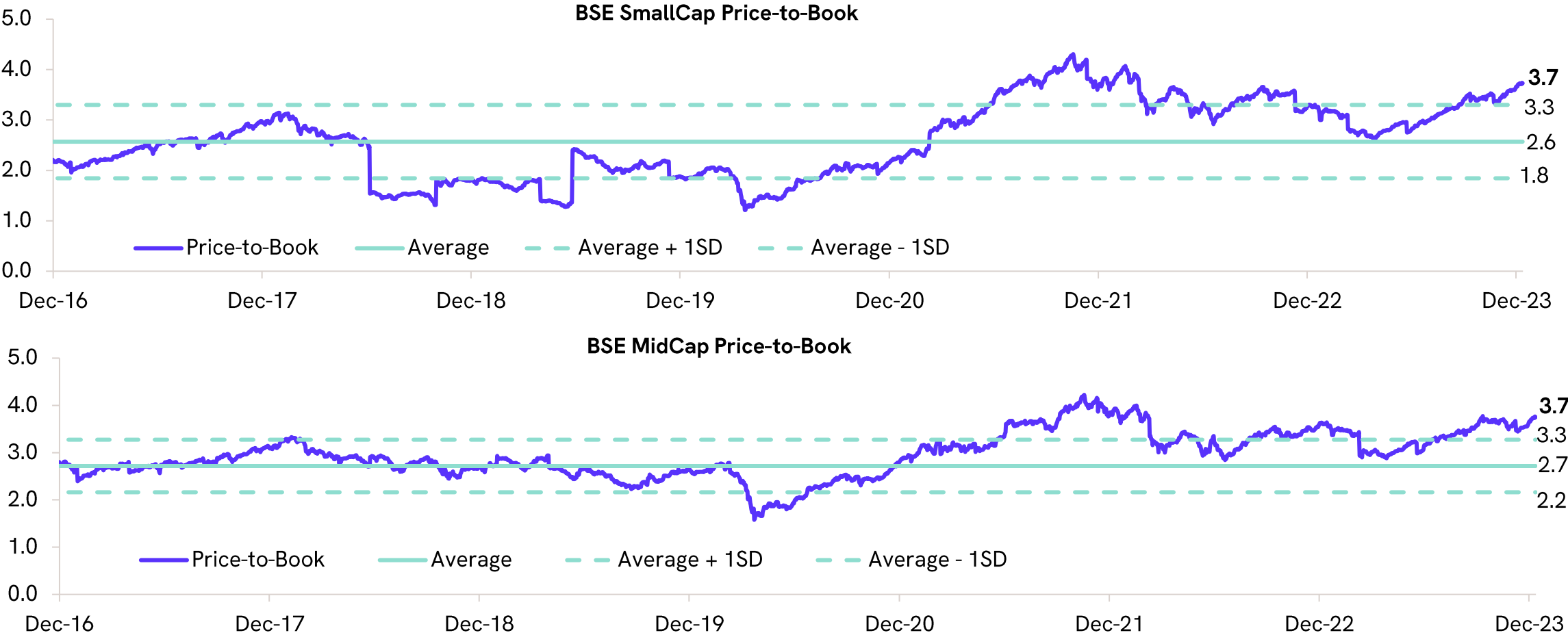


Source: Bloomberg, 360 ONE Asset Research

Note: 2023 returns are calculated till 12th December 2023

Small-cap and mid-cap rallies have led to frothy valuations

Small-cap and mid-cap valuations are almost 40% higher than the long-term average



BSE SmallCap P/B average and standard deviation (SD) computed from 1st April 2016, BSE Midcap P/B average and SD computed from 1st April 2010

Source: Bloomberg, 360 ONE Asset Research

Note: Data as of 12th December 2023

Large-cap offer a better risk/reward ratio

Large-cap valuations are comparatively more reasonable, nearly 16% higher than the long-period average

S&P BSE Sensex Price-to-Book Ratio



Source: Bloomberg, BSE, 360 ONE Asset Research

Note: Data as of 12th December 2023, BSE Sensex P/B average and standard deviation (SD) computed from 1st Jan 2000

Illustrations: Market cycles could eventually normalize returns

Illustration 1

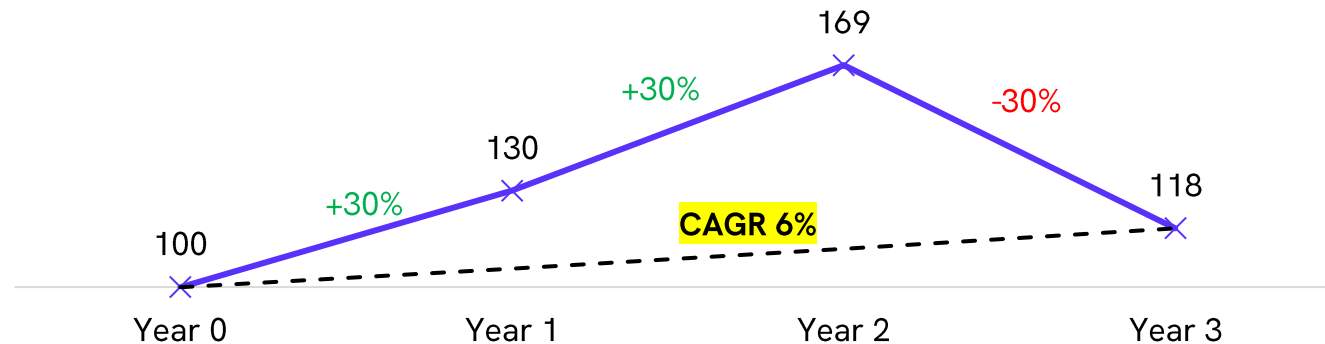
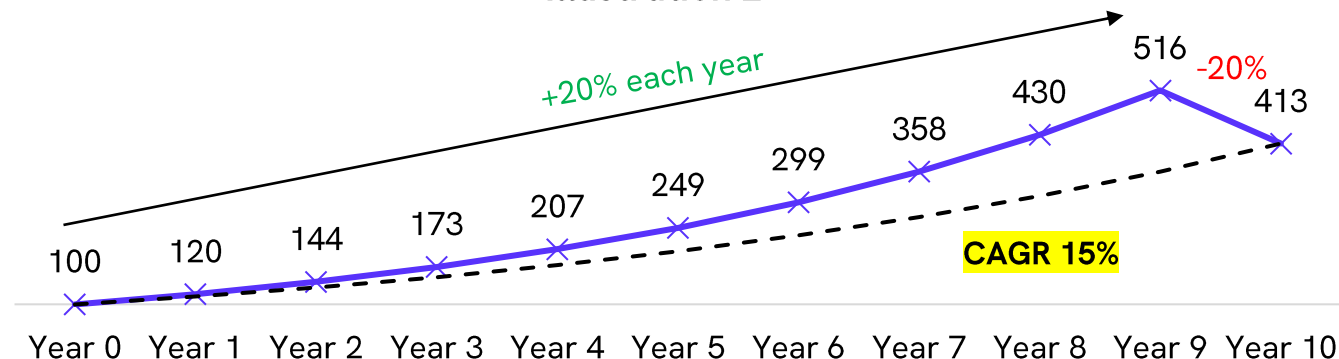


Illustration 1 depicts that two years of 30% return and one year of 30% correction, in any order, would lead to only a 6% return in CAGR terms

Similarly, Illustration 2 depicts that, over ten years, experiencing nine years of a 20% annual return and one year of a 20% correction, in any order, would result in a 15% CAGR for the entire investing period

Illustration 2



During a market upswing, equities may generate substantial returns. However, corrections often follow a period of bullish sentiment. Over time, these market corrections may bring the gains back to a more normalized level, as illustrated

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