

Nifty at 7500-Zugzwang!?

Zugzwang is a word used in chess, derived from German, means a situation in which the obligation to make a move in one's turn is a serious, often decisive, disadvantage. – Having corrected 42% from peak one can neither go long nor short.

Let's take a Fundamental perspective:

First and foremost, this crash is characterized by a combination of two crises: Health and Financial.

The First part is health: the entire COVID-19 related impact largely depends on the world's ability to come out of it. We have another day to live if and only if we are past Corona and the view on that must be binary – whether we are going to stay or not. If and once the world is past the current pandemic, it is then to be determined as to how much time it takes to resume normalcy, albeit a new normal.

The second part is the financial: the earnings concerns which were prevailing before Corona hit the markets, the slowdown and the accentuation of the same on account of Corona. We need to circle the impact of the same and the delta of COVID-19 is still an enigma.

The BIG question is - has the 42% fall from the peak factored-in these two? If yes, do we know what percentage is attributable to COVID 19 and what percentage to financial fundamentals.

A key-metric check:

Let's take a factual look at the last two bear hugs – 2001 and 2008. And since these are wholesale behaviors, a top down approach is fair where the bottom is already taken away (no pun intended).

Three indicators that are commonly used are PE, PB and Div yield. The following simple table gives a lot of insights:

	2001	2009	Avg	Present
PE At bottom	15	12.7	13.85	17.15
PB At bottom	2.38	2.22	2.3	2.17
Div Yield At bottom	1.48	2.09	1.785	2

Takeaways:

While *mean-reversion* gives a huge hope, we need to consider a few important factors:

1. Can the recovery be a V shaped as in the past or will it be a U. If U, how U will be the U?
2. Will the policy makers be able to continue the stimulus given the new demands on the fiscal and monetary allocations?
3. A 20% downside from here seems to be on the cards whatever way you see from the above data also given the general trend but we should remember that “**Bull markets always overshoot and bear markets always undershoot**”.