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**RISK AVERSION** by FPIs, high crude prices, prospects of earnings downgrades can cap gains even as markets are oversold

# Liquidity Tightens, So Does the Bear Grip

Our Bureau

**Mumbai:** Bears are having an upper hand on Dalal Street after the 4% decline in India's stock indices — their worst week since November — amid growing fears of the effects of aggressive tightening by central banks in developed economies and India to combat inflation on growth.

Though analysts said the markets might be oversold at current levels, continued risk aversion on account of relentless foreign selling, elevated oil prices and prospects of earnings downgrades could put a cap on gains.

On Friday, the Sensex dropped 866.65 points or 1.6% to 54,835.58 and the Nifty closed 271.40 points or 1.6% lower at 16,411.25.

Following India markets close on Friday, US stocks continued their weakening trend, with the Dow Jones Industrial Average, Nasdaq Composite and S&P 500 ending down 0.3%-1.4%.

The continued bearishness has been elevated by the hawkish moves by various central banks of late. Benchmark indices have sunk almost 10% from their March highs.

"We are at a stage where most of this is getting discounted but till the global scenario stabilizes, the bouts of ups and downs will continue," said Sunil Singhania, Founder, Abakkus Asset Manager.

**Money managers say investors can deploy funds into the market in a phased manner**

Foreign brokerage CLSA noted that its proprietary India bull-bear index fell from '40.1 bullish' to '31.0 bullish' reading during the week, which shows investor sentiment has truly weakened. The relative valuation of Indian equities to bonds has risen to levels that have historically proven quite expensive, said CLSA.

Analysts do not rule out a rebound in the short-term as some technical indicators show the market might be close to becoming oversold.

"The long exposure of FPIs in the index futures has dipped to a multi-month low of 22%. which is extremely oversold," said Santosh Meena, research head, Swastika Investmart. "The put-call ratio of 0.74 is also indicating an oversold territory. So we can expect a bounceback in the market near to 16,200-16,000 zone."

Technical and derivatives analysts said any bounceback in the market would be an opportunity to add short positions.

"Traders can use bouncebacks as shorting opportunities as long as we don't close above the 16,830 mark," said Rahul Sharma, head-technical derivatives Research at JM Financial Services.

The Reserve Bank of India's unexpected interest rate hike on Wednesday first jolted the domestic markets. While the US Federal Reserve's interest rate hike was in line with expectations, rising expectations that the American central bank will not stop at that to tame four-decade-high inflation dampened risk appetite further.

Analysts believe that although a 75 basis point hike may be off the table, but the Fed's policy tightening cycle is still very hawkish and that the inflation is too high, which may require drastic action from the Fed. The US CPI inflation data is due on Wednesday. Meanwhile, the Bank of England on Thursday said Britain risks a recession and inflation above 10% as it raised interest rates to their highest since 2009. China's zero Covid policy has also added to nervousness for Asian markets.

Money managers said investors could deploy money into the market in a phased manner. "From the top, markets are down 10%, it is a good time to nibble in the market," said Singhania.



 