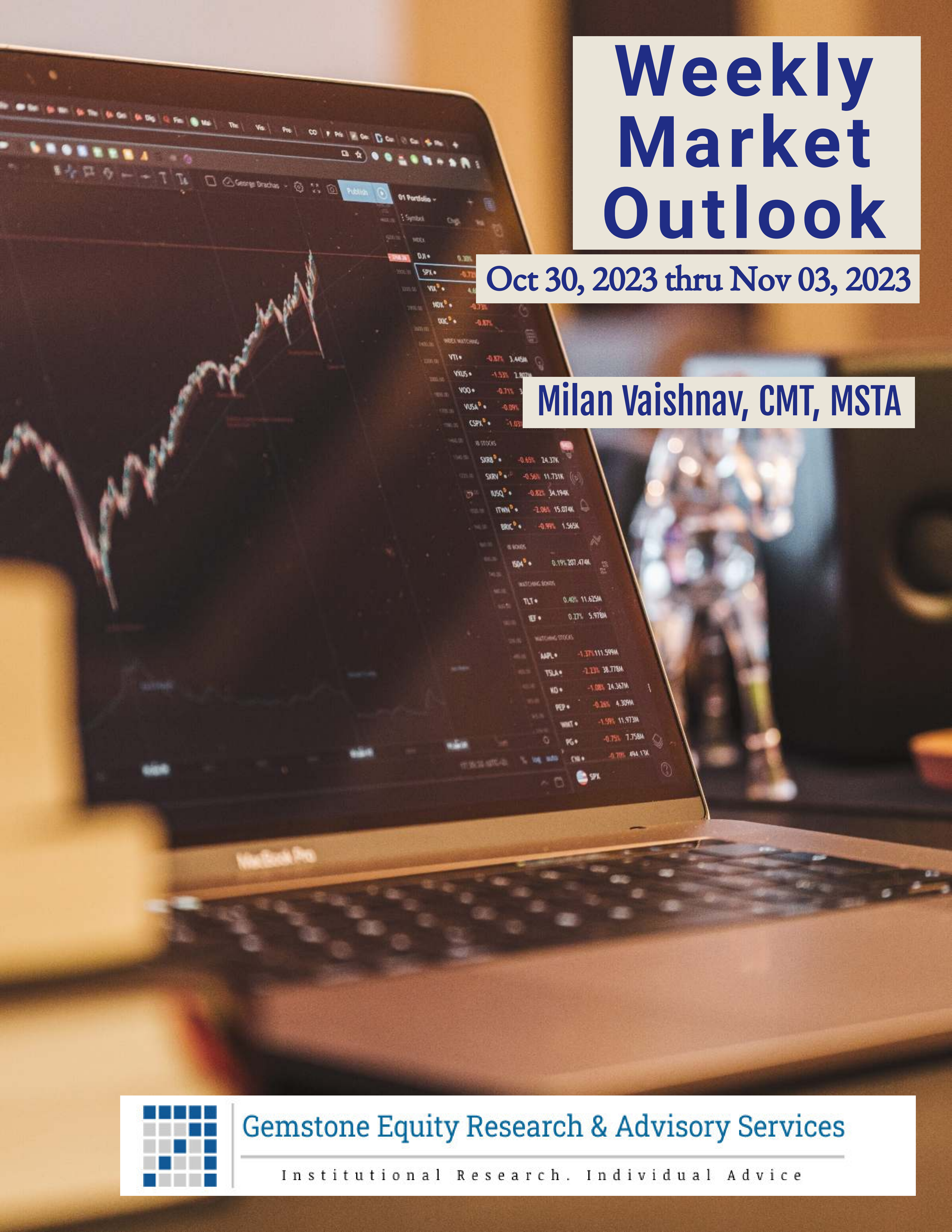

Weekly Market Outlook

Oct 30, 2023 thru Nov 03, 2023

Milan Vaishnav, CMT, MSTA

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Week Ahead: These Levels Make Crucial Support For NIFTY; Stay Highly Selective

The previous technical note categorically mentioned that the persistent low levels of VIX remain a cause of concern and a violation of 19400 can trigger a fresh downside for the markets. Quite on the expected lines, the NIFTY remained under severe corrective pressure in three out of the past four sessions. The weakness in the equities was fuelled by macroeconomic factors, US bond yields showing a sharp spike, and rising geopolitical tensions in West Asia. The NIFTY traded in a wider 719-point range and went on to close with a net loss of 495.40 points (-2.50%) on a weekly basis.

The beginning of the week stayed eventful; the Indian markets saw volatility as represented by INDIA VIX dipped to a new low of 8.82 and spiked over 20% on the same day. On the same day, in the afternoon, the US 10-year Bond Yield tested the 5% level. This was a 15-year high seen previously only in 2007. This sent the equity markets into a tailspin. The markets remained under strong corrective pressure for three sessions in the truncated week with the last trading day seeing a technical rebound. From a technical perspective, the NIFTY has retested the previous original breakout level of 18850-18900 and has attempted to take support. So long as NIFTY manages to keep its head above 18850-18900 levels, it has a chance to extend the rebound. Any violation of this support zone will invite weakness.

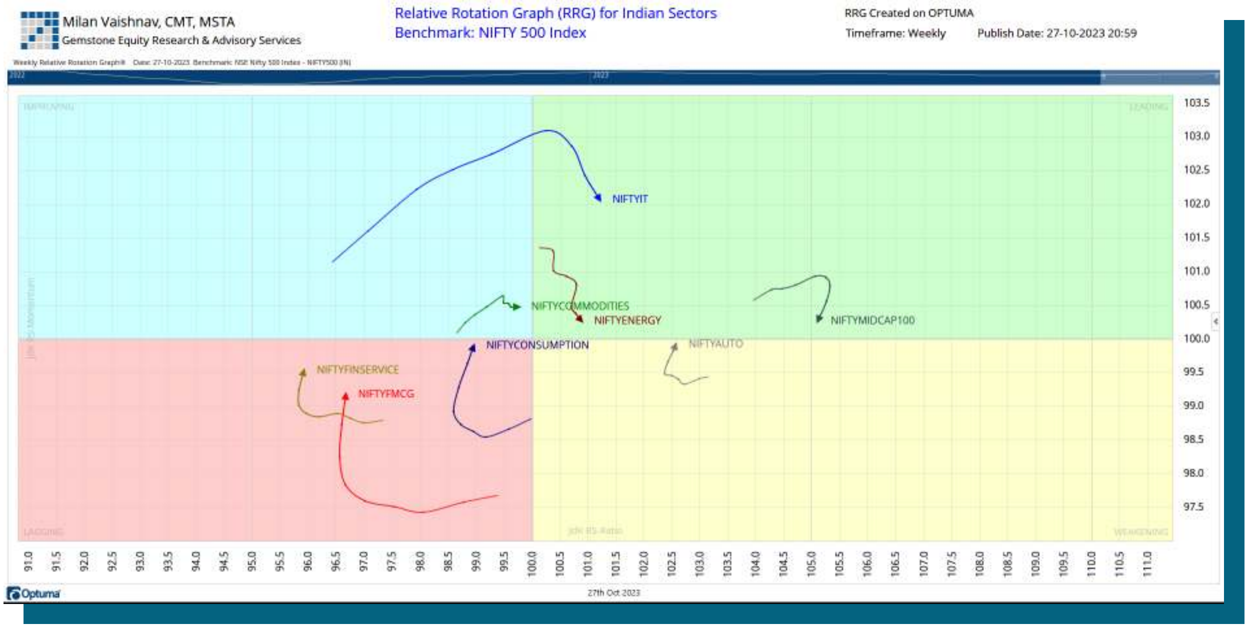
Monday is likely to see a quiet start to the week. INDIAVIX, which had spiked over 20% in the week had tapered down; it gained just 0.81% on a weekly basis. This low level of VIX is something that we will need to stay cautious of; so far as US bond yields are concerned, they are largely likely to stay stable unless there is a fresh trigger for its move higher. The levels of 19200 and 19350 are likely to act as resistance; supports are likely to come in at 18800 and 18710.

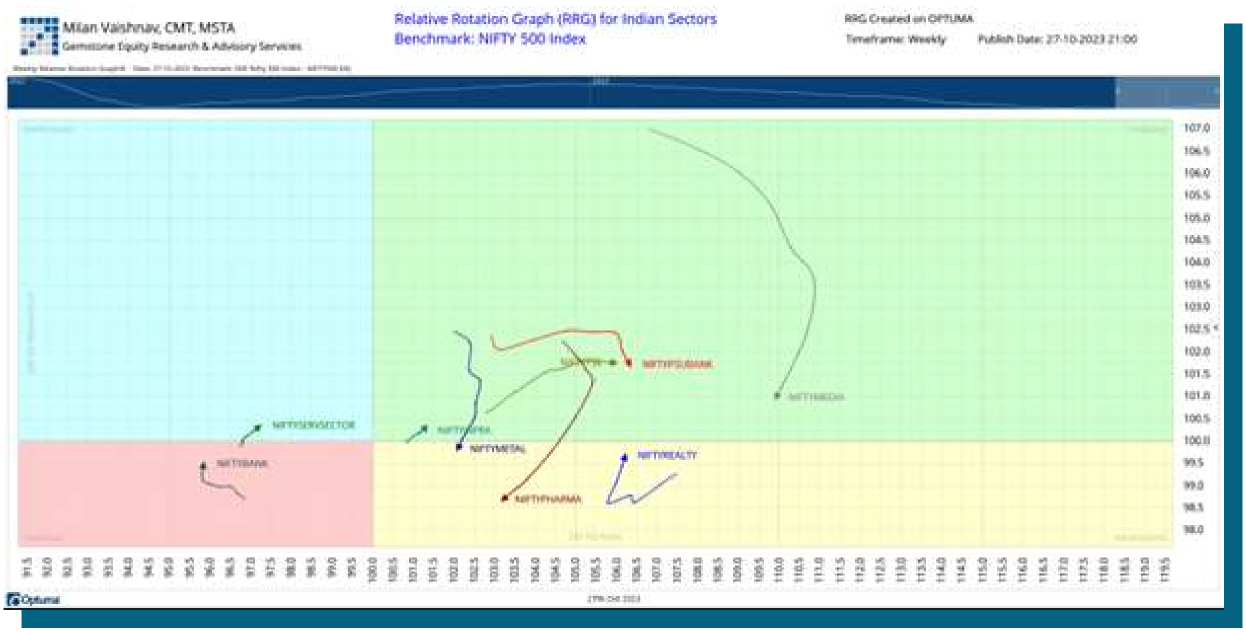
The weekly RSI is 48.17; it remains neutral and does not show any divergence against the price. The weekly MACD is bearish; the widening Histogram shows accelerated momentum on the downside.

The pattern analysis shows that NIFTY has achieved a classical throwback by retesting the original breakout zone of 18800-18900. The level of 18600 was tested in October 2021, then NIFTY made an incremental high of 18887 in December 2022. A breakout did not happen and finally, the NIFTY broke out when it took out these levels in its third attempt in June this year. The breakout led to the Index forming a new lifetime high of 20195. The recent correction has seen the Index retesting its original breakout zone. A full throwback is said to have occurred when 100% of the breakout gains are given up and the instrument tests the breakout point again to find support. This generally acts as a potent support; however, if violated, it can become an equally stiff resistance point as well.

All in all, there are possibilities that the NIFTY may see a tepid start but make an attempt to extend the technical rebound. In any case, the upsides are likely to stay capped or they may remain measured and limited in their extent. In the current technical setup, it would be prudent to increase exposure in the large-cap and remain highly selective while dealing with the broader markets. Going down the line, looking at the improving relative momentum of NIFTY against the broader markets, it is likely that the front-line indices better their performance against the broader markets. A highly cautious outlook is advised while keeping a vigil eye of NIFTY's price behavior vis-à-vis the levels of 18850-18900.

In our look at Relative Rotation Graphs®, we compared various sectors against CNX500 (NIFTY 500 Index), which represents over 95% of the free float market cap of all the stocks listed





Relative Rotation Graphs (RRG) indicate that NIFTY IT, Energy, Midcap 100, Infrastructure, PSE, PSU Bank, and Media Index are inside the leading quadrant of the RRG. As such, all these groups are likely to relatively outperform the broader NIFTY 500 index, all the sector indices except the PSE index are showing a slowing down in their relative momentum.

Nifty Metal index has rolled inside the weakening quadrant. The Nifty Pharma Index is also inside the weakening quadrant. Giving these two indices company are the Realty and Auto indexes. However, both these sector indices are showing sharp improvement in their relative momentum against the broader markets.

Banknifty, Nifty Financial Services, FMCG, and Consumption indices are inside the lagging quadrant. However, all these three groups are seen sharply improving their relative momentum against the broader markets.

The Nifty Commodities and the Services Sector indices are currently placed inside the improving quadrant.

Important Note: RRG™ charts show the relative strength and momentum of a group of stocks. In the above Chart, they show relative performance against NIFTY500 Index (Broader Markets) and should not be used directly as buy or sell signals.

Milan Vaishnav, CMT, MSTA

Consulting Technical Analyst | Member: (CMT Association, USA | CSTA, Canada | STA, UK) | (Research Analyst, SEBI Reg. No. INH000003341)