AXIS CAPITAL

India Strategy

Dark Matter #1 – Impact of seasonality on market returns

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Seasonality analysis can be a useful tool to understand recurring market behaviors and can be used to adjust trading strategies. We find evidence of seasonality in India, with Apr giving the strongest returns, and Feb the weakest. Sector-wise and stock-wise analyses show starker results; most sectors exhibit seasonality, though the extent varies. For instance, IT underperforms the index in Apr (Infosys saw lower market returns 14 times in the past 15 years), but Banks outperform in Oct. Returns in Aug and Dec are the most divergent (by sector), and in Jan, Feb, and Jul are the most consistent.

Exhibit 1: Most sectors show significant seasonality, concentrated in Aug and Dec

	Outperformance (No. of times in last 15Y)		Underperformance (No. of times in last 15Y)	
	Sector	Stock	Sector	Stock
Mar			Energy (11)	ONGC (12)
Apr			IT (13)	Infosys (14), Wipro (12), TCS (11), HCL Tech (10)
May	Staples (11)	God. Cons. (13), Marico (12)		
Jun	Staples (11), Industrials (11)	Dabur (11); Astral (12)		
Aug			Financials (12), Real Estate (12)	Federal (13), SBI (12), BOB (11), IndusInd (11), Kotak (11); DLF (12),
Sep			Energy (11)	
Oct	Financials (11)	Federal (13), ICICI (13), Indian Bank (12), Kotak (11)	IT (11)	Oracle (12), Mphasis (11)
Nov	Discretionary (11)	Jubilant (12)		
Dec	Metals (11)	Jindal Steel (12), SAIL(11)	Telecom (11), Energy (11)	Bharti Airtel (11), Reliance (10)

Source: Refinitiv, Bloomberg, Axis Capital

Seasonality exists in the Indian market, Apr the lushest, Feb the bleakest

We find evidence of seasonality in the Indian market performance; Apr is the only month with positive returns 12 times in the past 15 years (ex-2020), with a median return of 2%, and minimum performance of -2%, lower than any other month. This is likely driven by higher MF flows in Mar (higher SIP, discretionary) which are likely deployed in the market in Apr. On the other hand, Feb is the only month that sees a negative performance (on average) with a median return of -2%, with a broad-based decline across sectors.

Most sectors have a favorite month, and a 'not-so-favorite' month

There is significant seasonality for IT, which underperformed in Apr, 13 times in 15 years. In IT, stock-wise patterns are starker; Infosys underperformed 14 times and Wipro 12 times in Apr. This is likely driven by the full-year guidance by Infosys, which tends to be conservative, thereby hurting sentiments for the sector. Financials outperform in Oct (11 times), led by ICICI Bank (13 times) and Indian Bank (12 times), likely driven by better clarity on credit growth, which usually surges in H2. We also find evidence of underperformance of Real Estate in Aug, post a strong performance in Jun/Jul, and outperformance of Metals (higher Chinese metal prices) in Dec.

Seasonality analysis can be useful to adjust trading strategies

By month, Aug and Dec tend to see the most variance in terms of sector performance, while Jan, Feb, and Jul do not have clear favored or unfavored sectors. Seasonality analysis can be a useful tool for investors to identify recurring patterns in market behavior, leading to more informed decisions. The analysis, by itself, cannot be conclusive and deterministic, but combined with other fundamental factors, it can be used to adjust trading strategies, manage risk, and potentially improve investment outcomes.

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