Don't rush to catch the falling knives on Wall Street just yet

Prashant Mahesh | Feb 08, 2022, 09:17 am IST

Synopsis : Analysts believe the tech-laden index hasn't hit the floor despite a nerve-jangling 13% fall in 2022. Rates are about to lift off, to be followed by a bout of quantitative tightening, and odds are rather short the US Fed's balance sheet shrinking will have a magnified impact on several 'futuristic and new-age' stocks lacking in profitability credentials.

Only funds that invest in ETFs overseas continue to accept lump sum money and fresh systematic investment plans (SIPs) as this has a separate limit of $1 billion.

The Nasdaq has had its worst start to the year in recent memory, but the time isn't right just yet to order that full English fry-up. At best, you could nibble at what's on offer.

That's because analysts believe the tech-laden index hasn't hit the floor despite a nerve-jangling 13% fall in 2022. Rates are about to lift off, to be followed by a bout of quantitative tightening, and odds are rather short the US Fed's balance sheet shrinking will have a magnified impact on several 'futuristic and new-age' stocks lacking in profitability credentials.

Hence, lump sum investments, at this stage at least, will be rather courageous.

"Valuations look rich and one can expect the markets to clean out some frothiness in the segment," said Nirav Karkera, head of research at Fisdom. "It will be a bumpy ride upward with prices getting worse before they get better."

He recommends investors stagger their investments over the next 6-12 months.

Many international funds have suspended fresh lump-sum investments and SIP registrations and there are limited funds that take investments now. So, first-time investors should wait for a month to see if the regulator increases overseas investment limits.

Over the past 45 days , there has been huge volatility in the tech-heavy Nasdaq 100, with the index declining by 13% from its December 28 highs. Several stocks have lost as much as 30-40% in value. The fall in the broader S&P 500 was lower at 6.1%. The Nasdaq 100 trades at a PE of 26, higher than its 15-year PE average of 20.7. Over the past one year, the Nasdaq has gained 6.87%, while the S&P 500 gained 14.88%.

Analysts point out that the fall has been sharp in stocks like Netflix, Zoom, Meta Platforms and Peloton. Meta fell 26% in a single day, the biggest drop in its history, and 31.5% from recent highs, as the quarterly results failed to meet investor expectations and the company issued weaker-than-expected revenue guidance for the quarter.

Last month, Netflix fell 22% in a single session on slowing growth concerns. Over the past one year, the stock has lost 25%.

Fund managers believe the inevitable rate hikes by the Fed will begin soon and the Fed could raise rates as many as five times this year. As interest rates rise, equities after the sharp run up in the last 23 months will become less attractive. Rising rates will to draw funds to treasury bonds. Investors will particularly book profits in technology stocks where they are sitting on huge profits, leading to sharp bouts of volatility.

Most mutual fund schemes that offer plans for overseas securities have temporarily suspended lump sum investments into their schemes as the mutual fund industry has nearly reached its $7-billion limit. While existing SIPs will continue, fresh SIPs will not be registered.

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"Despite the fall, valuations continue to be rich compared to their long-term averages," said Vishal Dhawan, founder, Plan Ahead Wealth Advisors. He advises investors to put in 10-15% of their equity portfolios in international funds in a staggered manner.

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