

## Course correction – Up, up and away

### The stock market may be roaring but the rally is narrow

India's **benchmarks** stock **indices** are roaring again, with the **Nifty** and the Sensex **scaling** all-time highs on Friday, crossing the 11,200 and 37,300 levels, respectively. A result largely of increased buying by foreign institutional investors and expectations of strong first quarter earnings results, it took the Sensex just 13 trading sessions to move from 36,000 to 37,000 points. Coming after both indices witnessed extremely sharp corrections a few months ago, the **rally** has occurred when other emerging market indices have failed to recover their losses since the fall in February. The **swift** recovery, however, is not reflective of a **secular** rise. While the sharp market correction in February hit stocks across the board, this rally has been limited to a few pockets of the market. Heavy weight **blue-chip** stocks such as HDFC, Reliance Industries, ITC, Tata Consultancy Services and Infosys have contributed the most while many others have lagged behind. Almost, half the companies in the Nifty still trade below their 200 day moving average, a sign of insufficient price strength.

The **divergence** in the performance of various stocks becomes clearer when large caps are compared to smaller companies. The mid-cap and the small cap indices, which fell more sharply than the benchmark indices earlier this year, are still trading well below their historic highs in January. While the Sensex has gained almost 10% since the beginning of the year, the mid and small cap indices are significantly down. Not surprisingly, overall market **capitalisation** is still below its historic high reached in January. The present stock market rally clearly does not yet mark a return to the good old days' when investors could expect multi-bagger returns by betting on stocks across the wider market. Several stocks in the mid and small cap category have fallen to levels **reminiscent** of a bear market. Investors are now probably seeking safety in a few large-cap stocks that offer better quality of earnings compared to untested and riskier smaller companies. The return of foreign institutional buying also suggests that investors may be betting on India over other emerging markets that have suffered more severely. It, however, remains to be seen if mid-caps and small caps will follow the large caps and **resume** their journey upward. Else, the lack of sufficient **breadth** in the wider market will presage an **eventual** correction in the large caps too.

### WORD LIST

1. **Benchmark**: (reference point)  
Synonym : criterion, gauge, standard, yardstick, measure, touchstone
2. **Indices**: (indication)  
Synonym : indicator, ration, basis, clue, evidence, formula, guide, indicant, indication, mark, pointer.
3. **Nifty**: (marvellous)  
Synonym : dandy, excellent neat, stylish, terrific
4. **Scaling**: (ascent, climb, measure)  
Synonym : adjust, balance, calibrate, compare, estimate, proportion, escalate, mount

5. **Rally** : (celebratory meeting)  
Synonym : assemblage, assembly, celebration, clambake, convocation, meet, pep rally
6. **Secular** : (not spiritual or religious)  
Synonym : civil, materialistic, worldly
7. **Blue-chip** : (denoting companies or their shares considered to be a reliable investment, though less secure than gift edged stock.) Of the highest quality.
8. **Divergence** : (branching out; difference)  
Synonym : discrepancy, disparity, distinction, diversity, deflection, digression.
9. **Capitalization** : (capital)  
Synonym : funding, backing, financing, subsidization, resources
10. **Reminiscent** : (suggestive of something in the part)  
Synonym : evocative, redolent, similar, bringing to mind, implicative, nostalgic, re-collective, remindful
11. **Resume** : (begin again)  
Synonym : continue, go on, proceed, regain, reopen, restart, recapitulate, recommence
12. **Breadth** : (width, extent)  
Synonym : broadness, diameter, latitude, wideness, dimension, fullness, magnitude, range, scale, size.
13. **Eventual** : (future, concluding)  
Synonym : conditional, consequent, inevitable, possible, prospective, ultimate

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### Course correction – Cosmetic repair

#### It will now be easier for banks to sell stressed assets, but other tricky issues remain

The decision by the Reserve Bank of India's Monetary Policy Committee to raise **benchmark** interest rates again by 25 basis points is a **prudent** one. This is the second successive rate increase in as many months, a response to **mounting** uncertainties on the **inflation** front. Continuing **volatility** in **crude** oil prices, the recent softening **notwithstanding**, and its **vulnerability** to geopolitical tensions and supply **disruptions** is one of the main risks to the inflation outlook. Among the RBI's other concerns are **volatile** global financial markets, possibilities of **fiscal slippage** at the Central and State levels, the likely impact of the increase in

the minimum support price for Kharif crops, and the **staggered** impact of upward revisions to house rent allowance paid by State governments. Rainfall has so far been 6% below the long period average and deficient over a wider area than last year – more than a fifth of the country's 36 sub-divisions have reported shortfalls. This has resulted in a drop in the total **sown** area under kharif. The monetary authority has **flagged** the need to keep a close watch on rain over the remainder of the season, given the risks regional imbalances may pose to **paddy** output and CPI inflation. The June round of the RBI's own survey of household inflation expectations reveals that families see prices hardening even further over both the three and 12 month horizons. Domestic economic activity having strengthened to a point where the output gap has '**virtually** closed', manufacturers polled by the central bank have reported higher input costs and selling prices over the April-June quarter.

The **portents** could not be clearer. With retail inflation having **accelerated** to 5% in June, the RBI has revised its projection for CPI inflation in the second half of the current fiscal year to 4.8%, from the June forecast of 4.7%, and now sees price gains accelerating to 5% in the April-June quarter of 2019. Policymakers on the MPC have understandably **spotlighted** the risks to the domestic economic rebound from global developments. While rising trade protectionism threatens to impact investment flows, disrupt global supply chains and hurt all round productivity, **depreciations** in the value of most currencies against the strengthening dollar have **rippled** through many major advanced and emerging economies, **spurring** inflation across these markets. The MPC's primary remit is to ensure that retail inflation stays firmly within a bank of 2-6%, and preferably **anchored** at 4% over the medium term. So there is no room to **quibble** over the committee's majority decision to raise borrowing costs while retaining a 'neutral' policy stance. With inflation widely accepted as a hidden one on the poor, the **containment** of price gains justifiably ought to be the **raison d'être** of monetary policy.

### WORD LIST

1. **Benchmark**: (reference point)  
Synonym : criterion, gauge, standard, yardstick, measure, touchstone
2. **Prudent**: (wise, sensible in action and thought)  
Synonym : careful, cautious, discreet, economical, frugal, judicious, reasonable, sane, shrewd, vigilant
3. **Mounting**: (increase, grow)  
Synonym : build, escalate, expand, heighten, intensify, rise, accumulate, aggravate
4. **Inflation**: (increase, swelling)  
Synonym : boom, expansion, hike, rise
5. **Volatility**: (evaporation, airiness, excitability)  
Synonym : unpredictability, explosiveness, buoyancy
6. **Crude**: (unrefined, natural)

Synonym : amateurish, coarse, harsh, homemade, makeshift, primitive, raw, rude,  
rudimentary, simple, unprocessed

7. **Notwithstanding**: (although, however)

Synonym : nevertheless, nonetheless, withal, yet, after all, despite, in spite of, at any  
rate

8. **Vulnerability**: (exposure)

Synonym : susceptibility, accountability, amenability, burden, compulsion

9. **Disruption**: (division, turmoil)

Synonym : interruption, break, separation, confusion, disorder, disturbance.

10. **Fiscal**: (monetary)

Synonym : budgetary, economic, financial

11. **Slippage**: the action or process of slipping or subsiding.

**Example** : £16 million has been spent on cracks and slippage.

Failure to meet a standard or deadline.

12. **Staggered**: (walk falteringly, astound, shock).

Synonym : career, falter, lurch, reel, shake, teeter, wobble, amaze, astonish, devastate,  
dumbfound, overwhelm, paralyze, puzzle, shake, startle, stun.

13. **Sown**: (plant)

Synonym : grow, propagate, scatter, broadcast.

14. **Flagged**: (decline, fall off, signal)

Synonym : about, deteriorate, ebb, fade, languish, sag, taper off, wane, indicate, salute,  
gesture.

15. **Paddy**: 1. A field where rice is grown.

2. rice before threshing or in the husk.

16. **Virtually**: (for all practical purposes)

Synonym : basically, essentially, nearly, practically, around, effectually, fundamentally,  
implicitly.

17. **Portent**: (indication, forewarning, miracle)

Synonym : harbinger, omen, premonition, marvel, phenomenon, prodigy, sensation, wonder.

18. **Accelerated** : (sped up)  
Synonym : increased, quick, expanded, heightened, elevated, enlarged
19. **Spotlight** : (attention ; focus attention on)  
Synonym : fame, light, limelight, notoriety, publicity, accentuate, highlight, illuminate, publicize
20. **Depreciation** : (devaluation)  
Synonym : deflation, reduction, slump, fall
21. **Ripple** : (wave, wrinkle)  
Synonym : billow, breaker, crest, curl, fold, furrow, line, rippling, rush, surge, swell, tide, undulation, whitecap
22. **Spurring** : (incite, prompt)  
Synonym : arouse, drive, propel, push, spark, stimulate, stir, trigger.
23. **Anchored** : (hold, be held securely)  
Synonym : attach, dock, fasten, fix, moor, secure, tie up.
24. **Quibble** : (objection, complaint) (disagree over minor issues)  
Synonym : nicety, artifice, cavil, criticism, duplicity, equivocation, evasion, pretence, protest, subtlety
25. **Containment** : (limit)  
Synonym : check, condition, constraint, control, regulation, restraint, rule, stipulation.
26. **Raison d'etre** : (reason, excuse)  
Synonym : apology, approval, argument, basis, confirmation, explanation, pretext, rationale, rationalization, vindication.

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### **SOME IMPORTANT PHRASAL VERB**

1. Pellucid (adjective)  
**Meaning:** translucently clear.  
**Usage:** mountains reflected in the pellucid waters.
2. Pariah (noun)  
**Meaning:** an outcast.  
**Usage:** they were treated as social pariahs.

3. Taciturn (adjective)  
**Meaning:** (of a person) reserved or uncommunicative in speech; saying little.  
**Usage:** after such gatherings she would be taciturn and morose.
4. Perfunctory (adjective)  
**Meaning:** (of an action) carried out without real interest, feeling, or effort.  
**Usage:** The guards gave a perfunctory look up and down the carriage.
5. Transient (adjective)  
**Meaning:** lasting only for a short time; impermanent.  
**Usage:** A transient post-war baby boom.
6. Reprobate (noun)  
**Meaning:** an unprincipled person.  
**Usage:** He had to present himself as more of a lovable reprobate than a spirit of corruption.
7. Libertine (noun)  
**Meaning:** a person, especially a man, who freely indulges in sensual pleasures without regard to moral principles.  
**Usage:** His image as an unbridled libertine is a total myth.
8. Tractable (adjective)  
**Meaning:** (of a person) easy to control or influence.  
**Usage:** She has always been tractable and obedient, even as a child.
9. Sedulous (adjective)  
**Meaning:** (of a person or action) showing dedication and diligence.  
**Usage:** He watched himself with the most sedulous care.
10. Intrepid (adjective)  
**Meaning :** fearless; adventurous (often used for rhetorical or humorous effect).  
**Usage:** The intrepid band braved a precipitous mountain track.
11. Morose (adjective)  
**Meaning:** sullen and ill-tempered.  
**Usage:** She was morose and silent when she got home.

12. Demur (verb)

**Meaning:** raise objections or show reluctance.

**Usage:** Normally she would have accepted the challenge, but she demurred.

13. Equipoise (noun)

**Meaning:** balance of forces or interests.

**Usage:** This wine represents a marvelous equipoise of power and elegance.

14. Garrulity (Noun)

**Meaning:** excessive talkativeness, especially on trivial matters.

**Usage:** They were irritated by his ungovernable garrulity.

15. Arrant (Adjective)

**Meaning:** complete, utter

**Usage:** What he is talking is arrant nonsense!

16. Consequential (Adjective)

**Meaning:** following as a result or effect.

**Usage:** A loss of confidence and a consequential withdrawal of funds.

17. Attenuate (Verb)

**Meaning:** reduce the force, effect, or value of.

**Usage:** Her intolerance was attenuated by an unexpected liberalism.

18. Precarious (Adjective)

**Meaning:** dependent on chance; uncertain

**Usage:** He made a precarious living as a painter.

19. Enervate (Verb)

**Meaning:** make (someone) feel drained of energy or vitality.

**Usage:** The scorching sun enervated her.

20. Equivocate (Verb)

**Meaning:** use ambiguous language so as to conceal the truth or avoid committing oneself.

**Usage:** The governments have equivocated too often in the past.

21. Assiduous (Adjective)

**Meaning:** showing great care and perseverance.

**Usage:** She was assiduous in pointing out every feature.

22. Lassitude (Noun)

**Meaning:** a state of physical or mental weariness; lack of energy

**Usage:** She was overcome by lassitude and retired to bed.

23. Sycophant (Noun)

**Meaning:** a person who acts obsequiously towards someone important in order to gain advantage.

**Usage:** He was surrounded by flatterers and sycophants.

24. Infant (Noun)

**Meaning:** a very young child or baby.

**Usage:** Their first year at infant school.

25. Mortality (Noun)

**Meaning:** the state of being subject to death.

**Usage:** the work is increasingly haunted by thoughts of mortality.

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*Wake up every morning with the  
thought that  
something wonderful is about  
to happen*