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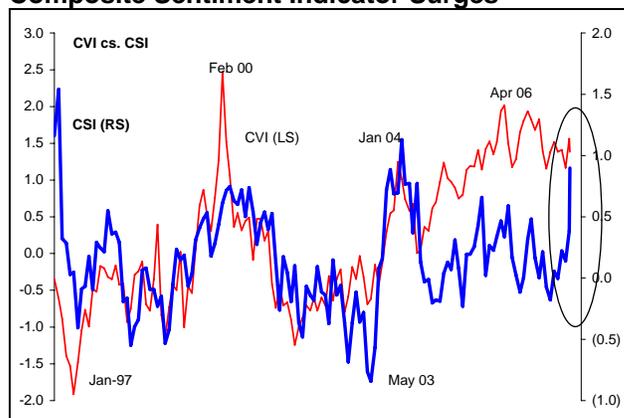
## India Strategy

### Sentiment Going Overboard

**Quick Comment:** The recent frenzy in the market has taken our composite sentiment indicator (CSI) from neutral territory to danger zone (Exhibit 1). Components of the CSI that are currently sending a strong sell signal include trading volumes, FII flows, trailing price momentum and value-at-risk. Of the 11 components in this indicator, the two that are in neutral territory are breadth and volatility. Breadth, in particular, has been weak in this rally and normally tends to surge before a correction sets in. While our composite valuation indicator is off the highs, it has climbed off its August lows. If the pace of the rally sustains, we believe the market will enter dangerous territory on both valuations and sentiment. The sectors most susceptible to a correction would be the financials including real estate, utilities and energy, in our view.

Exhibit 1

#### Composite Sentiment Indicator Surges



Source: Bloomberg, ASA, BSE, NSE, SEBI, FactSet, MSCI, Morgan Stanley Research

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	Count	% of Total	Count	% of Total	% of Rating Category
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<b>Underweight/Sell</b>	<b>317</b>	<b>14%</b>	<b>88</b>	<b>12%</b>	<b>28%</b>
<b>Total</b>	<b>2,300</b>		<b>744</b>		

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