MARCH 2019

As we step into the new fiscal FY20, the backdrop for markets is dominated by politics. We would like to share broader picture and take into account various driving forces as discussed in December ending market insight.

Election

Though elections only have short-term impact on market sentiment, but investors do care about outcome. The positive change in market is triggered by probable election results, which appear to have tilted in favor of a strong and stable government. Whenever 'Rate hikes are on hold', liquidity has chased emerging markets. Global central banks from Tokyo to Toronto are again turning neutral to negative, and traders are pricing in an interest rate cut by the developed market central banks.

Earnings

An improving earning environment helps in easing fears of an overheating market. In the long run, stock prices are slaves to company earnings. Headlines indices are making new records, while earnings have fallen.India is now the most expensive market among the top 20 global markets by the market capitalization. As per empirical evidence, this expensive valuation has occurred 44 out of 4,663 trading days in the past 19 years.

Economy

The economy officially grew 6.6% in the third quarter of 2018-'19. But this doesn't reflect in growth indicators like car sales and exports.

US is heading towards saturation and because of that US Fed might take several steps to prevent it, which could mean more money flowing to emerging markets like India. So the situation is positive for Indian markets in the short-term. The long-term impact of a US deteriorating condition will depend on its intensity. Emerging markets like India will benefit if it is a mild one due to easy money policy by US Fed (which could lead to more money flows to India). If it becomes steep, the impact will be negative due to economic repercussions like fall in exports.

Our Final Take

Market participants are hypersensitive about the outcome of the elections. History has demonstrated that these are just passing events. There is very little proof or evidence that government X changes the policy of government Y. Since 1991, there has been a great deal of continuity in economic policy of various governments. Whatever policy the previous government propagated, the next governments have taken it through. There are obviously ideological differences between our political parties but those ideological differences are not with regards to economic policy. Hence one should take a long term view and invest in small and midcap funds – however, as always, don't go overboard – stick to 25% to 30% weight towards mid and small caps funds within your equity basket. If markets run far ahead of fundamentals, we are setting ourselves up for some disappointment down the road.

Global money can't ignore India even if it's a tad pricey. Only key risk we see here is that India is quite sensitive to energy prices and crude marching towards mid 70$/Barrel would be quite problematic.

consulting his or her own financial advisor and conducting his or her own research and due diligence. The accompanying material is for informational purposes only. You should consult with professional to determine what may be best for your individual needs.