MUDRA
opportunities of wealth

PERSPECTIVE

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Well to start with I assume every investor follows print/visual media. So I don't want to discuss/repeat about the looming crisis in Indian economy which Blue channels and Pink papers are shouting every day. Our purpose is pretty simple and straight and i.e. to give perspective out of prevailing factors which can be converted into actionable insight.

Rising Interest rate/Yields has given birth to Downward Momentum in 2 Part :

1st Part

- Rising crude price, coupled with currency depreciation, has been the key macro concern for the market as it can make the task of fiscal management challenging. A wider CAD 2.6% of GDP this year vs. 1.9% in FY18 is expected.
- Sustained capital outflows from Foreign institutional and surging US Treasury yields has lessened the yield differential between India and US which usually used to be in 5 % + range.

2nd Part

- Rising rates due to above factors has a cascading effect on NBFC. The yields on 10-year government of India bond declined from high of 9.5 per cent in last quarter of 2013 to record low of 6.5 per cent in the last quarter of 2016. The bond yields have since crossed 8 per cent putting upward pressure on NBFCs' cost of borrowings.
- There was a surge in mutual fund investments post note-ban in 2016 and trade disruption caused by goods and services tax. This was largely invested in NBFC papers. Now the fund flow is reversing making it tough and expensive for NBFCs to make incremental borrowings.

So are we heading into a Bear market? Can we fall like 2008 are some of the regular questions from investor? So to address the same we have pin-point different levels so that we can prepare our self in advance if any adverse situation arises. Let's understand this from valuation point of view:

Valuation still Expensive

- Our internal proprietary model consisting of various valuation matrix is showing Indian equities are the most expensive in Asia and trading at a record 38% premium to region. At these levels, equities have historically posted negative returns over next 3-6 months.
- We don't follow price at all, we look after underlying value of every asset class. So put it into perspective 2009 Sensex of 8000 is equivalent to 24000 sensex(If crash happens) ; 21000 Sensex of 2008 is equivalent to 39000 sensex of Sept 2018.
- Tapering domestic and global liquidity is a risk to market multiples. So looking at valuation which has reached 2008 peak will normalize itself going forward. So fair valuation of sensex comes close to 32800.

So where are we heading?

Depends upon further cues

- The way things have panned out on both domestic and global front, we do not see any chance of overnight reversal. Key data like bond yield, INR, oil prices, liquidity and equity valuation has to normalize which may take some more time.
- A likely increase in govt. spending/fiscal deficit before elections and potential event risk of a less stable Govt. could weigh on markets near-term.
- We need to watch out for global cues as well. If the global sentiments turn weak or if there is risk off globally, it will impact all markets, particularly the emerging markets, including India. Against that backdrop, we can see a further leg down.

List of concerns mounting; valuations still expensive so the big question I am asked by institutions, high-net-worth individuals (HNWIs), family offices and others is whether they should hold, invest or divest ?

Hold , Invest or Divest

- Broader indices have fallen 15 % - 30 % but stocks have fallen 30 % - 50 %. This kind of correction provides opportunities to get good companies at a reasonable valuation or even attractive valuation. So kindly handover your incremental savings to good money manager who can make portfolio on your behalf.
  - Don’t panics sell. If you are not completely sure of why you invested in a fund, then you should sit with your financial planner and then decide a course of action. If you are clear of why you invested in a particular fund and/or asset class, then stay invested.
  - Don't stop your SIPs and don't change your financial plan. By stopping the SIP you will miss out on the benefit of compounding of equities. You will be buying more units at lower prices and reap benefits when the markets eventually rebound. Equity yields best returns in the long run.

“ The Key element to understand is that when we are owning equity , we are owning part earnings of that company and if broader earning of market say NIFTY goes to 500 in 2020 than sensex will touch 45000 looking at historical averages. If market trades on superior multiples than it will cross 50000+ “

In a Nutshell “GOOD NEWS AND GOOD/CHEAP PRICES DOESNOT CO-EXIST “