#28-05-2019

With General Elections 2019 behind us, the obvious question arises, **'What Next for Markets'**.

We have compiled key synopsis from notes released by two Mutual Fund companies and stock broking firm, Kotak Securities. The objective of this write up is to showcase how market participants view economy and markets going forward.

Synopsis from note released by Kotak Securities

After the rally last week, markets will shift focus back to basics. Factors currently weighing the market and those that can occupy driving seat in future could be:

- 1) Global events like Trade War
- 2) Behaviour of crude prices in the midst of US - Iran tension
- 3) Earnings & valuations
- 4) RBI monitory policy
- 5) Built up to Union Budget.

In terms of market cap orientation, Kotak Securities is currently sensing value in Mid & Small Caps over Large Caps. Timing wise, 18 months have gone since Mid and Small caps have seen correction. Local flows, which are the main force driving mid & small cap has seen sharp slowdown in last six months. With NDA coming back into power, Kotak Securities is expecting local investors to take comfort in mid & small cap space with a longer horizon.

Indices performance: Nifty, NSE Midcap and BSE Small Cap

Indices	Nifty	Mid Cap	BSE Small Cap
Peak - Jan'18	11,130	21,732	20,047
Low -post Jan'18	9,998	16,004	13,119
Fall-% -10% -26% -35%	-10%	-26%	-35%
Current (23 May 2019)	11,657	17,318	14,353
% rise (current over previous low)	17%	8%	9%
% rise/fall from peak (i.e. Jan'18)	5%	-20%	-28%
Underperformance-to Nifty		-25%	-33%

Synopsis from note released by Kotak Mutual Fund

- Government efforts will be directed to increase rural income, improve irrigation facilities, and sanitation, health, and electrification.
- The winning party's manifesto is aiming at investing US$ 1 trillion to create modern infrastructure. This amount of spending on infrastructure should kick start savings and investment cycle in the economy.
- Government is likely to anchor 4% inflation target to reduce cost of capital.
- Expect tax reforms by simplification of GST and direct taxes

Synopsis from note released by DSP Mutual Fund

- The BSE Sensex grew by 10% CAGR from 2014 to 2019; however, during this time, the earnings of underlying companies grew only by 2.4% CAGR. This means valuation multiple expansion alone contributed the balance 7.6% CAGR. This expansion could potentially be due to improved global sentiments, rupee currency stability, reforms, domestic flows or a bundle of other opaque factors.
- The average CAGR growth in profits of top five BSE200 performers in last 5 years was ~46%, while the price performance of this pack was ~58%. Unsurprisingly, the bottom five BSE200 underperformers lost ~ (-)30% CAGR in market-cap, while reporting losses. Hence it is earnings, ROEs and valuations that matter more for returns than macros in long run.
- Focus on earnings and stock prices will take care of themselves (over time). We also believe that the polarization the market has seen over the last couple of years (few stocks driving market returns) may not sustain as the broader market catches up

Our Take:

The new government is expected to build on their previous initiatives and is further expected to:

- Reduce distress in farm sector
- Create job opportunities,
- Continue their thrust in infrastructure sector,
- Rationalise GST
- Reduce procedural bottle necks to nudge increased spending by private sector companies.

None of what we mentioned will happen overnight. The market indices have run up after exit poll announcement. We might see some correction post the announcement of Union Budget 2019.

Mid and Small Cap have corrected from their peak valuations of January 2018 and are trading at a discount to Nifty 50. The mid and small cap sector looks attractive from medium to long term perspective. Depending on the current asset allocation, you may choose to add allocation to mid and small cap sector. Incremental flows, if any, can be parked via the Systematic Transfer Plan (STP) route of Mutual Funds.

Interest rates are expected to head lower within the fiscal year. For conservative investors, you may choose to park funds in AAA rated short term Mutual Fund debt schemes or Corporate Fixed Deposits such as Bajaj Finance Fixed deposits.

"Timing in the market is more important than timing the market".

Source: Inputs from Kotak Securities, Kotak Mutual Fund and DSP Mutual Fund