

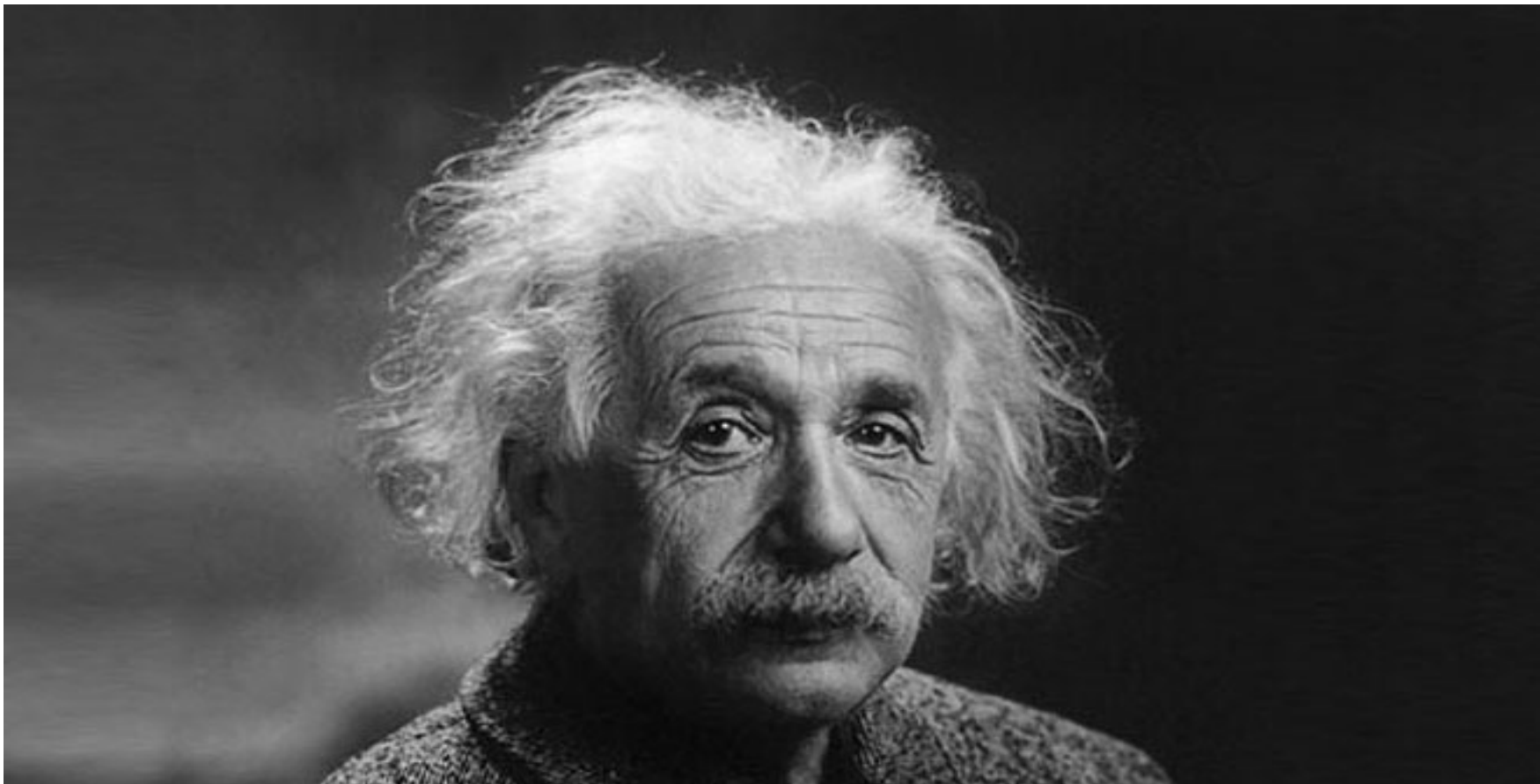
# Global Events & Domestic Factors - Impact on Indian Markets

ACAE – Kolkatta

23 Feb 2019

- - Nipun Mehta, BlueOcean Capital Advisors

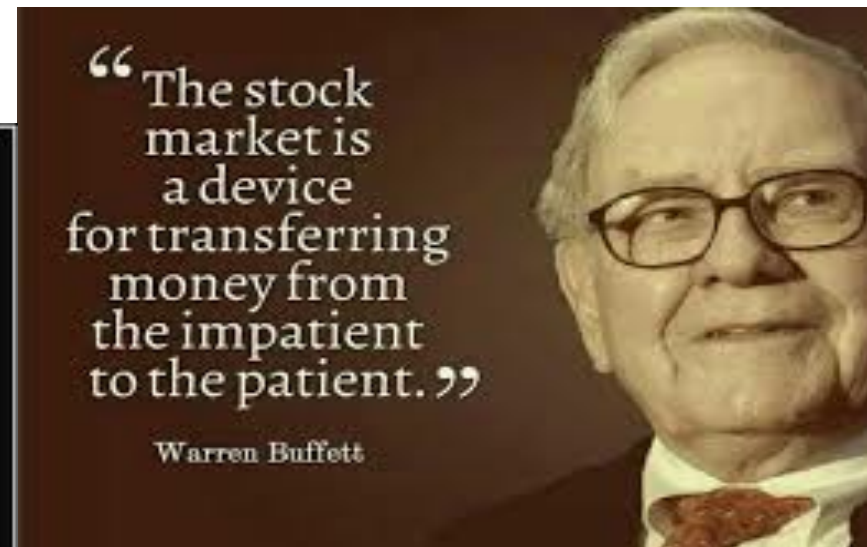
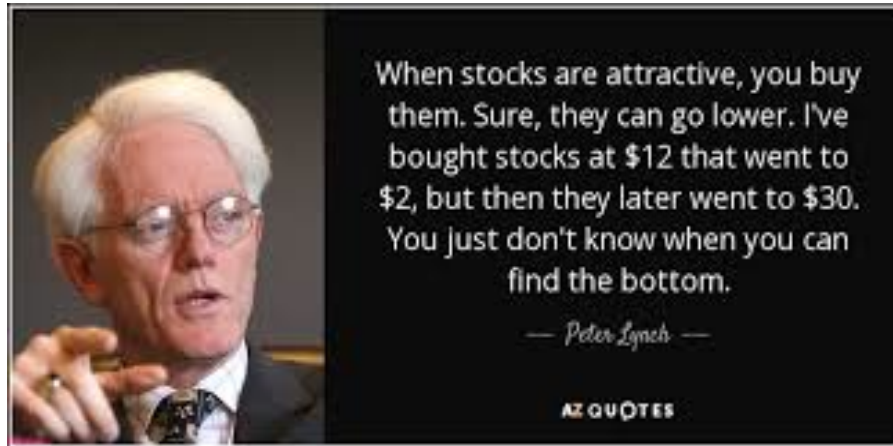
# Where are The Markets Headed?



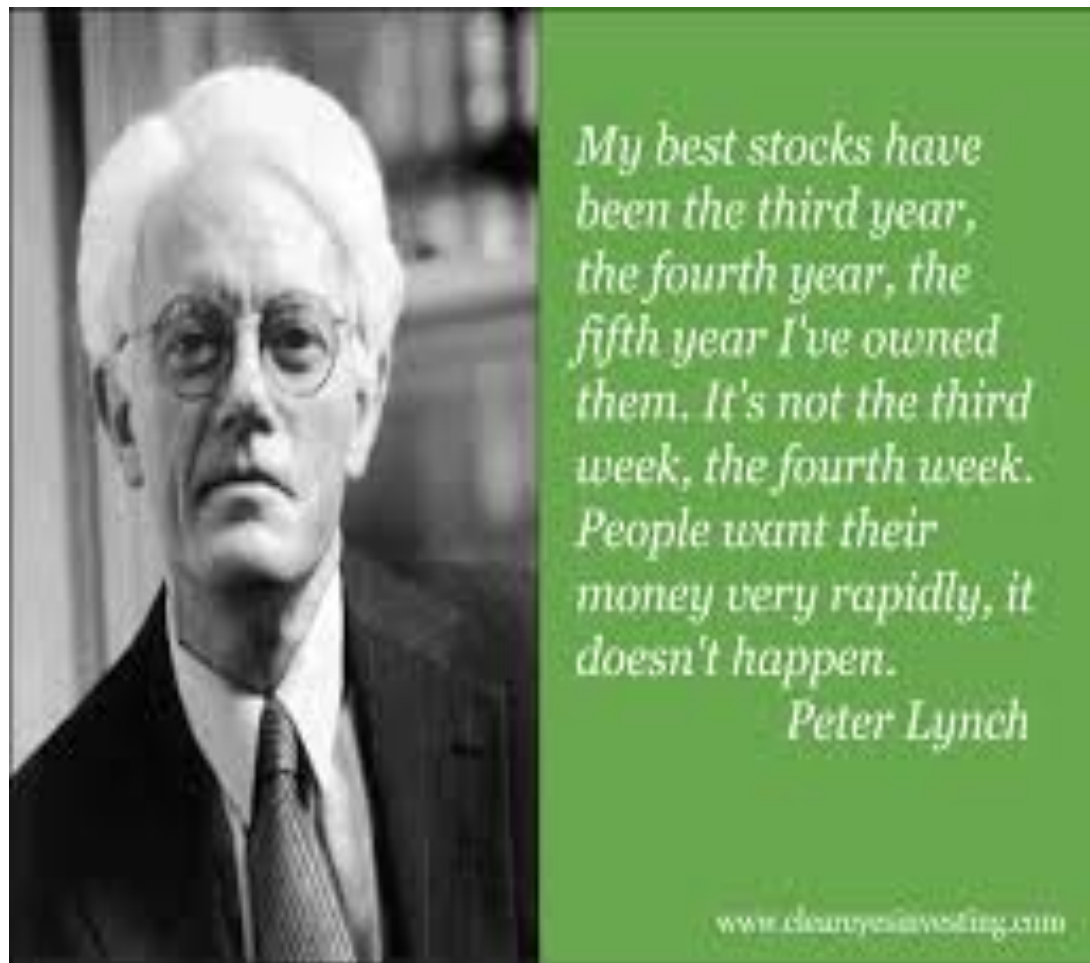
23 Feb 2019

Nipun Mehta

# Equity Investing



# Equity Investing



**SUCCESSFUL INVESTING  
IS ABOUT MANAGING  
RISK, NOT AVOIDING IT**

BENJAMIN GRAHAM

PICTURE QUOTES, LLC

PICTUREQUOTES

## Global/ Domestic Events Impact

- 2014 LS Elections – May 2014 – Deeper Impact
- Brexit Referendum – 23 Jun 2016 – Limited Impact
- US Presidential Election – 8 Nov 2016 – Limited Impact
- Demonetisation in India – 8 Nov 2016 – Short Term
- Introduction of LT Capital Gains Tax on Shares – 1 Feb 2018 – Deeper Impact

Markets Tend To Have A Knee-jerk Reaction After Major Events

# Global GDP Growth – India vs China



Source :World Bank

Global Growth is Slackening

# Global GDP Growth – USA vs World

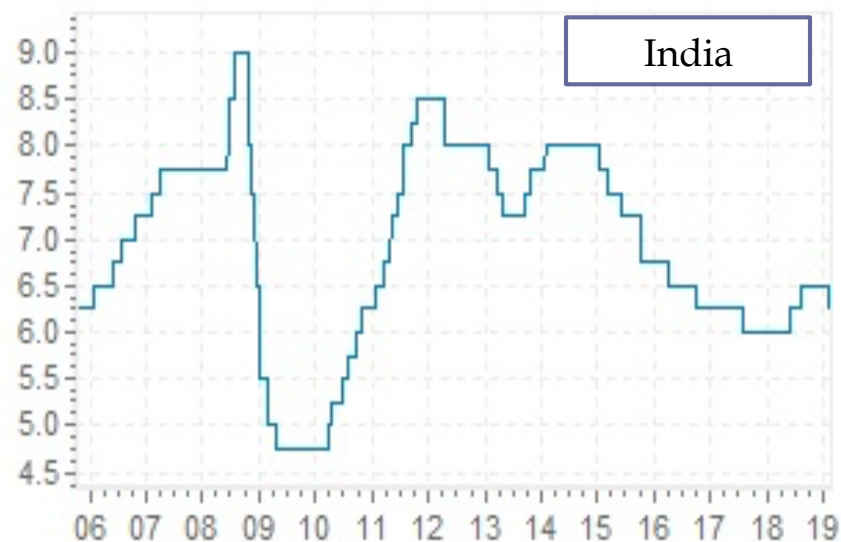


Source :World Bank

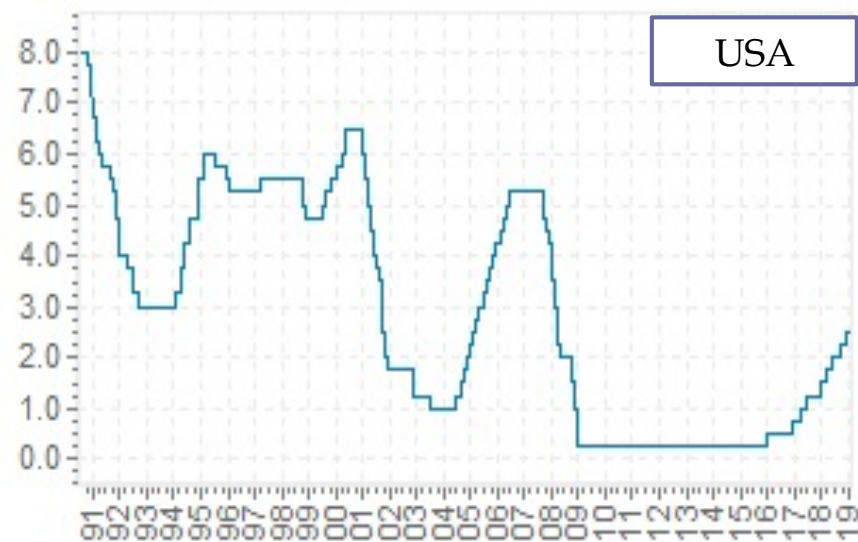
Global Growth Depends on US GDP Growth



# Global Interest Rates



RBI Interest Rates

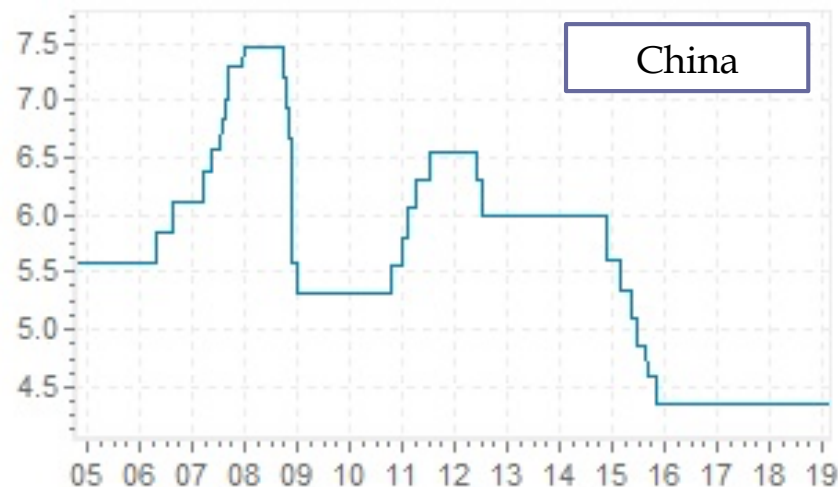


US Fed Rates

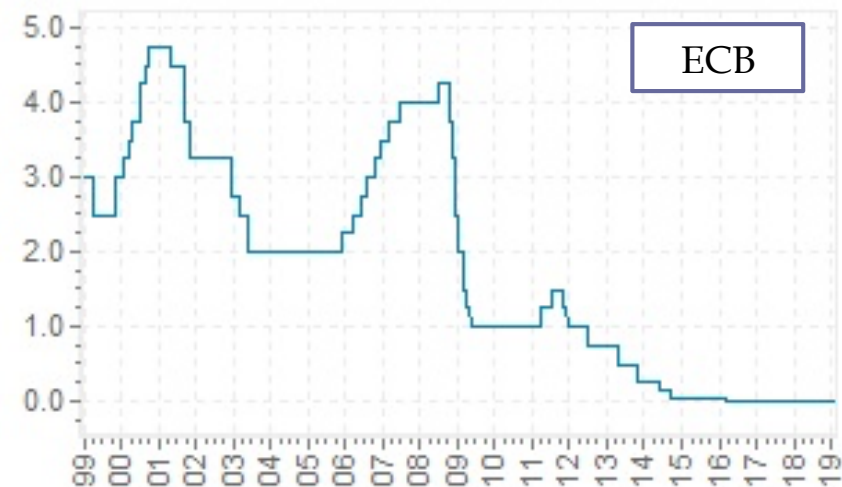
- 3 of the Major/ Developed Economies in the world still have *Negative* Interest Rates – Japan, Sweden, Switzerland



## Global Interest Rates - 2



China Interest Rates - PBOC



Euro zone Interest Rates - ECB

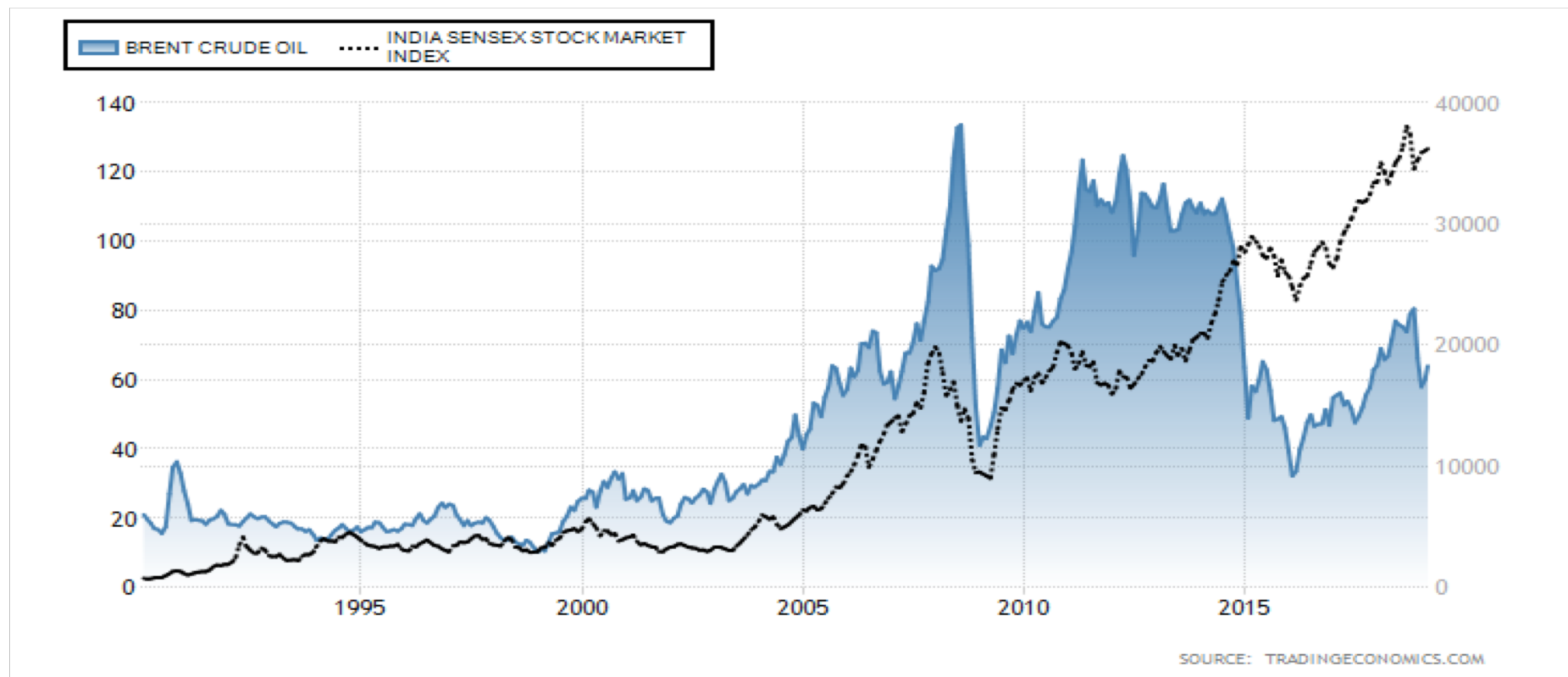
- Interest rates in some of the largest economies have been low/ are falling
- Rates in select EMs gradually rising

# Crude Oil Prices – 1990 - 2019



- Crude Prices On the Rise again

# Crude Oil Prices vs Sensex

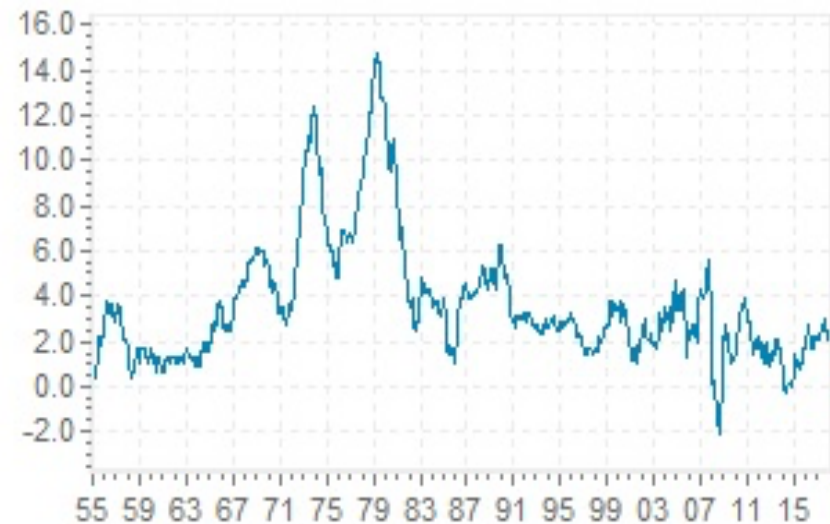


- Inverse co-relation with a lag

# Historical CPI Inflation



CPI Inflation Data - India



CPI Inflation Data - USA

- Inflation Levels have historically been high in India
- US saw a deflationary phase in 2009

## A Standout Year – 2018....

- It All Started with the Finance Bill 2018 - Introduction of Tax on LTCG on Shares
- Not Entirely A Year of 'Fundamentals', More about 'Corporate Governance'
- Entire Gains of 2017 in Mid Caps & Small caps were completely wiped out, manifold in several cases
- What Stood Out:
  - Tech Sector Turnaround, Worst Over for Pharma
  - Select Large Caps outperformed significantly
  - FMCG/ Consumption quoting at premiums

## A Standout Year - 2018

- What fell out of flavour:
  - Companies with governance issues, Auditor Resignations
  - IL&FS, ADAG Group, DHFL, Yes Bank, Essel Group
  - NBFC Liquidity in the 4<sup>th</sup> Qtr – during festive season
    - Auto Sales dropped, Consumer Durables demand Slowed
  - Highly leveraged companies
  - Companies with high promoter pledges
  - Mid Caps & Small Caps
  - Real Estate, Infrastructure

# The Bad News.....

- Geopolitical uncertainty can be a drag on the Economy
- NBFC Crisis – Is it Over?
- Low Domestic Liquidity in Last 3 Years due to Bank NPAs
  - Credit Growth still slow
- Global Liquidity is Shrinking
  - QE, Bond buying Unwinding/ Reducing
- Domestic Earnings yet to show high Growth
  - 2013-2018 CAGR EPS growth of 3.4%
- No Major capacity expansion announced
  - Limited Capex Growth
- Balance Sheets continue to remain stressed
- Promoter Pledged Shares can make markets volatile



## The Good News Is.....

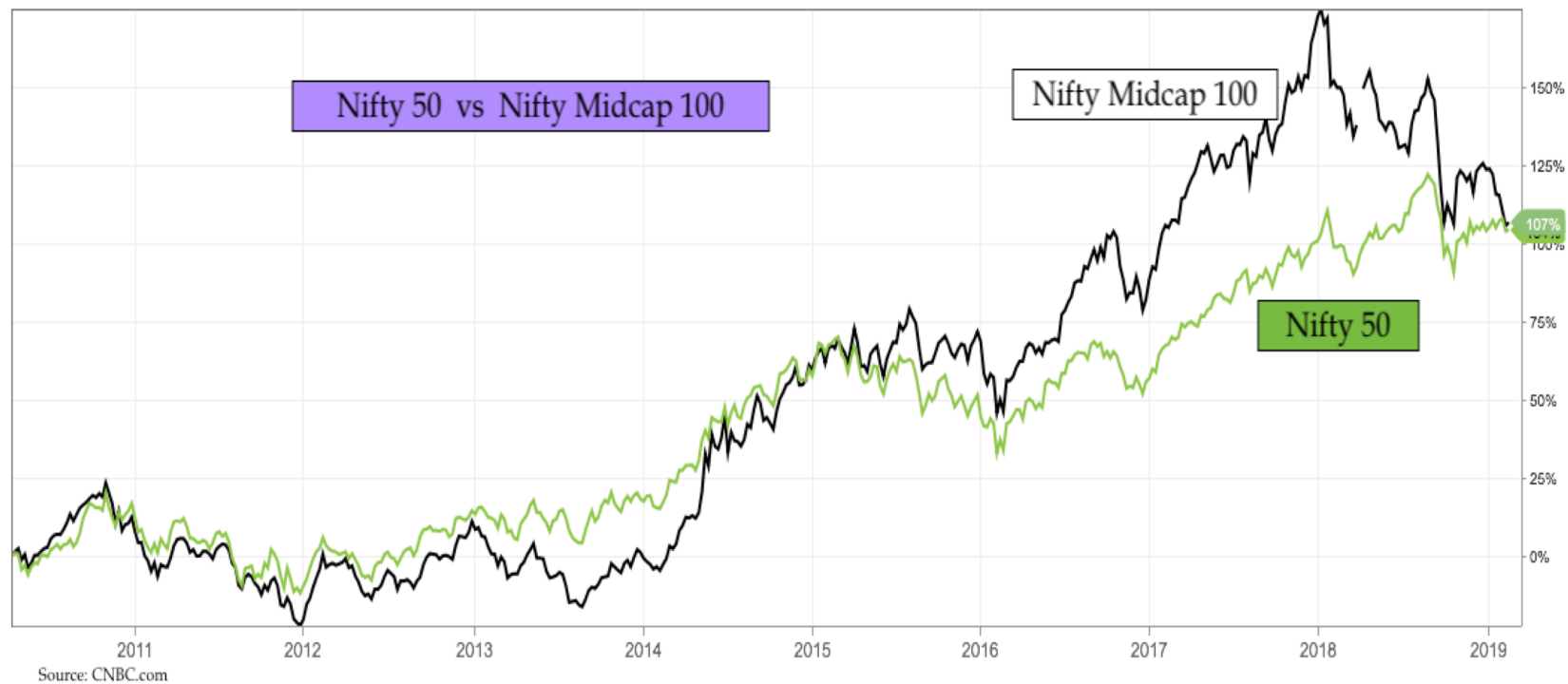
- Earnings Growth Expected to pick-up
- Globally Central Banks slowing down rate hikes
- Crude Oil appears to have stabilised
- IBC Process gradually bringing liquidity back
- Private Bank & NBFC asset quality stable
- Capacity Utilisation in select sectors reaching optimal levels

# What is Required

- Health of financial system very important
  - Liquidity in the system essential
- Stability of economy post election critical
- Business confidence needs to come back quickly
- Better Credit Rating Standards
  - India has one of the highest no. of AAA Rated companies, USA has 2
- Constant Review of Regulatory Standards
  - What SEBI did for the MF Industry was very positive

# Large & Midcap Premium Shrinks

- Midcap outperformance between 2015 & 2017 was huge
- Several Midcap Balance Sheets were over-leveraged
- Large Cap EPS growth was slow



# Factors That Can Drive Markets

- FII Inflows – Will They Come?
  - EM valuations becoming compelling
  - DII/ MF buying has largely supported markets
- Sharp rise in Corporate Earnings
- Single Political party or group gets a clear majority in LS Elections
- ‘Politically Correct’ Budget 2019 for the Stock Markets

Thank you

