

2016: The year gone by....

- **GST:** Constitutional Amendment on Goods and Services tax (GST) was passed which will combine numerous indirect taxes into a single tax. This is one of the biggest reforms undertaken by government to increase tax revenue and bring maximum unorganized sector under ambit of organized one.
- **Demonetization:** Old Rs. 500 and Rs. 1000 notes were cancelled to be a legal tender to nullify the black money hoarded in cash, tackle counterfeit currency in circulation in the economy and curb funding of terrorism with fake currency.
- **Monetary Policy Committee:** Appointment of a new RBI Governor and new Monetary Policy Committee for the formulation of monetary policy were done. Both the appointments were done in line to maintain continuity in monetary policy.
- **Indian Bond Yield:** The yield on the 10-year benchmark Government bond ended the year at 6.52% down by 132 bps for the calendar year 2016.
- **Corporate Earnings:** The rural as well as urban consumption was boosted to some extent by good monsoon and 7th pay commission awards. However, corporate earnings remained subdued due to effects of demonetization.
- **Equity Markets :**

Market	% change in year 2016 in USD terms
United States (DJIA)	+14.4
Britain (FTSE 100)	-3.9
China (SSEA)	-16.6
Japan (Nikkei 225)	+5.6
Euro Area (FTSE Euro 100)	-1.1
Brazil (BVSP)	+74.4
India (BSE)	-0.9
Emerging markets (MSCI)	+9.7

- **BREXIT:** UK decided to leave the European Union based on the outcome of a referendum (public vote) conducted on 23rd of June, though the revised terms of trade between UK and EU will be finalized over the next two years.
- **Election of US President:** Election of Mr. Donald Trump as next President of USA has brought a lot of uncertainty globally in expectation of some radical policy changes proposed by him.

- **Commodity Prices:** Sharp Recovery in most of the commodities, with crude oil prices rising nearly 44% and metals as iron-ore & zinc more than 70% in 2016.

Commodity	% change in price in year 2016
Aluminium (USD/tonne)	16.13
Copper (USD/tonne)	23.05
Iron Ore (USD/tonne)	90.48
Zinc (USD/tonne)	75.27
Brent crude (USD/BBL)	43.89
Silver (USD/oz)	16.49
Gold (USD/oz)	7.3

Outlook for 2017.....

India

- The GST implementation from 1st Jul'17 coupled with the demonetization, Aadhar, Jan Dhan Yojana and Unified payment interface is expected to rope in the parallel economy into the main-stream economy and increase the tax base.
- Real GDP growth estimates have been revised by IMF from 7.6% to 6.6% for FY17, however India remains amongst the most attractive economies in the world in the wake of the structural reforms taken by the Government to improve productivity in the economy.
- The main trigger for the economy and markets will be the Union Budget to be presented on 1st Feb'17. It is expected that the Government would focus on improving growth by providing support to the rural segment and utilizing any one off gains on liquidity in the banking system from demonetization to spur infrastructure related expenditure.
- Corporate earnings growth has been revised downward post the demonetization exercise. They are expected to grow below 10% in FY17 and 10-12% for FY18.
- Inflation is likely to remain well anchored during CY17 at an average of 4-4.5% which should give adequate space to RBI to cut rates by 25-50 bps during the year.
- We expect trade deficit to widen in FY18 due to higher oil prices and tepid export growth. Current account deficit is expected to rise from 0.9% of GDP in CY16 to 1.3-1.6% of GDP in CY17.
- In banking sector, NPA situation appears to have stabilized with most of the stress being recognized. PSU banks are focusing on cleaning of books and raising adequate capital to comply with Basel III norms by 2019.
- We expect the INR to trade between the range of 67-71 to the USD. However, even as the INR weakens and depreciates mildly, its relatively strong macroeconomic fundamentals should lead the INR to fare better than most of the EM currency basket.

Global

- The outcome and impact of the U.S.' new administration could challenge the status quo of global trade and could also create a massive infrastructure build, triggering a surge in demand for commodities.
- A rebalancing China will require structural reforms and progress in over-capacity areas as the economy continues to diverge into consumption-related and capital-intensive segments. Stronger global growth is also positive for China's exports.
- Europe will hold several elections this year, which will test the European Union's political resolve in the wake of Brexit and Trump's victory.
- In Latin America, positive reforms are bringing a return of investor confidence in Brazil, Argentina, and Peru, which could strengthen currencies, reduce inflation expectations and increased prospects for growth.

We believe that the market will return to fundamentals in 2017 to reward competitive companies with earnings delivery in pockets of structural growth. The fundamental strength of the economy and attractive valuation levels of the market (1 year forward P/E for BSE Sensex at 14.7x on FY18 EPS(E)) present a reasonably positive outlook for equity. The big trend of strong domestic flows in equity is likely to accelerate and grow strong with limited remunerative options for investments. This will provide a strong counter to the risk of FII outflows on the back of a strong dollar.