Capital League outlook

May 2017

Indian Economy

- Equity markets continue to rise on account of positive domestic macro-economic data, a stronger rupee, policy certainty in India and high domestic flows.
- 4Q FY17 earnings announced so far have been better than the market expectations. Companies in Auto, FMCG and Consumer Discretionary space have posted a decent set of results whereas IT sector has shown weak performance. The aggregate results for 930 companies (including Energy & Finance companies)

	% Change for Q4 FY17 on y-o-y basis
Sales Growth	10.30
Net Profit	24.55

- The public sector continued to drive investment in FY17, accounting for 82% of the incremental projects under implementation. The implementation of stalled government projects has also picked up sharply in the last two years.
- The government's move empowering the RBI to setup oversight committees and giving immunity to bankers is a good step to clearing stressed loans which are 13% of total loans. However, quality and speed of resolution will play an important role for successful resolution of NPAs.
- Index of Industrial Production (IIP) measured on new base year grew 2.7% in the month of Mar'17 which is indicative of stronger manufacturing activity based on consumption demand.
- Retail inflation (CPI) has dropped to a new record low of 2.99% in Apr'17 from a nearly five-month high of 3.89% in Mar'17.
- The GST Council fixed tax rates on 1,211 items and released the final list of GST rates for 98 categories of goods. Around 80% of the goods will attract 18% or less GST against 35% of currently taxed at 27% or higher. Hence, overall impact is not expected to be inflationary.

Global Economy

- Election of Mr. Emmanuel Macron (a pro-European Union), as new French President is positive for Eurozone while pushing back rising global protectionism. Attractive valuations and a risk-friendly central bank will provide further encouragement for investors to view the Eurozone in a positive light.

- Continued gains in employment in US have pushed the unemployment rate to 4.4%, a decade low level and well below the 4.7% which the Fed considers to be the long-term equilibrium level.
- Oil prices are inching up as Russia and Saudi Arabia are supporting the extension of supply cuts to nine months instead of optional six month cut specified in earlier deal between OPEC & non-OPEC countries.

Outlook

- India is a bright spot in world equities, given high GDP growth which is expected to continue. It is relatively less affected by global protectionist measures due to consumption being 65% of GDP. India is less reliant on exports for economic growth.
- In case of large cap companies, valuations are fairly valued when seen in the context of low earnings. However, in case of mid & small cap companies, the valuations look rich as liquidity is chasing returns in this segment.
- Sensex is currently trading at ~18 X 1 year forward earnings (compared to historical average of 16X) due to rising liquidity in the equity market, reduced attractiveness of physical assets like real estate and gold and a scenario of structural fall in interest rates.
- Investors should add to large cap and diversified funds and incremental investments in mid & small cap funds should be made with caution in a staggered manner and on dips.
- With surplus liquidity, no RBI OMO purchases, neutral policy stance and soft outlook on inflation, the yields on bonds could soften in the coming months.
- Investors should look to invest in short to medium term debt funds.