Markets Outlook - 2017

Views of the Top Mutual Funds

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Birla Sun Life Asset Management

- In the next two to three quarters, macro data and companies' results could be volatile. However, as things stabilize in H2-FY18, earnings could recover.
- Expect the earnings of Nifty companies to grow at 19% in FY18 led by financials and autos.
- The year 2017 will see lower bond yields and fixed deposit rates. It will see falling real estate and gold prices.
- It is equities that is providing a good alternative for investment with a medium term horizon. The valuations are reasonable & the base for sustained earnings growth is being set up.

- The Indian markets are in a consolidation phase due to two major reforms in the form of Demonetization and GST. One may go with a base case estimate of 10-15% returns from Nifty Index in the year 2017

- The next six months would be a good time to build the portfolio in a staggered manner.

- The large cap, multi cap and balanced funds should be considered for investment.

- In case of investors following SIPs – keep them going in whichever fund and category you have chosen.

DSP BLACKROCK MUTUAL FUND

- Expect corporate earnings growth to improve from the second half of FY2018 as the headwinds of the last few years (lower commodity prices, higher banking system NPLs and lower Government/private capital expenditure) could turn into tailwinds.

- On equity markets, believe 2017 will be a strong year after almost two years of negative returns. Attractive equity valuations relative to bonds, stable currency, policy reforms and stabilizing global growth bodes well for equity returns this year.

- A pick-up in corporate earnings growth, full transmission of lower interest rates and expanding return on equity (ROE) for corporate India will be the medium to long term drivers for equity markets. Within portfolios, we expect value stocks to outperform growth stocks in 2017.

- In summary, believe that the Indian equity market is a good structural opportunity and our outlook is positive for 2017.

- In the last two-three years, all but three sectors in Nifty delivered reasonable growth in earnings and the three sectors where earnings have not grown are corporate banks -- both public and in private sector, metals and engineering and construction companies.

- Each of these three sectors had challenges specific to them. Banks were grappling with high provision costs. Metal prices were quite low till last year. They have recovered of late. As for engineering, the capex was quite weak.

- These are the three sectors where earnings have actually fallen by 50 odd per cent and that is the result of weak aggregate earnings growth and that is what we have always said that aggregates hide a lot and you cannot really focus too much on the aggregate.

- As we look forward to the next two years we see interest rates moving lower. Almost 50-60% of the bank deposits have been lent to the companies. This is a massive number – around Rs 50 lakh crore. If you save 2% on that, it is Rs 1 lakh crore a year, which is...

...a very large percentage of the profits of Indian companies and that will flow through.Think lower interest cost will itself support significant improvement in earnings.

- ➔ Each of these sectors are likely to see a return to normal profitability over the next two years. In metals, we are sharply moving in that direction and we should see it in the next few quarters itself. Believe that we are moving in the right direction. If you look at market cap to GDP in India, we are trading near all-time lows of market cap to GDP.

- ➔ But PEs are not close to all-time lows and the reason is because corporate profitability is still a near a cyclical bottom. Over next two years, we should see improvement in aggregate profitability and earnings will catch up.

- ➔ Equities should be considered with an investment horizon of 5 years.

- There is a case for being moderately overweight on equities with 2 year view.
- This is with an understanding that volatility is likely to prevail up to next March 2017.Post that we believe de-leveraging cycle may start playing out and capacity utilisation may increase leading to improvement in earnings.
- Valuations have turned reasonably attractive and one should invest lump-sum in pure equity funds in a staggered manner upto March 2017.
- We like Largecap and Multicap funds over pure Midcap funds. Dynamic Asset Allocation Fund remains good investing avenue for conservative equity investing

IDFC MUTUAL FUND

- Interest rates in India, will remain a hotly debated argument. Unfortunately, inspired by the bellicose electronic media's style of discussion, this too appears to cut a deep wedge between the two opposing sides.

- While slower economic growth and a drop in credit growth may be the reasons for a sharp drop in interest rates, the looming danger of higher crude oil prices as well as of other industrial commodities and the hike in US 10 year and the narrowing gap between the India and US 10 year yield will be touted as the reasons for maintaining or marginal interest rate drop.

- Either way it will be a shrill and deeply contested debate all year through.

- Finally, will Nifty earnings growth cross the double digit "barrier". Save FY 14 (also an election year), Nifty earnings growth rate has been subdued (< 6%). Will the economy get the double benefit of de-monetization (greater tax compliance) and GST, or, like the last three years, the street will start projecting 20% growth in FY 20!

IDFC MUTUAL FUND

- Lastly, a general comment. Investing in equity is always a leap in faith as it is an exercise to predict the future. Forecasting future correctly is a low probability exercise.

- More important for an investor is the time spent invested in the market rather than timing the market. In a similar vein, while trying to forecast key events may help in timing the market, most beneficial for investors would be to remain invested in the market.

- Hence, while being aware of key events and their impact will make you an informed investor, staying invested in the market through time will boost your chances of transforming one into a high return generating investor.

- The Indian equity markets have seen some correction in recent times due to uncertainty created on account of demonetization along with a risk off trade impacting emerging markets as a whole.
- This has led to some good franchises being available at better price points. In our view, the Indian economy has a limited impact from the US election outcome and global risk-off events are good entry points into the Indian markets.
- The domestic economic growth is likely to resume upward trend post the near term challenge thrown up by demonetization which in turn might lead to improvement in corporate earning cycle in 2017.
- The inflows in domestic funds are likely to remain undeterred given low exposure of domestic household savings in equity funds and the unattractiveness of other investment avenues.
- We believe that the current weakness in equity markets could provide a favorable opportunity to investor to further their exposure towards Indian equities from a medium to long term perspective.

- If you view it from our point of view, they year 2017 will be divided into 2 parts for the Markets.The First 6 Months could be very volatile because of the prevailing sentiments. The latter 6 months is when we can expect the foundation to be laid for what is being dubbed as the 'Mother of all Bull Runs'.

- During the year, there will be 4 major risk factors to the market. These risks are not only on the down side, but also on the upside. If the outcomes of these risk factors is favourable, we can see the markets getting back to the pre-November 8th growth trajectory.

- First and the immediate biggest risk that has to be watched closely is the Q3 performance announcements, which are expected to be flat or negative. Any positive or negative outcome over and above the expectations can have a significant impact in the market sentiments.

- Second biggest risk would be the Union Budget Provisions. Any disappointments with regards to the Tax relief, Consumption boosting measures, and other sops that are widely expected will severely impact the market levels.

- Third risk factor would be the impact of US interest rates on our currency. FII Flows still play an important role in our markets, and any currency appreciation or depreciation will exert a meaningful impact on the markets.

- Fourth factor would be the all important UP elections. It will be seen as the people's verdict on Demonetisation, and any gains for BJP will be responded to positively.

These are the key pointers that we feel will add to the volatility. But post that, the positive effects of Demonetization should start showing in the economy, as even claimed in RBI reports.

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