Market Outlook

Birla Sun Life
Mutual Fund

Equity Investment Outlook

As the biggest events in India this year, the 16th Lok Sabha elections, finally reached consummation Indian equity markets responded positively to the first decisive mandate in 30 years that was delivered by the electorate. The benchmark indices, Nifty and Sensex, rose 8% each accompanied by 15% rise in the CNX Midcap Index and 20% move in the Small cap index. Key sectors that led the gains were Real Estate, Power, Metals and Capital Goods; while those on the losing side were Healthcare and IT, followed by marginal gains in consumer names.

Fund flows continued to be robust as FIIs upped their ante, deploying higher equity inflows into India. Inflows for May totalled $2.8bn taking the YTD net buying to an impressive $8.1bn. (citigroup research)

Primary market activity is showing signs of life with deals totalling $936mn going through. We are likely to see more such activity with money thus raised is going towards de-leveraging corporate balance sheets and preparing for growth phase.

Amongst key economic numbers that came out - India's current account deficit plunged to low of 0.2% of the GDP in the March quarter, from 3.6% a year ago as imports declined due to curbs on gold imports. The trade deficit continued to be in control at $10.1 billion in April compared with $10.5 billion in March 2014. India's FY14 GDP growth was recorded at 4.7% with agricultural sector growing at 6.3% vs 3.6% QoQ, the manufacturing sector grew at 1.4% vs -1.9% QoQ. *(Source: Bank of America, Merrill Lynch)*

In the near term, markets my pause on consolidate given the recent gains. It may also take cues from important policy announcements like Union Budget and EXIM policy. We are entering a recovery phase in the economic growth which is expected to drive acceleration in earnings growth going ahead. This in turn could drive attractive returns compared to other asset classes over medium to long-term. Investors should not remain on fence lines waiting for perfect 20-20 clarity, for good news and good (cheap) prices seldom coincide in stock markets.

Debt Investment Outlook

Macro Outlook

As the elections of the world's largest democracy concluded in May 2014 electing a government with a landslide majority seen for the first time in the last 30 years, India has successfully entered a new policy landscape. Both equity and bond markets cheered the establishment of such a strong mandate. While the on ground impact of agenda of the new government remains to be seen, the sentiment turnaround has happened already.

On the macroeconomic front, the data prints were a mixed bag.

While retail inflation (CPI) inched up due to higher food prices, wholesale inflation (WPI) moderated substantially owing to a sharp decline in core inflationary pressures. As we go forward, seasonality induced higher food prices may keep the headline print elevated but as the impact of tight monetary policy, prudent fiscal consolidation and appreciating currency becomes prevalent, the inflation trajectory is anticipated to behave well.

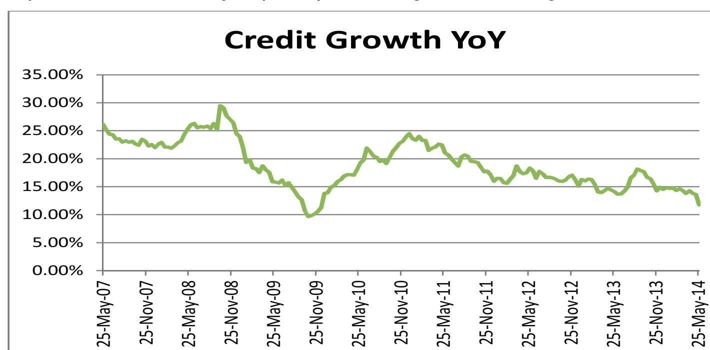
GDP growth picked up in FY14 to 4.7%, rising from 4.5% in FY13. The key driver of this moderate move was higher agriculture growth owing to above normal monsoons. Industry and services activity witnessed some decline and thus offset some of the positive impact of higher agriculture growth. As we move in FY15, while there are risks to agri growth rate emanating from delayed monsoons and/or El Nino, but we expect investment activity to start gaining some traction especially given the large stock of stalled projects that are waiting for the green signal. As investment activity starts to show some momentum, the services segment is also likely to benefit. Accordingly we expect FY15 GDP to rise marginally to ~5.2%. The first signs of recovery are already visible in the latest PMI prints where both PMI mnfg and PMI services have shown some expansion, core industrial production for Apr'14 also rose to 4.5% from 2.5% in Mar.

The fiscal deficit as a % of GDP for FY14 came in better than both the budgeted and the previously announced number (BE and RE respectively). Fiscal deficit moderated to 4.5% of GDP in FY14 from 4.9% in FY13. One must appreciate the efforts undertaken by the previous govt. in reigning in the deficit which was tracking an unreasonable path until Sep'12. While the Vote on Account has budgeted a fiscal deficit of 4.1% of GDP for FY15, it remains to be seen how the new govt. charts out its budget in early July. There is a possibility that the headline print sees some upward revision, but in our view it's more important to look into nature of expansion (if any) and as long as its non-inflationary in nature, one may look through the increase in the headline print.

Coming in line with our expectations, the CAD for FY14 moderated sharply to 32.4bn$ (1.7% of GDP) from 88bn$ in FY13 (4.8% of GDP). The key driver here was the decline in both gold and non-oil, non-gold imports which lowered the run rate of the trade deficit substantially. Exports pick up also facilitated this process. Despite a surge in capital outflows in H2 of 2013, The BoP saw a healthy 16bn$ surplus in FY14, this was on account of the large dollar inflows garnered via the FCNRB route by the RBI. In FY15 we expect the process of CAD moderation to continue, even as restrictions on gold imports are gradually withdrawn. More importantly we expect massive capital inflows as India places itself with a sound economic template in the EM space. This would eventually result in a big BoP surplus (BSALMC est is 50bn$+ in FY15). This liquidity influx will have its bearing on the yield curve.

Credit Outlook

Credit growth has remained weak in the beginning of the new financial year. However, with a strong government at the centre with a decisive mandate, we expect economic activity to pick up and along with it credit growth too.



Source: RBI, Bloomberg

Investor interest in accrual funds has remained strong. Issuer market activity has also improved with increased flows, however, we believe spreads for some of the transactions recently entered into have been very aggressive. We continue to remain vigilant as always.

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