

Viewpoint: Markets not cheap, but sentiments upbeat

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The equity markets are in a bull-phase; scaling fresh peaks more frequently these days. This has taken the valuations (Sensex) to ~39% premium to the long-term average, which is not cheap. However, the sentiments are upbeat; backed by firming expectations for stronger earnings' growth hereon along with the waning impact of twin disruptions i.e. the Goods & Services Tax (GST) and demonetization. The year's normal monsoon together with government's drive to push rural economic growth also build a strong case for rural recovery that is expected to propel demand and in turn boost the corporate earnings growth. In fact, quite a few economic indicators are now beginning to hint at improved corporate earnings from FY '19 onwards, outshining the uncertainty pertaining to FY '18 earnings' forecast.

Talking of indicators, the Index of Industrial Production (IIP) made a sharp recovery to 8.4% year on year growth in November '17 from 2.20% growth in October '17; while both 'Manufacturing' as well as 'Services' Purchasing Managers' Index (PMI) also exhibited relative strengthening, rising to 54.7 and 50.9 respectively in December '17 from 50.9 and 48.5 respectively in November '17. Further local demand indicators, such as growth in railway freight, export growth, growth in commercial vehicle sales as well as bank credit growth also suggest economic recovery to be underway.

Concurrently, there is also recovery and growth in the global economies, which is reflecting positively on Indian equities at this hour, especially in the backdrop of hardening commodity prices (both global and domestic) which is beginning to impact consumer price inflation. Inflation, a long-drawn concern for our economy is on an upward-spiral once again, overshooting the range set by RBI. While the inflation, yet, is not being feared for adverse impacts, its movement nevertheless needs to be closely monitored, especially in the wake of rising crude oil prices – should the same develop into a trend.

On other positive notes, we are beginning to see some movements in the domestic investment cycle, which has been laid back for long, though the same is largely led by government spending. The concern here though is of government overshooting its fiscal target, thereby risking its' glide path to fiscal consolidation. However, as a silver lining, there is now some visibility on the laid-back private sector investments getting bottomed out, and an upturn in private sector capex hereon could immensely support growth.

The market at present is thus besieged with the optimism for better economic conditions, even as its ongoing uninterrupted run-up makes one wary of interim

corrections. Investors, at this juncture, are thus advised caution and are advised against putting all their investments in a single basket. One may thus be prudent and consider allocating assets to other investment classes such as fixed income funds and dynamic funds while assuming a disciplined approach to equity investing, preferably through systematic investment plans (SIPs).

It is heartening to see that the current optimism for equity markets has made investors take serious note of mutual funds as a contemporary and yielding investment offering and as a tool for long-term wealth creation. There is today a lot more awareness about mutual funds as compared to a few years ago, which is getting visibly reflected through regular inflows into mutual funds. What further adds credence to the prospects of mutual funds as an emerging choice for a long-term investment is the incremental rise in the number of investments through systematic investment plans (SIPs), which is a big boost for this industry. The Indian Mutual Fund industry, despite having evolved over time, is still naïve in the global context. We still have a long way to go, but with the kind of (matured) retail participation we see now, this industry, we believe, is set for a promising growth.

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