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MARKET DIGEST

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July 2019 Issue:II Vol: 100

SENSEX: 38,337.01 | **NIFTY:** 11,419.25 | **DOW JONES:** 27154.20 | **NASDAQ:** 8146.49 | **USD/INR:** 68.92 | **GOLD:** $1426.70 (Aug 2019 future Contract) | **OIL:** 55.76 (Sep 2019 future Contract)

Stock Picks

Company Name	CPM (Rs)	Target(Rs)
Indusind Bank	1421	1658
Avenue Supermarts Ltd	1426	1578
Manappuram Finance Ltd	129	154

Source: Geojit Financial Services Ltd.

INR Fund Picks

Performance as on 19/07/19

Fund Name		Returns (CAGR) 3Yr	5Yr
Mirae Asset Large Cap	Largecap	13.73	13.68
Reliance Growth	Midcap	9.40	10.62
HDFC Equity Fund - G	Multicap	12.21	9.72
Tata India Consumer	Thematic	14.67	-
SBI Equity Hybrid Fund - G	Balanced Hybrid	10.63	11.87
HDFC Small Cap Fund-G	Smallcap	12.50	13.89
Tata Equity P/E -Reg - G	Value	11.76	12.33
IDFC Core Equity	Large & Midcap	9.58	10.18
HDFC Balanced Adv - G	Balanced Dynamic	12.39	10.68

UAE News

- The Financial Services and Regulatory Authority (FSRA) of Abu Dhabi Global Market (ADGM) initiated a new governance and regulatory regime for robo-advisors. Robo-advisory platforms use artificial intelligence, machine learning and algorithms to offer financial advice to investors based on their willingness and ability to take financial risks.
- Dubai developer Emaar Properties plans to build its first 3D printed home in its Arabian Ranches III project.
- Dubai Land Department (DLD) has granted five-year residency visas to 20 investors who have individually invested over Dhs5m in real estate in Dubai.

Global:

The major averages -- S&P 500 (-1.2%), Dow Jones Industrial Average (-0.7%), and Nasdaq Composite (-1.2%) -- began the week by eking out record closes, but the stock market ultimately looked uninspired during the first week of the second quarter earnings-reporting season. The Russell 2000 lost 1.4%

The S&P 500 communication services sector (-3.1%) was this week's laggard, The real estate (-2.3%) and energy (-2.7%) sectors were added weights on the market. Energy stocks were pressured by oil prices ($55.66/bbl, -$4.55) losing nearly 8% this week, although prices stabilized on Friday after Iran seized a British oil tanker.

Another round of Fedspeak this week affirmed the market's expectations for at least a 25-basis points rate cut at the July 30-31 FOMC meeting. According to a report from The Wall Street Journal on Friday, the Fed is signaling that it will go ahead with the quarter-point cut.

That shouldn't be too surprising considering that economic data didn't convey any strong indications for a sharp rate cut. Retail sales for June increased 0.4%and the Philadelphia Fed Index for July climbed to 21.8

U.S. Treasuries edged higher, pushing yields lower across the curve. The 2-yr yield declined two basis points to 1.82%, and the 10-yr yield declined three basis points to 2.05%. The U.S. Dollar Index advanced 0.3% to 97.15.

Index	Started Week	Ended Week	Change	Change%	YTD %
DJIA	27332.03	27154.20	-177.83	-0.7	16.4
Nasdaq	8244.14	8146.49	-97.65	-1.2	22.8
S&P 500	3013.77	2976.61	-37.16	-1.2	18.7

India:

In the week ended on Friday, 19 July 2019, the Sensex fell 399.22 points or 1.03% to settle at 38,337.01. The Nifty 50 index fell 133.25 points or 1.15% to settle at 11,419.25.

The BSE Mid-Cap index fell 475.54 points or 3.27% to settle at 14,078.34. The BSE Small-Cap index fell 466.23 points or 3.38% to settle at 13,310.35.

Domestic stocks posted their second straight weekly loss as investors sentiment was hurt after the Finance Bill for current financial year was passed in the parliament without any amendments. The Nifty 50 index fell below 11,500 level.

On the macro front, the annual rate of inflation, based on monthly Wholesale Price Index (WPI), stood at 2.02% (provisional) in June 2019.

The all-India general CPI inflation rose to 3.18% in June 2019 (new base 2012=100), compared with 3.05% in May 2019.

India's merchandise exports fell 9.71% to $25.01 billion while imports fell 9.06% to $40.29 billion in June compared with a year earlier.

Finance minister Nirmala Sitharaman on Thursday declined to remove or relax the applicability of the new surcharge on the super rich on foreign portfolio investors (FPIs), but advised those staring at an increase in tax outflows to shift to the corporate structure where the Budget has not made any change in tax treatment.

There are concerns that the increased surcharge on super-rich could also affect foreign funds investing in India since a same tax structures apply for individuals, Hindu Undivided Family (HUF) and Associations of Persons (AOPs).

Investment matters – WHERE, HOW MUCH, HOW LONG?

Financial preparedness is important for achieving various life goals. The importance of financial planning is increasing since, in the modern age uncertainty at various levels of life is increasing. Most individuals have different life ambitions pertaining to different stages. First they would equip themselves for a skilled employment or business. Then they aim for optimizing the salary or income over the earning period; take loans for asset (say, home) purchases; spend on various items and create a lifestyle of their choice; and try to save for the future (saving comes last and that is done by a few). This thinking that salary alone is sufficient to take care of all the future needs is an error of judgment. Random or unplanned investing and too much spending without due consideration for investment will prove very costly in the future.

What decides an individual's financial preparedness for the future? You will get a variety of responses. A closer introspection would reveal that while the income or salary is an important starting factor, it is the investment – where, how much and how long – that eventually decides what we end up with. Income per se does not give the solution, but what we do with the income, matters more. Here we will see few scenarios on the way individuals invest and their outcomes.

By: Mr. Sriram B.K.R., Geojit Financial Services

INVESTMENT— "WHERE" MATTERS"

There are multiple asset classes for investment available for Indians to choose from. There are traditional fixed income options like fixed deposits (FD), Public Provident Fund (PPF0, gold and some evolving market linked ones like equities, mutual funds, etc. As mentioned above, while income is an important factor, where and how we invest the savings decide, how well we are prepared for the future. Let us take an example of two individuals with similar saving propensity to understand this better.

(Unless specified, equities represented by Sensex TRI December Averages; fixed deposits: average 1-3 year rates)

- Anjali had a salary of Rs.20000 per month (2.4 lakh per annum) and Bindu had a salary of Rs.30000 per month (3.6 lakh per annum) in the year 1998. Both were getting 5% increment every year.
- Salary in 2017: Anjali – Rs.50,540 per month (6.06 lakh per annum) and Bindu – Rs.75,810 per month (9.09 lakh per annum).
- Both save 40% of their salary, say at the end of every year (earnings of 1998 is invested at the end of 1998 and so on), for 20 years (1998 to 2018).
- **Anjali follows an asset allocation of 75% into equities and 25% in FD (now, for simplicity) and Bindu invests entire savings in FD**
- Going by the real time data, their investments as of Dec-2018 would be around:
    - Anjali (Asset Allocation) – Invested: Rs.31.74 lakh ; value in 2018 would be Rs.1.23 crore at CAGR: 13.2%
    - Bindu (Only Fixed Income) – Invested: Rs. 47.61 lakh ; value in 2018 would be Rs.99.50 Lakhs ; CAGR: 7.6%

What we noticed:

Bindu earns 50% more income and invests 50% more, than Anjali throughout. Both increased their yearly investment, commensurate with growth in their income. But in terms of value of the investments, Anjali ended up making Rs.23.5 lakhs or 23.62% more than Bindu, primarily because of the choice of asset class for long-term investing. Varied allocation mix could produce different results. In which asset class one is investing his/her income is much more important than what the income is. Post taxation, FD returns would drop further.

INVESTMENT – "HOW MUCH" MATTERS:

Taking a different perspective, the degree of savings makes a difference in the future value of investments. Let's look at how the future value grows for two individuals earning the same salary, but save differently.

- Arun and Sajan had a salary of Rs.30000 per month (3.6 lakh per annum) in 1998. Both get 5% increment every year
- Salary in 2017: Rs.75,810 per month (9.09 lakh per annum) for both
- **Arun saves 25% of the salary and Sajan saves 40% of the salary**
- Both follow asset allocation of 75% in equities and 25% in FD
- Their investments as of December-2018 would be around:
    - Arun – Invested: Rs.29.76 lakh; Value: Rs.1.15 crore; CAGR: 13.18%
    - Sajan – Invested: Rs.47.61 lakh; Value: Rs.1.84 crore; CAGR: 13.18%

What we noticed:

Both earned the same salary and had similar increment. Arun saved 15% gross or 38% effectively less than Sajan. Eventually Sajan ended up making Rs.69 lakhs or 60% more than Arun. Essentially this is the power of inclination to save. The more you save and invest, the more you will benefit in the long-term. This is the outcome even when both adopted the same asset allocation (with equities).

IN ANOTHER VIEW:

See how the future value grows for two individuals earning the same salary, in this scenario:

- Chithra and Dhanya had a salary of Rs.30000 per month (3.6 lakh per annum) in 1998. Both get 5% increment every year.
- Salary in 2017: Rs.75,810 per month (9.09 lakh per annum) for both
- **C saves 40% of the salary every year and D started with 40% of the salary in first year and did not increase it there after.**
- Both follow asset allocation of 75% in equities and 25% if FD
- Their investments as of December-2018 would be around:
  - Chithra – Invested: Rs.47.61 lakh; Value: Rs.1.84 crore; CAGR: 13.18%
  - Dhanya – Invested: Rs.28.80 lakh; Value: Rs.1.38 crore; CAGR: 13.36%

What we noticed:

Chithra and Dhanya both started off by saving 40% of their income. Chithra kept it intact over years, meaning the amount of savings was in line with rising income. But Dhanya did not increase the savings commensurate to her income growth. What started off as 40% savings of the salary in the first year ended up with 16% (Rs.12000/Rs.75810) of salary in the 20th year. Most of the existing equity investors fall in this zone. While on one side the existing portfolio grows well over the years, the opportunity to grow higher commensurate to the potential is missed. Dhanya ended up Rs.46 lakhs lesser than her potential, given the same asset class performance.

INVESTMENT – "HOW LONG" MATTERS:

In the world of investments, duration is a very important factor. Let's understand this with the help of two individuals saving for different durations at a common rate of return.

- Raj and Dileep save Rs.100000 each and increases it by 5% every year. Expected rate of return: 12% per annum.
- **Dileep started in 1998 and invested for 20 Years and Raj started 5 years late and invested for 15 years**
- The value of their investments in December-2018 would be:
  - Raj – Invested: Rs.21.58 lakh; Value: Rs.54.31 lakh; CAGR: 12%
  - Dileep – Invested: Rs.33.06 lakh; Value: Rs.1.12 crore; CAGR: 12%

What we noticed:

Both Raj and Dileep were investing the same amount of money and increasing it as well. But a delay of just five year cost Raj Rs.57.69 lakh or more than what was saved in 15 years. This is because of the 'Power of compounding". The power of compounding multiplies with time. Longer the duration of the investment, higher would be the potential wealth.

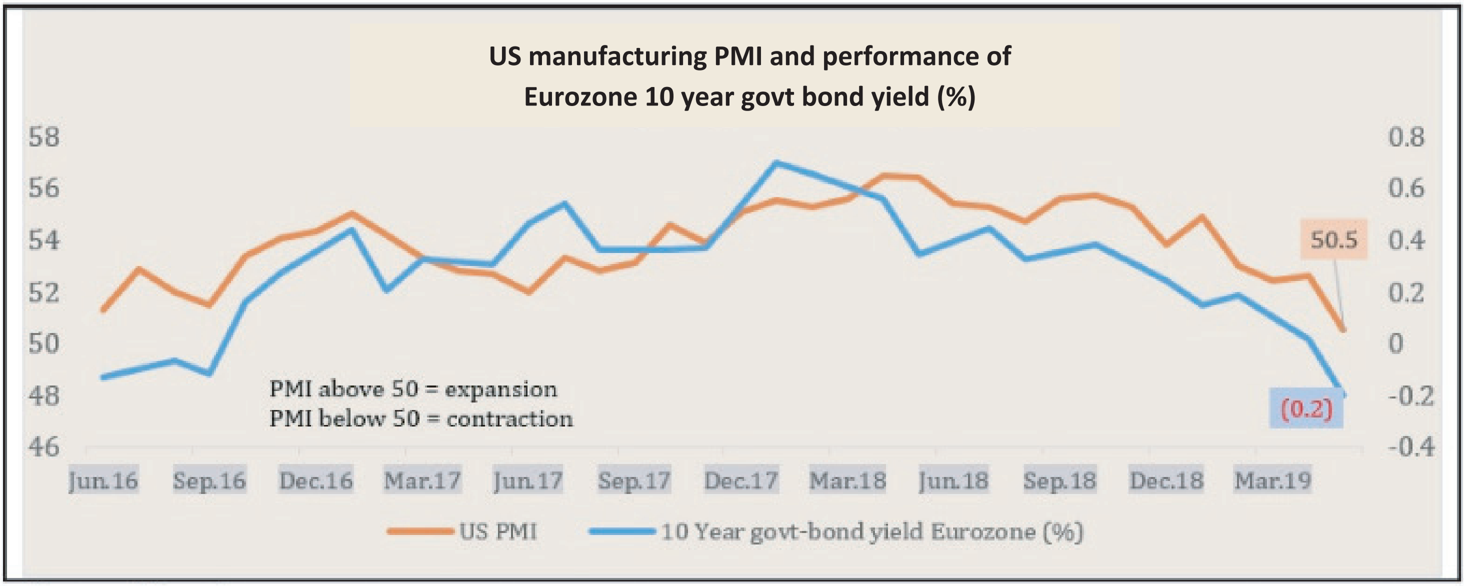
KEY TAKEAWAYS:

- Follow asset allocation. This is the starting point for a better overall investing experience. Study and analyze the risk taking ability, duration of various goals and choose the asset class. Be Risk Aware, but not Risk Averse. Empirical data suggests that equity as an asset class has the ability to out-perform other asset classes in the long-term, but is prone to volatility in short term. Higher allocation to equity in the early working years is advisable. One can reduce the equity component and move more to fixed income as one nears retirement.
- Systematic Investing Plans (SIP) help navigate the volatile market with the cost averaging principle. Don't stop your SIP, when market comes down.
- Invest adequately. Don't start investing with some random small amount and get into an illusion that this will be enough to take care of everything in life. Revisit your spending patterns and try to cut expenses where ever possible and increase your investment propensity.
- Keep a watch on the growth in your income. Ask yourself this question, 'When was the last time you increased your SIP / investments'? Your savings rate and eventually the investment rate should keep pace with the income, so that you don't miss out on the potential to grow your wealth.
- Start early. Never delay investments, especially if it involves compounding effect. Time itself is money and unintended delay will reduce the long-term wealth.

In the words of the legendary investor Warren Buffet, "Don't be proud of your salary. Be proud of your investment".

India can overcome this crisis with real measures...

Post the overwhelming result of the litmus test (election), domestic equity market has shifted its focus to the gloomy reality of domestic and international economy. Since a good portion of the political stability has been factored in the market and economic data was weak, the market turned cautious. The economy needs stimulus and central banks across the world are rushing to provide support to their respective economies. RBI has cut its policy rate three times in its last three policy meets. FED has changed its attitude on interest rate hikes to neutral and is likely to turn accommodative in the latter part of the year. EU is looking for new ways to push liquidity in the second wave of quantitative easing by cutting interest rate in spite of it being so low. The current 10 year yield of Euro area is at -0.2%. EU is also looking at new round of bond purchases.



Source: Bloomberg

In India the pre-election rally was positive with key indices like Nifty50 and Nifty Small caps registering a 10% return in three months. Immediately after the result, the broad market settled for further gains in a couple of weeks which couldn't be sustained due to economic hiccups.

Government is expected to address this issue by providing additional support to the economy through fiscal policy. The RBI is providing monetary stimulus through rate cuts. There are high expectations from the upcoming Union Budget where the main agenda is job creation, government spending, infrastructure, manufacturing, exports and tax reduction. On the other hand, RBI will focus on correcting the country's financial situation by increasing the availability of liquidity at lower credit cost while higher foreign inflows will push the market to higher level in the medium-term. Given the growth agenda of the government, the sectors to do well would be financial, industrial, infrastructure and cement. **India is equipped to survive and grow post this setback**

When we look at the current financial news and developments in the domestic and global economy, we come across a lot of negative facts and figures that scare us from investing in the equity market. In the global market, we hear about a deep slowdown in the world economy with a possibility of recession in the coming years. As a result, the bond yields are falling to new lows (example, US 10-year yield is at a new 52 week low of 2.05% from a high of 3.25%). %). The new devil, "trade-war", is catching the attention of investors and giving out the fear of ruining the benefits of globalization, which is the key basis of today's developed world economy.

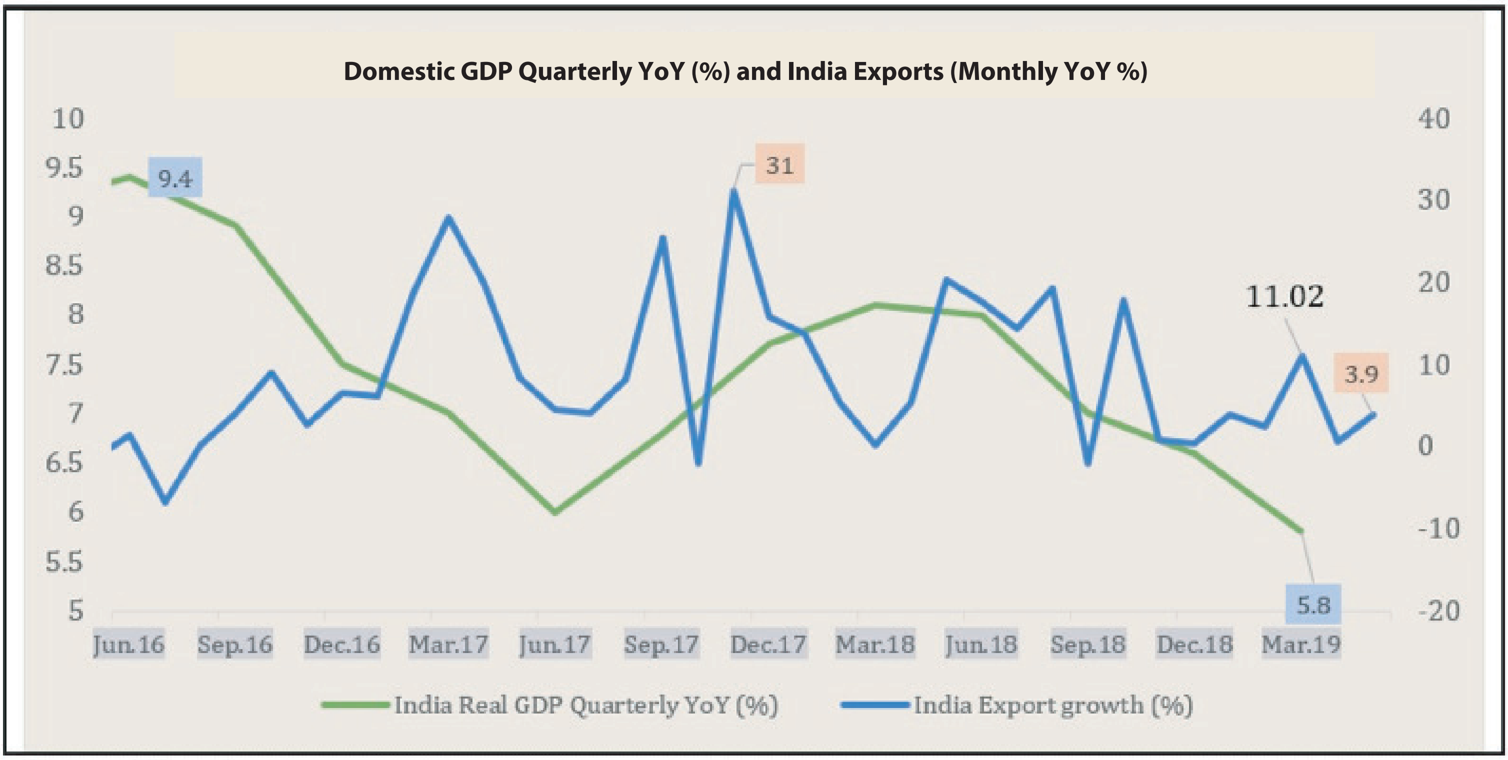
In the last one year, the equity performance of important countries like China, South Africa, Mexico, South Korea and Europe was bad with an average return of -11%. While the US market has been flattish with volatility due to trade tensions and slowdown in economy.

At the same time, in the domestic economy we see rural distress, weakest GDP growth in the last five years, at 5.8% for Q4FY19, the 2nd driest pre-monsoon spell in the last 65years (IMD data during March, April and May), lack of liquidity in banking system, low earnings growth and the most expensive valuation in the last 10years with trading P/E of 25.5x on main benchmark like Nifty50.

Slowdown in Domestic Economy

Overall, the world's wealth has consolidated during the year. The investment patterns got choosier by turning cautious and investing in risk-averse assets. The investment hierarchy was towards debt/bonds, stable currencies, oil and gold. A similar pattern is visible in India where S&P BSE Bond Index is giving a return of 12.8%, Gold with 5%, and INR appreciating by 6% from 52-week low about six months back. While in the case of equity, the approach has been country specific with focus on stable sectors and stocks with a top to bottom approach. In India, the best three performers with average +20% YoY are IT, finance and consumer durables while worst are auto, metals and telecom, while mid and small caps are down by 7 to 18%.

In spite of all thecloudiness, the equity performance of India has been positive with a return of 10% in the last one year till 18th June 2019.



Source: Bloomberg

The other two countries doing well are Brazil and Russia due to an uptick in crude and soft commodities prices. Despite gold being a safe haven asset, assumed to provide safety during such troubled times,it has provided only a muted positive return in the domestic andinternational market.

Though the undercurrent of the economy has been fragile, the market always had a hope that the economy will benefit from the previous reforms while new reforms will be initiated to accelerate growth and increase private investment. Hence, the market was always on premium valuation. The world views India as an upcoming economy, which is led by domestic growth, isolating itself from the ongoing trade tension and might have possible gains. India is likely to benefit from the US-China trade war by exporting more to both the countries. It may open opportunities for India to boost exports of over 350 products, as per a study by the ministry of commerce and industry. Around 151 domestic products including diesel, X-ray tubes and certain chemicals have an outright advantage to replace the US exports to China. Similarly, 203 Indian goods like rubber and graphite electrodes have the advantage to replace Chinese exports to the US. Increasing exports would help India narrow the widening trade deficit with China, which stood at USD 50.12 billion during April-February 2018-19, the study noted.

In the near to medium term, given the limited headroom in valuation, we do not anticipate big growth in the main indices. But at the same time, we have a positive view on mid and small caps led by higher investments from FIIs andmutual funds in the coming period. The short-term headwind in the domestic market could be based on the high expectation from the new government to support the economy while the actual measures are yet to be initiated. The government will have to follow fiscal prudence given the shortfall in financial revenue. It will be a challenge to match this expectation but government may have to stretch the fiscal target in the short-term by higher government spending, which is the need of the hour.

We had a one-year target of 12,000 for Nifty50 on 31st of March 2019 which we have increased to 12,700 post the Q4 results and election outcome, a marginal gain of 7% from Nifty50 of 11,870 date 15th June 2019. Q4 results were mixed, but it was understood that a good portion of these issues are one-time in nature and growth will propel from H2FY20. At the same time outlook has improved for FY20 led by likely revival in H2FY20. We are maintaining positive earnings growth for FY20 and FY21 of 17.5% and 15% growth respectively. We have increased the P/E valuation from 17x to 17.5x given the better stability andprogressive outlook.

We advise our clients to increase their exposure in equity with a larger pie of mid and small caps, in a range of 20% to 40% as per their risk-taking appetite for long-term gains.Large caps may underperform since they are currently valued above the long-term average. Sectors which are investable in large caps are private banks, rural banking, branded NBFCs and consumer durables, retail, aviation and chemicals.

PLANNED YOU SUMMER HOLIDAY? WHY NOT PLAN YOUR **INVESTMENTS** TOO?

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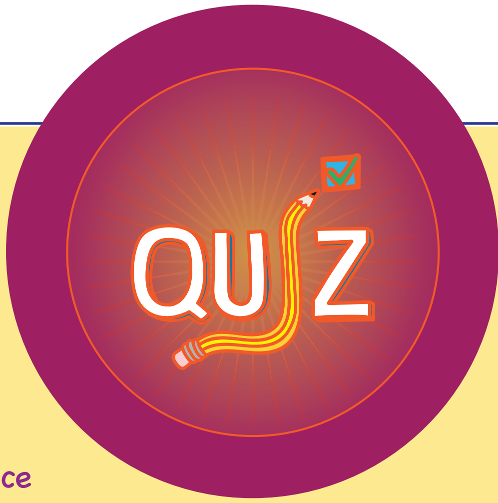

Q: Unscramble the word?

NICLAIFNA LSGAO

Answer to the last quiz:

Q:What is the name of new water conservation scheme announcedby Finance Minister Nirmala Sitharaman during budget 2019 speech? is

a) Jal Jeevan Mission

Share the answer at ***reply@barjeel.ae***

*The answer to the question along with the **Winners Name** will be published in the next issue of Market Digest. All the best!*

Dubai: Tel: +971 4 3060900 Abu Dhabi: Tel: +971 2 4125000 Sharjah: Tel: +971 6 5932000 Al Ain: Tel: +971 3 7648100