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MARKET DIGEST

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June 2019 Issue:II Vol: 98

SENSEX: 39,394.64 | **NIFTY:** 11,788.85 | **DOW JONES:** 26599.96 | **NASDAQ:** 8006.24 | **USD/INR:** 68.95 | **GOLD:** $1413.70 (Aug 2019 future Contract) | **OIL:** 58.47 (Aug2019 future Contract)

Stock Picks

Company Name	CPM (Rs)	Target(Rs)
Avanti Feeds Ltd	352	427
Transport Corp of India Ltd	311	346
JSW Steel Ltd	277	310

Source: Geojit Financial Services Ltd.

INR Fund Picks

Performance as on 28/06/19

Fund Name		Returns (CAGR) 3Yr	5Yr
Mirae Asset Large Cap	Largecap	16.49	14.97
Reliance Growth	Midcap	12.51	11.67
HDFC Equity Fund - G	Multicap	16.38	11.18
Tata India Consumer	Thematic	18.23	-
SBI Equity Hybrid Fund-G	Balanced Hybrid	11.94	12.94
HDFC Small Cap Fund-G	Smallcap	16.14	15.27
Tata Equity P/E -Reg - G	Value	14.77	13.34
IDFC Core Equity	Large & Midcap	12.45	11.08
HDFC Balanced Adv - G	Balanced Dynamic	16.08	11.82

UAE Round Up

- The UAE Purchasing Managers' Index (PMI) grew 0.4 percent to 55.1 in Q1-2019, as compared to Q4-2018, reflecting an improvement in business sentiments and the strength of the UAE economy.
- UAE continues to be an appealing location for expats due to highly competitive compensation packages, falling real estate prices, high safety standards, and a healthy economy.
- Dubai's financial hub launches first half marathon race. Registration is now open for the first City Half Marathon taking place in the heart of the Dubai International Financial Centre.
- A supply and demand mismatch has created a challenging time for the Dubai industrial and warehousing markets, according to new research from real estate advisor Savills.
- The IPO pipeline looks promising in the GCC as nearly 10 companies are aiming to go public in the near future with more than $7 billion (Dh25.7 billion) in fund raising in the offing.

Global:

The S&P 500 declined 0.3% this week, but still increased 6.9% this month to record its best June since 1955. Price action reflected some consolidation in front of the G-20 meeting between President Trump and President Xi after Friday's close.

The Dow Jones Industrial Average (-0.5%) and the Nasdaq Composite (-0.3%) trimmed their monthly gains to 7.2% and 7.4%, respectively. The small-cap Russell 2000 (+1.1%) played catch-up, increasing its monthly advance to 6.9%.

This week's laggards included the defensive-oriented S&P 500 real estate (-2.7%), utilities (-2.1%), health care (-1.2%), and consumer staples (-1.0%) sectors -- most of which had gotten richly valued ahead of end-of-the-quarter rebalancing. Outperformers included the materials (+1.5%) and financials (+1.5%) sectors. The Philadelphia Semiconductor Index climbed 3.4%, bolstered by better-than-feared guidance from Micron (MU).

Louis Fed President James Bullard (FOMC voter) had the market re-calculating its rate-cut expectations this week after he said he didn't think it was necessary to cut the fed funds rate by 50 basis points. Instead, he favored a 25 basis points reduction. This stance from one of the Fed's most vocal doves, who was also the lone dissident in this month's FOMC meeting, tempered growing hopes for a 50 basis points cut next month.

It's still widely expected that the Fed will cut rates, though. Muted inflation pressure indicated in the Fed's preferred inflation gauge -- the PCE Price Index -- and weakening regional PMI readings were the latest data points to assure the market's thinking.

U.S. Treasuries continued to advance, sending yields lower across the curve. The 2-yr yield declined ten basis points to 1.74%, and the 10-yr yield declined eight basis points to 2.00%. The U.S. Dollar Index was unchanged at 96.18. WTI crude advanced 1.8% to $58.38/bbl amid bullish inventory data and lingering U.S.-Iran tensions.

Index	Started Week	Ended Week	Change	Change%	YTD %
DJIA	26719.13	26599.96	-119.17	-0.4	14.0
Nasdaq	8031.71	8006.24	-25.47	-0.3	20.7
S&P 500	2950.46	2941.76	-8.70	-0.3	17.4

India:

In the week ended Friday, 28 June 2019, the Sensex rose 200.15 points or 0.51% to settle at 39,394.64. The Nifty 50 index rose 64.75 points or 0.55% to settle at 11,788.85.

The BSE Mid-Cap index rose 183.75 points or 1.26% to settle at 14,808.34. The BSE Small-Cap index rose 155.09 points 1.1% to settle at 14,239.33. Both these indices outperformed the Sensex.

On the economic front, the 35th GST council meeting took place on Friday, 21 June 2019. The council took a decision regarding location of the State and the Area Benches for the Goods and Services Tax Appellate Tribunal (GSTAT) for various States and the Union Territories with legislature. It has been decided to have a common State Bench for the States of Sikkim, Nagaland, Manipur and Arunachal Pradesh.

The markets regulator Securities and Exchange Board of India (Sebi) on Thursday tightened the disclosure around pledged shares. The regulator has said any promoter whose pledging exceeds 20% of the shareholding or 50% of the promoter shareholding will have to cite reasons for pledging shares.

PSBs have recovered Rs 359496 crore over the last four financial years, including record recovery of Rs 123156 crore during 2018-19. Figures for PSBs include those for IDBI Bank, which was recategorised as a private sector bank by RBI with effect from 21 March 2019.

Challenges before the new government

This May, unlike the normal lackluster Mays ("sell in May and go away"), proved to be very exciting as expected. The NDA got a resounding mandate to rule for another 5-year term. On 20th May the Nifty responded to exit polls by zooming 3.7 percent or 421 points to record the best performance in 10 years followed by profit booking on actual results on 23rd. Both Nifty and Sensex touched record highs. Further trend of the market will depend on corporate earnings, which in turn, hinges on the performance of the economy. If the economy is to accelerate, the new government will have to manage some major challenges that the economy faces and implement the much-needed reforms.

Managing the macro headwinds

During the last five years India has been in a macro sweet spot. The favorable global environment, soft commodity prices, fiscal consolidation and declining inflation strengthened India's macros. Sustained FPI flows helped finance the CAD. This benign environment is unlikely to continue and there are signs of trouble looming on the horizon. The shortfall in tax collections in FY2019 means that the fisc is more expansionary than what the budget figures suggest. The NBFC crisis and the liquidity squeeze in the economy have severely impacted some segments like autos. This has started impacting economic growth.

By: Mr. V.K. Vijayakumar, Geojit Financial Services

Addressing the growth slowdown

The biggest challenge facing the government is the growth slowdown. We might clock a GDP growth rate of around 7 percent in FY 20. This might be one of the best among the large economies in the world, perhaps the best, but would be well below our potential and woefully inadequate to realize our goals. The global economic environment is not favorable with global growth slowing down to 3.3 percent in 2019 from 3.6 percent in 2018 (IMF projections).

When there is a growth slowdown, the standard response is to stimulate growth: through monetary stimulus by the central bank and fiscal stimulus by the government. But monetary stimulus (the RBI reduced rates twice so far in 2019) is not producing the desired effects since monetary transmission is constrained by the liquidity squeeze in the economy. On the fiscal front, high fiscal deficit leaves little elbowroom for the government to provide the stimulus. This calls for structural reforms like land and labor market reforms even while addressing the liquidity squeeze and fiscal concerns.

The slowdown is sharp in segments like autos. But this is cyclical rather than structural and therefore can be managed by addressing the main cause of the problem. A major cause of the slowdown is the NBFC crisis.

The NBFC crisis

During the last several years, the NBFCs have been playing an important role by providing credit to retail and SMEs apart from their traditional strength in the hire purchase market. During the last few years, NBFCs accounted for almost 70 percent of the borrowings in the corporate bond market. The surge in credit growth by NBFCs was helped by the capital constraints experienced by the PSU banks. The NBFCs, in turn, were mainly funded by the mutual funds, which benefited from huge inflows following the financialization of savings triggered by demonetization. The IL&FS crisis and crisis triggered by defaults by some corporate groups have snowballed into a major liquidity squeeze impacting lending in sectors like autos. The RBI has to initiate measures to address the NBFC crisis and ease liquidity. This is absolutely necessary for revival of demand in crucial segments like autos.

The RBI did play a pro-active role by cutting rates twice in succession, liquidity infusion through OMOs and dollar swaps. But more needs to be done to repair the jammed liquidity situation in the system.

Reforms in land and labor markets

As mentioned earlier, it is time the government focused on some important structural issues. Some major constraints in accelerating India's growth rate relate to the land and labor markets. Infrastructure development needs large tracts of land. Fast acquisition of land helped China develop world-class infrastructure in a short period of time. We cannot be like China since Indian laws relating to land and property are different from China's. But the process needs to be speeded up. The prohibitive cost of land also is a constraint.

Similarly labor market needs urgent reforms. With the right kind of labor market reforms India can create large number of jobs in manufacturing. China is now a middle-income country with a per capita income of more than $9000. With rising wages China will be forced to move away from many labor-intensive segments. Vietnam and Bangladesh are exploiting the opportunity created by the exit of China by setting up huge manufacturing capacity. India stands the risk of missing the bus because of her restrictive labor laws. Therefore, reform of the land and labor markets has to be a top priority of the government.

The data transparency challenge

Compilation of data, like the GDP estimates, in a huge and complex developing country like India has always been a challenge. Even though there were academic debates relating to methodology etc in the past, never before has the authenticity of the data been questioned, like presently. Policy decision-making requires authentic data and therefore it is important that the integrity of our statistical institutions is established beyond doubt and crucial economic data becomes transparent and is of high quality. An independent statistical body comprising of highly respected professionals should be entrusted with this task and this should be a top priority for the new government.

Addressing the rural distress

(Rs 82000 crores losses in FY2018) with their huge NPAs have imposed a great burden on the economy and have become a major strain on government's resources. The huge resources spent on recapitalization of PSU banks could have been spent much better and more productively on infrastructure, education and health. Even though the political acceptability of banking sector reforms is doubtful a strong government with political will can pull off a major brave structural reform in this area.

The hope factor

The market in the short-term will be driven by sentiments and in the medium term can be substantially influenced by hope; but in the long run earnings would dictate the market trend. If the government initiates the much-needed reforms, that would lead to turn around corporate earnings and pave the way for sustained earnings growth for an extended period of time. This hope can sustain the bullishness in the market even at high valuations. But at high valuations, the risk of a sharp correction triggered by a domestic or external factors, also is very high. So investors should be guarded. There is room for optimism; but unbridled euphoria is not warranted.

Who Won The Race?

When it comes to investment and savings, most people asset class has yielded maximum returns.
face the dilemma of how to form a portfolio of assets that would help them in maximizing their returns. Unlike in the past, individuals have access to different forms of assets to invest their wealth viz financial and physical assets. Though investment in financial assets is gaining popularity, in India, physical assets viz gold and real estate are still considered to be the most preferred form of investment. As per Reserve Bank of India's Committee on Household Finance (2017), average Indian households hold 84 percent of its wealth in real estate and other physical goods, 11 percent in gold and the rest 5 percent in financial assets.

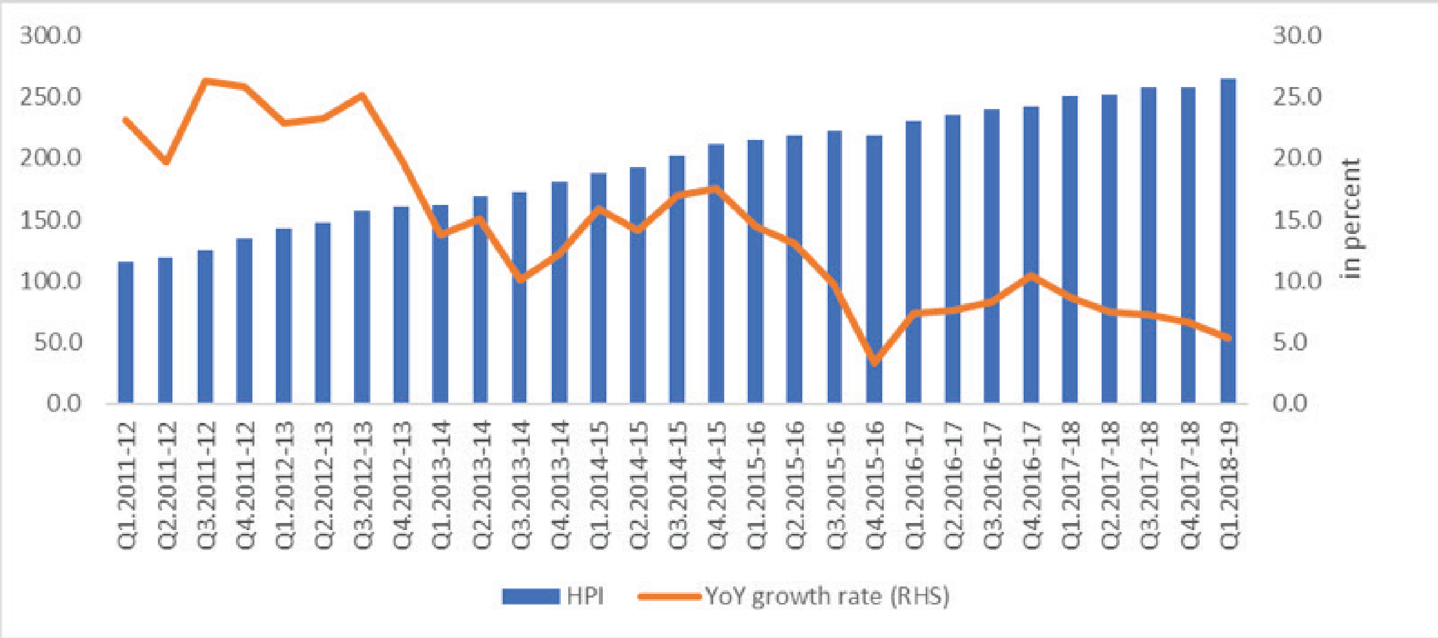
Here, an analysis is done to understand which form of the asset class has yielded maximum returns.

Real Estate Sector

In order to assess the performance of the real estate sector, the movement of the Housing Price Index (HPI) is considered. It could be seen that the YoY growth rate of housing prices has registered a fluctuating trend with the highest rate of 26.3 percent in Q3.2011-12 and the lowest rate at 3.3 percent in Q4.2015-16. However, from Q4.2016-17 onwards a continuous declining trend in housing prices is evident. The YoY growth rate has declined from 10.5 percent in Q4.2016-17 to 5.3 percent in Q1.2018-19.

By: DeepthiMary Mathew, Geojit Financial Services

Housing Price Index



Source: RBI

The YoY growth rate of HPI for the Indian cities also presents a similar picture. The table given below presents the YoY growth rate of HPI for 10 cities from Q1.2011-12 to Q1.2018-19.

YoY growth rate of HPI for Indian Cities

Quarter	Mumbai	Delhi	Bangalore	Ahmedabad	Lucknow	Kolkata	Chennai *	Jaipur	Kanpur	Kochi
Q1.2011-12	34.8	25.9	12.3	30.2	32.9	32.2	-1.5	11.5	14.2	34.9
Q3.2011-12	21.7	48.4	41.6	34.4	26.0	-3.2	17.0	4.5	4.6	-9.4
Q1.2012-13	20.9	39.8	20.4	16.1	15.6	31.3	17.8	6.7	9.3	-18.3
Q3.2012-13	29.4	46.8	1.9	9.8	28.4	57.5	24.3	9.8	-14.5	32.4
Q1.2013-14	8.4	21.2	6.8	15.0	27.5	27.1	16.0	14.1	-28.0	28.5
Q3.2013-14	4.8	5.2	19.9	14.6	20.3	3.5	26.7	7.1	-12.1	38.8
Q1.2014-15	14.5	12.5	26.8	6.9	28.4	12.9	29.6	-6.8	20.6	31.4
Q3.2014-15	12.9	29.4	8.2	8.7	19.5	25.3	7.5	12.8	31.1	-4.5
Q1.2015-16	11.1	22.7	15.5	7.9	16.3	19.1	3.8	10.0	4.9	3.4
Q3.2015-16	11.1	9.8	12.5	10.4	16.1	6.3	8.2	-5.2	7.6	2.0
Q1.2016-17	7.7	3.1	5.9	11.3	16.5	1.6	24.0	-4.4	8.3	15.7
Q3.2016-17	12.9	4.9	9.3	5.1	19.3	7.2	10.5	-5.4	5.0	-1.1
Q1.2017-18	12.2	11.8	3.2	17.1	12.8	7.0	-11.2	4.6	18.1	-5.3
Q3.2017-18	9.2	6.7	0.2	17.9	5.0	5.5	-3.1	16.1	23.3	26.7
Q1.2018-19	7.4	-0.1	7.5	4.5	5.7	1.2	9.6	17.3	11.4	41.2

*Source: Calculated from RBI data (*Chennai index is based on both residential and commercial properties*

When YoY growth rate in Q1.2011-12 and Q1.2018-19 is compared, it could be seen that the growth rate of housing prices in the major cities has registered an unsatisfactory performance. For instance, YoY growth rate of HPI for Delhi in Q1.2011-12 was 25.9 percent and it declined to -0.1 percent in Q1.2018-19. During the same period, the YoY growth rate for Kolkata has declined from 32.2 percent to 1.2 percent. Some cities have also performed well during this period. For instance, the YoY growth rate of HPI for Chennai was -1.4 percent in Q1.2011-12 and 9.6 percent in Q1.2018-19.

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Gold

Gold is considered one of the safest forms of investment. Due to social and cultural factors, Indians have a special sentiment towards gold. The high import of gold is cited as one of the major factors for the country's widening current account deficit. The gold prices, influenced by both domestic and global factors, registered a fluctuating trend in the past years.

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Gold Prices

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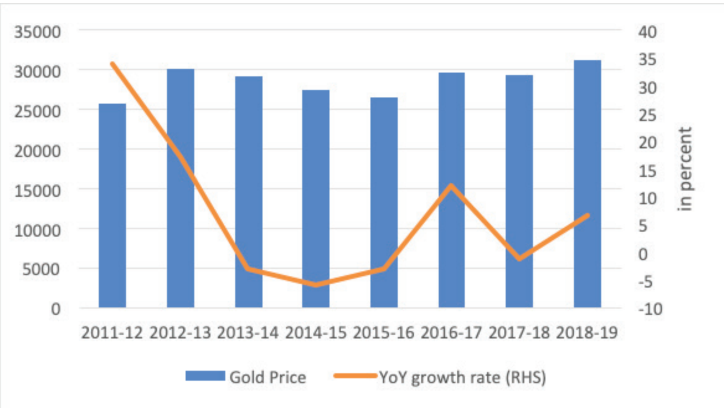


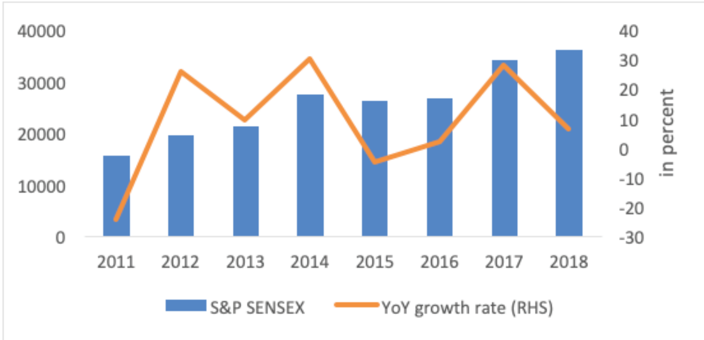
Source: RBI

Between 2011-12 and 2014-15, gold registered a continuously declining trend in YoY growth rate before picking up in 2015-16. Gold quoted its highest price in 2018-19 at Rs 31193 registering a YoY growth rate of 6.46 percent. The lowest growth rate was registered in the year 2014-15 at – 6 percent.

Stock Market

As per the study conducted by NCEAR in 2011, it was found that only 24.48 million households in India invest inbond, debenture, mutual fund, IPO, derivative and secondary market. It shows that only around 10 percent of the total households in India invest in the above instruments. Here the analysis focuses on the performance of the stock market in India. SENSEX is taken as the parameter to assess the performance of the stock market.
S&P SENSEX

S&P Sensex



Source: BSE

S&P Sensex registered a fluctuating trend in the past yearswith the highest growth rate registered in 2014 at 29 percent and the lowest in 2011. The year 2017 witnessed a double-digit growth rate at 27 percentwith SENSEX climbing up from 26626 in 2016 to 34056 in 2017.
And the winner is?
Compound Annual Growth Rate (CAGR) is calculated for the above three assets, to understand which asset yielded the maximum returns for the given time period.CAGR was found to be 3 percent, 11 percent, and 12 percent, for gold, real estate sector and stock market respectively. The numbers show that stock market yielded the maximum returns in the given time period. However, the share of wealth invested by Indian households in the stock market is negligible compared to the share invested in real estate and gold.
With Indian households having their largest share of wealth invested in the real estate sector, the performance of the sector is indeed worrying. With rapid urbanization and large-scale migration to cities, there has been an increasing demand for houses in the major cities. Even in such a scenario, YoY growth rate of HPI is declining.It is important to note that housing prices have registered a single digit YoY growth rate consecutively for the last five quarters.

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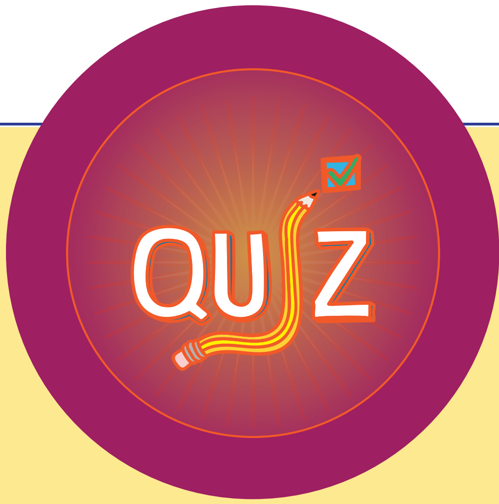

Q: Name the person who presented the budget in 1973-74, which was known as the 'Black Budget' due to the high budget deficit deficit of Rs 550 crore at that time?

Answer to the last quiz:
Q:If a mutual fund is invested in only one sector? is
d) It is narrowly focused

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!*

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