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MARKET DIGEST

KNOWLEDGE POWER. WEALTH ENHANCER

June 2019 Issue:I Vol: 97

SENSEX: 37,462.99 | **NIFTY:** 11,278.90 | **DOW JONES:** 25942.37 | **NASDAQ:** 7916.94 | **USD/INR:** 69.93 | **GOLD:** $1344.5 (Aug 2019 future Contract) | **OIL:** 52.77 (Aug2019 future Contract)

Stock Picks

Company Name	CPM (Rs)	Target(Rs)
Apex Frozen Foods Ltd	268	375
KNR Constructions Ltd	287	324
PNC Infratech Ltd	201	223

Source: Geojit Financial Services

INR Fund Picks

Performance as on 14/06/19

Fund Name		Returns (CAGR) 3Yr	5Yr
Mirae Asset Large Cap	Largecap	16.52	15.04
Reliance Growth	Midcap	13.13	12.86
HDFC Equity Fund - G	Multicap	15.81	10.85
Tata India Consumer	Thematic	18.60	-
ICICI Pru Equity & Debt-G	Balanced Hybrid	13.42	12.41
HDFC Small Cap Fund	Smallcap	16.55	15.64
Tata Equity P/E -Reg - G	Value	15.29	13.83
IDFC Core Equity	Large & Midcap	12.39	11.09
HDFC Balanced Adv - G	Balanced Dynamic	15.50	11.52

UAE Round Up

- The UAE is all set to witness surge in adapting artificial intelligence (AI) within businesses over the next three years, particularly as a growing number of executives look to AI to drive their digital agendas.
- The Dubai International Financial Centre (DIFC) has introduced a new insolvency law, which will place the financial centre in line with best practices and at the forefront of complicated debt restructurings.
- The value of the total real estate transactions in Dubai surged to more than Dh34 billion ( ) during the first five months of 2019, up 33 per cent from Dh24 billion last year, according to Dubai Land Department (DLD).

Global:

The S&P 500 increased 0.5% this week, lifted by shares of consumer discretionary companies as the market remained hopeful for positive outcomes in the Fed's policy decision next week and the G-20 summit later this month.

The Dow Jones Industrial Average increased 0.4%, the Nasdaq Composite increased 0.7%, and the Russell 2000 increased 0.5%.

The week began on a high note as the market was relieved to hear that the U.S. and Mexico reached a deal to avert a 5% tariff rate on all good imported from Mexico. President Trump could still reinstate the tariffs, though, if the U.S. thinks Mexico is not doing enough to stop the flow of illegal migration through its borders.

Growing expectations for the Fed to signal a rate cut and lingering hopes that the G-20 summit can improve U.S.-China trade relations contributed to the positive disposition. As of Friday, the fed funds futures market was seeing an 86.4% implied likelihood of a rate cut in July. Those expectations were bolstered this week by muted inflation pressure in the Consumer Price Index for May.These positive considerations also helped the market withstand geopolitical tensions and weakness in the semiconductor space.

The U.S. blamed Iran for the attack on two oil tankers that were operating near the Strait of Hormuz. Rising tensions helped provide some relief in the price of oil ($52.54, -$1.38, -2.6%), U.S. Treasuries finished little changed. The 2-yr yield remained at 1.84%, and the 10-yr yield increased one basis point to 2.09%. The U.S. Dollar Index advanced 1.1% to 97.57.

Index	Started Week	Ended Week	Change	Change%	YTD %
DJIA	25983.94	26089.61	105.67	0.4	11.8
Nasdaq	7742.10	7796.66	54.56	0.7	17.5
S&P 500	2873.34	2886.98	13.64	0.5	15.2

India:

In the week ended Friday, 14 June 2019, the Sensex fell 163.83 points or 0.41% to settle at 39,452.07, its lowest closing level since 24 May 2019. The Nifty 50 index fell 47.35 points or 0.4% to settle at 11,823.30, its lowest closing level since 23 May 2019.

The BSE Mid-Cap index fell 185.39 points or 1.24% to settle at 14,720.99. The BSE Small-Cap index fell 291.16 points or 1.99% to settle at 14,365.93.

Key domestic indices edged lower on Friday, 14 June 2019 due to selling pressure in FMCG and banks shares.

On domestic front, the annual rate of inflation, based on monthly Wholesale Price Index (WPI), stood at 2.45% (provisional) in May 2019 (over May 2018) as compared to 3.07% (provisional) for the previous month and 4.78% during the corresponding month of the previous year.

India's industrial production (base year 2011-12=100) accelerated to a six-month high of 3.4% in April 2019, from 0.4% growth recorded in the previous month. Also, the industrial production growth for March 2019 has been revised upwards to 0.4% from (-) 0.1% as reported provisionally.

Factors impacting the performance of the Indian Market

The broad indices have been positive in the last three to four months given the pre-election rally in expectation of a strong government which is in-line with market expectation and is likely to define the direction of the market in the long-term. We hold a positive view in the medium to long-term with mid and small caps likely to do better in H2FY20. But now we are identifying few of the factors which could have an impact in the short-term like lack of earnings growth, oil prices and near-term hiccups.

By: Mr. Vinod Nair, Geojit Financial Services

A weaker than anticipated Q4 results…

Market was expecting a bounce in earnings growth starting from Q4FY19. Though low base of Q4FY18 was a factor, market was hoping for revamp in earnings growth led by financial sector, due to reduction in NPA rate, start of credit growth and residing interest rate. But based on Yes Bank result, it seems that the NPA issues are persisting, putting a question in the mind of the investors. Yes Bank reported a big loss of Rs1,507cr for Q4 on account of 9times spike in provisioning and contingencies of Rs3,662cr, which includes a contingent provision of Rs2,100cr provided against potential stressed assets in real estate, media, entertainment and infrastructure sectors of a total tune of Rs10,000cr. Besides the GNPA/NN the gross non-performing assets (GNPA) / net gross non-performing assets (NNPA) have increased to 3.22%/1.86% in Q4FY19 on account of slippages from an airline company and stressed infrastructure conglomerate. It's pretty concerning that the bank's exposure to BB and below rated corporate portfolio has increased to 8.3% compared to 2.2% in March 2018. Bankex is underperforming on concerns that it may replicate to other stocks.

But we understand that this is a stock specific issue, in the industry each bank has its own problems of which many have been identified and corrected while some are under progress, a good portion of which is factored in the market. In the past 2 years, growth of loans & advances by Yes Bank was one of the highest in the banking space, with 34.7% and 53.9% growth in FY17 and FY18 respectively. If we look at other banks, the financial performance is satisfactory for Private Banks and high-end NBFCs but overall marginally lower while performance of PSUBs is weak except SBI. We are very positive on financial sector and expect to outperformer strongly in the coming year.

Overall the market was hoping for 20% growth in earnings and till date 15th May it is marginally below expectation. The weakest performers are Auto, Metals and Energy. Financial and FMCG are mixed while best performers are cement and IT sector.

Global worries…

Oil prices have been upwards since the year from $50 to $72. The end of US waivers on oil imports from Iran has led to rise in oil prices, a key issue for the domestic market in the last two months. Market is expecting rise in OPEC output but with prospective risk due to rise in tensions between US and Iran, and other geo-political issues in Iraq, Libya and Venezuela.

While consolidation in the global market impacted the trend of domestic market, global economic data had turned poor. As a result FOMC, had turned more dovish in recent policy meetings, hinting no change in interest rates during 2019 due to economic concerns. However, a better than expected US 1st quarter GDP growth of 3.2% kept the investors to check on the upcoming policy, whether FED could re-think its projection with risk of increase or change in quantitative measures. But positively, FED has maintained its stance and consensus view is status quo in CY2019. Weak US inflation and US-China trade concerns is giving a mixed bias to investor's sentiment.

US market is down by 5% during the month of May due to US-China trade clash. Markets had hoped that there will be a deal by the end of April. But talks failed in the end of last week, with US imposing a hike in tariff from 10% to 25% on $200 billion worth of Chinese products applicable from 1st May onwards. China retaliated with 25% tariff on $60bn US product imports.

There are speculations regarding this issue and whether this punitive action can expand further. The U.S. Trade Representative is taking steps to prepare and slap tariffs on the remaining Chinese goods coming into the U.S. We also have allegations from US stating that Chinese are moving away from the concessions, leading to fear whether China is fine with this trade war. Well, based on official statements we can expect a better clarity on this issue in the coming three to four weeks. There are views that trade war will become worse before getting a deal, which we are seeing today. The consensus is that a deal will be achieved given the larger interest of respective nations and world.

A strong election rally while the economy is weak

In the last two to three months, Indian equity market has been in exuberance due to higher liquidity from FIIs while inflows from domestic institutions and retail have been subdued. Though FII inflows have been positive, all the investor classes are waiting for the final electoral decision. FIIs had turned negative in the month of May ahead of the final result.

Net Inflow

	FII	DII
Dec-18	2,300	376
Jan-19	-505	2,147
Feb-19	15,328	-566
Mar-19	42,668	-13,930
Apr-19	10,729	-4,219
May-19	-1,834	7,240

The domestic market went into a profit booking mode, post a good pre-election rally and nearing the event risk. It was believed that a good portion of the outcome was factored in the market assuming a clear mandate. Nifty50 had made a new high of 11,850 dated 18th April, which is 12% up from the low of 10,597 dated 19th February. A deeper consolidation started from 3rd of May as pre-election rally faded by the last phase of the election. Continuous political dramas, different views in many types of poll surveys and notably what will be the end result and its implication to the market alerted the investors to turn cautious in the short-term, till the event risk is digested. At the same time performance of India was also impacted due to dearer valuations led by lack of earnings and economic growth.

FIIs have been very positive on emerging market YTD, but India was underperforming with a dollar-based return of 5% while MSCI-EM index is up by 10% led by China and Russia with 20% return. FIIs too are waiting for the final decision to invest in India post the event with a certainty. We had a view that, if we have a clear mandate to form a stable government, it will have a positive reaction extending the pre-election rally due to higher inflows from FIIs and domestic institutions. Accordingly, the market went to a new high of 40,000 on Sensex given the larger than expected mandate in history.

This positive trend is likely to continue in the long-term while in the short-term we can expect some consolidation given overboard valuation and economy yet to pick up. Also, the recent economic data has been weak and it may take another two to four months more for the economy to stabilize. This mandate is not going to change the economy immediately and start to control the market's momentum. Being stock specific with a bottom-up-approach and choosing quality names and brands will be a safe investment strategy in such times. The sustainability of the ongoing election rally will depend on the measures given in the full budget and global factors. In the long-term we continue to be positive in which mid and small caps are likely to do better in H2FY20.

Sectoral Indices	Performance (%) *			
	1M	3M	6M	1Yr
Media	-15	-10	-15	-37
Auto	-12	-3	-14	-30
PSU Bank	-12	8	-1	4
Metal	-12	4	-18	-25
Realty	-11	12	12	-17
Power	-11	3	-6	-14
Pharma	-9	-1	-7	2
Private Bank	-7	5	8	5
Infrastructure	-6	5	-3	-11
Capital Goods	-5	6	-6	-9
Telecom	-5	1	-1	-19
Energy	-5	4	8	9
FMCG	-4	-0.4	1	3
IT	-2	-0.2	10	17
Consumer Durables	0.1	11	16	9

Source: Bloomberg, *as of 15 May 2019

Focus on governance

The political uncertainty, which has been plaguing the markets for long, is over and we have a new government in office. The people of India have given a clear mandate for the NDA to rule the country for a second term. It is time to leave political acrimony behind and focus on governance. Let us hope that the new government will rise to the occasion and focus on fixing the economy and accelerating growth.

The market responded to the exit polls with best-in-ten-years single day rally with the Sensex vaulting by 1422 points on 20th May followed by profit booking on the results day. The important question now is: will the rally sustain? The major factor constraining a sustained bull-run in the market is the poor earnings growth. During the last five years, even though the nominal GDP growth has been impressive, earnings growth has been tepid, resulting in high valuations. If the market is to move to a higher orbit and sustain there, earnings have to improve. The big question, therefore, is what the new government can and will do to stimulate growth and support earnings.

There are factors beyond any government's control. For instance, if the trade skirmishes between US and China aggravate into an all-out trade war, it will impact global trade, global growth, earnings and markets. It is important to understand the fact that there is a huge overhang of liquidity globally – the consequence of the QE implemented by the Fed, ECB and BoJ following the global financial meltdown of 2008 and the global recession that followed. Economic crises, like a full-blown trade war between US and China, can trigger shifts in this humungous liquidity, roiling equity and currency markets globally. Governments should be guarded against such eventualities, particularly since leaders of some powerful nations are exceptionally strong men wielding enormous power. Yet another potential destabilizing factor is crude. Sharp spikes in crude, as we have experienced in the past, have the potential to trigger India's 'twin-deficit problem' - high fiscal and current account deficits – thereby impacting economic growth, corporate earnings and the market.

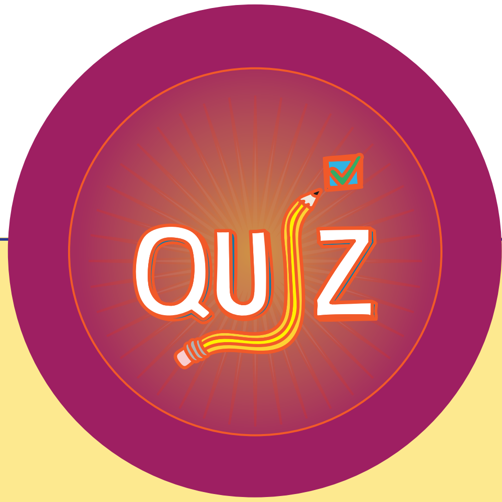
Even while preparing to manage such eventualities, if the need arises, the new government should focus on improving governance and accelerating growth. The short-term trend of the market will be influenced by global factors like the trade skirmishes and domestically by the actions and policies of the new government. There is every reason to remain bullish on India. The economy is strong enough to overcome the short-term headwinds and cruise towards sustained long-term growth, which will take the market to much higher levels. Therefore, unmindful of the short-term volatility, investors should remain invested and continue to invest systematically.

The cover story of this issue is on ''Challenges facing the new government". Governing a huge and complex country like India with its incredible diversity and plurality requires tolerance, vision, wisdom and a high level of political sagacity and managerial competence. Let us hope the new government will rise to the occasion and wish the PM and his team all the very best.

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

SIP

Start Early + Invest Regularly = Power Saving



Q16: If a mutual fund is invested in only one sector

a) It is broadly diversified
b) It has a high P/E ratio
c) It is classified as low risk
d) It is narrowly focused

Answer to the last quiz:
Q:Which portfolio has the most aggressive risk level? is
a) 80% stocks, 20% bonds

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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