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Barjeel Driven by Trust بارجيل عنوان الثقة

MARKET DIGEST

KNOWLEDGE POWER. WEALTH ENHANCER

March 2019 Issue:I Vol: 91

SENSEX: 38,024.32 | **NIFTY:** 11,426.85 | **DOW JONES:** 25848.87 | **NASDAQ:** 7688.53 | **USD/INR:** 68.96 | **GOLD:** $1302.90 (Apr 2019 future Contract) | **OIL:** 58.82 (May 2019 future contract)

We are delighted to announce the appointment of Krishnan Ramachandran, our CEO, as the Vice President of Indian Business & Professional Council, Dubai.
IBPC is the body that promotes economic co-operation including trade, commerce, investments and other economic and financial flows between the UAE and India.
Congratulations on his well-deserved success!

Stock Picks

Company Name	CPM (Rs)	Target(Rs)
Hero Motor Corp Ltd	2755	3090
Tech Mahindra Ltd	782	899
Mold-Tek Packaging Ltd	264	312

Source: Geojit Financial Services

INR Fund Picks

Performance as on 12/03/19

Company Name		Returns (CAGR) 3Yr	5Yr
HDFC Top 100 - Growth	Largecap	17.93	14.84
HDFC Mid-Cap Oppor	Midcap	16.38	20.44
HDFC Equity Fund	Multicap	18.19	15.61
Tata India Consumer	Thematic	22.68	-
ICICI Prudential Equity & Debt	Balanced Hybrid	14.87	15.62
HDFC Small Cap	Small	22.26	20.21

UAE Round Up

- Dubai International (DXB) has retained its top position in terms of international passenger traffic and third largest for total passenger traffic in 2018. It handled 88.88 million international passengers.
- UAE Central Bank foreign currency assets hit $94.82bln in January. The total foreign currency assets held by the Central Bank of the UAE indicated a growth of 6.7%
- A wholly-owned subsidiary of the Abu Dhabi Investment Authority (ADIA) has entered into a binding deal with India's Reliance Infrastructure (RInfra) to take over latter's highway project, Delhi-Agra Toll Road Pvt Ltd. The acquisition deal with Singapore-based Cube Highways and Infrastructure III Pte Ltd is pegged at $519 million.

Global:

The S&P 500 gained 2.9% this week in a buy-the-dip trade that was supported by a sidelined Federal Reserve, persistently low U.S. Treasury yields, and a weakening dollar. In addition, key leadership from Apple (AAPL) and semiconductor stocks helped the S&P 500 set a new high for 2019 and close at its highest level since Oct. 10.

The Dow Jones Industrial Average gained 1.6%, Nasdaq Composite gained 3.8%, and the Russell 2000 gained 2.1%.

10 of the 11 S&P 500 sectors finished notably higher with gains ranging from 1.7% (materials) to 4.9% (information technology). The industrials sector underperformed with a gain 0.3%

Soft economic data throughout the week contributed to the belief the Fed will stay put, which helped keep U.S. Treasury yields at persistently low levels

The 2-yr yield remained unchanged at 2.44%, and the 10-yr yield declined four basis points to 2.59% -- both near their lows for the year. The lower rates, along with a patient Fed, remained a supportive consideration for risk assets.

The U.S. Dollar Index lost 0.8% to 96.56.

UK Prime Minster May's plan for Brexit did not win approval in the British Parliament, yet Parliament did vote in favor of extending the Brexit deadline until June 30 at the latest. Lawmakers still need to agree on an alternate deal, and the delay still needs to be approved by all 27 member states of the European Union.

Index	Started Week	Ended Week	Change	Change%	YTD %
DJIA	25450.24	25848.87	398.63	1.6	10.8
Nasdaq	7408.14	7688.53	280.39	3.8	15.9
S&P 500	2743.07	2822.48	79.41	2.9	12.6

India:

In the week ended Friday, 15 March 2019, the Sensex rose 1352.89 points or 3.69% to settle at 38,024.32. The Nifty 50 index rose 391.45 points or 3.55% to settle at 11,426.85. The BSE Mid-Cap index rose 367.31 points or 2.48% to settle at 15,171.52. The BSE Small-Cap index rose 308.12 points or 2.12% to settle at 14,837.18.

On the macro front, the annual rate of inflation, based on monthly WPI, stood at 2.93% (provisional) for the month of February 2019 (over February 2018) as compared to 2.76% (provisional) for the previous month and 2.74% during the corresponding month of the previous year. Build up inflation rate in the financial year so far was 2.75% compared to a buildup rate of 2.56% in the corresponding period of the previous year. The data was released during market hours on 14 March 2019.

Industrial production and inflation data was released by the government after market hours on 12 March 2019. India's industrial production (base year 2011-12=100) rose at slower pace of 1.7% in January 2019, compared with 2.6% growth recorded in December 2018. The industrial production growth for December 2018 has been revised upwards from 2.4% increase reported provisionally

The all-India general CPI inflation rose to 2.57% in February 2019 (new base 2012=100), compared with 1.97% in January 2019. The corresponding provisional inflation rate for rural area was 1.81% and urban area 3.43% in February 2019 as against 1.22% and 2.91% in January 2019. The core CPI inflation eased to 5.29% in February 2019 compared with 5.35% in January 2019.

Meanwhile, Lok Sabha elections will be held in seven phases from April 11 to May 19 and counting will take place on May 23. However, elections for the Jammu and Kashmir Assembly, will not be held along with the Lok Sabha polls due to security reasons, the Election Commission said on Sunday.

Data analysis suggests investing before the general election

"Though elections have never impacted the long-term trend of the market, they do have important short-term implications. Last month, after a long-time, the market attempted to cross into a new zone, but held its sentiments, perhaps to see the final outcome of the crucial general election, which many believe will have a long-lasting implication on the country's political stance. We believe that this short-term trend will have a slight inclination to the election outcome rather than to the continuity of reforms and global factors.

By: Geojit Research Desk

We feel that these uncertainties will be over in a few months and the market will start responding to fundamentals.

Currently investors are cautious on India

Index	1Year	2Year	3Year	4Year	5Year	10Year
S&P BSE SENSEX INDEX	4.4%	26.4%	54.4%	22.9%	75.8%	296.3%
Nifty 50 1.7% 22.0%	52.2%	21.7%	77.3%	287.1%		
NIFTY Midcap 100 -18.6%	0.8%	39.5%	24.0%	116.1%	389.5%	
NIFTY Smallcap 100	-32.2%	-12.3%	29.2%	2.7%	81.7%	282.7%

India Return (INR terms)

Performance of Emerging Markets (USD Terms)

Emerging Markets	1Year	2Year	3Year	4Year	5Year	10Year
BRAZIL	0.9%	22.0%	160.3%	47.1%	30.1%	52.8%
RUSSIA	-6.4%	0.3%	65.9%	32.2%	-12.1%	111.0%
INDIA (Nifty 50)	**-8.9%**	**14.3%**	**45.9%**	**5.9%**	**53.7%**	**169.3%**
CHINA	-21.2%	-15.4%	-9.0%	-23.2%	13.5%	16.8%
SOUTH AFRICA	-24.2%	-3.2%	23.1%	-15.0%	-10.0%	98.1%
MSCI EM	**-14.3%**	**10.3%**	**40.9%**	**4.7%**	**7.7%**	**97.9%**

Developed Markets	1Year	2Year	3Year	4Year	5Year	10Year
US	2.7%	26.2%	59.8%	43.6%	60.2%	229.7%
UK	-8.4%	2.7%	11.1%	-11.5%	-16.5%	62.3%
Germany	-17.3%	2.4%	25.2%	2.7%	-3.7%	140.0%
Japan	-6.0%	12.4%	34.1%	24.3%	34.5%	128.5%
SOUTH AFRICA	-24.2%	-3.2%	23.1%	-15.0%	-10.0%	98.1%
MSCI Developed Market	**-3.0%**	**13.3%**	**36.0%**	**17.9%**	**25.2%**	**159.4%**

Performance of Developed Markets (USD Terms)

Source: Bloomberg, As on Feb 15th, 2019

India's long-term performance is very solid, second only to the US market; but the last one-year return has been negative. In the very short-term, India has started to underperform emerging markets with a huge gap. Three and six-month return of MSCI-India is 0.2% and -9.5% respectively compared to 4.5% and 0.8% by MSCI-EM.

India is underperforming other emerging markets due to a set of domestic developments which has impacted the market. Muted quarterly results have not enthused the market, which is indicating that earnings forecast will be cut at least in the near future. Nifty50 PAT growth is about 7% on a YoY basis which means the nine-month EPS growth will be at 9%, while the market was hoping for 15% for FY19, leading to downgrade in earnings. SEBI has tightened the margin funding requirement in anticipation of higher volatility in the near future due to the interim budget and the general election. Also, other stringent measures of SEBI relating to small and microcap like ASM and investment by mutual funds in such stocks have impacted their performance. Nifty is facing stiff resistance at the level of 10,950, and trading between a narrow range of 10,600 to 10,950.

Equity investment by foreign and domestic institutions

FIIs in Equity (Rs cr)		DIIs In Equity (Rs cr)	Other Inst. in	Total DII
	Equity	MFs in Equity	Equity	
Q1FY17	11,644	6,266	(3,625)	2,641
Q2FY17	30,461	6,115	(14,577)	(8,462)
Q3FY17	(31,222)	31,783	3,523	35,306
Q4FY17	44,220	11,262	(9,974)	1,288
Q1FY18	11,688	29,708	(9,656)	20,052
Q2FY18	(19,379)	47,198	(5,181)	42,017
Q3FY18	16,355	30,404	(2,927)	27,477
Q4FY18	13,607	34,460	(9,554)	24,906
Q1FY19	(18,447)	34,144	3,568	37,712
Q2FY19	(10,222)	19,652	(112)	19,540
Q3FY19	(19,100)	32,203	(4,993)	27,210
Q4FY19*	2,062	10,368	(6,655)	3,713

*Source: Bloomberg, *Data till Feb 14, 2019*

FIIs have been cautious on India in the last one year due to premium valuation and lack of earnings growth. But MFs supported the market aided by strong inflows from retail investors. However, during the last 45 days of Q4 FY19 the inflow was much below the average of last eight quarters. Other institutions like insurance and banks continue to have negative flows.

Investment by retail investor through MF

Net Inflow/outflow in MF (Equity) Rs cr				
	Equity	ELSS- Equity	Balanced Fund	Total Inflow into Equity
Q1FY17	8,257	1,222	3,742	13,221
Q2FY17	30,461	6,115	(14,577)	(8,462)
Q3FY17	(31,222)	31,783	3,523	35,306
Q4FY17	44,220	11,262	(9,974)	1,288
Q1FY18	11,688	29,708	(9,656)	20,052
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Q3FY19	(19,100)	32,203	(4,993)	27,210
Q4FY19*	2,062	10,368	(6,655)	3,713

*Source: AMFI, *Data till Jan 31, 2019*

Inflow from retail investors through mutual funds had peaked in Q2FY18. This declined by four-tenth by Q3 FY19. The trend for Q4FY19 looks subdued further based on January 2019 data. This is excluding SIP data which continued to increase to an all-time high of Rs8, 064cr in January.

Constructive effect of interim budget and RBI policy

We had muted expectations from the interim budget and monetary policy which were actually better than expected. Market attempted to stretch its gains and move to a new level. Nifty50 crossed 11,000 for the first time which saw a stiff resistance in the last three months. Even though main indices like Nifty50 were positive, the broad market was negative impacting the wealth of small investors. Few segments have done well like IT (9%), consumer durables (5%), banks (2%) and FMCG (1%). It is skewed to domestic focused companies, oriented to consumption like FMCG, consumer staples, discretionary and private banks. IT stocks are doing well due to the cautious nature of the market given the downgrade in earnings, as economy is slowing down while sector outlook has improved and INR is depreciating. Bargain opportunities emerged in interest sensitive stocks like auto and finance due to dovish policy stance.

The budget was watched on three factors: 1. What will be the sops for small farmers and how big will they be? 2. What will be the incentives for the common man? and 3. Will it be fiscally prudent? Overall it was a fair package including all these factors providing a good signal that event risk is over. Agriculture, rural economy and increase in disposable income were the themes of the budget. Real estate can also benefit given sensible tax measures for individuals and corporates. FY19 deficit was marginally up to 3.4% from 3.3% targeted earlier. This was better than what the market anticipated, which was mentally prepared for 3.5%. The forecast for FY20 has been increased to 3.4% from the earlier target of 3.2%, which is marginally higher than expected.

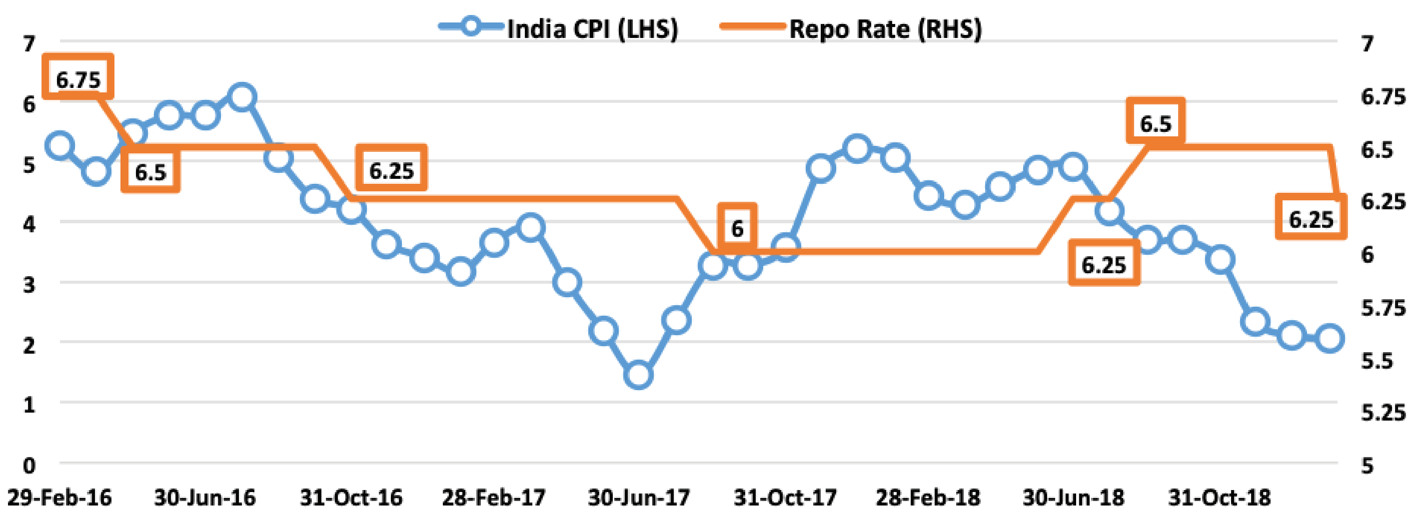
Market's expectation from RBI has been increasing since the new governor assumed office. The last stance was not supporting a rate cut and the market believed that the repo rate was much above the inflation trend. Hence the expectation was that RBI will change its stance from 'Calibrated Tightening' to 'Neutral'. At the same time, the market believed that since the change of guard was very recent, the RBI would avoid a quick turnaround cutting rates. But it completely surprised the market with a 25bp rate cut. The market now expects two more rate cuts of 25 bps each in 2019-20.

A case to gain fabulous returns in mid and small caps in the long-term

Mid and small caps have been underperforming as the risk averseness of the domestic market increased in the last one year. Mid and small caps have been impacted by selling from mutual funds and FIIs due to premium valuation, stringent measures from SEBI, slowdown in the economy and downgrade in earnings. India has been underperforming, within which mid and small caps have been butchered.

The trend of the midcap stocks is expected to be muted in the near-term due to downgrade in earnings and reduction in liquidity. We can expect a reversal in this trend as

Trend of Repo rate & CPI



domestic market stabilizes by the general election with a stable outcome. India's underperformance to emerging markets will also reduce if a positive development in the tional trigger for the market. The ongoing geo-political instability between India and Pakistan due to the terrorist attack is a point of concern for the market

SENSEX									
Election	***Year***	***Before***				***After***			
		1Month	***3Months***	***6Months***	***1Year***	***1Month***	***3Months***	***6Months***	***1Year***
10th Lok Sabha	**1991**	0.0%	11.7%	1.5%	67.4%	8.9%	44.0%	42.2%	142.9%
11th Lok Sabha	**1996**	13.8%	33.2%	10.1%	20.2%	3.2%	6.2%	-15.2%	1.1%
12th Lok Sabha	**1998**	2.0%	-2.0%	-18.5%	-2.1%	7.6%	1.8%	-17.9%	-6.1%
13th Lok Sabha	**1999**	2.9%	16.7%	24.5%	58.3%	-4.5%	6.5%	6.4%	-13.0%
14th Lok Sabha	**2004**	6.6%	0.8%	24.9%	93.7%	-10.7%	-6.5%	6.0%	16.2%
15th Lok Sabha	**2009**	23.5%	17.4%	9.7%	-32.6%	26.8%	25.4%	37.3%	43.6%
16th Lok Sabha	**2014**	1.9%	8.0%	10.3%	21.1%	8.2%	7.6%	18.3%	14.1%
Average		**7.3%**	**12.3%**	**8.9%**	**32.3%**	**5.6%**	**10.4%**	**11.0%**	**28.4%**
Nifty Midcap 100									
Election	***Year***	***Before***				***After***			
		1Month	***3Months***	***6Months***	***1Year***	***1Month***	***3Months***	***6Months***	***1Year***
14th Lok Sabha	**2004**	11.0%	5.2%	39.0%	147.3%	-15.0%	-10.0%	3.6%	26.5%
15th Lok Sabha	**2009**	20.6%	8.8%	-1.6%	-41.8%	37.2%	42.0%	72.4%	96.9%
16th Lok Sabha	**2014**	6.0%	8.9%	18.1%	16.1%	20.2%	17.6%	32.5%	38.8%

Source: Bloomberg, Before 2004 no data available for midcap

Sensex data since 1991 suggest that the best time to invest is one year before the election date. The total average return from one year before to one year after election is a delightful 61%, an absolute return in two years. There were only two occasions of negative returns before the elections: 12th (lack of majority) and 15th Lok-sabha (2009 global crisis) elections in which the best time to invest was one month before the elections. And regarding the negative return after election we have had only two instances - 12th and 13th Lok-sabhas. In all these cases returns were always positive during a total period of 2 years, excluding the instability following the 12th general election.

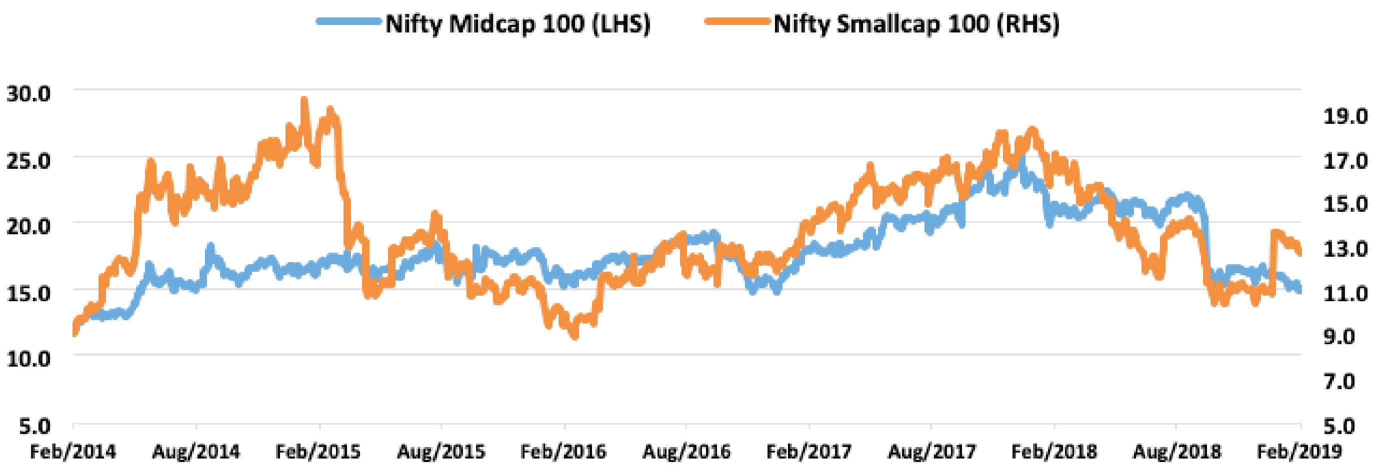
Current return status

	1Month	3Months	6Months	1Year
Sensex	-1.4%	1.0%	- 5.6%	4.4%
Nifty	-1.5%	0.4%	- 6.5%	1.7%
Nifty Midcap 100	-8.3%	-7.4%	-16.6%	-18.6%
Nifty Smallcap100	-11.3%	-8.3%	-23.9%	-32.2%
Source: Bloomberg, As on Feb 15, 2019				

The performance of the last one year has been weak. We feel that elections have a low relation to the performance of mid and small caps. Other than generating short-term volatility due to risk of a slowdown in economic activity and policy decisions, election has never impacted the long-term trend of the market. This time, the pre-election volatility has been high due to unprecedented global factors and non-stop implementation of a bunch of domestic reforms like demonetization, GST and IBC impacting the growth of domestic economy given the short-term disruptive nature of such reforms. In spite of muted earnings growth, the valuations continue to be on the premium side showing the interest of foreign and domestic investors as these reforms are expected to improve the growth of the economy in the long-term.

We feel that the valuations of mid and small cap stocks have become attractive. The current valuation is below the five year average creating an excellent opportunity to invest in mid and small caps using the SIP method to capture potential supernormal gains in the long-term. For example, the one year forward P/E of indices like Nifty-Midcap100 has reduced to 15x from a high of 25x while the low was 13x. The current dull momentum will reverse as the broad domestic economy is expected to improve in the next two to three quarters with stability in the global market.

One year forward P/E of Midcaps



Source: Bloomberg

Thoughts to build on

Financial theory assumes investor as a "rational wealth maximiser". The rational investor takes decisions based on fundamentals and financial reasoning. But, in reality, the investor is far from rational; he/she is often guided by emotions far removed from financial logic. This is the reason why markets often become "manic-depressive", driven by greed and fear. This emotional reaction of investors manifests more in retail investor behaviour. Retail investors are unduly influenced by herd instinct, and therefore, they move with the crowd even when the crowd-behaviour becomes irrational.

Herd behaviour is wrong investment strategy

A significant trend in retail investor behaviour is aggressive buying when the market is bullish. When the market sets new records and stories of investors making fortunes become attention-grabbing news, retail investors jump in and invest indiscriminately, often in low-grade stocks. Then the inevitable crash happens and poor quality mid-and small-caps get slaughtered. In the market crash,blue chips would have become very attractive, warranting selective buying. But retail investors sell everything at huge losses and flee in panic, only to return at the height of the next bull market. Successful investors are mostly contrarians. They buy when the crowd sells, and sell when the crowd resorts to irrational buying. Only a minority of retail investors moves away from the herd. Majority swims with the current and gets lost. The mid- and small-cap frenzy of 2017 was a classic manifestation of this irrational herd instinct. We had warned investors about the bubble in mid- and small-caps and had advised switching to safe large-caps.

Fortunately, there are some signs of healthy trends in investor behaviour. Investors sustaining with their SIPs in mutual funds is a healthy trend. But there are signs of some retail investors stopping their SIPs, planning to restart when bullishness returns to the market. This would be a big mistake. As we have communicated innumerable times, it is impossible to time the market. The only way to make money is through disciplined long-term investment. Sometimes the market will test investors' patience. Remember the saying, "to be successful in the stock market you need only one person's intelligence, but ten person's patience." Let me share with our readers the following trends in the economy and markets and also some random thoughts, which might be useful in managing the market volatility.

India is underperforming global markets

There is a risk-on in global markets in 2019. The most important trigger that ignited this risk-on is the change in the monetary stance of the US central bank. The FOMC meet held during end January not only kept interest rates unchanged, but also indicated that rate increase was on hold due to concerns over global growth. The US 10-year yield fell to 2.66 percent from the high of 3.26 percent during last October and the dollar index weakened.

This dovish Fed stance has facilitated a resumption of investment in risky assets like equity, corporate bonds, EM equities and some currencies. As I write, MSCI US up by 11 percent for CY 2019. MSCI EM Index is up by 7.6%; but MSCI India is down by 4.6%. The underperformance is huge in mid- and small-caps. This underperformance is largely due to the uncertainty associated with the general elections and most recently by fears of escalation of tensions between India and Pakistan following the tragic event in Pulwama

Many retail investors have been catching falling knives

Averaging down would turn out to be a successful strategy if the stock that is falling is a quality stock falling due to some short-term challenges. But if a stock is steadily declining due to structural issues and there is no scope for business revival, the stock should be avoided even if it is available "very cheap." A stock that has corrected by 90 percent is cheap only in optics; in reality the distress price reflects business failure. Unfortunately, retail investors buy these stocks looking only at the price correction. During the last one-year many small-caps have corrected by more than 60 percent; some have corrected even more than that. The correction has been caused by many factors share pledging by overleveraged promoters and corporate governance issues. While institutions have been exiting these stocks, retail investors have been steadily accumulating them. This is like catching falling knives; catchers would bleed.

The HRITHIK dance

Market commentators are now describing the resilience of the Nifty as HRITHIK dance. HRITHIK stands for the seven bluechips – HDFC Bank, Reliance, Infosys, TCS, HDFC, ITC and Kotak Bank. Presently these seven stocks account for 48.5 percent weightage in Nifty. If we add ICICI to this list the weightage would be 53.3 percent. Nifty's impressive performance is due to the strength of these stocks. Most retail investors are not enjoying this HRITHIK dance since HRITHIK is conspicuous by its absence in their portfolios.

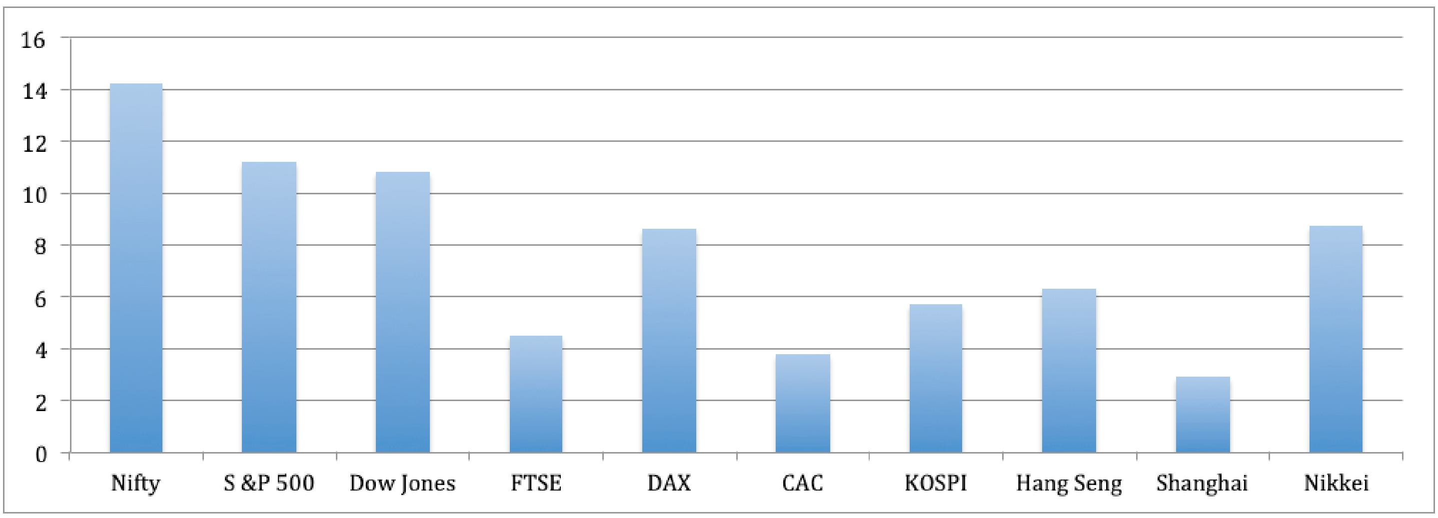
The logic behind the HRITHIK dance is simple. These are high quality stocks with clear earnings visibility. The net profit of these companies in FY 20 is almost predictable and major divergences would be remote. But in the case of most mid-and small-caps this predictability is difficult and the divergence between the expected and the actual can be huge. Consequently, the share prices would react - both positively and negatively- depending on the outcome.

India's long-term outperformance

The short-term underperformance of the Indian market is cyclical. Since the initiation of liberalization in 1991 India's GDP has multiplied more than 10 times and the Sensex has multiplied 36 times. If we take the last 10 years – 2009 to 2019 – India has outperformed other markets. Nifty outperformed other major markets with a CAGR OF 14.2 percent return.

This outperformance will continue. But there will be temporary dips like the present downtrend, which is an intermediate dip in the structural bull market. Patient investors, investing systematically in quality stocks and good mutual funds, will be richly rewarded when the tide inevitably turns.

Decadal performance of Nifty vs other major markets (Jan 2009 to Jan 2019)



Congratulations to our lucky winners

1. Mr. Petro A R Nixon
2. Mr. Luke Mathew
3. Mr. Sameesh Shamsudheen

Q: Which is the oldest known money or currency, still a currency of the modern world?

a) Dollar

b) Shekal

c) Pound Sterling

d) Rupee

QUIZ

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

Congratulations!

Thank you for the quick responses. The early right answer of the quiz was given by:

Mr. Sydney Dias

Mr. Rama Krishna A

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