

Markets – Elections and after

26th Apr 2019



How important are elections

- What happened after the last few elections:

Year	Outcome	Nifty Level around Election Result	Markets one month after the elections	Markets 6 months after the elections	Markets one year after the elections
2014	NDA-II	7,200	4.6%	17.0%	16.3%
2009	UPA-II	4,300	4.5%	16.9%	17.0%
2004	UPA-I	1,700	(13.8%)	9.4%	15.8%
1999	NDA-I	1,400	(1.7%)	4.3%	(7.7%)

Market have given robust returns 1 year post election (except 1999) despite volatility in short term (i.e. 1-month post election)

What are the possible outcomes in this election (and what do we think will happen)

Three possible scenarios	Possible impact on the markets	Remarks
The NDA will come to power	The markets will continue to rally	Much will also depend on opinion polls and exit polls before the actual results
The UPA will win	The markets may witness a short term shallow correction before bouncing back – and will continue to rally	Let us not forget what happened in 2004.
A 3 rd front coalition	The market will witness a sharp and swift correction. The recovery period will depend on a number of factors.	The market may remain subdued for long only if we have an anti-market Government which is opposed to reforms.

These are likely scenarios factors visible till now

Opinion Polls

Polling Agency	Date	NDA	UPA	Others
Republic Bharat / Jan Ki Baat	4th April	310	122	111
TV9 Bharat Varsh / C Voter	2nd April	261	143	139
Times Now / VMR	19th March	283	135	125
News Nation	12th March	273	133	137
Republic TV / C Voter	12th March	264	141	138
India TV / CNX	10th March	285	126	132
Zee 24 / TAAS	10th March	264	165	114
Poll of Polls		277	138	128

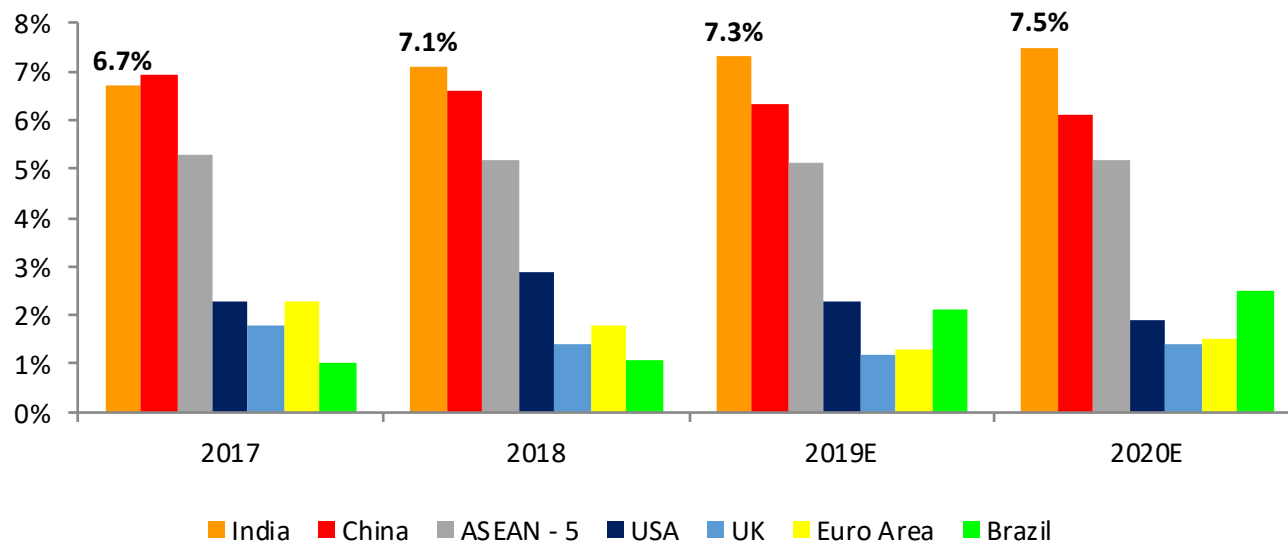
Source: India Today

Prudent Strategy leading up to election results

Important Date(s)	Event	Appropriate Strategy
17 th May 2019	Last Trading day before Exit polls	a) Review Market level b) Valuation check of Portfolio c) Are you properly hedged?
19 th May 2019	Last day of election and Exit polls	It's a Sunday - Relax
20 th May 2019	Market's reaction to Exit polls	Avoid any hasty action as market is likely to be volatile
21 st /22 nd May	Market may remain volatile in case it has not reacted strongly on Exit polls	Be very cautious in buying or selling
23 rd May 2019	Result Day	Avoid any hasty action
24 th May and thereafter	Market may seek a level as per our previous slide	Gradually build your portfolio for the next 5 years

How strong is the Indian Economy

GDP Growth trend – Indian economy to outperform



Source: IMF April 2019 outlook,
ASEAN-5 comprises Indonesia, Malaysia, Philippines, Thailand, Vietnam

Indian Economy standing tall

GDP Growth trend – Indian economy to outperform

	2016	2017	2018	2019E	2020E
India	7.1%	6.7%	7.1%	7.3%	7.5%
China	6.7%	6.9%	6.6%	6.3%	6.1%
ASEAN - 5	4.9%	5.3%	5.2%	5.1%	5.2%
USA	1.5%	2.2%	2.9%	2.3%	1.9%
UK	1.9%	1.7%	1.4%	1.2%	1.4%
Euro Area	1.8%	2.4%	2.1%	1.6%	1.7%
Brazil	-3.5%	1.0%	1.4%	1.3%	3.2%
Russia	-0.2%	1.5%	2.3%	1.6%	1.7%
South Africa	0.3%	1.3%	0.8%	1.2%	1.5%

Source: IMF April 2019 outlook,
ASEAN-5 comprises Indonesia, Malaysia, Philippines, Thailand, Vietnam

Should we buy Large caps or mid caps

What happened in the 1st Term of the NDA Government

Year	2014	2015	2016	2017	2018	YTD	Cumulative
Sensex	30%	(5%)	2%	28%	7%	7%	65%
Nifty Midcap	56%	6%	7%	47%	(18%)	(1%)	93%

As on 31st Mar 2019

What happened in the 2nd Term of the UPA Government

Year	2009	2010	2011	2012	2013	Cumulative
Sensex	81%	17%	(25%)	26%	9%	94%
Nifty Midcap	99%	19%	(31%)	39%	(5%)	124%

Two points to note:

- Over the 5 year period Midcaps gave a better return than the Large caps
- We got a better return from the market during the 2nd Term of the UPA !!

Which sectors are likely to do well

Top performing sectors in the 5 Years of the NDA Government (2014-2019)

Sector	Returns (5 Years CAGR)	Comments
Consumer Durables	30%	Supported by rising disposable income and increasing penetration
Bank	19%	Largely led by private banks which increased market share
IT	12%	Supported by weak rupee, increasing market share and better business models of Indian IT services vendors
FMCG	11%	Supported by rising disposable income and increasing penetration
Oil	10%	De-regulation of prices and hence lower subsidy burden

Top Performing sectors in the last 5 years of the UPA Govt (2009-2014)

Sector	Returns (5 Years CAGR)
Auto	34%
Consumer Durables	32%
IT	31%
Healthcare	29%
FMCG	28%

Which sectors are likely to do well – cntd

Assumptions	Impact
Any government will have to continue the pace of infrastructure development	Domestic cyclicals like Power, Cement and Industrials will be beneficiaries
Inflation and Interest rates will be benign	Banking and Auto will be in focus
Consumption will be supported by rising disposable income	Growth in Consumer Staples and Discretionary will sustain
Indian IT and Pharma will continue to perform in global market	Indian IT and Pharma will be good defensives

How safe is Debt

CATEGORY	1 Year	3 Years	5 Years	Comment
Liquid Fund/UST	6.9%	6.8%	7.5%	We believe RBI will cut rates by 25-50 bps in CY19. Hence returns on these funds may come down.
Short Term	6.7%	7.2%	7.8%	Rate cuts by RBI will reduce yields on the short duration bonds. Hence the returns on the funds may be good.
Corporate Bond	6.7%	7.3%	8.0%	Corporate bonds have a much higher yield currently than govt bonds – and there is scope for softening in their yields. This will lead to higher returns
Long Term Bond	7.3%	8.4%	9.6%	Positive impact of RBI rate cuts limited in case of long term bonds relative to short end of the curve. An easing of crude prices/more aggressive rate cuts could increase the upside.

Returns as on 31st
March'19

- Debt should be an essential part of any portfolio – not just with the objective of getting a better return, but also from the perspective of diversification.
- Don't put all your eggs in one basket
- Choose your option carefully



How safe are other asset classes

- Precious Metals

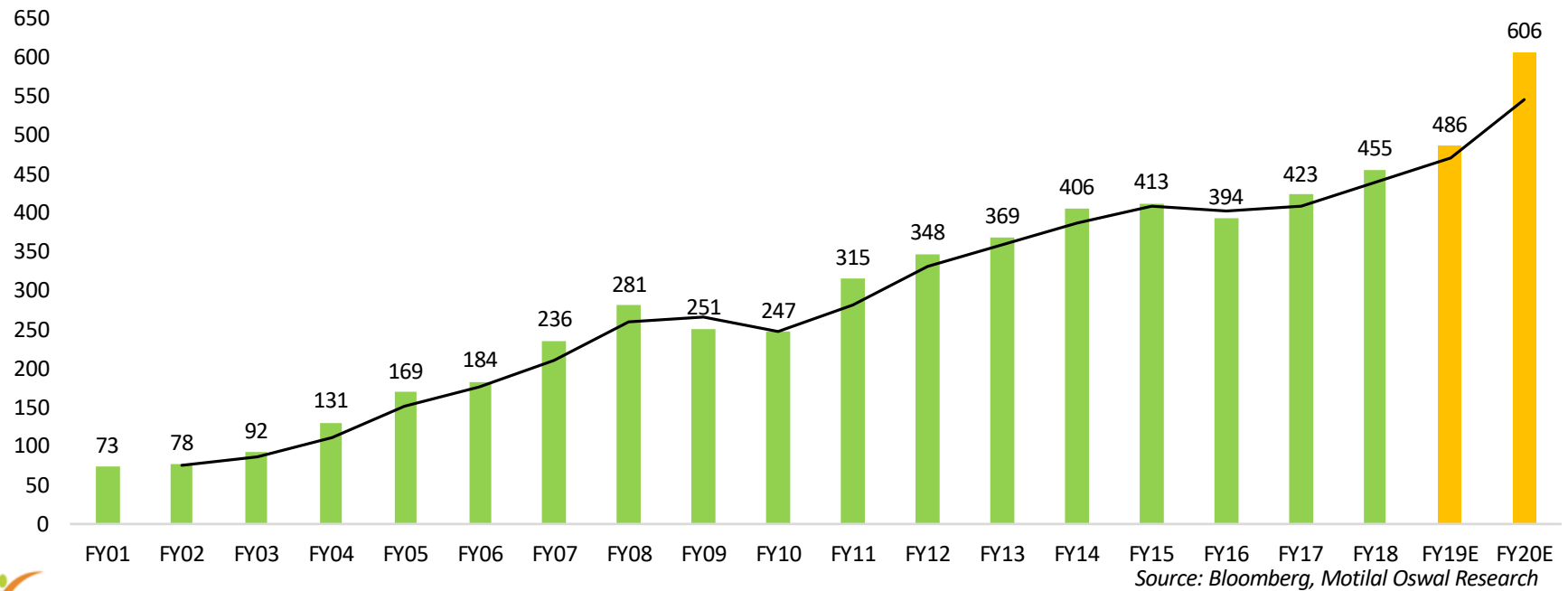
Returns %	1-year	3-year	5-year
Gold	7.2%	8.1%	1.3%
Silver	(1%)	5.3%	(2.4%)

- Real Estate

- Property prices have stagnated or declined in most parts of the country
- Existing inventory will take 10 quarters to be completely absorbed as per a leading Real Estate research company
- RERA has empowered the home buyer but impact on prices is insignificant
- Immediate outlook on real estate is not very strong

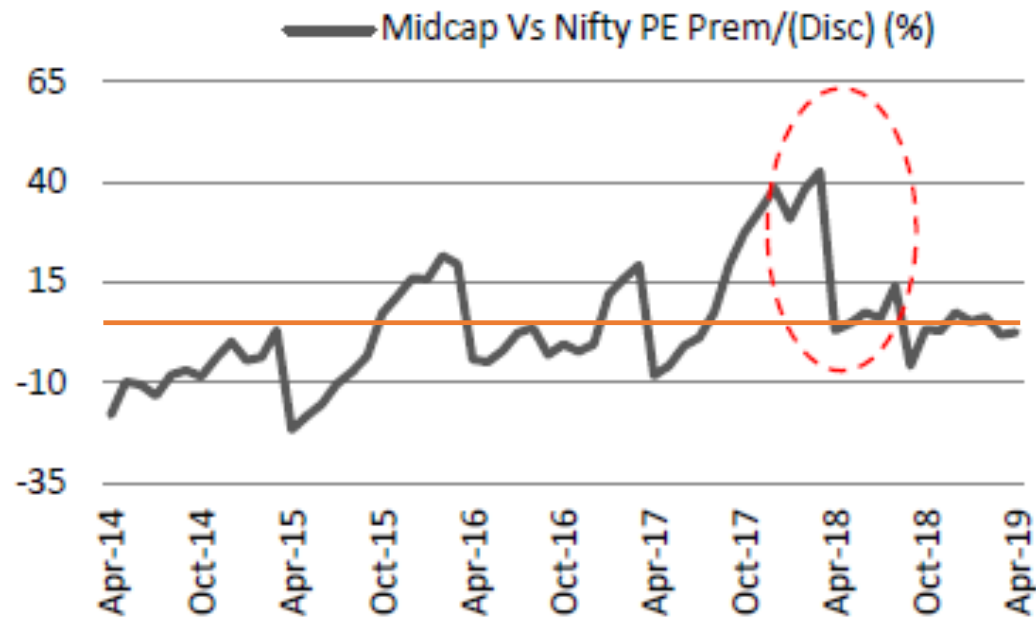
Earnings Check

Nifty EPS Trend – See growth accelerating in FY20



Midcap Valuations attractive

Nifty Midcap100 forward PE (1-year) at just 3% premium to Nifty PE



Nifty Midcap forward PE trading at 3% premium to Nifty PE, below its 5-year average of 5%



Source: Bloomberg, Motilal Oswal Research



LIQUIDITY – FII FLOWS

Equity

(in Rs. Crore)	Jan– 19	Feb – 19	Mar– 19	TOTAL
Gross Purchase	93,108	1,17,900	1,50,058	3,61,065
Gross Sale	97,370	1,00,680	1,16,077	3,14,127
Net Investment	(4,262)	17,220	33,981	46,938

Debt

(in Rs. Crore)	Jan – 19	Feb – 19	Mar– 19	TOTAL
Gross Purchase	28,947	20,896	47,349	97,193
Gross Sale	30,247	26,934	35,348	92,529
Net Investment	(1,301)	(6,037)	12,002	4,664

Total Net FII Flows in Jan- Mar'19

Rs. 51,602 Crore

Source: ACE MF

LIQUIDITY – DII FLOWS

(in Rs. Crore)	Jan– 19	Feb– 19	Mar– 19	TOTAL
Gross Purchase	2,18,447	1,41,831	74,638	4,34,916
Gross Sale	2,30,796	1,56,327	88,569	4,75,692
Net Investment	(12,349)	(14,496)	(13,930)	(40,776)

Source: ACE MF



MF ACTIVITY

Equity	(in Rs. Crore)	Jan- 19	Feb - 19	Mar - 19	TOTAL
	Gross Purchase	57,997	49,384	55,687	1,63,068
	Gross Sale	51,398	42,634	62,125	1,55,887
	Net Investment	6,599	7,020	(6,348)	7,180

Debt	(in Rs. Crore)	Jan- 19	Feb - 19	Mar - 19	TOTAL
	Gross Purchase	2,21,626	1,55,801	3,10,891	6,88,318
	Gross Sale	1,70,846	1,30,136	2,33,696	5,34,679
	Net Investment	50,780	25,664	77,195	1,53,639

Total Net MF Activity in Jan-Mar'19

Rs: 1,60,819 Crores

Source: ACE MF



Source: SEBI



Major events to be aware of:

Domestic

Event	Timeline/comments
Q4 and FY19 earnings	April & May
Election Results	May-23-2019
Full Budget Post Elections	June/July
Monsoon	IMD forecasts normal monsoon and Skymet expects below normal monsoon
Institutional Flows	Post Election Results

Global

Event	Timeline/comments
Iran Sanctions & Impact on Crude	May 2019
FOMC Meeting	June 2019
Bond Yields in US, Developed Markets	Post FOMC Meeting
Earnings Trend in US	April & May
US/Europe GDP forecasts	Economic growth in the key economies (US, Germany and other leading European nations) needs to be closely watched



Navigating the markets

- **Honestly answer the following questions**
 - Are you a patient or impatient investor?
 - Is your asset allocation reflecting your risk profile
 - Is your cash flow requirement dependent on market conditions
 - Commitments cannot be left to chance
 - Look around you and see if it is gloom and doom in the short term or we have along term structural problem
- **If you cannot or will not answer truthfully – take the help of a Financial Advisor**
- **For Patient Investors:**
 - Have seen a strength in the midcap index from mid Feb 2019. We hope that patient investors will be satisfied with returns from their mid/small cap funds in 2019
- **For Impatient Investors:**
 - Limit the exposure to small cap funds to 30%
 - Limit exposure to mid/small cap funds to 50%

Deployment Strategy: Invest 50% prior to Election Results and 50% post Election Results



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Thank you

