MIRAE ASSET
Mutual Fund

Monthly Market Insight

January 2019

EQUITY UPDATE

Equity Update

Equity markets weak performance during the month, led by concerns on US-China trade negotiations and Global/China slowdown was offset on the last day of the month leading to almost flat MoM performance. The gains of 1.7-1.9% were partly led by Fed's dovish remarks, positioning ahead of budget and futures expiry.

In January 2019, BSE-30 Index ended 0.5% higher and Nifty Index declined 0.3%. BSE Mid-cap Index and BSE Small-cap Index ended the month in red with losses of 5.7% and 5.3% respectively. On the sectoral front, BSE IT Index (on the back of strong earnings print and reported deal wins) and

Consumer Durables Index gained 8.3% and 2.7% respectively. Falling indices included BSE Auto

(-11.2%), Capital Goods (-8%) and Metals (-7.4%). Leading global indices gained started the year on a positive note: S&P 500 rose 7.9%, Euro Stoxx 50 gained 5.3% and MSCI Emerging Markets ended the month 8.7% higher.

Global Macros

The US 10 year bond yield declined 5 bps and was quoting at 2.63 on January 31, 2019. The dollar index declined to end the month at 95.6.Crude reversed the trend led by supply cuts and was quoting at USD61.9/bbl at the end of the month, up 15% month-over-month (but still down ~29% from a peak of USD86/bbl in Oct 2018).

Domestic Macros

Inflation: (a) December 2018 CPI was at 18-month low of 2.2% versus 2.3% in November 2018; (b) December 2018 WPI was at 3.8% versus 4.6% in November 2018

Currency: INR/USD depreciated about 2% and ended January 2019 at INR71.1/USD vs INR69.8/USD on December 31, 2018.

Growth: November 2018 IIP plunged to a 17-month low of 0.5% as against 8.4% in October 2018, grossly undershooting expectations. Manufacturing growth contracted by 0.4% while capital goods were also down 3.4%.

Trade Deficit: Trade deficit in December 2018 was USD13.1b (v/s USD16.7b in November 2018) on the back of fall in oil (3.1% YoY growth) and gold imports. Export growth has remained stagnant, staying weak across all major categories as the short period of currency depreciation does not seem to have impacted export growth.

Equity trading trends: FIIs net sold equities worth USD75m and DIIs bought equities worth USD304m during January 2019.

3QFY19 Earnings Trend

3QFY19 earnings have generally been in-line (sales were better than expected but profits as anticipated were impacted by cost pressures) and provide some confirmation of the recovery in Nifty-50 Index earnings over FY2019-20E. With almost half of the FY20 earnings growth to be driven by the banking sector, confidence level remains high with likely lower credit cost as slippages reduced and comfortable provision coverage.

An extract of the interim or "more than full" Budget

The Indian government presented its FY20 Interim Budget, the last one before general elections. It was the last opportunity for the government to communicate a message of intent, which it used to the extent possible, in our view.

INR1t pre-election gestures – boost for consumptions: The two major announcements were (a) direct cash transfer (INR6,000 per year to each 120 million farmers) costing INR750b per year to farmers with less than two hectares of landholding and (b) increase in tax rebate for income up to INR5 lakh for individual tax payers, which will cost another INR185b. We believe that the government focus on increasing income in the hands of middle class and farmers may be a boost for consumption sector (auto, FMCG, consumer discretionary and retail).

Pause in fiscal consolidation - Stretched revenue assumptions: Overall, fiscal deficit is estimated at 3.4% for FY19 revised estimate (RE) and FY20 budgeted estimate (BE). Fiscal receipts and spending growth for FY19 and FY20, however, seem stretched. While total spending is seen growing 13.3% YoY in FY20BE, following 14.7% in FY19RE, weaker receipts could make the achievement of the targets difficult.

Market Outlook

Unlike 2018, 2019 started on a much better macro backdrop as all the fears in the investor mind (oil price, interest rates and currency) had already played out in 2018 and are at a comfortable level. On the global front, need to watch out developments on Brexit and ongoing US – china trade negotiations though.

While the medium to long term outlook for the Indian economy remains positive, in the interim expect some volatility in the markets led by concerns on liquidity for some NBFC's and general election. With the government intervention on the liquidity front, both these events will be over in next six months and focus will be back on the earnings.

Key things to watch out: Apart from crude, currency and flows, some of the key factors which could be closely watched in the near term would be (a) liquidity in the bond markets, (b) earnings trend, (c) GST revenue and (e) political news flow in run up to state and central government elections.

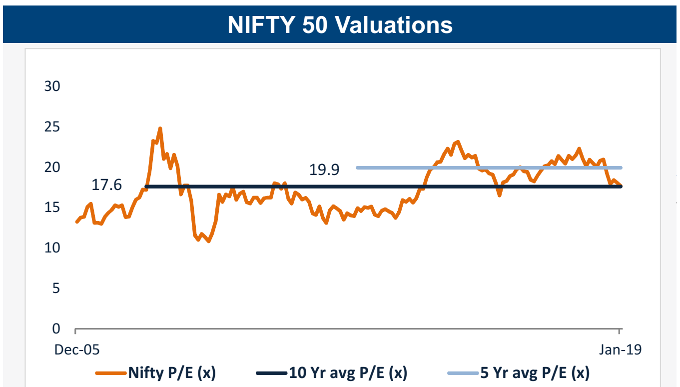
We believe that the earnings revival will be one of the most important driver for the markets during CY2019, despite several global and local events. India corporate earnings were elusive versus expectations for the last few years, but the confidence level in FY20 earnings growth of >25% remains high with ~45% growth driven by banks.

Valuations: The consensus estimates peg FY19 and FY20 Nifty-50 earnings growth of ~10% and ~25% respectively and against this backdrop valuation are reasonable with 1-years forward P/E of ~17.5x.

We would suggest you to invest in a disciplined way in equities for long-term, within the earmarked asset allocation (based on individual risk profile). In the current market scenario, staggered investments through SIP or STP,would remain one of the best ways to invest in equities.

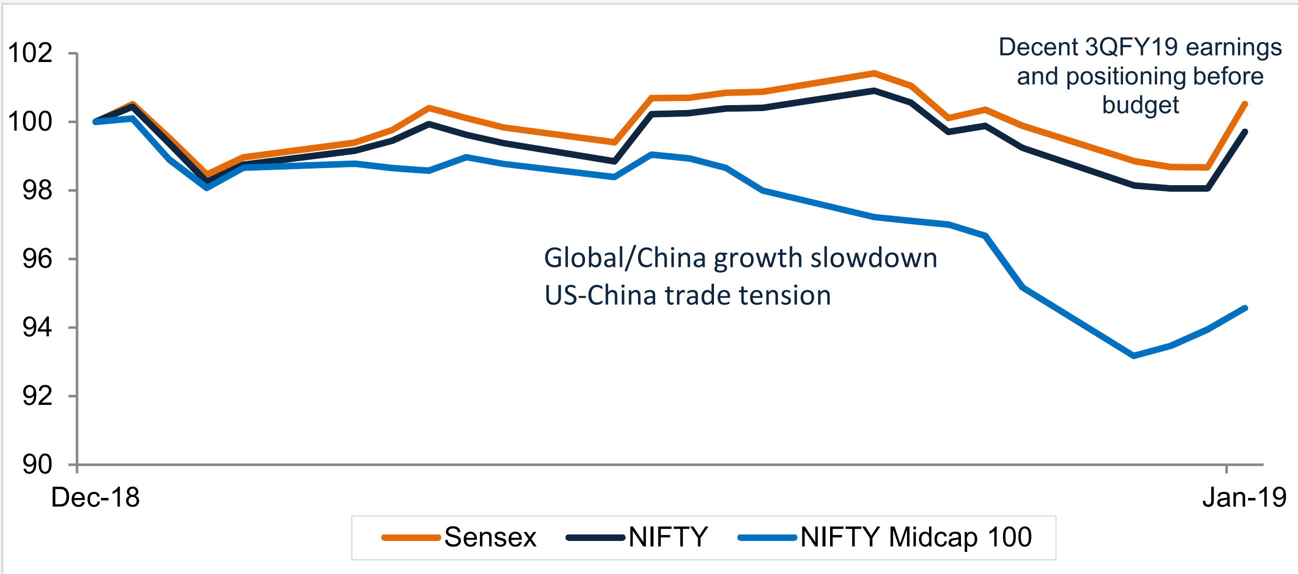
Source: Bloomberg, 31st January, 2019.

NIFTY 50 Valuations



Source: Bloomberg, 31st January, 2019.

SENSEX, NIFTY 50 AND NIFTY MIDCAP 100 PERFORMANCE IN JANUARY



Source: Bloomberg, 31st January, 2019. *Index values have been rebased to 100 as on Dec 31, 2018.

PERFORMANCE IN JANUARY OF MAJOR INDIAN INDICES

Major Indian indices	Dec-18	Jan-19	Performance (%)			
			1m	3m	6m	1Y
S & P BSE SENSEX	36,068	36,257	0.52	6.98	-3.59	0.81
NIFTY 50	10,863	10,831	-0.29	6.20	-4.63	-1.78
NIFTY Midcap 100	17,876	16,905	-5.43	0.23	-10.45	-18.67
NIFTY Midcap 150	6,339	6,045	-4.65	1.61	-9.32	-14.91
NIFTY SmallCap 250	5,295	5,022	-5.17	0.53	-15.50	-28.48

Source: Bloomberg, 31st January, 2019.

PERFORMANCE OF GLOBAL AND REGIONAL INDICES

Name	Performance (%)			
	1m	3m	6m	1Y
Global and regional indices				
India (Sensex)	0.52	6.98	-3.59	0.81
Brazil (Bovespa)	10.82	12.09	22.94	14.70
Shanghai (SHCOMP)	3.64	0.64	-10.15	-25.75
Germany (DAX)	5.82	-1.01	-12.75	-15.29
Hong Kong - HSI	8.11	13.65	1-2.24	-15.04
Japan (Nikkei)	3.79	-3.19	-7.89	-10.06
Korea (Kospi)	8.03	9.44	-3.94	-14.09
Russia (MOEX)	6.41	9.61	8.62	10.09
UK (FTSE)	3.58	-0.95	-10.06	-7.50
US (Dow Jones)	7.17	0.50	-1.63	-4.40

Source: Bloomberg, 31st January, 2019.

PERFORMANCE OF INDIAN SECTOR INDICES

Name	Performance (%)			
	1m	3m	6m	1Y
BSE sector indices				
BSE Auto	-11.23	5.44	-24.50	-28.72
BSE Bank	1.17	10.23	-0.89	-0.82
BSE Capital goods	-8.02	0.82	-5.38	-14.99
BSE Consumer durables	2.71	13.62	1.69	-5.43
BSE FMCG	-1.80	5.44	-3.30	8.44
BSE Healthcare	-0.30	-3.84	-2.28	-4.66
BSE Infotech	8.34	8.74	5.07	21.56
BSE IT	6.43	7.26	1.85	10.08
BSE Metals	-7.44	-13.73	-13.44	-28.97
BSE Oil & Gas	-0.99	4.61	-9.39	-16.84
BSE Power	-5.92	-3.28	-4.78	-18.91
BSE Realty	-1.32	6.49	-15.31	-32.00

Source: Bloomberg, 31st January, 2019.

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