

Equity Outlook

Dear all first things first – as we step in 2018 – lets slightly temper our expectation of return generation as that of 2017. We are not worried in the markets for first half of 2018, but maybe in the later half. In the last newsletter we had discussed at length about liquidity flowing from real estate sector to the financial sector and that too in the stock markets via the mutual fund route.

Let us now look at other asset class namely the fixed deposit – where again investor is unhappy with paltry taxable returns of low single digits like 7% or so and is looking at reallocation towards the stock markets. Following table will help explain the story in few words.

(Rs. Lakh Crore)

Particulars	Sept - 15	Mar - 16	Sept -16	Mar - 17	Sept - 17	2 Year CAGR (%)
Money in FDs	60	61	64	63	65	4%
Money in MFs	13	14	16	18	21	26%

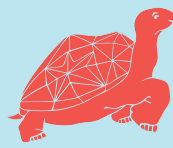
Clearly the quantum of funds in fixed deposit is have been around the Rs 63-65 lakh crore mark for last two years. However the fund flow towards mutual fund has gone up from Rs 13 lakh crore to almost Rs 23 lakh crore by December end. Interestingly of Rs 23 lakh crore in mutual fund, only Rs 9 lakh crore is towards equity mutual fund and of that almost Rs 1.4 lakh crore came in 2017. This amount of Rs 1.4 lakh crore in mutual fund gave one of the best returns in equity markets in 2017, going forward till the time interest rates continue to be low which we believe will remain soft for at least next 6 months, the investor is skeptical to renew his Fixed Deposits with Bank. Logically if we see a shift of at least 5% of corpus from Fixed deposits to equity markets we could see flows of approx Rs 3 to 3.2 lakh crore – just recollect in 2017 Rs 1.4 lakh crore was invested in mutual fund and we are now talking about Rs 3 lakh crore coming in 2018. Despite Mutual Funds having equity investment of Rs 9 lakh crore – their total holding is only 6% as total market cap is now at Rs 150 lakh crore. In developed countries and saturated markets – Mutual funds hold close to 30-35% of total market cap, In India that number is still at only 6%, its is study of data in this fashion that gives us a comfort and differentiates us from the rest in the business.

Equity markets could move significantly upwards, however as usual concerns remain and we believe it could come in second half of 2018. Firstly interest rates could start rising, monsoon is always unpredictable in our country, and lastly markets will take cognizance of Gujarat election verdict and start preparing for failure of BJP in Rajasthan for sure. Again questions could come between selection of Mr. Modi or Mr. Gandhi – markets will be worried but later and not sooner.

We continue to be bullish on our structural picks of auto ancillary, textiles, and infrastructure. We are still averse to IT, Pharma, Banking, NBFC, real estate etc. Liquidity will drive markets in 1H CY 2018.

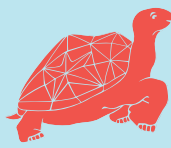
HAPPY INVESTING !!!

Bimal Choksi
Portfolio Manager
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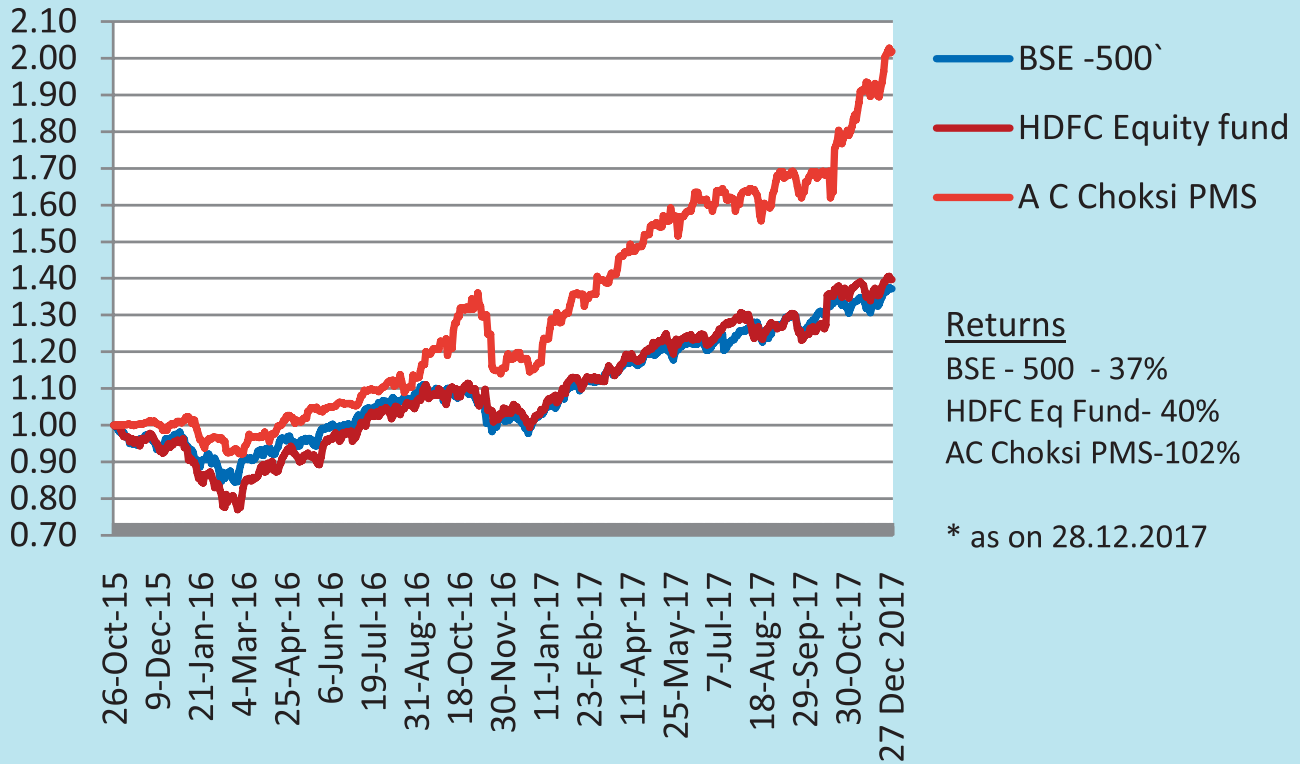


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Returns
 BSE - 500 - 37%
 HDFC Eq Fund- 40%
 AC Choksi PMS-102%

* as on 28.12.2017

*NAV as on 28.12.2017.

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