Equity Outlook

The world is slowing and India is growing. Stock Markets remain delighted. Participants in the markets are always ready to attribute various reasons for the direction of the markets, whether the market is up or down. The reasons being attributed to the on-going Bull Run in the stock markets are good monsoon, expectation of the rollout of GST in the monsoon session of the parliament, fairly strong expectation of turnaround of the earnings cycle, easing of interest rates, robust global liquidity and that India is the only growth destination of the world. One can pick any of the reasons mentioned above to justify the bull run of the markets.

We reiterate that the world is slowing and we explore the reasons for the same. Manufacturing in the world is getting automated at a fast pace. Technological advancement of using Robotics, E-Commerce, 3-D printing, automation and the like is reducing the requirement of manpower in the world. Human skills in the developed nations are fast getting replaced with the labour from the developing nations. The labour arbitrage coupled with automation is putting a hurdle in the income earning capacity of manpower in the developed nations. Manufacturing has shifted from US and Europe to China and other low cost destinations in the world. The purchasing power of developed nations is shrinking and to add fuel to the fire, the manpower in developed nations is already sunk in personal borrowings to fill the gap of higher expense over income.

Extra dosage of liquidity from the central bankers in the world namely FED, ECB, BoJ etc is unable to bring the patient off the ventilator. The interest rates are near zero or negative like never before for mammoth part of the global GDP. The impact of this gruesome scenario has been unprecedented, and as they say – it's a territory where no man has ever gone before. The impact of excess liquidity and near zero interest rates cannot be ascertained, measured and timed by anyone.

As Warren Buffet says – the party is on and Cinderella and all are dancing. They would like to leave before the clock strikes twelve, he goes on say, strangely the clock in stock market has no hands. The world has tilted its balance in the last four decades from US and Europe to China. The Central Bankers are pumping liquidity but there are no buyers of this extra funds, infact these extra dosage of money is flowing to emerging markets. If China keeps on increasing the price of its products, it will result in goods becoming expensive in developed nations and that would result in inflation. A positive zone of inflation would then cause the interest rates to go up, this though will take lot of time and this seems to be only option in the world that could raise the interest rates northwards.

India in all this mayhem is an island. Businesses will continue to grow only and only because of favorable demography. Stocks prices are driven by buying power of money, just as water flows from higher to lower levels, money flows where growth is. Growth + money power = stock prices go up. Economies and businesses pass through cycles.

We attempt to finds stocks that are likely to have exponential impact of growth in their earnings, available at a value and reach a sweet spot to attract institutional funds.

Happy Investing !!

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