Equity Outlook

The budget is behind us. The single most factor being closely monitored by the FIIs has been Fiscal Deficit. The Government had set a target of riding a journey to reach 3% before elections in 2019, however last year they let loose the target and that was making FIIs jittery if the FM would again let loose. On a positive note the target is set at 3.5% in FY17 and 3% year after. This is to the delight of FIIs. The fear in the markets was of re-introduction of the long term capital gains tax and spike in the service tax. Both turned to a hoax. The expectations were timid so the light looks bright.

From an economy standpoint – few salient features were to raise the living standards at the bottom of the pyramid. Higher rural allocations, higher MNREGA spending, higher allocation for rural roads, targets to double farm income in five years, all apparently seems a wish-list. However the trump card in the entire budget was making an AADHAR act. Making an act will ensure delivery to the correct audience and converting the wish-list to a dream come true. India all along since independence has been tall on talks and less on delivery. Subsidy burden year on year has been increasing without any improvement in delivery. AADHAR will be a panacea to this disease. An act will make it legally binding on all.

The other moves like linking small savings rate to G-Sec delinks politics with economics. This will have a far-reaching impact on overall economy in long run. Markets will soon ignore the long term impact of the silent moves and will focus its eyes and ears on the global environment. Crude has been an invisible hand funding the FIIs for years. Sovereign Wealth Funds in pretext of the FIIs were being channelized in the global markets for decades. Southward journey in crude prices saw FII flow reversing back to the epicenter. We believe if crude stabilizes in the price range of US $ 30 – 50 for a quarter will see again FII coming and chasing Indian stocks.

World is shifting gears – the countries which have been exporting oil in the past have made merry – the tables have turned in favour of countries like India that import oil. Second big change is in terms of China shifting from being an export oriented country to one propping up local demand. A change of this magnitude takes time to seep in. Such change sends tremors across the financial world. Such time defines the relevance of emotional quotient v/s intelligent quotient. The stock market correction since the start of year has made stock prices attractive. The businesses we have invested in continue to be strong and everyone is a bottom up story in itself. We will soon be investing the capital lying on the sidelines. Clearly time has come to be greedy when most of the investors are fearful.

We will invest and do the needful on your behalf…

Bimal Choksi (Portfolio Manager)