'Be positive'

Unless there are major setbacks, 2019 will be significantly rewarding

SUNDEEP SIKKA

After a remarkably stable 2017, the year 2018 turned out to be challenging for the Indian markets. There has been a sharp rise in volatility since the beginning of 2018. While volatility was high in the broader market, the headlines indices like Nifty were within a tight range.

Many factors turned adverse during the year. Oil price went up by over 50 per cent, interest rates, both in India as well as in the rest of the world, went sharply up and rupee depreciated by about 15 per cent. Global factors like US-China trade negotiations, Fed tightening and Brexit also added to the uncertainties. Despite adverse circumstances, Indian market materially outperformed most major markets and Nifty eked out a small gain in 2018. However, it was the broader market which came under sustained pressure, as mid and small caps delivered sizeable negative returns in 2018.

Amidst a meaningful time and price correction in the broader market, lots of macro adjustments have already taken place. Oil prices have corrected by over 40 per cent in just a couple of months. Rupee/$ has regained some of its lost ground and have stabilised at near 70 level. Interest rates have sharply come off during the past three months. There is over 100 bps decline in India 10 year GSec yields. Benign inflation, along with a large and continuous liquidity support by the RBI, has brought tremendous calm in the money market. Since the real rates are abnormally high, there is an expectation that the RBI will embark on rate easing cycle in 2019.

The biggest positive for our market is that corporate earnings momentum is gaining traction. Sectors like corporate-lending banks, pharma, telecom, etc, which were experiencing earnings downcycle, have likely bottomed out. With the recent decline in commodity prices, we will see margin improvement in many sectors. We are already seeing improved breadth of earnings. While consumer-oriented sectors have shown sustained growth in the past, sectors linked to investment cycle are also indicating improved trajectory. After many years, corporate profit growth is likely to surpass nominal GDP growth in 2019. We believe the trend should sustain and earnings trajectory will be healthy from a 2-3 year perspective. Valuations, particularly for the broader market, are far more reasonable, as compared to a year ago levels. Barring a few pockets like consumer staples and a few large retail lending oriented banks, valuations of other segments are not excessive on historical basis.

Going ahead, we think volatility is likely to remain elevated at least in the H1 2019 due to the general elections-related uncertainties and the monetary stimulus withdrawal in the US, as also the uncertainties linked to US-China trade discussions. The outcome of these events would determine the near-term market outlook. Beyond the short term, unless there are major setbacks, we think 2019 as a whole will be significantly rewarding. After recent consolidation, stocks across market capitalisations are looking far more attractive than what they were a year ago levels. Be positive. ◆

The author is ED & CEO, Reliance Mutual Fund