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ET EXCLUSIVE Q&A

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Expect Modest Returns From Stocks in 2016

Indian markets can withstand the storm of selling by foreign institutional investors (FIIs) as lower oil prices have resulted in lower import bill for the country, said **Sunil Singhania**, chief investment officer at Reliance Mutual Fund. In an interview with **Palak Shah**, Singhania said investors can expect modest returns from stocks in 2016. Edited excerpts:

How worried are you about the FII outflows from Indian stocks?

FII flows have been dented due to challenges faced by sovereign wealth funds (SWFs) promoted by petro-dollars. These SWFs currently have to dip into their investments to fulfil the deficit in their balance sheets due to falling oil prices. But the fact is that the same crash in oil prices have translated into a $7-8 billion savings for India. So the balance is maintained. I believe 2016 could see decent inflow of money into equities due to this balance.

What is your outlook for 2016?

India's macroeconomic situation is better than the past few years. Low inflation, current account and fiscal deficits, prospects of interest rate fall are all the positives. Government spending is showing signs of a pick-up and monsoon outlook for the next year too is better than the year gone by. Corporate earnings have been tepid, but the estimate is that it will grow in the mid-teens over the next few years. Investors can look for modest returns from stocks in 2016. In fact, when the benchmark stock indices have not given huge returns in 2015, several mutual fund schemes generated 8-15% return. Next year, mutual funds are poised to perform better.

But, there do not seem to be any triggers for the market.

BEATING SLOWDOWN

Benchmark indices have not given huge returns in 2015, yet several mutual fund schemes generated 8-15% return

The delay in crucial reform bills like the GST Bill and Bankruptcy Code are surely near-term disappointments. But there is an improvement in the implementation of work by various ministries, which is as crucial as the reforms bill.

If markets fall further, there is a fear that inflows into equity mutual funds could slow.

A few recent IPOs attracted applications that could match the total mutual fund inflows in the current year. This hints that domestic participants do have money to invest. Considering that both gold and real estate have given negative returns as an asset class over the past couple of years, investors would prefer equities. Therefore, equities as an asset class should see good inflows in the coming years. The best post-tax return by equities in the near past has seen increase in systematic investment plans and growth in folios. We expect stable inflows in the coming year too.

How fragile is the global economic outlook because of the commodity crash, Fed rate hike and China uncertainty?

China slow-down is a well-known fact. For all you know, China may stabilise from hereon. We saw how

ROOM FOR RATE CUTS

The difference between India and US 10-year yields... shows that there is a case for the RBI to slash rates further by 50-75 bps

discounted an event the Fed rate hike turned out to be. There was not much of an impact on global markets after it happened. The further rate hikes by the US Fed could be measured and not aggressive and may not necessarily dent the Indian economy. The difference between India and US 10-year yield is still 5.5% compared to a long term average of 4%. This shows there is a case for the RBI to further slash interest rates by 50-75 basis points even if the US were to increase theirs by around 50 bps.