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Mr. Ajmera's column as on March 14, 2015

Worst weekly loss witnessed in 2015; Inflation remains a concern ...

An unexpected rise in inflation led to a sharp correction in the stock market on Friday, with benchmark indices marking their biggest weekly fall of the year. The benchmark Sensex and the Nifty fell nearly 1.5%, led by declines in banking, metal and capital goods stocks, to end the week more than 3% lower.

Consumer inflation inched up in February for a third straight month, stoking concerns future interest rate cuts by the Reserve Bank of India (RBI). Consumer Price Index (CPI)-based inflation rose to 5.37 per cent in February, against expectations of 5.2 per cent. The rise in inflation led to concern on interest rate cuts by the Reserve Bank of India (RBI).

Shares of banking sector majors State Bank of India, ICICI Bank and ICICI Bank each fell more than 2% due to a spike in bond yield prices as consumer price index (CPI) inflation rose to 5.37% in February, higher than economist expectation of 5.2%.

The Sensex ended 427 points lower at 28,503.30, with only a tenth of its components ending with just marginal gains. The NSE Nifty lost 128 points to close at 8,647.75 with the index losing 3.3% during the week. Both the indices posted their worst weekly fall since the week ended December 12, 2014.

The sharp correction this week was caused a global risk-off trade triggered by fears that interest rate increase by the US Federal Reserve could be advanced. The panic caused sell-off in global emerging market (EM) and risky assets and saw a surge in the US dollar. Fund tracking firm EPFR pegged outflows in the Asia EM funds at US\$2.4 billion.

Insurance companies got a further boost after the Rajya Sabha passed Insurance Laws (Amendment) Bill, 2015 yesterday. Foreign ownership limit in sector hiked to 49 percent from 26 percent. We believe this will attract more foreign money.



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The foreign institutional investor (FII) outflows from the Indian market were muted. FIIs bought shares worth Rs 67 crore, while their domestic counter parts sold shares worth an almost equal amount, provisional data provided by exchanges showed.

We believe market has come under pressure due to weak corporate earnings and lack of near-term triggers in the Union Budget.

Global Markets

The Dow and S&P 500 ended at record highs on Friday while the Nasdaq notched an eighth straight day of gains after Greek and euro zone finance ministers reached a deal to extend heavily indebted Greece's financial rescue by four months. The agreement removes the immediate risk of Greece running out of money next month and possibly being forced out of the single currency area. The Nasdaq matched an eight-session winning streak from a year ago and inched closer to its 5,132.52 all-time intraday high, reached in March 2000 just before the dot-com bubble burst. The S&P 500 ended slightly higher for the week as well, its third straight week of gains.

Our Outlook

We believe most positive news has been priced in as the Indian markets trade around 10% above their long-term valuations. The Sensex currently trades at nearly 17 times its one-year forward earnings estimate. We are cautiously positive on selected stocks in the field of Capital goods, Infrastructure, Pharma and Banking.



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