**Mr. Ashok Ajmera, CMD & CEO**

Mr. Ajmera's column as on 30th July, 2016

# Markets remain buoyant; midcaps touch fresh highs..

## Domestic bourses performance

Benchmark share indices started the August F&O series on a subdued note with ICICI Bank leading the decline even as the government in consensus with the opposition stepped up its efforts to pass the crucial GST Bill. The markets reached their highest level in 15 months on Wednesday, with the BSE Sensex hitting 28,210 levels in intra-day deals, while the Nifty50 rallied to 8,665. Both indices, however, ended the day marginally higher at 28,024 and 8,616 levels, respectively. Since the presentation of the Union Budget in February, the Sensex has rallied nearly 5,000 points, or 22 per cent, while the Nifty50 has gained 1,600 points, or 23 per cent.

Nifty and Sensex witnessed upmove of 1.14% and 0.92% respectively in this week. In terms of sectors Media, Paints and Construction were the winners of the week. Metals, Energy and Engineering sectors were the notable losers this week.

Mid-cap indices touched new all-time highs on Thursday, amid strong buying by foreign investors and optimism over the good and services tax (GST) Bill. The NSE Midcap gained 0.7 per cent to 14,695, extending this month's rally to 6.4 per cent. The benchmark Nifty 50 gained 0.25 per cent to 8,666.3, a new 15-month high. We believe, the market gains, particularly in mid-cap stocks, is being fuelled by easy foreign institutional investor (FII) buying. FIIs have been net buyers of domestic shares worth Rs 11,000 crore for 15 consecutive sessions. Record low yields in the developed world and talk of further stimulus have created benign liquidity conditions, spurring gains in equities. Lack of further buying options in the large-cap space has also prompted FIIs to chase stocks in the mid-cap space, leading to expansion in their valuations. Over the past year, mid-caps have progressively become more expensive than large-cap stocks. For instance, at the end of May 2015, the NSE Mid-cap 100 index was trading at a trailing 12-month P/E of 21.7, lower than the Nifty

50 trailing P/E of 23.1. The valuation began to move in favour of the mid-caps index from June 2015 and that index is now nearly twice as expensive as the Nifty 50 on a P/E basis, trading at around 42 times its underlying trailing earnings, compared to the Nifty 50's 23.6 times. The mid-cap index has rallied a little over 30 per cent from 2016 lows, compared to around 22 per cent gain on the Nifty.

The benchmark Sensex posted its biggest monthly advance since May, buoyed by foreign institutional investors (FIIs) buying. The Sensex gained 3.9 per cent, while the mid-cap index rallied 8.1 per cent, the most since March. FIIs pumped $1.4 billion in July, taking their year-to-date investment tally to $4.3 billion. Low yields in developed world bonds, coupled with measures taken by central banks to support global growth, has created favourable liquidity conditions for equities, particularly in emerging markets (EMs). Interestingly, the gains in the market come exactly a month after of Brexit. Most global markets had dropped sharply on June 25, after the UK voted to leave the European Union, but managed to quickly get back on their feet. Commodity-related stocks were among the best performers in July.

Mutual fund (MF) investment in stocks remained tepid in July for a second straight month. Fund managers bought a net Rs 240 crore of shares, even as the benchmark Sensex on the BSE posted its biggest monthly advance since May. Last month, MFs were net sellers to the tune of Rs 86 crore. The lacklustre buying comes as redemption pressure at equity MFs has increased amid the markets climbing to 15-month highs. Foreign institutional investors, on the other hand, pumped nearly $1.4 billion (nearly Rs 10,000 crore) into stocks in July.

Sector officials say savvy investors, putting money in large chunks over the past year, have been taking money off the table. These investors feel the lofty valuations don't leave enough room for the markets to rally from current levels.

Meanwhile, the Bank of Japan at its two-day policy meet which ended today announced a marginal expansion of its monetary easing programme and permitted higher purchases of exchange traded funds.

Foreign portfolio investors remained buyers in Indian equities with net purchases of Rs 1,767.06 crore on Thursday, as per provisional stock exchange data.

The Reserve Bank of India (RBI) on Thursday allowed demat account-holders with depositories to bid for trades in the online anonymous bond trading platform of the central bank.

**Global Markets**

Wall Street rose on Friday, with the S&P 500 index hitting a record intraday high for the seventh time this month as gains in technology heavyweights Alphabet and Amazon more than made up for losses in energy shares. The benchmark index rose as much as 0.3 percent, touching an all-time high of 2,177.09, and completed its fifth straight month of gains.

Aggregate second-quarter earnings of S&P 500 companies are now expected to fall 3.7 percent, worse than a 2.8 percent decline predicted on Thursday, according to Thomson Reuters. US gross domestic product in the second quarter grew at a 1.2 percent rate, coming in below expectations for a rise of 2.6 percent and fueling arguments the Federal Reserve may not need to raise US interest rates anytime soon.

For the week, the Dow fell 0.75 percent, the S&P edged down 0.07 percent and the Nasdaq rose 1.2 percent. In July, the Dow rose 2.8 percent, the S&P climbed 3.6 percent and the Nasdaq surged 6.6 percent. Volume was strong as investors wrapped up July.

**Week ahead and Ajcon's view:**

We believe at current levels domestic bourses have discounted that GST would be passed. As a result significant rally has been witnessed in sectors (especially in midcaps) where passing of GST would have a favourable impact. Goods and services tax (GST) is listed for passage as well as consideration in the Rajya Sabha next week. Any defrement in passing of bill will put pressure on Benchmark indices. Earnings season has been a mixed bag so far especially in large caps. Monsoons have been above normal which has aided in domestic bourses moving up strongly.

The markets will take their cue from the following economic updates. From 1st August 2016

**US** - Manufacturing PMI (Jul), Core PCE Price Index (YoY) (Jun), Personal Income (MoM) (Jun), Services PMI (Jul), Factory Orders (MoM) (Jun), Trade Balance (Jun), Unemployment Rate (Jul) and Consumer Credit (Jun)

**INDIA** - Nikkei Markit Manufacturing PMI (Jul), Nikkei Services PMI (Jul), M3 Money Supply (2wk), Bank Loan Growth (2wk), Deposit Growth (2wk).

We advise investors to remain stock specific and look for Companies whose valuations provide Margin of safety.

**CA Ashok Ajmera**

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