



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on Feb. 16, 2019

Investor sentiments shattered with the extreme volatility witnessed..

A deadly attack against security forces in Pulwama in Jammu and Kashmir on Thursday shocked the nation and weighed on investor sentiments as the security forces have been given a free hand to punish the perpetrators of the attack.

The outcome of Lok Sabha elections in May, however, is seen as the biggest local event that will set a direction for markets. Until then, equity gauges are expected to react to progress on global developments such as Brexit and U.S.-China trade talks.

Foreign portfolio investors have pumped in a net of US\$767.77 million into Indian equities so far in February.

In an key economic development, India's merchandise trade deficit widened to US\$14.73 billion in January after hitting a 10-month low of US\$13.08 billion in December, data released by Commerce Ministry showed. The deficit was US\$15.67 billion in January, 2018. Merchandise exports grew 3.74 percent on year at US\$26.36 billion, mainly due to growth in textiles, drugs and pharmaceuticals as well as organic and inorganic chemicals.

The Reserve Bank has warned Yes Bank of regulatory action for making public its report on of nil divergence in violation of the confidentiality clause, the private sector lender said Friday. Yes Bank in a press release earlier this week had said the RBI has not found any divergence in the asset classification and provisioning done by the lender during 2017-18. In a regulatory filing Friday, Yes Bank said it has received a letter from the RBI which noted that the Risk Assessment Report (RAR) was marked 'confidential' and it was expected that no part of the report be divulged except for the information in the form and manner of disclosure prescribed by regulations. "Therefore, the press release breaches confidentiality



and violates regulatory guidelines. Moreover, NIL divergence is not an achievement to be published and is only compliance with the extant Income Recognition and Asset Classification norms," the RBI said in its letter. This may adversely impact the stock price in the coming week.

Crude oil

Oil prices rose more than 2 percent to their highest this year on February 15 after an outage at Saudi Arabia's offshore oilfield boosted expectations for tightening supply, while progressing US-Sino trade talks strengthened demand sentiment. The international Brent crude benchmark rose US\$1.68, or 2.6 percent, to settle at US\$66.25 a barrel, its highest since November. U.S. West Texas Intermediate crude futures settled up US\$1.18, or 2.2 percent, at US\$55.59 a barrel, and hit their highest this year in post-settlement trade at US\$55.80.

Global markets

Wall Street rallied on Friday, with the Dow and the Nasdaq posting their eighth consecutive weekly gains as investors grew hopeful that the United States and China would hammer out an agreement resolving their protracted trade war. All three major US indexes ended the session higher, and for the fourth straight session, the S&P 500 held above its 200-day moving average, a key technical level. Talks between the United States and China will resume in Washington next week, with both sides saying progress has been made toward resolving the two countries' contentious trade dispute. Tariff-vulnerable industrials provided the biggest lift to the blue-chip Dow, led by bellwethers Boeing Co, 3M Co, United Technologies Inc and Caterpillar Inc.

Asian stocks fell on Friday, retreating from four-month highs after data out of China raised concerns over deflationary pressures building in the world's second-biggest economy.

Ajcon's view

All eyes would be now on global cues and domestic cues amidst deadly terror attack against security forces. We deeply mourn the sacrifices of our brave soldiers, their memory will remain in our hearts. Globally, all eyes would be on ongoing tussle between US and China. The recent slowdown in China's economic growth is also a cause of concern for global investors. Growing confidence that the United States and China will resolve their ongoing trade dispute will help boost global investor sentiments. Those talks will restart next week in Washington, with both sides saying this week's negotiations in Beijing showed progress. Clarity on Brexit would also act as a key trigger for investor interest.

Investors have turned cautious ahead of the forthcoming general elections. Investors sentiments were dampened by the steep decline in shares of certain largecap and midcap companies amidst mixed earnings performance in Q3FY19. All the sectoral indices lost value over last seven sessions. Metals and oil sectors were beaten the most, with BSE Metals index eroding 5.82 per cent in seven sessions, while BSE oil & gas index erased 5.76 per cent and BSE Auto index 5.20 per cent. The equity markets have turned very volatile and even Companies with a massive scale are not spared. The recent volatility in stock prices of Tata Motors, Dr. Reddy's, Sun Pharma, Yes Bank, Vedanta, Essel group companies, Anil



Ambani group companies is a matter of concern as retail investors are getting trapped with every newsflow. As a result, we advise investors to be cautious on the newsflow in markets, do proper analysis and neither rush to take fresh positions or square off the existing positions or holdings on disturbing newsflows unless getting a proper clarity of a particular event or on Company's performance.

We believe domestic bourses would remain volatile till general elections 2019 results are out. There would be temporary headwinds for investors but on a long term perspective we believe the Indian equity markets are in a structural bull run as the benefits of implementation of GST, Insolvency and Bankruptcy code, digitization, thrust on Make in India and improving relations with key foreign countries would augur well for the economy in the long run. The strategy at present should be to invest in phased manner only in companies which are not connected to any political party, have a robust business model, strong earnings and cashflow visibility, low debt and backed by quality management especially on the corporate governance front. Considering the above factors, investors can have a stock specific approach in midcaps and smallcaps space as there are many companies which are trading at a discount of 50-70% to their peak price in early 2018. On a safer side, we would suggest investors to have a look at Consumption stocks, top quality Pharma companies, NBFCs having strong parentage, Auto and auto ancillary stocks, Gas companies, PSU banks (looking better after the cleanup of NPA mess, progress made under IBC), IT sector and Private Insurance Companies at the current moment.

Dr. Ashok Ajmera, FCA



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