Mr. Ajmera's column as on July 26, 2014

Markets give up gains; Q1FY15 earnings season and global cues will drive the bourses..

Indian markets fell from their record highs on Friday, on profit booking in key financial and metal stocks. Sensex ended at 26,127, down 145 points or 0.6 per cent from its previous close. The National Stock Exchange's Nifty closed at 7,790, down 40 points or 0.5 per cent, after hitting an all-time of 7,840 during the day.

The decline ended the market's eight straight days of gains, during which the benchmark indices rose nearly five per cent. The sharp up-move was led by robust buying from foreign investors. The market also followed global cues, where shares declined on rising geo-political conflicts in Gaza and Ukraine. European and US shares were trading almost one per cent lower. However, Asian stocks climbed as robust earnings cheered the markets.

We believe derivatives segment expiry next week prompted investors to trim positions. "While people are still optimistic about growth improving in the economy, they are mindful of the the sharp rises in the market we saw in the past eight sessions. Also, the level of participation from the institution-side has tapered a bit, an indication that the markets could weaken a bit.

Foreign investors net-bought shares worth Rs 4,907 crore in the eight sessions between July 14 and 24. On Friday, foreign investors' net purchase was muted, at Rs 125 crore. Selling was seen in blue-chip stocks State Bank of India and ICICI Bank, each sliding about two per cent. Wipro fell about 4.6 per cent after the dollar revenue forecast by the company disappointed the markets.

Global markets: US stocks closed lower on Friday in a broad consumer discretionary-led selloff after Visa and Amazon, a pair of closely watched bellwether names, reported disappointing results. While the S&P 500 found support at its 14-day moving average, suggesting a recent positive trend in equities remains intact, the day's decline was enough to erase the benchmark index's gain for the week. Earnings have largely been better than expected this season in terms of both profit and revenue. However, there have been high-profile disappointments, including Boeing Co and Caterpillar Inc earlier this week. Amazon.com Inc tumbled 9.6 percent to USD 324.01 as the biggest drag on the S&P 500 after reporting an unexpectedly big second-quarter loss due to greater expenses on investments. About 17.8 million shares changed hands, nearly five times its 50-day average of 3.6 million. The online retailer weighed down the consumer discretionary sector, which lost 1.2 percent. Visa Inc was the Dow's largest decliner, down 3.6 percent to USD 214.77 after the world's largest credit and debit card company cut its revenue forecast for the year. As the costliest stock in the price-weighted index, Visa accounted for about half the Dow's drop. The Dow Jones industrial average fell 123.23 points, or 0.72 percent, to 16,960.57, the S&P 500 lost 9.64 points, or 0.48 percent, to 1,978.34 and the Nasdaq Composite dropped 22.54 points, or 0.5 percent, to 4,449.56. For the week, the Dow is down 0.8 percent, the S&P is flat and the Nasdaq is up 0.4 percent in its second straight weekly rise.

Ajcon's view: At the global level, market participants will be keeping a close watch on developments in West Asia and its impact on oil prices. On the domestic front, however, corporate results for the quarter ended June 2014 will be key events to track besides progress on monsoon. With the major event of Budget out of the way, the market will likely continue to focus on issues like monsoons, global economy and quarterly results in the short term.

Going ahead, we believe, that the new government has a given blue print for the next five years in Union Budget 2014 -15. FY15 may not be the star year with 10 percent growth but definitely FY16 and FY17 can be pretty strong for earnings. On a longer time frame, the 20 year growth in Sensex EPS is about 15 percent and last six years we have been at a compound annual growth rate (CAGR) of 8 percent. On revival of the economy, earnings will go above the previous trend. Considering the raft of economic data coming across over the last couple of months like Index of Industrial Production (IIP), export growth, Purchasing Managers' Index (PMI), car sales, two wheeler sales, all suggest positive turnaround. At current levels, we would recommend buying in stocks in sectors like Banking, NBFCs, Metals, Capital Goods and Infrastructure but at the same time advise profit booking at current levels on stock specific basis.

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