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Mr. Ajmera's column as on 29th October, 2016

Samvat 2073 to be exciting; all eyes on Fed stance on interest rate hike and outcome of US Presidential elections..

Domestic bourses performance

With a rise of around 9.5% since the beginning of Samvat 2072 till October 17, the markets have taken all developments in their stride.

Good monsoon that would boost income in the hands of rural India, keep inflation under check, nudge the Reserve Bank of India (RBI) to lower interest rates and induce spending; and the excess cash in the hands of government employees on the back of 7th Pay Commission recommendation implementation and the passage of the goods and services tax (GST) bill were some of the factors that aided sentiment.

With a gain of around 48% from the beginning of Samvat 2072 till October 20, the S&P BSE Metal index was the top sectoral gainer, followed by oil & gas, consumer discretionary, auto, realty and banking indices that moved up around 16% - 38% during this period. S&P BSE Telecom, information technology (IT) and healthcare indices were along the key losers that slipped 1% - 11%.

Global Markets

The Federal Reserve meets next week and the US government releases an important report on jobs, but investors could be forgiven for having something else on their minds. The heated US presidential campaign, which for months has grabbed the bulk of US news headlines, enters its final stretch next week before the Nov 8 vote, and the race between Democrat Hillary Clinton and Republican Donald Trump of late has provided market-moving surprises.



In the latest reminder of how an upset in the expected outcome could rattle investors, news came on Friday that the Federal Bureau of Investigation is reviewing fresh evidence in its probe of Clinton's email server.

That briefly pushed stocks down sharply and drove the CBOE Volatility Index Wall Street's fear gauge - to a two-week high.

Investor expectations also are low that the Fed will raise interest rates when it meets Tuesday and Wednesday, especially since the meeting falls just days ahead of the election.

The chances appear to be less than 10 per cent that the Fed will raise rates next week, while there's about a 75 per cent chance the Fed will hike rates in December. What could shake equities, however, is any comment from the Fed that could indicate the possible timing of the next hike.

At the Fed's November meeting last year, it tweaked its policy statement to specifically reference the next policy meeting as a date of a possible rate lift-off, a move that grabbed investors' attention. The Fed then in December raised rates for the first time in nearly a decade.

Economists polled by Reuters show expected non farm job gains of 175,000 for October, up from 156,000 the previous month.

For the week, the S&P 500 dipped 0.7 percent and the Nasdaq lost 1.3 percent, while the Dow managed a 0.1 percent gain. Declining issues outnumbered advancing ones on the NYSE by a 1.49-to-1 ratio; on Nasdaq, a 1.41-to-1 ratio favoured decliners. The S&P 500 posted 10 new 52-week highs and 10 new lows; the Nasdaq Composite recorded 45 new highs and 129 new lows.

Week ahead and Ajcon's view:

We believe markets will take cue from the outcome of the US Presidential elections; US Red stance on rate hikes; strategies adopted by the global central banks; corporate earnings growth in India; commodity prices, especially crude oil; and the progress on reforms, including tackling geopolitical concerns are the five key factors, will have a bearing on the markets in Samvat 2073. However, we don't rule out market volatility. At present, corporate profit to GDP is 4 percent, inflation is 4-5 percent, investment to GDP is 29 percent, savings is 33 percent. We believe as savings and savings rate go up, investment to GDP is going to go up, inflation is low, consumer demand is also reviving. Hence we are bullish on the markets from a long term perspective. At current levels, markets will test investor's patience and conviction.

At current valuations, we advise investors to remain stock specific and use the buy – on – dips strategy to make most of this bull market. At current levels, we believe value is still left in both midcaps and smallcaps. Large caps look expensive but in sectors like IT and Pharma value picks are still available in large cap space. Intermediate corrections are part of any bull market and investors should not be scared of investing when the markets drift lower. The domestic economy grew at its slowest pace in five quarters in the April – June period falling below expectations but it still grew 7 percent which is still fastest in the world.

CA Ashok Ajmera

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SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

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