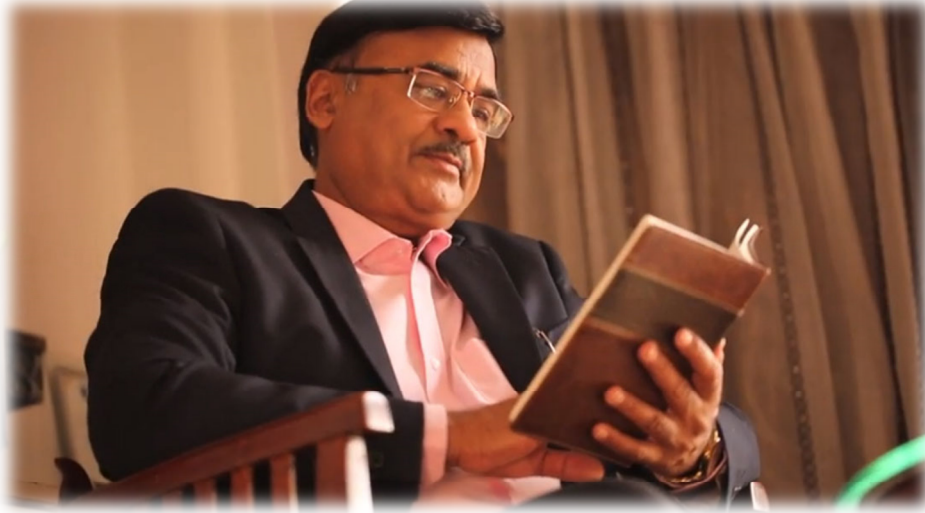




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on December 07, 2019

Domestic bourses consolidate; global cues will drive market direction..

During the week, the benchmark indices were down by one percent. S&P BSE Sensex declined by 0.85 percent to end at 40,793.81, while the Nifty fell by 1.1 percent.

S&P BSE Mid-cap index fell by 2.76 percent and 1.6 percent decline was witnessed in the S&P BSE Small-cap index for the week ended December 6. Mid- and small-cap indices have continued to underperform the benchmarks thus far in the financial year 2019-20 (FY20). The S&P BSE Midcap index has shed 4 per cent while the S&P BSE Smallcap has lost nearly 10.50 per cent during the period (as on December 5, 2019). In comparison, the S&P BSE Sensex has gained 5.44 per cent.

On Thursday, the Reserve Bank of India (RBI) sharply lowered its gross domestic product (GDP) growth forecast for financial year 2019-20 (FY20) further by 110bps to 5 per cent from 6.1 per cent on substantially weaker growth in Q2FY20, and incremental data on Q3 which suggests that the slowdown is still persisting. Besides, the central bank retained status quo on rates, against expectation for a 25bps cut, on inflationary concerns. The accommodative stance was maintained on rising output gap.

Global markets

Globally, US equities were upbeat on Friday due to strong jobs report and optimism about US-China trade negotiations ahead of an upcoming deadline improved investor sentiments. The US economy added 2,66,000 jobs in November, the largest increase in 10 months, according to the Labor Department, blowing past analyst estimates. The unemployment rate edged down to 3.5 percent. US Treasury yields rose after the strong employment report, and bank stocks had their best day in over a month, rising 1.6 percent.



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All three major US stock indexes gained ground, hovering within 1 percent of record highs set last week.

The Dow Jones Industrial Average rose 337.27 points, or 1.22 percent, to 28,015.06, the S&P 500 gained 28.48 points, or 0.91 percent, to 3,145.91 and the Nasdaq Composite added 85.83 points, or 1 percent, to 8,656.53.

Ajcon's view

We expect domestic bourses to consolidate and expect profit booking in large caps as investors have turned cautious after RBI's GDP forecast. Historically, FIIs flows in the month of December tends to be lacklustre due to long holidays globally. With Q2FY20 earnings season over, we believe now eyes would be on on global cues especially on the newsflow regarding US – China trade deal, Brexit (UK election on December 12), crude oil prices and rupee movement against the dollar.

As of now, there is limited opportunity for investors in the large cap space as there has been significant rally in Sensex and Nifty in last 2 months; however, midcaps and smallcaps are still way behind their previous peaks. Hence, we believe, it would be prudent for investors to look out for quality picks in the midcaps and smallcaps space which have a robust business model, quality growth, consistent earnings although may be affected in the current economic downturn but proved its mettle over the years, business model suited to changing dynamics of the economy, cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

Investors should not lose hope in equities as it is proven fact that there are different market cycles that an investor needs to endure. The Government has already taken big steps to improve deteriorating sentiments and tackle economy slowdown. No doubt that the steps taken in last 3 months would help in improving economic activity but we still believe some more steps are needed from the Government to increase the purchasing power of consumers which can result in revival of demand. There are already talks that FM may look at revising direct tax structure in upcoming Union Budget to boost demand. However, at the same time the talks of increasing GST rates may act as a deterrent for any upside rally. In addition, we believe, that the Government to revive investment led spending, corporate advances growth should happen in PSU banks.

Dr. Ashok Ajmera, FCA



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