Outlook on Markets &
Do's & Don'ts of Investing

ICAI

May 2016

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· Section 1

Global Scenario

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Global Scenario – Current Status

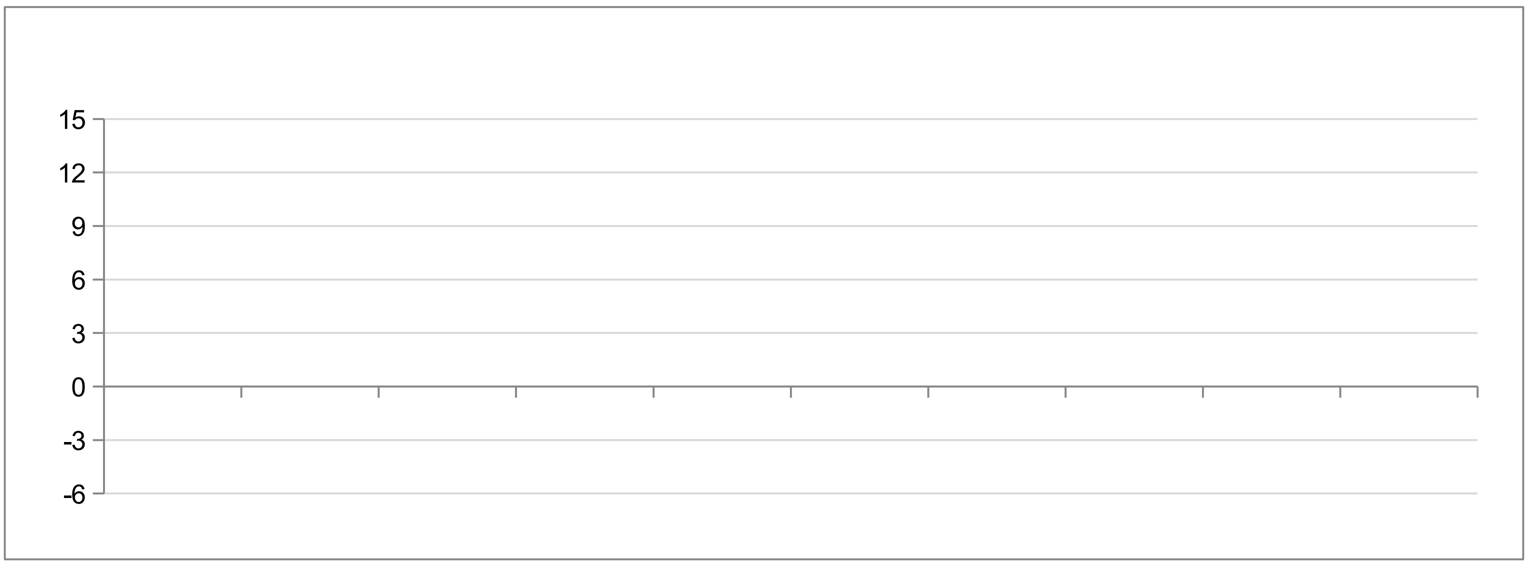
- Developed Economies post 2007 crisis have slowed down considerably
- To support growth, all major economies have been pumping money into their system
- Quantitative easing has been a questionable success till date
  - Japan Abenomics is yet to see results
  - China despite monetary easing and huge public infra spending is slowing down
  - US has seen some economic stability and improved employment but growth is very fragile
  - Europe continues to suffer from low growth and unemployment
- World central banks fighting against the monster called “DEFLATION”

GDP Growth – In Boom, Gloom & Now – All Engines Slowing Down

- Pre 2007 world observed strong growth of 5%+
- Post 2007 global crisis led to collapse in growth
- World in last 6 years – Struggles for growth
  - China which drove the global economy pre 2008 is now slowing rapidly
- The differential of GDP growth between the Developed economy & Emerging Economies steadily shrinking from 5% to 2.5%

GDP Growth (%)	2006	2007	2008	2009	2015	2016	2017E
World GDP	**5.5**	**5.7**	**3.0**	**(0.1)**	**3.1**	**3.2**	**3.5**
Developed Economies	3.1	2.7	0.2	(3.5)	2.1	1.7	2.0
Emerging Economies	8.6	9.2	6.5	2.9	4.3	4.3	4.9
USA	2.7	1.8	(0.3)	(2.8)	2.4	1.8	2.3
Japan	1.7	2.2	(1.0)	(5.5)	0.6	0.5	0.5
Eurozone	3.2	3.1	0.5	(4.5)	1.6	1.5	1.6
China	12.7	14.2	9.6	9.2	6.9	6.5	6.3
India	9.5	9.6	8.2	6.6	7.3	7.5	7.6

Source : Bloomberg



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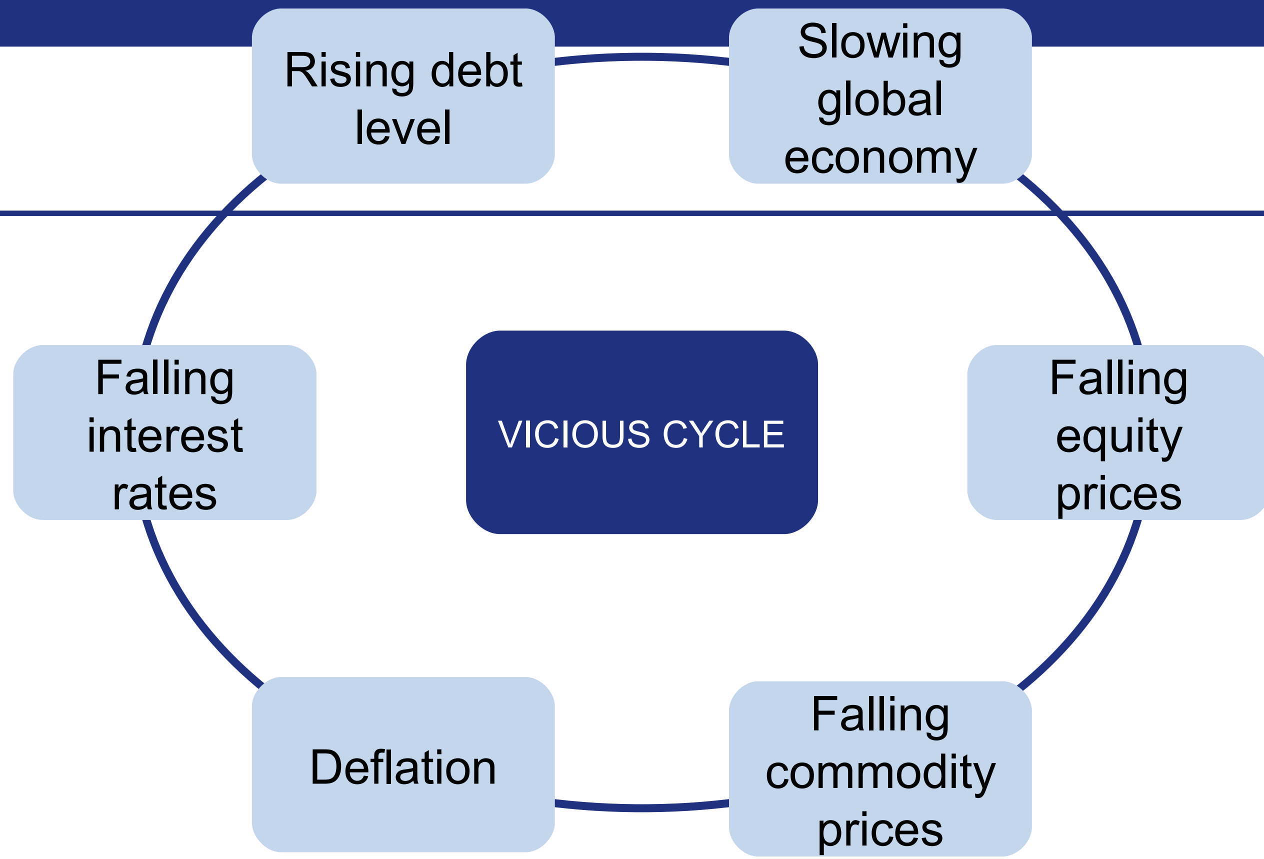
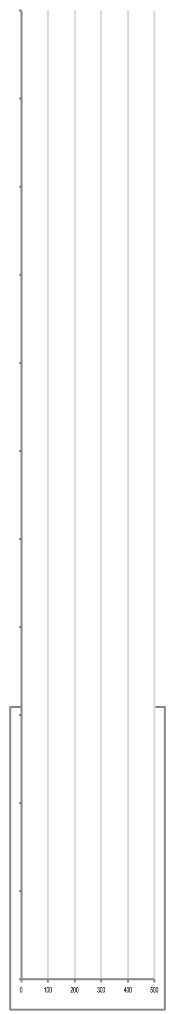


Rising Debt Levels – A Cause for Concern

Rising Debt to GDP (%) Across the World

- With major economies pumping money the debt burden has been swelling rapidly.
- Credit bubbles have become a concern as private companies have stepped up their borrowing significantly during this period of low interest rates.
- China Economy is slowing & Debt is swelling rapidly.

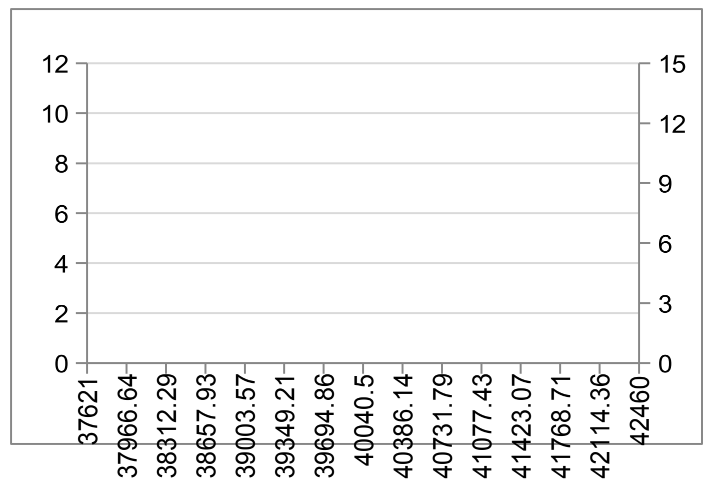
Total non-financial sector debt by country (% of GDP*)



Source : JP Morgan
Data as of 31st March 2016

Rising Corporate debt of china

Slowing GDP & Rising debt



Source: Bloomberg

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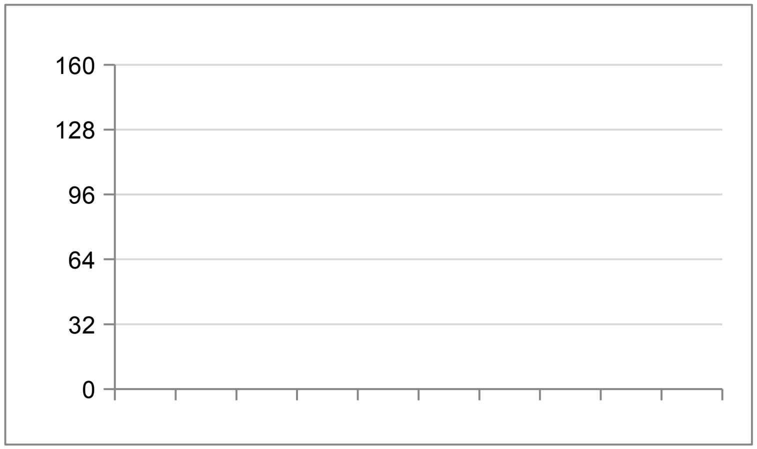
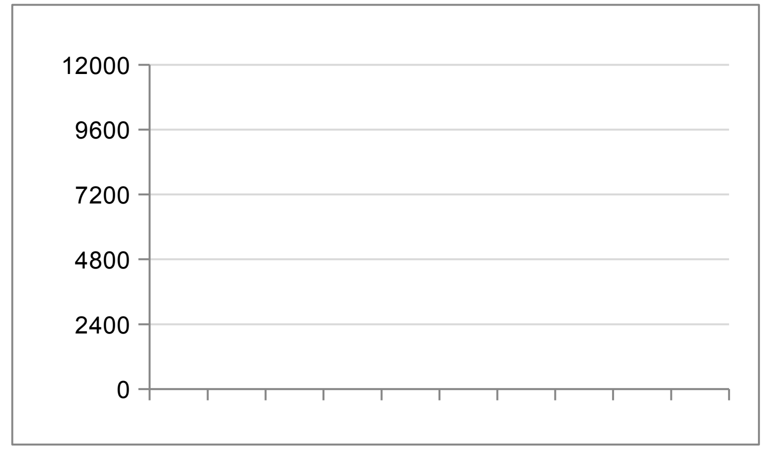
Impact on Commodity Prices

- Commodities Across board have fallen post 2008 crisis
- The recovery has been tepid due slow growth across globe

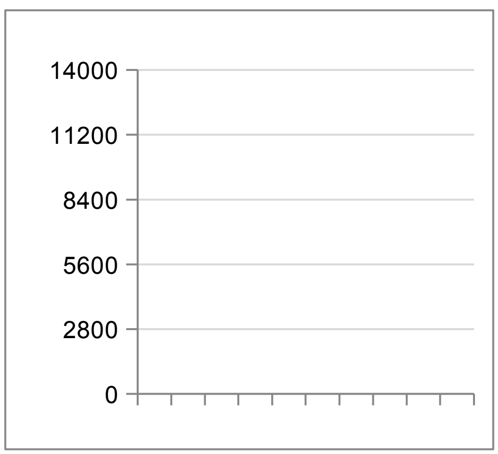
Crude



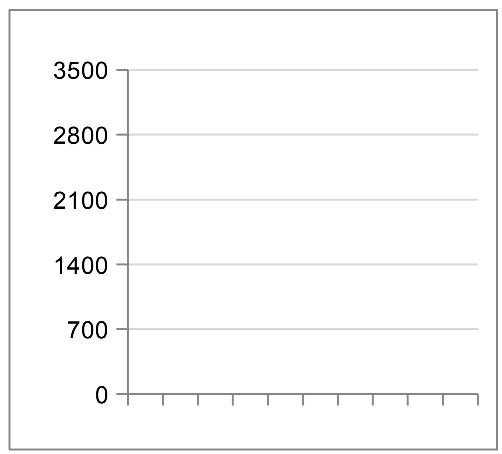
Copper



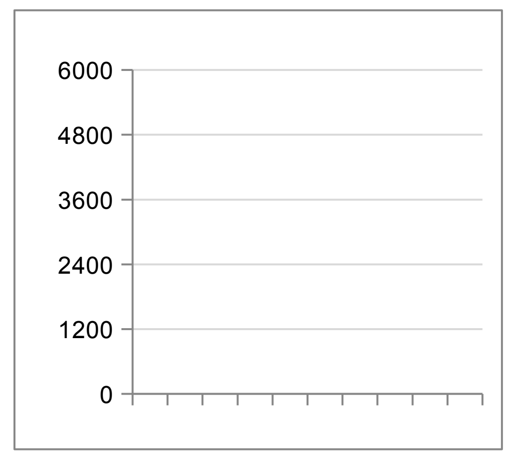
Baltic Dry Index



Aluminum



Steel



Source: Bloomberg

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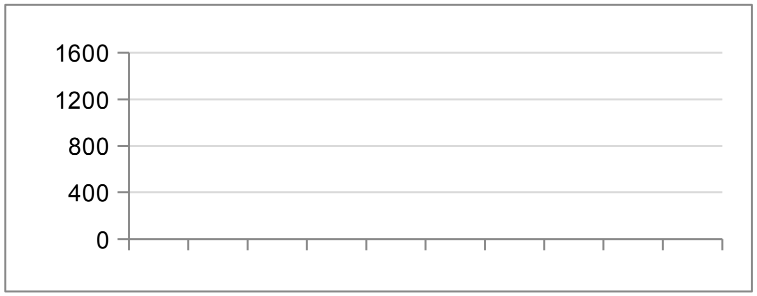
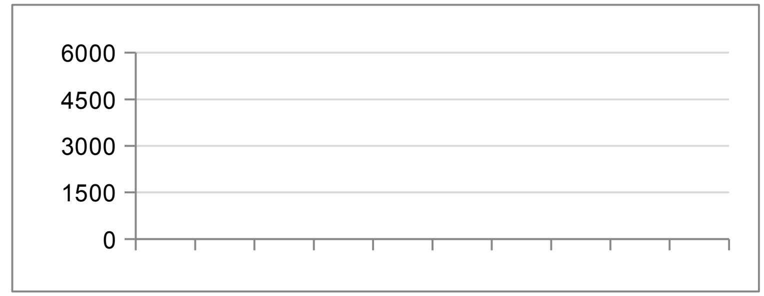
Impact on Equity Indices Across Globe

- Markets across globe saw rally through 2003–2007.
- Post global crisis markets saw significant correction between 2008–2009.
- Markets after a sharp recovery in 2010 across world are again declining.

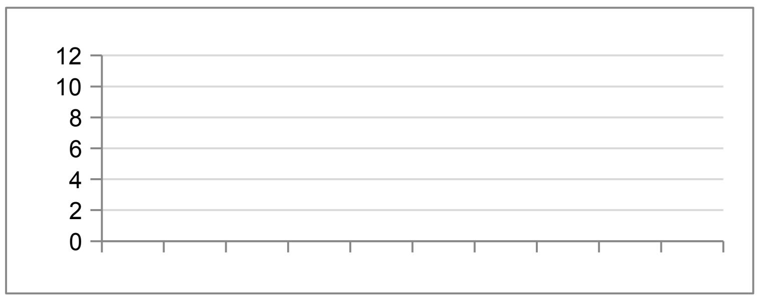
MSCI emerging



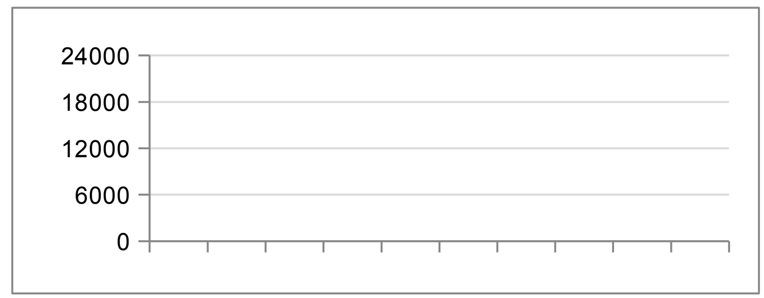
Euro Stoxx



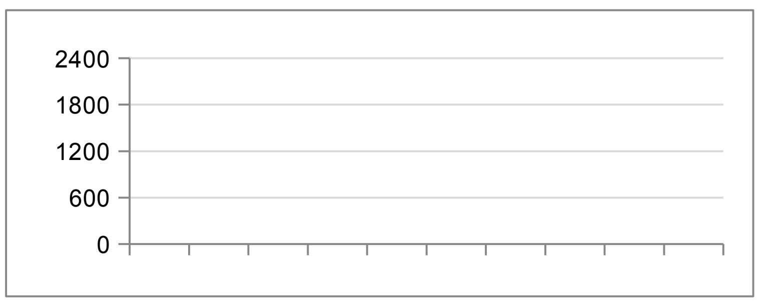
Sensex



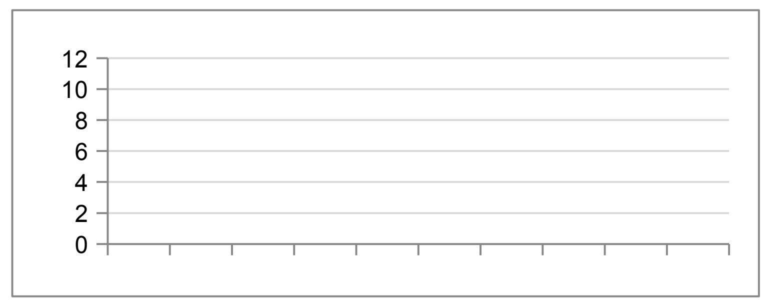
Nikkei



S&P 500



CSI 300



Source: Bloomberg

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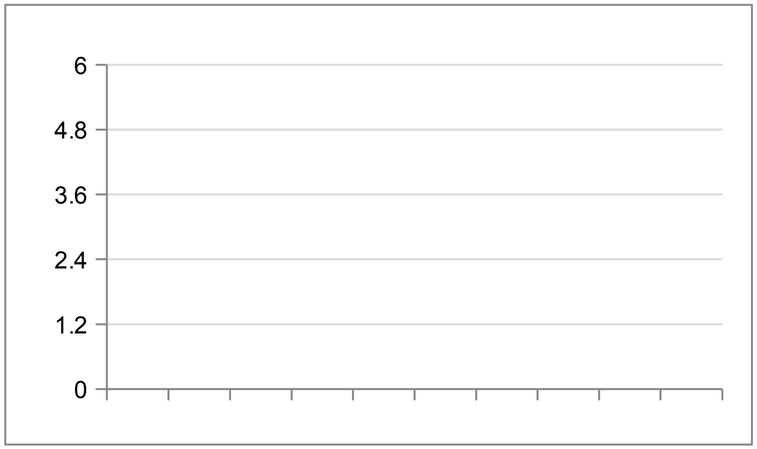
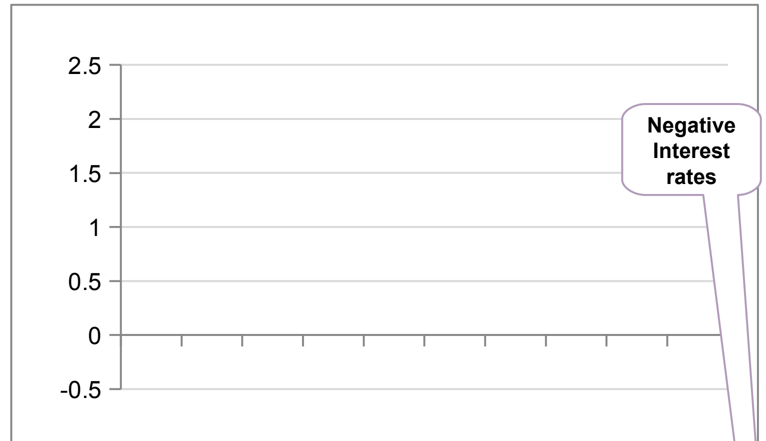
Impact on Fixed Income Across Globe

- Negative / Declining interest rate a NEW NORMAL

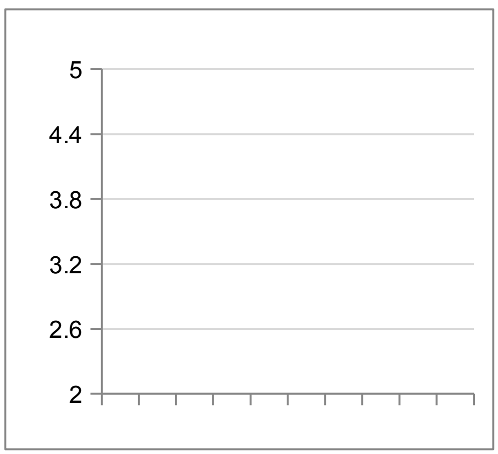
US 10 Year G Sec



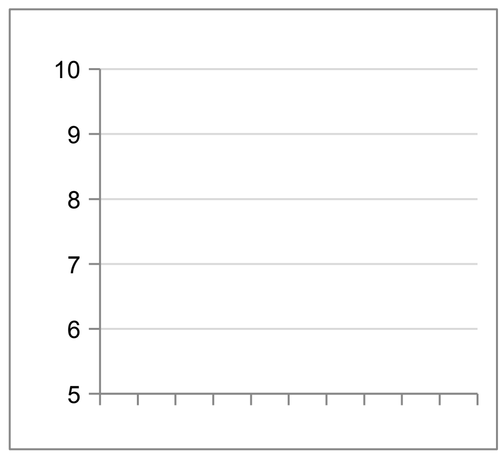
Japan 10 Year G sec



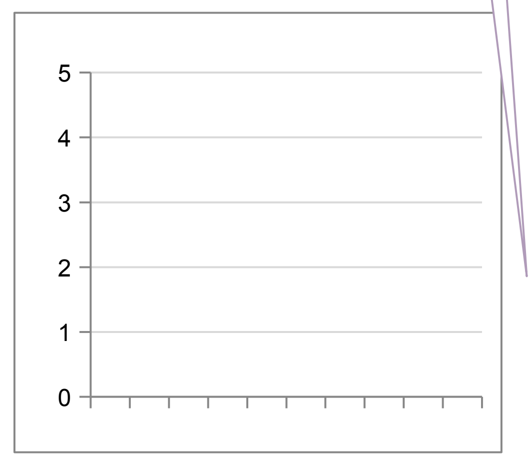
China 10 Year G Sec



India



Germany 10 Year G Sec



Source: Bloomberg

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Global Economic Growth – likely to be FRAGILE & TEPID

- Major economies are sitting on huge debt & it is rising
- Commodities due to the global slowdown & technological innovation have fallen – likely to remain low
- Various risks continue to haunt the world economies
  - Looming Brexit vote
  - Europe Banking crisis
  - Slowing China
  - Low to Negative interest rates in major world economies
  - US raising Interest rates – impacting highly leveraged private sector

Outcome: Global economic growth likely to remain slow and fragile. Return from various asset classes i.e., Equity, Debt, Real Estate and Commodity for next few years may remain sub-par and below its long term averages

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- Section 2

Indian Scenario

Indian Current Economic Scenario – Slow but Stable

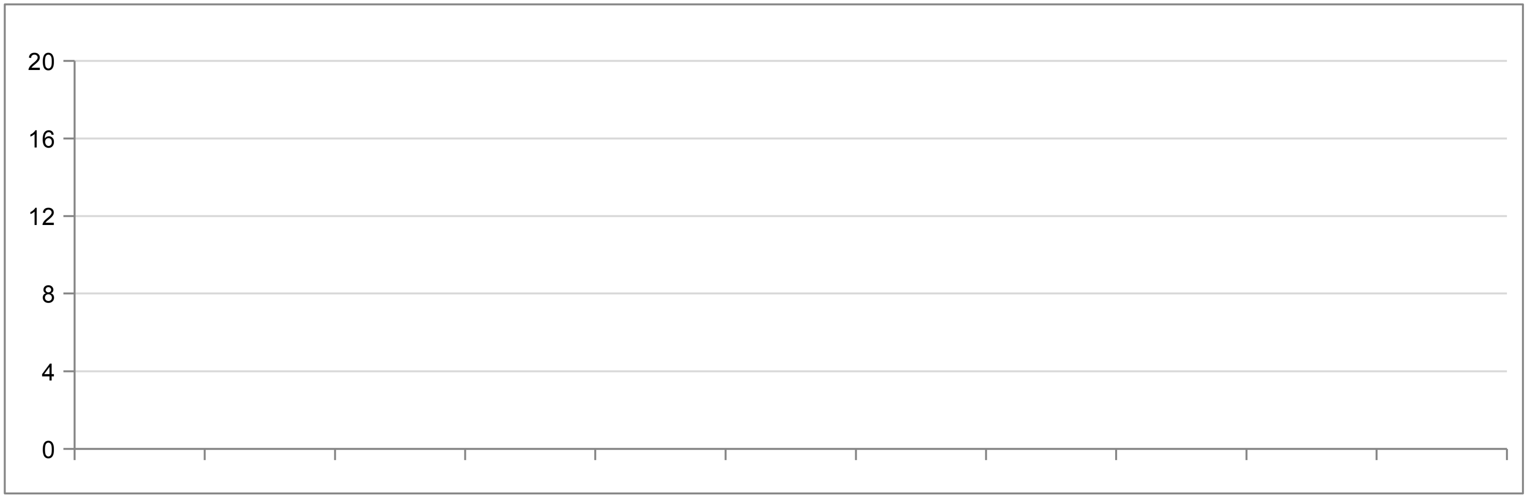
- India economy remains a prominent & promising economy with high growth.

- India economy enjoyed unprecedented growth of 9% during 2003–2007 period as all Growth engines of economy were firing i.e.,
  - Exports
  - Public & Private Capex
  - Rural & Urban Consumption
- Followed by a weak economy growth period of 2008–2013 along with deteriorating fiscal situation and high inflation.
- Economy post 2013 is now on a recovery mode but still suffering due to weak private capex, falling rural consumption and weak exports.

India Growth Story

- For more than 3 decades Indian economy has managed to post nominal growth of 14%–15%

Decadal growth rates of India



1981–90	1991–00	2001–10	2011–15
Indira Gandhi Association	Global Oil Crisis - Gulf War	Violence in Gujarat post Godhra	Coal, 2G, etc. scandals
Rajiv Gandhi Government	BoP Crisis, Reforms Commence	10 year Congress rule	QE Tapering, PIGS, Greece
Expansion of Telecommunication	Asian Crisis, Era of coalitions	Lehmann Crisis	
Birth of Software Industry	1st BJP government, Kargil Conflict	9/11, Dotcom Bubble	High twin deficits FD & CAD, high inflation
Rise of BJP in India Politics	Growth of Software Industry	Growth of Indian Generics Comp	BJP Government with full majority
Advent of TV, Maruti Car	Satellite TV, Mobiles		

	1980	1990	2000	2010
Agri (% of GDP)	35	29	23	18
Pop, bn	0.7	0.9	1.0	1.2
PCI US$ Cur	271	376	457	1,419

Source: Citi, World Bank Data

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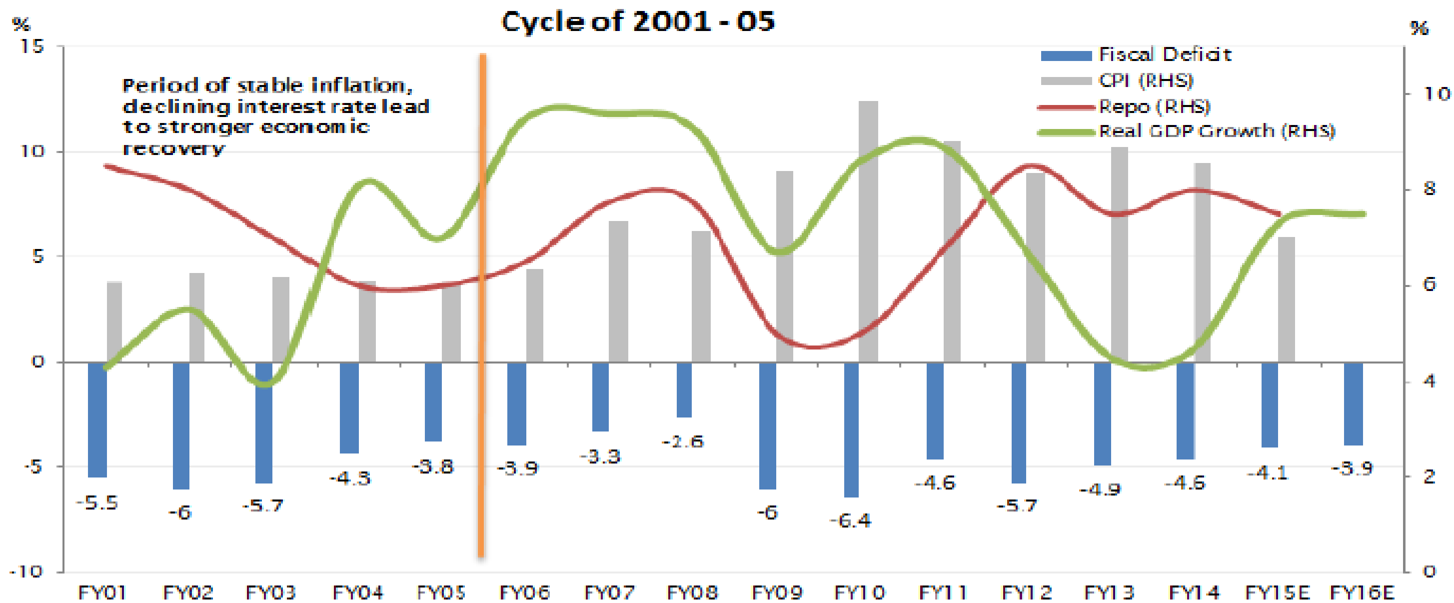
Indian Economic Cycle

- Will India again get into GLORIOUS SITUATION of :-
  - Low inflation
  - Low fiscal deficit
  - Falling interest rates
  - Growth in consumption and capex

- Factors for economic growth pre 2007
  - Structural decline in inflation & lower interest rates,
  - Strong rural and urban consumption plus booming exports
  - And improving fiscal balance
- If India were to witness a repeat of 2001-2005 cycle, then there is likelihood of sustained period of decline in interest rates followed by a strong recovery in corporate earnings.



Source: RBI, Bloomberg, JMFS MF Research

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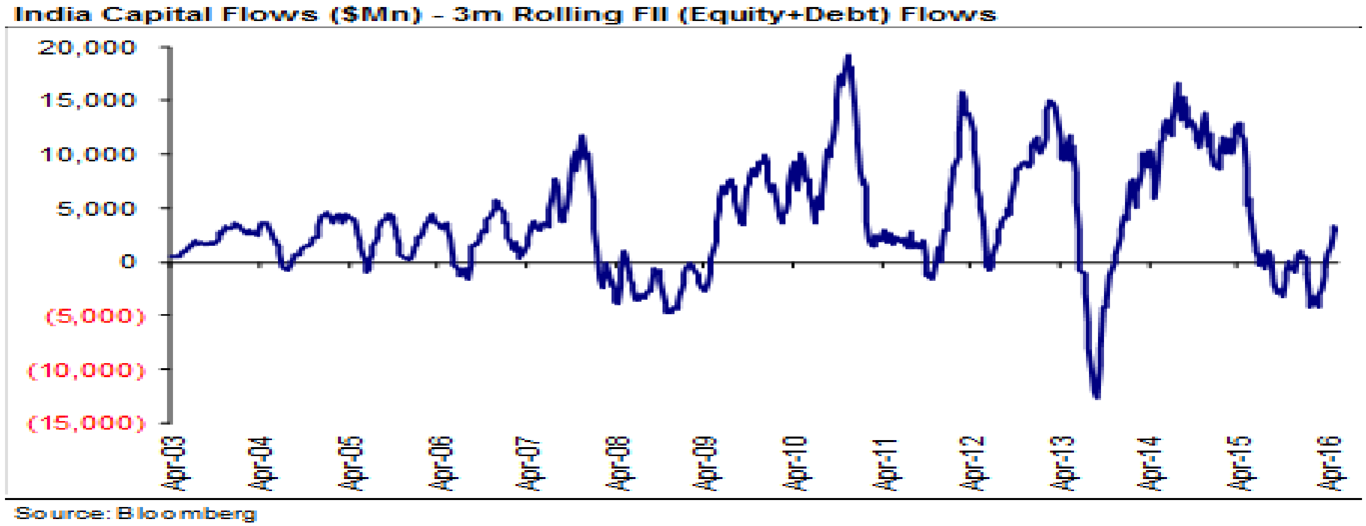
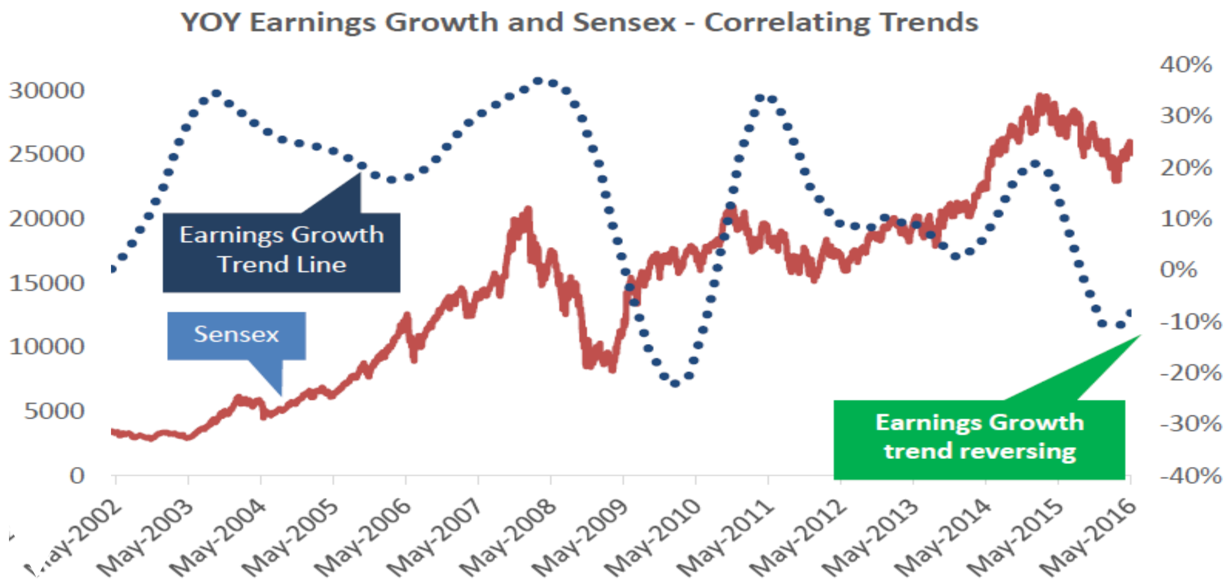
Capital Flows & Earnings Growth

- Capital flows in India have improved recently after having witnessed a dip
- Earnings growth are yet to see an uptick
- Earnings revival will boost the market sentiment
- Better monsoon is expected to revive earnings



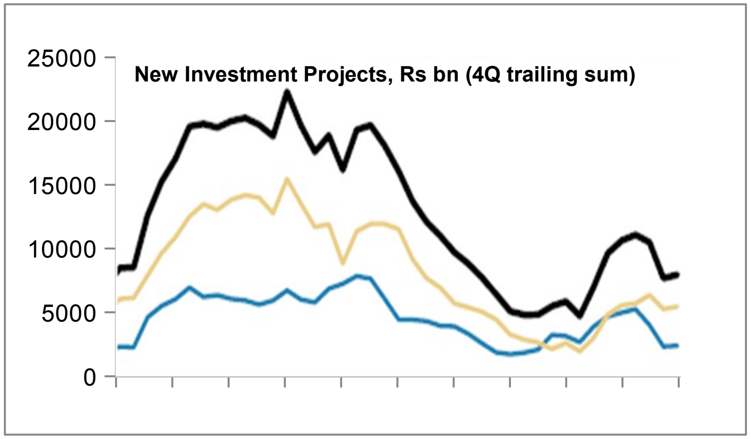


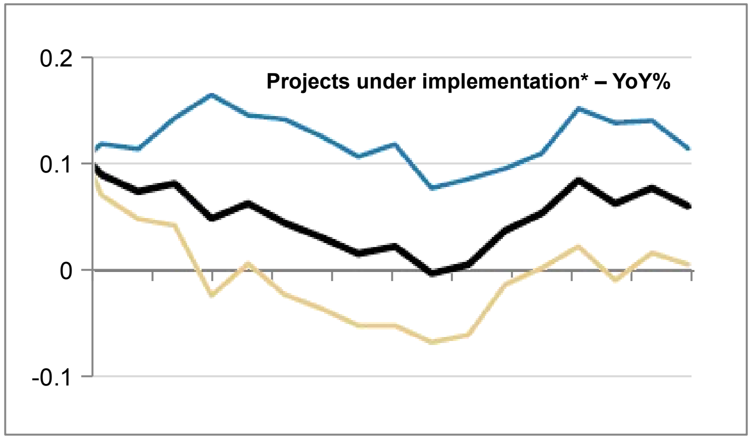
Source : ICICI MF

Capex & Consumption

- Pre 2008 both government and private capex lead to a growth in economy.
- Post 2008 crisis significant fall was observed in capex.
- Govt. capex has started showing improvement but private capex is yet to follow.
- Urban spend has shown a recovery but the rural economy is yet to revive.
- Good monsoon may be trigger for rural recovery.

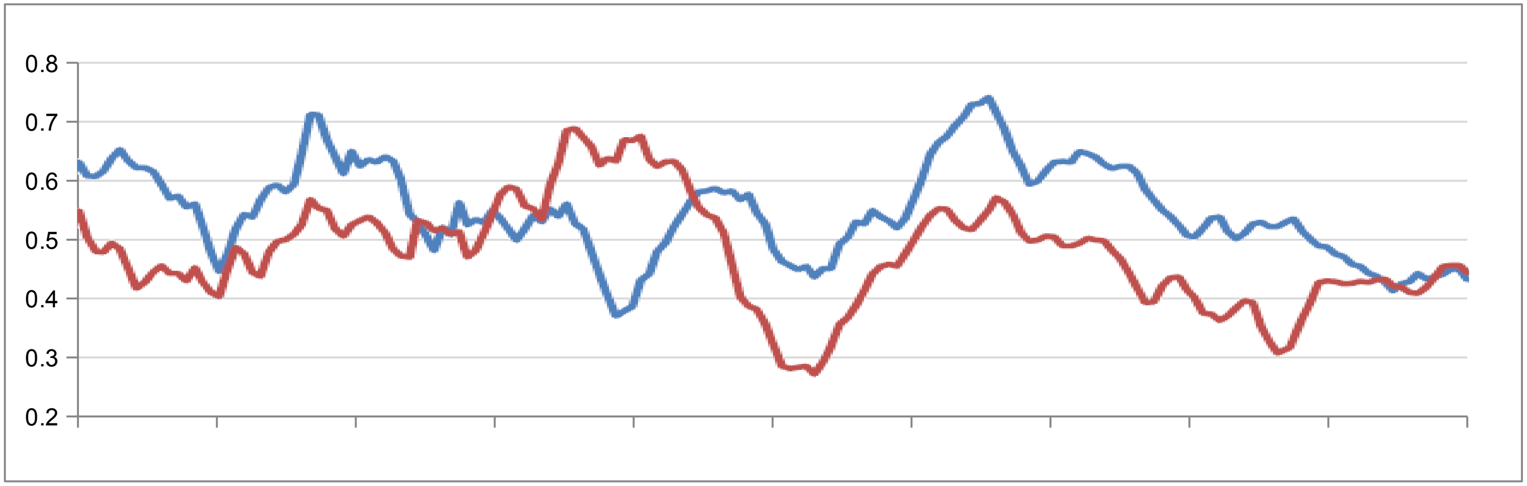
Capex – Data Shows Slightly Weaker Trend in Projects Under Implementation





Source: Morgan Stanley, CMIE. *Includes all government and private projects that are under various stages of implementation

The growth in the rural index (3mma) has turned positive for the first time after 20 months.

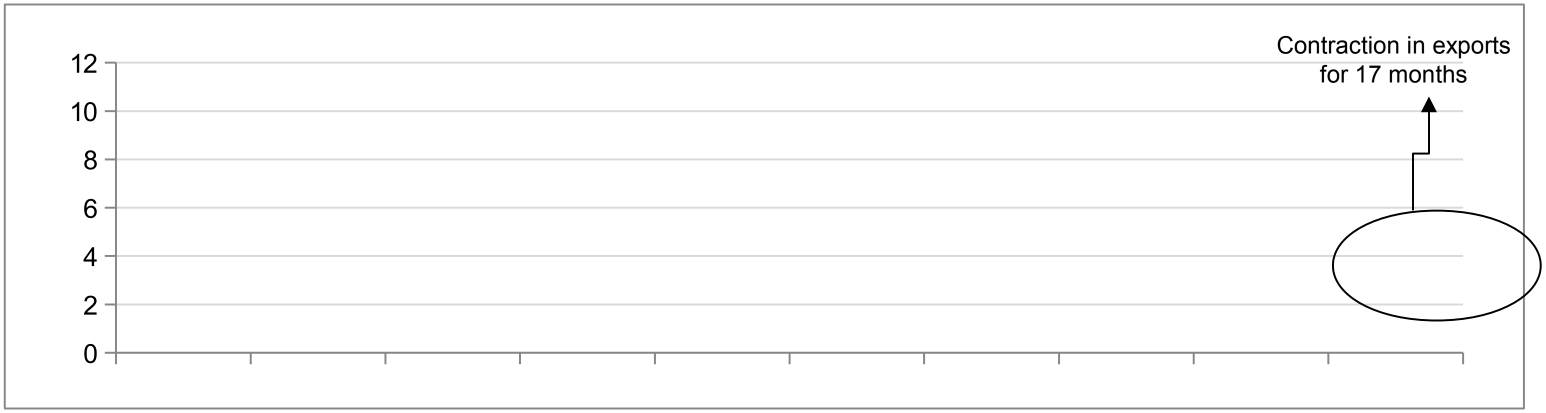


Source: ICICI MF

Exports & FDI Flows

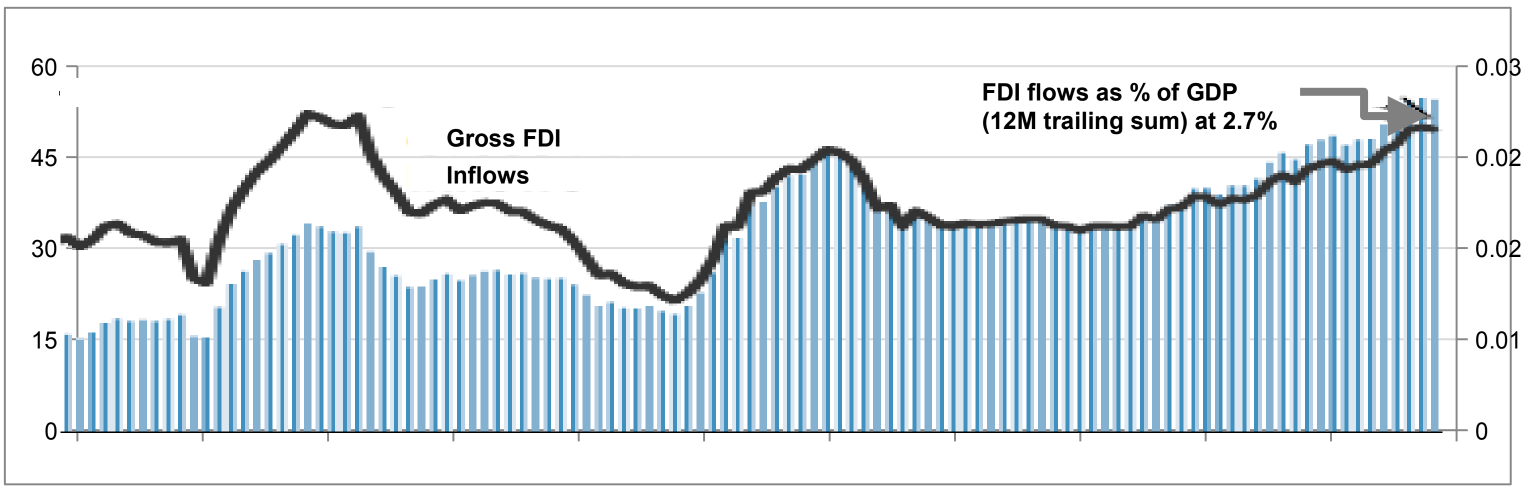
- India's exports declined for 17th consecutive month in April.
- India had seen rapid growth in exports in 2004–2008.
- Post Global slowdown Indian exports are seeing slump.
- Significant pick up in FDI witnessed. FDI Inflow is more than CAD now
- FDI Inflows at 2.7% of GDP (12M trailing sum to Feb)

Merchandise Exports Growth (%ge)



Source: Bloomberg
Note: India Merchandise Exports Including Re exports YoY (%)

Monthly Gross FDI Inflows (US$ bn)



Source: Morgan Stanley, RBI

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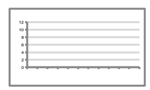
Deficits in Control

Curtail in subsidies (Rs. Bn.)

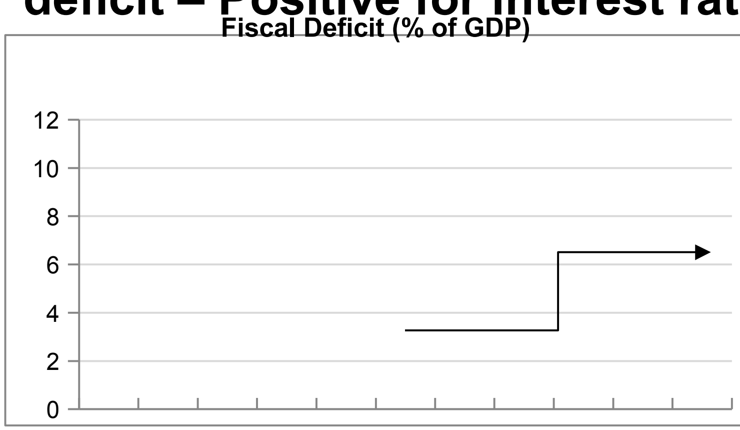


Over 190mn bank accounts opened for direct benefit transfer

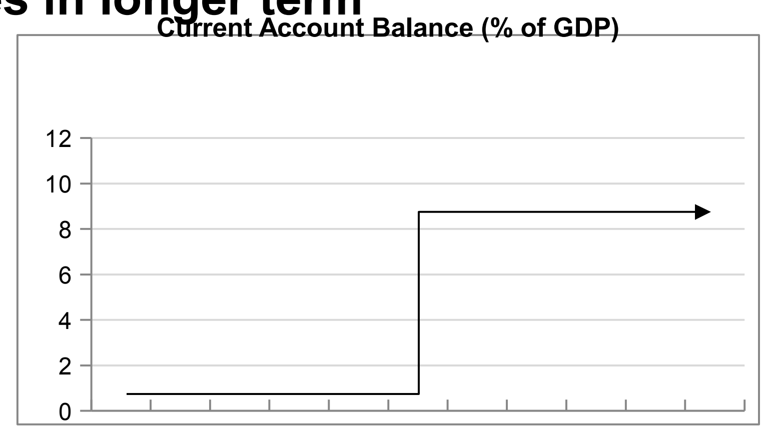
Bank Accounts Coverage in million	Rural	Urban	Total
Public sector banks	82	67	149
Regional rural banks	29	5	34
Private banks	4	3	7
Total	**116**	**75**	**190**

Current Account Deficit (CAD) has consistently improved over the last 3 fiscal years. This is mostly on account of lower trade deficit – Positive for interest rates in longer term

Improvement in Price Stability (%)



Improvement in Currency Stability (%)



Source : ICICI MF; Data as of 31st, December 2015

Indian Macro Economic Indicators

	FY13	FY14	FY15	FY16	FY17E
Real GDP growth (%)	5.1	6.9	7.3	7.5	7.7
FD (% of GDP)	4.9	4.4	4.1	3.9	3.5
CAD (% of GDP)	4.8	1.7	1.3	1.0	1.3
CPI (Avg)	10.2	9.5	5.9	4.9	5.3
FDI - CAD (% of GDP)	(3.7)	(0.5)	0.2	0.7	0.5

Source: Citi Research

- Lead indicators of economy are showing an encouraging trend
- Fiscal discipline is commendable
- Growth should continue to accelerate
  - Impact of higher infra allocation to be felt strongly from FY17 onwards (led by increased spend on Railways, rural infra, roads, ports, etc.)
  - Drag of exports & Agriculture should be absent / lower
  - Interest rates may move lower due to lower inflation

Conclusion – Indian Economic Growth Expected to Hit 8% by FY18

- Economy should experience higher growth from FY17 onwards
- Low inflation, low interest rates to drive consumption
- Improved governance increased reforms and public capex to kick start corporate earning growth
- However rising external risks from - fragile global growth, deflationary pressures, weakening international trade growth, China rebalancing, and the divergence in central bank policies; will lead to periods of uncertainty and hyper volatility leading to slower than potential growth of Indian economy.

Positive	Negative
Strengthening sovereign balance sheet due to low fiscal deficit and CAD	
Significant pick-up in FDI inflows	
Public sector capex revival	Private sector capex remains weak
Pick-up in urban and rural consumption	Exports continue to contract for 16 months

Outcome: Improved equity markets and returns, stable debt returns and flat real estate returns*

* For next 2–3 years

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- Section 3

Do’s & Don’ts of Investing

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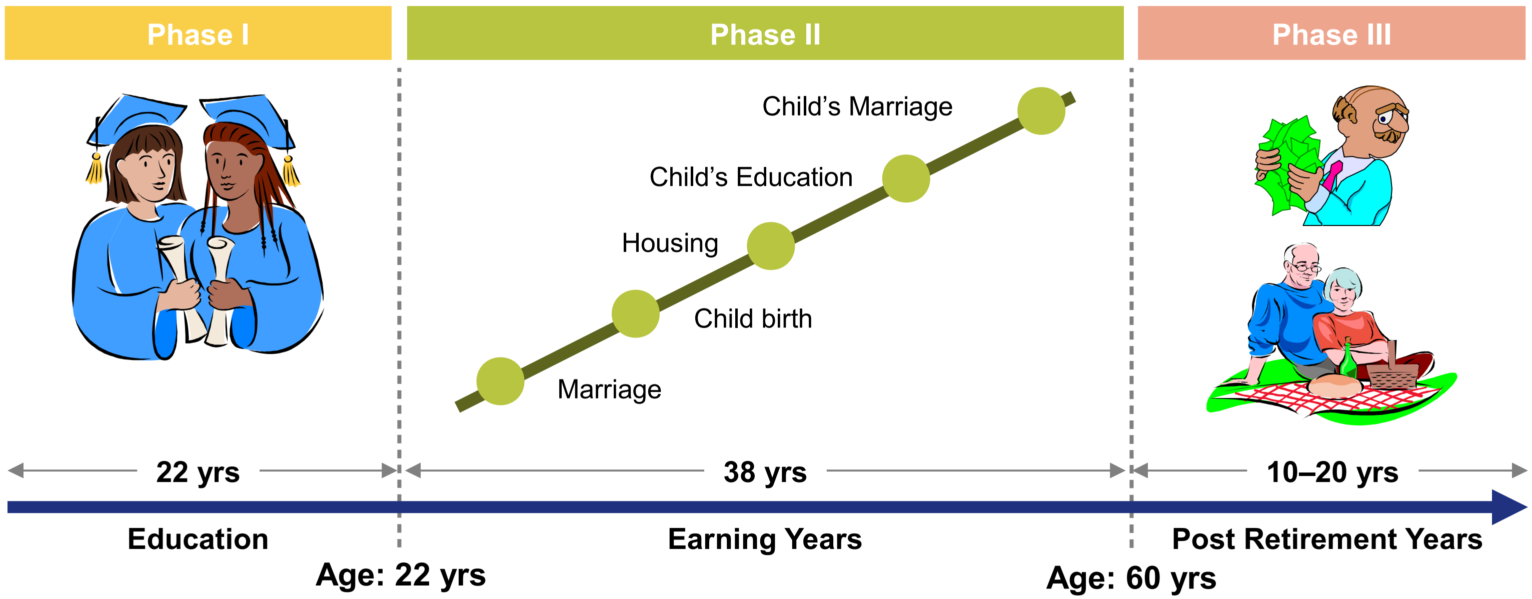
Human Life Cycle



Phase II: The Most Challenging Phase

- Meet current recurring expenses
- Build capital assets
  - House, Car…
- Make provisions for Retirement; Contingencies- Illness, Accidents, etc.

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The Formula for Creating Wealth

Start Early

Invest Regularly

Create Wealth

“Do not save what is left after spending, but spend what is left after saving.”

Achieve Your Financial Independence Early

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Power of Coompounding

After 30 years

- **Investment** – Rs. 36 Lakhs
- **Return Multiple after 30 years**

  @ 6%   – 2.78x

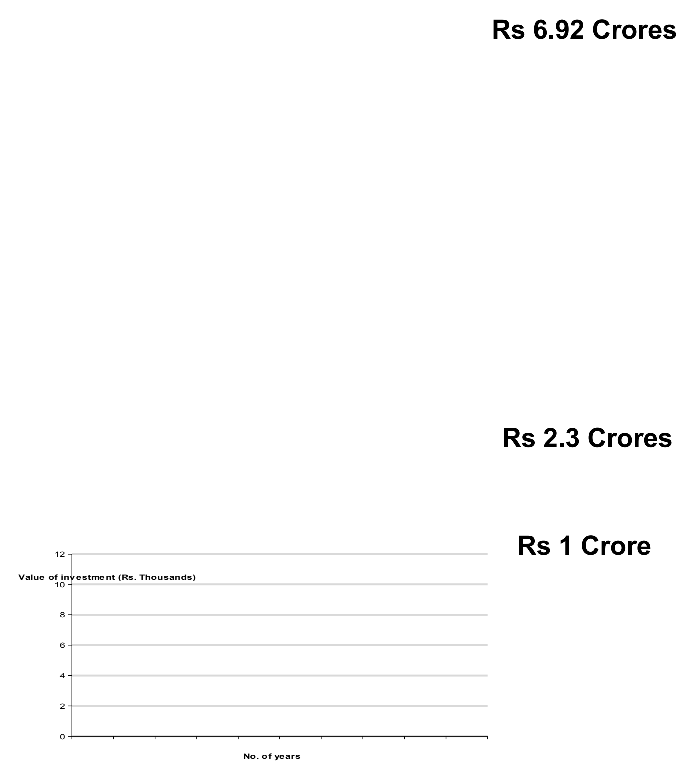
  @ 10% – 6.39x

  @ 15% – 19.22x

- **Return Multiple over Years**
  - Infosys stock – 4,734x (23 Yrs)
  - HDFC stock – 597x (25 Yrs)
  - Mutual Fund A – 38x (20 Yrs)
  - Mutual Fund B – 17x (14 Yrs)

Source: Bloomberg

Rs.10,000 invested every month for 30 years



The Power of Compounding

Even small amounts invested regularly can grow substantially

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Various Asset Classes & Performance

Comparison of Different Asset Classes

Year	Inflation (CII)	Gold (per 10 gms.) (Rs.)	Silver (per 1kg.) (Rs.)	F.D. Rate(%)	PPF Rate(%)	BSE-Sensex Index Value
31-Mar-81	100	1,670	2,715	8.50%	8.00%	173
31-Mar-82	109	1.645	2,680	9.00%	8.50%	218
31-Mar-83	116	1,800	3,105	9.00%	8.50%	212
31-Mar-84	125	1,975	3,570	9.00%	9.00%	245
31-Mar-85	133	2,130	3,955	9.00%	9.50%	354
31-Mar-86	140	2,140	4,015	9.00%	10.00%	574
31-Mar-87	150	2,570	4,794	9.00%	12.00%	510
31-Mar-88	161	3,130	6,066	10.00%	12.00%	398
31-Mar-89	172	3,140	6,755	10.00%	12.00%	714
31-Mar-90	182	3,200	6,463	10.00%	12.00%	718
31-Mar-91	199	3,466	6,646	10.00%	12.00%	1,168
31-Mar-92	223	4,334	8,040	12.00%	12.00%	4,285
31-Mar-93	244	4,140	5,489	11.00%	12.00%	2,281
31-Mar-94	259	4.598	7,142	10.00%	12.00%	3,779
31-Mar-95	281	4,680	6,335	11.00%	12.00%	3,261
31-Mar-96	305	5,160	7,346	12.00%	12.00%	3,367
31-Mar-97	331	4,725	7,345	12.00%	12.00%	3,361
31-Mar-98	351	4,045	8,560	11.00%	12.00%	3,893
31-Mar-99	389	4,235	7,615	11.00%	12.00%	3,740
31-Mar-00	406	4,380	7,900	9.50%	12.00%	5,011
31-Mar-01	426	4,190	7,215	9.50%	9.50%	3,604
31-Mar-02	447	5,010	7,875	8.50%	9.00%	3,469
31-Mar-03	463	5,310	7,695	6.00%	8.00%	3,049
31-Mar-04	480	6,065	11,770	5.25%	8.00%	5,591
31-Mar-05	497	6,180	10,675	5.50%	8.00%	6,493
31-Mar-06	519	8,490	17,405	6.50%	8.00%	11,280
31-Mar-07	551	9,395	19,520	9.00%	8.00%	13,072
31-Mar-08	582	12,125	23,625	8.75%	8.00%	15,644
31-Mar-09	632	15,105	22,165	8.75%	8.00%	9,709
31-Mar-10	711	16,320	26,928	9.25%	8.00%	17,527
31-Mar-11	785	20,775	49,600	10.25%	8.00%	19,445
31-Mar-12	852	28,040	56,890	10.00%	8.80%	17,121
31-Mar-13	939	29,610	54,030	9.25%	8.70%	18,835
31-Mar-14	1,024	29,300	43,400	9.00%	8.70%	22,386
31-Mar-15	1,081	26,220	54,750	8.50%	8.70%	27,957
Investment as on March 1981	**1,00,000**	**1,00,000**	**1,00,000**	**1,00,000**	**1,00,000**	**1,00,000**
Value as on March 2015	**10,81,000**	**15,70,060**	**13,81,215**	**10,24,000**	**25,20,698**	**1,61,60,115**
Return (%)	**7.04**	**8.18**	**7.79**	**9.55**	**9.65**	**15.63**

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Asset Allocation – Investment Backbone

Time Spent	Investment Decisions	Impact on Returns*
10%	Asset Allocation	92%
60-70%	u ec	< 5%
20-30%	r mi	< 3%

Asset Allocation is the key!

Source: The Brinson, Hood & Beebower Study.

Asset Allocation should be in tune with your goals and objectives

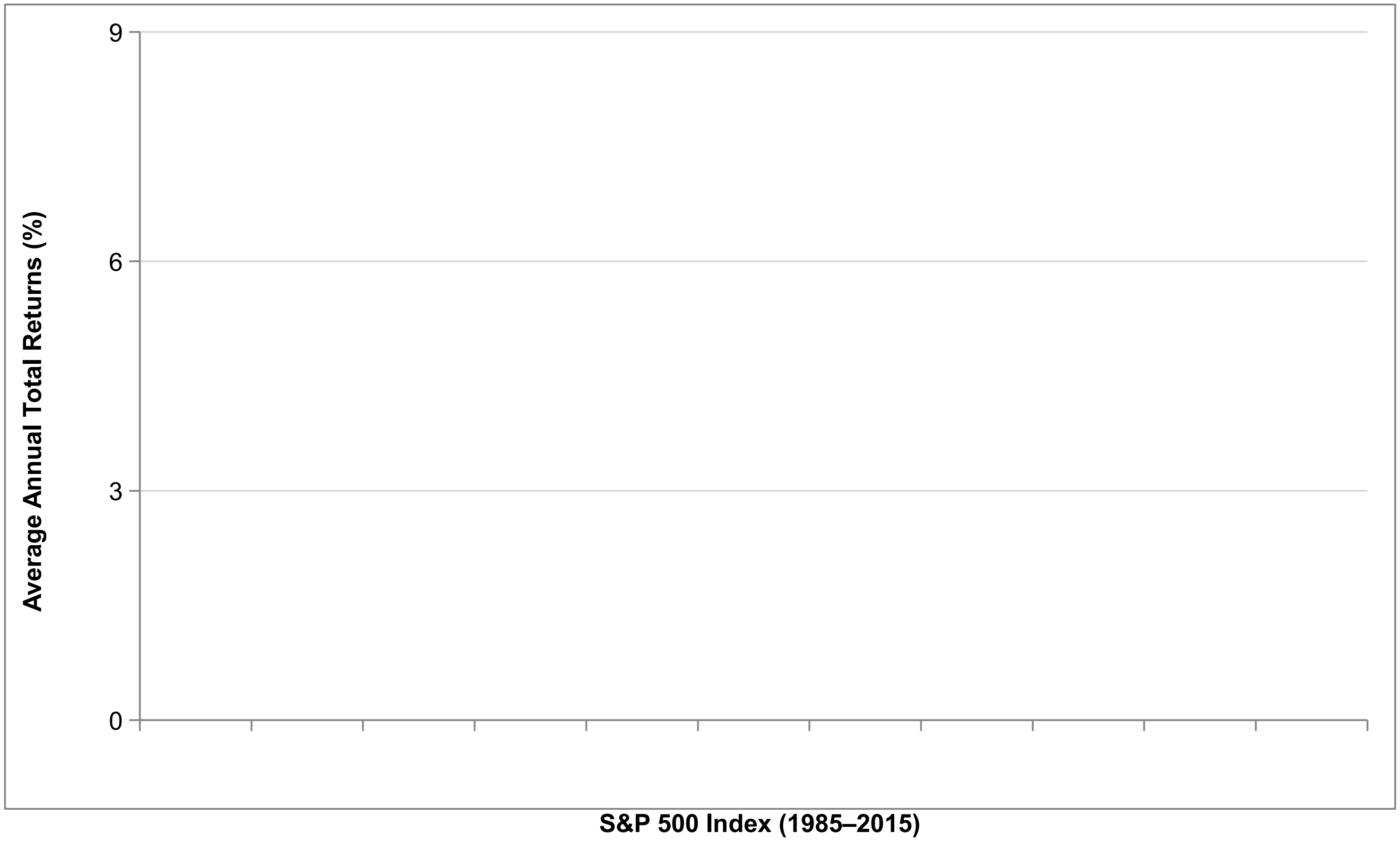
Time in the Market is More Important than Timing!

- ** The study shows if an investor stayed invested between April 1985 & December 2009 → <u>Return obtained would be 16.39%p.a</u>

- If he tried to time his entry & exit and missed the 10 best days in this period → <u>Returns reduce to 9.65% p.a</u>

- If he missed 40 best days in this period → <u>Returns would be 0.51% p.a</u>

Remember, it is time invested in the market – not market timing



**Study done by Sundaram Mutual Fund using BSE Index

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Asset Allocation – Execution Plan

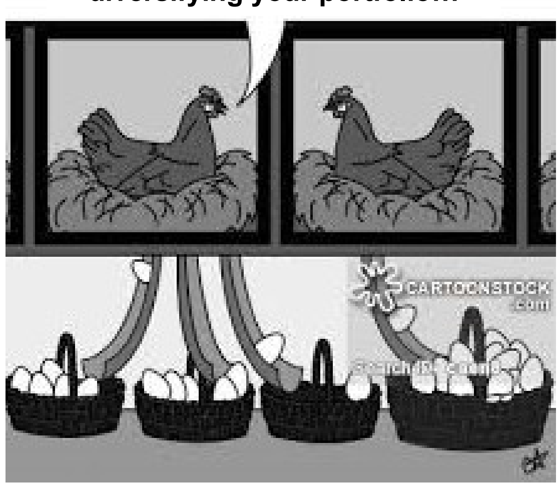
- **Creation of Asset allocation –** A Function of <u>risk</u> & <u>reward expectation</u> & <u>investment goals</u> & <u>Timeframe</u>
- **Asset allocation**

Expected Return –15% CAGR	
Equity	60%
Debt	20%
Real Estate	15%
Cash	5%

Low Risk	
Equity	25%
Debt	50%
Real Estate	20%
Cash	5%

- **Magic of Diversification** – Spread money across asset classes & within asset classes different securities
- **Liquidity & taxation**: Spread investment across multiple time buckets and mitigate tax leakages

You may want to consider diversifying your portfolio…



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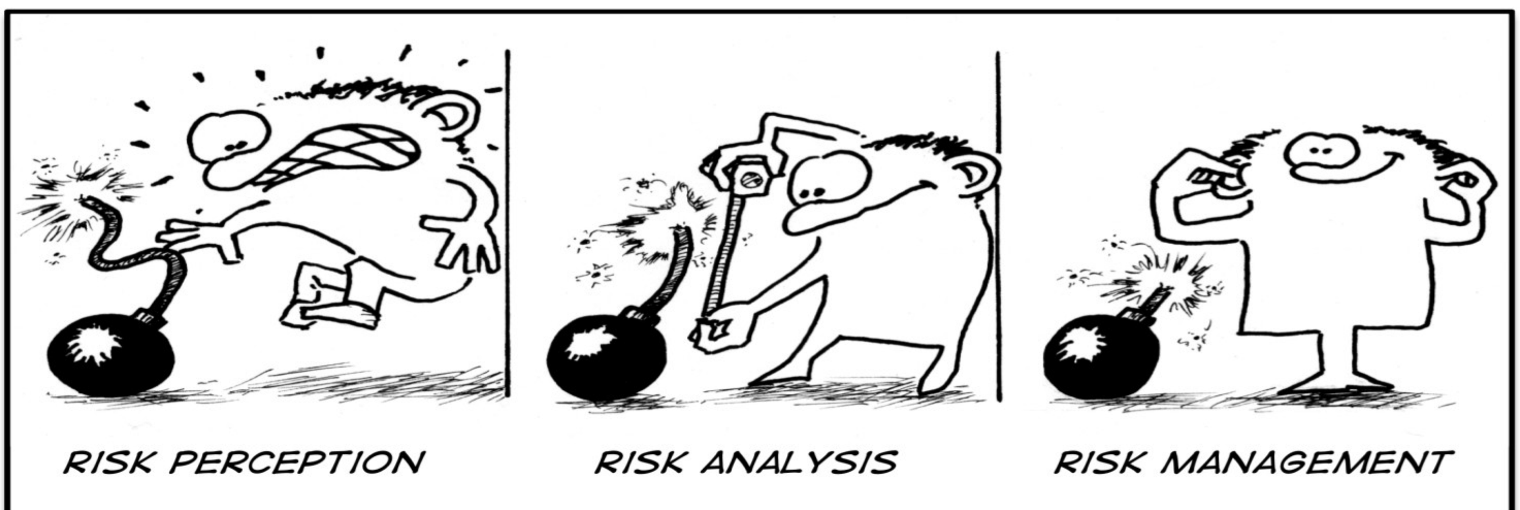
Asset Allocation – Execution Plan (cont'd)

- **Monitor & balance portfolio on regular basis**

	Asset allocation (%)	
	Strategic	Tactical
Equity	25	15–40
Debt	70	60–75
Cash	5	0–10

- **…CE IN REALITY**
- Risk measurement and monitoring with respect to liquidity, re-investment, credit, diversification and operational risks needs to be performed.



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Don'ts

"You only have to do a very few things right in your life so long as you don't do too many things wrong"

- **Fear & Greed**
  - *"Two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics will be unpredictable. ... We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."…* ***Warren Buffett***
- Refrain from over allocation towards a particular asset class which is expected to give higher returns.
- Do not chase return – Investors get carried away by either investing in top performing stock / fund over the short term or increasing exposure when markets are rising.
- In time of market related crisis - do not follow the herd mentality and stay invested in line with your asset allocation.
- Plan for contingencies – Make sure you have sufficient liquidity, medical and life insurance for personal crisis or emergency – Avoid selling at wrong times

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Thank You

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