

BM Fiscal Research

Market Outlook Jan-2018



MARKETS ACROSS THE GLOBE

	2017	2017	2016	P/E	P/E	P/E	Earnings Growth	Earnings Growth
	MTD	YTD	Return (%)	Yr 2017	Yr 2018	Yr 2019	2017 (%)	2018 (%)
Asia ex Japan (MSCI Asia ex Japan)	2.51%	38.71%	2.90%	14.6	12.9	11.6	29.10%	13.50%
Emerging Markets (MSCI EM)	3.36%	34.35%	8.60%	14.0	12.3	11.1	27.90%	13.80%
Europe (Stoxx 600)	0.64%	7.68%	-1.20%	16.3	15.0	13.7	9.30%	9.00%
Japan (Nikkei 225)	0.18%	19.10%	0.40%	19.2	17.1	15.2	12.80%	12.50%
USA (S&P 500)	0.98%	19.42%	9.50%	20.0	18.1	16.4	13.00%	10.70%
Brazil (IBOV)	6.16%	26.86%	38.90%	14.5	12.5	10.5	31.50%	16.10%
China (HS Mainland 100)	2.62%	39.53%	-1.30%	11.0	9.8	8.7	23.90%	13.00%
Hong Kong (HSI)	2.54%	35.99%	0.40%	13.2	12.0	10.6	23.80%	9.90%
India (SENSEX)	2.74%	27.91%	1.90%	22.3	17.5	14.6	6.50%	27.60%
Indonesia (JCI)	6.78%	19.99%	15.30%	18.0	16.1	14.4	14.30%	12.00%
Malaysia (KLCI)	4.60%	9.45%	-3.00%	16.6	15.4	14.6	5.40%	7.90%
Russia (RTSIS)	2.02%	0.18%	52.20%	7.0	6.3	6.1	8.80%	11.10%
Singapore (STI)	-0.89%	18.13%	-0.10%	15.5	14.0	13.1	5.70%	10.40%
South Korea (KOSPI)	-0.36%	21.76%	3.30%	10.3	9.0	8.4	32.90%	14.40%
Taiwan (Taiwan Weighted)	0.78%	15.01%	11.00%	14.8	13.5	12.5	14.30%	10.00%
Thailand (SET Index)	3.32%	13.66%	19.80%	17.5	15.8	14.3	3.80%	11.00%

*Returns are as at 29 December 2017. Source: Bloomberg, iFAST Compilations. All returns are in respective local currency terms and MSCI Index returns are in USD



Trade (Novt'17)

- During the month of November 2017, exports and imports grew at 30.55% and 19.61% respectively in dollar terms.
- The value of exports stood at USD 26.2 billion while the value of imports was USD 40.0 billion.
- The trade deficit for the month was at USD 13.8 billion vis-à-vis USD 13.4 billion during November 2016.
- We believe that rising oil prices will impact the trade deficit in the coming months.



Industrial Production (Oct'17)

- The industrial output as measured by the Index of Industrial Production (IIP) stood at 2.2% for the month of October as against 4.1% during the month of September.
- The major sectors like Mining, Manufacturing and Electricity registered growth rates of 0.2%, 2.5% and 3.2% respectively.
- On a Use-Based classification, Primary Goods, Capital Goods, Intermediate Goods, Infrastructure/Construction Goods, Consumer Durables and Non-Consumer Durables grew at 2.5%, 6.8%, 0.2%, 5.2%, -6.9% and 7.7% respectively.



Markets & Valuations

(As on December 29, 2017)

- The benchmark Index (Sensex) was at 34,056.83
- Estimated PE & earnings growth for BSE Sensex

	2017-18	2018-19	2019-20
Price/Earnings	22.86	17.94	14.84
Earnings Growth	13.30%	27.44%	20.89%



Inflation (Nov'17)

- India's Consumer Price Index (CPI) was higher at 4.88% during the month of November vis-à-vis 3.58% during the previous month. This is the first time that this indicator has come above 4.0% after the announcement of Demonetisation in November 2016.
- The biggest reason for this increase has been the rise in the prices of Food and Beverages which rose by 4.41% as compared to 2.26% in the previous month. The biggest contributor to the price rise in this segment was vegetables prices which shot up by 22.48% while the previous month's reading was 7.47%.
- We are of the view that the rising inflation will be of concern to the central bank and if that is the case then an easing monetary policy would not be the norm soon.



BSE Sensex - Top & bottom performers in December 2017. (As on December 29, 2017)

Top Performers	MTD	Bottom Performers	MTD
Maruti Suzuki India Ltd	13%	Coal India Ltd	-5%
Oil & Natural Gas Corp Ltd	8%	State Bank of India	-3%
Hindustan Unilever Ltd	7%	Power Grid Corp of India Ltd	-3%

Earnings growth estimates of top weighted stocks:

Stock	FY-18	FY-19	FY-20
HDFC Bank Ltd.	15.95%	23.25%	23.35%
Reliance Industries Ltd	7.65%	16.06%	11.84%

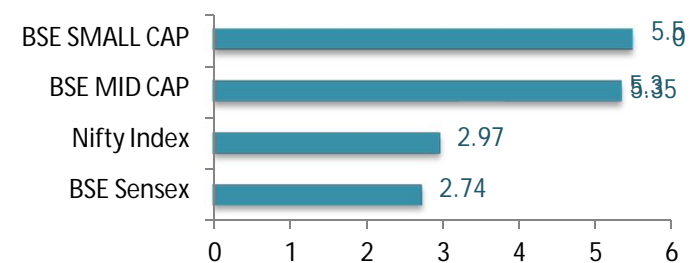


Our view

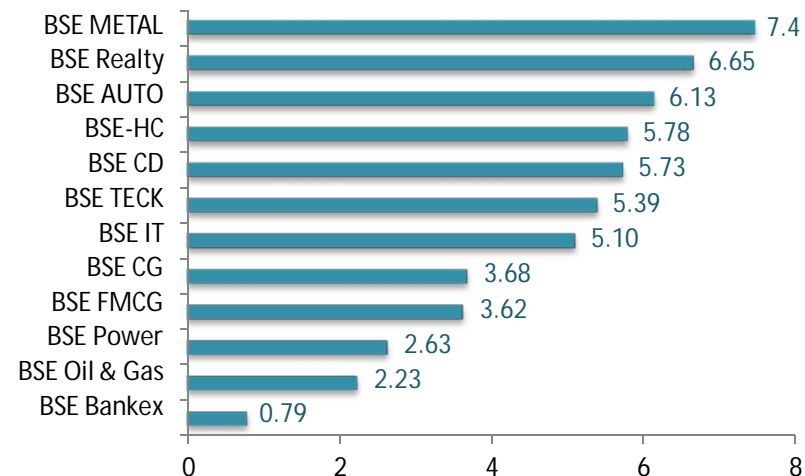
2017 ended on a good note with the benchmark index, S&P BSE Sensex, registering a return of 2.74%. The month started off with the policy review meeting by RBI where the Central Bank maintained status quo on policy rates while continuing to have concerns on inflation. The fact that inflation rose to more than 4% for the first time after demonetization created a view that status quo on policy rates are here to stay for some more time. BJP's win in major states like Gujarat and Himachal Pradesh was a big relief for market participants as it meant that the ruling party would face lesser resistance from the opposition in the Upper House of Parliament. However, the end of the month saw the Government announcing additional borrowings of INR 50,000 leading to fear of fiscal slippages in FY18.

We believe that the Q3FY18 results of India Inc and the Budget would be the focus areas of interest for market participants in the coming days.

Broader Indices (Performance % in December 2017)*



Sectoral Indices (Performance % in December 2017)*



Source: Bloomberg, iFAST Compilations. All returns are in respective local currency terms

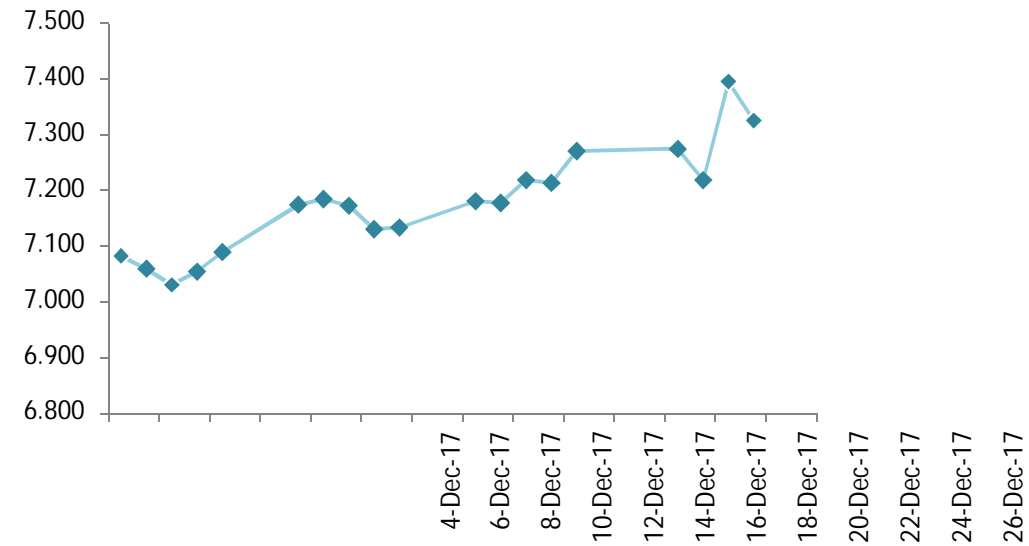


Our view

December saw the bond market under stress with the 10 year G-Sec Yield moving up from 7.08% in the beginning of the month to 7.33% by the end of the month. The Fifth Bi-Monthly Monetary Policy Review for 2017-18 was held in the first week of December, where the Central Bank maintained status quo on rates. The tone in the document was hawkish with RBI continuing to voice their concerns on inflation. An increase in inflation to above 4% along with rise in oil prices meant that not only was inflation moving up but the Central Bank would also continue to maintain a neutral stance on policy rates. Market participants continued to remain worried about the Government's ability to meet the fiscal deficit target of 3.2% for FY18. Finally, the Government's announcement of additional borrowings of INR 50,000 crore for FY18 led the market to end on a pessimistic note.

We continue to recommend ultra short term funds and short term funds to all our investors across risk profiles while our moderately aggressive investors and aggressive investors can take exposure into dynamic bond funds.

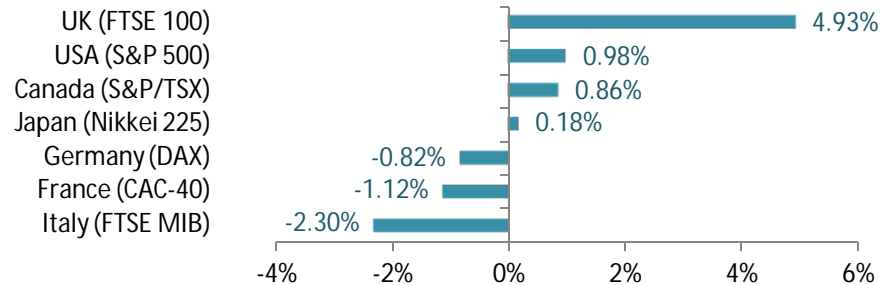
10 Year G-Sec Yield Curve



GLOBAL MARKET UPDATE – GROUP 7 COUNTRIES



G7 Countries - Performance in December 2017*



*Source: Bloomberg, iFAST Compilations. All returns are in respective local currency terms



Our View

- In the December meeting, the current policy for its balance sheet normalisation was unchanged, but the Fed did raise its GDP forecast for the US economy, with 2018's growth rate expected to come in at 2.5% (from a prior 2.1%), while 2019's 2.0% rate was upgraded to 2.1%. Inflation forecasts were unchanged however. Moving forward, attention will be on the leadership transition as chairwoman Janet Yellen prepares to hand over the reins of the Fed to Jerome Powell. **The potential upside of the US market is now the lowest among the markets that we cover, and as such, we maintain our rating of 2.0 Stars "Unattractive" for the US.**

- In terms of economic data, trends in the labour markets across Europe remain constructive, with continued job gains and unemployment generally improving (with the periphery seeing a faster rate of recovery than the core). Leading indicators have been particularly strong, with composite PMIs of the major European countries on a firm uptrend and sentiment supported by an improving outlook. Hard data is also starting to reflect this development, contributing to overall GDP on the continent. **We maintain a 2.5 Stars "Neutral" rating for Europe, and advocate investors to remain an underweight exposure to European equities in their portfolios.**
- For Japan, economic data announced within December mostly point to further improvements in its economic condition. The preliminary reading of December's manufacturing PMI improved further to 54.2 and individual components had revealed strong growth in new export orders and quick depletion of inventories, which should support growth of export and industrial production in future months.

USA

- Nonfarm payrolls rose 228,000 in Nov 17, after a downward-revised 244,000 gain in Oct 17
- Unemployment rate unchanged at 4.1% in Nov 17

EUROPE

- Advance reading of Eurozone PMI composite at 58.0 in Dec 17, as compared to a finalised 57.5 in Nov 17
- Advance Consumer Confidence at 0.5 in Dec 17, up from a finalised 0.0 reading in Nov 17

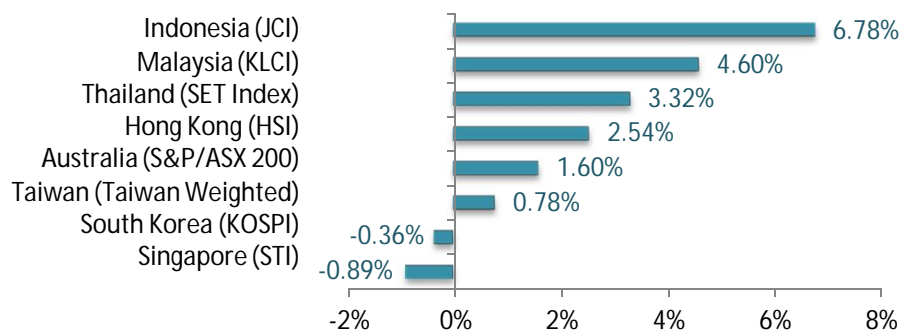
JAPAN

- Consumer Confidence Index increased to 44.9 in Nov, up from 44.5 in Oct
- Dec Manufacturing PMI's preliminary figure increased to 54.2, up from 53.6 in Nov

GLOBAL MARKET UPDATE – ASIA PACIFIC (EX-JAPAN)



Asia Pacific (Ex Japan) - Performance in December 2017*



*Source: Bloomberg, IFAST Compilations. All returns are in respective local currency terms



Our View

- Based on advanced estimates, Singapore's GDP grew 3.1% year-on-year in 4Q 17, bringing growth for the full year 2017 to come in at 3.5%. The manufacturing sector, which makes up approximately a fifth of Singapore's economy, had continued to be a key pillar of growth, as it grew 6.2% year-on-year in 4Q 17, and 10.5% for the full year 2017, up from 3.6% in 2016. We remain positive on the market given the prospect of good earnings fundamentals over the coming quarters, especially from the banking and real estate sectors, which collectively account for more than half of the STI. At this juncture, **we think that a 4.0 Stars "Very Attractive" rating on the Singapore equity market continues to be warranted.**

- As for Indonesia, we foresee private consumption to recover gradually, and infrastructure spending to provide an additional thrust to its economic growth. The recent easing measures undertaken by Bank Indonesia may also provide a material lift to lending activities, which could stimulate investment and consumption activities going forward. Given that Indonesia's economic outlook continues to be favourable as the conducive external environment persists and domestic conditions become more positive, **we maintain the star rating for Indonesia at 3.0 stars (Attractive).**

- We maintain our star ratings of the South Korean market at 4.5 stars "Very Attractive".**

SINGAPORE

- Singapore's economy grew 3.5% for the full year 2017 based on advanced estimates
- CPI came in at 0.6% y-o-y in Nov 17, up from 0.4% y-o-y in Oct 17

INDONESIA

- Indonesia posted a trade surplus of USD 127 million in Nov, down from previous' USD 895 million in Oct 17
- CPI slowed to 3.3% y-o-y in Nov, after a 3.6% y-o-y increase in Oct 17

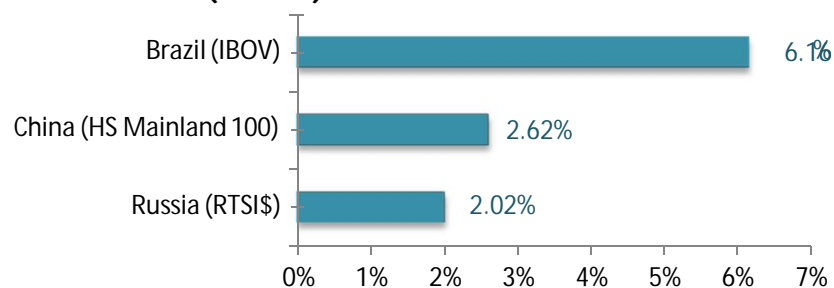
SOUTH KOREA

- KRW appreciated by 1.1% against USD month-to-date (Data as of 26 Dec 2017), as compared to its 2.8% appreciation in Nov
- Oct Manufacturing PMI fell to 50.2, down from 50.6 in Sep

GLOBAL MARKET UPDATE – BRIC (Ex-India)



BRIC (Ex-India) - Performance in December 2017*



*Source: Bloomberg, IFAST Compilations. All returns are in respective local currency terms



Our View

- Economic data released over the month in Latin America's largest economy, Brazil, continued to suggest progress towards economic recovery. In 3Q 17, Brazil's economy grew 1.4% year-on-year, up from 0.4% in the previous quarter, on the back of a continued pickup in private consumption (which accounts for around 60% of the nation's GDP) and a smaller decline in investment. **We believe that a star rating of 3.0 Stars "Attractive" remains warranted for the Brazilian equity market, given its reduced upside potential in recent times.**
- Russia's economy grew 1.8% year-on-year in 3Q 17 (based on final estimates), down from a prior 2.5% on the back of softer investment which had surged in the second quarter. Meanwhile, household expenditure, government expenditure and exports, had continued to improve, thus supporting growth in the quarter. In December, the Russian central bank slashed rates by another -50 basis points to 7.75%, greater than expectations of a -25 basis point cut, and had left open the option of further rate cuts in the first half of 2018. While Russia's good progress to economic recovery would likely continue to provide support to the aggregate earnings of Russian companies, notable uncertainties facing oil prices likely continue to present risks to the earnings of oil companies. At this juncture, **we believe that a star rating of 3.5 Stars "Attractive" remains warranted for the market.**

- China Industrial-related data in November continued to soften as expected by the markets. In November, CPI growth fell to a 1.7% year-on-year rate as a result of decline of food price to -1.1% year-on-year. Overall, we believe the growth rate of China's economy may slow down in 2018 but will within a moderated pace and consumption-related sectors will be the new stimulus to the China economy. **We maintain our 4.5 Stars "Very Attractive" rating for the offshore Chinese equity market.**

BRAZIL

- Brazil's economy grew 1.4% y-o-y in 3Q 17, up from 0.4% in 2Q 17
- IPCA inflation came in at 2.8% y-o-y in Nov 17, rising from a 2.7% y-o-y increase in Oct 17

RUSSIA

- Industrial production fell -3.6% y-o-y in Nov 17, down from 0.0% in Oct 17
- CPI came in at 2.5% y-o-y in Nov 17, down from 2.7% y-o-y in Oct 17

CHINA

- CPI at 1.7% y-o-y in November, lower than 1.9% in October 17
- Retail sales increased 10.2% y-o-y in November, slightly higher than 10.0% in October 17
- Industrial production slightly decreased to 6.1% y-o-y in November, down from 6.2% in October 17

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