ET Markets: Beating Volatility

Angel Investors may Get to Keep Fin Info From Startups

ECONOMY ▸▸ 7

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	10890.3	0.03
Sensex	36321.29	0.01

MSCI India	821.21	-0.16
MSCI EM	2253.53	0.09
MSCI BRIC	582.32	0.18
MSCI World	8097.19	-0.11
SX 40	21365.69	0.05
Nikkei	20442.75	-0.55
Hang Seng	26902.1	0.27
Strait Times	3229.11	0.52

Values in US $, Gross At 7 pm IST

OIL ($) DUBAI CRUDE	BOND 10-YR YIELD
59.54	7.27
1.3	0.02
Absolute Change	Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1289.6	1405.68
LAST*	1288.5	1407.52

*At 10.30pm. After adjusting for import duty, Indian spot gold lower by $ 9.83 to US Comex gold price on Wednesday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
71.03	71.24

Market on Twitter@ETMarkets

FPIs TURN BULLISH

Sensex, Nifty End a Tad Higher Amid Mixed Global Market Cues

PTI

Mumbai: Equity indices ended marginally higher Wednesday after a see-saw session, tracking mixed cues from the global markets amid geopolitical uncertainties.

After swinging nearly 200 points, the 30-share BSE Sensex index settled 2.96 points, or 0.01%, higher at 36,321.29.

The broader NSE Nifty inched up 3.50 points, or 0.03%, to 10,890.30.

In the Sensex pack, Yes Bank, IndusInd Bank, Infosys, ICICI Bank, TCS, SBI, Reliance Industries, ONGC, Axis Bank and NTPC rose up to 2.66%.

On the other hand, losers included Bharti Airtel, Bajaj Finance, Asian Paints, Vedanta, HCL Tech, HUL, Hero MotoCorp, Kotak Bank, HDFC, HDFC Bank and ITC, declining up to 1.38%.

"The market remained lacklustre and the indices traded in narrow ranges in the absence of any fresh news or triggers from both domestic and global markets," said Joseph Thomas, head research, Emkay Wealth Management.

The direction in the coming days would depend to a large extent on the earnings season that is coming up and also the developments around the US government shutdown, Brexit and further monetary actions from China, he added.

On a net basis, foreign portfolio investors (FPIs) bought shares worth ₹159.60 crore on Tuesday, and domestic institutional investors (DIIs) were net buyers to the tune of ₹417.44 crore, provisional data available with BSE showed.

Global investor sentiment was cautious after British Prime Minister Theresa May's divorce deal to leave the EU was overwhelmingly rejected by MPs, triggering a no-confidence motion against her government and leaving the country with no plans for Brexit on March 29.

This is the biggest defeat for a sitting British government in history.

London's FTSE fell 0.61%, while Frankfurt's DAX was up 0.22% and Paris CAC 40 rose 0.20 % in early deals.

Elsewhere in Asia, Korea's Kospi rose 0.43%, Shanghai Composite Index ended flat, Hong Kong's Hang Seng was up 0.27%, while Japan's Nikkei fell 0.55%.

RECESSION WITHIN A YEAR! Apple, FedEx, American Airlines, Macy's and Blackstone issue profit warnings; the US bond market is also showing signs of weakness

Recession Worries Grow as Top US cos Cut Earnings Forecasts

ET ANALYSIS

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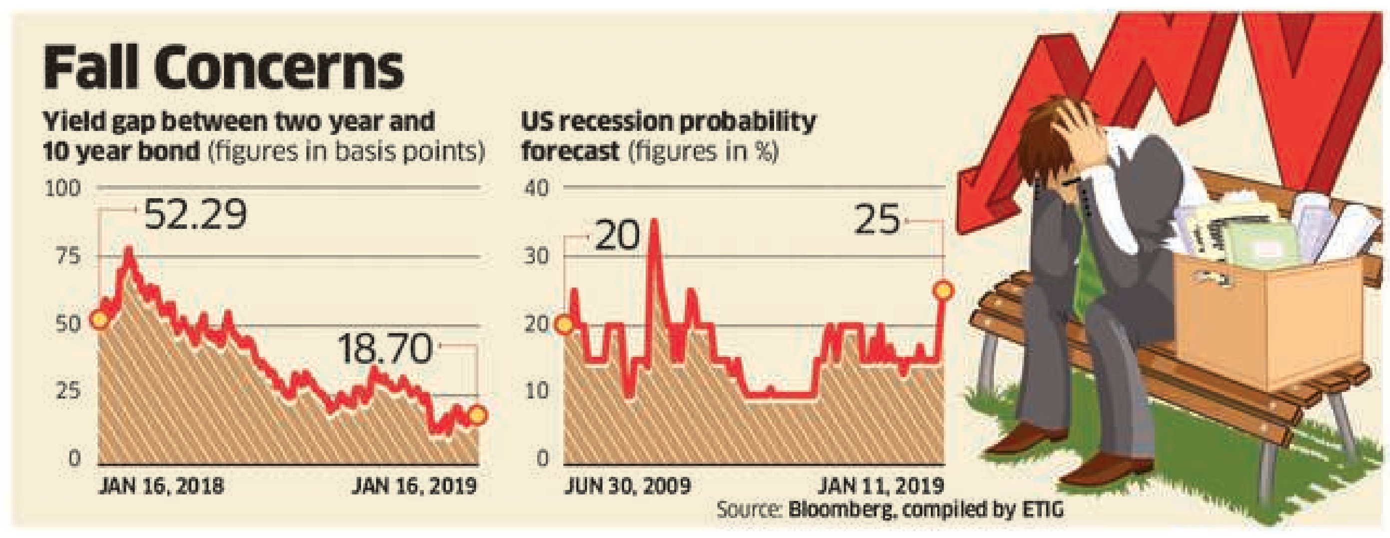

Source: Bloomberg, compiled by ETIG

ET Intelligence Group: Global equity investors have started factoring in a probability of recession within a year following dull earnings forecasts by major Wall Street companies and trend in the yield curve. The outlook for global growth has changed dramatically in the past three months as the projection of the worldwide GDP growth dropped by 50 basis point to 2.5% from 2.9% in the period.

Apple, FedEx, American Airlines, Macy's and Blackstone have issued profit warnings. Analysts too have cut earnings expectations the most since 2009 according to Citi's Earnings Revision index. The number of analysts' downgrade outpaced upgrades due to sizeable cut in earnings of the US and Japanese companies. The earning cut may have a significant impact on the global price-earnings (P/E) multiples. The 12-month forward P/E of MSCI World index — a gauge of developed market nations — dropped to 16 times which is at nearly 25% discount to the 10-year average. In addition, the bond markets are also showing signs of weakness. JPMorgan Chase believes the current yield spread between the investment grade and junk rated corporate debt suggests 50% probability of an economic contraction within a year. The yield curve in the US has already inverted for the short-term tenure which indicates recession in the coming 12-36 months. The inverted yield means longer-term debt carries a lower yield than shorter-term debt. The yield curve of two-years and 10-years is just 19 bps away from turning inverted.

BROKERAGE EXPECTS Nifty to test 10,000 by Dec-end as risk-reward turns unfavourable for stocks; populist measures by states do not always bring votes in polls

As Local Retail Investors Lose Faith, Risk's Not Worth Reward, says UBS

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ETMarkets.com: Dalal Street seems to be factoring in strong earnings, sustained retail inflows and a second term for the Narendra Modi government, but reality may turn to out be different.

Data suggest inflows into equity mutual fund schemes — which derive 87% of their assets from individual investors — more than halved in December to ₹4,487 crore against ₹11,005 crore sequentially. Earnings may fail to meet tall consensus estimates. Besides there looms uncertainty over forthcoming general elections.

Risk-reward has turned unfavourable for stocks, foreign brokerage UBS said, while expecting Nifty50 to test 10,000 by December-end.

Data suggests that even if arbitrage schemes are excluded, inflows into equity schemes dropped 23% month-on-month to ₹6,700 crore in December. Local flows follow market returns.

But the market performance in the last one year — Sensex up 4%, midcap index down 16%, smallcap index down 25% — is anything to boast of, risking retail outflows.

"The one-year return is in the low single digits (negative for mid-caps), which may lead to a further slowdown in retail flows — this is already visible in the latest flows data," UBS said in a note, while suggesting an unattractive risk-reward for markets.

The brokerage said its discussions with investors suggest the market may be pricing Modi's coming back in the forthcoming general elections. "They are already pencilling in a sharp earnings recovery and sustained retail

flows," it said.

In a separate note, the brokerage argued that populist measures by states do not always bring votes in general elections.

It cited the case of 2009, when loan waivers announced by key states in 2008 yielded no clear improved results for Congress in the general elections, vis-à-vis other states, which did not have any material waivers. This was also the case for states with high spending on National Rural Employment Guarantee Act (NREGA) then, it said.

Analysts' expectations of FY20 earnings growth of 25% and 18% in FY21, look too tall. UBS does expect double-digit earnings, but at 16% and 14% growth for the said years, implying a 9% cut to FY20 estimates. "Likely earnings cuts and waning support from local flows/local financial conditions may also be an overhang on market multiples," the brokerage said.

So far, the market believes that the recent build-up of a populism narratives nothing but pre-election phenomenon.

The narrative around reforms has had supported rich valuations in India over the last four years, despite years of earnings cuts. "Potential structural challenges facing rural India and populism's unclear role in deciding electoral outcomes imply that the post-May 2019 narrative will be key for 2019 performance," it said.

STRUCTURED FINANCE MARKET

IL&FS SPVs' Non Payments may Hit Credit Market

India Ratings, Crisil hint at sharp downgrades if repayments are allowed to stop

Saikat Das & Prashant Mahesh

Mumbai: India's structured finance market, the cash conduit to lower-rated borrowers, could head into a lockdown if special purpose vehicles (SPV) of IL&FS are allowed to skip repayments to investors until bankruptcy courts resolve the debt at the infrastructure financier and its subsidiaries.

India Ratings and Crisil have both hinted at sharp downgrades to 'D', or default grade, for the outstanding loans and debt at the SPVs if repayments are stopped at those operating units. India Ratings and Crisil have rated the bonds issued by five such companies - Jharkhand Road Projects Implementation Company, Hazaribagh Ranchi Expressway Ltd, Jorbat Shillong Expressway, North Karnataka Expressway and West Gujarat Expressway.

Total outstanding bonds would be worth ₹3,300 crore for the five SPVs, while bank loans could be in the range ₹15,000-20,000 crore for all such SPVs, showed market estimates by two market sources that are involved in the matter. There are about 330 such SPVs in the IL&FS group.

Ajim Premji Trust, Pioneer Independent Trust, Food Corporation of India, and Postal Life Insurance Fund are some of the investors in those SPVs, market sources said. Some domestic mutual funds also hold those debt papers.

"If the structured mechanism comes under pressure for problems at the holding company level, then the faith of the market in structures will disappear," said Nilesh Shah, managing director, Kotak Mutual Fund. "The capital market will be open for the highest rated borrowers only."

IL&FS declined to comment on the matter, while individual investors could not be contacted immediately.

"We had put all five special purpose vehicles under negative watch last year pending the resolution of ITNL's role in managing the maintenance of the roads," said Ananda Bhoumik, MD, India Ratings. "Based on the latest communique, the move looks regressive for access to financing for infrastructure SPVs."

IL&FS Transportation Networks (ITNL) is a wholly-owned subsidiary of IL&FS.

If the SVPs are able to stop the payments, the ratings on the bonds would have to be downgraded to 'IND D', he said.

IL&FS has cited a court order by the National Company Law Appellate Tribunal (NCLAT) while claiming that its SPVs are entitled to a moratorium on repayments.

The NCLAT extended a moratorium after giving initial relief until the final hearing. The Ministry of Corporate Affairs filed an application with the NCLAT after the National Company Law Tribunal rejected the application for a moratorium in October.

IL&FS has written letter to the IDBI Trustee, which is entrusted with the task of protecting the interest of the bond holders.

"The trustee is mulling legal option. It is likely to go to NCLT, which will decide whether a moratorium will apply to all such SPVs," said a senior executive, who did not wish to be named.

All operative companies will be hit due the latest SPV move, said a senior executive.

Based on available legal opinions, CRISIL understands that the NCLAT order does not pose restrictions on regular debt servicing, the rating agency said in a report.

"Debt servicing on these bonds is not an issue. If you want your money back, it has a moratorium," said a senior manager at a fund house.

However, NCLAT made a reference to all such SPVs in its earlier order.

JPMorgan Had a Record 2018. Jamie Dimon Worries About 2019

Bloomberg

By many measures, JPMorgan Chase & Company had a stellar 2018, with net income hitting a record — even excluding the benefits from US tax reforms — driven by loan growth and unprecedented investment banking fees. But it was a tumultuous fourth quarter that drew much of the attention after the bank announced its results on Tuesday, with one analyst describing it as "very un-JPMorgan like." Fixed-income trading revenue plummeted 18%, the worst performance in a decade, while expenses crept up more than expected. The result was the lender missed estimates on both earnings per share and revenue, the first time that has happened since 2015.

Executives wrote it off as a one-time setback. One quarter isn't a trend, chief financial officer Marianne Lake said, and the bank doesn't feel the need to react to the slide in bond trading. The start to the year has been "decent" and the bank is seeing "normal seasonal strength," she added. Asked by Wells Fargo analyst Mike Mayo how he felt about the year-end slump, chief executive officer Jamie Dimon said he was "very happy" with the performance. He said that he doesn't care about temporary swings, that the bank isn't immune from the wider trends, and that, in fact, JPMorgan's market share either held up or grew in the quarter, as was the case in equities. What's more, the near-term outlook for credit — one of the top investor worries going into earnings season — is relatively rosy.

But beneath that optimism was a clear current of unease about the path that lies ahead. It started with Dimon's opening remarks.

"We urge our country's leaders to strike a collaborative, constructive tone, which would reinforce already-strong consumer and business sentiment," Dimon said in the press release accompanying earnings. "Businesses, government and communities need to work together to solve problems and help strengthen the economy for the benefit of everyone."

Two headwinds are of concern to Dimon: the protracted government shutdown and uncertainty around the future of global trade. "We need good government policies," he said. As chairman of the Business Roundtable, a lobbying group that represents about 200 chief executives, Dimon said he would like to see a trade deal get done.

As for the partial US government shutdown, it's not just market confidence that's getting hurt. Dimon predicted that growth could go to zero in the first quarter if the shutdown is prolonged; the Fed projected US GDP growth of 2.3% for 2019 in quarterly forecasts it updated last month.

STOCKS NEAR LONG-TERM VALUATIONS

Don't Expect Much from Pricey Consumer Stocks

Jayesh Khilnani

The Nifty FMCG Index has gained 1% so far in 2019 after rising nearly 12% last year. The 15-member index trades at nearly 40 times its one-year forward earnings, which is also the 5-year average. It is still 7% below the lifetime-high level of 33,167 and analysts do not expect it to reach 33,610 in the coming one year. That implies a 9% return. Here's a list of high price-to-earnings stocks and where do analysts see them one-year from now.

HINDUSTAN UNILEVER
Trades at 52-times expected FY20 earnings, which is above the 5-year average of 44 times. The stock is 4% below the lifetime high and analysts expect a 5% return in the next one year.

ASIAN PAINTS
Trades at 50-times expected FY20 earnings, which is close to the 5-year average of 51 times. The stock is down nearly 6% from the 52-week high and analysts expect the stock to decline 4% in a year.

NESTLE INDIA
Trades at 56-times expected FY20 earnings, which is below the 5-year average of 64-times. The stock is 3.5% below the 52-week high and analysts expect it to remain flat.

AVENUE SUPERMARTS
Trades at 68-times expected FY20 earnings. The stock is down 18% from its lifetime high of 1,698.7 and analysts expect it to remain flat over the next one year.

BRITANNIA INDUSTRIES
Trades at 54-times expected FY20 earnings, which is above the 5-year average of 42-times. The stock is 8% below the lifetime high and analysts expect the stock to decline a little over 1% in the next one year.

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