Information Research

MARKETS: Outlook for 2016

4th Jan, 2016

Equities:

The real economy has still not picked up as seen by the muted figures of core sector growth, falling credit demand, declining trend of investments, still rising NPAs, and poor capacity utilization data. Government's reform policies though aimed in right direction still faces hurdles and the results will take time. Even the benefits of falling commodities and oil prices have shown little positive impact on corporate results. Companies were able to show lower costs but that was offset by a poor topline indicating lack of demand in markets. There are enough reasons for demand to be lackluster as markets across the globe suffer from deflationary trend which may last quite long. Falling demand in China, US, and Europe is bound to be reflected in India. And looking at the most crucial forthcoming event, the budget in February, we expect that government will be focusing on populist measures that are bound widen deficit and limit availability of funds for productive purpose. It has already reiterated to focus on social welfare schemes and subsidies. The shortage of funds for development projects is expected to continue.

With little signs of growth stimulus on domestic front and rising global economic and geopolitical stress, we expect 2016 to remain range bound between 8500 - 7000 with a downward bias.

Fixed Income:

We expect interest rates to remain near stationary during 2016 as inflation has reached a stable level. The impact of global factors is going to remain uncertain as there are divergent trends in interest rates – US is expected to raise rates further (though slowly), whereas Europe, China, and Japan are on lose monetary policy track.

Gold:

Gold prices are declining globally due to strengthening of dollar as US move ahead in its rate hike cycle. Depreciation of rupee may negate that effect to some extant but the price may remain under pressure throughout 2016.

Real Estate:

Pressure of oversupply is still working as a depressant for real estate prices and except for some metro pockets the sector is not expected to revive for next 2-3 years.

RECOMMENDATION: Considering lack of growth opportunities in almost all asset classes, the investors should consider investing in short term debt mutual fund schemes.