Information Research

MARKETS: Downward Bias

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Indian equity markets during 2016 are expected to remain in downtrend with support at 7000 with high probability of negative shocks. For the movement to reverse and enter a bull phase, the first crucial level to be crossed will be 8000. Even if the markets enter a bullish trend, we expect the upside to be capped near 8500.

Apart from the global negative factors like slowdown in China, threat of rising Fed rate, poor growth in Europe, and the rising geopolitical stress, domestic scenario also does not look any better. None of the major policy reforms seem to be moving forward and the next major event of Budget may prove to be a market dampener in contrast to media views. We expect it to be a populist budget and it may allocate more funds for social welfare schemes and on subsidies rather than on infrastructure and other constructive areas. Markets may see new lows during April to May 2016 period.

On inflation side, we expect it to remain under control looking at the rising deflationary trend across the globe. But we do not expect any rate change considering the fact that RBI has already reduced the rates substantially and there are mixed indications from the international markets. The US seems to be on a rate hike cycle whereas rest of the world is following the opposite policy.

There may be a global asset contraction phase where we may see all asset prices contracting including real estate, equities, commodities, and energies. We recommend investors be highly cautious and suggest them to invest in short term debt funds. Some allocation may be made in gold keeping in mind the volatile geopolitical conditions.