Trends in the Global Financial Markets - 2017

What is the issue?

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- 2017 proved good for equity investors with almost all global markets experiencing a bullish run.
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- This was mainly driven by high liquidity and many consider it a growth recovery after the 2008 financial crisis.
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What are the trends worldwide?

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- India's Nifty saw a net capital gain of 28%, mainly due the highest ever investments by mutual funds and supportive global portfolio flows.
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- The primary market was also buzzing with 120-odd initial public offerings, picking up Rs 750 billion in subscriptions.
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- Elsewhere too, this trend prevailed, with America's Dow Jones Industrial Average gaining 24.5%, Euro zone's FTSE 100 gaining 24%, Japan's Nikkei 225 was up 23%, and South Korea's KOSPI was up by 35%.
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- Significantly, the US economy is in top gear, Japan has seen its best growth in two decades and the EU too recorded its best growth of this decade.
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- Notably, China's Shanghai was an underperformer and gained only 12%.
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What is the investment profile in Indian?

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- Mutual fund contribution exceeded the combined funds of foreign portfolio investors (Rs 500 billion) and Other Domestic Institutions (Rs 820 billion).
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- Also, India’s rally received additional impetus from retail participation, who own just under half of that “Assets under Management” (AUM).
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- Notably, around 800,000 new systematic investment plans are being opened every month and many individuals are also investing directly in equity.
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- **The Challenge -** The only concern for Indian investors was the low earnings growth – last year, the Nifty’s earnings rose just 5.5%.
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- It is the hopes of a corporate rebound that have kept investors interested and rising share prices have also created a wealth effect.
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- While this has helped attract more rounds of investments thus far, if there isn’t an earnings rebound, the trend will see a reverse.
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- But an earnings rebound will depend on higher consumption and more private sector capital expenditure, both of which are currently weak.
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How does the future look?

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- Indian markets have shown be quickly receptive to business and has avoided being a clearly unbroken bullish run, which promises its sustainability.
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- Also, despite the global growth recovery, FPIs are unlikely to move out as there are few alternative markets that can give such decent returns.
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- While this provides some stability to Indian markets, there are several policy expectations from the government to kick-start CapEx and boost consumption.
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- The Union Budget is showing signs of a fiscal slippage and hence it is important to avoid populism to send reassuring signals to investors.
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- Also, the churn due to the GST regime will have to stabilise.
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Source: Business Standard

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