**Strategy and Market Outlook**
*Strategy Note*

After a long and tough election season, finally, the results are out and broadly, no major surprises are in store for the country and the markets. As depicted by most of the Exit Polls, the BJP led NDA government has come back to power albeit with a higher majority. Some people were surprised by the massiveness of the mandate considering that issues like unemployment, farm distress, tight liquidity, weakening consumption and investment cycle, could have led to Anti-incumbency sentiments. However, what came out very clear from the mandate was that the people of the country expect the incumbent government to help alleviate the above issues and thus there was a big Pro-incumbency push on the ground.

Post the election results, the focus of investors has come back on to the markets and expectations from it. Investors have been worried about the slowing economy, big bankruptcies, slow National Company Law Tribunal (NCLT) process, troubles with liquidity and NBFCs. One point that we wish to make is that many of the problems faced by highly leveraged groups is due to weak business practices of the past, which have come to haunt them now. Eventually, people would have to come to terms with the fact that the earlier model of promoter getting upside from high leverage and the system getting the downside from it (for a corporation), is now coming to an end. With the Insolvency and Bankruptcy Code (IBC) and NCLT process gradually maturing, defaulting promoter would start to lose control of their companies and it would lead to more prudence from them while taking any significant leverage or business decision going forward.

With the RBI continuing to keep the system liquidity higher and the focus of the government to push through growth, high quality NBFCs and corporate facing banks are likely to see a comeback while those with weak business models could still struggle.

In the past five years of the NDA government, we have seen that they have been able to push through big reforms and decisions taking huge political risks. Demonetization and implementation of GST were such risks that could have had negative political repercussions, but with the current mandate it seems that the people actually believed that the near term difficulties with the above mentioned decisions could easily be absorbed by the huge long term advantages that would accrue. We believe that in the next five years the government would accelerate the process of reforms and decision making to take advantage of the solid base that has been built over the past five years. Apart from its earlier promises (housing for all, electricity for all, smart cities etc) which have seen strong delivery and would continue to see delivery in times to come, the BJP manifesto for 2019 elections also talked about making India a USD 5 trillion economy till 2025 (against USD 2.7 trillion in 2018 as per IMF). Along with that the BJP manifesto also talked about Rs.100 trillion spending on infrastructure creation in the economy. Clearly, with such projections the corporate earnings is likely to see sharp upturn in the medium term which should be a big positive for the equity markets, with higher benefits accruing to infrastructure and corporate facing banks.

On the global front, we are witnessing the US and China fighting for trade supremacy, which has created an uncertain environment for global trade. While the trade related issues can be a short term negative for the markets, over the longer term, it can also open up big spaces for countries who can replace China as a sourcing base for economies like the US. We think that India, with a decisive government, huge demographic dividend, and better ease of doing business, strong rule of law and improved infrastructure can be one of the regions where global manufacturing companies may decide to set alternate base.

**Overall, the mandate that the government has got would enable it to accelerate the economic reforms and decision making in the country. Apart from that, we also think that the financialisation of savings could continue to keep the domestic flows stable into the markets. Given the above scenario, from a mutual funds strategy perspective we think that investors could start to allocate 60% lumpsum and rest staggering over the next 3 to 4 months, with an investment horizon of 2-3 years.**

**Disclaimer:**



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