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FACT CHECK

Markets ignored five risk factors

■ Ambit Capital says Indian stock markets are currently in the 'overvalued' territory

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MUMBAI, AUG. 28

While India's GDP is likely to surprise on the higher side in FY19, Ambit Capital said five macro-risks are slowly escalating which the stock markets appear to be unnaturally sanguine about.

Besides the all-too-familiar risk of India's 'twin deficits' raring their ugly heads, it said the political developments will have to be closely watched as there is a possibility of the NDA seat count dropping to sub-220 levels if major opposition parties form an alliance in key states. At present, it noted that the investor community at large appears to be certain that the NDA will be able to win a second term in office with a comfortable majority. However, analyst at Ambit believes the final outcome could change if adverse coalition dynamics play out for the BJP or anti-incumbency affects the BJP seat count badly.

Another risk that could pose serious challenge, according to Ambit, is household savings flowing back to physical assets. Noting that India's household savings to GDP ratio currently stands at a 28-year low, it said, if inflation rises hereon owing to the fiscal pump-priming, then not only can the household savings ratio come under greater duress but worryingly

the proportion of 'financial savings' in total savings could fall, limiting domestic flows into the Indian stock market.

"Even as GDP growth in FY19 will be a non-issue as the government injects a record fiscal stimulus, we worry that the stock market is in overvalued territory and is perhaps allocating an unduly low weightage to the increasing macro risks listed above. Given this scenario, we would urge investors to only invest in good and clean stocks to limit downside risks. Furthermore,

given the rising risk of fiscal profligacy and given the risk of financial saving inflows slowing, we urge investors to be cautious regarding their NBFC sector exposure," said Ritika Mankar Mukherjee and Sumit Shekhar, research analysts at Ambit Capital.

They also highlighted the geo-political risk as the assumption of power in Pakistan by an Army-backed coalition government could translate into structural escalation of Indo-Pak hostilities in the medium term.

5 macro risks include rising twin deficits, fiscal and CAD, declining household savings to GDP ratio, the upcoming general elections and possibility of Indo-Pakistan hostilities over the next few years.

■ The political developments will have to be closely watched as there is a possibility of the NDA seat count dropping to sub-220 levels if major opposition parties form an alliance in key states.

■ **THE SENSEX** rose by 202 points to close at a fresh record high while the Nifty ended above the 11,700-mark after global markets rejoiced a US-Mexican deal

