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‘Stock markets in overvalued territory’

New Delhi: Even as equity market is scaling new heights, domestic brokerage Ambit Capital has a word of caution as it thinks that the stock market is in “overvalued” territory.

According to the brokerage, there are five macro risks that could affect investor appetite for Indian stocks.

The risks include rising twin deficits, declining household savings to gross domestic product (GDP) ratio, the upcoming general elections and possibility of Indo-Pakistan hostilities over the next few years.

“Even as the Sensex’s valuations clearly seem to be benefitting from record investor optimism, it is worth noting that with the exception of India’s GDP growth, several macro variables are precariously poised,” Ambit Capital said in a research note.

The report noted that GDP growth in this financial year will be a non-issue and is likely to surprise on the upside as an election-focused government pulls out all stops to gratify the voter and stimulate consumption growth.

Ambit estimates GDP growth at 7% for 2018-19 as against 5.8% in 2017-18.

Meanwhile, the report cautioned that “the stock market is in overvalued territory and is perhaps allocating an unduly low weightage to the increasing macro risks listed above”.

The Sensex is currently trading at a 57% premium to nine emerging market’s me-



WORD OF CAUTION

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dian P/E as compared to the five-year average of 23%, it added.

At the end of Tuesday’s trade, the 30-share index was quoted at 38,896.63, up 202.52 points, or 0.52%. The benchmark has gained 4,839.8 points so far this year.

“Given the rising risk of fiscal profligacy and the risk of financial saving inflows slowing, we urge investors to be cautious regarding their NBFC sector exposure,” it noted. —PTI