2016 Year ahead - Summary of Global Outlook

- **Overall stance:** Sell side strategists are broadly **constructive on global equities** but they expect returns to be moderate. Slightly better global GDP growth and overall policy support are some of the factors considered favoring the equity markets in 2016. While many strategists are citing variety of risks, the full year 2016 targets are showing positive gains over the next one year.
- **Global Growth**: **Economists are mildly optimistic on some recovery in the global economy,** with the forecast of global GDP growth rate at nearly 3.3% for 2016; better than the 3.1% in 2015. Both DMs (Developed markets) and EMs (Emerging markets) are expected to show modest growth recovery. The biggest drag to global growth is likely to be Chinese GDP growth which is expected to decelerate to nearly 6.5% in 2016 from 6.9% in 2015.
- **Central Bank Policies**: The divergence in monetary policy stance between EM versus DM will further widen owing to the Fed rate hike cycle. While Fed is expected to tighten rates, other Central banks are expected to further ease. EMs in general are expected to cut rates further in 2016. Liquidity support from major Central banks like ECB, BoJ and PBoC is likely to continue.
- **Asset Allocation**: Consensus expects 2016 to be a year of low single digit returns across asset classes. In general, there is a neutral stance on equities in overall asset allocation. Except for Euro area assets where consensus is bullish, there is no clear view about regions where consensus is optimistic. Most expect volatility to persist in 2016 though the ongoing time and price correction has made risk assets slightly attractive
- **Equities**: **While earnings growth is expected to be slow, global equities valuations (Ex US) are at reasonable levels.** Within DMs, the preference is for Euro area equities over US. The views are

divided when it comes to which EMs are likely to do well. **However, a common theme among most analysts is being overweight India as it has the most compelling top down story in 2016.**

- **Bonds**: **Long term yields of US will be the key focus in 2016.** With the improving economy and the expected Fed tightening, US 10 yr bond yield is expected to increase to over 2.5% by the end of 2016, a significant increase from the current levels of 2.20%. First rate hike by the Fed is likely to be on 16th-Dec 2015. Since, inflation remains contained and monetary policies in most other economies are still in easing mode, the losses on global bonds are unlikely to be large
- **Commodities**: Slowdown in China along with excess supply in many commodities is expected to lead to **another disappointing year for global commodities in 2016**. A stronger dollar is a further negative. A big debate is whether OPEC will cut production in 2016, given the recent massive fall in crude prices. Most believe that OPEC will be compelled to cut production in 2016 which will provide some stability to oil prices. That said, no significant rise is expected in oil prices.
- **Currencies: After a sharp run up in US$ across currencies in 2015, consensus expects further mild appreciation in US$.** Though few EM currencies may be under pressure, analysts expect USDINR to be range-bound. **The biggest currency market event to watch out for is whether PBoC opts for further CNY devaluation in 2016.**
- **Major Risks**: Excessive Fed tightening and Chinese hard landing continue to be the major risk in 2016. Global inflation surprise on either side, worsening global geopolitics, EM debt deflation and weather disruptions are some of the other worrying factors prevalent in the global markets.

**Source: Compilation of global brokers' year ahead reports*

RELIANCE

Variable Wise Outlook from the Key Broking Houses

Overall Stance - Key Views	
Credit Suisse	Relatively modest recovery in real global growth, driven by DM demand and diminishing commodity headwinds. However, the secular stagnation arguments are exaggerated. Continental Europe remains the most preferred region, slightly ahead of Japan. US equity valuations are at fair value, but outside the US, valuations are not demanding. Four major macro headwinds for EM look set to diminish In 2016: the dollar (only a modest rally likely in 2016), US rates (the first hike has been discounted), commodities (oil price likely to stabilize) and China (near-term stability with macro risks better appreciated)
JP Morgan	Weaker advances in productivity and labour force have pushed down potential GDP growth. These forces are expected to produce 2016 growth bounded close to its potential alongside rising CPI inflation, as the drag from commodity price declines fades. The maturing US expansion and asset price inflation have pushed IRRs to levels that promise low future returns. There does not appear to be a imminent danger of recession, but the aging expansion means investors should be cautious
BoA Merrill Lynch	Fading shocks, improving fundamentals and supportive policy should support global growth in 2016. Policy divergence should be the key theme for 2016, as the Fed tightens policy while several others ease (ECB, BoJ, PBoC). 2016 likely to see stronger growth, more inflation and higher rates but also more volatility and mid single-digit returns for investors. Long dollar, long stocks vs. bonds, long DM vs. EM, long IG vs. HY, long real estate and short commodities are some of the themes
Morgan Stanley	Global growth should improve modestly next year and the risk of a global recession is low. DM has moved out of repair stage, but repair remains underway in EM. However, the repair is likely to be less onerous and hence the drag from EM on global growth should reduce. Credit to outperform equities on a risk-adjusted basis as growth looks modest, central bank policy looser and credit risk premiums are more elevated
Barclays	Global growth to move sideways, with DM the main engine. 2016 should be broadly neutral for risk assets as elevated prices imply modest return potential, especially as the environment could turn more challenging. The likelihood of a major blow to risk assets in the near term as a result of Fed, China or other concerns is limited. Monetary policy will continue to remain extraordinarily supportive in 2016. This is true even for the US. However, central bank policy "puts" will provide less comfort for financial markets going forward
Goldman Sachs	Modest improvements in global GDP next year. A large part of it will come from countries currently in recession, namely Brazil and Russia. Small improvements will come from Europe and Japan. US likely to decelerate slightly and China to see somewhat larger deceleration. Limited upside to US equities as "Bernanke put" to be replaced by "Yellen call". Long USD vs. EUR and JPY. Near time downside risk in oil prices but year end-upside
BNP Paribas	Global growth to slow further in 2016. Global financial conditions to remain tight, with higher US real yields, higher corporate risk premia, higher EM hard and local currency premia and a strong USD. Risk assets to deliver lackluster performance on the back of tighter global financial conditions and the weak China and EM growth feedback effect, leading to deteriorating US and EM EPS growth
Soc Gen	Reasonable US growth will force Fed to tighten but with a dovish stance. US assets are tired but not USD. A loose ECB means that Euro area growth will continue to accelerate. China likely to slowdown further but will avoid a hard-landing. Oil likely to rebound to US$60 by end-2016, supporting inflation linked bonds, commodity currencies, oil-related equity sectors and equity markets with high oil content
Citi	2016 likely to be another year of modest global growth. No significant pickup in growth expected for DM or China, although there may be a technical bounce in EM growth from a very weak base. The general outlook for monetary policy is "loose for longer". Global equities to remain the cross-asset outperformer led by EM and followed by Europe/Japan, with the US lagging behind

Major Risks to the Global Markets	
Credit Suisse	US economy moving towards full-employment faster than anticipated, Chinese hard-landing, oil prices falling to US$30/barrel
JP Morgan	US recession as faster than rise in wages induce the Fed to tighten policy briskly
BoA Merrill Lynch	10% devaluation of Chinese Yuan, de-pegging of the Saudi riyal, higher regulation coinciding with higher rates leading to worsened market liquidity
Morgan Stanley	A significant USD overshoot, weaker growth along with higher inflation
Barclays	Collapse in market liquidity as a result of greater regulation, end of US expansion cycle, China leading the world into recession
Goldman Sachs	Further devaluation of Chinese Yuan
BNP Paribas	Further decline in oil prices, unpredictable Chinese policy resulting in an EM crisis, Fed tightening faster than anticipated
Soc Gen	Overshooting of US bond yields, Brazil President Rousseff impeached, geopolitical risks intensifying
Citi	Rising geopolitical risks converging with socio-economic risks as evidenced by the refugee crisis and spike in terrorism. US elections, UK's EU referendum and German/French politics

Central Bank Policies & Liquidity Concerns	
Credit Suisse	Fed Funds rate likely to reach 1.25% by 2016-end. BoJ likely to ease further in April
JP Morgan	Fed Funds rate likely to reach 1.50% by 2016-end. BoJ likely to expand the pace of its asset purchases to Yen100 trn per year from the current Yen80 trn in 2H16
BoA Merrill Lynch	Fed Funds rate likely to reach 1.00% by 2016-end
Morgan Stanley	Fed to hike in Dec and then pause until June 2016. This is likely to be followed by three hikes in 2Q16. This pegs the mid-point of the Fed's target range at 1.125% by end-2016. In Oct-2016, a potential BoJ regime change towards a different easing framework, such as bond yield targeting could be likely
Barclays	Fed Funds rate at 1.00%-1.25% by end-2016. BoJ to resist monetary easing in 2016
Goldman Sachs	Fed to hike by 25bps in Dec and a further 75bps-100bps in 2016
BNP Paribas	Fed ready to raise interest rates in Dec. After "lift-off", Fed likely to deliver another 75bps of hikes in 2016. Sharp yen appreciation could prompt the BoJ to cut interest rates on excess reserves, rather than ramp up JGB buying
Soc Gen	Fed Funds rate likely to reach 0.80% by 2016-end. The probability of additional QQE measures by BoJ is very low
Citi	Fed Funds rate likely to reach 1.00% by 2016-end. BoJ to implement additional easing in early 2016

**Source: Compilation of global brokers' year ahead reports, Bloomberg*

Outlook on Commodity Demand & Price Trend	
Credit Suisse	**Oil**: Prices to remain low throughout the first part of 2016 (Brent ~$50pb) before recovering slowly towards just above $60pb at the end of the year. **Industrial Metals**: Expects industrial commodity prices trough in 2016 and recover throughout 2017 (with the exception of iron ore). **Precious Metals**: Bearish on gold as dollar bull market looks set to continue
JP Morgan	**Oil**: Sufficient supply adjustment is underway, see upside in oil prices into the second half of next year, brent to reach $60-70pb towards Dec 16 with a 2016 average of $54.75pb. **Industrial Metals**: Bearish, base metals to continue their sharp slide except for Aluminium; Copper and Nickel prices have further to correct. **Precious Metals**: Gold and silver will likely trough in 1H2016 before appreciating slightly into year-end 2016
BoA Merrill Lynch	**Oil**: Bearish on oil with a price target of $42/barrel (Brent) for March 2016 **Industrial Metals**: Demand weakness to weigh on industrial metals with scope for prices to decline further; except for Zinc which is likely to be in deficit **Precious Metals**: For Gold, rising nominal rates, combined with low/ falling inflation rates will pressure the metal lower
Morgan Stanley	**Oil**: Oversupply to continue throughout much of 2016, rebalancing likely by 4Q16. See 2016 brent prices averaging around $49pb in their base case **Industrial Metal**s: Remain constructive on China's medium-term power industry and housing sector outlook and hence Copper **Precious Metals**: Do not see any further downside in gold prices as the rate hike seems already factored in
Goldman Sachs	**Oil**: See oversupply continuing well into next year before rebalancing in 4Q16, forecast brent at $50/bbl for 2016 **Industrial Metals**: Outlook remains bearish in the absence of any production cuts and a major demand recovery with a downside risk to prices **Precious Metals**: Bearish on precious metals except for palladium. Forecasts gold prices to remain $1,100/oz in 3 months, $1,050/oz in 6 months and $1,000/oz in 12 months
BNP Paribas	Commodity prices might be close to their lows **Oil**: Prices may face correction by mid-2016, however sees an end to the implied build in global inventories towards the second half of 2016, which will help oil prices move higher once again. Forecast brent prices to average near $56pb for 2016
Soc Gen	**Oil**: Expect oil to outperform over a one-year horizon and the price to reach $56/b for WTI and $60/b for Brent by end-2016, as rebalancing is underway **Industrial Metals**: Moderately bullish for next year amid the extended drop in prices and announced productions cuts **Precious Metals**: Bearish; expect strong dollar and higher real yields to continue to weigh on gold
Citi	**Oil**: Brent to remain in the mid-to-low 40's for the first half of next year and average around $51/bbl for 2016. **Industrial Metals**: Constructive; Market underestimation of supply adjustments into next year could leave both zinc and copper exposed to the upside post-Q1 **Precious Metals**: Bearish, see gold prices having little upside in the upcoming Fed hiking cycle
HSBC	**Oil**: Prices should drift higher over the course of 2016 **Industrial Metals**: Bottom is yet to be found as supply cuts have not kept up with demand concerns **Precious Metals**: Mildly bullish on gold prices, expect prices to bounce back in 2016, after repeatedly hitting five-year lows in recent months

**Source: Compilation of global brokers' year ahead reports, Bloomberg*

Bond Yields, more specifically US Treasury 10 yr Yield (as its the preferred rate)	
Credit Suisse	US 10 yr at 2.70% and 2.95% by mid- and end-2016 respectively, while German 10-year bund yields at 0.80% and 1.20% by the same time
JP Morgan	US 10 yr at 2.75% by end-2016
BoA Merrill Lynch	US 10 yr at 2.65% by end-2016
Morgan Stanley	US 10 yr at 2.70% by end-2016
Barclays	US 10 yr at 2.60% by end-2016
Goldman Sachs	US 10 yr at 3.00% by end-2016
BNP Paribas	US 10 yr at 2.75% by end-2016
Soc Gen	US 10 yr at 2.75% by end-2016
Citi	US 10 yr at 2.26% by end-2016
HSBC	US 10 yr at 1.50% by end-2016

Currency (FX) Markets Expectation	
Credit Suisse	EUR/USD at 1.00 and JPY/USD at 130 by end-2016
JP Morgan	EUR/USD at 1.13 and JPY/USD at 110 by end-2016
BoA Merrill Lynch	EUR/USD at 0.95 and JPY/USD at 123 by end-2016
Morgan Stanley	EUR/USD at 1.00 and JPY/USD at 115 by end-2016
Barclays	EUR/USD at 0.95 and JPY/USD at 120 by end-2016
Goldman Sachs	EUR/USD at 0.95 and JPY/USD at 130 by end-2016
BNP Paribas	USD to reach parity against the EUR and JPY/USD to rise to 134 by end-Q32016
Soc Gen	EUR/USD at 1.00 and JPY/USD at 125 by end-2016
Citi	EUR/USD at 1.01 and JPY/USD at 127 by end-2016
HSBC	The USD bull run has come to an end and much of the monetary policy outlook for the Fed has been priced in, meaning that the USD has limited room to strengthen from here. EUR/USD at 1.20 and JPY/USD at 115 by end-2016

**Source: Compilation of global brokers' year ahead reports.Bloomberg*

View on Emerging Markets* (Focus on Equities)	
Credit Suisse	MSCI EM 2016 year-end target of 960. Overweight positions on China, Korea, India, Mexico, Malaysia and Turkey, funded by overweight positions on Brazil, Russia, Thailand, Philippines and Poland
JP Morgan	Bearish positioning in EM equities, little change in G-4 currencies by end-2016 and falling Chinese risk premium as investors become more comfortable that the consumer can partially offset the drag from investments, should be favourable for EM equities. MSCI EM year-end target of 930
BoA Merrill Lynch	Overall bearish on EM equities. China likely to be a big drag on entire EM sentiment. Prefer growth stocks within EM space
Morgan Stanley	A strong dollar and fundamental challenges mean it is too soon to turn outright bullish on EM. MSCI EM 2016 year-end target of 847
Barclays	Overweight EM equities. The key region remains China. Monetary support for the Chinese economy appears to be improving. The acceleration in excess liquidity (measured as real money growth less industrial production) is supportive of a re-rating of the MSCI China index. Moreover, the outlook for earnings in China is also improving, as property markets continue to recover
Goldman Sachs	EM growth to pick up, even if not like in the old days. Some sequential improvement from smaller contractions in Russia and Brazil also likely. India, Mexico, CEE should see strength growth in 2016 after a decent 2015. Still a tightrope walk, but 2016 could be the year when EM assets bottom
BNP Paribas	Despite attractive valuations, appetite for EM equities to remain weak due to EM growth weakness and persistent USD strength. MSCI EM 2016 year-end target of 725
Soc Gen	Eastern European assets (equities, currencies and bonds) are clear buys, backed by improving fundamentals, a better growth outlook, cheap valuations and loose monetary policies. All super-cheap Russian assets should enjoy significant price increases thanks to a rising oil price and potentially improving geopolitics. Asian assets are a source of worry as the region's currencies are overvalued and look set to fall against USD, at a time when policy making is highly uncertain in China
Citi	MSCI EM 2016 year-end target of 980. Despite the recent rebound in share prices, EM equity valuations remain attractive. There is already plenty of bad news in the price suggesting decent returns from current levels.

**Source: Compilation of global brokers' year ahead reports.*

Asset Allocation Strategy	
Credit Suisse	Small overweight equities (overweight Europe and EM and underweight US). Dollar bull market intact but appreciation limited. Underweight government bonds. The percentage of companies that are loss making in the US and Europe suggests that credit spreads should remain around current levels.
JP Morgan	2016 promises to be a year of low asset class returns, as asset price inflation is advanced, asset class IRRs have fallen and the global investor is fully invested. Asset allocation should be tactical with shorter-time horizons which some would call trading. Currently, long equities and credit, but ready to take profits soon. The same applies to being long the dollar and short commodities and EM.
BoA Merrill Lynch	Expected returns: US dollar 4-6%, global stocks 4-7%, US house prices 1%, cash flat-to-1%, 30-year Treasury bond -1%, commodities -3%-to-flat.
Morgan Stanley	Investors should run lower equity exposure in 2016 but embrace some of last year's losers, specifically global credit, US inflation and EU cyclicals. More patience is warranted across most EM sectors. Lower expected returns have shifted the efficient frontier for portfolios materially lower versus history. This should support larger allocations to credit
Barclays	Neutral on risk assets. Euro area equities are appealing as there is considerable cyclical headroom for earnings growth. With equity risk premia looking compressed by historical standards and fixed income returns challenged by the start of Fed hike, investors should maintain overweight on the belly of the risk curve. Investment grade credit should generate moderate returns, but present attractive risk-reward in the existing low-risk/low-return environment.
Goldman Sachs	High valuations and rising rates, especially in the US present challenges for risky assets in 2016. As a result, investment opportunities next year will be centered on rotation between markets and across sectors. In short: more alpha than beta. 2016 should also see higher bond yields across the board and steeper curves. On the other hand, corporate credit spreads should narrow over the year
BNP Paribas	Global equities to be impacted by weak corporate profitability. European equities are the most attractive while US and EM equities likely to perform poorly. Strong USD bias should continue with a peak in Q3. Bear market for US treasuries. Global credit to provide lackluster returns with poor liquidity, coupled with heightened idiosyncratic risk and further issuance, to hamper performance
Soc Gen	Balanced allocation for the year 2016 (50% equities, 50% bonds and others). US assets, both equities and treasuries should underperform as the end of the super-loose monetary policy bites into liquidity conditions. Euro area assets should do well while Asian assets (except Japan) are a source of worry. Increase oil (and inflation-related assets) weighting significantly
Citi	Constructive on equities, expecting 13.5% return to end-2016. The equity bull market is maturing but it is too early to call its end given where we are in the profit cycle. Overweight Europe and Japan equities and neutral US equities. HY to outperform IG to end-2016, in both Europe and US
HSBC	Underweight global equities with zero allocation to S&P500 as US margins are likely to come under pressure from the lagged effect of a strong dollar and improving real wages. Long US treasuries as the tricky trinity of deteriorating global growth, restricted policy options and limited risk premia in equity markets suggest that long duration fixed income is still likely to perform

GDP Growth Forecasts*								
	Global		US		Euro Area		China	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Credit Suisse	2.5%	2.9%	2.5%	2.7%	1.5%	1.9%	6.8%	6.5%
JP Morgan	2.4%	2.9%	2.2%	2.3%	1.6%	2.0%	6.6%	6.5%
BoA Merrill Lynch	3.1%	3.4%	2.5%	2.5%	1.5%	1.7%	6.9%	6.6%
Morgan Stanley	3.1%	3.3%	2.4%	1.9%	1.5%	1.8%	7.0%	6.7%
Barclays	3.1%	3.4%	2.4%	2.5%	1.5%	1.6%	6.8%	6.0%
Goldman Sachs	3.2%	3.5%	2.4%	2.2%	1.5%	1.7%	6.9%	6.4%
BNP Paribas	3.1%	3.2%	2.4%	2.0%	1.5%	1.5%	6.9%	6.5%
Soc Gen	3.1%	3.5%	2.5%	2.8%	1.5%	1.6%	6.9%	6.0%
Citi	3.0%	3.2%	2.5%	2.5%	1.5%	1.8%	6.9%	6.3%
HSBC	2.6%	2.8%	2.4%	2.3%	1.5%	1.4%	7.1%	7.2%
Consensus	**3.1%**	**3.3%**	**2.4%**	**2.4%**	**1.5%**	**1.7%**	**6.9%**	**6.5%**

**Source: Compilation of global brokers' year ahead reports.*

Note: For global GDP growth, Credit Suisse, JP Morgan and HSBC forecasts are based on market exchange rates while for other brokers it is based on PPP weights

2016 Year ahead - Consensus Outlook on India's Macro

- **GDP growth** – **Indian economy is in the midst of a sustainable recovery.** Real GDP growth to further pick up in FY17 to approx. 8% yoy from 7.5% yoy in FY16, led by a recovery in domestic demand and ongoing policy actions and reforms.
- **CPI Inflation** – **Inflation outlook is benign** owing to subdued rural wages, contained land prices, existence of significant slack in the economy and lower global commodity prices.
- **Policy Rates** – **Lower inflation to provide room for further policy easing.** Having cut rates by 125 bps in the last one year, RBI is likely to further ease rates by atleast 25 bps in CY16.
- **INR** – **INR to remain in a tight range** at around 65-67 levels.
- **Current account deficit** – Owing to an improvement in domestic demand, India's current account deficit (CAD) to marginally inch up as imports could increase. However, **CAD is likely to be at comfortable levels in FY17** as global commodities prices are expected to be benign.
- **Fiscal deficit** – Despite challenges, Government is likely to manage fiscal commitments. Fiscal deficit to be lower at 3.7% of GDP in FY17 after 3.9% in FY16. Mild deviation is possible on the upside if Government has to provide additional spending on public investments
- **Reforms** - There has been meaningful progress made in various areas of the economy. Consensus expects that reform process will only accelerate in the months to come

Table 1: Consensus estimates for FY17

	MS	DB	Citi	Barclays	BNP	Nomura	BoA-ML	FY17E (Avg)	FY16E	
CPI Inflation (%yoy, avg)	4.9	5.0	4.8	5.3	5.9	5.9	5.5	5.3	4.9	⇩
Policy rate (Repo)	6.50	6.50	6.50	6.25	6.75	6.75	6.50	6.50	6.75	⇧
CA Deficit (as % OF GDP)	(1.5)	(1.7)	(1.3)	(1.3)	(0.9)	(1.3)	(1.5)	(1.4)	(1.1)	⇩
INR/USD (year end)	70	66	68	70	70	67	65	68	66.7	⇩
Fiscal deficit (centre) as % of GDP	(3.9)	(3.8)	(3.5)	(3.5)	(3.5)	(3.6)	(3.9)	(3.7)	(3.9)	⇧
Real Investments growth (%yoy)	7.2	8.8	7.5	8.0	8.2	6.3	7.0	7.6	6.1	⇧
Real GDP growth (%yoy)	7.9	7.5	7.8	8.0	8.0	7.8	7.6	7.8	7.4	⇧

** INR/USD forecast for year-end 2016. For FY16E, the current spot exchange rate is given.*

Source: Compilation of broker year ahead reports/Broker survey conducted

2016 Year ahead - Consensus Outlook on Indian Equities

1. **Deutsche Bank**
   - Corporate earnings are likely to turnaround in 2016, benefitting from an urban consumption recovery, a positive multiplier impact of government's push on public investments, a possible reflation in WPI and favourable base effect
   - **Key Investment themes for 2016:** a) urban consumption, b) US dollar proxies, c) PSU banks, d) beneficiaries of public spending, e) midcaps over large caps

2. **BoA Merrill Lynch**
   - In the shorter term, economic growth will be driven more by increases in consumption (that subsequently lead to increase aggregate investments), government re-allocation of resources (roads, rural) and ongoing efforts at "unclogging" administration
   - **Key Investment themes for 2016:** a) urban consumption with a focus on durable goods, b) rural infrastructure, c) banks, d) further rate cuts to benefit wholesale funded entities

3. **Citi**
   - Indian markets in 2015 have been disappointing. That's because five catalysts: earnings growth, capex revival, rate gains, flows and government reforms have lagged
   - These catalysts are in transition, will take time and won't be sharp. But they are all looking up, coming together and should progressively drive economic activity/market

4. **Goldman Sachs**
   - Indian equities to outperform in 2016 given their sharp recent underperformance, earnings recovery and a relatively stable currency
   - Recent signs of a pickup in cyclical activity, the accumulating impact of a host of smaller reforms on the business environment and the lagged impact of rate cuts should help in recovery of corporate earnings

5. **Credit Suisse**
    - Growth outlook is robust and is capable of driving further multiple expansion
    - Monetary policy likely to continue to remain supportive in a benign inflationary environment
    - Earnings revisions appear to have troughed. With analysts having marked to market their estimates, a mild recovery in oil prices and stabilization of the commodity complex should alleviate the downward pressure on earnings revision

6. **Nomura**
    - Five reasons for positive stance: falling cost of capital, cyclical and structural improvement in growth, a positive terms-of-trade shock, a right-of-centre government, support from rising profitability on increasing asset utilizations and rising margins on lower raw material and interest costs
    - Overweight financials, autos, industrial and technology
    - Underweight consumer staples, pharmaceuticals, metals and telecom

7. **HSBC**
    - Indian equity market is trading at top of its range, at the widest premium to the region historically and is the most overcrowded consensus trade
    - As a result, any further upside will have to be led by earnings not multiples, but it is hard to see where incremental earnings growth will come from
    - Investments are slow, consumption is mixed and expected reforms have not come through
    - Lower interest rates and higher salaries should support urban consumption. Prefer consumer discretionary to staples

**Source: Compilation of global brokers' year ahead reports.*

Top Global Investors' Views

This section summarizes the view of top global money managers/advisors on how they see the global economy and financial markets evolve in the coming year

1. **Scott Minerd *(Views as of Nov-15)***

- CIO of Guggenhiem Partners with AuM of US$220 bn
- **Known for** - Minerd has a deep understanding of the fixed-income world and has been an early player in areas like structured-credit products. He looks at historical trends and bigger shifts in macro economics

Current stance - Positive on risk assets for the near term

- Historically, the period when the Fed begins to tighten leads to an initial sell-off in the bond market as investors brace themselves for the ill-effects of restrictive monetary policy on the economy
- Then as investors realize the Fed is raising rates because the economy is strong, the fear of defaults diminishes and credit spreads tighten again
- The spread widening seen since October 2014 has now reached levels similar to the initial moves in previous tightening cycles. Even with a rate hike in December, the US credit markets are predominately prepared, having already priced in a lot of bad news
- Given the recent backup in spreads, it is an opportune time to increase allocations HY bonds
- US equity valuations are fast approaching highs not seen since the internet bubble. But valuations are a poor timing tool. Equity valuations in Europe look reasonable, and valuations in certain emerging markets such as Brazil look downright cheap. EM assets appear to be nearing a bottom, and valuations in some country look attractive for long-term investors
- Even with the Fed's first rate hike in seven years imminent, the tailwinds of positive economic data, accommodative global central banks, and positive seasonal forces are bolstering market resilience and reaffirming a positive environment backdrop for risk assets. This environment is likely to continue through the holidays and into the first quarter
- Link: http://guggenheimpartners.com/perspectives/macroview/happy-holidays-for-risk-assets

2. **Bill Gross *(Views as of Dec-15)***

- Fixed income portfolio manager Janus Capital which has an AuM of ~US$178 bn

- **Known for** - Co-Founder of PIMCO and popularly known as "Bond King". Recently had an unceremonious exit from PIMCO and thereafter has joined the relatively smaller Janus Capital

Current stance - Cautious on risk assets

- Central Banks are like casinos. The faster and faster central bankers press the monetary button, the greater and greater the relative risk of owning financial assets
- Timing is the because one day central banks will stop printing money and all the distortions caused by central banks will create a negative feedback loop on the real economy which in turn will halt the ascent of stock and bond prices
- One should therefore gradually de-risk their portfolios in 2016. Less credit risk, reduced equity exposure, placing more emphasis on the return of your money than a double digit return on your money
- Link: https://www.janus.com/bill-gross-investment-outlook

3. Kyle Bass *(Views as of Nov-15)*

- Founder and principal of Hayman Capital Management, a Dallas-based hedge fund
- **Investment strategy** – Making bold bets according to his views on macro-economics (known for successfully predicting and benefitting from the subprime mortgage crisis)

Current stance – Bearish on China

- A Chinese hard-landing is imminent. This is because when US was entering the financial crisis, the US banking system was equivalent to 100% of GDP. On the other hand, China now has three times its GDP in bank assets
- However, a Chinese hard-landing won't be as bad as the 2007-09 financial crisis since unlike the US, the Chinese banking system has limited linkages with the global financial system
- China likely to devalue the Yuan by 15%-20%. If and when they do, Asian currencies having high beta to China like Singapore Dollar and Thai Baht will suffer
- Link: http://www.valuewalk.com/2015/11/kyle-bass-on-chinas-looming-banking-crisis-and-the-u-s-economy/

4. Jeremy Grantham *(Views as of Aug-15)*

- Co-founder of Boston-based money manager GMO with AUM of US$120 bn

- **Investment Strategy** – Believes in the concept of "reversion to mean". A value investor by approach with long term investment horizon, he takes an investment position in cases where there is a significant deviation from historical means

Current stance – Bullish in the near term but crash inevitable after a year

- He is not fretting over the impact of the Fed lifting interest rates for the first time this year. He points out that the US central bank lifted interest rates 13 times between 2004 and 2006 without troubling the ebullience of the time
- Although the markets may be wobbly for a few weeks when the Fed moves, the markets will ultimately settle down and most probably go to a new high
- This will draw in retail investors who for the most part have stayed on the sidelines of the bull market since 2009. That could push the S&P into valuations that are two standard deviations away from the long-term norm by the time of US elections in late 2016 which will then be bubble territory
- Link: http://www.ft.com/intl/cms/s/0/82737cca-39f2-11e5-bbd1 b37bc06f590c.html#axzz3tQEhHpGK

5. Ray Dalio *(Views as of Aug-15)*

- Founder and CIO at Bridgewater Associates with AuM of US$150 bn – one of the most successful hedge fund manager with an estimated net worth of ~15 billion US$,
- **Investment style** - Diversification within a balanced structured portfolio is the key to Dalio's investing success. He is a macro investor by style and adheres to a strict sense of ethical ideas. He likes to balance his portfolio between inflation risk and growth – Closely monitors macro-economic trends and is known for successfully predicting the sub-prime crisis

Current stance – Fed is likely to undertake QE4

- Interest rates around the world are at or near 0%, spreads are relatively narrow (because asset prices have been pushed up) and debt levels are high. As a result, the ability of central banks to ease is limited, at a time when the risks are more on the downside than the upside
- Said differently, the risks of the world being at or near the end of its long-term debt cycle are significant
- The Fed is focusing too much on the short-term cycle and under-emphasizing the importance of the long-term cycle

- As a result, there will be a small tightening before there is a large easing. There could be a 25-50 bps tightening before there is a major easing via QE4
- Link: https://www.linkedin.com/pulse/dangerous-long-bias-end-supercycle-ray-dalio

6. Rick Reider *(Views as of Nov-15)*

- CIO Fixed Income at BlackRock
- **Investment style** - A pure macro investor closely tracking US and global macro-economic trends to take investment decisions

Current stance – Global equities are close to fair value

- The days of simple risk-on/risk-off dynamic, depending on whether policy stimulus is waxing or waning, is likely behind us
- Likewise, building leverage in the system for use on stock buybacks or M&A may also be more challenging in the future and simultaneously, by many measures, global equities are close to fair value
- Fed is being too timid with rate normalization, it is waiting too long and that raises risks of its own, of allowing market distortions to build along future inflationary pressures and not focusing on areas that need more urgent attention such as in aiding with global dollar liquidity constraints
- EM sovereigns have maintained fairly conservative leverage levels, although the same cannot be said about EM corporate, where a significant debt binge fueled by globally low interest rates now threatens to undermine key firms
- Thus EM sovereign debt look undervalued while EM corporate issues look too rich
- Link: https://www.linkedin.com/pulse/dangerous-long-bias-end-supercycle-ray-dalio

Our Take:

2015 has been a mix year for Indian financial markets. While Nifty/Sensex have returned small negative returns 2015 YTD, broader market returns have been much better. Due to global uncertainties, FIIs have withdrawn capital from Indian market. However, domestic investors compensated for the absence of FIIs. It's heartening to see domestic household investors meaningfully participating in equities in 2015, providing that much needed balance in flow of funds. Despite few cautious views, the consensus expects global economy to be overall growing and global asset markets to give "measured positive returns" in 2016. In a low growth world, Indian equities stand out amongst the best placed as a) Indian macro recovery would certainly gain traction in 2016, b) After years of sluggishness; we could witness meaningful sustainable earnings recovery in 2016 as the dual impact of operating and financial leverage plays out positively.

In our last year's "Year Ahead 2015" we suggested that investors should **"STAY POSITIVE"**. While 2015 have given only modest returns, we believe it is a case of returns being delayed rather than denied. On the back of improving prospects and superior returns opportunity at hand in the year ahead, we reiterate, **"STAY POSITIVE"**.

From:
Sunil Singhania
& the RMF Equity Team

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