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Equity to outperform other asset classes in 2015: Experts

NEW DELHI: The Indian market -- which ended 2014 on a bullish note, going up by over 30 per cent -- is well on its way for another bull run, and will outperform other asset classes in the year 2015, say experts. Benchmark indices posted their best gains since 2009 during the year.

The 50-share Nifty index closed 31 per cent higher, while the S&P BSE Sensex rose 30 per cent in the year 2014. In dollar terms, the 50-share Nifty index was the second best performer in Asia after Shanghai, according to Thomson Reuters data.

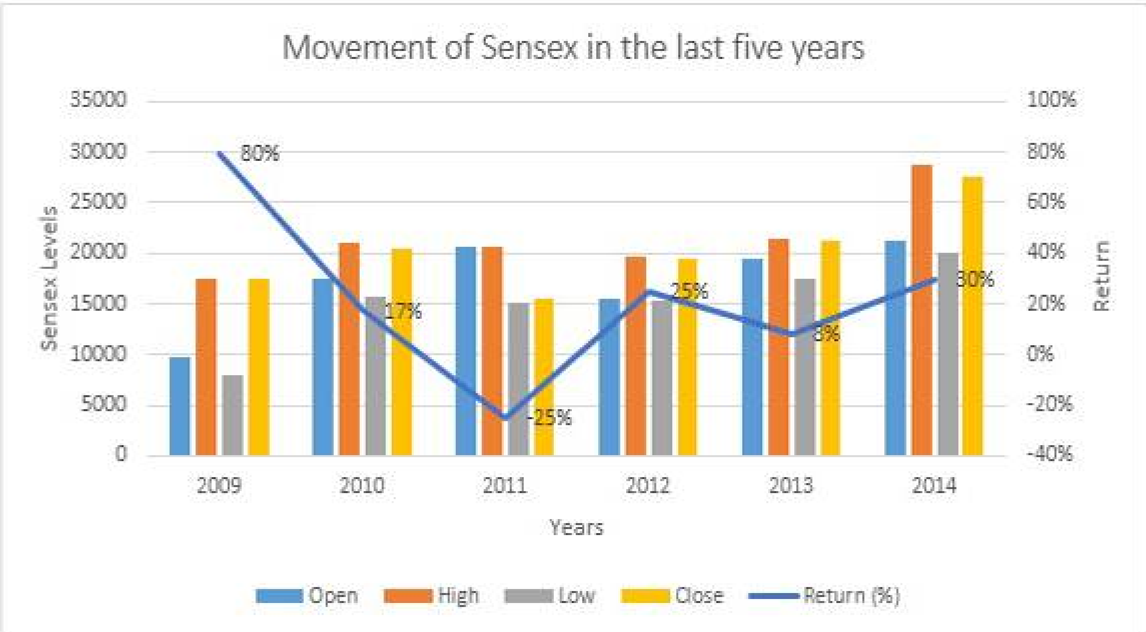
For the coming year as well, analysts are hopeful of a strong 2015 for the equity markets, which is likely to outperform other asset classes. Retail investors who are looking to invest in equity markets should enter on corrections, say experts.

For 2014, the Sensex outperformed with annual return of 30 per cent, whereas FD rates were 9 per cent and gold gave negative returns. There are typically five asset classes to choose from for retail investors, namely, equities, gold, fixed income, currency and commodities.

"Equities are much more likely to outperform other asset classes in the year 2015. Fixed income investments are being peddled by many on the basis that the RBI will cut interest rates and hence one should invest in them to capture the one-time upside to the principal," says Dr Vikas V Gupta, Executive Vice President at ArthVeda Fund Management Pvt Ltd.

"We would like to provide the view that if the fixed income investment is going to benefit from a rate cut, then equity portfolio will, in all probability, benefit many times more," he adds.

Gupta is of the view that the gold story is looking pretty bad since there is a long-term correlation between gold and oil. Oil prices going down is a sign of deflation for the global developed economies and hence gold is likely to come down, he says.



Manish Bhandari, CIIA, Managing Partner & CEO at Vallum Capital Advisors, shares his outlook for different asset classes:

Gold: With the US economy recovering and the US dollar strengthening, there is a likelyhood of gold and other commodities underperforming. The steep slowdown of China will also impact gold as well as commodities.

Fixed Income: There is a high probability of interest rate reversal in 2015. One should invest in long-duration bonds to gain maximum out of this. However, bond premium suggests that a 25 bps cut is already factor into. Therefore, the holding period should be minimum 18 months.

Currency: We expect the rupee to remain stable or gain compared to other currencies, except the US dollar.

Equities: Large cap equities have reached fair value. Now the money-making opportunities are left in niche and midcap companies for investors. They should invest in mid-market funds.

Most experts on Dalal Street are of the view that the economic growth has bottomed out and with earnings likely to grow in the coming quarters, there will be a lot of action in individual stocks.

"We can say that equity will outperform all other assets classes for FY 15. We see strong institutional investments strengthen Indian secondary markets, FII investment for the year stood just below Rs.1000,000 million and DII investment stood at Rs.230,000 million," says Omkar Tanksale, Research Analyst - Equity at GEPL Capital.

"Retail participation has also increased in FY15, which makes the capital markets more robust. Assertive steps from the government also give momentum to the growth of the businesses. This attracts investors to the asset class," he adds.

Tanksale is of the view that investing in government bond and debentures, precious metals etc. will not be as attractive in comparison to equity in FY15.

The rally that we have witnessed so far in the year was broad based. Most of the mid and small cap stocks have registered triple digit returns, largely on account of a reform push by the Modi government, but the rally is still not over yet, say experts, adding that retail investors can outperform benchmark indices by investing in value stocks over a period of 3-5 years.

"Retail investors are really warming up to equity as an asset class. We have seen significant inflows into our funds and into the industry in general over the last six odd months and when we think about equity from a medium-term perspective, the outlook remains fairly very constructive," says Pankaj Murarka, Head-Equity, Axis MF.

"So, any correction can be used as an opportunity to invest more into good business," he adds.

Some consolidation possible:

Most experts are of the view that we are in a beginning of a bull market and 2015 might again be the year of equities. Although most of them do expect some bit of consolidation, but are confident that equity as an asset class should be able to deliver returns to the tune of 15-20%.

"The positive outlook on Indian equities stays intact for the year 2015 as well. Directionally, we remain positive and firmly believe growth in corporate earnings will drive the markets fundamentally. We are in a structural bull run and a return of 15 to 20% CAGR seems quite possible," says Pradeep Gupta, Co-Founder and Vice-Chairman, Anand Rathi Financial Services.

"Interest-sensitive sectors such as banking, NBFC, capital goods and auto could well be outperformers in the coming year. Apart from that, sectors like FMCG, pharma & IT, which have consistently shown good earnings growth, will continue to command some premium," he adds.

Look for value picks:
The likelihood remains high that equity markets will deliver strong growth in 2015. However, one should always remain aware that equity is a risky asset class and hence there is an element of downside which is always possible.

Even though equity as an asset class is likely to outperform, experts still advise investors to scout for value picks or relatively safer stocks or companies which have higher corporate governance.

Vikas Khemani of Edelweiss Financial Services is of the view that as far as retail investors are concerned, the current set-up of the Indian equity markets is unprecedented.

"The next three-five years look very good from the corporate growth and return perspective. There are a lot of positives happening for the Indian equities market. So, from retail investors' perspective, I would advise not to bother about 8200-8100," he adds.

Khemani says that people have to invest in equities. "They can invest via systematic investment plan. Obviously, one has to look at one's own risk-reward profile," he says.

"But in my opinion, for every retail investor, equity exposure has to be a significant part of his savings pool. It will definitely generate very good returns," says Khemani.