**THE WORST IS OVER**

**I had become negative on the markets at the start of the 4th quarter of 2014. The reasons were not any long term negatives related to India but mainly because of the fact that the markets had run ahead of fundamentals, the expectations were too high, the new government had just taken over and the mess that UPA had created required 12-18 months to resolve and the uncompetitive INR was making Indian export uncompetitive and this was a drag on the earnings of many export oriented companies. The global risks were also being underestimated.**

**At the beginning of the year my view was that the first half of the year will be tough for the markets. However as things would play out the second half would be much better. As I write we are almost flat for the year till date.  
As we look forward the things look much more benign. The green shoots of recovery are now evident with a slow increase in the reported Industrial Production data. This recovery is likely to gain steam going forward and I expect that from the month of September we should see reported IIP figures moving up to high single digits. This will be contributed by many factors which include**

**• A pick up in consumer demand with lower inflation and lower interest rates boosting consumer sentiments and demand for both consumer durables and non durables.  
• A nascent recovery in the investment cycle as the impact of the start of many infrastructure projects as well as some amount of corporate capital expenditure will start getting reflected in reported figures  
• With the INR giving up some of its appreciation and uncompetitive move against other currencies we will see some pick up in exports**

**The services side of the economy will also start showing traction as a strong fiscal position of the government will push government expenditure which will have a multiplier affect. A better fiscal position due to better revenue collections will also reduce the impact of crowding out due to excessive government borrowings and will improve market liquidity and make more money available for the private sector.**

**The other big factor that will boost the economy will be the clear control on inflation that has come through now. The Consumer inflation is unlikely to pick up and given the excellent start to the monsoon season there will be less tendency for middlemen to jack up prices in the expectations of a poor agricultural production. Lower inflation always has a virtuous cycle impact on the economy. Not only will it give space to the RBI to cut rates further it will also improve consumer sentiments which have been depressed for a long time.**

**The other factor then to consider is then the impact of global factors where we are facing two issues today**

**• An expected increase in interest rates by the US Federal Reserve. This is a huge bogey in my view. The increase in rates is not due to the formation of a commodity or financial bubble but due to an improvement in economic growth prospects and better employment. It will be supportive of equities and not negative. I will write in detail on this issue separately.  
• The Greek issue. This issue can have a sudden and sharp impact on markets. However it is unlikely to have any meaningful impact on global markets due to two factors. The first is that the current market capitalization of Greece is just $ 20 billion and as such no major losses are likely for equity investors out of Greece. The second is the total debt of $ 324 billion of Greece, which is huge but almost entirely held by the Europeans themselves and the IMF. There is unlikely to be any long term impact of the same on either the Indian economy or the stock markets.**

**IN CONCLUSION I would say that the probability is very high that the worst of the markets is already behind us. My expectation of a bottom around 7900-8000 for the Nifty seems to be playing out. There was always a probability of a slip to 7700 levels however this seems to be a lower probability event now. I am a buyer in the markets now. The second half should be decent for the markets with a high possibility of a new high by the end of the year.**