FUNDSINDIA

Your post-election strategy

Concerns over election outcomes have gripped stock markets from November last year. With the outcome now pointing to a clear single-party majority for the ruling BJP, it puts to rest these concerns.

A continuing government provides stability in terms of policy expectations and development and spending priorities. Given that the reforms that the NDA government had put in are structural and long-term in nature, stability would ensure continued implementation without hiccups that a different governing outfit may bring in.

Market impact

Market movement bases itself both on expectations and reality. Therefore:

1. **Markets already began factoring in a stable government** early on in February. Inflows from foreign institutional investors had picked up, with FIIs turning net buyers and pumping in ₹72,394 crore from February through April on the possibility of political stability. This comes on the back of selling through 2018, where they net sold ₹33,014 crore. In the past 3 months, the Nifty 50 and the Sensex have rallied 9%. The Nifty 50 was up 5.2% in just a matter of 1 week. With a decisive election outcome, the positive sentiment can carry on further as it has done in earlier election cycles.

2. **Cyclical and core economy sectors will see movement.** A 'risk-on' mode from political stability pairs with an expectation of continued and further structural reforms. Leading to overall economic growth, there can thus be a resumption in government spending, and recovery in investment demand. The primary benefiting sectors will be sectors that stand to gain from reforms, spending, and capacity expansion. Markets have already been pushing such sectors up. In the past three months, financials, industrials and capital goods, infrastructure, and energy have made sharp gains.

Sector index	3-month return (%)	2018 return (%)
S&P BSE CD	14.8	-9.0
Nifty Realty	14.5	-33.2
S&P BSE Bankex	13.7	6.1
Nifty PSU Bank	13.6	-16.1
S&P BSE CG	11.7	-2.0
S&P BSE Oil & Gas	11.5	-15.2
S&P BSE India Infrastructure	11.1	-21.3
S&P BSE Basic Materials	9.0	-18.8

3. **Beaten-down market segments can improve.** This is already evidenced by the sector movements. A sustained rally can bring midcaps and smallcap stocks back to the fore. These segments have turned sharply around in this rally; the Nifty Smallcap 100 is up 9% in the past three months and the Nifty Midcap 100 is up 5.4%.

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Very simply, invest more and stay invested. Having said that, a more specific post-election strategy based on your risk level and what you want is in the table below.

If you have...	Reason	Where to invest
been waiting for elections to pass	Risk is now past, and further waiting will only mean missing more opportunities	In a category-allocated and asset-allocated portfolio, through SIPs.
low equity exposure in portfolio	If risk appetite and timeframe allow, step up equity exposure	**Kotak Standard Multicap**, a largecap oriented fund with a cyclical tilt to its portfolio. It can benefit if market rally sustains and picks up beaten-down sectors. Largecaps orientation can also allow it to participate early on in a rally. Moderate risk fund that suits all investors
low exposure to mid-and-smallcaps at less than 20%	Coming months are conducive to increasing exposure. Midcaps and smallcaps, while bouncing back in the past weeks, still have a way to go to recover from their 2018 slump. In a longer market uptrend, these market segments follow largecap gains.	**Franklin India Prima** and **L&T Midcap**. Quality midcap funds whose portfolios and strategies include cyclicals and value-based stocks.
very high-risk appetite and want aggressive calls	Thematic funds. Getting into beaten-down themes can pay off well if markets move into a bullish mode, and market and economic growth gets broad-based. Remember not to go overboard on thematic fund exposure.	**ICICI Prudential Banking & Financial Services and Sundaram Rural and Consumption** - banking, rural development, and consumption - themes that can deliver on economic growth and farm-friendly policies. Most aggressive is **UTI Transportation & Logistics**, given the steep fall in - but fundamentally sound - sector holding. This fund has a heavy auto tilt and can remain subdued for some more time.
Want to book profits as markets have rallied	Now is not the time to get out. Sentiment and liquidity can sustain markets at higher levels for some time. The rally since February has helped recoup a part of the 2018 correction, but not all.	Continue with SIPs/STPs, which are the best way to avoid market timing and participate in market uptrends, while lowering costs during downtrends.

Note: The strategies above require a long-term timeframe of around 5 years or more.

Once the election noise dies down, markets will return focus to earnings growth and economic growth. Yes, this can reintroduce volatility in markets.

But as the elections have shown, second-guessing where markets are headed is futile, markets move well ahead of actual events, and there's money to be made in volatility. There are some pockets where earnings have shown recovery. If this is maintained, it can deliver well. **Bottomline - running SIPs (or STPs) into a properly category-allocated portfolio and staying the course, while ignoring the noise and market ups and downs is the only way to build wealth in markets.**

If you need help on your portfolio or have any questions on the strategy you need to follow, please get in touch with your FundsIndia advisor or write to **advisor@fundsindia.com.**

Happy investing!

Talk to your advisor