



Outlook for 2009

We enter 2009 with mixed emotions when compared with the similar period in 2008. The sharp decline in equity markets, the turmoil in global financial system, the forthcoming political elections and the disturbances that we have seen in Mumbai in recent times are all weighing on the market as we contemplate what is going to happen in 2009. In our view, the 2009 outlook will be shaped by four key trends. First is the global outlook for equities and the funds flow thereof. In our view as we move into the second half of 2009, global outlook for emerging markets will improve and consequently there will be a period of some good cheer for emerging market equities. As the world realizes that while many Western economies might actually be in recession,

some emerging markets (India / China) are still growing. The second major trend will relate to liquidity. A huge amount of liquidity has been injected into the global financial system. History shows that as interest rates come down and alternative investment avenues decline, this liquidity will move into equities. Chances are that some part of this will come to our markets and will help create positive sentiment. However, this would not happen in the first half of the year and a likelihood of some of this liquidity returning to risk oriented assets like equities is more for the second half of the year. The third major trend which is likely to happen relates to how the fundamental performance of companies will pan out over the next 12 months. In our view the performance

of companies will reflect the difficult circumstances in the quarter ending March and the quarter ending June 2009. Thereafter, there would be some positive impact of the low interest rate environment, improving global outlook and fiscal stimulus packages starting to show some results. As earnings bottom out over the next few quarters, the expectation of growth in earnings will start to return towards the September and December quarters. Last but not the least, the outcome of the Elections will shape the destiny of India's economy, India's polity and our financial markets. If there is a definite mandate with a forward looking Government which wants to carry the liberalization process forward and take India to its destined position in the comity of global nations, the markets will respond with cheer. However, in an alternative scenario of a fractured political mandate, there would be some concern.

All in all the initial part of 2009 will belong to bonds

and gilts as interest rates come down, liquidity goes up and declining yields cause a rally in this asset class. There will be continued concerns on real estate as an asset class and commodity prices are likely to remain muted. All this will be positive for an economy like India which is a consumer of commodities and needs low interest rates to build its infrastructure and to continue the consumption momentum from its large consumer base. As the initial buoyancy in bond markets subsides into the second half of the year, smart money will start looking for yields in equities. However, equity investors will have to be patient given the fact that after what the world has suffered in 2008 the outlook for a bull run in equity markets is likely to come back slowly and gradually and patience will be rewarded.

Ved Prakash Chaturvedi
Managing Director
Tata Asset Management Ltd.



While many western economies may be in recession, emerging markets like India are still growing