

Global Investment Outlook 2011

Indian equity returns to be in line with earnings growth and volatility triggered largely by global developments

- ▶ **Global Equity Outlook : Attractive Opportunities**
- ▶ **Global Fixed Income Outlook : Well supported by macro environment**
- ▶ **Global Investment Themes : EM=above par and DM=sub par**
- ▶ **Asian Outlook : Overwhelming amount of assets will flow into Asia Pacific**
- ▶ **Indian Outlook : FY12 GDP growth of 8%-8.5%**

Investment returns from Indian markets will largely be driven by robust corporate earnings growth and earnings surprises during the calendar year of 2011. This is in contrast to the continued weak growth phase forecasted in the global economy, says ING Investment Management (ING IM) in its Global Investment Outlook Report 2011.

The report however expects volatility in the markets, driven by global developments including fiscal health of banks and governments in Europe, pace of pick up in growth in developed economies, actions to temper inflation and money flows in other emerging markets. In fact, the pace of foreign inflows into India may draw possible regulatory actions if flows are excessive during the year. It expects a cumulative 50-75 bps rise in RBI rates with 10 yr yield moving in a band of 7.75% - 8.5%.

Nurturing the pace of the 'recovery' will be the central theme for central banks and governments in the developed economies in 2011, the report says adding that the continued accommodative fiscal and monetary policies in developed economies for most part of CY2011 will be positive for Indian consumer and business sentiment such as export growth, FDI flows and equity markets.

The report further observed that easy global liquidity and higher growth rates will continue to drive allocations to emerging markets including India. While robust consumption demand should continue, investment demands will likely gain momentum in 2011 as the Indian GDP is expected to grow at an average of 8%-8.5%.

Global economic growth is forecasted to be significantly lower in 2011 with a widening divergence in the performance of emerging vs. developed economies, high volatility in equity markets, and rising uncertainty over macroeconomic issues. While the risks of a double dip recession in the US have abated, the uncertainties in the financial health of some European economies still exist. The report warned that untested policy prescriptions from some European governments and central banks – which it has termed 'test tube policies' – could further contribute to significant market volatility.

ING IM also said that much of the 'developed' world has made only 30% – 40% of the adjustments needed to adapt to the new environment and challenges, and estimates there is a 60% chance that global economies and markets will 'muddle' through 2011.

ING IM expects real global GDP growth to be around 3.8% in 2011, compared with its forecast of 4.8% for 2010. The expansion in GDP is projected at 6.5% next year (2010: 8.1%) in the emerging economies and at 1.6% (2010: 2.2%) in the developed world, widening the economic performance gap between the two further.

Mr K. Ramanathan, CIO, ING IM (India) said: "Indian investors need to be more watchful on the global developments in the coming years following growing internationalisation of domestic markets. Also, they must understand the macro economic factors such as inflationary pressure in the domestic economy that may hurt the market sentiment in future. In this context, we are comfortable with valuations range (sensex) of 15-17 times 1 yr forward. Valuations above 17 times would make markets expensive. Also, the year 2011 will be a year of 'carry' for fixed income with significant upward movement of yields being restricted by low global interest rates and significant downward movement in yields being restricted by growth and concerns on inflation."



Global Outlook for Major Investment Asset Classes in 2011:

Equities

ING IM believes that the key drivers for the equity markets in 2011 will be positive earnings growth, attractive valuations, abundant liquidity and strong corporate wealth. These will underpin three strong themes for next year – sustainable income and growth, increased corporate spending, and emerging markets.

This is reflected in the growth it expects to see in some of the major global indices:

ING Investment Management – Index Targets			
Index	Current	End 2010	End 2011
Europe Stoxx 600	267.0	280.0	310.0
US S&P 500	1185.0	1190.0	1300.0
Japan Topix	817.0	860.0	950.0
MSCI EM Free	1115.0	1175.0	1350.0
Sensex	20309 <i>(as on 15th Nov '10)</i>	20500	23000

Fixed Income

ING IM believes that bond yields will remain low and risk premiums attractive. The Treasury markets will remain supported by low central bank rates, quantitative easing and disinflation.

FX

ING IM believes there is a low risk of the current so-called 'FX War' turning into a trade war. However, 2011 will lead to a clearer distinction between the FX winners and losers. ING IM anticipates a constructive policy 'solution' for global FX tension and therefore forecasts further appreciation of emerging market currencies against developed market currencies. Within the developed world the USD is expected to weaken further in the short-term on the back of more aggressive QE measures in the US.

Importantly, many trends and diverging patterns remain present in FX markets. Given this, ING IM believes that investors need to place more emphasis on FX as an asset class. It offers a large and relatively uncorrelated opportunity to generate Alpha and associated returns.

Real Estate

Real estate outperformance could continue in 2011. ING IM says there are a number of supporting factors for this prediction – notably that many listed real estate companies have refinanced and that the underlying commercial property is at a turning point on vacancies and rents, while dividend yields in the developed markets are attractive.

Commodities

Commodities remain underpinned by growth in the emerging markets, so investment demand will continue in 2011. ING IM believes that next year precious metals will be the main beneficiary in the commodities markets followed by industrial metals. Gold will continue to benefit from a number of factors including: flight to quality, central banks becoming net buyers, and gold mine supply being constrained.



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