Wealth Creators for 2017: Will it be equities, debt or FDs?

As you craft your portfolio strategy for the new calendar year, the key question could be what could be the outperforming asset class in the year 2017. Let us look at 5 such popular asset classes in India to understand what could be the big idea for year 2017…

1. **Bank FDs as an asset class for 2017…**

According to a recent study done on Indian saving habits, nearly 60% of Indian savings are invested in physical assets like gold, silver and property while the balance 40% is allocated to financial savings. Even within the financial savings space, bank FDs continued to dominate being the preferred asset class among Indian savers and investors. So, what could be the outlook for FDs in year 2017? Actually, the outlook may not be too healthy. The demonetization exercise has meant that most banks are flush with deposits and credit growth is yet to pick up. That has forced banks to cut interest on loans. Recently SBI took the lead by cutting its MCLR (Marginal Cost-based Lending Rate) by 90 basis points. This will most likely be followed by a cut in deposit rates too. With the PM announcing FD rate protection for senior citizens, it is clear that normal FD rates will be allowed to find their normal market levels. That means FDs may earn lower interest rates in the coming year.

1. **Debt mutual funds as an asset class for 2017…**

Compared to bank FDs, these debt mutual funds are expected to perform relatively better. Remember, bank FDs are purely dependent on interest yields alone. On the contrary, debt mutual funds benefit in a scenario when yields are falling. Yields and bond prices have an inverse relationship; meaning if yields go up then bond prices come down and if yields go down then bond prices go up. With yields likely to fall further in the coming year with banks flush with liquidity, bond prices could move up in 2017. That means bond holders and those invested in Income Funds will stand to benefit as the value of their holdings will go up with a fall in interest rates. So, while debt mutual funds may not give you phenomenal outperformance, they will surely emerge as a better debt market alternative compared to FDs.

1. **Gold as an asset class for 2017…**

Will gold outperform in the year 2017? While gold has shown spikes of outperformance, it is hard to imagine a situation where gold outperforms considering the strong dollar and GDP growth returning to the US. Gold normally appreciates when there is global uncertainty. For example, gold gave very good returns in the aftermath of the Lehman crisis in 2008, the European crisis in 2010 and the global meltdown in early 2016. With global growth likely to pick up in 2017, led by the US, the story seems to be more about chasing growth. Trump has already promised lower taxes and a $1 trillion investment in infrastructure. Add Trump’s policy of reduced US involvement in global affairs, and you have the recipe for a quieter and less volatile 2017. With the US trying to chase growth and other nations trying to ride piggyback, the focus may be more on growth assets like equities and less on gold. Gold, at best, may be a market performer.

1. **Passive Index Funds as an asset class for 2017…**

So, if equity as an asset class may end up outperforming, then could indexing be a good strategy? Not exactly though! Even as the full impact of demonetization is being understood, it is hard to envisage a runaway rally in Indian equities, unless there is a major earnings shift upwards. That is something that looks difficult at this point of time. For the overall indices to outperform other asset classes may require either a sharp upgrade in earnings or a substantial expansion in the P/E. At the current levels of growth and the capital investment cycle, both these look like remote possibilities. With no big macro story likely in 2017, index funds may not be the real outperforming asset class.

1. **Equities and Equity funds as an asset class…**

Interestingly, equities could be the outperforming asset class for 2017. The reasons are not far to seek. A revival in US growth, return of consumer demand, end of demonetization woes, low interest rates and a likely revival in the capital cycle may also play a part. But the focus will have to be on specific stories and specific themes. So, either you adopt a very stock specific approach or invest money in a good mutual fund and watch it grow in 2017. Year 2017 will be about how specific themes play out. We could see the interplay of themes like demonetization, digitization of money, consumer demand, capital cycle, US revival, metals demand etc. Each of these themes is likely to impact a specific set of stocks. The moral of the story is that one needs to be stock-specific when it comes to equities in 2017.

In a nutshell, equity may be the asset class to watch out for in 2017. While other asset class will still continue to be part of your overall portfolio, the real outperformance could come from focused equity investments.