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Equity outperforms other asset classes in 2017. Will the party continue in 2018?

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The Indian markets were on a roll in 2017 with indices offering around 27-28 percent return between January and December 26. Besides, indices clocked fresh milestones frequently beginning with Nifty's first all-time high of 10,000 in July. The Nifty has largely traded above the 10k-mark since then, complementing the Sensex which hit 34,000 for the first time on December 26, 2017.

Domestic investors have really been the big drivers, especially through the mutual fund (MF) route. In fact, MF inflows touched around Rs 20,000 crore for the month of November.

The numbers just donâ€™t stop here. The total asset base of equity mutual funds is a whopping Rs 7.33 lakh crore at the end of November and just for the month, over Rs 7,600 crore was invested in balanced funds, broking firm Sharekhan said in its report titled Market Outlook for 2018.

Expected Flow in Markets this year (Sticky Money) In Crs		
Avg month equity flow since jan	12380 crs*	Rs 1,36,225 Cr invested since Jan 2017
EPFO	25000-35000 crs	Expected Flow this year
PFRDA	29000**	Expected Flow this year

*Average flow of last 11 months including elss

**Expected flow based on Contribution from Government employees (aug 2017 data)

A look at this table also reflects how traditional assets such as gold is seen smaller compared to equities, while silver has ended up giving negative returns.

Performance of Asset Classes					
Date	Equity	Gold	Silver	Bank FD	Crude Oil
30-Dec-16	8185	27327	42588	7.15%	$58
19-Dec-17	10463	28400	37392	6.5%	$64
Returns (%)	27.8%	4%	-12%	-	8%

Source: Bloomberg/Sharekhan Market Outlook 2018

So, what does this reflect? Is equity becoming a very preferred asset class among investors? If so, what are the major triggers for this shift?

"Demonetisation, positive real interest rates and lack of other opportunities in real estate and precious metals makes equity more attractive for retail investors," Hemang Jani, Head - Advisory, Sharekhan told Moneycontrol.

Meanwhile, experts also attribute it to increased awareness among investors. â€œA lot of investor education awareness has happened throughout the industry in the past few years. Some of them are paying off dividends now,â€ explained Vishal Dhawan, Founder and CEO, Plan Ahead Wealth Advisors, a Mumbai-based financial planning firm.

In 2018, it would be interesting to see if the trend continues.

"Equity will continue to be preferred asset class in the coming years, as global and domestic growth expectations remain encouraging. With high savings rate (31-32%) and growing income across working/middle class and better awareness of equity investment and tax advantages, equity is one of the most rewarding assets as far as returns are concerned with long-term investment horizon," Sharekhan's Jani said. The downside risk for the overall market could be macro story not playing out or slower recovery in the earnings scenario, he said.

While Plan Ahead Wealth Advisors Dhawan does not believe in looking at equity with a one-year benchmark, he recommends keeping an eye on a couple of factors too.

â€œIf a sharp correction takes place, whether a lot of investors continue to stay invested is an acid test. It is also difficult to justify current valuations and most analysts are building in 20 percent earnings growth for multiple years. For this to be delivered may not be easy,â€ Dhawan added.

One has to be clear, if you invest in equities, it has to be for a long time and be ready for sharp volatility,â€ he added.