Investor Insights & Outlook

03-Aug-2017

Monthly Newsletter - July 2017

Market Update

Nifty	10082
Sensex	32477
10Y G-sec	6.46%
1Y CP	6.95%
CD	6.49%
USD	64.07
Gold	28470 (Rs/10gm)
Brent	50.00 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage Fund**
- **ICICI Pru Equity Arbitrage Fund**
- **UTI Pharma & Healthcare Fund**
- **Mirae Asset India Opportunities Fund**
- **Franklin India Prima Plus Fund**
- **Kotak Select Focus**
- **IDFC Infrastructure**

DEBT

- **HDFC Corporate Debt Opportunities Fund**
- **Kotak Medium Term**
- **IDFC Corporate Bond**

Contact

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Strategy

Equity

Our markets continue to rise and trade at rich valuations on the back of robust participation by FIIs and domestic funds. Indian equity markets gained 6% in July 2017 as the key stock index Nifty rose above the landmark 10,000 level. Corporate earnings for the first quarter declared so far have been at or above estimates. Additionally, the roll out of GST has been relatively smooth despite some teething issues.

The Indian economy is expected to see gradual improvement in growth numbers in the second half (H2) of 2017 led by resumption of production post GST, strong rural wage growth, pay hikes for state government employees, normal monsoon and lower lending rates.

We believe that markets are likely to remain neutral to negative as it remains richly valued in the short term but will be driven by global factors. We recommend investors to use a staggered approach to invest in equities (and on corrections) and reiterate our preference for Pharma, Infrastructure and Large cap funds for any additional investments. Arbitrage funds remain a safe heaven until opportunities arise in equities.

Debt

Yield on the 10-year benchmark paper (6.79% GS 2027) fell 4 bps to 6.47% from the previous month close of 6.51%. On expected lines, the RBI in its monetary policy review has reduced the key policy rates by 25 basis points with a neutral stance as inflation remained at multi-year lows.

The pay hike of Govt. employees under the 7th Pay Commission coupled with the farm loan waivers by various states may put an upward pressure on inflation. In the short term, capital gains may not be the driver of Indian bond markets. However, we remain bullish for the long-term and recommend existing investors to continue holding their present allocation but for those with a Gilt exposure over 3 years, a reallocation to a fixed coupon (or an accrual fund) is suggested.

Investors looking for fresh allocation should consider well-managed corporate bond funds, short term funds and perpetual bonds.