Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - Mar 2017

Market Update

Nifty	9238
Sensex	29910
10Y G-sec	6.61%
1Y CP	7.00%
CD	6.50%
USD	65.09
Gold	28892 (Rs/10gm)
Brent	50.69 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage Fund**
- **ICICI Pru Equity Arbitrage Fund**
- **ICICI Pru Banking & Financial Services Fund**
- **Franklin India Prima Plus Fund**
- **Kotak Select Focus**
- **UTI Pharma & Healthcare**

DEBT

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

Strategy

Equity

A resounding victory for BJP in UP elections and positive sentiments for the smooth implementation of GST has boosted Indian equity markets ending the quarter in an upbeat mood. Indian benchmark index (Sensex) is now up 12% on year to date basis. The positive sentiments have augured well for Indian markets despite the third gradual US Fed rate hike.

We believe that Indian markets are better equipped than other emerging markets backed by stronger economic growth, strengthening macro-fundamentals and anticipated implementation of internal reforms and policies. As the valuations are turning rich until the corporate earnings catch up, we recommend investors to systematically book profits at every rise. Also, mid-caps and small-caps have outperformed the broader index and are richly valued.

In the short-term, we remain cautious on equities as our domestic equity market is trading at a PE ratio of 23x (Source: NSE) versus long-term average of 15x. We maintain our view that investors with SIPs using a staggered approach should continue to invest. While we remain bullish in the long-term, a near-term correction cannot be ruled out. Investors with liquidity should park their funds temporarily in Arbitrage funds till opportunity arise in equities again.

Debt

The yield on the 10Y benchmark bond (6.97% G-Sec 2026) fell 19 bps to close at 6.68% compared to previous month close of 6.87%. This sharp rally in Gilt has been led by an influx of FIIs flows into Indian markets post BJP's massive victory in State Elections (Uttar Pradesh, GOA & Uttarakhand).

The falling rates cycle has taken a pause as RBI is targeting a 4% inflation (CPI) and is expecting a mild rise in inflation due to rise in commodity & oil prices. Likely volatility in US treasuries due to fiscal spending led by Trump administration too seems to holding RBI back. However, if the crude prices were to remain in the current range, and US treasuries concern were to soften, RBI may find room to cut.

We recommend existing investors in long duration funds to stay invested, and for incremental investments, we recommend short/medium duration or accrual funds. Perpetual bonds are very attractive as well.

Contact

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