

Investor Insights & Outlook

28-Feb-2014

Market Update

Nifty	6277
Sensex	21120
10Y G-sec	8.89%
1Y CP	10.20%
CD	9.75%
USD	62.11
Gold	30139 (Rs/10gm)
Brent	108.96 \$/bbl

Monthly Newsletter - February 2014

Strategy

Debt

Yields have remained firm despite falling inflation (and poor growth) on the back of hawkish comments by the RBI Governor during the recent G-20 summit in Australia. This remains an extremely attractive environment to enter Gilt funds as we believe that lack of bond supply will keep the yields in a range for now. The tax free issues (HUDCO, REC, IRFC) are also extremely attractive at about 8+% tax free (equivalent to ~12% gross). We are inclined to believe that going forward, as the inflation pressures come down gradually, the RBI will look to ease liquidity that could lower the interest rate to support weakening growth. This will result in yields coming down giving rise to potential mark to market gains in the fixed income portfolio, particularly Gilts.

Equity

Stock markets and currencies have been volatile during the month, with some stability returning towards the latter part (notwithstanding the Ukrainian crisis). We do not see a large correction in the Indian market from here and expect a pre election rally as BJP gains momentum.

As Nifty constituents and other large caps are at the higher end of their valuation, the risk-reward trade off is in favour of mid caps and reasonably valued sectors such as infrastructure and banking. Our view is that as sentiment improves, asset owners will see restoration of values, that will allow capital raising to pare debt.

Product

Recommendations

DEBT

- ◆ IDFC Govt. Securities Fund—IP
- ◆ ICICI Long Term Gilt
- ◆ HUDCO, REC & IRFC Tax free issues

EQUITY

- ◆ ICICI Pru Banking & Financial Services Fund
- ◆ UTI Banking Sector Fund
- ◆ HDFC Mid-Cap Opportunities Fund
- ◆ Tata Infrastructure Fund
- ◆ ICICI Infrastructure Fund
- ◆ JP Morgan Greater China

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