

11-Jan-2016

Monthly Newsletter - December 2015

Strategy

Market Update

| | |
|-----------|-----------------|
| Nifty | 7564 |
| Sensex | 24825 |
| 10Y G-sec | 7.75% |
| 1Y CP | 8.70% |
| CD | 7.67% |
| USD | 66.76 |
| Gold | 25944 (Rs/10gm) |
| Brent | 31.51 \$/bbl |

Product

Recommendations

EQUITY

- ◆ ICICI Pru Banking & Financial Services Fund
- ◆ Franklin India Bluechip Fund
- ◆ Franklin India Prima Plus Fund
- ◆ SBI Bluechip Fund
- ◆ ICICI Value Discovery

Equity

The markets remained relatively unchanged in December or for the year but closed 15% lower than the intra year high although the mid-caps have outperformed. The China fear re-surfaced early in 2016 which has spooked markets globally. Our markets are now at a 19 month low virtually wiping out any Modi premium.

On the improving macros, India's performance has been robust; currency has been the most stable among EMs; crude has substantially benefitted fiscal and current account defi-



cits and improved corporate profitability; foreign exchange reserves are at a peak; and reforms are progressing swiftly (but over-shadowed by the GST imbroglio with the Opposition in the Rajya Sabha).

The India Equity opportunity remains robust and intact.

Debt

Fixed income underperformed last year despite a 125 basis points cut by the RBI barring the opportunities to invest in tax free issues. The 10 year benchmark Gilt yield moved by a mere 12 basis points, from 7.87% as of 31-Dec-2014 to 7.75% as of 31-Dec-2015. This has been on account of several factors: uncertainty on the quantum of Fed rate rises (with the first 25 basis points effected recently in Dec'15); fear of LIC funding the railways expansion that would otherwise find an allocation towards Government securities; generally reduced trading volumes; greater spread from State Development Loans; lower than projected disinvestment proceeds effecting fiscal deficit etc.

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Contd...

Investor Insights & Outlook



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Product Recommendations

DEBT

- ◆ IDFC GSF - IP
- ◆ UTI Gilt Fund LTP
- ◆ HDFC Short Term Plan
- ◆ ICICI Pru Corporate Bond Fund
- ◆ Tax free bonds

Contact

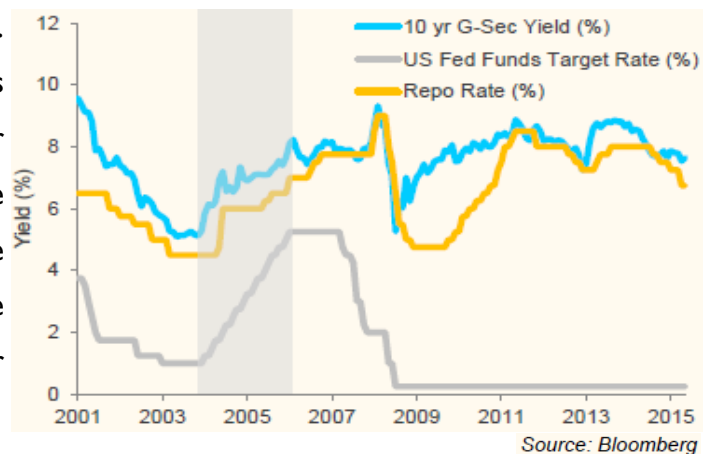
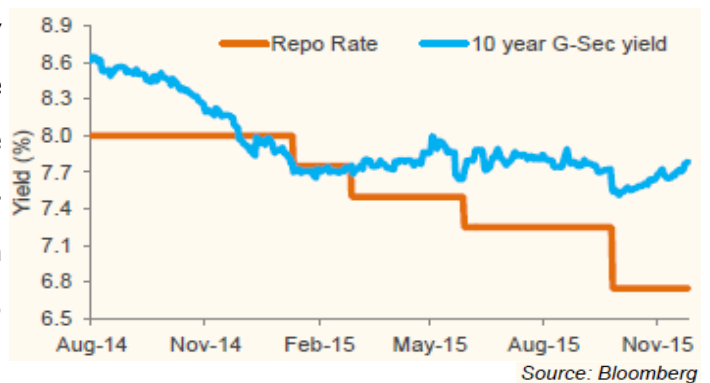
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Our view is that the Fed tightening cycle will remain subdued on account of uncertainty surrounding China and generally on account of slowing global growth. The spread between our 10Y and repo rate is close to its high (100 bps), and so is the spread between Indian 10Y yields and the US (549 bps). As this spread reduces, and on further rate cuts by the RBI, yields will fall and consequently fixed income will perform.

The Rupee has shown remarkable resilience even as other emerging market currencies depreciated sharply over the past year. All the major indicators like trade deficit, fiscal deficit and inflation remained within comfortable levels in 2015 and are expected to remain so this year as well. Macro-economic indicators remain conducive for lower interest rates. Yields have not priced-in earlier rate cuts yet and provides space for fall in yields in the near term.



We continue to strongly recommend incremental investments in duration funds.

Disclaimer: Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme will be achieved. Please read the Statement of Additional Information and Scheme Information Document carefully before investing.