Investor Insights & Outlook

03-Feb-2015

Monthly Newsletter - January 2015

Market Update

Nifty	8756
Sensex	29000
10Y G-sec	7.72%
1Y CP	8.85%
CD	8.62%
USD	61.71
Gold	28210 (Rs/10gm)
Brent	56.12 $/bbl

Product Recommendations

DEBT

- **Axis Constant Maturity Fund**
- **ICICI Long Term Gilt**
- **IDFC - GSF IP**
- **FT India Corporate Bond Opportunities**
- **3 Year FMPs**

EQUITY

- **HDFC Infrastructure Fund**
- **Franklin India Smaller Companies Fund**
- **ICICI Infrastructure Fund**
- **DSP BR Microcap Fund**

Contact

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Strategy

Equity

At life time highs, Indian equity markets have been one of the top performers. Despite the rally, on the basis of valuations, Indian markets are fairly valued based on historical multiples but not in bubble territory yet. The year 2015 will be profitable for investors as the markets could consolidate with ample opportunities to make long-term investments. The spotlight is on the Indian economy as we get set for the first full mega Budget of the Modi Government. In the short term, there could be corrections but is not worrisome. Our advice to long term equity investors is to increase their allocation in businesses which will benefit from reductions in interest rate and margin expansion with a 3 year plus perspective. As past data suggests, we expect both the GDP and earnings to grow simultaneously over the next few years that will translate into portfolio returns for investors. We remain optimistic on mid caps, financials and infra capital goods stocks. These views are predicated on a stable global economy.

Year	GDP Growth	Earnings Growth	Sensex Return
1998	6.60%	-2.60%	-14%
1999	**7.70%**	**14.10%**	**61%**
2000	4.30%	-14.10%	-21%
2001	5.50%	6.60%	-18%
2002	4.00%	16.90%	4%
2003	**8.10%**	**20.60%**	**73%**
2004	**7.00%**	**36.50%**	**13%**
2005	**9.50%**	**27.70%**	**42%**
2006	**9.60%**	**25.50%**	**47%**
2007	**9.30%**	**19.00%**	**47%**
2008	6.70%	7.40%	-52%
2009	8.60%	-1.90%	81%
2010	9.30%	20.80%	17%
2011	6.20%	11.00%	-25%
2012	5.00%	8.10%	26%
2013	4.80%	7.50%	8%

Source: MSCI, Datastream, Bloomberg. CSO and CITI Research

Debt

The RBI kept the policy rates (repo rate) on hold at 7.75%, in line with consensus and our expectations. The Central Bank however cut the Statutory Liquidity Ratio (SLR) by 50 bps to 21.5% from 22% which basically means creating space for banks to expand credit growth and lending. Further easing will depend on data that confirms continuing disinflationary pressures and future course of action will largely depend on how effectively the Government is maintaining its fiscal deficit in the upcoming budget. We believe that RBI will come up with one more rate cut between now and April. We continue to recommend Gilt funds particularly after this policy.