Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - Feb 2016

Market Update

Nifty	6987
Sensex	23002
10Y G-sec	7.64%
1Y CP	9.02%
CD	8.09%
USD	68.33
Gold	29495 (Rs/10gm)
Brent	36.60 $/bbl

Product Recommendations

DEBT

- **Tax free bonds**
- **HDFC Short Term**
- **IDFC - GSF IP**
- **BSL Medium Term Plan**
- **IDFC Corporate Bond Fund**

EQUITY

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

Contact

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Strategy

Equity

The Union Budget 2016 was largely on expected lines with no negative surprises. The reforms laid out in the budget focused on reviving the rural economy by boosting irrigation, infrastructure development and bank recapitalization.

The markets underperformed global and emerging markets through February despite stability returning globally mainly on negative rumours of possible introduction of capital gains tax and ability to contain Government expenditure accentuated by large FII selling. Consequently markets were oversold.

The Indian economy should experience better days ahead. Low oil prices driving down CAD, steadily falling fiscal deficit and low inflation have set the stage for lower interest rates. In our view, the improving outlook for the economy and specifically after the recent correction, markets are attractively poised for those with a medium to long term view.

Debt

The Union budget 2016-17 quelled all market speculation and encouragingly stuck to the earlier envisaged fiscal consolidation roadmap. The RBI is likely to perceive the budget as a positive event, thus increasing the possibility of an inter-meeting cut. A lower than expected government borrowing will help the private sector to participate more in raising credit.

Global rating agencies give significant importance to fiscal prudence. Government sticking to its fiscal target will be perceived positively which may result in rating upgrades and positive outlook. Since the fiscal deficit is under control and therefore, as and when the bulk bond supply is exhausted, bonds will start following the fundamentals and the yields will ease significantly from current market yield.

We expect the RBI to further ease policy rates over the next few months, provided inflation remains under control, and any other major exigency does not occur. From an investment perspective, expectations of a normal monsoon, anticipated pickup in corporate profitability on the back of declining input costs and higher activity on the service front could augur well for economic growth and subsequently the credit environment. We see value at the longer end of the curve, and recommend investors (who can withstand volatility) to invest in duration bond / gilt funds for the medium to long term.