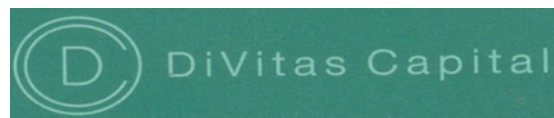


Investor Insights & Outlook



06-Dec-2016

Monthly Newsletter - Nov 2016

Market Update

Nifty	8129
Sensex	26349
10Y G-sec	6.19%
1Y CP	7.10%
CD	6.40%
USD	68.21
Gold	28116 (Rs/10gm)
Brent	53.99 \$/bbl

Strategy

Equity

Our markets corrected greatly after our own black swan events - the demonetization of high-value currency notes caused concern on GDP growth that included consumer durables, auto and discretionary spend and Donald Trump's victory that caused dollar to strengthen and bonds yields to rise resulting in emerging market selloff and currency volatility. Our reaction was clearly overdone.

We expect the economy to normalize gradually as the dust settles and these companies should be back on the growth path in a few months. Banks too benefit from the enormous inflow of funds that will result in lowering of rates. Additionally, the formal economy will now begin recording informal transactions that were hitherto excluded.

The young demographics in the country and growing purchasing power of the middle class makes a promising proposition for the consumer spending translating into a growth benefactor. We expect large pools of domestic savings to move into equities over the next few years.

The fall in our markets emanating from demonetization, dollar strengthening and probable Fed rate hike provides a good entry point to investors with a medium to long term view in Financials, Large-caps and Pharma.

Debt

The yield on the 10 Y benchmark bond (6.97% G-Sec 2026) fell 51 bps to close at 6.30% compared to the previous month close of 6.81%, extending the gains for those with Gilt exposure. This sharp movement was led by the surge in bank deposits due to demonetization of Rs 1000 and Rs 500 notes.

The impact of demonetization should lead to moderation in GDP growth. Monetary stimulus is likely to support growth soon in the form of interest rate cuts. This is well supported by large deposits that will bring down cost of funds and falling food inflation caused by demonetization.

We recommend existing investors in long duration funds to stay invested and for incremental investments, recommend medium duration or accrual funds.

Product

Recommendations

EQUITY

- ◆ ICICI Pru Banking & Financial Services Fund
- ◆ Kotak Select Focus Fund
- ◆ Franklin India Prima Plus Fund
- ◆ SBI Bluechip Fund
- ◆ UTI Pharma & Healthcare
- ◆ DSP BR Focus 25 Fund

DEBT

- ◆ HDFC Corporate Debt Opportunities Fund
- ◆ Kotak Medium Term
- ◆ ICICI Pru Banking & PSU Debt Fund
- ◆ IDFC Corporate Bond

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