Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - June 2018

Market Update

Nifty	10700
Sensex	35379
10Y G-sec	7.90%
1Y CP	8.40%
CD	8.10%
USD	68.69
Gold	30497 (Rs/10gm)
Brent	77.72 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage**
- **ICICI Pru Equity Arbitrage Fund**
- **L&T Midcap Fund**
- **Mirae Asset India Equity Fund**
- **Reliance Pharma Fund**
- **Franklin India Prima**
- **Kotak Standard Multicap Focus**
- **IDFC Infrastructure**
- **ICICI Pru Focused Bluechip Fund**
- **Sundaram Rural India**

DEBT

- **Axis Short Term Fund**
- **Kotak Corporate Bond**
- **IDFC Corporate Bond**
- **Tax Free Bonds**
- **Fixed Maturity Plans**

Contact

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Strategy

Equity

India's broad market indices remained range bound, rising at the beginning of the month and then retreating as global trade war tensions between USA and China roiled global markets. We witnessed further weakness in mid and small cap segments as spiralling crude-oil prices, rupee depreciation and rising interest rates have resulted in market volatility. Over the last month, oil prices reversed their downward trend as major oil producers were unable to increase production at pace with rising summer demand. This led to a fresh round of capital flight causing weakness in the market towards the end of the month.

We believe the markets are likely to remain volatile over the next year owing to various local and global reasons. Though valuations still remain restrictive, but various mid and small caps are becoming attractive. There is a fair amount of price correction in mid and small cap stocks in the past two quarters following their sharp up-move in the markets in the past couple of years.

We maintain our view to raise exposure to equities only on a deep correction in the markets. However, investors with high risk appetite should consider investing in mid & small caps at these levels.

Debt

Yield on the 10-year benchmark paper (6.79% GS 2027) too remained range bound in June to close flat at 7.9%.

Reduced appetite of FPIs and Banks for Indian Government bonds, rising crude oil prices, depreciating Rupee and gradual rise in global policy rates along with liquidity tightening are amongst the major factors driving the higher yields.

India is the third largest importer of crude oil and imports 86% of its consumption needs. Every US$ 10 rise in crude prices (per barrel) leads to US$ 15 billion rise in India's import bill. This is likely to widen our current account deficit in FY19. FY18 saw Indian exports participating in lower end of the global value chain, import bill was higher mainly due to high commodity prices and consequently, trade deficit widened sharply.

Against such a backdrop, we recommend investors to raise their allocation to Fixed Maturity Plans (FMPs) to lock-in the higher yields and should consider well-managed corporate bond funds. Existing investors should continue to hold their present allocation. Tax frees with up to a 4 year maturity are an attractive option as well.