Investor Insights & Outlook

DiVitas Capital

05-Jan-2014

Monthly Newsletter - December 2013

Market Update

Nifty	6211
Sensex	20851
10Y G-sec	8.81%
1Y CP	10.00%
CD	9.24%
USD	62.41
Gold	29170 (Rs/10gm)
Brent	106.54 $/bbl

Product Recommendations

DEBT

- **IDFC Govt. Securities Fund—IP**
- **IRFC Tax free**
- **IIFCL Tax free**

EQUITY

- **ICICI Pru Banking & Financial Services Fund**
- **UTI Banking Sector Fund**
- **HDFC Mid-Cap Opportunities Fund**
- **SBI Emerging Businesses Fund**
- **JP Morgan Greater China**

Contact

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Strategy

Debt

RBI, in a surprise yet sensible move, retained the key policy rates with a view to stimulate the otherwise stuttering growth and to force the Government to address the constituents of the supply side of inflation. The uncertainty in bond yields is likely to continue till evidence is available that inflation is being controlled and the effects of QE tapering play itself out. Our longer term view is that interest rates will decline. **Consequently, we continue to recommend building a portfolio of Gilt funds and current 'tax free bonds' to lock in the high yields for both accrual and trading. 'Tax free bonds' at these yields protect re-investment risk as well.**

Emerging themes — China & Gold

If China's grand reforms to focus on domestic consumption, modernizing SOEs including the banking sector, allowing IPOs, and modernizing the farm sector materialise, China could be a great investment opportunity given that the markets are also close to a five year low.

Similarly, Gold, as a defensive strategy, could head higher after having reversed from the low of $1180 levels recently. This may coincide with risk-off in the US later this year.

Both Gold and investing in China carry foreign exchange risk that can be easily hedged by selling USD futures with a positive carry.

Equity

Equities continue to show modest recovery during the month though indices are trading within a range. Large caps are close to fair valuations though they remain favourites of FIIs. The battered mid and small caps are seeing recoveries that are only likely to sustain a move up once growth and sentiment picks up. These are visible but remain dependent on a political solution. We believe there will be a scramble for these shares as we approach elections and on the election outcome. Additionally, we remain overweight to banking and financial services, capital goods and infrastructure particularly asset owners.