Investor Insights & Outlook

DiVitas Capital

01-Oct-2013

Monthly Newsletter - September 2013

Market Update

Nifty	5735
Sensex	19379
10Y G-sec	8.69%
1Y CP	10.50%
CD	09.50%
USD	62.69
Gold	30425 (Rs/10gm)
Brent	108.72 $/bbl

Product Recommendations

DEBT

- **IDFC Dynamic Bond Fund**
- **SBI Dynamic Bond Fund**
- **Birla Sunlife ST Fund**
- **FMPs (100% Bank CD)**

EQUITY

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

Contact

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Strategy

Debt:

The month was marked with gut-wrenching volatility in local financial markets as the generalized aversion to the more vulnerable emerging markets continued even though the finance minister committed to compressing current account deficit to USD 70 billion this year (from USD 88 billion last year) and announced steps amounting to USD 11 billion worth of capital flows. However, most of the capital garnering measures pertains to additional bond issuances and external borrowings by PSU entities. This is in the backdrop of severe capital control measures announced that led to a virtual breakdown in debt markets with 10 year bond yields soaring to levels last seen in 2008. In what turned out to be a large positive surprise to global (and especially emerging) markets, the Fed decided to hold back on taper in its recent meet. This led to a brief but short lived rally in debt market until the RBI governor raised repo rates by 25bps to 7.50% to control inflation. Assuming that at some point, the RBI reverts to its normal liquidity framework this should imply large OMO purchases over second half of the financial year. As seen over past few years, this leads to strong performance in government bonds even without policy rate cut expectations in the market. This, therefore, gives an opportunity to lock into either higher yielding tax free bonds (if at highest tax slab) or FMPs at 10+ % yield.

Equity:

Low GDP growth with a tight liquidity environment has started hurting both the pricing power and the cost structure of the corporate sector in India. While the tight liquidity stance may be reversed in the short to medium term as and when the INR stabilizes growth remains a concern until structural reforms are introduced. While as bad as it may sound, asset prices at the moment, are representing the poor underlying macro environment. In summary, the valuations particularly midcaps are very attractive. The broad market remains battered despite indices at relative highs (dominated by ten large caps at 40x multiple). As and when there is a growth recovery, the rise will be steep and quick.

Disclaimer

Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme will be achieved. Please read the Statement of Additional Information and Scheme Information Document carefully before investing.