Investor Insights & Outlook

DiVitas Capital

30-Sep-2015

Monthly Newsletter - Sep 2015

Market Update

Nifty	7949
Sensex	26155
10Y G-sec	7.56%
1Y CP	8.30%
CD	7.40%
USD	65.71
Gold	25865 (Rs/10gm)
Brent	46.46 $/bbl

Product Recommendations

DEBT

- **ICICI Long Term Gilt**
- **IDFC - GSF IP**
- **UTI Gilt Advantage Fund - LTP**

EQUITY

- **HDFC Mid Cap Opportunities Fund**
- **ICICI Pru Banking & Financial Services Fund**
- **ICICI Value Discovery**
- **Franklin India Bluechip Fund**
- **Franklin India Prima Plus Fund**
- **SBI Bluechip Fund**

Strategy

Equity

Indian equity markets were volatile during the month but closed flat at the end of September 2015, albeit outperforming the global markets in general. Equities in developed markets also corrected on global growth concerns. Global volatility prompted US Fed to delay rise in US interest rates providing some relief to markets. We believe that the sharper than anticipated rate cut by RBI should result in swift transmission of lower rates in the system soon.

The slowdown in commodity prices primarily led by the slowdown in China has placed India in a sweet spot compared to other BRIC and other emerging economies. Additionally, the structural changes which are underway, relatively stable currency and improving macroeconomic scenario makes India an attractive investment destination for foreign investors. Domestically, any reforms related announcement such an update on passage of Goods & Services Tax (GST) or Land Acquisition Bill would further cement the positive market sentiment.

We believe the markets could rise substantially on the back of a favourable election outcome in Bihar, lower rates of interest, resumption of reforms (including kick starting infrastructure investments) and improvement in corporate results. Banks are likely to outperform with large mark to market gains on bonds and Government's intent to restructure infrastructure loans etc.

Debt

RBI, in its monetary policy review positively surprised the market by a rate cut of 50bps, bringing the repo rate to 6.75%. This move by RBI exceeded market expectations of a 25 basis point rate cut. RBI expanded the FPI (Foreign Portfolio Investor) limit in the debt market allowing an incremental investment of around Rs. 1,20,000 Cr over a period of three years. The biggest driver of the move seems to be recognition of the marked deterioration in the global outlook for growth and its possible impact on Indian economy.

Even after this move the spread between repo and 10 Year Benchmark Bond is still around 80 basis point. Hence we continue to expect 10 Year rates to drop further from here.

We believe that this rate cut only marks the beginning of future rate cut cycle and there would be further rate cuts in a measured way. We continue to recommend Gilt funds, as we have been suggesting for the last year. The gains have been large for those who followed our suggestions.

Contact

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