Investor Insights & Outlook

DiVitas Capital

31-Aug-2016

Monthly Newsletter - Aug 2016

Market Update

Nifty	8786
Sensex	28452
10Y G-sec	7.11%
1Y CP	7.70%
CD	7.24%
USD	66.98
Gold	30741 (Rs/10gm)
Brent	48.31 $/bbl

Product Recommendations

DEBT

- **Tax free / Perpetual bonds**
- **HDFC Short Term**
- **L&T Resurgent India Corporate Bond Fund**
- **ICICI Pru Banking & PSU Debt Fund**
- **IDFC Corporate Bond**

EQUITY

- **ICICI Pru Banking & Financial Services Fund**
- **Kotak Select Focus Fund**
- **Franklin India Prima Plus Fund**
- **SBI Bluechip Fund**
- **ICICI Value Discovery**

Strategy

Equity

Indian equity markets were captivated by the stronger than expected corporate earnings growth, good monsoons, 7th Pay Commission payments that would boost consumption and GST being cleared. Our markets are at fresh 52 week high backed by strong inflows and global liquidity. Post Brexit, global liquidity conditions have become a lot stronger as all Central Banks have been easing further. This has particularly caused mid-caps to run up significantly as limited investment opportunities exist in this space. There are certain pockets that are clearly elevated (namely NBFCs) and these levels should be used to book profits and remain in cash (or debt or in arbitrage funds) till normalcy re-appears.

We believe large pharma and certain banks (mainly PSU) remain the only value buys.

Debt

The yield on the 10 Y benchmark bond (7.59% GS 2026) fell 8 bps to close at 7.11% compared to previous month close of 7.19% further extending the gains for those with Gilt exposure.

Dr Urijit Patel is to succeed Dr Raghuram Rajan as the next governor of the RBI. With this appointment, we believe that the monetary policy may not see change in stance and outlook from the current incumbent in the near to medium term.

Yields will remain soft as liquidity remains very comfortable in the system, and that coupled with possibility of Open Market Operations (OMOs) and macro-fundamentals is likely to bring down the yield.

Monsoons have been normal – hence stoking of inflation due to agriculture doesn't seem to be a threat. We expect no major negative surprise to the RBI's 5% CPI target by Jan 2017. Additionally, public sector banks, provident funds, insurance companies etc would continue to support demand for Govt. bonds.

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

Contact

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