Investor Insights & Outlook

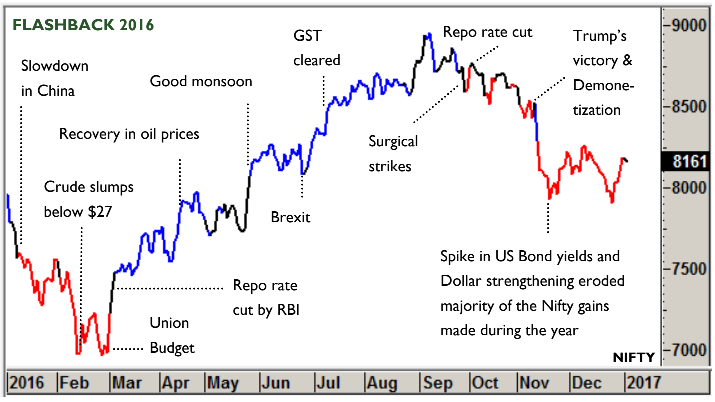
04-Jan-2017

Monthly Newsletter - Dec 2016

Strategy

Equity

Economic reforms such as GST, demonetization coupled with improving corporate fundamentals and reasonably attractive valuations post the large correction makes Indian markets extremely attractive.



The investment environment in 2016 was full of surprises as shown in the chart. The correction in November and December caused by strengthening dollar (affecting global yields) and perceived effects of demonetization was overdone. The implementation of already announced GST, demonetization and other likely measures could alter India's economic landscape that could spring the stalled investment cycle to life. The Union Budget and political events such as assembly elections in Uttar Pradesh and Punjab are the likely events to watch out for in early 2017.

We believe that India's robust macro story remains intact, and a rebound in earnings growth should continue to steer the market higher. We are optimistic about Indian equities in the long run and remain buyers of beaten down financials and select large caps. In such an environment, any further correction offers excellent opportunity to invest in markets.

Debt

There has been a sharp pull back of 10Y G-Sec yields in the month of December from 6.16% to 6.60% levels after RBI left the key rates unchanged at their bi-monthly monetary policy meet in early December and with the fear that the US Federal Reserve will resume its policy tightening cycle with the widely expected 25bps rate hike in December 2016. While the rate hike was discounted, the market was spooked by the hawkish stance and the forecast adopted by the US Fed. The US Fed projection indicates on possibility of 3 more hikes in CY17. After being broadly stable through most of 2016, the INR depreciated 1.60% against the USD since end-October because of stronger USD, higher US bond yields and portfolio outflows from India.

We continue to believe that our fundamental story is intact given the structurally lower inflation, controlled fiscal deficit, higher liquidity. With this backdrop we see the scope for RBI to bring the rates further down in CY17. However, the timing of rate cuts would be dependent upon Global factors, Govt. policies and our domestic growth scenario.

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

Market Update

Nifty	8191
Sensex	26633
10Y G-sec	6.38%
1Y CP	7.40%
CD	6.48%
USD	68.04
Gold	27749 (Rs/10gm)
Brent	56.46 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Banking & Financial Services Fund**
- **Kotak Select Focus Fund**
- **Franklin India Prima Plus Fund**
- **SBI Bluechip Fund**
- **UTI Pharma & Health-care**
- **DSP BR Focus 25 Fund**

DEBT

- **HDFC Corporate Debt Opportunities Fund**
- **Kotak Medium Term**
- **ICICI Prudential Long Term Fund**
- **IDFC Corporate Bond**

Contact

If you require any detailed information, please contact:

Gurmeet Singh
gurmeet@divitascapital.com
+91 - 98 73 010 019

Ashish Tyagi
ashish@divitascapital.com
+91 - 99 11 222 707