Investor Insights & Outlook

01-Feb-2016

Monthly Newsletter - Jan 2016

Market Update

Nifty	7556
Sensex	24825
10Y G-sec	7.64%
1Y CP	9.00%
CD	7.90%
USD	67.65
Gold	26691 (Rs/10gm)
Brent	35.85 $/bbl

Product Recommendations

DEBT

- **Tax free bonds**
- **HDFC Short Term**
- **IDFC - GSF IP**
- **BSL Medium Term Plan**
- **ICICI Pru Corporate Bond Fund**

EQUITY

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

Contact

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Strategy

Equity

January has been a savage month for equities. Whilst the benchmark fell 6%, the correction to shares was significant. This correction has been global driven by fears of a slow down in China, falling oil prices and global recession. In our view, this has been overdone. FII's have remained net sellers of Rs 56,598 crores whilst DII's are net buyers of Rs 85,086 crores in the current fiscal till 31 January 2016 (of which LIC itself bought Rs 53,000 crores of equity).

As expected, RBI left the key rates unchanged in the final monetary policy review of this fiscal indicating that future monetary policy may be guided by the fiscal impact from the upcoming budget.

We recommend the beaten-down banking sector as it provides a good bargain in the current scenario and we remain alert to opportunities to buy large caps (including mutual funds).

Debt

The continued success on the inflation front combined with growth disappointments allowed the RBI to cut policy rates by 125 bps over the year. This was significantly ahead of market expectations at the beginning of the year. We expect 2016 to continue to see moderate inflation which should allow the RBI to carry out further rate cuts over the course of the year.

US rate hike will have a limited impact on local fixed income markets.

Despite the favorable backdrop on both inflation and monetary policy, long bonds have disappointed mainly because of a sharp fall in trading volumes, limited bidding interest during auctions and lack of meaningful flows into domestic longer duration mutual funds. We think that the market is getting affected by short term technical factors and that fundamentals should assert themselves over the course of 2016. Yields can come off significantly on account of normalization of the spread as well as on account of further policy action from the RBI. Investors should continue to look at duration products from a medium term perspective. Investors with a lower risk appetite can look at Short term funds and those at the highest tax bracket should buy tax free bonds (that can now be purchased through the stock exchange).