Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - June 2016

Market Update

Nifty	8288
Sensex	26873
10Y G-sec	7.45%
1Y CP	8.40%
CD	7.42%
USD	67.57
Gold	31215 (Rs/10gm)
Brent	50.06 $/bbl

Product Recommendations

DEBT

- **Tax free / Perpetual bonds**
- **HDFC Short Term**
- **IDFC - GSF IP**
- **ICICI Pru Income Opp.**
- **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**

Contact

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Strategy

Equity

The markets remained resilient despite Governor Rajan's resignation and Brexit, and can be attributed to the generally improved macros in India and few attractive investment destinations after the chaos in Europe and the UK. A better monsoon season this year will play an important role in expediting the economic recovery process and shall provide impetus to earnings growth in several sectors. Growth is already picking up and the evidence is visible in Roads, T&D, Railways, Rural housing, Defence and the Power sector.

After a strong performance of midcaps, midcaps are now trading at premium to largecaps.

We believe the markets have the capacity to rise over the next few years as India remains a bright spark across a dismal global environment. Hence, for a long-term perspective, investors should gradually continue investing to build positions in equities.

Debt

The RBI left its key policy rates and reserve ratios unchanged. Governor Rajan announced that he will step down after just one three-year term.

Britain decided to exit the European Union (EU). The UK's credit rating outlook was downgraded from "stable" to "negative" and EU was downgraded from AA+ to AA. BoE Governor Carney has said that more stimulus is likely to be announced. Post Brexit, given the global growth concerns, expectation of Fed rate hike have reduced significantly and as a result global yields have fallen.

Indian 10 Y bond yield have rallied by 7-12 bps during last week of the June 2016. Both domestic factors (certainty of good monsoon, passage of GST) and global factors (Brexit leading to reduced Fed rate hike expectation and drop in global bond yields) will aid fall in bond yields further. In case the global situation worsens leading to coordinated action of Central Banks, we may see a sharper drop in bond yields. However, FCNR-B deposit maturity outflow of $26 billion could create intermittent volatility, and therefore, there is a case to switch to shorter duration stable returns debt funds particularly those who have held Gilt for over 3 years or for those who are not at the highest tax bracket. Our debt returns will remain relatively insulated on the back of the fallout of Brexit and coordinated global easing that could have been a concern had 'Remain' prevailed.