Investor Insights & Outlook

DiVitas Capital

31-May-2016

Monthly Newsletter - May 2016

Market Update

Nifty	8160
Sensex	26668
10Y G-sec	7.47%
1Y CP	8.38%
CD	7.55%
USD	67.20
Gold	28624 (Rs/10gm)
Brent	49.65 $/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

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

Strategy

Equity

Indian markets have rallied strongly in line with emerging markets after a turbulent start to the year led by return of optimism in the corporate earnings, enactment of a bankruptcy law, better than expected election results for BJP, better than expected monsoons and the possibility of progress on GST. At a time when the big-bang reforms (like GST, labour reforms) are stalled at various stages, the Government has been quietly working to accelerate some of the other less-publicized reforms.

The run up has been sharp and although the long term outlook remains excellent, investors need to be cautious of global risks and our thin markets should FIIs book profit.

We retain our view to invest in Banking and financial services sector along with rural economy related stocks while remaining alert to opportunities to buy large caps at every correction.

Debt

Yield on the 10-year benchmark bond (7.59% GS 2026) inched up 3 bps to close at 7.47% from the previous month's close of 7.43% .

Bond yields started on a steady note and increased thereafter because of rise in crude oil prices, weak Indian rupee and concerns over potential interest rate hike in the U.S. FIIs have invested Rs. 7506 crores in the Indian Debt markets in the last two months. This has twin benefits for the Indian markets by helping in keeping the interest rates low and the currency stable. The rate cut and liquidity enhancement by RBI are already bearing fruit as short-term yields have declined and spreads have compressed. The longer end of the curve is yet to see the transmission of rate cuts. We expect this space to be the largest beneficiary in the months to come.

Gold prices fell as encouraging U.S. consumer price inflation data led to probability of a rate hike by the U.S. Fed as early as June 2016.

In absence of external shocks, the macro economic variables of the country look stable and India looks to be well positioned to see interest rates come down a little further. We are neutral on duration but strongly recommend perpetual bonds as a source to maximize returns. Investors with a lower risk appetite can invest in Short term funds.