Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - Sep 2016

Market Update

Nifty	8611
Sensex	27866
10Y G-sec	6.82%
1Y CP	7.45%
CD	7.05%
USD	66.56
Gold	31075 (Rs/10gm)
Brent	48.93 $/bbl

Product Recommendations

DEBT

- **Perpetual bonds**
- **HDFC Short Term**
- **L&T Resurgent India Corporate Bond Fund**
- **IDFC Corporate Bond**
- **Kotak Gold Fund**
- **Reliance Gold Savings Fund**

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 current pace of policy reforms has been unmatched in the last two decades. Indian equities have relatively more strength as compared to their global peers. However, there are certain risk to our Emerging Markets rally such as Indo-Pak geopolitical disruptions, outcome of US Election results and the investors' aversion towards Fed policy later this year.

We recommend investors to remain cautiously optimistic and consider any fall in markets to buy Pharma as it remains undervalued and defensive. We do recommend Gold as an alternative asset class as discussed below.

GOLD, SILVER ETC.

In this current environment, where we've witnessed a bull run across asset classes over the last five years, to deploy a certain amount of capital as hedges to protect one's investment is a prudent choice.

Though Indian domestic scenario remains robust, given the increased pace of government reforms, a stable inflation rate and a good monsoon boosting demand, our financial markets are still heavily influenced by foreign fund flows.

On the horizon there are global headwinds – US elections, tightening of monetary policy by the Federal Reserve, a possible banking crisis in Europe and a secular slowdown in global trade. All these factors indicate a significant downside risk; even for portfolios in India.

We therefore recommend taking exposure to precious metals. Although the metals are not standard return generating assets, in times of crisis they tend to conserve capital and even generate real returns. To effectively invest in precious metals AMCs offer a good avenue through their funds of funds. Here the expense ratios might be a pinch but they offer ease of exit and do not keep your capital locked-in, which is the case with Gold bonds. If you trade often, Gold ETFs are another option and for leveraged individuals, Gold and Silver futures on MCX offer yet another option.

Debt

Bond yields rose temporarily as escalating geopolitical tensions between India and Pakistan spooked investors, which weighed on the market sentiment before closing the month at 6.96%.

Debt market view is still positive largely on account of global factors. Markets expect the Reserve Bank of India (RBI) to maintain a soft policy stance in its upcoming policy review and even if rates are not cut in October, there could be an indication of more rate cuts ahead. Yields got further support with central banks in the UK, Japan and Euro zone continuing their quantitative easing in recent months. There is an encouraging trend toward more structural reforms and less populist policies in India at a time when advanced economies are relying solely on cheap money. The current pace of policy reforms happening in the economy has been unmatched in last two decades.

We believe that yields will continue to come down. Hence, for investors we would recommend short to medium duration or accrual funds for incremental allocation. Meanwhile, for tax efficiency, investors should stay invested in long duration funds.