Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - May 2017

Market Update

Nifty	9637
Sensex	31191
10Y G-sec	6.64%
1Y CP	7.30%
CD	6.80%
USD	64.40
Gold	30564 (Rs/10gm)
Brent	47.98 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage Fund**
- **ICICI Pru Equity Arbitrage Fund**
- **ICICI Pru Banking & Financial Services Fund**
- **Franklin India Prima Plus Fund**
- **Kotak Select Focus**
- **Mirae Asset India Opp. Fund**

DEBT

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

Strategy

Equity

India's macro economic data points continue to remain strong such as increased FDI activity, improvement in exports and expansion in capital expenditure coupled with the expectation of normal monsoon and better harvests which could lead to a cyclical improvement in the rural economy. Corporate earnings are expected to expand but valuations are no longer cheap. The premium for the Indian markets compared to emerging markets remain high and is likely to remain so. We continue to recommend booking profits at every high, but to remain alert to any major volatility to re-enter.

Arbitrage funds remain a safe holding until opportunities arise in equities. Investors with higher risk appetite can consider investing in Pharma funds at current levels with a long term view. The valuation gap between large caps and mid caps remain high even after the mid cap correction. Investors with SIPs using a staggered approach should continue to invest and should consider Large-caps and Pharma for any incremental allocation.

Faster than anticipated interest rate hikes in US and protectionist measures taken by Donald Trump along with fears of a decline in Chinese economic growth remain the key risk factors for global equity markets. India will not be insulated from any global melt down.

Debt

The yield on the 10Y benchmark bond (6.97% G-Sec 2026) has rallied by 16 bps to close at 6.80% compared to previous month close of 6.96%.

Over the last couple of weeks the bond market has found a new sense of optimism on the possibility of a future rate cut given the decline in crude oil prices and MET department's prediction of a normal monsoon. However, we have observed over the recent past that RBI focuses on a sustainable inflation trend to decide rates, making us believe that the bar for a rate cut by RBI is substantially high.

Thus, it is prudent to avoid excess bullishness in this environment. We expect long term yields to be volatile in the near term due to global factors and any significant rise in bond yields should be taken as an opportunity for long term investors with 2-3 years perspective.

We recommend existing investors to continue holding their present allocation and allow for rest of the rate cycle to play out with some volatility along the way. On the other hand, investors looking for fresh fixed income allocation should consider well-managed corporate bond, short term funds and Perpetual bonds.

Contact

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