Investor Insights & Outlook

DiVitas Capital

08-Jan-2018

Monthly Newsletter - Dec 2017

Market Update

Nifty	10624
Sensex	34353
10Y G-sec	7.34%
1Y CP	7.64%
CD	7.07%
USD	63.35
Gold	29252 (Rs/10gm)
Brent	62.00 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage Fund**
- **ICICI Pru Equity Arbitrage Fund**
- **UTI Pharma & Healthcare Fund**
- **Mirae Asset India Opportunities Fund**
- **Franklin India Prima Plus Fund**
- **Kotak Select Focus**
- **IDFC Infrastructure**

DEBT

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

Contact

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Strategy

Equity

Indian equity markets gained 3% in December 2017 as hopes of an improving economy and rising corporate earnings strengthened investor confidence. The ruling party's victory in Gujarat election also boosted the investor's sentiment raising the expectations that the upcoming Union Budget will be more focused on the rural economy and on Government spending.

Although Indian macros are beginning to falter due to higher oil prices and fear of a rising fiscal deficit, global markets and improving global economic fundamentals particularly in the US have fuelled our markets based on the high liquidity available. Strong domestic inflows are keeping the equity valuations at elevated levels mainly of mid and small-cap stocks.

We recommend investors to remain cautious and book partial profit. Further, any increase in equity exposure should only be considered in case there is a sharp fall in markets. Liquid and Arbitrage funds remain safe havens until new opportunities arise. We remain buyers of PSU banks, Pharma and select large caps (particularly infra companies) with a long term view. Investors with staggered approach should continue to invest.

Debt

Yield on the 10-year benchmark paper (6.79% GS 2027) rose 26 bps to 7.32% from the previous month close of 7.06%. Bond markets started off 2017 with an expectation that RBI may continue with its accommodative policy stance. However, Monetary Policy Committee (MPC) changed its stance to neutral primarily on concerns of fiscal slippage , rising commodity prices & higher inflation. The perceived liquidity tightness along with diminishing rate cut expectation led to sell off and volatility in bond markets resulting an upward move in the benchmark yield.

Government plan to borrow an extra Rs. 50,000 crores in Jan-Mar 2018 also negatively impacted the 10Y benchmark yield.

We expect a neutral rate environment for the next 6-12 months provided crude oil prices remain below $80. Short to medium term duration offers attractive valuations and low volatility. Given our view on pause in rate cycle, improving corporate profitability and looking at a favorable risk reward perspective, we recommend investors to stay invested in short to medium term corporate bond funds.