Investor Insights & Outlook

07-Jan-2019

Monthly Newsletter - Dec 2018

Market Update

Nifty	10772
Sensex	35850
10Y G-sec	7.50%
1Y CP	8.75%
CD	8.00%
USD	69.48
Gold	31653 (Rs/10gm)
Brent	57.15 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage**
- **DSP Small Cap Fund**
- **ICICI Pru Small Cap Fund**
- **Mirae Asset India Equity Fund**
- **Reliance Pharma Fund**
- **Kotak Standard Multi-cap Fund**
- **IDFC Sterling Value**
- **ICICI Pru Bluechip Fund**
- **DSP Healthcare Fund**

DEBT

- **HDFC Corporate Bond**
- **Kotak Corporate Bond**
- **IDFC Corporate Bond**
- **Tax Free Bonds**
- **Fixed Maturity Plans**

Contact

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Strategy

Equity

Our equity markets remained relatively resilient during the month despite a volatile global market dealing with a US shut down, political reversal for the incumbent BJP, resignation of the RBI governor, uncertain Brexit and continuing rhetoric on the US - China trade arrangements. This can only be attributed to improving macro economic conditions due to the massive fall in crude that would improve our fiscal and current account deficits. The Rupee strengthend and the 10 year yields fell considerably. The liquidity crunch faced by the NBFCs eased with the support of the RBI. The economic indicators released represent stress but valuations of the broad market capture that pessimism.

Our expectation is that while global markets are likely to reverse as a decison on Brexit and US - China trade arrangements are agreed, India will remain susceptible to volatility arising from political alignments, poor recovery in economic activity and liberal government sops. Fortunately, lower oil prices and the easing pressure on US interest rates augurs well for India particularly as US dollar index falls. However, the fears of heightened trade wars and rise in crude oil prices remains the key risk to Indian economy.

The valuations in broad market remain attractive while the Nifty remains fully valued. We suggest allocations be made to both large and mid & small cap funds only on a steep fall. Steel, Cement, select Financials (including NBFCs and PSU banks) and Pharma are our top picks.

Debt

Yield on the 10-year benchmark paper (7.17% GSec 2028) declined from 7.60% to 7.36% in December as the key factors such as inflation, global macro and oil prices turned favorable for fixed income. With CPI inflation sliding dramatically, led by a sharp decline in food inflation and lower crude oil prices, India's 10-year yield moved rapidly to settle near the 7.36% mark by the year-end.

2018 has been one of the worst years for global bond markets. Rising interest rates, expectations of slower global growth and wavering outlook on oil prices have been the key drivers for these negative returns. RBI decisively shifted its stance to 'Calibrated Tightening' despite lowering its inflation projections in December 2018 bi-monthly monetary policy. RBI indicated that OMOs remain the preferable tool for infusing liquidity.

We recommend existing investors to continue holding their present allocation. Investors looking for fresh fixed income allocation should consider well-managed corporate bond funds, FMPs and short-term bond funds as risk versus reward still favors the short end of yield curve.