Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - Feb 2017

Market Update

Nifty	8963
Sensex	29048
10Y G-sec	6.86%
1Y CP	7.10%
CD	6.65%
USD	66.71
Gold	29085 (Rs/10gm)
Brent	55.48 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Banking & Financial Services Fund**
- **Kotak Select Focus Fund**
- **Franklin India Prima Plus Fund**
- **SBI Bluechip Fund**
- **UTI Pharma & Health-care**
- **DSP BR Focus 25 Fund**

DEBT

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

Contact

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Strategy

Equity

Indian equity markets continued to rally in February 2017 on the back of the US rally and better than expected effects of demonetization. The next quarter is likely to give a better indication of the economic consequences of demonetization. The markets are looking reasonably valued and volatility is likely to exist till the outcome of assembly elections in UP. In the long run, we believe that earnings growth is likely to accelerate because of expected improvement in capacity utilization which is currently at a multi-year low and falling cost of capital for businesses as a result of lower interest rates. GST and demonetization could further improve the tax compliance by unorganized players thereby benefiting the organized players with higher market share (gains).

Hitherto, significant savings were invested in real estate and with poor conditions in the real estate market and falling rates for fixed and bank deposits, there is a large gush of liquidity pouring into the equity markets.

However, in the short run we maintain our view that a near term correction cannot be ruled out and any deep correction could be used to accumulate Infra and Pharma stocks. Investors with SIPs using a staggered approach should continue to invest.

Debt

RBI continued its recent streak of surprising markets by explicitly shifting its policy stance to 'neutral' from 'accommodative' while keeping the rates on hold to assess how the transitory effects of demonetization on inflation and the output play out. While this provides more flexibility to RBI to move in either direction, there was a hint of hawkish-ness causing Indian 10Y bond yields to rise by almost 50 bps to close the month at 6.87% as compared to last months' closing of 6.40%. This is probably an aberration.

Although the Fed commentary clearly suggests rates hikes in the US through 2017 that would normally impact emerging market economies (including currencies and yields), our macros including the large balances with banks post demonization and falling credit growth is likely to result in rates coming down over the next year.

We recommend existing investors in long duration funds to stay invested, and for incremental investments, we recommend short/medium duration or accrual funds.