Investor Insights & Outlook

05-Feb-2018

Monthly Newsletter - Jan 2018

Market Update

Nifty	10666
Sensex	34757
10Y G-sec	7.78%
1Y CP	8.03%
CD	7.55%
USD	64.06
Gold	30360 (Rs/10gm)
Brent	67.72 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage Fund**
- **ICICI Pru Equity Arbitrage Fund**
- **UTI Pharma & Healthcare Fund**
- **SBI Pharma Fund**
- **Reliance Pharma Fund**
- **Franklin India Prima Plus Fund**
- **Kotak Select Focus**
- **IDFC Infrastructure**
- **Kotak PSU Bank ETF**
- **Sundaram Rural India**

DEBT

- **HDFC Medium Term Fund**
- **Kotak Corporate Bond**
- **IDFC Corporate Bond**
- **IDFC Dynamic Bond**
- **ICICI Pru Long Term Plan**

Contact

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Strategy

Equity

Our equity markets gained 5% in January 2018 (but lost these gains in the last few days) making new life-time highs in the run-up to Union Budget with the expectations of being a populist one. Consistent buying by participants and healthy corporate results also boosted the indices. Given that it was the last budget before the impending general elections, it was presented in the backdrop of uncertainty over tax collection post demonetization. As expected, it focused higher on rural, small businesses, social welfare and infrastructure. However, our markets remained concerned on the introduction of Long Term Capital Gains (LTCG) Tax on equities without the removal of STT.

As anticipated, the recent sell-off post Budget has been primarily on account of the sharp run-up seen in mid and small cap stocks over the last few months. We were concerned on the valuations after the stellar performance of equities as the revival on earnings is critical for such rich valuations to sustain.

We recommend investors to increase equity exposure on further deep correction in the markets. 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 11 bps in Jan 2018 to close at 7.43% from the previous month close of 7.32%. Our bond markets remained volatile during the month following the concerns on deficit front, rising inflation, mounting fears of rate hike and narrowing liquidity surplus.

Post the budget announcement, the yield for 6.79% GS 2027 shot up to 7.84% suggesting the likely concern on MSP hikes pushing the inflation expectations higher and possible change in RBI's stance. Rising bond yields and crude oil prices globally are also weighing on the sentiments.

We expect yields to remain range-bound at these higher levels on account of elevated fears of a rate hike by the RBI and further tightening of the monetary policy cycle internationally. We believe, investors should take exposure gradually through dynamic bond funds as bond yields are entering in an attractive zone.