Investor Insights & Outlook

DiVitas Capital

06-Apr-2018

Monthly Newsletter - Mar 2018

Market Update

Nifty	10332
Sensex	33627
10Y G-sec	7.18%
1Y CP	7.45%
CD	7.10%
USD	65.06
Gold	30694 (Rs/10gm)
Brent	69.02 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage**
- **ICICI Pru Equity Arbitrage Fund**
- **HDFC Equity Fund**
- **Mirae Asset India Equity Fund**
- **Reliance Pharma Fund**
- **Franklin India Prima Plus Fund**
- **Kotak Select Focus**
- **IDFC Infrastructure**
- **ICICI Pru Focused Bluechip Fund**
- **Sundaram Rural India**

DEBT

- **HDFC Medium Term Fund**
- **Kotak Corporate Bond**
- **IDFC Corporate Bond**
- **IDFC SSIF - ST**
- **DSP BR Bond Fund**

Contact

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Strategy

Equity

Indian equities fell a further 4% in March 2018 thereby correcting 10% from the recent peak in January on concerns of heightened trade war between US and China along with fresh loan defaults that continue to hit the Indian banking industry. As widely anticipated, the interest rate hike in US also weighed on the market sentiment.

Whilst an earnings revival (hampered by demonetisation and problem-riddled GST roll-out) is expected, the markets remained nervous on account of the reduced popularity of the reformist Modi Government (that has still to see job growth). We expect that a revival in global commodity prices is another factor supporting the earnings growth in India and globally.

The recent correction should be used as an opportunity to raise equity exposure particularly in select Large caps, PSU banks and Pharma with a long term view. We maintain our view to remain cautious and only deep corrections should be utilized to invest in undervalued opportunities.

Debt

Yield on the 10-year benchmark paper (7.17% GS 2028) fell 32 bps in March 2018 as the Government announced a surprise shift in their borrowing policy. The Government is now intending to spread the borrowing to the second half of the year. We believe that this was done to ease the supply side pressure on 10Y G-sec yield and to help PSU banks recover some of the MTM loss on their Govt. bond portfolio.

As expected, RBI maintained the status quo in their bi-monthly policy review on 5 April 2018 as the PSU banks recapitalisation has just begun and any hike now will be counter-productive. Going forward, we will need to watch the Govt's policy measures in the run-up to 2019 General Elections and its impact on inflation and the oil prices.

We recommend investors to redeem their Gilt allocation over 3 years and should consider well-managed corporate bond funds.