

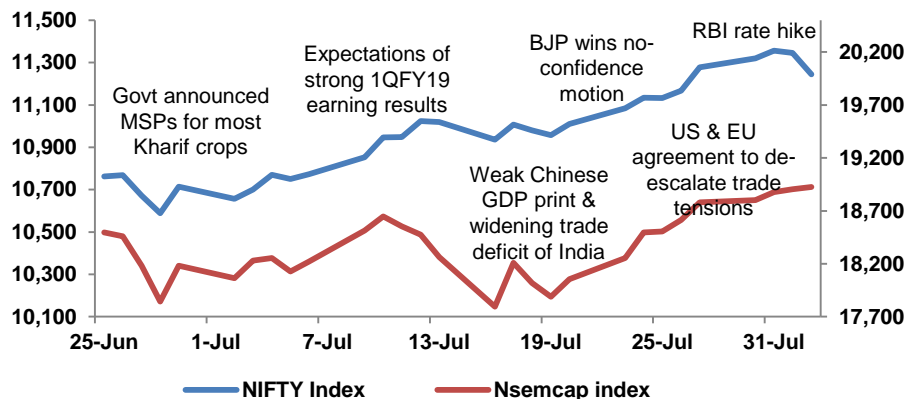
# Equity & Debt Strategy

Mid Aug – Sept' 2018

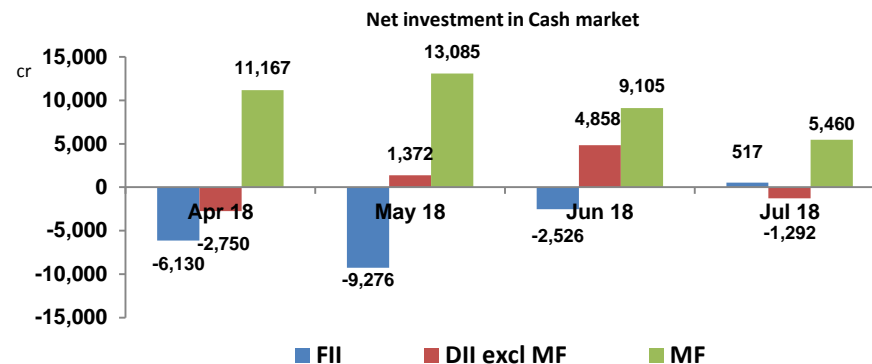
**Equity Market Update  
&  
Equity MF Strategy**

# Nifty 50 rose 6% coupled with Midcap Index rising 3.8% in July

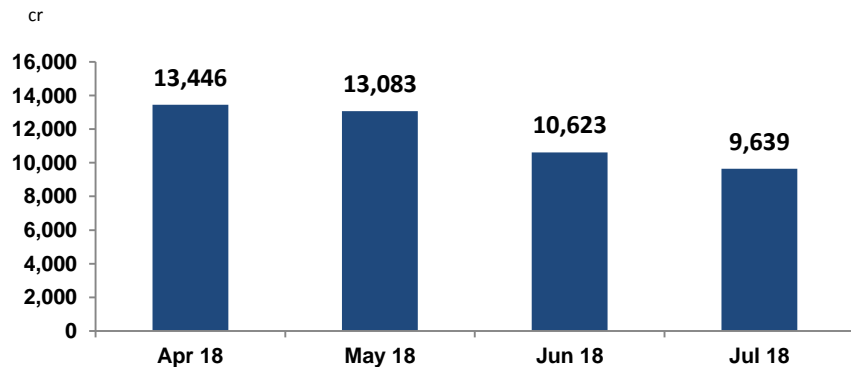
## Nifty 50 rises to all-time high in July along with recovery in Midcap 100



## FII selling reversed leading to recovery in markets

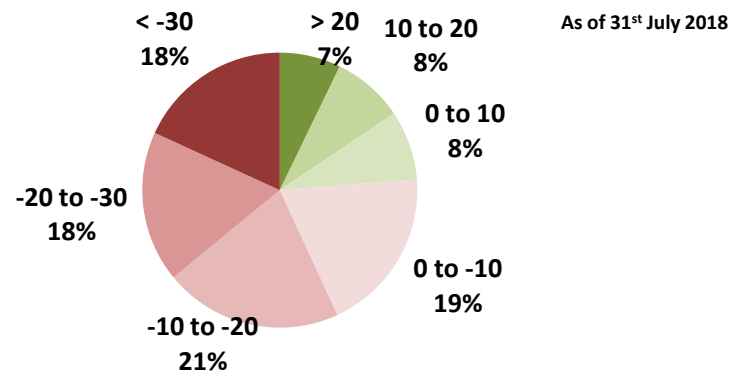


## Net Flows to Equity Mutual Funds fell below 10k cr this month



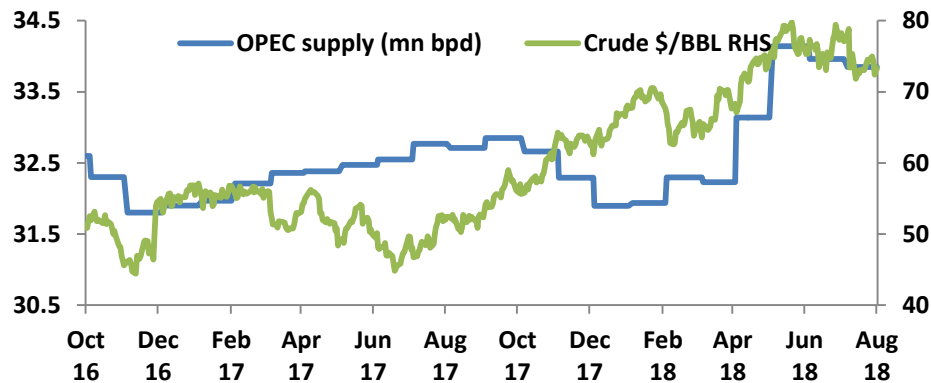
Note: April excludes Arbitrage Funds

## 76% of top 500 stocks are below their 31<sup>st</sup> Jan '18 value, highlighting the divergence between Large cap & Mid cap performance

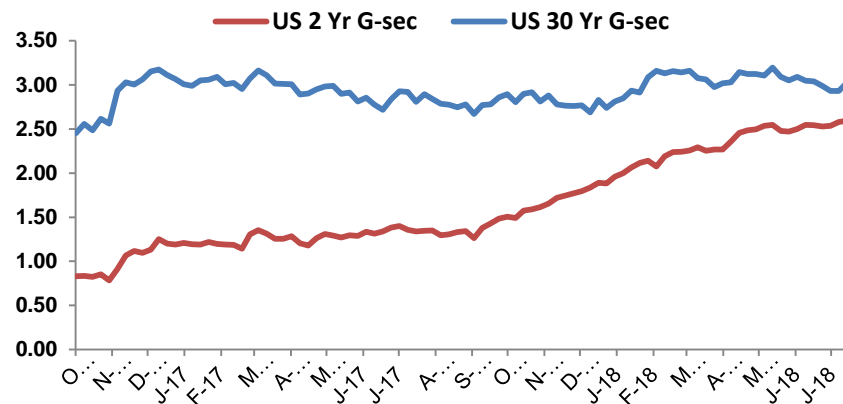


# Emerging Markets impacted due to trade war, tapering liquidity and high crude oil prices; India protected till now due to strong Domestic flows

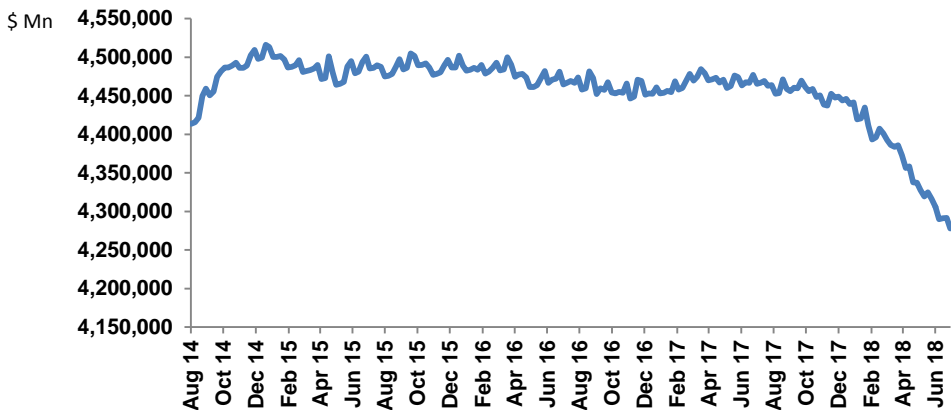
Crude prices have started to stabilize, OPEC has increased production in last few months by ~1mn bpd



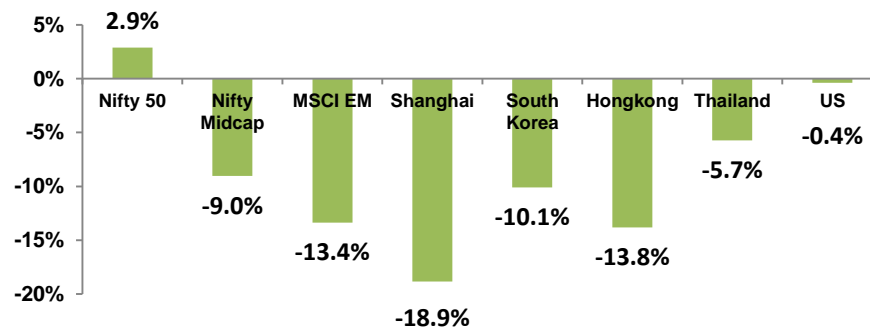
US Yield curve at risk of inversion due to Fed hikes impacting short term rates while market-linked long term rates remain steady



QE Unwind program is gaining pace, Fed Balance sheet leaner by \$188 bn in last 1 Year

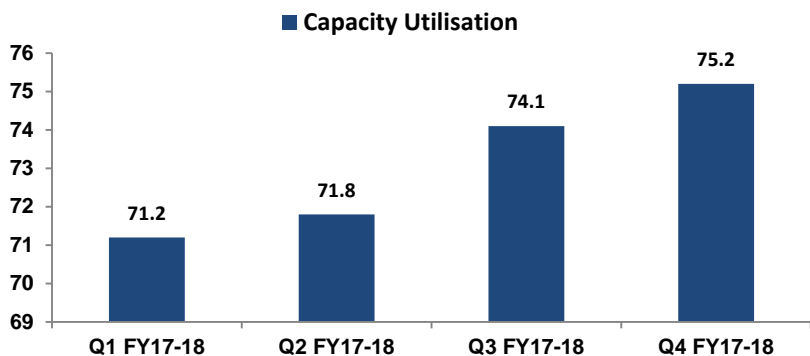


Since 31<sup>st</sup> Jan, Emerging markets have corrected by 13%, Nifty 50 has been an outlier

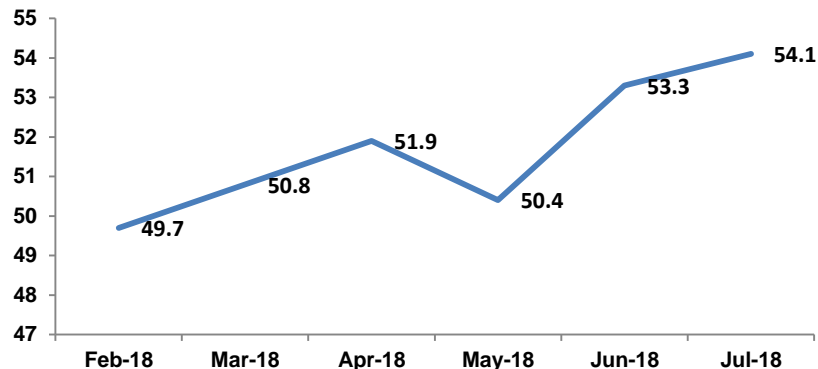


# Domestic Economy showing greenshoots in both Consumption and Manufacturing, Credit & Exports also picking up

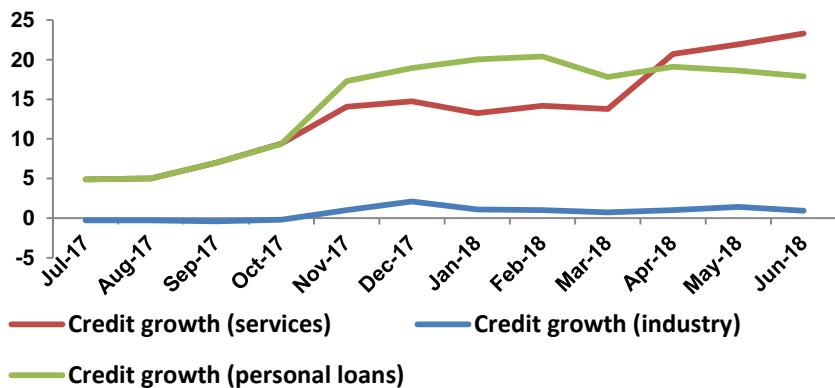
Capacity utilisation has risen to 75.2%, highlights factories' strong order flow



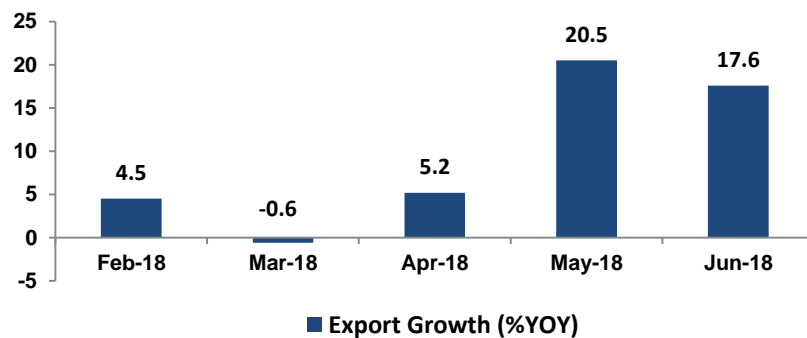
PMI further strengthened to 54.1, Services sees strongest growth since October 2016



Personal loans continue to grow while credit to services grew due to NBFC accessing bank credit over bond market

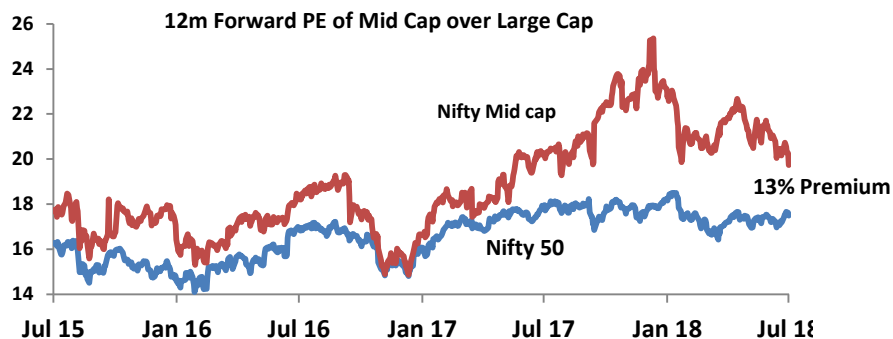


Export growth strengthened on the back of petrochem and metal exports, labour intensive sectors like textile still under stress

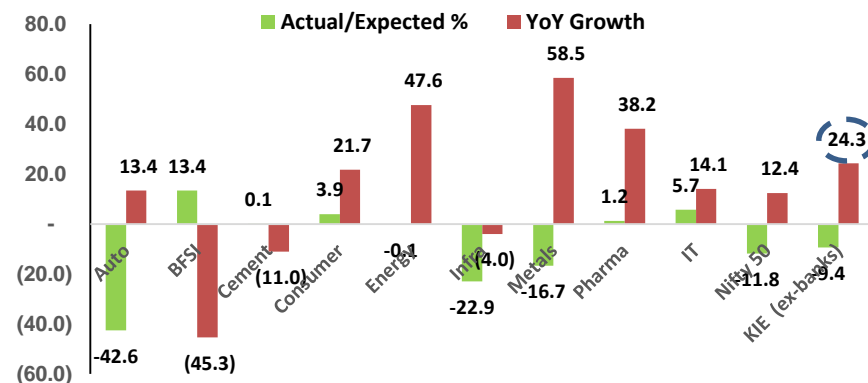


# Earnings and Valuation

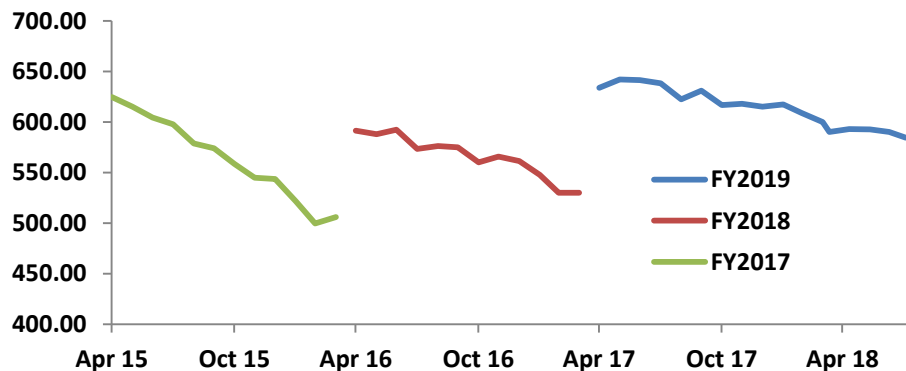
Post recent correction, Mid Caps still at a 13% premium over large caps



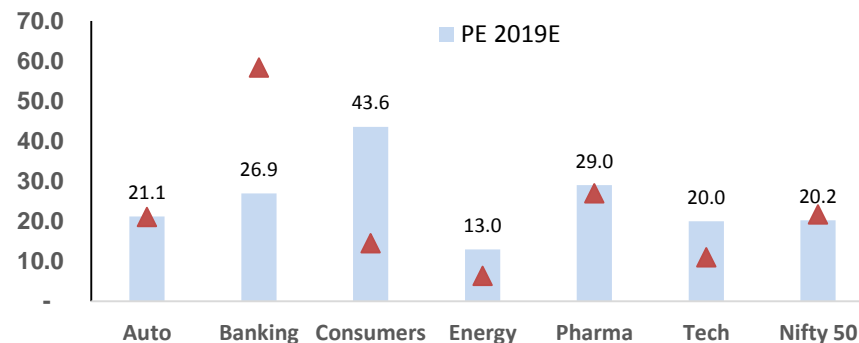
Q1FY2018 PAT for our universe has grown by 24.3% so far, Nifty PAT impacted by Bank provisioning and Tata motors



FY19 earnings outlook relatively stable compared to FY17 and FY18



We expect 24% Nifty 50 Earnings growth for FY19 and FY20



# Key Triggers

## Positive Triggers

- **Global Economic data** : World economy improving
- **Q1 Earnings**: Several companies posted strong growth in current quarter
- **Resolution of NPA**: Effective addressal of NCLT lists
- **Weaker Rupee**: Benefit export-oriented sectors like Auto, Chemicals, IT and Pharma
- **Monsoon/Rural recovery**: Government focus on rural economy including increase of MSP could benefit rural consumption

## Risks

- **Trade Wars**: Further tariffs imposed by US/China and strict enforcement of Iran sanctions
- **Monetary Policy**: Faster than expected monetary tightening in Europe and US
- **Weaker Macro**: Higher crude prices and low GST collection could lead to de-rating of Equity valuations
- **Elections**: A combined opposition can be threat to BJP in next elections

## India Equities: Valuations & Strategy – Maintain Neutral Stance

Nifty rose 6% for the month to life time high levels on the back of stable macro and a good start to the earnings seasons. Midcap Index also recovered and rose 4% for the month. However Year To Date (YTD) the divergence between Nifty 50 and Midcap 100 continues with the former clocking a gain of ~8%, while the latter slipped ~11%. In terms of flows, SIP flows reduced marginally, while FII's turned positive after 3 consecutive months of outflows.

At current levels of approx. 11,355 (13<sup>th</sup> August 2018), Nifty is trading at a 1 year forward PE of 19.7X. In the current scenario, **we continue to maintain a Neutral stance.**

**Mutual Funds:** As domestic liquidity continues to drive markets, we advise new investments to be staggered in Mutual Funds via SIPs/STPs.

### Recommended allocation within equity mutual funds is as under:

- 50% Large Cap allocation (Prefer Large Caps due to relatively Favorable Valuations)
- 50% Multi Cap allocation (such funds currently have a bias toward large cap)
- For investors who want equity exposure but have low appetite for volatility, they can take equity exposure through Balanced Funds. Balanced funds have around 25% to 30% of their portfolio into Debt instruments which provides cushion to the portfolio return during market volatility.



# Recommended Large Cap, Multi Cap & Balanced Fund Performances

Scheme Name	Corpus (In crs.)	1 Year	3 Years	5 Years	Investor Suitability
<b>Large Cap Funds</b>					
Aditya Birla Sun Life Frontline Equity Fund	21,380	9.26	10.15	19.61	All Risk Profiles except Secure
Axis Bluechip Fund	2,568	23.64	12.39	18.69	All Risk Profiles except Secure
ICICI Prudential Bluechip Fund (erstwhile ICICI Prudential Focused Bluechip Equity Fund)	18,747	13.83	11.52	19.10	All Risk Profiles except Secure
SBI Bluechip Fund	19,064	9.28	9.97	20.61	All Risk Profiles except Secure
UTI Nifty Next 50 Index Fund	228	-	-	-	All Risk Profiles except Secure
<b>Large &amp; Mid Cap Funds</b>					
Aditya Birla Sun Life Equity Advantage Fund (erstwhile Aditya Birla Sun Life Advantage Fund)	6,342	6.96	11.75	25.29	All Risk Profiles except Secure
IDFC Core Equity Fund (erstwhile IDFC Classic Equity Fund)	2,763	10.49	12.23	17.80	All Risk Profiles except Secure
Invesco India Growth Opportunities Fund (erstwhile Invesco India Growth Fund)	774	18.05	12.43	21.49	All Risk Profiles except Secure
Kotak Equity Opportunities Fund (erstwhile Kotak Opportunities Fund)	2,560	8.47	10.68	20.56	All Risk Profiles except Secure
Mirae Asset Emerging Bluechip Fund	5,351	13.31	16.52	33.68	All Risk Profiles except Secure
<b>Multi Cap Funds (Multi Cap/ Value/ Focused/ Dividend Yield/ Contra)</b>					
Axis Focused 25 Fund	5,499	24.50	15.75	21.70	All Risk Profiles except Secure
Kotak Standard Multicap Fund (erstwhile Kotak Select Focus Fund)	21,271	12.66	12.73	23.34	All Risk Profiles except Secure
L&T India Value Fund	8,160	8.40	11.95	27.59	All Risk Profiles except Secure
Mirae Asset India Equity Fund (erstwhile Mirae Asset India Opportunities Fund)	7,945	13.55	13.25	23.63	All Risk Profiles except Secure
Motilal Oswal Multicap 35 Fund	13,016	9.58	13.11	-	All Risk Profiles except Secure
<b>Mid &amp; Small Cap Funds (Mid Cap/Small Cap)</b>					
Aditya Birla Sun Life Small Cap Fund (erstwhile Aditya Birla Sun Life Small & Midcap Fund )	2,247	7.81	14.57	28.43	All Risk Profiles except Secure
HDFC Small Cap Fund	4,578	24.27	17.71	25.40	All Risk Profiles except Secure
Kotak Emerging Equity Scheme	3,327	10.95	12.61	30.69	All Risk Profiles except Secure
L&T Midcap Fund	3,066	10.23	14.73	31.44	All Risk Profiles except Secure
<b>Aggressive Hybrid Funds</b>					
Aditya Birla Sun Life Equity Hybrid '95 (erstwhile Aditya Birla Sun Life Balanced 95)	14,841	7.24	9.78	18.87	All Risk Profiles except Secure
L&T Hybrid Equity Fund (erstwhile L&T India Prudence Fund)	10,936	7.74	9.62	19.62	All Risk Profiles except Secure
Reliance Equity Hybrid Fund	14,203	7.53	10.46	19.79	All Risk Profiles except Secure
SBI Equity Hybrid Fund (erstwhile SBI Magnum Balanced Fund)	24,959	12.59	9.99	19.03	All Risk Profiles except Secure
<b>Balanced Advantage Funds (Balanced Advantage OR Dynamic Asset Allocation)</b>					
ICICI Prudential Balanced Advantage Fund	28,547	8.15	8.72	15.51	All Risk Profiles except Secure
Kotak Balanced Advantage Fund	-	-	-	-	All Risk Profiles except Secure
<b>Indices</b>					
Nifty		16.39	10.25	15.45	

Source: MFI Explorer

Returns are CAGR as on August 10, 2018 and for Regular Plans with Growth option. Corpus size is as on July, 2018.



**Debt Market Update  
&  
Debt MF Strategy**

# Debt Market: Key Variables

## Indicators



### Policy Action

- Rate hiked by 25bps to 6.50%
- Tone was neutral highlighting both growth and inflation risks
- We now expect RBI to keep a hold on hikes for remaining year



### 10 Year G-Sec Benchmark Yield

- G-Sec segment expected to remain within 7.70% - 8.00%
- We continue to believe that this will be a shallow rate hike cycle



### Liquidity

- Liquidity expected to tighten going forward
- Quantum and frequency of OMO Purchase key trigger for liquidity



### Inflation

- RBI increased expectation of 2HFY19 to 4.8% from earlier 4.7%
- We expect March 2019 CPI to be In line with RBI estimate
- Risks such as MSP impact, crude prices, fiscal slippages and weak INR could be at play



### INR

- FII outflows and CAD put pressure on INR, RBI expected to support INR
- Broad range of 67-69 to hold



### G-Sec Supply

- RBI has done 3 OMO of 30,000 cr
- Weak demand sentiment and low volumes

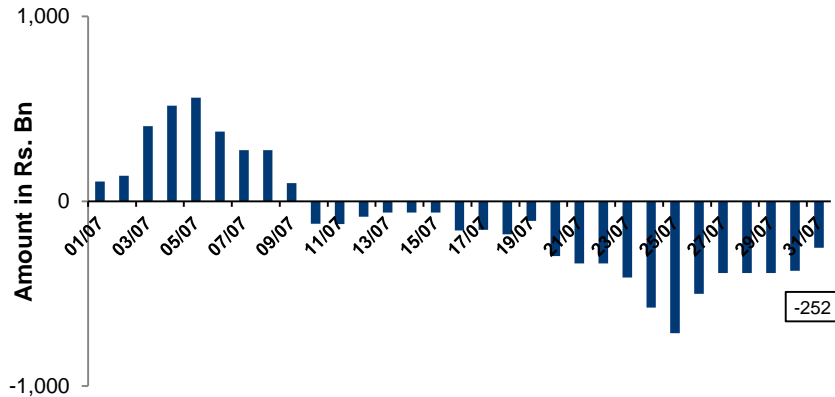


### Key Risks

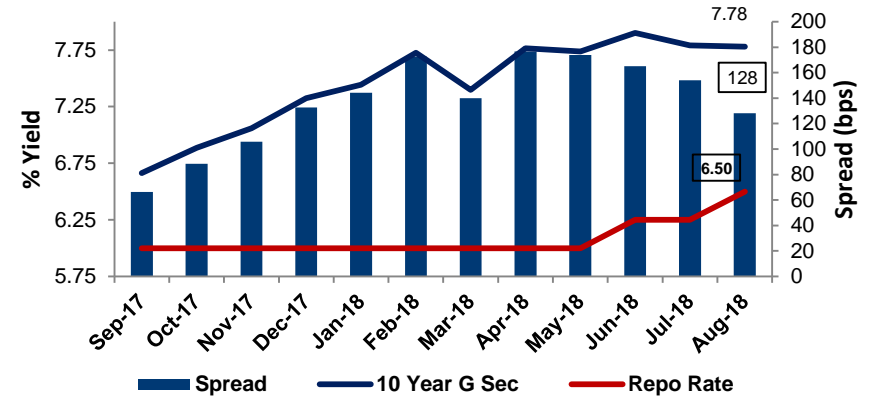
- Global monetary tightening
- Increase in Inflation expectation
- Crude Prices
- Fiscal Deficit

# Long end yield softened by ~10 bps due to balanced commentary by RBI monetary committee

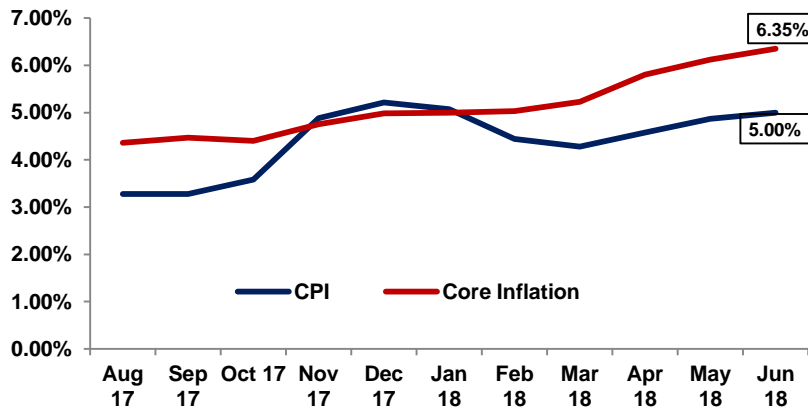
Liquidity below neutral due to rising cash levels and quarterly tax payments



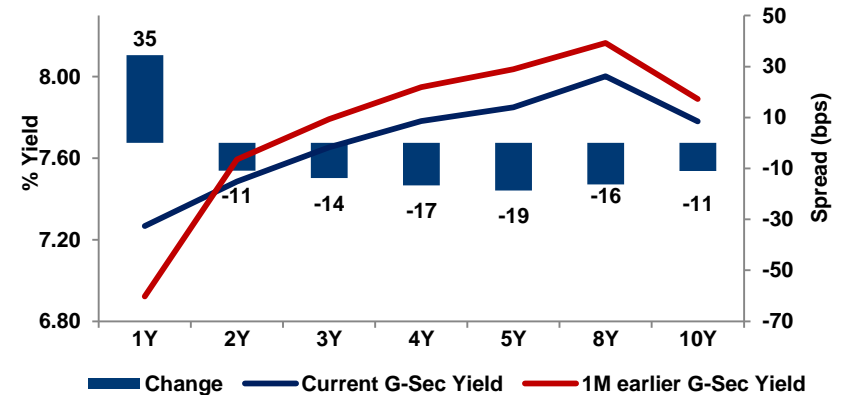
Despite rate hike, 10 Year spread over repo still at high level



Rising household inflation expectation and core inflation are a concern



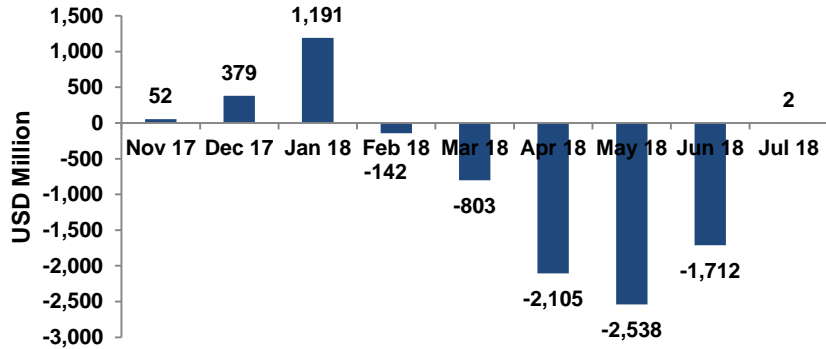
Shorter tenure yields increased due to rate hike



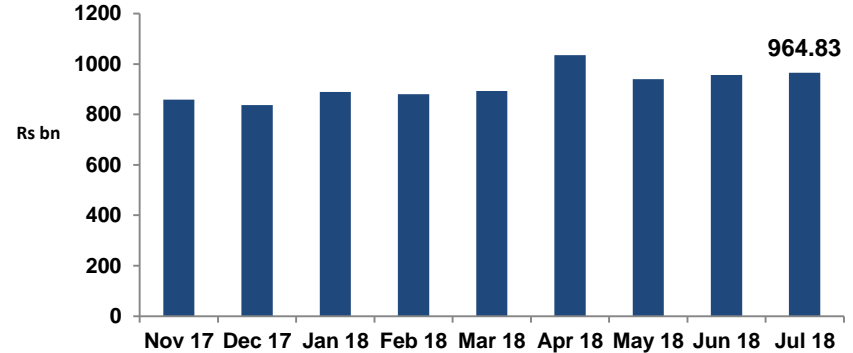
Note: As of 8<sup>th</sup> August 2018, Source Bloomberg

# Fall in Crude prices helped reduce FII selling pressure

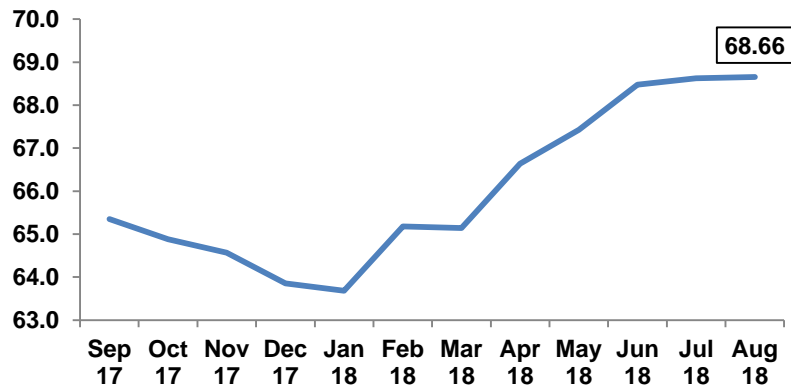
**FII selling was subdued in July, FIIs have sold ~7bn USD since 31<sup>st</sup> Jan 2018**



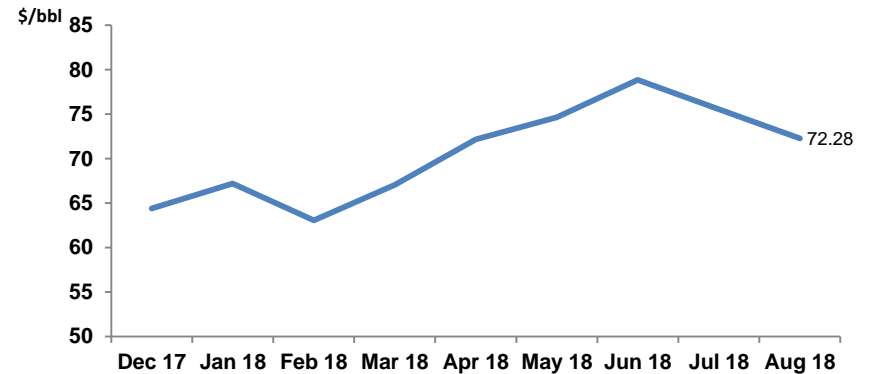
**GST collections improving, breakeven rate close to 1.05 bn/month**



**Indian currency has been stable for the last 2 months, depreciated by ~7.5% in 2018**



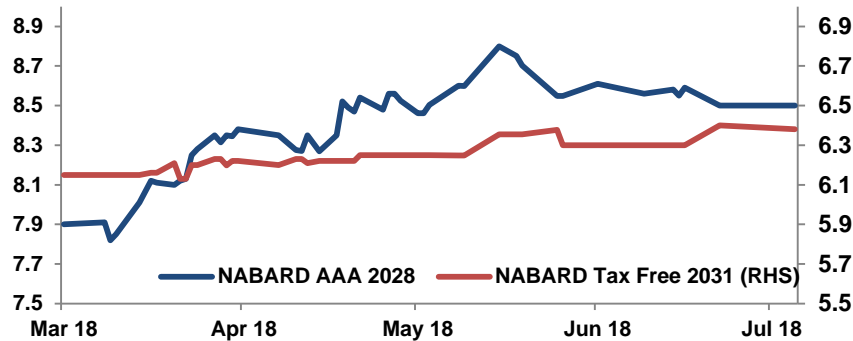
**Brent price reduced to \$72/bbl, still above Fiscal estimates based on \$68/bbl**



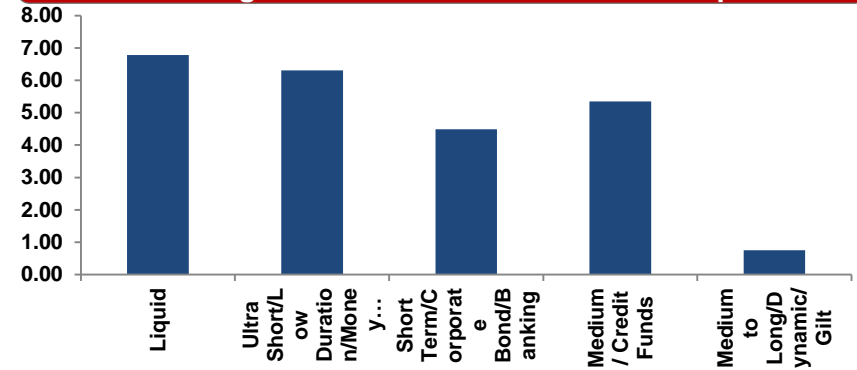
Note: As of 8th August 2018, Source Bloomberg, Nomura

# Debt Market Trends

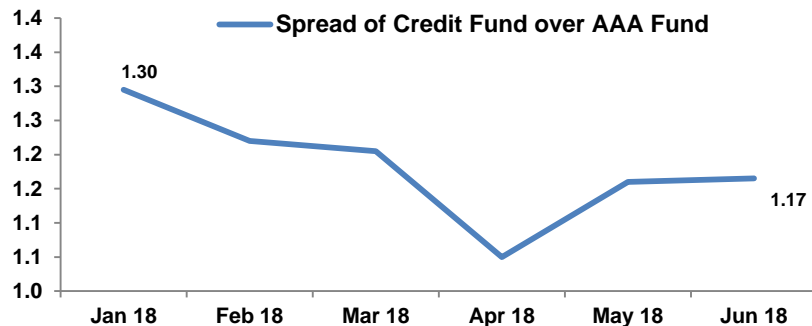
**Tax Free yields have been stagnant while AAA yields of same bonds have increased by ~50 bps in last 6 months**



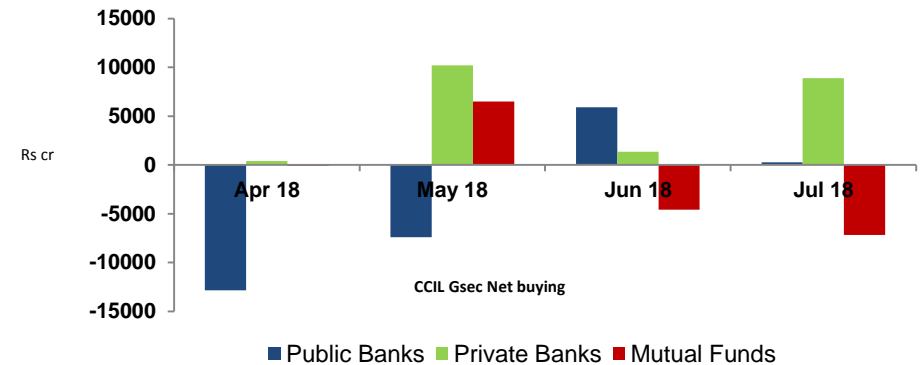
**In Last 1 Year, Liquid Funds have outperformed other Debt categories due to marked to market impact**



**Additional spread of Credit Funds over AAA have reduced slightly due to increase in AAA yields, hence we prefer funds with AAA, AA allocation from risk-reward perspective**



**After consecutive months of selling, PSU Banks have turned net buyers, MF selling as investors exit high duration funds**



Credit Fund – L&T and Kotak Credit Risk  
 AAA Fund – ICICI Pru Bond Fund, IDFC Corporate Bond Fund

Note: As of 8<sup>th</sup> August 2018, Source Bloomberg, MFI

# India Fixed Income: Strategy

Substantial part of the portfolio should be deployed through a mix of high rated and credit accrual strategies. Exit from duration funds only for investors who have completed 3 years and can deploy with another 3 years view.

## Investment Focus:

### Passive Accrual-Oriented Debt funds

- High quality portfolios (~100% AAA / Sovereign)
- Portfolio is run on a passive accrual basis i.e buying a bond and holding it till maturity thereby earning from the accruing of interest
- Higher predictability of return, lower volatility & lower interest rate risk

### High Yield Credit-Oriented Funds

- Low volatility on account of maturity of portfolio between 3 – 5 years, attractive and stable accrual yields
- Experienced teams to carefully evaluate and tightly monitor high yielding debt instruments

### Short Term Bond Funds

- Actively managed to run a low avg. maturity of 2-3 years, attractive risk-reward
- Lower volatility and interest rate risk than Dynamic Bond Funds, better suited from a risk-adjusted basis in volatile markets

For investments up to 3 months, prefer Ultra Short Term Funds

For investments for atleast 6 months, prefer a mix of Ultra Short Term Funds and Arbitrage Funds.

# Recommended Short Term Bond, High Yield & Debt Others Performances

Scheme Name	Tier	Corpus (In crs.)	6m	1Yr	2Yr	Investor Suitability
<b>Short Term 1-3 yrs (Corporate Bond/ Banking &amp; PSU/Short Duration)</b>						
Aditya Birla Sun Life Corporate Bond Fund	I	15,654	5.99	5.02	6.87	All Risk Profiles except Secure
HDFC Banking and PSU Debt Fund	I	3,178	4.27	4.19	6.41	All Risk Profiles except Secure
ICICI Prudential Banking & PSU Debt Fund	I	5,590	5.57	3.63	6.65	All Risk Profiles except Secure
Kotak Banking and PSU Debt Fund	I	1,022	5.27	4.46	6.63	All Risk Profiles except Secure
Axis Banking & PSU Debt Fund	II	816	6.49	6.24	7.08	All Risk Profiles
IDFC Banking & PSU Debt Fund	II	717	5.98	4.81	5.90	All Risk Profiles
L&T Triple Ace Bond Fund	II	213	3.54	2.63	3.61	All Risk Profiles except Secure
Sundaram Corporate Bond Fund	II	382	3.16	1.91	5.27	All Risk Profiles
<b>Medium &amp; Credit Risk Funds (Medium Duration/Credit Risk)</b>						
Kotak Credit Risk Fund	I	5,286	6.08	5.35	7.06	All Risk Profiles except Secure
L&T Credit Risk Fund	I	3,882	5.15	4.79	7.02	All Risk Profiles except Secure
UTI Medium Term Fund	I	227	5.10	4.89	7.11	All Risk Profiles except Secure
Aditya Birla Sun Life Credit Risk Fund	II	7,869	7.13	5.70	8.15	All Risk Profiles except Secure
BOI AXA Credit Risk Fund	II	1,649	8.33	7.61	9.09	All Risk Profiles except Secure & Conservative
ICICI Prudential Credit Risk Fund	II	11,147	6.74	5.57	7.30	All Risk Profiles except Secure
<b>Dynamic Debt (Medium to Long Duration/ Dynamic Bond/Gilt)</b>						
ICICI Prudential All Seasons Bond Fund (erstwhile ICICI Prudential Long Term Plan)	I	2,088	5.69	2.41	6.85	All Risk Profiles except Secure
ICICI Prudential Gilt Fund (erstwhile ICICI Prudential Long Term Gilt Fund)	I	1,208	7.70	0.25	5.25	All Risk Profiles except Secure
UTI Dynamic Bond Fund	I	1,269	5.23	1.46	6.50	All Risk Profiles except Secure
UTI Gilt Fund	I	505	6.41	0.41	6.61	All Risk Profiles except Secure
ICICI Prudential Bond Fund (erstwhile ICICI Prudential Income Opportunities Fund)	II	3,181	2.95	1.91	5.24	All Risk Profiles

Source: MFI Explorer

Scheme Returns are as on Aug 10, 2018 and for Regular Plans with Growth option. Corpus size is as on July 31, 2018.



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