Indiabulls
MUTUAL FUND

Sumit Bhatnagar - Fund Manager, Equity

Mr. Sumit Bhatnagar has over 14 years of experience in Banking & Capital Markets. He has been associated with Indiabulls AMC since inception. He played a pivotal role in setting up the AMC systems & processes and in framing business strategy, designing business plan and products for the AMC.

Mr. Bhatnagar started his career in Banking, having worked in IDBI Bank & Cosmos Bank, handling retail & corporate lending. He holds an MBA (Investment Management) from the University of Toronto, Canada and is also a CFA (USA).

EQUITY MARKET COMMENTARY

Key Domestic News

- The Indian economy grew at 7.9% in the fourth quarter of 2015-16, taking the overall GDP growth for the FY 16 to a five-year high of 7.6%. GDP data indicates that the underlying economic recovery continues at a gradual pace, driven primarily by private consumption, while exports and private capex continue to be weak.
- The RBI kept the repo rate unchanged at 6.5%, in line with expectations, citing higher-than-expected April CPI inflation, recent upturn in commodity prices, transitory effects of 7th Pay commission.. However, forward guidance remained accommodative with the RBI governor saying that they are "looking for room to ease".
- The India Meteorological Department (IMD) has retained its earlier 'above normal' forecast for the June to September 2016 period at 106% of the Long Period Average
- SEBI tightened rules on issue of participatory notes (P-notes) to bring in more transparency and curb misuse of the investment route used by foreign investors not registered in India.

Key Domestic Economic Data

- India Manufacturing PMI grew marginally to 50.7 in May from 50.5 in April, indicating sluggishness in manufacturing sector.
- CPI inflation rose to 5.4% y-o-y in April from 4.8% in March, above expectations, driven mainly by higher food and transport fuel price inflation. Core inflation edged up to 5.2% from 5.1% in March. WPI inflation rose 0.3% y-o-y in April compared with -0.9% y-o-y in March, above expectations. With this, the WPI returned to positive territory after being in deflation for 17 months.
- March IIP growth slowed significantly to 0.1% from 2.0% in February. Ex-consumer durable, IIP actually contracted, indicting an uneven recovery.
- India's core sector index expanded 8.5% in April vs 6.4% growth in March. This was largely due to weak base of last year.

Key Global Events

- Minutes of US FOMC April meeting show "most" officials as expecting the next rate hike in June. However, recent weak economic data and latest Jennet Yellen statements suggest that June rate hike may not be on the cards.
- The World Bank trimmed its global growth outlook for this year to 2.4% instead of the 2.9% projected in January,due to sluggish growth in advanced economies, stubbornly low commodity prices, weak global trade and diminishing capital flows.The growth outlook for 2017 was also trimmed to 2.8% from 3.1%. • China's official May manufacturing PMI came in at 50.1, unchanged from April. China's services PMI dipped to 53.1 from 53.5 the month before. However, the China's Caixin manufacturing PMI index slipped to 49.2, marking the 15th consecutive month of contraction and the lowest reported figure since February. This new dataset question a sustainable recovery in the world's second-largest economy.

Outlook

- Not withstanding the recent weak high frequency economic data, we continue to maintain that Indian economy is slowly, steadily improving and gathering momentum.
- Q4 earnings have been better than expectations; we believe that barring a few sectors, earnings downgrade cycle is over.
- Rajya Sabha math opens up space for smart political maneuvering for getting GST bill cleared in Monsoon session.
- Green shoots in broader economy, improving macros, inflation under control, huge long term opportunity and benign global liquidity environment augur well for Indian equities.
- India continues to remain the best Investment destination for foreign investors for both FDI & FII investments. Any short term volatility around global factors should be utilized by investors to build high quality portfolio in Indian equities.
- BREXIT, Hard landing in China, Central Government's failure to push through big ticket reforms and a reversal in commodity prices continue to bekey risk to our outlook.

Malay Shah - Head, Fixed Income

Mr. Malay Shah has around 14 years of experience in the field of finance. He has exposure to Debt Dealing and Fund Management. Prior to joining Indiabulls Asset Management Company Limited, he was working in the capacity of Head - Fixed Income with Peerless Funds Management Co. Ltd.

He is a Commerce graduate and has done his MMS in Finance from NMIMS.

DEBT MARKET COMMENTARY

May	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.6	6.65	6.51	6.54
10 year Gsec	7.44	7.48	7.42	7.47
3 month CDs	7.38	7.38	7.14	7.16
6M CDs	7.38	7.38	7.30	7.30
12 month CDs	7.45	7.50	7.45	7.50
Currency	66.45	67.63	66.35	67.26
10 Year US Treasury	1.88	1.88	1.71	1.84

Inflation

Led by uptick in food prices, retail Inflation as measured by CPI for April 2016 saw a jump to 5.39%. The corresponding number for March was 4.83%. Food inflation was rose to 6.32% as compared to 5.21% in March. After being in negative, continuously for 17 straight months, WPI after going down in March by 0.85% rose to 0.34% in April. As in CPI, food inflation was the stress point. It increased by 4.23 in April as compared to 3.73 in March. Although this upward movement of inflation is not going to anyway alter the RBI decision of status quo in the upcoming June policy, it will surely make them more focussed on data. However, currently we look to be on the path of achieving the projected inflation trajectory.

Macros

India's trade deficit narrowed to $4.8 billion for April 2016. Exports fell by 6.70%, to their lowest level in six months to $20.6 billion in April 2016. Imports, dived by 23.1% to $25.4 billion. Index of Industrial Production (IIP), which measures industrial production came in at very subdued level for March came at 0.10% as against a previous number of 2.00%. This point to uneven economic recovery in the industrial sector.

Liquidity and Rate Movement

Banks borrowed approximately 385 crores, on average, in May 2016 from the Reserve Bank of India's marginal standing facility (MSF). This is a significant dip as compared with more than 4000 crores borrowed in April. RBI is moving the system is moving towards neutral liquidity zone. Also, total borrowing from the RBI's liquidity window stood at approximately 102,000 crores in May as compared to net borrowing of more than 105000 crores in April. Short and money market papers enjoyed a rally with 2-3 months CDs coming down by more than 20 bps to close at 7.16 levels. Less CD issuance and constant demand is tilting the market in favour of sellers and hence yields will further keep falling. Market movement was in a tight range as per as gilts were concerned. 7.59% 2026, the benchmark paper ended at 7.47% on May 31, 2016. Continuing open market bond purchases by the RBI, kept the prices supported and prevent from yields spiking. However, an upmove in global crude oil prices led uptick in us treasuries prevented any all-out rally in gilts. Add to it, tightening rupee and gilts were under pressure from that angle also. Also, with sentiments weakening, as the minutes of the US Federal Open Market Committee's April 2016 policy meeting hinting of a June 2016 rate hike by the US central bank, traders chose to lighten their positions little bit.

Outlook

We are moving into consolidation phase, till the monsoon is over and any rate action fructifies. Add to that higher chances of FED hike, gilts/long maturity will remain trapped in a range. Since demand supply dynamics are favourable, we will not see any huge pressure on yields. Additionally OMOs by RBI will keep the market supported in terms of further demand by banks to replenish the stock given in OMO. If monsoon also comes good, then it might open up space for another cut down the line. However absence of any immediate trigger is preventing for a sustainable / sharp rally in gilts. With liquidity scarcity not occurring short and money market papers will see healthy demand and a gradual fall in levels there. For investors with smaller investment horizon, short term fund will be good vehicle to enjoy capital appreciation generated by sharp run down in yields especially at the short end of the date curve. With a portion of assets in accrual mode, investors in this fund will also be well protected against re-investment risks. For risk averse investors, income fund, with its AAA assets only focus will be ideal fund to enjoy risk adjusted returns. As always, liquid and ultra short term funds will be better alternative to savings and current bank account and will help generate smart returns for any temporary surpluses.