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 Government presented a balanced 'need for the hour' budget with a special focus on rural economy. Key highlights were:
  - Government stuck to its fiscal consolidation plan, deficit projected at 3.5%. Fiscal math looks credible.
  - GDP growth estimate set at 7 - 7.5%, a broad range given the volatile global environment
  - Gross market borrowings lower than market estimate. This opens up the possibilities for rate cut.
  - Thrust on rural development, agriculture and doubling the farmers' income would boost rural demand.
  - Focus on building roads, upgrading power infrastructure, enhancing irrigation facilities & affordable housing for all.
  - Many incentives for 'Make in India' & 'Start-up India' themes.
  - Provision of Rs. 25,000 crore for recapitalization of PSU Banks, steps for transformation of IDBI Bank.
  - General Insurance companies owned by Government proposed to be listed on stock exchanges.

Key Domestic Economic Data

- India's manufacturing PMI came in unchanged at 51.1 in February. While underlying demand continued to improve, new business from abroad also rose. PMI data also highlighted a weaker rise in costs and the first reduction in selling prices since September 2015.
- January CPI inflation moved up to 5.69%, above consensus expectations of 5.4%. The pick-up was entirely driven by higher food price inflation, while core CPI inflation moderated to 5.2% y-o-y in January, from 5.4% in December.
- IIP contracted 1.3% y-o-y in December, despite a 3.4% fall in November, below expectations. Both consumer non-durables and capital goods output growth contracted more than expected. The IP data suggest that growth momentum, including investment demand slowed.

Key Global Events

- Moody's Investors Service lowered the outlook on China's credit rating from stable to negative, citing a weakening of fiscal metrics and a continuing fall in foreign exchange reserves.
- U.S. Q4 GDP was revised up to 1% from 0.7% in the first estimate, and against expectations for a downward revision to 0.4%, supported by upbeat U.S. economic data on manufacturing, construction spending and auto sales.
- Britain is set to vote on June 23rd on a referendum on country's membership of the European Union. Recent opinion polls are suggesting that earlier what was not even a remote possibility, 'BREXIT' is gaining traction

Outlook

- With union budget out of the way, markets are likely to take cue from global markets where a strong relief rally is underway, based on expectation of fresh QE from China, ECB & Japan and also realization that global economy might not be in as bad shape as perceived earlier.
- We maintain our view that India is the best Investment destination for foreign investors. As the global economy stabilizes, India should be among the first to recover. Latest union budget re-affirms our faith in long term India story. While short term volatility around global factors cannot be ruled out, they can provide attractive entry points for an investor with medium to long term perspective.
- Hard landing in China, Uncertainty around Brexit, central government's failure to push through big ticket reforms and a reversal in commodity prices continue to be key risk to our outlook.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.
Call: 1800-2666-002

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

February	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	7.02	7.11	6.76	6.96
10 year Gsec	7.66	7.86	7.62	7.62
3 month CDs	8.05	8.42	8.05	8.20
6M CDs	8.00	8.35	8.00	8.15
12 month CDs	8.05	8.25	8.05	8.10
Currency	67.84	68.71	67.56	68.42
10 Year US Treasury	1.97	1.97	1.63	1.74

Inflation

Led by acceleration in food inflation, January CPI came at 5.69 per cent, a bit higher than December's 5.61 per cent, but well within the RBI's monetary policy framework. This was the first target of the framework that was met. The next informal target is five per cent by January 2017. The eventual target is to maintain retail inflation at four per cent from 2016-17, within a band of +/- 2 per cent. If the target is missed for three consecutive quarters, RBI will have to give an explanation to the government. The rate of retail food inflation shot up to 6.85 per cent in January, versus 6.4 per cent in December, mainly on account of shortage in pulses supply. On the wholesale inflation front, deflationary pressures continued for straight 15th month, January WPI came in at (-) 0.90 as compared to (-) 0.73 of December.

Macros

Economy witnessed lower trade contraction. January 2016 trade contraction was $7.6 billion as compared to $11.7 billion of previous month. This number is lowest print for more than 10 months. Lower oil price is aiding in lower imports, they were lower by 11.00 % as compared to nearly 4.00 % previously. The fall in exports for higher than imports, but on a sequential basis the fall in exports is slowing down. At nearly 5.32 lakh crores, fiscal deficit for the period April 15 to Jan 16 has touched 95.8% of the full year target of Rs 5.56 lakh crores. Index of Industrial Production (IIP), a measure of industrial growth, slowed to -1.3% in December following a drop of -3.4% in November 2015.

Liquidity/Rates

Markets have been bearing the brunt of high liquidity deficit. We have been witnessing high deficits, with market taking RBI support averaging to nearly 1,60,000 crores on daily basis. Government has been maintaining high cash balances with and that is a big reason for the deficit. So, even though RBI has been additionally doing repos and term repos, as necessary, rates are on the firmer side. Add to that approaching year end pressures and weak global sentiment, well it has been a not so joyful month for the markets. All in all, rates had no reason till budget to trend lower. 3 months CDs spiked to breach 8.40 levels and 10 year sovereign breached 7.80 levels. Sparse buying interest coupled with extremely bearish outlook, led to rising yields with lower volumes. However last day, saw healthy fall in levels, with good buying across the yield curve. 3 months CDs came down to 8.20 range and 1 year came down from peak of 8.25 to 8.10. 10 year sovereign which was behaving like a rebellious teenager by refusing to come to senses, suddenly found its mojo back and rallied more 20 bps.

Outlook

Union budget, presented on the last day of month has been the only bright spot in otherwise not so joyous markets. Inspite of headwinds in form of deep global uncertainty, the government has stuck to the path of fiscal consolidation. Coupled that with benign inflation, primarily due to probable good monsoon and inherent strength of domestic economy, possibility of a rate cut from RBI to provide a boost to the economy cannot be ruled out. World over the fears of stagflation or even worse deflation are abounding. In that, India should really not be worried about inflation shooting up- additionally commodities at historical low levels are adding to the comfort. Basis all this, long term looks interesting space from risk reward perspective. The ride might be volatile, with intermittent worries, but in end it will be a profitable journey. However the short end of the curve, especially the 3-5 year segment looks most interesting and a focus on selecting top quality AAA bonds, will generate good returns. With overnight at 6.75 (and still to go lower), and AAA PSU bonds at 8.30 - 8.40 band, the spreads are very attractive- tactical exposure in this segment will generate safe returns which will be amplified due to roll down led capital appreciation and a constant high carry. Indiabulls Income Fund is a vehicle, which is capturing this, and investors who want to avoid any credit exposure can take advantage by investing in it. As always, liquid fund and ultra-short term fund will be for smart deployment of temporary surpluses.

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