Economy Review

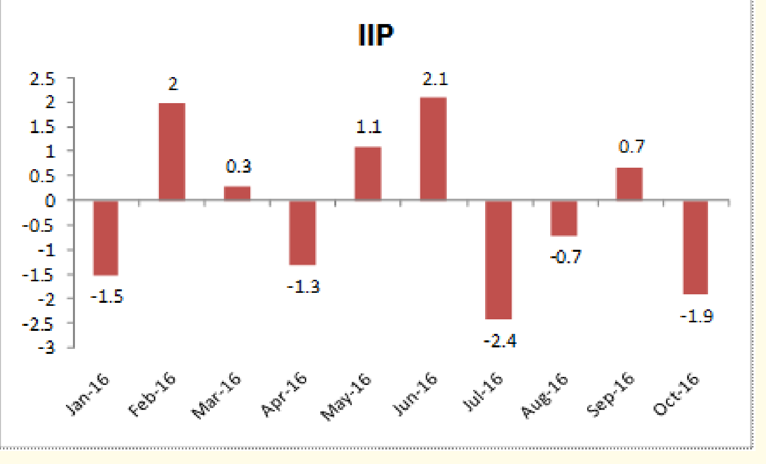
2016 was an eventful and a volatile year. On the domestic front, there were a number of positives. The key positive events were – a) passage of GST bill, b) normal monsoons, c) better corporate earnings and d) start of revival of investment cycle. The key negative events which worried the market in 2016 were a) Britain voting out of Eurozone, b) outcome of US elections and c) demonetization drive by government.

There is an expectation that there will be a slowdown in GDP growth as RBI has revised the growth target from 7.6 per cent to 7.1 per cent. Once the demonetization effect subsides, growth will bounce back in the second half of 2017. Various new schemes announced by the government recently, particularly for villages should push rural demand. Growth in corporate earnings should come back with strong domestic demand and boost to infrastructure spending.

Decemeber was an eventful month. Inspite of a rate cut expectation from the Reserve Bank of India in the December policy meet, RBI left the policy rates unchanged. Both the houses of the Parliament didn't function in the winter session. The US Federal Reserve increased rates by 25 basis points in December 2016.

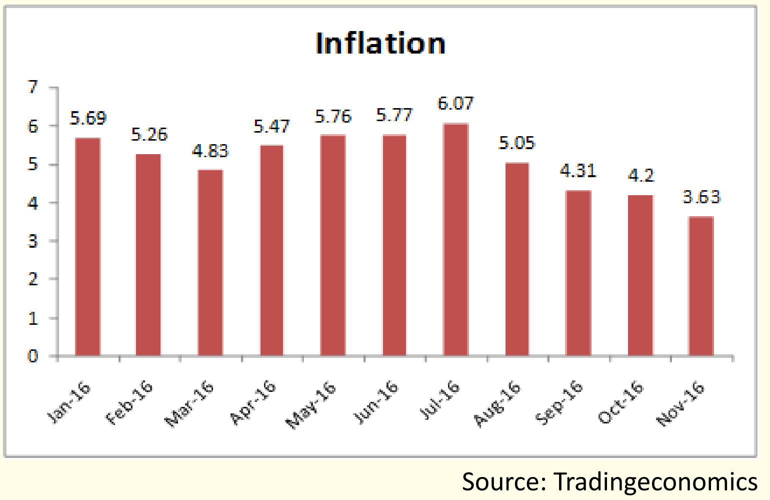
Domestic macro economin data remains mixed.

On the economy front, IIP for October-16 declined to -1.9 per cent compared to 0.7 per cent in September-16.



Source: Tradingeconomics

However, inflation (CPI) for November-2016 was recorded at 3.6 per cent, lower than 4.2 per cent for the month of October-2016. The decrease in inflation was led by lower food prices.

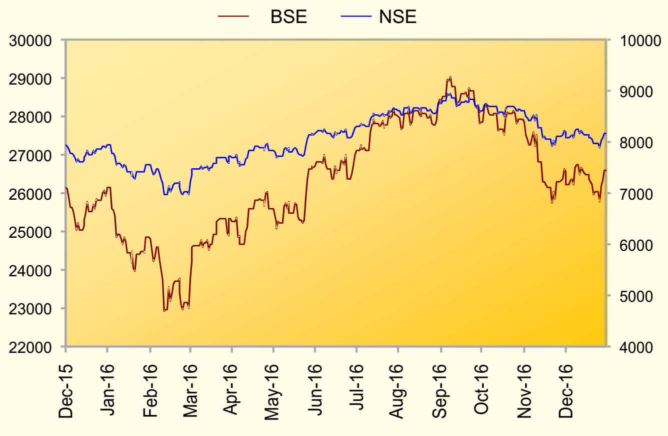


Source: Tradingeconomics

Outlook for Equities

The Sensex lost around 0.25% in the month of December. FIIs sold $1.15bn in the month. Cumulatively, they are net buyers of $3bn for the year. Domestic institutions remained net buyers for the month. They bought $1.2bn in December. Cumulatively, they are net buyer of $5.3bn for the year.

At a 14.5 multiple of FY18 earnings, markets are trading below their 15 year average. Investors in equity funds can expect significant gains in long-term with higher growth in corporate earnings.

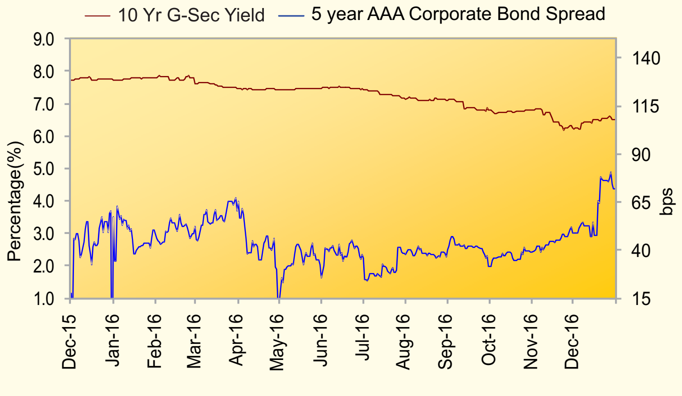


INDEX	30-Dec-16	30-Nov-16	% Change
Nifty	8185.80	8224.50	-0.47%
Sensex	26626.46	26652.81	-0.10%
BSE 100	8386.69	8479.68	-1.10%
Dow Jones	19762.60	19123.58	3.34%
Nikkei	19114.37	18308.48	4.40%
Hang Seng	22000.56	22789.77	-3.46%
Nasdaq	5383.12	5323.68	1.12%

Outlook for Debt

The 10 year government bond yield moved from 6.22 per cent to 6.52 per cent in the month.

We expect the 10 year G-sec yield to be in the range of 6 per cent to 6.5 per cent in the near term. The corporate bond yields are expected to maintain a spread of 30 to 50 basis points on the upward side. Investors in bond funds will gain significantly with bond yields coming down further.



Key Indices	30-Dec-16	30-Nov-16	% Change
10 year G-Sec	6.52%	6.25%	4.14%
5 Year G-Sec	6.57%	6.20%	5.63%
91 Day T Bill	6.20%	5.86%	5.48%
364 day T-Bill	6.33%	6.05%	4.42%
Call Rates	6.12%	6.26%	-2.29%