



APRIL 2017

I-CAN Communiqué

MONTHLY NEWSLETTER – APRIL 2017

Market Update

Sensex : Up 3.1%	
Nifty : Up 3.3%	
Best performing sector: Consumer Durables (10.7%)	Worst performing sector: Metal (-0.74%)
Best performing Global index: CAC 40 (4.8%)	Worst performing Global index: Dow Jones (-0.4%)
Indian Rupee: 2.84%	Gold price: -3.6%

March 2017 saw the stock markets soaring high. One of the major triggers was the emphatic win of the ruling BJP which won 325 out of the 403 seats. The victory was a strong signal of the political stability despite demonetization and the expectation of subsequent reform measures in future by the government. The 10-year G-sec yield fell from 6.87% to 6.68% in March.

The net FII investments in equity market last month was Rs. 31,326 crore and in the debt market was Rs. 25,617 crore. FIIs were net sellers in debt markets November 2016 onwards. This trend has changed since February 2017. Short-term inflation trends depict rising inflation. Consumer price inflation rose to a 4-month high of 3.65% in February and Wholesale price inflation came in at a 39-month high of 6.55%. The factory output, measured by Index of Industrial Production (IIP) increased by 2.7% in January 2017, which was a positive especially as there were fears of a slowdown due to demonetization. Exports also showed a healthy growth in the month of February 2017 by reporting an annual increase of 17.5%. However, since imports increased by 21.8% owing to higher petroleum prices, the trade

deficit went up to \$8.89 billion. The Indian Rupee strengthened significantly – by 2.8% last month.

The US Federal Policy Review was another event that markets globally were watching. On expected lines, the interest rate was increased by 25 basis points. The US Fed continued to project two more increases this year, signaling more vigilance as inflation approaches its target. The markets took this event well due to the dovish tone of the US Fed.

The financial year 2017 ended on an upbeat note. The amount raised via IPOs nearly doubled to Rs 29,018 crore in FY17 compared with Rs 14,811 crore in FY16. 15 IPOs received over 10 times retail subscription. FY17 saw Rs 40,997 crore in disinvestment proceeds, which was the highest ever, even as it stood 90% of the revised targeted amount of Rs 45,500 crore.

Reforms

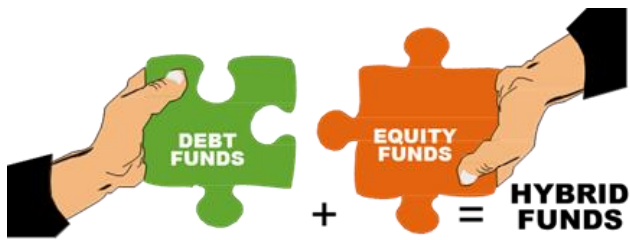
- The government approved the National Health Policy which proposes to provide "assured health services to all"
- The government could launch a crackdown on 5-10 big firms that are thought to be among the top wilful defaulters of the 50 companies that account for a bulk of banks' non-performing assets (NPAs)
- The Central Board of Direct Taxes (CBDT) said there will be no relief for those who declared unaccounted income under the Income Declaration Scheme (IDS) but failed to pay the first instalment of the tax and penalty.

- The government introduced the supporting legislation for the goods and services tax (GST) in Parliament on 28th March, reinforcing expectations that it would make the 1 July deadline for the rollout of this singular tax reform. FM Arun Jaitley introduced the pending GST bills as money bills in Lok Sabha which ensures their passage as Rajya Sabha cannot reject money bills. The bills are expected to be passed in the ongoing second half of the Budget Session.
- Action will be taken against 9.29 lakh entities who have not responded to the I-T department's queries over cash deposited by them which did not match their income profile, the government asserted on 22 March.
- The ministry of railways is set to invite bids for content on demand (CoD) and rail radio services, to be provided for travellers in April. According to a recent report by the Boston Consulting Group (BCG), through CoD on trains and at stations, the railways

sees an overall infotainment market of around Rs 2,277 crore in three years' time.

- The Parliament has passed a bill stating that women will be entitled to paid maternity leave of 26 weeks, up from 12 weeks.

Global agencies continue to be bullish on the Indian economy. According to the International Monetary Fund (IMF), India's economic growth is expected to pick up once the effects of cash shortages linked to the currency exchange initiative fade. Global rating agency Fitch said Indian economy will grow by 7.1% in the current fiscal before stepping up to 7.7% in the next two financial years. Nomura expects the GDP growth to be 6.7% in the January-March quarter of this fiscal year as overall activity is yet to bounce back to the levels seen prior to demonetization.



6 Reasons to invest in Hybrid Funds

The Hybrid Mutual Funds allow an investor to invest in a combination of debt and equity. The investors choose different variants of hybrid funds according to their risk appetite. The Hybrid Funds can further be divided into Equity Oriented Funds & Debt Oriented funds.

The funds that have high exposure in Equity (i.e. more than 65 %) and less exposure to Debt are known as equity-oriented Funds and funds which have high exposure (i.e. more than 65 %) to Debt and less exposure to the equity are known as debt-oriented funds. The funds that invest in both debt and equity are known as balanced funds.

The five reasons to invest in Hybrid Funds for increasing returns and diversifying risk are as follows:

1. Lower Correlation between Bonds and Equity

Among the asset classes, bonds and equity have lower correlation and sometimes negative correlation. The hybrid bonds offer the benefits of diversification among asset classes by exploiting the lower correlation between bonds and equity. Only hybrid funds offer the benefits of asset allocation across the major asset classes namely bonds and equity.

2. Higher Returns than bonds

The bond funds offer lower returns compared to equity. Hybrid funds through diversification fetch higher returns than the bond funds and earn higher inflation –adjusted returns.

3. Lower Volatility than equity

As the equities are highly volatile, risk of the equity funds are highest among the asset classes. With benefits of diversification, hybrid funds become less volatile and have lower risk than equity funds. The lower volatility of hybrid funds helped perform better than equity during the period of financial crisis of 2008 and post-financial crisis.

4. Fund of all seasons

Hybrid funds offer benefits of investing for all the seasons regardless of performance of equity markets. Since hybrid funds offers the benefit of diversification, higher returns than bonds and lower volatility than equity, it is unique in nature to invest in all seasons. The evidence suggests that in long-run, blend portfolio earned annualised real returns of 5.62% which is less only by 2.11% compared to real returns of equity with 7.73%. The volatility of Blend portfolio had been lower than equity and comparable to volatility of bonds. Investing in blend portfolio has volatility which is comparable to bonds, but also earned the returns higher than bonds due to additional returns from equities. Hybrid funds are most suitable for both medium as well as long-term.

5. Tax Treatment

Equity-oriented hybrid funds which invest more than 65% in equity enjoy tax treatment as equity funds. Short-term capital gain tax on equity fund is 15%, while there would be no long-term capital gain tax. In case of bond funds, short-term capital gain tax (holding upto one year) for individuals depend upon taxable income and applicable tax rate, while long-term capital gain tax (holding more than one year) would be 20% with indexation or 10% without indexation.

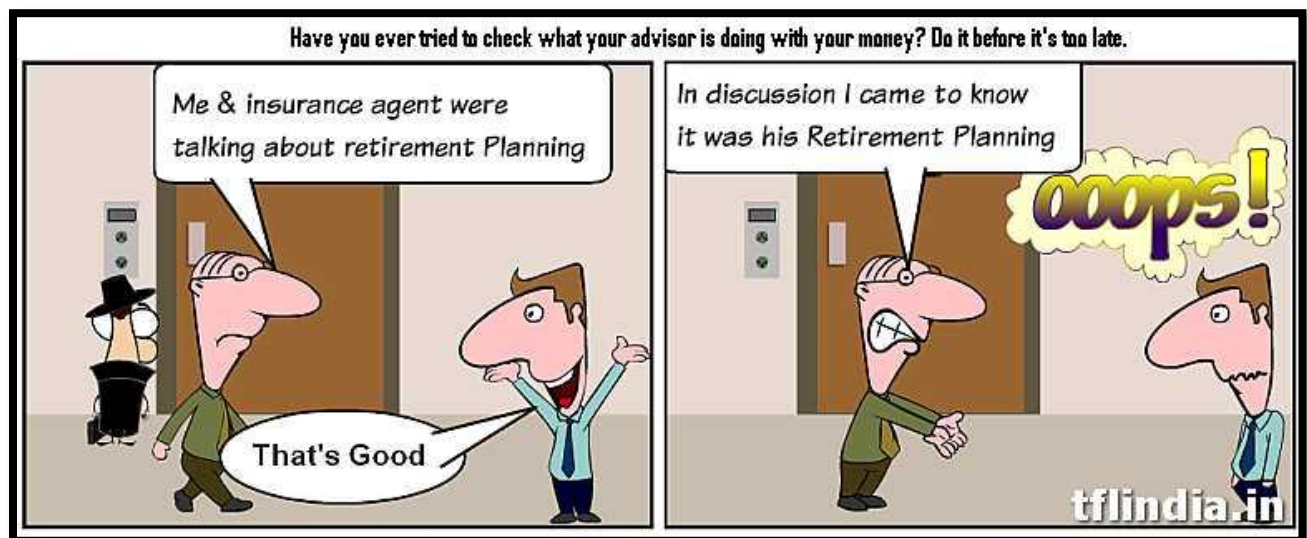
6. Regular Dividends

Many hybrid funds in the Indian market have a track record of giving out regular monthly/quarterly dividends. This is useful for investors who need regular cash flows from their investments. For a certain class of investors like retired professionals, this makes hybrid funds an apt product.

Did you know?

There are more than 682 million iPhone's across the globe.

Cartoon of the Month



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