GLOBAL MARKETS – Normalisation

The U.S. Federal Reserve last week raised interest rates by a quarter percentage point and signaled a faster pace of future increases, and the ECB announced it will taper its bond-purchase program.

China vowed to retaliate against U.S. companies after President Donald Trump threatened to place tariffs on another $200 billion in Chinese imports, deepening a trade dispute between the world's two biggest economies. In an immediate rebuke to Trump, the Ministry of Commerce in Beijing said it would retaliate with "strong" counter measures. "If the U.S. loses its sense and publishes such a list, China will have to take comprehensive quantitative and qualitative measures and retaliate forcefully,"

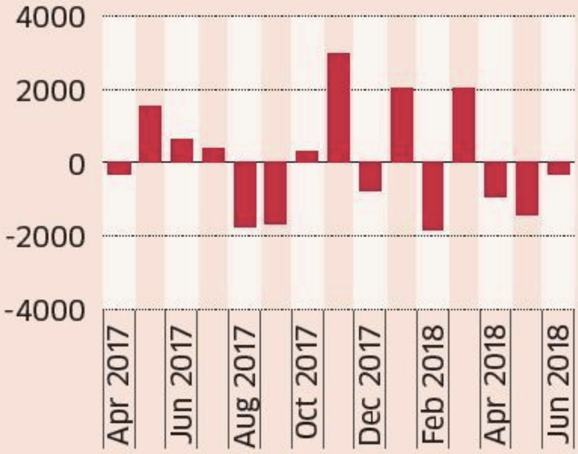
The U.S. imported $505 billion of goods from China last year and exported about $130 billion, leaving a 2017 trade deficit of $376 billion, according to U.S. government figures. The fact that America imports more from China will make it harder for Beijing to match Trump's attacks

US trade sanctions and counter-measures by China, volatile oil prices, rising servicing costs on ballooning dollar debt, and hardening rates in the G7 appear to be turning global investors away from EMs. Hence, several bulge-bracket money managers in London, New York, or Tokyo are no longer keen on EMs due to the unfavourable risk-rewards pay-off.

Combined outflow from major EMs, such as India, Indonesia, Brazil, Malaysia, the Philippines and South Korea, stood at $11.17 billion in the year to date. FPIs have sold $530 million of Indian equities so far in 2018, and these include purchases worth $2 billion in January. The selling pressure was more pronounced in April and May, when they sold $2.3 billion of equities.

Moving Out

India Monthly FPI flow ($ mn)



Emerging Market Flow

	Year to date ($ mn)	12 months ($ mn)
India	-530	-753
Indonesia	-3,146	-7,574
Malaysia	-1,060	-1,088
Philippines	-1,111	-414
S Korea	-3,300	-3,624
Brazil	-2,031	915

Source: **Bloomberg, compiled by ETIG**

World Equity Markets Performance (%) in Calendar Year 2018 as on 22nd June 2018

Countries	Exchange Name	Index Level	P/E (x)	P/B (x)	Divd Yield (%)	ROE (%)	1 Week (%)	1Month (%)	3Month (%)	6Month (%)	1 Year (%)	YTD (%)
Developed Market												
USA	S&P500	2750	17.3	3.2	2	18.3	-1.2	0.9	4	2.5	12.9	2.8
Europe	STOXX 600	383	14.6	1.8	3.6	12.2	-1.6	-3.5	3.8	-1.9	-1.4	-1.6
UK	FTSE 100	7604	13.8	1.8	4.3	13.1	-0.4	-3.5	9.4	0.1	2.2	-1.1
Germany	DAX	12551	13	1.6	3.2	12.1	-3.5	-4.7	3.7	-4	-1.9	-2.8
France	CAC 40	5352	14.5	1.6	3.3	10.8	-2.7	-5.1	3.6	-0.2	1.3	0.8
Japan	Topix	1745	13.7	1.3	2.2	9.3	-2.5	-3.6	1	-4.6	8.3	-4.0
Australia	ASX 200	6225	16.6	2	4.3	12.3	2.2	3	4.9	2.6	9.1	2.6
Singapore	STI INdex	3287	13	1.1	4	8.8	-2.1	-7.2	-5.8	-2.9	2.2	-3.4
Hong Kong	Hang Seng	29339	11.5	1.3	3.6	11	-3.6	-6.1	-5.6	-0.8	14.3	-1.9
Emerging Market												
India	Sensex	35690	18.5	2.7	1.5	14.8	0.2	3	8.1	5.2	14.1	4.8
China	Shanghai composite	2890	11.5	1.4	2.6	11.9	-5.1	-10.1	-11.5	-12.4	-8.2	-12.6
Brazil	Bovespa	70075	10.6	1.4	4.2	13.5	-1.9	-15.3	-17.3	-6.8	14.4	-8.3
Russia	RTS	14952	5.6	0.7	6.3	12.2	1.4	-3.2	-0.4	9.5	24.4	9.4
South Africa	Johannesburg All share	56716	14.2	1.8	3.4	13	-1.6	-2.4	-0.9	-3.5	11	-4.7
Korea	KOSPI	2357	9.2	1	2.1	11	-1.9	-4.4	-5.6	-3.4	-0.6	-4.5
Mexico	IPC	46457	16.1	2.1	2.5	13.2	-1.6	1.9	-1.9	-4	-5.2	-5.9
Phillipines	PCOMP	7063	16.2	1.9	1.8	11.5	-6.2	-7.6	-13.1	-16.2	-10.1	-17.5
Turkey	XU100	95371	6.8	1	4.7	15.1	0.9	-7.7	-18.6	-14.2	-4.7	-17.3

Source: IIFL

INDIAN EQUITY MARKET OVERVIEW:

Earnings of FY 2017-18

4QFY18 net profits of the Nifty-50 Index declined 9% led by (1) larger-than-expected slippages and provisions for banks, (2) weaker-than-expected realizations and/or profitability for automobile, cement and pharmaceuticals sectors and (3) larger-than-expected employee liabilities for Coal India. 4QFY18 EBITDA of the Nifty-50 Index (without banks) increased 8.3% yoy and was 5.4% below our estimates; one-time gratuity-linked provision of 74 bn in Coal India dampened the performance at EBITDA level. On a year on year basis the Eearnings growth of the NIFTY has been around 9%. Market participants expect net profits to grow at a rate of 20% for of the Nifty-50 Index in FY2019 and FY2020 led by (1) sharp decline in loan-loss provisions for banks, (2) higher profitability in the case of global commodities (metals), (3) general demand recovery in domestic consumption sectors such as automobiles and staples and (4) a weaker INR, which will support realizations and profitability in global commodity and services sectors. We note that banks account for almost half of the incremental profits of the Nifty-50 Index in both FY2019 and FY2020.

India Macro Situation?

India's macroeconomic position will be under pressure at high levels of oil prices. High oil prices will affect India's CAD/BoP (US$10/bbl increase in crude price impacts CAD/GDP by 55 bps), inflation (US$10/bbl increase in crude prices impacts inflation by 50 bps assuming full pass-through of oil prices to consumers) and GFD, in decreasing order of impact. Also, high oil prices could pose risks to the earnings of downstream and upstream PSU oil companies if the downstream oil companies are not able to raise retail prices of diesel and gasoline to pass on the increase in global crude oil prices (including the impact of a weaker INR).

Recent macroeconomic data suggests a mixed trend of India's macroeconomic position with (1) CAD rising to 1.9% in FY18 as compared to 0.70% in FY17, (2) CPI inflation increased to a four month high at 4.87% in May (3) India's economy grew at its fastest in seven quarters at 7.7% in Q4 FY 2018, bolstered by strong performance in construction, manufacturing and public services, pointing to a persistent revival trend and bringing cheer to the government ahead of next year's general election.

Market Performance

IT (20.8%), FMCG (4.1%) & Bankex (3.1%) have been the key outperformers so far this Calendar year as on 22nd June 2018 while Realty (-17%), PSU Enterprises (-17%) and Power (-16%) were the main laggards.

Net Investments by FPIs, DIIs, and MFs in the cash market (US$ mn), Mutual funds absorbing FII selling

FII Outflows from Debt and Equity Markets in CY 2018				
Net Investments by FPIs, DIIs and MFs in the Equity cash market				
	FIIs-Cash	**FII-Debt**	**DIIs**	**MFs**
CY2000	1,469	NA	NA	-147
CY2001	2,741	NA	NA	-1,063
CY2002	738	NA	NA	-619
CY2003	6,702	1,008	NA	110
CY2004	8,627	692	NA	-257
CY2005	10,901	-1,236	NA	3,034
CY2006	8,338	883	NA	3,379
CY2007	18,518	2,425	6,039	1,390
CY2008	-12,918	2,705	16,639	3,253
CY2009	17,639	1,160	5,325	-1,154
CY2010	29,321	10,050	-4,754	-5,939
CY2011	-521	8,546	5,943	1,295
CY2012	24,548	6,862	-10,854	-3,805
CY2013	19,986	-8,031	-12,942	-3,780
CY2014	16,162	26,252	-5,090	3,901
CY2015	3,274	7,560	10,315	10,872
CY2016	2,903	-6,459	5,425	6,976
CY2017	8,014	22,970	14,043	18,322
CY2018	-4,524	-5,871	8,741	9,458

Source: Edelweiss, Economic Times, Kotak Institutional Equities, Bloomberg

India Market Performance (%) in Calendar Year 2018 as on 22nd June 2018

	Last Price	1 Week	1Month	3Month	6Month	1 Year	YTD
		%	%	%	%	%	%
India's broad based Indices							
Sensex	35690	0.2	3	8.1	5.2	14.1	4.8
Nifty	10822	0	2.7	7	3.1	12.4	2.8
Defty	5467	-0.8	1.9	1.6	-3.7	5.8	-4.4
BSE 100	11112	-0.1	2.4	6	1.2	11.6	0.7
BSE 200	4669	-0.2	2.1	5.6	0.3	11.4	-0.2
BSE 500	14743	-0.5	1.6	4.5	-1.1	10.7	-1.7
Nifty Jr	28829	-1.3	0.9	1.6	-6.3	8.8	-6.9
Bse Mid cap	15840	-1	0.6	-0.4	-9.9	7.3	-11
Nse Mid Cap	18596	-1.2	-0.1	-0.8	-10.7	3.8	-12
BSE Small Cap	16540	-2.5	-3	-3.1	-12.9	6	-14
Sectoral Indian Indices							
Auto	24675	-0.7	1.6	3.3	-7.1	2.9	-7.8
Bankex	29897	1.1	3.4	10.4	3.2	11.5	3.6
Capital Goods	17802	-2.7	-3.4	-2.9	-6.9	1.9	-7
Consumer Durables	20216	-1.5	-4.5	-6.7	-10.3	26.4	-11
FMCG	11130	-0.8	-0.9	8.5	4.4	8.8	4.1
Health Care	14299	0	11.5	7.5	-0.8	1.7	-3.4
IT	13624	-2.3	3	12.1	22.3	37.8	20.8
Metal	12994	-3.1	-4.5	-3.5	-10.6	17.5	-13
Oil & Gas	14386	-0.1	0.9	-1.6	-12.8	6.9	-12
Power	2006	-0.5	-3.9	-5.9	-15.1	-9.6	-16
PSU (State Owned Enterprises)	7611	-1.4	-0.9	-2.1	-18.3	-8.5	-17
Realty	2156	-1.2	-4.2	-6.1	-13.8	4.2	-17

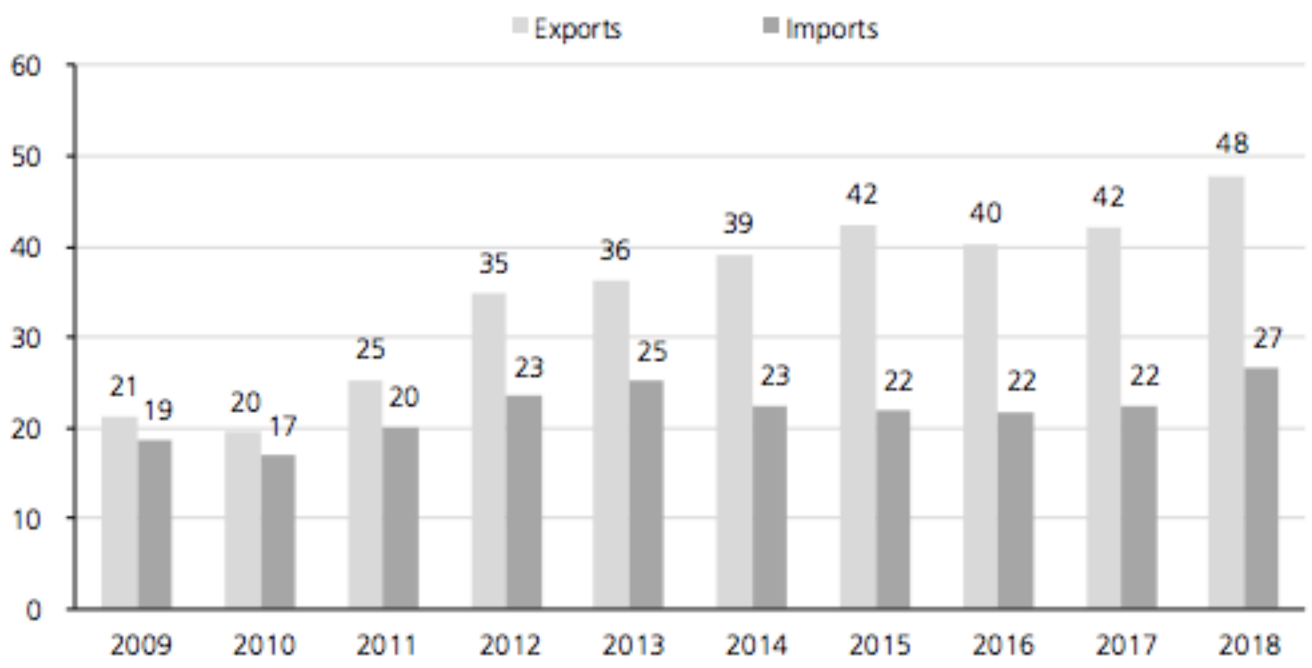
Source: IIFL

The Global Trade Wars –

India has been so far largely unaffected by rising trade tensions between the US and its major trading partners. However, India runs large trade surplus with the US in both goods and services. Indian IT and pharmaceutical exports to the US could be sitting ducks if the US administration were to focus on the large India US trade imbalance. These sectors are incidentally the current market favorites given concerns about global trade (ironically) and a weak domestic macro.

We note that India US trade relations have worsened of late after months of periodic angst being expressed by the US administration about the trade imbalance and purported misuse of H-1B visas by Indian companies. The US has imposed tariffs on exports of aluminum and steel from India as part of its broader policy on metals industry and India has recently announced retaliatory tariffs on 29 export items from the US, which will be effective from August 4, 2018.

India's trade surplus in goods with US has increased significantly over the past 10 years India's exports and imports of goods with the US, March fiscal year-ends, 2009-18 (US$ bn)



Source: Kotak Institutional Equities

Cement Sector to face headwinds

Cement stocks have traded at high valuations in the past 3 years on expectation of a revival in demand growth and low capacity additions. While the revival in demand growth did not materialise, capacity additions have remained low for the past few years, keeping expectations high. Now,owing to announcements for increasing capacity addition, expectations of an upcycle have substantially waned.

A spurt in capacity announcements in the past 5 months is likely to result in additions of 74mtpa over FY19-21; this is against our end-Dec17 estimate of 32mtpa additions over FY19-20. With no new trigger for improvement in demand outlook, utilisation expectation for the next 3 years is largely flattish. We expect cement stock valuations to reflect the lower growth expectation going forward and,hence, cut our target multiples.

Keyreasons for capacity expansions are: 1) increase in free cash flow and lack of other avenues to deploy the same; 2) reduction in new plant cost, to the tune of 5-10%; 3) nearing of government deadlines to commence work on expansions; 4) expansion due to cap in utilisation of existing plants to maintain price discipline.

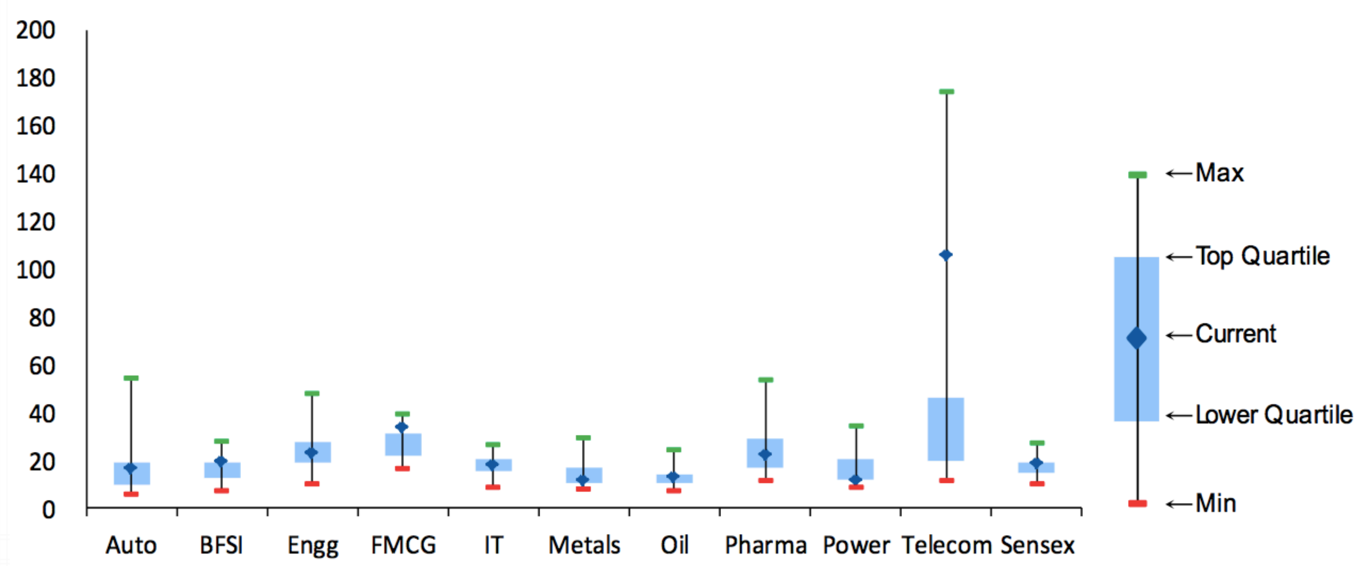
Even producers operating at sub-65% utilisation are announcing capacity additions as, we believe, few players are trying to record growth through increase in capacity given that improvement in utilisation beyond industry average is difficult, particularly in the

All India Demand-Supply scenario

	FY15	FY16	FY17	FY18	FY19ii	FY20ii	FY21ii
Year-end cement capacity (mtpa)	414	439	460	471	501	516	545
Capacity growth (%)	6	6	5	2	6	3	6
Effective cement capacity (mtpa)	399	423	449	463	482	508	535
Effective capacity growth (%)	5	6	6	3	4	5	5
Production/Despatch (mtpa)	270	283	293	318	336	357	378
Production/Despatch growth (%)	6	5	4	8	6	6	6
Capacity utilisation (%)	68	67	65	69	70	70	71

Source: Industry, IIFL Research

Sensex sectoral long-term valuation snapshot: Forward PE*

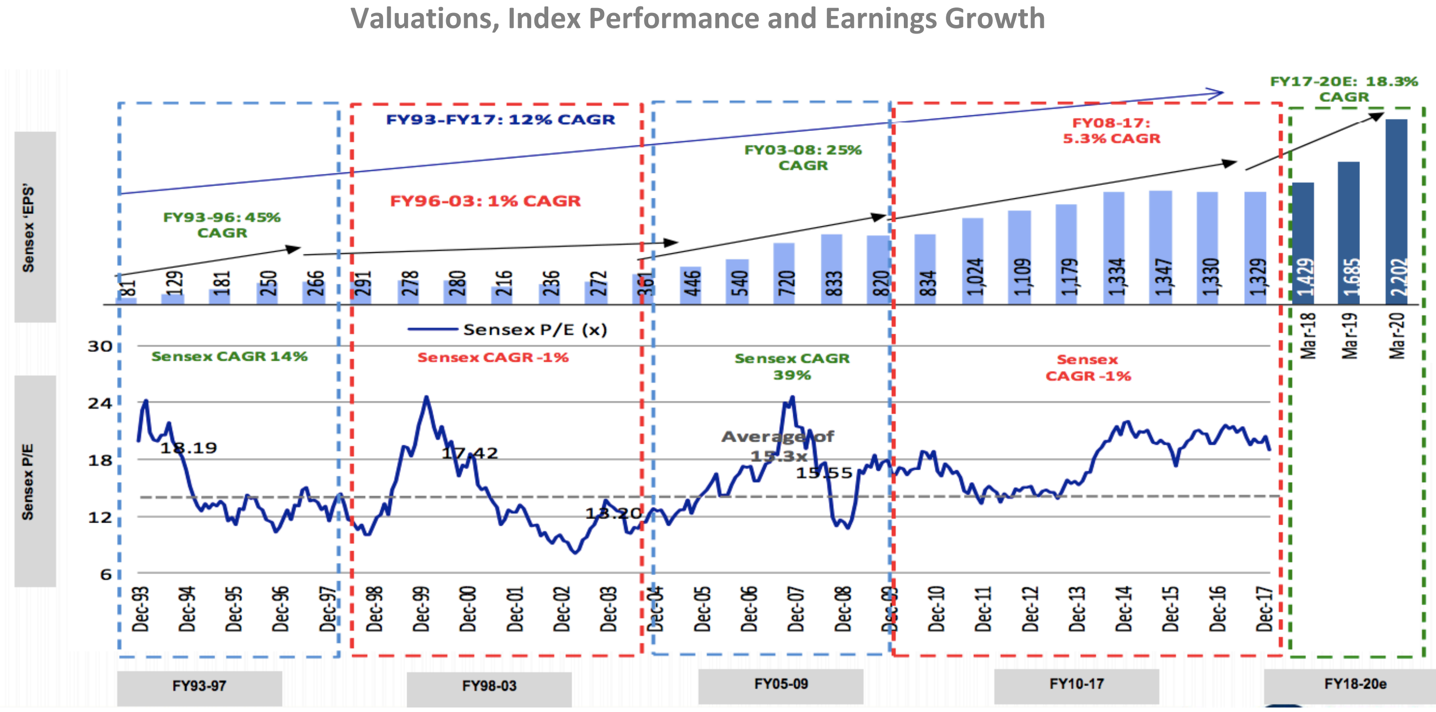


*PE as on 31st May 2018. Source: Axis Capital, Kotak AMC, Bloomberg

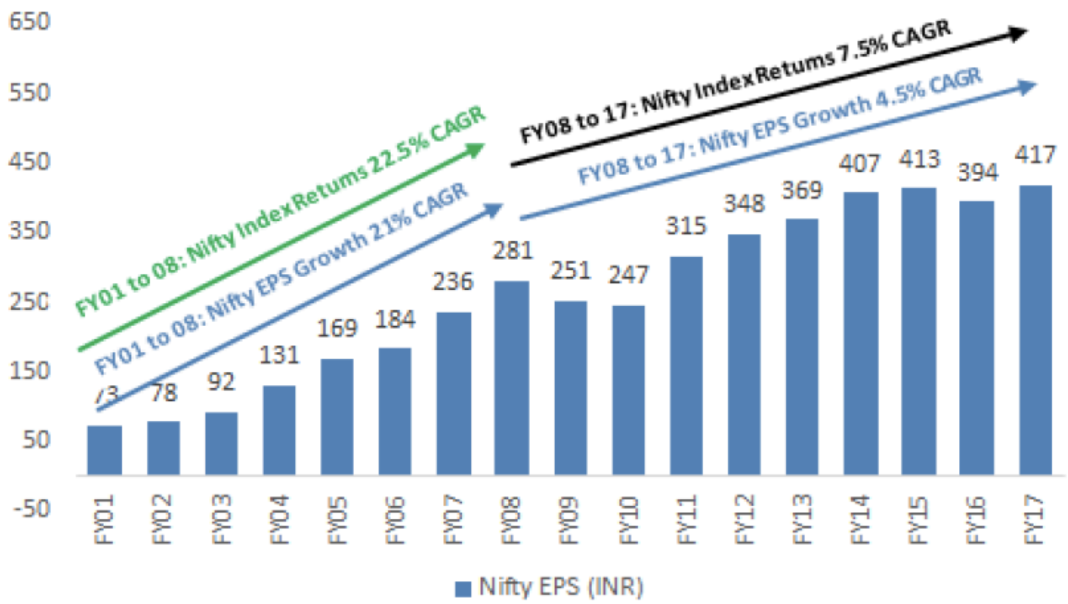
	Forex Reserves			Currency Rates		
Country	May-18	Sep-13	% Change	May-18	Sep-13	% Change
Brazil	382.55	376.00	1.74%	3.72	2.00	-86%
China	3111.00	3644.00	-14.63%	6.41	6.10	-5%
India	413.11	247.90	66.64%	67.44	62.60	-8%
Malaysia	112.56	132.00	-14.72%	3.98	3.30	-21%
Russia	456.64	472.00	-3.25%	62.32	32.40	-92%
South Africa	51.15	41.50	23.25%	12.70	10.00	-27%
Thailand	212.55	163.00	30.40%	32.07	31.20	-3%
Turkey	134.78	110.00	22.52%	4.53	2.00	-126%

Owing to sharp improvement in India's BOP front, India's foreign exchange reserve increased by 166bn USD from the lows in Sep 2013 to 413.11 bn USD as on May, 2018. Amongst very few emerging markets which has improved so significantly on external sector front.

Source: Bloomberg and various Central bank data



Source: MOSL



Source: Bloomberg

EQUITY MARKET OUTLOOK

Sometimes, when the market is in the momentum phase and is driven by liquidity, a large part of the returns gets delivered by PE expansion, rather than by earnings growth. However, over the long term, it has been observed that earnings growth is the key determinant of market returns and has a good correlation with market returns.

For example, between FY01 to FY08 Nifty EPS growth was 21 per cent at compounded annual growth rate (CAGR), while Nifty50 index delivered 22.5 per cent returns CAGR over the same period — reflecting a good correlation between corporate earnings growth and stock returns.

However, in FY09, Nifty EPS fell by around 11 per cent, while the Nifty50 index delivered a (-) 36 per cent return, as sentiments were overly negative, and this resulted in a PE compression of 25 per cent.

From FY08 to FY17, Nifty EPS growth was only 4.5 per cent CAGR, while the Nifty index delivered 7.5 per cent returns CAGR. The gap widened as we completed FY18.

Taking the Nifty EPS at around Rs 455 for FY18, the Nifty EPS growth over the past five years (ended FY18) would be 24% in absolute terms, while the Nifty index has delivered a return of around 80% per in absolute terms over the same period (up to 31st March 2018).

This means that a bulk of the returns (almost 70%) on the Nifty index has come from P/E expansion over the past five years, as the market ran up in anticipation of a corporate earnings recovery, and driven by strong liquidity.

in the short term, the market may get swayed by various factors like liquidity, Elections & other news flow etc. (and be like a voting machine). But in the long run, the market will factor in the fundamentals (be like a weighing machine), and primarily reflect the corporate earnings trajectory.

Broad Market returns will be led by earnings growth going forward, rather than P/E expansion.

If earnings growth pans out as expected, we may even see a compression in market P/E multiple, which seems relatively elevated at current levels.

We would suggest not to allocate lump-sum money to broad market oriented mutual funds (sectoral weightages similar to Indices) unless the investor is extremely underweight equities. SIP / STP will be a better strategy now to take exposure in these funds. On the Mutual fund space Lump-sum investments can be done in Value oriented funds and funds with lower weightages to Banking and financial services and low correlation to broad indices.

As this continues to be a stock pickers market we continue to suggest Lump-sum allocation to the following concentrated Niche investment themes of UNIFI Capital focused on Absolute returns

Investors looking at absolute returns with divergence to the index should look at allocating to UNIFI PMS

UNIFI PMS - Investment Philosophy - their thematic investment styles are designed around niche investment opportunities that exist in the Indian capital markets. Usually such specialties offer limited scope for scale-up in terms of the capital we can deploy effectively. The focus is always upon discovering and taking advantage of an insight that can provide the edge, and then adding layers of research and due diligence to construct an Equity portfolio.

Following are the portfolio strategies where UNIFI PMS is currently raising capital from clients:

UNIFI BLENDED / RANGOLI PORTFOLIO

Investments under this fund will be cherry picked from across the portfolio of companies that Unifi manages across each of the 6 distinct equity portfolios it manages as outlined below. In effect, the endeavor is to be able to identify the "the best of the best". This fund aims in cutting down the investors switching cost and effort in migrating between best opportunities at any diverse point of time.

The Blended Portfolio Strategy is targeted at individuals who have a relatively longer-term horizon and seek a passive style of investing which relies on the fund manager's discretion of choosing the best opportunities from UNIFI's thematic fund universe. The fund's investments will be majorly concentrated in small and midcap space wherein it is difficult for "institutional" type of capital to invest and where Unifi's relatively smaller size helps it to focus in niche areas of the market.

The portfolio is likely to have around 15-20 stocks in the PMS platform.

Spin Off: This fund invests in companies with a single corporate structure with multiple businesses; the sum of the value of the separate parts is often less than that of the whole. A de-merger of the company would unlock the financial and management bandwidth required for the respective businesses to grow.

DVD: DVD invests in companies, which are mispriced in spite of their visible growth aspects. The fund tends to exploit inefficiencies caused due to inadequate understanding of the business by most analysts, low market cap and liquidity or lack of correlation in the benchmark indices.

HoldCo: Many holding companies are run as group holding companies rather than strategic investment companies. This results in a perennial discount in their valuations but such discounts are not a constant. The Holdco fund identifies strong underlying businesses and looks for massive valuation discounts that are likely to recover as promoters feel the heat of change in the regulatory landscape; meantime benefiting from value convergence in a rising market.

APJ 20: The sectors, which are less understood like specialist chemicals, agri, precision manufacturing has become globally competitive and is privy to an expanding market opportunity. APJ20 invests in firms that have evolved and are in a ripe position to benefit from such growth prospects.

Green Fund: The investment focus of the green fund is on companies, which provide products, and services that help in reducing the carbon footprint in the environment and/or result in more efficient use of natural resources. Within the context of this strategy, the sectors that have been identified for creating the portfolio are - emission control, energy efficiency, water management and waste management.

Insider Shadow Fund: The Insider Shadow Fund invests in companies, which have repurchased their own shares or where its promoters' have acquired additional shares at market prices. Such an action demonstrates their conviction on company's growth prospects or inherent value not captured in stock price at that point. The proposition is to gain from the eventual balancing of the value-price mismatch in the market.

UNIFI BC-AD (BUSINESS CONSOLIDATION AFTER DISRUPTIONS) PORTFOLIO

The objective of the portfolio is to invest in companies from sectors with high unorganized contribution and outperforming its industry growth rate, which is growing at normal levels or in those, which are formed from consolidation of business. It avoids sectors which constitute 2/3rd of the Sensex/Nifty/Midcap indices as they are part of the organized sector. Eg. Banking, IT, Pharma, Auto.

The factors influencing the shift from Organized to Unorganized could be Regulatory changes, Business scale, Urbanisation, Consumer Behavior, Technology, Market Integration and Demographics. Consolidation of business occurs when dominant firms take over the market share of smaller firms.

The fund has tied up with MSCI to design a custom index to benchmark the performance of the fund and to evaluate the historical performance of the stocks in the broader investment universe of the fund.

The custom index would comprise a sum of 45 sub-segments that would capture all the sectors which fit the BC AD theme.

The fund has different levels of risk as the returns depend on consolidation of business and the time taken for the unorganized firms to pick up the tail wind of the sector. However, the companies are fundamentally strong on Balance sheet and have a proven track record of management and earnings.

The portfolio will have about 15-20 stocks that are reasonably concentrated.

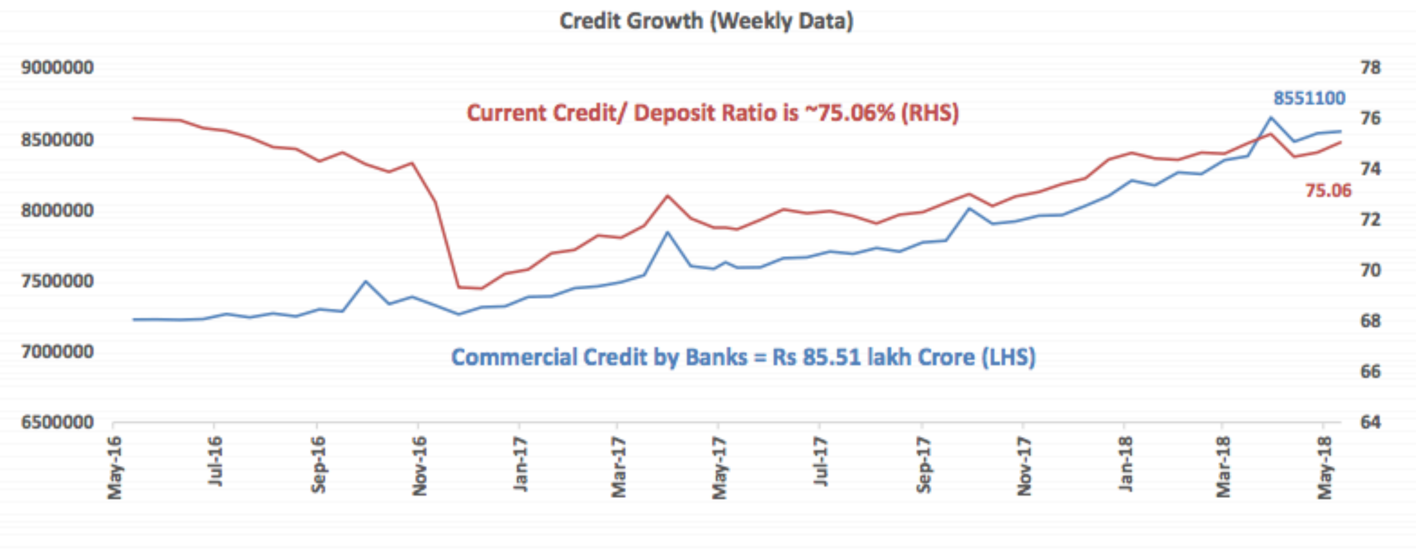
Debt Market:

Key Recent Events

- **Monetary Policy Update 6th June 2018** - The Monetary Policy Committee (MPC) unanimously decided to increase the policy repo rate by 25 basis points to 6.25% - 1st time in 4 years. Consequently, the reverse repo rate stands adjusted to 6.0%, and the marginal standing facility (MSF) rate and the Bank Rate to 6.50%. Even while hiking policy rates, RBI maintained their overall neutral stance and stated that the decision of the MPC is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2 per cent, while supporting growth
- **India's Consumer Price-based inflation** rose to 4-month high of 4.87% in May compared to 4.58% a month prior. Core CPI accelerated to 6.18% in May from 5.92% a month ago
- **India's Index of Industrial Production (IIP)** expanded to 4.9% in April as against growth of 4.6% in the previous month. Nonetheless, broad based sequential downtick was witnessed with Mining at -21.1%, Manufacturing at -11.2% and Electricity at -1.9%
- **Wholesale price inflation** accelerated to a 14-month high of 4.43% in May compared to 3.18% in the previous month. While the May print was partly affected by unfavorable base effect, inflationary pressures from fuel and manufactured products also gained pace. Consequently, Core WPI stood at 4.40% for May-18, a rise from 4.19% in the previous month.
- **India's Current Account Deficit (CAD**) widened to USD 13.06 Bn (1.9% of GDP) in Q4 FY18 as against USD 2.6 Bn (0.4% of GDP) in the corresponding period last year. Sharp rise in trade deficit due to a larger increase in merchandise imports relative to exports led to the expansion in CAD for the period under review
- **GDP Growth -** The Indian economy expanded 7.7 percent year-on-year in the first three months of 2018, higher than a downwardly revised 7 percent advance in the previous quarter and beating market forecasts of a 7.3 percent growth. It is the highest growth rate since the second quarter of 2016, boosted by a jump in investment. On the production side, manufacturing, agriculture and construction were the main contributors to growth.
- Government spending recorded the highest growth rate (16.8 percent compared to 6.8 percent in Q4), followed by gross fixed capital formation (14.4 percent compared to 9.1 percent), stocks (7.8 percent compared to 7.2 percent) and household consumption (6.7 percent compared to 5.9 percent). On the other hand, exports slowed (3.6 percent compared to 6.2 percent) and imports rose faster (10.9 percent compared to 10.5 percent). Household spending accounted for 54.6 percent of the GDP; gross fixed capital formation

for 32.2 percent; public expenditure for 9.5 percent; and changes in stocks for 0.7 percent. Exports accounted for 19.5 percent while imports subtracted 20.9 percent.

GrowthCredit Growth Slowly picking up



Credit growth has picked up by 10-12% as compared to last year.

Source: Bloomberg data as on 31st May 2018

Government borrowing Programme for FY 2018-19

Government Borrowing Programme (Rs. Cr.)	
Budgeted G-Sec Gross Borrowings for FY19*	605,539
Budgeted G-Sec Net Borrowings for FY19	462,061
Budgeted Redemptions for FY19	143,478
G-Sec Gross Borrowings till Date	120,000
G-Sec Gross Borrowing Completed (%)	19.82%
Maturities till date	71,438
Net G-Sec Borrowings till date	48,562
Buyback till date	0
364 Day T-Bill Gross Borrowings till date	47,999
SDL auction till date	66,788
OMO Purchases till date	20,350
OMO Sales till date	0
**includes Sovereign Gold Bond issuances*	

Source: www.stcipd.com. Data as on 22nd June 2018

DEBT MARKET OUTLOOK

For the first time in over four years, RBI hiked policy rates by 25 bps while maintaining a neutral stance. Consequently, key policy rates stand adjusted – Repo rate at 6.25%, Reverse Repo at 6.00% and Marginal Standing Facility (MSF) at 6.50%

This policy announcement comes against a backdrop of rising inflationary pressures amidst optimistic growth expectations. With diverging market expectations, where some participant advocated for status quo in policy rates and others for 25 bps hike, RBI did not take participants by a complete surprise. Due to the persistent rise in global commodity prices and the upward shift in core inflation, Central Bank's hawkishness on inflation was more than anticipated.

The recent announcement of the 2nd OMO purchase of 10,000 crs of bonds by RBI , clearly states that RBI will buy bonds while it is simultaneously hiking repo rates. The continuation of 'neutral' stance on policy rather than shifting to 'withdrawal of accommodation' also probably supports this view insofar as there seems to be a clear reluctance to commit to an overall tightening stance.

The measured words used by RBI in its policy do not hint towards a need for a hiking cycle, especially if inflation treads within expected lines. From the perspective of the bonds market, uncertainty pertaining to future policy decisions is out of the way, greatly aiding underlying sentiment. If a good monsoon dampens inflationary pressures and crude remains around current range RBI could then assume a prolonged pause while citing data dependency. With this backdrop, we expect the 10Y benchmark yield to remain range bound in the 7.75-8.05% zone in the near term.

Currently the market is pricing in 50 bps of incremental rate hikes by RBI for the remainder of FY19 and it is in consonance with the neutral stance of RBI, which indicates data dependency. The risk of more than 50 bps rate hike in FY19 is low given the fact that RBI has taken into account the rise in oil prices and the risk of higher MSP's .

The path of rate hikes by other major central banks across the world is also pretty much clear and markets seem to have discounted it. The major risk to higher and aggressive rate tightening in India remains the movement of crude Oil Prices.

We recommend Investors looking at lower mark to market risk to allocate monies to Fixed Maturity Plans (FMP – A closed ended hold to maturity debt fund) investing 100% of their corpus in AAA / sovereign instruments with AAA yields of around 8.5% at a gross level (current spread of 225 bps as compared to a median spread of 150 bps over last 10 yrs). Corporate Bond / Accrual funds and Open-ended AAA or AA+ oriented residual maturity funds with 2-4 years maturity. These funds are also recommended as they reduce reinvestment risk for long-term debt investors.

Change in Fixed Income Variables as on 21st June 2018

Certificate Of Deposit (CD)	22-Jun-18	28-Mar-18	31-Dec-17	29-Sep-17	30-Jun-17	31-Mar-17
3 MONTHS	7.00%	6.90%	6.35%	6.12%	6.35%	6.20%
6 MONTHS	7.40%	7.15%	6.90%	6.38%	6.51%	6.30%
1 Year	8.10%	7.25%	7.05%	6.52%	6.75%	6.65%
Commercial Paper (CP)						
3 MONTHS	7.50%	7.50%	6.90%	6.55%	6.65%	6.52%
6 MONTHS	8.00%	7.70%	7.50%	6.75%	6.90%	6.90%
1 Year	8.45%	7.80%	7.70%	7.10%	7.20%	7.00%
GOVERNMENT SECURITIES						
7.17% GOI 2028	7.80%	7.30%	7.37%	6.62%	6.50%	6.68%
6.79% GOI 2027	7.96%	7.44%	7.31%	6.88%	6.70%	6.85%
AAA CORPORATE YIELDS						
NON PSU						
1 YEAR	8.50%	7.70%	7.80%	7.05%	7.25%	7.10%
3 YEAR	8.65%	8.00%	7.92%	7.38%	7.50%	7.55%
5 YEAR	8.75%	8.20%	7.95%	7.48%	7.55%	7.70%
10 YEAR	8.70%	8.30%	8.00%	7.63%	7.58%	7.85%
PSU						
1 YEAR	8.20%	7.35%	7.35%	6.75%	7.00%	6.90%
3 YEAR	8.40%	7.57%	7.60%	6.98%	7.15%	7.20%
5 YEAR	8.52%	7.77%	7.76%	7.10%	7.24%	7.31%
10 YEAR	8.54%	7.88%	7.85%	7.42%	7.40%	7.60%
10 YR US Treasury	2.92%	2.79%	2.43%	2.32%	2.29%	2.42%
NYMEX (OIL $)	66.32	64.69	60.30	51.48	45.15	50.08
BRENT CRUDE ($)	74.01	69.59	66.63	57.43	47.67	52.64
CALL	6.35	6.10	6.20	6.05	5.90	6.75
RUPEE	67.850	64.840	64.070	65.394	64.715	64.925
Gold $	1269.71	1340.37	1296.18	1286.18	1245.43	1242.84
Repo Rate (%)	6.25	6.00	6.00	6.00	6.25	6.25
Reverse Repo Rate (%)	6.00	5.75	5.75	5.75	6.00	5.75
Cash Reserve Ratio (CRR) (%)	4.00	4.00	4.00	4.00	4.00	4.00
Statutory Liquidity Ratio (SLR) (%)	19.50	19.50	19.50	20.00	20.00	20.50
Sensex (Opening)	35428.42	33098.09	33889.39	31367.25	30824.97	29633.91

Source: IDFC AMC

Performance of UNIFI PMS as on 31st May 2018

DVD Monthly Performance in %

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY12												-0.81%	**-0.81%**
CY13	0.66%	-3.56%	-1.32%	2.22%	0.83%	-3.32%	-2.89%	1.24%	3.94%	4.88%	7.14%	9.99%	**20.55%**
CY14	-5.66%	8.12%	8.43%	8.58%	18.59%	11.38%	3.69%	16.17%	-2.17%	1.45%	10.98%	8.99%	**129.41%**
CY15	6.17%	-3.16%	7.32%	-3.11%	4.22%	-2.36%	11.85%	0.92%	0.54%	-3.32%	2.66%	6.70%	**30.75%**
CY16	-4.66%	-8.83%	10.08%	7.60%	-2.43%	8.55%	5.76%	0.27%	3.24%	9.06%	-4.32%	-2.20%	**21.83%**
CY17	3.58%	2.95%	4.50%	6.37%	2.57%	2.55%	4.82%	0.27%	1.37%	6.97%	1.39%	3.94%	**49.75%**
CY18	-3.08%	-3.91%	-2.13%	7.99%	-5.67%								**-7.15%**

DVD - II Monthly Performance in %

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY15								-3.31%	2.94%	0.65%	1.10%	3.53%	**8.11%**
CY16	-6.32%	-12.45%	15.31%	6.09%	-2.26%	5.76%	3.35%	1.02%	2.94%	8.07%	-8.04%	-3.31%	**7.12%**
CY17	8.50%	2.13%	9.32%	4.02%	2.67%	1.01%	5.84%	2.26%	-0.33%	4.40%	0.16%	5.90%	**47.97%**
CY18	-4.58%												**-3.08%**

Hold Co Monthly Performance in %

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY14							8.47%	12.49%	20.07%	3.50%	10.37%	-2.49%	**63.19%**
CY15	2.65%	-3.99%	-1.63%	4.47%	4.96%	-0.23%	11.72%	-8.08%	-4.87%	11.72%	2.01%	2.28%	**20.74%**
CY16	-11.80%	-11.91%	12.79%	4.76%	0.49%	7.53%	5.36%	20.34%	-1.86%	14.82%	-13.61%	-1.25%	**20.91%**
CY17	7.74%	4.60%	17.25%	7.82%	-4.02%	2.04%	1.92%	6.07%	3.67%	9.92%	2.19%	16.23%	**104.15%**
CY18	-7.85%	-3.47%	-8.58%	14.95%	-5.91%								**-12.05%**

APJ20 Monthly Performance in %

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY15									5.78%	0.48%	2.65%	4.38%	**13.88%**
CY16	-5.88%	-11.24%	16.32%	3.48%	6.02%	4.07%	2.34%	5.54%	-3.48%	3.85%	-1.37%	-1.24%	**17.00%**
CY17	8.75%	-0.06%	10.54%	3.82%	-1.31%	0.59%	4.28%	-1.90%	4.05%	10.74%	-1.07%	6.50%	**53.78%**
CY18	-4.09%	-3.53%	-4.05%	-2.59%	-7.73%								**-15.97%**

Spin - Off Monthly Performance in %

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY14											-3.15%	7.21%	**3.84%**
CY15	5.97%	-0.16%	3.82%	-3.06%	1.83%	-2.95%	8.96%	-2.73%	6.92%	0.81%	14.98%	2.34%	**41.44%**
CY16	-7.20%	-14.81%	15.67%	5.27%	1.36%	1.56%	4.67%	0.89%	-1.73%	8.65%	-9.81%	-3.46%	**-2.72%**
CY17	5.92%	2.61%	1.98%	10.02%	0.40%	2.10%	2.18%	2.53%	-0.63%	8.64%	5.66%	6.27%	**58.74%**
CY18	1.07%	-0.31%	-4.22%	6.19%	-7.52%								**-5.24%**

Green Monthly Performance in %

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY17	-0.21%	4.51%	3.03%	6.45%	3.80%	1.64%	2.66%	0.10%	0.92%	6.99%	4.02%	0.96%	**40.61%**
CY18	-0.49%	-6.14%	-4.80%	12.45%	-6.99%								**-6.99%**

Blended Monthly Performance in %

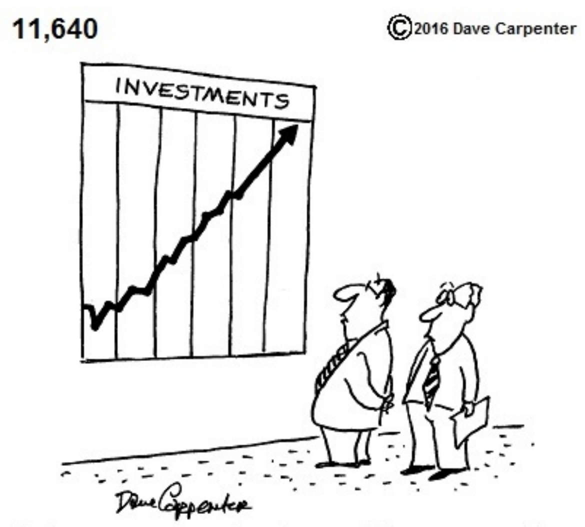
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY17						0.44%	7.74%	-0.65%	2.47%	11.89%	0.40%	4.10%	**28.84%**
CY18	1.26%	-3.24%	-5.31%	8.40%	-8.92%								**-8.41%**

The above returns are post management fee and before performance fee

Performance of Mutual Funds as on 21st June 2018

Debt Fund Category - Average	Annualised Returns (%)					CAGR (%)	CAGR (%)		
	1W	2W	1M	3M	6M	1Y	2Y	3Y	5Y
Liquid Plus / Ultrashort term funds	11.09	10.32	8.87	6.12	6.34	6.30	7.14	-	-
Liquid Funds	7.60	7.45	7.25	7.00	6.83	6.71	6.64	-	-
Short Term Income Funds	18.14	15.12	8.53	3.50	4.27	4.61	6.88	7.21	7.81
Accrual/ Corporate Bond Funds	20.13	16.64	8.61	3.78	4.91	5.45	7.95	8.27	8.66
Bond /Dynamic Bond Funds	28.68	21.17	6.59	3.00	1.11	0.50	6.49	6.89	7.35
Gilt Funds (Long Term)	45.27	31.41	8.52	3.69	-0.45	-1.65	6.06	6.58	6.65
Equity Fund Category - Average	**Absolute Returns (%)**						**CAGR (%)**		
	1W	2W	1M	3M	6M	1Y	2Y	3Y	5Y
Large-Cap	-1.21	-0.63	1.42	3.46	-2.14	8.03	14.45	9.89	16.77
Mid Cap	-2.06	-1.41	-1.35	-0.34	-8.07	5.26	17.20	12.57	24.35
Small Cap	-2.96	-1.96	-3.37	-3.44	-11.37	7.05	20.69	17.74	30.07
Multi-cap / Opportunities	-1.36	-0.80	0.72	1.81	-3.98	7.13	15.28	10.84	18.86
Balanced Funds	-0.98	-0.64	0.51	1.45	-2.76	5.57	12.23	9.42	15.95
Arbitrage Funds	7.84	5.50	6.73	5.98	6.01	6.07	6.10	6.14	7.13
Index									
S&P BSE Sensex	-0.47	-0.09	2.36	6.93	4.97	13.26	14.96	9.03	13.54
Nifty 50	-0.62	-0.25	2.13	5.77	2.88	11.50	14.31	9.28	13.63
S&P BSE MID CAP	-1.85	-1.17	0.84	-1.65	-10.17	6.17	17.51	14.52	21.15
S&P BSE Small Cap	-3.00	-1.56	-2.47	-4.15	-12.46	5.30	19.78	14.69	23.64

Some Nice Visuals on the Lighter Side



"Inform everyone that there will be no tweaking of this investment strategy until further notice."

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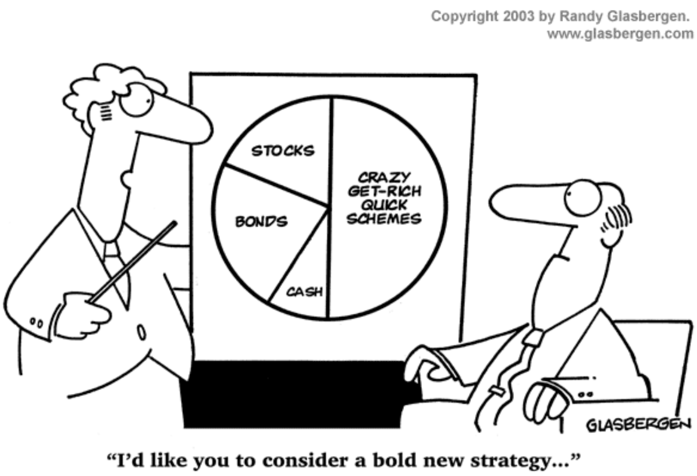
Short Term Trading in Markets

The Long-term investor who becomes short term during Market Corrections of 15% or more



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"After federal, state, and local taxes, you get one-third of a wish."

A similar feeling with the real Minorities (Tax – Payers) in India experience after budget

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