Dear Friends,

The interim Union Budget is behind us now, and elections ahead of us. Pre-budget, the markets were jittery about the measures that government may take, and the hole that the fiscal deficit would have. But to its credit, the fiscal deficit has been kept largely in check.

The budget has provided for direct income support to the farmers at one hand, and the income tax rebate to the middle class tax payers at another. Solely from financial standpoint, this dual income support to both rural and urban consumers may see the uptick in FMCG demand. While this may lead to some money circulation, the presently low inflation levels provides much headroom.

The market focus would now move to the upcoming monetary policy. At the minimum, the market expects a benign policy stance by RBI. However, a rate cut too cannot be ruled out given the change in guard at the governor's post. Given the low inflation, high real interest rates (around 300 bps), and trust deficit in the NBFC sector, the case for rate cut exists. Having said that, the RBI may find it difficult to make a sudden shift from 2nd gear to immediate reverse (rate).

In this context, a benign stance with guidance for future rate action would help soften the market mood. Also, debt market is also looking forward to governments borrowing liability and issuance calendar. The pressure of the off-budget borrowing size is playing on the investors mind. Monetary policy statement may help in resolving these concerns.

Currently, the credit market is also concerned about the rumors floating regarding viability of some HFC(s). On our part we have done our due diligence and have obtained sufficient confidence in serviceability of exposures. We believe that the business model of these HFC(s) are robust and is supported by sustainable cash flow. At that, (at least in our case) the exposure to their issuances is of around 3-9 month maturities. This limits our credit and duration risk exposure. Having said that, the wide credit spreads presently available seem quite attractive from 18-24 month horizon for aggressive credit investor.

From the equity market stand point, the outlook surrounding the elections and the post-election polity has become crucial. For now, there is much wariness in the market about the upcoming general

elections which may cause some volatility in the short term. Post elections, the market may be willing to pay premium for political stability. Other than that, the FII flows into Indian markets may also affect market trend. Eventually it is the outlook on the earnings growth which will drive the market sentiment for much of 2019.

Taking a longer term view, the finance minister has stated that the Indian economy may reach US$ 5 trillion mark in five years, and reach US$ 10 trillion in next 8 years. In other words, if things go well, India would be adding US$ 8 trillion to its GDP in next 13 years. That I believe is a lot of growth opportunity. The size of how much you make out of this opportunity will depend on the quality of your investment decisions and perhaps a slice of luck.

For now, an investor who is currently overweight on equities as an asset class can choose to invest through SIP in equities, or deploy the lump-sum into the BAF strategy. This mitigates risks effectively while does not risk losing out on any sudden change in upward momentum.

Wishing You the Very Best,

Thanks and Regards,

Nilesh Shah

Managing Director