



WAY2WEALTH
A COFFEE DAY COMPANY

June , 2019

MONTHLY REPORT



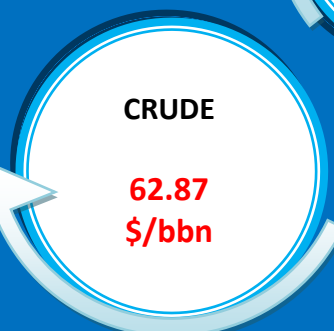
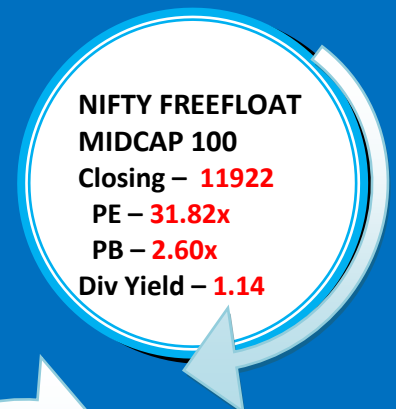
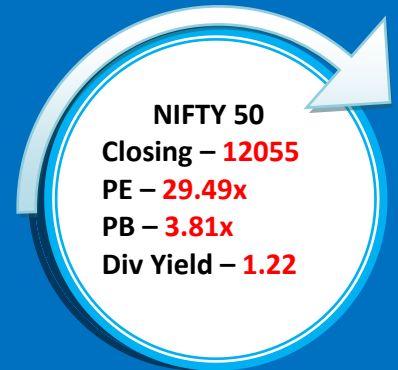
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Data as on May 31,2019
Source: Bloomberg



Economic Factor	Current	Previous	Review and Outlook
GVA	5.7% (Q4 FY2018-19)	6.3% (Q3 FY2018-19)	The GVA for Q4 FY19 at factor cost implying a growth of 5.7 percent compared to 6.3 percent observed in Q4FY19. This growth is mainly led down by manufacturing and agriculture along with a contraction in Industry. Manufacturing grew 3.1 percent compared with 6.4 percent in the preceding quarter and Agriculture contracted by 0.1 percent as compared to 2.8 percent in the preceding quarter. Industry output grew by 4.2 percent as compared to 7 percent in the previous quarter. The <i>Gross Domestic Product (GDP) forecast is revised lower to 6.4 – 6.7% in H1 (6.8 – 7.1% earlier) and 7.2 – 7.5% in H2 (7.3 – 7.4%). According to the monetary policy, the growth impulses have significantly weakened as reflected in a further widening of the output gap</i>
WPI	3.07% (April 2019)	3.18% (March 2019)	India's annual wholesale price inflation accelerated to 3.18 percent year on year in march 2019 from 2.93 percent in the previous month and in line with market expectations. It was the highest wholesale inflation rate since December, as prices rose faster for food and fuel products. Inflation of primary articles increased to 5.68 percent during the month, as against 4.28 percent in February while the inflation for 'fuel and power' segment increased to 5.68 percent in march as against 2.41 percent in the previous month. <i>However, due to the increased risk of weak monsoon as well as global crude price movements, the quantum of the rise cannot be predicted with certainty.</i>
CPI	2.92% (April 2019)	2.8% (March 2019)	Consumer prices in India rose 2.9 percent year-on-year in April 2019, as compared to 2.8 percent in the previous month as prices of fruits, vegetables, cereals and pulses continued to firm up was offset by core inflation moderating sharply to 4.5% in April, its 18 month low compared to 5.1% in March. <i>However, the upside pressure to food prices but a broad based decline in core inflation on the back of 'significant' weakening of demand conditions.</i>
IIP	-0.1% (April 2019)	0.1% (March 2018)	India's industrial production fell 0.1 percent from a year earlier in March 2019, the first month of contraction since June 2013. Manufacturing production shrank 0.4 percent, the same pace as in the previous month, while mining output rose at a softer pace (0.8 percent vs 2.2 percent). On the other hand, electricity output growth accelerated to 2.2 percent from 1.3 percent. Industrial production for 2018/19 grew at 3.6 percent, slower than 4.4 percent in the previous fiscal year. Industrial Production in India averaged 6.29 percent from 1994 until 2019, reaching an all time high of 19.90 percent in November of 2006 and a record low of -7.20 percent in February of 200
CAD	2.3% of GDP (Q3 FY2018-19)	1.9% of GDP (Q3 FY2017-18)	India's current account deficit widened to USD 16.9 billion, or 2.3 percent of the GDP in the last three months of 2018 from USD 13.7 billion or 1.9 percent of the GDP a year earlier. The goods deficit increased to USD 49.5 billion from USD 44 billion a year ago as imports rose 9 percent while exports went up at a softer 7.2 percent. <i>The cost of imports would remain in check over the short term with crude cruising higher in the month amid supply concerns. We estimate that every \$10 per barrel rise expand CAD (current account deficit) by 0.4% of GDP.</i>
Fiscal Deficit	3.4% of GDP (FY'19)	3.3% of GDP (FY'18)	The central government had revised its fiscal deficit target to 3.4 per cent for FY19 from the earlier 3.3 per cent. In FY19, the total expenditure was Rs 21.9 lakh crore or 89 per cent of the budget estimate. This is so because the country's economy at current prices is now projected to grow at Rs 190.53 trillion in FY'19, up by Rs 2.13 trillion compared to Rs 188.40 trillion pegged by the first advance estimates. <i>The economy, in current prices, is projected to grow by 11.5 per cent next year. On the base of the old GDP figures, that would mean Rs 210.1 trillion in FY'20, the figure given in the interim Budget.</i>
USD/INR	69.02 (April 2019)	69.59 (March 2019)	The currency appreciated marginally to 69.22 from the highs of 70.53 during the month of May 2019. The rupee is expected to move in the range of 68.5-70.3 global uncertainty spooked the prices of crude. <i>Elevated crude prices could widen the country's current-account deficit and stoke inflationary pressures. RBI meanwhile is attempting to inject liquidity into the system by engaging in long term foreign exchange buy/sell swap</i>
Brent Crude (\$/bbl)	62.87 (May 2019)	71.80 (April 2019)	Crude oil prices have declined by a massive 17 percent in two weeks. The Crude prices were hovering at \$63 on May 22nd and have come down to less than \$52 in later weeks of May. It all started with US President Donald Trump threatening China of applying tariffs on \$200 billion worth of Chinese goods. He issued a fresh threat of hitting China with tariffs on another \$300 billion worth of goods. <i>The prices also reacted negatively as the talks between the US and Mexico are showing no signs of progressing. The prices have also not found support from the surging US crude inventories amid record production and lesser demand from slowing global economy.</i>
Repo Rate	5.75% (June 2019)	6.00% (May 2019)	RBI cut repo rate by 25 bps outside the policy review cycle, to boost growth encouraged by softening inflation. The Monetary Policy Committee (MPC) also changed its stance to accommodative. <i>While currently the expectation would be for one last rate cut alongside continued easy liquidity, this can very quickly change towards expecting a deeper further easing if the global outlook further deteriorates.</i>
10 Yr. US Treasury	2.12 % (May 2019)	2.46% (April 2019)	The benchmark 10-year Treasury's yield fell to its lowest since September 2017 overnight, near 2 percent, after St. Louis Federal Reserve President James Bullard said a rate cut "may be warranted soon" given weak U.S. inflation and the threat to economic growth posed by global trade tensions. With the rising concerns over world growth, have raised the expectations of easing by major central banks later in the year
10 Yr. GOI Yield	7.02% (May 2019)	7.41% (April 2019)	Indian G-Sec bond yields ended lower by 39 bps at 7.02% at the end of May 2019 over April 2019. The key factors were rate cut by RBI and further softening of the oil prices.

Source: Bloomberg, W2W Research

Debt Market Review

- In the global markets, Treasury yields spooked the market rally as it corrected to 2.12 percent as compared to 2.46 percent as the fed gave a dovish policy where Chairman Jerome Powell said that the Fed will "act as appropriate to sustain the expansion. This acted as a signal of rate cuts on the horizon.
- The US yield curve continues to be flat with a 10 years v/s 2 years spread being approximately 24 bps. The US yield curve (10 year – 3 month T Bill). The US yield curve is now reasonably inverted upto 10 years with market expecting 2 – 3 rate cuts in the future, prompting markets to shift into risk-aversion mode.
- Liquidity in the system turned into an average daily surplus in early June after remaining in deficit during April and most of May due to restrained government spending.
- Apart from liquidity injections through LAF operations, the Reserve Bank conducted two OMO purchase auctions in May amounting to Rs 25,000 crore and a US dollar buy/sell swap auction of US\$ 5 billion (Rs 34,874 crore) for a tenor of 3 years in April to inject durable liquidity into the system
- The yield spread for the 10 year-2 year Gilt stands at 53 bps on approximation which makes the yield curve steeper comparatively to the previous month.
- The credit spread for the 10 year Gilt and 10 year AAA remained unchanged at 1.13 as the spreads on both corporate bonds and G-sec yield corrected approximately by 40 bps.
- Rupee weakened marginally against the US dollar in line with its Asian peers. The crude continued its slide to \$65.55 amid global growth concerns and US-China trade war.

Debt Market Outlook

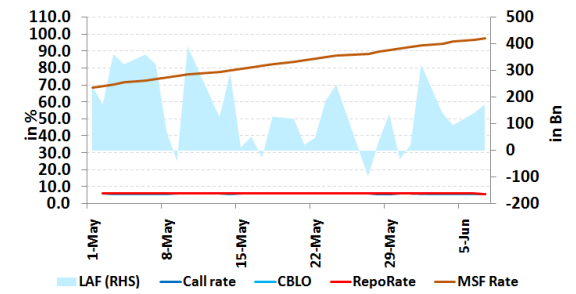
- Despite the 25 bps point, bond markets ended negatively during the month with the 10 year Government bond yielding ended for the month lower by 38 bps at 7.03% while 10 year AAA yields corrected by 37 bps at 8.17%.
- With the slowing growth and inflation below target, the RBI cut its policy rate by 25 bps and also changed its stance from neutral to accommodative confirming the scope of rate cuts in the future. Also the system liquidity is expected to improve due to government expected to do non-discretionary spending post budget.
- The Government is likely to announce the fiscal deficit target of 3.4 percent of GDP for FY 19-20 retaining the figure of the FY20 interim Budget presented on February 1.
- On the liquidity front the RBI has in recent times introduced measures to improve liquidity such as OMOs and currency swaps. RBI conducted its first USD-INR swap in March 2019 for \$ 5 billion for a tenor of three years.
- Weaker domestic growth with weaker Inflation expectations has led to significant change in the RBI stance. Accommodative stands pertains to no rate hikes in the near term.
- RBI is re-working to revise the guidelines on the money market CP, CD's and Short term bonds for the transmission of lower interest rates.
- Government has been maintaining high cash balance with RBI. Since the election is behind us, we expect govt to push the surplus into the system through nondiscretionary spending, which may result in positive liquidity.
- The credit spread for the 10 year gilt and the 5 years AAA corporate bond should probably remain elevated due to huge bond supply which is already reflected in the wider corporate spreads. However the shorter end curve has started easing with the rate cut in April 2019.
- The yield curve appears steep as macroeconomic indicators have favoured India and going forward we expect the yield curve to remain steep as the domestic economy improves with better good liquidity management and better transmission of rates going forward.

Investment Strategy

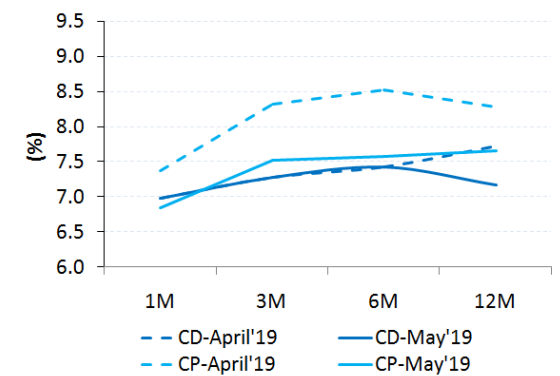
- Given various positive factors such as benign inflation, accommodative monetary policy and prudent liquidity management by RBI will auger well for the bond markets
- WE urge investors that additional duration over the investment horizon, will favour the risk return matrix, therefore, we recommend investors to invest in funds with a roll down strategy funds

Source: Bloomberg, W2W Research

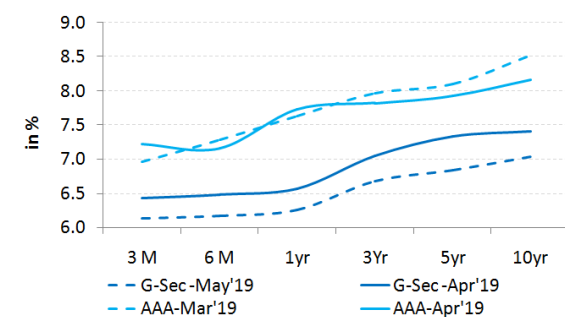
LAF and Money Market Rate Movement



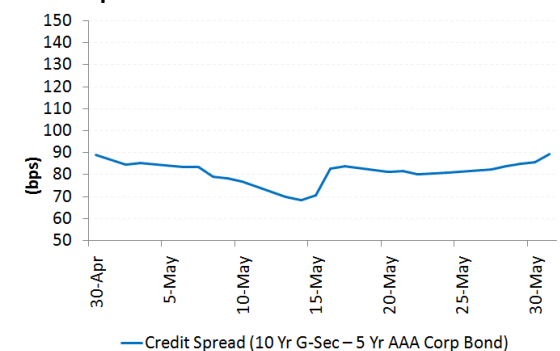
CD Rate Movement



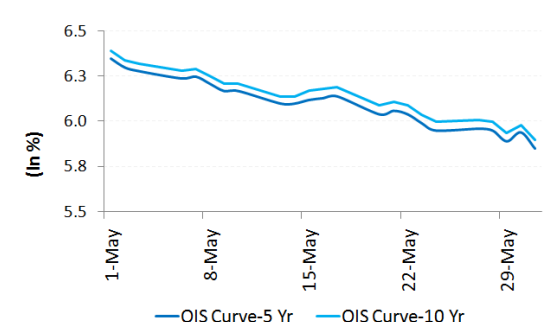
G-Sec and AAA Corp Bond Yield Movement



Credit Spread



OIS Curve



EQUITY

Equity Market Review

- Global equity Market rose in May, with ongoing dovishness from major central banks supporting appetite for higher risk assets.
- The uncertainty of growth for China and Europe and also the concerns with US-China trade war added possibility towards the global rate cuts across.
- Nifty and Sensex were up nearly 1% and 2% respectively during the month. In May, the rally was seen across the capitalization curve. On YTD basis, both Nifty and Sensex were up 10%. Large caps have outperformed the mid caps and small caps thus far.
- Capital goods and real estate were sector outperformers while healthcare and metals were sectoral laggards during the month. On YTD basis, real estate and consumer durables are sector outperformers while auto and metals are sectoral laggards.
- The much awaited event of 2019 came to its conclusion on 23rd May with BJP emerging as the single largest party with 303 seats (272 seats for simple majority).
- India's GDP grew 5.8% in the fourth quarter of FY19 compared with 6.6% in the third quarter of FY19. On the other hand, government spending picked up in Q4 and helped to partly offset the growth moderation.
- Industrial output growth continues to drag down. Apart from infrastructure output (production, bitumen, steel and cement), output across all the use based categories have softened.
- Flow of foreign portfolio investments will remain an important factor for the market. FPI's remained net buyers in market putting Rs. 11,294 cr. While the DII remained Net sellers of Rs 5,314 cr.

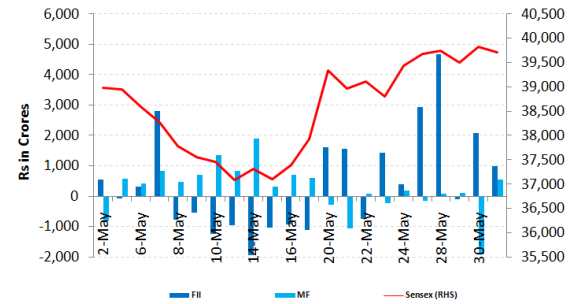
Equity Market Outlook

- On the global front, US-China trade tensions re-escalated in May, with negotiations breaking down and tariffs being raised by both the sides. Global growth is likely to slip which is reflected by the slowing global trade and PMI numbers. The Fed gave a dovish stance over the growth concerns also the Chinese government is expected to support the growth in the economy with additional Fiscal and monetary stimulus.
- With the slowing growth and inflation below the target, the RBI cut its policy rate by 25 bps and also changed its stance to accommodative over neutral. Also the system liquidity is expected to improve due to prudent liquidity management by RBI.
- The immediate priority of the new administration would be to revive the cyclical growth. India's GDP growth came in 5.8 percent of GDP as compared to 6.8% yoy.
- Crude oil prices have seen a significant decline to \$65.33 as compared to high's of \$83.13 in October 2018 over global growth concerns.
- India's growth may remain below potential in the near term, but some pick-up is likely by the year-end helped by the pick up in the investment activities with transmission of the lower interest rates.
- The immediate priority of the new administration would be to revive the cyclical growth. To boost the farmer income, the government has already announced that it will roll out the PM-Kisan scheme to all the farmers.
- Statistically the PE ratios for the largecap shot up to an overvalued zone whereas the mid and small cap indices are trading at a discount to their historical averages.

Investment Strategy

- There has been a sharp underperformance in the mid and small caps segment in 2018 and YTD 2019 which gives us opportunity to concentrate on attractive valuations, which we believe is the best way to generate alpha.
- Investors would be better off doing SIPs/STPs for the next 6 months rather than lumpsum investments. It would be prudent for investors to allocate 25% of their corpus to midcap and small cap funds as valuations in that space are well placed.

Sensex, FII & MF Movement



Indices Performance

Index	May 2019	Month Ago	Chg	% Chg
India				
Sensex	39,714	39,067	646.9	1.7%
Nifty	11,923	11,755	168.2	1.4%
US				
Dow Jones	24,815	26,543	-1728.3	-6.5%
Nasdaq	7,453	8,134	-680.8	-8.4%
EC				
FTSE 100	7,162	7,428	-266.5	-3.6%
Asia				
Nikkei 225	22,259	22,259	0.0	0.0%
Hang Seng	26,901	29,605	-2703.9	-9.1%
Shanghai Comp	2,899	3,086	-187.7	-6.1%
Bovespa	97,030	96,236	794.3	0.8%
RTS	1,925	1,841	84.2	4.6%
Other				
MSCI WORLD	2,046	2,174	-127.6	-5.9%
MSCI EM	998	1,078	-80.1	-7.4%
MSCI EM Asia	498	546	-47.4	-8.7%

Sector Performance

Sector Index	May 2019	Month ago	Change	% Chg
BSE Auto	18,446	18,839	-393.4	-2.1%
Bankex	35,264	33,328	1935.6	5.5%
BSE CD	24,700	23,874	826.6	3.3%
BSE CG	19,939	18,031	1908.8	9.6%
BSE FMCG	11,518	11,764	-246.3	-2.1%
BSE HC	13,305	14,367	-1062.0	-8.0%
BSE IT	15,782	16,264	-481.9	-3.1%
BSE Metal	10,756	11,513	-756.8	-7.0%
BSE Oil	15,734	15,358	376.6	2.4%
BSE Power	2,010	1,970	40.6	2.0%
BSE PSU	7,826	7,446	379.6	4.9%
BSE Real	2,201	2,009	192.1	8.7%
BSE TECK	7,767	7,979	-212.3	-2.7%

Source: Bloomberg, W2W Research

Gold Review

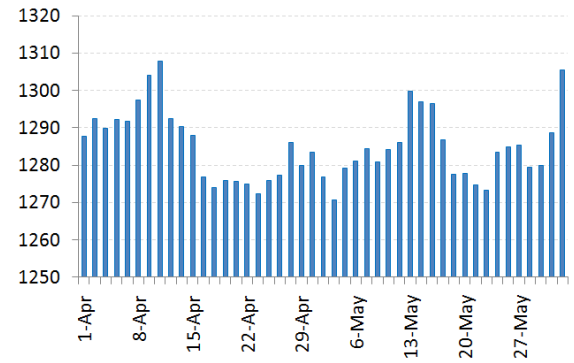
- Escalating trade war between the US and China and shaky global growth outlook has been supporting gold prices in the international markets.
- Economic indicators are signalling slowdown in the global economy after Donald Trump administration imposed hefty tariffs on China.
- The World Bank has also slashed its growth forecast for 2019 to 2.60 per cent.

Gold Outlook

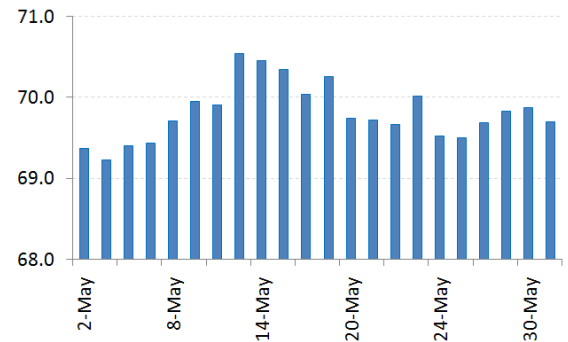
- With escalating trade war, US-Iran geopolitical tensions, Brexit and slower global growth prospects, gold may attempt to stage a possible breakout of long-term resistance at \$1,350
- Structural economic reforms should support gold demand for jewellery, technology and long-term savings. Increased market uncertainty and protectionist economic policies should make gold increasingly attractive as a hedge.
- Higher gold imports by India, the world's second-biggest consumer of the precious metal, could support global prices that are trading near their highest level in three months, but could widen the country's trade deficit and put pressure on rupee.

Source: Bloomberg, W2W Research

International Gold Movement



USD/INR Movement





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