



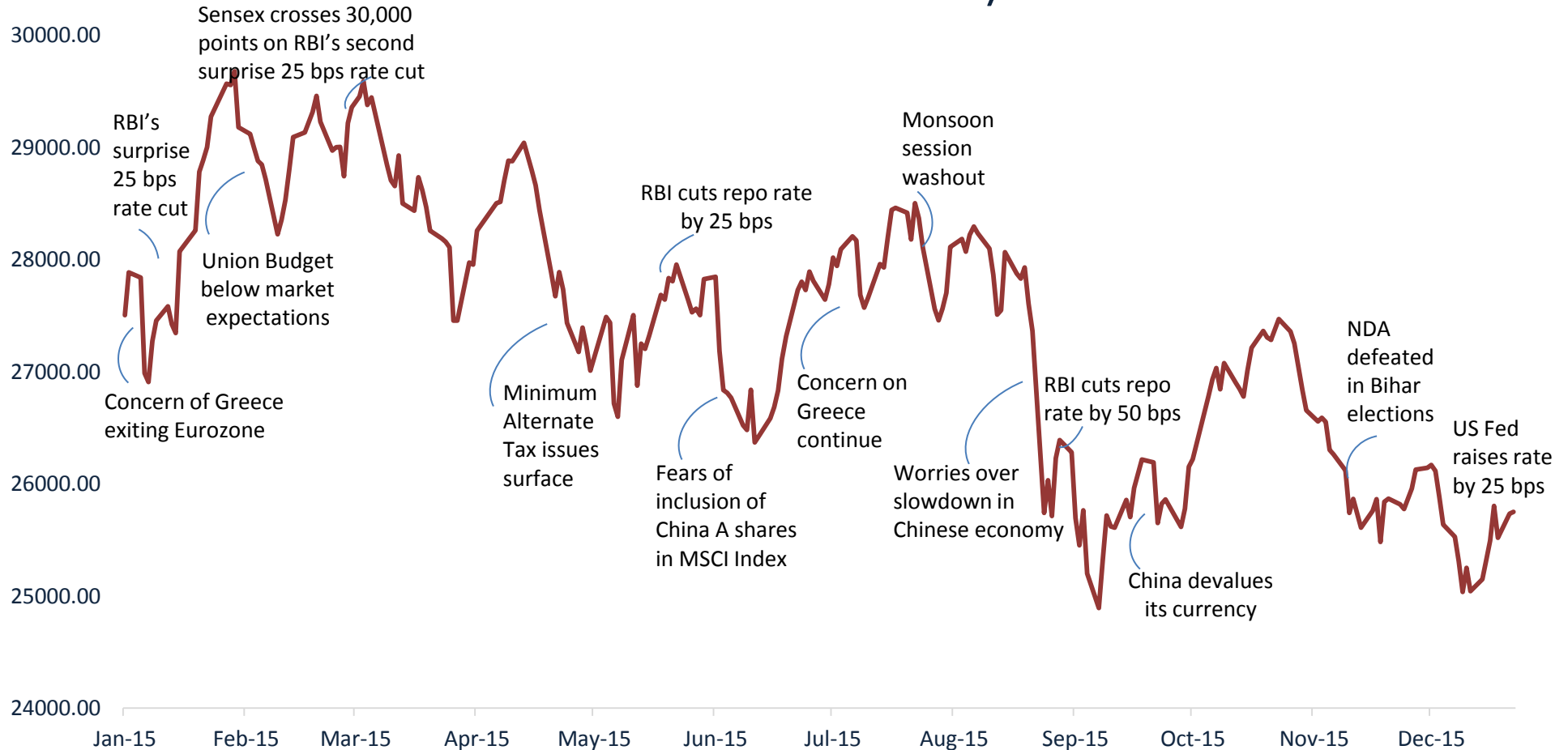
# Outlook 2016

*“Moving from Macro to Micro”*

# 2015 Recap... Equity Markets



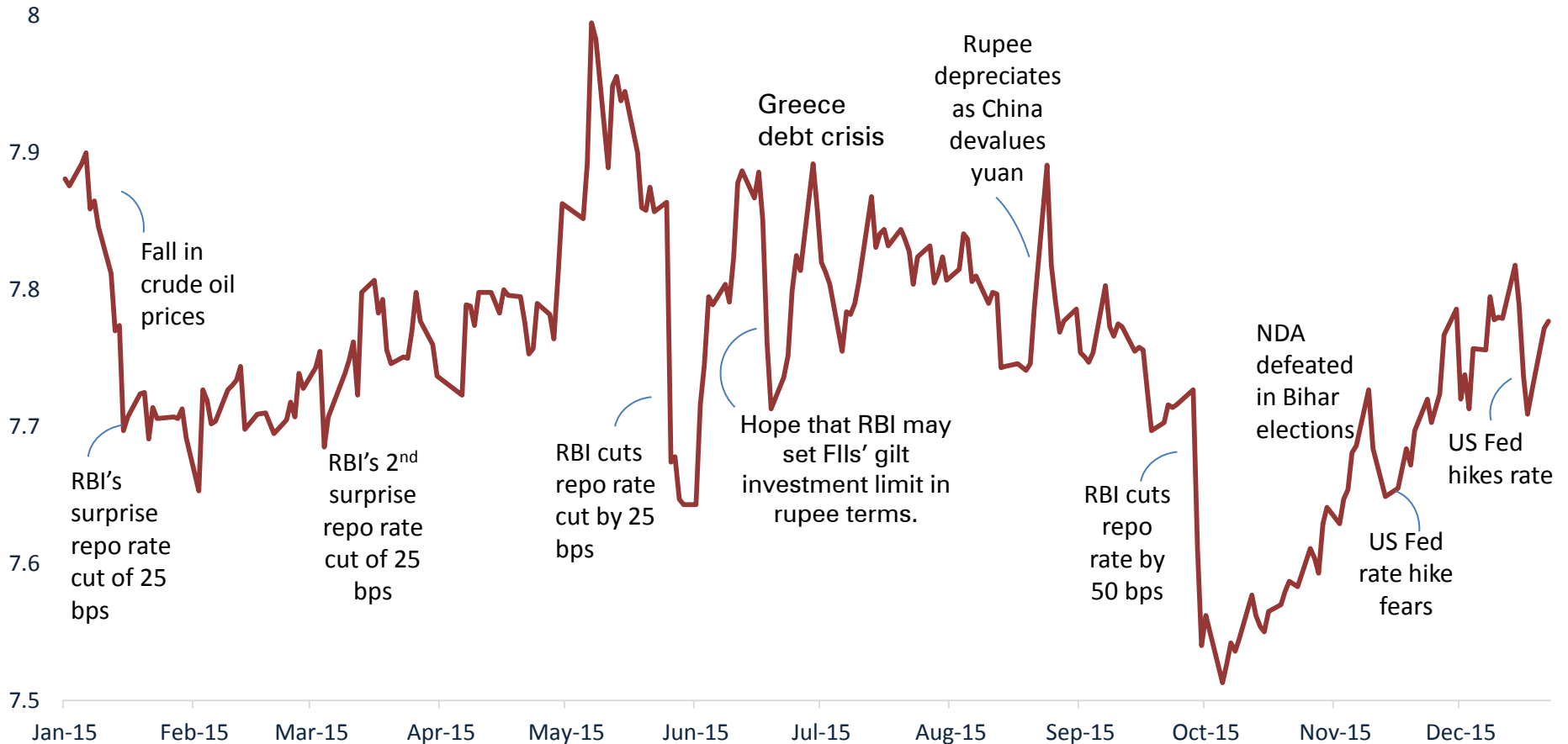
## S&P BSE Sensex Movement and Key Events



# 2015 Recap... Fixed Income Markets



## 10 Year G-Sec Yield Movement and Key Events



# 2015 Recap



## Equity - What we said in 2015?

- The equity markets will consolidate due to subdued earnings growth
- We had recommended investing in Dynamic Asset Allocations funds that benefit from volatility

## What Happened?

- Life remained @ 26000 Sensex amid extreme volatility
- Our top recommendation - ICICI Prudential Balanced Advantage Fund outperformed in 2015. (6.7% vs Sensex -5%)

## Debt - What we said in 2015?

- Macro indicators will improve further
- Rate cuts imminent and can be sharper than expected
- Duration funds will be a better play

## What Happened?

- Sharp 125-bps rate cuts by the RBI
- Debt funds outperformed, but long duration funds gave up some gains towards end of the year amid Fed rate hike.

# Year 2016

**Equities: May remain volatile in near term and are likely to stabilise once crude prices bottom.  
Year for Dynamic Asset Allocation Funds and investing systematically in equity funds.**

**Fixed Income: Rate cut cycle to continue.  
Short to medium duration funds may give better risk adjusted return.**

*Liquidity? ..the criterion isn't "can you sell it?" its "can you sell it at a price equal or close to the last price?" – Howard Marks*

# **Macro adjustment largely complete... Micro should start reviving too...**

*High quality assets can be risky, and low quality assets can be safe. It's just a matter of the price paid for them. – Howard Marks*

# Macro Adjustment Largely Complete



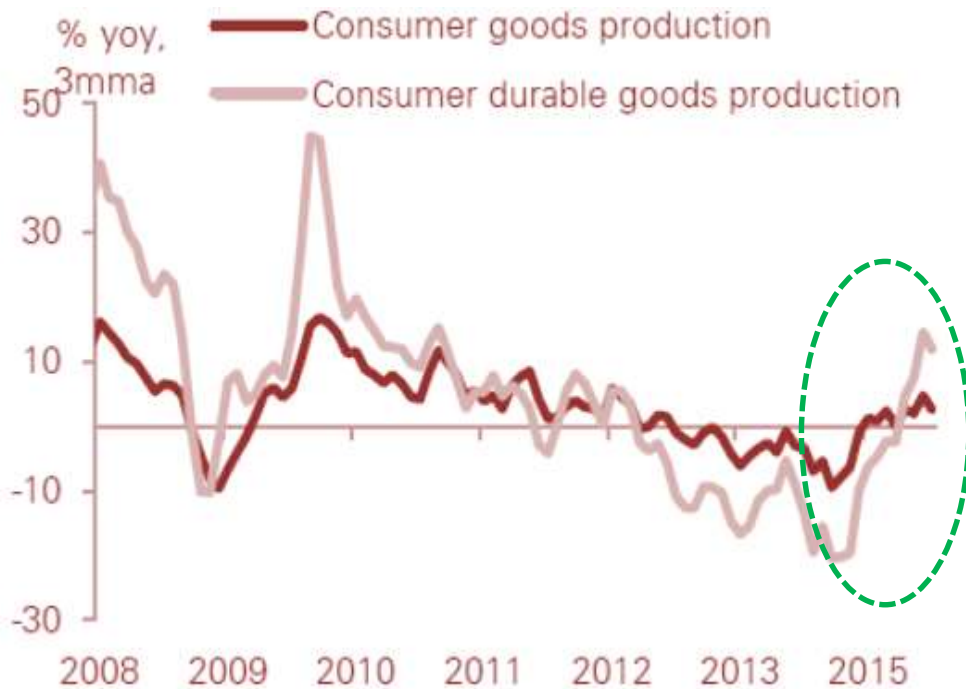
	FY-13	FY-14	FY-15	Dec 2015
Fiscal Deficit as % of GDP	4.9	4.4	4.1	3.9 (BE) ↓
Current Account Deficit as % of GDP	4.7	1.7	1.3	1.60 ↓
CPI Inflation % (March end figures)	10.4	9.5	6.0	5.4 ↓
10 Year G-Sec % (March end figures)	7.96	8.80	7.75	7.75 →
USD/INR	54.3	59.9	62.5	66.1 ↑
Brent Crude Prices US\$/bbl	109	107	63.4	36.4 ↓
RBI Policy Rate % (March end figures)	7.5	8	7.75	6.75 ↓



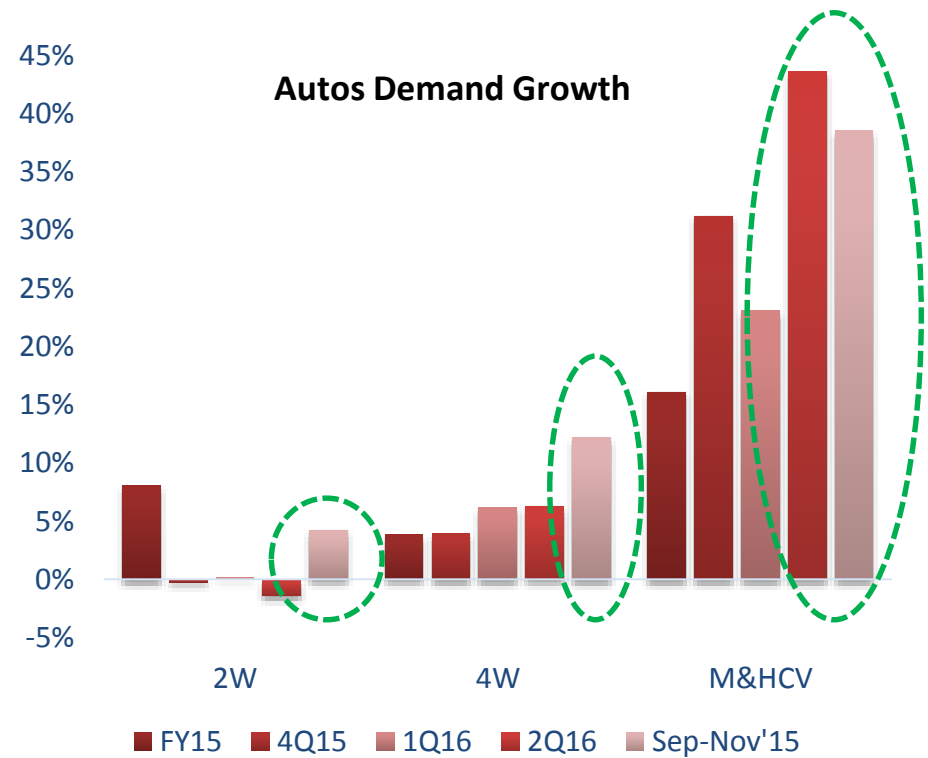
# Micro Indicators – Slow Recovery Underway



## Consumer durable goods production growth has started recovering



## Auto Sales have started to pick up

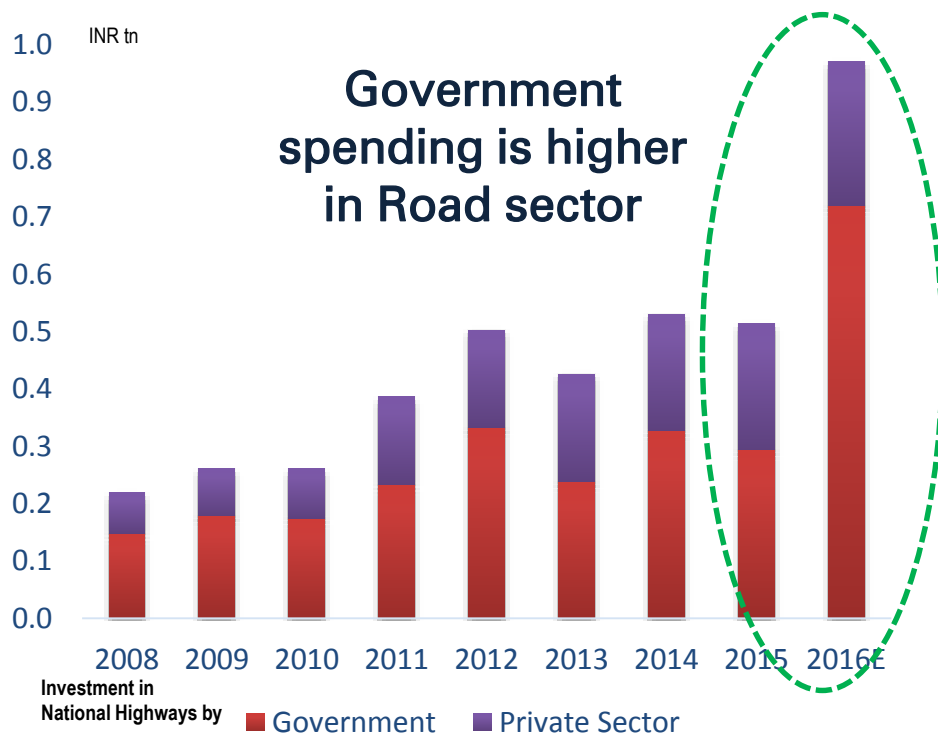




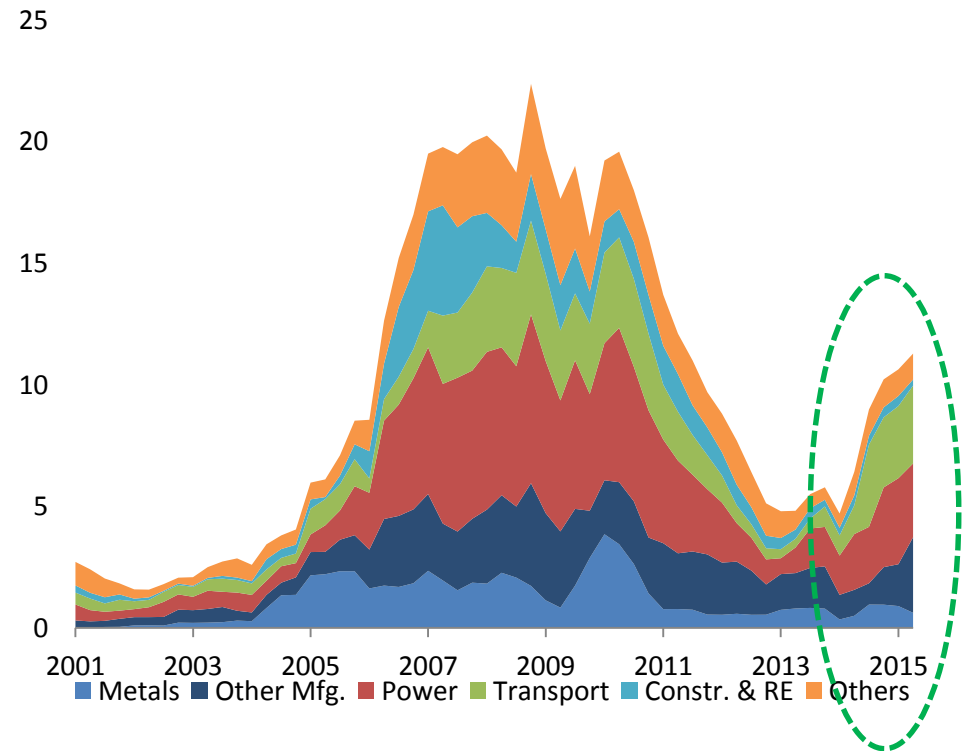
# Micro Indicators – Slow Recovery Underway



## Spending on National Highways in FY16e



## New project investment started to pick up in power and transport sectors



# Government Reforms To Continue



The Government may focus more on 'executive decisions' to push reforms without getting stuck in the legislative dilemma.

## List of Prospective Reforms

### Legislative

- Goods & Service Tax
- Land Acquisition Bill
- Monetary Policy Committee
  - APMC Changes
  - Labor Reforms

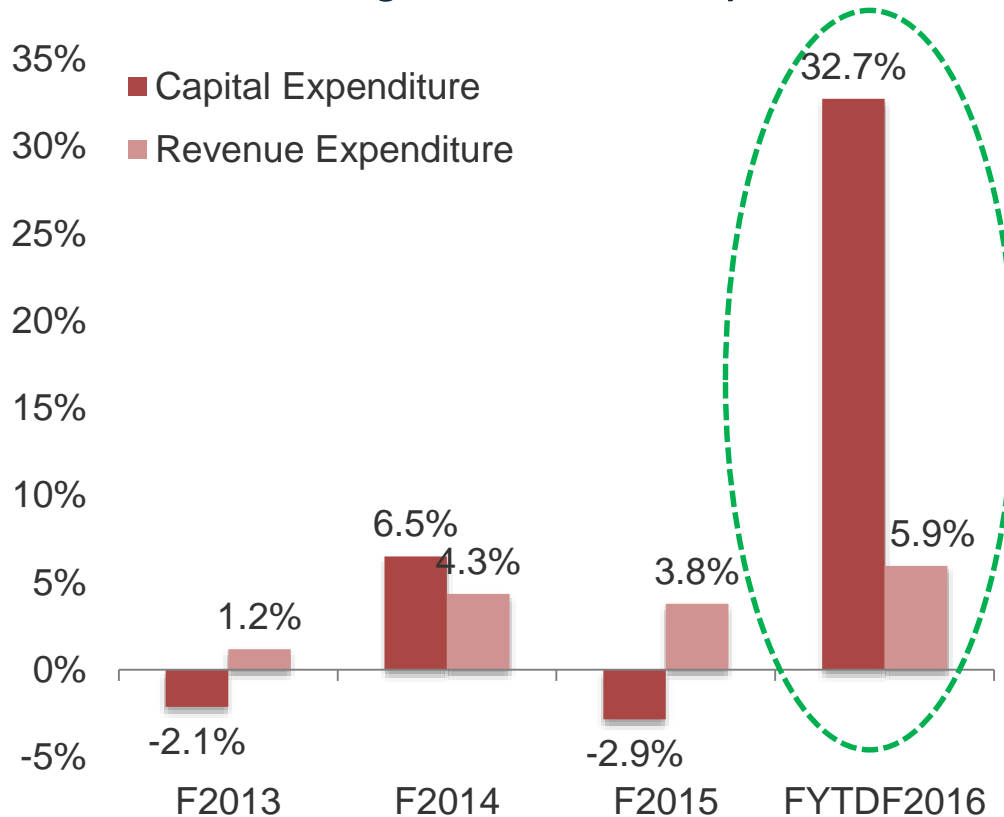
### Executive

- Railways and Roads projects
  - Power Sector Reforms
  - Industrial Corridors
- Clearing Stalled Projects
  - Smart Cities
  - Digital India
  - Skill Development
  - FCI Restructuring

# Government Actuating The Recovery



### Real YoY% growth deflated by WPI

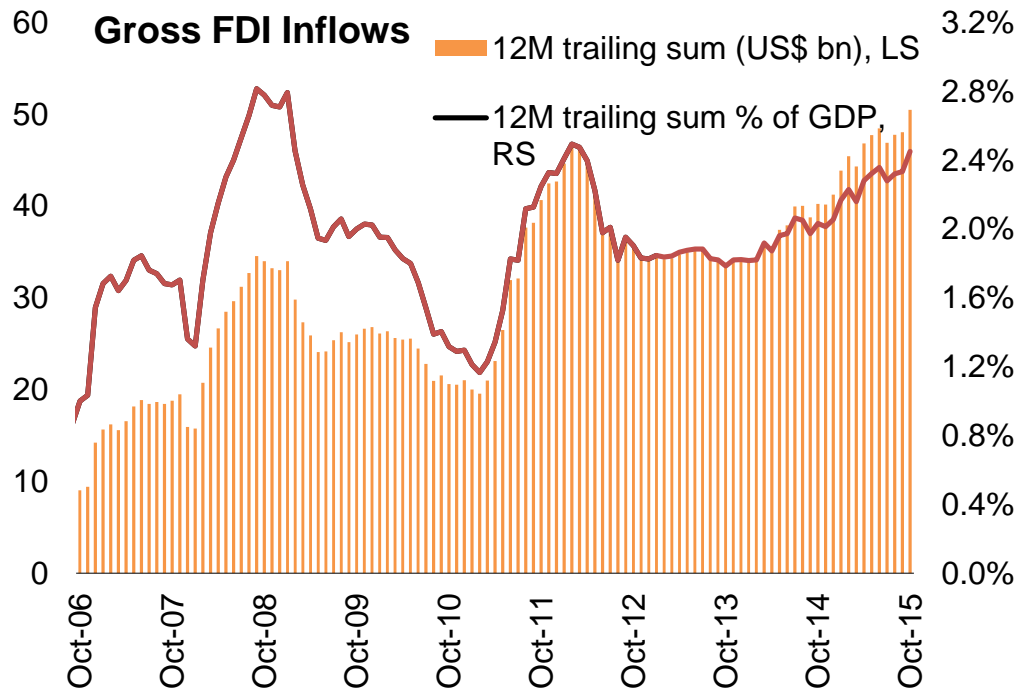


- ❑ Government policy focus is on reviving economy by increasing capital expenditure
- ❑ Combined with reform measures to improve ease of doing business

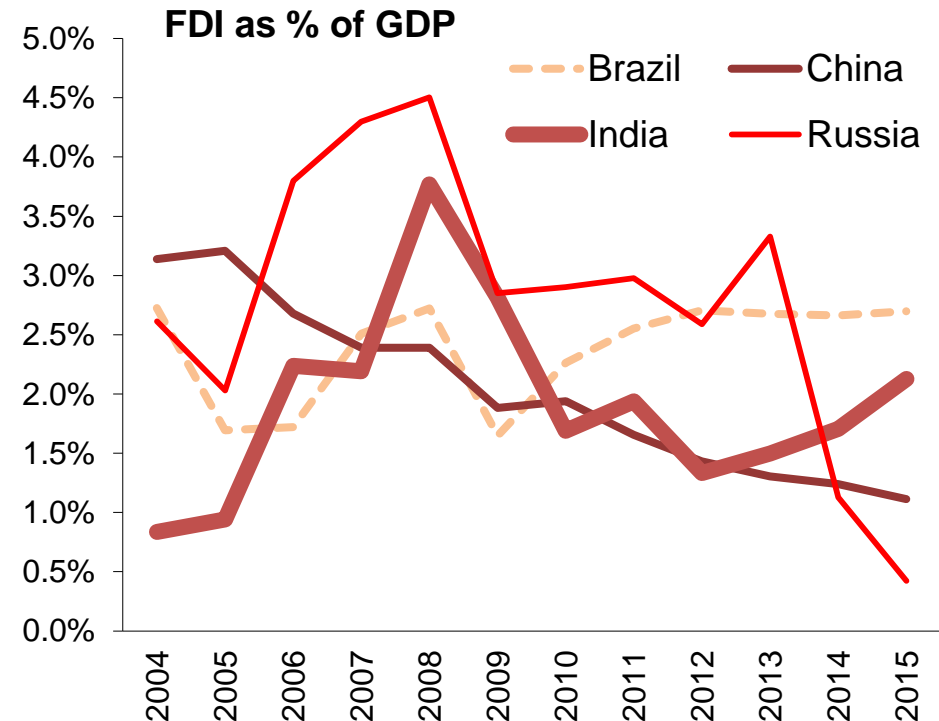
# Foreign Flows



## FDI inflows have grown

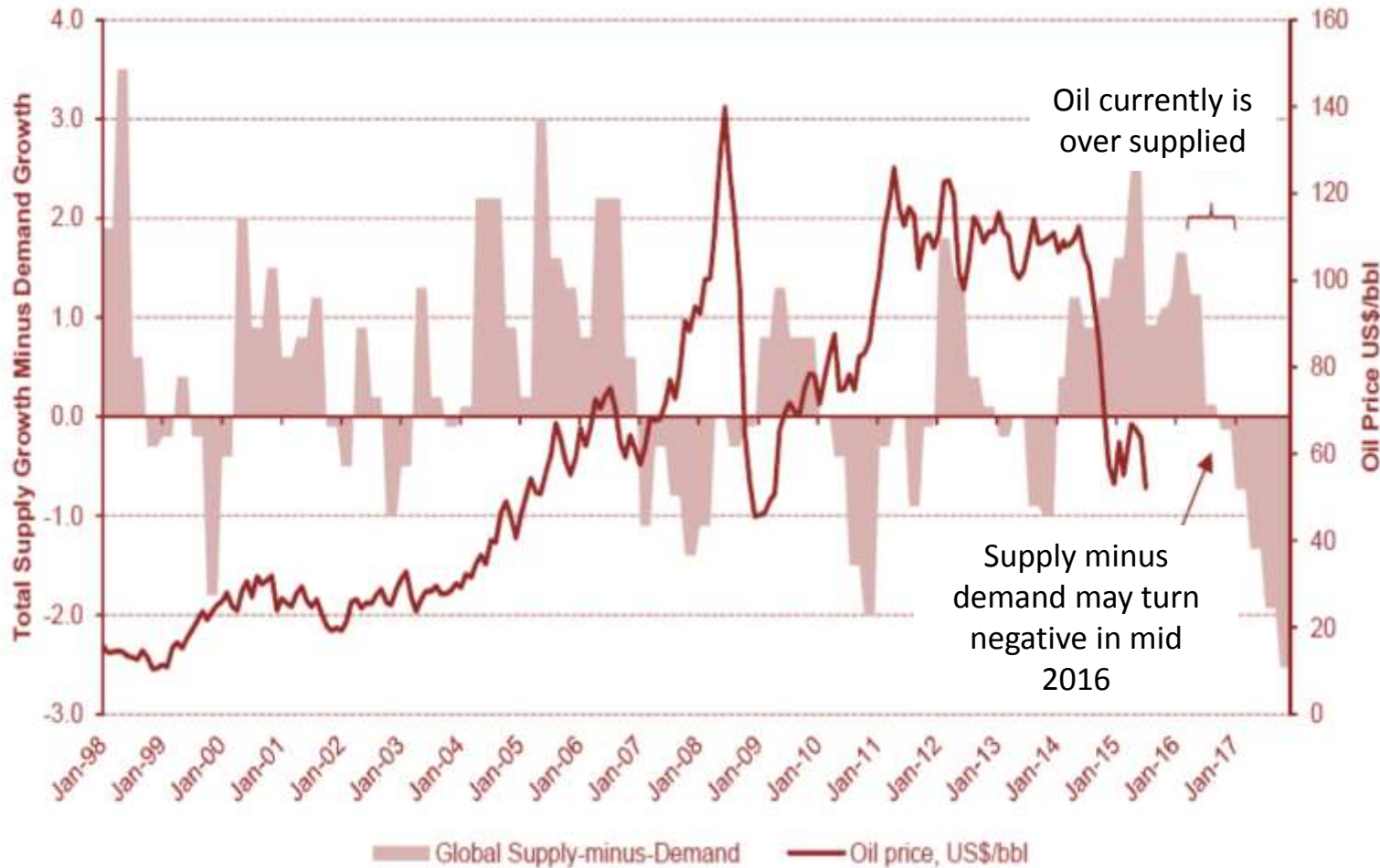


## India remains attractive compared to peers



**FDI inflows may continue, however, FPI flows may have its own volatility**

# Oil Prices May Stabilise By End Of 2016

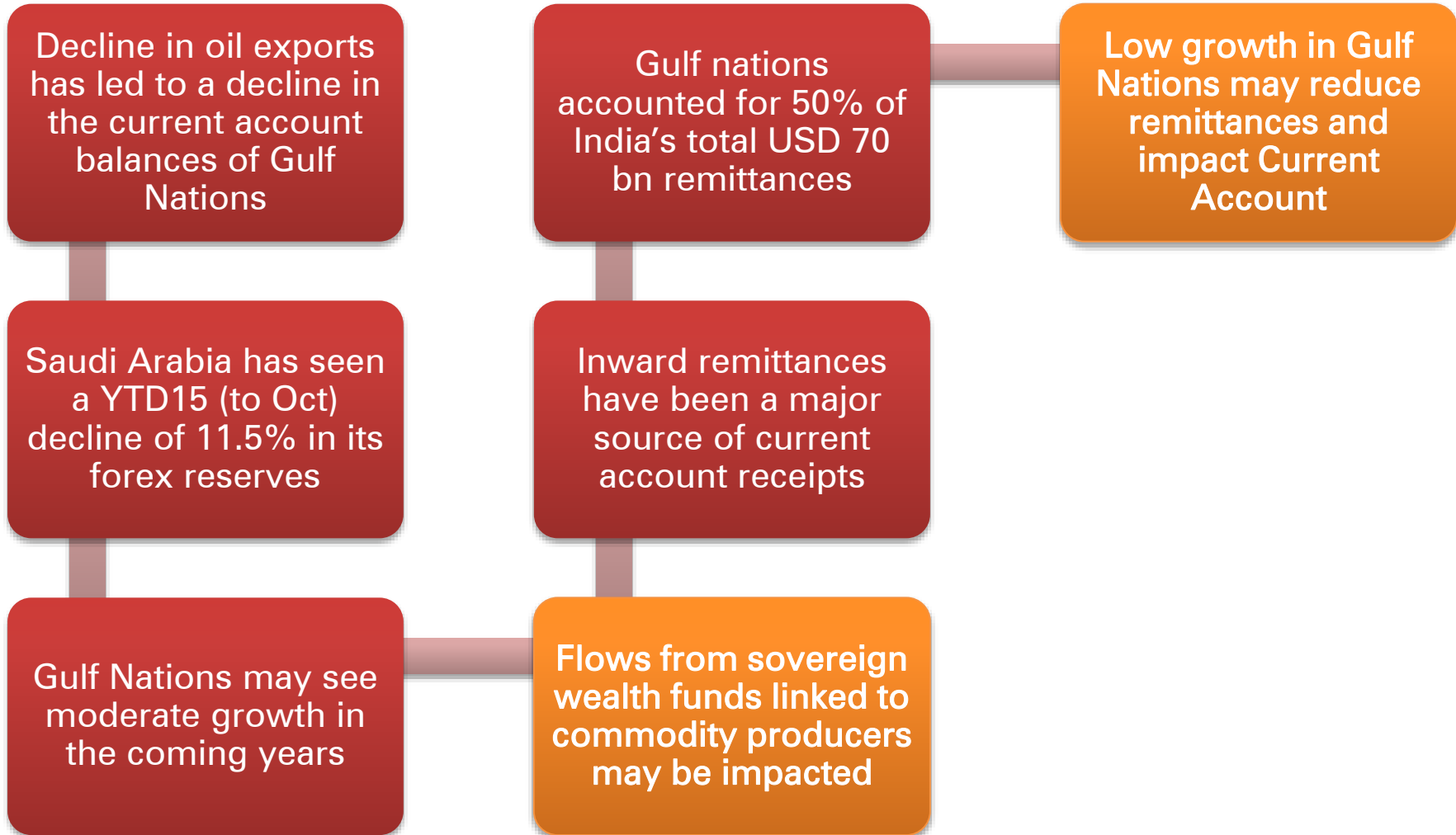


Non-OPEC supply may start declining owing to lower CAPEX

Demand has remained strong and may further increase if prices remain low

Current prices are too low for the industry and OPEC to be sustainable in the long term

# Risks of low Crude Oil Prices



# Equity Market Outlook

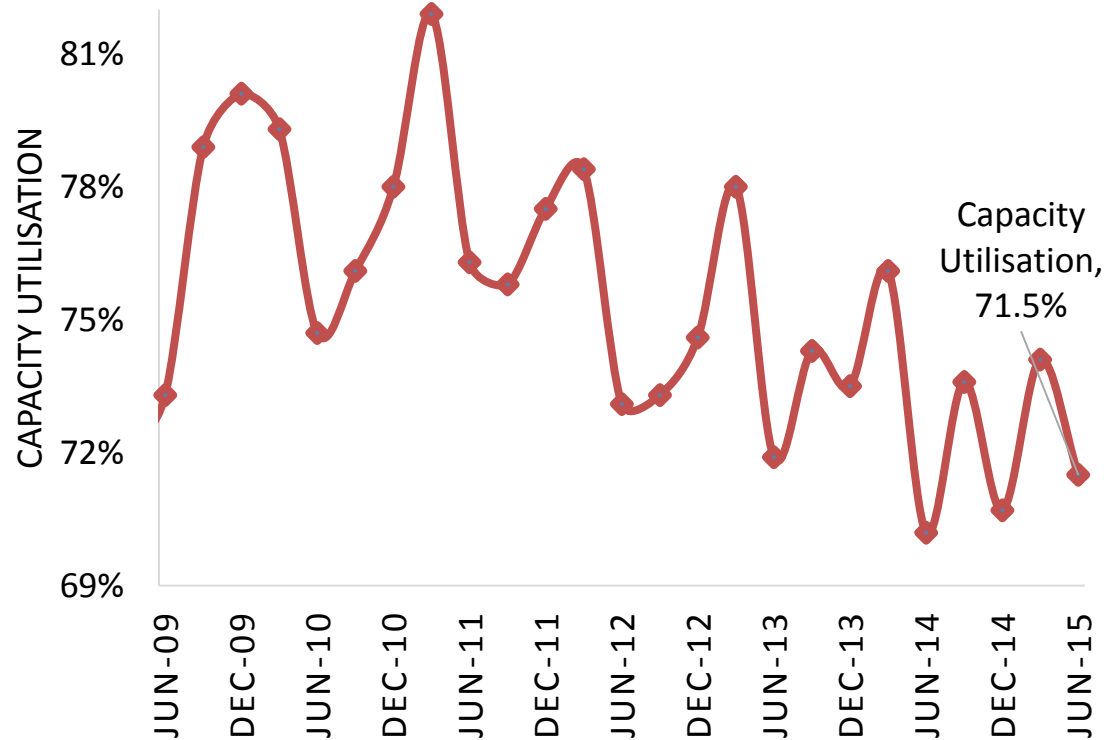
*Investor psychology can cause a security to be priced just about anywhere in the short run, regardless of its fundamentals – Howard Marks*



# Operating Leverage to Drive Earnings



## MANUFACTURING SECTOR CAPACITY UTILISATION

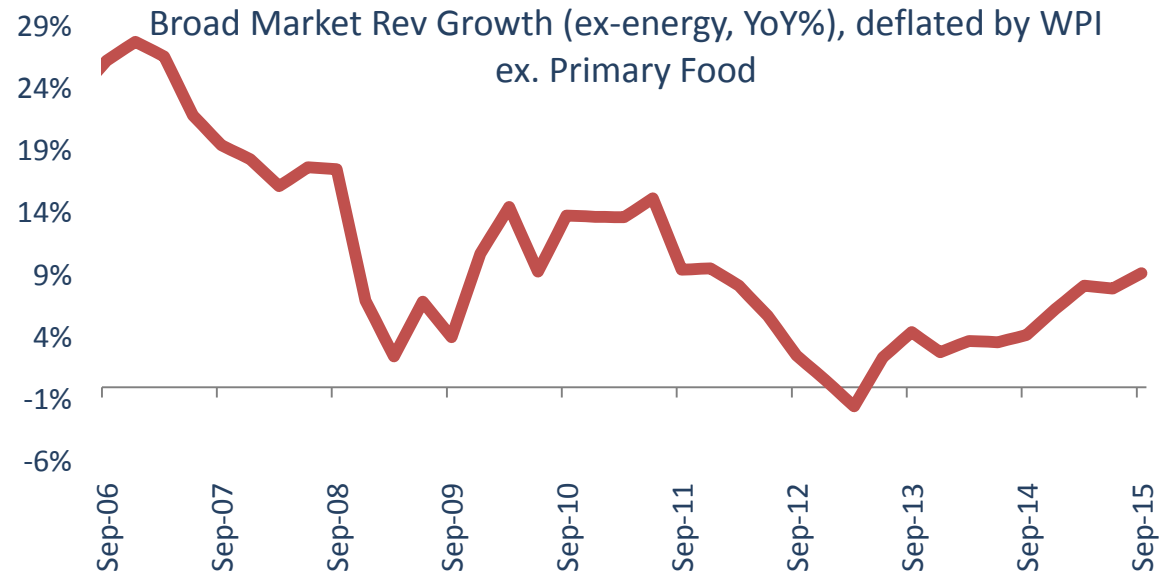


- ❑ Capacity utilization is at multi-year low
- ❑ Earnings can improve owing to strong operating leverage
- ❑ Earnings growth may be visible over next 3-4 quarters
- ❑ Over the past five years companies have built in considerable operating leverage

# Factors That Favor Earnings Growth



## Real Broad Market Revenue Growth Accelerating



The investment rate is going up, led by public investments, especially in infrastructure

Real growth is ticking higher; industrial growth is now at a five-year high

Households are also leveraging balance sheets, which is promising for consumption

Terms of trade, which affect the current account, are probably better than at any point over the past decade

Earnings will run into a favorable base effect in the second half of F2016 and F2017

# India Growth Story: India shall continue to grow better than the rest of the world



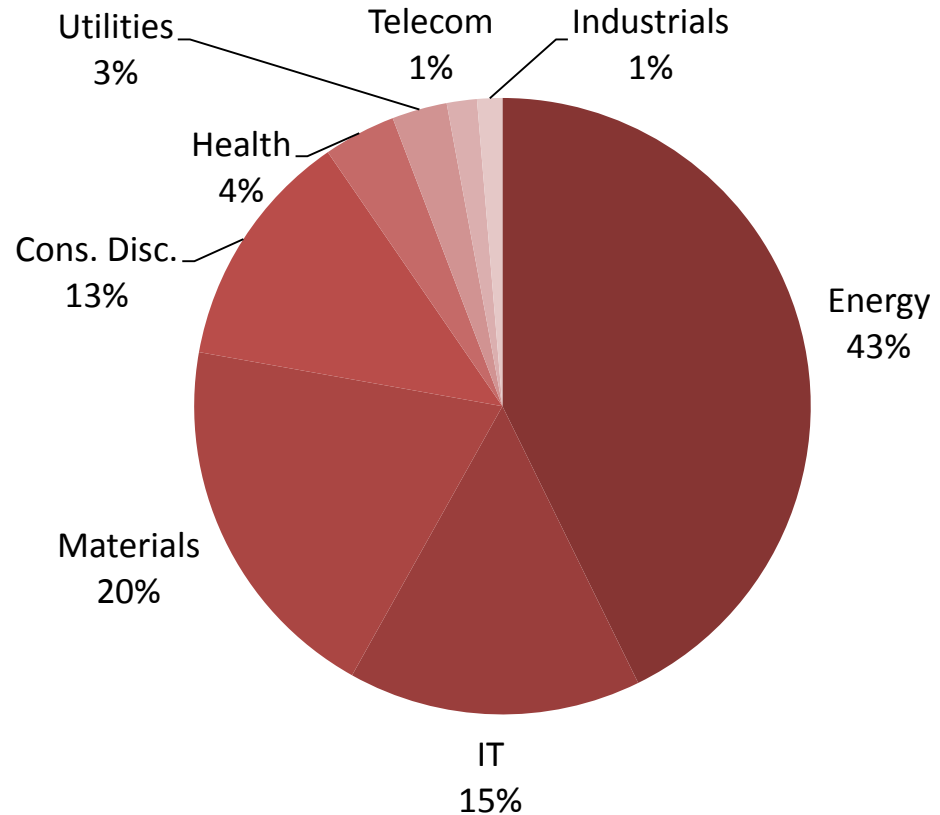
## India's real growth vs World



# Global Growth Important for India

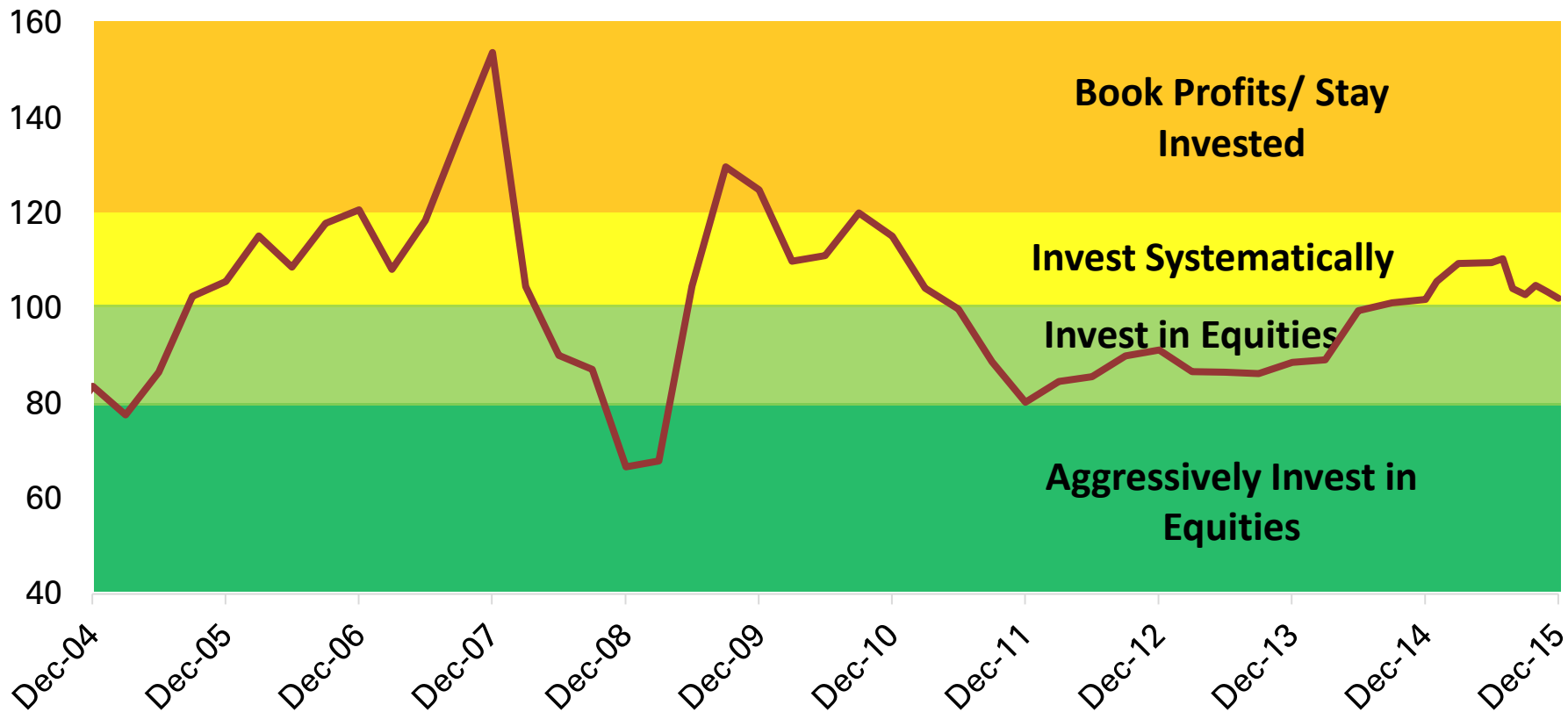


- ❑ 53% of BSE 100 revenues are in foreign currency
- ❑ This makes it all the more important for rest of the world to do well for a secular growth in earnings



**Split of foreign BSE100 Revenues**

# Valuations are reasonable - Invest Systematically in Equities



- ❑ Post recent price correction, valuations have come off from their peak
- ❑ One may consider investing systematically in 2016

### Invest In Dynamic Asset Allocation Funds and Invest Systematically In Pure Equity Funds



- ❑ 2016 can be the year of Dynamic Asset Allocation Funds
- ❑ They also have ability to capitalize on opportunities in fixed income market in a tax-efficient way.

# Potential Triggers in 2016

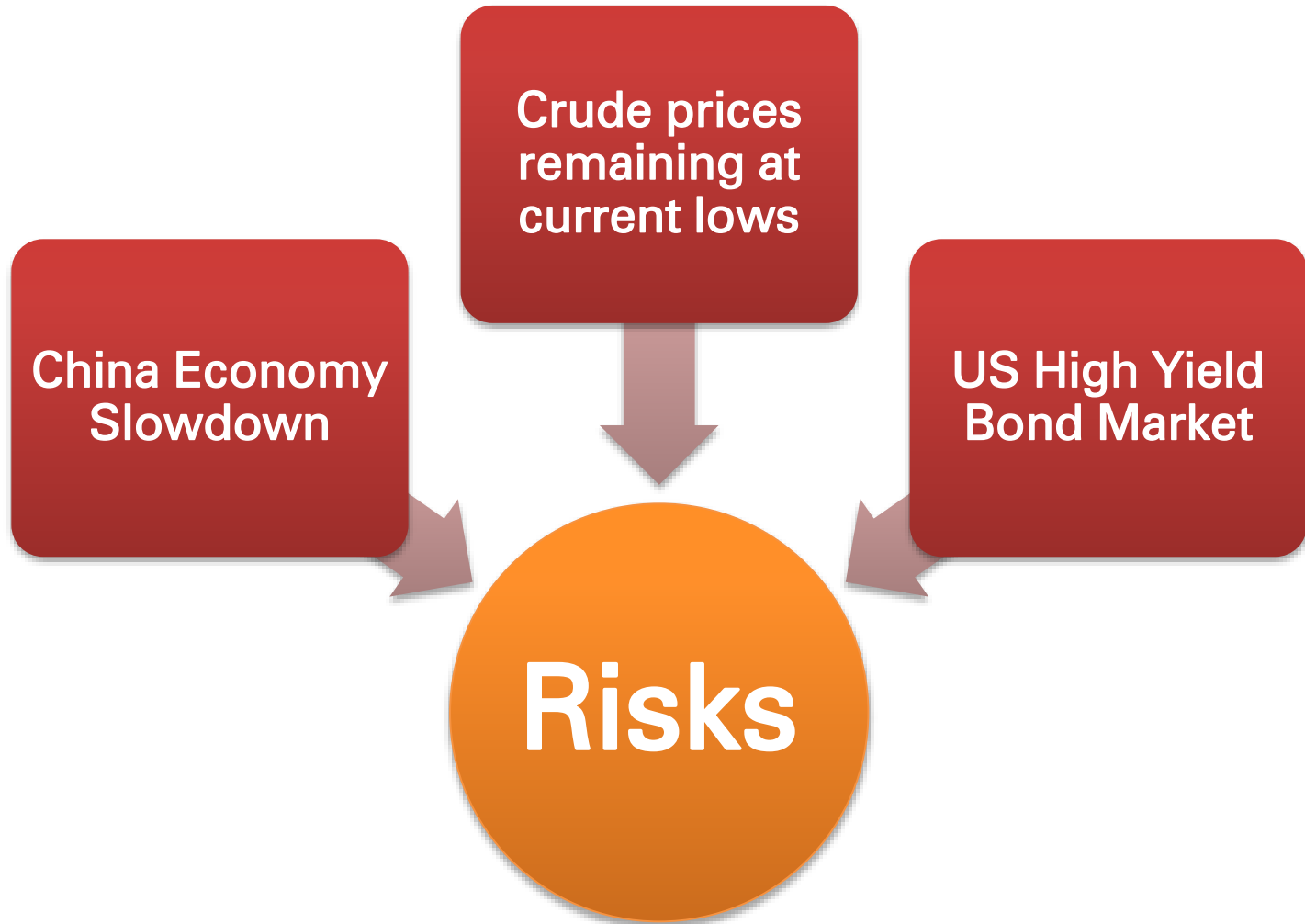




## To Sum up.. Equity Market Outlook for 2016



- ❑ Macro-economic adjustment largely over; micro-economic indicators have started improving
- ❑ Long-term India Growth Story remains intact; India will continue to grow faster than peers
- ❑ Earnings can improve owing to operating leverage
- ❑ Commodity prices likely to bottom in 2016; till then markets may remain volatile
- ❑ 2016 will be the year for investing in Dynamic Asset Allocation Funds and investing systematically in pure equity funds.



# Fixed Income Market Outlook

*The safest and most potentially profitable thing is to buy something when no one likes it. – Howard Marks*

## Global Bond Yield Movements in 2015



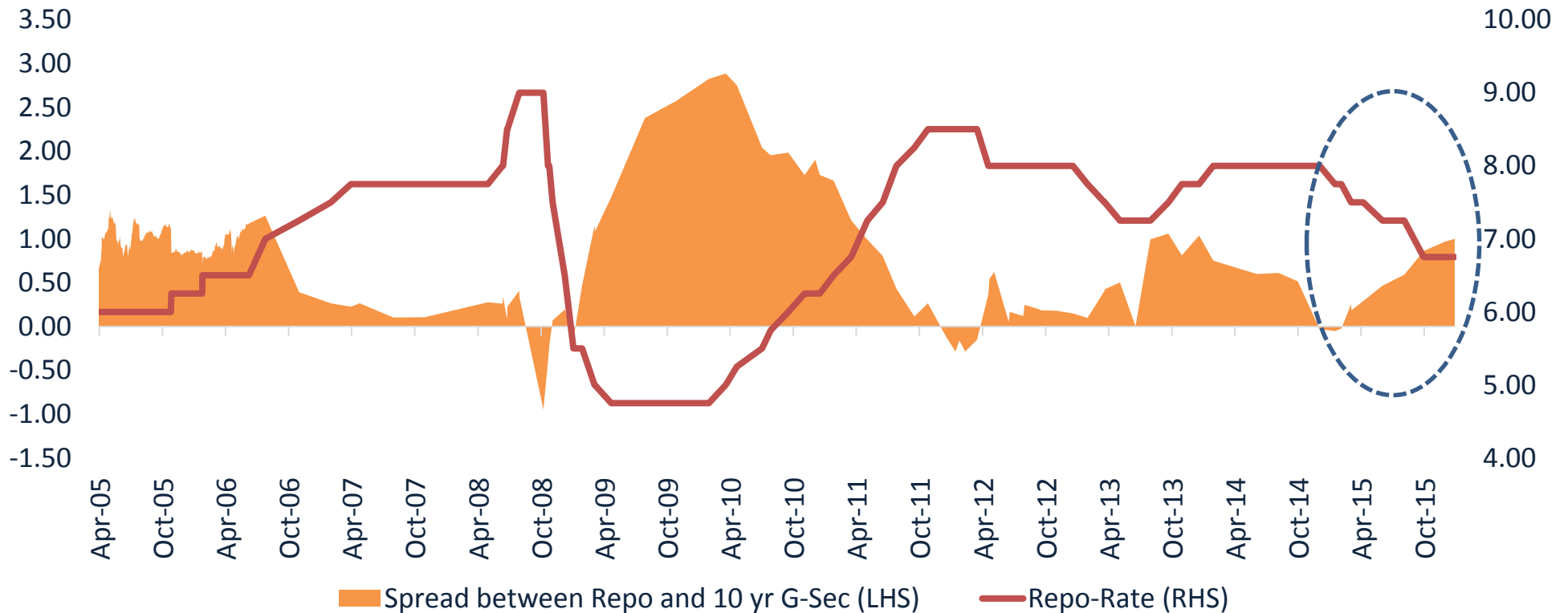
Country	Dec-15	Dec-14	Yearly Change in bps
Brazil	16.4	12.48	392
South Africa	9.46	7.84	162
Indonesia	8.77	7.91	86
Spain	1.83	1.67	16
UK	1.9	1.85	5
Germany	0.61	0.6	1
US	2.25	2.27	-2
Japan	0.28	0.34	-6
Australia	2.85	2.91	-6
Greece	8.39	8.53	-14
Portugal	2.57	2.71	-14
<b>India</b>	<b>7.75</b>	<b>7.92</b>	<b>-17</b>
Italy	1.66	1.93	-27
China	2.89	3.72	-83
Russia	9.96	13.19	-323

India was amongst the best performing markets in 2015

# Bond Yields Have Not Priced-in Rate Cuts Yet

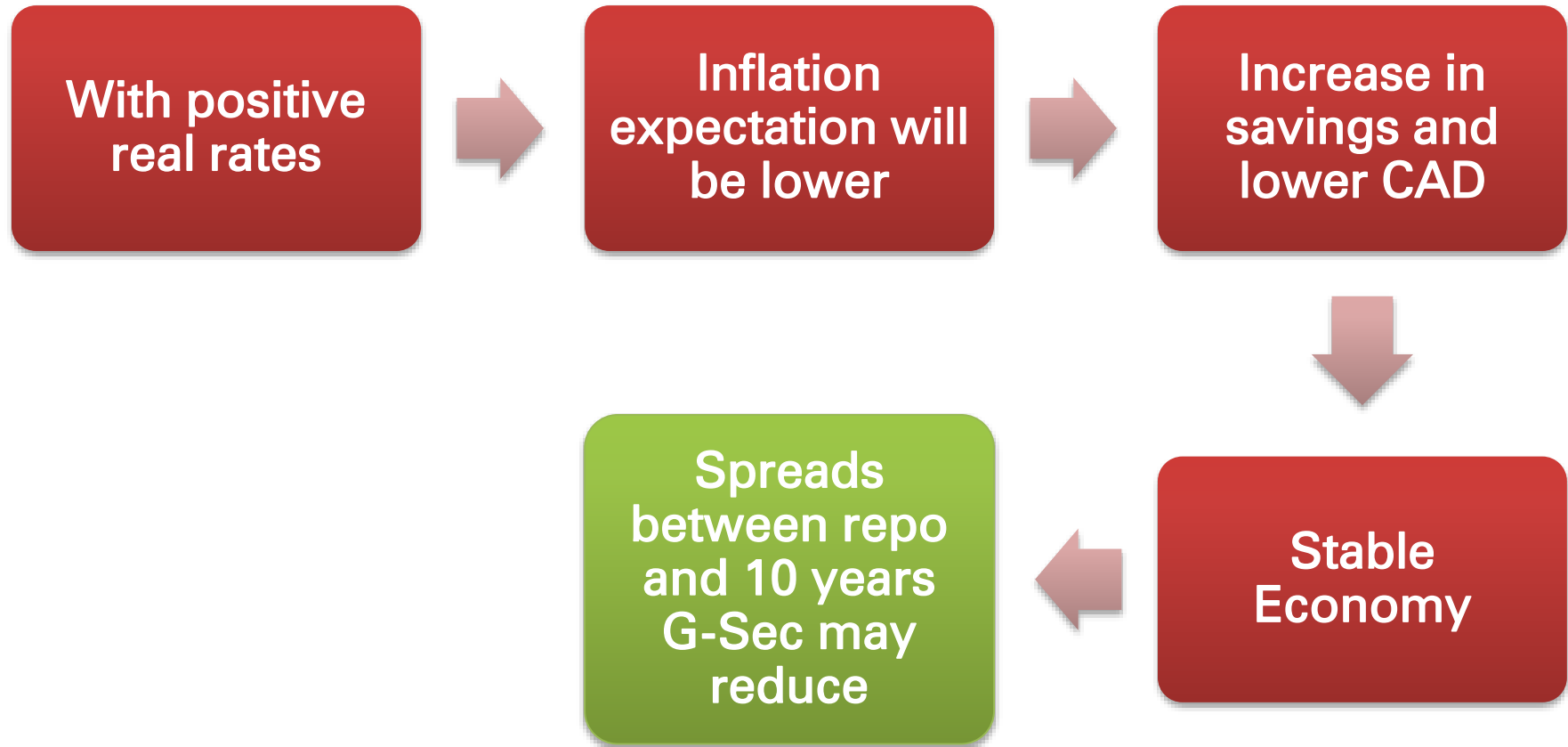


## Spreads near highest levels during any rate cut cycle

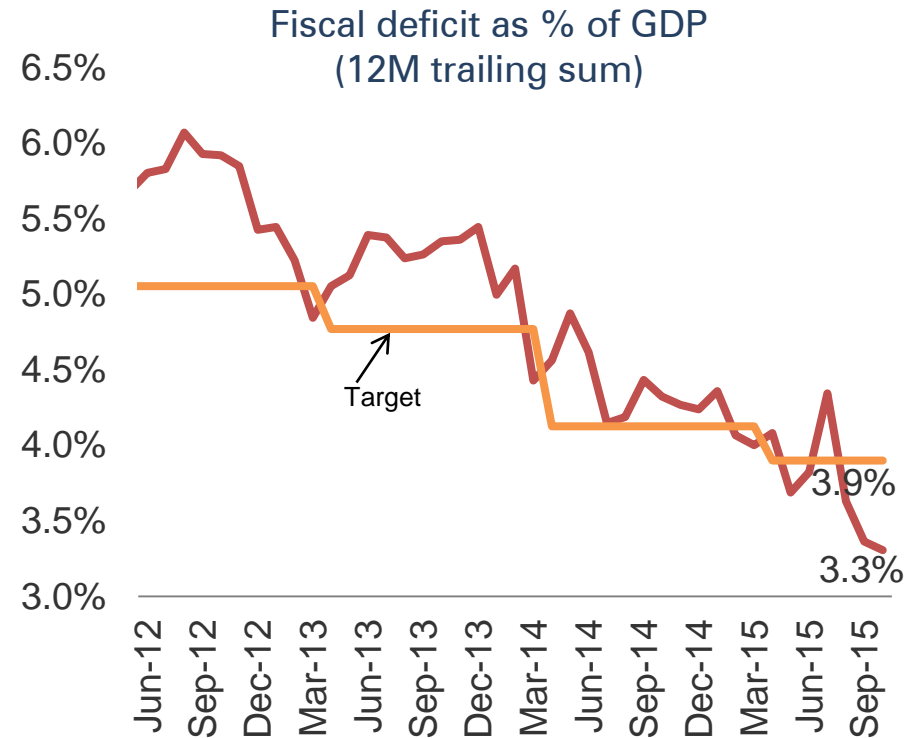
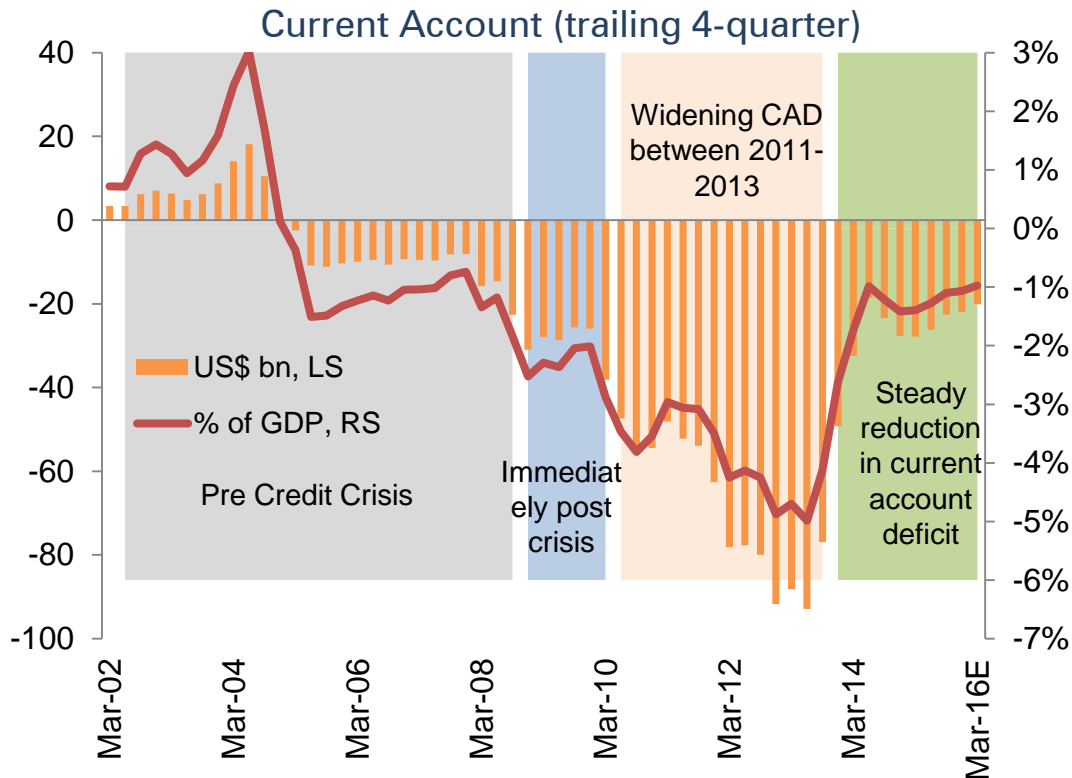


Such high spreads are hardly seen during easing cycles

# Spreads May Reduce



# Macros Remain Conducive



- ❑ Current Account and Fiscal Balance remain conducive for further rate cuts
- ❑ Inflation too is under control and likely to remain at lower levels



# Triggers For Further Rate Cuts



Benign Global  
Commodity Prices



Property Prices  
Decelerating



Early Resolution of  
Bank NPAs

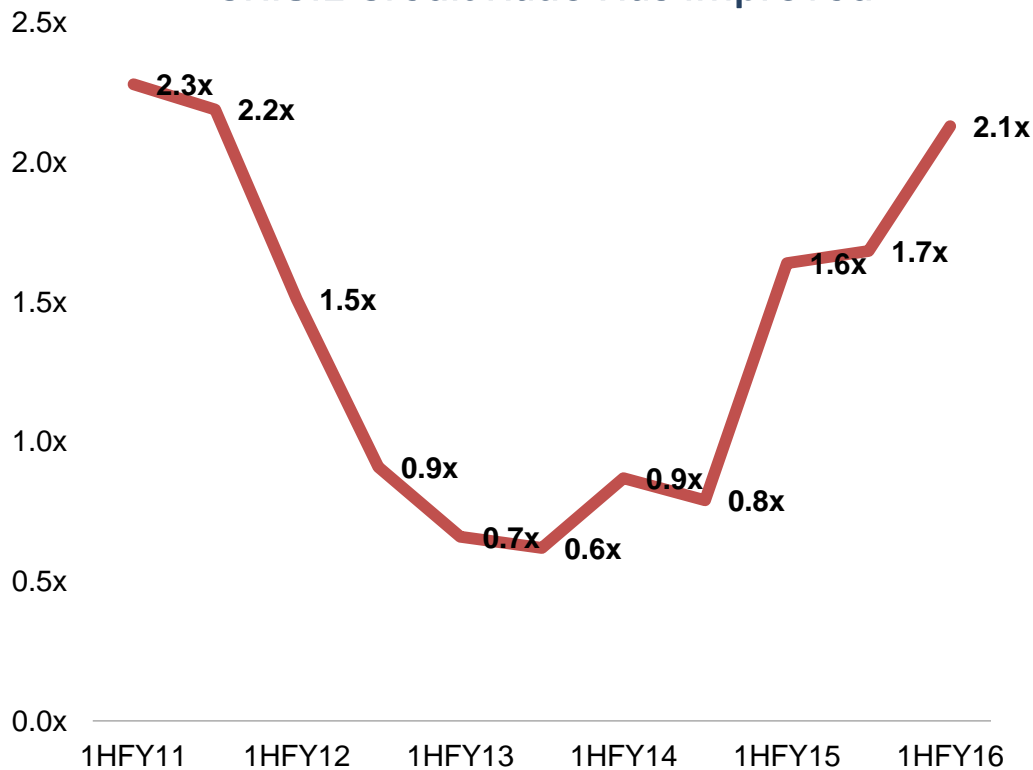


This may provide Reserve Bank of India room for further 50 bps of rate cuts in 2016

# Credit Markets Improving



### CRISIL Credit Ratio Has Improved

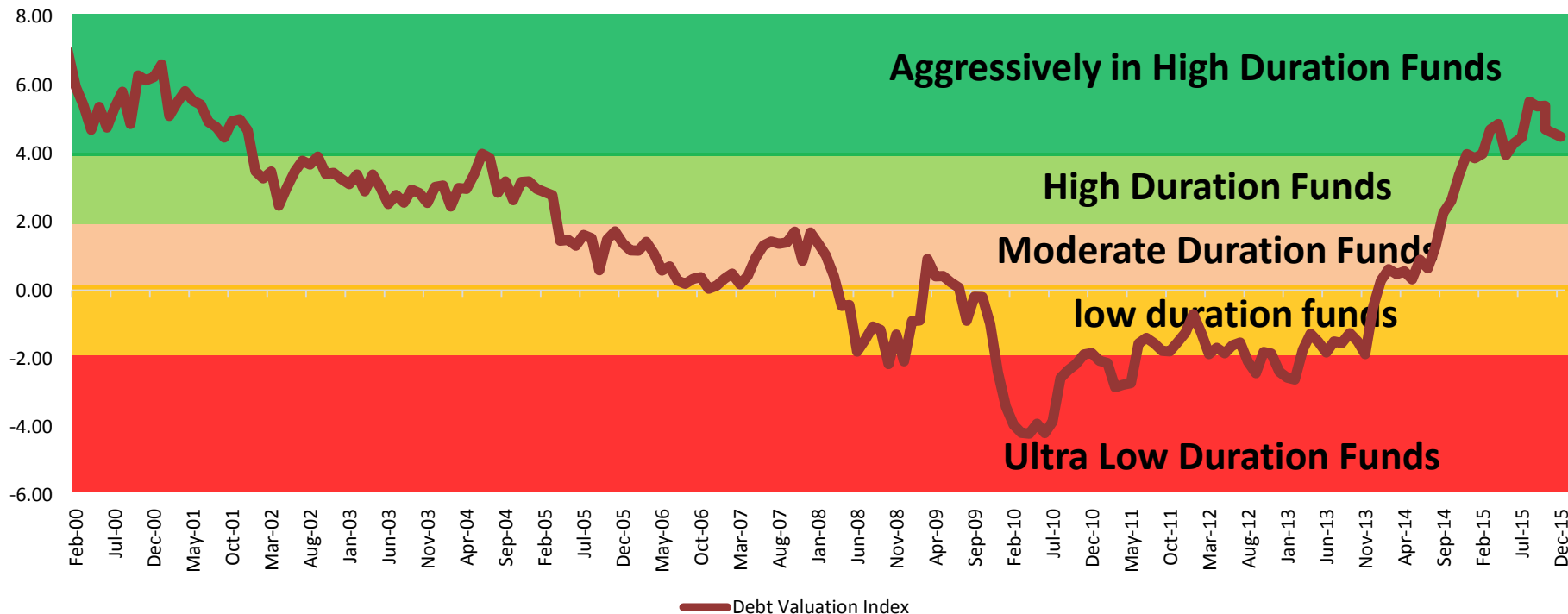


- ❑ Credit Rating Upgrades continues to outpace downgrades
- ❑ This shows improvement in Credit environment
- ❑ With government and the RBI constantly working towards improving Bank NPA situation, Credit environment will further improve

# Debt Valuation: Remains Attractive



Debt Valuation Index



We have been maintaining the Debt valuation model which provides good estimates of interest rate cycles. Currently the index lies in the most attractive territory and indicates that one needs to be invested in duration funds.

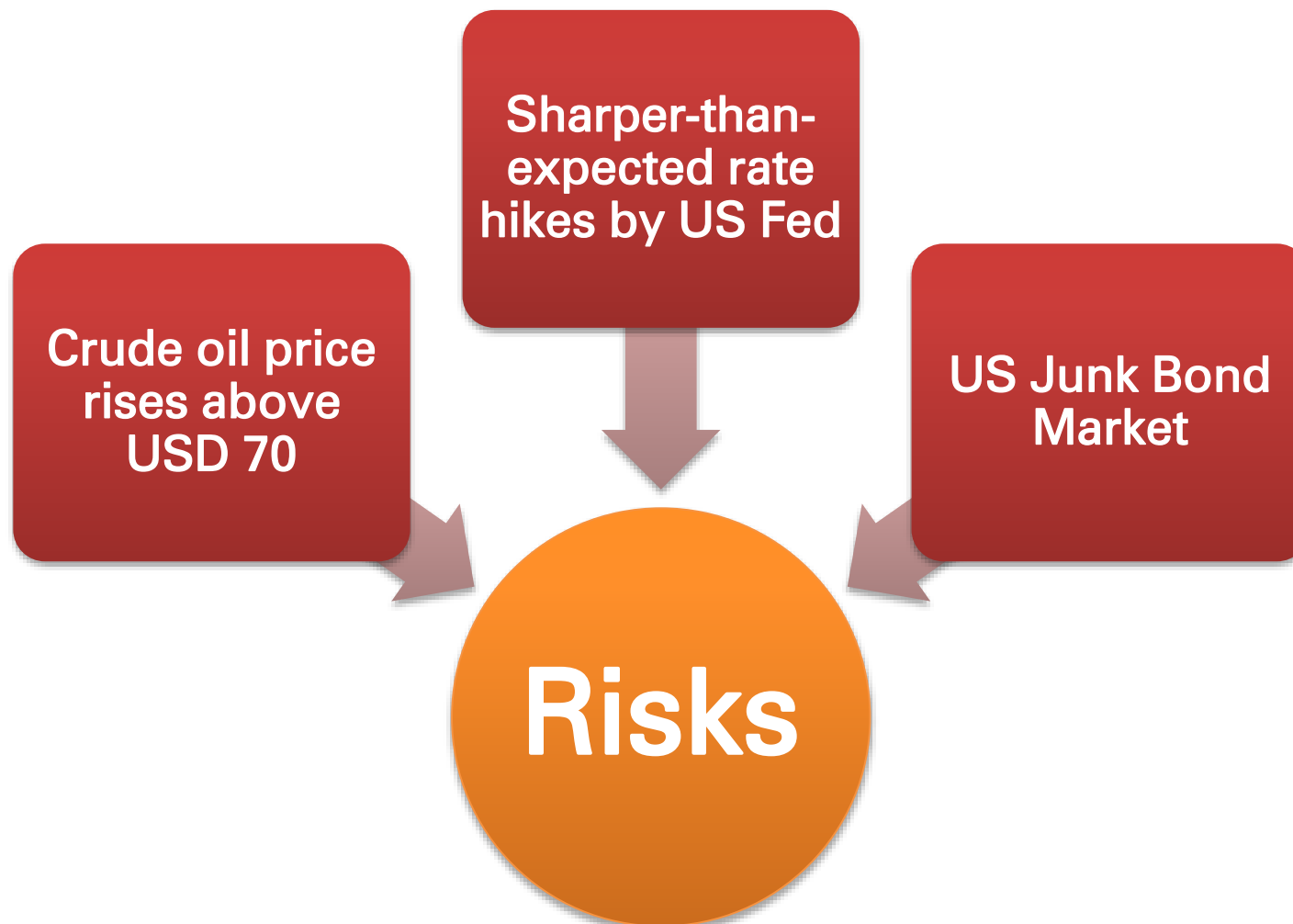
Debt Valuation Index considers WPI and CPI over G-Sec Yield, Current Account Balance and Crude Oil Movement for calculation. Equal weights are assigned to each of these parameters for calculating the index.

## To Sum up... Fixed Income Market Outlook



- ❑ Macro-economic indicators remain conducive for lower interest rates
- ❑ Yields have not priced-in earlier rate cuts yet and provides space for fall in yields in the near term
- ❑ Improvement in Bank NPAs and fall in property prices to trigger further rate cuts of around 50-75 bps
- ❑ Credit markets will improve further and spreads will narrow
- ❑ We recommend incremental investments in short- to medium-term duration funds as they may deliver better risk adjusted returns
- ❑ For conservative investors accrual funds remain a good investment proposition

# Risks to our Outlook





# Recommendations For 2016

*Return alone—and especially return over short periods of time—says very little about the quality of investment decisions. – Howard Marks*

## Dynamic Asset Allocation Funds



### Invest Lump sum in:

ICICI Prudential Dynamic Plan

ICICI Prudential Balanced Fund

ICICI Prudential Balanced Advantage Fund

ICICI Prudential Equity Income Fund

Markets may remain volatile until crude and other commodity prices bottom. Hence, dynamic asset allocation funds should be best investment idea for 2016.



## Equity Funds



### Invest systematically over next 6 months in:

ICICI Prudential Focused Bluechip Equity Fund

ICICI Prudential Value Discovery Fund

ICICI Prudential Long Term Equity Fund (Tax Saving)

Equity markets may bottom in 2016. Investors may invest systematically in these funds for long-term wealth creation.

### Aggressive investment ideas for next three years:

ICICI Prudential Select Largecap Fund

ICICI Prudential Top 100 Fund

ICICI Prudential Multicap Fund

These funds may be suitable for aggressive investors with a clear three-year and above investment horizon.

## Debt Funds



**Aggressive investors with 3 years of investment horizon:**

ICICI Prudential Long Term Plan  
ICICI Prudential Dynamic Bond Fund

Funds that can dynamically change duration strategy once interest rates bottom are suitable for a three-year view

**Investors with moderate risk appetite:**

ICICI Prudential Banking & PSU Debt Fund  
ICICI Prudential Short Term Plan  
ICICI Prudential Income Opportunities Fund

Funds with moderate duration are likely to deliver better risk-adjusted returns in 2016.

**Conservative investors seeking to earn from Accrual + Duration:**

ICICI Prudential Regular Savings Fund  
ICICI Prudential Corporate Bond Fund  
ICICI Prudential Regular Income Fund

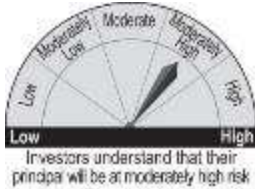

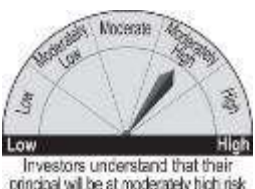

Accrual funds remain all-season investment idea and apt for conservative investors.


## Key Events To Track in 2016










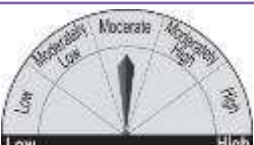

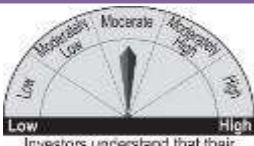
1. Budget Session of the Parliament
2. Union Budget 2016-17
3. RBI's monetary policy
4. Monsoon

1. US presidential elections
2. US Federal Reserve's rate hikes
3. China's reforms
4. Commodity prices
5. Geo-political events

<p><b>ICICI Prudential Balanced Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• A balanced fund aiming for long term capital appreciation and current income by investing in equity as well as fixed income securities.</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p><b>ICICI Prudential Dynamic Plan is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• A diversified equity fund that aims for growth by investing in equity and debt (for defensive considerations)</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p><b>ICICI Prudential Balanced Advantage Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• An equity Scheme that aims for growth by investing in equity and derivatives.</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p><b>ICICI Prudential Value Discovery Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• A diversified equity fund that aims to generate returns by investing in stocks with attractive valuations</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>Investors understand that their principal will be at moderately high risk</p>

<p><b>ICICI Prudential Multicap Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• A growth oriented equity fund that invests in equity and equity related securities of core sectors and associated feeder industries.</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p><b>ICICI Prudential Focused Bluechip Equity Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• A focused large cap equity fund that aims for growth by investing in companies in the large cap category</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p><b>ICICI Prudential Long Term Equity Fund (Tax Saving) is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• An Equity Linked Savings Scheme that aims to generate long term capital appreciation by primarily investing in equity and related securities.</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p><b>ICICI Prudential Regular Income Fund (Income is not assured and is subject to availability of distributable surplus) is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Medium term regular income solution</li> <li>• A hybrid fund that aims to generate regular income through investments primarily in debt and money market instruments and long term capital appreciation by investing a portion in equity.</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>Investors understand that their principal will be at moderate risk</p>

<p><b>ICICI Prudential Top 100 Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• An equity fund that aims to provide long term capital appreciation by predominantly investing in equity and equity related securities</li> </ul>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p><i>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</i></p> <p><b>ICICI Prudential Short Term Plan is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Short term income generation and capital appreciation solution</li> <li>• A Debt fund that aims to generate income by investing in a range of debt and money market instruments of various maturities.</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p><i>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</i></p> <p><b>ICICI Prudential Income Opportunities Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term savings solution</li> <li>• A debt fund that invests in debt and money market instruments of various credit ratings and maturities with a view to maximising income while maintaining optimum balance of yield, safety and liquidity.</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p><i>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</i></p> <p><b>ICICI Prudential Banking &amp; PSU Debt Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Short Term savings solution</li> <li>• A debt fund that aims to generate regular income by investing in debt and money market instruments predominantly issued by banks and public sector undertakings.</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p><i>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</i></p> <p><b>ICICI Prudential Select Largecap Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• An equity fund that aims to generate capital appreciation by investing in equity and equity related securities of large market capitalization companies with an option to withdraw investment periodically based on triggers.</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p><i>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</i></p>	

<p><b>ICICI Prudential Long Term Plan is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Medium term savings solution</li> <li>• A Debt Fund that invests in debt and money market instruments with a view to maximise income while maintaining optimum balance of yield, safety and liquidity.</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	
<p><b>ICICI Prudential Equity Income Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term wealth creation solution</li> <li>• An equity scheme that seeks to generate regular income through investments in fixed income securities and using arbitrage and other derivative strategies and also intends to generate long term capital appreciation by investing in equity and equity related instruments.</li> </ul>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	
<p><b>ICICI Prudential Corporate Bond Fund is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Long term savings solution</li> <li>• A debt fund that invests in debt and money market instruments of various maturities with a view to maximise income while maintaining optimum balance of yield, safety and liquidity.</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	
<p><b>ICICI Prudential Regular Savings Fund for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Medium term savings solution</li> <li>• A debt fund that aims to deliver consistent performance by investing in a basket of debt and money market instruments with a view to provide reasonable returns while maintaining optimum balance of safety, liquidity and yield.</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	
<p><b>ICICI Prudential Dynamic Bond Fund for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Medium term wealth creation solution</li> <li>• A debt fund that invests in debt and money market instruments with a view to provide regular income and growth of capital</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	





## Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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