YES FIRST

Divergence is the new norm.

Continued recovery in US economy led by solid gains in the jobs market increased expectation of an earlier than anticipated Fed rate hike. Jobs growth in US remained strong with Feb-15 marking the 12th consecutive month of greater than 200k payroll additions. Data showed that employers added 295k jobs in Feb-15 (vs. expectation of 235k) and unemployment rate fell to 5.5% from 5.7% in Jan-15. Strength of US economy and the impending tightening of US interest rates remain in sharp contrast to the easy monetary conditions elsewhere in particular EU, China and Japan.

Following announcement of quantitative easing program and cutting its deposit rate below zero to counter the continued drop in prices and fragile economic growth, Central Banks in EU began buying sovereign bonds. The weakness in EU amid ECB's monetary stimulus has led to sharp depreciation of the EURO. The Euro has lost more than 11% of its value against the US currency this year and at 1.07 EUR/US is at its lowest since 2002.

Data out of Japan painted a mixed picture of the economic recovery. Revised estimates showed Japan's economy expanded at 0.4% in Q42014 down from an initial estimate of 0.6%.

While Japan crawled out of recession at a slower pace than initially estimated, recent data suggests factory output picked up pace as industrial production grew 4%MoM in Jan-15 (vs. 0.8% in Dec-14), lifted by weaker yen and rising exports . On the other hand, consumption stayed weak as retail sales fell 2%YoY in Jan-15 as compared to +0.2%YoY growth in Dec-14. Alongside, Japan's core inflation slowed to 0.2% in Jan-15 from 0.5% in Dec-14 underscoring the need to expand monetary stimulus to support demand in the economy.

China's central bank reduced its one year bank lending rate by 25 bps to 5.35% for the second time in 3 months. The ensuing trade data underscored the need for monetary easing which showed that while exports in Jan-Feb period rose 15%YoY, imports contracted 10.2%YoY, highlighting weak domestic demand in the economy amid concerns of deflation.

On the domestic front, RBI eased its key repo rate by another 25 bps to 7.5%, its second outside scheduled policy review cycle in 2015. This comes on the heels of FY16 Union Budget which projected a fiscal deficit target of 3.9% of GDP while focusing on capex expenditure to revive growth. Capital spending is expected to rise by a solid 25.0% in FY16 (vs. 3.0% in FY15).

Among other data releases, Jan-15 core sector growth slowed, led by moderation in coal and natural gas output. Likewise, PMI manufacturing for Feb-15 fell to a 5 month low, in part reflecting moderating demand environment in the economy. We believe government's ability to push through key bills in Rajya Sabha amid timely implementation of the announced reforms would be key to revival of economic momentum.

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FIRST Insights

Global Macro Developments

- ✓ US labor data released showed a reduction in unemployment rate to a low of 5.5% in February and nonfarm payrolls increasing by 295k, fanning expectations that the US Fed may increase interest rates sooner than previously thought.
- ✓ The Fed continued to stress that normalization of interest rates will begin when given the improvement of the employment sector, the FOMC is confident that inflation will move toward the Fed's 2% objective.
- ✓ Greece showed a softening stance regarding its reform program, asking Eurozone countries for an immediate start of technical talks with international creditors that would help conclude its current bailout program and allow payout of more loans.
- ✓ Japan Q42014 GDP was revised down to 1.5% YoY (Forecast: 2%), from its preliminary reading of 2.2%. Consumer spending was revised up, but capital expenditure remained weak, putting further pressure on BoJ to inject further stimulus into the economy.
- ✓ Minutes of the BOJ meeting held in January showed that some BOJ board members feel that the massive Japanese bond buying program may need to be stopped before the 2% inflation target is reached. This was the first instance when the board addressed the feasibility of continuing the key part of its near two-year old QE program.
- ✓ China's February Flash HSBC/Markit PMI came in higher-than-expectations (50.1, Forecast: 49.5, January: 49.5), but export orders fell their fastest in 20 months, continuing to paint a grim outlook for growth.
- ✓ China's trade surplus hit a record USD60.6 bn in February, as exports grew 48%YoY and imports fell 20%YoY.

Events and Data Calendar

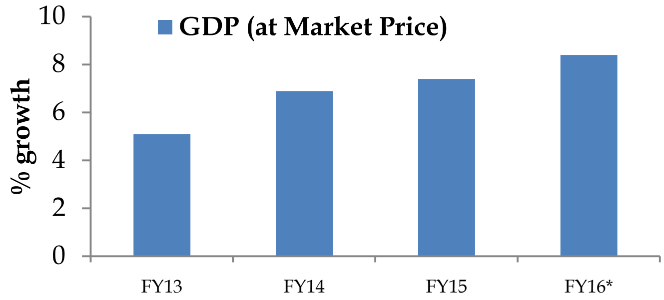
Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
US	02/02/2015	ISM Manufacturing	(JAN)	54.5	53.5	55.1	↓
	06/02/2015	Change in Non-farm Payrolls	(JAN)	235K	295K	239K	↑
	12/02/2015	Advance Retail Sales	(JAN)	-0.40%	-0.80%	-0.90%	↑
	13/02/2015	University of Michigan Confidence	(FEB P)	98.1	93.6	98.1	↓
	26/02/2015	Durable Goods Orders	(JAN)	1.60%	2.80%	-3.70%	↑
	27/02/2015	Gross Domestic Product (Annualized)	(4Q S)	2.00%	2.20%	2.60%	↓
UK	05/02/2015	GBP Bank of England Rate Decision	(FEB 5)	0.50%	0.50%	0.50%	→
Japan	27/02/2015	National Consumer Price Index (YoY)	(JAN)	2.40%	2.40%	2.40%	→
EU	13/02/2015	Euro-Zone GDP s.a. (YoY)	(4Q A)	0.80%	0.90%	0.80%	↑
	20/02/2015	Euro Area Finance Ministers Hold Emergency Meeting on Greece.					

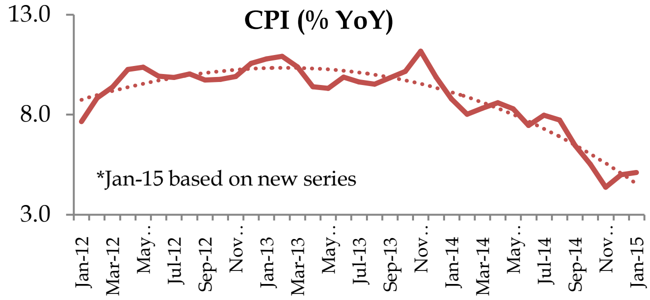
P* – Provisional Estimates F* - Final Estimates A*- Advanced Estimates T*- Third Estimates

COMMODITY

- ✓ Gold contracted 2% MoM in February as compared to 4.46% MoM increase in Jan-15, as a rise in US stock indices in conjunction with gold losing its appeal as an inflation-hedge amid low-inflation environment globally; reduced demand for the safe-haven metal. Further, India, one of the world's largest consumers of gold, did not lower import duties on gold in its Union Budget for 2015-16, contrary to expectation, which also weighed on the precious metal.
- ✓ WTI prices accelerated 6.2% MoM in Feb-15 following a 20% MoM contraction in Jan-15; registering a rise after 7 consecutive months of decline as a report by US Energy Information Administration showed a decline in petroleum and distillate stocks in recent weeks

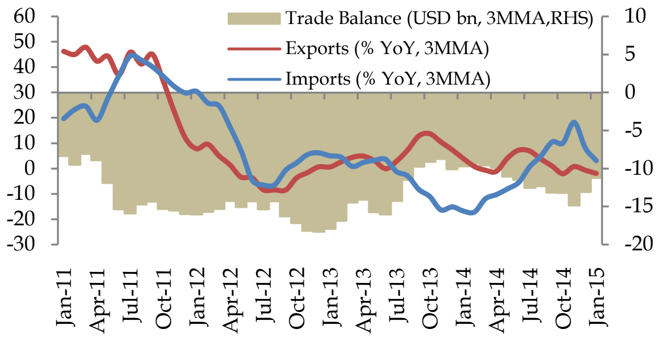
Domestic Market Macro Economics

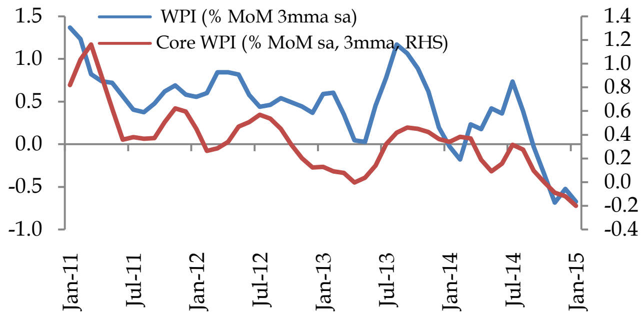




base:2011-12 * YBL estimate

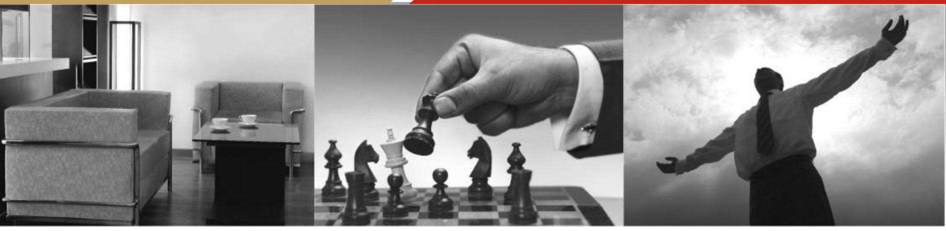
- ✓ India's FY16 Union Budget projected a fiscal deficit of 3.9% of GDP (vs. 4.1% in FY15) , focusing on reviving capital expenditure which is budgeted to rise by 25%YoY (vs. 3% in FY15)
- ✓ India's IIP growth moderated to 1.7% YoY in Dec-14 (Dec-14: 3.9%) On a sequential basis, IIP growth remained weak declining by 1.4% MoM s.a, compared to a robust expansion of 8.1% MoM s.a. in November
- ✓ Core sector output moderated to 1.9%YoY in Jan-15 (vs. 2.4 in Dec-14) driven lower by decline in coal and natural gas output.
- ✓ India's trade deficit declined to a 12-month low of USD 8.3bn in Jan-15 (vs. USD -9.4bn in Dec-14), primarily on account of falling oil imports.
- ✓ Retail price inflation for Jan-15 was recorded at 5.11% YoY basis revised series released by CSO. The new series incorporates 2012 as base year with component weights that reflect the current consumption patterns in the economy.
- ✓ Jan-15 retail core inflation came in at 3.94% YoY, dipping below 4% for the first time.
- ✓ Wholesale prices in January declined as WPI was reported at -0.39% YoY led by continued decline in prices of petroleum products. On sequential basis, index marked fifth consecutive decline.
- ✓ HSBC manufacturing PMI moderated to 51.20 in Feb-15 vs. 52.90 in Jan-15 as output and new orders rose at softer rates.
- ✓ HSBC PMI Services Business activity surged to an 8 month high of 53.9 in Feb-15 (vs. 52.4 in Jan-15) driven by strong new business growth.
- ✓ Reserve bank India eased its key policy repo rate by 25 bps to 7.50% in its second outside-cycle move in 2015.





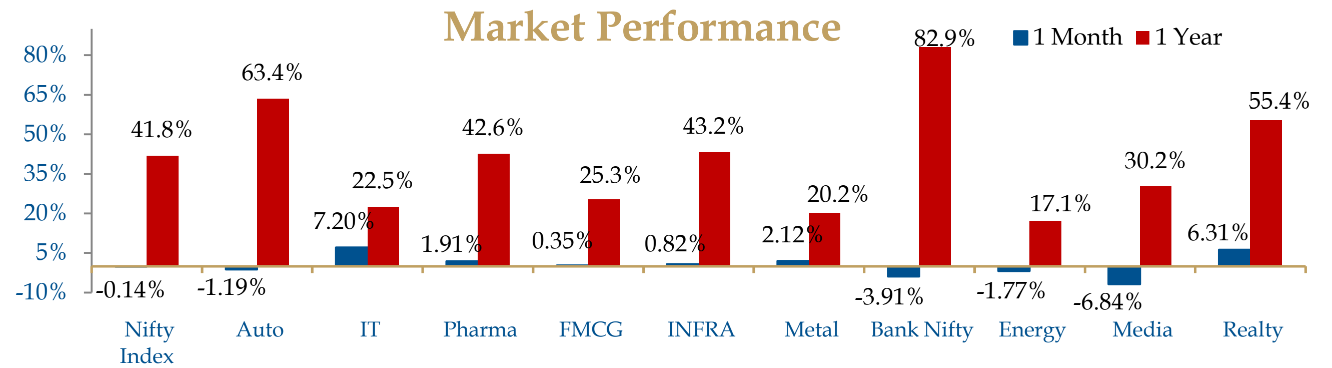
We expect:

- ✓ FY16 GDP growth is expected to improve by 80-100 bps over the FY15 growth of 7.4% (as per the new series)
- ✓ We expect Jan-16 RBI target of 6% to be over-achieved by 60 bps paving way for another 25 bps rate cut by June- 15, with the possibility of an additional 25 bps cut by Sep-15 if oil prices continue to remain soft and 2015 south-west monsoon presents a benign picture
- ✓ If oil prices remain close to USD 65/barrel on a sustainable basis, CAD for FY16 is likely to drift lower than 1% of GDP. As such, we expect FY16 CAD at 0.9% of GDP, compared to 1.2% in FY15.
- ✓ We expect 10Y g-sec yield to trade close to 7.35% by end of FY16. While we believe impending interest rate hike in the US in 2015 could provide some volatility, downside risks could guide 10Y g-sec yield potentially to 7.15%.
- ✓ We continue to expect USDINR to depreciate to 64.50 by Sept-15 in line with impending Fed rate hike. Eventually improvement in growth-inflation fundamentals could guide Rupee stronger. We expect USDINR to trade at 63 by Mar-16.



Equity Market Insights

- The month of February saw the Indian stock markets continue their journey upwards albeit in a cautious manner. The benchmark BSE SENSEX closed at 29,362, up 0.61% for the month while the Nifty closed at 8,902, up by 1.06% during the same period. The CNX Mid-Cap index relatively underperformed with returns of -0.05% while the CNX Small-cap index outperformed with gains of 4.11% respectively during the month
- Both FIIs and DII's were net buyers in equity markets by ~$1.08bn and ~ $0.27bn during the month of February.



Factors to Watch

- With the Union Budget out of the way, we believe that the market participants would now start tracking fundamentals and earnings growth as longer term drivers of stock prices. The Budget has outlined the new government's themes adequately with the most prominent ones being – revival of investments and driving a stable and sustainable economic growth in the country. In the coming months we expect more announcements to be made which would provide more clarity to the broad themes and measures announced during the Budget. These measures would help revive earnings growth for corporate, however we expect signs of a turnaround to become visible only after 2 to 3 quarters.
- Market participants would also keep a close eye on the global commodity prices particularly that of crude, which has come down sharply in recent times.
- Other key events that would be watched closely especially by the FIIs would be the geo-political events in Greece and further policy as well as political announcements in the Euro zone and US. With regards to US in particular, the global investors would be awaiting more color on timing and quantum of interest rate hikes by the US Fed.

Outlook & Expectations

- In terms of valuations, the SENSEX is trading at a trailing twelve month PE multiple of 19.9 times which is slightly higher than its long term historic average of 18.2 times. On a forward earnings basis the Sensex is trading at a multiple of around 17.4 times, which suggests that markets are not expensive but fairly valued at current levels. However based on technicals, we could see some near term consolidation in the markets. We believe that any correction in the market should be viewed as an ideal time to pick up quality stocks.
- We recommend equity investments through a Systematic Transfer route with a minimum investment horizon of 36 months.
- From a long term perspective we continue to remain positive on companies in infrastructure, consumer durables and private sector banks. . Investors could also look at investing in select stocks in the auto and auto ancillary space**.** While the Budget was neutral for the auto sector but all moves aimed at boosting economic growth will in turn benefit the auto sector which is one of the first to turn around in the event of an economic turnaround. Also, the "Make in India" promotions and initiatives should eventually lead to setting up/increasing investment in manufacturing hubs in India by the major automakers. This in turn would result in higher demand for autos and auto ancillaries. These sectors would be among the first to benefit from a revival in the domestic economy as well as in the export markets. We also continue to remain positive on select IT stocks given the better demand outlook for these. However IT margins do face headwinds in the form of cross currency pressures. Therefore it would be better to pick up select quality performers on price dips and better valuations.

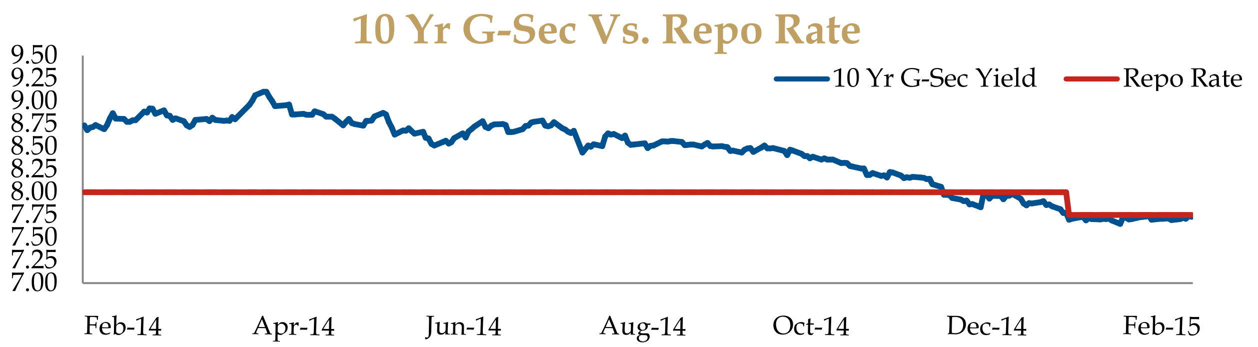
- From a longer term perspective, i.e. from a 2 to 3 years' horizon, investors could look at picking up stocks in sectors that stand to benefit from a revival in the economy. These would be consumer durables, infrastructure and banks.

Debt Market Insights

- The average systemic liquidity deficit in Jan remained largely unchanged at an average INR 867bn as compared to an average INR 877bn in Dec.
- The average systemic liquidity deficit in Feb was recorded at INR 920bn compared to INR 863bn in Jan.
- Average 10 yr yield during Feb eased to 7.71% as compared to 7.77% in Jan-15.
- Drawing comfort from the ongoing disinflationary trend and improving quality of fiscal adjustment, the Reserve Bank of India, in yet another unscheduled move, lowered the benchmark policy rate by 25 bps to 7.50% on March'4th.
- We expect Jan-16 RBI target of 6% to be over-achieved by 60 bps paving way for another 25 bps rate cut by June- 15, with the possibility of an additional 25 bps cut by Sep-15 if oil prices continue to remain soft and 2015 south-west monsoon presents a benign picture.
- In our opinion, in the near term, government's actions would need to complement RBI's proactive step through;
    - Measures on food supply management to mitigate risks of food inflation
    - Timely execution of reform and expenditure plan set out in the Budget

Outlook and Expectations

- The 10 Yr G sec yields were ranged within 7.65% to 7.74% levels for the month of February.
- We expect the RBI to ease monetary policy by 25 bps in FY16. Although if oil prices continue to remain soft to allow a faster pace of disinflation, the potential incremental easing could expand to 50 bps.
- We continue to believe that short term rates are attractive at current levels and suggest investing in short term funds and dynamic bond funds for an investment horizon of 12 to 18 months and for certain aggressive clients strategic allocation in long term income /gilt funds.



Model Portfolios – March 2015

Asset Class	Conservative	Cautious	Moderate	Growth	High Growth
I) Debt (%)	95	70	50	25	10
Ultra Short Term Funds	20	15	15	5	-
Dynamic /Income Funds	35	30	20	15	5
NCD/ Bank Deposit	40	25	15	5	5
II) Equity (%)	-	15	30	45	55
Large Cap	-	15	25	30	35
Mid cap	-	-	5	10	15
Sector/ Thematic	-	-	-	5	5
II) Alternate (%)	5	15	20	30	35
Gold ETF	5	5	10	10	10
Structured Products	-	10	10	10	10
PE/ Real Estate Funds	-	-	-	10	15
Total (%)	**100**	**100**	**100**	**100**	**100**

YES FIRST

Glossary:

- **Consumer Price Index (CPI):** A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.
- **Wholesale Price Index (WPI):** An index that measures and tracks the changes in price of goods in the stages before the retail level.
- **Open Market Operations (OMO's):** is the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases inject money into the banking system and stimulate growth while sales of securities do the opposite.
- **Cash Management Bills (CMB):** A short-term security sold by RBI to meet any temporary shortfalls.
- **Purchasing Managers Index (PMI**) is based on surveys on private sector service /manufacturing companies. An index level of 50 denotes no change since the previous month, while a level above 50 signals an increase or improvement and below 50 indicates a decrease or deterioration.
- **Net Demand and Time Liabilities (NDTL):** It is the sum of demand and time liabilities (deposits) of banks with public and other banks wherein assets with other banks is subtracted to get net liability of other banks.
- **Current Account Deficit (CAD):** A measurement of a country's trade in which the value of goods and services it imports exceeds the value of goods and services it exports. A current account deficit represents negative net sales abroad. A country can reduce its current account deficit by increasing the value of its exports relative to the value of imports.
- **West Texas Intermediate (WTI)**: also known as **Texas light sweet**, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

For Further Information on Model Portfolios, Kindly contact your Relationship Manager.

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