YES FIRST

Continued Global growth recovery

The uneven recovery in the global economy continued in September. While recovery in US and UK remained buoyant, Eurozone and certain Emerging market economies continued to witness slack in economic momentum. Weaker-than-expected global growth for the first half of 2014 and increased downside risks prompted IMF to lower its global growth projection to 3.3% from 3.7% projected in April and 3.4% projected in July. The growth projection for 2015 has been pegged at 3.8%, 0.2% lower as compared to July review. While risks to growth in the form of geopolitical tensions have increased, the impact so far remains limited.

The biggest positive so far has been the sharp slump in the global crude oil prices. Despite escalation of geopolitical tensions, continued weakness in demand amid increase in crude oil output has been a major factor driving the global crude oil prices lower. Brent prices in September slipped below USD 100/bl and averaged at USD 98.92/bl as compared to USD 104.29/bl.

Among major advanced economies, growth visibility improved further in US with second quarter GDP being revised higher to 4.6% QoQ annualized rate from 4.2% estimated earlier. This is relative to the first quarter when real GDP declined a sharp 2.1%. The improvement in growth reflected in jobs growth as unemployment dipped below 6% for the first time since recession. Improved growth momentum in conjunction with lower unemployment rate has increased expectation that Fed may hike rates earlier than anticipated. Markets expect Federal Reserve to increase the Fed funds rate in early 2015.
While US economic fundamentals continued to improve, Eurozone continued to face headwinds. The latest set of flash PMIs from Markit showed the Eurozone composite index falling to 52.3 in September from 52.5 in August. Both manufacturing and services activity slowed. September's reading was the lowest since December 2013. The weak growth prospects have compelled ECB to actively consider bond purchase program. It is expected that post ECB's Review in October, it may announce detailed plan for purchasing asset-backed securities and covered bonds.

On the domestic front, recent slew of data suggests a mild slump in the pace of recovery. After averaging 4.4% in Q1FY15, IIP growth has slowed to 0.4% in July-Aug FY15 largely on account of unexpected volatility in capital goods sector. Average growth rate for the current financial year stands at 2.8% YoY compared to 0.0% during the same period last year. As we move ahead, we expect a gradual revival in industrial growth. Based on the impetus provided in FY15 Annual Budget, we think a fresh leg of investments should give a push to industrial activity and hence growth hereon. We continue to expect GDP growth to improve to 5.4% in FY15 from 4.7% in FY14.

On inflation front, the recent developments have been comforting. Moderation in global crude oil prices in conjunction with the ease in perishables inflation suggest that headline CPI print could undershoot RBI's 8% projection by Jan-15. This optimism was also echoed by the RBI in its fourth bi-monthly review of monetary policy. While RBI remains confident of achieving 8% CPI inflation by Jan-15, it continues to expect upside risk to its medium term inflation target of 6% (for Jan-16) notwithstanding the mild reduction in perception of these risks vis-à-vis the previous policy review in Aug-14.

We continue to expect RBI to keep repo rate unchanged at 8% for the rest of FY15. As growth-inflation balance improves driven by policy support from the government in the area of food management & fiscal consolidation and facilitation of project clearances, some room for accommodative monetary policy could emerge in H1 FY16.

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YES FIRST

FIRST Insights

Global Macro Developments

- ✓ The Chinese final HSBC/Markit Manufacturing PMI hovered at 50.2 in September, unchanged from the August reading which was a three-month low, easing fears of a hard landing but pointing to a still-sluggish economy facing considerable risks.
- ✓ The Euro Zone manufacturing sector slowed closer to stagnation in September with Final Manufacturing PMI at 50.3, as inflows of new orders contracted for the first time since June 2013. Alongside, Euro zone economic sentiment deteriorated in September to levels last seen in late 2013 and inflation expectations among households and producers alike continued to fall.
- ✓ On the upside, US more than filled in the gap with GDP growth at a revised 4.6% YoY in the second quarter, up from a previous estimate of 4.2% YoY; the fastest rate since the last three months of 2011 as companies stepped up investment and households boosted spending..

Events and Data Calendar

Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
US	09/02/2014	US ISM Manufacturing (AUG)	Aug	57	59	57.1	↑
	09/05/2014	US Unemployment Rate (AUG)	Aug	6.10%	6.10%	6.20%	↓
	09/12/2014	US Advance Retail Sales (AUG)	Aug	0.60%	0.60%	0.30%	↑
	09/12/2014	US U. of Michigan Confidence (SEP P)	Sep P	83.3	84.6	82.5	↑
	9/17/2014	US Consumer Price Index (YoY) (AUG)	Aug	1.90%	1.70%	2.00%	↓
	9/18/2014	US Janet Yellen Holds Press Conference post FOMC Statement	Sep	-	-	-	→
	9/19/2014	US Leading Indicators (AUG)	Aug	0.40%	0.20%	0.90%	↓
	9/23/2014	US Markit US Manufacturing PMI (SEP P)	Sep P	58	57.9	57.9	→
	9/25/2014	US Durable Goods Orders (Aug)	Aug	-18.00%	-18.20%	22.50%	↓
	9/26/2014	US Gross Domestic Product (Annualized) (2Q T)	2Q T-2014	4.60%	4.60%	4.60%	→
	9/30/2014	US Consumer Confidence (SEP))	Sep	92.5	-	92.4	↑
UK	09/12/2014	UK NIESR Gross Domestic Product Estimate (AUG)	Aug	-	0.60%	0.50%	↑
	9/17/2014	UK Bank of England Minutes	Sep	-	-	-	→
	9/17/2014	US Federal Open Market Committee Rate Decision (SEP 17)	Sep	0.25%	0.25%	0.25%	→
Japan	9/24/2014	Markit/JMMA Japan Manufacturing PMI (Sep P)	Sep P	-	51.7	52.2	↓
	9/26/2014	National Consumer Price Index (YoY) (Aug)	Aug	3.30%	3.30%	3.40%	↓
EU	9/16/2014	German ZEW Survey (Economic Sentiment) (SEP)	Sep	5	6.9	8.6	↓
	9/29/2014	German Consumer Price Index - EU Harmonised (MoM) (SI	(SEP P)	-0.10%	0.00%	0.00%	→
	9/30/2014	German Unemployment Rate s.a. (SEP)	Sep	6.70%	6.70%	6.70%	→
	9/30/2014	Euro-Zone Consumer Price Index Estimate (YoY) (Sep)	Sep	0.30%	0.30%	0.40%	↓

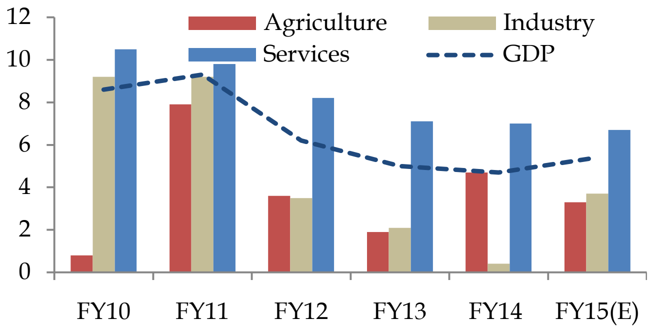
P* – Provisional Estimates F* - Final Estimates A*- Advanced Estimates T*- Third Estimates

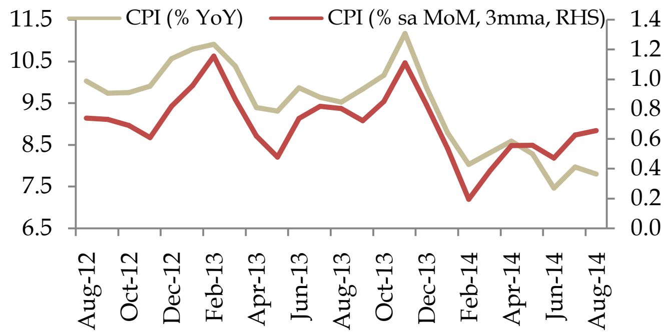
COMMODITY

- ✓ Gold registered a 4.4% MoM decline during September vs. a 1.2% MoM decline during August as dollar climbed to a four-year peak against a basket of major currencies and gaining momentum in US economy burnished the metal's safe heaven appeal.

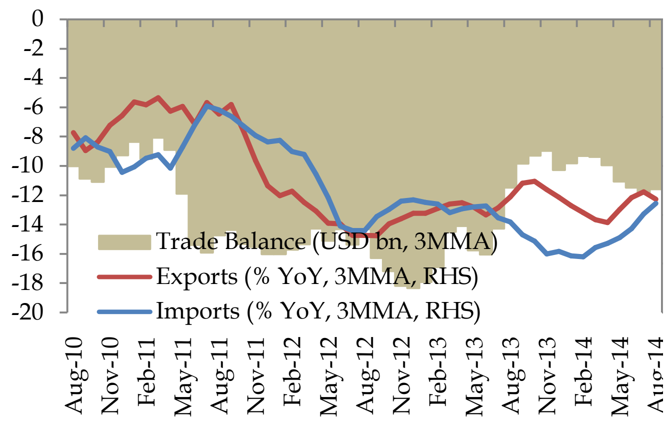
- ✓ WTI declined 2.3% MoM in September as compared to a 5.6% MoM decline in August amid the backdrop of slack demand for oil, a slew of weak macroeconomic data out of China and the EuroZone, a stronger dollar as well as plentiful supplies that include surging output from Libya.

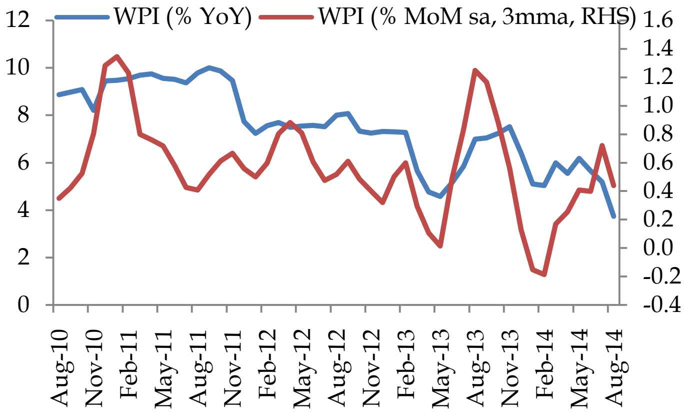
Domestic Market Macro Economics





- ✓ India's industrial production moderated to 0.4% YoY in Sept-14 significantly lower than market expectation of 2.6% as capital goods and consumer goods growth remained weak.
- ✓ Headline CPI eased to 7.80% YoY in Aug-14 from 7.96% YoY in July led by across the board moderation in price pressure. Core inflation moderated to a series low of 6.89% YoY in Aug-14, from 7.41% YoY in July-14
- ✓ August WPI inflation fell to a 58 month low of 3.74% YoY from 5.19% in July-14 supported by favorable base and across the board moderation in price pressures.
- ✓ India's August trade deficit declined to USD 10.8bn from USD 12.2bn led by lower oil imports in value terms (USD 12.9bn in August vs. USD 14.4bn) supported by declining crude prices.
- ✓ India's Q1FY15 GDP clocked a growth of 5.7%YoY, to mark the fastest pace of expansion since Mar-12, driven by industrial growth (4.2%YoY vs. 0.3% in Q1-FY14)
- ✓ Current account deficit narrowed to 1.7% of GDP in 1Q-FY15 from 4.8% in the 1Q-FY14 as trade deficit contracted by 31.4% YoY to USD 34.6bn in Q1, from USD 50.5bn in the corresponding quarter a year ago
- ✓ India HSBC PMI Manufacturing decelerated from 52.4 in August to 52.0 in September.
- ✓ HSBC PMI Services Business activity index rose to 51.6 in Sept from 50.6 in Aug.
- ✓ Reserve bank kept the policy repo rate unchanged at 8% in the fourth bi-monthly monetary policy review.
- ✓ Status quo in the policy was driven by the decline in inflation level, consistent with the desired near-term glide path of 8% CPI by January 2015.
- ✓ RBI continues to expect upside risk to its medium term inflation target of 6% (for Jan-16) notwithstanding the mild reduction in perception of these risks vis-à-vis the previous policy review in Aug-14.





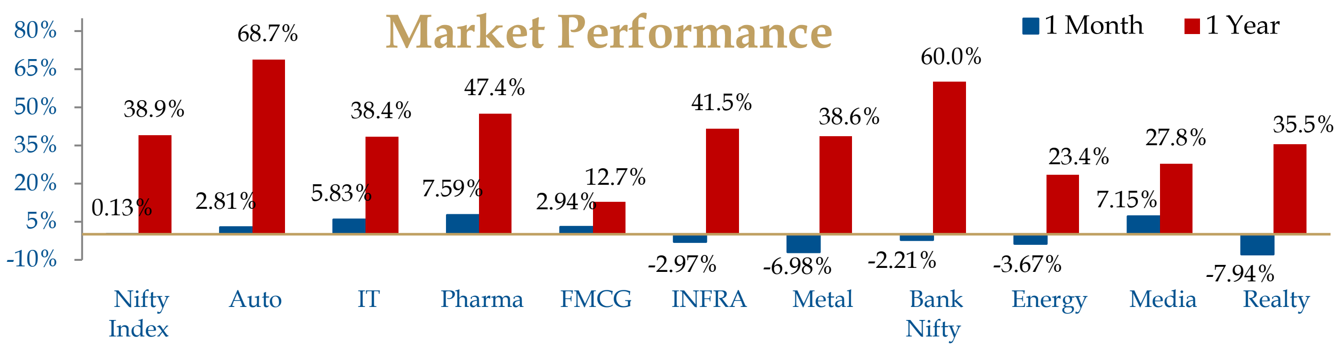
We expect:

- ✓ We expect Indian economy to grow by 5.4% in FY15 (with an upward bias), led primarily by improvement in industrial sector which is estimated to grow at 4% in FY15 as compared to 0.4% in FY14. Consumption, Exports and government's policy initiatives would provide fillip to growth in FY15.
- ✓ We expect average CPI inflation to decline to 7.8% in FY15 from 9.5% in FY14 and to remain within RBI's projected glide path.
- ✓ We expect CAD to increase marginally to 2% in FY15 from 1.7% (of GDP) in FY14 assuming merchandise exports grow by 7-8 % and imports clock a growth of 8.0%. In absolute terms, CAD is expected to go up marginally from USD 32bn in FY14 to USD 42bn in FY15. Although recent decline in global crude prices could improve CAD in FY15 by about 30 bps of GDP.

- Going forward, assuming CPI inflation follows the projected glide path as set out by RBI, we believe monetary policy rates are set for a prolonged pause with repo rate staying at 8% for the rest of the year.
- We expect INR to move towards 59 by Mar-15 encouraged by improving external sector fundamentals and stable policy regime

Equity Market Insights

- The month of September saw the Indian stock markets enter a phase of consolidation. The benchmark BSE SENSEX closed at 26,631, down 0.03% for the month while the Nifty closed at 7,965, marginally up by 0.13%. While the CNX Mid-Cap index outperformed the benchmark with returns of 2.74%; however the CNX Small- cap index underperformed the broader indices with negative returns of 1.23%.
- The hope of a recovery in economic growth resulted in continued interest from domestic & institutional investors. FIIs & DII's were net buyers in equity markets by ~ $0.9bn and ~ $0.7bn respectively in September.

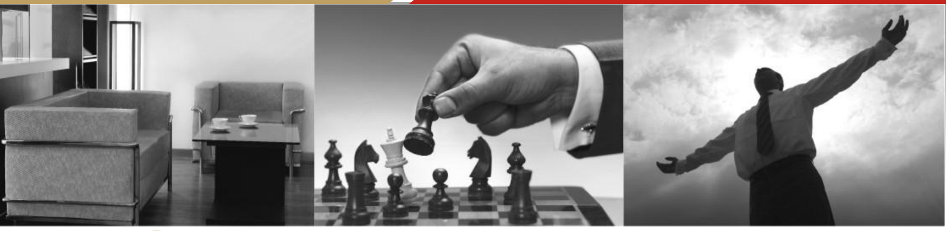


Factors to Watch

- A key event that is being tracked closely by the markets would be announcements on policy measures by the Government which would strengthen the faith in an impending economic recovery.
- The 2QFY15 earning season will also start in the 2nd week of October. We believe that earnings for most companies have bottomed out. Though 2QFY15 earnings are unlikely to be spectacularly high for most companies but commentaries on the future trends and expectations will be keenly watched by the investors.
- Other key events that would be watched closely especially by the FIIs would be the geo-political events surrounding Iraq and Ukraine, domestic political developments and commodity prices.

Outlook & Expectations

- The previous quarterly earnings season saw a healthy growth in the top line for companies forming a part of the Nifty on a YoY basis, with the exception of industrials. However EBITDA margins remained flat for most sectors on a YoY basis. In the current quarter, we expect results of the IT majors to be better on the back of a seasonally stronger quarter. Sectors like autos, consumer durables and telecom too are expected to report healthier numbers. The commentaries from other sectors would be closely watched to ascertain when the earnings would revive. This in turn could prompt market participants to incorporate better earnings numbers in their estimates for the quality stocks which in turn could trigger re-rating for the stocks.
- Rolling our earnings estimates to FY15, we had pegged the EPS growth to be around 11%. This is arrived at by applying a multiple of 2x (historic average) to the expected GDP growth rate for FY15. Using this estimate, the SENSEX is currently trading at a forward earnings multiple of 18.1 times which is close higher to its 16 year historic average suggesting that despite the run up in prices, stocks are still available at reasonably attractive valuations.. 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. We continue to have a positive view on the IT sector. Select stocks in the auto and auto ancillary space too would see their earnings grow based on a recovery in the domestic markets as well as better performance of the export markets.
- 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.

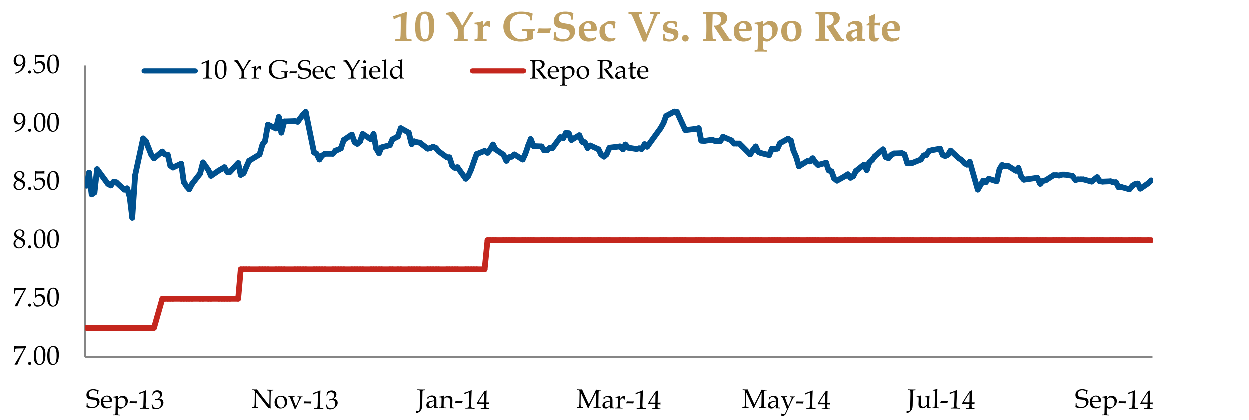


Debt Market Insights

- The average systemic liquidity deficit in Sept fell significantly to an average INR 569bn from an average INR 901bn supported by lower government borrowing and marked reduction in currency in circulation.
- Average 10 yr yield during September was 8.49% as compared to 8.55% in August.
- S&P revised India's rating outlook to stable from negative highlighting efforts taken by the government to maintain fiscal discipline while taking measures to revive the economy.
- In its fourth bi-monthly review of monetary policy, RBI kept policy repo rate unchanged at 8% but fine tuned the liquidity framework by lowering bank's recourse to ECR to 15% from 32% of outstanding export credit & set out a time bound phased action plan to lower HTM ceiling to 22% in four equal installments by Sept-15.
- RBI also allowed banks to include G Secs up to another 5% of NDTL within the mandatory SLR requirement as Level 1 HQLA in order to facilitate their meeting of the LCR requirement.
- Going forward, we expect improvement in the growth-inflation balance driven by complementary policy support from the govt. in the area of food management and facilitation of project clearances to create room for monetary easing in H1 FY16. S&P's India outlook upgrade, in conjunction with fiscal consolidation & expected moderation in inflation levels would help 10Y g-sec yield to drift lower towards 8.30% by Q4 FY15.

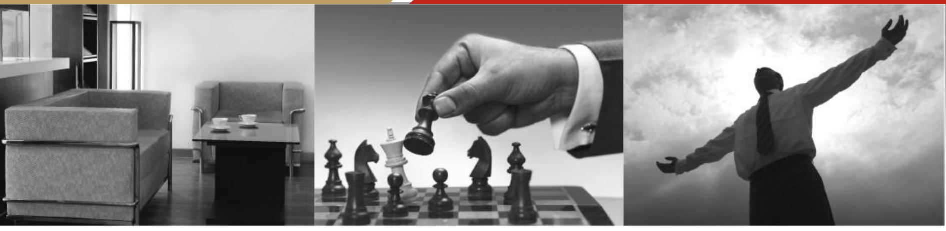
Outlook and Expectations

- The 10 Yr G sec yields were ranged within 8.44% to 8.57% levels for the month of September.
- We continue to expect RBI to maintain status-quo, realigning its stance more in favor of growth while waiting for previous rate hikes to have an impact on inflation expectations.
- 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 – October 2014

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**



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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