PROSPERITY INSIGHTS

China unnerves Global markets

Risk off sentiment gripped the markets in the beginning of the New Year. The catalyst was panic selling in Chinese equities ahead of the anticipated end to the 6 month ban on share sale by major institutional investors- a policy that was implemented to shore up markets following the rout in mid-2015. This amid signs of sluggishness in the economy drove Chinese Renminbi to its weakest level in five years, in turn unnerving the global financial markets. Even as the markets were worried about the extent of devaluation of the Renminbi and the consequent competitive devaluation that it could trigger, China's recent decision to guide its currency sharply stronger, in an apparent reversal of recent weakening trend added to market confusion on its policy.

Meanwhile, the weakness in global economy amid sharp buildup of US gasoline reserves saw oil prices plunge below USD 35/bl for the first time since 2004. The renewed tension between Saudi Arabia and Iran has cast doubts on the agreement to contain oil output. Even as US Fed hiked rates in December, minutes of the meeting released recently confirmed that the decision to hike rates was more cautious than was initially believed as some members within the FOMC said that the 'liftoff' was a close call.

The end of 2015 saw Euro zone recovery gaining further traction, with composite PMI registering a 4 month high print of 54.3 in December (vs. an estimate of 54.0) While the headline signaled an expansion for 30 consecutive months, growth in Q42015 as a whole was quickest in four-and-a-half years, suggesting an increase in pace of expansion. Just as the recovery in EU appears to be picking up pace, the downside risks have been exacerbated by concerns in China- 2nd largest export trading partner with the EU. Further with continued slide in crude oil prices, Euro area inflation remained unchanged in December at 0.2% yoy, (versus market expectations of 0.3%). While, additional ECB stimulus in December (extension of bond-buying program by 6 months to March 2017) is likely to somewhat cushion the impact on inflation, continued slide in commodity prices poses a concern.

On domestic front, broad message continued to remain consistent - that of a gradual and uneven improvement in growth. India's Dec-15 manufacturing PMI fell to sub 50 levels for the first time since October 2013 as output in industrial hub in South India was affected due to floods. Likewise, fewer working days due to Diwali along with excess capacity in electricity sector is likely to have impacted core sector activity which registered a contraction in November. That said, a sustained recovery in core sector will require government to revitalize private investment appetite by reviving PPP model in infra projects by adopting recommendations of the Kelkar panel. Despite, some near term loss in growth momentum, pockets of improvement continue to support sentiment. First, quality of fiscal adjustment has been improving over the last 8-months – amidst robust indirect tax collections. Two, India's external debt dynamics continue to remain comfortable. Third, PMI services accelerated to a 10-month high in Dec-15 driven by rise in new business index.

The forthcoming Budget session of the Parliament remains crucial for two reasons- visibility of progress of reforms and the path of fiscal consolidation. Subdued private investment calls for increasing public investment and as such we would keenly watch government's fiscal stance following 7th pay commission recommendations. With regards to reforms visibility, we expect government to remain focused on ease of doing business, and implementation of important economic reforms especially of Goods and Services Tax (GST) and Bankruptcy code. This in our view should allow recovery to acquire a more sustained character from FY17 onwards.

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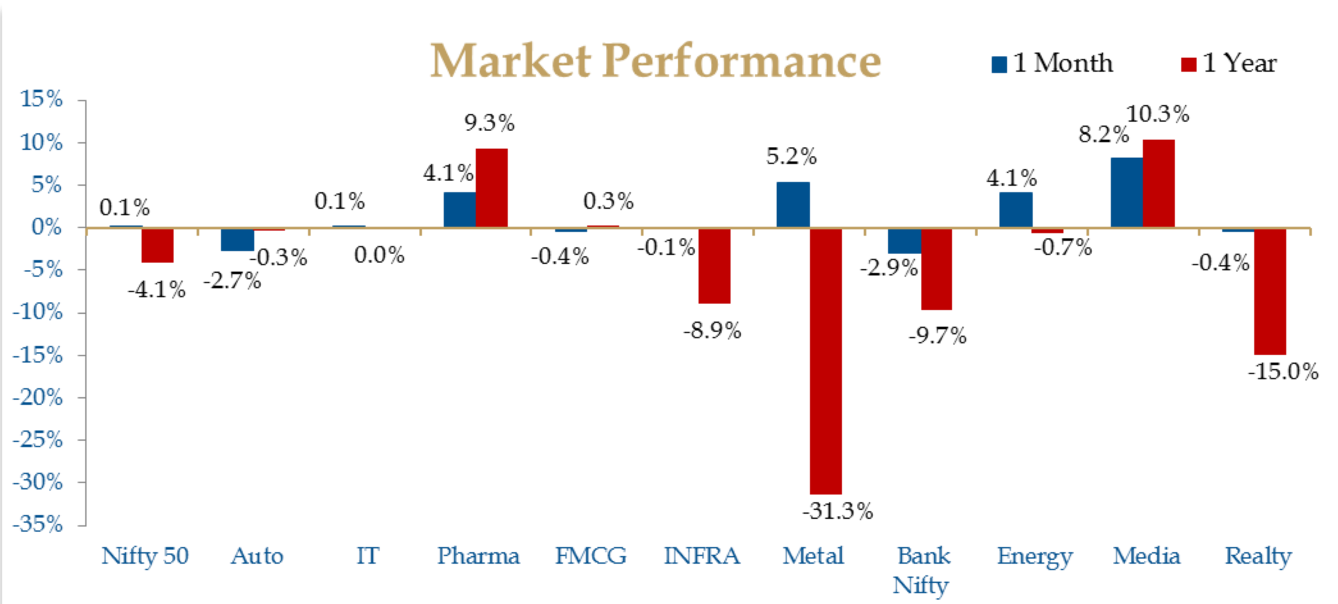
Equity Market Insights

- The month of December saw the Indian stock markets continue on a bumpy ride. The BSE Sensex closed at 26,117.54, lower by 0.11% for the month while the Nifty closed at 7,946.35; up by 0.14% during the same period. The CNX Mid-Cap and CNX Small-cap indices relatively outperformed with gains of 1.12% and 1.93% respectively.
- During December, FIIs interest remained subdued with regards to the capital markets. There was a net outflow of US$ 0.1 bn from equity markets and US$ 0.9 bn from debt markets taking the total tally to an outflow of US$ 1.03 bn from capital markets. DII's were net buyers and ~ $2.4bn during the same period.



Factors to Watch

- Markets are expected to remain volatile due to geopolitical reasons related to China and commodity prices. As signs of slowdown intensify for China, the markets there have remained under pressure which in turn has led most Asian and consequently global markets to trade in the red. This is expected to continue for the coming weeks as well. Furthermore the recent depreciation of the currency by China has also added pressure on the currency side. Together these issues could lead to sharp selloffs in the markets in coming weeks.
- Earnings outlook for India: On the domestic front, the markets would be tracking the earnings announcements for the quarter ended December 2015. While we do believe that the earnings have bottomed out; however growth may still remain subdued with no signs of recovery for most sectors. The major issue for most sectors remains the lack of growth in demand which would contain the benefit of softer commodity prices and easing interest rates in earnings growth.

Outlook & Expectations

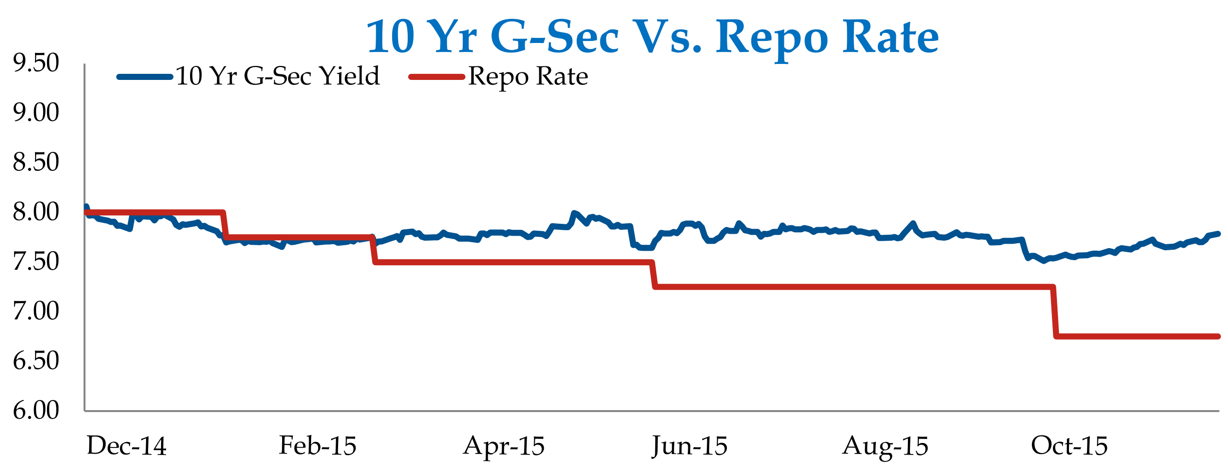
- In terms of valuations, the Sensex is trading at a trailing twelve month PE multiple of 18.8 times which is close to its long term historic average of 18.2 times. On a forward earnings basis the Sensex is trading at a multiple of around 16.9 times, which suggests that markets are not expensive but fairly valued at current levels. Building an assumption of a robust improvement in earnings in FY17, we believe that the markets are still attractive from a longer term perspective, i.e. for 2 to 3 years. We believe that any correction in the market should be viewed as an ideal time to pick up quality stocks.
- From a long term perspective we continue to remain positive on companies in infrastructure, capital goods and auto stocks. We would recommend investors to accumulate/build positions in these sectors/stocks post result announcements.

Debt Market Insights

- The average systemic liquidity deficit in Dec-15 rose to Rs. 1,114bn compared to Rs 758bn in Nov on account of currency leakage, RBI's fx intervention and build-up of government balance.
- RBI announced OMO purchase worth Rs 100 bn in Dec- 15 to shore up liquidity.
- Average 10 yr yield during Dec rose to 7.76% from 7.69% in previous month as liquidity deficit rose, concerns on food inflation increased and FIIs remained net sellers.
- The probability of government relaxing the path of fiscal consolidation also added to further worries. Government has indicated that given the still fragile state of private investment, it may consider relaxing the fiscal deficit target by 20-40 bps next year as well as pushing forward the path of fiscal consolidation as set out in the Budget FY16.

Outlook and Expectations

- We expect average CPI inflation to come at 5.1% in FY16 from 6.0% in FY15 amidst softening global commodity prices especially oil, slowdown in global growth prospects and quickened pace of policy transmission led by deposit rate cut; juxtaposed with the delay in closing of the domestic output gap. We see Jan-16 CPI undershooting RBI's estimate of 5.8% by at least 50 bps.
- We expect RBI to ease policy repo rate by 25 bps in Q4 FY16. We see the possibility of another 25 bps rate cut thereafter up to Sept-16 contingent on - global commodity prices, pace of domestic output gap closure especially in the context of 7th CPC payouts and Government policy reforms.



Model Portfolios – January 2016

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.

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About YES BANK

YES BANK, India's new age private sector Bank, is the outcome of the professional & entrepreneurial commitment of its Founder, Rana Kapoor and its top management team, to establish a high quality, customer centric, service driven, private Indian Bank catering to the future businesses of India. YES BANK has adopted international best practices, the highest standards of service quality and operational excellence, and offers comprehensive banking and financial solutions to all its valued customers.

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