PROSPERITY INSIGHTS

Upbeat US labour data raises odds of a December lift off

Odds of a Fed rate hike in December increased substantially post robust non-farm payrolls data. October nonfarm payrolls additions were 270k as compared to 137k in Sept. The chances of a December lift off were further cemented by US Fed chairperson's comments in the week prior. US Fed chairperson Janet Yellen, said the US economy was performing well and that a December rate hike was a "live possibility". The response in the market to the enhanced chances of a Fed rate hike was swift with dollar index strengthening most since mid April.

Across the Atlantic, ECB continued to defend Bank's monetary policy stance and willingness to review the ongoing monetary stimulus (EUR 60 Bn/month) on sluggish price pressures (-0.0% in Oct-15 vs. -0.1% in Sept-15). Amidst low prices and weak Euro, European commission raised its 2015 GDP forecast to 1.6% (vs. 1.5% in May). Nonetheless, slowdown in emerging market economies and global trade is likely to act as headwind to growth as was reflected in Commission's forecast for 2016 which was lowered to 1.8% from 1.9%.

Trade data from key exporting nations continue to validate weakness in global demand amid weak commodity prices. China's trade surplus came in at a record high (October: USD 61.6 Bn, Forecast: USD 64.7 Bn), as imports fell 18.8% much faster than the 6.9% contraction in exports. South Korea's export also fell 15.8% (US 43.5 bn) in October, their 10th straight month of declines. While Japan's exports rose marginally by 0.6% (forecast: 3.8%) in Sep-15, it fell ~4% in volume terms, underscoring weakening global demand conditions.

In the backdrop of challenging external environment, domestic economic recovery continued to remain subdued. Manufacturing PMI moderated to 22 month low in Oct-14 while bank credit to industry de-grew by 1.1% FYTD compared to a de-growth of 0.4% in the corresponding period last year corroborating somber industrial sector recovery. Moreover, while core sector growth in Sep-15 improved to 3.2% from 2.7% in Aug-15, the improvement was mainly on account of favorable base. The weak growth momentum was also validated by the Q2FY16 corporate results. Second consecutive year of sub-par monsoon, subdued rural demand, lack of appetite for private investment amid a challenging external environment have kept the recovery in top line growth of companies tepid. On the positive side, services activity during Oct-15 expanded at the strongest pace in 8 months underpinned by stronger inflows of incoming new business. Additionally, fiscal data continued to reflect government's focus on higher plan spending amid strong tailwinds from of low oil prices and savings on subsidy.

While there is little doubt that domestic growth has bottomed out and is gradually turning a corner, divergence in domestic trends - urban versus rural consumption, government versus private capex cycle along with high level of stress in banking sector assets - would continue to act as restraint in the near term. As such, we expect downside bias to our FY16 GDP growth estimate of 7.8%.

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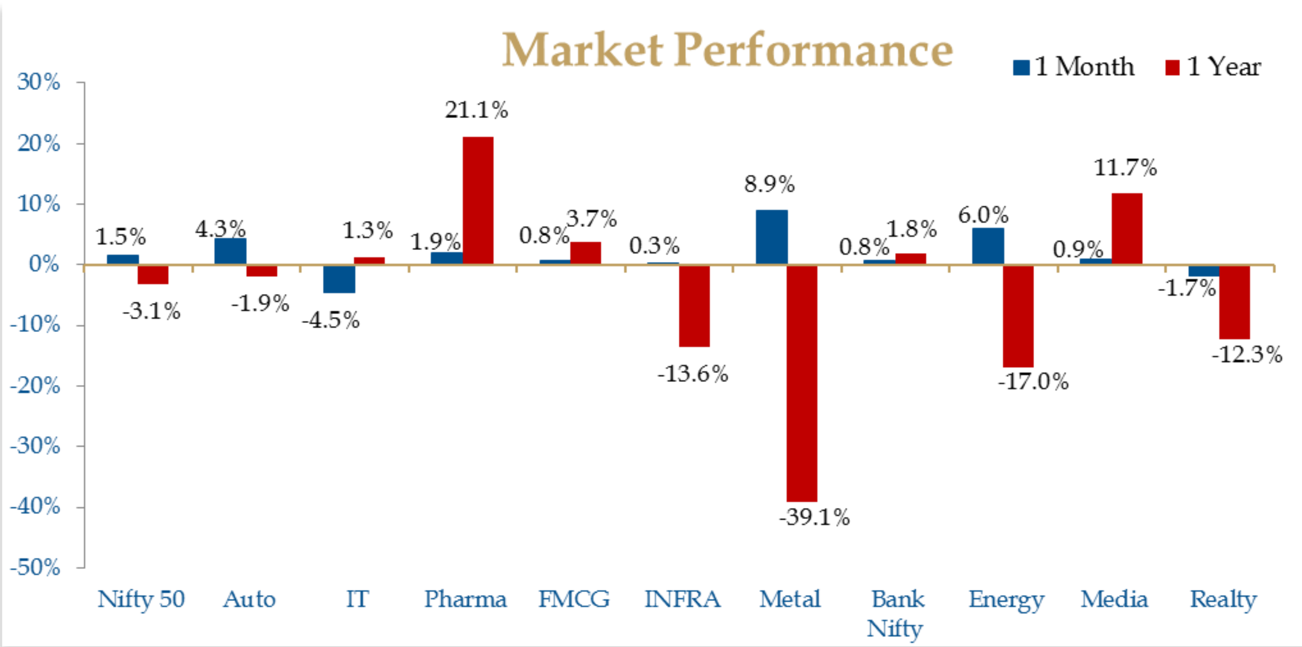
Equity Market Insights

- The month of October saw the Indian stock markets continue on a bumpy ride but ending the month on a positive note. The BSE Sensex closed at 26,657, higher by 1.9% for the month while the Nifty closed at 8,066; up by 1.5% during the same period. The CNX Mid-Cap and CNX Small-cap indices relatively outperformed with gains of 1.96% and 2.47% respectively
- The FII invested about $ 0.868 bn from Indian equities and about $ 2.3 bn to debt markets during the month. DII's were net buyers and ~ $2.4bn during the same period

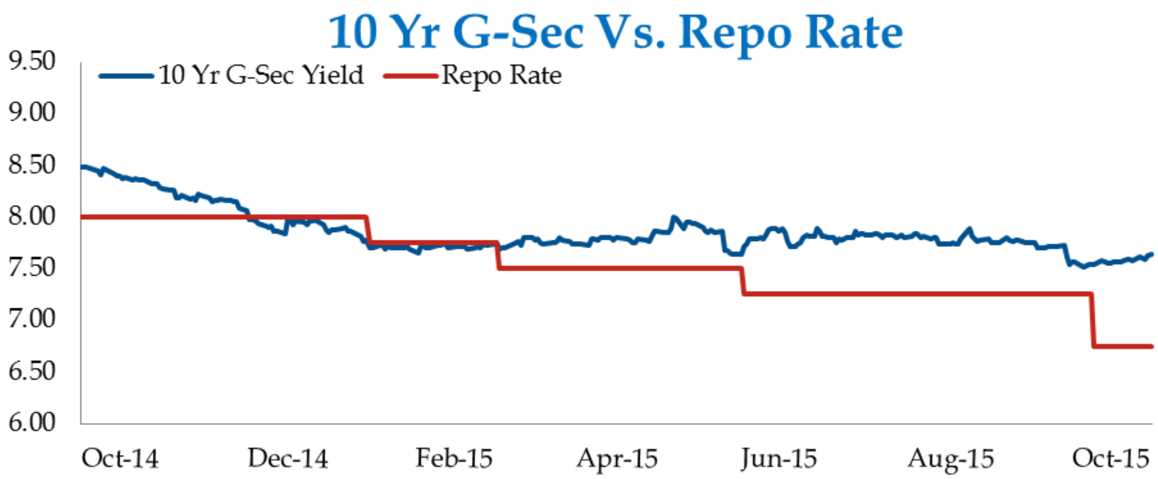


Outlook & Expectations

- In terms of valuations, the Sensex is trading at a trailing twelve month PE multiple of 21.3 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 15.4 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.
- 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, capital goods and private sector banks. Investors could also look at investing in select stocks in the IT and auto space.

Debt Market Insights

- The average systemic liquidity deficit in Oct increased to an average INR 299 bn as compared to a surplus of INR 62 bn in Sept.
- Average 10 yr yield during Oct eased to 7.57% as compared to 7.72% in September on the back of comfortable liquidity conditions and hike in FII debt limit.
- The first tranche of the G-Sec limit auction for FPIs (as per RBI's new framework) attracted a strong response from foreign investors on October 12. The bid-to-cover ratio was almost 1:3, wherein investment limits worth Rs 56 bn drew an unprecedented bid of ~Rs172.2 bn.



Outlook and Expectations

- We expect RBI to ease policy repo rate by an additional 25-50 bps between Jan-Sept 2016 amidst subdued global commodity prices and comfortable attainment of CPI target.
- We continue to expect 10yr Gsec yield to ease towards 7.35% supported by benign commodity prices, RBI's easing monetary stance and comfortable liquidity conditions.
- 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 – November 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**

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.
YES BANK has a knowledge driven approach to banking, and a superior customer experience for its retail, corporate and emerging corporate banking clients. YES BANK is steadily evolving as the Professionals Bank of India with the long term mission of "Building the Best Quality Bank of the World in India".

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