MIRAE ASSET
Mutual Fund

INDIA MARKET
OUTLOOK - 2017

Indian Economy

2016 was a year of many surprises - Brexit, result of US Elections - followed by a sharp appreciation in USD & spike in US yields and Demonetization in India.

In all of this, the Indian economy remains as one of the bright spots in the slowing global world. The macro economic conditions of India have been the best in recent times.

The table below highlights what we feel was the economic picture for the Indian economy in CY 2016.

The Good	The Not So Good	The Bad
Domestic Flows	Core CPI Inflation	Global Environment
Economic Reforms	GDP Growth	
Current Account Deficit	Currency (in comparison with other markets)	
WPI Inflation		

The table below highlights what we expect the economic picture to look like in CY 2017.

The Good	The Not So Good	The Bad
Domestic Flows	CPI Inflation	
Economic Reforms	GDP Growth (considering India's potential)	
Current Account Deficit	Global Environment	
WPI Inflation		
Currency (in comparison with other markets)		

Currency

The Indian Rupee (INR) was broadly stable through most of 2016; however since October it depreciated because of stronger USD, higher US bond yields and portfolio outflows from India.

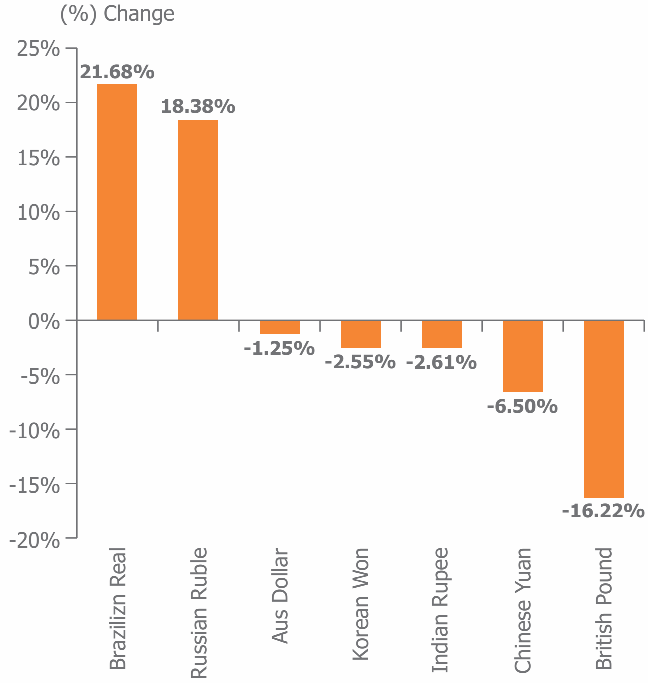
While INR has been on a depreciating trend, it has been better performing amongst most Asian market currencies. If viewed against the added pressure of the FCNR (Foreign Currency Non Resident) redemptions, the magnitude of the depreciation has not been significant.

Our View

It is likely that the USD would strengthen considering the expected rate hikes by the Fed in 2017, however we expect INR to trade in a range and outperform some of the Asian and Emerging market currencies.

The underlying Balance of Payments dynamics remains comfortable which could stem any sharp depreciation of the currency.

Currency Movement vs. US Dollar in CY 2016



Source: Bloomberg as on 31st December 2016

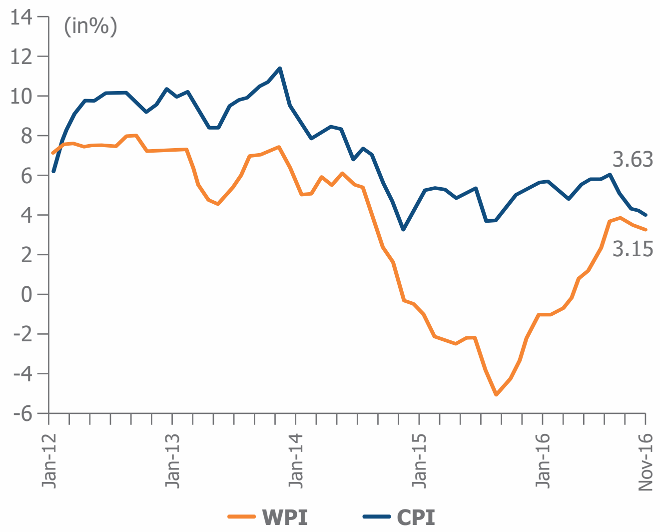
Inflation

CPI inflation ended at yearly low of 3.63% supported by sharp fall in prices of vegetables and pulses. Core inflation though remained sticky around 5%, just around RBI's target for FY17. WPI inflation after remaining in negative territory for a long time, turned positive this year to end at 3.15%, supported by revival in some key commodity prices.

Our View

Inflation outlook for 2017 remains benign. Sharp contraction in money supply post demonetization, strong supply management and subdued global growth prospects should allow current trajectory of lowering inflation to continue. Key risks remain a strong rebound in oil & other commodity prices & a sharp economic slow-down post demonetization.

WPI & CPI Inflation



Source: Bloomberg as on 31st December 2016

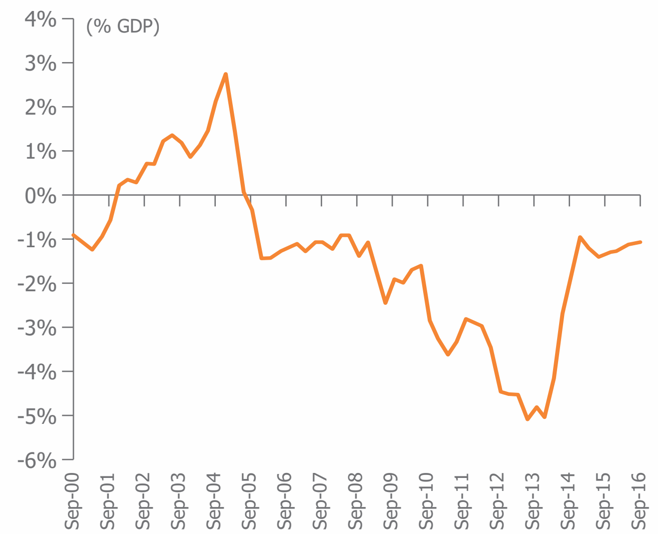
Current Account Deficit

Current Account Deficit fell to a decade low of 0.5% of GDP. Trade balance for April-Nov'16 was reported at USD 66.29 bn, 24% lower as compared to USD 87.54 bn in corresponding period of 2015.

Our View

We expect trade deficit to widen in CY17 due to higher oil prices and tepid export growth, however expect CAD to be within manageable limits.

Current Account Deficit



Source: Bloomberg as on 31st December 2016

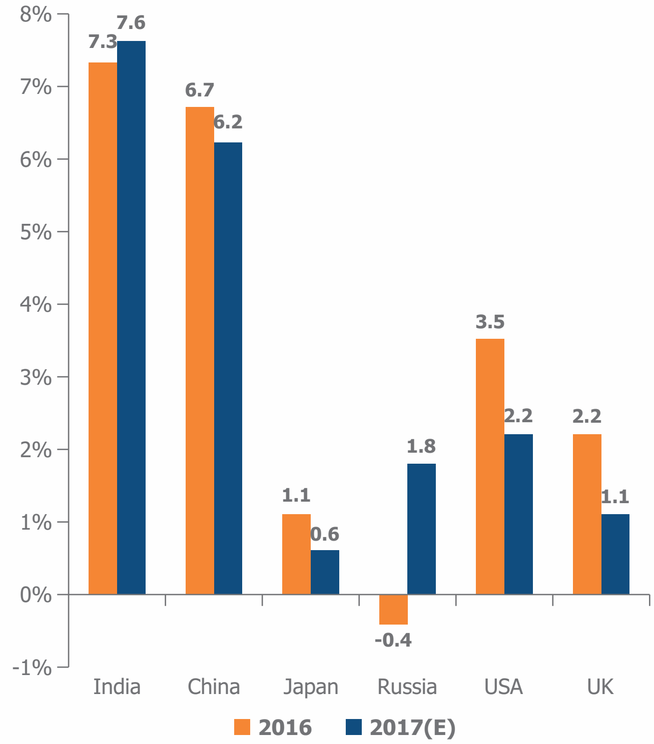
GDP Growth

After posting a healthy 7.9% growth in Q1CY16, GDP growth slowed down to average of 7.2% in next 2 quarters.

Over View

Inspite of the expected slowdown due to demonetization in Q1 CY'17, India is still expected to be one of the fastest growing emerging markets (among 1 trillion+ USD GDP economies) next year.

GDP Growth



Source: Bloomberg as on 31st December 2016

Fiscal Deficit

India's fiscal situation has consistently improved over the last couple of years mainly due to controlled spending and rising Tax-to-GDP. In FY16 and FY17, India benefitted from lower crude oil prices causing lower subsidies and at the same time, creating space for government to levy higher excise duty on crude oil products.

The government announced on 3rd Jan, 2017 reduction in borrowing target for the current year by ₹ 18,000 crores. This could imply a lowering of fiscal deficit target for FY 16-17 to 3.38% from 3.5% announced in the budget.

Over View

The new central government has shown strong commitment towards fiscal consolidation.

Post demonetization, we expect tepid economic activity to continue for the next few months, but positive impact in the long term due to higher tax base, GST and simplified tax laws.

RBI Policy

Much against a near consensus expectation, RBI stayed away from cutting the key rates on 7th December policy. RBI referred to increased volatility in global markets, recent rise in US bond yields and the sell-off in emerging markets currencies and bonds that could lead to spill over impact on India.

Our View

We expect the long term trend of easing inflation and a further fall in bond yields to remain intact and more rate cuts by RBI as the year progresses leading to lower rates.

Debt Market

2016 in retrospect

Benchmark 10Y GOI yields eased by 124 bps in 2016 though amidst high volatility. After a muted start under the cloud of a hawkish Fed, yields remained range bound with an upward bias. RBI's policy decision to bring system liquidity to neutral by series of OMOs and a dovish Fed helped yields come down. An accelerated fall in CPI and a sudden surge in liquidity with banks after demonetization helped yields come down. An accelerated fall in CPI & a sudden surge in liquidity with banks after demonetization helped 10Y yields touch the yearly low of 6.15% in November. However, subsequent RBI decision to mop up this excess liquidity by MSS and sharp spike in global yields resulted in some correction with sentiments turning cautious at year end. FPIs debt flows were negative for most part of the year with then being net sellers of over USD 6bn.

Monthly FII Net Investments (Calendar Year-2016)

Calendar Year	Amount in INR crores		
	Equity	**Debt**	**Total**
January	-11,126	2,313	-8,814
February	-5,521	-8,195	-13,716
March	21,143	-1,476	19,667
April	8,416	6,418	14,834
May	2,543	-4,409	-1,866
June	3,713	-6,220	-2,507
July	12,612	6,845	19,457
August	9,071	-2,625	6,446
September	10,443	9,789	20,233
October	-4,306	-6,000	-10,306
November	-18,244	-21,152	-39,396
December**	-8,176	-18,935	-27,111
Total - 2016	**20,568**	**-43,647**	**-23,079**

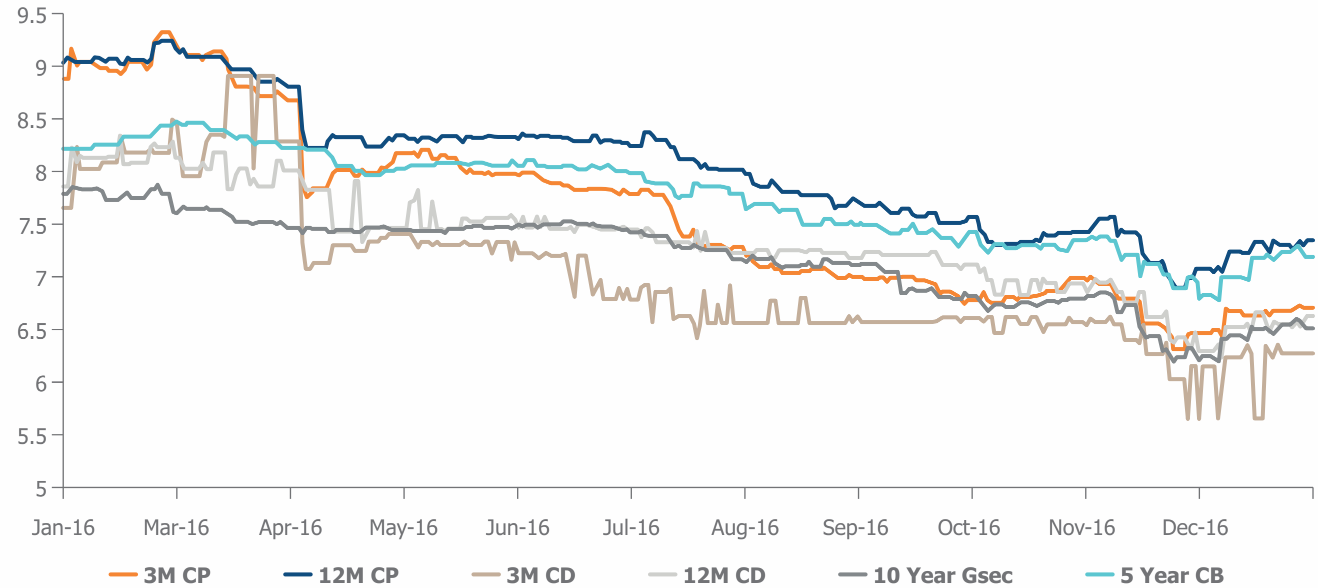
Source: NSDL, Bloomberg as on 31st December 2016

Debt Market Yields

Fixed Income - Rates	31st Dec-2016	31st Dec-2015
Repo rate	6.25%	7.00%
Call rates	6.20%	7.04%
3 Month CDs	6.20%	7.20%
1 Year CDs	6.63%	7.75%
5 Years GOI	6.57%	7.70%
5 Year AAA PSU Corporate Bonds	7.37%	8.23%
10 Years GOI	6.52%	7.76%
10 Year AAA PSU Corporate Bonds	7.85%	7.76%

Source: Bloomberg, as on 31st December 2016

Debt Yield Curve



Source: NSDL, Bloomberg as on 31st December 2016
M: Month CP: Commercial Paper CD: Certificate of deposit CB: Corporate Bonds

Debt Outlook 2017

Even as, at start of 2017, there exists, strong divergence between the domestic and global economic environment, it promises to be an exciting and rewarding year for Fixed Income. Bond yields are expected to decline further in later part of the year as space for further rate cuts open up on improved fundamentals and as the global markets settle down.

In India, CPI inflation is currently at 3.63%, a 3 year low. Core CPI inflation is currently sticky at 5% but expected to ease. Contraction in money supply due to demonetization, improved fiscal situation, relatively low commodity prices and strong supply management should push inflation lower next year.

GDP growth was already slowing down in last quarters and transient effect of demonetization will call for stimulus in the form of lower rates to incentives a revival. Partial shift of parallel economy to formal one as a result of demonetization initiative will also likely help improve govt revenue. In global arena, Fed hiked rates in December'16 and has guided for 3 more rate hikes in 2017. In expectation of huge fiscal expansion in US by incoming president and the resultant spike in inflation, tighter labor markets and higher fiscal deficit, US 10 year yields have risen sharply to about 2.60% in last couple of months. Even as market seems to have priced in a very aggressive scenario, the scope for disappointment remains. A more detailed assessment of the fiscal plan of the new administration will be available in next few quarters as the new administration takes charge. World economy lacks growth triggers and the fiscal expansion alone may not provide a sustainable growth momentum, possibly warranting a policy review from Fed of an extremely hawkish stand, much as it happened in 2016.

As such, even as the outlook seems somewhat patchy for now, spaces will likely open up for more rate cuts by RBI as the year progresses leading to lower rates. Key risk to this outlook remain a strong rebound in crude oil prices on the back of a recent production cut agreement between OPEC countries and any fresh shocks in the global banking system.

Investment Strategy for Debt Funds

Mirae Asset Cash Management Fund

Mirae Asset Cash Management Fund is a Liquid fund which follows the below strategy:

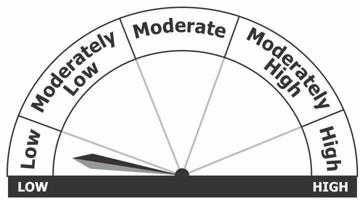
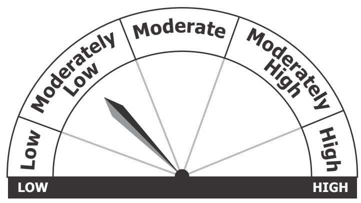
- Maintains High Liquidity.
- Invests in high quality Money Market/Debt Instruments.
- Endeavor will be to maintain average maturity up to 91 days with portfolio of Money Market & Debt Instruments.
- Endeavor will be to give stable returns with minimal mark to market and credit risk.

Mirae Asset Savings Fund

Mirae Asset Savings Fund is a Ultra Short Term fund which follows the below strategy:

- Mirae Asset Savings Fund is positioned between liquid funds & short-term funds with respect to the risk-return matrix.
- In terms of credit quality, the fund aims to primarily invest in a mix of highly rated instruments (i.e A1+ for money market instruments, AAA & AA for corporate bonds).
- The fund will endeavor to have a portfolio of high quality & medium / low interest rate sensitive debt securities.

Product Labelling

Name of the Scheme	These products are suitable for investors who are seeking*	Riskometer
Mirae Asset Cash Management Fund (MACMF)	• Optimal returns over short term. • Investment in a portfolio of short duration money market and debt instruments	 **Investors understand that their principal will be at Low risk**
Mirae Asset Savings Fund (MASF)	• Optimal returns over medium term • Investment in a portfolio debt and money market instruments	 **Investors understand that their principal will be at Moderately Low risk**

*Investors should consult their financial advisers if they are not clear about the suitability of the product. Leaflet is dated as 31st December, 2016.

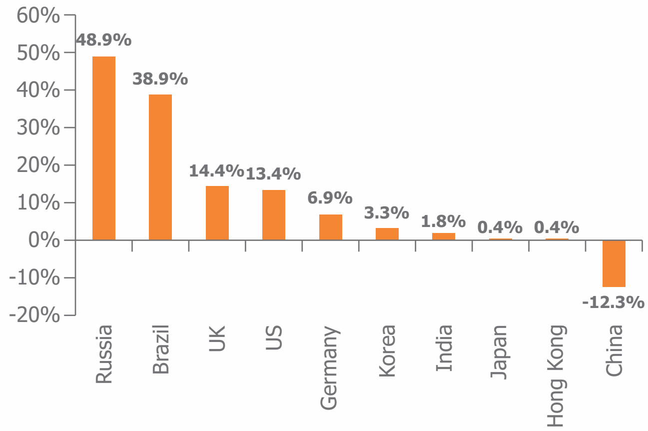
Equity Market

2016 - A tale of 2/3rd and 1/3rd

Indian equity markets (S&P BSE Sensex) were largely flat if one considers the opening and closing for 2016; however, in between, they were on a roller coaster ride. The S&P BSE Sensex gained 12% during the period January-September 2016 (2/3rd of 2016) before reverting to early January levels over October-December 2016 (1/3rd of 2016). Interestingly, the index was up 26% from its bottom in February 2016 to its peak in September 2016, aided by the Union Budget in March 2016.

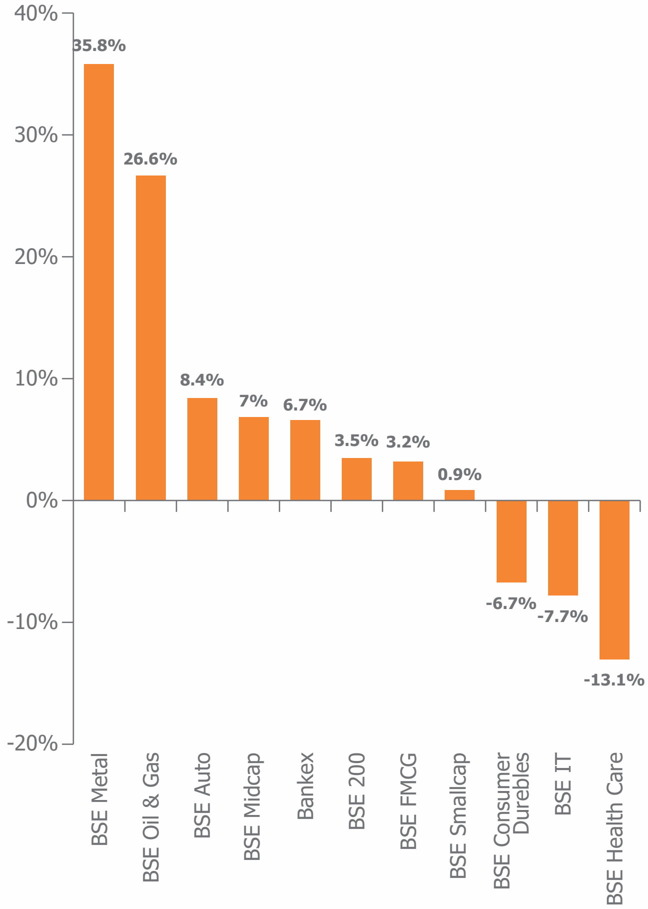
Key events that caused the short-term volatility in the equity markets include Brexit and US elections on the international front, and the GST amendment bill and monetary policy on the domestic front. Monsoons were normal, a respite for the rural economy. In demonetization, India witnessed a once-in-a-lifetime event playing out in the last two months of 2016. This has created a short-term economic disruption, normalization of which is expected in early 2017.

Global Equity Performance in CY 2016



Source: Bloomberg as on 31st December 2016

India Market Sectoral Performance in CY 2016



Source: Bloomberg as on 31st December 2016

Outperforming sectors were Metals (more due to base effect) and Oil & Gas (continued reform focus), while underperformers were IT (growth challenges) and Healthcare (regulatory challenges).

Sensex Index Movement for 2016

Source: Bloomberg as on 31st December 2016

Equity Outlook 2017

The sudden demonetization gives a good opportunity to relook at the portfolio. While the resultant economic disruption will lead to earnings downgrades for FY17, we expect growth in FY18, supported by normal monsoons of 2016, implementation of the 7th Pay Commission, likely benign interest rate regime and likely passage of the GST Bill in 2017. The government has taken multiple steps to improve ease of doing business in various sectors in India and fruition of the efforts taken over the last few years will begin in FY18. Key events to watch for would be the Union Budget in February 2017 and passage of GST Bill later.

Key domestic themes to play would be:

1. Normalization of the economy post demonetization in early 2017

The government's decision to pull out currency notes of INR500 and INR1,000 has had a disruptive impact on multiple parts of the economy. Yet, the impact is likely to be positive in the longer term - the government is using this as an opportunity to push towards digitization of financial transactions.

The scale and duration of the impact of demonetization on the consumer discretionary, real estate and allied sub-sectors will emerge subsequently. Structural benefits from this move will emerge over time, in our view. While the government gave 50 days to deposit old notes, normalization of the disruption this move has caused in the economy would take time and is expected in early 2017.

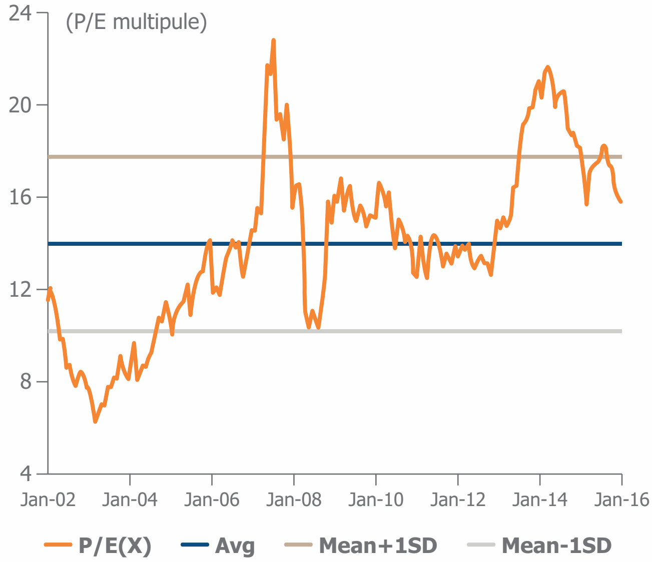
2. Market performance to follow FY18 earnings growth

We believe that market and stock performance will eventually follow fundamentals (earnings, profitability and management quality), and we too follow this approach in stock selection. While FY17 earnings are witnessing downgrades led by demonetization impact, FY18 could see double-digit earnings growth.

We expect FY18 earnings growth to be better versus the FY15-17E period, helped by (a) likely normalization of profits in banks (particularly PSU banks), metals and pharmaceuticals (base effect), and (b) continued government spending and expected resilience in the rural economy, led by normal monsoons. Nifty valuations are trading near fair valuation and offer decent risk reward from medium to long term prespective.

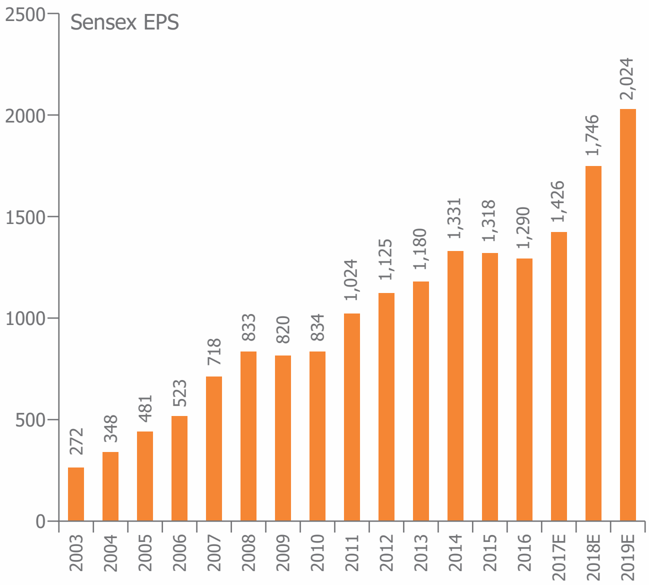
2017 will bring in the new era for the Indian corporate world, as we expect (a) stabilization after the recent disruption caused by demonetization, and (b) implementation of GST (likely by mid-2017), intended to improve ease of doing business. Nevertheless, any sudden adverse change in oil prices, China growth and US policy direction would be a concern.

Nifty Valuation



Source: Kotak Institutional Equities, BSE, RBI as on 31st December 2016
P/E: 1-year rolling forward P/E valuations for Nifty-50 Index
SD: Standard Deviation

Sensex EPS Growth



Source: Kotak Institutional Equities, BSE, RBI as on 31st December 2016

3. Union Budget and reforms

The most important event to watch out for in the domestic economy will be the shape and form of (a) the Union Budget (could have major implications on corporate earnings), and (b) the final shape the GST legislation takes.

- While the Budget is a regular annual event, there are heavy expectations from this years' Budget from both the corporates as well as individuals, particularly after the recent demonetization.
- The GST reform should finally see the light of day. It will have multiple benefits for the Indian economy by way of (a) tax rationalization and simplification, (b) logistics efficiencies, and (c) increased tax compliance, among others.

Investment Strategy for Equity Funds

Mirae Asset India Opportunities Fund

Mirae Asset India Opportunities Fund is a Diversified Equity fund which follows the below strategy:

- Early-cycle investing: Identifies future growth trends at an early stage.
- Focuses on companies with sustainable competitive advantage - Stocks which have strong pricing power & are sector leaders.
- Has flexibility to invest across sector, themes & market caps.
- Combines consistency of large caps with conviction ideas from midcaps.
- Our investment approach is centered around participating in high quality businesses up to a reasonable price and holding the same over an extended period of time.

Mirae Asset Prudence Fund

Mirae Asset Prudence Fund is a Equity oriented asset allocation scheme fund which follows the below strategy:

For the equity portion

- We will invest in larger companies which may provide stability to the fund.
- Diversified portfolio of strong growth companies at reasonable price.
- May not have bias towards any theme or style.

For the debt portion

- Portfolio will be actively managed.
- Top down approach for taking interest rate view & sector allocation view.
- Bottom up approach for security/instrument selection.
- Majorly to invest in Certificate of Deposits, Commercial Papers, Corporate & Government Securities of varying maturities.

Mirae Asset Tax Saver Fund

Mirae Asset Tax Saver Fund is a Tax saving scheme fund which follows the below strategy:

- Diversified portfolio of strong growth companies at reasonable price
- No bias towards any theme or style
- Portfolio will comprise of companies:
  - Having a robust business models
  - Enjoying sustainable competitive advantage
  - Having high return ratios

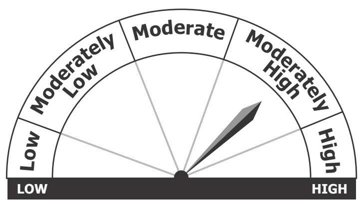
Mirae Asset Emerging Bluechip Fund

Mirae Asset Emerging Bluechip Fund is a Midcap fund which follows the below strategy:

- We have value-conscious style, i.e., we follow QGARP approach "Quality Growth at a Reasonable price".
- The portfolio has predominantly securities of companies (more than 65%) which are not part of the top 100 stocks by market capitalization and have market capitalization of at least ₹100 Crores at the time of investment.

Product Labelling

Name of the Scheme	These products are suitable for investors who are seeking*	Riskometer
Mirae Asset India Opportunities Fund (MAIOF)	• Long term capital appreciation • Investment in Equities, Equity related securities	
Mirae Asset Emerging Bluechip Fund (MAEBF)	• Long term capital appreciation • Predominantly investments in Indian Equities and Equity related securities of companies which are not part of the top 100 stocks by market capitalization	
Mirae Asset Prudence Fund (MAPF)	• Capital appreciation along with current income over long term • Investment predominantly in equity and equity related instruments with balance exposure to debt and money market instruments	
Mirae Asset Tax Saver Fund (MATSF)	• Growth of capital over long term • Investment predominantly in equity & equity related instruments	



Investors understand that their principal will be at Moderately High risk

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