ALPHA CAPITAL™

Monthly Report

April 2017

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What happened last month?

March saw global markets exhibit a mixed trend with U.S. bourses ending subdued and European and Asian markets mostly gaining. ***U.S. President's address to the Congress had calmed jittery investors, but his failure to get support for a key healthcare bill raised doubts on the future of his announced reformative measures***. The period saw encouraging economic data in all regions on the one hand and political uncertainties on the other.

The investors were cautious before the U.S. President's Congress speech, but their worries were dispelled when the President exhibited a measured and less combative tone. The ***U.S. Federal Reserve (Fed) increasing interest rates by 25 bps and improved economic data were the good news***, but the President's failed attempt at getting a healthcare bill passed bogged investors as they now doubted the head of state's ability to get his other reformative policies implemented. Among the data that came upbeat were -- new home sales growing in Feb 2017, durable goods order coming better than expected, and consumer confidence data increasing.

European markets also saw upbeat economic data – eurozone inflation in Feb 2017 accelerated, private sector activity expanded, and retail sales in the U.K. increased, among other data.

The European Central Bank (***ECB) upgraded growth and inflation forecasts for the euro area*** and stated that economic recovery in the euro area is steadily firming. But sentiment was affected by geo-political tension, U.S. President's failure to get the bill passed, and U.K.'s formal initiation of exiting the European Union (EU). In the Asian region, China and Japan posted some encouraging economic numbers.

March was a good month for the domestic markets as they touched record highs in it. The ***outcome of states' assembly elections made investors confident*** of the government's ability to implement its reform agenda. Developments on the implementation of ***Goods & Service Tax (GST) Bill was the other major factor behind the market rally***. Certain stock-specific weaknesses across sectors like IT, telecom, and pharma restricted market gains. The rupee touched 17-month high against the globally-weak greenback.

Bond yields fell after U.S. Fed in its monetary policy review maintained guidance of the rate hike trajectory projected in Dec 2016, while increasing interest rates as expected. Unexpected decline in core retail inflation in Feb, short covering by banks, and doubts over the U.S. President's reform agenda boosted emerging market debt. Gains were capped on reports that the ***government could take steps to absorb excess liquidity in the banking system***.

Possible happenings over the next month

With the passage of four legislations related to GST in the lower house of the Parliament, investors will be closely following the next stage of implementation of the historic bill. The ***implementation of GST is slated on Jul 1*** and there are concerns regarding its execution and that it can stoke up domestic inflationary pressures.

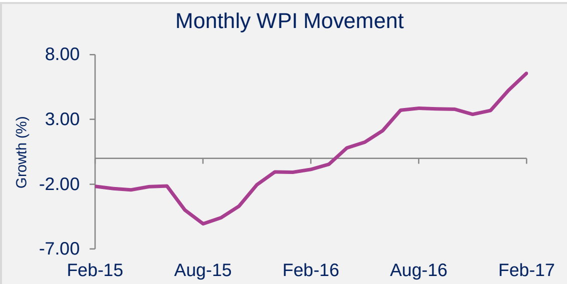
During the month, a private weather forecaster predicted that India could receive below-average rainfall this year, due to an evolving El Nino. The monsoon's advent and intensity will be closely watched by investors as it will affect the health of the country's economy.

Bond yields witnessed the biggest single day rise in two months after **MPC kept key policy repo rate unchanged at 6.25% in its first bi-monthly policy review of FY18** and announced measures to mop-up excess liquidity from the banking system post the government's demonetisation move.

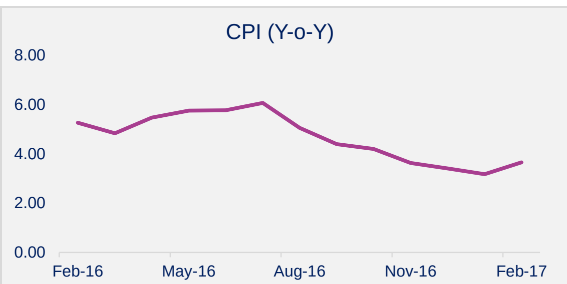
Moving forward, bond yields will be dictated by the inflation trajectory, which according to RBI may be an increasing one. The monsoons and its subsequent impact on inflation will also be a key factor. Initial forecasts suggest that monsoon could be below normal. Furthermore, the implementation of GST is slated on Jul 1 and there are concerns regarding its execution and that it can strengthen domestic inflationary pressures. Incidentally, both events will overlap in Jul 2017, which in turn could trigger volatility in the debt markets.

Global cues are also likely to impact investor sentiment. With the initiation of the formal Brexit process, investors will closely assess its impact on the domestic economy. The U.S. Fed's interest rate stance will continue to impact markets. Additionally, ***investors will closely follow the policies to be adopted by the U.S. President*** in policy implementation in the near future. Also, the outcome of French Presidential elections, oil prices, movement of the rupee against the greenback, and stance adopted by foreign portfolio investors will remain in sharp focus.

Indian Economy



Source: Office of the Economic Adviser, Ministry of Commerce & Industry



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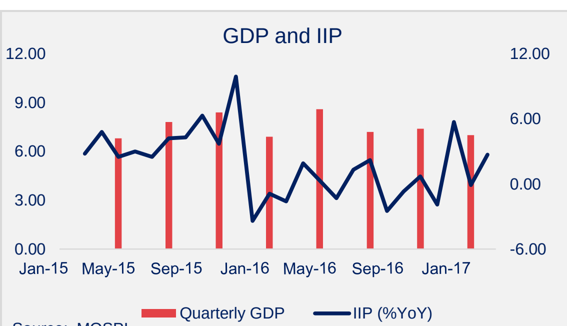


Source: MOSPI

Economic Releases in March-2017

Key Indicator	Period	Actual	Previous
Repo Rate	Mar-17	6.25%	6.25%
Reverse Repo	Mar-17	5.75%	5.75%
CRR	Mar-17	4.00%	4.00%
IIP	Jan-17	2.70%	-0.10%
WPI	Feb-17	6.55%	5.25%
Export (Y-o-Y)	Feb-17	17.48%	4.32%
Import (Y-o-Y)	Feb-17	21.76%	10.70%

Source: RBI, Reuters

- Government data showed that the country's ***industrial output grew 2.7% in Jan 2017 compared with a contraction of 0.1% in Dec 2016*** and a contraction of 1.6% in the same period of the previous year. The manufacturing sector grew 2.3% in Jan 2017 compared with a contraction of 2.9% in the same period of the previous year.

- Consumer Price Index (CPI)-based inflation accelerated to a four month high of 3.65% during Feb 2017 from 3.17% in the previous month, majorly contributed by food prices. Consumer Food Price Index rose at a faster pace to 2.01% in Feb from 0.61% in Jan 2017.

- Wholesale Price Index (WPI)-based inflation rose at a faster pace to 6.55% in Feb 2017, compared with 5.25% in the previous month and 0.85% contraction witnessed in the year-ago period. Food price inflation rose 2.69% in Feb 2017 as against 0.56% contraction in Jan 2017 and 3.91% rise recorded in the year-ago period. Meanwhile, fuel price inflation stood at 21.02% in Feb 2017 against 18.14% in Jan 2017 and contraction of 7.06% in the year-ago period.

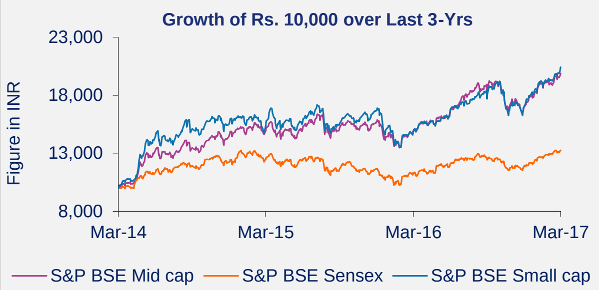
- India's ***current account deficit (CAD) widened to $7.9 billion (1.4% of GDP) in Q3 of FY17*** from $3.4 billion (0.6% of GDP) in the preceding quarter and $7.1 billion (1.4% of GDP) in the same quarter of the previous fiscal. CAD widened despite a slightly lower trade deficit YoY, primarily due to decline in net invisibles receipts. Net services receipts moderated YoY, which can be attributed to fall in earnings from software, financial services, and charges for intellectual property rights.

- India's fiscal deficit from Apr 2016 to Feb 2017 stood at Rs. 6.06 lakh crore or 113.4% of budget estimates for FY17. During the same period a year ago, fiscal deficit was 107.1% of the full year budget target. Total revenue receipts stood at Rs. 11.47 lakh crore, or 77.5% of the budget estimates for the current year, while expenditure was Rs. 17.53 lakh crore, or 87% of the budget estimates.

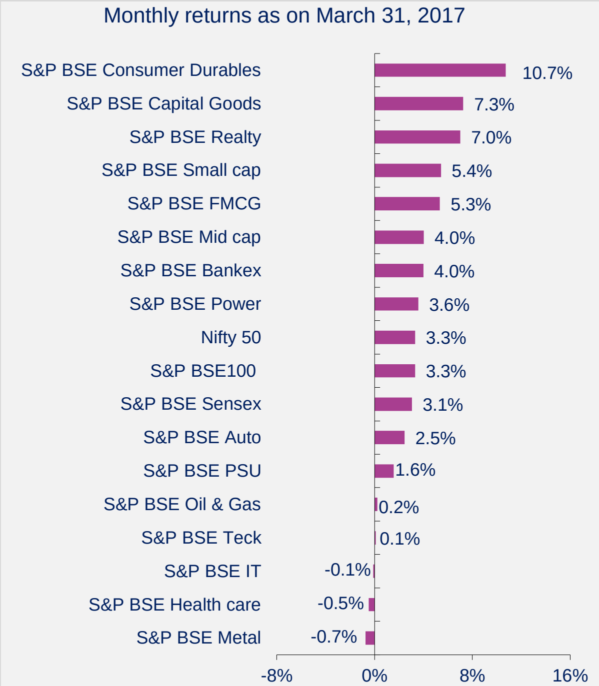
- Trade deficit expanded to $8.90 billion in Feb 2017 from $6.57 billion in Feb 2016 due to faster rise in merchandise imports compared with exports. While exports grew 17.48% YoY to $24.49 billion, imports increased 21.76% to $33.39 billion in Feb 2017. Cumulatively from Apr 2016 to Feb 2017, trade deficit contracted to $95.29 billion from $114.32 billion a year ago. During the similar period, exports rose 2.52% YoY, while imports declined 3.67%.

- Core sector output grew 1% YoY in Feb 2017, much slower than 3.4% recorded in the previous month. ***Infrastructure sector grew at its lowest level in at least 13 months.*** The reason behind the fall was slower growth in electricity and steel output, and contraction in production of crude oil, natural gas, refinery products, fertilizers, and cement sector.

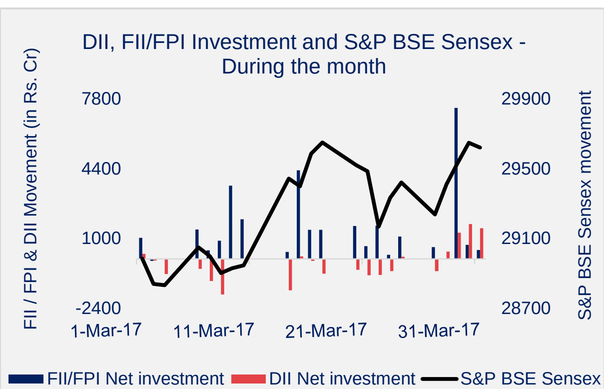
Indian Equity Market



Source: BSE



Source: MFI Explorer



Source: MFI Explorer

- Indian equity markets rose during the month with ***Sensex and Nifty surpassing the 29,000 and 9,000 marks, respectively***. The outcome of the states' assembly elections, coupled with the latest developments on the implementation of Goods and Service Tax (GST) Bill were the key triggers for the market's rally. However, some stock-specific weaknesses seen later in the month restricted gains to an extent.

- Key benchmark indices S&P BSE Sensex and Nifty gained 3.05% and 3.31% to close at 29,620.50 and 9,173.75, respectively. S&P BSE Mid-Cap and S&P BSE Small-Cap moved up 4.02% and 5.43%, respectively.

- ***Sentiments got support from higher than expected gross domestic product (GDP) data for 3QFY17***. The data indicated that private final consumption and manufacturing sector expanded in the third quarter despite demonetisation. Market gained further after the Nikkei India Manufacturing Purchasing Managers' Index rose for the second consecutive month and stood at 50.7 in Feb 2017 from 50.4 in Jan 2017.

- Benchmark indices touched two-year highs amid ***positive vibes generated by the outcome of state assembly elections held in five states***. Victory of the ruling party is seen as an affirmation of the government's policies, especially since the assembly polls were held at the backdrop of demonetisation.

- Another major boost for the markets was the growing endeavour to move closer towards launching the long-awaited GST. The GST Council gave its nod to all the five draft legislations needed for implementation of the unified indirect tax. Later, the ***finance minister introduced legislations on GST in the lower house of Parliament and got approval for four supplementary Bills of GST*** following several hours of debate. This paved the way for the launch of GST from Jul 1, 2017.

- ***The outcome of the FOMC's latest policy meeting too impacted buying interest***. The cautious stance adopted by investors over the U.S. central bank's policy decision eased after the U.S. Federal Reserve (Fed) maintained guidance of two more hikes this year, while raising interest rates by 25 bps, as was widely anticipated.

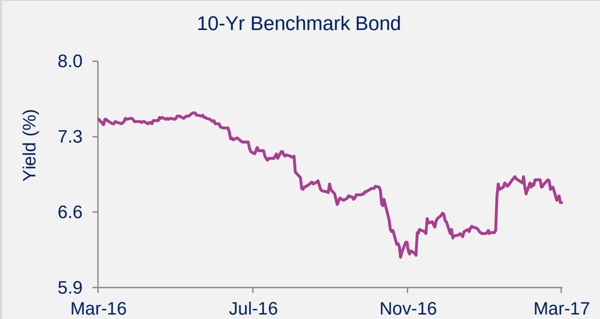
- However, certain stock-specific weaknesses across different sectors restricted market gains during the month. Markets were hit after a major IT company reported layoff of at least 10,000 jobs owing to shift in focus from traditional IT services to digital. Worries over regulatory actions by the U.S. Food and Drug Administration against specific domestic pharma companies dented market sentiment.

- On the BSE sectoral front, barring S&P BSE Metal, S&P BSE Healthcare and S&P BSE IT, all the indices closed in the green. S&P BSE Consumer Durables was the top gainer, followed by S&P BSE Capital Goods and S&P BSE Realty. S&P BSE FMCG and S&P BSE Bankex also rose during the month. Banking sector gained on the back of reassurance by the finance minister of a solution to tackle the non-performing asset crisis.

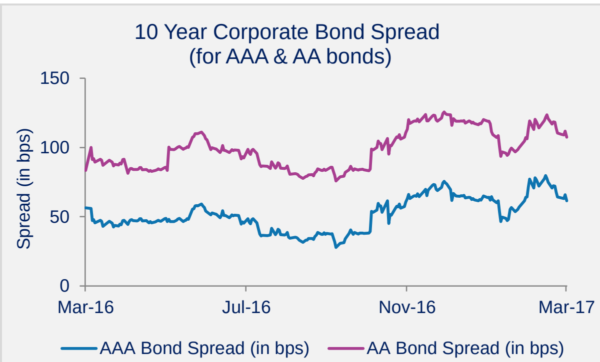
Indian Fixed Income

Market Indicators		
Indicator	**31-Mar-17**	**28-Feb-17**
Call Rate	6.04%	5.95%
10-Yr benchmark bond	6.69%	6.87%
Reverse Repo	5.75%	5.75%
Repo	6.25%	6.25%
Bank Rate	6.75%	6.75%
CRR	4.00%	4.00%

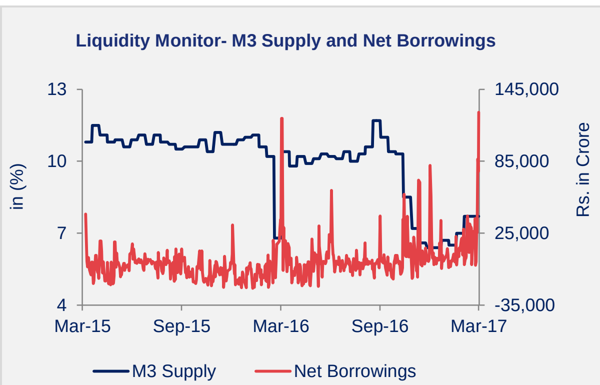
Source: CCIL,RBI



Source: CCIL



Source: Reuters



Source: Reuters

- Bond yields fell during the month after the ***U.S. Fed in its monetary policy review maintained guidance of the rate hike trajectory*** projected in Dec 2016, while increasing interest rates as expected. ***An unexpected decline in core retail inflation in Feb 2017,*** short covering by banks earlier during the month, and doubts over the U.S. President's reform agenda boosted emerging market debt. Gains were capped on reports that the government is considering taking steps to absorb excess liquidity in the banking system.

- Yield on the 10-year benchmark bond (6.97% GS 2026) fell 18 bps to close at 6.69% from the previous month's close of 6.87%. During the month, bond yields moved within a wide range of 6.67% to 6.93%.

- Bond yields shot up initially on concerns that U.S. Fed will increase interest rates in its monetary policy review due on Mar 15, 2017. Concerns of protectionist policies from the U.S. President also weighed on investors. Bond yields came down after foreign banks resorted to short covering as state-run banks did not lend securities in the repo market ahead of the 10-year paper's coupon payment, scheduled on Mar 6, 2017.

- Gains were short lived as bond yields went up after the Fed chief indicated of a possible rate hike in its upcoming monetary policy review. Supply of state development loans and UDAY bonds also added to the pain. Meanwhile, investors preferred to remain on the sidelines ahead of the outcome of the Fed's monetary policy review and the release of crucial retail inflation data for Feb 2017.

- Bond yields came down following an unexpected decline in core retail inflation in Feb 2017, even though retail inflation rose to a four-month high in Feb. Market experts had pegged core inflation to fall to around 4.80%-4.90% in Feb 2017 from nearly 5.10% in Jan 2017.

- Gains were extended after the U.S. Fed maintained guidance of two more hikes this year, while increasing interest rates. This eased concerns of greater monetary tightening and led to expectations that the Fed will be less aggressive in increasing interest rates. Bond yields plunged further as market participants grew sceptical of the U.S. President's reform agenda. Doubts arose after the U.S. administration failed to get enough votes for the passage of a new health-care bill, boosting demand for emerging market debt.

- However, gains were capped on reports that the government is considering taking steps to absorb excess liquidity in the banking system. With credit off-take already muted, the report dampened market sentiment. ***The government is mulling implementing a new framework called 'standing deposit facility'*** that would drain surplus cash from banks at a rate lower than the repo rate without the need for any collateral. Lack of fresh domestic triggers kept investors on the sidelines. Market participants also remained cautious ahead of the outcome of Monetary Policy Committee's monetary policy review, scheduled on Apr 6, 2017.

Global Equity Market

Performance of Major International Markets (as on March 31,2017)		
Indices	Country	1 Mth
Nasdaq 100	U.S.	1.99
S&P 500	U.S.	-0.04
DJ Industrial Avg	U.S.	-0.72
SET Composite Index	Thailand	1.00
Jakarta Composite	Indonesia	3.37
Straits Times Index	Singapore	2.54
KOSPI Index	South Korea	3.28
Nikkei Stock Average 225	Japan	-1.10
Taiwan SE Weighted Index	Taiwan	0.63
Shanghai Composite Index	China	-0.59
S&P BSE Sensex	India	3.05
S&P/ASX 200	Australia	2.67
FTSE 100	U.K.	0.82
CAC 40	France	5.43
DAX Index	Germany	4.04

Source: Reuters

United States

- U.S. President's address to the Congress had calmed jittery investors, but his failure to get support for a key healthcare bill raised doubts on the future of his announced reformative measures. ***Markets welcomed improved jobs data for Feb and the Fed's decision to raise interest rates***.

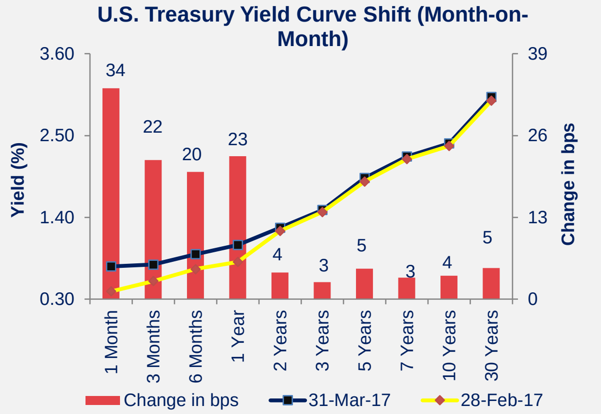
Europe

- European markets also saw upbeat economic data, and ECB raised growth and inflation forecasts for the euro area. But sentiments were affected by geo-political tension in London, U.S. President's failure to get a key bill passed, and U.K.'s formal initiation of exiting the European Union.

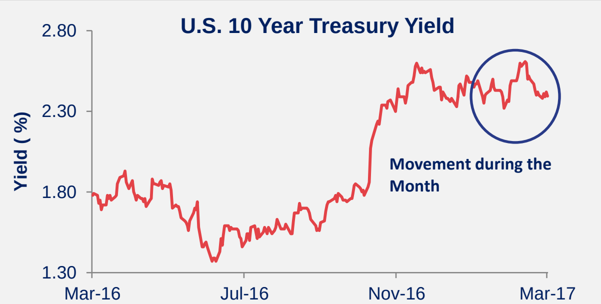
Asia

- China and Japan posted encouraging economic numbers -- China's property prices rose, manufacturing sector expanded; Japanese manufacturing activity increased, and GDP data came higher than expected. But worries over tightening liquidity in China dented sentiment.

Global Fixed Income-U.S. Treasury



Source: Reuters

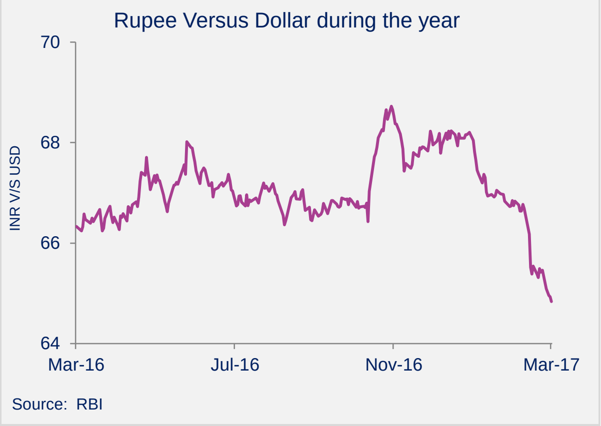


Source: Reuters

- Yield on the 10-year U.S. Treasury bond rose 4bps to close at 2.40% in Mar 2017 compared with the previous month's close of 2.36%. During the month, the yield moved in a range of 2.36% to 2.61%.
- U.S. Treasury prices fell initially on increased expectations that the U.S. Fed will hike interest rates at its Mar meeting. Prices fell further after release of upbeat U.S. private sector jobs data for Feb.
- However, the trend reversed in the middle of the month after the ***U.S. Fed increased interest rates, but did not indicate a faster pace of monetary tightening in 2017***. Prices rose further as investors were losing confidence on U.S. President's pro-growth policies, making U.S. government bonds attractive.
- Also, failure of the U.S. President to secure lawmakers' approval for a key healthcare bill also supported U.S. Treasury prices.
- However, prices retreated during the month end after the U.S. consumer confidence index surged to a 16-year high in Mar 2017 and the final fourth-quarter U.S. gross domestic product number was upwardly revised.

Currency Market Update

Movement of Major Currencies			
Currency	**Value**	**1 Mth**	**1 Yr**
U.S. Dollar	64.84	66.74	66.33
Pound Sterling	80.88	83.05	95.09
Euro	69.25	70.72	75.10
100 Yen	57.96	59.35	59.06
Source: RBI			



INR

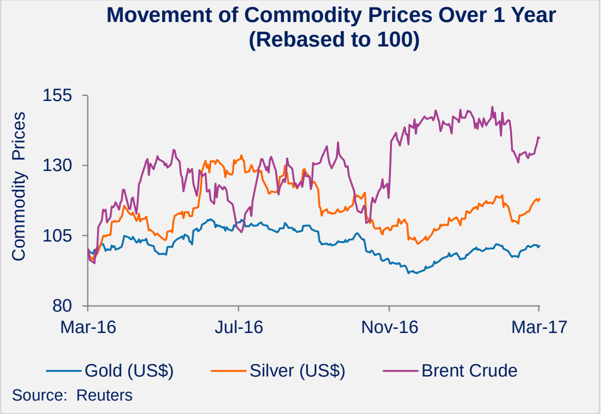
- The rupee strengthened against the U.S. dollar on expectations that the government would spur reform agenda following the outcome of state-level elections. Gains were further extended after the U.S. Fed did not indicate a faster pace of monetary tightening in 2017, while increasing interest rates. ***Domestic currency reached a 17-month high against the globally-weak greenback*** on uncertainty over the U.S. President's reform agenda after his failure to secure lawmakers' approval for a healthcare bill.

EURO

- Euro gained against the U.S. dollar after the U.S. Fed did not indicate a faster pace of monetary tightening in the current year, while increasing interest rates. It rose further on uncertainties over U.S. President's ability to roll out future policy reforms after his failure to pass a major healthcare reform bill. However, by the end, ***gains retreated on strong U.S. economic data and on comments from a U.S. Fed official*** that reinforced concerns of more U.S. rate hikes. Political uncertainties surrounding Britain's exit from the European Union (EU) also pressured the euro.

Commodity Market Update

Performance of Various Commodities			
Commodities	**Value**	**1 Mth**	**1 Yr**
Crude Brent($/Barrel)	52.16	52.45	37.30
Gold ($/Oz)	1248.63	1248.52	1231.95
Gold (Rs/10 gm)	28527	29591.00	29080.00
Silver ($/Oz)	18.22	18.31	15.42
Silver (Rs/Kg)	41717	43206.00	36651.00
Source: Reuters,MCX			



Crude

- Brent crude prices slipped as investors were apprehensive that the ***potential of supply curbs by chief oil-producing countries could be weaker compared with growth in U.S. drilling activities***. The Organization of the Petroleum Exporting Countries (OPEC) also said that oil inventories continue to rise despite the effort to reduce global output and raised its production forecast in 2017 from producers outside the group. Towards the end of the month, oil prices managed to recover much of the losses as investors turned optimistic that OPEC may extend its production-cut deal beyond Jun 2017. ***Supply disruption in Libya*** following geopolitical tension, further supported oil prices.

Gold

- Gold prices witnessed pressure prior to the U.S. Fed's policy meeting because of speculations of a rate hike by the U.S. central bank. Later, the U.S. Fed went in for a rate hike, as was widely expected, but the policy decision was considered as less hawkish in terms of the rate hike trajectory projected by Fed. This, in turn, prevented further slippage in the bullion's prices. Towards the end, the safe-haven appeal of the metal improved after the U.S. President failed to pass a key healthcare bill and the U.K. government initiated formal "Brexit" procedures. However, the upside was limited as stronger than expected U.S. economic data raised optimism over the economy, thereby boosting the risk appetite of investors.

Mutual Fund Corner

Mutual Fund Performance Monthly Update

- Mutual funds remained net buyers in both the equity and debt segments. In the equity segment, buying stood at Rs. 4,191.40 crore against last month's record of Rs. 2,039.7 crore. Purchase in the debt segment stood at Rs. 34,893.90 crore against previous month's figure of Rs. 38,829.7 crore.

- Mid- and small-cap funds along with the large-cap peers gained with an average of 4.25% returns on one-month tenure, but average returns were much lower on the 1-year tenure.

- Mutual funds across the equity segment moved up on monthly basis, barring infotech. Power sector stood as the most preferred sector followed by FMCG and auto sectors. Banking sector also gained on expectations that issues related to non-performing assets would be tackled, as assured by the finance minister. The infrastructure segment got support on hopes of additional capital inflow as India is seen as a preferred investment destination for global investors. Meanwhile, the government urged states and UTs to waive stamp duty for affordable housing projects.

- In the debt space, highest returns were witnessed in the longer tenure segments with average of 20% returns over the month. Expectations that the Fed will follow gradual rate hike moving forward and doubts regarding U.S. President's ability to increase infrastructure spending and implement tax reform, improved the appeal of emerging debt markets.

- Gold ETFs fell as stronger than expected U.S. economic data raised optimism over the economy, thereby boosting the risk appetite of investors.

Portfolio Analysis of Diversified Equity Funds

Month	Financial Services	Industrial Manufacturing	Media & Enter.	IT	Telecom	Energy	Consumer Goods	Healthcare
Feb-17	24.51	7.35	2.65	8.26	2.23	11.10	9.58	1.62
Jan-17	24.40	7.24	2.55	8.09	2.07	11.17	9.30	1.71
Dec-16	23.95	7.08	2.64	9.08	1.97	10.74	9.32	1.82
Nov-16	24.37	7.08	2.61	8.30	2.00	10.34	9.07	1.75
Oct-16	25.20	6.93	2.75	7.45	1.83	10.08	9.77	1.82
Sep-16	24.82	6.75	2.91	7.79	1.80	10.12	9.80	1.62
Aug-16	25.27	6.76	2.95	7.80	1.81	10.31	9.84	1.77
Jul-16	24.77	6.92	2.94	8.33	2.09	10.44	9.69	1.76
Jun-16	23.86	7.08	3.05	9.42	2.18	9.94	9.81	1.71
May-16	23.65	7.10	3.06	10.27	2.16	9.69	9.63	1.81
Apr-16	22.72	7.34	3.12	10.21	2.22	10.07	9.50	1.79
Mar-16	22.25	7.36	3.03	10.74	2.21	10.11	9.46	1.88

Source: MFI Explorer

Category wise performance of Mutual Funds

Equity	1 Year	3 Year	5 Year	Debt	1 Week	1 Mth	6 Mth	1 Year	SI
Large Cap	21.24	15.42	14.27	Liquid	6.73	6.42	6.21	6.84	7.39
Small/Mid Cap	33.77	29.31	23.92	Ultrashort Bond	10.01	6.78	6.51	7.68	7.75
Diversified	22.43	17.17	15.24	Short-T Bond	16.32	8.17	6.39	8.96	8.14
Balanced	20.07	16.69	14.97	Long-T Bond	21.82	10.93	6.63	10.08	8.75
Banking	40.15	21.65	17.53	Long T Govt Sec	29.12	16.00	6.79	12.55	8.54
FMCG	23.52	16.40	17.27	Crisil Liquid	7.21	6.70	6.59	7.11	6.80
Pharma	1.74	16.85	19.98	Crisil ST Bond	15.35	8.86	7.43	9.10	7.30
Technology	-4.86	9.05	13.47	Crisil Composite	30.72	15.18	6.73	11.09	7.15
Infrastructure	31.20	21.50	13.61						
Gold Funds	-2.50	-0.27	-0.86						

Source: MFI Explorer

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