

There is likely to be an immediate negative impact of demonetization on sectors with high cash economy. But in the longer run, it would be a big positive for the nation's economy.

Immediate Impact: It is negative as banks will face severe problems in cash replacement and smooth operations. There would be slowdown in consumer spending due to limited cash availability and severe liquidity issue in sectors like real estate and jewellery. The GDP may decline in next two quarters due to reduction in overall spending.

Impact on Government: Government will be immediate and biggest beneficiary in medium term. Those who keep their money with them, their notes will expire worthless reducing RBI liability. Those who declare their money, approx 60-70% will go to the government. Those who try to launder their money will face severe risks including penalties and prosecution. There are around 14 lakh crores of old notes, assuming 50% of them (Rs 7 lakh crore) are unaccounted money, then 60-80% of it, or around Rs 5 lakh crore will come to government in form of taxes and penalties. It is enough to take care of India's entire fiscal deficit for one year or more.

Overall Economic Impact: GDP growth is expected to be negative for next six months, but next two years would see exponential revival in growth as inflation is expected to fall sharply with fall in real estate prices. Government deficit may turn surplus in next two years. Currency is expected to strengthen as inflation drops and growth picks up. Banking sector will get a boost as around 7-8 lakh crores legal money enters system.

Effect on various asset classes

- Bond prices are expected to rise as interest rates come down
- Real estate is expected to fall by up to 20% and stabilize once interest rates come down
- Equity will benefit due to shift from real estate sector, growth of organized sectors, and lower inflation and lower borrowing costs. Short term stock markets can be very volatile, in medium to long term, they are expected to do well.

Recommendations: We recommend investors to reallocate assets keeping their risk profiles in mind. Conservative investors can shift from gilt to liquid, moderate investors can invest in debt, and aggressive investors should consider balanced funds. Fresh investments in equities should be reviewed once markets have stabilized.



Focussed MF Schemes



RETURNS AS ON 11.11.2016

Debt: Gilt Funds

Fund	VR Rating	1-Yr Return	3-Yr Return	5-Yr Return
ICICI Prudential Long Term Gilt Fund	* *	15.03	13.38	10.85
HDFC Gilt Fund - Long Term Plan	* * *	15.06	13.9	11.22
L&T Gilt Fund Investment Plan	* * * * *	13.54	12.98	12.62
Franklin India Government Securities Fund	* *	14.14	13.79	10.44
Birla Sun Life Gilt Plus - PF Plan	* * *	14.34	13.83	11.91

Debt: Income Funds

Fund	VR Rating	1-Year Return	3-Year Return	5-Year Return
HDFC Income Fund	**	13.52	12.05	10.23
ICICI Prudential Income Plan	**	12.99	12.35	9.96
Kotak Bond - Plan A	*	12.63	11.36	10.36
BNP Paribas Flexi Debt Fund	***	11.53	10.92	10.61
Reliance Income Fund	*	12.25	11.06	9.96

Balanced Funds

Fund	VR Rating	1-Year Return	3-Year Return	5-Year Return
Tata Balanced Fund	****	9.47	21.55	17.38
HDFC Balanced Fund	****	13.36	22.88	16.92
Franklin India Balanced Fund	****	10.68	20.74	15.86
SBI Magnum Balanced Fund	*****	10.74	20.80	18.12
ICICI Prudential Balanced Fund	****	14.62	20.84	17.61

Mutual Fund investments are subject to market risk. Please read all scheme related documents carefully

NA- The Scheme has not completed the mentioned tenure till date

Disclaimer:

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