Investor Insights & Outlook

DiVitas Capital

31-Aug-2020

Monthly Newsletter - Aug 2020

Market Update

Nifty	11388
Sensex	38628
10Y G-sec	6.10%
1Y CP	4.30%
CD	4.00%
USD	73.23
Gold	51648 (Rs/10gm)
Brent	46.08 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Bluechip Fund**
- **Mirae Asset Large Cap Fund**
- **ICICI Pru Banking & Financial Services Fund**
- **SBI Banking & Financial Services Fund**
- **Kotak Standard Multi-cap Fund**
- **Axis Bluechip Fund**

DEBT

- **Axis Banking & PSU Debt Fund**
- **ICICI Banking & PSU Debt Fund**
- **IDFC Banking & PSU Debt Fund**
- **IDFC Bond Fund - ST**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Strategy

Equity

Despite the correction witnessed on the last day of the month, Indian equity markets showed strong performance in the month of August. While both the frontline indices, Nifty and Sensex rose about 3% each, the mid and small-cap space outperformed the overall markets, rising to about 8% and 10% respectively. This has mainly been driven by the excess liquidity.

Domestically, the RBI decided not to extend the moratorium for the loans. This provided relief to the lenders who can now make recoveries and ascertain the impact of the moratorium on asset quality. The Government continued with its unlocking guidelines, opening up almost all activities. Unsurprisingly owing to the nationwide lockdown for the most part, the GDP number for April-June quarter came at -23.9%, indicating worst contraction on record. The onus is on the Government to undertake fiscal measures, support consumption and help in revival of the economy.

Globally, the surplus liquidity available in the markets continued to fuel the sentiment including inflows into India due to the weakening dollar.

Overall, we remain cautious in the short term as the markets have now run up very strongly in the last few months, with many stocks crossing their pre-COVID levels. This is despite the expected sharp contraction in the economy in the first half of the year. Indo-China border issues also remains a key event to watch out as any escalation on this front would hamper the markets.

We continue to use the market dips to accumulate select mid and small-cap stocks. Further, we continue to like private banks and financials, which have already started to show some reversals after the falls witnessed since March.

Debt

The 10Y benchmark (5.79% GOI 2030) gained 26 basis points in August 2020 thereby closing at 6.10% as compared to 5.84% in July 2020. This rise is mainly attributed to the sentiment in the Indian bond market being impacted by concerns relating to inflation and the fiscal situation amidst global developments.

Sighting demand side inflation due to the current pandemic, RBI deferred the rate cut in its last meeting on Aug 6, 2020. With this announcement and future uncertainty, bond market sentiments weakened leading to rise in bond yields.

In latter half of August as the yields rose, RBI decided to step-in to ease liquidity pressures in the market. We expect RBI to play a pivotal role in balancing demand-supply dynamics which will likely result in RBI conducting more 'Operation Twist' going forward which entails selling short maturity bonds and buying long term securities in order to influence spreads. The yields are expected to come down in September after the RBI's intervention.

We continue to recommend shorter duration "AAA" bonds to investors seeking stable returns and dynamically managed duration funds for investors with a slightly higher risk tolerance.

Contact

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