Investor Insights & Outlook

DiVitas Capital

05-Mar-2019

Monthly Newsletter - Feb 2019

Market Update

Nifty	10987
Sensex	36443
10Y G-sec	7.36%
1Y CP	8.50%
CD	7.70%
USD	70.48
Gold	32093 (Rs/10gm)
Brent	65.41 $/bbl

Product Recommendations

EQUITY

- **DSP Small Cap Fund**
- **ICICI Pru Small Cap Fund**
- **Mirae Asset India Equity Fund**
- **Reliance Pharma Fund**
- **Kotak Standard Multi-cap Fund**
- **HDFC Small Cap Fund**
- **ICICI Pru Bluechip Fund**
- **DSP Healthcare Fund**

DEBT

- **HDFC Corporate Bond**
- **Kotak Corporate Bond**
- **IDFC Corporate Bond**
- **Axis Banking & PSU Debt Fund**
- **Tax Free Bonds**
- **Fixed Maturity Plans**

Contact

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Strategy

Equity

February was another month of consolidation, despite higher volatility, for the Indian equity markets. While the NIFTY50 and Sensex ended relatively flat for the month, strong up moves were seen in the small and mid-cap space, which outperformed the major indices. The volatility on account of the Indo-Pak skirmishes appears to have settled with optimism that the Government will return as they acted swiftly and decisively.

On the macro level, the first half of the month saw positive triggers coming from the surprise repo rate cut by the RBI for the first time in almost eighteen months. The monetary policy committee also changed its stance to neutral, which indicates higher probability for rate cuts during the year. However, this momentum was affected by the strong headwinds originating from the political tensions arising out of the conflict with Pakistan. While the markets reacted negatively to initial action by both the countries, the de-escalation from both sides was seen as silver lining, propelling the markets upwards.

On the Global front, the US-China trade war saw some productive progress, with the Trump administration pushing forward the March 1 deadline for the imposition of proposed tariffs on Chinese imports. The emerging markets reacted very positively to this news, with commodities specially Metals, rallying upwards after the news.

Going ahead, with less than three months to the general elections and formation of the next government, we expect volatility to remain in the markets. Further, the progress on US-China trade war and final outcome of the Brexit too shall impact the market sentiment in coming months. Select mid and small caps in the financials, pharma and infrastructure space, which have shown signs of reversal during the month, remain our top picks.

Debt

Yield on the 10-year benchmark paper (7.26% GSec 2029) rose from 7.31% to 7.39% in February. As we enter into an uncertain election cycle, we expect domestic and foreign investor demand to remain muted until there is clarity on the next government and its likely macro-economic policies. Despite a general wave of bullishness towards emerging markets and the US Federal Reserve's dovishness, India is unlikely to be a key beneficiary till at least May 2019.

The liquidity crisis that begun in the Indian bond markets in September 2018 has impacted the market sentiments and the widening of spreads between corporate and sovereign yields is reflective of lack of investor confidence in the credit market.

We continue to maintain a neutral stance on the bond market over medium term. However, given the high near term uncertainties, we advise investors to avoid much exposure to interest rate risk and should stick to debt funds with low maturity profile and AAA credit quality.

Existing investors should continue holding their current allocation and should consider well managed corporate bond funds for any fresh allocation. Investors can also consider locking in lump-sum at higher yields in FMPs as the rates go up in March due to ALM (Asset Liability Management).

Disclaimer: Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme will be achieved. Please read the Statement of Additional Information and Scheme Information Document carefully before investing. CIN : U74140DL2007PTC164346