Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - Sep 2019

03-Oct-2019

Market Update

Nifty	11360
Sensex	38305
10Y G-sec	6.69%
1Y CP	7.10%
CD	6.60%
USD	70.91
Gold	37327 (Rs/10gm)
Brent	59.68 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Mid Cap Fund**
- **IDFC Sterling Value**
- **HDFC Midcap Opportunities Fund**
- **Mirae Asset Large Cap Fund**
- **Kotak Standard Multicap Fund**
- **HDFC Equity Fund**

DEBT

- **L&T Banking & PSU Debt Fund**
- **ICICI Banking & PSU Debt Fund**
- **Axis Banking & PSU Debt Fund**
- **IDFC Banking & PSU Debt Fund**
- **ICICI Pru Constant Maturity Gilt Fund**

Contact

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Strategy

Equity

The markets remained extremely volatile during the month. In the first half, the Finance Ministry took one of the biggest reforms of recent times in slashing the corporate tax rates for almost all the domestic companies. This resulted in a massive rally not only in frontline indices but also in broader markets as the expectation that lower tax would result in higher profitability and stimulate investment resulting in re-rating for the markets as a whole. Also, the higher cash flow and profitability for the corporates was expected to fuel the investment cycle in the company, which would stimulate growth and result in higher overall GDP for the country.

However, the buoyancy in the market was short lived as the alleged troubles in Punjab and Maharashtra Cooperative Bank prompted the RBI to freeze the operations of the financial institution and the market soon realised that unless demand was stimulated, there would not be a sustainable change in sentiment. This resulted in sell off in shares of other weak Banks and NBFCs as well, pushing down the overall investor confidence. There needs to be more reform to stimulate demand and fix the NBFC crisis caused primarily by a deep recession in real estate.

Globally, no resolution to the ongoing trade tensions between the US and China continue to impact the markets. Further, the weak manufacturing and jobs data signalled a fear of recession for the US markets. This fear was further exacerbated by the fear of no-deal Brexit. This resulted in a sell-off in global equity markets.

While, presently there is an overall uncertainty in the market, we continue to believe that the equity markets may have seen their bottom. The surprise tax rate cut by the government would be beneficial for the country over the coming years and should result in upward re-rating for the markets as a whole, which should propel foreign investors to allocate more funds to Indian companies, as evident from the fact that FIIs were net buyers in September after the sell-offs witnessed in preceding few months. Further, we expect a rate cut in MPC meeting scheduled for later this week and the government to come up with more reforms to stimulate growth, which should ease the pressure and negative sentiment prevailing in the the equity markets.

Debt

Yield on the 10Y Benchmark paper (7.26% G-Sec 2029) went up from 6.55% to 6.69% in September 2019. The bond yields have risen up more than 30 basis points in the last two months mainly by fear of widening fiscal deficit. This is further attributed to the recent announcement of tax rate cut by our Finance Minister to revive the economic growth.

Our recent GDP growth numbers came at 5% versus the expectation of 5.70% which will enable RBI to ease the policy rates further in the October 2019 policy review. Further, The head line and core inflation are converging and core is moving towards 4%. As per the RBI outlook this is likely to stay in the range for coming year which is very positive for the rate cycle.

Given this backdrop, we recommend investors looking for stable return to remain in short duration debt products. On the other hand, investors with slightly higher risk appetite may start allocating to dynamic debt strategies and gilt funds that have longer duration as interest rates are expected to fall. However, market may still be in denial mode after the expected rate cut tomorrow which gives a window of opportunity for the long term investors.