Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - June 2021

02-Jul-2021

Market Update

Nifty	15722
Sensex	52485
10Y G-sec	6.05%
CD	4.03%
USD	74.72
Gold	47231 (Rs/10gm)
Brent	75.78 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Value Discovery Fund**
- **ICICI Pru Multicap Fund**
- **Kotak Small Cap Fund**
- **DSP Healthcare Fund**
- **Kotak Infrastructure and Economic Reform Fund**

DEBT

- **ICICI Pru Equity Savings Fund**
- **Axis Short Term Fund**
- **ICICI Banking & PSU Debt Fund**
- **DSP Floating Rate Fund**
- **IDFC Dynamic Bond Fund**
- **IDFC Bond Fund - ST**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Contact

If you require any detailed information, please contact:

Gurmeet Singh
gurmeet@divitascapital.com
+91 - 98 73 010 019

Ashish Tyagi
ashish@divitascapital.com
+91 - 99 11 222 707

Strategy

Equity

Indian equity markets remained unchanged, with frontline indices closing almost at previous month levels but with strength in mid and small caps. The banking index saw some profit-taking at higher levels probably due to the economic impact expected after the second wave.

Domestically, the economic activity saw some pickup in the month, on the back of some respite from rising covid cases and subsequent easing in local lockdowns. This was further aided by the increased pace of vaccination drive across the country.

Globally, the US Fed indicated that they may need to raise interest rates on inflationary concerns and growth revival, much sooner than they had earlier anticipated. While this expectedly gave jitters to equity markets initially, which saw some strong corrections, the effect was short-lived as the market recovered from this news quickly presuming that tapering is some time away.

We continue to remain cautious on market levels. While we are optimistic about the growth revival, the current valuations seem to be pricing in this uptick on a short-term basis. Also, any short-term correction may be healthy as it will regulate the market excesses. Select financials and mid/small-cap stocks in media and auto remain our top picks.

Debt

The yield on the 10Y benchmark (5.85% GOI 2030) remained range bound and ended at 6.06% in June 2021 as compared to 6.02% in April 2021.RBI continues to be more responsive and proactive both in action and words to sustain growth revival. The central bank is focused on the completion of the government's borrowing program in a non-disruptive manner by timely & proactive interventions through OMOs & GSAP, thereby, keeping the long-term yields under control. Although yields have seen favorable movements in the recent past due to the current second covid wave, and global rate movements especially in the US, the market participants are now cautious in terms of yields movement for coming months and will closely track factors such as inflation print, Rupee movement, RBI's policy decisions & crude oil prices.

The recently published CPI figure of 6.30% was almost 100 bps higher than the market consensus with an uptick in rural inflation, which could partly be due to supply chain disruption, however, this needs to be watched carefully. With a large quantity of fiscal and monetary ammunition already in use, central banks have increased their tolerance for inflation whilst seeking more conviction for the sustenance of growth revival. Further, in the FOMC meeting, the Fed announced the possibility of 2 hikes by 2023. This also had a negative impact on domestic bond yields.

Given this backdrop, we continue to recommend low-duration funds, AAA short-term fixed deposits & floating rate funds for the short term until there is further clarity on interest rates for the longer term. Investors with a higher risk appetite can consider dynamically managed funds.