Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - January 2022

03-Feb-2022

Market Update

Nifty	17560
Sensex	58788
10Y G-sec	6.88%
CD	4.90%
USD	74.90
Gold	47946 (Rs/10gm)
Brent	88.17 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Value Discovery Fund**
- **ICICI Pru Banking & Financial Services Fund**
- **Kotak Emerging Equity Fund**
- **Mirae Asset Large Cap**
- **Kotak Infrastructure and Economic Reform Fund**

DEBT

- **ICICI Pru Equity Savings Fund**
- **Axis Dynamic Bond Fund**
- **ICICI Pru All Seasons Bond Fund**
- **DSP Floating Rate Fund**
- **IDFC Dynamic Bond Fund**
- **Kotak Dynamic Bond Fund**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Contact

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Strategy

Equity

Budget 2022 laid strong impetus on growth and economic recovery post the Covid impact

- Centre's budget for capital expenditure in FY23 has been raised by ~35% to 7.5L Crore with more allocation given to States

- Strong emphasis has been given to roads, water, logistics, EV batteries, housing and green energy among others

- To boost domestic manufacturing of electronic devices, the government is calibrating the custom duties, effectively incentivizing the manufacturers by creating a level playing field to compete against the imports

Along with the above, measures such as continuation of Emergency credit line scheme and some tax sops for newly incorporated manufacturing companies are expected to have a multiplier effect on the economy providing fillip to overall income, savings, consumption and demand in the economy. All this will possibly push the economy towards a high growth path wherein the domestic looking sectors will do well.

The Budget has also proposed tax on transfer of digital assets namely cryptocurrency and NFTs at maximum slab rate of 30% with stringent conditions as well. This makes these assets tax inefficient compared to equity investments in shares and mutual funds which are taxed at lower rates, thereby implying a plausibility that some of this money may move to organized equity and debt markets.

As we have been expressing in the last few months, we expected the Government to increase spending and therefore have been bullish on domestic themes such as Banking/NBFCs, capital goods and infrastructure. Further, the increased allocation to affordable housing is expected to do well for the realty sector and may provide growth to housing finance, building materials and construction companies in next few years. Therefore, it may be prudent to allocate funds to these sectors which are poised to perform well for the next couple of years.

Debt

The budget is a continuation of the existing Government policies and holds no negative surprises or major announcements. The government revised its fiscal deficit target slightly above the budgeted target for FY2021-22 and also above market expectations for FY2022-23 in order to sustain and further uplift economic growth post the unprecedented impact of the Covid-19 pandemic.

The gross market borrowing for FY2022-23 is budgeted at Rs. 14.95 lakh crores and the net market borrowing at Rs. 11.19 lakh crore. The market borrowing is expected to be the primary source of funding the fiscal deficit while the remaining gap is expected to be funded by the National Small Savings Fund.

Impact on bond yields:

- Yields rose sharply by 20 bps post the budget announcements to a high of 6.87% and closed the day at 6.83% as the fiscal deficit target of 6.4% for FY2022-23 was above market expectations.

- The Government revised downwards the gross market borrowing for the current fiscal FY22 by over Rs 1.5 lakh crore, the announcement of Rs 14.95 lakh crore borrowing for FY23 led to the spike in yields.
- Going forward, the bond market yields are expected to be guided by the RBI's upcoming monetary policy on 9th Feb 2021, the inflation numbers for January, and the GDP numbers for the third quarter at end of February.

The government continued with its policy of supporting economic growth, with its spending focused on increased capital expenditure. Further, Govt. is increasingly moving towards a fiscal consolidation path on a gradual basis, however, the fiscal deficit numbers were still more than market expectations. Given this backdrop, we continue to recommend Floating and Dynamic duration funds, which may help in navigating the current market. Our approach to remaining at the short end and to avoid long duration instruments until policy was clearer was wise.