Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - Apr 2019

Market Update

Nifty	11748
Sensex	39032
10Y G-sec	7.41%
1Y CP	8.25%
CD	7.78%
USD	69.82
Gold	31044 (Rs/10gm)
Brent	71.98 $/bbl

Product Recommendations

EQUITY

- **DSP Small Cap Fund**
- **ICICI Pru Small Cap Fund**
- **IDFC Sterling Value**
- **Mirae Asset India Equity Fund**
- **Kotak Standard Multi-cap Fund**
- **ICICI Pru Bluechip Fund**
- **Reliance Pharma 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

The markets continued to remain highly volatile during the month, with 11,800 - 11,550 acting as strong resistance and support respectively for the NIFTY. The Nifty has been held up by seven large stocks that reflect substantially the Index. The mid and small caps have taken the brunt of the volatility.

On the macro front, the expiration of exemptions of US sanctions on Iran led to surge in the oil prices. This spooked the global markets, especially India, who are heavily dependent on oil imports, resulting in weakening of the Rupee. However, by the end of the month, with a build-up in the US inventory of oil and increased production, oil prices have stabilised and declining. The Fed in its meeting held the interest rates unchanged which disappointed the markets. The Rupee has remained strong on the back of FII inflows and expectation of large FDI inflows in the future.

Domestically, both NIFTY and SENSEX continue to trade near their all-time highs, but it's only a handful of stocks (vis-à-vis Reliance Industries, ICICI Bank, Axis Bank, TCS, HDFC Bank and Infosys) together represent more than 91% of the gains. Therefore, while the valuations appear stretched for these stocks, the other index stocks and the broader market, have corrected significantly for the year. In our view, this provides a good entry point to buy select stocks in **mid and small cap space which are beaten down and available at attractive valuations**. We continue to remain bullish on select companies across Pharma, Financials and Commodities (such as steel and cement).

In the near term, we continue to expect volatility in the market till the outcome of the General elections and the outcome of the US-China trade deal. Once these events are played out, we expect stability to return to markets provided the outcome reflects a stable Government.

Debt

Yield on the 10Y Benchmark paper (7.26% G-Sec 2029) went up from 7.33% to 7.41% in April 2019 despite a 25 basis points rate cut by RBI. This rise in yields is attributed to various global and domestic macros concerns. This reversal is also partly due to the fact that market participants were also hoping for a change in stance by RBI alongside the rate cut. The Central Bank also revised the inflation and GDP forecast downwards. The long end rates will continue to be volatile due to fiscal concerns, primarily due to Central Govt.'s shortfall from GST collection.

We believe that global events, domestic fiscal stress along with RBI not being present to absorb the over supply will result in higher volatility on the long end. The short end of the yield curve (1-3 years) provides better risk adjusted returns.

Given this backdrop, we recommend existing investors to continue holding their present allocation. Investors looking for fresh income allocation should consider well-managed Corporate bond funds, Banking & PSU debt funds, FMPs and Short-term bond funds as risk versus reward still favours the short end of the yield curve. Investors should review their credit risk portfolios.