Investor Insights & Outlook

Monthly Newsletter - Apr 2020

05-Apr-2020

Market Update

Nifty	9206
Sensex	31453
10Y G-sec	6.07%
1Y CP	6.70%
CD	5.25%
USD	75.66
Gold	45520 (Rs/10gm)
Brent	30.21 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Bluechip Fund**
- **IDFC Sterling Value**
- **ICICI Pru Banking & Financial Services Fund**
- **SBI Banking & Financial Services Fund**
- **Kotak Standard Multi-cap Fund**
- **Axis Bluechip Fund**

DEBT

- **L&T Banking & PSU Debt Fund**
- **ICICI Banking & PSU Debt Fund**
- **IDFC Banking & PSU Debt Fund**
- **L&T Triple Ace Fund**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Contact

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Strategy

Equity

After a very weak end to the FY20, Indian markets witnessed a strong reversal in April. The frontline indices – NIFTY and Sensex gained about 15% for the month on the back of fiscal and monetary measures undertaken by global economies that was battered by the fear of the economic consequences of the Coronavirus pandemic that brought asset values to abysmally low levels. Similar gains were seen in the mid and small-cap space as well. Sector-wise - Pharma, Metals and Financials led the rally.

Domestically, India continued to witness an unprecedented shut down with essentially all economic activities being stalled for the month. While the closure has significantly helped the country in controlling the spread of the virus, it resulted in serious disruptions for the domestic industry. Though, the RBI did undertake several monetary measures to infuse liquidity in markets; the domestic industry, especially the micro, small and medium enterprises (MSMEs), await a strong fiscal package to ease their way out of this pandemic, which threatens their vary existence.

Globally, all the major economies undertook strong fiscal and monetary measures, resulting in strong rallies in these markets. The sentiment was further boosted by opening up of economic activity in China.

We continue to expect the market to remain highly volatile in the near term. India is now actually well positioned to seize the post-COVID opportunities. Government is now aware of the economic distress. Interest rates are likely to fall. Crude has fallen rapidly that will improve our current account. Foreign exchange reserves remain stable. Governments across the world have lowered rates to near zero and pushed liquidity that eventually will chase equities. Indian businesses are significantly less leveraged than they were in 2008 with little capital investment over the last ten years. Banks therefore are stronger and less exposed. Global companies are likely to see India as an alternative manufacturing destination to China.

While there may be some stock-specific reactions due to last quarter results, we believe that the progress in COVID-19 vaccine, hopes of a fiscal stimulus package for the industry and the opening up of economic activity will guide the markets for the month. Further, it remains to be seen if the government undertakes specific measures to boost domestic industries in view of growing sentiment against China over the spread of the virus.

Debt

The yield on the 10Y benchmark (6.45% GOI 2029) ended at 6.11% in Apr 2020 as compared to 6.13% in Mar 2020. In an emergency move to support the economy from the impact of unprecedented lockdown followed by COVID-19 outbreak, the RBI announced a reverse repo cut of 25 bps on 17th April taking the reverse repo rate to 3.75%. In its endeavour to ensure transmission of policy rate cuts, the reverse repo rate has now been made as operative rate, thereby effecting a stealth rate cut following the sharp 75 bps repo rate cut taken in late March 2020. The move increases the spread between the repo rate (4.40%) and reverse repo to 65 bps thereby disincentivizing the banks to park the extra liquidity with the central bank and supporting the corporate sector's borrowing needs at lower cost.

Further, last month witnessed winding up of 6 credit risk funds by one of the prominent fund houses leading to volatility driven risk aversion in the domestic debt market. RBI has extended a special liquidity facility to the tune of Rs 50,000 crores to the MF industry to ensure smooth redemption if they occur thereby preventing contagion effects therefrom. So far the stress remains limited to the high risk debt MF segment, and the MF industry at large remains liquid.

Although market participants have been jittery about a potential second round of fiscal stimulus as it might lead to extra market borrowing, all eyes would be on the stimulus package to ensure continuity of businesses, and prevent job losses.

We continue to recommend short duration bond funds, banking & PSU funds and dynamically managed duration funds as they remain attractive. Investors may look to invest in these funds depending on their risk appetite and the investment horizon.