Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - Aug 2019

Market Update

Nifty	11023
Sensex	37333
10Y G-sec	6.55%
1Y CP	6.90%
CD	6.43%
USD	71.40
Gold	38656 (Rs/10gm)
Brent	58.90 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Mid Cap Fund**
- **IDFC Sterling Value**
- **HDFC Midcap Opportunities Fund**
- **Mirae Asset Large Cap Fund**
- **Kotak Standard Multi-cap Fund**
- **ICICI Pru Bluechip Fund**

DEBT

- **L&T Banking & PSU Debt Fund**
- **ICICI Corporate Bond**
- **ICICI Banking & PSU Debt Fund**
- **Axis Banking & PSU Debt Fund**
- **IDFC Banking & PSU Debt Fund**

Contact

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Strategy

Equity

In August, the equity markets remained flat with both the frontline indices – the NIFTY and the Sensex closing equivalent to their levels in July, but the broad market saw significant erosion with poor quarterly results, defaults and a slowing auto sector. Again, the large nifty stocks held up the indices.

Globally, the escalation of trade war between US and China, with each country threatening of increased tariffs, currency war and the possibility of a global slowdown hampered the market sentiment. Further, the increased likelihood of a no-deal Brexit further led to weakening of the European markets. Domestically, the markets remained suppressed for the second-month post the budget, owing largely to the issues pertaining to slower growth concerns, unresolved liquidity to the NBFCs and higher proposed taxation of FPIs, who continued to sell equities in the market. While DIIs were large buyers in the markets, their purchases remain polarized towards the select large-cap names, which meant the broader markets, specially the mid and small-cap space, continued to witness pressure in absence of any buyers.

However, in the second half of the month, the Finance Ministry, finally taking into the cognizance of the market weakness, announced several measures for infusion of the liquidity into NBFCs, tweaking FDI norms and merger/recapitalization of the Public sector Banks. Further, the Government withdrew the higher surcharge on FPIs. While the markets initially reacted very positively to these measures, the up move soon fizzled out as the FPIs did not stop selling the equities amid the growing concerns around economic slowdown, which was eventually seen in the weak GDP numbers. The sentiment remained poor.

We believe that the equity markets may see have seen their bottom as the market participants now expect the Government to intervene and undertake strong reforms in upcoming months to drive the economy forward. Further, with the Government expected to further cut interest rates to stimulate the economy and fuel growth, we feel that private capex as well as consumer spending will return to the markets, especially with the festive period around the corner. Accordingly, we think this is a good time to invest in beaten-down equities, across the large, mid and small-cap space, which show extremely favourable risk-reward after the continuous fall in the last few months.

Debt

Yield on the 10Y Benchmark paper (7.26% G-Sec 2029) went up from 6.37% to 6.55% in August 2019. The rally in our bond yields that was spurred by a large and surprise reduction in policy rates was cut short by renewed fears of Government profligacy. Our bond yields went up by 18 basis points mainly attributed to the growing worries that the Government will boost heavy stimulus and borrowings to quickly accelerate growth. Expectations of a fiscal stimulus package gained ground on the back of weak economic data and heightened slowdown concerns in the economy.

RBI announced ₹1.76 lakh crore surplus transfer to the Central Govt. in the current fiscal as a respite to the Centre. However, the gain in GOI bond yields proved fleeting as closer analysis of a record transfer from the Central bank to the Govt. proved that the pay-out isn't actually that large. Of the ₹1.23 lakh crore dividend ($17.2 billion) announced by the RBI, ₹28,000 had already been paid in February. Moreover, some of that would have accrued as interest income on the Central bank's purchase of sovereign bonds, which means it's just a to-and-fro transfer of cash from the Govt. to the RBI and back. A transfer of some ₹52,600 of surplus capital is being seen as much lower than the market expectations of as much as ₹2 lakh crore.

Further, foreign investors pulled out a net amount of ₹5,920 crore from the Indian capital markets in August, even as the Government rolled back enhanced surcharge on FPIs. The withdrawal from the capital markets (both equity and debt) in August is "contrary to the expectation", since the announced revocation of enhanced super-rich tax on foreign and domestic equity investors imposed in the Budget.

Given this backdrop, we recommend investors looking for stable return to remain in short duration debt products. On the other hand, investors with higher risk appetite may start allocating to dynamic debt strategies that have longer duration as interest rates are expected to fall with the caveat that 10Y may remain elevated should Govt resort to fiscal spending to boost the economy.