Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - Dec 2019

02-Jan-2020

Market Update

Nifty	12282
Sensex	41627
10Y G-sec	6.51%
1Y CP	6.70%
CD	6.00%
USD	71.37
Gold	39272 (Rs/10gm)
Brent	66.19 $/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**
- **HDFC Equity Fund**

DEBT

- **L&T Banking & PSU Debt Fund**
- **ICICI Banking & PSU Debt Fund**
- **Axis Banking & PSU Debt Fund**
- **IDFC Banking & PSU Debt Fund**
- **L&T Triple Ace Fund**

Contact

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Strategy

Equity

The year saw the end to a bi-polar market with frontline indices Nifty and Sensex rising about 12% and 14% respectively against a weak broad market. The economy continued to slip despite a strong Government with focus only towards politics.

Globally, the announcement of a trade deal between the US and China lifted the market sentiment. This sentiment was further boosted by the election of a pro-Brexit government in United Kingdom, bringing in the much needed certainty in the markets. This resulted in rallies in some commodities such as metals as well as export oriented select names in the automobile sector.

Domestically, the sentiment remains cautious with a view that a turnaround could be imminent. Normally, the reform announcements by the Govt should lead to a reversal but the poor fiscal position remains a challenge to be able to implement this.

Our focus in 2020 would be to remain cautious on the large cap but remain alert to a turnaround that would make the broad market (represented by beaten down midcap) an attractive investment. Consequently, we continue to like the mid and small cap space, where valuations broadly remain benign compared to the narrow band of winners. While the earnings may remain muted for this quarter, some of the recent reforms such as corporate tax cuts, front-loading of infra projects and passing of the reduction in interest rates to end-consumer/corporates would start yielding results and build up positive sentiment for the markets.

Debt

Yield on the 10Y benchmark (6.45% GOI 2029) ended at 6.55% in December as compared to 6.47% in November. The benchmark 10Y G-sec yield has remained at elevated levels for quite some time, despite a series of rate cuts by the Central bank.

RBI kept its repo rate unchanged in December policy review after the five reductions so far in year 2019, while maintaining an accommodative stance. In order to address liquidity issues and to lower the long-term bond yields, RBI had announced a special open market operation (OMO). Under this recent OMO, RBI bought ten-year bonds worth Rs 20,000 crores and simultaneously managed to sell one-year short bonds of Rs 15,326 crores in two different tranches. With banks passing on only a small part of rate-cuts, we believe that this move could help transmission of rates in the economy.

Further, we believe that the recently introduced policy reforms will take time to pan out and materialize. In the present scenario, only the combined effect of lower interest rates coupled with other measures such as a cut in personal taxes – reportedly being considered by the FM – can actually improve the sentiment.

We reiterate our view for investors looking for stable returns to remain in short duration debt products. On the other hand, investors with higher risk appetite may consider allocating to dynamic debt strategies that have higher duration.