Investor Insights & Outlook

DiVitas Capital

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Monthly Newsletter - Jan 2019

Market Update

Nifty	10912
Sensex	36583
10Y G-sec	7.67%
1Y CP	8.50%
CD	8.00%
USD	71.65
Gold	33232 (Rs/10gm)
Brent	62.80 $/bbl

Product Recommendations

EQUITY

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

DEBT

- **HDFC Corporate Bond**
- **Kotak Corporate Bond**
- **IDFC Corporate Bond**
- **Tax Free Bonds**
- **Fixed Maturity Plans**

Contact

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Strategy

Equity

January proved to be another volatile month for the Indian Markets, with major indices moving strongly in either direction during the period, even though global markets saw stability and a reversal. This is likely to have been caused by political developments, weakening rupee, rising crude prices and the fear of liberal spending by Government.

The month also saw two macro events play out. The US Fed in its meeting projected a 'dovish' outlook, reducing the probability of interest rate hikes in near future. This resulted in rally across Emerging Markets. This should be overall positive for the Economy in terms of Foreign Inflows in the long term.

The Interim Budget too brought cheers to the Investing Community, with the Government revising the Fiscal targets for FY20 marginally upwards at 3.4%. Further, with incentives and sops for farmers and small workers, the government strived to push rural economy and consumption. Also, the easing of capital gains norms and relief from income on notional rent from second house, the real estate sector gets a much-needed push from the government. The Government's push towards infrastructural reforms vis-à-vis roadways/highways building and cleaning rivers is also positive for the infrastructure sector.

Overall, with elections around the corner and the pending outcome of US-China trade negotiations, we expect some volatility to remain in the market. However, the valuations of small-cap and mid-cap stocks look very attractive. We suggest remaining invested in the quality stocks and increasing allocation on steep falls, using the volatility during the period. Select Infra stocks, Pharma and Financials still remain our top picks.

Debt

Yield on the 10-year benchmark paper (7.17% GSec 2028) rose from 7.36% to 7.53% in January as concerns over global economic slowdown and US-China trade dispute resulted the safe-haven US treasuries to rise along with renewed global growth fears. Over the last few months, market sentiments have been largely impacted by sharp correction in crude oil prices, appreciating INR, lower borrowings and RBI conducting OMOs to ensure comfortable liquidity. This has all reversed in January.

The Interim Budget negatively surprised the bond markets. The budget has not only given the surprise for the FY20 but for FY19 as well. The higher than expected borrowings triggered a sell-off in bond markets. The announcements made in the current Budget will also add to inflationary pressure emerging from agri support and tax relief. Overall the higher supply means higher yields. This additional expenditure would increase the Govt.'s outlays and will put additional pressure on Govt. ability to meet fiscal deficit target.

With CPI remaining contained and US Fed turning dovish, RBI too is expected to turn dovish; however due to expansionary fiscal policy, a rate cut will be a difficult call.

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, FMPs and short-term bond funds as risk versus reward still favours the short end of the yield curve.