Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - Jan 2020

04-Feb-2020

Market Update

Nifty	11980
Sensex	40789
10Y G-sec	6.51%
1Y CP	6.55%
CD	6.00%
USD	71.25
Gold	40116 (Rs/10gm)
Brent	54.96 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Mid Cap Fund**
- **IDFC Sterling Value**
- **Aditya Birla Midcap 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 markets remained stable in January; the first half saw bullish uptick in the markets, especially the mid and small cap space, which outperformed the frontline indices – Nifty and Sensex. However, the second half witnessed weakness on account of global uncertainty owing to outbreak of Corona Virus, which threatened global growth and consumption

The markets saw a deep correction on presentation of the Budget on account of disappointment in any major growth measures to revive the economy and boost consumption. The government maintained fiscal deficit. The abolishment of Dividend Distribution Tax will be beneficial for foreign investors and the stock markets. Foreign funds have been exempted from tax on investments in infra related projects that should provide a fillip to the beaten down infra sector.

Given the global backdrop with respect to fear of spread of Corona virus, global slowdown and the disappointment from budget, we believe there would be high volatility in the short term as market prices in these developments. However, we continue to believe that the markets will return to normalcy over the next few months as the positive steps undertaken by the Government start showing results. We remain positive on financials, infrastructure and mid cap stocks.

Debt

Yield on the 10Y benchmark (6.45% GOI 2029) ended at 6.59% in January as compared to 6.55% in December.

RBI recently introduced Fed style operation twist to bring down their long-term borrowing costs, which entails selling short maturity bonds and buying long term securities in order to influence spreads. While that brought down bond yields initially, a surge in inflation to its highest since 2014 took the yields back up. We believe that headline inflation may remain above RBI target driven by firming food prices. This further puts the RBI's accommodative stance & probability of another rate cut at risk.

In the recent budget finance minister have allowed FPIs to buy Indian corporate bonds worth an additional $30 billion to expand India's corporate bond market and to better distribute credit risks and reliance on bank loans. The move could lead to Indian bonds being included in global indices, which would provide the much needed boost to Indian corporate bond market considering the challenges faced by NBFCs especially non-AAA rated.

Given this backdrop, we reiterate our view for investors looking for stable returns to remain in short duration debt products.