Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - July 2019

02-Aug-2019

Market Update

Nifty	10997
Sensex	37118
10Y G-sec	6.34%
1Y CP	7.40%
CD	6.72%
USD	69.60
Gold	35232 (Rs/10gm)
Brent	62.00 $/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

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

Contact

If you require any detailed information, please contact:

Gurmeet Singh
gurmeet@divitascapital.com
+91 - 98 73 010 019

Ashish Tyagi
ashish@divitascapital.com
+91 - 99 11 222 707

Strategy

Equity

Indian market witnessed its worst July since 2002, as Nifty and Sensex fell about 6% each, their hardest fall in 17 years for the month. From its recent peak prior to the budget, the Nifty has fallen 10% this month. The broader market has been decimated due to the low volumes and bearish sentiment. In addition to the already prevailing NBFC liquidity issues, the failure of the Government to provide any economic stimulus, significant reforms or promote private capex in the Budget resulted in negative sentiment around the markets. Furthermore, the Government imposed surcharge on the FPIs and 'super-rich', essentially pushing the total tax on them at a staggering ~43% spooked the markets, resulting in more than 13,000 crores worth of shares being sold by overseas investors during the month. Considering the relatively thinly traded markets in India, the DIIs and the retail investors were unable to absorb the sales, as a result of which deep corrections were witnessed in broader indices Sensex and NIFTY.

The silver lining for the markets at the moment is the rate cut by the US Fed, the first since 2008. Given the slow growth also prevailing in Indian markets, there is a wide expectation of 50 bps rate cut in the Monetary Policy meeting scheduled for the second week of August. Further, we hope the Government addresses the concerns relating to FPI taxation and the promoter shareholding to ease the negative build-up in the markets. Also, rate cuts in GST to promote growth would be a welcome change for the markets, especially the auto sector, which is reeling under the immense slowdown with frontline names witnessing a slump in demand.

Notwithstanding the gloom, we continue to raise allocation in the mid and small-cap space and are using these falls further to accumulate. While it is possible that markets see further downsides in the short run, we believe that mid and small caps, some of which are now trading at multi-year lows, should witness a sharp uptick when investor interest returns to the markets. The large caps too are becoming attractive to invest.

Debt

Yield on the 10Y Benchmark paper (7.26% G-Sec 2029) dropped from 6.88% to 6.37% in July 2019. The rally in 10 Y was mainly attributed to controlled inflation, dovish stance by RBI, increasing hopes of further rate cuts and heightened expectations of transfer of dividend by RBI to Govt.

Going forward, with inflation within RBIs comfort zone coupled with slowdown in growth could compel RBI to deliver large rate cuts in the coming quarters. The important factor still remains of transmission of the same to the real economy. It is also important for RBI to address the structural issues such as high credit demand in absence of NBFCs.

The RBI is using various tools at their discretion to improve the liquidity in the banking system. June - September is seasonally less stressful for system liquidity. This would be positive for short term rates.

Given this backdrop, we recommend investors to remain invested in short term bonds funds and for incremental debt investment choose schemes with 1-4 years of duration, which stand benefit from the short term rates coming down.