Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - July 2020

04-Aug-2020

Market Update

Nifty	11095
Sensex	37688
10Y G-sec	5.96%
1Y CP	4.40%
CD	3.97%
USD	75.16
Gold	54004 (Rs/10gm)
Brent	43.77 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Bluechip Fund**
- **Mirae Asset Large Cap Fund**
- **ICICI Pru Banking & Financial Services Fund**
- **SBI Banking & Financial Services Fund**
- **Kotak Standard Multi-cap Fund**
- **Axis Bluechip Fund**

DEBT

- **L&T Banking & PSU Debt Fund**
- **ICICI Banking & PSU Debt Fund**
- **IDFC Banking & PSU Debt Fund**
- **IDFC Bond Fund - ST**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Contact

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Strategy

Equity

The markets rose with both the Nifty and Sensex rallying more than 7% each during the month driven by Reliance and the weakening dollar that saw greater EM flows. The broad markets (mid and small caps) saw similar trends.

Domestically, the economy continued to ease with resumption of economic activity despite a recurrence of new cases. The quarterly results for several companies, especially the export oriented and rural facing entities, came up better than market expectations, resulting in run-up in these companies. IT and Pharma witnessed strong traction as they largely remained insulated from the coronavirus effect. The month also witnessed some pent-up demand in consumer discretionary specially in the auto space, which was driven by strong demand in rural areas on back of good monsoon expectation.

Globally, the markets continued to take comfort from the monetary and fiscal measures from various sovereign banks. In-line with this, US Federal also kept the interest rates steady in its last meeting as it anticipated tepid outlook for the economy. Accordingly, this may continue to fuel rallies in emerging markets as the easy flow of 'free money' will chase the low valuations.

We continue to recommend Financials: Private banks and leading NBFCs as they remain undervalued and drivers of economic activity. We also like certain market leaders in the small and mid-cap space, where we believe risk-reward is favorable despite the short term uncertainty. Pharma remains another pick as a defensive play against market volatility.

Debt

The 10Y benchmark (6.45% GOI 2029) remained lower and ended at 5.96% in July as compared to 6.00% in June 2020.

The short end of the yield curve continue to trade lower whilst the long end of the yield curve remains elevated. This is attributed to the abundant liquidity in the Indian Banking system as the deposit flow for banks remain relatively strong. This is further accentuated by the weak credit demand due to reluctance of lenders to lend to most segments.

We believe that the Central Government's finances are expected to remain under pressure during FY21 as revenue collections will continue to be impacted till lockdown restrictions are significantly eased and economic activities return to normalcy. Further, we expect the Central Bank to absorb excess supply of debt by conducting open market auctions for purchase of bonds.

The expectations over rate cut (in upcoming policy review of RBI in Aug'20) remain divided. Given this backdrop, we continue to recommend shorter duration "AAA" bonds to investors seeking stable returns and dynamically managed duration funds for investors with a slightly higher risk tolerance.