Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - June 2019

Strategy

03-Jul-2019

Market Update

Nifty	11910
Sensex	39816
10Y G-sec	6.92%
1Y CP	7.90%
CD	7.20%
USD	68.95
Gold	34019 (Rs/10gm)
Brent	66.30 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Mid Cap Fund**
- **IDFC Sterling Value**
- **L&T Midcap Fund**
- **Mirae Asset India Equity Fund**
- **Kotak Standard Multi-cap Fund**
- **ICICI Pru Bluechip Fund**

DEBT

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

Equity

June proved to be another month of high volatility for Indian markets. Initially buoyant from the election results in favor of the incumbent BJP at the center, NIFTY reached record high levels of 12,000, while Sensex was seen at above 40,000 levels. However, the indices drifted lower as the month progressed, with a greatly slowing economy amid NBFC liquidity concerns. While the RBI did cut repo rate by 25 bps in its meeting in early June, this failed to substantially cheer the markets as the cut was not passed to the consumers immediately and the liquidity crunch continued to dominate the sentiment. The Indian economy is in coma, and unless the liquidity crisis is immediately dealt with (either through a liquidity window or proactive management), the markets will grind lower. There is a desperate need for an economic stimulus as well. These are expected from the Govt in the ensuing months.

On the global front, the impending US-China trade deal continued to affect global sentiment. The trade talks between the two countries continued at the G20 Summit, with indication that attempts will be made to negotiate a settlement. The Trump administration has halted additional tariffs on Chinese goods, while describing the talks as right on track.

The Budget, scheduled for 5th July, remains an immediate trigger for the market. The government is expected to provide economic stimulus to the slowing economy and boost consumption in the rural and infrastructure segment which needs investments. Further, simplification of GST and other tax laws would be seen as a positive development by the markets.

We continue to believe that the valuation gap between the large and small/mid cap is not sustainable. Select mid/small cap names offer very favorable risk rewards for accumulation. Accordingly, we remain invested in select Auto & auto ancillaries, commodities such as steel and cement and NBFC/Banking space and are using the dips to add to our holdings.

Debt

Yield on the 10Y Benchmark paper (7.26% G-Sec 2029) dropped from 7.06% to 6.88% in June 2019. Our bond markets have already rallied in the last few months with the 10 year government bond yield down from 7.4% in April to near 6.9% now. However, at current levels it still looks attractively valued as RBI changed the stance from Neutral to Accommodative keeping the door open for further reduction in the repo rate.

India's economic growth rate has fallen to five year low mainly due to slower growth in agriculture and manufacturing. The NBFC crisis has led to the drying up of short-term funds for these companies, impacting their funding profile and leading to downgrades due to missed payment schedules.

We believe that in the upcoming Budget there could be a slight adjustment in the deficit target and will mainly be on the back of tempering growth expectations. However, higher fiscal deficit will take some sheen off the rally but if the RBI remains accommodative and uses open-market purchases, yields will remain supported.

Therefore, we recommend investors looking for stable return to remain in short duration debt products. On the other hand, investors with higher risk appetite may start allocating to dynamic debt strategies that have higher duration.

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