

Investor Insights & Outlook



01-Jul-2020

Monthly Newsletter - June 2020

Strategy

Market Update

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|-----------|-----------------|
| Nifty | 10430 |
| Sensex | 35414 |
| 10Y G-sec | 5.98% |
| 1Y CP | 4.75% |
| CD | 4.00% |
| USD | 75.54 |
| Gold | 48185 (Rs/10gm) |
| Brent | 41.64 \$/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

Equity

On back of positive build-up witnessed in last week of May, the Equity markets continued with a strong momentum in June, with the frontline indices NIFTY and Sensex gaining about 7% each. The midcap and small cap index outperformed the market, clocking almost double digit returns for the month. Clearly, stocks are attempting to determine the fair value as economies across the world reopen amid the gush of global liquidity. Realistically, fair value (for the current environment) should return to 80 percent of pre-Covid levels until data can show otherwise.

Domestically, the economy started normalizing as businesses opened up in most parts of the country. Further, the Government's initiative of 'Atmanirbhar Bharat', aimed at reducing imports, building India into a self-sufficient and export oriented economy garnered some positive sentiment despite the pessimism on the Government's ability to provide any real stimulus. However, the consumer demand and sentiment remained low with focus only on buying essentials, implying the need for much more support from the Government.

On the other hand, the infusion of liquidity by the US Fed provided support to the global markets. The lower than expected unemployment numbers and growth in retail numbers showed that recovery has picked up in US. Similar trend was seen in Europe as well where the economic indicators improvement in economic activity.

We expect the markets to remain volatile in the coming months particularly as dismal results are declared. The first quarter for most companies is expected to be severely hit on back of the stringent lockdown enforced in the months of April and May. Consequently, the demand revival in the next few months is critical for the markets. Further, the plateauing of the corona cases and the border tension with China remain key triggers.

We continue to like large private Banks and NBFCs, which are attractively valued despite the recent run-up. Further, cyclicals such as Infra and metals also appear very attractive from a medium to long term perspective. The focus should be on the domestic economy.

Debt

The 10Y benchmark (6.45% GOI 2029) remained flat and ended at 6.00% in June 2020 as compared to 6.01% in May 2020.

The short term rates continue to remain low due to ample liquidity in the system; however, in contrast, the long term rates have remained stubbornly high due to fear of volatility in the long term rates. Flushed with liquidity, Indian banks, and mutual funds continue to buy short-term government debt aggressively. The strong demand has kept rates low despite the increase in supply. RBI will again conduct its open-market-operations, wherein it will buy longer-dated government bonds while selling an equivalent amount in shorter tenure treasury bonds. This will help in pushing down the long-term rates.

The major focus for RBI now is the transmission of rates and hence it could continue to use all possible tools to keep yields lower. We expect that RBI is cognizant of the large borrowing of the government and that it will remain supportive by using different measures available at its disposal. The spread between the Repo rate and the 10yr G-Sec yields is still high and we expect it to further come down going ahead, with expectations of liquidity measures to continue albeit at a slower pace and monetary policy to remain accommodative.

Given this backdrop, we recommend investors looking for stable returns to consider funds with shorter duration "AAA" bonds and clients with a slightly higher risk tolerance may consider dynamically managed duration funds. In the short term, Fixed deposits (with AA/AAA) for 13-23 months remain attractive as a holding strategy.

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