Investor Insights & Outlook

Monthly Newsletter - Mar 2020

31-Mar-2020

Market Update

Nifty	8598
Sensex	29468
10Y G-sec	6.13%
1Y CP	7.20%
CD	5.60%
USD	75.34
Gold	43251 (Rs/10gm)
Brent	22.70 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Bluechip Fund**
- **IDFC Sterling Value**
- **ICICI Pru Banking & Financial Services Fund**
- **Mirae Asset Large Cap 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**
- **L&T Triple Ace Fund**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Contact

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Strategy

Equity

The spread of Coronavirus dominated the month that caused global equity markets to plunge to their multi-year lows on fears of a global slowdown due to the pandemic. Indian markets were not spared with aggressive FII selling and the fear of the economic consequences of a lock down to an economy already in distress. While the benchmark indices fell 30 percent, the broad market saw some 40 to 80 percent correction. This correction was dominated by selling in large caps and banks, as FPIs pulled out record funds from the markets during the month.

Globally, major economies undertook monetary and fiscal easing to combat the inevitable slowdown in the economy, led by US's massive $2 trillion stimulus. While the RBI infused liquidity and took several measures for monetary easing including loan moratoriums for borrowers and easing of NPA recognition for lenders, these band-aid solutions and inaction on fiscal stimulus acted as a great dampener for the markets. This combined with the 21-day lockdown in the country added to the woes of the investors as almost all businesses continue to witness operational shutdowns.

At this juncture, after a very significant correction, the equity markets seem to have priced in the worst. Consequently, taking cues from historic moments like this such as the 2008 financial crisis, considerable comfort can be derived from the prevailing valuations. Additionally, China has recovered as the economy is returning to normalcy. Given that there is no certainty that the recovery may not be V-shaped, investing at these valuations appears extremely favourable for the long term. In the short term, however, the spread in the US and Europe is scary and until there is some stability in the rise of cases, there continues to remain the risk of a sell-off on fears that a recovery will be long. Our markets should begin to return as we approach the lock down being lifted and reducing FII sales.

Debt

The yield on the 10Y benchmark (6.45% GOI 2029) ended at 6.13% in Mar 2020 as compared to 6.39% in Feb 2020. Across the globe, Central banks are reacting to this pandemic with massive rate cuts and liquidity injection to stabilize financial conditions. Domestically, RBI announced several bold and comprehensive measures primarily aimed at addressing the stress in financial conditions caused by the spread of COVID-19, Repo rate reduced by 75 basis points to 4.40 percent from 5.15%, reverse repo by 90bps to 4.0% and CRR by 100 bps to 3%.

All banks and financial institutions are being permitted to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020. Loan moratorium should also help offset near-term challenges to asset quality.

In the present disruptive environment when the whole country and a large part of the world is under lockdown, the relevance of fiscal deficit or inflation or such economic indicators will need to be ignored for the time being. We believe that savings from oil will help in giving fiscal stimulus. The lower yields may make it relatively unattractive for banks to park money in Reverse Repo. This may kick start the lending to productive sectors. Once things settled we expect bond yields to further move lower.

The investment opportunity in short duration bond funds, banking and PSU funds and dynamically managed duration funds are still present and becoming more attractive. Investors may look to invest in the funds depending on the scale of risk appetite and the investment horizon.