Investor Insights & Outlook

DiVitas Capital

06-Jun-2019

Monthly Newsletter - May 2019

Market Update

Nifty	11844
Sensex	39530
10Y G-sec	6.93%
1Y CP	7.70%
CD	7.00%
USD	69.26
Gold	32786 (Rs/10gm)
Brent	61.30 $/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**

Contact

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Strategy

Equity

The land-slide victory of the BJP, the incumbent party at the Centre, saw euphoria from the markets as continuity of the policy and pro-development issues as manifested were seen as positive triggers by the markets. However, the slowdown in the economy as witnessed from latest GDP data, unresolved NBFC liquidity crisis, unemployment rate with falling auto sales numbers, remains a challenge for the new Government. Owing to all this, the market participants expect the Monetary Policy Committee to cut the rates by at least a 25 bps in its upcoming meeting this week but a resolution to the NBFC liquidity is critical.

On the global front, the uncertainty continued to ensue as the Trump administration further escalated the tensions around the global trade war. In addition to the impending tariffs on Chinese imports, the Trump administration threatened a similar action on Mexican imports. Further, the US also withdrew trade concessions allowed to India as a beneficiary of developing country, under the GSP Programme. While the move is expected to have marginal impact on Indian exports, the move brings in the uncertainty with respect to global trade environment. There is also a brewing middle east crisis and an unresolved Brexit. Regretfully, all these have been self inflicted and unfortunately, politicians are unconcerned with economics.

We continue to maintain our positions and are positive on the small and mid-cap space, where the valuation gap from the large caps, is at higher than the historical averages. We believe going-forward the valuations should catch up with the broader market and therefore the current levels offer a good opportunity for accumulation. Sectorally, we continue to prefer cyclicals such as steel and cement, which will benefit as the investment cycle picks up. Also, we are positive on select names in auto ancillaries which in our view offer favorable risk-reward at these levels.

Debt

Yield on the 10Y Benchmark paper (7.26% G-Sec 2029) dropped from 7.41% to 7.06% in May 2019. This is the biggest monthly fall in 30 months as a second term for Prime Minister Narendra Modi-led alliance spurred foreign purchases, while lower oil prices improved inflation outlook.

With elections now out of the way, local policy will shift mainly towards improving our macros. Going forward RBI is likely to focus on growth than on targeting inflation to bring down the cost of funds after the data showed that the economy is growing at the slowest pace in five years.

The Reserve Bank expectedly cut the rate by 25 basis points during its bi-monthly policy on 06th June 2019. We also believe that RBI may also announce some liquidity support measure for NBFCs which have been going through very a challenging time.

However, oil prices and monsoon trends need to be monitored to ensure that there is no negative surprise with respect to inflation. Therefore, investors looking for stable return, it is advisable 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.