Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - May 2020

01-Jun-2020

Market Update

Nifty	9826
Sensex	33304
10Y G-sec	6.03%
1Y CP	5.70%
CD	4.40%
USD	75.66
Gold	46828 (Rs/10gm)
Brent	37.72 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Bluechip Fund**
- **DSP Top 100 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 - Short Term**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Contact

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Strategy

Equity

The markets ended the month of May on a very positive note as the economy and the globe began to come out of the lockdown. The stimulus announced by the Government was a damp squib but markets had been battered to valuations of closures. The opening was therefore a relief.

The month started with a negative bias as the financial stimulus provided by the government failed to cheer the markets. Despite various liquidity measures announced, the lack of fiscal support as well as specific measures for small businesses and MSMEs dented the market sentiment. The Banks and NBFCs witnessed the maximum pessimism on fears of increased defaults and NPAs. The second half however, was much stronger as the stringent lockdown ended and economic activity resumed in many parts of the country. This was also supported by rallies in international markets on back of big fiscal and monetary measures undertaken by the respective economy.

The main challenge will be to restore demand for which the Government has little choice but to announce aggressive fiscal measures to boost investment and growth. We hope the announcements made so far were to ensure survival. The changes to our psyche by the pandemic may be long lasting: of social distancing, survival, economic damage, et al. and therefore, the next recovery will need to be driven by investment rather than consumption.

We expect markets to remain volatile in near term. Domestically, the resumption of normal activity and the flattening of corona cases remains the immediate trigger, while the power struggle between the US and China continues to remain an important indicator on the international front.

These are unprecedented time and it is certain that economy will take time to revive. But, we believe that much of this uncertainty is already reflecting in the distressed stock prices post significant correction from March levels. Accordingly, we are optimistic and believe the current prices offer very favorable risk-reward. In addition to specific mid and small cap ideas, we believe that that even some of the large caps specially the private sector banks and NBFCs offer very attractive valuations for medium to long term accumulation.

Debt

Our debt markets witnessed the fall in yields by 10 basis points as the 10Y benchmark (6.45% GOI 2029) ended at 6.01% in May 2020 as compared to 6.11% in Apr 2020. During the month, in an unscheduled policy meet, RBI reduced the policy repo rate by 40 bps to 4.0%. The reverse repo rate was also reduced to 3.35% from 3.75% and Cash Reserve Ratio (CRR) was left unchanged at 3%. Additionally, RBI maintained an accommodative stance and announced several measures primarily aimed to ease the financial dislocations and counter impact of slowdown caused by COVID-19.

On the fiscal side, Central Government has raised its target market borrowing by INR 4.2 lakh crore to INR 12 lakh crore for FY21 to cover the expected fall in revenues and to fund the fiscal stimulus. However, weak oil prices, benign inflation outlook, lower global rates and easing liquidity by major central banks bodes well for yields in India.

We believe that the short to medium end of the yield curve offers better risk adjusted returns and continue to recommend investment in short to medium duration debt funds. Although in the long term, interest rates are likely to fall, these will be volatile on news of fiscal measures, downgrades, etc.