Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - Nov 2019

02-Dec-2019

Market Update

Nifty	12048
Sensex	40802
10Y G-sec	6.47%
1Y CP	6.50%
CD	5.80%
USD	71.73
Gold	37951 (Rs/10gm)
Brent	61.25 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Mid Cap Fund**
- **IDFC Sterling Value**
- **HDFC Midcap Opportunities Fund**
- **Mirae Asset Large Cap Fund**
- **Kotak Standard Multicap Fund**
- **HDFC Equity Fund**

DEBT

- **L&T Banking & PSU Debt Fund**
- **ICICI Banking & PSU Debt Fund**
- **Axis Banking & PSU Debt Fund**
- **IDFC Banking & PSU Debt Fund**
- **ICICI Pru Constant Maturity Gilt Fund**

Contact

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Strategy

Equity

The markets remained relatively unchanged during the month albeit with some volatility. The large caps retained strength and there was some stability in certain midcaps that will benefit from the reforms and capital raisings in the financial sector.

The markets continue to await the outcome of the China-US trade deal. Domestically, the GDP numbers expectedly were at a 6 year low of 4.5% for the July-September quarter. Further, most of the financial institutions including RBI and leading banks cut the GDP forecast for the whole year. While this obviously a negative development, we believe that markets had already discounted these figures and the rise is on account of the anticipated turnaround. Instead, focus now shifts to this week's MPC meet, wherein most market participants expect another rate cut to stimulate the economic activity and consumer demand. Further, the RBI is expected to take measures to ensure that the rate cut is passed to the end-borrowers. Regretfully, the reversal of Infra projects by newly formed state Governments remain a risk.

Continuing with our view that the markets may have seen their bottom, we believe that mid and small caps, whose valuation gap from the 'quality' stocks continue to remain very high, will see some interest in next few quarters and therefore we have been advising to increase allocation to these space.

Debt

Yield on the 10Y benchmark (6.45% GOI 2029) ended at 6.47% in November as compared to 6.48% in October. November saw an overhang of excessive bond supply, shortfall in revenue collections with increasing pressure of growth slowdown leading to fears of fiscal slippage. While the RBI is helping through the monetary policy easing measures, the successive decline in growth rate (GDP), core sector contraction, widening fiscal deficit and rise in retail inflation remain key concerns to address.

Even after rise in inflation, we expect a quarter percentage rate cut by RBI in upcoming policy review as we believe that growth will be an even more important driver for the RBI policy now.

We reiterate our view for investors looking for stable returns to remain in short duration debt products. On the other hand, investors with higher risk appetite may consider allocating to dynamic debt strategies that have higher duration as markets remained in denial mode after the previous rate cut. We further believe that RBI will now also focus on transmissions rather than simply reducing rates.