Investor Insights & Outlook

DiVitas Capital

05-Oct-2018

Monthly Newsletter - Sep 2018

Market Update

Nifty	10316
Sensex	34377
10Y G-sec	8.02%
1Y CP	9.00%
CD	8.83%
USD	74.10
Gold	32700 (Rs/10gm)
Brent	84.59 $/bbl

Product Recommendations

EQUITY

- **Kotak Equity Arbitrage**
- **ICICI Pru Equity Arbitrage Fund**
- **ICICI Pru Small Cap Fund**
- **Mirae Asset India Equity Fund**
- **Reliance Pharma Fund**
- **Kotak Standard Multicap Focus**
- **IDFC Sterling Value**
- **ICICI Pru Focused Bluechip Fund**
- **Sundaram Rural India**

DEBT

- **Axis Short Term Fund**
- **Kotak Corporate Bond**
- **IDFC Corporate Bond**
- **Tax Free Bonds**
- **Fixed Maturity Plans**

Strategy

Equity

India's large cap indices corrected sharply in September, with the Nifty 50 correcting more than 6% in September. The mid-caps corrected significantly more. The markets were hit by the IL&FS solvency crisis which also spiraled into a panic in the country's commercial paper markets. The Government and the RBI were swift to calm the markets by taking control of the IL&FS board and easing liquidity in the banking system respectively.

Global macros, primarily rising crude prices and strengthening US dollar have become causes of concern for the Indian economy after two quarters of healthy growth in economic activity. The uncertainty around global macros and weakness in India's financial sector led to broader market declines.

However, we are confident in the potential of Indian equities to provide healthy long term gains. The valuations in the broad market have become extremely attractive, and aggressive allocations should be made to both large and mid-cap funds. Steel, Cement, select Financials (including NBFCs) and pharma are our top picks.

Debt

Yield on the 10-year benchmark paper (7.17% GSec 2028) rose from 7.95% to 8.02% in September, falling as low as 8.18% as rising oil prices, strengthening US Dollar and concerns over India's trade deficit pushed Rupee to an all-time low of Rs.73 to the US Dollar. The yields were further hit by panic in India's CP markets but that was swiftly contained by the GOI and RBI; hence the yields returned to more manageable levels of around 8%.

Our bond market outlook remains bearish in the medium to long term, as rates are rising across the world. However in the short term, proactive action by RBI could spur confidence among foreign investors and lead to some gains.

We recommend existing investors to continue holding their present allocation. Investors looking for fresh fixed income allocation should consider well-managed corporate bond funds, FMPs and short term funds as yields across tenures are going up and are expected to remain elevated.

On IL&FS, there is hope that the Government's intervention and support, will enable the Group to begin monetizing assets and raise capital through a rights issue that will restore some confidence in the group's ability to meet its obligations. Ironically, the Group's major partner and debtor is the Government (including joint ventures with State Governments). The new Board and the appointment of a highly experienced MD will inspire confidence.

Contact

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