# Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - Dec 2020

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## Strategy

### Market Update

| | |
|---|---|
| Nifty | 14133 |
| Sensex | 48177 |
| 10Y G-sec | 5.89% |
| 1Y CP | 4.10% |
| CD | 3.55% |
| USD | 73.03 |
| Gold | 51372 (Rs/10gm) |
| Brent | 52.43 $/bbl |

### Product Recommendations

**EQUITY**

- **ICICI Pru Value Discovery Fund**
- **ICICI Pru Pharma Healthcare & Diagnostics Fund**
- **ICICI Pru Midcap Fund**
- **SBI Banking & Financial Services Fund**
- **Kotak Standard Multicap Fund**
- **ABSL Infra Fund**

**DEBT**

- **Axis Banking & PSU Debt Fund**
- **ICICI Banking & PSU Debt Fund**
- **IDFC Dynamic Bond Fund**
- **IDFC Bond Fund - ST**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

### Equity

Indian markets ended the calendar year 2020 on a positive note with frontline indices – Nifty and Sensex rising about a percent each for the month of December. The mid and small cap index outperformed the broader markets, with many stocks giving double digit returns during the period. Overall, the Nifty and Sensex ended the calendar year with gains of about 15% each, rebounding strongly from the March lows.

Domestically, the strong FIIs flows continued to fuel the market sentiment as they were net buyers in equity markets for the third straight month. This coupled with recovery in economic activity and positive news on vaccine rollout further propelled equity markets to record highs. Globally, the second stimulus package by the United States, the signing of the Brexit deal between UK and the European Union lifted sentiment. Surprisingly, this sentiment was unaffected by stringent lockdowns in some parts of Europe.

Clearly, the run up despite good news cannot justify fundamental valuations unless spectacular growth follows and assumes uninterrupted low interest rates with abundance of liquidity. Consequently, we continue to believe that the large caps are close to full valuations and therefore, remain extremely cautious. Large private banks and financials, which have witnessed strong performance in last few months, also appear reasonably valued now. Select pockets in mid and small cap categories such as capital goods, domestic economy focused businesses, PSUs and real estate offer value on the upside provided the upward trend remains.

### Debt

The yield on the 10Y benchmark (5.77% GOI 2030) came down after making a high of 5.97% during December and closed at 5.90% as compared to 5.89% in November.

The year 2020 has been an extraordinary year on account of a rare event in the form of the Covid-19 pandemic and has therefore warranted an extraordinary response from the Central Banks worldwide. During 2020, the 10-Year G-Sec yields have largely maintained a downward trajectory in the wake of RBI rate cuts and its efforts to keep the cost of borrowing at subdued levels. On the other hand, yields at the shorter end of the curve have continuously declined with the cut in reverse repo rate, which is currently at 3.35%.

The systemic liquidity surplus persists as RBI continues to ease monetary policy and infuse liquidity into the banking system. So far, the fixed income performance has been predominantly driven by RBI's monetary accommodation. Although the inflation has shown signs of cooling off, it is expected to be key and monitorable as demand and growth recovers. Therefore, a rate cut by RBI seems unlikely in this scenario.

We expect the surplus liquidity to be absorbed by growth on the credit side and may lead to pick-up in inflation. Given this backdrop, we continue to recommend short term and AAA corporate bonds for stable returns. However, return expectations must be muted.

### Contact

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