Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - Jan 2021

03-Feb-2021

Market Update

Nifty	14854
Sensex	50473
10Y G-sec	6.11%
1Y CP	4.30%
CD	4.08%
USD	72.97
Gold	47958 (Rs/10gm)
Brent	57.67 $/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**
- **Kotak Floating Rate Fund**
- **IDFC Dynamic Bond Fund**
- **IDFC Bond Fund - ST**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Contact

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Strategy

Equity

Indian equity markets had a weak end to the month of January as frontline indices – Nifty and Sensex witnessed sharp correction in later half of the month from the lifetime highs on uncertainty of the Budget proposals and a global correction. The midcaps outperformed the broader market closing in green for the month, while the small-cap index was almost flat for the month.

Domestically, the trend of pickup in economic activity continued on back of easing of lockdown owing to the reduction in corona cases. The sentiment was further aided by the beginning of the vaccination drive. On the monetary side, we believe the Monetary Policy Committee (MPC) will adopt a status quo in the February meeting to maintain inflation targets. Globally, the US Fed continued to maintain interest rates near to zero on fears of delayed economic recovery. In Europe, especially UK, increasing corona cases dampen the expectations of a quick recovery as new strains of virus threatened the economic activity.

Fortunately, the Budget surprised the market with its focus on infrastructure spending, privatizations and divestments, and liberalizing FDI in Insurance without raising taxes. While India continued to underperform global markets in the years preceding Covid due to its apathy for the economy, the Govt eventually seized the global turmoil to loosen its purse strings to focus on Infrastructure spending and real reforms. The markets rose on optimism that the economy received this booster dose, and there is now a real chance that the reforms together with ease of doing business and leveraging a greater share of global business opportunities (arising from a small shift away from China) will substantially improve corporate performance and decouple from global markets.

We remain cautious at these market levels after the rise as we expect increased volatility in the coming weeks with valuations still above historical averages for most large caps. We believe the mid and small-cap space and pharma (after recent correction) offer a good buy on dips opportunity. Sector-wise, we would raise allocation to capital goods, infra, PSU banks and select NBFCs on any corrections.

Debt

The yield on the 10Y benchmark (5.77% GOI 2030) ended at 6.14% up by 19 bps since the budget announcement as compared to 5.95% in January 2021.

The Govt. presented a growth-oriented budget to combat the economic fallout of Covid-19. The FY21 fiscal deficit target was revised upwards to 9.5%, this was higher than market expectation. The finance minister also announced that the Govt. will borrow an additional INR 800 million in the last two months of the current fiscal, markets await the tenure of these bonds and other modalities.

Over the coming months, higher market borrowings, concerns over inflation and a move towards normalizing liquidity conditions by the RBI could maintain pressure on the yields. Going forward, the bond yields are expected to be guided by RBI's upcoming monetary policy and the inflation numbers. RBI support would be crucial to carry out the borrowing program and we expect the RBI guidance to be accommodative. While the scope of a rate cut is limited, we would expect RBI to use unconventional measures such as OMOs and liquidity support to guide the rates and prevent undue volatility.

We continue to recommend short term, Floating rate funds for investors looking for stable returns and the ones with higher risk appetite can consider higher duration and dynamically managed funds.