Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - Feb 2021

01-Mar-2021

Market Update

Nifty	14762
Sensex	49850
10Y G-sec	6.20%
1Y CP	5.00%
CD	4.13%
USD	73.35
Gold	45645 (Rs/10gm)
Brent	65.49 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Value Discovery Fund**
- **ICICI Pru Pharma Healthcare & Diagnostics Fund**
- **ICICI Pru Midcap Fund**
- **Kotak Small Cap**
- **Kotak Flexicap Fund**
- **ABSL Infra Fund**

DEBT

- **IDFC Floating rate fund**
- **Kotak Floating rate fund**
- **IDFC Dynamic Bond Fund**
- **IDFC Bond Fund - ST**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Contact

If you require any detailed information, please contact:

Gurmeet Singh
gurmeet@divitascapital.com
+91 - 98 73 010 019

Ashish Tyagi
ashish@divitascapital.com
+91 - 99 11 222 707

Strategy

Equity

The Indian equity markets witnessed a strong performance in February. Despite the strong correction on the last day, the frontline indices Nifty and Sensex rose about 6% for the month. The banking index outperformed the broader markets with both private and public financials witnessing buying interest.

Domestically, the FIIs continued to be buyers in Indian equities with a flow of more than 25,000 Cr during the month. While signs of economic recovery and better than expected corporate earnings provided the fillip, the growth-focused Budget also aided the market sentiment. Further, aggressive divestment proposals for PSU and PSU Banks in the Budget fuelled the rallies in the stocks.

Globally, the US Fed continued to maintain its dovish stance, alleviating any fears of increasing interest rates in the short run. However, a surprisingly steep hike in the US treasury yields resulted in a deep correction in all emerging markets including India in the latter part of the month.

Overall, we remain cautious about the market movements and expect markets to be volatile in the coming months. We believe that while the frontline index stocks are close to full valuation, there is a buying opportunity in select mid and small-cap space for the medium to long term. Sector-wise, we believe that capital goods and infrastructure focused businesses, PSUs, and domestic-focused companies offer attractive opportunities as the Government focuses on reviving the domestic economy.

Debt

The yield on the 10Y benchmark (5.77% GOI 2030) ended at 6.20% up by 25 bps as compared to 5.95% in January 2021 as the higher than expected borrowing program to meet the expenditure resulted in bond markets reacting negatively.

RBI conducted the OMOs (open market operations) to ensure that 10Y G-Sec remains close to 6%. However, due to global bond yields moving up (US 10Y G-Sec) similar trend was seen in domestic yields as well. The RBI has largely tried to hold the 10Y G-Sec at this point has led to the temporary underperformance of shorter maturity bonds versus the 10Y. RBI is expected to continue the gradual normalization of liquidity management operations as the growth & economic activity picks-up.

Higher fiscal support may result in growth recovery being strong; which may lead to a pick-up in credit growth and risk of inflation moving higher. This may result in interest rate volatility.

We believe that we are at the fag end of the interest rate cycle and we continue to recommend investing in AAA Short Duration Bond Funds and Floating Rate Funds.