



Investor Insights & Outlook

JULY 2021

04th August 2021

Market Update

Nifty	16259
Sensex	54370
10Y G-Sec	6.20%
USD INR	74.15
Gold	48153 (Rs/10gm)
Brent	72.32 (\$/bbl)

Product Recommendations

Equity

ICICI Pru Value Discovery Fund
Mirae Asset Large Cap
Kotak Smallcap Fund
Nippon India Pharma Fund
Kotak Infrastructure & Economic Reform Fund

Debt

ICICI Pru Equity Savings Fund
Axis Short Term Fund
Kotak Equity Arbitrage Fund
DSP Floating Rate Fund
IDFC Dynamic Bond Fund
IDFC Bond Fund - ST
HDFC Ltd Fixed Deposits
Bajaj Finance Fixed Deposits

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EQUITY OUTLOOK

Indian equity markets continued to trade with positive bias in July though within a range. However, the mid and small-cap outperformed with gains of about 3% and 8% respectively. The Banking index too remained flat for the month. In the last few days, the benchmarks (specifically Nifty and Bank nifty) have broken out of the range despite FII selling in July.

Domestically, the reduction in daily covid cases and pick up in vaccination drive possibly resulted in this positive sentiment. While the FIIs continued to be net sellers in July, the DIIs and retail investors continued to pump in money in the markets. With the economy opening up, we expect activity to pick up and normalize over the next few months, provided the third wave doesn't arrive. Further, we expect the RBI to maintain status quo on the repo and reverse repo rates in the upcoming monetary policy meeting that will continue to aid the existing momentum.

Globally, the US Fed continued to indicate that it will watch inflation with the possibility of increasing interest rates sooner than later. However, any immediate tapering off was ruled out as growth pickup slowed down in recent months. Elsewhere, the Chinese Government undertook strong measures against private enterprises in the education, technology, and property sector, resulting in massive corrections in the Chinese and Hong Kong equity markets. While this move may give some jitters to foreign investors towards emerging markets, in our view, that this is positive for our markets as FIIs may prefer the Indian economy for fresh allocations given the much more certain government regulations.

We believe all the positives are in the price and maintain our cautious stance on the markets. The abundant liquidity has continued to propel the markets higher, much ahead of the fundamentals. Further, with uncertainty concerning the third corona wave, we believe that the risk-reward does not seem favourable at these levels. Therefore, only a dips/staggered approach may be used for fresh equity allocations and any further rises should be used to reduce exposure. We continue to like NBFCs and small private Banks, which show some valuation comfort post the correction in the last few months. Further, capital goods and media remain our long-term picks as the valuations seem favourable from a long-term perspective.

DEBT OUTLOOK

The yield on the new 10Y benchmark (6.10% GOI 2031) went up by 10 bps to close at 6.20% in July 2021. The debt market became nervous in the recent past over mixed signals from high-frequency data, which has led to an expectation of preponement of normalization of monetary policy. The market closely tracks factors like the rate of vaccination, CPI, Rupee movement, and RBI's policy decisions in terms of liquidity withdrawal. Global factors such as crude oil prices, US yield movement and Fed's decision on expected tapering in the coming months would also, impact the yields going ahead.

Further, an additional G-Sec supply of ~Rs.1.58 lakh crore is possible to compensate for the GST shortfall, which may negatively impact the long-term yields although we expect RBI to continue to support the long-term yield curve through OMOs. The market also saw policy announcements from Fed, wherein they expect inflation to remain above the central bank's target level in the months ahead, but that it isn't enough to cause the Fed to change its policy stance. They would wait for pick up in employment numbers before changing the rate stance.

We expect the RBI to continue with its accommodative stance, support growth, and focus on inflation. Further, in various media reports, RBI has already mentioned that inflation is transitory, so no incremental dovish announcement is expected.

Given this backdrop, we continue to recommend accrual products positioned to capture the yield movement in 1-2 years segment & short-term fixed deposits until there is further clarity on interest rates for the longer term. Investors with a higher risk appetite can consider dynamically managed funds.