Investor Insights & Outlook

AUGUST 2021

03rd September 2021

Market Update

Nifty	17262
Sensex	57983
10Y G-Sec	6.17%
USD INR	73.05
Gold	47114 (Rs/10gm)
Brent	73.17 ($/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

Contact

If you require any detailed information, please contact:

Gurmeet Singh
gurmeet@divitascapital.com
+91-9873010019

Ashish Tyagi
ashish@divitascapital.com
+91-9911222707

EQUITY OUTLOOK

Indian markets continued to trend upwards in the month of August with the large caps driving the benchmark considerably higher. However, there was weakness in the broader markets with mid and small cap shares giving up some of the gains of recent months.

Domestically, the economic activity picked up as the covid cases continued to trend downwards in most parts of the country. The sentiment was further aided by the pickup in vaccination drive. Even though GDP data for the Apr-June quarter showed ~20% growth amid a low base, the private consumption was seen at lower levels, indicating pain in the broader economy. Further, lower consumption implies that private capex investment cycle, which has been a great driver of economic growth in recent years, is sometime away and therefore the onus continues to be on government to facilitate spending to get the economy out of the pandemic induced slowdown. In the meantime, surplus liquidity is driving the momentum in the large caps and consequently, benchmarks.

Globally, the Fed continued to maintain that the tapering was sometime away, propelling away any immediate fears of rate hikes. This resulted in rally in the global markets. European countries also witnessed some pickup in activity. Chinese government's crackdown on technology continued with more stringent rules in education and gaming sectors.

As has been the case in recent months, we continue to maintain a cautious stand on market levels. Obviously, the liquidity and momentum may maintain buoyancy in the markets in the short term; the medium and long term will be determined by the economic activity pickup, which will take a few more quarters for normalcy. Consequently, only deep corrections may be used to buy into the markets.

Domestic facing sectors such as capital goods, textiles, infrastructure and NBFCs remain our top picks.

DEBT OUTLOOK

The yield on the new 10Y benchmark (6.10% GOI 2031) remained moderate during the month and ended flat at 6.21% in August 2021. The softening of yields is mainly attributed to the dovish speech of Fed Chair and comments from RBI that they don't want to raise the rates anytime soon.

Additionally, the average yields on the 10Y state development loans (SDLs) fell to nine-week low on 31st August, after yields on Govt. securities (G-Sec) moderated. Lower than expected borrowing by the states in the current quarter also aided the softening of yield. As we witnessed the surge in debt flows in August, after being tepid for months, the Rupee strengthened against the Dollar along with other Asian peers.

Given this backdrop and no further change in our view, we continue to suggest accrual funds in 1-2 years maturity segment and short-term fixed deposits until there is further clarity on interest rates for the longer term. Investors with higher risk appetite can consider dynamically managed funds.

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