DIVITAS CAPITAL MONTHLY NEWSLETTER

Investor Insights & Outlook

OCTOBER 2021

01st November 2021

Market Update

Nifty	17930
Sensex	60138
10Y G-Sec	6.38%
USD INR	75.01
Gold	47873 (Rs/10gm)
Brent	83.42 ($/bbl)

Product Recommendations

Equity

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

Debt

ICICI Pru Equity Savings Fund
DSP Floater Fund
Kotak Floating Rate Fund
Kotak Dynamic Bond Fund
IDFC Dynamic Bond Fund
ICICI Pru Equity Arbitrage Fund
HDFC Ltd Fixed Deposits
Bajaj Finance Fixed Deposits

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EQUITY OUTLOOK

As anticipated, after months of outperformance vis-à-vis global peers, the Indian equity markets witnessed some profit booking in October after making a high. While the first half of the month was strong, with both frontline indices – Nifty and Sensex touching lifetime highs, some quick correction was seen in second half, resulting in an overall flat finish for the month. Bank Nifty, though, outperformed during the month with better than expected performance.

Domestically, after a few months of buying, Foreign Institutional Investors (FIIs) turned net sellers, pulling out about Rs 12,500Cr from equity markets during the month. The results for most corporates were positive; however, the surging commodity and fuel prices hampered the margins for many companies, indicating the plausibility of higher than anticipated inflation. Even globally, there is a growing concern with respect to rate hikes as well, with inflation being a major concern for most major economies. US Fed has already hinted at tapering off the bond purchases and this remains a key consideration for both global and domestic markets, as quantum and duration of hikes may bring in the market volatility.

We continue to remain cautious and believe these corrections could be used to make staggered investments in markets provided there is no sharp reversal in global markets. We believe the mid & small cap space offers much more favorable risk reward than the large caps with Infrastructure, Capital Goods, PSU Banks, small private banks & select NBFCs remaining our top picks.

DEBT OUTLOOK

The yield on the new 10Y benchmark (6.10% GOI 2031) rose to 6.37% from closing of 6.21% in the previous month following a sharp rise in crude oil prices and the US treasury yields. RBI in its bi-monthly monetary policy in Oct 21 removed the calendared Government Securities Acquisition Program (GSAP) and converted it to as and when needed which also negatively impacted the yields. Further, RBI Minutes also hinted at the normalization of liquidity, and market participants are expecting further actions around the same in the days ahead. In our view, RBI may embark on a gradual exit from the prevailing easy monetary policy by reducing the short-term liquidity through measured increases in the variable rate reverse repo (VRRR) auctions.

The monetary policy committee also expressed its concerns about the sticky core inflation and upside inflation risks emanating from a surge in global commodity prices driving up the input costs which may lead to further hardening of the yields.

Hence, we believe the above evolving conditions point towards a more nimble and active duration management strategy, which may help in navigating a higher interest-rate-sensitive period. We recommend the following strategies: Accrual Strategy and Active Duration strategy.