Investor Insights & Outlook

DiVitas Capital

Monthly Newsletter - February 2022

28-Feb-2022

Market Update

Nifty	16794
Sensex	56247
10Y G-sec	6.76%
CD	4.78%
USD	75.49
Gold	51067 (Rs/10gm)
Brent	103.15 $/bbl

Product Recommendations

EQUITY

- **ICICI Pru Value Discovery Fund**
- **ICICI Pru Banking & Financial Services Fund**
- **Kotak Emerging Equity Fund**
- **Mirae Asset Large Cap**
- **Kotak Infrastructure and Economic Reform Fund**

DEBT

- **ICICI Pru Equity Savings Fund**
- **Axis Dynamic Bond Fund**
- **ICICI Pru All Seasons Bond Fund**
- **DSP Floating Rate Fund**
- **IDFC Dynamic Bond Fund**
- **Kotak Dynamic Bond Fund**
- **HDFC Ltd Fixed Deposit**
- **Bajaj Finance Fixed Deposit**

Strategy

Equity

Just when the world had started to normalize post the covid wave, Russia decided to invade Ukraine, disrupting the economies world over with fear of the unknown. While there was no immediate direct impact on India except may be the higher crude prices, global countries and their economies are much more interconnected in terms of their dependence on each other for trade, services, investments, etc. Therefore, any significant geopolitical event has a sentimental impact in financial markets across the globe. The result – almost all major economies witnessed sharp fall in their equity markets, with Russia, expectedly worse hit - witnessing >50% fall at one point and Ruble weakening severely against the Dollar. This meltdown has been accentuated by FII selling, particularly the large caps, and consequently, the Nifty.

While there would continue to be volatility in the short term as the markets will pay attention to the mediation and peace/truce talks between Russia & Ukraine, we believe that this drop is a good opportunity to increase equity allocations as the risk-reward especially in the mid and small cap space seems very favourable.

One clear theme that emerges post the pandemic and the subsequent world events make clear is the focus on 'Atmanirbharta' or self-reliance for India. These global events are only increasing our resolve as the Government will put greater emphasis on manufacturing in the country and open up sectors such as defence for Indian companies, thereby providing growth opportunities. Likewise, infrastructure companies including the logistics sector will benefit from this trend. Similarly, we expect the real estate cycle to continue and pick up in coming years as more individuals look to buy homes amid the uncertain environment, providing an opportunity in the building material and housing finance companies.

In summary, this is a good opportunity to raise equity allocations.

Debt

RBI, in its monetary policy review on February 22 preferred to maintain status quo on rates. This was against the market consensus of a reverse repo hike following the lead of other Central Banks; however, the ongoing domestic recovery is still incomplete and needs continued policy support. In fact, this is the third policy in a row that RBI has preferred to keep rates unchanged as against market expectations of rate normalization. Thus, the yields fell by ~10-15 bps post the monetary policy announcement. However, now on account of geopolitical concerns, the 10Y G-Sec closed the month at 6.76% as compared to 6.73% in the previous month.

RBI noted that the growth momentum has faced headwinds due to the rise in Covid-19 cases and global conditions have turned adverse. The Central Bank maintained its inflation projections for FY22; however, the bigger surprise was lower than expected FY23 inflation projection, while projecting a robust growth outlook.

Any extreme views on market direction need to be avoided, especially given the global backdrop. In the short-term, bond yields will take direction from developments on Russia/Ukraine crisis, movement of commodity prices and upcoming FOMC meet, barring any significant local development. Going forward, while no change in policy rates should improve investor sentiment slightly, factors like large Government borrowing programs, high global inflation, accelerated tapering, and expectations of rate hikes by Central Banks of Advanced economies (AEs), etc. are likely to persist and could put pressures on yields. Given this backdrop, we continue to recommend floating rate and dynamic debt strategies.

Contact

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