DIVITAS CAPITAL

MONTHLY NEWSLETTER

Investor Insights & Outlook

APRIL 2022

10 May 2022

Market Update

Nifty	16240
Sensex	54365
10Y G-Sec	7.36%
USD INR	77.31
Gold	47100 (Rs/10gm)
Brent	105.22 ($/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

DSP Corporate Bond Fund

Nippon India Dynamic Bond Fund

DSP Floating Rate Fund

IDFC Dynamic Bond Fund

Kotak Dynamic Bond Fund

HDFC Ltd Fixed Deposit

Bajaj Finance Fixed Deposit

Contact

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EQUITY OUTLOOK

Indian markets continued to remain volatile during the month on fears of escalating Russia-Ukrain crisis, rising interest rates, high inflation and a global recession in line with global markets. Actually, the benchmark and currency has out performed global peers.

The domestic economy continues to perform well with manufacturing picking up in April, as visible in the all-time high GST collections. However, the market reacted adversely to the unexpected repo rate and CRR hike by RBI, although the Fed decision was as expected. Globally as well, inflation concerns hampered the market sentiments, with most global central banks are expected to raise interest rates in coming months. Consequently, global equity markets, especially Technology stocks, have taken a strong hit in recent periods. Our markets are also dealing with large FII selling, some US$17 billion this calendar so far.

Despite the rate hike, we continue to remain positive on Financials. Even though most leading Banks and NBFCs have showed positive performance in FY22, the sector has delivered below average returns in last two years, trailing the broader markets. We believe that Financials are in a good spot with respect to risk and reward and therefore the sector remains our top pick. Autos, capital goods, pharma and Infra are other sectors, where we see attractive opportunities as the Government is expected to frontload the capital spending to alleviate the growth and stagflation concerns.

DEBT OUTLOOK

RBI, in its monetary policy review on 08th April 2022 preferred to maintain the status quo on rates; however, RBI added the guidance that it will focus on withdrawal of accommodation to keep the inflation within its target, which was considered as a sign of normalization by the market participants. As a result, the yield on the 10 Y benchmark went up by 40 bps and closed the month at 7.18% from the closing of 6.78% in the previous month.

Furthermore, in an off-cycle policy meeting on 04th May, RBI surprised the market participants by announcing a 40 bps repo rate hike to 4.40% with immediate effect along with a 50 bps increased in CRR (cash reserve ratio) to 4.5% from May 21, 2022, which should reduce the banking system liquidity by ~Rs. 87000 Cr, according to RBI. These measures were attributed to evolving inflation situation due to spike in commodity & food prices. The prices of Govt. bonds experienced a steep decline, yield on the 10 Y G sec jumped to 7.4% as compared to 7.10% on the previous day.

Similarly, the Federal Reserve's officials voted unanimously to increase the benchmark rate by a half percentage point. Further, the Fed chief Jerome Powell said that an additional 50 basis point increase should be on the table at the next couple of meetings.

We expect the RBI to go after the high inflation in the near term along with systematic withdrawal of excess liquidity from the banking system. This will put the pressure on the yields, we expect the long-term rates to remain volatile however the impact on the short- term rates will be more visible. This vindicates our stand of not allocating to short or long term bonds in the last 6-9 months and instead take shelter in Hybrid strategies like Arbitrage, Equity Savings. On debt, we continue to favour floating rate and dynamic duration strategies as they are best suited to navigate the current scenario.