DIVITAS CAPITAL

MONTHLY NEWSLETTER

Investor Insights & Outlook

JUNE 2022

05 July 2022

Market Update

Nifty	15810
Sensex	53134
10Y G-Sec	7.40%
USD INR	79.07
Gold	52470 (Rs/10gm)
Brent	113.62 ($/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 Crisil SDL 2027 Debt Index Fund

Nippon India Dynamic Bond Fund

IDFC Gilt 2027 Index Fund

IDFC Dynamic Bond Fund

HDFC Ltd Fixed Deposit

Bajaj Finance Fixed Deposit

Contact

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EQUITY OUTLOOK

Indian markets continued to trade weak in the month of June on the back of relentless FII selling. The benchmark indices – Nifty and Sensex ended the month ~5% lower, giving up all the gains of last one year. The broader markets faired much worse as the mid and small caps continued to witness steeper falls on very low volumes. The Nifty has been held up by RIL, ITC and a handful of others.

Domestically, FPIs continued to pull out money from Indian markets, now totalling about Rs. 2.2 lakh Crore (US$30 billion) in the first six months of 2022. Consequently, Banking stocks, where the FPI holding has been among the largest, saw strong selling, hampering the overall market sentiment as well. This sentiment was further exaggerated by RBI hiking the repo rate by 50bps to tackle inflation, which many fear would reduce the demand in the economy.

Similar trends were seen in global equity markets also as most global central bankers including the US Fed, continue to hike interest to tackle inflationary pressures amidst the slowdown concerns.

We believe that after the recent correction, the valuations have started to look extremely attractive for medium to long term. As an example, blue chip banks have remained at levels 3 years ago although NPAs have been fully provided for and the business environment is far superior – consequently, our top pick. Whilst it is virtually impossible to predict the market bottom, investors may start to allocate funds to equities over the next 3-6 months in a staggered manner. Banks, Autos, Infra, Pharma and Capital goods remain our top picks in sectors.

DEBT OUTLOOK

The yield on the 10Y benchmark went up marginally by 4 bps and closed at 7.45% before touching a high of 7.61% during the month from the closing of 7.41% in the previous month. Domestic yields surged initially post another rate hike of 50 bps by RBI and tracking the Treasury yields ahead of the U.S. Federal monetary policy review on 15th June. However, most of the losses were reversed on better-than-expected cut-off yields at weekly Govt. auctions. Also, domestic bonds followed a decline in U.S. Treasury yields which was initiated by Fed's comment on future rate hikes.

The current geopolitical crises had led to a spike in all commodities from energy to metal to Agri-commodities; therefore, bringing a big challenge for central bankers across the globe. The central banks across the globe are dealing with a twin problem of commodities shock that is adding to existing high inflation leading to the withdrawal of accommodative policies; while facing the growth challenge as economies are just coming out of pandemic shock. This is making the market participants nervous as this means that the central banks are prioritizing inflation over growth and there could be more aggressive rate hikes in the future.

As far as the Indian economy is concerned, we are structurally much stronger, but not immune to global shocks. The key positives are Strong FX reserves, policy credibility & positive growth outlook. We recommend investors looking for accruals to consider Gilt Index Funds with medium duration (3-4 years); however, investors with a slightly higher risk appetite could consider investing in Dynamic Duration Debt fund as they offer higher risk-reward.