DIVITAS CAPITAL

MONTHLY NEWSLETTER

Investor Insights & Outlook

MARCH 2022

05 April 2022

Market Update

Nifty	17957
Sensex	60176
10Y G-Sec	6.90%
USD INR	75.38
Gold	51251 (Rs/10gm)
Brent	108.95 ($/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
- 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

Contact

If you require any detailed information, please contact:

Gurmeet Singh
gurmeet@divitascapital.com
+91 - 98 73 010 019

Ashish Tyagi
ashish@divitascapital.com
+91 - 99 11 222 707

EQUITY OUTLOOK

Global equities including Indian markets made a strong comeback in the month of March after there were indications of peaceful negotiations between Russia and Ukraine. The frontline indices – Nifty and Sensex closed the month with gains of about 4%. However, the markets continued to trade with volatility, as conflicting reports emerged on the progress of the peace talks. The recovery in the markets can only be attributed to possible limited collateral damage this war can have on the global economy. The rise in crude is a concern for import dependent economies such as India but again the expectation is that this uncertainty may be short lived.

Foreign Institutional Investors (FIIs) continued to be net sellers in Indian markets, pulling out about Rs 41,000 crores from equities in March. With this selling, their cumulative selling in the last six months of the financial year has risen to about Rupees 1.48 lakh crore (US$ 20b).

Domestically, the economic activity continued to pick up during the month. Exports from India have also touched record highs for FY22, which augers well for domestic manufacturing. Inflation, however continues to be a cause of worry for markets, as supply chain disruption is resulting in higher than anticipated price rises. Post the state elections in UP & Punjab, the fuel prices have also started to rise, implying a higher expected inflation. While many global central bankers, latest being the US Fed, have decided to raise interest rates, RBI has maintained its accommodative stance. The equity markets will keenly watch the outcomes of the MPC meet scheduled for this week, which may bring in volatility in the short term.

Overall, despite the sharp recovery from the lows, we remain positive on markets from medium to long term perspective. We believe that there are pockets in markets, which offer favourable risk-reward from the current levels. Banking and Autos which have underperformed the broader markets in the last few years, remain our top picks. Similarly, we believe the mid and small cap segment which has witnessed strong corrections from the last year highs, may outperform the broader markets. Further, Pharma and Technology offer a defensive approach to volatility.

DEBT OUTLOOK

March was dominated by rising geopolitical risk in form of the Russia-Ukraine war - resulting in risk aversion in financial markets, sharp rally in commodities (especially oil), and volatility in the currency market. Despite all the negatives, the domestic fixed income market faired relatively better, the 10Y G-Sec closed the month at 6.78% as compared to 6.76% in the previous month.

Globally, most central banks have already embarked on the path of normalization. The Fed delivered a 25bp rate hike in its 16th March meeting and further affirmed that while uncertainty related to war is rising, Fed is committed to bringing inflation back to target and would be willing to consider larger hikes if inflation were to continue to remain high. Rate and liquidity normalization across countries has resulted in a bit of tightening of the global liquidity scenario.

Domestically, March saw record GST collection reflecting domestic recovery, and increased formalization of the economy. RBI is unlikely to change its policy rate in April and thus continue to hold on to its “accommodative” stance as it awaits durable recovery.

Going forward, the evolving geopolitical risk is likely to be a dominating factor for growth, inflation, fiscal, rates, liquidity, and financial market outlook. Further, the higher G-sec borrowings, along with (slower) rate normalization are likely to put pressure on G-sec yields. RBI’s OMOs (Open Market Operations) are likely to provide support. Given this backdrop, we continue to recommend Floating and Dynamic duration funds, which may help in navigating the current market.