DIVITAS CAPITAL MONTHLY NEWSLETTER

Investor Insights & Outlook

MAY 2022

03 June 2022

Market Update

Nifty	16584
Sensex	55769
10Y G-Sec	7.46%
USD INR	77.41
Gold	51308 (Rs/10gm)
Brent	117.13 ($/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 equity markets had a very weak month, with frontline indices Nifty and Sensex falling more than 3% each although the intra month low saw a higher low of -9% in line with global markets. Banking stocks and the mid & small caps also witnessed heightened volatility during the month.

Domestically, FII's indiscriminate selling continued as monthly net outflows in May crossed Rs 45,000 crore (US$ 6b), the second largest single-month outflow since March 2020 (YTD US$ 30+b). While some of this was absorbed by DII's and retail investors, the overall sentiment remained negative. This was further exacerbated by the unexpected and out of turn rate hike by RBI. Globally, the concerns regarding inflation and eventual slowdown (and recession) in US economy fuelled by the hawkish Federal Reserve irked the global equity markets. The worst hit was the IT sector as Nasdaq corrected > 30% from its recent highs.

Overall, we believe the sharp correction in markets have given an opportunity to accumulate equities for long term investors. Even though the short term market movements will continue to be guided by Fed comments, energy prices and RBI interest rate decisions, the valuations for the broader markets are much more normalized. We prefer Financials and Autos as these normally lead any recovery. Given the muted returns of the two sectors in the last several years, we believe that the valuations are attractive from medium to long term perspective, especially as the banks have started to see credit growth and the semiconductor shortages have started to ease for the auto sector revival. Further, the strong correction in IT and Pharma sector also offers favourable entry point as a defensive bet in these volatile times.

DEBT OUTLOOK

The yield on the 10Y benchmark went up by 23 bps and closed the month at 7.41% from the closing of 7.18% in the previous month, similar movements were also witnessed in other segments of the yield curve. This was a challenging month for the debt markets with RBI turning hawkish along with the policy actions from global central bankers. Reserve Bank of India has changed its accommodative stance and brought many changes in a short span of time. Furthermore, RBI clarified that in the sequence of importance, inflation will be first and then economic growth. For quite some time, particularly during pandemic-induced growth slowdown, growth has been the priority. We expect withdrawal of surplus liquidity from the system and hiking CRR is a strong step towards it; we expect the RBI to intensify its battle against high inflation. Although the crises in Ukraine has limited economic impacts for India. However wider geopolitical implications and movement of commodity prices are likely to affect near term inflation projections for the central bankers. We expect further rate hikes in the upcoming policy meetings.

We expect longer-end of the yield curve to remain volatile, but more protective compared to shorter-end as the impact of rate hikes will be more visible in the short end of the yield curve.

We continue to favour floating rate and dynamic duration strategies as they are best suited to navigate the current scenario.