DIVITAS CAPITAL

MONTHLY NEWSLETTER

Investor Insights & Outlook

OCTOBER 2022

02 Nov 2022

Market Update

Nifty	18014
Sensex	60906
10Y G-Sec	7.40%
USD INR	82.40
Gold	50616 (Rs/10gm)
Brent	97.61 ($/bbl)
Repo Rate	5.90%
Reverse Repo	3.35%

Product Recommendations

Equity

ICICI Pru Banking & Financial Services Fund
Kotak Emerging Equity Fund
ICICI Pru Technology Fund
Mirae Asset Large Cap
ICICI Pru Pharma Healthcare & Diagnostics (PHD) Fund

Debt

ICICI Pru Equity Savings Fund
Axis Crisil SDL 2027 Debt Index Fund
IDFC Gilt 2027 Index Fund
Kotak Nifty SDL Apr 2027 Top 12 Equal Weight Index Fund
HDFC Ltd Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- Indian markets continued to outperform global peers in October.
- Nifty & Sensex gained over 5% for the month, while Bank Nifty outperformed; mid & small too were positive but underperformed the frontline indices.
- FPI flows were flat for the month, though some IPOs saw some buying interest from foreign investors.
- Global markets, especially tech heavy Nasdaq and Hang Seng indices, continued to show weakness as US Fed continued to remain hawkish; all eyes now fall on the next Fed meeting, scheduled for this week. Dow rose 14% for the month.

DEBT

- The yield of the 10- year benchmark 6.54% 2032 settled at 7.44% in Oct 22 vis-à-vis 7.39% in Sep'22
- CPI is on a flat trajectory but higher than RBI's target level. Prices have eased, but long-term risks uncertain
- RBI FX Reserve / IMF FX adequacy ratio declined sharply. Yields may react adversely if RBI FX reserve reaches USD 500 billion
- India's GDP growth grew by 13.5% in 1QFY23, primarily on account of better performance by the agriculture and services sectors, lower than the RBI's projection of 16.2% released during Aug'22 monetary policy.
- India's Fiscal deficit for FY22 improved to 6.7%, lower than the revised budget estimate of 6.9%, primarily due to high tax collections.

MARKET OUTLOOK

EQUITY

Indian markets have continued to show resilience vis-à-vis global peers on better growth outlook and relatively lower inflation. However, the weakness in other equity markets (which makes them more attractive from an overall valuation perspective) and an impending global slowdown remains an overhang on short term future performance.

Nevertheless, with China continuing to remain under COVID lockdowns and policy uncertainty, India is poised to gain significantly in coming years as companies and investors look to diversify their supply chains and investments respectively. This augurs well for our markets over the medium to long term.

Pharma and IT remain our preferred picks as the valuations for both the sectors is attractive after the correction. Small and mid-cap also provides attractive valuations for the medium to long term.

DEBT

Our estimation is that peak yields will likely occur in Q4FY23 or before. The RBI's steady withdrawal of liquidity has increased short-term interest rates (3m-1y). As liquidity tightens further, RBI may lower CRR, but the natural trend of liquidity tightening may persist.

Going forward, our base case is that the repo rate will be between 6% to 6.50%. We think that this rate has mostly priced in the short to medium part of the curve (2-5 years), but short-term actions like the change in borrowing mix, possible RBI interventions (Operation Twists), and global cues could cause short-term volatility. Currency pressure has been increasing, and the RBI's ability to control the currency has dwindled as foreign exchange reserves have depleted.

Supply pressures on long-term yields have not yet materialised, but they remain a risk. Banks have increased their SLR/NDTL holdings, but this trend is unlikely to continue.

Given the current environment, we continue to favour staggering investments in GILT/SDL over the medium term as yields rise, both in terms of initial accrual and potential capital gains.