



Investor Insights & Outlook

DECEMBER 2021

02nd January 2022

Market Update

Nifty	17354
Sensex	58254
10Y G-Sec	6.48%
USD INR	74.36
Gold	48085 (Rs/10gm)
Brent	79.21 (\$/bbl)

Product Recommendations

Equity

ICICI Pru Value Discovery Fund
ICICI Pru Banking & Financial Services Fund
Mirae Asset Large Cap
Kotak Emerging Equity Fund
Nippon India Pharma Fund
Kotak Infrastructure & Economic Reform Fund

Debt

ICICI Pru Equity Savings Fund
DSP Floater Fund
Kotak Floating Rate Fund
Kotak Dynamic Bond Fund
IDFC Dynamic Bond Fund
ICICI Pru Equity Arbitrage Fund
HDFC Ltd Fixed Deposits
Bajaj Finance Fixed Deposits

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EQUITY OUTLOOK

Indian equity markets had a strong end to Calendar Year 2021, even as they remained volatile on a monthly closing basis. The mid & small cap stocks underperformed during the month and a strong correction was seen in banks & financial services, which continued to lag the markets on account of the collateral damage caused by the spread of Omicron and its possible affect on banks.

Domestically, the rise in Omicron cases prompted many States to impose lock downs and restrict certain activities, hampering the overall market sentiment. This expectedly resulted in sharp falls in open up trades such as hospitality and entertainment. FIIs continued to be net sellers in the month of December, selling about Rs 35,500 crore, the second highest during the year after November. Some of this was cushioned by DIIs, who continued to remain net buyers.

Globally too, Omicron had a severe impact as US and major European nations witnessed significant increase in number of cases. Further, the expected increase in the interest rates resulted in foreign investors pulling out funds from emerging economies including India, resulting in correction in most of these indices.

We believe that the current correction offers a good opportunity to increase allocation to equities. While Covid uncertainty is here to stay, the Governments and businesses are much better prepared to deal with it this time vis-à-vis last year, especially as majority of the population now is fully vaccinated. Further, with some data suggesting the Omicron variant to be milder than earlier variants, we expect economic activity will pick up sooner than later. Lastly, the long-term India growth story remains intact, with strong growth expected in coming years. Therefore, short term volatility may be used to increase equity allocations.

Domestic facing businesses such as Private Banks & large NBFCs, Infrastructure, Capital Goods remain our top picks. After the recent correction, Pharma too offers a good opportunity for long term.

DEBT OUTLOOK

The yield on the new 10Y benchmark (6.10% GOI 2031) went up by 17 bps to close at 6.48% from the closing of 6.31% in the previous month due to weak auction demand as market participants interest stayed muted as they await further action on liquidity from RBI. The marginal spike in both US Treasury and global crude oil prices also weighed on the domestic yields.

Domestically, The Reserve Bank of India's Monetary Policy Committee (MPC) voted unanimously to keep the repo rate and reverse repo rate unchanged while voting 5-1 to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of Covid-19 on the economy.

On the global side, the US Federal Reserve announced a faster tapering of the central bank's asset purchase program beginning in January amid the rising inflation. The Fed said it has decided to reduce the monthly pace of its net asset purchases by \$30 billion per month, double the previously announced \$15 billion per month. On the other hand, the Bank of England (BOE) became the world's first major central bank to raise interest rates since the pandemic impacted the global economy and warned of higher inflation. The BOE lifted its key interest rate by 0.15% to 0.25%, up from a record low of 0.10%.

The past year has been challenging for fixed income investing as central banks fought the rise in inflation that is proving to be stickier, and less transitory as expected earlier, and as a result, 2022 could see a faster normalization of monetary policy due to rising inflation.

Given the backdrop, we continue to recommend accrual and dynamic duration funds, which may help in navigating the current market.