DIVITAS CAPITAL

MONTHLY NEWSLETTER

Investor Insights & Outlook

JANUARY 2024

06 Feb 2024

Market Update

Nifty	21929
Sensex	72186
10Y G-Sec	7.09%
USD INR	83.06
Gold	63150 (Rs/10gm)
Brent	79.00 ($/bbl)
Repo Rate	6.50%
Reverse Repo	3.35%

Product Recommendations

Equity

Nippon India Pharma Fund
Kotak Emerging Equity Fund
Parag Parikh Flexi Cap Fund
ICICI Pru Bluechip Fund
ICICI Pru Banking & Financial Services Fund
ICICI Pru Balanced Advantage Fund

Debt

ICICI Pru Equity Savings Fund
Kotak Equity Savings Fund
ICICI Pru Corporate Bond Fund
Kotak Dynamic Bond Fund
HDFC Ltd Fixed Deposit
Bajaj Finance Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- The Indian stock market started 2024 on a positive note, with major indices setting new records with high volatility during the latter part of the month.
- While the benchmark indices touched a new all-time high in January, the market was also under pressure because of FII selling, escalating tension in the Middle East besides HDFC Bank's earnings led selloff. The smaller indices, however, continued to outperform.
- Indian markets currently hover around life-time highs with relatively high valuations in comparison with its peers. While this reflects expectations of strong growth in the overall economy, healthy corporate earnings will be key to sustaining these levels.

DEBT

- The 10-year benchmark 7.26% GS 2033 bond yield dropped to 7.14% as of January 31, 2023, from 7.17% in December 2023, following the proposal to include eligible domestic bonds in the Bloomberg Emerging Market Local Currency Index. This anticipated inclusion is expected to boost inflows, adding to the momentum from JPMorgan's index inclusion set for June.
- RBI Governor Shaktikanta Das highlighted that retail inflation is on a downward trajectory, progressively aligning with the 4% target.
- Fitch Ratings has reconfirmed India's 'BBB-' credit rating with a stable outlook, reflecting confidence in the country's economic stability.
- The RBI's monthly bulletin emphasized the importance of maintaining current growth rates to achieve at least 7% real GDP growth in the next fiscal year, underlining the need for macroeconomic stability.

MARKET OUTLOOK

EQUITY

Despite the heightened geo-political tensions in the Middle East region and FII selling in equities, Indian markets have so far absorbed this and remained resilient in January. Our markets (Nifty) traded in a narrow range, whilst the small and midcaps continued to outperform.

The December quarter earnings reported by a few key global leaders in information technology and banking have been lower than expectations which led to the muted returns by major indices (Nifty & Sensex) last month.

In January, we witnessed divergent trends in equity and debt flows from FPIs. While equity saw net selling of Rs 25,734 crore, debt saw net buying of Rs 19,836 crore in anticipation of India being included in global bond indices. The expensive valuations (Nifty trading at PE of around 21 based on FY24 estimated earnings) and rise in US bond yields, being the key reasons that triggered this selling. Whilst the investor sentiment remained optimistic, we believe that it is prudent to be cautious at these record high levels.

We maintain our view that any major corrections can be used to return to large caps and remain positive on sectors driven by growth and consumption along with banking.

DEBT

In 2023, the RBI raised its key lending rate once in February by 0.25%, reaching 6.50%. This move caps a series of rate hikes totalling 2.5% since 2022, influenced by global financial trends and the positioning of Indian bonds on the international stage. As we look ahead, markets are factoring in potential rate cuts of 100 bps to 150 bps by major central banks in developed countries, despite persistent high inflation there. These global factors are expected to continue influencing India's economic indicators.

Last month, the Indian fixed income market experienced fluctuating yields, but the Indian government's interim budget for 2024 shows a dedication to fiscal consolidation and economic growth.

With stable commodity prices, inflation is forecasted to align with the RBI's target range within the next year suggests the RBI might hold rates steady, with some probability of a shallow rate cut moves in 2HCY24.

For investors, this climate suggests that those with a tolerance for high volatility and a longer-term perspective can add active duration strategies on opportunistic basis, while conservative investors may prefer shorter-duration and money market-focused funds.