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Date: 11th July 2020

MONTHLY MARKET OUTLOOK JULY 2020

The month of June 2020 has seen recovery in the market, where Nifty 50 moved swiftly from 8800 level to 10500. The rally was backed by FPI, local value buying then followed by retail frenzy. Few large deals including series of investments received by Reliance Industries gave necessary confidence and boost to the market.
Opening up of economy and certain key data points helped to gauge the quantum of recovery. Good monsoon forecast and less than projected moratorium seekers also helped finance and banking stocks to make a comeback.

DEBT OUTLOOK

Looking at debt side, we had major rally since April 2020, which led to drastic reduction in yields across the board. We have been recommending Banking and PSU debt funds since March 2020, which yielded desired results since. But YTM of these funds have now fallen to 5.60% making them not so attractive as of now. One may still look at medium- or short-term debt funds with 2-3 years of maturity as we expect yields to contract further along with spreads. This will yield better than bank deposit returns for one- or two-year period. One can still look at high quality corporate bond funds with 100% AAA papers portfolio for more than 3 years period.
We believe that one should not chase returns looking at the fragile state of the economy and sticking to quality is more important. You may see more downgrades going ahead on account of stressed situations.

EQUITY OUTLOOK

We are becoming more nervous about equity valuations by every passing day. Market is clearly ignoring the fundamentals, the valuations and risk of widespread reach out of COVID 19 infection. We expect economy to paralyse further looking at second rounds of lockdown and recovery may take longer than expected. We advise caution at current levels of Nifty at around 10800. Rally in midcap/small cap stocks could trap investors as usual.
Any time correction and consolidation is good for the market as it will allow broader participation along with improved fundamentals. Further recovery in the market can come only on the back of economic recovery, which according to us is still uncertain.
The correction may not be very steep looking at local and global liquidity thus buying on dips approach is the right one for a long-term investor in our opinion. We advise to any entry in equity markets with strictly 2-3 years perspective only.

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One of the most important strategy would be to stick to asset allocation which would help the investor to live with any eventual correction in the market

From a valuation perspective we are still looking expensive and rally is also very narrow where only 5-6 stocks are driving the indices up. One needs to keep in mind that unless a vaccine for the virus comes in, which right now seems a distant reality, and until then we foresee the pandemic posing a challenge to consumption, capex and employment creation which is vital for the Indian economic recovery. In our previous outlook to our clients in June, we said to remain positive on the market for the coming month, but never expected this kind of run up. We believe systematic investment over 3-6 months in equity funds is advisable.

Regards,
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Managing Partner
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