Date: 04th Sept 2020

MARKET OUTLOOK SEPTEMBER 2020

ECONOMY

- The month of August was full of action in terms of debt and equity market. The pandemic is still at its peak and it's taking longer to flatten the curve. In fact, this was expected considering the size and population of our country.
- Healthy monsoons recovered entire trade deficit in August and we have surplus situation now. Typically, good monsoons are followed by good economic growth.
- Businesses are still not running fully as local lockdowns are not yet lifted. However, the lockdowns are expected to end soon though not entirely.

FIXED INCOME

- Fixed Income Market- yield shot up after the MPC minutes were made public. Inflation becomes a point of discomfort as last printed number appeared way above 5.50% which is outside the comfort zone of the RBI.
- Inflation is now believed to be more of a demand side than a supply side issue. We still believe that inflation may cool off in a couple of months and was affected more by the supply side bottlenecks and some pent-up demand.
- Yields went all the way to 6.22% from 5.85% in no time. It is expected that RBI governor will have to intervene couple of times more.
- It is a good time to put money in debt at such elevated levels. We still feel yields will remain soft for next one year looking at growth and demand in the economy.
- Prefer accrual strategy if yields go down again due to RBI liquidity-infusing actions like OMOs etc.
- All short-term investment options are delivering lower returns, but we have witnessed this situation couple of times in the recent past like 2009 and 2015 liquid fund used to deliver sub 5% returns. It is better to stay with quality and moderate expectation for shorter period to protect capital. We always believe in mean reversal whenever extremes are created in the system.

EQUITIES

- There was a nice statement made when RBI Governor made a statement about equity market correction and market didn't oblige – "there was nothing wrong in what he said as he is rational, and markets are not."
- The markets are rising backed by loads of liquidity from FPI, who poured in INR 27,000 Crs in Aug 2020 itself. Number of new demats and broking accounts opened in July and Aug is an eye-popping number. This shows that retail participation is growing which is a good sign for the long-term stability of the market. This number is far from what developed countries have. This

will help Indian equity market in the long run the only worry is that these are misguided missiles, should not hit wrong targets.

- Economic recovery is still far away and visible from June quarter numbers, but markets are imperfect, so they tend to stretch on either side. We advise caution at this juncture as we do not see value in broader market. Though midcaps are still trading at 10% discount to large caps on historical basis.
- There are some mispriced opportunities and so keeping a close watch on Government actions is crucial. Specially on Atmanirbhar Bharat may open opportunities to many local players. We also believe 2021-22 year belongs to India and markets will be buoyant, important to prepare yourself and start putting money in **phased manner** over next few months. This strategy will help to capture volatility. We do not rule out possibility of new high for market even without any substantial correction on the back of liquidity.
- Our advice to client is certainly to exercise caution as we only trust valuations. As of now, there is truly little that the market can offer in large cap stocks and midcap valuation completely depend upon economic recovery which is uncertain at this stage.
- The only strategy which makes sense to us is riding on liquidity in a select stocks till matters are favourable and to keep booking profits in grossly overvalued equities as the markets keep going up relentlessly.
- The period of easy money-making is over, and stocks will track underlying growth going ahead. In mutual fund space, we had identified funds in large cap and multicap space in March, which came in top quartile beating Nifty which was difficult task due to meteoric rise in Reliance Industries (price as well as weightage in the index).
- We have seen sector rotation happening very swiftly these days. We prefer funds with multicap strategy with more focus on IT, private banks, quality NBFCs, FMCGs, Pharma and speciality chemicals.

We are positive about demand picking up in festive season and things to normalise soon the GST collections number shows that all is not lost. We hope you remember our outlook in May and my article which I wrote for Dalal Street in May, where I had said that we expect liquidity to drive market ahead of the fundamentals. Our endeavour is communicating every month in simple language and keep our clients updated on the expectations and markets. Please send your feedback if any so we can improve further.

PRAVIN BHALERAO
MANAGING PARTNER
PRANITYA WEALTH ADVISORS LLP