

Date: 06<sup>th</sup> Oct 2020

## **MARKET OUTLOOK - OCTOBER 2020**

### **ECONOMY**

As economy is slowly opening up, trade has picked up again. The latest GST collection of approx. Rs 96,000 crores and advance tax number was above expectation.

In line with our expectations, the economy is seeing an improvement this quarter. As we approach December 2020, market will start looking at March 2022 performance.

As a result, we feel opening up of economy and slowing infections will work well for Indian economy going ahead.

We feel Indian have learned to take precautions and follow necessary protocols to bring down the infection rate. Consumption is back and job losses have stopped completely.

In few sectors we have seen shortage of labour and that situation is improve every passing day.

### **FIXED INCOME**

Last month post RBI MPC meeting market took a U- turn and yields went up all the way to 6.20%. RBI didn't oblige with rate cut and undertone about inflation was hawkish. Core inflation has shot up beyond 5.50%. Inflation tends remain at elevated level as festive season approaches.

RBI devolved auction thrice to send message about its intention to borrow at lower cost.

RBI has achieved a lot by keeping its average cost of borrowing at 6% for the first half's staggering Rs 6 lacs crore plus borrowing.

System liquidity is ample which is evident as the CP, CD rates up to 6 months remain below repo rate. Overall short-term rates are down even when RBI is doing operation twist by buying long dated papers and selling short ones. Response for public offerings, fund raising on CPs and CDs at historical lower levels shows liquidity is awash. We are comfortable with liquidity in the system of about Rs 4 lacs crores plus. RBI didn't announce additional borrowing for second half and stuck to overall of Rs 12 lac crs approx. which itself is 70% more than last year's borrowing.

Not much is happening on the divestment front and it is to be seen how Government will go ahead with its plan for rest of the year.

10-year G sec cooled off to 5.99% post RBI action of devolvment and market is not ready to believe that RBI will stick to its overall target.

We are also keenly awaiting stimulus before festive season and also decision on interest on interest for loan waivers, which might add to borrowing for Government.

We don't see yields run up due to softer global environment and accommodative central banks policies.

We expect short term rates to remain more or less stable and long end to come down as curve is very steep.

Forex Reserves- ~ US \$ 545 bn

10-year G.sec – 5.99%

USD/INR- 73.21

Brent USD/bbl – 40.12

## EQUITIES

We see a pick-up in three important sectors, which creates substantial employment in India which are Auto, Real estate and IT, where we have seen good traction in last few weeks.

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Ideally lower interest rates, appreciating rupee, lower oil prices, lower inflation, lower taxes and supportive Govt policies would help corporate to report better numbers once demand picks up.

Today there is hardly any incentive for people to save looking at interest rates available for any investment horizon.

SEBI's decision about multicap funds created some clutter last month but hopefully it will get resolved by SEBI giving alternative or option to fund houses. The funds may not be made to sell excess sitting in large cap and buy midcap and small cap stock thoughtlessly. We have communicated to our clients immediately and did call with AMFI Chairman Mr. Nilesh Shah also to address this to our privileged clients. Our view is clear - any buying in midcap and small caps will happen based on merits than by virtue of any ruling.

We have seen good traction for IT, Pharma, and consumption stocks in the last month exactly as per expectation set out in our September month commentary. IT sector has given ~36% in 1 year and Pharma stocks have given ~63% in a year.

Banking and finance sector has not participated in this rally much and we don't believe any strong economic recovery without participation by banking and finance.

Government is doing all its bit to calm the current stress in the economy by taking slew of measures from time to time rather than just finishing ammunition at one go.

Most of the fund have underperformed Nifty as out of the 2600 points rally since March, Reliance Ind alone contributed 800 points.

Maharashtra Government has announced concession on stamp duty payable on house properties, it's a welcome move to give necessary fill up to Real Estate Sector.

US elections could bring some volatility for global markets and for India, we feel it is going to be short term phenomena. Results' season will start soon and lower NPAs or lower number of borrowers approaching for restructuring for banks and NBFC is necessary for next leg of rally.

We feel there may still be quite some time for vaccine to be discovered and challenges for few sectors are here to stay like hotels, airlines, tourism, event management and theatres, where recovery is still some distance away.

We don't want to paint very rosy picture as wholistic growth is important for any economy. Lock down has changed the way businesses are done permanently this also led to emergence of new economy stocks like Affle India, Info Edge and India Mart etc.

FPIs are in withdrawal mode in the second part of last month after investing close to 4 billion in past few months.

We don't expect any major correction during the month. Sector rotation will continue till market finds a new trigger to propel further. This fairly valued market will await any upgrade in earnings growth, pick up in consumption and FDI flows going ahead.

Government should keep its borrowing under check to keep interest rates lower for longer period of time. Current account surplus (credits to services exports) and narrowing trade deficit, huge forex reserve and stable currency bode well for economy.

- Pravin Bhalerao  
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