PRANITYA
WEALTH ADVISORS
Passion to Perform

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MARKET OUTLOOK – November 2020

ECONOMY

With Covid infection curve now on a downward trend in India with Covid cases falling below 5.5 lakh and recovery rate improving to 91.96%, most of second quarter results out with a visible earnings growth QoQ and improving GST collection number (INR 1.05 lakh crore- highest ever in this financial year), the economy is showing clear signs of recovery. This upturn of economy is however countered by global weakness as second-wave of the virus, fresh lockdowns in some of the European nations and UK and lack of stimulus in US pre-election drove the markets down past 2 weeks.

Purchasing Manufacturing Index which indicates the manufacturing sector's sentiments rose to 58.9 in October from 56.8 in September. It improved for the third straight month to a high in more than 13 years for the month of October. It was fuelled mainly due to inventory build up ahead of festive season and any residual pent up demand.

With improving exports and FDI flow, all indicators point to a gradual economic recovery. There is definitely pick up in the economic activity and every quarter is proving to be better than earlier quarter.

Govt is also taking baby steps to address the woes of different sectors to help recovery and kept its options for next round of stimulus open. Also important to note that most of the states have opened economy fully and with 70% to 80% of the business started running again.

FIXED INCOME

RBI decided to keep benchmark interest rate unchanged at 4 per cent but maintained an accommodative stance to support growth but maintain its inflation target, implying more rate cuts in the future if the need arises to support the economy hit by the Covid-19 crisis. We expect at least 1-2 interest rate cuts by the end of this fiscal year. RBI also announced large quantum and OMO (20000 crore) and an on- tap Targeted Long Term Repo Operations (TLTROs) of Rs 1 lakh crore for up to three years at floating rates linked to the repo rate which would solve any liquidity issue. RBI has also announced another purchase auction of SDLs under Open Market Operations (OMOs) for an aggregate amount of ₹10,000 crores on November 05, 2020. This move will bring down yields, lowering borrowing costs for state governments.

We expect rates to remain benign and new 10- year GSEC to be at 5.50% eventually which is currently at 5.89%. All goes with announcement of new benchmark G Sec.

Low credit offtake especially at a corporate level is evident by the lower levels of outstanding CPs (INR 3500 bn) and CDs (INR 1000 bn) which are now at 2016 and 2017 level respectively.

We expect short term rates to remain more or less stable (~3.50%) and long end to come down as curve is very steep (10 year- ~5.8%)

Forex Reserves stood at a lifetime high USD 560.532 billion on 23rd Oct 2020 up by USD 5.4 billion from the earlier week. RBI has done great verbal intervention without actually obliging rate cut in the last MPC meeting , it has done commendable job of borrowing staggering Rs 7 lacs crs plus in the first half at average of 6% and rupee appreciated plus yields remained under check with more than double the borrowing compared with last year. RBI also avoided monetisation of debt as a prudent practice.

With GST collection improving, lower infection and improved business environment (possibility of direct tax collection) and lower subsidies , it may sail through second half of borrowing successfully.

Most of the countries pledging for more stimulus and extended support to economies for next few years will not allow rates to go up in India.

Best place to invest is accrual strategy as most of the contraction has happened but some of the actively managed funds will also deliver going ahead. It doesn’t make sense to invest in tax free bonds at 4.40% and risk reward is not really favourable specially if you are holding bonds maturing in next 2-3 years.

It may more sense to look at other options in debt like Bharat Bonds etc which we have been suggesting to clients.

EQUITIES

With Results season underway, there is a perceptible earnings and revenue growth compared to last quarter as Indian economy braced itself for a steady recovery mode. Nifty50 went from 11500 to 11900 last month before correcting 300 points due to global fragility in the market. It closed above 11800 on 3rd Nov 2020, rally led by finance and metal stocks.

Banking and Finance sector did not participate in any of the rallies since Covid outbreak and currently look appealing. With better than expected quarter results for most, lower valuations and an expected favourable decision by Supreme Court with regards to loan moratorium plan by banks makes this sector attractive today. A lot of catch up can happen in this sector. The worries about NPAs and restructuring will subside with passage of time and thanks for V shaped recovery in some key sectors.

Auto sector will see a pick-up next quarter as festive season draw closer and lockdowns are lifted gradually. Two wheelers, Entry level cars and auto part replacement companies to benefit the most during this initial phase of recovery mode in India.

IT sector may not see a drastic surge from here, as at current level it has already rallied ~ 40% YTD. This was mainly because work from strategy least affected this sector, companies saved on rentals and cut salary costs drastically.

However, we expect these costs to return as companies open doors again and distribute salaries and pent-up bonuses this festive season, eating into the earnings even as revenues grow steadily. Here on, IT stocks likely to trade at modest 18-20 PE levels instead of 25-30 PEs. Pharma as a sector is expected to do well if Democrats do not make come back as we are not even closer of peak of valuation.

US elections may cause some volatility in the market. However, we feel it will be short lived and may not impact Indian market in long term. In the longer term market will only track earnings and India will remain one of the most resilient market going ahead. Announcement of economic stimulus post-election is given provided it is not going to be long drawn battle. Thus ECB and Fed fresh round of stimulus will help global equity markets. Tech stocks and US mkt may be an exception as it has rallied ahead of valuation.

When the economy is in a recovery mode, historically it is seen that midcaps tend to outperform large caps. Hence we recommend our aggressive clients to include midcap funds in the mix along with select multicap funds at this stage. Bottom up approach of stock picking must be used even while selecting funds during these volatile

FIIs have been net buyers for the month of Oct- 2020 (INR 14537) and have been net buyers from Nov till date. FDI equity inflow received during FY21 (April to August 2020) is $27.1 billion. It is also the highest ever for first five months of a financial year.

MSCI rejig too helped few stocks and recovery in banking sector helped NIFTY to scale 12000 level again. Again from valuation perspective we are looking expensive barring banking sector with few exceptions. We advise investing in equity only in phased manner going ahead. The only risk to the market according to us is the second wave of virus as seen in Europe, USA and Russia.