Volume 13
3rd June 2021

Market Outlook
June 2021

Overview

Index	2nd June 2021	3rd May 2021	MoM Incr/(Decr)
Sensex	51,849	48,718	6.43%
Nifty 50	15,576	14,634	6.44%
Nifty Midcap	26,118	24,405	7.02%
Nifty Small cap	9,328	8,658	7.73%
Nifty Bank	35,374	32,478	8.92%

Contrary to our expectation, market continued to march ahead. Though FPI are net buyers till date from Jan 2021, they were net sellers for Apr and May 2021 to the tune of over 2.4 billion dollars and DII are net buyers (1.77 billion dollars). There is huge participation from retail investors, according to the recent NSE report retail has dominated Indian stock markets with a staggering ownership of 45%

GDP to market cap is now 113% and all indicators shows that market is overvalued. RBI Governor called it to be in the bubble zone and SEBI too kept on increasing its surveillance and margin requirements to regulate any speculative participation with a view to safeguard investor interest.

Markets finally made fresh highs, although last 400-point rally was supported mainly by Reliance and the HDFC Twins. This rally took most of the analysts and market experts by surprise.

Ample liquidity can create disconnect between ground reality and stock markets.

Most of the country is still under lockdown restrictions although industries were working during this second wave and lockdown was less intense across India this time around.

Consumption will certainly take a hit this quarter and it will reflect in the June quarter results. It is believed that market has discounted it in advance and revenge buying in the second half or post unlock will make up for the loss.

Market cheered good results from Indian corporates for the last quarter which helped to clock 1.6% GDP growth for Q4 of 2020-21. Out of the 50 stocks in Nifty50 Index results are already in for about 46 companies with an average YoY revenue jump of 55%. Even after discounting the lower base, it is still a terrific growth and revenue catch up in the last 2 quarters of the financial year.

Another important factor to be considered here is liquidity. Liquidity is in abundance with savings rate going up in lockdowns and pent-up demand in unlock periods will make up for most of the losses of Q1 2021-22.

Inflation is inching up on the back of fuel prices and global commodities which is more reflected in WPI going up to 10.49% in April 2021 (highest since April 2010). CPI too has moved up to 4.29% which is a cause for concern among global central banks. It is believed that global central banks will take gradual steps towards tapering it soon, as any unexpected actions will shock the global equity markets.

Equities

Last leg of the rally was contributed by large cap stocks, and we have seen some profit booking in midcap as well as small cap last week, post earnings. Nifty managed to scale new high with help of good sector rotation and a final push from Reliance today. All quantitative parameters indicate lowering exposure to equity looking at valuations and growth prospects. But due to Macro factors like rallying global markets, liquidity, discounting of next 2-year earnings, we may not see significant correction in the market. Usually, corrections happened when they are least expected.

65% of Nifty stocks mostly depend on global businesses and with opening of these economies, prospects have improved. Secondly looking at sector exposure and Nifty participation, there is not much impact with second wave coming in due to consolidation as stronger has become stronger and the weak ones are losing out.

Most of the rally was driven by cyclicals, financials, FMCG and IT. Whereas auto, capital goods, cement and consumer durables have come off in the recent quarters.

India is a global manufacturing hub for many industries and with expected earnings growth still at a moderate 15% to 18%, it is likely to attract flows by way of FDI or in capital markets. India attracted total foreign direct investment (FDI) inflow of $81.72 billion in Apr 2020 to March2021. Recent rally in the markets have enabled Indian economy to achieve 3 trillion USD market capitalization.

Retail money will continue to support the Indian markets as it did during the first two months of the new financial year even as some level of sell off/profit booking in midcap and small cap can be foreseen by institutional investors.

Government must spend on infrastructure and capex as private capex will take slightly longer time due to second wave. Ability of private sector to invest with higher cost of funds and two back-to-back lockdowns is a challenge. We can only hope that demand does not collapse, NPAs do not rise, and job losses are limited this time around.

Broad based rally indicates that the market may not see any significant correction as abundant liquidity is waiting on the sidelines.

Fixed Income

All eyes on RBI meet taking place in the first week of June and FED meet where first time they are likely to discuss about tapering. RBI has shown its resistance by devolving couple of auctions above 6% cut off. 10-year yield moved up looking at last reported CPI 4.29% and concerns about global inflationary trend. Another aspect was likely extra borrowing on account of subsidies, healthcare spends and lower tax collections in Q1.

Short term rates have slowly moved up since March end.

Instruments	31/03/2021	31/05/2021
Call rates	2.75%	3.35%
91 days T bills	3.28%	3.40%
180 days T bills	3.47%	3.60%
3-month CP	3.50%	3.68%
3-month CD	3.28%	3.41%

We expect gradual rise in short and long end yields, and all goes with the inflation numbers and nature. Some faction says it is transient, which means central banks may not take any action because it is temporary in nature on account of supply side disruption and eventually it will come off. Any demand side inflation with liquidity is bad for debt as well as equity this time around.

Dollar weakness is helping to offset rise in oil prices, and we hope higher WPI should not indirectly lead to higher CPI. It is better to avoid any duration fund as carry is very insufficient to absorb any rate shock. Conservative investors can look at targeted GSec fund with 2025 to 2027 maturities to generate better risk adjusted returns.

Roll down funds make a lot of sense which will help to generate superior returns and avoid any eventual downside on account of rise in interest rates if any.

With lower credit growth of 5% to 6% and higher savings which lead to more deposits with banks, we expect banks to support and park more money in Government securities even now.

Happy to discuss further.