July 2021

MONTHLY REPORT

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NIFTY 50
Closing- 15,722
PE –29.92x
PB – 4.24x
Div Yield –1.26%

NIFTY MIDCAP 100
Closing – 26,971
PE -21.99x
PB –3.19x
DivYield –0.83%

10 Yr GOI Yield
6.05%

CRUDE
75.13 $/bbn

USD/INR
74.33

GOLD
1,770 $/Oz

Data as on June 30, 2021
Source: Bloomberg

Indicators	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20	Sep-20	Aug-20	Jul-20	Jun-20
Sensex	1.05%	6.47%	-1.47%	4.55%	7.24%	-2.26%	8.15%	10.59%	5.13%	-3.55%	1.46%	7.94%	7.68%
Nifty	0.89%	6.50%	-0.41%	5.89%	7.99%	-1.72%	7.81%	10.57%	4.52%	-3.43%	1.65%	7.66%	7.53%
Nifty Midcap	4.64%	6.53%	2.12%	14.36%	12.41%	0.92%	5.21%	15.65%	0.44%	-2.22%	7.39%	4.55%	10.78%
Nifty SmallCap 250 Index	5.59%	10.09%	4.58%	15.36%	13.75%	1.87%	8.18%	11.70%	0.25%	-1.20%	11.98%	4.63%	14.93%
S&P 500 Index	2.22%	0.55%	5.24%	6.36%	5.09%	-0.57%	2.58%	11.23%	-1.93%	-4.13%	7.42%	6.32%	1.84%
Nifty 50 EPS TTM (Rs)	525.49	509.05	444.80	412.33	420.30	422.68	401.77	401.78	406.89	387.96	391.56	412.37	436.87
Nifty 50 Price/Earnings (PE Ratio)	29.92	30.61	32.89	35.63	35.65	32.26	34.80	32.28	28.83	28.99	29.08	26.92	23.58
Nifty Midcap 100 (PE Ratio)	21.99	21.26	19.19	29.22	41.95	40.65	40.55	40.76	33.95	33.02	26.70	23.45	20.45
India Economic Indicator													
Bank Credit Growth (%)	5.83%	6.02%	5.32%	4.11%	5.92%	6.35%	6.06%	5.82%	5.09%	5.12%	5.54%	5.83%	6.18%
Bank Deposit Growth (%)	10.32%	9.87%	10.94%	10.20%	10.87%	11.42%	11.33%	10.90%	10.13%	10.51%	10.17%	10.84%	11.02%
Debt Market Indicator													
RBI Repo Rate (%)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
G-sec 10 year Yield (%)	6.05	6.02	6.03	6.17	6.23	5.91	5.87	5.91	5.86	6.06	6.14	5.83	5.89
1 Year Tbill (%)	3.87	3.77	3.76	3.75	4.04	4.19	3.37	3.33	3.44	3.71	3.75	3.66	3.73
Corp Bond 10 Yr AAA Yield (%)	6.90	6.90	6.72	7.19	7.24	6.66	6.59	6.51	6.58	6.81	6.91	6.53	7.05
Corp Bond 10 Yr AA Yield (%)	7.65	7.64	7.49	7.90	7.94	7.36	7.35	7.31	7.37	7.58	7.69	7.37	7.78
Corp Bond 10 Yr A Yield (%)	9.32	9.24	9.21	9.30	9.29	8.91	8.84	8.78	8.83	9.02	9.10	8.77	8.84
Corp Bond 5 Yr AAA Yield (%)	5.97	5.94	5.86	6.28	6.34	5.70	5.52	5.55	5.62	6.00	6.01	5.67	6.16
Corp Bond 1 Yr AAA Yield (%)	4.30	4.15	4.26	4.15	4.41	4.22	3.92	3.89	3.93	4.40	4.78	4.31	4.98
CD 1 Yr (%)	4.16	4.15	3.90	4.38	4.25	3.97	3.78	3.57	3.74	4.00	3.86	3.75	4.05
Commodity & Currency													
Gold Price (USD)	1770	1907	1769	1708	1734	1848	1894	1788	1877	1881	1965	1957	1781
Gold (Rs/10gm)	46504	48933	47569	43994	46425	49205	49774	48778	50656	49550	50981	53099	48304
Crude($)	75.13	69.32	67.25	63.54	66.13	55.88	51.34	48.18	39.12	42.43	45.05	42.94	41.15
INR/1 USD	74.33	72.62	74.09	73.11	73.47	72.95	73.31	74.04	73.87	73.79	73.40	74.85	75.51
INR/1 EURO	88.39	88.50	89.60	85.78	89.10	88.40	89.91	88.28	86.82	85.86	87.41	87.96	84.78
Flows													
FII-Equity (Rs.cr)	10932	5360	-111163	16959	21959	14512	53499	70896	18400	-5689	45637	9506	18684
FII-Debt (Rs.cr)	-4317	-1336	-2672	-3984	-7158	-3661	5635	-2888	3296	3009	-4155	-2453	-1714
MF-Equity (Rs.cr)	6437	105	5926	2476	-16306	-12980	-35251	-30730	-14344	-3982	-8418	-7695	-3689
MF-Debt (Rs.cr)	6449	3332	21216	14068	8161	11832	26295	20349	30995	16009	23647	31018	41364

Source: Bloomberg, W2W Research

Summary:-

- As of 30th June 21, Nifty 50 was trading at a PE of 29.92x and Nifty Midcap 100 was trading at a PE of 21.99x.
- CPI inflation rose to 6.3% YoY in May as against 4.2% in April. Core inflation also rose to 6.4% YoY. WPI inflation came in at 12.9% in May compared to 10.5% in April owing to higher fuel and power inflation and manufactured products inflation.
- Credit growth declined to 5.8% YoY as of 18-June. Aggregate deposit growth stood at 10.3% YoY.
- GST collections fell below 1 lakh Cr mark to 92,849 Cr in June 2021 due to lockdown.
- Manufacturing PMI at 48.1 (from 50.8) in June contracted for the first time in 11 months. India's services PMI fell to 41.2 in June 2021 from 46.4 in May.

Debt Market Review

- RBI released the MPC committee minutes on 18th June 2021 where MPC members detailed their rationale for a continued accommodative stance to revive and sustain growth on a durable basis and mitigate the impact of COVID-19 on the economy.
- Still bonds sharply fell in the month of June as market participants re-anchored their expectations of the timing and quantum of RBI policy reversal (although still very gradual) after relatively higher inflation surprises on the upside & sharp increases in global commodity prices, especially crude.
- RBI is actively managing yields. Combination of GSAP, OMOs / OTs may keep the yield curve anchored at current levels. 10 year likely to trade in the band of 6-6.25% for the next 3 months.
- The US 10 Yr Treasury bond yield closed the month at ~1.48% (May end: 1.58% & Apr end: 1.63%). In fact, the 10 Yr was below 1.5% mark for most part of second half of month.
- US Treasury yields have moved higher since the start of 2021, increasing their prospective returns. However, with the economy in an expansion phase, yields have the potential to rise further, as they did after the June policy announcement.
- At the June meeting, the Fed maintained the federal funds target range at 0.00-0.25%. Growth and inflation projections were pushed up; the median expectation of FOMC members is now for two rate hikes in 2023.
- FII remained net sellers in the Debt market to the tune of Rs. 4,317 Cr in June 21 compared to selling of Rs 1,336 Cr in the previous month. While MF institutions remained net buyers in Debt market to the tune of Rs 6,449 Cr compared to buying of Rs. 3,332 Cr in the previous month..

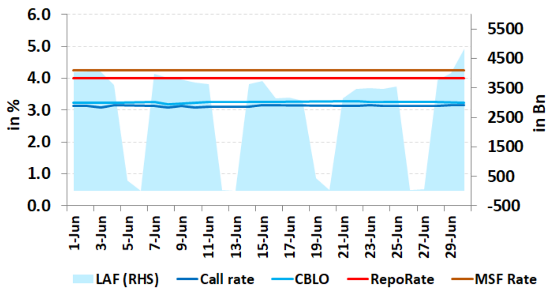
Debt Market Outlook

- The June Monetary Policy had no surprises in terms of focus, which continues to be revival of sustainable growth conditions. Inflation may play second fiddle, till it remains within tolerance levels. RBI may also continue with its successful proactive approach of providing ample liquidity and managing yield expectations, which has reduced volatility and aided transmission meaningfully.
- Relatively large size of GSAP 2.0 and SDL buying through GSAP window might ensure lower sovereign risk premia ahead amid elevated borrowing.
- The bond market may step up speculation concerning the shelf-life for RBI's current ultra-dovishness. This may make the task of dictating yields to the market that much more difficult for the central bank.
- What would remain the first line of adjustment would most likely be the unwinding of surplus liquidity, the build-up of which may not be consistent with the evolving macro backdrop. The timing for the same could well be earlier in this fiscal than later.
- VRRR (Variable Rate Reverse Repo) at the short end and G-SAP at the mid to long end of the curve may mean some yield curve flattening on the way.
- We remain very cautious on duration as the interest rates are expected to remain volatile due to RBI normalizing liquidity and upside risk to inflation due to economic recovery.

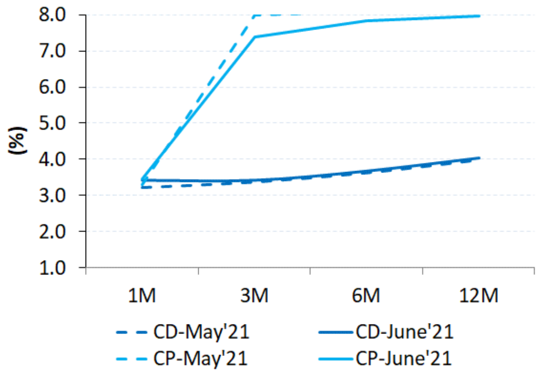
Investment Strategy

- Even Investors can consider investing in recommended Low Duration, Short Term, Banking & PSU or Corporate Bond funds as per the investment horizon and risk appetite.
- With interest rates expected to remain volatile due to RBI normalizing liquidity, we recommend investors to have an allocation in our recommended Floating Rate Funds with an investment horizon of 6 months to 1 year as these funds endeavour to seek protection from interest rate volatility by investing more than 65% assets in floating rate instruments.

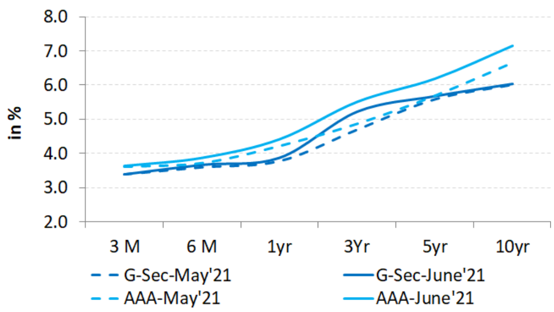
LAF and Money Market Rate Movement



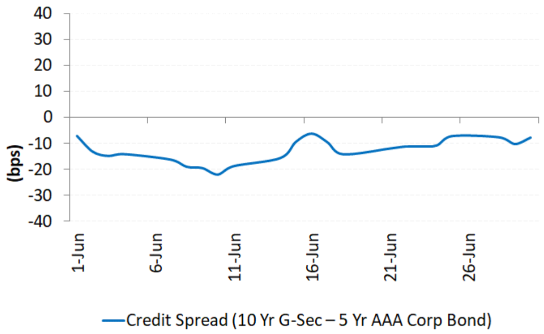
CD Rate Movement



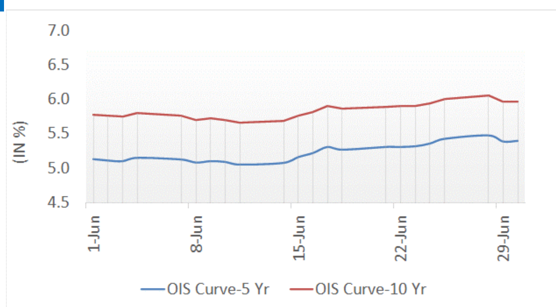
G-Sec and AAA Corp Bond Yield Movement



Credit Spread



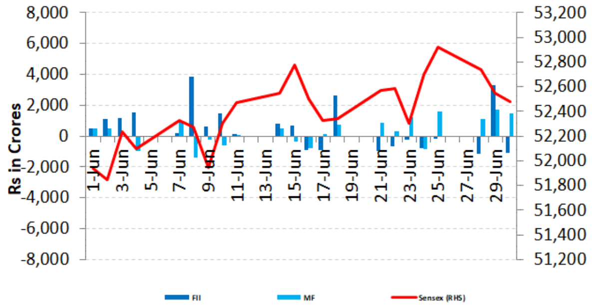
OIS Curve



Equity Market Review

- Markets were buoyed by a steady decline in Covid cases, pick up in vaccination drive and ease of lockdown like restrictions.
- In the month, Nifty 50 rose by 0.9% and underperformed Nifty Midcap 100 which rose by 4.6%, and Nifty Small Cap 250 which rose by 5.7%. MSCI World rose by 1.5% whereas MSCI Emerging Markets rose by 0.2%. In the U.S., the Nasdaq and the S&P 500 were up, but the Dow ticked down.
- The Composite PMI Output Index fell from 48.1 in May to 43.1 in June, signalling the sharpest rate of reduction since July 2020.
- Governments in most developed markets continued to ease Covid-related mobility restrictions and activity levels picked up. However, the reopening of economies and the quick rebound in activity has fuelled inflation in some countries. In May, the US consumer price index increased by 5.0% YoY.
- In economic data, UK's June manufacturing PMI was amended lower to 63.9 from 64.2 in the final reading.
- India's second Covid wave peaked and rolled over in early May, with new cases now trending down to 47K. Around 21% of Indian population has received at least one dose of vaccine. The vaccination pace is expected to increase with the announcement of free vaccines for all above the age of 18 years at the cost of the Centre. This will be the key for faster recovery.
- FII remained net buyers in the Equity market to the tune of Rs. 10,932 Cr in June 21 compared to buying of Rs 5,360 Cr in the previous month. MF institutions also remained net buyers in Equity market to the tune of Rs 6,437 Cr compared to buying of Rs. 105 Cr in the previous month.

Sensex, FII & MF Movement



Indices Performance

Index	30-Jun-21	28-May-21	Change	% Chg
India				
Sensex	52,483	51,423	1059.8	2.1%
Nifty	15,722	15,436	285.9	1.9%
US				
Dow Jones	34,503	34,529	-26.9	-0.1%
Nasdaq	14,504	13,749	755.2	5.5%
EC				
FTSE 100	7,037	7,023	14.9	0.2%
Asia				
Nikkei 225	28,792	29,149	-357.9	-1.2%
Hang Seng	28,828	29,124	-296.5	-1.0%
Shanghai Comp	3,591	3,601	-9.6	-0.3%
Bovespa	126,802	125,561	1240.3	1.0%
RTS	2,162	2,079	82.9	4.0%
Other				
MSCI WORLD	3,017	2,979	37.9	1.3%
MSCI EM	1,375	1,361	13.9	1.0%
MSCI EM Asia	751	743	8.0	1.1%

Sector Performance

Sector Index	30-Jun-21	31-May-21	Change	% Chg
BSE Auto	23,772	23,541	230.6	1.0%
Bankex	39,350	40,345	-994.7	-2.5%
BSE CD	35,575	33,389	2186.2	6.5%
BSE CG	22,949	22,498	450.7	2.0%
BSE FMCG	13,518	13,131	387.2	2.9%
BSE HC	25,589	24,535	1054.0	4.3%
BSE IT	30,136	27,585	2551.1	9.2%
BSE Metal	18,665	18,877	-212.6	-1.1%
BSE Oil	16,176	16,472	-296.8	-1.8%
BSE Power	2,755	2,816	-61.0	-2.2%
BSE PSU	7,777	7,606	170.5	2.2%
BSE Real	2,741	2,680	60.7	2.3%
BSE TEC	13,230	12,262	967.9	7.9%

Equity Market Outlook

- Equity market resilience continued for the month as large parts of the country opened-up or restrictions were reduced combined with lower infection count and accelerated vaccination drive.
- From equity market perspective the initial increase in inflation can lead to better top line growth and in combination with lower rates can lead to reasonable earnings recovery. However, inflation worries are likely to contribute to market jitters.
- The pace of vaccination will be an important factor to re-start the economic engine. Supply bottlenecks have led to prices firming at an alarming pace, raising the bogey of inflation. How fast these supply bottlenecks are reduced will impact the fight against inflation.
- On the positive front, with recent fiscal stimulus and some factors like multiyear low interest rates, expected normal monsoon benefiting rural economy and support from global recovery, will be helpful for faster recovery.
- We believe that domestic markets are well positioned for a reasonable recovery on normalization. While the second half of the year could be bumpier for financial markets, we still expect equity markets to continue their upward path.

Investment Strategy

- India's long term growth story remains intact since it is better placed in terms of fundamentals. We recommend our aggressive-moderate investors to increase allocation in our recommended Dynamic (Balanced) Advantage Fund, Flexi-cap, Mid cap & Small cap funds with a with a medium to long term view. We also recommend investors to allocate 10 to 15% of the equity allocation in recommended themes like PSU Equity Funds, Banking & Financial Services Funds with an investment horizon of 2 to 3 years. (Click to refer our special note on Banking &Financial or PSU Equity Fund).
- We believe investors should also consider geographic diversification of their investments and we currently recommend 10-15% of the portfolio allocation to Emerging Markets International Equity Funds (Click to refer our detailed note on Emerging Market Equity Funds).

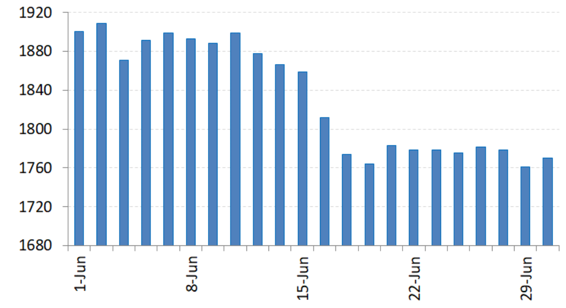
Review

- Gold declined 5.0% to 46,504 in June 21 from 48,933 in previous month.
- Brent oil rose 8.4% in June 21 from 69.3 to 75.1 dollars. Brent witnessed an increase on account of demand recovery, falling US stockpile and OPEC's cautious and disciplined approach to keeping supply out of the market in June.
- Rupee depreciated 2.5% to 74.4 in June 21 compared to 72.5 in previous month. Dollar gained as new virus outbreaks were seen undermining global recovery.

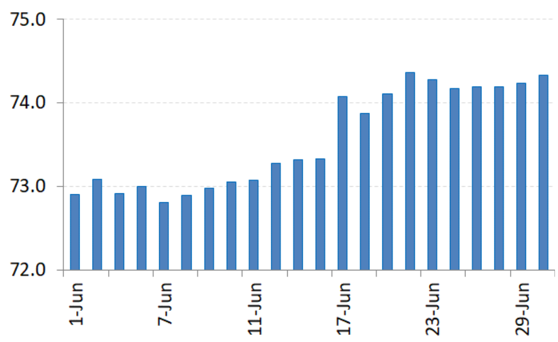
Outlook

- Long term outlook for gold remains intact and positive.
- OPEC members have failed to reach an agreement regarding crude output increases. This may result in member states taking matters into their own hands and raising output regardless of the OPEC accord. A case of rejection for current restrictions could mean further depreciation of crude prices going forward. Russia has entered discussions and is acting in a mediatory capacity between the two distressed nations in hopes of a resolution. Crude is expected to trade with a negative bias until agreement is reached.
- Indian Rupee is expected to trade with negative bias amid strong dollar and risk aversion in the global markets. However, sharp fall may be prevented on softening of crude oil prices and as number of Covid cases in India continued to decline.
- We recommend investors to invest some part of their portfolio in commodities. As investment interest in commodity have increased over the years due to low correlation compared to traditional asset classes like equity & fixed incomes, it provides for certain degree of portfolio diversification & commodities are regarded as potential hedge against inflation.

International Gold Movement



USD/INR Movement



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