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YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **July 08, 2020**

Benchmark indices come under pressure amidst escalating COVID-19 cases, weak global cues and profit booking; IT, Auto and Realty stocks fall..

Indian equities were under tremendous pressure (after witnessing rally in last 5 days) in the last 30 minutes after being volatile throughout the market session.The S&P BSE Sensex was down by 345.51 points or 0.94 per cent to end at 36,329 levels. Nifty was down by 94 points or 0.87 percent to ended at level of 10,706.

Reliance Industries (RIL), Infosys, TCS, and ICICI Bank contributed the most to the Sensex's fall. Bajaj Finance (down over 4 per cent) ended as the biggest loser on the index while IndusInd Bank (up 5 per cent) was the top gainer.

More than 100 stocks on the BSE hit their fresh 52-week high. These included names like Britaania Industries, Dixon Technologies, L&T Infotech and Bharat Rasayan.

In the broader market, the S&P BSE MidCap index slipped 0.39 per cent while the S&P BSE SmallCap fell 0.43 per cent.

Sectorally, Nifty Auto and Nifty Realty declined 2 per cent while the Nifty IT index fell 1.72 per cent. On the other hand, Nifty PSU Bank index rallied over 2 per cent.

India VIX rose 4 per cent to 26.09 levels.

Key development
The Union Cabinet on Wednesday approved capital infusion of Rs. 12,450 crore in three state-owned general insurance companies to strengthen their capital base and make them more stable. The National Insurance Company, Oriental Insurance Company and United Insurance Company will get the additional capital, Information and Broadcasting Minister Prakash Javadekar told reporters after the cabinet meeting.

Sectors and stocks
Shares of public sector banks (PSU) were in focus on Wednesday in an otherwise range-bound market with the Nifty PSU Bank index surging 5 per cent on the National Stock Exchange (NSE). Indian Bank, Bank of Baroda, Canara Bank and Bank of Maharashtra were up in the range of 6 per cent to 9 per cent, while, State Bank of India (SBI), Punjab National Bank (PNB), Bank of India, Indian Overseas Bank and Union Bank of India from the PSU bank index were trading higher between 3 per cent and 5 per cent.

Shares of Shriram Transport Finance were up by around 5 percent after the company said that it will launch its rights issue on July 16 to raise Rs. 1,500 crore. The issue will close on July 30 with the price been fixed at Rs. 570 per share.

Shares of companies in the chemicals, commodities, and specialty chemicals space were trading up to 15 per cent higher on the BSE on Wednesday amid media reports that the government is planning to offer tax incentives to promote 'Make in India' for the chemical sector. Tamilnadu Petroproducts, IG Petrochemicals, Thirumalai Chemicals, Sudarshan Chemical Industries, Himadri Speciality Chemical, National Peroxide, GHCL and Nocil from the S&P BSE Allcap index were up between 5 per cent and 15 per cent in intra-day trade on the BSE. These stocks had rallied up to 20 per cent on Tuesday. Navin Fluorine International (Rs 1,765), Neogen Chemicals (Rs 593) and Ultramarine & Pigments (Rs 249) have hit their respective 52-week highs today.

Shares of Kamat Hotels share price were up by around 10 percent after Merlin Marketing acquired stake in the company. Merlin Marketing Pvt has acquired 3.5 lakh equity shares of Kamat Hotels India (representing 1.48 percent of its total paid-up equity capital) at Rs. 34.76 per share.

Global markets
Global equities were under pressure on Wednesday, losing momentum after a five-day rally, as an increase in new coronavirus cases in some parts of the world undermined prospects for a quick economic recovery.

European stocks opened lower while Asian stocks were better off. Chinese stocks extended their gains to seven sessions, with the blue-chip index up 1.6 per cent to its highest close since June 2015. MSCI’s broadest index of Asia-Pacific shares outside Japan was up 0.5 per cent, still lower than a four-and-a-half-month high reached the day before.

E-mini futures for the S&P 500 were up 0.1 per cent.

Ajcon Global's view

As expected, the domestic bourses were under pressure after whopping rally in last 3 months was led by liquidity through FPIs as global economies have resorted to printing money. We believe caution is warranted as on ground situation is bleak although there are relaxations in Unlock 2.0. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating India – China tensions after banning of Chinese mobile apps, global cues especially the spike in COVID-19 cases in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, management commentary in ongoing Q4FY20 earnings season and newsflow related to COVID-19 will dictate market trend. Although some sectors have rallied in June 2020 quarter, investors will keep an eye as to how far the sectors revive from a standstill scenario. The disappointment of no relief package for middle class who are also affected significantly in COVID-19 crisis will also remain an overhang. We like the agriculture reforms announced; major announcements made in sectors like Coal, Mining, Aviation, Defence and Power sector were also good and long term in nature. However, certain announcements by Finance Ministry were not taken well by street participants with regards to measures like MSME loan not being interest free, ambiguity with regards to MSMEs who do not have an existing credit facility, market sentiments getting affected as the reduction in rate of TDS to increase liquidity in the system were announced as part of stimulus package etc.

Sectors like Pharma and Healthcare, Speciality Chemicals, Insurance, E-Commerce, Companies with innovative business models especially in facility management, housekeeping and digital space would benefit from the COVID-19 crisis while sectors like over leveraged NBFCS including micro finance, real estate, construction, hospitality, tourism and aviation sector would be affected significantly. We advise investors to not lose hope in Indian equities as historically it is proven that market do witness recovery post an epidemic. Historically, Indian equities have always bounced back strongly post a Black swan and key events like Global Recession (1986-88), Gulf War/India Fiscal Crises (1990-91), Harshad Mehta Scam (199293), Stock Market fall (1994-96), 97 Market Meltdown (1997-98), Dot-Com Bubble (2000-01), Central Election Results (2004), High Inflation (2006), Global Financial Crisis (2008), European Sovereign Debt Crises (2010-11) in the past ranging from a fall of 11 percent to 65 percent and bouncing back in three years' time frame by ~73 percent to 300 percent in the above events. Globally in the past, during the Great Depression, the US market declined steeply and made record highs later on. Any news of faster discovery and launch of vaccine for COVID-19 may fuel the market. We recommend value buying only in high quality stocks gradually at every decline for building a long term portfolio for 3 – 5 years horizon.

However, those who have entered at the lower levels especially in last week of March 2020 last week and first week of April 2020 may book short term partial profits. We feel that there will be further opportunities to pick up the stocks at lower levels as Q1FY21 results would be a washout for major sectors except FMCG, Agrochemicals, Pharma and Digital/internet.

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