ALCHEMY CAPITAL MANAGEMENT

Investment Matters

October 2020

EQUITY OUTLOOK

Market outlook: Sideways and Volatile

The Nifty was soft in September with a -1.2% fall through the month – the main impact was on the Bank Nifty which fell -9.7%. The cuts were deeper intra-month, but a late rally helped recover some of the losses. We expect the broader indices to remain sideways for the next few months, though volatility is expected to be high and divergence between sector and stocks should also get bigger. October should see continued volatility as outcomes of some events and trends become clearer.

Return to normalcy : We expect further steps in unlocking in October – cinemas, restaurants and some forms of public transport. This is, however, in the backdrop of a sustained rise in CoVID cases across the country. The effectiveness of the unlocking measures depends on whether citizens feel confident enough to step out of their homes and resume normal activity, despite the risks. We will have to monitor both the unlocking measures and their effectiveness as a gauge of the pace of economic recovery.

Festival demand : Some industries like autos have seen a strong surge in production through September, but some of that has been stocking dealer inventory than actual consumer demand. The festival season is expected to be an important barometer for overall consumer demand, especially for discretionary goods like autos and durables. This will be an important barometer of the damage caused by the coronavirus and the subsequent lockdown and will give us some sort of roadmap of how longer-term growth develops.

Asset quality : We will follow four key trends on asset quality through October –

a) the pace of EMI collections after the end of the moratorium in end-August. Early evidence suggests sequential improvements but still significantly below normal.
b) The provisioning made by the banks in the 2Q results – the stronger banks are expected to increase provisions as a matter of prudence.
c) Any data that the banks may disclose on restructuring, though it is probably too early for disclosures on that front. Banks' asset quality trends are an important indicator of both consumers' future spending appetite and the lenders willingness to lend. The delayed MPC meeting from 7-9 October may offer some visibility, but the RBI is expected to stay on hold with no incremental liquidity measures.

EQUITY OUTLOOK

Quarterly results : The results themselves are unlikely to move the market. There is no great expectation of a strong top-line momentum and the scope and extent of cost cuts by companies was already visible in 1Q. Management commentary will be important, however, especially as many companies will report in and around the peak of the festive season. Managements will also be in a better position to comment on longer-term growth prospects in October/November than they were in March.

Bond markets : The bond markets continue to be in a state of flux. The month began on a good note with the RBI's measures (higher HTM limits, Operation Twist) causing a 16 bps single day drop in yields. Since then, however, yields have inched up by 6 bps with multiple auctions devolving, indicating that participants are unwilling to buy bonds at the rate that RBI wants. The reaffirmation of the government's borrowing plans did little to calm the markets. The shortfall in GST collections and likely spike in state borrowings remains an overhang. Continued pressure on bond markets is a worry as there could be a spillover into equities, though the RBI has enough ammunition to prevent extreme volatility.

US elections : Past data shows that the outcome of US elections has very little lasting impact on the Indian markets. Also, the decisive lead for the Democrats in opinion polls indicates that the markets are probably ready for a Joe Biden victory, so a negative surprise seems unlikely. On the other hand, however, an expansionary fiscal policy by Joe Biden could limit the Fed's ability to further ease. This raises the risk for a global risk-off, which would leave India vulnerable. It is a risk that we should keep an eye out for.

Our strategy remains unchanged. We are approaching our investing on three broad pillars. First, we are trying to minimise the cash holdings – we will try and use the volatility to reduce it even further. Second, we remain focused on diversifying across sectors – we do not believe sector concentration will pay off in a low-growth environment. Third, we remain very selective about our exposures to banks and NBFCs – we see the next 2-3 quarters as challenging for both growth and asset quality. We will take a fresh view on financials as we navigate the next two quarters.

Seshadri Sen
Head of Research
Alchemy Capital Management Pvt. Ltd

Source :
Alchemy Research
Bloomberg

MARKET INSIGHTS

Alchemy view on Market trends, analysis, and way forward; with additional inputs from industry experts about the different aspects to superlative asset management.

1. Interviews – Oct 2020*

- Daily Voice | Avoid high-beta stocks that could be vulnerable to external shocks
  Mr. Hiren Ved to MoneyControl

2. Market Views – Oct 2020

Watch Here

*Hyperlinks to other websites made available here are to be accessed at the sole risk of the user; the content, accuracy, opinions expressed, and other links provided by these resources are not investigated, verified, monitored, or endorsed by Alchemy.

DISCLAIMER

Regulatory Disclosures:

- All clients have an option to invest in the above products / investment approach directly, without intermediation of persons engaged in distribution services.

- **Performance related information provided hereinabove are not verified by SEBI.**

General Risk factors

All products / investment approach attract various kinds of risks. Please read the relevant Disclosure Document/ Client Agreement carefully before investing.

General Disclaimers

- The information and opinions contained in this report/ presentation have been obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete.

- Information and opinions contained in the report/ presentation are disseminated for the information of authorized recipients only and are not to be relied upon as advisory or authoritative or taken in substitution for the exercise of due diligence and judgement by any recipient.

- The information and opinions are not, and should not be construed as, an offer or solicitation to buy or sell any securities or make any investments.

- Nothing contained herein, including past performance, shall constitute any representation or warranty as to future performance.

- The client is solely responsible for consulting his/her/its own independent advisors as to the legal, tax, accounting and related matters concerning investments and nothing in this document or in any communication shall constitutes such advice.

- The client is expected to understand the risk factors associated with investment & act on the information solely on his/her/its own risk. As a condition for providing this information, the client agrees that Alchemy Capital Management Pvt. Ltd., its Group or affiliates makes no representation and shall have no liability in any way arising to them or any other entity for any loss or damage, direct or indirect, arising from the use of this information.

- This document and its contents are proprietary information of Alchemy Capital Management Pvt. Ltd and may not be reproduced or otherwise disseminated in whole or in part without the written consent.

Alchemy Capital Management Pvt. Ltd (SEBI Regn No:INP000000365) |B-4, Amerchand Mansion|
16 Madame Cama Road| Mumbai 400 001.
URL: www.alchemycapital.com |Email ID: contactus@alchemycapital.com | CIN-U67120MH1999PTC119811