AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **July 27, 2020**

Selling witnessed in Financials; IT stocks stay strong amidst decline in benchmark indices..

Domestic bourses were down by around 0.5 per cent lower on Monday led by selling in Financials after the Reserve Bank of India (RBI) in the bi-annual Financial Stability Report (FSR) released on Friday, said the gross NPA ratio of banks may increase from 8.5 per cent in March to 12.5 per cent by March 2021 under the baseline scenario, but it could worsen to as much as 14.7 per cent under a "very severely stressed scenario.

The S&P BSE Sensex declined by 194 points or 0.51 per cent to settle at 37,935 while Nifty ended at 11,132, down 62 points, or 0.56 per cent.

Among individual stocks, HDFC Bank ended over 3.5 per cent lower at Rs 1,079 on the BSE after its managing director and chief executive officer Aditya Puri sold off nearly 95 per cent of his stake in the bank valued at Rs 842.7 crore.

In the broader market, the S&P BSE MidCap index slipped 1 per cent to 13,565 levels while the S&P BSE SmallCap index ended at 12,840, down 1 per cent.

Sectorally, Nifty Bank was down by 813 points or 3.6 per cent to 21,849 levels. On the other hand, Nifty IT gained nearly 2 per cent to 17,627 while Nifty Metal ended at 2,094.40, up 0.33 per cent.

India VIX surged over 2 per cent to 25.05 levels.

Sectors and stocks
Shares of information technologies (IT) companies continued their upward movement on Monday with Nifty IT index hitting a fresh record high on the National Stock Exchange (NSE), gaining 2 per cent in an otherwise weak market. Tata Consultancy Services (TCS), Infosys, HCL Technologies, Mindtree and Tech Mahindra were up 2 per cent each, while Mphasis, NIIT Technologies and Larsen & Toubro Infotech were up in the range of 3 per cent to 8 per cent.

Persistent Systems was up by 11 percent at Rs. 857 after the company reported a strong set of numbers for the quarter ended June 2020 (Q1FY20).

In the month of July, the Nifty IT index has outperformed the market by rallying 19 per cent after sector majors Infosys, HCL Technologies and Wipro reported better-than-expected April-June quarter (Q1FY21) earnings. In comparison, the Nifty 50 index was up 8.25 per cent during the same period.
Mphasis, the top gainer among Nifty IT pack, rallied 8 per cent and hit a fresh 52-week high at Rs 1,208 in intra-day trade. In the past two trading days, the stock has surged 23 per cent after the company's Q1FY21 earnings came in-line with Street estimates. Besides, the company signed a new deal worth $216 million deal in July 2020 in addition to the Q1 TCV declared wins worth $259 million, which further boosted sentiment.

Asian Paints was up by nearly 4 per cent to Rs. 1,778 on the BSE on Monday in an otherwise weak market on sharper than expected recovery and healthy commentary.

ICICI Bank was down by over 6 per cent to Rs. 358.50 on the BSE after the Bank posted 14 per cent rise in profit before tax (PBT) at Rs. 3,183 crore in the quarter ended June 2020 (Q1FY21).

Global markets
Global equities were mixed on Monday. In Europe, shares slipped with travel stocks leading the declines after Britain imposed quarantine on travellers returning from Spain, where cases of the novel coronavirus have surged in the last few weeks.

Asian indices too were mixed as a 10 per cent rally in Taiwanese chip heavyweight TSMC cheered some other tech shares across the region, which helped prop up the broader market with MSCI's ex-Japan Asia-Pacific index rising 0.4 per cent.

Ajcon Global's view
We believe today's correction will have a cooling effect in overheated market and is just the beginning. No doubt July 2020 rally has been supported by better than expected Q1FY21 results announced by Companies so far. However, we still believe correction in Indian equities will be healthy for investors as whopping rally during April – June 2020 was led by liquidity through FPIs. In June 2020, FPIs poured US$2.73 billion in Indian equities, which is the highest this year and importantly surpassed pre-COVID-19 levels. The FPI inflows came amidst rush of liquidity in the markets globally after central banks around the world announced stimulus measures to help their economies. The stimulus measures given by the G4 central

banks such as the US Federal Reserve, Bank of England, European Central Bank, and Bank of Japan, have helped fill the global markets with liquidity, marquee Indian companies tapping the secondary stock market by raising funds also contributed towards the increase in FPI flows. According to data on NSDL, the inflows in January 2020 stood at US$1.3 billion against the June inflow of US$2.73 billion. The inflows have currently become higher than the pre-Covid-19 levels in January where the markets were at all-time highs with the benchmark Sensex and Nifty trading at the 42,000 and 12,300 mark respectively. After hitting a record high in January 2020, Indian equity benchmarks crashed 40 percent to hit around four-year low level on March 24, 2020. The indices in June 2020 quarter witnessed a sharp and fast rally of 20 percent in both Sensex and Nifty which is very sharp led by liquidity (by global central banks) and gradual re-opening of economies despite virus risk.

Presently, caution is warranted as Indian investors are not connected to realities of economic situation being very bleak which is evident by the fact that Companies are looking to raise capital via rights issue and FPO. Although there are relaxations in Unlock 2.0 but the exponential rise in COVID-19 cases can force for tighter lockdown. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating India – China tensions after banning of Chinese mobile apps, exponential rise on COVID-19 cases which is a matter of serious concern; global cues especially the spike in COVID-19 cases across the globe in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, Q1FY21 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. 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 except sectors like Insurance, FMCG, Agrochemicals, Pharma and Digital/internet would be disappointing.

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