



**Dr. Ashok Ajmera (FCA), CMD & CEO**

Dr. Ashok Ajmera's column as on December 05, 2020

**Re-rating of sectors happening which were hammered in COVID-19 crisis on positive developments related to COVID-19 vaccine; consolidation expected post stellar run in last few weeks ..**

On a weekly basis, Sensex was up by 2.1 per cent while Nifty rose by 2.2 per cent. The S&P BSE Mid-cap index rose 2.8 percent while the S&P BSE Smallcap index closed with gains of 2.6 percent for the week ended December 4. Asian equities were trading at record high on Friday on growing prospects of a large US economic stimulus package, while hopes that coronavirus vaccine rollouts in UK and Russia will boost investor sentiments.

The rally can be attributed to positive developments COVID-19 vaccine coming in UK and Russia announcing vaccination programme. Domestically, sentiments improved owing to better than expected GDP data for the September quarter, RBI's forecast of positive GDP Growth and dovish commentary by the Reserve Bank of India (RBI) in its Monetary policy.

During the week, FPIs bought Rs. 7,236 crore of equities while DIIs sold equities worth Rs. 4,118 crore in the cash segment.

**Key major developments during the week..**

- 1) The Reserve Bank of India (RBI) on Friday revised its forecast of economic growth for the current fiscal year (2020-21) to minus 7.5 per cent compared to its earlier forecast of minus 9.5 per cent. RBI governor Shaktikanta Das said the change in forecast has been prompted by a surge in demand in both rural as well as urban areas. The second half of the fiscal year is expected to show positive growth despite disruptions caused by coronavirus pandemic, he added.
- 2) The RBI kept the policy repo rate unchanged at 4 per cent amidst high inflation. CPI inflation rose sharply to 7.3 percent in September and further to 7.6 per cent in October 2020, with some evidence that price pressures are spreading. Food inflation surged to double digits in October across protein-rich items including pulses, edible oils, vegetables and spices on multiple supply shocks. Core inflation, i.e., CPI excluding food and fuel, also picked up from 5.4 per cent in September to 5.8 per cent in October. Both three months and one year ahead inflation expectations of households have eased modestly in anticipation of the seasonal moderation of food prices in the winter and easing of supply chain disruptions. The RBI governor said inflation is likely to remain elevated with some relief in the winter months. "CPI inflation is seen at 6.8 percent for Q3FY21 and projected CPI inflation is at 5.8 percent for Q4FY21. For H1FY22, projected CPI inflation is seen at 5.2-4.6 percent with risks broadly balanced," said Das. Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent. The Monetary Policy Committee (MPC) also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

- 3) Prime Minister Narendra Modi on Friday said that experts believe that the wait for a COVID-19 vaccine will not be long and it may be ready in a few weeks, asserting the vaccination drive in India will begin as soon as scientists give the nod. In his remarks here at an all-party meeting held virtually, he said healthcare workers involved in treating COVID-19 patients, frontline workers, who include police personnel and municipal staff, and old people suffering from serious conditions would be inoculated on priority. Noting that there have been questions about the price of the COVID-19 vaccine, the prime minister said it is natural to have such queries and asserted that public health will be accorded top priority in the matter and states will be fully involved. In his concluding address at the meeting called by the Union government to discuss the pandemic situation, Modi sought to address most burning aspects of the issue, ranging from India's vaccine readiness to its pricing, and reiterated that the country has done better than even some developed countries and those with better health infrastructure in tackling the pandemic. Earlier on last Tuesday Prime Minister Narendra Modi in a meeting with chief ministers on Tuesday said that, India's priority is to make a coronavirus vaccine "safe on all scientific standards" available to all its citizens. The central government and states have to "work together" in controlling the coronavirus pandemic and "no one can impose any view", PM Modi told the chief ministers of eight states worst affected in the pandemic. Modi held two meetings through video with Chief Ministers and Lieutenant Governors to discuss the coronavirus situation in the states and preparations for vaccine delivery.
- 4) Earlier, UK became the first western country to approve a Covid-19 vaccine, with its regulator clearing Pfizer Inc. and BioNTech SE's shot ahead of decisions in the U.S. and European Union. The emergency authorisation clears the way for the deployment of a vaccine that's expected to play a significant role in the global effort to halt the coronavirus. Pfizer and its German partner said in November that the shot, relying on novel technology called messenger RNA, was 95% effective in a final analysis of clinical-trial data. "The government has today accepted the recommendation from the independent Medicines and Healthcare products Regulatory Agency (MHRA) to approve Pfizer-BioNTech's COVID-19 vaccine for use. This follows months of rigorous clinical trials and a thorough analysis of the data by experts at the MHRA who have concluded that the vaccine has met its strict standards of safety, quality and effectiveness," the UK government said in a statement. "The vaccine will be made available across the UK from next week. The NHS has decades of experience in delivering large scale vaccination programmes and will begin putting their extensive preparations into action to provide care and support to all those eligible for vaccination," the statement added. Britain's approval of BioNTech-Pfizer's vaccine against Covid-19 marks a "historic moment" in the battle against the pandemic, the US pharma group's chief executive said. "Today's Emergency Use Authorisation in the UK marks a historic moment in the fight against Covid-19," said Pfizer CEO Albert Bourla.

### **Ajcon Global's view**

Sentiments have improved significantly with RBIs forecast of positive GDP growth. Additionally, Prime Minister Narendra Modi on Friday said that experts believe that the wait for a COVID-19 vaccine will not be long and it may be ready in a few weeks, asserting the vaccination drive in India will begin as soon as scientists give the nod also aided in improvement of sentiments.

We expect Indian equities to now consolidate amidst volatility post stellar run in the past few weeks. Investors, now have become stock specific in midcaps and smallcaps segment and increasing allocation in Companies which are witnessing turnaround in Unlock phase after lockdown and having cost efficiencies.

With COVID-19 vaccine coming in UK; sentiments of global investors have already improved. Domestically, broader markets continued to witnessing buying which is a good sign for retail investors. Strong up move is being registered in smallcaps space which will bring much needed relief who were caught at the peak of 2018. Real GDP for September quarter contracted by 7.5 percent, but according to us, the Q2 GDP data indicates signs of economic revival from a standstill scenario (owing to nationwide lockdown in April, May, and June 2020). The numbers could have been a disaster had it not been for a fast recovery of economy during various phases of Unlock.

PSU banks have rallied significantly post festive season of Diwali and is expected to rally as most of them are available at Price/Book Value of around 0.5x which is very cheap as compared to valuations of Private Banks and Nifty Bank Index as a whole.

At present levels, Nifty valuations look expensive led by significant spike of FPI liquidity in the month of November 2020. Hence, we are cautious on Large caps and advise partial profit booking. The news on COVID-19 vaccine coming in UK has already led to rerating of sectors that were hammered in COVID-19 crisis. Further fall in domestic bourses, will make markets healthy for fresh entry.

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