

Opportunities in times of adversity!

The significant correction in the market today is on account of rising bond yields across the world. US 10 year treasury yields hit the 1.56% in yesterday's trading session leading to global risk off trade. The NASDAQ tech index saw a deep correction with tech stocks like Tesla falling by 8%. Indian markets consequently have opened gap down and have seen further downward pressures during the day. The correction in the Indian market is a knee jerk reaction to the global phenomenon and may not sustain for a prolonged period.

The construct of Indian market is very different as it is dominated by BFSI, domestic consumption plays and a significant number of value plays. It is important to note that the Union Budget has provided the tail winds for growth and India's growth is more likely to gain traction in the forthcoming quarters. While global inflation is rising on account of multiple factors, India's inflation composition is also markedly different as it is dominated by food inflation. Inflation in India has started cooling off from the months of January and next leg of food inflation is likely to start in the second half of 2021. We expect inflation to remain the ~4% zone for 2021 which means that RBI's accommodative policy stance will continue and support economic growth.

As the economy is reviving, the uptrend in the corporate earnings cycle is more likely to sustain in the forthcoming quarters. We strongly believe that the market will do well in an earnings upgrade cycle. Our stock picking will remain similar to our Budget stance as these sectors are likely to perform over the medium term.

Our key sector and stock views are as follows:

- **Cyclical and rate sensitive sectors to gain traction:** The whole industrials cycle has been a major laggard over the whole of last decade. Sectors like Real estate, capital goods, infrastructure, corporate banks and metals have been major underperformers. These sectors have seen significant value destruction also over the decade but 2020 saw significant improvement in these sectors. The structure emerging for these sectors, globally also is a significant positive. The Union Budget with consistent focus on capital spending has provided the further impetus to these sectors.
- **BFSI to deliver solid returns** BFSI is a leveraged play on the economic growth cycle and the sector is past the peak of the NPA cycle. The capital position of the sector has improved significantly and it offers both earnings growth and re-rating potential. Private bank stocks like ICICI or PSU bank like SBI offer solid upside potential.
- **Government PLI linked plays likely to perform:** The government has further extended the PLI schemes to provide impetus to Make In India scheme. The domestic manufacturing plays in consumer durables sector are likely to benefit and outperform.
- **Value and Growth to be the dominant themes:** As economy improves Value stocks see significant improvement in financial metrics. Also, broader economic growth will mean strong earnings growth. Quality could take a back seat as 'Buy Quality at any price' theme may not work as there will be multiple opportunities across sectors with improving financial metrics and earnings visibility

With these themes as a back drop our key stock ideas are as follows:

- **Ashok Leyland, ICICI Bank, State Bank of India, CanFin Homes, Cholamandalam Investment, Amber Enterprises, Polycab India, KEC Intl., Dalmia Bharat, JK Cement**

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