I-CAN COMMUNIQUÉ

JULY 2020

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Monthly Newsletter – July 2020

Sensex : Up 7.7% Nifty : Up 7.5%	
Best performing sector: PSU Bank (26.4%)	Worst performing sector: Pharma (2.2%)
Best performing Global index: Bovespa (8.8%)	Worst performing Global index: RTS Index (-0.6%)
Indian Rupee: 0.1%	Gold (International): 3.2%

The Indian equity markets showed a strong performance in the month of June – with headline indices rallying by more than 7.5%. The unlocking of the economy and the return of foreign institutional investors (FIIs) greatly contributed to the sharp recovery. In the second week of June 'Unlock 1.0' led to many commercial establishments across the most parts of the nation re-opening after two-and-a-half months. Maharashtra allowed private offices to operate with 10% staff. The lockdown was extended in the containment zones till the end of July. However, movement guidelines were eased so that economic activity does not get further impacted. States were allowed to take measures based on their respective situations.

The mid and small cap indices outperformed last month. The S&P BSE Mid Cap index and Small Cap index were up by 10% and 14% respectively. FIIs poured in a net Rs 21,831 crore in Indian stock markets in June and sold a net amount of Rs 1,544 crore from the bond markets. Inflows into mutual funds via the Systematic Investment Plan (SIP) route were Rs 7,927 crore in June. Net inflows into equity mutual funds were Rs 240.5 crore.

Stock markets defied the increased tensions due to clashes between India and China along the Line of Actual Control (LAC) intensified. 20 Indian soldiers were killed in a violent face-off in Ladakh. The Department of Telecommunications (DoT) asked state-run BSNL and MTNL to stop sourcing telecom equipment from Chinese firms. 59 Chinese apps were banned in India.

The Department of Telecommunications (DoT) withdrew 96% of Rs 4 lakh crore adjusted gross revenue (AGR) dues demand from GAIL, Oil India and other public sector units. This came as a massive relief for these PSUs.

According to the United Nations Conference on Trade and Development's World Investment Report 2020, India was the ninth-largest recipient of foreign direct investment (FDI) in 2019, with $51 billion of inflows during the year, compared with $42 billion received in 2018.

India has seen a rapid rise in the number of cases. The tally as on June 30 was 5.66 lakh cases, of which 66% were reported in June alone. A study by the Indian Council of Medical Research (ICMR) indicated that India's Covid cases will continue to increase till early October.

Morgan Stanley economists expect a V-shaped global recovery and output to return to pre-Covid levels by the fourth quarter of this year.

The International Monetary Fund (IMF) predicted a 4.5% contraction in the Indian GDP in the financial year 2020-21. World Bank stated that it expects Indian GDP to contract by 3.2% in FY21. The Asian Development Bank (ADB) projected a 4% contraction of Indian GDP in the current fiscal and a growth rate of 5% in the next fiscal.

Wholesale price based inflation (WPI) fell by 3.21% in May on account of sharp fall in fuel and power prices. The government withheld the retail inflation figures for May due to lack of data due to lockdown restrictions. India's Manufacturing Purchasing Managers' Index (PMI) showed a sharp recovery to touch 47.2 in June from 30.8 in May. A figure below 50 indicates contraction in activity. The Services PMI reading indicated continued weakness at 33.7 in June – up from 12.6 in May.

Reforms

- The government approved a 2% interest subsidy scheme for Shishu loan account holders under the Mudra Yojana. The idea is to help small businesses stay afloat in the current tough conditions. Under the Shishu category lenders provide collateral-free loans of up to Rs 50,000.
- The Securities and Exchange Board of India (SEBI) allowed promoters to acquire 10%, instead of 5%, through creeping acquisition without triggering an open offer.
- Opening of a National Pension System (NPS) account has become easier through one-time password (OTP) based authentication process.
- SEBI eased norms for FPIs by allowing scanned copies of documents for renewing registrations till August 31. Earlier this relaxation was given till June 30.
- The Insurance Regulatory and Development Authority (IRDAI) ruled that health insurance companies cannot contest claims on grounds of non-disclosure for policies in force for more than 8 years in a row.
- SEBI relaxed norms related to fast track public offers, including reducing the average market capitalization of public shareholding requirement till March 2021.
- At least 7 Indian and global companies are likely to seek benefits under the government's production-linked incentive (PLI) scheme whose objective is to make India a global hub for mobile device exports.

I-CAN FINANCIAL SOLUTIONS

Bharat Bond ETFs: All you need to Know

An exchange traded fund (ETF) is a type of mutual fund portfolio which is listed on a stock exchange and can be traded. Bharat Bond ETF is India's first corporate debt fund with a defined maturity which will invest in AAA rated bonds of public sector enterprises.

The first tranche was launched in December 2019. Edelweiss Asset Management Company has launched the second tranche of Bharat Bond ETF. The new fund offer (NFO) opens on 14th July and closes on 17th July, 2020. One can invest after the NFO close date as well as this is an open-ended fund. There are two maturity periods being offered – 5 years and 11 years maturing in April 2025 and April 2031 respectively. Any interest received during this period will be reinvested into the scheme. A fund-of-fund will be made available for those who do not have a demat account. The benchmark of the ETF will be Bharat Bond indices. The indices that the new five-year and 11-year ETFs track have yields of 5.72% and 6.79%, respectively, as on 1 July.

Bharat Bond ETFs follow roll-down maturity, which means that the maturity of its portfolio decreases as the ETFs approach their target dates.

Advantages:

i. Low Default Risk: Since the ETFs invest in only AAA rated papers the credit risk is low. The current companies in the index portfolio include names like Power Finance Corporation, REC Ltd, Power Grid Corporation of India Ltd, National Housing Bank and so on. If a company gets downgraded, the NSE Bharat Bond will remove the security on the subsequent rebalancing date.
ii. Predictability: If held till maturity the returns are fairly predictable.
iii. Indexation Benefit: Compared to traditional investment products like fixed deposits, ETFs enjoy indexation benefits if held beyond three years. One can expect a post-tax yield of 5-5.1% on the 5-year and 5.9-6% on the 11-year bond. However, this is not guaranteed. The numbers are estimations.
iv. Low Cost: The ETF charges up to 0.0005% - lower than most debt funds.

Disadvantages:

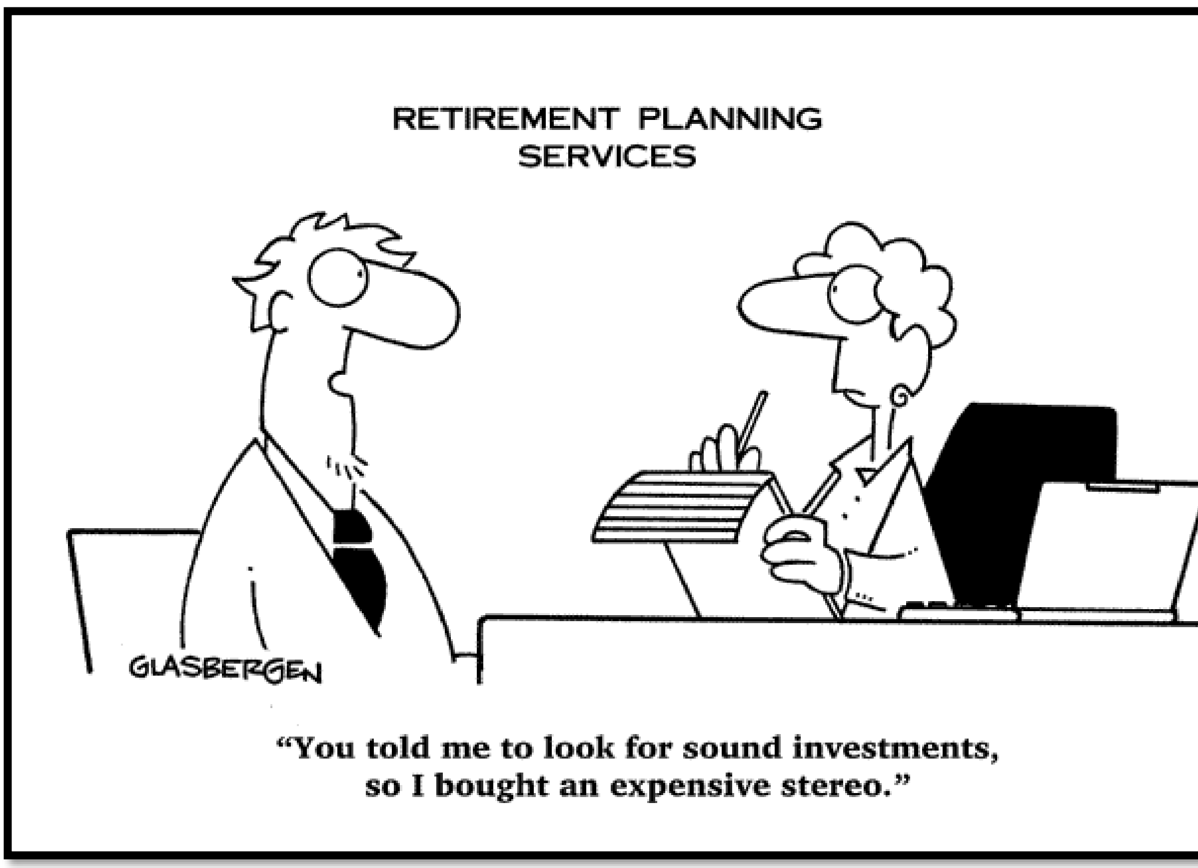
i. Interest Rate Risk: Today we are in a low interest rate environment. If interest rates rise in the future, investors locked into these ETFs may lose out.
ii. Low Liquidity: This product is meant for those who can stay invested for the maturity period – hence one should be comfortable keeping the money aside for 5/10 years.

Although the bonds are traded on an exchange and can be sold but the realized yield could be lower as interim price movements can be quite volatile.

Did you know?

About 7% of all humans who have ever lived are alive today

Cartoon of the Month



Top Personal Finance News – June 2020

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3) Distribute equity assets among small-, mid- and large-caps: Click here
4) Form 26AS: 4 new things that your tax passbook will now show: Click here
5) General insurance: Protect your assets with an insurance policy: Click here
6) Should you include MNC funds in your core portfolio?: Click here
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