

Market Uncertain but certainty in the sectors.

The Macro Scenario

The market breadth looks uncertain with oil prices touched 80\$ per barrel, rupee depreciating to 68 per dollar. This will widen the fiscal deficit of the country. Midcaps and Small-caps continue to fall. Macro going worse is leading to a sentimental impact which is impacting the domestic flows and international flows into the market. The state elections outcome is impacting the sentiments of the market participants.

Although, the broader sector as a whole is facing a lot of headwinds from Domestic as well as from international markets, there are sectors which is beating the index returns. We believe, a sector which deals with the demographics of the nation is doing comparatively well during the ongoing turbulent times.

Below is the list of sectors which are expected to do good even when the broader market is correcting.

1. Consumption Sector

The current government in the budget has raised MSP by 1.5x which will directly benefit the rural economy. Since many companies in the consumption sector operate in the rural economy, we feel this sector will not face significant corrections. Also, the monsoon is expected to be above normal which will again add on to the rural economy. Hence, we feel good companies like Britannia, Nestle, Marico, Westlife Development, which has a good management at helm, is expected to not correct in relation to the broader index.

2. IT Sector.

IT sector is facing lot of tailwinds from the depreciating rupee. The IT sector did not rally for long time as a result; most of the companies in the IT space are trading at attractive valuations. The transformation of converting their traditional business to digitization is almost over and we are seeing digitization space growing across sector, hence many large-cap and midcap IT companies will continue to post good set of numbers going ahead. Stocks like FSL, NIIT Ltd., Intellect Design arena from the mid-size IT companies will continue to do good as they have just turned around. Also Large and Midsize companies like Infosys, TCS, NIIT Ltd., Zensar are few companies from the IT space we feel will grow.

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3. Auto Sector

Most of the companies in the Auto space have reported very good set of numbers both on a quarterly as well as on a yearly basis. The auto sales numbers which is reported every month is also showing growth across the segments of tractor industry, 2 wheelers, passenger vehicles and commercial vehicles. It has been 4 consecutive month in a row, most of the automobile companies continuous to report very good set of monthly numbers despite the current period being a non-festive period. Most of the automobile companies have reported good export which indicated the demand from the international markets is very strong. We feel companies like Maruti, Bajaj Auto, Ashok Leyland Escorts and M&M will continue to do well.

4. HFC's

The HFC sector rallied in the initial years on the appointment of PM Modi, but currently the sector is facing the risk from the rise in the bond yields. Despite the headwinds from the bond yields, we believe this segment will do very well in the future as there is a growing demand in this sector. Irrespective of any government at the helm, we feel the rising younger population of the country will continue to buy homes. Also migrations from tier 2–tier 3 cities to tier 1 cities are increasing which will augment the demand for the HFC's. Companies like DHFL, GIC Housing, LIC Housing, HDFC, Repco Home Finance are all trading at attractive valuations and will continue to good in the long term.

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