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WHAT LIES AHEAD FROM HERE !!!

Views of 7 Portfolio Managers and 1 Economist

24th March 2020.
Nifty ~ 7700
Sensex ~ 26000
(Down ~ 38% from peak)

A special Report for Equity Investors by

PMS AIF WORLD

www.pms-aif.com

Views/Perspectives

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Mr. Varun Goel
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Mr. Vikas Khemani
Mr. Samit Vartak
Mr. Anshul Saigal
Mr. Vivek Kaul

We hope and wish you and your loved ones health and safety

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In heartfelt Prayers, Team, PMS AIF WORLD wishes Health, Wealth and Prosperity for Everyone !!!!

We urge readers and their families to take precautions. One must stay absolutely inside house. One should do all household work by self and no help from outside should be allowed in. Eat healthy, Pray, Meditate. Life is most Precious. Take good care of elders and cherish the moments with family. Read interesting and insightful books (online)…☺ "An investment in knowledge pays the best interest". - Benjamin Franklin

PMS AIF WORLD COMMENTARY

In the two biggest metropolitan areas of India(Mumbai Metropolitan Region& Delhi NCR) and many other cities, we have seen complete lockdown; images show an era of silence on the streets. The fear is rampant in the wake of the Novel Corona Virus named Covid-19.

The stock markets have been reflecting this fear.

Since the past two weeks World has not been able to follow their normal course of life – this deviation was seen in the Indian and Global Equity Markets as well – the longer term structural bull run has been halted and with a ferocity seldom seen before – Indian Markets hit two circuit filters in period of less than a fortnight – Quite Scary. Headline indices have lost more than 1/3rd in value and negating any gains for at least past more than 5-7 years for investors. The story is similar across stock markets of the world. America and most of Europe are contemplating economic packages last seen in the morbid markets' of 2008 crisis. India is also expected to announce something similar. The 2020 market crash and the probable economic slowdown is a lot different from any we have seen in the past. The essential creation of a bubble in asset prices before the event is missing and the crash has been induced by a large singular factor - Covid 19. Previous bear crashes had multiyear asset bubbles before the fall took place. From business and economy perspective Corona Virus has caught mankind by alarm.

Correction in stock prices make asset values very attractive and investments done at these levels would contribute immensely in long term wealth creation endeavours. At PMS AIF World we believe that this might be one of the best times to create a portfolio in equities. *Value is often subjective, but we can say with some certainty what should be available for a rupee is available for 50 paise.* So we say there have been very few better times than now to build a portfolio in equities. One must invest in quality businesses and stay away from the ones that appear cheap. The 5 - year or 10 - year outlook of quality businesses has not changed in the last 24 hours or 48 hours. What has changed is their prices. So, it’s a time to accumulate. And, longer the time horizon, the less important is this short - term volatility. In the last 40 years, stock markets have experienced many adversities and we have come out of all events stronger than ever, and we will do so this time as well.

Kamal Manocha, CEO, PMS AIF WORLD

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Rajesh Kothari,
Founder & Managing Director,
AlfAccurate Advisors

Question 1 : How do you see the current state of market and what are the first thoughts that come to your mind?

Clearly, there is uncertainty in the minds of everyone from political leaders to scientists to global investors across asset classes. First thought that comes to mind is when situation will become normal? How much time will it take? And unfortunately there are no clear answers.

Question 2 : Fall has been very sharp. Where do you see market bottom?

It is futile exercise to predict market tops and bottoms. We keep checking whether market offers value? And current valuations suggest that market offers Growth at Reasonable Value. Many good companies are trading at their 5-year average valuations and few are trading at 10-year avg valuations. Many of these cos have high ROE, strong balance sheet and strong cash flows. Such cos will be natural winners.

Question 3 : Indian economy was already showing major signs of building weakness for quite some time. How do you see the situation now with pandemic leading to shutdown of all major cities?

It depends upon how situation evolves over next few weeks. Clearly, 1QFY21 is impacted. We hope that situation becomes normal from 2Q. Having said that, one should also look at relative growth in world. India benefits on macro front as crude, interest and inflation remains low. It is classic case of all macros turning favourable for India.

Questions 4 : What government support in terms of fiscal and monetary policies should be expected ? With shutdowns, there will be massive fall in govt tax revenue as well. What risks do you see in this regards?

I think it is important to look at what other countries are doing. All major economies - USA, Germany, China, etc are providing huge support to corporates and to consumers.

A. Govt and RBI together need to boost liquidity in the system, particularly to midsize corporates as MF industry may not able to lend in a big way in this environment B. Slashing interest rates by 150-200 bps - considering inflation is under control and global interest rates are at near zero levels. C. Fiscal stimulus-crude savings should be utilised prudently - GST rate cut for 1-2 years D. Giving sector specific stimulus: e.g. reducing cost of ownership for automobile - auto sector is one of the biggest revenue and employment generator. E. Personnel income tax rate cut in line with corporate tax rate cut. F. Just like NPA recognition deferment, may be EMI deferment for 1-3 months - that will help consumer credit segment which reported high growth during recent years.

Importantly, all measures should be announced together, that will boost confidence of corporates, consumers and investors. For next 1-2 years, growth should be given priority over fiscal deficit to some extent.

Rajesh Kothari, Founder & Managing Director, AlfAccurate Advisors

Question 5 : Whenever tide turns, do you see recovery also as sharp as the fall has been, or it is a matter of long drawn recovery that will test investor patience for long period? What are your views

Recent fall is steepest and hence I won't be surprised if market witness V shaped recovery. However, common mistake made by investors is they look at stock price and buy based on how much it declined from peak. But that is classic trap. instead focus of investors should be only on companies which are Market Leaders with strong balance sheet. These cos did capex without much dilution and gained market share during last 2-3 years of economic downturn and they are well positioned to further gain market share. They may not look cheap on valuations but when adjusted for growth and capital efficiency, not too expensive, either.

On the other hand, there are stocks which may not able to recover (for instance, cos where shares were pledged, or growth is linked to equity capital raising, cos which lost confidence of bankers and investors, etc) - avoid such value traps.

Varun Goel,
Head Alternative Strategies,
Nippon India Asset Management

Question 1 : How do you see the current state of market and what are the first thoughts that come to your mind?

Clearly, market is in a state of panic.. there is a lot of uncertainty regarding the economic impact of this virus and market are assuming the worst. Markets don't like uncertainty at all and always overshoot on the downside which is the case currently. Once, the extent of negative impact on the economy is known, market will stabilize, the Coronavirus related news flow has to stabilize for market to stabilize..

Question 2 : Fall has been very sharp. Where do you see market bottom?

Markets have fallen 40 percent while there is no reason to believe that earnings in perpetuity will be down by around 40 percent. As things stand today, we believe the Q1 of FY21 will be impacted and consensus earnings expectations need to be scaled down for FY21... even if we assume zero growth in earnings next year, market is trading at 14 times which is a very reasonable valuation. Market have already undershot the fundamentals and should reverse once the new flow turns positive.

Question 3 : Indian economy was already showing major signs of building weakness for quite some time. How do you see the situation now with pandemic leading to shutdown of all major cities?

Indian economy was showing some initial signs of rebound in January and February. Lower interest rates, easy liquidity, good Rabi crop and lower current account deficit were the enabling factors. However, recovery is now pushed to Q2 of FY21..lower oil prices will be a big positive and we expect economy to show some strength in the second half of this calendar year

Questions 4 : What government support in terms of fiscal and monetary policies should be expected ? With shutdowns, there will be massive fall in govt tax revenue as well. What risks do you see in this regards?

We expect direct benefit transfer for another 5-6 crore low income households along with around 9 crore farmers... so around 15 crore poor households should be getting cash transfers and free rations from Centre and state governments.. while tax collections will slip, oil price drop can help. A total 8-10 rupee increase in excise for petrol and diesel along with zero under recovery in LPG and kerosene can lead to a 20-billion-dollar bonanza for the government which can be used as a stimulus. We expect RBI to relax NPA recognition Norms for SMEs, farmers and retail borrowers

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Varun Goel, Head Alternative Strategies, Nippon India Asset Management

Question 5 : Whenever tide turns, do you see recovery also as sharp as the fall has been, or it is a matter of long drawn recovery that will test investor patience for long period? What are your views

Recovery will be linked to news flow related to Coronavirus.. if India sees a China like Containment and reversal, recovery should be sharp, and markets shall bounce back strongly. However, for now we would remain cautious and wait for clarity to emerge on these issues

Harsh Agarwal,
Head, Alternate Strategies,
Tata Asset Management

Question 1 : How do you see the current state of market and what are the first thoughts that come to your mind?

The market is finally throwing up good investing opportunities after many years. Risk- reward is improving.

Question 2 : Fall has been very sharp. Where do you see market bottom?

Predicting bottom is meaningless. Apart from covid-spread situation, there are many more moving parts including drying up of liquidity in both equities and debt markets. For equities to bottom out, all the other influencing factors must show improvement.

Question 3 : Indian economy was already showing major signs of building weakness for quite some time. How do you see the situation now with pandemic leading to shutdown of all major cities?

Selected shutdown in the early stages is essential to contain the spread. Assuming the spread is contained, or effective drugs are invented, the shutdowns will be reduced which will help the economy come back.

Questions 4 : What government support in terms of fiscal and monetary policies should be expected ? With shutdowns, there will be massive fall in govt tax revenue as well. What risks do you see in this regards?

Government would have done its job if it could conduct wide-scale testing and limiting the spread. On economic side, most critical aspect is to protect the debt markets from major defaults. Shutdowns will mean large case stress across corporate, SMEs, and individuals. Any business going down permanently due to a temporary problem will be highly unfortunate. It may mean, intervention in debt markets, opening credit lines/windows. So this time a surgical way of supporting the economy is needed. Conventional methods of monetary easing will not work. Financial support/DBT can be initiated for the economically weaker section. Fiscal support by way of tax cuts will have limited benefits.

Question 5 : Whenever tide turns, do you see recovery also as sharp as the fall has been, or it is a matter of long drawn recovery that will test investor patience for long period? What are your views.

Recovery will be swift but timing that will be impossible. It is possible that markets quite a bit from here before recovering. Irrespective, investors patience will be tested.

Aniruddha Sarkar,
Portfolio Manager & Co - Head Equities,
Quest Investment Advisors Pvt Ltd

Question 1 : How do you see the current state of market and what are the first thoughts that come to your mind?

“All bear markets have one thing in common, they end”, is what comes to my mind when anyone asks me about the current environment. However when and how this ends is different each time. So it’s important to understand the composition of the current crisis. Currently we as humans are facing the biggest crisis of our lives. None of the living generations of people have seen a crisis of this magnitude. What makes it unique is that it is a mix of supply shock, demand shock, financial shock topped with existential probability of humans. So drawing parallel to past crisis and what worked then will work now is too rudimentary an approach. To be honest market was not prepared for this type of a shock as the world was till a month back seeing Covid-19 as just a ‘Chinese’ problem and the global markets were immune to it. However with spill-over of Covid-19 cases globally, it slowly dawned on everyone that the globe is inter-connected and it’s a global problem and not a Chinese problem alone. Heavy selling from Emerging Market ETFs is something that has triggered the panic and wealth destruction in Indian equity markets. We have seen close to $8 bn FII outflows in the last 25 days and that’s a record for India. We seem to be at the fag end of this sell-off and I feel the worst is literally behind us in terms of major price correction and we could see some time correction now.

Question 2 : Fall has been very sharp. Where do you see market bottom?

The current state of the market is a classic example of Buridan’s Donkey Paradox theory! On one hand investors fear if they enter now, they would lose further and on the other hand they fear that what if markets rebound then they would miss out on the upside from these low prices. For anyone who has been there in the market for the last 2-3 decades he would know that this is not the first time we have seen such sell offs of this magnitude. In-fact in the past 20 years, this would be the 6th sell-off of more than 20% from the recent peaks. However what makes the current sell-off unique is the intensity and pace at which we corrected nearly 40% from the peak. In fact even for the US Dow Jones, the current sell-off is the fastest sell off it has seen since the great depression of 1929. On a brighter side, the current sell-off has made valuations extremely attractive which we get maybe once in a decade or maybe much more rarely. Nifty is now trading below 15x P/E on FY20 expected numbers and below 12x P/E based on FY21 numbers. On a Price/Book basis we have come below 2x P/B on trailing basis which makes the case for getting into equities even more compelling. So if one would ask me when is market bottoming out, I would say **price wise we are very close to the bottom** and if one is still sitting with cash levels should start deploying. I have been doing the same for my clients wherein we had raised cash levels to around 20-25% couple of weeks back. Taking the risk of sounding cliché I would still say, one can never catch the bottom, but the current valuations make a strong case for market bottoming out soon.

Aniruddha Sarkar, Portfolio Manager & Co - Head Equities. Quest Investment Advisors Pvt Ltd

Question 3 : Indian economy was already showing major signs of building weakness for quite some time. How do you see the situation now with pandemic leading to shutdown of all major cities?

What sets our current bear market different from the 2008 bear market is that, we had entered 2008 on the back of a strong economic activity of 2005-2007 and hence we saw the pain mostly in the financial markets and the real economy was pretty much less impacted for a long time. Hence the recovery of the markets in 2009 was equally steep. Unlike that this time we have had economic slowdown in India across sectors both on the demand and supply side which had just gone through the twin shocks of demonetisation and GST over the last 3 years. It had yet not grappled out of these and was pushed into the Corona crisis. What we are facing now in the form of ‘Janta Curfew’ and ‘Social Distancing’ is going to see far reaching impact on consumption for a few months if not quarters. Discretionary consumption and most economic activities has come to a complete halt. Only thing going of the shelves of stores are consumer staples, groceries and medicines. I feel there would be new leaders emerging in the market when the recovery happens, and one needs to focus on earnings visibility ahead as that has become the most questionable for all companies. I see some major positives in favour of Indian economy in the form of lower crude prices, falling US bond yields and excess liquidity in the global markets. In addition favourable tax environment for corporates and also for new manufacturing units setting up in India which could attract major investments from MNC looking to diversify from China post the recent supply cut off seen in Jan-Feb from China. These are all foundation stones for a significant growth trajectory for India which might now look a bit clouded considering the pandemic environment around.

Questions 4 : What government support in terms of fiscal and monetary policies should be expected ? With shutdowns, there will be massive fall in govt tax revenue as well. What risks do you see in this regards?

I feel the current situation needs both monetary and healthcare support from the government to revive confidence in the economy and prevent a catastrophe from happening. The western world specially US Fed and European ECB has gone all out in supporting with their financial firepower the current crisis and have pledged to do whatever it takes to protect their economies and prevent job losses. Our government in India unfortunately have little room or firepower left to replicate any of the same in India. Some things which should be done immediately are to ensure that there is an extension given to all companies in paying their debt obligations as the last thing we need now is a corporate debt default scenario. Also moratorium on all retail debt repayments would ease consumers burden in this time of stress. With shutdowns happening across states and companies shutting down factories, the current quarter seems given to be a washout quarter. Incentives for starting new manufacturing plants in key areas of API and Chemicals would be a good move to attract investments in these sectors which have become of prime importance. I believe the government needs to push RBI for easing interest rates in the environment and push banks for better transmission to the end users. On the healthcare measures, government should use this opportunity to push for largescale healthcare centres and hospitals across the country.

Aniruddha Sarkar, Portfolio Manager & Co - Head Equities. Quest Investment Advisors Pvt Ltd

Capex on hospital infrastructure would also take care of public capex in a big way. Incentivising corporates to spend on healthcare through CSR has been a good move on this front. On the tax collection front, there would be a massive dip both on GST and direct taxes. They could make up some part of that through higher excise on fuel prices and take benefit of the lower crude prices. I see some risk to fiscal slippage but in the near term we should be ok to let go off the path of fiscal conservatism and focus on containing the current pandemic environment.

Question 5 : Whenever tide turns, do you see recovery also as sharp as the fall has been, or it is a matter of long drawn recovery that will test investor patience for long period? What are your views

Since the current fall in markets is both on account of medical and financial reasons, a recovery from the bottom would also depend on what medical and financial solutions we collectively are able to find out. Whenever the current tide of market sell-off turns, whether we have a ‘V’ shaped or a ‘U’ shaped recovery would depend a lot on the co-ordinated efforts from governments across the globe. Recovery would depend on the timing and magnitude of government assistance as well as the level of corporate debt, and how companies and markets cope with lower demand environment. Also how well we are able to contain the spread of corona virus cases in India and keep the curve flattened would be a big deciding factor in the rebound. Discovery of vaccine and drugs for treating the infection would be another key driver for a steady and swift recovery. On the brighter side I see earnings having bottomed out in the current quarter and there would be enough pent up demand in coming quarters for companies to fire up their engines full steam ahead. Humans by large have evolved over the ages and have only grown stronger. This progress of humanity cannot be stopped by Corona virus for sure and it’s a matter of time before we conquer the same and start our onward journey to greater heights.

Vikas Khemani,
Founder and CEO,
Carnelian Asset Management LLP

Question 1 : How do you see the current state of market and what are the first thoughts that come to your mind?

These are unprecedented times and never seen before kind of black swan event. This kind of sharp correction in such a short period of time is unapparelled in history and probably could be explained by prevalence of social media. The news -flow/rumours spread in no time across the globe and hence reaction are also sharp and quick.

Also we have never seen global scale shut down ever before. Most countries are getting into a lock down mode. **Its implication and second/third order effects are unknown and will become clear over a time**. Markets are currently assuming worse and flight to safety & liquidity is leading to this kind of fall.

Question 2 : Fall has been very sharp. Where do you see market bottom?

Yes, it is very sharp fall and never happened before. There is fear of health and economics both. We are in risk off mode. Such sharp falls always exaggerates into liquidity related issues, where price becomes irrelevant for someone who needs liquidity. Typically, that's the last leg of markets correction. I feel we have just seen that happening over last couple of days where people with leverage are being forced to sell. Large pension funds, especially passive ones are pulling money out of markets globally. I feel co-ordinated stimulus both fiscal and monetary could lead to some sort of stabilisation.

Question 3 : Indian economy was already showing major signs of building weakness for quite some time. How do you see the situation now with pandemic leading to shutdown of all major cities?

Indian economy has been in difficult period for some time which was expected to recover. This event has created huge stress on the economy and corporate India. Cities shutting down has huge implication both for government and corporate. Government revenues will fall sharply, corporate India will have massive productivity loss while bearing fixed costs. If not handled well by government and RBI, Indian economy might get into a recession. Though quite a bit of it is already factored in our markets.

Questions 4 : What government support in terms of fiscal and monetary policies should be expected ? With shutdowns, there will be massive fall in govt tax revenue as well. What risks do you see in this regards?

As I said, risk of recession is very high. In absence of revenue & productivity, probability of corporate default has gone up. Corporate India and SMEs will need huge hand holding in navigating through the crisis.

Vikas Khemani, Founder and CEO, Carnelian Asset Management LLP,

Crisis handling must be above any political agenda as this will impact India's future.

Government must loosen fiscal targets to may be 5-6%, bring interest rate down drastically, provide ample liquidity to corporate, SMEs, unleash huge amount of infra spend. Fortunately India is not much leveraged, and we have huge forex reserves, only way out this is infusion of huge liquidity. Once the virus spread recedes, we need to focus on getting economy & productivity back. China is doing a great job on that. UK seems to be making promising moves. Singapore is doing an exceptional job both on economic and health front.

Question 5 : Whenever tide turns, do you see recovery also as sharp as the fall has been, or it is a matter of long drawn recovery that will test investor patience for long period? What are your views

Recovery will depend on two factors – how long the lockdown continues or how long it takes to get the virus spread under control. Secondly, what kind of measure are taken by government and central bank to restore economy. Both at this point are unclear. I feel there is very high probability of a co-ordinated stimulus by the authorities across the globe in next 3-4 weeks. We should keep in mind, if handled well, India has great chance of quick recovery (low leverage, low commodity prices, scope of sharp reduction in interest rates) and market valuations are very attractive (market cap to GDP, P/B at historic low). Of course all these means nothing in short term but when recovery play out there will be lot of money to be made. One must constantly watch developments as they happen and manage risk.

Samit Vartak,
Founding Partner & CIO,
SageOne Investment Advisors

Question 1 : How do you see the current state of market and what are the first thoughts that come to your mind?

These are extreme and uncertain times wherein most investors, policy makers and even the general population has very little idea about how the situation would evolve globally. These are historical and unprecedented times for almost everyone living. Markets hate uncertainty and generally it extrapolates risk beyond reality in such environments. Market fall creates more fear and that triggers further round of selloff as margin calls are triggered, stop losses are hit and weak investors who can't stomach the fall run to the exit in a stampede.

Question 2 : Fall has been very sharp. Where do you see market bottom?

Markets have fallen along with the global markets even though the official COVID – 19 confirmed cases in India are unbelievably low. Currently our number indicates only 0.4/million population. For most largely affected countries this ratio is in the 150 to 1000/million population range. So the market is factoring significantly higher actual cases (375x to 2500x) in India with a fear that the global ratio itself will climb further. The key fear for the market is that this crisis will blow up into a full-fledged financial crisis resulting in many financial institutions blowing up. Because of such environment, whatever anyone says, no one knows how low and how fast the markets can fall further. Many historical benchmarks, like valuation levels in 2009 fall, become meaningless in an unprecedented and extremely uncertain environment. What happens over the next 3-6 months is anyone's guess, but once you stretch the horizon a bit longer to beyond one year, the confidence of predicting how most companies (and hence the market) would stand goes up. Assuming that the fair valuation for the market is X and today we are at 0.6X, many would be confident in saying that market valuation will rebound to X a year or 2 years down the line. Unfortunately what drives investor behaviour is what would happen to the 0.6X in the short term. The fear and pain of seeing 0.6X becoming 0.4x is excruciating and much acute compared to the joy of seeing it going to X. Hence many bail out and miss out on the rally between 0.6X and 0.4X. It's important to keep the right horizon in mind to get some certainty (and peace of mind) and avoid converting paper losses into real and permanent losses by impulsively acting at the peak of panic.

Question 3 : Indian economy was already showing major signs of building weakness for quite some time. How do you see the situation now with pandemic leading to shutdown of all major cities?

Major shutdown was a need of the hour and it's better to bite the bullet like what China did and move on. Loose measures haven't been effective. I believe it's better that everyone get to know the real picture so that the extrapolation stops and there is decreased uncertainty.

Samit Vartak, Founding Partner & CIO, SageOne Investment Advisors

Questions 4 : What government support in terms of fiscal and monetary policies should be expected ? With shutdowns, there will be massive fall in govt tax revenue as well. What risks do you see in this regards?

Government does have the Oil cushion. They should surely increase the fiscal deficit in such situation and support the financial system. I believe a permanent damage to the financial system in India is the big risk and government/RBI should do everything in their powers to ensure safety of it during this shock.

Question 5 : Whenever tide turns, do you see recovery also as sharp as the fall has been, or it is a matter of long drawn recovery that will test investor patience for long period? What are your views

I believe the recovery would be as sharp if the financial system is protected.

Anshul Saigal,
CIO,
Kotak Portfolio Management

Question 1 : How do you see the current state of market and what are the first thoughts that come to your mind?

Markets are reacting to the reality of weakening economic activity as a result of Corona virus outbreak. The question one asks oneself is how long this will last and how much will be the economic impact. Past pandemics/ crises and the economic outcomes thereafter offer some answers to this conundrum.

Question 2 : Fall has been very sharp. Where do you see market bottom?

The extent of economic damage and extent of health damage will determine where the markets bottom. If we take the example of China in Containing the impact of Corona virus outbreak, they contained it in a 2-3-month period. Thereafter their markets reacted positively to this containment. The Shanghai composite index is down approx. 10% over the last 3 months compared to the DOW Jones being down nearly 35%.

Clearly as the world sees containment of the impact of Corona virus on economic activity, markets should react positively. It is uncertain today whether that will take 1 month or as much as 3-6 months.

Question 3 : Indian economy was already showing major signs of building weakness for quite some time. How do you see the situation now with pandemic leading to shutdown of all major cities?

Indian economy was already reeling under the governments drive of formalisation (GST/ Demonetisation etc) and Corona virus epidemic has come as a bolt from the blue. It will have a further negative impact on Jobs and incomes.

Albeit, the fall in crude prices has given the Macro economy some reprieve. Total Savings on our Current account due to oil price fall is likely to be Rs 1.4 Lakh Crores. This windfall can be spent as a stimulus in these tough times.

Questions 4 : What government support in terms of fiscal and monetary policies should be expected ? With shutdowns, there will be massive fall in govt tax revenue as well. What risks do you see in this regards?

Indirect taxes will take a hit in these times but those may be balanced by the crude windfall. Additionally, the RBI has a contingency fund of approx. Rs 2 lakh Cr. The RBI may give a dividend to utilise these contingency funds, since we are in a contingency situation and contingencies are handled by the government. The government may also have to borrow more, leading to a stretched Fiscal.

Anshul Saigal, CIO, Kotak Portfolio Management

Question 5 : Whenever tide turns, do you see recovery also as sharp as the fall has been, or it is a matter of long drawn recovery that will test investor patience for long period? What are your views

The system is flushed with liquidity. Consider that US Fed has given a blank cheque to buy assets to stabilise the markets. World over there is a combination of monetary and fiscal stimulus to support the global economy. Interest rates are near 0% levels globally. Indian central bank is likely to cut rates to support the economy and a fiscal stimulus is expected from the government. All these developments are positive for equities, beyond the current period of uncertainty.

Next 2-8 weeks are crucial. China has shown that 2-3 months is enough time to tide over the effects of Corona. All Chinese business activity is back to normalised levels, except in Wuhan, where it is currently at 25%. Various countries are in different stages of the outbreak. US is in week 4 while India is entering week 3. If this outbreak is controlled in 4-12 weeks, markets will start looking beyond and factoring a revival in economic activity. The slow down was swift. The recovery may not be as swift as the slow down but is likely to be sharp. Markets will take cues from the economic recovery and react accordingly.

The next 4-8 weeks are crucial for India. It could be a period of heightened volatility in our markets, but chances are that markets react positively beyond that period.

Vivek Kaul,
Author and Economist

Question 1 : How do you see the current state of market and what are the first thoughts that come to your mind?

The first thoughts that come to my mind are that there is no one way ticket to the moon. What goes up must come down…History repeats itself… And that this time is not different…

Question 2 : Fall has been very sharp. Where do you see market bottom?

I wish I had a straightforward answer to that but pity I am not a fund manager looking to drive up AUM. What I do know is that there have been bigger falls (maybe not faster) in the past. In 2008, the Sensex fell by close to 60%, between January 8 and November 20. There is no reason that the same levels won't be tested this time around.

Question 3 : Indian economy was already showing major signs of building weakness for quite some time. How do you see the situation now with pandemic leading to shutdown of all major cities?

We were already seeing a slowdown in consumer demand in case of many products. That will accentuate now due to isolation. Also, if this continues beyond March 31, people working in smaller businesses will start losing jobs. The gig economy is already in a free fall. Economists are saying the next quarter will see 3% growth. I have my doubts about that.

Question 4 : What government support in terms of fiscal and monetary policies should be expected ? With shutdowns, there will be massive fall in govt tax revenue as well. What risks do you see in this regards?

Monetary policy has been dead for a while. Also, an easy monetary policy with interest rates falling and an expansionary fiscal policy with the government spending more money cannot be run at the same time. (Something fund managers need to understand before recommending both. The government doesn't set interest rates. It can at best influence them). There is a lot that the government can do on the fiscal expansion front, from postponing GST payments to paying pensions in advance to transferring money into Jan Dhan accounts and so on. The risks are that this could lead to inflation with supply chains already collapsing.

Question 5 : Whenever tide turns, do you see recovery also as sharp as the fall has been, or it is a matter of long drawn recovery that will test investor patience for long period? What are your views

I have no idea. I invest through the SIP route. My SIPs are on. I have always been in the stock market for the long-term. And the last time I sold out, lock, stock and barrel and reallocated my portfolio was before the Lok Sabha results came out in May 2019.

Disclaimer

Report shares personal views of PMS and AIF Money Managers as presented in online interviews conducted by PMS AIF WORLD on 23rd March.

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Past performance may not be sustained in future and so must not be relied upon for any comparisons or decisions, while making current or future investments.

One must consult a qualified financial/investment advisor before investing.