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COVID 19 to WEALTH 20

23rd May 2020 I 10:30 AM to 1:45 PM

Online Conference

AdviceSense

WEALTH MANAGEMENT • SIMPLY ETHICAL

COVID 19 to WEALTH 20

Mega Online Event

23-May-2020

Event Report

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COVID19 TO WEALTH20

Market View : Be CAUTIOUSLY Optimistic

Raamdeo Agrawal,
Chairman,
Motilal Oswal Financial Services

- Quoting Berkshire Hathaway AGM for 2020, where Mr. Buffett conveyed giving an example of 1929 depression and how stock markets behaved then was interesting. Dow Jones then fell from 350 to 200 in the first leg of correction and then went back up to 260. But after going up to 260, it crashed almost 80%. Today, we are walking in a dark and large jungle and we do not know when the darkness is going to go. Buffet is not buying anything right now and is keeping on to his liquidity of $125 Bn. The key reason for this is because he is largest re-insurer of the world and he is unsure of the claims coming his way. Maybe Buffet's age has led him to be so cautious in his view. You think differently about risk when you are 25 compared to when you are 50, Buffet is 90 years old. However, Buffet is cautiously optimistic in his remark, "Never Bet Against America".

- Fear seems to be more contagious than the virus : the virus seems like a 12M problem, but the fear or paranoia is more than warranted. One must be optimistic of the fact that humanity will come out of this situation for sure. Yes, Warren Buffet is sitting on large amounts of cash but, his mandate as the world's largest insurer is different than equity fund managers. For equity fund managers, sitting on cash doesn't work. If one unable to predict a 40% fall from the peak, one would also be unable to predict the 40% rise from bottom.

- Massive destruction of wealth in businesses like Airlines, Hotels, Infra due to COVID 19, and impact also to be felt by Banks that are lenders to these sectors. But, After from FMCG, Auto looks attractive as many factors are turning positive for this sector especially for two-wheeler/motorcycles, and small cars. Some of the positives are 1) expected fall in fuel prices, which should continue to remain low. 2) Low interest rates. 3) Discomfort to travel in public transport. All this would lead to rise in demand for motorcycles, and small cars. Pharma is another sector that looks attractive. In times to come, "India could be pharmacy to the World" Telecom is another sector that looks attractive, especially as sector now has low competition and space operates like a duopoly. There is a consistently rising demand for data services during COVID and post COVID times.

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- 1+1 movement could get a lot of FDI in India. China is a one manufacturing hub many multinational companies. But, most of these companies are looking for another alternative, in the post COVID World as the distress wave against china is real. CII & Indian Govt. has made representation to around 1500 global companies for moving production to India.

- Good businesses will not only survive, but also take the pie of market of not so good businesses, for whom COVID 19 makes situation very difficult. Thus, polarized nature of markets to continue. Market would remain narrow and in the favour of Quality. Looks clearer that, growth in GDP to say $ 5tn will be led by existing and established businesses who will be fighting for market share, leaving negligible room for new players to emerge.

- Gold is a non-productive asset class. The huge rise in gold price is surprising and basically because of risk aversion. Equity is a productive a long-term wealth creating asset class. It creates wealth through businesses creating year on year earnings.

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Nilesh Shah,
Managing Director,
Kotak Mutual Funds

- The Government is striving to maintain a balance between Fiscal prudence and Fiscal stimulus to avoid credit downgrades, So, Monetary policy measures are preferred more than Fiscal policy measures and that is what 20 trillion package is more structural and long term in nature. Rs 8.5 tillion liquidity pumped by RBI, by way of 150 bps of rate cut. There is more room for RBI to pump the economy via Monetary policy measures. But the Credit growth in Indian economy has decreased from Rs 11 trillion in FY 19 to Rs 6.5 trillion in FY 20. This is because, onus is on the borrowers and there is a need for borrower responsibility. (A defaulter had spent Rs 400 crore on daughters wedding recently. Compare this with before independence, during world war II, example of Tata Steel when it had difficulty in paying salaries to their staff and the promoters mortgaged their personal family jewelleries and put the money in the company. They put their private money in a public company. While borrowers now take out public money from their companies for private use. Cheque bounce cases close to around 4 crores in India. This is the reason banks are reluctant to lend. The government needs to create an equilibrium between the banks and the borrowers here.

- India has a very good opportunity to attract FDI given the distressful wave against China. By supplying medicines to the world, India has created a massive goodwill. During Y2K we became “Backoffice of the World”, now we have a chance to become “Manufacturer of the World”.

- Do not expect equity fund manager to take cash calls. His sole job is only to outperform the respective benchmark. Long only products have a mandate to remain fully invested at all points of time, irrespective of rise in valuations and rise in uncertainty. It is investor, who must first diligently do asset allocation & stick to it, and then select products appropriately. There are products like asset allocation and balance advantage, but people hesitate to invest in them due to low returns in them during bullish phase of markets. Investors expect high returns, but one should not expect only upside of equities and not the downside risks associated with it.

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Hiren Ved,
Co-Founder & CIO,
Alchemy Capital Management

- We are certainly not low in Price to Earning multiples if compared to 2008 but following PE multiples is not prudent right now. We are on reasonably low valuations comparing Market cap to GDP if compared to 2008. There are certain important factors in valuations that one needs to understand (like certainty of cashflows, growth, interest rates). In 2014, FMCG was at 30-40 PE and interest rates were at 8-9% then. In 2020 as interest rates are at 3-4%, FMCG companies are valued at 50-60 PE.

- If you are underweighting on equities, now is the time to invest. You can also take a tactical call of buying equities for 2-3 years. We can see a very narrow market and further consolidation across sectors. Strong would become stronger.

- Underperform on Financials, Airlines, Hotels and Consumer Discretionary.

- Outperform potential in Telecom, Pharma, Auto.

- There is strong case for re rating in pharma stocks.

- Last mile logistics would play good for two-wheeler auto stocks.

- Five Key positives :

1) Cost of capital has gone down.
2) Key reforms in factors of production i.e. Land, Labour and Law are work in progress.
3) Coherent thinking by the Government by driving growth via Manufacturing in India.
4) Covid could be a blessing in disguise as we've got 2% GDP fiscal package by the Govt.
5) Modi is friends with Trump, Putin and Middle East, we might see higher FDI inflows in the coming years Additionally, states like UP and MP are taking major reform steps on their own • Dismantling of Agricultural Produce Marketing Committee is big agricultural sector reform and is good for for rural sector

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Ajay Bodke,
CEO & Chief Portfolio Manager
Prabhudas Lilladher Pvt. Ltd.

Headwinds:

- For any Economy there are 3 prime movers - Consumption, Investments, Net export. In the Indian context, domestic “consumption” is comprised of 60% and rest two roughly command 20% each. In the after math of COVID crises, all three, for different reasons are suffering. If you see, the aggregate demand has been badly hit because of lock down. This is accentuated by the job cuts, cut in salaries. Certain sectors like MSMEs which contribute a lot to the total employment were already stressed in the after math of demonetisation, roll out of the GST. COVID crises have pushed them, and problems have gotten worse for them. From the perspective of Banks & NBFCs, unsecured loans and personal loans have never been a worry like wholesale corporate loans have been during NPA crises, but COVID crises raises a lot of questions to this assumed to be low risk asset book of banks and financial sector. Scenario for “Investments” is also worry some. Indian govt’s spending (roads & railways), was high in the first term till 2019, but, now fiscal stress reduces the room for govt spending in the 2nd term. Private sector Investment was already low, and stress here has increased because of COVID. “Exports”, the 3rd mover, is also badly affected because of lock down and since there seems to be a rising wave of Nationalism all over. These slowing engines of growth require much more attention of policy makers over next couple of quarters.

Tailwinds:

- Agri sector contributes 15% to GDP, but, nearly 50% of Indians are dependent on Agri and allied sectors. There is good Rabi crop this year and IMD has predicted a good monsoon in coming quarter. Rollout long pending agri reforms like scraping of essential commodities act, allowing farms to sell their produce anywhere in the country etc will pave a way for corporatization of agriculture sector and should lead to growth of this sector in medium to long term.

- Fall in global crude oil prices is a huge positive for India. Remember 85% of oil is what we import, and every 1 dollar fall in its price, leads to 1 bn dollars of saving on our import bill. This has cascading effect on lower inflation, lower current account deficit, and accommodative monetary stance.

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Ajay Bodke,
CEO & Chief Portfolio Manager
Prabhudas Lilladher Pvt. Ltd.

- From risk assets perspective, nearly 1/3 of global debt is yielding negative returns, and with massive printing of global money by global central banks, when economies open up from lock down, we will see money gravitating to economies where there is growth potential and India in that context can attract its own share.

- MSCI has deferred the rebalancing of the index till June quarter as they want to see the impact of the measures taken by govt in the last budget. Roughly 1.5 Bn dollars of passive flows and 5 billion dollars of active flows could come to India by Sep'20 in this rebalancing.

- FII holdings today is at the lowest level since 2013, at ~20%, govt holding is also at a record low of at ~ 6.6%, DII holding is at 14%, and so is retail holding at 14%. Who has increased the holding? It's the Indian promoters, who have basically sensed that the under valuation in their franchises, and they are on the buying spree.

On market valuations we're at 18 times, 1 year trailing earning, but forward earnings are uncertain, so one should look at markets with a cautious stance; at the same time one could be constructive.

Market View : Be CAUTIOUSLY Optimistic

Lakshmi Iyer,
CIO (Debt) Head Products
Kotak Mutual Fund

- Credit Risk is relevant to all bonds apart from the Sovereign papers so we have to always be mindful of this while investing in any debt product. Liquidity corporate bond compared to GOI SOV papers is always low and hence imbalances have occurred. Franklin incident is an unfortunate event, but at the same time it is an exceptional incident which has happened as one of its kinds because of COVID 19 which is also one of its kind. COVID led to Corporate bond fund market becoming almost illiquid. Since Franklin funds faced unusual redemptions, and since corporate bond market had reached a level of illiquidity, FT had no option but to wind up schemes to stop the redemptions as that would have led to huge losses to investors who remained in the funds on account of selling of underlying securities at huge discount to fund the redemption.

- Illiquidity is different from a credit event. When an investment is done by a fund manager, a lot of factors are seen, and non AAA doesn't imply a possible credit event. Debt mutual fund industry is quite resilient, and the case in point is that the Redemption seen in Debt MFs industry was close to Rs 25000 Cr in less than 25 days post FT incident, and all of this was funded without borrowing. Fixed Income portfolios have done reasonably well despite the upheavals in the last few years. There is no point of painting the entire canvas with the same brush.

- Debt is an important asset allocation in any investors' portfolio and should not be avoided and within debt the tail end of the portfolio can definitely see some allocation in corporate papers as the spread compared to GOI or PSU papers is extremely attractive and gives an overall balance to portfolio. Where one 1 year G Sec is at 3.5% to 4%, the CD or a CP (corporate paper) of similar duration in a AA category is available at 8.5% to 9%. Basically, there is a massive spread. Hence, Corporate debt via a low duration to short term funds, definitely throws a nice opportunity for investors at this point in time.

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Akhil Mittal,
Senior Asset Manager
TATA Asset Management

- Landscapes in fixed income doesn't change overnight, credit spreads thus still remain high despite action from regulators and GOI as these will fructify over a period of time so there might be opportunities in credit markets now, but due diligence has to be stronger so that the opportunity doesn't become a bigger threat. Look at liquidity of papers, and invest in papers issued by companies that have been there for a while.

- The credit risk which was unsystematic in nature, is becoming a more of a systematic risk as COVID presents a precarious situation. However, over the last few years despite many credit event, the median returns of credit category of debt mutual funds is around 5% over longer time which was around 9% range if seen before IL & FS crises (till June 2018).

- There will be certain times where certain asset classes will lead depending upon the economic cycles and thus asset allocation plays very important role. Greater due diligence is always required at the end of an advisor, so that clients' risk appetite matches the risk attributes of the fund and right asset allocation an overall portfolio level.

- Current allocation for debt Investor could be bulk of the portfolio towards low duration higher quality papers like – PSU, GOI and for alpha, from higher risk portfolios like credit funds as spreads are decent now could be taken as a cherry on the return. So, tail end can be allocated to credit risk.

- ETF and Active fund could have same universe. ETF shouldn't be compared with credit risk funds. ETF can be compared with PSU, corporate funds. ETF is a good option for people who want to make money commensurate to the economic cycle and are okay to forego any alpha.

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