Takeaways from Nilesh Shah's Concall on Market Outlook

- Market rally due to short covering of positions due to new SEBI margins.
- Recovery is there but not sure if bottom is made.
- 8.5% drop in Corporate India's turnover due to 1 month (21 days rounded off to 30 days) lock down. We will see a 4.5% drop in GDP**. It's not a great thing; the 1 month shortfall can be made good by working extra on weekends in the next 11 months.**
- **Biggest advantage is Oil** – Every drop of $1 in Crude oil benefits us to the tune of $1.5 billion. The recent oil fall will benefit India to the tune of 50 billion$.
- **Second advantage is Chinese Trade deficit.** India is running 5 to 6 billion$ trade deficit with China on monthly basis. However, due to import restrictions, the deficit has been narrowed down as people are buying less of Chinese goods.
- **Capital allocation from foreign investors** – When the World is awash with liquidity, and interest rates are near zero, FIIs invest in growth markets such as India.
- **If one needs offshore assets independent of India, they can achieve that objective through gold.** Gold prices in 2007 beginning were 600$, went to 1000$ in March 2008 and then it corrected to 800$ during subprime crisis in November 2008. And then the lower interest rates globally pushed the rates to 1900 $ by September 2011, a 1000$ dollar move. **Something similar is happening now.** Gold prices were 1200$ beginning of 2019 went to 1700$ start of 2020, came down to 1450$ and now back at 1625$. **Gold prices will continue to remain firm due to lower interest rates and high liquidity and hence one can look at gold. If you have 7 year horizon ,they can look at gold bond which gives 2.5% coupon and if 1 to 3 year horizon, gold ETFs are better even though a small charge is there.**
- **On SIPs, Last 5-7 years who did SIPs now look at negative returns. What should be done?** - Over Feb 2019 to Feb 2020, 12 months SIP returns have been -9% to 26%. Extremely important to measure SIP return when index was at highs. 10 year SIP returns of our midcap fund were 14-16%. **This is worst time to stop SIP, but best time to top up SIP.**
- **Value advantage fund customers can't average. What should be done?** – Request them to just stay invested. Fund has 65-70% equity allocation. NAV last week was down as market was down, but now it has improved significantly. Investors need not do anything; we are doing everything at fund level.
- **Due to market disruption, CP rates gone up**. Private Banks are going for 10%, PSU banks at 9% for 90 days. This cycle yield has resulted in mark to market losses. Suppose I bought at 6% (the PSU bank CP),which is now 10%, so a 4% loss but if I continue to hold for other 30 days, loss will be covered.
- **FIIs took out 56000 cr, which was more than they took out in Oct 2008.**
- **2 factors influence India –**
- <u>How we manage coronavirus?</u> By effort of government, we have been able to contain this virus. If we continue to manage this well, our image will be more good and more flows will come in.
- <u>Hate towards China –</u> Nilesh Shah says "spoke with a friend in New Jersey. When he went for grocery shopping, Chinese individuals walked in, and immediately they were booed and not allowed to shop. There is a lot of anger against China. 20 Trillion Suit also filed against them. A lot of American corporations which were happily outsourcing to China will try to shift outside China. India should focus on this and get these multinationals out of China to India

and help them set the supply chain here. This is an immense opportunity. Samsung came long back to India before Vietnam, Samsung turnover in India is 10 billion $, Vietnam it is 62 billion$, which is a 28% contribution to Vietnam's GDP. We don't need one company contributing so much to our country, but we need many Samsungs here so that they can make here and export.

- **Stimulus Packages** - US fed has been doing unlimited amount of bond purchases. They have announced 10% of GDP worth stimulus package. Germany announced 20% of GDP worth stimulus package. Huge amount of support being given by governments ignoring fiscal discipline. India has Fiscal space to move from fiscal deficit of 3.5% to 5%. Fiscal stimulus by government and monetary actions by RBI should help in normalizing.
- **Post Recovery** – Lower interest rates, high liquidity, lower oil prices which should help markets in V shaped recovery once the cure is found.
- **How to invest at this time? Mcap to GDP is lower than Oct 2008. Compared to a historical average of 78% MCAP to GDP ratio, current ratio is 52-53% which makes it a very attractive percentage. Divide investment into 50-50%. Divide first part of 50% into 10 parts (5%) and invest it on negative days over the next 20-30 days. The second 50% deploy when medical solution becomes available.**
- **Questions –**
- <u>How will recovery come?</u> - Both Fed Chairs (Ben Bernanke and Janet Yellen) said there will be sharp slowdown but a really faster recovery. Same will happen in India. I Believe RBI is waiting for perfect time to support banking and growth of economy. Recovery will be V-shaped provided there comes a medical solution.
- <u>Sectors to recover first?</u> **Post 9/11, NYSE was shut for few days. Aviation crashed massively. Everyone said air travel will change forever, but in next one month they delivered fantastic returns as they fell a lot and they bounced back. Market sectoral performance will be different from economic performance as valuations also come into play.**
- <u>Economic sectors which will do well</u> – Medical infra, health infra, related to consumption if government support. Also a lot depends on what policies government announces (If Scrappage policy then it will benefit Autos).
- <u>How is Chinese market able to manage their markets?</u> – China is a miracle economy. On a serious note, they were proactive with banning short sales, told institutions not to sell; told retail investors not to redeem from institutions, they also made sure FPIs not able to take out money after selling.
- <u>Italy is suffering a lot because 100,000 families of China are living in Italy in the leather and furniture industry.</u> **China will face a lot of repercussions directly or indirectly as the government was not fast enough to curtail virus in Wuhan itself**. In the days to come, India will get of goodwill and China will get hate. State and Central governments should work in tandem, to ensure we monetize on this.
- **Rupee should depreciate 2-3% a year from here on unless something dramatic happens.**
- <u>International equities should be looked at this point time?</u> – Can't say for sure. If you had invested in Italian or Spain markets, your portfolio would have been vanished despite rupee depreciation.

- <u>Arbitrage Fund</u> – We have requested to invest in this against peers. Why opposite? Our peers looked at negative spread. When markets corrected on Thursday, futures were quoting at discount and hence they said to redeem arbitrage. Today the futures are quoting at discount then it would go to premium like it happened. (yesterday spread was 100 bps). Next 3 months will be volatile with future going into discount or premium.
- **Tough times don't last, tough people do. Best time to buy equities.**

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