Equity outlook March 2020

'www' stands for Worldwide web

The world is a web and now clearly with no boundaries. There are significantly contradicting reports and no one knows the truth of the virus. However three facts emerge from the entire thesis – 1. There is loss of life, 2.The global activity whether in manufacturing or in services has taken a pause, 3.The sentiment has taken a back seat. Let us look at each one of them and try to access how will it impact the stock markets in short and long term.

Let us look at each of the points one by one. There is loss of life. The fatality rate is pegged at 3-4%, i.e. of every 100 people getting infected 3 to 4 people can't make it. The corollary is that 95 to 96 people infected recover too. It is sad that people don't survive but the magnitude is not as grave as it is made out to be. The epicentre of the epidemic is the shop floor (factory) of the world namely China. Facts and figures from China are always taken with pinch of salt. Nobody knows the truth. However the fact remains that as things get under control sooner or later, the time to come back too shall be short as in China, things recover faster than most of other global economies. There is a cut in supply chain globally and that shall clearly prompt global companies to look at plan B. An alternate shall be looked at now more faster than ever before. Since it is contagious it has spread across the globe, the sentiments have taken a back seat, the VIX has increased world wide and has created a risk-off environment. The uncertainty seems to have created panic amongst the investors. Since manufacturing plants in China are not functioning, the global supply chain is at risk. Given the fear and uncertainty people in service industry are not travelling and the plans for entire hospitality industry are getting cancelled. The moot point is all this for how long and how grave will it become before things come back to take the normal course. Honest answer is no one knows.

However in the backdrop of all that happening. The central bankers world over shall start pump priming the economy by announcing slew of rate cuts to even loosening the purse string by printing in more currency. As is said – for workmen with a hammer every problem is like a nail. We agree that easing of monetary policy is not a remedy to the problem but for capital starved country like India, this is a blessing in disguise. Moreso softening of crude price and other commodity price also acts favourably for India. Last but not least – India can serve as a proxy to the global customers, Land, Labour, Capital, Entrepreneurship, Power are now comparable with the global suppliers.

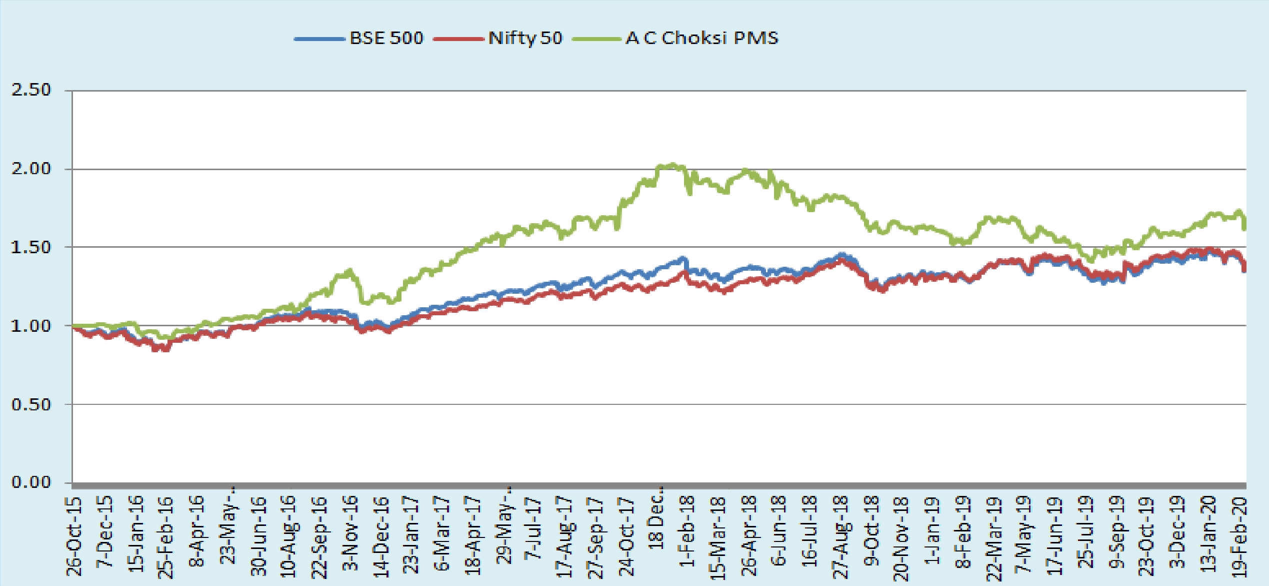
We were just seeing green shoots of economic recovery in India; however it shall take it a bit longer before which things come back to normal levels. From a portfolio stand point, we shall use the market correction to add the stocks we like in the portfolios where we have liquidity. We largely have a multi-cap portfolio from stocks ranging in sectors of Corporate Banks, Insurance companies, Auto Ancillaries, Gold Finance companies, IT, Consumption basket etc. Most of the companies we own are insulated from the global concern of disruption in the Chinese supply chain. The businesses of these companies have their own growth drivers that range from under penetration in Indian economy to change in Key Management Personnel (KMP) to under valuation etc.

Stock market by nature is not a linear line and this is one such volatile period, nothing succeeds like temperament in stock markets.

Warm Regards,

Sunil Shah

Portfolio Manager – Turtle Star



NAV performance - Turtle Star 62%, Nifty 36%, BSE 500 34%

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