ASPECTS

COVID 19

MARKETS & INVESTMENTS

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NORTHPLAINS CAPITAL PARTNERS LLP

ASPECTS is a periodic newsletter from Northplains Capital Partners LLP discussing economic themes, markets and investments.

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COVID 19

pandemic has spread across the globe with devastating effects. As of April 26, 2020, in a little under 4 months, there are 2.9 million officially known cases from 185 countries/regions in the world and more than 200,000 lives have been lost. This arguably makes COVID 19 the worst global pandemic in the last 30 years. In India, the first cases were registered in early March. Since then the case count has mounted to 26500 and more than 820 people have lost their lives[1].

A highly contagious disease, COVID 19 has no proven cure as of date, and governments worldwide have resorted to unprecedented measures like countrywide lockdowns, isolations and testing, in different measures, coupled with appropriate medical remedies for the affected.

The resultant economic impact has been profound with economic activity severely interrupted. Both demand and supply are subdued and supply chains are disrupted. A case in point is crude oil, where demand contraction has led to a price collapse with WTI crude in the week ending April 17th 2020, trading at $ 20/barrel[2] relative to an average price of $ 64 during the week ending April 12th, 2019.

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[1] John Hopkins University, www.coronavirus.jhu.edu, www.cdc.gov, www.johnsoncitypress.com, www.mohfw.gov.in

[2] US energy administration. www.eia.gov

In India, a strict 3 week lockdown imposed from March 23rd has been extended till May 3rd, with some relaxations. The government has constituted several measures to provide relief to its people, businesses and communities. It has maintained supplies of essential services, strengthened health care response, provided emergency funds to workers while ensuring safe lockdowns and social distancing measures, amongst others. Borrowers, including retail and agri, have been provided 3 months relief from making instalment payments. Repo rates have been lowered, additional liquidity facilities provided to banks and corporates and NPA recognitions norms relaxed.

MARKETS

As of January 2020, Indian businesses were weathering a slowdown in economic growth led by the global trade war, an anaemic recovery in banks and NBFC's, and a slowdown in the auto sector.

Equity markets had managed middling returns, with the NIFTY 50 providing a 2019 calendar year, price only return of 11.7%, and the NIFTY 500 registering an appreciation of 7.5%[3].

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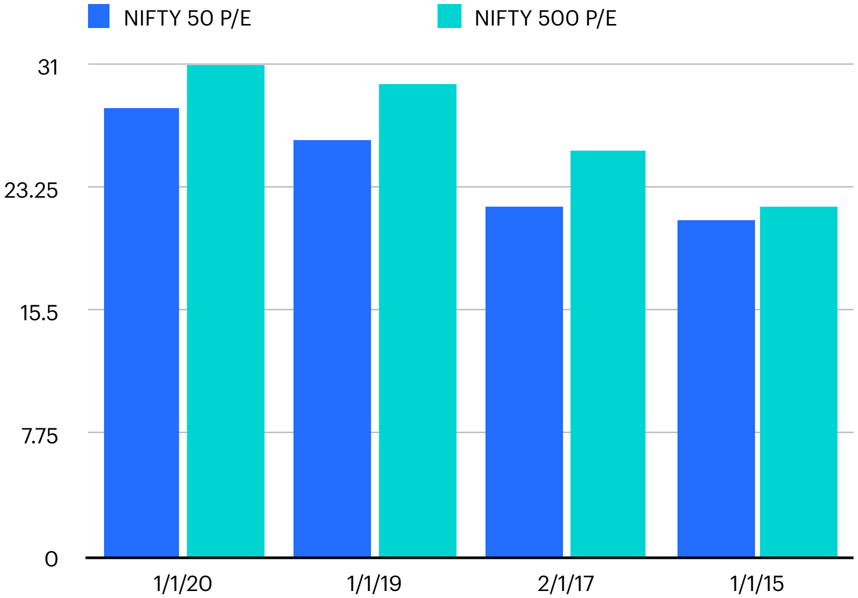
[3] Price only returns from 1/1/2019 - 1/1/2020. www.nseindia.com

Valuations, as measured by P/E ratios had edged up from 2015 and were rangebound throughout 2019 (Exhibit 1).

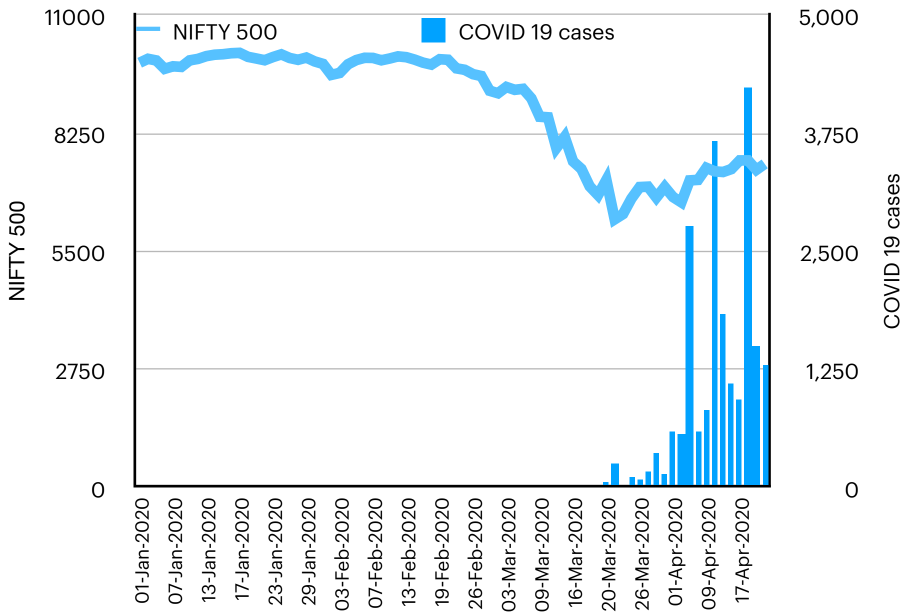
Exhibit 1: Trailing P/E ratios



As COVID 19 struck in early March, NIFTY 500 corrected by 32% from 2nd March to 23rd March, before recovering 21% from its 23rd March prices (Exhibit 2)[4]. At closing prices on 22nd April, the index traded at 3 year lows.

[4] Exhibit 2: Daily cases on days when market closed added up to the first day of market open

Exhibit 2: COVID 19 & NIFTY 500



Meanwhile, the broader economy is largely in lockdown since March 23rd, unemployment rate has shot up to 26%[5], the pandemic is spreading and the human toll is increasing.

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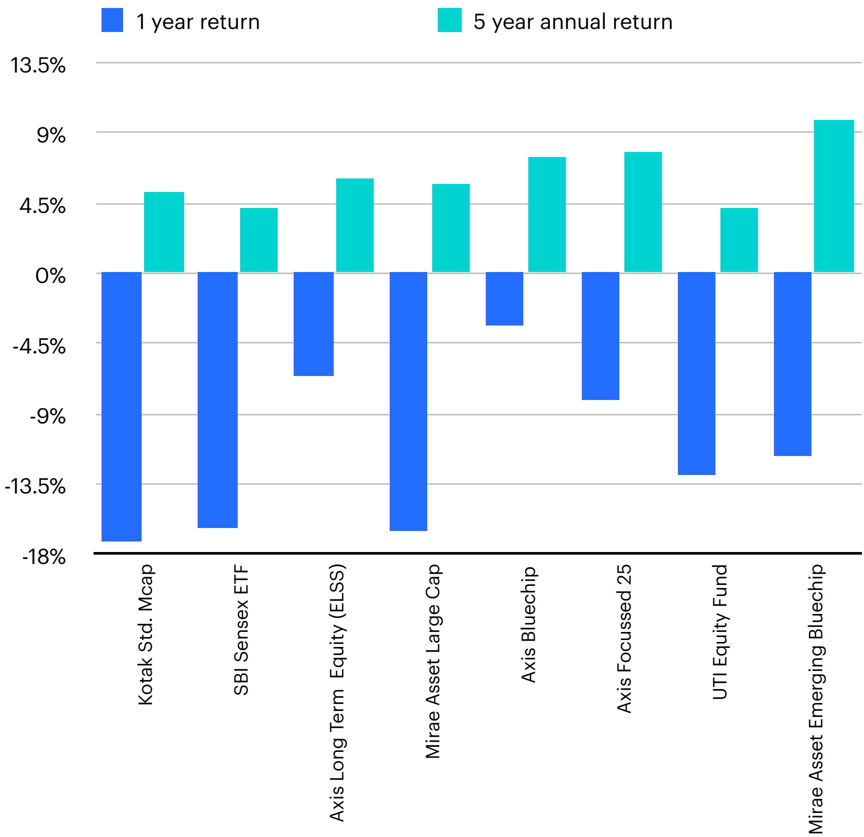
[5] Centre for monitoring Indian economy, www.cmie.com. Unemployment rate (UR) as of week ending April 19, 2020. The UR recorded on a weekly basis was between 7.5% - 6.5% during January 2020. It can be argued that a large proportion of the lost jobs are temporary and would be reinstated as lockdown measures are unwound.

MUTUAL FUNDS

Amidst this unprecedented turmoil, equity mutual fund returns[6] have taken a hit, although to varying degrees depending on fund objectives, strategy and performance (Exhibit 3).

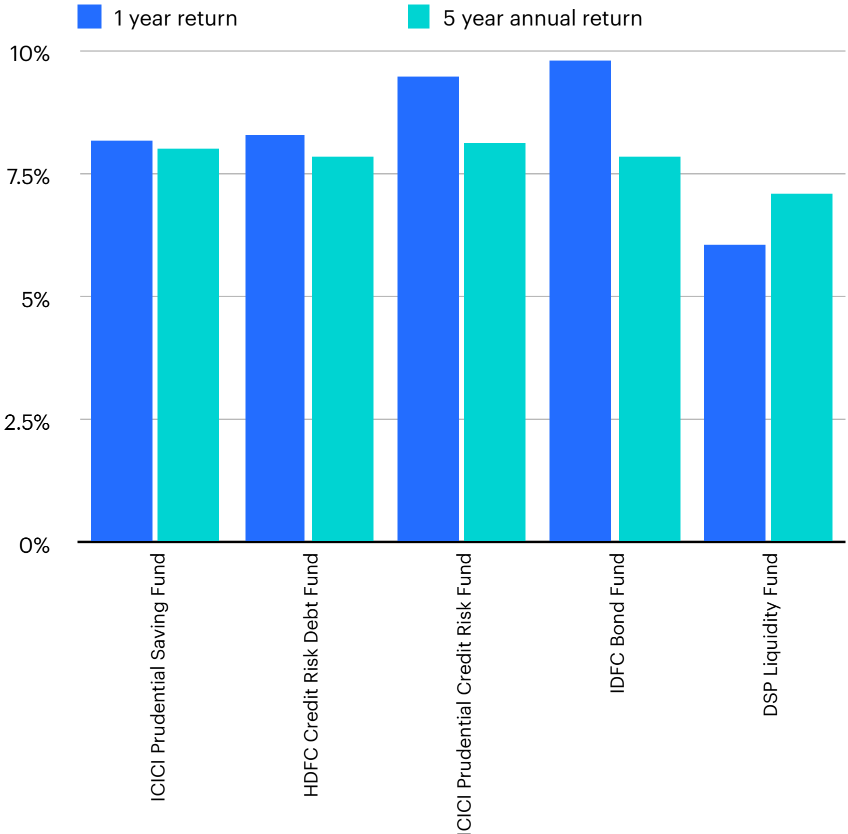
Exhibit 3: Prominent equity mutual funds, NAV returns



[6] NAV returns, regular option, as of 22/4/2020. Prominent primarily refers to assets under management. www.moneycontrol.com, www.valueresearchonline.com

Debt based funds, investing primarily in government and corporate debt, have held up relatively well over the last year[7] (Exhibit 4).

Exhibit 4: Prominent debt mutual funds, NAV returns



[7] On 24th April 2020, Franklin Templeton, a large mutual fund house in India disclosed plans to shut down 6 debt based fund schemes and return pro rate NAV based proceeds to investors. The fund cited ongoing investor redemptions in an environment of economic stress and liquidity constraints as the primary reason.

PORTFOLIO STRATEGY

Equity market volatility may have impacted the performance of investor portfolios and added to the strain of living in lockdown mode with a deadly viral disease, without a know cure, going viral.

We have outlined summary views on portfolio strategy for 3 investor groups.

Near Retirees or Retirees: Sound financial planning would probably suggest that, for most middle income investors[8], the closer one gets to retirement, the greater a proportion of his financial investments may be allocated to stable return products viz. fixed deposits, low duration highly rated funds etc. to ensure low or negative market returns do not affect post retirement lifestyle. Those that had incorporated this long held advice into their portfolios, before COVID happened, would perhaps be a happier lot. Others who leaned aggressively towards equity funds would now be exposed to the market downturn and the somewhat uncertain path to normalisation.

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[8] Based on commonly accepted recommendations on portfolio design. That said, financial situations may vary and investors should perform their own due diligence before making decisions.

From a forward looking standpoint, near retirees and retirees may want to:

Ensure adequate cash on hand to meet living expenses. Keeping monies worth 6 months of living expenses, in easy accessible, safe accounts is a good rule of thumb.

Assess their household budgets, including impacts of lower income from fixed deposits and other sources.

Refrain from impulsive changes to their financial portfolios, including panic sales. Invest excess funds prudently keeping in mind the current context, their risk appetite and return expectations.

Affluent Individuals & Households: Affluents, including professionals and business owners, may want to review their income streams and expense profiles in the wake of COVID 19. This may then inform their financial plans, including the need to keep a comfortable liquid buffer, revising expectations in light of increased uncertainty in the near to medium term, and making deliberate portfolio and investment adjustments, if needed.

High Networth Individuals & Families: Keeping in mind the broad economic footprint of COVID related measures HNI’s may benefit by reviewing their income, expense and wealth expectations over the near and medium term and consider a comprehensive review of portfolio performance, allocations across asset classes, expected returns, new opportunities and associated risks.

The Coronavirus pandemic has led to widespread loss of human life across the world and the infection count is still increasing. Measures adopted to mitigate impacts of the disease have disrupted social life and economic activity unlike anything seen in the 21st century. Equity markets have taken a hit and recovered partially. However, the path to normalisation is still somewhat uncertain and investors are perhaps better off avoiding panic, assessing their risk and return expectations closely and making investment decisions accordingly.

DISCLOSURES

Northplains Capital Partners LLP provides investments and advisory services to individuals and families. Our basic financial planning services start from INR 5000.

All opinions and advice provided in the newsletter are broad based. Individual situations vary and clients and prospects are encouraged to consult their financial advisors or perform their own due diligence before making investment decisions.

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