



Covid 2nd wave

Road ahead

19th Apr 2021

Why has the market fallen so much

- Weakness started with the rising Bond yields in the USA
- There was an apprehension that Fed will start tightening the monetary policy and this would lead to flight of capital from emerging markets
- Rising inflation set at rest expectations of a rate cut by RBI in the near future
- The last straw has been an explosion of Covid cases in India:
 - Started with Maharashtra and other western states but has now engulfed the entire nation
 - Fear of Lockdown has come up again (even though the State Govts are trying to ensure that economic activity does not come to a standstill completely)
 - Shortage of vaccine and medical facilities (beds, oxygen, life saving drugs) has compounded the fear
 - Unchecked crowding in election rallies and at the Kumbh Mela are expected to further worsen and already grim situation.
- Sentiments are at an all time low and uncertainty at an all time high

Which sectors have been affected more

Index	52WH Date	52WH Price	▲(CMP,52WH**)	ATH* Date	ATH Price	▲(CMP,ATH)
S&P Bse Bankex	16-02-2021	42655.21	-14.9%	16-02-2021	42655.21	-14.9%
S&P Bse Realty	04-03-2021	2909.94	-14.7%	08-01-2008	13848.09	-82.1%
S&P Bse Auto	09-02-2021	25072.54	-11.7%	20-12-2017	27031.02	-18.1%
S&P Bse Sensex	16-02-2021	52516.76	-7.0%	16-02-2021	52516.76	-7.0%
S&P Bse IT	12-04-2021	28385.91	-5.5%	12-04-2021	28385.91	-5.5%
S&P Bse Midcap	04-03-2021	21085.51	-4.4%	04-03-2021	21085.51	-4.4%
S&P Bse Consumer Durables	09-04-2021	33763.96	-4.0%	09-04-2021	33763.96	-4.0%
S&P Bse Metal	08-04-2021	16709.89	-3.6%	04-01-2008	20494.62	-21.4%
S&P Bse Smallcap	09-04-2021	21667.13	-3.0%	09-04-2021	21667.13	-3.0%
S&P Bse FMCG	09-04-2021	13123.79	-1.6%	09-04-2021	13123.79	-1.6%
S&P Bse Healthcare	16-04-2021	23107.27	-0.4%	12-04-2021	23047.46	-0.2%

*ATH – All Time High
**52WH – 52 Week High

Except for the Auto, Realty and Metals all the other sectoral indices touched their all time high in 2021

Banking, Realty and Auto have underperformed Sensex from their 52WH while Small Cap and Mid Cap Index have outperformed

How are our portfolio positioned and what are we doing?

Sector	Model Weight (%)	Actual Weight (%)	View	What are we doing
Financials	20	16.8	Medium Term Negative	1. Underweight vis-à-vis Model 2. Almost 1/3 rd of our weight in Financials is to Credit Card and Insurance
Consumer	18	14.7	Minimal Impact	Buying on dips
IT Services	14	12.3	No Impact	Almost fully invested
Cyclicals	12	9.7	Impact largely in the price	Buying on dips
Auto	9	7.0	May be impacted	We have larger allocation to globally exposed companies and tractors
Chemicals	6	6.3	Minimal Impact	Fully invested
Metals	6	4.7	No Impact	Substantial Allocation already invested
Diversified	5	3.9	Minimal Impact	Buying on dips
Pharma	3	3.3	No Impact	Fully invested
Telecom	3	3.0	No Impact	Fully invested
Cash	4	18.2	For transactional purposes	Disproportionately higher level of cash to take advantage of market volatility

Opinions

Excerpt from the presentation from Neelkanth Mishra, Credit Suisse

- I. Expects intensity of pandemic (i.e. fatalities) to fade by end Apr in Maharashtra and mid-May in rest of the country.
- II. Key reason is that 87% of deaths are in 45+ population. In this age cohort, anti-body prevalence will be >50% by end-Apr aided by vaccinations. Fatality rate will reduce to as low as 0.03-0.04%.
- III. Overall impact of 2nd wave should last only for next 15-30 days and not 2-3 months as is being widely expected. Impact on GDP growth should be <1%
- IV. Significant earnings downgrades not expected. Loan growth is key monitorable.
- V. Expects markets to turnaround quickly once panic subsides after Apr-end and markets to rally earlier than the actual recovery as we saw last year.

Excerpts from Dr. Devi Shetty's (Chairman and Founder, Narayana Health) article

“The first lockdown came at tremendous cost to society and the economy, but it bought us time to prepare our infrastructure and plan our strategy. “A second lockdown will not make us any more prepared and the virus will still be waiting for us when we open up. “There’s a good chance that we can stop the pandemic within the next six months if we take up mass vaccination on a war footing and vaccinate people between the ages of 20 to 45, who’re the real super-spreaders.”

The way forward

1. Nifty support is at 14250, which as of now is holding
2. US market is at its All Time High and earnings outlook for US companies strong
3. We believe that the 2nd wave of Covid will not last as long as first 1st wave
4. Midcap & small cap index still technically not weak
5. IMF GDP growth projection for India is 12.5%. Even RBI in the recent policy maintains FY22 GDP growth forecast at 10.5%
6. As long as Lockdown is local and not extended, analysts believe that there is very little scope for an earnings downgrade
7. Past corrections have shown that fear quotient rises with market fall and on most occasions investors end up staying out of the market in the last leg of the correction



Thank you

Safe Harbour

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