MUDRA
opportunities of wealth

PERSPECTIVE

JUNE 2020

In March ending perspective it was clearly mentioned that our internal data mining indicating 25000-26000 for Sensex (Given no dooms day scenario) and asked investor to have faith in Equity as levels are attractive for long term investing. Now market has reversed and has surprised every investor given the sharp rally in last 3 month (25500 - 36500).

Investors saying the pandemic is getting worse and death numbers is going up, so what has changed?
Well market has a brain of its own. Some of the arguments from BULLS are that with everyone gunning china, **hence we will see industries shifting to India**. Small firms will go burst, and the **big ones which are listed will gain market share.** More elderly people would die, the **demographic dividend would go up, and productivity would increase** and BLAH BLAH…

Well the reality is the **G4 central banks pumped in massive liquidity of $6 trillion** as a response to fight covid-led disruptions and this surge of liquidity and money came into various asset classes including emerging markets like India.

How are we thinking about the markets at this juncture ?
Rally in equities has clearly widened the gap between perception about the future (reflected in current market levels) and economic reality on the ground. If **revival in corporate earnings and economic data points get delayed** than definitely we are **entering into BUBBLE ZONE.** Our internal study says **normalcy will take minimum 18 months** from here-on. We see **limited upside** because of 3 major reasons

1) Fundamental **Valuations have moved significantly up**, markets are not cheap any more
2) Possibility of **volatility rising in the next 2-3 months** due to approaching US election.
3) **Earnings to collapse much beyond market estimates** as the lockdown got extended, COVID Cases rising, Indian Government package not being effective and RBI measures are Significantly short of expectations.

How long can this party go on? Can growth be forever powered by debt?
Being optimistic is good, but being realistic is better. The **$15 trillion stimulus** to shield their economies from the corona virus pandemic covers the "G10" group of major economies. The **sum equates to about 17% of an $87 trillion global economy last year**. Global debt as a percentage of GDP has touched **325 percent; high debt to GDP ratio** only makes the **financial system more fragile**.
With the **fall in Global yields/Fixed Income rates**, one tend to think about Equity investments even if they are riskier. The irrationality will increase with time and the euphoria could peak.

So balancing out all these views, **here are the numbers:**
In a good all days market had a " Heart "and mirrored the pulse of the nation but now with unlimited quantum of liquidity it **has become ruthless and can defy logic for long periods of**

time. It is like **“Fundamentals” market ko jeenena hi dega** aur **“Liquidity” Market ko marne nahi dega.**

Although it is difficult to pinpoint the timing of the collapse but the triggers would come eventually. We envisage a situation where the speculative **euphoria could drive the Sensex to 37500-38500. (In case of no effective Vaccine & Cure).**However, for Indian investors the only pointer is the global market. Like the synchronized global rally, the decline too would follow the global markets.
Will a decline re-test the March lows? We do not think so.

What should be action plan for investor?
It is difficult to assess risk tolerance because people behave very differently in real life than on paper. Clearly Fundamentals do not support the most recent rally hence allocation towards Equity should be moderate at this time.(**50 % - Ideal** and **70 % for Aggressive** investor).
Investors whose **goals are approaching in coming 18-24 month should shift their entire Equity/hybrid oriented funds to ultra-short debt funds.**
Investor should use this rally **get out of weaker/thematic funds** and wait for valuations to be get reasonable to again switch into consistent performing diversified fund.

Summing it up: The final explosive expansion of the bubble can be immensely profitable and who knows we can make all time high.
But before aspiring for more, we should be grateful for what we have as opportunity loss does not hurt as much as real loss. If I cannot achieve the return I desire, I would not increase the risk but decrease expectation.