PERSPECTIVE

MARCH 2020

What happened?

As we know everyone is feeling the **effects of two pandemic**. First, there is **the Covid-19 pandemic** and secondly there is a pandemic of anxiety about the **economic consequences of the first** due to which we are witnessing the **fastest bear market in history** and **largest monetary easing by central banks** resulting in huge liquidity in the market.

What is the Impact?

As many are aware **financial markets globally have collapsed**. Concealment by china, late declaration of pandemic and restrictions, to curb transmission has led to **Six sigma/Black Swan event which in turn caught global market off guard with very little time to react.**

Nifty50 and the **Sensex, lost nearly 30% from their February peak price**. Global growth and trade has fallen substantially. After effect felt as **circulation of money dropped significantly** across globe due to various restrictions and lockdown.

Can we go further down?

This is **fastest drop in aggregate demand in modern history so the answer is yes**, if the current situation persists or escalates further. A contagion of financial anxiety works differently than a contagion of disease. It is fuelled in part by **people noticing others lack of confidence, reflected in price declines and others emotional reaction to the declines.**

How bad can this correction/Fall be and how long will it last?

The bottom of a bear market by definition has to **be the point of maximum bearishness** and **from that point the news doesn't actually have to be good, it just has to be less bad** than what has already been discounted in prices.

While it is difficult to predict the market bottom but looking into history, it offer some clues. Historically **Sensex has decline of 60% and happened only once and lasted for 4 days** – this is too rare. A **decline of 50% have been extremely short lived (2-4 months) and very rare**. Empirical study says that **recovery usually takes 18-36 month to cover most of the fall**/lost ground.

Well on that note, probably **one of these scenarios will play out** :

1. The world will find a cure for corona virus : In the best case scenario, the market will go up in circuits and recover most of the fall percentage. The markets are currently discounting death. If we can find a cure for death, we will start celebrating life.
2. The world may control Covid-19 like China has done it. New cases curve will be flattened by various government measure. Under such circumstances, market will rally to tell investors that we are fine losing 2-3 quarters, but happy to be living.
3. In the worst-case scenario, the disease would spread all over. It would not matter if one had money in stocks, real estate or under our mattress.

In a nutshell : One should never bet on the end of the world. It never ends, and if it does, who will you settle the trade with?

So balancing out all these views, **here are the numbers:**
We looked at different metrics through business cycles to ascertain the damage suffered in base case and worst case scenario. On studying **underlying value of market** on the basis of various internal data mining, we have **concluded that Base case level for Sensex should be : 25000-26000**. Various style of Technical studies on the basis of **price-volume action ascertain level of 23000-24000**.
If at all we **come closer to dooms day scenario** than **Sensex might hover around 20,000 (Fundamentally) and 15000 (Technically).**

What should be action plan for investor?
So putting all this together, these are our takeaways for above scenarios:
Technically, the market crash has brought prices down to what they were five or six years ago, this is clearly unusual. Fundamentally the current stock **market presents a valuable opportunity to invest some lumpsum, in addition to SIPs**. Investors may invest the **lumpsum in phases rather than invest the entire surplus at once.** Suppose if some on has **100 INR surplus for Equity allocation than 50-60 INR should be divided into 4-5 Installment and should be deployed at every market fall. Rest 40-50 INR when certainty and clarity emerges in the economy regarding ongoing crisis.**
Summing it up: Historically, such times have proven to be **attractive for long-term equity investing.** Humanity and markets have withstood lot of calamities and has seen that problems are temporary and progress is permanent. Economies have survived and thrived. In short **when the faith in Equity is shaken, is the time to have faith in Equity.**
In bull markets, the NAV goes up. In bear markets, the units investors acquire goes up. In the long run, combination of both only creates good wealth. Hence stay the course with courage and deploy liquid surplus (money which is not required for next 10-15 year for personal use) into Equity funds.

“No one knows anything about anything beyond a point.”

Stay Safe , Stay Healthy !!