Monthly Letter September 2020

We were +5.4% last month (taking our portfolios into life high zone) vs +2.8% for the Nifty. On a one year rolling basis we are +25.8% vs +3.3% for the Nifty. August witnessed a continuation of the recovery in the markets, on the back of extremely strong FPI inflows and retail participation. The weakness in the US dollar index underpins these FPI inflows, as well as the tremendous covid related monetary stimulus, injected by major central banks all over the world. The strength of world markets has also kept sentiment buoyant. We maintained our broad allocations, and we continue to favour defensive sectors. Notwithstanding the reasonable correction witnessed over the last trading days of the month, the underlying uptrend remains intact, albeit we expect some flattening out and a consolidation of the same, as the run up over the past few months has been very sharp. We expect the broad market to continue to do well, as we are finding better value there.

The GDP decline in quarter one of this fiscal year was worse than expected at almost -24%. This worry has been what has kept us away from economy sensitive sectors. It also implies that the recovery is likely to take longer than expected, and thus we are happy to continue with the sector allocations we hold at the moment, which are focussed on agrochemicals, chemicals, technology, online businesses, pharmaceuticals, consumer discretionary and select financials. It is likely that the worst is behind us and lockdowns may come back only in a localised manner if necessary. The likeliness of a vaccine becoming available in the near future is also helping sentiment. This, along with the high liquidity injected by central banks, is the best explanation one can ascribe to the manner in which world markets are behaving at the moment.

One of the big shifts in the market in this rally has been the significant participation of the mid and small cap sectors; the broader market in our parlance, which over the last couple of years has been a tremendous laggard. The recently concluded earnings season has witnessed some strong earnings from many mid-sized companies, especially in the technology and pharmaceutical sectors. It would appear that valuations here are more attractive than those in the Nifty, post this period of underperformance, and thus the renewed interest in the same.

After four months of one of the strongest up moves we have witnessed in the recent past, we expect the market to take a breather in the coming period. Low interest rates, abundant liquidity, a strong monsoon season and the expectation of another round of fiscal stimulus from the Government should keep the market undertone positive.

Thank you for your patronage.

RC

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