Monthly Letter October 2020

We were up 11% last month vs -1.2% for the Nifty (fiscal year to date we are + 51% vs + 31% for the Nifty). On a twelve-month rolling basis, we are up 33% vs -2.1% for the Nifty. Our overweight positioning in Technology, Pharma, Online, Speciality Chemicals and Online businesses, has paid off well. However, as the economy continues to unlock, other sectors that have underperformed so far, like financials, may see a comparatively larger improvement going forward. We will shift our positioning when our process indicates that it is time for us to do so; which has not happened so far.

From recent reports, it would appear that the worst of the pandemic in India is behind us, as the numbers have started to reduce on the weekly averages. This is a major positive, especially for the economy sensitive stocks, which over the last few sessions have been on the rise. Demand indicators are also showing an improvement, though, a large part is the seasonal uptick ahead of Diwali. With the earnings season for the second quarter commencing next week, we look forward to more granular information on how businesses are seeing things on the ground, and their outlook.

The coming months are likely to be volatile, with the all-important US Presidential elections news flow likely to reflect on global risk appetite. It would appear that the Democrats are well ahead, and hopefully there will be no surprises that could upend things. The pandemic continues to create upheaval across the world, with various countries, especially in Europe, having to reimpose some form of lockdown, which disrupts economic recovery. The real fear is how the virus spread will be controlled in the coming winter in the northern hemisphere, as a vaccine will most likely become available only in the first half of next year for the masses. Further stimulus in developed geographies does not seem to be easily forthcoming either. In light of the above, even though it appears that while the economy sensitive sectors may rally in the immediate future, we will stay with our defensive positioning for now.

Markets have been rallying on the improvement in economic indicators like petrol consumption, GST collections, toll collections and E-way bills generation, improvement in Purchase Managers Index, and export-import data. The other part of the coin, is the huge inflow of surplus liquidity from the various stimulus packages in the developed world, and this flow is extremely sensitive to the strength of the US dollar. All emerging markets react positively to the weakness of the US dollar, which also indicates a risk on environment. The sharp intra-month correction we witnessed in September was a reaction to the dollar strengthening, which has since softened again. Thus, we need to be aware, that as an emerging market, we remain very vulnerable to global sentiment, which is likely to be volatile in the coming months.

We expect our stocks to consolidate in the near term, after the significant up move they have seen recently. Value needs a chance to catch up again.

Thank you for your support.

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