Monthly Letter November 2020

We were up 1.1% in October vs the Nifty which was up 3.5%. On a twelve-month rolling basis, we are up 26.8% vs – 2% for the Nifty. As we mentioned in our last Monthly Letter, our holdings were likely to take a breather after the significant run up of the last few months, even as the beaten down sectors we were not allocated to, showed a good recovery, especially financials. This is what has happened, and we expect this to possibly continue in the current month.

As the COVID-19 related cases continue to show a secular decline in India, the confidence of an economic recovery, beyond just the post lockdown pent up demand and the festive season demand, is becoming stronger. The indicators of an economic recovery are also showing significant positive change. This should see the most beaten down sectors of the market stage a comeback, especially the financial sector, which has borne the brunt of the collapse in economic activity due to the lockdown. The commentary from the large private sector banks in this earnings season has been very positive, especially in managing defaulting borrowers, and of a return to loan growth going forward. It is reasonable to believe, that even if there is a second wave of infections post the festive season, it will not derail the recovery of the economy. We will accommodate this change as our Reverse Research processes indicate we should do so at a market level, as well as based on the overall insights from this earnings season.

The serious extent of resurgence of COVID-19 in Europe and the reimposition of lockdowns has created new volatility in markets. The US is also going through its own second wave, however there is unlikely to be another lockdown here, no matter how severe the situation. The low fatalities in the second wave are a silver lining that makes it very different from the first wave. This should keep the stimulus packages coming, and liquidity ample.

The outcome of the US Presidential election of November 3 has created more uncertainty than anticipated. While pre-poll data showed a comfortable lead for the Democrats and Biden, in actuality the results are too close to call a certain victor as of today, even though as of this point in time it would appear that Biden will scrape through (If Nevada goes to Biden he will win, but his lead at the moment is razor thin). However, given that Trump plans to challenge the result in the US Supreme Court, things may take much longer to determine and keep uncertainty levels elevated. Once a winner is clear, and there is a peaceful transition of power, we expect markets to become more 'risk on' with the expectation of a new stimulus package, which would be good for all emerging markets, including India.

The earnings season to date for our holdings has been extremely positive. However, we find that even with strong earnings beat, in most cases stock prices are not moving higher. This signals that many stocks are saturated at the current valuations, and need time to consolidate prior to moving higher again. After a furious sprint over the last few months, we need to give them time to catch their breath….

Thank you for your support.

RC

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