Monthly Letter December 2020

We were up 5.5% in November versus 11% for the Nifty (rolling 12 months we are up 32% versus 7.6% for the Nifty). With the sudden announcement of the success in vaccine trials in mid-November, market sentiment shifted overnight from defensive to risk-on. Market participants rotated holdings towards the cyclical and economy sensitive sectors, in anticipation of their recovery in a post vaccine world. Our positioning has been relatively defensive thus far, and we too have started the transition towards economy sensitive sectors, especially financials.

Fortunately, there has been no post-festive season second wave in India. In Europe too, with the second round of lockdowns, things appear to be coming under control. The US hopefully is also near its peak as the change in leadership should make a difference. These factors along with the news of at least 3 effective vaccines, to be rolled out from mid-December, have buoyed world markets, especially emerging markets, pushing our market into life high territory. Given the low interest rate regime the world over, clarity on the next US President, sufficient liquidity from major central banks via stimulus packages and a risk-on sentiment from the vaccine, it would appear that the rally has legs.

FPI money into India in November was at a record Rs 60k crores. India has been amongst the biggest beneficiaries of foreign investor money into emerging markets in the last few months. FPIs probably see India as a market that can finally perform for them as a result of all the reforms that have been introduced over the last many years, and the adjustment period and pain of this change is now behind us. With the political situation in the US now stabilising, punters are also betting on the continued flow of liquidity from the next stimulus package from the US government.

The recently concluded earnings season was significantly stronger than expected. This has also been a big contributor to the rally. The surprise was both at the topline level; as the organised sector wrested away demand from a weakened informal sector; as well as at the margin level, as businesses managed to pare costs to the bone in order to survive a prolonged pain period. Resilient rural and semi urban demand, on the back of a lower COVID-19 impact as well as a strong agri economy, have also been noteworthy contributors to corporate performance. The shift to the organised sector, which was anyway underway, has been hastened further by the pandemic. Even once things head towards normalcy, a significant portion of the cost savings engineered are likely to be structural in nature. Thus, profitability has been enhanced for the organised sector.

GDP growth in Q2 of this fiscal has shown a better than anticipated recovery, and this recovery is likely to sustain with the abatement of COVID-19 in India. Thus, one would expect a strong growth next year, if the current trend is unhindered by any fresh surprises. We also believe that the rally is likely to be broad based, given the risk-on nature of the current rally and the beaten down valuations of the mid and small cap space.

As market leadership rotates yet again in the span of a few months, we plan to reorient our allocations (yet again) as the signals to do so become stronger. A market in life high after a long struggle, is in itself a very bullish signal.

Thank you for your support.

RC

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