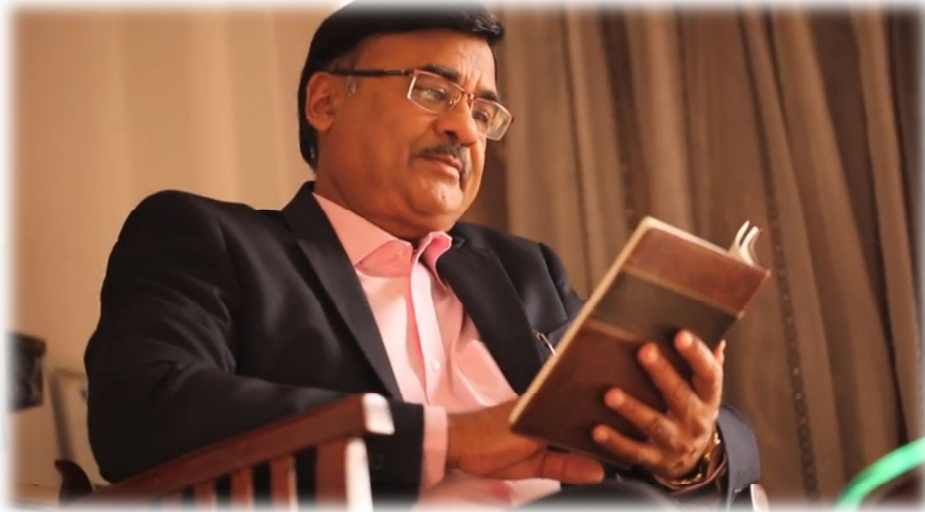




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on February 29, 2020

Menace of Coronavirus creates blood bath across global markets; all eyes on key developments related to Coronavirus, movement of crude oil price and rupee against the US\$..

Global sentiments were shattered as more and more Coronavirus/COVID-19 cases were reported outside of China on daily basis. Health officials across the globe are finding it difficult to contain the virus, which can cause a potentially deadly pneumonia-like illness in a minority of patients and spread from others who look healthy. The World Health Organization has not yet declared COVID – 19 as pandemic. Fear of COVID-19 turning out to be pandemic has disrupted global supply chain and will eventually affect global economic outlook. As a result, Indian benchmark indices witnessed a fall of 7 percent which its worst weekly fall since 2009. The Sensex declined steeply by 2,872.83 points (7 percent) to end at 38,297.29 in the past week, while the Nifty registered a fall of 879.05 points (7.3 percent) to end at 11,201.8.

All sectoral indices on the NSE ended deep in the red. Nifty IT index dropped over 5 per cent to 15,274 levels while Nifty Metal index cracked over 7 per cent to 2,233 levels. In the broader market, the S&P BSE MidCap index dropped over 3 per cent to 14,600 levels while S&P BSE SmallCap ended at 13,709, down 500 points or 3.52 per cent.

Another negative point was steep fall in growth of GDP in October-December quarter of 2019-20. India's GDP grew 4.7 percent as against 5.6 percent in the corresponding quarter of 2018-19 which is quarterly lowest growth since 2013. Looking ahead, gross domestic product (GDP) growth is set to stagnate at 4.7 per cent in the March quarter (Q4) too, according to the annual estimate by the National Statistical Office (NSO). Even in annual terms, investment is set to show a contraction of 0.6 per cent, according to the second



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advance estimate for FY20 released by the NSO. Manufacturing is set to show 0.9 per cent growth, the lowest since 2012-13 in the current GDP series.

Domestic Institutional Investors (DIIs) bought equities worth of Rs. 15,985.82 crore, while foreign institutional investors (FIIs) sold equities worth Rs. 11,368.67 crore.

For the week, the rupee slipped 53 paise at 72.17 on February 28 against February 20 closing of 71.64.

Global markets

Global equities too were headed for their worst week since the depths of the 2008 financial crisis as investors ditched risky assets on fears the coronavirus would become a pandemic and trigger a global recession. US equities led the rout as the S&P 500 fell 4.42 per cent, its largest percentage drop since August 2011. It has lost 12 per cent since hitting a record close on Feb. 19, marking its fastest correction ever in just six trading days while the Dow Jones Industrial Average fell 1,190.95 points, its biggest points drop ever.

Official gauges of China's factory and non-factory activity plunged to record lows in February as the nation's economy struggled to resume normal production as it faced the coronavirus epidemic. China is not only the world's second largest economy, but also the largest industrial country, the largest foreign exchange reserve country, and the largest contributor to global economic growth. Stock futures showed European indexes set to track the rout in their Asian counterparts on Friday, which comes after another massive selloff on Wall Street overnight. MSCI's regional index excluding Japan shed 2.7 per cent. Japan's Nikkei slumped 4.3 per cent on rising fears the Olympics planned in July-August may be called off due to the coronavirus. As investors moved to the safety of high-grade bonds, U.S. bond yields have plunged, with the benchmark 10-year notes yield hitting a record low of 1.241 per cent. It last stood at 1.274 per cent.

Crude oil

In commodities, US crude futures fell 3.2 per cent to US\$45.59 per barrel, having lost 14.5% so far on the week, which would be the deepest fall in nearly nine years.

Ajcon's view

COVID-19/Coronavirus has been spreading at a rapid pace and has made us cautious on equities for the moment. Any news on the resolution of the same through discovery of a drug or fall in number of COVID cases globally would improve the sentiments. At the present juncture, catching a falling knife can be hazardous as COVID-19 can turn out to be pandemic unless there is some drug discovery to arrest it. However, at the same time, we continue to believe in the old maxim of Legendary investor – Mr. Warren Buffet "Be fearful when others are greedy and greedy when others are fearful". In line with this old maxim, investors can chase Companies which have delivered robust 9MFY20 performance and can benefit from the current environment. Indian companies, can take advantage of the supply chain disruption in China. We believe, it would be prudent for investors to look out for quality picks which have a robust business model, quality growth, consistent earnings although may be affected in the current economic downturn but proved its mettle over the years, business model suited to changing dynamics of the economy, cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

Dr. Ashok Ajmera, FCA



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