5 Reasons to invest now despite Corona Virus

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Citrus Advisors

What is Corona Virus?

- Also known as the Covid-19 is a member of the coronavirus family and like the other viruses it has come from animals.
- It first appeared in Wuhan, a city in China, in December 2019. Even though the exact source is unknown and early hypothesis thought that it may be linked to a seafood market in Wuhan, China
- The virus originally emerged from an animal source but is now believed to be spreading from person to person
- The average time for the symptoms to show up in people is 2-14 days of exposure to the virus
- The symptoms include: -
    - Cough
    - Fever
    - Shortness of breath
    - In rare cases it can also lead to severe respiratory problems, organ failure or even death

5 Reasons to Invest Now Despite Corona Virus

1. Historical Experience shows Impact on market not severe or long lasting
2. Global Slowdown is a real risk – Expect Concerted Action by Central Bankers
3. India could be a beneficiary of the crisis
4. Expect Resurgence of India consumption
5. Falling Crude and Commodity prices good for India

1. Historical Experience shows Impact on market not severe or long lasting

Health Hazard	Start Date	Index Level (Start Date)	End Date	Index Level (End Date)	Time Period	% Change (Sensex)
SARS	Jan 2003	3,390	March 2003	3,049	2 months	-11.2%
Avian Influenza	Jan 2004	5,915	August 2004	5,192	7 months	13.9%
MERS	Sep 2012	17384	Nov 2012	19,340	2 months	10.1%
Ebola	Dec 2013	20898	Feb 2014	21,120	2 months	1.1%
Zika	Nov 2015	26559	Feb 2016	23,002	3 months	-15.5%
Corona Virus	Jan 2020	41306	Present	38,548	2 months	-7.2%

Source: Bse, Ace Equity

2. Global Slowdown is a real risk – Expect Concerted Action by Central Bankers to infuse Liquidity

- **China:** People's Bank of China cut the one-year loan prime rate from 4.15% to 4.05%, and the five-year rate from 4.80% to 4.75% in February
- **Japan**: Governor of the Central Bank (Japan) cites that they would inject liquidity. Haruhiko Kuroda, governor of the central bank, said: "The Bank of Japan will closely monitor future developments, and will strive to provide ample liquidity and ensure stability in financial markets through appropriate market operations and asset purchases"
- **USA:** US Federal Reserve chair, Jerome H. Powell, issued a statement reaffirming that the central bank would use its tools and "act as appropriate to support the economy."

We believe that as a result of the slowdown in various economies, there will be concerted action by Central Banks globally to infuse liquidity to revive or maintain the economic momentum.

Last few weeks have seen Global equity markets fall very sharply and hence equity markets have become relatively attractive.

It is likely that some of the liquidity will flow into Equity markets in general and Emerging markets in particular.

How have markets fared from their recent highs?

Country	Price Decline from 52 Week Highs (as on Feb 28 2019)
India	-9.4%
China	-11.9%
Japan	-12.2%
South Korea	-12.4%
Brazil	-12.8%
Spain	-13.1%
France	-13.1%
Hong Kong	-13.4%
Germany	-13.8%
USA	-14.0%
UK	-14.4%
Russia	-21.1%

Indian markets have corrected the least among the significant global markets indicating its relative strength and attractiveness.

Source: Ace Equity

3. India could be a key beneficiary of the crisis

- **Diversification of Supply Linkages – India a key beneficiary**: China lockdown due to Corona virus has lead to severe disruptions in global supply chain. Many companies will have to look beyond China to diversify their supply linkages.
- While many countries are fighting for this pie of business, India offers unique proposition due to:
  - Availability of cheap as well as quality labor
  - Recent corporate tax cut making India as one of the lowest tax economy
  - Stable political environment
  - Huge domestic market
  - Reforms like IBC, GST, RERA, etc. has made Indian economy more organized
- Corona virus could be a blessing in disguise for India, and India Inc. should grab this opportunity with both hands.

4. Expect Resurgence of India consumption

- Rabi sowing up 9.5% (as of Jan 31. 2020) to 66.2 million hectares
    - Of this sowing of wheat up 12.3% yoy and rice up 13.8% yoy
- Higher food inflation as well as bumper Rabi Crop harvest to provide impetus to rural demand and act as a catalyst for revival in Indian Economy
- Government announced various measures in the Union Budget to revive the Indian Economy with an aim to double farm income by 2022 . We highlighted this in our concall dated 3rd Feb also
- This comes on the back of Corporate Tax Cuts to revive the Indian Manufacturing sector and the Economy.

Hence we expect Indian consumption to be revived aggressively from Q2 of 2020

5. Falling Crude and Commodity prices good for India

- Commodity prices have corrected severely since last 2 months due to anticipated global slowdown and subsequent reduction in demand.
- Reduced commodity prices of will reduce our import bill and moderate fiscal deficit.

Commodity	Price Decline since the Impact of CoronaVirus
Crude (Brent)	-22%
LME Steel Rebar	-3%
LME Aluminium	-8%
LME Copper	-10%
LME Zinc	-12%

Source: LME, marketwatch

What should you be tracking?

- Watch Gold prices closely – we had mentioned this also in our note issued post the Iran – USA standoff (“War is good for the markets” dated 8th Jan 2020) and also during our post budget call on Feb 3rd

- The fatality rate of Corona Virus will become clearer with more authentic disclosure by Developed countries such as USA, Italy and France
  - Despite doomsday prediction, the number of infected has not crossed 1,00,000 world wide and the number of deaths is just about 3,000
  - (Incidentally the global population is 7.7billion as of April 2019)

- Many Chinese companies have resumed operations.
  - Starbucks and Apple have publicly announced resumption of around 85%-90%
  - Expect more Chinese companies to announce similar return to normalcy
  - (Please note that the first serious lockdown of Wuhan was announced on 23rd Jan 2020. It has taken a little over one month before which many businesses in other parts of China have resumed.)
  - (Please note that Hubei province and Wuhan City continue to be under lockdown as of now and very little public disclosure is being released)
  - Hence, disclosure by other countries about the extent of shutdown of economic activity is of material importance

- Global Markets should arrest their fall and display signs of modest or strong recovery

What should you be doing?

- No Reason to panic
- Hold on to the current asset allocation
- In case, you are switching from Debt to Equity, you may look at this correction as an opportunity to accelerate the switches
- If you want to be cautious, you may switch 5% at a time from Debt to Equity till there is further clarity on the Global economic impact and the effect on Capital Markets.
- Our Previous view that Mid Cap should outperform Large caps over the next 24 months remains intact

Thank you

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