Corona virus – An update

February 28, 2020

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Key Conclusions - Highlights

- Corona virus outbreak is primarily a medical event. It is still unfolding and therefore needs close monitoring.

- The impact on market and economy too is yet (and to a large extent yet to) unfolding, some part of anticipated downturn could prove speculative if the medical development turns around as seen in the previous such cases of SARS or MERS.

- Compared to the latter two, Coronavirus has much higher velocity (time taken to affect 1000 people) but much lesser fatality rate (no. of people killed per 100 affected people).

- The number of active cases (i.e., total cases less the deaths and recovered) has clearly peaked out and fallen by 26% from the peak.

- However, while for China the daily new cases have now stabilized to around 1,000/per day levels cases outside China is still rising.

Sources – ASKWA Research
Key Conclusions - Investment implications

- The market reaction of the event seem to have spaced out.
- China initially declined and now have recovered most of the lost ground. Note that our recommended Greater China Fund was more resilient than the benchmark and didn’t see drawdown to the same extent as the benchmark and registered faster recovery.
- The world market responded with a lag and followed the timeline of outbreak of the disease outside China.
- As held earlier, this event risk though material do not alter the long term global investment opportunity including China and US.
- Indian markets has been relatively resilient till recently. The sell both in equities and bonds (due to FIIs selling) is likely to reverse once the disease outbreak trend stabilises.
- The payoff for investors clearly depends upon the risk appetite. Those willing to take the event risk stand a chance to be rewarded for it but at a higher risk. Those who do not want to take the event risk, skips the risk but may not get the same entry point.
- As an hedge, gold glitters during uncertain times.

Sources - ASKWA Research
Corona virus: A growing source of discomfort but markets ambivalent

Total active cases have peaked out though cases outside China rising

Fallout may cover many aspects of the economy

**Economy**
- Lower growth
- Lower trade deficit but garments/textile may benefit
- Higher inflation
- Complicate fiscal/ monetary policy

**Markets**
- Global risk off
- Gold price
- Capital outflow from EMs

**Sectors**
- APIs sourcing for Pharma
- Tourism/IT/Logistics from travel curb
- Electronics/white goods

Source: Worldometers, Bloomberg, Media, ASKWA Research
Corona virus: Previous episodes of such outbreak wasn’t material

Coronavirus spread is much faster

- Velocity of the virus (days to infect 1,000 persons)
  - MERS: 903 days
  - SARS: 130 days
  - Corona: 48 days

However, fatality rates are much lower

- Fatality rate (No. of persons killed per 100)
  - MERS: 34
  - SARS: 10
  - Corona: 2

S&P reaction to previous outbreak rather meek

- 1-Month: -6%, 10.1%, 9.4%
- 3-Month: -5%, 6.0%
- 6-Month: -6%, 6.0%
- Maximum Drawdown: -2.5%

Nearly same was the case for 7-10 year US Treasury

- 1-Month: -8%, 1.5%
- 3-Month: -7%, 1.5%
- 6-Month: -9%, 2.9%
- Maximum Drawdown: -9%

Sources – Weforum, Goldman Sachs, Bloomberg, ASKWA Research
Global diversification: The case for China is not weakened

China has most consistent growth track record of 30 years

- **Average growth rate since 1980 @ 9.4%**
- 29 years of 6%+ growth

The income (consumption) J-curve is already there

Enabling it to do a catch up with US

Rebalancing of economy to lower saving and more consumption

Sources – IMF, Bloomberg, ASKWA Research
The case for global diversification to US holds too

**US equites outperformed Nifty consistently (INR CAGR)**

- **India**
- **United States**

**Extent of outperformance much higher in recent times**

**Stable projection of earnings**

- **MSCI-EM**
- **Nifty**
- **US (SPX)**

**FED has turned much dovish than Dec-18 levels**

**Sources** – IMF, Bloomberg, ASKWA Research
India investment case remains intact too with a fresh boost of fiscal-monetary policy – gold glitters during uncertain times

Peak corporate tax rate is now comparable with major manufacturers

RBI has softened yields by 30-50 bps across maturities

Tax cuts have altered the earnings prospects

Gold likely to glitter during uncertain times

Sources – CMIE, Bloomberg, ASKWA Research
Key themes emerging in India – Financials, Midcap

**Banks past their peak NPA levels**
- Gross NPAs (as % of total advances)

**Financials are driving Nifty performance (Q3 FY20)**
- Nifty
- Nifty (Ex-Financials)

**Midcaps outperform during market upcycles**

**Earnings estimates of Midcaps exceed large caps now**

Sources – CMIE, Phillip Capital, Bloomberg, ASKWA Research
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