Yes Bank - plus ça change, plus c'est la même chose

More things change, more they remain the same. Yes Bank isn't a first, it certainly would not be the last – either of a bank sent under a rescue plan that includes a moratorium, or of disproportionate market response. To refresh memories, look back to no farther back than 2004 – Global Trust Bank.

GTB was a bank promoted and run by a charismatic banker (Ramesh Gelli), was under the cloud for a long time, especially the stock market scam of 2001, but continued operations and even expanded despite the cloud it was under. Then a large black swan event (general election results in 2004) precipitated a market meltdown and wiped out a large part of GTB's balance sheet (which had significant exposure to capital markets). The bank tried to get in a strategic investor under a turnaround plan, didn't make much headway, and finally RBI came down and put the bank under a supervised resolution plan. Imposed a moratorium for a few months, merged the bank with Oriental Bank of Commerce (OBC). And finally, all bondholders and depositors got their money back, while equityholders took a knock-down to zero.

Sounds familiar? Replace some of the names, and the case is exactly the same with GTB, but for the fact that a final merger/recapitalization decision is still pending with SBI and LIC.

The crucial fact is, measures like forestall a systemic contagion, prevent a run on the banking system and protect depositors. In all, all for the good! The market reaction right now is of extreme panic driven by fear – Corona, weak global markets and now this – the Fear quotient is high. But all the facts that we know from precedence points out towards the fact that regulatory actions like this are primed to restore confidence, not destroy it.

Last, market volatility is neither Robinson Crusoe nor Black Swan – it's the price of growth. 10-15% market drawdowns (markets are down ~12% from Jan this time) are very common – happens almost every alternate year. Like everything else in life, this too shall pass.

Net net, most money is made when investments are done in an atmosphere of fear. For a large number of those sitting on the sidelines, time to start allocating:

1. Financials (esp after the secular drawdowns today) – FOP
2. China – JPM China Fund (the Chinese markets have held up remarkable through Feb)
3. Long duration bonds (rates will remain downward bound) – Bharat Bond ETF, Dynamic Bond funds

Old chestnut about markets being a weighing machine in the long run – one of the few things that remain constant!

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