## Carona se Daro NA!!!!

As we were putting together this note, we came across this title for a conference call from a mutual fund, which is extremely apt as a title and also should be the overriding emotion, at least as far as your portfolio is concerned. But not on the physical aspect ***" Carona se bach ke rehna*** " safeguard yourself and near and dear ones from this unknown, because ultimately ***"Jan hai to jahan hai"***

Unknown, is the right word for this virus, because we are unable to predict the extent of effects it will have on the economies around the world in the short to medium term and consequently the markets. Equity markets around the world have reacted sharply negatively to the news of the virus spread albeit a couple of weeks late, but we feel that it is an initial reaction and once the dust settles the damage on the economies could be varied across countries and that will decide the future course of the markets at least in the medium term of 1-2 years. In the long term, we think this will extremely positive for India as we expect to de-risk their investments and capacities from China and India is a natural alternative.

### India relatively unaffected

The spread of the virus as far as we know currently is mainly linked to close ties with China, either proximity geographically (Hong Kong, South Korea, Japan) or heightened people to people connect with China like tourists and business connects (Itay, Spain, Iran), however as we speak it is slowly spreading across the world. India, so far has been rather unaffected even in terms of number of people infected as well as economically. We can't really rule out higher rate of infections as of now, but since India is mainly driven by domestic consumption and is not fully integrated with the global supply chain with China like the rest of Asia , our economy will be relatively less affected even in case of a prolonged disruption. As per a recent report from Nomura, India isamongst least vulnerable among its Asian counterparts as it is less dependent on China as only 2.7% of our visitor arrivals are Chinese and only 5.4% of our exports go to China. However, 14% of our imports are from China so it will cause temporary disruptions in productionof goods like home appliances, pharma, auto parts, etc. which depends on Chinese intermediate goods import.

**Economic Impact on India : Nomura Research**

Fig. 8: Nomura's COVID-19 economic vulnerability scorecard

| | Country | Initial starting position: Real GDP growth | Visitors arrivals from China | Tourism revenues | Total exports to China | Country's value added in China's gross exports | China's value added in country's gross imports | Non-food commodity exports | Vulnerable services sectors | Total economic exposure. Z score |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Latest 4Q average | 2019 | 4Q sum to Sep 2019 | 2019 | 2015 | 2015 | 2018 | 4Q sum to Sep 2019 | (higher score = more exposure) |
| | | Deviation from 5y average, pp | % of total visitor arrivals | % of GDP | % of country's export | % of GDP | % of GDP | % of GDP | % of GDP | |
| 1 | Hong Kong | 2.6 | 78.2 | 0.4 | 48.8 | 0.7 | 10.2 | 11.2 | 20.1 | 112.9 |
| 2 | Thailand | -1.1 | 27.6 | 11.7 | 11.8 | 2.0 | 10.5 | 5.3 | 28.2 | 106.9 |
| 3 | Singapore | -2.2 | 18.9 | 5.4 | 17.3 | 2.8 | 4.4 | 19.0 | 24.7 | 106.3 |
| 4 | Malaysia | -0.5 | 11.9 | 5.5 | 14.2 | 3.0 | 10.5 | 12.7 | 22.4 | 105.7 |
| 5 | Taiwan | 0.2 | 23.0 | 2.4 | 27.0 | 6.6 | 7.6 | 3.2 | 21.0 | 105.2 |
| 6 | South Korea | -0.7 | 34.5 | 1.3 | 25.1 | 3.0 | 6.9 | 3.2 | 12.5 | 103.2 |
| 7 | Australia | -0.6 | 15.4 | 3.2 | 38.2 | 1.5 | 4.0 | 10.0 | 14.7 | 103.0 |
| 8 | Chile | 0.2 | 0.4 | 0.0 | 22.0 | 2.0 | 6.1 | 0.9 | 18.2 | 101.2 |
| 9 | Turkey | -5.5 | 1.0 | 3.9 | 1.5 | 0.2 | 3.8 | 1.5 | 23.4 | 100.1 |
| 10 | Philippines | -0.5 | 21.1 | 2.0 | 13.7 | 1.0 | 5.3 | 1.5 | 24.0 | 100.0 |
| 11 | New Zealand | -1.2 | 10.5 | 2.3 | 27.8 | 0.5 | 4.0 | 3.2 | 17.0 | 99.8 |
| 12 | South Africa | -0.4 | 0.6 | 2.4 | 10.7 | 1.2 | 5.3 | 8.1 | 22.2 | 99.2 |
| 13 | Japan | -0.3 | 30.1 | 0.9 | 19.1 | 0.8 | 3.0 | 0.0 | 21.4 | 98.6 |
| 14 | Indonesia | 0.0 | 12.7 | 1.5 | 16.6 | 0.7 | 4.0 | 6.0 | 21.4 | 98.6 |
| 15 | Russia | 0.9 | 7.4 | 0.7 | 12.8 | 0.7 | 2.9 | 15.5 | 19.8 | 98.5 |
| 16 | Mexico | 1.0 | 0.4 | 2.0 | 1.6 | 0.2 | 6.3 | 3.5 | 27.4 | 98.2 |
| 17 | Colombia | 0.0 | 0.4 | 1.8 | 11.0 | 0.4 | 3.9 | 8.4 | 17.8 | 97.3 |
| 18 | Canada | 0.1 | 3.4 | 1.6 | 4.1 | 0.4 | 3.8 | 8.8 | 17.1 | 97.2 |
| 19 | Spain | 0.0 | 0.8 | 5.7 | 2.3 | 0.2 | 2.4 | 2.2 | 21.6 | 97.1 |
| 20 | India | -1.7 | 2.7 | 1.1 | 5.3 | 0.3 | 3.5 | 2.2 | 15.1 | 96.9 |
| 21 | Germany | -1.2 | 0.8 | 1.1 | 7.2 | 0.5 | 2.3 | 1.4 | 14.0 | 96.1 |
| 22 | Brazil | 1.7 | 0.9 | 0.3 | 27.9 | 0.4 | 2.0 | 5.7 | 15.4 | 96.1 |
| 23 | Italy | -0.8 | 5.1 | 2.5 | 2.7 | 0.3 | 2.0 | 1.3 | 19.4 | 95.9 |
| 24 | United Kingdom | 0.4 | 1.2 | 1.6 | 3.8 | 0.2 | 2.3 | 3.0 | 16.0 | 95.5 |
| 25 | France | -0.2 | 2.4 | 2.4 | 4.2 | 0.3 | 2.1 | 1.0 | 17.6 | 95.4 |
| 26 | United States | -0.1 | 3.6 | 1.0 | 6.5 | 0.2 | 2.6 | 1.4 | 17.7 | 95.3 |

Fig. 28: India - GDP growth scenarios

| % y-o-y | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 2020 |
|---|---|---|---|---|---|---|
| Base | 4.3 | 4.5 | 5.1 | 5.7 | 6.4 | 5.4 |
| Bad | 4.3 | 4.3 | 4.7 | 5.3 | 5.8 | 5.0 |
| Severe | 4.3 | 4.0 | 3.9 | 5.0 | 5.8 | 4.7 |

***As per Nomura research, India ranks no 20 among the top global economies on the economic vulnerability index.***

***Downside to economic growth estimates even in the worst case scenario is limited. Infact a recovery is expected by 3 or 4Q FY20.***

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## Short Term Downside- long Term Benefit

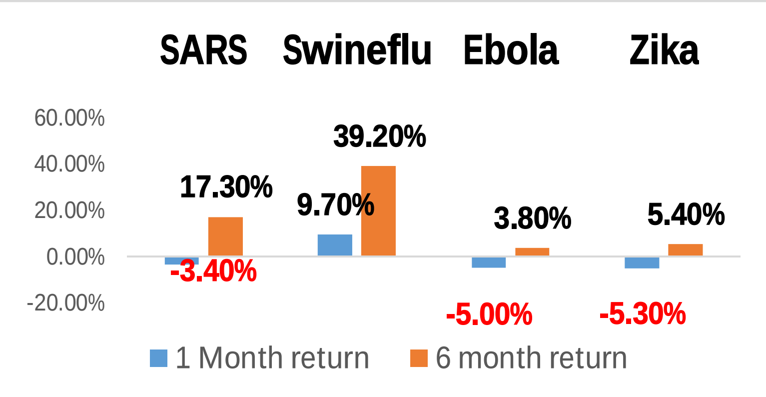
However, if the virus were to spread in India, then it could affect demand in the short term as people will refrain from moving out and travel, and it will also have a bearing on the manufacturing dependent on
Chinese goods. However, it is also an opportunity for domestic SME's especially in the manufacturing sector as they will be able to compete better with Chinese goods as imports might not be available and can also become expensive.

The China lockdown can be seen as a massive opportunity for India to attract investments in the long-term, as large global corporations could look to de-risk capacities and production from China and develop alternative options. India with its massive work force, and now favorable polices can attract a bulk of that investment. Sectors to watch could be pharma, chemicals and electronics manufacturing where India already has sufficient prowess.

## Recommendation: Portfolio action

After having analyzed the impact the virus might have on the economy and stock markets we believe that most portfolios do not warrant any drastic action. In the past despite a quick move down, markets have recovered post any major health scare, so the negative effects have been short lived

**Global Equity Index Performance during previous Health Scares**




***Global equity indices have bounced sharply post corrections, in the past.***

***This gives us confidence in the long term performance of Indian equities, since economic impact is also not very high.***

We reiterate our positive stance on equities as we firmly believe in thelong-term potential of Indian equities as an asset class. Also since most of the portfolios have a long term investment horizon beyond 5 to 10 years, we do not see this impact portfolio performance materially in the future.

However, having said that a strict asset allocation plan is extremely important in managing such dramatic price actions.We will recommend reducing equity allocation marginally in portfolios which have a very high equity allocation and also a reasonably large allocation to gold, considering the uncertainty that is currently prevailing.

Lastly we would like caution you that we're not on the brink of doom, taking modest and sensible precautions should keep most people safe and reduce portfolios volatility. In time, Covid-19 or Corana Virus as it is popularly called may be remembered not so much with dread as with historical significance as the event which spurred global interest in India as an investment destination.

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