PGIM
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Beyond The Headlines

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Hope you and your family are safe and are taking every precaution to remain safe and healthy. This pandemic is undoubtedly an unprecedented one for the current global population. The spread of Covid 19 and its likely impact on the global economy is a topic that gets discussed every day. The lock down, news of infection numbers increasing, deaths, job losses, pay cuts all paint a pretty gloomy picture. Yes the pain is real. We cannot wish away the anxiety created by uncertainties especially as a result of the economy coming to a grinding halt. This is true globally as much as it is true locally in India. Advisors who have always recommended having a contingency fund or emergency fund are re-iterating the message to clients who may not yet have planned for one. There is also merit in increasing the cover in your emergency fund from the usual six months of expenses to may be nine to twelve months of expenses. This can be in the form of liquid investments that would be sufficient to take care of expenses if the impact on businesses and incomes persist. I am sure you and your advisor would have taken action on similar lines.

Firstly, regardless of what we read in the media, the negative impact of Covid-19 on companies is already reflected in the price to a large extent. For e.g. the fear of a rise in cases of loan defaults among banks and NBFCs has already reflected by way of a sharp correction in their stock prices.

Secondly, we must remember the underlying principle that good businesses will ride the cycle however rough it may be. The economy will recover over a period of time because of our ability as humans to adapt, to find solutions and the persistence to carry on. What gives us confidence that we will tide over the crisis are the observations from two of the biggest occurrences that had a devastating and far reaching impact on people, corporations and countries viz World War I and II. There is a lot of literature around it. However what is generally missed are the innovations/ inventions that were developed as a solution to challenges during the war and how they benefitted the human race in the decades to follow. WW I saw emergence of concept of Air Traffic Control. The development of ATC led to improving efficiency and safety of air traffic helped millions travel the globe. To help the French military, Marie Curie developed mobile X Ray stations by installing machines in cars and trucks.Today the same concept is helping doctors provide health care to remote areas. The modern sanitary napkin was also invented during the war. Many more inventions made during the war like tissue papers, tea bags, wristwatch and zips have significantly improved the lives post the war and continue to do so.

The positive impact on society of inventions/ innovations during World War II is no less. Synthetic rubber that goes into manufacturing of tyres is a product of invention during the war. Computers have changed our lives forever. Today's computer owes its origin to the first computer Colossus created for the British Army to help decipher German communication. Ironically Penicillin that saves millions of lives from bacterial infections, gained significance due to human trials during the war. The list can go on.

The point is, like in past, the current crisis will also spur innovation/ inventions and only way to capture them is through equity as an asset class. So experts continue to recommend holding on to equities and adding more if possible with a 3-5 year view.

A note of caution here though. Companies are like humans in some sense. Like humans they also have mortality. A healthy individual is more likely to survive the corona infection than a person with compromised immunity. Similarly a company with healthy financials is more likely to survive the vicious downturn than a firm with a stressed balance sheet. We believe that manageable debt, good return on equity and positive operating cash flow capture the essence of healthy balance sheets. As a result of our process that encompasses these factors and many more, across our equity portfolios you will find investments in companies with healthy financials having low debt to equity, good return on equity and positive operating cash flow in at-least seven out of ten years. Our approach also gives you portfolios with low overlap with the benchmarks. So if you are evaluating options do keep these parameters in mind.

To conclude I would say that stay safe, stick to the asset allocation and make best use of equity as an asset class that captures resilience of the human spirit and its capacity for innovation and ingenuity.

Happy investing